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Huya Inc. is a Chinese streaming service with a large community in China, undervalued by multiples relative to other streaming services. The company can merge with a direct competitor, gaining 70% of the total market, and also actively develop abroad.

The HUYA platform offers a wide range of content - anime, sports, esports, games, blogger streams and more. The site has an efficient and fast payment system that allows you to instantly get the necessary content for money.

The company also owns the Nimo TV platform, which provides a similar streaming service for the overseas market.



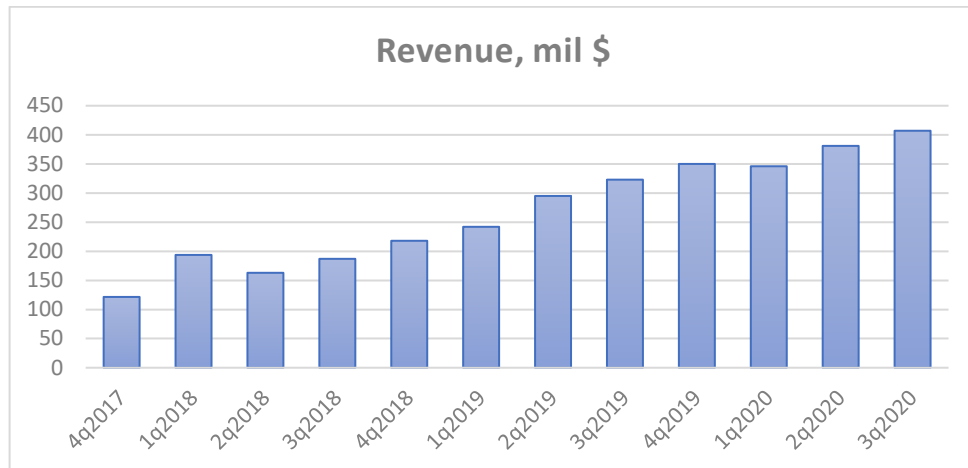
Chinese Internet giant Tencent-Holdings initiated the merger of the two game streaming leaders in China: Huya and Douyu. The joint market share will be more than 70%. After the merger, the owner also is about to incorporate its "Penguin E-Sports" business (revenue is 1/20 of Huya's joint revenue and Douyu for 6 months 2020). It is assumed that the deal will be completed in the first half of 2021. The deal is now being reviewed by the Chinese the regulator, which is a normal procedure.



'000	2020	2025	2030
0-4	65,004	60,690	57,106
5-9	71,833	73,565	71,055
10-14	75,053	80,557	85,302
15-19	69,560	73,811	81,825
20-24	77,910	74,834	81,797
25-29	98,540	84,992	82,910
30-34	116,763	98,507	85,034

China's population between the ages of 10 and 35 is projected to be approximately 437 million in 2020. Metrics for companies for Q3 2020: HUYA - MAU (number of active users per month) - 173, paying customers - 6 million (3.4%), DouYu - MAU - 194, paying customers - 7.9m (4%). Both companies have large market shares in terms of both revenue and audience.

## Strong revenue growth and strong financial position



The company showed revenue growth of + 26% in Q3 at + 83% average historical rate.

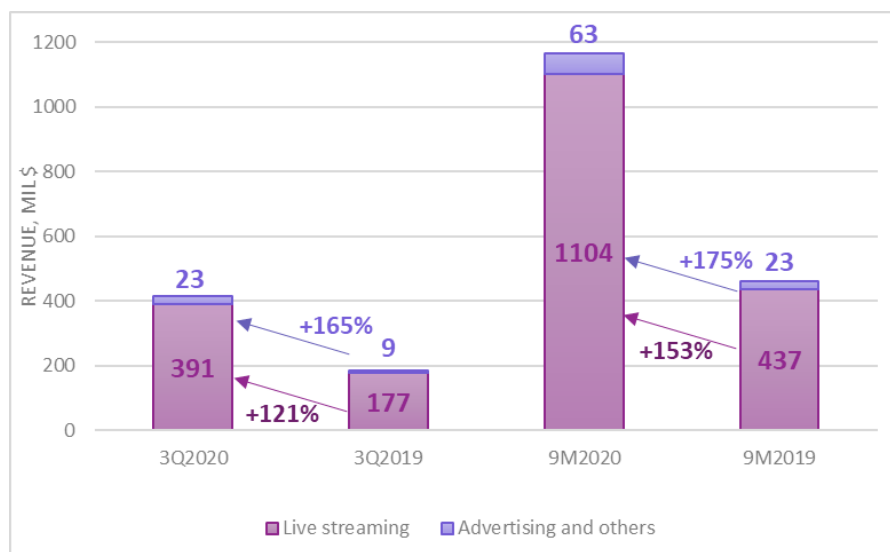
The company's revenue comes from two main segments: Live Streaming and Advertising. The LIVE segment brings **94% of all revenue**, including the sale of VIP statuses and virtual items that can be gifted to streamers.



Figure 1 - Virtual items

The streamer content is monetized by the company. Part of this amount is donated to the streamer's "Talent Agency", which deals with content preparation, streamer training and support, and also attracts new streamers to the system. At the end of 2019, over 50% of streamers were using Talent Agencies.

The Advertising segment brings 6% of the revenue and includes different types of advertising: ad units on the site; virtual advertising while watching; product placement, as well as revenue from game publishers who order the promotion of their products through promotion to tops and streamers who advertise the game.



The company also has \$ 1,576 million in cash and cash equivalents, which is 32% of capitalization.

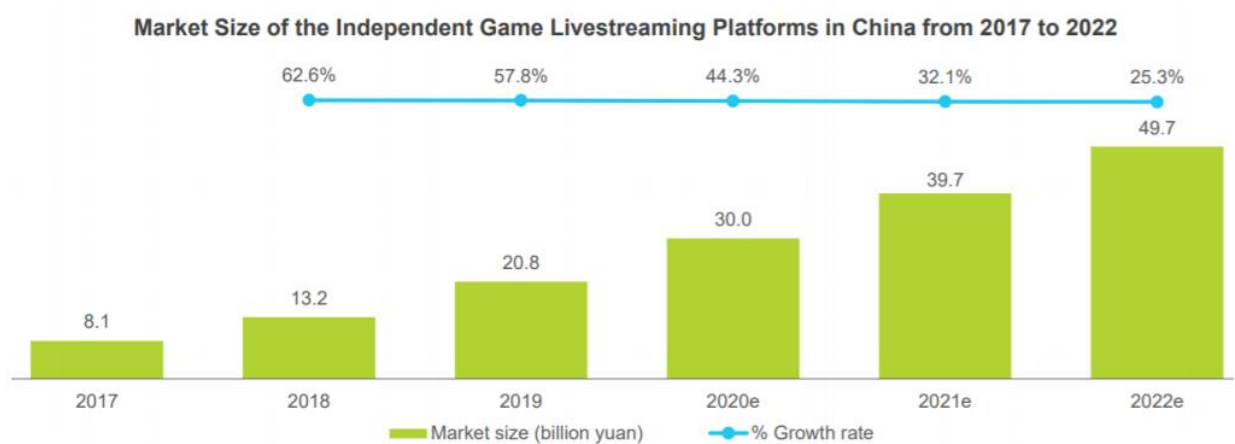
**Growth drivers: fast-growing market, development of Nimo TV in foreign markets, increase in conversion through the introduction of technologies and the development of habits.**

### 1. Projected growth of the Chinese game streaming market 32% in 2021

China ranks first in the world in terms of the volume of the gaming market in the world. The population tends to spend a lot of time playing games and performing internal microtransactions. Along with the growth of the gaming market as a whole, the demand for viewing gaming broadcasts and e-sports events is also growing, creating a new kind of entertainment.

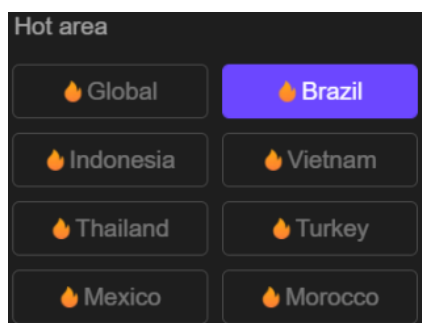
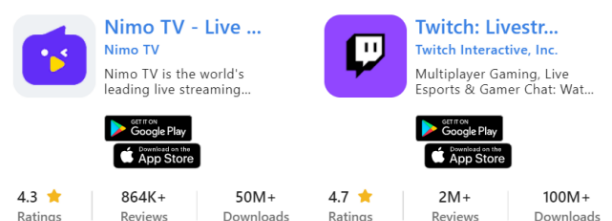
The projected volume of the game streaming market in 2020 should be 30 billion yuan or \$ 4.63 billion. Market growth in 2020 is projected at 32%, in 2022 - 25%.

The combined company will occupy almost 70% of the entire market.



### 2. Development of Nimo TV in foreign markets

HUYA owns Nimo TV, an overseas similar platform, available internationally. The main entry market was Brazil, but now the platform is known in different countries and has more than 50 million downloads on mobile devices (Twitch - 100+ million downloads). HUYA does not disclose the platform's revenue and does not provide forecasts



for the potential in the international market. However, together with experience in China, the company can successfully scale in other countries.

The current market leader, Twitch has stricter streamer censorship and fewer opportunities to monetize its content. However, in the AppStore and Google Play, Nimo TV scores lower than Twitch due to complaints about bugs, heating of some phone models and notifications

about streamers unfamiliar to users.

### 3. Increase in conversions through AI streamers and develop the habit of paying for high-quality content

Huya and Douyu are actively developing technologies on their platforms to increase content interactivity and user engagement. So, systems of "virtual streamers" were successfully introduced - animation of a real person (analogue of Memoji from Apple). The next steps in this direction are the creation of "streamers" based on AI. The ultimate goal of the company is the interaction of a real, virtual and AI streamer on one platform, which should increase the engagement of the viewer.



Companies are also developing the habit of paying for quality content through their pricing policies. Watching popular cyber sports events online and in high quality became paid in 2019, but for a fairly low cost of \$ 0.5.



### The company is undervalued on EV/Sales LTM and EV/EBITDA LTM multiples

The selection includes streaming services

Indicator MAU (monthly active users) - shows the number of active users per month in millions. The data for the combined company HUYA and DouYu suggests that 30% of the total number of users of both platforms use two services at once a month. For these reasons, the total indicator is reduced by the corresponding part of the duplicates.

Company	MCAP, mil\$	EV	Revenue, mil\$	Growth rate	EV/S	EV/EBITDA	EBITDA, mil\$	MAU, mil
HUYA	5 167	3 591	1 484	26%	2,4	38,6	93	173
DouYu	3 854	2 695	1 341	39%	2,0	29,9	90	194
<b>HUYA+DouYu</b>	<b>9 021</b>	<b>6 286</b>	<b>2 825</b>	<b>32%</b>	<b>2,2</b>	<b>34,3</b>	<b>183</b>	<b>312</b>
JOYY	7 091	5 350	3 494	-7%	1,5	37,5	143	390
iQIYI	14 497	15 724	4 245	-1%	3,7			
Bilibili	42 360	42 236	1 452	76%	29,1			197
Roku	50 918	50 310	1 540	73%	32,7			
Netflix	219 617	229 362	23 819	23%	9,6	53,7	4 271	
<b>Average</b>	<b>66 897</b>	<b>68 596</b>	<b>6 910</b>	<b>33%</b>	<b>15,3</b>	<b>45,6</b>		

The only company with EV/Sales LTM less than HUYA and DouYu is JOYY, which stopped growing in 2020. Overall, both companies are worth less than the selection average on both multiples: EV/Sales LTM and EV/EBITDA LTM.

### Merging regulator's ban, US sanctions and the practice of gambling on services as the main risks

#### 1. Chinese regulator merger ban for HUYA and DouYu

If the Chinese regulator does not give permission for the merger of the two companies, the growth zones from the synergy effect will not be available for the company. However, the



company remains undervalued in the market. Also, from the first news of a possible merger on August 10, 2020 to January 18, 2021, the shares fell by 9%.



## 2. Tencent blacklisting by the US government

The possibility of adding Tencent Holdings to the list of companies associated with China's military is being considered by the US presidential administration. The US Treasury said earlier that investors would be prohibited from investing in blacklisted companies and their subsidiaries 50% or more of a blacklisted parent. Thus, if the merger does not take place, then both companies will not be subject to restrictions (Tencent's shares are less than 40% in each), but if the deal is approved, then under the terms of the acquisition, Tencent's share will exceed the threshold of 50%, and the combined company will be subject to the restriction.

In the event of delisting from American stock exchanges, companies will lose American investors and funds, which will translate into price reductions even in the absence of changes in fundamental indicators.

## 3. Practice of gambling on company platforms

The DouYu and HUYA platforms allow streamers to indirectly organize lotteries. Participants donate virtual items to the streamer for broadcasting for participation in the drawing of a cash prize, which is sent to the winners. This is possible due to the fact that services share the proceeds from virtual items with the streamers who receive them. A year ago, such a case was publicized in the media on the HUYA platform, six months ago and also this month on the DouYu platform. If companies do not correct the situation, in the future this may arouse the active attention of the regulator, since services also receive profit from these frauds.



## Application - performance of Tencent subsidiaries in the market: 2/3 - growth stories

Additionally, as part of our analysis of the company, we asked the question of the future of HUYA as a subsidiary of Tencent. It is necessary to check whether Tencent subsidiaries remain successful and growing businesses that are not standing still in order to finance and develop other potential Tencent projects.

**Sia Limited (SE)** - operates three digital entertainment, e-commerce, and digital payments and financial services businesses known as Garena, Shopee and SeaMoney.

The company grew steadily in price: it went public in October 2017 with a closing price of 15.08, now it costs 227.57. The dynamics of the share price for the last year on the chart on the right.



TENCENT MUSIC ENTERTAINMENT GROUP SPON ADS EACH REPR 2 ORD SHS CL A, 1H, Cboe BZX



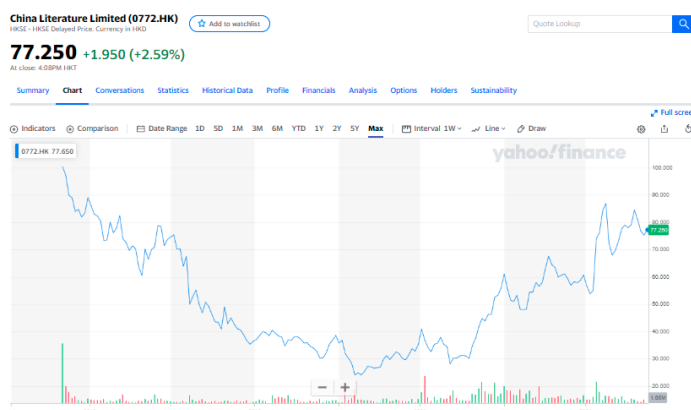
**Tencent Music (TME)** - music streaming service.

It went public in December 2018, at the moment its growth is 102%, however, part of the growth occurred at the end of 2020 and the beginning of 2021 due to news of new strategic

acquisitions of the company.

**China Literature Limited (0772.HK)** - online literature service.

It went public in November 2017 at a price of HK \$ 55, becoming one of the most successful IPOs in Hong Kong. Due to increasing competition, it was losing value until mid-2020. To date, the cost is HK \$ 55.90, which is + 1.6% over more than 3 years.



*In general, among Tencent subsidiaries there is a history of stable growth with Sia Limited, a history of sharp growth with Tencent Music and a loss-making history with China Literature. There is no good reason to believe that the combined company HUYA and DouYu under the leadership of Tencent will stop its explosive growth and / or will lose value.*

## 2020 ANNUAL REPORT UPDATE

Resulting 2020 Q4 revenue improved by 21% (in constant currency) while net income surged 59% thanks to growth in the number of paying users and the average spending per user.

Besides these top-line numbers, there are three major takeaways that investors should take into account about this company from the Q4 announcement.

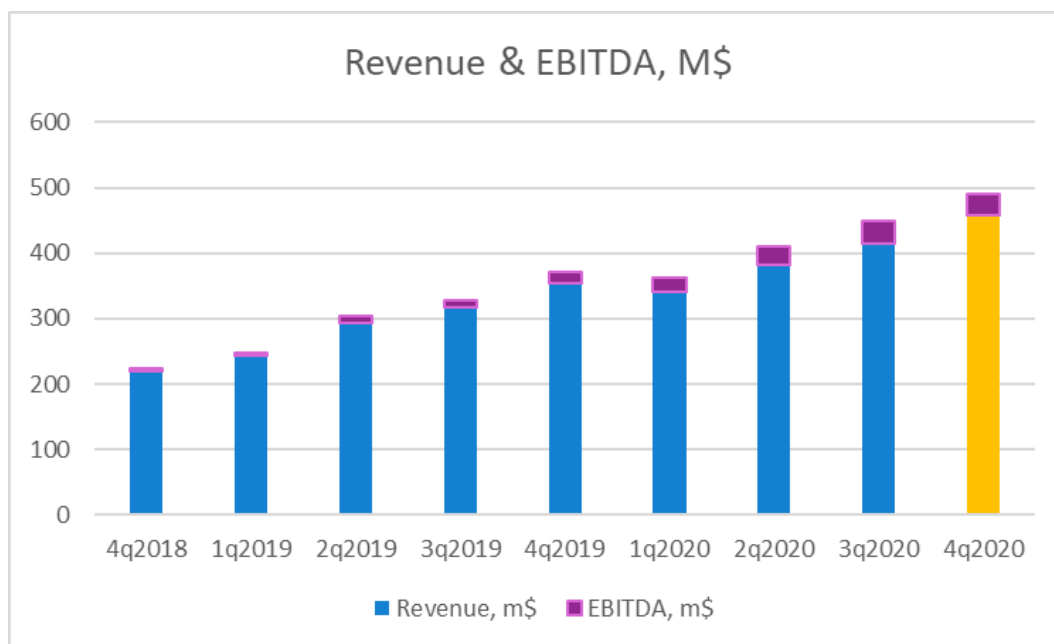
### 1. Huya ended 2020 with a bang

The year 2020 was a challenging one for most companies amid the COVID-19 pandemic and the ensuing economic recession. Yet, as a video live-streaming business, Huya ended up benefiting from the changes the pandemic created as people who were stuck at home spent more time on its platform. Its latest result clearly shows that.

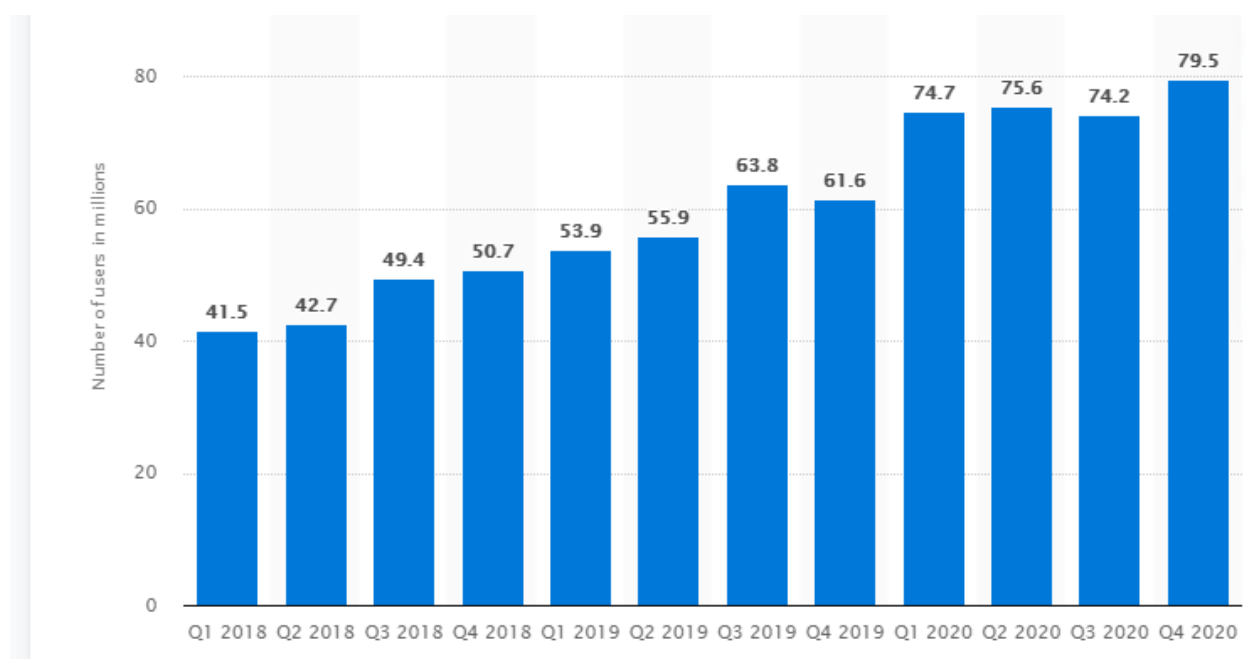
As already noted, net revenue rose 21% to 3 billion yuan (\$458 million) while net profit surged 59% to 253 million yuan (\$39 million). Revenue growth was across the board, with live-streaming revenue growing 20% and advertising and other revenue surging 45%. Net profit expanded at a higher rate than revenue as a result of operating leverage.

User growth and better user engagement are key drivers of Huya's strong financial results. In particular, mobile monthly active users (MAUs) reached 80 million in the fourth quarter of 2020, up 29% from the same period last year. The strong growth in mobile MAUs resulted in a 19% improvement in total MAUs to 179 million in the quarter while also contributing to an 18% hike in the total number of paying users to 6 million.

Huya ended 2020 overall with a 30% growth in revenue and a monstrous 89% jump in net profit. And as Huya continues to expand its economy of scale, investors should expect net profit to grow at a higher rate than revenue over time.



As can be clearly seen from the graphs 4q2020 Revenue growth is 29.3% (YoY) and EBITDA growth is 93.8% (YoY).



MAU growth is 29% year-over year.

### Undervaluation by annualized EV/EBITDA multiple

HUYA's annualized EV/EBITDA is 16.27 which is rather lower than market average value with 25.12. This fact also gives us good opportunity to observe Huya for investment.

Ticker	Company Name	MCAP, \$B	TEV \$B	LTM EV/EBITDA
<a href="#">HUYA</a>	<a href="#">HUYA Inc.</a>	3,65	2,06	16,27
<a href="#">DOYU</a>	<a href="#">DouYu International Holdings Limited</a>	2,55	1,42	24,79
<a href="#">YY</a>	<a href="#">JOYY Inc.</a>	6,83	4,19	-17,87
<a href="#">IQ</a>	<a href="#">iQIYI, Inc.</a>	9,98	11,23	10,23
<a href="#">BILI</a>	<a href="#">Bilibili Inc.</a>	37,76	34,94	-125,89
<a href="#">ROKU</a>	<a href="#">Roku, Inc.</a>	41,37	39,72	228,7
<a href="#">NFLX</a>	<a href="#">Netflix, Inc.</a>	216,8	226,13	39,6
<b>Average</b>		45,56	45,67	25,12

## 2. Huya's 2021 forecast calls for more revenue diversification

After delivering a solid 2020, Huya outlined plans to sustain its growth momentum in 2021.

One focus for Huya will be to grow its video business, which will help it diversify its income over the long run. To this end, Huya is taking a patient approach to increasing its viewership through various experiments. That approach paid off in 2020 with viewership up 40%. The company also plans to better integrate its video business with its existing live-streaming business in 2021.

The other focus is on Huya's overseas investment in NIMO TV – a live-streaming platform serving markets such as Southeast Asia and Latin America. After reaching a MAU metric of around 30 million in 2020, Huya now plans to strengthen its operations in strong performing countries and downsize those in weak performing countries. It also intends to build a



comprehensive ecosystem – with more content, broadcasters, and users – for its overseas business. Basically, the Chinese company wants to replicate its local success in overseas markets.

### 3. Huya has a fortress balance sheet to help it invest in growth

The Chinese video live-streaming industry is a competitive market, with players like ByteDance's Douyin (which operates as TikTok outside of China), Kuaishou, and Bilibili all working on new efforts to grow their market share. To improve its market position, Huya needs to invest in content to delight its existing users, as well as in advertising and marketing to acquire new users. These investments require a lot of money.

Fortunately, Huya has plenty of available resources to tap into. It has 10.5 billion yuan (\$1.6 billion) in cash and cash equivalents, short-term deposits, and short-term investments on its balance sheet, and it has zero debt. Moreover, unlike most growth companies, Huya is already cash-flow positive – it generated 1.2 billion yuan (\$190 million) in operating cash in 2020.

With its strong balance sheet (and its cash-generative business), Huya is well-positioned to invest to sustain and grow its business over the next few years.

### HUYA Inc. Reports First Quarter 2021 Financial Results (2021.05.18)

*Disclaimer: RMB exchange rate is given at the time of the quarterly report release, 05/18/2021, namely 1 RMB = 0.1526 US\$*

#### First Quarter 2021 Highlights

**Total net revenues** for the first quarter of 2021 increased by 8.0% to US\$397.6 million, from US\$368.06 million for the same period of 2020.

**Average mobile MAUs** of Huya Live in the first quarter of 2021 reached 75.5 million, compared with 74.7 million in the first quarter of 2020.

Total **number of paying users** of Huya Live in the first quarter of 2021 reached 5.9 million, compared with 6.1 million in the first quarter of 2020.

**Live streaming revenues** increased by 5.2% to US\$365.1 million for the first quarter of 2021, from US\$347.05 million for the same period of 2020, primarily due to the increase in the average spending per paying user on Huya Live. The increase in the average spending per paying user was primarily driven by the enrichment and enhancement of content, products and services.

**Advertising and other revenues** increased by 54.6% to US\$32.4 million for the first quarter of 2021, from US\$20.96 million for the same period of 2020, primarily driven by the revenues from licensing of content.

**Research and development** expenses increased by 27.6%; **Sales and marketing expenses** increased by 35.7%, primarily attributable to the increased marketing expenses to promote the Company's content, products, services and brand name. **General and administrative expenses** decreased by 6.8%, mainly due to lower share-based compensation expenses.

#### Huya-Douyu Merger risks

The two firms announced their merger plan on Oct. 12 and hoped to finish the process in the first half of this year. Once completed, Douyu will delist from the Nasdaq to become a privately held unit of Huya, while Tencent will become the controlling shareholder with 67.5 percent of the voting rights in the new company.

The merged entity would have a combined share of China's game-streaming market of more than 80 percent, according to data from MobTech.

But last December China's State Administration for Market Regulation said it was reviewing the deal amid tighter supervision over monopolistic practices by internet platforms. In November, the watchdog issued draft anti-trust guidelines for the internet economy and its director said revision of the anti-monopoly law would be speeded up, along with further protection of consumers' rights and interests.

According to a source with direct knowledge of the details of the deal, SAMR has so far only conducted a "lengthy audit" and has not said anything concrete to the companies.

However, this whole situation worries Tencent. Recently, the head of the corporation met with representatives of SAMR, where he discussed the nuances of antimonopoly legislation. According to sources, Tencent is ready to make some "concessions" in order to obtain the consent of the authorities on the merger. This issue could be discussed at the meeting.

Nevertheless, it is not known if the deal between Huya and DouYu was even mentioned during the meeting. According to Tencent President Martin Lau, this was an ordinary meeting that the corporation arranges from time to time.

The leaders of Huya and DouYu did not comment on the interest from the Chinese authorities. They indicated that the merger is still ongoing, but they still need to get approval from all regulatory bodies.

**Kind Regards,**  
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