



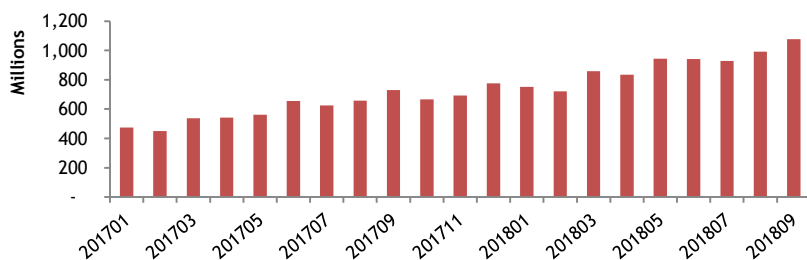
Momo Inc.

Expect In Line 3Q18 As Political and Economic Environments Impact Topline Growth; Maintain Buy Rating But Lower Price Target

MOMO will report 3Q18 results in late November. Based on our data and model, we believe MOMO's 3Q18 revenue is likely to reach about US\$533.5M (exchange rate at RMB6.8055 = USD 1), in line with consensus at US\$534.4M, and within its guidance range of US\$525M – US\$541M. The company also needs to invest in Tantan, and as such, we believe the margin is likely to be lower than 2Q18 and 3Q17. As the only Tinder-type of platform, we believe it serves humans' basic needs. We maintain our Buy rating but we are lowering our price target to \$40.00.

- **3Q18 revenue is likely to be in line with consensus** - Based on our data and model, MOMO's live broadcasting revenue is likely to be around US\$440M - \$448M in 3Q18 (Figure 1) driven by organic growth. Tantan's contribution is minimal. As such, we believe MOMO's total revenue is likely to reach at or slightly above US\$533.5M in 3Q18, in line with consensus at US\$534.4M. Operation-wise, our data showed moderate improvement in platform engagements and paying user conversions. Average hourly concurrent users were 53,756 in 3Q18, up 15.3% Y/Y and 58,729 in September 2018, up 12% Y/Y (Figure 2). APP time spend for MOMO was up 29.3% Y/Y (Figure 3).
- **Tantan usage up Y/Y but promotion is likely to impact margin** - Tantan unique users grew 24.4% Y/Y in 3Q18 (Figure 4). The acquisition of Tantan closed at the end of June 2018, and we believe it is going to make some but not meaningful revenue contribution in 3Q18. As a unique platform, MOMO has started to invest in Tantan to make it more recognized by young users. Therefore, the margin is likely to be impacted.
- **We do not expect 4Q18 guidance surprise** – Given today's economic, political and market situation, we do believe many Chinese companies are likely to be more conservative in their business operation. Therefore, we don't believe there will be surprise in 4Q18 guidance. We have modeled its 4Q18 revenue at \$542.4M.
- **Please see page 2 for valuation and risks.**

Figure 1: Live Broadcasting Service Revenue, 1/2017 – 9/2018



Source: T.H. DATA (www.thdata.com)

MOMO: Buy

Price: \$30.63

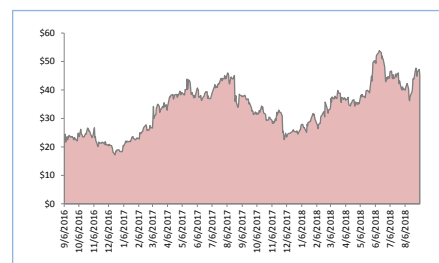
Target Price: \$40.00 (was \$50.00)

52 Week Range:	\$22.49 - \$54.24
Market Cap:	\$6.3B
Avg. Daily Vol. (100 day):	4,513,027
3-Yr. Est. Rev. CAGR:	73%
Net cash per share:	\$3.42

FY (Dec)	2017A	2018E	2019E
Q1	\$265.2A	\$435.1A	\$567.7E
Q2	\$312.2A	\$494.3A	\$629.1E
Q3	\$354.5A	\$533.5E	\$659.3E
Q4	<u>\$386.4A</u>	<u>\$542.4E</u>	<u>\$697.6E</u>
Revenue	\$1,318.2A	\$2,005.3E	\$2,550.7E
Q1	\$0.44A	\$0.69A	\$0.66E
Q2	\$0.35A	\$0.66A	\$0.74E
Q3	\$0.45A	\$0.49E	\$0.75E
Q4	<u>\$0.53A</u>	<u>\$0.51E</u>	<u>\$0.80E</u>
EPS*	\$1.77A	\$2.34E	\$2.94E
P/E	17.3x	13.1x	10.4x

*Non-GAAP EPS

All figures in millions unless otherwise noted



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Figure 2: Average Hourly Concurrent Users, 1/2017 – 9/2018

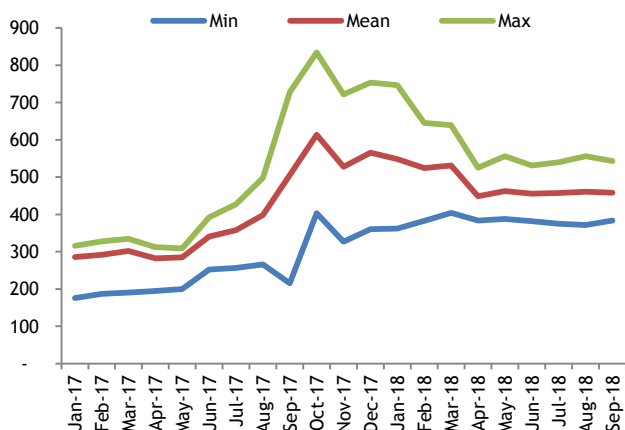
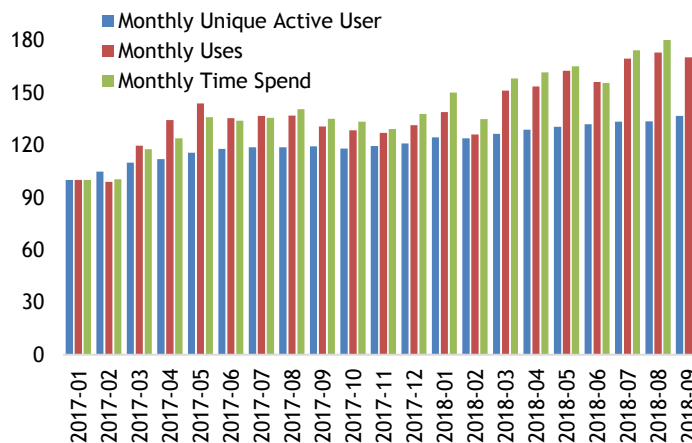
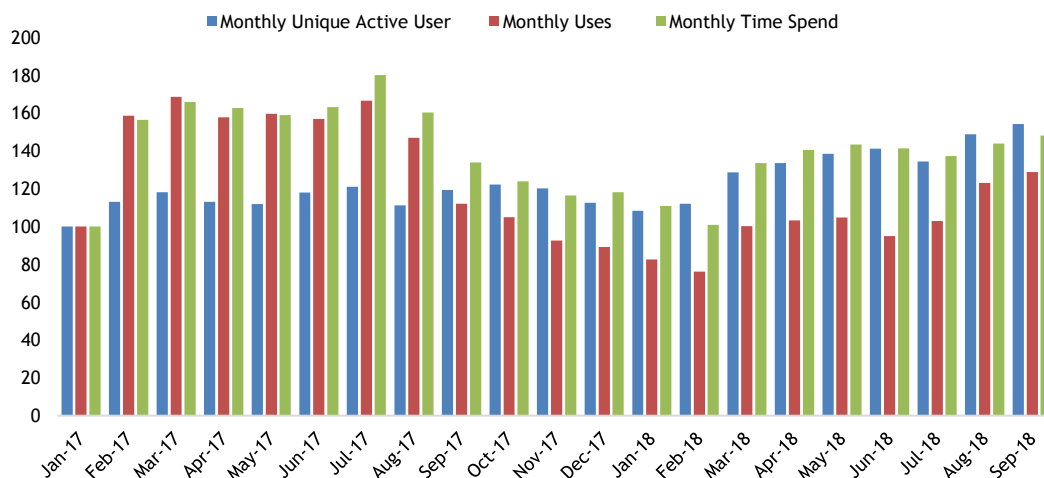


Figure 3: App Time Spend on Momo, 1/2017 – 9/2018



Source: T.H. DATA (www.thdata.com)

Figure 4: Monthly Total Uses - Tantan, 1/2017 – 9/2018



Source: T.H. DATA (www.thdata.com)

- Valuation and price target** - MOMO is on a high growth period of its earnings. We maintain our Buy rating but we lower our price target to \$40.00, which is based on a 13.6X PE multiple to our new 2019E non-GAAP EPS estimate of \$2.94. Our prior price target of \$50.00 was based on an 18.0X PE multiple to our 2019E non-GAAP EPS projection of \$2.78.
- Investment risks** – 1) The acquisition of Tantan is likely to lower Momo’s operating margin as Tantan’s monetization just started and more development work has yet to be done; 2) Failure to create synergies between Momo and Tantan; 3) Failure to expand users on MOMO’s platform as well as Tantan; 4) Failure to convert active users to paying users; 5) Government regulations; and 6) Intense competition.

Figure 5: Earnings Model (in \$ Ms, except per share)

	FY16A	FY17A	1Q18A	2Q18A	3Q18E	4Q18E	FY18E	1Q19E	2Q19E	3Q19E	4Q19E	FY19E	FY20E
	31/12/2016	31/12/2017	31/03/2018	30/06/2018	30/09/2018	31/12/2018	31/12/2018	31/03/2019	30/06/2019	30/09/2019	31/12/2019	31/12/2019	31/12/2020
Income Statement (thousands of USD)													
Live broadcasting service	376,925	1,102,592	371,496	410,977	448,977	449,977	1,681,427	469,977	512,977	543,977	574,477	2,101,408	2,497,908
Mobile marketing	66,339	76,178	18,709	22,264	20,057	23,576	84,607	20,580	26,272	23,868	29,471	100,190	116,173
Value-added service	67,603	103,139	36,991	55,221	58,813	63,167	214,192	70,283	82,832	81,751	87,170	322,036	426,307
Mobile games	35,453	35,619	6,647	5,454	5,376	5,237	22,714	3,988	6,163	6,451	6,023	22,625	25,568
Other services	6,778	743	1,286	354	261	468	2,369	2,829	885	221	505	4,441	4,831
Total net revenues	553,098	1,318,271	435,129	494,270	533,484	542,426	2,005,309	567,657	629,128	656,268	697,646	2,550,700	3,070,787
Cost of revenues	241,463	649,275	209,608	269,736	298,751	298,334	1,076,429	300,858	332,180	339,291	367,660	1,339,988	1,613,824
Research and development	31,399	51,491	17,533	25,069	28,069	31,069	101,740	31,039	31,139	31,339	31,539	125,056	128,676
Sales and marketing	97,173	217,437	44,342	54,553	96,027	97,637	292,559	84,013	88,078	105,003	104,647	381,741	457,769
General and administrative	38,983	62,581	17,231	20,003	27,208	28,749	93,190	23,842	28,311	28,876	27,906	108,934	131,916
Total cost and expenses	409,018	980,784	288,714	369,361	450,555	455,788	1,563,918	439,752	479,707	504,509	531,751	1,955,719	2,332,184
Other operating income	406	23,379	1,087	15,692	15,692	15,692	48,163	15,692	15,692	15,692	15,692	62,768	62,768
Income (loss) from operations	144,486	360,866	147,502	140,601	99,121	102,329	489,554	143,597	165,113	167,452	181,587	657,749	801,372
Non-GAAP Op. Income	176,192	410,523	159,884	161,612	121,132	126,340	568,969	168,108	190,224	193,063	207,698	759,093	910,816
Interest income	8,194	21,635	7,540	8,239	8,239	8,239	32,257	8,339	8,339	8,339	8,339	33,356	33,756
Interest expense	-	-	-	(1,950)	(1,975)	(2,000)	(5,925)	(2,010)	(2,020)	(2,030)	(2,040)	(8,100)	(8,260)
Impairment loss on long-term investments	(5,765)	(4,386)	-	-	-	-	-	-	-	-	-	-	-
Income before income tax and share of income on equity r	146,915	378,115	155,042	146,890	103,385	108,568	515,886	149,926	171,432	173,761	187,886	683,005	826,868
Income tax expense	(5,136)	(65,980)	(26,905)	(31,143)	(26,346)	(27,142)	(111,536)	(37,482)	(42,858)	(43,440)	(46,971)	(170,751)	(206,717)
Share of income on equity method investments	3,471	5,889	1,279	1,692	1,692	1,692	6,355	2,192	2,192	2,192	2,192	8,768	10,768
Net income (loss) attributable to Momo	145,250	318,024	129,416	117,439	80,731	83,118	410,704	114,637	130,766	132,513	143,106	521,021	630,919
Deemed dividend to preferred shareholders	-	542	468	340	340	340	1,488	-	-	-	-	-	-
Net income (loss) attributable to ordinary shareholders	145,250	318,566	129,884	117,779	81,071	83,458	412,192	114,637	130,766	132,513	143,106	521,021	630,919
Share-based compensation	31,706	49,657	12,382	21,011	22,011	24,011	79,415	24,511	25,111	25,611	26,111	101,344	109,444
Non-GAAP net income (loss) attributable to Momo	176,956	368,223	142,266	138,790	103,082	107,469	491,607	139,148	155,877	158,124	169,217	622,365	740,363
GAAP EPADS	\$0.41	\$1.11	\$0.63	\$0.56	\$0.19	\$0.20	\$1.57	\$0.54	\$0.62	\$0.31	\$0.34	\$1.81	\$2.21
Non-GAAP EPADS	\$0.86	\$1.77	\$0.69	\$0.66	\$0.49	\$0.51	\$2.34	\$0.66	\$0.74	\$0.75	\$0.80	\$2.94	\$3.50
Weighted ADS outstanding	203,493	207,620	207,523	211,545	211,557	211,570	210,549	211,582	211,595	211,607	211,620	211,601	211,651
Weighted ordinary shares outstanding	412,934	416,371	415,045	423,090	423,115	423,140	423,140	423,165	423,190	423,215	423,240	423,240	423,340
Margins													
Cost of revenues	43.7%	49.3%	48.2%	54.6%	56.0%	55.0%	53.7%	53.0%	52.8%	51.7%	52.7%	52.5%	52.6%
Research and development	5.7%	3.9%	4.0%	5.1%	5.3%	5.7%	5.1%	5.5%	4.9%	4.8%	4.5%	4.9%	4.2%
Sales and marketing	17.6%	16.5%	10.2%	11.0%	18.0%	18.0%	14.6%	14.8%	14.0%	16.0%	15.0%	15.0%	14.9%
General and administrative	7.0%	4.7%	4.0%	4.0%	5.1%	5.3%	4.6%	4.2%	4.5%	4.4%	4.0%	4.3%	4.3%
Total cost and expenses	74.0%	74.4%	66.4%	74.7%	84.4%	84.0%	78.0%	77.5%	76.2%	76.9%	76.2%	76.7%	75.9%
Income/(Loss) from operations	26.1%	27.4%	33.9%	28.4%	18.6%	18.9%	24.4%	25.3%	26.2%	25.5%	26.0%	25.8%	26.1%
Non-GAAP Op. Income	31.9%	31.1%	36.7%	32.7%	22.7%	23.3%	28.4%	29.6%	30.2%	29.4%	29.8%	29.8%	29.7%
Income tax expense	3.5%	17.4%	17.4%	21.2%	25.0%	25.0%	21.6%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
GAAP net income/(loss) attributable to ordinary shareholders	26.3%	24.2%	29.8%	23.8%	15.2%	15.4%	20.6%	20.2%	20.8%	20.2%	20.5%	20.4%	20.5%
Non-GAAP net income attributable to Momo	32.0%	27.9%	32.7%	28.1%	19.3%	19.8%	24.5%	24.5%	24.8%	24.1%	24.3%	24.4%	24.1%
Y/Y Growth													
Live broadcasting service		192.5%	74.8%	58.4%	48.4%	37.2%	52.5%	26.5%	24.8%	21.2%	27.7%	25.0%	18.9%
Mobile marketing	70.6%	14.8%	4.6%	17.1%	15.0%	8.0%	11.1%	10.0%	18.0%	19.0%	25.0%	18.4%	16.0%
Membership subscription	15.6%	52.6%	61.8%	124.1%	124.0%	115.0%	107.7%	90.0%	50.0%	39.0%	38.0%	50.3%	32.4%
Mobile games	14.1%	0.5%	-42.5%	-40.3%	-33.0%	-24.0%	-36.2%	-40.0%	13.0%	20.0%	15.0%	-0.4%	13.0%
Other services	21.9%	-89.0%	273.8%	3440.0%	102.0%	80.0%	218.8%	120.0%	150.0%	-15.0%	8.0%	87.5%	8.8%
Total net revenues	312.8%	138.3%	64.1%	58.3%	50.5%	40.4%	52.1%	30.5%	27.3%	23.0%	28.6%	27.2%	20.4%
Cost of revenues	696.6%	168.9%	74.0%	79.0%	67.9%	49.0%	65.8%	43.5%	23.1%	13.6%	23.2%	24.5%	20.4%
Research and development	35.0%	64.0%	104.8%	143.0%	102.6%	65.6%	97.6%	77.0%	24.2%	11.6%	1.5%	22.9%	2.9%
Sales and marketing	84.6%	123.8%	30.4%	-21.0%	66.3%	72.4%	34.5%	89.5%	61.5%	9.3%	7.2%	30.5%	19.9%
General and administrative	70.4%	60.5%	42.4%	25.2%	62.0%	62.3%	48.9%	38.4%	41.5%	6.1%	-2.9%	16.9%	21.1%
Total cost and expenses	216.9%	139.8%	64.9%	50.1%	69.0%	55.4%	59.5%	52.3%	29.9%	12.1%	16.7%	25.1%	19.2%
Income/(Loss) from operations	2473.7%	149.8%	62.0%	90.7%	11.4%	-4.4%	35.7%	-2.6%	17.4%	68.9%	77.5%	34.4%	21.8%
GAAP net income/(loss) attributable to ordinary shareholders	960.5%	119.3%	59.9%	93.8%	2.5%	-14.4%	29.4%	-11.7%	11.0%	63.5%	71.5%	26.4%	21.1%
Non-GAAP net income attributable to Momo	469.4%	108.1%	56.8%	88.2%	10.0%	-2.3%	33.5%	-2.2%	12.3%	53.4%	57.5%	26.6%	19.0%
Q/Q Growth													
Live broadcasting service			13.3%	10.6%	9.2%	0.2%		4.4%	9.1%	6.0%	5.6%		
Mobile marketing			-14.3%	19.0%	-9.9%	17.5%		-12.7%	27.7%	-9.1%	23.5%		
Membership subscription			25.9%	49.3%	6.5%	7.4%		11.3%	17.9%	-1.3%	6.6%		
Mobile games			-3.5%	-17.9%	-1.4%	-2.6%		-23.8%	54.5%	4.7%	-6.6%		
Other services			394.6%	-72.5%	-26.4%	79.6%		504.5%	-68.7%	-75.0%	128.2%		
Total net revenues			12.6%	13.6%	7.9%	1.7%		4.7%	10.8%	4.3%	6.3%		
Cost of revenues			4.7%	28.7%	10.8%	-0.1%		0.8%	10.4%	2.1%	8.4%		
Research and development			-6.5%	43.0%	12.0%	10.7%		-0.1%	0.3%	0.6%	0.6%		
Sales and marketing			-21.7%	23.0%	76.0%	1.7%		-14.0%	4.8%	19.2%	-0.3%		
General and administrative			-2.7%	16.1%	36.0%	5.7%		-17.1%	18.7%	2.0%	-3.4%		
Total cost and expenses			-1.6%	27.9%	21.8%	1.3%		-3.5%	9.1%	5.2%	5.4%		
Income/(Loss) from operations			37.8%	-4.7%	-29.5%	3.2%		40.3%	15.0%	1.4%	8.4%		
GAAP net income/(loss) attributable to ordinary shareholders			33.2%	-9.3%	-31.2%	2.9%		37.4%	14.1%	1.3%	8.0%		
Non-GAAP net income attributable to Momo			29.3%	-2.4%	-25.7%	4.3%		29.5%	12.0%	1.4%	7.0%		

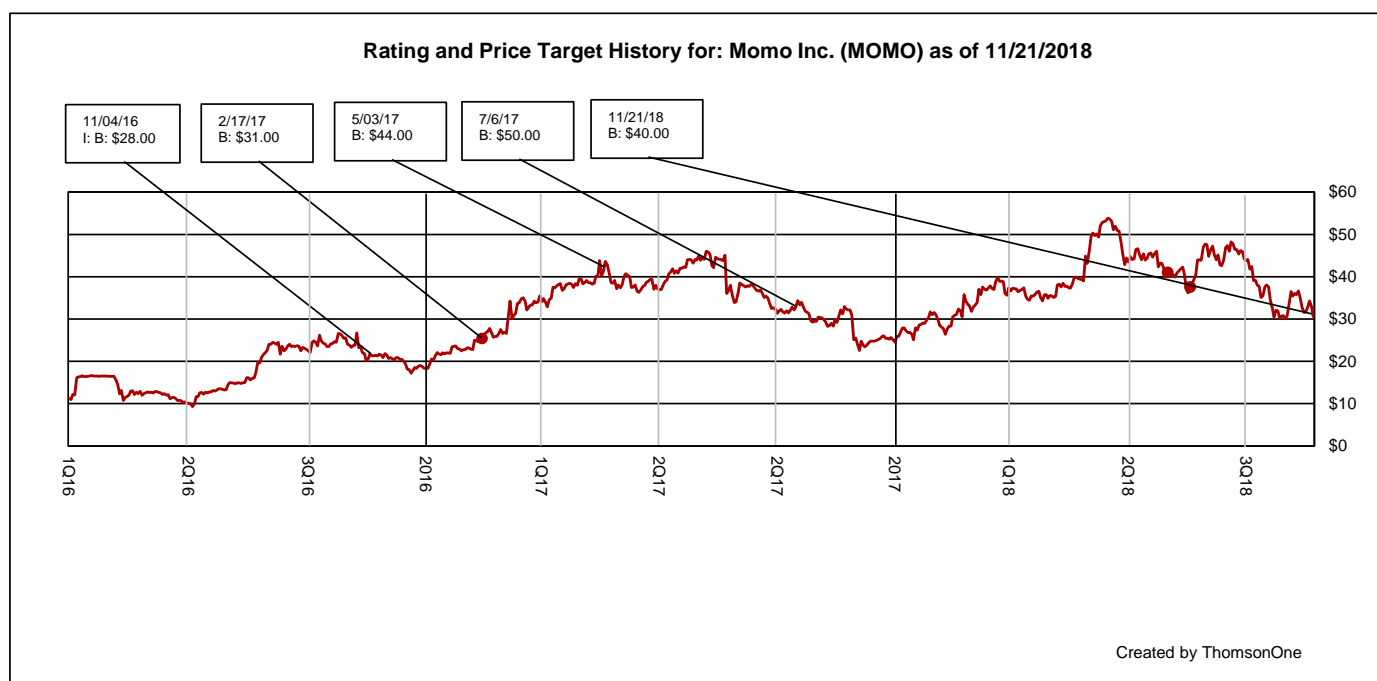
Source: Company data and T. H. Capital Research estimates

Important Disclosures

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