



November 7, 2017

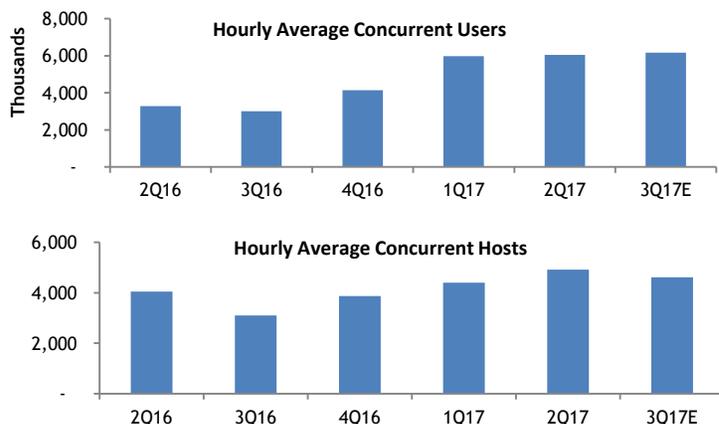
## YY Inc.

### 3Q17 to be Driven by More Variety of Content and Social Features Within YY Live; Maintain Buy Rating

YY will report 3Q17 results on Tuesday, November 14th after the market opens with an 8am EST conference call. Based on our proprietary data, we believe YY's 3Q17 revenue is likely to be better than consensus at RMB2.811B and guidance range of RMB2.75B - RMB2.85B driven by changes made within entertainment live broadcastings as well as strong momentum of game broadcastings. For 4Q17, as the momentum continues and with strong seasonality, we believe the guidance is also likely to be better than consensus at 29.6% Y/Y growth. We maintain our Buy rating.

- **YY Live Streaming ACU and ACH continue to grow Y/Y in 3Q17** – Our data show that YY introduced many new content categories and social features in its YY Live Streaming. Content-wise, it is beyond just singing and dancing, but a setup of different interest groups and subjects covering a variety of content. Social feature-wise, YY added social games and PK types of shows, which stimulate engagement and monetization. As such, the hourly average concurrent users (ACU) for YY Live increased 105.2% Y/Y in 3Q17, while hourly average concurrent hosts (ACH) increased 48.8% Y/Y in 3Q17 (*Figure 1*). The average daily unique hosts increased 9.2% Y/Y, and average monthly unique hosts increased 27.6% Y/Y in 3Q17 (*Figure 2 & 3*). Based on our model, we believe YY's 3Q17 revenue is likely coming in close to RMB2.855B, better than consensus expectation at RMB2.811B.
- **4Q17 guidance is likely to be better than consensus** – We believe YY is likely to provide 4Q17 guidance better than consensus at RMB3.219B (29.6% Y/Y growth) driven by the above mentioned new content and features within live streaming as well as strong seasonality.
- **Please see page 2 for valuation and risks.**

**Figure 1: YY Live - Hourly Average Concurrent Users (Top) and Hosts (Bottom), 2Q16 – 3Q17E**



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

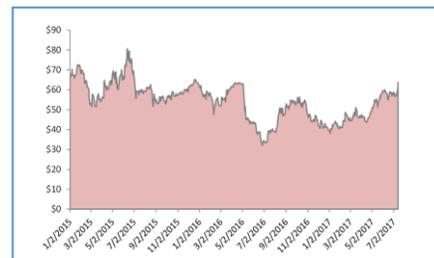
**YY: Buy**  
**Price: \$92.34**  
**Target Price: \$96.00**

<b>52 Week Range:</b>	<b>\$37.81 - \$97.59</b>
<b>Market Cap:</b>	<b>\$5.7B</b>
<b>Avg. Daily Vol. (100 day):</b>	<b>1,637,910</b>
<b>3-Yr. Est. Rev CAGR:</b>	<b>32%</b>
<b>Net cash per share:</b>	<b>\$9.30</b>

FY (Dec)	2016A	2017E	2018E
Q1	1,649A	2,267A	2,743E
Q2	1,981A	2,609A	3,254E
Q3	2,090A	2,808E	3,432E
Q4	<u>2,484A</u>	<u>3,222E</u>	<u>3,939E</u>
FY Revenue	8,204A	10,906E	13,369E
Q1	4.59A	9.62A	8.63E
Q2	6.65A	10.39A	11.68E
Q3	7.48A	9.61E	12.07E
Q4	<u>10.17A</u>	<u>10.70E</u>	<u>14.00E</u>
FY EPS*	28.06A	39.99E	46.39E
P/E	21.5x	15.6x	13.5x

\*Non-GAAP EPS

All figures in RMB millions unless otherwise noted



**Tian X. Hou;** +86 10 8567 0989  
thou@thdatacapital.com

**Ethan Qin;** +86 10 8567 0787  
eqin@thdatacapital.com

**Jay Dong;** +86 10 8567 0787  
jldong@thdatacapital.com

**Gina Chen;** (646) 389-8528  
gchen@thdatacapital.com

- **Valuation and price target** - YY is on the right path to resume high growth driven by its game live broadcasting and well as reacceleration in its show business. Our price target is \$96.00, which is based on a 14.0X PE to our 2018E non-GAAP EPS projection of RMB46.39. Historically, the stock was trading at an average of 29.1X 12-months forward PE.
- **Investment risks:**
  1. **Failure to grow its users on mobile platform** – YY has been slow in developing users on its mobile platform.
  2. **Host concentration** – YY's business model is leveraging popular hosts to accomplish monetization. When the revenue is concentrated on a handful of hosts, the business growth can be constrained.
  3. **Government regulations** – Live broadcasting in China is a new phenomenon that has taken off in the online social media space. Since this is fairly new, live broadcasting could run into unforeseen government regulations that could hamper the growth of this category.
  4. **Intense competition** – YY operates in a highly competitive market. There are a lot of companies vying for market share in the social networking space.

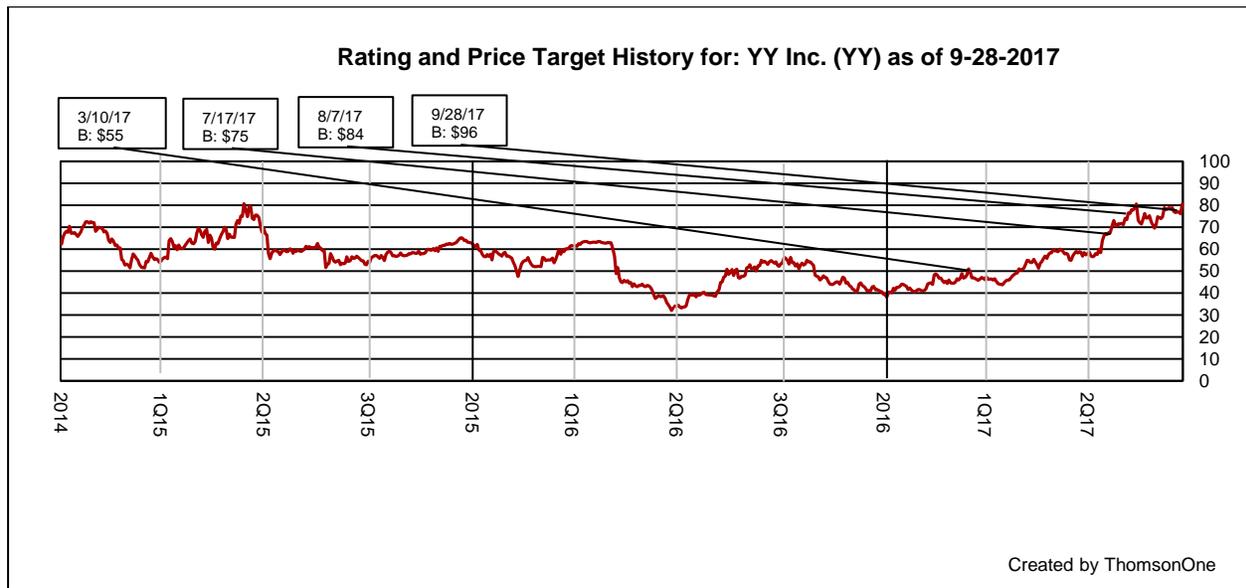
*For the full version of this report, please contact TH Capital.*

## **Important Disclosures**

### **RESEARCH ANALYST CERTIFICATION**

I, Tian X. Hou, am the Primary Analyst responsible for this research report accurately reflect my personal views about any and all of the subject securities or issuers as of the date of the report. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views I expressed in this research report.

This report constitutes a compendium report (covers six or more subject companies). As such, T.H. Capital, LLC chooses to provide specific disclosures for the subject companies by reference. To access current disclosures for the subject companies, clients may e-mail a request to [gchen@thcapital-china.com](mailto:gchen@thcapital-china.com) or may write or call T.H. Capital, LLC at 646-389-5868.



### **DEFINITION OF STOCK RATINGS**

T. H. Capital Research's ratings are defined as follows:

**BUY** – A stock that is expected at initiation to produce a positive total return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

**SELL** – A stock that is expected at initiation to produce a negative total return of 15% or greater over the next 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

**HOLD** – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

T. H. Capital's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

### **DISCLOSURE OF DISTRIBUTION OF RATINGS**

T. H. Capital, LLC must disclose in each research report the percentage of all securities rated by the member to which the member would assign a “buy”, “hold” or “sell” rating. All required disclosures, including price charts, designating ratings and price targets on all T. H. Capital rated stocks are available upon request by contacting [gchen@thcapital-china.com](mailto:gchen@thcapital-china.com).

Below is the distribution of T. H. Capital’s research recommendations as of October 23, 2017:

Distribution of Ratings, Firm wide T. H. Capital, LLC		
Rating	Count	Percent
BUY (B)	14	82%
SELL (S)	0	0%
HOLD (H)	3	18%

### INVESTMENT RECOMMENDATION RELATED RISK FACTORS

Investment risks associated with the recommendations and views herein include, but are not limited to, a company's failure to achieve T. H. Capital's earnings and revenue estimates; unforeseen global and domestic macroeconomic and/or industry events that affect demand for a company's products or services; changes in investor sentiment regarding the specific company or industry; intense and rapidly changing competitive pressures; the continuing development of industry standards; the company's ability to recruit and retain competent personnel; and adverse market conditions

This report reflects the results of our research as of the date of this report. Our research results are subject to change at any time as new or additional data and information is received and analyzed. T. H. Capital undertakes no duty to update this report, or to provide supplemental information to any client receiving this report, absent a specific arrangement to the contrary between TH Capital and individual clients, which arrangement may specify different frequency and depth of analysis and update commitments based on levels of service and fees selected by clients. Any opinions, forecasts or estimates in this report may present a possible outcome on the basis of assumptions set out herein and represent only one possible outcome and are the independent view of the author(s) of this report only. These opinions, forecasts or estimates are subject to risks, uncertainties and assumptions and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates.

### T.H. CAPITAL, LLC DISCLOSURE LEGEND:

1. T. H. Capital, LLC is an independent research firm registered in China. It provides independent equity research services to institutional clients only. T. H. Capital, LLC is not a registered investment adviser, securities broker-dealer or a member of any association for other research providers.
2. T. H. Capital's compliance policy prohibits its research analysts from owning any positions in stocks under coverage.
3. T. H. Capital, LLC or its affiliates beneficially own 1% or more of the common stock of the subject company as calculated with Section 13(d) of the Securities Exchange Act of 1934.
4. The subject company is, or during the past 12 months was, a client of T. H. Capital, LLC, which provided non-investment banking, securities-related services to, and received compensation from, the subject company for such services. The analyst or employees of T. H. Capital, LLC with the ability to influence the substance of this report knows the foregoing facts.
5. An affiliate of T. H. Capital, LLC received compensation from the subject company for products or services other than investment banking services during the past 12 months. The analyst or employees of T. H. Capital, LLC with the ability to influence the substance of this report know or have reason to know the foregoing facts.
6. As of the date of publication of this Report, neither T. H. Capital nor any of their affiliates have an actual or material conflict of interest with either the research in this Report or the Analyst.

**GENERAL INFORMATION**

This report is for the institutional clients and prospective clients of T. H. Capital, LLC, each of whom assume all risk and liability with regard to any use or application of the data included herein. Other than disclosures relating to T. H. Capital, this research report is based on current information that T. H. Capital considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. T. H. Capital seeks to update our research reports as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment. Reproduction or editing by any means, in whole or in part, or any unauthorized use, disclosure or redistribution of the contents without the express written permission of T. H. Capital, LLC is strictly prohibited.

This research report is intended for informational purposes only. Under no circumstances is this report to be considered as an offer to sell or solicitation of an offer to buy any securities of any company. Users assume the entire cost and risk of any investment decision they choose to make, T. H. Capital, LLC shall not be liable for any loss or damages resulting from the use of the information contained in the report, or for error of transmission of information, or for any third party claims of any nature.

T. H. Capital provides the information and data contained herein on an "as is", "as available" basis, without representations or warranties of any kind whatsoever, expressed or implied. The information in this report may be incomplete and may not contain material information relating to the subject matter of the report. T. H. Capital has no authority whatsoever to give any information or make any representation or warranty on behalf of the company or companies that are the subject of this report, any of its shareholders or any other person in connection therewith and this report has not been authorized or approved by said company or companies. Nothing herein shall constitute a waiver or limitation of any person's rights under relevant federal or state securities laws.

It should be noted that all proprietary analyses provided by T. H. Capital in this report are derived from T. H. Capital's analytic expertise, market knowledge, and use of the data it collects.

This research report is not an offer to sell, or the solicitation to buy, any security in any jurisdiction where such an offer or solicitation would be illegal or unlawful. It does not constitute a personal recommendation, nor does it take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

All material contained in this report is the property of T. H. Capital unless otherwise indicated. All trademarks, service marks, logos and trade names used in this report are proprietary to T. H. Capital or other respective owners. This report is proprietary, confidential and provided for the exclusive use of the recipient. Any unauthorized use of the content of this report, including disclosure of confidential information contained within, is strictly prohibited.

In no event shall T. H. Capital or its officers, directors, affiliates, shareholders or employees be liable for any damages including special, incidental, or consequential damages that are directly or indirectly related to this report, including, without limitation, lost revenue or anticipated profits or lost business, and in no event shall the total liability of T. H. Capital for any and all losses and causes of action [whether in contract or in tort, including negligence or otherwise] arising from this report exceed in the aggregate the subscription fees paid to T. H. Capital by the applicable client for this report.