

Momo Inc

(NASDAQ:MOMO)



VIRTUAL SIAM DIU

FAD, CONTROVERSY, FALLING STOCK PRICE
ALL ROLLED INTO ONE

Background



- Momo is a location-based mobile social networking and entertainment **platform**
- Roots were that of a **dating app**
- **Tinder** of China
- **Previously** backed by Alibaba
- Core business now that of **livestreaming**
- Listed on Nasdaq on 11 Dec 2014

Pictures paint thousands of words



Main page



Tinder equivalent



Multi-chat



Popular Livestreams



Core business



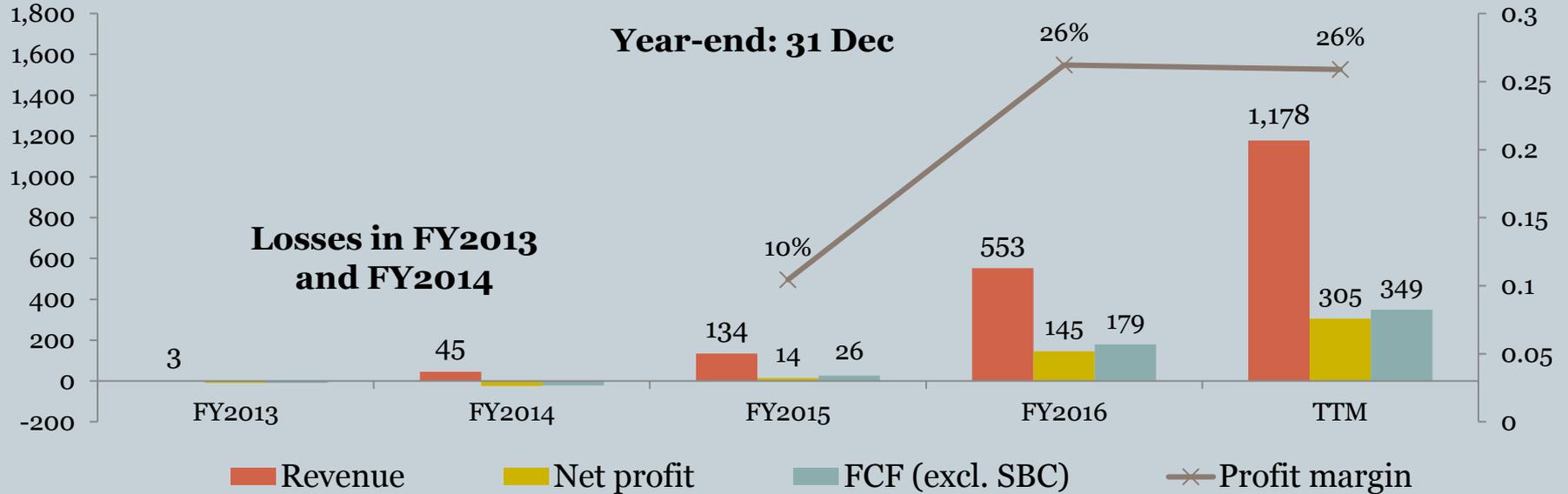
- Live video service is about **90%** of total revenue
- Monetisation: Viewers of streams **give virtual gifts** to livestreamers. Different from western counterparts' **advertising** revenue business model
- Gifts are expressed as form of support by viewers for their favourite streamers
- Momo receives **60% share** of virtual gifts while streamers take remaining 40%
- Monthly active users: **94.4m** (Sep 17) vs 77.4m (Sep 16)

Moats



- **Intangibles – Brand name**
 - Well-known app among Chinese users due to dating app origins
- **Network effect**
 - Once livestreamers are entrenched, with following, hard to move to another platform
 - Would have to rebuild following

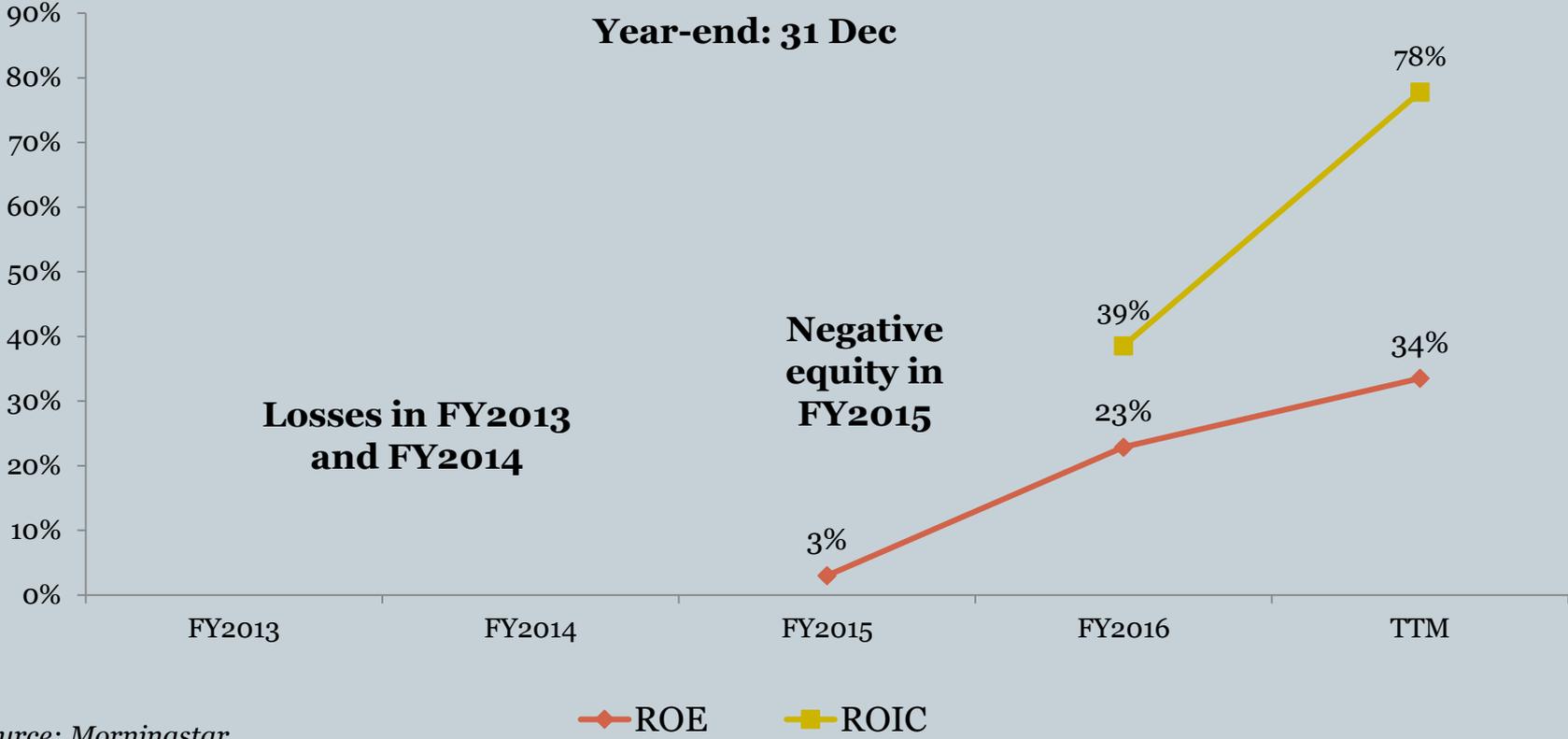
Historical financials



	FY2014	FY2015	FY2016	TTM
Revenue growth	1,400%	198%	313%	113%
Profit growth	N/A - losses	N/A - losses to profit	936%	110%

Source: Morningstar

Historical financials



Source: Morningstar

Bear case



- No. of **paying livestreaming users stagnant** at 4.1m: Base of users can only increase spending that much
- Industry is a **fad**: No value added and unsustainable model
- Growth will **slow** eventually: People will start tiring of gifting
- Tough competition: **100+** platforms in China
- Alibaba no longer on board – **Joseph Tsai resigned**: Orphaned - Alibaba cashed out and may be starting new platform
- **Tech giants** (Tencent, Alibaba, etc) can easily tap on existing networks to kill off rivals
- **Risk of regulators shutting it down**: Abuse through nudity, political streams, etc (**BIGGEST RISK**)
 - Can be closed by authorities immediately: Investment = zero

1-year price chart



Stock price since 11 Dec 2014



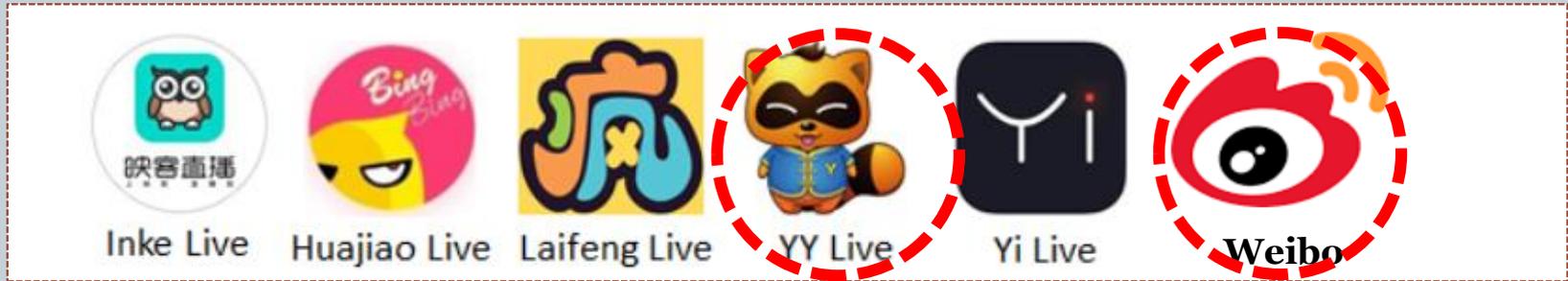
Snapshot of key statistics



	USD
Stock price as at 13 Dec 17	24.77
Market cap as at 13 Dec 17 (mn)	4,900
Cash as at 30 Sep 17 (mn)	518
Debt as at 30 Sep 17 (mn)	0
Enterprise value as at 30 Sep 17 (mn)	4,382
TTM net profit (mn)	305
TTM FCF (mn)	349
P/E	16.0x
EV/FCF	12.6x

Source: Morningstar

Competitors



- YY and Weibo are closest listed comparables
- Valuation multiples of YY are similar but has slower growth (Momo started from lower base)
- Weibo at much higher valuation multiples

Valuation



Sorry DCF not available

Valuation



- Key questions to answer:
 - Is this a fad?
 - ✦ Maybe, but people go to siam diu all the time for entertainment and we visit Youtube to watch videos, not to mention reality tv too
 - ✦ Variant perception: New form of **consuming entertainment** and potentially more use cases eg. Education
 - Can it grow?
 - ✦ Probably, plenty of Otakus around in tier 3, 4, 5 cities
 - ✦ Variant perception: More use cases as it becomes mainstream, **more people** and **more spending** on interactive real-time entertainment/learning in China and beyond eg. YY owns part of Bigo which is popular in SEA. Stalling of 4.1m Q-O-Q paying users may be just a blip (re-check in 4QFY2017) + revenue streams from other segments

Valuation



- Key questions to answer:
 - Can rivals kill Momo?
 - ✦ Possible, but may not be as easy as switching on a light
 - ✦ Variant perception: As underfunded rivals drop off due to regulations and **industry consolidates**, it will be harder to kill Momo and incumbents due to **network effects**
 - Will regulators shut down Momo?
 - ✦ Very possible, if livestreamers go Tiananmen Ver 2.0 on Momo or if it goes the way of adult live cams
 - ✦ Variant perception: As Momo and incumbents get more well-funded through network effects, **more funds for policing** through algorithms and actual staff viewing streams to **mitigate risks of government's wrath**

Valuation



- Key questions to answer:
 - Am I comfortable with paying a 12.6x EV/FCF multiple for a company's that's likely to keep growing?

Yes

Why take the risk



- Industry is just **getting started**
- Good **potential use cases** such as education – would need some imagination
- Invest in **widening moats** instead of wide moats



End