

DouYu International Holdings Limited - ADR (NASDAQ:DOYU)



Ishfaq Peerally
eToro Elite Popular Investor
(Approved Value Investor)

Trading Statistics (USD)

Market Cap (bb)	3.38	LTM EPS	0.23	Update Date	30 Mar 2021
Current Price	10.55	LTM P/E	45	Recommendation	BUY
52 Wk L - H	6.11 - 20.54	EV / EBITDA	64	Price Target	NONE

Business Description

- Second largest video game live streaming provider by revenues and market cap in China (behind Huya) and the largest in the world in number of users with 337 million users (as of December 2019).
- Operates a similar business to Twitch and is known as the Twitch of China.
- 37% of the company is owned by Tencent, which also owns 51% of Huya. Huya and DouYu are undergoing a merger of equals along with the video game streaming business of Tencent to form a behemoth (68% owned by Tencent), whereby the pro-forma company will own 80% of market share.

Financial Summary

	FY16	FY17	FY18	FY19	FY20
Revenue (mm)	114	286	531	1,038	1,468
EBITDA (mm)	-111	-90	-118	-6	40
Margins	-97.4%	-31.5%	-22.2%	-0.6%	2.7%
Net Income (mm)	-113	-93	-127	6	74
Margins	-99.1%	-32.5%	-23.9%	0.6%	5.0%

Investment Thesis

Business Description:

- Operates a similar business to Twitch by enabling gamers to livestream while they are playing.
- Since Twitch and YouTube are banned in China, the market is really dominated by three main players, Huya, DouYu and Tencent
- Users can watch live streams for free but will need to be a paid user to live stream themselves. DouYu also makes money from ads with 91% of revenues coming from live streams in 4Q20
- DouYu has 337 million (FY19) users with MAUs of 174.4 million (FY20) with 17.5 million paying users.

Catalysts:

- China has the largest eSport market in the world with \$37.9 billion in revenues in 2018 (vs \$30.4 billion for the US) and is growing at 25% annually.
- Arbitrage opportunity in case of merger with spread of over 40%
 - All Stock deal where each ADS of Douyu will be converted into 0.730 ADS of Huya
 - Merger of equals and the pro-forma company will have two co-CEOs (the current CEOs of each company). Tencent will own 68% of the new company.
 - On the day of the merger, both DouYu and Huya will each pay a special cash dividend of \$60 million and \$200 million respectively

Risks:

- Antitrust probes on Chinese Big Tech
- Volatility of Chinese emerging tech stocks
- Currency fluctuations
- Delisting of Chinese stocks on US exchanges

Financial Analysis:

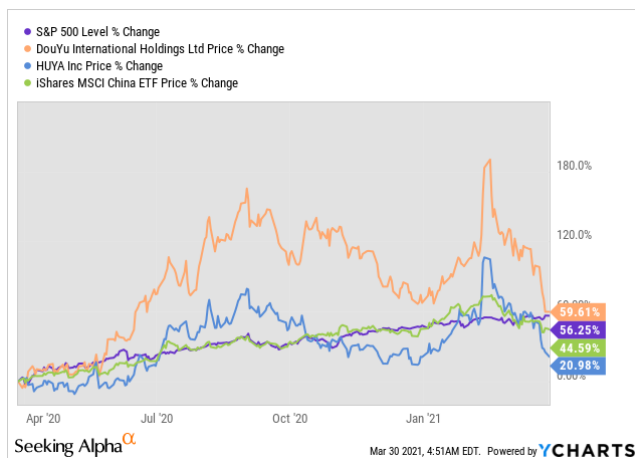
- Revenues of RMB 2.26 Billion (\$347 million) in 4Q20 vs RMB 2.06 Billion in 4Q19
- Revenues of RMB 9.60 Billion (\$1.47 billion) in FY20 vs RMB 7.28 billion in FY19
- Net loss of RMB 228 million (\$35 million) in 4Q20 vs net income of RMB 157 million in 4Q19

- Net income of RMB 404 million (\$62 million) in FY20 vs net income of RMB 33 million for FY19
- Balance Sheet
 - Total assets: \$1.36 billion ; total liabilities: \$295 million; book value: \$1.06 billion
 - Cash: \$809 million, No debts, current assets: \$1.23 billion, current liabilities: \$288 million
 - Net current asset value of Benjamin Graham: \$930 million

Valuations

- My personal Biases
 - 3.6% of my portfolio
 - Considers risks of unaudited numbers in margin of safety
 - Will take profits immediately after deal
 - If deal doesn't happen, will hold for the long-term
- Assumptions
 - Revenue growth of 25% annually for the next 5 years (32% YoY growth)
 - FCF margin of 8% on average
 - Terminal Growth rate of 5%
 - Discount Rate of 15%

Year	Revenues	FCF	Discounted FCF
2020	\$1,470	\$74	
2021	\$1,838	\$147	\$128
2022	\$2,297	\$184	\$139
2023	\$2,871	\$230	\$151
2024	\$3,589	\$287	\$164
2025	\$4,486	\$359	\$178
Terminal Value			\$1,780
Intrinsic Value			\$2,540



- Exit Multiples Analysis
 - Based on Multiples of FCF in 2025
 - 20% higher in bull case and 20% lower in bear case
 - 75% probability of deal going through

2025 FCF/ADS	No Deal						Deal
	X5	X10	X15	X20	X25		
Bull	\$ 1.30	\$ 6.50	\$ 13.00	\$ 19.50	\$ 26.00	\$ 32.50	
Base	\$ 1.09	\$ 5.45	\$ 10.90	\$ 16.35	\$ 21.80	\$ 27.25	
Bear	\$ 0.87	\$ 4.35	\$ 8.70	\$ 13.05	\$ 17.40	\$ 21.75	
Returns		-59%	3%	55%	107%	208%	
CAGR		-16%	1%	9%	16%	25%	39%
Probability		5%	5%	5%	5%	5%	75%
Expectation	31%	-1%	0%	0%	1%	1%	29%

Conclusion

- Stock slightly overvalued based on conservative DCF analysis
- If compared to other emerging Chinese tech stocks, it is undervalued with such a balance sheet
- Still a buy because of arbitrage or long-term hold