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Equity Research

BlueCity Holding Limited

Earnings review

Streamlining business process and realigning overseas expansion amid headwinds

Turned profit in Q3 thanks to streamlining process, maintain Buy

BlueCity reported Q3 revenue of RMB297.6mn, up 47.3% YoY/20.3% QoQ. Overall MAU was 6.3mn, an increase of 7.0% from Q3FY19, but a slight decline from 6.4mn last quarter. The sequential weakness was due to expansion uncertainties in the overseas markets, but this impact was offset to some extent by the improvement from proactively streamlining business process. Gross margin was 32.3% this quarter, up from 31.2% in Q2, mainly due to lower revenue-sharing costs of the livestreaming services. Thanks to higher operating efficiency from streamlining business process, adj. EBIT turned profit and adj. net profit (excl. SBC & FV gain/loss) came in at RMB7.1mn, compared to adj. net loss of RMB3.3mn in Q2. We maintained our FY20E full year revenue unchanged at RMB1.07bn. As the strategic realignment is being carried out in overseas market and the leading position in China market is strengthened by recent strategic M&A deals, we hold an upbeat outlook on BlueCity's LT growth and reiterate Buy with a PT of US\$20.1, which implies a 2.1x FY21E P/S.

Live streaming: ARPU jumped, and realigns overseas market strategy

Live streaming revenue reached RMB255.2mn, up 42.9% YoY/21.4% QoQ, mainly driven by a strong ARPU growth. Annualized ARPU by MPU increased substantially by 32.9% QoQ in Q3. The strength came from: 1) streamlining operating process to improve user experience and increase customers willingness to pay; 2) launched new features, such as "Lucky treasure hunter", "First-time award", and introduced community concept to diversify monetization method. On the other hand, due to the uncertainties of overseas markets, the company canceled its marketing plan for the Indian market, and the MPU fell by 8.6% to 159,000 in Q3. However, the company is actively realigning its overseas expansion strategy to mitigate the impact, including refocusing key markets such as Japanese and South America and launching localized version app to attract more users. In addition, the company is still on track to pursue overseas strategic M&A opportunities, which were delayed by COVID-19.

M&A reinforces its leading position in China LGBTQ market

On 25 Nov, the company announced to buy 100% equity interests in Finka for RMB240mn in cash. As a leading gay social networking app in China targeting younger generations, Finka is focused mainly on relationships and is supplementary to Blued, which aims to provide users products and services throughout the life cycle. Besides, the company purchased China's popular lesbian dating platform LESDO three months ago. Although the company said that it will independently operate these acquisition targets in the near term, we believe that in the long term, they will integrate with the company's existing business and achieve synergies, reinforcing its leading position in the China LGBTQ market.

Valuation and risks

Key risks to our PT include: 1) tight regulation and rules on the live-streaming services; 2) localization difficulties during its global expansion; 3) lower-than-expected performance of new businesses.

Stock code: BLCT.US

Rating: Buy

Price target (US\$)	20.1
Current price (US\$, 7 Dec 2020)	11.0
Total upside/downside %	82%
Market cap (US\$ m)	392
Avg daily turnover (US\$ m)	36

Source: Bloomberg, AMTD research estimates

Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	759	1,075	1,470	2,061
yoy %	51%	42%	37%	40%
Gross profit	213	352	559	897
yoy %	88%	65%	59%	60%
EBIT	(61)	(206)	22	175
yoy %	n.a.	n.a.	n.a.	681%
EBIT margin	-8%	-19%	2%	8%

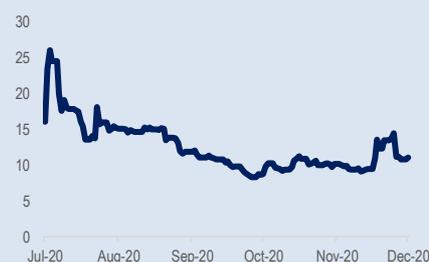
Source: Company data, AMTD research estimates

Valuation

	FY19	FY20e	FY21e	FY22e
P/S	4.2	2.9	2.1	1.5
P/E (adj.)	n.a.	n.a.	106.5	18.4
EV/EBITDA	n.a.	n.a.	114.7	17.3
ROE	n.a.	n.a.	2%	12%

Source: Bloomberg, AMTD research estimates

Share price performance (US\$)



Source: Bloomberg

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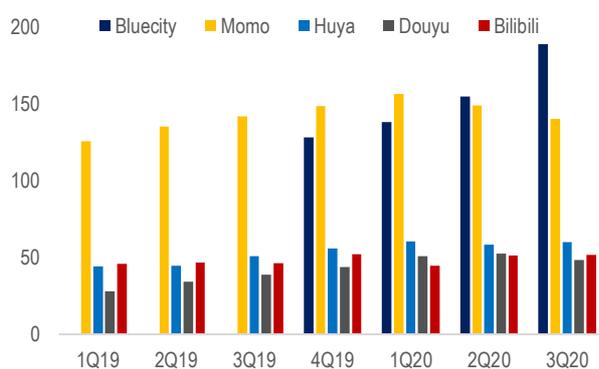
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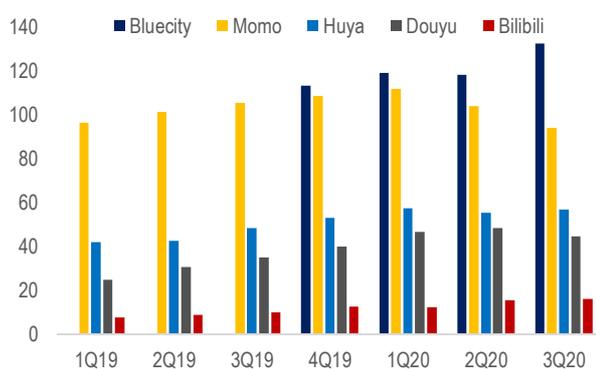
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Figure 1: ARPU (RMB), total TTM revenue/MAU

Source: Company data, AMTD Research

Figure 2: ARPU (RMB), TTM livestreaming revenue/MAU

Source: Company data, AMTD Research

Figure 3: BlueCity's quarterly operating data

	3/19	6/19	9/19	12/19	3/20	6/20	9/20
Overall							
avg. MAUs (mn)	5.00	5.70	5.90	5.93	6.00	6.40	6.30
Live streaming services							
paying users ('000)	136.9	128.3	129.2	132.4	177.9	174.0	159.0
paying ratio	2.7%	2.3%	2.2%	2.2%	3.0%	2.7%	2.5%
ARPPU by paying users (RMB)	3,981	5,234	5,529	5,701	4,039	4,832	6,420
Membership services							
paying users ('000)	121.5	186.6	242.6	273.7	284.0	327.0	378.0
paying ratio	2.4%	3.3%	4.1%	4.6%	4.7%	5.1%	6.0%
ARPPU by paying users (RMB)	100.7			134.2	211.5	193.3	260.4
QoQ %							
Overall							
avg. MAUs (mn)	2.0%	14.0%	3.5%	0.5%	1.2%	6.7%	-1.6%
Live streaming services							
paying users ('000)	3.7%	-6.3%	0.7%	2.5%	34.4%	-2.2%	-8.6%
ARPPU by paying users (RMB)		31.5%	5.6%	3.1%	-29.1%	19.6%	32.9%
Membership services							
paying users ('000)	77.9%	53.6%	30.0%	12.8%	3.8%	15.1%	15.6%
ARPPU by paying users (RMB)					57.5%	-8.6%	34.7%
YoY %							
Overall							
avg. MAUs (mn)	22.0%	26.7%	25.5%	21.0%	20.0%	12.3%	6.8%
Live streaming services							
paying users ('000)	-12.7%	-5.6%	2.9%	0.3%	29.9%	35.6%	23.1%
ARPPU by paying users (RMB)					1.5%	-7.7%	16.1%
Membership services							
paying users ('000)		1747.5%	459.0%	300.7%	133.7%	75.2%	55.8%
ARPPU by paying users (RMB)					109.9%	n.a.	n.a.

Source: Company data, AMTD Research

Figure 4: BlueCity's P&L (RMB' 000)

P&L	3/19	6/19	9/19	12/19	3/20	6/20	9/20
Live streaming services	136,237	167,891	178,586	188,696	179,643	210,200	255,200
Membership services	3,060	6,882	11,637	15,160	15,013	15,800	18,200
Advertising services	4,947	9,083	7,277	14,077	5,596	10,700	10,100
Others	1,095	3,285	4,503	6,473	7,221	10,700	14,100
Total Revenue	145,339	187,141	202,003	224,406	207,473	247,439	297,616
Cost of Goods Sold	(110,287)	(130,998)	(142,611)	(162,315)	(139,212)	(170,256)	(201,578)
Gross Profit	35,052	56,142	59,391	62,091	68,261	77,183	96,038
<i>Gross margin</i>	24.1%	30.0%	29.4%	27.7%	32.9%	31.2%	32.3%
S&M	(25,747)	(30,846)	(31,149)	(31,695)	(38,611)	(40,964)	(58,028)
<i>S&M as % of total sales</i>	17.7%	16.5%	15.4%	14.1%	18.6%	16.6%	19.5%
G&A	(5,259)	(3,511)	(2,977)	(12,692)	(10,569)	(10,334)	(132,426)
<i>G&A as % of total sales</i>	3.6%	1.9%	1.5%	5.7%	5.1%	4.2%	44.5%
R&D	(29,517)	(32,224)	(33,649)	(34,262)	(30,283)	(31,336)	(50,289)
<i>R&D as % of total sales</i>	20.3%	17.2%	16.7%	15.3%	14.6%	12.7%	16.9%
Operating expenses	(60,523)	(66,581)	(67,775)	(78,649)	(79,463)	(82,634)	(240,743)
<i>Opex ratio</i>	41.6%	35.6%	33.6%	35.0%	38.3%	33.4%	80.9%
EBIT	(25,471)	(10,439)	(8,383)	(16,558)	(11,202)	(5,451)	(144,705)
<i>EBIT margin</i>	-17.5%	-5.6%	-4.2%	-7.4%	-5.4%	-2.2%	-48.6%
Adj. EBIT	(25,471)	(10,439)	(8,383)	(16,558)	(11,202)	(5,451)	5,087
<i>Adj. EBIT margin</i>	-17.5%	-5.6%	-4.2%	-7.4%	-5.4%	-2.2%	1.7%
Financial Income	2,319	2,294	0	0	2,431	1,946	0
Fair value change	(3,261)	(4,011)	(577)	(1,175)	(5)	(0)	4,863
Profit Before Income Taxes	(26,413)	(12,156)	(7,107)	(6,323)	(8,776)	(3,506)	(136,831)
Income Tax Expense (Benefit)	0	(29)	29	(931)	385	156	(983)
Net Income	(26,413)	(12,185)	(7,078)	(7,254)	(8,391)	(3,350)	(137,813)
Exceptionals	(18,213)	(4,011)	(577)	7,811	(5)	(0)	(144,929)
Adj. net profit	(8,200)	(8,174)	(6,501)	(15,064)	(8,386)	(3,349)	7,116

Source: Company data, AMTD Research

Figure 5: BlueCity's growth, QoQ & YoY

QoQ %	3/19	6/19	9/19	12/19	3/20	6/20	9/20
Live streaming services		23.2%	6.4%	5.7%	-4.8%	17.0%	21.4%
Membership services		124.9%	69.1%	30.3%	-1.0%	5.2%	15.2%
Advertising services		83.6%	-19.9%	93.5%	-60.2%	91.2%	-5.6%
Others		200.0%	37.1%	43.8%	11.6%	48.2%	31.8%
Total Revenue		28.8%	7.9%	11.1%	-7.5%	19.3%	20.3%
S&M			1.0%	1.8%	-67.7%	6.1%	41.7%
G&A			-15.2%	326.4%	-56.8%	-2.2%	1181.5%
R&D			4.4%	1.8%	-76.6%	3.5%	60.5%
Operating expenses			1.8%	16.0%	-70.9%	4.0%	191.3%
Adj. operating expense			1.8%	16.0%	-70.9%	4.0%	10.1%
YoY %	3/19	6/19	9/19	12/19	3/20	6/20	9/20
Live streaming services					31.9%	25.2%	42.9%
Membership services					390.6%	129.6%	56.4%
Advertising services					13.1%	17.8%	38.8%
Others					559.5%	225.8%	213.1%
Total Revenue					42.8%	32.2%	47.3%
Cost of Goods Sold					26.2%	30.0%	41.3%
Gross Profit					94.7%	37.5%	61.7%
S&M					50.0%	32.8%	86.3%
G&A					101.0%	194.3%	4348.8%
R&D					2.6%	-2.8%	49.5%
Operating expenses					31.3%	24.1%	255.2%
Adj. operating expense					31.3%	24.1%	34.2%

Source: Company data, AMTD Research

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Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

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