



## Momo Seen Breaking Out with China Internet Momentum

Ticker/Price: MOMO (\$36.20)

### Analysis:

**Momo (MOMO)** bullish spread today opens 2,500 October 11th (W) \$35/\$38 call spreads for \$1.59 with the \$32 puts sold 2,000X for \$0.35. MOMO has been popular with put sales across a number of months while the April \$35 calls with buyers recently as well and some January \$35 calls remain in OI from earlier this year. MOMO shares are setting up well in a bull flag above the rising 20-MA with a move higher setting up a big weekly breakout from a six-month range. MOMO has been forming a series of higher lows since December. The \$7.18B company trades 10.83X earnings, 3.3X sales, and 4X cash with 20% EPS growth and 18% revenue growth. MOMO continues to see steady growth in their user base with the core community up 5% in Q2 and set for a significant re-acceleration into the 2H after a temporary suspension on their homepage was lifted on June 21. The company expects user time spent to also rebound as well as paid users. One of the big drivers for user engagement and growth is Tantan, a company they acquired in 2018 which is considered the 'Tinder' of China. The segment is seeing strong growth, especially among millennials and Gen Z, where the cultural stigma of online dating is fading away. MOMO sees a massive TAM opportunity with the app as they expand services and grow the user base. Analysts have an average target for shares of \$41.50. Benchmark positive on 8-28 citing upside in its live video business, reflecting the company's strong product execution, operational improvements and proven monetization model of its social user cases. Short interest is 3.7%. Hedge fund ownership rose 19% in Q2. Sequoia Capital a top holder with 18M shares.

### Hawk Vision:



**Hawk's Perspective:** MOMO has a nice coiled look versus the 50 day MA as a level to trade against, though a lot of China names like BABA/JD looking great as well. MOMO valuation looks quite attractive if growth picks back up.

**Confidence Ranking:** \$\$