



Put Sale in Huya Sees Limited Downside Through Earnings

Ticker/Price: HUYA (\$19.80)

Analysis:

Huya (HUYA) with 3,000 February \$19 puts sold to open today and follows buyers of nearly 2,000 March \$22.50 calls last Thursday and 5,000 February \$20 calls from early January remain in open interest. HUYA shares pulled back to their rising 20-EMA today and bouncing as it continues to climb out of a multi-month bottoming pattern. HUYA IPO'd in mid-2018 and traded up to \$50 before pulling back with the macro issues between the US/China clouding visibility. Shares are nearing a move back above its 200-EMA and room back to \$26.50 and a big volume node from September. The \$3.83B company trades 43.45X earnings and 6.67X sales with 91.9% EPS growth in 2019 and 65.6% in 2020. HUYA has been growing revenues steadily for the last 2-3 years before its carve-out from YY and expects to eclipse \$1B in sales this year, up 55.5%. The company is a leader live game streaming in China with significant opportunity for ad-growth and monetization through game-related services. HUYA is seeing better conversion rates for paid users (4M in Q3, up 40%) while its engagement initiatives are keeping retention rates high (above 70%). The live-streaming market is expected to reach \$5B in China by 2022, up from \$1.2B currently, as e-sports gain more traction and China remains the world's largest market by revenue in the space. HUYA's eco-system gives them a significant advantage over peers with 99M active users and 49.4M MAUs last quarter. Analysts have an average target for share of \$31 with 5 buy ratings, 3 hold ratings, and 1 sell. Short interest is 2.9% and down from its peak near 4.4% in July. Needham with a \$41 PT. The firm thinks HUYA has upside despite the high valuation given strong leadership, improving profitability as they focus on cost efficiencies, and upside from monetization. Goldman upgraded shares to Buy on 12/12 with a \$28 PT. Benchmark see a unique opportunity with HUYA and on 11/13 positive noting that they see momentum continuing for the company given the broadness in the gaming markets.

Hawk Vision:



Trading Strategy: HUYA looks to be forming a large cup and handle bottom, though still hesitate with Chinese Internet names, one to trade tight if looking for an entry.

Confidence Ranking: \$\$