

Technology

China's Joyy Rises 17% After Contesting Muddy Waters Report

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► [Joyy slams 'numerous errors' and invites third-party review](#)

► [Carson Block responds on Twitter with a seven-question FAQ](#)

The stock of [Joyy Inc.](#) surged after the Chinese livestreaming video giant disputed allegations of fraud by short seller [Muddy Waters](#), saying [its analysis](#) showed a fundamental misunderstanding about the fledgling industry.

Shares rose 17% in U.S. trading Thursday, the largest gain in three years. They recovered some of the 26% [selloff](#) in the previous session that marked its biggest single-day decline.

Joyy said Muddy Waters's 71-page report contained "numerous errors, unsubstantiated statements, and misleading conclusions" and showed its "lack of a basic understanding of the live streaming industry," which the company helped turn into one of the fastest-growing segments of the world's largest internet market. Joyy also pointed to a \$300 million dividend program it announced in August as evidence that it is able to generate -- and distribute to shareholders -- real cash, including \$25 million paid out in the third quarter.

"To conclusively refute the report's false allegation regarding the authenticity of JOYY's profit figures, the Company is open to cash verification and diligence to be conducted by competent third-party advisers," the company said in its statement.

Just days before the short seller report, Joyy had announced plans to sell its YY Chinese business to search giant [Baidu Inc.](#) for \$3.6 billion. The allegations have raised doubts about the deal, which is aimed at helping Baidu catch up in the competitive arena of online entertainment after a late start in live-streaming video.

[Muddy Waters](#), which had called YY a "fraud tech company" in its initial report, quickly responded to Joyy's rebuttal. It issued a seven-question explainer of its allegations, including detailed instructions for how to review its research.

Muddy Waters Research founder Carson Block earlier said Joyy's livestreaming service YY is "guilty of bot forming, creating fake transactions and having fake users." After a year-long investigation, the firm alleged in the report evidence of revenue inflation: livestreamers who got paid during long periods of absence or inactivity; mis-matches with local credit reports it obtained; and payments originating from company servers. Muddy Waters also said it holds a short position in Joyy, meaning the firm will benefit financially when the shares drop.

The tactics outlined in Muddy Waters's report aren't intended to inflate revenue but to juice popularity among users, said Ke Yan, a Singapore-based analyst with DZT Research. And the research firm may be mis-judging how common the practice was of initially using bots to generate interest, said Chen Da, executive director at Anlan Capital. It's customary to try and goose numbers for livestreams in the hope they draw in real users who then contribute actual money, he said.

Livestreaming peers Momo Inc. and Douyu International Holdings Ltd. operate similar business models. Momo rose 1.9% in New York, while Douyu stood largely unchanged.

"You can't really apply the research methods used to collect fraudulent evidence against real-economy or manufacturing firms to internet firms," Chen said. Their "business model does pay off and there is real cash flow brought in after the fakes 'get the ball rolling'."

Read more: [Baidu to Buy YY for \\$3.6 Billion to Get Into Chinese Live Video](#)

What Bloomberg Intelligence Says

Joyy may have to spend significant time and resources to refute research firm Muddy Waters' allegations of fraud, which may be difficult to disprove quickly. This may involve internal reviews with independent committees and external advisors. In the meantime, the doubt cast into investors' minds could be an overhang and there may be uncertainty about the completion of the pending deal to sell YY Live to Baidu.

- Vey-Sern Ling and Tiffany Tam, analysts

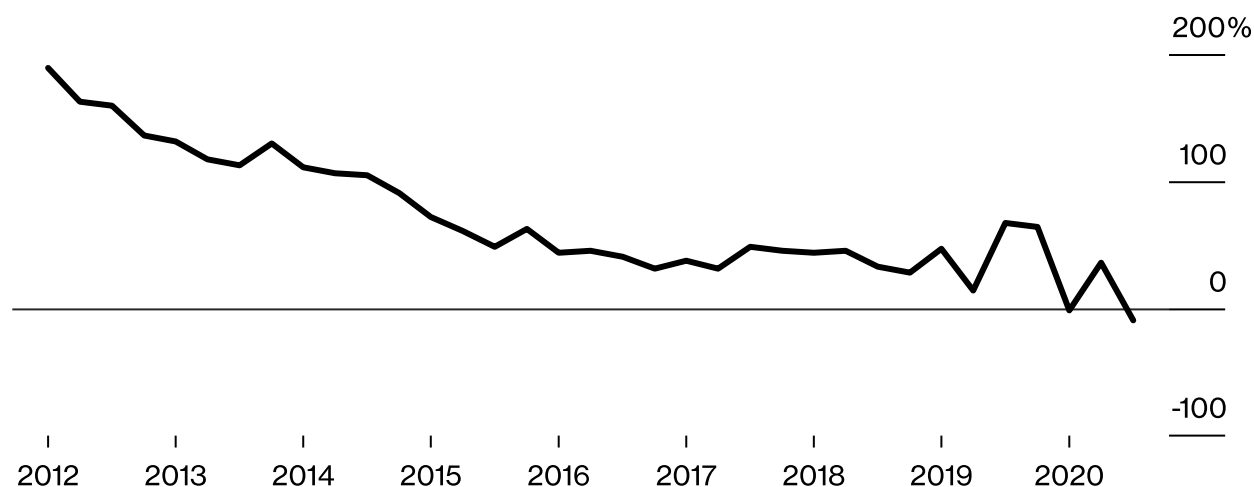
Click [here](#) for the research.

With YY, Baidu was supposed to get a \$1.8 billion business with 4 million paying users who splurge on virtual gifts to tip their favorite performers. The acquisition marked the search engine giant's biggest effort to diversify revenue streams beyond advertising and tap consumer

spending. Once the runaway leader in desktop search, Baidu is trying to adapt its business to the mobile era but losing ground piecemeal to up-and-comers such as ByteDance and Kuaishou.

Not So Much Joyy

Joyy's revenue isn't growing like in the early days of live-streaming



Source: Bloomberg

To compete for users and advertisers, Baidu's core search app is morphing into a platform hosting a wide array of content from articles to videos, not unlike [Tencent Holdings Ltd.'s WeChat](#). Its Netflix-style [iQiyi Inc.](#) -- whose shares [plunged](#) in April after another short seller's report -- is also going head-to-head with services run by Tencent and [Alibaba Group Holding Ltd.](#)

Started in 2005 as a chat tool for gamers, YY was among the pioneers of a way to monetize livestreaming by taking a cut of virtual gifts bestowed by fans. In 2014, its parent launched Twitch-style [Huya Inc.](#) using the same model. That unit was later spun off and is now in the middle of merging with [DouYu International Holdings Ltd.](#) to create a \$10 billion game-streaming giant controlled by Tencent.

YY itself is now losing appeal to hotter formats like video-streaming platform [Bilibili Inc.](#) and [ByteDance Ltd.'s Douyin](#), the Chinese twin of TikTok. YY's paying users actually declined 4.7% in the September quarter.

Read more: [Baidu-Backed iQiyi Tumbles After Disclosing SEC Probe of Records](#)

– With assistance by Zheping Huang, and April Ma

In this article

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MUDDY WATERS RESEARCH

Private Company

BIDU

BAIDU INC-SP ADR

136.48 USD ▼ -5.59 -3.93%

MOMO

MOMO INC-ADR

15.24 USD ▲ +0.28 +1.87%

DOYU

DOUYU INTERN-ADR

13.59 USD ▲ +0.02 +0.15%

700

TENCENT

573.00 HKD ▼ -16.00 -2.72%

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