

Bilibili (BILI US)

3Q23 preview: Loss reduction remains on track

We expect Bilibili's (Bili) 3Q23 results to be in line with market expectation, with total revenue growth flat YoY at RMB5.8bn and adjusted net loss narrowing by 57% YoY to RMB757mn. Bili's ad business continues to deliver solid revenue growth and gain market share in 2H23, supported by the strong growth of e-commerce ads solutions and the improvement of algorithms. The company's loss reduction remains on track, driven by its effective cost control initiatives. However, the suspension of *Pretty Derby* downloads shall impact its mobile games revenue growth in 4Q23E. As a result, we trim FY23-25 total revenue forecasts by 1-2%. We lower our SOTP-derived TP to US\$24.0 (previous: US\$25.5), translating into 3.2/2.9x FY23/24E PS. Maintain BUY.

- **Expect solid growth of ads and VAS businesses.** We forecast advertising revenue to increase by 25% YoY to RMB1.7bn in 3Q23E (29% of total revenue), and we expect Bili to continue to outpace the overall ad market revenue growth in 4Q23E. Bili launched several initiatives to drive growth of e-commerce ads: 1) In Sept, it unveiled the Superstar Project (超新星计划), offering traffic and cash incentives to nurture live streaming e-commerce hosts; 2) during this year's Double 11, Bili will introduce a "Shopping" tab via cooperation with major e-commerce platforms, further enhancing the e-commerce experience and conversion rate on its platforms. For VAS, we forecast its revenue to increase by 16% YoY to RMB2.6bn in 3Q23E (45% of total revenue), driven by the resilient growth of live streaming revenue despite tightening regulations.
- **Mobile games business under pressure in 2H23E.** Bili's mobile games business remains under pressure in 2H23, due to a lack of new games and download suspension of *Pretty Derby*. We estimate mobile game revenue to decline by 35% YoY to RMB962mn (16.7% of total revenue) in 3Q23E. In 2H23, the company further optimized its self-developed game business and put more focus on game genres like anime games and female-oriented games. We expect the optimization to drive better efficiency and ROI of its mobile game development, but the reacceleration of mobile game revenue growth may take more time than we previously expected.
- **Margin improvement remains on track.** We expect Bili's overall GPM to improve by 6.0ppt YoY and 1.1ppt QoQ to 24.2% in 3Q23E, driven by its effective cost control initiatives. We forecast opex to total revenue ratio to decline from 50% in 3Q22 to 43% in 3Q23E mainly on stringent S&M expenses control. Overall, we forecast adjusted net loss margin to improve by 17.3ppt YoY and 5.0ppt QoQ to -13.1% in 3Q23E. Our SOTP-derived target price consists of US\$8.1/0.3 for VAS/IP derivatives business on 2.5/0.4x 2023E PS, and US\$10.6/4.9 for ads/games business on 20x/18x 2023E PE. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	19,384	21,899	22,525	24,890	27,119
YoY growth (%)	61.5	13.0	2.9	10.5	9.0
Gross margin (%)	20.9	17.6	24.2	28.6	31.2
Operating profit (RMB mn)	(6,429)	(8,358)	(4,579)	(2,584)	(1,245)
Adjusted net profit (RMB mn)	(5,478.1)	(6,691.7)	(3,389.9)	(1,258.0)	355.5
EPS (Reported) (RMB cents)	(1,442.4)	(1,700.4)	(819.9)	(304.3)	86.0
Consensus EPS (RMB cents)	(1,442.4)	(1,700.4)	(856.1)	(255.9)	240.0
P/S (x)	2.0	1.8	1.7	1.6	1.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$24.00
(Previous TP)	US\$25.50
Up/Downside	86.5%
Current Price	US\$12.87

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Stock Data

Mkt Cap (US\$ mn)	5,321.1
Avg 3 mths t/o (US\$ mn)	37.0
52w High/Low (US\$)	29.20/8.92
Total Issued Shares (mn)	413.4

Source: FactSet

Shareholding Structure

Rui Chen	13.7%
Tencent	9.3%

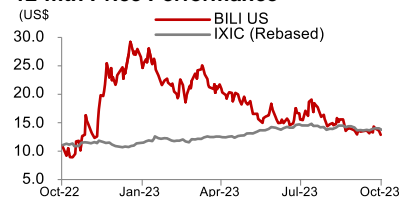
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-5.4%	-2.8%
3-mth	-18.3%	-11.9%
6-mth	-38.6%	-43.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecast updates and valuation

Figure 1: Bili: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	22,525	24,890	27,119	22,894	25,419	27,678	-1.6%	-2.1%	-2.0%
Gross profit	5,445	7,123	8,464	5,632	7,397	8,764	-3.3%	-3.7%	-3.4%
Operating profit	(4,579)	(2,584)	(1,245)	(4,555)	(2,770)	(1,339)	na	na	na
Adjusted net profit	(3,390)	(1,258)	356	(3,350)	(1,418)	302	na	na	na
Adjusted EPS (RMB)	(8.2)	(3.0)	0.9	(8.1)	(3.4)	0.7	na	na	na
Gross margin	24.2%	28.6%	31.2%	24.6%	29.1%	31.7%	-0.4 ppt	-0.5 ppt	-0.5 ppt
Operating margin	-20.3%	-10.4%	-4.6%	-19.9%	-10.9%	-4.8%	-0.4 ppt	0.5 ppt	0.2 ppt
Adjusted net margin	-15.0%	-5.1%	1.3%	-14.6%	-5.6%	1.1%	-0.4 ppt	0.5 ppt	0.2 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	22,525	24,890	27,119	24,279	28,211	31,860	-7.2%	-11.8%	-14.9%
Gross profit	5,445	7,123	8,464	5,921	8,042	9,987	-8.0%	-11.4%	-15.3%
Operating profit	(4,579)	(2,584)	(1,245)	(4,306)	(1,712)	177	na	na	na
Adjusted net profit	(3,390)	(1,258)	356	(3,338)	(1,224)	926	na	na	na
Adjusted EPS (RMB)	(8.2)	(3.0)	0.9	(8.6)	(2.6)	2.4	na	na	na
Gross margin	24.2%	28.6%	31.2%	24.4%	28.5%	31.3%	-0.2 ppt	0.1 ppt	-0.1 ppt
Operating margin	-20.3%	-10.4%	-4.6%	-17.7%	-6.1%	0.6%	-2.6 ppt	-4.3 ppt	-5.1 ppt
Adjusted net margin	-15.0%	-5.1%	1.3%	-13.7%	-4.3%	2.9%	-1.3 ppt	-0.7 ppt	-1.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Bili: key financial forecasts

(RMB mn)	2022	2023E	2024E	2025E	3Q23E
Mobile games	5,021	4,122	4,482	4,669	961
yoy%	-1.4%	-17.9%	8.7%	4.2%	-34.7%
VAS	8,715	9,797	10,797	11,844	2,570
yoy%	25.7%	12.4%	10.2%	9.7%	16.3%
Advertising	5,066	6,428	7,560	8,605	1,697
yoy%	12.0%	26.9%	17.6%	13.8%	25.2%
E-commerce and others	3,096	2,178	2,051	2,000	539
yoy%	9.2%	-29.7%	-5.8%	-2.5%	-28.9%
Total revenue	21,899	22,525	24,890	27,119	5,766
yoy%	13.0%	2.9%	10.5%	9.0%	-0.5%
Gross profit margin (%)	17.6%	24.2%	28.6%	31.2%	24.2%
S&M expense ratio (%)	22.5%	17.0%	15.0%	14.0%	17.0%
R&D expense ratio (%)	21.8%	18.0%	15.5%	14.0%	17.0%
Adjusted net loss margin (%)	-30.6%	-15.0%	-5.1%	1.3%	-13.1%
Adjusted net loss	(6,692)	(3,390)	(1,258)	356	(757)

Source: Company data, CMBIGM estimates

SOTP Valuation

Based on the SOTP valuation, our target price for Bili is US\$24.0 per ADS, which implies 3.2/2.9x 2023E/2024E PS. Our target price of US\$24.0 includes:

- 1) US\$10.6 for the advertising business (44.4% of the total valuation), based on a 20x 2023E PE. The target PE multiple is at a premium to the average PE of the mature advertising platforms (16x 2023E PE), to reflect Bili's unique value proposition in the video advertising market and its strong growth outlook.
- 2) US\$8.1 for the VAS business (33.9% of the total valuation), based on a 2.5x 2023E PS. The target PS multiple is at a premium to the average PS of other video platforms (2.1x 2023E PS), mainly due to its growing user base and improving monetization efficiency.
- 3) US\$4.9 for mobile games (20.5% of the total valuation), based on an 18x 2023E PE. The target PE multiple is at a discount to the industry average (20x 2023E PE), as Bili has yet to establish a successful track record in in-house games development.
- 4) US\$0.3 for IP derivatives and others (1.2% of the total valuation, previously disclosed as e-commerce and others), based on a 0.4x 2023E PS. The target PS multiple is on par with the average PS of the other e-commerce platforms.

Figure 4: Bili: SOTP Valuation

(RMBmn)	2023E MAU	Revenue per MAU	2023E revenue	Net margin (%)	Target PS (x)	Target PE (x)	Target valuation	As of total valuation
VAS (Live streaming + Membership)	330.2	29.7	9,797		2.5		24,493	33.9%
Advertising	330.2	19.5	6,428	25%		20	32,139	44.4%
Mobile games	33.0	124.8	4,122	20%		18	14,838	20.5%
IP derivatives and others*	16.5	131.9	2,178		0.4		871	1.2%
Total valuation (RMBmn)							72,342	
Number of ADS (mn)							413	
Valuation per ADS (US\$)							24.0	

Source: Company data, CMBIGM estimates

Note: IP derivatives and others previously disclosed as e-commerce and others

Figure 5: Peer comparison: online games and advertising sector

Companies	Ticker	Price	EPS growth (YoY %)			PE (x)		
		(Local)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Online games								
NetEase	NTES US	104.1	22	3	(9)	17	16	18
Activision Blizzard	ATVI US	94.4	39	2	9	22	22	20
Electronic Arts	EA US	130.3	(14)	13	11	22	19	17
Take Two Interactive	TTWO US	142.5	(27)	(11)	149	39	45	18
NetDragon	777 HK	14.1	(39)	21	14	8	7	6
Nexon	3659 JP	2,520.0	7	7	10	19	17	16
Nintendo	7974 JP	6,092.0	(9)	8	(18)	18	17	21
Bandai Namco	7832 JP	3,111.0	18	6	11	22	21	19
Perfect World	002624 CH	12.5	(19)	33	16	19	14	12
37 Interactive	002555 CH	20.6	11	15	13	14	12	11
Average PE						20	19	16
Online advertising								
Weibo	WB US	12.0	3	12	7	6	5	5
Baidu	BIDU US	114.7	23	6	10	12	12	10
Meta	Meta US	317.0	28	24	15	23	18	16
Google	GOOG US	139.3	10	24	22	25	20	16
Average PE						16	14	12

Source: Bloomberg, CMBIGM

Note: data as at 18 Oct market close

Figure 6: Peer comparison: online video and first-party e-commerce

Companies	Ticker	Price (Local)	Revenue growth (YoY %)			PS (x)		
			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Online video								
iQiyi	IQ US	4.6	4.1	7.0	6.7	1.0	0.9	0.9
Mango Excellent Media	300413 CH	26.3	3.0	13.3	10.6	3.2	2.8	2.5
Average PS						2.1	1.9	1.7
First-party e-commerce								
JD	JD US	25.9	na	(2.3)	8.0	7.8	0.3	0.3
Vipshop	VIPS US	15.1	na	1.6	5.5	4.8	0.5	0.5
Average PS						0.4	0.4	0.4

Source: Bloomberg, CMBIGM

Note: data as of 18 Oct market close

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	11,999	19,384	21,899	22,525	24,890	27,119
Cost of goods sold	9,159	15,341	18,050	17,080	17,768	18,655
Gross profit	2,840	4,043	3,849	5,445	7,123	8,464
Operating expenses	5,981	10,472	12,207	10,024	9,707	9,709
Selling expense	3,492	5,795	4,921	3,829	3,734	3,797
Admin expense	976	1,838	2,521	2,140	2,116	2,115
R&D expense	1,513	2,840	4,765	4,055	3,858	3,797
Operating profit	(3,141)	(6,429)	(8,358)	(4,579)	(2,584)	(1,245)
Investment gain/loss	28	(194)	(532)	(55)	(54)	(56)
Other gains/(losses)	137	(5)	1,457	329	0	0
EBIT	(2,975)	(6,628)	(7,434)	(4,304)	(2,639)	(1,301)
Interest income	83	70	281	389	553	596
Interest expense	(109)	(155)	(251)	(168)	(356)	(416)
Pre-tax profit	(3,001)	(6,713)	(7,404)	(4,083)	(2,442)	(1,120)
Income tax	53	95	104	82	49	(168)
After tax profit	(3,054)	(6,809)	(7,508)	(4,165)	(2,491)	(952)
Minority interest	47	20	11	83	50	19
Others	(4)	0	0	0	0	0
Net profit	(3,012)	(6,789)	(7,497)	(4,082)	(2,441)	(933)
Adjusted net profit	(2,560)	(5,478)	(6,692)	(3,390)	(1,258)	356

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	15,740	36,447	24,453	33,953	36,477	37,744
Cash & equivalents	4,678	7,523	10,187	16,347	17,876	18,192
Account receivables	1,218	1,382	1,329	2,438	2,694	2,935
Prepayment	1,766	4,848	3,545	5,634	6,226	6,783
ST bank deposits	4,720	7,632	4,768	4,911	5,058	5,210
Other current assets	3,357	15,061	4,623	4,623	4,623	4,623
Non-current assets	8,126	15,606	17,378	17,005	17,275	17,452
PP&E	762	1,350	1,227	1,428	1,592	1,733
Investment in JVs & assos	2,233	5,503	5,651	5,709	5,654	5,598
Intangibles	2,357	3,836	4,327	4,439	4,475	4,426
Goodwill	1,296	2,338	2,725	2,725	2,725	2,725
Other non-current assets	1,478	2,580	3,448	2,704	2,828	2,970
Total assets	23,866	52,053	41,831	50,958	53,752	55,196
Current liabilities	7,392	12,071	17,093	20,270	21,253	22,276
Short-term borrowings	100	1,232	6,621	6,621	6,621	6,621
Account payables	3,074	4,361	4,292	5,849	6,085	6,389
Tax payable	100	1,232	6,621	6,621	6,621	6,621
Other current liabilities	2,880	2,613	(2,084)	(1,882)	(1,456)	(1,039)
Accrued expenses	1,238	2,633	1,643	3,060	3,382	3,684
Non-current liabilities	8,692	18,266	9,498	18,443	21,512	21,577
Long-term borrowings	8,341	17,784	8,683	17,784	20,784	20,784
Other non-current liabilities	351	482	814	659	728	793
Total liabilities	16,083	30,337	26,591	38,713	42,765	43,853
Share capital	0	0	0	0	0	0
Capital surplus	14,616	35,930	35,930	35,930	35,930	35,930
Retained earnings	(7,175)	(13,971)	(20,437)	(23,515)	(24,823)	(24,486)
Other reserves	159	(255)	(255)	(255)	(255)	(255)
Total shareholders equity	7,600	21,704	15,238	12,160	10,852	11,188
Minority interest	182	12	2	85	135	154
Total equity and liabilities	23,866	52,053	41,831	50,958	53,752	55,196

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(3,001)	(6,713)	(7,404)	(4,083)	(2,442)	(1,120)
Depreciation & amortization	327	539	755	462	532	589
Tax paid	53	95	104	82	49	(168)
Change in working capital	1,487	(9)	(1,246)	(21)	135	225
Others	1,887	3,442	3,878	3,588	4,172	4,912
Net cash from operations	753	(2,647)	(3,911)	27	2,446	4,438
Investing						
Capital expenditure	(2,239)	(3,687)	(2,738)	(3,472)	(3,646)	(3,828)
Acquisition of subsidiaries/ investments	(1,757)	(7,238)	(2,646)	(113)	0	0
Others	(4,911)	(13,652)	15,994	600	(272)	(293)
Net cash from investing	(8,907)	(24,578)	10,609	(2,984)	(3,918)	(4,121)
Financing						
Net borrowings	5,695	11,203	251	9,101	3,000	0
Proceeds from share issues	2,817	19,288	0	0	0	0
Others	(177)	(103)	(4,606)	0	0	0
Net cash from financing	8,335	30,389	(4,355)	9,101	3,000	0
Net change in cash						
Cash at the beginning of the year	4,963	4,678	7,523	10,187	16,347	17,876
Exchange difference	(466)	(319)	321	17	0	0
Cash at the end of the year	4,678	7,523	10,187	16,347	17,876	18,192
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	77.0%	61.5%	13.0%	2.9%	10.5%	9.0%
Gross profit	138.6%	42.4%	(4.8%)	41.4%	30.8%	18.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	23.7%	20.9%	17.6%	24.2%	28.6%	31.2%
Operating margin	(26.2%)	(33.2%)	(38.2%)	(20.3%)	(10.4%)	(4.6%)
Adj. net profit margin	(21.3%)	(28.3%)	(30.6%)	(15.0%)	(5.1%)	1.3%
Return on equity (ROE)	(41.1%)	(46.3%)	(40.6%)	(29.8%)	(21.2%)	(8.5%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.5	0.5	0.3	0.7	0.9	0.8
Current ratio (x)	2.1	3.0	1.4	1.7	1.7	1.7
Receivable turnover days	37.1	26.0	22.1	39.5	39.5	39.5
Payable turnover days	122.5	103.8	86.8	125.0	125.0	125.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/B	12.4	10.8	4.1	3.2	3.6	3.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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