

Weibo (WB US)

Soft consumption sentiment continues to pressure ad revenue growth

Weibo reported 2Q24 results: net revenue declined by 1% YoY (or +1% YoY on a constant currency basis) to US\$438mn, in line with consensus/our estimates; non-GAAP net income was largely flat YoY at US\$126mn, 11/9% ahead of consensus/our estimate thanks to the prudent expense control. Due to macro uncertainty and weak consumption sentiment, management remains conservative on the ad demand outlook in 2H24E. We estimate ad revenue to decline by 4% YoY on a constant currency basis in 3Q24E. We slightly trim our FY24-26E total revenue forecast by 0-1% to reflect the soft ad demand amid macro headwinds. We lower our TP to US\$15.5 on 9x FY24E PE (previous: US\$17.0 on 10x FY24E PE). Maintain BUY.

- **Ad business under pressure due to soft consumption sentiment.** Ad revenue decreased by 3% YoY to US\$375mn in 2Q24 (or -1% YoY on a constant currency basis), primarily due to the decline in ad revenue from cosmetics and beauty verticals. Supported by better client recognition and broader coverage of domestic beauty brands, management expects to see ad revenue from cosmetics and beauty verticals to stabilize YoY in 4Q24E. Weibo's other advantageous verticals, such as handsets and automotive, still saw solid YoY increases in ad budget despite the macro headwind. Ad revenue from Alibaba was up by 21% YoY to US\$32.4mn in 2Q24, driven by Weibo's deepened cooperation with Tmall on cosmetics, footwear and apparel verticals. For 3Q24E, we expect the macro headwind to sustain and ad revenue to drop by 4% YoY on a constant currency basis.
- **Focus on quality user growth and content ecosystem development.** In Jun 2024, MAUs declined by 3% YoY to 583mn, but the DAU/MAU ratio improved to 43.9% (Jun 2023: 43.1%), as Weibo adjusted its user acquisition strategy to focus on high-quality users. User social interactions grew by a double-digit rate YoY in 1H24, as Weibo increased interactions between celebrities and fans by expanding celebrity campaigns. On the content front, Weibo invested in key content verticals such as automobiles, online games, and digital products. Supported by the content investment, Weibo continued to grow its ad budget share of different verticals.
- **Expect flattish OPM in FY24E.** Non-GAAP OPM rose by 1.1ppt YoY to 36.0% in 2Q24, thanks to the GPM expansion and control in product development expenses. Product development expenses declined by 23% YoY to US\$72mn and accounted for 16.4% of total revenue in 2Q24 (2Q23: 21.1%). For FY24E, we expect non-GAAP OPM will be largely flattish YoY at 33.5%. Weibo currently trades at 4x FY24E non-GAAP PE with net cash/mkt cap ratio of 10%, offering ample safety margin in our view. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	1,836	1,760	1,713	1,786	1,844
Adjusted net profit (US\$ mn)	540.1	450.6	455.6	499.2	529.0
EPS (Adjusted) (US\$)	2.30	1.91	1.92	2.11	2.23
Consensus EPS (US\$)	2.30	1.91	1.72	1.81	1.93
P/S (x)	1.0	1.0	1.1	1.0	1.0
P/E (x)	19.1	5.3	5.4	4.6	4.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$15.50
 (Previous TP) US\$17.00
Up/Downside 99.5%
Current Price US\$7.77

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	1,827.2
Avg 3 mths t/o (US\$ mn)	3.8
52w High/Low (US\$)	13.70/7.47
Total Issued Shares (mn)	235.2

Source: FactSet

Shareholding Structure

Sina	37.3%
Alibaba	28.9%

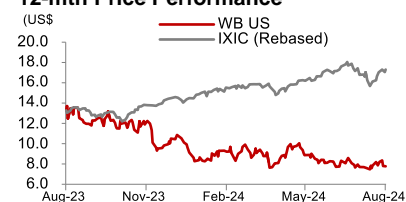
Source: Company data

Share Performance

	Absolute	Relative
1-mth	0.0%	0.7%
3-mth	-11.6%	-17.2%
6-mth	-15.6%	-24.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Weibo: forecast revision

US\$m	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,713	1,786	1,844	1,724	1,799	1,848	-0.6%	-0.8%	-0.3%
Gross Profit	1,350	1,407	1,453	1,348	1,407	1,445	0.2%	0.0%	0.5%
Adjusted net profit	456	499	529	447	493	521	1.8%	1.3%	1.6%
Adjusted EPS (RMB)	1.7	1.9	2.0	1.7	1.9	2.0	1.4%	0.9%	1.2%
Gross margin	78.8%	78.8%	78.8%	78.2%	78.2%	78.2%	0.6 ppt	0.6 ppt	0.6 ppt
Adjusted net margin	26.8%	28.0%	29.1%	26.2%	27.4%	28.5%	0.6 ppt	0.6 ppt	0.6 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$m	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,713	1,786	1,844	1,758	1,824	1,876	-2.6%	-2.1%	-1.7%
Gross profit	1,350	1,407	1,453	1,378	1,436	1,485	-2.0%	-2.0%	-2.1%
Adjusted net profit	456	499	529	454	480	510	0.3%	4.1%	3.6%
Adjusted EPS (RMB)	1.7	1.9	2.0	1.7	1.8	1.9	0.3%	4.1%	3.6%
Gross margin	78.8%	78.8%	78.8%	78.4%	78.8%	79.1%	0.4 ppt	0.0 ppt	-0.3 ppt
Adjusted net margin	26.8%	28.0%	29.1%	29.8%	30.2%	30.8%	-3.0 ppt	-2.2 ppt	-1.7 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Weibo: quarterly financials

(US\$m)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	Cons.	Diff%
Advertising revenue	427	386	393	391	355	386	389	404	339	375		
YoY%	9.5%	-23.2%	-26.8%	-29.1%	-16.8%	0.0%	-1.0%	3.4%	-4.6%	-2.7%		
VAS revenue	58	65	60	57	58	55	53	60	57	63		
YoY%	-16.5%	-10.4%	-13.9%	-12.2%	1.7%	-15.5%	-12.1%	4.3%	-3.3%	14.7%		
Total revenue	485	450	454	448	414	440	442	464	395	438	438	0.1%
YoY%	5.6%	-21.6%	-25.3%	-27.3%	-14.6%	-2.2%	-2.5%	3.5%	-4.4%	-0.5%		
Gross profit margin (%)	78.4%	78.8%	79.2%	76.3%	79.3%	78.6%	78.7%	78.4%	78.0%	79.5%		
S&M %	25.9%	25.7%	25.1%	27.4%	25.7%	23.9%	24.8%	30.1%	26.2%	26.1%		
R&D %	23.2%	23.6%	21.4%	22.2%	21.9%	21.1%	18.7%	14.5%	20.4%	16.4%		
Non-GAAP NPM	27.4%	24.4%	26.2%	39.8%	26.9%	28.7%	30.9%	16.5%	27.0%	28.8%		
Non-GAAP net profit	133	110	119	179	111	126	137	76	107	126	114	11.2%

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Weibo: peer valuation comparison

Company	Ticker	Price (LC)	Adj. EPS growth (YoY%)		PE (x)		EPS CAGR (%) 2023-2025E
			2024E	2025E	2024E	2025E	
Focus Media	002027 CH	5.6	9	10	15	14	16.6
Baidu	BIDU US	85.7	3	2	8	8	4.4
Meta	META US	528.0	45	14	25	21	25.7
Google	GOOGL US	165.6	31	12	21	19	15.7
Average					17	15	

Source: Bloomberg, CMBIGM

Note: data are as of 23 Aug

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	2,257	1,836	1,760	1,713	1,786	1,844
Cost of goods sold	(404)	(401)	(374)	(363)	(379)	(391)
Gross profit	1,853	1,436	1,386	1,350	1,407	1,453
Operating expenses	(1,156)	(945)	(913)	(891)	(908)	(916)
Selling expense	(592)	(477)	(461)	(463)	(472)	(478)
Admin expense	(133)	(53)	(118)	(103)	(105)	(106)
R&D expense	(431)	(415)	(334)	(326)	(330)	(332)
Operating profit	697	491	473	459	499	537
Other gains/(losses)	(176)	(313)	19	(5)	0	0
Interest income	30	(39)	11	5	37	47
Pre-tax profit	551	138	503	459	536	584
Income tax	(139)	(30)	(145)	(106)	(118)	(128)
After tax profit	412	108	357	354	418	455
Minority interest	(16)	12	15	12	14	15
Net profit	428	96	343	342	405	440
Adjusted net profit	719	540	451	456	499	529

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	4,803	4,552	4,513	4,617	5,179	5,741
Cash & equivalents	2,424	2,691	2,585	2,643	3,092	3,541
Account receivables	723	502	441	429	447	462
Prepayment	451	392	360	344	358	370
Other current assets	1,205	968	1,127	1,201	1,282	1,369
Non-current assets	2,717	2,577	2,768	2,309	2,238	2,186
PP&E	68	250	221	219	216	214
Investment in JVs & assos	1,208	994	1,320	756	687	638
Goodwill	297	245	301	245	245	245
Other non-current assets	1,143	1,089	926	1,089	1,089	1,089
Total assets	7,520	7,129	7,280	6,926	7,417	7,927
Current liabilities	2,159	1,220	1,797	1,750	1,763	1,769
Account payables	198	161	161	157	164	169
Tax payable	145	55	95	95	95	95
Other current liabilities	988	80	875	873	876	878
Accrued expenses	829	924	667	626	629	627
Non-current liabilities	1,672	2,519	1,965	1,328	1,416	1,495
Long-term borrowings	1,672	2,519	1,965	1,328	1,416	1,495
Total liabilities	3,832	3,739	3,763	3,078	3,179	3,264
Share capital	1,679	1,330	1,055	1,055	1,055	1,055
Retained earnings	1,915	2,001	2,343	2,685	3,090	3,530
Total shareholders equity	3,594	3,330	3,399	3,740	4,145	4,585
Minority interest	94	60	119	107	93	78
Total equity and liabilities	7,520	7,129	7,280	6,926	7,417	7,927

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	551	138	503	459	536	584
Depreciation & amortization	55	47	47	49	50	51
Tax paid	(139)	(30)	(145)	(106)	(118)	(128)
Change in working capital	42	334	(167)	(29)	(29)	(30)
Others	305	320	(15)	(12)	(14)	(15)
Net cash from operations	814	809	223	362	426	461
Investing						
Capital expenditure	(35)	(53)	(49)	(47)	(48)	(49)
Net proceeds from disposal of short-term investments	871	231	(161)	(64)	(71)	(78)
Others	(1,259)	(1,639)	(327)	564	69	50
Net cash from investing	(424)	(1,461)	(537)	453	(50)	(76)
Financing						
Net borrowings	1	953	(446)	(745)	87	79
Proceeds from share issues	188	0	567	0	0	0
Others	0	(34)	59	(12)	(14)	(15)
Net cash from financing	189	919	179	(756)	73	64
Net change in cash						
Cash at the beginning of the year	1,815	2,424	2,691	2,585	2,643	3,092
Exchange difference	29	0	0	0	0	0
Cash at the end of the year	2,424	2,691	2,556	2,643	3,092	3,541
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	33.6%	(18.6%)	(4.2%)	(2.6%)	4.2%	3.2%
Gross profit	33.5%	(22.5%)	(3.5%)	(2.6%)	4.2%	3.2%
Operating profit	37.6%	(29.6%)	(3.6%)	(2.9%)	8.7%	7.5%
Net profit	36.7%	(77.6%)	257.9%	(0.3%)	18.4%	8.8%
Adj. net profit	31.2%	(24.8%)	(16.6%)	1.1%	9.6%	6.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	82.1%	78.2%	78.7%	78.8%	78.8%	78.8%
Operating margin	30.9%	26.7%	26.9%	26.8%	28.0%	29.1%
Adj. net profit margin	31.8%	29.4%	25.6%	26.6%	28.0%	28.7%
Return on equity (ROE)	13.4%	2.8%	10.2%	9.6%	10.3%	10.1%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.2	3.7	2.5	2.6	2.9	3.2
Receivable turnover days	116.9	99.9	91.4	91.4	91.4	91.4
Payable turnover days	(178.6)	(146.7)	(157.5)	(158.0)	(158.0)	(158.0)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	4.2	19.1	5.3	5.4	4.6	4.2
P/E (diluted)	4.2	19.2	5.4	6.0	5.1	4.7
P/B	0.5	0.5	0.5	0.5	0.4	0.4

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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