

Mobvista Inc. (1860 HK)

Solid 1Q24 with enhanced profitability

Supported by an upgraded smart bidding system, Mobvista delivered strong quarterly results, with revenue/adj. net profit +23%/97% YoY in 1Q24. Its verticals expansion effort (e.g. ecommerce and social media) continued to bear fruit, with non-gaming business revenue contribution up to 29% in 1Q24 (vs. 19.5% in 1Q23). Intelligent bidding products contributed over 60% of Mintegral revenue. As the overhang eased with a settlement agreement signed for Reyun transactions, we suggest investors refocus on its organic fundamentals improvement. We remain positive on FY24E's Mintegral momentum (forecasting rev +20% YoY) and earnings growth (+91% YoY). Maintain BUY with unchanged earnings forecasts and TP at HK\$6.0.

- Solid 1Q24 with continued margin expansion.** Mobvista reported strong 1Q24 results, with rev +23% YoY, 3% below our estimate. By segment, ad-tech/mar-tech revenue was +23%/19% YoY, in which programmatic advertising was resilient at +25% YoY. Adj. net profit surged 97% YoY to US\$8.9mn, 4% above our estimates. GPM reached 20.5% in 1Q24 (+1.3ppt YoY), mainly on higher ads efficiency and disciplined cost of mar-tech business. Coupled with operating leveraging in S&M and G&A, adj. NM continuously improved to 2.9% in 1Q24, +0.7ppts QoQ/+1.1ppts YoY.
- Upgraded smart bidding system bearing fruit.** In 1Q24, Mintegral rev accelerated to +25.4% YoY (vs. +19.5% YoY in 4Q23). With infrastructure upgrades and continued investment, the ROAS smart bidding model has become the main choice for developers in Mintegral. Benefiting from bidding system upgrades, Mobvista has achieved eye-catching performance in new verticals expansion. Apart from midcore and hardcore games penetration, Mobvista's non-gaming business rev share climbed up to 29% in 1Q24 (vs. 19.5% in 1Q23, +83% YoY). Among non-gaming categories, ecommerce and social media emerged as key drivers. Looking ahead, we remain positive on Mobvista's top line resilience (forecasting +20% YoY in FY24E) and enhancing profitability.
- Overhang eased with settlement agreement signed for Reyun transactions.** On 14 May, Mobvista announced that the company and sellers (owning 18.56% of equity interest of Reyun) entered into a settlement agreement, with US\$23.5mn payment to terminate the rest of acquisition. We expect this settlement agreement to lift the overhang around Reyun acquisition (high valuation but still in net loss position).
- Maintain BUY.** We keep our FY24-26E earnings forecasts unchanged, with SOTP-based TP at HK\$6.0 (by assigning 20x FY24E P/E to ad-tech biz and 3.0x FY24E P/S to mar-tech biz). **Risks:** macro uncertainty; slower ROAS adoption; and higher-than-expected investment in intelligent bidding system.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	894	1,054	1,265	1,479	1,731
YoY growth (%)	18.4	17.9	20.0	16.9	17.0
Net profit (US\$ mn)	15.0	21.8	26.5	31.9	39.5
EPS (Reported) (US\$ cents)	0.61	1.20	2.27	2.68	3.23
YoY growth (%)	NA	97.1	91.5	19.4	22.0
Consensus EPS (US\$)	NA	NA	2.65	3.35	3.20
P/E (x)	64.7	33.2	17.5	14.8	12.2
P/S (x)	0.7	0.6	0.5	0.4	0.4
ROE (%)	5.2	9.0	10.1	10.9	12.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$6.00**
 Up/Downside **92.9%**
 Current Price **HK\$3.11**

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Stock Data

Mkt Cap (HK\$ mn)	4,948.3
Avg 3 mths t/o (HK\$ mn)	2.1
52w High/Low (HK\$)	4.08/2.51
Total Issued Shares (mn)	315.0

Source: FactSet

Shareholding Structure

Seamless Technology	63.7%
GIC	8.1%

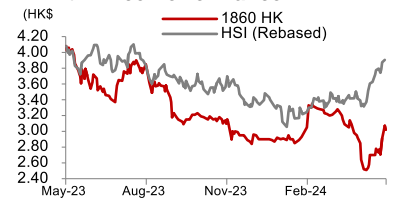
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.4%	-9.3%
3-mth	-1.0%	-17.6%
6-mth	-2.6%	-11.1%

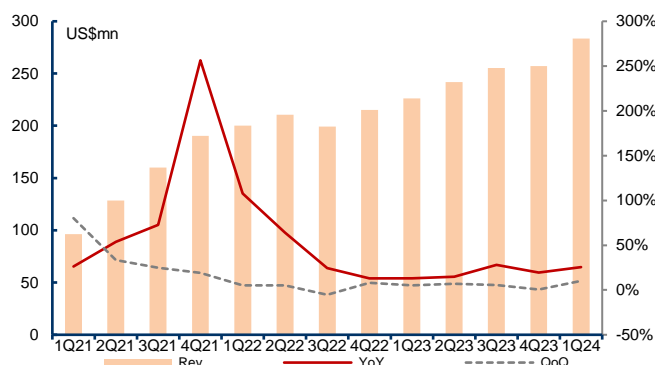
Source: FactSet

12-mth Price Performance



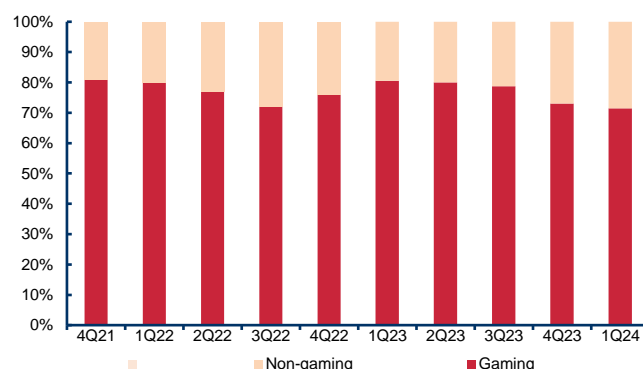
Source: FactSet

Figure 1: Mintegral ad rev trend



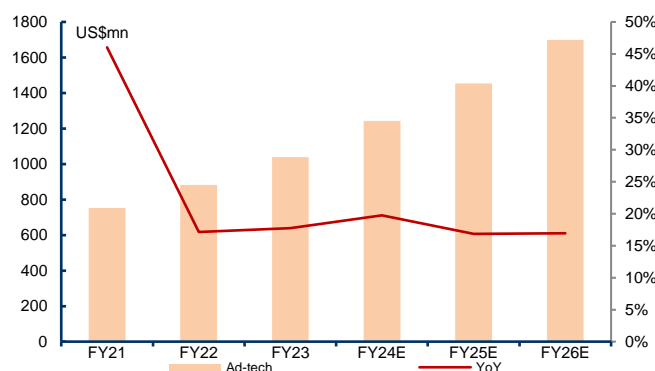
Source: Company data, CMBIGM

Figure 2: Higher rev share of non-gaming revenue



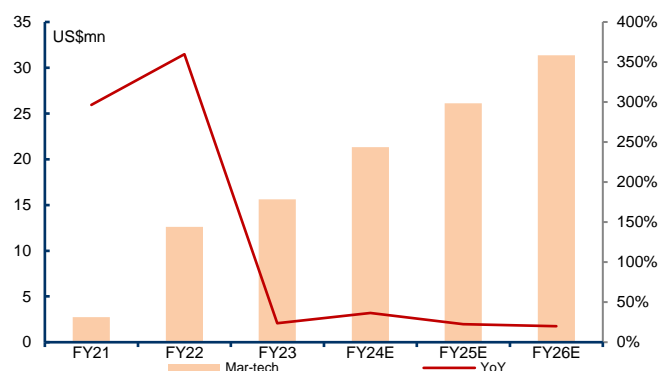
Source: Company data, CMBIGM

Figure 3: Ad-tech revenue growth estimates



Source: Company data, CMBIGM estimates

Figure 4: Mar-tech revenue growth estimates



Source: Company data, CMBIGM estimates

Figure 5: Mobvista's 1Q24 review

US\$'000	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Revenue	232,836	222,960	213,932	224,677	244,554	261,579	269,370	278,589	301,482	8%	23%
Gross profit	44,625	45,355	41,096	45,953	46,912	56,048	55,502	58,829	61,819	5%	32%
Operating profit	31,289	(14,628)	(10,749)	(3,667)	5,172	7,499	5,221	11,686	10,262	-12%	98%
Adj. net profit	33,446	(12,377)	(9,335)	(2,035)	4,510	4,431	4,065	6,114	8,868	45%	97%
Margin (%)											
Gross margin	19.2%	20.3%	22.5%	23.8%	19.2%	21.4%	20.6%	21.1%	20.5%		
Operating margin	13.4%	-6.6%	-5.0%	-1.6%	2.1%	2.9%	1.9%	4.2%	3.4%		
Adj.NPM	14.4%	-5.6%	-4.4%	-0.9%	1.8%	1.7%	1.5%	2.2%	2.9%		
Growth (%)											
Revenue (YoY)					5.0%	17.3%	25.9%	24.0%	23.3%		
Revenue (QoQ)					8.8%	7.0%	3.0%	3.4%	8.2%		
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA	98.4%		
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	96.6%		

Source: Company data, CMBIGM

Figure 6: Mobvista's 4Q23 rev breakdown

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Revenue (US\$'000)	232,836	222,960	213,932	224,677	244,554	261,579	269,370	278,589	301,482	8%	23%
Ad-tech (Mobile advertising solutions)	229,645	219,512	210,956	221,700	240,995	257,814	265,409	274,273	297,264	8%	23%
Mintegral platform revenue	200,105	210,595	199,302	215,166	226,057	241,769	255,417	257,170	283,581	10%	25%
Nativex platform revenue	29,540	8,917	11,654	6,534	14,938	16,045	9,992	17,103	13,683	-20%	-8%
Mar-tech	3,191	3,448	2,976	2,977	3,559	3,765	3,961	4,316	4,218	-2%	19%

Source: Company data, CMBIGM

Figure 7: Mobvista's yearly financials forecast

US\$ mn, Dec-YE	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	500	516	755	894	1,054	1,265	1,479	1,731
Cost of Sales	(381)	(434)	(633)	(717)	(837)	(1,006)	(1,176)	(1,375)
Gross profit	119	82	122	177	217	259	303	355
Selling and marketing expenses	(10)	(17)	(47)	(66)	(51)	(60)	(71)	(83)
Research and development expenses	(35)	(32)	(69)	(107)	(94)	(119)	(139)	(163)
General and administrative expenses	(51)	(44)	(28)	(49)	(54)	(53)	(62)	(73)
Other net income	3	6	9	47	11	9	10	12
Operating profit	25	(5)	(12)	2	30	35	42	49
Finance costs	(2)	(2)	(4)	(5)	(7)	(3)	(3)	(2)
Profit before taxation	23	(7)	(31)	11	25	32	38	48
Income tax	(1)	2	6	(1)	(6)	(5)	(7)	(8)
Profit for the year	22	(5)	(25)	10	19	26	32	39
Profit attributable to owners of the Company	22	(5)	(25)	15	22	26	32	39
Non-controlling interests	0	0	(0)	5	3	0	0	0
Adjusted net profit	41	9	(4)	10	19	37	44	53

Margin Analysis

Gross margin	24%	16%	16.1%	19.8%	20.6%	20.5%	20.5%	20.5%
Operating margin	5.0%	-1.0%	-1.6%	0.3%	2.8%	2.8%	2.8%	2.8%
Adj. net margin	8.2%	1.7%	-0.5%	1.1%	1.8%	2.9%	3.0%	3.1%

Growth Analysis

Revenue	15%	3%	46%	18%	18%	20%	17%	17%
Gross profit	21%	-31%	48%	45%	23%	19%	17%	17%
Operating profit	-7%	-121%	137%	NA	NA	NA	NA	NA
Adj. net profit	16%	-78%	-144%	NA	97%	91%	19%	22%

Source: Company data, CMBIGM estimates

Figure 8: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,265	1,479	1,731	1,259	1,489	1,731	0.5%	-0.6%	0.0%
Gross profit	259	303	355	261	312	355	-0.9%	-2.7%	0.1%
Operating profit	35	42	49	52	81	NA	-32.0%	-48.3%	NA
Adj. net profit	37	44	53	34	49	NA	9.3%	-10.8%	NA
Adj. EPS (RMB)	0.02	0.03	0.03	0.03	0.03	0.03	-14.5%	-20.1%	1.1%
Gross margin	20.5%	20.5%	20.5%	20.8%	21.0%	20.5%	-0.3ppts	-0.4ppts	+0.0ppts
Operating margin	2.8%	2.8%	2.8%	4.1%	5.4%	NA	-1.3ppts	-2.6ppts	NA
Adj. net margin	2.9%	3.0%	3.1%	2.7%	3.3%	NA	+0.2ppts	-0.3ppts	NA

Source: Bloomberg, CMBIGM estimates

Figure 9: SOTP valuation

SOTP	Methodology	Metrics	Multiple	Valuation
(US\$mn)				
Ad-tech	P/E	FY24E adj. NP	54.6	1,092
Mar-tech	P/S	FY24E Rev	21.3	64
Total				1,156
Equity Value (HK\$ mn)				9,075
No. of shares (mn)				1,601
Target Price (HK\$) based on SOTP				6

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	755	894	1,054	1,265	1,479	1,731
Cost of goods sold	(633)	(717)	(837)	(1,006)	(1,176)	(1,375)
Gross profit	122	177	217	259	303	355
Operating expenses	(134)	(175)	(188)	(224)	(261)	(306)
Selling expense	(47)	(66)	(51)	(60)	(71)	(83)
Admin expense	(28)	(49)	(54)	(53)	(62)	(73)
R&D expense	(69)	(107)	(94)	(119)	(139)	(163)
Others	9	47	11	9	10	12
Operating profit	(12)	2	30	35	42	49
Other expense	(4)	(5)	(7)	(3)	(3)	(2)
Pre-tax profit	(31)	11	25	32	38	48
Income tax	(6)	1	6	5	7	8
Net profit	(25)	15	22	26	32	39
Adjusted net profit	(4)	10	19	37	44	53

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	483	316	400	575	716	862
Cash & equivalents	160	106	146	305	413	528
Restricted cash	6	5	5	5	5	5
Account receivables	183	173	209	226	258	290
Other current assets	133	32	39	40	39	40
Non-current assets	264	286	291	177	150	122
PP&E	8	12	15	3	0	(3)
Deferred income tax	22	20	13	13	13	13
Intangibles	118	138	146	45	20	(4)
Goodwill	115	115	115	115	115	115
Other non-current assets	2	1	1	1	1	1
Total assets	747	602	692	753	866	984
Current liabilities	350	311	356	425	506	585
Short-term borrowings	59	46	50	50	50	50
Account payables	215	251	292	361	442	521
Tax payable	8	7	10	10	10	10
Other current liabilities	67	7	4	4	4	4
Non-current liabilities	38	43	76	11	11	11
Long-term borrowings	0	0	0	0	0	0
Deferred income	8	6	2	2	2	2
Share capital	17	16	16	16	16	16
Retained earnings	252	320	219	234	261	292
Total shareholders equity	337	235	250	277	308	348

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	42	98	108	113	116	121
Depreciation & amortization	29	30	31	32	32	33
Change in working capital	36	99	5	52	49	47
Others	8	(42)	47	(3)	(4)	(7)
Net cash from operations	42	98	108	113	116	121
Investing						
Capital expenditure	(11)	(1)	(5)	(5)	(5)	(5)
Others	29	(99)	1	1	1	1
Net cash from investing	18	(100)	(4)	(4)	(4)	(4)
Financing						
Net borrowings	4	57	0	0	0	0
Others	57	(111)	(7)	(3)	(3)	(2)
Net cash from financing	61	(54)	(7)	(3)	(3)	(2)
Net change in cash						
Cash at the beginning of the year	39,311	160,322	103,599	200,035	304,750	412,700
Exchange difference	(680)	(670)	0	0	0	0
Cash at the end of the year	160,322	103,599	200,035	304,750	412,700	527,645
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	46.4%	18.4%	17.9%	20.0%	16.9%	17.0%
Gross profit	48.4%	45.2%	22.7%	19.2%	17.1%	17.1%
Operating profit	na	na	1,217.5%	19.6%	18.3%	17.8%
Net profit	na	na	45.4%	21.5%	20.3%	23.9%
Adj. net profit	na	na	97.1%	91.5%	19.4%	22.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	16.1%	19.8%	20.6%	20.5%	20.5%	20.5%
Operating margin	(1.6%)	0.3%	2.8%	2.8%	2.8%	2.8%
Adj. net profit margin	(0.5%)	1.1%	1.8%	2.9%	3.0%	3.1%
Return on equity (ROE)	(8.3%)	5.2%	9.0%	10.1%	10.9%	12.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.3	0.3	0.4	0.9	1.2	1.4
Current ratio (x)	1.4	1.0	1.1	1.4	1.4	1.5
Receivable turnover days	114.2	71.7	65.3	62.0	59.0	57.0
Payable turnover days	103.6	116.9	116.9	117.0	123.0	126.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	NA	64.7	33.2	17.5	14.8	12.2

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

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