

Weibo (WB US)

Ad revenue growth recovery still takes time

Weibo announced 1Q24 results: total revenue decreased by 4% YoY (or flat YoY on a constant currency basis) to US\$395mn, in line with consensus/our estimates; non-GAAP net income was down by 4% YoY to US\$107mn, 24/27% ahead of consensus/our estimates, thanks to the better-than-expected control in opex (-10% YoY). We forecast advertising revenue to remain flattish YoY in 2Q24E, primarily due to the decline in ad revenue from the cosmetics and beauty vertical. That said, management expected ad business to recover in 2H24E, supported by the bottoming out of consumption sentiment and the Olympic event. We lower FY24-26 total revenue forecast by 2% mainly to reflect the shrinking ad budgets of cosmetics and beauty brands. We lower our TP to US\$17.0 on 10x FY24E non-GAAP PE (previous: US\$18.80 on 10x FY24E PE), a discount to peers' avg of 18x. The company's business recovery still takes time, but we see Weibo's current valuation of 5x FY24E PE offer ample safety. Maintain BUY.

■ **Flattish ad revenue growth due to mixed performance of different verticals.** Ad revenue declined by 5% YoY to US\$339mn in 1Q24 (flat YoY on a constant currency basis). The cosmetics and beauty vertical remained under pressure and led to a c.5% decline in overall ad revenue YoY, primarily due to the shrinking ad budgets of international brands. That said, ad revenue from domestic beauty brands grew over 50% YoY in 1Q24. Other than the cosmetics and beauty vertical, both online game and 3C product verticals delivered double-digit YoY ad revenue growth in 1Q24, thanks to the development of content ecosystem. Looking ahead, we forecast ad revenue to remain flat YoY on a constant currency in 2Q24E, as the weakness in cosmetics and beauty vertical offsets the recovery of other verticals.

■ **Optimizing channel investment to focus on quality user growth.** MAUs declined by 1% YoY to 588mn in Mar 2024, as the company optimized its channel investment to focus on acquisition of high-quality users. DAUs were flat YoY at 255mn in Mar 2024. Going forward, the company expected to see relatively stable DAUs, but the percentage of high-ARPU users should increase on the optimized user acquisition strategy. In terms of content ecosystem, Weibo continued to increase investment in key content verticals such as automobiles, online games, and healthcare, which achieved notable growth in the number of verified accounts and user interactions

■ **Improved OPM on stringent opex control.** Non-GAAP OPM improved by 0.7ppt YoY and 0.3ppt QoQ to 31.8% in 1Q24, mainly attributable to the stringent control in opex. Total opex declined by 10% YoY to US\$209mn in 1Q24. However, we expect non-GAAP OPM will remain under pressure and decline by 0.7ppt YoY to 32.9% in FY24E, due to the operating deleverage. As of 31 Mar, Weibo had cash and cash equivalent of US\$2.1bn, which could well cover its senior notes due in July 2024 and shareholder return initiatives.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	1,836	1,760	1,724	1,799	1,848
Adjusted net profit (US\$ mn)	540.1	450.6	447.4	492.7	520.7
YoY growth (%)	(24.8)	(16.6)	(0.7)	10.1	5.7
EPS (Adjusted) (US\$)	2.30	1.91	1.89	2.08	2.20
Consensus EPS (US\$)	2.30	1.91	1.67	1.83	1.94
P/S (x)	1.1	1.2	1.2	1.1	1.1
P/E (x)	21.5	6.0	6.2	5.2	4.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$17.00
(Previous TP)	US\$18.80)
Up/Downside	93.8%
Current Price	US\$8.77

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)	2,062.4
Avg 3 mths t/o (US\$ mn)	12.0
52w High/Low (US\$)	15.75/7.63
Total Issued Shares (mn)	235.2

Source: FactSet

Shareholding Structure

Sina	37.3%
Alibaba	28.9%

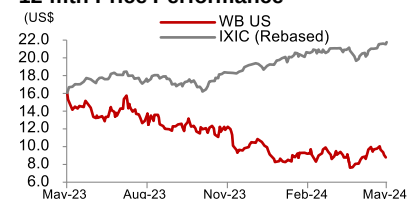
Source: Company data

Share Performance

	Absolute	Relative
1-mth	2.8%	-4.5%
3-mth	-4.8%	-10.0%
6-mth	-28.3%	-39.7%

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	1,724	1,799	1,848	1,765	1,842	1,891	-2.4%	-2.3%	-2.3%
Gross Profit	1,348	1,407	1,445	1,390	1,450	1,489	-3.0%	-3.0%	-2.9%
Adjusted net profit	447	493	521	451	500	534	-0.7%	-1.4%	-2.5%
Adjusted EPS (RMB)	1.7	1.9	2.0	1.9	2.1	2.2	-9.7%	-10.3%	-11.3%
Gross margin	78.2%	78.2%	78.2%	78.7%	78.7%	78.7%	-0.5 ppt	-0.5 ppt	-0.5 ppt
Adjusted net margin	26.0%	27.4%	28.2%	25.5%	27.1%	28.2%	0.4 ppt	0.2 ppt	-0.1 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	1,724	1,799	1,848	1,785	1,873	1,928	-3.4%	-3.9%	-4.2%
Gross profit	1,348	1,407	1,445	1,398	1,472	1,517	-3.6%	-4.4%	-4.7%
Adjusted net profit	447	493	521	440	482	512	1.6%	2.3%	1.7%
Adjusted EPS (RMB)	1.7	1.9	2.0	1.7	1.8	1.9	1.6%	2.3%	1.7%
Gross margin	78.2%	78.2%	78.2%	78.3%	78.6%	78.7%	-0.1 ppt	-0.4 ppt	-0.5 ppt
Adjusted net margin	26.0%	27.4%	28.2%	24.7%	25.7%	26.6%	1.3 ppt	1.7 ppt	1.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Weibo: quarterly financials

(US\$m)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	Cons.	Diff%	CMBI	Diff%
Advertising revenue	393	391	355	386	389	404	339	388	2.0%	387	2.3%
YoY%	-26.8%	-29.1%	-16.8%	0.0%	-1.0%	3.4%	-4.6%				
VAS revenue	60	57	58	55	53	60	57				
YoY%	-13.9%	-12.2%	1.7%	-15.5%	-12.1%	4.3%	-3.3%				
Total revenue	454	448	414	440	442	464	395				
YoY%	-25.3%	-27.3%	-14.6%	-2.2%	-2.5%	3.5%	-4.4%	86	24.1%	84	27.3%
Gross profit margin (%)	79.2%	76.3%	79.3%	78.6%	78.7%	78.4%	78.0%				
S&M %	25.1%	27.4%	25.7%	23.9%	24.8%	30.1%	26.2%				
R&D %	21.4%	22.2%	21.9%	21.1%	18.7%	14.5%	20.4%				
Non-GAAP NPM	26.2%	39.8%	26.9%	28.7%	30.9%	16.5%	27.0%				
Non-GAAP net profit	119	179	111	126	137	76	107				

Source: Company data, 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	6.7	19	14	16	14	16.6
Baidu	BIDU US	101.4	(1)	10	10	9	4.4
Meta	META US	465.8	37	16	23	20	25.7
Google	GOOGL US	175.1	17	15	25	22	15.7
Average					18	16	

Source: Bloomberg, CMBIGM

Note: data are as of 23 May 2024

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	2,257	1,836	1,760	1,724	1,799	1,848
Cost of goods sold	(404)	(401)	(374)	(376)	(392)	(403)
Gross profit	1,853	1,436	1,386	1,348	1,407	1,445
Operating expenses	(1,156)	(945)	(913)	(896)	(915)	(919)
Selling expense	(592)	(477)	(461)	(465)	(476)	(479)
Admin expense	(133)	(53)	(118)	(103)	(106)	(107)
R&D expense	(431)	(415)	(334)	(328)	(333)	(333)
Operating profit	697	491	473	452	492	527
Other gains/(losses)	(176)	(313)	19	(5)	0	0
Interest income	30	(39)	11	(1)	37	47
Pre-tax profit	551	138	503	446	529	574
Income tax	(139)	(30)	(145)	(99)	(116)	(126)
After tax profit	412	108	357	347	413	448
Minority interest	(16)	12	15	12	14	15
Net profit	428	96	343	335	399	433
Adjusted net profit	719	540	451	447	493	521

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	4,803	4,552	4,513	4,606	5,159	5,709
Cash & equivalents	2,424	2,691	2,585	2,627	3,066	3,506
Account receivables	723	502	441	432	451	463
Prepayment	451	392	360	346	361	371
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	217	215
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	6,914	7,397	7,896
Current liabilities	2,159	1,220	1,797	1,755	1,770	1,771
Account payables	198	161	161	158	165	170
Tax payable	145	55	95	95	95	95
Other current liabilities	988	80	875	873	876	878
Accrued expenses	829	924	667	629	634	629
Non-current liabilities	1,672	2,519	1,965	1,318	1,401	1,480
Long-term borrowings	1,672	2,519	1,965	1,318	1,401	1,480
Total liabilities	3,832	3,739	3,763	3,073	3,170	3,251
Share capital	1,679	1,330	1,055	1,055	1,055	1,055
Retained earnings	1,915	2,001	2,343	2,679	3,078	3,511
Total shareholders equity	3,594	3,330	3,399	3,734	4,133	4,566
Minority interest	94	60	119	107	94	79
Total equity and liabilities	7,520	7,129	7,280	6,914	7,397	7,896

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	551	138	503	446	529	574
Depreciation & amortization	55	47	47	49	51	51
Tax paid	(139)	(30)	(145)	(99)	(116)	(126)
Change in working capital	42	334	(167)	(29)	(29)	(31)
Others	305	320	(15)	(12)	(14)	(15)
Net cash from operations	814	809	223	356	420	453
Investing						
Capital expenditure	(35)	(53)	(49)	(47)	(49)	(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)	(77)
Financing						
Net borrowings	1	953	(446)	(755)	83	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	(766)	69	64
Net change in cash						
Cash at the beginning of the year	1,815	2,424	2,691	2,585	2,627	3,066
Exchange difference	29	0	0	0	0	0
Cash at the end of the year	2,424	2,691	2,556	2,627	3,066	3,506
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	33.6%	(18.6%)	(4.2%)	(2.0%)	4.4%	2.7%
Gross profit	33.5%	(22.5%)	(3.5%)	(2.7%)	4.4%	2.7%
Operating profit	37.6%	(29.6%)	(3.6%)	(4.5%)	9.0%	7.0%
Net profit	36.7%	(77.6%)	257.9%	(2.1%)	19.1%	8.4%
Adj. net profit	31.2%	(24.8%)	(16.6%)	(0.7%)	10.1%	5.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	82.1%	78.2%	78.7%	78.2%	78.2%	78.2%
Operating margin	30.9%	26.7%	26.9%	26.2%	27.4%	28.5%
Adj. net profit margin	31.8%	29.4%	25.6%	26.0%	27.4%	28.2%
Return on equity (ROE)	13.4%	2.8%	10.2%	9.4%	10.1%	9.9%
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)	(153.6)	(153.6)	(153.6)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	4.7	21.5	6.0	6.2	5.2	4.8
P/E (diluted)	4.7	21.7	6.1	6.9	5.8	5.3
P/B	0.6	0.6	0.6	0.6	0.5	0.5

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.