

Bilibili (BILI US)

Evolving to a self-sustained business model

Bilibili announced 4Q22 financial results on 2 Mar. Total revenue increased by 6% YoY to RMB6.1bn in 4Q22, in line with our and consensus estimate. Full-year revenue grew by 13% YoY to RMB21.9bn in 2022. Adjusted net loss narrowed by 21% YoY to RMB1.3bn in 4Q22, better than our/consensus estimate of RMB1.6/1.4bn, attributable to Bili's improving operating efficiency. Full-year adjusted net loss widened from RMB5.5bn in FY21 to RMB6.7bn in FY22, primarily due to soft performance of high-margin mobile game & ad businesses, as well as investment in gaming development capability. Looking ahead in FY23E, the company guided total revenue to increase by 10-19% YoY to RMB24-26bn, with ad and VAS revenue likely to outpace total revenue growth. Quality user growth, monetization improvement and cost optimization remain as key focus for Bili in FY23. We narrowed FY23/24E adjusted net loss forecast to RMB3.7/1.2bn (previous: RMB4.2/1.8bn). We lifted SOTP-based TP by 2% to US\$30.0. BUY.

- **Inline segment revenue growth in 4Q22.** VAS revenue grew by 24% YoY to RMB2.4bn in 4Q22 (38% of total revenue), mainly driven by the strong growth of live streaming revenue. Live streaming revenue increased by over 30% YoY in FY22, with the no. of monthly active live streaming hosts and MPUs up by over 70% and 40% YoY in 4Q22. Ad revenue dropped by 5% YoY to RMB1.5bn in 4Q22 (25% of total revenue), due to the macro headwind and COVID-19 impact. That said, performance-based ad revenue still delivered over 50% YoY growth in 4Q22, supported by its enhanced ad monetization infrastructure. Mobile games revenue declined by 12% YoY to RMB1.1bn in 4Q22 (19% of total revenue). Self-developed games accounted for 5% of games revenue in FY22, and management expect the contribution to further rise in FY23E, driven by two self-developed games to be launched in 2Q23. For 1Q23E, we expect total revenue to be flattish YoY, driven by solid growth of ad revenue but offset by soft gaming business.
- **Quality user growth on healthy development of content ecosystem.** Bili's average MAUs grew by 20% YoY to 326mn in 4Q22, with DAU/MAU ratio up by 2pct YoY to 28.5% in 4Q22. Average daily time spent per user was also up 17% YoY to 96 minutes, thanks to its developing PUGV content ecosystem and expanding video consumption scenario (e.g. Story Mode). Total video views of PUGV and Story Mode grew by over 50% and 170% YoY in 4Q22. In 2023E, Bili will continue to focus on quality growth of its user base, improving DAU/MAU ratio and monetization.
- **Expect cost optimization to continue in FY23E.** Gross margin expanded by 1pct YoY and 2pct QoQ to 20.3% in 4Q22; and the company expect GPM to further rise to mid-20% in FY23, driven by leverage on content & bandwidth costs and optimization of revenue sharing costs. Bili will also continue to exercise prudent control in its opex, especially in S&M expenses. Overall, we forecast adjusted net loss margin to narrow from 31% in FY22 to 15%/5% in FY23/24E.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	19,384	21,899	24,807	27,727	30,389
YoY growth (%)	61.5	13.0	13.3	11.8	9.6
Gross margin (%)	20.9	17.6	24.1	29.3	32.4
Adjusted net profit (RMB mn)	(5,478.1)	(6,691.7)	(3,669.8)	(1,242.6)	25.2
EPS (Adjusted) (RMB cents)	(1,442.44)	(1,700.40)	(932.51)	(315.74)	6.40
Consensus EPS (RMB cents)	(1,442.44)	(1,700.40)	(1,026.93)	(344.98)	342.10
P/S (x)	2.7	2.4	2.1	1.9	1.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$30.00
(Previous TP)	US\$29.50
Up/Downside	52.5%
Current Price	US\$19.67

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Stock Data

Mkt Cap (US\$ mn)	7,740.9
Avg 3 mths t/o (US\$ mn)	24.0
52w High/Low (US\$)	32.19/8.92
Total Issued Shares (mn)	393.5

Source: FactSet

Shareholding Structure

Rui Chen	12.6%
Tencent	11.2%

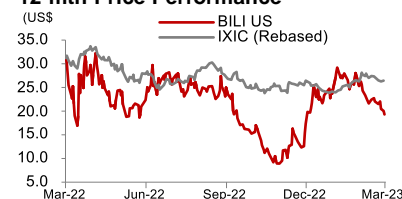
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-25.1%	-22.7%
3-mth	15.6%	15.8%
6-mth	-20.7%	-18.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Bili: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	24,807	27,727	30,389	26,482	30,752	-	-6.3%	-9.8%	-
Gross Profit	5,987	8,123	9,838	5,826	8,393	-	2.8%	-3.2%	-
Operating Profit	(4,928)	(2,552)	(986)	(5,562)	(3,139)	-	na	na	-
Adjusted net profit	(3,670)	(1,243)	25	(4,163)	(1,833)	-	na	na	-
Adjusted EPS (RMB)	(9.3)	(3.2)	0.1	(10.6)	(4.7)	-	na	na	-
Gross Margin	24.1%	29.3%	32.4%	22.0%	27.3%	-	2.1 ppt	2.0 ppt	-
Operating Margin	-19.9%	-9.2%	-3.2%	-21.0%	-10.2%	-	1.1 ppt	1.0 ppt	-
Adjusted net margin	-14.8%	-4.5%	0.1%	-15.7%	-6.0%	-	0.9 ppt	1.5 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	24,807	27,727	30,389	26,531	31,875	-	-6.5%	-13.0%	-
Gross Profit	5,987	8,123	9,838	6,199	8,901	-	-3.4%	-8.7%	-
Operating Profit	(4,928)	(2,552)	(986)	(4,506)	(1,891)	-	na	na	-
Adjusted net profit	(3,670)	(1,243)	25	(4,097)	(1,311)	-	na	na	-
Adjusted EPS (RMB)	(9.3)	(3.2)	0.1	(10.3)	(3.4)	-	na	na	-
Gross Margin	24.1%	29.3%	32.4%	23.4%	27.9%	-	0.8 ppt	1.4 ppt	-
Operating Margin	-19.9%	-9.2%	-3.2%	-17.0%	-5.9%	-	-2.9 ppt	-3.3 ppt	-
Adjusted net margin	-14.8%	-4.5%	0.1%	-15.4%	-4.1%	-	0.7 ppt	-0.4 ppt	-

Source: Bloomberg, CMBIGM estimates

Figure 3: Bili: quarterly financial

(RMB mn)	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	Cons.	Diff%	CMBI	Diff%
Mobile games	1,233	1,392	1,295	1,358	1,046	1,471	1,146			1,175	-2.5%
YoY%	-1.2%	9.1%	14.7%	16.0%	-15.2%	5.7%	-11.5%				
VAS	1,635	1,909	1,895	2,052	2,103	2,210	2,350			2,275	3.3%
YoY%	98.1%	94.9%	51.9%	37.1%	28.7%	15.8%	24.0%				
Advertising	1,049	1,172	1,588	1,041	1,158	1,355	1,512			1,595	-5.2%
YoY%	201.0%	110.2%	119.8%	45.6%	10.4%	15.6%	-4.7%				
E-commerce and others	578	734	1,003	603	601	758	1,134			1,104	2.8%
YoY%	195.2%	77.5%	35.4%	16.2%	4.0%	3.2%	13.1%				
Total revenue	4,495	5,207	5,781	5,054	4,909	5,794	6,142	6,116	0.4%	6,149	-0.1%
YoY%	71.7%	61.4%	50.5%	29.6%	9.2%	11.3%	6.3%				
Average MAUs	237	267	272	294	306	333	326				
YoY%	34.5%	25.9%	16.5%	12.0%	8.0%	5.2%	3.4%				
Gross profit margin	22.0%	19.6%	19.0%	16.0%	15.0%	18.2%	20.3%				
S&M ratio (%)	31.1%	31.4%	30.5%	24.8%	23.9%	21.2%	20.6%				
R&D ratio (%)	15.0%	15.1%	13.8%	20.0%	23.1%	19.5%	24.3%				
Adjusted net margin (%)	-29.4%	-31.0%	-28.6%	-32.7%	-40.0%	-30.4%	-21.4%				
Adjusted net profit	(1,323)	(1,613)	(1,652)	(1,653)	(1,964)	(1,763)	(1,312)	(1,433)		(1,551)	

Source: Company data, CMBIGM estimates

SOTP Valuation

Based on the SOTP valuation, our target price for Bili is US\$30.0 per ADS, which implies 3.3/2.9x 2023E/2024E PS. Our target price of US\$30.0 includes:

1) US\$11.5 for the advertising business (38.4% 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 (13x 2023E PE), to reflect Bili's unique value proposition in video advertising market and its strong growth outlook (FY22-24E revenue CAGR: 22%).

2) US\$10.5 for the VAS business (34.9% of the total valuation), based on a 2.7x 2023E PS. The target PS multiple is on par with the average PS of other video platforms.

3) US\$7.6 for mobile games (25.3% of the total valuation), based on an 18x 2023E PE. The target PE multiple has a discount over the industry average (20x 2023E PE), as Bili has yet to establish successful track record in in-house games development.

4) US\$0.4 for e-commerce (1.4% of the total valuation), based on a 0.5x 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)	366.4	28.8	10,544		2.7		28,468	34.9%
- Live streaming	55.0	122.3	6,722					
- Membership	366.4	10.4	3,822					
Advertising	366.4	17.1	6,279	25%		20	31,397	38.4%
Mobile games	36.6	156.9	5,747	20%		18	20,689	25.3%
E-commerce	18.3	122.1	2,237		0.5		1,118	1.4%
Total valuation (RMBmn)							81,672	
Number of ADS (mn)							396	
Valuation per ADS (US\$)							30.0	

Note: Live streaming/mobile games/e-commerce MAU is based on 15/10/5% penetration of total MAUs

Source: Company data, CMBIGM estimates

Figure 5: Peer comparison: online games and advertising sector

Companies	Ticker	Price	EPS growth (YoY %)			PE (x)		
		(Local)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Online games								
NetEase	NTES US	81.5	29	(10)	14	16	18	16
Activision Blizzard	ATVI US	75.7	(20)	25	7	25	20	19
Electronic Arts	EA US	110.4	27	(13)	6	16	18	17
Take Two Interactive	TTWO US	108.7	(18)	(27)	41	22	30	21
IGG	799 HK	3.0	(143)	(126)	142	NA	NA	19
iDreamSky	1119 HK	3.7	72	(300)	130	NA	23	10
Nexon	3659 JP	2,955.0	15	1	16	23	23	20
Nintendo	7974 JP	5,106.0	4	(6)	(10)	14	15	16
Bandai Namco	7832 JP	8,301.0	61	28	1	23	18	18
Perfect World	002624 CH	14.5	86	16	16	18	15	13
37 Interactive	002555 CH	23.0	9	16	12	17	15	13
Average PE						19	20	17
Online advertising								
Weibo	WB US	19.1	(32)	8	10	9	9	8
Baidu	BIDU US	143.7	4	22	13	18	15	13
Meta	Meta US	173.4	(27)	7	17	16	15	13
Average PE						14	13	11

Source: Bloomberg, CMBIGM

Note: data as at the 1 Mar market close

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

		Price	Revenue growth (YoY %)			PS (x)		
Companies	Ticker	(Local)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Online video								
iQiyi	IQ US	6.9	(11.5)	8.5	8.4	1.5	1.4	1.3
Mango Excellent Media	300413 CH	34.8	(19.9)	16.1	12.9	4.6	4.0	3.5
Average PS						3.1	2.7	2.4
First-party e-commerce								
JD	JD US	45.7	0.2	14.6	13.5	0.5	0.4	0.4
Vipshop	VIPS US	15.2	(18.8)	5.0	5.7	0.6	0.6	0.5
Average PS						0.5	0.5	0.5

Source: Bloomberg, CMBIGM

Note: data as at the 1 Mar market close

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	11,999	19,384	21,899	24,807	27,727	30,389
Cost of goods sold	9,159	15,341	18,050	18,820	19,603	20,550
Gross profit	2,840	4,043	3,849	5,987	8,123	9,838
Operating expenses	5,981	10,472	12,207	10,915	10,675	10,824
Selling expense	3,492	5,795	4,921	4,341	4,159	4,254
Admin expense	976	1,838	2,521	2,357	2,357	2,376
R&D expense	1,513	2,840	4,765	4,217	4,159	4,194
Operating profit	(3,141)	(6,429)	(8,358)	(4,928)	(2,552)	(986)
Investment gain/loss	28	(194)	(532)	(60)	(61)	(63)
Other gains/(losses)	137	(5)	1,457	0	0	0
EBIT	(2,975)	(6,628)	(7,434)	(4,988)	(2,612)	(1,049)
Interest income	83	70	281	277	392	424
Interest expense	(109)	(155)	(251)	(168)	(356)	(416)
Pre-tax profit	(3,001)	(6,713)	(7,404)	(4,879)	(2,576)	(1,041)
Income tax	53	95	104	69	36	(156)
After tax profit	(3,054)	(6,809)	(7,508)	(4,948)	(2,612)	(885)
Minority interest	47	20	11	99	52	18
Others	(4)	0	0	0	0	0
Net profit	(3,012)	(6,789)	(7,497)	(4,849)	(2,560)	(867)
Adjusted net profit	(2,560)	(5,478)	(6,692)	(3,670)	(1,243)	25

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	15,740	36,447	24,453	34,638	37,426	38,550
Cash & equivalents	4,678	7,523	10,173	16,214	17,808	17,827
Account receivables	1,218	1,382	1,329	2,685	3,001	3,289
Prepayment	1,766	4,848	3,560	6,205	6,935	7,601
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	17,124	17,394	17,568
PP&E	762	1,350	1,227	1,428	1,592	1,733
Investment in JVs & assos	2,233	5,503	5,651	5,715	5,654	5,591
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	2,817	2,948	3,093
Total assets	23,866	52,053	41,831	51,762	54,820	56,119
Current liabilities	7,392	12,071	17,093	21,657	22,843	24,020
Short-term borrowings	100	1,232	6,621	6,621	6,621	6,621
Account payables	3,074	4,361	4,292	6,445	6,714	7,038
Tax payable	100	1,232	6,621	6,621	6,621	6,621
Other current liabilities	2,880	2,613	(2,084)	(1,401)	(880)	(389)
Accrued expenses	1,238	2,633	1,643	3,370	3,767	4,128
Non-current liabilities	8,692	18,266	9,498	18,510	21,595	21,673
Long-term borrowings	8,341	17,784	8,683	17,784	20,784	20,784
Other non-current liabilities	351	482	814	726	811	889
Total liabilities	16,083	30,337	26,591	40,166	44,438	45,693
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)	(24,180)	(25,446)	(25,420)
Other reserves	159	(255)	(255)	(255)	(255)	(255)
Total shareholders equity	7,600	21,704	15,238	11,495	10,229	10,255
Minority interest	182	12	2	101	153	171
Total equity and liabilities	23,866	52,053	41,831	51,762	54,820	56,119

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(3,001)	(6,713)	(7,404)	(4,879)	(2,576)	(1,041)
Depreciation & amortization	327	539	370	462	532	589
Tax paid	53	95	104	69	36	(156)
Change in working capital	1,487	(9)	975	563	140	223
Others	1,887	3,442	3,793	3,836	4,386	4,530
Net cash from operations	753	(2,647)	(2,161)	49	2,518	4,144
Investing						
Capital expenditure	(2,239)	1,756	(3,233)	(3,472)	(3,646)	(3,828)
Acquisition of subsidiaries/ investments	(1,757)	(6,716)	(328)	(124)	0	0
Others	(4,911)	(19,618)	1,996	487	(278)	(297)
Net cash from investing	(8,907)	(24,578)	(1,565)	(3,109)	(3,924)	(4,125)
Financing						
Net borrowings	5,695	11,203	6,356	9,101	3,000	0
Proceeds from share issues	2,817	19,288	0	0	0	0
Others	(177)	(103)	0	0	0	0
Net cash from financing	8,335	30,389	6,356	9,101	3,000	0
Net change in cash						
Cash at the beginning of the year	4,963	4,678	7,523	10,173	16,214	17,808
Exchange difference	(466)	(319)	20	0	0	0
Cash at the end of the year	4,678	7,523	10,173	16,214	17,808	17,827
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	77.0%	61.5%	13.0%	13.3%	11.8%	9.6%
Gross profit	138.6%	42.4%	(4.8%)	55.5%	35.7%	21.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	23.7%	20.9%	17.6%	24.1%	29.3%	32.4%
Operating margin	(26.2%)	(33.2%)	(38.2%)	(19.9%)	(9.2%)	(3.2%)
Adj. net profit margin	(21.3%)	(28.3%)	(30.6%)	(14.8%)	(4.5%)	0.1%
Return on equity (ROE)	(41.1%)	(46.3%)	(40.6%)	(36.3%)	(23.6%)	(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	0.9
Current ratio (x)	2.1	3.0	1.4	1.6	1.6	1.6
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	4.6	5.2	5.2

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

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