

Bilibili (BILI US)

Steady progress towards a sustainable business model

Bilibili announced its 4Q23 results on 7 Mar: total revenue grew by 3% YoY to RMB6.35bn, in line with our/consensus estimate; adjusted net loss narrowed by 58% YoY to RMB556mn, beating our/consensus estimate of RMB677/633mn, mainly attributable to the better-than-expected control in non-GAAP opex. For FY23, total revenue was up 3% YoY to RMB22.5bn, with adjusted net loss narrowing by 49% YoY to RMB3.4bn. Looking into 2024, the focus for Bili remains as enhancing monetization and improving content ecosystem. The management expects total revenue to grow at a double-digit YoY in 2024 and targets to reach non-GAAP operating breakeven in 3Q24. We maintain our FY24-25 total revenue largely unchanged but trim our SOTP-derived target price to US\$20.50 (previous: US\$24.00), in view of the decline in overall sector valuation. We remain positive on Bili's trajectory to revitalize its business model and achieve breakeven in FY24. Maintain BUY.

- **Resilient ads and VAS businesses.** By segment: 1) advertising revenue grew by 28% YoY to RMB1.93bn in 4Q23, driven by over 60% YoY revenue growth of performance-based ad. Management is upbeat on ad revenue growth in FY24, driven by ad tech improvement, increase in ad load and development of native ads. We estimate ad revenue to grow by 20% YoY in FY24E; 2) VAS revenue increased by 22% YoY to RMB2.86bn in 4Q23, mainly driven by robust live streaming revenue growth; 3) mobile games revenue dropped by 12% YoY to RMB1.00bn in 4Q23, primarily due to the high base from the release of *Space Hunter 3* in 2H22, while revenue from key legacy titles (i.e. *Azur Lane* and *FGO*) remained largely stable YoY. Three approved game titles are lined for launch in 2024, including highly-anticipated titles *Heaven Burns Red* and *SanGuo: MouDing TianXia*, which we expect to drive revenue growth in 2H24E.
- **Nurturing vibrant commercial ecosystem.** Average DAUs increased by 8% YoY to 100.1mn in 4Q23, with DAU/MAU ratio reaching 29.4% in 4Q23 (4Q22: 28.5%). Bili continues to improve its monetisation infrastructure to support the healthy development of commercial ecosystem. The number of users with consumption behaviour grew by over 200% YoY, and the number of daily average users who viewed e-commerce related content exceeded 26mn in 2023. Total GMV generated in Bili's video and live streaming e-commerce ecosystem surpassed RMB10bn in 2023.
- **Heading towards breakeven in 3Q24E.** Overall gross margin increased by 5.8ppt YoY and 1.1ppt QoQ to 26.1% in 4Q23, thanks to favourable revenue mix shift to high-margin ad business and effective cost control. Adjusted net loss margin improved from -21.4% in 4Q22 to -8.8% in 4Q23. The company recorded positive operating cash flow of RMB267mn in 2023, with total cash and time deposit of RMB12bn on hand. Driven by continuous GPM expansion and stringent opex control, management expects to achieve non-GAAP operating breakeven in 3Q24.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	21,899	22,528	24,772	26,858	28,423
YoY growth (%)	13.0	2.9	10.0	8.4	5.8
Adjusted net profit (RMB mn)	(6,691.7)	(3,424.7)	(895.7)	1,176.5	1,339.7
EPS (Adjusted) (RMB cents)	(1,700.40)	(828.34)	(216.65)	284.56	324.03
Consensus EPS (RMB cents)	(1,700.40)	(828.34)	(234.61)	179.55	681.00
P/S (x)	1.5	1.4	1.3	1.2	1.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$20.50
 (Previous TP) US\$24.00
Up/Downside 89.6%
Current Price US\$10.81

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Stock Data

Mkt Cap (US\$ mn)	4,469.4
Avg 3 mths t/o (US\$ mn)	65.1
52w High/Low (US\$)	25.09/8.94
Total Issued Shares (mn)	413.4

Source: FactSet

Shareholding Structure

Rui Chen	13.7%
Tencent	9.3%

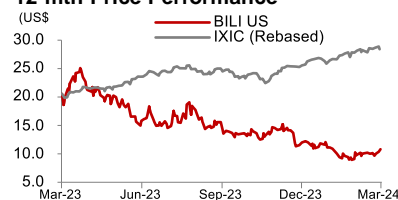
Source: Company data

Share Performance

	Absolute	Relative
1-mth	11.0%	9.1%
3-mth	-9.9%	-19.4%
6-mth	-24.4%	-35.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Bili: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	24,772	26,858	28,423	24,865	27,088	NA	-0.4%	-0.8%	NA
Gross profit	7,200	8,613	9,636	7,248	8,716	NA	-0.7%	-1.2%	NA
Operating profit	(2,362)	(734)	94	(2,325)	(711)	NA	na	na	NA
Adjusted net profit	(896)	1,177	1,340	(958)	884	NA	na	na	NA
Adjusted EPS (RMB)	(2.2)	2.8	3.2	(2.3)	2.1	NA	na	na	NA
Gross margin	29.1%	32.1%	33.9%	29.1%	32.2%	NA	-0.1 ppt	-0.1 ppt	NA
Operating margin	-9.5%	-2.7%	0.3%	-9.4%	-2.6%	NA	-0.2 ppt	-0.1 ppt	NA
Adjusted net margin	-3.6%	4.4%	4.7%	-3.9%	3.3%	NA	0.2 ppt	1.1 ppt	NA

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	24,772	26,858	28,423	25,693	28,901	32,644	-3.6%	-7.1%	-12.9%
Gross profit	7,200	8,613	9,636	7,371	9,148	11,279	-2.3%	-5.8%	-14.6%
Operating profit	(2,362)	(734)	94	(1,937)	(321)	1,871	na	na	na
Adjusted net profit	(896)	1,177	1,340	(759)	907	2,771	na	na	na
Adjusted EPS (RMB)	(2.2)	2.8	3.2	(2.3)	1.8	6.8	na	na	na
Gross margin	29.1%	32.1%	33.9%	28.7%	31.7%	34.6%	0.4 ppt	0.4 ppt	-0.7 ppt
Operating margin	-9.5%	-2.7%	0.3%	-7.5%	-1.1%	5.7%	-2.0 ppt	-1.6 ppt	-5.4 ppt
Adjusted net margin	-3.6%	4.4%	4.7%	-3.0%	3.1%	8.5%	-0.7 ppt	1.2 ppt	-3.8 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Bili: Quarterly financial figures

(RMB mn)	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	Cons.	Diff%	CMBI	Diff%
Mobile games	1,046	1,471	1,146	1,132	891	992	1,007	1,080	-6.8%	1,085	-7.2%
YoY%	-15.2%	5.7%	-11.5%	-16.7%	-14.8%	-32.6%	-12.1%				
VAS	2,103	2,210	2,350	2,156	2,302	2,595	2,857	2,769	3.2%	2,781	2.7%
YoY%	28.7%	15.8%	24.0%	5.1%	9.4%	17.4%	21.6%				
Advertising	1,158	1,355	1,512	1,272	1,573	1,638	1,929	1,890	2.1%	1,897	1.7%
YoY%	10.4%	15.6%	-4.7%	22.2%	35.8%	20.9%	27.6%				
IP derivatives and others	601	758	1,134	510	539	580	556	576	-3.5%	566	-1.8%
YoY%	4.0%	3.2%	13.1%	-15.5%	-10.4%	-23.5%	-51.0%				
Total revenue	4,909	5,794	6,142	5,070	5,304	5,805	6,349	6,322	0.4%	6,329	0.3%
YoY%	9.2%	11.3%	6.3%	0.3%	8.1%	0.2%	3.4%				
Average MAUs	306	333	326	315	324	341	341				
YoY%	2.0%	1.3%	0.8%	0.5%	0.4%	0.0%	0.0%				
Gross profit margin	15.0%	18.2%	20.3%	21.8%	23.1%	25.0%	26.1%				
S&M ratio (%)	23.9%	21.2%	20.6%	17.4%	17.3%	17.1%	17.7%				
R&D ratio (%)	23.1%	19.5%	24.3%	20.3%	19.7%	18.4%	20.9%				
Adjusted net margin (%)	-40.0%	-30.4%	-21.4%	-20.3%	-18.1%	-15.1%	-8.8%	-10.0%		-10.7%	
Adjusted net profit	(1,964)	(1,763)	(1,312)	(1,029)	(963)	(878)	(556)	(633)		(677)	

Source: Company data, CMBIGM estimates

SOTP Valuation

Based on the SOTP valuation, our target price for Bili is US\$20.5 per ADS, which implies 2.5x 2024E PS. Our target price of US\$20.5 includes:

- 1) US\$9.1 for the advertising business (44.1% of the total valuation), based on a 14x 2024E PE. The target PE multiple is on par with the average PE of advertising platforms
- 2) US\$7.3 for the VAS business (35.6% of the total valuation), based on a 2.0x 2024E PS. The target PS multiple is at a premium to the average PS of other video platforms (1.8x 2024E PS), mainly due to its growing paid user base and improving monetization efficiency.
- 3) US\$3.9 for mobile games (19.0% of the total valuation), based on a 14x 2024E PE. The target PE multiple is at a discount to the industry average (18x 2024E 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 (1.3% of the total valuation, previously disclosed as e-commerce and others), based on a 0.4x 2024E PS. The target PS multiple is on par with the average PS of the other e-commerce platforms.

Figure 4: Bili: SOTP Valuation

(RMBmn)	2024E revenue	Net margin (%)	Target PS (x)	Target PE (x)	Target valuation	As of total valuation
VAS (Live streaming + Membership)	10,892		2.0		21,784	35.6%
Advertising	7,720	25%		14	27,021	44.1%
Mobile games	4,145	20%		14	11,605	19.0%
IP derivatives and others	2,015		0.4		806	1.3%
Total valuation (RMBmn)					61,216	
Number of ADS (mn)					414	
Valuation per ADS (US\$)					20.5	

Source: Company data, CMBIGM estimates

Figure 5: Peer comparison: online games and advertising sector

		Price	EPS growth (YoY %)		PE (x)	
Companies	Ticker	(Local)	FY24E	FY25E	FY24E	FY25E
Online games						
NetEase	NTES US	103.6	(6)	17	16	14
Electronic Arts	EA US	135.5	19	5	19	18
Nexon	3659 JP	2,505.0	(11)	17	20	17
Nintendo	7974 JP	8,319.0	16	(16)	22	26
Bandai Namco	7832 JP	2,913.5	(13)	22	24	20
Perfect World	002624 CH	11.4	65	20	16	14
37 Interactive	002555 CH	19.1	19	13	11	10
Average PE					18	17
Online advertising						
Weibo	WB US	8.8	2	11	4	4
Baidu	BIDU US	99.4	(1)	10	9	9
Meta	Meta US	496.1	37	16	24	21
Google	GOOG US	132.6	17	14	19	16
Average PE					14	12

Source: Bloomberg, CMBIGM

Note: data as at 6 Mar market close

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

		Price	Revenue growth (YoY %)		PS (x)	
Companies	Ticker	(LC)	FY24E	FY25E	FY24E	FY25E
Online video						
*iQiyi	IQ US	3.7	7.1	6.9	0.8	0.7
Mango Excellent Media	300413 CH	24.8	12.6	10.1	2.9	2.6
Average PS					1.8	1.7
First-party e-commerce						
JD	JD US	24.9	7.0	6.5	0.2	0.2
Vipshop	VIPS US	17.8	6.8	5.1	0.6	0.6
Average PS					0.4	0.4

Source: Bloomberg, CMBIGM

Note: data as at 6 Mar market close * Covered by Sophie Huang

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	19,384	21,899	22,528	24,772	26,858	28,423
Cost of goods sold	15,341	18,050	17,086	17,572	18,245	18,787
Gross profit	4,043	3,849	5,442	7,200	8,613	9,636
Operating expenses	10,472	12,207	10,506	9,562	9,347	9,542
Selling expense	5,795	4,921	3,916	3,592	3,492	3,695
Admin expense	1,838	2,521	2,122	2,056	2,095	2,106
R&D expense	2,840	4,765	4,467	3,914	3,760	3,740
Operating profit	(6,429)	(8,358)	(5,064)	(2,362)	(734)	94
Investment gain/loss	(194)	(532)	(436)	(431)	(444)	(446)
Other gains/(losses)	(5)	1,457	389	0	0	0
EBIT	(6,628)	(7,434)	(5,111)	(2,793)	(1,178)	(352)
Interest income	70	281	542	451	1,154	1,202
Interest expense	(155)	(251)	(165)	(0)	(416)	(416)
Pre-tax profit	(6,713)	(7,404)	(4,733)	(2,342)	(439)	434
Income tax	95	104	79	39	(66)	65
After tax profit	(6,809)	(7,508)	(4,812)	(2,381)	(373)	369
Minority interest	20	11	(11)	48	7	(7)
Others	0	0	0	0	0	0
Net profit	(6,789)	(7,497)	(4,822)	(2,333)	(366)	362
Adjusted net profit	(5,478)	(6,692)	(3,425)	(896)	1,177	1,340

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	36,447	24,453	18,727	43,354	45,423	49,095
Cash & equivalents	7,523	10,187	7,242	26,473	27,634	30,580
Account receivables	1,382	1,329	1,574	2,681	2,907	3,076
Prepayment	4,848	3,545	2,063	6,196	6,718	7,109
ST bank deposits	7,632	4,768	5,195	5,351	5,511	5,677
Other current assets	15,061	4,623	2,653	2,653	2,653	2,653
Non-current assets	15,606	17,378	14,432	13,324	13,065	12,781
PP&E	1,350	1,227	715	878	1,020	1,148
Investment in JVs & assos	5,503	5,651	4,367	3,935	3,491	3,045
Intangibles	3,836	4,327	3,628	3,664	3,615	3,563
Goodwill	2,338	2,725	2,725	2,725	2,725	2,725
Other non-current assets	2,580	3,448	2,998	2,121	2,213	2,300
Total assets	52,053	41,831	33,159	56,678	58,488	61,876
Current liabilities	12,071	17,093	18,104	21,972	22,866	23,552
Short-term borrowings	1,232	6,621	7,456	7,456	7,456	7,456
Account payables	4,361	4,292	4,334	6,018	6,248	6,434
Tax payable	1,232	6,621	7,456	7,456	7,456	7,456
Other current liabilities	2,613	(2,084)	(2,937)	(2,322)	(1,942)	(1,655)
Accrued expenses	2,633	1,643	1,796	3,365	3,649	3,861
Non-current liabilities	18,266	9,498	651	21,509	21,570	23,201
Long-term borrowings	17,784	8,683	1	20,784	20,784	22,369
Other non-current liabilities	482	814	650	725	786	831
Total liabilities	30,337	26,591	18,755	43,481	44,436	46,753
Share capital	0	0	0	0	0	0
Capital surplus	35,930	35,930	38,837	38,837	38,837	38,837
Retained earnings	(13,971)	(20,437)	(24,190)	(25,445)	(24,598)	(23,518)
Other reserves	(255)	(255)	(255)	(255)	(255)	(255)
Total shareholders equity	21,704	15,238	14,392	13,137	13,984	15,064
Minority interest	12	2	12	60	67	60
Total equity and liabilities	52,053	41,831	33,159	56,678	58,488	61,876

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,713)	(7,404)	(4,733)	(2,342)	(439)	434
Depreciation & amortization	539	755	462	532	589	639
Tax paid	95	104	79	39	(66)	65
Change in working capital	(9)	(1,246)	1,413	(1,371)	146	125
Others	3,442	3,878	3,047	4,514	5,011	4,369
Net cash from operations	(2,647)	(3,911)	267	1,372	5,242	5,632
Investing						
Capital expenditure	(3,687)	(2,738)	(3,472)	(3,646)	(3,828)	(4,020)
Acquisition of subsidiaries/ investments	(7,238)	(2,646)	(113)	0	0	0
Others	(13,652)	15,994	9,020	721	(253)	(252)
Net cash from investing	(24,578)	10,609	5,435	(2,924)	(4,081)	(4,272)
Financing						
Net borrowings	11,203	251	(8,683)	20,783	0	1,585
Proceeds from share issues	19,288	0	0	0	0	0
Others	(103)	(4,606)	0	0	0	0
Net cash from financing	30,389	(4,355)	(8,683)	20,783	0	1,585
Net change in cash						
Cash at the beginning of the year	4,678	7,523	10,187	7,242	26,473	27,634
Exchange difference	(319)	321	36	0	0	0
Cash at the end of the year	7,523	10,187	7,242	26,473	27,634	30,580
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	61.5%	13.0%	2.9%	10.0%	8.4%	5.8%
Gross profit	42.4%	(4.8%)	41.4%	32.3%	19.6%	11.9%
Adj. net profit	na	na	na	na	na	13.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	20.9%	17.6%	24.2%	29.1%	32.1%	33.9%
Operating margin	(33.2%)	(38.2%)	(22.5%)	(9.5%)	(2.7%)	0.3%
Adj. net profit margin	(28.3%)	(30.6%)	(15.2%)	(3.6%)	4.4%	4.7%
Return on equity (ROE)	(46.3%)	(40.6%)	(32.6%)	(16.9%)	(2.7%)	2.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.5	0.3	0.0	0.1	0.0	(0.1)
Current ratio (x)	3.0	1.4	1.0	2.0	2.0	2.1
Receivable turnover days	26.0	22.1	25.5	39.5	39.5	39.5
Payable turnover days	103.8	86.8	92.6	125.0	125.0	125.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	89.0
P/E (diluted)	ns	ns	ns	ns	ns	89.0
P/B	10.8	4.1	3.6	2.4	2.3	2.1

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

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