

Bilibili (BILI US)

Focus on more sustainable growth

Bilibili total revenue was up by 11% YoY and 18% QoQ to RMB5.8bn in 3Q22, in line with consensus/our estimate of RMB5.7/5.8bn. Adjusted net loss widened by 9% YoY but narrowed by 10% QoQ to RMB1.76bn in 3Q22, better than consensus/our estimate of RMB1.83/1.97bn, due to solid GPM expansion (+3.2pct QoQ) and effective control in marketing expenses (-25% YoY). For 4Q22E, the company guided total revenue to increase by 4-7% YoY to RMB6.0-6.2bn, with YoY growth slowing due to relatively soft advertising and mobile game businesses. Looking forward, Bili will focus more on DAU (rather than MAU) growth and user quality to improve monetization efficiency and control expenses. We maintain FY22-24E revenue forecast largely unchanged but narrowed FY22-24E adjusted net loss forecast to RMB7.0/4.2/1.8bn (previous: RMB7.7/5.2/2.6bn) on better expense control. We lift SOTP-based TP by 5.0% to US\$21.0. Maintain BUY.

- Monetization well on track.** VAS revenue increased by 16% YoY to RMB2.2bn (38% of total revenue) in 3Q22 and was inline with our estimate, driven by solid growth of its live streaming MPUs (+79% YoY). Bili's integration of the PUGV and live streaming ecosystem continues to make progress, with the number of live broadcasters up by 67% YoY in 3Q22. Mobile game revenue recorded YoY growth of 5.7% to RMB1.5bn in 3Q22 (25% of total revenue), due to the newly launched games. Bili's investment in game development capability began to bear fruit, with its self-developed games already accounting for 9% of mobile game revenue in 3Q22. Ad revenue grew by 16% YoY to RMB1.4bn in 3Q22 (23% of total revenue), supported by resilient growth of performance ad revenue. We expect ad revenue to be flattish YoY in 4Q22E, due to the high-base effect and macro challenges.
- Shifting focus from user growth to user quality.** Bili's average MAUs in 3Q22 was up by 25% YoY and 9% QoQ to 333mn, with solid enhancement in marketing efficiency (S&M expenses: -25% YoY). User quality also further improved in 3Q22. Average time spend per DAU grew by 9% YoY to a record-high of 96 minutes; and average daily video views grew by 64% YoY to 3.7bn in 3Q22. Looking ahead, Bili will put more emphasis on DAU growth and user quality to drive its DAU/MAU ratio to c.30% in 2023E (3Q22: 27%), while the company also remains confident in achieving its 400mn MAU target by 2023E.
- Maintain non-GAAP OP breakeven target in FY24E.** Gross margin expanded by 3.2pct QoQ to 18.2% in 3Q22, attributable to the recovery of higher-margin ads & mobile game business, and the control in content investment. Bili's expenses control initiative led to a drop of its total opex ratio from 55.6/59.7% in 3Q21/2Q22 to 50.1% in 3Q22. S&M expenses declined by 25% YoY to RMB1.2bn in 3Q22, equivalent to 21.1% of total revenue (3Q21/2Q22: 31.4/23.9%). Overall, adjusted net margin improved from -31.0/-40.0% in 3Q21/2Q22 to -30.4% in 3Q22. Management expects further decline in opex and narrowing net loss in 2023E, as the company optimizes its organizational structure (which will be completed by 4Q22) and controls marketing expenses.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	11,999	19,384	21,906	26,482	30,752
YoY growth (%)	77.0	61.5	13.0	20.9	16.1
Gross margin (%)	23.7	20.9	16.9	22.0	27.3
Adjusted net profit (RMB mn)	(2,560)	(5,478)	(7,013)	(4,164)	(1,834)
EPS (Reported) (RMB)	(8.71)	(17.88)	(20.08)	(13.81)	(8.41)
Consensus EPS (RMB)	(8.71)	(17.88)	(20.93)	(15.15)	(8.69)
P/S (x)	3.0	1.8	1.6	1.3	1.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$21.00
(Previous TP)	US\$20.00
Up/Downside	66.8%
Current Price	US\$12.59

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Stock Data

Mkt Cap (US\$ mn)	4,954.6
Avg 3 mths t/o (US\$ mn)	14.9
52w High/Low (US\$)	67.57/8.92
Total Issued Shares (mn)	393.5

Source: FactSet

Shareholding Structure

Rui Chen	12.6%
Tencent	11.2%

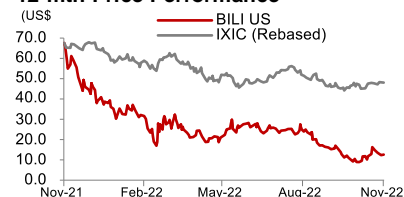
Source: Company data

Share Performance

	Absolute	Relative
1-mth	40.7%	39.1%
3-mth	-50.1%	-46.1%
6-mth	-40.8%	-36.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Bili: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	21,906	26,482	30,752	22,030	26,584	30,880	-0.6%	-0.4%	-0.4%
Gross Profit	3,708	5,826	8,393	3,717	5,976	8,548	-0.2%	-2.5%	-1.8%
Operating Profit	(7,902)	(5,562)	(3,139)	(8,400)	(6,252)	(3,495)	na	na	na
Adjusted net profit	(7,013)	(4,164)	(1,834)	(7,685)	(5,230)	(2,622)	na	na	na
Adjusted EPS (RMB)	(17.8)	(10.6)	(4.7)	(19.5)	(13.3)	(6.7)	na	na	na
Gross Margin	16.9%	22.0%	27.3%	16.9%	22.5%	27.7%	0.1 ppt	-0.5 ppt	-0.4 ppt
Operating Margin	-36.1%	-21.0%	-10.2%	-38.1%	-23.5%	-11.3%	2.1 ppt	2.5 ppt	1.1 ppt
Adjusted net margin	-32.0%	-15.7%	-6.0%	-34.9%	-19.7%	-8.5%	2.9 ppt	4.0 ppt	2.5 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	21,906	26,482	30,752	22,008	27,723	33,752	-0.5%	-4.5%	-8.9%
Gross Profit	3,708	5,826	8,393	3,810	6,300	9,186	-2.7%	-7.5%	-8.6%
Operating Profit	(7,902)	(5,562)	(3,139)	(7,632)	(5,431)	(2,324)	na	na	na
Adjusted net profit	(7,013)	(4,164)	(1,834)	(7,210)	(4,908)	(1,949)	na	na	na
Adjusted EPS (RMB)	(17.8)	(10.6)	(4.7)	(18.7)	(12.6)	(5.3)	na	na	na
Gross Margin	16.9%	22.0%	27.3%	17.3%	22.7%	27.2%	-0.4 ppt	-0.7 ppt	0.1 ppt
Operating Margin	-36.1%	-21.0%	-10.2%	-34.7%	-19.6%	-6.9%	-1.4 ppt	-1.4 ppt	-3.3 ppt
Adjusted net margin	-32.0%	-15.7%	-6.0%	-32.8%	-17.7%	-5.8%	0.7 ppt	2.0 ppt	-0.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Bili: quarterly financial

(RMB mn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	Cons.	Diff%	CMBI	Diff%
Mobile games	1,171	1,233	1,392	1,295	1,358	1,046	1,471			1,436	2.5%
YoY%	1.7%	-1.2%	9.1%	14.7%	16.0%	-15.2%	5.7%				
VAS	1,497	1,635	1,909	1,895	2,052	2,103	2,210			2,233	-1.0%
YoY%	88.6%	98.1%	94.9%	51.9%	37.1%	28.7%	15.8%				
Advertising	715	1,049	1,172	1,588	1,041	1,158	1,355			1,383	-2.0%
YoY%	233.6%	201.0%	110.2%	119.8%	45.6%	10.4%	15.6%				
E-commerce and others	519	578	734	1,003	603	601	758			736	2.9%
YoY%	230.4%	195.2%	77.5%	35.4%	16.2%	4.0%	3.2%				
Total revenue	3,901	4,495	5,207	5,781	5,054	4,909	5,794	5,717	1.3%	5,788	0.1%
YoY%	68.5%	71.7%	61.4%	50.5%	29.6%	9.2%	11.3%				
Average MAUs	223	237	267	272	294	306	333				
YoY%	58.2%	34.5%	25.0%	21.0%	18.0%	12.0%	7.8%				
Gross profit margin	24.0%	22.0%	19.6%	19.0%	16.0%	15.0%	18.2%				
S&M ratio (%)	25.6%	31.1%	31.4%	30.5%	24.8%	23.9%	21.2%				
R&D ratio (%)	14.9%	15.0%	15.1%	13.8%	20.0%	23.1%	19.5%				
Adjusted net margin (%)	-21.3%	-29.4%	-31.0%	-28.6%	-32.7%	-40.0%	-30.4%				
Adjusted net profit	(833)	(1,323)	(1,613)	(1,652)	(1,653)	(1,964)	(1,763)	(1,832)	na	(1,966)	na

Source: Company data, CMBIGM estimates

SOTP Valuation

Based on the SOTP valuation, our target price for Bili is US\$21.0 per ADS, which implies 2.2/1.9x 2022E/2023E PS. Our target price of US\$21.0 includes:

1) US\$7.1 for the advertising business (33.9% of the total valuation), based on a 12x net income of advertising business at stabilized and enlarged user-base stage (2024E). The target PE multiple is at a premium to the average PE of the mature advertising platforms (8x 2024E PE), to reflect Bili's unique value proposition in video advertising market.

2) US\$7.0 for the VAS business (33.5% of the total valuation), based on a 1.5x VAS revenue at mature stage (2024E). The target PS multiple is on par with the average PS of other mature video platforms.

3) US\$6.3 for mobile games (30.0% of the total valuation), based on a 12x net income of mobile games business at mature stage (2024E). The target PE multiple has a discount over the industry average (15x 2024E PE), as Bili has yet to establish successful track record in in-house games development.

4) US\$0.5 for e-commerce (2.6% of the total valuation), based on a 0.4x e-commerce revenue at stabilized and enlarged user-base stage (2024E). The target PS multiple is on par with the average PS of the mature e-commerce platforms.

Figure 4: Bili: SOTP Valuation

(RMBmn)	2024E MAU	Revenue per MAU	2024E revenue	Net margin (%)	Target PS (x)	Target PE (x)	Target valuation	As of total valuation
VAS (Live streaming + Membership)	445.9	29.1	12,974		1.5		19,461	33.5%
- Live streaming	66.9	116.9	7,819					
- Membership	445.9	11.6	5,155					
Advertising	445.9	18.4	8,220	20%		12	19,727	33.9%
Mobile games	44.6	130.4	5,813	25%		12	17,440	30.0%
E-commerce	22.3	168.0	3,745		0.4		1,498	2.6%
Total valuation (RMBmn)							58,127	
Number of ADS (mn)							395	
Valuation per ADS (US\$)							21.0	

Source: Company data, CMBIGM estimates

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

Figure 5: Peer comparison: online games and advertising sector

Companies	Ticker	Price (Local)	EPS growth (YoY %)			PE (x)		
			FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Online games								
NetEase	NTES US	67.0	16	5	10	15	14	13
Activision Blizzard	ATVI US	74.7	(21)	29	7	25	19	18
Electronic Arts	EA US	128.4	27	2	9	18	18	16
Take Two Interactive	TTWO US	101.3	(18)	(17)	57	21	25	16
IGG	799 HK	2.5	na	na	65	na	25	15
iDreamSky	1119 HK	3.6	(136)	1000	76	na	19	11
Nexon	3659 JP	2,886.0	14	5	18	23	22	19
Nintendo	7974 JP	5,877.0	4	9	(8)	16	15	16
Bandai Namco	7832 JP	8,961.0	61	28	0	25	20	20
Perfect World	002624 CH	13.4	100	14	15	15	13	11
37 games	002555 CH	17.1	11	16	13	12	11	10
Average PE						19	18	15
Online advertising								
Weibo	WB US	13.4	(31)	7	12	6	6	5
Baidu	BIDU US	94.6	(16)	19	39	15	13	9

		Price	EPS growth (YoY %)			PE (x)		
Meta	Meta US	108.8	(31)	(6)	27	10	11	9
Average PE						11	10	8

Source: Bloomberg, CMBIGM

Note: data as at the 28 November 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	2.7	(16.4)	5.6	5.9	0.6	0.5	0.5
Mango Excellent Media	300413 CH	25.6	(19.9)	15.3	13.2	3.3	2.8	2.5
Average PS						1.9	1.7	1.5
First-party e-commerce								
JD	JD US	49.9	(2.3)	15.6	14.0	0.5	0.5	0.4
Vipshop	VIPS US	9.9	(22.5)	6.7	5.3	0.4	0.4	0.4
Average PS						0.5	0.4	0.4

Source: Bloomberg, CMBIGM

Note: data as at the 28 November market close

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	6,778	11,999	19,384	21,906	26,482	30,752
Cost of goods sold	5,588	9,159	15,341	18,198	20,657	22,359
Gross profit	1,190	2,840	4,043	3,708	5,826	8,393
Operating expenses	2,685	5,981	10,472	11,610	11,387	11,532
Selling expense	1,199	3,492	5,795	4,929	4,767	4,767
Admin expense	593	976	1,838	2,300	2,383	2,460
R&D expense	894	1,513	2,840	4,381	4,237	4,305
Operating profit	(1,495)	(3,141)	(6,429)	(7,902)	(5,562)	(3,139)
Investment gain/loss	97	28	(194)	(366)	167	174
Other gains/(losses)	15	137	(5)	484	0	0
EBIT	(1,384)	(2,975)	(6,628)	(7,784)	(5,395)	(2,965)
Interest income	163	83	70	152	99	113
Interest expense	(47)	(109)	(155)	(168)	(168)	(476)
Pre-tax profit	(1,268)	(3,001)	(6,713)	(7,800)	(5,464)	(3,327)
Income tax	36	53	95	117	82	50
After tax profit	(1,304)	(3,054)	(6,809)	(7,917)	(5,546)	(3,377)
Minority interest	15	47	20	16	111	68
Others	0	(4)	0	0	0	0
Net profit	(1,289)	(3,012)	(6,789)	(7,901)	(5,435)	(3,310)
Adjusted net profit	(1,067)	(2,560)	(5,478)	(7,685)	(5,230)	(2,622)
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	10,324	15,740	36,447	31,911	35,852	38,538
Cash & equivalents	4,963	4,678	7,523	2,025	3,205	4,117
Account receivables	745	1,218	1,382	1,484	2,866	3,328
Prepayment	1,511	1,766	4,848	5,479	6,624	7,692
ST bank deposits	1,845	4,720	7,632	7,861	8,097	8,340
Other current assets	1,261	3,357	15,061	15,061	15,061	15,061
Non-current assets	5,193	8,126	15,606	16,156	17,007	17,574
PP&E	516	762	1,350	1,611	1,812	1,976
Investment in JVs & assos	1,251	2,233	5,503	5,465	5,765	5,939
Intangibles	1,657	2,357	3,836	3,988	4,100	4,137
Goodwill	1,012	1,296	2,338	2,338	2,338	2,338
Other non-current assets	756	1,478	2,580	2,754	2,992	3,185
Total assets	15,517	23,866	52,053	48,067	52,859	56,112
Current liabilities	4,273	7,392	12,071	14,692	17,513	19,475
Short-term borrowings	0	100	1,232	1,232	1,232	1,232
Account payables	1,904	3,074	4,361	6,232	7,074	7,657
Tax payable	0	100	1,232	1,232	1,232	1,232
Other current liabilities	1,793	2,880	2,613	3,019	4,377	5,176
Accrued expenses	576	1,238	2,633	2,976	3,598	4,178
Non-current liabilities	3,608	8,692	18,266	18,425	24,559	27,684
Long-term borrowings	3,415	8,341	17,784	17,784	23,784	26,784
Other non-current liabilities	193	351	482	641	775	899
Total liabilities	7,880	16,083	30,337	33,116	42,072	47,159
Share capital	0	0	0	0	0	0
Capital surplus	10,718	14,616	35,930	35,930	35,930	35,930
Retained earnings	(4,146)	(7,175)	(13,971)	(20,753)	(25,027)	(26,928)
Other reserves	480	159	(255)	(255)	(255)	(255)
Total shareholders equity	7,052	7,600	21,704	14,922	10,648	8,747
Minority interest	584	182	12	28	139	207
Total equity and liabilities	15,517	23,866	52,053	48,067	52,859	56,112

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,268)	(3,001)	(6,713)	(7,800)	(5,464)	(3,327)
Depreciation & amortization	192	327	539	370	462	532
Tax paid	36	53	95	117	82	50
Change in working capital	223	1,487	(9)	1,888	295	432
Others	1,012	1,887	3,442	3,807	3,883	4,308
Net cash from operations	195	753	(2,647)	(1,618)	(742)	1,994
Investing						
Capital expenditure	(1,565)	(2,239)	1,756	(3,233)	(3,472)	(3,646)
Acquisition of subsidiaries/ investments	(1,380)	(1,757)	(6,716)	(329)	(132)	0
Others	(1,013)	(4,911)	(19,618)	(403)	(474)	(436)
Net cash from investing	(3,958)	(8,907)	(24,578)	(3,964)	(4,079)	(4,082)
Financing						
Net borrowings	3,398	5,695	11,203	0	6,000	3,000
Proceeds from share issues	1,648	2,817	19,288	0	0	0
Others	33	(177)	(103)	0	0	0
Net cash from financing	5,079	8,335	30,389	0	6,000	3,000
Net change in cash						
Cash at the beginning of the year	3,540	4,963	4,678	7,523	2,025	3,205
Exchange difference	108	(466)	(319)	84	0	0
Cash at the end of the year	4,963	4,678	7,523	2,025	3,205	4,117
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	64.2%	77.0%	61.5%	13.0%	20.9%	16.1%
Gross profit	39.1%	138.6%	42.4%	(8.3%)	57.1%	44.1%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	17.6%	23.7%	20.9%	16.9%	22.0%	27.3%
Operating margin	(22.1%)	(26.2%)	(33.2%)	(36.1%)	(21.0%)	(10.2%)
Adj. net profit margin	(15.7%)	(21.3%)	(28.3%)	(32.0%)	(15.7%)	(6.0%)
Return on equity (ROE)	(18.4%)	(41.1%)	(46.3%)	(43.1%)	(42.5%)	(34.1%)
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	2.4	2.1	3.0	2.2	2.0	2.0
Receivable turnover days	40.1	37.1	26.0	24.7	39.5	39.5
Payable turnover days	124.4	122.5	103.8	125.0	125.0	125.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/B	5.1	12.4	10.8	2.6	4.3	6.4

Source: Company data, CMBIGM estimates.

Note: The calculation of net cash includes financial assets.

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