

# Bilibili (BILI US)

## Eyes on monetization potential and margin improvement trajectory

We expect Bili will deliver narrowing adjusted net loss while revenue growth could decelerate in 4Q22, but all these are within expectations. Market is looking for signs of monetization enhancement, self-propelling user and ecosystem growth. We continue to expect that Bili will be on track to achieve a breakeven on non-GAAP by end-2024E, driven by growing user base that improves monetization. Bili's strong recovery from trough valuation was mainly due to improving market sentiment, to outperform the sector going forward, and the market expects Bili to deliver consistent user base growth which will enhance monetization. Due to improving macro and policy outlook, online ads/gaming/social platforms all re-rated. Benchmark to peers, our SOTP-derived TP is raised to US\$29.5 (previous: US\$21.0), translating into 3.0/2.6x FY23/24E PS. Maintain BUY. Catalysts to watch in 1H23E: 1) better-than-expected margin improvement; 2) approval of key game titles; 3) inclusion in southbound stock connect.

■ **Steady margin improvement despite decelerating revenue growth.** We forecast Bili's total revenue to grow by 6% YoY to RMB6.1bn in 4Q22E (3Q22: +11% YoY), mainly driven by the solid growth of VAS business. Bili continues to optimize its revenue-sharing cost structure and content investment, which we expect to support GPM to improve from 19.0/18.2% in 4Q21/3Q22 to 19.5% in 4Q22E. Overall, we forecast adjusted net loss to narrow from RMB1.7/1.8bn in 4Q21/3Q22 to RMB1.6bn in 4Q22E. We expect the impact of organizational optimization in 2H22 to be more visible in 2023E, further unleashing operating leverage and narrowing adjusted net loss to RMB4.2/1.8bn in 2023/2024E.

■ **Resilient VAS business but other lines remain under pressure.** We forecast VAS revenue to grow by 20% YoY and account for 37% of total revenue in 4Q22E, driven by the resilient live streaming business and the launch of several popular anime titles. Ads revenue is flat YoY and represents 26% of total revenue in 4Q22E under our estimate, as brand ad demand was weak and sponsorship ad revenue from Bili's key events faced high-base effect. Mobile game business remains under pressure in 4Q22E due to a lack of new games, with revenue down by 9% YoY and equivalent to 19% of total revenue in 4Q22E. Bili's highly-anticipated title Petty Derby remains pending for approval and the resumption of imported game license in Dec 2022 should be a positive signal. We forecast e-commerce revenue to increase by 10% YoY to RMB1.1bn (18% of total revenue) in 4Q22E, mainly due to the recovery of logistics.

■ **Maintain BUY.** We lowered FY22 adjusted net loss forecast from RMB7.0bn to RMB6.9bn, in view of better-than-expected cost optimization, while maintaining FY23-24E forecast unchanged. Our SOTP-derived TP consists of US\$10.8/0.6 for VAS/e-commerce business on 2.7/0.5x 2023E PS, and US\$9.9/8.2 for ads/games business on 20x/16x 2023E PE.

### 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	17.3	22.0	27.3
Adjusted net profit (RMB mn)	(2,559.6)	(5,478.1)	(6,930.6)	(4,163.2)	(1,832.9)
EPS (Adjusted) (RMB cents)	(740.25)	(1,442.44)	(1,761.09)	(1,057.89)	(465.74)
Consensus EPS (RMB cents)	(740.25)	(1,442.44)	(1,792.10)	(1,029.41)	(349.05)
P/S (x)	5.2	3.2	2.8	2.4	2.0

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** US\$29.50

(Previous TP US\$21.0)

**Up/Downside** 26.4%

**Current Price** US\$23.33

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### Stock Data

Mkt Cap (US\$ mn)	9,181.2
Avg 3 mths t/o (US\$ mn)	21.6
52w High/Low (US\$)	37.84/8.92
Total Issued Shares (mn)	393.5

Source: FactSet

### Shareholding Structure

Rui Chen	12.6%
Tencent	11.2%

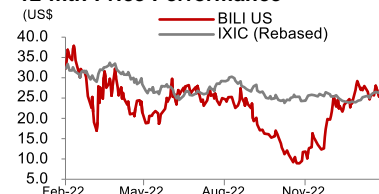
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-18.6%	-28.3%
3-mth	99.2%	73.8%
6-mth	-5.1%	0.1%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports

1. [Bilibili \(Bili US\) - Focus on more sustainable growth – 30 Nov 2022](#)
2. [Bilibili \(Bili US\) - User base and engagement growth are crucial – 26 Oct 2022](#)

## Forecast update and valuation

We reduced our FY22 adjusted net loss forecast from RMB7.0bn to RMB6.9bn, in view of the better-than-expected cost structure optimization, while maintaining FY23-24E forecast unchanged.

**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	21,906	26,482	30,752	0.0%	0.0%	0.0%
Gross Profit	3,800	5,826	8,393	3,708	5,826	8,393	2.5%	0.0%	0.0%
Operating Profit	(7,821)	(5,562)	(3,139)	(7,902)	(5,562)	(3,139)	na	na	na
Adjusted net profit	(6,931)	(4,163)	(1,833)	(7,013)	(4,164)	(1,833)	na	na	na
Adjusted EPS (RMB)	(17.6)	(10.6)	(4.7)	(17.8)	(10.6)	(4.7)	na	na	na
Gross Margin	17.3%	22.0%	27.3%	16.9%	22.0%	27.3%	0.4 ppt	0.0 ppt	0.0 ppt
Operating Margin	-35.7%	-21.0%	-10.2%	-36.1%	-21.0%	-10.2%	0.4 ppt	0.0 ppt	0.0 ppt
Adjusted net margin	-31.6%	-15.7%	-6.0%	-32.0%	-15.7%	-6.0%	0.4 ppt	0.0 ppt	0.0 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	21,878	26,543	31,882	0.1%	-0.2%	-3.5%
Gross Profit	3,800	5,826	8,393	3,827	6,188	8,889	-0.7%	-5.9%	-5.6%
Operating Profit	(7,821)	(5,562)	(3,139)	(7,384)	(4,489)	(1,870)	na	na	na
Adjusted net profit	(6,931)	(4,163)	(1,833)	(6,990)	(4,057)	(1,294)	na	na	na
Adjusted EPS (RMB)	(17.6)	(10.6)	(4.7)	(17.9)	(10.3)	(3.5)	na	na	na
Gross Margin	17.3%	22.0%	27.3%	17.5%	23.3%	27.9%	-0.1 ppt	-1.3 ppt	-0.6 ppt
Operating Margin	-35.7%	-21.0%	-10.2%	-33.7%	-16.9%	-5.9%	-2.0 ppt	-4.1 ppt	-4.3 ppt
Adjusted net margin	-31.6%	-15.7%	-6.0%	-32.0%	-15.3%	-4.1%	0.3 ppt	-0.4 ppt	-1.9 ppt

Source: Company data, CMBIGM estimates

We forecast VAS revenue to grow by 20% YoY and account for 37% of total revenue in 4Q22E, driven by the resilient live streaming business and the launch of several popular anime titles, including The Three Body Problem and Yao-Chinese Folktales.

Ads revenue is flat YoY and represents 26% of total revenue in 4Q22E under our estimate, as brand ad demand was weak and sponsorship ad revenue from Bili's key events faced high-base effect. That said, its performance ad business remains resilient, supported by the improvement in its ad monetization infrastructure.

Mobile game business remains under pressure in 4Q22 due to a lack of new games, with revenue down by 9% YoY and equivalent to 19% of total revenue in 4Q22E. Bili's highly-anticipated title Petty Derby remains pending for approval and the resumption of imported game license in Dec 2022 should be a positive signal. Self-developed games and international expansion remain the key long-term drivers, but Bili still needs to demonstrate its in-house game development and overseas publishing capabilities, especially after optimization of its gaming business line in 2H22.

We forecast e-commerce revenue to increase by 10% YoY to RMB1.1bn (18% of total revenue) in 4Q22E, mainly due to the recovery of logistics.

**Figure 3: Bilibili: key financial forecasts**

(RMB mn)	2021	2022E	2023E	2024E	4Q22E
Mobile games	5,091	5,051	5,532	5,813	1,175
yoy%	6.0%	-0.8%	9.5%	5.1%	-9.3%
VAS	6,935	8,640	10,867	12,974	2,275
yoy%	80.3%	24.6%	25.8%	19.4%	20.1%
Advertising	4,523	5,149	6,671	8,220	1,595
yoy%	145.5%	13.8%	29.6%	23.2%	0.5%
E-commerce and others	2,834	3,066	3,413	3,745	1,104
yoy%	88.1%	8.2%	11.3%	9.7%	10.0%
<b>Total revenue</b>	<b>19,384</b>	<b>21,906</b>	<b>26,482</b>	<b>30,752</b>	<b>6,149</b>
yoy%	61.5%	13.0%	20.9%	16.1%	6.4%
<b>Average MAUs</b>	<b>250</b>	<b>316</b>	<b>382</b>	<b>451</b>	<b>332</b>
yoy%	34.5%	26.5%	21.0%	18.0%	22.3%
Gross profit margin (%)	20.9%	17.3%	22.0%	27.3%	19.5%
S&M expense ratio (%)	29.9%	22.5%	18.0%	15.5%	20.7%
R&D expense ratio (%)	14.7%	20.0%	16.0%	14.0%	18.0%
Adjusted net loss margin (%)	-28.3%	-31.6%	-15.7%	-6.0%	-25.2%
<b>Adjusted net loss</b>	<b>(5,478)</b>	<b>(6,931)</b>	<b>(4,163)</b>	<b>(1,833)</b>	<b>(1,551)</b>

Source: Company data, CMBIGM estimates

## SOTP Valuation

Based on the SOTP valuation, our target price for Bili is US\$29.5 per ADS, which implies 3.0/2.6x 2022E/2023E PS. Our target price of US\$29.5 includes:

- 1) US\$10.8 for the VAS business (36.7% 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.
- 2) US\$9.9 for the advertising business (33.4% 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 (14x 2024E PE), to reflect Bili's unique value proposition in video advertising market and its strong growth outlook (FY21-24E revenue CAGR: 22%).
- 3) US\$8.2 for mobile games (27.7% of the total valuation), based on a 16x 2023E PE. The target PE multiple has a discount over the industry average (20x 2024E PE), as Bili has yet to establish successful track record in in-house games development.
- 4) US\$0.6 for e-commerce (2.1% 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 revenue	FY21-FY24E Rev. CAGR	Net margin (%)	Target PS (x)	Target PE (x)	Target valuation	As of total valuation
VAS (Live streaming + Membership)	10,867	23%		2.7		29,341	36.7%
- Live streaming	6,562						
- Membership	4,305						
Advertising	6,671	22%	20%		20	26,683	33.4%
Mobile games	5,532	5%	25%		16	22,127	27.7%
E-commerce	3,413	10%		0.5		1,706	2.1%
<b>Total valuation (RMBmn)</b>						<b>79,857</b>	
Number of ADS (mn)						395	
<b>Valuation per ADS (US\$)</b>						<b>29.5</b>	

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	88.4	31	1	11	17	17	15
Activision Blizzard	ATVI US	71.6	(20)	27	6	24	19	18
Electronic Arts	EA US	112.2	27	(12)	8	16	18	17
Take Two Interactive	TTWO US	105.6	(18)	(18)	48	21	26	18
IGG	799 HK	3.0	(134)	(156)	67	NA	28	17
iDreamSky	1119 HK	4.3	62	(292)	155	NA	30	12
Nexon	3659 JP	3,085.0	15	3	16	24	24	20
Nintendo	7974 JP	5,607.0	4	7	(7)	15	14	16
Bandai Namco	7832 JP	8,648.0	61	29	0	24	19	19
Perfect World	002624 CH	14.6	84	16	16	18	15	13
37 Interactive Entertainment	002555 CH	22.7	9	16	12	17	15	13
Average PE						20	20	16
Online advertising								
Weibo	WB US	23.4	(33)	8	10	11	10	9
Baidu	BIDU US	142.8	11	14	13	17	15	13
Meta	Meta US	186.1	(27)	1	14	17	17	14
Average PE						15	14	12

Source: Bloomberg, CMBIGM

Note: data as at the 6 Feb 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	(11.4)	7.4	6.9	1.5	1.4	1.3
Mango Excellent Media	300413 CH	34.6	(17.4)	15.4	12.7	4.5	3.9	3.5
Average PS						3.0	2.7	2.4
First-party e-commerce								
JD	JD US	56.7	2.7	14.6	13.6	0.6	0.5	0.4
Vipshop	VIPS US	15.0	(18.4)	6.4	6.6	0.6	0.6	0.5
Average PS						0.6	0.5	0.5

Source: Bloomberg, CMBIGM

Note: data as at the 6 Feb 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	18,106	20,657	22,359
Gross profit	1,190	2,840	4,043	3,800	5,826	8,393
Operating expenses	2,685	5,981	10,472	11,621	11,387	11,532
Selling expense	1,199	3,492	5,795	4,929	4,767	4,767
Admin expense	593	976	1,838	2,311	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)	(7,821)	(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)	(7,703)	(5,395)	(2,965)
Interest income	163	83	70	152	99	114
Interest expense	(47)	(109)	(155)	(168)	(168)	(476)
Pre-tax profit	(1,268)	(3,001)	(6,713)	(7,719)	(5,463)	(3,327)
Income tax	36	53	95	116	82	50
After tax profit	(1,304)	(3,054)	(6,809)	(7,834)	(5,545)	(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)	(7,819)	(5,434)	(3,309)
Adjusted net profit	(1,067)	(2,560)	(5,478)	(6,931)	(4,163)	(1,833)

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	10,324	15,740	36,447	31,962	35,935	38,622
Cash & equivalents	4,963	4,678	7,523	2,076	3,288	4,201
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	16,150	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	2,748	2,992	3,185
Total assets	15,517	23,866	52,053	48,112	52,942	56,196
Current liabilities	4,273	7,392	12,071	14,654	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	6,201	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	3,013	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	33,079	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)	(20,670)	(24,944)	(26,844)
Other reserves	480	159	(255)	(255)	(255)	(255)
Total shareholders equity	7,052	7,600	21,704	15,005	10,731	8,831
Minority interest	584	182	12	28	139	207
Total equity and liabilities	15,517	23,866	52,053	48,112	52,942	56,196

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(1,268)	(3,001)	(6,713)	(7,719)	(5,463)	(3,327)
Depreciation & amortization	192	327	539	370	462	532
Tax paid	36	53	95	116	82	50
Change in working capital	223	1,487	(9)	1,850	333	432
Others	1,012	1,887	3,442	3,809	3,883	4,308
<b>Net cash from operations</b>	<b>195</b>	<b>753</b>	<b>(2,647)</b>	<b>(1,573)</b>	<b>(704)</b>	<b>1,995</b>
<b>Investing</b>						
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)	(397)	(480)	(436)
<b>Net cash from investing</b>	<b>(3,958)</b>	<b>(8,907)</b>	<b>(24,578)</b>	<b>(3,958)</b>	<b>(4,085)</b>	<b>(4,082)</b>
<b>Financing</b>						
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
<b>Net cash from financing</b>	<b>5,079</b>	<b>8,335</b>	<b>30,389</b>	<b>0</b>	<b>6,000</b>	<b>3,000</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	3,540	4,963	4,678	7,523	2,076	3,288
Exchange difference	108	(466)	(319)	84	0	0
<b>Cash at the end of the year</b>	<b>4,963</b>	<b>4,678</b>	<b>7,523</b>	<b>2,076</b>	<b>3,288</b>	<b>4,201</b>
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Revenue	64.2%	77.0%	61.5%	13.0%	20.9%	16.1%
Gross profit	39.1%	138.6%	42.4%	(6.0%)	53.3%	44.1%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Gross profit margin	17.6%	23.7%	20.9%	17.3%	22.0%	27.3%
Operating margin	(22.1%)	(26.2%)	(33.2%)	(35.7%)	(21.0%)	(10.2%)
Adj. net profit margin	(15.7%)	(21.3%)	(28.3%)	(31.6%)	(15.7%)	(6.0%)
Return on equity (ROE)	(18.4%)	(41.1%)	(46.3%)	(42.6%)	(42.2%)	(33.8%)
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.2)	0.5	0.5	1.1	2.0	2.7
Current ratio (x)	2.4	2.1	3.0	2.2	2.1	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
<b>YE 31 Dec</b>						
P/B	5.1	12.4	10.8	4.2	5.8	7.1

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



# Disclosures & Disclaimers

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## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

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