

Weibo (WB US)

Navigate short-term headwind

Weibo is the fourth largest social media platform by MAUs in China (behind Tencent/Douyin/Kuaishou), with 582mn MAUs and 43% DAU/MAU ratio as of June 2022. Weibo has established unique proposition to advertisers with its large user base and vibrant KOL community. It provides advertisers with differentiated brand-plus-performance marketing solutions with relatively high ROI. We expect revenue/earnings deceleration to bottom-out from 2023E onwards, with total revenue/non-GAAP net income CAGR of 4.4/3.5% over 2021-2024E, as the macro environment gradually recovers. Its current valuation of 4.4x 2022E non-GAAP PE (70% discount to the sector average) offers attractive risk-reward. Our target price for Weibo is US\$21.8, based on 9.0x 2022E non-GAAP EPS. Initiate at BUY.

- **Expect mild recovery over 2023-2024E.** Supported by its unique proposition in social media space, Weibo remains as one of the top platforms for advertisers that are seeking for both brand awareness enhancement and sales conversion. Weibo's fundamentals are sensitive to and benefit from the gradual recovery of ad demand in 2023/2024E, as the macro environment improves. We forecast ad revenue to rebound 6.4/4.6% YoY (-17.9% in 2022E) and account for 88.0/88.5% of total revenue in 2023/2024E. This will also drive non-GAAP net income to recover by 1.2/5.8% YoY to US\$580/614mn in 2023/2024E, based on our estimate.
- **Driving improvement in monetization efficiency.** We see Weibo's ad monetization efficiency still has ample improvement potential compared to other online ad platforms. Weibo's advertising revenue per MAU was only RMB22.9 in 2021, lower than Kuaishou/Tencent (RMB78.4/70.6). We expect two key drivers to enhance Weibo's ad monetization efficiency going forward: 1) the secular trend of "videolization" in the social media sector, which will improve Weibo's ad load ratio and monetization efficiency; 2) Weibo's exploration in social e-commerce and enhancing commercial infrastructure should help improve advertisers' ROI.
- **Initiate BUY on macro and fundamental catalysts.** Weibo currently trades at 4.4x 2022E non-GAAP PE, which is a 70% discount to the sector average PE of 14.7x and a 71% discount to its 2-year historical average PE of 15.0x. Despite the sector downturn and soft macro environment. Macro recovery would be a positive catalyst for the online ad sector, Weibo's efficiency improvement could also boost faster profits recovery.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	1,690	2,257	1,875	1,965	2,045
YoY growth (%)	(4.4)	33.6	(16.9)	4.8	4.0
Gross margin (%)	82.1	82.1	79.0	79.5	79.5
Operating profit (US\$ mn)	507	697	482	491	524
YoY growth (%)	(15.2)	37.6	(30.9)	2.0	6.7
Net profit (US\$ mn)	313.4	428.3	235.5	435.7	471.2
YoY growth (%)	(36.7)	36.7	(45.0)	85.0	8.1
Adjusted net profit (US\$ mn)	547.5	718.5	573.2	561.4	595.8
YoY growth (%)	(14.1)	31.2	(20.2)	(2.0)	6.1
EPS (Adjusted) (US\$)	2.41	3.14	2.51	2.45	2.60
Consensus EPS (US\$)	2.41	3.14	2.18	2.45	2.73
P/S (x)	1.5	1.1	1.3	1.2	1.2
P/E (x)	27.9	26.0	10.4	5.6	5.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Initiation)

Target Price **US\$21.80**
 Up/Downside **103.5%**
 Current Price **US\$10.71**

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Stock Data

Mkt Cap (US\$ mn)	2,450.5
Avg 3 mths t/o (US\$ mn)	17.7
52w High/Low (US\$)	50.12/10.71
Total Issued Shares (mn)	228.8

Source: FactSet

Shareholding Structure

Sina	40.1%
Alibaba	28.7%

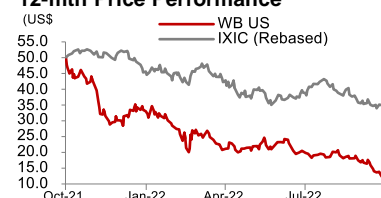
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-38.7%	-39.2%
3-mth	-46.5%	-42.2%
6-mth	-48.9%	-40.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Investment thesis

Unique value proposition to advertisers

Weibo is one of the leading social media platforms in China, with unique value proposition to advertisers. Leveraging its massive user base and vibrant KOL community, Weibo can provide advertisers with differentiated brand-plus-performance marketing solutions that help improve ROI. Total MAUs of Weibo grew by 3% YoY to 582mn in June 2022 and only lagged behind Tencent/Douyin/Kuaishou in the social media sector. Its DAU/MAU ratio reached 43% in June 2022, which is higher than other social media platforms like Bilibili/Xiaohongshu/Momo (30/37/32%), demonstrating strong user quality and stickiness. On the content front, Weibo has also developed an organic content ecosystem, with over 40mn monthly active content creators and 4.4mn verified KOL accounts in June 2021. Given its unique competitive advantages, we expect Weibo to maintain its market share in the online advertising marketing, despite the intensifying competition.

Weibo still has room to improve its monetization efficiency

We see Weibo's ad monetization efficiency still has ample improvement potential compared to other leading online advertising platforms. Weibo's advertising revenue per MAU was only RMB22.9 in 2021, much lower than Kuaishou/Tencent (RMB78.4/70.6). We expect several key drivers to enhance Weibo's ad monetization efficiency: 1) The secular trend of "videolization" in the social media sector drives up video ad inventory and overall ad pricing. Weibo has been actively exploring the "videolization" opportunity and launched the Video Account Program in 2020. Total number of video accounts on Weibo already reached 25mn in December 2021. We expect the initiative to help grow Weibo's video ad inventory which tends to have higher pricing, and improves its ad monetization efficiency. 2) Enhancing commercial infrastructure improves advertisers' ROI on Weibo. Weibo accelerated development of its close-loop social e-commerce ecosystem in 2022, which could help improve ROIs and sales conversion of advertisers on Weibo, in our view.

Macro improvement will aid online ad sector recovery in 2023E

China's online advertising market remained under pressure in 2022E, with YoY growth decelerating to 1.5% in 2022E (2021: +20.4% YoY) per QuestMobile and our estimate, due to the macro deceleration and impacts caused by COVID resurgence. We expect normalization in economic activities would aid investment sentiment recovery in online ad sector. Without extreme case impacts and normalization of commercial activities going forward, overall online ad industry revenue is expected to recover from low-base and grow by 13.5% YoY in 2023E.

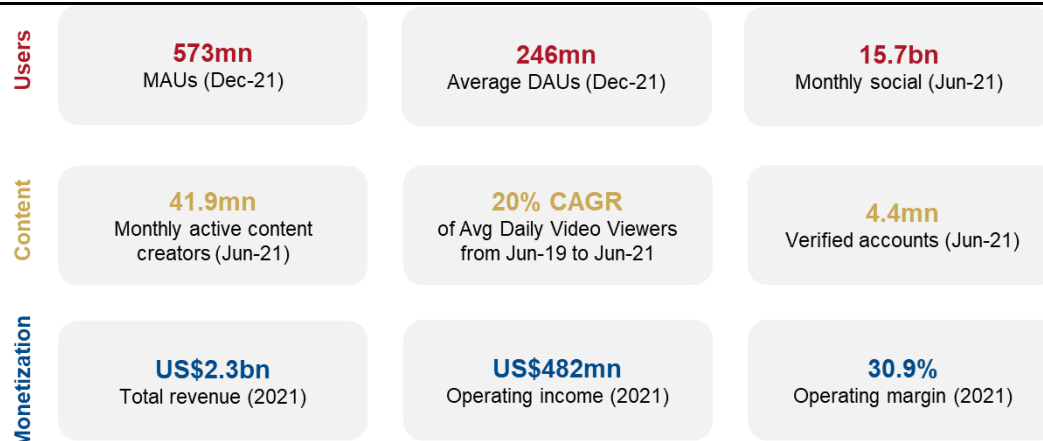
Price correction overdone; BUY on attractive valuation

Weibo currently only trades at 4.4x 2022E non-GAAP PE, which is a 70% discount to the sector average PE of 14.7x and a 71% discount to its 2-year historical average PE of 15.0x. Despite the sector downturn and soft macro environment, Weibo continues to maintain healthy cash flow and >30% non-GAAP NPM in 2022E, based on our estimate. As the overall market sentiment and macro environment improves in 2023, Weibo's valuation will be supported by both sector valuation re-rating and its own fundamental improvement. Our target price for Weibo is US\$21.8, based on 9.0x 2022E non-GAAP EPS. Initiate at BUY.

Weibo: differentiated social community

Weibo's proposition is unique in China's social media space. Its leading role in information distribution and social community is not easily replaceable despite surging growth from short-videos platforms. Total MAUs grew by 3% YoY to 582mn and the DAU/MAU ratio reached 43% in June 2022, which indicates Weibo can still command large user base and stickiness against competition. Weibo has also developed an organic and self-sustained content ecosystem, with over 40mn monthly active content creators and 4.4mn verified KOL accounts in June 2021. Leveraging its massive user base and comprehensive content ecosystem, Weibo is well-positioned to capture monetization opportunities in the consumer internet, in our view.

Figure 1: Weibo: overview



Source: Company data, CMBIGM

Weibo is one of the earliest social media platforms in China, launched by its parent Sina in 2009. In 2010, Weibo launched its first mobile app and began to ride on the rapid user traffic growth of China's mobile internet sector. As user base continued to grow, Weibo started to monetize through advertising business in 2012 and developed one of the most efficient mobile ad infrastructures in China. As its MAUs surpassed 500mn in 2019, Weibo has entered a mature growth stage. That said, we like Weibo's strong margin profile (>30% OPM) and cash flow generation capabilities, given the soft macro outlook and rising investors' concern on the internet sector growth.

Figure 2: Weibo: key milestone

Year	Event
2009	Weibo was launched by Sina as one of the earliest social media platforms.
2010	Weibo launched its first Weibo mobile app.
2012	Weibo started monetization through advertising business.
2013	Alibaba invested in Weibo with 18% stake in the company.
2014	Weibo completed the IPO and was listed on the Nasdaq.
2017	Weibo's total revenue surpassed US\$1bn.
2019	Weibo's MAUs surpassed the 500mn milestone.
2021	Weibo completed secondary listing on HKEX.

Source: Company data, CMBIGM

Weibo mainly monetizes through its advertising and marketing business, and offers a diversified set of marketing solutions to advertisers, including: 1) social display ads that mainly serve key account advertisers; 2) promoted feeds like Fans Headline that could provide targeted marketing solutions to advertisers; 3) promoted trends and search that help advertisers reach a broad customer base. Besides advertising, Weibo has been diversifying its monetization methods and began to offer valued-added services, such as VIP membership, live streaming, game-related services and social e-commerce.


Figure 3: Weibo: monetization

Segment	Services	Product offerings
Advertising and marketing	Social display ads	Social display advertisements appear on the app's opening page, the Discovery Zone banner and the website home page banner.
	Promoted feeds	1) Super FST: an advertising platform specifically for the promoted feeds advertising products under a real time bidding system. It provides various ad formats, such as multi-image post, image-text, video and matrix advertisements. 2) Fans Headline: a promoted service that guarantees a certain feed from the advertisers will appear at the top of the information feeds of the audience that the advertisers would like to target.
	Promoted trends and search	1) Promoted trends, which are labeled as "promoted," appear among the list of trending topics, and can be virally distributed to reach broader audience on the platform. 2) Promoted searches usually appear as the default keyword or topic in the search bar when triggered by users' search behaviors of certain sponsored keyword or topic.
VAS	VIP membership	Service package providing user certification and privileges such as daily priority listings and higher quota for following user accounts
	Live streaming	Sales of virtual items on the Yizhibo platform
	Game-related services	Sales of virtual items to game players through its gaming platforms like Pocket Werewolves
	Social e-commerce	Offer social commerce solutions to customers that enable them to conduct e-commerce on Weibo

Source: Company data, CMBIGM


Figure 4: Weibo: ad formats

Brand ads




Splash screen ads


Performance ads




Banner ads



Fans headline



Promoted feeds



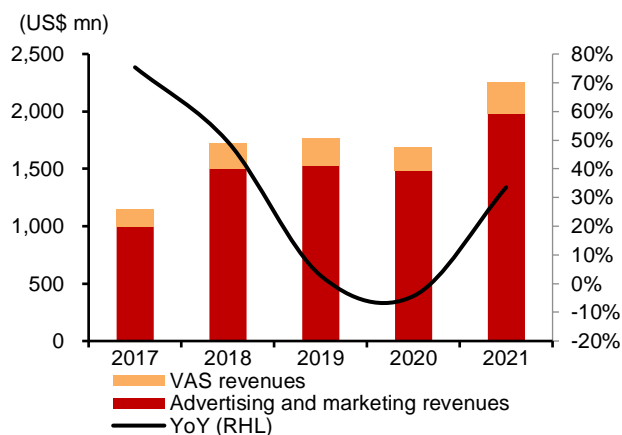
Promoted trend

Source: Company data, CMBIGM

Weibo total revenue grew by 33.6% YoY to US\$2.3bn in 2021, as its advertising and marketing business recovered from the low base. In 1H22, total revenue dropped by 9.5% YoY to US\$935mn, primarily due to the resurgence of COVID-19 and soft macro environment. Weibo's decline is weaker than the sector average (1H22: -2.3% YoY), as Weibo's advertising business has relatively high exposure to consumer-related sectors that were impacted by the COVID-19 and weak consumption sentiment in 1H22. Advertising and marketing/VAS segment each accounted for 86.9/13.1% of total revenue in 1H22.

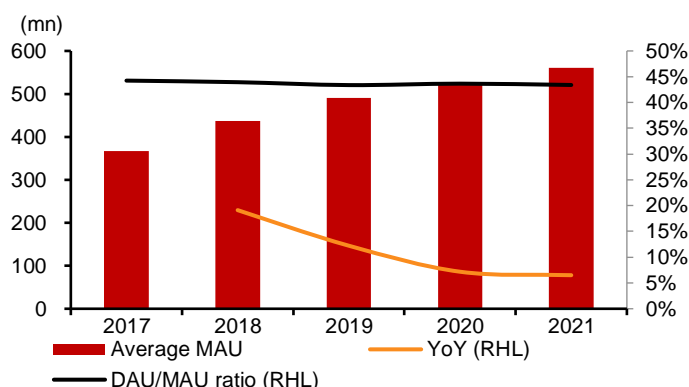
Nonetheless, Weibo's user community remains stable, with its MAU up by 3% YoY to 582mn in June 2022.

Figure 5: Weibo: total revenue trend



Source: Company data, CMBIGM estimates

Figure 6: Weibo: user trend



Source: Company data, CMBIGM estimates

Weibo's advertising business experienced five different phases during 1Q17-2Q22:

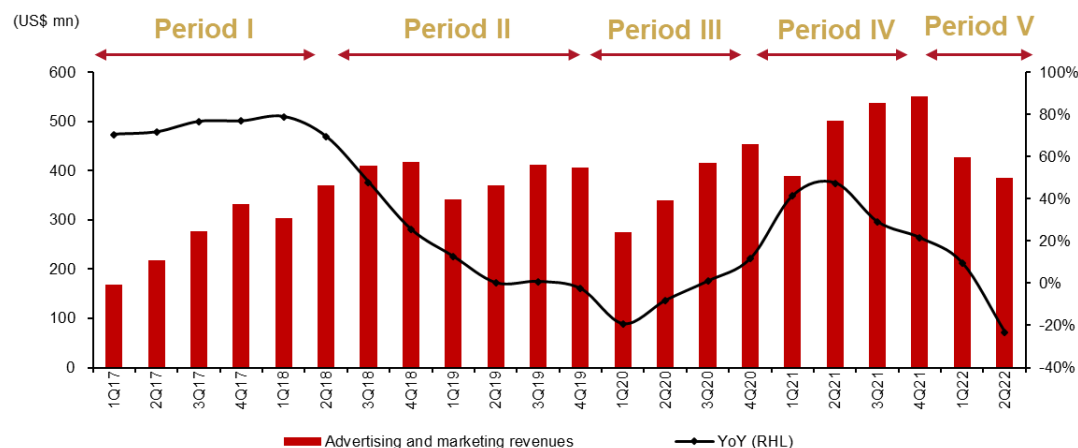
1) Period 1 (1Q17-2Q18): Accelerated growth due to secular online ad industry penetration trend. Weibo's advertising and marketing revenue maintained over 70% YoY revenue growth over 1Q17-2Q18, driven by its expanding user base and growing ad inventory. During the period, Weibo continued to enhance its ad monetization efficiency through products innovations.

2) Period 2 (3Q18-4Q19): Weibo's advertising revenue growth decelerated during 3Q18-4Q19, due to the intensifying competition from short-video platforms and slowdown in user traffic growth. Advertising revenue was down 2.7% YoY in 4Q19.

3) Period 3 (1Q20-4Q20): Weibo's advertising revenue dropped by 19.3/8.1% YoY in 1Q20/2Q20, as advertisers cut their ad budget during the COVID-19 outbreak. Since the pandemic was gradually contained, Weibo's ad revenue growth recovered to +1.0/11.7% YoY in 3Q20/4Q20.

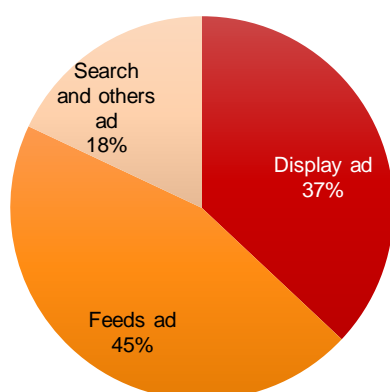
4) Period 4 (1Q21-4Q21): Weibo's advertising business experienced a strong rebound in 2021, due to the recovery of macro environment and the low-base effect. Advertising and marketing revenue was up 33.6% YoY in 2021.

5) Period 5 (1Q22-2Q22): Due to the resurgence of COVID-19 in major cities and the weak consumption sentiment, Weibo's advertising and marketing revenue was down 8.9% YoY in 1H22. The soft macro environment continued in 2H22 and affected the ad demand recovery. We expect Weibo's advertising revenue to recover from low base in 2023E.

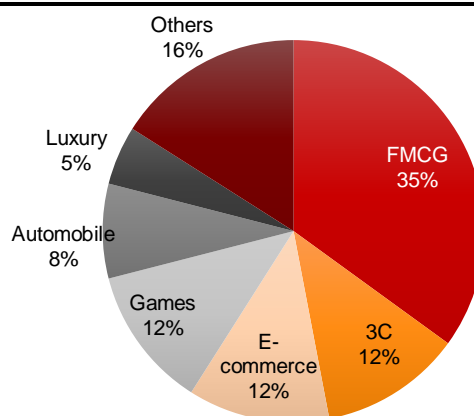
Figure 7: Weibo: quarterly advertising revenue trend

Source: Company data, CMBIGM

Weibo's advertising revenue is sensitive to consumption sentiment, given its high advertising revenue exposure to the consumer sector. Per company data and our estimate, the top 3 ad categories were FMCG/3C/E-commerce, all of which are consumption-related, and together accounted for c.60% of 2Q22 ad revenue. Weibo has been actively expanding its advertiser base to diversify its ad revenue streams and mitigate the impact of soft consumption growth. Weibo's gaming ad revenue contribution rose to c.12% in 2Q22, thanks to Weibo's effort in building its gaming-related content ecosystem.

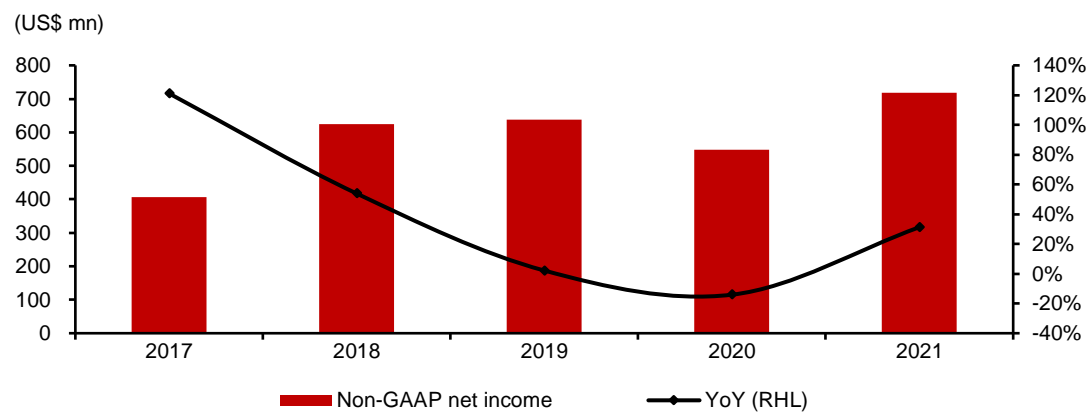
Figure 8: Weibo: ad revenue breakdown by product (2Q22)

Source: Company data, CMBIGM estimates

Figure 9: Weibo: ad revenue breakdown by industry (2Q22)

Source: Company data, CMBIGM estimates

Weibo's non-GAAP net income delivered a robust CAGR of 15.4% over 2017-2021 and reached US\$718.5mn in 2021, driven by solid earnings growth of its advertising business and healthy margin profile. Its non-GAAP NPM stayed above 30% over 2017-2021. Non-GAAP net income was down by 22.6% YoY to US\$243mn in 1H22, mainly due to the short-term disruption from COVID-19.

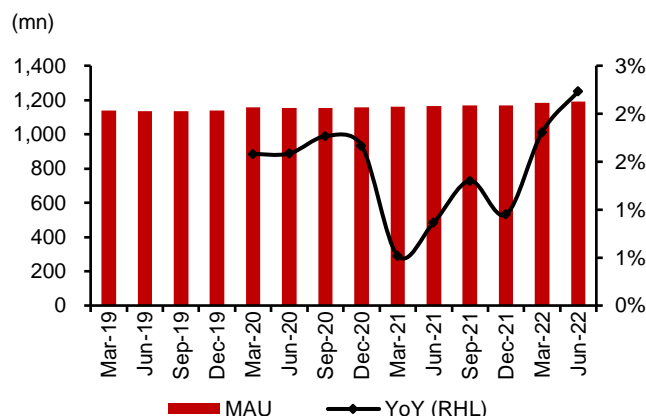
Figure 10: Weibo: non-GAAP net income trend

Source: Company data, CMBIGM

China online advertising sector: expect recovery in 2023E

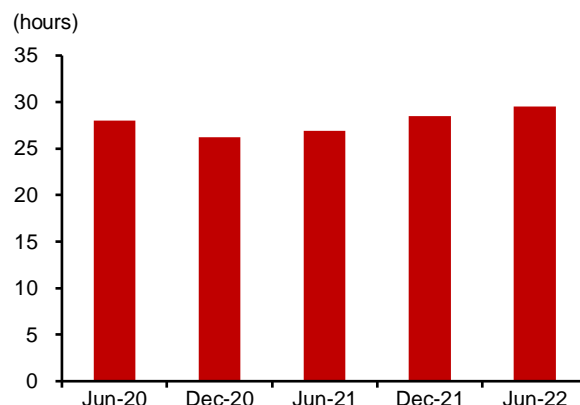
As user traffic growth becomes stagnant, China's online advertising sector has entered a mature stage of development, with competition intensifying and more focus on improvement in monetization efficiency. Per QuestMobile and CNNIC, both MAUs and time spend growth of China's internet sector have slowed down to single digit in 1H22. In June 2022, overall MAUs increased by 2.2% YoY to 11.9bn, and the average weekly time spend per user grew 9.7% YoY to 29.5 hours. We expect user traffic growth to continue to slow, and online advertising platforms will focus on improving monetization efficiency to drive growth.

Figure 11: China mobile internet: average MAU



Source: QuestMobile, CMBIGM

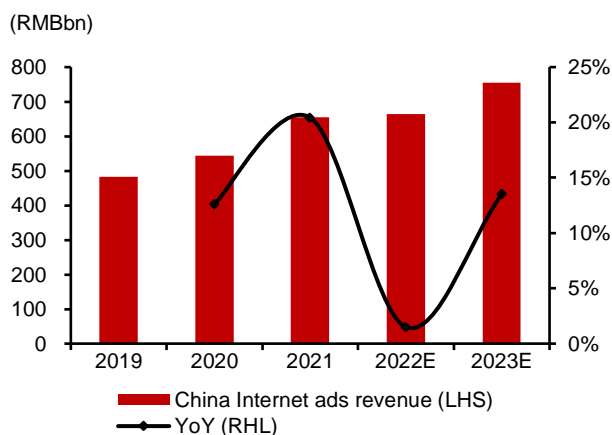
Figure 12: China internet: weekly time spend per user



Source: CNNIC, CMBIGM

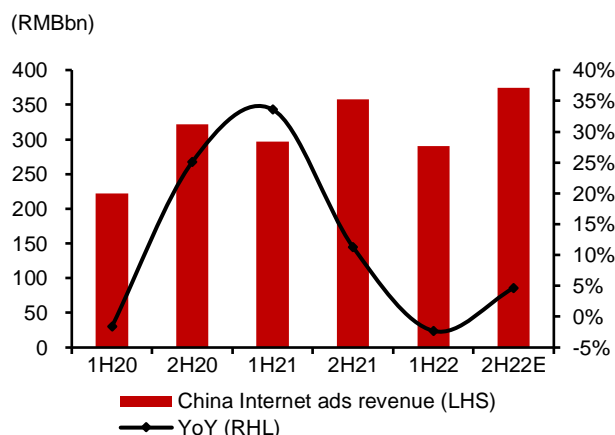
According to QuestMobile, China's online ad revenue will reach RMB682bn in 2022E, with YoY growth decelerating to 1.5% (2021: +20.4% YoY) due to the macro challenges and resurgence of the COVID-19. 1H22 online ad revenue was down 2.3% YoY to RMB290bn. However, as the COVID-19 gets contained and the consumption sentiment recovers, overall online ad market revenue is expected to grow by 4.7% YoY to RMB374bn in 2H22.

Figure 13: China: online ad market revenue



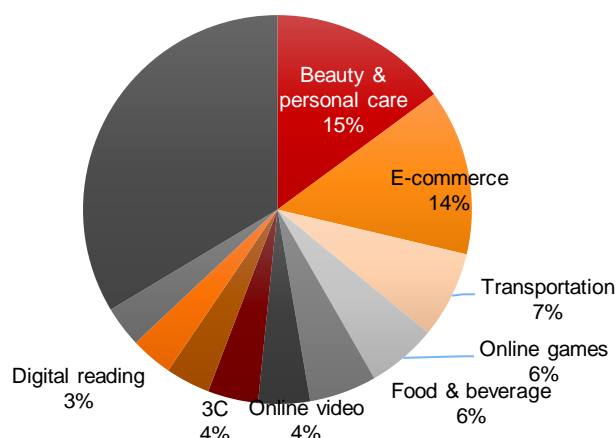
Source: QuestMobile, CMBIGM estimates

Figure 14: China: online ad market revenue (semi)



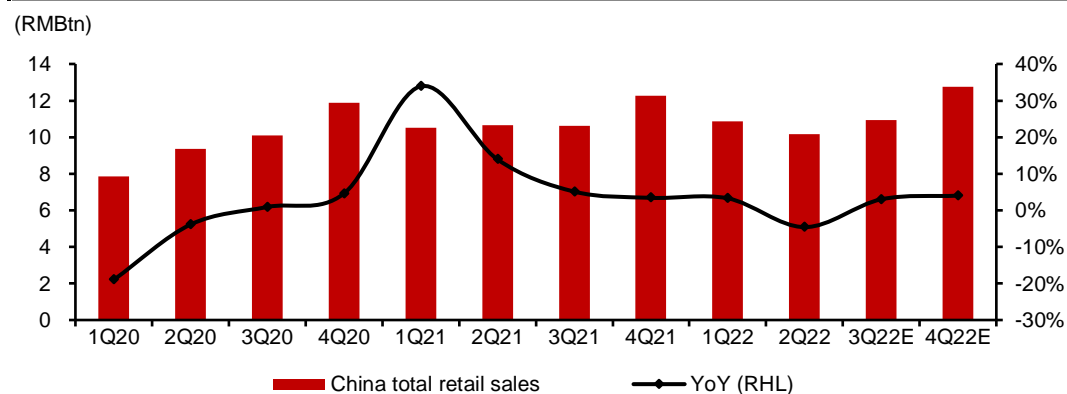
Source: QuestMobile, CMBIGM estimates

The overall revenue growth of China is highly related to the macro environment and consumption growth in China, due to its high exposure to consumer sectors including beauty & personal care, e-commerce, food & beverage, and 3C products. According to QuestMobile, beauty & personal care/e-commerce/transportation were the top three advertising categories, each accounting for 15/14/7% of total online ad market revenue in 1H22.

Figure 15: China: online ad market revenue breakdown by sector (1H22)

Source: QuestMobile, CMBIGM

Given the revenue structure of China's online advertising sector, we expect the online ad market revenue to rebound on the recovery of consumption sentiment in 2H22E. China's total retail sales declined by 0.7% YoY to RMB21.0tn in 1H22, per NBS, mainly attributable to the resurgent of COVID-19. As the COVID-19 gets contained, total retail sales is expected to grow 3.5% YoY to RMB23.7tn in 2H22E, based on Bloomberg consensus estimate.

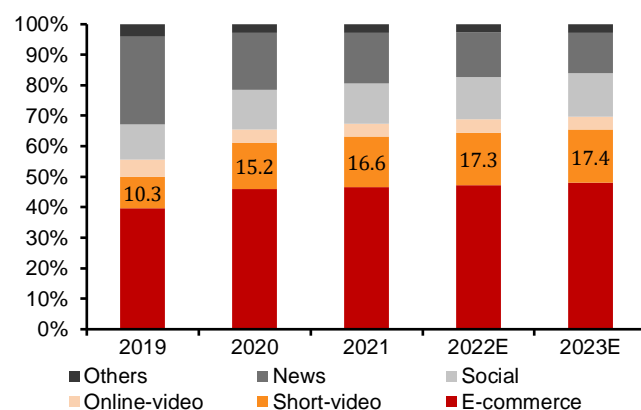
Figure 16: China: total retail sales

Source: NBS, Bloomberg, CMBIGM

“Videolization”: becoming a norm in social media sector

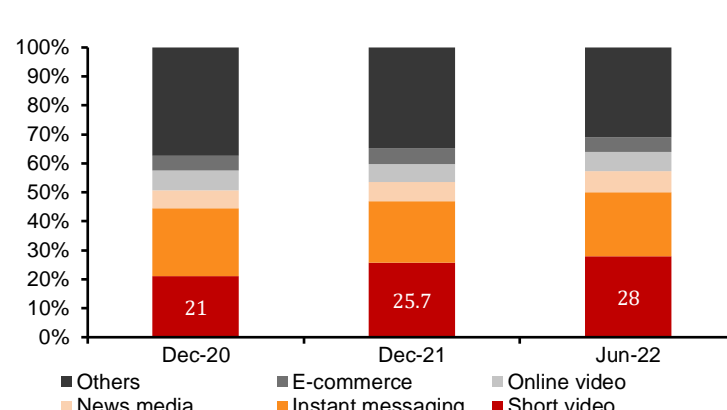
“Videolization” is the secular trend of China’s social media and online advertising sectors. According to QuestMobile, social video platforms accounted for 28.0% of total time spend on China’s mobile internet in June 2022, up from 21.0% in December 2020. Rising time spend has been driving online advertising revenue growth of short-video platforms over 2019-2021. Short-video platform revenue contribution to China’s online ad market increased from 10.3% in 2019 to 16.6% in 2021, based on QuestMobile data. We expect its revenue contribution will further rise to 17.4% in 2023E, driven by its expanding share of total time spend and enhancing advertising monetization efficiency.

Figure 17: China: online ad market revenue breakdown by platforms



Source: QuestMobile, CMBIGM

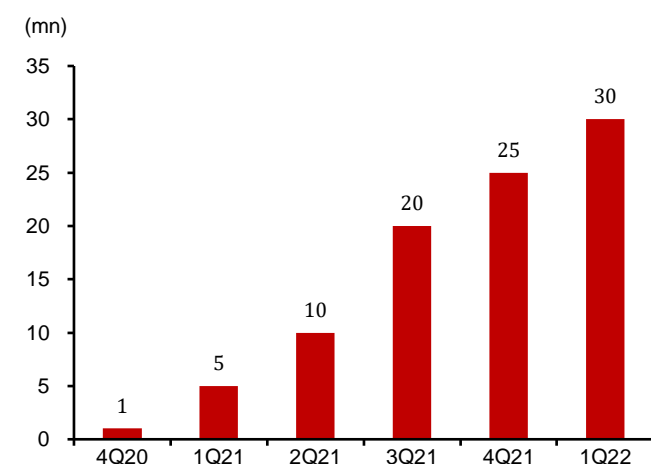
Figure 18: China mobile internet: time spend breakdown by platforms



Source: QuestMobile, CMBIGM

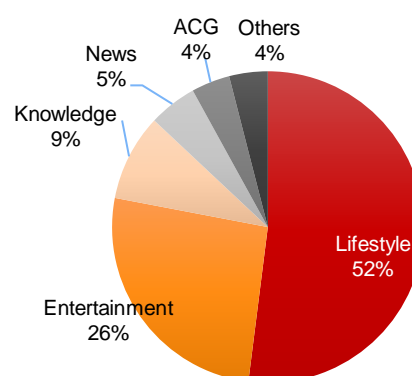
To capture the long-term trend of “videolization”, Weibo has launched the Video Account Program in 2H20 to support the development of its video content ecosystem. After the program launch, total number of video accounts on Weibo platforms grew from 1mn in December 2020 to 25mn in December 2021. The number of video accounts with over 100mn followers reached 36k in December 2021. 52/26/9% of the top video accounts offer lifestyle/entertainment/knowledge-related content.

Figure 19: Weibo: number of video accounts



Source: Company data, CMBIGM

Figure 20: Weibo’s new video accounts with over 1mn followers: content category distribution



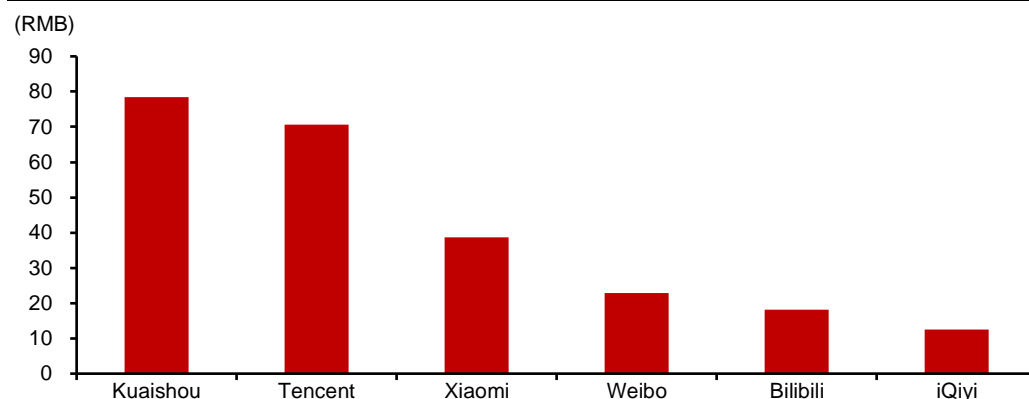
Source: Company data, CMBIGM

Enhancing commercial infrastructure to drive monetization

We see Weibo’s ad monetization efficiency still has ample improvement potential compared to other leading online advertising platforms. Weibo’s advertising revenue per MAU was only RMB22.9 in 2021, much lower than Kuaishou/Tencent (RMB78.4/70.6).

Weibo will need to further enhance ROI of its advertising solutions and improve commercialisation infrastructure on its platforms, in our view, to drive growth in its ad revenue per MAU.

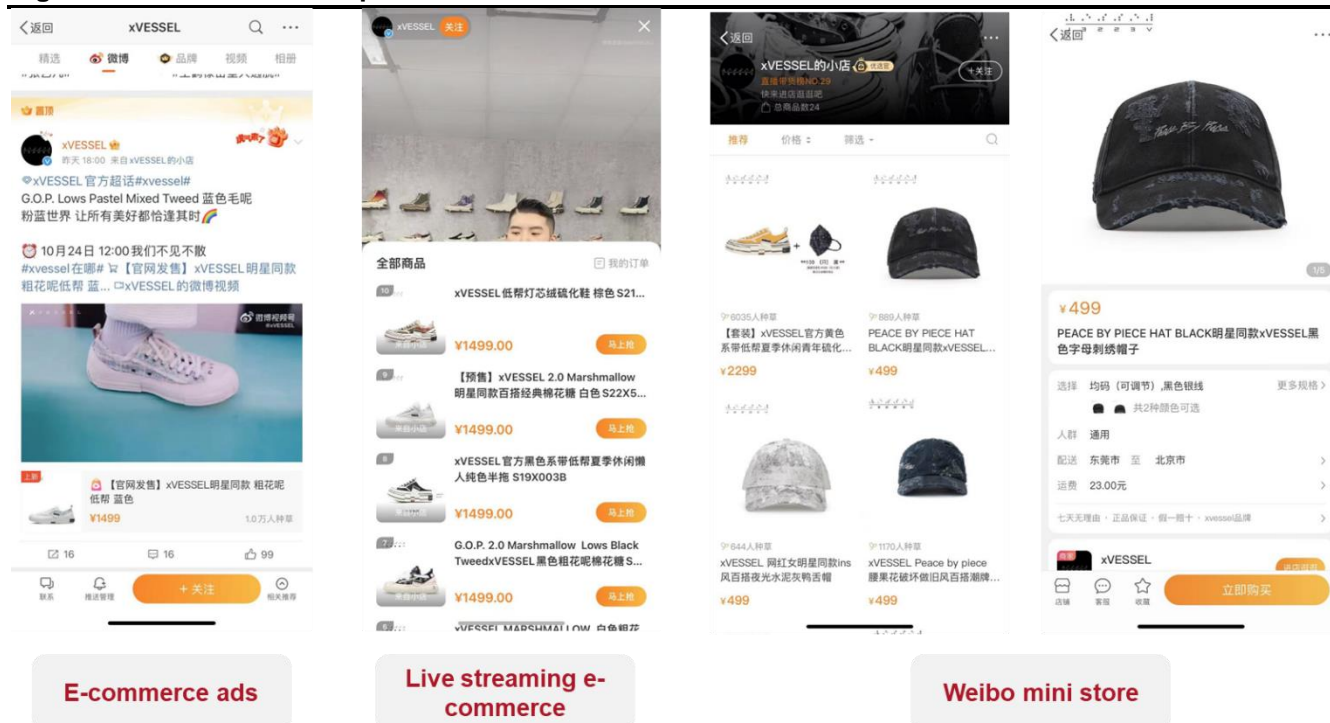
Figure 21: China social media: online ad revenue per MAU (2021)



Source: Company data, CMBIGM

In 2H22, Weibo began to accelerate development of its close-loop social e-commerce ecosystem. Weibo announced in October 2022 that its e-commerce platform, Weibo Mini Store, will not support sales and display of products on third-party platforms. All KOLs who would like to promote third-party merchandise on Weibo will need to purchase Weibo's advertising product. Weibo Mini Store, however, will still support sales and display of products in Weibo's close-loop e-commerce ecosystem. Weibo's change in e-commerce policy will help itself capture more e-commerce and advertising monetization opportunities, in our view.

Figure 22: Weibo: close-loop e-commerce



Source: Company data, CMBIGM

Weibo's close-loop e-commerce stores normally charge merchants 2-5% of GMV (excl. fulfilment expenses) as the platform service fees. In July 2022, Weibo e-commerce launched the Taojin Initiative (淘金计划) to attract e-commerce merchants with robust

supply chain and e-commerce operation capability. Supporting initiatives for qualified merchants (>50,000 followers on Weibo; monthly GMV on Weibo > RMB10,000 or monthly GMV on other platform > RMB100,000) include 1-month exemption of platform service fees and user traffic support.

Figure 23: Weibo close-loop e-commerce: platform service fee

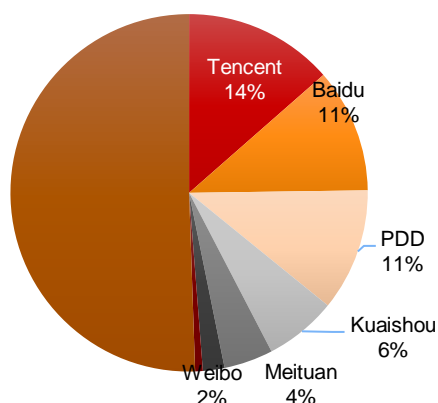
Product category	Platform service fee rate
Healthcare services	5%
Jewelry	5%
Antique	5%
Grocery	5%
Food & Beverage	2%
Cosmetic	2%
Personal care	5%
3C	2%
Apparel	3%
Books & education	2%

Source: Company data, CMBIGM

Competitive landscape: Weibo to maintain unique proposition

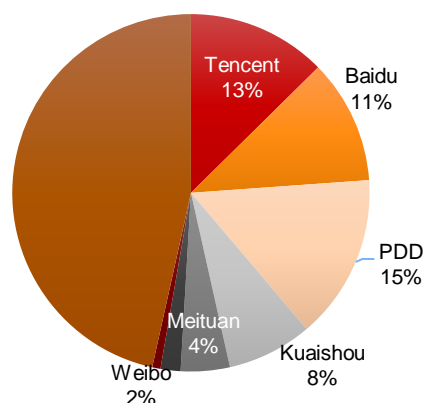
Weibo's online ad market share declined slightly from 2.1% in 2020 to 1.8% 1H22, as its user growth slows down and short-video platforms like Douyin/Kuaishou were taking market share. Nonetheless, with massive user base and abundant KOLs resources, Weibo still has unique value proposition to advertisers which target for both brand awareness improvement and sales conversion. Leveraging its brand-plus-performance advertising solutions, we expect Weibo to maintain its unique market proposition and steady market share.

Figure 24: China: online ad market revenue breakdown by platforms (2021)



Source: QuestMobile, CMBIGM estimates

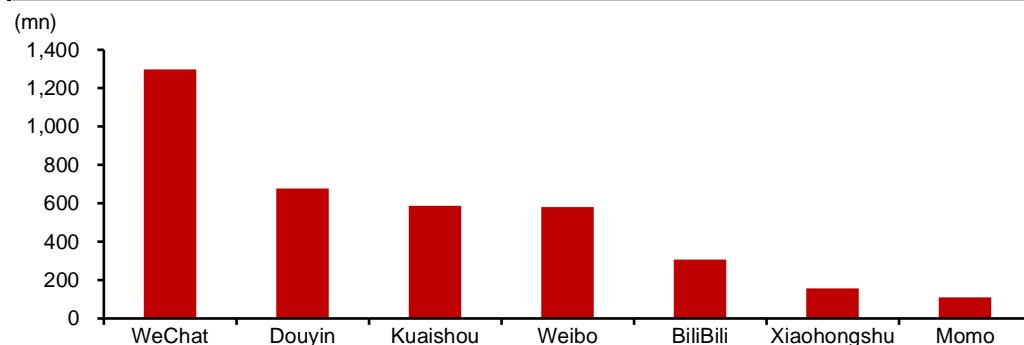
Figure 25: China: online ad market revenue breakdown by platforms (1H22)



Source: QuestMobile, CMBIGM

Weibo has one of the leading online social communities in China, with MAUs of 582mn in June 2022, leading other social media platforms such as Bilibili, Xiaohongshu and Momo. Weibo's user base also shows higher user stickiness. Weibo's DAU/MAU ratio was 43% in June 2022, versus 30/37/32% for Bilibili/Xiaohongshu/Momo. We expect Weibo to maintain healthy development of its user community and fend off competition, as it continues to invest in enhancing user engagement and diversifying its content ecosystem.

Figure 26: China social media: average MAUs (2Q22)

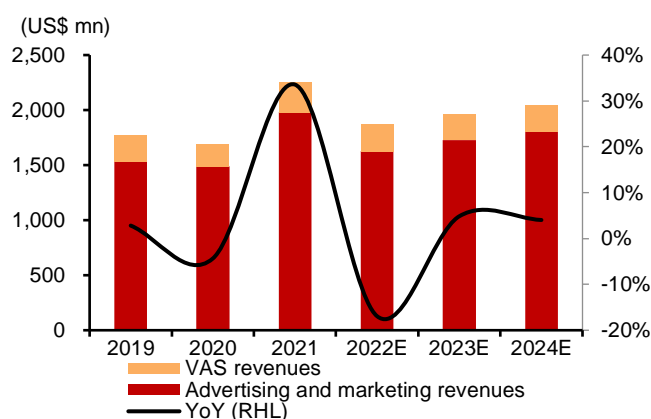


Source: Company data, QuestMobile, CMBIGM

Financial forecast

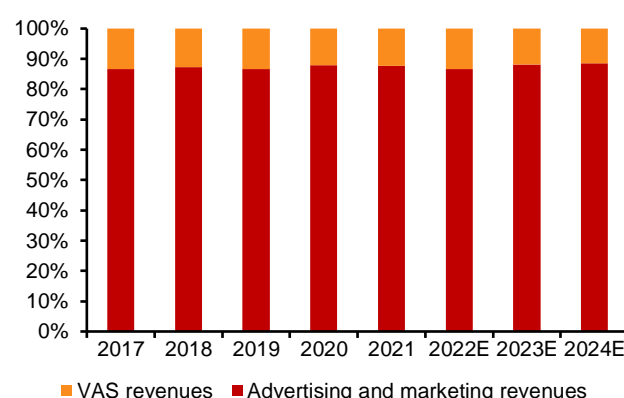
We forecast Weibo's total revenue to decline by 16.9% YoY to US\$1.87bn (2021: +33.6% YoY), primarily due to the resurgence of COVID-19, the high base in 2021 as well as the foreign exchange headwind. Looking ahead, we expect total revenue to rebound by 4.8/4.0% YoY to US\$1.97/2.04bn in 2023/2024E driven by the recovery of macro environment and consumption sentiment. Based on our estimate, advertising and marketing/VAS business will account for 88.5/11.5% of total revenue in 2024E, versus 86.7/13.3% of total revenue in 2021.

Figure 27: Weibo: total revenue trend



Source: Company data, CMBIGM estimates

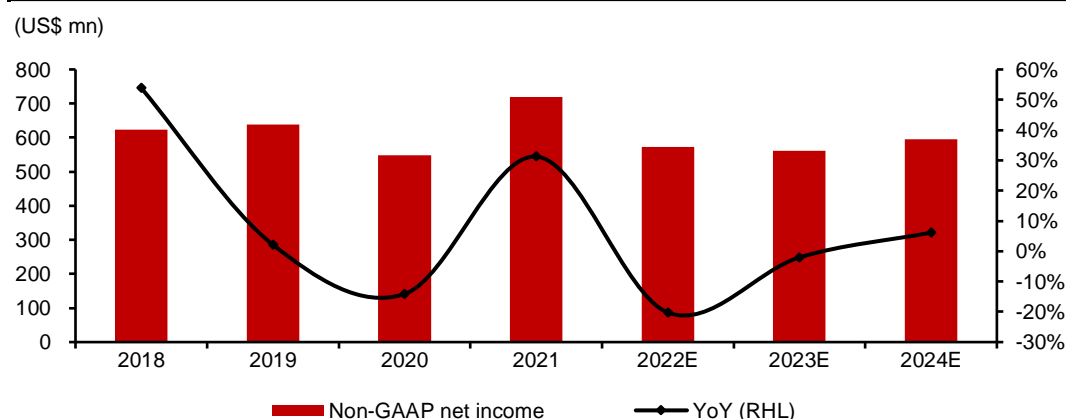
Figure 28: Weibo: revenue mix



Source: Company data, CMBIGM estimates

We forecast non-GAAP net income to drop by 20.2% YoY to US\$573mn in 2022E, mainly attributable to the decline in revenue, charge of cultural business construction fees that was exempted in 2021, and increase in content investment. Due to the top-line pressure, Weibo will also exercise more prudent control in operating expenses and maintain a healthy margin profile. We estimate non-GAAP net income to grow by 1.2/5.8% to US\$580/614mn, which implies non-GAAP net margin of 29.5/30.0% in 2023/2024E.

Figure 29: Weibo: non-GAAP net income trend



Source: Company data, CMBIGM

Figure 30: Weibo: financial summary

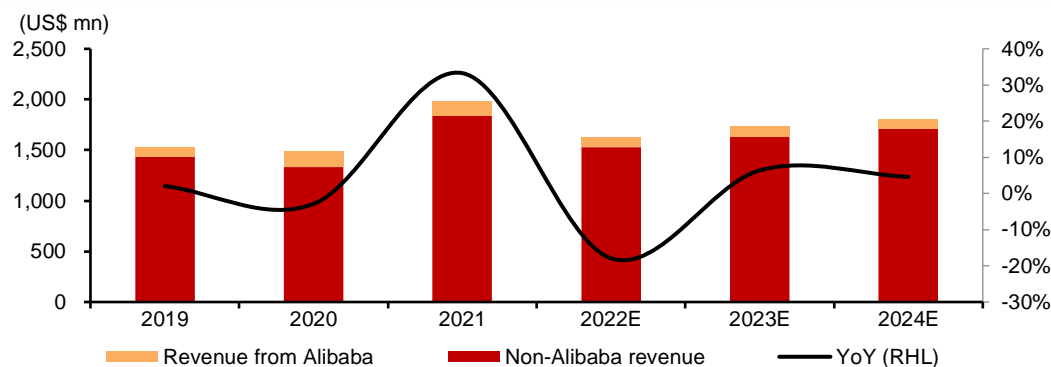
(US\$ mn)	2019	2020	2021	2022E	2023E	2024E
Advertising and marketing segment						
Advertising and marketing revenue	1,530	1,486	1,981	1,626	1,730	1,809
YoY	2.1%	-2.9%	33.3%	-17.9%	6.4%	4.6%
Non-Alibaba revenue	1,432	1,334	1,841	1,528	1,631	1,709
YoY	3.7%	-6.9%	38.0%	-17.0%	6.7%	4.8%
Revenue from Alibaba	98	152	140	98	99	100
YoY	-16.9%	55.5%	-8.2%	-30.0%	1.5%	1.0%
VAS segment						
VAS revenue	237	204	276	249	236	236
YoY	7.9%	-13.9%	35.6%	-10.0%	-5.2%	0.0%
Overall						
Total revenue	1,767	1,690	2,257	1,875	1,965	2,045
YoY	2.8%	-4.4%	33.6%	-16.9%	4.8%	4.0%
Gross profit margin	81.4%	82.1%	82.1%	79.0%	79.5%	79.5%
S&M expense ratio	26.3%	27.0%	26.2%	23.8%	25.0%	24.5%
R&D expense ratio	16.1%	19.2%	19.1%	23.0%	23.0%	23.0%
G&A expense ratio	5.1%	6.0%	5.9%	6.5%	6.5%	6.4%
Operating margin	33.8%	30.0%	30.9%	25.7%	25.0%	25.6%
Operating income	507	697	482	491	524	550
Non-GAAP net margin	36.1%	32.4%	31.8%	30.6%	29.5%	30.0%
Non-GAAP net income	637	547	719	573	580	614

Source: Company data, CMBIGM estimates

Advertising and marketing (86.7% of 2022E total revenue)

Advertising and marketing business faced short-term disruption due to the resurgence of COVID-19 and soft macro environment. FMCG ad budget, which accounted for 30-35% of Weibo's advertising revenue, shrunk in 2022E amid the weak consumption sentiment. Under the challenging environment, Weibo has been actively expanding its advertiser base to diversify revenue sources. With the step-up effort in development of its content ecosystem, Weibo still saw solid YoY ad revenue growth in the gaming and automobile categories in 1H22. We expect these initiatives to prepare Weibo for its long-term revenue growth opportunities, as the overall macro environment recovers.

We forecast advertising and marketing revenue to decline by 17.9% YoY to US\$1.63bn in 2022E, before rebounding by 6.4/4.6% YoY to US\$1.73/1.81bn in 2023/2024E. Non-Alibaba ad revenue will account for 94.0/94.3/94.5% of total ad revenue in 2022/2023/2024E, based on our estimate, while ad revenue contribution from Alibaba will drop as Alibaba controls and reallocates its ad budget.

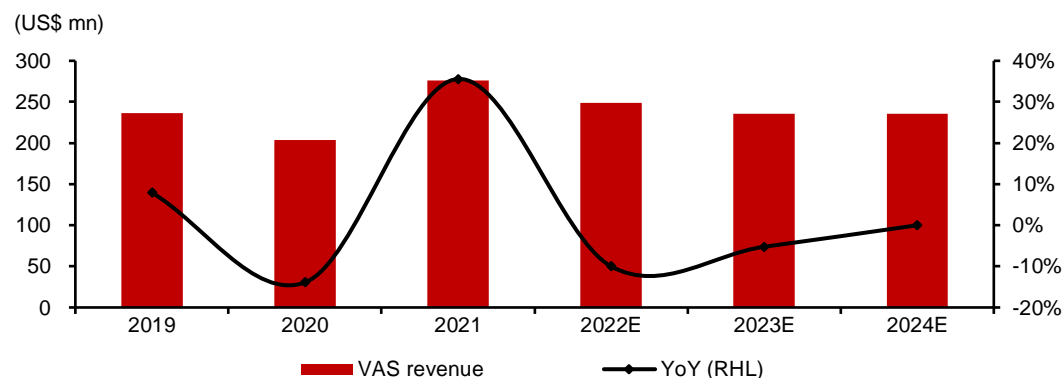
Figure 31: Weibo: advertising and marketing revenue

Source: Company data, CMBIGM estimates

VAS (13.3% of 2022E total revenue)

Weibo's VAS revenue grew 35.6% YoY to US\$276mn in 2021, mainly thanks to the acquisition of a gaming company in 4Q20, which boosted the game-related revenue. Due to the intensifying competition and tightening regulation, Weibo made proactive adjustment in 2022, which may impact its VAS revenue growth. Nonetheless, Weibo is also actively exploring opportunities in the social e-commerce space, which may partially offset the decline in VAS revenue.

Overall, we forecast VAS revenue to drop by 10.0/5.2/0.0% YoY to US\$249/236/236mn in 2022/2023/2024E and account for 13.3/12.0/11.5% of total revenue.

Figure 32: Weibo: VAS revenue

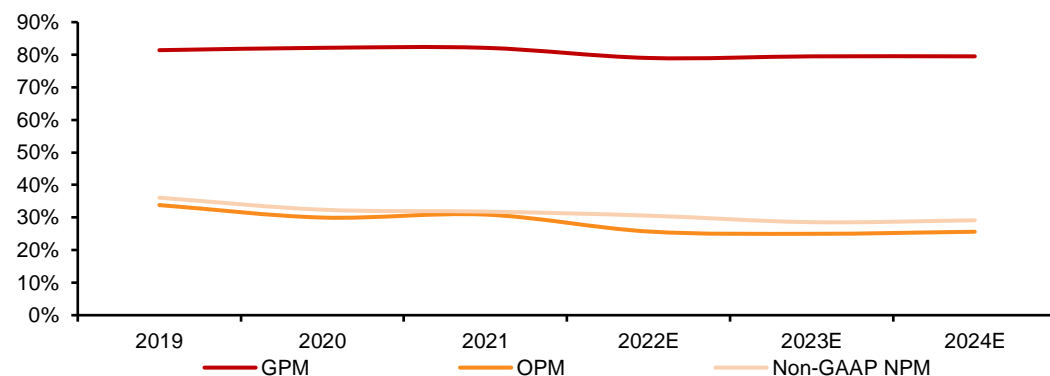
Source: Company data, CMBIGM estimates

Operating efficiency and margin analysis

We forecast Weibo's GPM to decline from 82.1% in 2021 to 79.0% in 2022E, mainly due to 1) charge of cultural business construction fees (1.5% of ad revenue) that was exempted in 2021; 2) content investment in sport events like the Winter Olympics and NBA; 3) investment in innovative businesses. After that, we expect the GPM will slightly rebound to 79.5/79.5% in 2023/2024E.

As the revenue growth faced short-term disruption, Weibo will exercise more prudent control in S&M expenses while maintaining investment in R&D for the long-term growth opportunities. We forecast S&M expenses ratio to decline from 26.2% in 2021 to 23.8% in 2022E, and then normalize to 25.0/24.5% in 2023/2024E. Overall, we forecast non-GAAP NPM to drop from 31.8% in 2021 to 30.6% in 2022E, mainly due to GPM contraction, but partially offset by control in S&M expenses.

Figure 33: Weibo: margin trend



Source: Company data, CMBIGM estimates

Valuation

Our target price for Weibo is US\$21.8, based on 9.0x 2022E non-GAAP EPS. Our target PE multiple is at a discount to the sector average PE of 14.7x to reflect Weibo's steady and moderate earnings growth outlook over 2022-2024E (CAGR: 3.5%).

Nonetheless, Weibo currently only trades at 4.4x 2022E non-GAAP PE, which is a 70% discount to the sector average PE of 14.7x and a 71% discount to its 2-year historical average PE of 15.0x. As the overall market sentiment and macro environment improve in 2023, Weibo's valuation will benefit from sector re-rating, and its cost efficiency optimization could help to boost faster than expected earnings growth recovery.

Figure 34: Weibo: peer valuation comparison

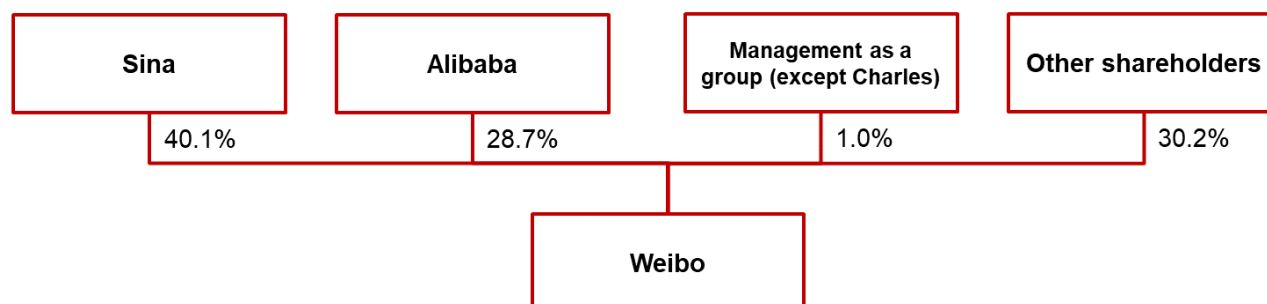
Companies	Ticker	Price (Local)	Adj. EPS growth (YoY%)			PE (x)			EPS CAGR (%) 2021-2024E
			2022E	2023E	2024E	2022E	2023E	2024E	
Focus Media	002027 CH	5.1	(34.8)	55.5	17.4	18.4	11.9	10.1	6.0
Baidu	BIDU US	79.8	(7.7)	13.0	22.0	10.4	9.2	7.6	8.4
Meta	META US	129.7	(18.1)	12.9	11.9	11.5	10.2	9.1	1.2
Google	GOOGL US	102.5	(5.1)	15.1	15.6	18.4	16.0	13.8	8.1
Average						14.7	11.8	10.1	

Source: Bloomberg, CMBIGM

Note: data are as of 24 Oct 2022

Appendix

Figure 35: Weibo: shareholding structure (Jan 2022)



Source: Company data, CMBIGM

Figure 36: Management and director profile

Name	Position	Prior experience
Charles Chao	Chairman of the board	Served as the Chairman of the board of directors since Weibo's inception. He has served as the Chairman of the board of directors of Weibo's parent, SINA, since August 2012, and has been SINA's Chief Executive Officer since May 2006. He served as SINA's President from September 2005 to February 2013, Chief Financial Officer from February 2001 to May 2006, Co-Chief Operating Officer from July 2004 to September 2005. He also served as SINA's Executive Vice President from April 2002 to June 2003 and Vice President, Finance from September 1999 to January 2001. Prior to joining SINA, Mr. Chao served as an audit manager at PricewaterhouseCoopers, LLP.
Gaofei Wang	Chief Executive Officer	Served as Weibo's director since August 2020 and Weibo's Chief Executive Officer since February 2014. Since Weibo's inception, Mr. Wang has had various product and business development roles at Weibo and was promoted to General Manager in December 2012. Mr. Wang joined SINA in August 2000 and worked in the product development department until early 2004 when he transferred to the SINA Mobile division. He served as General Manager of SINA Mobile from November 2006 to November 2012.
Wei Wang	Chief Operating Officer	Has served as Weibo's Chief Operating Officer since March 2021. Mr. Wang has been in charge of SINA Mobile's business since January 2019. From January 2016 to December 2018, he served as Chief Information Officer of SINA. Mr. Wang joined SINA in March 2000 and served as the General Manager of Information Systems Department until December 2015.
Fei Cao	Chief Financial Officer	Has served as Weibo's Chief Financial Officer since March 2021. Ms. Cao served as Weibo's Vice President, Finance from August 2017 to March 2021. Prior to that, Ms. Cao was a Vice President of SINA from January 2017 to July 2017, overseeing SINA's finance department. Ms. Cao joined SINA in 2005 and served as the company's Corporate Controller for more than ten years. Prior to joining SINA, she was an audit manager at the PricewaterhouseCoopers in Beijing.

Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Revenue	1,767	1,690	2,257	1,875	1,965	2,045
Cost of goods sold	(329)	(302)	(404)	(394)	(403)	(419)
Gross profit	1,438	1,388	1,853	1,481	1,562	1,626
Operating expenses	(841)	(881)	(1,156)	(999)	(1,071)	(1,101)
Selling expense	(465)	(456)	(592)	(446)	(491)	(501)
Admin expense	(91)	(101)	(133)	(122)	(128)	(130)
R&D expense	(284)	(324)	(431)	(431)	(452)	(470)
Operating profit	598	507	697	482	491	524
Other gains/(losses)	(42)	(175)	(176)	(204)	0	0
Interest income	47	44	30	20	32	42
Pre-tax profit	602	376	551	298	524	566
Income tax	(110)	(61)	(139)	(72)	(105)	(113)
After tax profit	493	315	412	226	419	453
Minority interest	(2)	1	(16)	(9)	(17)	(18)
Net profit	495	313	428	235	436	471
Adjusted net profit	637	547	719	573	561	596

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Current assets	3,636	4,835	4,803	3,880	4,243	4,664
Cash & equivalents	1,453	1,815	2,424	1,636	1,872	2,164
Account receivables	422	492	723	601	630	655
Prepayment	425	297	451	357	366	374
Other current assets	1,336	2,231	1,205	1,286	1,375	1,471
Non-current assets	1,168	1,501	2,717	2,747	2,773	2,794
PP&E	47	61	68	75	83	88
Investment in JVs & assos	1,027	1,179	1,208	1,231	1,250	1,265
Goodwill	47	209	297	297	297	297
Other non-current assets	47	52	1,143	1,143	1,143	1,143
Total assets	4,804	6,335	7,520	6,626	7,016	7,458
Current liabilities	801	958	2,159	1,892	1,890	1,904
Account payables	126	150	198	134	140	146
Tax payable	100	103	145	145	145	145
Other current liabilities	109	144	988	972	976	979
Accrued expenses	466	562	829	641	629	634
Non-current liabilities	1,722	2,490	1,672	802	741	679
Long-term borrowings	1,722	2,490	1,672	802	741	679
Total liabilities	2,522	3,449	3,832	2,694	2,631	2,583
Share capital	1,110	1,326	1,679	1,679	1,679	1,679
Retained earnings	1,174	1,487	1,915	2,151	2,586	3,058
Total shareholders equity	2,283	2,812	3,594	3,829	4,265	4,736
Minority interest	(1)	74	94	103	120	138
Total equity and liabilities	4,804	6,335	7,520	6,626	7,016	7,458

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	602	376	551	298	524	566
Depreciation & amortization	30	41	55	47	48	51
Tax paid	(110)	(61)	(139)	(72)	(105)	(113)
Change in working capital	(371)	49	42	(60)	(51)	(29)
Others	479	(1)	305	9	17	18
Net cash from operations	632	403	814	222	432	493
Investing						
Capital expenditure	(35)	(50)	(35)	(54)	(55)	(56)
Net proceeds from disposal of short-term investments	(837)	(731)	871	(71)	(78)	(86)
Others	(361)	62	(1,259)	(23)	(19)	(15)
Net cash from investing	(1,234)	(719)	(424)	(148)	(152)	(158)
Financing						
Net borrowings	825	602	1	(871)	(61)	(62)
Proceeds from share issues	0	0	188	0	0	0
Others	(4)	75	0	9	17	18
Net cash from financing	821	678	189	(862)	(44)	(43)
Net change in cash						
Cash at the beginning of the year	1,235	1,453	1,815	2,424	1,636	1,872
Exchange difference	0	0	29	0	0	0
Cash at the end of the year	1,453	1,815	2,424	1,636	1,872	2,164
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	2.8%	(4.4%)	33.6%	(16.9%)	4.8%	4.0%
Gross profit	(0.2%)	(3.5%)	33.5%	(20.1%)	5.5%	4.0%
Operating profit	(1.9%)	(15.2%)	37.6%	(30.9%)	2.0%	6.7%
Net profit	(13.5%)	(36.7%)	36.7%	(45.0%)	85.0%	8.1%
Adj. net profit	2.1%	(14.1%)	31.2%	(20.2%)	(2.0%)	6.1%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	81.4%	82.1%	82.1%	79.0%	79.5%	79.5%
Operating margin	33.8%	30.0%	30.9%	25.7%	25.0%	25.6%
Adj. net profit margin	36.1%	32.4%	31.8%	30.6%	28.6%	29.1%
Return on equity (ROE)	24.6%	12.3%	13.4%	6.3%	10.8%	10.5%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	4.5	5.0	2.2	2.1	2.2	2.4
Receivable turnover days	87.2	106.3	116.9	116.9	116.9	116.9
Payable turnover days	(140.1)	(180.6)	(178.6)	(124.1)	(127.2)	(127.2)
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	23.6	27.9	26.0	10.4	5.6	5.2
P/E (diluted)	23.7	28.0	26.3	10.8	5.8	5.4
P/B	5.1	3.1	3.1	0.6	0.6	0.5

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

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