

Mobvista Inc. (1860 HK)

Looking into FY23E reacceleration

Mobvista delivered largely in-line FY22 results, despite global macro challenges and inflation. 1Q23E would be a solid start with effective expansion in midcore & hardcore game vertical. We keep positive on its FY23E reacceleration (forecasting rev +25% YoY in FY23E), boosted by: 1) vertical expansion; 2) upcoming launch of ROAS mode; and 3) cooperation with Google. Coupled with narrowing loss of Reyun, lighter incentives and stabilized R&D, we expect FY23E margin enhancement to continue (forecasting adj. NP +138% YoY in FY23E). We keep our financials forecast unchanged. Maintain BUY with SOTP-based TP at HK\$6.3 (1.2x/1.0x FY23/24E P/S, or 58x/40x FY23/24E P/E, with 31% earnings CAGR in FY23-25E).

- **FY22 results largely in-line.** Despite challenging global macro, Mobvista delivered in-line FY22 results. Rev grew 18% YoY (in-line with our forecast), with adj. net loss of US\$9.7mn (vs. our estimate of US\$10.9mn). Mintegral +44% YoY attributable to strong momentum in game vertical (+42% YoY), partially offset by soft e-commerce (-1.4% YoY). Nativex declined 68% YoY in FY22 as Mobvista further shifted towards programmatic ads. Thanks to disciplined traffic subsidies, along with rapid growth of the Mintegral, blended GPM +3.7ppts to 19.8% (0.2ppt above our estimate).
- **Reacceleration in sight with solid 1Q23E.** We are positive on its 1Q23E momentum (forecasting rev +13% YoY), supported by effective expansion in midcore & hardcore game vertical. Looking into 2023E, we see high visibility for Mobvista to reaccelerate with 25% rev growth, boosted by: 1) continuous vertical expansion, with rising hardcore games budget; 2) upcoming launch of ROAS mode; 3) better targeting with algorithm optimization; and 4) further upside from cooperation with Google.
- **Margin enhancement ahead.** Mgmt. emphasized on margin expansion target, and we forecast its bottom line +138% YoY in FY23E, with GP +25% YoY. Mobvista would improve its margin with: 1) higher ads efficiency with lighter incentives; 2) R&D investment to stabilize; and 3) narrowing loss of Reyun. Meanwhile, its SaaS ecosystem (with GA, Reyun, and SpotMax), will bring more synergies with Mintegral ads in the long run.
- **Maintain BUY.** We maintain our forecast unchanged, with SOTP-based TP at HK\$6.3 (by assigning 30x FY23E P/E to ad-tech biz and 3.3x FY23E P/S to mar-tech biz). Key catalysts: 1) solid 1Q23E; 2) cooperation with Google; and 3) upcoming launch of ROAS mode.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	755	894	1,114	1,337	1,564
YoY change (%)	46	18	25	20	17
Adj. net income (US\$ mn)	(4)	10	23	33	40
Adj. EPS (US\$)	(0.00)	0.01	0.01	0.02	0.02
YoY growth (%)	NA	NA	138	44	20
Consensus EPS (US\$)	NA	NA	0.01	0.02	NA
P/E (x)	(212)	87	37	26	22
P/S (x)	1.1	0.9	0.8	0.6	0.6
ROE (%)	(1)	4	9	12	13
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$6.3**
 (Previous TP **HK\$6.3**)
 Up/Downside **+48.2%**
 Current Price **HK\$4.25**

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	6,674
Avg 3 mths t/o (HK\$ mn)	4.06
52w High/Low (HK\$)	5.84/ 3.80
Total Issued Shares (mn)	1,628

Source: Bloomberg

Shareholding Structure

Seamless Technology	63.2%
GIC	8.0%
Citigroup	4.7%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	0.5%	-1.5%
3-mth	1.0%	-1.3%
6-mth	1.5%	-13.7%

Source: Bloomberg

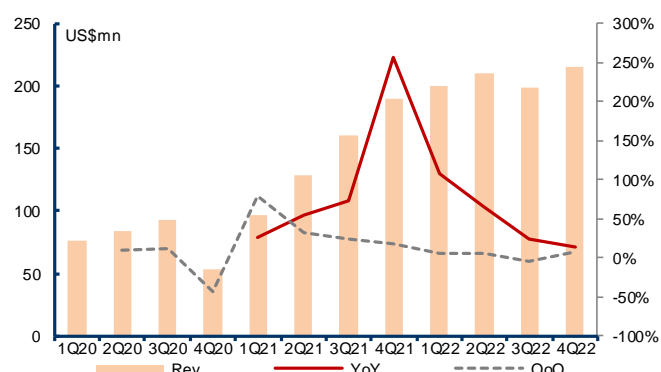
12-mth Price Performance



Source: Bloomberg

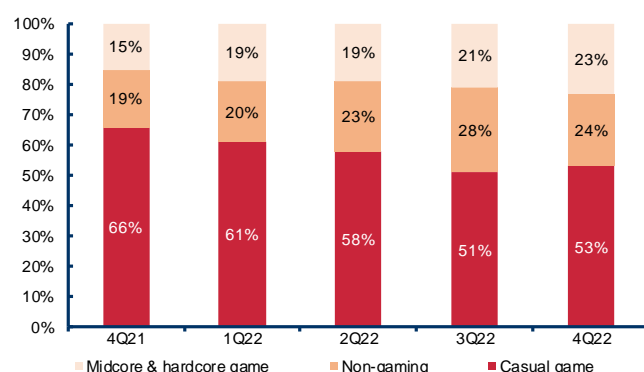
Auditor: KPMG

Figure 1: Mintegral ad rev trend



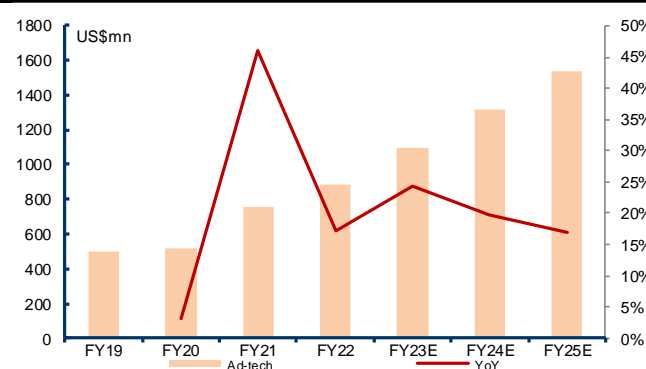
Source: Company data

Figure 2: Higher rev mix of non-casual games



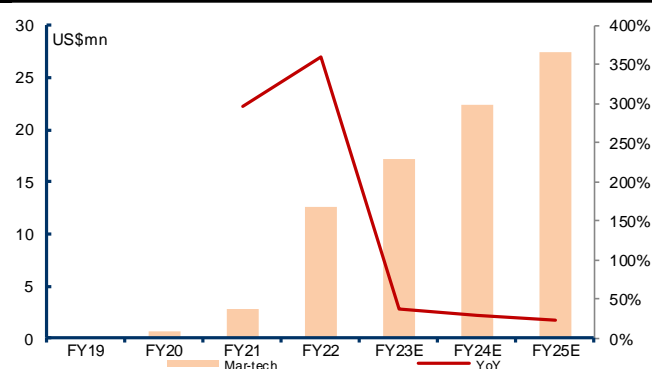
Source: Company data

Figure 3: Ad-tech revenue growth estimates



Source: Company data, CMBIGM estimates

Figure 4: Mar-tech revenue growth estimates



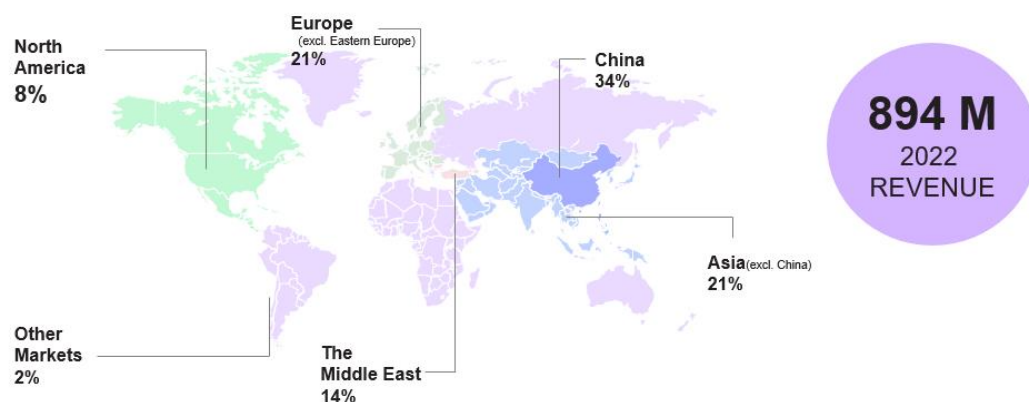
Source: Company data, CMBIGM estimates

Figure 5: Mobvista's FY22 review

US\$ mn, Dec-YE	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	435	500	516	755	894	1,114	1,337	1,564
Cost of Sales	(337)	(381)	(434)	(633)	(717)	(892)	(1,069)	(1,250)
Gross profit	98	119	82	122	177	222	268	315
Selling and marketing expenses	(8)	(10)	(17)	(47)	(66)	(57)	(66)	(77)
Research and development expenses	(29)	(35)	(32)	(69)	(107)	(105)	(126)	(147)
General and administrative expenses	(36)	(51)	(44)	(28)	(49)	(52)	(56)	(66)
Other net income	2	3	6	9	47	9	9	11
Operating profit	27	25	(5)	(12)	2	17	30	36
Finance costs	(1)	(2)	(2)	(4)	(5)	(4)	(3)	(3)
Profit before taxation	26	23	(7)	(31)	11	13	27	33
Income tax	(4)	(1)	2	6	(1)	(2)	(5)	(6)
Profit for the year	22	22	(5)	(25)	10	11	22	27
Profit attributable to owners of the Company	22	22	(5)	(25)	15	11	22	27
Non-controlling interests	0	0	0	(0)	5	0	0	0
Adjusted net profit	35	41	9	(4)	10	23	33	40
Margin Analysis								
Gross margin	23%	24%	16%	16.1%	19.8%	19.9%	20.1%	20.1%
Operating margin	6%	5%	-1%	-2%	0%	1%	2%	2%
Adj. net margin	8%	8%	2%	-1%	1%	2%	2%	3%
Growth Analysis								
Revenue	39%	15%	3%	46%	18%	25%	20%	17%
Gross profit	18%	21%	-31%	48%	45%	25%	21%	17%
Operating profit	-12%	-7%	-121%	137%	NA	NA	NA	NA
Adj. net profit	NA	16%	-78%	-144%	NA	138%	44%	20%

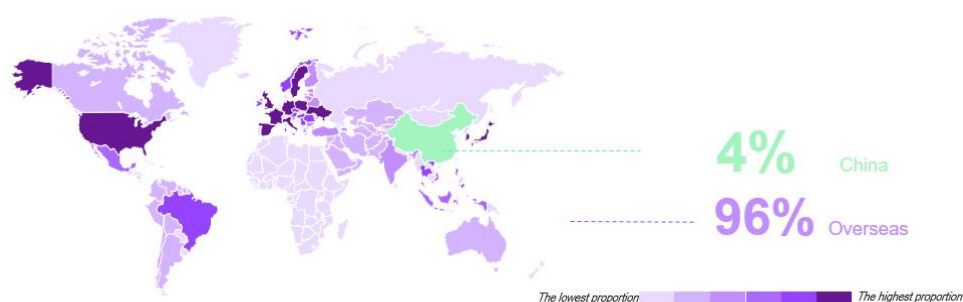
Source: Company data, CMBIGM estimates

Figure 6: Revenue allocation by region in 2022



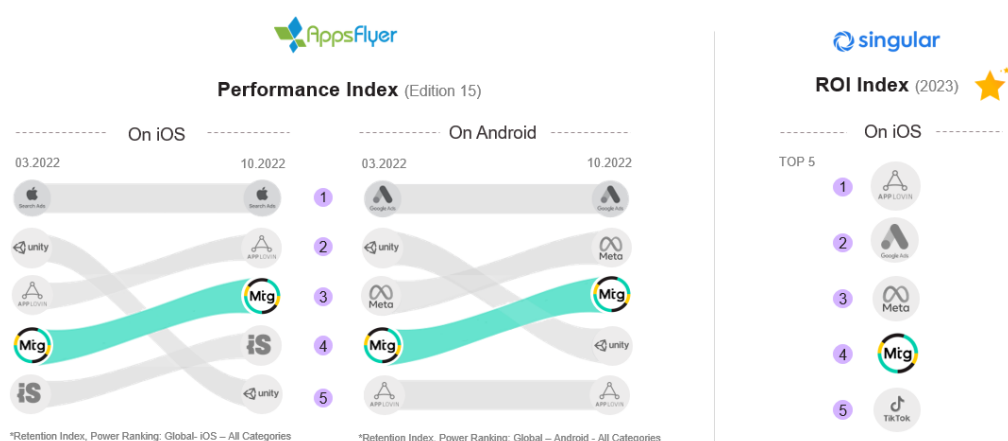
Source: Company data

Figure 7: Traffic distribution by region in 2022



Source: Company data

Figure 8: Mintegral: Marching up the International Top Lists



Source: Retention Index, Power Ranking: Global- iOS – All Categories

Figure 9: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,114	1,337	1,564	1,188	1,337	NA	-6.2%	0.0%	NA
Gross Profit	222	268	315	236	269	NA	-6.0%	-0.1%	NA
Operating Profit	17	30	36	8	26	NA	117.9%	16.2%	NA
Adj. net profit	23	33	40	13	33	NA	83.8%	0.4%	NA
Adj. EPS (RMB)	0.01	0.02	0.02	0.01	0.02	NA	44.0%	2.5%	NA
Gross Margin	19.9%	20.1%	20.1%	19.9%	20.1%	NA	+0.0ppts	-0.0ppts	NA
Operating Margin	1.5%	2.3%	2.3%	0.6%	1.9%	NA	+0.9ppts	+0.3ppts	NA
Adj. net margin	2.1%	2.5%	2.5%	1.1%	2.5%	NA	+1.0ppts	+0.0ppts	NA

Source: CMBIGM estimates, Bloomberg

Notes: BBG consensus might not be comparable for outdated forecast.

Figure 10: CMBIGM estimates revision

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,114	1,337	1,564	1,114	1,337	NA	0.0%	0.0%	NA
Gross Profit	222	268	315	222	268	NA	0.0%	0.0%	NA
Operating Profit	17	30	36	17	30	NA	0.0%	0.0%	NA
Adj. net profit	23	33	40	23	33	NA	0.0%	0.0%	NA
Adj. EPS (RMB)	0.01	0.02	0.02	0.01	0.02	NA	0.0%	0.0%	NA
Gross Margin	19.9%	20.1%	20.1%	19.9%	20.1%	NA	+0.0ppts	+0.0ppts	NA
Operating Margin	1.5%	2.3%	2.3%	1.5%	2.3%	NA	+0.0ppts	+0.0ppts	NA
Adj. net margin	2.1%	2.5%	2.5%	2.0%	2.4%	NA	+0.0ppts	+0.0ppts	NA

Source: CMBIGM estimates

Figure 11: SOTP valuation

SOTP	Methodology		Metrics	Multiple	Valuation
(US\$mn)					
Ad-tech	P/E	FY23E adj. NP	38.0	30.0	1,141
Mar-tech	P/S	FY23E Rev	17.2	3.3	57
Total					1,198
Net Cash					132
Equity Value (US\$mn)					1,330
Equity Value (HK\$ mn)					10,441
No. of shares (mn)					1,651
Target Price (HK\$) based on SOTP					6.3

Source: Company data, CMBIGM estimates

Figure 12: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Mobvista	1860 HK	873	HKD	4.3	BUY	6.3	37.1	26.0	22.0	0.8	0.6	0.6	31%
Global ads													
Trade Desk	TTD US	29,894	USD	61	NA	NA	61.1	44.3	35.1	15.9	12.8	10.4	25%
Applovin	APP US	5,928	USD	16	NA	NA	27.4	20.1	13.6	2.1	1.9	1.8	55%
Unity Software	U US	12,157	USD	32	NA	NA	87.8	34.0	19.4	5.7	4.8	4.0	72%
Meta	META US	549,484	USD	212	NA	NA	19.9	16.2	14.9	4.5	4.0	3.6	20%
Google	GOOGL US	1,330,201	USD	104	NA	NA	19.0	16.1	13.4	4.8	4.5	4.1	21%
Snapchat	SNAP US	17,727	USD	11	NA	NA	NA	55.0	28.7	3.8	3.2	2.7	202%
Average							22.1	17.5	15.3	4.2	3.7	3.2	30%
Domestic ads													
Tencent	700 HK	471,241	HKD	387	BUY	455	22.6	19.2	16.6	5.2	4.7	4.2	17%
Baidu	BIDU US	52,761	USD	151	BUY	196	16.4	13.8	12.3	2.7	2.4	2.2	34%
Weibo	WB US	4,745	USD	20	BUY	29	9.0	8.0	7.4	2.4	2.2	2.1	12%
XD Inc.	2400 HK	1,705	HKD	28	NA	NA	NA	31.6	16.0	2.6	2.1	1.8	468%
Weimob	2013 HK	1,675	HKD	5	NA	NA	NA	NA	58.0	4.6	3.8	3.4	NA
Zhihu	ZH US	812	USD	1	BUY	2	NA	NA	14.7	1.2	1.0	0.8	NA
Focus Media	002027 CH	14,111	CNY	7	NA	NA	31.9	19.8	15.8	9.6	7.4	6.3	42%
Blue Focus Group	300058 CH	3,620	CNY	10	NA	NA	NA	43.9	33.8	0.7	0.6	0.5	NA
Average							20.0	18.5	13.8	3.1	2.7	2.4	26%
SaaS													
Salesforce	CRM US	199,780	USD	200	NA	NA	28.2	23.9	19.2	5.8	5.2	4.6	19%
Youzan	8083 HK	486	HKD	0	NA	NA	NA	NA	64.2	2.1	1.8	1.7	NA
Ming Yuan Cloud	909 HK	1,249	HKD	5	HOLD	6	NA	NA	36.9	3.8	3.2	2.8	NA
KE Holdings	BEKE US	23,554	USD	19	BUY	24	26.4	21.0	18.0	2.2	1.9	1.8	16%
Average							28.2	23.9	18.6	2.7	2.3	2.1	18%
Average							26.2	22.3	21.0	3.4	3.0	2.6	26%

Source: Company data, BBG, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	755	894	1,114	1,337	1,564
Ad-tech	753	882	1,097	1,315	1,537
Mar-tech	3	13	17	22	27
Cost of revenue	(633)	(717)	(892)	(1,069)	(1,250)
Gross profit	122	177	222	268	315
S&M	(47)	(66)	(57)	(66)	(77)
R&D	(69)	(107)	(105)	(126)	(147)
G&A	(3)	(5)	(5)	(6)	(7)
Other net income	9	47	9	9	11
Operating profit	(31)	11	13	27	33
Interest income	1	1	2	2	2
Finance costs	(4)	(5)	(4)	(3)	(3)
Pre-tax profit	(31)	11	13	27	33
Tax	6	(1)	(2)	(5)	(6)
Profit for the year	(25)	15	11	22	27
Minority interest	(0)	5	-	-	-
Net profit	(25)	15	11	22	27
Adj. net income	(4)	10	23	33	40

Cash flow summary

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(31)	11	13	27	33
D&A	29	30	31	32	32
Change in working capital	36	46	(54)	73	(53)
Others	8	11	1	(2)	(3)
Operating CF	42	98	(10)	130	9
Capex	(11)	(1)	(5)	(5)	(5)
Other	19	(78)	1	1	1
Investing CF	8	(79)	(4)	(4)	(4)
Proceeds from bank loans	271	-	-	-	-
Repayment of bank loans	(267)	-	-	-	-
Others	57	(5)	(4)	-	-
Financing CF	61	(5)	(4)	(3)	(3)
Net change in cash	112	14	(18)	122	1
Cash (beg of yr)	39	150	164	146	268
FX	(1)	-	-	-	-
Cash (end of yr)	150	164	146	268	269

Balance sheet

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	264	286	211	185	158
PP&E	8	12	5	3	0
Intangible assets	118	138	69	45	20
Goodwill	115	115	115	115	115
Deferred tax assets	22	20	20	20	20
Investments	2	1	1	1	1
Deposits & prepayments	-	-	-	-	-
Current assets	483	316	455	567	669
Receivables	183	173	270	262	361
Restricted cash	6	5	6	5	6
Cash & cash equivalents	160	106	146	268	269
Current tax recoverable	1	1	1	1	1
Current liabilities	350	311	352	417	463
Trade and other payables	215	251	294	359	405
Current taxation	8	7	7	7	7
Bank loans	59	46	46	46	46
Non-current liabilities	38	43	13	13	13
Bank loans	-	-	-	-	-
Deferred tax liabilities	8	6	6	6	6
Minority interest	23	13	13	13	13
Shareholder's equity	337	235	246	268	296
Total equity	337	235	246	268	296

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Ad-tech	99.6	98.6	98.5	98.3	98.2
Mar-tech	0.4	1.4	1.5	1.7	1.8
Total	100.0	100.0	100.0	100.0	100.0
Growth (%)					
Revenue	46.4	18.4	24.6	20.0	17.0
Gross profit	48.4	45.2	25.4	20.9	17.2
Operating Income	NA	NA	17.1	107.1	20.9
Adj. net profit	NA	NA	137.6	43.7	19.6
Profitability (%)					
Gross margin	16.1	19.8	19.9	20.1	20.1
Pre-tax margin	(4.1)	1.2	1.2	2.0	2.1
Tax rate	(19.4)	(8.5)	(19.0)	(17.0)	(17.0)
Net margin	(0.5)	1.1	2.1	2.5	2.5
Returns (%)					
ROE	(1.2)	4.1	9.4	12.3	13.4
ROA	(0.5)	1.6	3.5	4.4	4.8
Per share data					
EPS (US\$)	(0.00)	0.01	0.01	0.02	0.02
DPS (US\$)	-	-	-	-	-
BVPS (US\$)	0.2	0.1	0.2	0.2	0.2

Source: Company data, CMBIGM estimates

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