

Bilibili (BILI US)

Prioritizing profitability and quality user growth

Bilibili reported 1Q23 results on 1 Jun. Total revenue was flat YoY at RMB5.1bn in 1Q23, in line with CMBI/consensus estimate. Adjusted net loss narrowed by 38% YoY to RMB1.0bn in 1Q23, beating CMBI/consensus estimate by 6/10%. The better-than-expected profitability was due to Bili's strategy to prioritize quality user growth and monetization improvement. Average DAUs grew by 18% YoY to 94mn in 1Q23, with DAU/MAU ratio reaching 29.7% (+2.7pct YoY). For 2Q23E, we forecast total revenue to grow by 7% YoY to RMB5.2bn and adjusted net loss to further narrow sequentially. We lower FY23 total revenue forecast by 3% to RMB24.1bn mainly due to less visibility on games business outlook, but maintain earnings forecast largely unchanged. We trim our SOTP-based TP by 9% to US\$27.2 on slower revenue growth outlook and lower sector valuation multiple amid market uncertainty. Maintain BUY.

- Solid ad business; game business remains under pressure.** Ad revenue delivered strong growth of 22% YoY and represented 25% of total revenue in 1Q23, driven by robust growth of performance-based ad revenue (+50% YoY). Through deepening data cooperation, Bili's ad revenue from major e-commerce platforms grew by over 110% YoY in 1Q23. VAS revenue increased by 5% YoY to RMB2.2bn (3Q22/4Q22: +16/24% YoY) and accounted for 43% of total revenue in 1Q23. The number of monthly active live streaming hosts and MPUs grew by 34% and 15% YoY in 1Q23, driven by better integration of live streaming and video content ecosystem. Mobile games revenue declined by 17% YoY to RMB1.1bn in 1Q23 (22% of total revenue), mainly due to lack of new games. Looking ahead, Bili has 13 games lined up for launch in coming quarters (8/5 games in domestic/overseas market), including the highly-anticipated title Pretty Derby which is planned for launch in this summer.
- Focus on quality user growth.** On user ecosystem, Bili will continue to focus on driving DAU growth, which can be better converted to monetization opportunities. Average DAUs/MAUs grew by 18/7% YoY to 94/315mn in 1Q23, with DAU/MAU ratio reaching 29.7% (+2.7pct YoY). Average daily time spent per DAU was stable YoY and QoQ at 96 minutes in 1Q23. Average daily video views grew by 37% YoY in 1Q23, with PUGV/Story Mode video views up by 82/26% YoY respectively.
- Expect further enhancing GPM and narrowing net loss.** Gross margin rose by 5.8pct YoY and 1.5pct QoQ to 21.8% in 1Q23, driven by 8%/16% saving in revenue-sharing costs/bandwidth costs. Despite the solid DAU growth, sales and marketing decreased by 30% YoY as Bili focuses on more quality user growth. Adjusted net loss margin improved from -33% in 1Q22 to -20% in 1Q23. Looking forward, we expect further improving gross margin and narrowing net loss sequentially, supported by Bili's stringent control on costs and expenses.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	19,384	21,899	24,149	26,334	28,622
YoY growth (%)	61.5	13.0	10.3	9.0	8.7
Gross margin (%)	20.9	17.6	24.8	29.0	31.6
Operating profit (RMB mn)	(6,429)	(8,358)	(5,009)	(2,893)	(1,414)
Net profit (RMB mn)	(6,789.2)	(7,497.0)	(4,816.3)	(2,746.1)	(1,090.8)
Adjusted net profit (RMB mn)	(5,478.1)	(6,691.7)	(3,668.7)	(1,494.6)	269.3
EPS (Reported) (RMB cents)	(1,787.69)	(1,905.03)	(1,173.09)	(668.86)	(265.69)
Consensus EPS (RMB cents)	(1,442.44)	(1,700.40)	(939.43)	(281.69)	254.01
P/S (x)	2.4	2.1	1.9	1.7	1.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$27.20
 (Previous TP US\$30.00)
Up/Downside 73.7%
Current Price US\$15.66

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Stock Data

Mkt Cap (US\$ mn)	6,429.4
Avg 3 mths t/o (US\$ mn)	106.4
52w High/Low (US\$)	29.71/8.92
Total Issued Shares (mn)	410.6

Source: FactSet

Shareholding Structure

Rui Chen	13.7%
Tencent	9.3%

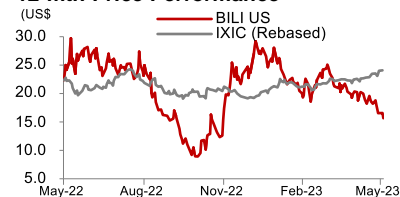
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-23.1%	-27.3%
3-mth	-18.9%	-28.1%
6-mth	-9.8%	-20.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Bili: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	24,149	26,334	28,622	24,807	27,727	30,389	-2.6%	-5.0%	-5.8%
Gross Profit	5,979	7,640	9,033	5,987	8,123	9,838	-0.1%	-5.9%	-8.2%
Operating Profit	(5,009)	(2,893)	(1,414)	(4,928)	(2,552)	(986)	na	na	na
Adjusted net profit	(3,669)	(1,495)	269	(3,670)	(1,243)	25	na	na	na
Adjusted EPS (RMB)	(8.9)	(3.6)	0.7	(9.3)	(3.2)	0.1	na	na	na
Gross Margin	24.8%	29.0%	31.6%	24.1%	29.3%	32.4%	0.6 ppt	-0.3 ppt	-0.8 ppt
Operating Margin	-20.7%	-11.0%	-4.9%	-19.9%	-9.2%	-3.2%	-0.9 ppt	-1.8 ppt	-1.7 ppt
Adjusted net margin	-15.2%	-5.7%	0.9%	-14.8%	-4.5%	0.1%	-0.4 ppt	-1.2 ppt	0.9 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	24,149	26,334	28,622	25,021	29,541	33,848	-3.5%	-10.9%	-15.4%
Gross Profit	5,979	7,640	9,033	5,920	8,357	10,637	1.0%	-8.6%	-15.1%
Operating Profit	(5,009)	(2,893)	(1,414)	(4,373)	(1,671)	473	na	na	na
Adjusted net profit	(3,669)	(1,495)	269	(3,691)	(1,004)	1,057	na	na	na
Adjusted EPS (RMB)	(8.9)	(3.6)	0.7	(9.4)	(2.8)	2.5	na	na	na
Gross Margin	24.8%	29.0%	31.6%	23.7%	28.3%	31.4%	1.1 ppt	0.7 ppt	0.1 ppt
Operating Margin	-20.7%	-11.0%	-4.9%	-17.5%	-5.7%	1.4%	-3.3 ppt	-5.3 ppt	-6.3 ppt
Adjusted net margin	-15.2%	-5.7%	0.9%	-14.8%	-3.4%	3.1%	-0.4 ppt	-2.3 ppt	-2.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Bili: quarterly financial

(RMB mn)	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	Cons.	Diff%	CMBI	Diff%
Mobile games	1,392	1,295	1,358	1,046	1,471	1,146	1,132			1,162	-2.7%
YoY%	9.1%	14.7%	16.0%	-15.2%	5.7%	-11.5%	-16.7%				
VAS	1,909	1,895	2,052	2,103	2,210	2,350	2,156			2,235	-3.5%
YoY%	94.9%	51.9%	37.1%	28.7%	15.8%	24.0%	5.1%				
Advertising	1,172	1,588	1,041	1,158	1,355	1,512	1,272			1,278	-0.5%
YoY%	110.2%	119.8%	45.6%	10.4%	15.6%	-4.7%	22.2%				
E-commerce and others	734	1,003	603	601	758	1,134	510			454	12.4%
YoY%	77.5%	35.4%	16.2%	4.0%	3.2%	13.1%	-15.5%				
Total revenue	5,207	5,781	5,054	4,909	5,794	6,142	5,070	5,102	-0.6%	5,129	-1.2%
YoY%	61.4%	50.5%	29.6%	9.2%	11.3%	6.3%	0.3%				
Average MAUs	267	272	294	306	333	326	315				
YoY%	25.9%	7.5%	7.0%	6.0%	3.9%	2.5%	1.6%				
Gross profit margin	19.6%	19.0%	16.0%	15.0%	18.2%	20.3%	21.8%				
S&M ratio (%)	31.4%	30.5%	24.8%	23.9%	21.2%	20.6%	17.4%				
R&D ratio (%)	15.1%	13.8%	20.0%	23.1%	19.5%	24.3%	20.3%				
Adjusted net margin (%)	-31.0%	-28.6%	-32.7%	-40.0%	-30.4%	-21.4%	-20.3%				
Adjusted net profit	(1,613)	(1,652)	(1,653)	(1,964)	(1,763)	(1,312)	(1,029)	(1,144)		(1,094)	

Source: Company data, CMBIGM estimates

SOTP Valuation

Based on the SOTP valuation, our target price for Bili is US\$27.2 per ADS, which implies 3.2/2.9x 2023E/2024E PS. Our target price of US\$27.2 includes:

1) US\$11.1 for the advertising business (40.9% 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 (15x 2023E PE), to reflect Bili's unique value proposition in video advertising market and its strong growth outlook (FY23-25E revenue CAGR: 19%).

2) US\$9.0 for the VAS business (33.2% of the total valuation), based on a 2.5x 2023E PS. The target PS multiple is at a premium to the average PS of other video platforms (2.1x 2023E PS), mainly due to its growing user base and improving monetization efficiency.

3) US\$6.7 for mobile games (24.7% of the total valuation), based on an 18x 2023E PE. The target PE multiple has a discount over the industry average (21x 2023E PE), as Bili has yet to establish a successful track record in in-house games development.

4) US\$0.3 for e-commerce (1.2% of the total valuation), based on a 0.4x 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 MAU	Revenue per MAU	2023E revenue	Net margin (%)	Target PS (x)	Target PE (x)	Target valuation	As of total valuation
VAS (Live streaming + Membership)	338.1	30.3	10,233		2.5		25,583	33.2%
- Live streaming	50.7	132.3	6,707					
- Membership	338.1	10.4	3,526					
Advertising	338.1	18.6	6,300	25%		20	31,500	40.9%
Mobile games	33.8	156.4	5,286	20%		18	19,029	24.7%
E-commerce	16.9	137.9	2,330		0.4		932	1.2%
Total valuation (RMBmn)							77,044	
Number of ADS (mn)							411	
Valuation per ADS (US\$)							27.2	

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	EPS growth (YoY %)			PE (x)		
		(Local)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Online games								
NetEase	NTES US	85.0	(16)	9	3	20	18	18
Activision Blizzard	ATVI US	80.0	31	7	7	20	19	18
Electronic Arts	EA US	126.5	(14)	11	14	21	19	17
Take Two Interactive	TTWO US	138.3	(27)	(6)	133	38	41	18
NetDragon	777 HK	14.4	(21)	19	14	7	5	5
Nexon	3659 JP	2,904.0	(1)	15	10	23	20	18
Nintendo	7974 JP	5,967.0	(9)	(9)	(7)	18	20	21
Bandai Namco	7832 JP	3,272.0	18	5	11	23	22	20
Perfect World	002624 CH	18.6	4	20	11	22	18	16
37 Interactive	002555 CH	31.4	14	14	14	21	18	16
Average PE						21	20	17
Online advertising								
Weibo	WB US	14.2	6	12	9	6	6	5
Baidu	BIDU US	123.6	20	13	13	14	12	11
Meta	Meta US	262.5	20	23	14	20	16	14
Google	GOOG US	124.6	13	18	21	21	18	15
Average PE						15	13	11

Source: Bloomberg, CMBIGM

Note: data as at the 31 May market close

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

		Price	Revenue growth (YoY %)			PS (x)		
Companies	Ticker	(Local)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Online video								
iQiyi	IQ US	4.2	7.8	7.5	6.9	0.9	0.8	0.8
Mango Excellent Media	300413 CH	28.8	11.2	12.9	8.8	3.3	2.9	2.7
Average PS						2.1	1.9	1.7
First-party e-commerce								
JD	JD US	32.1	2.4	10.3	9.7	0.3	0.3	0.3
Vipshop	VIPS US	14.8	6.0	5.3	3.9	0.5	0.5	0.5
Average PS						0.4	0.4	0.4

Source: Bloomberg, CMBIGM

Note: data as at the 31 May market close

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	11,999	19,384	21,899	24,149	26,334	28,622
Cost of goods sold	9,159	15,341	18,050	18,170	18,694	19,589
Gross profit	2,840	4,043	3,849	5,979	7,640	9,033
Operating expenses	5,981	10,472	12,207	10,988	10,534	10,447
Selling expense	3,492	5,795	4,921	4,105	3,950	4,007
Admin expense	976	1,838	2,521	2,415	2,370	2,290
R&D expense	1,513	2,840	4,765	4,468	4,213	4,150
Operating profit	(3,141)	(6,429)	(8,358)	(5,009)	(2,893)	(1,414)
Investment gain/loss	28	(194)	(532)	(59)	(58)	(60)
Other gains/(losses)	137	(5)	1,457	0	0	0
EBIT	(2,975)	(6,628)	(7,434)	(5,068)	(2,951)	(1,473)
Interest income	83	70	281	389	543	580
Interest expense	(109)	(155)	(251)	(168)	(356)	(416)
Pre-tax profit	(3,001)	(6,713)	(7,404)	(4,846)	(2,763)	(1,310)
Income tax	53	95	104	68	39	(196)
After tax profit	(3,054)	(6,809)	(7,508)	(4,915)	(2,802)	(1,113)
Minority interest	47	20	11	98	56	22
Others	(4)	0	0	0	0	0
Net profit	(3,012)	(6,789)	(7,497)	(4,816)	(2,746)	(1,091)
Adjusted net profit	(2,560)	(5,478)	(6,692)	(3,669)	(1,495)	269

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	15,740	36,447	24,453	34,178	36,353	37,559
Cash & equivalents	4,678	7,523	10,187	15,990	17,235	17,469
Account receivables	1,218	1,382	1,329	2,613	2,850	3,097
Prepayment	1,766	4,848	3,545	6,040	6,587	7,159
ST bank deposits	4,720	7,632	4,768	4,911	5,058	5,210
Other current assets	3,357	15,061	4,623	4,623	4,623	4,623
Non-current assets	8,126	15,606	17,378	17,080	17,336	17,511
PP&E	762	1,350	1,227	1,428	1,592	1,733
Investment in JVs & assos	2,233	5,503	5,651	5,713	5,655	5,596
Intangibles	2,357	3,836	4,327	4,439	4,475	4,426
Goodwill	1,296	2,338	2,725	2,725	2,725	2,725
Other non-current assets	1,478	2,580	3,448	2,775	2,889	3,030
Total assets	23,866	52,053	41,831	51,258	53,690	55,070
Current liabilities	7,392	12,071	17,093	21,197	22,059	23,103
Short-term borrowings	100	1,232	6,621	6,621	6,621	6,621
Account payables	3,074	4,361	4,292	6,223	6,402	6,708
Tax payable	100	1,232	6,621	6,621	6,621	6,621
Other current liabilities	2,880	2,613	(2,084)	(1,550)	(1,163)	(737)
Accrued expenses	1,238	2,633	1,643	3,281	3,578	3,888
Non-current liabilities	8,692	18,266	9,498	18,490	21,554	21,621
Long-term borrowings	8,341	17,784	8,683	17,784	20,784	20,784
Other non-current liabilities	351	482	814	706	770	837
Total liabilities	16,083	30,337	26,591	39,687	43,613	44,724
Share capital	0	0	0	0	0	0
Capital surplus	14,616	35,930	35,930	35,930	35,930	35,930
Retained earnings	(7,175)	(13,971)	(20,437)	(24,204)	(25,755)	(25,508)
Other reserves	159	(255)	(255)	(255)	(255)	(255)
Total shareholders equity	7,600	21,704	15,238	11,471	9,920	10,167
Minority interest	182	12	2	100	156	178
Total equity and liabilities	23,866	52,053	41,831	51,258	53,690	55,070

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(3,001)	(6,713)	(7,404)	(4,846)	(2,763)	(1,310)
Depreciation & amortization	327	539	755	462	532	589
Tax paid	53	95	104	68	39	(196)
Change in working capital	1,487	(9)	(1,246)	324	79	224
Others	1,887	3,442	3,878	3,758	4,265	5,049
Net cash from operations	753	(2,647)	(3,911)	(235)	2,152	4,356
Investing						
Capital expenditure	(2,239)	(3,687)	(2,738)	(3,472)	(3,646)	(3,828)
Acquisition of subsidiaries/ investments	(1,757)	(7,238)	(2,646)	(121)	0	0
Others	(4,911)	(13,652)	15,994	530	(261)	(294)
Net cash from investing	(8,907)	(24,578)	10,609	(3,063)	(3,907)	(4,122)
Financing						
Net borrowings	5,695	11,203	251	9,101	3,000	0
Proceeds from share issues	2,817	19,288	0	0	0	0
Others	(177)	(103)	(4,606)	0	0	0
Net cash from financing	8,335	30,389	(4,355)	9,101	3,000	0
Net change in cash						
Cash at the beginning of the year	4,963	4,678	7,523	10,187	15,990	17,235
Exchange difference	(466)	(319)	321	0	0	0
Cash at the end of the year	4,678	7,523	10,187	15,990	17,235	17,469
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	77.0%	61.5%	13.0%	10.3%	9.0%	8.7%
Gross profit	138.6%	42.4%	(4.8%)	55.3%	27.8%	18.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	23.7%	20.9%	17.6%	24.8%	29.0%	31.6%
Operating margin	(26.2%)	(33.2%)	(38.2%)	(20.7%)	(11.0%)	(4.9%)
Adj. net profit margin	(21.3%)	(28.3%)	(30.6%)	(15.2%)	(5.7%)	0.9%
Return on equity (ROE)	(41.1%)	(46.3%)	(40.6%)	(36.1%)	(25.7%)	(10.9%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.5	0.5	0.3	0.7	1.0	1.0
Current ratio (x)	2.1	3.0	1.4	1.6	1.6	1.6
Receivable turnover days	37.1	26.0	22.1	39.5	39.5	39.5
Payable turnover days	122.5	103.8	86.8	125.0	125.0	125.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/B	12.4	10.8	4.1	4.0	4.6	4.5

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

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

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