

Weibo (WB US)

Expect mild recovery in 3Q23E

Weibo reported 2Q23 results on 24 Aug: total revenue decreased by 2% YoY (+5% YoY on a constant currency basis) to US\$440mn, in line with consensus estimate of US\$439mn. Non-GAAP net income grew by 15% YoY to US\$126mn in 2Q23, ahead of consensus estimate of US\$120mn, mainly due to effective expense control. Looking ahead in 3Q23E, the recovery pace of ad demand was slower-than-expected (especially in July), due to the weak consumption sentiment. We forecast ad revenue to grow by 3% YoY on a constant currency basis in 3Q23E (versus +7% YoY in 2Q23). We lower FY23-25E total revenue forecast by 6-7%, but maintain earnings forecast largely unchanged due to the solid margin expansion. We lower our TP by 8% to US\$24.5 on 11x 2023E PE (previous: US\$26.7 on 12x 2023E PE), at a discount to peers' 18x but on par with 2-year historical avg. of 11x). Maintain BUY.

- **Ad recovery slowed down in July but returned on track in August.** Ad revenue was US\$386mn in 2Q23, flattish YoY (1Q23/4Q22: -17/29% YoY) or up by 7% YoY on a constant currency basis. The YoY recovery was mainly driven by the solid growth in key verticals such as handsets (+20% YoY) and automotives (+40% YoY). Besides, the pent-up demand for offline consumption also drove over 20% YoY growth in ad budget of verticals like culture and entertainment, health care, and the tourism. However, the recovery pace of the gaming and cosmetics & personal care verticals was slower than the management expectation, and the management expects the headwind will persist in 2H23. Looking in 3Q23E, the ad revenue growth rate in July was slower than that of June due to the weak consumption sentiment, but recorded a faster recovery pace in August. Overall, we estimate total ad revenue to grow 3% YoY on a constant currency basis in 3Q23E.
- **Growing user traffic in various verticals.** MAUs was up 3% YoY to 599mn in Jun 2023. Different verticals exhibit various traffic trend in July and August. Culture and entertainment vertical saw solid traffic volume growth in summer, which has already exceeded the traffic level during the COVID. However, verticals such as food and travel faced pressure amid fierce competition, and management will allocate more resources to support traffic growth in these verticals in 2H23. For AIGC, Weibo has already seen increasing adoption of AIGC tools by top content creators to enhance productivity in 2Q23, and expects the adoption to further rise in 2H23E.
- **Expanding margin on effective expense control.** Weibo continues to enhance operating efficiency and control expenses. S&M/R&D expenses declined by 9%/13% YoY in 2Q23, thanks to the optimized channel investments and lower personnel-related costs. Overall non-GAAP OPM expanded by 2.6pct YoY to 34.9% in 2Q23, on the stringent opex control. We expect its non-GAAP OPM to maintain at 35% in 3Q23E, as the Company continues to optimize user acquisition and operating efficiency.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	2,257	1,836	1,756	1,897	2,003
YoY growth (%)	33.6	(18.6)	(4.4)	8.0	5.6
Adjusted net profit (US\$ mn)	718.5	540.1	525.7	569.4	617.8
YoY growth (%)	31.2	(24.8)	(2.7)	8.3	8.5
EPS (Adjusted) (US\$)	3.14	2.30	2.24	2.42	2.63
Consensus EPS (US\$)	3.14	2.30	2.22	2.48	2.71
P/S (x)	1.4	1.8	1.8	1.7	1.6
P/E (x)	26.0	52.9	8.7	7.8	6.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$24.50
 (Previous TP US\$26.70)
Up/Downside 78.8%
Current Price US\$13.70

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	3,221.7
Avg 3 mths t/o (US\$ mn)	12.8
52w High/Low (US\$)	25.44/10.71
Total Issued Shares (mn)	235.2

Source: FactSet

Shareholding Structure

Sina	37.3%
Alibaba	28.9%

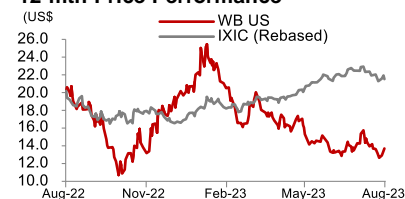
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-3.8%	1.1%
3-mth	-10.5%	-15.6%
6-mth	-33.2%	-43.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Weibo: forecast revision

US\$mn	Current			Previous			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,756	1,897	2,003	1,871	2,028	2,149	-6.1%	-6.5%	-6.8%
Gross Profit	1,379	1,489	1,572	1,468	1,592	1,687	-6.1%	-6.5%	-6.8%
Adjusted net profit	526	569	618	526	566	619	-0.2%	0.7%	-0.3%
Adjusted EPS (RMB)	2.2	2.4	2.6	2.2	2.4	2.6	-0.2%	0.7%	-0.3%
Gross Margin	78.5%	78.5%	78.5%	78.5%	78.5%	78.5%	0.0 ppt	0.0 ppt	0.0 ppt
Adjusted net margin	29.9%	30.0%	30.8%	28.1%	27.9%	28.8%	1.8 ppt	2.1 ppt	2.0 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,756	1,897	2,003	1,857	2,013	2,152	-5.4%	-5.7%	-6.9%
Gross Profit	1,379	1,489	1,572	1,463	1,590	1,702	-5.8%	-6.3%	-7.7%
Adjusted net profit	526	569	618	525	585	640	0.2%	-2.7%	-3.4%
Adjusted EPS (RMB)	2.2	2.4	2.6	2.2	2.5	2.7	0.2%	-2.7%	-3.4%
Gross Margin	78.5%	78.5%	78.5%	78.8%	79.0%	79.1%	-0.3 ppt	-0.5 ppt	-0.6 ppt
Adjusted net margin	29.9%	30.0%	30.8%	28.3%	29.1%	29.7%	1.7 ppt	0.9 ppt	1.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Weibo: quarterly financial

(US\$mn)	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	Cons.	Diff%
Advertising revenue	502	538	551	427	386	393	391	355	386		
YoY%	47.5%	29.0%	21.5%	9.5%	-23.2%	-26.8%	-29.1%	-16.8%	0.0%		
VAS revenue	72	70	65	58	65	60	57	58	55		
YoY%	54.1%	42.3%	9.2%	-16.5%	-10.4%	-13.9%	-12.2%	1.7%	-15.5%		
Total revenue	574	607	616	485	450	454	448	414	440	439	0.3%
YoY%	48.3%	30.4%	20.0%	5.6%	-21.6%	-25.3%	-27.3%	-14.6%	-2.2%	-9.5%	
Gross profit margin (%)	83.9%	83.0%	79.1%	78.4%	78.8%	79.2%	76.3%	79.3%	78.6%		
S&M %	26.9%	23.2%	24.7%	25.9%	25.7%	25.1%	27.4%	25.7%	23.9%		
R&D %	17.7%	19.6%	18.5%	23.2%	23.6%	21.4%	22.2%	21.9%	21.1%		
Non-GAAP net margin	31.8%	34.5%	31.7%	27.4%	24.4%	26.2%	39.8%	26.9%	28.7%		
Non-GAAP net profit	183	210	196	133	110	119	179	111	126	120	5.5%
YoY%	59.7%	37.1%	-8.1%	1.7%	-40.0%	-43.2%	-8.7%	-16.3%	15.2%	-9.8%	

Source: Company data, CMBIGM estimates

Figure 4: Weibo: peer valuation comparison

Companies	Ticker	Price (LC)	Adj. EPS growth (YoY%)			PE (x)			EPS CAGR (%) 2022-2025E
			2023E	2024E	2025E	2023E	2024E	2025E	
Focus Media	002027 CH	7.4	61	22	14	22	18	16	30.6
Baidu	BIDU US	134.0	29	(4)	12	14	14	13	11.6
Meta	META US	286.8	24	27	15	21	17	14	22.2
Google	GOOGL US	130.4	18	16	22	22	19	15	18.6
Average						20	17	15	

Source: Bloomberg, CMBIGM

Note: data are as of 24 Aug 2023

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	1,690	2,257	1,836	1,756	1,897	2,003
Cost of goods sold	(302)	(404)	(401)	(378)	(408)	(431)
Gross profit	1,388	1,853	1,436	1,379	1,489	1,572
Operating expenses	(881)	(1,156)	(945)	(896)	(964)	(985)
Selling expense	(456)	(592)	(477)	(421)	(465)	(481)
Admin expense	(101)	(133)	(53)	(114)	(120)	(124)
R&D expense	(324)	(431)	(415)	(360)	(379)	(381)
Operating profit	507	697	491	483	526	587
Other gains/(losses)	(175)	(176)	(313)	2	0	0
Interest income	44	30	(39)	(9)	7	16
Pre-tax profit	376	551	138	476	533	603
Income tax	(61)	(139)	(30)	(95)	(107)	(121)
After tax profit	315	412	108	381	426	483
Minority interest	1	(16)	12	12	14	16
Net profit	313	428	96	368	412	467
Adjusted net profit	547	719	540	526	569	618

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	4,835	4,803	4,552	4,306	5,117	5,766
Cash & equivalents	1,815	2,424	2,691	2,433	3,121	3,651
Account receivables	492	723	502	481	519	548
Prepayment	297	451	392	367	389	410
Other current assets	2,231	1,205	968	1,025	1,088	1,156
Non-current assets	1,501	2,717	2,577	2,439	2,344	2,279
PP&E	61	68	250	252	254	257
Investment in JVs & assos	1,179	1,208	994	853	756	687
Goodwill	209	297	245	245	245	245
Other non-current assets	52	1,143	1,089	1,089	1,089	1,089
Total assets	6,335	7,520	7,129	6,744	7,462	8,044
Current liabilities	958	2,159	1,220	1,088	1,133	1,157
Account payables	150	198	161	154	166	176
Tax payable	103	145	55	55	55	55
Other current liabilities	144	988	80	76	83	87
Accrued expenses	562	829	924	803	829	839
Non-current liabilities	2,490	1,672	2,519	1,909	2,183	2,291
Long-term borrowings	2,490	1,672	2,519	1,909	2,183	2,291
Total liabilities	3,449	3,832	3,739	2,997	3,316	3,448
Share capital	1,326	1,679	1,330	1,330	1,330	1,330
Retained earnings	1,487	1,915	2,001	2,369	2,782	3,249
Total shareholders equity	2,812	3,594	3,330	3,699	4,111	4,578
Minority interest	74	94	60	48	34	19
Total equity and liabilities	6,335	7,520	7,129	6,744	7,462	8,044

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	376	551	138	476	533	603
Depreciation & amortization	41	55	47	47	50	51
Tax paid	(61)	(139)	(30)	(95)	(107)	(121)
Change in working capital	49	42	334	(95)	(25)	(37)
Others	(1)	305	320	(12)	(14)	(16)
Net cash from operations	403	814	809	321	437	481
Investing						
Capital expenditure	(50)	(35)	(53)	(49)	(52)	(54)
Net proceeds from disposal of short-term investments	(731)	871	231	(48)	(53)	(58)
Others	62	(1,259)	(1,639)	141	97	69
Net cash from investing	(719)	(424)	(1,461)	43	(8)	(44)
Financing						
Net borrowings	602	1	953	(610)	274	108
Proceeds from share issues	0	188	0	0	0	0
Others	75	0	(34)	(12)	(14)	(16)
Net cash from financing	678	189	919	(622)	260	92
Net change in cash						
Cash at the beginning of the year	1,453	1,815	2,424	2,691	2,433	3,121
Exchange difference	0	29	0	0	0	0
Cash at the end of the year	1,815	2,424	2,691	2,433	3,121	3,651
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(4.4%)	33.6%	(18.6%)	(4.4%)	8.0%	5.6%
Gross profit	(3.5%)	33.5%	(22.5%)	(4.0%)	8.0%	5.6%
Operating profit	(15.2%)	37.6%	(29.6%)	(1.6%)	8.8%	11.7%
Net profit	(36.7%)	36.7%	(77.6%)	284.9%	11.9%	13.2%
Adj. net profit	(14.1%)	31.2%	(24.8%)	(2.7%)	8.3%	8.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	82.1%	82.1%	78.2%	78.5%	78.5%	78.5%
Operating margin	30.0%	30.9%	26.7%	27.5%	27.7%	29.3%
Adj. net profit margin	32.4%	31.8%	29.4%	29.9%	30.0%	30.8%
Return on equity (ROE)	12.3%	13.4%	2.8%	10.5%	10.6%	10.7%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	5.0	2.2	3.7	4.0	4.5	5.0
Receivable turnover days	106.3	116.9	99.9	99.9	99.9	99.9
Payable turnover days	(180.6)	(178.6)	(146.7)	(148.9)	(148.9)	(148.9)
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	27.9	26.0	52.9	8.7	7.8	6.9
P/E (diluted)	28.0	26.3	53.2	8.8	7.9	6.9
P/B	3.1	3.1	1.5	0.9	0.8	0.7

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

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

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.