

Bilibili (BILI US)

Strong games and ads businesses to pave way for breakeven in 3Q24E

Bilibili announced 2Q24 financial results: total revenue grew by 16% YoY to RMB6.13bn, in line with our/consensus estimate; adjusted net loss narrowed by 72% YoY to RMB271mn, better than our/consensus estimate of RMB329/317mn, primarily due to the better-than-expected GPM expansion (+6.8ppt YoY). For 3Q24E, we expect total revenue will increase by 22% YoY, and Bili will achieve breakeven and register non-GAAP operating income of RMB184mn, mainly supported by the robust performance of high-margin mobile games and advertising businesses. We cut our FY24 adjusted net loss estimate to RMB255mn (previous: RMB710mn) mainly to factor in the better-than-expected earnings contribution from games and ads business. We maintain our SOTP-derived target price at US\$20.50, as the increase in games business valuation is largely offset by the decline in VAS valuation. Maintain BUY.

- **Accelerating total revenue growth in 2Q24.** Bili delivered inline 2Q24 total revenue growth: 1) ads revenue grew by 30% YoY to RMB2.0bn in 2Q24, driven by strong growth of performance-based ads. Supported by the upgrade of ads placement system and improvement of conversion capabilities, the number of advertisers grew by over 50% YoY in 1H24; 2) mobile games revenue was up by 13% YoY to RMB1.0bn in 2Q24, mainly attributable to the successful launch of *SanGuo: MouDing TianXia*. *Sanguo*'s solid performance also drove deferred revenue balance to increase by RMB738mn QoQ in 2Q24; 3) VAS revenue grew by 11% YoY to RMB2.6bn in 2Q24, underpinned by growth in the number of paying users for premium membership, live streaming and other value-added services.
- **Expect solid ads and mobile games business growth in 3Q24E.** For 3Q24E, we forecast total revenue to increase by 22% YoY, with ads/mobile games/VAS revenue up by 28/64/10% YoY respectively. We expect ads revenue to maintain resilient growth in 3Q24E, driven by strong ad demand from gaming, digital product and e-commerce industries. We also expect mobile games revenue to register a strong recovery in 3Q24E, as *Sanguo* will make full-quarter incremental revenue contribution.
- **Targeting non-GAAP breakeven in 3Q24E.** Overall GPM rose by 6.8ppt YoY and 1.6ppt QoQ to 29.9% in 2Q24. We expect gross margin will further expand by 4.5ppt QoQ to 34.4% in 3Q24E, due to the strong performance of higher-margin businesses such as ads and mobile games. Adjusted net loss margin improved by 13.7ppt YoY and 3.3ppt QoQ to -4.4% in 2Q24. We forecast Bili to record non-GAAP net income of RMB195mn in 3Q24E, with adj. NPM up by 17.9ppt YoY and 7.2ppt QoQ to 2.8% in 3Q24E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	21,899	22,528	26,357	28,836	30,619
YoY growth (%)	13.0	2.9	17.0	9.4	6.2
Gross margin (%)	17.6	24.2	32.3	35.2	37.1
Adjusted net profit (RMB mn)	(6,691.7)	(3,424.7)	(254.9)	1,236.4	2,155.0
YoY growth (%)	na	na	na	na	74.3
EPS (Adjusted) (RMB cents)	(1,700.40)	(828.34)	(61.39)	297.73	518.93
Consensus EPS (RMB cents)	(1,700.40)	(828.34)	(116.46)	282.81	561.24
P/S (x)	1.9	1.8	1.6	1.4	1.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$20.50
Up/Downside 46.2%
Current Price US\$14.02

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Stock Data

Mkt Cap (US\$ mn)	5,796.5
Avg 3 mths t/o (US\$ mn)	26.7
52w High/Low (US\$)	18.14/8.94
Total Issued Shares (mn)	413.4

Source: FactSet

Shareholding Structure

Rui Chen	13.7%
Tencent	9.3%

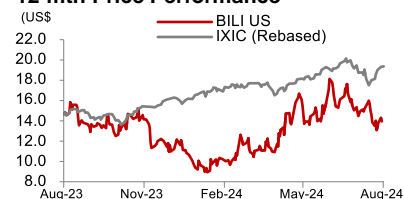
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-8.7%	-8.2%
3-mth	-10.6%	-16.2%
6-mth	36.4%	22.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Bili: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	26,357	28,836	30,619	25,489	27,660	29,287	3.4%	4.3%	4.5%
Gross Profit	8,519	10,152	11,350	7,639	8,989	10,046	11.5%	12.9%	13.0%
Operating Profit	(1,707)	(287)	785	(2,073)	(637)	214	na	na	na
Adjusted net profit	(255)	1,236	2,155	(710)	1,161	1,436	na	na	na
Adjusted EPS (RMB)	(0.6)	3.0	5.2	(1.7)	2.8	3.5	na	na	na
Gross Margin	32.3%	35.2%	37.1%	30.0%	32.5%	34.3%	2.4 ppt	2.7 ppt	2.8 ppt
Operating Margin	-6.5%	-1.0%	2.6%	-8.1%	-2.3%	0.7%	1.7 ppt	1.3 ppt	1.8 ppt
Adjusted net margin	-1.0%	4.3%	7.0%	-2.8%	4.2%	4.9%	1.8 ppt	0.1 ppt	2.1 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	26,357	28,836	30,619	26,032	29,370	32,461	1.2%	-1.8%	-5.7%
Gross Profit	8,519	10,152	11,350	7,888	9,658	11,305	8.0%	5.1%	0.4%
Operating Profit	(1,707)	(287)	785	(1,191)	500	1,883	na	na	na
Adjusted net profit	(255)	1,236	2,155	(582)	1,152	2,287	na	na	na
Adjusted EPS (RMB)	(0.6)	3.0	5.2	(1.2)	2.8	5.6	na	na	na
Gross Margin	32.3%	35.2%	37.1%	30.3%	32.9%	34.8%	2.0 ppt	2.3 ppt	2.2 ppt
Operating Margin	-6.5%	-1.0%	2.6%	-4.6%	1.7%	5.8%	-1.9 ppt	-2.7 ppt	-3.2 ppt
Adjusted net margin	-1.0%	4.3%	7.0%	-2.2%	3.9%	7.0%	1.3 ppt	0.4 ppt	0.0 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Bili: Quarterly financial figures

(RMB mn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	Cons.	Diff%	CMBI	Diff%
Mobile games	1,132	891	992	1,007	983	1,007				
YoY%	-16.7%	-14.8%	-32.6%	-12.1%	-13.2%	13.1%				
VAS	2,156	2,302	2,595	2,857	2,529	2,566				
YoY%	5.1%	9.4%	17.4%	21.6%	17.3%	11.5%				
Advertising	1,272	1,573	1,638	1,929	1,669	2,037				
YoY%	22.2%	35.8%	20.9%	27.6%	31.2%	29.5%				
IP derivatives and others	510	539	580	556	484	516				
YoY%	-15.5%	-10.4%	-23.5%	-51.0%	-5.0%	-4.1%				
Total revenue	5,070	5,304	5,805	6,349	5,665	6,127	6,093	0.6%	6,079	0.8%
YoY%	0.3%	8.1%	0.2%	3.4%	11.7%	15.5%				
Average MAUs	315	324	341	336	342	336				
YoY%	7.4%	6.0%	2.5%	3.1%	8.3%	3.7%				
Gross profit margin	21.8%	23.1%	25.0%	26.1%	28.3%	29.9%				
S&M ratio (%)	17.4%	17.3%	17.1%	17.7%	16.4%	16.9%				
R&D ratio (%)	20.3%	19.7%	18.4%	20.9%	17.0%	14.6%				
Adjusted net margin (%)	-20.3%	-18.1%	-15.1%	-8.8%	-7.8%	-4.4%	-5.4%		-5.2%	
Adjusted net profit	(1,029)	(963)	(878)	(556)	(440)	(272)	(329)		(317)	

Source: Company data, CMBIGM estimates

SOTP Valuation

Based on the SOTP valuation, our target price for Bili is US\$20.5 per ADS, which implies 2.3x 2024E PS. Our target price of US\$20.5 includes:

1) US\$8.6 for the advertising business (41.8% of the total valuation), based on a 15x 2024E PE. The target PE multiple is on par with the average PE of advertising platforms

2) US\$5.5 for the VAS business (27.1% of the total valuation), based on a 1.5x 2024E PS. The target PS multiple is on par with the average PS of other video platforms.

3) US\$6.1 for mobile games (29.8% of the total valuation), based on a 18x 2024E PE. The target PE multiple is on par with the average PE of gaming companies.

4) US\$0.3 for IP derivatives and others (1.3% of the total valuation, previously disclosed as e-commerce and others), based on a 0.4x 2024E PS. The target PS multiple is on par with the average PS of the other e-commerce platforms.

Figure 4: Bili: SOTP Valuation

(RMBmn)	2024E revenue	Net margin (%)	Target PS (x)	Target PE (x)	Target valuation	As of total valuation
VAS (Live streaming + Membership)	11,089		1.5		16,633	27.1%
Advertising	8,157	21%		15	25,694	41.8%
Mobile games	5,093	20%		18	18,335	29.8%
IP derivatives and others	2,019		0.4		807	1.3%
Total valuation (RMBmn)					61,469	
Number of ADS (mn)					416	
Valuation per ADS (US\$)					20.5	

Source: Company data, CMBIGM estimates

Figure 5: Peer comparison: online games and advertising sector

		Price	EPS growth (YoY %)			PE (x)		
Companies	Ticker	(Local)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Online games								
NetEase	NTES US	92.6	6	7	5	13	12	11
Electronic Arts	EA US	149.8	19	5	13	21	20	18
Nexon	3659 JP	2,976.5	7	7	7	19	18	17
Nintendo	7974 JP	8,305.0	16	(25)	19	21	29	24
Bandai Namco	7832 JP	3,087.0	(14)	26	4	25	20	19
Perfect World	002624 CH	7.9	(3)	27	16	18	14	12
37 Interactive	002555 CH	12.7	(8)	12	17	9	8	7
Average PE						18	17	16
Online advertising								
Weibo	WB US	7.9	(14)	7	8	4	4	4
Baidu	BIDU US	89.7	4	3	9	8	8	7
Meta	Meta US	535.2	44	14	15	25	22	19
Google	GOOG US	167.6	31	12	12	21	19	17
Average PE						15	13	12

Source: Bloomberg, CMBIGM

Note: data as at 21 Aug market close

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

Companies	Ticker	Price	EPS growth (YoY %)			PE (x)		
		(Local)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Online video								
iQiyi	IQ US	3.1	(0.4)	5.5	4.9	0.7	0.6	0.6
Mango Excellent Media	300413 CH	19.3	13.0	9.3	8.2	2.2	2.0	1.9
Average PS						1.5	1.3	1.2
First-party e-commerce								
JD	JD US	27.0	6.3	5.7	5.5	0.3	0.3	0.2
Vipshop	VIPS US	12.7	(86.2)	3.2	3.5	0.4	0.4	0.4
Average PS						0.4	0.3	0.3

Source: Bloomberg, CMBIGM

Note: data as at 21 Aug market close

Risks

A slowdown in user growth; weaker-than-expected monetization; macro headwinds weigh on ads revenue growth.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	19,384	21,899	22,528	26,357	28,836	30,619
Cost of goods sold	15,341	18,050	17,086	17,838	18,684	19,269
Gross profit	4,043	3,849	5,442	8,519	10,152	11,350
Operating expenses	10,472	12,207	10,506	10,226	10,439	10,564
Selling expense	5,795	4,921	3,916	4,217	4,325	4,440
Admin expense	1,838	2,521	2,122	2,056	2,134	2,153
R&D expense	2,840	4,765	4,467	3,954	3,979	3,972
Operating profit	(6,429)	(8,358)	(5,064)	(1,707)	(287)	785
Investment gain/loss	(194)	(532)	(436)	(264)	(274)	(276)
Other gains/(losses)	(5)	1,457	389	0	0	0
EBIT	(6,628)	(7,434)	(5,111)	(1,971)	(561)	509
Interest income	70	281	542	451	485	504
Interest expense	(155)	(251)	(165)	(168)	(168)	(168)
Pre-tax profit	(6,713)	(7,404)	(4,733)	(1,687)	(244)	846
Income tax	95	104	79	28	(37)	127
After tax profit	(6,809)	(7,508)	(4,812)	(1,716)	(207)	719
Minority interest	20	11	(11)	34	4	(14)
Others	0	0	0	0	0	0
Net profit	(6,789)	(7,497)	(4,822)	(1,681)	(203)	704
Adjusted net profit	(5,478)	(6,692)	(3,425)	(255)	1,236	2,155

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	36,447	24,453	18,727	44,428	46,610	50,994
Cash & equivalents	7,523	10,187	7,242	26,979	28,112	31,692
Account receivables	1,382	1,329	1,574	2,852	3,121	3,314
Prepayment	4,848	3,545	2,063	6,593	7,213	7,659
ST bank deposits	7,632	4,768	5,195	5,351	5,511	5,677
Other current assets	15,061	4,623	2,653	2,653	2,653	2,653
Non-current assets	15,606	17,378	14,432	13,509	13,431	13,321
PP&E	1,350	1,227	715	878	1,020	1,148
Investment in JVs & assos	5,503	5,651	4,367	4,103	3,829	3,553
Intangibles	3,836	4,327	3,628	3,664	3,615	3,563
Goodwill	2,338	2,725	2,725	2,725	2,725	2,725
Other non-current assets	2,580	3,448	2,998	2,138	2,242	2,331
Total assets	52,053	41,831	33,159	57,936	60,041	64,314
Current liabilities	12,071	17,093	18,104	22,551	23,633	24,401
Short-term borrowings	1,232	6,621	7,456	7,456	7,456	7,456
Account payables	4,361	4,292	4,334	6,109	6,399	6,599
Tax payable	1,232	6,621	7,456	7,456	7,456	7,456
Other current liabilities	2,613	(2,084)	(2,937)	(2,050)	(1,595)	(1,270)
Accrued expenses	2,633	1,643	1,796	3,581	3,918	4,160
Non-current liabilities	18,266	9,498	651	21,555	21,627	23,265
Long-term borrowings	17,784	8,683	1	20,784	20,784	22,369
Other non-current liabilities	482	814	650	771	843	896
Total liabilities	30,337	26,591	18,755	44,106	45,260	47,666
Share capital	0	0	0	0	0	0
Capital surplus	35,930	35,930	38,837	38,837	38,837	38,837
Retained earnings	(13,971)	(20,437)	(24,190)	(24,798)	(23,852)	(21,970)
Other reserves	(255)	(255)	(255)	(255)	(255)	(255)
Total shareholders equity	21,704	15,238	14,392	13,783	14,730	16,612
Minority interest	12	2	12	47	51	36
Total equity and liabilities	52,053	41,831	33,159	57,936	60,041	64,314

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,713)	(7,404)	(4,733)	(1,687)	(244)	846
Depreciation & amortization	539	755	462	532	589	639
Tax paid	95	104	79	28	(37)	127
Change in working capital	(9)	(1,246)	1,413	(1,360)	193	129
Others	3,442	3,878	3,047	4,383	4,724	4,528
Net cash from operations	(2,647)	(3,911)	267	1,896	5,226	6,268
Investing						
Capital expenditure	(3,687)	(2,738)	(3,472)	(3,646)	(3,828)	(4,020)
Acquisition of subsidiaries/ investments	(7,238)	(2,646)	(113)	0	0	0
Others	(13,652)	15,994	9,020	704	(264)	(255)
Net cash from investing	(24,578)	10,609	5,435	(2,942)	(4,093)	(4,274)
Financing						
Net borrowings	11,203	251	(8,683)	20,783	0	1,585
Proceeds from share issues	19,288	0	0	0	0	0
Others	(103)	(4,606)	0	0	0	0
Net cash from financing	30,389	(4,355)	(8,683)	20,783	0	1,585
Net change in cash						
Cash at the beginning of the year	4,678	7,523	10,187	7,242	26,979	28,112
Exchange difference	(319)	321	36	0	0	0
Cash at the end of the year	7,523	10,187	7,242	26,979	28,112	31,692
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	61.5%	13.0%	2.9%	17.0%	9.4%	6.2%
Gross profit	42.4%	(4.8%)	41.4%	56.5%	19.2%	11.8%
Adj. net profit	na	na	na	na	na	74.3%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	20.9%	17.6%	24.2%	32.3%	35.2%	37.1%
Operating margin	(33.2%)	(38.2%)	(22.5%)	(6.5%)	(1.0%)	2.6%
Adj. net profit margin	(28.3%)	(30.6%)	(15.2%)	(1.0%)	4.3%	7.0%
Return on equity (ROE)	(46.3%)	(40.6%)	(32.6%)	(11.9%)	(1.4%)	4.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.5	0.3	0.0	0.1	0.0	(0.1)
Current ratio (x)	3.0	1.4	1.0	2.0	2.0	2.1
Receivable turnover days	26.0	22.1	25.5	39.5	39.5	39.5
Payable turnover days	103.8	86.8	92.6	125.0	125.0	125.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	59.0
P/E (diluted)	ns	ns	ns	ns	ns	59.0
P/B	1.8	2.6	2.9	3.0	2.8	2.5

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

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