

Mobvista Inc. (1860 HK)

Recovery in sight with clear margin expansion

Global macro challenges and inflation dampened Mobvista's 2H22E ads momentum (Mintegral rev slowed to +13% YoY in 4Q22). However, we suggest to look into its FY23E reacceleration (forecasting rev +25% YoY in FY23E), backed by: 1) vertical expansion; 2) China's reopening; and 3) cooperation with Google. As priority on profitability upgraded, we expect FY23E margin enhancement to continue with lighter incentives and stabilized R&D (forecasting GP/adj. NP +27%/110% YoY in FY23E). We forecast Mobvista to deliver 22%/74% topline/bottom line CAGR during FY22-24E. Resume with BUY with SOTP-based TP at HK\$6.3 (1.2x/1.0x FY23/24E P/S, or 58x/40x FY23/24E P/E).

- **Looking beyond 2H22E slowdown.** We expect Mobvista rev +18% YoY in FY22E, with adj. net profit at US\$11mn (vs. -US\$39mn in FY21). Mintegral rev slowed down to +13% YoY in 4Q22, disrupted by shrinking ads budgets amid global macro challenges and inflation. Nativex rev would decline 70% YoY in FY22E as Mobvista further shifted towards programmatic ads. Despite 2H22E headwinds, we are positive on its margin improvement in FY22E with disciplined traffic subsidies (forecasting blended GPM +3.5ppts to 19.6% in FY22E).
- **Priority on margin expansion with quality growth.** Looking into 2023E, we expect Mobvista to reaccelerate with 25% rev growth, boosted by: 1) continuous vertical expansion, with rising hardcore games and ecommerce budget; 2) increasing demand from domestic clients (>30% rev contribution) after China's reopening; 3) better targeting with algorithm optimization; and 4) further upside from cooperation with Google. With priority on profitability upgraded, we see high visibility for Mobvista to continue to improve its margin in FY23E, backed by: 1) higher ads efficiency with lighter incentives; 2) R&D investment to stabilize; and 3) narrowing loss of Reyun. As such, we expect its bottom line +110% YoY in FY23E, with GP +27% YoY.
- **Long-term synergies from Mar-tech biz.** We expect Mar-tech rev +50% in FY23E, accounting for 1.5% of total rev. Its SaaS ecosystem with GA, Reyun, and SpotMax, would not only bring more synergies with Mintegral ads in the long run, but also see narrowing loss ahead.
- **Resume with BUY.** We set our 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). Waiting for more catalysts from: 1) Mintegral ads acceleration from 1Q23E; and 2) cooperation with Google.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	516	755	891	1,114	1,337
YoY change (%)	3	46	18	25	20
Adj. net income (US\$ mn)	9	(4)	11	23	33
Adj. EPS (US\$)	0.01	(0.00)	0.01	0.01	0.02
YoY growth (%)	(79)	NA	NA	110	43
Consensus EPS (US\$)	NA	NA	0.01	NA	NA
P/E (x)	88	(208)	76	37	26
P/S (x)	1.5	1.1	0.9	0.8	0.6
ROE (%)	3	(1)	3	6	9
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
Up/Downside	+50.5%
Current Price	HK\$4.2

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Stock Data

Mkt Cap (HK\$ mn)	7,201
Avg 3 mths t/o (HK\$ mn)	5.26
52w High/Low (HK\$)	6.63/ 3.80
Total Issued Shares (mn)	1,637

Source: Bloomberg

Shareholding Structure

Seamless Technology	62.8%
GIC	8.0%
Citigroup	4.7%

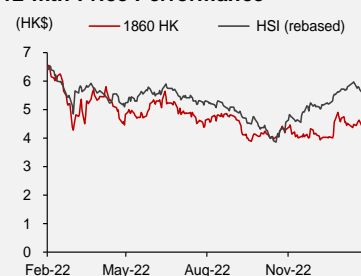
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-3.7%	-2.2%
3-mth	2.3%	-16.3%
6-mth	-5.0%	-9.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

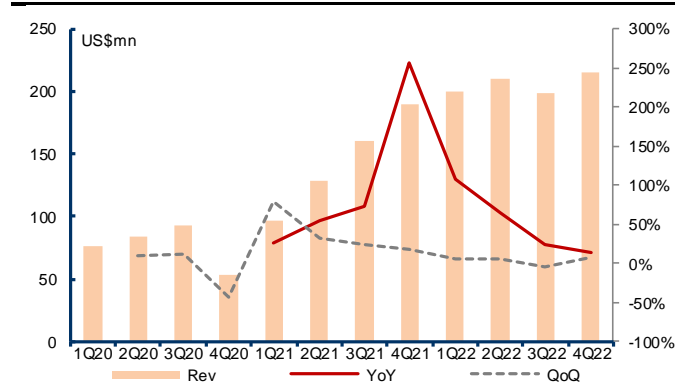
Auditor: KPMG

Global macro challenges and inflation to disrupt 2H22E momentum

Mobvista suffered ads challenges in 2H22E (Mintegral rev slowed down to +13% YoY in 4Q22, vs. +108%/64%/25% in 1Q22/2Q22/3Q22), due to shrinking ads budgets amid global macro challenges and inflation. However, its ads vertical expansion bore continuous fruit, with non-hyper-casual games rev +58% YoY in 4Q22E (rev mix up to 42%).

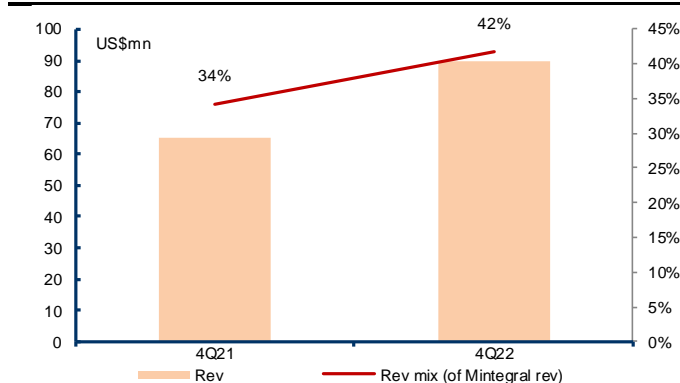
We forecast Mobvista's rev +15% YoY in FY22E (ad-tech rev +17% YoY), with adj. net profit at US\$11mn (vs. -US\$39mn in FY21). Nativex rev may decline 69% YoY in FY22E as Mobvista further shifted towards programmatic ads. Despite 2H22E slowdown, we are positive on its margin improvement in FY22E with disciplined traffic subsidies (forecasting blended GPM +3.5ppts to 19.6% in FY22E).

Figure 1: Mintegral ad rev trend



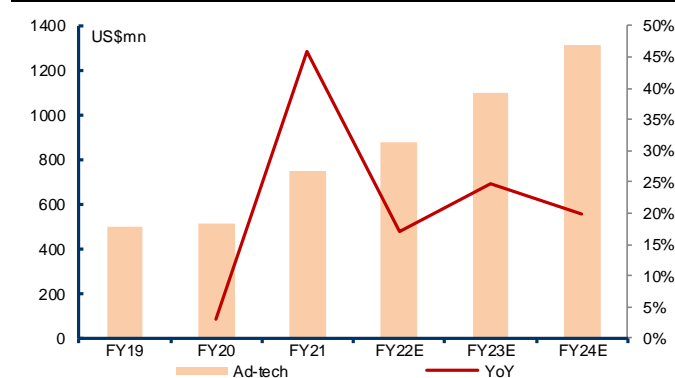
Source: Company data

Figure 2: Higher rev mix of non-hyper-casual games



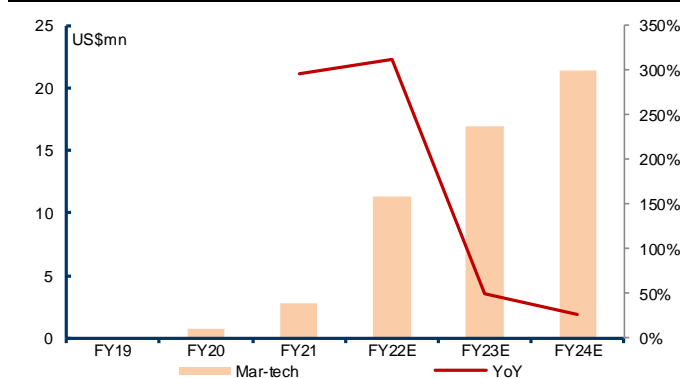
Source: Company data

Figure 3: Ad-tech revenue growth estimates



Source: Company data, CMBIGM estimates

Figure 4: Mar-tech revenue growth estimates



Source: Company data, CMBIGM estimates

Moving into reacceleration in FY23E

Looking into 2023E, we expect Mobvista to reaccelerate with 25% rev growth, boosted by: 1) continuous vertical expansion, with rising hardcore games and ecommerce budget; 2) increasing demand from domestic clients (>30% rev contribution) after China's reopening; 3) better targeting with algorithm optimization; and 4) further upside from cooperation with Google. In the long run, we think Mobvista is well positioned to capture the growing demand of app globalization (especially on SEA mkt) and inflation to stabilize, leveraging its first-mover advantage in "Glocal" operation and cross-jurisdictional know-how.

Figure 5: Mobvista' FY22E preview

US\$ mn, Dec-YE	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	435	500	516	755	891	1,114	1,337
Cost of Sales	(337)	(381)	(434)	(633)	(717)	(892)	(1,069)
Gross profit	98	119	82	122	175	222	268
Selling and marketing expenses	(8)	(10)	(17)	(47)	(62)	(57)	(66)
Research and development expenses	(29)	(35)	(32)	(69)	(97)	(105)	(126)
General and administrative expenses	(36)	(51)	(44)	(28)	(60)	(52)	(56)
Other net income	2	3	6	9	43	9	9
Operating profit	27	25	(5)	(12)	(1)	17	30
Finance costs	(1)	(2)	(2)	(4)	(5)	(5)	(4)
Profit before taxation	26	23	(7)	(31)	7	12	26
Income tax	(4)	(1)	2	6	3	(2)	(4)
Profit for the year	22	22	(5)	(25)	10	10	22
Profit attributable to owners of the Company	22	22	(5)	(25)	10	10	22
Non-controlling interests	0	0	0	(0)	0	0	0
Adjusted net profit	35	41	9	(4)	11	23	33
Margin Analysis							
Gross margin	23%	24%	16%	16.1%	19.6%	19.9%	20.1%
Operating margin	6%	5%	-1%	-2%	0%	2%	2%
Adj. net margin	8%	8%	2%	-1%	1%	2%	2%
Growth Analysis							
Revenue	39%	15%	3%	46%	18%	25%	20%
Gross profit	18%	21%	-31%	48%	43%	27%	21%
Operating profit	-12%	-7%	-121%	137%	NA	NA	78%
Adj. net profit	NA	16%	-78%	-144%	NA	110%	43%

Source: Company data, CMBIGM estimates

Reyun & GA synergies to boost Mar-tech potential

Mobvista started its affiliate marketing business in 2013 to capture the opportunity globalization of Chinese Apps. In its second stage, it launched AI-driven programmatic advertising platform Mintegral in 2015, to facilitate clients to connect to global users in an automated and scalable manner. Mintegral has become one of the top global advertising platforms (according to AppsFlyer Performance Index). After Ad-tech biz development, Mobvista integrate “Ad-tech+Mar-tech” as dual-engines to drive business growth. Mar-tech biz includes a set of SaaS tools under SolarEngine (upgrades from Reyun products), connecting with GameAnalytics (GA), Reyun and SpotMax. It offers various VAS, including creative optimization, comparative analysis of ROI among channels, data insight, marketing automation, cloud cost optimization, etc.

In our view, Mar-tech biz is still at an early stage of building a full-fledged revenue model (still small portion of rev contribution), but we believe it can leverage its broader app coverage, high-volume data and powerful analytics to bring synergies with Mintegral ads in the long run.

We expect Mar-tech rev +50% in FY23E, accounting for 1.5% of total rev (forecasting 5% in the long run). Its SaaS ecosystem with GA, Reyun, and SpotMax, would not only bring more synergies with ads, but also see improving margin ahead.

Figure 6: Three stages of Mobvista’s development

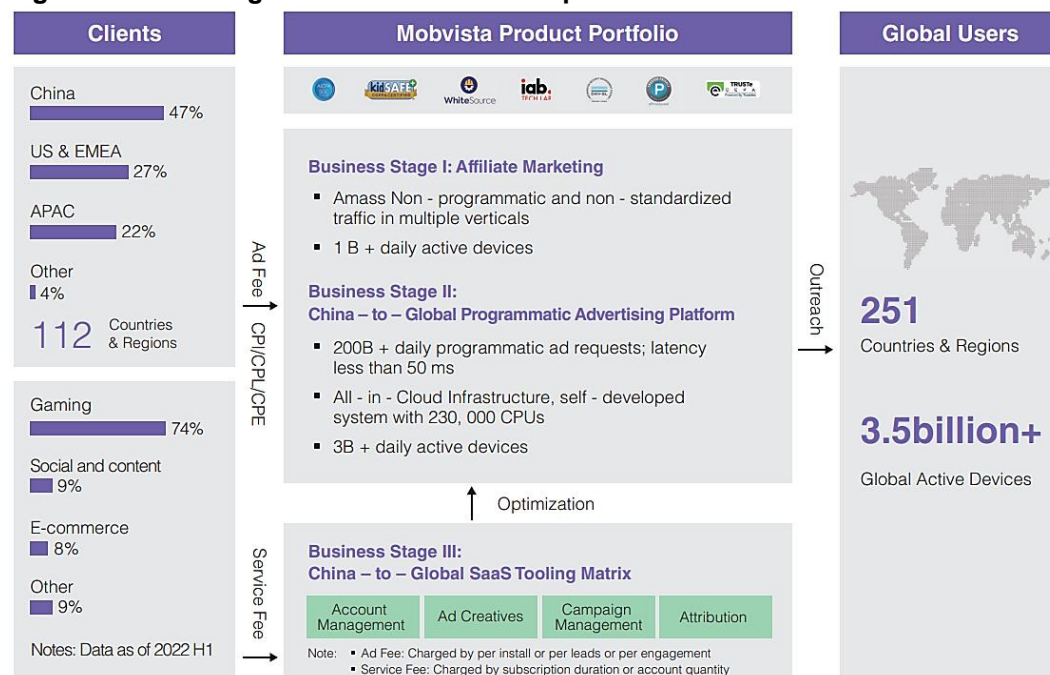
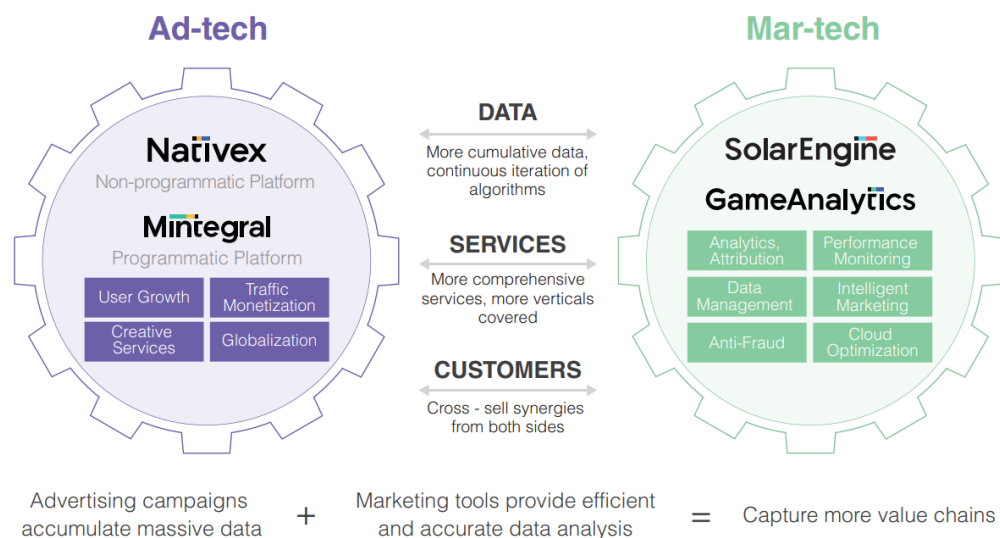
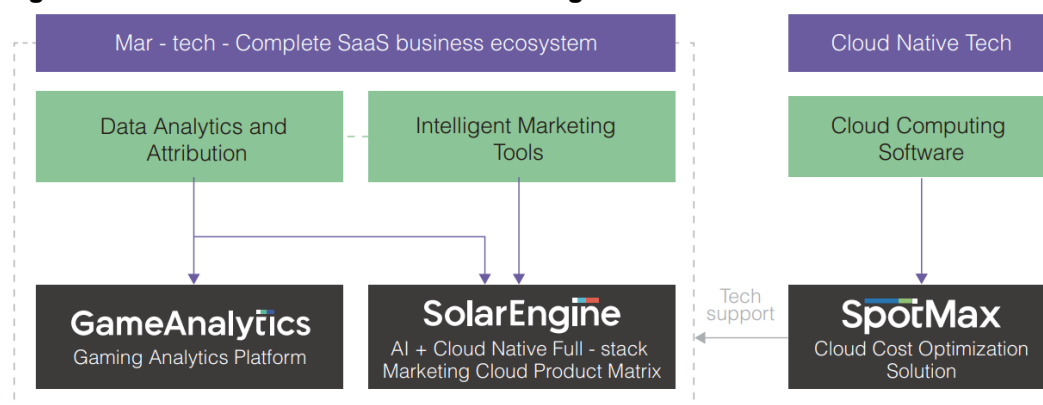


Figure 7: Future strategy of Mobvista



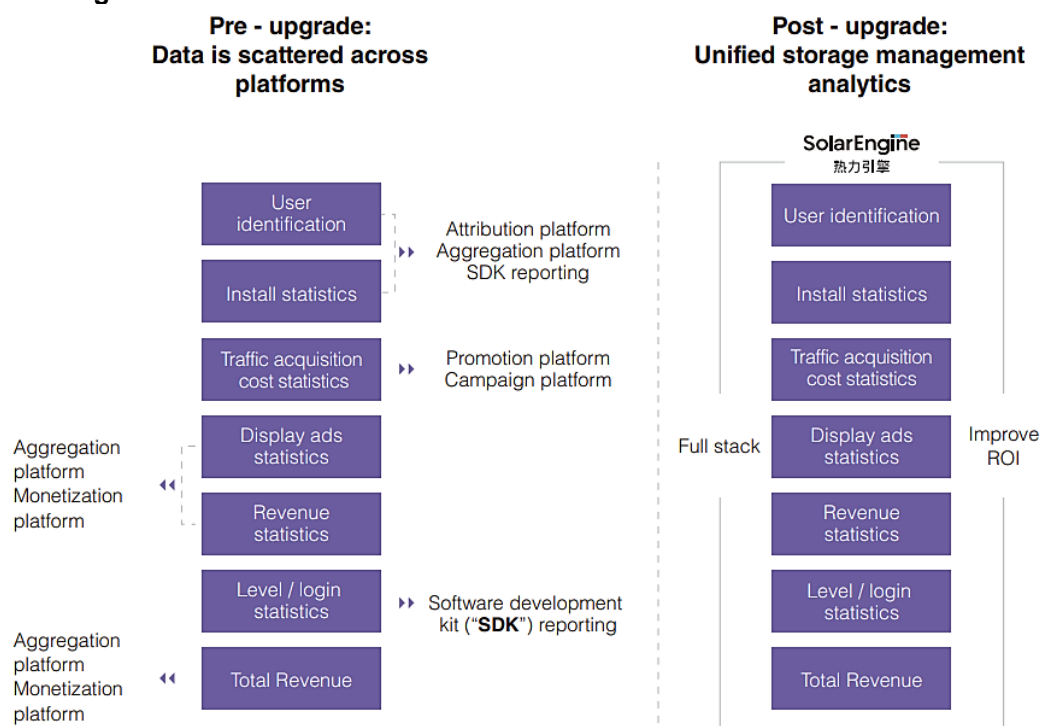
Source: Company data

Figure 8: SaaS tools included under SolarEngine



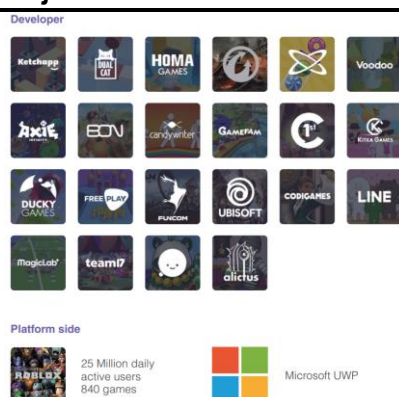
Source: Company data

Figure 9: Comparison of Reyun Data before and after its upgrades to SolarEngine



Source: Company data

Figure 10: Major customers of GA



Source: Company data

Figure 11: Major customers of SolarEngine & Reyun

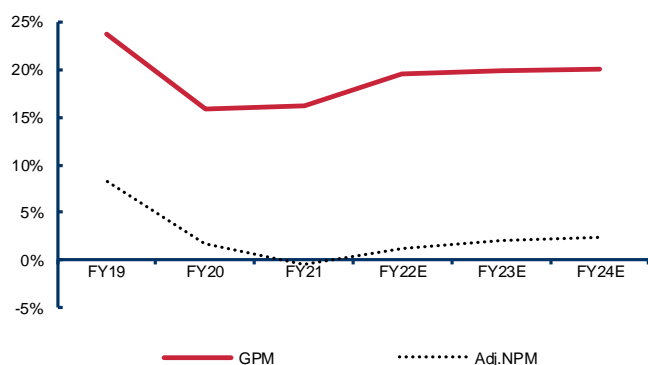


Source: Company data

Priority on margin expansion with quality growth

With priority on profitability upgraded, we see high visibility for Mobvista to continue improve its margin in FY23E, backed by: 1) higher ads efficiency with lighter incentives; and 2) R&D investment to stabilize. As such, we expect its bottom line +110% YoY in FY23E, with GP +27% YoY. Mar-tech biz might record around US\$30mn loss in FY22E, and we forecast its loss will narrow to US\$15mn in FY23E. As such, we forecast Mobvista to deliver 22%/74% topline/bottom line CAGR during FY22-24E.

Figure 12: Margin trend



Source: Company data, CMBIGM estimates

Resume with BUY (TP at HK\$6.3)

We resumed coverage with BUY rating, with SOTP-based TP at HK\$6.3 (implying 1.2x FY23E P/S, or 58x FY23E P/E). We assigned 30x FY23E P/E to ad-tech biz, in line with average multiple of global 3P ad tech peers (Trade Desk and Applovin), and assigned 3.3x P/S to Mar-tech biz (in line with industrial average of SaaS segment). Our TP-implied multiple of 58x/40x FY23/24E P/E is above industrial average of 25x/23x, but we think Mobvista deserves premium multiple given its above-peers growth and better margin outlook.

We selected six global ads companies, eight domestics ads companies and four SaaS companies as comps for peer comparison. We noticed that 3P global players delivered higher valuation multiple than traditional 1P global platforms, for its strong-stickiness subscription model and higher earnings CAGR. Among 3P peers, Trade Desk, Applovin, and Unity could be the most comparable names, in our view, due to its focus on programmatic ads and global reach. As such, we think it is not demanding to apply 30x FY23E P/E on Mobvista ad-tech biz.

Figure 13: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	891	1,114	1,337	947	1,261	NA	-5.9%	-11.6%	NA
Gross Profit	175	222	268	NA	NA	NA	NA	NA	NA
Operating Profit	(1)	17	30	10	3	NA	NA	409.3%	NA
Adj. net profit	11	23	33	14	2	NA	-24.6%	1002.4%	NA
Adj. EPS (RMB)	0.01	0.01	0.02	0.01	NA	NA	NA	NA	NA
Gross Margin	19.6%	19.9%	20.1%	NA	NA	NA	NA	NA	NA
Operating Margin	-0.1%	1.5%	2.3%	1.0%	0.3%	NA	-1.1ppts	+1.3ppts	NA
Adj. net margin	1.2%	2.0%	2.4%	1.5%	0.2%	NA	-0.3ppts	+1.9ppts	NA

Source: CMBIGM estimates, Bloomberg

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

Figure 14: SOTP valuation

SOTP	Methodology	Metrics	Multiple	Valuation
(US\$mn)				
Ad-tech	P/E	FY23E adj. NP	37.8	1,135
Mar-tech	P/S	FY23E Rev	16.9	56
Total				1,190
Net Cash				132
Equity Value (US\$mn)				1,322
Equity Value (HK\$ mn)				10,381
No. of shares (mn)				1,651
Target Price (HK\$) based on SOTP				6.3

Source: Company data, CMBIGM estimates

Figure 15: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBIT			FY22-24 EPS
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	CAGR
Mobvista	1860 HK	858	HKD	4	BUY	6	77.9	37.4	26.3	0.9	0.8	0.6	90.8	NA	NA	NA
Global ads																
Trade Desk	TTD US	29,595	USD	60	NA	NA	54.6	42.0	32.0	15.7	12.5	9.9	NA	55.9	38.5	33%
Applovin	APP US	5,572	USD	15	NA	NA	23.8	18.9	12.2	2.0	1.8	1.6	22.3	15.5	10.7	75%
Unity Software	U US	15,989	USD	40	NA	NA	NA	NA	41.8	11.6	7.3	5.9	NA	NA	46.8	NA
Meta	META US	448,216	USD	173	NA	NA	16.8	14.2	12.7	3.7	3.3	2.9	13.3	11.3	10.0	18%
Google	GOOGL US	1,209,879	USD	94	NA	NA	17.4	14.6	12.2	4.6	4.1	3.7	14.4	12.3	10.5	21%
Snapchat	SNAP US	16,383	USD	10	NA	NA	NA	63.2	24.0	3.5	3.0	2.5	NA	NA	NA	82%
Average							28.1	30.6	22.5	6.8	5.3	4.4	16.7	23.8	23.3	29%
Domestic ads																
Tencent	700 HK	450,990	HKD	370	BUY	450	26.4	21.6	18.5	5.6	5.0	4.5	19.7	17.3	15.4	19%
Baidu	BIDU US	48,968	USD	142	BUY	195	17.0	15.4	13.1	2.7	2.5	2.3	16.1	14.0	11.2	25%
Weibo	WB US	5,032	USD	21	BUY	28	10.3	9.5	8.9	2.7	2.7	2.5	7.7	8.6	7.5	9%
XD Inc.	2400 HK	1,639	HKD	27	NA	NA	NA	NA	32.0	3.4	2.5	2.0	NA	NA	29.6	NA
Weimob	2013 HK	1,794	HKD	5	NA	NA	NA	NA	NA	6.0	4.7	3.9	NA	NA	NA	NA
Zhihu	ZH US	1,093	USD	2	BUY	2	NA	NA	NA	2.1	1.6	1.2	NA	NA	NA	NA
Focus Media	002027 CH	13,918	CNY	7	NA	NA	31.0	19.4	15.5	9.4	7.3	6.2	25.2	15.7	12.5	40%
Blue Focus Group	300058 CH	2,147	CNY	6	NA	NA	NA	25.7	19.8	0.4	0.3	0.3	NA	18.2	14.0	NA
Average							21.2	18.3	18.0	4.0	3.3	2.9	17.2	14.8	15.0	23%
SaaS																
Salesforce	CRM US	165,170	USD	165	NA	NA	33.4	28.3	23.4	5.3	4.8	4.3	26.2	21.8	18.0	18%
Youzan	8083 HK	512	HKD	0	NA	NA	NA	NA	NA	2.4	2.1	1.7	NA	NA	NA	NA
Ming Yuan Cloud	909 HK	1,462	HKD	6	HOLD	6	NA	NA	62.2	4.8	4.1	3.4	NA	NA	NA	NA
KE Holdings	BEKE US	23,298	USD	19	BUY	23	78.4	30.0	23.6	2.7	2.3	2.0	NA	26.4	18.4	75%
Average							33.4	29.2	23.5	3.8	3.3	2.9	26.2	24.1	18.2	18%
Average							30.9	25.2	23.5	4.9	4.0	3.4	18.1	19.7	18.7	23%

Source: Company data, BBG, CMBIGM estimates

Key Investment Risks

Key investment risks may derive from: 1) softer-than-expected global macro momentum; 2) potential loss of key advertisers or publishers; and 3) higher-than-expected investment or net loss from SaaS biz.

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	516	755	891	1,114	1,337
Mobile advertising	515	753	880	1,097	1,316
Data analytics services	1	3	11	17	21
Cloud products & services					
Cost of revenue	(434)	(633)	(717)	(892)	(1,069)
Gross profit	82	122	175	222	268
S&M	(17)	(47)	(62)	(57)	(66)
R&D	(32)	(69)	(97)	(105)	(126)
G&A	(4)	(3)	(6)	(5)	(6)
Other net income	6	9	43	9	9
Operating profit	(7)	(31)	7	12	26
Interest income	2	1	3	1	1
Finance costs	(2)	(4)	(5)	(5)	(4)
Pre-tax profit	(7)	(31)	7	12	26
Tax	2	6	3	(2)	(4)
Profit for the year	(5)	(25)	10	10	22
Minority interest	-	(0)	-	-	-
Net profit	(5)	(25)	10	10	22
Adj. net income	9	(4)	11	23	33

Cash flow summary

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(7)	(31)	7	12	26
D&A	13	29	30	31	32
Change in working capital	(7)	36	67	(13)	54
Others	17	8	5	2	(1)
Operating CF	16	42	109	32	110
Capex	(0)	(11)	(5)	(5)	(5)
Other	(29)	19	3	1	1
Investing CF	(30)	8	(2)	(4)	(4)
Proceeds from bank loans	218	271	-	-	-
Repayment of bank loans	(217)	(267)	-	-	-
Others	(15)	57	(5)	(5)	-
Financing CF	(14)	61	(5)	(5)	(4)
Net change in cash	(28)	112	102	23	102
Cash (beg of yr)	67	39	150	252	276
FX	0	(1)	-	-	-
Cash (end of yr)	39	150	252	276	378

Balance sheet

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	102	264	239	214	187
PP&E	11	8	7	5	3
Intangible assets	43	118	93	69	45
Goodwill	29	115	115	115	115
Deferred tax assets	15	22	22	22	22
Investments	3	2	2	2	2
Deposits & prepayments	1	-	-	-	-
Current assets	396	483	655	620	922
Receivables	297	183	383	324	524
Restricted cash	5	6	6	6	6
Cash & cash equivalents	39	160	252	276	378
Current tax recoverable	1	1	1	1	1
Current liabilities	221	350	553	482	736
Trade and other payables	150	215	482	411	664
Current taxation	10	8	8	8	8
Bank loans	56	59	59	59	59
Non-current liabilities	9	38	11	11	11
Bank loans	-	-	-	-	-
Deferred tax liabilities	2	8	8	8	8
Minority interest	-	23	23	23	23
Shareholder's equity	268	337	347	357	379
Total equity	268	337	347	357	379

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Mobile advertising	99.9	99.6	98.7	98.5	98.4
Data analytics services	0.1	0.4	1.3	1.5	1.6
Cloud products & services	100.0	100.0	100.0	100.0	100.0
Total					
Growth (%)					
Revenue	3.2	46.4	18.0	25.0	20.0
Gross profit	(30.8)	48.4	43.4	26.9	20.8
Operating Income	NA	NA	NA	67.3	113.2
Adj. net profit	(78.1)	NA	NA	110.1	43.5
Profitability (%)					
Gross margin	15.9	16.1	19.6	19.9	20.1
Pre-tax margin	(1.4)	(4.1)	0.8	1.1	1.9
Tax rate	(26.8)	(19.4)	41.2	(15.0)	(15.0)
Net margin	1.7	(0.5)	1.2	2.0	2.4
Returns (%)					
ROE	3.4	(1.2)	3.1	6.4	8.6
ROA	1.8	(0.5)	1.2	2.7	3.0
Per share data					
EPS (US\$)	0.01	(0.00)	0.01	0.01	0.02
DPS (US\$)	-	-	-	-	-
BVPS (US\$)	0.2	0.2	0.2	0.2	0.2

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

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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
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