

Bilibili (BILI US)

2023 investor day: commercialization and content ecosystem drive business growth

We attended Bilibili (Bili) 2023 investor day on 22 Jul. Our key takeaways are: 1) overall strategy: emphasizing healthy content ecosystem development and commercialization, which are the two pillar drivers for its business development; 2) ads: to further expand ad inventory, improve e-commerce ecosystem and enhance tech capabilities; 3) games: focusing on top-tier games in specific genres with long product life cycle and global launch potential; 4) live streaming: further integrating PUGV and live streaming ecosystem, and enriching content categories, to drive higher penetration of live streaming users; 5) AIGC: to enhance search experience, launch AI assistant and improve content creation efficiency. Overall, we remain upbeat on Bili's improving monetization and its trajectory to achieve breakeven by FY24. Our SOTP-derived TP is US\$27.2. Maintain BUY.

- **Improving monetization to drive sustainable growth.** For ads business, Bili will grow its ad inventory by expanding ad scenarios (e.g., search, live streaming and private domain) and utilizing dynamic ad load technique. The company will continue to improve its e-commerce ecosystem via developing commerce infrastructure and cooperating with e-commerce platforms. During this-year 618 festival, ads consumption increased by over 200% YoY due to improvement of its e-commerce ecosystem. For live streaming business, Bili will further integrate live streaming and PUGV ecosystems to drive growth of live streaming user traffic. Bili will also develop new live streaming content genres with high monetization potential such as live chat rooms (hundreds of millions annual revenue) and virtual live broadcasters (over 2.2mn paid users in TTM). We expect these initiatives to drive healthy growth of ads/VAS revenue, with a CAGR of 19/13% over FY23-25E.
- **Mobile games: focus on quality products.** Management articulated a clearer roadmap for its mobile game business, that, to focus on developing/publishing the top-tier games in specific genres with long life cycle and global launch potential. For licensed games, Bili has three games scheduled for launch in 2H23: Millennium Tour (Aug), Klight (Sept), and Overload (Oct); and we expect the highly-anticipated Petty Derby to be launched in 3Q23. For self-developed games, Bili now has 3 in-house game studios with over 800 employees, focusing on ACG, female-oriented and action games genres. The three self-developed games: Alkaidland Records, Thrud and Higan: Eruthyll, are planned for launch in Jul, Aug and Oct.
- **AI empowers business growth.** Management believe AI will bring new opportunities: 1) AI can enhance video search capabilities to attract more users search information on Bili; 2) Bili plans to launch AI assistant to improve user experience in the video consumption; 3) Bili will provide content creators with AI-enabled tools to enhance content creation efficiency. Besides, AI will improve Bili's ad recommendation and game development. We see Bili to benefit from AI development in the long term.

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
Adjusted net profit (RMB mn)	(5,478.1)	(6,691.7)	(3,668.7)	(1,494.6)	269.3
EPS (Adjusted) (RMB cents)	(1,442.44)	(1,700.40)	(893.57)	(364.05)	65.60
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\$27.20
Up/Downside 75.9%
Current Price US\$15.46

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Stock Data

Mkt Cap (US\$ mn)	6,347.3
Avg 3 mths t/o (US\$ mn)	79.4
52w High/Low (US\$)	29.20/8.92
Total Issued Shares (mn)	410.6

Source: FactSet

Shareholding Structure

Rui Chen	13.7%
Tencent	9.3%

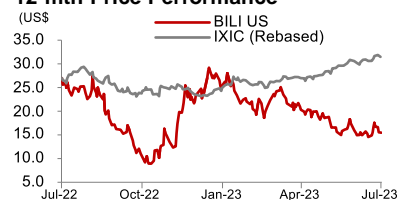
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-0.6%	-4.4%
3-mth	-24.1%	-34.7%
6-mth	-39.1%	-51.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

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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