

China Internet

China online advertising: onset for gradual recovery in 2023E

China online advertising market revenue declined by 6.4% YoY to RMB508.8bn in 2022 as per IMZ, the first YoY revenue drop in the past 7 years, but compared to offline advertising this performance is relatively more resilient. On a QoQ basis, the online advertising market has been showing recovery signs since 3Q22. Online ad market revenue returned to positive 6.5% YoY growth in November 2022. Given the pace of economic recovery, we expect online ads sector should deliver strong rebound from 2Q23E onwards. While the whole internet sector will benefit from recovery in demand, we would like to highlight Tencent and Bilibili will have incremental drivers in 2023E, 1) innovations in advertising products (Video Account/Story Mode); 2) enhancing monetization; recovery in offline activities will also benefit search and LBS (location-based) advertising players, such as Baidu, Kuaishou and Douyin.

- **Ad budget shifting to channels and formats with higher ROI.** With the tightening ad budget, advertisers prefer performance ads over display ads, as the ads impacts are crucial during economic downcycle and amid tough competition. Hence, revenue share of performance ads increased by 2pct YoY to 69%, while that of display ads declined by 2pct YoY to 26% in 2022. Short video sector is the only sector that recorded YoY ad revenue growth in 2022, which grew 6% YoY and accounted for 16.9% of total China online ad revenue (2021: 14.9%) in 2022. Other online ad platforms faced pressure in 2022, for instance e-commerce/social media/search platforms recorded 3/2/14% YoY ad revenue decline in 2022, equivalent to 38.1/10.2/9.6% of total online ad revenue.
- **Ad demand from food & beverage, personal care and transportation were resilient in 2022.** Food & beverage and personal care & maternal products maintained ad spending in 2022, with their ad spending share up by 1.4/1.1pct to 30.6/34.0% in 2022. Real estate and education sectors' ad spending share dropped significantly by 2.7pct and 1.1pct YoY to 0.6% and 0.5% in 2022, primarily due to tightening regulations in both sectors. Transportation sector ad spending was up by 14% YoY to RMB53.2bn in 2022 and accounted for 10.5% of total online ad spending (2021: 8.6%), driven by increasing ad budget from EV companies. In 2023, we expect discretionary sectors recovery will fuel online ad demand recovery.
- **Upbeat on online ad revenue growth in 2023E.** We identified several sectors that are likely to see solid ad spend rebound in 2023E, due to the reopening of offline activities (retail & logistics + travel & entertainment), and economic policy support related sectors (real estate + home furnishing + decorations). Based on our estimate, the potentially recoverable ad spending by these sectors is RMB36.8bn, representing 7% incremental YoY ad revenue in 2023E. For 2023E, we forecast: 1) Tencent's ad revenue to grow by 14% YoY, driven by the monetization of Video Accounts and regulatory impact on certain verticals wearing off; 2) Bili's ad revenue to increase by 30% YoY, supported by improving ad monetization infrastructure, growing user base and increasing ad inventory; 3) Weibo's ad revenue to grow by 8% YoY on constant currency, driven by recovery of ad demand and expansion of ad categories (e.g. gaming and NEV ads). 4) Baidu Core's ads revenue to grow 7% YoY, driven by recovery in macro, Baidu's enhanced mobile ecosystem, and increase in percentage of video contents showed in search results which bears higher eCPM; 5) Alibaba's customer management revenue to grow 6.1% in FY24E, driven by the recovery in GMV growth, and recovery in ad sentiment of merchants.

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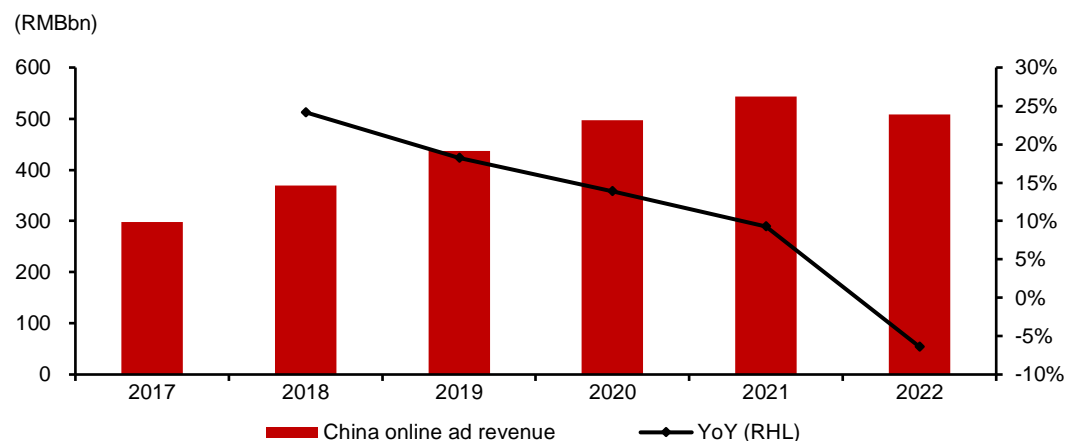
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2022 China online ad market recap

According to IMZ (Interactive Marketing Lab Zhongguancun), China online advertising market revenue declined by 6.4% YoY to RMB508.8bn in 2022, the first YoY revenue decline in the past seven years. Despite the challenges, online advertising market has experienced gradual improvement since 3Q22. Online ad market revenue returned to positive YoY growth of 6.5% in November 2022. With the optimization of COVID-19 control measures, we are positive that the online advertising market revenue will deliver strong rebound in 2Q23E on a lower base and recovery of ad demand.

Figure 1: China: online ad market revenue

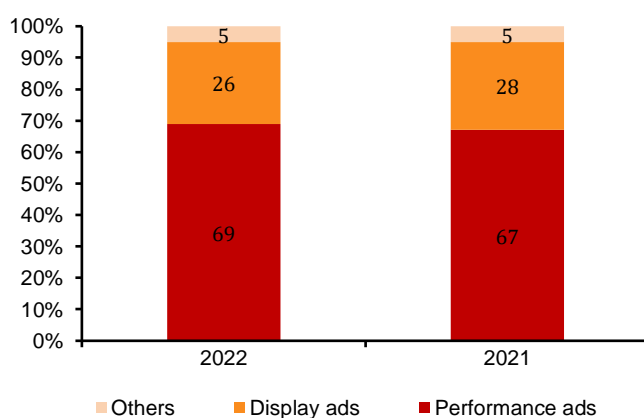


Source: IMZ, CMBIGM

With the tightening ad budget during economic downturn, advertisers prefer performance ads over display ads, as they seek for measurable return with high ROI. Hence, revenue share of performance ads increased by 2pct to 69%, while that of display ads declined by 2pct YoY to 26% in 2022.

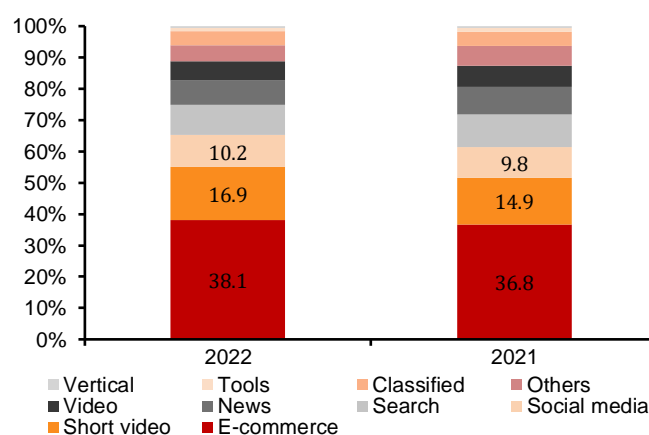
Short video sector is the only sector that recorded YoY ad revenue growth in 2022. Short-video ad revenue grew by 5.9% YoY to RMB85.9bn in 2022 and accounted for 16.9% of total online ad revenue (2021: 14.9%), mainly attributable to its increasing share of user time spend and relatively high ROI. Other ad platforms faced pressure in 2022. E-commerce/social media/search platforms recorded 3/2/14% YoY ad revenue decline in 2022, equivalent to 38.1/10.2/9.6% of total online ad revenue.

Figure 2: Online ad revenue breakdown by formats



Source: IMZ, CMBIGM

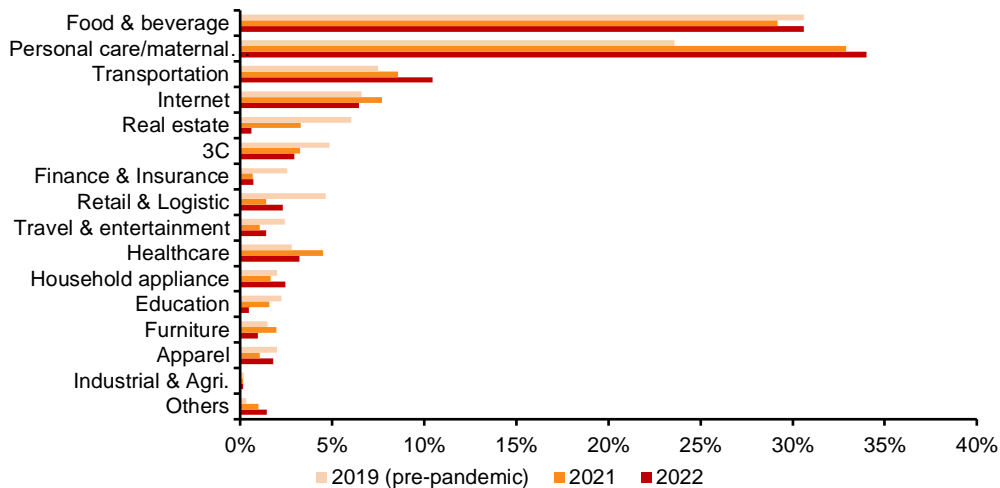
Figure 3: Online ad revenue breakdown by media



Source: IMZ, CMBIGM

In terms of ad spending by different sectors, consumer staple sectors like food & beverage and personal care & maternal products maintained their ad spending despite macro headwind, with their ad spending share up by 1.4/1.1pct to 30.6/34.0% in 2022. Real estate and education sectors' ad spending share dropped significantly by 2.7pct and 1.1pct YoY to 0.6% and 0.5% in 2022, primarily due to the tightening regulations in both sectors. Transportation sector ad spending was up by 14% YoY to RMB53.2bn in 2022 and accounted for 10.5% of total online ad spending (2021: 8.6%), driven by increasing ad budget of EV companies. In 2022, the EV sector ad spent partially offset the decline in consumer electronics ad spending.

Figure 4: Online ad spending by sector



Source: IMZ, CMBIGM

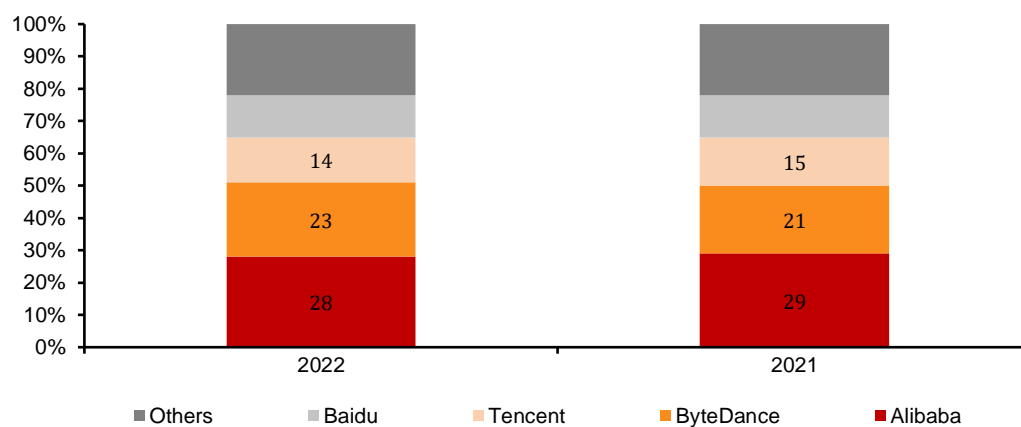
We identified that several sectors were significantly impacted by COVID-19 or regulations during 2020-2022, but are likely to increase their ad budgets in 2023E due to reopening of offline activities (retail & logistics + travel & entertainment) or new policy support (real estate + furniture). Based on our estimate, the potentially recoverable ad spending by these sectors is RMB36.8bn, representing 7% incremental YoY ad revenue in 2023E.

Figure 5: Sectors that are likely to see solid ad spending rebound in 2023E

(RMBbn)	2019	2022	As % of 2019 level	Comment
Real estate	26.3	3.1	11.8%	Policy supports sales and ad budget recovery
Retail & Logistic	20.4	11.9	58.3%	Re-opening supports offline retail and ad budget recovery
Travel & entertainment	10.5	7.1	67.7%	Re-opening supports offline travel and ad budget recovery
Furniture	6.5	4.8	74.3%	Real estate chain
Total	63.7	26.9	42.2%	
Potentially recoverable ad spending	36.8			
As % of 2022 total online ad revenue	7%			

Source: IMZ, CMBIGM

Combined online ad market share of the top four platforms was largely stable at 77.5% in 2022. Leading platforms maintained their leadership despite sector headwind. Among the top four platforms, market share of ByteDance increased by c.2pct to 23% in 2022, while that of Alibaba/Tencent dropped by c.1/1pct to 28/14%.

Figure 6: Ad revenue share of online platforms

Source: IMZ, CMBIGM

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