OUTPERFORM (Maintain)

China Internet

3Q22 preview: near term bumpy recovery

Consumption sentiment and offline activities' recovery pace continued to weigh on internet sector's 3Q financials performance. Looking into 4Q and 2023, business model robustness, operating leverage improvement, and ability to expand into new revenue streams will be the key stock alpha drivers, while the heavily under-owned China Internet sector will remain sensitive to policies and other sentiment related beta drivers. We expect leading technology companies will play vital role in building digital infrastructure and empowering enterprise digital transformation. Over the long-run, companies that can expand overseas and provide digital enterprise services will be able to expand TAM. For the near term, we prefer companies that are more sensitive to consumption recovery, such as PDD, Meituan, JD, and TME, while we remain upbeat on the long-term development prospects of Tencent, Alibaba, and Baidu.

- **Consumer internet:** We expect e-commerce and advertising sectors to benefit from consumption recovery, gradually improving into 2023E. We expect online ad revenue growth will recover along with consumption sentiment (China's total retail sales growth: +3.5% YoY in 3Q22 vs. -4.6% YoY in 2Q22). E-commerce sector competition is consolidating, with leading players expanding overseas for bigger TAM or moving up the supply chain. While gaming sector still faces growth pressure due to high-base effect, lack of new titles and regulatory overhang, China's online games market revenue dropped by 19% YoY to RMB59.7bn in 3Q22, long term growth drivers will come from overseas market expansion.
- **Digital infrastructure and enterprise services: progressing ahead.** China cloud services sector revenue growth slowed to 11% YoY in 2Q22, however, we remain upbeat on deepening enterprise digitalization over the long term, given there is ample demand from various industries to improve production/operating efficiency to combat rising structural costs and competitive pressure. China public cloud market accounted for 4.5% of China's overall IT spending in 2020, vs 14.5% in US, indicating abundant potential for cloud services growth. Leading internet companies, such as Alibaba, Tencent, and Baidu are playing leading role in opening up their technology infrastructure, their investment and empowerment remain crucial in supporting China's technology advancement.
- **Sensitivity analysis to assess fundamental robustness amid near-term uncertainties**. Companies with diversified revenue streams, business model that allows high ROE cushion, solid growth strategy that are not prone to margin destructive competition, can better cushion worse-than-expected consumption sentiment recovery. For instance Tencent, which has diversified revenue exposure and sturdy consumer internet business, its business model allows improving operating leverage to stabilise ROE. Looking into 2023, companies with concentrated revenue exposure to consumption (e-commerce & ads) will have their bottom-line more sensitive to consumption recovery trajectory, such as PDD, BABA, JD, Meituan, and Weibo.

  From business model robustness and competitive strengths perspective, we expect PDD, Tencent, Meituan, and JD to enjoy better operating leverage to boost bottom line recovery. On cash flow perspective, sector cash flow conditions are in general healthy. However, we expect it takes time for free cash flow of Bilibili to turn positive, given the company is still investing in user acquisition, and investing to enhance its content library.

China Internet Sector

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

Ye TAO
franktao@cmbi.com.hk

Wentao LU
luwentao@cmbi.com.hk

Related Reports

1. Meituan (3690 HK) – Balancing growth and efficiency – 2 Nov 2022
2. Tencent (700 HK) – Ecosystem value and growing diversification – 29 Oct 2022
3. Baidu (BIDU US) – Eyes on new technologies development – 27 Oct 2022
4. Pinduoduo (PDD US) – Strong consumer mindshare aids monetization progress and cost optimization – 27 Oct 2022
5. JD.com (JD US) – Stabilizing amidst testing times – 27 Oct 2022
6. Alibaba (BABA US) – Consolidate strength, growing new horizons – 27 Oct 2022
7. Bilibili (BILI US) – User base and engagement growth are crucial – 26 Oct 2022
8. Weibo (WB US) – Navigate short-term headwind – 26 Oct 2022
9. Cloud Music (9899 HK) – Monetization and margin improvement on the horizon – 25 Oct 2022
10. TME (TME US) – Resilience in the evolving industry – 24 Oct 2022
11. NetEase Inc. (NTES US) – Sturdy game and content developing leader – 24 Oct 2022
12. Trip.com (TCOM US) – Revenue recovery underway – 24 Oct 2022
13. Internet – AWS Summit GCR 2022: unveiled four strategic initiatives in China market – 17 Oct 2022

Contents

3Q22 & 2023E preview: earnings visiability is vital

Revenue recovery should come along with recovery in macro and consumption

Looking into 3Q22E, consumer internet companies, especially those have high revenue exposure to consumption sentiment related end-industries (i.e. advertising, e-commerce, payment) still faced top-line pressure. We expect the reflection point will gradually emerge in 2023E, given the recovery of macro environment and lower base effect.

We prefer companies with established consumer mindshare and competitive edge (such as PDD), relative larger exposure to higher-tier cities (such as Meituan and JD), and companies that can still grow emerging revenue streams (such as Tencent ramping up revenue generation from Video Accounts). These companies can better cushion shaky consumer sentiment. In addition, revenue growth of companies such as Trip.com and NetEase tends to rely more on external environment, such as the approval of game license and the relaxation of pandemic prevention policy, hence is likely to have less visibility.

Among e-commerce and local life-style services companies, we expect greater revenue growth visibility for PDD and Meituan. For PDD, its strong user stickiness and strategic move to incorporate more branded and high ASP products are likely to drive robust GMV growth and further increase monetization rate, thereby driving robust revenue growth for 2H22 and 2023. For Meituan, we estimate its GMV generated from first-tier cities in China accounted for over 40% of total in-store GMV in 2021, which should aid revenue recovery once pandemic risks ease.

We also expect steady revenue recovery for JD in 2023E, supported by its established consumer mindshare aided by superior logistic infrastructure, but demand for home appliance, electronics could still remain weak in 2023, and market share gain potential is much reduced compared with 2020-2022 period. For Alibaba, we estimate its GMV accounted for 48% of total online retail sales GMV in 2022E, and its core commerce revenue recovery will be inline with China overall consumption recovery pace but its earnings recovery is boosted by rationalization strategy on its new-retail businesses.

Figure 1: Internet sector: total revenue

		Total revenue (RMBmn)				YoY%				vs. consensus	
Company	**Ticker**	**1Q22**	**2Q22**	**3Q22E**	**2023E**	**1Q22**	**2Q22**	**3Q22E**	**2023E**	**3Q22E**	**2023E**
Platform											
Alibaba	BABA US	204,052	205,555	208,868	1,004,333	8.9%	-0.1%	4.1%	12.0%	-0.2%	-0.1%
Tencent	700 HK	135,471	134,034	140,557	614,074	0.1%	-3.1%	-1.3%	10.0%	-1.2%	-7.1%
Baidu	BIDU US	28,411	29,647	31,762	137,657	1.0%	-5.4%	-0.5%	10.7%	-1.2%	-2.8%
E-commerce & local life services											
JD.com	JD US	239,655	267,600	243,178	1,230,050	18.0%	5.4%	11.2%	15.7%	0.0%	0.5%
Pinduoduo	PDD US	23,794	31,440	29,335	144,739	7.3%	36.4%	36.4%	21.1%	-4.7%	-5.1%
Meituan	3690 HK	46,269	50,938	62,049	285,213	25.0%	16.4%	27.1%	29.2%	-0.7%	-1.4%
Social entertainment											
NetEase	NTES US	23,556	23,159	24,411	104,243	14.8%	12.8%	10.0%	7.3%	-0.9%	-4.9%
BiliBili	BILI US	5,054	4,909	5,788	26,584	29.6%	9.2%	11.2%	20.7%	1.2%	-5.3%
TME	TME US	6,644	6,905	7,067	29,724	-15.1%	-13.8%	-9.5%	7.1%	-0.1%	0.6%
Cloud Music	9899 HK	2,067	2,192	2,403	11,595	38.6%	29.5%	24.8%	27.5%	-	-
Weibo	WB US	485	450	469	1,965	5.6%	-21.6%	-22.8%	4.8%	1.3%	-6.2%
OTA											
Trip.com	TCOM US	4,111	4,016	6,562	29,672	0.0%	-31.8%	22.7%	41.6%	4.9%	-2.5%

Source: Company data, CMBIGM estimates
Note: 1) Weibo currency is USD; 2) Alibaba is using FY24E data.

Soft advertising demand continued in 3Q22E. However, as Tencent's ad revenue growth recovers from the low base and the monetization of Weixin Video Account accelerates, we forecast Tencent's total revenue to increase by 10.0% YoY in 2023E. We forecast Bili's total revenue to grow 20.7% YoY in 2023E, supported by the recovery of ad demand, user base growth and new ad monetization opportunities. For Baidu, we expect its core search and feed ads business to recover along with macro recovery and normalization of offline activities in 2023E. We forecast Baidu's core search and feed ads revenue growth of 6.6% YoY in 2023E, after experiencing a YoY decline of 4.0% in 2022E.

In the online music sector, we expect Cloud Music revenue to grow 24.8/27.5% YoY in 3Q22/2023E, with faster growth than TME (-9.5%/+7.1% YoY), as Cloud Music's social entertainment business remains at early development stage and equivalent to 19% of TME's social entertainment revenue in 2021. We forecast TME's total revenue to rebound by 7.1% YoY in 2023E, driven by solid growth of its music subscription business and recovery of its advertising business.

We expect NetEase's total revenue growth to gradually decelerate in 3Q22E and 2023E, mainly due to the lack of new games and the tightening regulatory environment. NetEase continues to step up investment in the overseas gaming development capability to prepare for the long-term growth opportunities.

For live streaming e-commerce, we forecast GMV growth of 25.0% YoY in 2023E to RMB4.1tn, slowing down from 38% YoY in 2022E but will increase its penetration in total retail sales to 8.6% (2022E: 7.3%). Converting more existing user base to e-commerce business users remains a key driver for the GMV growth of live streaming e-commerce platforms, as the over RMB4,000 average revenue per e-commerce user for leading short-video platforms in 2021 is not low, in our view, compared to RMB2,810 for PDD.

Platform companies control opex to stabilize ROE

On the earnings front, some companies already started costs control initiatives as early as 4Q21. The positive impacts should start to reflect in 3Q22 earnings and help to offset negative impacts from soft demand. We expect companies with strong user stickiness to stand in a more proactive position in unleashing operating leverage, as they can reduce opex without sacrificing competitiveness.

Among e-commerce companies, we expect PDD and JD will still deliver relatively better earnings growth in 3Q22. PDD's strong earnings growth is supported by its strong user stickiness, which puts PDD in a more proactive position to manage its sales and marketing spend. We estimate JD to sustain over 40% YoY growth in non-GAAP net income in 3Q22, aided by efficient cost saving and expansion in gross margin, driven by more controlled sales promotion activities. For Alibaba, the strategic move to streamline new business and drive for operating efficiency improvement will likely propel its non-GAAP net income back on YoY growth track in 3Q22E.

For Trip.com, efficient cost control could also help drive its non-GAAP net income back on growth track in 3Q22, but we expect more concrete recovery to come along with the relaxation of pandemic prevention policy, which we currently expect to take place in 2023.

Tencnet and TME earnings in 2H22E will be partially boosted by operating leverage improvement, while NetEase earnings will be largely stable. We forecast the YoY decline of Tencent's non-IFRS net income will narrow to 9.1% YoY in 3Q22E (1Q22: -22.9%; 2Q22: -17.3% YoY), and its non-IFRS net income to rebound by 15.2% YoY in 2023E, driven by the strong operating leverage and stabilizing of its consumer-related business. Also, we forecast TME's non-IFRS net income to grow 17.8% YoY in 3Q22E, mainly attributable to its effective control in selling and marketing expenses. NetEase earnings will remain largely stable YoY in 2H22E despite the high-base effect, as its core games business is resilient amid macro challenges.

Bili and Weibo will still face bottom-line pressure in 2H22E. We forecast BiliBili's adjusted net loss to further expand HoH in 2H22E, mainly due to soft performance of higher-margin mobile games and advertising businesses. We estimate Weibo non-GAAP net income will decline by 33.7/13.2% YoY in 3Q22/4Q22E, as its core ad business remains weak amid macro challenges.

Figure 2: Internet sector: adjusted net income

		Adjusted net income (RMBmn)				YoY%				vs. consensus	
Company	**Ticker**	**1Q22**	**2Q22**	**3Q22E**	**2023E**	**1Q22**	**2Q22**	**3Q22E**	**2023E**	**3Q22E**	**2023E**
Platform											
Alibaba	BABA US	21,454	31,355	32,783	156,711	-24.4%	-31.5%	7.4%	8.1%	11.3%	-3.4%
Tencent	700 HK	25,545	28,139	28,866	130,400	-22.9%	-17.3%	-9.1%	15.2%	-5.4%	-6.2%
Baidu	BIDU US	3,879	5,541	5,552	20,494	-9.7%	3.4%	9.1%	0.8%	0.2%	-7.6%
E-commerce & local life services											
JD.com	JD US	4,032	6,489	7,284	30,939	1.6%	40.3%	44.3%	29.2%	1.3%	0.6%
Pinduoduo	PDD US	4,200	10,776	7,457	37,930	-	161.2%	136.7%	22.7%	5.8%	3.8%
Meituan	3690 HK	-3,586	2,058	1,499	13,354	-	-	-	-	65.0%	-1.9%
Social entertainment											
BiliBili	BILI US	-1,653	-1,964	-1,966	-5,230	-	-	-	-	-	-
NetEase	NTES US	5,118	5,410	4,993	21,862	0.7%	28.0%	29.4%	7.8%	0.8%	-8.0%
TME	TME US	899	1,029	1,196	4,722	-23.9%	-7.9%	17.8%	8.7%	6.1%	8.0%
Cloud Music	9899 HK	-152	-65	-65	-346	-	-	-	-	-	-
Weibo	WB US	133	110	139	561	1.7%	-40.0%	-33.7%	-2.0%	2.8%	-7.3%
OTA											
Trip.com	TCOM US	-36	-203	742	4,884	-82.4%	-127.9%	41.8%	299.1%	-8.6%	-7.1%

Source: Company data, CMBIGM estimates
Note: 1) Weibo currency is USD; 2) Alibaba is using FY24E data.

Sector cash flow conditions are in general healthy

As sector competition and user acquisitions have reached steady state, most internet companies have passed initial investment growth stage. A few leading companies have core consumer internet businesses that can provide steady cash flows. Cash flows outlook will remain a key health check factor for internet companies, given competitive pressure and the need for cash to finance future growth opportunities, such as expanding into overseas markets, or growing user base, or investing into new initiatives. As long as consumption sentiment improves, and we do not expect margin destructive competitive strategies will reappear, most internet companies should see an improving trend on both operating cash flow and free cash flow over 2022-2024E. However, we expect it takes time for free cash flow of Bilibili to turn positive, given it is still investing in user acquisition, and investing to enhance its content library. We also expect JD's FCF to have some short-term disturbance, due to the expansion of its logistic network.

PDD, Baidu, Alibaba's core business has sizeable operating cash flows profile, but the magnitude of investment on new business will be the key disturbance factor for cash flow. For Pinduoduo, we expect the impact of its investment on cross-border e-commerce business likely to kick-in from 4Q22 onward, and the intensity of investment is a key to watch. For Baidu, cash flow generated from ads business provides solid support for investment in to new initiatives.

For JD, compared to platform e-commerce companies, its core business has relatively thin margin, and the investment on logistic infrastructure could bring negative impact for cash flow in the short-term. Yet, the overall profitability of JD's core retail business is improving, driven by enlarging economies of scale which could help cushion the impact of infrastructure investment.

We expect free cash flow of Tencent, NetEase and TME to improve in 2023E, mainly supported by their well-established business models and steady earnings growth. However, Bili's free cash flow will remain negative in 2023E due to its heavy investment in user acquisition and content. We expect its share price will remain choppy under current market sentiment, until it develops a self-sustained business model with more efficient operation and monetization.

Figure 3: Internet sector: free cash flow comparison

Company	Ticker	2019	2020	2021	2022E	2023E	2024E
Platform							
Alibaba	BABA US	130,914	172,662	98,874	113,190	132,821	157,887
Tencent	700 HK	86,355	133,031	74,412	95,898	99,578	137,106
Baidu	BIDU US	22,030	19,116	9,226	19,497	24,660	28,836
E-commerce & local life services							
JD.com	JD US	19,453	34,922	26,228	7,840	21,293	32,010
Pinduoduo	PDD US	13,236	25,891	21,508	53,373	56,737	60,328
Meituan	3690 HK	-2,828	-13,707	-20,940	-12,033	609	24,207
Social entertainment							
BiliBili	BILI US	(1,966)	(1,421)	(2,025)	(7,056)	(6,461)	(3,330)
NetEase	NTES US	16,916	20,281	23,104	19,364	20,639	22,140
TME	TME US	5,869	3,844	1,907	2,252	3,703	3,417
Cloud Music	9899 HK	(1,622)	(815)	(1,010)	(383)	289	583
Weibo	WB US	611	376	508	263	464	517
OTA							
Trip.com	TCOM US	5,340	-7,517	1,714	336	7,541	8,987

Source: Company data, CMBIGM estimates
Note: 1) Weibo currency is USDmn; 2) other companies unit in RMBmn; 3) Alibaba is using FY20-25E data for comparison

Figure 4: Internet sector: valuation comparison

Companies	Ticker	Price	PS (x)			PE (x)			PEG (x)	Adj. EPS CAGR (%)
		(Local)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2022E-2024E
Alibaba	BABA US	65.2	1.5	1.3	1.2	9.1	7.9	7.0	2.0	4.4
JD.com	JD US	40.4	0.5	0.4	0.4	20.2	16.9	13.1	0.9	22.9
Pinduoduo	PDD US	57.0	4.6	3.7	3.1	21.7	17.6	15.5	na	(14.7)
VIPShop	VIPS US	7.6	0.4	0.3	0.3	6.3	5.9	5.7	na	(0.4)
Meituan	3690 HK	149.5	3.9	3.0	2.4	na	82.6	33.8	na	na
Beike	BEKE US	10.8	1.7	1.4	1.2	63.0	21.2	19.5	2.8	22.6
Trip.com	TCOM US	26.5	6.6	4.4	3.5	126.3	26.8	17.1	na	na
Wise Talent	6100 HK	7.6	1.2	1.0	0.8	12.9	9.4	7.5	0.8	15.5
Tencent	700 HK	238.6	3.8	3.4	3.0	18.4	15.4	12.8	3.0	6.1
NetEase	NTES US	59.2	3.0	2.7	2.5	13.5	11.9	10.8	2.2	6.2
Kuaishou	1024 HK	41.9	2.0	1.6	1.4	na	na	17.1	na	na
Bilibili	BILI US	9.5	1.5	1.2	1.0	na	na	na	na	na
TME	TME US	3.8	1.8	1.7	1.6	12.8	11.4	10.3	na	(1.2)
Cloud Music	9899 HK	56.5	1.2	1.0	0.8	na	na	26.1	na	na
China Lit	772 HK	23.8	2.7	2.4	2.2	16.5	13.9	12.0	1.6	10.5
YY	YY US	26.7	0.8	0.8	0.7	14.4	11.4	9.9	0.5	26.7
Momo	MOMO US	5.0	0.6	0.6	0.6	4.5	4.1	3.8	na	(23.6)
Baidu	BIDU US	78.2	1.7	1.5	1.4	11.1	9.5	7.6	1.5	7.4
Weibo	WB US	12.7	1.6	1.5	1.4	5.8	5.2	4.7	na	(4.5)
Koolearn	1797 HK	42.2	44.5	13.0	9.9	na	63.2	39.8	na	na
Ali Health	241 HK	4.0	2.1	1.7	1.3	na	na	212.6	na	na
JD Health	6618 HK	53.9	3.8	2.8	2.2	109.1	86.8	55.8	5.2	20.9
PAH	1833 HK	16.5	2.6	2.2	1.9	na	na	na	na	na
Average			**4.1**	**2.3**	**1.9**	**12.9**	**10.8**	**9.3**		
Facebook	META US	88.9	2.1	2.0	1.8	8.4	8.7	6.7	na	(1.2)
Amazon	AMZN US	89.3	1.8	1.6	1.4	62.8	30.4	19.7	7.5	8.3
Uber	UBER US	28.7	1.8	1.5	1.3	na	108.4	27.2	na	na
Apple	AAPL US	138.9	5.6	5.4	5.1	22.7	22.1	20.3	3.4	6.7
Microsoft	MSFT US	214.3	8.3	7.7	6.8	22.6	22.1	19.0	1.9	11.9
Netflix	NFLX US	269.1	3.7	3.4	3.1	25.1	24.1	20.1	4.1	6.1
Disney	DIS US	99.3	2.2	1.9	1.8	27.6	19.3	16.3	0.7	38.6
Google	GOOG US	83.4	4.8	4.2	3.7	15.5	13.3	11.5	na	(60.5)
Salesforce	CRM US	146.3	4.5	3.9	3.4	30.9	25.9	21.0	2.3	13.4
Zoom	ZM US	78.4	5.3	4.8	4.4	21.2	22.1	21.1	na	(9.8)
Adobe	ADBE US	285.9	7.5	6.8	6.0	21.0	18.6	16.2	1.7	12.1
ServiceNow	NOW US	385.6	10.1	8.2	6.7	52.6	42.2	33.5	2.1	24.8
Datadog	DDOG US	75.0	13.5	10.0	7.4	83.8	69.5	49.3	1.8	46.8
Snowflake	Snow US	150.5	20.7	13.7	9.7	na	389.8	172.0	na	na
Workday	WDAY US	140.2	5.5	4.6	3.9	41.1	31.3	24.5	3.2	12.7
Oracle	ORCL US	75.0	4.1	3.9	3.6	15.1	13.3	11.8	1.5	10.2
SAP	SAP US	92.7	3.8	3.5	3.3	20.3	17.5	16.3	na	(0.7)
Roblox	RBLX US	43.3	9.0	7.8	6.6	na	na	na	na	na
Average			**6.3**	**5.3**	**4.4**	**24.9**	**21.6**	**18.3**		

Source: Bloomberg, CMBIGM
Note: data as of 4 November 2022

Internet sector: sensitivity analysis

Companies with diversified revenue streams, business model and growth strategy that can defend margin erosion competition, can better cushion worse-than-expected consumption sentiment recovery. Tencent, with more diversified revenue exposure and mature business model, is more resilient in the backdrop of sector and macro headwind. On the other hand, companies with concentrated revenue exposure to consumer-related sectors (e-commerce & ads) are likely to become major beneficiaries of the consumption recovery. For example, revenue growth of PDD, BABA, JD and Weibo are more sensitive the consumption recovery, based on our sensitivity analysis.

E-commerce: consistent revenue recovery could still take time

Among e-commerce companies, PDD's revenue growth could have the largest elasticity among peers, driven by the ramp up of monetization from community group purchase business, and incorporation of more branded products. Alibaba's revenue growth could be inline with overall consumption recovery in domestic market, while elasticity on revenue generation may be driven by the recovery of international commerce business.

Social entertainment: competition may still weigh on revenue recovery

Social entertainment platforms including Weibo, TME and BiliBili may still face intensifying competitions that can weigh on their revenue growth and margin expansion in 2023E. Platforms with concentrated revenue exposure to advertising business, like Weibo, will be more sensitive to the competition and macro environment. Social entertainment platforms need to innovate their monetization methods in order to fend off competition and macro headwind, in our view.

Figure 5: Sensitivity analysis on revenue generation (2023E)

			% change in total revenue under different pp/bps changes in driver growth (revenue/take rate)			
Company	**Sensitivity drivers**	**Revenue contribution**	**1pp/10bps**	**3pp/30bps**	**5pp/50bps**	**8pp/80bps**
Pinduoduo	GTV & Take rate	na	3.3%	10.0%	16.8%	27.4%
Alibaba	GTV & Take rate	na	1.2%	3.5%	6.0%	9.7%
JD	Product & service revenue	100.0%	0.9%	2.6%	4.3%	6.9%
Weibo	Advertising revenue	86.7%	0.9%	2.6%	4.3%	6.9%
TME	Non-subs & social revenue	68.7%	0.6%	1.9%	3.2%	5.1%
Baidu	Online advertising revenue	58.8%	0.6%	1.7%	2.8%	4.4%
BiliBili	VAS & ad revenue	63.5%	0.5%	1.6%	2.6%	4.2%
Tencent	Ads & FBS revenue	46.8%	0.4%	1.3%	2.1%	3.4%

Source: Company data, CMBIGM estimates

Companies with thin net margin and high opex ratio (i.e. higher absolute value of opex ratio divided by net margin), are more likely to benefit from the companies' expenses control initiatives. Under the bull case scenario, if Bili's S&M and R&D expenses growth were 8pp lower, its adjusted net loss in 2023E could be narrowed by 15.3%. However, for companies which have already established a strong earnings profile like Tencent and Alibaba, their expense control initiatives will bring less significant marginal improvement to their earnings growth in 2023E.

Figure 6: Sensitivity analysis on adjusted net income (2023E)

					% change in adj. earnings under different pp changes in opex growth			
Company	**Sensitivity drivers**	**Opex %**	**Adj.NPM**	**Opex%/NPM**	**-1pp**	**-3pp**	**-5pp**	**-8pp**
BiliBili	S&M + R&D	37.5%	-19.7%	1.9	1.9%	5.7%	9.6%	15.3%
JD	S&M + G&A	17.7%	2.5%	7.1	1.4%	4.1%	6.8%	10.8%
Weibo	S&M + R&D	48.0%	28.6%	1.7	1.3%	4.0%	6.6%	10.6%
Pinduoduo	S&M + G&A	18.3%	26.2%	0.7	1.1%	3.2%	5.4%	8.6%
TME	S&M + G&A	19.7%	15.9%	1.2	1.0%	3.0%	4.9%	7.9%
Tencent	S&M + G&A	24.3%	21.2%	1.1	0.9%	2.7%	4.5%	7.2%
Baidu	SG&A	17.2%	14.9%	1.2	0.7%	2.2%	3.7%	6.0%
Alibaba	S&M + G&A	16.6%	14.8%	1.1	0.8%	2.3%	3.8%	`6.1%

Source: Company data, CMBIGM estimates

Company update: 3Q22E and 2023E outlook

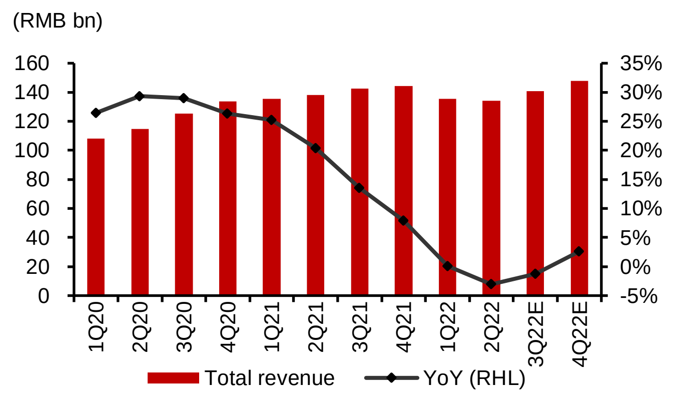
Tencent (700 HK, BUY, TP HK$398.0)

Tencent is deploying its WeChat ecosystem, which we expect will disrupt consumer internet industry competition and partially offset slowing macro impact. Infrastructure to support real economy industries, such as enterprise and fintech services, overseas markets development will be Tencent's growth drivers for the long run. Due to revenue exposure to high ROE consumer internet business, revenue recovery coupled with Opex optimization will stabilize earnings from 2023 onwards. BUY.

- **3Q22 preview: expect gradual recovery of non-IFRS net income**

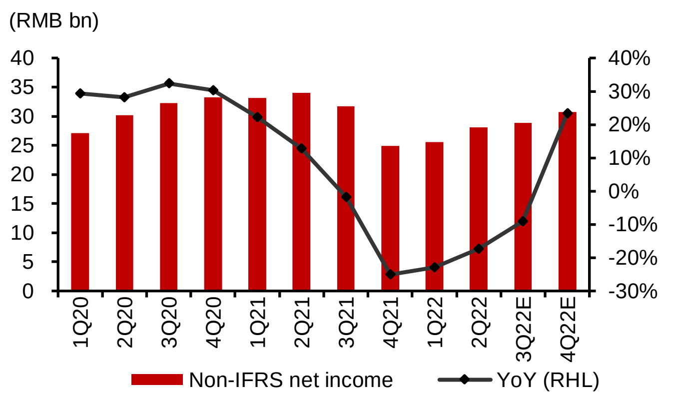
In 1H22, Tencent's total revenue and non-IFRS net income was down 1.5% YoY and 20.1% YoY, in the backdrop of macro challenges and resurgence of COVID-19. Looking into 2H22E, we forecast total revenue growth of +0.9% YoY, supported by 1) incremental contribution from deploying video account and WeChat ecosystem; 2) steady growth in FBS revenue; 3) while other segments will still be under negative impacts from softening macro conditions. However, Tencent has already started to optimize its opex since 2Q22. We expect operating leverage will help to stabilise net profit margins and non-IFRS net profit will return to growth by 5.1% YoY in 2H22E.

Figure 7: Tencent: total revenue



Source: Company data, CMBIGM estimates

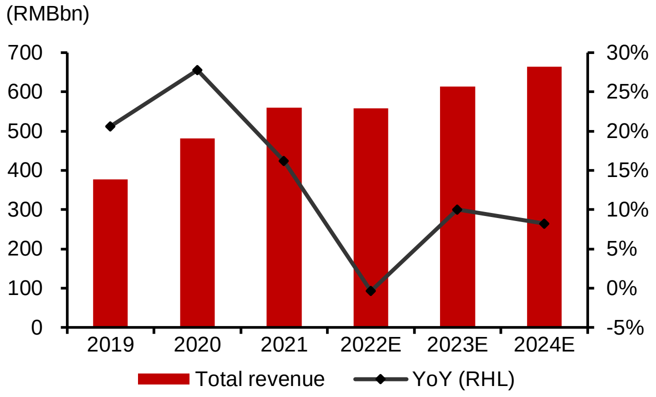
Figure 8: Tencent: non-IFRS net income



Source: Company data, CMBIGM estimates

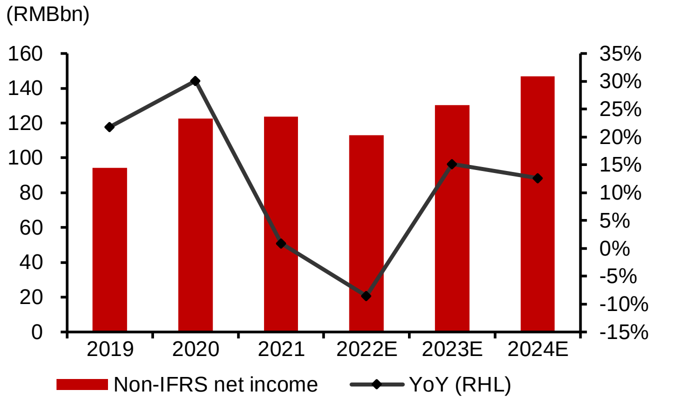
We forecast Tencent's total revenue to decline by 0.4% YoY to RMB558.0bn in 2022E, before rebounding by 10.0/8.2% YoY to RMB614.1/664.7bn in 2023/2024E, as advertising and FBS revenue growth reaccelerate with the recovery of consumption in 2023E. Besides, the operating leverage improvement and opex control will support non-IFRS net income to grow by 15.2/12.7% YoY to RMB130.4/146.9bn in 2023E/2024E, based on our estimates.

Figure 9: Tencent: total revenue



Source: Company data, CMBIGM estimates

Figure 10: Tencent: non-IFRS net income



Source: Company data, CMBIGM estimates

■ **Valuation and key catalyst**

Tencent's current valuation of 19.0x forward 1-year PE offers attractive risk-reward compared to its 3-year historical average (22.9x). The current PE is 1x S.D. below its historical average.

We identify key catalysts for the share price to be: 1) stronger than expected operating leverage; 2) accelerating monetization of Weixin Video Account; 3) macro recovery supports rebound of ad, fintech and enterprise services businesses.

Alibaba (BABA US, BUY, TP US$154.5)

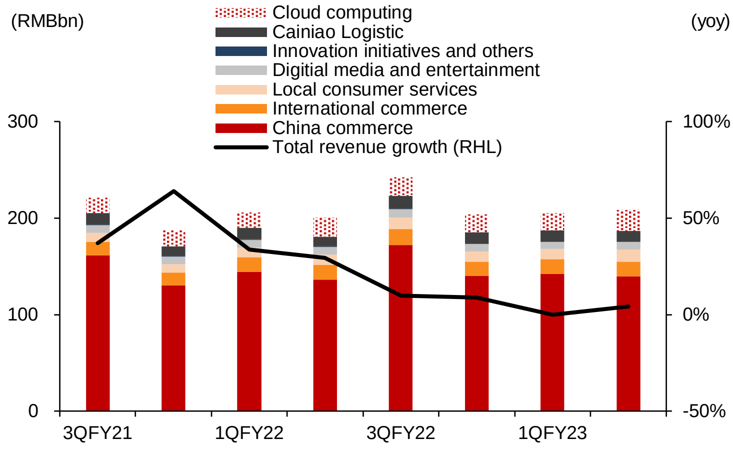
Alibaba's earnings recovery will be aided by the streamlining of new businesses and operation optimization across business lines. Macro headwinds and low consumption sentiment dampened Alibaba's GMV growth of China commerce marketplace in 1H22, but we do expect gradual recovery in 2023, which could provide additional support for earnings recovery. International expansion and cloud business remain on track for long-term development, despite some short-term challenges. On a FY22-25E rev CAGR of 8.9%, we forecast non-GAAP NP CAGR of 6.0%. Our SOTP based TP of US$154.5 translates into 20.1x FY23E PE (non-GAAP). With current trading valuation of 8.3x FY23E PE (non-GAAP), risk-award is attractive.

■ **3Q22 preview: likely to reach inflection point of earnings growth**

We forecast Alibaba to have recorded revenue of RMB208.9bn in 2QFY23E (March year-end), up 4.1% YoY, 0.2% lower than Bloomberg consensus, mainly due to more gradual than expected recovery in overall macro conditions, which weigh on recovery of consumption sentiment.

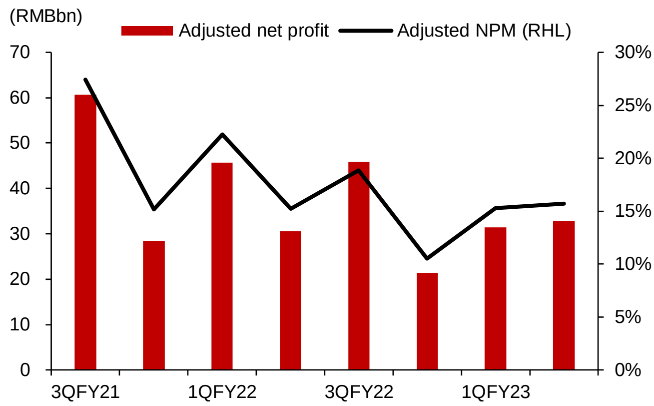
Alibaba is focusing on quality growth in FY23, streamlining new businesses, and targeting for operating efficiency improvement across business lines. We expect the inflection point on positive earnings growth to be seen in 2QFY23E. We forecast non-GAAP net profit of RMB32.8bn for 2QFY23E, implying a 7% YoY increase, driven by stringent cost control, which was 11% higher than Bloomberg consensus.

Figure 11: BABA: Revenue growth and forecast (Qtr)



Source: Company data, CMBIGM estimates

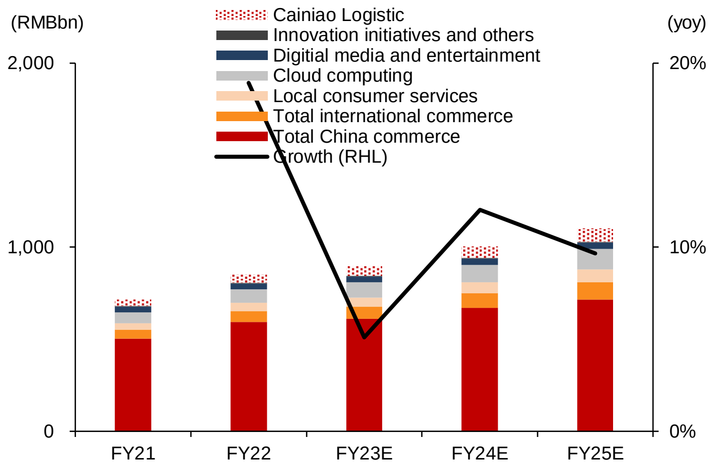
Figure 12: BABA: non-GAAP NP and NPM (Qtr)



Source: Company data, CMBIGM estimates

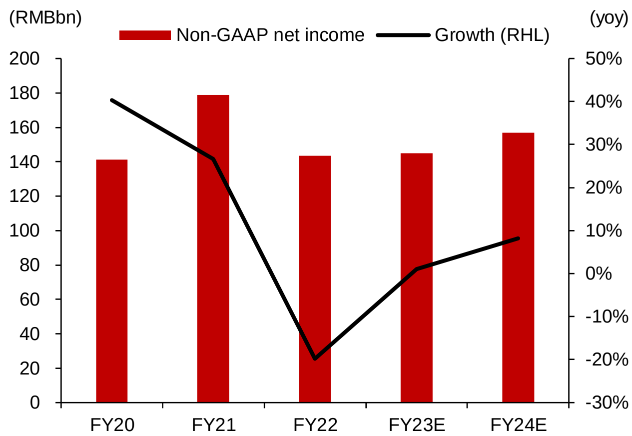
On full-year basis, we forecast Alibaba to achieve a revenue CAGR of 8.9% in FY22-FY25, reaching RMB1.1tn in FY25, and a non-GAAP net profit attributable to ordinary shareholders CAGR of 6.0% to RMB171.0bn in FY25E.

Figure 13: BABA: Revenue growth and forecast



Source: Company data, CMBIGM estimates

Figure 14: BABA: non-GAAP NP and NPM



Source: Company data, CMBIGM estimates

- **Sensitivity analysis on revenue and earnings**

We conduct a sensitivity analysis to gauge Alibaba's total revenue growth sensitivity to its GTV growth and change in take rate, which we identify as key drivers for customer management revenue growth.

Under our bull-case assumption, if GTV growth forecast was raised by 1/3/5/8pp in FY24E driven by better-than-expected recovery in consumption sentiment, and if monetization rate was raised by 0.1/0.3/0.5/0.8pp in FY24E aided by enhanced user stickiness, Alibaba's total revenue could have 1.2/3.5/6.0/9.7% upside in FY24E. Under our bear-case assumption, if GTV growth forecast was lowered by 1/3/5/8pp in FY24E due to slower-than-expected recovery of macro environment, and take rate was lowered by 0.1/0.3/0.5/0.8pp due to intensified competition and potential launch of merchant support policies, Alibaba's total revenue could have 1.1/3.4/5.6/8.7% downside in FY24E.

Figure 15: Alibaba total revenue: sensitivity analysis

FY24E (RMBmn)	Change in GTV growth forecast (FY24E)	FY24E GTV growth	Change in take rate forecast (FY24E)	Increase in take rate (FY24E)	Other revenues	Total revenue	Comparison with base case
Case I	-8pp	0.1%	-0.8pp	-0.84pp	680,344	916,675	-8.7%
Case II	-5pp	3.1%	-0.5pp	-0.54pp	680,344	948,354	-5.6%
Case III	-3pp	5.1%	-0.3pp	-0.34pp	680,344	970,268	-3.4%
Case IV	-1pp	7.1%	-0.1pp	-0.14pp	680,344	992,819	-1.1%
Base case		8.1%		-0.04pp	680,344	1,004,333	0.0%
Case V	1pp	9.1%	0.1pp	0.06pp	680,344	1,016,005	1.2%
Case VI	3pp	11.1%	0.3pp	0.26pp	680,344	1,039,828	3.5%
Case VII	5pp	13.1%	0.5pp	0.46pp	680,344	1,064,287	6.0%
Case VIII	8pp	16.1%	0.8pp	0.76pp	680,344	1,102,168	9.7%

Source: Company data, CMBIGM estimates

We also conduct a sensitivity analysis to analyze Alibaba's non-GAAP net income sensitivity to its S&M expenses and G&A expenses. Under our bull-case assumption, if S&M expenses and G&A expenses growth forecasts were both decreased by 1/3/5/8pp in FY24E thanks to more effective than expected cost control measures, Alibaba's non-IFRS net income could increase by 0.8/2.3/3.8/6.1% in FY24E. Under our bear-case assumption, if S&M expenses and G&A expenses growth were raised by 1/3/5/8pp in FY24E as Alibaba enhanced its investment in China retail marketplace, international expansion as well as cloud, Alibaba's non-IFRS net income could decrease by 0.8/2.3/3.8/6.1% in FY24E.

Figure 16: Alibaba non-GAAP net income: sensitivity analysis

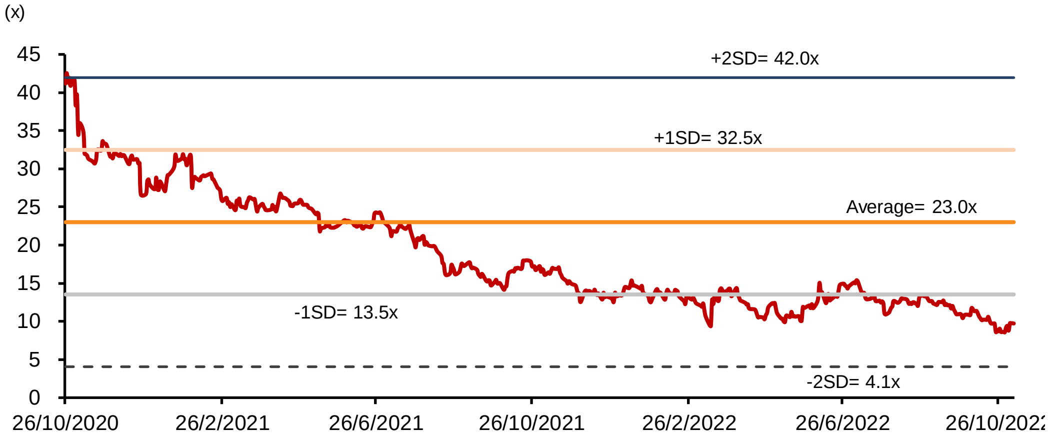
FY24E (RMBmn)	Change in S&M/ G&A expenses YoY growth	S&M expense YoY growth	G&A expense YoY growth	Implied S&M expense ratio	Implied G&A expense ratio	FY24E Non-GAAP NPM	FY24E Net profit	Comparison with base case
Case I	-8pp	5.8%	-1.7%	12.0%	3.4%	15.7%	157,785	6.1%
Case II	-5pp	8.8%	1.3%	12.3%	3.5%	15.4%	154,369	3.8%
Case III	-3pp	10.8%	3.3%	12.6%	3.6%	15.1%	152,092	2.3%
Case IV	-1pp	12.8%	5.3%	12.8%	3.7%	14.9%	149,815	0.8%
Base case		13.8%	6.3%	12.9%	3.7%	14.8%	148,676	0.0%
Case V	1pp	14.8%	7.3%	13.0%	3.7%	14.7%	147,538	-0.8%
Case VI	3pp	16.8%	9.3%	13.2%	3.8%	14.5%	145,261	-2.3%
Case VII	5pp	18.8%	11.3%	13.5%	3.9%	14.2%	142,983	-3.8%
Case VIII	8pp	21.8%	14.3%	13.8%	4.0%	13.9%	139,568	-6.1%

Source: Company data, CMBIGM estimates

■ Valuation and key catalyst

Alibaba is trading at 8.3x FY23E PE, vs three-year TTM average of 23.0x non-GAAP PE, which in our view could be mainly attributable to: 1) risk-off of foreign investors on China internet stocks due to geopolitical risks; and 2) macro headwinds which impacted consumer's consumption willingness. Alibaba's risk-reward is attractive at the current stage, in our view, and we expect recovery in macro and consumption sentiment, as well as the inflection point on earnings growth, aided by streamline of new business and operating efficiency improvement, to be catalysts for stock price.

Figure 17: Alibaba: non-GAAP PE band over the past three years



Source: Company data, Bloomberg, CMBIGM

Baidu (BIDU US, BUY, TP US$192.8)

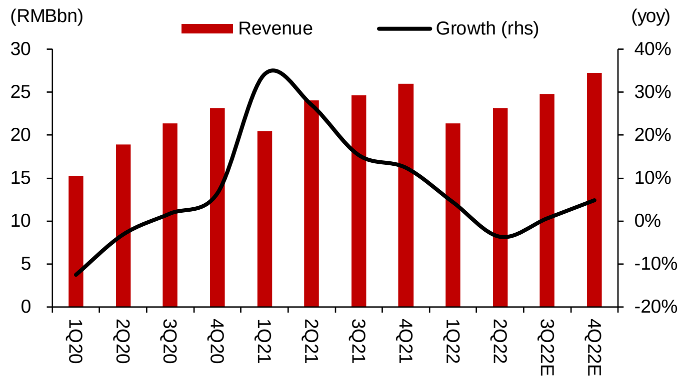
Baidu saw sequential recovery on core search and feed ads demand in July-August compared to June as pandemic impact gradually waned. Although ads demand recovery is likely to be rocky given uncertain COVID resurgence conditions, we expect limited room for incremental negative impacts rolling into 2023. Cash flows generated from ads business provide solid support for investing into new initiatives. We remain confident on long-term potential of Baidu's AI cloud, next generation operating system development and autonomous driving. Baidu has established a wide array of industry and ecosystem partnerships, enjoyed early-mover advantage in AI cloud computing and autonomous driving, and the roadmap towards new technologies goals is clear. With 21-24E revenue CAGR of 6.4%, we forecast non-GAAP net income CAGR of 8.5%. Our SOTP valuation derived target price is US$192.8. BUY.

- **3Q22 preview: non-GAAP net profit likely beat market consensus**

We forecast 3Q22 Baidu Core revenue of RMB24.8bn, up 0.6% YoY, and Baidu Core's non-GAAP operating profit margin (OPM) to improve to 22.6% in 3Q22 (2Q22: 22.1%), thanks to gradual ads recovery, stringent cost control, and improving cloud margins aided by better offering mix.

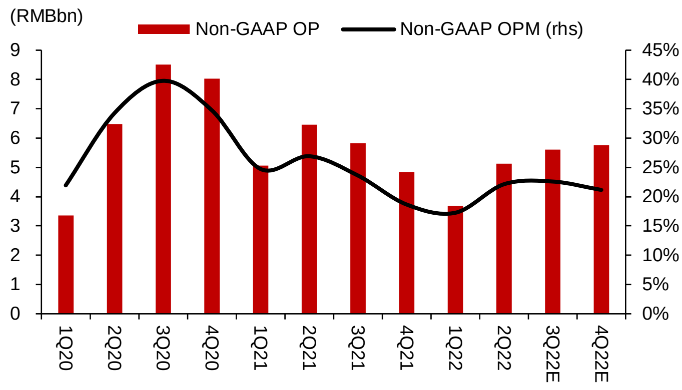
Overall, we forecast Baidu Group revenue reached RMB31.8bn in 3Q22E, down 0.5% YoY, and non-GAAP OPM of 18.9%, up 4.2pp YoY and 0.4pp QoQ. In addition, we forecast non-GAAP net income of RMB5.6bn for Baidu Group, 0.2% higher than Bloomberg consensus.

Figure 18: Baidu Core: revenue (Qtr)



Source: Company data, CMBIGM estimates

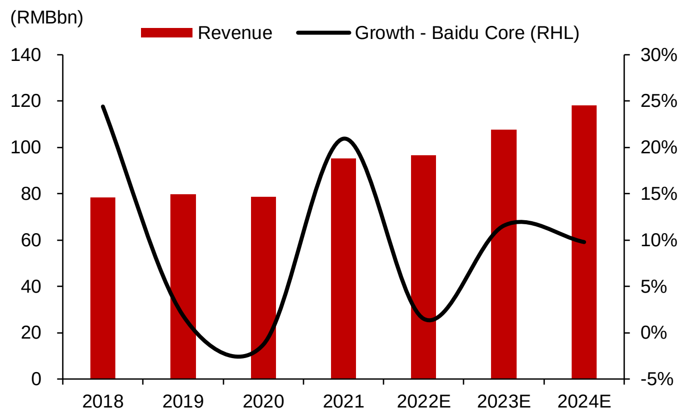
Figure 19: Baidu Core: non-GAAP OP and OPM (Qtr)



Source: Company data, CMBIGM estimates

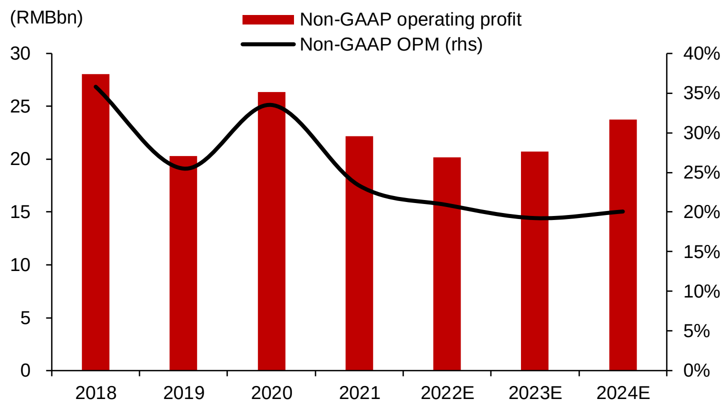
On a full-year basis, we forecast Baidu Core revenue growth to reaccelerate to 11.6/9.8% YoY in 2023/2024E (2022E: 1.5%), driven by the recovery in advertising business with improving macro, and ramp up of revenue generation from new businesses. We estimate non-GAAP OPM of 20.9% for Baidu Core in 2022E, down from 23.3% in 2021, owning to pandemic resurgence impact, and increase in revenue mix from relatively low margin non-ads revenue. We estimate non-GAAP OPM to further downtick to 19.2% in 2023E, as we factor in Baidu's determined investment in autonomous driving business to support its long-term growth, but to expand to 20.1% in 2024E, driven by improving cost structure.

Figure 20: Baidu Core: revenue growth



Source: Company data, CMBIGM estimates

Figure 21: Baidu Core: non-GAAP OP and OPM

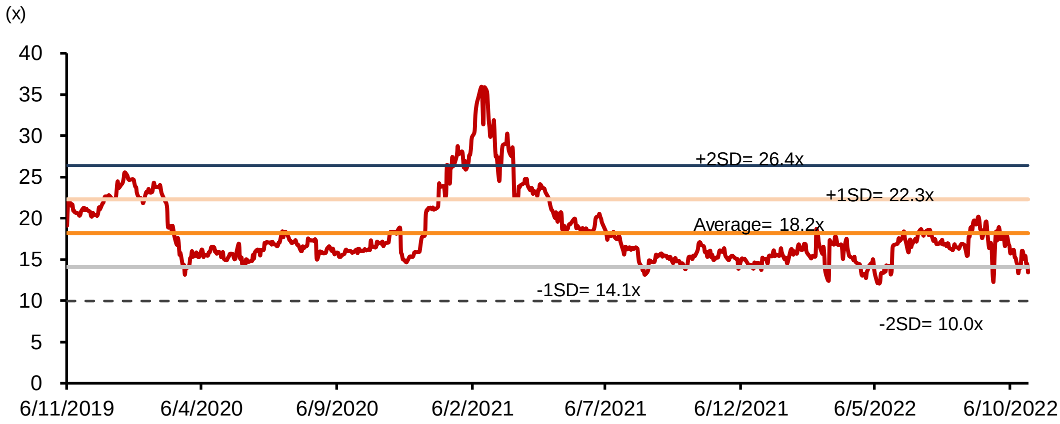


Source: Company data, CMBIGM estimates

■ Valuation and key catalyst

Baidu is currently trading at 10.3x 2022E non-GAAP PE, standing near its three year average non-GAAP TTM PE minus two standard deviation.

Figure 22: Baidu: non-GAAP PE band over the past three year (TTM)



Source: Company data, Bloomberg, CMBIGM

We identify key catalysts for the share price to be: 1) recovery in macro conditions, which could drive a recovery for Baidu's advertising business; 2) faster than expected development on new business, such as large scale ASD revenue generation to come in earlier than expected; and cloud business to achieve breakeven earlier than expectation.

For the pace of ramp up in revenue generation and inflection point for achieving breakeven, currently we are expecting large scale Apollo Self Driving (ASD) revenue to be realized from 2H23 onwards with mass production of cooperated vehicles, and we are expecting overall cloud business to breakeven in two to three years.

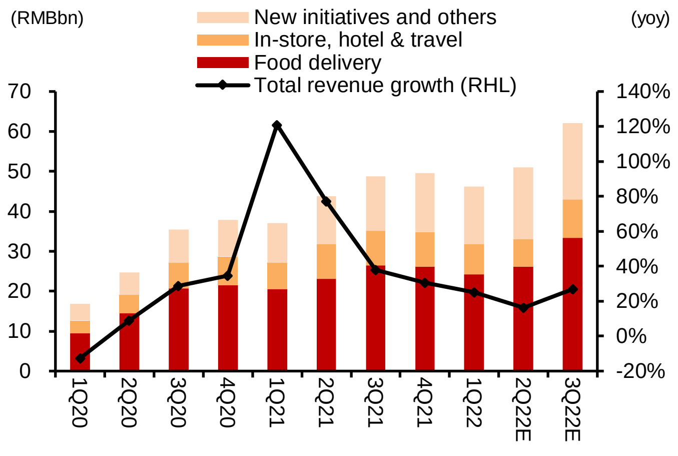
Meituan (3690 HK, BUY, TP HK$220.0)

Meituan delivered solid business recovery amid challenging environment over June to August, though pandemic resurgence brought disruption again since September. But lowered subsidy for food delivery business, as well as cost optimization for new initiatives should help on YoY improvement in profitability. Although strong margin expansion is unlikely to persist into 4Q due to seasonality and unforeseeable operating conditions, we are still positive on the long-term monetization potentials of Meituan as it prompts more consumption, leisure and lifestyle related needs, besides having a large user base, high user stickiness and usage frequency. Stock catalysts could come from: 1) core business performance recovers quicker than expected; 2) better than expected UE improvement; and 3) potential business model evolvement of Meituan Select. Our DCF-based TP is HK$220.0.

■ 3Q22 preview

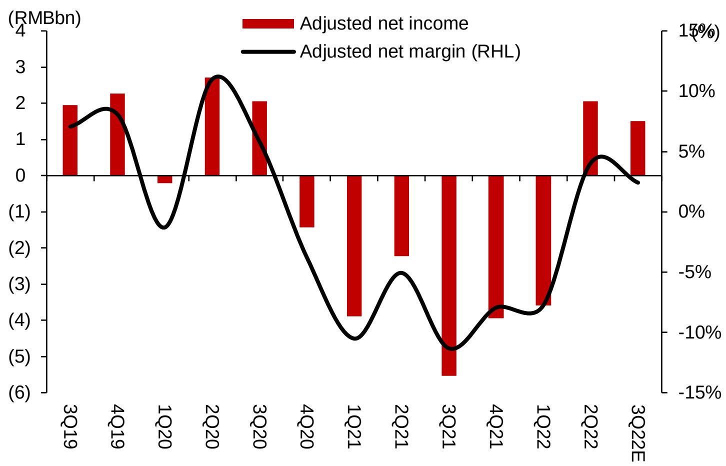
Overall we forecast Meituan has recorded total revenue of RMB62.0bn in 3Q22, up 27.1% YoY, but was 0.7% lower than Bloomberg consensus, driven by 25.9/12.2/38.7% YoY revenue growth in FD/ISHT/new initiatives and others. We forecast adjusted net income of RMB1.5bn in 3Q22 (Bloomberg consensus: 909mn),translating into adjusted net margin of 2.4%, improved from -11.3% in 3Q21, driven by enlarging operating profit generation from FD business and ISHT business, and narrowing losses generated from new business driven by efficient cost control.

Figure 23: Meituan: total revenue and growth



Source: Company data, CMBIGM estimates

Figure 24: Meituan: non-IFRS net profit



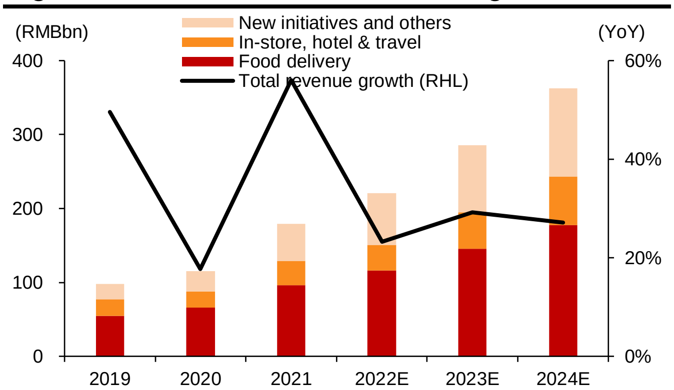
Source: Company data, CMBIGM estimates

For 3Q22, we forecast Meituan's FD business has recorded operating profit of RMB3.6bn, translating into per order operating profit of RMB0.77 (3Q21: RMB0.22), and operating profit margin of 10.9% (3Q21: 3.3%). Also, we forecast ISHT business has recorded operating profit of RMB4.4bn, translating into operating profit margin of 45.5% (3Q21: 43.9%). For new initiatives and others, we forecast operating loss of RMB7.6bn, among which we forecast losses generated from Meituan Select to be RMB5.6bn.

Starting from 2Q22, Meituan reclassified its business segment reporting, and updated reportable segments comprises: 1) core local commerce, which mainly includes the former FD and ISHT, as well as Meituan Instashopping, alternative accommodations, and transportation ticketing; 2) new initiatives, which mainly includes Meituan Select, Meituan Grocery, B2B food distribution business Kuailv, ride sharing, bike sharing, e-moped sharing, power banks, RMS and other new initiatives. Based on new segmentation, we forecast Meituan has generated core local commerce revenue of RMB46.0bn in 3Q22, with segmental operating profit of RMB8.0bn.

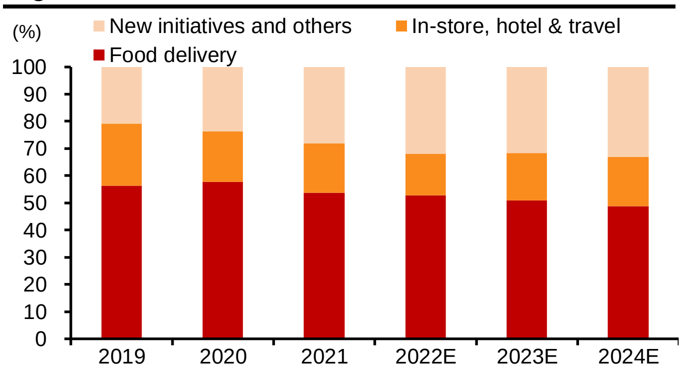
On annual basis, we forecast a 2021-2024E revenue CAGR of 26.5%, with FD/ISHT/new initiatives and other business achieving CAGRs of 22.5/26.6/33.4%. Based on Meituan's new segmentation, we forecast core local commerce and new initiatives segment to achieve 21-24E revenue CAGRs of 25.5% and 29.5%, respectively.

Figure 25: Meituan: total revenue and growth



Source: Company data, CMBIGM estimates

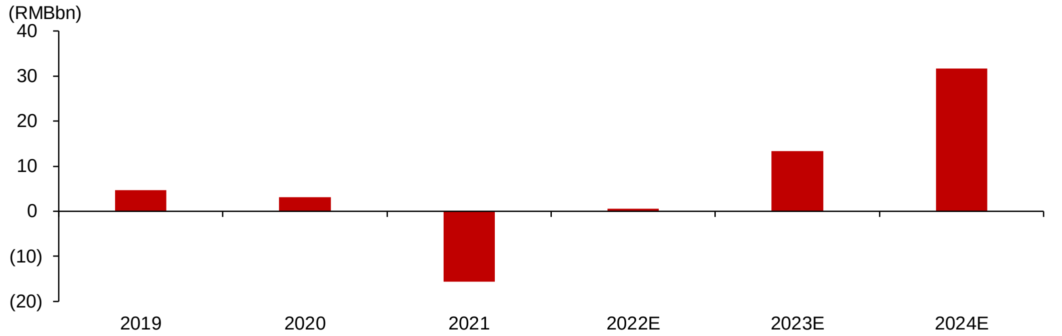
Figure 26: Meituan: revenue breakdown



Source: Company data, CMBIGM estimates

In addition, we forecast 2021-2024E operating profit CAGR of 42.5% for core local commerce business segment, driven by improving UE of food delivery business, and solid revenue growth of ISHT business. For new initiatives, we estimate operating loss to narrow to RMB20bn in 2024E from RMB29bn in 2022E, driven by cost optimization of new businesses. For non-GAAP net income, we estimate Meituan to reverse from a net loss of RMB15.6bn in 2021 to net income of RMB519mn in 2022, and increase further to RMB13.4 /31.7bn in 2023/2024E.

Figure 27: Meituan: non-IFRS net profit



Source: Company data, CMBIGM estimates

■ Sensitivity analysis on earnings

We conduct sensitivity analysis to gauge Meituan's total revenue growth sensitivity to its FD/ISHT businesses, which are key drivers for revenue growth. Under our bull-case assumption, if FD/ISHT revenue growth forecast were raised by 1/3/5/8pp in 2023E driven by better-than-expected recovery of macro environment, Meituan's total revenue could have 0.5/1.6/2.6/4.2% upside in 2023E. Under our bear-case assumption, if online FD/ISHT revenue growth forecast were lowered by 1/3/5/8pp in 2023E due to slower-than-expected recovery of macro environment, Meituan's total revenue could have 0.5/1.6/2.6/4.2% downside in 2023E.

Figure 28: Meituan total revenue: sensitivity analysis

2023E (RMBmn)	Change in FD revenue growth (2023E)	2023E FD revenue growth	Change in ISHT revenue growth (2023E)	2023E ISHT revenue growth	Other revenues	Total revenue	Comparison with base case
Case I	-8pp	16.9%	-8pp	37.7%	90,330	273,186	-4.2%
Case II	-5pp	19.9%	-5pp	40.7%	90,330	277,696	-2.6%
Case III	-3pp	21.9%	-3pp	42.7%	90,330	280,703	-1.6%
Case IV	-1pp	23.9%	-1pp	44.7%	90,330	283,709	-0.5%
Base case		24.9%		45.7%	90,330	285,213	0.0%
Case V	1pp	25.9%	1pp	46.7%	90,330	286,716	0.5%
Case VI	3pp	27.9%	3pp	48.7%	90,330	289,723	1.6%
Case VII	5pp	29.9%	5pp	50.7%	90,330	292,729	2.6%
Case VIII	8pp	32.9%	8pp	53.7%	90,330	297,239	4.2%

Source: Company data, CMBIGM estimates

We also conduct sensitivity analysis to analyze Meituan's non-IFRS net income sensitivity to its S&M expenses and G&A expenses. Under our bull-case assumption, if S&M expenses and G&A expenses growth forecast were both decreased by 1/3/5/8pp in 2023E thanks to more effective than expected cost control measures, Meituan's non-IFRS net income could increase by 2.9/8.8/14.7/23.6% in 2023E. Under our bear-case assumption, if S&M expenses and G&A expenses growth were raised by 1/3/5/8pp in 2023E as Meituan enhanced its investment in new businesses and increased its investment on ISHT business, Meituan's non-IFRS net income could decrease by 2.9/8.8/14.7/23.6% in 2023E.

Figure 29: Meituan non-IFRS net income: sensitivity analysis

2023E (RMBmn)	Change in S&M/ G&A expenses YoY growth	S&M expense YoY growth	G&A expense YoY growth	Implied S&M expense ratio	Implied G&A expense ratio	2023E Non-GAAP NPM	2023E Net profit	Comparison with base case
Case I	-8pp	7.5%	10.7%	14.3%	3.9%	5.8%	16,504	23.6%
Case II	-5pp	10.5%	13.7%	14.7%	4.0%	5.4%	15,323	14.7%
Case III	-3pp	12.5%	15.7%	15.0%	4.1%	5.1%	14,535	8.8%
Case IV	-1pp	14.5%	17.7%	15.2%	4.1%	4.8%	13,748	2.9%
Base case		15.5%	18.7%	15.4%	4.2%	4.7%	13,354	0.0%
Case V	1pp	16.5%	19.7%	15.5%	4.2%	4.5%	12,960	-2.9%
Case VI	3pp	18.5%	21.7%	15.8%	4.3%	4.3%	12,173	-8.8%
Case VII	5pp	20.5%	23.7%	16.0%	4.4%	4.0%	11,386	-14.7%
Case VIII	8pp	23.5%	26.7%	16.4%	4.5%	3.6%	10,204	-23.6%

Source: Company data, CMBIGM estimates

Pinduoduo (PDD US, BUY, TP US$92.9)

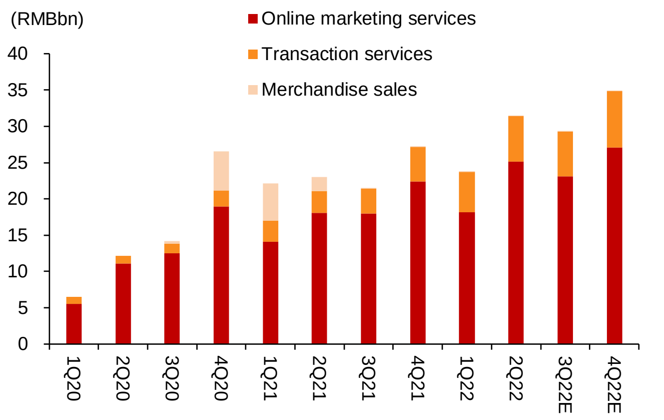
Pinduoduo (PDD) has established strong consumer mindshare with value proposition, which will aid resilient revenue growth amid macro uncertainties. PDD is also strategically incorporating more branded products, which will aid monetization rate improvement. Strong user stickiness enables PDD to optimize Opex, provide merchants with cost-effective traffic on its platform which lead to sustainable competitive edge and online GMV market share gain. As PDD is an asset-light marketplace model, its strong operating cash flows can help explore more TAM markets, such as expanding into overseas markets. With a 21-24E revenue CAGR of 20.9%, we forecast non-GAAP net profit CAGR of 48.2%. Our DCF-based TP is US$92.9 per ADS, akin to 24.2x 2023E PE (non-GAAP).

- **3Q22 preview: robust profitability improvement likely to sustain, watch for pace of investment for new initiatives**

Aided by the established consumer mindshare in key categories, and high user stickiness, PDD is in a more proactive position to manage its S&M spend, in our view. As PDD adheres to strict ROI target while driving revenue growth, S&M expense ratio could see a continuous optimizing trend over 21-24E, in our view, until PDD becomes more determined in investing in new initiatives that could support long-term revenue and earnings growth, such as cross-border e-commerce.

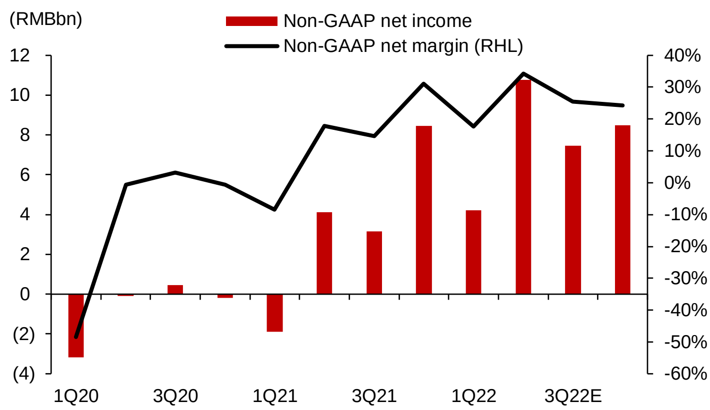
We forecast PDD to have recorded 3Q22E revenue of RMB29.3bn, up 36.4% YoY (3Q21: 51.3%; 2Q22: 36.4%), driven by 36.7% YoY growth in online marketplace services revenue, and 77.7% YoY growth in transaction services revenue. We estimate non-GAAP net income of RMB7.5bn (3Q21: RMB3.2bn), indicating a non-GAAP NPM of 25.4% (3Q21: 14.6%) driven by optimization in sales and marketing spend which is aided by strong user stickiness, and the unleash of operating leverage supported by robust revenue growth. Our 3Q22E revenue forecast was 5% short of Bloomberg consensus while non-GAAP net income forecast was 6% higher than consensus.

Figure 30: PDD: Revenue forecast and growth (Qtr)



Source: Company data, CMBIGM estimates

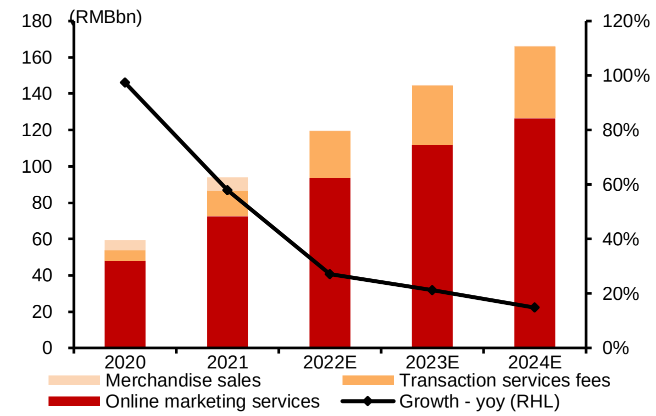
Figure 31: PDD: non-GAAP NP and NPM (Qtr)



Source: Company data, CMBIGM estimates

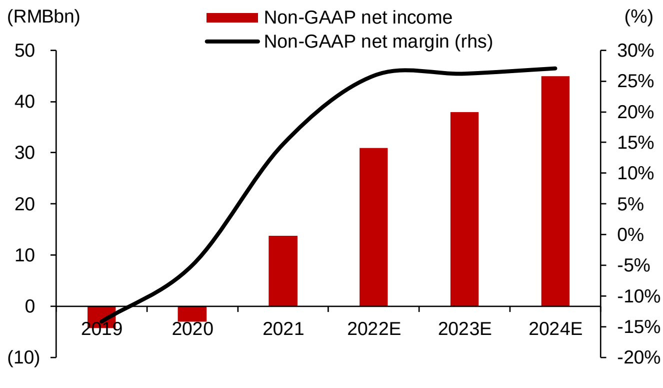
On full year basis, we forecast PDD to achieve revenue growth of 27.2/21.1/14.8% YoY in 2022/2023E, driven by GMV growth of 22.7/15.9/11.3%, aided by expansion in average revenue per user (ARPU), which we see support from the incorporation of more branded products as well as high average selling price (ASP) products, and strong user stickiness. We forecast non-GAAP S&M expense ratio to drop to 37.4/36.0/35.0% in 22/23/24E (2021: 46.0%), which could drive an increase in non-GAAP OPM to 27.1/28.7/29.6% (2021: 12.4%).

Figure 32: PDD: revenue forecast and growth



Source: Company data, CMBIGM estimates

Figure 33: PDD: non-GAAP NP and NPM



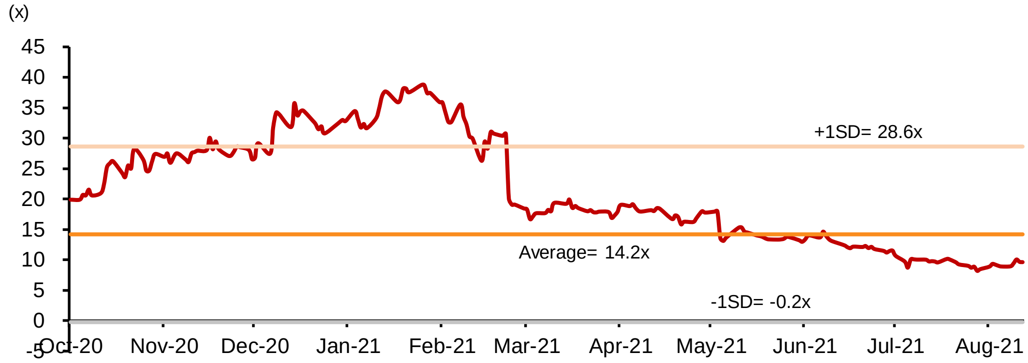
Source: Company data, CMBIGM estimates

■ Valuation and key catalyst

PDD is our top pick among e-commerce stocks, given its relatively greater visibility on earnings growth, and more attractive valuation versus earnings growth. PDD is trading at 0.4x 2022E PEG based on 2021-2024E earnings CAGR of 48.2%, compared to 0.6x for JD and 1.5x for Alibaba.

We identify key catalysts for PDD's stock price to be: 1) a beat in 3Q22 results; 2) faster than expected development for cross-boarder e-commerce business.

Figure 34: PDD: PS band over the past two years (TTM)



Source: Company data, Bloomberg, CMBIGM

Figure 35: E-commerce comps table

Companies	Ticker	Price (Local)	PE (x) 2022E	PE (x) 2023E	PE (x) 2024E	NP CAGR 2021-2024E	PEG (x) 2022E	PS(x) 2022E	PS(x) 2023E	PS(x) 2024E
Alibaba Group	BABA US	69.8	9.0	8.3	7.6	6.0	1.5	1.5	1.3	1.2
JD.com	JD US	44.4	20.4	15.8	11.5	35.1	0.6	0.5	0.4	0.4
Pinduoduo	PDD US	61.9	17.5	14.3	12.0	48.2	0.4	4.5	3.7	3.3
Average			**15.6**	**12.8**	**10.4**		**0.8**	**2.1**	**1.8**	**1.6**

Source: Bloomberg, CMBIGM
Note: 1) data as of 4 November market close; 2) data are based on CMBIGM estimates; 3) we are using FY23-25E estimate for Alibaba (March year-end); 4) data is based on non-GAAP measure.

■ **Sensitivity test on revenue and non-GAAP net income**

We conduct a sensitivity analysis to gauge PDD's total revenue growth sensitivity to its GTV growth and change in take rate, which we identify as key drivers for revenue growth. Under our bull-case assumption, if GTV growth forecast was raised by 1/3/5/8pp in 2023E driven by better than expected recovery in consumption sentiment and faster than expected pace of expansion to branded products, and if monetization rate was raised by 0.1/0.3/0.5/0.8pp in 2023E aided by enhanced user stickiness, PDD's total revenue could have 3.3/10.0/16.8/27.4% upside in 2023E. Under our bear-case assumption, if GTV growth forecast were lowered by 1/3/5/8pp in 2023E due to slower-than-expected recovery of macro environment, and take rate was cut by 0.1/0.3/0.5/0.8pp, Pinduoduo's total revenue could have 3.2/9.6/15.8/24.8% downside in 2023E.

Figure 36: PDD total revenue: sensitivity analysis

2023E (RMBmn)	Change in GTV growth forecast (2023E)	2023E GTV growth	Change in take rate forecast (2023E)	Increase in take rate (2023E)	Total revenue	Comparison with base case
Case I	-8%	7.9%	-0.80%	-0.62%	108,907.5	-24.8%
Case II	-5%	10.9%	-0.50%	-0.32%	121,894.9	-15.8%
Case III	-3%	12.9%	-0.30%	-0.12%	130,852.7	-9.6%
Case IV	-1%	14.9%	-0.10%	0.08%	140,050.2	-3.2%
Base case		15.9%		0.18%	144,738.8	0.0%
Case V	1%	16.9%	0.10%	0.28%	149,487.4	3.3%
Case VI	3%	18.9%	0.30%	0.48%	159,164.1	10.0%
Case VII	5%	20.9%	0.50%	0.68%	169,080.6	16.8%
Case VIII	8%	23.9%	0.80%	0.98%	184,404.5	27.4%

Source: Company data, CMBIGM estimates

We also conduct a sensitivity analysis to analyse PDD's non-GAAP net income sensitivity to its S&M expenses and G&A expenses. Under our bull-case assumption, if S&M expenses and G&A expenses growth forecasts were both decreased by 1/3/5/8pp in 2023E thanks to more effective than expected cost control measures, PDD's non-IFRS net income could increase by 1.1/3.2/5.4/8.6% in 2023E. Under our bear-case assumption, if S&M expenses and G&A expenses growth were raised by 1/3/5/8pp in 2023E as PDD enhanced its investment in overseas expansion initiative, PDD's non-IFRS net income could decrease by 1.1/3.2/5.4/8.6% in 2023E.

Figure 37: PDD non-GAAP net income: sensitivity analysis

2023E (RMBmn)	Change in S&M/ G&A expenses YoY growth	S&M expense YoY growth	G&A expense YoY growth	Implied S&M expense ratio	Implied G&A expense ratio	2023E Non-GAAP NPM	2023E Net profit	Comparison with base case
Case I	-8%	8.5%	6.7%	35.0%	1.7%	28.5%	41,183	8.6%
Case II	-5%	11.5%	9.7%	36.0%	1.7%	27.6%	39,963	5.4%
Case III	-3%	13.5%	11.7%	36.6%	1.7%	27.0%	39,150	3.2%
Case IV	-1%	15.5%	13.7%	37.3%	1.8%	26.5%	38,337	1.1%
Base case		16.5%	14.7%	37.6%	1.8%	26.2%	37,930	0.0%
Case V	1%	17.5%	15.7%	37.9%	1.8%	25.9%	37,524	-1.1%
Case VI	3%	19.5%	17.7%	38.6%	1.8%	25.4%	36,711	-3.2%
Case VII	5%	21.5%	19.7%	39.2%	1.9%	24.8%	35,897	-5.4%
Case VIII	8%	24.5%	22.7%	40.2%	1.9%	24.0%	34,678	-8.6%

Source: Company data, CMBIGM estimates

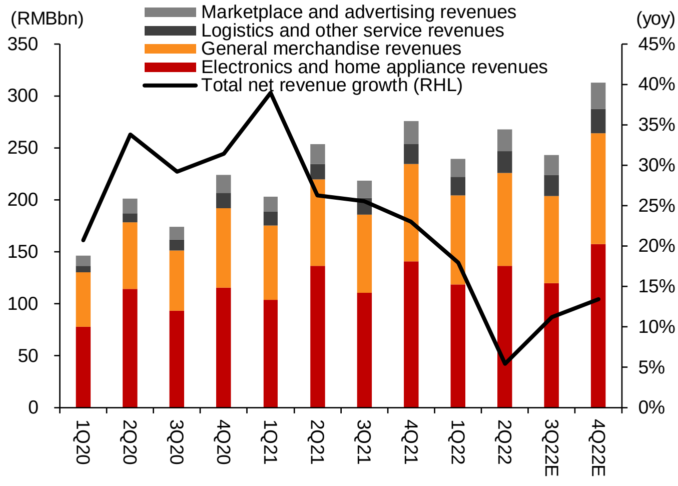
JD (JD US, BUY, TP US$78.5)

Leveraging its superior supply chain and fulfilment capability, JD has established solid consumer mindshare in key categories (i.e, electronics & home appliance, FMCG, etc.). Relative to peers JD has lower exposure to discretionary apparel categories. We expect category expansion, lower tier city expansion, and omni-channel retail development to support its long term growth. Steady margin expansion trend could continue over 21-24E, driven by economies of scale, more controlled sales promotions, and increase in revenue contribution from high-margin marketplace business, aided by enhanced platform optimization and user stickiness. On a 21-24E rev CAGR of 13.1%, we forecast NP CAGR of 35.1% (non-GAAP). Our DCF-based TP of US$78.5 akin to 28.1x 2023E PE.

- **3Q22 preview: solid revenue growth with steady improvement on profitability**

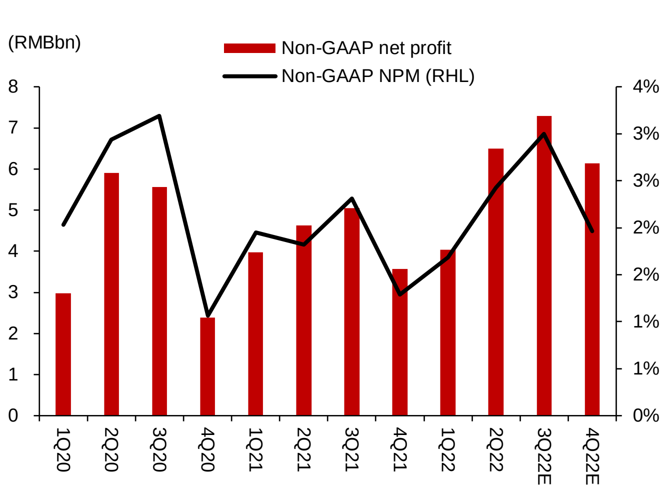
We forecast JD recorded 3Q22E revenue of RMB243.2bn, up 11.2% YoY (3Q21: 25.5%; 2Q22: 5.4%), driven by 9.4% YoY growth in net product revenues and 21.3% YoY growth in net services revenues. We estimate non-GAAP net income of RMB7.3bn in 3Q22E, up 44.3% YoY, which implies 3.0% non-GAAP net profit margin, up 0.7pp YoY, driven by gross margin expansion, aided by JD's more controlled sales promotion and increasing economies of scale. Our 3Q22E revenue forecast is inline with Bloomberg consensus, while non-GAAP net income forecast is 1.3% higher than consensus.

Figure 38: JD: Revenue growth and forecast (Qtr)



Source: Company data, CMBIGM estimates

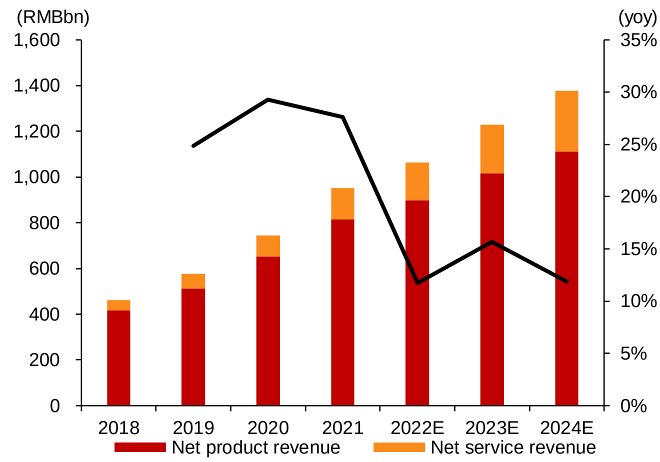
Figure 39: JD: non-GAAP NP and NPM (Qtr)



Source: Company data, CMBIGM estimates

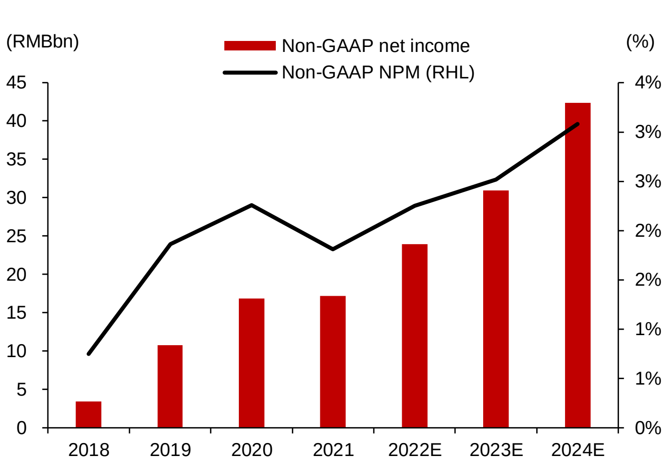
On full year basis, we forecast JD to achieve 2022E revenue growth of 11.7%, driven by 10.1% YoY growth in net product revenues and 21.6% YoY growth in net services revenue. We are forecasting JD to achieve 15.7/11.9% YoY revenue growth in 2023/2024E, driven by the gradual recovery in macro as well as category expansion to low online penetrated categories such as FMCG.

Figure 40: JD: Revenue growth and forecast



Source: Company data, CMBIGM estimates

Figure 41: JD: non-GAAP NP and NPM



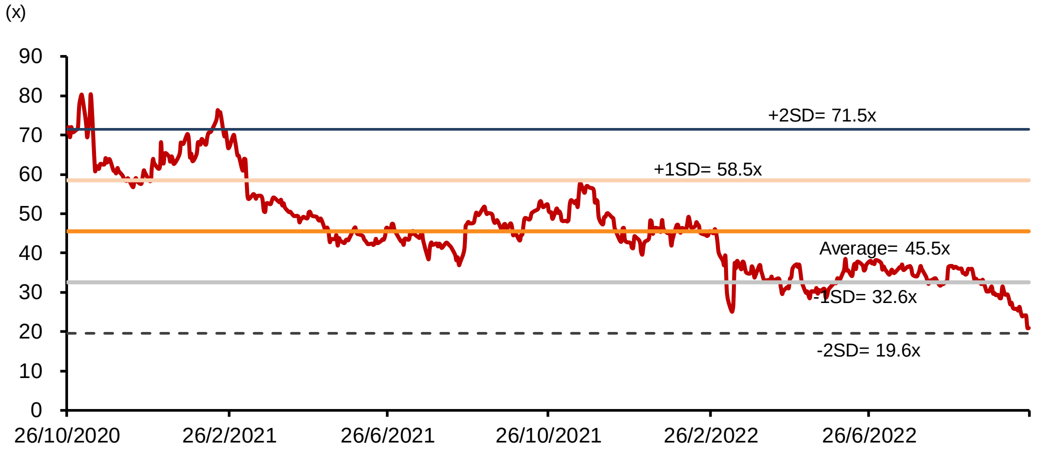
Source: Company data, CMBIGM estimates

■ Valuation and key catalyst

JD is trading at 20.4x 2022E PE, near its two-year average non-GAAP PE minus two standard deviation, which in our view could be mainly attribute to: 1) risk-off of foreign investors on China internet stocks due to geopolitical risks; and 2) macro headwinds which impacted consumer's consumption willingness. However, we think JD's risk-reward is attractive, based on our forecast of 35.1% 2021-2024E CAGR for non-GAAP net profit, aided by gross profit margin expansion and efficient cost control initiatives.

We identify key catalysts to be: 1) relief of geopolitical risks which we think could drive a recovery in market sentiment; 2) recovery in macro conditions and consumer's consumption willingness; 3) stronger than expected margin expansion and non-GAAP net profit growth.

Figure 42: JD: non-GAAP PE band over the past two years (TTM)



Source: Company data, Bloomberg, CMBIGM

■ Sensitivity test on revenue and non-GAAP net income

We conduct sensitivity analysis to gauge the total revenue growth sensitivity to the net product sales/services revenue. Under our bull-case assumption, if product sales/services revenue growth forecast were raised by 1/3/5/8% 2023E driven by better-than-expected recovery of macro environment and consumptions sentiment, JD's total revenue could have 0.9/2.6/4.3/6.9% upside in 2023E. Under our bear-case assumption, if product sales/services revenue growth forecast are lowered by 1/3/5/8% in 2023E due to slower-than-expected recovery of macro environment, JD's total revenue could have 0.9/2.6/4.3/6.9% downside in 2023E.

Figure 43: JD : sensitivity analysis on revenue generation

2023E (RMBmn)	Change in product revenue growth forecast	2023E product revenue growth	Change in services revenue growth forecast	2023E services revenue growth	Revenue	Comparison with base case
Case I	-8%	5.0%	-8%	22.0%	1,144,987	-6.9%
Case II	-5%	8.0%	-5%	25.0%	1,176,886	-4.3%
Case III	-3%	10.0%	-3%	27.0%	1,198,151	-2.6%
Case IV	-1%	12.0%	-1%	29.0%	1,219,417	-0.9%
Base case		13.0%		30.0%	1,230,050	0.0%
Case V	1%	14.0%	1%	31.0%	1,240,683	0.9%
Case VI	3%	16.0%	3%	33.0%	1,261,949	2.6%
Case VII	5%	18.0%	5%	35.0%	1,283,215	4.3%
Case VIII	8%	21.0%	8%	38.0%	1,315,114	6.9%

Source: Company data, CMBIGM estimates

We also conduct sensitivity analysis to analyse the non-GAAP net income sensitivity to the opex control. Under our bull-case assumption, if S&M/G&A growth forecast are both lowered by 1/3/5/8% in 2023E thanks to stringent than expected cost control measures, JD's non-GAAP net income could have 1.4/4.1/6.8/10.9% upside in in 2023E. Under our bear-case assumption, if S&M/G&A growth are both raised by 1/3/5/8% in 2023E as JD increased its investment in customer acquisition, JD's non-GAAP net income could have 1.4/4.1/6.8/10.8% downside in 2023E.

Figure 44: JD non-GAAP net income: sensitivity analysis

2023E (RMBmn)	Change in S&M/ G&A expenses YoY growth	S&M expense YoY growth	G&A expense YoY growth	Implied S&M expense ratio	Implied G&A expense ratio	2023E Non-GAAP NPM	2023E Net profit	Comparison with base case
Case I	-8%	8.6%	4.5%	3.6%	1.0%	2.8%	34,287	10.8%
Case II	-5%	11.6%	7.5%	3.7%	1.0%	2.7%	33,032	6.8%
Case III	-3%	13.6%	9.5%	3.8%	1.0%	2.6%	32,195	4.1%
Case IV	-1%	15.6%	11.5%	3.8%	1.1%	2.5%	31,358	1.4%
Base case		16.6%	12.5%	3.9%	1.1%	2.5%	30,939	0.0%
Case V	1%	17.6%	13.5%	3.9%	1.1%	2.5%	30,521	-1.4%
Case VI	3%	19.6%	15.5%	3.9%	1.1%	2.4%	29,684	-4.1%
Case VII	5%	21.6%	17.5%	4.0%	1.1%	2.3%	28,847	-6.8%
Case VIII	8%	24.6%	20.5%	4.1%	1.1%	2.2%	27,591	-10.8%

Source: Company data, CMBIGM estimates

NetEase (NTES US, BUY, TP US$114.8)

NetEase delivered sturdy revenue growth of 13.8% YoY in 1H22, driven by resilient performance of its legacy titles and the launch of several key titles in 2H21. We forecast total revenue growth of 7.3/6.3% YoY in 2023/2024E, but the growth could be accelerated by several highly-anticipated titles in the pipeline and enhanced overseas games market expansion strategy. Supported by its game business' steady profit margin and cash flow generation capability, NetEase is well-positioned to invest for long-term quality growth, expanding into international markets, focusing on quality games development, and cultivating tenacious user community. Our SOTP valuation methodology derived target price is US$114.8. BUY.

- **3Q22 preview: preparing for next phase of strong product cycle**

We forecast 3Q22 total revenue growth slows down to 10.0% YoY, mainly due to the high-base effect, as both *Harry Potter: Magic Awakened* and *Naraka: Bladepoint* were launched in 3Q21. We estimate non-GAAP net income to increase by 30% YoY to RMB5.0bn in 3Q22, driven by the resilient growth of gaming revenue and the favourable foreign exchange gain.

Figure 45: NetEase: key financial data forecasts

(RMB mn)	2022E	2023E	2024E	3Q22E	4Q22E
Online games revenue	72,774	75,936	78,875	17,613	18,379
YoY%	11.7%	4.3%	3.9%	10.8%	5.6%
As % of total revenue	74.9%	72.8%	71.2%	72.2%	70.7%
Youdao revenue	4,591	5,496	6,344	1,194	1,241
YoY%	-14.2%	19.7%	15.4%	-13.9%	-7.0%
As % of total revenue	4.7%	5.3%	5.7%	4.9%	4.8%
Cloud Music revenue	9,092	11,595	14,006	2,400	2,433
YoY%	29.9%	27.5%	20.8%	24.7%	28.8%
As % of total revenue	9.4%	11.1%	12.6%	9.8%	9.4%
Revenue from innovative businesses and others	10,680	11,214	11,551	3,204	3,958
YoY%	6.0%	5.0%	3.0%	7.5%	5.5%
As % of total revenue	11.0%	10.8%	10.4%	13.1%	15.2%
Total revenue	**97,137**	**104,243**	**110,776**	**24,411**	**26,012**
YoY%	10.9%	7.3%	6.3%	10.0%	6.7%
Gross profit margin (%)	54.2%	54.1%	54.3%	55.1%	51.6%
S&M expenses ratio (%)	13.7%	13.5%	13.0%	14.4%	13.8%

(RMB mn)	2022E	2023E	2024E	3Q22E	4Q22E
R&D expenses ratio (%)	15.5%	15.5%	15.5%	16.1%	16.0%
Non-GAAP net profit margin (%)	20.9%	21.0%	21.6%	20.5%	18.4%
Non-GAAP net profit	**20,279**	**21,862**	**23,925**	**4,993**	**4,782**
YoY%	3.5%	7.8%	9.4%	29.8%	-25.2%

Source: Company data, CMBIGM estimates

- **Valuation and key catalysts**

NetEase trades at 13.0x TTM PE, which is 2x S.D. below its 2-year historical average TTM PE.

We identify key catalysts for the share price to be: 1) license approval for key games titles; 2) acceleration of overseas gaming revenue growth.

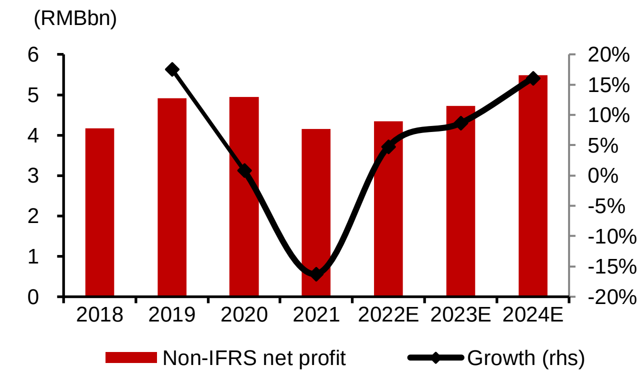
TME (TME US, BUY, TP US$6.60)

TME will continue to focus on improving operating efficiency in 2H22 to combat macro uncertainty and intensifying competition in social entertainment sector. We forecast total revenue to drop by 11.2% YoY to RMB27.7bn in 2022E, due to the soft performance of social entertainment and ad businesses, before recovering by 7.1/6.5% YoY to RMB29.7/31.7bn in 2023/2024E. Although non-IFRS net profit was down by 16.1% YoY to RMB1.9bn in 1H22, we expect non-IFRS net profit to recover to 30.9% YoY to RMB2.4bn in 2H22E, driven by effective cost control initiatives and recovery of core music business. We remain positive on its long-term monetization potential, and forecast non-IFRS net income CAGR of 9.8% over 2021-2024E. Our DCF-derived target price is US$6.60, which translates into 16/15x 2022/2023E non-IFRS PE. BUY.

- **3Q22 preview: earnings stabilize despite revenue drop**

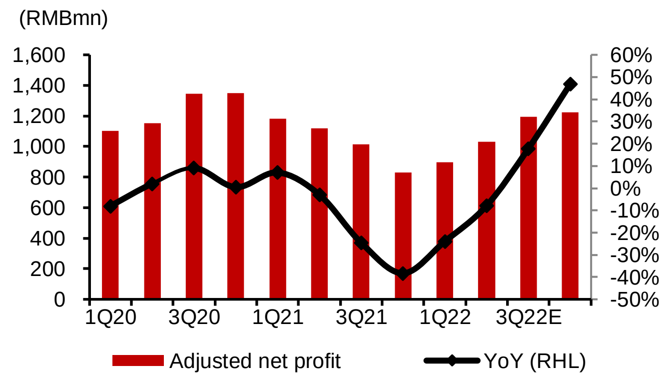
We forecast total revenue to decline by 9.5% YoY to RMB7.1bn in 3Q22E, mainly due to the decline in social entertainment revenue (-21.5% YoY) but partially offset by steady growth of online music revenue (+11.1% YoY). Music subscription revenue is expected to grow by 18.9% YoY to RMB2.3bn in 3Q22E based on our estimates, driven by net addition of c.3mn paying users. Supported by the rationalizing of music licensing costs and more prudent investment in audio content, overall GPM will expand from 29.6/29.9% in 3Q21/2Q22 to 31.0% in 3Q22E. With improving GPM and optimization in selling and marketing expense, we forecast non-IFRS net income would return to growth by 17.8% YoY to RMB1.2bn in 3Q22E.

Figure 46: TME: non-IFRS net income



Source: Company data, CMBIGM estimates

Figure 47: TME: non-IFRS net income (quarter)

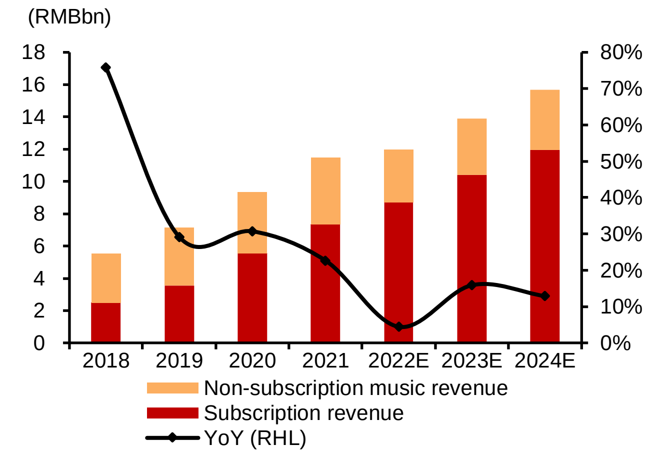


Source: Company data, CMBIGM estimates

We forecast total revenue to drop by 11.2% YoY to RMB27.7bn in 2022E, due to the soft performance of social entertainment and ad businesses, before recovering by 7.1/6.5% YoY to RMB29.7/31.7bn in 2023/2024E. Although non-IFRS net profit was down by 16.1% YoY to RMB1.9bn in 1H22, we expect non-IFRS net profit to recover to 30.9% YoY to RMB2.4bn in 2H22E, driven by effective cost control initiatives and recovery of core music business. We remain positive on its long-term monetization potential, and forecast non-IFRS net income CAGR of 9.8% over 2021-2024E.

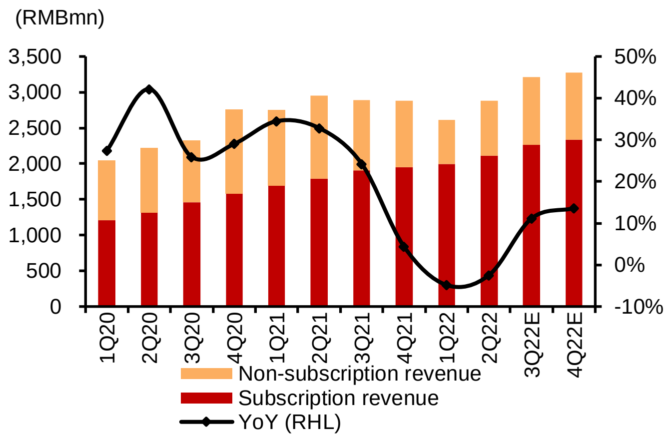
Online music revenue growth slows down to +4.4% YoY in 2022E based on our estimate, primarily due to the weak performance of advertising and sublicensing businesses in the backdrop of macro headwind and tightening regulations. Nonetheless, subscription business remains resilient and we forecast music subscription revenue to increase by 18.6% YoY to RMB8.7bn in 2022E, driven by balanced growth of paying users and ARPPU. Looking forward, we expect online music revenue growth will reaccelerate to 15.9/12.9% YoY in 2023/2024E, driven by the solid growth of subscription business and recovery of advertising business.

Figure 48: TME: online music revenue



Source: Company data, CMBIGM estimates

Figure 49: TME: online music revenue (quarter)



Source: Company data, CMBIGM estimates

■ **Valuation and key catalysts**

TME trades at 10x TTM PE, which is 1x S.D. below its 2-year historical average TTM PE.

We identify key catalysts for the share price to be: 1) accelerating pace of online music GPM improvement; 2) better-than-expected music subscriber growth; 3) stabilization of social entertainment revenue.

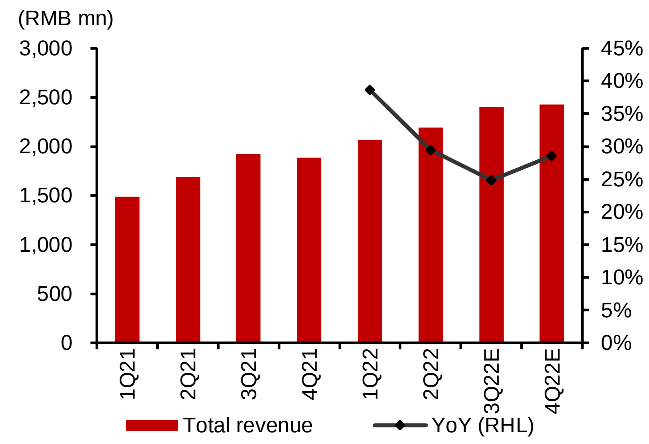
Cloud Music (9899 HK, BUY, TP HK$110.0)

Cloud Music is the second largest online music platform in China in terms of both revenue and MAU, taking 19% market share of China's online music revenue per iResearch and our estimate in 2021. Compared to the market leader TME, Cloud Music remains at early stage of monetization, with ample room for revenue growth and margin improvement. We expect Cloud Music to benefit from the secular trend of rising paying ratio, growing ARPPU and rationalizing music licensing costs in the China online music sector. We forecast total revenue CAGR of 26.0% over 2021-2024E, and adjusted net income of RMB75/535mn in 2023/2024E (vs. adjusted net loss of RMB1,044/346mn in 2021/2022E). Our DCF-derived target price is HK$110.0, which translates into 2.2x/1.8x 2022/2023E PS. BUY.

■ **3Q22 preview: solid margin improvement**

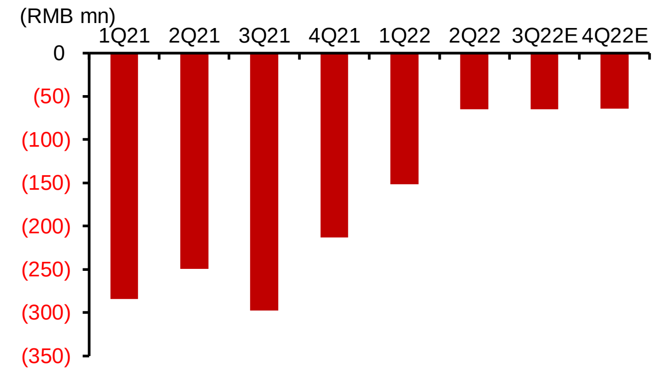
We forecast Cloud Music revenue to increase by 24.8% YoY to RMB2.4bn in 3Q22, driven by robust growth of music subscription revenue (+31.2% YoY) and social entertainment revenue (+35.4% YoY). Due to favourable revenue mix shift to higher-margin social entertainment business and rationalizing music content costs, we estimate adjusted net loss to narrow from RMB298mn in 3Q21 to RMB65mn in 3Q22E.

Figure 50: Cloud Music: total revenue



Source: Company data, CMBIGM estimates

Figure 51: Cloud Music: adjusted net income

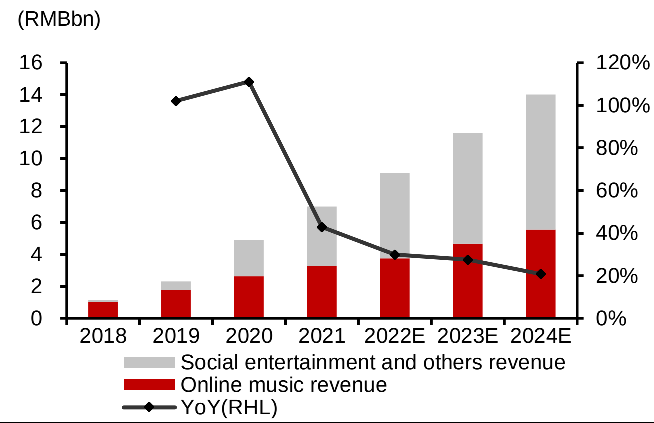


Source: Company data, CMBIGM estimates

We forecast total revenue to increase by 29.9/27.5/20.8% YoY to RMB9.1/11.6/14.0bn in 2022/2023/2024E, primarily driven by the solid growth of the music subscription and social entertainment businesses. Online music/social entertainment business will deliver a revenue CAGR of 19.0/31.7% over 2021-2024E, as their paying user base ramped up at a CAGR of 25.3/46.2% during the same period, based on our estimates. Online music/social entertainment businesses will account for 39.6/60.4% of total revenue in 2024E, versus 47.0/53.0% of total revenue in 2021.

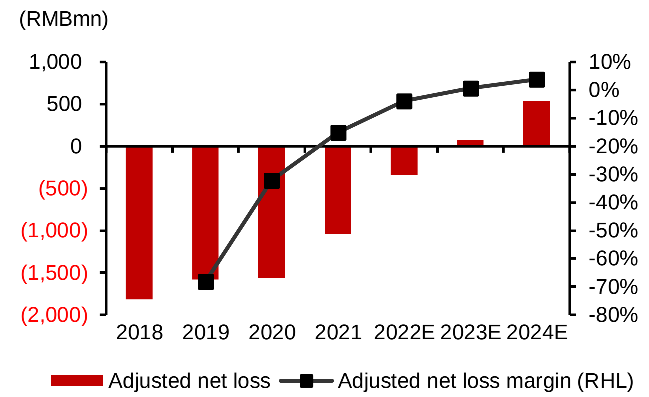
We expect significant margin improvement potential for Cloud Music going forward. Driven by favourable revenue mix shift to higher-margin social entertainment business and rationalizing content costs, we estimate overall GPM to rise from 2.0% in 2021 to 12.9/17.0/20.0% in 2022/2023/2024E. The expanding GPM in addition to operating efficiency improvement shall drive adjusted net margin to improve from -14.9% in 2021 to -3.8% in 2022E and 0.6/3.8% in 2023/2024E. We forecast adjusted net income of RMB75/535mn in 2023/2024E, versus adjusted net loss of RMB346mn in 2022E.

Figure 52: Cloud Music: total revenue trend



Source: Company data, CMBIGM estimates

Figure 53: Cloud Music: adjusted net loss



Source: Company data, CMBIGM estimates

- **Valuation and key catalysts**

Cloud Music is trading at only 1.1x 23E PS, a discount to TME's (1.3x), offering an attractive risk-reward given its robust revenue growth that outpaces its peer.

We identify key catalysts for the share price to be: 1) accelerating pace of online music GPM improvement; 2) better-than-expected music subscriber growth; 3) breakeven timeline ahead of expectation.

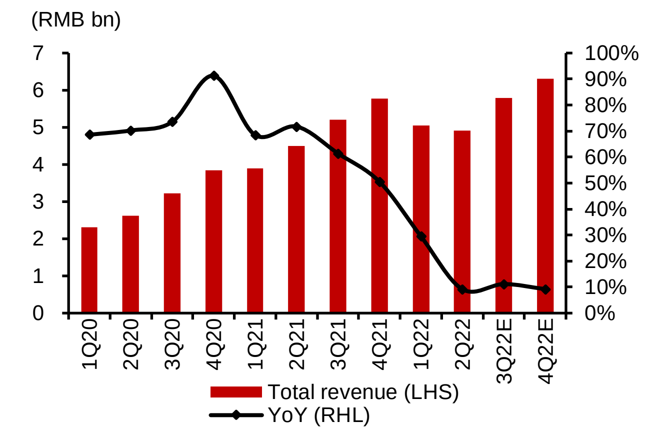
BiliBili (BILI US, BUY, TP US$20.0)

Due to unexpected macro events in 2Q22, Bili's revenue growth decelerated to +18.7% YoY in 1H22 (2021: 61.3% YoY) and adjusted net loss widened from RMB2.2bn in 1H21 to RMB3.6bn in 1H22. Its user community engagement remains healthy, with MAU/time spend up 29/10% YoY in 2Q22. At this stage, we view accelerating user base growth, cultivating user community and improving user engagement as crucial for Bili's long-term prospects, which will improve its ecosystem self-sustainability, balancing profit-sharing with content contributors lead to better margins and cash flows. We forecast total revenue growth of +9.8% YoY in 2H22E. Bili will focus more on the monetization and operating efficiency improvement in 2H22E. We forecast total revenue will grow by 20.7/16.2% YoY to RMB26.6/30.9bn in 2023/2024E, and adjusted net loss will narrow from RMB7.7bn in 2022E to RMB5.2/2.6bn in 2023/2024E. Our SOTP derived target price is US$20.0 per ADS (2.1/1.8x 22E/23E PS). BUY.

- **3Q22 preview: user base and engagement growth are crucial**

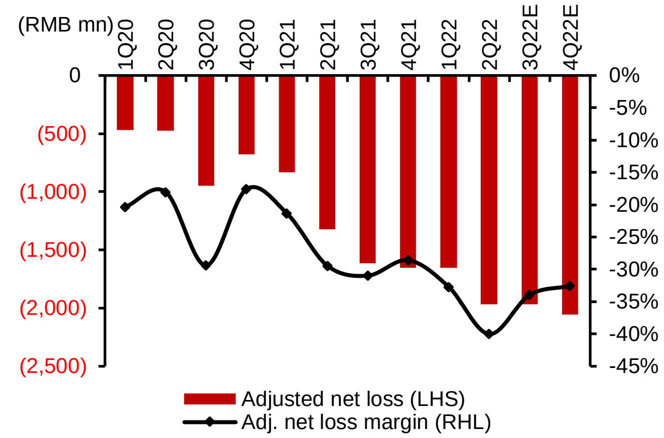
Bili's business operations were disrupted by the macro challenges and resurgence of the COVID-19 in 2Q22. Total revenue growth decelerated to +9.2% YoY in 2Q22 (the lowest since 2018) and adjusted net loss margin widened by 10.6pp YoY to -40.0% in 2Q22. At this stage of growth, we believe Bili needs to accelerate the growth of user base, in order to establish a large enough ecosystem which will create economics value that can keep the platform's development self-sustaining. It will involve growing user base, user time spend and engagement. For instance, larger user base would give Bili more room to adjust down revenue sharing ratio of its live-streaming business to industry norm-level (50-60%).

Figure 54: Bili: quarterly revenue trend



Source: Company data, CMBIGM estimates

Figure 55: Bili: adjusted net loss margin



Source: Company data, CMBIGM estimates

Figure 56: Bili: key financial forecasts

(RMB mn)	2021	2022E	2023E	2024E	3Q22E	4Q22E
Mobile games	5,091	5,126	5,614	5,900	1,436	1,286
YoY%	6.0%	0.7%	9.5%	5.1%	3.2%	-0.7%
VAS	6,935	8,764	10,956	13,081	2,233	2,375
YoY%	80.3%	26.4%	25.0%	19.4%	17.0%	25.3%
Advertising	4,523	5,218	6,760	8,329	1,383	1,636
YoY%	145.5%	15.4%	29.6%	23.2%	18.0%	3.0%
E-commerce and others	2,834	2,923	3,254	3,571	736	983
YoY%	88.1%	3.1%	11.3%	9.7%	0.3%	-2.1%
Total revenue	**19,384**	**22,030**	**26,584**	**30,880**	**5,788**	**6,279**
YoY%	61.5%	13.7%	20.7%	16.2%	11.2%	8.6%
Average MAUs	**250**	**312**	**378**	**446**	**323**	**327**
YoY%	34.5%	25.0%	21.0%	18.0%	7.8%	5.1%
Gross profit margin (%)	20.9%	16.9%	22.5%	27.7%	17.4%	19.9%
S&M expense ratio (%)	29.9%	23.5%	19.5%	16.0%	23.0%	22.6%
R&D expense ratio (%)	14.7%	21.0%	18.0%	15.5%	21.0%	20.2%
Adjusted net loss margin (%)	-28.3%	-34.9%	-19.7%	-8.5%	-34.0%	-32.2%
Adjusted net loss	**(5,478)**	**(7,685)**	**(5,230)**	**(2,622)**	**(1,966)**	**(2,020)**

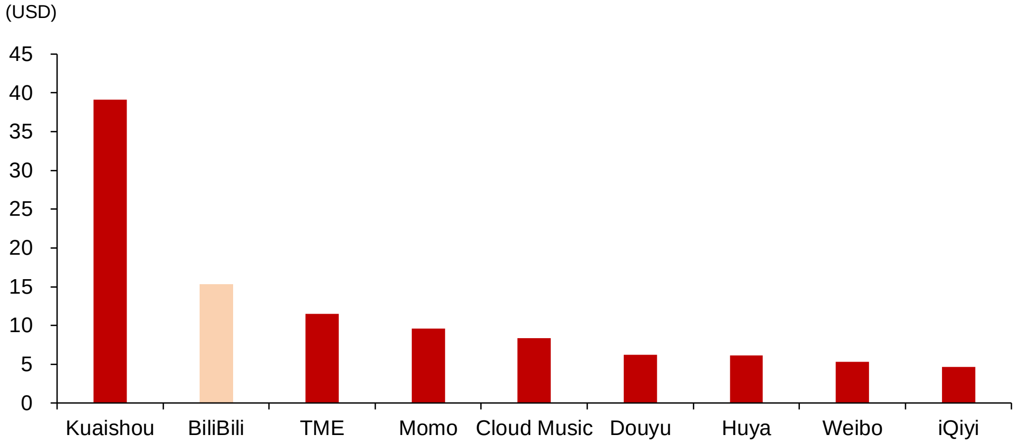
Source: Company data, CMBIGM estimates

■ Valuation and key catalysts

Bili's current market cap per MAU is US$15.3, which is a premium over the sector average of US$11.8 and is only lower than that of Kuaishou. We believe the premium is justified by Bili's ample for user growth and monetization improvement, compared to the other platforms.

We identify key catalysts for the share price to be: 1) stronger-than-expected user growth; 2) accelerating monetization; 3) breakeven timeline ahead of expectation.

Figure 57: Social entertainment platforms: market cap/MAU comparison



Note: data as at the 4 November market close
Source: Bloomberg, CMBIGM

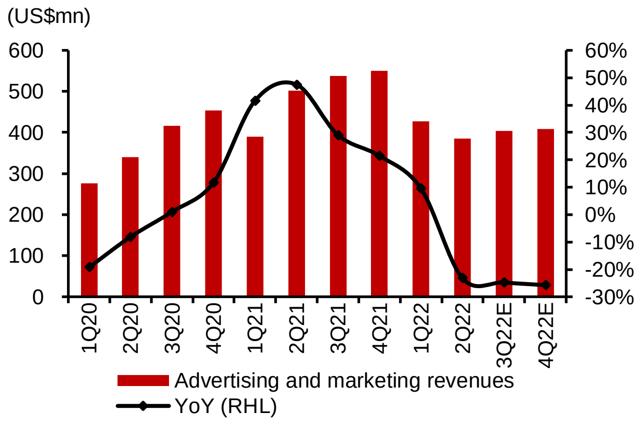
Weibo (WB US, BUY, TP US$21.8)

Weibo is the fourth largest social media platforms by MAUs in China (behind Tencent/Douyin/Kuaishou), with 582mn MAUs and 43% DAU/MAU ratio as of June 2022. Weibo has established unique proposition to advertisers with its large user base and vibrant KOL community. It provides advertisers with differentiated brand-plus-performance marketing solutions with relatively high ROI. We expect revenue/earnings deceleration to bottom-out from 2023E onwards, with total revenue/non-GAAP net income CAGR of 4.4/3.5% over 2022-2024E, as the macro environment gradually recovers. Its current valuation of 5x 2022E non-GAAP PE (70% discount to the sector average) offers attractive risk-reward. Our target price for Weibo is US$21.8, based on 9.0x 2022E non-GAAP EPS. BUY.

- **3Q22 preview: navigate short-term headwind**

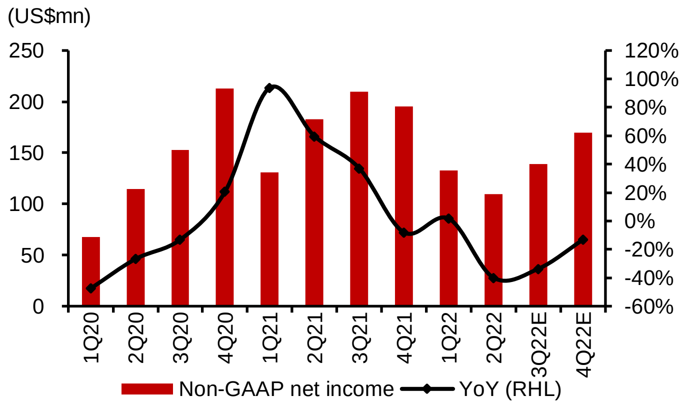
Macro challenge lingers and the overall consumption sentiment remains weak in 3Q22. We forecast Weibo's advertising and marketing revenue to decline by 25% YoY to US$404mn in 3Q22. We expect non-GAAP net income to decline by 33.7% YoY to US$139mn in 3Q22E.

Figure 58: Weibo: advertising revenue trend



Source: Company data, CMBIGM estimates

Figure 59: Weibo: non-GAAP net income

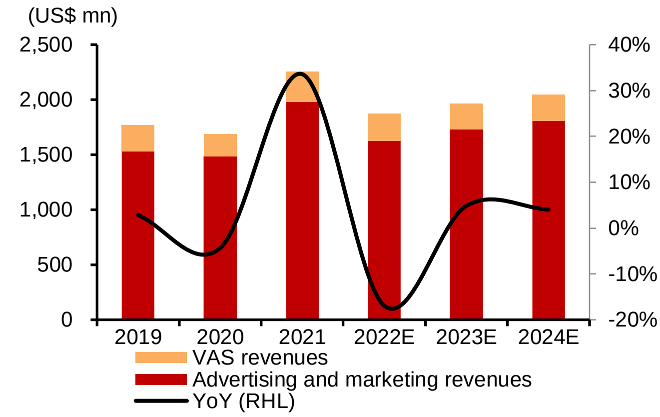


Source: Company data, CMBIGM estimates

We forecast Weibo's total revenue to decline by 16.9% YoY to US$1.87bn (2021: +33.6% YoY), primarily due to the resurgence of COVID-19, the high base in 2021 as well as the foreign exchange headwind. Looking ahead, we expect total revenue to rebound by 4.8/4.0% YoY to US$1.97/2.04bn in 2023/2024E driven by the recovery of macro environment and consumption sentiment. Based on our estimate, advertising and marketing/VAS business will account for 88.5/11.5% of total revenue in 2024E, versus 86.7/13.3% of total revenue in 2021.

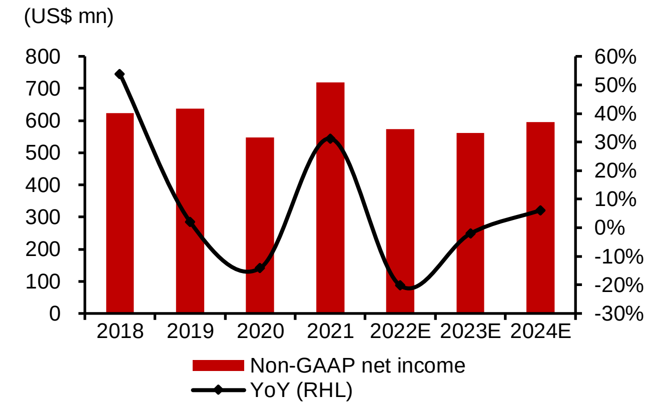
We forecast non-GAAP net income to drop by 20.2% YoY to US$573mn in 2022E, mainly attributable to the decline in revenue, charge of cultural business construction fees that was exempted in 2021, and increase in content investment. Due to the top-line pressure, Weibo will also exercise more prudent control in operating expenses and maintain a healthy margin profile. We estimate non-GAAP net income to grow by 1.2/5.8% to US$580/614mn, which imply non-GAAP net margin of 29.5/30.0% in 2023/2024E.

Figure 60: Weibo: total revenue trend



Source: Company data, CMBIGM estimates

Figure 61: Weibo: non-GAAP net income trend



Source: Company data, CMBIGM estimates

■ Valuation and key catalysts

Weibo trades at 4.5x TTM PE, which is 1x S.D. below its 2-year historical average TTM PE.

We identify key catalysts for the share price to be: 1) recovery of macro environment and consumption; 2) better-than-expected margin expansion.

Trip.com Group (TCOM US, BUY, TP US$29.7)

While revenue recovery of Trip.com (TCOM)'s domestic business remained under pandemic impact in 3Q22, pure international businesses (Trip.com & Skyscanner) were rolling back on track. We remain positive on TCOM's unique proposition value in China market with sticky high-end consumer and business user base, strong supply chain capability as well as deep industry resources. We think the situation that the country is addressing pandemic prevention has already priced in, future catalysts on stock price could come from: 1) potential relaxation of travel restrictions, especially on outbound travel (c. 25% of TCOM's total revenue in 2019), which we currently expect could resume in scale in 2023; 2) stronger-than-expected growth from pure international business; and 3) cost control further stabilizes bottom-line. On a 2021-2024E net revenue CAGR of 22.9%, we forecast non-GAAP net profit CAGR of 77.6%. Our DCF-based target price values TCOM at US$29.7 per ADS.

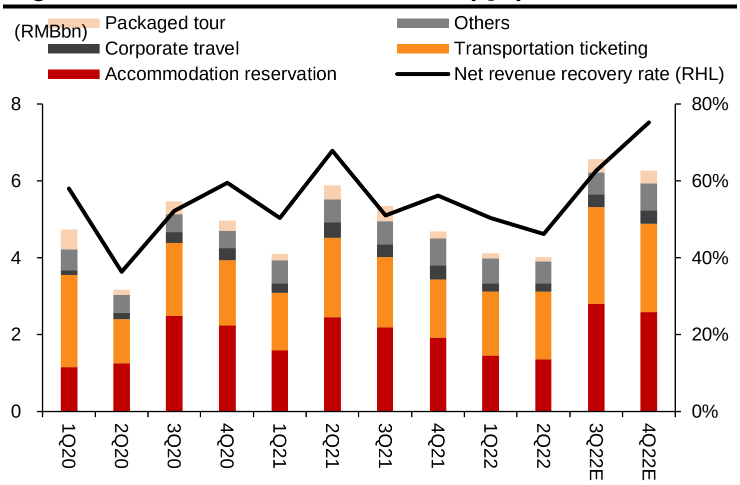
■ 3Q22 preview: revenue recovery underway

Driven by normalization of travel activities and release of pent-up demand, TCOM's domestic business has seen fast recovery since June 2022, although was impacted by pandemic resurgence again since mid-August. According to TCOM, compared with the same period in 2019, domestic hotel booking volume has fully recovered in June, and up 20% in July 2022. Although the growth was impacted by pandemic resurgence in August 2022, booking volume maintained positive growth. Domestic business remains TCOM's near term revenue and profit focus, in our view, and the strict pandemic prevention policy leaves room for pent-up demand recovery in 2023E.

TCOM's pure international business (around 10% of total revenue in 2019) is seeing an ongoing recovery trend since major countries relaxed their travel restrictions worldwide, and with TCOM allocating more resources to aid international expansion. Per Management, revenue in Europe and US markets have already surpassed the pre-pandemic level in 2Q22, and both air-ticket and hotel bookings on TCOM's global platform increased by over 100% YoY in 2Q22. We estimate TCOM's pure international business revenue to recover to 80-90% of pre pandemic level in 3Q22 (70-80% in 2Q22).

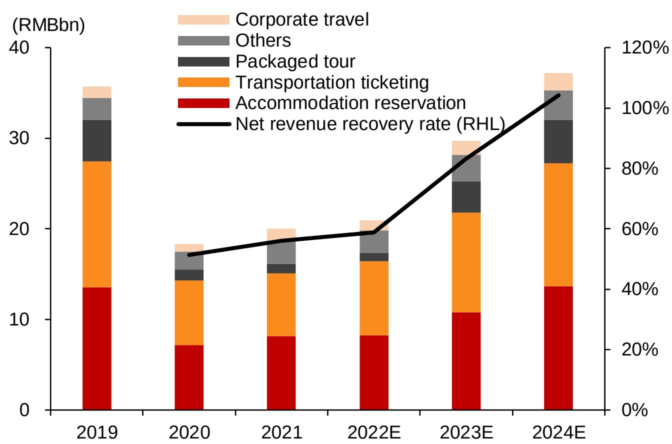
Overall, we forecast RMB6.6bn of total revenue for TCOM in 3Q22E, 4.9% higher than Bloomberg consensus, and non-GAAP net income of RMB742mn (Consensus: RMB811mn). We forecast TCOM's total revenue to recover to 59/83% of 2019 level in 2022/2023E.

Figure 62: TCOM: Revenue forecast (Qtr)



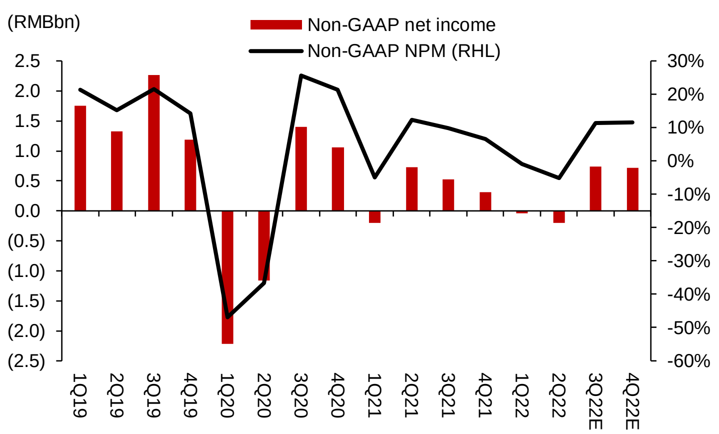
Note: revenue recovery is compared with the same period in 2019
Source: Company data, CMBIGM estimates

Figure 63: TCOM: revenue forecast



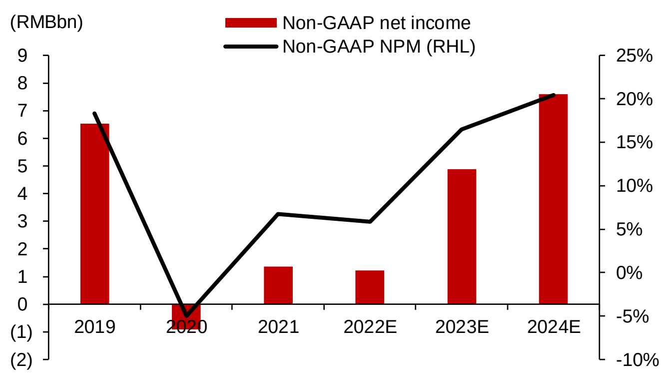
Source: Company data, CMBIGM estimates

Figure 64: TCOM: non-GAAP net profit and NPM



Source: Company data, CMBIGM estimates

Figure 65: TCOM: non-GAAP net profit and NPM



Source: Company data, CMBIGM estimates

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 or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months

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.