

Weibo (WB US)

Solid margin and attractive valuation; wait for top-line recovery

Weibo announced 1Q23 financial results on 25 May. Total revenue dropped by 15% YoY (or -7% YoY on a constant currency basis) to US\$414mn in 1Q23, inline with the consensus estimate. 1Q23 non-GAAP net income was down by 16% YoY to US\$111mn, better than consensus estimate of US\$103mn. Management saw slower-than-expected recovery of overall ad demand and different ad verticals deliver a mixed performance in 2Q23. We forecast ad revenue to grow by 3% YoY on a constant currency basis in 2Q23. We lower FY23/24/25 non-GAAP net income forecast by 7/8/3% in view of ads demand, competition outlook, and margin impact. We revise down our TP by 8% to US\$26.7 on 12x 2023E PE. Despite the slow recovery of top-line growth, Weibo's profitability remains intact and current valuation of 7x FY23E PE is undemanding (vs. peers' 18x and 2-year historical avg. of 11x). Maintain BUY.

- Ad business is expected to return to positive growth in 2Q23.** Ad revenue declined by 17% YoY to US\$355mn in 1Q23 (4Q22/3Q22: -29/27% YoY), with a mixed ad budget recovery pace of different verticals. Leveraging its unique value proposition, Weibo saw double-digit YoY ad revenue growth in handset and automotive verticals in 1Q23, and over 40% YoY ad revenue growth in these verticals in Mar 2023. On the other hand, e-commerce and FMCG ad budget growth were weak in 1Q23, as key accounts tighten their ad budget amid weak consumption sentiment. Overall, management expects ad revenue will return to positive YoY growth in 2Q23E, but at a slower growth rate than previously expected.
- Leverage AIGC to enhance content creation efficiency.** MAUs grew 2% YoY to 593mn in Mar 2023. Average daily traffic volume grew significantly in key verticals such as entertainment, digital product, and automobile in 1Q23. On AIGC application, Weibo is one of the first social media platforms adopting GPT-3 model back in mid-2022. Looking ahead, Weibo plans to leverage AI 1) to help top-tier content creators to enhance content creation efficiency and 2) to generate content that could potentially replace original content produced by the mid-tier and long-tail user accounts.
- Expect operating efficiency gain in FY23.** GPM improved by 0.9ppt YoY to 79.3% in 1Q23, mainly due to saving in content investment. S&M/R&D expenses was down by 15%/19% YoY in 1Q23, thanks to the optimized channel investment and lower personnel-related costs. Overall non-GAAP OPM increased by 1.9ppt YoY to 31.1% in 1Q23, on the improved GPM and opex control. We expect Weibo to have c.1ppt OPM YoY gain in FY23, as the Company continues to optimize user acquisition and operating efficiency. On its strong profitability, Weibo also announced a special dividend of US\$0.85 per ADS to return excess cash to shareholder, which translates into 5.6% dividend yield.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	2,257	1,836	1,871	2,028	2,149
Gross margin (%)	82.1	78.2	78.5	78.5	78.5
Adjusted net profit (US\$ mn)	718.5	540.1	526.5	565.6	619.5
YoY growth (%)	31.2	(24.8)	(2.5)	7.4	9.5
EPS (Adjusted) (US\$)	3.14	2.30	2.24	2.41	2.63
Consensus EPS (US\$)	3.14	2.30	2.23	2.50	2.72
P/S (x)	1.7	2.1	2.0	1.9	1.8
P/E (x)	26.0	52.9	9.6	8.3	7.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$26.70

(Previous TP) US\$28.90

Up/Downside 66.3%

Current Price US\$16.06

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Stock Data

Mkt Cap (US\$ mn)	3,776.7
Avg 3 mths t/o (US\$ mn)	17.6
52w High/Low (US\$)	25.44/10.71
Total Issued Shares (mn)	235.2

Source: FactSet

Shareholding Structure

Sina	37.3%
Alibaba	28.9%

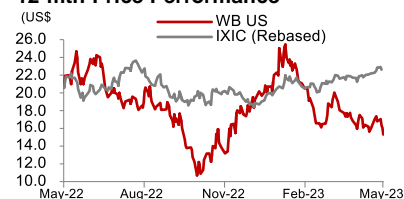
Source: Company data

Share Performance

	Absolute	Relative
1-mth	0.6%	-5.0%
3-mth	-21.7%	-28.5%
6-mth	21.9%	9.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Weibo: forecast revision

US\$mn	Current			Previous			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,871	2,028	2,149	1,989	2,100	2,165	-6.0%	-3.4%	-0.8%
Gross Profit	1,468	1,592	1,687	1,571	1,659	1,711	-6.5%	-4.0%	-1.4%
Adjusted net profit	526	566	619	569	612	644	-7.5%	-7.6%	-3.8%
Adjusted EPS (RMB)	2.2	2.4	2.6	2.4	2.6	2.7	-7.2%	-8.0%	-2.9%
Gross Margin	78.5%	78.5%	78.5%	79.0%	79.0%	79.0%	-0.5 ppt	-0.5 ppt	-0.5 ppt
Adjusted net margin	28.1%	27.9%	28.8%	28.6%	29.1%	29.7%	-0.5 ppt	-1.3 ppt	-0.9 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,871	2,028	2,149	1,949	2,122	2,258	-4.0%	-4.4%	-4.9%
Gross Profit	1,468	1,592	1,687	1,529	1,673	1,785	-4.0%	-4.8%	-5.5%
Adjusted net profit	526	566	619	528	592	643	-0.3%	-4.5%	-3.7%
Adjusted EPS (RMB)	2.2	2.4	2.6	2.2	2.5	2.7	-0.3%	-4.5%	-3.7%
Gross Margin	78.5%	78.5%	78.5%	78.5%	78.9%	79.0%	0.0 ppt	-0.4 ppt	-0.5 ppt
Adjusted net margin	28.1%	27.9%	28.8%	27.1%	27.9%	28.5%	1.1 ppt	0.0 ppt	0.3 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Weibo: quarterly financial

(US\$mn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	Cons.	Diff%
Advertising revenue	390	502	538	551	427	386	393	391	355		
YoY%	41.6%	47.5%	29.0%	21.5%	9.5%	-23.2%	-26.8%	-29.1%	-16.8%		
VAS revenue	69	72	70	65	58	65	60	57	58		
YoY%	43.6%	54.1%	42.3%	9.2%	-16.5%	-10.4%	-13.9%	-12.2%	1.7%		
Total revenue	459	574	607	616	485	450	454	448	414	413	0.2%
YoY%	41.9%	48.3%	30.4%	20.0%	5.6%	-21.6%	-25.3%	-27.3%	-14.6%	-14.8%	
Gross profit margin (%)	82.6%	83.9%	83.0%	79.1%	78.4%	78.8%	79.2%	76.3%	79.3%		
S&M %	31.4%	26.9%	23.2%	24.7%	25.9%	25.7%	25.1%	27.4%	25.7%		
R&D %	21.0%	17.7%	19.6%	18.5%	23.2%	23.6%	21.4%	22.2%	21.9%		
Non-GAAP net margin	28.5%	31.8%	34.5%	31.7%	27.4%	24.4%	26.2%	39.8%	26.9%		
Non-GAAP net profit	131	183	210	196	133	110	119	179	111	103	7.8%
YoY%	93.8%	59.7%	37.1%	-8.1%	1.7%	-40.0%	-43.2%	-8.7%	-16.3%	-22.3%	

Source: Company data, CMBIGM estimates

Figure 4: Weibo: peer valuation comparison

Companies	Ticker	Price (LC)	Adj. EPS growth (YoY%)			PE (x)			EPS CAGR (%)
			2023E	2024E	2025E	2023E	2024E	2025E	2022-2025E
Focus Media	002027 CH	6.5	74.6	21.1	11.8	19.2	15.9	14.2	33.2
Baidu	BIDU US	118.7	3.3	12.5	12.8	13.1	11.7	10.3	9.4
Meta	META US	252.7	53.4	22.9	13.6	19.2	15.6	13.7	28.9
Google	GOOGL US	123.5	26.3	18.8	21.3	21.4	18.0	14.9	22.1
Average						18.2	15.3	13.3	

Source: Bloomberg, CMBIGM

Note: data are as of 25 May 2023

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	1,690	2,257	1,836	1,871	2,028	2,149
Cost of goods sold	(302)	(404)	(401)	(402)	(436)	(462)
Gross profit	1,388	1,853	1,436	1,468	1,592	1,687
Operating expenses	(881)	(1,156)	(945)	(973)	(1,010)	(1,046)
Selling expense	(456)	(592)	(477)	(477)	(497)	(516)
Admin expense	(101)	(133)	(53)	(122)	(128)	(133)
R&D expense	(324)	(431)	(415)	(374)	(385)	(398)
Operating profit	507	697	491	496	582	641
Other gains/(losses)	(175)	(176)	(313)	27	0	0
Interest income	44	30	(39)	(9)	9	18
Pre-tax profit	376	551	138	514	591	659
Income tax	(61)	(139)	(30)	(103)	(118)	(132)
After tax profit	315	412	108	411	473	527
Minority interest	1	(16)	12	16	18	20
Net profit	313	428	96	395	454	507
Adjusted net profit	547	719	540	526	566	619

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	4,835	4,803	4,552	4,344	5,220	5,923
Cash & equivalents	1,815	2,424	2,691	2,416	3,161	3,739
Account receivables	492	723	502	512	555	588
Prepayment	297	451	392	391	416	440
Other current assets	2,231	1,205	968	1,025	1,088	1,156
Non-current assets	1,501	2,717	2,577	2,442	2,350	2,288
PP&E	61	68	250	255	260	266
Investment in JVs & assos	1,179	1,208	994	853	756	687
Goodwill	209	297	245	245	245	245
Other non-current assets	52	1,143	1,089	1,089	1,089	1,089
Total assets	6,335	7,520	7,129	6,786	7,570	8,211
Current liabilities	958	2,159	1,220	1,156	1,208	1,237
Account payables	150	198	161	164	178	188
Tax payable	103	145	55	55	55	55
Other current liabilities	144	988	80	81	88	94
Accrued expenses	562	829	924	855	887	900
Non-current liabilities	2,490	1,672	2,519	1,860	2,157	2,282
Long-term borrowings	2,490	1,672	2,519	1,860	2,157	2,282
Total liabilities	3,449	3,832	3,739	3,016	3,365	3,519
Share capital	1,326	1,679	1,330	1,330	1,330	1,330
Retained earnings	1,487	1,915	2,001	2,396	2,850	3,357
Total shareholders equity	2,812	3,594	3,330	3,726	4,180	4,686
Minority interest	74	94	60	44	26	6
Total equity and liabilities	6,335	7,520	7,129	6,786	7,570	8,211

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	376	551	138	514	591	659
Depreciation & amortization	41	55	47	47	50	52
Tax paid	(61)	(139)	(30)	(103)	(118)	(132)
Change in working capital	49	42	334	(83)	(25)	(39)
Others	(1)	305	320	(16)	(18)	(20)
Net cash from operations	403	814	809	360	479	520
Investing						
Capital expenditure	(50)	(35)	(53)	(53)	(56)	(58)
Net proceeds from disposal of short-term investments	(731)	871	231	(48)	(53)	(58)
Others	62	(1,259)	(1,639)	141	97	69
Net cash from investing	(719)	(424)	(1,461)	40	(12)	(48)
Financing						
Net borrowings	602	1	953	(659)	296	125
Proceeds from share issues	0	188	0	0	0	0
Others	75	0	(34)	(16)	(18)	(20)
Net cash from financing	678	189	919	(675)	278	105
Net change in cash						
Cash at the beginning of the year	1,453	1,815	2,424	2,691	2,416	3,161
Exchange difference	0	29	0	0	0	0
Cash at the end of the year	1,815	2,424	2,691	2,416	3,161	3,739
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(4.4%)	33.6%	(18.6%)	1.9%	8.4%	5.9%
Gross profit	(3.5%)	33.5%	(22.5%)	2.3%	8.4%	5.9%
Operating profit	(15.2%)	37.6%	(29.6%)	1.0%	17.4%	10.0%
Net profit	(36.7%)	36.7%	(77.6%)	312.9%	14.9%	11.5%
Adj. net profit	(14.1%)	31.2%	(24.8%)	(2.5%)	7.4%	9.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	82.1%	82.1%	78.2%	78.5%	78.5%	78.5%
Operating margin	30.0%	30.9%	26.7%	26.5%	28.7%	29.8%
Adj. net profit margin	32.4%	31.8%	29.4%	28.1%	27.9%	28.8%
Return on equity (ROE)	12.3%	13.4%	2.8%	11.2%	11.5%	11.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	5.0	2.2	3.7	3.8	4.3	4.8
Receivable turnover days	106.3	116.9	99.9	99.9	99.9	99.9
Payable turnover days	(180.6)	(178.6)	(146.7)	(148.9)	(148.9)	(148.9)
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	27.9	26.0	52.9	9.6	8.3	7.5
P/E (diluted)	28.0	26.3	53.2	9.6	8.4	7.5
P/B	3.1	3.1	1.5	1.0	0.9	0.8

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

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