

Weibo (WB US)

Recovery on the horizon despite ST pressure

Weibo faced pressure in 4Q22E due to tighter regulations on entertainment content and extreme disruptions on ads promotions from resurgence of COVID in Dec 2022. Hence, we lower FY22/4Q22E total revenue forecast by 1/4%. Market now looks ahead to recovery potential in online ads demand, driven by China's reopening and consumption recovery. The speed of economic activities recovery post Chinese New Year is ahead of our previous expectation, which should support Weibo's revenue recovery in FY23E. In view of this, we raise our total revenue forecast in FY23E by 2%. We expect the reacceleration in revenue growth to enhance operating leverage and support non-GAAP net income to grow 13/7% YoY in FY23/24E. Given the re-rating of online ad sector (current 18x FY23E PE vs previous 12x FY23E PE in Nov 2022) and enhanced earnings growth outlook, we lift our target price to US\$27.8 based on 12x FY23E PE (previous: US\$20.3 based on 9x FY23 PE) or 0.9x FY23E PEG. Maintain BUY.

■ **Expect gradual recovery throughout FY23E.** We forecast total revenue to decline by 28% YoY and 2% QoQ to US\$445mn in 4Q22E (3Q22: -25% YoY), as macro headwind and resurgence of COVID cases continued to weigh on ad budget. The strict regulations on entertainment content also impacted Weibo's user engagement and ad inventory in 4Q22. We forecast ad/VAS revenue to decline by 29/20% YoY and represent 88/12% of total revenue in 4Q22E. We estimate non-GAAP net income to drop by 37% YoY but grow by 3% YoY to US\$123mn in 4Q22E, primarily due to YoY revenue decline and content investments such as the World Cup event. That said, we expect the worst is over from 4Q22 onwards and gradual revenue recovery to take place throughout FY23E, supported by improving macro environment. We forecast Weibo's total revenue to grow by 5/5% YoY (or 6/5% on constant currency) in FY23/FY24E.

■ **Steady margin improvement in FY23/24E.** We forecast GPM to slightly improve from 78.8% in FY22E to 79.0/79.0% in FY23/24E, due to more prudent control in content investment. The reacceleration in revenue growth should enhance operating leverage, and we estimate non-GAAP operating margin to increase from 30.8% in FY22E to 31.0/31.3% in FY23/24E. We forecast Weibo's non-GAAP net income to grow by 13/7% YoY in FY23/24E (FY22E: -33% YoY).

■ **Maintain BUY.** Weibo currently trades at 10x FY23E non-GAAP PE, which is a 57% discount to the sector average PE and justified by its solid earnings growth (0.8x FY23E PEG), offering attractive risk-reward. The recovery in consumption sentiment will be a key catalyst for supporting Weibo's further re-rating as its ad demand relatively concentrated on consumption-related sectors like FMCG/3C/e-commerce.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	1,690	2,257	1,833	1,920	2,017
YoY growth (%)	(4.4)	33.6	(18.8)	4.7	5.0
Gross margin (%)	82.1	82.1	78.8	79.0	79.0
Operating profit (US\$ mn)	507	697	431	465	501
YoY growth (%)	(15.2)	37.6	(38.2)	7.8	7.9
Adjusted net profit (US\$ mn)	547.5	718.5	484.0	547.0	584.4
YoY growth (%)	(14.1)	31.2	(32.6)	13.0	6.8
EPS (Adjusted) (US\$)	2.41	3.14	2.12	2.39	2.55
Consensus EPS (US\$)	2.41	3.14	2.07	2.23	2.48
P/S (x)	3.2	2.4	3.0	2.8	2.7
Non-GAAP P/E (x)	9.9	7.7	11.6	10.3	9.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$27.80
(Previous TP US\$20.30)
Up/Downside 17.2%
Current Price US\$23.73

China Internet

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

Wentao LU
luwentao@cmbi.com.hk

Ye TAO
franktao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	5,429.6
Avg 3 mths t/o (US\$ mn)	18.5
52w High/Low (US\$)	32.50/10.71
Total Issued Shares (mn)	228.8

Source: FactSet

Shareholding Structure

Sina	40.1%
Alibaba	28.7%

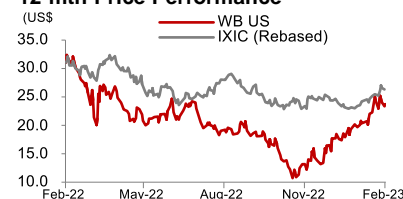
Source: Company data

Share Performance

	Absolute	Relative
1-mth	20.6%	7.2%
3-mth	80.2%	60.1%
6-mth	25.2%	33.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Forecast update and valuation

We lower our FY22/4Q22E total revenue forecast by 1/4% in view of the strict regulations on entertainment content and impacts from COVID resurgence in December 2022. However, China's recovery after the Chinese New Year is faster than our previous expectation, which should support Weibo's revenue and earnings growth in FY23E. We raise FY23E total revenue forecast/non-GAAP net income forecast by 2/3% as a result.

Figure 1: Weibo: forecast revision

US\$m	Current			Previous			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	1,833	1,920	2,017	1,848	1,873	2,040	-0.8%	2.5%	-1.2%
Gross Profit	1,445	1,517	1,593	1,454	1,473	1,609	-0.6%	3.0%	-1.0%
Adjusted net profit	484	547	584	489	531	566	-1.0%	3.1%	3.2%
Adjusted EPS (RMB)	2.0	2.3	2.5	2.1	2.2	2.4	-1.0%	3.1%	3.2%
Gross Margin	78.8%	79.0%	79.0%	78.7%	78.6%	78.9%	0.1 ppt	0.4 ppt	0.1 ppt
Adjusted net margin	26.4%	28.5%	29.0%	26.5%	28.3%	27.8%	-0.1 ppt	0.2 ppt	1.2 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$m	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	1,833	1,920	2,017	1,854	1,889	2,014	-1.1%	1.7%	0.1%
Gross Profit	1,445	1,517	1,593	1,461	1,492	1,591	-1.1%	1.7%	0.1%
Adjusted net profit	484	547	584	488	533	576	-0.9%	2.7%	1.5%
Adjusted EPS (RMB)	2.0	2.3	2.5	2.1	2.3	2.4	-0.9%	2.5%	1.5%
Gross Margin	78.8%	79.0%	79.0%	78.8%	79.0%	79.0%	0.0 ppt	0.0 ppt	0.0 ppt
Adjusted net margin	26.4%	28.5%	29.0%	26.3%	28.2%	28.6%	0.1 ppt	0.2 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Weibo: key financial forecasts

(US\$m)	2021	2022E	2023E	2024E	4Q22E
Advertising revenue	1,981	1,598	1,697	1,794	392
YoY%	33.3%	-19.3%	6.2%	5.7%	-28.8%
VAS revenue	276	235	223	223	53
YoY%	35.6%	-15.0%	-5.2%	0.0%	-19.6%
Total revenue	2,257	1,833	1,920	2,017	445
YoY%	33.6%	-18.8%	4.7%	5.0%	-27.8%
Gross profit margin (%)	82.1%	78.8%	79.0%	79.0%	78.8%
S&M %	26.2%	26.5%	26.3%	25.8%	29.5%
R&D %	19.1%	22.2%	22.0%	22.0%	20.5%
Non-GAAP net margin	31.8%	26.4%	28.5%	29.0%	27.5%
Non-GAAP net profit	719	484	547	584	122
YoY%	31.2%	-32.6%	13.0%	6.8%	-37.4%

Source: Company data, CMBIGM estimates

We expect the reacceleration in revenue growth to enhance operating leverage and support non-GAAP net income to grow 13/7% YoY in FY23/24E. Given the re-rating of online ad sector (current 18x FY23E PE vs previous 12x FY23E PE in Nov 2022) and enhanced earnings growth outlook, we lift our target price to US\$27.8 based on 12x FY23E PE (previous: US\$20.3 based on 9x FY23 PE). Maintain BUY.

Figure 4: Weibo: peer valuation comparison

Companies	Ticker	Price (LC)	Adj. EPS growth (YoY%)			PE (x)			EPS CAGR (%)
			2022E	2023E	2024E	2022E	2023E	2024E	
Focus Media	002027 CH	6.6	(37.6)	29.4	21.8	30.5	19.1	15.5	4.2
Baidu	BIDU US	160.2	(1.1)	12.9	13.0	19.5	17.3	15.3	8.1
Meta	META US	191.6	(8.6)	22.7	19.6	22.3	17.2	14.1	(0.5)
Google	GOOGL US	107.6	(42.4)	59.7	22.9	23.6	19.2	16.1	10.3
Average						24.0	18.2	15.3	

Source: Bloomberg, CMBIGM

Note: data are as of 7 Feb 2023

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Revenue	1,767	1,690	2,257	1,833	1,920	2,017
Cost of goods sold	(329)	(302)	(404)	(389)	(403)	(424)
Gross profit	1,438	1,388	1,853	1,445	1,517	1,593
Operating expenses	(841)	(881)	(1,156)	(1,014)	(1,052)	(1,092)
Selling expense	(465)	(456)	(592)	(486)	(505)	(520)
Admin expense	(91)	(101)	(133)	(121)	(125)	(128)
R&D expense	(284)	(324)	(431)	(407)	(422)	(444)
Operating profit	598	507	697	431	465	501
Other gains/(losses)	(42)	(175)	(176)	(310)	0	0
Interest income	47	44	30	(22)	37	46
Pre-tax profit	602	376	551	100	501	548
Income tax	(110)	(61)	(139)	(54)	(100)	(110)
After tax profit	493	315	412	46	401	438
Minority interest	(2)	1	(16)	(1)	(16)	(17)
Net profit	495	313	428	47	417	456
Adjusted net profit	637	547	719	484	547	584

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Current assets	3,636	4,835	4,803	3,863	4,214	4,626
Cash & equivalents	1,453	1,815	2,424	1,641	1,867	2,141
Account receivables	422	492	723	587	615	646
Prepayment	425	297	451	349	358	369
Other current assets	1,336	2,231	1,205	1,286	1,375	1,471
Non-current assets	1,168	1,501	2,717	2,746	2,771	2,791
PP&E	47	61	68	74	81	86
Investment in JVs & assos	1,027	1,179	1,208	1,231	1,250	1,265
Goodwill	47	209	297	297	297	297
Other non-current assets	47	52	1,143	1,143	1,143	1,143
Total assets	4,804	6,335	7,520	6,609	6,985	7,418
Current liabilities	801	958	2,159	1,873	1,871	1,893
Account payables	126	150	198	131	137	144
Tax payable	100	103	145	145	145	145
Other current liabilities	109	144	988	971	974	978
Accrued expenses	466	562	829	627	615	626
Non-current liabilities	1,722	2,490	1,672	679	625	563
Long-term borrowings	1,722	2,490	1,672	679	625	563
Total liabilities	2,522	3,449	3,832	2,553	2,496	2,455
Share capital	1,110	1,326	1,679	1,679	1,679	1,679
Retained earnings	1,174	1,487	1,915	1,952	2,370	2,825
Total shareholders equity	2,283	2,812	3,594	3,631	4,048	4,504
Minority interest	(1)	74	94	96	112	129
Total equity and liabilities	4,804	6,335	7,520	6,279	6,656	7,088

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	602	376	551	100	501	548
Depreciation & amortization	30	41	55	47	47	50
Tax paid	(110)	(61)	(139)	(54)	(100)	(110)
Change in working capital	(371)	49	42	(58)	(50)	(30)
Others	479	(1)	305	321	16	17
Net cash from operations	632	403	814	356	415	476
Investing						
Capital expenditure	(35)	(50)	(35)	(53)	(54)	(56)
Net proceeds from disposal of short-term investments	(837)	(731)	871	(71)	(78)	(86)
Others	(361)	62	(1,259)	(23)	(19)	(15)
Net cash from investing	(1,234)	(719)	(424)	(147)	(151)	(157)
Financing						
Net borrowings	825	602	1	(993)	(54)	(62)
Proceeds from share issues	0	0	188	0	0	0
Others	(4)	75	0	1	16	17
Net cash from financing	821	678	189	(992)	(38)	(45)
Net change in cash						
Cash at the beginning of the year	1,235	1,453	1,815	2,424	1,641	1,867
Exchange difference	0	0	29	0	0	0
Cash at the end of the year	1,453	1,815	2,424	1,641	1,867	2,141
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	2.8%	(4.4%)	33.6%	(18.8%)	4.7%	5.0%
Gross profit	(0.2%)	(3.5%)	33.5%	(22.1%)	5.0%	5.0%
Operating profit	(1.9%)	(15.2%)	37.6%	(38.2%)	7.8%	7.9%
Net profit	(13.5%)	(36.7%)	36.7%	(88.9%)	779.8%	9.2%
Adj. net profit	2.1%	(14.1%)	31.2%	(32.6%)	13.0%	6.8%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	81.4%	82.1%	82.1%	78.8%	79.0%	79.0%
Operating margin	33.8%	30.0%	30.9%	23.5%	24.2%	24.9%
Adj. net profit margin	36.1%	32.4%	31.8%	26.4%	28.5%	29.0%
Return on equity (ROE)	24.6%	12.3%	13.4%	1.3%	10.9%	10.7%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	4.5	5.0	2.2	2.1	2.3	2.4
Receivable turnover days	87.2	106.3	116.9	116.9	116.9	116.9
Payable turnover days	(140.1)	(180.6)	(178.6)	(123.0)	(124.1)	(124.1)
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E (Non-GAAP)	8.7	9.9	7.7	11.6	10.3	9.6
P/B	5.1	3.1	3.1	1.5	1.3	1.2

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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