

# Mobvista Inc. (1860 HK)

## A solid start into FY23E

Mobvista delivered solid 1Q23 results, with in-line rev (+5% YoY) and upbeat bottom line (at US\$4.5mn). We are impressed by Mintegral's vertical expansion, with rev mix of midcore & hardcore games vertical up to 28.5% (vs. 23% in 4Q22). We see high visibility for Mobvista to accelerate from 2Q23E (forecasting rev +22% YoY), and 2H23E would see further upside from ROAS mode and cooperation with Google. Margin enhancement would continue, backed by narrowing loss of Reyun and lower incentives. We keep our earnings forecast unchanged. Maintain BUY with SOTP-based TP at HK\$6.3 (1.2x/1.0x FY23/24E P/S, or 58x/40x FY23/24E P/E, with 31% earnings CAGR in FY23-25E).

- Resilient 1Q23 amid macro uncertainty.** Mobvista delivered solid 1Q23 results, after infrastructure building in 2022. Rev grew 5% YoY (9% QoQ, in-line with our forecast), with adj. net profit of US\$4.5mn (vs. our estimate of US\$4.0mn). By segment, ad-tech/mar-tech rev +5%/11.5% YoY. Despite soft seasonality and macro uncertainty, Mintegral +13% YoY in 1Q23 (vs. +13% in 4Q22), attributable to resilient game vertical. Nativex declined 49% YoY in 1Q23 for top media agency biz being divested in 1Q22. Thanks to its ads tech advantage and SaaS ecosystem, no. of core customers (whose rev contribution exceeds US\$100,000) surged 46% YoY to 421 in 1Q23 (+8% QoQ), with core customer retention rate up to 95.9%.
- Expecting acceleration from 2Q23E.** Mintegral continued sequential growth in 1Q23, in which rev mix of midcore and hardcore games vertical climbed to 28.5% (vs. 23% in 4Q22, 19% in 1Q22). We expect 2Q22E to accelerate (forecasting rev +22% YoY), boosted by: 1) upside from cooperation with Google, and 2) ROAS mode to attract rising hardcore games budget. We maintain its FY22E rev forecast unchanged (+25% YoY).
- Disciplined cost control to continue.** 1Q23 adj. NM reached 1.8%, with net profit/adj. EBITDA +77%/38% QoQ. Its GPM stabilized YoY at 19.2% in 1Q23, while model training fee and incentive fee declined 53%/79% YoY. We forecast its adj. NM to expand to 2.1% in FY23E, backed by 1) higher ads efficiency with lower incentives; 2) R&D investment to stabilize; and 3) narrowing loss of Reyun.
- Maintain BUY.** We maintain our financials forecast unchanged, with TP at HK\$6.3 (by assigning 30x FY23E P/E to ad-tech biz and 3.3x FY23E P/S to mar-tech biz). Key catalysts: 1) 2Q23E acceleration; and 2) upside of ROAS mode and Google cooperation.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	755	894	1,114	1,337	1,564
YoY change (%)	46	18	25	20	17
Adj. net income (US\$ mn)	(4)	10	23	33	40
Adj. EPS (US\$)	(0.00)	0.01	0.01	0.02	0.02
YoY growth (%)	NA	NA	138	44	20
Consensus EPS (US\$)	NA	NA	0.01	0.03	0.02
P/E (x)	NA	85	36	25	21
P/S (x)	1.1	0.9	0.7	0.6	0.5
ROE (%)	(1)	4	9	12	13
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$6.3
(Previous TP)	HK\$6.3)
Up/Downside	+54.4%
Current Price	HK\$4.08

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	6,641
Avg 3 mths t/o (HK\$ mn)	2.53
52w High/Low (HK\$)	5.80/ 3.68
Total Issued Shares (mn)	1,628

Source: Bloomberg

### Shareholding Structure

Seamless Technology	63.2%
GIC	8.0%
Citigroup	4.7%

Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-4.9%	-0.9%
3-mth	-9.7%	-2.9%
6-mth	-10.8%	-19.9%

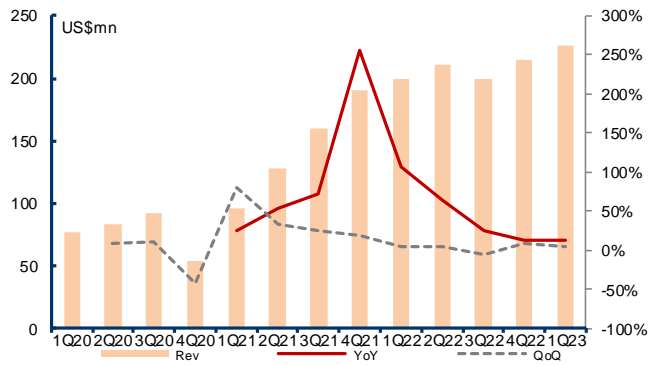
Source: Bloomberg

### 12-mth Price Performance

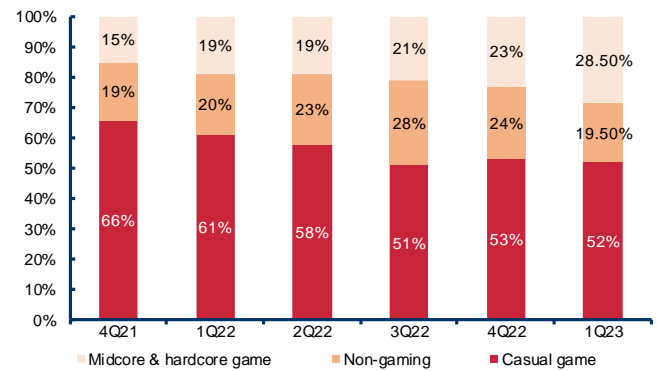


Source: Bloomberg

Auditor: KPMG

**Figure 1: Mintegral ad rev trend**

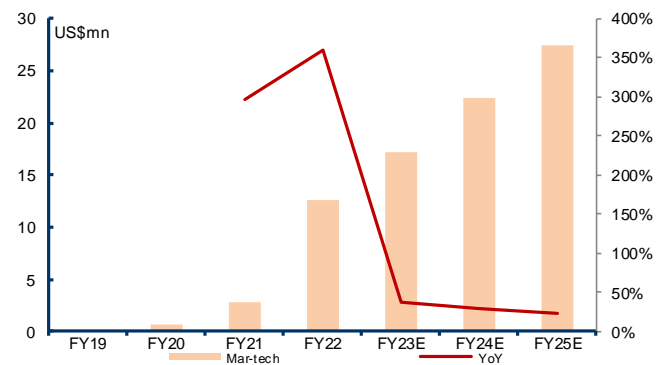
Source: Company data

**Figure 2: Higher rev mix of non-casual games**

Source: Company data

**Figure 3: Ad-tech revenue growth estimates**

Source: Company data, CMBIGM estimates

**Figure 4: Mar-tech revenue growth estimates**

Source: Company data, CMBIGM estimates

**Figure 5: Mobvista's 1Q23 review**

US\$'000	1Q22	4Q22	1Q23	QoQ	YoY
Revenue	232,836	224,677	244,554	8.8%	5.0%
Gross profit	44,625	45,953	46,912	2.1%	5.1%
Operating profit	31,289	(3,667)	5,172	NA	-83.5%
Net profit	30,940	1,806	3,201	77.2%	-89.7%
Adj. net profit	33,446	NA	4,510	NA	-86.5%
<b>Margin (%)</b>					
Gross margin	19.2%	23.8%	19.2%		
Operating margin	13.4%	-1.6%	2.1%		
Adj. net margin	14.4%	NA	1.8%		
<b>Growth (%)</b>					
Revenue (YoY)			5.0%		
Revenue (QoQ)			8.8%		
Operating profit	NA	NA	NA		
Adj. net profit	NA	NA	NA		

Source: Company data

**Figure 6: Mobvista's 1Q23 rev breakdown**

	1Q22	1Q23	QoQ	YoY
<b>Revenue (US\$'000)</b>	<b>232,836</b>	<b>244,554</b>	<b>8.8%</b>	<b>5.0%</b>
<b>Ad-tech (Mobile advertising solutions)</b>				
Mintegral platform revenue	229,645	240,995	NA	4.9%
Nativex platform revenue	200,105	226,057	5.1%	13.0%
Mar-tech	29,540	14,938	NA	-49.4%
	3,191	3,559	NA	11.5%

Source: Company data

**Figure 7: Mobvista's yearly financials forecast**

US\$ mn, Dec-YE	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>435</b>	<b>500</b>	<b>516</b>	<b>755</b>	<b>894</b>	<b>1,114</b>	<b>1,337</b>	<b>1,564</b>
Cost of Sales	(337)	(381)	(434)	(633)	(717)	(892)	(1,069)	(1,250)
<b>Gross profit</b>	<b>98</b>	<b>119</b>	<b>82</b>	<b>122</b>	<b>177</b>	<b>222</b>	<b>268</b>	<b>315</b>
Selling and marketing expenses	(8)	(10)	(17)	(47)	(66)	(57)	(66)	(77)
Research and development expenses	(29)	(35)	(32)	(69)	(107)	(105)	(126)	(147)
General and administrative expenses	(36)	(51)	(44)	(28)	(49)	(52)	(56)	(66)
Other net income	2	3	6	9	47	9	9	11
<b>Operating profit</b>	<b>27</b>	<b>25</b>	<b>(5)</b>	<b>(12)</b>	<b>2</b>	<b>17</b>	<b>30</b>	<b>36</b>
Finance costs	(1)	(2)	(2)	(4)	(5)	(4)	(3)	(3)
<b>Profit before taxation</b>	<b>26</b>	<b>23</b>	<b>(7)</b>	<b>(31)</b>	<b>11</b>	<b>13</b>	<b>27</b>	<b>33</b>
Income tax	(4)	(1)	2	6	(1)	(2)	(5)	(6)
Profit for the year	22	22	(5)	(25)	10	11	22	27
<b>Profit attributable to owners of the Company</b>	<b>22</b>	<b>22</b>	<b>(5)</b>	<b>(25)</b>	<b>15</b>	<b>11</b>	<b>22</b>	<b>27</b>
Non-controlling interests	0	0	0	(0)	5	0	0	0
<b>Adjusted net profit</b>	<b>35</b>	<b>41</b>	<b>9</b>	<b>(4)</b>	<b>10</b>	<b>23</b>	<b>33</b>	<b>40</b>
<b>Margin Analysis</b>								
Gross margin	23%	24%	16%	16.1%	19.8%	19.9%	20.1%	20.1%
Operating margin	6%	5%	-1%	-2%	0%	1%	2%	2%
Adj. net margin	8%	8%	2%	-1%	1%	2%	2%	3%
<b>Growth Analysis</b>								
Revenue	39%	15%	3%	46%	18%	25%	20%	17%
Gross profit	18%	21%	-31%	48%	45%	25%	21%	17%
Operating profit	-12%	-7%	-121%	137%	NA	NA	NA	NA
Adj. net profit	NA	16%	-78%	-144%	NA	138%	44%	20%

Source: Company data, CMBIGM estimates

**Figure 8: CMBIGM estimates vs consensus**

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,114	1,337	1,564	1,113	1,360	1,564	0.1%	-1.7%	0.0%
Gross Profit	222	268	315	221	273	314	0.2%	-1.8%	0.1%
Operating Profit	17	30	36	17	40	33	-1.0%	-25.2%	8.6%
Adj. net profit	23	33	40	21	40	40	12.4%	-17.2%	-0.9%
Adj. EPS (RMB)	0.01	0.02	0.02	0.01	0.03	0.02	44.0%	-18.0%	21.4%
Gross Margin	19.9%	20.1%	20.1%	19.9%	20.1%	20.1%	+0.0ppts	-0.0ppts	+0.0ppts
Operating Margin	1.5%	2.3%	2.3%	1.5%	3.0%	2.1%	-0.0ppts	-0.7ppts	+0.2ppts
Adj. net margin	2.1%	2.5%	2.5%	1.8%	2.9%	2.6%	+0.2ppts	-0.5ppts	-0.0ppts

Source: CMBIGM estimates, Bloomberg

**Figure 9: CMBIGM estimates revision**

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,114	1,337	1,564	1,114	1,337	1,564	0.0%	0.0%	0.0%
Gross Profit	222	268	315	222	268	315	0.0%	0.0%	0.0%
Operating Profit	17	30	36	17	30	36	0.0%	0.0%	0.0%
Adj. net profit	23	33	40	23	33	40	0.0%	0.0%	0.0%
Adj. EPS (RMB)	0.01	0.02	0.02	0.01	0.02	0.02	0.0%	0.0%	0.0%
Gross Margin	19.9%	20.1%	20.1%	19.9%	20.1%	20.1%	+0.0ppts	+0.0ppts	+0.0ppts
Operating Margin	1.5%	2.3%	2.3%	1.5%	2.3%	2.3%	+0.0ppts	+0.0ppts	+0.0ppts
Adj. net margin	2.1%	2.5%	2.5%	2.0%	2.4%	2.5%	+0.0ppts	+0.0ppts	+0.0ppts

Source: CMBIGM estimates

**Figure 10: SOTP valuation**

SOTP	Methodology	Metrics	Multiple	Valuation
(US\$mn)				
Ad-tech	P/E	FY23E adj. NP	38.0	1,141
Mar-tech	P/S	FY23E Rev	17.2	57
<b>Total</b>				<b>1,198</b>
Net Cash				132
Equity Value (US\$mn)				1,330
<b>Equity Value (HK\$ mn)</b>				<b>10,441</b>
No. of shares (mn)				1,651
<b>Target Price (HK\$) based on SOTP</b>				<b>6.3</b>

Source: Company data, CMBIGM estimates

Figure 11: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
<b>Mobvista</b>	<b>1860 HK</b>	<b>847</b>	<b>HKD</b>	<b>4.08</b>	<b>BUY</b>	<b>6</b>	<b>37.1</b>	<b>26.0</b>	<b>22.0</b>	<b>0.8</b>	<b>0.6</b>	<b>0.6</b>	<b>31%</b>
<b>Global ads</b>													
Trade Desk	TTD US	30,455	USD	62	NA	NA	62.4	45.4	33.9	15.9	12.8	10.3	29%
Applovin	APP US	7,840	USD	22	NA	NA	NA	23.1	16.2	2.7	2.4	2.3	52%
Unity Software	U US	11,227	USD	30	NA	NA	61.1	35.8	19.2	5.3	4.4	3.7	193%
Meta	META US	599,192	USD	234	NA	NA	18.6	15.3	14.2	4.7	4.3	3.9	18%
Google	GOOGL US	1,494,614	USD	118	NA	NA	20.0	17.0	14.5	6.0	5.4	4.7	20%
Snapchat	SNAP US	13,695	USD	9	NA	NA	NA	NA	39.2	3.0	2.6	2.2	NA
Average							19.3	18.5	16.1	4.3	3.8	3.3	30%
<b>Domestic ads</b>													
Tencent	700 HK	417,085	HKD	341	BUY	455	20.1	17.1	14.8	4.7	4.2	3.8	17%
Baidu	BIDU US	41,976	USD	120	BUY	196	13.0	11.3	9.9	2.1	2.0	1.8	32%
Weibo	WB US	3,743	USD	16	BUY	29	7.1	6.3	5.8	1.9	1.8	1.7	12%
XD Inc.	2400 HK	1,425	HKD	23	NA	NA	NA	28.3	16.1	2.3	1.8	1.5	157%
Weimob	2013 HK	1,515	HKD	4	NA	NA	NA	NA	50.8	4.5	3.6	3.1	NA
Zhihu	ZH US	621	USD	1	BUY	2	NA	NA	13.1	0.9	0.8	0.6	NA
Focus Media	002027 CH	14,419	CNY	7	NA	NA	20.6	16.6	15.1	7.7	6.6	6.1	16%
Blue Focus Group	300058 CH	4,533	CNY	13	NA	NA	49.1	40.4	33.8	0.7	0.6	0.6	18%
Average							15.2	15.9	12.5	2.7	2.4	2.1	19%
<b>SaaS</b>													
Salesforce	CRM US	201,810	USD	202	NA	NA	28.4	23.5	19.0	5.8	5.2	4.7	21%
Youzan	8083 HK	395	HKD	0	NA	NA	NA	NA	NA	1.8	1.6	1.5	NA
Ming Yuan Cloud	909 HK	953	HKD	4	HOLD	6	NA	NA	31.3	3.3	2.8	2.3	NA
KE Holdings	BEKE US	20,763	USD	16	BUY	24	22.8	18.1	15.3	1.9	1.7	1.6	20%
Average							25.6	23.5	17.1	2.3	2.0	1.8	21%
<b>Average</b>							<b>18.8</b>	<b>16.5</b>	<b>14.4</b>	<b>3.2</b>	<b>2.8</b>	<b>2.5</b>	<b>23%</b>

Source: Company data, BBG, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	755	894	1,114	1,337	1,564
Ad-tech	753	882	1,097	1,315	1,537
Mar-tech	3	13	17	22	27
Cost of revenue	(633)	(717)	(892)	(1,069)	(1,250)
<b>Gross profit</b>	122	177	222	268	315
S&M	(47)	(66)	(57)	(66)	(77)
R&D	(69)	(107)	(105)	(126)	(147)
G&A	(3)	(5)	(5)	(6)	(7)
Other net income	9	47	9	9	11
<b>Operating profit</b>	(31)	11	13	27	33
Interest income	1	1	2	2	2
Finance costs	(4)	(5)	(4)	(3)	(3)
<b>Pre-tax profit</b>	(31)	11	13	27	33
Tax	6	(1)	(2)	(5)	(6)
Profit for the year	(25)	15	11	22	27
Minority interest	(0)	5	-	-	-
Net profit	(25)	15	11	22	27
<b>Adj. net income</b>	(4)	10	23	33	40

### Cash flow summary

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(31)	11	13	27	33
D&A	29	30	31	32	32
Change in working capital	36	46	(54)	73	(53)
Others	8	11	1	(2)	(3)
<b>Operating CF</b>	42	98	(10)	130	9
Capex	(11)	(1)	(5)	(5)	(5)
Other	19	(78)	1	1	1
<b>Investing CF</b>	8	(79)	(4)	(4)	(4)
Proceeds from bank loans	271	-	-	-	-
Repayment of bank loans	(267)	-	-	-	-
Others	57	(5)	(4)	-	-
<b>Financing CF</b>	61	(5)	(4)	(3)	(3)
<b>Net change in cash</b>	112	14	(18)	122	1
Cash (beg of yr)	39	150	164	146	268
FX	(1)	-	-	-	-
<b>Cash (end of yr)</b>	150	164	146	268	269

### Balance sheet

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Non-current assets</b>	264	286	211	185	158
PP&E	8	12	5	3	0
Intangible assets	118	138	69	45	20
Goodwill	115	115	115	115	115
Deferred tax assets	22	20	20	20	20
Investments	2	1	1	1	1
Deposits & prepayments	-	-	-	-	-
<b>Current assets</b>	483	316	455	567	669
Receivables	183	173	270	262	361
Restricted cash	6	5	6	5	6
Cash & cash equivalents	160	106	146	268	269
Current tax recoverable	1	1	1	1	1
<b>Current liabilities</b>	350	311	352	417	463
Trade and other payables	215	251	294	359	405
Current taxation	8	7	7	7	7
Bank loans	59	46	46	46	46
<b>Non-current liabilities</b>	38	43	13	13	13
Bank loans	-	-	-	-	-
Deferred tax liabilities	8	6	6	6	6
Minority interest	23	13	13	13	13
Shareholder's equity	337	235	246	268	296
<b>Total equity</b>	337	235	246	268	296

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Ad-tech	99.6	98.6	98.5	98.3	98.2
Mar-tech	0.4	1.4	1.5	1.7	1.8
Total	100.0	100.0	100.0	100.0	100.0
<b>Growth (%)</b>					
Revenue	46.4	18.4	24.6	20.0	17.0
Gross profit	48.4	45.2	25.4	20.9	17.2
Operating Income	NA	NA	17.1	107.1	20.9
Adj. net profit	NA	NA	137.6	43.7	19.6
<b>Profitability (%)</b>					
Gross margin	16.1	19.8	19.9	20.1	20.1
Pre-tax margin	(4.1)	1.2	1.2	2.0	2.1
Tax rate	(19.4)	(8.5)	(19.0)	(17.0)	(17.0)
Net margin	(0.5)	1.1	2.1	2.5	2.5
<b>Returns (%)</b>					
ROE	(1.2)	4.1	9.4	12.3	13.4
ROA	(0.5)	1.6	3.5	4.4	4.8
<b>Per share data</b>					
EPS (US\$)	(0.00)	0.01	0.01	0.02	0.02
DPS (US\$)	-	-	-	-	-
BVPS (US\$)	0.2	0.1	0.2	0.2	0.2

Source: Company data, CMBIGM estimates

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<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

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