

# China Internet

## 2Q23 online advertising: recovery in cautious mode

China's total ad spending saw YoY recovery in 2Q23, due to both low base in 2Q22 and consumption recovery. Total ad spend returned to positive growth of 15% YoY in April 2023, per CTR. However, overall ad spend has yet to recover to the 2021 level, with ad spending in Apr 2023 only reached 92% of the ad spend level in Apr 2021. We expect ad spend to be on moderately recovering pace over 2Q23-4Q23E. If more policies could be launched to improve consumption sentiment and economic confidence, then ad market recovery in 2H23E could be better than expected. For online platforms in 2Q23E, we expect online ad revenue will grow by 18% YoY, but the 2-year CAGR remains slow at 3% amid stagnant user growth and macro uncertainty. We favour Tencent, Baidu and Bilibili which will have incremental drivers in 2023E, 1) innovations in advertising products (Video Account/Story Mode); 2) enhancing monetization; 3) recovery in offline activities will benefit search and LBS (location-based) advertising players.

- **Online ad platforms: solid YoY recovery on low base but 2-year CAGR remains slow.** Based on our estimate, total online ad revenue of major platforms will accelerate to grow by 18% YoY in 2Q23, mainly due to the low base and recovery of overall ad demand. However, the 2-year CAGR of online ad revenue decelerated from +6/5% in 4Q22/1Q23 to +3% in 2Q23E on our estimate, given the stagnant user traffic growth and macro uncertainty. That said, we favour online ad platforms which 1) still have potential to grow user traffic and enhance monetization like Bili and Kuaishou; 2) continue to launch innovative ad products and marketing solutions with better ROI like Tencent. For 2Q23E, we forecast online ad revenue growth: Kuaishou (+28% YoY) > Bili (+25% YoY) > Tencent (+16% YoY) > Baidu (+15% YoY) > Weibo (+3% YoY).
- **Advertiser sentiment has yet to fully recover.** According to CTR survey on 300+ advertisers in June, the advertiser sentiment has yet to fully recover. Only 31% of advertisers expect ad budget increase in 2023E, down from 32/44% in 2022/2021. The difference between % of advertisers expecting ad budget increase and % of those expecting ad budget decrease is down from 25/2pcts in 2021/2022 to only 1pct in 2023. Advertisers remain cautious on their ad budget in 1H23, given the macro uncertainty and slower-than-expected consumption recovery.
- **Short video and social community remain as the go-to platform for advertisers look for better conversion.** Among different online ad platforms, short video remains as the go-to platform for most advertisers, given its strong conversion and ROI. 72% of advertisers expect that they will increase ad budget on short-video platforms in 2023E. Social community, like Xiaohongshu, is better perceived by advertisers. 62% of advertisers expect to increase their ad budget on social community in 2023E, compared to 56% in 2022. Other online ad platforms on which advertisers are more likely to raise their ad budget include social media and e-commerce platforms.

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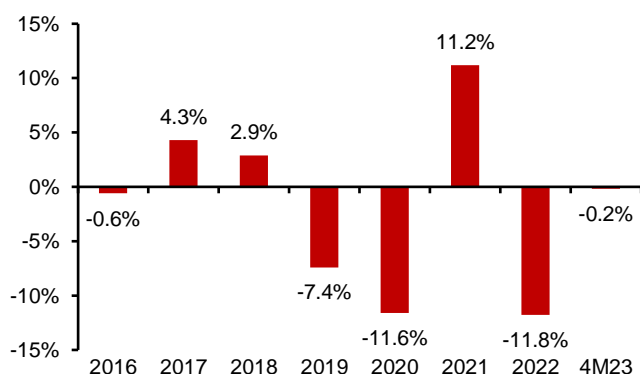
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## 2Q23 online advertising: expect mild recovery

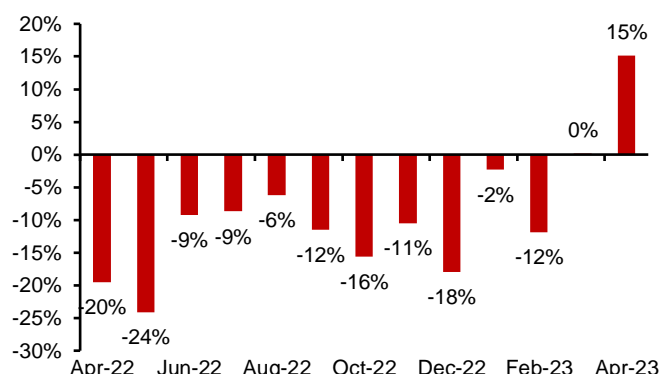
China's total ad spending saw solid YoY recovery in 2Q23, supported by the low base in 2Q22 and the improving consumption. According to CTR, total ad spending returned to positive YoY growth of 15% in April. 4M23 total ad spend was largely flat YoY, versus 12% YoY decline in 2022. However, overall ad market was yet to recover to the spending level in 2021, with Apr 2023/4M23 ad spending only accounting for 92%/91% of the ad spending in Apr 2021/4M21. We expect moderate recovering pace of total ad spending over 2Q23-4Q23E. China's potential policy to support consumption and economy will be the key to drive better-than-expected recovery of ad market in 2H23E.

**Figure 1: China: total ad spending YoY growth**



Source: CTR, CMBIGM

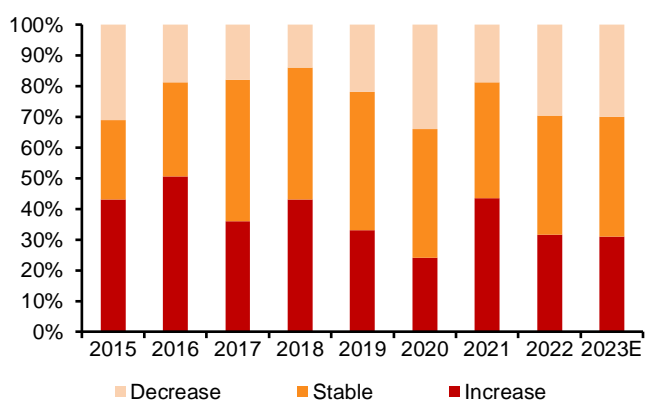
**Figure 2: China: monthly ad spending YoY growth**



Source: CTR, CMBIGM

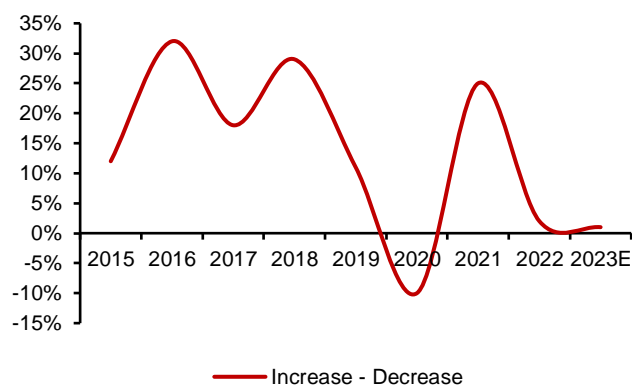
According to CTR survey on 300+ advertisers in June, the advertiser sentiment has yet to fully recover. Only 31% of advertisers expect ad budget increase in 2023E, down from 32/44% in 2022/2021. The difference between % of advertisers expecting ad budget increase and % of those expecting ad budget decrease is down from 25/2pcts in 2021/2022 to only 1pct in 2023. Advertisers remain cautious on their ad budget in 1H23, given the macro uncertainty and slower-than-expected consumption recovery.

**Figure 3: Advertisers expectation on ad spending YoY change (2015-2023)**



Source: CTR, CMBIGM

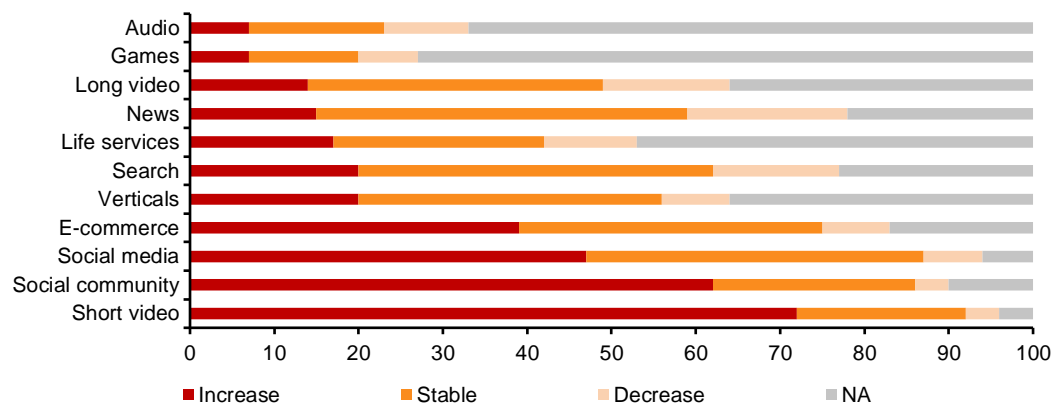
**Figure 4: % of advertisers expecting ad budget increase - % of those expecting ad budget decrease**



Source: CTR, CMBIGM

Among different online ad platforms, short video remains as the go-to platform for most advertisers, given its strong conversion and ROI. 72% of advertisers expect that they will increase ad budget on short-video platforms in 2023E. Social community, like Xiaohongshu, is better perceived by advertisers. 62% of advertisers expect to increase their ad budget on social community in 2023E, compared to 56% in 2022. Other online ad platforms on which advertisers are more likely to raise their ad budget include social media and e-commerce platforms.

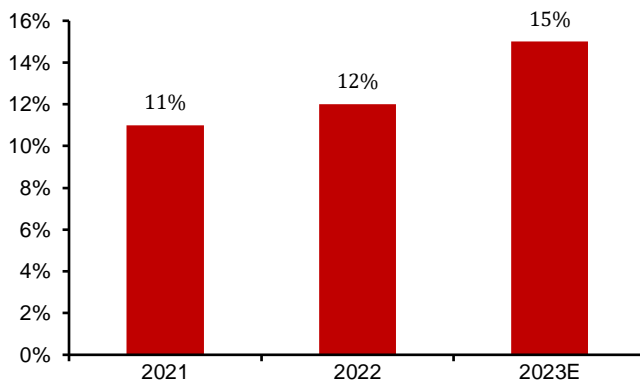
**Figure 5: YoY change of advertisers spending on different online ad platforms**



Source: CTR, CMBIGM

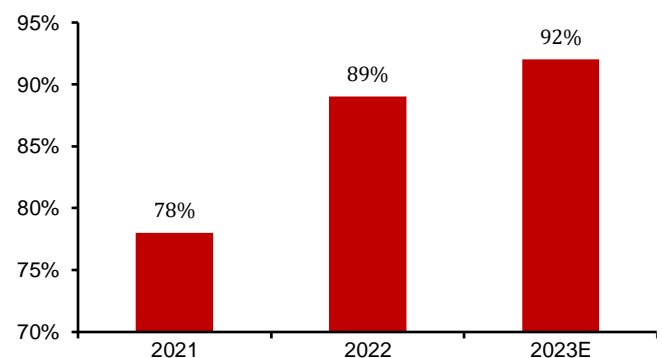
Due to the better conversion and ROI, more advertisers adopt live streaming e-commerce as their marketing tools. According to CTR, 92% of advertisers spent ad budget on live streaming e-commerce in 2023, up from 89%/78% in 2021/2022. Live streaming e-commerce GMV also accounted for a greater proportion of their total sales, which was up from 11% in 2021 to 15% in 2023E.

**Figure 6: Live streaming GMV/total sales**



Source: CTR, CMBIGM

**Figure 7: % of advertisers which adopt live streaming e-commerce**



Source: CTR, CMBIGM

Based on our estimate, total online ad revenue of major platforms will accelerate to grow by 18% YoY in 2Q23 (4Q22/1Q23: +4/10% YoY), mainly due to the low base and recovery of overall ad demand. However, the 2-year CAGR of online ad revenue decelerated from +6/5% in 4Q22/1Q23 to +3% in 2Q23E, given the stagnant user traffic growth and macro uncertainty. That said, we favour online ad platforms which 1) still have potential to grow user traffic and enhance monetization like Bili and Kuaishou; 2) continue to launch innovative ad products and marketing solutions with better ROI like Tencent. For 2Q23E, we forecast online ad revenue growth: Kuaishou (+28% YoY)>Bili (+25% YoY)>Tencent (+16% YoY)>Baidu (+15% YoY)>Weibo(+3% YoY).

**Figure 8: China: online platforms ad revenue growth**

RMBmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E
Tencent	21,820	22,833	22,495	21,518	17,988	18,638	21,443	24,660	20,964	21,644
Baidu	16,177	19,003	19,390	19,058	15,592	17,074	18,696	18,018	16,568	19,561
Kuaishou	8,558	9,962	10,909	13,236	11,351	11,006	11,589	15,094	13,064	14,058
Meituan	5,665	7,216	8,022	8,183	7,019	7,317	8,663	8,137	7,783	9,407
Xiaomi	3,900	4,500	4,800	4,900	4,500	4,500	4,700	4,700	4,400	4,663
Weibo	2,563	3,265	3,495	3,510	2,708	2,583	2,695	2,734	2,452	2,656
Autohome	1,842	1,938	1,764	1,694	1,471	1,733	1,843	1,893	1,534	1,798
Bilibili	715	1,049	1,172	1,588	1,041	1,158	1,355	1,512	1,272	1,443
iQiyi	1,917	1,825	1,660	1,665	1,337	1,194	1,247	1,553	1,404	1,329
Phoenix New Media	226	257	245	279	175	192	195	224	146	172
<b>Total online ads</b>	<b>63,382</b>	<b>71,848</b>	<b>73,951</b>	<b>75,631</b>	<b>63,182</b>	<b>65,394</b>	<b>72,426</b>	<b>78,526</b>	<b>69,586</b>	<b>76,730</b>

YoY	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E
Tencent	23%	23%	5%	-13%	-18%	-18%	-5%	15%	17%	16%
Baidu	27%	18%	6%	1%	-4%	-10%	-4%	-5%	6%	15%
Kuaishou	161%	156%	76%	56%	33%	10%	6%	14%	15%	28%
Meituan	98%	67%	42%	35%	24%	1%	8%	-1%	11%	29%
Xiaomi	44%	45%	45%	32%	15%	0%	-2%	-4%	-2%	4%
Weibo	31%	35%	21%	19%	6%	-21%	-23%	-22%	-9%	3%
Autohome	19%	-16%	-24%	-32%	-20%	-11%	5%	12%	4%	4%
Bilibili	233%	201%	110%	120%	46%	10%	16%	-5%	22%	25%
iQiyi	25%	15%	-10%	-10%	-30%	-35%	-25%	-7%	5%	11%
Phoenix New Media	-1%	-18%	-19%	-17%	-22%	-25%	-20%	-20%	-17%	-10%
<b>Total online ads</b>	<b>42%</b>	<b>36%</b>	<b>18%</b>	<b>8%</b>	<b>0%</b>	<b>-9%</b>	<b>-2%</b>	<b>4%</b>	<b>10%</b>	<b>17%</b>
<b>2-Year CAGR</b>					<b>19%</b>	<b>11%</b>	<b>7%</b>	<b>6%</b>	<b>5%</b>	<b>3%</b>

Source: Company data, Bloomberg, CMBIGM estimates

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