

Bilibili (BILI US)

3Q20 beat on topline and guidance

Bilibili delivered positive 3Q20 results, with revenue +74% YoY, 5% above consensus. Margin slightly missed, but 4Q20E rev guidance beat 12%. User metrics trend well, with MAU up to 197mn (+54% YoY). Backed by its 3C strategy, we reiterate our confidence on its user expansion and monetization enhancement. We expect game to accelerate in 4Q20E and VAS & ads to benefit from hot content (e.g. HOB <天官賜福>) and ecommerce ads demand in peak season. We slightly lifted its topline by 5%/5%/5% in FY20/21/22E, with higher DCF-based TP of US\$62.

- 3Q20 beat on topline and guidance.** 3Q20 revenue was RMB3.2bn, +74% YoY, 5% above consensus. Non-GAAP net loss came in at RMB971mn (vs. consensus of RMB902mn). Margin slightly missed on heavier S&M efforts for user acquisition. 4Q20E rev guidance came in at RMB3.6-3.7bn, +79% to +84% YoY, with midpoint 12% above consensus. We view this result as positive, as market focuses more on its user & topline momentum than profitability.
- User metrics trend well.** 3Q20 user metrics outperformed, with MAU up to 197mn (+54% YoY) and retention rate at 7.6%. Mgmt stated that 50% of its net adds came from lower-tier cities, with average age of 20. New users at the age of 30+ increased, suggesting effective all-age group expansion on enriched content. Mgmt reiterated their confidence to achieve 2021 MAU target of 220mn ahead of plan, backed by ROI-driven marketing and multi-channel promotion.
- 3C strategy to enhance monetization.** Bilibili will step up enriching its OGV & self-produced content, with vibrant & high-quality pipeline. Thanks to its 3C strategy, we keep bullish on its monetization, especially on VAS & ads potential. Game rev grew 37% YoY in 3Q20. We expect game to accelerate in 4Q20E thanks to more contribution from new games. There are 10 titles in pipeline with approval, and *Sword Art Online* will be launched in beginning of 2021. Livestreaming & VAS/ Ads +116%/126% in 3Q20, in which VAS paying members reached 12.8mn (+110% YoY). We expect VAS and ads momentum to continue in 4Q20E, supported by hot content (e.g. HOB <天官賜福>) and ecommerce ads demand in peak season.
- Maintain BUY.** To reflect better topline outlook, we slightly lifted its rev by 5%/5%/5% in FY20/21/22E, with higher TP of US\$62 (8x FY21E P/S) from US\$57. Considering stepping-up monetization diversification, we see high visibility for Bili to expand its TAM with effective operating leverage in the long run.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,129	6,778	11,793	16,616	21,351
YoY growth (%)	372	67	64	74	41
Adj. net income (RMB mn)	(377)	(1,116)	(2,662)	(2,369)	(591)
Adj. EPS (RMB)	(1.84)	(3.41)	(7.62)	(7.34)	(1.69)
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(7.56)	(4.18)	0.60
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	28.2	17.2	9.9	7.0	5.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(7.5)	(16.6)	(21.7)	(25.6)	(12.0)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$61.7
(Previous TP)	US\$57.0)
Up/Downside	+23.4%
Current Price	US\$50.1

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	17,389
Avg 3 mths t/o (US\$ mn)	208.73
52w High/Low (US\$)	54/15
Total Issued Shares (mn)	262

Source: Bloomberg

Shareholding Structure

FMR LLC	4.76%
Alibaba Group Holding	3.82%
Wells Fargo & Co	2.73%

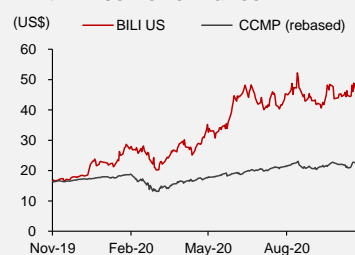
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	14.2%	12.0%
3-mth	15.1%	7.6%
6-mth	62.1%	22.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor:

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Initiation: Evolving and Expanding – 9 Nov 2020

Figure 1: 3Q20 financial review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	1,374	1,538	1,859	2,008	2,316	2,618	3,226	23.2%	73.5%	3,064	5%	3,090	4%
Operating profit	(307)	(345)	(423)	(420)	(544)	(610)	(1,083)	NA	NA	(939)	NA	(981)	NA
Net profit	(186)	(313)	(407)	(383)	(535)	(567)	(1,082)	NA	NA	(932)	NA	(987)	NA
Adj. net profit	(136)	(268)	(345)	(341)	(480)	(472)	(971)	NA	NA	(902)	NA	(894)	NA
Adj. EPS (RMB)	(0.44)	(0.82)	(1.05)	(1.04)	(1.46)	(1.35)	(2.76)	NA	NA	(2.45)	NA	(2.54)	NA
Margin (%)													
Gross margin	13.8%	16.4%	18.9%	19.8%	22.9%	23.1%	23.6%			23.2%		23.2%	
Operating margin	-22.3%	-22.5%	-22.8%	-20.9%	-23.5%	-23.3%	-33.6%			-30.6%		-31.8%	
Adj. net margin	-9.9%	-17.5%	-18.6%	-17.0%	-20.7%	-18.0%	-30.1%			-29.4%		-28.9%	
Growth (%)													
Revenue (YoY)	58.2%	49.8%	72.3%	73.8%	68.6%	70.2%	73.5%			64.8%		66.2%	
Revenue (QoQ)	18.9%	12.0%	20.9%	8.0%	15.3%	13.0%	23.2%			17.0%		18.1%	
Operating profit	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA			NA		NA	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: 3Q20 revenue breakdown

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Revenue (RMB mn)	1,374	1,538	1,859	2,008	2,316	2,618	3,226	23.2%	73.5%
Mobile games	873	920	933	871	1,151	1,248	1,275	2.2%	36.7%
Live broadcasting and VAS	292	326	453	571	794	825	980	18.7%	116.5%
Advertising	112	168	247	290	214	349	558	59.9%	125.5%
Others	96	124	226	276	157	196	413	111.2%	82.8%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	11,793	16,616	21,351	11,184	15,979	21,206	5.4%	4.0%	0.7%
Gross Profit	2,770	4,522	6,887	2,558	4,459	6,820	8.3%	1.4%	1.0%
Operating Profit	(3,208)	(3,074)	(1,507)	(2,868)	(1,796)	(218)	NA	NA	NA
Adj. net profit	(2,655)	(2,369)	(591)	(2,525)	(1,328)	320	NA	NA	NA
EPS (RMB)	(7.62)	(7.34)	(1.69)	(7.56)	(4.18)	0.60	NA	NA	NA
Gross Margin	23.5%	27.2%	32.3%	22.9%	27.9%	32.2%	+0.6ppts	-0.7ppts	+0.1ppts
Operating Margin	-27.2%	-18.5%	-7.1%	-25.6%	-11.2%	-1.0%	-1.6ppts	-7.3ppts	-6.0ppts
Net Margin	-22.5%	-14.3%	-2.8%	-22.6%	-8.3%	1.5%	+0.1ppts	-5.9ppts	-4.3ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	11,793	16,616	21,351	11,264	15,832	20,311	4.7%	5.0%	5.1%
Gross Profit	2,770	4,522	6,887	2,609	4,728	6,996	6.2%	-4.4%	-1.6%
Operating Profit	(3,208)	(3,074)	(1,507)	(3,087)	(2,140)	(596)	NA	NA	NA
Adj. net profit	(2,655)	(2,369)	(591)	(2,546)	(1,433)	313	NA	NA	NA
EPS (RMB)	(7.62)	(7.34)	(1.69)	(7.32)	(4.28)	0.86	NA	NA	NA
Gross Margin	23.5%	27.2%	32.3%	23.2%	29.9%	34.4%	+0.3ppts	-2.7ppts	-2.2ppts
Operating Margin	-27.2%	-18.5%	-7.1%	-27.4%	-13.5%	-2.9%	+0.2ppts	-5.0ppts	-4.1ppts
Net Margin	-22.5%	-14.3%	-2.8%	-22.6%	-9.1%	1.5%	+0.1ppts	-5.2ppts	-4.3ppts

Source: Company data, CMBIS estimates

Figure 5: DCF valuation

DCF valuation (RMB mn)										
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
EBIT	(3,208)	(3,074)	(1,507)	887	3,706	6,403	10,131	14,849	20,380	26,455
Tax	96	92	45	(27)	(463)	(800)	(1,266)	(1,856)	(2,548)	(3,307)
D&A	1,945	2,700	3,386	3,866	4,480	5,291	5,381	5,544	5,535	6,096
Working capital	2,094	1,165	563	202	166	481	-336	669	-125	544
CAPEX	(2,426)	(3,158)	(3,471)	(3,159)	(3,600)	(4,072)	(4,358)	(4,726)	(4,967)	(5,196)
FCF	(1,499)	(2,275)	(984)	1,770	4,289	7,302	9,551	14,480	18,276	24,592
FCF Growth		52%	-57%	-280%	142%	70%	31%	52%	26%	35%
Terminal Value										263,412
PV (FCF+ Terminal Value)	(1,499)	(2,020)	-776	1,239	2,667	4,032	4,682	6,303	7,064	98,855

Assumptions

WACC	12.6%
Tax rate	15.0%
Risk free rate	3.6%
Beta	1.10
Market risk return	11.8%
Debt/Assets	0.0%
Terminal growth rate	3.0%
Debt value	0

Equity Value

PV	120,548
minus: Net cash	(12,948)
minus: Minority Interest	0
Equity Value	133,496
Shares (mn)	323
Target Price (US\$) based on DCF	61.7

		WACC				
		11%	12%	13%	14%	15%
Growth	1.5%	69.1	60.1	55.5	47.0	42.1
	2.0%	71.9	62.3	57.4	48.4	43.2
	2.5%	75.2	64.7	59.4	49.8	44.3
	3.0%	78.8	67.4	61.7	51.4	45.5
	3.5%	82.9	70.4	64.2	53.1	46.9
	4.0%	87.6	73.8	67.0	55.0	48.3
	4.5%	93.0	77.6	70.1	57.1	50.0

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	4,129	6,778	11,793	16,616	21,351
Mobile games	2,936	3,598	4,921	5,913	6,979
Live broadcasting & VAS	586	1,641	3,864	5,974	7,755
Advertising	463	817	1,750	2,880	4,171
Others	143	722	1,258	1,849	2,446
COGS	(3,273)	(5,588)	(9,023)	(12,094)	(14,464)
Gross profit	855	1,190	2,770	4,522	6,887
S&M	(586)	(1,199)	(3,609)	(4,565)	(5,021)
Admin.Exp.	(461)	(592)	(894)	(1,114)	(1,225)
R&D	(537)	(894)	(1,475)	(1,917)	(2,147)
Operating profit	(729)	(1,495)	(3,208)	(3,074)	(1,507)
Other income, net	190	227	282	236	241
Pre-tax Income	(539)	(1,268)	(2,926)	(2,838)	(1,265)
Income Tax	(26)	(36)	(88)	(85)	(38)
Net profit	(565)	(1,304)	(3,014)	(2,923)	(1,303)
Adj. net profit	(429)	(1,101)	(2,655)	(2,369)	(591)

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	(565)	(1,304)	(3,017)	(2,923)	(1,303)
D&A	642	1,177	1,593	2,146	2,673
Change in WC	565	223	2,094	1,165	563
Others	95	98	352	555	713
Operating CF	737	195	1,022	942	2,645
Capex	(1,334)	(1,565)	(2,426)	(3,158)	(3,471)
Purchase of ST investments	(6,667)	(9,974)	-	-	-
Others	4,804	7,580	-	-	-
Investing CF	(3,196)	(3,958)	(2,426)	(3,158)	(3,471)
Equity raised	-	-	-	-	-
Change of Debts	-	42	-	-	-
Cash from CB raised	-	3,356	8,500	-	-
Others	4,975	1,681	-	-	-
Financing CF	4,975	5,079	8,500	-	-
Net change in cash	2,777	1,423	7,097	(2,216)	(825)
Cash (beg of yr)	763	3,540	4,963	12,059	9,843
FX	261	108	-	-	-
Cash (end of yr)	3,540	4,963	12,059	9,843	9,018

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	3,940	5,193	6,025	7,038	7,835
Fixed asset	395	516	752	918	918
Long-term investments	980	1,251	1,251	1,251	1,251
Intangible assets	1,419	1,657	2,305	3,150	3,893
Others	1,146	1,768	1,717	1,718	1,773
Current assets	6,550	10,324	18,717	17,022	17,884
Cash	3,540	4,963	12,059	9,843	9,018
Restricted cash	-	-	-	-	-
Account receivable	324	745	1,194	1,082	1,491
Others	2,686	4,617	5,464	6,096	7,376
Current liabilities	3,299	4,273	7,663	9,349	11,600
Trade payable	1,308	1,904	3,282	4,008	4,710
Salary and welfare payables	247	356	356	356	356
Accrued liabilities	670	576	1,402	1,315	1,855
Deferred revenues	985	1,369	2,370	3,323	4,248
Others	89	68	253	348	431
Non-current liabilities	-	3,608	3,608	3,608	3,608
Long-term debt	-	3,608	3,608	3,608	3,608
MI	240	584	584	584	584
Total Equity	7,191	7,636	13,471	11,103	10,512
Shareholders' equity	6,951	7,052	12,887	10,519	9,928

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Mobile games	71.1	53.1	41.7	35.6	32.7
Live broadcasting & VAS	14.2	24.2	32.8	36.0	36.3
Advertising	11.2	12.1	14.8	17.3	19.5
Others	3.5	10.7	10.7	11.1	11.5
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	67.3	64.2	74.0	40.9	28.5
Gross profit	55.8	39.1	132.7	63.2	52.3
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(17.7)	(22.1)	(27.2)	(18.5)	(7.1)
Adj. net margin	(10.4)	(16.2)	(22.5)	(14.3)	(2.8)
Effective tax rate	(0.6)	(0.5)	(0.7)	(0.5)	(0.2)
Returns (%)					
ROE	(7.5)	(16.6)	(21.7)	(25.6)	(12.0)
ROA	(4.1)	(7.1)	(10.7)	(9.8)	(2.3)
Per share					
Adj. EPS (RMB)	(1.84)	(3.41)	(7.62)	(7.34)	(1.69)
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	15.19	15.36	34.64	30.48	25.86

Source: Company data, CMBIS estimates

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