

Mobvista Inc. (1860 HK)

Eyes on upside from ROAS mode

We expect Mobvista's 2Q23E results to be moderate, with solid profit (estimated at US\$6.02mn) but mild rev growth (forecasting rev +14% YoY, vs. previous estimate of +22%). The high interest rate environment limits ads budget from game developers in 1H23E. Looking ahead, we expect stronger momentum in 2H23E (forecasting rev >30% YoY growth), backed by: 1) ROAS mode with enhanced algorithm to attract midcore & hardcore game ads budget; and 2) further upside from deeper cooperation with Google. We are positive on its long-term margin improvement, with narrowing loss of Reyun, higher ads efficiency 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).

■ **Expecting solid earnings in 2Q23E despite ads headwinds.** After a solid start in 1Q23, we expect 2Q23E rev to accelerate (forecasting rev +14% YoY). The growth should be slightly moderate (vs. previous estimate of +22%), mainly due to: 1) shrinking ads budget from long-tail game developers in challenging macro and high-interest-rate environment, as developers focus more on existing games and in-app purchase monetization; and 2) limited contribution from Google cooperation in early stage. However, we expect bottom line to remain intact at US\$6.02mn in 2Q23E (implying adj. NPM at 2.4%), for its higher efficiency and better cost control (e.g. cloud expenses). GPM should improve sequentially to 19.7% in 2Q23E (+0.5ppts QoQ), supported by better targeting and enhanced algorithm.

■ **High visibility for 2H23E to accelerate with ROAS mode and cooperation with Google.** We expect Mobvista to deliver stronger momentum in 2H23E (forecasting rev >30% YoY growth), boosted by: 1) further upside from deeper cooperation with Google, and 2) algorithm optimization in in-app purchase of ROAS mode to attract rising budget from midcore & hardcore games. Mintegral rev accelerated in Jul, with strong game season. Midcore and hardcore games vertical would continue to climb up, in our view. In terms of margin, we keep full-year forecast unchanged (adj. NM at 2.1% in FY23E). In the long run, Mobvista would benefit from AIGC initiatives (e.g. XMP tools), to optimize ads efficiency with rich formats and stronger analytics capability.

■ **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).

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	80	34	24	20
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	+63.6%
Current Price	HK\$3.85

China Entertainment Sector

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Stock Data

Mkt Cap (HK\$ mn)	6,234
Avg 3 mths t/o (HK\$ mn)	2.89
52w High/Low (HK\$)	4.98/ 3.28
Total Issued Shares (mn)	1,628

Source: Bloomberg

Shareholding Structure

Seamless Technology	63.2%
GIC	8.0%
Citigroup	4.7%

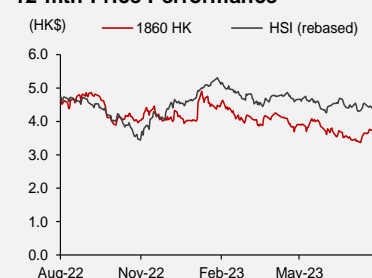
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	11.3%	5.7%
3-mth	-1.8%	-1.9%
6-mth	-13.7%	-4.4%

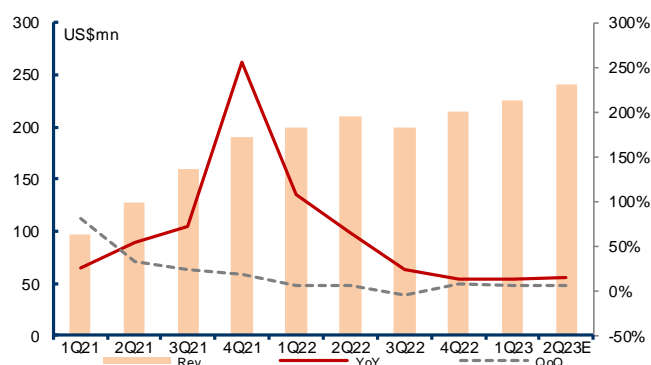
Source: Bloomberg

12-mth Price Performance

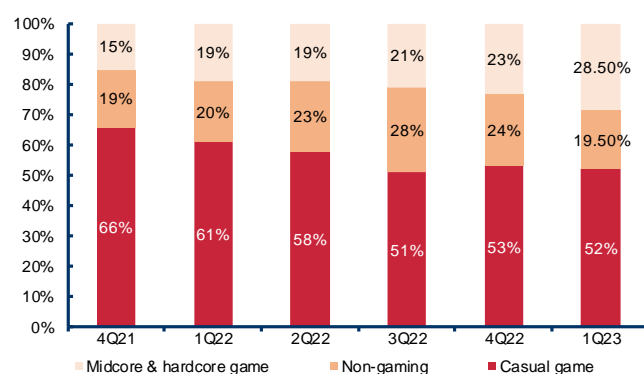


Source: Bloomberg

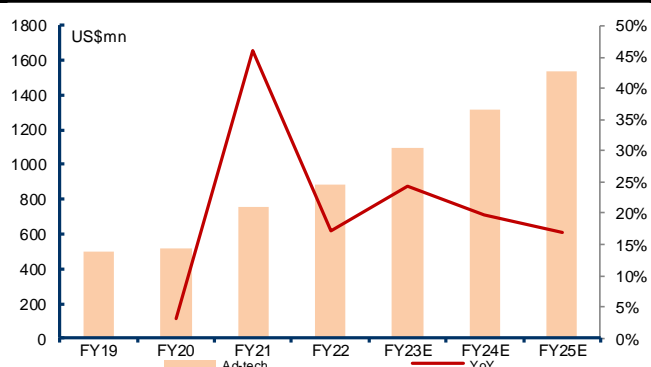
Auditor: KPMG

Figure 1: Mintegral ad rev trend

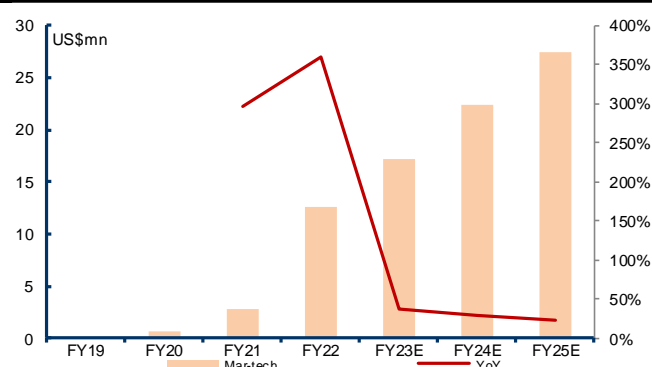
Source: Company data, CMBIGM estimates

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 2Q23E preview

US\$'000	1Q22	2Q22	1Q23	2Q23E	QoQ	YoY
Revenue	232,836	222,960	244,554	254,320	4.0%	14%
Gross profit	44,625	45,355	46,912	50,021	6.6%	10%
Operating profit	31,289	(14,628)	5,172	5,922	14.5%	NA
Net profit	30,940	(9,290)	3,201	3,941	23.1%	NA
Adj. net profit	33,446	(12,377)	4,510	6,020	33.5%	NA
Margin (%)						
Gross margin	19.2%	20.3%	19.2%	19.7%		
Operating margin	13.4%	-6.6%	2.1%	2.3%		
Adj. net margin	14.4%	-5.6%	1.8%	2.4%		
Growth (%)						
Revenue (YoY)			5.0%	14.1%		
Revenue (QoQ)			8.8%	4.0%		
Operating profit	NA	NA	NA	NA		
Adj. net profit	NA	NA	NA	NA		

Source: Company data, CMBIGM estimates

Figure 6: Mobvista's yearly financials forecast

US\$ mn, Dec-YE	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	435	500	516	755	894	1,114	1,337	1,564
Cost of Sales	(337)	(381)	(434)	(633)	(717)	(892)	(1,069)	(1,250)
Gross profit	98	119	82	122	177	222	268	315
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
Operating profit	27	25	(5)	(12)	2	17	30	36
Finance costs	(1)	(2)	(2)	(4)	(5)	(4)	(3)	(3)
Profit before taxation	26	23	(7)	(31)	11	13	27	33
Income tax	(4)	(1)	2	6	(1)	(2)	(5)	(6)
Profit for the year	22	22	(5)	(25)	10	11	22	27
Profit attributable to owners of the Company	22	22	(5)	(25)	15	11	22	27
Non-controlling interests	0	0	0	(0)	5	0	0	0
Adjusted net profit	35	41	9	(4)	10	23	33	40
Margin Analysis								
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%
Growth Analysis								
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 7: CMBIGM estimates vs consensus

US\$ 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 8: 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
Total				1,198
Net Cash				132
Equity Value (US\$mn)				1,330
Equity Value (HK\$ mn)				10,441
No. of shares (mn)				1,651
Target Price (HK\$) based on SOTP				6.3

Source: Company data, CMBIGM estimates

Figure 9: 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	
Mobvista	1860 HK	799	HKD	3.85	BUY	6.3	34.1	23.9	20.2	0.7	0.6	0.5	31%
Global ads													
Trade Desk	TTD US	44,216	USD	90	NA	NA	80.3	65.7	50.0	23.0	18.7	15.2	25%
Applovin	APP US	11,394	USD	31	NA	NA	97.6	39.9	24.9	3.9	3.6	3.2	91%
Unity Software	U US	17,187	USD	45	NA	NA	85.7	53.0	35.6	8.0	6.7	5.6	84%
Meta	META US	837,513	USD	325	NA	NA	24.8	19.4	17.1	6.4	5.7	5.1	24%
Google	GOOGL US	1,674,384	USD	133	NA	NA	22.1	19.0	16.6	6.7	5.9	5.3	18%
Snapchat	SNAP US	17,332	USD	11	NA	NA	NA	NA	57.1	3.9	3.4	2.9	NA
Average							23.4	26.1	23.6	5.8	5.0	4.4	22%
Domestic ads													
Tencent	700 HK	437,688	HKD	357	BUY	455	21.3	18.1	16.0	5.0	4.5	4.0	15%
Baidu	BIDU US	54,313	USD	155	BUY	195	16.4	14.9	13.0	2.8	2.6	2.4	10%
Weibo	WB US	3,614	USD	15	BUY	27	6.9	6.2	5.7	1.9	1.8	1.7	9%
XD Inc.	2400 HK	1,157	HKD	19	NA	NA	74.4	23.7	13.8	1.9	1.6	1.3	210%
Weimob	2013 HK	1,476	HKD	4	NA	NA	NA	NA	49.1	4.5	3.7	3.1	NA
Zhihu	ZH US	754	USD	1	BUY	2	NA	NA	20.3	1.2	1.0	0.8	NA
Focus Media	002027 CH	15,173	CNY	8	NA	NA	22.4	18.4	16.1	8.5	7.4	6.6	17%
Blue Focus Group	300058 CH	3,090	CNY	9	NA	NA	34.5	28.6	24.0	0.5	0.4	0.4	18%
Average							20.3	18.3	15.6	2.6	2.2	2.0	14%
SaaS													
Salesforce	CRM US	219,734	USD	226	NA	NA	29.9	25.0	20.6	6.3	5.7	5.2	19%
Youzan	8083 HK	378	HKD	0	NA	NA	NA	NA	NA	1.7	1.6	1.5	NA
Ming Yuan Cloud	909 HK	1,162	HKD	5	HOLD	6	NA	NA	50.0	4.2	3.5	2.9	NA
KE Holdings	BEKE US	22,469	USD	18	BUY	25	20.6	17.7	15.5	2.0	1.8	1.6	16%
Average							25.2	25.0	18.0	2.7	2.3	2.0	17%
Average							29.1	23.2	17.9	3.6	3.2	2.8	17%

Source: Company data, BBG, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	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)
Gross profit	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
Operating profit	(31)	11	13	27	33
Interest income	1	1	2	2	2
Finance costs	(4)	(5)	(4)	(3)	(3)
Pre-tax profit	(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
Adj. net income	(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)
Operating CF	42	98	(10)	130	9
Capex	(11)	(1)	(5)	(5)	(5)
Other	19	(78)	1	1	1
Investing CF	8	(79)	(4)	(4)	(4)
Proceeds from bank loans	271	-	-	-	-
Repayment of bank loans	(267)	-	-	-	-
Others	57	(5)	(4)	-	-
Financing CF	61	(5)	(4)	(3)	(3)
Net change in cash	112	14	(18)	122	1
Cash (beg of yr)	39	150	164	146	268
FX	(1)	-	-	-	-
Cash (end of yr)	150	164	146	268	269

Balance sheet

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	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	-	-	-	-	-
Current assets	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
Current liabilities	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
Non-current liabilities	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
Total equity	337	235	246	268	296

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
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
Growth (%)					
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
Profitability (%)					
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
Returns (%)					
ROE	(1.2)	4.1	9.4	12.3	13.4
ROA	(0.5)	1.6	3.5	4.4	4.8
Per share data					
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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