

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

Bilibili (BILI US)

Stayed true to itself

- On its 11th birthday, BILI reflected upon its original intentions
- BILI deserves higher user value comparing with other platforms
- TP revised up to USD46; Downgrade to NEUTRAL given most short term upsides have been priced in

After 11 years, BILI still stayed true to itself

BILI celebrated its 11th birthday on Jun 26. At the celebration event, BILI's chairman and CEO Chen Rui clarified several market concerns regarding Company's core competency and user experiences, as well as reflected upon BILI's core original intentions revolving around its users and content creators. Throughout the past decade, BILI's user base, content creators, and breadth and depth of contents have all grown drastically. Despite the fast growth, BILI still kept its core competitiveness unchanged: 1) BILI is still the most attractive and sticky online community to youngsters in China, with new users' average age still kept at only 21 years old. Moreover, these youngsters are extremely loyal to the platform, with one-year retention rate of official users consistently maintained at above 80%, and ten-years retention rate amazingly at above 60%; 2) Quality of contents have been constantly improving, as each video received more than doubled of likes comparing to previous year; and 3) Its advantages on core ACG contents have still remained unparalleled. After these many years, BILI still stayed true to itself by remaining as the online community that is fully dedicated to serve its users.

Intensified competition shed lights on BILI's UGC potentials

Recently, market has held intense discussions on BILI's ability to keep its top content creators, as a few of them have left BILI's platform and joined ByteDance's Xigua platform. But we believe, with more competitors entering the vertical, the huge potentials on high quality UGC contents would actually be further recognized, proving BILI is heading towards the right direction. Moreover, although some of the content creators might leave BILI's platform for better financial incentives in the short term, we don't think BILI's market leadership would be shaken, given its real competitive advantages do not lie within a few top content creators, but are built upon its healthy olive structure on content creators, comprehensive content creator fostering system, as well as its stringent yet inclusive community atmosphere. These attributes are what really attract content creators in addition to financial rewards, and can hardly be found on other platforms. Meanwhile, along with the further development of various monetization capabilities, BILI is catching up on financial incentives for content creators as well.

Positive on BILI, but downgrade to NEUTRAL on limited ST upside

We believe BILI's high user value revolved around its data authenticity on user profiles and interactions. In the past, fabricated data has been greatly abused to help inferior platforms and contents to receive wider reach and better monetization. But nowadays, as data authenticity has been more stressed upon, BILI with its high integrity on data authenticity would start to receive more commercialization opportunities as well as enjoy greater user values in the LT. Going forward, we raised FY20E/21E/22E top-line by 0%/4%/7% and revised NG NI to RMB-1,503mn/-604mn/+567mn respectively, reflecting more positive stance on BILI's LT monetization potentials. We revise our TP from USD37 to USD46 due to increased assumptions in per-user value, and downgrade to NEUTRAL. Our SOTP valuation is based on following FY20E multiples: (1) 15.0x P/E for mobile games; (2) 426.0x Mkt Cap/MAU for non-game segments; and (3) net cash.

Financials

RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	4,129	6,778	11,327	15,367	19,461
Growth (%)	67%	64%	67%	36%	27%
NG net profit to shareholders	(429)	(1,067)	(1,503)	(604)	567
Growth (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Non-GAAP EPADS (USD)	(0.27)	(0.47)	(0.61)	(0.24)	0.22
P/S (x)	18.7	16.1	10.4	7.9	6.4
ROE (%)	n.a.	-18%	-22%	-12%	1%

Note: Closing price as of Jul 2, 2020; Sources: Bloomberg, Company, CMS (HK) estimates

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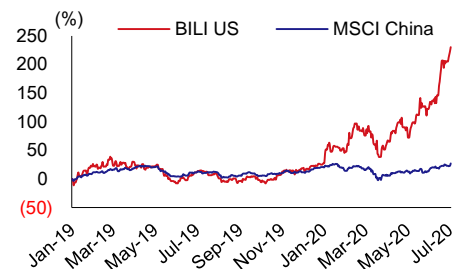
WHAT'S NEW

Rating, TP, multiples and estimates revised

▼ NEUTRAL

Previous	BUY
Price	USD48.2
12-month Target Price (Potential up/downside)	USD46 (-5%)
Previous	USD37

Price Performance



Source: Bloomberg, as of Jul 2, 2020

%	1m	6m	12m
BILI US	41.1	118.2	189.7
MSCI China	6.8	3.9	12.7

Sector: Technology, Media & Telecom

Hang Seng Index (July 3, 2020)	25,373
MSCI China (July 2, 2020)	91

Key Data

52-week range (USD)	13.2-49.2
Market cap (USD bn)	16.6
Avg. daily volume (mn)	5.8
FY20E Non-GAAP diluted EPS (USD)	(0.61)

Shareholding Structure

Rui Chen	14.3%
Tencent Entities	12.7%
Yi Xu	8.4%
Taobao China Holding Limited	6.8%
Sony Corporation of America	5.0%
Ni Li	2.3%
No. of shares outstanding (mn)	346.3
Free float	50.5%

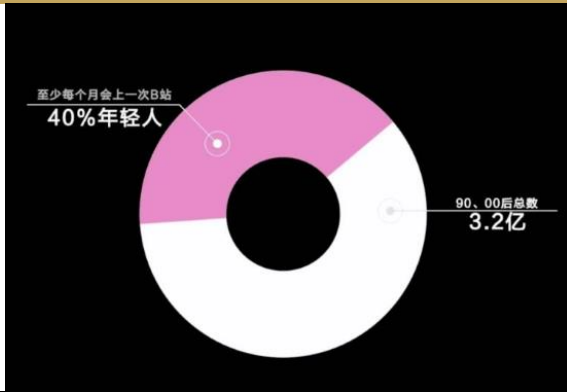
Sources: Bloomberg, CMS (HK) research

Related Research

1. China Internet: investors feedback (June 15, 2020)
2. Bilibili (BILI US) - A supernova on the eve of the explosion (May 19, 2020)

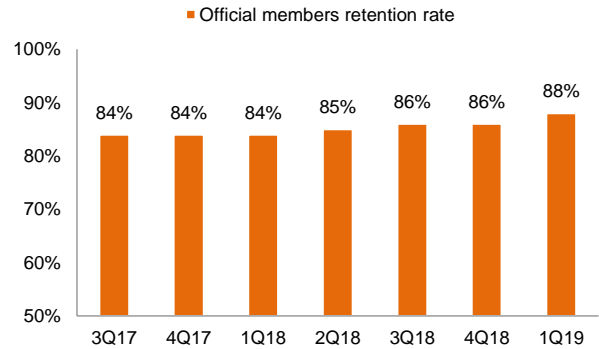
Focus charts

Figure 1: BILI is still the most attractive and sticky online community to youngsters in China



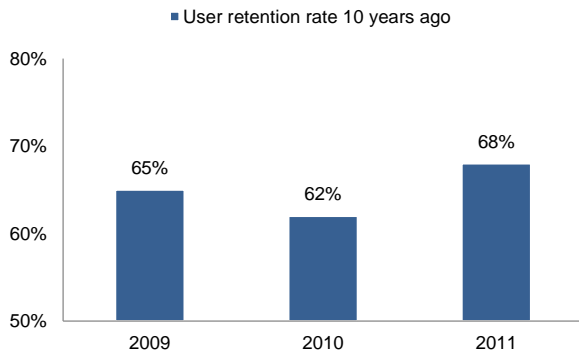
Sources: Company, CMS (HK)

Figure 2: Official users' one-year retention rate maintained at above 80% for the past 8 quarters



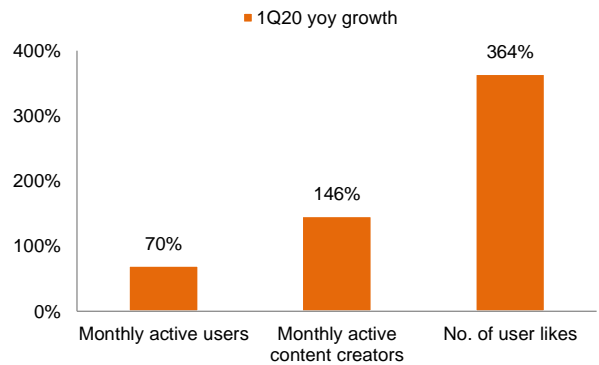
Sources: Company, CMS (HK)

Figure 3: Ten-year users' retention rate remained high at above 60%



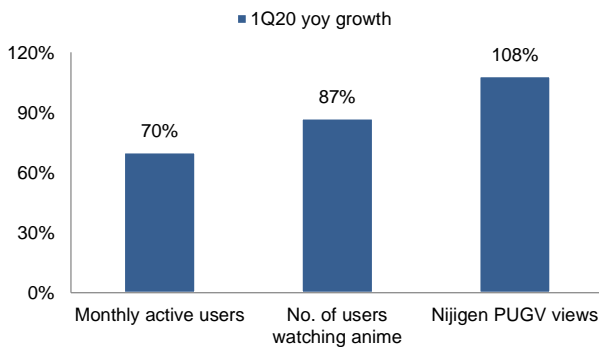
Sources: Company, CMS (HK)

Figure 4: Quality of contents have been constantly improving on Bilibili



Sources: Company, CMS (HK)

Figure 5: BILI's advantages on core ACG contents have remained unparalleled



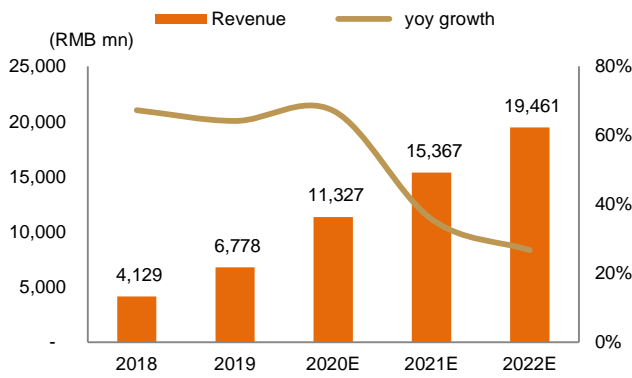
Sources: Company, CMS (HK)

Figure 6: Because of data authenticity, content creators on BILI with similar number of fans could usually enjoy higher commercial values

各平台时尚生活区UP主报价对比 Price quotes of content creators from the fashion and life verticals across different platforms			
UP主/博主名称 (Content creator/Blogger)	平台 (Platform)	粉丝数 (截止6月底) No. of Fans (end of June)	原创视频报价 (元) Original video price quote (yuan)
一枝南南	B站 (Bilibili)	68.8万	8.5万
黎千千Nico	微博 (Weibo)	66万	2.42万
羽中大人	抖音 (Douyin)	67.3万	2.8万
水果味的喵哥	快手 (Kuaishou)	83.2万	1.5万
林游锐	小红书 (Xiaohongshu)	70.3万	6.6万
丸子胡了	美拍 (Mei Pai)	69.1万	3.71万

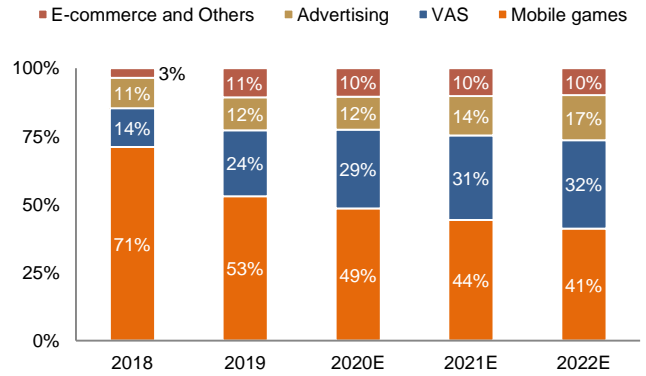
Sources: DIGGG, CMS (HK)

Figure 7: Total revenue



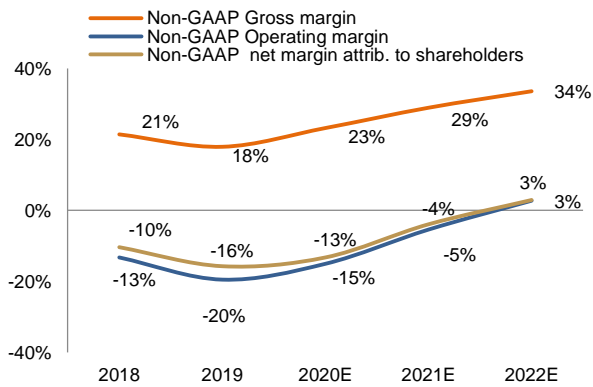
Sources: Company, CMS (HK) estimates

Figure 8: Segment as % of total revenue



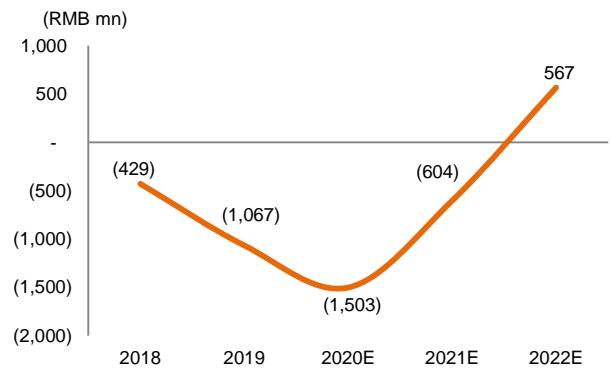
Sources: Company, CMS (HK) estimates

Figure 9: Non-GAAP margin trends



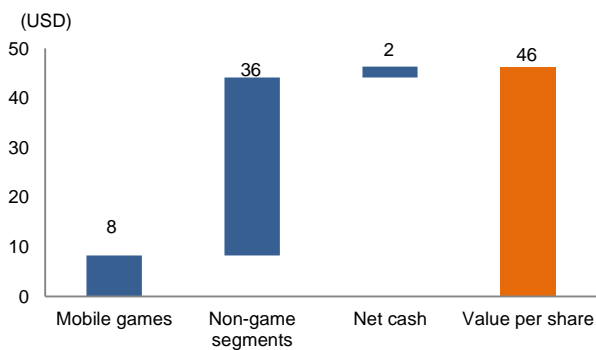
Sources: Company, CMS (HK) estimates

Figure 10: Non-GAAP net profit to shareholders



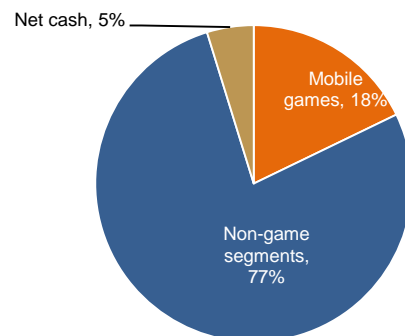
Sources: Company, CMS (HK) estimates

Figure 11: SOTP valuation



Sources: Company, CMS (HK) estimates

Figure 12: Value per share for each segment



Sources: Company, CMS (HK) estimates

Earnings revision

Revised Non-GAAP net income to shareholders to RMB-1,503mn/-604mn/+567mn in FY20E/21E/22E

- **Top line** is revised by 0%/4%/7% in FY20E/21E/22E, reflecting more positive stance on BILI's LT monetization potentials.
- **Non-GAAP gross profit margin** is slightly revised by 0.0pp/0.1pp/0.2pp to 23.2%/28.9%/33.6% in FY20E/21E/22E respectively.
- We slightly revised **non-GAAP net margin to shareholders** by 0.0pp/0.0pp/0.2pp to -13.3%/-3.9%/2.9% in FY20E/21E/22E respectively.

Figure 13: Earnings revision summary

RMB mn	Revised			Previous			Change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net revenues	11,327	15,367	19,461	11,327	14,837	18,169	0%	4%	7%
Mobile games	5,500	6,809	8,018	5,500	6,512	7,373	0%	5%	9%
VAS	3,270	4,765	6,299	3,270	4,533	5,933	0%	5%	6%
Advertising	1,379	2,221	3,226	1,379	2,221	2,945	0%	0%	10%
E-Commerce and others	1,178	1,571	1,918	1,178	1,571	1,918	0%	0%	0%
Gross profit	2,593	4,397	6,471	2,593	4,235	6,004	0%	4%	8%
Non-GAAP Gross profit	2,627	4,443	6,529	2,627	4,279	6,058	0%	4%	8%
Operating profit	(1,977)	(1,200)	63	(1,977)	(1,169)	21	n.a.	n.a.	198%
Non-GAAP operating profit	(1,705)	(831)	530	(1,705)	(813)	457	n.a.	n.a.	16%
Net income	(1,816)	(1,016)	56	(1,816)	(984)	16	n.a.	n.a.	246%
Non-GAAP net income to shareholders	(1,503)	(604)	567	(1,503)	(583)	496	n.a.	n.a.	14%
Margins & key ratios (%)									
Gross margin	22.9	28.6	33.3	22.9	28.5	33.0	0.0pp	0.1pp	0.2pp
Non-GAAP gross margin	23.2	28.9	33.6	23.2	28.8	33.3	0.0pp	0.1pp	0.2pp
Operating margin	(17.5)	(7.8)	0.3	(17.5)	(7.9)	0.1	0.0pp	0.1pp	0.2pp
Non-GAAP operating margin	(15.1)	(5.4)	2.7	(15.1)	(5.5)	2.5	0.0pp	0.1pp	0.2pp
Net margin	(16.0)	(6.6)	0.3	(16.0)	(6.6)	0.1	0.0pp	0.0pp	0.2pp
Non-GAAP net margin to shareholders	(13.3)	(3.9)	2.9	(13.3)	(3.9)	2.7	0.0pp	0.0pp	0.2pp
ROE	(17.6)	(22.0)	(11.8)	(17.6)	(22.0)	(11.4)	0.0pp	0.0pp	-0.4pp

Sources: Company, CMS (HK) estimate

Figure 14: CMS forecasts vs. consensus

RMB mn	CMS forecasts			Consensus			Diff %		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	11,327	15,367	19,461	10,903	15,163	19,704	4%	1%	-1%
GM	22.9	28.6	33.3	22.6	27.3	31.9	0.3pp	1.3pp	1.3pp
GAAP NP	(1,816)	(1,016)	56	(2,088)	(1,170)	159	n.a.	n.a.	-65%
GAAP EPS	(5.26)	(2.85)	0.16	(6.17)	(3.29)	0.53	n.a.	n.a.	-71%
Non-GAAP NP	(1,503)	(604)	567	(1,931)	(823)	485	n.a.	n.a.	17%
Non-GAAP EPS	(4.36)	(1.69)	1.56	(5.78)	(2.86)	1.12	n.a.	n.a.	40%

Note: Data as of Jul 3, 2020

Sources: Bloomberg, Company, CMS (HK) estimates

Figure 15: Forecasts summary

RMB mn	FY18	FY19	FY20E	FY21E	FY22E	FY18 (% yoy)	FY19 (% yoy)	FY20E (% yoy)	FY21E (% yoy)	FY22E (% yoy)
Revenue	4,129	6,778	11,327	15,367	19,461	67	64	67	36	27
Mobile games	2,936	3,598	5,500	6,809	8,018	43	23	53	24	18
VAS	586	1,641	3,270	4,765	6,299	232	180	99	46	32
Advertising	463	817	1,379	2,221	3,226	191	76	69	61	45
E-commerce and Others	143	722	1,178	1,571	1,918	92	403	63	33	22
Cost of revenue	(3,273)	(5,588)	(8,734)	(10,970)	(12,990)	n.a.	n.a.	n.a.	n.a.	n.a.
Gross profit	855	1,190	2,593	4,397	6,471	56	39	118	70	47
Non-GAAP gross profit	884	1,214	2,627	4,443	6,529	59	37	116	69	47
Selling & marketing expenses	(586)	(1,199)	(2,380)	(2,888)	(3,269)	n.a.	n.a.	n.a.	n.a.	n.a.
G&A expenses	(461)	(592)	(829)	(1,049)	(1,232)	n.a.	n.a.	n.a.	n.a.	n.a.
R&D expenses	(537)	(894)	(1,361)	(1,660)	(1,907)	n.a.	n.a.	n.a.	n.a.	n.a.
Total operating expenses	(1,584)	(2,685)	(4,570)	(5,597)	(6,408)	n.a.	n.a.	n.a.	n.a.	n.a.
Operating Profit	(729)	(1,495)	(1,977)	(1,200)	63	n.a.	n.a.	n.a.	n.a.	n.a.
Non-GAAP operating Profit	(548)	(1,323)	(1,705)	(831)	530	n.a.	n.a.	n.a.	n.a.	n.a.
Investment income, net	96	97	11	50	13	320	0	-88	345	-75
Interest income	69	163	217	244	57	4,533	137	33	13	(77)
Interest expense	0	(47)	(50)	(47)	(12)	n.a.	n.a.	n.a.	n.a.	n.a.
Other non-operating income	25	15	30	0	0	n.a.	n.a.	n.a.	n.a.	n.a.
PBT	(539)	(1,268)	(1,769)	(952)	120	n.a.	n.a.	n.a.	n.a.	n.a.
Income tax expense	(26)	(36)	(45)	(56)	(56)	n.a.	n.a.	n.a.	n.a.	n.a.
Minority interests	13	15	(1)	(8)	(8)	n.a.	n.a.	n.a.	n.a.	n.a.
Accretions to pref. shares redemption value	(65)	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.
Deemed div. w/ repurchase of pref. shares	0	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.
Net Income to shareholders	(616)	(1,289)	(1,816)	(1,016)	56	n.a.	n.a.	n.a.	n.a.	n.a.
Non-GAAP net income to shareholders	(429)	(1,067)	(1,503)	(604)	567	n.a.	n.a.	n.a.	n.a.	n.a.
Key operating data & ratio (%)	FY18	FY19	FY20E	FY21E	FY22E	FY18 (pp yoy)	FY19 (pp yoy)	FY20E (pp yoy)	FY21E (pp yoy)	FY22E (pp yoy)
Gross margin	20.7	17.6	22.9	28.6	33.3	(1.5)	(3.2)	5.3	5.7	4.6
Non-GAAP gross margin	21.4	17.9	23.2	28.9	33.6	(1.2)	(3.5)	5.3	5.7	4.6
Operating margin	(17.7)	(22.1)	(17.5)	(7.8)	0.3	(8.6)	(4.4)	4.6	9.6	8.1
Non-GAAP operating margin	(13.3)	(19.5)	(15.1)	(5.4)	2.7	(7.4)	(6.2)	4.5	9.6	8.1
Net margin to shareholders	(14.9)	(19.0)	(16.0)	(6.6)	0.3	8.2	(4.1)	3.0	9.4	6.9
Non-GAAP net margin to shareholders	(10.4)	(15.7)	(13.3)	(3.9)	2.9	9.4	(5.4)	2.5	9.3	6.8

Sources: Company, CMS (HK) estimates

Valuation

We revised our target price for BILI from USD37 to USD46 due to increased assumptions in per-user value, but downgraded to NEUTRAL rating as most short term upsides have been priced in. Our TP is based on SOTP with the following FY20E multiples: 1) 15.0x P/E for mobile games segment; 2) 426.0x Mkt Cap/MAU (RMB426.0; equivalent to USD60) for non-game segments based on user value; and 3) net cash. In the base case, Bilibili's mobile games segment and non-game segments account for 18% and 77% of the total respectively. Our target price of USD46 implies 10.2x FY20E P/S. Bilibili is currently trading at 10.4x FY20E P/S.

Key risks: 1) Faster decay in key games' life cycles; 2) Tightening policy on contents; and 3) Slower than expected monetization from non-gaming businesses.

Figure 16: Valuation table based on SOTP

RMB mn	Valuation basis	Valuation metrics	Multiple given to Bilibili			Seg as % of total			Valuation		
			Bear*	Base	Bull*	Bear	Base	Bull	Bear	Base	Bull
Mobile games	FY20E P/E	FY20E net profit RMB 1,375mn	13.5	15.0	16.5	18%	18%	18%	18,562	20,624	22,687
Non-game segments	FY20E Market Cap/MAU	FY20E MAU 210mn	383.4	426.0	468.6	77%	77%	78%	80,574	89,526	98,479
Net cash						5%	5%	4%	5,515	5,515	5,515
Total valuation (RMB mn)									104,651	115,666	126,681
Total valuation (USD mn)									14,740	16,291	17,842
CNYUSD										7.10	
No. of diluted shares (mn)										352	
Value per share (USD)									42	46	51
2020E Revenue (RMB mn)									11,327	11,327	11,327
Implied 2020E PS multiple									9.2x	10.2x	11.2x

Sources: Company, CMS (HK) estimates

Figure 17: Previous valuation table based on SOTP

RMB mn	Valuation basis	Valuation metrics	Multiple given to Bilibili			Seg as % of total			Valuation		
			Bear*	Base	Bull*	Bear	Base	Bull	Bear	Base	Bull
Mobile games	FY20E P/E	FY20E net profit RMB 1,375mn	13.5	15.0	16.5	22%	22%	22%	18,562	20,624	22,687
Non-game segments	FY20E Market Cap/MAU	FY20E MAU 210mn	287.6	319.5	351.5	72%	72%	72%	60,430	67,145	73,859
Net cash						7%	6%	5%	5,515	5,515	5,515
Total valuation (RMB mn)									84,507	93,284	102,061
Total valuation (USD mn)									11,902	13,139	14,375
CNYUSD										7.10	
No. of diluted shares (mn)										352	
Value per share (USD)									34	37	41
2020E Revenue (RMB mn)									11,327	11,327	11,327
Implied 2020E PS multiple									7.5x	8.2x	9x

Sources: Company, CMS (HK) estimates

Financial Summary

Profit & Loss

RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Total net revenues	4,129	6,778	11,327	15,367	19,461
Cost of revenues	(3,273)	(5,588)	(8,734)	(10,970)	(12,990)
Gross profit	855	1,190	2,593	4,397	6,471
S&M expenses	(586)	(1,199)	(2,380)	(2,888)	(3,269)
G&A expenses	(461)	(592)	(829)	(1,049)	(1,232)
R&D expenses	(537)	(894)	(1,361)	(1,660)	(1,907)
Total operating expenses	(1,584)	(2,685)	(4,570)	(5,597)	(6,408)
Operating profit/(loss)	(729)	(1,495)	(1,977)	(1,200)	63
Investment income, net	96	97	11	50	13
Interest income	69	163	217	244	57
Interest expense	0	(47)	(50)	(47)	(12)
Exchange losses	(2)	(12)	13	0	0
Other non-operating income	26	26	17	0	0
Income/(loss) before tax	(539)	(1,268)	(1,769)	(952)	120
Income tax expense	(26)	(36)	(45)	(56)	(56)
Accretion. to pref. shares	(65)	0	0	0	0
Deemed dividend due to repurchase. Pref. shares	0	0	0	0	0
Non-controlling interest	13	15	(1)	(8)	(8)
NI attrib. to shareholders	(616)	(1,289)	(1,816)	(1,016)	56
Non-GAAP NI attrib. to shareholders	(429)	(1,067)	(1,503)	(604)	567

Financial Ratios

	FY18	FY19	FY20E	FY21E	FY22E
yoy growth					
Mobile games	43%	23%	53%	24%	18%
VAS	232%	180%	99%	46%	32%
Advertising	191%	76%	69%	61%	45%
E-commerce & Others	92%	403%	63%	33%	22%
Revenue	67%	64%	67%	36%	27%
Non-GAAP net income	n.a.	n.a.	n.a.	n.a.	n.a.
Profitability					
Non-GAAP gross margin	21%	18%	23%	29%	34%
Non-GAAP net margin attrib. to shareholders	-10%	-16%	-13%	-4%	3%
ROE	n.a.	-18%	-22%	-12%	1%
ROA	-8%	-10%	-11%	-6%	0%
Per share ratios (RMB)					
Sales per share	17.7	21.0	32.8	43.1	53.5
Non-GAAP EPADS	(1.84)	(3.30)	(4.36)	(1.69)	1.56
Non-GAAP EPADS (USD)	(0.27)	(0.47)	(0.61)	(0.24)	0.22
Valuation (x)					
P/S	18.7	16.1	10.4	7.9	6.4
EV/EBITDA	n.a.	n.a.	n.a.	72.6	30.2

Balance Sheet

RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Cash & cash equivalents	3,540	4,963	5,824	4,450	4,840
Time deposits	749	1,845	1,845	1,845	1,845
Accounts receivable, net	324	745	688	903	1,124
Prepayment & current assets	991	1,511	2,265	3,073	3,892
ST Investments	945	1,261	1,261	1,261	1,261
PPE, net	395	516	707	797	712
Production cost, net	204	444	444	444	444
Intangible assets, net	1,419	1,657	2,317	2,721	2,614
Goodwill	941	1,012	1,012	1,012	1,012
Long-term investments, net	980	1,251	1,251	1,251	1,251
Other assets	0	312	312	312	312
Total assets	10,490	15,517	17,926	18,069	19,307
Accounts payable	1,308	1,904	3,057	3,840	4,547
Salary & welfare payables	247	356	356	356	356
Deferred revenue	985	1,369	1,369	1,369	1,369
Accrued liabilities & other payables	670	576	576	576	576
Long-term Debt	0	3,415	3,415	3,415	3,415
Others liabilities	89	261	261	261	261
Total liabilities	3,299	7,880	9,033	9,816	10,523
Total equity	7,191	7,636	8,893	8,253	8,785

Cashflow

RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Operating cashflow	737	195	554	1,546	3,504
Net income/(loss)	(565)	(1,304)	(1,815)	(1,008)	64
Depreciation & amortization	642	1,097	1,641	2,426	3,305
Share-based compensation	181	173	272	369	467
Working capital chg	565	223	456	(241)	(333)
Others	(86)	5	0	0	0
CF from IA	(3,196)	(3,958)	(2,492)	(2,920)	(3,114)
Purchase PPE	(294)	(296)	(453)	(461)	(389)
Purchase intangible assets	(1,040)	(1,269)	(2,039)	(2,459)	(2,725)
Net add. of ST investments	(415)	20	0	0	0
Net add. of LT investments	(564)	(660)	0	0	0
Placement of time deposits	(750)	(4,920)	0	0	0
Others	(134)	3,167	0	0	0
CF from FA	4,975	5,079	2,799	0	0

Note: Closing price as of July 2, 2020

Sources: Bloomberg, Company, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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