

Bilibili (BILI US)

Evolving and Expanding

We are bullish on Bilibili ("Bili")'s strong topline growth and user expansion, backed by its vibrant & engaging community, unique PUGC content, strong user stickiness and enriched offerings. We forecast Bili to deliver 44% revenue CAGR during FY19-22E. With stepping-up monetization diversification, we see high visibility for Bili to expand its TAM with effective operating leverage. Initiate with BUY with DCF-based TP US\$57 (8.1x FY21E P/S).

- **A go-to social community for Gen Z.** Initially as an online niche hub for China's ACG fans, Bili has evolved into a highly interactive video community for Gen Z, with 172mn MAU in 2Q20. Backed by its sizable young users and unique PUGC content, we forecast Bili to deliver 26%/44% MAU/rev CAGR during FY19-22E, thanks to its user expansion and enhanced monetization.
- **Tapping into pan-entertainment to unlock its user ceiling.** Bili is well-positioned to capture Gen Z's social booming, with a distinguished edge in PUGC content creation and bullet chat feature. On top of that, Bili taps into pan-entertainment beyond ACG initiatives, to unlock its user ceiling and connect mainstream culture. With initial fruits in category expansion (20+ types) and brand-building, we see further MAU upside and stronger user engagement ahead. We forecast its MAU to 238mn in FY22E, with 26% CAGR in FY19-22E. We expect 2H20E user metrics to perform well due to peak season, effective user acquisition and enriched content (e.g., Rap for Youth <说唱新世代>, Heaven Official's Blessing <天官赐福>).
- **Stepping up monetization with enriched content.** Powered by its content expansion, Bili stepped up its monetization diversification beyond mobile games. Apart from FGO, Princess Connect! Re:Dive <超异域公主连结> performed well in 2Q20, and became its largest grossing title. Looking ahead, we expect new titles to bring further upside, such as highly-anticipated Dead Cells <死亡细胞>. We are also bullish on its livestreaming & VAS/ ads potential, forecasting 64%/67% rev CAGR in FY19-22E, supported by: 1) LoL exclusive broadcasting rights and enhanced content; and 2) richer ads format and higher adaption of Huahuo platform <花火平台>.
- **Initiate with BUY.** We set our DCF-based TP at **US\$57** (implying **8.1x/6.3x** FY21/22E P/S), slightly higher than the industry average. More catalysts to come: 1) potential strong 3Q20E for seasonality; 2) eye-catching user momentum; and 3) new games launch.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,129	6,778	11,264	15,832	20,311
YoY growth (%)	372	67	64	66	41
Adj. net income (RMB mn)	(377)	(1,116)	(2,554)	(1,433)	313
Adj. EPS (RMB)	(1.84)	(3.41)	(7.32)	(4.28)	0.86
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(7.61)	(4.16)	0.57
P/E (x)	NA	NA	NA	NA	364
P/S (x)	26.8	16.3	9.8	7.0	5.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(7.5)	(16.6)	(20.7)	(15.7)	(2.8)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	US\$57.0
Up/Downside	+16.6%
Current Price	US\$48.9

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	16,881
Avg 3 mths t/o (US\$ mn)	195.09
52w High/Low (US\$)	54/15
Total Issued Shares (mn)	260

Source: Bloomberg

Shareholding Structure

FMR LLC	4.57%
Alibaba Group Holding	3.85%
Hillhouse Capital Advisors	3.50%

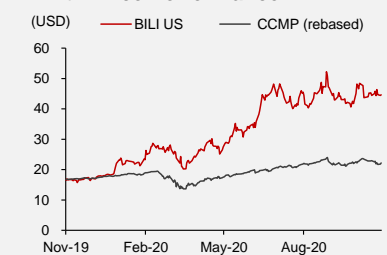
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.7%	5.9%
3-mth	-3.1%	-5.3%
6-mth	77.5%	36.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Investment Thesis

A go-to social community for Gen Z.

Initially as an online niche hub for China's ACG fans, Bili has evolved into a highly interactive video community for Gen Z, with 172mn MAU. Backed by its sizable young users and unique PUGC content, we forecast Bili to deliver 26%/44% MAU/revenue CAGR during FY19-22E, thanks to its user expansion and enhanced monetization.

Tapping into pan-entertainment to unlock its user ceiling.

Bili is well-positioned to capture Gen Z's social booming, with a distinguished edge in PUGC content creation and bullet chat feature. On top of that, Bili taps into pan-entertainment beyond ACG initiatives, to unlock its user ceiling and connect mainstream culture. With initial fruits in category expansion (20+ types) and brand-building, we see further MAU upside and stronger user engagement ahead. We forecast its MAU to rise to 238mn in FY22E, with 26% CAGR in FY19-22E. We expect 2H20E user metrics to perform well due to peak season, effective user acquisition and enriched content (e.g. Rap for Youth <说唱新世代>, Heaven Official's Blessing <天官赐福>).

Stepping up monetization with enriched content.

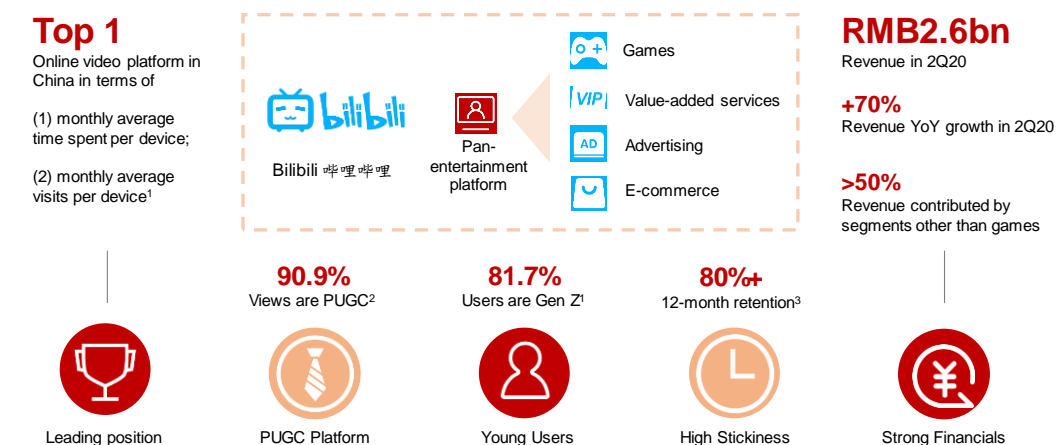
Powered by its content expansion, Bili stepped up its monetization diversification beyond mobile games. Apart from FGO, Princess Connect! Re:Dive (超异域公主连结) performed well in 2Q20, and became its largest grossing title. Looking ahead, we expect new titles to bring further upside, such as highly-anticipated Dead Cells (死亡细胞). We are also bullish on its livestreaming & VAS/ ads potential, forecasting 64%/67% rev CAGR in FY19-22E, supported by: 1) LoL exclusive broadcasting rights and enhanced content; and 2) richer ads format and higher adaption of Huahuo platform (花火平台).

Initiate with BUY.

We set our DCF-based TP at **US\$57** (implying **8.1x/6.3x** FY21/22E P/S), slightly higher than industry average. More catalysts to come: 1) potential strong 3Q20E for seasonality; 2) eye-catching user momentum; and 3) new games launch.

Focus Charts

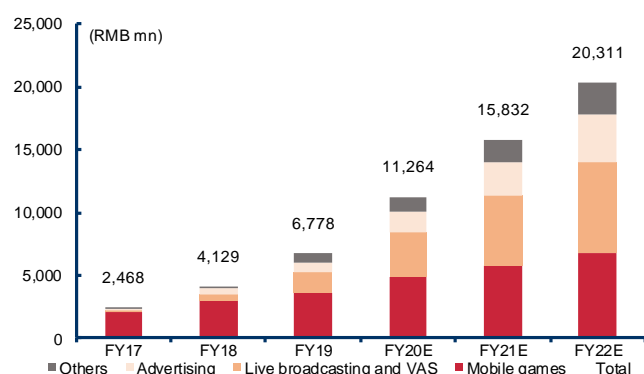
Figure 1: Bili Overview



Source: Company data, QuestMobile, CMBIS

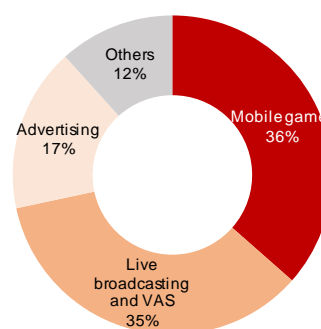
Note: 1) According to QuestMobile, in 2017; 2) in Dec 2019; 3) for official members visiting Bili platform in each month of 2018

Figure 2: 44% total revenue CAGR in FY19-22E



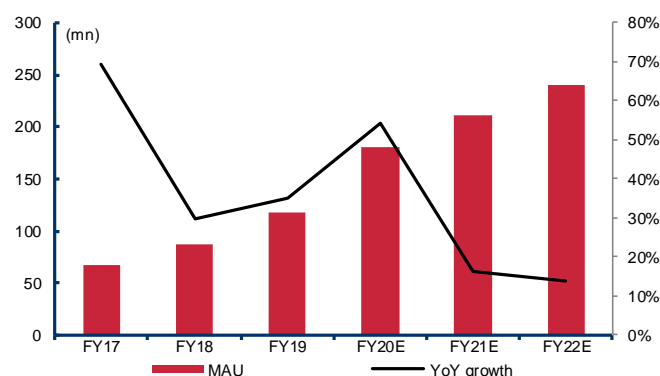
Source: Company data, CMBIS estimates

Figure 3: FY21E revenue breakdown



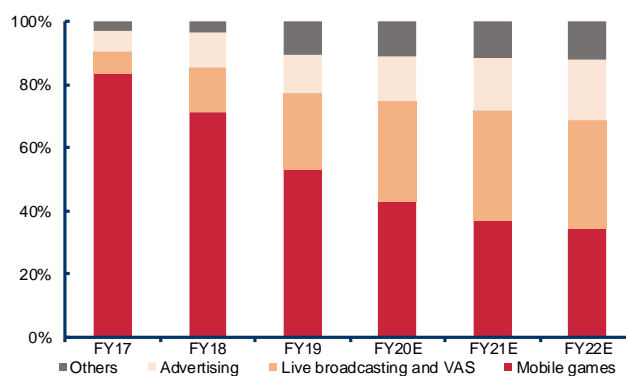
Source: CMBIS estimates

Figure 4: 26% MAU CAGR in FY19-22E



Source: Company data, CMBIS estimates

Figure 5: Rev breakdown estimates



Source: Company data, CMBIS estimates

Company Overview

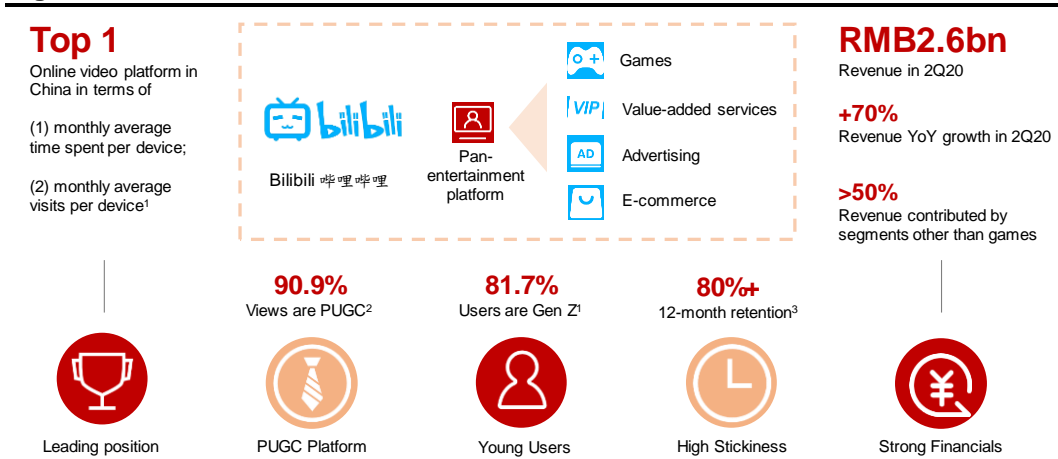
A go-to social community for Gen Z

A vibrant & engaging community for the young

Bili is a video sharing website founded in 2009, initially as an online niche hub for China's ACG (anime, comics, and games) fans. The platform developed a close-knit, highly interactive community with unique features like bullet chat and member examination. In recent years, Bili enriched its content offerings other than ACG and evolved into a pan-entertainment website for China's Gen Z (Generation Z, the post-90s and post-00s). The platform generates diversified revenue in mobile games, value-added services, advertising, as well as e-commerce and others.

Bili's unique value proposition is to build China's leading PUGC (professional user generate content) platform for the young generation, and the fast-growing platform has maintained high user stickiness. As of Jun 2020, Bili's MAU reached 171.6mn (+55% YoY), and its mobile MAU amounted to 152.9mn (+59% YoY). At the end of 2019, Bili's "official members" who have passed the 100-question exam totalled 67.9mn (+50% YoY), and the 12-month retention rate for official members in 2018 is 80%.

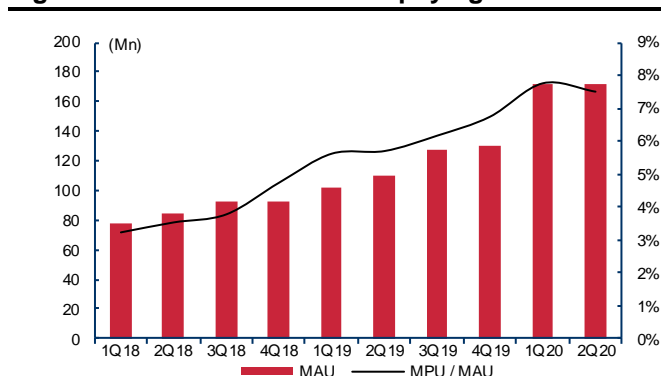
Figure 6: Overview of Bili



Source: Company data, QuestMobile, CMBIS

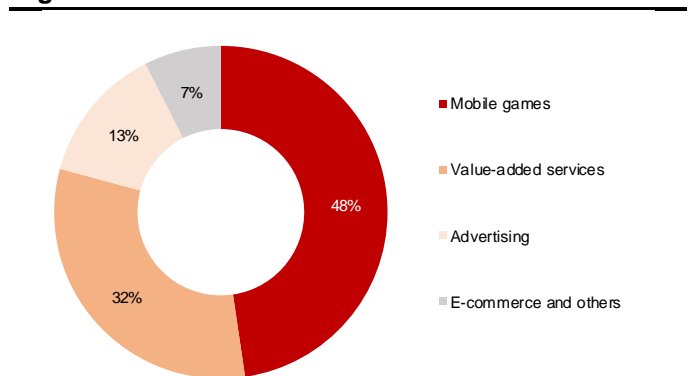
Note: 1) According to QuestMobile, in 2017; 2) in Dec 2019; 3) for official members visiting Bili platform in each month of 2018

Figure 7: User scale trend and paying ratio



Source: Company data

Figure 8: Bili's revenue breakdown in 2Q20



Source: Company data

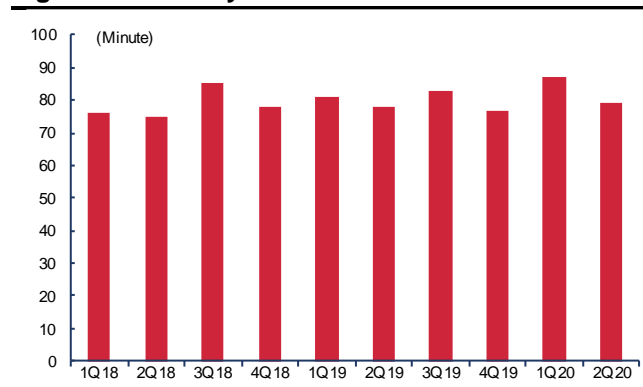
With unique PUGC content and unparalleled user stickiness

Bili is a go-to platform for PUGC creators in China. According to the Company, 90.9% of the total video views were contributed by PUG videos in Dec 2019. As of 4Q19, Bili had c. 1.0mn average monthly active content creators (+67% YoY), and the monthly number of video submissions amounted to 2.8mn (+65% YoY).

Bili distinguishes itself with its deep-rooted culture of bullet chats, which are real-time user comments flying across the video screen. Bullet chats lower the barrier for viewers to give feedback, which in turn increases viewer engagement, enriches video content and increases the sense of achievement for content creators.

As bullet chat is highly interactive, it is limited to official members who have passed a 100-question exam with 60% accuracy. The member exam used to be highly selective with hardcore ACG know-how questions, but it was simplified in 2015 to test users on bullet chat etiquette and personal hobbies. Bili also facilitates mutual supervision among users, as it launched Blackroom (小黑屋, publicity for misconduct penalties) and Judgement (風紀委員, enabling eligible users to arbitrate misconduct reports) projects in 2017.

Figure 9: Bili daily user duration



Source: Company data

Figure 10: Bili's bullet chat culture



Source: Company website

Figure 11: Comparison between fast-growing Apps

	Bili	Douyin	Kuaishou	Xiaohongshu
MAU (mn)	122	518	443	77
YoY Growth	32.0%	14.7%	35.4%	15.3%
Active rate	26.4%	57.2%	48.3%	33.1%
Average monthly user duration	978	1,709	1,205	373
YoY Growth	41.5%	72.5%	64.7%	50.8%
7-day retention rate for active users	72.8%	86.8%	83.0%	53.4%
Unload rate	9.1%	7.2%	9.8%	14.6%
Level of traffic concentration	Relatively high	High	Average	Relatively high
Connectivity between users and content	Relatively high	Relatively high	Relatively high	Relatively high

Source: QuestMobile, in Mar 2020. Active rate = DAU / MAU * 100%

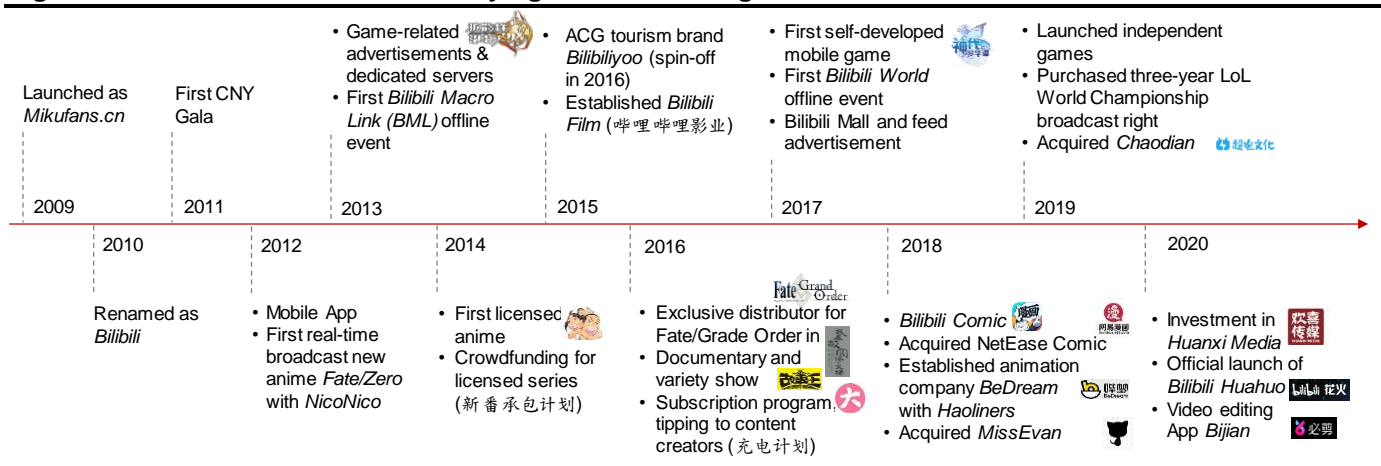
Not only ACG culture, but more...

Bili was initially built as a substitute for the ACG video-sharing website, AcFun, when the latter was temporarily out of order in 2009. After creating a highly interactive and loyal community, Bili has made substantial efforts to evolve into a pan-entertainment hub.

Since the targeted audience of ACG videos and games is highly overlapped, Bili's early monetization was heavily dependent on mobile games. As Bili actively develops its value-added services (paying subscription program launched in 2016), advertising (feed advertising launched in 2017), and e-commerce (Bilibili Mall 会员购 launched in 2017), its reliance on mobile game revenue decreased to less than 50% in 2Q20 (vs. >70% in 1Q18).

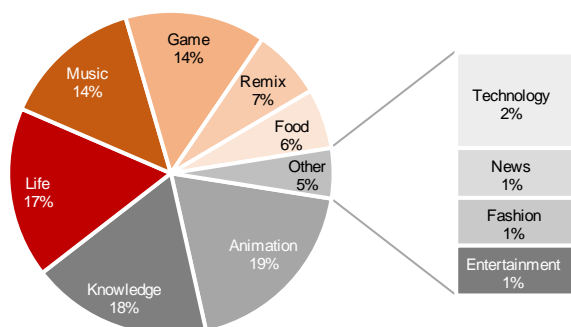
Bili's sticky community comes with a loyal core user group, who are more reluctant to dramatic changes that undermine the sense of belonging. Therefore, Bili is conservative to monetize with pre/mid-roll ads at the expense of user experience, and the pan-entertainment content with a similar tone to ACG is typically better received on the platform (e.g., the documentary Master in Forbidden City <我在故宫修文物>, launched in 2016).

Figure 12: Bili's milestones of diversifying content offerings



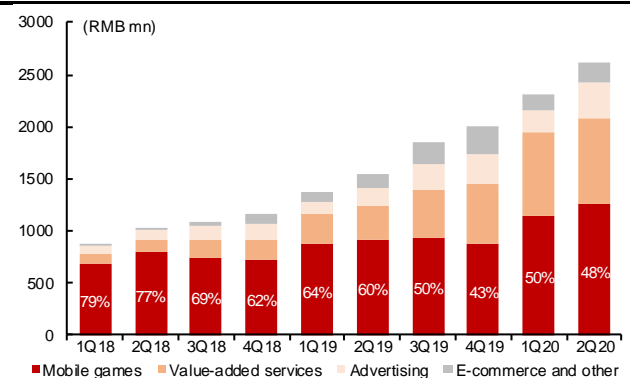
Source: Company website, CMBIS

Figure 13: Top 100 viewed genre distribution



Source: Bili monthly ranking list, as of 6 Oct 2020

Figure 14: Lower dependence on game monetization



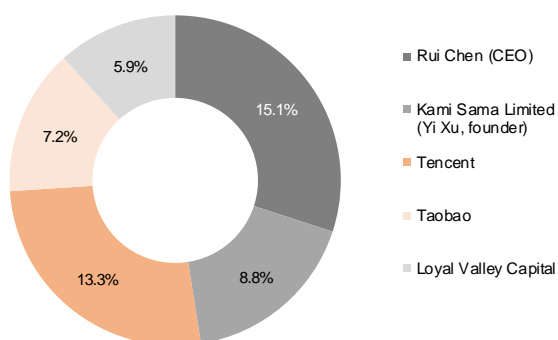
Source: Company data

Backed by strong relationships with Tencent & Alibaba

At the end of 2019, Tencent and Alibaba (through Taobao) had 13.3% and 7.2% stakes in Bili, as its second and fourth largest shareholders. Bili also announced a strategic collaboration with Tencent in Oct 2018 and a business collaboration agreement with Taobao in Dec 2018.

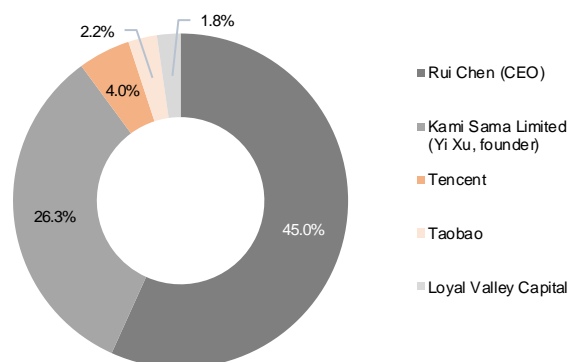
With Bili's unique proposition to China's Gen Z and its low monetization, the platform could be an important traffic entrance for these two tech giants. Meanwhile, the cooperation with Tencent and Alibaba is beneficial for Bili's anime, game, e-commerce, and IP commercialization. In Apr 2020, Sony's subsidiary also acquired a 4.98% stake in Bili.

Figure 15: Bili's shareholder structure



Source: Company data, at the end of 2019

Figure 16: Bili's voting right



Source: Company data, at the end of 2019

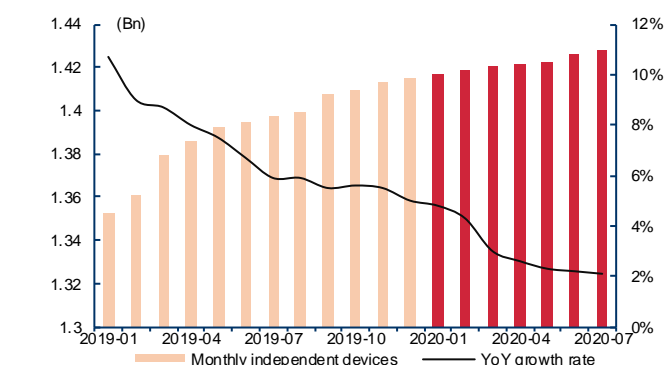
Investment Summary

Surfing on the growing Gen Z's entertainment tailwinds

Well-positioned to capture Gen Z's social boom

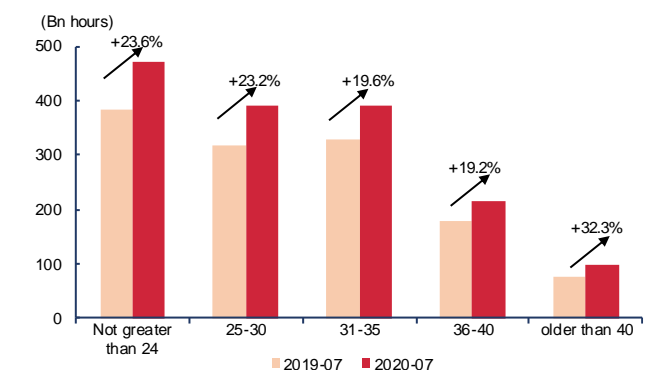
Gen Z, or the generation born between 1990 and 2009, has become an influential online user group with substantial growth potential. According to iResearch, while the total number of devices is near saturation, the tech-savvy Gen Z becomes the primary driver of online time spent in China.

Figure 17: Independent mobile devices in China



Source: iResearch

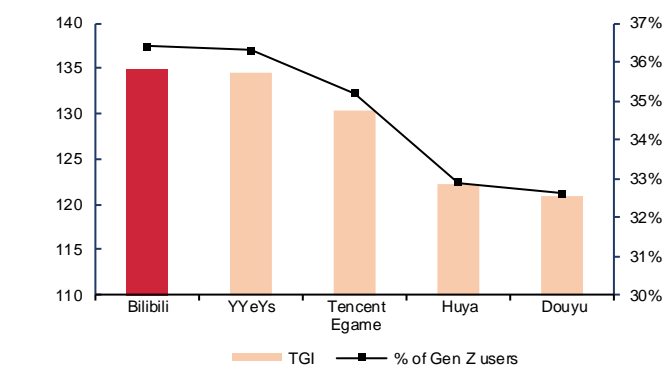
Figure 18: Monthly online duration by age in China



Source: iResearch

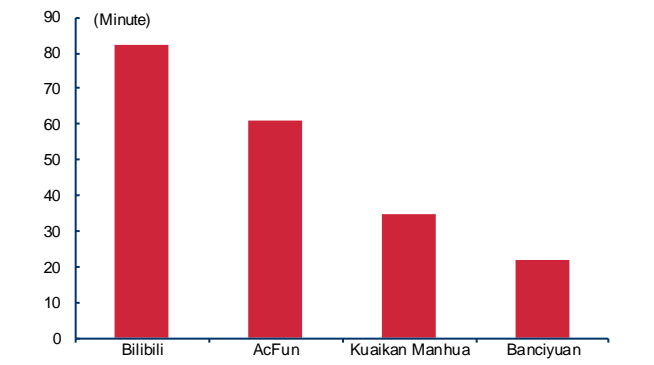
Bili has a unique value proposition with its strong presence in Gen Z, as 79% of its users were under 35 in Nov 2018, according to TalkingData. According to iResearch, Bili and its ancillary app, Bilibili Comic, are highly recognized by Gen Z. As Gen Z tends to spend more time online than other generations, Bili's popularity in Gen Z is rewarded with longer average user duration and stronger engagement.

Figure 19: Chinese Gen Z's preference for ACG communities, by TGI and share of users (in Jul 2020)



Source: iResearch

Figure 20: Chinese Gen Z's online duration on ACG Communities, by effective daily time per device (in Jul 2020)



Source: iResearch

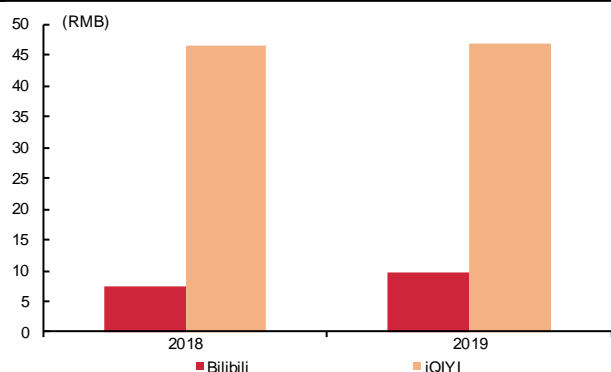
Pioneering the PUG creation ecosystem

Bili distinguished itself in content creation, as its PUGC accounted for 90.9% of the total video views in Dec 2019. The large quantity of PUGC on Bili is supported by Gen Z's urge to express themselves, the popularization of video recording devices, high level of audience feedback, and Bili's incentive programs.

The virtuous cycle of productive content creators and responsive audiences leads to a booming content creator base for Bili. As of 4Q19, Bili had c. 1.0mn average monthly active content creators (+67% YoY), and the monthly number of video submissions amounted to 2.8mn (+65% YoY). The most popular content creator on Bili had 8.1mn subscribers as of 25 Jan 2020, and this number grew to 13.2mn as of 12 Oct 2020.

As a result, Bili has lower content and user acquisition costs than other mainstream video websites, as it is less focused on acquiring licensed content at high cost. With the active expansion to other genres (including documentary and variety show) in 2019, Bili's content cost increased 84.5% to RMB1.0bn. Still, its mobile MAU increased much faster than established video-sharing competitors in China, which preserves its advantage in low user acquisition cost.

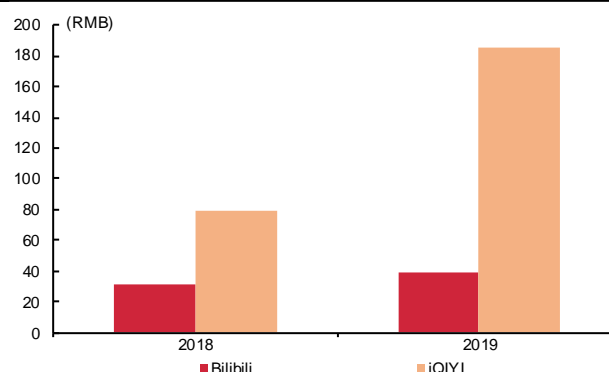
Figure 21: Content cost per mobile MAU



Source: Company data

Note: Bili's annual mobile MAU is approximated by the average of quarterly mobile MAUs

Figure 22: User acquisition cost



Source: Company data

Notes: user acquisition cost refers to S&M expenses/ net adds of MAU. Bili's 2017 mobile MAU is approximated by the 2017 quarterly MAU and 1Q18 Total MAU/mobile MAU ratio

Figure 23: How Bili supports aspiring and leading content creators

Program Name	Requirement	Support & Incentives
Creator Academy (创作学院)		66 song covering courses 28 video editing courses 60 vlog courses...
New Star Project (新星计划)	Subscriber < 50k	Cash reward Traffic support
Charging Project (充电计划)		Receive tipping from subscribers
Creation Incentive Project (创作激励)	Video: creativity/influence score ≥ 55, credibility score ≥ 80 Column: read ≥ 100k	Mega file Creation incentives Copyright protection Subscriber lucky draw Joint content creation
Reward Project (悬赏计划)	Subscribers ≥ 1k Last video uploaded within 30 days	Commission for advertisement
Huahu Platform (火花平台)	Subscriber ≥ 10k Last video uploaded within 30 days Creativity & influence score ≥ 70, credibility score ≥ 90	Cooperate with advertisers

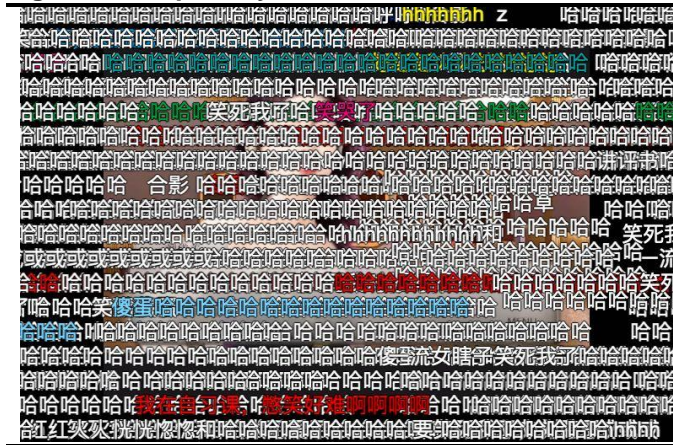
Source: Company website

Note: The creation score depends on the original content created and the resulted user interactions in one year; the influence score depends on the subscriber activity in one year; the credit score depends on the regulation violations.

Bili's bullet chat is an organic part of its PUGC ecosystem. As a bullet chat conveys the viewer's fleeting feeling toward one scene, we believe the barrier of leaving a bullet chat is lower than that of leaving a comment. It is also typical for viewers to share background information of the video or find resonance through bullet chats, which enriches the video content.

Although bullet chat feature has been adopted by other Chinese video platforms, Bili distinguished itself with bullet chat variety and popularity. Bili has tried to replicate the success into short videos, as the Company launched Bilibili Short Video (轻视频) in 2020.

Figure 24: Popularity of bullet chat on Bili



Source: Company website

Figure 25: Bullet chat in Bili's short video App



Source: App interface

Figure 26: Illustration of Bili's bullet chat feature



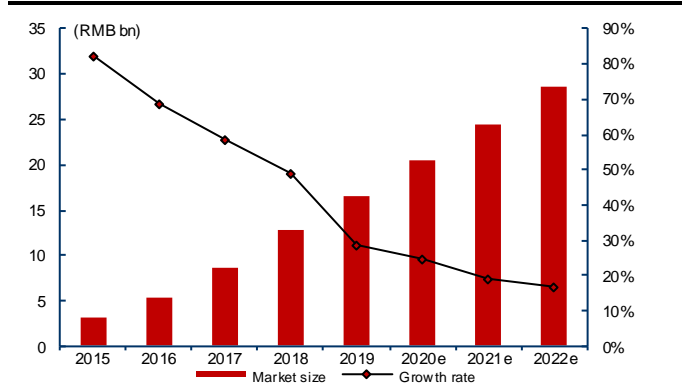
Source: Company website

Leveraging diversified and solid long-term strategic partnerships

Tencent first invested in Bili in 2015 and increased its stake in 2018. As of Dec 2019, Tencent's beneficiary ownership reached 13.3%, making Tencent Bili's second-largest shareholder after CEO Rui Chen.

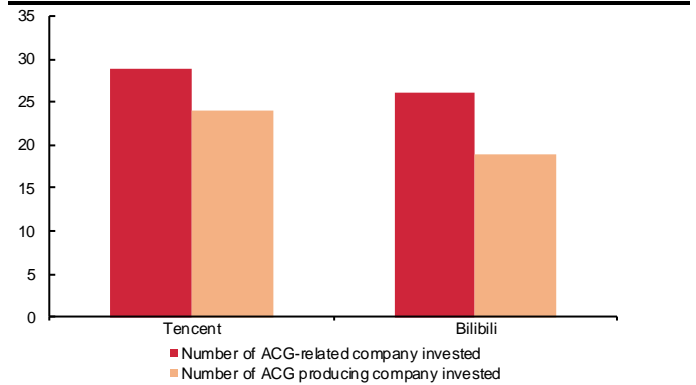
Bili and Tencent have agreed to share their animation and game content in a strategic collaboration announced in Oct 2018. As Bili and Tencent are the two major players in China's ACG industry, their cooperation in animation content could be impactful. Tencent Comic has contributed over 1,500 videos under the Chinese animation category to the Bili platform. There would be more synergies on game cooperation, given Tencent's leading position in games.

Figure 27: China's online animation industry



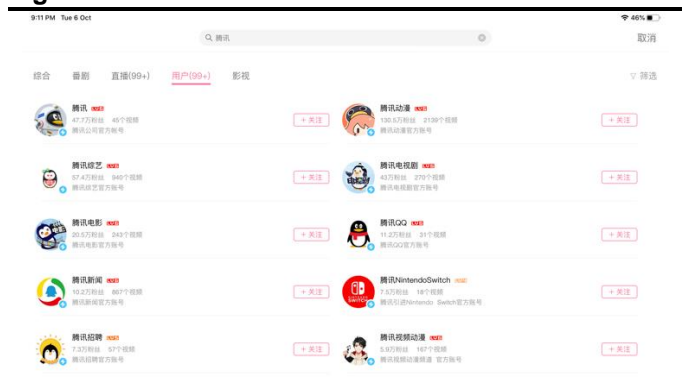
Source: iResearch

Figure 28: China's ACG-related investment in 2017-19



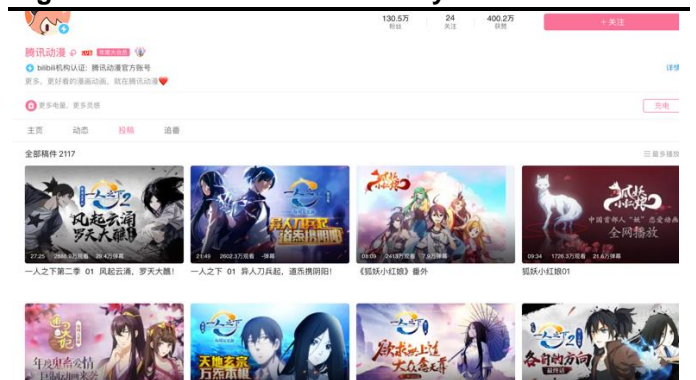
Source: iResearch

Figure 29: Tencent official accounts on Bili



Source: Company website

Figure 30: Bili PGC contributed by Tencent Comic



Source: Company website

Alibaba acquired a c. 8% stake in Bili through Taobao in Feb 2019, and its beneficiary ownership amounted to 7.2% at the end of 2019. Before this investment, Bili started business cooperation with Taobao in Dec 2018 to develop content-driven e-commerce and commercialization of Bili's IP assets.

Bili's cooperation with Taobao is beneficial for supporting its PUGC creators. Bili has launched Reward Project in Sep 2018, where qualified content creators could earn commission by recommending Taobao products to their audience. The commission earned in Reward Project will be transferred to content creators' Alimama accounts. In Jul 2020, Bili officially launched its Huahuo Platform, enabling content creators to place product links in videos and earn rewards through Taobao/JD Alliance PIDs.

Figure 31: Taobao products in Reward Project

Source: Company website

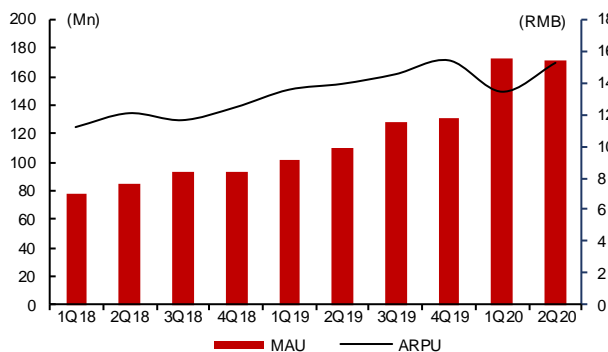
Figure 32: Taobao Alliance PID on Huahuo Platform

Source: Company website

Resilient to COVID-19

Bili was a beneficiary of the stay-at-home effect during COVID-19, with more MAU & time spent on online entertainment. It also recorded a historically high retention rate, backed by strong new user stickiness in the post-COVID-19 period.

Apart from user momentum, Bili saw diversified content creation and views beyond the fixed ACG circle during the epidemic, such as popular science videos discussing the virus's origin. Official government accounts (e.g., the Communist Youth League, CCTV) performed well with million views, suggesting Bili's effective connection in mainstream culture.

Figure 33: MAU and ARPU in 1Q18-2Q20

Source: Company data

Figure 34: PaperClip's COVID-19 video with 5mn view

Source: Company website

Figure 35: Bili was the fastest-growing video service platform in Jul 2020

Ranking	APP	Industry	Independent devices in Jul 2020 (mn)	YoY Growth
1	Dingtalk	Office	176	185.06%
2	Himalaya	Music	162	43.78%
3	Sina News	News	225	41.26%
4	Bili	Video	117	22.56%
5	Moji Weather	Life	223	13.89%
6	Mango TV	Video	189	13.61%
7	Douyin	Video	490	12.91%
8	Baidu Mobile Assistant	Download	138	9.58%
9	Toutiao	News	275	9.45%
10	Haokan Video	Video	107	9.22%
11	Mobile Tobao	E-commerce	695	8.82%
12	Dianping	Food delivery	122	8.72%
13	Alipay	Finance	698	8.70%
14	Xigua Video	Video	189	8.49%
15	QQ Browser	Tool	488	8.39%
16	Mi Game Centre	Download	121	8.31%
17	Sina Tianqitong	Life	107	7.41%
18	Xiaomi MiSRC	Tool	156	7.33%
19	360 Mobile Assistant	Download	162	6.92%
20	UC Browser	Tool	343	6.48%

Source: iResearch

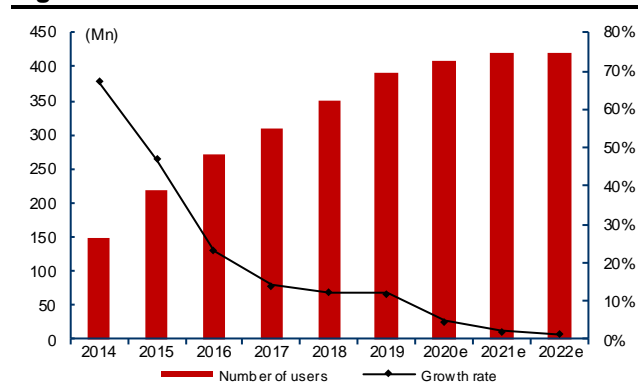
Tapping into pan-entertainment to unlock its user ceiling

Initial fruits from evolving social community beyond AGC

As pan-ACG user growth decelerates in China, Bili seeks to get out of the niche circle and has born initial fruits. The platform has diversified its content offerings from merely animation, music and games to c. 20 categories covering the pan-entertainment demand of all age groups.

Given its close-knit community, Bili needs to strike a balance between maintaining the sense of belonging on its platform and acquiring new users. Bili has demonstrated a strong ability to connect the ACG culture with the mainstream culture, backed by its diversified content offering and commercialization by combining ACG and offline scenarios.

Figure 36: China's ACG-related user trend



Source: Company data

Figure 37: Bili's diverse offering online

动画	6652	生活	54164	专栏
番剧	287	美食	3081	直播
国创	695	鬼畜	311	活动
音乐	9199	时尚	6352	课堂
舞蹈	2093	资讯	451	小黑屋
游戏	54367	娱乐	8456	音乐PLUS
知识	13033	影视	10877	
数码	1637	放映厅	112	

Source: Company website

Figure 38: Bili linking ACG contents with offline scenarios



Source: iResearch

Expanding TAM with effective user expansion

Bili has evolved from a niche community for ACG fans to a pan-entertainment platform, as 1) the platform provides broader content offerings to cater to the mainstream group's interests, and 2) its hardcore loyal user group has also grown and matured.

Bili invested HK\$513mn in Huanxi Media in Aug 2020, which will be beneficial to attract the big-screen audience group with higher purchasing power. Huanxi Media's recent TV series, Run for Young, was aired exclusively on Bili in 2020 and received 210mn views. Meanwhile, Bilibili's self-made talent show also received 260mn views, proving its stepping-up fruits in content diversification and user expansion.

Figure 39: Exclusive rapper talent show and self-made series with 200mn+ view



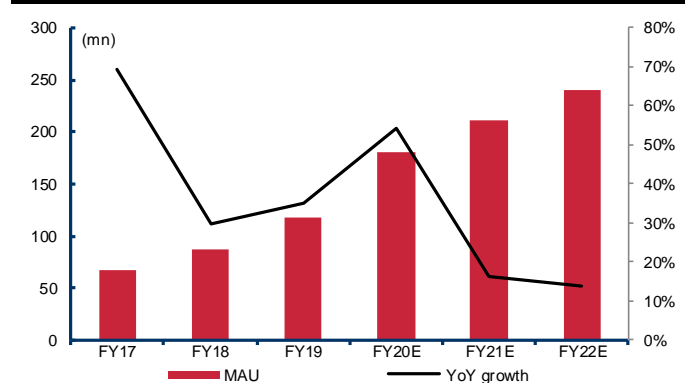
Source: Company website, as of 13 Oct 2020

Figure 40: Ads on Bili targeting users with higher purchasing power

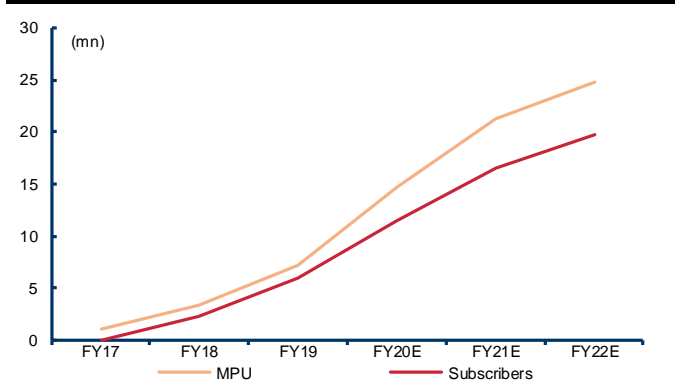
Source: Company website

Expecting MAU to grow at 26% CAGR in FY19-22E.

We expect its MAU to reach 208mn/238mn in FY21/22E, at 26% CAGR in FY19-22E, while mobile MAU at 183mn/214mn in FY21/22E. We keep confident in its user growth and TAM mainly on: 1) continuous content expansion to target beyond Gen Z; and 2) effective S&M efforts. On top of that, we estimate its MPU/subscribers to reach 25mn/21mn in FY22E, backed by unique content and highly-engaged community.

Figure 41: MAU estimates

Source: Company data, CMBIS estimates

Figure 42: MPU and subscribers estimates

Source: Company website, CMBIS estimates

Stepping up monetization with enriched offerings

Game: looking beyond FGO

We expect its game momentum to continue for ACG popularity and strong pipeline.

Bili started its commercialization with mobile games, and its mobile game is initially reliant on the exclusive distribution for Fate/Grand Order (FGO) in 2016. As its largest rev contributor (58% of its total rev in FY19), we expect FGO to deliver stable grossing in the short-and-middle term. The further upside would derive from its new games, such as recent hot title Princess: Connect! Re:Dive.

Among its game portfolio, FGO, Azur Lane, and Princess: Connect! Re:Dive are three top-performing games, according to Sensor Tower. In Bili's new game pipeline, the Steam-transplant-mobile games, Dead Cells and Fall Guys: Ultimate Knockout (Mobile), have received large numbers of pre-registers on both Bili and TapTap. We keep positive on its strong pipeline with ACG-themed games to surf on growing ACG popularity.

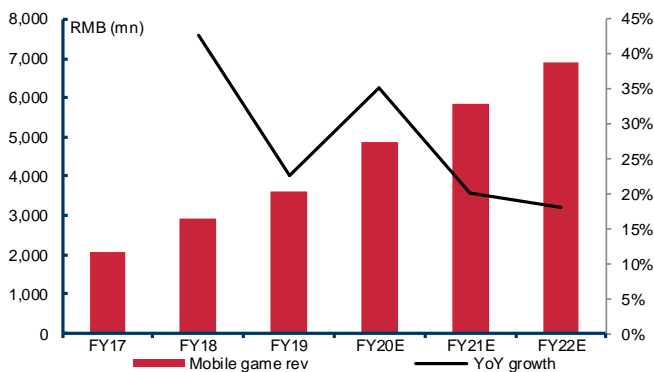
Figure 43: New games pipeline

Title	Genre	Pre-registers	Expected launch time
Artery Gear: Fusion <机动战姬：聚变>	ARPG	420k	Closed beta: 20-Aug-20
Dead Cells <死亡细胞>	Rogue like / Steam transplant mobile	930k	Copyright authorization approved: 16-Oct-20 (platform unknown) ¹
Fall Guys: Ultimate Knockout (Mobile) <糖豆人：终极淘汰赛手游>	Battle royale / Steam transplant mobile	302k	- ²
Quantum Maki: Enobetia <终末阵线：伊诺贝塔>	ARPG	322k	Closed beta: 2-Sep-20 Expected OBT: 2021
SINoALICE <心罪爱丽丝> ³	RPG	601k	-
INCARNATION <灵笼：火种>	RPG	873k	-
Kuroshio: Awakening <黑潮：深海觉醒>	RPG	538k	Closed beta: 6-Aug-20
Craftsman and Traveler <工匠与旅人>	RPG / Simulation	195k	Closed beta: 2019
Under Oath <终焉誓约>	RPG	290k	Closed beta: 16-Jul-20
Code: Dream Cloister <拾光梦行>	Adventure	229k	Closed beta: 12-Aug-20
Eternal Tree <悠久之树>	RPG	191k	-
Lapis Re: Lights <宝石幻想：光芒重现>	RPG	332k	Closed beta: 15-Jan-20, 7-Aug-20
Beatless <空匣人型>	ARPG	255k	Closed beta: 17-Sep-20
Date a Live : Rio-Reincarnation <约战：凛绪轮回>	RPG / Love game	66k	-
Swords of Legends : Mu Yu Ren <古剑奇谭木语人>	RPG/ Chinese	388k	Closed beta: 10-Jan-20
Starry Plaza <星耀购物街>	Simulation / Dress up	56k	Closed beta: 20-Oct-20
Guardian Tales <坎特伯雷公主与骑士唤醒冠军之剑的奇幻冒险>	RPG	83k	-

Source: Company website, as of 20 Oct 2020

Note: 1) Registered at Shanghai Municipal Press and Publication Bureau;

2) Steam version was launched on 4 Aug 2020, and Bili's exclusive distribution for the mobile version in China was announced on 22 Aug 2020; 3) Japanese original version was launched in 2017

Figure 44: Bili's mobile game revenue estimate

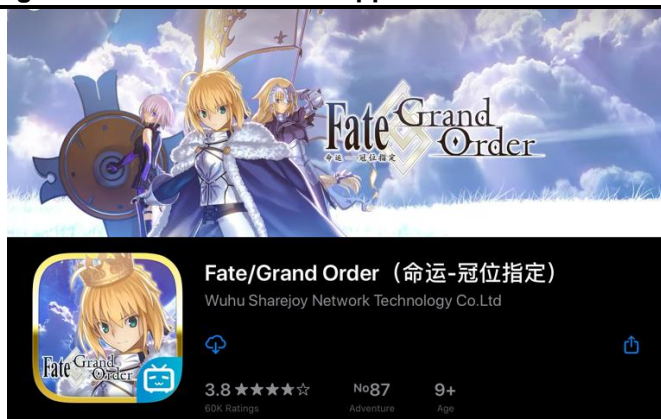
Source: Company data, CMBIS estimates

Figure 45: Bili's game pipeline

On self development, exclusive distribution, or joint operation bases



Source: Company website, as of 20 Oct 2020

Figure 46: FGO on China's AppStore

Source: AppStore, as of 13 Oct 2020

Figure 47: Azur Lane and its animation series

Source: Company website

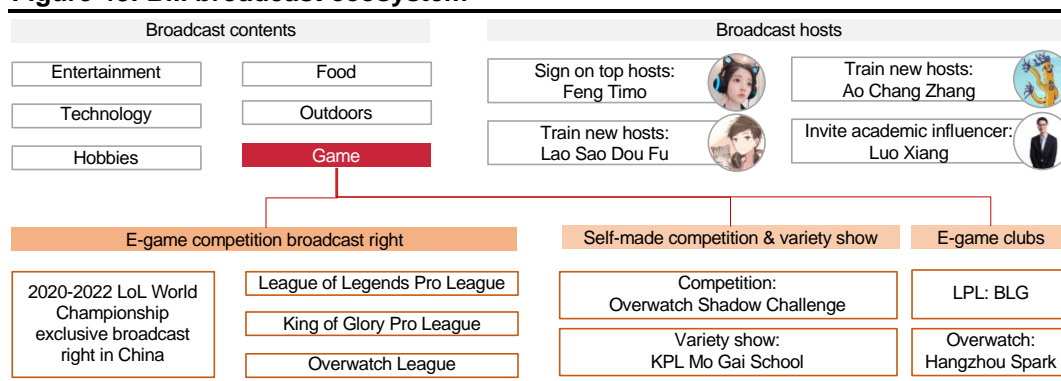
Multiple engines to diversify monetization

We see high visibility for Bili to gradually lower its dependence on mobile game monetization, and to step up commercialization of live streaming & VAS, ads, and e-commerce business.

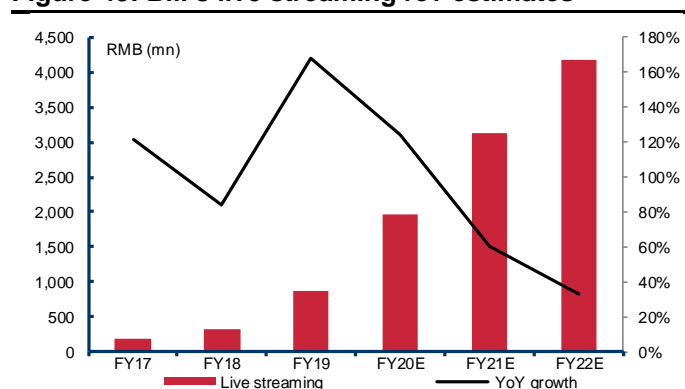
VAS & Livestreaming: We are bullish on its livestreaming & VAS potential, given 1) its hardcore users and highly-engaged community, and 2) its livestreaming ARPU which is far below other livestreaming platforms. We expect its livestreaming & VAS rev to grow at 64% CAGR in FY19-22E, accounting for 35% of total rev in FY21E.

Bili's live streaming business covers games, entertainment, digital & technology, habits, food, and outdoors. To develop its live broadcasting host group, Bili has both signed external hosts (e.g. Feng Timo, Luo Xiang) and cultivated potential hosts from its content creator base.

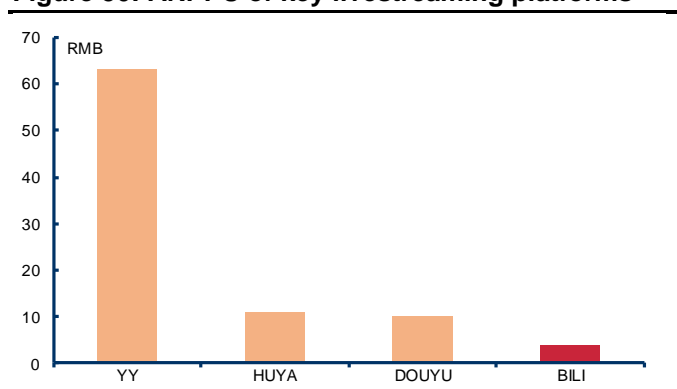
Given its user characteristics, game live streaming was one of the most popular sections on Bili, and has been heavily investing in. In Dec 2019, Bili bought the exclusive livestreaming rights for the League of Legends (LoL) World Championships in China with RMB800mn. Compared with peers, Bili's livestreaming excels itself with higher ARPU upside, eSports benefits and further synergies with Tencent & Alibaba, in our view.

Figure 48: Bili broadcast ecosystem

Source: iResearch

Figure 49: Bili's live streaming rev estimates

Source: Company data, CMBIS estimates

Figure 50: ARPPU of key livestreaming platforms

Source: Company data

Note: ARPPU refers to daily livestreaming rev per paying user in 1H20

We expect its VAS rev to grow at 59% CAGR in FY19-22E, supported by its unique community and diversified exclusive content. Thanks to its membership ecosystem and rich content pipeline, its subscribers climbed to 10.5mn in 2Q20, and was estimated to reach 21mn in FY22E. Among its 40 Chinese anime titles for 2020/21, newly-launched Heaven Official's Blessing <天官赐福> gained tractions quickly (~40mn views in first week), and we expect its upcoming titles (e.g. Juvenile Song <少年歌行>, The Three-Body Problem <三体>, The Defective <残次品>) to attract more premium subscribers.

To differentiate itself from the existing licensed content provider (iQiyi, Youku Tudou, and Tencent), Bili has focused on buying ACG contents, documentaries, and relatively outdated series. This method helps Bili avoid direct competition in the capital-intensive battle of licensed contents, albeit limiting TAM's upside for its VAS business. Bili has launched more self-made content in recent years as a more aggressive approach. The Company has acquired a stake in Huanxi Media to expand its production capacity.

Figure 51: Heaven Official's Blessing <天官赐福>



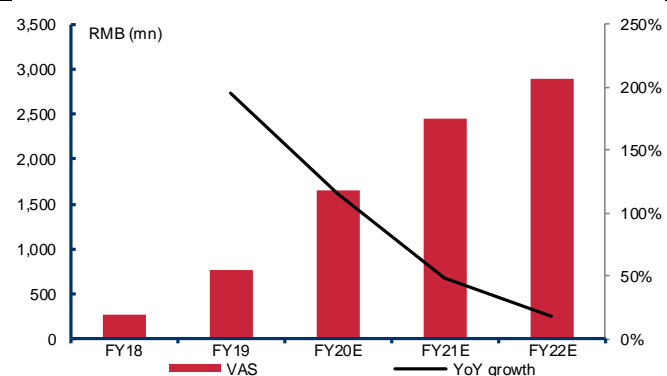
Source: Company website

Figure 52: HOB's gained immense popularity



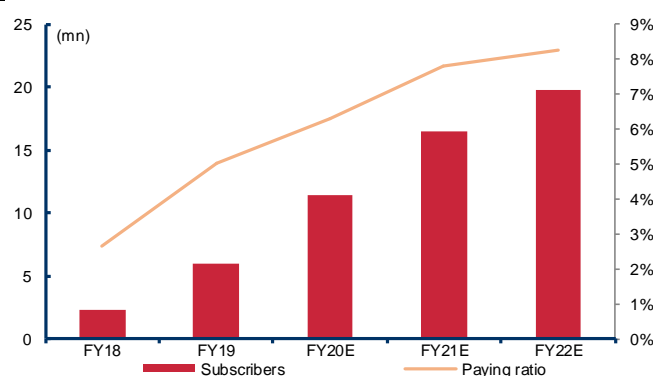
Source: Company website

Figure 53: Bili's VAS rev estimates



Source: Company data, CMBIS estimates

Figure 54: Subscribers estimates



Source: Company data

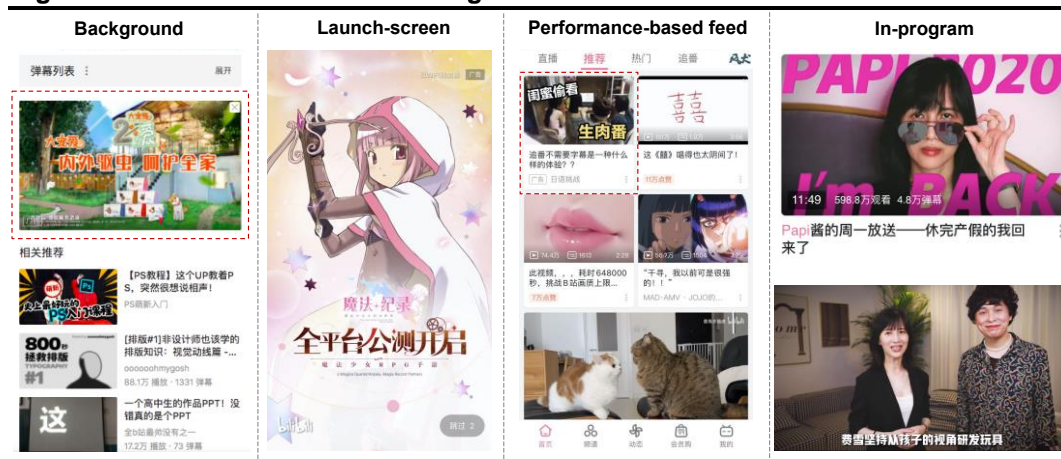
Figure 55: Bili's Chinese animation production in 2020/2021

Title	Launch	Genre	Collaborator
The Furious Yama <大王不高兴>	1-Jan-2020	Fantasy, humor	Haoliners (绘梦)
Antidote <解药>	9-Jan-2020	Romance	Seven Stone Entertainment (七灵石)
Beanie's Daily Season 3 <请吃红小豆吧! 3>	12-Jan-2020	Humor	Making Animation (广州九五动画有限公司)
The Daily Life of the Immortal King <仙王的日常生活>	18-Jan-2020	Fantasy, humor	Haoliners
My Threebody Season 3 <我的三体之章北海传>	21-Jan-2020	Sci-fi	Three Body Universe (TBS, 三体宇宙)
Spirit Wind Elegance_Episode 4 <凤灵玉秀_第四话>	1-Apr-2020	Swordsman	Sunflowers
The Years I Kept a Zoo <我开动物园那些年>	5-Apr-2020	Humor	Haoliners, Doubozhi (逗卜止)
Metaman <望古神话之天选者>	7-Apr-2020	Sci-fi, fighting	Chonghuo Animation (崇卓动画), BoYiChuagnWei (博易创为)
Tales of Demons and Gods <妖神记之黑狱篇>	8-Apr-2020	Fantasy, fighting	Ruo Hong Culture (若鸿文化)
Manual of Hundred Demons <百妖谱>	25-Apr-2020	Fantasy	Haoliners
Legend of Exorcism <天宝伏妖录>	5-Jul-2020	Fantasy	Sparkly Key (玄机科技)
Beanie's Daily Season 3 <请吃红小豆吧! 4>	10-Jul-2020	Humor	Making Animation
Yuan Long <元龙>	11-Jul-2020	Fantasy, fighting	CGYear (中影年年)
Rhapsody of Flowers and Flames <时之歌-花与焰的狂想诗>	16-Jul-2020	Fantasy, music	Aqua Entertainment (澧泉文化)
The Furious Yama 2	21-Jul-2020	Fantasy, humor	Haoliners
Record of a Mortal's Journey to Immortality <凡人修仙传>	25-Jul-2020	Fantasy, fighting	Mopian (猫片), Original Force (原力动画)
Loyalty of Patriotism <精忠报国>	03-Sep-2020	Military	Central Military Commission of the Communist Party of China, People's Daily
The Commitments <追梦者>	30-Sep-2020	History	People's Daily
Music Up 2 <我为歌狂 2>	2-Oct-2020	School, music	Shanghai Animation Studio (上海美术电影制片厂), Foch (福煦影视)
Awakening <芯觉>	13-Oct-2020	Fantasy, fighting	CGYear (中影年年)
Qin Xia <秦侠>	16-Oct-2020	Fantasy, fighting	Tencent Comic, Qiyuan (启缘映画)
JX3: Chivalrous Hero Shen Jianxin Side Story	24-Oct-2020	Swordsman	Shengying, Kingsoft Season Game Studio
The Love by Hypnotic <拾忆长安·明月几时有>	28-Oct-2020	Romance	Animation Studio (动漫堂)
Heaven Official's Blessing <天官赐福>	31-Oct-2020	Fantasy, fighting	Haoliners
My Senior Martial Brother Has a Pit on his Brain Season 2 <我家大师兄脑子有坑第二季>	29-Oct-2020	Fantasy, humor	Magilm Pictures (剧角映画), Magilm Comic (剧象漫画)
The Three-Body Problem <三体>	2021	Sci-fi	TBS, YHKT (艺画开天)
Fantasy x Hunter <幻游猎人>		Fighting	China Literature, Colored Pencil (彩色铅笔)
9-9-81 / Nine-Nine Eighty-One <九九八十一>		Fighting	-
The Ravages of Time <火凤燎原>		Fighting	Bili, iDreamSky Entertainment (创梦文娱)
Glaze War <璃心战纪>		Sci-fi, fighting	2-10 (两点十分)
The Country of Rare Treasure <秘宝之国>		Fantasy	2-10
The Last Summoner <最后的召唤师>		Fantasy, fighting	Ask Animation Studio
Aurora <红荒>		Sci-fi	Maten Animation (迷谭动画)
What's The Use for My Talent? <天生我才怎么用>		Pili, humor	PILI (霹靂)
Leying Songs <乐隐长歌·破晓>		Music	Kugou (酷狗音乐), Qingshang (青上文化)
"Super Star" <我真的没用咩? >		Humor	Making Animation
Cat's Tea <猫之茗>		Fighting, humor	TRCARTOON (糖人家)
No Doubt In Us <两不疑>		Humor	Paper Plane (纸飞机动漫)
The Legend of Luo Xiaohai <罗小黑战记众生之门篇>		Fantasy, fighting	HMCH (北京寒木春华动画技术有限公司)
Juvenile Song <少年歌行风花雪月篇>		Fighting	CGYear
The Defective <残次品>		Sci-fi, romance	Coastline Animation Studio (海岸线动画)
JX3: Chivalrous Hero Shen Jianxin Season 3		Swordsman	Shengying, Kingsoft Season Game Studio
On Your Mark <准星>		Fighting	BeDream, Ph Animation (铅元素动画)

Source: Company website

Advertising: Bili has historically been conservative on advertising at the expense of user experience. Therefore, its ads monetization lagged behind other video platforms. Looking ahead, we expect its ads to continuously outperform peers due to 1) low monetization in performance-based ads; 2) higher ads ROI with advanced targeting and enriched ads formats (e.g. feed ads, in-program ads); 3) effective vertical expansion; and 4) strong momentum of game & education verticals to continue. We forecast its ads rev to surge 67% CAGR in FY19-22E, accounting for 17% of total rev in FY21E.

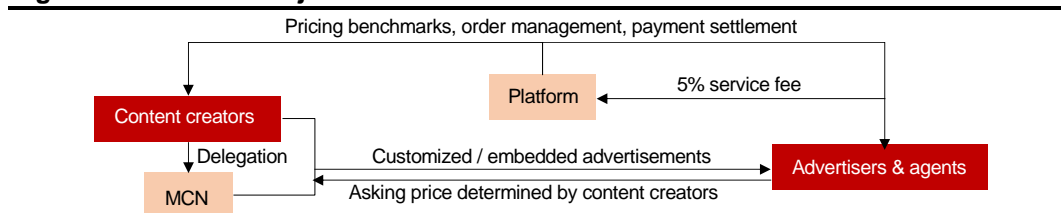
Figure 56: Bili advertisement offerings



Source: Company Website

Bili piloted the Huahuo Platform last year and launched it officially this year, which connects active content creators directly with advertisers. Compared to the *Oasis project* which failed due to strict restriction and high take rate, Huahuo Platform is more flexible and encourages the participation of MCNs. On top of that, the platform also allows direct links to Taobao, which is beneficial to the conversion rate.

Figure 57: Huahuo Project



Source: Company Website

E-commerce and others: Bili could see growing revenue for naming rights with the success of self-made contents, and offline events like Bilibili World (BW) and Bilibili Macro Link (BML) offer opportunities to sponsors and IP partners. In Jul 2019, Bili acquired the majority stake of offline event operator Chaodian, although the frequency of the events is affected by the COVID-19 outbreak.

Figure 58: Ad on Variety Show Rap for Youth

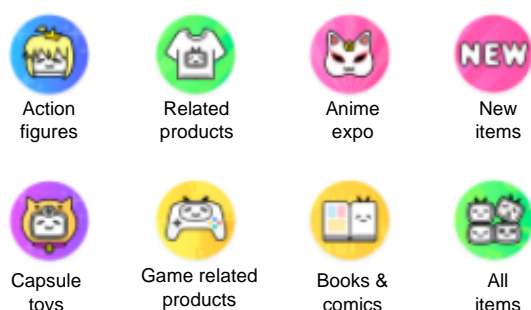
Source: Company website

Figure 59: Sponsor in offline event Bilibili World

Source: Company website

Bili's e-commerce section, Bilibili Mall (会员购), mostly offers ACG-related products and ticket to offline ACG events. As Bili and Taobao entered business cooperation in 2018, Bili could leverage Taobao's tech capability in e-commerce operation to enhance user experience.

Currently, the Bilibili Mall button on the top right of the Company's main website will direct users to the *Show* section, which sells tickets to offline performance (218 events, as of 21 Oct 2020), exhibitions (285 events) and local life products (132 items) in nine cities. On Bilibili Mobile, users can participate in a blind-box feature, Magic Reward (魔力赏), where users pay for a sealed box without knowing which specific design of product series they will receive. The user interface of Magic Reward imitates the popular card drawing function of some ACG RPG games.

Figure 60: Bilibili Mall categories

Source: Company website

Figure 61: Bili's Magic Reward blind box

Source: Company website

Financial Analysis

Revenue Breakdown

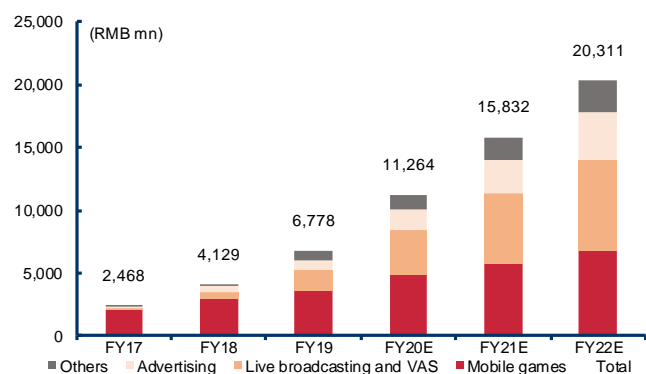
We forecast Bili revenue to grow at 66%/41%/28% in FY20/21/22E, in which mobile games and livestreaming & VAS continue to be the major revenue contributors in the long run. By segment, we expect mobile games, livestreaming & VAS, Advertising and other revenue to grow at CAGR of 24%/64%/67%/50% YoY in FY19-22E. Key topline drivers come from:

- 1) **Mobile games:** forecasting 24% rev CAGR in FY19-22E, mainly supported by rising MPU. FGO's grossing recovered in 3Q20E, coupled with stable Azur Lane and Arknights. Apart from FGO, Princess Connect! Re:Dive <超異域公主連結> performed well in 2Q20, and became its largest grossing title. Looking ahead, we expect its new titles to bring further upside, such as highly-anticipated Dead Cells <死亡細胞>, THRUUD Broken Heaven <斯露德>. Mobile game would see lower revenue mix for Bili's monetization diversification, forecasting 36% of total revenue in FY21E.
- 2) **Livestreaming & VAS:** 64% rev CAGR in FY19-22E, in which livestreaming/ VAS contributes 68%/59% CAGR. Backed by cross-selling effect, LoL exclusive broadcasting rights and enhanced content (e.g. *Rap for Youth*), we keep positive on its livestreaming & VAS momentum.
- 3) **Advertising & Others:** 67% ads rev CAGR in FY19-22E, mainly on video ads popularity, unique young users, richer ads format and effective vertical expansion. We are bullish on its long-term growth potential, for its scarcity on content and user engagement, higher adaption of Huahuo platform <花火平台>.

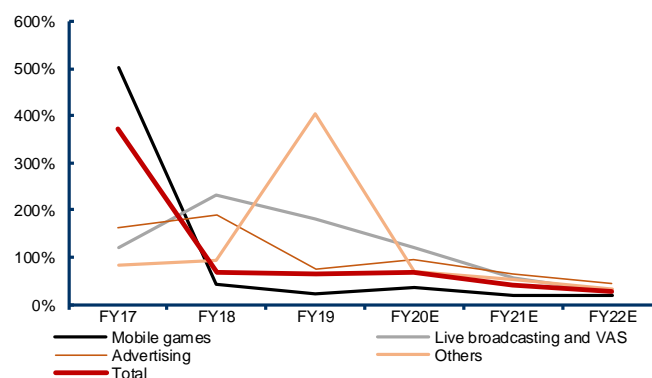
Figure 62: Revenue breakdown estimates

Revenue (RMB mn, Dec-YE)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Mobile games	2,058	2,936	3,598	4,836	5,779	6,819
Live broadcasting and VAS	176	586	1,641	3,604	5,564	7,222
Advertising	159	463	817	1,600	2,636	3,819
Others	75	143	722	1,224	1,853	2,451
Total	2,468	4,129	6,778	11,264	15,832	20,311
% YoY	FY17	FY18	FY19	FY20E	FY21E	FY22E
Mobile games	501%	43%	23%	34%	19%	18%
Live broadcasting and VAS	122%	232%	180%	120%	54%	30%
Advertising	162%	191%	76%	96%	65%	45%
Others	84%	92%	403%	70%	51%	32%
Total	372%	67%	64%	66%	41%	28%
% of revenue contribution	FY17	FY18	FY19	FY20E	FY21E	FY22E
Mobile games	83%	71%	53%	43%	37%	34%
Live broadcasting and VAS	7%	14%	24%	32%	35%	36%
Advertising	6%	11%	12%	14%	17%	19%
Others	3%	3%	11%	11%	12%	12%
Total	100%	100%	100%	100%	100%	100%

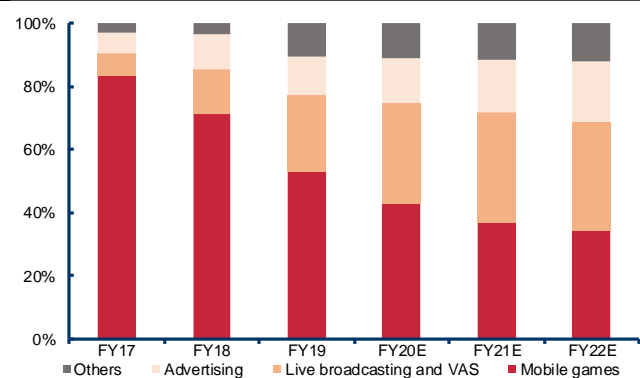
Source: Company data, CMBIS estimates

Figure 63: Revenue estimates

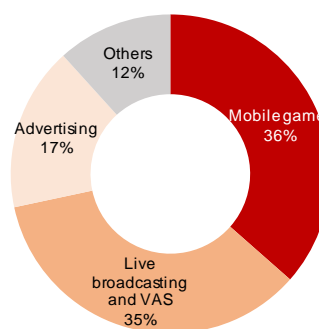
Source: Company data, CMBIS estimates

Figure 64: Revenue growth breakdown

Source: Company data, CMBIS estimates

Figure 65: revenue breakdown estimates

Source: Company data, CMBIS estimates

Figure 66: FY21E revenue breakdown

Source: Company data, CMBIS estimates

Income Statement

We expect better margin outlook in the long run, but priority still on user expansion.

As mgmt. prioritize user expansion over profitability, Bili would still put heavy marketing efforts in the short to middle term, especially for its brand promotion and game marketing. But in the long run, we expect margin improvement for scale effect and operating leverage.

We expect gross margin to improve to 23%/30%/34% in FY20/21/22E, with lower content cost/rev ratio & rev-sharing/rev ratio.

We forecast opex ratio up to 48% in FY20E for heavier marketing efforts on user expansion, and then down to 40%/35% in FY21/22E, attributable to 1) scale effect and robust topline growth; 2) enhanced productivity and operating leverage; and 3) ROI-driven strategic marketing.

As a result, we forecast its bottom line to be -RMB2.5bn/-RMB1.4bn/+RMB313mn in FY20/21/22E, with adj. net margin up to 2% in FY22E.

Figure 67: Income statement

RMB mn, Dec-YE	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenue	2,468	4,129	6,778	11,264	15,832	20,311
Cost of revenue	(1,919)	(3,273)	(5,588)	(8,655)	(11,104)	(13,315)
Gross profit	549	855	1,190	2,609	4,728	6,996
Selling and distribution expenses	(232)	(586)	(1,199)	(3,432)	(3,981)	(4,379)
Administrative expenses	(261)	(461)	(592)	(855)	(1,061)	(1,167)
R&D	(280)	(537)	(894)	(1,410)	(1,827)	(2,046)
Operating (loss)/profit	(224)	(729)	(1,495)	(3,087)	(2,140)	(596)
Other expenses	49	190	227	282	236	241
(Loss)/profit before income tax	(175)	(539)	(1,268)	(2,805)	(1,905)	(355)
Income taxes (expense)/credit	(9)	(26)	(36)	(84)	(57)	(11)
(Loss)/profit for the year	(184)	(565)	(1,304)	(2,889)	(1,962)	(365)
Adj. net profit	(489)	(429)	(1,101)	(2,546)	(1,433)	313
Margin Analysis						
Gross margin	22%	21%	18%	23%	30%	34%
Operating margin	-9%	-18%	-22%	-27%	-14%	-3%
Adj. net margin	-20%	-10%	-16%	-23%	-9%	2%
Growth Analysis						
Revenue		67%	64%	66%	41%	28%
Gross profit		56%	39%	119%	81%	48%
Operating profit		NA	NA	NA	NA	NA
Adj. net profit		NA	NA	NA	NA	NA

Source: Company data, CMBIS estimates

Balance Sheet

Healthy balance sheet with net cash position in FY20/21/22E

According to our estimates of profit before taxation and change in working capital, Bili has strong operating cash inflow in supporting CAPEX in the next three years, despite net loss position in FY20/21E. We expect Bili to hold RMB12.0bn/RMB10.6bn cash and cash equivalent as of 31 Dec of 2020E and 2021E.

Figure 68: Balance Sheet

RMB mn, Dec-YE	FY17	FY18	FY19	FY20E	FY21E	FY22E
Non-current assets	1,320	3,940	5,193	5,928	6,824	7,547
Fixed asset	186	395	516	741	900	900
Long-term investments	636	980	1,251	1,251	1,251	1,251
Intangible assets	426	1,419	1,657	2,237	3,004	3,674
Others	72	1,146	1,768	1,699	1,668	1,723
Current assets	2,153	6,550	10,324	18,513	17,573	19,468
Cash	763	3,540	4,963	12,048	10,556	10,914
Restricted cash	0	0	0	0	0	0
Account receivable	393	324	745	1,107	1,062	1,387
Others	997	2,686	4,617	5,358	5,955	7,168
Current liabilities	1,398	3,299	4,273	7,254	8,642	10,949
Trade payable	597	1,308	1,904	3,071	3,622	4,403
Salary and welfare payables	149	247	356	356	356	356
Accrued liabilities	49	670	576	1,321	1,173	1,745
Deferred revenues	573	985	1,369	2,264	3,166	4,041
Others	31	89	68	243	325	403
Non-current liabilities	0	0	3,608	3,608	3,608	3,608
Long-term debt	0	0	3,608	3,608	3,608	3,608
MI	0	240	584	584	584	584
Total Equity	(1,940)	7,191	7,636	13,580	12,146	12,459
Shareholders' equity	(1,940)	6,951	7,052	12,996	11,562	11,875

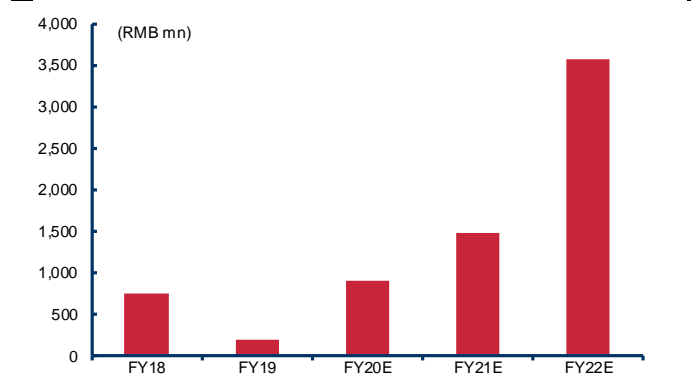
Source: Company data, CMBIS estimates

Cash Flow and Working Capital

Vast user base and monetization diversification ensure strong operating cash flow

Leveraging its advantage of huge user base, monetization enhancement and margin improvement, we expect Bili to maintain its strong operating cash inflow trend and record RMB0.9bn / RMB1.5bn of operating cash inflow in FY20/21E, respectively.

Figure 69: Operating cash flow projections



Source: Company data, CMBIS estimates

Figure 70: Cash flow and working capital analysis

RMB mn, Dec-YE	FY17	FY18	FY19	FY20E	FY21E	FY22E
Cash Flow						
Operating cash flow	465	737	195	882	1,485	3,663
CAPEX	(631)	(1,334)	(1,565)	(2,296)	(2,978)	(3,304)
Others	(85)	(1,863)	(2,393)	0	0	0
Investing cash flow	(716)	(3,196)	(3,958)	(2,296)	(2,978)	(3,304)
Proceeds from share issuance	689	0	0	0	0	0
Others	(14)	4,975	5,079	8,500	0	0
Financing cash flow	676	4,975	5,079	8,500	0	0
Cash at period end	763	3,540	4,963	12,048	10,556	10,914

Source: Company data, CMBIS estimates

Valuation

Investment Thesis

We initiate BUY with DCF-based TP of **US\$57**, implying **8.1x/6.3x** FY21/22E P/S. We keep bullish on Bili's secular growth, and see high visibility for Bili to continuously break through its user ceiling and diversify monetization. Bili's positive price drivers and catalysts originate from: 1) potential solid quarter results; 2) strong games pipeline; and 3) eye-catching user growth.

Initiate with BUY

We use DCF valuation as our primary method since it is suitable to apply DCF valuation to internet companies with healthy cash flows in the long run, but at net loss currently. Assuming a WACC of 12.6% and a terminal growth rate of 3%, our estimated TP is **US\$57**, representing **8.1x/6.3x** FY21/22E P/S, slightly higher than industry average of 5.6x/4.6x FY21/22E P/S.

Figure 71: DCF valuation

DCF valuation (RMB mn)										
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
EBIT	(3,087)	(2,140)	(596)	1,776	4,242	6,823	10,352	14,635	19,479	24,637
Tax	93	64	18	(53)	(530)	(853)	(1,294)	(1,829)	(2,435)	(3,080)
D&A	1,896	2,611	3,258	3,709	4,291	5,062	5,144	5,297	5,287	5,822
Working capital	1,878	836	770	-113	660	-34	160	159	356	40
CAPEX	(2,296)	(2,978)	(3,304)	(2,996)	(3,455)	(3,871)	(4,148)	(4,500)	(4,732)	(4,952)
FCF	(1,517)	(1,607)	146	2,324	5,207	7,127	10,214	13,762	17,955	22,468
FCF Growth		6%	-109%	1494%	124%	37%	43%	35%	30%	25%
Terminal Value										240,657
PV (FCF+ Terminal Value)	(1,517)	(1,427)	115	1,627	3,237	3,935	5,007	5,991	6,940	90,315

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	114,224
minus: Net cash	(13,661)
minus: Minority Interest	0
Equity Value	127,885
Shares (mn)	335
Target Price (US\$) based on DCF	57.0

		WACC				
		11%	12%	13%	14%	15%
Growth	1.5%	63.6	55.7	51.6	44.0	39.6
	2.0%	66.1	57.6	53.2	45.1	40.5
	2.5%	69.0	59.7	55.0	46.4	41.5
	3.0%	72.2	62.1	57.0	47.8	42.6
	3.5%	75.8	64.7	59.2	49.3	43.8
	4.0%	79.9	67.7	61.7	51.0	45.1
	4.5%	84.7	71.1	64.4	52.8	46.5

Source: Company data, Bloomberg, CMBIS estimates

Notes: FX refers to USD: CNY=1: 6.7

Peers comparison

Our DCF-based multiple of **8.1x/6.3x** FY21/22E P/S, is higher than industry average of 5.6x/4.6x. However, we think our targeted multiple is not demanding, since 1) scarcity of its Gen Z users and unique PUGC content build high barrier, and overseas social comps (e.g. Snapchat) could be the most comparable one, whose valuation are **10x** FY21E P/S on average; and 2) with 44% FY19-22E revenue CAGR and margin enhancement, Bili deserves higher P/S multiple than most of peers, in our view.

Bili is still at its high growing stage, its further user expansion, monetization diversification and new initiatives in the long run could unlock its TAM and valuation, in our view.

Figure 72: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBITDA		
							FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Bilibili	BILI US	16,881	USD	49	BUY	57.0	NA	NA	527.4	10.0	7.1	5.6	NA	NA	73.1
Game															
Tencent	700 HK	769,572	HKD	623	BUY	Under Review	41.4	33.1	27.9	10.6	8.6	7.2	29.0	24.0	19.9
NetEase	NTES US	63,602	USD	92	NA	NA	25.1	20.6	18.2	5.8	4.9	4.4	18.9	16.2	14.0
XD Inc.	2400 HK	2,158	HKD	37	NA	NA	28.9	21.4	16.0	4.2	3.2	2.6	17.2	12.9	9.8
Average							31.8	25.0	20.7	6.8	5.6	4.7	21.7	17.7	14.6
Livestreaming & VAS															
Momo	MOMO US	3,033	USD	15	HOLD	19.3	8.2	6.4	5.4	1.3	1.1	1.0	4.3	3.7	3.1
YY	YY US	8,147	USD	101	BUY	110.0	23.2	17.4	13.6	2.1	1.9	1.6	17.9	14.0	10.3
Huya	HUYA US	4,893	USD	22	NA	NA	27.3	20.6	15.4	2.9	2.4	2.0	21.2	13.3	9.6
Douyu	DOYU US	4,734	USD	15	NA	NA	33.4	21.7	16.6	3.1	2.6	2.2	28.1	15.4	10.7
TME	TME US	25,616	USD	15	NA	NA	35.6	27.6	21.7	5.8	4.7	3.9	33.0	23.7	18.0
Mango	300413 CH	21,333	CNY	79	NA	NA	81.2	66.9	56.0	9.0	7.5	6.3	26.1	21.0	18.3
iQiyi	IQ US	18,928	USD	26	NA	NA	NA	NA	NA	4.2	3.6	3.2	NA	109.7	46.7
Average							34.8	26.8	21.5	4.1	3.4	2.9	21.8	28.7	16.7
Advertising															
Baidu	BIDU US	49,115	USD	144	BUY	151.0	18.9	15.6	13.0	3.1	2.7	2.4	11.5	9.5	8.0
Weibo	WB US	10,003	USD	44	NA	NA	21.7	17.7	15.8	6.1	5.4	5.0	19.1	15.0	13.2
Average							20.3	16.6	14.4	4.6	4.1	3.7	15.3	12.3	10.6
Ecommerce															
Alibaba	BABA US	811,556	USD	300	NA	358.6	31.5	25.7	20.5	7.7	6.0	4.9	24.1	18.9	15.3
JD.com	JD US	144,737	USD	92	NA	NA	58.2	39.4	28.7	1.3	1.1	0.9	40.6	27.2	20.3
Pinduoduo	PDD US	137,164	USD	115	BUY	Under Review	NA	394.8	72.6	18.4	11.9	8.9	NA	977.9	84.3
Vipshop	VIPS US	15,325	USD	23	NA	NA	18.2	15.2	13.4	1.0	0.9	0.8	12.9	10.4	8.5
Average							35.9	118.8	33.8	7.1	5.0	3.9	25.9	258.6	32.1
Global entertainment															
Facebook	FB US	835,718	USD	293	NA	NA	30.1	26.0	21.7	10.0	8.0	6.7	18.1	15.3	12.6
Netflix	NFLX US	227,405	USD	515	NA	NA	78.9	53.8	39.8	9.1	7.7	6.6	46.6	37.2	28.3
Snapchat	SNAP US	67,615	USD	45	NA	NA	NA	241.4	87.6	27.8	19.6	14.7	16233.4	134.8	60.9
Twitter	TWTR US	34,295	USD	43	NA	NA	NA	54.7	38.4	9.6	7.8	6.7	30.8	22.8	18.9
Average							54.5	94.0	46.9	14.1	10.8	8.7	31.8	52.5	30.2
Total Average							35.1	58.9	28.5	7.2	5.6	4.6	23.5	76.2	21.5

Source: Bloomberg

Note: Data updated by Nov 9, 2020

Key Investment Risks

Key investment risks may derive from: 1) intensified competition landscape; 2) tightening regulations on online entertainment; 3) worse-than-expected new mobile game launches; 4) higher-than-expected content cost / marketing; and 5) soft ads for macro uncertainty.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	4,129	6,778	11,264	15,832	20,311
Mobile games	2,936	3,598	4,836	5,779	6,819
Live broadcasting & VAS	586	1,641	3,604	5,564	7,222
Advertising	463	817	1,600	2,636	3,819
Others	143	722	1,224	1,853	2,451
COGS	(3,273)	(5,588)	(8,655)	(11,104)	(13,315)
Gross profit	855	1,190	2,609	4,728	6,996
S&M	(586)	(1,199)	(3,432)	(3,981)	(4,379)
Admin.Exp.	(461)	(592)	(855)	(1,061)	(1,167)
R&D	(537)	(894)	(1,410)	(1,827)	(2,046)
Operating profit	(729)	(1,495)	(3,087)	(2,140)	(596)
Other income, net	190	227	282	236	241
Pre-tax Income	(539)	(1,268)	(2,805)	(1,905)	(355)
Income Tax	(26)	(36)	(84)	(57)	(11)
Net profit	(565)	(1,304)	(2,889)	(1,962)	(365)
Adj. net profit	(429)	(1,101)	(2,546)	(1,433)	313

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	(565)	(1,304)	(2,892)	(1,962)	(365)
D&A	642	1,177	1,561	2,083	2,580
	565	223	1,878	836	770
Change in WC					
Others	95	98	335	528	678
Operating CF	737	195	882	1,485	3,663
Capex	(1,334)	(1,565)	(2,296)	(2,978)	(3,304)
Purchase of ST investments	(6,667)	(9,974)	-	-	-
Others	4,804	7,580	-	-	-
Investing CF	(3,196)	(3,958)	(2,296)	(2,978)	(3,304)
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	7,086	(1,493)	359
Cash (beg of yr)	763	3,540	4,963	12,048	10,556
FX	261	108	-	-	-
Cash (end of yr)	3,540	4,963	12,048	10,556	10,914

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	3,940	5,193	5,928	6,824	7,547
Fixed asset	395	516	741	900	900
Long-term investments	980	1,251	1,251	1,251	1,251
Intangible assets	1,419	1,657	2,237	3,004	3,674
Others	1,146	1,768	1,699	1,668	1,723
Current assets	6,550	10,324	18,513	17,573	19,468
Cash	3,540	4,963	12,048	10,556	10,914
Restricted cash	-	-	-	-	-
Account receivable	324	745	1,107	1,062	1,387
Others	2,686	4,617	5,358	5,955	7,168
Current liabilities	3,299	4,273	7,254	8,642	10,949
Trade payable	1,308	1,904	3,071	3,622	4,403
Salary and welfare payables	247	356	356	356	356
Accrued liabilities	670	576	1,321	1,173	1,745
Deferred revenues	985	1,369	2,264	3,166	4,041
Others	89	68	243	325	403
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	13,580	12,146	12,459
Shareholders' equity	6,951	7,052	12,996	11,562	11,875

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Mobile games	71.1	53.1	42.9	36.5	33.6
Live broadcasting & VAS	14.2	24.2	32.0	35.1	35.6
Advertising	11.2	12.1	14.2	16.7	18.8
Others	3.5	10.7	10.9	11.7	12.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	67.3	64.2	66.2	40.6	28.3
Gross profit	55.8	39.1	119.2	81.2	48.0
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(17.7)	(22.1)	(27.4)	(13.5)	(2.9)
Adj. net margin	(10.4)	(16.2)	(22.6)	(9.1)	1.5
Effective tax rate	(0.6)	(0.5)	(0.7)	(0.4)	(0.1)
Returns (%)					
ROE	(7.5)	(16.6)	(20.7)	(15.7)	(2.8)
ROA	(4.1)	(7.1)	(10.4)	(5.9)	1.2
Per share					
Adj. EPS (RMB)	(1.84)	(3.41)	(7.32)	(4.28)	0.86
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	15.19	15.36	34.63	31.51	30.17

Source: Company data, CMBIS estimates

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