

Company Report

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

Bilibili (BILI US)

2Q preview: Robust VAS, Gaming likely turned a corner

■ Bili reaffirms gradual recovery after challenging April and May, though different segments see different rates of recovery

■ VAS revenue growth remains most robust, while gaming remains soft but likely to improve as license approvals returned to normalcy

■ BUY: Maintaining growth and focus on operation efficiencies will be key for share price to move ahead, dual-primary listing a clear positive

Focus on quality, overall growth still robust

Bili reaffirms 2Q group revenue guidance of RMB4.85bn to RMB4.95bn (yoy of 8%-10%). Strategy this year continues to be focusing on quality, namely content quality, user stickiness, enhanced content options, and cost effectiveness. We project NG NP to reach -RMB1.85bn, NPM of -37.9%, c.200mn incremental loss vs. 1Q22, we believe marking the trough for 2Q22.

Gaming: Licenses approvals are positive

Among segments, we project 2Q gaming segment revenue to decline 13% yoy mainly due to lack of new titles amid suspension of licence approvals. However, this should gradually change as license approvals have returned to normalcy (i.e. flat growth for 2022, and 15% yoy for 2023). In the latest July batch, Bili received licenses for two titles (exclusive licensed titles: *Forged In Shadow Torch* (暗影火炬城) and *Non Anonymous Instruction* (非匿名指令)), bringing pending releases of 4~5 games for rest of this and next year. In addition, Bili released *Space Hunter* (时空猎人3) at the end of Jun, with very strong early performance, in turn should contribute to improved 3Q22E.

VAS remains robust, ad and ecommerce slower growth recovery

VAS performance continues to be driven by live broadcasting with a focus on content quality, we project VAS to maintain solid 30% yoy growth for 2Q. Advertising segment growth has slowed down particularly hard, to 5% yoy in 2Q vs. 46% yoy in 1Q. Brand advertising segment has been hit harder given logistics issues and overall soft consumption environment as advertisers spending remains prudent. However, Bili is seeing some gradual recovery with ecommerce ads seeing good pick up, in our view partly boosted by 618 promotion event. Moreover, Story Mode videos continues to enjoy good momentum, after 20% of total video views in 1Q, Bili targets the view mix to reach 50% by end of 2023. Ecommerce segment continues to see lingering friction from COVID controls given its operation is located in Shanghai. We project flat growth in 2Q, with small recovery to 5% yoy in 3Q, a marked slowdown from 2021's 88% yoy.

BUY: Bili lined up for dual primary listing later this year

We remain positive on Bili given its robust user growth, in particularly upside from Story Mode revenue contribution and gradual recovery from its other weaker segments due to COVID impact. Bili lined up for dual primary listing in HK on October 3, leading to possible Stock Connect before the end of the year, with potential to enhance liquidity and valuation. We made minor revisions to our forecasts (figure 11), keeping target price unchanged. **Key risks:** 1) Competitive landscape; 2) Regulation; and 3) Game pipeline.

Financials

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	11,999	19,384	22,832	29,696	38,573
Growth (%)	77%	62%	18%	30%	30%
NG NP to shareholders	(2,560)	(5,478)	(6,812)	(3,280)	(648)
Non-GAAP EPS (HKD)	(8.9)	(17.3)	(20.8)	(10.0)	(2.0)
P/S (x) (US)	4.6	3.1	2.8	2.1	1.6
ROE (%)	-39%	-46%	-47%	-39%	-25%

Note: Closing price as of July 18, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

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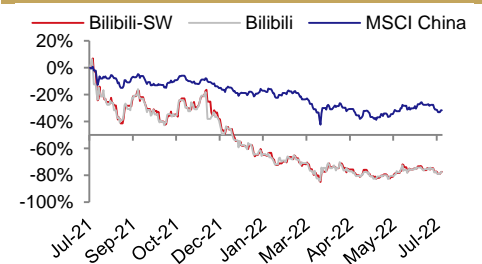
WHAT'S NEW

2Q22 results preview; Revised earnings forecast

BUY

Previous	BUY
Price	USD24.4/HKD187.4
12-month TP (Up/downside)	USD43 (+76%) HKD338 (+80%)
Previous	USD43/HKD338

Price Performance



Source: Bloomberg

%	1m	6m	12m
BILI US	(7.2)	(36.9)	(77.5)
9626 HK	(8.9)	(36.9)	(77.8)
MSCI China	(1.9)	(16.9)	(31.5)

Sector: Technology, Media & Telecom

Hang Seng Index (July 18, 2022)	20,846
MSCI China (July 18, 2022)	70

Key Data

52-week range (USD/HKD)	15-116/125-919
Market cap (USD bn)	9.5
Avg. daily volume US/HK (mn)	4.97/2.17
FY22E NG diluted EPADS/EPS (USD/HKD)	(2.64)/(20.76)

Shareholding Structure

Rui Chen	12.9%
Tencent	11.2%
Taobao China Holding Limited	7.9%
Yi Xu	7.0%
Ni Li	2.2%
Free float	58.8%

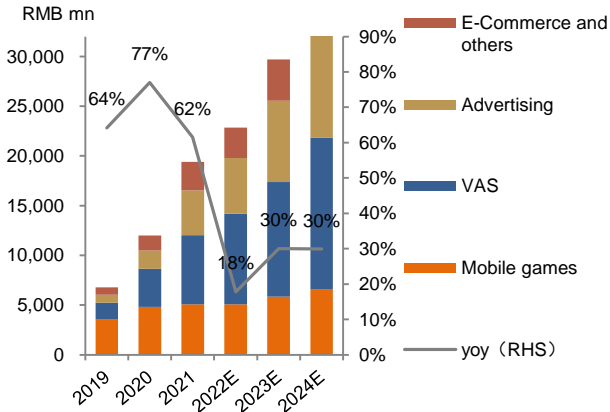
Sources: Bloomberg, CMS (HK)

Related Research

- Bilibili (BILI US) - Streamlining to overcome headwinds for LT growth (BUY) (June 10, 2022)
- Bilibili (BILI US) - 1Q22 results preview (BUY) (May 6, 2022)
- Bilibili (BILI US) - Mixed 4Q21 results (BUY) (Mar 4, 2022)

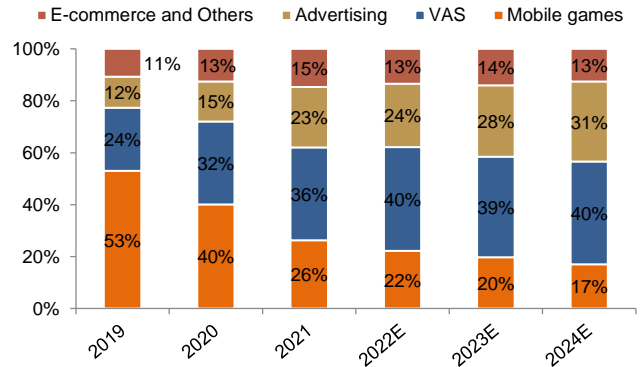
Focus charts

Figure 1: Revenue by segment



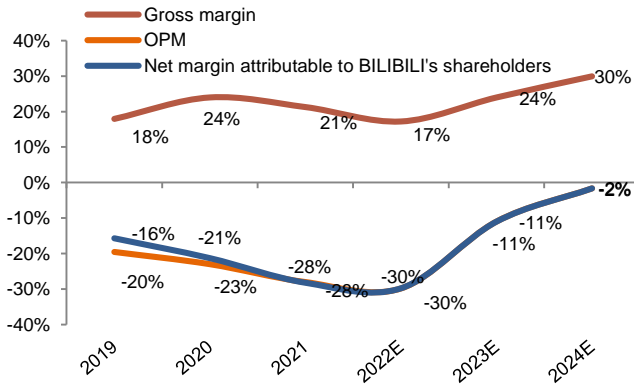
Sources: Company, CMS (HK) estimates

Figure 2: Segment as % of total revenue



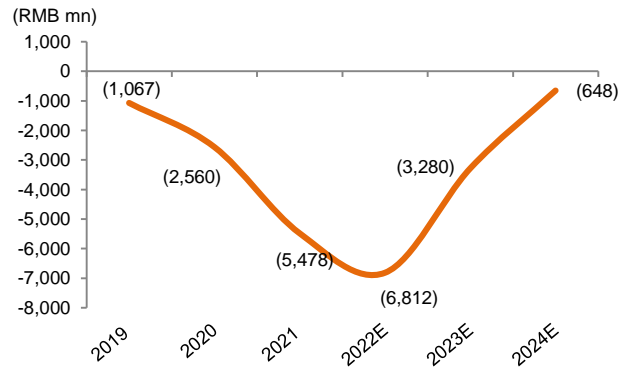
Sources: Company, CMS (HK) estimates

Figure 3: Non-GAAP margin trends



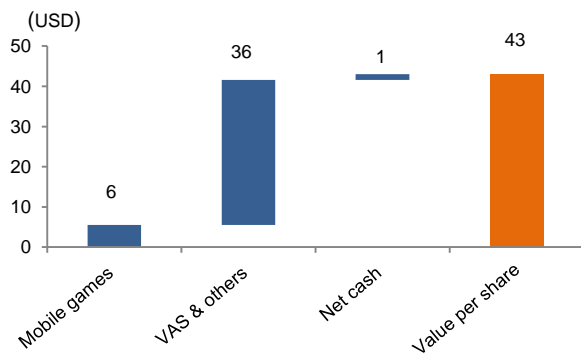
Sources: Company, CMS (HK) estimates

Figure 4: Non-GAAP net profit to shareholders



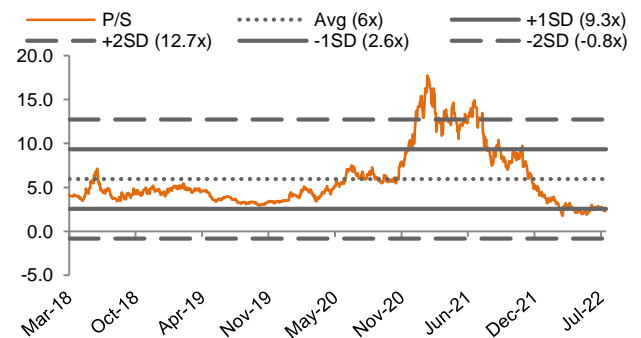
Sources: Company, CMS (HK) estimates

Figure 5: SOTP valuation



Sources: Company, CMS (HK) estimates

Figure 6: P/S range



Sources: Company, Bloomberg, CMS (HK) estimates

Figure 7: Bilibili's distributed game *Space hunter 3* was launched in late June and got good performance



Sources: Company, Qimai, CMS (HK)

Figure 8: Bilibili's exclusive licensed titles *Forged In Shadow Torch* was launched overseas in July on Switch and was granted gaming license



Sources: Company, CMS (HK)

Figure 9: Bilibili's exclusive licensed titles *Non Anonymous Instruction* was granted gaming license in July



Sources: Company, CMS (HK)

Figure 10: Bilibili's game pipeline

EN Name	CN Name	Country/Regions	Version	Licensed(Y/N)	Release Date(tentative)	Type	Latest update
Domestic games							
Space Hunter 3	时空猎人 3	China	Mobile	Y	2022.6.29	FTG	
Gemtrader Story: The Aeon Stone	宝石研物语: 伊恩之石	China	Mobile	Y	2H22E	RPG	
Thrud	斯露德	China	Mobile	Y	TBA	STG	
Quantum Maki: Innovator	终末阵线: 伊诺贝塔	China	Mobile	Y	2022.5.27	STG	
Project Doll	箱庭小偶	China	Mobile	N	TBA	TCG	Testing
The Matchless KungFu	代号: 绝世好武功	China	PC	N	2023E	RPG	
Night Ingale	夜莺: 逆向指令	China	PC	N	TBA	SLG	Testing
Project: Eruthyll	代号: 依露希尔	China	Mobile	N	TBA	CAG	Testing
Re: Aetatis	重构: 阿塔提斯	China	PC	N	TBA	MOBA	Testing
Amazing Cultivation Simulator	代号:了不起的模拟器	China	Mobile	N	TBA	SIM	Testing
Project: C	代号C	China	Mobile	N	TBA	RPG	Testing
Ys 8	伊苏: 梦境交织的长夜	China	Mobile	N	TBA	JRPG	Testing
Incaration	灵笼: 火种	China	Mobile	N	TBA	MMORPG	
SINoALICE	心罪爱丽丝	China	Mobile	N	TBA	RPG	
E.T.E.	代号: 艾塔	China	Mobile	N	2H22E	RPG	
Once, in times of chaos	隐藏真探	China	PC	N	2H22E	AVG	
Overseas games							
Pretty Derby	赛马娘	HKSAR and Macao	Mobile		2022.6.27	MMORPG	
Soda Crisis	碳酸危机	Global	PC		2022.5.24	SLG	

Sources: Company, CMS (HK)

Figure 11: Earnings revision summary

RMB mn	Revised			Previous			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	22,832	29,696	38,573	23,017	30,404	39,599	-1%	-2%	-3%
Mobile games	5,073	5,841	6,569	5,115	5,841	6,569	-1%	0%	0%
VAS	9,122	11,526	15,245	9,122	11,526	15,245	0%	0%	0%
Advertising	5,581	8,179	11,899	5,703	8,831	12,862	-2%	-7%	-7%
E-Commerce and others	3,056	4,151	4,860	3,078	4,206	4,924	-1%	-1%	-1%
Gross profit	3,836	7,016	11,420	3,867	7,180	11,720	-1%	-2%	-3%
Non-GAAP gross profit	3,921	7,119	11,555	3,953	7,287	11,858	-1%	-2%	-3%
Operating profit	(7,988)	(4,675)	(2,389)	(8,055)	(4,793)	(2,458)	-1%	-2%	-3%
Non-GAAP operating profit	(6,803)	(3,250)	(615)	(6,861)	(3,334)	(637)	-1%	-3%	-3%
Net income to shareholders	(8,519)	(4,933)	(2,651)	(8,587)	(5,053)	(2,721)	-1%	-2%	-3%
Non-GAAP net income to shareholders	(6,812)	(3,280)	(648)	(6,870)	(3,366)	(671)	-1%	-3%	-3%
Margins & key ratios (%)									
Gross margin	16.8	23.6	29.6	16.8	23.6	29.6	0.0ppt	0.0ppt	0.0ppt
Non-GAAP gross margin	17.2	24.0	30.0	17.2	24.0	29.9	0.0ppt	0.0ppt	0.0ppt
Operating margin	(35.0)	(15.7)	(6.2)	(35.0)	(15.8)	(6.2)	0.0ppt	0.0ppt	0.0ppt
Non-GAAP operating margin	(29.8)	(10.9)	(1.6)	(29.8)	(11.0)	(1.6)	0.0ppt	0.0ppt	0.0ppt
Net margin to shareholders	(37.3)	(16.6)	(6.9)	(37.3)	(16.6)	(6.9)	0.0ppt	0.0ppt	0.0ppt
Non-GAAP net margin to shareholders	(29.8)	(11.0)	(1.7)	(29.8)	(11.1)	(1.7)	0.0ppt	0.0ppt	0.0ppt

Sources: Company, CMS (HK) estimates

Figure 12: CMS forecasts vs. consensus

RMB mn	CMS forecasts			Consensus			Diff %		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	22,832	29,696	38,573	22,887	30,678	38,258	0%	-3%	1%
Gross profit	3,836	7,016	11,420	4,076	7,157	10,793	-6%	-2%	6%
GPM (%)	16.8	23.6	29.6	17.8	23.3	28.2	-1.0ppt	0.3ppt	1.4ppt
Operating profit	(7,988)	(4,675)	(2,389)	(7,694)	(5,298)	(2,138)	4%	-12%	12%
OPM (%)	(35.0)	(15.7)	(6.2)	(33.6)	(17.3)	(5.6)	-1.4ppt	1.5ppt	-0.6ppt
GAAP NP to shareholders	(8,519)	(4,933)	(2,651)	(8,280)	(5,575)	(2,224)	3%	-12%	19%
Non-GAAP NP to shareholders	(6,812)	(3,280)	(648)	(6,980)	(4,440)	(1,500)	-2%	-26%	n.a.
NG NPM	(29.8)	(11.0)	(1.7)	(30.5)	(14.5)	(3.9)	0.7ppt	3.4ppt	n.a.

Sources: Bloomberg, Company, CMS (HK) estimates Note: Data as of July 18, 2022

Figure 13: Valuation table based on SOTP

RMB mn	Valuation basis	Valuation metrics	Multiple given to Bilibili			Seg as % of total valuation			Valuation		
			Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull
Mobile games	FY23E P/E	FY23E net profit RMB1,460mn	8.0	10.0	12.0	19%	13%	11%	11,681	14,602	17,522
VAS & others	FY23E P/S	FY23E revenue RMB23,855mn	2.0	4.0	6.0	76%	84%	87%	47,711	95,422	143,133
Net cash						6%	3%	2%	3,714	3,714	3,714
Total valuation (RMB mn)									63,106	113,737	164,368
Total valuation (USD mn)									9,363	16,875	24,387
CNY/USD										6.7	
No. of shares (mn)										394	
Value per share (USD)									24	43	62
Value per share (HKD)									188	338	487
2023E revenue (RMB mn)									29,696	29,696	29,696
Implied 2023E PS multiple									2.1x	3.8x	5.5x

Sources: Company, CMS (HK) estimates

Valuation comparison

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (X)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY22E	FY22E	FY23E	Sales
Platform																		
Tencent	700 HK	HKD	BUY	332.6	507.0	408.0	14.9	11.6	24.8	18.5	3.3	4.7	16.0	11.7	13.8	9.9	7.5	10.1
Alibaba	BABA US	USD	BUY	103.1	160.0	279.6	8.5	8.5	12.5	14.4	n.a.	2.1	13.2	6.6	9.2	12.9	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	189.7	234.0	149.5	n.a.	n.a.	n.a.	n.a.	n.a.	4.6	n.a.	n.a.	n.a.	23.8	n.a.	n.a.
Baidu	BIDU US	USD	NR	141.1	n.a.	48.8	10.3	8.1	20.1	15.7	4.3	2.6	17.0	5.3	7.7	8.2	4.7	25.1
Alphabet	GOOGL US	USD	NR	109.0	n.a.	1,441.8	11.1	9.9	17.5	15.0	0.7	5.9	13.1	27.0	27.0	8.2	24.3	22.8
Facebook	FB US	USD	NR	167.2	n.a.	452.6	7.5	6.4	13.8	11.8	2.0	3.6	8.5	25.0	25.9	12.6	7.0	10.6
Naver	035420 KS	KRW	NR	246,500.0	n.a.	30.7	21.2	17.6	30.1	23.6	n.a.	4.9	25.1	5.4	6.7	13.8	n.a.	9.6
China Mean							10.7	9.3	17.6	15.9	3.8	3.2	14.9	7.6	10.0	13.5	6.1	17.6
Global Mean							13.3	11.3	20.5	16.8	1.3	4.8	15.6	19.1	19.9	11.5	15.6	14.3
Cloud																		
Chinasoft	354 HK	HKD	BUY	7.6	13.1	3.0	8.7	8.4	14.2	12.0	1.0	0.8	n.a.	9.8	10.8	26.2	14.1	10.6
Tencent	700 HK	HKD	BUY	332.6	507.0	408.0	14.9	11.6	24.8	18.5	3.3	4.7	16.0	11.7	13.8	9.9	7.5	10.1
Alibaba	BABA US	USD	BUY	103.1	160.0	279.6	8.5	8.5	12.5	14.4	n.a.	2.1	13.2	6.6	9.2	12.9	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	27.9	37.0	4.9	10.3	8.0	44.2	28.8	n.a.	4.3	11.7	2.0	3.3	23.9	n.a.	46.2
Kingdee	268 HK	HKD	NR	17.9	n.a.	7.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	24.3	n.a.	n.a.
Mingyuan Cloud	909 HK	HKD	NR	8.3	n.a.	2.1	n.a.	38.9	n.a.	44.4	n.a.	5.8	n.a.	0.3	4.2	16.9	n.a.	n.a.
Microsoft	MSFT US	USD	NR	254.3	n.a.	1,901.5	18.9	16.6	26.4	23.7	1.6	9.5	21.2	44.0	39.1	17.3	16.8	17.0
Alphabet	GOOGL US	USD	NR	109.0	n.a.	1,441.8	11.1	9.9	17.5	15.0	0.7	5.9	13.1	27.0	27.0	8.2	24.3	22.8
Amazon	AMZN US	USD	NR	113.8	n.a.	1,157.4	16.9	13.2	n.a.	28.2	n.a.	2.2	17.6	7.2	15.3	16.8	8.0	20.8
Salesforce	CRM US	USD	NR	167.9	n.a.	167.1	35.7	17.5	n.a.	34.5	n.a.	6.6	29.2	2.0	8.0	n.a.	n.a.	n.a.
Oracle	ORCL US	USD	NR	70.2	n.a.	187.1	17.4	10.1	29.2	13.1	n.a.	4.6	20.6	n.a.	n.a.	n.a.	n.a.	n.a.
SAP	SAP US	USD	NR	88.1	n.a.	108.2	13.8	12.1	18.1	16.1	n.a.	3.5	18.5	15.0	15.5	2.1	n.a.	15.9
VMware	VMW US	USD	NR	110.9	n.a.	46.7	15.9	11.7	26.9	16.9	n.a.	3.8	11.2	n.a.	n.a.	n.a.	n.a.	n.a.
Dropbox	DBX US	USD	NR	21.7	n.a.	8.2	10.8	10.0	14.5	13.3	1.5	3.5	10.1	n.a.	n.a.	9.7	9.8	35.5
China Mean							10.6	15.1	23.9	23.6	2.1	3.5	13.6	6.1	8.3	19.0	10.8	22.3
Global Mean							17.6	12.6	22.1	20.1	1.3	5.0	17.7	19.0	21.0	10.8	14.7	22.4
Social network & pan-entertainment																		
Tencent	700 HK	HKD	BUY	332.6	507.0	408.0	14.9	11.6	24.8	18.5	3.3	4.7	16.0	11.7	13.8	9.9	7.5	10.1
Bilibili	BILI US	USD	BUY	24.4	43.0	9.5	n.a.	n.a.	n.a.	n.a.	n.a.	2.8	n.a.	n.a.	n.a.	23.8	n.a.	n.a.
China Literature	772 HK	HKD	NEUTRAL	32.9	68.0	4.3	15.2	12.4	20.7	17.2	1.3	3.1	20.6	7.1	7.9	9.7	16.2	n.a.
Kuaishou	1024 HK	HKD	NR	80.8	n.a.	44.2	n.a.	n.a.	n.a.	n.a.	n.a.	3.1	n.a.	n.a.	n.a.	19.7	n.a.	n.a.
Tencent Music	TME US	USD	NR	4.4	n.a.	7.5	8.7	7.6	13.9	12.8	n.a.	1.8	14.5	5.8	6.3	n.a.	n.a.	n.a.
Weibo	WB US	USD	NR	20.0	n.a.	4.7	6.7	5.3	8.1	7.0	n.a.	2.3	7.8	11.1	13.0	4.5	n.a.	1.4
iQiyi	IQ US	USD	NR	3.9	n.a.	3.4	14.8	7.6	n.a.	27.4	n.a.	0.8	n.a.	n.a.	7.4	1.8	n.a.	n.a.
YY	YY US	USD	NR	26.7	n.a.	1.9	n.a.	n.a.	17.1	10.0	0.4	0.7	n.a.	1.1	3.0	6.7	41.0	85.4
Momo	MOMO US	USD	NR	4.6	n.a.	0.9	1.8	1.6	4.3	3.8	n.a.	0.5	4.7	10.8	11.2	n.a.	n.a.	n.a.
Huya	HUYA US	USD	NR	3.4	n.a.	0.8	8.0	12.1	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Douyu	DOYU US	USD	NR	1.2	n.a.	0.4	9.9	16.2	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Meta	FB US	USD	NR	167.2	n.a.	452.6	7.5	6.4	13.8	11.8	2.0	3.6	8.5	25.0	25.9	12.6	7.0	10.6
Netflix	NFLX US	USD	NR	190.9	n.a.	84.8	13.7	12.5	16.6	15.7	3.1	2.6	n.a.	26.5	23.4	11.2	5.4	8.8
Snapchat	SNAP US	USD	NR	13.9	n.a.	22.8	n.a.	21.8	n.a.	39.8	n.a.	4.5	n.a.	n.a.	1.6	28.8	n.a.	n.a.
Spotify	SPOT US	USD	NR	103.6	n.a.	20.0	n.a.	n.a.	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	4.1	11.2	n.a.	n.a.
China Mean							10.0	9.3	14.8	13.8	1.7	1.9	12.7	7.9	8.9	12.5	21.6	32.3
Global Mean							10.6	13.6	15.2	22.4	2.5	3.1	8.5	25.7	13.7	15.9	6.2	9.7

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (X)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR			
							FY22E	FY23E	FY22E	FY23E				FY22E	FY22E	FY22E	FY23E	Sales	EPS
Online Gaming																			
Netease	NTES US	USD	BUY	87.8	148.0	57.6	11.1	9.8	18.7	16.7	2.2	4.0	16.0	17.2	16.7	11.6	8.5	17.4	
Tencent	700 HK	HKD	BUY	332.6	507.0	408.0	14.9	11.6	24.8	18.5	3.3	4.7	16.0	11.7	13.8	9.9	7.5	10.1	
Bilibili	BILI US	USD	BUY	24.4	43.0	9.5	n.a.	n.a.	n.a.	n.a.	n.a.	2.8	n.a.	n.a.	n.a.	23.8	n.a.	n.a.	
Kingsoft	3888 HK	HKD	BUY	27.9	37.0	4.9	10.3	8.0	44.2	28.8	n.a.	4.3	11.7	2.0	3.3	23.9	n.a.	46.2	
iDreamSky	1119 HK	HKD	BUY	4.7	4.4	0.8	30.6	14.1	46.6	18.6	n.a.	1.9	n.a.	4.6	7.9	29.2	n.a.	52.0	
XD	2400 HK	HKD	NR	18.3	n.a.	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	2.3	49.6	n.a.	3.9	27.0	n.a.	n.a.	
Netdragon	777 HK	HKD	NR	15.9	n.a.	1.1	2.3	2.1	5.8	5.1	0.3	0.9	4.4	15.3	15.4	11.3	23.0	7.0	
CMGE	302 HK	HKD	NR	2.1	n.a.	0.7	6.9	4.6	6.9	5.5	0.3	1.1	5.5	11.6	12.7	19.2	21.6	14.5	
IGG	799 HK	HKD	NR	3.2	n.a.	0.5	n.a.	3.7	n.a.	16.8	n.a.	0.7	n.a.	n.a.	4.7	n.a.	n.a.	n.a.	
Archosaur Game	9990 HK	HKD	NR	5.0	n.a.	0.5	14.5	5.0	21.7	8.9	n.a.	1.9	8.6	8.8	15.1	65.8	n.a.	n.a.	
SEA	SE US	USD	NR	69.3	n.a.	38.8	n.a.	n.a.	n.a.	n.a.	n.a.	2.9	n.a.	n.a.	n.a.	36.3	n.a.	n.a.	
Nintendo	7974 JP	JPY	NR	61,990.0	n.a.	58.1	9.0	10.4	14.4	18.4	n.a.	4.0	23.7	24.2	20.0	n.a.	n.a.	n.a.	
Activision Blizzard	ATVI US	USD	NR	77.0	n.a.	60.2	16.4	13.1	25.9	19.8	n.a.	7.6	25.2	12.9	13.5	5.4	4.0	5.6	
Electronic Arts	EA US	USD	NR	123.6	n.a.	34.5	20.7	11.8	46.0	16.9	n.a.	5.2	19.1	10.2	20.5	n.a.	n.a.	n.a.	
Take-Two	TTWO US	USD	NR	123.7	n.a.	20.0	23.3	17.7	n.a.	26.9	n.a.	6.0	n.a.	11.7	16.5	n.a.	n.a.	n.a.	
Nexon	3659 JP	JPY	NR	2,845.0	n.a.	18.5	15.5	11.9	24.1	19.7	n.a.	7.2	22.4	12.2	13.5	12.7	n.a.	18.6	
Ncsoft	036570 KS	KRW	NR	367,500.0	n.a.	6.1	8.6	7.6	15.6	13.3	1.1	2.9	12.6	15.4	16.1	8.4	14.0	28.8	
Zynga	ZNGA US	USD	NR	8.2	n.a.	9.3	15.5	14.1	24.6	19.5	n.a.	3.2	14.7	n.a.	n.a.	8.4	n.a.	54.2	
Netmarble	251270 KS	KRW	NR	68,700.0	n.a.	4.5	15.1	12.1	31.9	20.1	6.3	2.0	16.4	3.3	5.1	8.3	5.1	25.4	
China Mean							12.7	7.7	23.4	15.1	1.7	2.6	16.0	11.1	11.0	23.3	13.8	23.5	
Global Mean							15.5	12.3	26.1	19.3	3.7	4.6	19.2	12.8	15.0	13.3	7.7	26.5	
E-commerce																			
JD.com	JD US	USD	BUY	62.1	73.0	96.9	19.5	13.9	32.8	21.2	1.0	0.6	23.2	8.9	12.6	18.2	32.9	45.3	
Alibaba	BABA US	USD	BUY	103.1	160.0	279.6	8.5	8.5	12.5	14.4	n.a.	2.1	13.2	6.6	9.2	12.9	n.a.	n.a.	
Meituan	3690 HK	HKD	BUY	189.7	234.0	149.5	n.a.	n.a.	n.a.	n.a.	n.a.	4.6	n.a.	n.a.	n.a.	23.8	n.a.	n.a.	
Pinduoduo	PDD US	USD	NR	55.1	n.a.	69.7	23.1	15.9	26.2	18.5	1.2	4.3	21.0	16.7	19.0	20.5	22.7	66.1	
Beike	BEKE US	USD	NR	14.9	n.a.	18.9	n.a.	14.2	n.a.	27.6	n.a.	2.0	n.a.	n.a.	5.8	0.7	35.0	13.5	
Vipshop	VIPS US	USD	NR	9.9	n.a.	6.5	4.4	4.0	8.1	7.3	n.a.	0.4	6.2	12.7	12.8	n.a.	n.a.	n.a.	
Baozun	BZUN US	USD	NR	9.8	n.a.	0.7	14.8	8.3	18.4	9.4	0.3	0.5	13.4	2.1	6.0	8.8	59.1	11.9	
Amazon	AMZN US	USD	NR	113.8	n.a.	1,157.4	16.9	13.2	n.a.	28.2	n.a.	2.2	17.6	7.2	15.3	16.8	8.0	20.8	
eBay	EBAY US	USD	NR	43.6	n.a.	24.4	8.2	7.8	10.7	10.9	1.8	2.5	9.3	13.2	30.7	0.1	6.1	n.a.	
China Mean							15.0	11.2	21.9	17.1	0.9	1.9	16.7	9.3	11.1	14.7	36.5	36.4	
Global Mean							12.5	10.5	10.7	19.6	1.8	2.4	13.5	10.2	23.0	8.4	7.0	20.8	
Vertical																			
trip.com	TCOM US	USD	NR	25.6	n.a.	16.4	n.a.	21.1	n.a.	20.8	n.a.	5.8	n.a.	0.1	3.8	22.5	n.a.	n.a.	
Autohome	ATHM US	USD	NR	35.3	n.a.	4.4	3.9	3.2	15.7	13.5	n.a.	4.3	14.4	7.8	8.7	1.1	n.a.	n.a.	
Tongcheng-Elong	780 HK	HKD	NR	15.4	n.a.	4.4	19.3	11.3	30.1	17.9	0.7	4.2	26.4	4.6	8.3	13.4	42.6	21.9	
Expedia	EXPE US	USD	NR	94.3	n.a.	14.8	7.6	6.2	13.5	9.7	n.a.	1.3	4.5	37.4	38.2	27.3	n.a.	67.9	
China Mean							10.3	10.5	19.7	15.5	0.7	3.9	15.1	12.5	14.7	16.1	42.6	44.9	

Note: Closing prices as of July 18, 2022 for all liscos; For future estimates of NR Co.s, BBG consensus used; Sources: BBG, Company, CMS (HK) estimate

Financial Summary

Profit & Loss

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Total net revenues	11,999	19,384	22,832	29,696	38,573
Cost of revenues	(9,159)	(15,341)	(18,996)	(22,681)	(27,153)
Gross profit	2,840	4,043	3,836	7,016	11,420
S&M expenses	(3,492)	(5,795)	(5,674)	(6,115)	(7,425)
G&A expenses	(976)	(1,838)	(2,238)	(2,231)	(2,769)
R&D expenses	(1,513)	(2,840)	(3,912)	(3,345)	(3,614)
Total operating expenses	(5,981)	(10,472)	(11,824)	(11,691)	(13,809)
Operating profit/(loss)	(3,141)	(6,429)	(7,988)	(4,675)	(2,389)
Investment income, net	28	(194)	(626)	0	0
Interest income	83	70	112	117	82
Interest expense	(109)	(155)	(287)	(305)	(310)
Exchange losses	42	(16)	(6)	0	0
Other non-operating income	96	10	397	0	0
Income/(loss) before tax	(3,001)	(6,713)	(8,399)	(4,863)	(2,617)
Income tax expense	(53)	(95)	(128)	(78)	(42)
Accretion to redeemable non-controlling interests	(4)	0	0	0	0
Non-controlling interest	47	20	8	8	8
NI attrib. to shareholders	(3,012)	(6,789)	(8,519)	(4,933)	(2,651)
Non-GAAP NI attrib. to shareholders	(2,560)	(5,478)	(6,812)	(3,280)	(648)

Financial Ratios

	FY20	FY21	FY22E	FY23E	FY24E
yoy growth					
Mobile games	34%	6%	0%	15%	12%
VAS	134%	80%	32%	26%	32%
Advertising	126%	145%	23%	47%	45%
E-commerce & Others	109%	88%	8%	36%	17%
Revenue	77%	62%	18%	30%	30%
Non-GAAP net income to shareholders	n.a.	n.a.	n.a.	n.a.	n.a.
Profitability					
Non-GAAP gross margin	24%	21%	17%	24%	30%
NG NPM to shareholders	-21%	-28%	-30%	-11%	-2%
ROE	-39%	-46%	-47%	-39%	-25%
ROA	-15%	-18%	-16%	-10%	-5%
Per share ratios (RMB)					
Sales per share	34.7	51.0	58.0	75.5	98.0
Sales per share (USD)	5.3	7.8	8.9	11.5	15.0
Sales per share (HKD)	41.6	61.2	69.6	90.5	117.6
Non-GAAP EPADS	(7.4)	(14.4)	(17.3)	(8.3)	(1.6)
Non-GAAP EPADS (USD)	(1.1)	(2.2)	(2.6)	(1.3)	(0.3)
Non-GAAP EPADS (HKD)	(8.9)	(17.3)	(20.8)	(10.0)	(2.0)
Valuation (x)					
P/S (US)	4.6	3.1	2.8	2.1	1.6
P/S (HK)	4.5	3.1	2.7	2.1	1.6

Balance Sheet

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Cash & cash equivalents	4,678	7,523	6,843	5,427	5,598
Time deposits	4,720	7,632	7,251	5,801	4,640
Accounts receivable, net	1,054	1,382	1,385	1,682	2,032
Prepayment & current assets	1,931	4,848	5,251	5,939	7,715
ST Investments	3,357	15,061	14,760	14,464	14,175
PPE, net	762	1,350	1,709	1,867	1,993
Production cost, net	668	1,084	1,084	1,084	1,084
Intangible assets, net	2,357	3,836	4,173	3,843	3,388
Goodwill	1,296	2,338	2,338	2,338	2,338
Long-term investments, net	2,233	5,503	5,503	5,503	5,503
Other assets	811	1,496	1,496	1,496	1,496
Total assets	23,866	52,053	51,792	49,443	49,960
Accounts payable	3,074	4,361	5,319	6,351	7,603
Salary & welfare payables	734	995	995	995	995
Deferred revenue	2,118	2,645	2,645	2,645	2,645
Accrued liabilities & other payables	1,238	2,633	2,633	2,633	2,633
Long-term Debt	8,341	17,784	23,784	23,784	23,784
Others liabilities	578	1,918	2,041	2,177	2,326
Total liabilities	16,083	30,337	37,418	38,585	39,987
Total equity	7,782	21,716	14,374	10,858	9,973

Cashflow

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Operating cashflow	753	(2,647)	(3,605)	564	2,815
Net income/(loss)	(3,054)	(6,809)	(8,527)	(4,941)	(2,659)
Depreciation & amortization	1,722	2,442	3,185	4,033	4,572
Share-based compensation	386	1,000	1,185	1,425	1,774
Working capital chg	1,487	(9)	552	46	(872)
Others	212	729	0	0	0
CF from IA	(8,907)	(24,578)	(3,199)	(2,115)	(2,794)
Purchase PPE	(602)	(965)	(1,142)	(1,188)	(1,350)
Purchase intangible assets	(1,637)	(2,722)	(2,740)	(2,673)	(2,893)
Net add. of ST investments	(1,810)	(11,224)	301	295	289
Net add. of LT investments	(1,126)	(6,642)	0	0	0
Placement of time deposits	(10,907)	(10,697)	382	1,450	1,160
Others	7,175	7,672	0	0	0
CF from FA	8,335	30,389	6,123	136	149

Note: Closing price as of July 18, 2022

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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