

Weibo (WB US)

Ongoing moderate recovery

Weibo reported its 3Q22 results on 17 Nov. 3Q22 revenue was down by 25% YoY (or -20% YoY on a constant currency basis) to US\$454mn, largely in line with our/consensus estimate of US\$469/460mn. 9M22 revenue declined by 15% YoY, as the macro headwind and resurgence of COVID-19 weigh on ad demand. Non-GAAP net income dropped by 43% YoY to US\$119mn, in line with consensus estimate of US\$120mn. The decline was primarily due to the contraction of GPM and in addition to the weak top-line growth. For 4Q22E, management expects Weibo's YoY decline rate of revenue to narrow, as ad budget of e-commerce and FMCG advertisers stabilize and the World Cup may further boost ad demand. We revised down FY23/FY24 non-GAAP net income by 5/3% as the slow recovery of advertising demand continues to dampen Weibo's earnings growth outlook. We lower our target price by 7% to US\$20.3, based on 9x 2023E PE. Maintain BUY.

■ **Early recovering trend in Double 11.** Ad revenue was down by 27% YoY to US\$393mn in 3Q22 (1Q22/2Q22: +9.5/-23.2% YoY). Weibo continued to see weak advertising demand in categories such as FMCG, e-commerce and 3C, mainly due to the weak consumption sentiment and the impact of COVID-19. That said, Weibo still recorded double-digit YoY growth of ad revenue from auto and luxury categories, as Weibo continues to innovate its ad products and improve ad ROI. Besides, Weibo saw that the ad budget from e-commerce and FMCG categories during this year's Double 11 returned to positive YoY growth track, showing early recovery of overall ad demand. Ad revenue from Alibaba dropped by 28% YoY to US\$15.0mn in 3Q22, which is largely inline with the overall performance of Weibo ad business. VAS revenue declined by 14% YoY to US\$60mn in 3Q22.

■ **Healthy user growth with enhanced efficiency.** Weibo's MAUs grew 2% YoY to 584mn in Sep 2022, with stable DAU/MAU ratio at 43.3%. Weibo saw strong YoY recovery of user traffic in the entertainment area, with user traffic viewing TV series and variety show related content on Weibo doubled YoY in 3Q22E. Overall GPM was down by 4ppt YoY to 79.2% in 3Q22, as Weibo increased content investment and resumed payment of cultural business construction fees in 2022. The decelerating top-line growth and GPM contraction dragged non-GAAP net margin from 34.5% in 3Q21 to 26.2% in 3Q22. Looking into 4Q22E, Weibo will continue to execute its strategy to reduce costs and improve operating efficiency.

■ **Maintain BUY.** We lower our TP by 7% to US\$20.3, based on 9x 2023E PE. Current valuation of 7x 2023E PE was the lowest among its peers. We expect its non-GAAP earnings to deliver 9/8% YoY growth in FY23/FY24, and also expect free cash flow improvement from US\$306mn in FY22 to US\$359/417mn in FY23/FY24E. Current valuation offers attractive value.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	1,690	2,257	1,854	1,889	2,014
YoY growth (%)	(4.4)	33.6	(17.8)	1.9	6.7
Gross margin (%)	82.1	82.1	78.8	79.0	79.0
Adjusted net profit (US\$ mn)	547.5	718.5	488.4	539.7	582.6
YoY growth (%)	(14.1)	31.2	(32.0)	10.5	7.9
EPS (Adjusted) (US\$)	2.41	3.14	2.13	2.36	2.55
Consensus EPS (US\$)	2.41	3.14	2.18	2.45	2.73
P/S (x)	2.0	1.5	1.8	1.8	1.7
P/E (x)	27.9	26.0	65.4	8.2	7.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$20.30
 (Previous TP US\$21.80)
Up/Downside 37.1%
Current Price US\$14.81

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Stock Data

Mkt Cap (US\$ mn)	3,388.6
Avg 3 mths t/o (US\$ mn)	15.9
52w High/Low (US\$)	43.96/10.71
Total Issued Shares (mn)	228.8

Source: FactSet

Shareholding Structure

Sina	40.1%
Alibaba	28.7%

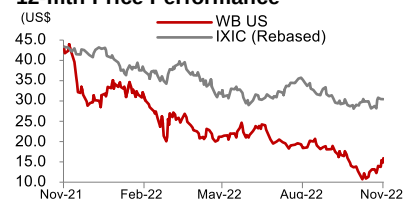
Source: Company data

Share Performance

	Absolute	Relative
1-mth	6.9%	2.1%
3-mth	-19.6%	-6.9%
6-mth	-31.1%	-26.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Weibo: forecast revision

US\$mn	Current			Previous			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	1,854.3	1,888.7	2,014.4	1,930.4	2,114.5	2,304.3	-3.9%	-10.7%	-12.6%
Gross Profit	1,461.2	1,492.0	1,591.4	1,506.7	1,654.0	1,805.9	-3.0%	-9.8%	-11.9%
Adj. operating profit	575.2	587.0	628.7	550.2	623.5	716.0	4.5%	-5.9%	-12.2%
Adjusted net profit	488.4	532.8	575.6	515.1	582.0	654.7	-5.2%	-8.4%	-12.1%
Adjusted EPS (RMB)	2.1	2.3	2.4	2.2	2.5	2.8	-5.2%	-8.4%	-12.1%
Gross Margin	78.8%	79.0%	79.0%	78.0%	78.2%	78.4%	0.8 ppt	0.8 ppt	0.6 ppt
Operating Margin	31.0%	31.1%	31.2%	28.5%	29.5%	31.1%	2.5 ppt	1.6 ppt	0.1 ppt
Adjusted net margin	26.3%	28.2%	28.6%	26.7%	27.5%	28.4%	-0.3 ppt	0.7 ppt	0.2 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	1,854.3	1,888.7	2,014.4	1,874.6	1,965.4	2,044.7	-1.1%	-3.9%	-1.5%
Gross Profit	1,461.2	1,492.0	1,591.4	1,480.9	1,562.5	1,625.5	-1.3%	-4.5%	-2.1%
Adj. operating profit	575.2	587.0	628.7	634.7	624.0	652.8	-9.4%	-5.9%	-3.7%
Adjusted net profit	488.4	532.8	575.6	573.2	561.4	595.8	-14.8%	-5.1%	-3.4%
Adjusted EPS (RMB)	2.1	2.3	2.4	2.4	2.4	2.5	-14.7%	-5.0%	-3.3%
Gross Margin	78.8%	79.0%	79.0%	79.0%	79.5%	79.5%	-0.2 ppt	-0.5 ppt	-0.5 ppt
Operating Margin	31.0%	31.1%	31.2%	25.7%	25.0%	25.6%	5.3 ppt	6.1 ppt	5.6 ppt
Adjusted net margin	26.3%	28.2%	28.6%	30.6%	28.6%	29.1%	-4.2 ppt	-0.4 ppt	-0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Weibo: quarterly financial

(US\$mn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	Cons.	Diff%	CMBI	Diff%
Advertising revenue	390	502	538	551	427	386	393			404	-2.7%
YoY%	41.6%	47.5%	29.0%	21.5%	9.5%	-23.2%	-26.8%				
VAS revenue	69	72	70	65	58	65	60			65	-7.0%
YoY%	43.6%	54.1%	42.3%	9.2%	-16.5%	-10.4%	-13.9%				
Total revenue	459	574	607	616	485	450	454	460	-1.4%	469	-3.3%
YoY%	41.9%	48.3%	30.4%	20.0%	5.6%	-21.6%	-25.3%				
Gross profit margin (%)	82.6%	83.9%	83.0%	79.1%	78.4%	78.8%	79.2%				
S&M %	31.4%	26.9%	23.2%	24.7%	25.9%	25.7%	25.1%				
R&D %	21.0%	17.7%	19.6%	18.5%	23.2%	23.6%	21.4%				
Non-GAAP net margin	28.5%	31.8%	34.5%	31.7%	27.4%	24.4%	26.2%				
Non-GAAP net profit	131	183	210	196	133	110	119	120	-1.2%	139	-14.4%
YoY%	93.8%	59.7%	37.1%	-8.1%	1.7%	-40.0%	-43.2%				

Source: Company data, CMBIGM estimates

Figure 4: Weibo: peer valuation comparison

Companies	Ticker	Price (LC)	Adj. EPS growth (YoY%)			PE (x)			EPS CAGR (%) 2021-2024E
			2022E	2023E	2024E	2022E	2023E	2024E	
Focus Media	002027 CH	6.0	(34.8)	55.5	17.4	21.8	14.0	11.9	6.0
Baidu	BIDU US	99.6	(7.7)	13.0	22.0	13.0	11.5	9.4	8.4
Meta	META US	111.5	(18.1)	12.9	11.9	9.9	8.8	7.8	1.2
Google	GOOGL US	98.4	(5.1)	15.1	15.6	17.7	15.3	13.3	8.1
Average						15.6	12.4	10.6	

Source: Bloomberg, CMBIGM

Note: data are as of 17 Nov 2022

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Revenue	1,767	1,690	2,257	1,854	1,889	2,014
Cost of goods sold	(329)	(302)	(404)	(393)	(397)	(423)
Gross profit	1,438	1,388	1,853	1,461	1,492	1,591
Operating expenses	(841)	(881)	(1,156)	(1,020)	(1,035)	(1,091)
Selling expense	(465)	(456)	(592)	(491)	(497)	(519)
Admin expense	(91)	(101)	(133)	(121)	(123)	(128)
R&D expense	(284)	(324)	(431)	(408)	(416)	(443)
Operating profit	598	507	697	441	457	501
Other gains/(losses)	(42)	(175)	(176)	(310)	0	0
Interest income	47	44	30	(22)	37	46
Pre-tax profit	602	376	551	110	494	547
Income tax	(110)	(61)	(139)	(60)	(99)	(109)
After tax profit	493	315	412	50	395	438
Minority interest	(2)	1	(16)	(2)	(16)	(17)
Net profit	495	313	428	52	411	455
Adjusted net profit	637	547	719	488	540	583

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Current assets	3,636	4,835	4,803	3,871	4,212	4,623
Cash & equivalents	1,453	1,815	2,424	1,638	1,880	2,139
Account receivables	422	492	723	594	605	645
Prepayment	425	297	451	353	352	368
Other current assets	1,336	2,231	1,205	1,286	1,375	1,471
Non-current assets	1,168	1,501	2,717	2,746	2,771	2,791
PP&E	47	61	68	75	80	86
Investment in JVs & assos	1,027	1,179	1,208	1,231	1,250	1,265
Goodwill	47	209	297	297	297	297
Other non-current assets	47	52	1,143	1,143	1,143	1,143
Total assets	4,804	6,335	7,520	6,617	6,982	7,414
Current liabilities	801	958	2,159	1,883	1,857	1,892
Account payables	126	150	198	132	135	144
Tax payable	100	103	145	145	145	145
Other current liabilities	109	144	988	971	973	978
Accrued expenses	466	562	829	634	605	625
Non-current liabilities	1,722	2,490	1,672	673	638	563
Long-term borrowings	1,722	2,490	1,672	673	638	563
Total liabilities	2,522	3,449	3,832	2,556	2,495	2,454
Share capital	1,110	1,326	1,679	1,679	1,679	1,679
Retained earnings	1,174	1,487	1,915	1,957	2,368	2,823
Total shareholders equity	2,283	2,812	3,594	3,635	4,046	4,501
Minority interest	(1)	74	94	96	112	129
Total equity and liabilities	4,804	6,335	7,520	6,287	6,653	7,085

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	602	376	551	110	494	547
Depreciation & amortization	30	41	55	47	47	50
Tax paid	(110)	(61)	(139)	(60)	(99)	(109)
Change in working capital	(371)	49	42	(59)	(46)	(32)
Others	479	(1)	305	321	16	17
Net cash from operations	632	403	814	359	412	473
Investing						
Capital expenditure	(35)	(50)	(35)	(53)	(53)	(55)
Net proceeds from disposal of short-term investments	(837)	(731)	871	(71)	(78)	(86)
Others	(361)	62	(1,259)	(23)	(19)	(15)
Net cash from investing	(1,234)	(719)	(424)	(147)	(150)	(157)
Financing						
Net borrowings	825	602	1	(1,000)	(35)	(75)
Proceeds from share issues	0	0	188	0	0	0
Others	(4)	75	0	2	16	17
Net cash from financing	821	678	189	(998)	(20)	(58)
Net change in cash						
Cash at the beginning of the year	1,235	1,453	1,815	2,424	1,638	1,880
Exchange difference	0	0	29	0	0	0
Cash at the end of the year	1,453	1,815	2,424	1,638	1,880	2,139
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	2.8%	(4.4%)	33.6%	(17.8%)	1.9%	6.7%
Gross profit	(0.2%)	(3.5%)	33.5%	(21.2%)	2.1%	6.7%
Operating profit	(1.9%)	(15.2%)	37.6%	(36.7%)	3.6%	9.5%
Net profit	(13.5%)	(36.7%)	36.7%	(87.9%)	693.4%	10.7%
Adj. net profit	2.1%	(14.1%)	31.2%	(32.0%)	10.5%	7.9%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	81.4%	82.1%	82.1%	78.8%	79.0%	79.0%
Operating margin	33.8%	30.0%	30.9%	23.8%	24.2%	24.9%
Adj. net profit margin	36.1%	32.4%	31.8%	26.3%	28.6%	28.9%
Return on equity (ROE)	24.6%	12.3%	13.4%	1.4%	10.7%	10.6%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	4.5	5.0	2.2	2.1	2.3	2.4
Receivable turnover days	87.2	106.3	116.9	116.9	116.9	116.9
Payable turnover days	(140.1)	(180.6)	(178.6)	(123.0)	(124.1)	(124.1)
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	23.6	27.9	26.0	65.4	8.2	7.4
P/E (diluted)	23.7	28.0	26.3	67.6	8.5	7.7
P/B	5.1	3.1	3.1	0.9	0.8	0.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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