

# Company Report

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

## Bilibili (BILI US)

### Maintain focus on sustainable development

- We anticipate gradual growth recovery though 2023, as 4Q challenges to fade in the near term
- Bili to remain focused on efficiency push targeting end-2024 NG OP breakeven, while recent placement helps smooth liquidity worries
- **BUY: Balancing cost and revenue growth will be key to further upside, TP raised to USD33**

### VAS and Advertising to be key 2023 engine

For 2023, we expect to see gaming related live broadcast to maintain robust growth, driving overall VAS segment to grow +23% yoy in FY23E, vs +25% yoy in FY22E, while Bili to capture more of the ad revenues via revenue-sharing adjustments. We maintain our view that Bili has competitive advantage towards younger/gaming audience given its varied media formats and content focus, which is advantage in taking share in the gaming-related live broadcast market segment. Likewise, we also forecast to see advertising revenue to pick up through 2023 (FY23E +29% yoy vs FY22 +12% yoy) and we see support from Story Mode short videos amid overall recovery.

### Gaming outlook improves as more licenses are obtained

Gaming segment to be on a gradual improving trend (FY23E +6% yoy vs FY22E flattish) from consumption recovery and sustained license approval, plus potentially more stable and increasing imported approvals. Bili's strategy is to remain focused on self-developed games by concentrating resources and being more selective in development investments, such as focusing back on ACG, card and own-IPs games. Bili will continue to enhance efficiency, e.g. pooling of art-work and technology talents vs development teams working in silos previously. Currently, we are aware of one domestic and one licensed imported titles to launch for contribution in 2H23E, and there should be more as Bili obtains additional licenses in time.

### Recent placement helps ease market concern on liquidity

Bili has raised c.USD400mn via equity placement on Jan 9, c.80% will be used to repay its Dec-2026 CB. In addition to other efforts to pay down, Bili's CB outstanding has declined from USD2.5bn to USD1.6bn. Bili currently has c.USD3bn in cash and ST investments. With management's commitment to reach NG OP breakeven by end-2024, our expected near neutral OCF for FY23E, and business recovery, Bili's financial standing expectation has improved significantly vs previous market concern on liquidity issue.

### BUY: Revenue growth and margin improvement

We maintained our FY22E forecast unchanged, and revised FY23/24E revenue -3%/-4% and NG net loss -3%/-5%, mainly due to more conservative on advertising and Ecommerce segment revenue growth while more optimistic on margin improvement outlook. We revised up our SOTP-TP from USD29 to USD33, due to earnings revision and FX changes, while maintain our target multiples unchanged. Our TP implies 3.4x/2.8x FY23/24E P/S. **Key Risks:** 1) Macro/consumption; 2) Regulation; 3) Competition; 4) Gaming pipeline.

## Financials

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	11,999	19,384	21,866	26,006	31,671
Growth (%)	77%	62%	13%	19%	22%
NG NP to shareholders	(2,560)	(5,478)	(6,906)	(4,153)	(1,671)
Non-GAAP EPS (HKD)	(8.8)	(17.2)	(20.9)	(12.5)	(5.0)
P/S (x) (US)	4.9	3.3	3.1	2.6	2.1
ROE (%)	-33%	-37%	-38%	-29%	-13%

Note: Closing price as of Jan 26, 2023 (HK/Japan/Korea Market) & Jan 25, 2023 (US Market) & Jan 20, 2023 (CH Market); Sources: Bloomberg, Company, CMS (HK) estimates

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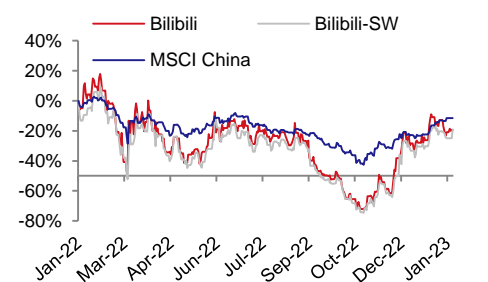
## WHAT'S NEW

4Q22 results preview; Earnings/TP revision

## BUY

Previous	BUY
Price	USD25.9/HKD217.2
12-month TP (Up/downside)	USD33 (+27.4%) HKD258 (+18.8%)
Previous	USD29/HKD226

## Price Performance



Source: Bloomberg

%	1m	6m	12m
BILI US	4.7	(0.7)	(19.3)
9626 HK	8.1	1.1	(24.9)
MSCI China	15.0	6.4	(11.5)

## Sector: Technology, Media & Telecom

Hang Seng Index (Jan 26, 2023)	22,567
MSCI China (Jan 25, 2023)	74

## Key Data

52-week range (USD/HKD)	8 - 39/66 - 298
Market cap (USD bn)	10.6
Avg. daily volume US/HK (mn)	7.06/2.69
FY22E NG diluted EPADS/EPS (USD/HKD)	(2.68)/(20.92)

## 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%

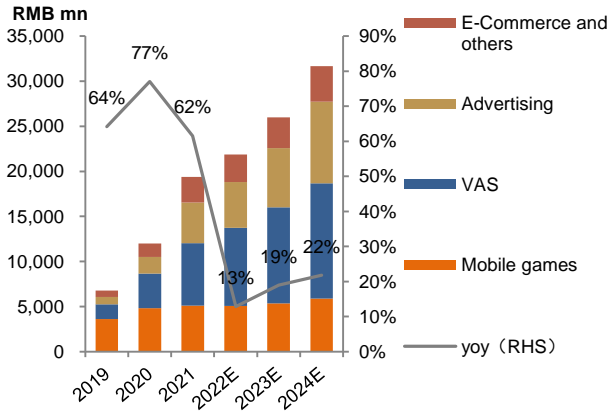
Sources: Bloomberg, CMS (HK)

## Related Research

1. Bilibili (BILI US) - Milestone for quality growth, heading for breakeven (BUY) (Nov. 30, 2022)
2. Bilibili (BILI US) - Results highlight expense reduction challenges (BUY) (Sept. 9, 2022)
3. Bilibili (BILI US) - 2Q preview: Robust VAS, Gaming likely turned a corner (BUY) (July 19, 2022)

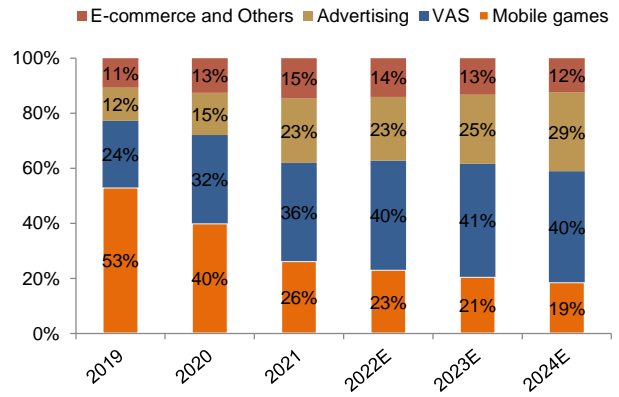
Focus charts

Figure 1: Revenue by segment



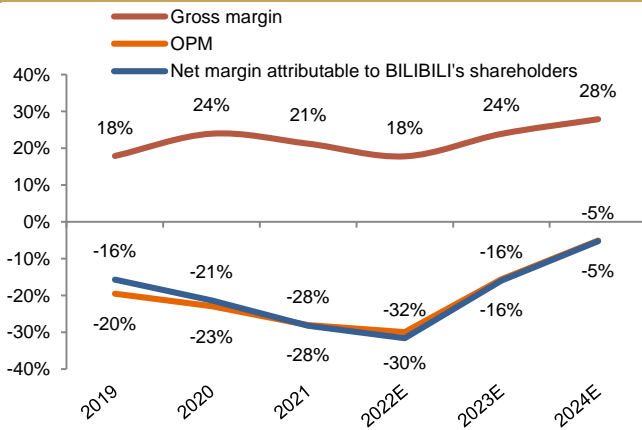
Sources: Company, CMS (HK) estimates

Figure 2: Segment as % of total revenue



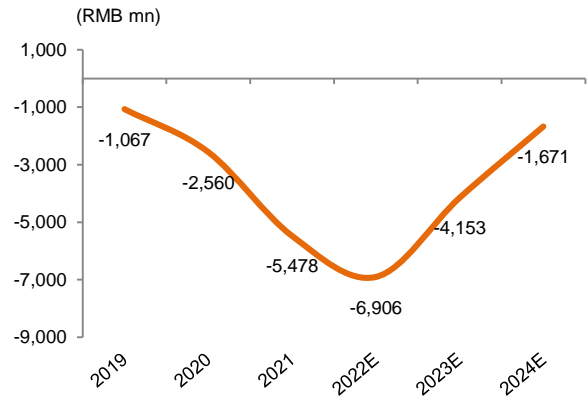
Sources: Company, CMS (HK) estimates

Figure 3: Non-GAAP margin trends



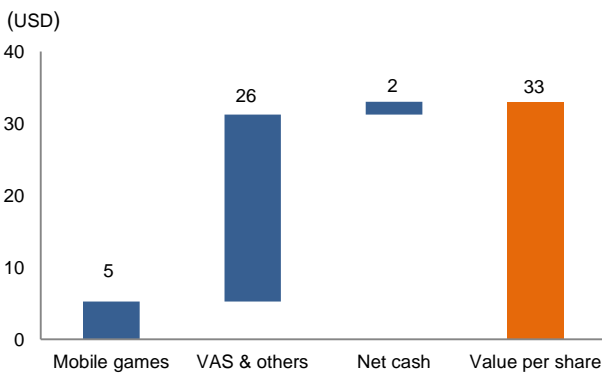
Sources: Company, CMS (HK) estimates

Figure 4: Non-GAAP net profit to shareholders



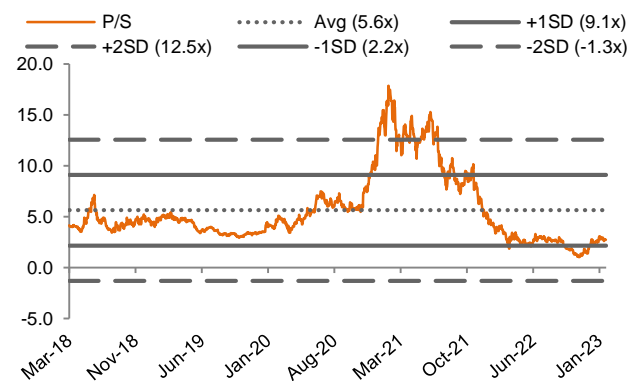
Sources: Company, CMS (HK) estimates

Figure 5: SOTP valuation



Sources: Company, CMS (HK) estimates

Figure 6: P/S range



Sources: Company, Bloomberg, CMS (HK) estimates

Figure 7: Earnings revision summary

RMB mn	Revised			Previous			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	21,866	26,006	31,671	21,866	26,927	33,033	0%	-3%	-4%
Mobile games	5,067	5,346	5,881	5,067	5,506	6,057	0%	-3%	-3%
VAS	8,671	10,674	12,806	8,671	10,674	12,806	0%	0%	0%
Advertising	5,062	6,554	9,037	5,062	7,068	9,755	0%	-7%	-7%
E-Commerce and others	3,066	3,433	3,948	3,066	3,679	4,415	0%	-7%	-11%
Gross profit	3,822	6,143	8,747	3,822	6,359	9,121	0%	-3%	-4%
Non-GAAP gross profit	3,893	6,221	8,842	3,893	6,440	9,220	0%	-3%	-4%
Selling & marketing expenses	(4,923)	(4,815)	(4,937)	(4,923)	(4,988)	(5,152)	0%	-3%	-4%
G&A expenses	(2,244)	(1,986)	(2,113)	(2,244)	(2,057)	(2,205)	0%	-3%	-4%
R&D expenses	(4,460)	(4,524)	(4,675)	(4,460)	(4,685)	(4,878)	0%	-3%	-4%
Total operating expenses	(11,628)	(11,325)	(11,726)	(11,628)	(11,730)	(12,234)	0%	-3%	-4%
Operating profit	(7,806)	(5,182)	(2,979)	(7,806)	(5,372)	(3,114)	0%	-4%	-4%
Non-GAAP operating profit	(6,556)	(4,052)	(1,602)	(6,556)	(4,201)	(1,678)	0%	-4%	-5%
Net income to shareholders	(7,842)	(5,476)	(3,241)	(7,854)	(5,660)	(3,381)	0%	-3%	-4%
Non-GAAP net income to shareholders	(6,906)	(4,153)	(1,671)	(6,918)	(4,297)	(1,753)	0%	-3%	-5%
<b>Margins &amp; key ratios (%)</b>									
Gross margin	17.5	23.6	27.6	17.5	23.6	27.6	0.0ppt	0.0ppt	0.0ppt
Operating margin	(35.7)	(19.9)	(9.4)	(35.7)	(19.9)	(9.4)	0.0ppt	0.0ppt	0.0ppt
Non-GAAP operating margin	(30.0)	(15.6)	(5.1)	(30.0)	(15.6)	(5.1)	0.0ppt	0.0ppt	0.0ppt
Net margin to shareholders	(35.9)	(21.1)	(10.2)	(35.9)	(21.0)	(10.2)	0.1ppt	0.0ppt	0.0ppt
Non-GAAP net margin to shareholders	(31.6)	(16.0)	(5.3)	(31.6)	(16.0)	(5.3)	0.1ppt	0.0ppt	0.0ppt

Sources: Company, CMS (HK) estimates

Figure 10: CMS forecasts vs. consensus

RMB mn	CMS forecasts			Consensus			Diff %		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	21,866	26,006	31,671	21,877	26,561	31,912	0%	-2%	-1%
Gross profit	3,822	6,143	8,747	3,832	6,193	8,897	0%	-1%	-2%
GPM (%)	17.5	23.6	27.6	17.5	23.3	27.9	0.0ppt	0.3ppt	-0.3ppt
Core OP	(6,556)	(4,052)	(1,602)	(7,518)	(4,666)	(2,012)	-13%	-13%	-20%
Core OPM (%)	(30.0)	(15.6)	(5.1)	(34.4)	(17.6)	(6.3)	4.4ppt	2.0ppt	1.2ppt
GAAP NP to shareholders	(7,842)	(5,476)	(3,241)	(7,760)	(4,726)	(2,132)	1%	16%	52%
Non-GAAP NP to shareholders	(6,906)	(4,153)	(1,671)	(6,991)	(4,061)	(1,296)	-1%	2%	29%
NG NPM	(31.6)	(16.0)	(5.3)	(32.0)	(15.3)	(4.1)	0.4ppt	-0.7ppt	-1.2ppt

Sources: Bloomberg, Company, CMS (HK) estimates; Note: Data as of Jan 26, 2023

Figure 9: Bilibili's game pipeline

EN Name	CN Name	Country/Regions	Version	Licensed(Y/N)	Release Date(tentative)	Type
<b>Domestic games</b>						
Non Anonymous Instruction	非匿名指令	China	Mobile	Y	2022.11.25	RPG
Gemtrader Story: The Aeon Stone	宝石研物语: 伊恩之石	China	Mobile	Y	2022.10.13	RPG
F.I.S.T. Forged In Shadow Torch	暗影火炬城	China	PC/Console	Y	2022.7/9/11	ACT
Warm Snow	暖雪	China	Mobile	Y	2022.12	ACT
ChangAn Baiwanguan	长安百万贯	China	Mobile	Y	TBA	SLG
Thrud	斯露德	China	Mobile	Y	2H23E	STG
Pretty Derby	赛马娘	China	Mobile	N	2023E	TCG
Project: Eruthyll	依露希尔:星晓	China	Mobile	N	TBA	CAG
Project Doll	箱庭小偶	China	Mobile	N	TBA	TCG
The Matchless KungFu	代号: 绝世好武功	China	PC	N	2023E	RPG
Project: Baijia	代号: 百家	China	Mobile	N	TBA	ACT
Night Ingale	夜莺: 逆向指令	China	PC	N	TBA	SLG
Re: Aetatis	重构: 阿塔提斯	China	PC	N	TBA	MOBA
Amazing Cultivation Simulator	代号:了不起的模拟器	China	Mobile	N	TBA	SIM
Project: C	代号 C	China	Mobile	N	TBA	RPG
Ys 8	伊苏: 梦境交织的长夜	China	Mobile	N	TBA	JRPG
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
<b>Overseas games</b>						
Artery Gear: Fusion	机动战姬: 聚变	Global	Mobile		2022.6.14	RPG
Pretty Derby	赛马娘	HKSAR/Macao/Taiwan	Mobile		2022.6.27	TCG
F.I.S.T. Forged In Shadow Torch	暗影火炬城	China	Console (switch)		2022.7.12	ACT

Sources: Company, CMS (HK)

Figure 10: Valuation table based on SOTP

RMB mn	Valuation basis	Valuation metrics	Multiple given to Bilibili			Seg as % of total valuation			Valuation			Past valuation	Current share price backtest estimate	
			Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull			
Mobile games	FY23E P/E	3Q23-2Q24E net profit RMB1,398mn	5.0	10.0	15.0	20%	16%	15%	6,991	13,983	20,974	13,765	8.0	10,692
VAS & others	FY23E P/S	3Q23-2Q24E revenue RMB23,006mn	1.0	3.0	5.0	66%	79%	82%	23,006	69,019	115,032	64,262	2.5	51,651
Net cash						14%	5%	3%	4,765	4,765	4,765	4,410		4,765
<b>Total valuation (RMB mn)</b>									<b>34,763</b>	<b>87,767</b>	<b>140,771</b>	<b>82,437</b>		<b>67,108</b>
<b>Total valuation (USD mn)</b>									<b>5,188</b>	<b>13,100</b>	<b>21,011</b>	<b>11,546</b>		<b>10,016</b>
CNY/USD										6.7		7.1		6.7
No. of shares (mn)										395		395		395
<b>Value per share (USD)</b>									<b>13</b>	<b>33</b>	<b>53</b>	<b>29</b>		<b>25</b>
<b>Value per share (HKD)</b>									<b>102</b>	<b>258</b>	<b>414</b>	<b>226</b>		<b>195</b>
2023E revenue (RMB mn)									26,006	26,006	26,006	26,927		26,006
<b>Implied 2023E PS multiple</b>									<b>1.3x</b>	<b>3.4x</b>	<b>5.4x</b>	<b>3.1x</b>		<b>2.6x</b>

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
<b>Platform</b>																		
Tencent	700 HK	HKD	BUY	406.8	430.0	496.9	18.0	14.8	29.0	23.7	n.a.	5.9	21.0	13.5	15.7	4.6	5.3	7.5
Alibaba	BABA US	USD	BUY	120.3	161.0	318.4	10.7	9.6	14.6	15.4	n.a.	2.5	15.1	15.2	13.8	8.1	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	172.4	249.0	136.3	n.a.	40.0	n.a.	n.a.	n.a.	4.1	n.a.	2.2	10.1	24.0	n.a.	n.a.
Baidu	BIDU US	USD	NR	134.2	n.a.	46.4	9.6	8.4	15.7	14.3	2.1	2.5	15.2	5.0	7.4	4.5	7.5	24.4
Alphabet	GOOGL US	USD	NR	95.2	n.a.	1,242.3	10.6	9.8	18.6	17.1	2.0	5.3	13.1	25.1	25.5	1.3	9.2	15.1
Facebook	FB US	USD	NR	141.5	n.a.	371.0	7.2	7.4	14.0	16.0	n.a.	3.2	8.0	19.5	18.2	4.2	n.a.	n.a.
Naver	035420 KS	KRW	NR	204,000.0	n.a.	27.2	20.3	17.8	37.4	27.9	n.a.	4.2	24.3	3.8	4.9	16.7	n.a.	3.4
<b>China Mean</b>							<b>12.3</b>	<b>16.5</b>	<b>18.5</b>	<b>17.2</b>	<b>2.1</b>	<b>3.5</b>	<b>16.6</b>	<b>10.2</b>	<b>12.1</b>	<b>9.8</b>	<b>6.4</b>	<b>16.0</b>
<b>Global Mean</b>							<b>12.7</b>	<b>11.7</b>	<b>23.3</b>	<b>20.4</b>	<b>2.0</b>	<b>4.2</b>	<b>15.1</b>	<b>16.1</b>	<b>16.2</b>	<b>7.4</b>	<b>9.2</b>	<b>9.2</b>
<b>Cloud</b>																		
Chinasoft	354 HK	HKD	BUY	7.2	10.0	2.8	9.8	9.8	14.0	11.8	1.2	0.8	31.5	10.7	11.5	21.7	11.7	4.5
Tencent	700 HK	HKD	BUY	406.8	430.0	496.9	18.0	14.8	29.0	23.7	n.a.	5.9	21.0	13.5	15.7	4.6	5.3	7.5
Alibaba	BABA US	USD	BUY	120.3	161.0	318.4	10.7	9.6	14.6	15.4	n.a.	2.5	15.1	15.2	13.8	8.1	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	29.7	34.0	5.2	13.3	10.5	n.a.	n.a.	n.a.	4.9	n.a.	0.1	2.7	19.1	n.a.	26.5
Kingdee	268 HK	HKD	NR	18.1	n.a.	8.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22.8	n.a.	n.a.
Mingyuan Cloud	909 HK	HKD	NR	8.2	n.a.	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	6.7	n.a.	n.a.	n.a.	5.6	n.a.	n.a.
Microsoft	MSFT US	USD	NR	5.0	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	0.3	n.a.	n.a.
Alphabet	GOOGL US	USD	NR	240.6	n.a.	1,791.1	18.4	17.3	25.9	25.3	n.a.	9.5	21.2	39.3	36.3	n.a.	n.a.	n.a.
Amazon	AMZN US	USD	NR	95.2	n.a.	1,242.3	10.6	9.8	18.6	17.1	2.0	5.3	13.1	25.1	25.5	1.3	9.2	15.1
Salesforce	CRM US	USD	NR	97.2	n.a.	991.4	15.2	13.1	n.a.	33.7	n.a.	1.9	20.9	n.a.	12.6	11.9	n.a.	14.1
Oracle	ORCL US	USD	NR	156.2	n.a.	156.2	34.0	15.6	n.a.	31.6	n.a.	6.2	27.5	0.5	8.2	n.a.	n.a.	n.a.
SAP	SAP US	USD	NR	89.6	n.a.	241.7	23.2	13.3	38.0	18.2	n.a.	6.0	26.8	n.a.	n.a.	n.a.	n.a.	n.a.
VMware	VMW US	USD	NR	125.0	n.a.	53.2	17.4	12.9	30.8	19.7	n.a.	4.4	12.9	25.5	n.a.	n.a.	n.a.	n.a.
Dropbox	DBX US	USD	NR	23.0	n.a.	8.3	10.6	10.3	14.5	13.8	1.8	3.6	10.3	n.a.	n.a.	9.0	8.3	34.8
<b>China Mean</b>							<b>12.9</b>	<b>11.2</b>	<b>19.2</b>	<b>17.0</b>	<b>1.2</b>	<b>3.6</b>	<b>22.5</b>	<b>9.9</b>	<b>10.9</b>	<b>11.7</b>	<b>8.5</b>	<b>12.8</b>
<b>Global Mean</b>							<b>18.5</b>	<b>13.2</b>	<b>25.6</b>	<b>22.8</b>	<b>1.9</b>	<b>5.3</b>	<b>18.9</b>	<b>22.6</b>	<b>20.7</b>	<b>7.4</b>	<b>8.7</b>	<b>21.4</b>
<b>Social network &amp; pan-entertainment</b>																		
Tencent	700 HK	HKD	BUY	406.8	430.0	496.9	18.0	14.8	29.0	23.7	n.a.	5.9	21.0	13.5	15.7	4.6	5.3	7.5
Bilibili	BILI US	USD	BUY	25.9	33.0	10.6	n.a.	n.a.	n.a.	n.a.	n.a.	3.1	n.a.	n.a.	n.a.	15.8	n.a.	n.a.
China Literature	772 HK	HKD	HOLD	40.4	68.0	5.2	21.3	16.5	26.4	22.4	2.0	4.3	22.6	6.2	7.8	2.9	13.4	n.a.
Kuaishou	1024 HK	HKD	NR	71.7	n.a.	39.6	n.a.	n.a.	n.a.	n.a.	n.a.	2.9	n.a.	n.a.	n.a.	15.4	n.a.	n.a.
Tencent Music	TME US	USD	NR	34.2	n.a.	15.0	18.2	16.2	22.9	20.4	n.a.	3.6	23.0	7.9	8.5	n.a.	n.a.	10.3
Weibo	WB US	USD	NR	22.0	n.a.	5.2	8.9	8.3	10.6	9.8	n.a.	2.8	14.0	7.7	11.0	n.a.	n.a.	n.a.
iQiyi	IQ US	USD	NR	5.8	n.a.	5.5	28.3	20.4	n.a.	26.9	n.a.	1.3	34.5	2.2	16.4	0.8	n.a.	n.a.
YY	YY US	USD	NR	37.0	n.a.	2.6	n.a.	n.a.	14.7	15.8	0.4	1.1	3.7	6.2	2.1	1.7	33.0	78.1
Momo	MOMO US	USD	NR	10.4	n.a.	2.1	4.1	3.7	7.6	7.2	n.a.	1.1	6.9	14.5	14.2	n.a.	n.a.	n.a.
Huya	HUYA US	USD	NR	5.7	n.a.	1.4	1.4	2.2	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Douyu	DOYU US	USD	NR	1.8	n.a.	0.6	n.a.	n.a.	n.a.	46.3	n.a.	0.5	n.a.	n.a.	0.3	n.a.	n.a.	n.a.
Meta	FB US	USD	NR	141.5	n.a.	371.0	7.2	7.4	14.0	16.0	n.a.	3.2	8.0	19.5	18.2	4.2	n.a.	n.a.
Netflix	NFLX US	USD	NR	368.0	n.a.	163.7	29.1	23.5	36.7	30.7	n.a.	5.2	n.a.	24.5	21.7	n.a.	n.a.	n.a.
Snapchat	SNAP US	USD	NR	9.7	n.a.	15.6	46.0	25.5	n.a.	n.a.	n.a.	3.4	n.a.	n.a.	n.a.	12.7	n.a.	n.a.
Spotify	SPOT US	USD	NR	100.0	n.a.	19.3	n.a.	n.a.	n.a.	n.a.	n.a.	1.5	n.a.	n.a.	n.a.	16.1	n.a.	n.a.
<b>China Mean</b>							<b>14.3</b>	<b>11.7</b>	<b>18.5</b>	<b>21.6</b>	<b>1.2</b>	<b>2.6</b>	<b>18.0</b>	<b>8.3</b>	<b>9.5</b>	<b>8.2</b>	<b>17.3</b>	<b>32.0</b>
<b>Global Mean</b>							<b>27.4</b>	<b>18.8</b>	<b>25.4</b>	<b>23.3</b>	<b>n.a.</b>	<b>3.3</b>	<b>8.0</b>	<b>22.0</b>	<b>19.9</b>	<b>11.0</b>	<b>n.a.</b>	<b>n.a.</b>

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	FY22E	FY23E	Sales
<b>Online Gaming</b>																			
Netease	NTES US	USD	BUY	90.3	113.0	59.3	12.2	11.1	18.1	18.5	2.7	4.4	16.1	23.0	19.3	10.8	6.7	14.2	
Tencent	700 HK	HKD	BUY	406.8	430.0	496.9	18.0	14.8	29.0	23.7	n.a.	5.9	21.0	13.5	15.7	4.6	5.3	7.5	
Bilibili	BILI US	USD	BUY	25.9	33.0	10.6	n.a.	n.a.	n.a.	n.a.	n.a.	3.1	n.a.	n.a.	n.a.	15.8	n.a.	n.a.	
Kingsoft	3888 HK	HKD	BUY	29.7	34.0	5.2	13.3	10.5	n.a.	n.a.	n.a.	4.9	n.a.	0.1	2.7	19.1	n.a.	26.5	
iDreamSky	1119 HK	HKD	BUY	4.2	4.4	0.8	23.3	10.6	n.a.	25.8	n.a.	1.9	n.a.	n.a.	4.4	7.0	n.a.	71.4	
XD	2400 HK	HKD	NR	5.6	n.a.	0.5	45.0	3.8	n.a.	7.5	n.a.	5.7	n.a.	3.4	24.7	42.3	n.a.	16.4	
Netdragon	777 HK	HKD	NR	18.7	n.a.	1.3	3.6	3.0	7.6	6.1	0.3	1.1	4.5	14.4	16.3	16.1	27.4	8.9	
CMGE	302 HK	HKD	NR	2.0	n.a.	0.7	8.0	5.5	10.3	7.5	1.0	1.4	11.0	7.4	10.2	8.1	10.7	7.3	
IGG	799 HK	HKD	NR	3.2	n.a.	0.5	n.a.	15.1	n.a.	25.9	n.a.	0.7	n.a.	n.a.	6.1	n.a.	n.a.	n.a.	
Archosaur Game	9990 HK	HKD	NR	4.0	n.a.	0.4	n.a.	2.2	n.a.	n.a.	n.a.	2.9	n.a.	n.a.	n.a.	38.8	n.a.	n.a.	
SEA	SE US	USD	NR	64.3	n.a.	36.1	n.a.	n.a.	n.a.	n.a.	n.a.	3.0	n.a.	n.a.	n.a.	20.5	n.a.	n.a.	
Nintendo	7974 JP	JPY	NR	5,635.0	n.a.	56.5	8.6	9.6	14.1	15.8	n.a.	4.0	23.2	27.0	21.2	n.a.	n.a.	n.a.	
Activision Blizzard	ATVI US	USD	NR	74.6	n.a.	58.4	17.4	13.0	24.3	18.9	n.a.	7.2	26.4	11.3	13.3	6.7	4.1	4.9	
Electronic Arts	EA US	USD	NR	127.6	n.a.	35.2	22.0	13.0	47.2	17.6	n.a.	5.3	19.6	11.5	20.6	n.a.	n.a.	n.a.	
Take-Two	TTWO US	USD	NR	110.7	n.a.	18.6	27.7	21.7	47.0	28.6	n.a.	5.6	n.a.	n.a.	3.8	n.a.	n.a.	n.a.	
Nexon	3659 JP	JPY	NR	3,125.0	n.a.	20.9	18.9	14.7	24.7	24.4	n.a.	7.8	20.8	12.8	12.9	13.5	n.a.	13.9	
Ncsoft	036570 KS	KRW	NR	472,000.0	n.a.	8.4	12.2	11.9	19.4	19.7	1.9	4.0	15.0	16.3	14.5	6.1	10.4	22.0	
Zynga	ZNGA US	USD	NR	8.2	n.a.	9.3	15.6	14.2	24.8	19.6	n.a.	3.2	14.8	n.a.	n.a.	8.4	n.a.	54.2	
Netmarble	251270 KS	KRW	NR	60,600.0	n.a.	4.2	42.3	20.8	n.a.	56.3	n.a.	2.0	(28.1)	n.a.	1.2	7.1	n.a.	n.a.	
<b>China Mean</b>							<b>17.0</b>	<b>8.8</b>	<b>16.8</b>	<b>16.7</b>	<b>1.7</b>	<b>3.3</b>	<b>13.8</b>	<b>12.1</b>	<b>13.2</b>	<b>17.3</b>	<b>11.4</b>	<b>20.8</b>	
<b>Global Mean</b>							<b>20.6</b>	<b>14.9</b>	<b>28.8</b>	<b>25.1</b>	<b>1.9</b>	<b>4.7</b>	<b>13.1</b>	<b>15.8</b>	<b>12.5</b>	<b>10.4</b>	<b>7.3</b>	<b>23.7</b>	
<b>E-commerce</b>																			
JD.com	JD US	USD	BUY	61.4	73.0	97.0	17.8	14.3	24.7	20.9	0.7	0.6	25.6	12.1	13.0	14.8	33.2	43.8	
Alibaba	BABA US	USD	BUY	120.3	161.0	318.4	10.7	9.6	14.6	15.4	n.a.	2.5	15.1	15.2	13.8	8.1	n.a.	n.a.	
Meituan	3690 HK	HKD	BUY	172.4	249.0	136.3	n.a.	40.0	n.a.	n.a.	n.a.	4.1	n.a.	2.2	10.1	24.0	n.a.	n.a.	
Pinduoduo	PDD US	USD	NR	96.5	n.a.	122.0	20.5	16.8	22.6	19.6	0.3	6.4	18.0	33.8	27.6	31.8	65.5	n.a.	
Beike	BEKE US	USD	NR	18.4	n.a.	23.0	45.2	18.1	n.a.	30.8	1.7	2.6	n.a.	2.8	6.1	n.a.	46.5	17.2	
Vipshop	VIPS US	USD	NR	15.1	n.a.	9.2	6.8	6.2	9.4	9.1	n.a.	0.6	9.1	16.3	13.9	n.a.	n.a.	3.9	
Baozun	BZUN US	USD	NR	7.8	n.a.	0.5	9.1	8.8	19.0	11.9	0.8	0.4	49.9	0.7	3.5	n.a.	24.8	n.a.	
Amazon	AMZN US	USD	NR	97.2	n.a.	991.4	15.2	13.1	n.a.	33.7	n.a.	1.9	20.9	n.a.	12.6	11.9	n.a.	14.1	
eBay	EBAY US	USD	NR	48.9	n.a.	26.6	9.0	9.2	13.8	12.4	2.5	2.7	9.6	31.4	47.1	n.a.	5.5	n.a.	
<b>China Mean</b>							<b>18.3</b>	<b>16.1</b>	<b>19.3</b>	<b>18.4</b>	<b>0.9</b>	<b>2.2</b>	<b>24.0</b>	<b>11.9</b>	<b>12.6</b>	<b>18.7</b>	<b>40.7</b>	<b>27.1</b>	
<b>Global Mean</b>							<b>12.1</b>	<b>11.1</b>	<b>13.8</b>	<b>23.1</b>	<b>2.5</b>	<b>2.3</b>	<b>15.3</b>	<b>31.4</b>	<b>29.9</b>	<b>11.9</b>	<b>5.5</b>	<b>14.1</b>	
<b>Vertical</b>																			
trip.com	TCOM US	USD	NR	39.7	n.a.	25.5	n.a.	33.2	n.a.	35.0	n.a.	8.7	n.a.	0.1	3.9	22.6	n.a.	n.a.	
Autohome	ATHM US	USD	NR	36.4	n.a.	4.6	6.2	5.1	15.3	14.4	n.a.	4.5	14.4	8.0	8.2	0.6	n.a.	n.a.	
Tongcheng-Elong	780 HK	HKD	NR	19.7	n.a.	5.6	41.3	18.3	n.a.	27.5	2.2	5.8	35.5	2.6	7.3	8.8	30.0	14.6	
Expedia	EXPE US	USD	NR	116.4	n.a.	18.2	8.0	7.0	16.1	12.6	n.a.	1.5	5.1	41.3	46.3	25.0	n.a.	62.5	
<b>China Mean</b>							<b>18.5</b>	<b>15.9</b>	<b>15.7</b>	<b>22.4</b>	<b>2.2</b>	<b>5.1</b>	<b>18.3</b>	<b>13.0</b>	<b>16.4</b>	<b>14.2</b>	<b>30.0</b>	<b>38.6</b>	

Note: Closing prices as of Jan 26, 2023 for listed companies in HK, Japan and Korea; Closing prices as of Jan 25, 2023 for US-listed companies; Closing prices as of Jan 20, 2023 for

CH-listed companies; 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
<b>Total net revenues</b>	<b>11,999</b>	<b>19,384</b>	<b>21,866</b>	<b>26,006</b>	<b>31,671</b>
Cost of revenues	(9,159)	(15,341)	(18,045)	(19,863)	(22,925)
<b>Gross profit</b>	<b>2,840</b>	<b>4,043</b>	<b>3,822</b>	<b>6,143</b>	<b>8,747</b>
S&M expenses	(3,492)	(5,795)	(4,923)	(4,815)	(4,937)
G&A expenses	(976)	(1,838)	(2,244)	(1,986)	(2,113)
R&D expenses	(1,513)	(2,840)	(4,460)	(4,524)	(4,675)
Total operating expenses	(5,981)	(10,472)	(11,628)	(11,325)	(11,726)
<b>Operating profit/(loss)</b>	<b>(3,141)</b>	<b>(6,429)</b>	<b>(7,806)</b>	<b>(5,182)</b>	<b>(2,979)</b>
Investment income, net	28	(194)	(366)	0	0
Interest income	83	70	197	82	69
Interest expense	(109)	(155)	(250)	(297)	(287)
Exchange losses	42	(16)	(84)	0	0
Other non-operating income	96	10	568	0	0
<b>Income/(loss) before tax</b>	<b>(3,001)</b>	<b>(6,713)</b>	<b>(7,740)</b>	<b>(5,397)</b>	<b>(3,198)</b>
Income tax expense	(53)	(95)	(113)	(86)	(51)
Accretion to redeemable non-controlling interests	(4)	0	0	0	0
Non-controlling interest	47	20	10	8	8
<b>NI attrib. to shareholders</b>	<b>(3,012)</b>	<b>(6,789)</b>	<b>(7,842)</b>	<b>(5,476)</b>	<b>(3,241)</b>
<b>Non-GAAP NI attrib. to shareholders</b>	<b>(2,560)</b>	<b>(5,478)</b>	<b>(6,906)</b>	<b>(4,153)</b>	<b>(1,671)</b>

### Financial Ratios

	FY20	FY21	FY22E	FY23E	FY24E
<b>yoy growth</b>					
Mobile games	34%	6%	0%	6%	10%
VAS	134%	80%	25%	23%	20%
Advertising	126%	145%	12%	29%	38%
E-commerce & Others	109%	88%	8%	12%	15%
Revenue	77%	62%	13%	19%	22%
Non-GAAP net income to shareholders	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Profitability</b>					
Non-GAAP gross margin	24%	21%	18%	24%	28%
NG NPM to shareholders	-21%	-28%	-32%	-16%	-5%
ROE	-33%	-37%	-38%	-29%	-13%
ROA	-15%	-18%	-16%	-12%	-8%
<b>Per share ratios (RMB)</b>					
Sales per share	34.7	51.0	55.4	65.8	80.2
Sales per share (USD)	5.3	7.8	8.5	10.1	12.2
Sales per share (HKD)	41.4	60.9	66.1	78.5	95.7
Non-GAAP EPADS	(7.4)	(14.4)	(17.5)	(10.5)	(4.2)
Non-GAAP EPADS (USD)	(1.1)	(2.2)	(2.7)	(1.6)	(0.6)
Non-GAAP EPADS (HKD)	(8.8)	(17.2)	(20.9)	(12.5)	(5.0)
<b>Valuation (x)</b>					
P/S (US)	4.9	3.3	3.1	2.6	2.1
P/S (HK)	5.2	3.6	3.3	2.8	2.3

### Balance Sheet

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Cash & cash equivalents	4,678	7,523	5,546	5,811	7,439
Time deposits	4,720	7,632	11,946	9,557	7,646
Accounts receivable, net	1,054	1,382	1,317	1,428	1,641
Prepayment & current assets	1,931	4,848	5,029	5,201	5,701
ST Investments	3,357	15,061	6,529	5,876	5,288
PPE, net	762	1,350	1,667	1,706	1,660
Production cost, net	668	1,084	1,084	1,084	1,084
Intangible assets, net	2,357	3,836	4,072	3,482	2,672
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
<b>Total assets</b>	<b>23,866</b>	<b>52,053</b>	<b>46,526</b>	<b>43,482</b>	<b>42,467</b>
Accounts payable	3,074	4,361	5,052	5,562	6,419
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	12,302	12,302	12,302
Others liabilities	578	1,918	7,983	5,983	5,983
<b>Total liabilities</b>	<b>16,083</b>	<b>30,337</b>	<b>31,612</b>	<b>30,121</b>	<b>30,978</b>
<b>Total equity</b>	<b>7,782</b>	<b>21,716</b>	<b>14,914</b>	<b>13,361</b>	<b>11,489</b>

### Cashflow

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
<b>Operating cashflow</b>	<b>753</b>	<b>(2,647)</b>	<b>(2,718)</b>	<b>(196)</b>	<b>2,612</b>
Net income/(loss)	(3,054)	(6,809)	(7,853)	(5,484)	(3,249)
Depreciation & amortization	1,722	2,442	3,164	3,932	4,340
Share-based compensation	386	1,000	1,051	1,130	1,377
Working capital chg	1,487	(9)	920	226	145
Others	212	729	0	(0)	0
<b>CF from IA</b>	<b>(8,907)</b>	<b>(24,578)</b>	<b>501</b>	<b>(339)</b>	<b>(985)</b>
Purchase PPE	(602)	(965)	(1,093)	(1,040)	(1,108)
Purchase intangible assets	(1,637)	(2,722)	(2,624)	(2,341)	(2,375)
Net add. of ST investments	(1,810)	(11,224)	8,532	653	588
Net add. of LT investments	(1,126)	(6,642)	0	0	0
Placement of time deposits	(10,907)	(10,697)	(4,314)	2,389	1,911
Others	7,175	7,672	0	0	0
<b>CF from FA</b>	<b>8,335</b>	<b>30,389</b>	<b>239</b>	<b>800</b>	<b>0</b>

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## 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
HOLD	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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