

Mobvista Inc. (1860 HK)

Focusing on margin enhancement

FY23 results were largely in line, with rev +18% YoY and profit at US\$19.1mn (in line with our estimate but 9% above consensus). Mintegral rev remained resilient at +19.5% YoY in 4Q23. For 2024E, we see high visibility for Mobvista to enhance its profitability (forecasting bottom line at US\$37mn, net margin at 2.9%), with solid topline growth (forecasting +20% YoY). We expect midcore and hardcore games' momentum to continue. Intelligent bidding system upgrade should benefit effectively category expansion (e.g., non-game), and ROAS system should bring upside in the long run, if executed well. We lift our earnings forecast in FY24/25E by 10%. Maintain BUY with SOTP-based TP at HK\$6.0 (32x/26x FY24/25E P/E, with a 21% earnings CAGR in FY24-26E).

- In-line FY23 with improving margin.** Mobvista reported in-line FY23 results, with rev +18% YoY, 1%/2% below our estimate/consensus. Adj.net profit reached US\$19.1mn (+97% YoY), in line with our estimate but 9% above consensus. GPM improved to 20.6% in FY23 (+0.8ppt YoY, vs. our estimate of 20%), mainly on higher ads efficiency and cost discipline. By segment, ad-tech/mar-tech revenue rose 17.8%/23.9% YoY in FY23.
- Resilient growth with category expansion and upgraded system.** In 4Q23, Mintegral rev grew 19.5% YoY, with relatively stable publisher & customer retention rate. By app category, midcore and hardcore games rev surged 66.3% YoY, with the share of rev climbing up to 29.1% in FY23 (vs. 20.8% in FY22). Lifestyle segment saw robust growth, with rev +143% YoY. By geography, EMEA and Americas still serve as the largest rev contributor (46% share) with highest growth (+25.6% YoY), boosted by large client expansion in EMEA and further penetration among SMEs. China market stayed relatively resilient, with rev growth at +15.1% YoY. Looking ahead, we expect FY24E rev +20% YoY, with intelligent bidding system upgrade potentially helping to expand categories (e.g. ecommerce).
- Better margin outlook.** We remain positive on Mobvista's LT margin outlook, with narrowing loss of Mar-tech, lower traffic incentives to publishers and higher productivity. Adj. NM improved to 1.8% in FY23 (vs. 1.1% in FY22), and we forecast this number to climb up to 2.9%/3.0% in FY24/25E. In FY24E, we expect organic biz to generate >US\$50mn in profit, while Mar-tech's loss should continuously narrow.
- Maintain BUY.** We slightly raise FY24/25E earnings forecast by 10%, with an unchanged TP at HK\$6.0 (by assigning 20x FY24E P/E to ad-tech biz and 3.0x FY24E P/S to mar-tech biz).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	894	1,054	1,265	1,479	1,731
YoY growth (%)	18.4	17.9	20.0	16.9	17.0
Net profit (US\$ mn)	9.7	19.1	36.6	43.7	53.3
EPS (Reported) (US\$ cents)	0.61	1.20	2.27	2.68	3.23
YoY growth (%)	NA	97.1	91.5	19.4	22.0
Consensus EPS (US\$ cents)	NA	NA	2.55	2.40	5.00
P/S (x)	0.7	0.6	0.5	0.5	0.5
P/E (x)	67.2	34.4	18.2	15.4	12.8
ROE (%)	5.2	9.0	10.1	10.9	12.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$6.00
(Previous TP)	HK\$6.00)
Up/Downside	85.8%
Current Price	HK\$3.23

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Stock Data

Mkt Cap (HK\$ mn)	1,017.5
Avg 3 mths t/o (HK\$ mn)	2.6
52w High/Low (HK\$)	4.25/2.84
Total Issued Shares (mn)	315.0

Source: FactSet

Shareholding Structure

Seamless Technology	63.7%
GIC	8.1%

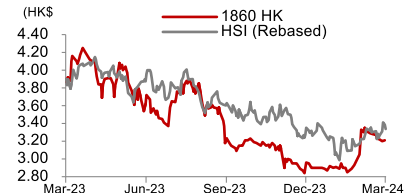
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.6%	-3.1%
3-mth	9.1%	9.6%
6-mth	0.0%	8.7%

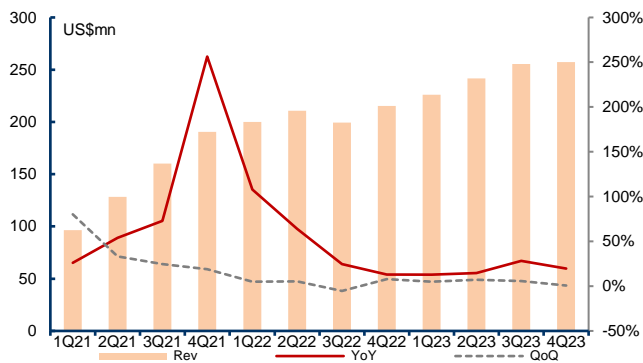
Source: FactSet

12-mth Price Performance



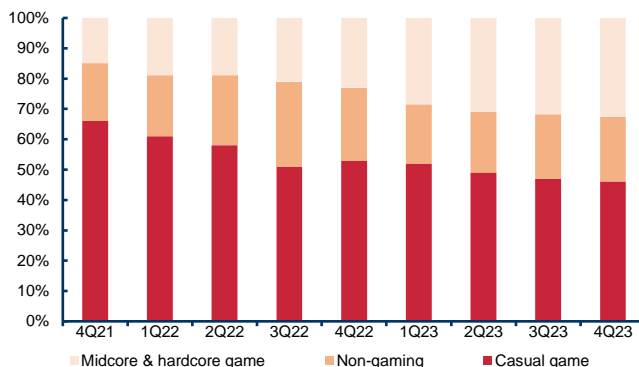
Source: FactSet

Figure 1: Mintegral ad rev trend



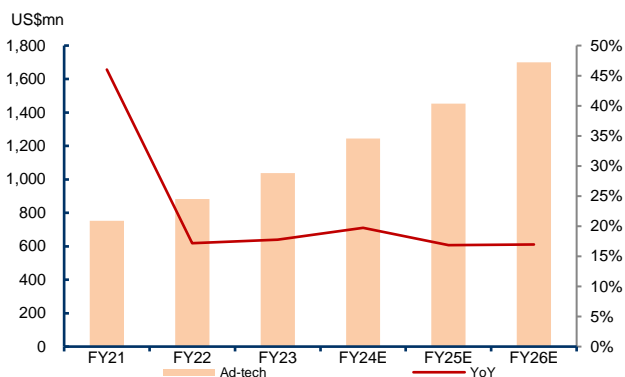
Source: Company data, CMBIGM

Figure 2: Higher rev share of non-casual games



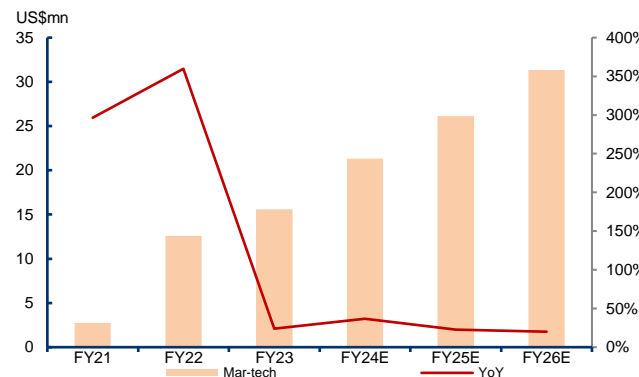
Source: Company data, CMBIGM

Figure 3: Ad-tech revenue growth estimates



Source: Company data, CMBIGM estimates

Figure 4: Mar-tech revenue growth estimates



Source: Company data, CMBIGM estimates

Figure 5: Mobvista's 4Q23 review

US\$'000	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY	Consensus	Diff %
Revenue	232,836	222,960	213,932	224,677	244,554	261,579	269,370	278,589	3.4%	24%	308,630	-9.7%
Gross profit	44,625	45,355	41,096	45,953	46,912	56,048	55,502	58,829	6.0%	28%	56,425	4.3%
Operating profit	31,289	(14,628)	(10,749)	(3,667)	5,172	7,499	5,221	11,686	123.8%	-419%	2,539	360.3%
Adj. net profit	33,446	(12,377)	(9,335)	(2,035)	4,510	4,431	4,065	6,114	50.4%	NA	5,255	16.3%
Margin (%)												
Gross margin	19.2%	20.3%	22.5%	23.8%	19.2%	21.4%	20.6%	21.1%				
Operating margin	13.4%	-6.6%	-5.0%	-1.6%	2.1%	2.9%	1.9%	4.2%				
Adj. NPM	14.4%	-5.6%	-4.4%	-0.9%	1.8%	1.7%	1.5%	2.2%				
Growth (%)												
Revenue (YoY)					5.0%	17.3%	25.9%	24.0%				
Revenue (QoQ)					8.8%	7.0%	3.0%	3.4%				
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA				
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA				

Source: Company data, Bloomberg, CMBIGM

Figure 6: Mobvista's 4Q23 rev breakdown

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY
Revenue (US\$'000)	232,836	222,960	213,932	224,677	244,554	261,579	269,370	278,589	3.4%	24.0%
Ad-tech (Mobile advertising solutions)										
Mintegral platform revenue	229,645	219,512	210,956	221,700	240,995	257,814	265,409	274,273	3.3%	23.7%
Nativex platform revenue	200,105	210,595	199,302	215,166	226,057	241,769	255,417	257,170	0.7%	19.5%
	29,540	8,917	11,654	6,534	14,938	16,045	9,992	17,103	71.2%	161.8%
Mar-tech	3,191	3,448	2,976	2,977	3,559	3,765	3,961	4,316	9.0%	45.0%

Source: Company data, CMBIGM

Figure 7: Mobvista's yearly financials forecast

US\$ mn, Dec-YE	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	500	516	755	894	1,054	1,265	1,479	1,731
Cost of Sales	(381)	(434)	(633)	(717)	(837)	(1,006)	(1,176)	(1,375)
Gross profit	119	82	122	177	217	259	303	355
Selling and marketing expenses	(10)	(17)	(47)	(66)	(51)	(60)	(71)	(83)
Research and development expenses	(35)	(32)	(69)	(107)	(94)	(119)	(139)	(163)
General and administrative expenses	(51)	(44)	(28)	(49)	(54)	(53)	(62)	(73)
Other net income	3	6	9	47	11	9	10	12
Operating profit	25	(5)	(12)	2	30	35	42	49
Finance costs	(2)	(2)	(4)	(5)	(7)	(3)	(3)	(2)
Profit before taxation	23	(7)	(31)	11	25	32	38	48
Income tax	(1)	2	6	(1)	(6)	(5)	(7)	(8)
Profit for the year	22	(5)	(25)	10	19	26	32	39
Profit attributable to owners of the Company	22	(5)	(25)	15	22	26	32	39
Non-controlling interests	0	0	(0)	5	3	0	0	0
Adjusted net profit	41	9	(4)	10	19	37	44	53
Margin Analysis								
Gross margin	24%	16%	16.1%	19.8%	20.6%	20.5%	20.5%	20.5%
Operating margin	5.0%	-1.0%	-1.6%	0.3%	2.8%	2.8%	2.8%	2.8%
Adj. net margin	8.2%	1.7%	-0.5%	1.1%	1.8%	2.9%	3.0%	3.1%
Growth Analysis								
Revenue	15%	3%	46%	18%	18%	20%	17%	17%
Gross profit	21%	-31%	48%	45%	23%	19%	17%	17%
Operating profit	-7%	-121%	137%	NA	NA	NA	NA	NA
Adj. net profit	16%	-78%	-144%	NA	97%	91%	19%	22%

Source: Company data, CMBIGM estimates

Figure 8: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,265	1,479	1,731	1,297	1,522	1,973	-2.5%	-2.8%	-12.3%
Gross profit	259	303	355	258	305	401	0.4%	-0.5%	-11.3%
Operating profit	35	42	49	44	72	183	-20.0%	-42.0%	-73.1%
Adj. net profit	37	44	53	38	63	163	-4.5%	-31.0%	-67.3%
Adj. EPS (RMB)	0.02	0.03	0.03	0.03	0.02	0.05	-11.2%	11.6%	-35.3%
Gross margin	20.5%	20.5%	20.5%	19.9%	20.0%	20.3%	+0.6ppts	+0.5ppts	+0.2ppts
Operating margin	2.8%	2.8%	2.8%	3.4%	4.7%	9.3%	-0.6ppts	-1.9ppts	-6.4ppts
Adj. net margin	2.9%	3.0%	3.1%	3.0%	4.2%	8.3%	-0.1ppts	-1.2ppts	-5.2ppts

Source: Bloomberg, CMBIGM estimates,

Figure 9: CMBIGM estimates revision

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,265	1,479	1,731	1,271	1,487	NA	-0.5%	-0.5%	NA
Gross profit	259	303	355	256	300	NA	1.3%	1.3%	NA
Operating profit	35	42	49	31	37	NA	14.3%	14.0%	NA
Adj. net profit	37	44	53	33	40	NA	10.2%	10.0%	NA
Adj. EPS (RMB)	0.02	0.03	0.03	0.02	0.02	NA	10.2%	10.0%	NA
Gross margin	20.5%	20.5%	20.5%	20.1%	20.1%	NA	+0.4ppts	+0.4ppts	NA
Operating margin	2.8%	2.8%	2.8%	2.4%	2.5%	NA	+0.4ppts	+0.4ppts	NA
Adj. net margin	2.9%	3.0%	3.1%	2.6%	2.7%	NA	+0.3ppts	+0.3ppts	NA

Source: CMBIGM estimates

We use SOTP as our primary valuation method, for its diversified business. For ad-tech business, we apply 20x FY24E P/E (a 30% discount to global & domestic ads peer average), and 3x P/S multiple (a 20% discount to the industry average) for its Mar-tech business (at net loss position), yielding TP of **HK\$6**. Our SOTP valuation suggests **32x/26x FY24/25E P/E**, 12% above the industry average multiple but lower than Trade Desk. Among 3P peers, Trade Desk could be the most comparable one, in our view, due to its focus on programmatic ads, comparable revenue scale, and global reach. Compared with Trade Desk, we think Mobvista's valuation is not demanding, given its higher earnings growth and SaaS initiatives.

Figure 10: SOTP valuation

SOTP	Methodology		Metrics	Multiple	Valuation
(US\$mn)					
Ad-tech	P/E	FY24E adj. NP	54.6	20.0	1,092
Mar-tech	P/S	FY24E Rev	21.3	3.0	64
Total					1,156
Equity Value (HK\$ mn)					9,075
No. of shares (mn)					1,601
Target Price (HK\$) based on SOTP					6

Source: Company data, CMBIGM estimates

Figure 11: comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS
							FY23	FY24E	FY25E	FY23	FY24E	FY25E	CAGR
Mobvista	1860 HK	657	HKD	3.23	BUY	6.0	34.4	18.2	15.4	0.6	0.5	0.5	51%
Global ads													
Trade Desk	TTD US	37,511	USD	77	NA	NA	57.8	46.4	32.3	15.7	13.2	10.8	26%
Applvin	APP US	20,790	USD	63	NA	NA	25.4	19.9	15.1	5.1	4.7	4.3	28%
Unity Software	U US	10,069	USD	26	NA	NA	49.5	26.8	21.2	5.5	4.9	4.1	34%
Snapchat	SNAP US	18,471	USD	11	NA	NA	NA	42.3	20.9	3.5	3.1	2.7	83%
Average							44.2	33.9	22.4	7.5	6.5	5.5	29%
Domestic ads													
XD Inc.	2400 HK	926	HKD	15	NA	NA	32.9	18.6	13.0	1.7	1.4	1.2	69%
Weimob	2013 HK	757	HKD	2	NA	NA	NA	NA	17.3	2.2	1.8	1.6	NA
Zhihu	ZH US	474	USD	1	BUY	2	NA	NA	16.1	0.8	0.7	0.6	NA
Focus Media	002027 CH	12,844	CNY	6	NA	NA	18.6	15.7	13.8	7.5	6.5	5.8	16%
Blue Focus Group	300058 CH	2,537	CNY	7	NA	NA	47.1	30.2	24.6	0.4	0.3	0.3	38%
Average							32.9	21.5	16.9	2.5	2.2	1.9	41%
SaaS													
Youzan	8083 HK	358	HKD	0	NA	NA	NA	NA	NA	1.8	1.7	1.6	NA
Ming Yuan Cloud	909 HK	576	HKD	2	HOLD	6	NA	NA	46.8	2.5	2.3	2.1	NA
Average							NA	NA	46.8	2.1	2.0	1.9	NA
Average							38.5	28.6	22.1	4.2	3.7	3.2	35%

Source: Bloomberg, CMBIGM estimates

Risks

1) Macro uncertainty affecting ads budgets; 2) lower-than-expected ROAS penetration; and 3) higher-than-expected R&D investment weighing on margin.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	755	894	1,054	1,265	1,479	1,731
Cost of goods sold	(633)	(717)	(837)	(1,006)	(1,176)	(1,375)
Gross profit	122	177	217	259	303	355
Operating expenses	(134)	(175)	(188)	(224)	(261)	(306)
Selling expense	(47)	(66)	(51)	(60)	(71)	(83)
Admin expense	(28)	(49)	(54)	(53)	(62)	(73)
R&D expense	(69)	(107)	(94)	(119)	(139)	(163)
Others	9	47	11	9	10	12
Operating profit	(12)	2	30	35	42	49
Other expense	(4)	(5)	(7)	(3)	(3)	(2)
Pre-tax profit	(31)	11	25	32	38	48
Income tax	(6)	1	6	5	7	8
Net profit	(25)	15	22	26	32	39
Adjusted net profit	(4)	10	19	37	44	53

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	483	316	400	575	716	862
Cash & equivalents	160	106	146	305	413	528
Restricted cash	6	5	5	5	5	5
Account receivables	183	173	209	226	258	290
Other current assets	133	32	39	40	39	40
Non-current assets	264	286	291	177	150	122
PP&E	8	12	15	3	0	(3)
Deferred income tax	22	20	13	13	13	13
Intangibles	118	138	146	45	20	(4)
Goodwill	115	115	115	115	115	115
Other non-current assets	2	1	1	1	1	1
Total assets	747	602	692	753	866	984
Current liabilities	350	311	356	425	506	585
Short-term borrowings	59	46	50	50	50	50
Account payables	215	251	292	361	442	521
Tax payable	8	7	10	10	10	10
Other current liabilities	67	7	4	4	4	4
Non-current liabilities	38	43	76	11	11	11
Long-term borrowings	0	0	0	0	0	0
Deferred income	8	6	2	2	2	2
Share capital	17	16	16	16	16	16
Retained earnings	252	320	219	234	261	292
Total shareholders equity	337	235	250	277	308	348

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	42	98	108	113	116	121
Depreciation & amortization	29	30	31	32	32	33
Change in working capital	36	99	5	52	49	47
Others	8	(42)	47	(3)	(4)	(7)
Net cash from operations	42	98	108	113	116	121
Investing						
Capital expenditure	(11)	(1)	(5)	(5)	(5)	(5)
Others	29	(99)	1	1	1	1
Net cash from investing	18	(100)	(4)	(4)	(4)	(4)
Financing						
Net borrowings	4	57	0	0	0	0
Others	57	(111)	(7)	(3)	(3)	(2)
Net cash from financing	61	(54)	(7)	(3)	(3)	(2)
Net change in cash						
Cash at the beginning of the year	39,311	160,322	103,599	200,035	304,750	412,700
Exchange difference	(680)	(670)	0	0	0	0
Cash at the end of the year	160,322	103,599	200,035	304,750	412,700	527,645
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	46.4%	18.4%	17.9%	20.0%	16.9%	17.0%
Gross profit	48.4%	45.2%	22.7%	19.2%	17.1%	17.1%
Operating profit	na	na	1,217.5%	19.6%	18.3%	17.8%
Net profit	na	na	45.4%	21.5%	20.3%	23.9%
Adj. net profit	na	na	97.1%	91.5%	19.4%	22.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	16.1%	19.8%	20.6%	20.5%	20.5%	20.5%
Operating margin	(1.6%)	0.3%	2.8%	2.8%	2.8%	2.8%
Adj. net profit margin	(0.5%)	1.1%	1.8%	2.9%	3.0%	3.1%
Return on equity (ROE)	(8.3%)	5.2%	9.0%	10.1%	10.9%	12.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.3	0.3	0.4	0.9	1.2	1.4
Current ratio (x)	1.4	1.0	1.1	1.4	1.4	1.5
Receivable turnover days	114.2	71.7	65.3	62.0	59.0	57.0
Payable turnover days	103.6	116.9	116.9	117.0	123.0	126.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	NA	67.2	34.4	18.2	15.4	12.8

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

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NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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