

Weibo (WB US)

Ad revenue growth recovery still takes time

Weibo announced 1Q24 results: total revenue decreased by 4% YoY (or flat YoY on a constant currency basis) to US\$395mn, in line with consensus/our estimates; non-GAAP net income was down by 4% YoY to US\$107mn, 24/27% ahead of consensus/our estimates, thanks to the better-than-expected control in opex (-10% YoY). We forecast advertising revenue to remain flattish YoY in 2Q24E, primarily due to the decline in ad revenue from the cosmetics and beauty vertical. That said, management expected ad business to recover in 2H24E, supported by the bottoming out of consumption sentiment and the Olympic event. We lower FY24-26 total revenue forecast by 2% mainly to reflect the shrinking ad budgets of cosmetics and beauty brands. We lower our TP to US\$17.0 on 10x FY24E non-GAAP PE (previous: US\$18.80 on 10x FY24E PE), a discount to peers' avg of 18x. The company's business recovery still takes time, but we see Weibo's current valuation of 5x FY24E PE offer ample safety. Maintain BUY.

■ **Flattish ad revenue growth due to mixed performance of different verticals.** Ad revenue declined by 5% YoY to US\$339mn in 1Q24 (flat YoY on a constant currency basis). The cosmetics and beauty vertical remained under pressure and led to a c.5% decline in overall ad revenue YoY, primarily due to the shrinking ad budgets of international brands. That said, ad revenue from domestic beauty brands grew over 50% YoY in 1Q24. Other than the cosmetics and beauty vertical, both online game and 3C product verticals delivered double-digit YoY ad revenue growth in 1Q24, thanks to the development of content ecosystem. Looking ahead, we forecast ad revenue to remain flat YoY on a constant currency in 2Q24E, as the weakness in cosmetics and beauty vertical offsets the recovery of other verticals.

■ **Optimizing channel investment to focus on quality user growth.** MAUs declined by 1% YoY to 588mn in Mar 2024, as the company optimized its channel investment to focus on acquisition of high-quality users. DAUs were flat YoY at 255mn in Mar 2024. Going forward, the company expected to see relatively stable DAUs, but the percentage of high-ARPU users should increase on the optimized user acquisition strategy. In terms of content ecosystem, Weibo continued to increase investment in key content verticals such as automobiles, online games, and healthcare, which achieved notable growth in the number of verified accounts and user interactions

■ **Improved OPM on stringent opex control.** Non-GAAP OPM improved by 0.7ppt YoY and 0.3ppt QoQ to 31.8% in 1Q24, mainly attributable to the stringent control in opex. Total opex declined by 10% YoY to US\$209mn in 1Q24. However, we expect non-GAAP OPM will remain under pressure and decline by 0.7ppt YoY to 32.9% in FY24E, due to the operating deleverage. As of 31 Mar, Weibo had cash and cash equivalent of US\$2.1bn, which could well cover its senior notes due in July 2024 and shareholder return initiatives.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	1,836	1,760	1,724	1,799	1,848
Adjusted net profit (US\$ mn)	540.1	450.6	447.4	492.7	520.7
YoY growth (%)	(24.8)	(16.6)	(0.7)	10.1	5.7
EPS (Adjusted) (US\$)	2.30	1.91	1.89	2.08	2.20
Consensus EPS (US\$)	2.30	1.91	1.67	1.83	1.94
P/S (x)	1.1	1.2	1.2	1.1	1.1
P/E (x)	21.5	6.0	6.2	5.2	4.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$17.00
(Previous TP)	US\$18.80)
Up/Downside	93.8%
Current Price	US\$8.77

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Stock Data

Mkt Cap (US\$ mn)	2,062.4
Avg 3 mths t/o (US\$ mn)	12.0
52w High/Low (US\$)	15.75/7.63
Total Issued Shares (mn)	235.2

Source: FactSet

Shareholding Structure

Sina	37.3%
Alibaba	28.9%

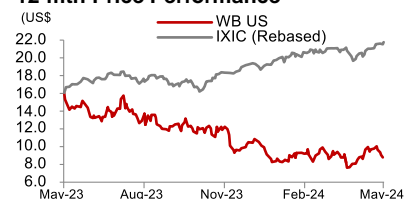
Source: Company data

Share Performance

	Absolute	Relative
1-mth	2.8%	-4.5%
3-mth	-4.8%	-10.0%
6-mth	-28.3%	-39.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Weibo: forecast revision

US\$m	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,724	1,799	1,848	1,765	1,842	1,891	-2.4%	-2.3%	-2.3%
Gross Profit	1,348	1,407	1,445	1,390	1,450	1,489	-3.0%	-3.0%	-2.9%
Adjusted net profit	447	493	521	451	500	534	-0.7%	-1.4%	-2.5%
Adjusted EPS (RMB)	1.7	1.9	2.0	1.9	2.1	2.2	-9.7%	-10.3%	-11.3%
Gross margin	78.2%	78.2%	78.2%	78.7%	78.7%	78.7%	-0.5 ppt	-0.5 ppt	-0.5 ppt
Adjusted net margin	26.0%	27.4%	28.2%	25.5%	27.1%	28.2%	0.4 ppt	0.2 ppt	-0.1 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$m	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,724	1,799	1,848	1,785	1,873	1,928	-3.4%	-3.9%	-4.2%
Gross profit	1,348	1,407	1,445	1,398	1,472	1,517	-3.6%	-4.4%	-4.7%
Adjusted net profit	447	493	521	440	482	512	1.6%	2.3%	1.7%
Adjusted EPS (RMB)	1.7	1.9	2.0	1.7	1.8	1.9	1.6%	2.3%	1.7%
Gross margin	78.2%	78.2%	78.2%	78.3%	78.6%	78.7%	-0.1 ppt	-0.4 ppt	-0.5 ppt
Adjusted net margin	26.0%	27.4%	28.2%	24.7%	25.7%	26.6%	1.3 ppt	1.7 ppt	1.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Weibo: quarterly financials

(US\$m)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	Cons.	Diff%	CMBI	Diff%
Advertising revenue	393	391	355	386	389	404	339				
YoY%	-26.8%	-29.1%	-16.8%	0.0%	-1.0%	3.4%	-4.6%				
VAS revenue	60	57	58	55	53	60	57				
YoY%	-13.9%	-12.2%	1.7%	-15.5%	-12.1%	4.3%	-3.3%				
Total revenue	454	448	414	440	442	464	395	388	2.0%	387	2.3%
YoY%	-25.3%	-27.3%	-14.6%	-2.2%	-2.5%	3.5%	-4.4%				
Gross profit margin (%)	79.2%	76.3%	79.3%	78.6%	78.7%	78.4%	78.0%				
S&M %	25.1%	27.4%	25.7%	23.9%	24.8%	30.1%	26.2%				
R&D %	21.4%	22.2%	21.9%	21.1%	18.7%	14.5%	20.4%				
Non-GAAP NPM	26.2%	39.8%	26.9%	28.7%	30.9%	16.5%	27.0%				
Non-GAAP net profit	119	179	111	126	137	76	107	86	24.1%	84	27.3%

Source: Company data, CMBIGM estimates

Figure 4: Weibo: peer valuation comparison

Company	Ticker	Price (LC)	Adj. EPS growth (YoY%)		PE (x)		EPS CAGR (%) 2023-2025E
			2024E	2025E	2024E	2025E	
Focus Media	002027 CH	6.7	19	14	16	14	16.6
Baidu	BIDU US	101.4	(1)	10	10	9	4.4
Meta	META US	465.8	37	16	23	20	25.7
Google	GOOGL US	175.1	17	15	25	22	15.7
Average					18	16	

Source: Bloomberg, CMBIGM

Note: data are as of 23 May 2024

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	2,257	1,836	1,760	1,724	1,799	1,848
Cost of goods sold	(404)	(401)	(374)	(376)	(392)	(403)
Gross profit	1,853	1,436	1,386	1,348	1,407	1,445
Operating expenses	(1,156)	(945)	(913)	(896)	(915)	(919)
Selling expense	(592)	(477)	(461)	(465)	(476)	(479)
Admin expense	(133)	(53)	(118)	(103)	(106)	(107)
R&D expense	(431)	(415)	(334)	(328)	(333)	(333)
Operating profit	697	491	473	452	492	527
Other gains/(losses)	(176)	(313)	19	(5)	0	0
Interest income	30	(39)	11	(1)	37	47
Pre-tax profit	551	138	503	446	529	574
Income tax	(139)	(30)	(145)	(99)	(116)	(126)
After tax profit	412	108	357	347	413	448
Minority interest	(16)	12	15	12	14	15
Net profit	428	96	343	335	399	433
Adjusted net profit	719	540	451	447	493	521

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	4,803	4,552	4,513	4,606	5,159	5,709
Cash & equivalents	2,424	2,691	2,585	2,627	3,066	3,506
Account receivables	723	502	441	432	451	463
Prepayment	451	392	360	346	361	371
Other current assets	1,205	968	1,127	1,201	1,282	1,369
Non-current assets	2,717	2,577	2,768	2,309	2,238	2,186
PP&E	68	250	221	219	217	215
Investment in JVs & assos	1,208	994	1,320	756	687	638
Goodwill	297	245	301	245	245	245
Other non-current assets	1,143	1,089	926	1,089	1,089	1,089
Total assets	7,520	7,129	7,280	6,914	7,397	7,896
Current liabilities	2,159	1,220	1,797	1,755	1,770	1,771
Account payables	198	161	161	158	165	170
Tax payable	145	55	95	95	95	95
Other current liabilities	988	80	875	873	876	878
Accrued expenses	829	924	667	629	634	629
Non-current liabilities	1,672	2,519	1,965	1,318	1,401	1,480
Long-term borrowings	1,672	2,519	1,965	1,318	1,401	1,480
Total liabilities	3,832	3,739	3,763	3,073	3,170	3,251
Share capital	1,679	1,330	1,055	1,055	1,055	1,055
Retained earnings	1,915	2,001	2,343	2,679	3,078	3,511
Total shareholders equity	3,594	3,330	3,399	3,734	4,133	4,566
Minority interest	94	60	119	107	94	79
Total equity and liabilities	7,520	7,129	7,280	6,914	7,397	7,896

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	551	138	503	446	529	574
Depreciation & amortization	55	47	47	49	51	51
Tax paid	(139)	(30)	(145)	(99)	(116)	(126)
Change in working capital	42	334	(167)	(29)	(29)	(31)
Others	305	320	(15)	(12)	(14)	(15)
Net cash from operations	814	809	223	356	420	453
Investing						
Capital expenditure	(35)	(53)	(49)	(47)	(49)	(49)
Net proceeds from disposal of short-term investments	871	231	(161)	(64)	(71)	(78)
Others	(1,259)	(1,639)	(327)	564	69	50
Net cash from investing	(424)	(1,461)	(537)	453	(50)	(77)
Financing						
Net borrowings	1	953	(446)	(755)	83	79
Proceeds from share issues	188	0	567	0	0	0
Others	0	(34)	59	(12)	(14)	(15)
Net cash from financing	189	919	179	(766)	69	64
Net change in cash						
Cash at the beginning of the year	1,815	2,424	2,691	2,585	2,627	3,066
Exchange difference	29	0	0	0	0	0
Cash at the end of the year	2,424	2,691	2,556	2,627	3,066	3,506
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	33.6%	(18.6%)	(4.2%)	(2.0%)	4.4%	2.7%
Gross profit	33.5%	(22.5%)	(3.5%)	(2.7%)	4.4%	2.7%
Operating profit	37.6%	(29.6%)	(3.6%)	(4.5%)	9.0%	7.0%
Net profit	36.7%	(77.6%)	257.9%	(2.1%)	19.1%	8.4%
Adj. net profit	31.2%	(24.8%)	(16.6%)	(0.7%)	10.1%	5.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	82.1%	78.2%	78.7%	78.2%	78.2%	78.2%
Operating margin	30.9%	26.7%	26.9%	26.2%	27.4%	28.5%
Adj. net profit margin	31.8%	29.4%	25.6%	26.0%	27.4%	28.2%
Return on equity (ROE)	13.4%	2.8%	10.2%	9.4%	10.1%	9.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.2	3.7	2.5	2.6	2.9	3.2
Receivable turnover days	116.9	99.9	91.4	91.4	91.4	91.4
Payable turnover days	(178.6)	(146.7)	(157.5)	(153.6)	(153.6)	(153.6)
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	4.7	21.5	6.0	6.2	5.2	4.8
P/E (diluted)	4.7	21.7	6.1	6.9	5.8	5.3
P/B	0.6	0.6	0.6	0.6	0.5	0.5

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

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