

Bilibili

Investor meeting takeaways: encouraging ad biz trend, inhouse game to take time

Reiterate Rating: BUY | PO: 17.00 USD | Price: 12.61 USD

Positive ad growth outlook in 2024

We recently hosted the post-results investor group call with BILI mgmt. and see positive feedback from investors on its 2024 ad growth outlook. Mgmt is confident of delivering above 25% YoY growth in ad business in 2024, supported by 1) **better performance ad**, led by eCommerce transaction-based functions and resilient game ad. Performance ad saw 50%+ YoY/60% YoY growth in 2023/4Q23, and the company sees further room for a rise in both ad load and ad pricing, especially the improvement in ad pricing in 2024 to drive better ad growth. It will enhance ad products and algorithm with better targeting to increase ad pricing; 2) **eCommerce function** (eg, shopping links, yellow card, and coupons) helps the integration across different ad products, including brand ads and content ads. BILI will optimize both supply and demand side to promote more content creators, merchants & brands, and users to adopt eC-related functions in 2024. BILI expects eC-related ad, including eC platforms and FMCG merchant ad, to deliver solid growth in 2024 amid further penetration of streaming/video usages; 3) **new ad areas**, including new categories like auto and 3C, and new ad traffic such as search, private domine, all show room for growth. We also see performance ad and some new ad categories such as auto as high-margin business, which could help on ad margin improvement. Overall, we model 25% YoY ad growth in 2024, and will keep an eye on the execution of eC ad-related new business with a scope to trigger upside risks.

Game business will take time to have in-house titles

BILI did several rounds of restructuring in its game biz in 2023 and will focus on core teams of its in-house game biz, which will take time to have new in-house game titles. We expect game biz to be under pressure in 1H24, while BILI has 3 new games (**Heaven Burns Red**, **San Guo: Mou Ding Tian Xia**, and **Wuhua Mixin**) in the pipeline with game approval license and are likely to launch in 2H24. Game remains a high-margin and core user group biz for BILI and the company expects the restructuring and the new leader of in-house game distribution biz to help enhance the competitive edge of game biz in the medium/-long term. Also, BILI sees good ad demand on its platform, despite some game regulatory uncertainty previously, and it remains optimistic on China game industry growth in 2024 with normalized game approval and new game launches.

Breakeven on track; positive OCF trend to continue

The company reiterated its on-track breakeven timing with non-GAAP operating profit turnaround likely in 3Q24, driven by gradual GPM improvement on mix shift to high-margin ad products and cost optimization. It also expects positive operating cash flow trend to continue in 1Q24/2024, with loss narrowing and better growth of cash-based biz such as live streaming and performance ad. We reiterate Buy rating with a DCF-based PO of HK\$131/US\$17, led by ad business improvement and the turnaround story.

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Stock Data

Price (ADR / Common)	12.61 USD / 103.60 HKD
Price Objective	17.00 USD / 131.00 HKD
Date Established	30-Nov-2023 / 30-Nov-2023
Investment Opinion	C-1-9 / C-1-9
52-Week Range	8.80 USD-25.58 USD
Market Value (mn)	4,360 USD
Shares Outstanding (mn)	345.8 / 345.8
Average Daily Value (mn)	87.17 USD
Free Float	30.0%
BofA Ticker / Exchange	BILI / NAS
BofA Ticker / Exchange	BLBLF / HKG
Bloomberg / Reuters	BILI US / BILI.OQ
ROE (2023E)	-27.3%
Net Dbt to Eqty (Dec-2022A)	33.7%

eC: eCommerce

FMCG: Fast-moving consumer goods

3C: computer, communication and consumer electronics

OCF: operating cash flow

GPM: gross profit margin

Price objective basis & risk

Bilibili (BILI / BLBLF)

Our DCF-based PO is US\$17/HK\$131, based on a 13% discount rate, 5% terminal growth rate, and around 26% 2025-30E CAGR.

Downside risks are 1) regulation tightening on content, game, data usage and copyright, 2) rising competition and hence higher costs, 3) the life cycle of key games, 4) game growth affected by approval delays (especially of games licensed from overseas) or weak new game popularity, 5) competitive dynamics change with short video players, 6) revenue diversification encounter more challenges than expected, and 7) margin uncertainties from mix-shift to lower margin business and higher than expected investment.

Upside risks are 1) solid user growth trend may continue with lower than expected S&M expenses amid improving content and community functions, 2) potential launch of new monetization models, such as eCommerce streaming and video-embedded ads, 3) better-than-expected margin trends on further cost optimization and headcount control

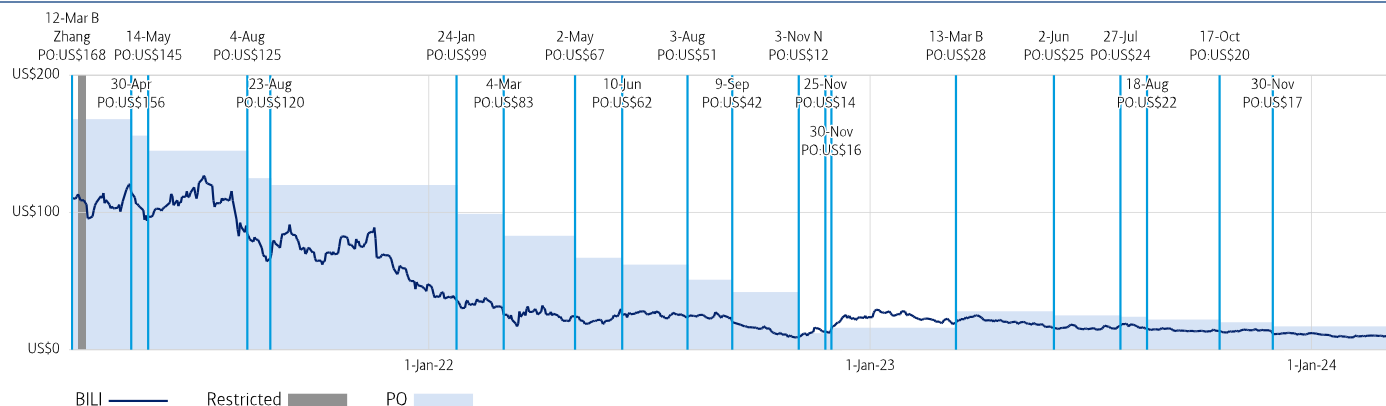
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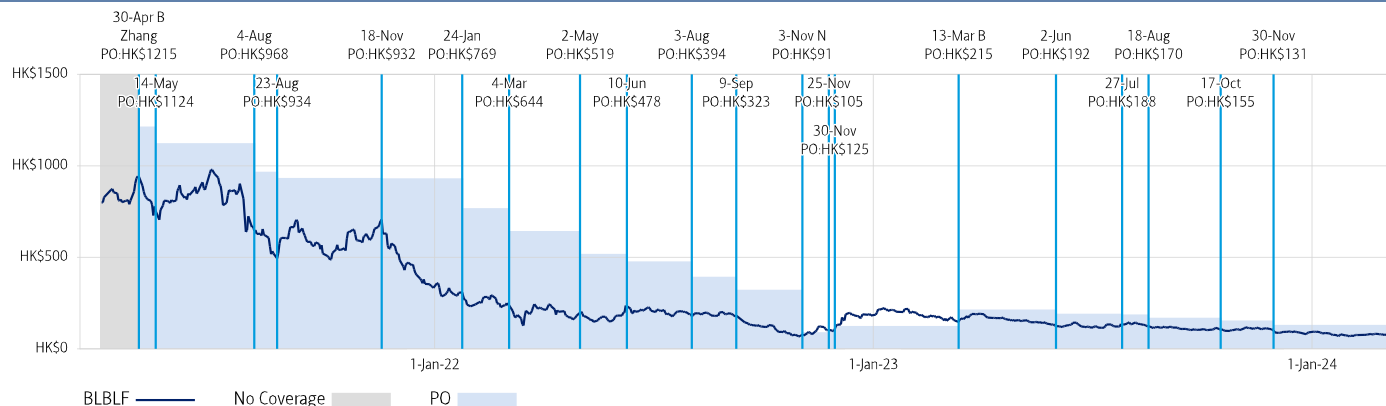
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Bilibili (BILI) Price Chart



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Bilibili (BLBLF) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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