

Bilibili

# Expect positive ad growth outlook in 2024E; breakeven timeline on track

Reiterate Rating: BUY | PO: 17.00 USD | Price: 10.81 USD

## Better ad outlook on video streaming and game ad

BILI reported a largely inline 4Q23 results with better ad biz offset slightly lowered game biz. Co. expects the growth momentum of ad biz to continue in 2024E supported by 1) **eCommerce related ad** with new streaming/video functions to support performance ad. It also sees eCommerce function helps the integration across different ad products including brand ads and content ads; 2) **game ad** as a traditional strong vertical of BILI will continue to attract more ad budget amid game industry recovery and increase game consumption of Bili users; 3) **new ad verticals** including auto, 3C, home appliance, and untapped traffic such as search page all show growth potential; 4) **ad product and tech upgrade** also help to drive ROI and ad budget. Co has also integrated its ad system with content creator ad system by the end of 4Q23 to improve ad efficiency which has seen positive feedback from brand advertisers. Hence, we do see good progress of ad biz with the integration of new functions and model better ad growth in 24E at 25% YoY (from prior 15% YoY), while game biz is still under pressure in 1H24 and we see new games (3 in pipeline with license) are likely to launch in June and 2H24. Overall, we fine tune 24-25E EPS by 4-6% with positive ad growth offset by uncertain game biz, and we also move breakeven time to 3Q24 from 4Q24 assume high season with new game launch in 3Q. Our DCF-based PO remains at HK\$131/ US\$17. Reiterate Buy and we will keep an eye on the execution of eC ad related new biz.

## 4Q: inline results amid better ad, 3Q24 breakeven ontrack

Total revenue was RMB6.3bn (up 3% YoY), in line with consensus and our estimate. Ad rev was slightly better at RMB1.9bn, up 28% YoY (vs. ours of 25% YoY) on good game and eCommerce ad. Game rev was RMB1bn, down 12% YoY & up 2% QoQ, due to high base from new game release, slightly below our estimate of RMB1.1bn. VAS rev was RMB2.9bn, up 22% YoY (vs. ours 18% YoY) on increased live broadcasting rev. GM expanded to 26% on improved ad biz margin with new eC function. GAAP Op loss was RMB(1.3)bn (narrowed by 44% YoY), bigger than our estimate due to one-off expenses related to game biz restructuring. Adj. net loss was RMB(556)mn (narrowed by 58% YoY), smaller than consensus of RMB(647)mn. Co indicates on track breakeven path with timeline likely at 3Q24, slightly better than our expectation of 4Q24.

Estimates (Dec) (CNY)	2021A	2022A	2023E	2024E	2025E
Net Income (Reported - mn)	(6,789)	(7,497)	(4,822)	(1,675)	621
EPS	(17.88)	(18.99)	(11.67)	(4.02)	1.49
EPS Change (YoY)	-105.2%	-6.2%	38.5%	65.5%	NM
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(16.68)	(16.84)	(6.33)	2.59	8.34
<b>Valuation (Dec)</b>					
P/E	NM	NM	NM	NM	52.40x
EV / EBITDA*	NM	NM	NM	12.99x	7.09x
Free Cash Flow Yield*	-23.54%	-24.71%	-9.72%	4.01%	12.96%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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**Refer to important disclosures on page 7 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 07 March 2024 02:33PM EST

08 March 2024

Equity

### Key Changes

(CNY)	Previous	Current
2023E EPS	-10.60	-11.67
2024E EPS	-4.29	-4.02
2025E EPS	1.43	1.49

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### Stock Data

Price (ADR / Common)	10.81 USD / 85.65 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)	3,738 USD
Shares Outstanding (mn)	345.8 / 345.8
Average Daily Value (mn)	68.17 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

ROI: return on investment

3C: computer, communication and consumer electronics

GM: gross margin

NM: net margin

# iQprofile<sup>SM</sup> Bilibili

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(CNY Millions)					
Sales	19,384	21,899	22,528	25,260	27,283
Gross Profit	4,043	3,849	5,442	7,258	8,805
Sell General & Admin Expense	(7,632)	(7,442)	(6,039)	(5,325)	(4,868)
Operating Profit	(6,429)	(8,358)	(5,064)	(2,047)	170
Net Interest & Other Income	(284)	954	331	399	440
Associates	NA	NA	NA	NA	NA
Pretax Income	(6,713)	(7,404)	(4,733)	(1,648)	610
Tax (expense) / Benefit	(95)	(104)	(79)	(27)	10
Net Income (Adjusted)	(5,676)	(6,264)	(3,498)	(424)	1,866
Average Fully Diluted Shares Outstanding	380	395	413	416	418

Key Cash Flow Statement Data					
Net Income	(6,789)	(7,497)	(4,822)	(1,675)	621
Depreciation & Amortization	2,629	3,614	3,896	3,755	3,889
Change in Working Capital	(9)	(1,152)	937	1,588	1,458
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,522	1,123	0	0	0
Cash Flow from Operations	(2,647)	(3,911)	10	3,668	5,968
Capital Expenditure	(3,687)	(2,738)	(2,625)	(2,590)	(2,480)
(Acquisition) / Disposal of Investments	(17,849)	9,683	(1,437)	(1,437)	(1,437)
Other Cash Inflow / (Outflow)	(3,042)	3,665	0	0	0
Cash Flow from Investing	(24,578)	10,609	(4,062)	(4,027)	(3,917)
Shares Issue / (Repurchase)	19,186	(404)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	30,389	(4,355)	0	0	0
Free Cash Flow	(6,334)	(6,650)	(2,614)	1,078	3,488
Net Debt	11,493	5,132	9,183	9,543	7,491
Change in Net Debt	8,358	(2,413)	4,051	359	(2,051)

Key Balance Sheet Data					
Property, Plant & Equipment	1,350	1,227	957	573	117
Other Non-Current Assets	14,256	16,151	16,587	17,243	17,727
Trade Receivables	1,382	1,329	1,243	1,256	1,222
Cash & Equivalents	7,523	10,173	6,121	5,762	7,813
Other Current Assets	27,541	12,952	12,952	12,952	12,952
Total Assets	52,053	41,831	37,860	37,785	39,831
Long-Term Debt	17,784	8,683	8,683	8,683	8,683
Other Non-Current Liabilities	482	814	814	814	814
Short-Term Debt	1,232	6,621	6,621	6,621	6,621
Other Current Liabilities	10,839	10,472	11,323	12,924	14,348
Total Liabilities	30,337	26,591	27,442	29,043	30,467
Total Equity	21,716	15,240	10,417	8,743	9,364
Total Equity & Liabilities	52,053	41,831	37,860	37,785	39,831

iQmethod <sup>SM</sup> - Bus Performance*					
Return On Capital Employed	-17.3%	-15.2%	-10.7%	-1.6%	6.3%
Return On Equity	-38.7%	-33.9%	-27.3%	-4.4%	20.6%
Operating Margin	-33.2%	-38.2%	-22.5%	-8.1%	0.6%
EBITDA Margin	-15.5%	-13.1%	-0.4%	11.2%	19.1%

iQmethod <sup>SM</sup> - Quality of Earnings*					
Cash Realization Ratio	NM	NM	NM	NM	3.2x
Asset Replacement Ratio	1.4x	0.8x	0.7x	0.7x	0.6x
Tax Rate (Reported)	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	52.9%	33.7%	88.2%	109.2%	80.0%
Interest Cover	-36.2x	-25.9x	-24.1x	-8.2x	19.8x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Internet/e-Commerce

## Company Description

Originated as an animation, gaming, comics (ACG) content community in 2009, Bilibili has evolved into a full-spectrum online entertainment platform with targeted users from generation Z (those born between 1990 and 2009). Bilibili attracts users with engaging professional user generated content (PUGC), which combines creative user generated content and high-quality professionally generated content.

## Investment Rationale

We see a better monetization outlook amid macro recovery and resumption of game approval licensing. The company is still loss making, while we see cost optimization across the board as likely to drive breakeven by 4Q24. On the user side, user as core asset has a resilient growth trend with improving user time spent amid quality user growth strategy. Also, the company still has underpenetrated monetization business, such as eCommerce streaming, which could bring long-term growth opportunities.

## Stock Data

Shares / Common	1.00
Price to Book Value	2.6x

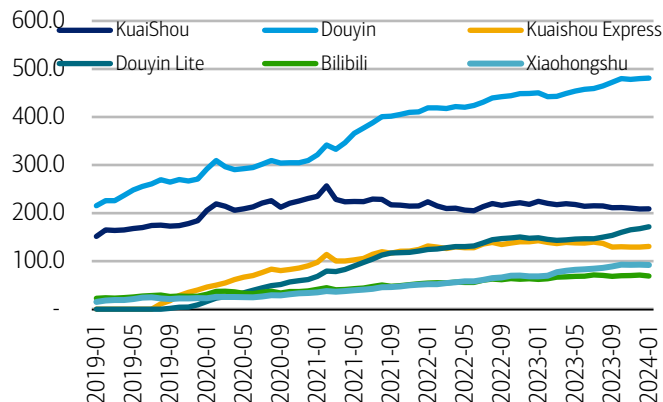
## Key Changes

(CNY)	Previous	Current
2023E EPS	-10.60	-11.67
2024E EPS	-4.29	-4.02
2025E EPS	1.43	1.49

# Resilient user trend

## Exhibit 1: DAU comparison

Bilibili DAU up 12% YoY in 4Q23

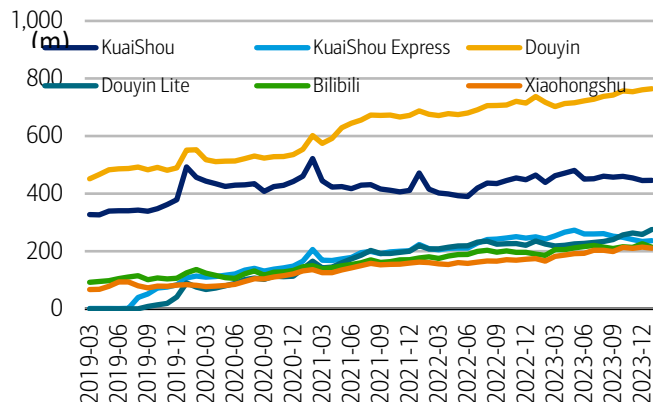


Source: Questmobile, BofA Global Research

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## Exhibit 2: MAU comparison

User growth remains resilient in 2023 with 10% YoY in 4Q23

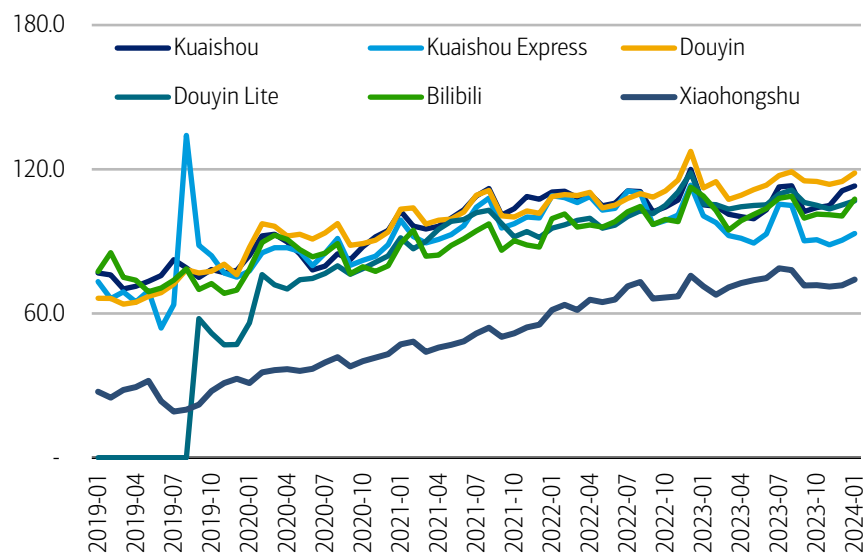


Source: Questmobile, BofA Global Research

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## Exhibit 3: Daily time spent per user comparison.

Daily time spent per user of Bilibili returned to 100mins level



Source: Questmobile, BofA Global Research

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## 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

## Analyst Certification

I, Lei Zhang, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Agora	API	API US	Daley Li, CFA
	AiHuiShou	RERE	RERE US	Joyce Ju
	Alibaba Group	BABA	BABA US	Joyce Ju
	Alibaba Group	BABAF	9988 HK	Joyce Ju
	Alibaba Health	ALBHF	241 HK	Miranda Zhuang, CFA
	Baidu.com	BIDU	BIDU US	Miranda Zhuang, CFA
	Baidu.com	BAIDF	9888 HK	Miranda Zhuang, CFA
	Bilibili	BILI	BILI US	Lei Zhang
	Bilibili	BLBLF	9626 HK	Lei Zhang
	CAR Group	CRSLF	CAR AU	Sriharsh Singh
	Chinasoft International	CFTLF	354 HK	Daley Li, CFA
	Cloud Music	XWJF	9899 HK	Lei Zhang
	Com2uS Corp	XOYAF	078340 KS	Jeehoon Jeong, CFA
	DBAPPSecurity	XDBAF	688023 CH	Daley Li, CFA
	Delhivery	XDVL	DELHIVER IN	Sachin Salgaonkar
	Dingdong	DDL	DDL US	Joyce Ju
	East Money	XEQTF	300059 CH	Michael Li
	Grab Holdings	GRAB	GRAB US	Sachin Salgaonkar
	Hello Group	MOMO	MOMO US	Lei Zhang
	Hundsun Technologies	XYTGF	600570 CH	Daley Li, CFA
	iQIYI	IQ	IQ US	Lei Zhang
	JD Health	JDHIF	6618 HK	Miranda Zhuang, CFA
	JD.com	JD	JD US	Joyce Ju
	JD.com	JDCMF	9618 HK	Joyce Ju
	Kingdee International Software	KGDEF	268 HK	Daley Li, CFA
	Kingsoft Corporation	KSFTF	3888 HK	Daley Li, CFA
	Kuaishou	KUASF	1024 HK	Lei Zhang
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Meituan	MPNGF	3690 HK	Lei Zhang
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang

**APR - Internet, Media and Software Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Nine Entertainment Company	NNMTF	NEC AU	Ware Kuo
	Pinduoduo Inc.	PDD	PDD US	Joyce Ju
	Plan B Media PCL	XMKTF	PLANB TB	Thititthep Nophaket
	PT Bukalapak.com	BKLPF	BUKA IJ	Sachin Salgaonkar
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh
	Tencent Holdings	TCTZF	700 HK	Miranda Zhuang, CFA
	Tencent Music	TME	TME US	Lei Zhang
	Tencent Music	XWFWF	1698 HK	Lei Zhang
	Tongcheng Travel	TNGCF	780 HK	Janet Yang
	Trip.com Group	TCOM	TCOM US	Joyce Ju
	Trip.com Group	TRPCF	9961 HK	Joyce Ju
	TUHU Car	XTCRF	9690 HK	Miranda Zhuang, CFA
	Venustech	XVCGF	002439 CH	Daley Li, CFA
	Vipshop Holdings	VIPS	VIPS US	Joyce Ju
	Xero Limited	XROLF	XRO AU	Sriharsh Singh
	YY	YY	YY US	Lei Zhang
	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar

**NEUTRAL**

	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA
	GoTo Group	GTOFF	GOTO IJ	Sachin Salgaonkar
	Huya	HUYA	HUYA US	Lei Zhang
	KE Holdings	BEKE	BEKE US	Miranda Zhuang, CFA
	KE Holdings	XSQRF	2423 HK	Miranda Zhuang, CFA
	Kingsoft Cloud	KC	KC US	Daley Li, CFA
	Kingsoft Cloud	KCLHF	3896 HK	Daley Li, CFA
	Nykaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPFXF	POLICYBZ IN	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Ware Kuo
	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	Weimob	WEMXF	2013 HK	Daley Li, CFA
	WiseTech Global Limited	WTCF	WTC AU	Ware Kuo
	XD Inc.	XDNCF	2400 HK	Lei Zhang
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA

**UNDERPERFORM**

	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBJHF	BEC TB	Thititthep Nophaket
	Douyu	DOYU	DOYU US	Lei Zhang
	Indiamart InterMesh Limited	XEITF	INMART IN	Sachin Salgaonkar
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Kingsoft Office	XBKOF	688111 CH	Daley Li, CFA
	Ming Yuan Cloud	XWTAF	909 HK	Daley Li, CFA
	NavInfo	XWLHF	002405 CH	Daley Li, CFA
	Ping An Healthcare and Technology	PANHF	1833 HK	Miranda Zhuang, CFA
	Qi An Xin	XQTDF	688561 CH	Daley Li, CFA
	Technology One Limited	THNOF	TNE AU	Ware Kuo
	ThunderSoft	XSTS F	300496 CH	Daley Li, CFA
	Weibo Corporation	WB	WB US	Miranda Zhuang, CFA
	Weibo Corporation	WEIBF	9898 HK	Miranda Zhuang, CFA
	Zee Entertainment Enterprises	XZETF	Z IN	Sachin Salgaonkar
	Zip Co Limited	ZIZTF	ZIP AU	Ware Kuo

**RVW**

	AfreecaTV	WNTHF	067160 KS	Susie Lee
	CJ ENM	CJHOF	035760 KS	Susie Lee
	Coupang	CPNG	CPNG US	Susie Lee
	Dada Nexus	DADA	DADA US	Lei Zhang
	HYBE	XBGOF	352820 KS	Susie Lee
	JYP Entertainment	ALNNF	035900 KS	Susie Lee



**APR - Internet, Media and Software Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	Kakao Games	XKKGf	293490 KS	Susie Lee
	Krafton	XKINF	259960 KS	Susie Lee
	Naver Corporation	NHNCf	035420 KS	Susie Lee
	NCSoft	NCSCf	036570 KS	Susie Lee
	Netmarble	XLGHF	251270 KS	Susie Lee
	Paytm	XUXBF	PAYTM IN	Sachin Salgaonkar
	PearlAbyss Corp	XEPAF	263750 KS	Susie Lee
	YG Entertainment	XYEIF	122870 KS	Susie Lee

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

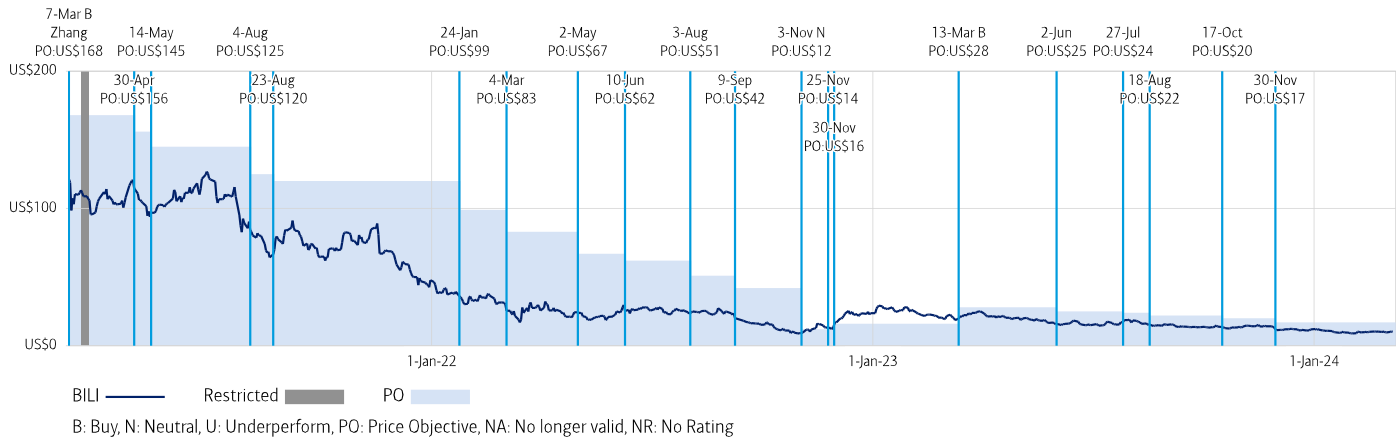
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# Disclosures

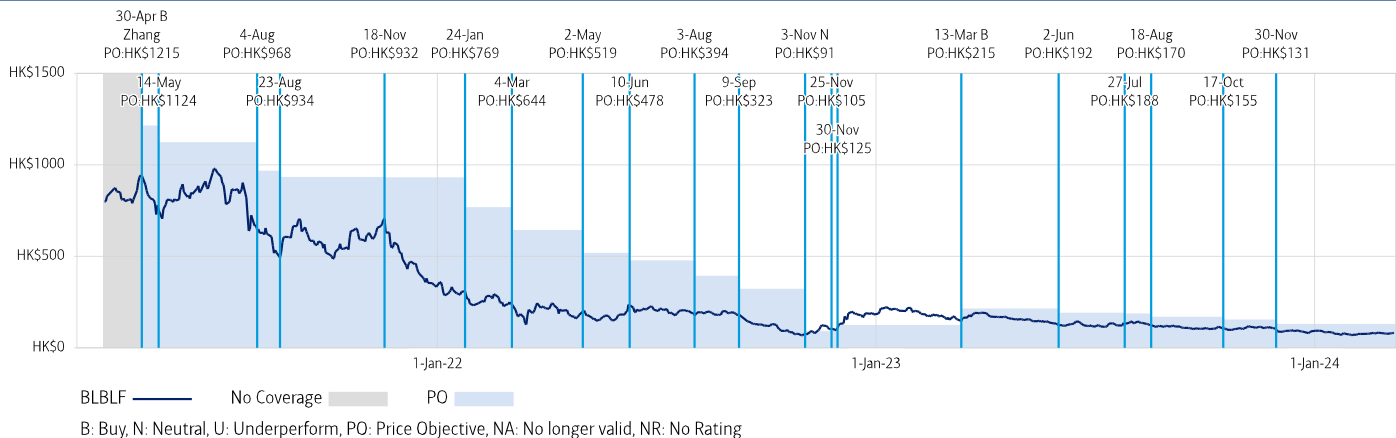
## Important Disclosures

### Bilibili (BILI) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### 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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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.





**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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

<sup>R2</sup>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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