

Goldman
Sachs

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Case Study: Bilibili Inc. (9626.HK)

August 10th, 2022

Group 6

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Make things possible.

1.Recommendation

2.Industry Landscape

- Generic Video & Mobile Games
- Live-broadcasting & E-commerce

3.Company Overview

- Company Profile
- Investment Thesis

4.Risk & Mitigants

5.Valuations

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1. Recommendation

Buy Bilibili now for a 42.3%+ return in 12 months



Recommendation

Buy & Hold (1 Year)

Upside (1-yr Price Target)

42.3%+

Valuation / Forecast Analysis

Current Price (9626.HK)	HK\$192.80
Price Target	HK\$274.40
PS (TTM)	2.97x
PB (MRQ)	3.14x
PEG (2022E)	0.61x
52 Week Range	125.00-720.00
Avg. Volume 3M	2.54 mn
Market Cap (\$HKD)	75.31 bn
EPS (TTM)	-20.91



- **Investment Highlights:**
- China's single population is growing rapidly — as they get older and have more purchasing power, they will **spend more money and time on their favorite video platforms**. Bilibili's **users are the youngest and stickiest**, and its future business potential can be expected.
- Bilibili's **revenue, MAU and active paying users keep increasing** vastly, while its **revenue diversification** strategy has come into effect.
- Intrinsic Value > Stock Price which makes Bilibili **undervalued** currently; there is still **extra room to grow** with the company's finances keep improving and markets keep growing, which allows for at least one year of market-beating growth.

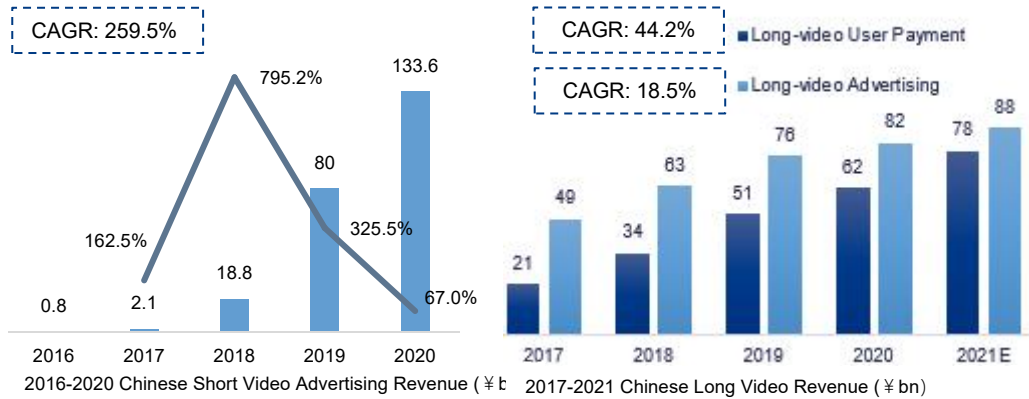
2. Industry Landscape

Generic Video & Mobile Games

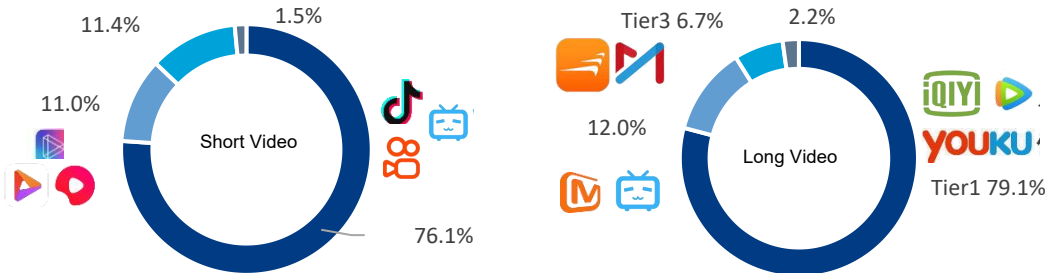


Generic Video

Market Size and Growth



Competitive Landscape

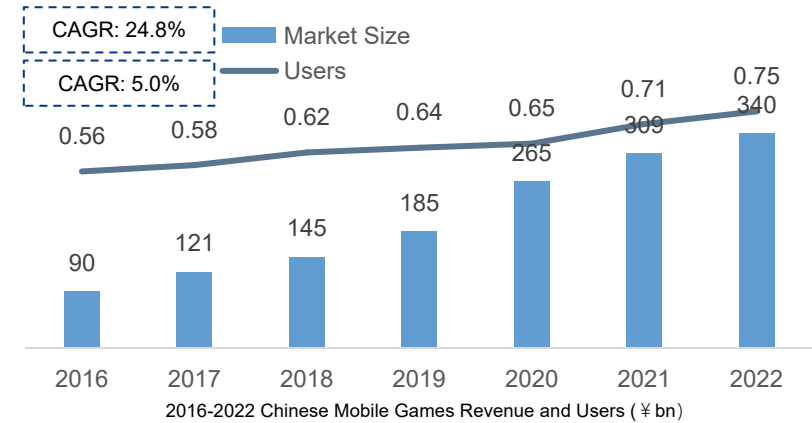


Trend Analysis

- More players are marching into the medium video track, where Bilibili has a **first-mover advantage**.
- Short video ads are still the focus** of major advertisers and will keep growing vastly.
- The popularization of content sharing platforms will **expand the marketing and distribution channels of games**.
- Consumption willingness and capabilities of **Gen Z users** has greatly improved

Mobile Games

Market Size and Growth



Competitive Landscape

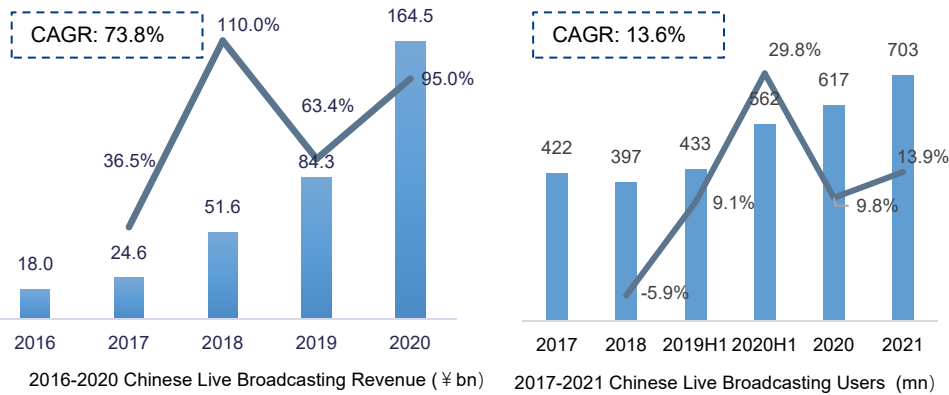


2. Industry Landscape

Live Broadcasting & E-commerce



Market Size and Growth

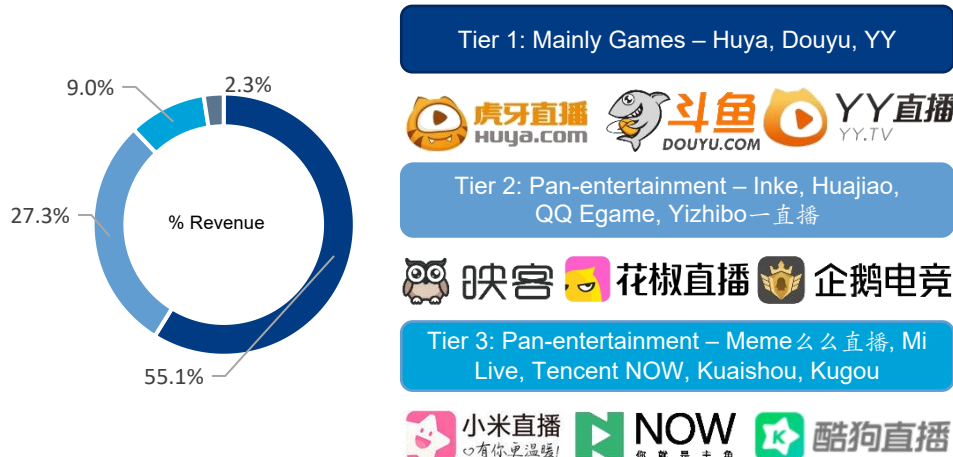


Key Drivers

- The improvement of **technology**, e.g. the internet infrastructure, video making techniques and the expansion of mobile-broadband.
- The intensive launch of **industrial policies** encouraging and normalizing the operation of live broadcasting platforms.
- The outbreak of **COVID-19** which deeply changed the public's ways of entertainment from offline to online scenarios.
- The rapid **diversification** of live broadcasting types, such as e-commerce, fashion shows, games, concerts, etc.

2021 Users in E-commerce Live Broadcasting (2) **# 464 mn, up 19.5% yoy** 2021 Users in Game Live Broadcasting (2) **# 302 mn, up 26.2% yoy**

Competitive Landscape (1)



Trend Analysis

- The competitive landscape of **game live broadcasting** will remain stable, in which Tencent has captured most of the market share. The advantage of Bilibili in this area will be its rich resources and rapid expansion.
- Though **E-commerce live broadcasting** has generated considerable revenues, the regulators are imposing stricter policies to erase negative behavior, which means the industry will become more standardized. Hosts who are capable of increasing traffic and sales are still rare.
- There will be more sub tracks in **pan-entertainment live broadcasting**, such as audio live broadcasting (high retention and fewer competitions but weaker monetization), short video live broadcasting (high concentration on Top 2 platforms).

3. Company Overview

Bilibili: Future YouTube of China



Company Overview

■ Company position:

- Bilibili was founded in Shanghai in 2010 as a youth-centric, online entertainment business for younger consumers
- Chinese video-streaming and video-sharing website with a focus on animation, comics, and games (ACG) that has grown into a wide range of online entertainment genres and content formats.

Management Team

Founder & President: Yi Xu

Chief Financial Officer: Xin Fan

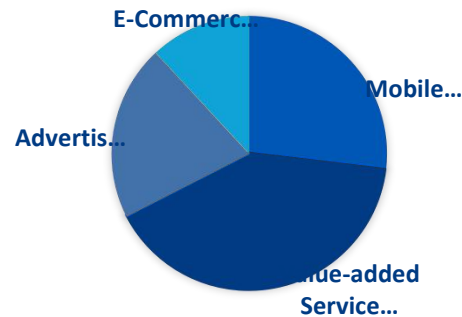
CEO & Chairman: Rui Chen

Vice Chairman & COO: Ni Li

Institutional Investors

Fidelity Management	5.66%
Alibaba Group Holding	3.33%
Yiheng Capital LLC	3.11%
Morgan Stanley & Co. LLC	2.11%
Wells Capital Management	2.11%

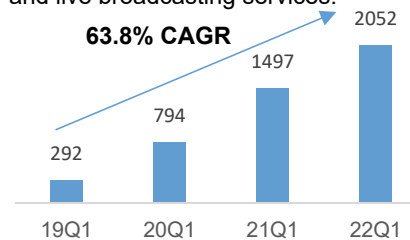
Revenue Mix (FY 1Q22)



Business Segments

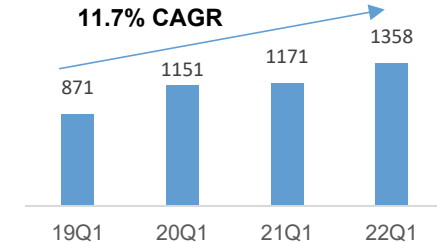
Value-Added Services (40.60% of FY 1Q22 Revenue)

- Representing an increase of 37% yoy. Largely related to the Company's strengthened monetization initiatives, the premium membership program and live broadcasting services.



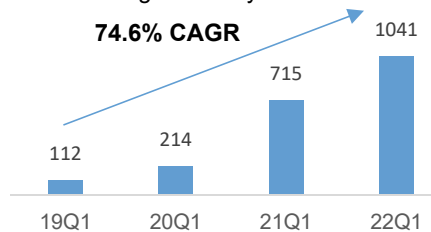
Mobile Games (26.90% FY 1Q22 Revenue)

- Representing an increase of 16% yoy. The increase was primarily attributable to the newly launched mobile games.



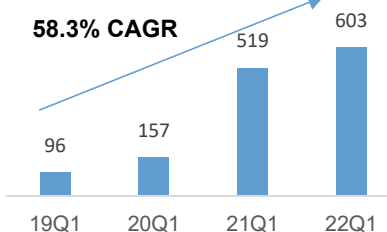
Advertising (20.60% FY 1Q22 Revenue)

- Representing an increase of 46% yoy. Due to further recognition of Bilibili's brand name in China's online advertising market, and improved advertising efficiency.



E-Commerce and Other (11.90% FY 1Q22 Revenue)

- Representing an increase of 16% yoy. Due to the increase in sales of products through the Company's e-commerce platform and collaboration with other industry giants.



Over the recent years, Bilibili has experienced phenomenal growth across all business segments, with the advertising and value-added services industries leading due to a rise in the premium membership program, success in newly launched mobile games, and effective advertising solutions.

3. Company Overview

Unique Differentiators & Growth Drivers



Competitive Advantages

■ User Stickiness and Loyalty

- 80% of Bilibili's users are "Generation Z" Chinese born between 1990 and 2009 with a great need for cultural items, self-expression, and social connection. Bilibili's MAUs have risen in recent years.

■ Membership System

- To become an official member (registered or paid user), a user must pass a 100-question test on community etiquette and other issues. This helps Bilibili establish an active, knowledgeable community.

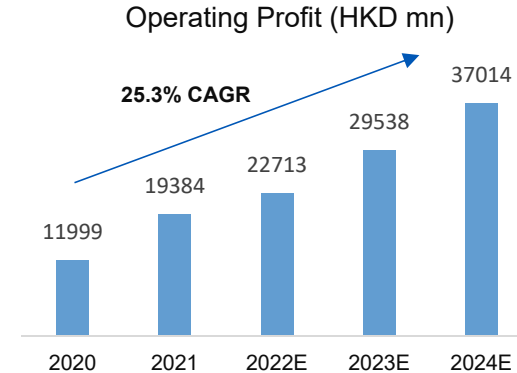
■ Content Positioning

- Unique content positioning focused on both mainstream and non-mainstream ACG; 90% of video views are contributed by their own members

■ Platform Features

- Bilibili pioneered the "bullet chatting" ("Dan Mu" 弹幕) feature, a live commenting function that allows viewers to contribute their thoughts and feelings while viewing the live streaming or videos.

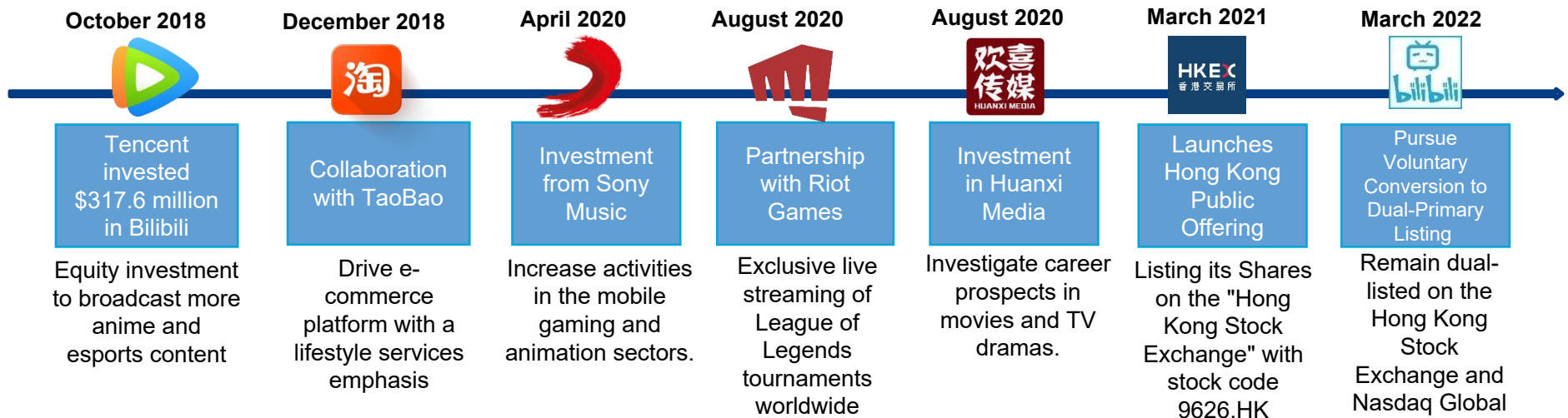
Growth Performance



■ Key Highlights

- Average monthly active users (MAUs) reached 339.8 million, and mobile MAUs reached 319.9 million, an increase of 31% and 33% from the same period in 2021, respectively.
- Average daily active users (DAUs) reached 91.9 million, a 32% increase from the same period in 2021.
- Average monthly paying users (MPUs1) reached 31.5 million, a 33% increase from the same period in 2021.

Timeline of Key Events

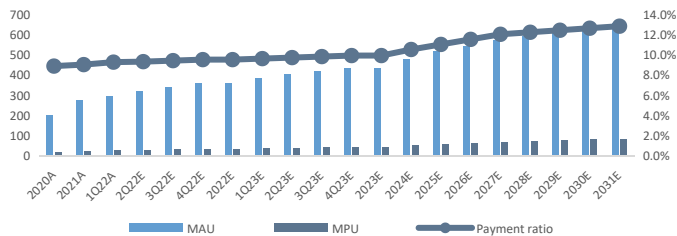


3. Company Overview

Investment Thesis – Opportunities from Surging Singles



1. Healthy Growth of Paying Users



10Y User Forecast

We expect MAU and MPU (Monthly Payment User) numbers to grow, with higher payment portions.

Commercialization Outlook

- Bilibili reported increasing MAU/ MPU in 1Q22, however, ARPPU sank by -5.6% QoQ, dragged by regional Covid outbreak. We expect ARPPU to dip in 2Q22 and rebound in 2H22.
- In long-term, we expect a strong commercialization backed by growing number of paying users from gaming services, e-commerce business, and premium subscriptions.

3. ACG Internationalization



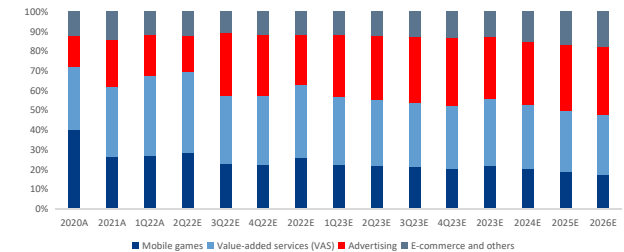
Rapid Southeast Asia Expansion with Bili Comics & Bilibili TV

International Expansion Ongoing

- Bilibili launched international business, including comics, video platform and mobile games.
- Anime & Comic business targeted at SEA countries with few industry rivals. Gaming business targeted at countries with high ARPU, like Japan and Korea.
- Bilibili.tv, the international video platform, recorded 13.9mn MAU globally in Jan 22, +94.70% MoM. U.S. and Thailand contributed most growth.
- We expect the company's international business would lever on its ACG strength to expand rapidly in the sub-sector.

2. Strengthened Advertising

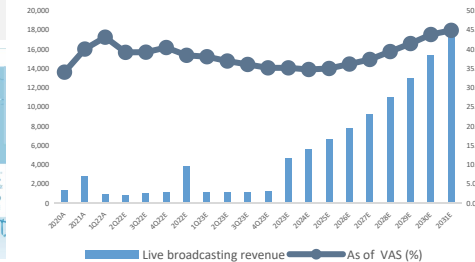
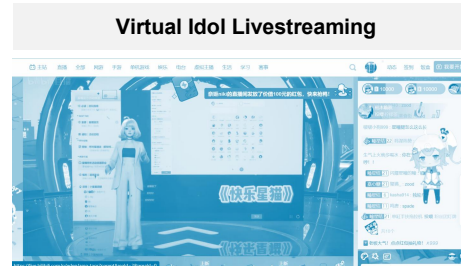
Ads included Gaming, E-shopping, Education...



Advertising Outlook and Potentials

- Bilibili is promoting its ads business, +46% YoY, including brand ads and customized ads. We expect ads revenue to dip in 2Q22 and recover with Chinese consumption.
- We believe ad business has huge potentials, if pre-video ads (like YouTube, iQiyi) were incorporated.

4. Accelerated Live Broadcasting



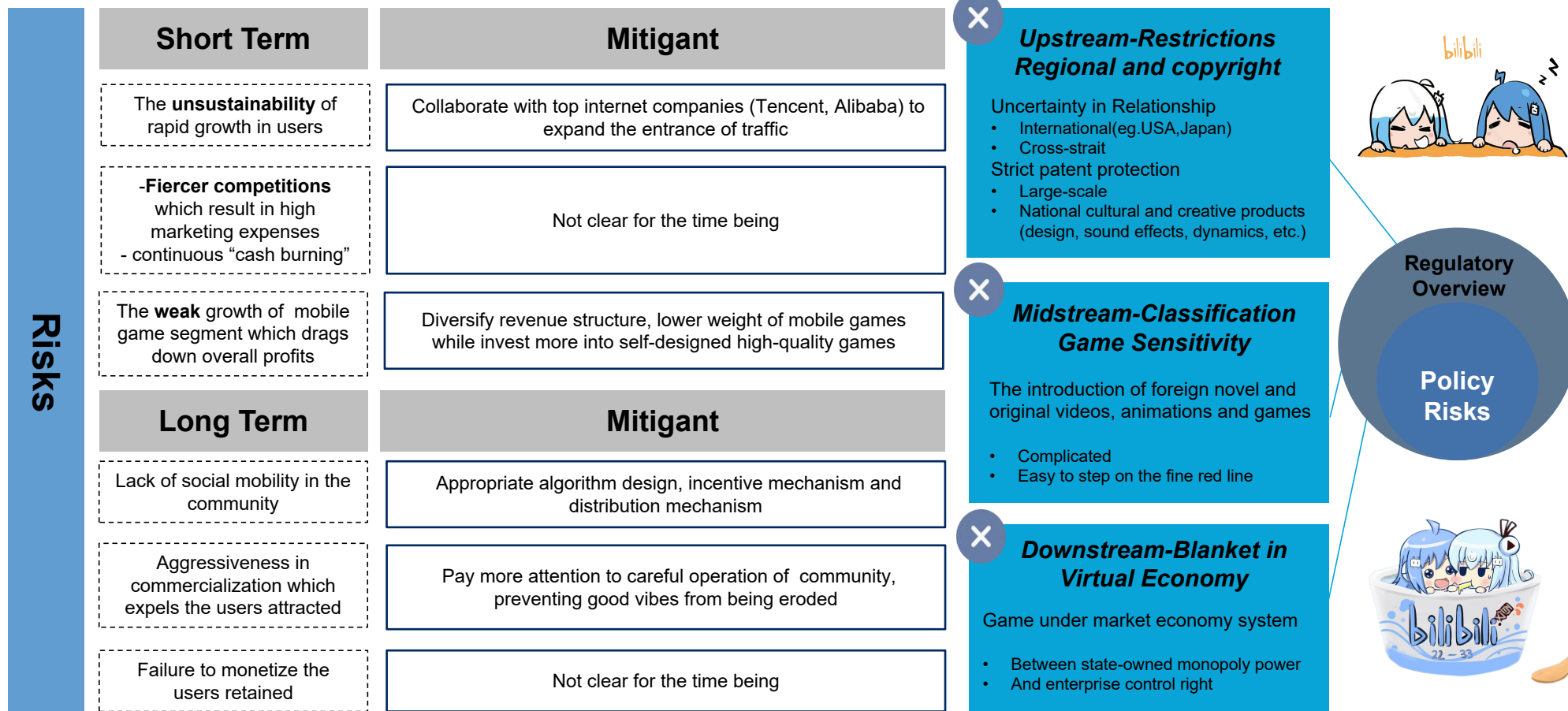
Live Broadcasting: Higher Concentration Business, Virtual Idol Emerging

- Bilibili reported surging numbers of livestreamers and live broadcasting revenues in 1Q22, indicating a strong emphasis in this high-margin business.
- Virtual idol streamers in Bilibili are uprising based on the platform's ACG culture. So far, 5 virtual idols have received 10,000 vessel gifts (>Rmb 2mn of revenue) within one single performance. We believe in long term Bilibili could realize earning growth with live broadcasting channels.

4. Risk & Mitigants



Short-term Operation is Under Pressure but Long-term Growth can be Expected



4. Risk & Mitigants



Regulatory Risk for Internet Industry & Delisting Risk for Chinese Concept Share

■ Reduced Games and Increased Video+ Proportion

■ Well Prepared for Dual Primary Listing in Hong Kong

New Trend

Network literature +

- Network literature + Audio
- Network literature + short play
- Offline bar
- Study room

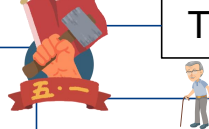
Old Trend

Video Field

Cloud Cinema / Performance



Theme Film



Short Video - Aging Group



Agricultural Products - Local Specialties

P.E. Livecast



Games for Youngsters



- The most striking aspect of this year's report is the level of concern about internet.
- Of the top 10 risks expected, 7 are connected to virtual security.
- Over 90% of respondents expect economy confrontations/frictions between major powers to deteriorate in 2019.

Delisting

Rule 12h-6 delisting

Termination of registration

Going private

1. In February 2021, the Ministry of Industry and Information Technology issued the Circular on Effectively Solving the Difficulties of the Elderly in using intelligent technology and facilitating to use intelligent products and services

2. The realist theme work "great power heavy industry" won the 5th China publishing government award, which is the first time that network literature works won the highest award in China's publishing industry.

5. Valuations

A DCF Approach – PT at HK\$ 274.4



1. Projections on Users Related Financial Metrics

		2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
MAU		360	434	477	515	541	568	591	614	633	652
	YoY (%)	32.4%	20.4%	10.0%	8.0%	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%
DAU		98	119	134	147	157	168	177	187	196	206
	YoY (%)	34.6%	22.2%	12.0%	9.9%	6.8%	6.8%	5.8%	5.7%	4.7%	4.8%
	As of MAU (%)	27.1%	27.5%	28.0%	28.5%	29.0%	29.5%	30.0%	30.5%	31.0%	31.5%
Official members		194	236	261	283	299	316	330	345	357	371
	YoY (%)	34.1%	21.3%	10.6%	8.6%	5.6%	5.6%	4.6%	4.6%	3.5%	3.9%
	As of MAU (%)	54.0%	54.4%	54.7%	55.0%	55.3%	55.6%	55.9%	56.2%	56.5%	57.0%
MPU		34	43	50	57	62	68	72	76	80	83
	YoY (%)	39.7%	25.5%	16.7%	13.1%	9.8%	9.6%	5.7%	5.7%	4.7%	4.6%
	As of MAU (%)	9.5%	9.9%	10.5%	11.0%	11.5%	12.0%	12.2%	12.4%	12.6%	12.8%
ARPPU		197	199	197	195	193	191	191	191	191	191
	Mobile games										
	YoY (%)	-5.3%	1.1%	-1.0%	-1.0%	-1.0%	-1.0%	0.0%	0.0%	0.0%	0.0%
	Value-added services (VAS)	289	308	318	331	347	363	386	410	439	463
	YoY (%)	2.2%	6.4%	3.2%	4.2%	4.7%	4.8%	6.2%	6.4%	7.0%	5.4%
	Advertising	18	28	33	39	45	50	55	60	65	71
	YoY (%)	175.6%	245.8%	17.1%	17.6%	16.4%	10.0%	10.0%	8.9%	8.9%	9.0%
	E-commerce and others	92	119	149	179	206	237	260	286	301	316
	YoY (%)	-20.1%	29.0%	25.0%	20.0%	15.0%	15.0%	10.0%	10.0%	5.0%	5.0%
Avg. daily time spent		98	107	113	119	123	127	131	133	136	139
	YoY (%)	13.1%	8.2%	6.0%	5.0%	4.0%	3.0%	3.0%	2.0%	2.0%	2.0%

■ Key assumptions

- MAU growth slowed down. However, payment portion (MPU) gradually increased.
- ARRPU (avg. revenue per paying user) dip slowly for mobile games, as we don't expect another heavy-payment game (such as FGO).
- Average daily time, the metric for advertising revenue, increases much slower in later years.
- E-commerce ARPPU growth slowed down in coming years.

■ Consensus and divergence

- Our user growth forecast is basically in line with consensus, i.e. MAU, DAU, MPU.
- However, our avg. time forecast is weaker, considering short video platform Douyin and Kuaishou's grabbing more users' time.

5. Valuations

A DCF Approach – PT at HK\$ 274.4



2. Projections on Revenue Metrics

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Segment Breakdown (IF ANY)										
Value-added services	9,897	13,212	15,911	18,764	21,567	24,757	27,806	31,262	34,994	38,607
Live broadcasting	3,798	4,640	5,520	6,560	7,787	9,235	10,942	12,953	15,322	17,322
Numbers of creators	0.54	0.58	0.60	0.62	0.64	0.66	0.68	0.70	0.72	0.74
Revenue per creator	7,034	8,000	9,200	10,580	12,167	13,992	16,091	18,504	21,280	23,408
As of VAS (%)	38.4%	35.1%	34.7%	35.0%	36.1%	37.3%	39.4%	41.4%	43.8%	44.9%
Premium membership	3,635	4,966	6,084	7,218	8,182	9,253	10,091	10,998	11,861	12,945
Numbers of premium users	29	38	45	52	57	63	68	72	77	81
As of total MPU (%)	85.0%	89.0%	90.0%	91.0%	92.0%	93.0%	94.0%	95.0%	96.0%	97.0%
Avg. revenue per premium user	125	130	135	140	143	146	149	152	155	160
As of VAS (%)	36.7%	37.6%	38.2%	38.5%	37.9%	37.4%	36.3%	35.2%	33.9%	33.5%
Others	2,463	3,606	4,307	4,986	5,598	6,269	6,773	7,311	7,812	8,341
As of VAS (%)	24.9%	27.3%	27.1%	26.6%	26.0%	25.3%	24.4%	23.4%	22.3%	21.6%
Avg. revenue per paid user	72	84	86	88	90	92	94	96	98	100
Advertising	6,619	12,299	15,836	20,107	24,576	28,389	32,472	36,771	41,228	46,272
Total loyal time spent	9,607	12,704	15,082	17,408	19,343	21,281	23,182	25,001	26,697	28,537
Ad price per minute	0.69	0.97	1.05	1.16	1.27	1.33	1.40	1.47	1.54	1.62

Key assumptions

- Live broadcasting contributes to most VAS revenues, where content creators grow slowly, and revenue per creator prudently rises.
- More paying users would subscribe premium membership, and subscription fees grow mildly.
- Advertising revenue soars. Bilibili would charge more fees to merchants, which is reflect by the uprising ad price per minute.
- Gaming and e-commerce revenues are measured by ARPPU growth.

Consensus and divergence

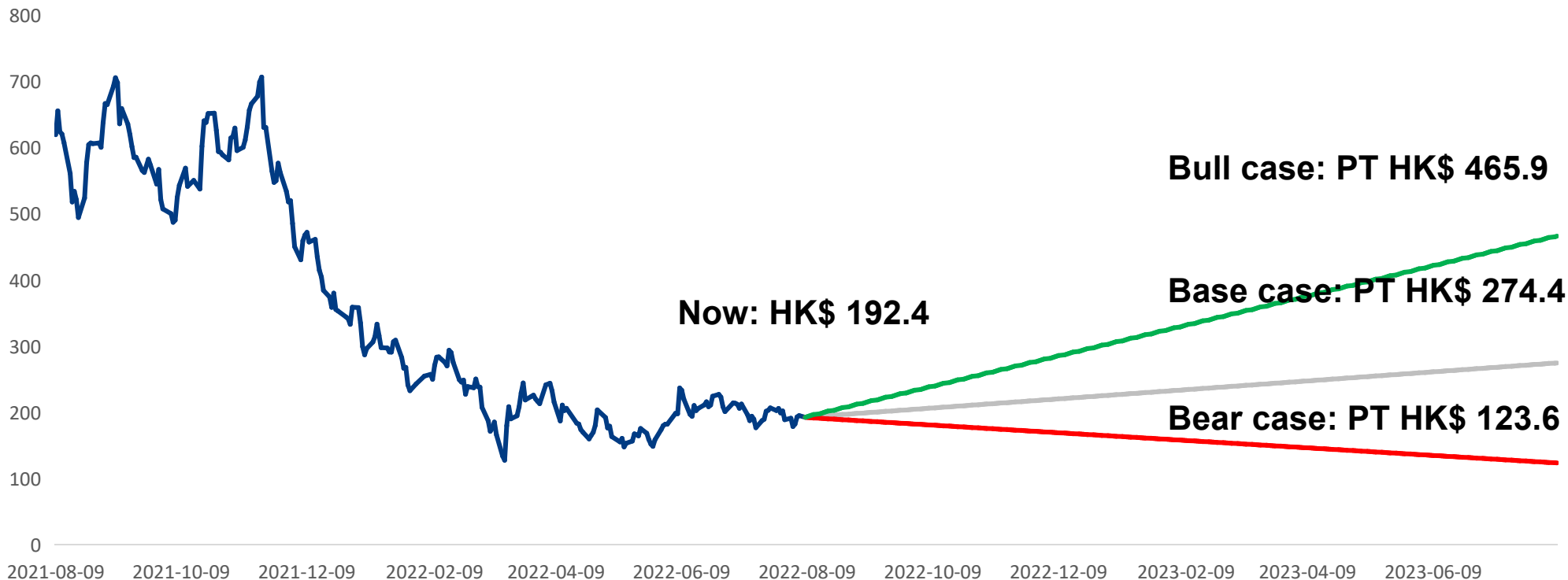
- Considering more single users ahead, we expect more live broadcasting revenue than consensus.
- We also emphasize on more advertising growth than consensus from pre-video ads and more commercialization in the future.

5. Valuations



A DCF Approach – PT at HK\$ 274.4

3. Sensitivity Analysis – Base, Bull & Bear, Consensus at HK\$271.9



■ Key assumptions

- Bull case: Advertising price + 10% by year, MAU growth +1% per year, Gaming ARPPU unchanged YoY, Live broadcasting revenue +10% by year
- Bear case: Advertising price +/-10% by year, MAU growth -1% per year, Gaming ARPPU -2% YoY, Live broadcasting revenue -10% by year

■ Conclusions

- Our PT is slightly ahead of consensus due to our bullish views and advertising and live broadcasting. Bull case reflects a full unlock of Bilibili's commercialization potential, where we expect bear case to represent a missing business performance.

5. Valuations

Comparable Companies by Business Segments



Ticker	Name	Market Value (¥bn)	Operating Revenue (¥mn)	Net Profit (¥mn)	Net Asset (¥mn)	EV/EBITDA		PE (TTM)			PB (MRQ)			PS (TTM)
						2021A	2022E	2021A	2022E	2023E	2021A	2022E	2023E	2021A
9626.HK	Bilibili	64.94	19,383.68	-6,789.23	21,716.07	-31.31	-18.52	-20.94	-8.41	-11.91	4.99	4.84	6.42	6.64
Video and Live-broadcasting`														
1024.HK	Kuaishou	286.25	81,081.51	-78,073.64	45,095.97	-3.00	-3.54	-2.77	-16.58	-44.15	5.07	6.89	6.19	3.31
IQ.O	iQIYI	22.86	30,554.36	-6,169.58	5,673.11	3.09	2.96	-3.89	-19.83	-272.28	3.59	3.32	2.76	0.76
DOYU.O	Douyu International	2.70	9,165.33	-581.88	6,258.59	-2.43	1.91	-10.53	-17.76	43.54	0.88	NA	NA	0.61
HUYA.N	Huya	5.10	11,351.45	583.50	10,510.20	11.45	4.34	9.29	-178.12	-415.50	0.99	13.30	13.82	0.93
0VVY.L	YY	12.54	2,619.05	-511.92	35,884.34	1,028.96	565.47	NA	NA	NA	22.23	21.72	21.10	NA
MEAN		65.89	26,954.34	-16,950.71	20,684.44	207.62	114.23	-1.98	-58.07	-172.10	6.55	11.31	10.97	1.40
MEDIAN		12.54	11,351.45	-581.88	10,510.20	3.09	2.96	-3.33	-18.79	-158.22	3.59	10.10	10.00	0.84
Mobile Games														
002602.SZ	Century Huatong	34.06	13,929.01	2,326.71	32,153.82	14.70	8.15	19.36	10.21	8.24	1.98	0.96	0.86	4.47
002555.SZ	37Interactive	43.76	16,216.50	2,875.58	10,857.34	16.41	11.44	26.97	13.09	11.43	6.22	3.22	2.59	3.94
0799.HK	IGG	3.32	6,050.89	302.87	2,709.08	11.18	3.37	5.04	-8.15	43.99	2.26	1.35	1.24	1.32
MEAN		27.05	12,065.47	1,835.05	15,240.08	14.10	7.65	17.12	5.05	21.22	3.49	1.84	1.57	3.24
MEDIAN		34.06	13,929.01	2,326.71	10,857.34	14.70	8.15	19.36	10.21	11.43	2.26	1.35	1.24	3.94
Social Platform														
WB.O	Weibo	29.87	2,257.08	2,730.83	23,513.71	12.33	7.10	22.06	12.71	8.46	2.27	1.05	0.94	3.50
0K2P.L	Momo	6.03	14,575.72	-2,913.71	10,585.60	-2.67	-0.25	NA	NA	NA	1.58	1.07	0.94	NA
MEAN		17.95	8,416.40	-91.44	17,049.65	4.83	3.43	22.06	12.71	8.46	1.93	1.06	0.94	3.50
MEDIAN		17.95	8,416.40	-91.44	17,049.65	4.83	3.43	22.06	12.71	8.46	1.93	1.06	0.94	3.50
TOTAL MEAN		44.65	18,780.09	-7,943.13	18,324.18	109.00	60.09	8.19	-25.55	-77.03	4.71	5.87	5.60	2.35
TOTAL MEDIAN		17.70	12,640.23	-104.53	10,721.47	11.32	3.85	7.17	-12.36	8.35	2.26	3.22	2.59	2.31

Sources: Bloomberg, Company Statements

6. ESG Performance

Excellent ESG Performance and ESG Highlights



Responsible Governance	Responsible Products	Empowering Creators & Partners	Human Capital	Green & Social Responsibility	Positivity Advocacy
<p>100% employees received business ethics training</p> <p>Zero corruption-related lawsuit</p> <p>BB MSCI ESG rating</p> <p>Issued First Sustainability Convertible Notes</p>	<p>100% passing rate in cybersecurity-related compliance inspections</p> <p>100% cybersecurity-related training coverage</p> <p>Emotional and mental health support to 86,000+ users via our Charging Station project</p> <p><i>Enhanced minor protection mechanism</i></p>	<p>Established full-cycle ESG management for suppliers</p> <p>Dedicated support for Chinese anime and documentary producers</p> <p>1.3 million content creators generated income via our platform</p> <p>Provide accessible product features for users and creators with disabilities</p>	<p>27 Average age of employees</p> <p>41% of employees were female</p> <p>360000+ total training hours</p> <p>2500+ employee activities</p>	<p>Formulated environmental management goals, carried out climate change risk identification</p> <p>Launched Bilibili Charity Platform</p> <p>Initiated Bilibili Happy Scholarship</p> <p>Provided support to build 4 Bilibili primary schools</p> <p>3645 students benefited</p>	<p>198 million users studied on Bilibili</p> <p>5.7 million video views related to "environmental protection"</p> <p>136 million traditional culture enthusiasts on Bilibili</p> <p>Promoted Chinese original content to 200+ countries and regions</p>

