

3Q24 EARNINGS UPDATE

Bilibili Inc.

Now Profitable, What's Next?

SUMMARY

Bilibili (BILI, HK9626) announced its 3Q24 results before market open on November 14. The stock closed down 12.6% at \$18.59 per ADS after the earnings. In 3Q24, revenue increased 26% y/y to US\$1,005 Million. It achieved the first-ever quarterly non-GAAP profit. Revenue from gaming sector was in line with the consensus. Mobile gaming and advertising are still expected to be the major drivers in upcoming quarters. Traditionally, 4Q with Double 11 Shopping Festival will be the peak season on advertising. Three Kingdom style game San Mou showed resilient popularity and newly launched game "Jujutsu Kaisen Phantom Parade" could be the next catalyst in short term.

KEY POINTS

In-line with market expectation. In 3Q24, revenue increased 26% y/y to US\$1,005 Million, 3% above the latest Bloomberg consensus of US\$980 Million. It achieved the first-ever quarterly non-GAAP profit. Gross margin improved to 35% in 3Q24 vs consensus's 34.7%, mainly driven by stronger operating leverage. More importantly, revenue from gaming sector was in line with consensus (Recent gaming revenue forecast from Bloomberg was in the range of US\$250 Million to US\$257 Million, and the actual revenue falls in the middle low range).

Mobile Gaming: Robust result from San Mou. Revenues from mobile games were US\$251 Million, increasing by 84% y/y, mainly attributable to the strong performance of the Company's exclusively licensed game, San Guo: Mou Ding Tian Xia. San Mou, saw its grossing spike in early-August and mid-September, driven by the launch of new game seasons, S2 and S3, respectively. 4Q24 is shaping up to be another strong quarter for San Mou, backed by: (1) most of the grossing from S3 will be deferred to be accounted into 4Q24, and (2) the next game season, S4, will launch in November 16.

Advertising: Advertising business continued to outperform the industry. Revenues from advertising were US\$288 Million, increasing by 28% y/y, mainly attributable to the company's improved advertising product offerings and enhanced advertising efficiency. The company's ads business will continue to outperform its peers' due to its lower monetization rate of the ad inventories. Bilibili emphasized the potential for additional revenue from live streaming video within video players, and hot topic search. With a blend of organic and commercial web traffic and native ad integration, more high-quality ads will receive more distribution effectively, expanding Bilibili's ad inventory. The company is the leading mid- long video platform in China, with strong user mindset.

The newly launched mobile game could be the next catalyst. On November 7, "Jujutsu Kaisen Phantom Parade" was officially launched by Bilibili for distribution in global markets except for Japan. The estimated global revenue(ex-Japan) of "Jujutsu Kaisen Phantom Parade" on November 8 reached about US\$0.4 Million. Among them, U.S. market accounted for nearly half (46%) of the revenue, and the other top markets were 8% in South Korea, 8% in Taiwan, 7% in France, and 6% in Hong Kong. The newly launched mobile game has great potential to bring surprise to the market for Bilibili, because the game achieved a great success in Japanese market in past 12 months: In November 2023, the mobile game "Jujutsu Kaisen Phantom Parade", an IP-adapted mobile game developed and published by Sumzap, was launched in Japan. It topped the free apps ranking list and best-selling list of the Japanese App Store on the day after launched. According to the data of the third party, the peak monthly revenue of Japan region exceeded US\$41 Million in December 2023; since the game was launched, the cumulative grossing in the Japanese market has exceeded US\$138 Million for one year period.

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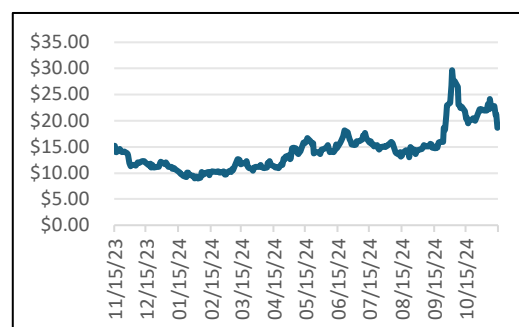
KEY DATA

Exchange: NASDAQ, HKEX
 Ticker: BILI, HK9626
 Current Price: \$18.59
 52-Week Range: \$8.80-\$31.77
 Average Volume (3M): 7.82M
 Shares Outstanding (MM): 415
 Market Capitalization (\$MM): \$7,722
 Fiscal Year-End: December

FINANCIALS

In US\$M	FY22A	FY23A	FY24E	FY25E
Revenue	3013	3100	3697	4215
Gross Profit	530	749	1196	1433
EBIT	-1150	-697	-176	-53
Non GAAP				
Net Income	-921	-471	-14	180

PRICE PERFORMANCE



Shares buyback and forward-looking growth driver. Bilibili announced that its Board has authorized a share repurchase program under which the company may repurchase up to US\$200 million of its publicly traded securities for the next 24 months. In 4Q24, due to the Double 11 Promotion Period, advertising is expected to continue its high growth. Therefore, gaming has become the key to whether the performance can continue to improve. The deferred revenue (due to gaming sector unearned revenue) in 3Q24 increased by 10% q/q to US\$568 Million, and the year-on-year growth continued.

As NPM ramps up to a stable level, Bilibili's valuation would be below its peers. For video companies, investors often use EV/EBITDA multiples for valuation. Here we select three groups of companies with similar business/financial profile for peer analysis. Bilibili's stock is currently trading at US\$18.59 per ADS, US\$7,722 Million in market cap. Consensus estimates CY2024 and CY2025 EBITDA are \$160 Million and \$403 Million, respectively, which translate into 47x and 19x of EV/EBITDA in CY2024 and CY2025, while the peer group is trading at 18x and 14x. In 2024/2025, Bilibili would still be in turning point of making long-term stable profit. As a result, it appears expensive from the peer valuation point of view in 2024/2025. However, if Bilibili could achieve 10% net profit margin (consensus estimates NPM to be 0.3% in 2025) like most Chinese internet companies, its valuation would be below average.

FINANCIALS AND VALUATION UPDATES

Figure 1: Bilibili's Financials 2022 – 2025E.

Unit: Million USD	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24	2Q24	3Q24	4Q24E	2024E	2025E
Net revenues	3,013	698	730	799	874	3,100	779	843	1,005	1,070	3,697	4,215
Cost of revenues	(2,484)	(546)	(561)	(599)	(645)	(2,351)	(559)	(591)	(655)	(697)	(2,502)	(2,782)
Gross (loss)/profit	530	152	169	200	228	749	221	252	350	372	1,196	1,433
Operating expenses:												
Sales and marketing expenses	(677)	(121)	(126)	(137)	(155)	(539)	(128)	(142)	(165)	(142)	(578)	(590)
General and administrative expenses	(347)	(79)	(74)	(69)	(70)	(292)	(73)	(67)	(70)	(72)	(282)	(314)
Research and development expenses	(656)	(141)	(144)	(147)	(183)	(615)	(133)	(123)	(125)	(132)	(512)	(582)
Total operating expenses	(1,680)	(341)	(345)	(352)	(408)	(1,446)	(334)	(333)	(360)	(345)	(1,371)	(1,486)
Profit (Loss) from operations	(1,150)	(189)	(176)	(152)	(180)	(697)	(113)	(81)	(9)	27	(176)	(53)
Other income/(expenses):												
Investment income, net	(73)	39	(38)	(34)	(27)	(60)	(3)	(13)	(10)	(19)	(45)	(76)
Interest income	39	20	21	16	17	75	18	14	13	14	58	101
Interest expense	(35)	(8)	(7)	(4)	(4)	(23)	(4)	(3)	(2)	(10)	(19)	(38)
Exchange (losses)/gains	(3)	(1)	(1)	(3)	1	(5)	(8)	(2)	(1)	(1)	(12)	(12)
Others, net	203	56	(9)	(4)	15	58	5	0	(2)	(2)	(0)	93
Profit (Loss) before tax	(1,019)	(82)	(210)	(182)	(178)	(651)	(105)	(85)	(12)	8	(193)	16
Income tax	(14)	(4)	(3)	(2)	(1)	(11)	(0.2)	0.8	1.16	(0.4)	1	(1)
Net Profit (Loss)	(1,033)	(87)	(213)	(184)	(178)	(662)	(105)	(84)	(11)	8	(192)	15
Non-GAAP Adjustment Items and noncontrolling interests	111	(55)	80	65	102	192	45	46	43	43	178	178
Non-GAAP net loss attributable to the Bilibili Inc.'s shareholders	(921)	(142)	(132)	(121)	(76)	(471)	(61)	(37)	32	51	(14)	180

Source: GLH Research; Company filings.

Figure 2: Peer valuation analysis.

Company	Ticker	EV	EBITDA			EV/EBITDA			Category								
			2023A	2024E	2025E	2023A	2024E	2025E									
Netflix Inc	NFLX.O	364,276	7,311	10,933	13,037	49.8x	33.3x	27.9x	U.S. Entertainment Companies								
Meta Platforms Inc	META.O	1,442,350	61,381	98,374	114,368	23.5x	14.7x	12.6x	U.S. Entertainment Companies								
Spotify Technology SA	SPOT.K	94,821	11	1,572	2,373	-	60.3x	40.0x	U.S. Entertainment Companies								
iQIYI Inc	IQ.OQ	3,359	1,521	2,064	2,177	2.2x	1.6x	1.5x	Chinese Video Companies								
Kuaishou Technology	1024.HK	23,351	1,417	3,271	4,166	16.5x	7.1x	5.6x	Chinese Video Companies								
Mango Excellent Media Co Ltd	300413.SZ	7,079	943	1,030	1,103	7.5x	6.9x	6.4x	Chinese Video Companies								
Tencent Holdings Ltd	0700.HK	499,122	25,940	36,715	40,406	19.2x	13.6x	12.4x	Chinese Gaming Companies								
NetEase Inc	NTES.O	35,346	4,339	4,478	5,020	8.1x	7.9x	7.0x	Chinese Gaming Companies								
				<table border="1"> <tr> <td>Median</td> <td>8.1x</td> <td>10.7x</td> <td>9.7x</td> </tr> <tr> <td>Mean</td> <td>18.1x</td> <td>18.2x</td> <td>14.2x</td> </tr> </table>		Median	8.1x	10.7x	9.7x	Mean	18.1x	18.2x	14.2x				
Median	8.1x	10.7x	9.7x														
Mean	18.1x	18.2x	14.2x														
Bilibili Inc	BILI.O	7534	-329	160	403	-	47.0x	18.7x									

Notes:

1. Data as of 11/15/2024.
2. EVs and EBITDAs are in US\$ Million.
3. EVs and EBITDAs are in calendar year and estimates are provided by analyst consensus on Capital IQ.

Source: GLH Research; Company filings; Capital IQ.

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