

Weibo Corp

1Q18 Results Beat; Competition Intensified

Summary

Weibo's 1Q18 results beat consensus estimates. KA revenue topped expectation while SME revenue was soft due to intensified competition for user engagement. Our PT is \$150, implying a 38x FY19 P/E. Our rating is Buy.

Key Points

Earnings estimate revisions: We raise our total revenue estimate to \$430.2m (+69.8% YoY) for 2Q18, \$1,858.4m (+61.6% YoY) for FY18, and \$2,719.9m (+46.4% YoY) for FY19. We lowered our non-GAAP OM forecasts to 36.6% for 2Q18, 39.2% for FY18, and to 37.5% for FY19. Our non-GAAP EPS estimate was maintained at \$0.62 for 2Q18, and was increased to \$2.86 for FY18 and \$3.93 for FY19.

Takeaways: 1) Weibo guided to 2Q18 revenue of \$420-430, above the consensus estimate of \$417.4m and our pre-revision estimate of \$409.2m. The guidance midpoint implied growth rate of 67.7% YoY suggests a solid demand environment. 2) KA revenue reached \$128.6m, up 111% YoY, reaccelerating compared with 79% YoY in 1Q17 and 106% YoY in 4Q17. We believe KA ad revenue structural ramp-up mainly benefited from overall key account market expansion and growing social marketing budgets over the last two years. 3) The SME business delivered revenue of \$148m, up 47% YoY, decelerating significantly from 86% YoY in 1Q17 and 64% YoY in 4Q17. The deceleration in SME revenue may be attributable to increased ad inventory from traditional social platforms like Wechat, but also news feeds such as Baidu and Toutiao as well as short video platforms like Douyin and Kuaishou. SME advertisers tend to be more sensitive to ROI and ad pricing, and given the potential increase ad inventory in the market, the competition for SME ad revenues may be intensifying. 4) Management noted that ad load for video feed is 50% that of information feed, and the company placed priority in video ad monetization of SMC customers. We still see revenue upside from video ad load enhance and potential click troughs geared by more product innovations. 5) Total MAU reached 411m, up 20.9% YoY and 6.0% QoQ, in line with our expectation. Total DAU reached 184m, up 19.5% YoY and 7.0% QoQ, exceeding our expected 180.2m. FY18 MAU growth will likely be between 15-20%, despite no margin growth in FY18 due to increased investment in user acquisition and content spending to drive engagement. We estimate FY19 margins are likely to turn lower as incremental customer acquisition and customer engagement investments will likely trend higher, and we expect MAU growth to be between 10-15% in FY19.

Rating Buy
Price (5/09) \$109.82
Price Target \$150.00

Key Data

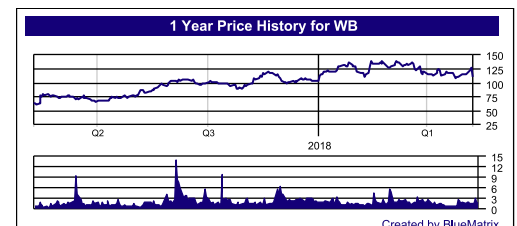
Symbol	WB (NYSE)
52-Week Range	\$142.12 - \$60.00
Market Cap (\$mm)	\$24,507
Shares Outstanding (mm)	121.4
Float	NA
Average Daily Volume	1,922,832
Dividend/Yield	\$0.00/0.0%

Fiscal Year-End: Dec 31

	2016A	2017A	2018E		
		Prior	Curr	Prior	Curr
Revenue (\$mm)					
1Q	119.3A	-	199.2A	-	349.9A
2Q	146.9A	-	253.4A	-	430.2E
3Q	176.9A	-	320.0A	-	503.4E
4Q	212.7A	-	377.4A	-	574.9E
Yr	655.8A	-	1,150.1A	-	1,858.4E
P/Revenue	0.3x	-	11.6x	-	7.2x

Earnings per Share (\$) Non-GAAP Diluted

1Q	0.07A	-	0.26A	-	0.50A
2Q	0.16A	-	0.38A	-	0.62E
3Q	0.24A	-	0.51A	-	0.79E
4Q	0.34A	-	0.64A	-	0.96E
Yr	0.82A	-	1.80A	-	2.86E
P/E	NM	-	61.0x	-	38.4x



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1Q18 Results Highlights

Fig 1 Results Comparison

P&L (US\$'000)	1Q17A	4Q17A	1Q18E	1Q18A	A vs. E	QoQ	YoY
Third parties advertising/marketing revenue	161,506	293,951	287,151	276,613	-3.7%	-5.9%	71.3%
Related party Alibaba advertising/marketing revenue	7,791	38,354	13,197	26,336	99.6%	-31.3%	238.0%
Other revenues	29,904	45,140	50,654	46,934	-7.3%	4.0%	56.9%
Total Revenue	199,201	377,445	351,001	349,883	-0.3%	-7.3%	75.6%
Non-GAAP Gross Margins %	77.0%	81.2%	78.3%	82.3%	4.0	1.1	5.3
Non-GAAP Operating Margin %	33.5%	41.7%	35.2%	34.5%	-0.8	-7.3	1.0
Diluted EPS excl. SBC (non-GAAP)	0.26	0.64	0.48	0.50	3.8%	-22.1%	93.6%

Source: Company data, Mizuho research

Total revenue came in at \$349.9m (-7.3% QoQ and +75.6% YoY), exceeding the high end of guidance of \$345.0m and consensus of \$343.4m, but was slightly below our forecast of \$351.0. Advertising revenue from third parties was \$276.6m (-5.9% QoQ and +71.3% YoY), below our estimate of \$287.2m. Advertising revenue from Alibaba surged to \$26.3m (-31.3% QoQ and +238.0% YoY), beating our estimate of \$13.2m. Other revenue was \$46.9m (+4.0% QoQ and +56.9% YoY), above our estimate of \$50.7m.

The non-GAAP gross margin rose to 82.3%, improving 5.3% from 77.0% in 1Q17, above our estimate of 81.0%. The non-GAAP operating margin was 34.5%, up 1.0% from 33.5% in 1Q17. Non-GAAP EPS was USD0.50, beating our estimate of USD0.48 and consensus of USD0.47. The effective tax rate was 15.6% in 1Q18.

Takeaways

2Q18 guidance solid: Weibo guided for 2Q18 revenue of \$420-430, above the consensus estimate of \$417.4m and our pre-revision estimate of \$409.2m. The guidance midpoint implied growth rate of 67.7% YoY suggests a solid demand environment.

KA ad revenue: KA revenues reached \$128.6m, up 111% YoY, reaccelerating compared with 79% YoY in 1Q17 and 106% YoY in 4Q17. We believe the KA ad revenue structural ramp-up mainly benefited from overall key account market expansion and growing social marketing budgets in last two years.

SME ad revenue: SME business delivered revenue of \$148m, up 47% YoY, decelerating significantly from 86% YoY in 1Q17 and 64% YoY in 4Q17. The deceleration in SME revenue may be attributable to increased ad inventory from not only traditional social platforms like Wechat, but also news feed such as Baidu and Toutiao, as well as short video platforms like Douyin and Kuaishou. SME advertisers tend to be more sensitive to ROI and ad pricing, and given the potential increase ad inventory in the market, the competition for SME ad revenues may be intensifying.

Revenue upside likely driven by video: Weibo strengthened vertical screen video creation and the full-screen vertical short video market grew at an explosive pace. Ad load for video feed is 50% that of information feed and currently the company placed priority in video ad monetization of SMC customers. We still see revenue upside from video ad load enhance and potential click troughs geared by more product innovations.

User engagement may under everlasting pressure despite higher S&M spending: Total MAU reached 411m, up 20.9% YoY and 6.0% QoQ, in line with our expectation. Total DAU reached 184m, up 19.5% YoY and 7.0% QoQ, exceeding our expected 180.2m. FY18 MAU growth will likely be between 15-20%, despite no margin growth in FY18 due to increased investment in user acquisition and content spending to drive engagement. We expect FY19 margins will likely to turn lower as incremental customer acquisition and customer engagement investments will likely trend higher, and we expect MAU growth to be between 10-15% in FY19.

Adoption of ASC606: The company adopted ASC606 which requires the VAT to be recognized net of revenue and expenses and recognition of advertising barter transaction revenues and expenses. Weibo therefore record a net reduction to opening retained earnings of \$0.6m resulting from barter transactions as of Jan 1, 2018 due to the cumulative impact of adopting ASC606. Management noted that current revenue guidance fore 2Q18 is based on total revenue including barter transaction revenues.

Earnings Forecast Revisions

We raise our total revenue estimate to \$430.2m (+69.8% YoY) for 2Q18, \$1, 858.4m (+61.6% YoY) for FY18, and \$2,719.9m (+46.4% YoY) for FY19. We lowered our non-GAAP OM forecasts to 36.6% for 2Q18, 39.2% for FY18, and to 37.5% for FY19. Our non-GAAP EPS estimate was maintained at \$0.62 for 2Q18, was increased to \$2.86 for FY18 and \$3.93 for FY19.

Fig 2 Earnings Forecast Revisions

	2Q18E			FY18E			FY19E		
	Old	New	Chg (% or bp)	Old	New	Chg (% or bp)	Old	New	Chg (% or bp)
Total revenues (USDm)	409.2	430.2	5.1%	1,765.5	1,858.4	5.3%	2,448.8	2,719.9	11.1%
YoY	61.5%	69.8%		53.5%	61.6%		38.7%	46.4%	
Non-GAAP operating margin %	39.1%	36.6%	(254)	40.1%	39.2%	(84)	42.0%	37.5%	(455)
Non-GAAP diluted EPS (USD)	0.62	0.62	0.3%	2.71	2.86	5.6%	3.89	3.93	1.0%

Source: Mizuho research

Fig 3: Income Statement

(US\$000)	2015A	2016A	2017A	2018E	2019E
Third parties advertising/marketing revenue	258,765	513,074	912,057	1,524,108	2,321,966
% changeYoY	65%	98%	78%	67%	52%
Related party Alibaba advertising/marketing revenue	143,650	57,908	84,688	125,310	145,547
% changeYoY		-60%	46%	48%	16%
Weibo VAS	75,476	84,818	153,309	208,988	252,353
% changeYoY	9%	12%	81%	36%	21%
Total revenues	477,891	655,800	1,150,054	1,858,406	2,719,866
% changeYoY	43%	37%	75%	62%	46%
GAAP Costs of revenue	(141,960)	(171,231)	(231,255)	(376,817)	(625,569)
Non-GAAP costs of revenue	(140,764)	(168,615)	(227,539)	(371,447)	(617,710)
GAAP Gross profit	335,931	484,569	918,799	1,481,589	2,094,297
Non-GAAP gross profit	337,127	487,185	922,515	1,486,959	2,102,156
Non-GAAP GPM	70.5%	74.3%	80.2%	80.0%	77.3%
Sales and marketing	(126,059)	(148,283)	(275,537)	(471,043)	(693,566)
Product development	(143,444)	(154,088)	(193,393)	(289,957)	(407,980)
General and administrative	(28,925)	(41,218)	(42,315)	(50,652)	(59,837)
Total GAAP operating expenses	(298,428)	(343,589)	(511,245)	(811,652)	(1,161,383)
Total Non-GAAP operating expenses	(271,758)	(308,587)	(466,288)	(757,845)	(1,082,524)
% change y/y	5%	14%	51%	63%	43%
GAAP Operating profit (loss)	37,503	140,980	407,554	669,937	932,914
GAAP OPM	8%	21%	35%	36%	34%
Non-GAAP Operating profit (loss)	65,369	178,598	456,227	729,114	1,019,632
Non-GAAP OPM	13.7%	27.2%	39.7%	39.2%	37.5%
Loss from equity method investment	(4.00)	-	-	-	-
Remeasurement gain upon obtaining control	-	-	-	-	-
Change in fair value of investor option liability	-	-	-	-	-
Gain on sale of and impairment on investments, net	(7,061.00)	(39,627)	(4,733)	(5,996)	(5,996)
Interest and other income (expenses), net	6,342.00	8,627	14,290	20,242	20,242
Income before income taxes, GAAP	36,780	109,980	417,111	684,183	947,160
Income before income taxes, Non-GAAP	71,337	187,225	470,517	749,356	1,039,874
tax benefits (expenses)	(2,591)	(4,316)	(66,746)	(106,988)	(148,111.15)
Effective tax rate	7%	3.9%	16%	16%	16%
Income after income taxes	34,189	105,664	350,365	577,194	799,049
non-controlling interests	(556)	(2,363)	(2,225)	(1,496)	(1,496)
goodwill impairment/contingent liabilities adj.					
GAAP Net income	34,745	108,027	352,590	578,690	800,545
Non-GAAP Net income	68,786	183,463	405,663	647,363	892,984
% changeYoY	-3074%	167%	121%	60%	38%
Shares: basic	208,163	214,745	220,555	222,902	224,017
Shares: diluted - GAAP	217,918	222,859	225,363	225,971	227,101
Shares: diluted - Non GAAP	217,918	222,859	225,363	225,971	227,101
GAAP					
Basic net income per share	0.17	0.50	1.60	2.60	3.57
Diluted net income per share	0.16	0.48	1.56	2.56	3.53
Non-GAAP					
Basic net income per share	0.33	0.85	1.84	2.90	3.99
Diluted net income per share	0.32	0.82	1.80	2.86	3.93
Non-GAAP adjustments					
Amortization of intangible assets	1,467	716	636	676	1,099
Tax provision on amortization of intangible assets	516	1,809	333	(3,500)	275
gain (loss) on sale of investments, and impairment on investments, net.	6,691	39,627	4,733	5,996	
Remeasurement gain upon obtaining control					

Source: Company Reports, Mizuho Securities Estimates

Price Target Calculation and Key Risks

PT at \$150; Reiterate Buy rating

Our PT of \$150 implies an FY19 P/E of 38x, which is line with the peer average of 36x.

Fig 4 Peer Comparison

Ticker	Company	Price	Mkt cap	EV/revenue		EV/EBITDA		P/E		EPS		
				FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	YoY %
FB US Equity	Facebook	182.66	528,931	8.6	6.7	14.0	11.3	21.6	17.8	8.46	10.27	21%
3938 JP Equity	Line Corp	4005	961,030	4.2	3.6	34.0	21.4	115.8	51.1	34.60	1.08	-97%
035720 KS Equity	Kaokao Corp	117000	8,924,002	3.7	3.2	24.5	20.1	56.3	44.3	2,078.78	2.87	-100%
TWTR US Equity	Twitter	32.46	24,432	7.5	6.6	20.3	17.1	46.4	37.6	0.70	0.67	-4%
700 HK Equity	*Tencent	403.2	3,831,886	9.7	7.8	26.4	22.0	40.1	33.2	10.05	12.14	21%
YELP US Equity	Yelp	47.92	4,007	3.3	2.8	17.2	13.6	44.2	33.5	1.08	1.51	39%
	Average:			6.2	5.1	22.7	17.6	54.1	36.2			
	Median:			5.9	5.1	22.4	18.6	45.3	35.6			
WB US Equity	*Weibo	109.82	24,507	13.1	9.0	32.6	23.4	38.3	27.9	2.86	3.9	37%

Note: * Denotes companies covered by Mizuho USA; estimates for all other companies are Bloomberg; pricing as of market close on 9 May, 2018; Source: Bloomberg, Mizuho research

Risks

Downside risks: 1) performance-based advertising not driving demand; 2) partnership with strategic investors not driving content or engagement; and 3) a weaker-than-expected advertising market.

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(As of 5/09)	% of coverage	IB service past 12 mo
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Hold (Neutral)	45.02%	45.71%
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