CMB International Securities | Equity Research | Company Update

Kuaishou (1024 HK)

Resilient growth with narrowing loss ahead

BUY (Maintain)

Target Price	**HK$136**
(Previous TP	HK$136)
Up/Downside	**+51.8%**
Current Price	**HK$89.6**

Despite soft macro and epidemic resurgence, we expect Kuaishou to be relatively resilient (vs. peers) on its ads and ecommerce share gain (forecasting ads rev/ecommerce GMV +32%/39% YoY). We are more positive on its operating leverage and disciplined cost in FY22E (forecasting adj. NPM at -15%). Kuaishou would deliver better-than-expected 4Q21, with stable DAU, solid topline and narrowing loss. We expect 4Q21E rev +26% YoY, in which live streaming /ads/ ecommerce +1%/+51%/+22% YoY. Adj. NPM is estimated at -16% (better than consensus of -23%), with lower S&M/rev ratio and stable GPM. We lifted its adj. NPM by 3/3/0ppts in FY21-23E, and slightly trimmed its topline by 0-4%. Maintain SoTP-based TP at HK$136. Valuation at 3.2x FY22E P/S is attractive.

- **Expecting better-than-feared 4Q21E.** We expect its 4Q21E DAU to stay stable QoQ (+18% YoY), with solid time spent. In 4Q21E all biz line would trend well and outperform vs. peers. We expect livestreaming rev +1% YoY (prior +0% YoY), while ads would be more resilient (forecasting +51% YoY). 4Q21E ecommerce GMV +28% YoY, in our estimate. We turn more positive on its efficiency enhancement, forecasting its adj. NPM at -16% in 4Q21E (prior -28%), with higher S&M efficiency (with disciplined overseas investment) and solid GPM (forecasting 42%, vs. prior 40%).
- **Resilient growth and improving efficiency in FY22E.** We forecast livestreaming +1% YoY in FY22E. Ads would grow 32% YoY, driven by: 1) ecommerce ads momentum to continue (+40% YoY, ~30% of total ads); 2) ramp-up of brand ads; and 3) non-ecommerce ads to gain share (forecasting +28% YoY), with rising time spent and ad load. Kuaishou is also well-positioned to outperform in ecommerce, with estimated GMV over RMB900bn in FY22E (+39% YoY, vs +14% on industry average). Mgmt will prioritize on trust ecommerce and brand ecommerce (public domain traffic) in FY22E, to boost AAC penetration, AOV and frequency. Take rate continues to be moderate in FY22E. We expect better margin outlook ahead, with adj. NPM at -15% in FY22E and GPM +1ppts YoY. For regulations, we expect limited financial impact from recent algorithm guidance (< 1% users choose to close personalized recommendation) and content copyright issue (involving low-single-digit of content), while streamers tax will pose less impact on Kuaishou vs. Taobao for its lower concentration.
- **Maintain BUY.** We trimmed its FY21-23E rev forecast by 0-4% but lifted its margin by 0-3ppts, to reflect better cost control. Maintain TP at HK$136.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	**39,120**	**58,776**	**79,539**	**96,052**	**114,462**
YoY growth (%)	92.7	50.2	35.3	20.8	19.2
Adj. net income (RMB mn)	**1,034**	**(7,949)**	**(18,268)**	**(14,573)**	**(11,631)**
Adj. EPS (RMB)	**NA**	**NA**	**(4.1)**	**(3.3)**	**(2.6)**
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(5.1)	(3.6)	(1.2)
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	**8.0**	**5.3**	**3.9**	**3.2**	**2.7**
Yield (%)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

China Internet Sector

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Stock Data

Mkt Cap (HK$ mn)	362,023
Avg 3 mths t/o (HK$ mn)	1,837.3
52w High/Low (HK$)	417.8/ 62.3
Total Issued Shares (mn)	3,461

Source: Bloomberg

Shareholding Structure

Tencent	21.1%
5Y Capital	16.3%
Morningside	10.9%

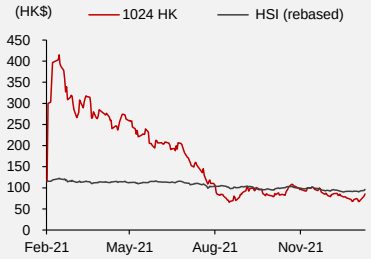
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-6.7%	-5.7%
3-mth	-8.5%	-2.4%
6-mth	-47.3%	-39.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. China Strategy Outlook 2022: Crouching Tiger Ready to Leap – 16 Dec 2021
2. Focusing on improving efficiency – 24 Nov 2021
3. China Internet: Embracing a new normal of regulation – 8 Nov 2021

Figure 1: CMBIS estimates vs consensus

	CMBIS			Consensus			Diff (%)		
RMB mn, Dec-YE	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	79,539	96,052	114,462	80,127	105,124	134,538	-0.7%	-8.6%	-14.9%
Gross Profit	33,018	41,276	50,588	33,417	47,726	66,361	-1.2%	-13.5%	-23.8%
Operating Profit	(25,992)	(19,418)	(16,933)	(29,421)	(21,970)	(10,992)	NA	NA	NA
Adj. net profit	(18,268)	(14,573)	(11,631)	(20,412)	(14,341)	(3,568)	NA	NA	NA
Adj. EPS (RMB)	(4.13)	(3.30)	(2.63)	(5.09)	(3.61)	(1.16)	NA	NA	NA
Gross Margin	41.5%	43.0%	44.2%	42.3%	48.2%	52.4%	-0.8ppts	-5.2ppts	-8.2ppts
Operating Margin	-32.7%	-20.2%	-14.8%	-37.1%	-19.4%	-7.6%	+4.4ppts	-0.8ppts	-7.1ppts
Adj. net margin	-23.0%	-15.2%	-10.2%	-28.7%	-14.2%	-3.6%	+5.7ppts	-1.0ppts	-6.6ppts

Source: CMBIS estimates, Bloomberg

Figure 2: Earnings revision

	New			Old			Diff (%)		
RMB mn, Dec-YE	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	79,539	96,052	114,462	79,508	98,169	119,559	0.0%	-2.2%	-4.3%
Gross Profit	33,018	41,276	50,588	32,997	42,987	55,263	0.1%	-4.0%	-8.5%
Operating Profit	(25,992)	(19,418)	(16,933)	(28,375)	(22,481)	(17,655)	NA	NA	NA
Adj. net profit	(18,268)	(14,573)	(11,631)	(20,890)	(17,526)	(12,146)	NA	NA	NA
Adj. EPS (RMB)	(4.13)	(3.30)	(2.63)	(4.72)	(3.96)	(2.75)	NA	NA	NA
Gross Margin	41.5%	43.0%	44.2%	41.5%	43.8%	46.2%	+0.0ppts	-0.8ppts	-2.0ppts
Operating Margin	-32.7%	-20.2%	-14.8%	-35.7%	-22.9%	-14.8%	+3.0ppts	+2.7ppts	-0.0ppts
Adj. net margin	-23.0%	-15.2%	-10.2%	-26.3%	-17.9%	-10.2%	+3.3ppts	+2.7ppts	-0.0ppts

Source: CMBIS estimates

Figure 3: 4Q21E financial preview

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21E	QoQ	YoY	Consensus	Diff %
Revenue	10,190	11,852	12,458	12,863	15,357	18,099	17,019	19,139	20,493	22,888	12%	26%	23,034	-1%
Operating Profit	568	(975)	(5,026)	(2,540)	(1,377)	(1,378)	(7,292)	(7,215)	(7,404)	(4,081)	NA	NA	(7,820)	NA
Net profit	(1,349)	(18,034)	(30,492)	(37,599)	(29,280)	(19,264)	(57,751)	(7,036)	(7,087)	(4,828)	NA	NA	(7,661)	NA
Adj. net profit	593	(962)	(4,345)	(1,938)	(962)	(704)	(4,918)	(4,770)	(4,822)	(3,757)	NA	NA	(5,380)	NA
Margin (%)														
Gross Margin	38.7%	39.1%	34.2%	34.5%	43.1%	47.0%	41.1%	43.8%	41.5%	42.0%			40.3%	
Operating Margin	5.6%	-8.2%	-40.3%	-19.7%	-9.0%	-7.6%	-42.8%	-37.7%	-36.1%	-17.8%			-34.0%	
Adj. net margin	5.8%	-8.1%	-34.9%	-15.1%	-6.3%	-3.9%	-28.9%	-24.9%	-23.5%	-16.4%			-23.4%	
Growth (%)														
Revenue (YoY)	*NA*	*NA*	*NA*	*NA*	*50.7%*	*52.7%*	*36.6%*	*48.8%*	*33.4%*	*26.5%*			*27.3%*	
Revenue (QoQ)	*NA*	*16.3%*	*5.1%*	*3.2%*	*19.4%*	*17.9%*	*-6.0%*	*12.5%*	*7.1%*	*11.7%*			*12.4%*	
Operating Profit	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*			*NA*	
Adj. net profit	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*			*NA*	

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 4Q21E revenue breakdown

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21E	QoQ	YoY
Total revenue	**10,190**	**11,852**	**12,458**	**12,863**	**15,357**	**18,099**	**17,019**	**19,139**	**20,493**	**22,888**	**12%**	**26%**
Online marketing services	2,047	3,151	3,273	3,889	6,181	8,511	8,558	9,962	10,909	12,879	18%	51%
Live streaming	8,089	8,520	9,009	8,340	7,960	7,900	7,250	7,193	7,724	7,947	3%	1%
Other services	54	181	176	634	1,215	1,688	1,211	1,983	1,860	2,062	11%	22%

Source: Company data, CMBIS estimates

Figure 5: Valuation

Business (RMB mn)	'22E Rev or GMV	Methodology	Multiple	Valuation	Stakes	Value
Live streaming	30,371	EV/Sales	2.0x	60,742	100%	60,742
Advertising	55,667	EV/Sales	3.5x	194,834	100%	194,834
Ecommerce	905,462	P/GMV	0.2x	194,674	100%	194,674
Enterprise Value						**450,251**
(+) Net Cash						44,455
Equity Value						**494,706**
FX						0.82
Valuation (HK$ mn)						**603,300**
TP (HK$) based on SOTP						**136**

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	39,120	58,776	79,539	96,052	114,462
Live streaming	31,442	33,209	30,115	30,371	30,009
Online marketing services	7,419	21,855	42,308	55,667	70,979
Other services	260	3,712	7,116	10,014	13,474
COGS	(25,017)	(34,961)	(46,522)	(54,775)	(63,874)
Gross profit	14,104	23,815	33,018	41,276	50,588
S&M	(9,865)	(26,615)	(41,519)	(46,297)	(50,592)
Admin.Exp.	(865)	(1,677)	(3,795)	(2,950)	(3,287)
R&D	(2,944)	(6,548)	(14,490)	(12,216)	(14,557)
Other gains	260	704	795	768	916
Operating profit	689	(10,320)	(25,992)	(19,418)	(16,933)
Other income/(exp)	(19,954)	(106,881)	(51,082)	432	645
Pre-tax Income	(19,265)	(117,201)	(77,074)	(18,987)	(16,288)
Income Tax	(386)	566	372	92	79
Net profit	(19,652)	(116,635)	(76,702)	(18,895)	(16,209)
Adj. net profit	1,034	(7,949)	(18,268)	(14,573)	(11,631)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(19,265)	(117,201)	(77,074)	(18,987)	(16,288)
D&A	2,160	2,511	2,801	3,801	5,000
Change in WC	5,168	5,410	4,409	3,764	4,162
Others	19,957	111,569	58,806	4,414	4,657
Operating CF	8,020	2,289	(11,058)	(7,008)	(2,468)
Capex	(2,548)	(6,382)	(3,879)	(6,206)	(7,447)
Purchase of investments	(4,304)	5,212	-	-	-
Others	(3,297)	(3,697)	-	-	-
Investing CF	(10,149)	(4,867)	(3,879)	(6,206)	(7,447)
Equity raised	-	-	39,000	-	-
Change of Debts	-	-	-	-	-
Cash from CB raised	1,527	19,766	-	-	-
Others	(829)	(476)	-	-	-
Financing CF	698	19,290	39,000	-	-
Net change in cash	(1,430)	16,711	24,064	(13,214)	(9,915)
Cash (beg of yr)	5,370	3,996	20,392	44,455	31,241
FX	56	(316)	-	-	-
Cash (end of yr)	3,996	20,392	44,455	31,241	21,326

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	15,103	20,619	21,697	24,102	26,549
Property and equipment	6,232	7,206	8,193	10,428	12,702
Right-of-use assets	4,353	5,200	5,200	5,200	5,200
Intangible assets	1,120	1,248	1,338	1,508	1,682
Others	3,398	6,966	6,966	6,966	6,966
Current assets	17,311	31,528	56,910	44,835	36,180
Cash	3,996	20,392	44,455	31,241	21,326
Prepayments	2,033	2,285	3,780	4,451	5,190
Financial assets at fair value through profit or loss	8,902	3,690	3,690	3,690	3,690
Trade receivables	1,107	2,428	2,252	2,719	3,240
Others	1,272	2,733	2,733	2,733	2,733
Current liabilities	15,374	23,185	28,912	33,815	39,237
Accounts payables	9,055	11,544	16,839	19,827	23,120
Other payables and accruals	3,028	5,763	5,630	6,629	7,730
Advances from customers	1,530	3,290	3,856	4,772	5,800
Lease liabilities	1,337	2,099	2,099	2,099	2,099
Others	424	488	488	488	488
Non-current liabilities	72,770	189,012	189,012	189,012	189,012
Convertible redeemable preferred shares	69,444	185,373	185,373	185,373	185,373
Others	3,325	3,640	3,640	3,640	3,640
MI	-	-	-	-	-
Total Equity	(55,729)	(160,050)	(139,318)	(153,891)	(165,522)
Shareholders' equity	(55,729)	(160,050)	(139,318)	(153,891)	(165,522)

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Live streaming	80.4	56.5	37.9	31.6	26.2
Online marketing services	19.0	37.2	53.2	58.0	62.0
Other services	0.7	6.3	8.9	10.4	11.8
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	92.7	50.2	35.3	20.8	19.2
Gross profit	143.1	68.9	38.6	25.0	22.6
EBIT	NA	NA	NA	NA	NA
Adj. net profit	404.7	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	1.8	(17.6)	(32.7)	(20.2)	(14.8)
Pre-tax margin	(49.2)	(199.4)	(96.9)	(19.8)	(14.2)
Adj. net margin	2.6	(13.5)	(23.0)	(15.2)	(10.2)
Effective tax rate	2.0	(0.5)	(0.5)	(0.5)	(0.5)
Returns (%)					
ROE	34.6	73.2	55.3	12.3	9.8

Source: Company data, CMBIS estimates

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