

Kuaishou (1024 HK)

Stronger DAU and ecommerce ahead

We expect better-than-expected 2Q22 results ahead, with DAU/rev +18%/8% YoY (vs. prior +15%/8%), and bottom line at -RMB2.5bn (vs. consensus at -RMB3.1bn). DAU momentum and GMV would beat previous guidance, while others were on a good track. We forecast its GMV +25% YoY (high end), and are impressed by its Jul momentum (>30% YoY) and GMV further acceleration in early Jul. We forecast ads +7% YoY (in line), in which internal ecommerce ads & brand ads trend were healthy while external ads still declined YoY in Jun. We expect ads to achieve 18% YoY in 2H22E, with algorithm optimization and vertical recovery. We suggest to move beyond weakest 2Q22E, and look into ads & ecommerce rebound in 2H22E and domestic biz breakeven in 4Q22E. We keep our full-year financials unchanged, with SOTP-based TP at HK\$120. We reiterate our confidence in its resilient growth, share gain and narrowing loss in the long run.

- **2Q22E on a good track.** We expect 2Q22 rev +8% YoY (largely in line with previous guidance), attributable to stronger ecommerce (GMV +25% YoY). Non-GAAP net loss was estimated at RMB2.5bn (vs. consensus of -RMB3.1bn), with non-GAAP NPM improving QoQ at -12.2%.
- **Expecting stronger-than-expected DAU and ecommerce.** 2Q22E DAU performed well, expecting stable QoQ (+18% YoY, vs. prior +15%). We forecast its ecommerce GMV +25% YoY in 2Q22E (high end of guidance, outperforming peers), mainly driven by rising MPU. Ecommerce GMV decelerated from Apr, then improved YoY in May and achieved >30% YoY growth in Jun. We are impressed by its Jul momentum and GMV further acceleration in early Jul, supporting its 3Q22E recovery. Take rate would be at 1%, with resilient payment GMV/order GMV ratio. For ads segment, we forecast ads +7% YoY (in line), in which internal ecommerce ads & brand ads trend were healthy while external ads still declined YoY in Jun. We expect ads to achieve 18% YoY in 2H22E, with algorithm optimization and vertical recovery. Live streaming would see 11% YoY growth, given higher user engagement and rising MPU partly offset by regulatory adjustment. 2Q22E adj. NPM would improve QoQ, with better GPM and continuous opex control (S&M expenses decline QoQ).
- **Maintain BUY.** We keep our full-year financials unchanged, with SOTP-based TP at HK\$120.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	58,776	81,082	92,761	110,119	127,311
YoY growth (%)	50.2	37.9	14.4	18.7	15.6
Adj. net income (RMB mn)	(7,864)	(18,852)	(9,504)	(4,207)	3,085
Adj. EPS (RMB)	(8.4)	(4.6)	(2.1)	(0.9)	0.7
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(2.9)	(0.5)	1.8
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	5.1	3.7	3.2	2.7	2.4
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, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$120**
 (Previous TP **HK\$120**)
 Up/Downside **+45.6%**
 Current Price **HK\$82.4**

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Eason Xu
 (852) 3900 0849
 easonxu@cmbi.com.hk



Stock Data

Mkt Cap (HK\$ mn)	338,670
Avg 3 mths t/o (HK\$ mn)	2,388.49
52w High/Low (HK\$)	150.3/53.15
Total Issued Shares (mn)	3,526
Source: Bloomberg	

Shareholding Structure

Tencent	20.7%
5Y Capital	16.0%
DCM LP	7.9%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	-3.0%	-1.9%
3-mth	26.8%	30.9%
6-mth	-5.6%	9.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Moving into 2H22 recovery— 25 May 2022
2. Share gain continued, despite epidemic pressure – 13 May 2022
3. Expecting a solid start in FY22E – 30 Mar 2022

Figure 1: CMBI estimates vs consensus

RMB mn, Dec-YE	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	92,761	110,119	127,311	95,131	116,204	136,112	-2.5%	-5.2%	-6.5%
Gross profit	38,876	49,630	61,872	41,597	55,343	68,770	-6.5%	-10.3%	-10.0%
Operating profit	(19,015)	(13,842)	(5,675)	(17,927)	(8,183)	1,381	NA	NA	NA
Adj. net profit	(9,504)	(4,207)	3,085	(10,949)	(397)	8,453	NA	NA	-63.5%
Adj. EPS (RMB)	(2.13)	(0.92)	0.67	(2.9)	(0.5)	1.8	NA	NA	-63.1%
Gross margin	41.9%	45.1%	48.6%	43.7%	47.6%	50.5%	-1.8ppts	-2.6ppts	-1.9ppts
Operating margin	-20.5%	-12.6%	-4.5%	-18.8%	-7.0%	1.0%	-1.7ppts	-5.5ppts	-5.5ppts
Adj. net margin	-10.2%	-3.8%	2.4%	-11.5%	-0.3%	6.2%	+1.3ppts	-3.5ppts	-3.8ppts

Source: CMBIGM estimates, Bloomberg

Figure 2: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	92,761	110,119	127,311	93,965	111,798	130,159	-1.3%	-1.5%	-2.2%
Gross profit	38,876	49,630	61,872	40,501	51,733	65,054	-4.0%	-4.1%	-4.9%
Operating profit	(19,015)	(13,842)	(5,675)	(22,644)	(14,692)	(6,687)	NA	NA	NA
Adj. net profit	(9,504)	(4,207)	3,085	(12,507)	(4,823)	2,382	NA	NA	NA
Adj. EPS (RMB)	(2.13)	(0.92)	0.67	(2.8)	(1.1)	0.5	NA	NA	NA
Gross margin	41.9%	45.1%	48.6%	43.1%	46.3%	50.0%	-1.2ppts	-1.2ppts	-1.4ppts
Operating margin	-20.5%	-12.6%	-4.5%	-24.1%	-13.1%	-5.1%	+3.6ppts	+0.6ppts	+0.7ppts
Adj. net margin	-10.2%	-3.8%	2.4%	-13.3%	-4.3%	1.8%	+3.1ppts	+0.5ppts	+0.6ppts

Source: CMBIGM estimates

Figure 3: 2Q22E financial preview

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	QoQ	YoY	Consensus	Diff %
Revenue	15,357	18,099	17,019	19,139	20,493	24,430	21,067	20,673	-2%	8%	20,660	0%
Operating Profit	(1,377)	(1,378)	(7,292)	(7,215)	(7,404)	(5,790)	(5,643)	(4,921)	NA	NA	(4,894)	NA
Net profit	(29,280)	(19,264)	(57,750)	(7,035)	(7,086)	(6,202)	(6,254)	(4,374)	NA	NA	(5,111)	NA
Adj. net profit	(1,044)	(459)	(5,896)	(4,770)	(4,616)	(3,569)	(3,722)	(2,519)	NA	NA	(3,064)	NA
Margin (%)												
Gross Margin	43.1%	47.0%	41.1%	43.8%	41.5%	41.5%	41.7%	41.8%			42.5%	
Operating Margin	-9.0%	-7.6%	-42.8%	-37.7%	-36.1%	-23.7%	-26.8%	-23.8%			-23.7%	
Adj. net margin	-6.8%	-2.5%	-34.6%	-24.9%	-22.5%	-14.6%	-17.7%	-12.2%			-14.8%	
Growth (%)												
Revenue (YoY)	50.7%	52.7%	36.6%	48.8%	33.4%	35.0%	23.8%	8.0%			7.9%	
Revenue (QoQ)	19.4%	17.9%	-6.0%	12.5%	7.1%	19.2%	-13.8%	-1.9%			-1.9%	
Operating Profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 2Q22E revenue breakdown

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	QoQ	YoY
Total revenue	15,357	18,099	17,019	19,139	20,493	24,430	21,067	20,673	-2%	8%
Online marketing services	6,181	8,511	8,558	9,962	10,909	13,236	11,351	10,682	-6%	7%
Live streaming	7,960	7,900	7,250	7,193	7,724	8,827	7,842	7,973	2%	11%
Other services	1,215	1,688	1,211	1,983	1,860	2,367	1,873	2,018	8%	2%

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	58,776	81,082	92,761	110,119	127,311
Live streaming	33,209	30,995	32,235	32,880	32,880
Online marketing services	21,855	42,665	50,605	64,164	78,546
Other services	3,712	7,421	9,921	13,075	15,886
COGS	(34,961)	(47,052)	(60,489)	(65,439)	(71,209)
Gross profit	23,815	34,030	32,272	44,679	56,102
S&M	(26,615)	(44,176)	(41,004)	(44,837)	(46,220)
Admin.Exp.	(1,677)	(3,400)	(3,432)	(3,836)	(4,093)
R&D	(6,548)	(14,956)	(14,197)	(15,679)	(18,253)
Other gains	704	801	742	881	1,018
Operating profit	(10,320)	(27,701)	(25,619)	(18,792)	(11,445)
Other income/(exp)	(106,881)	(51,314)	432	645	1,033
Pre-tax Income	(117,201)	(79,016)	(18,603)	(13,209)	(4,646)
Income Tax	566	1,025	1,677	742	(544)
Net profit	(116,635)	(78,077)	(16,925)	(12,466)	(5,190)
Adj. net profit	(7,863)	(18,852)	(9,504)	(4,207)	3,085

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(116,635)	(78,077)	(16,925)	(12,466)	(5,190)
D&A	4,863	6,885	5,700	6,699	7,725
Change in WC	6,898	2,444	3,552	3,353	2,462
Others	107,163	63,229	7,421	8,259	8,275
Operating CF	2,289	(5,519)	(253)	5,845	13,271
Capex	(5,908)	(5,789)	(9,181)	(11,210)	(10,802)
Purchase of investments	5,400	-	-	-	-
Others	(4,359)	(12,572)	47	47	47
Investing CF	(4,867)	(18,361)	(9,134)	(11,163)	(10,755)
Equity raised	-	39,386	-	-	-
Change of Debts	-	-	-	-	-
Cash from CB raised	20,957	-	-	-	-
Others	(1,666)	(2,885)	-	-	-
Financing CF	19,290	36,500	-	-	-
Net change in cash	16,711	12,620	(9,386)	(5,318)	2,517
Cash (beg of yr)	3,996	20,392	32,612	23,226	17,909
FX	(316)	(399)	-	-	-
Cash (end of yr)	20,392	32,612	23,226	17,909	20,425

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	20,619	39,505	42,938	47,402	50,431
Property and equipment	7,206	11,051	11,526	12,350	15,528
Right-of-use assets	5,200	12,562	15,483	19,090	18,912
Intangible assets	1,248	1,172	1,256	1,336	1,413
Others	6,966	14,720	14,673	14,625	14,578
Current assets	31,528	53,011	44,742	40,837	44,642
Cash	20,392	32,612	23,226	17,909	20,425
Prepayments	2,285	3,278	3,754	4,215	4,559
Financial assets at fair value through profit or loss	3,301	1,250	1,298	1,345	1,393
Trade receivables	2,428	4,450	5,091	6,044	6,987
Others	3,122	11,420	11,372	11,325	11,277
Current liabilities	23,185	37,256	41,925	46,690	50,441
Accounts payables	11,544	20,021	22,929	25,739	27,845
Other payables and accruals	5,763	9,123	10,448	11,729	12,689
Advances from customers	3,290	3,503	3,939	4,615	5,298
Others	2,587	4,608	4,608	4,608	4,608
Non-current liabilities	189,012	10,108	-	-	-
Convertible redeemable preferred shares	185,373	-	10,108	10,108	10,108
Others	3,640	10,108	-	-	-
MI	-	-	35,592	31,384	34,469
Total Equity	(160,050)	45,096	35,592	31,384	34,469
Shareholders' equity	(160,050)	45,096	42,938	47,402	50,431

Source: Company data, CMBIGM estimates

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Live streaming	56.5	38.2	34.8	29.9	25.8
Online marketing services	37.2	52.6	54.6	58.3	61.7
Other services	6.3	9.2	10.7	11.9	12.5
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	50.2	37.9	14.4	18.7	15.6
Gross profit	68.9	42.9	14.2	27.7	24.7
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(38.1)	(42.1)	(27.6)	(17.1)	(9.0)
Pre-tax margin	(199.4)	(97.6)	(20.1)	(12.0)	(3.6)
Adj. net margin	(13.4)	(23.3)	(10.2)	(3.8)	2.4
Effective tax rate	(0.5)	(1.3)	(9.0)	(5.6)	11.7
Returns (%)					
ROE	NA	NA	NA	NA	9.4

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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