

Kuaishou (1024 HK)

Bullish on earnings upside

Kuaishou delivered another upbeat quarter, with topline/bottom line +17%/+10,348% YoY (1%/37% above consensus). We expect such margin surprise with a HK\$16bn new share repurchase program should help its re-rating. We reiterate our confidence on KS's resilient growth and earnings upside, and expect a solid 2Q24E ahead. We forecast 2Q24E revenue +9.5% YoY, with ads and other services revenue resilient at +22.5%/24% YoY. 2Q24E bottom line may reach RMB4.4bn (13% above consensus), in our estimates. With enhanced monetization, operating leverage and overseas business narrowing loss, we are more bullish on its margin outlook. We lift our earnings forecast by 7.3%-7.6% in FY24-26E, with TP at HK\$97 (unchanged).

■ **Margin beat again, with HK\$16bn new share repurchase program.** 1Q24 beat on margin again, with revenue +17% YoY (1% above consensus) and bottom line at RMB4.4bn (37% above consensus). By segment, livestreaming/ads/other services rev was -8%/+27%/+48% YoY, of which other services revenue beat our estimates by 5%. Adj. NPM improved QoQ to 14.9% in 1Q24 (vs. consensus of 11%), mainly on a better GPM and narrowing loss of overseas business. 1Q24 DAU grew 5% YoY to 394mn, backed by enhanced algorithms and rich content supply. KS announced a new on-market share repurchase program up to HK\$16bn over the next 36 months.

■ **Ads & ecommerce to sustain solid momentum in 2Q24E.** For 2Q24E, we expect KS's traffic to trend well, with estimated DAU +4% YoY. We remain positive on KS's ads & ecommerce monetization and earnings growth, and forecast total revenue +9.5% YoY in 2Q24E. Ads segment would continuously benefit from rising budgets for game launches, booming mini-dramas and vocational training. We forecast ads revenue +22.5% in 2Q24E (largely in line with consensus). We forecast ecommerce GMV/other services revenue to grow 25%/24% YoY in 2Q24E, supported by rich offerings, rising MAC and shelf-based mall penetration. Given a high base in 2Q, we estimate livestreaming revenue to decline 14% YoY, but full-year revenue of -8% YoY is unchanged. We forecast adj. net profit at RMB4.4bn in 2Q24E (13% above consensus), backed by an improving GPM (+4ppts YoY) and disciplined R&D and G&A spending. To factor in a better margin profile, we revise up FY24E adj. net profit forecast to RMB17.2bn (vs. prior RMB16bn).

■ **Maintain BUY.** We lift our FY24-26E earnings forecast by 7.3%-7.6%, but maintain SOTP-based TP at HK\$97. Catalysts: 1) more earnings upside; and 2) decent quarterly results.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	94,183	113,470	125,544	141,964	159,050
YoY growth (%)	16.2	20.5	10.6	13.1	12.0
Adjusted net profit (RMB mn)	(5,751.4)	10,271.0	17,246.6	24,433.8	32,108.6
Diluted EPS (RMB)	(1.35)	2.31	3.74	5.20	6.71
YoY growth (%)	NA	NA	61.8	39.0	28.9
Consensus EPS (RMB)	NA	NA	3.76	5.19	6.63
P/S (x)	2.5	2.1	1.9	1.7	1.5
P/E (x)	NA	22.6	13.8	9.9	7.7
ROE (%)	(32.2)	14.4	21.0	23.8	26.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$97.00
(Previous TP)	HK\$97.00)
Up/Downside	66.8%
Current Price	HK\$58.15

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Stock Data

Mkt Cap (HK\$ mn)	254,057.4
Avg 3 mths t/o (HK\$ mn)	1,406.4
52w High/Low (HK\$)	69.15/39.10
Total Issued Shares (mn)	4369.0

Source: FactSet

Shareholding Structure

Tencent Holdings	18.8%
Morningside Venture Capital	15.6%

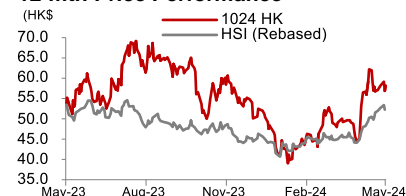
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	28.7%	10.7%
3-mth	25.6%	9.5%
6-mth	-3.4%	-9.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1Q24 financial review

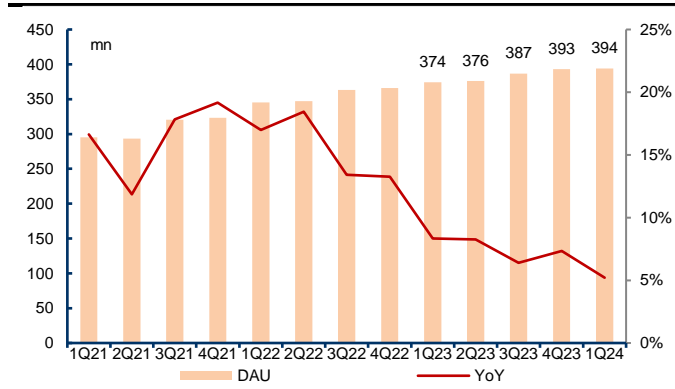
RMB mn	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY	Consensus	Diff %
Revenue	21,695	23,128	28,292	25,217	27,744	27,948	32,561	29,408	-10%	17%	29,044	1%
Operating profit	(3,059)	(2,612)	(1,243)	(698)	1,296	2,211	3,622	3,994	10%	-672%	2,416	65%
Net profit	(3,176)	(2,712)	(1,547)	(876)	1,481	2,182	3,612	4,120	14%	-570%	2,213	86%
Adj. net profit	(1,312)	(672)	(45)	42	2,694	3,173	4,362	4,388	1%	10348%	3,198	37%
Margin (%)												
Gross margin	45.0%	46.3%	45.5%	46.4%	50.2%	51.7%	53.1%	54.8%			52.7%	
Operating margin	-14.1%	-11.3%	-4.4%	-2.8%	4.7%	7.9%	11.1%	13.6%			8.3%	
Adj. net margin	-6.0%	-2.9%	-0.2%	0.2%	9.7%	11.4%	13.4%	14.9%			11.0%	
Growth (%)												
Revenue (YoY)	13.4%	12.9%	15.8%	19.7%	27.9%	20.8%	15.1%	16.6%			15.2%	
Revenue (QoQ)	3.0%	6.6%	22.3%	-10.9%	10.0%	0.7%	16.5%	-9.7%			-10.8%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	10348%			NA	

Source: Company data, Bloomberg, CMBIGM

Figure 2: 1Q24 revenue breakdown

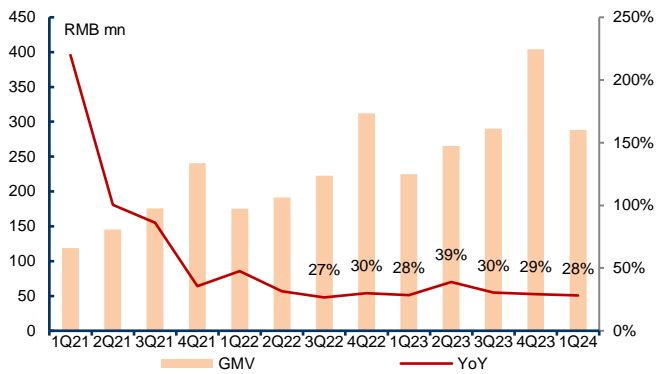
RMB mn	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Total revenue	21,695	23,128	28,292	25,217	27,744	27,948	32,561	29,408	-9.7%	17%
Online marketing services	11,006	11,590	15,094	13,064	14,347	14,690	18,203	16,650	-9%	27%
Live streaming	8,565	8,947	10,034	9,319	9,968	9,719	10,048	8,575	-15%	-8%
Other services	2,124	2,592	3,164	2,834	3,429	3,539	4,310	4,183	-3%	48%

Source: Company data, CMBIGM

Figure 3: Quarterly DAU trend

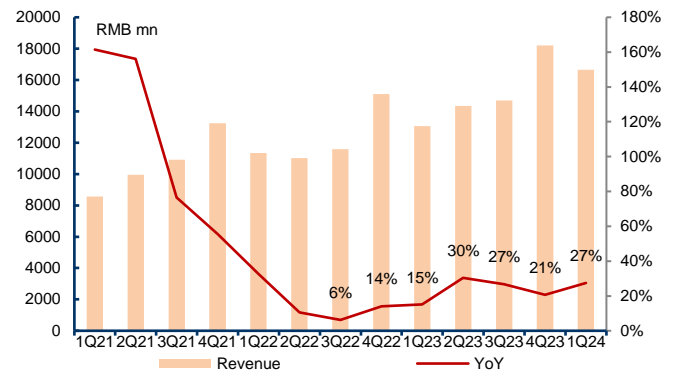
Source: Company data, CMBIGM

Figure 4: Quarterly GMV trend



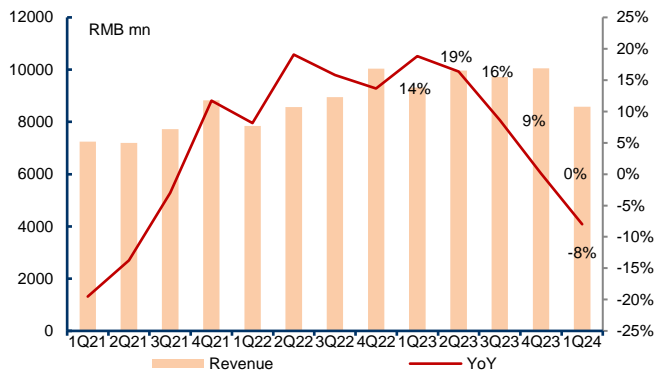
Source: Company data, CMBIGM

Figure 5: Quarterly ads revenue trend



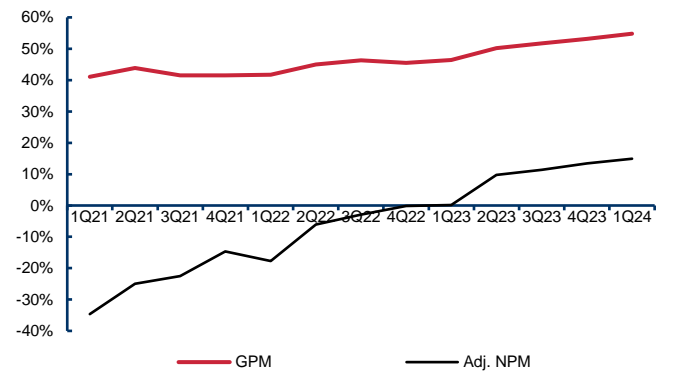
Source: Company data, CMBIGM

Figure 6: Quarterly livestreaming revenue



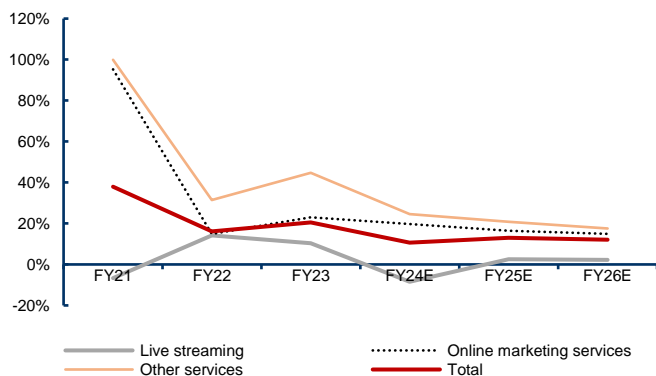
Source: Company data, CMBIGM

Figure 7: Quarterly margin



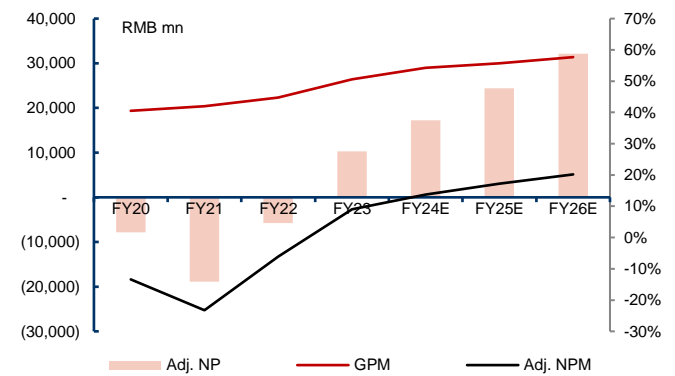
Source: Company data, CMBIGM

Figure 8: Yearly revenue growth estimates



Source: Company data, CMBIGM estimates

Figure 9: Yearly margin estimates



Source: Company data, CMBIGM estimates

Figure 10: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	125,544	141,964	159,050	127,577	142,631	158,445	-1.6%	-0.5%	0.4%
Gross profit	68,099	79,148	91,742	68,027	78,322	88,334	0.1%	1.1%	3.9%
Operating profit	14,600	21,771	33,095	13,517	20,558	26,985	8.0%	5.9%	22.6%
Adj. net profit	17,247	24,434	32,109	16,557	23,149	29,389	4.2%	5.6%	9.3%
Adj. EPS (RMB)	3.74	5.20	6.71	3.76	5.19	6.63	-0.6%	0.2%	1.1%
Gross margin	54.2%	55.8%	57.7%	53.3%	54.9%	55.8%	+0.9ppts	+0.8ppts	+1.9ppts
Operating margin	11.6%	15.3%	20.8%	10.6%	14.4%	17.0%	+1.0ppts	+0.9ppts	+3.8ppts
Adj. net margin	13.7%	17.2%	20.2%	13.0%	16.2%	18.5%	+0.8ppts	+1.0ppts	+1.6ppts

Source: Bloomberg, CMBIGM estimates

Figure 11: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	125,544	141,964	159,050	125,544	141,964	159,050	0.0%	0.0%	0.0%
Gross profit	68,099	79,148	91,742	66,671	77,112	89,187	2.1%	2.6%	2.9%
Operating profit	14,600	21,771	33,095	13,172	19,735	30,541	10.8%	10.3%	8.4%
Adj. net profit	17,247	24,434	32,109	16,033	22,703	29,937	7.6%	7.6%	7.3%
Adj. EPS (RMB)	3.74	5.20	6.71	3.48	4.83	6.25	7.6%	7.6%	7.3%
Gross margin	54.2%	55.8%	57.7%	53.1%	54.3%	56.1%	+1.1ppts	+1.4ppts	+1.6ppts
Operating margin	11.6%	15.3%	20.8%	10.5%	13.9%	19.2%	+1.1ppts	+1.4ppts	+1.6ppts
Adj. net margin	13.7%	17.2%	20.2%	12.8%	16.0%	18.8%	+1.0ppts	+1.2ppts	+1.4ppts

Source: Bloomberg, CMBIGM estimates

Figure 12: SOTP valuation

Business (RMB mn)	'24E Rev or GMV	Methodology	Multiple	Valuation	Stakes	Value
Live streaming	35,754	EV/Sales	0.8x	28,603	100%	28,603
Advertising	72,221	EV/Sales	1.5x	108,331	100%	108,331
Ecommerce	1,480,464	P/GMV	0.15x	226,511	100%	226,511
Enterprise Value						363,446
(+) Net Cash						25,828
Equity Value						389,274
FX						0.9
Valuation (HK\$ mn)						423,124
TP (HK\$) based on SOTP						97

Source: CMBIGM estimates

Risks

- 1) Macro uncertainty; 2) slower-than-expected external ads recovery; 3) ecommerce competition from peers; 4) higher-than-expected investment in AI and subsidies; and 5) potential regulation change.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	81,082	94,183	113,470	125,544	141,964	159,050
Cost of goods sold	(47,052)	(52,051)	(56,079)	(57,446)	(62,816)	(67,309)
Gross profit	34,030	42,131	57,391	68,099	79,148	91,742
Operating expenses	(61,731)	(54,689)	(50,960)	(53,499)	(57,377)	(58,646)
Selling expense	(44,176)	(37,121)	(36,496)	(37,809)	(41,174)	(42,200)
Admin expense	(3,400)	(3,921)	(3,514)	(3,601)	(3,770)	(3,917)
R&D expense	(14,956)	(13,784)	(12,338)	(12,589)	(12,933)	(13,089)
Operating profit	(27,701)	(12,558)	6,431	14,600	21,771	33,095
Other income	1,027	1,547	978	500	500	560
Gain/loss on financial assets at FVTPL	(225)	(1,410)	410	0	0	0
Income tax	1,025	(1,158)	(490)	(2,782)	(3,933)	(5,666)
Net profit	(78,074)	(13,689)	6,399	11,967	18,085	27,783
Adjusted net profit	(18,852)	(5,751)	10,271	17,247	24,434	32,109
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	53,011	45,859	60,361	73,221	95,002	125,571
Cash & equivalents	32,612	13,274	12,905	26,095	46,495	75,724
Restricted cash	2	59	128	128	128	128
Account receivables	4,450	6,288	6,288	6,957	7,867	8,814
Prepayment	3,278	4,106	4,919	5,039	5,510	5,904
ST bank deposits	3,825	8,318	9,874	9,874	9,874	9,874
Financial assets at FVTPL	8,842	13,087	25,128	25,128	25,128	25,128
Non-current assets	39,505	43,449	45,935	56,434	61,305	66,607
PP&E	11,051	13,215	12,356	14,834	19,998	27,744
Right-of-use assets	12,562	10,806	10,399	18,704	18,461	16,067
Intangibles	1,172	1,123	1,073	1,413	1,489	1,565
Financial assets at FVTPL	3,301	3,626	5,245	5,245	5,245	5,245
Other non-current assets	11,420	14,680	16,862	16,239	16,112	15,986
Total assets	92,515	89,307	106,296	129,656	156,307	192,178
Current liabilities	37,256	40,710	48,778	50,108	54,474	58,237
Account payables	20,021	22,868	23,601	24,176	26,436	28,327
Tax payable	1,080	936	1,222	1,222	1,222	1,222
Other current liabilities	12,626	13,430	20,628	21,382	23,489	25,361
Lease liabilities	3,529	3,475	3,327	3,327	3,327	3,327
Non-current liabilities	10,164	8,760	8,444	8,444	8,444	8,444
Convertible bonds	0	0	0	0	0	0
Deferred income	28	23	18	18	18	18
Other non-current liabilities	10,135	8,737	8,426	8,426	8,426	8,426
Total liabilities	47,419	49,470	57,222	58,552	62,918	66,681
Capital surplus	274,408	274,473	273,459	273,459	273,459	273,459
Retained earnings	(250,172)	(263,883)	(257,491)	(245,524)	(227,440)	(199,657)
Other reserves	20,854	29,239	33,183	36,983	41,183	45,509
Total shareholders equity	45,096	39,838	49,074	64,929	87,214	119,322
Minority interest	7	8	11	11	11	11
Total equity and liabilities	92,515	89,307	106,296	123,480	150,132	186,003

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(79,102)	(12,531)	6,889	14,749	22,017	33,449
Depreciation & amortization	6,885	6,306	7,162	7,559	8,240	8,688
Tax paid	1,025	(1,158)	(490)	(2,782)	(3,933)	(5,666)
Change in working capital	2,444	(2,631)	4,141	541	2,986	2,422
Others	62,204	7,407	4,060	6,582	8,133	9,992
Net cash from operations	(6,544)	(2,607)	21,762	26,648	37,443	48,885
Investing						
Capital expenditure	(5,789)	(9,181)	(11,210)	(10,802)	(13,237)	(14,116)
Acquisition of subsidiaries/ investments	(859)	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(11,713)	(8,847)	(8,655)	47	47	47
Net cash from investing	(18,361)	(18,028)	(19,865)	(10,755)	(13,189)	(14,069)
Financing						
Net borrowings	56	0	0	0	0	0
Proceeds from share issues	39,386	0	0	0	0	0
Net cash from financing	36,500	(2,599)	(1,364)	0	0	0
Net change in cash						
Cash at the beginning of the year	12,620	(19,832)	(448)	13,111	20,321	29,150
Exchange difference	(399)	494	79	79	79	79
Cash at the end of the year	32,612	13,274	12,905	26,095	46,495	75,724
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	37.9%	16.2%	20.5%	10.6%	13.1%	12.0%
Gross profit	42.9%	23.8%	36.2%	18.7%	16.2%	15.9%
Operating profit	na	na	na	127.0%	49.1%	52.0%
Net profit	na	na	na	87.0%	51.1%	53.6%
Adj. net profit	na	na	na	67.9%	41.7%	31.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	42.0%	44.7%	50.6%	54.2%	55.8%	57.7%
Operating margin	(34.2%)	(13.3%)	5.7%	11.6%	15.3%	20.8%
Adj. net profit margin	(23.3%)	(6.1%)	9.1%	13.7%	17.2%	20.2%
Return on equity (ROE)	na	(32.2%)	14.4%	21.0%	23.8%	26.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)
Current ratio (x)	1.4	1.1	1.2	1.5	1.7	2.2
Receivable turnover days	15.5	20.8	20.2	19.3	19.1	19.1
Payable turnover days	122.4	150.4	151.2	151.8	147.0	148.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	NA	NA	22.6	13.8	9.9	7.7
P/E (diluted)	NA	NA	23.3	14.4	10.4	8.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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