

Zhihu (ZH US)

Transition year with efficiency improvement

Zhihu delivered better-than-feared 1Q24 results, with upbeat topline and bottom line. Vocational training was resilient at +36% YoY in 1Q24, while membership decelerated at +1% YoY. As Zhihu prioritizes on higher efficiency and quarterly breakeven in 4Q24E, we expect its users metrics and revenue to bear short-term volatility. 2Q24E topline might see low-teens YoY decline, dragged by macro challenges and active transition in CCS & vocational training. However, we are positive on its loss narrowing trend in next few quarters, with improving GPM and disciplined expenses. We trimmed our revenue forecast in FY24- 26E by 6.4%-7.0%, and cut adj. NPM by 0.9-3.9ppts. Our DCF-based TP was adjusted to US\$7.9.

- Better-than-feared 1Q24.** Zhihu delivered better-than-feared 1Q24 results with revenue -3.4% YoY (4% above consensus), and adj. net loss of RMB136mn (vs. consensus of -RMB180mn). The upbeat topline was mainly from resilient vocational training (+36% YoY, vs. our estimate of +20%). Membership +1% YoY in 1Q24, largely in line. Adj. net loss reached RMB136mn, with adj. NPM at -14% (vs. consensus of -19%). By 1Q24, Zhihu has repurchased 31.1mn Class A ordinary shares with US\$66.5mn.
- Expecting narrowing loss ahead, with active transition.** As Zhihu prioritizes on higher efficiency and quarterly breakeven in 4Q24E, we expect its users metrics and revenue to bear short-term volatility in the transition year. We forecast revenue to decline 13% YoY in 2Q24E, in which marketing services/ paid membership/ vocational training revenue -25%/-4%/-7% YoY. Macro challenges and business adjustment would continuously dampen ads segment recovery, especially on its CCS revenue. However, IT and 3C vertical kept resilient, and we expect GPM of marketing services to improve gradually. For paid membership, we expect subs to slightly increase YoY in 2Q24E, while ARPU might be diluted by promotions & subsidies. Higher AIGC engagement would benefit membership GPM. Zhihu would focus more on high-quality development of vocational training, with shrinking low-margin subjects and category. As such, we forecast its vocational training revenue to decline 7% YoY in 2Q24E. Accordingly, group GPM would improve 2.5ppts YoY, in our estimates. Coupled with opex decline, we forecast 2Q24E net loss to narrow to RMB115mn.
- Maintain BUY.** We trimmed FY24- 26E revenue forecast by 6.4%-7.0%, and cut adj. NPM by 0.9-3.9ppts. Our DCF-based TP was adjusted to US\$7.9 for financials adjustment.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,605	4,199	3,532	3,824	4,088
YoY growth (%)	21.8	16.5	(15.9)	8.3	6.9
Adjusted net profit (RMB mn)	(1,195.9)	(659.1)	(347.7)	59.0	125.7
Diluted EPS (RMB)	(11.77)	(6.6)	(3.59)	0.62	1.34
YoY growth (%)	NA	NA	NA	NA	115.0
Consensus EPS (RMB cents)	NA	NA	(3.07)	0.67	1.58
P/S (x)	0.7	0.6	0.7	0.6	0.6
P/E (x)	NA	NA	NA	35.8	16.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$7.9
(Previous TP)	US\$11.0
Up/Downside	148.7%
Current Price	US\$3.18

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Stock Data

Mkt Cap (US\$ mn)	324.4
Avg 3 mths t/o (US\$ mn)	1.3
52w High/Low (US\$)	7.44/0.67
Total Issued Shares (mn)	102.0

Source: FactSet

Shareholding Structure

Tencent	13.1%
Yuan Zhou	12.7%

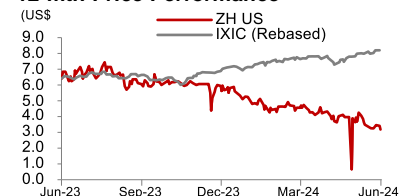
Source: Factset

Share Performance

	Absolute	Relative
1-mth	-18.0%	-22.8%
3-mth	-32.4%	-36.6%
6-mth	-43.5%	-52.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1Q24 financial review

RMB mn, Dec-YE	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY	Consensus	Diff %
Revenue	743	836	912	1,114	994	1,044	1,022	1,138	961	-15.6%	-3.4%	926	4%
Operating Profit	(500)	(526)	(472)	(504)	(437)	(534)	(529)	(178)	(225)	NA	NA	(267)	NA
Net profit	(614)	(487)	(300)	(180)	(181)	(280)	(279)	(104)	(165)	NA	NA	(216)	NA
Adj. net profit	(367)	(444)	(251)	(134)	(120)	(222)	(225)	(91)	(136)	NA	NA	(180)	NA
Margin (%)													
Gross margin	45.1%	47.8%	48.7%	56.4%	51.5%	53.8%	53.7%	59.1%	56.6%			56.0%	
Operating margin	-67.3%	-62.9%	-51.7%	-45.3%	-43.9%	-51.2%	-51.7%	-15.7%	-23.4%			-28.8%	
Adj. net margin	-49.4%	-53.1%	-27.5%	-12.0%	-12.1%	-21.3%	-22.0%	-8.0%	-14.1%			-19.4%	
Growth (%)													
Revenue (YoY)	55.4%	31.0%	10.7%	9.3%	33.8%	24.9%	12.1%	2.2%	-3.4%			-6.9%	
Revenue (QoQ)	-27.1%	12.5%	9.1%	22.2%	-10.7%	5.0%	-2.1%	11.4%	-15.6%			-18.7%	
Operating Profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	

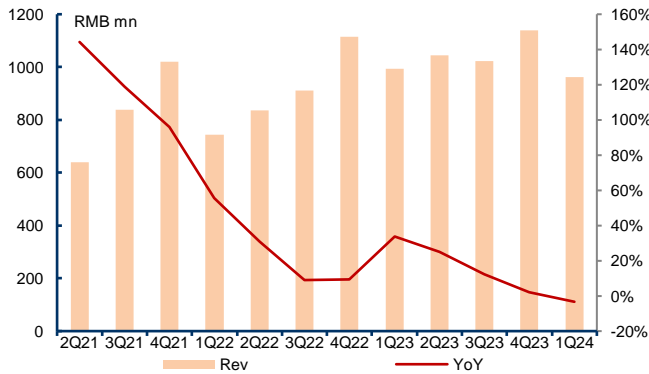
Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 1Q24 revenue breakdown

RMB mn, Dec-YE	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Total revenue	743	836	912	1,114	994	1,044	1,022	1,138	961	-16%	-3%
Marketing services	444	478	462	572	392	413	383	465	331	-29%	-16%
Paid membership	222	271	335	403	455	449	467	456	450	-1%	-1%
Vocational Training	40	46	78	85	107	145	145	169	145	-14%	36%
Others	38	41	36	54	40	38	28	48	35	-27%	-13%

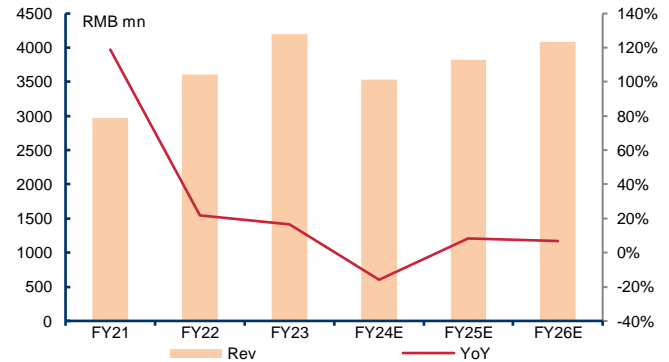
Source: Company data

Figure 3: Quarterly revenue trend



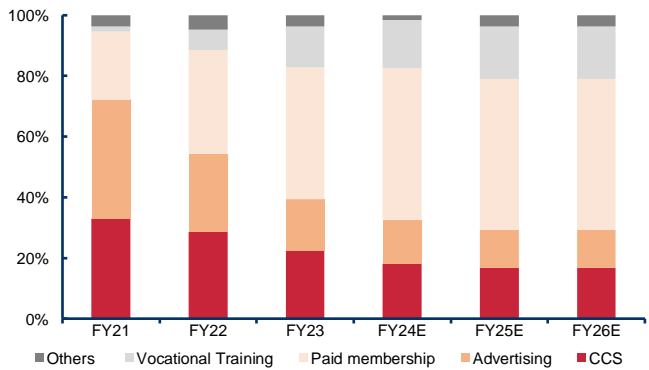
Source: Company data, CMBIGM estimates

Figure 4: Yearly revenue estimates



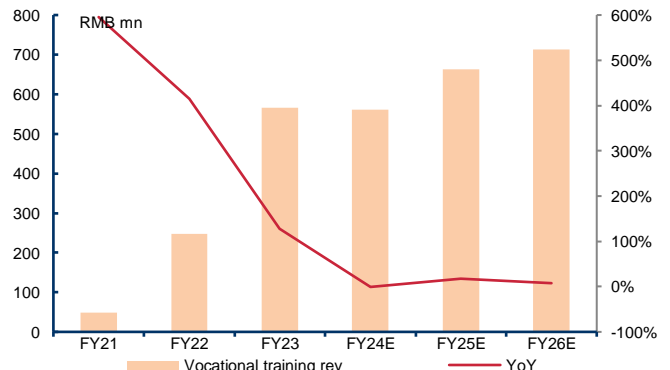
Source: Company data, CMBIGM estimates

Figure 5: Revenue mix change



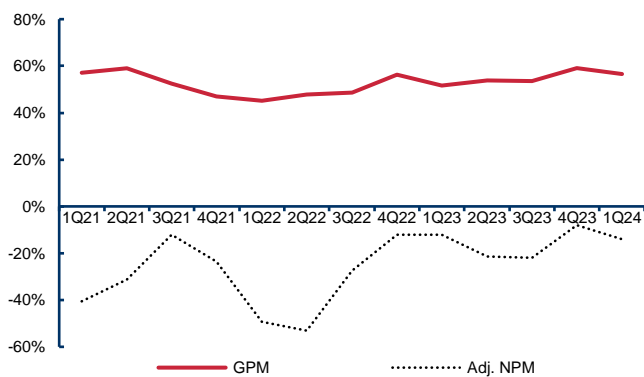
Source: Company data, CMBIGM estimates

Figure 6: Vocational training revenue estimates



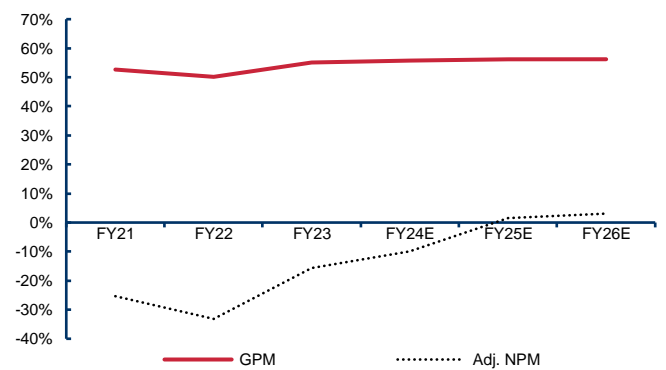
Source: Company data, CMBIGM estimates

Figure 7: Quarterly margin



Source: Company data, CMBIGM estimates

Figure 8: Yearly margin estimates



Source: Company data, CMBIGM estimates

Figure 9: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	3,532	3,824	4,088	3,721	3,933	4,171	-5.1%	-2.8%	-2.0%
Gross profit	1,943	2,136	2,294	2,091	2,220	2,395	-7.1%	-3.8%	-4.2%
Operating profit	(554)	(251)	(161)	(683)	(278)	(149)	NA	NA	NA
Adj. net profit	(348)	59	126	(336)	76	142	NA	-22.0%	-11.2%
EPS (RMB)	(3.59)	0.62	1.34	(3.07)	0.67	1.58	NA	-7.7%	-15.6%
Gross margin	55.0%	55.8%	56.1%	56.2%	56.4%	57.4%	-1.2ppts	-0.6ppts	-1.3ppts
Operating margin	-15.7%	-6.6%	-3.9%	-18.4%	-7.1%	-3.6%	+2.7ppts	+0.5ppts	-0.4ppts
Net margin	-9.8%	1.5%	3.1%	-9.0%	1.9%	3.4%	-0.8ppts	-0.4ppts	-0.3ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 10: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	3,532	3,824	4,088	3,798	4,089	4,368	-7.0%	-6.5%	-6.4%
Gross profit	1,943	2,136	2,294	2,073	2,262	2,416	-6.3%	-5.6%	-5.0%
Operating profit	(554)	(251)	(161)	(454)	(183)	(114)	NA	NA	NA
Adj. net profit	(348)	59	126	(226)	126	173	NA	-53.0%	-27.5%
EPS (RMB)	(3.59)	0.62	1.34	(2.12)	1.15	1.56	NA	-46.1%	-14.3%
Gross margin	55.0%	55.8%	56.1%	54.6%	55.3%	55.3%	+0.4ppts	+0.5ppts	+0.8ppts
Operating margin	-15.7%	-6.6%	-3.9%	-12.0%	-4.5%	-2.6%	-3.7ppts	-2.1ppts	-1.3ppts
Net margin	-9.8%	1.5%	3.1%	-6.0%	3.1%	4.0%	-3.9ppts	-1.5ppts	-0.9ppts

Source: Company data, CMBIGM estimates

Figure 11: DCF Valuation

DCF valuation (RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(401)	(126)	(51)	10	20	28	38	47	57
Tax	0	12	(3)	(2)	(3)	(4)	(6)	(7)	(9)
D&A	25	23	26	27	28	30	32	35	39
Working capital	52	415	48	41	35	29	25	21	18
CAPEX	(18)	(19)	(20)	(22)	(25)	(27)	(30)	(33)	(36)
FCF	(341)	305	0	54	56	57	59	64	69
FCF Growth	NA	NA	NA	NA	2%	2%	4%	8%	8%
Terminal Value									760
PV (FCF+ Terminal Value)	(341)	271	0	38	35	32	29	28	327

Assumptions

WACC	12.3%
Tax rate	15.0%
Risk free rate	3.2%
Beta	1.10
Market risk return	11.5%
Cost of equity	12.3%
WACC	12.3%
Terminal growth rate	3.0%

Equity Value

PV	419
minus: Net cash	5,420
minus: Minority Interest	0
Equity Value	5,839
Shares (mn)	102
Target Price (US\$) based on DCF	7.9

		WACC				
		10.3%	11.3%	12.3%	13.3%	14.3%
Growth	1.5%	8.0	7.9	7.8	7.8	7.7
	2.0%	8.1	7.9	7.9	7.8	7.7
	2.5%	8.1	8.0	7.9	7.8	7.7
	3.0%	8.1	8.0	7.9	7.8	7.8
	3.5%	8.2	8.0	7.9	7.8	7.8
	4.0%	8.2	8.1	8.0	7.9	7.8
4.5%	8.3	8.1	8.0	7.9	7.8	

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	2,959	3,605	4,199	3,532	3,824	4,088
Cost of goods sold	(368)	(356)	(339)	(237)	(256)	(258)
Gross profit	1,554	1,808	2,296	1,943	2,136	2,294
Operating expenses	(2,945)	(3,412)	(3,368)	(2,497)	(2,387)	(2,456)
Selling expense	(1,635)	(2,026)	(2,048)	(1,300)	(1,231)	(1,259)
Admin expense	(690)	(622)	(418)	(399)	(395)	(406)
R&D expense	(620)	(763)	(902)	(798)	(761)	(791)
Operating profit	(1,391)	(1,604)	(1,072)	(554)	(251)	(161)
Other income	31	68	159	57	130	139
Gain/loss on financial assets at FVTPL	28	(177)	(5)	(24)	3	0
Investment gain/loss	59	70	42	20	40	40
Other gains/(losses)	(21)	78	49	0	0	0
Pre-tax profit	(1,293)	(1,564)	(828)	(500)	(78)	18
Income tax	(5)	(14)	(12)	0	12	(3)
Net profit	(1,299)	(1,578)	(839)	(500)	(67)	15
Adjusted net profit	(747)	(1,196)	(659)	(348)	59	126
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	8,334	7,320	6,835	6,308	6,459	6,683
Cash & equivalents	2,157	4,526	3,066	2,795	3,285	3,473
Account receivables	832	834	1,323	1,158	838	874
Prepayment	272	199	240	148	130	130
ST bank deposits	2,816	948	948	948	948	948
Other current assets	2,258	812	1,258	1,258	1,258	1,258
Non-current assets	471	336	247	247	251	254
PP&E	10	7	28	31	33	34
Right-of-use assets	127	100	26	26	26	26
Investment in JVs & assos	19	na	na	na	na	na
Intangibles	68	80	67	63	66	67
Goodwill	74	126	126	126	126	126
Other non-current assets	174	22	0	0	0	0
Total assets	8,805	7,656	7,082	6,555	6,710	6,937
Current liabilities	1,898	1,825	1,966	1,762	1,839	1,922
Account payables	1,340	1,200	1,284	1,108	1,154	1,189
Tax payable	66	26	5	5	5	5
Other current liabilities	451	546	624	596	626	675
Lease liabilities	41	53	53	53	53	53
Non-current liabilities	169	137	137	137	137	137
Long-term borrowings	82	43	43	43	43	43
Other non-current liabilities	87	94	94	94	94	94
Share capital	0	0	0	0	0	0
Capital surplus	0	(34)	0	0	0	0
Retained earnings	(339)	(66)	(339)	(339)	(339)	(339)
Other reserves	13,350	13,615	13,976	14,153	14,298	14,426
Total shareholders equity	(6,281)	(7,862)	(8,699)	(9,199)	(9,265)	(9,250)
Total equity and liabilities	(6,281)	(7,862)	(8,699)	(9,199)	(9,265)	(9,250)

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,293)	(1,564)	(828)	(500)	(78)	18
Depreciation & amortization	21	25	22	25	23	26
Tax paid	(5)	(14)	(12)	0	12	(3)
Change in working capital	291	(134)	(285)	52	415	48
Others	546	572	252	177	145	128
Net cash from operations	(440)	(1,115)	(850)	(246)	517	217
Investing						
Capital expenditure	(7)	(1)	(29)	(25)	(27)	(29)
Acquisition of subsidiaries/ investments	(33)	(61)	0	0	0	0
Net proceeds from disposal of short-term investments	(6,130)	(2,072)	1,000	0	0	0
Others	3,034	5,624	0	0	0	0
Net cash from investing	(3,137)	3,490	971	(25)	(27)	(29)
Financing						
Proceeds from share issues	0	0	0	0	0	0
Others	4,876	(108)	(1,580)	0	0	0
Net cash from financing	4,876	(108)	(1,580)	0	0	0
Net change in cash						
Cash at the beginning of the year	958	2,157	4,526	3,066	2,795	3,285
Exchange difference	(100)	102	0	0	0	0
Cash at the end of the year	2,157	4,526	3,066	2,795	3,285	3,473
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	118.9%	21.8%	16.5%	(15.9%)	8.3%	6.9%
Gross profit	105.1%	16.4%	27.0%	(15.4%)	9.9%	7.4%
Adj. net profit	na	na	na	na	na	112.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	52.5%	50.2%	54.7%	55.0%	55.8%	56.1%
Operating margin	(47.0%)	(44.5%)	(25.5%)	(15.7%)	(6.6%)	(3.9%)
Adj. net profit margin	(25.2%)	(33.2%)	(15.7%)	(9.8%)	1.5%	3.1%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	4.4	4.0	3.5	3.6	3.5	3.5
Receivable turnover days	81.3	84.3	93.8	128.2	95.3	76.4
Payable turnover days	1,028.2	1,302.4	1,335.7	1,844.3	1,611.2	1,660.6
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (diluted)	na	na	na	na	35.8	16.6
P/B	1.0	1.2	1.4	1.4	1.4	1.3

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

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