

Kuaishou (1024 HK)

More bullish on margin improvement

We turn more bullish on Kuaishou's (KS) margin enhancement ahead, with ads & ecommerce share gains to continue. KS delivered solid 4Q23 results, with inline revenue and upbeat bottom line. For FY24E, we expect total revenue +10.6% YoY, with livestreaming/ads/other services revenue -8%/+20%/+24% YoY. Thanks to more aggressive cost discipline and operating leverage, we expect bottom line at RMB16bn in FY24E (suggesting ad. NPM at 12.8%, +4ppts YoY). We lift our FY24-25E earnings forecast by 5%-18%, but maintain SOTP-based TP at HK\$97 (implying 24x/17x FY24/25E P/E).

■ **4Q23 beat on margin.** As stated in our preview report, KS delivered another solid 4Q23 results with inline revenue (+15% YoY) and upbeat bottom line (at RMB4.4bn, 34% above consensus). By segment, livestreaming/ads/other services revenue was +0%/21%/36% YoY, largely in line. Adj. NPM improved QoQ to 13.4% in 4Q23 (vs. our estimates of 10.7%), mainly on a higher-than-expected GPM and narrowing loss of overseas business. DAU trended well, up 7% YoY.

■ **Expect outperformance of ads and ecommerce in 1Q24E.** In 1Q24E, we expect KS's ads revenue +26% YoY (vs. prior +21%), on strong internal ads and double-digit growth of external ads; livestreaming revenue may decline 8% YoY, for proactive business adjustment. We expect ecommerce's strong momentum to continue, forecasting GMV +29% YoY and others services revenue +40% YoY (above consensus) in 1Q24E. GPM would improve 6ppts YoY, up to 52.4%, by our estimates. Despite a mild increase in S&M, we expect 1Q24E bottom line at RMB3bn, surpassing consensus by 30%.

■ **Better margin outlook ahead.** For FY24E, we expect total revenue +10.6% YoY, with livestreaming/ads/other services revenue -8%/+20%/+24% YoY. Ecommerce GMV could be resilient at +25% YoY, boosted by the ramp-up of shelf-based mall, category expansion and improving MAC/MAU. Mgmt restated its GMV target of RMB2trn by FY26E, suggesting a 20% CAGR in FY24-26E. Take rate might be stable YoY. Coupled with healthy external ads recovery, we expect total ads revenue +20% YoY in FY24E. Ads segment should benefit from robust demand from some verticals (e.g. education, auto) and enhanced ads efficiency. On the margin side, we expect GPM at 53% YoY in FY24E, and S&M expense ratio at around 31%. As such, we expect bottom line at RMB16bn in FY24E (suggesting ad. NPM at 12.8%, +4ppts YoY).

■ **Maintain BUY.** We lift our FY24-25E earnings forecast by 5%-18%, but maintain SOTP-based TP at HK\$97. Catalysts: 1) a solid 1Q24E; 2) shelf-based mall expansion; and 3) earnings upside.

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	16,033.3	22,703.0	29,937.3
Diluted EPS (RMB)	(1.35)	2.31	3.48	4.83	6.25
YoY growth (%)	NA	NA	56.1	41.6	31.9
Consensus EPS (RMB)	NA	NA	3.47	5.06	7.18
P/S (x)	2.2	1.8	1.7	1.5	1.3
P/E (x)	NA	20.4	13.1	9.2	7.0
ROE (%)	(32.2)	14.4	19.1	22.1	25.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$97.0
(Previous TP)	HK\$97.0)
Up/Downside	85.6%
Current Price	HK\$52.25

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Stock Data

Mkt Cap (HK\$ mn)	2,273.0
Avg 3 mths t/o (HK\$ mn)	857.9
52w High/Low (HK\$)	69.15/39.10
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

Tencent Holdings	18.8%
Morningside Venture Capital	15.6%

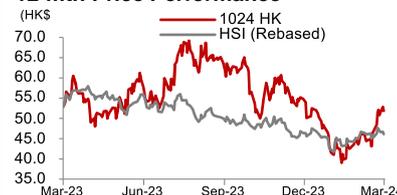
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	18.2%	16.1%
3-mth	-4.0%	-3.6%
6-mth	-15.6%	-8.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 4Q23 financial review

RMB mn	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	21,695	23,128	28,292	25,217	27,744	27,948	32,561	17%	15%	32,602	0%	32,412	0%
Operating Profit	(3,059)	(2,612)	(1,243)	(698)	1,296	2,211	3,622	64%	NA	2,474	46%	1,486	144%
Net profit	(3,176)	(2,712)	(1,547)	(876)	1,481	2,182	3,612	66%	NA	2,161	67%	1,181	206%
Adj. net profit	(1,312)	(672)	(45)	42	2,694	3,173	4,362	37%	NA	3,255	34%	3,469	26%
Margin (%)													
Gross Margin	45.0%	46.3%	45.5%	46.4%	50.2%	51.7%	53.1%			51.4%		51.1%	
Operating Margin	-14.1%	-11.3%	-4.4%	-2.8%	4.7%	7.9%	11.1%			7.6%		4.6%	
Adj. net margin	-6.0%	-2.9%	-0.2%	0.2%	9.7%	11.4%	13.4%			10.0%		10.7%	
Growth (%)													
Revenue (YoY)	13.4%	12.9%	15.8%	19.7%	27.9%	20.8%	15.1%			15.2%		14.6%	
Revenue (QoQ)	3.0%	6.6%	22.3%	-10.9%	10.0%	0.7%	16.5%			16.7%		16.0%	
Operating Profit	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA			NA		NA	

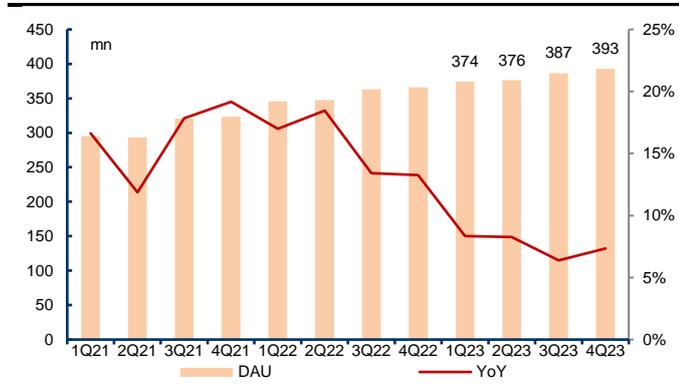
Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: 4Q23 revenue breakdown

RMB mn	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY
Total revenue	21,695	23,128	28,292	25,217	27,744	27,948	32,561	17%	15%
Online marketing services	11,006	11,590	15,094	13,064	14,347	14,690	18,203	24%	21%
Live streaming	8,565	8,947	10,034	9,319	9,968	9,719	10,048	3%	0%
Other services	2,124	2,592	3,164	2,834	3,429	3,539	4,310	22%	36%
Ecommerce	2,007	2,225	2,963	2,697	3,239	3,164	4,133	31%	39%

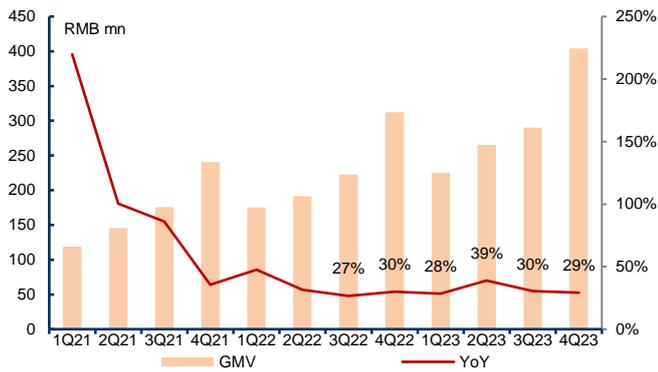
Source: Company data, CMBIGM

Figure 2: Quarterly DAU estimates



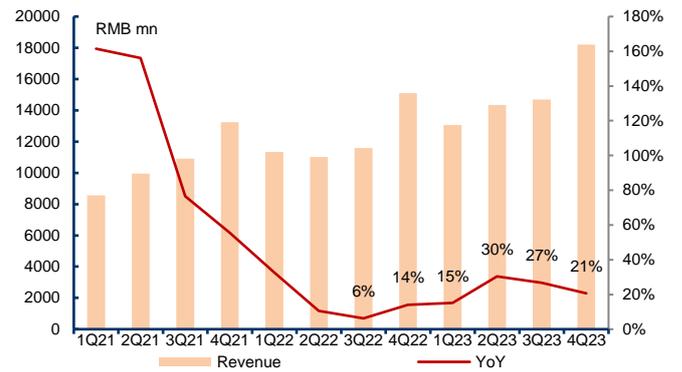
Source: Company data, CMBIGM

Figure 3: Quarterly GMV trend



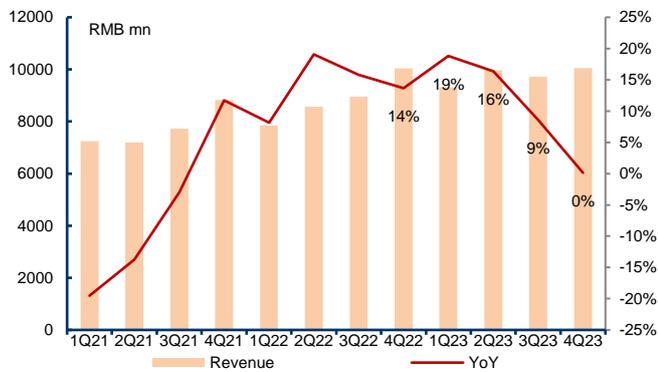
Source: Company data, CMBIGM

Figure 4: Quarterly ads revenue trend



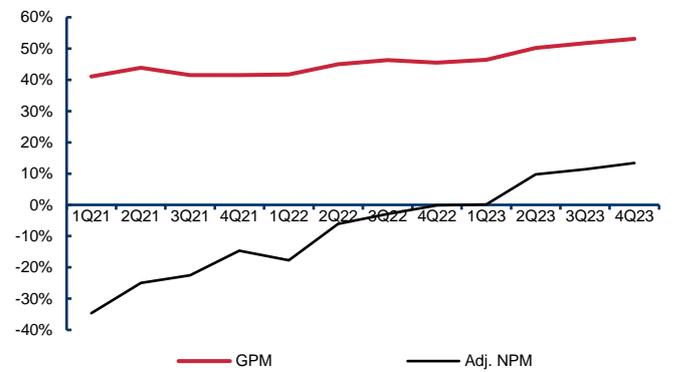
Source: Company data, CMBIGM

Figure 5: Quarterly livestreaming revenue



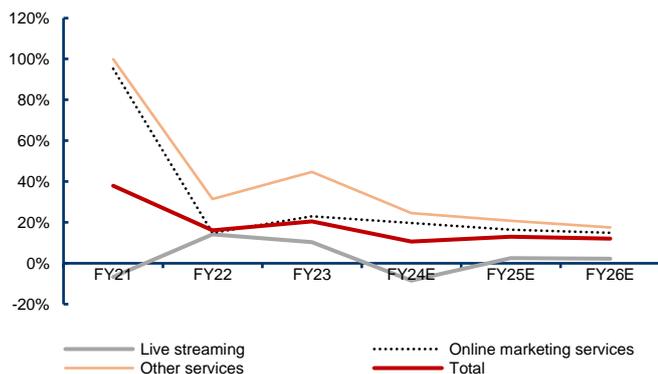
Source: Company data, CMBIGM

Figure 6: Quarterly margin



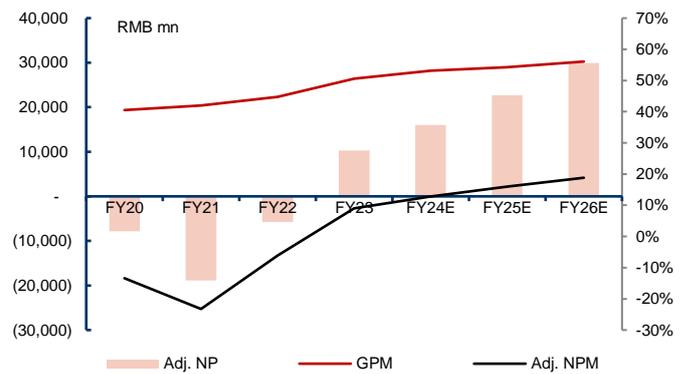
Source: Company data, CMBIGM

Figure 7: Yearly revenue growth estimates



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	125,544	141,964	159,050	130,540	146,406	164,331	-3.8%	-3.0%	-3.2%
Gross profit	66,671	77,112	89,187	68,168	79,015	90,643	-2.2%	-2.4%	-1.6%
Operating profit	13,172	19,735	30,541	11,927	19,369	27,037	10.4%	1.9%	13.0%
Adj. net profit	16,033	22,703	29,937	14,967	22,022	30,429	7.1%	3.1%	-1.6%
Adj. EPS (RMB)	3.48	4.83	6.25	3.5	5.1	7.2	0.4%	-4.5%	-12.9%
Gross margin	53.1%	54.3%	56.1%	52.2%	54.0%	55.2%	+0.9ppts	+0.3ppts	+0.9ppts
Operating margin	10.5%	13.9%	19.2%	9.1%	13.2%	16.5%	+1.4ppts	+0.7ppts	+2.7ppts
Adj. net margin	12.8%	16.0%	18.8%	11.5%	15.0%	18.5%	+1.3ppts	+1.0ppts	+0.3ppts

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	128,742	144,729	NA	-2.5%	-1.9%	NA
Gross Profit	66,671	77,112	89,187	67,311	78,564	NA	-1.0%	-1.8%	NA
Operating Profit	13,172	19,735	30,541	9,164	17,472	NA	43.7%	12.9%	NA
Adj. net profit	16,033	22,703	29,937	13,562	21,545	NA	18.2%	5.4%	NA
Adj. EPS (RMB)	3.48	4.83	6.25	2.93	4.56	NA	18.9%	6.0%	NA
Gross Margin	53.1%	54.3%	56.1%	52.3%	54.3%	NA	+0.8ppts	+0.0ppts	NA
Operating Margin	10.5%	13.9%	19.2%	7.1%	12.1%	NA	+3.4ppts	+1.8ppts	NA
Adj. net margin	12.8%	16.0%	18.8%	10.5%	14.9%	NA	+2.2ppts	+1.1ppts	NA

Source: 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

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)	(58,873)	(64,852)	(69,863)
Gross profit	34,030	42,131	57,391	66,671	77,112	89,187
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	13,172	19,735	30,541
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)	(2,568)	(3,627)	(5,283)
Net profit	(78,074)	(13,689)	6,399	10,753	16,354	25,611
Adjusted net profit	(18,852)	(5,751)	10,271	16,033	22,703	29,937
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	53,011	45,859	60,361	73,651	94,965	124,711
Cash & equivalents	32,612	13,274	12,905	26,400	46,280	74,639
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	5,164	5,689	6,128
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	55,815	59,857	64,182
PP&E	11,051	13,215	12,356	14,724	19,734	27,296
Right-of-use assets	12,562	10,806	10,399	18,194	17,277	14,091
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	129,465	154,822	188,894
Current liabilities	37,256	40,710	48,778	51,131	55,934	60,068
Account payables	20,021	22,868	23,601	24,777	27,293	29,402
Tax payable	1,080	936	1,222	1,222	1,222	1,222
Other current liabilities	12,626	13,430	20,628	21,805	24,092	26,117
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	59,575	64,378	68,512
Capital surplus	274,408	274,473	273,459	273,459	273,459	273,459
Retained earnings	(250,172)	(263,883)	(257,491)	(246,738)	(230,384)	(204,772)
Other reserves	20,854	29,239	33,183	36,983	41,183	45,509
Total shareholders equity	45,096	39,838	49,074	63,715	84,269	114,207
Minority interest	7	8	11	11	11	11
Total equity and liabilities	92,515	89,307	106,296	123,290	148,647	182,719

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(79,102)	(12,531)	6,889	13,322	19,981	30,894
Depreciation & amortization	6,885	6,306	7,162	8,178	9,068	9,665
Tax paid	1,025	(1,158)	(490)	(2,568)	(3,627)	(5,283)
Change in working capital	2,444	(2,631)	4,141	1,438	3,369	2,748
Others	62,204	7,407	4,060	6,368	7,827	9,609
Net cash from operations	(6,544)	(2,607)	21,762	26,738	36,618	47,633
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)	13,416	19,801	28,281
Exchange difference	(399)	494	79	79	79	79
Cash at the end of the year	32,612	13,274	12,905	26,400	46,280	74,639
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%	16.2%	15.7%	15.7%
Operating profit	na	na	na	104.8%	49.8%	54.8%
Net profit	na	na	na	68.0%	52.1%	56.6%
Adj. net profit	na	na	na	56.1%	41.6%	31.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	42.0%	44.7%	50.6%	53.1%	54.3%	56.1%
Operating margin	(34.2%)	(13.3%)	5.7%	10.5%	13.9%	19.2%
Adj. net profit margin	(23.3%)	(6.1%)	9.1%	12.8%	16.0%	18.8%
Return on equity (ROE)	na	(32.2%)	14.4%	19.1%	22.1%	25.8%
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)	(0.7)	(0.7)
Current ratio (x)	1.4	1.1	1.2	1.4	1.7	2.1
Receivable turnover days	15.5	20.8	20.2	19.3	19.1	19.1
Payable turnover days	122.4	150.4	151.2	150.0	146.5	148.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	NA	NA	20.4	13.1	9.2	7.0
P/S	2.6	2.2	1.8	1.7	1.5	1.3

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

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