

Kuaishou (1024 HK)

Expecting another upbeat quarter

We expect Kuaishou (KS) to deliver in-line rev (+20% YoY) and upbeat profit (16% above consensus) in 3Q23E. By segment, ecommerce GMV/rev would see +30%/+35% YoY growth, attributable to extensive brand participation and product offerings through the Stream Initiative. KS will open Level I access of shelf-based mall to active merchants in 11.11, to further support standard products growth and unlock MAC upside. Ads/LS is expected to grow at 26%/7% YoY. Upbeat margin (adj. NPM at 10% vs. consensus of 8.6%) is primarily on better GPM and narrowing overseas loss. Its price saw short-term pullback for market concern on Tencent's potential sell-off (or dividends). Mgmt. clarified that Tencent has yet discussed the plan and stated no intention to reduce stakes in the latest AGM. To reflect better margin in 3Q23E, we lifted its earnings forecast by 0-7.2% in FY23-25E, with TP of HK\$97.

- **Solid 3Q23E with better profitability.** We expect KS to deliver in-line rev (+20% YoY) and upbeat profit (adj.NP at RMB2.76bn, 16% above consensus) in 3Q23E. By segment, ecommerce would see GMV/rev at +30%/+35% YoY (unchanged), attributable to extensive brand participation and product offerings. Ads/LS is expected to grow at 26%/7% YoY (vs. prior +25%/7%). Upbeat margin (adj. NPM at 10% vs. consensus of 8.6%) is primarily on better GPM (lower bandwidth costs and rev sharing) and narrowing overseas loss. S&M expense would slightly decline YoY, with higher efficiency. 3Q23E user metrics trend well, and we forecast DAU at 384mn and time spent per DAU of >126.8mins for strong summer content and enhanced algorithm.
- **Ecommerce & ads share gain to continue.** Despite soft macro, KS continues to gain share for ecommerce (forecasting GMV/rev +30%/35% YoY in 3Q23E), backed by extensive brand participation and enriched product offerings through Stream Initiative (boosting stronger ROI for KOL and merchants). We are positive on ecommerce deeper penetration, as KS's MAC/MAU (16-17%) still lags behind that of Douyin (20-25%). Looking into 11.11 campaign, we expect KS will upgrade its subsidies and incentives plan, to promote key SKU sales and SME support. Moreover, KS will open Level I access of shelf-based mall to active merchants in 11.11 this year, to further support standard product growth (e.g. FMCG and 3C). Ads would outperform the sector with 26% YoY growth, backed by strong ecommerce ads along with sequentially recovering external ads. Further ads upside will come from 1) higher ad load (9%+ vs. peer's 15%) with increasing native ads; 2) rising CPM with precise matching, valued user identification and extensive client bidding.
- **Maintain BUY.** We lifted its earnings forecast by 7.2%/0%/0% in FY23/24/25E, with unchanged SOTP-based TP of HK\$97. Catalysts: 1) solid 3Q23E and guidance; and 2) upcoming 11.11 with shelf-based mall expansion.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	81,082	94,183	111,959	127,322	143,471
YoY growth (%)	37.9	16.2	18.9	13.7	12.7
Adj. net income (RMB mn)	(18,852)	(5,751)	7,933	12,408	20,185
Adj. EPS (RMB)	(4.7)	(1.3)	1.7	2.7	4.3
YoY growth (%)	NA	NA	NA	56	63
Consensus EPS (RMB)	NA	NA	1.7	3.2	4.8
P/E (x)	NA	NA	29	18	11
P/S (x)	2.8	2.4	2.0	1.8	1.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$97**
(Previous TP **HK\$97**)
Up/Downside **+72.9%**
Current Price **HK\$56.1**

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Stock Data

Mkt Cap (HK\$ mn)	244,108
Avg 3 mths t/o (HK\$ mn)	1,247.97
52w High/Low (HK\$)	80.85/31.75
Total Issued Shares (mn)	3,590

Source: Bloomberg

Shareholding Structure

Tencent	18.9%
Morningside Venture Cap	15.7%
DCM LP	4.9%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-12.0%	-11.0%
3-mth	-2.0%	5.1%
6-mth	3.6%	20.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 3Q23 financial preview

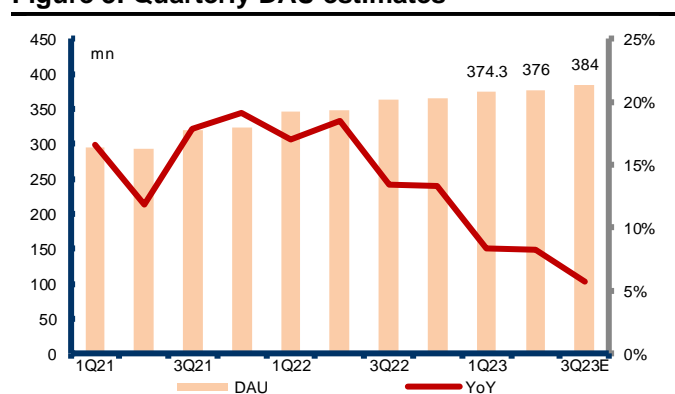
RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	QoQ	YoY	Consensus	Diff %
Revenue	17,019	19,139	20,493	24,430	21,067	21,695	23,128	28,292	25,217	27,744	27,654	0%	20%	27,606	0%
Operating Profit	(7,292)	(7,215)	(7,404)	(5,790)	(5,643)	(3,059)	(2,612)	(1,243)	(698)	1,296	1,562	21%	NA	1,142	37%
Net profit	(57,750)	(7,035)	(7,086)	(6,202)	(6,254)	(3,176)	(2,712)	(1,547)	(876)	1,481	1,758	19%	NA	1,112	58%
Adj. net profit	(5,896)	(4,770)	(4,616)	(3,569)	(3,722)	(1,312)	(672)	(45)	42	2,694	2,758	2%	NA	2,370	16%
Margin (%)															
Gross Margin	41.1%	43.8%	41.5%	41.5%	41.7%	45.0%	46.3%	45.5%	46.4%	50.2%	50.6%			50.3%	
Operating Margin	-42.8%	-37.7%	-36.1%	-23.7%	-26.8%	-14.1%	-11.3%	-4.4%	-2.8%	4.7%	5.6%			4.1%	
Adj. net margin	-34.6%	-24.9%	-22.5%	-14.6%	-17.7%	-6.0%	-2.9%	-0.2%	0.2%	9.7%	10.0%			8.6%	
Growth (%)															
Revenue (YoY)	36.6%	48.8%	33.4%	35.0%	23.8%	13.4%	12.9%	15.8%	19.7%	27.9%	19.6%			19.4%	
Revenue (QoQ)	-6.0%	12.5%	7.1%	19.2%	-13.8%	3.0%	6.6%	22.3%	-10.9%	10.0%	-0.3%			-0.5%	
Operating Profit	NA	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			NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 3Q23 revenue breakdown

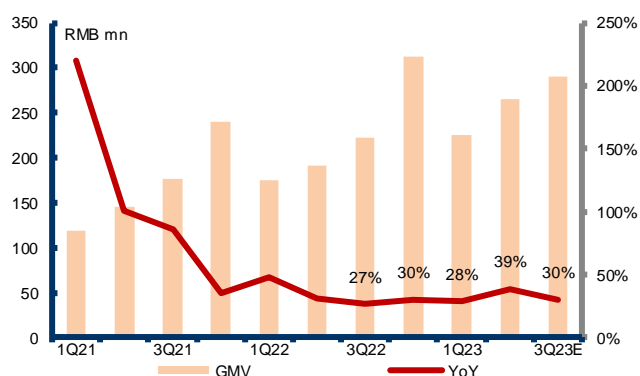
RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	QoQ	YoY
Total revenue	17,019	19,139	20,493	24,430	21,067	21,695	23,128	28,292	25,217	27,744	27,654	0%	20%
Online marketing services	8,558	9,962	10,909	13,236	11,351	11,006	11,590	15,094	13,064	14,347	14,564	2%	26%
Live streaming	7,250	7,193	7,724	8,827	7,842	8,565	8,947	10,034	9,319	9,968	9,588	-4%	7%
Other services	1,211	1,983	1,860	2,367	1,873	2,124	2,592	3,164	2,834	3,429	3,502	2%	35%

Source: Company data

Figure 3: Quarterly DAU estimates

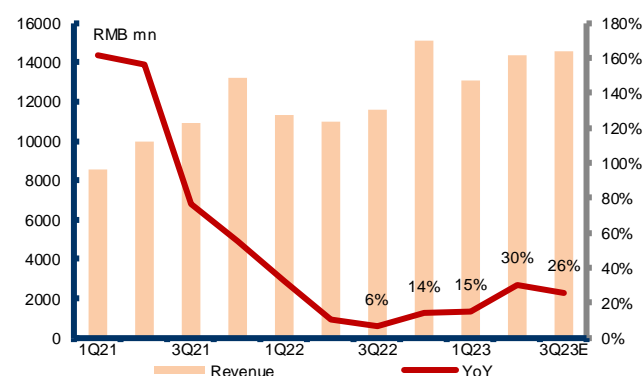
Source: Company data, CMBIGM estimates

Figure 4: Quarterly GMV estimates



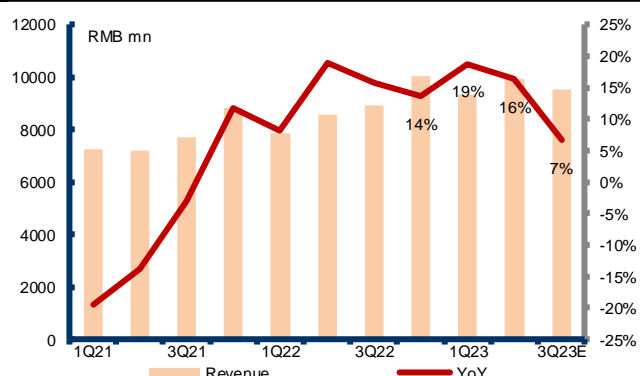
Source: Company data, CMBIGM estimates

Figure 5: Quarterly ads rev estimates



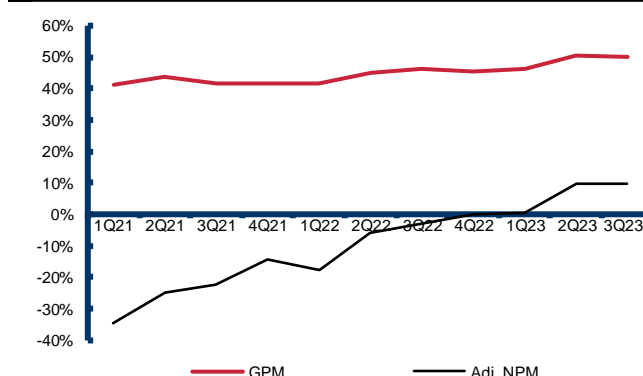
Source: Company data, CMBIGM estimates

Figure 6: Quarterly livestreaming rev estimates



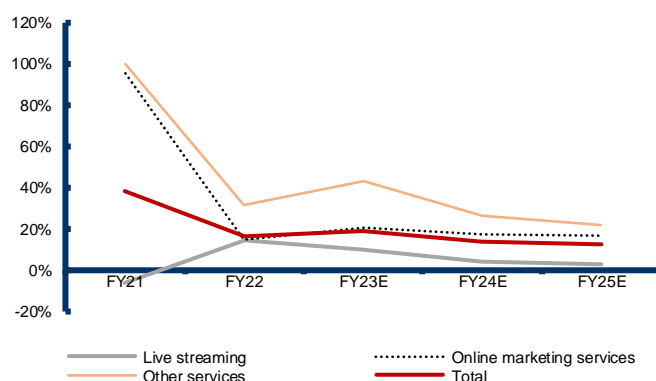
Source: Company data, CMBIGM estimates

Figure 7: Quarterly margin estimates



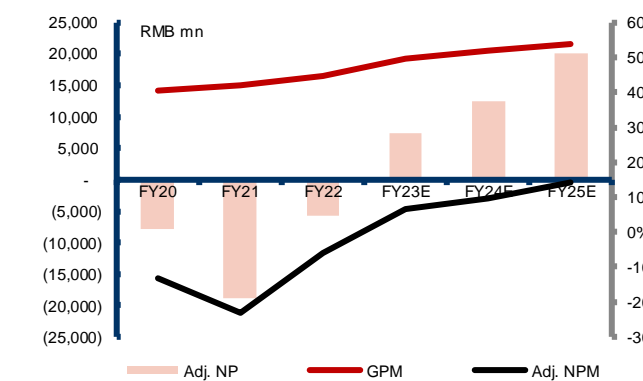
Source: Company data, CMBIGM estimates

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 (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	111,959	127,322	143,471	113,316	129,792	147,056	-1.2%	-1.9%	-2.4%
Gross Profit	55,740	66,346	77,481	56,285	67,306	79,114	-1.0%	-1.4%	-2.1%
Operating Profit	2,145	7,807	15,872	3,104	10,079	17,750	NA	-22.5%	-10.6%
Adj. net profit	7,933	12,408	20,185	7,458	13,866	20,981	6.4%	-10.5%	-3.8%
Adj. EPS (RMB)	1.74	2.68	4.27	1.7	3.2	4.8	5.1%	-15.4%	-11.4%
Gross Margin	49.8%	52.1%	54.0%	49.7%	51.9%	53.8%	+0.1ppts	+0.3ppts	+0.2ppts
Operating Margin	1.9%	6.1%	11.1%	2.7%	7.8%	12.1%	-0.8ppts	-1.6ppts	-1.0ppts
Adj. net margin	7.1%	9.7%	14.1%	6.6%	10.7%	14.3%	+0.5ppts	-0.9ppts	-0.2ppts

Source: CMBIGM estimates, Bloomberg

Figure 11: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	111,959	127,322	143,471	111,959	127,322	143,471	0.0%	0.0%	0.0%
Gross Profit	55,740	66,346	77,481	55,740	66,346	77,481	0.0%	0.0%	0.0%
Operating Profit	2,145	7,807	15,872	1,585	7,807	15,872	35.3%	0.0%	0.0%
Adj. net profit	7,933	12,408	20,185	7,402	12,408	20,185	7.2%	0.0%	0.0%
Adj. EPS (RMB)	1.74	2.68	4.27	1.63	2.68	4.3	7.2%	0.0%	0.0%
Gross Margin	49.8%	52.1%	54.0%	49.8%	52.1%	54.0%	0.0ppts	0.0ppts	0.0ppts
Operating Margin	1.9%	6.1%	11.1%	1.4%	6.1%	11.1%	+0.5ppts	0.0ppts	0.0ppts
Adj. net margin	7.1%	9.7%	14.1%	6.6%	9.7%	14.1%	+0.5ppts	0.0ppts	0.0ppts

Source: CMBIGM estimates, Bloomberg

Figure 12: SOTP Valuation

Business (RMB mn)	'23E Rev or GMV	Methodology	Multiple	Valuation	Stakes	Value
Live streaming	38,845	EV/Sales	1.0x	38,845	100%	38,845
Advertising	59,161	EV/Sales	2.0x	118,322	100%	118,322
Ecommerce	1,207,550	P/GMV	0.16x	193,208	100%	193,208
Enterprise Value						350,375
(+) Net Cash						25,828
Equity Value						376,203
FX						0.9
Valuation (HK\$ mn)						422,701
TP (HK\$) based on SOTP						97

Source: CMBIGM estimates

Figure 13: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Kuaishou	1024 HK	31,015	HKD	56	BUY	97	29.0	18.0	11.0	2.0	1.8	1.6	60%
Game													
Tencent	700 HK	358,303	HKD	294	BUY	460	17.9	15.1	13.2	4.2	3.8	3.4	16%
NetEase	NTES US	67,107	USD	104	BUY	125	16.6	16.1	14.5	4.7	4.2	3.8	-3%
XD Inc.	2400 HK	751	HKD	12	NA	NA	28.6	13.9	10.1	1.4	1.2	1.0	64%
Average							17.2	15.0	12.6	3.4	3.1	2.8	6%
Livestreaming & VAS													
Bilibili	BILI US	5,344	USD	13	BUY	26	NA	NA	48.2	1.7	1.5	1.3	NA
Momo	MOMO US	1,324	USD	7	HOLD	14	4.6	4.4	4.2	0.8	0.8	0.8	5%
YY	YY US	2,493	USD	40	BUY	51	10.8	10.7	9.5	1.1	1.0	1.0	11%
Huya	HUYA US	741	USD	3	BUY	6	NA	80.9	16.7	0.8	0.8	0.7	NA
Douyu	DOYU US	298	USD	1	NA	NA	17.5	17.6	17.6	0.4	0.4	0.4	13%
TME	TME US	11,738	USD	7	BUY	9	14.6	13.8	12.2	3.2	3.1	2.8	10%
Mango	300413 CH	6,748	CNY	26	NA	NA	21.0	17.8	15.7	3.2	2.8	2.5	16%
iQIYI	IQ US	4,380	USD	5	BUY	9	13.1	9.3	7.6	1.0	0.9	0.9	27%
Average							13.6	12.3	11.9	1.3	1.2	1.1	14%
Advertising													
Baidu	BIDU US	40,102	USD	115	BUY	201	11.6	11.1	9.9	2.1	2.0	1.8	8%
Weibo	WB US	2,833	USD	12	BUY	25	5.7	5.1	4.7	1.6	1.5	1.4	9%
Average							8.6	8.1	7.3	1.9	1.7	1.6	9%
Ecommerce													
Alibaba	BABA US	211,130	USD	83	BUY	155	9.1	8.5	7.6	1.6	1.5	1.3	12%
JD.com	JD US	40,671	USD	26	BUY	57	9.1	8.0	6.9	0.3	0.3	0.2	13%
Pinduoduo	PDD US	133,178	USD	105	BUY	109	18.7	14.4	11.3	4.8	3.7	3.0	26%
Vipshop	VIPS US	8,197	USD	15	NA	NA	7.1	7.0	6.6	0.5	0.5	0.5	4%
Average							11.0	9.5	8.1	0.8	0.7	0.7	14%
Global entertainment													
Meta Platforms	META US	815,615	USD	317	NA	NA	23.3	18.4	16.5	6.2	5.5	4.9	20%
Netflix	NFLX US	153,413	USD	346	NA	NA	28.3	22.2	18.4	4.6	4.0	3.6	25%
Snapchat	SNAP US	15,579	USD	10	NA	NA	NA	NA	51.1	3.5	3.0	2.6	193%
Average							25.8	20.3	17.4	4.7	4.2	3.7	22%
Average							15.9	12.9	11.3	2.4	2.1	1.9	13%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	81,082	94,183	111,959	127,322	143,471
Live streaming	30,995	35,388	38,845	40,399	41,409
Online marketing services	42,665	49,042	59,161	69,296	80,614
Other services	7,421	9,753	13,953	17,627	21,448
COGS	(47,052)	(52,051)	(56,219)	(60,975)	(65,991)
Gross profit	34,030	42,131	55,740	66,346	77,481
S&M	(44,176)	(37,121)	(36,471)	(39,690)	(41,578)
Admin. Exp.	(3,400)	(3,921)	(4,168)	(4,576)	(4,797)
R&D	(14,956)	(13,784)	(13,556)	(14,773)	(15,733)
Other gains	801	137	600	500	500
Operating profit	(27,701)	(12,558)	2,145	7,807	15,872
Other income/(exp)	(51,314)	166	97	153	247
Pre-tax Income	(79,102)	(12,531)	2,230	7,957	16,119
Income Tax	1,025	(1,158)	(336)	(1,929)	(3,183)
Net profit	(78,077)	(13,689)	1,893	6,028	12,936
Adj. net profit	(18,852)	(5,751)	7,933	12,408	20,185

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	(78,077)	(13,689)	1,893	6,028	12,936
D&A	6,885	6,306	6,600	7,610	8,269
Change in WC	2,444	(2,631)	1,652	2,069	2,185
Others	63,229	12,203	4,500	4,900	5,100
Operating CF	(5,519)	2,189	14,646	20,607	28,490
Capex	(5,789)	(9,181)	(11,210)	(10,802)	(13,228)
Purchase of investments	-	-	-	-	-
Others	(12,572)	(8,367)	47	47	47
Investing CF	(18,361)	(17,548)	(11,163)	(10,755)	(13,180)
Equity raised	39,386	-	-	-	-
Change of Debts	-	-	-	-	-
Cash from CB raised	-	-	-	-	-
Others	(2,885)	(4,482)	-	-	-
Financing CF	36,500	(4,482)	-	-	-
Net change in cash	12,620	(19,841)	3,483	9,852	15,310
Cash (beg of yr)	20,392	32,612	13,274	17,252	27,598
FX	(399)	494	494	494	494
Cash (end of yr)	32,612	13,274	17,252	27,598	43,402

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	39,505	43,449	49,363	52,014	56,431
Property and equipment	11,051	13,215	12,026	15,194	20,384
Right-of-use assets	12,562	10,806	18,906	18,853	18,546
Intangible assets	1,172	1,123	1,336	1,413	1,489
Others	14,720	18,305	17,094	16,553	16,011
Current assets	53,011	45,859	50,626	62,373	79,650
Cash	32,612	13,274	17,252	27,598	43,402
Prepayments	3,278	4,106	4,435	4,810	5,206
Financial assets at fair value through profit or loss	8,842	13,087	13,087	13,087	13,087
Trade receivables	4,450	6,288	7,475	8,500	9,578
Others	3,828	9,103	8,377	8,377	8,377
Current liabilities	37,256	40,710	43,878	47,347	51,005
Accounts payables	20,021	22,868	24,699	26,789	28,993
Other payables and accruals	9,123	10,190	11,005	11,937	12,918
Advances from customers	3,503	3,240	3,761	4,210	4,683
Others	4,608	4,411	4,411	4,411	4,411
Non-current liabilities	10,108	8,744	8,744	8,744	8,760
Convertible redeemable preferred shares	-	-	-	-	-
Others	10,108	8,744	8,744	8,744	8,760
MI	-	-	-	-	-
Total Equity	45,096	39,838	46,231	57,159	75,195
Shareholders' equity	45,096	39,838	46,231	57,159	75,195

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Live streaming	38.2	37.6	34.7	31.7	28.9
Online marketing services	52.6	52.1	52.8	54.4	56.2
Other services	9.2	10.4	12.5	13.8	14.9
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	37.9	16.2	18.9	13.7	12.7
Gross profit	42.9	23.8	32.3	19.0	16.8
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	56.4	62.7
P&L ratios (%)					
Operating margin	(34.2)	(13.3)	1.9	6.1	11.1
Pre-tax margin	(97.6)	(13.3)	2.0	6.2	11.2
Adj. net margin	(23.3)	(6.1)	7.1	9.7	14.1
Effective tax rate	(1.3)	9.2	(15.1)	15.0	15.0
Returns (%)					
ROE	NA	NA	NA	24.0	30.5

Source: Company data, CMBIGM estimates

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