

Zhihu (ZH US)

Prioritizing breakeven target

Zhihu's 4Q23 results were better-than-feared, with strong vocational training and narrowing loss. For FY24E, mgmt. emphasized more on margin improvement with disciplined expenses, and restated its quarterly breakeven target by 4Q24E. With shrinking S&M investment, we expect prudent user trend and top line growth ahead (forecasting total revenue to decline 10% YoY in FY24E, in which marketing services/membership /vocational training -20%/+0%/+5% YoY). We think Zhihu is well positioned to capture AIGC tailwinds, by leveraging its abundant user data and analytics capacities. We keep its earnings forecast barely changed, with TP slightly adjusted to US\$1.8.

■ **Upbeat 4Q23 with narrowing loss.** Zhihu delivered upbeat 4Q23 results with revenue +2.2% YoY (4%/8% above consensus/our estimates), and narrowing adj. net loss of RMB91mn (vs. consensus of RMB155mn). Upbeat top line is mainly due to better-than-feared marketing services (+21% QoQ, 10% above our estimates. Strong vocational training continued, with revenue +100% YoY, while membership slightly decelerated at +13% YoY in 4Q23 for a high base. Adj. net loss narrowed to RMB91mn, attributable to a better GPM of 59% (vs. consensus of 56%) mainly on enhanced monetization efforts and improved efficiency. By 4Q23, Zhihu had repurchased 26.3mn Class A ordinary shares with US\$58.5mn, under the US\$100mn buyback program till Jun 10, 2024.

■ **Priority on margin improvement in FY24E.** Looking ahead to FY24E, mgmt. emphasized more on margin improvement with disciplined expenses, and restated its quarterly breakeven target by 4Q24E. With shrinking S&M investment, we expect prudent user trend and topline growth ahead (forecasting total revenue to decline 10% YoY in FY24E). Marketing services revenue may drop 20% YoY for strategic adjustment. IT and 3C verticals should be relatively resilient. Given a high base, we expect paid membership to be flattish YoY in FY24E. For vocational training business, Zhihu would focus more on its high-margin subjects rather than revenue growth. As such, we forecast this segment to see 5% YoY growth in FY24E, with meaningful loss narrowing. Zhihu guided vocational training business to achieve breakeven in FY25E. For 1Q24E, we expect top line to decrease 5% YoY, and net loss might be volatile QoQ for seasonality.

■ **Maintain BUY.** To reflect its strategic adjustment, we trim FY24-25E revenue forecast by 23%-28%, but keep bottom line barely changed. Our DCF-based TP is adjusted to US\$1.8 for financials adjustment.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,605	4,199	3,798	4,089	4,368
YoY growth (%)	21.8	16.5	(9.6)	7.7	6.8
Adjusted net profit (RMB mn)	(1,195.9)	(659.1)	(226.1)	125.7	173.3
Diluted EPS (RMB)	(1.96)	(1.05)	(0.35)	0.19	0.26
YoY growth (%)	-54%	46%	66%	154%	35%
Consensus EPS (RMB)	NA	NA	(0.4)	0.3	0.5
P/E (x)	NA	NA	NA	26.6	19.6
P/S (x)	0.9	0.8	0.9	0.8	0.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(21.0)	(13.2)	(4.7)	2.6	3.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$1.8
(Previous TP)	US\$2.0)
Up/Downside	153.5%
Current Price	US\$0.71

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Stock Data

Mkt Cap (US\$ mn)	411.3
Avg 3 mths t/o (US\$ mn)	1.4
52w High/Low (US\$)	1.31/0.71
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

Mattews International	4.5%
Qiming Corporate GP	4.1%

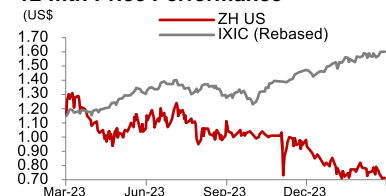
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.0%	-15.2%
3-mth	-27.2%	-33.1%
6-mth	-35.8%	-48.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 4Q23 financial review

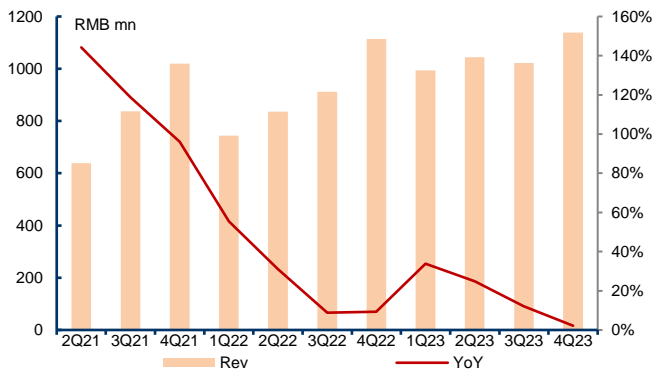
RMB mn, Dec-YE	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	743	836	912	1,114	994	1,044	1,022	1,138	11.4%	2.2%	1,090	4%	1,051	8%
Operating Profit	(500)	(526)	(472)	(504)	(437)	(534)	(529)	(178)	NA	NA	(225)	NA	(502)	NA
Net profit	(614)	(487)	(300)	(180)	(181)	(280)	(279)	(104)	NA	NA	(103)	NA	(256)	NA
Adj. net profit	(367)	(444)	(251)	(134)	(120)	(222)	(225)	(91)	NA	NA	(155)	NA	(200)	NA
Adj. EPS (RMB)	(0.61)	(0.72)	(0.41)	(0.22)	(0.20)	(0.37)	(0.38)	(0.31)	NA	NA	(0.32)	NA	(0.33)	NA
Margin (%)														
Gross margin	45.1%	47.8%	48.7%	56.4%	51.5%	53.8%	53.7%	59.1%			55.7%		56.4%	
Operating margin	-67.3%	-62.9%	-51.7%	-45.3%	-43.9%	-51.2%	-51.7%	-15.7%			-20.6%		-47.8%	
Adj. net margin	-49.4%	-53.1%	-27.5%	-12.0%	-12.1%	-21.3%	-22.0%	-8.0%			-14.2%		-19.1%	
Growth (%)														
Revenue (YoY)	55.4%	31.0%	10.7%	9.3%	33.8%	24.9%	12.1%	2.2%			-2.2%		-5.7%	
Revenue (QoQ)	-27.1%	12.5%	9.1%	22.2%	-10.7%	5.0%	-2.1%	11.4%			6.6%		2.8%	
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

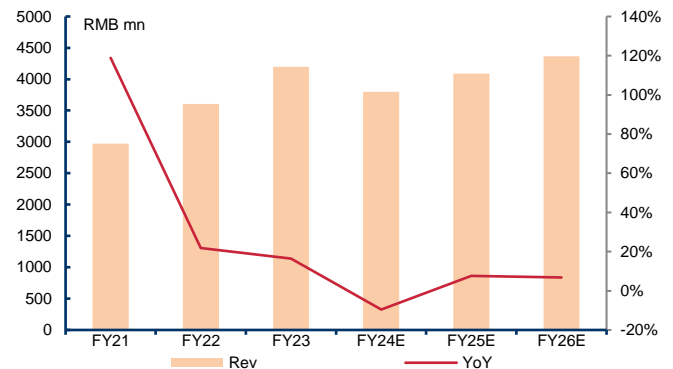
Figure 2: 4Q23 revenue breakdown

RMB mn, Dec-YE	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY
Total revenue	743	836	912	1,114	994	1,044	1,022	1,138	11%	2%
Marketing services	444	478	462	572	392	413	383	465	21%	-19%
Paid membership	222	271	335	403	455	449	467	456	-2%	13%
Vocational Training	40	46	78	85	107	145	145	169	17%	100%
Others	38	41	36	54	40	38	28	48	73%	-12%

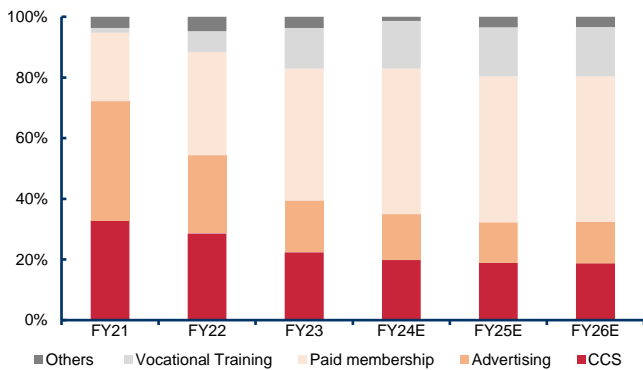
Source: Company data, CMBIGM

Figure 3: Quarterly revenue trend

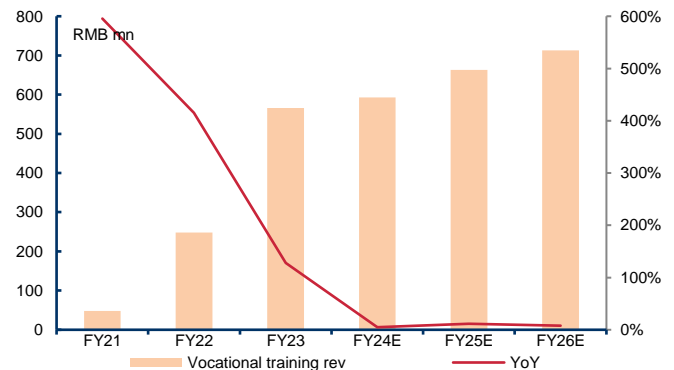
Source: Company data, CMBIGM

Figure 4: Yearly revenue estimates

Source: Company data, CMBIGM estimates

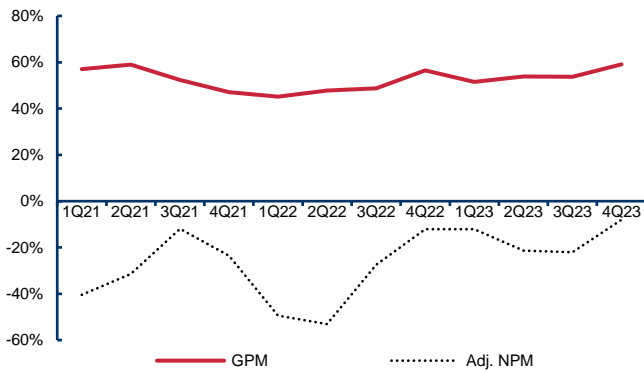
Figure 5: Revenue mix change

Source: Company data, CMBIGM estimates

Figure 6: Vocational training revenue estimates

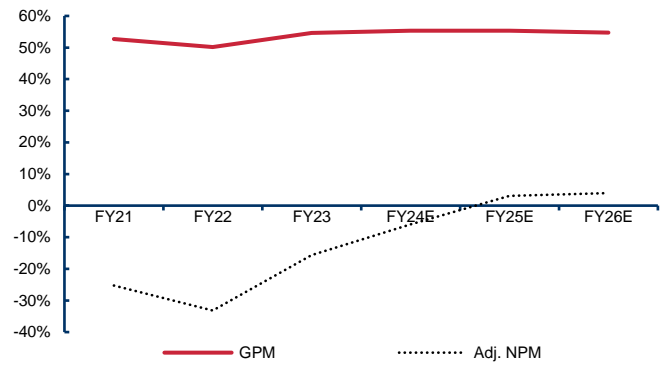
Source: Company data, CMBIGM estimates

Figure 7: Quarterly margin



Source: Company data, CMBIGM

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	3,798	4,089	4,368	4,851	5,551	5,105	-21.7%	-26.3%	-14.4%
Gross profit	2,073	2,262	2,416	2,652	3,156	2,923	-21.8%	-28.3%	-17.3%
Operating profit	(454)	(183)	(114)	(635)	(243)	(376)	NA	NA	NA
Adj. net profit	(226)	126	173	(245)	212	141	NA	-40.6%	22.7%
EPS (RMB)	(0.35)	0.19	0.26	(0.40)	0.26	0.51	NA	-25.2%	-49.0%
Gross margin	54.6%	55.3%	55.3%	54.7%	56.9%	57.3%	-0.1ppts	-1.5ppts	-1.9ppts
Operating margin	-12.0%	-4.5%	-2.6%	-13.1%	-4.4%	-7.4%	+1.1ppts	-0.1ppts	+4.7ppts
Net margin	-6.0%	3.1%	4.0%	-5.1%	3.8%	2.8%	-0.9ppts	-0.7ppts	+1.2ppts

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	3,798	4,089	4,368	4,946	5,693	NA	-23.2%	-28.2%	NA
Gross profit	2,073	2,262	2,416	2,694	3,136	NA	-23.0%	-27.9%	NA
Operating profit	(454)	(183)	(114)	(477)	(153)	NA	-4.7%	19.7%	NA
Adj. net profit	(226)	126	173	(226)	126	NA	-0.1%	-0.1%	NA
EPS (RMB)	(0.35)	0.19	0.26	(0.35)	0.19	NA	-0.1%	-0.1%	NA
Gross margin	54.6%	55.3%	55.3%	54.5%	55.1%	NA	+0.1ppts	+0.2ppts	NA
Operating margin	-12.0%	-4.5%	-2.6%	-9.6%	-2.7%	NA	-2.3ppts	-1.8ppts	NA
Net margin	-6.0%	3.1%	4.0%	-4.6%	2.2%	NA	-1.4ppts	+0.9ppts	NA

Source: Company data, CMBIGM estimates

Figure 11: DCF Valuation

DCF valuation (RMB mn)									
	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(290)	(49)	4	82	164	229	302	380	457
Tax	0	2	(10)	(12)	(25)	(34)	(45)	(57)	(69)
D&A	25	23	27	29	30	32	34	38	41
Working capital	35	444	55	47	40	34	29	24	21
CAPEX	(19)	(20)	(22)	(24)	(26)	(29)	(32)	(35)	(39)
FCF	(250)	399	55	121	183	232	288	349	412
FCF Growth	NA	NA	-86%	122%	51%	27%	24%	21%	18%
Terminal Value									4,548
PV (FCF+ Terminal Value)	(250)	355	43	86	115	130	143	155	1,956

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	2,734
minus: Net cash	5,420
minus: Minority Interest	0
Equity Value	8,154
Shares (mn)	612
Target Price (US\$) based on DCF	1.8

		WACC				
		10.3%	11.3%	12.3%	13.3%	14.3%
Growth	1.5%	1.9	1.8	1.8	1.7	1.7
	2.0%	2.0	1.9	1.8	1.7	1.7
	2.5%	2.0	1.9	1.8	1.7	1.7
	3.0%	2.0	1.9	1.8	1.8	1.7
	3.5%	2.1	2.0	1.8	1.8	1.7
	4.0%	2.1	2.0	1.9	1.8	1.7
4.5%	2.2	2.0	1.9	1.8	1.7	

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	3,798	4,089	4,368
Cost of goods sold	(368)	(356)	(339)	(254)	(274)	(275)
Gross profit	1,554	1,808	2,296	2,073	2,262	2,416
Operating expenses	(2,945)	(3,412)	(3,368)	(2,528)	(2,445)	(2,530)
Selling expense	(1,635)	(2,026)	(2,048)	(1,331)	(1,287)	(1,318)
Admin expense	(690)	(622)	(418)	(399)	(397)	(420)
R&D expense	(620)	(763)	(902)	(798)	(761)	(792)
Operating profit	(1,391)	(1,604)	(1,072)	(454)	(183)	(114)
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	31	40	40
Other gains/(losses)	(21)	78	49	0	0	0
Pre-tax profit	(1,293)	(1,564)	(828)	(390)	(10)	65
Income tax	(5)	(14)	(12)	0	2	(10)
Net profit	(1,299)	(1,578)	(839)	(390)	(9)	55
Adjusted net profit	(747)	(1,196)	(659)	(226)	126	173
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	8,334	7,320	6,835	6,508	6,728	7,010
Cash & equivalents	2,157	4,526	3,066	2,899	3,484	3,728
Account receivables	832	834	1,323	1,245	896	933
Prepayment	272	199	240	158	141	143
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	249	254	257
PP&E	10	7	28	32	35	36
Right-of-use assets	127	100	26	26	26	26
Investment in JVs & assos	19	na	na	na	na	na
Intangibles	68	80	67	64	66	68
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	6,757	6,982	7,267
Current liabilities	1,898	1,825	1,966	1,841	1,919	2,013
Account payables	1,340	1,200	1,284	1,172	1,220	1,263
Tax payable	66	26	5	5	5	5
Other current liabilities	451	546	624	611	641	692
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	14,166	14,321	14,458
Total shareholders equity	(6,281)	(7,862)	(8,699)	(9,089)	(9,097)	(9,042)
Total equity and liabilities	(6,281)	(7,862)	(8,699)	(9,089)	(9,097)	(9,042)

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,293)	(1,564)	(828)	(390)	(10)	65
Depreciation & amortization	21	25	22	25	23	27
Tax paid	(5)	(14)	(12)	0	2	(10)
Change in working capital	291	(134)	(285)	35	444	55
Others	546	572	252	190	155	137
Net cash from operations	(440)	(1,115)	(850)	(141)	614	274
Investing						
Capital expenditure	(7)	(1)	(29)	(27)	(29)	(31)
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	(27)	(29)	(31)
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	2,899	3,484
Exchange difference	(100)	102	0	0	0	0
Cash at the end of the year	2,157	4,526	3,066	2,899	3,484	3,728
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	118.9%	21.8%	16.5%	(9.6%)	7.7%	6.8%
Gross profit	105.1%	16.4%	27.0%	(9.7%)	9.1%	6.8%
Adj. net profit	na	na	na	na	na	37.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	52.5%	50.2%	54.7%	54.6%	55.3%	55.3%
Operating margin	(47.0%)	(44.5%)	(25.5%)	(12.0%)	(4.5%)	(2.6%)
Adj. net profit margin	(25.2%)	(33.2%)	(15.7%)	(6.0%)	3.1%	4.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	4.4	4.0	3.5	3.5	3.5	3.5
Receivable turnover days	81.3	84.3	93.8	123.4	95.6	76.4
Payable turnover days	1,028.2	1,302.4	1,335.7	1,761.5	1,593.5	1,646.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	NA	NA	NA	NA	26.6	19.6
P/S	1.0	0.9	0.8	0.9	0.8	0.8
P/B	2.6	0.7	0.5	0.3	0.3	0.3

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

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