

# Kuaishou (1024 HK)

## Solid 4Q20; Expecting strong users in 1Q21E

Kuaishou delivered solid 4Q20 results, with revenue +53% YoY, 1%/0% above consensus/our estimate. Non-GAAP net loss was better than our estimate. We are impressed by its ads (rev +170% YoY) and ecommerce outperformance (GMV +314% YoY). We reiterated our confidence on its user upside and monetization potential in the long run. Strong user metrics in 1Q21E (DAU +4%/+11% MoM in Jan/Feb) and potential stock connect could be further catalysts. We maintain our earnings forecast and TP at HK\$382 unchanged. Suggest to buy on dips.

- **Solid 4Q20 with margin beat.** Kuaishou 4Q20 revenue surged 53% YoY, 1%/0% above consensus/our estimate. Non-GAAP net loss came in at RMB704mn, better than consensus and our estimate, mainly on lighter S&M.
- **1Q21E strong user momentum to continue.** Kuaishou's 4Q20 user metrics trend well, with MAU/DAU/ average daily time spent per DAU +23%/31%/+18% YoY, up to 476mn/271mn/90mins. We expect its strong user momentum to continue in 1Q21E. According to QuestMobile, Kuaishou's user metrics outperformed the social entertainment segment in Jan & Feb. MAU of Kuaishou (Kuaishou App+ Kuaishou Express) saw 6%/16% MoM growth, and DAU +4%/11% MoM in Jan/Feb. Kuaishou Express achieved double-digit MoM growth in both months. On top of that, its daily time spent saw sequential growth in Jan & Feb, suggesting stronger user engagement. We expect 1Q21E rev +33% YoY, while margin to decline QoQ for heavier S&M.
- **Bullish on ads & ecommerce monetization.** 4Q livestreaming rev declined 7% YoY (on soft season), 1% below our estimate. We expect livestreaming to deliver single-digit growth in FY21E, given high base and industry growth tapering off. 4Q20 ads +170% YoY, 2% above our estimate. Ads would be the primary driver (forecasting 66% rev CAGR in FY20-23E), backed by KA expansion, rich ads formats and better targeting. Kuaishou's ad load, eCPM and ads rev per DAU largely lagged behind that of Douyin, suggesting ample room to improve. 4Q20E ecommerce GMV +314% YoY, driving other rev +8.3x YoY. E-commerce would further unlock its TAM, with estimated GMV of RMB788bn in FY22E.
- **Maintain BUY.** We keep our earnings forecast and TP unchanged. Kuaishou is one of our top picks, for its strong user momentum, huge monetization potential, multiple catalysts and relatively low regulation risk. Our TP implies **12x/9x FY22/23E P/S, or 48x FY23E P/E**. Maintain BUY.

### Earnings Summary

| (YE 31 Dec)              | FY19A    | FY20A    | FY21E    | FY22E    | FY23E    |
|--------------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)         | 39,120   | 58,776   | 84,795   | 120,332  | 160,681  |
| YoY growth (%)           | 92.7     | 50.2     | 44.3     | 41.9     | 33.5     |
| Adj. net income (RMB mn) | 1,034    | (7,949)  | (4,003)  | 12,503   | 29,292   |
| Adj. EPS (RMB)           | NA       | NA       | (0.9)    | 2.8      | 6.6      |
| YoY growth (%)           | NA       | NA       | NA       | NA       | 134.3    |
| Consensus EPS (RMB)      | NA       | NA       | (1.2)    | 1.5      | 5.6      |
| P/E (x)                  | NA       | NA       | NA       | 88       | 38       |
| P/S (x)                  | 26.6     | 17.7     | 12.3     | 8.6      | 6.5      |
| ROE (%)                  | 0.0      | 0.0      | 0.0      | 0.0      | 0.0      |
| Net gearing (%)          | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

|               |          |
|---------------|----------|
| Target Price  | HK\$382  |
| (Previous TP  | HK\$382) |
| Up/Downside   | +26.0%   |
| Current Price | HK\$301  |

### China Internet Sector

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### Stock Data

|                          |              |
|--------------------------|--------------|
| Mkt Cap (HK\$ mn)        | 1,252,709    |
| Avg 3 mths t/o (HK\$ mn) | NA           |
| 52w High/Low (HK\$)      | 417.8/ 250.0 |
| Total Issued Shares (mn) | 3,393        |
| Source: Bloomberg        |              |

### Shareholding Structure

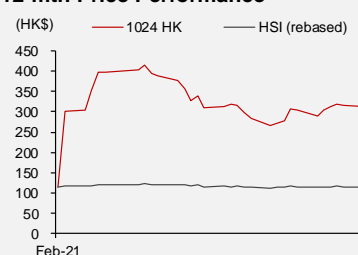
|                   |       |
|-------------------|-------|
| Tencent           | 21.5% |
| 5Y Capital        | 16.6% |
| DCM LP            | 9.2%  |
| Source: Bloomberg |       |

### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -18.6%   | -14.0%   |
| 3-mth | NA       | NA       |
| 6-mth | NA       | NA       |

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

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**Figure 1: CMBIS estimates vs consensus**

| RMB mn, Dec-YE   | CMBIS   |         |         | Consensus |         |         | Diff (%) |          |          |
|------------------|---------|---------|---------|-----------|---------|---------|----------|----------|----------|
|                  | FY21E   | FY22E   | FY23E   | FY21E     | FY22E   | FY23E   | FY21E    | FY22E    | FY23E    |
| Revenue          | 84,795  | 120,332 | 160,681 | 86,760    | 124,018 | 169,651 | -2.3%    | -3.0%    | -5.3%    |
| Gross Profit     | 38,000  | 64,230  | 91,956  | 39,238    | 64,001  | 100,688 | -3.2%    | 0.4%     | -8.7%    |
| Operating Profit | (8,458) | 8,047   | 26,255  | (7,155)   | 6,696   | 25,581  | 18.2%    | 20.2%    | 2.6%     |
| Adj. net profit  | (4,003) | 12,503  | 29,292  | (4,691)   | 9,949   | 20,188  | -14.7%   | 25.7%    | 45.1%    |
| Adj. EPS (RMB)   | (0.91)  | 2.83    | 6.62    | (1.36)    | 1.73    | 6.70    | -33.3%   | 63.6%    | -1.1%    |
| Gross Margin     | 44.8%   | 53.4%   | 57.2%   | 45.2%     | 51.6%   | 59.4%   | -0.4ppts | +1.8ppts | -2.1ppts |
| Operating Margin | -10.0%  | 6.7%    | 16.3%   | -8.2%     | 5.4%    | 15.1%   | -1.7ppts | +1.3ppts | +1.3ppts |
| Adj. net margin  | -4.7%   | 10.4%   | 18.2%   | -5.4%     | 8.0%    | 11.9%   | +0.7ppts | +2.4ppts | +6.3ppts |

Source: CMBIS estimates, Bloomberg

**Figure 2: Earnings revision**

| RMB mn, Dec-YE   | New     |         |         | Old     |         |         | Diff (%) |          |          |
|------------------|---------|---------|---------|---------|---------|---------|----------|----------|----------|
|                  | FY21E   | FY22E   | FY23E   | FY21E   | FY22E   | FY23E   | FY21E    | FY22E    | FY23E    |
| Revenue          | 84,795  | 120,332 | 160,681 | 84,795  | 120,332 | 160,681 | 0.0%     | 0.0%     | 0.0%     |
| Gross Profit     | 38,000  | 64,230  | 91,956  | 38,000  | 64,230  | 91,956  | 0.0%     | 0.0%     | 0.0%     |
| Operating Profit | (8,458) | 8,047   | 26,255  | (8,458) | 8,047   | 26,255  | 0.0%     | 0.0%     | 0.0%     |
| Adj. net profit  | (4,003) | 12,503  | 29,292  | (4,003) | 12,521  | 29,310  | 0.0%     | -0.1%    | -0.1%    |
| Adj. EPS (RMB)   | (0.91)  | 2.83    | 6.62    | (0.91)  | 2.83    | 6.63    | 0.0%     | -0.1%    | -0.1%    |
| Gross Margin     | 44.8%   | 53.4%   | 57.2%   | 44.8%   | 53.4%   | 57.2%   | 0.0ppts  | 0.0ppts  | 0.0ppts  |
| Operating Margin | -10.0%  | 6.7%    | 16.3%   | -10.0%  | 6.7%    | 16.3%   | 0.0ppts  | 0.0ppts  | 0.0ppts  |
| Adj. net margin  | -4.7%   | 10.4%   | 18.2%   | -4.7%   | 10.4%   | 18.2%   | 0.0ppts  | -0.0ppts | -0.0ppts |

Source: CMBIS estimates

**Figure 3: Kuaishou' FY20 review**

| RMB ('000), Dec-YE  | 2019                | 2020                 | YoY        | CMBI estimates       | Diff       |
|---|---------------------|----------------------|------------|----------------------|------------|
| <b>Revenue</b>  | <b>39,120,348</b>   | <b>58,776,097</b>    | <b>50%</b> | <b>58,671,074</b>    | <b>0%</b>  |
| Cost of sales   | (25,016,774)        | (34,961,460)         | NA         | (34,455,597)         | NA         |
| <b>Gross profit</b>   | <b>14,103,574</b>   | <b>23,814,637</b>    | <b>69%</b> | <b>24,215,477</b>    | <b>-2%</b> |
| Sales and marketing expenses                                  | (9,865,026)         | (26,614,746)         | NA         | (28,866,168)         | NA         |
| Research and development expenses                             | (2,944,277)         | (6,547,578)          | NA         | (6,581,559)          | NA         |
| Administrative expenses                                       | (865,375)           | (1,676,745)          | NA         | (1,743,550)          | NA         |
| Other income  | 259,788             | 704,479              | NA         | 586,711              | NA         |
| <b>Operating (loss)/profit</b>                                | <b>688,684</b>      | <b>(10,319,953)</b>  | NA         | <b>(12,389,089)</b>  | NA         |
| Finance costs   | (11,037)            | (35,288)             | NA         | (5,747)              | NA         |
| Fair value changes of convertible redeemable preferred shares | (19,943,114)        | (106,845,549)        | NA         | (89,453,226)         | NA         |
| <b>Profit before taxation</b>                                 | <b>(19,265,467)</b> | <b>(117,200,790)</b> | NA         | <b>(101,848,063)</b> | NA         |
| Income tax expense  | (386,067)           | 565,548              | NA         | -                    | NA         |
| Profit for the year   | (19,651,534)        | (116,635,242)        | NA         | (101,848,063)        | NA         |
| <b>Adj. net profit</b>  | <b>1,033,883</b>    | <b>(7,948,807)</b>   | NA         | <b>(10,634,704)</b>  | NA         |

**Margin Analysis**

|                  |     |      |      |
|------------------|-----|------|------|
| Gross margin     | 36% | 41%  | 41%  |
| Operating margin | 2%  | -18% | -21% |
| Adj. net margin  | 3%  | -14% | -18% |

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)        | FY19A    | FY20A     | FY21E    | FY22E    | FY23E    |
|---------------------------|----------|-----------|----------|----------|----------|
| <b>Revenue</b>            | 39,120   | 58,776    | 84,795   | 120,332  | 160,681  |
| Live streaming            | 31,442   | 33,209    | 36,071   | 38,637   | 40,920   |
| Online marketing services | 7,419    | 21,855    | 39,928   | 67,242   | 98,327   |
| Other services            | 260      | 3,712     | 8,796    | 14,453   | 21,433   |
| <b>COGS</b>               | (25,017) | (34,961)  | (46,795) | (56,103) | (68,724) |
| <b>Gross profit</b>       | 14,104   | 23,815    | 38,000   | 64,230   | 91,956   |
| S&M                       | (9,865)  | (26,615)  | (33,240) | (40,311) | (45,312) |
| Admin.Exp.                | (865)    | (1,677)   | (2,774)  | (3,335)  | (4,132)  |
| R&D                       | (2,944)  | (6,548)   | (11,208) | (13,499) | (17,543) |
| Other gains               | 260      | 704       | 763      | 963      | 1,285    |
| <b>Operating profit</b>   | 689      | (10,320)  | (8,458)  | 8,047    | 26,255   |
| Other income/(exp),       | (19,954) | (106,881) | 194      | 432      | 645      |
| <b>Pre-tax Income</b>     | (19,265) | (117,201) | (8,265)  | 8,479    | 26,900   |
| Income Tax                | (386)    | 566       | 40       | (1,391)  | (4,035)  |
| <b>Net profit</b>         | (19,652) | (116,635) | (8,225)  | 7,088    | 22,865   |
| <b>Adj. net profit</b>    | 1,034    | (7,949)   | (4,003)  | 12,503   | 29,292   |

### Cash flow summary

| YE 31 Dec (RMB mn)        | FY19A    | FY20A     | FY21E   | FY22E   | FY23E    |
|---------------------------|----------|-----------|---------|---------|----------|
| <b>Net income</b>         | (19,265) | (117,201) | (8,265) | 8,479   | 26,900   |
| D&A                       | 2,160    | 2,511     | 3,449   | 4,950   | 6,751    |
| Change in WC              | 5,168    | 5,410     | 4,404   | 4,672   | 6,114    |
| Others                    | 19,957   | 111,569   | 4,261   | 4,024   | 2,392    |
| <b>Operating CF</b>       | 8,020    | 2,289     | 3,849   | 22,125  | 42,157   |
| Capex                     | (2,548)  | (6,382)   | (5,744) | (9,191) | (11,029) |
| Purchase of investments   | (4,304)  | 5,212     | -       | -       | -        |
| Others                    | (3,297)  | (3,697)   | -       | -       | -        |
| <b>Investing CF</b>       | (10,149) | (4,867)   | (5,744) | (9,191) | (11,029) |
| Equity raised             | -        | -         | 39,000  | -       | -        |
| Change of Debts           | -        | -         | -       | -       | -        |
| Cash from CB raised       | 1,527    | 19,766    | -       | -       | -        |
| Others                    | (829)    | (476)     | -       | -       | -        |
| <b>Financing CF</b>       | 698      | 19,290    | 39,000  | -       | -        |
| <b>Net change in cash</b> | (1,430)  | 16,711    | 37,105  | 12,935  | 31,129   |
| Cash (beg of yr)          | 5,370    | 3,996     | 20,392  | 57,497  | 70,431   |
| FX                        | 56       | (316)     | -       | -       | -        |
| <b>Cash (end of yr)</b>   | 3,996    | 20,392    | 57,497  | 70,431  | 101,560  |

### Balance sheet

| YE 31 Dec (RMB mn)                                    | FY19A    | FY20A     | FY21E     | FY22E     | FY23E    |
|---|----------|-----------|-----------|-----------|----------|
| <b>Non-current assets</b>                             | 15,103   | 20,619    | 22,915    | 27,156    | 31,434   |
| Property and equipment                                | 6,232    | 7,206     | 9,492     | 13,687    | 17,917   |
| Right-of-use assets                                   | 4,353    | 5,200     | 5,200     | 5,200     | 5,200    |
| Intangible assets                                     | 1,120    | 1,248     | 1,257     | 1,304     | 1,351    |
| Others  | 3,398    | 6,966     | 6,966     | 6,966     | 6,966    |
| <b>Current assets</b>                                 | 17,311   | 31,528    | 70,123    | 84,820    | 118,116  |
| Cash  | 3,996    | 20,392    | 57,497    | 70,431    | 101,560  |
| Prepayments   | 2,033    | 2,285     | 3,802     | 4,559     | 5,584    |
| Financial assets at fair value through profit or loss | 8,902    | 3,690     | 3,690     | 3,690     | 3,690    |
| Trade receivables                                     | 1,107    | 2,428     | 2,400     | 3,406     | 4,549    |
| Others  | 1,272    | 2,733     | 2,733     | 2,733     | 2,733    |
| <b>Current liabilities</b>                            | 15,374   | 23,185    | 29,078    | 35,513    | 43,795   |
| Accounts payables                                     | 9,055    | 11,544    | 16,938    | 20,307    | 24,876   |
| Other payables and accruals                           | 3,028    | 5,763     | 5,663     | 6,790     | 8,317    |
| Advances from customers                               | 1,530    | 3,290     | 3,890     | 5,829     | 8,015    |
| Lease liabilities                                     | 1,337    | 2,099     | 2,099     | 2,099     | 2,099    |
| Others  | 424      | 488       | 488       | 488       | 488      |
| <b>Non-current liabilities</b>                        | 72,770   | 189,012   | 189,012   | 189,012   | 189,012  |
| Convertible redeemable preferred shares               | 69,444   | 185,373   | 185,373   | 185,373   | 185,373  |
| Others  | 3,325    | 3,640     | 3,640     | 3,640     | 3,640    |
| MI  | -        | -         | -         | -         | -        |
| <b>Total Equity</b>                                   | (55,729) | (160,050) | (125,053) | (112,550) | (83,258) |
| <b>Shareholders' equity</b>                           | (55,729) | (160,050) | (125,053) | (112,550) | (83,258) |

### Key ratios

| YE 31 Dec                 | FY19A  | FY20A   | FY21E  | FY22E  | FY23E  |
|---------------------------|--------|---------|--------|--------|--------|
| <b>Sales mix (%)</b>      |        |         |        |        |        |
| Live streaming            | 80.4   | 56.5    | 42.5   | 32.1   | 25.5   |
| Online marketing services | 19.0   | 37.2    | 47.1   | 55.9   | 61.2   |
| Other services            | 0.7    | 6.3     | 10.4   | 12.0   | 13.3   |
| <b>Total</b>              | 100.0  | 100.0   | 100.0  | 100.0  | 100.0  |
| <b>Growth rate (%)</b>    |        |         |        |        |        |
| Revenue                   | 92.7   | 50.2    | 44.3   | 41.9   | 33.5   |
| Gross profit              | 143.1  | 68.9    | 59.6   | 69.0   | 43.2   |
| EBIT                      | NA     | NA      | NA     | NA     | 226.3  |
| Adj. net profit           | 404.7  | NA      | NA     | NA     | 134.3  |
| <b>P&amp;L ratios (%)</b> |        |         |        |        |        |
| Operating margin          | 1.8    | (17.6)  | (10.0) | 6.7    | 16.3   |
| Pre-tax margin            | (49.2) | (199.4) | (9.7)  | 7.0    | 16.7   |
| Adj. net margin           | 2.6    | (13.5)  | (4.7)  | 10.4   | 18.2   |
| Effective tax rate        | 2.0    | (0.5)   | (0.5)  | (16.4) | (15.0) |
| <b>Returns (%)</b>        |        |         |        |        |        |
| ROA                       | 3.2    | (15.2)  | (4.3)  | 11.2   | 19.6   |

Source: Company data, CMBIS estimates

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|------------------|---|
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|                       |   |
|-----------------------|---|
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