

# Kuaishou (1024 HK)

## Intact earnings growth outlook; soft consumption weighs on e-commerce business

Kuaishou announced 2Q24 results: total revenue was up by 12% YoY to RMB31.0bn, largely in line with consensus estimate; adjusted net profit grew by 74% YoY to RMB4.7bn, 8% ahead of consensus estimate thanks to better-than-expected cost optimization and opex control. E-commerce GMV growth (+15% YoY) in 2Q24 was slower than consensus expectation amid soft consumption sentiment and intense competition, and we expect the pressure to continue in 2H24E. Nonetheless, we remain upbeat on Kuaishou's FY24 earnings growth outlook on its solid online marketing business and margin expansion. We lift our FY24 adjusted net income forecast by 3% to factor in the better-than-expected cost optimization; but lower our SOTP-derived TP to HK\$92.0 (previous: HK\$97.0) in view of the headwinds faced by e-commerce business (which accounted for 54% of total valuation). We transfer coverage with a BUY rating.

■ **Online marketing maintained solid growth; e-commerce GMV below expectation.** Online marketing revenue grew by 22% YoY to RMB17.5bn in 2Q24, driven by solid growth of both external and enclosed loop marketing services. External marketing services revenue YoY growth rate accelerated in 2Q24, supported by strong demand from media, e-commerce and local services industries. Other services revenue was up by 21% YoY to RMB4.2bn in 2Q24. The YoY growth rate of e-commerce GMV decelerated to 15% in 2Q24 (1Q24/4Q23: +28/29% YoY). E-commerce MPUs maintained healthy growth of 14% YoY to 131mn in 2Q24, but this implies largely flattish average GMV per MPUs amid weak consumption sentiment. Live streaming revenue declined by 7% YoY to RMB9.3bn in 2Q24.

■ **Headwinds in e-commerce business to sustain in 2H24.** Looking ahead in 3Q24E, we forecast total revenue to grow by 11% YoY, with online marketing/others/live streaming revenue +20/+18/-5% YoY respectively. We remain upbeat that Kuaishou's online marketing revenue growth will outpace sector growth in 2H24, underpinned by its optimized intelligent marketing solutions and incremental demand from short plays & mini games. We expect headwinds in e-commerce business to sustain and GMV to grow by 15% YoY in 3Q24E, mainly due to soft consumption and Kuaishou's relatively conservative subsidy strategy.

■ **Intact earnings growth outlook.** Adjusted NPM improved by 5.4ppt YoY to 15.1% in 2Q24, primarily due to favourable revenue mix shift and cost optimization. Domestic operating profit grew by 48% YoY to RMB4.5bn, while overseas operating loss narrowed by 65% YoY to RMB277mn in 2Q24. For 3Q24E, Kuaishou will continue to focus on executing its high-quality growth strategy. We expect adjusted NPM to expand by 1.5ppt YoY and adjusted net profit to grow by 25% YoY to RMB4.0bn in 3Q24E, fuelled by rising GPM and prudent expenses control.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	94,183	113,470	127,468	142,448	155,176
Adjusted net profit (RMB mn)	(5,751.4)	10,271.0	17,764.0	23,515.0	30,254.8
EPS (Adjusted) (RMB)	(1.35)	2.38	4.12	5.45	7.01
Consensus EPS (RMB)	na	na	4.14	5.45	6.92
P/E (x)	na	27.1	11.4	8.3	6.3

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$92.00
(Previous TP)	HK\$97.00)
Up/Downside	107.2%
Current Price	HK\$44.40

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### Stock Data

Mkt Cap (HK\$ mn)	191,541.6
Avg 3 mths t/o (HK\$ mn)	1,219.8
52w High/Low (HK\$)	68.65/39.10
Total Issued Shares (mn)	4314.0

Source: FactSet

### Shareholding Structure

Tencent	15.6%
Su Hua	10.0%

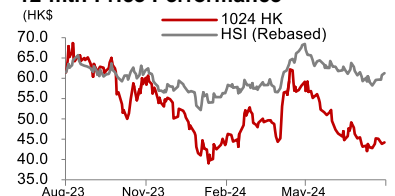
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-1.8%	-2.3%
3-mth	-24.9%	-15.8%
6-mth	0.5%	-6.8%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Business forecasts update and valuation

Figure 1: Kuaishou: forecast revision

(RMB mn)	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	127,468	142,448	155,176	125,544	141,964	159,050	1.5%	0.3%	-2.4%
Gross profit	69,520	79,634	89,500	68,099	79,148	91,742	2.1%	0.6%	-2.4%
Operating profit	15,870	22,821	31,307	14,600	21,771	33,095	8.7%	4.8%	-5.4%
Adjusted net profit	17,764	23,515	30,255	17,247	24,434	32,109	3.0%	-3.8%	-5.8%
Adjusted EPS (RMB)	4.1	5.5	7.0	4.0	5.7	7.4	3.0%	-3.8%	-5.8%
Gross margin	54.5%	55.9%	57.7%	54.2%	55.8%	57.7%	0.3 ppt	0.2 ppt	0.0 ppt
Operating margin	12.5%	16.0%	20.2%	11.6%	15.3%	20.8%	0.8 ppt	0.7 ppt	-0.6 ppt
Adjusted net margin	13.9%	16.5%	19.5%	13.7%	17.2%	20.2%	0.2 ppt	-0.7 ppt	-0.7 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(RMB mn)	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	127,468	142,448	155,176	127,400	142,901	158,840	0.1%	-0.3%	-2.3%
Gross profit	69,520	79,634	89,500	69,365	79,826	90,428	0.2%	-0.2%	-1.0%
Operating profit	15,870	22,821	31,307	15,512	22,287	29,839	2.3%	2.4%	4.9%
Adjusted net profit	17,764	23,515	30,255	17,750	23,641	30,267	0.1%	-0.5%	0.0%
Adjusted EPS (RMB)	4.1	5.5	7.0	4.1	5.5	6.9	-0.5%	0.0%	1.3%
Gross margin	54.5%	55.9%	57.7%	54.4%	55.9%	56.9%	0.1 ppt	0.0 ppt	0.7 ppt
Operating margin	12.5%	16.0%	20.2%	12.2%	15.6%	18.8%	0.3 ppt	0.4 ppt	1.4 ppt
Adjusted net margin	13.9%	16.5%	19.5%	13.9%	16.5%	19.1%	0.0 ppt	0.0 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Kuaishou: quarterly financials

(RMB mn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	Cons.	Diff%
Live streaming revenue	7,842	8,565	8,947	10,034	9,319	9,968	9,719	10,048	8,575	9,302	8,587	8.3%
yoy%	8.2%	19.1%	15.8%	13.7%	18.8%	16.4%	8.6%	0.1%	-8.0%	-6.7%		
Online marketing services	11,351	11,006	11,590	15,094	13,064	14,347	14,690	18,203	16,650	17,515	17,590	-0.4%
yoy%	32.6%	10.5%	6.2%	14.0%	15.1%	30.4%	26.8%	20.6%	27.4%	22.1%		
Other services revenue	1,873	2,124	2,592	3,164	2,834	3,429	3,539	4,310	4,183	4,158	4,215	-1.3%
yoy%	54.6%	7.1%	39.4%	33.7%	51.3%	61.5%	36.5%	36.2%	47.6%	21.3%		
<b>Total revenue</b>	<b>21,067</b>	<b>21,695</b>	<b>23,128</b>	<b>28,292</b>	<b>25,217</b>	<b>27,744</b>	<b>27,948</b>	<b>32,561</b>	<b>29,408</b>	<b>30,975</b>	<b>30,368</b>	<b>2.0%</b>
yoy%	23.8%	13.4%	12.9%	15.8%	19.7%	27.9%	20.8%	15.1%	16.6%	11.6%		
<b>Average DAUs</b>	<b>346</b>	<b>347</b>	<b>363</b>	<b>366</b>	<b>374</b>	<b>376</b>	<b>387</b>	<b>383</b>	<b>394</b>	<b>395</b>		
yoy%	17.0%	18.5%	13.4%	13.3%	8.3%	8.3%	6.4%	4.5%	5.2%	5.1%		
Gross profit margin (%)	41.7%	45.0%	46.3%	45.5%	46.4%	50.2%	51.7%	53.1%	54.8%	55.3%	54.6%	0.7 ppt
S&M expense ratio (%)	45.0%	40.4%	42.0%	34.4%	34.6%	31.1%	32.0%	31.3%	31.9%	32.4%		
R&D expense ratio (%)	16.7%	15.1%	15.0%	12.2%	11.6%	11.4%	10.6%	10.1%	9.7%	9.1%		
Adjusted net margin (%)	-17.7%	-6.0%	-2.9%	-0.2%	0.2%	9.7%	11.4%	13.4%	14.9%	15.1%		
<b>Adjusted net income</b>	<b>-3,722</b>	<b>-1,312</b>	<b>-672</b>	<b>-45</b>	<b>42</b>	<b>2,694</b>	<b>3,173</b>	<b>4,362</b>	<b>4,388</b>	<b>4,679</b>	<b>4,338</b>	<b>7.9%</b>

Source: Company data, CMBIGM estimates

Our SOTP-derived target price of HK\$92.00 comprises, per share:

- 1) HK\$13.1 for the live streaming business, based on 1.4x 2024E EV/Sales, which is on par with the average EV/Sales for its peers.
- 2) HK\$20.5 for the online marketing business (excl. enclosed loop marketing), based on 14x 2024E EV/EBIT, which is on par with the average EV/EBIT for its peers.
- 3) HK\$49.4 for the e-commerce business, based on 0.14x 2024E EV/GMV, which is on par with the average EV/GMV for its peers.
- 4) HK\$9.0 for net cash.

**Figure 4: Kuaishou: SOTP valuation**

(RMBmn)	24E Rev/EBIT/GMV	Methodology	Multiple	Valuation	As % of total valuation	Per share valuation (HK\$)
Live streaming	36,720	EV/Sales	1.4x	51,407	14%	13.1
Advertising (excl. enclosed loop marketing)	5,774	EV/EBIT	14.0x	80,837	22%	20.5
E-commerce	1,391,044	EV/GMV	0.14x	194,746	54%	49.4
<b>Enterprise Value</b>				<b>326,990</b>	90%	83.0
Net cash				35,367	10%	9.0
<b>Equity Value</b>				<b>362,357</b>		
Exchange rate (RMB/HK\$)				0.91		
<b>Target Value (HK\$mn)</b>				<b>396,886</b>		
<b>Target Price (HK\$)</b>				<b>92.00</b>		

Source: Company data, CMBIGM estimates

**Figure 5: Peer comparison: live streaming, advertising, and e-commerce sectors**

Companies	Ticker	Price (LC)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
<b>Live streaming</b>			<b>Revenue growth (YoY%)</b>			<b>EV/Sales</b>		
TME	TME US	10.6	2.9	10.2	10.0	3.7	3.3	3.0
Bilibili	BILI US	14.3	16.0	12.8	10.5	1.4	1.2	1.1
Hello Group	MOMO US	7.0	(11.3)	2.8	4.8	0.6	0.5	0.5
Huya	HUYA US	4.4	(8.1)	10.2	7.1	0.1	0.1	0.1
<b>Average</b>						<b>1.4</b>	<b>1.3</b>	<b>1.2</b>
<b>Advertising</b>			<b>EBIT growth (YoY%)</b>			<b>EV/EBIT</b>		
Baidu	BIDU US	90.2	(5.5)	8.7	7.3	5.9	5.4	5.0
Focus Media	002027 CH	5.7	7.8	10.8	9.7	12.7	11.5	10.5
Meta	META US	529.3	38.7	17.4	14.6	20.8	17.7	15.5
Alphabet	GOOG US	168.4	28.7	15.0	8.5	18.3	15.9	14.7
<b>Average</b>						<b>14.4</b>	<b>12.6</b>	<b>11.4</b>
<b>E-commerce</b>			<b>GMV Growth (YoY%)</b>			<b>EV/GMV</b>		
Alibaba	BABA US	83.9	5.3	4.7	3.3	0.13	0.12	0.12
JD.com	JD US	29.5	5.0	5.0	4.0	0.05	0.05	0.05
Pinduoduo	PDD US	151.1	22.3	16.7	12.3	0.23	0.20	0.18
<b>Average</b>						<b>0.14</b>	<b>0.12</b>	<b>0.12</b>

Source: Bloomberg, CMBIGM estimates

Note: Data as of market close on 19 Aug

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	81,082	94,183	113,470	127,468	142,448	155,176
Cost of goods sold	47,052	52,051	56,079	57,948	62,815	65,675
Gross profit	34,030	42,131	57,391	69,520	79,634	89,500
Operating expenses	61,731	54,689	50,960	53,650	56,813	58,194
Selling expense	44,176	37,121	36,496	40,535	42,581	43,602
Admin expense	3,400	3,921	3,514	2,932	3,014	3,021
R&D expense	14,956	13,784	12,338	11,727	12,319	12,614
Others	801	137	1,388	1,544	1,101	1,044
Operating profit	(27,701)	(12,558)	6,431	15,870	22,821	31,307
Net Interest income/(expense)	(39)	166	539	271	531	234
Others	(51,276)	0	0	0	0	0
Pre-tax profit	(79,016)	(12,392)	6,970	16,141	23,351	31,541
Income tax	(1,025)	1,158	490	806	2,335	3,785
After tax profit	(77,990)	(13,551)	6,480	15,335	21,016	27,756
Net profit	(77,990)	(13,551)	6,480	15,335	21,016	27,756
Adjusted net profit	(18,852)	(5,751)	10,271	17,764	23,515	30,255

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	53,011	45,859	60,361	85,068	90,262	134,009
Cash & equivalents	32,612	13,274	12,905	35,367	23,403	73,976
Restricted cash	2	59	128	128	128	128
Account receivables	4,450	6,288	6,457	7,860	8,140	9,290
Prepayment	3,278	4,832	4,919	6,035	6,206	7,129
ST bank deposits	3,825	8,318	9,874	9,599	26,308	17,408
Financial assets at FVTPL	8,842	13,087	26,078	26,078	26,078	26,078
Non-current assets	39,505	43,449	45,935	48,344	68,630	61,802
PP&E	11,051	13,215	12,356	11,642	13,615	15,478
Right-of-use assets	12,562	10,806	10,399	13,823	15,600	15,830
Deferred income tax	5,405	5,095	6,108	6,108	6,108	6,108
Investment in JVs & assos	1,411	268	214	214	214	214
Intangibles	1,172	1,123	1,073	1,043	1,055	936
Financial assets at FVTPL	3,301	3,626	5,245	5,245	5,245	5,245
Other non-current assets	4,603	9,316	10,540	10,268	26,792	17,991
Total assets	92,515	89,307	106,296	133,412	158,892	195,811
Current liabilities	37,256	40,710	48,778	55,558	56,195	62,617
Account payables	20,021	22,868	23,601	27,203	27,179	29,680
Tax payable	1,080	936	1,222	1,275	1,424	1,552
Other current liabilities	12,626	13,430	20,628	22,797	22,790	26,493
Lease liabilities	3,529	3,475	3,327	4,283	4,802	4,893
Non-current liabilities	10,164	8,760	8,444	10,968	12,296	12,538
Obligations under finance leases	10,080	8,721	8,405	10,820	12,132	12,362
Other non-current liabilities	84	39	39	148	163	176
Total liabilities	47,419	49,470	57,222	66,526	68,491	75,155
Share capital	0	0	0	0	0	0
Retained earnings	(250,172)	(263,883)	(257,491)	(242,178)	(221,162)	(193,406)
Other reserves	295,261	303,712	306,554	309,053	311,552	314,051
Total shareholders equity	45,089	39,830	49,063	66,875	90,390	120,645
Minority interest	7	8	11	11	11	11
Total equity and liabilities	92,515	89,307	106,296	133,412	158,892	195,811

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(79,016)	(12,392)	6,970	16,141	23,351	31,541
Depreciation & amortization	6,885	6,573	7,202	7,627	9,182	10,440
Tax paid	(1,497)	(990)	(1,223)	(644)	(2,170)	(3,645)
Change in working capital	8,531	1,234	4,859	3,252	(482)	4,131
Others	59,577	7,773	2,973	2,477	2,499	2,499
<b>Net cash from operations</b>	<b>(5,519)</b>	<b>2,198</b>	<b>20,781</b>	<b>28,853</b>	<b>32,380</b>	<b>44,966</b>
<b>Investing</b>						
Capital expenditure	(8,777)	(50,079)	(66,680)	(3,935)	(7,246)	(7,759)
Acquisition of subsidiaries/ investments	(72,416)	0	0	0	0	0
Net proceeds from disposal of short-term investments	67,406	0	0	0	0	0
Others	(4,574)	32,531	46,815	546	(33,232)	17,701
<b>Net cash from investing</b>	<b>(18,361)</b>	<b>(17,548)</b>	<b>(19,865)</b>	<b>(3,388)</b>	<b>(40,478)</b>	<b>9,942</b>
<b>Financing</b>						
Net borrowings	0	0	11,259	0	0	0
Proceeds from share issues	39,223	0	0	0	0	0
Others	(2,722)	(4,482)	(1,364)	(3,003)	(3,866)	(4,335)
<b>Net cash from financing</b>	<b>36,500</b>	<b>(4,482)</b>	<b>(1,364)</b>	<b>(3,003)</b>	<b>(3,866)</b>	<b>(4,335)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	20,392	32,612	13,274	12,905	35,367	23,403
Exchange difference	(399)	494	79	0	0	0
<b>Cash at the end of the year</b>	<b>32,612</b>	<b>13,274</b>	<b>12,905</b>	<b>35,367</b>	<b>23,403</b>	<b>73,976</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Revenue	37.9%	16.2%	20.5%	12.3%	11.8%	8.9%
Gross profit	42.9%	23.8%	36.2%	21.1%	14.5%	12.4%
Operating profit	na	na	na	146.8%	43.8%	37.2%
Net profit	na	na	na	136.7%	37.0%	32.1%
Adj. net profit	na	na	na	73.0%	32.4%	28.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Gross profit margin	42.0%	44.7%	50.6%	54.5%	55.9%	57.7%
Operating margin	(34.2%)	(13.3%)	5.7%	12.5%	16.0%	20.2%
Adj. net profit margin	(23.3%)	(6.1%)	9.1%	13.9%	16.5%	19.5%
Return on equity (ROE)	na	(31.9%)	14.6%	26.5%	26.7%	26.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.7)	(0.3)	(0.3)	(0.5)	(0.3)	(0.6)
Current ratio (x)	1.4	1.1	1.2	1.5	1.6	2.1
Receivable turnover days	20.0	24.4	20.8	22.5	20.9	21.9
Payable turnover days	155.3	160.4	153.6	171.3	157.9	164.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/E	ns	ns	27.1	11.4	8.3	6.3
P/E (diluted)	ns	ns	27.1	11.4	8.3	6.3
P/B	3.5	4.3	3.6	2.6	1.9	1.5

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

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## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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