

# Kuaishou (1024 HK)

## 2Q21E rev to accelerate with better margin

Kuaishou delivered better-than-feared 1Q21 results, with rev +37% YoY, 0%/1% above consensus/our estimate. Non-GAAP net loss was better than consensus. Strong ads (rev +161% YoY) and ecommerce (GMV +220% YoY) offset soft livestreaming (-20% YoY). After 1Q21 soft seasonality, we expect topline to accelerate and margin to pick up in 2Q21E, backed by solid MAU & DAU trend. We reiterated our confidence on its user expansion and monetization potential. We lifted our topline by 1%/3%/3% in FY21/22/2E, but trimmed our earnings for higher S&M and sharing cost. Our TP is unchanged at HK\$382. Given that recent headwinds have been priced in, we suggest investors move into 2Q21E better outlook.

- **Better-than-feared 1Q21.** 1Q21 rev was RMB17.0bn, up 37% YoY, 0%/1% above consensus/our estimate, in which livestreaming & ads is largely in-line and ecommerce beat. Non-GAAP net loss reached RMB4.9bn, better than consensus/our estimate of RMB5.7bn/RMB6.0bn.
- **Users metrics trend well.** All user metrics were on track, with MAU +9% QoQ, DAU +9% QoQ, and time spent per DAU +10.5% QoQ. We are impressed by its overseas user performance (first time to disclose), with MAU 100mn+ in 1Q21 and 150mn+ in Apr. We expect 2Q21 user momentum to continue.
- **Expecting 2Q21E rev to accelerate & margin to pick up.** Livestreaming -20% YoY in 1Q21 (largely in line) due to high base, regulation headwinds, and traffic shift to ecommerce. We expect livestreaming to gradually pick up in next few quarters, and 3Q21E with positive YoY growth. Ads rev +161% YoY, in which rev/DAU +125% mainly on rising advertisers (more than doubled in 1Q21) and better targeting. We keep bullish on its ads momentum ahead (triple-digit-growth in 2Q21E), driven by rising eCPM (ads load relatively stable). Other rev grew 5.9x YoY, and ecommerce GMV+220% YoY. Ecommerce beat our expectation, with Kwai Shop (快手小店) contribution up to 85% in 1Q21 (vs. 70%+ in 4Q20, 53% in 1Q20). We expect ecommerce rev to accelerate in 2Q21E, backed by 616 promotions. 2Q21E would see margin improvement QoQ for lighter S&M and higher GPM, in our view.
- **Maintain BUY.** We slightly raised our topline forecast, but tweaked our earnings, to reflect higher investment in content and overseas expansion. Maintain our TP unchanged at HK\$382 (implying **11.4x/9x FY22/23E P/S, or 52x FY23E P/E**). Kuaishou is one of our top picks, given reasonable valuation, solid 2Q21E outlook, huge monetization potential, and relatively low regulation risk.

### Earnings Summary

| (YE 31 Dec)              | FY19A    | FY20A    | FY21E    | FY22E    | FY23E    |
|--------------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)         | 39,120   | 58,776   | 85,708   | 123,371  | 164,728  |
| YoY growth (%)           | 92.7     | 50.2     | 45.8     | 43.9     | 33.5     |
| Adj. net income (RMB mn) | 1,034    | (7,949)  | (7,474)  | 9,283    | 26,133   |
| Adj. EPS (RMB)           | NA       | NA       | (1.7)    | 2.1      | 5.9      |
| YoY growth (%)           | NA       | NA       | NA       | NA       | 181.5    |
| Consensus EPS (RMB)      | NA       | NA       | (1.2)    | 1.5      | 5.6      |
| P/E (x)                  | NA       | NA       | NA       | 92       | 33       |
| P/S (x)                  | 20.5     | 13.6     | 9.4      | 6.5      | 4.9      |
| Yield (%)                | 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   | +64.6%   |
| Current Price | HK\$232  |

### China Internet Sector

**Sophie Huang**  
 (852) 3900 0889  
 sophiehuang@cmbi.com.hk

**Miriam Lu**  
 (852) 3761 8728  
 miriamlu@cmbi.com.hk

**Hanbo Xu**  
 (852) 3761 8725  
 xuhanbo@cmbi.com.hk

### Stock Data

|                          |              |
|--------------------------|--------------|
| Mkt Cap (HK\$ mn)        | 953,227      |
| Avg 3 mths t/o (HK\$ mn) | 2,060.87     |
| 52w High/Low (HK\$)      | 417.8/ 213.2 |
| Total Issued Shares (mn) | 3,393        |
| Source: Bloomberg        |              |

### Shareholding Structure

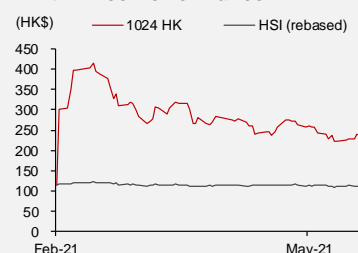
|                   |       |
|-------------------|-------|
| Tencent           | 21.5% |
| 5Y Capital        | 16.6% |
| DCM LP            | 9.2%  |
| Source: Bloomberg |       |

### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -6.6%    | -4.6%    |
| 3-mth | -33.0%   | -27.9%   |
| 6-mth | NA       | NA       |

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. Solid 4Q20; Expecting strong users in 1Q21E – 24 Mar 2021
2. Initiation: A go-to social community – 17 Mar 2021

**Figure 1: CMBIS estimates vs consensus**

| RMB mn, Dec-YE   | CMBIS    |         |         | Consensus |         |         | Diff (%) |          |          |
|------------------|----------|---------|---------|-----------|---------|---------|----------|----------|----------|
|                  | FY21E    | FY22E   | FY23E   | FY21E     | FY22E   | FY23E   | FY21E    | FY22E    | FY23E    |
| Revenue          | 85,708   | 123,371 | 164,728 | 87,581    | 124,593 | 166,657 | -2.1%    | -1.0%    | -1.2%    |
| Gross Profit     | 38,225   | 65,334  | 93,987  | 40,647    | 66,317  | 95,105  | -6.0%    | -1.5%    | -1.2%    |
| Operating Profit | (11,991) | 4,031   | 22,348  | (8,093)   | 6,255   | 22,278  | NA       | -35.5%   | 0.3%     |
| Adj. net profit  | (7,474)  | 9,283   | 26,133  | (6,095)   | 9,346   | 24,334  | NA       | -0.7%    | 7.4%     |
| Adj. EPS (RMB)   | (1.69)   | 2.10    | 5.91    | (2.13)    | 1.58    | 4.40    | NA       | 33.2%    | 34.3%    |
| Gross Margin     | 44.6%    | 53.0%   | 57.1%   | 46.4%     | 53.2%   | 57.1%   | -1.8ppts | -0.3ppts | -0.0ppts |
| Operating Margin | -14.0%   | 3.3%    | 13.6%   | -9.2%     | 5.0%    | 13.4%   | -4.8ppts | -1.8ppts | +0.2ppts |
| Adj. net margin  | -8.7%    | 7.5%    | 15.9%   | -7.0%     | 7.5%    | 14.6%   | -1.8ppts | +0.0ppts | +1.3ppts |

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          | 85,708   | 123,371 | 164,728 | 84,795  | 120,332 | 160,681 | 1.1%     | 2.5%     | 2.5%     |
| Gross Profit     | 38,225   | 65,334  | 93,987  | 38,000  | 64,230  | 91,956  | 0.6%     | 1.7%     | 2.2%     |
| Operating Profit | (11,991) | 4,031   | 22,348  | (8,458) | 8,047   | 26,255  | NA       | -49.9%   | -14.9%   |
| Adj. net profit  | (7,474)  | 9,283   | 26,133  | (4,003) | 12,521  | 29,310  | NA       | -25.9%   | -10.8%   |
| Adj. EPS (RMB)   | (1.69)   | 2.10    | 5.91    | (0.91)  | 2.83    | 6.63    | NA       | -25.9%   | -10.8%   |
| Gross Margin     | 44.6%    | 53.0%   | 57.1%   | 44.8%   | 53.4%   | 57.2%   | -0.2ppts | -0.4ppts | -0.2ppts |
| Operating Margin | -14.0%   | 3.3%    | 13.6%   | -10.0%  | 6.7%    | 16.3%   | -4.0ppts | -3.4ppts | -2.8ppts |
| Adj. net margin  | -8.7%    | 7.5%    | 15.9%   | -4.7%   | 10.4%   | 18.2%   | -4.0ppts | -2.9ppts | -2.4ppts |

Source: CMBIS estimates

**Figure 3: 1Q21 financial review**

| RMB mn            | 3Q19    | 4Q19     | 1Q20     | 2Q20     | 3Q20     | 4Q20     | 1Q21     | QoQ   | YoY   | Consensus | Diff % |
|-------------------|---------|----------|----------|----------|----------|----------|----------|-------|-------|-----------|--------|
| Revenue           | 10,190  | 11,852   | 12,458   | 12,863   | 15,357   | 18,099   | 17,019   | -6.0% | 36.6% | 17,017    | 0%     |
| Operating Profit  | 568     | (975)    | (5,026)  | (2,540)  | (1,377)  | (1,378)  | (7,292)  | NA    | NA    | (6,760)   | NA     |
| Net profit        | (1,349) | (18,034) | (30,492) | (37,599) | (29,280) | (19,264) | (57,751) | NA    | NA    | NA        | NA     |
| Adj. net profit   | 593     | (962)    | (4,345)  | (1,862)  | (1,038)  | (704)    | (4,918)  | NA    | NA    | (5,746)   | NA     |
| <b>Margin (%)</b> |         |          |          |          |          |          |          |       |       |           |        |
| Gross Margin      | 38.7%   | 39.1%    | 34.2%    | 34.5%    | 43.1%    | 47.0%    | 41.1%    |       |       | 42.4%     |        |
| Operating Margin  | 5.6%    | -8.2%    | -40.3%   | -19.7%   | -9.0%    | -7.6%    | -42.8%   |       |       | -39.7%    |        |
| Adj. net margin   | 5.8%    | -8.1%    | -34.9%   | -14.5%   | -6.8%    | -3.9%    | -28.9%   |       |       | -33.8%    |        |
| <b>Growth (%)</b> |         |          |          |          |          |          |          |       |       |           |        |
| Revenue (YoY)     | NA      | NA       | NA       | NA       | 50.7%    | 52.7%    | 36.6%    |       |       | 36.6%     |        |
| Revenue (QoQ)     | NA      | 16.3%    | 5.1%     | 3.2%     | 19.4%    | 17.9%    | -6.0%    |       |       | -6.0%     |        |
| Operating Profit  | NA      | NA       | NA       | NA       | NA       | NA       | NA       |       |       | NA        |        |
| Adj. net profit   | NA      | NA       | NA       | NA       | NA       | NA       | NA       |       |       | NA        |        |

Source: Company data, Bloomberg

**Figure 4: 1Q21 revenue breakdown**

| RMB mn                    | 3Q19          | 4Q19          | 1Q20          | 2Q20          | 3Q20          | 4Q20          | 1Q21          | QoQ        | YoY        |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|------------|
| <b>Total revenue</b>      | <b>10,190</b> | <b>11,852</b> | <b>12,458</b> | <b>12,863</b> | <b>15,357</b> | <b>18,099</b> | <b>17,019</b> | <b>-6%</b> | <b>37%</b> |
| Online marketing services | 2,047         | 3,151         | 3,273         | 3,889         | 6,181         | 8,511         | 8,558         | 1%         | 161%       |
| Live streaming            | 8,089         | 8,520         | 9,009         | 8,340         | 7,960         | 7,900         | 7,250         | -8%        | -20%       |
| Other services            | 54            | 181           | 176           | 634           | 1,215         | 1,688         | 1,211         | -28%       | 589%       |

Source: Company data

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)        | FY19A    | FY20A     | FY21E    | FY22E    | FY23E    |
|---------------------------|----------|-----------|----------|----------|----------|
| <b>Revenue</b>            | 39,120   | 58,776    | 85,708   | 123,371  | 164,728  |
| Live streaming            | 31,442   | 33,209    | 32,713   | 34,015   | 35,538   |
| Online marketing services | 7,419    | 21,855    | 43,698   | 74,086   | 107,099  |
| Other services            | 260      | 3,712     | 9,296    | 15,270   | 22,091   |
| <b>COGS</b>               | (25,017) | (34,961)  | (47,483) | (58,037) | (70,741) |
| <b>Gross profit</b>       | 14,104   | 23,815    | 38,225   | 65,334   | 93,987   |
| S&M                       | (9,865)  | (26,615)  | (37,026) | (43,427) | (48,924) |
| Admin.Exp.                | (865)    | (1,677)   | (2,804)  | (3,790)  | (4,731)  |
| R&D                       | (2,944)  | (6,548)   | (11,157) | (15,073) | (19,302) |
| Other gains               | 260      | 704       | 771      | 987      | 1,318    |
| <b>Operating profit</b>   | 689      | (10,320)  | (11,991) | 4,031    | 22,348   |
| Other income/(exp),       | (19,954) | (106,881) | 194      | 432      | 645      |
| <b>Pre-tax Income</b>     | (19,265) | (117,201) | (11,797) | 4,463    | 22,992   |
| Income Tax                | (386)    | 566       | 57       | (732)    | (3,449)  |
| <b>Net profit</b>         | (19,652) | (116,635) | (11,741) | 3,731    | 19,544   |
| <b>Adj. net profit</b>    | 1,034    | (7,949)   | (7,474)  | 9,283    | 26,133   |

### Cash flow summary

| YE 31 Dec (RMB mn)        | FY19A    | FY20A     | FY21E    | FY22E   | FY23E   |
|---------------------------|----------|-----------|----------|---------|---------|
| <b>Net income</b>         | (19,265) | (117,201) | (11,797) | 4,463   | 22,992  |
| D&A                       | 2,160    | 2,511     | 2,801    | 3,801   | 5,000   |
| Change in WC              | 5,168    | 5,410     | 4,801    | 5,280   | 6,225   |
| Others                    | 19,957   | 111,569   | 4,324    | 4,820   | 3,140   |
| <b>Operating CF</b>       | 8,020    | 2,289     | 129      | 18,364  | 37,358  |
| Capex                     | (2,548)  | (6,382)   | (3,879)  | (6,206) | (7,447) |
| Purchase of investments   | (4,304)  | 5,212     | -        | -       | -       |
| Others                    | (3,297)  | (3,697)   | -        | -       | -       |
| <b>Investing CF</b>       | (10,149) | (4,867)   | (3,879)  | (6,206) | (7,447) |
| 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    | 35,250   | 12,158  | 29,910  |
| Cash (beg of yr)          | 5,370    | 3,996     | 20,392   | 55,642  | 67,799  |
| FX                        | 56       | (316)     | -        | -       | -       |
| <b>Cash (end of yr)</b>   | 3,996    | 20,392    | 55,642   | 67,799  | 97,710  |

### Balance sheet

| YE 31 Dec (RMB mn)                                    | FY19A    | FY20A     | FY21E     | FY22E     | FY23E    |
|---|----------|-----------|-----------|-----------|----------|
| <b>Non-current assets</b>                             | 15,103   | 20,619    | 21,697    | 24,102    | 26,549   |
| Property and equipment                                | 6,232    | 7,206     | 8,193     | 10,428    | 12,702   |
| Right-of-use assets                                   | 4,353    | 5,200     | 5,200     | 5,200     | 5,200    |
| Intangible assets                                     | 1,120    | 1,248     | 1,338     | 1,508     | 1,682    |
| Others  | 3,398    | 6,966     | 6,966     | 6,966     | 6,966    |
| <b>Current assets</b>                                 | 17,311   | 31,528    | 68,349    | 82,431    | 114,544  |
| Cash  | 3,996    | 20,392    | 55,642    | 67,799    | 97,710   |
| Prepayments   | 2,033    | 2,285     | 3,858     | 4,716     | 5,748    |
| 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     | 2,426     | 3,492     | 4,663    |
| Others  | 1,272    | 2,733     | 2,733     | 2,733     | 2,733    |
| <b>Current liabilities</b>                            | 15,374   | 23,185    | 29,557    | 36,761    | 45,189   |
| Accounts payables                                     | 9,055    | 11,544    | 17,187    | 21,007    | 25,606   |
| Other payables and accruals                           | 3,028    | 5,763     | 5,746     | 7,024     | 8,561    |
| Advances from customers                               | 1,530    | 3,290     | 4,036     | 6,143     | 8,435    |
| 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) | (128,523) | (119,241) | (93,108) |
| <b>Shareholders' equity</b>                           | (55,729) | (160,050) | (128,523) | (119,241) | (93,108) |

### Key ratios

| YE 31 Dec                 | FY19A  | FY20A   | FY21E  | FY22E  | FY23E  |
|---------------------------|--------|---------|--------|--------|--------|
| <b>Sales mix (%)</b>      |        |         |        |        |        |
| Live streaming            | 80.4   | 56.5    | 38.2   | 27.6   | 21.6   |
| Online marketing services | 19.0   | 37.2    | 51.0   | 60.1   | 65.0   |
| Other services            | 0.7    | 6.3     | 10.8   | 12.4   | 13.4   |
| <b>Total</b>              | 100.0  | 100.0   | 100.0  | 100.0  | 100.0  |
| <b>Growth rate (%)</b>    |        |         |        |        |        |
| Revenue                   | 92.7   | 50.2    | 45.8   | 43.9   | 33.5   |
| Gross profit              | 143.1  | 68.9    | 60.5   | 70.9   | 43.9   |
| EBIT                      | NA     | NA      | NA     | NA     | 454.3  |
| Adj. net profit           | 404.7  | NA      | NA     | NA     | 181.5  |
| <b>P&amp;L ratios (%)</b> |        |         |        |        |        |
| Operating margin          | 1.8    | (17.6)  | (14.0) | 3.3    | 13.6   |
| Pre-tax margin            | (49.2) | (199.4) | (13.8) | 3.6    | 14.0   |
| Adj. net margin           | 2.6    | (13.5)  | (8.7)  | 7.5    | 15.9   |
| Effective tax rate        | 2.0    | (0.5)   | (0.5)  | (16.4) | (15.0) |
| <b>Returns (%)</b>        |        |         |        |        |        |
| ROA                       | 3.2    | (15.2)  | (8.3)  | 8.7    | 18.5   |

Source: Company data, CMBIS estimates

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|                  |   |
|------------------|---|
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|                       |   |
|-----------------------|---|
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## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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