

Kuaishou (1024 HK)

Shelf-based ecommerce outperformed in 618

During the 618 promotion of 2024, Kuaishou emphasized more on good products at low price, with simpler approach and extended period. Pan shelf-based ecommerce performed well, with orders/paying users +65%/57% YoY. We estimate its GMV share from pan shelf-based ecommerce to be >25%, and 2Q24E ecommerce growth would be intact (forecasting GMV/other services revenue +25%/24% YoY). Despite mixed third party industrial data, we are positive on Kuaishou's share gain in 618, and expect ecommerce upside from rising MAC and shelf-based mall penetration. On top of that, we are confident on KS's earnings upside, with continuous margin improvement. Maintain BUY with unchanged TP at HK\$97.

■ **Solid growth in 618, despite mixed industrial data.** Kuaishou released its 618 promotions performance, with pan shelf-based ecommerce orders/paying users +65%/57% YoY, search payment orders/users +55%/58% YoY, and SFV-based GMV +66% YoY during 618 (20 May- 18 Jun). Meanwhile, active merchants grew 26% YoY, in which SME merchants +28% YoY. By category, consumer electronics & furniture GMV surged over 83% YoY, in which brand pan shelf-based GMV increased by over 177% YoY. Mobile phone segment increased by over 129% YoY. During 618, Kuaishou emphasized more on good products at low price, with simpler approach and extended period. However, third party data from Syntun and Analysys suggested mixed industrial GMV trend during 618. According to Syntun data, livestreaming ecommerce GMV slowed down to 12% YoY (vs. 28% in 2023), while industry GMV -7% YoY (vs. +15% in 2023). Kuaishou GMV was estimated at +16% YoY (vs. Douyin +26%; key platforms +14% on average), based on Analysys data. We view such moderate momentum was mainly due to discount & subsidies normalization in daily operation. We are positive on Kuaishou's ecommerce performance in 2Q24E (forecasting GMV/other services revenue +25%/24% YoY), backed by rich offerings, rising MAC and shelf-based mall penetration.

■ **AIGC on good progress, with video generation model "Kling" launched.** Kuaishou unveiled its self-developed video generation model, Kling, in Jun. Utilizing DiT, Kling can generate complex spatiotemporal motions and simulate the characteristics of the physical world, and transform text prompts into high-quality AI videos of up to two minutes. It is available for beta testing within "KuaiYing (快影)".

■ **Maintain BUY.** We keep our financials forecast unchanged, with SOTP-based TP at HK\$97. Upcoming quarterly results would be the short-term catalysts, and we are bullish on its margin upside ahead.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	94,183	113,470	125,544	141,964	159,050
YoY growth (%)	16.2	20.5	10.6	13.1	12.0
Adjusted net profit (RMB mn)	(5,751.4)	10,271.0	17,246.6	24,433.8	32,108.6
Diluted EPS (RMB)	(1.35)	2.31	3.74	5.20	6.71
YoY growth (%)	NA	NA	61.8	39.0	28.9
Consensus EPS (RMB)	NA	NA	3.76	5.19	6.63
P/S (x)	2.1	1.8	1.6	1.4	1.3
P/E (x)	NA	19.3	11.7	8.4	6.5
ROE (%)	(32.2)	14.4	21.0	23.8	26.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$97.00
Up/Downside 96.6%
Current Price HK\$49.35

China Entertainment

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Stock Data

Mkt Cap (HK\$ mn)	215,610.2
Avg 3 mths t/o (HK\$ mn)	1,649.5
52w High/Low (HK\$)	69.15/39.10
Total Issued Shares (mn)	4369.0

Source: FactSet

Shareholding Structure

Tencent Holdings	18.8%
Morningside Venture Capital	15.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.3%	-7.5%
3-mth	-3.7%	-9.9%
6-mth	-8.6%	-15.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	81,082	94,183	113,470	125,544	141,964	159,050
Cost of goods sold	(47,052)	(52,051)	(56,079)	(57,446)	(62,816)	(67,309)
Gross profit	34,030	42,131	57,391	68,099	79,148	91,742
Operating expenses	(61,731)	(54,689)	(50,960)	(53,499)	(57,377)	(58,646)
Selling expense	(44,176)	(37,121)	(36,496)	(37,809)	(41,174)	(42,200)
Admin expense	(3,400)	(3,921)	(3,514)	(3,601)	(3,770)	(3,917)
R&D expense	(14,956)	(13,784)	(12,338)	(12,589)	(12,933)	(13,089)
Operating profit	(27,701)	(12,558)	6,431	14,600	21,771	33,095
Other income	1,027	1,547	978	500	500	560
Gain/loss on financial assets at FVTPL	(225)	(1,410)	410	0	0	0
Income tax	1,025	(1,158)	(490)	(2,782)	(3,933)	(5,666)
Net profit	(78,074)	(13,689)	6,399	11,967	18,085	27,783
Adjusted net profit	(18,852)	(5,751)	10,271	17,247	24,434	32,109

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	53,011	45,859	60,361	73,221	95,002	125,571
Cash & equivalents	32,612	13,274	12,905	26,095	46,495	75,724
Restricted cash	2	59	128	128	128	128
Account receivables	4,450	6,288	6,288	6,957	7,867	8,814
Prepayment	3,278	4,106	4,919	5,039	5,510	5,904
ST bank deposits	3,825	8,318	9,874	9,874	9,874	9,874
Financial assets at FVTPL	8,842	13,087	25,128	25,128	25,128	25,128
Non-current assets	39,505	43,449	45,935	56,434	61,305	66,607
PP&E	11,051	13,215	12,356	14,834	19,998	27,744
Right-of-use assets	12,562	10,806	10,399	18,704	18,461	16,067
Intangibles	1,172	1,123	1,073	1,413	1,489	1,565
Financial assets at FVTPL	3,301	3,626	5,245	5,245	5,245	5,245
Other non-current assets	11,420	14,680	16,862	16,239	16,112	15,986
Total assets	92,515	89,307	106,296	129,656	156,307	192,178
Current liabilities	37,256	40,710	48,778	50,108	54,474	58,237
Account payables	20,021	22,868	23,601	24,176	26,436	28,327
Tax payable	1,080	936	1,222	1,222	1,222	1,222
Other current liabilities	12,626	13,430	20,628	21,382	23,489	25,361
Lease liabilities	3,529	3,475	3,327	3,327	3,327	3,327
Non-current liabilities	10,164	8,760	8,444	8,444	8,444	8,444
Convertible bonds	0	0	0	0	0	0
Deferred income	28	23	18	18	18	18
Other non-current liabilities	10,135	8,737	8,426	8,426	8,426	8,426
Total liabilities	47,419	49,470	57,222	58,552	62,918	66,681
Capital surplus	274,408	274,473	273,459	273,459	273,459	273,459
Retained earnings	(250,172)	(263,883)	(257,491)	(245,524)	(227,440)	(199,657)
Other reserves	20,854	29,239	33,183	36,983	41,183	45,509
Total shareholders equity	45,096	39,838	49,074	64,929	87,214	119,322
Minority interest	7	8	11	11	11	11
Total equity and liabilities	92,515	89,307	106,296	123,480	150,132	186,003

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(79,102)	(12,531)	6,889	14,749	22,017	33,449
Depreciation & amortization	6,885	6,306	7,162	7,559	8,240	8,688
Tax paid	1,025	(1,158)	(490)	(2,782)	(3,933)	(5,666)
Change in working capital	2,444	(2,631)	4,141	541	2,986	2,422
Others	62,204	7,407	4,060	6,582	8,133	9,992
Net cash from operations	(6,544)	(2,607)	21,762	26,648	37,443	48,885
Investing						
Capital expenditure	(5,789)	(9,181)	(11,210)	(10,802)	(13,237)	(14,116)
Acquisition of subsidiaries/ investments	(859)	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(11,713)	(8,847)	(8,655)	47	47	47
Net cash from investing	(18,361)	(18,028)	(19,865)	(10,755)	(13,189)	(14,069)
Financing						
Net borrowings	56	0	0	0	0	0
Proceeds from share issues	39,386	0	0	0	0	0
Net cash from financing	36,500	(2,599)	(1,364)	0	0	0
Net change in cash						
Cash at the beginning of the year	12,620	(19,832)	(448)	13,111	20,321	29,150
Exchange difference	(399)	494	79	79	79	79
Cash at the end of the year	32,612	13,274	12,905	26,095	46,495	75,724
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	37.9%	16.2%	20.5%	10.6%	13.1%	12.0%
Gross profit	42.9%	23.8%	36.2%	18.7%	16.2%	15.9%
Operating profit	na	na	na	127.0%	49.1%	52.0%
Net profit	na	na	na	87.0%	51.1%	53.6%
Adj. net profit	na	na	na	67.9%	41.7%	31.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	42.0%	44.7%	50.6%	54.2%	55.8%	57.7%
Operating margin	(34.2%)	(13.3%)	5.7%	11.6%	15.3%	20.8%
Adj. net profit margin	(23.3%)	(6.1%)	9.1%	13.7%	17.2%	20.2%
Return on equity (ROE)	na	(32.2%)	14.4%	21.0%	23.8%	26.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)
Current ratio (x)	1.4	1.1	1.2	1.5	1.7	2.2
Receivable turnover days	15.5	20.8	20.2	19.3	19.1	19.1
Payable turnover days	122.4	150.4	151.2	151.8	147.0	148.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	na	na	19.3	11.7	8.4	6.5
P/E (diluted)	na	na	19.9	12.3	8.8	6.8

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

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