

Kuaishou (1024 HK)

Accelerating AI development to drive long-term growth

Kuaishou announced 4Q24 results: total revenue was up by 9% YoY to RMB35.4bn, and adjusted net profit grew by 8% YoY to RMB4.7bn, both in line with our/consensus estimates. FY24 total revenue/adjusted net income increased by 12/72% YoY respectively. For FY25E, we forecast total revenue to grow by 12% YoY with a largely stable adjusted net margin, as the favourable revenue mix shift and efficiency gains will be largely offset by the increase in AI-related investment. We believe AI will start to generate meaningful revenue and empower existing businesses in FY25E. We lower our FY25-26E earnings forecast to RMB20.1/23.7bn (previous: 22.4/27.9bn) in view of the increased AI investment. We lower our SOTP-derived TP to HK\$80.0 (previous: HK\$85.6). Maintain BUY.

- **Core commercial businesses maintained solid growth.** By segment: 1) Online marketing revenue grew by 13% YoY to RMB20.6bn in 4Q24, mainly driven by a high single-digit YoY growth of eCPM. External marketing services continued to outpace closed-loop marketing services growth, with short-play marketing spending up by over three-fold YoY in 4Q24. Closed-loop marketing revenue growth was relatively slow as Kuaishou offered more user traffic support to merchants, which impacted monetization rate. 2) Other services revenue increased by 14% YoY to RMB4.9bn in 4Q24. E-commerce GMV rose by 14% YoY to RMB462.1bn (3Q24/2Q24: +15%/15% YoY), with e-commerce MPUs up by 10% YoY to 143mn and accounting for 19.5% of total MAUs in 4Q24 (4Q23:18.6%). 3) Live streaming revenue declined by 2% YoY to RMB9.8bn in 4Q24, with the YoY decline rate further narrowing versus 3Q24.
- **Leverage AI to capture new growth opportunities.** Kling AI's user base has grown at an accelerated pace, supported by the Kling 1.6 model upgrade. As of Feb 2025, Kling AI has generated cumulative revenue of over RMB100mn since its monetization in 4Q24. We expect Kling AI to generate c.RMB450mn revenue in FY25E. The AIGC capabilities have also enhanced production efficiency of online marketing services. Advertisers' average daily spending on AIGC marketing materials surpassed RMB30mn in 4Q24. For 1Q25E, we forecast total revenue to grow by 10% YoY, with online marketing/others/live streaming revenue up by 8/14/12% YoY. We expect e-commerce GMV to increase by 15% YoY in 1Q25E.
- **Stepping up AI investment.** Adjusted NPM was largely flat YoY at 13.3% in 4Q24, as the improved GPM was offset by increase in S&M expenses. Looking ahead in FY25E, Kuaishou plans to step up AI investment, which will impact the adjusted net margin by 1-2ppt per management; but we still expect adjusted net margin to remain stable at 14% in FY25E, as the favourable revenue mix shift and enhanced S&M efficiency shall largely offset the stepped-up AI investment.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	113,470	126,898	141,738	153,460	164,048
Adjusted net profit (RMB mn)	10,271.0	17,716.0	20,114.6	23,702.3	26,424.9
EPS (Adjusted) (RMB)	2.38	4.12	4.67	5.51	6.14
Consensus EPS (RMB)	2.38	4.12	4.91	5.77	6.43
P/S (x)	2.0	1.8	1.6	1.5	1.4
P/E (x)	35.3	14.8	12.8	10.7	9.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$80.00**
 (Previous TP) **HK\$85.60**
Up/Downside **40.8%**
Current Price **HK\$56.80**

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Stock Data

Mkt Cap (HK\$ mn)	244,524.0
Avg 3 mths t/o (HK\$ mn)	3,294.7
52w High/Low (HK\$)	66.35/38.15
Total Issued Shares (mn)	4305.0

Source: FactSet

Shareholding Structure

Tencent	15.6%
Su Hua	9.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.5%	5.1%
3-mth	31.9%	13.6%
6-mth	27.9%	4.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Kuaishou: forecast revision

(RMB mn)	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	141,738	153,460	164,048	142,209	154,855	NA	-0.3%	-0.9%	NA
Gross profit	78,909	87,444	95,649	79,223	88,859	NA	-0.4%	-1.6%	NA
Operating profit	19,549	23,943	28,283	21,060	28,220	NA	-7.2%	-15.2%	NA
Adjusted net profit	20,115	23,702	26,425	22,394	27,930	NA	-10.2%	-15.1%	NA
Adjusted EPS (RMB)	4.7	5.5	6.1	5.2	6.5	NA	-10.1%	-15.3%	NA
Gross margin	55.7%	57.0%	58.3%	55.7%	57.4%	NA	0.0 ppt	-0.4 ppt	NA
Operating margin	13.8%	15.6%	17.2%	14.8%	18.2%	NA	-1.0 ppt	-2.6 ppt	NA
Adjusted net margin	14.2%	15.4%	16.1%	15.7%	18.0%	NA	-1.5 ppt	-2.6 ppt	NA

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(RMB mn)	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	141,738	153,460	164,048	140,610	153,945	165,102	0.8%	-0.3%	-0.6%
Gross profit	78,909	87,444	95,649	78,893	88,046	97,097	0.0%	-0.7%	-1.5%
Operating profit	19,549	23,943	28,283	20,431	26,001	28,704	-4.3%	-7.9%	-1.5%
Adjusted net profit	20,115	23,702	26,425	21,733	26,408	30,121	-7.4%	-10.2%	-12.3%
Adjusted EPS (RMB)	4.7	5.5	6.1	4.9	5.8	6.4	-4.8%	-4.5%	-4.5%
Gross margin	55.7%	57.0%	58.3%	56.1%	57.2%	58.8%	-0.4 ppt	-0.2 ppt	-0.5 ppt
Operating margin	13.8%	15.6%	17.2%	14.5%	16.9%	17.4%	-0.7 ppt	-1.3 ppt	-0.1 ppt
Adjusted net margin	14.2%	15.4%	16.1%	15.5%	17.2%	18.2%	-1.3 ppt	-1.7 ppt	-2.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Kuaishou: quarterly financials

(RMB mn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	Cons.	Diff%
Live streaming revenue	9,319	9,968	9,719	10,048	8,575	9,302	9,338	9,846	9,660	1.9%
yoy%	18.8%	16.4%	8.6%	0.1%	-8.0%	-6.7%	-3.9%	-2.0%		
Online marketing services	13,064	14,347	14,690	18,203	16,650	17,515	17,634	20,620	20,967	-1.7%
yoy%	15.1%	30.4%	26.8%	20.6%	27.4%	22.1%	20.0%	13.3%		
Other services revenue	2,834	3,429	3,539	4,310	4,183	4,158	4,159	4,918	5,110	-3.7%
yoy%	51.3%	61.5%	36.5%	36.2%	47.6%	21.3%	17.5%	14.1%		
Total revenue	25,217	27,744	27,948	32,561	29,408	30,975	31,131	35,384	35,726	-1.0%
yoy%	19.7%	27.9%	20.8%	15.1%	16.6%	11.6%	11.4%	8.7%		
Average DAUs	374	376	387	383	394	395	408	401		
yoy%	8.3%	8.3%	6.4%	4.5%	5.2%	5.1%	5.4%	4.8%		
Gross profit margin (%)	46.4%	50.2%	51.7%	53.1%	54.8%	55.3%	54.3%	54.0%	54.3%	-0.2 ppt
S&M expense ratio (%)	34.6%	31.1%	32.0%	31.3%	31.9%	32.4%	33.3%	32.0%		
R&D expense ratio (%)	11.6%	11.4%	10.6%	10.1%	9.7%	9.1%	10.0%	9.8%		
Adjusted net margin (%)	0.2%	9.7%	11.4%	13.4%	14.9%	15.1%	12.7%	13.3%		
Adjusted net income	42	2,694	3,173	4,362	4,388	4,679	3,948	4,701	4,694	0.2%

Source: Company data, Bloomberg, CMBIGM

Our SOTP-derived target price of HK\$80.0 comprises, per share:

1) HK\$9.6 for the live streaming business, based on 1.0x 2025E EV/Sales, which is a premium over the average EV/Sales for its peers (0.8x EV/sales), mainly due to the more resilient growth outlook of Kuaishou's live streaming business.

2) HK\$23.2 for the online marketing business (excl. closed loop marketing), based on 14x 2025E EV/EBIT, which is on par with the average EV/EBIT for its peers.

3) HK\$39.2 for the e-commerce business, based on 0.10x 2025E EV/GMV. The target multiple is a discount to the average EV/GMV for its peers (0.16x 2025E EV/GMV), given the relatively low monetization level of Kuaishou's e-commerce business.

4) HK\$8.1 for net cash.

Figure 4: Kuaishou: SOTP valuation

(RMBmn)	25E Rev/EBIT/GMV	Methodology	Multiple	Valuation	As % of total valuation	Per share valuation (HK\$)
Live streaming	38,265	EV/Sales	1.0x	38,265	12%	9.6
Advertising (excl. enclosed loop marketing)	6,617	EV/EBIT	14.0x	92,642	29%	23.2
E-commerce	1,569,418	EV/GMV	0.10x	156,942	49%	39.2
Enterprise Value				287,849	90%	71.9
Net cash				32,266	10%	8.1
Equity Value				320,114		
Exchange rate (RMB/HK\$)				0.93		
Target Value (HK\$mn)				344,209		
Target Price (HK\$)				80.00		

Source: Company data, CMBIGM estimates

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

Companies	Ticker	Price (LC)	FY25E	FY26E	FY25E	FY26E
Live streaming			Revenue growth (YoY%)		EV/Sales	
Bilibili	BILI US	19.9	14	10	1.6	1.5
Hello Group	MOMO US	6.6	(3)	3	0.8	0.8
Huya	HUYA US	3.4	2	5	0.1	0.1
Average					0.8	0.8
Advertising			EBIT growth (YoY%)		EV/EBIT	
Baidu	BIDU US	95.9	(1)	19	3	3
Focus Media	002027 CH	7.1	9	10	15	14
Meta	META US	618.9	13	16	21	18
Alphabet	GOOG US	169.9	15	10	15	14
Average					14	12
E-commerce			GMV Growth (YoY%)		EV/GMV	
Alibaba	BABA US	134.5	6	4	0.22	0.21
JD.com	JD US	42.6	6	5	0.09	0.09
Pinduoduo	PDD US	128.1	15	10	0.16	0.15
Average					0.16	0.15

Source: Bloomberg, CMBIGM

Note: Data as of market close on 24 Mar

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	94,183	113,470	126,898	141,738	153,460	164,048
Cost of goods sold	52,051	56,079	57,606	62,829	66,016	68,399
Gross profit	42,131	57,391	69,292	78,909	87,444	95,649
Operating expenses	54,689	50,960	54,005	59,360	63,502	67,366
Selling expense	37,121	36,496	41,105	43,514	46,038	48,394
Admin expense	3,921	3,514	2,916	3,260	3,530	3,584
R&D expense	13,784	12,338	12,199	14,316	15,346	16,077
Others	137	1,388	2,215	1,729	1,412	689
Operating profit	(12,558)	6,431	15,287	19,549	23,943	28,283
Net Interest income/(expense)	166	539	236	190	323	42
Others	0	0	0	0	0	0
Pre-tax profit	(12,392)	6,970	15,523	19,740	24,265	28,325
Income tax	1,158	490	150	1,974	2,912	4,249
After tax profit	(13,551)	6,480	15,373	17,766	21,353	24,076
Net profit	(13,551)	6,480	15,373	17,766	21,353	24,076
Adjusted net profit	(5,751)	10,271	17,716	20,115	23,702	26,425

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	45,859	60,361	62,869	87,071	99,310	125,584
Cash & equivalents	13,274	12,905	12,697	32,266	41,731	63,943
Restricted cash	59	128	47	47	47	47
Account receivables	6,288	6,457	6,674	7,993	8,405	9,124
Prepayment	4,832	4,919	4,646	6,038	6,155	6,879
ST bank deposits	8,318	9,874	11,522	13,445	15,689	18,308
Financial assets at FVTPL	13,087	26,078	27,283	27,283	27,283	27,283
Non-current assets	43,449	45,935	77,004	84,092	92,771	103,295
PP&E	13,215	12,356	14,831	17,380	20,091	22,903
Right-of-use assets	10,806	10,399	8,891	8,476	8,356	8,428
Deferred income tax	5,095	6,108	6,604	6,604	6,604	6,604
Investment in JVs & assos	268	214	166	166	166	166
Intangibles	1,123	1,073	1,059	1,049	932	816
Financial assets at FVTPL	3,626	5,245	24,430	24,430	24,430	24,430
Other non-current assets	9,316	10,540	21,023	25,987	32,192	39,948
Total assets	89,307	106,296	139,873	171,163	192,081	228,879
Current liabilities	40,710	48,778	59,828	71,086	68,337	78,634
Account payables	22,868	23,601	27,470	32,777	30,526	36,187
Tax payable	936	1,222	873	975	1,056	1,129
Other current liabilities	13,430	20,628	27,809	33,772	33,220	37,747
Lease liabilities	3,475	3,327	3,676	3,561	3,535	3,572
Non-current liabilities	8,760	8,444	18,021	17,939	17,903	17,980
Long-term borrowings	0	0	11,100	11,100	11,100	11,100
Obligations under finance leases	8,721	8,405	6,765	6,554	6,506	6,573
Other non-current liabilities	39	39	11,256	11,385	11,396	11,407
Total liabilities	49,470	57,222	77,849	89,024	86,240	96,613
Share capital	0	0	0	0	0	0
Retained earnings	(263,883)	(257,491)	(242,164)	(224,398)	(203,045)	(178,969)
Other reserves	303,712	306,554	304,168	306,517	308,866	311,215
Total shareholders equity	39,830	49,063	62,004	82,119	105,821	132,246
Minority interest	8	11	20	20	20	20
Total equity and liabilities	89,307	106,296	139,873	171,163	192,081	228,879

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(12,392)	6,970	15,523	19,740	24,265	28,325
Depreciation & amortization	6,573	7,202	7,140	7,189	7,502	7,895
Tax paid	(990)	(1,223)	(8)	(1,743)	(2,819)	(4,165)
Change in working capital	1,234	4,859	4,812	8,560	(3,333)	8,745
Others	7,773	2,973	2,320	2,349	2,349	2,349
Net cash from operations	2,198	20,781	29,787	36,095	27,963	43,147
Investing						
Capital expenditure	(50,079)	(66,680)	(25,814)	(7,187)	(7,673)	(8,202)
Acquisition of subsidiaries/ investments	0	0	(1,205)	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	32,531	46,815	(9,658)	(6,887)	(8,449)	(10,375)
Net cash from investing	(17,548)	(19,865)	(36,677)	(14,074)	(16,122)	(18,577)
Financing						
Net borrowings	0	11,259	9,469	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(4,482)	(1,364)	6,714	(2,452)	(2,375)	(2,358)
Net cash from financing	(4,482)	(1,364)	6,714	(2,452)	(2,375)	(2,358)
Net change in cash						
Cash at the beginning of the year	32,612	13,274	12,905	12,697	32,266	41,731
Exchange difference	494	79	(32)	0	0	0
Cash at the end of the year	13,274	12,905	12,697	32,266	41,731	63,943
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	16.2%	20.5%	11.8%	11.7%	8.3%	6.9%
Gross profit	23.8%	36.2%	20.7%	13.9%	10.8%	9.4%
Operating profit	na	na	137.7%	27.9%	22.5%	18.1%
Net profit	na	na	137.2%	15.6%	20.2%	12.7%
Adj. net profit	na	na	72.5%	13.5%	17.8%	11.5%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	44.7%	50.6%	54.6%	55.7%	57.0%	58.3%
Operating margin	(13.3%)	5.7%	12.0%	13.8%	15.6%	17.2%
Adj. net profit margin	(6.1%)	9.1%	14.0%	14.2%	15.4%	16.1%
Return on equity (ROE)	(31.9%)	14.6%	27.7%	24.7%	22.7%	20.2%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.3)	(0.0)	(0.3)	(0.3)	(0.4)
Current ratio (x)	1.1	1.2	1.1	1.2	1.5	1.6
Receivable turnover days	24.4	20.8	19.2	20.6	20.0	20.3
Payable turnover days	160.4	153.6	174.1	190.4	168.8	193.1
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	35.3	14.8	12.8	10.7	9.5
P/E (diluted)	ns	35.3	14.8	12.8	10.7	9.5
P/B	5.7	4.7	3.7	2.8	2.2	1.7

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

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