

Kuaishou (1024 HK)

Better margin outlook with strong ecommerce

Kuaishou's 2Q23 results beat on already-high expectation, with stronger topline (+28% YoY, 2% above consensus) and bottom line (RMB2.7bn, 88% above consensus). Looking into 3Q23E, we expect KS to deliver resilient ads and ecommerce, with decent profitability. Despite challenging macro and competition, we are confident on KS's ecommerce share gain, with GMV/rev +30%/36% YoY in 3Q23E. Shelf-based mall and upgraded ecosystem would bring more upside. We forecast ads +25% YoY in 3Q23E, in which external ads to accelerate. Livestreaming might slow down to +5%/0% YoY in 3Q23/4Q23E, but posing limited impact in valuation. We are more bullish on its margin expansion, with higher GPM and ROI-driven S&M. We trimmed its topline by 0.3%-0.8%, but lifted adj. NPM forecast by 2.1-2.9% in FY23-25E, with unchanged TP at HK\$97.

- **2Q23 beat on already-high expectation.** As stated in our preview report, KS delivered upbeat 2Q23 results, with rev up 28% YoY (2% above consensus), and adj. net profit at RMB2.7bn (88% above consensus, adj. NPM at 10%). Topline beat on eye-catching ecommerce (other services rev/GMV +61%/39% YoY) and ads (+30% YoY), while margin surprised on higher GPM (50%, +5ppts YoY) and narrower overseas loss. 2Q23 DAU climbed up to 376mn (+8% YoY, 2% above consensus), while daily time spent stable at 117mins, with lower TAC.
- **Solid ecommerce & ads growth in 3Q23E.** Despite challenging industrial online sales data in Jul, we keep confident on KS's ecommerce share gain in 3Q23E (forecasting GMV/rev +30%/36% YoY), backed by its rich offerings, system upgrade and higher merchants ROI. Shelf-based mall promotion would be step-by-step in 2H23E (~10% GMV), with enhancing mechanism and supply. We think KS's ads would be relatively resilient in 2H23E (forecasting +25% YoY), boosted by: 1) strong ecommerce ads; and 2) acceleration of external ads (e.g. finance, auto, online services). In the long run, there is still upside for its ads load and eCPM, in our view. Given self-inspection from Jun, livestreaming would slow down to +5%/0% YoY in 3Q23/4Q23E (vs. previous guidance of HSD growth).
- **Better margin outlook ahead.** We expect 3Q23E adj. NP at RMB2.6bn, with higher GPM (forecasting 50%) and overseas market margin improvement. S&M expense would slightly decline YoY. As such, we lifted FY23E adj. NP to RMB7.4bn from RMB4.2bn, to reflect more disciplined cost.
- **Maintain BUY.** To factor in better margin outlook, we raised adj. NPM by 2.1-2.9% in FY23-25E. Our SOTP-based TP was unchanged, with higher ecommerce valuation (multiple unchanged) to offset soft livestreaming.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	81,082	94,183	111,959	127,322	143,471
YoY growth (%)	37.9	16.2	18.9	13.7	12.7
Adj. net income (RMB mn)	(18,852)	(5,751)	7,402	12,408	20,185
Adj. EPS (RMB)	(4.7)	(1.3)	1.6	2.7	4.3
YoY growth (%)	NA	NA	NA	68	63
Consensus EPS (RMB)	NA	NA	1.1	2.9	4.9
P/E (x)	NA	NA	33	20	12
P/S (x)	3.0	2.6	2.2	1.9	1.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$97
(Previous TP	HK\$97)
Up/Downside	+55.2%
Current Price	HK\$62.5

China Entertainment Sector

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Stock Data

Mkt Cap (HK\$ mn)	263,084
Avg 3 mths t/o (HK\$ mn)	1,349.76
52w High/Low (HK\$)	80.85/31.75
Total Issued Shares (mn)	3,569
Source: Bloomberg	

Shareholding Structure

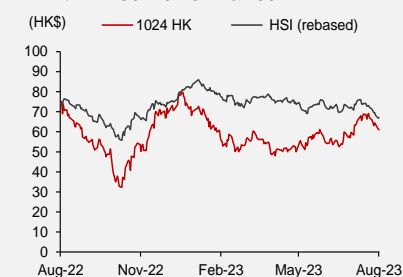
Tencent	19.1%
Morningside Venture Cap	15.8%
DCM LP	5.0%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	2.8%	11.3%
3-mth	22.8%	35.5%
6-mth	7.9%	25.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 2Q23 financial review

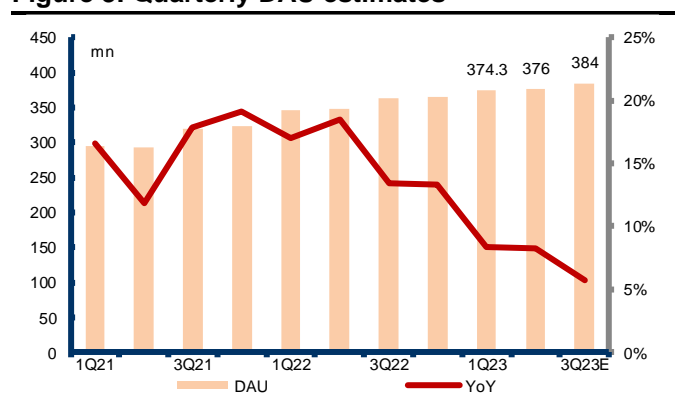
RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	17,019	19,139	20,493	24,430	21,067	21,695	23,128	28,292	25,217	27,744	10%	28%	27,289	2%	27,243	2%
Operating Profit	(7,292)	(7,215)	(7,404)	(5,790)	(5,643)	(3,059)	(2,612)	(1,243)	(698)	1,296	NA	NA	221	487%	626	107%
Net profit	(57,750)	(7,035)	(7,086)	(6,202)	(6,254)	(3,176)	(2,712)	(1,547)	(876)	1,481	NA	NA	180	723%	379	291%
Adj. net profit	(5,896)	(4,770)	(4,616)	(3,569)	(3,722)	(1,312)	(672)	(45)	42	2,694	NA	NA	1,434	88%	1,379	95%
Margin (%)																
Gross Margin	41.1%	43.8%	41.5%	41.5%	41.7%	45.0%	46.3%	45.5%	46.4%	50.2%			47.2%		47.5%	
Operating Margin	-42.8%	-37.7%	-36.1%	-23.7%	-26.8%	-14.1%	-11.3%	-4.4%	-2.8%	4.7%			0.8%		2.3%	
Adj. net margin	-34.6%	-24.9%	-22.5%	-14.6%	-17.7%	-6.0%	-2.9%	-0.2%	0.2%	9.7%			5.3%		5.1%	
Growth (%)																
Revenue (YoY)	36.6%	48.8%	33.4%	35.0%	23.8%	13.4%	12.9%	15.8%	19.7%	27.9%			25.8%		25.6%	
Revenue (QoQ)	-6.0%	12.5%	7.1%	19.2%	-13.8%	3.0%	6.6%	22.3%	-10.9%	10.0%			8.2%		8.0%	
Operating Profit	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 2Q23 revenue breakdown

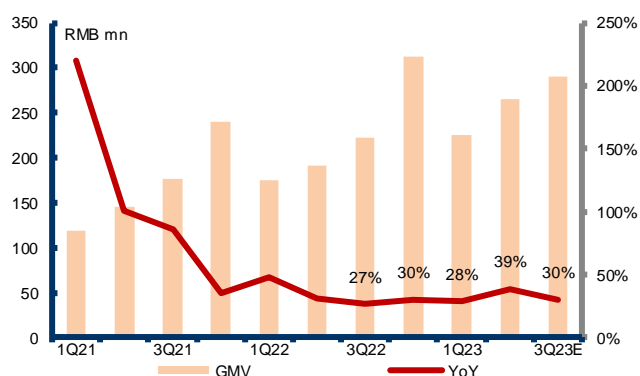
RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY
Total revenue	17,019	19,139	20,493	24,430	21,067	21,695	23,128	28,292	25,217	27,744	10%	28%
Online marketing services	8,558	9,962	10,909	13,236	11,351	11,006	11,590	15,094	13,064	14,347	10%	30%
Live streaming	7,250	7,193	7,724	8,827	7,842	8,565	8,947	10,034	9,319	9,968	7%	16%
Other services	1,211	1,983	1,860	2,367	1,873	2,124	2,592	3,164	2,834	3,429	21%	61%

Source: Company data

Figure 3: Quarterly DAU estimates

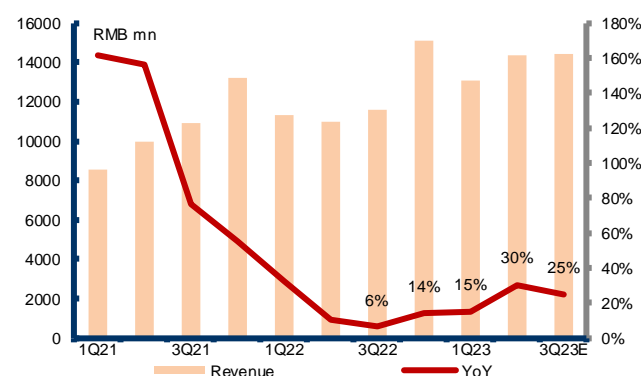
Source: Company data, CMBIGM estimates

Figure 4: Quarterly GMV estimates



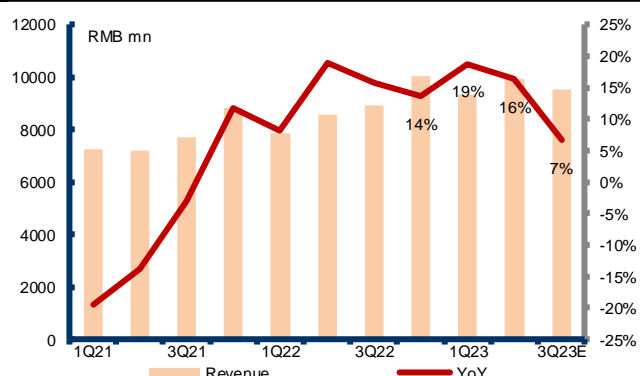
Source: Company data, CMBIGM estimates

Figure 5: Quarterly ads rev estimates



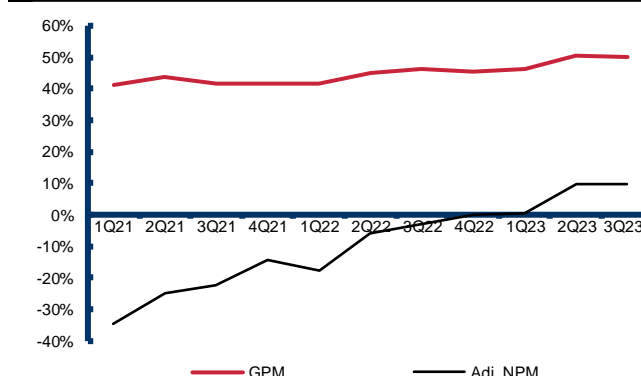
Source: Company data, CMBIGM estimates

Figure 6: Quarterly livestreaming rev estimates



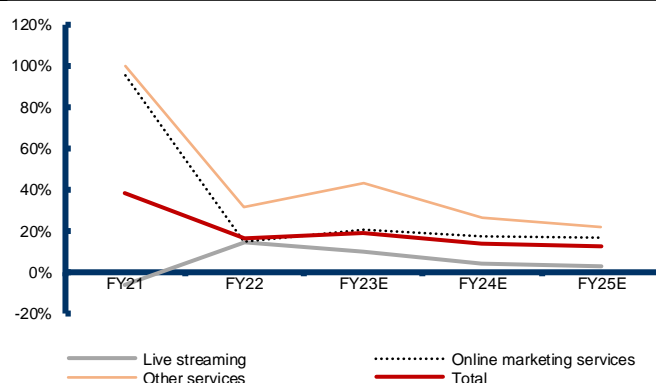
Source: Company data, CMBIGM estimates

Figure 7: Quarterly margin estimates



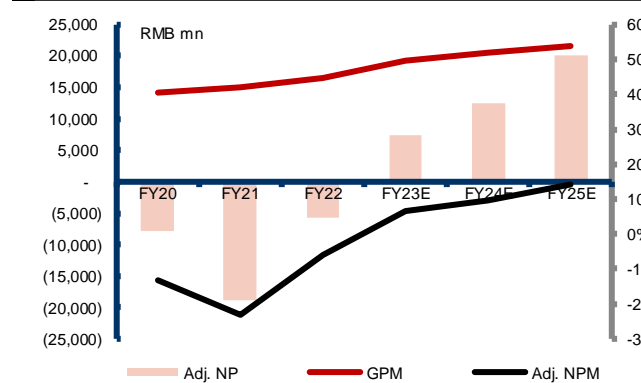
Source: Company data, CMBIGM estimates

Figure 8: Yearly revenue growth estimates



Source: Company data, CMBIGM estimates

Figure 9: Yearly margin estimates



Source: Company data, CMBIGM estimates

Maintain BUY with unchanged TP at HK\$97

We trimmed FY23-25E rev forecast by 0.3-0.8%, to factor in shrinking livestreaming, but lifted its adj. NPM by 2.1-2.9ppts in FY23-25E, mainly on better GPM and effective cost control in overseas biz. Our SOTP-based TP was unchanged at HK\$97, considering higher valuation of ecommerce (stronger GMV) to offset currency change and lower valuation of livestreaming (multiple assigned unchanged).

Figure 10: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	111,959	127,322	143,471	113,819	131,220	148,451	-1.6%	-3.0%	-3.4%
Gross Profit	55,740	66,346	77,481	53,412	64,951	77,425	4.4%	2.1%	0.1%
Operating Profit	1,585	7,807	15,872	(69)	7,899	15,860	NA	-1.2%	0.1%
Adj. net profit	7,402	12,408	20,185	4,768	11,932	20,153	55.2%	4.0%	0.2%
Adj. EPS (RMB)	1.63	2.68	4.27	1.1	2.9	4.9	41.6%	-7.9%	-12.0%
Gross Margin	49.8%	52.1%	54.0%	46.9%	49.5%	52.2%	+2.9ppts	+2.6ppts	+1.8ppts
Operating Margin	1.4%	6.1%	11.1%	-0.1%	6.0%	10.7%	+1.5ppts	+0.1ppts	+0.4ppts
Adj. net margin	6.6%	9.7%	14.1%	4.2%	9.1%	13.6%	+2.4ppts	+0.7ppts	+0.5ppts

Source: CMBIGM estimates, Bloomberg

Figure 11: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	111,959	127,322	143,471	112,326	128,336	144,335	-0.3%	-0.8%	-0.6%
Gross Profit	55,740	66,346	77,481	52,823	63,377	74,234	5.5%	4.7%	4.4%
Operating Profit	1,585	7,807	15,872	(1,810)	4,543	12,393	NA	71.8%	28.1%
Adj. net profit	7,402	12,408	20,185	4,176	9,634	17,228	77.2%	28.8%	17.2%
EPS (RMB)	1.63	2.68	4.27	0.92	2.08	3.6	77.2%	28.8%	17.2%
Gross Margin	49.8%	52.1%	54.0%	47.0%	49.4%	51.4%	+2.8ppts	+2.7ppts	+2.6ppts
Operating Margin	1.4%	6.1%	11.1%	-1.6%	3.5%	8.6%	+3.0ppts	+2.6ppts	+2.5ppts
Net Margin	6.6%	9.7%	14.1%	3.7%	7.5%	11.9%	+2.9ppts	+2.2ppts	+2.1ppts

Source: Company data, CMBIGM estimates

Figure 12: SOTP Valuation

Business (RMB mn)	'23E Rev or GMV	Methodology	Multiple	Valuation	Stakes	Value
Live streaming	38,845	EV/Sales	1.0x	38,845	100%	38,845
Advertising	59,161	EV/Sales	2.0x	118,322	100%	118,322
Ecommerce	1,207,550	P/GMV	0.16x	193,208	100%	193,208
Enterprise Value						350,375
(+) Net Cash						25,828
Equity Value						376,203
FX						0.9
Valuation (HK\$ mn)						422,701
TP (HK\$) based on SOTP						97

Source: CMBIGM estimates

Figure 13: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Kuaishou	1024 HK	33,493	HKD	61	BUY	97	33.0	20.4	12.1	2.2	1.9	1.7	65%
Game													
Tencent	700 HK	387,836	HKD	318	BUY	458	19.0	16.1	14.2	4.6	4.1	3.7	15%
NetEase	NTES US	64,753	USD	100	BUY	123	18.0	16.5	15.1	4.4	4.0	3.7	6%
XD Inc.	2400 HK	980	HKD	16	NA	NA	48.4	19.3	11.7	1.7	1.4	1.2	136%
Average							18.5	16.3	13.7	3.6	3.2	2.8	10%
Livestreaming & VAS													
Bilibili	BILI US	6,121	USD	15	BUY	27	NA	NA	49.8	1.9	1.6	1.4	NA
Momo	MOMO US	1,747	USD	9	HOLD	14	5.8	5.5	5.2	1.0	1.0	0.9	6%
YY	YY US	2,244	USD	32	BUY	46	15.8	13.4	11.0	1.0	0.9	0.9	21%
Huya	HUYA US	520	USD	2	BUY	6	NA	44.5	11.8	0.5	0.5	0.5	NA
Douyu	DOYU US	327	USD	1	NA	NA	36.5	31.7	24.4	0.4	0.4	0.4	36%
TME	TME US	11,155	USD	7	BUY	9	13.9	13.2	11.8	3.0	3.0	2.7	6%
Mango	300413 CH	7,438	CNY	29	NA	NA	22.8	19.3	16.8	3.4	3.0	2.8	17%
iQIYI	IQ US	4,973	USD	5	BUY	9	15.7	10.8	8.8	1.1	1.0	1.0	33%
Average							14.8	12.4	10.9	1.3	1.2	1.1	17%
Advertising													
Baidu	BIDU US	43,672	USD	125	BUY	195	13.0	11.8	10.3	2.3	2.1	1.9	6%
Weibo	WB US	3,037	USD	13	BUY	27	5.8	5.2	4.7	1.6	1.5	1.4	10%
Average							9.4	8.5	7.5	2.0	1.8	1.7	8%
Ecommerce													
Alibaba	BABA US	225,271	USD	89	BUY	157	9.8	9.2	8.4	1.7	1.6	1.4	12%
JD.com	JD US	58,673	USD	33	BUY	62	13.4	11.3	9.5	0.4	0.4	0.3	18%
Pinduoduo	PDD US	98,698	USD	78	BUY	109	15.6	12.2	9.8	4.0	3.2	2.7	22%
Vipshop	VIPS US	8,565	USD	16	NA	NA	7.6	7.3	7.0	0.6	0.5	0.5	4%
Average							11.6	10.0	8.7	0.9	0.8	0.7	14%
Global entertainment													
Meta Platforms	META US	745,959	USD	290	NA	NA	21.4	16.7	14.8	5.6	5.0	4.5	22%
Netflix	NFLX US	180,932	USD	408	NA	NA	33.6	26.0	20.8	5.4	4.7	4.3	27%
Snapchat	SNAP US	15,189	USD	9	NA	NA	NA	98.6	43.4	3.4	3.0	2.6	NA
Average							27.5	21.3	17.8	4.8	4.2	3.8	24%
Average							18.6	16.1	13.7	2.4	2.1	1.9	15%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	81,082	94,183	111,959	127,322	143,471
Live streaming	30,995	35,388	38,845	40,399	41,409
Online marketing services	42,665	49,042	59,161	69,296	80,614
Other services	7,421	9,753	13,953	17,627	21,448
COGS	(47,052)	(52,051)	(56,219)	(60,975)	(65,991)
Gross profit	34,030	42,131	55,740	66,346	77,481
S&M	(44,176)	(37,121)	(37,031)	(39,690)	(41,578)
Admin.Exp.	(3,400)	(3,921)	(4,168)	(4,576)	(4,797)
R&D	(14,956)	(13,784)	(13,556)	(14,773)	(15,733)
Other gains	801	137	600	500	500
Operating profit	(27,701)	(12,558)	1,585	7,807	15,872
Other income/(exp)	(51,314)	166	97	153	247
Pre-tax Income	(79,102)	(12,531)	1,670	7,957	16,119
Income Tax	1,025	(1,158)	(309)	(1,929)	(3,183)
Net profit	(78,077)	(13,689)	1,362	6,028	12,936
Adj. net profit	(18,852)	(5,751)	7,402	12,408	20,185

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	(78,077)	(13,689)	1,362	6,028	12,936
D&A	6,885	6,306	6,600	7,610	8,269
Change in WC	2,444	(2,631)	1,652	2,069	2,185
Others	63,229	12,203	4,500	4,900	5,100
Operating CF	(5,519)	2,189	14,114	20,607	28,490
Capex	(5,789)	(9,181)	(11,210)	(10,802)	(13,228)
Purchase of investments	-	-	-	-	-
Others	(12,572)	(8,367)	47	47	47
Investing CF	(18,361)	(17,548)	(11,163)	(10,755)	(13,180)
Equity raised	39,386	-	-	-	-
Change of Debts	-	-	-	-	-
Cash from CB raised	-	-	-	-	-
Others	(2,885)	(4,482)	-	-	-
Financing CF	36,500	(4,482)	-	-	-
Net change in cash	12,620	(19,841)	2,952	9,852	15,310
Cash (beg of yr)	20,392	32,612	13,274	16,720	27,067
FX	(399)	494	494	494	494
Cash (end of yr)	32,612	13,274	16,720	27,067	42,870

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	39,505	43,449	49,363	52,014	56,431
Property and equipment	11,051	13,215	12,026	15,194	20,384
Right-of-use assets	12,562	10,806	18,906	18,853	18,546
Intangible assets	1,172	1,123	1,336	1,413	1,489
Others	14,720	18,305	17,094	16,553	16,011
Current assets	53,011	45,859	50,094	61,841	79,119
Cash	32,612	13,274	16,720	27,067	42,870
Prepayments	3,278	4,106	4,435	4,810	5,206
Financial assets at fair value through profit or loss	8,842	13,087	13,087	13,087	13,087
Trade receivables	4,450	6,288	7,475	8,500	9,578
Others	3,828	9,103	8,377	8,377	8,377
Current liabilities	37,256	40,710	43,878	47,347	51,005
Accounts payables	20,021	22,868	24,699	26,789	28,993
Other payables and accruals	9,123	10,190	11,005	11,937	12,918
Advances from customers	3,503	3,240	3,761	4,210	4,683
Others	4,608	4,411	4,411	4,411	4,411
Non-current liabilities	10,108	8,744	8,744	8,744	8,760
Convertible redeemable preferred shares	-	-	-	-	-
Others	10,108	8,744	8,744	8,744	8,760
MI	-	-	-	-	-
Total Equity	45,096	39,838	45,699	56,628	74,664
Shareholders' equity	45,096	39,838	45,699	56,628	74,664

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Live streaming	38.2	37.6	34.7	31.7	28.9
Online marketing services	52.6	52.1	52.8	54.4	56.2
Other services	9.2	10.4	12.5	13.8	14.9
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	37.9	16.2	18.9	13.7	12.7
Gross profit	42.9	23.8	32.3	19.0	16.8
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	67.6	62.7
P&L ratios (%)					
Operating margin	(34.2)	(13.3)	1.4	6.1	11.1
Pre-tax margin	(97.6)	(13.3)	1.5	6.2	11.2
Adj. net margin	(23.3)	(6.1)	6.6	9.7	14.1
Effective tax rate	(1.3)	9.2	(18.5)	15.0	15.0
Returns (%)					
ROE	NA	NA	NA	24.3	30.7

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

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