

Kuaishou (1024 HK)

Stronger DAU and ecommerce ahead

We expect better-than-expected 2Q22 results ahead, with DAU/rev +18%/8% YoY (vs. prior +15%/8%), and bottom line at -RMB2.5bn (vs. consensus at -RMB3.1bn). DAU momentum and GMV would beat previous guidance, while others were on a good track. We forecast its GMV +25% YoY (high end), and are impressed by its Jul momentum (>30% YoY) and GMV further acceleration in early Jul. We forecast ads +7% YoY (in line), in which internal ecommerce ads & brand ads trend were healthy while external ads still declined YoY in Jun. We expect ads to achieve 18% YoY in 2H22E, with algorithm optimization and vertical recovery. We suggest to move beyond weakest 2Q22E, and look into ads & ecommerce rebound in 2H22E and domestic biz breakeven in 4Q22E. We keep our full-year financials unchanged, with SOTP-based TP at HK\$120. We reiterate our confidence in its resilient growth, share gain and narrowing loss in the long run.

- **2Q22E on a good track.** We expect 2Q22 rev +8% YoY (largely in line with previous guidance), attributable to stronger ecommerce (GMV +25% YoY). Non-GAAP net loss was estimated at RMB2.5bn (vs. consensus of -RMB3.1bn), with non-GAAP NPM improving QoQ at -12.2%.
- **Expecting stronger-than-expected DAU and ecommerce.** 2Q22E DAU performed well, expecting stable QoQ (+18% YoY, vs. prior +15%). We forecast its ecommerce GMV +25% YoY in 2Q22E (high end of guidance, outperforming peers), mainly driven by rising MPU. Ecommerce GMV decelerated from Apr, then improved YoY in May and achieved >30% YoY growth in Jun. We are impressed by its Jul momentum and GMV further acceleration in early Jul, supporting its 3Q22E recovery. Take rate would be at 1%, with resilient payment GMV/order GMV ratio. For ads segment, we forecast ads +7% YoY (in line), in which internal ecommerce ads & brand ads trend were healthy while external ads still declined YoY in Jun. We expect ads to achieve 18% YoY in 2H22E, with algorithm optimization and vertical recovery. Live streaming would see 11% YoY growth, given higher user engagement and rising MPU partly offset by regulatory adjustment. 2Q22E adj. NPM would improve QoQ, with better GPM and continuous opex control (S&M expenses decline QoQ).
- **Maintain BUY.** We keep our full-year financials unchanged, with SOTP-based TP at HK\$120.

Earnings Summary

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E | FY24E |
|--------------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 58,776 | 81,082 | 92,761 | 110,119 | 127,311 |
| YoY growth (%) | 50.2 | 37.9 | 14.4 | 18.7 | 15.6 |
| Adj. net income (RMB mn) | (7,864) | (18,852) | (9,504) | (4,207) | 3,085 |
| Adj. EPS (RMB) | (8.4) | (4.6) | (2.1) | (0.9) | 0.7 |
| YoY growth (%) | NA | NA | NA | NA | NA |
| Consensus EPS (RMB) | NA | NA | (2.9) | (0.5) | 1.8 |
| P/E (x) | NA | NA | NA | NA | NA |
| P/S (x) | 5.1 | 3.7 | 3.2 | 2.7 | 2.4 |
| 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, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$120**
 (Previous TP **HK\$120**)
 Up/Downside **+45.6%**
 Current Price **HK\$82.4**

China Internet Sector

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

Eason Xu
 (852) 3900 0849
 easonxu@cmbi.com.hk



Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (HK\$ mn) | 338,670 |
| Avg 3 mths t/o (HK\$ mn) | 2,388.49 |
| 52w High/Low (HK\$) | 150.3/53.15 |
| Total Issued Shares (mn) | 3,526 |
| Source: | Bloomberg |

Shareholding Structure

| | |
|------------|-----------|
| Tencent | 20.7% |
| 5Y Capital | 16.0% |
| DCM LP | 7.9% |
| Source: | Bloomberg |

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -3.0% | -1.9% |
| 3-mth | 26.8% | 30.9% |
| 6-mth | -5.6% | 9.2% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Moving into 2H22 recovery— 25 May 2022
2. Share gain continued, despite epidemic pressure – 13 May 2022
3. Expecting a solid start in FY22E – 30 Mar 2022

Figure 1: CMBI estimates vs consensus

| RMB mn, Dec-YE | CMBI | | | Consensus | | | Diff (%) | | |
|------------------|----------|----------|---------|-----------|---------|---------|----------|----------|----------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 92,761 | 110,119 | 127,311 | 95,131 | 116,204 | 136,112 | -2.5% | -5.2% | -6.5% |
| Gross profit | 38,876 | 49,630 | 61,872 | 41,597 | 55,343 | 68,770 | -6.5% | -10.3% | -10.0% |
| Operating profit | (19,015) | (13,842) | (5,675) | (17,927) | (8,183) | 1,381 | NA | NA | NA |
| Adj. net profit | (9,504) | (4,207) | 3,085 | (10,949) | (397) | 8,453 | NA | NA | -63.5% |
| Adj. EPS (RMB) | (2.13) | (0.92) | 0.67 | (2.9) | (0.5) | 1.8 | NA | NA | -63.1% |
| Gross margin | 41.9% | 45.1% | 48.6% | 43.7% | 47.6% | 50.5% | -1.8ppts | -2.6ppts | -1.9ppts |
| Operating margin | -20.5% | -12.6% | -4.5% | -18.8% | -7.0% | 1.0% | -1.7ppts | -5.5ppts | -5.5ppts |
| Adj. net margin | -10.2% | -3.8% | 2.4% | -11.5% | -0.3% | 6.2% | +1.3ppts | -3.5ppts | -3.8ppts |

Source: CMBIGM estimates, Bloomberg

Figure 2: Earnings revision

| RMB mn, Dec-YE | New | | | Old | | | Diff (%) | | |
|------------------|----------|----------|---------|----------|----------|---------|----------|----------|----------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 92,761 | 110,119 | 127,311 | 93,965 | 111,798 | 130,159 | -1.3% | -1.5% | -2.2% |
| Gross profit | 38,876 | 49,630 | 61,872 | 40,501 | 51,733 | 65,054 | -4.0% | -4.1% | -4.9% |
| Operating profit | (19,015) | (13,842) | (5,675) | (22,644) | (14,692) | (6,687) | NA | NA | NA |
| Adj. net profit | (9,504) | (4,207) | 3,085 | (12,507) | (4,823) | 2,382 | NA | NA | NA |
| Adj. EPS (RMB) | (2.13) | (0.92) | 0.67 | (2.8) | (1.1) | 0.5 | NA | NA | NA |
| Gross margin | 41.9% | 45.1% | 48.6% | 43.1% | 46.3% | 50.0% | -1.2ppts | -1.2ppts | -1.4ppts |
| Operating margin | -20.5% | -12.6% | -4.5% | -24.1% | -13.1% | -5.1% | +3.6ppts | +0.6ppts | +0.7ppts |
| Adj. net margin | -10.2% | -3.8% | 2.4% | -13.3% | -4.3% | 1.8% | +3.1ppts | +0.5ppts | +0.6ppts |

Source: CMBIGM estimates

Figure 3: 2Q22E financial preview

| RMB mn | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22E | QoQ | YoY | Consensus | Diff % |
|-------------------|----------|----------|----------|---------|---------|---------|---------|---------|-----|-----|-----------|--------|
| Revenue | 15,357 | 18,099 | 17,019 | 19,139 | 20,493 | 24,430 | 21,067 | 20,673 | -2% | 8% | 20,660 | 0% |
| Operating Profit | (1,377) | (1,378) | (7,292) | (7,215) | (7,404) | (5,790) | (5,643) | (4,921) | NA | NA | (4,894) | NA |
| Net profit | (29,280) | (19,264) | (57,750) | (7,035) | (7,086) | (6,202) | (6,254) | (4,374) | NA | NA | (5,111) | NA |
| Adj. net profit | (1,044) | (459) | (5,896) | (4,770) | (4,616) | (3,569) | (3,722) | (2,519) | NA | NA | (3,064) | NA |
| Margin (%) | | | | | | | | | | | | |
| Gross Margin | 43.1% | 47.0% | 41.1% | 43.8% | 41.5% | 41.5% | 41.7% | 41.8% | | | 42.5% | |
| Operating Margin | -9.0% | -7.6% | -42.8% | -37.7% | -36.1% | -23.7% | -26.8% | -23.8% | | | -23.7% | |
| Adj. net margin | -6.8% | -2.5% | -34.6% | -24.9% | -22.5% | -14.6% | -17.7% | -12.2% | | | -14.8% | |
| Growth (%) | | | | | | | | | | | | |
| Revenue (YoY) | 50.7% | 52.7% | 36.6% | 48.8% | 33.4% | 35.0% | 23.8% | 8.0% | | | 7.9% | |
| Revenue (QoQ) | 19.4% | 17.9% | -6.0% | 12.5% | 7.1% | 19.2% | -13.8% | -1.9% | | | -1.9% | |
| Operating Profit | NA | NA | NA | NA | NA | NA | NA | NA | | | NA | |
| Adj. net profit | NA | NA | NA | NA | NA | NA | NA | NA | | | NA | |

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 2Q22E revenue breakdown

| RMB mn | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22E | QoQ | YoY |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|-----------|
| Total revenue | 15,357 | 18,099 | 17,019 | 19,139 | 20,493 | 24,430 | 21,067 | 20,673 | -2% | 8% |
| Online marketing services | 6,181 | 8,511 | 8,558 | 9,962 | 10,909 | 13,236 | 11,351 | 10,682 | -6% | 7% |
| Live streaming | 7,960 | 7,900 | 7,250 | 7,193 | 7,724 | 8,827 | 7,842 | 7,973 | 2% | 11% |
| Other services | 1,215 | 1,688 | 1,211 | 1,983 | 1,860 | 2,367 | 1,873 | 2,018 | 8% | 2% |

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|---------------------------|-----------|----------|----------|----------|----------|
| Revenue | 58,776 | 81,082 | 92,761 | 110,119 | 127,311 |
| Live streaming | 33,209 | 30,995 | 32,235 | 32,880 | 32,880 |
| Online marketing services | 21,855 | 42,665 | 50,605 | 64,164 | 78,546 |
| Other services | 3,712 | 7,421 | 9,921 | 13,075 | 15,886 |
| COGS | (34,961) | (47,052) | (60,489) | (65,439) | (71,209) |
| Gross profit | 23,815 | 34,030 | 32,272 | 44,679 | 56,102 |
| S&M | (26,615) | (44,176) | (41,004) | (44,837) | (46,220) |
| Admin.Exp. | (1,677) | (3,400) | (3,432) | (3,836) | (4,093) |
| R&D | (6,548) | (14,956) | (14,197) | (15,679) | (18,253) |
| Other gains | 704 | 801 | 742 | 881 | 1,018 |
| Operating profit | (10,320) | (27,701) | (25,619) | (18,792) | (11,445) |
| Other income/(exp) | (106,881) | (51,314) | 432 | 645 | 1,033 |
| Pre-tax Income | (117,201) | (79,016) | (18,603) | (13,209) | (4,646) |
| Income Tax | 566 | 1,025 | 1,677 | 742 | (544) |
| Net profit | (116,635) | (78,077) | (16,925) | (12,466) | (5,190) |
| Adj. net profit | (7,863) | (18,852) | (9,504) | (4,207) | 3,085 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|---------------------------|-----------|----------|----------|----------|----------|
| Net income | (116,635) | (78,077) | (16,925) | (12,466) | (5,190) |
| D&A | 4,863 | 6,885 | 5,700 | 6,699 | 7,725 |
| Change in WC | 6,898 | 2,444 | 3,552 | 3,353 | 2,462 |
| Others | 107,163 | 63,229 | 7,421 | 8,259 | 8,275 |
| Operating CF | 2,289 | (5,519) | (253) | 5,845 | 13,271 |
| Capex | (5,908) | (5,789) | (9,181) | (11,210) | (10,802) |
| Purchase of investments | 5,400 | - | - | - | - |
| Others | (4,359) | (12,572) | 47 | 47 | 47 |
| Investing CF | (4,867) | (18,361) | (9,134) | (11,163) | (10,755) |
| Equity raised | - | 39,386 | - | - | - |
| Change of Debts | - | - | - | - | - |
| Cash from CB raised | 20,957 | - | - | - | - |
| Others | (1,666) | (2,885) | - | - | - |
| Financing CF | 19,290 | 36,500 | - | - | - |
| Net change in cash | 16,711 | 12,620 | (9,386) | (5,318) | 2,517 |
| Cash (beg of yr) | 3,996 | 20,392 | 32,612 | 23,226 | 17,909 |
| FX | (316) | (399) | - | - | - |
| Cash (end of yr) | 20,392 | 32,612 | 23,226 | 17,909 | 20,425 |

Balance sheet

| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
|---|-----------|--------|--------|--------|--------|
| Non-current assets | 20,619 | 39,505 | 42,938 | 47,402 | 50,431 |
| Property and equipment | 7,206 | 11,051 | 11,526 | 12,350 | 15,528 |
| Right-of-use assets | 5,200 | 12,562 | 15,483 | 19,090 | 18,912 |
| Intangible assets | 1,248 | 1,172 | 1,256 | 1,336 | 1,413 |
| Others | 6,966 | 14,720 | 14,673 | 14,625 | 14,578 |
| Current assets | 31,528 | 53,011 | 44,742 | 40,837 | 44,642 |
| Cash | 20,392 | 32,612 | 23,226 | 17,909 | 20,425 |
| Prepayments | 2,285 | 3,278 | 3,754 | 4,215 | 4,559 |
| Financial assets at fair value through profit or loss | 3,301 | 1,250 | 1,298 | 1,345 | 1,393 |
| Trade receivables | 2,428 | 4,450 | 5,091 | 6,044 | 6,987 |
| Others | 3,122 | 11,420 | 11,372 | 11,325 | 11,277 |
| Current liabilities | 23,185 | 37,256 | 41,925 | 46,690 | 50,441 |
| Accounts payables | 11,544 | 20,021 | 22,929 | 25,739 | 27,845 |
| Other payables and accruals | 5,763 | 9,123 | 10,448 | 11,729 | 12,689 |
| Advances from customers | 3,290 | 3,503 | 3,939 | 4,615 | 5,298 |
| Others | 2,587 | 4,608 | 4,608 | 4,608 | 4,608 |
| Non-current liabilities | 189,012 | 10,108 | - | - | - |
| Convertible redeemable preferred shares | 185,373 | - | 10,108 | 10,108 | 10,108 |
| Others | 3,640 | 10,108 | - | - | - |
| MI | - | - | 35,592 | 31,384 | 34,469 |
| Total Equity | (160,050) | 45,096 | 35,592 | 31,384 | 34,469 |
| Shareholders' equity | (160,050) | 45,096 | 42,938 | 47,402 | 50,431 |

Key ratios

| YE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|---------------------------|---------|--------|--------|--------|-------|
| Sales mix (%) | | | | | |
| Live streaming | 56.5 | 38.2 | 34.8 | 29.9 | 25.8 |
| Online marketing services | 37.2 | 52.6 | 54.6 | 58.3 | 61.7 |
| Other services | 6.3 | 9.2 | 10.7 | 11.9 | 12.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Growth rate (%) | | | | | |
| Revenue | 50.2 | 37.9 | 14.4 | 18.7 | 15.6 |
| Gross profit | 68.9 | 42.9 | 14.2 | 27.7 | 24.7 |
| EBIT | NA | NA | NA | NA | NA |
| Adj. net profit | NA | NA | NA | NA | NA |
| P&L ratios (%) | | | | | |
| Operating margin | (38.1) | (42.1) | (27.6) | (17.1) | (9.0) |
| Pre-tax margin | (199.4) | (97.6) | (20.1) | (12.0) | (3.6) |
| Adj. net margin | (13.4) | (23.3) | (10.2) | (3.8) | 2.4 |
| Effective tax rate | (0.5) | (1.3) | (9.0) | (5.6) | 11.7 |
| Returns (%) | | | | | |
| ROE | NA | NA | NA | NA | 9.4 |

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

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

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