

Kuaishou (1024 HK)

2Q26 review: Challenging environment; AI monetization on track

Kuaishou reported 2Q26 results: total revenue grew by 1% YoY to RMB35.5bn, in line with Visible Alpha (VA) consensus estimate; adjusted net profit was down by 30% YoY to RMB3.9bn, primarily due to 35% YoY growth in R&D expenses related to the increasing model training expenditures. Total revenue growth decelerated (4Q25/1Q26: +12%/3% YoY) amid macro uncertainty and live streaming business adjustment, while Kling AI monetization remained strong with revenue up by over 200% YoY to RMB850mn in 2Q26. Looking into 2H26E, management expected both revenue and margin to face pressure due to macro challenges and AI investments. We lower our FY26-28E earnings forecasts to RMB8.9/11.5/13.9bn (previous: RMB16.9/20.0/23.3bn), given the topline headwind and AI investment. We cut our SOTP-derived TP to HK\$63.8 (previous: HK\$70.5). We remain constructive on Kling's leadership and long-term monetization potential, though it takes time for Kling to make incremental earnings contribution. Maintain BUY.

- **Core commercial businesses delivered resilient growth.** In 2Q26: 1) Online marketing revenue increased by 4% YoY to RMB20.6bn (58% of total revenue), primarily driven by solid growth of revenue from content consumption, lifestyle services and AI application sectors. E-commerce marketing services revenue was largely flattish YoY. 2) Other services revenue grew by 19% YoY to RMB6.2bn (17% of total revenue), mainly driven by the strong growth of Kling AI business. E-commerce commission revenue grew by mid-single-digit % YoY, as the company focuses on growing high-quality users and expanding supply. The number of active paying users was largely stable QoQ, and the number of newly onboarded merchants rose by c.10% QoQ in 2Q26. 3) Live streaming revenue decreased by 13% YoY to RMB8.7bn (24% of total revenue). For 3Q26E, we forecast total revenue to decline by 7% YoY to RMB32.9bn, with online marketing/others/live streaming revenue down by 17%/5%/2% YoY.
- **AI monetization on track.** 1) Kling AI revenue surpassed RMB850mn in 2Q26, up by over 200% YoY, and we maintain our FY26 Kling AI revenue forecast of RMB3.6bn, with upside potential supported by better-than-expected model upgrade in 2H26. 2) The company developed agent capabilities for scenario-based marketing materials generation to enhance ROI of marketing solutions. Spending on AIGC short-video marketing materials grew by over 70% YoY in 2Q26. 3) Kuaishou also leveraged proprietary agent product, MyFlicker, to improve operational efficiency, with the ratio of AI-generated code hitting 60% within its R&D team in 2Q26.
- **AI investment weighed on margin.** Overall GPM declined by 4.1ppt YoY to 51.6% in 2Q26, mainly due to increased revenue sharing costs related to short plays and the AI investment. Adjusted net margin dropped by 5.0ppt YoY to 11.0% in 2Q26. For 3Q26E, we expect adjusted NPM to decline by 12ppt YoY to 2%. Management noted that the majority of capex was front-loaded in 1H26, and expected to maintain positive free cash flow in 2H26E.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	126,898	142,776	137,596	147,135	155,862
Adjusted net profit (RMB mn)	17,716.0	20,647.0	8,899.0	11,469.7	13,878.3
EPS (Adjusted) (RMB)	4.12	4.82	2.06	2.66	3.22
Consensus EPS (RMB)	4.12	4.82	3.76	4.25	4.92
P/E (x)	9.1	7.5	24.5	16.9	13.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$63.80
(Previous TP)	HK\$70.50)
Up/Downside	68.8%
Current Price	HK\$37.80

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Stock Data

Mkt Cap (HK\$ mn)	163,031.4
Avg 3 mths t/o (HK\$ mn)	2,619.4
52w High/Low (HK\$)	91.85/37.80
Total Issued Shares (mn)	4313.0

Source: FactSet

Shareholding Structure

Su Hua	9.8%
Tencent	9.4%

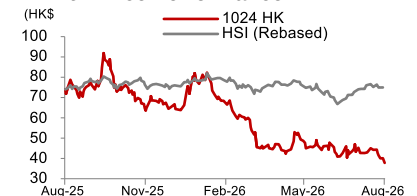
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.7%	-15.9%
3-mth	-22.7%	-21.7%
6-mth	-44.7%	-42.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Kuaishou: forecast revision

(RMB mn)	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	137,596	147,135	155,862	146,836	156,556	165,496	-6.3%	-6.0%	-5.8%
Gross profit	69,333	75,005	80,370	76,565	83,165	89,768	-9.4%	-9.8%	-10.5%
Operating profit	7,332	9,927	12,716	17,008	19,994	23,991	-56.9%	-50.4%	-47.0%
Adjusted net profit	8,899	11,470	13,878	16,938	19,952	23,349	-47.5%	-42.5%	-40.6%
Adjusted EPS (RMB)	2.0	2.6	3.2	3.9	4.6	5.4	-48.3%	-43.4%	-41.5%
Gross margin	50.4%	51.0%	51.6%	52.1%	53.1%	54.2%	-1.8 ppt	-2.1 ppt	-2.7 ppt
Operating margin	5.3%	6.7%	8.2%	11.6%	12.8%	14.5%	-6.3 ppt	-6.0 ppt	-6.3 ppt
Adjusted net margin	6.5%	7.8%	8.9%	11.5%	12.7%	14.1%	-5.1 ppt	-4.9 ppt	-5.2 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(RMB mn)	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	137,596	147,135	155,862	147,724	157,885	169,403	-6.9%	-6.8%	-8.0%
Gross profit	69,333	75,005	80,370	76,897	82,913	89,797	-9.8%	-9.5%	-10.5%
Operating profit	7,332	9,927	12,716	16,516	18,974	22,455	-55.6%	-47.7%	-43.4%
Adjusted net profit	8,899	11,470	13,878	16,584	18,792	21,774	-46.3%	-39.0%	-36.3%
Adjusted EPS (RMB)	2.0	2.6	3.2	3.8	4.3	4.9	-45.9%	-38.3%	-35.5%
Gross margin	50.4%	51.0%	51.6%	52.1%	52.5%	53.0%	-1.7 ppt	-1.5 ppt	-1.4 ppt
Operating margin	5.3%	6.7%	8.2%	11.2%	12.0%	13.3%	-5.9 ppt	-5.3 ppt	-5.1 ppt
Adjusted net margin	6.5%	7.8%	8.9%	11.2%	11.9%	12.9%	-4.8 ppt	-4.1 ppt	-3.9 ppt

Source: Visible Alpha, CMBIGM estimates

Figure 3: Kuaishou: quarterly financials

(RMB mn)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	Cons.	Diff%
Live streaming revenue	9,814	10,044	9,574	9,655	8,492	8,690	8,639	0.6%
yoy%	14.4%	8.0%	2.5%	-1.9%	-13.5%	-13.5%		
Online marketing services	17,977	19,765	20,102	23,618	19,643	20,639	21,049	-2.0%
yoy%	8.0%	12.8%	14.0%	14.5%	9.3%	4.4%		
Other services revenue	4,817	5,237	5,878	6,295	5,581	6,206	5,862	5.9%
yoy%	15.2%	25.9%	41.3%	28.0%	15.9%	18.5%		
Total revenue	32,608	35,046	35,554	39,568	33,716	35,535	35,543	0.0%
yoy%	10.9%	13.1%	14.2%	11.8%	3.4%	1.4%		
Average DAUs (mn)	408	409	416	408	413	412	414	-0.3%
yoy%	3.6%	3.4%	2.1%	1.7%	1.2%	0.8%		
Gross profit margin (%)	54.6%	55.7%	54.7%	55.1%	51.2%	51.6%	51.6%	0.0ppt
S&M expense ratio (%)	30.4%	30.0%	29.3%	28.8%	30.6%	27.9%		
R&D expense ratio (%)	10.1%	9.7%	10.3%	10.5%	10.7%	12.9%		
Adjusted net margin (%)	14.0%	16.0%	14.0%	13.8%	10.0%	11.0%		
Adjusted net income	4,580	5,618	4,986	5,463	3,374	3,913	3,924	-0.3%

Source: Company data, Visible Alpha, CMBIGM

Our SOTP-derived target price of HK\$63.8 comprises, per share:

- 1) HK\$5.2 for the live streaming business, based on 0.6x 2026E EV/Sales, which is on par with the average EV/Sales for its peers.
- 2) HK\$19.0 for the online marketing business (excl. e-commerce marketing), based on 16x 2026E EV/EBIT, which is on par with the average EV/EBIT for its peers.
- 3) HK\$34.5 for the e-commerce business, based on 0.08x 2026E EV/GMV. The target multiple is a discount to the average EV/GMV for its peers (0.13x 2026E EV/GMV), given the relatively low monetization level of Kuaishou's e-commerce business.
- 4) HK\$5.1 for net cash.

Figure 4: Kuaishou: SOTP valuation

(RMBmn)	26E Rev/EBIT/GMV	Methodology	Multiple	Valuation	As % of total valuation	Per share valuation (HK\$)
Live streaming	32,515	EV/Sales	0.6x	19,509	8%	5.2
Advertising (excl. e-commerce marketing)	4,471	EV/EBIT	16.0x	71,542	30%	19.0
E-commerce	1,622,717	EV/GMV	0.08x	129,817	54%	34.5
Enterprise Value				220,869	92%	58.7
Net cash				19,065	8%	5.1
Equity Value				239,934		
Exchange rate (RMB/HK\$)				0.86		
Target Value (HK\$mn)				278,993		
Target Price (HK\$)				63.80		

Source: Company data, CMBIGM estimates

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

Companies	Ticker	Price (LC)	FY26E	FY27E	FY26E	FY27E
Live streaming			Revenue growth (YoY%)		EV/Sales	
Bilibili	BILI US	17.0	12	10	1.0	0.9
Huya	HUYA US	2.3	11	9	0.2	0.1
Average					0.6	0.5
Advertising			EBIT growth (YoY%)		EV/EBIT	
Focus Media	002027 CH	5.0	32	6	9.5	9.0
Meta	META US	543.7	6	17	16.0	13.7
Alphabet	GOOG US	341.3	31	27	23.9	18.8
Average					16.4	13.9
E-commerce			GMV Growth (YoY%)		EV/GMV	
Alibaba	BABA US	128.2	6	4	0.19	0.18
Pinduoduo	PDD US	87.3	14	9	0.07	0.06
Average					0.13	0.12

Source: Bloomberg, CMBIGM estimates

Note: Data as of market close on 18 Aug

Risks

Macro uncertainty weighs on online marketing and e-commerce businesses; intensifying competition in short video sector; increasing AI investment impacts margin.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	113,470	126,898	142,776	137,596	147,135	155,862
Cost of goods sold	56,079	57,606	64,227	68,263	72,130	75,492
Gross profit	57,391	69,292	78,549	69,333	75,005	80,370
Operating expenses	50,960	54,005	57,912	62,001	65,078	67,654
Selling expense	36,496	41,105	42,229	41,967	41,934	42,083
Admin expense	3,514	2,916	3,343	3,578	3,634	3,657
R&D expense	12,338	12,199	14,491	19,263	21,335	23,379
Others	1,388	2,215	2,151	2,807	1,824	1,465
Operating profit	6,431	15,287	20,637	7,332	9,927	12,716
Net Interest income/(expense)	539	236	(149)	(783)	(160)	(115)
Others	0	0	0	0	0	0
Pre-tax profit	6,970	15,523	20,488	6,550	9,767	12,600
Income tax	490	150	1,848	819	1,465	1,890
After tax profit	6,480	15,373	18,640	5,731	8,302	10,710
Net profit	6,480	15,373	18,640	5,731	8,302	10,710
Adjusted net profit	10,271	17,716	20,647	8,899	11,470	13,878

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	60,361	62,869	77,549	65,226	70,757	84,886
Cash & equivalents	12,905	12,697	11,180	3,208	11,539	26,980
Restricted cash	128	47	251	251	251	251
Account receivables	6,457	6,674	8,127	6,850	6,049	5,907
Prepayment	4,919	4,646	7,028	6,543	6,356	6,454
ST bank deposits	9,874	11,522	8,630	6,041	4,229	2,960
Financial assets at FVTPL	26,078	27,283	42,333	42,333	42,333	42,333
Non-current assets	45,935	77,004	86,955	103,373	108,858	110,039
PP&E	12,356	14,831	22,869	41,525	48,678	51,159
Right-of-use assets	10,399	8,891	8,545	7,519	7,007	6,811
Deferred income tax	6,108	6,604	5,585	5,585	5,585	5,585
Investment in JVs & assos	214	166	149	149	149	149
Intangibles	1,073	1,059	986	875	764	654
Financial assets at FVTPL	5,245	24,430	24,100	24,100	24,100	24,100
Other non-current assets	10,540	21,023	24,721	23,620	22,575	21,581
Total assets	106,296	139,873	164,504	168,599	179,615	194,925
Current liabilities	48,778	59,828	67,535	70,006	73,670	78,268
Account payables	23,601	27,470	27,209	28,898	30,388	31,660
Tax payable	1,222	873	388	374	400	424
Other current liabilities	20,628	27,809	35,976	37,229	39,629	43,049
Lease liabilities	3,327	3,676	3,962	3,506	3,254	3,135
Non-current liabilities	8,444	18,021	17,385	16,593	16,222	16,052
Long-term borrowings	0	11,100	11,098	11,098	11,098	11,098
Obligations under finance leases	8,405	6,765	5,977	5,288	4,908	4,730
Other non-current liabilities	39	11,256	11,408	11,305	11,314	11,323
Total liabilities	57,222	77,849	84,920	86,599	89,892	94,321
Share capital	0	0	0	0	0	0
Retained earnings	(257,491)	(242,164)	(224,341)	(218,610)	(210,308)	(199,598)
Other reserves	306,554	304,168	303,899	300,584	300,005	300,176
Total shareholders equity	49,063	62,004	79,558	81,974	89,697	100,578
Minority interest	11	20	26	26	26	26
Total equity and liabilities	106,296	139,873	164,504	168,599	179,615	194,925

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,970	15,523	20,488	6,550	9,767	12,600
Depreciation & amortization	7,202	7,140	7,195	9,312	10,390	11,074
Tax paid	(1,223)	(1,021)	(1,392)	(936)	(1,430)	(1,858)
Change in working capital	4,859	7,510	143	6,672	4,877	4,738
Others	2,973	635	282	3,168	3,168	3,168
Net cash from operations	20,781	29,787	26,716	24,765	26,772	29,722
Investing						
Capital expenditure	(66,680)	(104,728)	(145,315)	(24,767)	(14,714)	(10,910)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	46,815	68,051	119,059	3,690	2,858	2,262
Net cash from investing	(19,865)	(36,677)	(26,256)	(21,078)	(11,856)	(8,648)
Financing						
Dividend paid	0	0	(1,800)	(1,800)	0	0
Net borrowings	11,259	14,797	5,324	(1,968)	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(1,300)	(4,884)	(2,927)	(4,683)	(3,747)	(2,997)
Others	(11,323)	(3,199)	(2,522)	(3,209)	(2,839)	(2,635)
Net cash from financing	(1,364)	6,714	(1,925)	(11,660)	(6,586)	(5,632)
Net change in cash						
Cash at the beginning of the year	13,274	12,905	12,697	11,180	3,208	11,539
Exchange difference	79	(32)	(52)	0	0	0
Cash at the end of the year	12,905	12,697	11,180	3,208	11,539	26,980
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	20.5%	11.8%	12.5%	(3.6%)	6.9%	5.9%
Gross profit	36.2%	20.7%	13.4%	(11.7%)	8.2%	7.2%
Operating profit	na	137.7%	35.0%	(64.5%)	35.4%	28.1%
Net profit	na	137.2%	21.3%	(69.3%)	44.9%	29.0%
Adj. net profit	na	72.5%	16.5%	(56.9%)	28.9%	21.0%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	50.6%	54.6%	55.0%	50.4%	51.0%	51.6%
Operating margin	5.7%	12.0%	14.5%	5.3%	6.7%	8.2%
Adj. net profit margin	9.1%	14.0%	14.5%	6.5%	7.8%	8.9%
Return on equity (ROE)	14.6%	27.7%	26.3%	7.1%	9.7%	11.3%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.0)	(0.0)	0.1	(0.0)	(0.2)
Current ratio (x)	1.2	1.1	1.1	0.9	1.0	1.1
Receivable turnover days	20.8	19.2	20.8	18.2	15.0	13.8
Payable turnover days	153.6	174.1	154.6	154.5	153.8	153.1
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	21.6	9.1	7.5	24.5	16.9	13.1
P/E (diluted)	21.6	9.3	7.7	24.8	17.1	13.3
P/B	2.9	2.3	1.7	1.7	1.6	1.4

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

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