

Zhihu (ZH US)

Positive OCF for the first time

Zhihu delivered upbeat 1Q23 results (rev +34% YoY, 4% above consensus), with solid membership (+105% YoY) & vocational training (+171% YoY) and narrowing loss. We forecast 2Q23E rev +24% YoY, in which strong membership and vocational training would continue. Its newly-launched app of Yanyan <盐言故事> would bring further upside to membership. Marketing services saw a mild recovery from 3C and ecommerce verticals in 2Q23E, and 2H23E ads might see positive growth. Zhihu achieved positive OCF for the first time, and we expect healthy cash flow ahead with continuously narrowing loss. AI initiatives (Zhihaitu AI and upcoming more features) would unlock LT potential. We keep our FY23-25E earnings unchanged, with TP at US\$2.3.

- 1Q23 beat, with positive OCF for the first time.** 1Q23 rev accelerated to +34% YoY, 4%/5% above consensus/our estimates. By segment, marketing services rev -12% YoY for macro headwinds (3% above our estimate). Paid membership +105% YoY, attributable to rising paying users. Non-GAAP net loss sequentially narrowed to RMB120mn, vs. consensus of -RMB271mn, thanks to higher GPM (51.5%, 2ppts above consensus) and lower S&M expenses. Operating cash flow turned positive for the first time, and we expect the trend to continue. User metrics trended well, with MAU >110mn in Mar.
- Resilient membership and vocational training to offset ads challenges.** We forecast 2Q23E rev +24% YoY, in which strong membership and vocational training would continue. We keep positive on its membership momentum ahead, and its newly-launched app of Yanyan <盐言故事> would bring further upside with more content offerings and better user experience. We forecast vocational training +81% YoY in FY23E, backed by enriched products matrix and diversified course offerings. For the marketing services, Zhihu saw a mild recovery from 3C and ecommerce vertical in 2Q23E, and we expect 2H23E to see more meaningful recovery.
- Eyes on AI model initiatives.** In April, Zhihu released its first language with LLM, Zhihaitu AI (20bn parameters currently, planning to reach 100bn by the end of the year), aiming to enable content creators to generate high quality content more efficiently. We expect its enriched features (e.g. hot list summary) to unlock multiple application scenarios, with AI investment at ~RMB300mn in FY23E. As a Q&A-oriented knowledge community, Zhihu's AIGC initiatives would bring further upside in content development, ecosystem enhancement and monetization, in our view.
- Maintain BUY.** We keep our full-year financials forecast unchanged, with TP unchanged at US\$2.3 (implying 2.1x FY23E P/S).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	2,927	3,605	4,608	5,674	6,645
YoY growth (%)	116.5	23.1	27.8	23.1	17.1
Adj. net income (RMB mn)	(735)	(1,196)	(942)	(129)	222
Adj. EPS (RMB)	(1.29)	(1.95)	(1.54)	(0.21)	0.36
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(1.5)	(0.5)	0.3
P/E (x)	NA	NA	NA	NA	16.8
P/S (x)	1.4	1.3	1.0	0.8	0.7
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$2.3
(Previous TP)	US\$2.3)
Up/Downside	+117%
Current Price	US\$1.1

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Stock Data

Mkt Cap (US\$ mn)	600
Avg 3 mths t/o (US\$ mn)	3.74
52w High/Low (US\$)	2.13/ 0.89
Total Issued Shares (mn)	602

Source: Bloomberg

Shareholding Structure

Qiming Corporate GP	3.96%
Point 72	2.42%
Goldman Sachs	2.27%

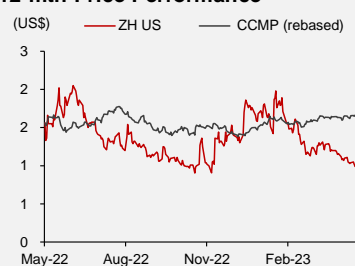
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-19.0%	-22.8%
3-mth	-39.8%	-45.3%
6-mth	-9.7%	-21.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 1Q23 financial review

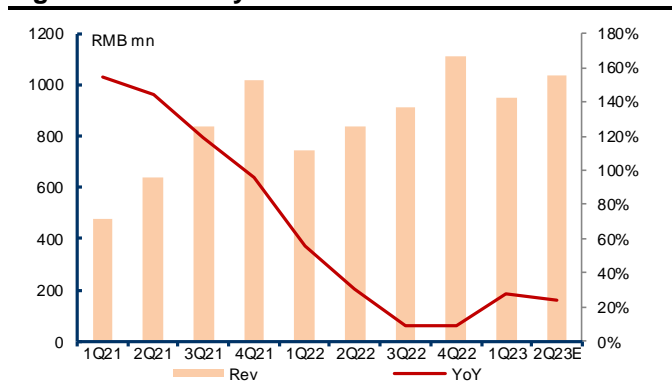
RMB mn, Dec-YE	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	QoQ	YoY	Consensus	Diff %
Revenue	478	638	824	1,019	743	836	912	1,114	994	-10.7%	33.8%	957	4%
Operating Profit	(342)	(351)	(322)	(375)	(648)	(461)	(279)	(216)	(217)	NA	NA	(365)	NA
Net profit	(495)	(321)	(270)	(383)	(614)	(487)	(300)	(180)	(181)	NA	NA	(337)	NA
Adj. net profit	(194)	(200)	(112)	(241)	(367)	(444)	(251)	(134)	(120)	NA	NA	(271)	NA
Adj. EPS (RMB)	(1.35)	(0.34)	(0.19)	(0.41)	(0.61)	(0.72)	(0.41)	(0.22)	(0.20)	NA	NA	(0.48)	NA
Margin (%)													
Gross margin	57.0%	59.0%	51.6%	47.1%	45.1%	47.8%	48.7%	56.4%	51.5%			49.5%	
Operating margin	-71.6%	-54.9%	-39.2%	-36.8%	-87.2%	-55.1%	-30.6%	-19.4%	-21.8%			-38.2%	
Adj. net margin	-40.5%	-31.4%	-13.6%	-23.6%	-49.4%	-53.1%	-27.5%	-12.0%	-12.1%			-28.3%	
Growth (%)													
Revenue (YoY)	154.2%	144.2%	115.1%	96.1%	55.4%	31.0%	10.7%	9.3%	33.8%			28.7%	
Revenue (QoQ)	-8.0%	33.5%	29.0%	23.8%	-27.1%	12.5%	9.1%	22.2%	-10.7%			-14.1%	
Operating Profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg

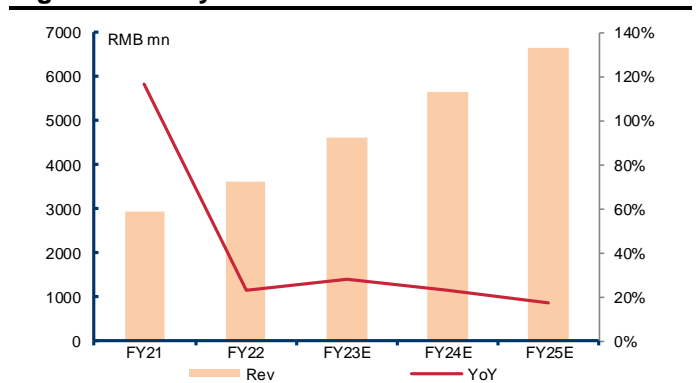
Figure 2: 1Q23 revenue breakdown

RMB mn, Dec-YE	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	QoQ	YoY
Total revenue	478	638	824	1,019	743	836	912	1,114	994	-11%	34%
Marketing services	335	456	599	745	444	478	462	572	392	-31%	-12%
Paid membership	127	155	178	209	222	271	335	403	455	13%	105%
Vocational Training	3	7	14	22	40	46	78	85	107	26%	171%
Others	14	21	46	43	38	41	36	54	40	-26%	6%

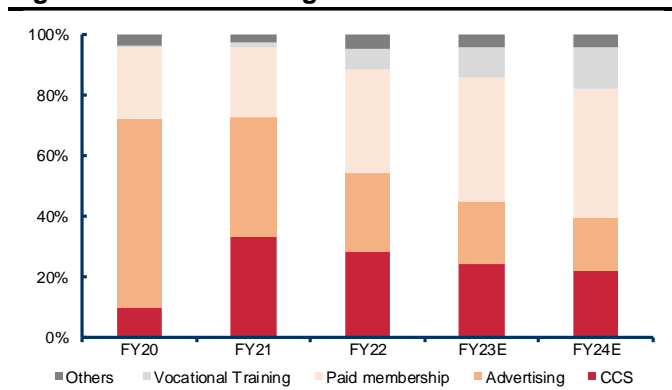
Source: Company data

Figure 3: Quarterly rev estimates

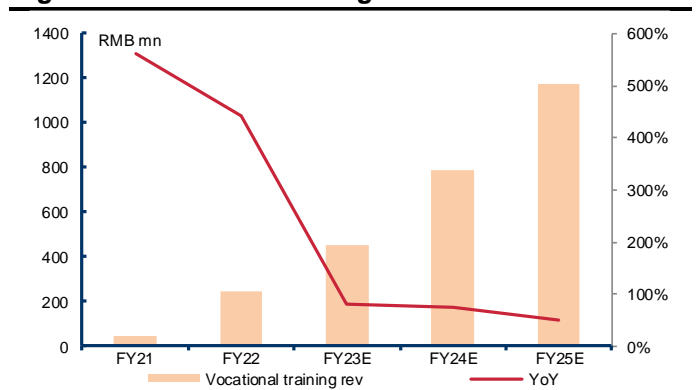
Source: Company data

Figure 4: Yearly rev estimates

Source: Company data, CMBIGM estimates

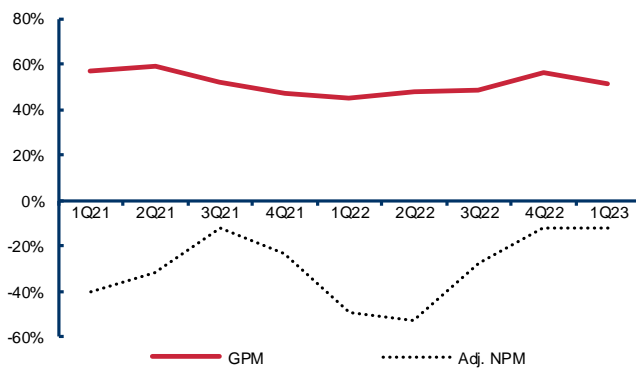
Figure 5: Rev mix change

Source: Company data, CMBIGM estimates

Figure 6: Vocational training rev estimates

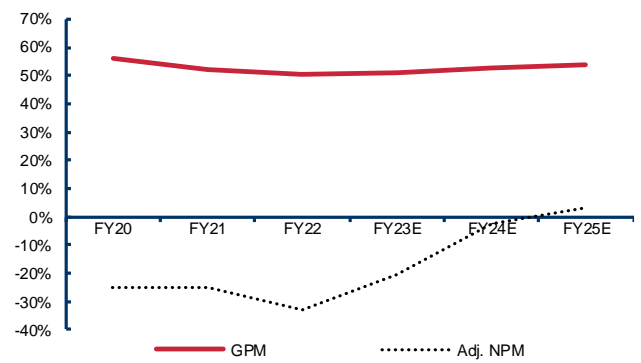
Source: Company data, CMBIGM estimates

Figure 7: Quarterly margin



Source: Company data, CMBIGM

Figure 8: Yearly margin estimates



Source: Company data, CMBIGM estimates

Figure 9: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,608	5,674	6,645	4,666	5,692	6,651	-1.3%	-0.3%	-0.1%
Gross profit	2,347	2,999	3,587	2,405	3,080	3,759	-2.4%	-2.6%	-4.6%
Operating profit	(1,267)	(455)	(110)	(1,221)	(700)	(215)	NA	NA	NA
Adj. net profit	(942)	(129)	222	(850)	(340)	329	NA	NA	-32.5%
EPS (RMB)	(1.54)	(0.21)	0.36	(1.45)	(0.55)	0.29	NA	NA	23.7%
Gross margin	50.9%	52.8%	54.0%	51.5%	54.1%	56.5%	-0.6ppts	-1.3ppts	-2.5ppts
Operating margin	-27.5%	-8.0%	-1.7%	-26.2%	-12.3%	-3.2%	-1.3ppts	+4.3ppts	+1.5ppts
Net margin	-20.4%	-2.3%	3.3%	-18.2%	-6.0%	4.9%	-2.2ppts	+3.7ppts	-1.6ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 10: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,608	5,674	6,645	4,608	5,674	6,645	0.0%	0.0%	0.0%
Gross profit	2,347	2,999	3,587	2,347	2,999	3,587	0.0%	0.0%	0.0%
Operating profit	(1,267)	(455)	(110)	(1,267)	(455)	(110)	0.0%	0.0%	0.0%
Adj. net profit	(942)	(129)	222	(942)	(129)	222	0.0%	0.0%	0.0%
EPS (RMB)	(1.54)	(0.21)	0.36	(1.54)	(0.21)	0.36	0.0%	0.0%	0.0%
Gross margin	50.9%	52.8%	54.0%	50.9%	52.8%	54.0%	+0.0ppts	+0.0ppts	+0.0ppts
Operating margin	-27.5%	-8.0%	-1.7%	-27.5%	-8.0%	-1.7%	+0.0ppts	+0.0ppts	+0.0ppts
Net margin	-20.4%	-2.3%	3.3%	-20.4%	-2.3%	3.3%	+0.0ppts	+0.0ppts	+0.0ppts

Source: Company data, CMBIGM estimates

Figure 11: DCF Valuation

DCF valuation (RMB mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(1,022)	(207)	144	328	412	535	642	758	871	963
Tax	0	0	0	(22)	(34)	(80)	(96)	(114)	(131)	(144)
D&A	26	30	31	38	45	38	45	51	56	61
Working capital	50	222	446	51	133	140	147	154	162	170
CAPEX	(32)	(40)	(47)	(52)	(57)	(63)	(69)	(76)	(84)	(92)
FCF	(978)	5	575	342	498	570	668	773	875	957
FCF Growth		NA	NA	-40%	45%	14%	17%	16%	13%	9%
Terminal Value										10,562
PV (FCF+ Terminal Value)	(978)	5	456	242	313	319	332	342	345	4,044

Assumptions	
WACC	12.3%
Tax rate	15.0%
Risk free rate	3.2%
Beta	1.10
Market risk return	11.5%
Cost of equity	12.3%
WACC	12.3%
Terminal growth rate	3.0%

Equity Value	
PV	5,419
minus: Net cash	4,348
minus: Minority Interest	0
Equity Value	9,767
Shares (mn)	612
Target Price (US\$) based on DCF	2.3

		WACC				
		10.3%	11.3%	12.3%	13.3%	14.3%
Growth	1.5%	2.6	2.4	2.2	2.0	1.9
	2.0%	2.7	2.4	2.2	2.1	1.9
	2.5%	2.7	2.5	2.3	2.1	2.0
	3.0%	2.8	2.5	2.3	2.1	2.0
	3.5%	2.9	2.6	2.4	2.2	2.0
	4.0%	3.0	2.7	2.4	2.2	2.1
4.5%	3.2	2.8	2.5	2.3	2.1	

Source: Company data, CMBIGM estimates

Figure 12: Valuation comps

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	NA
Zhihu	ZH US	652	USD	1.1	BUY	2.3	NA	NA	16.8	1.0	0.8	0.7	NA
Online Community													
Bilibili	BILI US	7,475	USD	18	BUY	30	NA	NA	49.1	2.1	1.8	1.5	NA
Kuaishou	1024 HK	30,756	HKD	56	BUY	97	76.4	20.8	11.4	1.9	1.7	1.5	150%
Average							76.4	20.8	30.3	2.0	1.7	1.5	150%
VAS													
China Literature	772 HK	3,980	HKD	31	NA	NA	18.1	15.7	13.8	3.3	3.0	2.8	12%
Tencent	700 HK	407,013	HKD	332	BUY	455	19.5	16.4	14.7	4.6	4.1	3.7	16%
JOYY	YY US	1,998	USD	28	BUY	46	14.1	10.6	8.8	0.8	0.8	0.7	25%
Huya	HUYA US	823	USD	3	BUY	7	NA	96.0	26.3	0.7	0.7	0.6	NA
Douyu	DOYU US	337	USD	1	NA	NA	NA	NA	69.8	0.4	0.4	0.4	NA
TME	TME US	12,647	USD	7	BUY	11	14.5	13.6	12.4	3.0	2.8	2.6	8%
Mango	300413 CH	7,652	CNY	29	NA	NA	22.4	19.1	17.3	3.3	3.0	2.7	14%
iQIYI	IQ US	4,523	USD	5	BUY	9	14.4	9.5	7.3	1.0	0.9	0.9	40%
Average							17.2	14.2	12.4	1.8	1.6	1.5	15%
Ad													
Baidu	BIDU US	42,497	USD	122	BUY	199	12.9	11.5	10.0	2.2	2.0	1.8	13%
Weibo	WB US	3,842	USD	16	BUY	29	7.3	6.5	6.0	2.0	1.8	1.7	12%
Average							10.1	9.0	8.0	2.1	1.9	1.8	12%
Average							15.4	13.8	11.3	1.9	1.7	1.6	14%

Source: BBG, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	2,927	3,605	4,608	5,674	6,645
CCS	974	1,030	1,104	1,254	1,423
Advertising	1,161	926	965	985	1,003
Paid membership	669	1,231	1,894	2,427	2,813
Vocational Training	46	248	450	791	1,175
Others	78	169	194	217	230
COGS	(1,405)	(1,797)	(2,260)	(2,676)	(3,057)
Gross profit	1,522	1,808	2,347	2,999	3,587
S&M	(1,635)	(2,026)	(1,929)	(1,841)	(2,013)
R&D	(620)	(763)	(985)	(984)	(1,031)
G&A	(690)	(622)	(700)	(629)	(654)
Operating profit	(1,423)	(1,604)	(1,267)	(455)	(110)
Other income	97	40	80	78	78
Pre-tax Income	(1,325)	(1,564)	(1,187)	(377)	(32)
Income Tax	(2)	0	0	0	0
Net profit	(1,327)	(1,564)	(1,187)	(377)	(32)
Accretions	(171)	0	0	0	0
Net profit to shareholder	(1,498)	(1,564)	(1,187)	(377)	(32)
Adj. net profit	(735)	(1,196)	(942)	(129)	222

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	(1,299)	(1,564)	(1,187)	(377)	(32)
D&A	21	19	26	30	31
Change in WC	291	44	50	222	446
Others	546	374	243	246	252
Operating CF	(440)	(1,128)	(868)	121	697
CAPEX	(7)	(25)	(32)	(40)	(47)
Others	(3,129)	3,445	800	0	0
Investing CF	(3,137)	3,420	768	(40)	(47)
Issuance of shares	0	0	0	0	0
IPO proceeds	4,853	0	0	0	0
Others	0	0	0	0	0
Financing CF	4,853	0	0	0	0
Net change in cash	1,276	2,292	(101)	81	651
Cash (beg of yr)	958	2,157	4,449	4,348	4,429
Fx effect	(100)	0	0	0	0
Cash (end of yr)	2,134	4,449	4,348	4,429	5,080

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	471	336	78	87	102
PP&E	10	7	33	43	53
Intangible assets, net	68	80	19	18	23
Right-of-use assets	127	100	26	26	26
Others	266	149	0	0	0
Current assets	8,334	7,320	8,108	8,342	8,900
Cash, cash equivalents	2,157	4,526	4,348	4,429	5,080
Term deposits	2,816	948	1,093	1,093	1,093
Short-term investments	2,240	787	1,046	1,046	1,046
Other current asset	1,122	1,058	1,621	1,774	1,681
Current liabilities	1,898	1,825	2,385	2,759	3,113
AP and accruals	1,027	916	1,084	1,272	1,449
Salary welfare payables	314	284	435	438	468
Contract liabilities	240	356	679	870	1,009
Others	318	270	187	179	187
Non-current liabilities	169	137	0	0	0
Lease liabilities	82	43	0	0	0
Mezzanine equity and shareholders' equity	6,738	5,694	4,686	4,555	4,775

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
CCS	33.3	28.6	24.0	22.1	21.4
Advertising	39.7	25.7	20.9	17.4	15.1
Paid membership	22.8	34.1	41.1	42.8	42.3
Vocational Training	1.6	6.9	9.8	13.9	17.7
Others	2.7	4.7	4.2	3.8	3.5
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	116.5	23.1	27.8	23.1	17.1
Gross profit	100.9	18.8	29.8	27.7	19.6
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(48.6)	(44.5)	(27.5)	(8.0)	(1.7)
Pre-tax margin	(45.3)	(43.4)	(25.8)	(6.7)	(0.5)
Adj. net margin	(25.1)	(33.2)	(20.4)	(2.3)	3.3
Effective tax rate	0.2	0.0	0.0	0.0	0.0
Returns (%)					
ROE	(10.9)	(21.0)	(20.1)	(2.8)	4.6
ROA	(8.3)	(15.6)	(11.5)	(1.5)	2.5
Per share					
EPS (RMB)	(1.3)	(2.0)	(1.5)	(0.2)	0.4
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	43.2	47.9	54.4	62.3	62.3

Source: Company data, CMBIGM estimates

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