

Kingsoft Cloud (KC US)

Reset expectation on Bytedance

We think it is unclear whether Bytedance will launch IaaS/ CDN services but agree that Bytedance may move parts of its cloud resources away from Kingsoft Cloud (KC) to its internal platform. That said, we think current share price has reflected the negative (down 53% from its peak in Feb) while there is no change in multi-cloud demand and customer diversification trend. Maintain BUY.

- Bytedance may launch IaaS?** There is [rumour](#) that Bytedance will launch IaaS this year and its CDN network covering 500 nodes is ready for use. Bytedance is undoubtedly building more cloud resources, reflected from IDC ChinData strong revenue growth (ChinData revenue from Bytedance grew at +157% YoY in FY20). We think it is unclear whether Bytedance will launch IaaS (market is already very consolidated with top 3 >60% share) but it may move some third-party cloud resources to its own platform.
- Multi-cloud adoption trend unchanged.** We believe the trend that more internet companies are adopting multi-cloud strategy is unchanged. The purpose of using multi-cloud is to ensure network stability and cloud resources flexibility. Internet companies will still favor to host part of their resources on independent third-party cloud platform like KC, rather than using cloud providers that have direct competition.
- Customer diversification to continue.** Although Bytedance revenue contribution to KC declined (~33% in 1H20 → 26% in 1Q21), we estimated that Bytedance revenue was still growing at +2% YoY in 1Q21. We like KC for its expanding customer base (added Zhihu, Agora, Huya, Bigo, Sogou in FY20) and its top three customers' revenue contribution is decreasing (60% in FY18 → 53% in FY20). Non-top 3 customers' revenue grew even faster at +82% YoY in FY20 (vs. top 3 of +55% YoY).
- Maintain BUY.** We cut FY21-23E revenue by 4-8% to reflect the potential decline of Bytedance revenue. We think current share price has largely reflected the negative news as it has corrected by 53% from its peak in Feb 2021. Maintain BUY with new target price of US\$45.26 (prior US\$49.05) on unchanged 5x FY22E P/S, 10% discount to global peers having IaaS business exposure given smaller revenue size despite higher growth. Catalyst includes better-than-expected FY3Q21 guidance.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,956	6,577	9,134	12,959	17,238
YoY growth (%)	78%	66%	39%	42%	33%
Adj. EBITDA (RMB mn)	(418)	(119)	(57)	547	1,695
YoY growth (%)	n.a.	n.a.	n.a.	-1054%	210%
Net income (RMB mn)	(1,161)	(982)	(1,059)	(784)	(99)
EPS (RMB) *	-19.58	-6.14	-4.75	-3.52	-0.45
YoY growth (%)	n.a.	n.a.	n.a.	-26%	-87%
Consensus EPS (RMB) *	-19.58	-6.14	-3.80	-1.20	4.65
P/S	12.1	7.3	5.3	3.7	2.8
ROE (%)	-33%	-12%	-15%	-12%	-2%
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates, *per ADS

BUY (Maintain)

Target Price	US\$45.26
(Previous TP	US\$49.05)
Up/Downside	+35.2%
Current Price	US\$33.47

China Software & IT Services

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Stock Data

Mkt Cap (HK\$ mn)	7,493
Avg 3 mths t/o (HK\$ mn)	62.98
52w High/Low (HK\$)	74.67/ 25.88
Total Issued Shares (mn)	223

Source: Bloomberg

Shareholding Structure

Kingsoft Group (3888 HK)	43.6%
Xiaomi (1810 HK)	13.8%
Mr. Jun LEI	13.8%

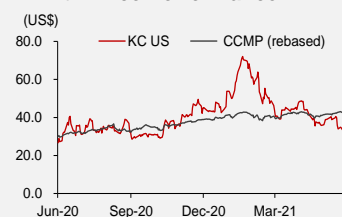
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.3%	-11.4%
3-mth	-27.5%	-32.0%
6-mth	-20.4%	-28.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young Hua Ming

Related Reports

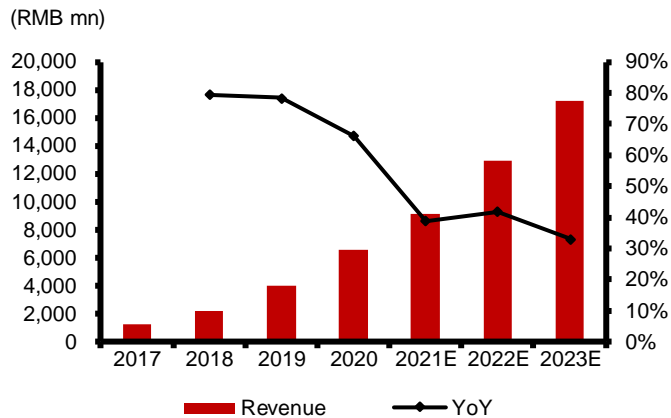
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- "Kingsoft Cloud (KC US) – China cloud service pure play" – 23 Feb 2021

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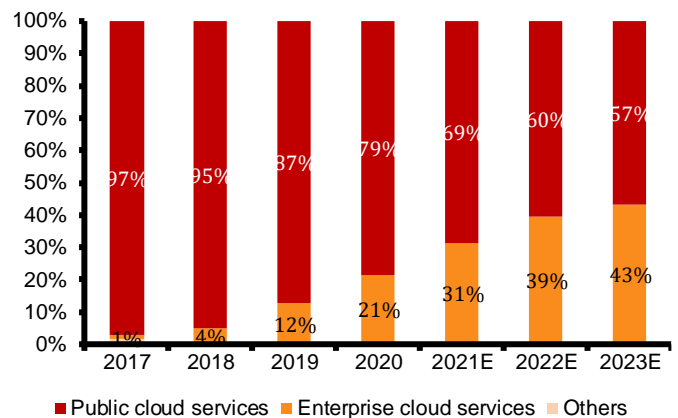
Focus Charts

Figure 1: Revenue and YoY



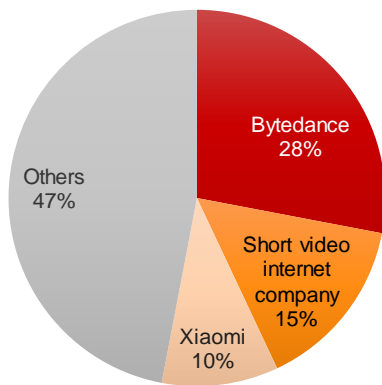
Source: Company data, CMBIS estimates

Figure 2: Revenue mix



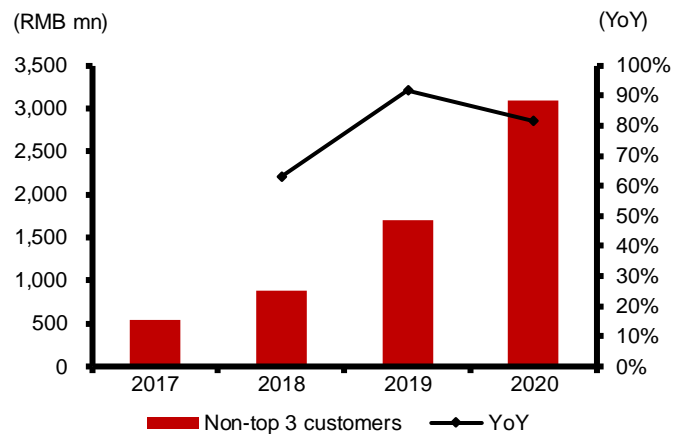
Source: Company data, CMBIS estimates

Figure 3: Customer mix (FY20)



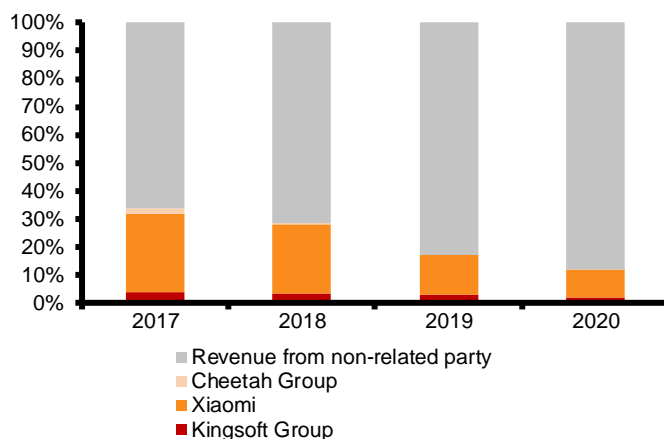
Source: Company data, CMBIS

Figure 4: Revenue from non-top 3 customers



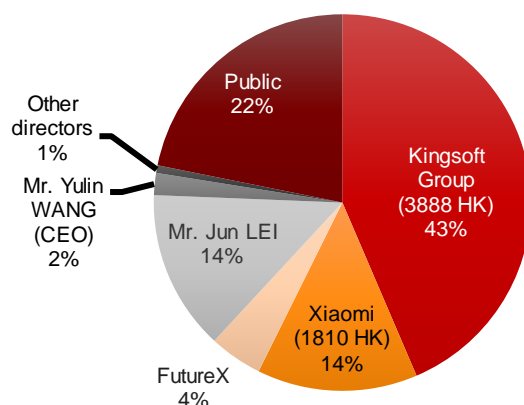
Source: Company data, CMBIS

Figure 5: Related party transaction (revenue)



Source: Company data, CMBIS

Figure 6: Shareholding structure



Source: Company data, CMBIS

Earnings revision

Figure 7: Earnings revision

RMB mn	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	9,134	9,541	-4%	12,959	14,054	-8%	17,238	18,733	-8%
Gross profit	646	850	-24%	1,423	1,785	-20%	2,482	3,020	-18%
OP Profit	-1,320	-1,193	11%	-1,007	-832	21%	-288	20	-1,552%
Adj. EBITDA	-57	85	-168%	547	770	-29%	1,695	2,088	-19%
Net profit	-1,059	-930	14%	-784	-607	29%	-99	211	-147%
EPS	-0.32	-0.28	14%	-0.23	-0.18	29%	-0.03	0.06	-147%
Margins									
GM	7.1%	8.9%	-184 bps	11.0%	12.7%	-172 bps	14.4%	16.1%	-172 bps
OPM	-14.5%	-12.5%	-195 bps	-7.8%	-5.9%	-185 bps	-1.7%	0.1%	-178 bps
Adj. EBITDA margin	-0.6%	0.9%	-151 bps	4.2%	5.5%	-126 bps	9.8%	11.1%	-132 bps
Net margin	-11.6%	-9.7%	-184 bps	-6.0%	-4.3%	-173 bps	-0.6%	1.1%	-170 bps

Source: Company data, CMBIS estimates

Figure 8: CMBI vs. consensus forecast

RMB mn	2021E			2022E			2023E		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	9,134	9,873	-7%	12,959	15,108	-14%	17,238	22,993	-25%
Gross profit	646	861	-25%	1,423	2,016	-29%	2,482	4,159	-40%
Operating profit	-1,320	-1,172	13%	-1,007	-715	41%	-288	396	-173%
Adj. EBITDA	-57	15	-486%	547	968	-44%	1,695	2,544	-33%
Net profit	-1,059	-825	28%	-784	-159	394%	-99	1,173	-108%
EPS	-0.32	-3.85	-92%	-0.23	-1.22	-81%	-0.03	3.95	-101%
Margins									
GM	7.1%	8.7%	-165 bps	11.0%	13.3%	-236 bps	14.4%	18.1%	-369 bps
OPM	-14.5%	-11.9%	-258 bps	-7.8%	-4.7%	-303 bps	-1.7%	1.7%	-339 bps
Adj. EBITDA margin	-0.6%	0.2%	-78 bps	4.2%	6.4%	-219 bps	9.8%	11.1%	-123 bps
Net margin	-11.6%	-8.4%	-324 bps	-6.0%	-1.1%	-500 bps	-0.6%	5.1%	-568 bps

Source: Company data, CMBIS estimates

Operating model

Figure 9: KC income statement

RMB mn	2017	2018	2019	2020	2021E	2022E	2023E
Revenues	1,236	2,218	3,956	6,577	9,134	12,959	17,238
Cost of sales	(1,354)	(2,419)	(3,949)	(6,220)	(8,488)	(11,535)	(14,756)
Gross Profit	(118)	(200)	8	357	646	1,423	2,482
<i>Gross margin</i>	<i>-9.6%</i>	<i>-9.0%</i>	<i>0.2%</i>	<i>5.4%</i>	<i>7.1%</i>	<i>11.0%</i>	<i>14.4%</i>
R&D	(399)	(441)	(595)	(775)	(957)	(1,165)	(1,338)
SG&A	(210)	(339)	(556)	(789)	(1,009)	(1,265)	(1,433)
Operating Income	(727)	(979)	(1,144)	(1,207)	(1,320)	(1,007)	(288)
<i>Operating margin</i>	<i>-58.8%</i>	<i>-44.2%</i>	<i>-28.9%</i>	<i>-18.4%</i>	<i>-14.5%</i>	<i>-7.8%</i>	<i>-1.7%</i>
Adj. EBITDA	(338)	(520)	(418)	(119)	(57)	547	1,695
<i>Adj. EBITDA margin</i>	<i>-27.4%</i>	<i>-23.4%</i>	<i>-10.6%</i>	<i>-1.8%</i>	<i>-0.6%</i>	<i>4.2%</i>	<i>9.8%</i>
Non-Operating Income	13	(17)	41	260	271	230	190
Profit Before Tax	(714)	(997)	(1,102)	(947)	(1,049)	(777)	(98)
Income tax (expense) gain	(1)	(10)	(9)	(15)	(9)	(7)	(1)
Minorities	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Accretion to redemption value of redeemable convertible preferred shares	-	-	-	-	-	-	-
Net Income to Shareholders	(1,320)	(1,749)	(1,161)	(982)	(1,059)	(784)	(99)
<i>Net margin</i>	<i>-107%</i>	<i>-79%</i>	<i>-29%</i>	<i>-15%</i>	<i>-12%</i>	<i>-6%</i>	<i>-1%</i>
EPS (RMB) per share	(1.66)	(2.20)	(1.31)	(0.41)	(0.32)	(0.23)	(0.03)
EPS (RMB) per ADS	(24.95)	(33.06)	(19.58)	(6.14)	(4.75)	(3.52)	(0.45)

Source: Company data, CMBIS estimates

Figure 10: KC income statement (Quarterly)

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E
Revenues	1,391	1,535	1,729	1,923	1,814	2,143	2,487	2,691
Cost of sales	(1,320)	(1,454)	(1,616)	(1,830)	(1,697)	(2,012)	(2,304)	(2,476)
Gross Profit	71	81	113	93	117	131	183	215
<i>Gross margin</i>	<i>5.1%</i>	<i>5.3%</i>	<i>6.5%</i>	<i>4.8%</i>	<i>6.4%</i>	<i>6.1%</i>	<i>7.4%</i>	<i>8.0%</i>
R&D	(196)	(231)	(168)	(181)	(265)	(214)	(235)	(242)
SG&A	(164)	(280)	(188)	(157)	(204)	(271)	(264)	(271)
Operating Income	(289)	(430)	(243)	(245)	(352)	(354)	(316)	(298)
<i>Operating margin</i>	<i>-20.8%</i>	<i>-28.0%</i>	<i>-14.0%</i>	<i>-12.8%</i>	<i>-19.4%</i>	<i>-16.5%</i>	<i>-12.7%</i>	<i>-11.1%</i>
Adj. EBITDA	(39)	(36)	(26)	(18)	(49)	(63)	(8)	22
<i>Adj. EBITDA margin</i>	<i>-2.8%</i>	<i>-2.3%</i>	<i>-1.5%</i>	<i>-0.9%</i>	<i>-2.7%</i>	<i>-2.9%</i>	<i>-0.3%</i>	<i>0.8%</i>
Non-Operating Income	(37)	12	142	144	(27)	7	135	138
Profit Before Tax	(326)	(418)	(101)	(102)	(379)	(347)	(181)	(161)
Net Income to Shareholders	(351)	(420)	(106)	(105)	(382)	(350)	(183)	(162)
<i>Net margin</i>	<i>-25.2%</i>	<i>-27.4%</i>	<i>-6.1%</i>	<i>-5.5%</i>	<i>-21.1%</i>	<i>-16.4%</i>	<i>-7.3%</i>	<i>-6.0%</i>
EPS (RMB) per share	(0.39)	(0.19)	(0.03)	(0.03)	(0.11)	(0.10)	(0.05)	(0.05)
EPS (RMB) per ADS	(5.86)	(2.84)	(0.50)	(0.48)	(1.72)	(1.57)	(0.82)	(0.73)

Source: Company data, CMBIS estimates

Figure 11: KC operating model

RMB mn	2017	2018	2019	2020	2021E	2022E	2023E
Revenue breakdown							
Public cloud services	1,202	2,111	3,459	5,167	6,279	7,833	9,791
Enterprise cloud services	15	94	486	1,373	2,798	5,052	7,351
Others	18	13	11	38	57	74	96
Total	1,236	2,218	3,956	6,577	9,134	12,959	17,238
Revenue mix							
Public cloud services	97%	95%	87%	79%	69%	60%	57%
Enterprise cloud services	1%	4%	12%	21%	31%	39%	43%
Others	1%	1%	0%	1%	1%	1%	1%
Revenue YoY							
Public cloud services		76%	64%	49%	22%	25%	25%
Enterprise cloud services		518%	415%	182%	104%	81%	46%
Others		-27%	-16%	237%	50%	30%	30%
Total		79%	78%	66%	39%	42%	33%
Key operating metrics							
Public cloud							
No. of premium customers	112	139	175	191	201	213	230
YoY		24%	26%	9%	5%	6%	8%
Net dollar retention rate of premium customer	0%	161%	155%	147%	119%	122%	123%
Avg. revenue per premium customer (RMB mn)	10.2	14.5	19.2	26.4	30.6	36.2	41.9
YoY		42%	32%	38%	16%	18%	16%
Computing	356	663	1,018	1,587	-	-	-
Storage	220	289	298	285	-	-	-
Delivery	629	1,161	2,137	3,318	-	-	-
Enterprise cloud							
No. of premium customers	2	17	67	124	211	337	438
Avg. revenue per premium customer (RMB mn)	-	5.5	7.2	11.0	13.2	14.9	16.7
Cost of sales breakdown							
IDC costs	1,033	1,890	2,857	4,059	4,996	5,921	7,031
Depreciation and amortization costs	290	407	599	746	978	1,274	1,613
Staff costs	17	24	52	48	62	84	101
Other costs	14	98	440	1,367	2,494	4,256	6,011
Total	1,354	2,419	3,949	6,220	8,530	11,535	14,756
Cost of sales mix							
IDC costs	76%	78%	72%	65%	59%	51%	48%
Depreciation and amortization costs	21%	17%	15%	12%	11%	11%	11%
Staff costs	1%	1%	1%	1%	1%	1%	1%
Other costs	1%	4%	11%	22%	29%	37%	41%

Source: Company Data, CMBIS estimates

Valuation

Maintain BUY

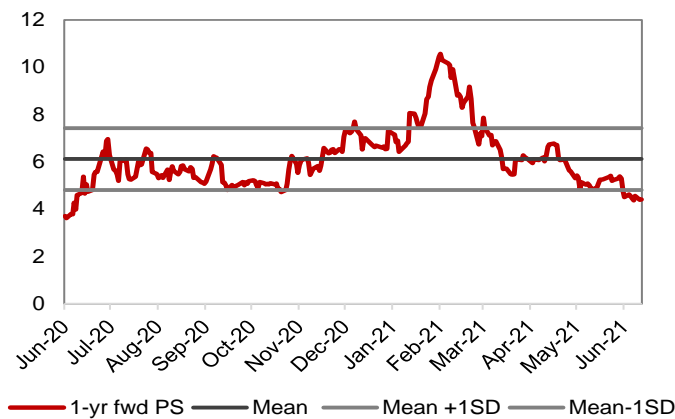
We maintain our BUY recommendation on Kingsoft Cloud with new target price of US\$45.26 (prior US\$49.05), based on unchanged 5.0x FY22E P/S, 10% discount to global peers with IaaS business exposure given smaller cloud scale despite higher growth.

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ bn)	Price (LC)	P/S FY21E	P/S FY22E	EV/sales FY21E	EV/sales FY22E	Sales CAGR FY20-23E	P/S/Growth FY22E	EBITDA margin FY21	
China IaaS pure-play												
Kingsoft Cloud	KC US	NR	7.5	33.6	4.9	3.2	4.4	2.8	38%	0.08	-1%	
Ucloud	688158 CH	NR	2.6	39.4	4.6	3.2	4.1	2.9	44%	0.07	8%	
					Mean	4.8	3.2	4.2	2.9	41%	0.08	4%
China SaaS and PaaS												
Agora	API US	NR	4.3	37.4	23.7	16.3	18.9	13.0	42%	0.39	5%	
Tuya	TUYA US	NR	12.0	21.5	35.3	21.6	31.7	19.4	n.a.	n.a.	n.a.	
Glodon	002410 CH	BUY	12.7	69.4	16.4	13.5	15.6	12.8	22%	0.62	12%	
Yonyou	600588 CH	NR	16.9	33.5	10.7	8.4	10.6	8.3	23%	0.36	13%	
Kingsoft Office	688111 CH	NR	27.3	383.5	51.0	36.9	48.7	35.3	41%	0.89	36%	
Wangsu	300017 CH	NR	2.3	6.1	2.6	2.4	1.9	1.7	1%	1.79	13%	
Sangfor	300454 CH	NR	16.6	260.0	14.0	10.4	13.8	10.3	35%	0.30	14%	
Kingdee	268 HK	NR	12.4	27.7	19.3	15.3	18.2	14.4	25%	0.61	4%	
Ming Yuan Cloud	909 HK	BUY	9.6	38.6	26.0	18.6	23.9	17.1	39%	0.48	24%	
Youzan	8083 HK	NR	3.5	1.6	9.3	6.3	9.2	6.2	41%	0.15	-16%	
Weimob	2013 HK	NR	5.4	17.4	12.2	9.2	12.4	9.3	31%	0.30	4%	
					Mean	20.0	14.5	18.6	13.5	30%	59%	11%
Companies with IaaS business												
Alibaba	BABA US	NR	572.9	211.3	5.2	4.0	4.6	3.5	31%	0.13	30%	
Tencent	700 HK	NR	719.7	582.5	7.9	6.6	8.1	6.7	20%	0.32	38%	
Baidu	BIDU US	NR	66.3	187.6	3.3	2.9	2.8	2.4	17%	0.17	25%	
Amazon	AMZN US	NR	1,767.9	3505.4	3.6	3.0	3.7	3.1	21%	0.14	14%	
Microsoft	MSFT US	NR	1,999.7	265.5	12.0	10.7	11.8	10.5	14%	0.75	46%	
Google	GOOG US	NR	1,672.0	2540.0	8.6	7.3	8.0	6.8	22%	0.33	43%	
Avg.					Mean	6.8	5.7	6.5	5.5	21%	0.31	33%

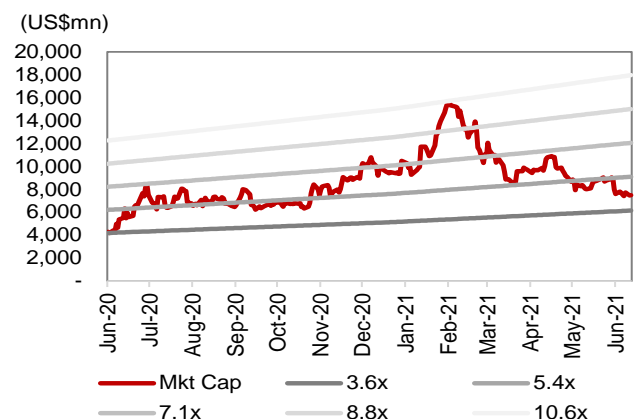
Source: Bloomberg, CMBIS

Figure 13: 12M forward P/S chart



Source: Bloomberg, CMBIS

Figure 14: 12M forward P/S band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,956	6,577	9,134	12,959	17,238
Cost of sales	(3,949)	(6,220)	(8,488)	(11,535)	(14,756)
Gross Profit	8	357	646	1,423	2,482
S&M	(317)	(409)	(530)	(661)	(751)
G&A	(239)	(380)	(480)	(604)	(681)
R&D	(595)	(775)	(957)	(1,165)	(1,338)
Operating Profit/(Loss)	(1,144)	(1,207)	(1,320)	(1,007)	(288)
Adj. EBITDA	(418)	(119)	(57)	547	1,695
Interest income	17	12	10	21	24
Interest expense	-	-	(2)	(2)	(4)
Other non-ops	778	958	986	569	167
Profit Before Tax	(348)	(237)	(326)	(418)	(101)
Income tax	(9)	(15)	(9)	(7)	(1)
Profit After Tax	(1,111)	(962)	(1,058)	(783)	(99)
Non Controlling Interest	-	(0)	(0)	(0)	(0)
Others	(50)	(20)	-	-	-
Net profit	(1,161)	(982)	(1,059)	(784)	(99)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net Income	(1,111)	(962)	(1,058)	(783)	(99)
Depreciation And	605	758	994	1,295	1,638
Net Change In Working Others	(113)	(300)	212	(465)	(294)
	181	213	0	0	0
Net cash from operating	(439)	(290)	147	46	1,245
Capital Expenditures	(1,000)	(1,560)	(1,459)	(1,618)	(1,894)
Short-term investments	(1,112)	(5,608)	0	0	0
Other Investing Activities	2,995	2,854	(2)	(2)	(2)
Net cash from investing	883	(4,314)	(1,461)	(1,620)	(1,896)
Equity raised	349	5,934	0	0	0
Change of debts	(81)	178	176	163	233
Dividend paid	0	0	0	0	0
Others	(204)	11	0	0	0
Net cash from financing	65	6,124	176	163	233
Net change in cash	509	1,520	(1,138)	(1,411)	(418)
Cash at the beginning of the year	1,507	2,023	3,425	2,287	876
Exchange difference	8	(118)	0	0	0
Cash at the end of the year	2,023	3,425	2,287	876	458

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	1,882	2,384	2,852	3,178	3,436
PPE, net	1,721	1,957	2,431	2,762	3,027
Intangible assets	7	17	11	4	-3
Others	154	411	411	411	411
Current assets	4,150	9,545	8,818	9,109	10,333
Cash	2,023	3,425	2,287	876	458
Accounts Receivable	1,347	2,335	2,724	4,046	5,261
Others	779	3,785	3,807	4,188	4,613
Current liabilities	2,420	3,466	4,053	5,388	6,875
Borrowings	100	74	74	74	74
Accounts Payable	1,255	2,057	2,301	3,099	3,982
Accrued Expenses	949	845	1,224	1,664	2,129
Others	116	489	453	551	690
Non-current liabilities	75	224	435	500	593
Borrowings	74	-	212	277	370
Amounts due	-	-	-	-	-
Others	0	224	224	224	224
Total mezzanine equity	7,735	-	-	-	-
Share capital	6	23	23	23	23
Capital surplus	92	14,150	14,150	14,150	14,150
Retained earnings	-	-	-	-	-
Others	608	-68	-68	-68	-68
Total equity	-4,197	8,240	7,182	6,399	6,299

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Public cloud services	87%	79%	69%	60%	57%
Enterprise cloud services	12%	21%	31%	39%	43%
Others	0%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
Growth (YoY)					
Revenue	78%	66%	39%	42%	33%
Gross profit	n.a.	n.a.	n.a.	n.a.	n.a.
Adj. EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Margins					
Gross margin	0%	5%	7%	11%	14%
Operating margin	-29%	-18%	-14%	-8%	-2%
Adj. EBITDA margin	-11%	-2%	-1%	4%	10%
Balance sheet ratio					
Net debt / equity ratio (%)	net	net	net	net	466.
	cash	cash	cash	cash	8
Current ratio	1.7	2.8	2.2	1.7	1.5
Returns (%)					
ROE	-33%	-12%	-15%	-12%	-2%
ROIC	-29%	-9%	-10%	-8%	-1%
Per ADS					
EPS (RMB)	-19.58	-6.14	-4.75	-3.52	-0.45
BVPS (RMB)	-70.8	51.5	32.3	28.7	28.3

Source: Company data, CMBIS estimates

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