

Kuaishou (1024 HK)

Mixed 2Q21 with competition & margin pressure

We expect mixed 2Q21 results, with rev +46% YoY, 1% below consensus. Non-GAAP net loss was slightly wider than consensus. Ads and ecommerce momentum will continue, with rev +157%/156% YoY, in our estimates, while livestreaming weakness is yet over. Stock price pulled back by ~60% in Jul for soft user trend (-9% QoQ based on QM), wider gap between Douyin, and margin dilution for heavier investment. We cut our topline by 5%/11%/15% in FY21/22/22E, and trimmed our earnings for higher S&M and content cost. New TP was adjusted to HK\$145. Multiples might still see temporary pressure due to market correction, regulatory tightening and mixed outlook.

- Mixed 2Q21E.** We estimate 2Q21 rev at RMB18.7bn, up 46% YoY, 1% below consensus, in which livestreaming/ ads/ecommerce -15%/+157%/+156% YoY. Non-GAAP net loss would reach RMB5.2bn, vs. consensus of RMB4.2bn.
- Key concern on wider user gap with Douyin and increasing investment.** We expect Kuaishou's MAU to be flat QoQ in 2Q21E owing to its soft season. QM data suggests its MAU -9% QoQ, vs. +8% QoQ for Douyin. Market concern lies in its share loss to Douyin and margin pressure. We expect its net loss to widen in FY21E (at RMB21bn) and breakeven year to delay (vs. previous FY22E), due to lower GPM with heavier livestreaming rev share, content cost and high S&M (especially for overseas expansion).
- Strong ads & ecommerce to offset soft livestreaming.** We expect livestreaming rev -15% YoY in 2Q21E (vs. -20% in 1Q21) under regulation headwinds and traffic shift to ecommerce. Soft livestreaming has been well anticipated by the market. Ads momentum will continue, with rev +157% YoY, in our estimate. We keep confident on ads' triple-digit-growth in FY21E, driven by rising eCPM & better targeting. We expect ecommerce rev +156% YoY, with eye-catching performance in 616 (self-operation <品牌自播> GMV of TOP100 brands +151% MoM; TOP10 broadcasters GMV +83% MoM).
- Maintain BUY.** We trimmed our topline forecast, with wider net loss, to reflect higher investment in content and overseas expansion. Adjust our TP to HK\$145 from HK\$382 (implying **6.5x/5x FY21/22E P/S**), on lower financial estimates and higher multiple discount amid sector de-rating.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	39,120	58,776	81,468	110,073	140,408
YoY growth (%)	92.7	50.2	38.6	35.1	27.6
Adj. net income (RMB mn)	1,034	(7,949)	(21,120)	(15,677)	(10,307)
Adj. EPS (RMB)	NA	NA	(4.8)	(3.5)	(2.3)
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(6.2)	(0.2)	3.0
P/E (x)	NA	NA	NA	-28	-42
P/S (x)	10.5	7.0	5.0	3.7	2.9
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, CMBIS estimates

BUY (Maintain)

Target Price	HK\$145
(Previous TP)	HK\$382)
Up/Downside	+29.2%
Current Price	HK\$112

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	466,769
Avg 3 mths t/o (HK\$ mn)	1,355.17
52w High/Low (HK\$)	417.8/ 105.0
Total Issued Shares (mn)	3,394

Source: Bloomberg

Shareholding Structure

Tencent	21.5%
5Y Capital	16.6%
DCM LP	8.6%

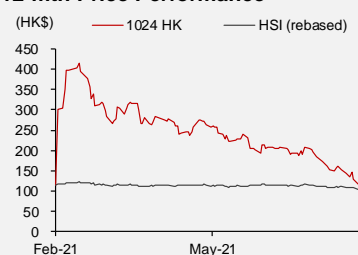
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-41.3%	-35.3%
3-mth	-56.4%	-51.4%
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	81,468	110,073	140,408	86,193	121,197	160,427	-5.5%	-9.2%	-12.5%
Gross Profit	36,660	53,251	70,468	40,275	65,246	93,759	-9.0%	-18.4%	-24.8%
Operating Profit	(25,492)	(25,109)	(19,378)	(16,858)	(1,130)	15,882	NA	NA	NA
Adj. net profit	(21,120)	(15,677)	(10,307)	(20,764)	(955)	11,966	NA	NA	NA
Adj. EPS (RMB)	(4.78)	(3.55)	(2.33)	(6.25)	(0.22)	3.01	NA	NA	NA
Gross Margin	45.0%	48.4%	50.2%	46.7%	53.8%	58.4%	-1.7ppts	-5.5ppts	-8.3ppts
Operating Margin	-31.3%	-22.8%	-13.8%	-19.6%	-0.9%	9.9%	-11.7ppts	-21.9ppts	-23.7ppts
Adj. net margin	-25.9%	-14.2%	-7.3%	-24.1%	-0.8%	7.5%	-1.8ppts	-13.5ppts	-14.8ppts

Source: CMBIS estimates, Bloomberg

Figure 2: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	81,468	110,073	140,408	85,708	123,371	164,728	-4.9%	-10.8%	-14.8%
Gross Profit	36,660	53,251	70,468	38,225	65,334	93,987	-4.1%	-18.5%	-25.0%
Operating Profit	(25,492)	(25,109)	(19,378)	(11,991)	4,031	22,348	NA	NA	NA
Adj. net profit	(21,120)	(15,677)	(10,307)	(7,474)	9,283	26,133	NA	NA	NA
Adj. EPS (RMB)	(4.78)	(3.55)	(2.33)	(1.69)	2.10	5.91	NA	NA	NA
Gross Margin	45.0%	48.4%	50.2%	44.6%	53.0%	57.1%	+0.4ppts	-4.6ppts	-6.9ppts
Operating Margin	-31.3%	-22.8%	-13.8%	-14.0%	3.3%	13.6%	-17.3ppts	-26.1ppts	-27.4ppts
Adj. net margin	-25.9%	-14.2%	-7.3%	-8.7%	7.5%	15.9%	-17.2ppts	-21.8ppts	-23.2ppts

Source: CMBIS estimates

Figure 3: 2Q21 financial preview

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	QoQ	YoY	Consensus	Diff %
Revenue	10,190	11,852	12,458	12,863	15,357	18,099	17,019	18,746	10%	46%	19,001	-1%
Operating Profit	568	(975)	(5,026)	(2,540)	(1,377)	(1,378)	(7,292)	(7,123)	NA	NA	(4,846)	NA
Net profit	(1,349)	(18,034)	(30,492)	(37,599)	(29,280)	(19,264)	(57,751)	(6,186)	NA	NA	(5,501)	NA
Adj. net profit	593	(962)	(4,345)	(1,862)	(1,038)	(704)	(4,918)	(5,249)	NA	NA	(4,169)	NA
Margin (%)												
Gross Margin	38.7%	39.1%	34.2%	34.5%	43.1%	47.0%	41.1%	44.2%			44.2%	
Operating Margin	5.6%	-8.2%	-40.3%	-19.7%	-9.0%	-7.6%	-42.8%	-38.0%			-25.5%	
Adj. net margin	5.8%	-8.1%	-34.9%	-14.5%	-6.8%	-3.9%	-28.9%	-28.0%			-21.9%	
Growth (%)												
Revenue (YoY)	NA	NA	NA	NA	50.7%	52.7%	36.6%	45.7%			47.7%	
Revenue (QoQ)	NA	16.3%	5.1%	3.2%	19.4%	17.9%	-6.0%	10.1%			11.6%	
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

Figure 4: 2Q21 revenue breakdown

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	QoQ	YoY
Total revenue	10,190	11,852	12,458	12,863	15,357	18,099	17,019	18,746	10%	46%
Online marketing services	2,047	3,151	3,273	3,889	6,181	8,511	8,558	10,012	17%	157%
Live streaming	8,089	8,520	9,009	8,340	7,960	7,900	7,250	7,113	-2%	-15%
Other services	54	181	176	634	1,215	1,688	1,211	1,621	34%	156%

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	39,120	58,776	81,468	110,073	140,408
Live streaming	31,442	33,209	29,567	28,148	27,675
Online marketing services	7,419	21,855	43,750	67,861	91,691
Other services	260	3,712	8,152	14,064	21,042
COGS	(25,017)	(34,961)	(44,808)	(56,822)	(69,940)
Gross profit	14,104	23,815	36,660	53,251	70,468
S&M	(9,865)	(26,615)	(49,859)	(61,861)	(69,081)
Admin.Exp.	(865)	(1,677)	(2,665)	(3,381)	(4,032)
R&D	(2,944)	(6,548)	(10,361)	(13,999)	(17,857)
Other gains	260	704	733	881	1,123
Operating profit	689	(10,320)	(25,492)	(25,109)	(19,378)
Other income/(exp)	(19,954)	(106,881)	194	432	645
Pre-tax Income	(19,265)	(117,201)	(25,298)	(24,678)	(18,733)
Income Tax	(386)	566	122	4,047	2,810
Net profit	(19,652)	(116,635)	(25,176)	(20,631)	(15,923)
Adj. net profit	1,034	(7,949)	(21,120)	(15,677)	(10,307)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(19,265)	(117,201)	(25,298)	(24,678)	(18,733)
D&A	2,160	2,511	2,801	3,801	5,000
Change in WC	5,168	5,410	3,747	5,608	6,015
Others	19,957	111,569	4,178	9,000	8,426
Operating CF	8,020	2,289	(14,572)	(6,268)	709
Capex	(2,548)	(6,382)	(3,879)	(6,206)	(7,447)
Purchase of investments	(4,304)	5,212	-	-	-
Others	(3,297)	(3,697)	-	-	-
Investing CF	(10,149)	(4,867)	(3,879)	(6,206)	(7,447)
Equity raised	-	-	39,000	-	-
Change of Debts	-	-	-	-	-
Cash from CB raised	1,527	19,766	-	-	-
Others	(829)	(476)	-	-	-
Financing CF	698	19,290	39,000	-	-
Net change in cash	(1,430)	16,711	20,549	(12,474)	(6,739)
Cash (beg of yr)	5,370	3,996	20,392	40,941	28,466
FX	56	(316)	-	-	-
Cash (end of yr)	3,996	20,392	40,941	28,466	21,728

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	15,103	20,619	21,697	24,102	26,549
Property and equipment	6,232	7,206	8,193	10,428	12,702
Right-of-use assets	4,353	5,200	5,200	5,200	5,200
Intangible assets	1,120	1,248	1,338	1,508	1,682
Others	3,398	6,966	6,966	6,966	6,966
Current assets	17,311	31,528	53,311	42,623	37,809
Cash	3,996	20,392	40,941	28,466	21,728
Prepayments	2,033	2,285	3,641	4,617	5,683
Financial assets at fair value through profit or loss	8,902	3,690	3,690	3,690	3,690
Trade receivables	1,107	2,428	2,306	3,116	3,975
Others	1,272	2,733	2,733	2,733	2,733
Current liabilities	15,374	23,185	28,165	35,559	43,500
Accounts payables	9,055	11,544	16,219	20,567	25,316
Other payables and accruals	3,028	5,763	5,423	6,877	8,464
Advances from customers	1,530	3,290	3,936	5,528	7,133
Lease liabilities	1,337	2,099	2,099	2,099	2,099
Others	424	488	488	488	488
Non-current liabilities	72,770	189,012	189,012	189,012	189,012
Convertible redeemable preferred shares	69,444	185,373	185,373	185,373	185,373
Others	3,325	3,640	3,640	3,640	3,640
MI	-	-	-	-	-
Total Equity	(55,729)	(160,050)	(142,170)	(157,847)	(168,154)
Shareholders' equity	(55,729)	(160,050)	(142,170)	(157,847)	(168,154)

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Live streaming	80.4	56.5	36.3	25.6	19.7
Online marketing services	19.0	37.2	53.7	61.7	65.3
Other services	0.7	6.3	10.0	12.8	15.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	92.7	50.2	38.6	35.1	27.6
Gross profit	143.1	68.9	53.9	45.3	32.3
EBIT	NA	NA	NA	NA	NA
Adj. net profit	404.7	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	1.8	(17.6)	(31.3)	(22.8)	(13.8)
Pre-tax margin	(49.2)	(199.4)	(31.1)	(22.4)	(13.3)
Adj. net margin	2.6	(13.5)	(25.9)	(14.2)	(7.3)
Effective tax rate	2.0	(0.5)	(0.5)	(16.4)	(15.0)
Returns (%)					
ROA	3.2	(15.2)	(28.2)	(23.5)	(16.0)

Source: Company data, CMBIS estimates

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