

Zhihu (ZH US)

2H21E topline & user momentum to continue

Zhihu delivered upbeat 2Q21 and solid guidance, with rev +144% YoY (2% above consensus) and net loss beat. 3Q21E rev guidance beat 1%. MAU reached 94.3mn (+46% YoY). We are impressed by its eye-catching user metrics and topline guidance despite soft industrial ads sentiment in 2H21E. CCS growth (+16x YoY) surprised us on client network expansion, while ads trended moderately. We reiterate our confidence on its 2H21E topline & user momentum (expecting MAU +36% YoY in 2H21E). Zhihu would be relatively defensive for its limited regulatory risk and solid growth outlook. We keep our topline unchanged but trimmed bottom line to reflect continuous content investment and user acquisition. Maintain TP at lower TP of US\$15.

- Upbeat 2Q21 with solid guidance.** 2Q21 revenue was RMB638mn (+144% YoY), 2%/4% above consensus/ our estimates. Non-GAAP net loss was RMB200mn, in line with our estimate while better than consensus. 3Q21E guidance came in at RMB815-820mn, +113% to 114% YoY, with midpoint 1%/0% above consensus/ our estimates.
- User metrics to trend well, backed by video-lization.** Thanks to strong seasonality (Gaokao campaign), MAU accelerated to +46% YoY (vs. +38% in 1Q21) and exceeded 99mn in Jun 2021, with stable DAU/MAU and daily time spent. With upgraded distribution mechanism, Zhihu witnessed triple-digit YoY growth of viewership and interaction on technology, economic, and law-related content. We expect solid user momentum to continue, with MAU +36% YoY in 2H21E, backed by content diversification, video-lization and effective S&M (CAC <RMB48).
- Strong CCS offsetting soft ads.** We are impressed by its CCS rev (+16x YoY, 35% above our estimate), thanks to client network expansion (+5x YoY), superior CTR and ROI, and increasing CPC. We expect CCS momentum to continue in 2H21E as penetration remains low (<50k CCS vs. 460mn pieces of content). Paid membership trends well (rev +124% YoY) with stable retention ratio. Ads (+48% YoY) slightly missed our estimates by 10%, mainly on prudent ads sentiment under COVID-19 uncertainty and tightening regulation (esp. edu sector). We expect CCS/ paid membership/ ads rev +6x / 96%/ 15% in 3Q21E.
- Maintain BUY.** We keep our topline unchanged but trimmed bottom line to reflect content investment and user acquisition, with lower TP of US\$15.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	671	1,352	2,907	5,448	9,358
YoY growth (%)	NA	101.7	115.0	87.4	71.8
Adj. net income (RMB mn)	(825)	(337)	(1,008)	(962)	59
Adj. EPS (RMB)	(2.02)	(0.71)	(1.77)	(1.69)	0.10
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS	NA	NA	(1.4)	(0.7)	0.8
P/E (x)	NA	NA	NA	NA	608.1
P/S (x)	38.7	22.4	12.4	6.6	3.9
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(25.6)	(12.3)	(14.3)	(15.9)	1.0
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **US\$15.0**
(Previous TP **US\$16.0**)
Up/Downside **+53.4%**
Current Price **US\$9.8**

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	5,222
Avg 3 mths t/o (US\$ mn)	19.69
52w High/Low (US\$)	13.85/ 6.81
Total Issued Shares (mn)	523

Source: Bloomberg

Shareholding Structure

BlackRock	1.30%
Krane Funds Advisors	0.81%
Barings	0.76%

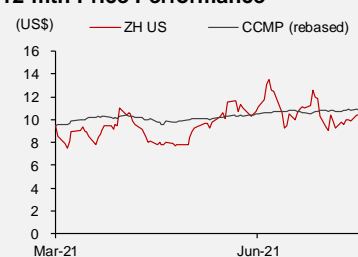
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-16.1%	-17.7%
3-mth	16.4%	5.5%
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: 2Q21 financial review

RMB mn, Dec-YE	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY	Consensus	Diff %
Revenue	118	155	174	224	188	261	383	520	478	638	33.5%	144.2%	628	2%
Operating Profit	(257)	(235)	(290)	(277)	(211)	(158)	(130)	(105)	(342)	(351)	NA	NA	(392)	NA
Net profit	(359)	(335)	(388)	(349)	(371)	(286)	(280)	(260)	(495)	(321)	NA	NA	(388)	NA
Adj. net profit	(219)	(184)	(228)	(194)	(161)	(70)	(79)	(26)	(194)	(200)	NA	NA	(248)	NA
Adj. EPS (RMB)	(0.53)	(0.45)	(0.56)	(0.47)	(0.34)	(0.54)	(0.17)	(0.05)	(1.35)	(0.34)	NA	NA	(0.64)	NA
Margin (%)														
Gross margin	29.5%	45.5%	48.1%	55.1%	41.6%	48.4%	57.5%	64.1%	57.0%	59.0%			57.0%	
Operating margin	-217.7%	-152.0%	-166.5%	-123.7%	-112.1%	-60.3%	-33.9%	-20.1%	-71.6%	-54.9%			-62.3%	
Adj. net margin	-185.3%	-119.2%	-131.0%	-86.5%	-85.6%	-26.9%	-20.7%	-5.1%	-40.5%	-31.4%			-39.5%	
Growth (%)														
Revenue (YoY)					59.4%	69.1%	120.2%	132.0%	154.2%	144.2%				140.3%
Revenue (QoQ)		31.0%	12.5%	28.8%	-16.0%	38.9%	46.5%	35.8%	-8.0%	33.5%				31.3%
Operating Profit					-17.9%	-32.9%	-55.2%	-62.3%	62.4%	122.4%				148.3%
Adj. net profit					-26.3%	-61.8%	-65.3%	-86.4%	20.2%	185.0%				252.8%

Source: Company data, Bloomberg

Figure 2: 2Q21 revenue breakdown

RMB mn, Dec-YE	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Total revenue	118	155	174	224	188	261	383	520	478	638	33%	144%
Content-commerce solutions	0	0	0	1	1	13	46	76	121	207	72%	1529%
Advertising	103	136	153	186	126	167	231	319	214	248	16%	48%
Paid membership	15	18	20	36	56	69	91	104	127	155	22%	124%
Others	1	1	1	2	6	12	15	20	17	28	62%	131%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2,907	5,448	9,358	2,911	5,362	8,855	-0.1%	1.6%	5.7%
Gross Profit	1,462	3,023	5,685	1,676	3,253	5,538	-12.8%	-7.1%	2.7%
Operating Profit	(1,430)	(1,363)	(474)	(1,150)	(1,044)	(89)	NA	NA	NA
Adj. net profit	(1,008)	(962)	59	(623)	(423)	417	NA	NA	-85.7%
EPS (RMB)	(1.77)	(1.69)	0.10	(1.40)	(0.74)	0.80	NA	NA	-87.0%
Gross Margin	50.3%	55.5%	60.8%	57.6%	60.7%	62.5%	-7.3ppts	-5.2ppts	-1.8ppts
Operating Margin	-49.2%	-25.0%	-5.1%	-39.5%	-19.5%	-1.0%	-9.7ppts	-5.6ppts	-4.1ppts
Net Margin	-34.7%	-17.7%	0.6%	-21.4%	-7.9%	4.7%	-13.3ppts	-9.8ppts	-4.1ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2,907	5,448	9,358	2,926	5,498	9,363	-0.7%	-0.9%	-0.1%
Gross Profit	1,462	3,023	5,685	1,602	3,075	5,570	-8.7%	-1.7%	2.1%
Operating Profit	(1,430)	(1,363)	(474)	(800)	(827)	(282)	78.8%	64.8%	68.3%
Adj. net profit	(1,008)	(962)	59	(470)	(426)	252	114.4%	125.9%	-76.4%
EPS (RMB)	(1.77)	(1.69)	0.10	(0.82)	(0.75)	0.44	114.4%	125.9%	-76.4%
Gross Margin	50.3%	55.5%	60.8%	54.7%	55.9%	59.5%	-4.5ppts	-0.4ppts	+1.3ppts
Operating Margin	-49.2%	-25.0%	-5.1%	-27.3%	-15.0%	-3.0%	-21.9ppts	-10.0ppts	-2.1ppts
Net Margin	-34.7%	-17.7%	0.6%	-16.1%	-7.7%	2.7%	-18.6ppts	-9.9ppts	-2.1ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues	671	1,352	2,907	5,448	9,358
CCS	1	136	994	2,409	4,714
Advertising	577	843	1,110	1,574	2,089
Paid membership	88	320	649	1,051	1,604
Others	4	53	154	414	951
COGS	(358)	(594)	(1,445)	(2,425)	(3,673)
Gross profit	312	758	1,462	3,023	5,685
S&M	(766)	(735)	(1,774)	(2,614)	(3,700)
R&D	(351)	(330)	(496)	(897)	(1,398)
G&A	(253)	(296)	(621)	(876)	(1,061)
Operating profit	(1,058)	(603)	(1,430)	(1,363)	(474)
Other income	54	86	65	74	94
Pre-tax Income	(1,004)	(516)	(1,365)	(1,290)	(380)
Income Tax	(0)	(1)	(2)	0	0
Net profit	(1,004)	(518)	(1,367)	(1,290)	(380)
Accretions	(427)	(681)	(171)	0	0
Net profit to shareholder	(1,431)	(1,198)	(1,537)	(1,290)	(380)
Adj. net profit	(825)	(337)	(1,008)	(962)	59

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(1,004)	(518)	(1,367)	(1,290)	(380)
D&A	20	20	14	20	33
Change in WC	85	(10)	323	219	584
Others	183	264	357	328	439
Operating CF	(716)	(244)	(674)	(722)	676
CAPEX	(6)	(2)	(20)	(38)	(66)
Others	(2,097)	432	0	0	0
Investing CF	(2,102)	430	(20)	(38)	(66)
Issuance of shares	3,011	0	0	0	0
IPO proceeds	0	0	5,286	0	0
Others	(13)	9	0	0	0
Financing CF	2,998	9	5,286	0	0
Net change in cash	180	195	4,592	(760)	610
Cash (beg of yr)	713	900	958	5,550	4,790
Fx effect	7	(138)	0	0	0
Cash (end of yr)	900	958	5,550	4,790	5,400

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	82	41	65	83	115
PP&E	15	8	17	33	59
Intangible assets, net	35	23	22	23	30
Right-of-use assets	26	3	26	26	26
Others	(0)	0	0	0	0
Current assets	3,902	3,720	9,215	9,170	10,735
Cash, cash equivalents	900	958	5,550	4,790	5,400
Term deposits	1,151	1,093	1,093	1,093	1,093
Short-term investments	1,492	1,046	1,046	1,046	1,046
Other current asset	0	0	0	0	0
Current liabilities	763	1,015	2,257	3,191	4,730
AP and accruals	287	502	1,172	1,395	1,761
Salary welfare payables	207	232	337	590	1,027
Contract liabilities	107	160	676	1,095	1,671
Others	0	0	0	0	0
Non-current liabilities	3	0	0	0	0
Lease liabilities	3	0	0	0	0
Mezzanine equity and shareholders' equity	3,218	2,747	7,023	6,061	6,121

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
CCS	0.1	10.0	34.2	44.2	50.4
Advertising	86.1	62.4	38.2	28.9	22.3
Paid membership	13.1	23.7	22.3	19.3	17.1
Others	0.7	3.9	5.3	7.6	10.2
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	NA	101.7	115.0	87.4	71.8
Gross profit	NA	142.7	92.9	106.8	88.1
EBIT	NA	(43.0)	137.2	(4.7)	(65.2)
Adj. net profit	NA	(59.1)	198.6	(4.5)	(106.2)
P&L ratios (%)					
Operating margin	(157.9)	(44.6)	(49.2)	(25.0)	(5.1)
Pre-tax margin	(149.8)	(38.2)	(46.9)	(23.7)	(4.1)
Adj. net margin	(123.0)	(25.0)	(34.7)	(17.7)	0.6
Effective tax rate	0.0	0.2	0.2	0.0	0.0
Returns (%)					
ROE	(25.6)	(12.3)	(14.3)	(15.9)	1.0
ROA	(20.7)	(9.0)	(10.9)	(10.4)	0.5
Per share					
EPS (RMB)	(2.0)	(0.7)	(1.8)	(1.7)	0.1
DPS (RMB)	1.0	2.0	3.0	4.0	5.0
BVPS (RMB)	37.4	41.0	43.2	47.9	54.4

Source: Company data, CMBIS estimates

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