

# Kuaishou (1024 HK)

## Cautious on 2H21E momentum

Kuaishou reported mixed 2Q21 with upbeat financials but soft user metrics. Rev +49% YoY, 2% above consensus. Non-GAAP net loss was at RMB4.8bn (vs. consensus at RMB4.9bn). MAU would mildly pick up in 3Q21E, but we turn more conservative on its 2H21E monetization and margin trend. We expect 3Q21E rev to decelerate to 30% YoY, in which live streaming /ads/ ecommerce +1%/+70%/+35% YoY. Apart from weak livestreaming, ads faced multiple challenges on soft ads demand (esp. from edu and game verticals) amid tightening regulations and macro uncertainty. Mgmt guided down FY21E ecommerce GMV to RMB650bn, due to intensified competition and soft consumption. 2H21E net loss would widen. We trimmed our rev forecast by 2-4% in FY21-23E, with lower margin. Our new TP was cut to HK\$110. Stock price might still bear temporary pressure, due to market correction, regulatory tightening and weakening 2H21E.

- **2Q21 financials beat while user metrics missed.** Kuaishou 2Q21 rev +49% YoY, 2%/2% above consensus/our estimates, in which live streaming/ads/e-commerce -14%/+156%/+213% YoY. Non-GAAP net loss was at RMB4.8bn, better than RMB4.9bn/RMB5.2bn from consensus/our estimates.
- **MAU to mildly pick up in 2H21E, with full-year target intact.** Given soft season, 2Q21 MAU -3% QoQ, DAU -1% QoQ, time spent per DAU +7.5% QoQ. Mgmt guided MAU to see sequential growth in Jul & Aug, with FY21E MAU target unchanged (mid-teens YoY growth). However, market concern still lies in its share loss to Douyin and user expansion with lower ROI.
- **More prudent on 2H21E monetization and margin trend.** We expect 3Q21E rev to decelerate to 30% YoY, in which live streaming/ads/e-commerce +1%/+70%/+35% YoY. Ads faced multiple challenges on soft ads demand (esp. from edu and game verticals), amid tightening regulations and macro uncertainty. eCPM would decline in 2H21E. Mgmt guided down FY21E ecommerce GMV to RMB650bn due to intensified competition and soft consumption, with lower take rate in 2H21E (forecasting 1% in FY21E). We expect its net loss to widen in 2H21E (adj. NPM at -35% in 3Q21E), due to lower GPM (40% in 3Q21E) with heavier livestreaming rev share, content cost and higher S&M (forecasting 60% ratio in 3Q21E).
- **Maintain BUY.** We trimmed our rev forecast by 2-4% in FY21-23E, with lower TP at HK\$110 (implying **5x/4x FY21/22E P/S**). Multiples might still see temporary pressure due to market correction, regulatory tightening, and mixed outlook.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	39,120	58,776	80,115	107,199	135,463
YoY growth (%)	92.7	50.2	36.3	33.8	26.4
Adj. net income (RMB mn)	1,034	(7,949)	(24,943)	(19,051)	(12,103)
Adj. EPS (RMB)	NA	NA	(5.6)	(4.3)	(2.7)
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(6.3)	(0.9)	2.3
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	6.8	4.6	3.3	2.5	2.0
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\$110
(Previous TP)	HK\$145
Up/Downside	+41.9%
Current Price	HK\$77.5

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### Stock Data

Mkt Cap (HK\$ mn)	336,556
Avg 3 mths t/o (HK\$ mn)	1,658.34
52w High/Low (HK\$)	417.8/ 64.5
Total Issued Shares (mn)	3,394

Source: Bloomberg

### Shareholding Structure

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

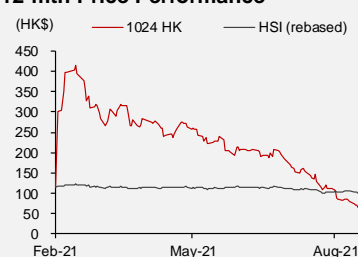
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-46.1%	-41.4%
3-mth	-70.9%	-67.0%
6-mth	-80.5%	-76.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. Mixed 2Q21 with competition & margin pressure – 30 Jul 2021
2. 2Q21E rev to accelerate with better margin – 25 May 2021
3. Solid 4Q20; Expecting strong users in 1Q21E – 24 Mar 2021

Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	80,115	107,199	135,463	85,493	119,479	156,124	-6.3%	-10.3%	-13.2%
Gross Profit	35,747	49,748	65,722	39,459	62,867	88,999	-9.4%	-20.9%	-26.2%
Operating Profit	(32,503)	(24,422)	(18,251)	(20,430)	(9,732)	5,175	NA	NA	NA
Adj. net profit	(24,943)	(19,051)	(12,103)	(15,528)	(5,885)	7,291	NA	NA	NA
Adj. EPS (RMB)	(5.64)	(4.31)	(2.74)	(6.34)	(0.91)	2.33	NA	NA	NA
Gross Margin	44.6%	46.4%	48.5%	46.2%	52.6%	57.0%	-1.5ppts	-6.2ppts	-8.5ppts
Operating Margin	-40.6%	-22.8%	-13.5%	-23.9%	-8.1%	3.3%	-16.7ppts	-14.6ppts	-16.8ppts
Adj. net margin	-31.1%	-17.8%	-8.9%	-18.2%	-4.9%	4.7%	-13.0ppts	-12.8ppts	-13.6ppts

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	80,115	107,199	135,463	81,468	110,073	140,408	-1.7%	-2.6%	-3.5%
Gross Profit	35,747	49,748	65,722	36,660	53,251	70,468	-2.5%	-6.6%	-6.7%
Operating Profit	(32,503)	(24,422)	(18,251)	(25,492)	(25,109)	(19,378)	NA	NA	NA
Adj. net profit	(24,943)	(19,051)	(12,103)	(21,120)	(15,677)	(10,307)	NA	NA	NA
Adj. EPS (RMB)	(5.64)	(4.31)	(2.74)	(4.78)	(3.55)	(2.33)	NA	NA	NA
Gross Margin	44.6%	46.4%	48.5%	45.0%	48.4%	50.2%	-0.4ppts	-2.0ppts	-1.7ppts
Operating Margin	-40.6%	-22.8%	-13.5%	-31.3%	-22.8%	-13.8%	-9.3ppts	+0.0ppts	+0.3ppts
Adj. net margin	-31.1%	-17.8%	-8.9%	-25.9%	-14.2%	-7.3%	-5.2ppts	-3.5ppts	-1.6ppts

Source: CMBIS estimates

Figure 3: 2Q21 financial review

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY	Consensus	Diff %
Revenue	10,190	11,852	12,458	12,863	15,357	18,099	17,019	19,139	12%	49%	18,731	2%
Operating Profit	568	(975)	(5,026)	(2,540)	(1,377)	(1,378)	(7,292)	(7,215)	NA	NA	(6,401)	NA
Net profit	(1,349)	(18,034)	(30,492)	(37,599)	(29,280)	(19,264)	(57,751)	(7,036)	NA	NA	(6,253)	NA
Adj. net profit	593	(962)	(4,345)	(1,938)	(962)	(704)	(4,918)	(4,770)	NA	NA	(4,939)	NA
<b>Margin (%)</b>												
Gross Margin	38.7%	39.1%	34.2%	34.5%	43.1%	47.0%	41.1%	43.8%			44.4%	
Operating Margin	5.6%	-8.2%	-40.3%	-19.7%	-9.0%	-7.6%	-42.8%	-37.7%			-34.2%	
Adj. net margin	5.8%	-8.1%	-34.9%	-15.1%	-6.3%	-3.9%	-28.9%	-24.9%			-26.4%	
<b>Growth (%)</b>												
Revenue (YoY)	NA	NA	NA	NA	50.7%	52.7%	36.6%	48.8%			45.6%	
Revenue (QoQ)	NA	16.3%	5.1%	3.2%	19.4%	17.9%	-6.0%	12.5%			10.1%	
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	2Q21	QoQ	YoY
<b>Total revenue</b>	<b>10,190</b>	<b>11,852</b>	<b>12,458</b>	<b>12,863</b>	<b>15,357</b>	<b>18,099</b>	<b>17,019</b>	<b>19,139</b>	<b>12%</b>	<b>49%</b>
Online marketing services	2,047	3,151	3,273	3,889	6,181	8,511	8,558	9,962	16%	156%
Live streaming	8,089	8,520	9,009	8,340	7,960	7,900	7,250	7,193	-1%	-14%
Other services	54	181	176	634	1,215	1,688	1,211	1,983	64%	213%

Source: Company data

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	39,120	58,776	80,115	107,199	135,463
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	6,799	11,190	16,097
<b>COGS</b>	(25,017)	(34,961)	(44,369)	(57,451)	(69,741)
<b>Gross profit</b>	14,104	23,815	35,747	49,748	65,722
S&M	(9,865)	(26,615)	(49,031)	(58,102)	(63,938)
Admin.Exp.	(865)	(1,677)	(3,983)	(3,293)	(3,890)
R&D	(2,944)	(6,548)	(16,037)	(13,633)	(17,228)
Other gains	260	704	801	858	1,084
<b>Operating profit</b>	689	(10,320)	(32,503)	(24,422)	(18,251)
Other income/(exp)	(19,954)	(106,881)	194	432	645
<b>Pre-tax Income</b>	(19,265)	(117,201)	(32,310)	(23,991)	(17,607)
Income Tax	(386)	566	156	116	85
<b>Net profit</b>	(19,652)	(116,635)	(32,154)	(23,875)	(17,522)
<b>Adj. net profit</b>	1,034	(7,949)	(24,943)	(19,051)	(12,103)

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	(19,265)	(117,201)	(32,310)	(23,991)	(17,607)
D&A	2,160	2,511	2,801	3,801	5,000
Change in WC	5,168	5,410	3,608	6,080	5,740
Others	19,957	111,569	7,366	4,940	5,503
<b>Operating CF</b>	8,020	2,289	(18,534)	(9,170)	(1,362)
Capex	(2,548)	(6,382)	(3,879)	(6,206)	(7,447)
Purchase of investments	(4,304)	5,212	-	-	-
Others	(3,297)	(3,697)	-	-	-
<b>Investing CF</b>	(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)	-	-	-
<b>Financing CF</b>	698	19,290	39,000	-	-
<b>Net change in cash</b>	(1,430)	16,711	16,587	(15,376)	(8,810)
Cash (beg of yr)	5,370	3,996	20,392	36,978	21,602
FX	56	(316)	-	-	-
<b>Cash (end of yr)</b>	3,996	20,392	36,978	21,602	12,793

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	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
<b>Current assets</b>	17,311	31,528	49,275	35,728	28,717
Cash	3,996	20,392	36,978	21,602	12,793
Prepayments	2,033	2,285	3,605	4,668	5,667
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	2,268	3,035	3,835
Others	1,272	2,733	2,733	2,733	2,733
<b>Current liabilities</b>	15,374	23,185	27,952	35,862	43,401
Accounts payables	9,055	11,544	16,060	20,795	25,244
Other payables and accruals	3,028	5,763	5,370	6,953	8,440
Advances from customers	1,530	3,290	3,936	5,527	7,130
Lease liabilities	1,337	2,099	2,099	2,099	2,099
Others	424	488	488	488	488
<b>Non-current liabilities</b>	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)	(145,993)	(165,044)	(177,147)
<b>Shareholders' equity</b>	(55,729)	(160,050)	(145,993)	(165,044)	(177,147)

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Live streaming	80.4	56.5	36.9	26.3	20.4
Online marketing services	19.0	37.2	54.6	63.3	67.7
Other services	0.7	6.3	8.5	10.4	11.9
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	92.7	50.2	36.3	33.8	26.4
Gross profit	143.1	68.9	50.1	39.2	32.1
EBIT	NA	NA	NA	NA	NA
Adj. net profit	404.7	NA	NA	NA	NA
<b>P&amp;L ratios (%)</b>					
Operating margin	1.8	(17.6)	(40.6)	(22.8)	(13.5)
Pre-tax margin	(49.2)	(199.4)	(40.3)	(22.4)	(13.0)
Adj. net margin	2.6	(13.5)	(31.1)	(17.8)	(8.9)
Effective tax rate	2.0	(0.5)	(0.5)	(0.5)	(0.5)
<b>Returns (%)</b>					
ROA	3.2	(15.2)	22.1	14.5	9.9

Source: Company data, CMBIS estimates

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