

Zhihu (ZH US)

Heading into 100mn MAU club

We expect Zhihu to deliver solid 3Q21E results, with rev +112% YoY (in line with consensus) and net loss at RMB166 (vs. consensus at -RMB330mn). MAU would reach 100mn (+39% YoY) for the first time, with higher time spent and user acquisition efficiency. Despite soft ads environment and moderate season, we believe Zhihu's CCS would still trend well in 3Q21E (rev +6x YoY, with rising clients and CPC) and momentum will continue in 4Q21E given strong ecommerce campaign. Prudent traditional ads (+10% QoQ in 3Q21E) was well anticipated by the market. We keep our annual topline largely unchanged with DCF-based TP at US\$15.

- Solid 3Q21 outlook.** We expect 3Q21E revenue at RMB811mn (+112% YoY), in line with consensus, in which CCS/ads/ Paid membership +6x / 99%/ 18% YoY. Our estimated non-GAAP net loss was RMB166mn, better than consensus of -RMB330mn. 4Q21E momentum would continue with strong seasonality.
- Strong user metrics with effective user acquisition and video-lization.** Thanks to job-hunting season, multiple hot topics and effective video-lization, we forecast its MAU up 39% YoY to 100mn in 3Q21E (prior 97mn), with TAC at RMB55 per MAU. Blended time spent improved mildly, backed by deeper video penetration. We expect its upcoming upgraded version in 4Q21E to enhance user engagement with more emphasis on video.
- Monetization on track.** We expect its CCS rev at RMB305mn (+6x YoY), driven by client network expansion and increasing CPC. Given ecommerce as largest vertical in CCS biz, we see high visibility for CCS to perform well in 4Q21E, with strong seasonality. Traditional ads would see 10% QoQ growth in 3Q21E. Ads price keeps relatively stable amid soft macro and tightening regulations. We model paid membership rev +99% YoY in 3Q21E.
- Maintain BUY.** We reiterate our confidence on its 2H21E topline & user momentum (expecting MAU +37% YoY in 2H21E). Zhihu would be relatively defensive (vs. other entertainment comps) amid challenging ads environment. We keep our topline largely unchanged but slightly improve bottom line to reflect higher user acquisition efficiency. Maintain TP at US\$15.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	671	1,352	2,917	5,462	9,374
YoY growth (%)	NA	101.7	115.7	87.2	71.6
Adj. net income (RMB mn)	(825)	(337)	(921)	(945)	89
Adj. EPS (RMB)	(2.02)	(0.71)	(1.62)	(1.66)	0.16
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS	NA	NA	(2.1)	(1.7)	0.2
P/E (x)	NA	NA	NA	NA	415.3
P/S (x)	39.6	23.0	12.7	6.8	4.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(25.6)	(12.3)	(13.0)	(15.3)	1.4
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\$15.0)
Up/Downside	+48.5%
Current Price	US\$10.1

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	5,576
Avg 3 mths t/o (US\$ mn)	23.18
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%
Luxor	0.78%

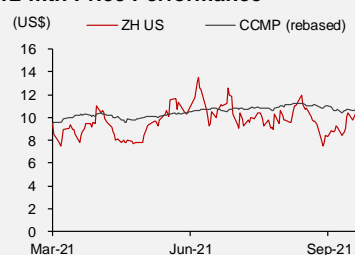
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.2%	6.4%
3-mth	-10.3%	-13.8%
6-mth	4.5%	-2.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- 2H21E topline & user momentum to continue – 17 Aug 2021
- Initiation: A go-to Q&A-inspired content community – 30 Jun 2021

Figure 1: 3Q21E financial preview

RMB mn, Dec-YE	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	QoQ	YoY	Consensus	Diff %
Revenue	188	261	383	520	478	638	811	27.0%	111.8%	821	-1%
Operating Profit	(211)	(158)	(130)	(105)	(342)	(351)	(228)	NA	NA	(465)	NA
Net profit	(371)	(286)	(280)	(260)	(495)	(321)	(220)	NA	NA	(479)	NA
Adj. net profit	(161)	(70)	(79)	(26)	(194)	(200)	(166)	NA	NA	(330)	NA
Adj. EPS (RMB)	(0.34)	(0.54)	(0.17)	(0.05)	(1.35)	(0.34)	(0.29)	NA	NA	(0.77)	NA
Margin (%)											
Gross margin	41.6%	48.4%	57.5%	64.1%	57.0%	59.0%	51.9%			47.1%	
Operating margin	-112.1%	-60.3%	-33.9%	-20.1%	-71.6%	-54.9%	-28.1%			-56.6%	
Adj. net margin	-85.6%	-26.9%	-20.7%	-5.1%	-40.5%	-31.4%	-20.5%			-40.2%	
Growth (%)											
Revenue (YoY)	59.4%	69.1%	120.2%	132.0%	154.2%	144.2%	111.8%			114.4%	
Revenue (QoQ)	-16.0%	38.9%	46.5%	35.8%	-8.0%	33.5%	27.0%			28.6%	
Operating Profit	-17.9%	-32.9%	-55.2%	-62.3%	62.4%	122.4%	75.8%			258.1%	
Adj. net profit	-26.3%	-61.8%	-65.3%	-86.4%	20.2%	185.0%	109.8%			317.1%	

Source: Company data, Bloomberg

Figure 2: 3Q21E revenue breakdown

RMB mn, Dec-YE	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	QoQ	YoY
Total revenue	224	188	261	383	520	478	638	811	27%	112%
Content-commerce solutions	1	1	13	46	76	121	207	305	47%	571%
Advertising	186	126	167	231	319	214	248	273	10%	18%
Paid membership	36	56	69	91	104	127	155	181	17%	99%
Others	2	6	12	15	20	17	28	51	84%	238%

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	2,917	5,462	9,374	2,982	5,500	9,171	-2.2%	-0.7%	2.2%
Gross Profit	1,427	3,043	5,659	1,535	3,022	5,426	-7.0%	0.7%	4.3%
Operating Profit	(1,344)	(1,346)	(444)	(1,540)	(1,488)	(525)	NA	NA	NA
Adj. net profit	(921)	(945)	89	(947)	(854)	52	NA	NA	70.0%
EPS (RMB)	(1.62)	(1.66)	0.16	(2.06)	(1.65)	0.24	NA	NA	-33.8%
Gross Margin	48.9%	55.7%	60.4%	51.5%	55.0%	59.2%	-2.5ppts	+0.8ppts	+1.2ppts
Operating Margin	-46.1%	-24.6%	-4.7%	-51.6%	-27.1%	-5.7%	+5.6ppts	+2.4ppts	+1.0ppts
Net Margin	-31.6%	-17.3%	1.0%	-31.7%	-15.5%	0.6%	+0.2ppts	-1.8ppts	+0.4ppts

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	2,917	5,462	9,374	2,907	5,448	9,358	0.4%	0.3%	0.2%
Gross Profit	1,427	3,043	5,659	1,462	3,023	5,685	-2.4%	0.7%	-0.5%
Operating Profit	(1,344)	(1,346)	(444)	(1,430)	(1,363)	(474)	NA	NA	NA
Adj. net profit	(921)	(945)	89	(1,008)	(962)	59	NA	NA	50.0%
EPS (RMB)	(1.62)	(1.66)	0.16	(1.77)	(1.69)	0.10	NA	NA	50.0%
Gross Margin	48.9%	55.7%	60.4%	50.3%	55.5%	60.8%	-1.4ppts	+0.2ppts	-0.4ppts
Operating Margin	-46.1%	-24.6%	-4.7%	-49.2%	-25.0%	-5.1%	+3.1ppts	+0.4ppts	+0.3ppts
Net Margin	-31.6%	-17.3%	1.0%	-34.7%	-17.7%	0.6%	+3.1ppts	+0.4ppts	+0.3ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues	671	1,352	2,917	5,462	9,374
CCS	1	136	996	2,411	4,715
Advertising	577	843	1,116	1,582	2,100
Paid membership	88	320	652	1,055	1,608
Others	4	53	154	414	951
COGS	(358)	(594)	(1,490)	(2,419)	(3,715)
Gross profit	312	758	1,427	3,043	5,659
S&M	(766)	(735)	(1,701)	(2,701)	(3,752)
R&D	(351)	(330)	(486)	(880)	(1,371)
G&A	(253)	(296)	(583)	(808)	(980)
Operating profit	(1,058)	(603)	(1,344)	(1,346)	(444)
Other income	54	86	65	74	94
Pre-tax Income	(1,004)	(516)	(1,278)	(1,273)	(350)
Income Tax	(0)	(1)	(2)	0	0
Net profit	(1,004)	(518)	(1,280)	(1,273)	(350)
Accretions	(427)	(681)	(171)	0	0
Net profit to shareholder	(1,431)	(1,198)	(1,451)	(1,273)	(350)
Adj. net profit	(825)	(337)	(921)	(945)	89

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(1,004)	(518)	(1,280)	(1,273)	(350)
D&A	20	20	14	20	33
Change in WC	85	(10)	355	139	598
Others	183	264	357	328	439
Operating CF	(716)	(244)	(555)	(786)	720
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	4,711	(824)	654
Cash (beg of yr)	713	900	958	5,669	4,845
Fx effect	7	(138)	0	0	0
Cash (end of yr)	900	958	5,669	4,845	5,499

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	82	41	65	83	116
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	9,325	9,245	10,845
Cash, cash equivalents	900	958	5,669	4,845	5,499
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	(1,153)	(2,117)	(3,637)
Current liabilities	763	1,015	2,280	3,163	4,706
AP and accruals	287	502	1,209	1,392	1,781
Salary welfare payables	207	232	324	566	990
Contract liabilities	107	160	679	1,099	1,676
Others	0	0	679	1,099	1,676
Non-current liabilities	3	0	0	0	0
Lease liabilities	3	0	0	0	0
Mezzanine equity and shareholders' equity	3,218	2,747	7,109	6,165	6,254

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
CCS	0.1	10.0	34.1	44.1	50.3
Advertising	86.1	62.4	38.2	29.0	22.4
Paid membership	13.1	23.7	22.3	19.3	17.2
Others	0.7	3.9	5.3	7.6	10.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	NA	101.7	115.7	87.2	71.6
Gross profit	NA	142.7	88.3	113.3	86.0
EBIT	NA	(43.0)	122.9	0.2	(67.0)
Adj. net profit	NA	(59.1)	173.0	2.5	(109.4)
P&L ratios (%)					
Operating margin	(157.9)	(44.6)	(46.1)	(24.6)	(4.7)
Pre-tax margin	(149.8)	(38.2)	(43.8)	(23.3)	(3.7)
Adj. net margin	(123.0)	(25.0)	(31.6)	(17.3)	1.0
Effective tax rate	0.0	0.2	0.2	0.0	0.0
Returns (%)					
ROE	(25.6)	(12.3)	(13.0)	(15.3)	1.4
ROA	(20.7)	(9.0)	(9.8)	(10.1)	0.8
Per share					
EPS (RMB)	(2.0)	(0.7)	(1.6)	(1.7)	0.2
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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