

# Kuaishou (1024 HK)

## 3Q21E on track, with attractive valuation

We expect Kuaishou to deliver solid 3Q21 results, with better-than-expected user metrics & margin, while topline to stay on track. DAU (+18% YoY) and time spent would pick up in 3Q21E, thanks to summer holiday seasonality, Olympics events and higher user acquisition efficiency. We expect 3Q21E rev +30% YoY, in which live streaming /ads/ ecommerce -5%/+72%/+40% YoY. Despite 4ppts QoQ drop in GPM, adj. NPM would be better than previous guidance due to improving S&M efficiency. We keep our full-year rev forecast unchanged but slightly raise its margin by 1.5/0.5ppts in FY21/22E, with higher TP at HK\$136. Valuation at 3.4x FY22E P/S is relatively attractive (50% discount to Bili).

- 3Q21 outlook intact.** We forecast Kuaishou 3Q21 rev +30% YoY (1% below consensus), in which live streaming/ads/e-commerce -5%/+72%/+40% YoY. Non-GAAP net loss was estimated at RMB6.0bn, better than RMB7.2bn from consensus.
- Expecting solid MAU and time spent.** Thanks to summer holiday seasonality, special events (e.g. Olympics) and higher user acquisition efficiency after organization restructure, we expect its 3Q21 DAU/MAU +18%/12% YoY (prior 10%), with higher time spent and user engagement. Full-year MAU target would keep intact (mid-teens YoY growth). In 2H21E, we expect user expansion focus to remain on domestic market, with ROI-driven S&M strategy.
- Monetization on track.** We expect 3Q21E rev +30% YoY, in which live streaming/ads/ ecommerce -5%/+72%/+40% YoY. Ads would trend on track, with strong ecommerce to offset soft edu and game verticals. eCPM gradually recovered in Sep/Oct after volatility in Jul & Aug. We forecast 3Q21E ecommerce GMV/rev +68%/40% YoY (25% of total rev), while take rate to stay at 1%. Despite intensified competition and soft consumption, we think its full-year GMV was well-guided, and suggest keeping eyes on 4Q21E strong seasonality, with priority on brand ecommerce and user trust. Livestreaming would achieve sequential growth in 3Q21E, and full-year rev target -10% YoY. We forecast its adj. NPM at -30% in 3Q21E (prior -35%), with higher S&M efficiency.
- Maintain BUY.** We keep our full-year rev forecast unchanged but slightly raise its margin by 1.5/0.5ppts in FY21/22E, with higher TP at HK\$136 (implying **4.7x FY22E P/S**).

### 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)	(23,728)	(18,518)	(12,103)
Adj. EPS (RMB)	NA	NA	(5.4)	(4.2)	(2.7)
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(6.5)	(3.5)	(1.4)
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	9.3	6.2	4.5	3.4	2.7
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\$136
(Previous TP)	HK\$110
Up/Downside	+33.3%
Current Price	HK\$102

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	427,546
Avg 3 mths t/o (HK\$ mn)	2,185.85
52w High/Low (HK\$)	417.8/ 64.5
Total Issued Shares (mn)	3,417

Source: Bloomberg

### Shareholding Structure

Tencent	21.3%
5Y Capital	16.5%
DCM LP	8.6%

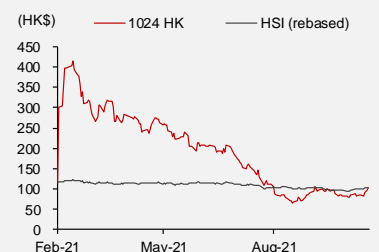
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	0.3%	-6.6%
3-mth	-28.8%	-25.5%
6-mth	-59.2%	-55.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

- Cautious on 2H21E momentum – 26 Aug 2021
- Mixed 2Q21 with competition & margin pressure – 30 Jul 2021
- 2Q21E rev to accelerate with better margin – 25 May 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	81,070	111,119	144,043	-1.2%	-3.5%	-6.0%
Gross Profit	34,163	49,748	65,722	34,457	53,736	75,874	-0.9%	-7.4%	-13.4%
Operating Profit	(31,282)	(23,886)	(18,251)	(30,260)	(21,376)	(10,683)	NA	NA	NA
Adj. net profit	(23,728)	(18,518)	(12,103)	(22,879)	(14,570)	(4,851)	NA	NA	NA
Adj. EPS (RMB)	(5.37)	(4.19)	(2.74)	(6.51)	(3.46)	(1.36)	NA	NA	NA
Gross Margin	42.6%	46.4%	48.5%	42.5%	48.4%	52.7%	+0.1ppts	-2.0ppts	-4.2ppts
Operating Margin	-39.0%	-22.3%	-13.5%	-37.3%	-19.2%	-7.4%	-1.7ppts	-3.0ppts	-6.1ppts
Adj. net margin	-29.6%	-17.3%	-8.9%	-28.2%	-13.1%	-3.4%	-1.4ppts	-4.2ppts	-5.6ppts

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	80,115	107,199	135,463	0.0%	0.0%	0.0%
Gross Profit	34,163	49,748	65,722	35,747	49,748	65,722	-4.4%	0.0%	0.0%
Operating Profit	(31,282)	(23,886)	(18,251)	(32,503)	(24,422)	(18,251)	NA	NA	NA
Adj. net profit	(23,728)	(18,518)	(12,103)	(24,943)	(19,051)	(12,103)	NA	NA	NA
Adj. EPS (RMB)	(5.37)	(4.19)	(2.74)	(5.64)	(4.31)	(2.74)	NA	NA	NA
Gross Margin	42.6%	46.4%	48.5%	44.6%	46.4%	48.5%	-2.0ppts	0.0ppts	0.0ppts
Operating Margin	-39.0%	-22.3%	-13.5%	-40.6%	-22.8%	-13.5%	+1.5ppts	+0.5ppts	0.0ppts
Adj. net margin	-29.6%	-17.3%	-8.9%	-31.1%	-17.8%	-8.9%	+1.5ppts	+0.5ppts	0.0ppts

Source: CMBIS estimates

**Figure 3: 3Q21E financial preview**

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	QoQ	YoY	Consensus	Diff %
Revenue	10,190	11,852	12,458	12,863	15,357	18,099	17,019	19,139	19,895	12%	49%	20,069	-1%
Operating Profit	568	(975)	(5,026)	(2,540)	(1,377)	(1,378)	(7,292)	(7,215)	(8,224)	NA	NA	(8,778)	NA
Net profit	(1,349)	(18,034)	(30,492)	(37,599)	(29,280)	(19,264)	(57,751)	(7,036)	(7,784)	NA	NA	(8,824)	NA
Adj. net profit	593	(962)	(4,345)	(1,938)	(962)	(704)	(4,918)	(4,770)	(5,968)	NA	NA	(7,215)	NA
<b>Margin (%)</b>													
Gross Margin	38.7%	39.1%	34.2%	34.5%	43.1%	47.0%	41.1%	43.8%	40.0%			41.6%	
Operating Margin	5.6%	-8.2%	-40.3%	-19.7%	-9.0%	-7.6%	-42.8%	-37.7%	-41.3%			-43.7%	
Adj. net margin	5.8%	-8.1%	-34.9%	-15.1%	-6.3%	-3.9%	-28.9%	-24.9%	-30.0%			-36.0%	
<b>Growth (%)</b>													
Revenue (YoY)	NA	NA	NA	NA	50.7%	52.7%	36.6%	48.8%	29.6%			30.7%	
Revenue (QoQ)	NA	16.3%	5.1%	3.2%	19.4%	17.9%	-6.0%	12.5%	4.0%			4.9%	
Operating Profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 4: 3Q21E revenue breakdown**

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	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>19,895</b>	<b>4%</b>	<b>30%</b>
Online marketing	2,047	3,151	3,273	3,889	6,181	8,511	8,558	9,962	10,631	7%	72%
Live streaming	8,089	8,520	9,009	8,340	7,960	7,900	7,250	7,193	7,562	5%	-5%
Other services	54	181	176	634	1,215	1,688	1,211	1,983	1,701	-14%	40%

Source: Company data, CMBIS estimates

## 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)	(45,952)	(57,451)	(69,741)
<b>Gross profit</b>	14,104	23,815	34,163	49,748	65,722
S&M	(9,865)	(26,615)	(46,227)	(57,566)	(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)	(31,282)	(23,886)	(18,251)
Other income/(exp)	(19,954)	(106,881)	194	432	645
<b>Pre-tax Income</b>	(19,265)	(117,201)	(31,089)	(23,455)	(17,607)
Income Tax	(386)	566	150	113	85
<b>Net profit</b>	(19,652)	(116,635)	(30,939)	(23,342)	(17,522)
<b>Adj. net profit</b>	1,034	(7,949)	(23,728)	(18,518)	(12,103)

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	(19,265)	(117,201)	(31,089)	(23,455)	(17,607)
D&A	2,160	2,511	2,801	3,801	5,000
Change in WC	5,168	5,410	4,244	5,444	5,740
Others	19,957	111,569	7,360	4,937	5,503
<b>Operating CF</b>	8,020	2,289	(16,683)	(9,273)	(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	18,438	(15,479)	(8,810)
Cash (beg of yr)	5,370	3,996	20,392	38,829	23,350
FX	56	(316)	-	-	-
<b>Cash (end of yr)</b>	3,996	20,392	38,829	23,350	14,541

### 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	51,254	37,477	30,466
Cash	3,996	20,392	38,829	23,350	14,541
Prepayments	2,033	2,285	3,734	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	28,717	35,862	43,401
Accounts payables	9,055	11,544	16,633	20,795	25,244
Other payables and accruals	3,028	5,763	5,561	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)	(144,778)	(163,296)	(175,399)
<b>Shareholders' equity</b>	(55,729)	(160,050)	(144,778)	(163,296)	(175,399)

### 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	43.5	45.6	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)	(39.0)	(22.3)	(13.5)
Pre-tax margin	(49.2)	(199.4)	(38.8)	(21.9)	(13.0)
Adj. net margin	2.6	(13.5)	(29.6)	(17.3)	(8.9)
Effective tax rate	2.0	(0.5)	(0.5)	(0.5)	(0.5)
<b>Returns (%)</b>					
ROE	34.6	73.2	21.5	14.4	10.0

Source: Company data, CMBIS estimates

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