

Zhihu (ZH US)

Better-than-feared 3Q21

Zhihu delivered solid 3Q21, with in-line rev (+115% YoY), upbeat MAU (+40% YoY) and bottom line. 4Q21E rev guidance came in at +94%~+98% YoY, midpoint 1% below consensus but 3% above our estimate. We view this result as acceptable, given its strong user metrics and better-than-feared financials despite soft industrial ads sentiment. Given strong ecommerce seasonality, we expect 4Q21E momentum to continue, in which MAU/rev +36%/95% YoY. CCS/ads/Paid membership +4x / 12%/ 81% YoY in 4Q21E, in our estimate. We keep our full-year financials largely unchanged. Maintain DCF-based TP at US\$15.

- Better-than-feared 3Q21.** 3Q21 rev was RMB824mn, +115% YoY, 0%/2% above consensus/our estimates. Non-GAAP net loss was RMB112mn, better than consensus and our estimate. 4Q21E guidance came in at RMB1.01-1.03bn, +94%~98% YoY, with midpoint -1%/+3% vs. consensus/our estimate.
- Heading into 100mn MAU club, with solid 4Q21E user ahead.** MAU reached 101.2mn, +40% YoY, 1% above our estimate, thanks to job-hunting season, multiple hot topics and effective video-lization. We expect its momentum to continue in 4Q21E & FY22E (forecasting MAU up to 103mn in 4Q21E), with higher user acquisition efficiency. Its upcoming upgraded version in Dec would further enhance user engagement with more emphasis on video.
- Ads relatively defensive, and CCS strong momentum to continue.** CCS rev +511% YoY (slightly below our estimate), while ads +39% YoY (18% above our estimate). We are surprised to see such ads momentum amid soft industrial ads sentiment, backed by strong ecommerce and 3C vertical. Zhihu has low ads exposure in edu and insurance vertical, and still saw double-digit growth in auto and property segments. Given its ads defense, we forecast its ads +12%YoY in 4Q21E. Additionally, we see high visibility for CCS to perform well in 4Q21E (forecasting +435% YoY), with strong ecommerce seasonality. Paid membership trends well, with rev +96% YoY. We model membership rev +81% YoY in 4Q21E.
- Maintain BUY.** We reiterate our confidence on its 4Q21E&FY22E topline & user momentum. Zhihu would be relatively defensive (vs. other entertainment comps) amid challenging ads environment. We keep our financials largely unchanged. Maintain TP at US\$15.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	671	1,352	2,955	5,374	9,119
YoY growth (%)	NA	101.7	118.5	81.9	69.7
Adj. net income (RMB mn)	(825)	(337)	(983)	(983)	45
Adj. EPS (RMB)	(2.02)	(0.71)	(1.73)	(1.73)	0.08
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS	NA	NA	(2.1)	(1.7)	0.2
P/E (x)	NA	NA	NA	NA	655.1
P/S (x)	31.7	18.4	10.0	5.5	3.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(25.6)	(12.3)	(14.0)	(16.3)	0.7
Net gearing (%)	Net Cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$15.0
(Previous TP)	US\$15.0)
Up/Downside	+82.9%
Current Price	US\$8.2

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	4,442
Avg 3 mths t/o (US\$ mn)	23.04
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%

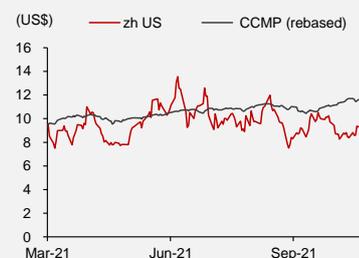
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-22.8%	-26.9%
3-mth	-22.8%	-29.3%
6-mth	1.2%	-15.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Figure 1: 3Q21 financial review

RMB mn, Dec-YE	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	188	261	383	520	478	638	824	29.0%	115.1%	822	0%	811	2%
Operating Profit	(211)	(158)	(130)	(105)	(342)	(351)	(322)	NA	NA	(344)	NA	(228)	NA
Net profit	(371)	(286)	(280)	(260)	(495)	(321)	(270)	NA	NA	(335)	NA	(220)	NA
Adj. net profit	(161)	(70)	(79)	(26)	(194)	(200)	(112)	NA	NA	(224)	NA	(166)	NA
Adj. EPS (RMB)	(0.34)	(0.54)	(0.17)	(0.05)	(1.35)	(0.34)	(0.19)	NA	NA	(0.42)	NA	(0.29)	NA
Margin (%)													
Gross margin	41.6%	48.4%	57.5%	64.1%	57.0%	59.0%	51.6%			50.2%		51.9%	
Operating margin	-112.1%	-60.3%	-33.9%	-20.1%	-71.6%	-54.9%	-39.2%			-41.8%		-28.1%	
Adj. net margin	-85.6%	-26.9%	-20.7%	-5.1%	-40.5%	-31.4%	-13.6%			-27.3%		-20.5%	
Growth (%)													
Revenue (YoY)	59.4%	69.1%	120.2%	132.0%	154.2%	144.2%	115.1%			114.6%		111.8%	
Revenue (QoQ)	-16.0%	38.9%	46.5%	35.8%	-8.0%	33.5%	29.0%			28.7%		27.0%	
Operating Profit	-17.9%	-32.9%	-55.2%	-62.3%	62.4%	122.4%	148.4%			164.8%		75.8%	
Adj. net profit	-26.3%	-61.8%	-65.3%	-86.4%	20.2%	185.0%	42.1%			183.7%		109.8%	

Source: Company data, Bloomberg

Figure 2: 3Q21 revenue breakdown

RMB mn, Dec-YE	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY
Total revenue	188	261	383	520	478	638	824	29%	115%
Content-commerce solutions	1	13	46	76	121	207	278	34%	511%
Advertising	126	167	231	319	214	248	321	29%	39%
Paid membership	56	69	91	104	127	155	178	15%	96%
Others	6	12	15	20	17	28	46	64%	202%

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	2,955	5,374	9,119	2,962	5,417	8,882	-0.3%	-0.8%	2.7%
Gross Profit	1,504	2,979	5,462	1,557	3,003	5,345	-3.4%	-0.8%	2.2%
Operating Profit	(1,552)	(1,385)	(488)	(1,382)	(1,388)	(423)	NA	NA	NA
Adj. net profit	(983)	(983)	45	(858)	(858)	(11)	NA	NA	NA
EPS (RMB)	(1.73)	(1.73)	0.08	(2.39)	(2.01)	(0.03)	NA	NA	NA
Gross Margin	50.9%	55.4%	59.9%	52.6%	55.4%	60.2%	-1.7ppts	-0.0ppts	-0.3ppts
Operating Margin	-52.5%	-25.8%	-5.4%	-46.6%	-25.6%	-4.8%	-5.9ppts	-0.2ppts	-0.6ppts
Net Margin	-33.3%	-18.3%	0.5%	-29.0%	-15.8%	-0.1%	-4.3ppts	-2.5ppts	+0.6ppts

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	2,955	5,374	9,119	2,917	5,462	9,374	1.3%	-1.6%	-2.7%
Gross Profit	1,504	2,979	5,462	1,427	3,043	5,659	5.4%	-2.1%	-3.5%
Operating Profit	(1,552)	(1,385)	(488)	(1,344)	(1,346)	(444)	NA	NA	NA
Adj. net profit	(983)	(983)	45	(921)	(945)	89	NA	NA	-49.2%
EPS (RMB)	(1.73)	(1.73)	0.08	(1.62)	(1.66)	0.16	NA	NA	-50.4%
Gross Margin	50.9%	55.4%	59.9%	48.9%	55.7%	60.4%	+2.0ppts	-0.3ppts	-0.5ppts
Operating Margin	-52.5%	-25.8%	-5.4%	-46.1%	-24.6%	-4.7%	-6.4ppts	-1.2ppts	-0.7ppts
Net Margin	-33.3%	-18.3%	0.5%	-31.6%	-17.3%	1.0%	-1.7ppts	-1.0ppts	-0.5ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues	671	1,352	2,955	5,374	9,119
CCS	1	136	1,016	2,453	4,797
Advertising	577	843	1,141	1,453	1,763
Paid membership	88	320	649	1,055	1,608
Others	4	53	148	414	951
COGS	(358)	(594)	(1,451)	(2,396)	(3,657)
Gross profit	312	758	1,504	2,979	5,462
S&M	(766)	(735)	(1,675)	(2,388)	(3,235)
R&D	(351)	(330)	(653)	(1,055)	(1,643)
G&A	(253)	(296)	(728)	(920)	(1,072)
Operating profit	(1,058)	(603)	(1,552)	(1,385)	(488)
Other income	54	86	93	74	94
Pre-tax Income	(1,004)	(516)	(1,459)	(1,311)	(394)
Income Tax	(0)	(1)	(2)	0	0
Net profit	(1,004)	(518)	(1,461)	(1,311)	(394)
Accretions	(427)	(681)	(171)	0	0
Net profit to shareholder	(1,431)	(1,198)	(1,632)	(1,311)	(394)
Adj. net profit	(825)	(337)	(983)	(983)	45

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(1,004)	(518)	(1,461)	(1,311)	(394)
D&A	20	20	14	20	32
Change in WC	85	(10)	361	290	687
Others	183	264	461	328	439
Operating CF	(716)	(244)	(626)	(673)	765
CAPEX	(6)	(2)	(21)	(38)	(64)
Others	(2,097)	432	0	0	0
Investing CF	(2,102)	430	(21)	(38)	(64)
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	4,640	(710)	701
Cash (beg of yr)	713	900	958	5,598	4,887
Fx effect	7	(138)	0	0	0
Cash (end of yr)	900	958	5,598	4,887	5,588

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	82	41	65	82	114
PP&E	15	8	17	33	58
Intangible assets, net	35	23	22	23	29
Right-of-use assets	26	3	26	26	26
Others	(0)	0	0	0	0
Current assets	3,902	3,720	9,280	9,206	10,807
Cash, cash equivalents	900	958	5,598	4,887	5,588
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	2,312	3,239	4,826
AP and accruals	287	502	1,176	1,378	1,753
Salary welfare payables	207	232	372	639	1,099
Contract liabilities	107	160	676	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	7,033	6,050	6,095

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
CCS	0.1	10.0	34.4	45.6	52.6
Advertising	86.1	62.4	38.6	27.0	19.3
Paid membership	13.1	23.7	22.0	19.6	17.6
Others	0.7	3.9	5.0	7.7	10.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	NA	101.7	118.5	81.9	69.7
Gross profit	NA	142.7	98.5	98.1	83.4
EBIT	NA	(43.0)	157.4	(10.8)	(64.8)
Adj. net profit	NA	(59.1)	191.4	0.0	(104.6)
P&L ratios (%)					
Operating margin	(157.9)	(44.6)	(52.5)	(25.8)	(5.4)
Pre-tax margin	(149.8)	(38.2)	(49.4)	(24.4)	(4.3)
Adj. net margin	(123.0)	(25.0)	(33.3)	(18.3)	0.5
Effective tax rate	0.0	0.2	0.1	0.0	0.0
Returns (%)					
ROE	(25.6)	(12.3)	(14.0)	(16.3)	0.7
ROA	(20.7)	(9.0)	(10.5)	(10.6)	0.4
Per share					
EPS (RMB)	(2.0)	(0.7)	(1.7)	(1.7)	0.1
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	37.4	41.0	43.2	47.9	54.4

Source: Company data, CMBIS estimates

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