

# Kuaishou (1024 HK)

## Focusing on improving efficiency

Kuaishou delivered upbeat 3Q21 results, with strong user metrics and financials. DAU +19% YoY, thanks to summer holiday seasonality, Olympics and higher user acquisition efficiency. DAU would keep stable QoQ in 4Q21E. We expect 4Q21E rev +27% YoY, in which live streaming /ads/ ecommerce +0%/+50%/+30% YoY. Adj. OPM is estimated at -28%, with lower S&M/rev ratio to offset GPM dilution. Going forward, mgmt. emphasized on efficiency improvement in FY22E, given challenging macro. We forecast its rev +24% YoY in FY22E (prior +34%). To reflect its efficiency focus, we cut its topline by 1%-12%, but estimate Kuaishou would narrow its net loss. Maintain SOTP-based TP at HK\$136 (based on lower ads rev but higher multiple). Valuation at 3.6x FY22E P/S is attractive.

- 3Q21 beat.** Kuaishou 3Q21 rev +33% YoY (2%/3% above consensus/ our estimate), in which live streaming/ads/e-commerce -3%/+76%/+53% YoY (vs. our estimate of -5%/+72%/+40% YoY). Non-GAAP net loss came in at RMB4.8bn, better than RMB6.5bn from consensus.
- Solid user metrics ahead.** 3Q21 DAU/MAU +18.5%/19.6% YoY (vs. our estimate of 18%/12%), with higher time spent and user engagement. Such strong user metrics was mainly due to summer holiday seasonality, special events (e.g. Olympics) and higher user acquisition efficiency after organization restructure. We expect its 4Q21E DAU to stay stable QoQ, with long-term DAU target at 400mn.
- Focusing on improving efficiency.** 3Q21 all biz line rev beat our estimates. Ads trend is on track, with strong ecommerce to offset soft edu and game verticals. We forecast 4Q21E ads +50% YoY. 3Q21 ecommerce GMV/rev +86%/53% YoY, higher than our estimate of +68%/40% YoY. Kuaishou performed well in "11.11", in which brand GMV achieved solid growth (accounting for ~10% GMV). Full-year GMV of RMB650bn in FY21E was intact, with target of RMB2tn GMV in the long run. Mgmt guided moderate take rate trend in FY22E. Livestreaming rev would be flat YoY in 4Q21E, in our estimate. We forecast its adj. NPM at -28% in 4Q21E, with higher S&M efficiency (with disciplined overseas investment) to offset lower GPM (forecasting 40%). GPM dilution would linger to 1Q22E, dragged by Olympics copyright cost, but mgmt. reiterated confidence on continuous operating leverage and disciplined cost in FY22E.
- Maintain BUY.** We cut FY21-23E rev forecast by 1%-12% to reflect prudent ads outlook amid macro challenge, but estimate Kuaishou to narrow its net loss. Maintain TP at HK\$136 (implying 5x FY22E P/S).

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	39,120	58,776	79,508	98,169	119,559
YoY growth (%)	92.7	50.2	35.3	23.5	21.8
Adj. net income (RMB mn)	1,034	(7,949)	(20,890)	(17,526)	(12,146)
Adj. EPS (RMB)	NA	NA	(4.7)	(4.0)	(2.7)
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(6.4)	(3.5)	(1.2)
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	9.1	6.0	4.5	3.6	3.0
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\$136
(Previous TP)	HK\$136)
Up/Downside	+36.4%
Current Price	HK\$99.7

### China Internet Sector

**Sophie Huang**  
 (852) 3900 0889  
 sophiehuang@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	397,251
Avg 3 mths t/o (HK\$ mn)	2,119.38
52w High/Low (HK\$)	417.8/ 64.5
Total Issued Shares (mn)	3,426

Source: Bloomberg

### Shareholding Structure

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

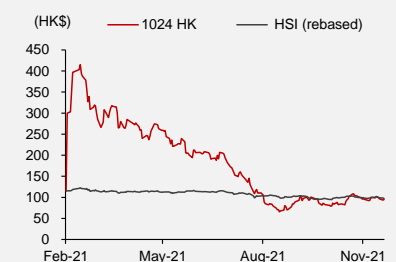
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-8.4%	-4.0%
3-mth	37.6%	37.1%
6-mth	-60.9%	-55.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: PwC

### Related Reports

- China Internet: Embracing a new normal of regulation – 8 Nov 2021
- 3Q21E on track, with attractive valuation – 25 Oct 2021
- Cautious on 2H21E momentum – 26 Aug 2021

Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	79,508	98,169	119,559	80,880	110,416	142,444	-1.7%	-11.1%	-16.1%
Gross Profit	32,997	42,987	55,263	34,242	53,173	74,611	-3.6%	-19.2%	-25.9%
Operating Profit	(28,375)	(22,481)	(17,655)	(29,997)	(21,385)	(10,890)	NA	NA	NA
Adj. net profit	(20,890)	(17,526)	(12,146)	(23,209)	(15,701)	(5,108)	NA	NA	NA
Adj. EPS (RMB)	(4.72)	(3.96)	(2.75)	(6.36)	(3.47)	(1.17)	NA	NA	NA
Gross Margin	41.5%	43.8%	46.2%	42.3%	48.2%	52.4%	-0.8ppts	-4.4ppts	-6.2ppts
Operating Margin	-35.7%	-22.9%	-14.8%	-37.1%	-19.4%	-7.6%	+1.4ppts	-3.5ppts	-7.1ppts
Adj. net margin	-26.3%	-17.9%	-10.2%	-28.7%	-14.2%	-3.6%	+2.4ppts	-3.6ppts	-6.6ppts

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	79,508	98,169	119,559	80,115	107,199	135,463	-0.8%	-8.4%	-11.7%
Gross Profit	32,997	42,987	55,263	34,163	49,748	65,722	-3.4%	-13.6%	-15.9%
Operating Profit	(28,375)	(22,481)	(17,655)	(31,282)	(23,886)	(18,251)	NA	NA	NA
Adj. net profit	(20,890)	(17,526)	(12,146)	(23,728)	(18,518)	(12,103)	NA	NA	NA
Adj. EPS (RMB)	(4.72)	(3.96)	(2.75)	(5.37)	(4.19)	(2.74)	NA	NA	NA
Gross Margin	41.5%	43.8%	46.2%	42.6%	46.4%	48.5%	-1.1ppts	-2.6ppts	-2.3ppts
Operating Margin	-35.7%	-22.9%	-14.8%	-39.0%	-22.3%	-13.5%	+3.4ppts	-0.6ppts	-1.3ppts
Adj. net margin	-26.3%	-17.9%	-10.2%	-29.6%	-17.3%	-8.9%	+3.3ppts	-0.6ppts	-1.2ppts

Source: CMBIS estimates

Figure 3: 3Q21 financial review

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY	Consensus	Diff %	CMBIS	Diff %
Revenue	10,190	11,852	12,458	12,863	15,357	18,099	17,019	19,139	20,493	12%	33%	20,098	2%	19,895	3%
Operating Profit	568	(975)	(5,026)	(2,540)	(1,377)	(1,378)	(7,292)	(7,215)	(7,404)	NA	NA	(8,055)	NA	(8,224)	NA
Net profit	(1,349)	(18,034)	(30,492)	(37,599)	(29,280)	(19,264)	(57,751)	(7,036)	(7,087)	NA	NA	(8,627)	NA	(7,784)	NA
Adj. net profit	593	(962)	(4,345)	(1,938)	(962)	(704)	(4,918)	(4,770)	(4,822)	NA	NA	(6,466)	NA	(5,968)	NA
<b>Margin (%)</b>															
Gross Margin	38.7%	39.1%	34.2%	34.5%	43.1%	47.0%	41.1%	43.8%	41.5%			40.9%		40.0%	
Operating Margin	5.6%	-8.2%	-40.3%	-19.7%	-9.0%	-7.6%	-42.8%	-37.7%	-36.1%			-40.1%		-41.3%	
Adj. net margin	5.8%	-8.1%	-34.9%	-15.1%	-6.3%	-3.9%	-28.9%	-24.9%	-23.5%			-32.2%		-30.0%	
<b>Growth (%)</b>															
Revenue (YoY)	NA	NA	NA	NA	50.7%	52.7%	36.6%	48.8%	33.4%			30.9%		29.6%	
Revenue (QoQ)	NA	16.3%	5.1%	3.2%	19.4%	17.9%	-6.0%	12.5%	7.1%			5.0%		4.0%	
Operating Profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 3Q21 revenue breakdown

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	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>20,493</b>	<b>7%</b>	<b>33%</b>
Online marketing services	2,047	3,151	3,273	3,889	6,181	8,511	8,558	9,962	10,909	10%	76%
Live streaming	8,089	8,520	9,009	8,340	7,960	7,900	7,250	7,193	7,724	7%	-3%
Other services	54	181	176	634	1,215	1,688	1,211	1,983	1,860	-6%	53%

Source: Company data, CMBIS estimates

**Figure 5: SOTP**

Business (RMB mn)	'22E Rev or GMV	Methodology	Multiple	Valuation	Stakes	Value
Live streaming	28,148	EV/Sales	2.0x	56,297	100%	56,297
Advertising	58,835	EV/Sales	3.5x	205,922	100%	205,922
Ecommerce	951,196	P/GMV	0.2x	190,239	100%	190,239
<b>Enterprise Value</b>						<b>452,458</b>
(+) Net Cash						41,830
<b>Equity Value</b>						<b>494,288</b>
FX						0.82
<b>Valuation (HK\$ mn)</b>						<b>602,790</b>
<b>TP (HK\$) based on SOTP</b>						<b>136</b>

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	39,120	58,776	79,508	98,169	119,559
Live streaming	31,442	33,209	30,115	28,148	27,675
Online marketing services	7,419	21,855	42,308	58,835	75,827
Other services	260	3,712	7,085	11,185	16,057
<b>COGS</b>	(25,017)	(34,961)	(46,511)	(55,182)	(64,295)
<b>Gross profit</b>	14,104	23,815	32,997	42,987	55,263
S&M	(9,865)	(26,615)	(42,298)	(50,753)	(55,236)
Admin.Exp.	(865)	(1,677)	(3,953)	(3,015)	(3,433)
R&D	(2,944)	(6,548)	(15,916)	(12,485)	(15,205)
Other gains	260	704	795	785	956
<b>Operating profit</b>	689	(10,320)	(28,375)	(22,481)	(17,655)
Other income/(exp)	(19,954)	(106,881)	194	432	645
<b>Pre-tax Income</b>	(19,265)	(117,201)	(28,181)	(22,050)	(17,010)
Income Tax	(386)	566	136	106	82
<b>Net profit</b>	(19,652)	(116,635)	(28,045)	(21,943)	(16,928)
<b>Adj. net profit</b>	1,034	(7,949)	(20,890)	(17,526)	(12,146)

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	(19,265)	(117,201)	(28,181)	(22,050)	(17,010)
D&A	2,160	2,511	2,801	3,801	5,000
Change in WC	5,168	5,410	4,406	4,014	4,195
Others	19,957	111,569	7,292	4,524	4,864
<b>Operating CF</b>	8,020	2,289	(13,682)	(9,711)	(2,950)
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	21,439	(15,917)	(10,398)
Cash (beg of yr)	5,370	3,996	20,392	41,830	25,913
FX	56	(316)	-	-	-
<b>Cash (end of yr)</b>	3,996	20,392	41,830	25,913	15,515

### 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	54,284	39,599	30,547
Cash	3,996	20,392	41,830	25,913	15,515
Prepayments	2,033	2,285	3,779	4,484	5,224
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	2,251	2,779	3,385
Others	1,272	2,733	2,733	2,733	2,733
<b>Current liabilities</b>	15,374	23,185	28,907	34,154	39,695
Accounts payables	9,055	11,544	16,835	19,974	23,273
Other payables and accruals	3,028	5,763	5,629	6,678	7,781
Advances from customers	1,530	3,290	3,856	4,915	6,054
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)	(141,940)	(159,465)	(171,611)
<b>Shareholders' equity</b>	(55,729)	(160,050)	(141,940)	(159,465)	(171,611)

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Live streaming	80.4	56.5	37.9	28.7	23.1
Online marketing services	19.0	37.2	53.2	59.9	63.4
Other services	0.7	6.3	8.9	11.4	13.4
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	92.7	50.2	35.3	23.5	21.8
Gross profit	143.1	68.9	38.6	30.3	28.6
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)	(35.7)	(22.9)	(14.8)
Pre-tax margin	(49.2)	(199.4)	(35.4)	(22.5)	(14.2)
Adj. net margin	2.6	(13.5)	(26.3)	(17.9)	(10.2)
Effective tax rate	2.0	(0.5)	(0.5)	(0.5)	(0.5)
<b>Returns (%)</b>					
ROE	34.6	73.2	19.9	13.8	9.9

Source: Company data, CMBIS estimates

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## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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