

Zhihu (ZH US)

Solid 4Q21E ahead, with FY22E transition

We expect Zhihu to deliver solid 4Q21E, with in-line MAU & rev (+95% YoY) and upbeat bottom line. FY22E would be a transition year for Zhihu to prioritize on community ecosystem. We expect Zhihu to deliver resilient FY22E rev growth (+61% YoY), with MAU up to 130mn in 4Q22E. CCS momentum would continue and is expected to grow +102% YoY, supported by higher brand engagement and defensive verticals. Ads will be +20% YoY, in our estimate. Mgmt would expand its non-ads monetization, targeting subs/edu to contribute 20%/6% of total rev in FY22E. We forecast its adj. NPM at -28% in FY22E, with higher opex leverage to offset lower GPM. We view FY22E resetting as acceptable, given its highest MAU & topline growth and healthy cash position. To factor in macro and regulation headwinds, we trimmed its topline by 0-13% in FY21-23E, with new DCF-based TP at US\$7. We keep positive on its long-term potential with unique content community.

- Solid 4Q21E ahead.** We expect Zhihu's 4Q21 MAU up to 103mn, +36% YoY. Rev will be +95% YoY, in our estimate. By segment, we expect CCS/ads/subs to grow +371%/25%/82% YoY, in which ads above previous guidance and CCS slightly below guidance. Non-GAAP net loss was estimated at RMB337mn, mainly on better-than-feared GPM (forecasting 45%, vs. prior 42%).
- Factoring in FY22 resilient growth with transition.** Looking into FY22E, Zhihu will prioritize on community ecosystem enhancement with healthy user expansion. We expect its MAU to reach 130mn in 4Q22E, lower than previous guidance but still strongest among peers, primarily on higher brand engagement and upgraded version transition. We forecast its FY22E rev will be +61% YoY, to factor in macro and regulation headwinds. CCS strong momentum would continue (+102% YoY), supported by its resilient ecommerce & consumer verticals. Brand engagement would be the strategic focus in FY22E for CCS. New ads law draft regarding "tag" would pose short-term limited impact on CTR and CPM (based on its internal test), but was factored in new forecast. Ads was estimated +20% YoY, higher than industrial average. Mgmt would expand its non-ads monetization, targeting subs/edu to contribute 20%/6% of total rev in FY22E. We forecast its adj. NPM at -28% (vs. -29% in FY21), with higher opex leverage to offset lower GPM (-5ppts YoY).
- Maintain BUY.** We trimmed its topline by 0-13% in FY21-23E, with new TP at US\$7. We believe multiple headwinds have already priced in recent stock price weakness, and valuation at 3x FY22E P/S is attractive.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	671	1,352	2,955	4,745	7,177
YoY growth (%)	NA	101.7	118.5	60.6	51.2
Adj. net income (RMB mn)	(825)	(337)	(845)	(1,322)	(639)
Adj. EPS (RMB)	(2.02)	(0.71)	(1.48)	(2.32)	(1.12)
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS	NA	NA	(2.0)	(2.7)	(0.9)
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	15.6	9.1	4.9	3.1	2.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(25.6)	(12.3)	(11.8)	(22.6)	(12.3)
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$7.0
(Previous TP)	US\$15.0
Up/Downside	+75.0%
Current Price	US\$4.0

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	2,246
Avg 3 mths t/o (US\$ mn)	14.14
52w High/Low (US\$)	13.85/ 3.72
Total Issued Shares (mn)	523

Source: Bloomberg

Shareholding Structure

Anatole Investment	2.66%
Krane Funds Advisors	1.70%
Light Street Capital	0.73%

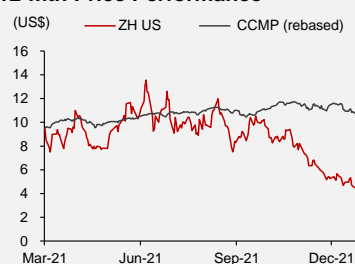
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-21.4%	-11.2%
3-mth	-57.3%	-53.5%
6-mth	-59.6%	-56.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Figure 1: 4Q21 financial preview

RMB mn, Dec-YE	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21E	QoQ	YoY	Consensus	Diff %
Revenue	188	261	383	520	478	638	824	1,015	23.3%	95.3%	1,021	-1%
Operating Profit	(211)	(158)	(130)	(105)	(342)	(351)	(322)	(399)	NA	NA	(483)	NA
Net profit	(371)	(286)	(280)	(260)	(495)	(491)	(270)	(561)	NA	NA	(468)	NA
Adj. net profit	(161)	(70)	(79)	(26)	(194)	(200)	(112)	(337)	NA	NA	(347)	NA
Adj. EPS (RMB)	(0.34)	(0.54)	(0.17)	(0.05)	(1.35)	(0.34)	(0.19)	(0.59)	NA	NA	(0.67)	NA
Margin (%)												
Gross margin	41.6%	48.4%	57.5%	64.1%	57.0%	59.0%	51.6%	44.6%			43.8%	
Operating margin	-112.1%	-60.3%	-33.9%	-20.1%	-71.6%	-54.9%	-39.2%	-39.3%			-47.3%	
Adj. net margin	-85.6%	-26.9%	-20.7%	-5.1%	-40.5%	-31.4%	-13.6%	-33.2%			-33.9%	
Growth (%)												
Revenue (YoY)	59.4%	69.1%	120.2%	132.0%	154.2%	144.2%	115.1%	95.3%			96.5%	
Revenue (QoQ)	-16.0%	38.9%	46.5%	35.8%	-8.0%	33.5%	29.0%	23.3%			24.0%	
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 2: 4Q21 revenue breakdown

RMB mn, Dec-YE	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21E	QoQ	YoY
Total revenue	188	261	383	520	478	638	824	1,015	23%	95%
Content-commerce solutions	1	13	46	76	121	207	278	360	29%	371%
Advertising	126	167	231	319	214	248	321	399	24%	25%
Paid membership	56	69	91	104	127	155	178	190	7%	82%
Others	6	12	15	20	17	28	46	66	45%	235%

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	4,745	7,177	2,962	5,114	8,341	-0.2%	-7.2%	-13.9%
Gross Profit	1,526	2,261	4,002	1,516	2,523	4,603	0.7%	-10.4%	-13.1%
Operating Profit	(1,414)	(2,017)	(1,189)	(1,511)	(1,868)	(1,261)	NA	NA	NA
Adj. net profit	(845)	(1,322)	(639)	(896)	(1,216)	(566)	NA	NA	NA
EPS (RMB)	(1.48)	(2.32)	(1.12)	(2.04)	(2.74)	(0.87)	NA	NA	NA
Gross Margin	51.7%	47.6%	55.8%	51.2%	49.3%	55.2%	+0.5ppts	-1.7ppts	+0.6ppts
Operating Margin	-47.9%	-42.5%	-16.6%	-51.0%	-36.5%	-15.1%	+3.2ppts	-6.0ppts	-1.4ppts
Net Margin	-28.6%	-27.9%	-8.9%	-30.2%	-23.8%	-6.8%	+1.6ppts	-4.1ppts	-2.1ppts

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	4,745	7,177	2,955	5,374	8,219	0.0%	-11.7%	-12.7%
Gross Profit	1,526	2,261	4,002	1,504	2,979	4,903	1.5%	-24.1%	-18.4%
Operating Profit	(1,414)	(2,017)	(1,189)	(1,552)	(1,385)	(488)	NA	NA	NA
Adj. net profit	(845)	(1,322)	(639)	(983)	(983)	45	NA	NA	NA
EPS (RMB)	(1.48)	(2.32)	(1.12)	(1.73)	(1.73)	0.08	NA	NA	NA
Gross Margin	51.7%	47.6%	55.8%	50.9%	55.4%	59.7%	+0.8ppts	-7.8ppts	-3.9ppts
Operating Margin	-47.9%	-42.5%	-16.6%	-52.5%	-25.8%	-5.9%	+4.7ppts	-16.7ppts	-10.6ppts
Net Margin	-28.6%	-27.9%	-8.9%	-33.3%	-18.3%	0.5%	+4.7ppts	-9.6ppts	-9.4ppts

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	4,745	7,177
CCS	1	136	967	1,954	3,348
Advertising	577	843	1,182	1,417	1,687
Paid membership	88	320	650	936	1,342
Others	4	53	157	439	800
COGS	(358)	(594)	(1,429)	(2,484)	(3,175)
Gross profit	312	758	1,526	2,261	4,002
S&M	(766)	(735)	(1,565)	(2,379)	(2,692)
R&D	(351)	(330)	(647)	(979)	(1,428)
G&A	(253)	(296)	(728)	(920)	(1,072)
Operating profit	(1,058)	(603)	(1,414)	(2,017)	(1,189)
Other income	54	86	93	91	111
Pre-tax Income	(1,004)	(516)	(1,321)	(1,926)	(1,078)
Income Tax	(0)	(1)	(2)	0	0
Net profit	(1,004)	(518)	(1,323)	(1,926)	(1,078)
Accretions	(427)	(681)	(171)	0	0
Net profit to shareholder	(1,431)	(1,198)	(1,494)	(1,926)	(1,078)
Adj. net profit	(825)	(337)	(845)	(1,322)	(639)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(1,004)	(518)	(1,323)	(1,926)	(1,078)
D&A	20	20	14	20	30
Change in WC	85	(10)	363	405	624
Others	183	264	461	604	439
Operating CF	(716)	(244)	(486)	(897)	16
CAPEX	(6)	(2)	(21)	(33)	(50)
Others	(2,097)	432	0	0	0
Investing CF	(2,102)	430	(21)	(33)	(50)
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	4,780	(930)	(35)
Cash (beg of yr)	713	900	958	5,738	4,808
Fx effect	7	(138)	0	0	0
Cash (end of yr)	900	958	5,738	4,808	4,773

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	82	41	65	78	99
PP&E	15	8	17	30	47
Intangible assets, net	35	23	22	22	25
Right-of-use assets	26	3	26	26	26
Others	(0)	0	(9,254)	(9,165)	(10,748)
Current assets	3,902	3,720	9,400	8,915	9,342
Cash, cash equivalents	900	958	5,738	4,808	4,773
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	(113)	(72)	(139)
Current liabilities	763	1,015	2,295	3,145	4,231
AP and accruals	287	502	1,159	1,429	1,522
Salary welfare payables	207	232	372	622	1,035
Contract liabilities	107	160	677	975	1,398
Others	0	0	(3)	0	0
Non-current liabilities	3	0	0	0	0
Lease liabilities	3	0	0	0	0
Mezzanine equity and shareholders' equity	3,218	2,747	7,171	5,849	5,210

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
CCS	0.1	10.0	32.7	41.2	46.6
Advertising	86.1	62.4	40.0	29.9	23.5
Paid membership	13.1	23.7	22.0	19.7	18.7
Others	0.7	3.9	5.3	9.2	11.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	NA	101.7	118.5	60.6	51.2
Gross profit	NA	142.7	101.4	48.1	77.0
EBIT	NA	(43.0)	134.6	42.6	(41.0)
Adj. net profit	NA	(59.1)	150.5	56.4	(51.7)
P&L ratios (%)					
Operating margin	(157.9)	(44.6)	(47.9)	(42.5)	(16.6)
Pre-tax margin	(149.8)	(38.2)	(44.7)	(40.6)	(15.0)
Adj. net margin	(123.0)	(25.0)	(28.6)	(27.9)	(8.9)
Effective tax rate	0.0	0.2	0.2	0.0	0.0
Returns (%)					
ROE	(25.6)	(12.3)	(11.8)	(22.6)	(12.3)
ROA	(20.7)	(9.0)	(8.9)	(14.7)	(6.8)
Per share					
EPS (RMB)	(2.0)	(0.7)	(1.5)	(2.3)	(1.1)
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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