

Zhihu (ZH US)

Prioritizing on community ecosystem

Zhihu delivered 4Q21 results, with in-line rev (+96% YoY), MAU (+36% YoY) and better-than-expected bottom line. 1Q22E rev guidance +51-55% YoY, midpoint 6% below consensus but 4% above our estimate. Heading into a transition year, Zhihu will prioritize on its content ecosystem with building sense of fulfillment for users. Mgmt guided rev +60-65% YoY in FY22E, in which CCS momentum to continue (accounting for >30%). We suggest investors to look beyond its 1Q22E soft seasonality (the weakest quarter with lowest margin), and expect gradual recovery in 2Q&3Q22E, backed by higher ads demand with travel limit relaxation and macro stabilization. Stock price might see short-term volatility, under sector weak sentiment, negative fund flows (with delisting uncertainty) and challenging macro. In the long run, we keep positive on its user expansion and monetization potential. We keep our forecasts unchanged, with TP at US\$5.5, implying 22E P/S of 3.9x.

- 4Q21 beat on margin, while 1Q22E guidance missed.** 4Q21 rev was RMB1.0bn, +96% YoY, 0%/1% above consensus/our estimates. CCS performed well, +380% YoY (vs. +371% YoY in our estimate), supported by higher brand engagement and defensive verticals. Ads slightly missed our estimate, +18% YoY. Non-GAAP net loss was RMB240mn, better than consensus and our estimate. 1Q22E rev guidance came in at RMB720-740mn, +51% to 55% YoY, with midpoint -6%/+4% vs. consensus/ our estimates. MAU reached 103.3mn, +36% YoY, in line with our estimate.
- Looking beyond 1Q22E soft seasonality.** Zhihu's 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. 1Q22E would be the weakest quarter, given 1) ads soft season and 2) higher investment in community ecosystem in 1Q. We forecast its MAU at 103mn in 1Q22E (flat QoQ). Topline was estimated to grow at 53% YoY in 1Q22E, in which CCS/ads/subs +75%/0%/85% YoY. Given higher content investment and S&M in transition period, we forecast its GPM at 41% (-6ppts QoQ), with adj. NPM at -57% in 1Q22E. Looking ahead, we expect gradual CCS+ads recovery, backed by travel limit relaxation, macro stabilization and better content community.
- Maintain BUY.** We keep our forecast unchanged, but slightly adjust our TP to US\$5.5 with lower P/S multiple, given sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,352	2,959	4,760	7,199	10,135
YoY growth (%)	101.7	118.9	60.9	51.2	40.8
Adj. net income (RMB mn)	(337)	(750)	(1,316)	(627)	9
Adj. EPS (RMB)	(0.71)	(1.32)	(2.31)	(1.10)	0.02
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS	NA	NA	(3.2)	(1.8)	(0.4)
P/E (x)	NA	NA	NA	NA	584.1
P/S (x)	3.4	1.8	1.1	0.8	0.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(12.3)	(10.4)	(22.2)	(11.8)	0.2
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$5.5
 (Previous TP) US\$7.0
Up/Downside +267%
Current Price US\$1.5

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	1,185
Avg 3 mths t/o (US\$ mn)	9.47
52w High/Low (US\$)	13.85/ 2.10
Total Issued Shares (mn)	523

Source: Bloomberg

Shareholding Structure

Anatole Investment	2.67%
Krane Funds Advisors	2.29%
Franchise Capital	1.37%

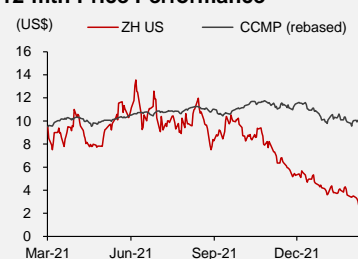
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-47.3%	-43.4%
3-mth	-65.5%	-58.6%
6-mth	-79.2%	-75.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Solid 4Q21E ahead, with FY22E transition – 10 Feb 2022
- Better-than-feared 3Q21 – 24 Nov 2021
- Heading into 100mm MAU club – 21 Oct 2021

Figure 1: 4Q21 financial review

RMB mn, Dec-YE	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	188	261	383	520	478	638	824	1,019	23.8%	96.1%	1,017	0%	1,015	0%
Operating Profit	(211)	(158)	(130)	(105)	(342)	(351)	(322)	(375)	NA	NA	(483)	NA	(399)	NA
Net profit	(371)	(286)	(280)	(260)	(495)	(491)	(270)	(553)	NA	NA	(457)	NA	(561)	NA
Adj. net profit	(161)	(70)	(79)	(26)	(194)	(200)	(112)	(243)	NA	NA	(309)	NA	(337)	NA
Adj. EPS (RMB)	(0.34)	(0.54)	(0.17)	(0.05)	(1.35)	(0.34)	(0.19)	(0.41)	NA	NA	(0.52)	NA	(0.59)	NA
Margin (%)														
Gross margin	41.6%	48.4%	57.5%	64.1%	57.0%	59.0%	51.6%	47.1%			44.8%		44.6%	
Operating margin	-112.1%	-60.3%	-33.9%	-20.1%	-71.6%	-54.9%	-39.2%	-36.8%			-47.5%		-39.3%	
Adj. net margin	-85.6%	-26.9%	-20.7%	-5.1%	-40.5%	-31.4%	-13.6%	-23.8%			-30.3%		-33.2%	
Growth (%)														
Revenue (YoY)	59.4%	69.1%	120.2%	132.0%	154.2%	144.2%	115.1%	96.1%			95.6%		95.3%	
Revenue (QoQ)	-16.0%	38.9%	46.5%	35.8%	-8.0%	33.5%	29.0%	23.8%			23.5%		23.3%	
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

Figure 2: 4Q21 revenue breakdown

RMB mn, Dec-YE	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
Total revenue	188	261	383	520	478	638	824	1,019	24%	96%
Content-commerce solutions	1	13	46	76	121	207	278	367	32%	380%
Advertising	126	167	231	319	214	248	321	378	18%	18%
Paid membership	56	69	91	104	127	155	178	209	17%	100%
Others	6	12	15	20	17	28	46	65	43%	230%

Source: Company data

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,760	7,199	10,135	4,832	7,471	10,391	-1.5%	-3.6%	-2.5%
Gross Profit	2,273	4,020	5,980	2,306	3,920	5,773	-1.4%	2.5%	3.6%
Operating Profit	(2,011)	(1,177)	(869)	(1,992)	(1,518)	(1,463)	NA	NA	NA
Adj. net profit	(1,316)	(627)	9	(1,237)	(792)	NA	NA	NA	NA
EPS (RMB)	(2.31)	(1.10)	0.02	(3.19)	(1.76)	(0.44)	NA	NA	NA
Gross Margin	47.7%	55.8%	59.0%	47.7%	52.5%	55.6%	+0.0ppts	+3.4ppts	+3.4ppts
Operating Margin	-42.2%	-16.4%	-8.6%	-41.2%	-20.3%	-14.1%	-1.0ppts	+4.0ppts	+5.5ppts
Net Margin	-27.6%	-8.7%	0.1%	-25.6%	-10.6%	NA	-2.0ppts	+1.9ppts	NA

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,760	7,199	10,135	4,745	7,177	NA	0.3%	0.3%	NA
Gross Profit	2,273	4,020	5,980	2,261	4,002	NA	0.5%	0.4%	NA
Operating Profit	(2,011)	(1,177)	(869)	(2,017)	(1,189)	NA	NA	NA	NA
Adj. net profit	(1,316)	(627)	9	(1,322)	(639)	NA	NA	NA	NA
EPS (RMB)	(2.31)	(1.10)	0.02	(2.32)	(1.12)	NA	NA	NA	NA
Gross Margin	47.7%	55.8%	59.0%	47.6%	55.8%	NA	+0.1ppts	+0.1ppts	NA
Operating Margin	-42.2%	-16.4%	-8.6%	-42.5%	-16.6%	NA	+0.3ppts	+0.2ppts	NA
Net Margin	-27.6%	-8.7%	0.1%	-27.9%	-8.9%	NA	+0.2ppts	+0.2ppts	NA

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenues	1,352	2,959	4,760	7,199	10,135
CCS	136	974	1,963	3,365	5,049
Advertising	843	1,161	1,422	1,693	1,976
Paid membership	320	669	936	1,342	1,981
Others	53	156	439	800	1,129
COGS	(594)	(1,405)	(2,487)	(3,180)	(4,155)
Gross profit	758	1,554	2,273	4,020	5,980
S&M	(735)	(1,635)	(2,385)	(2,698)	(3,239)
R&D	(330)	(620)	(979)	(1,428)	(2,304)
G&A	(296)	(690)	(920)	(1,072)	(1,306)
Operating profit	(603)	(1,391)	(2,011)	(1,177)	(869)
Other income	86	56	91	111	135
Pre-tax Income	(516)	(1,335)	(1,920)	(1,066)	(734)
Income Tax	(1)	(2)	0	0	110
Net profit	(518)	(1,337)	(1,920)	(1,066)	(624)
Accretions	(681)	(171)	0	0	0
Net profit to shareholder	(1,198)	(1,508)	(1,920)	(1,066)	(624)
Adj. net profit	(337)	(750)	(1,316)	(627)	9

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(518)	(1,337)	(1,920)	(1,066)	(624)
D&A	20	14	20	30	40
Change in WC	(10)	351	413	624	876
Others	264	548	604	439	633
Operating CF	(244)	(424)	(883)	26	926
CAPEX	(2)	(21)	(33)	(50)	(71)
Others	432	0	0	0	0
Investing CF	430	(21)	(33)	(50)	(71)
Issuance of shares	0	0	0	0	0
IPO proceeds	0	5,286	0	0	0
Others	9	0	0	0	0
Financing CF	9	5,286	0	0	0
Net change in cash	195	4,842	(917)	(24)	855
Cash (beg of yr)	900	958	5,800	4,883	4,859
Fx effect	(138)	0	0	0	0
Cash (end of yr)	958	5,800	4,883	4,859	5,714

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	41	65	79	99	130
PP&E	8	17	30	48	73
Intangible assets, net	23	22	22	25	30
Right-of-use assets	3	26	26	26	26
Others	6	0	0	0	0
Current assets	3,720	9,471	8,997	9,436	11,140
Cash, cash equivalents	958	5,800	4,883	4,859	5,714
Term deposits	1,093	1,093	1,093	1,093	1,093
Short-term investments	1,046	1,046	1,046	1,046	1,046
Other current asset	623	1,532	1,975	2,437	3,286
Current liabilities	1,015	2,291	3,146	4,233	5,958
AP and accruals	502	1,140	1,431	1,524	1,975
Salary welfare payables	232	372	622	1,035	1,523
Contract liabilities	160	697	975	1,398	2,064
Others	121	83	118	275	395
Non-current liabilities	0	0	0	0	0
Lease liabilities	0	0	0	0	0
Mezzanine equity and shareholders' equity	2,747	7,245	5,929	5,302	5,311

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
CCS	10.0	32.9	41.2	46.7	49.8
Advertising	62.4	39.2	29.9	23.5	19.5
Paid membership	23.7	22.6	19.7	18.6	19.5
Others	3.9	5.3	9.2	11.1	11.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	101.7	118.9	60.9	51.2	40.8
Gross profit	142.7	105.1	46.3	76.8	48.8
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(44.6)	(47.0)	(42.2)	(16.4)	(8.6)
Pre-tax margin	(38.2)	(45.1)	(40.3)	(14.8)	(7.2)
Adj. net margin	(25.0)	(25.4)	(27.6)	(8.7)	0.1
Effective tax rate	0.2	0.2	0.0	0.0	(15.0)
Returns (%)					
ROE	(12.3)	(10.4)	(22.2)	(11.8)	0.2
ROA	(9.0)	(7.9)	(14.5)	(6.6)	0.1
Per share					
EPS (RMB)	(0.7)	(1.3)	(2.3)	(1.1)	0.0
DPS (RMB)	0.0	0.0	0.0	0.0	6.0
BVPS (RMB)	41.0	43.2	47.9	54.4	62.3

Source: Company data, CMBIGM estimates

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