

Kuaishou (1024 HK)

Expecting a solid start in FY22E

Kuaishou delivered upbeat 4Q21, with DAU/rev +19%/35% YoY (1%/6% above consensus) and better-than-expected bottom line. Looking ahead, 1Q22E would see solid growth in both user metrics and monetization, despite soft macro and epidemic resurgence. We forecast its DAU/rev +15%/22% YoY in 1Q22E, backed by strong traffic seasonality and CNY & Olympics promotion. Ads and ecommerce momentum would continue (ads rev +31% YoY, ecommerce GMV+40% YoY in 1Q22E). Adj. OPM is estimated at -20% in 1Q22E, with lower S&M/rev ratio and improving GPM. We reiterate our confidence on its resilient growth, share gain and narrowing loss in FY22E. We slightly lift its topline by 3%/3% in FY22-23E, with margin +0-4ppts, to reflect better margin outlook. Maintain SOTP-based TP at HK\$136. Valuation at 2.7x FY22E P/S is attractive.

- 4Q21 all-round beat.** 4Q21 rev +35% YoY, 6%/7% above consensus/our estimates, attributable to strong ads and ecommerce. Non GAAP net loss (at RMB3.6bn) beat consensus of -RMB3.9bn. By segment, live streaming rev +11% YoY (better-than-feared), above industry average. Ads rev +56% YoY (vs. our estimate +51% YoY), backed by strong ecommerce ads and brand ads (> +150% YoY in FY21). Ecommerce performed well (other rev +40% YoY), in which closed-loop *Kwai Shop* contributed 99% of total GMV in Dec 2021 and the repeat purchase rate +5ppts YoY in 4Q21.
- Solid 1Q22E despite challenging macro and epidemic.** Given traffic strong seasonality, we expect DAU +15% YoY in 1Q22E, with rising time spent, backed by: 1) CNY & Olympics promotions and 2) structure adjustment. 1Q22E would see solid rev growth (forecasting +22% YoY), despite multiple headwinds. We forecast ads rev +31% YoY in 1Q22E, mainly on: 1) rising ad load for non-ecommerce ads to offset eCPM decline; 2) brands expansion with Winter Olympics effect; and 3) solid ecommerce ads. Ecommerce momentum would continue in 1Q22E, forecasting GMV +40% YoY, with rising take rate. We expect its adj. OPM at -20% in 1Q22E.
- Resilient growth with narrowing loss in FY22E.** As we stated in our preview, Kuaishou will deliver resilient growth in all segments in FY22E, in which ads and ecommerce to continuously gain share (forecasting ads /ecommerce rev +32%/37% YoY). Meanwhile, it will scale back its opex (e.g. S&M in overseas mkt) to narrow loss. We expect better margin outlook ahead, with adj. NPM at -15% and GPM +1ppts YoY in FY22E.
- Maintain BUY.** We raised its FY22-23E rev forecast by 3-3% and lifted its margin by 0-4ppts, to reflect better cost control. Maintain TP at HK\$136.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	58,776	81,082	98,614	118,281	137,795
YoY growth (%)	50.2	37.9	21.6	19.9	16.5
Adj. net income (RMB mn)	(7,863)	(18,852)	(14,509)	(6,804)	884
Adj. EPS (RMB)	NA	(4.3)	(3.3)	(1.5)	0.2
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(3.4)	(0.8)	1.6
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	4.6	3.3	2.7	2.3	2.0
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, CMBIGM estimates

BUY (Maintain)

Target Price HK\$136
 (Previous TP) HK\$136)
Up/Downside +73.2%
Current Price HK\$78.5

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	320,339
Avg 3 mths t/o (HK\$ mn)	2,179.2
52w High/Low (HK\$)	287.8/ 54.7
Total Issued Shares (mn)	3,494

Source: Bloomberg

Shareholding Structure

Tencent	20.9%
5Y Capital	16.1%
Morningside	10.8%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-18.3%	-13.2%
3-mth	-6.4%	1.6%
6-mth	-13.1%	-1.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Resilient growth with narrowing loss ahead – 17 Jan 2022
- Focusing on improving efficiency – 24 Nov 2021
- China Internet: Embracing a new normal of regulation – 8 Nov 2021

Figure 1: CMBI estimates vs consensus

RMB mn, Dec-YE	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	98,614	118,281	137,795	101,530	125,852	146,295	-2.9%	-6.0%	-5.8%
Gross Profit	42,687	55,077	68,958	44,915	60,841	74,394	-5.0%	-9.5%	-7.3%
Operating Profit	(19,627)	(12,331)	(5,023)	(20,391)	(9,393)	251	NA	NA	NA
Adj. net profit	(14,509)	(6,804)	884	(12,150)	(1,453)	14,995	NA	NA	-94.1%
Adj. EPS (RMB)	(3.28)	(1.54)	0.20	(3.4)	(0.8)	1.6	NA	NA	-87.2%
Gross Margin	43.3%	46.6%	50.0%	48.2%	52.4%	50.9%	-4.9ppts	-5.8ppts	-0.8ppts
Operating Margin	-19.9%	-10.4%	-3.6%	-19.4%	-7.6%	0.2%	-0.5ppts	-2.8ppts	-3.8ppts
Adj. net margin	-14.7%	-5.8%	0.6%	-14.2%	-3.6%	10.2%	-0.5ppts	-2.2ppts	-9.6ppts

Source: CMBIGM estimates, Bloomberg

Figure 2: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	98,614	118,281	137,795	96,052	114,462	NA	2.7%	3.3%	NA
Gross Profit	42,687	55,077	68,958	41,276	50,588	NA	3.4%	8.9%	NA
Operating Profit	(19,627)	(12,331)	(5,023)	(19,418)	(16,933)	NA	NA	NA	NA
Adj. net profit	(14,509)	(6,804)	884	(14,573)	(11,631)	NA	NA	NA	NA
Adj. EPS (RMB)	(3.28)	(1.54)	0.20	(3.30)	(2.63)	NA	NA	NA	NA
Gross Margin	43.3%	46.6%	50.0%	43.0%	44.2%	NA	+0.3ppts	+2.4ppts	NA
Operating Margin	-19.9%	-10.4%	-3.6%	-20.2%	-14.8%	NA	+0.3ppts	+4.4ppts	NA
Adj. net margin	-14.7%	-5.8%	0.6%	-15.2%	-10.2%	NA	+0.5ppts	+4.4ppts	NA

Source: CMBIGM estimates

Figure 3: 4Q21 financial preview

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	12,458	12,863	15,357	18,099	17,019	19,139	20,493	24,430	19%	35%	23,120	6%	22,888	7%
Operating Profit	(5,026)	(2,540)	(1,377)	(1,378)	(7,292)	(7,215)	(7,404)	(5,790)	NA	NA	(6,282)	NA	(4,081)	NA
Net profit	(30,492)	(37,599)	(29,280)	(19,264)	(57,751)	(7,036)	(7,087)	(6,203)	NA	NA	(6,265)	NA	(4,828)	NA
Adj. net profit	(4,345)	(1,938)	(876)	(704)	(4,918)	(4,770)	(4,822)	(3,569)	NA	NA	(3,922)	NA	(3,757)	NA
Margin (%)														
Gross Margin	34.2%	34.5%	43.1%	47.0%	41.1%	43.8%	41.5%	41.5%			41.1%		42.0%	
Operating Margin	-40.3%	-19.7%	-9.0%	-7.6%	-42.8%	-37.7%	-36.1%	-23.7%			-17.8%		-17.8%	
Adj. net margin	-34.9%	-15.1%	-5.7%	-3.9%	-28.9%	-24.9%	-23.5%	-14.6%			-16.4%		-16.4%	
Growth (%)														
Revenue (YoY)	NA	NA	50.7%	52.7%	36.6%	48.8%	33.4%	35.0%			26.5%		49.0%	
Revenue (QoQ)	5.1%	3.2%	19.4%	17.9%	-6.0%	12.5%	7.1%	19.2%			11.7%		19.6%	
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, CMBIGM estimates

Figure 4: 4Q21 revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
Total revenue	12,458	12,863	15,357	18,099	17,019	19,139	20,493	24,430	19%	35%
Online marketing services	3,273	3,889	6,181	8,511	8,558	9,962	10,909	13,236	21%	56%
Live streaming	9,009	8,340	7,960	7,900	7,250	7,193	7,724	8,827	14%	12%
Other services	176	634	1,215	1,688	1,211	1,983	1,860	2,367	27%	40%

Source: Company data

Figure 5: Valuation

Business (RMB mn)	'22E Rev or GMV	Methodology	Multiple	Valuation	Stakes	Value
Live streaming	32,199	EV/Sales	2.0x	64,398	100%	64,398
Advertising	56,262	EV/Sales	3.5x	196,917	100%	196,917
Ecommerce	905,462	P/GMV	0.2x	194,674	100%	194,674
Enterprise Value						455,990
(+) Net Cash						31,093
Equity Value						487,082
FX						0.81
Valuation (HK\$ mn)						601,336
TP (HK\$) based on SOTP						136

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	58,776	81,082	98,614	118,281	137,795
Live streaming	33,209	30,995	32,199	33,039	33,313
Online marketing services	21,855	42,665	56,262	72,065	88,217
Other services	3,712	7,421	10,152	13,176	16,265
COGS	(34,961)	(47,052)	(55,927)	(63,204)	(68,837)
Gross profit	23,815	34,030	42,687	55,077	68,958
S&M	(26,615)	(44,176)	(47,532)	(51,097)	(55,394)
Admin.Exp.	(1,677)	(3,400)	(3,029)	(3,397)	(3,544)
R&D	(6,548)	(14,956)	(12,541)	(13,860)	(16,146)
Other gains	704	801	789	946	1,102
Operating profit	(10,320)	(27,701)	(19,627)	(12,331)	(5,023)
Other income/(exp)	(106,881)	(51,314)	432	645	1,033
Pre-tax Income	(117,201)	(79,016)	(19,195)	(11,686)	(3,990)
Income Tax	566	1,025	249	151	52
Net profit	(116,635)	(78,077)	(18,946)	(11,535)	(3,938)
Adj. net profit	(7,863)	(18,852)	(14,509)	(6,804)	884

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(117,201)	(79,102)	(19,195)	(11,686)	(3,990)
D&A	3,207	2,801	3,801	5,000	6,224
Change in WC	5,410	4,632	4,032	3,467	2,816
Others	110,873	60,131	4,686	4,883	4,875
Operating CF	2,289	(11,538)	(6,676)	1,664	9,924
Capex	(5,908)	(3,879)	(6,206)	(7,447)	(7,596)
Purchase of investments	5,400	-	-	-	-
Others	(4,359)	-	-	-	-
Investing CF	(4,867)	(3,879)	(6,206)	(7,447)	(7,596)
Equity raised	-	39,000	-	-	-
Change of Debts	300	-	-	-	-
Cash from CB raised	20,957	-	-	-	-
Others	(1,966)	-	-	-	-
Financing CF	19,290	39,000	-	-	-
Net change in cash	16,711	23,583	(12,882)	(5,783)	2,328
Cash (beg of yr)	3,996	20,392	43,975	31,093	25,309
FX	(316)	-	-	-	-
Cash (end of yr)	20,392	43,975	31,093	25,309	27,637

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	20,619	21,697	24,102	26,549	27,921
Property and equipment	7,206	8,193	10,428	12,702	13,964
Right-of-use assets	5,200	5,200	5,200	5,200	5,200
Intangible assets	1,248	1,338	1,508	1,682	1,792
Others	6,966	6,966	6,966	6,966	6,966
Current assets	31,528	56,516	44,852	40,217	43,555
Cash	20,392	43,975	31,093	25,309	27,637
Prepayments	2,285	3,823	4,544	5,136	5,593
Financial assets at fair value through profit or loss	3,690	3,690	3,690	3,690	3,690
Trade receivables	2,428	2,295	2,792	3,348	3,901
Others	2,733	2,733	2,733	2,733	2,733
Current liabilities	23,185	29,222	34,471	39,086	42,913
Accounts payables	11,544	17,031	20,243	22,878	24,916
Other payables and accruals	5,763	5,694	6,768	7,649	8,331
Advances from customers	3,290	3,909	4,872	5,973	7,078
Lease liabilities	2,099	2,099	2,099	2,099	2,099
Others	488	488	488	488	488
Non-current liabilities	189,012	189,012	189,012	189,012	189,012
Convertible redeemable preferred shares	185,373	185,373	185,373	185,373	185,373
Others	3,640	3,640	3,640	3,640	3,640
MI	-	-	-	-	-
Total Equity	(160,050)	(139,902)	(154,410)	(161,214)	(160,330)
Shareholders' equity	(160,050)	(139,902)	(154,410)	(161,214)	(160,330)

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Live streaming	56.5	38.2	32.7	27.9	24.2
Online marketing services	37.2	52.6	57.1	60.9	64.0
Other services	6.3	9.2	10.3	11.1	11.8
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	50.2	37.9	21.6	19.9	16.5
Gross profit	68.9	42.9	25.4	29.0	25.2
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(17.6)	(34.2)	(19.9)	(10.4)	(3.6)
Pre-tax margin	(199.4)	(97.5)	(19.5)	(9.9)	(2.9)
Adj. net margin	(13.4)	(23.3)	(14.7)	(5.8)	0.6
Effective tax rate	(0.5)	(1.3)	(1.3)	(1.3)	(1.3)
Returns (%)					
ROE	73.2	56.4	12.4	7.2	2.5

Source: Company data, CMBIGM estimates

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