

Kuaishou (1024 HK)

Share gain continued, despite epidemic pressure

We expect Kuaishou to deliver in-line 1Q22 results, with DAU/rev +15%/21% YoY, and bottom line at RMB-4.0bn (adj. NPM at -19%). Ads and ecommerce momentum kept solid (ads rev +32% YoY, ecommerce GMV +40% YoY in 1Q22E). Looking ahead, 2Q22E would see short-term pressure from epidemic resurgence (forecasting rev +10% YoY), but we think such headwinds have been partly priced in recent price softness. Livestreaming would see slight volatility for regulation adjustment from May. We suggest to move beyond weakest 2Q22E, and look into ads and ecommerce rebound in 2H22E after lockdown relaxation. We slightly trimmed its topline by 4.7%-5.5% in FY22-24E to reflect epidemic impact, and adjust our SOTP-based TP to HK\$120. We reiterate our confidence in its resilient growth, share gain and narrowing loss in the long run.

- In-line 1Q22E ahead.** We expect 1Q22 rev +21% YoY, in-line with guidance, attributable to solid ads and ecommerce. Non-GAAP net loss was estimated to be RMB4.0bn. Given the strong seasonality of traffic, we expect DAU +15% YoY in 1Q22E, with rising time spent, backed by: 1) CNY & Olympics promotions, and 2) structural adjustment. By segment, we forecast ads rev +32% 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. We expect its adj. NPM to be -19% in 1Q22E.
- Factoring in epidemic impact in 2Q22E.** Given epidemic resurgence, Kuaishou's ads and ecommerce monetization might be dampened by soft demand and logistics disruptions. We expect its 2Q22E rev +10% YoY. Ecommerce GMV decelerated from Mar and Apr due to lockdowns, while demand remained strong. We forecast its ecommerce GMV +20% YoY in 2Q22E, still outperforming peers. Meanwhile, ads would be relatively affected by logistics (for internal ecommerce ads) and macro challenges (external ads), with estimated rev +16% YoY in 2Q22E. Livestreaming would see slight deceleration for regulation adjustment, despite higher user engagement in the epidemic period. As such, we forecast its total topline +16% in FY22E (vs. prior +22%), with adj. NPM at -13% and GPM +1ppt YoY in FY22E. In the long run, we remain positive on its share gain and margin enhancement.
- Maintain BUY.** We trimmed its FY22-24E rev forecast by 4.7%-5.5%, to reflect epidemic impact. Adjust TP to HK\$120. Valuation at 2.3x FY22E P/S is attractive.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	58,776	81,082	93,965	111,798	130,159
YoY growth (%)	50.2	37.9	15.9	19.0	16.4
Adj. net income (RMB mn)	(7,864)	(18,852)	(12,507)	(4,823)	2,382
Adj. EPS (RMB)	(8.4)	(4.6)	(2.8)	(1.1)	0.5
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(2.7)	(0.4)	2.2
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	3.7	2.7	2.3	2.0	1.7
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\$120
(Previous TP)	HK\$136)
Up/Downside	+92%
Current Price	HK\$62.5

China Internet Sector

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

Eason Xu
 (852) 3900 0849
 easonxu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	248,946
Avg 3 mths t/o (HK\$ mn)	2,281.75
52w High/Low (HK\$)	246.0/ 53.2
Total Issued Shares (mn)	3,504

Source: Bloomberg

Shareholding Structure

Tencent	20.8%
5Y Capital	16.1%
DCM LP	7.9%

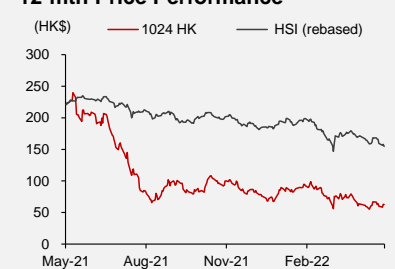
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-14.4%	-6.4%
3-mth	-36.5%	-21.2%
6-mth	-34.7%	-19.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Expecting a solid start in FY22E – 30 Mar 2022
- Resilient growth with narrowing loss ahead – 17 Jan 2022
- Focusing on improving efficiency – 24 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	93,965	111,798	130,159	98,935	120,775	142,194	-5.0%	-7.4%	-8.5%
Gross profit	40,501	51,733	65,054	43,336	57,591	73,290	-6.5%	-10.2%	-11.2%
Operating profit	(22,644)	(14,692)	(6,687)	(19,101)	(9,554)	606	NA	NA	NA
Adj. net profit	(12,507)	(4,823)	2,382	(10,751)	(964)	9,844	NA	NA	-75.8%
Adj. EPS (RMB)	(2.80)	(1.06)	0.51	(2.7)	(0.4)	2.2	NA	NA	-77.1%
Gross margin	43.1%	46.3%	50.0%	43.8%	47.7%	51.5%	-0.7ppt	-1.4ppts	-1.6ppts
Operating margin	-24.1%	-13.1%	-5.1%	-19.3%	-7.9%	0.4%	-4.8ppts	-5.2ppts	-5.6ppts
Adj. net margin	-13.3%	-4.3%	1.8%	-10.9%	-0.8%	6.9%	-2.4ppts	-3.5ppts	-5.1ppts

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	93,965	111,798	130,159	98,614	118,281	137,795	-4.7%	-5.5%	-5.5%
Gross profit	40,501	51,733	65,054	42,687	55,077	68,958	-5.1%	-6.1%	-5.7%
Operating profit	(22,644)	(14,692)	(6,687)	(19,627)	(12,331)	(5,023)	NA	NA	NA
Adj. net profit	(12,507)	(4,823)	2,382	(14,509)	(6,804)	884	NA	NA	NA
Adj. EPS (RMB)	(2.80)	(1.06)	0.51	(3.28)	(1.54)	0.20	NA	NA	NA
Gross margin	43.1%	46.3%	50.0%	43.3%	46.6%	50.0%	-0.2ppt	-0.3ppt	-0.0ppt
Operating margin	-24.1%	-13.1%	-5.1%	-19.9%	-10.4%	-3.6%	-4.2ppts	-2.7ppts	-1.5ppts
Adj. net margin	-13.3%	-4.3%	1.8%	-14.7%	-5.8%	0.6%	+1.4ppts	+1.5ppts	+1.2ppts

Source: CMBIGM estimates

Figure 3: 1Q22E financial preview

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22E	QoQ	YoY	Consensus	Diff %
Revenue	15,357	18,099	17,019	19,139	20,493	24,430	20,625	-16%	21%	20,634	0%
Operating Profit	(1,377)	(1,378)	(7,292)	(7,215)	(7,404)	(5,790)	(6,694)	NA	NA	(6,684)	NA
Net profit	(29,280)	(19,264)	(57,750)	(7,035)	(7,086)	(6,202)	(5,884)	NA	NA	(6,490)	NA
Adj. net profit	(1,044)	(459)	(5,896)	(4,770)	(4,616)	(3,569)	(4,004)	NA	NA	(4,508)	NA
Margin (%)											
Gross Margin	43.1%	47.0%	41.1%	43.8%	41.5%	41.5%	41.6%			41.2%	
Operating Margin	-9.0%	-7.6%	-42.8%	-37.7%	-36.1%	-23.7%	-32.5%			-17.8%	
Adj. net margin	-6.8%	-2.5%	-34.6%	-24.9%	-22.5%	-14.6%	-19.4%			-16.4%	
Growth (%)											
Revenue (YoY)	50.7%	52.7%	36.6%	48.8%	33.4%	35.0%	21.2%			21.2%	
Revenue (QoQ)	19.4%	17.9%	-6.0%	12.5%	7.1%	19.2%	-15.6%			-15.5%	
Operating Profit	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 1Q22E revenue breakdown

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22E	QoQ	YoY
Total revenue	15,357	18,099	17,019	19,139	20,493	24,430	20,625	-16%	21%
Online marketing services	6,181	8,511	8,558	9,962	10,909	13,236	11,270	-15%	32%
Live streaming	7,960	7,900	7,250	7,193	7,724	8,827	7,600	-14%	5%
Other services	1,215	1,688	1,211	1,983	1,860	2,367	1,754	-26%	45%

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	58,776	81,082	93,965	111,798	130,159
Live streaming	33,209	30,995	31,615	32,247	32,247
Online marketing services	21,855	42,665	52,429	66,476	81,376
Other services	3,712	7,421	9,921	13,075	16,536
COGS	(34,961)	(47,052)	(60,065)	(65,105)	(70,573)
Gross profit	23,815	34,030	33,900	46,693	59,586
S&M	(26,615)	(44,176)	(46,191)	(47,703)	(49,775)
Admin.Exp.	(1,677)	(3,400)	(3,446)	(3,855)	(4,119)
R&D	(6,548)	(14,956)	(14,260)	(15,762)	(18,887)
Other gains	704	801	752	894	1,041
Operating profit	(10,320)	(27,701)	(29,245)	(19,732)	(12,155)
Other income/(exp)	(106,881)	(51,314)	432	645	1,033
Pre-tax Income	(117,201)	(79,016)	(22,231)	(14,059)	(5,658)
Income Tax	566	1,025	2,207	851	(420)
Net profit	(116,635)	(78,077)	(20,024)	(13,208)	(6,078)
Adj. net profit	(7,863)	(18,852)	(12,507)	(4,823)	2,382

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(116,635)	(78,077)	(20,024)	(13,208)	(6,078)
D&A	4,863	6,885	5,700	6,699	7,725
Change in WC	6,898	2,444	3,312	3,348	2,471
Others	107,163	63,229	7,517	8,385	8,460
Operating CF	2,289	(5,519)	(3,496)	5,225	12,578
Capex	(5,908)	(5,789)	(9,181)	(11,210)	(10,802)
Purchase of investments	5,400	-	-	-	-
Others	(4,359)	(12,572)	47	47	47
Investing CF	(4,867)	(18,361)	(9,134)	(11,163)	(10,755)
Equity raised	-	39,386	-	-	-
Change of Debts	-	-	-	-	-
Cash from CB raised	20,957	-	-	-	-
Others	(1,666)	(2,885)	-	-	-
Financing CF	19,290	36,500	-	-	-
Net change in cash	16,711	12,620	(12,629)	(5,938)	1,824
Cash (beg of yr)	3,996	20,392	32,612	19,983	14,045
FX	(316)	(399)	-	-	-
Cash (end of yr)	20,392	32,612	19,983	14,045	15,869

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	20,619	39,505	42,938	47,402	50,431
Property and equipment	7,206	11,051	11,526	12,350	15,528
Right-of-use assets	5,200	12,562	15,483	19,090	18,912
Intangible assets	1,248	1,172	1,256	1,336	1,413
Others	6,966	14,720	14,673	14,625	14,578
Current assets	31,528	53,011	41,536	37,036	40,219
Cash	20,392	32,612	19,983	14,045	15,869
Prepayments	2,285	3,278	3,725	4,185	4,536
Financial assets at fair value through profit or loss	3,301	1,250	1,298	1,345	1,393
Trade receivables	2,428	4,450	5,157	6,136	7,144
Others	3,122	11,420	11,372	11,325	11,277
Current liabilities	23,185	37,256	41,721	46,508	50,338
Accounts payables	11,544	20,021	22,750	25,558	27,703
Other payables and accruals	5,763	9,123	10,367	11,647	12,624
Advances from customers	3,290	3,503	3,996	4,694	5,403
Others	2,587	4,608	4,608	4,608	4,608
Non-current liabilities	189,012	10,108	10,108	10,108	10,108
Convertible redeemable preferred shares	185,373	-	-	-	-
Others	3,640	10,108	10,108	10,108	10,108
MI	-	-	-	-	-
Total Equity	(160,050)	45,096	32,589	27,766	30,148
Shareholders' equity	(160,050)	45,096	32,589	27,766	30,148

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Live streaming	56.5	38.2	33.6	28.8	24.8
Online marketing services	37.2	52.6	55.8	59.5	62.5
Other services	6.3	9.2	10.6	11.7	12.7
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	50.2	37.9	15.9	19.0	16.4
Gross profit	68.9	42.9	19.0	27.7	25.7
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(38.1)	(42.1)	(31.1)	(17.6)	(9.3)
Pre-tax margin	(199.4)	(97.6)	(23.7)	(12.6)	(4.3)
Adj. net margin	(13.4)	(23.3)	(13.3)	(4.3)	1.8
Effective tax rate	(0.5)	(1.3)	(9.9)	(6.1)	7.4
Returns (%)					
ROE	NA	NA	NA	NA	8.2

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.