

Kuaishou (1024 HK)

Moving into 2H22E recovery

Kuaishou delivered upbeat 1Q22 results, with DAU/rev +17%/24% YoY (2%/2% above consensus), and bottom line at -RMB3.7bn (vs. consensus at -RMB4.5bn). Ads and ecommerce momentum kept solid (ads rev +33% YoY, ecommerce GMV +48% YoY in 1Q22). Looking ahead, 2Q22E would see short-term pressure from epidemic resurgence (forecasting rev +8% YoY, in which live streaming/ads rev +11%/7% and ecommerce GMV+23% YoY), but we think such headwinds have been partly priced in recent price softness. 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 1%-2% in FY22-24E but lift margin by 1-3ppts. Maintain our SOTP-based TP at HK\$120. We reiterate our confidence in its resilient growth, share gain and narrowing loss in the long run.

- 1Q22 all-round beat, with strong seasonality of traffic.** 1Q22 rev +24% YoY, 2%/2% above consensus/our estimates, attributable to strong ads (+33% YoY) and ecommerce (+55% YoY). Non-GAAP net loss (at RMB3.7bn) beat consensus of -RMB4.5bn. Non-GAAP GPM was flat QoQ at 41.7%, largely in line. By segment, live streaming +8% YoY, above industrial average, mainly on rising MPUs. Ads +33% YoY (vs. our estimate of +32% YoY), in which no. of advertisers +60% YoY (on Winter Olympics and CNY Campaigns), backed by strong ecommerce ads and brand ads. Ecommerce performed well, with rev/GMV +55%/48% YoY (vs. our estimate of +45%/40% YoY), backed by rising repeat purchase rate, *Kuaishou Brands* contribution and double-digit growth in no. of monthly active merchants.
- Looking beyond 2Q22E epidemic impact.** We expect its 2Q22E rev +8% YoY (prior +10%). Given epidemic resurgence, Kuaishou's ads and ecommerce monetization might be dampened by soft demand and logistics disruptions. Ecommerce GMV decelerated from Mar and Apr while improved YoY in May. We forecast its ecommerce GMV +23% YoY in 2Q22E (with take rate at 1%), still outperforming peers. Meanwhile, ads would be relatively affected by logistics (for internal ecommerce ads) and macro challenges (external ads), with estimated rev +7% YoY in 2Q22E. Live streaming would see 11% YoY growth, given higher user engagement and rising MPU partly offset by regulatory adjustment. 2Q22E adj. NPM would improve QoQ, with better GPM and continuous opex control.
- Maintain BUY.** We trimmed its FY22-24E rev forecast by 1%-2%, but lift margin by 1-3ppts. Maintain TP at HK\$120.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	58,776	81,082	92,761	110,119	127,311
YoY growth (%)	50.2	37.9	14.4	18.7	15.6
Adj. net income (RMB mn)	(7,864)	(18,852)	(9,504)	(4,207)	3,085
Adj. EPS (RMB)	(8.4)	(4.6)	(2.1)	(0.9)	0.7
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(2.9)	(0.6)	2.2
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	3.9	2.8	2.5	2.1	1.8
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\$120)
Up/Downside	+89.6%
Current Price	HK\$63.3

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Stock Data

Mkt Cap (HK\$ mn)	296,557
Avg 3 mths t/o (HK\$ mn)	2,377.30
52w High/Low (HK\$)	235.6/53.15
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	20.2%	19.7%
3-mth	-20.4%	-9.7%
6-mth	-34.7%	-8.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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- Expecting a solid start in FY22E – 30 Mar 2022
- Resilient growth with narrowing loss ahead – 17 Jan 2022

Figure 1: CMBI estimates vs consensus

RMB mn, Dec-YE	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	92,761	110,119	127,311	98,338	120,450	141,649	-5.7%	-8.6%	-10.1%
Gross profit	38,876	49,630	61,872	42,407	56,851	71,159	-8.3%	-12.7%	-13.1%
Operating profit	(19,015)	(13,842)	(5,675)	(19,083)	(9,875)	43	NA	NA	NA
Adj. net profit	(9,504)	(4,207)	3,085	(11,133)	(848)	10,290	NA	NA	-70.0%
Adj. EPS (RMB)	(2.13)	(0.92)	0.67	(2.9)	(0.6)	2.2	NA	NA	-69.3%
Gross margin	41.9%	45.1%	48.6%	43.1%	47.2%	50.2%	-1.2ppts	-2.1ppts	-1.6ppts
Operating margin	-20.5%	-12.6%	-4.5%	-19.4%	-8.2%	0.0%	-1.1ppts	-4.4ppts	-4.5ppts
Adj. net margin	-10.2%	-3.8%	2.4%	-11.3%	-0.7%	7.3%	+1.1ppts	-3.1ppts	-4.8ppts

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	92,761	110,119	127,311	93,965	111,798	130,159	-1.3%	-1.5%	-2.2%
Gross profit	38,876	49,630	61,872	40,501	51,733	65,054	-4.0%	-4.1%	-4.9%
Operating profit	(19,015)	(13,842)	(5,675)	(22,644)	(14,692)	(6,687)	NA	NA	NA
Adj. net profit	(9,504)	(4,207)	3,085	(12,507)	(4,823)	2,382	NA	NA	NA
Adj. EPS (RMB)	(2.13)	(0.92)	0.67	(2.8)	(1.1)	0.5	NA	NA	NA
Gross margin	41.9%	45.1%	48.6%	43.1%	46.3%	50.0%	-1.2ppts	-1.2ppts	-1.4ppts
Operating margin	-20.5%	-12.6%	-4.5%	-24.1%	-13.1%	-5.1%	+3.6ppts	+0.6ppts	+0.7ppts
Adj. net margin	-10.2%	-3.8%	2.4%	-13.3%	-4.3%	1.8%	+3.1ppts	+0.5ppts	+0.6ppts

Source: CMBIGM estimates

Figure 3: 1Q22 financial preview

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	15,357	18,099	17,019	19,139	20,493	24,430	21,067	-14%	24%	20,634	2%	20,625	2%
Operating Profit	(1,377)	(1,378)	(7,292)	(7,215)	(7,404)	(5,790)	(5,643)	NA	NA	(6,671)	NA	(6,694)	NA
Net profit	(29,280)	(19,264)	(57,750)	(7,035)	(7,086)	(6,202)	(6,254)	NA	NA	(6,423)	NA	(5,884)	NA
Adj. net profit	(1,044)	(459)	(5,896)	(4,770)	(4,616)	(3,569)	(3,722)	NA	NA	(4,460)	NA	(4,004)	NA
Margin (%)													
Gross Margin	43.1%	47.0%	41.1%	43.8%	41.5%	41.5%	41.7%			41.3%		41.3%	
Operating Margin	-9.0%	-7.6%	-42.8%	-37.7%	-36.1%	-23.7%	-26.8%			-32.3%		-32.5%	
Adj. net margin	-6.8%	-2.5%	-34.6%	-24.9%	-22.5%	-14.6%	-17.7%			-21.6%		-19.4%	
Growth (%)													
Revenue (YoY)	50.7%	52.7%	36.6%	48.8%	33.4%	35.0%	23.8%			21.2%		21.2%	
Revenue (QoQ)	19.4%	17.9%	-6.0%	12.5%	7.1%	19.2%	-13.8%			-15.5%		-15.6%	
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, CMBIGM estimates

Figure 4: 1Q22 revenue breakdown

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY
Total revenue	15,357	18,099	17,019	19,139	20,493	24,430	21,067	-14%	24%
Online marketing services	6,181	8,511	8,558	9,962	10,909	13,236	11,351	-14%	33%
Live streaming	7,960	7,900	7,250	7,193	7,724	8,827	7,842	-11%	8%
Other services	1,215	1,688	1,211	1,983	1,860	2,367	1,873	-21%	55%

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	58,776	81,082	92,761	110,119	127,311
Live streaming	33,209	30,995	32,235	32,880	32,880
Online marketing services	21,855	42,665	50,605	64,164	78,546
Other services	3,712	7,421	9,921	13,075	15,886
COGS	(34,961)	(47,052)	(60,489)	(65,439)	(71,209)
Gross profit	23,815	34,030	32,272	44,679	56,102
S&M	(26,615)	(44,176)	(41,004)	(44,837)	(46,220)
Admin.Exp.	(1,677)	(3,400)	(3,432)	(3,836)	(4,093)
R&D	(6,548)	(14,956)	(14,197)	(15,679)	(18,253)
Other gains	704	801	742	881	1,018
Operating profit	(10,320)	(27,701)	(25,619)	(18,792)	(11,445)
Other income/(exp)	(106,881)	(51,314)	432	645	1,033
Pre-tax Income	(117,201)	(79,016)	(18,603)	(13,209)	(4,646)
Income Tax	566	1,025	1,677	742	(544)
Net profit	(116,635)	(78,077)	(16,925)	(12,466)	(5,190)
Adj. net profit	(7,863)	(18,852)	(9,504)	(4,207)	3,085

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(116,635)	(78,077)	(16,925)	(12,466)	(5,190)
D&A	4,863	6,885	5,700	6,699	7,725
Change in WC	6,898	2,444	3,552	3,353	2,462
Others	107,163	63,229	7,421	8,259	8,275
Operating CF	2,289	(5,519)	(253)	5,845	13,271
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	(9,386)	(5,318)	2,517
Cash (beg of yr)	3,996	20,392	32,612	23,226	17,909
FX	(316)	(399)	-	-	-
Cash (end of yr)	20,392	32,612	23,226	17,909	20,425

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	44,742	40,837	44,642
Cash	20,392	32,612	23,226	17,909	20,425
Prepayments	2,285	3,278	3,754	4,215	4,559
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	5,091	6,044	6,987
Others	3,122	11,420	11,372	11,325	11,277
Current liabilities	23,185	37,256	41,925	46,690	50,441
Accounts payables	11,544	20,021	22,929	25,739	27,845
Other payables and accruals	5,763	9,123	10,448	11,729	12,689
Advances from customers	3,290	3,503	3,939	4,615	5,298
Others	2,587	4,608	4,608	4,608	4,608
Non-current liabilities	189,012	10,108	-	-	-
Convertible redeemable preferred shares	185,373	-	10,108	10,108	10,108
Others	3,640	10,108	-	-	-
MI	-	-	35,592	31,384	34,469
Total Equity	(160,050)	45,096	35,592	31,384	34,469
Shareholders' equity	(160,050)	45,096	42,938	47,402	50,431

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Live streaming	56.5	38.2	34.8	29.9	25.8
Online marketing services	37.2	52.6	54.6	58.3	61.7
Other services	6.3	9.2	10.7	11.9	12.5
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	50.2	37.9	14.4	18.7	15.6
Gross profit	68.9	42.9	14.2	27.7	24.7
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(38.1)	(42.1)	(27.6)	(17.1)	(9.0)
Pre-tax margin	(199.4)	(97.6)	(20.1)	(12.0)	(3.6)
Adj. net margin	(13.4)	(23.3)	(10.2)	(3.8)	2.4
Effective tax rate	(0.5)	(1.3)	(9.0)	(5.6)	11.7
Returns (%)					
ROE	NA	NA	NA	NA	9.4

Source: Company data, CMBIGM estimates

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