

# Zhihu (ZH US)

## Looking beyond epidemic & transition impact

Zhihu delivered upbeat 1Q22 results, with rev +55% YoY (3% above consensus), MAU+19% YoY and better-than-expected bottom line. We view this result as positive, given 1) resilient topline growth (> 50%) was largely above industry average, despite soft industrial ads sentiment in 1H22E; and 2) better-than-feared GPM. Looking into 2Q22E, we expect strong traffic (MAU +4% QoQ) but moderate monetization ahead (rev +30% YoY), due to lockdown disruptions. We forecast CCS and ads rev +10% YoY in 2Q22E, with shrinking ads budgets from multiple verticals (e.g. ecommerce, offline life services, auto). Paid membership should be more resilient on epidemic, forecasting +69% YoY. We expect its GPM at 45% (stable QoQ), with adj. OPM at -56% in 2Q22E. In this transition year, Zhihu emphasized on its community ecosystem enhancement. We suggest to look into its gradual recovery in 2H22E, backed by travel limit relaxation and macro stabilization. To factor in epidemic & transition impact, we trimmed its topline by 15%-26% in FY22-24E, with lowered TP at US\$4.5.

- 1Q22 beat.** 1Q22 rev +55% YoY, 3%/3% above consensus/our estimates. By segment, CCS performed well, +88% YoY (7% above our estimate), supported by higher brand engagement and defensive verticals. Ads +2% YoY, in line with our estimate. Paid membership +75% YoY, 6% below our estimate. Non-GAAP net loss was RMB367mn, better than consensus and our estimate. We are impressed by its better-than-feared GPM (at 45%, 4ppts above consensus), and mgmt. guided cost control to continue. MAU reached 101.6mn, +19% YoY, largely in line.
- Factoring in 2Q22E challenges.** Typically, 2Q would be a strong season for traffic, and we forecast its MAU up to 105mn (+4% QoQ) in 2Q22E. Given lockdown disruptions, we expect 2Q22E to see shrinking ads budgets from multiple verticals (e.g. ecommerce, offline life services, auto). We forecast its rev +30% YoY in 2Q22E, in which CCS and ads +10% YoY (CCS+20% YoY), paid membership +69% YoY. As such, we adjusted our FY22E topline growth to +35% YoY (prior +60%), to factor in epidemic resurgence. In terms of margin, mgmt. emphasized on effective cost control and disciplined expense to continue in 2022 and 2023. We expect its GPM at 45% (stable QoQ), with adj. OPM at -56% in 2Q22E.
- Maintain BUY.** To factor in epidemic impact, we trimmed its topline by 15%-26% in FY22-24E, with lowered TP at US\$4.5.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,352	2,959	4,009	5,685	7,524
YoY growth (%)	101.7	118.9	35.5	41.8	32.3
Adj. net income (RMB mn)	(337)	(749)	(1,710)	(1,521)	(582)
Adj. EPS (RMB)	(0.71)	(1.31)	(3.00)	(2.67)	(1.02)
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	NA	(2.7)	(1.9)	(0.3)
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	3.3	1.8	1.3	0.9	0.7
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(12.3)	(11.1)	(30.7)	(37.5)	(16.8)
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	US\$4.5
(Previous TP)	US\$5.5)
Up/Downside	+231%
Current Price	US\$1.36

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### Stock Data

Mkt Cap (US\$ mn)	946
Avg 3 mths t/o (US\$ mn)	14.58
52w High/Low (US\$)	13.85/ 1.23
Total Issued Shares (mn)	614

Source: Bloomberg

### Shareholding Structure

Yiheng Capital	3.00%
Krane Funds Advisors	2.36%
Cosmic Blue Invest	1.63%

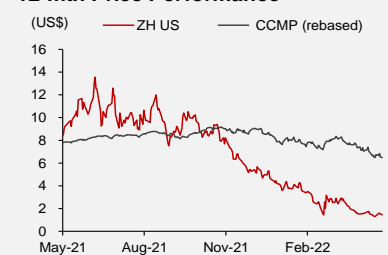
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-7.1%	5.1%
3-mth	-57.6%	-50.0%
6-mth	-82.4%	-75.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

### Related Reports

- Prioritizing on community ecosystem— 15 Mar 2022
- Solid 4Q21E ahead, with FY22E transition— 10 Feb 2022
- Better-than-feared 3Q21— 24 Nov 2021

**Figure 1: 1Q22 financial review**

RMB mn, Dec-YE	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	188	261	383	520	478	638	824	1,019	743	-27.1%	55.4%	722	3%	723	3%
Operating Profit	(211)	(158)	(130)	(105)	(342)	(351)	(322)	(375)	(648)	NA	NA	(532)	NA	(560)	NA
Net profit	(371)	(286)	(280)	(260)	(495)	(321)	(270)	(383)	(614)	NA	NA	(516)	NA	(563)	NA
Adj. net profit	(161)	(70)	(79)	(26)	(194)	(200)	(112)	(243)	(367)	NA	NA	(384)	NA	(427)	NA
Adj. EPS (RMB)	(0.34)	(0.54)	(0.17)	(0.05)	(1.35)	(0.34)	(0.19)	(0.41)	(0.61)	NA	NA	(0.87)	NA	(0.72)	NA
<b>Margin (%)</b>															
Gross margin	41.6%	48.4%	57.5%	64.1%	57.0%	59.0%	51.6%	47.1%	45.1%			40.2%		40.6%	
Operating margin	-112.1%	-60.3%	-33.9%	-20.1%	-71.6%	-54.9%	-39.2%	-36.8%	-87.2%			-73.6%		-77.4%	
Adj. net margin	-85.6%	-26.9%	-20.7%	-5.1%	-40.5%	-31.4%	-13.6%	-23.8%	-49.4%			-53.2%		-59.1%	
<b>Growth (%)</b>															
Revenue (YoY)	59.4%	69.1%	120.2%	132.0%	154.2%	144.2%	115.1%	96.1%	55.4%			50.9%		51.3%	
Revenue (QoQ)	-16.0%	38.9%	46.5%	35.8%	-8.0%	33.5%	29.0%	23.8%	-27.1%			-29.2%		-29.0%	
Operating Profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA		NA	

Source: Company data, Bloomberg

**Figure 2: 1Q22 revenue breakdown**

RMB mn, Dec-YE	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY
<b>Total revenue</b>	<b>188</b>	<b>261</b>	<b>383</b>	<b>520</b>	<b>478</b>	<b>638</b>	<b>824</b>	<b>1,019</b>	<b>743</b>	<b>-27%</b>	<b>55%</b>
Content-commerce solutions	1	13	46	76	121	207	278	367	227	-38%	88%
Advertising	126	167	231	319	214	248	321	378	217	-42%	2%
Paid membership	56	69	91	104	127	155	178	209	222	6%	75%
Others	6	12	15	20	17	28	46	65	77	19%	352%

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	4,009	5,685	7,524	4,650	6,975	9,528	-13.8%	-18.5%	-21.0%
Gross profit	1,788	2,909	4,081	2,176	3,680	5,450	-17.8%	-20.9%	-25.1%
Operating profit	(2,463)	(2,106)	(1,432)	(1,892)	(1,476)	(702)	NA	NA	NA
Adj. net profit	(1,710)	(1,521)	(582)	(1,214)	(861)	(132)	NA	NA	NA
EPS (RMB)	(3.00)	(2.67)	(1.02)	(2.73)	-1.92	-0.32	NA	NA	NA
Gross margin	44.6%	51.2%	54.2%	46.8%	52.8%	57.2%	-2.2ppts	-1.6ppts	-2.9ppts
Operating margin	-61.4%	-37.0%	-19.0%	-40.7%	-21.2%	-7.4%	-20.7ppts	-15.9ppts	-11.7ppts
Net margin	-42.7%	-26.8%	-7.7%	-26.1%	-12.3%	-1.4%	-16.6ppts	-14.4ppts	-6.4ppts

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	4,009	5,685	7,524	4,730	7,171	10,156	-15.3%	-20.7%	-25.9%
Gross profit	1,788	2,909	4,081	2,095	3,778	5,684	-14.6%	-23.0%	-28.2%
Operating profit	(2,463)	(2,106)	(1,432)	(2,366)	(1,665)	(1,544)	NA	NA	NA
Adj. net profit	(1,710)	(1,521)	(582)	(1,613)	(1,072)	(501)	NA	NA	NA
EPS (RMB)	(3.00)	(2.67)	(1.02)	(2.83)	-1.88	-0.88	NA	NA	NA
Gross margin	44.6%	51.2%	54.2%	44.3%	52.7%	56.0%	+0.3ppts	-1.5ppts	-1.7ppts
Operating margin	-61.4%	-37.0%	-19.0%	-50.0%	-23.2%	-15.2%	-11.4ppts	-13.8ppts	-3.8ppts
Net margin	-42.7%	-26.8%	-7.7%	-34.1%	-15.0%	-4.9%	-8.6ppts	-11.8ppts	-2.8ppts

Source: Company data, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenues</b>	<b>1,352</b>	<b>2,959</b>	<b>4,009</b>	<b>5,685</b>	<b>7,524</b>
CCS	136	974	1,409	2,302	3,368
Advertising	843	1,161	1,178	1,357	1,564
Paid membership	320	669	1,088	1,406	1,689
Others	53	156	334	621	903
COGS	(594)	(1,405)	(2,220)	(2,776)	(3,442)
<b>Gross profit</b>	<b>758</b>	<b>1,554</b>	<b>1,788</b>	<b>2,909</b>	<b>4,081</b>
S&M	(735)	(1,635)	(2,135)	(2,233)	(2,357)
R&D	(330)	(620)	(1,079)	(1,574)	(1,746)
G&A	(296)	(690)	(1,037)	(1,208)	(1,410)
<b>Operating profit</b>	<b>(603)</b>	<b>(1,391)</b>	<b>(2,463)</b>	<b>(2,106)</b>	<b>(1,432)</b>
Other income	86	56	91	111	135
Pre-tax Income	(516)	(1,335)	(2,372)	(1,994)	(1,297)
Income Tax	(1)	(2)	0	0	195
Net profit	(518)	(1,337)	(2,372)	(1,994)	(1,103)
Accretions	(681)	(171)	0	0	0
Net profit to shareholder	(1,198)	(1,508)	(2,372)	(1,994)	(1,103)
<b>Adj. net profit</b>	<b>(337)</b>	<b>(750)</b>	<b>(1,710)</b>	<b>(1,521)</b>	<b>(582)</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>(518)</b>	<b>(1,337)</b>	<b>(2,372)</b>	<b>(1,994)</b>	<b>(1,103)</b>
D&A	20	14	19	27	34
Change in WC	(10)	351	886	776	316
Others	264	548	662	473	520
<b>Operating CF</b>	<b>(244)</b>	<b>(424)</b>	<b>(805)</b>	<b>(718)</b>	<b>(232)</b>
CAPEX	(2)	(21)	(28)	(40)	(53)
Others	432	0	0	0	0
<b>Investing CF</b>	<b>430</b>	<b>(21)</b>	<b>(28)</b>	<b>(40)</b>	<b>(53)</b>
Issuance of shares	0	0	0	0	0
IPO proceeds	0	5,286	0	0	0
Others	9	0	0	0	0
<b>Financing CF</b>	<b>9</b>	<b>5,286</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net change in cash	<b>195</b>	<b>4,842</b>	<b>(833)</b>	<b>(758)</b>	<b>(285)</b>
Cash (beg of yr)	900	958	5,752	4,919	4,161
Fx effect	(138)	0	0	0	0
<b>Cash (end of yr)</b>	<b>958</b>	<b>5,800</b>	<b>4,919</b>	<b>4,161</b>	<b>3,876</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>41</b>	<b>65</b>	<b>74</b>	<b>86</b>	<b>105</b>
PP&E	8	17	27	39	56
Intangible assets, net	23	22	21	21	23
Right-of-use assets	3	26	26	26	26
Others	6	0	0	0	0
<b>Current assets</b>	<b>3,720</b>	<b>9,471</b>	<b>8,752</b>	<b>8,236</b>	<b>8,456</b>
Cash, cash equivalents	958	5,800	4,919	4,161	3,876
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	1,693	1,936	2,440
<b>Current liabilities</b>	<b>1,015</b>	<b>2,291</b>	<b>3,250</b>	<b>4,268</b>	<b>5,088</b>
AP and accruals	502	1,140	1,277	1,331	1,637
Salary welfare payables	232	372	708	1,166	1,346
Contract liabilities	160	697	1,133	1,465	1,760
Others	121	83	131	306	346
<b>Non-current liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Lease liabilities	0	0	0	0	0
<b>Mezzanine equity and shareholders' equity</b>	<b>2,747</b>	<b>7,245</b>	<b>5,576</b>	<b>4,055</b>	<b>3,472</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
CCS	10.0	32.9	35.2	40.5	44.8
Advertising	62.4	39.2	29.4	23.9	20.8
Paid membership	23.7	22.6	27.1	24.7	22.4
Others	3.9	5.3	8.3	10.9	12.0
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth rate (%)</b>					
Revenue	101.7	118.9	35.5	41.8	32.3
Gross profit	142.7	105.1	15.1	62.7	40.3
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
<b>P&amp;L ratios (%)</b>					
Operating margin	(44.6)	(47.0)	(61.4)	(37.0)	(19.0)
Pre-tax margin	(38.2)	(45.1)	(59.2)	(35.1)	(17.2)
Adj. net margin	(25.0)	(25.4)	(42.7)	(26.8)	(7.7)
Effective tax rate	0.2	0.2	0.0	0.0	0.0
<b>Returns (%)</b>					
ROE	(12.3)	(10.4)	(30.7)	(37.5)	(16.8)
ROA	(9.0)	(7.9)	(19.4)	(18.3)	(6.8)
<b>Per share</b>					
EPS (RMB)	(0.7)	(1.3)	(3.0)	(2.7)	(1.0)
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	41.0	43.2	47.9	54.4	62.3

Source: Company data, CMBIGM estimates

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