

China / Hong Kong Company Update

Kuaishou Technology

Bloomberg: 1024 HK Equity | Reuters: 1024.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Mar 2022

BUY

Last Traded Price (29 Mar 2022): HK\$78.50 (HSI : 22,232)
Price Target 12-mth: HK\$116 (48% upside) (Prev HK\$131)

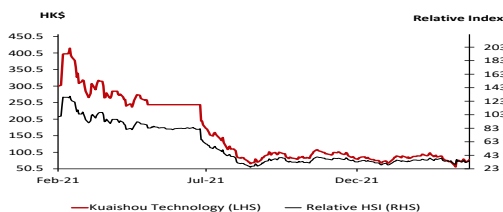
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What's New

- Kuaishou reported 4Q21 results with total revenue and earnings beating expectations
- Commercialization on track, advertising and e-commerce have maintained a rapid growth pace
- Improving the cost structure may help to narrow losses faster than expected
- Maintain BUY, TP lowered from HK\$131 to HK\$116

Price Relative



Forecasts and Valuation

FY DEC (RMBm)	2020A	2021A	2022F	2023F
Turnover	58,776	81,082	101,853	126,410
EBITDA	(112,303)	(72,092)	(9,093)	1,773
Pre-tax Profit	(117,201)	(79,016)	(16,988)	(6,811)
Net Profit	(116,635)	(77,990)	(16,734)	(6,709)
Net Pft (Pre Ex) (core profit)	(7,864)	(18,852)	(8,784)	1,241
Net Profit Gth (Pre-ex) (%)	N/A	(139.7)	53.4	N/A
EPS (RMB)	(28.39)	(18.98)	(4.07)	(1.63)
EPS (HK\$)	(34.92)	(23.35)	(5.01)	(2.01)
Core EPS (RMB)	(1.91)	(4.59)	(2.14)	0.30
Core EPS (HK\$)	(2.35)	(5.64)	(2.63)	0.37
EPS Gth (%)	(493.5)	33.1	78.5	59.9
Core EPS Gth (%)	N/A	(139.7)	53.4	N/A
Diluted EPS (HK\$)	(2.35)	(5.64)	(2.63)	0.37
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	(47.92)	13.50	8.49	6.48
PE (X)	nm	nm	nm	nm
CorePE (X)	nm	nm	nm	211.4
P/Cash Flow (X)	114.6	nm	nm	29.0
P/Free CF (X)	nm	nm	nm	294.2
EV/EBITDA (X)	nm	nm	nm	145.0
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	nm	5.8	9.2	12.1
Net Debt/Equity (X)	CASH	(0.8)	(0.4)	(0.2)
ROAE (%)	108.1	135.7	(45.6)	(26.8)
Earnings Rev (%)			n.m.	n.m.
Consensus EPS (RMB)			(3.36)	(0.72)
Other Broker Recs:		B:41	S:1	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Significant improvement in cost structure and efficiency

Investment Thesis

Effective strategy shift. Since Sep 21, Kuaishou's development strategy has shifted from an expansion model of high user growth to one that focuses on commercialization and efficiency. The company is still growing steadily. Traffic continues to grow, and commercialization is progressing well (stable live broadcast, high growth of advertising and e-commerce), while steps have been taken to reduce cost and enhance efficiency. As such, losses are narrowing and the path to profit is clearer.

Kuaishou's fundamentals are improving, despite some strain on the economy. In terms of competition, Kuaishou has taken a clear path to differentiate itself in terms of product and community tone. The user time and stickiness continue to increase, gradually reinforcing its competitive advantage.

Potential catalyst: Improving monetization, overseas expansion, narrowing losses faster than expected.

Valuation:

Given its diversified monetization initiatives, we adopted SOTP methodology to value Kuaishou.

Considering that the macro economy and advertising industry are under pressure, we revised FY22F revenue forecast down by 11.7%. We maintain P/S multiples of 4x/1x for the Community & Online marketing services/ live streaming segments, respectively, maintain 0.15x FY22F P/GMV multiple for e-commerce business, to derive a TP of HK\$116.

Where we differ:

We believe video is on a long-term uptrend worldwide and will continue to see rapid growth. Current regulatory headwinds on the Internet and media industries does not conflict with Kuaishou's underlying values of "inclusive and fair".

Key Risks to Our View:

Tightening regulatory policies; competition from well-funded competitors; supply chain and quality control; balancing user expansion and maintaining the community culture.

At A Glance

Issued Capital (m shrs)	4,227
Mkt Cap (HK\$/US\$m)	331,820 / 42,393
Major Shareholders (%)	
Tencent Holdings Ltd	20.9
5Y Capital	11.9
DCM	7.9
Free Float (%)	59.3
3m Avg. Daily Val. (US\$m)	279.07
GICS Industry: Information Technology / Software & Services	



ed-JS/ sa- CS /AH



Live more, Bank less

Kuaishou Technology

WHAT'S NEW

Total revenue and earnings beat expectations.

Kuaishou reported 4Q21 results with total revenue and earnings beating expectations. Users and duration maintained their healthy growth rates.

In 4Q21, Kuaishou achieved revenue of Rmb24.43 billion, a y-o-y increase of 35.0%, exceeding Bloomberg consensus of Rmb23.12 billion. Non-GAAP net loss expanded 406.6% y-o-y to Rmb3.57 billion vs Bloomberg consensus of Rmb3.92 billion loss, hence loss was narrower than market expectations. In 4Q21, the average MAU was 578 million, a y-o-y increase of 21.5% and a month-on-month increase of 0.9%; average DAU was 323 million, a y-o-y increase of 19.2% and a month-on-month increase of 0.9%; average daily use time of per DAU was 118.9 minutes, a y-o-y increase of 32.3%.

Advertising business continues to gain market share. The contribution of in-cycle advertising and brand advertising in e-commerce has increased.

4Q21 online marketing service revenue was Rmb13.24 billion, a y-o-y increase of 55.5% and a month-on-month increase of 21.3%. The advertising business continues to see rapid growth, driven by higher users, duration, and ad load rate, as well as a further increase in the number of advertisers and budget allocation. In addition, the contribution of brand advertising and in-cycle advertising in e-commerce is expanding.

E-commerce business exceeded expectations, and the infrastructure has improved to build a closed-loop ecosystem.

In 4Q21, Kuaishou's e-commerce business achieved GMV of Rmb 240.3 billion, a y-o-y increase of 35.7%, which was better than market consensus of Rmb224.5 billion. Kuaishou's other (mainly e-commerce) businesses achieved revenue of Rmb2.37 billion, a y-o-y increase of 40.2% and a month-on-month increase of 27.3% and the e-commerce monetization rate reached 0.99%. Based on its unique e-commerce model, Kuaishou has built its basic tool "Kuishou Xiaodian" on the demand side and upgraded the e-commerce preferred platform "Haowu Alliance" to "Quick Distribution" on the supply side, providing merchants with comprehensive short videos. The live broadcast e-commerce infrastructure and supporting services have created a closed-loop e-commerce ecosystem.

The live broadcast business has passed the trough, and average income of paying users has grown faster.

In 4Q21, Kuaishou's live broadcast business achieved revenue of Rmb8.83 billion, a y-o-y increase of 11.7% and a month-on-month increase of 14.3%, mainly due to a 17.2% increase in the monthly average income of a single paying user to Rmb60.7.

After the adjustment period, we saw positive quarter-on-year growth for live broadcast business for the first time, indicating that the content ecology and operational efficiency of the live broadcast business is now better, and user interaction and activity have improved.

The adjustment of the organizational structure has achieved initial positive results, and the impact of cost reduction and efficiency improvement is obvious.

In September 2021, Kuaishou made major adjustments to its management and organizational structure. As such, its operations, monetization capabilities and organizational efficiency have significantly improved. In 4Q21, under the premise of achieving healthy growth in traffic and revenue, the sales expense ratio was further reduced to 41.9%, significantly lower than the previous quarter. We expect the company's overall operating efficiency will be further optimized, and customer acquisition efficiency and profitability will continue to improve.

Company Background

Kuaishou is the first short video platform in China. It was founded in 2011 as a GIF-making tool and transformed into a short video community in 2012. With the motto "Embrace every lifestyle", the platform has a strong user base outside China's Tier-1 cities as well as in overseas markets. Kuaishou is the largest live streaming platform by gross billings from virtual gifting, the second largest short video platform by DAU's, and the second largest live streaming e-commerce platform by GMV. It has three main apps: Kuaishou Flagship, Kuaishou Express, and Kuaishou Concept, collectively generating 519.8m/395.3m average MAU/DAU as of March 2021, positioning it as one of the high traffic social platforms with strong user engagement.

Kuaishou Technology

SOTP Valuation

Business	22E Rev (RMB mn)	22E GMV (RMB bn)	Multiple	Methodology	22E Mkt Cap (RMB bn)
Community & Online marketing services	60,153	-	4.00x	P/S	240.61
Live streaming	32,250	-	1.00x	P/S	32.25
E-commerce	-	856.8	0.15x	P/GMV	128.52
Valuation (RMB bn)					401.38
Valuation (HK\$ bn)					493.98
Total shares (mn)					4,259.83
TP (HK\$) based on SOTP					115.96

Source: Bloomberg Finance L.P., DBS HK

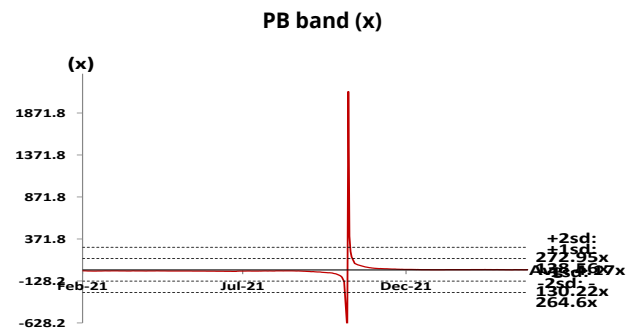
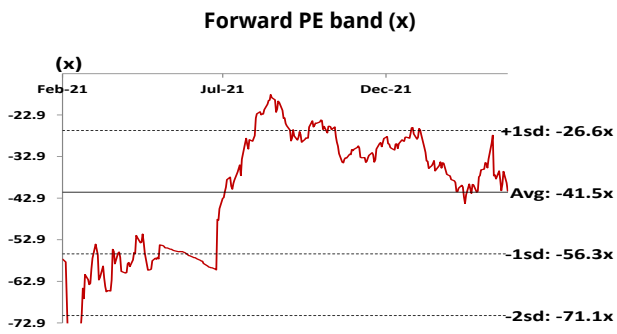
Income Statement (RMB m)

FY Dec	2020A	2021A	% cha	vov
Revenue	58,776	81,082		37.9
Cost of Goods Sold	(34,961)	(47,052)		34.6
Gross Profit	23,815	34,030		42.9
Other Opng (Exp)/Inc	(34,135)	(61,731)		80.8
Operating Profit	(10,320)	(27,701)		168.4
Other Non Opg (Exp)/Inc	(106,846)	(51,276)		52.0
Associates & JV Inc	0	0		nm
Net Interest (Exp)/Inc	(35)	(39)		(9.2)
Exceptional Gain/(Loss)	0	0		nm
Pre-tax Profit	(117,201)	(79,016)		32.6
Tax	566	1,025		81.3
Minority Interest	0	0		nm
Net Profit	(116,635)	(77,990)		33.1
Net Profit before Except.	(7,864)	(18,852)		(139.7)
EBITDA	(112,303)	(72,092)		35.8
Margins & Ratio				
Gross Margins (%)	40.5	42.0		
Opg Profit Margin (%)	(17.6)	(34.2)		
Net Profit Margin (%)	(198.4)	(96.2)		

Source: Company, DBS HK

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Online marketing services	31,442	33,209	30,995	32,250	33,068
Live streaming	7,419	21,855	42,665	60,153	79,484
Other services	260	3,712	7,421	9,450	13,859
Total	39,120	58,776	81,082	101,853	126,410

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	39,120	58,776	81,082	101,853	126,410
Cost of Goods Sold	(25,017)	(34,961)	(47,052)	(53,866)	(61,002)
Gross Profit	14,104	23,815	34,030	47,988	65,408
Other Opng (Exp)/Inc	(13,415)	(34,135)	(61,731)	(64,928)	(72,159)
Operating Profit	689	(10,320)	(27,701)	(16,940)	(6,751)
Other Non Opg (Exp)/Inc	(19,943)	(106,846)	(51,276)	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(11)	(35)	(39)	(48)	(60)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(19,265)	(117,201)	(79,016)	(16,988)	(6,811)
Tax	(386)	566	1,025	255	102
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	(19,652)	(116,635)	(77,990)	(16,734)	(6,709)
Net Profit before Except.	1,324	(7,864)	(18,852)	(8,784)	1,241
EBITDA	(17,094)	(112,303)	(72,092)	(9,093)	1,773
Growth					
Revenue Gth (%)	92.7	50.2	37.9	25.6	24.1
EBITDA Gth (%)	(51.6)	(557.0)	35.8	87.4	N/A
Opg Profit Gth (%)	(232.3)	(1,598.5)	168.4	(38.8)	(60.1)
Net Profit Gth (%)	(58.1)	(493.5)	33.1	78.5	59.9
Margins & Ratio					
Gross Margins (%)	36.1	40.5	42.0	47.1	51.7
Opg Profit Margin (%)	1.8	(17.6)	(34.2)	(16.6)	(5.3)
Net Profit Margin (%)	(50.2)	(198.4)	(96.2)	(16.4)	(5.3)
ROAE (%)	43.0	108.1	135.7	(45.6)	(26.8)
ROA (%)	(80.4)	(275.9)	(107.8)	(20.0)	(9.0)
ROCE (%)	4.7	(44.9)	(65.8)	(36.1)	(19.2)
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	N/A
Net Interest Cover (x)	62.4	(292.4)	(718.8)	(349.9)	(112.4)

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	6,232	7,206	11,051	14,071	16,418
Invt in Associates & JVs	2,258	3,843	4,712	4,712	4,712
Other LT Assets	8,871	13,413	28,454	28,472	28,487
Cash & ST Invt	5,269	23,124	36,440	11,937	4,998
Inventory	0	0	0	0	0
Debtors	1,107	2,428	4,450	5,590	6,938
Other Current Assets	10,935	5,976	12,121	14,834	17,765
Total Assets	32,414	52,147	92,515	74,904	74,605
ST Debt	0	0	0	0	0
Creditors	13,612	20,598	32,647	31,831	38,242
Other Current Liab	1,761	2,587	4,608	4,608	4,608
LT Debt	0	0	56	0	0
Other LT Liabilities	72,770	189,012	10,108	10,108	10,108
Shareholder's Equity	(55,729)	(160,050)	45,096	28,356	21,647
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	32,414	52,147	92,515	74,904	74,605
Non-Cash Wkg. Capital	(3,331)	(14,781)	(20,685)	(16,016)	(18,147)
Net Cash/(Debt)	5,269	23,124	36,385	11,937	4,998
Debtors Turn (avg days)	5.8	11.0	15.5	18.0	18.1
Creditors Turn (avg days)	135.4	207.4	241.9	255.7	243.7
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.6	1.4	1.1	1.2	1.7
Current Ratio (x)	1.1	1.4	1.4	0.9	0.7
Quick Ratio (x)	0.4	1.1	1.1	0.5	0.3
Net Debt/Equity (X)	CASH	CASH	(0.8)	(0.4)	(0.2)
Net Debt/Equity ex MI (X)	0.1	0.1	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	14,291.7	N/A	N/A
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	(19,265)	(117,201)	(79,016)	(16,988)	(6,811)
Dep. & Amort.	2,160	4,863	6,260	5,111	5,789
Tax Paid	(862)	(830)	1,025	255	102
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	20,722	108,426	53,998	7,830	7,830
Chg in Wkg.Cap.	5,168	6,898	9,036	(4,669)	2,131
Other Operating CF	98	133	91	0	0
Net Operating CF	8,020	2,289	(8,607)	(8,461)	9,041
Capital Exp.(net)	(2,548)	(5,908)	(7,940)	(8,150)	(8,150)
Other Invt.(net)	(1,909)	(1,975)	0	0	0
Invt in Assoc. & JV	(32)	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(5,658)	3,016	(10,420)	0	0
Net Investing CF	(10,149)	(4,867)	(18,361)	(8,150)	(8,150)
Div Paid	0	0	0	0	0
Chg in Gross Debt	0	0	0	0	0
Capital Issues	1,086	20,957	42,230	(7,830)	(7,830)
Other Financing CF	(388)	(1,666)	(5,730)	(62)	0
Net Financing CF	698	19,290	36,500	(7,892)	(7,830)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,430)	16,711	9,533	(24,503)	(6,939)
Opg CFPS (RMB)	0.69	(1.12)	(4.29)	(0.92)	1.68
Free CFPS (RMB)	1.33	(0.88)	(4.03)	(4.04)	0.22

Source: Company, DBS HK

Kuaishou Technology

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	22-Jul-21	HK\$135.70	HK\$256.00	Buy
2:	26-Aug-21	HK70.40	HK\$131.00	Buy

Source: DBS HK

Analyst: Ryan WANG

Tsz Wang Tam

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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