

COMPANY UPDATE

Kuaishou Technology (1024 HK)

3Q23 Results Preview: Encouraging E-commerce And Ad Momentum Despite Weak Seasonality

Kuaishou's guidance on 3Q23 revenue growth remains unchanged at high teens to twenties, in line with its previous guidance and market expectations. Despite weak seasonality in 3Q23, e-commerce GMV growth remained robust and is projected to surge by 35% yoy. 3Q23 earnings are expected to beat current consensus estimates, bolstered by a solid gross margin improvement and narrowing of overseas losses. Maintain BUY. Target price: HK\$100.00.

WHAT'S NEW

- **Addresses market concerns on potential share distribution by Tencent.** Kuaishou Technology (Kuaishou) highlighted the following: a) Tencent, as one of Kuaishou's major shareholders, has not had any discussions or communication with the company regarding the potential distribution of Kuaishou shares, and b) during Tencent's annual general meeting (AGM) held in 2H23, the president of Tencent, Martin Lau clearly stated that there would be no distribution or liquidation of Kuaishou shares.
- **3Q23 top-line growth momentum remains intact.** Total revenue is guided to grow at high teens to twenties, with online marketing/live-streaming/other services guided to increase 25%/high-single digit/30% yoy respectively. Online marketing services revenue growth is guided to exceed 25% yoy, driven by continuous robust growth of internal ad. Meanwhile, external ad continues to deliver positive yoy growth and improve sequentially from 2Q23 despite the challenging macro environment. Live-streaming revenue is projected to generate high single-digit yoy growth, mainly impacted by enhanced governance of the live-streaming ecosystem since Jun 23. Despite weak seasonality in 3Q23, Kuaishou's e-commerce gross merchandise volume (GMV) growth momentum is expected to sustain at 35% yoy, stimulated by comprehensive e-commerce content supply. In addition, both monthly active customers (MAC) and the number of monthly e-commerce orders saw sequential positive growth, driven by improvements in key opinion leader (KOL) commission distribution and ecosystem development.
- **3Q23 margin overview.** Gross profit margin is expected to sustain above 50% (vs our estimate of 48%), anchored by the ongoing optimisation of distribution costs. S&M expenses in 3Q23 continue to decline yoy, attributed to solid user growth and high ROI in user retention. Management guided that adjusted net profit would potentially beat market estimates of Rmb2.37b and exceed 2Q23's level (Rmb2.69b). As such, we estimate adjusted net profit to come in at Rmb2.8b, translating to an adjusted net margin of 10%. Overseas revenue maintains rapid growth yoy, while operating losses continue to narrow. However, in view of vague visibility, Kuaishou remains cautious on overseas revenue in 4Q23.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	81,081.5	94,182.5	113,727.3	131,198.4	145,706.5
EBITDA	(20,816.3)	(6,072.3)	10,842.9	19,896.7	26,204.2
Operating profit	(27,701.3)	(12,558.0)	3,611.9	12,265.8	18,527.4
Net profit (rep./act.)	(78,077.1)	(13,689.4)	3,147.9	11,080.0	15,726.3
Net profit (adj.)	(18,851.8)	(5,751.4)	7,782.0	15,803.1	20,971.7
EPS (Fen)	(491.8)	(135.2)	180.0	361.9	475.5
PE (x)	n.m.	n.m.	29.1	14.5	11.0
P/B (x)	4.5	5.6	5.0	3.7	2.8
EV/EBITDA (x)	n.m.	n.m.	18.8	10.2	7.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(96.3)	(14.5)	2.8	8.4	10.8
Net debt/(cash) to equity (%)	(72.3)	(33.3)	(53.9)	(70.6)	(81.4)
Interest cover (x)	(540.2)	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	7.4	20.8	21.9
Consensus net profit	-	-	7,458	13,866	20,981
UOBKH/Consensus (x)	-	-	1.04	1.14	1.00

Source: Kuaishou, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	HK\$56.05
Target Price	HK\$100.00
Upside	+78.4%

COMPANY DESCRIPTION

Kuaishou Technology operates as a content community and social platform. The company helps users create, upload and watch short videos on mobile devices. Kuaishou Technology offers services worldwide.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	1024 HK
Shares issued (m):	3,590.3
Market cap (HK\$m):	244,097.9
Market cap (US\$m):	31,186.2
3-mth avg daily t'over (US\$m):	156.9

Price Performance (%)

52-week high/low	HK\$79.85/HK\$32.30			
1mth	3mth	6mth	1yr	YTD
(12.0)	(2.0)	3.6	8.9	(21.1)

Major Shareholders

	%
Tencent Holdings Ltd	19%
Morningside Venture Capital Ltd	15.7%
DCM	5%
FY23 NAV/Share (RMB)	10.50
FY23 Net Cash/Share (RMB)	5.66

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Healthy user growth trajectory in 3Q23.** Daily active users (DAU) is expected to reach 384m in 3Q23, in line with market expectations. Average daily time spent per DAU on the Kuaishou App is expected to surpass 1Q23's level of 126.8 minutes. Continuous optimisation of algorithms and a diverse supply of content during the summer holidays have contributed to high user stickiness on the Kuaishou platform. The penetration rate of monthly active customers (MAC) to monthly active users (MAU) currently stands at 16-17%. 4Q23 revenue and earnings growth are also on track to achieving its previous guidance; hence, we expect a strong solid revenue growth of 17% yoy in 4Q23, underpinned by the 11.11 festival.
- To navigate through intense competitive environment during 11.11.** The Kuaishou E-commerce 11.11 shopping festival officially commenced pre-sales on 18 October. With the theme "Billions of Subsidies for Big Brands, All at Kuaishou Mall", Kuaishou is offering higher value-for-money products at affordable prices. Kuaishou E-commerce previously announced that it will invest Rmb18b in traffic and Rmb2b in product subsidies for 11.11 this year. Kuaishou highlighted that it will not have significant changes to its strategic approach and expect more merchants to come on board for 11.11 this year. For online marketing services, brand advertisers are more aggressive in their preparations for 11.11 this year. Kuaishou also aims to seize further opportunities in verticals such as FMCG and offline services. Through strategies such as "Stream Initiatives", "Fuyao Plan", and "Bestseller Plan", Kuaishou E-commerce is proactively addressing user shopping needs, thus enhancing user experience.
- Soft 3Q23 NBS data.** Gross merchandise volume (GMV) is expected experience a sequential decline in Jul/Aug/Sep 23, primarily due to seasonality following the 618 festival in 2Q23. Nevertheless, the company is confident that Chinese consumers are continuing to embrace the live-streaming e-commerce model, indicating a transition towards more intelligent consumption rather than downgrading consumption. Management is anticipating robust growth in e-commerce during 2H23, with increases in both GMV and advertising revenue, driven by the expanding penetration of paying users and improved monetisation. In addition, the shelf-based model (currently contributing 15-20% of Kuaishou's GMV) is poised to play a central role in the company's e-commerce operations. Following the successful implementation of this model by Douyin, where it accounts for over 35% of total GMV, Kuaishou is determined to replicate such success.

EARNINGS REVISION/RISK

- We trim 3Q23/2023 revenue forecasts by 2%/2% after factoring in the tempered live-streaming revenue growth.** We raise 3Q23 non-GAAP net profit forecast by 38%, and keep 2023 non-GAAP net profit forecast unchanged. This translates to non-GAAP net margin of 10%/6.8% for 3Q23/2023.
- Risks:** a) Weaker advertisement demand due to the weak macro environment, b) increasing competition from Douyin, c) limitations on time spent by minors on short-form videos, and d) expanding losses from the overseas business and local life services initiatives.

VALUATION/RECOMMENDATION

- Maintain BUY with target price of HK\$100.00.** We remain optimistic on Kuaishou due to the resilient growth momentum in live-streaming e-commerce GMV and improving online advertising monetisation. Our target price implies 3.2x 2023F PS. The company is currently trading at 1.8x 12-month forward EV/Sales (13x 2024F PE), below its historical mean of 4x.

SHARE PRICE CATALYST

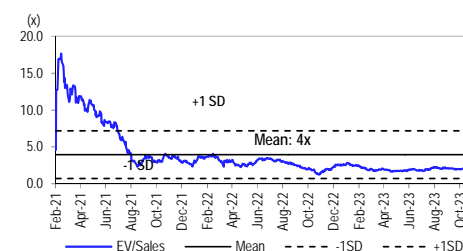
- a) Higher monetisation rates across all categories, b) less competition from peers, c) positive government policies to simulate consumption, and d) lifting of regulations on internet platforms.

SOTP VALUATION

2023 12-mon Forward	Revenue (Rmbm)	GMV (Rmbm)	Net profit (Rmbm)	PS (x)	PE (x)	To Kuaishou (HK\$)	HK\$/share
Live streaming	41,839		4,184	1x	10	44,767	10
Online marketing	64,545		13,554	4x	18	261,059	60
E-commerce	16,079	1,295,174	2,251		18	124,725	29
SOTP value						430,551	100

Source: UOB Kay Hian

12-MONTH EV/SALES BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	94,183	113,727	131,198	145,707
EBITDA	(6,072)	10,843	19,897	26,204
Deprec. & amort.	6,486	7,231	7,631	7,677
EBIT	(12,558)	3,612	12,266	18,527
Total other non-operating income	0	0	0	0
Associate contributions	(139)	(32)	0	0
Net interest income/(expense)	166	433	570	900
Pre-tax profit	(12,531)	4,013	12,836	19,427
Tax	(1,158)	(865)	(1,756)	(3,701)
Minorities	0	0	0	0
Net profit	(13,689)	3,148	11,080	15,726
Net profit (adj.)	(5,751)	7,782	15,803	20,972

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	13,215	12,344	11,264	9,987
Other LT assets	29,965	30,803	31,269	31,944
Cash/ST investment	13,274	24,473	43,214	66,925
Other current assets	32,584	34,312	36,518	38,343
Total assets	89,039	101,933	122,265	147,199
ST debt	0	0	0	0
Other current liabilities	40,710	46,854	51,126	55,003
LT debt	0	0	0	0
Other LT liabilities	8,760	8,144	8,401	8,487
Shareholders' equity	39,830	45,411	61,215	82,186
Minority interest	8	8	8	8
Total liabilities & equity	89,039	101,933	122,265	147,199

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	36	16,683	25,477	30,586
Pre-tax profit	(12,531)	4,013	12,836	19,427
Tax	(1,158)	(865)	(1,756)	(3,701)
Deprec. & amort.	6,295	7,001	7,366	7,383
Associates	0	0	0	0
Working capital changes	(545)	1,090	504	(1,529)
Other operating cashflows	7,975	5,444	6,527	9,006
Investing	(17,542)	(7,031)	(6,799)	(6,841)
Capex (growth)	(4,934)	(7,031)	(6,799)	(6,841)
Capex (maintenance)	0	0	0	0
Investments	(4,245)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(8,363)	0	0	0
Financing	(1,405)	1,120	63	(34)
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(1,405)	1,120	63	(34)
Net cash inflow (outflow)	(18,910)	10,771	18,741	23,711
Beginning cash & cash equivalent	32,612	13,702	24,473	43,214
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	13,274	24,473	43,214	66,925

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(6.4)	9.5	15.2	18.0
Pre-tax margin	(13.3)	3.5	9.8	13.3
Net margin	(14.5)	2.8	8.4	10.8
ROA	n.a.	3.3	9.9	11.7
ROE	n.a.	7.4	20.8	21.9
Growth				
Turnover	16.2	20.8	15.4	11.1
EBITDA	n.a.	n.a.	83.5	31.7
Pre-tax profit	n.a.	n.a.	219.9	51.4
Net profit	n.a.	n.a.	252.0	41.9
Net profit (adj.)	n.a.	n.a.	103.1	32.7
EPS	n.a.	n.a.	101.1	31.4
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(33.3)	(53.9)	(70.6)	(81.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.