

Kuaishou (1024 HK)

Ongoing profitability improvement

- Strong e-commerce momentum mitigates softer live-streaming business
- Ongoing improvement in profitability driven by cost control and operating efficiency
- Maintain **BUY** with TP of HK\$85

E-commerce- a bright spot. In 3Q23, online marketing revenue reported 27% YoY growth, mainly driven by e-commerce related marketing services. Other services revenue grew 36.5% YoY in 3Q23 on the 30.4% YoY e-commerce GMV growth during the same period. These mitigate a softer 8.6% YoY live-streaming revenue growth during the quarter. Strategically, the Company has been improving its e-commerce business towards 1) an increased variety of e-commerce scenarios, such as short-video and shelf-based vs. live-streaming. In 3Q23, shelf-based e-commerce accounted for about 20% of total GMV; 2) a more balanced mix with more mid-tier/long-tail KOLs. These KOLs accounted for about 50% of total KOL-related GMV in 3Q23 vs. ~20% in early 2021.

Improving profitability. The Company has demonstrated higher profitability in recent quarters with core net margin rising to 11.4% in 3Q23 vs. -2.9% in 3Q22, driven by cost control and improving operating leverage. In addition, its China business has achieved a positive operating profit since 2Q22 while losses in overseas business have been narrowing. We now expect core net profit to reach RMB12.3bn in 2024E.

AI initiatives. The Company introduced various AI initiatives, such as virtual person live streaming and AIGC tools to produce marketing materials, and “Kuaishou AI Dialogue” to increase customer experience and operational efficiency. Overall, R&D spending accounted for 10.6% of revenue in 3Q23.

Recommendation. Maintain **BUY** with a DCF-based TP of HK\$ 85 due to improving profitability and exposure in live-streaming e-commerce business. Our TP implies 26.8x 2024E core P/E.

Results and Valuation

	2021A	2022A	2023E	2024E
Revenue (RMB mn)	81,082	94,183	113,473	130,789
Chg (% YoY)	37.9	16.2	20.5	15.3
Net profit (RMB mn)	(78,074)	(13,689)	4,160	7,828
Non-GAAP net profit (RMB mn)	(18,852)	(5,751)	8,160	12,328
EPS (RMB)	(20.4)	(3.2)	1.0	1.8
Non-GAAP EPS (RMB)	(4.9)	(1.3)	1.9	2.9
P/S (x)	2.5	2.4	2.0	1.7
Core P/E (x)	NA	NA	27.5	18.2
ROAE (%)*	NA	NA	18.6	22.8
ROAA (%)*	NA	NA	8.7	11.6

Source(s): Company, ABCI Securities estimates

*Based on non-GAAP net profit

Company Report

Dec 1, 2023

Rating: **BUY**

TP: **HK\$85**

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Share price (HK\$)	57.2
Est. share price return	48.6%
Est. dividend yield	NA
Est. total return	48.6%
Previous Rating & TP	BUY/HK\$85
Previous Report Date	Dec 29, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	279.2/54.6
Issued class B shares (mn)	3,538
Class B share market cap (HK\$ mn)	201,666
Avg daily turnover (HK\$ mn)	2,605
Major shareholder(s)	
Mr. Su Hua	9.8%
Mr. Cheng Yixiao	7.8%

Source(s): Bloomberg, ABCI Securities

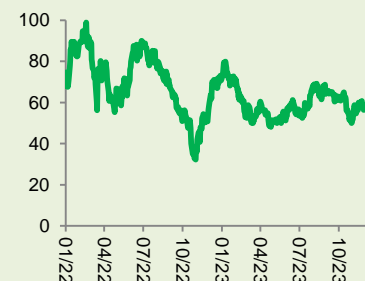
Share Performance (%)

	Absolute	Relative*
1-mth	11.8	12.5
3-mth	-10.6	-3.0
6-mth	7.2	14.0

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Ongoing profitability improvement

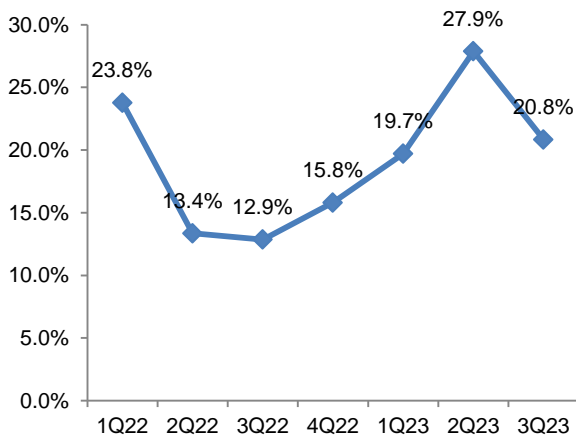
Kuaishou's 3Q23 revenue increased by 20% YoY to RMB 27.9bn, in line with market expectation. Core net profit was RMB 3.1bn, vs. market expectation of RMB 2.6bn driven by better-than-expected cost control.

In terms of business segment, online marketing revenue reported 27% YoY growth during the quarter vs. 30% YoY growth in the previous quarter amid 6.4% YoY growth in DAU and 19.1% growth in online marketing revenue per DAU. In terms of business mix, e-commerce-related marketing revenue continued to see robust growth while external marketing services are recovering in selected industries such as media information, education, and training. The Company started introducing AI tools to produce marketing materials and increase efficiency of production.

Live streaming revenue grew 8.6% YoY during the quarter vs. 16.4% YoY growth in the previous quarter. Other service revenue (mainly e-commerce) reported 36.5% YoY growth amid the 30.4% YoY increase in e-commerce GMV. The Company has been improving its e-commerce GMV mix in recent quarters. For example, mid-tier and long-tail KOLs accounted for about 50% of total KOL-related GMV in 3Q23 vs. about 20% at early 2021. In addition, shelf-based e-commerce accounted for about 20% of total GMV in 3Q23.

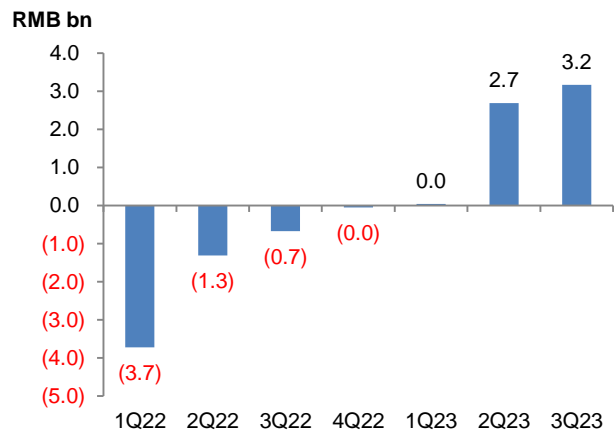
Core net margin improved from -2.9% in 3Q22 and 9.7% in 2Q23 to 11.4% in 3Q23 thanks to cost control and better operating leverage. Selling and marketing expenses/revenue ratio fell from 39.5% in 3Q22 to 32.0% in 3Q23, while R&D expenses/revenue ratio dropped from 15.3% to 10.6% during the same period.

Exhibit 1: Revenue growth trend



Source(s): Company, ABCI Securities estimates

Exhibit 2: Core net profit trend



Source(s): Company, ABCI Securities estimates

Financial outlook

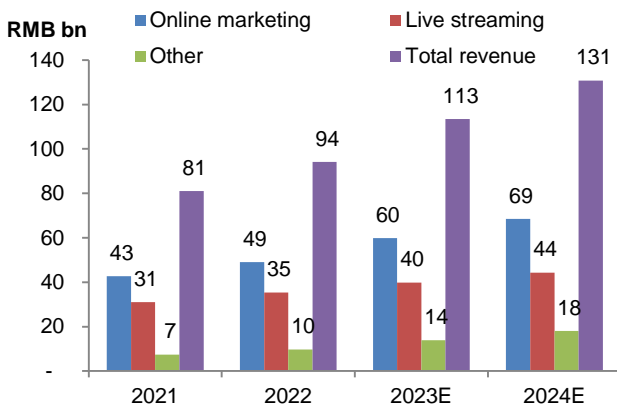
We expect overall revenue to grow at 18% CAGR in 2022-24E.

Online marketing: We expect online marketing revenue to expand at 18% CAGR in 2022-24E amid 7% CAGR in DAU and 10% CAGR in average online marketing revenue per DAU during the same period. We expect e-commerce related advertising to be the main driver, mitigating the softer external advertising demand.

Live streaming: We expect live streaming revenue to grow at 12% CAGR in 2022-24E, driven by 6% CAGR in live-streaming MPUs (monthly paying users) and 5% CAGR in live-streaming monthly ARPPU (average revenue per paying user) during the same period.

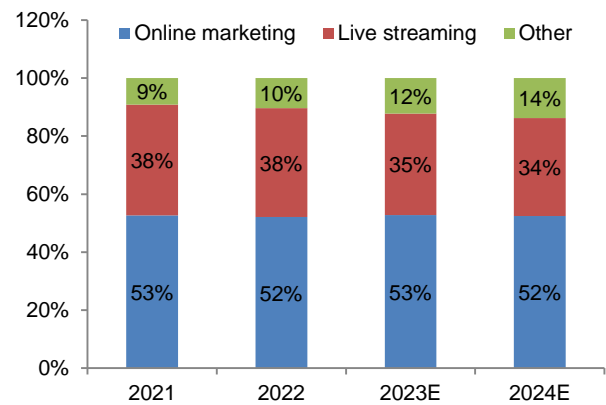
Others: We expect other revenue, mainly consists of e-commerce business and other value-added services, to grow at 36% CAGR in 2022-24E, primarily driven by e-commerce business.

Exhibit 3: Revenue outlook



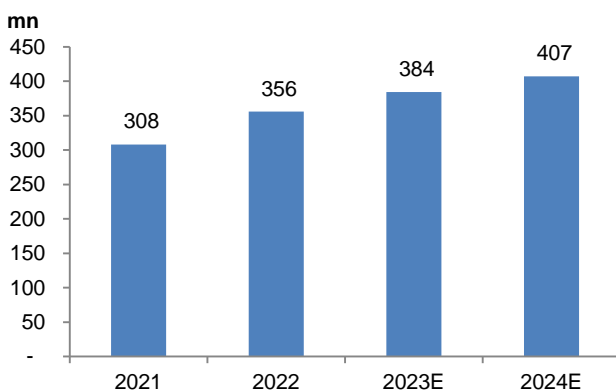
Source(s): Company, ABCI Securities estimates

Exhibit 4: Revenue mix outlook



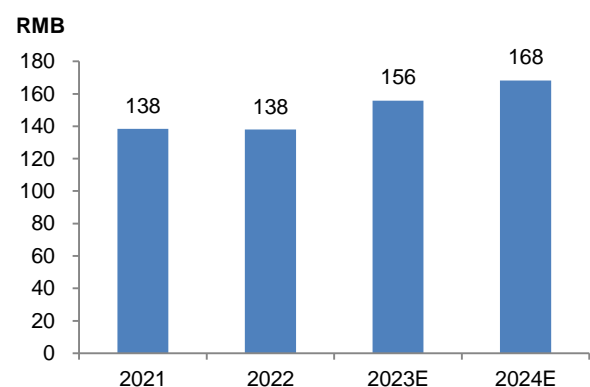
Source(s): Company, ABCI Securities estimates

Exhibit 5: DAU trend



Source(s): Company, ABCI Securities estimates

Exhibit 6: Avg. quarterly online marketing service revenue per DAU



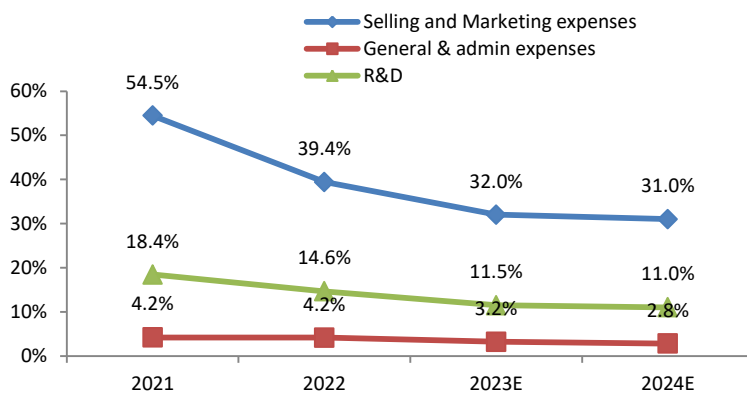
Source(s): Company, ABCI Securities estimates

Selling and marketing expenses: Selling and marketing expenses have been a major cost item equivalent to 39.4% of revenue in 2022. The Company plans to strengthen cost control and improve operational efficiency to drive up margins. In particular, domestic business has already achieved a quarterly breakeven. We expect selling and marketing expenses/revenue ratio to fall to 31% in 2024E due to cost control and improving operating leverage.

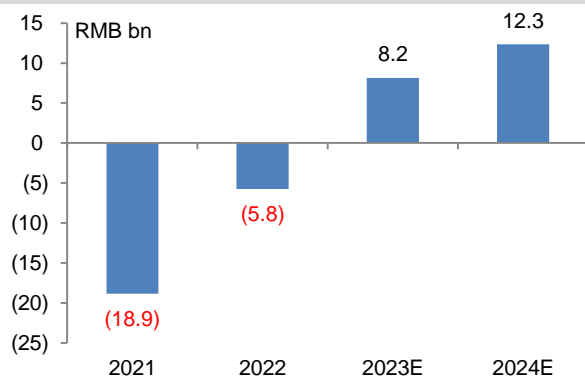
General and admin expenses: Thanks to the higher economies of scale and operational improvement, we expect general and admin cost-to-revenue ratio to drop from 4.2% in 2022 to 2.8% in 2024E.

R&D: We expect R&D cost-to-revenue ratio to drop from 14.6% in 2022 to 11.0% in 2024E, thanks to improving economies of scale.

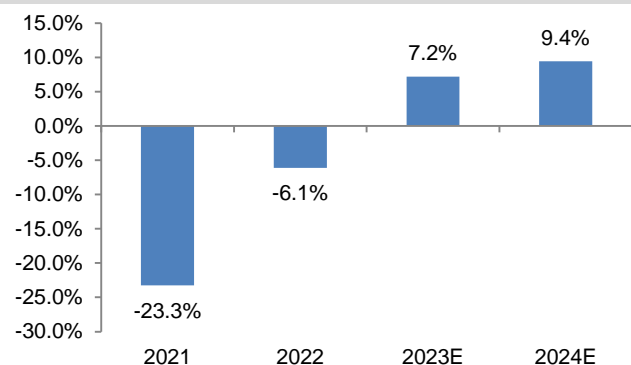
Based on above growth trends, we expect a core net profit of RMB 12.3bn in 2024E vs. RMB 5.8bn core net losses in 2022.

Exhibit 7: Cost trend (% of revenue)


Source(s): Company, ABCI Securities estimates

Exhibit 8: Core net profit trend


Source(s): Company, ABCI Securities estimates

Exhibit 9: Core net margin


Source(s): Company, ABCI Securities estimates



Exhibit 10: Forecast changes for 2023E

(RMB mn)	Old	New	Diff.	Comment
Revenues	107,826	113,473	5%	Strong growth for e-commerce
Core profit	1,361	8,160	500%	Cost control and operational improvement

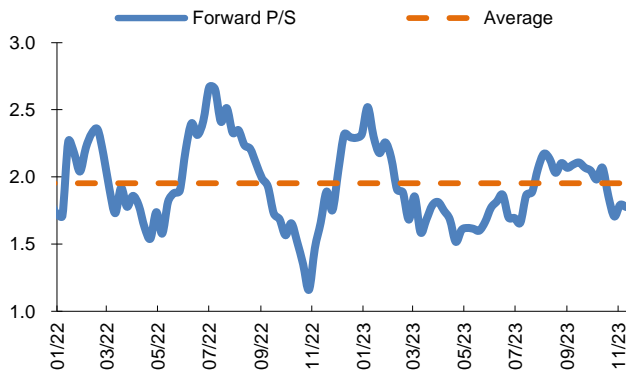
Source(s): ABCI Securities estimates



Recommendation

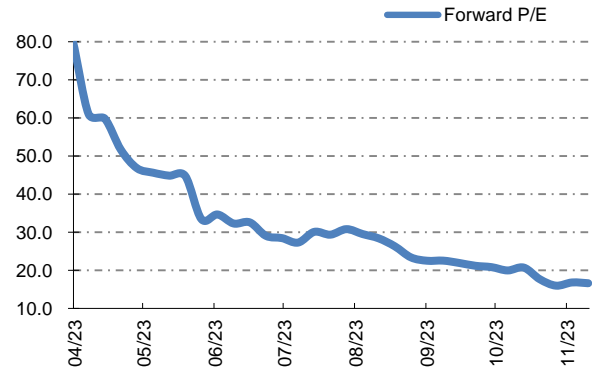
Maintain BUY with a DCF-based TP of HK\$ 85 due to improving profitability and exposure in live-streaming e-commerce business. Our TP implies 26.8x 2024E core P/E. In our view, the valuation basis on the counter would gradually shift from P/S to P/E over the next 1-2 years as the Company continues to achieve positive profit.

Exhibit 11: P/S trend



Source(s): Bloomberg, ABCI Securities

Exhibit 12: Forward P/E trend



Source(s): Bloomberg, ABCI Securities

Exhibit 13: DCF sensitivity

		WACC				
		10%	11%	12%	13%	14%
Terminal growth	2.0%	106	92	81	72	65
	2.5%	111	96	84	74	66
	3.0%	116	99	86	76	68
	3.5%	122	103	89	78	70
	4.0%	129	108	93	81	71

Source (s): ABCI Securities estimates

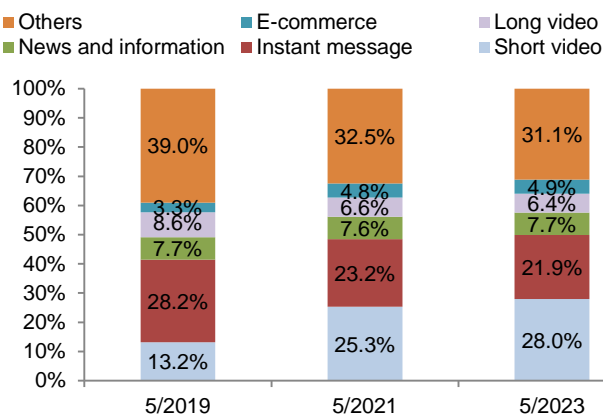
Appendix: Company profile

Business
<ul style="list-style-type: none"> ● Second-largest short video and live-streaming platform in China. According to Questmobile, its MAU was ~62% of that of Douyin's in Sep 2023, its closest peer ● Successfully leverage its user traffic into live-streaming e-commerce in recent years. It's now one of the three major live-streaming platforms in China (Alibaba, Douyin, and Kuaishou) with an estimated market share of mid-single digits in the entire e-commerce market. E-commerce GMV achieved strong growth in recent years ● The GMV mix of the company has been diversified. Compared to more than 20% at the start of 2021, the share of mid-tier and long-tail KOLs in the total KOL-related GMV has progressively climbed to almost 50% as of 3Q23. ● Introduction of shelf-space e-commerce. In 3Q23, shelf-based e-commerce accounted for about 20% of total GMV ● Exploring opportunities in the local service segment in lower tier cities ● Rising competition with Weixin's Video Account, which has seen rising popularity recently ● Developing AIGC technology to enhance user experience and long-term competitiveness
Financials
<ul style="list-style-type: none"> ● Revenue mix: Online marketing is the major revenue contributor in 2022 (52%), followed by live streaming (38%) and others (mainly e-commerce related) (10%) ● Online marketing businesses consist of e-commerce related advertising (advertising by merchants in its e-commerce platform) and external advertising (advertising by brands, etc) ● Segment revenue growth was mainly driven by e-commerce related advertising in recent quarters ● We estimate that the share of revenue related to e-commerce activities (online advertising spending, service charges, etc. by e-commerce merchants) are broadly in the 30s range ● Improving profitability in recent quarters mainly by rationalizing selling and marketing expenses ● Domestic business currently achieves a positive operating profit, while overseas business is still loss-making ● Clean balance sheet with about RMB 30bn in cash and deposits and no debts in Sept 2023.
Management and shareholder
<ul style="list-style-type: none"> ● Co-founders Su Hua and Cheng Yixiao, which collectively have about 17.6% economic interest, control about 68.1% voting right of the Company via dual-class shareholding structure ● Change of Chairman: In Oct 2023, Kuaishou announced that Su Hua ceased to be the Chairman and that Cheng Yixiao, the current CEO, would take up the Chairman role. ● A strategic investor (major online platform in China) holds c. 15.6% stakes
Shareholders' return
<ul style="list-style-type: none"> ● No dividend record since listing ● Share repurchase in recent months. In 3Q23, the company repurchased HK\$ 680mm worth of shares
Corporate governance/information disclosure
<ul style="list-style-type: none"> ● Various corporate social responsibilities initiatives in recent years

Appendix: Short-video industry profile

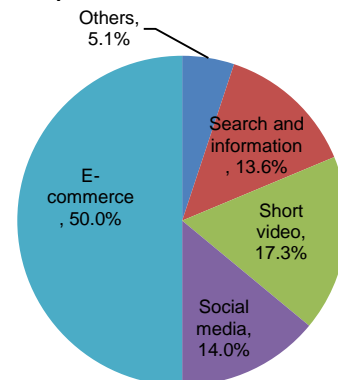
- China's short-video market is primarily **dominated by Douyin and Kuaishou**. According to Questmobile, Douyin had 743m MAUs versus 457mn for Kuaishou in Sept 2013.
- **Short-video platforms have been gaining popularity** in recent years and have enjoyed the highest market share in terms of time spent among internet users. According to Questmobile, time spent market share of short videos increased from 13.2% in May 2019 to 28.0% in May 2023.
- **Monetization:** Online advertising has been the major form of monetization for short-video platforms. In addition, short video platforms have been actively leveraging its traffic into other monetization scenario such as e-commerce, local service, etc. in recent years. Short-video advertising accounted for about 17.3% of China's online advertising market in 1H23, according to Questmobile.
- **Live-streaming e-commerce:** Short-video platforms have been successfully developing live-streaming e-commerce businesses in recent years, challenging traditional search-based e-commerce platforms. In 9M23, live-streaming e-commerce sales rose by 60.6% YoY and accounted for 18.3% of total online sales, according to Ministry of Commerce.
- **Local service:** Douyin has been actively developing in-store business in recent quarters, causing some competition pressure for Meituan.

Exhibit 14: Market share in terms of user time spent



Source(s): Questmobile, ABCI Securities

Exhibit 15: China's online advertising market share (1H23)

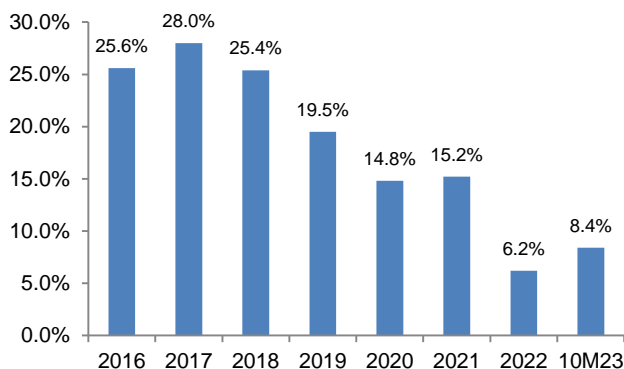


Source(s): Questmobile, ABCI Securities

Appendix: E-commerce industry profile

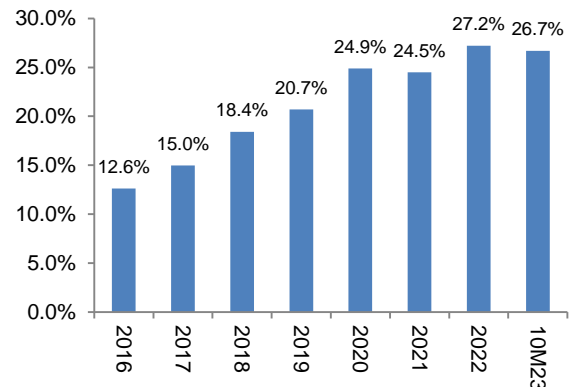
- **China's online sales growth has turned steadier** after years of development. According to NBS, online sales of physical goods grew by 8.4% YoY in 10M23. In particular, 8.4% industry growth rate in 10M23 was lower than the 10.8% industry growth rate in 1H23, indicating a slowdown in recent months.
- By product category, online sales of food products, groceries, and apparel rose 11.3%, 8.2%, and 7.6% in 10M23.
- **Online shopping penetration rate was generally in an uptrend** in recent months, indicating an ongoing consumption shift from offline to online.
- **Live-streaming e-commerce** has been fast growing in recent years. In 9M23, live-streaming e-commerce sales rose by 60.6% YoY and accounted for 18.3% of total online sales, according to Ministry of Commerce. Short video platforms such as Douyin and Kuaishou (1024 HK) are major players in this emerging segment, leading to competitive pressure to traditional e-commerce platforms. On the other hand, Alibaba has been actively developing live-streaming business to defend its market position.
- Major e-commerce platforms are **increasing their sales and marketing effort** by raising user incentives and price subsidies. In our view, **online shoppers have turned more price-sensitive** in past years due to the pandemic and soft economic environment, prompting e-commerce platforms to enhance price competitiveness.
- In terms of market share (GMV), we estimate that Alibaba is still the largest e-commerce platform with mid-40s market share, vs. Pinduoduo (PDD US, mid-20s), Platform A (low-20s), Douyin (high-single-digit), and Kuaishou (mid-single-digit).
- Over the past few years, **Pinduoduo and short-video platforms (Douyin and Kuaishou) are gaining market shares**. Common features of these platforms: 1) Product offers are generally low prices; 2) More interactive features (social e-commerce, live streaming, etc.) than traditional search-based e-commerce format.

Exhibit 16: Online sales of physical goods growth



Source(s): NBS, ABCI Securities

Exhibit 17: Online shopping penetration rate



Source(s): NBS, ABCI Securities



Financial forecast

Consolidated income statement (2021A-2024E)

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E
Total revenue	81,082	94,183	113,473	130,789
Cost of sales	(47,052)	(52,051)	(56,736)	(64,087)
Gross profit	34,030	42,132	56,736	66,702
Selling and Marketing expenses	(44,176)	(37,121)	(36,311)	(40,545)
General & admin expenses	(3,400)	(3,921)	(3,631)	(3,662)
R&D	(14,956)	(13,784)	(13,049)	(14,387)
Other income/losses	802	137	800	700
Operating Profits	(27,701)	(12,557)	4,545	8,809
Net finance expenses	(39)	166	400	450
FV change of CB	(51,275)	0	0	0
Others, net	(87)	(139)	(50)	(50)
PBT	(79,102)	(12,531)	4,895	9,209
Income tax benefits	1,025	(1,158)	(734)	(1,381)
PAT	(78,077)	(13,689)	4,160	7,828
Minority interests	(3)	0	0	0
Profits attributable to shareholders	(78,074)	(13,689)	4,160	7,828
Share-based compensation	7,830	6,249	4,000	4,500
Impairment/FV changes of CB	51,276	0	0	0
Other non-core items	116	1,689	0	0
Non-GAAP profits attributable to shareholders	(18,852)	(5,751)	8,160	12,328
Growth				
Total revenue (%)	37.9	16.2	20.5	15.3
Gross Profits (%)	42.9	23.8	34.7	17.6
Operating Profits (%)	NA	NA	NA	93.8
Net profit (%)	NA	NA	NA	88.1
Non-GAAP net profit (%)	NA	NA	NA	51.1
Operating performance				
Operating margin (%)	(34.2)	(13.3)	4.0	6.7
Net margin (%)	(96.3)	(14.5)	3.7	6.0
Core net margin (%)	(23.3)	(6.1)	7.2	9.4
ROAE (%)*	NA	NA	18.6	22.8
ROAA (%)*	NA	NA	8.7	11.6

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/definition differences

*Based on non-GAAP net profit



Consolidated balance sheet (2021A-2024E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E
Fixed assets	24,785	25,143	25,643	26,143
Investments	4,712	4,564	9,778	15,004
Other non-current assets	10,008	13,742	14,390	15,071
Total non-current assets	39,505	43,449	49,812	56,218
Cash & equivalents	32,612	13,274	11,293	13,498
Short-term deposit	3,825	8,318	8,318	8,318
Financial assets	8,842	13,813	18,813	23,813
Account receivables	4,450	6,288	6,602	6,932
Other current assets	3,281	4,165	4,370	4,586
Total current assets	53,011	45,858	49,397	57,147
Total assets	92,516	89,307	99,209	113,365
Account payables	29,144	33,058	34,201	35,402
Other current liabilities	8,111	7,652	7,814	7,984
Total current liabilities	37,256	40,710	42,015	43,386
Borrowings and notes	-	-	-	-
Other non-current liabilities	10,164	8,760	9,196	9,654
Total non-current liabilities	10,164	8,760	9,196	9,654
Total liabilities	47,419	49,469	51,211	53,039
Equity attributable to shareholders	45,089	39,830	47,990	60,318
Non-controlling interests	7	8	8	8
Total equity	45,096	39,838	47,998	60,326

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/definition differences

Consolidated cash flow statement (2021A-2024E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E
Net profit	(79,102)	(13,689)	4,160	7,828
Depreciation and amortization	6,883	6,573	7,000	7,000
Fair value change of convertible redeemable preferred shares	51,275	-	-	-
Share-based compensation	7,830	6,249	4,000	4,500
Other operating cash flow	7,595	3,065	359	377
Operating cash flow	(5,519)	2,198	15,519	19,704
Capital expenditure	(7,764)	(4,619)	(7,500)	(7,500)
Other investment cash flow	(10,597)	(12,929)	(5,000)	(5,000)
Investing cash flow	(18,361)	(17,548)	(12,500)	(12,500)
Financing cash flow	36,500	(4,482)	(5,000)	(5,000)
Effective of FX	(399)	494	-	-
Net cash flows	12,221	(19,338)	(1,981)	2,204

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

Individual items may varies from reported figures due to rounding differences/definition differences



Risk factors

Market competition

The short-video industry is a competitive one. The competition will be on user acquisition, incentives for user engagement, brand advertising, technological investment, and more.

Slowdown in online advertising spending and ecommerce consumption

Overall, online advertising spending is subject to economic outlook. In addition, as the e-commerce business is dependent on consumer spending, a significant slowdown of consumption in China would hamper performance. In the long term, we believe consumption growth in domestic market would converge with income growth, which is usually in line with GDP growth.

Non-GAAP financials

Online platforms generally disclosed the non-GAAP financial metrics, such as the non-GAAP net profit, to supplement its GAAP financial measures. Historically, there were differences between its GAAP net profit and non-GAAP net profit due to inclusion of items such as share-based compensation and other non-core items in the former.

Among these items, share-based compensation expense is related to various factors including price movement of ordinary shares, expected volatility, risk-free interest rate, etc.

While investors tend to exclude these items when performing analysis given their non-cash nature, we believe these non-GAAP financial measures should only serve as references.



Disclosures

Analyst Certification

The analyst, CHOW Sau Shing, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 9\%$)
Hold	- Market return rate ($\sim 9\%$) \leq Stock return rate $<$ Market return rate ($\sim +9\%$)
Sell	Stock return $<$ - Market return ($\sim -9\%$)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2006 (HSI total return index 2006-22 averaged at 8.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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