

# Kuaishou (1024 HK)

## Lack of positive catalyst in near term; initiate with HOLD

- Signs of softness in user acquisition and engagement though monetization trend still intact for online marketing business
- Live-streaming segment faces regulatory headwinds; regulatory impact on use of algorithms in targeted marketing may impact online advertising income
- Initiate with **HOLD** with a TP of HK\$60. We see limited positive catalyst in the near term

**A major short video and live streaming platform in China.** Kuaishou is a short video and live streaming platform in China with 544mn average MAU in 2021.

**Reduced momentum in user acquisition and engagement.** Kuaishou's MAU growth has slowed from 45.6% YoY in 2020 to 13.1% YoY in 2021, indicating short video market might have entered a lower growth stage after several years of rapid growth. In our view, the moderating momentum could be attributed to enhanced cost control on sales and marketing spending, tightened regulations on short-video and live-streaming contents, ongoing competition from other short-video platforms, and increasing options in online entertainment.

**Monetization still intact.** Kuaishou's monetization ability, as reflected by its average quarterly online marketing service revenue per DAU, increased by 67.6% YoY in 2021 despite softening growth on the user side. Sustainability of the monetizing trend will be subject to various factors including economic outlook, regulatory impact on use of algorithms in targeted marketing, and potential new monetization strategy.

**Live-streaming: regulatory headwinds.** The live-streaming segment experienced weaker growth than the online marketing segment in recent quarters due to high base and increasing time spent by users on short videos. In addition, tightened regulatory environment, such as potential cap on fans' tipping, increased censorship on streaming content, "minor protection mode" to prevent teenagers from addiction and bar them from tipping on streaming hosts, have deterred growth in the segment.

**Lack of positive catalyst.** The counter has undergone significant share price corrections due to concerns on regulation, slower growth in user acquisition and engagement, and concerns over divestments of strategic investors. These overhangs are likely to linger, and near-term positive catalyst is lacking in the near term. As such, we initiate **HOLD** with a TP of HK\$60.

### Results and Valuation

	2020A	2021A	2022E	2023E
Revenue (RMB mn)	58,776	81,081	102,676	125,920
Chg (% YoY)	50.2	37.9	26.6	22.6
Net profit (RMB mn)	(116,635)	(78,077)	(17,974)	(10,314)
Non-GAAP net profit (RMB mn)	(7,949)	(18,852)	(10,974)	(3,314)
EPS (RMB)	(125.3)	(20.4)	(4.2)	(2.4)
Non-GAAP EPS (RMB)	(8.5)	(4.9)	(2.7)	(0.9)
P/S (x)	3.2	2.3	2.1	1.7

HKD/CNY=0.8350

Source(s): Company, ABCI Securities estimates

## Company Report

### Initiation

Apr 27, 2022

Rating: HOLD

TP: HK\$60

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Share price (HK\$)	60.95
Est. share price return	-1.6%
Est. dividend yield	NA
Est. total return	-1.6%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L(HK\$)	279.2/54.6
Issued class B shares (mn)	3,499
Class B share market cap (HK\$ mn)	213,264
Avg daily turnover (HK\$ mn)	2,605
Major shareholder(s)	
Mr. Su Hua	11.30%
Mr. Cheng Yixiao	8.96%

Source(s): Bloomberg, ABCI Securities

#### Share Performance (%)

	Absolute	Relative*
1-mth	-18.0	-10.8
3-mth	-32.7	-14.6
6-mth	-46.3	-22.7

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities



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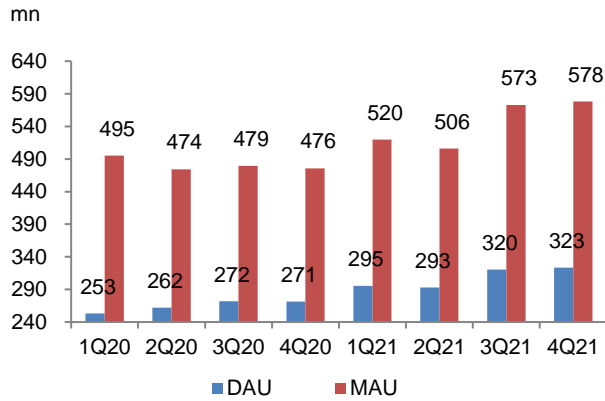
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### Softness in user growth and engagement

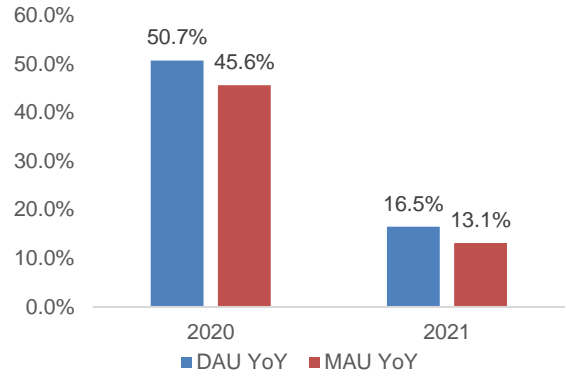
Overall, Kuaishou's MAU and DAU growths have slowed from 45.6% and 50.7% in 2020 to 13.1% and 16.5% in 2021 respectively, (See Exhibit 2), indicating the short-video market has entered a lower growth stage after years of explosive growth. Although MAU and DAU were generally on an uptrend (See Exhibit 1) in the past, the trend was volatile given the QoQ drops of DAU and MAU in 4Q20 and 2Q21.

Exhibit 1: MAU/DAU trend



Source(s): Company

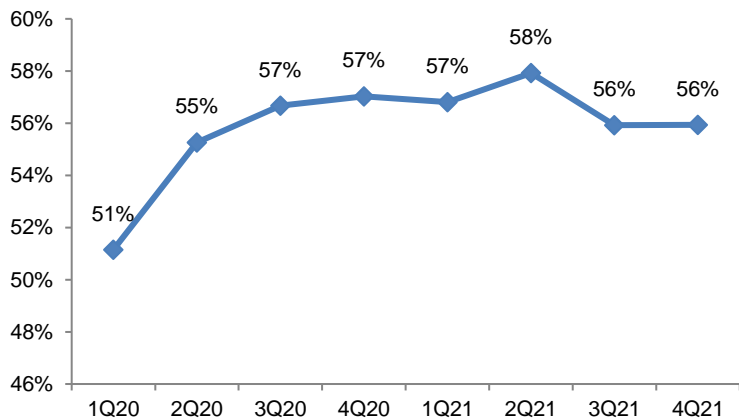
Exhibit 2: MAU/DAU growth trend



Source(s): Company

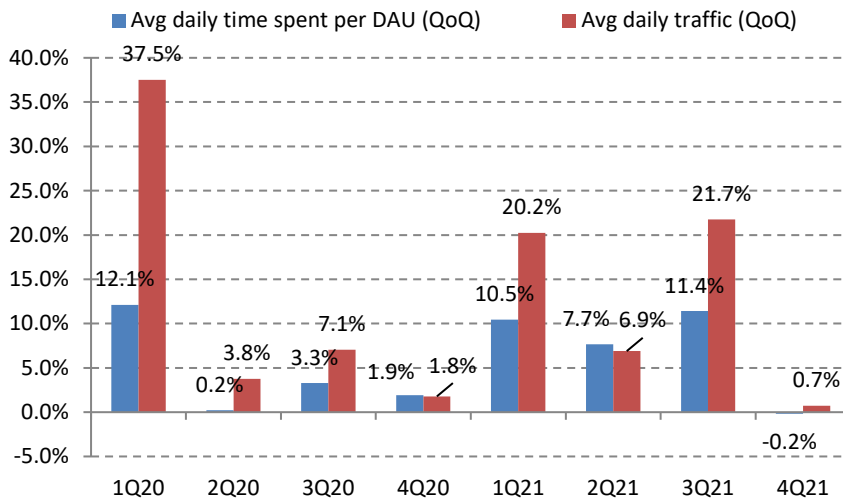
In addition, the level of on user stickiness and engagement among existing users also show signs of abating. User conversion from MAU to DAU, as illustrated by the DAU/MAU ratio, stayed in 56-58% in 3Q20-2Q21 but dropped to 56% in 3Q21 and 4Q21, implying reduced success in converting less frequent users (MAU) to frequent users (DAU).

Exhibit 3: DAU/MAU trend



Source(s): Company, ABCI Securities

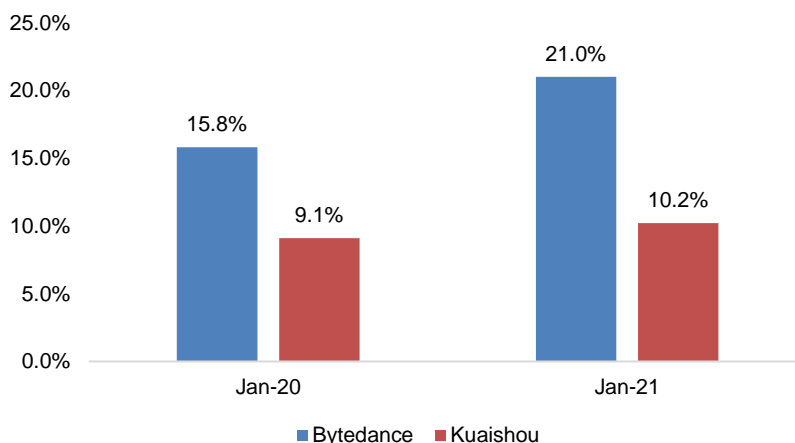
In addition, average daily time spent per DAU growth edged down 0.2% QoQ in 4Q21, pointing to diminished user engagement in the existing base of loyal users (DAU). In addition, average daily traffic, as represented by DAUs multiplied by the average daily time spent per DAU, reported 0.7% QoQ growth in 4Q21 vs. 21.7% QoQ growth in 3Q21.

**Exhibit 4: QoQ growth trend of avg daily time spent and avg daily traffic**


Source(s): Company, ABCI Securities

In our view, the softness of user stickiness and engagement in 4Q21 could be attributed to various factors: 1) Cost control on sales and marketing spending that resulted in less incentives for users to stay in Kuaishou's ecosystem; 2) tightened regulations on short-video and live-streaming contents that might diminish user experiences; 3) ongoing competition from other short-video platforms and other forms of online entertainment.

Our concerns on intensified competition is supported by the market share of users' time spent for Kuaishou and Bytedance, with the latter having an upper hand in user acquisition and engagement. According to Questmobile, Bytedance's market share of users time spent rose 5.2ppt from 15.8% in Dec 2020 to 21.0% in Dec 2021, while Kuaishou's figure only increased 1.1ppt from 9.1% in Dec 2020 to 10.2% in Dec 2021 for the same period.

**Exhibit 5: Users' time spent market share**


Source(s): Questmobile, ABCI Securities



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Kuaishou (1024 HK, HOLD)  
Internet Media and Consumer Commerce Sector  
Apr 27, 2022

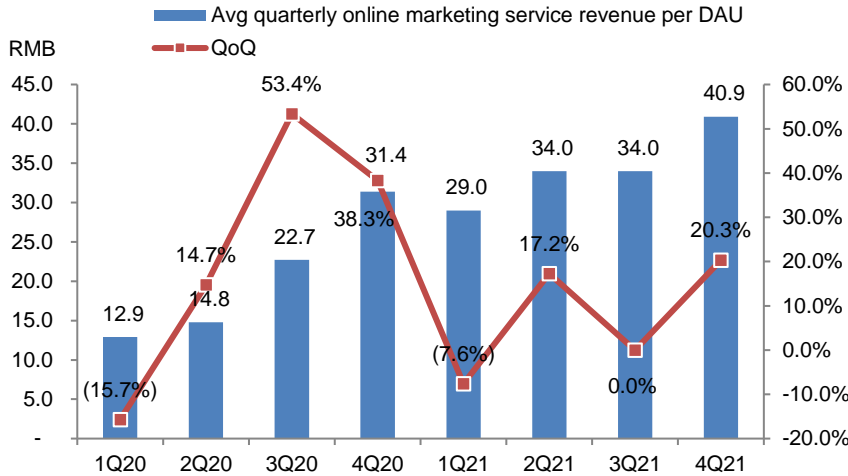
**Regulatory requirement on content:** Regulators has recently increased censoring of short-video contents. The regulator has recently published the “Online Short Video Content Review Standard Rules 2021 (网络短视频内容审核标准细则 2021)” with 100 prohibited topics for short videos such as fan culture, celebrity gossip, characters with exaggerated or strange behaviors that may have potential negative impacts on minors, presenting history in over-entertaining fashion, etc. In addition, it prohibits short video content creators to re-edit unauthorized content taken from other video platforms, movies, TVs, etc. Regulators have removed more than 383K short-video accounts and over 1mn short-video clips on various short-video platforms over the past months. In our view, the impacts of enhanced content scrutiny on user engagement will turn more apparent in the next few quarters.



### Monetization ability stays intact

On a positive note, Kuaishou's monetization ability, as shown by the average quarterly online marketing service revenue per DAU, has been trending up despite reduced momentum in user acquisition and engagement.

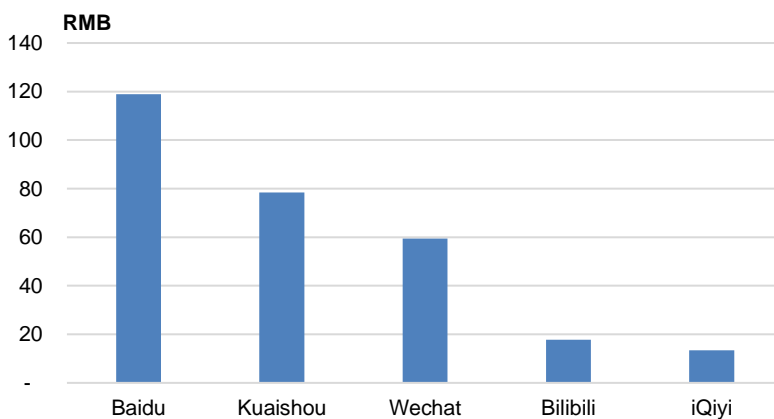
Exhibit 6: Average quarterly online marketing service revenue per DAU



Source(s): Company, ABCI Securities

Kuaishou's monetization efficiency is higher than other major online platforms. Its advertising revenue per MAU was ~RMB 80 in 2021, significantly higher than Bilibili and iQiyi. Baidu, however, has higher monetization efficiency than Kuaishou, suggesting room for improvement in the latter. Kuaishou's closest peer, Bytedance, did not disclose relevant operational data so we are unable to compare the monetization efficiency of the two companies.

Exhibit 7: Estimated online advertising revenue per MAU (2021)



Source(s): Companies, ABCI Securities



Looking forward, the Company's monetization trend is subject to various influences:

**Economic environment.** Recent economic downturn has taken a toll on the overall online advertising market. Several hard-hit industries, including online gaming, education, and automobiles, are tightening their advertising expenses. Since economic slowdown is a cyclical factor, we believe the impact is most likely to be transitory.

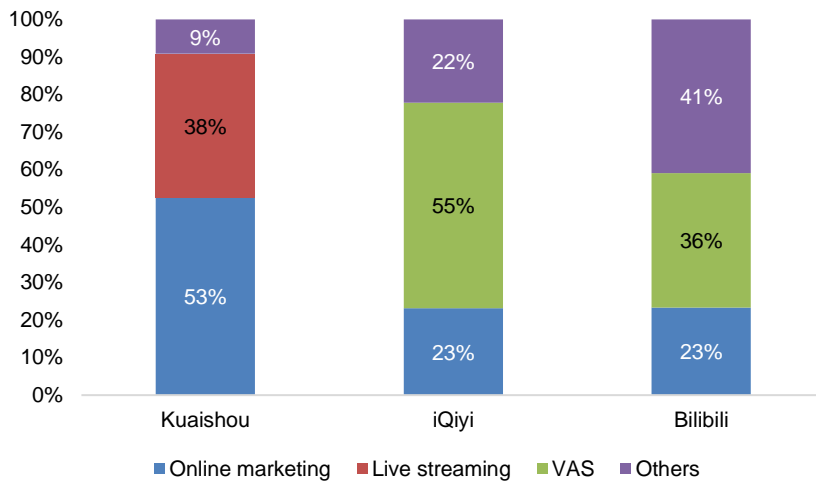
**Regulatory requirement on use of algorithms in targeted marketing.** Regulators have recently announced new rules effective in Mar 1 2022 on algorithmic recommendation services. Key requirements of the regulation include:

- Platforms need to inform users about the “basic principles, purpose and main operation mechanism” of the algorithm recommendation service.
- Users must be able to opt out of having recommendation services via algorithms.
- Users must be able to select or delete tags used to power recommendation algorithms and suggest things to them.
- Companies must facilitate the “safe use” of algorithmic recommendation services for the elderly, protecting them against fraud and scams.
- Algorithmic recommendation services that provide news information need to obtain a license and cannot feed fake news.

Algorithms are key assets for online platforms, including the short-video ones. It is critical for online platforms to distribute personalized content based on users' taste and behaviors to enhance stickiness and engagement. It also helps advertisers perform targeted marketing based on users' preferences. Platforms with effective algorithms often lead to competitive edge over peers in terms of traffic and monetization ability.

As a result, the new regulation might affect the monetization ability of online platforms' since advertisers may find targeted marketing via online platform less effective. In addition, the new regulation requires increased disclosure and transparency of the algorithms used by platforms, which is against the platforms' commercial interest in keeping their algorithms proprietary and confidential.

**Reliance on online advertising presents risk under new algorithm regulations; income diversification needed.** Currently, Kuaishou's monetization strategy mainly relies on online advertising, which accounted for over 50% of total revenue. Other major online video platforms, including Bilibili and iQiyi, had a more diversified revenue mix via various monetization strategies, including valued-added service, mobile games, etc. Online advertising only accounted for about 23% of total revenue for both platforms. In our view, Kuaishou would need to diversify its monetization strategy to reduce reliance on advertising.

**Exhibit 8: Revenue mix comparison (2021)**


Source(s): Companies, ABCI Securities

**Short drama- a new income channel.** Kuaishou has recently piloted a subscription service for short dramas, which typically has duration of few minutes per episode. In 3Q21, more than 850 short plays had been viewed more than 100mn times, each on a cumulative basis, and DAUs of short plays reached 230mn on the Kuaishou App. ByteDance is also testing paid membership services for short dramas recently.

While the potential of short-drama subscriptions may be enormous, these initiatives are still in early stage of development with has limited income contribution so far. In our view, the Kuaishou should explore more monetizing channels in online games, online education, local services, among others.





## Regulatory concerns on live streaming

Kuaishou's live-streaming business has been the second- largest revenue contributor, accounting for 36% of total revenue in 4Q21. It is also one of most popular features in Kuaishou's ecosystem, as illustrated by rising average DAU penetration rate of live videos from 66% in 1Q21 to 78% in 3Q21.

Kuaishou's live-streaming revenue is mainly driven by virtual gifting by viewers to streaming hosts/KOLs. Streaming hosts/KOLs cultivated a group of followers, and virtual gifts provide a way for followers to provide supports to their respective streaming hosts/KOLs and participate in streaming events more actively. As a result, maintaining a comprehensive ecosystem between streaming hosts/KOLs and viewers are crucial in this segment.

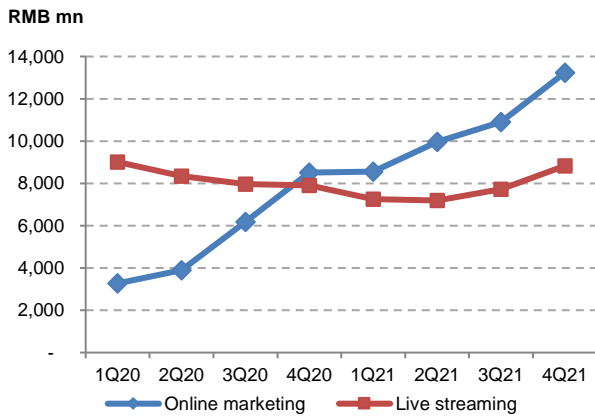
Kuaishou provides various types of live-streaming content, such as talent performance, online game, talk shows, sports, etc. In addition, it has also launched various initiatives to enhance its content on an ongoing basis.

- It recently became the official live-streaming and short-video platform of the China Basketball Association ("CBA"), the top men's professional basketball league in China. Users can watch live-streamed CBA events and provide sports commentary from their own live-streaming rooms, which provide a differentiated and lively live-streaming experience.
- In addition, it launched Project Blue Ocean (藍海計劃) in 2Q21 to cultivate long-term partnerships with talent agencies to collaboratively facilitate healthy development of live streaming ecosystem and promote high-quality live streaming content. By June 30, 2021, the number of talent agencies increased by nearly 400% YoY.

Kuaishou's two major segments, online marketing and live streaming, collectively accounted for 91% of total revenue in 2021. The live-streaming segment has experienced weaker growth than the online marketing segment, whose marketing revenue jumped from ~RMB 3bn in 1Q20 to over RMB 13bn in 4Q21; live-streaming revenue was ~RMB7-9bn per quarter during the same period. In addition, live streaming revenue declined YoY in 1Q21 - 3Q21 due to 1) high base effect related to COVID in early 2020; 2) increasing time spent by users on short videos due to content optimization. Users are diverting time spent on live streaming to short videos.

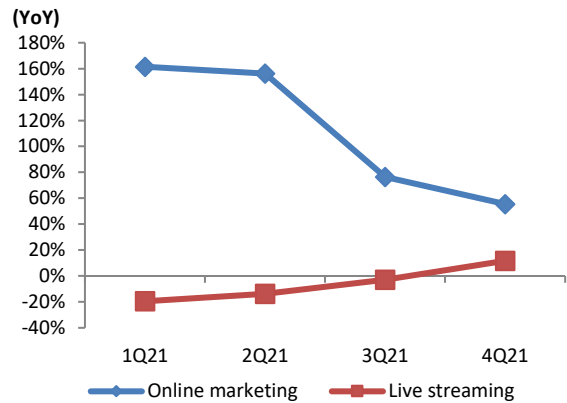


Exhibit 9: Segment revenue trend



Source(s): Company, ABCI Securities

Exhibit 10: Segment revenue YoY growth



Source(s): Company, ABCI Securities

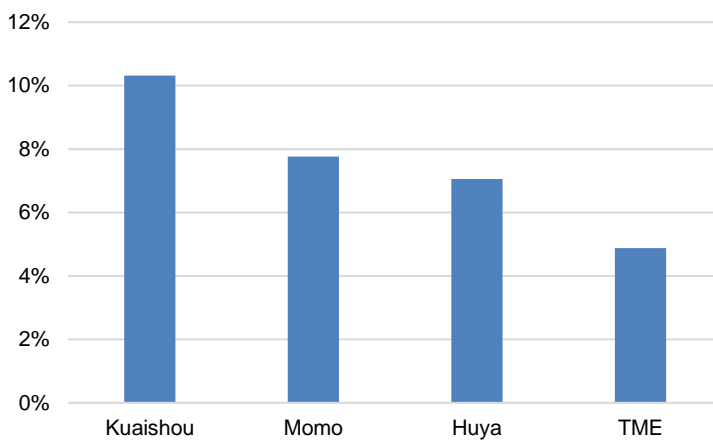
### Regulatory concerns

Regulators have been tightening regulations on live streaming. The media has reported regulators are considering implement (1) caps on fans' tipping to hosts on the live-streaming platforms, (2) daily caps on the amount live streamers can receive from fans, (3) tighten censorship on streaming content. In addition, (4) regulator has banned online platforms, including variety shows, live-streaming sites and short-video services, from broadcasting games that are not approved by regulators. (5) Online streaming platforms are required to implement a "minor protection mode" to prevent teenagers from addiction and spending on streaming hosts.

### Comparison with other live streaming platform

In terms of peer comparison, we estimate Kuaishou's live-streaming paying ratio (paying users/total users) was ~10% in 3Q21, higher than 5%-8% for other major live streaming platforms. In our view, this implies stronger user engagement between streaming hosts/KOLs and viewers that the latter are willing to offer monetary support to the former.

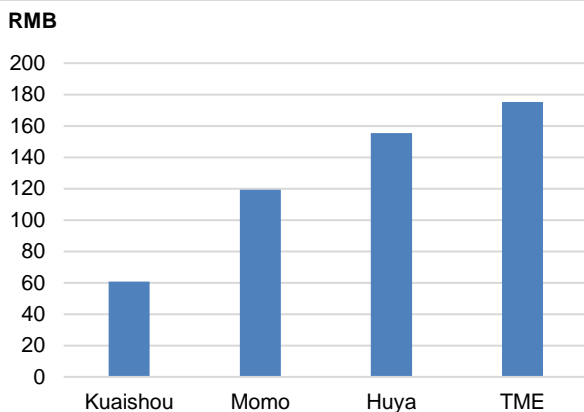
Exhibit 11: Live-streaming user paying ratio (4Q21)



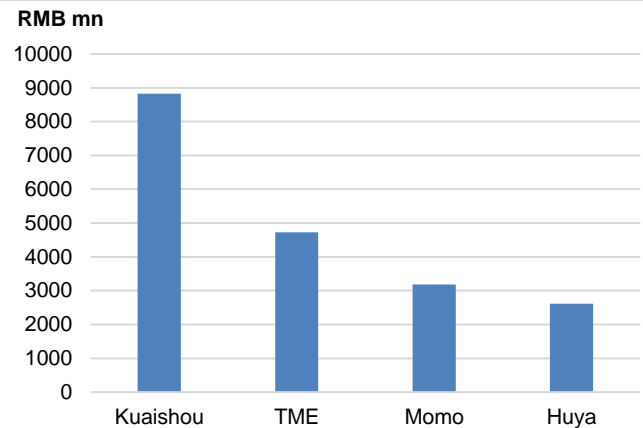
Source(s): Companies, ABCI Securities estimates

Kuaishou's live-streaming monthly ARPU is significantly lower than other live-streaming platforms (see Exhibit 12). We reckon it could be due to higher content specialization of other live streaming platforms (e.g., TME is specialized in music live streaming and Huya focuses mostly on game live streaming) with more professional streaming hosts/KOLs and dedicated viewers who are willing to spend more to support. Kuaishou, on the other hand, is more generalized in terms of live streaming content; as such, it is targeting the mass audience.

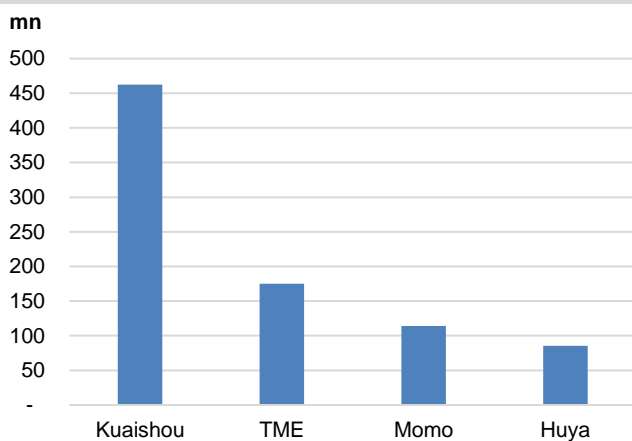
The specialized live-streaming platforms are generally smaller in size. As a result, in terms of value, Kuaishou's live-streaming MAU and revenue are still higher than peers.

**Exhibit 12: Live-streaming monthly ARPU (4Q21)**


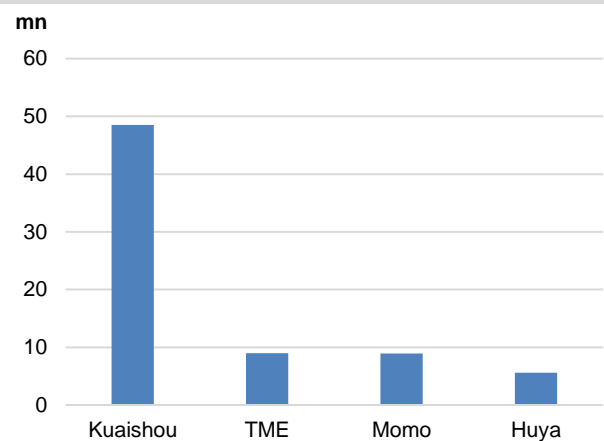
Source(s): Companies, ABCI Securities

**Exhibit 13: Live-streaming revenue size (4Q21)**


Source(s): Companies, ABCI Securities

**Exhibit 14: Live-streaming MAU (4Q21)**


Source(s): Companies, ABCI Securities

**Exhibit 15: Live-streaming paying user (4Q21)**


Source(s): Companies, ABCI Securities

## E-commerce on the rise but still small

### Live-streaming ecommerce shoppers vs. traditional ecommerce shoppers

Live-streaming ecommerce is gaining popularity in recent years. Unlike the traditional search-based e-commerce business model, live-streaming e-commerce leverages social interactions and trust between streaming hosts/KOLs and viewers in Kuaishou's live-streaming ecosystem, which allows KOLs in Kuaishou's platform to monetize their social influence.

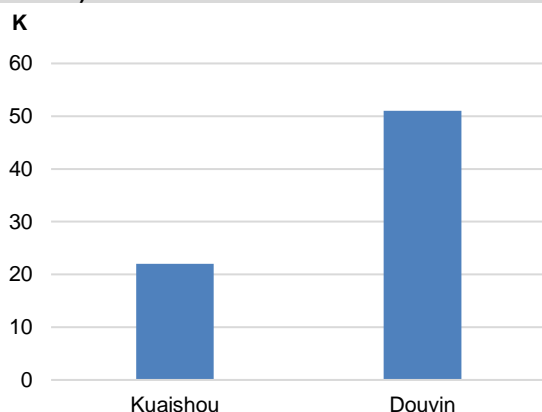
On the demand side, live-streaming e-commerce shoppers tend to behave differently from traditional ones. Shoppers in the live-streaming e-commerce tend to make more impulsive purchases, while traditional e-commerce shoppers are likely to have a higher purchase intention when visiting the online platforms. In addition, they would usually research on prices, quality, user review, and other information before making a purchase. In comparison, live-streaming e-commerce shoppers are more receptive to KOL's recommendations in their decision making. .

### Kuaishou vs. Douyin

The two major live-streaming platforms, Kuaishou and Douyin, adopt different strategies in live-streaming e-commerce. According to Questmobile, Kuaishou's number of live-streaming e-commerce events is lower than Douyin's, but its ASP is higher than the latter, meaning that Kuaishou could be targeting a higher-end sub-segment.

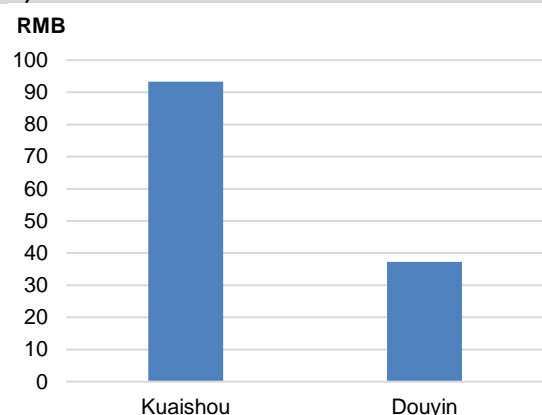
In addition, Kuaishou's e-commerce GMV is more concentrated in popular KOLs with higher fan counts. According to Questmobile, 71% of e-commerce GMV in Kuaishou was driven by KOLs with more than 10mn fans in Feb 2022, while the same ratio was substantially lower at 25% for Douyin. In our view, Kuaishou's higher reliance on famous KOLs to drive e-commerce GMV could result in a higher concentration risk and commission costs compared to Douyin.

**Exhibit 16: Number of live-streaming e-commerce events (Feb 2022)**

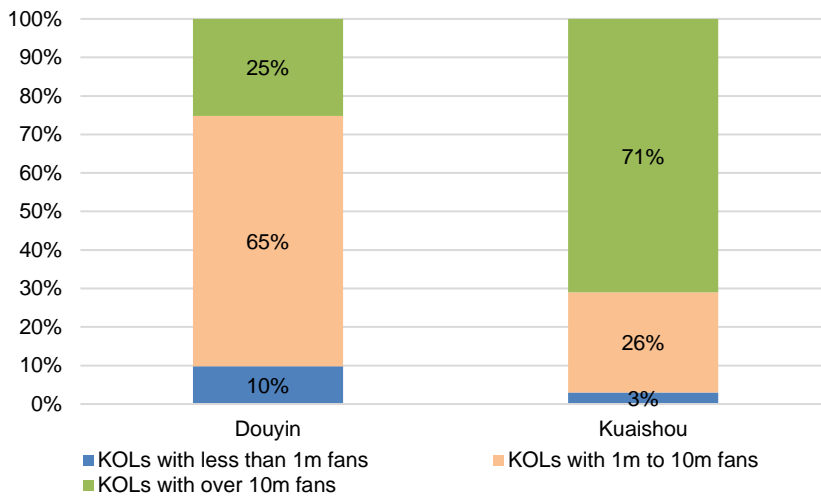


Source(s): Questmobile

**Exhibit 17: Live-streaming e-commerce ASP (Feb 2022)**



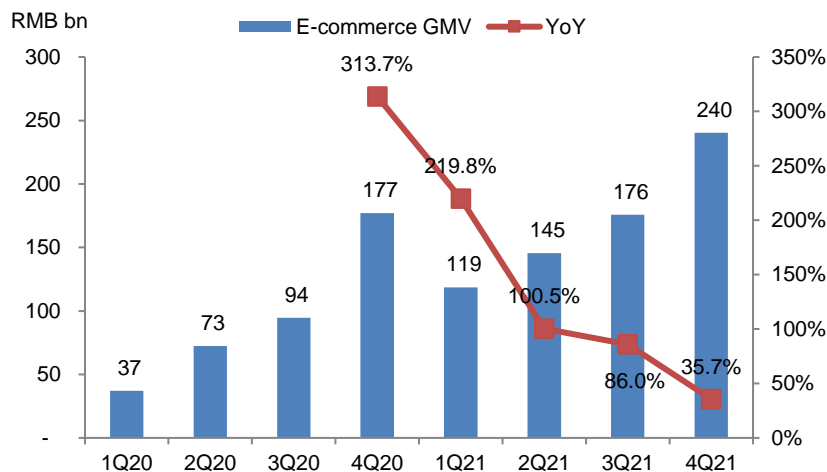
Source(s): Questmobile

**Exhibit 18: E-commerce GMV by KOLs (Feb 2022)**


Source(s): Questmobile

### E-commerce contribution still minor

Kuaishou's e-commerce GMV, after enjoying rapid growth in the past few years, starts to moderate due to the higher base. In 4Q21, e-commerce GMV rose 36% YoY to RMB 240bn. Nonetheless, revenue contribution from e-commerce is still small at present. In 4Q21, other revenue (including the e-commerce revenue), accounted for only 10% of total revenue.

**Exhibit 19: E-commerce GMV**


Source(s): Company



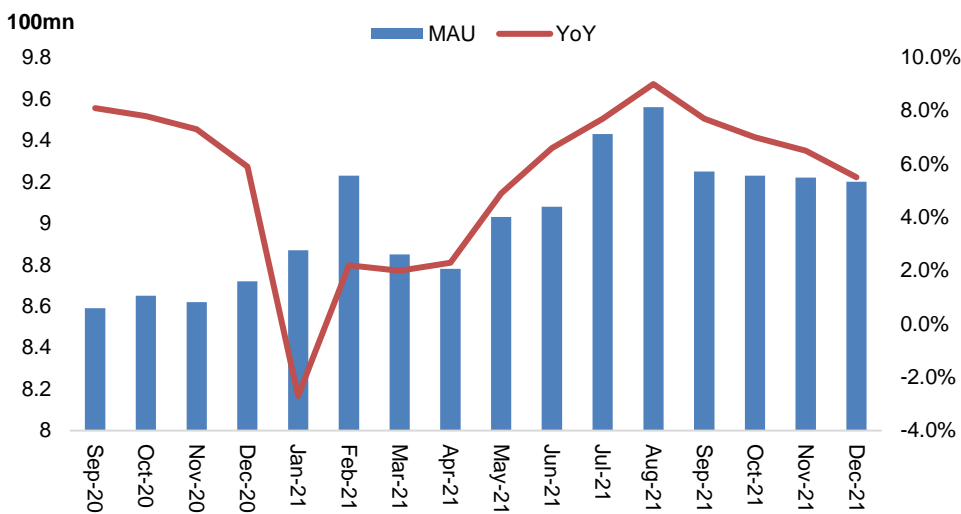
### China's online video market at a glance

China's online video market can be classified into three sub-segments based on the video format.

**Short video is making strides.** The short-video market has enjoyed explosive growth in recent years. According to Questmobile, its MAU reached 920mn in Dec 21. In our view, one of the key reasons behind its popularity is the user-generated content (UGC) market supported by a large community of content creators contributing quality content on an ongoing basis and enriching the whole ecosystem.

Due to the high base, however, short-video MAU has slowed to single-digit growth in recent months.

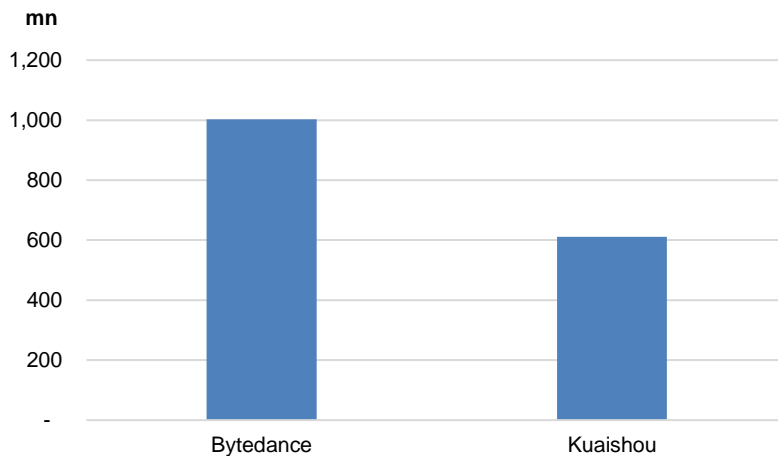
Exhibit 20: Short video MAU growth trend



Source(s): Questmobile, ABCI Securities

China's short-video market is oligopolistic, dominated by Bytedance and Kuaishou. According to Questmobile, Bytedance had ~1bn MAU in China in Dec 21, followed by ~0.6bn for Kuaishou.

Exhibit 21: MAU comparison (Dec 21)



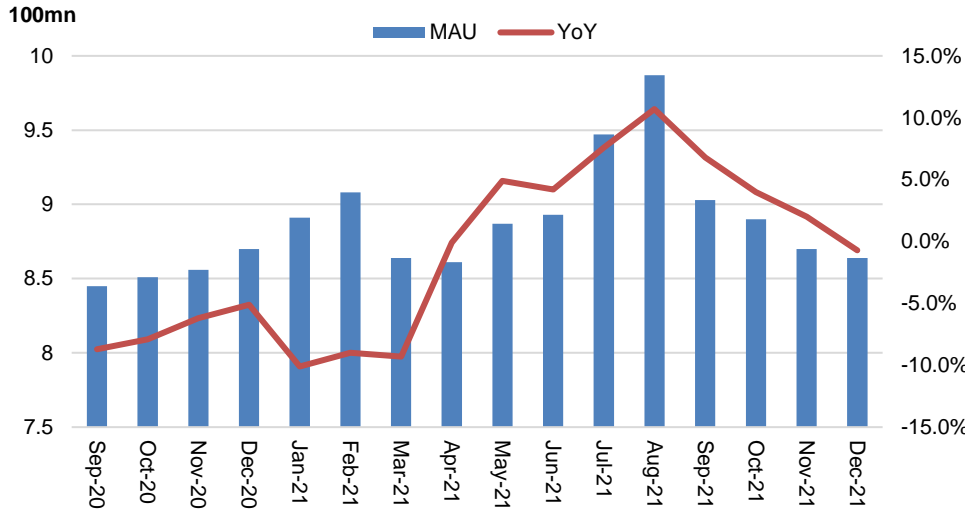
Source(s): Questmobile, ABCI Securities



**Long-video market is declining.** The long-video market is an established market after long years of development. It had about 864mn MAU in Dec 2021, according to Questmobile. It has been losing market share to the short-video markets in recent years, however. Its MAU continued to trend down in recent months.

iQiyi is the leading player in the long-video market with 481mn MAU in Dec 21, according to Questmobile.

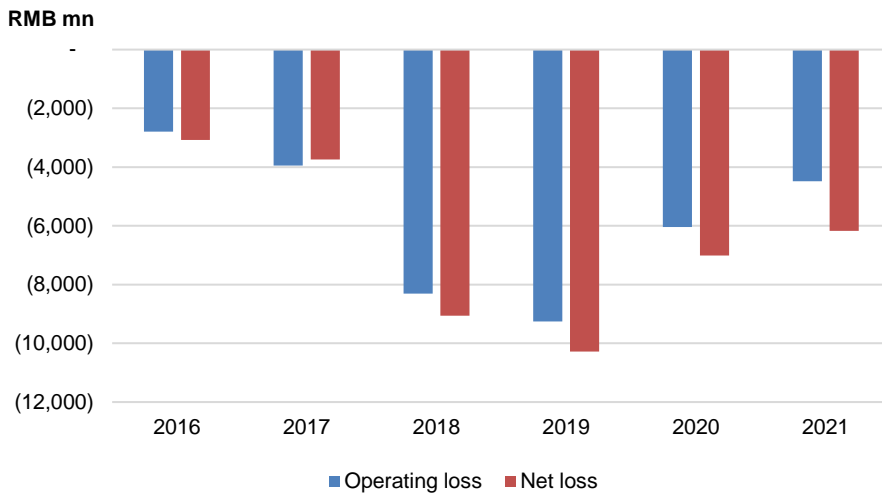
Exhibit 22: Long video MAU growth trend



Source(s): Questmobile, ABCI Securities

Unlike the short-video market, the long-video market typically relies on professionally-generated content (PGC) that requires heavy investments in content creation. As a result, leading players are suffering significant losses in recent years, raising questions concerning the sustainability of business model in the long run.

Taking iQiyi as an example, it has suffered significant operating losses and net losses over the last few years due to high content cost and marketing cost.

**Exhibit 23: iQiyi – a loss-making in recent years**


Source(s): Company

**Specialized video market targets at niche audiences.** While many short - and long-video platforms target the general audience, there are specialized video platforms targeting at specific audience segments. E.g., Bilibili focuses on Gen Z born between 1990 and 2009 and animation, cartoon, game related content with great success. In addition, its content is mainly professional user-generated content (PUGC), which generally has a higher quality than short videos with minimum investment required for the platforms. Due to its niche market focus, Bilibili's MAU was 252mn at Dec 2021, much lower than other mainstream online video platforms.





## Financial outlook

We expect the overall revenue to grow at 25% CAGR in 2021-2023E. In our view, revenue from online marketing will continue to expand on increased monetization power while intensifying regulatory oversight may moderate growth in the live-streaming business. In terms of profitability, we expect gross margin to be stable at 41.5-42% in 2022-23E vs. 42% in 2021. Selling and marketing expenses, a major cost item, would decline on better cost control and higher efficiency while other expenses would improve on economies of scale. We expect core net losses to narrow to RMB 3.3bn in 2023E.

**Online marketing:** We expect online marketing revenue to expand at 33% CAGR in 2021-23E. Despite slowing user growth, the Company has been improving its monetizing capabilities via ongoing content improvement and we expect the trend to continue. Based on our estimates, DAU would increase at 11% CAGR in 2021-23E to 383mn in 2023E; average quarterly online marketing revenue per DAU would increase at 19% CAGR in 2021-23E to RMB 196 in 2023E.

**Live streaming:** Comparing with online marketing, live-streaming revenue is expected to grow at a lower CAGR of 11% in 2021-23E due to tightened regulations on live streaming and potential users' time shift from live streaming to short videos. We expect 3% and 7% CAGRs for live-streaming MPUs (monthly paying users) and live-streaming monthly ARPPU (average revenue per paying user) respectively in 2021-23E to 50.7mn and RMB62 respectively in 2023E.

**Others:** Other revenue mainly consists of e-commerce business and other value-added services. We expect other revenue to expand at 31% CAGR in 2021-23E, primarily driven by 32% CAGR in e-commerce GMV during the same period.

### Exhibit 24: Revenue forecasts (RMB mn)

	2020	2021	2022E	2023E
Online marketing	21,855	42,665	57,840	75,076
Live streaming	33,209	30,995	34,818	38,021
Others	3,712	7,421	10,018	12,823
<b>Total revenue</b>	<b>58,776</b>	<b>81,081</b>	<b>102,676</b>	<b>125,920</b>

Source(s): The Company, ABCI Securities estimates

### Exhibit 25: Major assumptions

	2020	2021	2022E	2023E
DAU (mn)	265	308	348	383
MAU (mn)	481	544	615	676
Avg quarterly online marketing service revenue per DAU (RMB)	83	138	166	196
E-commerce GMV (RMB mn)	381,169	680,036	918,049	1,193,463
Live-streaming MPUs (Monthly Paying user) (mn)	57.6	47.8	48.8	50.7
Live-streaming monthly ARPPU (RMB)	48	54	60	62

Source(s): The Company, ABCI Securities estimates

**Selling and marketing expenses:** Selling and marketing expenses have been a major cost item equivalent to 54.5% of revenue in 2021. The high expenses are caused by ongoing investments on product promotion as well as intense competition on traffic acquisition. The Company plans to strengthen cost control and improve operational efficiency to drive up margins. In particular, the management expect the domestic business to achieve quarterly breakeven by end-2022. We expect selling and marketing expenses/revenue ratio to fall to 34% in 2023E due to cost control.

**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 2021 to 3.0% in 2023E.

**R&D:** We expect R&D cost-to-revenue ratio to drop from 18.4% in 2021 to 14.0% in 2023E, thanks to improving economies of scale.

**Exhibit 26: SG&A cost trend (RMB mn)**

	2020	2021	2022E	2023E
Selling & marketing expenses	(26,615)	(44,176)	(40,044)	(42,813)
General & admin expenses	(1,677)	(3,400)	(4,107)	(3,778)
R&D	(6,547)	(14,956)	(17,455)	(17,629)
<b>Total SG&amp;A</b>	<b>(34,839)</b>	<b>(62,532)</b>	<b>(61,605)</b>	<b>(64,219)</b>
<b>% of revenue</b>				
Selling & marketing expenses	45.3%	54.5%	39.0%	34.0%
General & admin expenses	2.9%	4.2%	4.0%	3.0%
R&D	11.1%	18.4%	17.0%	14.0%
<b>Total SG&amp;A</b>	<b>59.3%</b>	<b>77.1%</b>	<b>60.0%</b>	<b>51.0%</b>

Source(s): The Company, ABCI Securities estimates

Based on above growth trends, we expect core net losses (excl. impacts of share-based compensation and other non-operating items) to narrow from RMB 19.8bn in 2021 to RMB 3.3bn in 2023E.



## Valuation

We initiate with **HOLD** with a DCF-based TP of HK\$60. The counter has experienced significant share price corrections in recent months due tightening regulations, moderating momentum in user acquisition and engagement, risk of divestments of strategic investors. Since most of these concerns are likely to linger, we do not see any near-term positive catalyst for the counter. A consistent trend of narrowing losses, however, will offer strong reassurance to investors of the Company's ability to perform under a changing regulatory landscape.

### Exhibit 27: DCF sensitivity

	WACC					
		14%	15%	16%	17%	18%
Terminal growth	2.0%	65	60	56	52	49
	2.5%	67	62	58	54	50
	3.0%	70	65	60	56	53
	3.5%	73	68	63	59	55
	4.0%	77	72	66	62	58

Source (s): ABCI Securities estimates

\*Assuming 17.5% cost of equity, 3.5% cost of debt, 25% tax rate, 10% long-term debt to capital ratio for the mid-point of WACC (16%).



## Financial forecast

### Consolidated income statement (2020A-2023E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
<b>Total revenue</b>	<b>58,776</b>	<b>81,081</b>	<b>102,676</b>	<b>125,920</b>
Cost of sales	(34,961)	(47,052)	(60,065)	(73,034)
<b>Gross profit</b>	<b>23,815</b>	<b>34,030</b>	<b>42,610</b>	<b>52,887</b>
Selling and Marketing expenses	(26,615)	(44,176)	(40,044)	(42,813)
General & admin expenses	(1,677)	(3,400)	(4,107)	(3,778)
R&D	(6,547)	(14,956)	(17,455)	(17,629)
Other income/losses	704	802	500	500
<b>Operating Profits</b>	<b>(10,319)</b>	<b>(27,701)</b>	<b>(18,495)</b>	<b>(10,833)</b>
Net finance expenses	(35)	(39)	(50)	(50)
FV change of CB	(106,846)	(51,275)	0	0
Others, net	0	(87)	0	0
<b>PBT</b>	<b>(117,200)</b>	<b>(79,102)</b>	<b>(18,545)</b>	<b>(10,883)</b>
Income tax benefits	565	1,025	571	569
<b>PAT</b>	<b>(116,635)</b>	<b>(78,077)</b>	<b>(17,974)</b>	<b>(10,314)</b>
Minority interests	0	0	0	0
<b>Profits attributable to shareholders</b>	<b>(116,635)</b>	<b>(78,077)</b>	<b>(17,974)</b>	<b>(10,314)</b>
Share-based compensation	1,841	7,830	7,000	7,000
Impairment/FV changes of CB	106,846	51,276	0	0
Other non-core items	0	119	0	0
<b>Non-GAAP profits attributable to shareholders</b>	<b>(7,949)</b>	<b>(18,852)</b>	<b>(10,974)</b>	<b>(3,314)</b>
<b>Growth</b>				
Total revenue (%)	50.2	37.9	26.6	22.6
Gross Profits (%)	68.9	42.9	25.2	24.1
Operating Profits (%)	NA	NA	NA	NA
Net profit (%)	NA	NA	NA	NA
Non-GAAP net profit (%)	NA	NA	NA	NA
<b>Operating performance</b>				
Operating margin (%)	(17.6)	(34.2)	(18.0)	(8.6)
Net margin (%)	(198.4)	(96.3)	(17.5)	(8.2)
Core net margin (%)	(13.5)	(23.3)	(10.7)	(2.6)
ROAE (%)	NA	NA	NA	NA
ROAA (%)	NA	NA	NA	NA

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 balance sheet (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Fixed assets	13,654	24,785	25,285	25,785
Investments	3,843	4,711	5,777	6,945
Other non-current assets	3,122	10,008	10,196	10,676
<b>Total non-current assets</b>	<b>20,619</b>	<b>39,504</b>	<b>41,258</b>	<b>43,406</b>
Cash & equivalents	20,392	32,612	20,678	16,075
Short-term deposit	2,729	3,825	3,825	3,825
Financial assets	3,690	8,842	9,342	9,842
Account receivables	2,428	4,450	4,673	4,906
Other current assets	2,289	3,280	3,444	3,616
<b>Total current assets</b>	<b>31,528</b>	<b>53,009</b>	<b>41,961</b>	<b>38,264</b>
<b>Total assets</b>	<b>52,147</b>	<b>92,513</b>	<b>83,220</b>	<b>81,670</b>
Account payables	17,307	29,144	30,145	31,196
Other current liabilities	5,877	8,111	8,286	8,470
<b>Total current liabilities</b>	<b>23,185</b>	<b>37,255</b>	<b>38,431</b>	<b>39,666</b>
Borrowings and notes	185,372	-	-	-
Other non-current liabilities	3,640	10,163	10,667	11,196
<b>Total non-current liabilities</b>	<b>189,012</b>	<b>10,163</b>	<b>10,667</b>	<b>11,196</b>
<b>Total liabilities</b>	<b>212,196</b>	<b>47,418</b>	<b>49,098</b>	<b>50,863</b>
Equity attributable to shareholders	(160,049)	45,089	34,116	30,802
Non-controlling interests	-	6	6	6
<b>Total equity</b>	<b>(160,049)</b>	<b>45,095</b>	<b>34,122</b>	<b>30,808</b>

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 (2020A-2023E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E
Net profit	(117,200)	(79,102)	(17,974)	(10,314)
Depreciation and amortization	4,751	6,883	7,000	7,000
Fair value change of convertible redeemable preferred shares	106,845	51,275	-	-
Share-based compensation	1,841	7,830	7,000	7,000
Other operating cash flow	6,052	7,595	1,040	711
<b>Operating cash flow</b>	<b>2,289</b>	<b>(5,519)</b>	<b>(2,934)</b>	<b>4,397</b>
Capital expenditure	(5,908)	(7,764)	(7,500)	(7,500)
Other investment cash flow	1,041	(10,597)	(1,000)	(1,000)
<b>Investing cash flow</b>	<b>(4,867)</b>	<b>(18,361)</b>	<b>(8,500)</b>	<b>(8,500)</b>
<b>Financing cash flow</b>	<b>19,290</b>	<b>36,500</b>	<b>(500)</b>	<b>(500)</b>
Effective of FX	(316)	(398)	-	-
<b>Net cash flows</b>	<b>16,396</b>	<b>12,222</b>	<b>(11,934)</b>	<b>(4,603)</b>

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

### Loss-making business

The Group reported core net losses in recent quarters. Unless the Group can reverse its loss-making situation, the current business model may not be sustainable in the long run and our DCF model valuation may be invalid.

### 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.



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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 10\%$ )
Hold	- Market return rate ( $\sim -10\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim +10\%$ )
Sell	Stock return $<$ - Market return ( $\sim -10\%$ )

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 2009 (HSI total return index 2009-21 averaged at 9.2%)

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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