

Kuaishou (1024 HK)

E-commerce growth and cost control drive profitability

- Revenue mix shifting towards ecommerce-related services
- Improved profitability driven by cost control and operating efficiency
- HK\$ 16bn share repurchase program to enhance shareholders' return

Improving revenue mix towards e-commerce-related businesses. We expect revenue from online marketing services and other services to expand at 18% and 25% CAGRs in 2023-25E, respectively. E-commerce-related advertising will be the main growth driver with the ongoing development of the e-commerce business, including shelf-based e-commerce and short-video e-commerce, leading to a more sizable and diversified base of ecommerce merchants. In addition, the company is leveraging AI and large language model (LLM) to enhance its marketing solution. As such, these changes will help mitigate the relatively weaker momentum in the live-streaming segment. Due to its changing business mix, we expect revenue contribution of online marketing services and other services to increase to 74% in 2025E.

Improving profitability. The company has demonstrated higher profitability in recent quarters thanks to cost control and improving operating leverage. We expect core net margin to rise to 14.7% in 2025E.

Recommendation. Maintain **BUY** with a revised DCF-based TP of HK\$75 on improving profitability and exposure to live-streaming ecommerce business. Our TP implies 14.2x 2025E core P/E. In addition, the company announced a HK\$16bn share repurchase program that will last till 2027, illustrating its effort to enhance shareholders' returns.

Results and Valuation

	2022A	2023A	2024E	2025E
Revenue (RMB mn)	94,183	113,470	128,550	142,802
Chg (% YoY)	16.2	20.5	13.3	11.1
Net profit (RMB mn)	(13,690)	6,396	12,212	17,055
Non-GAAP net profit (RMB mn)	(5,753)	10,268	16,112	21,005
EPS (RMB)	(3.2)	1.5	2.8	4.0
Non-GAAP EPS (RMB)	(1.3)	2.4	3.7	4.9
P/S (x)	2.3	1.9	1.7	1.5
Core P/E (x)	NA	21.5	13.7	10.5
ROAE (%)*	-13.5	23.1	28.2	27.8
ROAA (%)*	-6.3	10.5	14.0	15.5

Source(s): Company, ABCI Securities estimates

*Based on non-GAAP net profit

Company Report

May 31, 2024

Rating: BUY

TP: HK\$75

Analyst: Steve Chow

Tel: (852) 2147 8809

stevechow@abci.com.hk

Share price (HK\$)	55.5
Est. share price return	35.1%
Est. dividend yield	NA
Est. total return	35.1%
Previous Rating & TP	BUY/HK\$65
Previous Report Date	Mar 7, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	72.5/38.4
Total issued shares (mn)	4,339
Issued class B shares (mn)	3,584
Class B share market cap (HK\$ mn)	198,912
Avg daily turnover (HK\$ mn)	1,997
Major shareholder(s)	
Mr. Su Hua	9.8%
Mr. Cheng Yixiao	7.8%

Source(s): Bloomberg, ABCI Securities

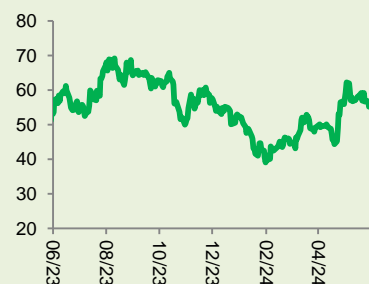
Share Performance (%)

	Absolute	Relative*
1-mth	-1.0	-3.4
3-mth	24.5	14.3
6-mth	-4.0	-10.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Financial Outlook

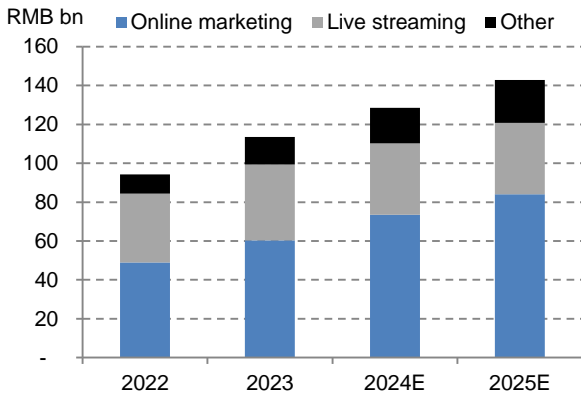
We expect overall revenue to grow at 12% CAGR in 2023-25E.

Online marketing services: We expect online marketing revenue to expand at 18% CAGR in 2023-25E amid a 5% CAGR in DAU and a 12% CAGR in average online marketing revenue per DAU for the same period. We expect e-commerce-related advertising to be the main growth driver of the e-commerce business, including shelf-based e-commerce, leading to a more sizable and diversified merchant base. In addition, the company is leveraging AI and LLM to enhance its marketing solutions, such as content creation, placement, user connection, etc.

Live streaming: We expect live streaming revenue to drop by 3% CAGR in 2023-25E on continuous business adjustment.

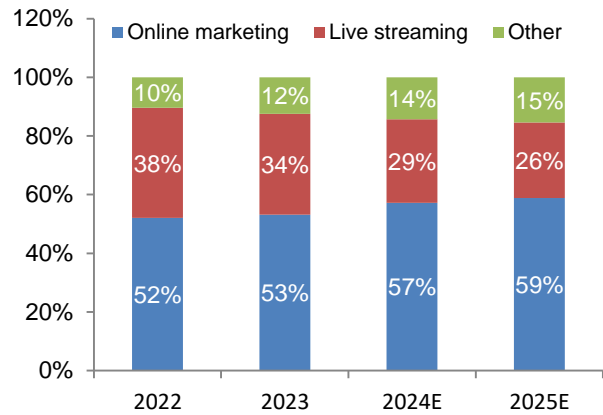
Other services: We expect other service revenue, which mainly consists of e-commerce business and other value-added services, to grow at 25% CAGR in 2023-25E, primarily driven by e-commerce business. The company is diversifying its GMV mix towards mid-tier and long-tail KOLs. In addition, shelf-based and short video e-commerce have become the major drivers of e-commerce GMV.

Exhibit 1: Revenue outlook



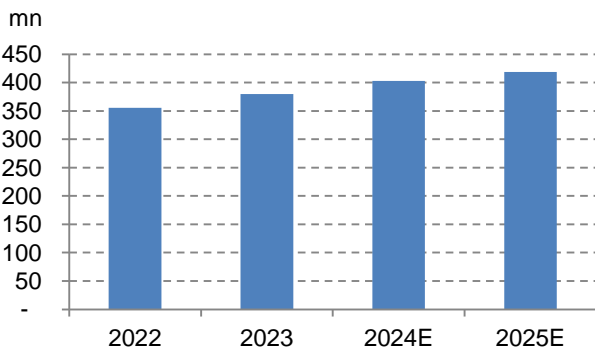
Source(s): Company, ABCI Securities estimates

Exhibit 2: Revenue mix outlook



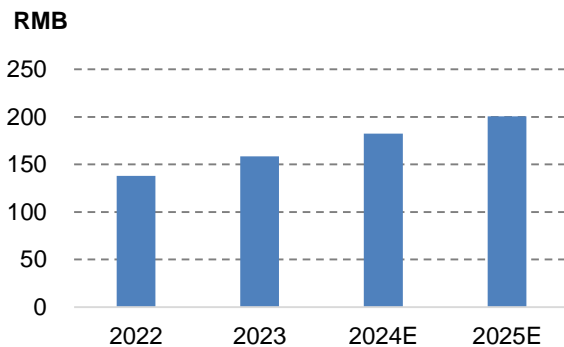
Source(s): Company, ABCI Securities estimates

Exhibit 3: DAU trend



Source(s): Company, ABCI Securities estimates

Exhibit 4: Avg. quarterly online marketing service revenue per DAU



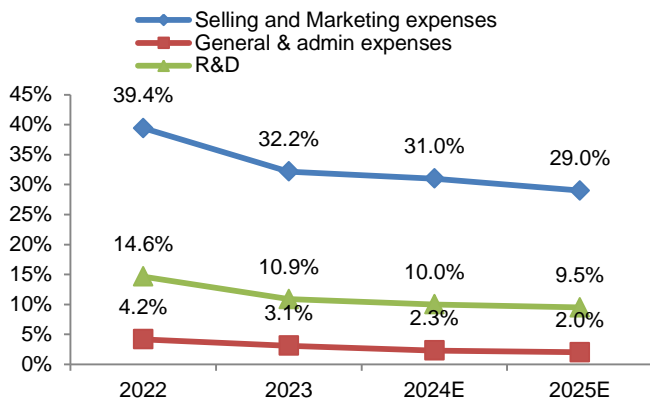
Source(s): Company, ABCI Securities estimates

Selling and marketing expenses: Selling and marketing expenses have been a major cost item. The company has been strengthening cost control and improving operational efficiency to boost margins. In particular, domestic business has already achieved a breakeven. We expect the selling and the marketing expenses/revenue ratio to fall to 29% in 2025E due to cost control and improving operating leverage.

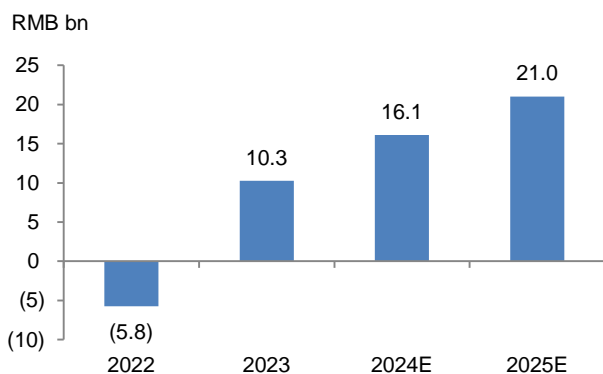
General and admin expenses: Thanks to the higher economies of scale and operational improvement, we expect the general and admin cost-to-revenue ratio to drop to 2.0% in 2025E.

R&D: We expect the R&D cost-to-revenue ratio to drop to 9.5% in 2025E, thanks to better economies of scale.

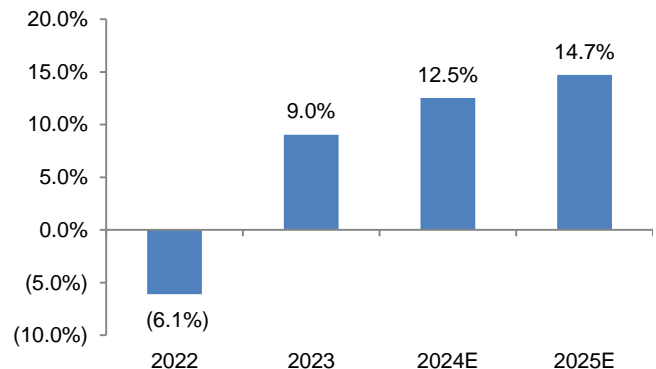
Based on the above growth trends, we expect core net profit margin to improve to 14.7% in 2025E.

Exhibit 5: Cost trend (% of revenue)


Source(s): Company, ABCI Securities estimates

Exhibit 6: Core net profit trend


Source(s): Company, ABCI Securities estimates

Exhibit 7: Core net margin


Source(s): Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Kuaishou (1024 HK)

China Internet Sector

May 31, 2024

Exhibit 8: Financial forecast changes

	2024E			2025E			Comment
	old	new	Diff	old	new	Diff	
Revenues	130,512	128,550	-1.5%	143,057	142,802	-0.2%	Weaker live-streaming business
Core profit	12,313	16,112	30.9%	17,060	21,005	23.1%	Cost control

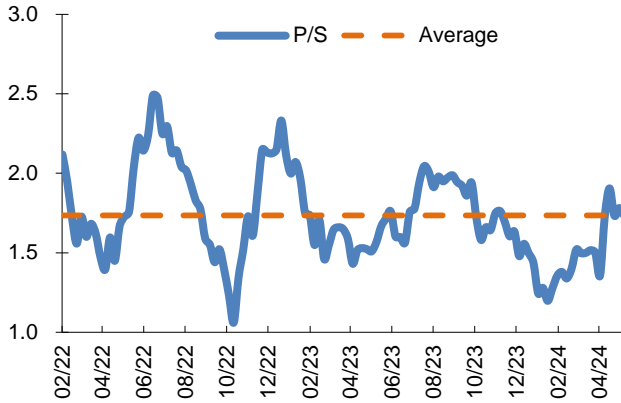
Source(s): ABCI Securities estimates



Recommendation

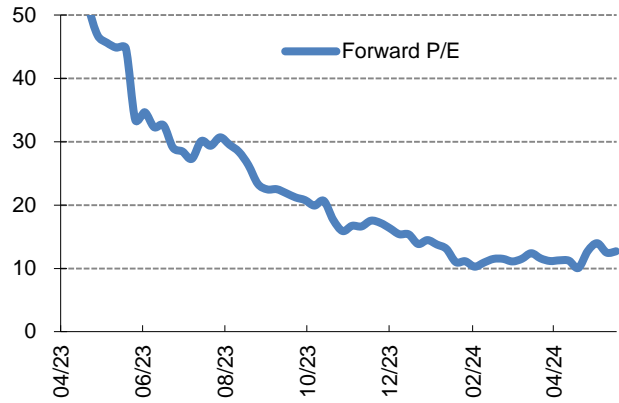
Maintain **BUY** with a revised DCF-based TP of HK\$ 75. Our TP implies 14.2x 2025E core P/E. The counter is currently trading at about 10.5x 2025E core P/E, which is undemanding. In addition, the company announced a HK\$16bn share repurchase program that will last till 2027, illustrating its effort to enhance shareholders' returns.

Exhibit 9: P/S trend



Source(s): Bloomberg, ABCI Securities

Exhibit 10: Forward P/E trend



Source(s): Bloomberg, ABCI Securities

Exhibit 11: TP changes (HK\$ per share)

Old	New	Comment
65	75	DCF-based with revised financial forecast and 15% WACC (unchanged) and 3% terminal growth rate (unchanged)

Source(s): ABCI Securities estimates



Company profile

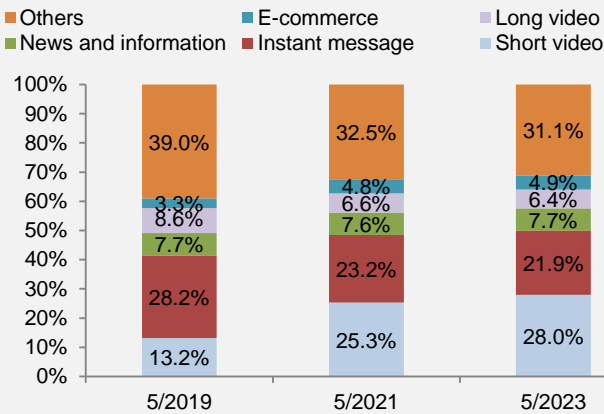
<p>Business</p> <ul style="list-style-type: none"> • Second-largest short video and live-streaming platform in China. According to Questmobile, its MAU was ~62% of that of its closest peer Douyin in Sep 2023 • Successfully leverage its user traffic into live-streaming e-commerce in recent years. It's 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. The share of mid-tier and long-tail KOLs in the total KOL-related GMV has been increasing • Introduction of shelf-space e-commerce. Shelf-based e-commerce accounted for about 25% of total GMV currently • Exploring opportunities in the local service segment in lower-tier cities • Rising competition with Weixin's Video Account, which has seen rising popularity • Developing AIGC technology to enhance user experience and long-term competitiveness
<p>Financials</p> <ul style="list-style-type: none"> • Revenue mix: Online marketing is the major revenue contributor in 2023 (53%), followed by live streaming (34%) and others (mainly e-commerce related) (12%) • Online marketing businesses include e-commerce-related advertising (advertising by merchants on their 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 22bn in cash and deposits and no debts in Mar 2024
<p>Management and shareholder</p> <ul style="list-style-type: none"> • Co-founders Su Hua and Cheng Yixiao collectively owned 17.6% of economic interest and 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
<p>Shareholders' return</p> <ul style="list-style-type: none"> • No dividend record since listing • Share repurchase in recent months. The company announced an HKD16bn share repurchase program till 2027
<p>Corporate governance/information disclosure</p> <ul style="list-style-type: none"> • Various corporate social responsibility initiatives in recent years



Segment profile: Short video and live-streaming

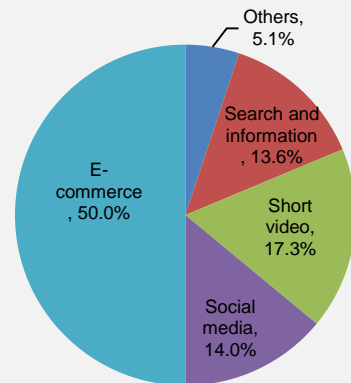
- China's short-video market is primarily **dominated by Douyin and Kuaishou**. According to Questmobile, Douyin had 743mn MAUs vs. 457mn for Kuaishou in Sep 2023.
- Short-video platforms have been gaining popularity** in recent years and have the highest market share in terms of time spent among internet 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 their traffic to other monetization scenarios such as e-commerce, local service, etc. 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 successfully developed 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 developing in-store business in recent quarters, posing an increasingly significant competitive pressure on Meituan.

Exhibit 12: Market share in terms of user time spent



Source(s): Questmobile, ABCI Securities

Exhibit 13: China's online advertising market share (1H23)



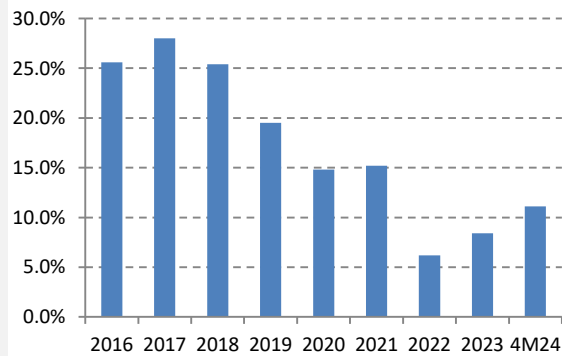
Source(s): Questmobile, ABCI Securities



Industry profile: Online shopping

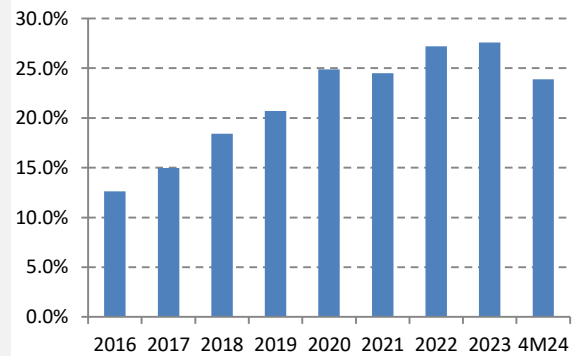
- **China’s online sales growth has turned steadier** after years of development. According to NBS, online sales of physical goods grew 8.4% YoY in 2023. In 4M24, online sales growth of physical goods rebounded to 11.1% YoY, mainly due to a low base. By product category, online sales of food products, groceries, and apparel rose 19.2%, 9.8%, and 10.5% in 4M24.
- **Online shopping penetration rate was generally on an uptrend** in recent years, 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 the 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 efforts** 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 moderating economic development, prompting e-commerce platforms to enhance price competitiveness
- In terms of market share, we estimate that Alibaba is still the largest e-commerce platform with mid-40s market share, vs. Pinduoduo (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 have low prices; 2) More interactive features (social e-commerce, live streaming, etc.) than traditional search-based e-commerce format
- Selected platforms such as Pinduoduo and Shein are actively developing **cross-border e-commerce** and have gained growing traction in various overseas markets

Exhibit 14: Online sales growth of physical goods (YoY)



Source(s): NBS, ABCI Securities

Exhibit 15: Online shopping penetration rate



Source(s): NBS, ABCI Securities



Financial Forecast

Consolidated income statement (2022A-2025E)

FY Ended Dec 31 (RMB mn)	2022A	2023A	2024E	2025E
Total revenue	94,183	113,470	128,550	142,802
Cost of sales	(52,051)	(56,079)	(60,419)	(67,117)
Gross profit	42,131	57,391	68,132	75,685
Selling and Marketing expenses	(37,121)	(36,496)	(39,851)	(41,413)
General & admin expenses	(3,921)	(3,514)	(2,957)	(2,856)
R&D	(13,784)	(12,338)	(12,855)	(13,566)
Other income/losses	137	1,388	700	700
Operating Profits	(12,558)	6,431	13,169	18,550
Net finance expenses	166	539	450	450
FV change of CB	0	0	0	0
Others, net	(139)	(81)	(50)	(50)
PBT	(12,531)	6,889	13,569	18,950
Income tax benefits	(1,158)	(490)	(1,357)	(1,895)
PAT	(13,689)	6,399	12,212	17,055
Minority interests	1	3	0	0
Profits attributable to shareholders	(13,690)	6,396	12,212	17,055
Share-based compensation	6,249	3,570	3,900	3,950
Impairment/FV changes of CB	0	0	0	0
Other non-core items	1,689	302	0	0
Non-GAAP profits attributable to shareholders	(5,753)	10,268	16,112	21,005
Growth				
Total revenue (%)	16.2	20.5	13.3	11.1
Gross Profits (%)	23.8	36.2	18.7	11.1
Operating Profits (%)	NA	NA	104.8	40.9
Net profit (%)	NA	NA	90.9	39.7
Non-GAAP net profit (%)	NA	NA	56.9	30.4
Operating performance				
Operating margin (%)	(13.3)	5.7	10.2	13.0
Net margin (%)	(14.5)	5.6	9.5	11.9
Core net margin (%)	(6.1)	9.0	12.5	14.7
ROAE (%)*	(13.5)	23.1	28.2	27.8
ROAA (%)*	(6.3)	10.5	14.0	15.5

Source(s): The Company, ABCI Securities estimates

*Based on non-GAAP net profit

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 (2022A-2025E)

As of Dec 31 (RMB mn)	2022A	2023A	2024E	2025E
Fixed assets	25,143	23,828	24,328	24,828
Investments	4,564	5,742	11,018	16,309
Other non-current assets	13,742	16,365	17,159	17,992
Total non-current assets	43,449	45,935	52,505	59,129
Cash & equivalents	13,274	12,905	18,681	29,357
Short-term deposit	8,318	9,874	9,874	9,874
Financial assets	13,814	26,078	31,078	36,078
Account receivables	6,288	6,457	6,780	7,119
Other current assets	4,165	5,047	5,293	5,551
Total current assets	45,859	60,361	71,705	87,979
Total assets	89,307	106,296	124,211	147,108
Account payables	33,058	40,193	41,373	42,612
Other current liabilities	7,652	8,585	8,787	8,999
Total current liabilities	40,710	48,778	50,160	51,611
Borrowings and notes	-	-	-	-
Other non-current liabilities	8,760	8,444	8,864	9,306
Total non-current liabilities	8,760	8,444	8,864	9,306
Total liabilities	49,469	57,222	59,024	60,916
Equity attributable to shareholders	39,830	49,063	65,175	86,181
Non-controlling interests	8	11	11	11
Total equity	39,838	49,074	65,186	86,192

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 (2022A-2025E)

As of Dec 31 (RMB mn)	2022A	2023A	2024E	2025E
Net profit	(13,690)	6,396	12,212	17,055
Depreciation and amortization	6,573	7,202	7,000	7,000
Share-based compensation	6,249	3,570	3,900	3,950
Other operating cash flow	1,664	3,613	163	171
Operating cash flow	795	20,781	23,276	28,177
Capital expenditure	(5,100)	(4,897)	(7,500)	(7,500)
Other investment cash flow	(12,928)	(14,968)	(5,000)	(5,000)
Investing cash flow	(18,028)	(19,865)	(12,500)	(12,500)
Financing cash flow	(2,599)	(1,364)	(5,000)	(5,000)
Effective of FX	494	79	-	-
Net cash flows	(19,338)	(369)	5,776	10,677

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 difference

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 e-commerce 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.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, may pursue financial interests to the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim 7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

Notes: 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 2005 (For reference: HSI total return index 2005-23 averaged at 7.4%)

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2024 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: 852) 2868 2183**