

### COMPANY RESULTS

## Kuaishou (1024 HK)

3Q22: Decent Margin Improvement; Net Loss Narrows Significantly

Kuaishou's 3Q22 earnings were above expectations. Revenue grew by 13% yoy to Rmb21.7b, in line with the street's expectation. Gross profit rose 25.8% to Rmb10.7b yoy with gross margin improving 5ppt yoy to 46.3%. Operating profit from the domestic segment was Rmb375.1m, compared with an operating loss of Rmb2.5b in 3Q22. Non-IFRS loss for the period was Rmb672m, significantly narrowing from Rmb4.6b in 3Q22, beating our and the street's estimates. Maintain BUY. Target price: HK\$79.00.

### 3Q22 RESULTS

Year to 31 Dec (Rmbm)	3Q21	2Q22	3Q22	QoQ	YoY	UOBKH	Var	Cons	Var
Total Net revenue	20,493	21,695	23,128	7%	13%	23,575	-1.9%	22,560	2.5%
Live streaming	7,724	8,565	8,947	4%	16%	8,329	7.4%		
Online marketing	10,909	11,006	11,590	5%	6%	12,784	-9.3%		
Other services	1,860	2,124	2,592	22%	39%	2,462	5.3%		
COGS	11,984	11,925	12,425	4%	4%	12,660	-1.9%		
Gross profits	8,509	9,770	10,703	10%	26%	10,915	-1.9%	10,239	4.5%
GPM	41.5%	45.0%	46.3%	3%	5 ppts	46.3%	(0 ppts)	45%	0.9 ppts
Operating expenses	(16,045)	(13,883)	(13,001)	6%	19%	(13,001)	0.0%		
Operating income	(7,404)	(3,059)	(2,612)	15%	65%	(3,336)	21.7%		
Non-IFRS operating income	(5,139)	(1,341)	(904)	33%	82%	(2,086)	56.7%		
Non-IFRS OPM	-25%	-6%	-4%	227 bps	21 ppts	-8.85%	5 ppts		
IFRS net income	(7,087)	(3,176)	(2,712)	15%	62%	(3,346)	18.9%		
Non-IFRS net income	(4,616)	(1,312)	(672)	49%	85%	(2,096)	67.9%	(1,743)	61.5%
IFRS EPS (RMB)*	(2)	(1)	(1)	15%	63%	-0.79	19.2%		
Non-IFRS EPS (RMB)	(1)	(0)	(0)	49%	86%	-0.49	68.1%	-0.39	59.6%
Non-IFRS Net Margin	-22.5%	-6%	-3%	314 bps	20 ppts	-8.9%	6 ppts	-16.5%	14 ppts

Source: Kuaishou Corp Ltd, UOB Kay Hian

### RESULTS

- 3Q22 advertising revenue recovery was slower than expected.** Kuaishou Corp's (Kuaishou) online marketing services revenue grew 6.2% yoy/5% qoq to Rmb11.6b in 3Q22, driven by increased Kuaishou e-commerce merchants and high-quality content. Live streaming revenue improved 15.8% yoy/ 4% qoq to Rmb8.9b, driven by a 29.3% yoy growth in average monthly paying users (MPU) and better operational enhancements. Revenue from other services jumped 39.4%yoy/22% qoq to Rmb2.6b, primarily due to the 26.6% yoy growth from e-commerce gross merchandises value (GMV).
- Margin improved in all levels.** Gross profit margin improved 5ppt yoy, in line with our expectation. 3Q22 non-IFRS operating loss narrowed to Rmb904m with non-IFRS operating margin expanding by 21ppt yoy to -4%. Driven by better savings in sales and marketing (S&M) and better user conversion, Kuaishou's domestic business continued to deliver positive operating profit of Rmb375m or IFRS margin of 1.6%, with overseas operating loss decreasing 41% yoy. Non-IFRS net profit margin grew 20ppt yoy to -3%, 14ppt above the street's estimate.
- Healthy user engagement growth.** Average daily active users (DAU) was 363m (+16m qoq and +43m yoy) and monthly active users (MAU) increased strongly to 626m (+40m qoq and +53m yoy) in 3Q22. User engagement indicator DAU/MAU was resilient at 58.1% and average daily time spent per DAU rose 8.6% yoy to 129 minutes, reflecting Kuaishou's close loop community.

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	58,776.1	81,081.5	92,543.9	105,874.8	123,249.6
EBITDA	(5,457.0)	(20,816.2)	(6,149.7)	(196.9)	10,412.8
Operating profit	(10,320.0)	(27,701.3)	(12,409.3)	(6,766.5)	3,533.2
Net profit (rep./act.)	(116,635.2)	(78,077.1)	(12,323.3)	(6,941.1)	2,970.5
Net profit (adj.)	(7,863.8)	(18,851.8)	(7,323.3)	(941.1)	9,955.1
EPS (Fen)	(844.4)	(491.8)	(163.6)	(19.1)	198.3
PE (x)	n.m.	n.m.	n.m.	n.m.	23.2
P/B (x)	(0.3)	3.9	6.1	8.5	7.7
EV/EBITDA (x)	n.m.	n.m.	n.m.	n.m.	17.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(198.4)	(96.3)	(13.3)	(6.6)	2.4
Net debt/(cash) to equity (%)	12.7	(72.3)	(52.3)	(48.8)	(45.3)
Interest cover (x)	(154.6)	(540.2)	(159.6)	(5.1)	270.2
ROE (%)	n.a.	n.a.	n.a.	n.a.	10.9
Consensus net profit	-	-	(7,617)	353	9,519
UOBKH/Consensus (x)	-	-	0.96	n.m.	1.05

Source: Kuaishou, Bloomberg, UOB Kay Hian

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

## BUY

(Maintained)

Share Price	HK\$50.25
Target Price	HK\$79.00
Upside	+57.2%
(Previous TP)	HK\$91.00

### 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):	3,534.9
Market cap (HK\$m):	216,132.2
Market cap (US\$m):	27,666.3
3-mth avg daily t'over (US\$m):	9.1

### Price Performance (%)

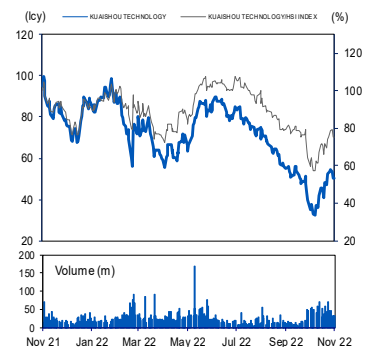
52-week high/low HK\$99.70/HK\$32.30

1mth	3mth	6mth	1yr	YTD
1.1	(0.7)	12.7	6.7	6.1

### Major Shareholders

Tencent Holdings Ltd	20.60%
Morningside Venture Capital Ltd	15.90%
Employee Shareholding Plan	7.40%
FY14 NAV/Share (RM)	2.36
FY14 Net Debt/Share (RM)	0.75

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- 4Q22 outlook.** Looking into 4Q22, we remain cautious on the ads business' recovery, due to the challenging environment. We expect e-commerce ads to be the main growth driver for advertisement revenue and sequential accelerating GMV growth, while external advertisers' budgets to remain soft till year end. We forecast a 32% yoy 4Q22 other revenue growth and expect Kuaishou to further improve commercialisation capabilities and services to advertisers, while reorganising its commercialisation division. The domestic business will continue to breakeven in 4Q22 thanks to stringent costs control on sales and marketing and lower live streaming revenue sharing costs.
- Reactivated external links for its 11.6 event.** Kuaishou launched its Shopping Festival ("购物节") tab on its app for the 11.6 promotion. Starting from 28 October, Kuaishou reactivated the external BABA/JD links on Kuaishou, enabling users to place orders on live streaming sessions and jump to Taobao and JD apps to complete the transactions, after Kuaishou disabled external links with other e-commerce platforms since 1 Mar 22. Kuaishou commented that the shopping cart functionality is available to Tmall 1P/JD 1P until 31 Dec /30 Nov 22. GMV generated from the brand's self-operated live streaming increased by 238% qoq. Kuaishou also has been testing its on shelf-based e-commerce within the Kuaishou APP during the past few months; however the launching date has been delayed from the scheduled 4Q22 as it is not ready.
- Key areas to watch out for:** a) the company remains confident on its 2022 e-commerce annual Rmb900b GMV target; b) the local life business' operations performance is well on track in selective northern China cities (Shijiazhuang, Harbin etc.), and the company will remain prudent on investment spending in the local life service segment; and c) improving engagement in the overseas business. Average daily time spent per DAU in the overseas markets remained high at over 60 minutes up from 48 minutes in 2Q22. In 3Q22, operating loss from the overseas segment decreased to Rmb1.7b from Rmb2.9b in 3Q21, attributable to the rapid growth in overseas revenues and improved efficiency.

### EARNINGS REVISION/RISK

- We lower our 4Q22 revenue forecast by 5% in view of weaker advertisement recovery.** We expect Kuaishou to deliver adjusted net loss of Rmb318m in 4Q22, which should translate into net margin of -1.2% vs -14.6% in 4Q21. We forecast a 14% yoy revenue growth and net margin of -0.9% for 2023.
- Risks:** a) weaker advertisement demand due to the weak macro environment, b) increasing competition from Douyin, c) minor protection restrain on time spent on short form video, and d) expanding loss from the overseas business and local life services initiatives.

### VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$79.00.** We remain cautiously optimistic on the company due to stable growth in individual subscriptions and resilient growth in institutional subscriptions. Our target price implies 3x 2023F PS. The company is trading at 2x 12-month forward PE, below its historical mean and peers'.

### SHARE PRICE CATALYST

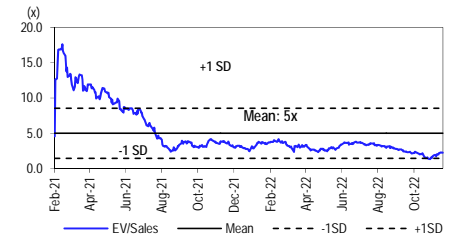
- a) Higher monetisation rates across all categories, b) less competition from peers, positive government policies to simulate consumption, and d) lifting of regulations on internet platforms.

### SOTP VALUATION

2023E	Revenue (Rmbm)	GMV (Rmbm)	Net profit	PS	PE	To Kuaishou (HK\$)	HK\$/share
Live streaming	38,012		7,602	2x		92,825	21
Online marketing	55,437		11,087	3x		203,064	45
E-commerce	13,086	1,135,320	2,617		18x	57,522	13
SOTP value						353,411	79

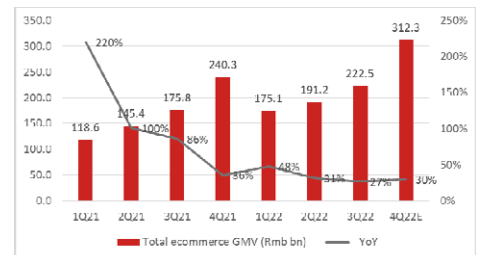
Source: UOB Kay Hian

### KUAISHOU 12-MONTH EV/SALES BAND



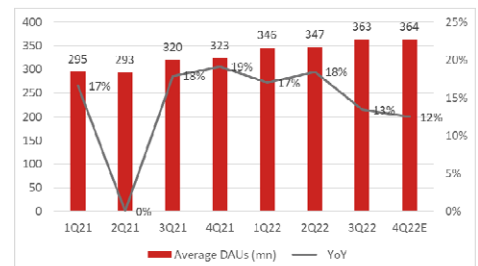
Source: Bloomberg, UOB Kay Hian

### KUAISHOU TOTAL GMV



Source: Kuaishou, UOB Kay Hian

### KUAISHOU AVERAGE DAU



Source: Kuaishou, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	81,082	92,544	105,875	123,250
EBITDA	(20,816)	(6,150)	(197)	10,413
Deprec. & amort.	6,885	6,260	6,570	6,880
EBIT	(27,701)	(12,409)	(6,767)	3,533
Total other non-operating income	(51,276)	0	0	0
Associate contributions	(87)	0	0	0
Net interest income/(expense)	(39)	(39)	(39)	(39)
<b>Pre-tax profit</b>	<b>(79,102)</b>	<b>(12,448)</b>	<b>(6,805)</b>	<b>3,495</b>
Tax	1,025	124	(136)	(524)
Minorities	0	0	0	0
<b>Net profit</b>	<b>(78,077)</b>	<b>(12,323)</b>	<b>(6,941)</b>	<b>2,970</b>
Net profit (adj.)	(18,852)	(7,323)	(941)	9,955

### CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>(5,519)</b>	<b>(8,536)</b>	<b>2,509</b>	<b>6,741</b>
Pre-tax profit	(79,102)	(12,448)	(6,805)	3,495
Tax	1,025	124	(136)	(524)
Deprec. & amort.	6,721	6,086	6,386	6,686
Associates	0	0	0	0
Working capital changes	58,868	(7,348)	(3,256)	(10,618)
Other operating cashflows	6,969	5,049	6,320	7,703
<b>Investing</b>	<b>(18,361)</b>	<b>(6,936)</b>	<b>(7,035)</b>	<b>(6,292)</b>
Capex (growth)	(18,069)	(6,936)	(7,035)	(6,292)
Capex (maintenance)	0	0	0	0
Investments	(6,020)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	5,727	0	0	0
<b>Financing</b>	<b>36,500</b>	<b>(6)</b>	<b>0</b>	<b>0</b>
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	36,500	(6)	0	0
<b>Net cash inflow (outflow)</b>	<b>12,620</b>	<b>(15,479)</b>	<b>(4,527)</b>	<b>449</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>20,392</b>	<b>32,612</b>	<b>17,133</b>	<b>12,606</b>
Changes due to forex impact	(399)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>32,612</b>	<b>17,133</b>	<b>12,606</b>	<b>13,056</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	11,051	10,929	10,890	10,764
Other LT assets	28,454	29,252	29,757	29,295
Cash/ST investment	32,612	17,133	12,606	13,056
Other current assets	20,398	14,313	19,368	14,850
<b>Total assets</b>	<b>92,515</b>	<b>71,627</b>	<b>72,621</b>	<b>67,965</b>
ST debt	0	0	0	0
Other current liabilities	37,256	28,697	36,632	29,006
LT debt	0	0	0	0
Other LT liabilities	10,164	10,164	10,164	10,164
Shareholders' equity	45,090	32,766	25,825	28,796
Minority interest	7	0	0	0
<b>Total liabilities &amp; equity</b>	<b>92,515</b>	<b>71,627</b>	<b>72,621</b>	<b>67,965</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	(25.7)	(6.6)	(0.2)	8.4
Pre-tax margin	(97.6)	(13.5)	(6.4)	2.8
Net margin	(96.3)	(13.3)	(6.6)	2.4
ROA	n.a.	n.a.	n.a.	4.2
ROE	n.a.	n.a.	n.a.	10.9
<b>Growth</b>				
Turnover	37.9	14.1	14.4	16.4
EBITDA	n.a.	n.a.	n.a.	n.a.
Pre-tax profit	n.a.	n.a.	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.
Net profit (adj.)	n.a.	n.a.	n.a.	n.a.
EPS	n.a.	n.a.	n.a.	n.a.
<b>Leverage</b>				
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	(72.3)	(52.3)	(48.8)	(45.3)
Interest cover (x)	(540.2)	(159.6)	(5.1)	270.2

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