

Kuaishou Technology (SEHK: 01024)

Beneficiary of upcoming consumption downgrade

- We expect Kuaishou to report C3Q23 revenue, IFRS operating profit and non-IFRS net income in-line, 12.4% and 15.3% above vs consensus;
- We upgrade Kuaishou from SELL to BUY and raise TP from HK\$47 to HK\$62 based on expectation of consumption downgrade resulting in merchants focusing on population of low tier cities where Kuaishou holds influence. We would like to see Kuaishou making inroads in overseas.

Going low-tier is a consensus of all in China today

We expect Kuaishou's to post C3Q23 GMV growth of 32% YoY, a respective number given today's retail environment. We expect its revenue to grow 41% YoY. Kuaishou started its 11.11 promotion on October 18th, a week before e-commerce peers. Kuaishou secured iPhone 15 launch rights and has gained recognition as a valuable lower-tier platform for brands. Blue Lotus analyst found widening gap between online social retail sales and parcel volume (Exhibit 4), suggesting that basket size of e-commerce parcel has declined, benefiting low basket size platforms like PDD. We believe Kuaishou should also benefit.

It is also a good time to start serving local services

Local services like catering are also entering low tier cities en masse, which we believe supports Kuaishou's advertising business targeting this segment. Company found only 20% of merchants overlap with Meituan and Douyin. We believe this reflects Kuaishou's current stage of development and will elevate to more national chains down the road.

Health user matrices resulting from experience optimization

We anticipate limited impact from the expansion of Tencent Video and expect Kuaishou to grow DAU on a sequential basis with healthy growth in daily time spent. We notice that management optimized user experience during the quarter, likely resulting in better retention and traffic growth. Amid macroeconomic challenges, overall performance growth has shifted from external advertising to internal advertising. We expect Kuaishou's content ecosystem to complement its e-commerce business through traffic optimization and utilization.

Summary financial data

Highlights (RMB mn)	F2021A	F2022A	F2023E	F2024E	F2025E
Revenue	81,663	94,183	112,104	128,455	139,290
Non-IFRS operating profit	(19,290)	(6,309)	7,843	15,000	19,966
Non-IFRS net profit	(17,499)	(5,778)	8,400	13,011	16,675
Non-IFRS EPS (RMB)	(4.19)	(1.37)	1.81	2.80	3.59
P/E, non-IFRS	NM	NM	26.1	16.9	13.2

Source: Kuaishou Technology., Bloomberg, Blue Lotus (as of October 19, 2023); Note: P/E based on last close and HKD/RMB = 0.9172.

See the last page of the report for important disclosures.

Blue Lotus Capital Advisors Limited

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BUY **UR** **SELL**

Target Price: HK\$ 62	Current Price: HK\$ 56.4
RIC: (SEHK: 01024)	BBG: 1024 HK
Market cap (HK\$ mn)	242,801.0
Average daily volume (HK\$ mn)	1,440.8
Shares out/float (m)	3,590.5/1,800.5

Source: Bloomberg, Blue Lotus (as of October 19, 2023)

Key Changes

	New	Old	Diff
BLRI Recommendation	BUY	SELL	-
BLRI Target Price (HK\$)	62	47	31.9%
2023E EPADS (RMB)	1.81	1.39	30.2%
2024E EPADS (RMB)	2.80	2.14	30.8%
2025E EPADS (RMB)	3.59	2.61	37.5%

*Previous estimates rebased for FX change. HKD/RMB = 0.9172.

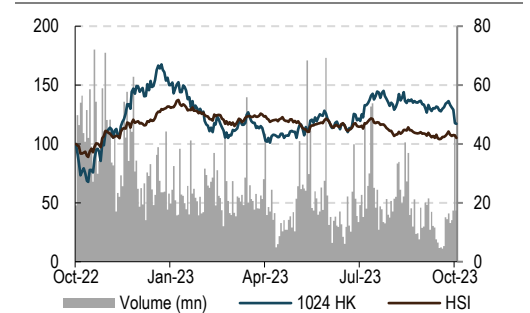
Source: Blue Lotus (as of October 19, 2023)

BLRI vs. The Street

No. of Bloomberg Recommendations	53
Target price vs. Bloomberg mean	(28.9%)
1-year-fwd EPS vs. Bloomberg mean	(11.4%)
Bloomberg recommendation	4.81

Source: Blue Lotus, Bloomberg Recommendation (1=SELL,5=BUY) (as of October 19, 2023)

Price performance and volume data



Source: Bloomberg, Blue Lotus (as of October 19, 2023)

Research team



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Kuaishou Technology: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

RMB mn	2022A	2023E	2024E
Revenue	94,183	112,104	128,455
Live streaming	35,388	39,117	42,026
Online marketing services	49,042	57,881	66,533
Other services	9,753	15,105	19,896
Cost of Revenues	(52,051)	(56,187)	(60,851)
Gross profit	42,131	55,917	67,604
Selling and marketing	(37,121)	(36,483)	(38,776)
Administrative expenses	(3,921)	(3,788)	(4,340)
Research and Development Expenses	(13,784)	(12,529)	(14,356)
Operating income	(12,558)	3,650	10,581
Non-IFRS operating income	(6,309)	7,843	15,000
(Loss)/Profit before tax	(12,558)	3,650	10,581
(Loss)/Income for the year	(13,716)	3,522	7,935
Non-IFRS income/(Loss)	(5,778)	8,400	13,011
Gross profit margin	44.7%	49.9%	52.6%
Operating margin	(13.3%)	3.3%	8.2%
Net margin	(14.6%)	3.1%	6.2%
Non-IFRS operating margin	(6.7%)	7.0%	11.7%
Non-IFRS net margin	(6.1%)	7.5%	10.1%
EPS, non-IFRS (RMB)	NM	1.81	2.8

Source: Kuaishou Technology., Blue Lotus (as of October 19, 2023)

Exhibit 2. Balance sheet

RMB mn	2022A	2023E	2024E
Cash and cash equivalents	13,274	26,967	45,090
Short-term time deposits	8,318	8,734	9,171
Other current assets	24,208	20,011	21,119
Total current asset	45,859	55,771	75,438
Property and equipment	13,215	26,557	30,895
Right-of-use assets	10,806	10,852	12,242
Intangible assets	1,391	1,391	1,391
Financial assets at fair value	3,626	3,590	3,505
Other non-current assets	14,411	14,411	14,411
Total assets	89,307	112,573	137,883
Accounts payables	22,868	26,429	31,804
Other payables and accruals	10,190	10,699	11,234
Advances from customers	3,240	3,415	3,999
Total liabilities	49,470	53,034	61,005
Other reserves	29,239	28,192	29,609
Retained earnings	39,838	59,538	76,878
Total shareholders' equity	39,838	59,538	76,878
Total liabilities & shareholder equity	89,307	112,573	137,883

Source: Kuaishou Technology, Blue Lotus (as of October 19, 2023)

Company Description

Kuaishou is China's second-largest short-video platform by DAU. Kuaishou's main monetization forms are live streaming, advertising, and eCommerce. In 1Q23, Kuaishou had 367mn/654mn DAU/MAU, with average daily time spent per DAU of 134~ minutes. In FY22, Kuaishou's total revenue was RMB 93.2 bn, of which 38% was live streaming. We estimate Kuaishou's DAU/MAU to reach 373mn/657mn in 2023.

Industry View

Short video has gained increasing traction among Chinese internet users. Short video addresses user needs for social entertainment activities during spare time. According to iResearch, average share of short video in Chinese mobile internet users' daily time has increased from 1.7% in 2015 to ~40% in 2023 and is expected to reach 45%-50% by 2025.

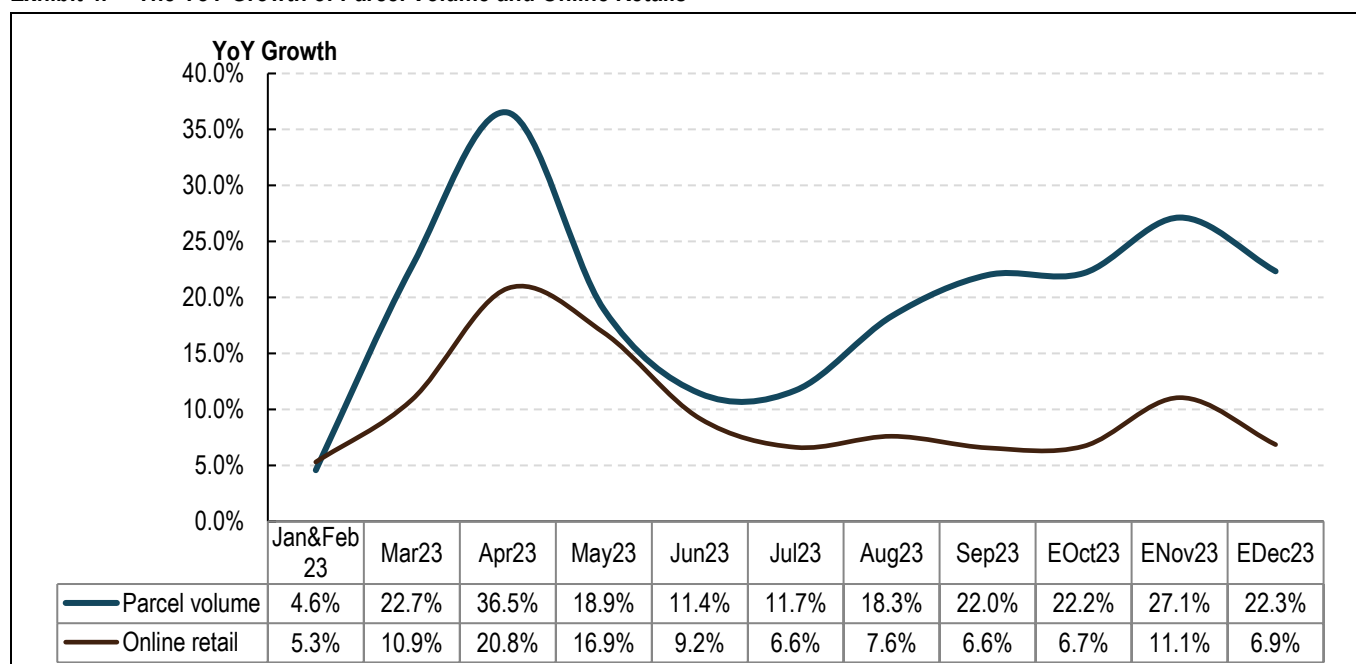
Exhibit 3. Cash flow statement

RMB mn	2022A	2023E	2024E
Profit/loss before income tax	(12,558)	3,650	10,581
Depreciation of property and equipment	4,613	6,379	8,508
Depreciation of right-of-use assets	2,161	2,170	2,448
Amortization of intangible assets	73	76	80
Finance (expense)/income, net	366	346	390
(Increase)/decrease in trade receivables	(1,838)	5,092	(168)
Increase in prepayments	(828)	(205)	(216)
Increase in accounts payables	2,847	3,561	5,375
Net cash generated from operating activities	2,198	24,298	30,648
Purchase of property	(9,418)	(11,210)	(12,845)
Purchase of investments in non-curr assets	(1,796)	(1,758)	(1,686)
Net cash used in investing activities	(17,548)	(9,350)	(11,507)
Payment of lease liabilities	(1,046)	(1,181)	(1,026)
Net cash generated from financing activities	(4,482)	(1,181)	(1,026)
Net increase in cash and cash equivalent	(19,832)	13,766	18,115
Cash balance at beginning of period	32,612	13,274	26,967
Cash balance at end of period	13,274	26,967	45,090

Source: Kuaishou Technology, Blue Lotus (as of October 19, 2023)

See the last page of the report for important disclosures.

Exhibit 4. The YoY Growth of Parcel Volume and Online Retail



Source: National Bureau of Statistics, Blue Lotus (as of October 19, 2023)

Exhibit 5. Kuaishou Technology 3Q23 Earnings Preview Table

(RMB mn)	C3Q23E	C3Q23C	E vs. Cons	C2Q23A	QoQ	C3Q22A	YoY	C4Q23E	C4Q23C	E vs. Cons
Revenue	27,656	27,606	0.18%	27,744	(0.3%)	23,128	19.6%	31,486	32,615	(3.5%)
Live streaming	9,604			9,968	(3.7%)	8,947	7.3%	10,226		
Online marketing service	14,405			14,347	0.4%	11,590	24.3%	16,066		
Other service	3,647			3,429	6.4%	2,592	40.7%	5,195		
Cost of Revenue	(13,596)			(13,810)	(1.5%)	(12,425)	9.4%	(15,276)		
Gross Profit	14,060			13,934	0.9%	10,703	31.4%	16,211		
Gross margin	50.8%	50.2%	1.23%	50.2%	1.2%	46.3%	9.9%	51.5%	50.3%	2.3%
Operating expense	(12,634)			(12,638)	(0.0%)	(13,315)	(5.1%)	(14,443)		
S&M	(8,956)			(8,636)	3.7%	(9,130)	(1.9%)	(10,169)		
G&A	(914)			(945)	(3.2%)	(1,059)	(13.7%)	(1,009)		
Y&D	(2,920)			(3,155)	(7.4%)	(3,533)	(17.4%)	(3,392)		
Other income	113			113	-	687	(83.6%)	113		
Other gains/(losses), net	43			(15)	(383.3%)	(280)	(115.2%)	14		
OP profit(loss) IFRS	1,284	1,142	12.39%	1,296	(1.0%)	(2,612)	(149.1%)	1,768	1,397	26.6%
OP margin, IFRS	4.6%			4.7%	(0.7%)	(11.3%)	(141.1%)	5.6%		
OP profit(loss), non-IFRS	2,284			2,352	(2.9%)	(904)	(352.6%)	2,850		
OP margin, non-IFRS	8.3%			8.5%	(2.6%)	(3.9%)	(311.3%)	9.1%		
Other income(loss)	135			158	(14.9%)	68	97.0%	146		
Pretax Income	1,418			1,454	(2.5%)	(2,544)	(155.8%)	1,914		
income tax expense	44			45	(3.2%)	(137)	(131.8%)	59		
Net Income(loss), IFRS	1,462			1,499	(2.5%)	(2,681)	(154.5%)	1,973		
net margin, IFRS	5.3%			5.4%	(2.2%)	(11.6%)	(145.6%)	6.3%		
Net income(loss), non-IFRS	2,734	2,370	15.33%	2,694	1.4%	(672)	(506.9%)	3,328	2,433	36.8%
net margin, non-IFRS	9.9%	9.71%	1.79%	9.7%	1.8%	(2.9%)	(440.3%)	10.6%	8.59%	23.1%

Source: Kuaishou Technology., Blue Lotus (as of October 19, 2023)

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