

Kanzhun Ltd. (NasdaqGS: BZ)

Short term sell-off overblown...UG to BUY

- Our running case for Kanzhun (BZ) is that Beijing and Shanghai will not be locked down simultaneously;
- COVID lockdown has impacted BZ's business in Shanghai materially. However, the impact has been overblown given the share price correction taking place;
- We cut the TP by US\$2 to US\$29 and upgrade the stock to BUY

COVID lockdown has hit on BZ's Shanghai business hard

Based on our channel check, full year KPI has been adjusted materially downward for BZ's Shanghai business. If the adjustment were to made nationally, BZ's full year growth target in top and bottom line must be adjusted down dramatically.

We are taking a stand on lockdown policy outlooks

However, Shanghai's Omicron cases outside the lockdown areas have been continuing to trend down. According to Dr. Zhang Wenhong, a local expert, effective reproduction number (Rt) has been brought down from 10 to 1. This leads us to believe Shanghai will likely exit lockdown at a time when Beijing is about to enter one.

Pandemic might impact business's willingness to pay

Currently we do not have a good way to track BZ's ASP. MAU reflects the activism of both job seekers and recruiters and has been stable up till March (April 18, <C1Q22 Preview: Project Conch is hard to make a difference>). We cut BZ's C1Q22 top line by 6.6% but keep C2022 top line unchanged. We cut C1Q22 non-GAAP operating profit by 6.6% and C2022 by 2.6%.

But Chinese economy is not that easy to dislodge

While China's economy is likely to take a deep hit in C2Q22 due to Omicron lockdowns, we believe the long-term impact has been overblown. Employment has been a relatively sticky factor of the economy and we thus expect the impact to be further muted. We believe it is a good time to buy BZ.

Summary financial data

Highlights	2020A	2021A	2022E	2023E	2024E
Revenues (RMB mn)	1,944	4,259	5,577	8,068	11,171
Non-GAAP operating profit (RMB (271) mn)	887	1,295	2,195	3,348	
Non-GAAP EPADS (RMB)	(4.83)	1.85	2.36	3.35	5.02
GAAP EPS (RMB)	(16.94)	(2.32)	1.89	2.68	4.10
EBITDA margin	(11.8%)	25.0%	24.7%	28.9%	31.9%
P/E (non-GAAP)	(31)	82	64	45	30
Free cash flow yield (%)	0.3%	1.8%	2.7%	3.5%	5.4%

Source: Bloomberg, Blue Lotus (as of Apr.26 2022)

See the last page of the report for important disclosures

Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

BUY

HOLD

SELL

Target Price: US\$ 29	Current Price: US\$19.81
RIC: (NasdaqGS: BZ)	BBG: 19.8BZ US
Market cap (US\$ mn)	8,101.84
Average daily volume (US\$ mn)	80
Shares out/float (m)	338.6/NA
Source: Bloomberg, Blue Lotus (as of)	

Key Changes

	New	Old	Diff
BLRI Recommendation	BUY	HOLD	-
BLRI Target Price	\$29.0	\$31.0	-
2022E EPADS (US\$)	0.37	0.38	(2.2%)
2023E EPADS (US\$)	0.53	0.53	-
2024E EPADS (US\$)	0.79	0.79	-

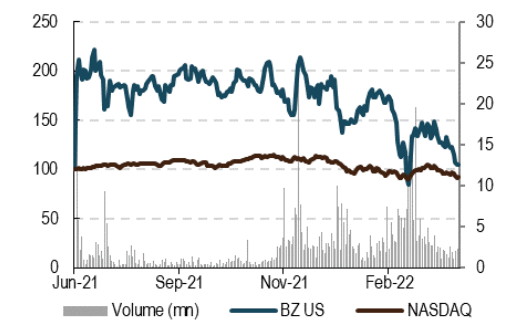
Source: Blue Lotus (as of Apr.26, 2022)

BLRI vs. The Street

No. of Bloomberg Recommendations	13
Target price vs. Bloomberg mean	(22.3%)
1-year-fwd EPS vs. Bloomberg mean	(9.4%)
Bloomberg recommendation	4.69

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY) (s of Apr.26, 2022)

Price performance and volume data



Source: Bloomberg (as of Apr.26, 2022)

Research team



Tianli Wen

Head of Research

research@blue-lotus.cn

Andy H. Fu

Kanzhun Ltd.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(RMB mn)	2021A	2022E	2023E
Revenues	4,259	5,577	8,068
Cost of revenues	(555)	(729)	(1,210)
Gross profit	3,704	4,848	6,857
Gross margin	87%	87%	85%
Research and development expenses	(822)	(876)	(1,139)
Selling and marketing expenses	(1,943)	(2,417)	(3,210)
G&A expenses	(1,991)	(558)	(726)
Share-based compensation expense	(1,924)	(279)	(403)
Income from operations, GAAP	(1,036)	1,016	1,792
Operating margin, GAAP	(24.3%)	18.2%	22.2%
Income from operations, non-GAAP	887	1,295	2,195
Operating margin, non-GAAP	20.8%	23.2%	27.2%
Net income (loss), GAAP	(1,071)	1,121	1,613
Net margin, GAAP	(25.1%)	20.1%	20.0%
Net income (loss), non-GAAP	853	1,399	2,016
Net margin, non-GAAP	20.0%	25.1%	25.0%

Source: Kanzhun Ltd., Blue Lotus (as of Apr.26, 2022)

Exhibit 2. Balance sheet

(RMB mn)	2021A	2022E	2023E
Cash and cash equivalent	11,342	13,467	16,262
Short-term investments	885	885	885
Accounts receivable	1	1	2
Amounts due from related parties	7	9	12
Prepayments & other curr. assets	725	725	725
Non-current assets:	683	725	984
Property, equipment & software, net	369	411	671
Intangible assets, net	0	0	0
Right-of-use assets, net	309	309	309
Total Assets:	13,642	15,811	18,870
Accounts payable	53	(73)	(128)
Deferred revenue	1,959	2,610	3,264
Other payable and accr. liabilities	645	1,047	1,490
Operating lease liabilities, current	128	128	128
Non-current Liabilities:	183	183	183
Operating lease liabilities, non-current	183	183	183
Total Liabilities	2,968	3,894	4,938
Mezzanine equity:	0	0	0
Shareholders' deficit	10,674	11,917	13,932
Ordinary shares	1	1	1
Accumulated other comprehensive income/(loss)	(258)	(136)	267
Accumulated deficit	(3,693)	(2,572)	(960)
Total Liabilities, Mezzanine equity & shareholder deficit	13,642	15,811	18,870

Source: Kanzhun Ltd., Blue Lotus (as of Apr.26, 2022)

Company Description

Kanzhun Ltd. offers online recruitment service in China through its leading product Boss Zhipin that emphasizes two-way interactive communication between job seekers and employers. In 2022, we estimate Kanzhun's MAU to be 35-40% of total MAU of China's online job seeking segment and its revenue market share to be ~30%.

Industry View

We expect China's online recruiting service to grow from RMB55bn in 2020 to RMB244bn by 2025. Within online recruiting, we expect online job seeking to grow from RMB11bn in 2020 to RMB40bn in 2025; online headhunting to grow from RMB22bn in 2020 to RMB43bn in 2025 and online recruiting process outsourcing (RPO) to grow from RMB23bn to RMB161bn

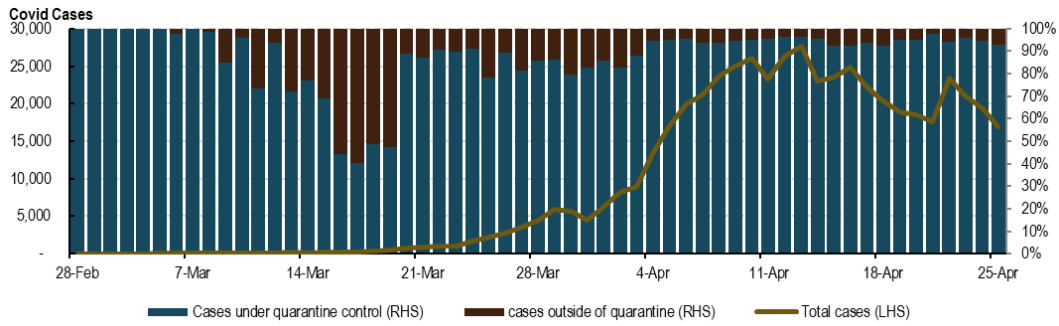
Exhibit 3. Cash flow statement

(RMB mn)	2021A	2022E	2023E
Net loss	(1,071)	1,121	1,613
Adjustment to net cash from operating activities			
Share-based compensation	1,924	279	403
Depreciation and amortization	177	80	136
Foreign exchange (gain)/loss	0	0	0
Amortization of right-of-use assets	67	0	0
Change in operating assets and liabilities:	545	925	1,039
Net cash from operating activities	1,641	2,404	3,190
Purchase of property, equipment & software	(198)	(279)	(395)
Proceeds from disposal of PP&E	0	0	0
Purchase of short-term investments	(404)	0	0
Proceeds from maturity of ST investments	0	0	0
Net cash from investing activities	(602)	(279)	(395)
Proceeds from issuance of preferred shares	0	0	0
Proceeds from issuance of Class A shares	8,586	0	0
Proceeds from borrowings	0	0	0
Repayment of borrowings	0	0	0
Repurchase of TECHWOLF shares	0	0	0
Net cash from financing activities	6,431	0	0
Effect of FX	(127)	0	0
Net (decrease)/increase in cash and cash equivalents	7,343	2,135	2,795
Cash and cash equival. at beginning of year	3,998	11,342	13,467
Cash and cash equivalents at end of year	11,342	13,467	16,262

Source: Kanzhun Ltd., Blue Lotus (as of Apr.26, 2022)

See the last page of the report for important disclosures

Exhibit 4. Covid Cases in Shanghai



Source: Shanghai Municipal Health Commission, Blue Lotus (as of Apr. 26, 2022)

Important Information

This publication has been produced by Blue Lotus Capital Advisors Limited (Blue Lotus), which is authorized and regulated by The Securities and Futures Commission (SFC), registered institution under the Securities and Futures Ordinance (SFO) (Chapter 571 of the Laws of Hong Kong SAR) to carry on Type 4 (advising on securities) regulated activities with Central Entity number BFT 876. This document must not be issued, circulated or distributed in Hong Kong other than to ‘professional investors’ as defined in the SFO. The contents of this publication have not been reviewed by any regulatory authority. Information on financial instruments and issuers is updated irregularly or in response to important events.

Analyst certification

The following analysts hereby certify that views about the companies discussed in this report accurately reflect their personal view about the companies and securities. They further certify that no part of their compensation was, is, or will be directly or indirectly linked to the specific recommendations or views in this report:

Tianli Wen, is employed by Blue Lotus Capital Advisors Limited, which is authorized and regulated by the Securities and Futures Commission (SFC).

Blue Lotus rating system:

Buy : The stock is expected to have an absolute return of more than 15-20% within 12 months

Hold: The stock is expected to have an absolute return of between 0-15% within 12 months

Sell: The stock is expected to have negative absolute return within 12 months

Blue Lotus equity research rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock.

Disclaimer

General: The information and opinions expressed in this publication were produced as of the date of writing and are subject to change without notice. This publication is intended for information purposes only and does not constitute an offer or an invitation by, or on behalf of, Blue Lotus to buy or sell any securities or related financial instruments or to participate in any particular trading strategy in any jurisdiction. Opinions and comments of the authors reflect their current views, but not necessarily of other Blue Lotus entities or any other third party. Other Blue Lotus entities may have issued, and may in the future issue, other publications that are inconsistent with, and reach different conclusions from, the information presented in this publication. Blue Lotus assumes no obligation to ensure that such other publications are brought to the attention of any recipient of this publication.

Suitability: Investments in the asset classes mentioned in this publication may not be suitable for all recipients. This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Any investment or trading or other decision should only be made by the client after a thorough reading of the relevant product term sheet, subscription agreement, information memorandum, prospectus or other offering document relating to the issue of the securities or other financial instruments. This publication should not be read in isolation without reference to the full research report (if available) which may be provided upon request. Nothing in this publication constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to individual circumstances, or otherwise constitutes a personal recommendation to any specific investor. Blue Lotus recommends that investors independently assess with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences.

Information / forecasts referred to: Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. In particular, the information provided in this publication may not cover all material information on the financial instruments or issuers of such instruments. Blue Lotus, its subsidiaries and affiliated companies do not accept liability for any loss arising from the use of this publication. Important sources for the production of this publication are e.g. national and international media, information services, publicly available databases, economic journals and newspapers, publicly available company information, publications of rating agencies. Ratings and appraisals contained in this publication are clearly marked as such. All information and data used for this publication relate to past or present circumstances and may change at any time without prior notice. Statements contained in this publication regarding financial instruments or issuers of financial instruments relate to the time of the production of this publication. Such statements are based on a multitude of factors which are subject to continuous change. A statement contained in this publication may, thus, become inaccurate without this being published. Potential risk regarding statements and expectations expressed in this publication may result from issuer specific and general developments.

Risk: The price and value of, and income from investments in any asset class mentioned in this publication may fall as well as rise and investors may not get back the amount invested. Risks involved in any asset class mentioned in this publication may include but are not necessarily limited to market risks, credit risks, currency risks, political risks and economic risks. Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. Particular risks in connection with specific investments featured in this publication are disclosed prominently hereinabove in the text of this publication. Any investment should only be made after a thorough reading of the current prospectuses and/or other documentation/information available.

Miscellaneous: Blue Lotus has the right to terminate or change the contents, product or service provided by this report, requiring no separate notice. Blue Lotus and its staffs, analysts or directors may provide investment, consultancy, or other services to the companies mentioned in the contents, or trade (no matter whether he/ she is on behalf of trustees) or possess the securities of the mentioned companies. Any person, who read the information in this report, has their own responsibility to comply with their applicable laws and regulations of their jurisdiction area. If investors have any questions on the contents of this report, please consult their lawyers, accountants or other professional consultants.

© Blue Lotus Capital Advisors Limited, 2022