

COMPANY UPDATE

Kuaishou Technology (1024 HK)

Key Takeaways From Kuaishou Investor Day 2024

On 14 September, Kuaishou held its 2024 Investor Day where management outlined strategies and outlooks for key business segments including e-commerce, international expansion, local consumer services and AIGC. We believe the company's proactive upgrade in technology and operations will help to cushion the impact of a challenging macro backdrop and intense competition. Maintain BUY with a target price of HK\$70.00.

WHAT'S NEW

- **User-centric strategy.** CEO Yi Xiao Cheng highlighted that Kuaishou's key strategy of being user oriented will remain unchanged and aims to cultivate a healthy and vibrant content creation ecosystem and support high quality content creators with algorithm optimisation. It also leverages its enhanced large language model (LLM) Kling to empower content providers and traffic promotions, and better content recognition. The company targets keeping the number of users for 2024 unchanged, with daily active users (DAU) expected to reach 400m and monthly active users (MAU) anticipated to reach 700m.
- **The e-commerce segment** was presented by CEO Yi Xiao. Compared with the China online retail industry's growth of 10%, Kuaishou achieved solid gross merchandise value (GMV) growth of 21% yoy in 1H24. However, the company also sees pressure on domestic consumption, as the average order value dropped 23% yoy to Rmb30 as of June. For the long term, Kuaishou will continue to build a trust-based economy by utilising content-driven e-commerce through live streaming, images, or text as well as enhancing user experience. For e-commerce commercialisation, Kuaishou has optimised its internal and external circulation, as well as brand marketing strategies. Currently the ad load for the company is still low at 8-9%, with ample room for improvement compared with industry peers' 14-15%. Leveraging AI development and smart operations in the advertising business, the penetration of AI generated content (AIGC) video has reached 24%, auto placement product Universal Auto X (UAX) has achieved 40% and omni-platform marketing solution has reached 20%.
- **AIGC segment.** Gai Kun, head of Kuaishou's main site operations stated that Kuaishou had upgraded Kling AI nine times in the past three years and recently launched Kling AI 1.5, with improvements in resolution, natural motion, and semantic response. Kuaishou is also seeing encouraging user adoption, with over 2.6m subscribers, 53m images generated, and 27m videos created. Kling AI has transformed the video generation landscape, from AI short dramas to commercial competition videos and even Olympic documentary content. Kuaishou has achieved GPT-4-level capabilities in the Chinese language and has optimised AIGC marketing content to generate daily spending of 20m.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	94,182.5	113,470.0	126,827.6	144,079.4	156,541.4
EBITDA	(6,072.3)	13,868.7	20,841.9	30,681.3	37,946.6
Operating profit	(12,558.0)	7,350.0	13,801.9	23,459.5	30,665.4
Net profit (rep./act.)	(13,689.4)	7,318.0	14,371.4	23,573.0	30,083.3
Net profit (adj.)	(5,751.4)	11,190.0	17,161.6	26,742.7	33,148.4
EPS (Fen)	(135.2)	252.0	393.9	607.7	745.8
PE (x)	n.m.	16.2	10.3	6.7	5.5
P/B (x)	4.3	3.6	2.6	1.9	1.4
EV/EBITDA (x)	n.m.	10.4	6.9	4.7	3.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(14.5)	6.4	11.3	16.4	19.2
Net debt/(cash) to equity (%)	(33.3)	(26.3)	(49.5)	(66.6)	(76.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	16.4	24.7	29.3	27.3
Consensus net profit	-	-	17,750	23,641	30,267
UOBKH/Consensus (x)	-	-	0.97	1.13	1.10

Source: Kuaishou, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	HK\$38.15
Target Price	HK\$70.00
Upside	+83.5%

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):	3,599.9
Market cap (HK\$m):	165,376.6
Market cap (US\$m):	21,204.5
3-mth avg daily t'over (US\$m):	160.9

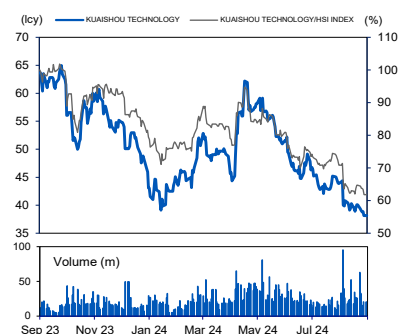
Price Performance (%)

52-week high/low	HK\$68.65/HK\$38.10			
1mth	3mth	6mth	1yr	YTD
(1.8)	(24.9)	0.5	(30.2)	(16.1)

Major Shareholders

	%
Tencent Holdings Ltd	19%
Morningside Venture Capital Ltd	15.8%
DCM	5%
FY24 NAV/Share (RMB)	15.39
FY24 Net Cash/Share (RMB)	7.62

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- International business segment well on track to break even.** Head of Kuaishou's international business stated that Kuaishou's international business will continue to focus on Brazil and Indonesia, with meaningful population and growth potential. In 1H24, the international business' revenue surged 164% yoy while cost grew only 10% yoy thanks to prudent cost control. The company expects the international business to breakeven in some key markets by end-25. Kuaishou is pivoting its focus to long-term success in Brazil, leveraging expertise in e-commerce, AI and other strategies.
- The local consumer services segment** was presented by Xiao Gu, Head of Kuaishou's local life business. Demand for local services among users continues to grow, with daily paying users increasing by 37% yoy and merchandise sold on Kuaishou platform rising sequentially by 33%. Kuaishou relies minimally on Meituan's services but does collaborate with it to enhance service availability in lower-tier cities. By optimising both supply and demand dynamics, local services' GMV has tripled.

Q&A:

- Q: Does the moderating growth of traditional e-commerce implies that it has reached its peak?** A: Kuaishou believes it has not hit a ceiling yet as content-driven e-commerce is still growing rapidly. Kuaishou has been focusing on diversifying offerings and differentiating itself through unique content and cultural themes, particularly in anime and rural content. This strategy has enhanced user engagement and saw a 30% yoy growth in user interactions.
- Q: Regarding the international business in Brazil, are there any other goals apart from breaking even by the end of 2024?** A: Kuaishou could technically break even earlier but it depends on continued investment to fuel e-commerce growth. Given Brazil's distance from China and the uncertainties involved and the path to profitability may be challenging, Kuaishou focuses on maintaining stable growth.
- Q: What is the medium- to long-term outlook for local services?** A: Kuaishou is highly committed to fully addressing users' needs, which translates into GMV growth and user expansion. Kuaishou's goal is not to pursue growth at the expense of significant losses but for gradual profitability. The key indicators of success will be the ability to break even in certain cities and enhanced user engagement.
- Q: For the AI strategy, when recommendation systems are working exceptionally well, do users still need search functions?** A: Kuaishou is actively working on integrating both features. If a user does not find the desired content through recommendations, Kuaishou aims to ensure they can find it through search. Over time, these two systems will complement one another.
- Q: Given the current margin guidance of 15-20%, are there any profitability targets?** A: Kuaishou aims to optimise revenue mix, enhancing server and bandwidth efficiency, and reducing costs through dynamic content delivery network (CDN) and migrating data centres to cooler locations. Kuaishou targets for a medium- to long-term gross margin of 60% (up from 55%). S&M expenses will gradually reduce, with long-term targets of sub-30%. With incremental revenue from new ventures, net margins could potentially reach 30%.

EARNINGS REVISION/RISK

- We keep our revenue forecasts for Kuaishou largely unchanged.**
- Risks:** a) soft advertisement demand due to the weak macro environment, b) increasing competition from Douyin, and c) restrictions on the time spent on short-form videos by minors.

VALUATION/RECOMMENDATION

- Maintain BUY with a target price of HK\$70.00.** Our target price implies 10x 2025F PE, in line with peers and against a 17% EPS CAGR over the next three years. The company is currently trading at 1x 2025F EV/sales, below its historical mean of 2x.

SHARE PRICE CATALYST

- a) Higher monetisation rates across all categories, b) less competition from peers, and c) lifting of regulations on internet platforms.

SOTP VALUATION

2025F	Revenue (Rmbm)	GMV (Rmbm)	Net profit	PS(x)	PE(x)	To Kuaishou (HK\$)	HK\$/share
Live streaming	37,767		3,777	0	3	12,123	3
Online marketing	84,648		16,930	3	12	217,376	49
E-commerce	21,664	1,562,067	6,499		13	83,571	19
SOTP value						313,070	70

Source: UOB Kay Hian

RECOGNITION OF PLATFORM VALUE



Source: Kuaishou, UOB Kay Hian

COMPETITIVE LANDSCAPE



Source: Kuaishou, UOB Kay Hian

UNTAPPED E-COMMERCE DEMAND



Source: Kuaishou, UOB Kay Hian

LOCAL LIFE SERVICE



Source: Kuaishou, UOB Kay Hian

INTERNATIONAL BUSINESS



Source: Kuaishou, UOB Kay Hian

AI STRATEGY



Source: Kuaishou, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
Net turnover	113,470	126,828	144,079	156,541
EBITDA	13,869	20,842	30,681	37,947
Deprec. & amort.	6,519	7,040	7,222	7,281
EBIT	7,350	13,802	23,459	30,665
Total other non-operating income	0	0	0	0
Associate contributions	(81)	(22)	0	0
Net interest income/(expense)	539	678	659	1,163
Pre-tax profit	7,808	14,458	24,119	31,828
Tax	(490)	(86)	(546)	(1,745)
Minorities	0	0	0	0
Net profit	7,318	14,371	23,573	30,083
Net profit (adj.)	11,190	17,162	26,743	33,148

CASH FLOW

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
Operating	25,965	23,771	34,933	40,272
Pre-tax profit	7,808	14,458	24,119	31,828
Tax	(490)	(86)	(546)	(1,745)
Deprec. & amort.	6,290	6,784	6,931	6,965
Associates	0	0	0	0
Working capital changes	7,247	(97)	881	(1,444)
Other operating cashflows	5,110	2,712	3,548	4,667
Investing	(18,092)	(6,573)	(6,765)	(6,620)
Capex (growth)	(4,897)	(6,573)	(6,765)	(6,620)
Capex (maintenance)	0	0	0	0
Investments	(61,018)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	47,823	0	0	0
Financing	(8,321)	3,089	1,100	1,207
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	1,909	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(10,230)	3,089	1,100	1,207
Net cash inflow (outflow)	(448)	20,288	29,268	34,859
Beginning cash & cash equivalent	13,274	12,905	33,193	62,461
Changes due to forex impact	79	0	0	0
Ending cash & cash equivalent	12,905	33,193	62,461	97,320

BALANCE SHEET

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
Fixed assets	12,356	10,846	9,061	7,138
Other LT assets	33,365	36,607	38,394	40,114
Cash/ST investment	12,905	33,193	62,461	97,320
Other current assets	47,456	48,369	50,471	52,020
Total assets	106,082	129,015	160,387	196,592
ST debt	0	0	0	0
Other current liabilities	48,778	52,939	56,675	58,968
LT debt	0	0	0	0
Other LT liabilities	8,444	9,224	10,117	10,882
Shareholders' equity	49,151	67,054	93,797	126,945
Minority interest	11	11	11	11
Total liabilities & equity	106,082	129,015	160,387	196,592

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	12.2	16.4	21.3	24.2
Pre-tax margin	6.9	11.4	16.7	20.3
Net margin	6.4	11.3	16.4	19.2
ROA	7.5	12.2	16.3	16.9
ROE	16.4	24.7	29.3	27.3
Growth				
Turnover	20.5	11.8	13.6	8.6
EBITDA	n.a.	50.3	47.2	23.7
Pre-tax profit	n.a.	85.2	66.8	32.0
Net profit	n.a.	96.4	64.0	27.6
Net profit (adj.)	n.a.	53.4	55.8	24.0
EPS	n.a.	56.3	54.3	22.7
Leverage				
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	(26.3)	(49.5)	(66.6)	(76.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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