

Kuaishou Technology (1024.HK)

Highly engaging short-form video community now at a profitability inflection point; initiate at Buy

Buy

1024.HK 12m Price Target: HK\$112.00 Price: HK\$66.80 Upside: 67.7%

Short-form video-rization

Assessing the potential ceiling and lessons from China

EXPLORE >

Kuaishou is China's 2nd-largest short-form video (SFV) player and one of the fastest-growing online platforms in today's China internet sector, with both time spent and revenue projected to grow at an **18%/19% 2021-24E CAGR**, as well as having a visible path towards breakeven and margin expansion (**15% NPM** in 25E vs. -23% in 2021). As one of the top 3 Apps by time spent share in China (**10% time spent share**), Kuaishou has built a trust-based online community by establishing a close bond between KOLs and users. We expect the company to unlock value of its expanding yet under-monetized 350mn DAU user base, driven by its strategy of evolving from an entertainment-oriented content community to a multi-scenario online platform. We forecast an **18% revenue CAGR** over 2021-25E to Rmb158bn, with the group business turning profitable in 2023E and the domestic business reaching 20% OPM in 2025E. Our 12m TP of **HK\$112** is based on a target P/E multiple of 22X 2025E EPS and discounted back to 2023, implying 2.7x 2023E EV/sales and 68% upside. Initiate at **Buy**.

Post 1H22 results, we now expect Kuaishou to deliver accelerating revenue growth for **2H22/2023 at 18%/22% yoy**, driven by strong engagement growth and expanding eCommerce user penetration. We see risk-reward as favorable at the current share price, as the company is **at an inflection point** on: **1)** market share gains across various commercial verticals it operates, with additional new growth potential; **2)** approaching a profit turnaround (domestic OP positive in 2Q22), and equally important, **3)** a stabilizing DAU/time spent gap vs. industry leader Douyin (Private) over the past 6 months, despite Kuaishou's aggressive S&M cost reduction. Together with

Lincoln Kong, CFA

+852-2978-6603 | lincoln.kong@gs.com
Goldman Sachs (Asia) L.L.C.

Ronald Keung, CFA

+852-2978-0856 | ronald.keung@gs.com
Goldman Sachs (Asia) L.L.C.

Steve Qiu

+852-2978-2672 | steve.qiu@gs.com
Goldman Sachs (Asia) L.L.C.

Lynn Li

+852-2978-0233 | lynn.li@gs.com
Goldman Sachs (Asia) L.L.C.

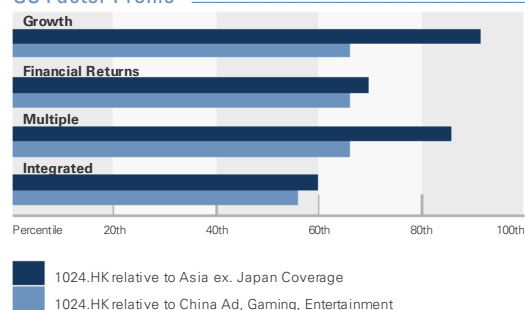
Key Data

Market cap: HK\$285.3bn / \$36.3bn
Enterprise value: HK\$272.8bn / \$34.8bn
3m ADTV: HK\$1.9bn / \$235.9mn
Hong Kong
China Ad, Gaming, Entertainment
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/21	12/22E	12/23E	12/24E
Revenue (Rmb mn)	81,081.5	95,655.8	117,098.9	138,179.1
EBITDA (Rmb mn)	(12,986.0)	289.4	14,229.1	26,459.0
EPS (Rmb)	(4.92)	(1.74)	0.99	3.21
P/E (X)	NM	NM	59.4	18.3
P/B (X)	12.0	6.8	6.2	4.7
Dividend yield (%)	NM	NM	NM	NM
N debt/EBITDA (ex lease,X)	—	9.5	(3.2)	(2.2)
CROCI (%)	(91.7)	(3.4)	48.8	79.2
FCF yield (%)	(3.0)	(3.2)	2.4	6.3
	3/22	6/22	9/22E	12/22E
EPS (Rmb)	(0.88)	(0.31)	(0.54)	(0.02)

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

Goldman Sachs does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html. Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S.

Buy

Kuaishou Technology (1024.HK)

Rating since Sep 4, 2022

Ratios & Valuation

	12/21	12/22E	12/23E	12/24E
P/E (X)	NM	NM	59.4	18.3
P/B (X)	12.0	6.8	6.2	4.7
FCF yield (%)	(3.0)	(3.2)	2.4	6.3
EV/EBITDAR (X)	NM	829.1	16.6	8.4
EV/EBITDA (excl. leases) (X)	NM	NM	20.9	9.3
CROCI (%)	(91.7)	(3.4)	48.8	79.2
ROE (%)	NM	(18.1)	11.0	29.2
Net debt/equity (%)	(42.1)	(29.7)	(41.7)	(60.6)
Net debt/equity (excl. leases) (%)	(72.3)	(73.8)	(81.6)	(90.8)
Interest cover (X)	(35.3)	(10.5)	6.7	20.8
Days inventory outst, sales	—	—	—	—
Receivable days	15.5	18.9	19.8	21.6
Days payable outstanding	151.9	176.8	175.3	178.5
DuPont ROE (%)	(41.8)	(20.2)	10.4	25.4
Turnover (X)	0.9	1.1	1.2	1.1
Leverage (X)	2.1	2.5	2.5	2.2
Gross cash invested (ex cash) (Rmb)	21,211.5	25,259.1	28,261.5	31,321.4
Average capital employed (Rmb)	(83,978.9)	11,054.1	8,582.6	6,305.5
BVPS (Rmb)	11.76	8.60	9.50	12.62

Growth & Margins (%)

	12/21	12/22E	12/23E	12/24E
Total revenue growth	37.9	18.0	22.4	18.0
EBITDA growth	(259.1)	102.2	NM	86.0
EPS growth	41.8	64.7	157.0	224.4
DPS growth	NM	NM	NM	NM
EBIT margin	(24.5)	(7.9)	4.5	12.0
EBITDA margin	(16.0)	0.3	12.2	19.1
Net income margin	(23.3)	(7.8)	3.6	10.1

Price Performance



Source: FactSet. Price as of 2 Sep 2022 close.

Income Statement (Rmb mn)

	12/21	12/22E	12/23E	12/24E
Total revenue	81,081.5	95,655.8	117,098.9	138,179.1
Cost of goods sold	(46,077.7)	(51,627.7)	(59,737.2)	(67,505.2)
SG&A	(45,847.8)	(41,716.6)	(41,735.0)	(42,487.6)
R&D	(9,828.6)	(10,354.4)	(11,805.9)	(13,163.1)
Other operating inc./exp.)	801.5	498.6	1,412.1	1,495.1
EBITDA	(12,986.0)	289.4	14,229.1	26,459.0
Depreciation & amortization	(6,885.0)	(7,833.6)	(8,996.3)	(9,940.8)
EBIT	(19,871.0)	(7,544.3)	5,232.8	16,518.2
Net interest inc./exp.)	(38.5)	(118.7)	(211.0)	(64.5)
Income/(loss) from associates	—	—	—	—
Pre-tax profit	(19,876.9)	(6,777.3)	5,021.9	16,453.7
Provision for taxes	1,025.2	(637.3)	(753.3)	(2,468.1)
Minority interest	—	—	—	—
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	(18,851.8)	(7,414.6)	4,268.6	13,985.6
Post-tax exceptionals	(59,225.3)	(8,153.3)	(7,611.4)	(8,083.5)
Net inc. (post-exceptionals)	(78,077.1)	(15,567.9)	(3,342.8)	5,902.2
EPS (basic, pre-exception) (Rmb)	(4.92)	(1.74)	0.99	3.21
EPS (diluted, pre-exception) (Rmb)	(4.92)	(1.74)	0.99	3.21
EPS (basic, post-exception) (Rmb)	(20.37)	(3.65)	(0.78)	1.35
EPS (diluted, post-exception) (Rmb)	(20.37)	(3.65)	(0.78)	1.35
DPS (Rmb)	—	—	—	—
Div. payout ratio (%)	0.0	0.0	0.0	0.0

Balance Sheet (Rmb mn)

	12/21	12/22E	12/23E	12/24E
Cash & cash equivalents	32,612.4	27,090.2	33,443.1	49,898.7
Accounts receivable	4,450.1	5,434.0	7,284.8	9,043.2
Inventory	—	—	—	—
Other current assets	15,948.4	16,537.6	17,404.6	18,256.9
Total current assets	53,010.9	49,061.9	58,132.5	77,198.9
Net PP&E	23,612.4	25,688.1	27,066.0	27,985.2
Net intangibles	1,171.8	1,088.6	983.7	859.8
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	13,309.2	13,669.2	14,047.2	14,444.0
Total assets	92,515.4	90,919.0	101,640.5	121,899.1
Accounts payable	23,523.7	26,486.7	30,886.6	35,127.9
Short-term debt	—	—	—	—
Short-term lease liabilities	3,528.8	6,628.2	6,400.8	6,221.5
Other current liabilities	10,203.0	11,460.3	13,328.7	15,127.1
Total current liabilities	37,255.5	44,575.3	50,616.1	56,476.6
Long-term debt	—	—	—	—
Long-term lease liabilities	10,079.8	9,544.7	9,956.9	10,369.2
Other long-term liabilities	84.0	84.0	84.0	84.0
Total long-term liabilities	10,163.9	9,628.7	10,040.9	10,453.2
Total liabilities	47,419.4	54,204.0	60,657.0	66,929.9
Preferred shares	—	—	—	—
Total common equity	45,089.4	36,708.4	40,977.0	54,962.6
Minority interest	6.6	6.6	6.6	6.6
Total liabilities & equity	92,515.4	90,919.0	101,640.5	121,899.1
Net debt, adjusted	(32,612.4)	(27,090.2)	(33,443.1)	(49,898.7)

Cash Flow (Rmb mn)

	12/21	12/22E	12/23E	12/24E
Net income	(79,102.3)	(14,930.6)	(2,589.6)	8,370.2
D&A add-back	6,885.0	7,833.6	8,996.3	9,940.8
Minority interest add-back	—	—	—	—
Net (inc)/dec working capital	8,531.2	2,647.2	3,550.5	3,429.1
Other operating cash flow	58,166.8	6,186.9	6,480.1	5,218.6
Cash flow from operations	(5,519.3)	1,737.2	16,437.3	26,958.8
Capital expenditures	(7,764.3)	(9,823.6)	(10,269.3)	(10,736.1)
Acquisitions	0.3	—	—	—
Divestitures	—	—	—	—
Others	(10,597.3)	—	—	—
Cash flow from investing	(18,361.3)	(9,823.6)	(10,269.3)	(10,736.1)
Repayment of lease liabilities	(2,747.9)	—	—	—
Dividends paid (common & pref)	—	—	—	—
Inc/(dec) in debt	—	—	—	—
Other financing cash flows	38,849.4	2,564.2	184.8	233.0
Cash flow from financing	36,101.5	2,564.2	184.8	233.0
Total cash flow	12,619.6	(5,522.2)	6,352.8	16,455.7
Free cash flow	(13,283.6)	(8,086.4)	6,168.1	16,222.6

Source: Company data, Goldman Sachs Research estimates.

Table of Contents

PM Summary: Addressing key investor questions	10
Industry overview: What's the potential ceiling for SFV?	19
Kuaishou vs. Douyin and entertainment peers: A holistic comparison	23
Engagement: Sticky user base, room for further time spent share gain, defensive business moat and expanding content categories	28
Advertising (non eCommerce): Under monetized vs. peers, 4Q22 return to DD growth on improving brand budgets	33
eCommerce: Expect RMB1.7trn in GMV by 2025, driven by MAC penetration, merchant base and category expansion	39
Livestreaming: Slower growth but no innovation in monetization format, margin to improve	50
New businesses: Online blue collar recruitment a key near-term driver	53
Overseas expansion: Focus on investment ROI and regional markets, near term profit drag	57
Financials: 19% 2021-24E sales CAGR, EBIT margin to reach 12% by 2024E	60
Valuation: Target P/E of 22X 2025E EPS discounted back to 2023	68
Regulation: Ads, livestreaming and eCommerce	73
Key downside risks	76
M&A framework: Rank of 3	77
Appendix	79
Disclosure Appendix	82

advertising/eCommerce monetization improvements, we believe Kuaishou can drive multi-quarter revenue growth outpacing the industry alongside margin improvement, reaching group OP breakeven by 2023E and a medium-term OPM at 15-20% (80-180bps higher margin vs. consensus on 23-24E).

In this report, we address key investor debates on the company about **1)** the potential ceiling for the SFV format's disruption and competition amongst SFV platforms, including Douyin and Tencent Video Account; **2)** Kuaishou's growth trajectory and market share gains in eCommerce and new business initiatives; and **3)** cost efficiency and longer-term profit margin.

What's differentiated in this report: **1)** A holistic comparison of Kuaishou vs. Douyin on engagement, monetization potential, efficiency and execution; **2)** the outlook on the industry and Kuaishou into 2025 from the eCommerce and advertising competitive landscape, the livestreaming eCommerce ceiling and Kuaishou's upside potential; and **3)** a scenario analysis on Kuaishou's bull/bear case; and new business initiatives such as recruitment, housing and international business.

Concurrently, we are also publishing an industry report, '*Short-form video-rization: Assessing the potential ceiling and lessons from China*' ([link](#)), discussing the ceiling on livestreaming eCommerce on GMV market share gains, including perspectives from both merchants/KOLs.

Key risks: 1) a weaker-than-expected monetization schedule; 2) intense competition from Douyin and Tencent's Video account and the impact on the growth of its aggregate user engagement base (DAU x time spent per DAU); 3) lower-than-expected profitability on high marketing spend and losses from the international business; 4) video content control.

The authors would like to thank Joy (Haoyang) Yu, David (Yixian) Ma, Victor (Weitang) Tang and Timothy (Tianning) Zhao for their contributions to this report.

Kuaishou in numbers

ENGAGEMENT



Short-form video

In 2021, the SFV format consumed **31%** of China Internet user time, with **10%** from Kuaishou alone



Active users

347mn DAU / 587mn MAU as at 2Q22, still growing at **17% yoy**



Timespent intensity

125 min per day per DAU, the longest amongst China internet mega-apps



Content

Differentiated content offering, led by Kuaishou Playlet (短剧, DAU **260mn**), sports, games, lifestyle

MONETIZATION LEVERS



Digital ads

587mn MAU, Rmb97bn in ads revenue by 2025E at a 23% 4yr CAGR, growing market share to **7%** from **5%**



Ecommerce

91mn MAC, GMV to reach **Rmb680bn/1.7tn** in 2022/25E, taking **5% / 8%** of China online GMV share



Livestreaming

54mn MPU, 2nd-largest livestreaming player by revenue at a stable **21%** share

NEW BUSINESS DRIVERS












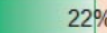







Online Recruitment

250mn recruitment MAU, to tap into **Rmb120bn** blue collar online recruitment TAM starting in 4Q22E

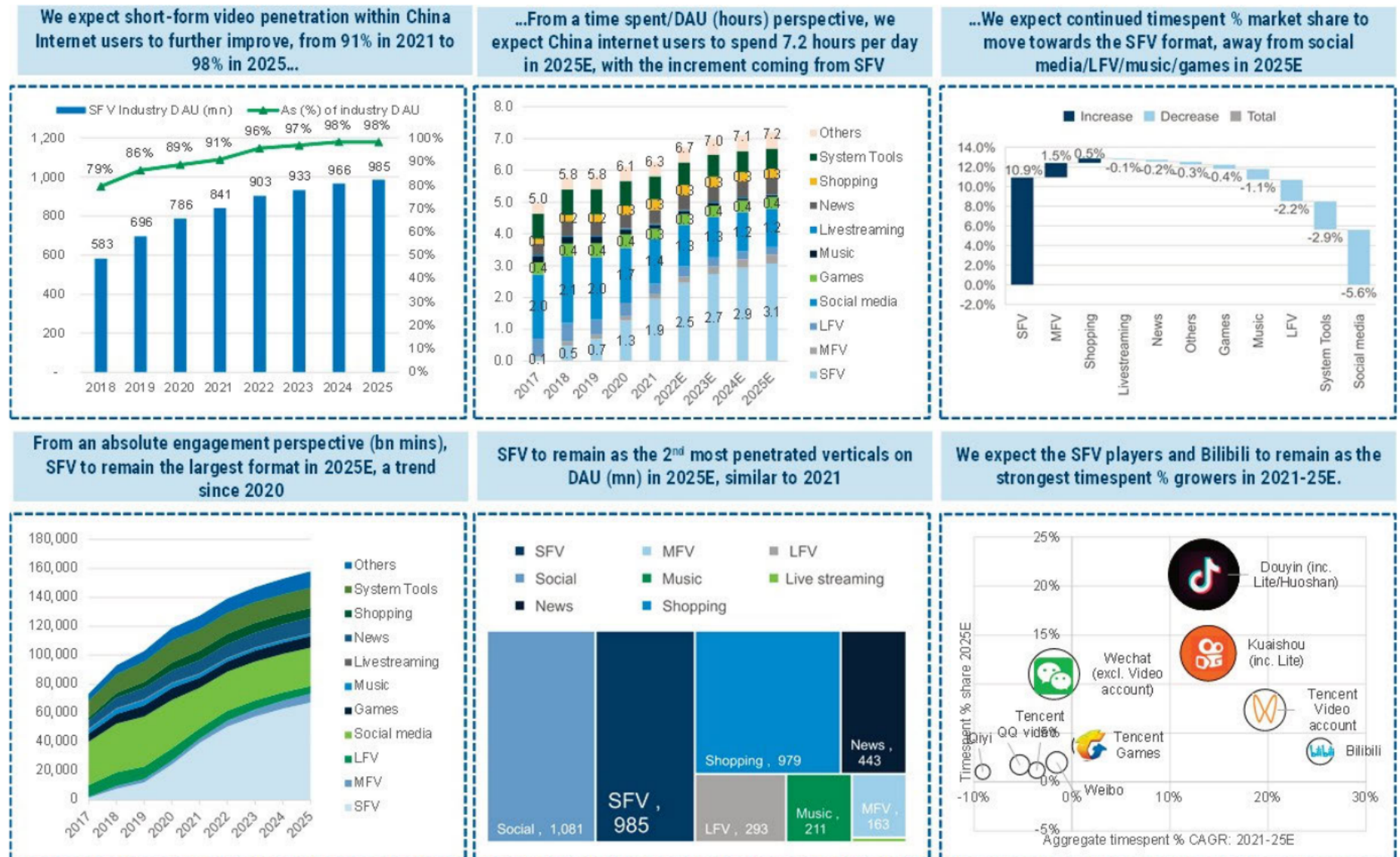
Key thesis in charts

Exhibit 1: China Internet: short-form video (SFV) monetization at a glance

Kuaishou vs. Industry								
Industry (Rmb bn)	Engagement		GMV (Rmb bn)	Revenue (Rmb bn)		New Business (Rmb bn)		
	Timespent (bn min)	DAU (mn)	Consumer Retail	Ads (incl. e-commerce)	Live streaming	Recruitment (blue collar)	Local Services (ex.restaurant)	Real Estate
2021								
Online market size	132,205	926	15,644	875	167	32	958	3,853
% Online penetration			31%	64%	100%	17%	14%	11%
SFV	39,542	841	1,880	276	104			
SFV % of online	30%	91%	12%	32%	62%			
Kuaishou 	12,539	308	680	43	31			
% Kuaishou's share	9% 	33% 	4% 	5% 	19% 			
2025E								
Online market size	170,537	1,002	22,361	1,388	168	128	2,024	4,625
% Online penetration			36%	71%	100%	30%	16%	12%
SFV	68,209	987	5,725	494	107			
SFV % of online	40%	98%	26%	36%	64%			
Kuaishou 	21,910	421	1,725	97	37			
% Kuaishou's share	13% 	42% 	8% 	7% 	22% 			
Kaishou 2021-25E CAGR	15% 	8% 	26% 	23% 	5% 			

Source: Company data, Goldman Sachs Global Investment Research, QuestMobile








Exhibit 2: SFV industry snapshot - high DAU, time spent market share gains



We calculate Douyin/Bytedance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

Source: Company data, Questmobile, Goldman Sachs Global Investment Research






Exhibit 3: Kuaishou to deliver above-industry average user engagement and monetization efficiency, closing its gap with Bytedance; with the implementation of effective cost control, GP per DAU to gradually increase, and we expect S&M per DAU to normalize
Kuaishou vs. online entertainment peers in terms of monetization efficiency and operational efficiency

Platforms			Entertainment/social platforms					E-commerce platforms	
									
		Kuaishou	Douyin	Bilibili	Weixin	Weibo	Taobao	Pinduoduo	
User engagement	DAU (mn) - 2021	308	547	67	812	243	339	305	
	% yoy	16%	38%	28%	4%	6%	10%	31%	
	DAU/MAU (mn) - 2021	57%	76%	27%	81%	43%	41%	58%	
	% yoy	3%	10%	-5%	0%	-1%	-3%	18%	
	Timespent/DAU/day (mins) - 2021	112	103	83	84	38	23	22	
	% yoy	28%	11%	3%	0%	0%	-6%	-1%	
	Aggregate timespent (bn mins) - 2021	12,539	20,503	2,029	24,780	3,364	2,904	2,401	
	% yoy	48%	52%	32%	4%	3%	4%	29%	
	DAU (mn) - 2025	421	838	126	822	291			
	% CAGR: 2021-25E	8%	11%	17%	0%	5%			
	DAU/MAU (mn) - 2025	60%	86%	28%	81%	43%			
	% CAGR: 2021-25E	1%	3%	1%	0%	0%			
	Timespent/DAU/day (mins) - 2025	140	112	112	99	53			
	% CAGR: 2021-25E	6%	2%	8%	4%	9%			
Aggregate timespent (bn mins) - 2025	20,619	34,207	5,139	29,789	5,589				
% CAGR: 2021-25E	13%	14%	26%	5%	14%				
Monetization efficiency	Rev (Rmb bn) - 2021	81	223	19	75	15	315	94	
	% yoy	38%	39%	62%	11%	34%	3%	58%	
	Rev per DAU (Rmb) - 2021	263	409	290	93	60	930	308	
	% yoy	18%	1%	26%	7%	26%	-6%	21%	
	Rev per MAU (Rmb) - 2021	149	312	78	76	26	384	178	
	% yoy	22%	11%	20%	7%	25%	-9%	43%	
	Rev per 1000 mins (Rmb) - 2021	6.5	10.9	9.6	3.0	4.4	108.5	39.1	
	% yoy	-7%	-9%	22%	7%	30%	0%	22%	
	Rev (Rmb bn) - 2025	158		47	115	18			
	% CAGR: 2021-25E	18%		25%	11%	5%			
	Rev per DAU (Rmb) - 2025	375		373	140	61			
	% CAGR: 2021-25E	9%		6%	11%	0%			
	Rev per MAU (Rmb) - 2025	225		104	114	26			
	% CAGR: 2021-25E	11%		8%	11%	0%			
Rev per 1000 mins (Rmb) - 2025	7.7		9.2	3.9	3.2				
% CAGR: 2021-25E	4%		-1%	6%	-8%				
Cost control efficiency	GP per DAU (Rmb) - 2021	110	230	62	42	50		204	
	% yoy	23%	14%	12%	-5%	26%		18%	
	S&M per DAU (Rmb) - 2021	143		87		16		147	
	UE (GP-S&M) per DAU - 2021	(33)		(25)		34	695	57	
	GP per DAU (Rmb) - 2025	196		117		48			
	% CAGR: 2021-25E	15%		17%		-1%			
	S&M per DAU (Rmb) - 2025	93		57		15			
UE (GP-S&M) per DAU - 2025	103		61		33				

We calculate Douyin/Bytedance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

Source: Company data, Questmobile, Goldman Sachs Global Investment Research

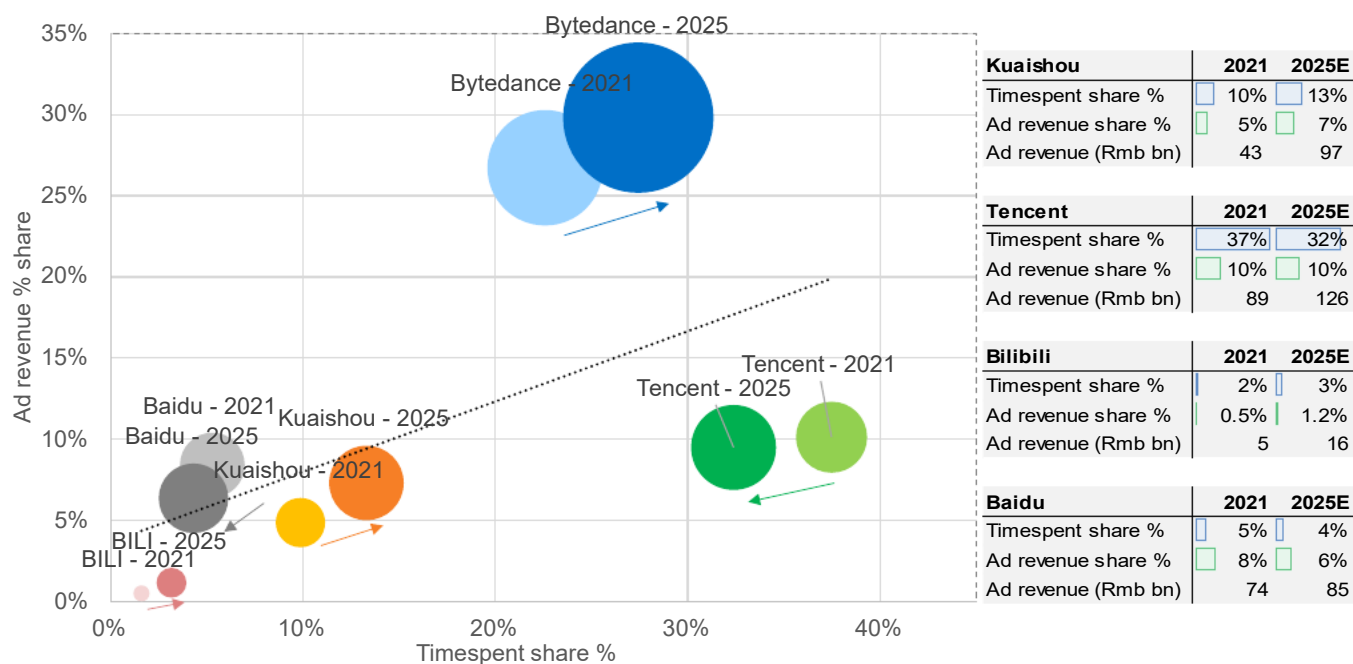
Exhibit 4: eCommerce: On the demand side, Kuaishou's growth to be driven by strong MAC (monthly active customer) penetration, slight upticks in AOV (average order value) and a slight dip in order frequency

Key categories		GMV			MAC (mn)		AOV (Rmb)		Monthly order frequency/ MAC		% of Kuaishou GMV		Kuaishou's mkt share %	
		2022	2025	2022-25 CAGR	2022	2025	2022	2025	2022	2025	2022	2025	2022	2025
Apparel		297	551	22.8%	97	180	87	93	2.9	2.7	32.6%	31.9%	7.1%	11.1%
Cosmetics		143	300	27.8%			104	110	1.2	1.3	15.7%	17.4%	9.7%	12.9%
F&B		110	251	31.6%	Penetration		104	110	0.9	1.1	12.1%	14.5%	11.1%	15.5%
Jewelry & watches		49	103	27.8%	16%	26%	196	208	0.22	0.23	5.4%	6.0%	9.2%	12.8%
Home appliances & electronics		28	66	33.7%			74	79	0.32	0.39	3.0%	3.8%	0.8%	1.6%
Total		912	1725	23.7%			92	98	8.5	8.2			5.3%	7.7%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: We expect further incremental time spent share and ad dollar share gains for Kuaishou and certain peers

time spent market share and ad revenue market share of Kuaishou and peers



Data only reflects the domestic portion of times pent/advertising revenue for all players. We calculate Douyin/ByteDance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/ByteDance

Source: Company data, Questmobile, Goldman Sachs Global Investment Research

PM Summary: Addressing key investor questions

Company overview

Kuaishou is the 2nd-largest short-form video (SFV) player by total time spent and revenue in China, and amongst the **high-growth cluster** within our China Internet coverage (19% revenue CAGR in 21-24E), as well as having a visible **path towards margin expansion** (15% NPM in 25E) and **compelling valuation** (trading at undemanding 13.5x 2025E discounted-back P/E).

History: Based in Beijing, Kuaishou started in 2011 as 'GIF Kuaishou', a mobile app to make and share GIFs, before venturing into China's first short video-based online community in November 2012. Monetization-wise, Kuaishou entered into livestreaming in 2016, advertising in 2017, and more recently into eCommerce in 2018 to evolve into a ubiquitous online entertainment, marketing and shopping platform for people and businesses across China.

Kuaishou's strong growth in user engagement (from 2% of China's Internet time spent to 10% in 2021) gave rise to ample monetization opportunities, and this has already started to bear fruit from concrete measures it made to work on monetization. Demonstrated by its consistent market share gains across both the advertising (from 0.4% in 2018 to 4.9% in 2021) and eCommerce (from 0 in 2018 to 4.4% in 2021) segments over the past 3 years, we expect this to remain the case from 2023E onward.

Investment highlights

1. A leading SFV-based content community and social platform, with expanding value proposition, poised for consistent user engagement share gains: After a decade's worth of accumulated content and amassing a user base, Kuaishou now ranks among the top 3 DAU and time spent share Apps in the China Internet space and is still growing, driven by its immersive SFV model – already the largest single time spent format in China – with 587mn mobile MAU using Kuaishou, 59% active on a daily basis, spending 125 minutes a day on the app. With competition rationalization from its largest rival Douyin, we believe Kuaishou's differentiated platform appeal of social network connections and specialized vertical content offering (e.g. Kuaishou Playlet) gives the company an incrementally clearer path to improve its user engagement. We expect Kuaishou to increase its DAU to 403mn (9% CAGR over 2021-24E) and total time spent to c.20bn mins (13% market share) by 2024E.

2. Multi-leg content-centric monetization: Guided by its motto, 'embrace all lifestyles', Kuaishou has built a trust-based online community by creating a strong sense of belonging for their users, establishing close connection with users and KOLs, such that users trust both the acquainted KOLs and the platform, which we believe sets the foundation for a multi-year runway of monetization. Kuaishou accounts for 10% of time spent by China internet users, the longest form of entertainment per day, yet with each video at an average 30 seconds, provides for ample monetization opportunities for ad/eCommerce/livestreaming in between the immersive SFV feeds.

We expect Kuaishou to continue to unlock value of its massive yet under-monetized user base, driven by its strategy of evolving the content from entertainment-oriented to multi-scenarios (in management's words, from "more interesting" to "more useful"), thereby penetrating into multiple TAMs, with revenue per DAU to reach Rmb343 in 2024E (from Rmb263 in 2021), narrowing the gap with Douyin (rev/DAU currently at c.Rmb409¹). Specifically, we see **1)** robust advertising revenue growth driven by improving brand advertiser appeal, better user conversion rates on ad tech stack, and an improving macro economy, **2)** an eCommerce disruptor that is still in the early innings of market share gains with further customer penetration and category expansion. We expect Kuaishou to deliver a GMV of Rmb1.7bn by 2025E (or a 26% 4yr CAGR), on the back of expanding monthly paying customers. With the strategy of penetrating into both its homegrown 'Kwai' brands and reputable brands, we believe Kuaishou offers a core value proposition for consumption upgrades among lower-tier city consumers (71% of high ARPPU customers come from lower-tier cities). **3)** Leveraging its solid engagement, we see Kuaishou tapping into a few under-penetrated categories such as online blue-collar recruitment, with its cost per lead coming in lower than that of incumbents, per the company.

3. Improving operating efficiency and profitability: We believe Kuaishou will reverse its operational loss margin by 2023E and deliver c.18% OPM by 2025E, on the back of proactive cost reductions on sales & marketing costs (still 40% of 2Q22 revenue, vs. 20% when competition dynamics were benign), reduced international business losses and other admin expenses. The company went through a round of organizational restructuring in the past 12 months, and we now expect a more streamlined structure and better alignment on key OKRs (objectives and key results) and incentives for business units.

Key debates on the stock - SFV platform competition, eCommerce market share, cost efficiency and share price drivers

In this report, we dive deep to address a few key debates around the name, including **1)** What is the core value and differentiation among the different SFV platforms, and how can Kuaishou thrive amidst the competition? **2)** What is the growth trajectory and longevity of the eCommerce business? **3)** To what extent can we expect operational efficiency improvements, and how will these cost cuts reflect in margin? **4)** What new business potential is there? and lastly **5)** What is the key driver of Kuaishou's stock price?

What's differentiated in the report: **1)** A holistic analysis of Kuaishou vs. Douyin on engagement, monetization potential, efficiency and execution; **2)** Side by side comparison between industry and Kuaishou forecasts till 2025, on engagement (as advertisers follow where consumers go), competitive landscape for advertising (to what extent will new inventory such as brand ads, creator ads and Union ads offset the trend in the slowing performance feed) and eCommerce (category-specific market share gains) entertainment livestreaming ceiling and Kuaishou's upside potential; and **3)**

¹ We calculate Douyin/Bytedance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

scenario analysis on Kuaishou's bull/bear case; exploration of new business initiatives such as recruitment, housing and international business.

1. What is the core value and differentiator among different SFV platforms? How can Kuaishou thrive under competition with Douyin? What is Kuaishou's competitive moat?

Into the 5th year of SFV penetration trends, the immersive short-form video (SFV) format has already become the largest single time spent format in the China internet space. Despite already accounting for 31% of China Internet user time spent, we expect SFV's structural engagement growth trend to remain on course, albeit at a moderating pace, in 2022-25E. **Compounded appeal also gives rise to multiple legs of monetization.** The inclusiveness of Kuaishou's platform appeal allows it to host multiple formats of content including SFV and livestreaming seamlessly without disrupting the user experience, while these content contain highly efficient properties (incl. SFV for feed ads, livestreaming for tipping, eCommerce and recruitment).

We believe Kuaishou can continue to expand its user base, driven by **1)** Unique yet broadening platform appeal a defensive business moat that secures a loyal user base, while partly fending off competition from its closest peer; and **2)** deep, yet still expanding content categories that should allow Kuaishou to further obtain un-penetrated users from higher-tier cities and helps gain time spent share from other online entertainment mediums.

While we see increasing engagement from Douyin, we believe SFV as an entertainment format is disruptive to other online verticals and will continue to grab time spent share in the Internet space. Despite having been surpassed by Douyin on user scale since 2018, Kuaishou, through persistent innovations and investment, has managed to survive and thrive, reaching c.350mn DAU; its DAU vs. Douyin's has stabilized at c. 60% in the past 6 months.

2. What is the growth trajectory of the eCommerce business? How will Kuaishou expand its product categories and improve MAC (monthly active customers) penetration?

We expect proliferation of the livestreaming eCommerce industry, driven by **1)** SFV's large DAU (daily active user) base and long daily time spent, **2)** 20 mins of eCommerce related daily time spent per DAU, which is already on par with eCommerce incumbents; **3)** the strengths in algorithms for recommendations to a highly engaging user base, and **4)** availability of KOLs/long-tail of millions of live broadcasters in China, mature online payment and fulfillment infrastructure.

As China's 2nd-largest SFV platform, we believe Kuaishou will continue to gain GMV share (from 4% in 2021 to 8% in 2025E) alongside industry expansion, based on:







- **Improved penetration of Kuaishou's MAC:** On the demand front, we expect user penetration growth mainly driven by **1) lower-tier city users:** tier-3 & below, where 71% of Kuaishou's high ARPPU (>Rmb5,000 per annum) eCommerce users locate, while steering away from the intense competition in higher-tier cities; **2) younger**

users (age below 30), whose ARPPU offers strong growth potential, and **3) male users**, whose MAC penetration and ARPPU both lag behind female users;

- **Merchant base and product SKUs expansion:** On the supply front, we expect Kuaishou to build its presence in specialized categories and expand its merchant and SKU base to further penetrate into targeted cohorts (e.g. the largest category by GMV for male users aged between 18-23 is second-hand goods).

We note that apparel, the largest category by GMV contribution to Kuaishou (c.32% in 2022E) is among the categories with highest ROI, while cosmetics, the 2nd-largest contributor of GMV (c.16% in 2022E) has relatively low ROI at 1.75.

Exhibit 6: Traditional eCommerce giants vs. the emerging livestreaming players

	 						
	Alibaba		JD	Pinduoduo	SFV players & others	Douyin	Kuaishou
	Taobao	Tmall					
2025E Gross GMV (GSe, Rmb tn)	Rmb8.1tn		Rm4.8tn	Rmb4.4tn	Rmb4.9tn	Rmb3.2tn	Rmb1.7tn
	Rmb3.9tn	Rmb4.2tn					
2025E gross GMV share (%)	36%		22%	19%	22%	14%	8%
2021 Gross GMV (Rmb tn)	Rmb7.8tn (+4% yoy, FY22)		Rmb3.3tn (+26% yoy)	Rmb2.4tn (+46% yoy)	Rmb1.9tn (c.100% yoy)	Rmb1.2tn (triple digit yoy)	Rmb0.7tn (+78% yoy)
	Rmb3.8tn	Rmb4tn					
2021 gross GMV share (%)	50%		21%	15%	12%	8%	4%
Gross to net GMV %, GSe excl. unfulfilled & returns	60-70%		50-60%	70-80%		40-50%	40-50%
2021 marketplace take rate (ad + commission)	4.8%		2.2%	4.0%		Mid-to-high single digit %	2.9%
Total annual active shoppers (mn, 2021)	882mn		570mn	869mn		300mn (30% of annual users shop)	200mn
Ticket size (Rmb)	Rmb150-200		Rmb500	Rmb40		Rmb 90-100	Rmb 90-100
Average no. of orders placed annually per user	52 times		12 times	69 times		45 times	36 times
Annual spending per user (Rmb)	Rmb9k		Rmb5.8k	Rmb2.8k		Rmb4k	Rmb3.5k
GMV category mix (GSe, top 3 categories as of 2021)	Apparel (24%) Electronics & Appliances (16%) FMCG (excl. Cosmetics) (15%)		Electronics & Appliances (45%) FMCG (excl. Cosmetics) (13%) Apparel (7%)	Apparel (33%) Electronics & Appliances (12%) FMCG (excl. Cosmetics) (10%)		Apparel (49%) Cosmetics (15%) Jewelry (5%)	Apparel (32%) Cosmetics (22%) FMCG (excl. Cosmetics) (12%)

Note: We calculate Douyin/Bytedance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

Source: questmobile, company data, Goldman Sachs Global Investment Research

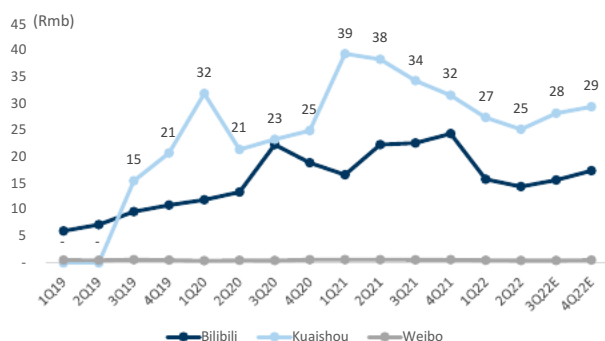
3. To what extent can we expect cost control and operational efficiency improvement, and how will these cost cuts reflect in margin?

We expect Kuaishou's cost control improvements to be mainly reflected in its S&M expenses. Under its organizational restructuring which effectively transformed its function-based structure to a business unit-based structure, cost control ability and operational efficiency have been greatly strengthened. We expect Kuaishou to decrease its S&M expense at a -4% CAGR in 2021-24E, from 53.7% of revenue to 28.0% of revenue. Importantly, operational efficiency improvement comes alongside the cuts to

S&M, and we have seen S&M/DAU decrease from Rmb39 at the peak level to Rmb25 in 2Q22 and forecast such trend to continue over 2021-24E. Driven by the effective cutting of S&M expenses, as well as revenue-sharing cost and bandwidth cost control, we expect Kuaishou's non-GAAP OPM/NPM to turn positive in 2023E and reach 12.0%/10.1% in 2024E (vs. -24.5%/-23.3% in 2021).

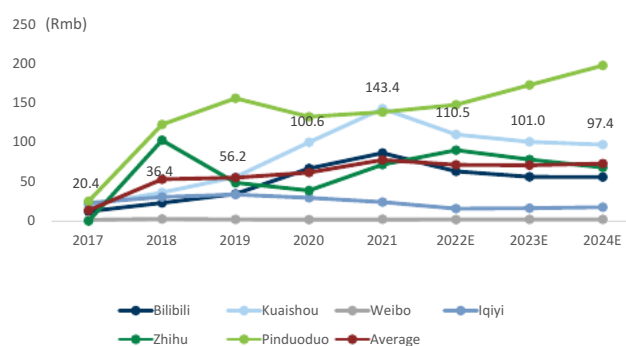
Sustained engagement growth despite cut in S&M, indicating more organic user growth and better retention. We note that despite Kuaishou's significant S&M scale-back, it continues to grow DAU and time spent by 18%/39% in 2Q22, along with a stable 30 days retention rate of existing users (c.78%). Based on our observations, we expect Kuaishou to continue to improve its cost control efficiency while maintaining a healthy retention rate, mainly attributable to its close-knit community culture that provides users with a strong sense of belonging and its continued expansion in content categories.

Exhibit 7: The trend of promoting and branding cost cuts started in 2021, with S&M/DAU declining to Rmb25 from Rmb39 at the peak level



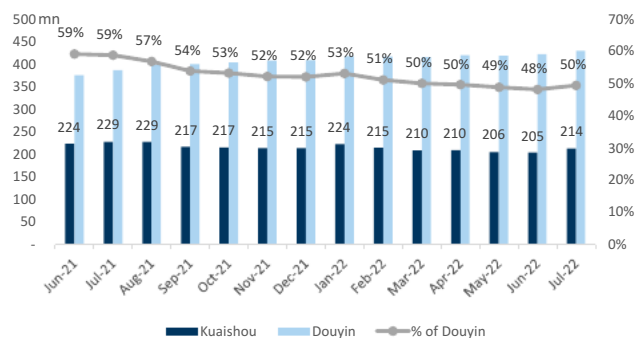
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 8: We expect Kuaishou's S&M/DAU to continue to decline over 2021-24E, though still be relatively higher compared to the peers average



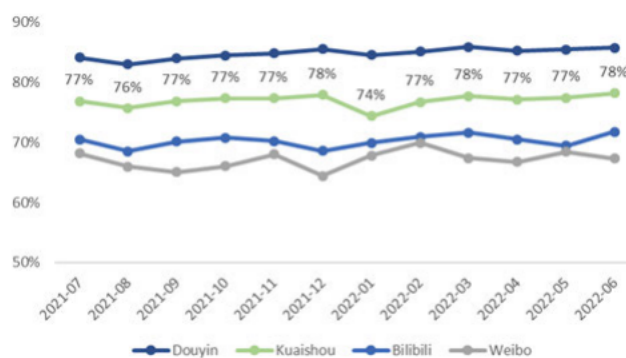
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: Despite the significant marketing expense cut, Kuaishou's DAU remains stable and the gap with Douyin did not widen further
Kuaishou & Douyin's DAU as of main app only



Source: QuestMobile

Exhibit 10: No significant decline in Kuaishou's 30-day existing user retention rate despite promotion cost cuts; Kuaishou still outperforms most peers



Source: QuestMobile

4. What is the new business potential?

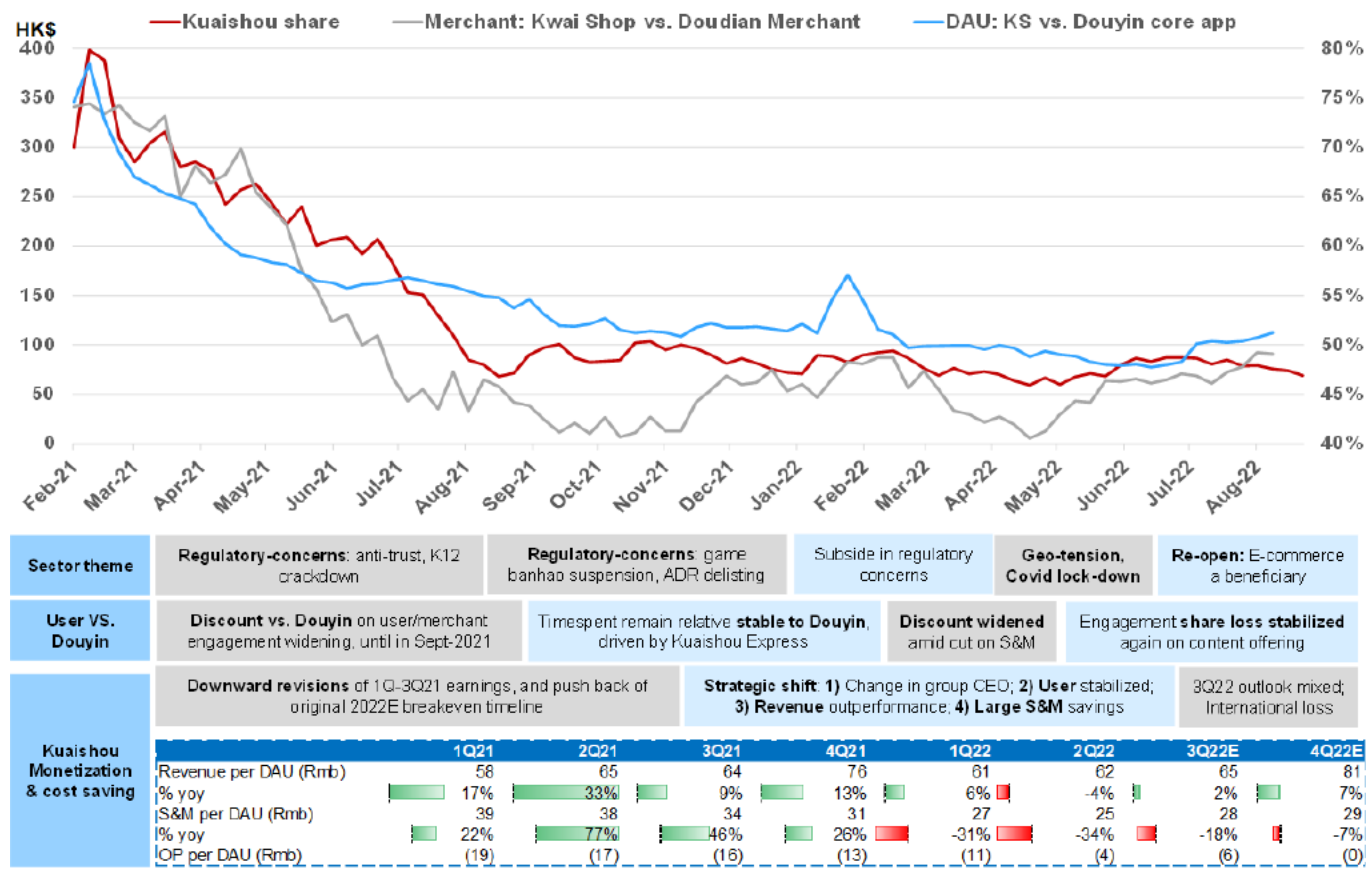
Leveraging its accumulated content, user base and unique proposition of a trust-based community, Kuaishou continues to evolve its content from entertainment-oriented to multi-scenarios, thereby exploring multiple monetization potential in different TAMs, specifically:

- **Blue collar recruitment:** Kuaishou officially launched its blue-collar recruitment business Kwai-recruitment in January 2022 yet we estimate recruitment agencies utilizing live streaming to conduct business on Kuaishou has existed since at least 2019. Unlike traditional recruitment platforms, Kwai recruitment creates a seamless and efficient recruitment procedure for the blue-collar group by utilizing livestreaming. Kuaishou expects to capture ‘a leading share’ within online blue-collar recruitment market and commence monetization in 4Q22, with **1)** its massive user base with 250mn blue-collar MAU by 2Q22; **2)** its interactive livestreaming model to enhance communication between job seekers and employers, and **3)** leading nationwide job distribution and matching capability.
- **Overseas expansion:** After the organization restructuring since 3Q21, Kuaishou changed its overseas strategy to: **1)** scaling back overseas marketing spend; **2)** prioritizing expansion in core regions, while cutting markets with less potential and **3)** focusing on healthy user expansion and improvement of user stickiness. We expect Kuaishou’s overseas business to improve moderately with strong revenue growth (0.5% of group revenue in 2Q22), and an ROI-centric disciplined investment plan should help narrow the losses.
- **Real estate:** Kuaishou started its real estate business in April 2022, leveraging livestreaming and SFV to attract potential buyers. Currently, Kuaishou has house listings in 27 cities, mainly new homes or off-plan property in lower-tier cities, to match Kuaishou’s user distribution.
- **Others:** Kuaishou has also commenced in games, cloud (Kuaishou’s first 2B business) and education sectors, further expanding its product categories and unlocking more monetization potential.

5. What is the key driver of the share price?

Kuaishou completed its IPO in Feb 2021 at HK\$115 per share, which then rose to HK\$401 before **1)** underperforming user metrics (relative to the largest share gainer – Bytedance’s Douyin); **2)** regulatory concerns (ad/eCommerce sector specific & minor protection); **3)** continued revision on forward guidance, primarily cost metrics and 4) weakened broader China Internet sentiment, which resulted in the shares declining by 87% from their peak (KWEB – KraneShares China Internet ETF down 73% during the same period). We believe the first three aforementioned reasons will pass with limited impact on Kuaishou’s value, and we have seen Kuaishou’s operations start to improve since the re-organization and management reshuffle in 3Q21. Post its 2Q22 results, Kuaishou’s share price has underperformed due to mixed outlook on advertising (non-e-commerce).

Exhibit 11: Kuaishou's share price: Factors impacting the share price since its IPO



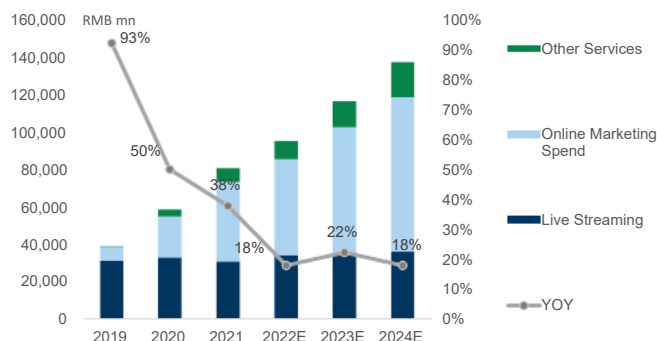
Source: Company data, Goldman Sachs Global Investment Research, QuestMobile

Forecasts and valuation

Revenue: We forecast Kuaishou's revenue growth trajectory at 18%/22%/18% yoy in 2022E/23E/24E. **By business segment**, we forecast revenue of advertising/livestreaming/eCommerce and others to grow at a CAGR of 25.0%/5.2%/36.3%, and 34.8% over 2021-24E, respectively. We attribute the stronger growth momentum in the near term to: **1)** continued growth in DAU and time spent share with its unique value proposition and differentiated trust-based social network connections; **2)** further improvement in ad monetization efficiency, ad load and eCPM, basing on improved brand attractiveness and a macro recovery; and **3)** user penetration growth and category expansion, alongside SFV's ongoing disruption in eCommerce.

Margin: We expect the company to reduce its losses and reach overall group breakeven by 2023E (with domestic OP already positive in 2Q22), and in 2024-25E to reach a mid-teen operating margin as it continues to gain advertising and GMV market share, as well as substantial cost control.

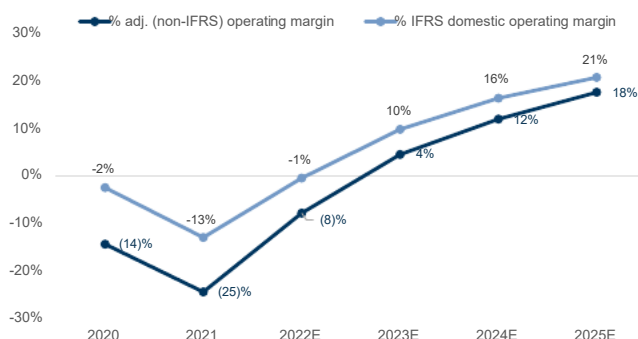
Exhibit 12: We expect Kuaishou to deliver a 19% 2021-24E revenue CAGR, from Rmb81.1bn in 2021 to Rmb138.2bn in 2024E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 13: We expect non-IFRS operating margin to turn positive by 2023E

Non-IFRS operating margin from 2020-2025E, IFRS domestic operating margin



Source: Company data, Goldman Sachs Global Investment Research

Valuation: We use a target P/E multiple of 22X 2025E EPS and discounted back to 2023 to derive our 12-month target price of HK\$112 per share. We believe profitability is one of the more important metrics the market focuses on for content platforms, given its intrinsically higher COGS base (content cost & revenue sharing) and current loss-making profile. Thus, we use 2025 to better reflect Kuaishou's long-term growth potential and the 22X P/E is consistent with China Internet large cap peers' 2023E trading multiple, and also comparable to similar content platform peers' implied 2025E multiple. Our target price implies 2023E EV/sales of 2.7x.

On relative valuation, we believe Kuaishou offers a compelling risk-reward on its fast revenue growth in the 20s% and a return to profitability path. Even post 2025E, we expect the company will still have potential for further margin expansion, driving c.30% earnings growth in 2025-27E.

Key risks: 1) a weaker-than-expected monetization schedule; 2) growth of its aggregate user engagement base (DAU x time spent per DAU) on intense competition from Douyin and Tencent's Video Account; 3) lower-than-expected profitability on high marketing spend and losses from international business; 4) video content control.

Exhibit 14: China internet comps table (as of 2 September, 2022)

China Internet																		Gross EBITDA		
Company	Ticker	fx	Last Price	Target Price	+/- Side	Rating	Mkt Cap (US\$m)	Performance		Fiscal Year	PE n-Gaap		Price/Sales		Rev CAGR		Profit	CAGS		
								3Mo	YTD		22E	23E	22E	23E	21-23	2023E	21-23	21-23		
China Internet																				
Kuaishou	1024.HK	HK\$	66.80	112.0	68%	Buy	36,342	-16.4%	-7.3%	Dec	NM	59.4x	2.5x	2.1x	17%	17%	24%	NM		
E-commerce																				
Alibaba	BABA	\$	91.80	149.0	62%	Buy	249,191	-1.5%	-22.7%	Mar	11.0x	9.8x	1.8x	1.7x	7%	6%	6%	9%		
Alibaba HK	9988.HK	HK\$	90.65	146.0	61%	Buy	250,791	-1.8%	-23.8%	Mar	11.1x	9.9x	1.8x	1.7x	7%	6%	6%	10%		
JD.com	JD	\$	61.29	87.0	42%	Buy	95,328	8.4%	-12.5%	Dec	28.3x	20.2x	0.6x	0.5x	10%	11%	18%	44%		
JD.com HK	9618.HK	HK\$	244.00	338.0	39%	Buy	96,697	10.2%	-10.9%	Dec	28.1x	20.3x	0.6x	0.5x	10%	11%	18%	44%		
Pinduoduo	PDD	\$	72.19	95.0	32%	Buy	90,807	41.8%	23.8%	Dec	24.2x	27.4x	4.9x	4.4x	19%	13%	25%	47%		
VIPShop	VIPS	\$	10.70	11.0	3%	Neutral	7,310	12.9%	27.4%	Dec	8.2x	9.1x	0.4x	0.5x	-6%	-2%	-5%	-8%		
Median (Sum for Mkt cap)					40%		790,123	9.3%	-11.7%		17.7x	15.1x	1.2x	1.1x	9%	9%	12%	27%		
Verticals																				
Kanzhun	BZ	\$	22.7	27.5	21%	Neutral	10,360	5.2%	-34.9%	Dec	82.5x	48.7x	14.7x	10.2x	24%	44%	22%	32%		
KE Holdings	BEKE	\$	16.4	24.0	46%	Buy	19,551	14.8%	-18.4%	Dec	58.9x	23.9x	2.0x	1.7x	-3%	20%	6%	46%		
KE Holdings	2423.HK	HK\$	45.0	63.0	40%	Buy	20,478	33.9%	NM	Dec	61.7x	25.1x	2.1x	1.7x	-3%	20%	6%	46%		
Meituan	3690.HK	HK\$	176.2	275.0	56%	Buy	135,531	-2.2%	-21.8%	Dec	NM	35.3x	4.0x	3.0x	28%	33%	52%	NM		
Median (Sum for Mkt cap)					43%		185,919	10.0%	-21.8%		61.7x	30.2x	3.0x	2.4x	11%	27%	14%	46%		
Entertainment-large cap																				
Tencent	0700.HK	HK\$	328.6	502.0	53%	Buy	405,862	-8.5%	-28.1%	Dec	23.2x	17.7x	4.7x	4.3x	5%	10%	6%	8%		
Baidu	BIDU	\$	140.1	207.0	48%	Buy	48,632	-2.3%	-5.9%	Dec	15.8x	15.9x	2.5x	2.3x	5%	8%	7%	10%		
Baidu HK	9888.HK	HK\$	139.3	202.0	45%	Buy	49,300	0.1%	-3.7%	Dec	16.0x	16.1x	2.5x	2.3x	5%	9%	8%	10%		
NetEase	NTES	\$	88.5	121.0	37%	Buy	58,882	-13.5%	-13.0%	Dec	19.1x	16.8x	3.9x	3.6x	10%	10%	13%	12%		
NetEase HK	9999.HK	HK\$	140.7	189.0	34%	Buy	59,616	-12.2%	-10.7%	Dec	19.0x	17.5x	4.0x	3.7x	9%	7%	10%	11%		
Median (Sum for Mkt cap)					45%		622,293	-8.5%	-10.7%		19.0x	16.8x	3.9x	3.6x	5%	9%	8%	10%		
Entertainment-content platforms																				
Bilibili	BILI	\$	23.6	29.0	23%	Neutral	9,317	-2.4%	-49.2%	Dec	NM	NM	2.7x	2.1x	21%	28%	27%	NM		
Bilibili HK	9626.HK	HK\$	192.4	226.0	17%	Neutral	9,685	5.7%	-46.3%	Dec	NM	NM	2.8x	2.2x	22%	28%	27%	NM		
iQIYI	IQ	\$	3.5	5.1	44%	Neutral	2,819	-12.8%	-22.6%	Dec	39.1x	19.3x	0.6x	0.6x	-4%	0%	44%	2%		
Mango	300413.SZ	Rmb	28.0	34.6	23%	Neutral	7,597	-18.9%	-51.0%	Dec	23.0x	19.1x	3.4x	3.0x	2%	13%	2%	11%		
Tencent Music Ente	TME	\$	5.1	5.4	7%	Sell	8,444	24.3%	-26.1%	Dec	13.6x	13.6x	2.0x	2.0x	-8%	-3%	-9%	-2%		
Weibo	WB	\$	19.0	24.5	29%	Neutral	4,513	-15.2%	-38.5%	Dec	8.4x	7.3x	2.3x	2.0x	1%	16%	-1%	-2%		
Weibo HK	9898.HK	HK\$	152.6	190.0	25%	Neutral	4,608	-11.9%	-36.8%	Dec	8.6x	7.5x	2.4x	2.0x	1%	16%	-1%	-2%		
Zhihu	ZH	\$	1.3	2.6	97%	Neutral	793	-17.5%	-76.2%	Dec	NM	NM	1.3x	1.0x	25%	27%	25%	NM		
Median (Sum for Mkt cap)					24%		47,775	-12.4%	-42.4%		13.6x	13.6x	2.3x	2.0x	2%	16%	14%	-2%		
Median for all comparables (Sum for Mkt cap)					39%		1,646,111	-1.8%	-22.7%		19.1x	17.6x	2.4x	2.0x	6%	11%	7%	10%		

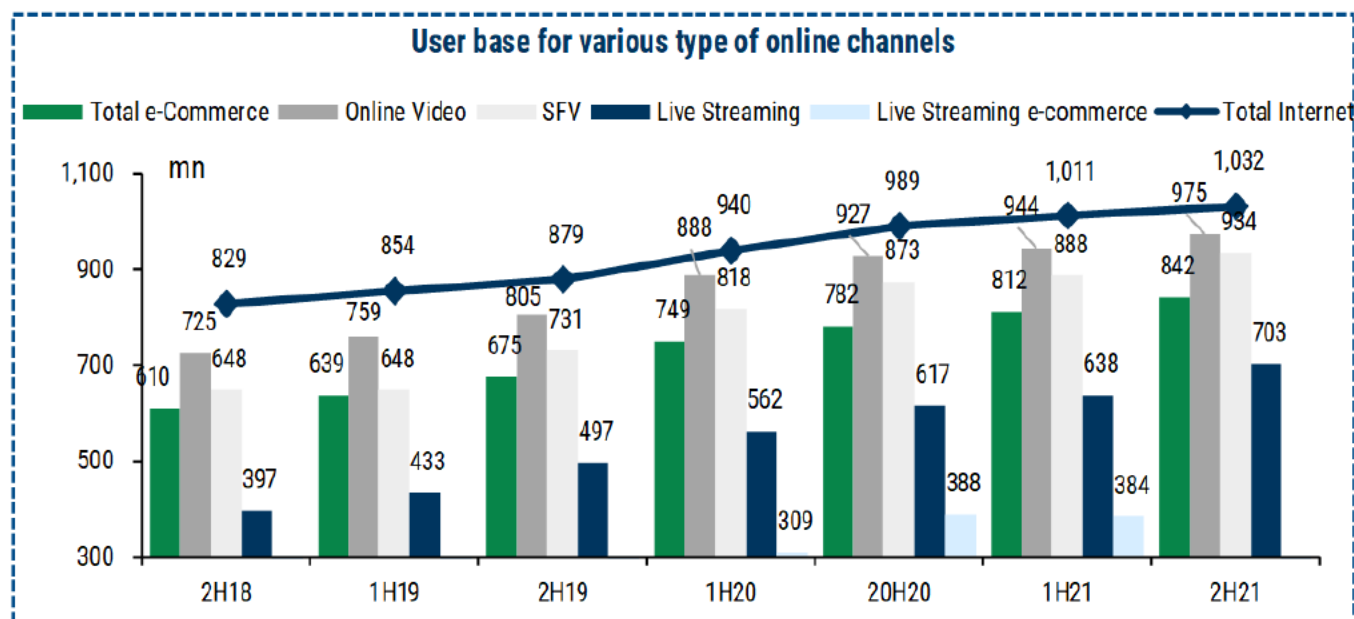
*On conviction list; target prices are on a 12-month time frame

Source: Datastream, DGoldman Sachs Global Investment Research

Industry overview: What's the potential ceiling for SFV?

Into the 5th year of SFV penetration trends, the immersive short-form video (SFV) format has already become the largest single time spent format in the China internet space, with more than 1 billion mobile users using SFV apps, 60% active on a daily basis and spending 120 minutes a day (per QuestMobile). Despite already accounting for 31% of China Internet user time spent (as of 2021), we expect SFV's structural engagement growth trend to remain on course, albeit at a moderating pace, in 2022-25E, through lifting the total time spent ceiling and continued engagement share gain from social media/LFV/music verticals driven by a richer user experience. We forecast an average China Internet DAU to spend 7.2 hours per day on mobile by 2025E, up from 6.3 hours in 2021, with SFV alone accounting of 3.1 hours, from 1.9 hours in 2021. Within the SFV format industry, we expect Kuaishou's time spent share to reach 32% by 2025E, vs Douyin/Weixin platforms at 50%/17%, respectively².

Exhibit 15: SFV has the second-largest user base in online channels, just behind online video



Source: QuestMobile

Short-form video platforms (SFV) in China are becoming funnel ecosystems: At 31% of time spent by China internet users, SFV accounts for the longest time spent of entertainment per day, yet with each video at an average 30 seconds, this medium provides multiple cross-selling opportunities with immersive SFV feeds with livestreaming sessions in between. We believe SFV are becoming funnel ecosystems with increasing time spent by users, widening their advantage in providing relevant recommendations, ahead of other forms of entertainment/shopping apps. On average, a daily active user of an SFV platform would spend 120 min or 2 hours on the app (vs. average daily online time spent of 6 hours per Internet user), opening it 14 times during the day, and 1/3 of the time spent on livestreaming, half of which is entertainment, is eCommerce.

² For additional details on timespent share please see our concurrently published sector note.

1. How disruptive is SFV and what is the potential ceiling?

We expect SFV penetration within China Internet users to further improve, from 91% in 2021 to 98% in 2025E

From a time spent/DAU (hours) perspective, we expect China internet users to spend 7.2 hours per day by 2025E, with the incremental growth coming from SFV (from 1.9 hours per day in 2021 to 3.1 hours per day in 2025E). We expect continued time spent % market share to move towards the SFV format, away from social media/LFV/music/games in 2025E. From an absolute engagement perspective (bn mins), we expect SFV will remain as the largest format in 2025E, a trend since 2020. We also expect SFV to remain as the 2nd-most penetrated vertical on DAU (mn) in 2025E, similar to 2021. Specifically, we expect video-rization platforms like Kuaishou, Douyin, Tencent Video Account, and Bilibili to deliver the strongest time spent % growth in 2021 -25E.

Exhibit 16: China Internet time spent at a glance: daily time spent distribution by format within an average DAU, time spent market share by format, time spent %yoy by format, time spent market share within SFV segment

Timespent per user per day(hours)	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E
SFV	0.1	0.5	0.7	1.3	1.9	2.5	2.8	3.0	3.1
MFV	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3
LFV	0.6	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.2
Social media	2.0	2.1	2.0	1.7	1.4	1.3	1.3	1.2	1.2
Games	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.4	0.4
News	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Shopping	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Total timespent	5.0	5.8	5.8	6.1	6.3	6.7	7.0	7.1	7.2
% market share (using GS forecast number for SFV and MFV)									
SFV	2.2%	8.4%	11.8%	20.8%	31.1%	37.0%	39.8%	41.7%	43.0%
MFV	0.9%	2.3%	2.4%	2.3%	2.4%	3.0%	3.4%	3.7%	3.9%
LFV	11.1%	10.0%	8.3%	7.0%	5.4%	4.8%	4.1%	3.6%	3.3%
Social media	40.7%	36.2%	33.6%	28.2%	22.1%	19.3%	18.3%	17.4%	16.8%
Games	7.7%	7.2%	7.5%	7.0%	5.4%	5.1%	5.2%	5.2%	5.2%
News	7.8%	8.0%	7.8%	7.0%	7.2%	6.9%	6.9%	7.0%	7.1%
Shopping	2.7%	3.4%	3.9%	4.7%	5.1%	4.9%	4.5%	4.2%	4.0%
Total timespent									
% YoY growth (using GS forecast number for SFV and MFV)									
SFV		375%	55%	102%	60%	30%	14%	9%	7%
MFV				13%	11%	35%	20%	14%	10%
LFV	41%	13%	-8%	-3%	-17%	-4%	-9%	-8%	-6%
Social media	8%	12%	3%	-3%	-16%	-4%	0%	-1%	0%
Games	37%	19%	15%	8%	-17%	2%	7%	4%	4%
News	56%	28%	8%	4%	11%	5%	6%	6%	4%
Shopping	36%	56%	28%	39%	16%	5%	-1%	-3%	-3%
Total timespent	20%	26%	11%	15%	7%	9%	6%	4%	4%
Market share (%) - SFV									
Douyin (inc. Lite/Huoshan)	22%	59%	54%	55%	52%	52%	51%	51%	50%
Kuaishou (inc. Lite)	78%	38%	39%	34%	32%	32%	33%	32%	32%
Tencent Video account	0%	0%	0%	7%	15%	15%	15%	16%	17%
Others	0%	2%	6%	4%	2%	1%	1%	1%	1%

Source: QuestMobile, Goldman Sachs Global Investment Research

2. Monetization framework of SFV players

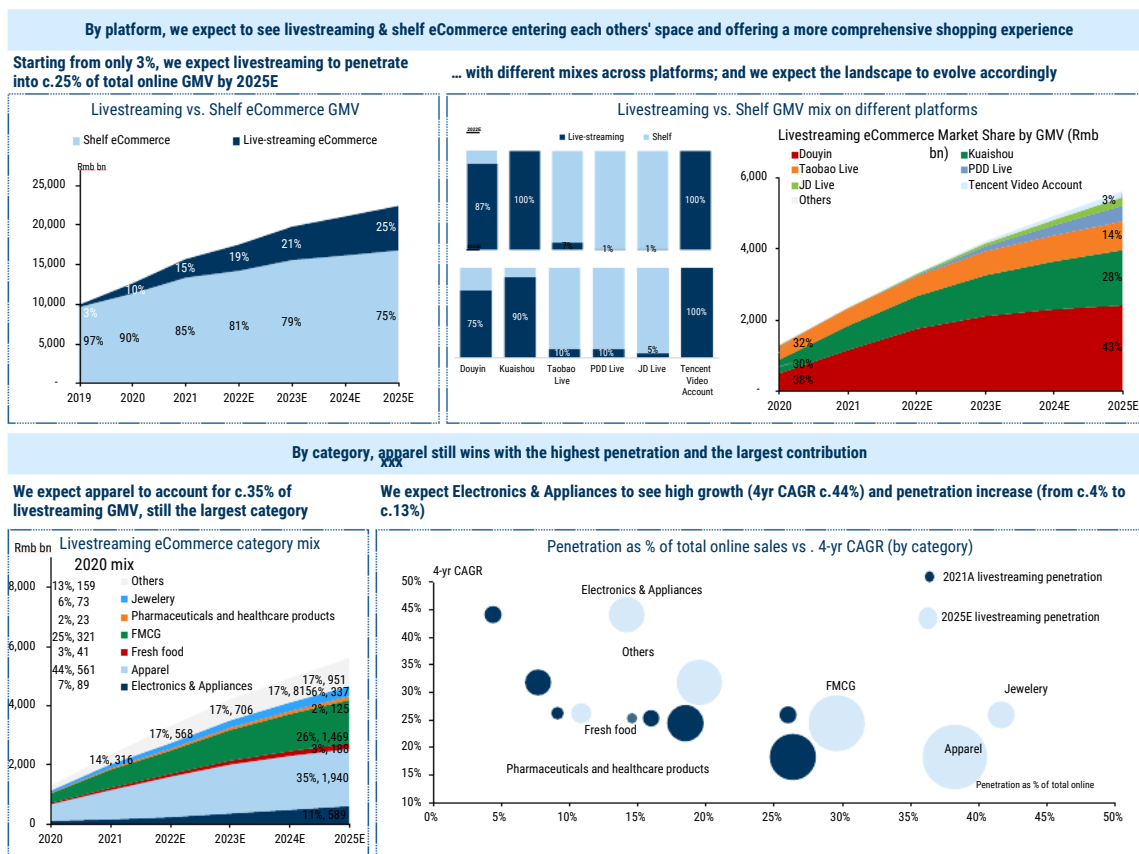
As of 2021, the 2 SFV leaders Douyin and Kuaishou jointly have a market share of **62% of entertainment-livestreaming by revenue, 33% of online advertising by revenue and 12% of eCommerce transacted GMV** within the China Internet space, despite only commencing large-scale monetization since 2018. As of 2021, Douyin saw revenue of Rmb409, followed by Kuaishou at Rmb263, ahead of conventional advertising/livestreaming peers. We see SFV as a more efficient content format on monetization that rides on the trend of video-rization, with better interaction and accurate capture of consumer preferences. We attribute SFV's competitive edge to:

- **Traffic-centric:** 31 % of China Internet time spent led by high user stickiness (DAU/MAU) at 60%, vs. MFV (Bilibili at 30%), and long time spent per DAU (120mins)
- **Higher ceiling:** Higher commercial impression per screen (teens level ad load) driven by its innovative format;
- **Longer monetizeable time spent:** The way in which users spend time on app can result in very different monetization profiles, majority of the time spent on SFVs (discovery, feeds, livestreaming) are monetizeable properties (vs. social media if majority of the time is spent in chat functions);
- **Better eCPM** on higher CTR (click-through rate: high single-digits %) driven by precision ad customer targeting (interests, brand preference, relationship) enabled by abundant accumulation and analytics on 1st party data.

We believe Kuaishou's virtual ownership of the differentiated short-form video content, strong competitive moat, and concrete measures to improve its monetization efficiency, should continue to drive monetization over time and sustainably in the long term. We see multiple ways for the company to drive growth going forward from monetization perspective:

- **Advertising:** leverages its data capabilities to further improve the ad stack behind performance/transactional ads, while continues expansion into brand ad budget pool;
- **Livestreaming eCommerce:** We expect Kuaishou to make further inroads into eCommerce marketing. **We introduce our bear/base/bull case for livestreaming format** as % of total online retail GMV, at **21%/25%/30% by 2025E**, implying GMV of Rmb5tn/6tn/7tn for livestreaming shopping by 2025E, from c. Rmb3tn in 2022E (GSe), or at 19% of online GMV for 2022E. Within which, we expect Kuaishou to reach **Rmb1.2tn/1.7tn/2.0tn** in GMV.
- **Others:** Local service, Recruitment, long form video, entertainment livestreaming (effective way to retain traffic and support KOLs).

Exhibit 17: We see limited hurdle for SFV platforms to expand into shelf eCommerce, providing a within-app shopping mall experience for customers



We calculate Douyin/Bytedance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

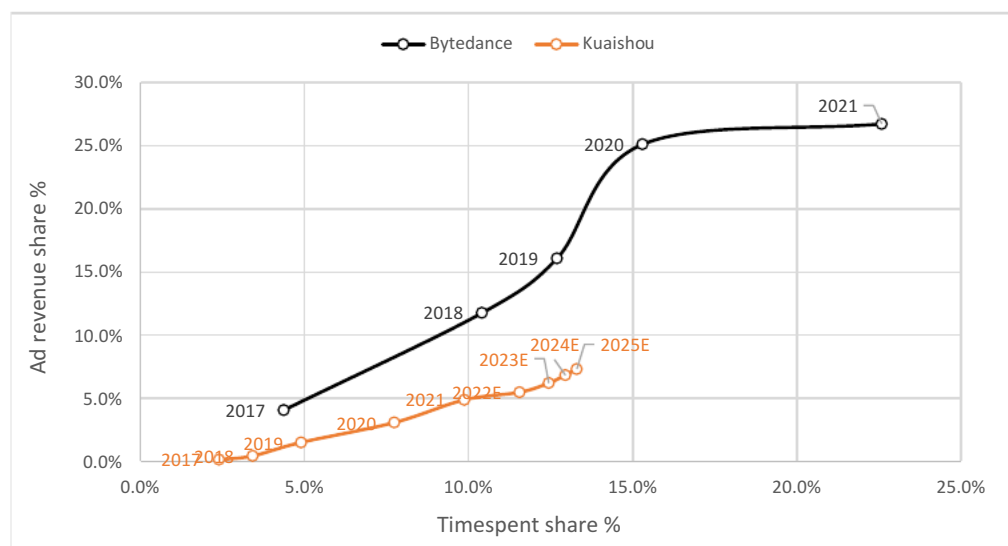
Source: Feigua, Sandalwood Advisors, BurningData, Goldman Sachs Global Investment Research

Kuaishou vs. Douyin and entertainment peers: A holistic comparison

1. Ads: Kuaishou is now the 7th-largest ads platform, growing at a 2021-25E 23% CAGR, monetization per DAU still 60% lower vs. Douyin; ad load, eCPM increase on brand attractiveness and macro recovery

We expect Kuaishou to continue to unlock value of its massive yet under-monetized user base, driven by its strategy of evolving the content from entertainment-oriented to multi-scenario, thereby penetrating into multiple TAMs, with revenue per DAU forecast to reach Rmb343 in 2024E (from Rmb263 in 2021), narrowing the gap with Douyin (rev/DAU currently at c.Rmb409³). Specifically, we see robust advertising revenue growth driven by improving brand advertiser appeal, better user conversion rates on ad tech stack, and improving macro economy.

Exhibit 18: time spent share % and ad revenue share % of the 2 SFV leaders: We expect Kuaishou to trail on time spent share gains, and ad monetization efficiency improvements



We calculate Douyin's/ByteDance's (both Not Covered) relevant operating metrics (GMV, category mix, etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/ByteDance

Source: Company data, Goldman Sachs Global Investment Research, QuestMobile

2. Livestreaming eCommerce: Kuaishou is the go-to platform for consumption upgrade on lower tier shoppers; GMV to grow 2.5X by 2025 on user penetration growth, more category expansion

We continue to view Kuaishou as an eCommerce disruptor that is still in the early innings of the market share gain with further customer penetration and category expansion. We expect Kuaishou to deliver GMV of Rmb1.7bn by 2025E (or a 26% 4yr CAGR), on the back of expanding monthly paying customer. With the strategy of penetrating into both reputable brands and 'Kwai' brand, we see Kuaishou offering core value proposition for consumption upgrades among lower tier city consumers (71% high ARPPU customers come from lower tier cities). Leveraging its solid engagement, we

³ We calculate Douyin/ByteDance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/ByteDance

see Kuaishou is tapping into a few under-penetrated categories such as online blue-collar recruitment.








3. Operational efficiency and cost control

We believe company will reverse its operational loss margin by 2023E and deliver c.18% OPM by 2025E, on the back of proactive cost reductions on sales & marketing costs (still 40% of 2Q22 revenue, vs. 20% when competition dynamics is benign), reduced international business losses and other admin expenses. Company experienced a round of organizational restructure in past 12 months, and we now expect a more streamlined structure and better alignment on OKRs (objective key result) and incentives.

|

Exhibit 19: Kuaishou to deliver above industry average user engagement and monetization efficiency, closing its gap with Bytedance; with the implementation of effective cost control, GP per DAU to gradually increase and we expect S&M per DAU to normalize

Kuaishou vs. online entertainment peers on monetization efficiency and operational efficiency

Platforms			Entertainment/social platforms					E-commerce platforms	
		Kuaishou							
User engagement	DAU (mn) - 2021	308	547	67	812	243		339	305
	% yoy	16%	38%	28%	4%	6%		10%	31%
	DAU/MAU (mn) - 2021	57%	76%	27%	81%	43%		41%	58%
	% yoy	3%	10%	-5%	0%	-1%		-3%	18%
	Timespent/DAU/day (mins) - 2021	112	103	83	84	38		23	22
	% yoy	28%	11%	3%	0%	0%		-6%	-1%
	Aggregate timespent (bn mins) - 2021	12,539	20,503	2,029	24,780	3,364		2,904	2,401
	% yoy	48%	52%	32%	4%	3%		4%	29%
	DAU (mn) - 2025	421	838	126	822	291			
	% CAGR: 2021-25E	8%	11%	17%	0%	5%			
	DAU/MAU (mn) - 2025	60%	86%	28%	81%	43%			
	% CAGR: 2021-25E	1%	3%	1%	0%	0%			
	Timespent/DAU/day (mins) - 2025	140	112	112	99	53			
	% CAGR: 2021-25E	6%	2%	8%	4%	9%			
Monetization efficiency	Aggregate timespent (bn mins) - 2025	20,619	34,207	5,139	29,789	5,589			
	% CAGR: 2021-25E	13%	14%	26%	5%	14%			
	Rev (Rmb bn) - 2021	81	223	19	75	15		315	94
	% yoy	38%	39%	62%	11%	34%		3%	58%
	Rev per DAU (Rmb) - 2021	263	409	290	93	60		930	308
	% yoy	18%	1%	26%	7%	26%		-6%	21%
	Rev per MAU (Rmb) - 2021	149	312	78	76	26		384	178
	% yoy	22%	11%	20%	7%	25%		-9%	43%
	Rev per 1000 mins (Rmb) - 2021	6.5	10.9	9.6	3.0	4.4		108.5	39.1
	% yoy	-7%	-9%	22%	7%	30%		0%	22%
	Rev (Rmb bn) - 2025	158		47	115	18			
	% CAGR: 2021-25E	18%		25%	11%	5%			
	Rev per DAU (Rmb) - 2025	375		373	140	61			
	% CAGR: 2021-25E	9%		6%	11%	0%			
Cost control efficiency	Rev per MAU (Rmb) - 2025	225		104	114	26			
	% CAGR: 2021-25E	11%		8%	11%	0%			
	Rev per 1000 mins (Rmb) - 2025	7.7		9.2	3.9	3.2			
	% CAGR: 2021-25E	4%		-1%	6%	-8%			
	GP per DAU (Rmb) - 2021	110	230	62	42	50			204
	% yoy	23%	14%	12%	-5%	26%			18%
	S&M per DAU (Rmb) - 2021	143		87		16			147
	UE (GP-S&M) per DAU - 2021	(33)		(25)		34		695	57
	GP per DAU (Rmb) - 2025	196		117		48			
	% CAGR: 2021-25E	15%		17%		-1%			
	S&M per DAU (Rmb) - 2025	93		57		15			
	UE (GP-S&M) per DAU - 2025	103		61		33			

We calculate Douyin's/Bytedance's (both Not Covered) relevant operating metrics (engagement, revenue, GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

Source: Company data, Questmobile, Goldman Sachs Global Investment Research

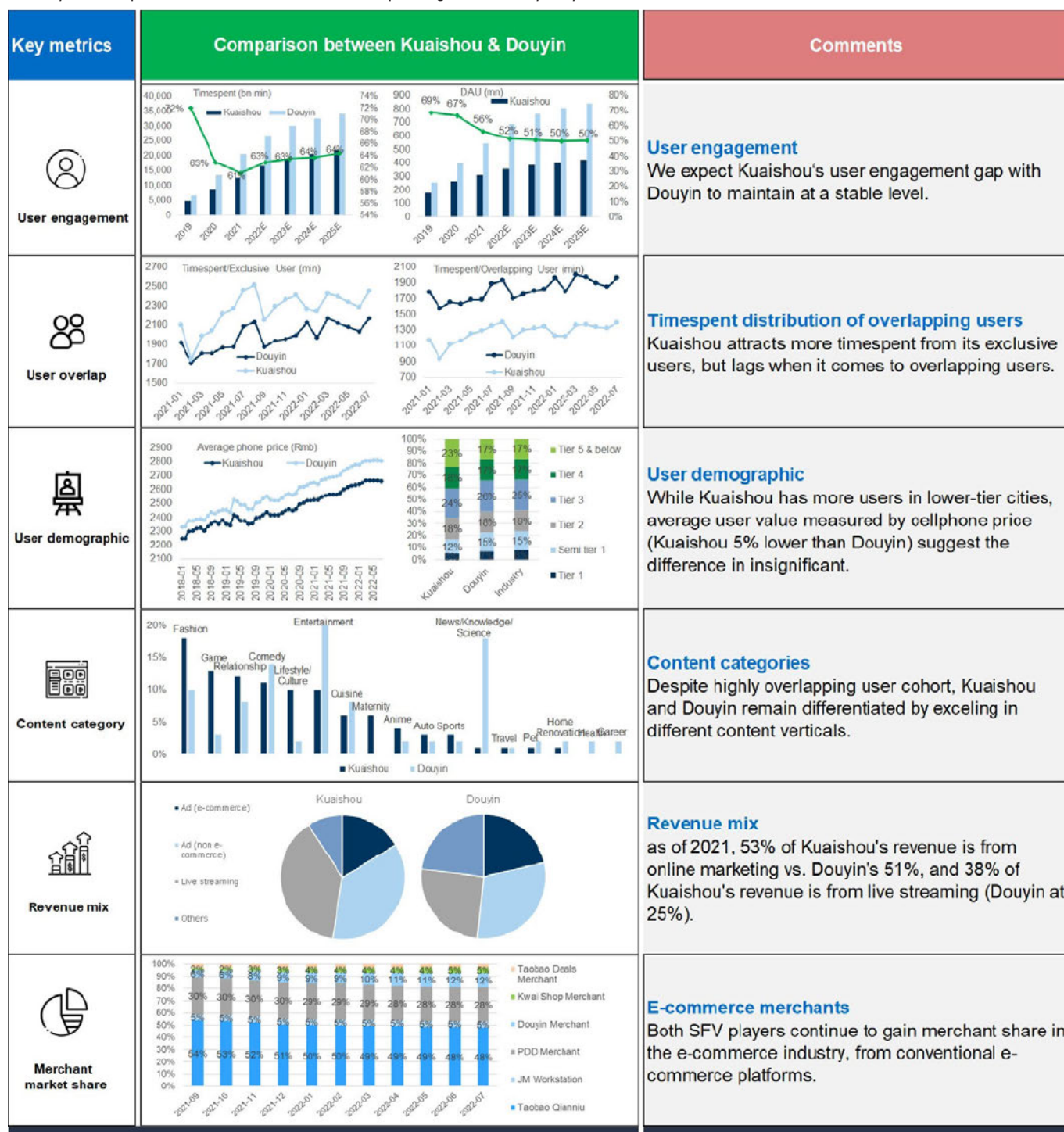
4. Key metrics comparison with the No. 1 player - Douyin

Kuaishou has grown through persistent innovations and investments to reach c.350mn DAU by 2Q22. Its DAU vs. Douyin's has stabilized at c.60% in the past 6 months. In order to better analyze Kuaishou's industry position and competition environment, we compare Kuaishou and Douyin on key metrics. We note that Kuaishou remains differentiated from Douyin in multiple aspects, providing diversified content to attract different user cohorts, specifically:

- **User engagement:** Despite the widening gap in time spent and DAU with Douyin from January 2021 to September 2021, which likely affected Kuaishou's share price, looking forward, we expect the user engagement gap with Douyin to maintain at a stable level, on the back of Kuaishou's unique trust-based community and expanding content offerings.
- **User overlap:** We note despite the significant user overlap of the two platforms, Kuaishou is still able to maintain time spent share from both overlapping and exclusive users. Noticeably, although Douyin performs better when it comes to overlapping users, Kuaishou is able to attract more time spent from its exclusive users and maintain the gap of overlapping users' time spent at a steady level, demonstrating Kuaishou's loyal user base and healthy user engagement.
- **User demographic:** The two platforms have different mix of user cohorts. Kuaishou has more users in lower-tier cities with relatively low average user value (measured by cellphone price, 5% lower than Douyin), while Douyin attracts more users from tier-2 and above cities, indicating less direct competition and Kuaishou's potential to take the lead in certain regions.
- **Content category:** Despite highly overlapping user cohort, Kuaishou and Douyin remain differentiated by excelling in different content verticals, catering to the need of their targeted user group. Kuaishou offers more contents in fashion, game and lifestyle, whereas Douyin delivers more entertainment, knowledge and comedy content. Importantly, the iconic Kuaishou Playlet has already penetrated 260mn DAU on Kuaishou, among which 130mn of the users watch over 10 episodes per day.
- **Revenue mix:** Though both are SFV platforms, Kuaishou and Douyin differ in revenue mix. As of 2021, 53% of Kuaishou's revenue is from online marketing (Douyin 65%⁴), 38% from livestreaming (Douyin 18%), representing different their monetization focus.
- **Merchant share:** For the eCommerce business, we note the SFV players have proven their success in driving proliferation of livestreaming shopping. Both continue to gain share in the eCommerce industry from conventional eCommerce platforms, though Kuaishou is lags behind in market share.

⁴ We calculate Douyin/Bytedance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

Exhibit 20: We expect the user engagement gap with Douyin to maintain stable, with Kuaishou excels in attracting exclusive users and lower-tier cities' users; The two companies remain differentiated as in content verticals, together gaining share in the eCommerce industry
We calculate Douyin's/Bytedance's (both Not Covered) relevant operating metrics (engagement, revenue, GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance



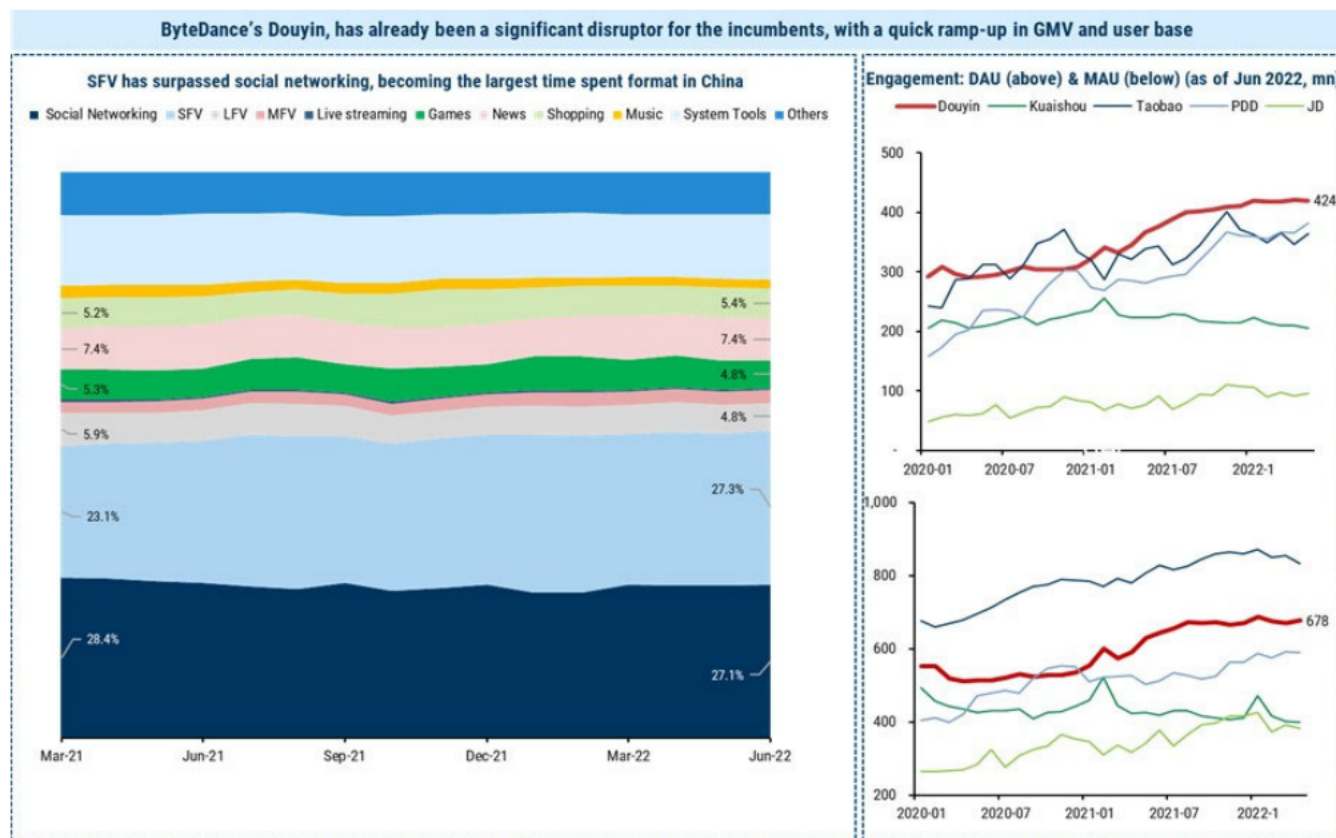
Source: Company data, Questmobile

Engagement: Sticky user base, room for further time spent share gain, defensive business moat and expanding content categories

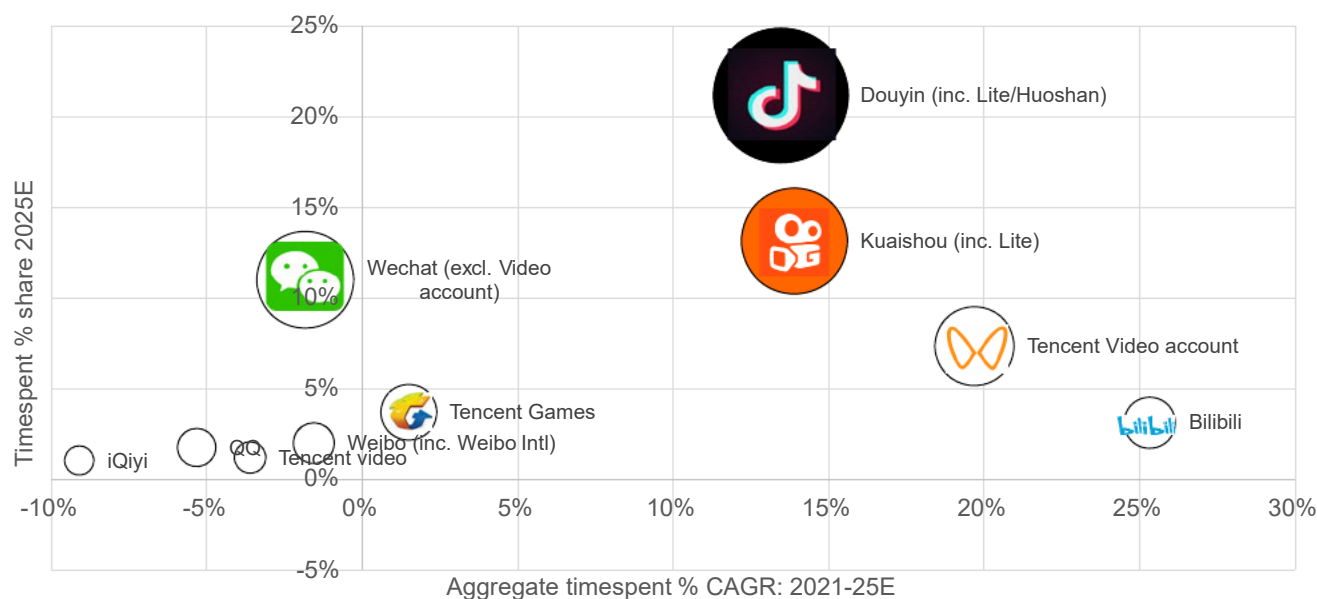
A leading SFV-based content community and social platform with a unique value proposition, poised for further user growth and healthy engagement:

After a decade of accumulating content and amassing a large user base, Kuaishou now ranks among the top 3 apps in the China Internet space on absolute DAU and time spent (behind Weixin and Douyin) and is still growing. With its differentiated social network connections and various content offerings, we believe Kuaishou has a solid foundation to further improve its user engagement. We expect Kuaishou to increase its DAU to 403mn (9.4% CAGR over 21-24E), MAU to 674mn (a stable c.60% DAU/MAU ratio at 24E) and total time spent to c.20bn mins (13% market share) by 2024E, on the back of its **1)** unique yet, broadening platform appeal securing it a highly loyal user base; **2)** defensive business moat that helps it gain time spent share from other online entertainment mediums, while partly fending off competition from its closest peer Douyin; **3)** deep, yet still-expanding content categories that should help Kuaishou to obtain users from higher-tier cities.

Exhibit 21: The SFV players as significant disruptors: GMV scale and growth, as well as user base



Source: QuestMobile (as of June 2022), Goldman Sachs Global Investment Research

Exhibit 22: We expect the SFV players and Bilibili to remain the strongest growers in time spent %

We calculate Douyin's/Bytedance's (both Not Covered) relevant operating metrics (engagement, revenue, GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

Source: QuestMobile, Goldman Sachs Global Investment Research

Unique yet, inclusive platform appeal

From niche to mainstream, Kuaishou has been a classic example of TAM expansion in the China internet space: starting as a small community for users in lower-tier-cities/rural China to share their diverse lives through SFVs, Kuaishou has grown its scope of content and users over the past decade, becoming the 2nd-largest mainstream entertainment platform for internet users, particularly in the less developed parts of China (i.e. 59% of users from tier-3 & below cities, vs. the 65% average for overall China Internet).

For most online entertainment platforms, it is important to have an identifiable and sizable "**funnel**" where traffic aggregates. The funnel is the core appeal that attracts users to the platform, ranging from blockbuster content, popular content creators/performers, innovative platform features, and an inclusive online community.

- At the early stages of their respective development cycle, those funnels channel traffic from the target user base to the platform, where users can be later converted to paying users through various monetization methods (ads, tipping, eCommerce, etc). For example, game livestreaming platforms like Huya aggregate user traffic from the vast gamer population in China and provide tipping as a value-add service; Tencent Music Entertainment (TME) derives traffic from the wide funnel of online music users and monetizes through either online music services (subscription) or social entertainment services (livestreaming and online karaoke). Kuaishou, in this case, is a highly sticky, like-minded user base, i.e. the unique **online community** for users in lower-tier-cities/rural China to share their diverse lives through SFVs.

- Yet, we note a handful of online entertainment platforms have successfully broadened their platform appeal through careful execution of branding events and content category expansion, which in turn helps the platforms to branch out to a more representative user group, lengthen the time spent on a per-user basis, and monetize these users through multiple methods. In the case of Kuaishou, we believe the core appeal of the platform has emerged into a ubiquitous **SFV-based content platform for creating, sharing and discovering short videos and social media powerhouse** for internet users in under-developed China, while gradually expands its influence towards high-tier cities. In this UGC (User Generated Content) video platform, users are usually both the content creator and the content consumer.
- **Compounded appeal also gives rise to multiple legs of monetization.** The inclusiveness of Kuaishou's platform appeal allows it to host multiple formats of content including SFV and livestreaming seamlessly without disrupting user experience, while these content contain highly efficient monetizeable properties (incl. SFV for feed ads, livestreaming for tipping, eCommerce and recruitment).

Defensive business moat that helps it gain time spent share from other online entertainment mediums, while partly fending off competition from its closest peer

Guided by its motto, 'embrace all lifestyles', Kuaishou establishes close bonds between users and creators (who also emerge from its user base), building a trust-based online community. Kuaishou has industry-leading user stickiness resulting from a close-knit community culture that provides users with a strong sense of belonging, which in turn enhances retention. We see such community culture as the key to the unparalleled user stickiness amongst its users with growing pairs of mutual followers on the Kuaishou App exceeding 20bn as of 2Q22, implying an average DAU has c.**6 followed accounts which also follow back to that specific DAU.**

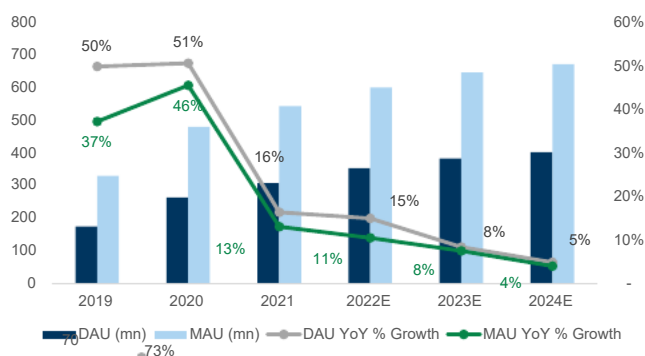
While competition within the SFV space between Kuaishou and Douyin remains intense, leading to continuous pressure in user acquisition and retention for Kuaishou, we expect Kuaishou's user engagement gap with Douyin to maintain at a stable level, with aggregate DAU/time spent of Kuaishou stabilizing at c.50%/c.60% of Douyin's level, driven by:

- **Rationalization of competition on users as both platforms** are at the later-cycle of the penetration curve. For Kuaishou, we believe the organizational restructuring since 3Q21 has provided the company levers to improve internal cost synergies, while Douyin has embarked on cost reductions and efficiency enhancements since 1H22 (per management).
- **Despite steadily increasing user overlap** among Kuaishou and Douyin (from 58% in Dec-18 to 64% in June-22), we see Kuaishou remaining a unique online community that provides differentiated value propositions to its targeted users, hence we expect its existing user group will remain highly loyal to the platform and represent its key defensive business moat. Specifically, we note among the 277mn overlapping MAUs between the core apps of Douyin (40%) and Kuaishou (66%), the overlapping users spent on average 63min/45min daily on Douyin/Kuaishou

separately, with the 42%/58% time spent distribution among the 2 platforms remaining largely stable over the past 3 years.

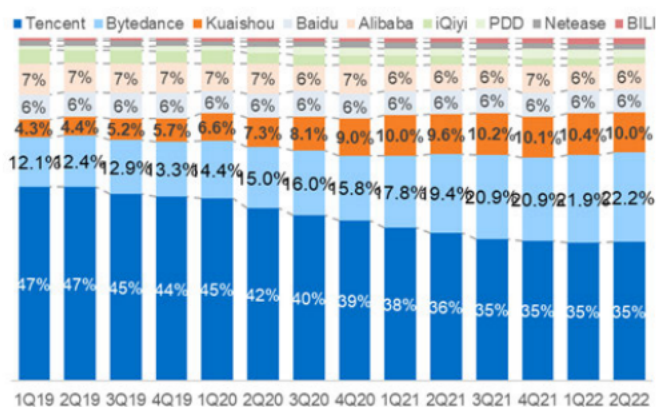
- While we do not consider Douyin's any potential user acquisition of Kuaishou's existing user base as a direct threat, we acknowledge Kuaishou is facing the challenge on user engagement growth coming from the declining % of exclusive users.
- Additional leg of growth from organic user expansion, **1)** expansion of use cases beyond SFV, Kuaishou is also widely used as the social media app of tier-3 cities & below users, **2)** improvement of the recommendation algorithm with the growing user base and proliferation of data.

Exhibit 23: We expect Kuaishou to continue expanding its user base, and exceed its target of 400mn DAU by 2024E
Kuaishou's DAU and MAU growth from 2019-2024E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 24: Kuaishou's time spent share % within the top 400 apps fluctuates around 10%



Source: QuestMobile

Deep, yet still-expanding content categories should allow Kuaishou to obtain users from higher-tier cities

Kuaishou, as the platform that has become one of China's largest aggregators of interest-based communities for a long tail of evolving tastes and interests of the broader China Internet users residing in both lower- and higher-tier cities, has been consistently taking time spent share from LfV/social media. Based on Kuaishou's current user demographic distribution (tier-1/-2/-3 and below accounts for 17%/18%/65% of its users, QuestMobile data), we estimate the platform has reached **25%, 37% and 39% penetration** in tier-1/-2/-3 cities and below, respectively. We do not foresee a meaningful change in Kuaishou's user base distribution % by geography going forward, yet its penetration into higher-tier city users should ramp up slowly, in our view.

Aside from the regular channel marketing (traffic purchase) and better user retention, Kuaishou also deploys a number of differentiated user growth strategies to expand its user base, tailored for higher-tier city users, including:

- **Expansion in differentiated content verticals to facilitate penetration into higher-tier city users** with careful monitoring of ROI. Kuaishou's featured short drama, also known as **Kuaishou Playlet** (10-20 episodes, 2min per episode) is an extension derived from its UGC ecosystem. Produced by home-grown creators on

the Kuaishou platform, the short drama has been an effective content format for Kuaishou to penetrate into the female users in tier-1/-2 cities. As of 2Q22, **64%** of Kuaishou's DAU watch Playlet on a daily basis, among which over **50%** of Playlet DAU watch over 10 episodes per day.

- **Branding event that involves celebrities' live streaming session.** For instance, Jay Chou's livestreaming event has attracted over 10mn preregistration viewers, with cumulative number of viewers exceeding 110mn and current viewers exceeded 6.5m, per the company.

Advertising (non eCommerce): Under monetized vs. peers, 4Q22 return to DD growth on improving brand budgets

China's online advertising (ex. eCommerce) reaching a saturation stage. Online ad spend as a % of total ad spend in China is among the highest across major economies in the world. As online advertising has reached the latter half of its penetration curve, our bottom-up analysis projects ad revenue at the top 20 China online platforms to grow **8%** yoy in 2022E, the first single-digit % yoy growth on record, followed by 17% yoy in 2023E (after a 37% 2017-20 CAGR). We expect online advertising spending to pick up moderately in 2023E with the industry seeing a combination of recovery and re-base from: **1) Cyclical shifts** that should follow with sequential improvements; **2) Structural changes** that dampened the monetization model, but the base should reset after its 1-year anniversary. Specifically:

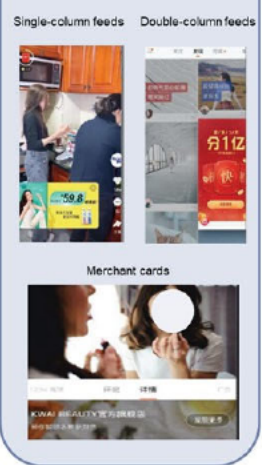

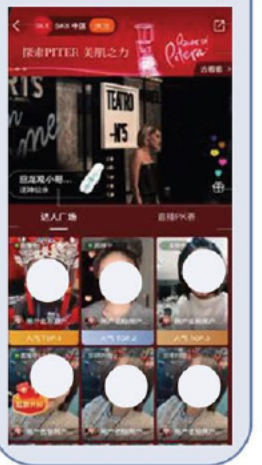


1) Cyclical shifts:

- We expect Covid lockdowns and slower macro recovery to distort the original recovery path for China online advertising, with demand remaining weak in 3Q22E. Merchants in regions affected by the pandemic had delayed/canceled their advertising budget allocation, given the weaker sentiment, especially among verticals with high offline exposure (franchising, tourism and franchising) and SME merchants.

2) Structural changes:

- Regulatory actions on major advertising categories such as education, games and insurance have curbed the eCPM (effective cost per mile) improvement. Sequentially we expect easing comps as escalated regulatory actions on AST education started in May-2021 and concluded in **July-2021**.
- Regulatory changes impacting advertising network revenue as regulations on splash screen ads have affected monetization conversion since **3Q21**.
- Regulatory measures that reduce ads targeting including PIPL (personal information protection law) also have had a negative impact since **3Q21**.

Exhibit 25: Performance ad formats

#1: Feed ads	#2: Recommendation Window	#3: Brand Live Streaming	#4: Live Streaming PK events	#5: Promotion tasks
 <p>Single-column feeds Double-column feeds</p> <p>Merchant cards</p>	 <p>RED EARTH</p>	 <p>SK-II</p>	 <p>京东家电</p>	 <p>Games, online classes, apps</p>
<p>CHANDO 自然堂</p> <p>溪木源 smpcare</p> <p>Celebrities and KOLs make recommendations + Purchase with one click + Higher conversion rate</p>	<p>RED EARTH</p> <p>Celebrities and KOLs make recommendations + Purchase with one click + Higher conversion rate</p>	<p>SK-II</p> <p>Multiple components + instant conversion + full-time coverage of pre and post live streaming sessions</p>	<p>JD.com</p> <p>Support customization for advertisers Increase brand exposure + conversion rate through multiple KOLs</p>	<p>Games, online classes, apps</p> <p>Diversified marketing scenarios + efficient conversion rate. Advertisers post the tasks, KOLs choose the tasks.</p>

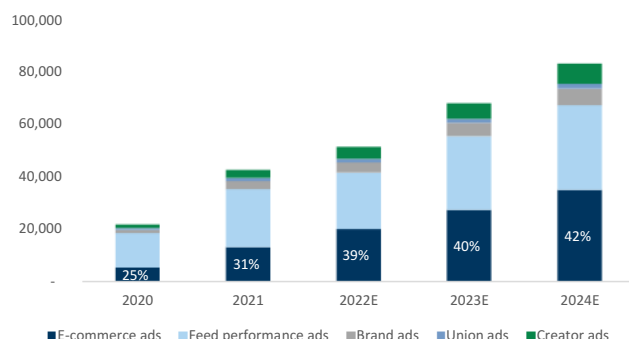
Source: Company reports

For 2H22E, we expect ad format with more quantifiable ROI to prevail in the macro economic downturn. We expect a relatively steeper recovery path in performance ads vs. brand ads, given more measurable ROI, more ad-hoc budget allocation, vs. brand ads that have a longer value chain involving budgeting, content design and production, etc.

For 2023E, while we forecast an industry recovery, it will not be a 'rising tide lifts all boats' scenario. Amidst a gradually moderating industry growth profile, we examine our advertising coverage based on 3 metrics and expect incremental ad revenue growth to be skewed towards platforms with:

- 1. Growing engagement**, i.e., room for total ad load increase, as incremental time spent becomes increasingly scarce even among the top funnel traffic platforms (i.e., the two SFV leaders that captured 27% of total time spent on smartphones in 2021, or 75% of time spent growth in 2018-21); We believe SFV players (Douyin, Kuaishou, Tencent Weixin Video Account) and Bilibili fit into this category.
- 2. Additional ad inventory to unlock** that provides the platform with a new cohort of ad customers and ad budget, such as closed-looped eCommerce performance ads. We believe SFV fits into this category.
- 3. Improving ad conversion efficiency** through better ad targeting from the massive user data generated from user engagement, and utilization of AI technologies to enable more accurate and personalized distribution of advertising content; and improving platform appeal for advertisers. We believe Kuaishou fits into this category.

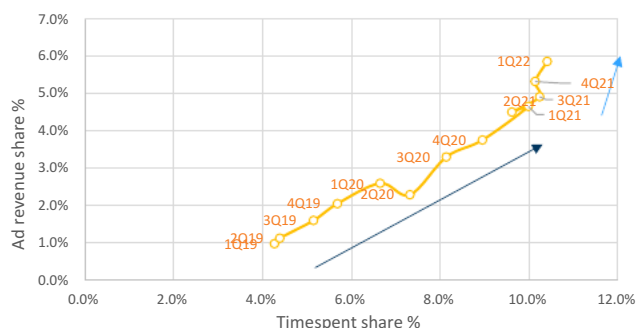
Exhibit 26: Kuaishou: We expect eCommerce ads to grow at a 34% 2021-25E CAGR (vs. 17% of non eCommerce ads), on improving penetration of the MAC base. Within non-ecommerce ad, we expect the emerging ad formats (brand ads, creator ads and ad union) to grow at a 29% CAGR.



Source: Company data, Goldman Sachs Global Investment Research

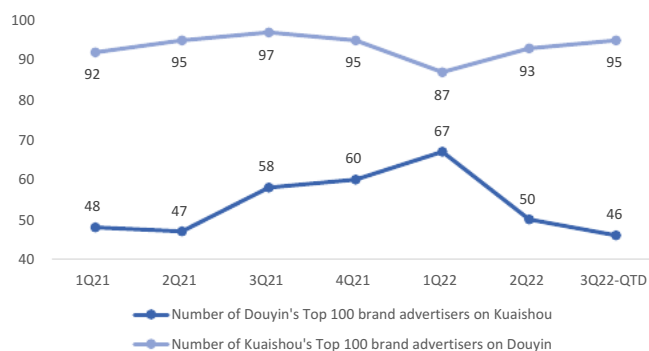
Exhibit 27: Kuaishou: Steady improvement in both time spent share and ad revenue share in the past 3 years

We have not included 2Q22E data, as major advertising platforms have not disclosed results



Source: Company data, Goldman Sachs Global Investment Research, QuestMobile

Exhibit 28: Brand ad: Douyin has penetrated c.90% of Kuaishou's top 100 brand advertisers, while Kuaishou has penetrated c.50% of Douyin's top 100 brand advertisers



Source: AppGrowing

Kuaishou to continue to obtain incremental ad budgets: While its ad revenue growth will moderate relative to its hyper growth phase in 2017-2021, we expect the company's growth profile **will continue to outpace that of the sector** at 21%/32%/22% yoy in 2022/23/24E (after an 223% 2017-21 CAGR), backed by the following drivers:

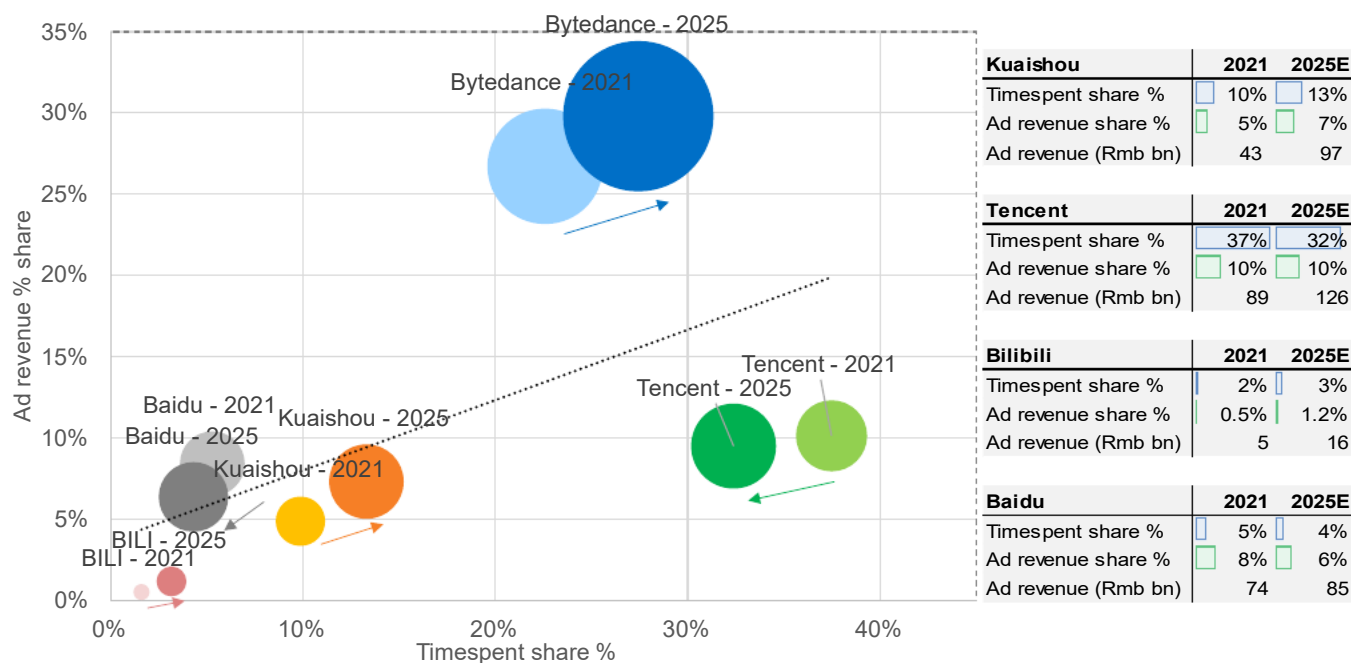
- **Further room for engagement growth:** Kuaishou covers 10% of the aggregate time spent among China mobile internet usage, which we estimate to further rise to 13% by 2025E.
- **Additional ad inventory to unlock:** Kuaishou provides a comprehensive set of ad offerings including feed-performance ads, eCommerce ads, brand ads, creator ads and ad union. Among which, we expect eCommerce ads should grow at 34% 2021-25E CAGR (vs. 17% of non eCommerce ad), on improving penetration of the MAC (monthly active customer) base (180mn in 2025E, doubling from Kuaishou's current MAC at 91mn). Within non-ecommerce ads, we expect the emerging ad formats (brand ads, creator ads and ad union) to grow at a 29% CAGR, outpacing

the conventional feed performance ad to grow at a 14% CAGR.

- **Improving ad conversion efficiency:** Kuaishou stands out as the online advertiser that sees the steepest uptick in advertising monetization efficiency, measured by ad revenue/time spent, based on our projected 2021-25E time spent and ad spend among all major China online advertisers.

Exhibit 29: We expect further incremental time spent share and ad dollar share gains for Kuaishou and certain peers

time spent market share and ad revenue market share of Kuaishou and peers

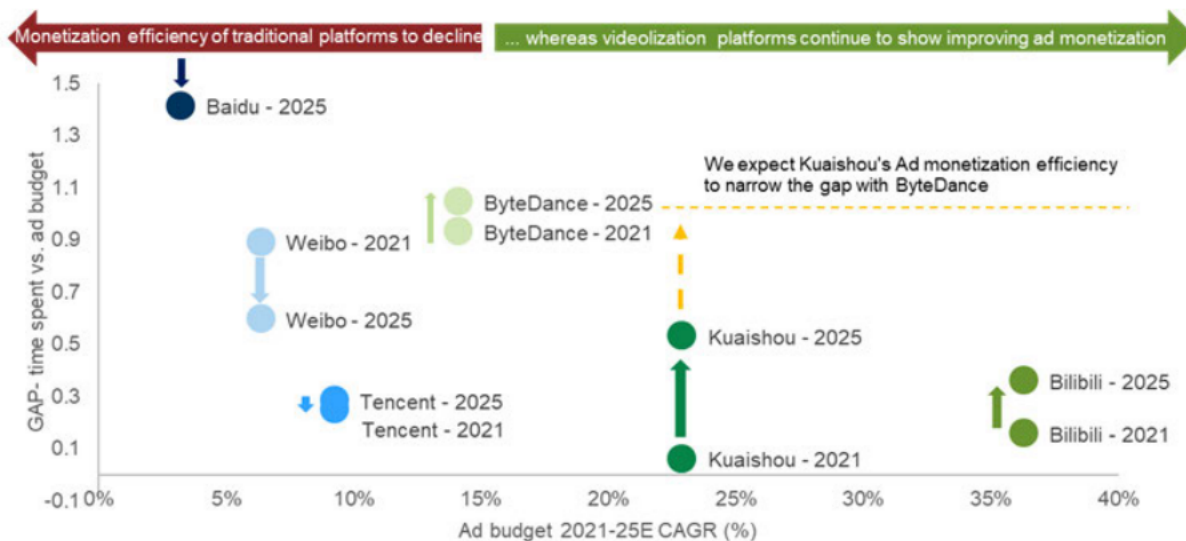


Data only reflects the domestic portion of time spent/advertising revenue for all players. We calculate Douyin/Bytedance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

Source: Company data, Questmobile, Goldman Sachs Global Investment Research

Exhibit 30: We expect video-rization platforms to show improving monetization efficiency in contrast to the decline of traditional platforms

Ads monetization efficiency of major players in China internet



We calculate Douyin/ByteDance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/ByteDance

Source: Company data, Questmobile, Goldman Sachs Global Investment Research

Exhibit 31: Kuaishou: Performance ad volume mix by vertical

		3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Entertainment	文化娱乐	37%	23%	22%	28%	20%	29%	23%	31%
Game	游戏	7%	23%	26%	20%	13%	16%	27%	23%
Dating	社交婚恋	2%	3%	1%	1%	3%	13%	14%	5%
F&B	食品饮料	5%	3%	4%	4%	5%	1%	2%	4%
Software	软件应用	2%	5%	4%	3%	2%	5%	4%	4%
E-commerce	综合电商	2%	4%	4%	7%	5%	9%	8%	7%
Domestic services	生活服务	1%	3%	2%	3%	2%	4%	2%	3%
Electronics & Appliance	数码家电	1%	1%	1%	1%	2%	0%	1%	2%
Others	其他	42%	36%	35%	32%	49%	22%	19%	20%

Source: AppGrowing

Exhibit 32: China online advertising: Kuaishou to outpace most other social/media advertisers in 2022E, expect for Bilibili

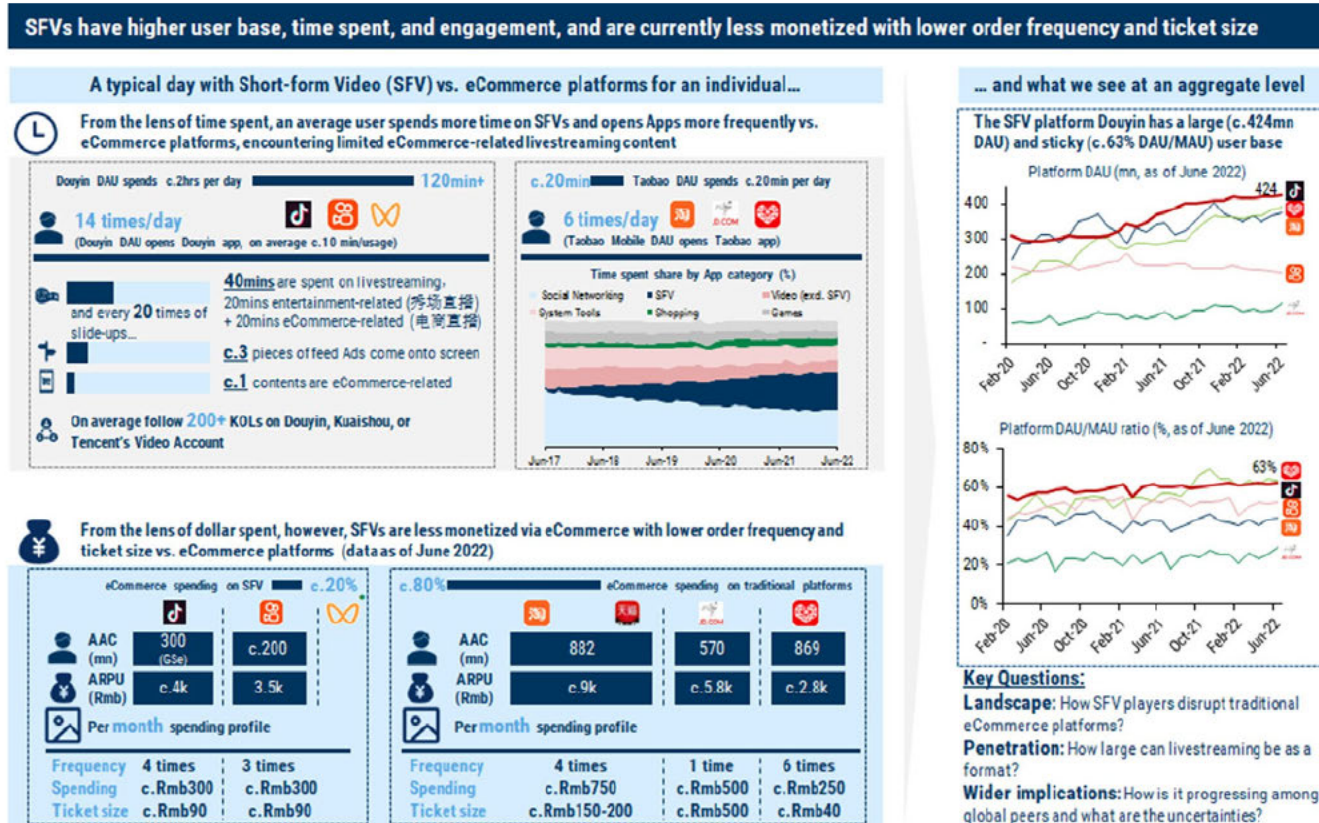
Rmb mn	2019	2020	2021	2022E	2023E	2024E	2025E	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E
CHINA ONLINE ADVERTISING REVENUE															
CHINA															
Tencent	58,377	82,271	88,666	81,965	95,105	110,935	126,489	21,820	22,833	22,495	21,518	17,988	18,534	21,410	23,929
- Media	15,510	14,277	13,313	11,048	11,380	11,380	11,380	3,339	3,300	3,473	3,200	2,300	2,500	2,952	3,296
- Social and others	52,867	67,994	75,353	70,917	84,725	99,555	115,109	18,481	19,533	18,946	18,318	15,688	16,134	18,458	20,633
iQIYI	8,271	6,822	7,067	5,219	5,603	6,016	6,413	1,917	1,825	1,660	1,665	1,337	1,194	1,215	1,473
Weibo	10,558	10,274	12,785	11,244	13,421	14,467	15,464	2,528	3,240	3,494	3,518	2,712	2,556	2,840	3,136
NetEase	2,246	1,841	1,754	1,762	1,797	1,833	1,870	358	395	452	549	365	376	461	560
Xiaomi	10,690	12,741	18,131	19,302	23,538	27,821	31,861	3,894	4,530	4,766	4,941	4,525	4,557	4,933	5,287
Bilibili	817	1,843	4,523	5,702	8,599	11,798	15,619	715	1,049	1,172	1,588	1,041	1,150	1,435	2,067
Short Form Video (incl. e-com ads)	86,619	200,139	276,465	315,663	395,832	448,606	494,202	58,652	67,532	76,359	73,922	62,948	65,698	84,825	86,407
Kuaishou	7,419	21,855	42,665	51,507	68,142	83,329	97,406	8,558	9,952	10,909	13,236	11,351	11,006	12,530	16,619
Total	200,180	329,051	423,145	463,970	560,071	638,335	709,802	93,535	104,906	113,702	110,993	93,625	97,164	120,371	126,475
% yoy	37%	64%	29%	7%	23%	14%	11%	41%	37%	24%	18%	0%	-7%	6%	14%
ECOMM. /O2O															
Alibaba (CMR - ads)	174,609	207,555	232,289	230,177	242,769	249,538	254,431	44,805	60,219	52,337	74,928	45,502	55,198	52,469	77,008
JD (JD Mall ads)	23,167	32,192	38,753	50,955	55,887	59,453	63,346	8,184	10,094	8,886	11,589	12,899	13,184	9,817	15,055
PDD	26,914	47,954	72,563	94,916	105,115	122,876	138,376	14,111	18,080	17,945	22,425	18,158	25,173	22,803	29,782
Meituan	15,840	18,908	29,065	33,776	51,509	62,336	74,760	5,602	7,216	8,022	8,183	7,019	7,215	8,677	11,009
VIPS	1,091	1,642	2,164	1,676	2,011	2,212	2,434	400	580	516	668	277	426	439	534
Total	241,621	308,251	374,855	411,500	468,282	496,516	533,347	73,103	96,189	87,707	117,793	85,856	101,196	94,204	132,389
% yoy	36%	28%	22%	11%	11%	8%	7%	61%	27%	15%	5%	15%	5%	7%	12%
SEARCH															
Baidu	78,093	72,840	80,450	77,092	82,557	86,818	91,254	18,094	20,828	21,050	20,723	16,929	18,268	20,411	21,484
Baidu core (excl. iQIYI)	59,822	66,018	73,628	71,873	76,954	80,802	84,842	16,177	19,003	19,390	19,058	15,592	17,074	19,195	20,011
Total	77,309	71,905	76,868	74,838	79,958	83,853	87,962	17,069	19,974	20,298	19,657	16,207	17,710	19,836	20,922
% yoy	-3%	-7%	7%	-3%	7%	5%	5%	19%	13%	3%	-2%	-5%	-11%	-2%	5%
TOTAL	492,539	710,104	874,931	940,308	1,098,319	1,218,708	1,331,110	183,711	221,069	221,707	248,443	193,588	216,060	234,411	279,485
% yoy	29%	44%	23%	7%	17%	11%	9%	46%	30%	18%	10%	5%	-2%	6%	12%
Rev yoy %															
SOCIAL/MEDIA															
Tencent	18%	20%	8%	-8%	17%	15%	14%	23%	23%	5%	-13%	-18%	-18%	-5%	11%
- Media	-15%	-6%	-7%	-17%	3%	0%	0%	7%	0%	-4%	-25%	-31%	-24%	-15%	3%
- Social and others	33%	29%	11%	-6%	19%	18%	16%	27%	28%	7%	-10%	-15%	-17%	-3%	13%
iQIYI	-11%	-16%	4%	-26%	7%	7%	7%	25%	15%	-10%	-10%	-30%	-35%	-27%	-12%
Weibo	6%	-3%	24%	-12%	19%	8%	7%	31%	34%	21%	17%	7%	-21%	-19%	-11%
NetEase	-10%	-18%	-5%	0%	2%	2%	2%	2%	-15%	-5%	0%	2%	-5%	2%	2%
Xiaomi	6%	19%	42%	6%	22%	18%	15%	46%	46%	45%	34%	16%	1%	3%	7%
Bilibili	76%	126%	145%	26%	51%	37%	32%	234%	201%	110%	120%	46%	11%	22%	30%
Short Form Video	86%	131%	38%	14%	25%	13%	10%	48%	44%	32%	32%	7%	-3%	11%	17%
Kuaishou	346%	195%	95%	21%	32%	22%	17%	151%	156%	76%	56%	33%	10%	15%	26%
Total	37%	64%	29%	7%	23%	14%	11%	41%	37%	24%	18%	0%	-7%	6%	14%
ECOMM. /O2O															
Alibaba (CMR - ads)	26%	19%	12%	-1%	5%	3%	2%	45%	17%	5%	0%	2%	-5%	0%	3%
JD (JD Mall ads)			20%	31%	10%	6%	7%	38%	18%	21%	12%	58%	31%	10%	30%
PDD	134%	78%	51%	31%	12%	16%	13%	157%	64%	44%	13%	29%	39%	27%	28%
Meituan	69%	19%	54%	16%	53%	21%	20%	96%	67%	42%	35%	25%	0%	8%	35%
VIPS	92%	51%	32%	-23%	20%	10%	10%	21%	60%	40%	-5%	-31%	-26%	-15%	-20%
Total	36%	28%	22%	10%	11%	8%	7%	61%	27%	15%	5%	15%	5%	7%	12%
SEARCH															
Baidu	-5%	-7%	10%	-4%	7%	5%	5%	27%	18%	4%	0%	-6%	-12%	-3%	4%
Baidu core (excl. iQIYI)	-4%	-5%	12%	-2%	7%	5%	5%	27%	18%	0%	1%	-4%	-10%	-1%	5%
Total	-3%	-7%	7%	-3%	7%	5%	5%	19%	13%	3%	-2%	-5%	-11%	-2%	5%
TOTAL	29%	44%	23%	7%	17%	11%	9%	46%	30%	18%	10%	5%	-2%	6%	12%

Source: Company data, Goldman Sachs Global Investment Research

eCommerce: Expect RMB1.7trn in GMV by 2025, driven by MAC penetration, merchant base and category expansion

eCommerce is the next key driver of growth for SFV players, from livestreaming shopping (impulsive/unplanned shopping) to bigger ambitions ahead (e.g. shelf eCommerce). **SFV players have proven their success in driving proliferation of livestreaming shopping**, accounting for **15%** of total online retail GMV by 2021 (from 3% in 2019), driven by **(1)** SFV's large DAU (daily active user base) and long daily time spent, **(2)** the move to closed-loop eCommerce transactions within the SFV platforms, **(3)** the strengths in algorithms for recommendations to a highly engaging user base, and **(4)** availability of KOLs/millions of long-tail live broadcasters in China, as well as (5) mature online payment and fulfillment infrastructure. For more in-depth analysis, please find our industry report, 'Short-form video-rization: Assessing the potential ceiling and lessons from China' (link).

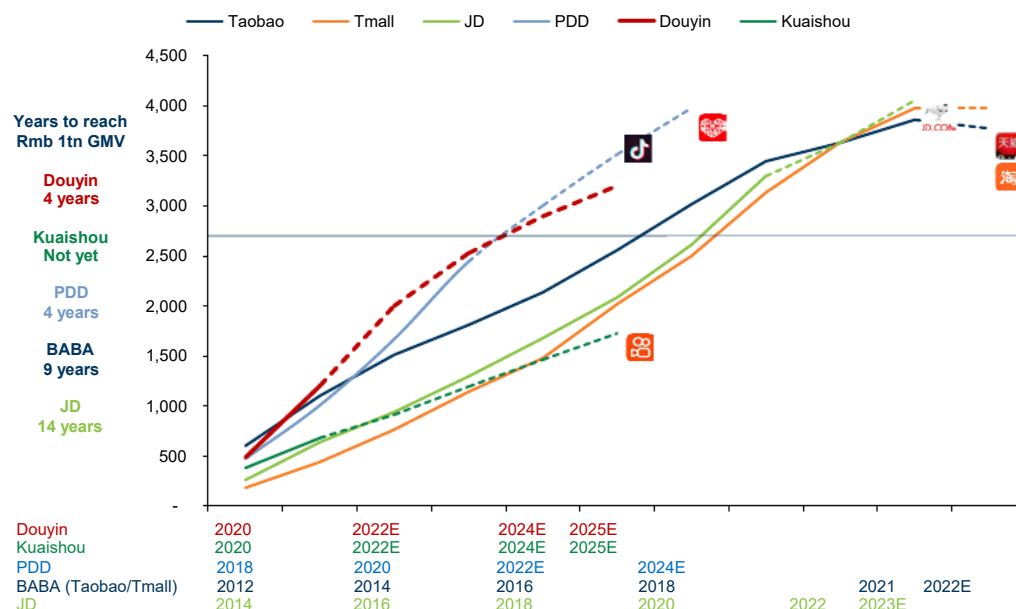
Exhibit 33: SFV vs. traditional eCommerce: From the lens of shoppers



1) Note: We calculate Douyin/Bytedance's (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance 2) * Tencent's livestreaming eCommerce development still in early stage hence data not available

Source: Quest Mobile (as of June 2022), Goldman Sachs Global Investment Research

Exhibit 34: We expect Kuaishou to reach Rmb1trn in GMV by 2023E for eCommerce (5yrs), vs. BABA/JD/PDD of 9/14/4 years



We calculate Douyin/Bytedance's (Both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance;

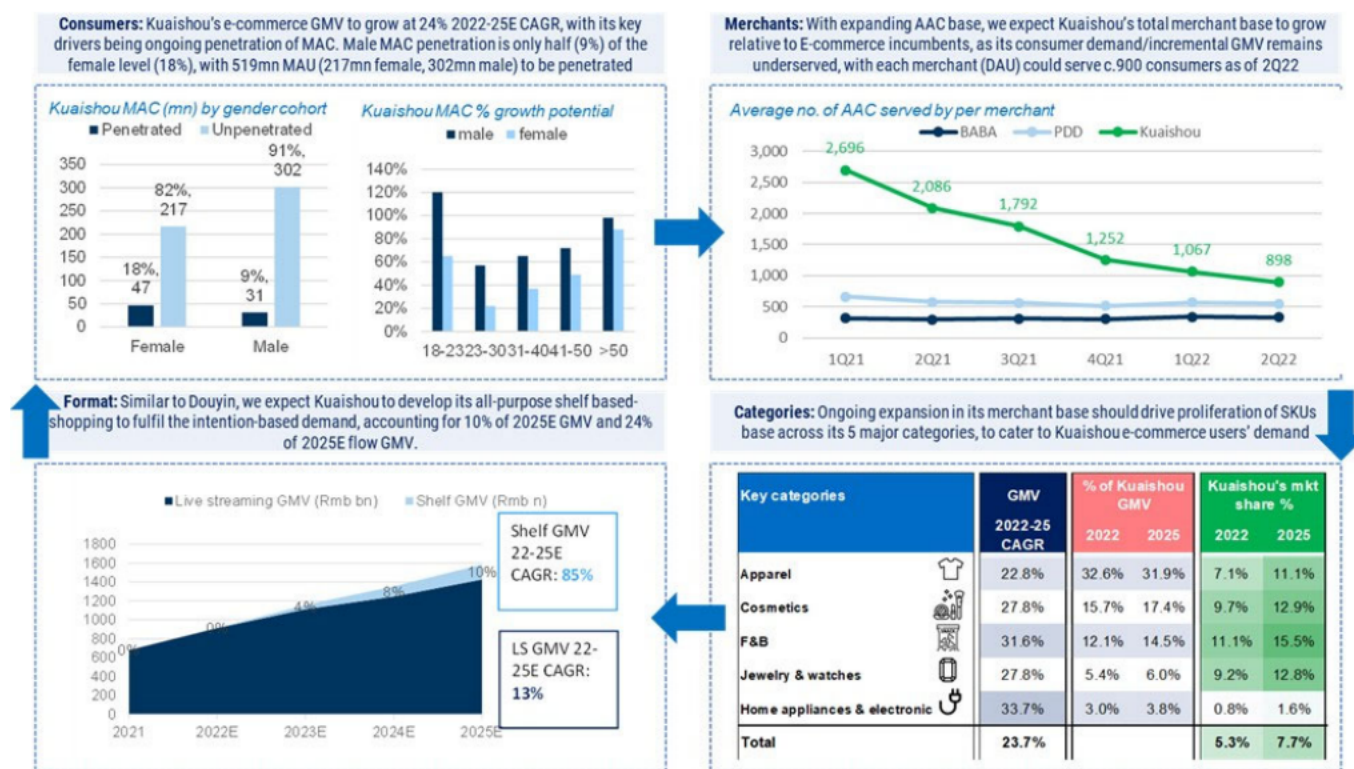
Source: Company data, Goldman Sachs Global Investment Research

As China's 2nd-largest SFV platform by DAU/MAU/time spent, **Kuaishou has already become China's 7th-largest advertising venue in 2021**, which we expect to further improve, moving it to **5th place in 2025E**, surpassing Baidu and JD (JD mall ads), of which 30-40% are attributed to eCommerce alone. We expect Kuaishou's eCommerce GMV to grow at a 24% 2022-25E CAGR (from 2019-21 CAGR of 55%), ahead of the industry at 9% CAGR, and to capture 8% of China's online retail market share by 2025E (from 5% in 2022E). Our thesis for Kuaishou's continued market share gains is based on:

- Improving penetration of Kuaishou's MAC (monthly active customer) base
- Expanding merchant base to address the growing and diverse demand
- Proliferation of SKUs base across its 5 major categories
- Kuaishou remaining laser-focused on trust-based eCommerce, while expanding shopping formats from livestreaming to shelf eCommerce

Exhibit 35: We expect Kuaishou to achieve GMV growth at a 24% 2022E-25E CAGR, driven by MAC penetration, merchant base and category expansion, as well as development of the shelf-based shopping format

Top left user cohort chart is based on 2021 data



Source: Company data, Goldman Sachs Global Investment Research

Shopper: Improving penetration of Kuaishou's MAC base

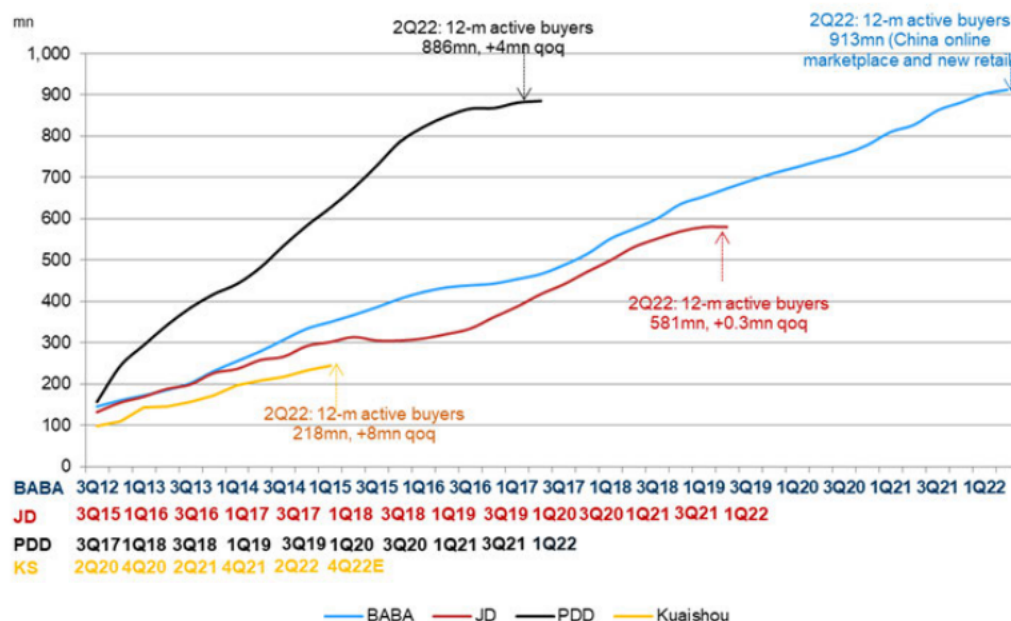
We forecast improving penetration of Kuaishou's MAC (monthly active customer)

base, from 97mn (16% of MAU) in 2022E to 180mn (26% of MAU) in 2025E,

specifically driven by:

- 1. Lower-tier city users** (tier-3 & below), with over 18mn of the 25mn high spending AAC coming from tier-3 & below cities. We expect Kuaishou to continue to gain AAC user share in lower-tier cities, while steering away from the intense competition within higher-tier cities.
- 2. Younger users** (age below 30), whose ARPPU offers strong growth potential, with Kuaishou building its presence in specialized categories to further penetrate into this cohort (e.g. The largest category by GMV for male users aged between 18-23 is second-hand goods).
- 3. Male users**, whose MAC penetration is only half (9%) that of the female level (18%) on Kuaishou, with 519mn MAU (217mn female, 302mn male) to be penetrated; more importantly, ARPPU of the male user cohort still has room to grow and is substantially lower than its female counterparts, with only 6mn of the 25mn high spending AAC (annual ARPPU > Rmb5,000/US\$750) being male.

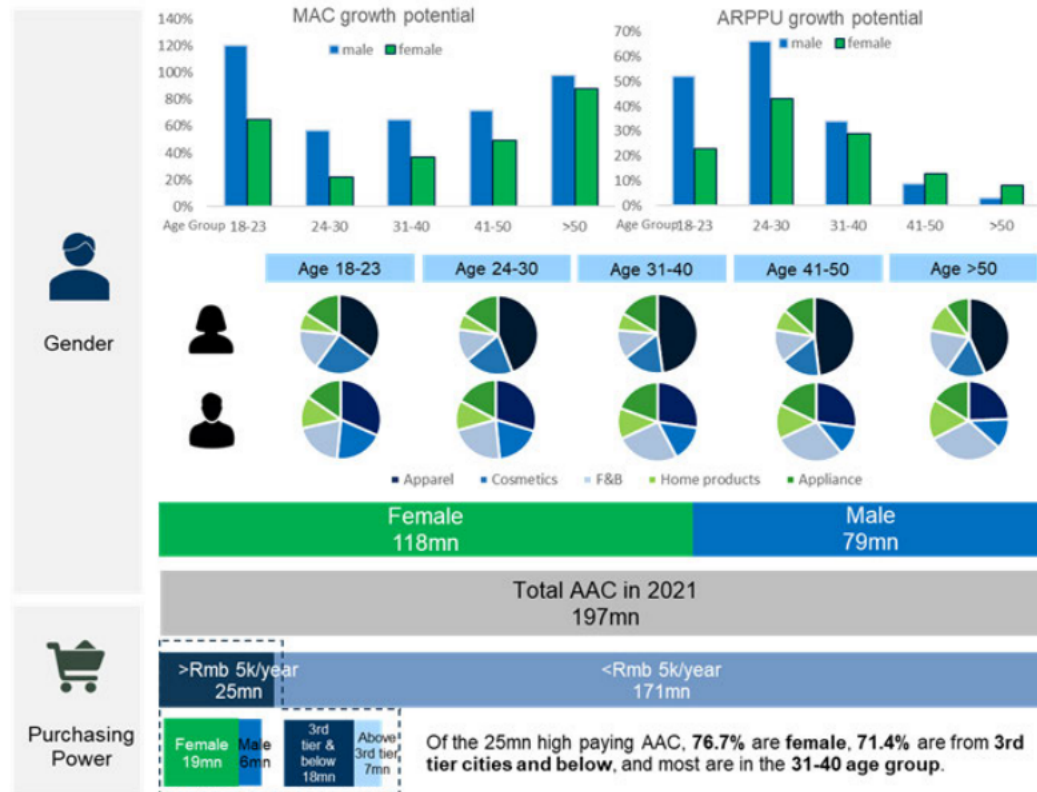
Exhibit 36: On the consumer front, we believe Kuaishou remains in the early stage of expanding its AAC from the current 218mn (vs. 587mn group MAU)



12-m active buyers means total no. of buyers who purchased within LTM

Source: Company data

Exhibit 37: While females represent a larger porportion both in Kuaishou's eCommerce AAC and high-paying AAC, males have higher user growth and consumption growth potential in most age groups



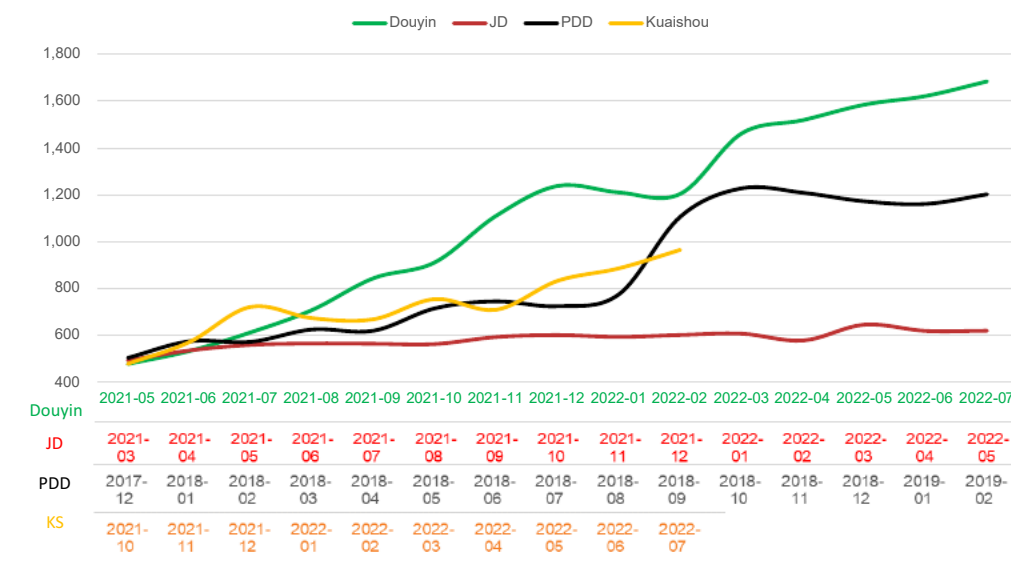
Source: Company reports, Goldman Sachs Global Investment Research

Merchant: Expanding merchant base to address the growing and diverse demand

In an environment where incremental traffic and GMV is becoming increasingly scarce, the expanding AAC base at Kuaishou should continue to encourage merchants to open stores within Kuaishou. Longer-term, we expect Kuaishou's total merchant base to grow quicker relative to eCommerce incumbents, as its consumer demand remains under-served, with each merchant (which we proxy with merchant app DAU) on average serving over 900 consumers as of 2Q22, while other incumbents are ranging between 300-500 consumers per merchant. Near-term, Kuaishou's merchant base expansion is also demonstrated by our high frequency tracker (see our [China 400 app tracker](#)), with Kuaishou taking 8% of the merchant MAU % share as of July-22, up from 3% in July-21. By merchant segmentation, Kuaishou sets out a framework known as the SMK strategy (combination of established brands (S, 10% of GMV), home-grown white label merchants (M, 70% of GMV), KOLs (K, 20% of GMV), enabling Kuaishou to address customers' diverse demand.

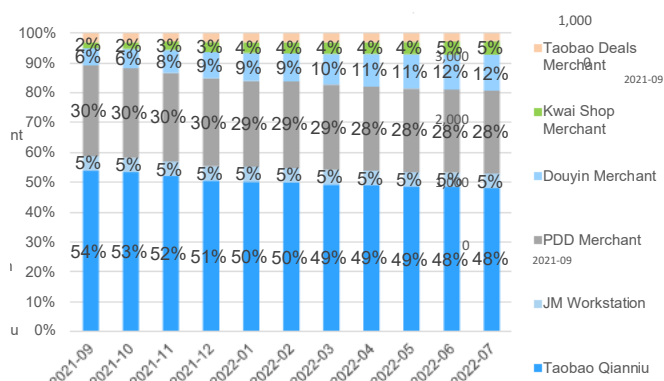
- **S (10%):** Known and established brands cover industries with high consumer loyalty, including E&A and cosmetics, a merchant cohort to address demand of high-ARPPU consumers while also improve Kuaishou's overall platform image as well-known brands alleviate consumers' concerns on product quality.
- **M (70%):** Kwai brands (快品牌), the emerging brands that was home-grown from livestreaming rooms within Kuaishou, also the key components for Kuaishou eCommerce merchant base. Leveraging the Kuaishou platform, Kwai brands shorten sales process by removing layers of distributors, ensuring quality while enjoying direct access to consumers. The prosperity and rapid growth of Kwai brands in return improve the abundance and quality of product offerings on the platform, stimulating future purchase and increasing GMV.
- **K (20%):** The KOLs allows brands to reach market by leveraging the diverse-positioned influencers to reach and attract different types of end-consumers. Utilizing the numerous influencers also enables Kuaishou to promote long-tail brands and products.

Exhibit 38: Merchant MAU growth comparison: Current Kuaishou merchant MAU growth at a similar pace to PDD in 2018, yet slower than Douyin in 2021



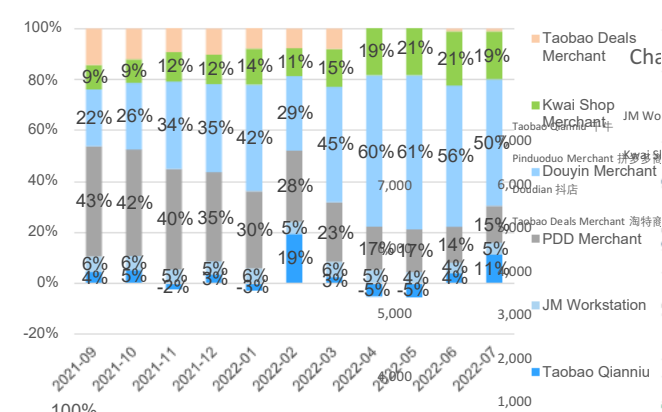
Source: QuestMobile

Exhibit 39: Merchant DAU % share - Kuaishou merchant DAU % share improved to 5%, while Taobao qianniu DAU% share decreased to 48% (-7ppt yoy)



Source: QuestMobile

Exhibit 40: Merchant yoy incremental DAU % share: Kuaishou obtained c.20% of the incremental merchant DAU in recent months



Source: QuestMobile

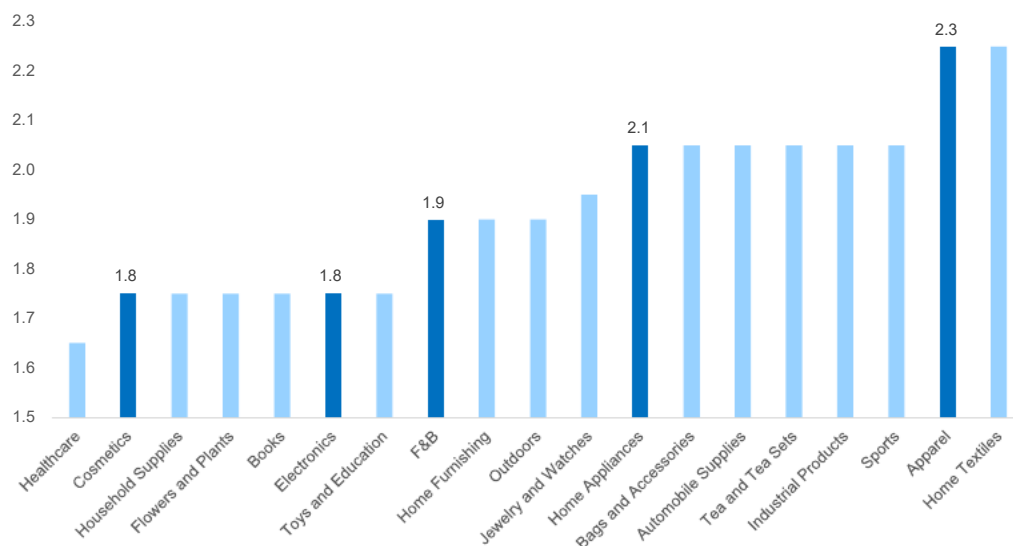
Categories: Proliferation of SKUs base across its 5 major categories

Apparel, cosmetics, food & beverages are the three top categories for Kuaishou and the broader livestreaming eCommerce thanks to lower ticket size, better illustration of the products and ability to create better interaction with consumers. Amongst which, apparel contributes 33% of total GMV. We are expecting a more diversified category pattern on Kuaishou going forward, with (1) mature categories like cosmetics, jewelry, apparel continuing to grow, as the immersive experience takes more and more attention from customers, (2) for emerging categories like electronics & appliances, with infrastructure development, Kuaishou can achieve a certain level of growth. Our forecast of Kuaishou taking 8% of China eCommerce GMV share is cross-checked by our GMV estimates by categories. **By 2025E, we model an average shopper on Kuaishou will make an average of 8.2 purchases on a monthly basis, including 2.7 orders of**

apparel, 1.3 orders of cosmetics, 1.1 orders of F&B, 0.4 orders of E&A (electronics & appliance) and 0.2 order of jewelry.

Exhibit 41: Apparel, the largest category by GMV contribution on Kuaishou is among the categories with the highest ROI

Merchant ROIs of major categories on Kuaishou



Source: Company data

Apparel: We expect online apparel sales to grow at a 7.3% CAGR over 2021-25E, on improved online penetration from 47% in 2021 to 55% in 2025E, within which we expect apparel livestreaming penetration to improve from 27% in 2021 to 38% in 2025E, making it one of the most penetrated categories by the format.

For Kuaishou, we expect apparel to remain the largest category on GMV contribution by 2025E, but with a slight decline in GMV contribution. While its growth profile will come in slower than other categories, we expect Kuaishou to continue to gain shares (22% CAGR vs. industry at 7%), driven by:

- The non-intentional shopping demand of apparel can be realized through livestreaming sessions and SFV format, relative to conventional eCommerce.
- Flexible livestreaming sessions and the relatively short SFV production cycles cater to the strong seasonal effect and rapid changes in demand in the apparel industry.
- Consumers have the constant need to feel the fabrics of clothing, which conventional eCommerce platforms often fail to meet. Livestreaming sessions alleviate these problems to a certain extent by displaying the apparels close-up and under different lighting, coordinated with detailed and intelligible descriptions of textures.

Cosmetics: We expect online penetration of cosmetics to largely run its course, with the cosmetics online market to grow in line with the overall market to Rmb2.3trn by 2025E (vs. 1.3trn in 2021), on a stable online penetration rate, while cosmetics livestreaming penetration continues to increase from 30% in 2021 to 41% in 2025E.

For Kuaishou, we expect cosmetics to remain the 2nd-largest category in terms of GMV contribution by 2025E, with Kuaishou to continue to gain shares, driven by:

- Similar to apparel, the non-intentional shopping demand of cosmetics can be realized through livestreaming sessions and SFV format, relative to conventional eCommerce, given users have a clearer grasp and understanding of the products' effects.
- That said, we acknowledge brand effect is crucial in the cosmetic industry, a weakness of Kuaishou due to its lower-tier city brand image. In terms of the brand mix, we note that well-known beauty brands are missing on Kuaishou and almost all cosmetic brands on the platform are Kwai brands (white label products), which tend to have a lower AOV but could be mitigated with brand loyalty and repurchase rate.

F&B: We expect the online fresh food market to reach Rmb1.6trn by 2025E, with online penetration growing, from 21% in 2021 to 30% in 2025E, while livestreaming penetration remains at low teens. Amongst which, we expect fresh food livestreaming penetration to remain at a relative low level, growing from 9% in 2021 to 12% in 2025E as conventional eCommerce platforms already took up large market share and channel.

For Kuaishou, we expect F&B to remain the 3rd-largest category on GMV contribution by 2025E, with Kuaishou to continue to gain shares, driven by:

- The two core elements 'Delicious' and 'Hygienic', which can be better demonstrated in multiple formats with the SFV/livestreaming sessions, including advertisement, vlogs, Kuaishou Playlet (短剧) etc.
- Proliferation of SKUs driven by merchant recruitment from established upstream industry clusters.
- Large user base and market size with diverse demands to be addressed.






Home appliances & electronics: Despite the high online penetration, we believe livestreaming as a format is less effective for electronics & appliances vs. other categories given its higher AOV relative to other categories, hence longer purchase decision cycle. We expect online E&A to grow at a 7.6% CAGR over 2021-25E, on improved penetration, from 53% in 2021 to 58% in 2025E. We expect Taobao to lose market share to the livestreaming E&A market and JD to maintain its market position in the total online market. We expect E&A to improve the livestreaming penetration rate, reaching 13% in 2025E from 4% in 2021.

For Kuaishou, we expect E&A to remain the 5th-largest category on GMV contribution by 2025E, driven by:

- With high prices and low purchase frequency, the decision-making cycle for consumers is relatively long, hence Kuaishou's strength in private traffic offers professional and personalized purchasing advice, reducing consumers' concerns and improving sales.
- High consumer loyalty exists in home appliances and electronics, and brand effect is crucial, a weakness of Kuaishou due to its brand image.

- Higher requirements for logistics, installation and after-sales, an area Kuaishou is less focused on.

Exhibit 42: eCommerce: On the demand side, Kuaishou's growth to be driven by strong MAC (monthly active customer) penetration, slight upticks in AOV (average order value) and a slight dip in order frequency

Key categories		GMV (Rmb bn)			MAC (mn)		AOV (Rmb)		Monthly order frequency/ MAC		% of Kuaishou GMV		Kuaishou's mkt share %	
		2022	2025	2022-25 CAGR	2022	2025	2022	2025	2022	2025	2022	2025	2022	2025
Apparel		297	551	22.8%	97	180	87	93	2.9	2.7	32.6%	31.9%	7.1%	11.1%
Cosmetics		143	300	27.8%			104	110	1.2	1.3	15.7%	17.4%	9.7%	12.9%
F&B		110	251	31.6%	Penetration		104	110	0.9	1.1	12.1%	14.5%	11.1%	15.5%
Jewelry & watches		49	103	27.8%			196	208	0.22	0.23	5.4%	6.0%	9.2%	12.8%
Home appliances & electronics		28	66	33.7%	16%	26%	74	79	0.32	0.39	3.0%	3.8%	0.8%	1.6%
Total		912	1725	23.7%			92	98	8.5	8.2			5.3%	7.7%

Source: Company data, Goldman Sachs Global Investment Research

Format: Remain laser-focused on trust-based eCommerce, while expanding shopping formats from livestreaming to shelf eCommerce

The trust-based eCommerce model is the crux of Kuaishou's growth in livestreaming eCommerce which has helped boost its market share in this segment (80%+ of Kuaishou users mostly purchase from acquainted streamers). Leveraging the successful private domain traffic Kuaishou has built over the years, trust, initially between streamers and users, naturally transferred to the trust between merchants and buyers, stimulating purchase behaviors and promoting conversion rates and monetization. Trust-based eCommerce relies on:

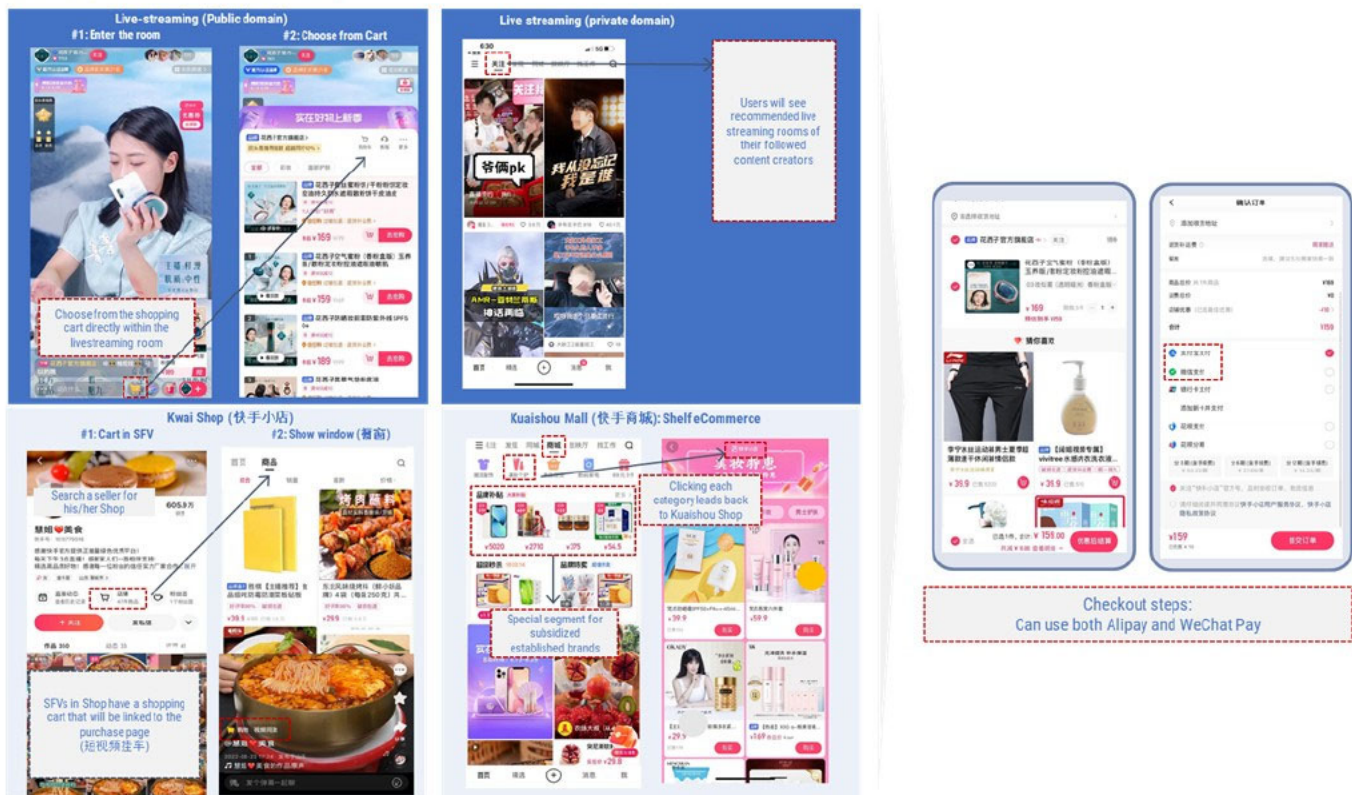
- Kuaishou establishing itself as a social platform, encouraging interactions between users and streamers and forging personal bonds through short form videos and livestreaming. Compared to conventional eCommerce platforms, the traits of social platforms easily enable streamers to approach the target buyers, efficiently convey product details and gain customers' trust.

- Private domain traffic has always been the strength of Kuaishou, compared with its SFV and livestreaming peers. The key aspect of private domain traffic is the accumulation and maintenance of user relationships, constructing a trusting, cooperative and intimate community and forecastable user base, which requires constant devotion of time, budget and operation. Gaining dominance in private domain traffic, Kuaishou is already steps ahead in monetizing user-relationships through trust-based eCommerce (70% of its eCommerce GMV is from private domain traffic, repurchase rate was 70%+ in 2021).

Kuaishou is now expanding into all-purpose shelf based-shopping. With Douyin upgrading its eCommerce strategy to universal interest eCommerce (“全域兴趣电商” in Chinese) in May 2022, a year after its introduction of interest eCommerce in Apr 2021, Kuaishou has followed suit and also began the testing of an all-purpose shopping function by starting its Beta test of Mall entrance within its APP as of Aug-2022. We set out our base case scenario whereby shelf-based (non-livestreaming) shopping could account for 10% of Kuaishou’s GMV by 2025E, below 24% of Douyin’s GMV (in the base case) by 2025E, depending on 2 variables: **1)** the varying degree of disruption from Douyin & Kuaishou to incumbent traditional eCommerce players; **2)** the varying levels of success of Kuaishou’s expansion into public domain eCommerce⁵.

Exhibit 43: The four ways to shop on Kuaishou’s app include livestreaming (public & private domain), kwai shop and kuaishou mall

Four ways to shop on Kuaishou App



Source: Company data, Goldman Sachs Global Investment Research

⁵ For more details on our industry assumptions for shelf-based shopping please see our concurrently published sector note.

Exhibit 44: Bull/base/bear case for SFV players' eCommerce market share

	Bear-case for SFV platforms in eCommerce, i.e. bull-case for traditional eCommerce players	Base-case for SFV platforms in eCommerce	Bull-case for SFV platforms in eCommerce, and bear-case for traditional eCommerce players
Assumptions	SFV platforms' GMV growth quickly decelerates, traditional eCommerce platforms (BABA/JD/PDD) are able to sustain a healthy market share of 83% vs. 88% in 2021		
Total online retail goods GMV by 2025E (Rmb tn)	from Rmb16tn (2021) → Rmb22tn		
2021-25E online GMV CAGR	21-25E CAGR 9%		
Implied online retail goods penetration (on NBS definition)	from 31% (2021) → 36%		
2025E Gross GMV market share (Rmb tn)			
Livestreaming sizing (SFV platforms, Taobao Live, Tencent Video Account and other traditional platforms' livestreaming GMV)			
Livestreaming ceiling (Rmb tn)	Rmb5tn	Rmb6tn	Rmb7tn
Assumptions	we expect some short-term declines in a few categories over 2023 even possible when China re-opens, then flattens out from 2024	we expect some further penetration in key categories	we expect further penetration in all the categories
Livestreaming GMV % total online by 2025E vs. 2022E of 19%	from 15% (2021) → 21%	from 15% (2021) → 25%	from 15% (2021) → 30%
2025E Livestreaming GMV breakdown (Rmb tn)			
Assessing SFV platforms' shelf eCommerce potentials			
2025E SFV platforms' shelf eCommerce market (Rmb tn)	Rmb0.4tn	Rmb1.0tn	Rmb2.6tn
2025E SFV platforms' shelf eCommerce share % as of online sales	2% vs. BABA 2025E market share of 38%	4% vs. BABA 2025E market share of 36%	11% vs. BABA 2025E market share of 30%
2025E Douyin's shelf-based eCommerce as % of Douyin GMV	13% broadly flat from 2022E levels	25%	40%
2025E Kuaishou's shelf-based eCommerce as % of Kuaishou GMV	5%	10%	15%

Note: We calculate Douyin/Bytedance's (both Not Covered) relevant operating metrics (GMV, category mix, etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/Bytedance

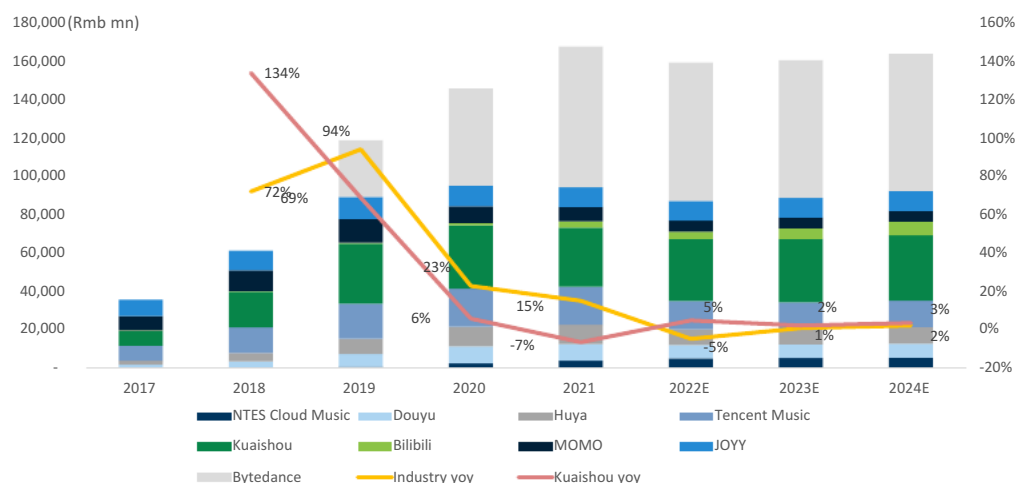
Source: Company data, Goldman Sachs Global Investment Research

Livestreaming: Slower growth but no innovation in monetization format, margin to improve

China entertainment livestreaming ex-growth

We remain cautious on China's virtual gifting livestreaming sector (as first flagged in our [TME downgrade note](#) in March 2021) as we believe monetization from virtual gifting (incl. entertainment, games, showroom etc) will remain ex-growth — with both engagement and monetization per user reaching a mature stage. Intensified competition among platforms to attract leading livestreamers will lead to higher revenue sharing — in general driving down gross margins and leaving uncertainties for loss-making entertainment names' breakeven timeline, while currently profitable pure-play livestreaming platforms could incur losses given lack of diversified revenue streams.

Exhibit 45: China's livestreaming industry has seen a continual yoy decline; Kuaishou's livestreaming revenue yoy growth has gradually converged with that of the industry



SFV: short-form video, LS: livestreaming

Source: Company data, Visible Alpha Consensus Data, Goldman Sachs Global Investment Research

The growth trend in the aggregate revenue of nine companies with sizable livestreaming exposure over the past 5 years shows the livestreaming industry has seen consistent and sequential yoy growth deceleration (though partly affected by Kuaishou/Bytedance joining the industry in 2017/2019). And although various companies have attributed this lack of growth to non-industry specific factors over time — such as the U.S-China trade war, COVID 19, and more recently broader Internet regulatory scrutiny in 2021 — we see no evidence of a pick-up in growth as these headwinds have moderated.

We expect market shares to continue to be reshuffled and that platforms with more diverse sources of traffic — SFVs (Kuaishou, Douyin, WeChat video account), engagement growers that are undermonetized (Bilibili) — will outperform legacy platforms such as YY Live, Huya, Douyu. That said, we expect growth to converge as the entire industry continues on a down-cycle:

- **The absence of innovation is capping engagement and revenue growth potential.** As one of the most mature yet among the least innovative business in the internet sector, the livestreaming model still relies primarily on features and Multi-Channel Networks' (MCNs) operating strategies — such as *PK*, *War among Houses* and *Year-End Gala* — to drive virtual gifting revenue, with updated features merely ongoing adjustment to these formats. Without innovative content or new monetization models, plus peaked engagement and existing users becoming ever more familiar with MCNs' operating strategies, we think it unlikely the propensity to spend among these users will recover.
- **Regulations.** On Aug 30, 2021, the MCT (Ministry of Culture and Tourism) announced guidelines for livestreaming talent agencies and MCNs (网络表演经纪机构管理办法). The guideline restricts many of MCNs' frequently used operating strategies to drive tipping revenue and place clear restriction on hosts' behaviors, prohibiting hosts from inducing users to tip by providing them special treatment. On 7 May, 2022, MCT, NRTA and CAC jointly issued Opinions on regulating livestreaming and strengthening minor protections, with incremental requirements of removing user rankings that are based on the value of virtual gifts and strengthening management of streaming in peak hours. However, the regulations are less restrictive than the market had anticipated, leaving reasonable room for further monetization.
- **Potential macro slowdown.** We expect virtual gifting livestreaming to be disproportionately impacted by the potential macro slowdown and lasting impact of Covid. Although time spent/engagement benefited from COVID lock-downs, the aggregate yoy growth in revenue of selected livestreaming players still decelerated, to 15% in 2021 from 94% yoy in 2019 (to -1% from 46% if ex. Bytedance) — with livestreaming players attributing this to lower revenue from their heavy spending cohorts, impacted by the macro weakness.
- **Lack of incremental traffic:** We estimate the growth of livestreaming industry MAU (excluding eCommerce livestreaming) will slow down, mainly due to the disruption from short form videos.

Kuaishou market share gain to continue

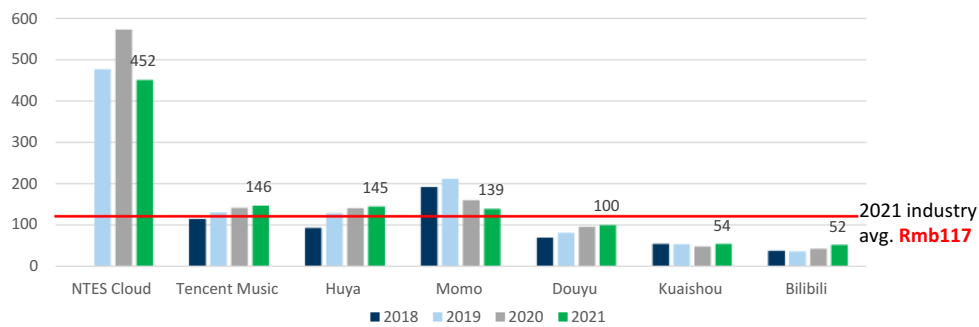
Following a solid 19% yoy livestreaming revenue growth in 2Q22, we forecast Kuaishou has gradually digested the impact of Bytedance's entry to the market and has continued to gain market share from incumbents (which on average saw c.20% yoy revenue decline in 2Q22). We forecast stable market share of 20%-21% over 2022-2024E, specifically:

- **Engagement growth:** leveraging network effect, sufficient traffic and Kuaishou's livestreaming guild (直播公会), Kuaishou is able to attract MCNs and hosts (including top streamers and celebrities) and users to join the platform simultaneously. In 2Q 2022, Kuaishou's livestreaming MAU increase by 18% yoy.
- **Monetization potential:** despite the relatively low ARPPU, we expect Kuaishou livestreaming to increase its paying users through lower-priced virtual gifts and VAS based monetization (e.g. mini games). We forecast MPU to grow to 56.1mn in

2024E, indicating a 5.4% CAGR over 2021-24E.

- **Gross margin improvement:** we expect livestreaming gross margin improvement starting from 2022, driven by Kuaishou’s efficient cost control of cutting revenue sharing expenses. We forecast revenue sharing expense/revenue to drop to 67.6% by 2024E, compared to 72.3% in 2021.

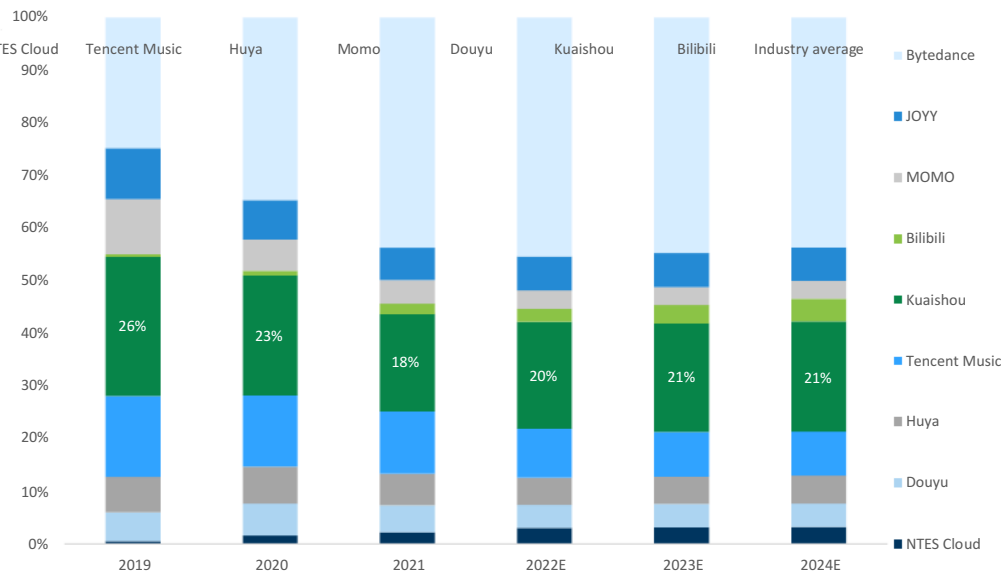
Exhibit 46: We expect Kuaishou’s ARPPU to remain below China livestreaming industry average



NTES Cloud, TME, Bilibili are based on GSe, rest are based on Visible Alpha consensus data

Source: Company data, Goldman Sachs Global Investment Research, Visible Alpha Consensus Data

Exhibit 47: We expect Kuaishou to maintain a c.21% share in China entertainment livestreaming market revenue



Kuaishou, ByteDance, NTES Cloud, TME, Bilibili are based on GSe, the rest are based on Visible Alpha Consensus Data; We calculate Douyin/ByteDance’s (both Not Covered) relevant operating metrics (GMV, category mix etc.) by analyzing the industry and companies that we cover, and then extrapolating them to Douyin/ByteDance

Source: Company data, Goldman Sachs Global Investment Research, Visible Alpha Consensus Data

New businesses: Online blue collar recruitment a key near-term driver

Blue collar recruitment

Kuaishou officially launched its blue-collar recruitment business, Kwai Recruitment (“快招工” in Chinese) in January 2022. Kwai Recruitment adopts a video-based recruitment process, targeting blue-collar workers and college graduates. Unlike traditional recruitment platforms, Kwai Recruitment simplifies recruitment procedures by offering an interactive, livestreaming experience, where workers can apply for jobs simply by leaving their contact information, while also obtaining key details about the position, e.g. work environment and job requirements; all critical and often absent details in what is generally a high-turnover labor group. Kwai’s recruitment solution helps address potential turnover variables by allowing users a chance to gauge job suitability, thereby improving efficiency in the blue-collar job category.

While Kuaishou has yet to quantify targets and share a monetization timeline of the initiative, it says it expects to capture ‘a leading share’ within the online blue-collar recruitment market, built on its 3 core competencies:

- **Massive user scale with 250mn MAU of blue-collar workers**, increased from 130mn in 1Q22, making Kuaishou the online blue-collar recruitment platform with the largest user base. Kuaishou’s short video content ecosystem plays a vital role in converting and retaining blue-collar users without additional costs while conventional online recruitment platforms face high user acquisition and retention costs given job hunting is a low-frequency user behavior (blue-collar workers change jobs 3-5x a year).
- **Removing information asymmetry between the job seekers and employers through the interactive livestreaming model.** With 80% of blue-collar job seekers job hunting across provinces, trust around work culture and job requirements is a critical recruitment draw for blue-collar job seekers. Trust not only provides job seekers a better understanding of their potential employers and positions, it also helps save expenses for both the job seeker and employer (i.e. reduce travel, recruitment spend, etc.). Kuaishou’s interactive livestreaming model gives users a platform to obtain information such as work environment and job details while the interaction helps establish trust among the live applicants/streamers and employers. As of June 2022, Kuaishou reported a peak number of **daily resume submissions, surpassing 360k (from 150K during Lunar New Year 2022)**, the second highest in the industry, along with an **8% conversion ratio**.
- **Kuaishou’s distribution and matching capability** with advanced and diverse traffic. Kuaishou excels in nationwide traffic distribution, with an algorithm that precisely matches the supply and demand of job posting. Initial recruiter feedback suggests Kuaishou’s placement conversion rate is competitive in the industry, and is further evidenced by the increasing number of enterprises, agencies actively seeking cooperation opportunities with Kuaishou. As of end-June 2022, Kuaishou had more than **100,000 corporate partners, including FOXCONN, Gree Electric, JD Logistics, Meituan Food Delivery, Cainiao**.

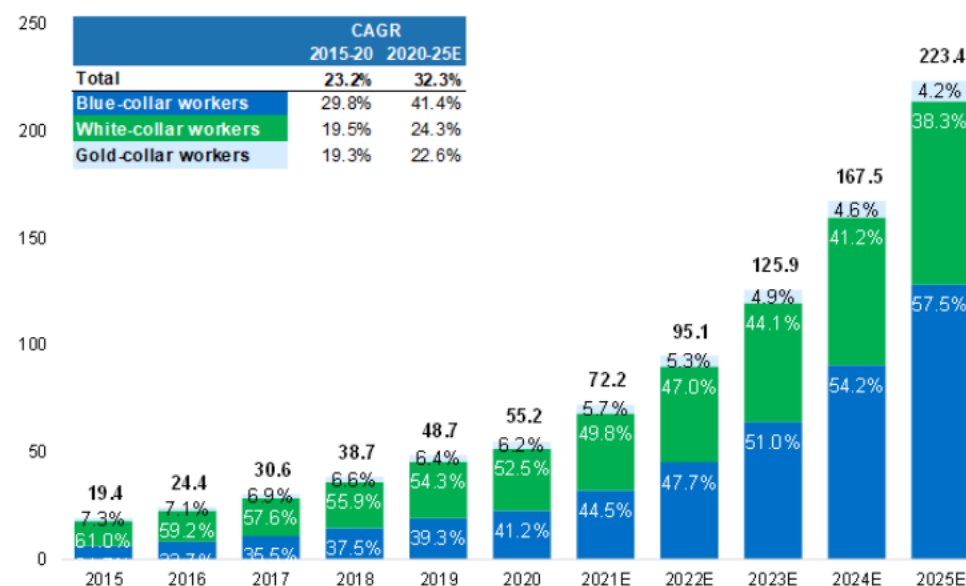
On monetization potential, Kuaishou has initiated small-scale trials of advertisements and has achieved healthy initial results and is also exploring more in-depth monetization models.

Online blue-collar recruitment market potential: Compared with gold-collar and white-collar categories, blue-collar has a larger population base, higher turnover rate, and as a result, higher growth potential in recruitment services penetration. However, blue-collar recruitment is less digitalized vs. white-collar which has led to these job seekers facing severe information asymmetry, as their job seeking is primarily through referrals by acquaintances, or walk-in.

In the past five years, the blue-collar category has been leading online recruitment market expansion. CIC forecasts that revenue growth of China's online recruitment for blue-collar workers will accelerate to a **41%** 5-year CAGR, with revenue of Rmb128bn by 2025E from Rmb23bn in 2020.

Exhibit 48: The blue-collar category is expected to represent 57% of the online recruitment services market in 2025E, as the fastest-growing sector at a 41.4% 5-year CAGR

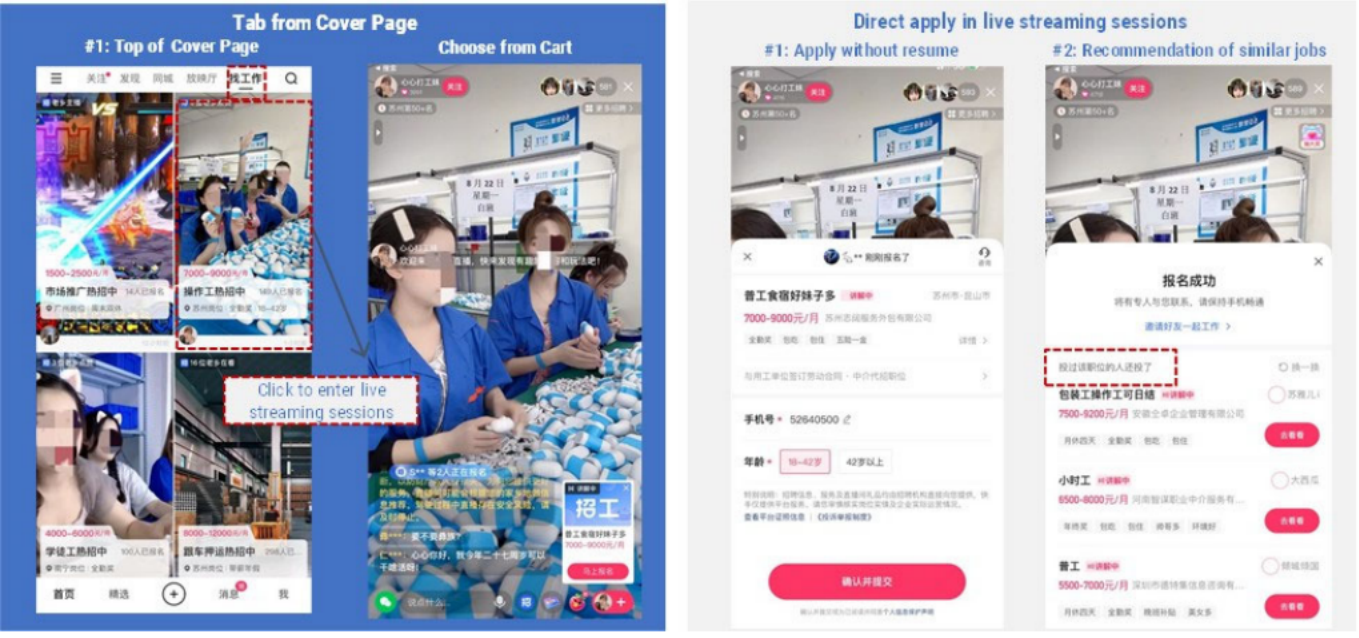
Market size in terms of revenue by job seeker categories (in Rmb bn)



Source: CIC

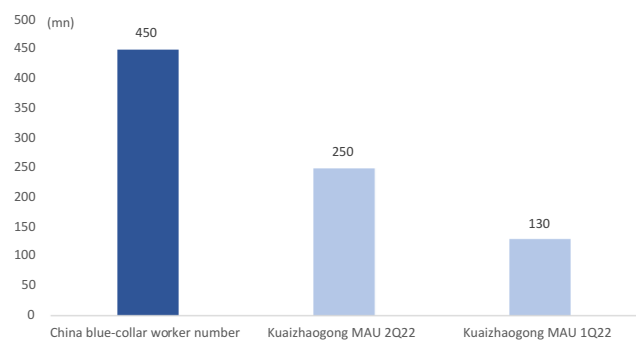
Kuaishou has a natural advantage in capturing market share in the blue-collar online recruitment category with its user distribution: The main users of Kuaishou are from tier-3 and -4 cities, consistent with the needs of blue-collar recruitment. As of 2Q22, "Kwai Recruitment" already had MAU of over 250mn users, c.56% of total blue-collar workers in China.

Exhibit 49: Kuaishou blue-collar recruitment process: 4-clicks to complete CV submission



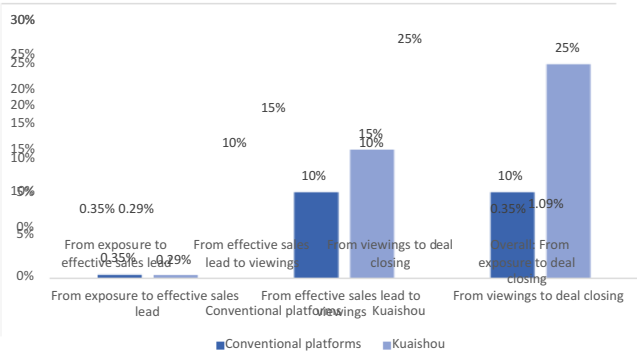
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 50: Kuaishou’s blue-collar recruitment business “Kwai Recruitment” already has MAU of over 250mn in 2022



Source: CIC, Company data

Exhibit 51: Kuaishou has a higher conversion ratio from effective sales leads to viewings and from viewings to deal closing, compared to conventional platforms



Source: Company data

Real estate

Kuaishou commenced its real estate initiatives in April 2022, leveraging livestreaming and short form videos for property postings/demonstration to attract potential buyers. Explaining that Hosts can act as agents, helping schedule viewing arrangements and providing exclusive discounts from developers that cooperate with Kuaishou. According to the company, overall conversion rates (from impression to closing a transaction) of Kuaishou’s real estate business is 3 times higher than conventional platforms (1.09% vs. 0.35%).

Currently, Kuaishou has house listings in 27 cities, mainly new homes or off-plan properties in lower tier cities, mirroring Kuaishou’s user distribution. During a house buying festival Kuaishou conducted on Labor Day in May 2022, 40 new homes were

sold in 5 cities, with a total GMV of Rmb35mn.

Other business

- **Games:** Kuaishou officially set up its game business unit in 2021, aiming to tap into gaming monetization potential as a developer/publisher, instead of just providing gaming SFVs and livestreaming. Kuaishou set up Muyuan Technology as its major entity for its gaming business and has further invested in 7 game-related companies. In 2022, Kuaishou launched 1 MMORPG game (魔力宝贝·旅人 *Cross Gate: Traveler*) and 1 leisure game (超级制造工厂 *Super Factory*) via Muyuan. In May, Kuaishou also reached a game cooperation agreement with Tencent (China's top 2 game publisher), which suggests scope for potential future opportunities.
- **Cloud:** In August 2022, Kuaishou officially launched its video cloud brand *Streamlake*, as a "one-stop AI solution to audio and video" designed to help corporate clients with video creation and distribution, expanding its reach into 2B business. Kuaishou's initiative is to monetize its proprietary technological capabilities in distribution algorithms, AI special effects, cloud video streaming, etc. Over the past year, *Streamlake* has already established cooperation agreements with smartphone makers (e.g. Xiaomi), telecoms (e.g. China Unicom) and content platforms (e.g. Zhihu).
- **Education and pan-knowledge:** Kuaishou expanded into the education sector and started to build its short video+education ecosystem since 2018. Education and pan-knowledge content on Kuaishou primarily consists of videos that help improve personal skills (e.g. agriculture, arts, culinary, etc). Kuaishou aggregates all the paid pan-knowledge classes and livestreaming sessions in the paid selected contents section, providing monetization potential for content creators and streamers. In 2021, pan-knowledge content video views increased by 58.1% yoy and pan-knowledge livestreaming sessions exceeds 33mn.

|

Overseas expansion: Focus on investment ROI and regional markets, near term profit drag

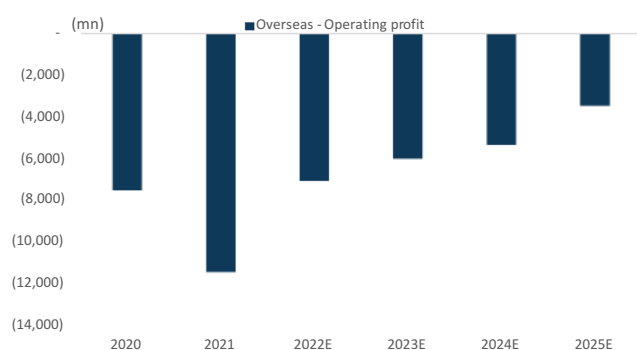
We expect Kuaishou's overseas business to improve moderately with strong revenue growth (from 0.5% of group revenue in 2Q22 to 4.5% in 2025E), and see its ROI-centric disciplined investment plan helping narrow losses over 2021-25E. Until a steeper monetization ramp-up curve/radical cost savings emerges, we do not factor in a breakeven timeline for Kuaishou's overseas business, as we forecast Kuaishou's 2025E revenue from overseas to reach Rmb7.2bn, roughly 40% of JOYY's (Coverage Suspended) current level where it earned a 5% of OPM (non-GAAP).

Overseas business history

Kuaishou started its overseas expansion as early as 2017, marked by the launch of the international version *Kwai* in Thailand, Indonesia, South Korea and Russia. The success of *Kwai* was short-lived however, and was quickly outpaced by *TikTok* (the global platform launched by Kuaishou's closest competitor Douyin in 2017). Despite continued attempts (including launching *Snack Video* and *Zynn* in 2020), Kuaishou still lags behind Douyin in global user engagement (Average DAU c.8% in 2Q22), mainly attributable to:

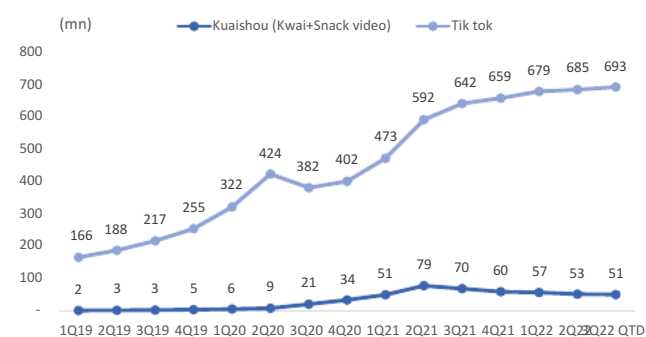
- **Inefficient ways to attract a user base:** When entering the global market, Kuaishou built its user base from scratch by launching its international app, while TikTok gained an initial 200mn+ user base by acquiring *Musical.ly*, a musical video recording platform.
- **Lack of major KOLs:** *Kwai* has not been able to attract local KOLs to join the platform, whereas TikTok leverages the traffic and attention celebrities bring.

Exhibit 52: We expect overseas operating losses to narrow over 2021-25E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 53: Kuaishou lags behind Douyin in global DAU despite its earlier entry to the market



Source: SensorTower

Organizational restructuring

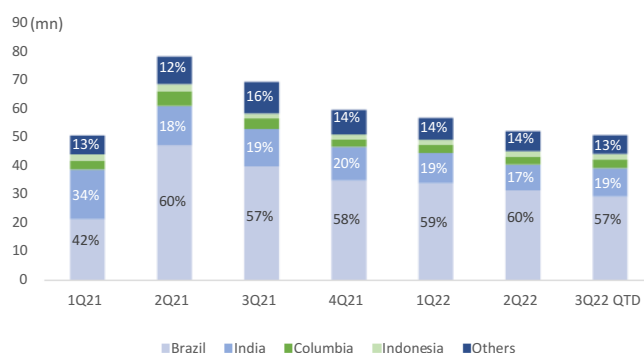
Kuaishou has implemented organizational consolidation in its overseas business by integrating previously separated regional product teams and mid-office teams with the aim of optimizing collaboration and resource utilization since 3Q21. We note the following meaningful changes in Kuaishou's overseas strategy following this

organizational optimization plan: **1)** Strategically scaling back overseas marketing spend and refraining from aggressive investments; **2)** focusing on product, content and technology optimization, improving user stickiness and building social communities, instead of unhealthy user expansion; and **3)** prioritizing expansion in core overseas regions (i.e. Brazil, Southeast Asia and Middle east), while cutting off markets with less potential.

User: Disciplined investment to drive user growth in the Middle East & ASEAN, while maintaining current user scale in LatAm

Since 3Q21, Kuaishou has adjusted its overseas strategy focusing on key markets and sustaining a reasonable market share, with daily time spent per DAU exceeding 60 minutes. In 2Q22, Kuaishou achieved a qoq improvement across all user engagement metrics, but a reduction in overseas S&M, while pursuing efficient growth on the basis of controlled costs through differentiated product positioning, content supply, ecosystem governance, and algorithm technology. In Brazil, Kuaishou built an ecosystem featuring a positive cycle of healthy content creation and consumption results in average daily time spent per DAU of 60mins.

Exhibit 54: Brazil is Kuaishou's most important overseas market, accounting for more than 50% of DAU



Source: SensorTower

Monetization: In a relatively mature market, Kuaishou has been exploring monetization opportunities in livestreaming, followed by advertising and eCommerce. Longer-term, Kuaishou is also actively exploring additional monetization opportunities by advertising through collaboration with livestreaming partners.

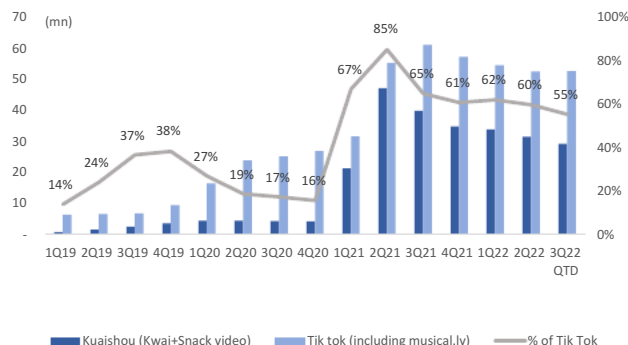
As Kuaishou still aims to deploy 10-20% of S&M in the overseas market in 2022 (from 20% in 2021), we think overseas losses could widen sequentially in 2H22E on an absolute basis. Longer-term, we expect losses to narrow in the overseas market on monetization ramp-up and rationalization of spending, starting with single country-level achieving breakeven, per the company.

In addition to a broadened content ecosystem, Kuaishou's primary overseas user growth strategy is providing subsidies for downloads and retention, as well as aggressive brand marketing. In 2021, international S&M per DAU was Rmb129, 1.6 times vs domestic Rmb106. Corresponding returns, however, were less than expected. Even in its most

competitive market, Brazil, Kuaishou is still underperforming Douyin, despite its earlier market entry.

Exhibit 55: Kuaishou's DAU in Brazil as a % of Douyin, peaked in 2021, however the gap has gradually widened in subsequent quarters

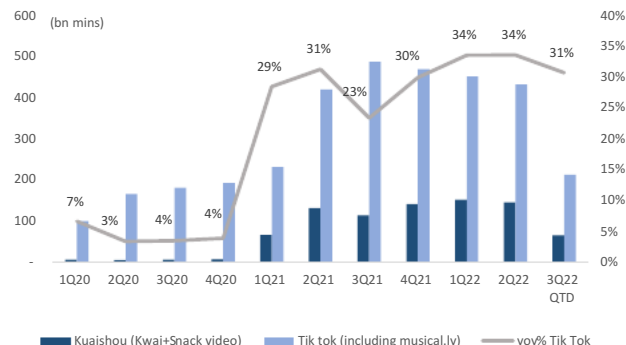
Kuaishou and Douyin DAU comparison in Brazil



Source: SensorTower

Exhibit 56: Kuaishou's time spent in Brazil as a % of Douyin has hovered around 30%, lagging behind Douyin's performance

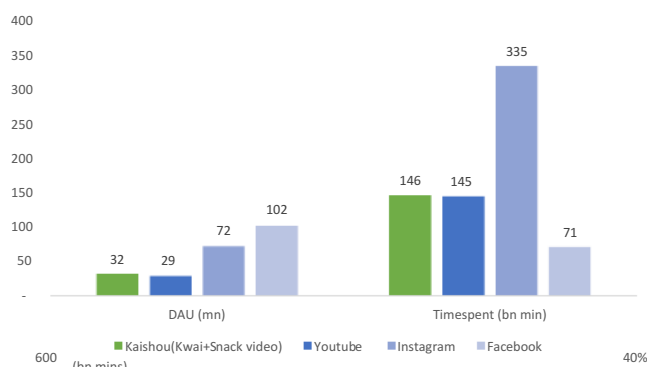
Kuaishou and Douyin time spent comparison in Brazil



Source: SensorTower

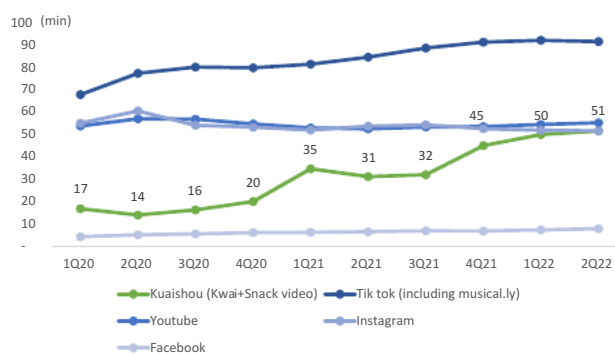
On the flip side, compared with major global peers in the Brazil market, Kuaishou is mostly on par with Youtube in both DAU and time spent and has delivered stronger performance in time spent vs. Facebook. Noticeably, Kuaishou is seeing ongoing improvement in time spent/DAU/day, climbing from 17min in 1Q 2020 to 51min in 2Q 2022, catching up with global peers and narrowing the gap with Douyin.

Exhibit 57: Kuaishou is on par with Youtube in DAU and time spent in the Brazil market, and has two times the time spent vs. Facebook, though is lagging behind Instagram on both dimensions



Source: SensorTower

Exhibit 58: Kuaishou has shown significant improvement in time spent/DAU/day, reaching 51min at 2Q 2022



Source: SensorTower

In relatively under-penetrated markets, yet still Kuaishou's targeted regions (e.g. Indonesia and the Middle East), we observe sequential growth of DAU in 2022, reflecting Kuaishou's successful implementation of increasing marketing and user expansion in these regions.

Financials: 19% 2021-24E sales CAGR, EBIT margin to reach 12% by 2024E

Exhibit 59: Kuaishou's financial summary

RMB mn	2019	2020	2021	2022E	2023E	2024E
Average DAU (mn)	176	265	308	354	384	403
%yoy	50%	51%	16%	15%	8%	5%
Avg daily time spent per DAU (min)	75	87	112	129	136	140
%yoy	15%	17%	28%	16%	5%	3%
Total time spent (bn min)	4,781	8,454	12,539	16,704	19,024	20,619
%yoy	59%	77%	48%	33%	14%	8%
Revenue	39,120	58,776	81,082	95,656	117,099	138,179
%yoy	93%	50%	38%	18%	22%	18%
1. Live Streaming	31,442	33,209	30,995	34,377	34,940	36,114
%yoy	69%	6%	-7%	11%	2%	3%
2. Online Marketing Spend	7,419	21,855	42,665	51,507	68,142	83,329
%yoy	346%	195%	95%	21%	32%	22%
a. E-commerce related ads	598	5,407	13,209	20,080	27,435	35,088
%yoy	-	807%	144%	52%	37%	28%
b. Non E-commerce related ads	6,822	16,447	29,456	31,447	40,707	48,243
%yoy	-	141%	79%	7%	29%	19%
3. Other Services	260	3,712	7,421	9,772	14,016	18,736
%yoy	1171%	1331%	100%	32%	43%	34%
a. E-commerce commission	224	3,341	6,740	8,822	12,734	17,069
%yoy	-	1391%	102%	31%	44%	34%
b. Others (game, education, etc)	35	371	881	950	1,283	1,667
%yoy	-	948%	83%	39%	35%	30%
COGS (GAAP)	25,017	34,961	47,052	52,536	60,699	68,526
Live Streaming	20,933	24,632	27,340	28,655	28,967	29,409
Revenue sharing	18,149	20,519	22,401	23,934	23,977	24,421
Bandwidth	1,159	1,705	1,840	2,089	2,236	2,316
Online Marketing Spend	2,622	6,612	13,134	15,281	20,486	25,555
Other Services	1,462	3,718	6,577	8,400	11,245	13,563
GP (GAAP)	14,104	23,815	34,030	43,120	56,400	69,653
Gross Margin	36.1%	40.5%	42.0%	45.1%	48.2%	50.4%
Opex (non-GAAP)	13,000	33,159	55,676	52,071	53,541	55,651
S&M	9,814	26,493	43,533	38,572	38,188	38,638
Admin	740	1,333	2,315	3,145	3,547	3,850
R&D	2,440	5,333	9,829	10,354	11,806	13,163
S&M as % Sales	25.1%	45.1%	53.7%	40.3%	32.6%	28.0%
Admin as % Sales	1.9%	2.3%	2.9%	3.3%	3.0%	2.8%
R&D as % Sales	6.2%	9.1%	12.1%	10.8%	10.1%	9.5%
EBIT (non-IFRS)	1,431	(6,479)	(19,871)	(7,544)	5,233	16,518
%yoy	691%	NM	134%	-62%	NM	216%
%margin	3.7%	-14.4%	-24.5%	-7.9%	4.5%	12.0%
Net profit (non-IFRS)	1,034	(7,864)	(18,852)	(7,415)	4,269	13,986
%yoy	405%	NM	140%	-61%	NM	220%
%margin	2.6%	-13.4%	-23.3%	-7.8%	3.6%	10.1%

1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E
295	293	320	323	346	347	362	362
17%	12%	22%	19%	17%	18%	13%	12%
99	107	119	119	128	125	131	131
17%	25%	30%	32%	29%	17%	10%	11%
2,639	2,852	3,511	3,537	3,983	3,957	4,382	4,382
34%	40%	59%	58%	51%	39%	25%	24%
17,019	19,139	20,493	24,430	21,067	21,695	23,607	29,287
37%	49%	33%	35%	24%	13%	15%	20%
7,250	7,193	7,724	8,827	7,842	8,565	8,615	9,355
-20%	-14%	-3%	12%	8%	19%	12%	6%
8,558	9,962	10,909	13,236	11,351	11,006	12,530	16,619
161%	156%	76%	56%	33%	10%	15%	26%
2,139	2,989	3,518	4,588	4,007	4,458	5,178	6,419
312%	194%	166%	79%	87%	49%	47%	41%
6,418	6,974	7,393	8,671	7,344	6,549	7,354	10,200
133%	143%	52%	45%	14%	-6%	-1%	18%
1,211	1,983	1,860	2,367	1,873	2,124	2,462	3,313
589%	213%	53%	40%	55%	7%	32%	40%
1,076	1,861	1,670	2,133	1,676	1,931	2,206	3,009
580%	226%	53%	40%	56%	4%	32%	41%
135	122	190	234	197	193	258	304
670%	93%	56%	39%	45%	58%	35%	30%
10,032	10,754	11,984	14,282	12,285	11,925	12,877	15,449
6,249	6,328	6,862	7,763	6,733	7,004	7,158	7,802
5,125	5,157	5,615	6,505	5,661	5,926	5,875	6,473
470	429	469	473	495	508	530	556
2,360	2,569	2,784	2,838	2,252	2,177	2,743	3,239
1,347	1,576	1,761	1,893	1,823	1,856	2,216	2,944
6,988	8,385	8,509	10,149	8,782	9,770	10,731	13,838
41.1%	43.8%	41.5%	41.5%	41.7%	45.0%	45.5%	47.3%
16,529	18,025	18,138	16,697	15,378	14,502	16,678	18,071
11,528	11,085	10,832	10,087	9,349	8,622	10,078	10,522
454	572	605	683	651	734	811	948
1,837	2,408	2,720	2,864	2,388	2,142	2,687	3,138
67.7%	57.8%	52.0%	41.3%	44.1%	39.7%	42.7%	35.9%
2.7%	3.0%	3.0%	2.8%	3.1%	3.4%	3.4%	3.2%
10.8%	12.6%	13.3%	11.7%	11.3%	9.9%	11.4%	10.7%
(5,735)	(4,949)	(5,139)	(4,048)	(3,932)	(1,341)	(2,264)	(7)
20%	121%	433%	688%	-31%	-73%	-56%	-100%
-33.7%	-25.9%	-25.1%	-16.6%	-18.7%	-6.2%	-9.6%	0.0%
(5,651)	(5,016)	(4,616)	(3,569)	(3,722)	(1,312)	(2,299)	(81)
28%	152%	355%	677%	-34%	-74%	-50%	-98%
-33.2%	-26.2%	-22.5%	-14.6%	-17.7%	-6.0%	-9.7%	-0.3%

Source: Company data, Goldman Sachs Global Investment Research

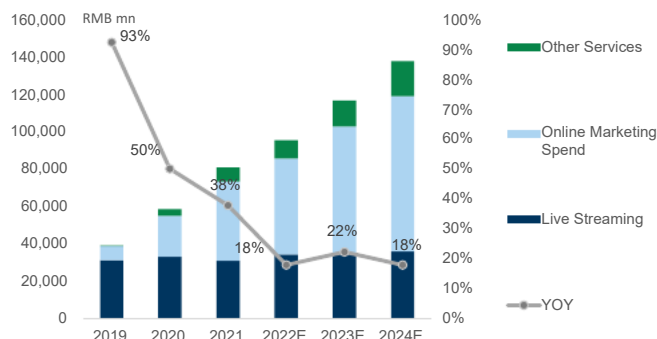
I. Revenue drivers

We believe Kuaishou has laid a multi-year roadmap to scale up monetization with 3 different mature business models, as well as new business initiatives based on its rapidly growing content offering and strong connections between KOLs/users. After 11 years of operating history, Kuaishou reached revenue of Rmb81.1bn in 2021, relying on advertising, livestreaming and eCommerce (commenced in 2018) as its major monetization channels.

We forecast Kuaishou's revenue growth trajectory at 18%/22%/18% yoy in 2022E/23E/24E. We attribute the stronger growth momentum in the near term due to: **1)** continual growth in DAU and time spent share with its unique value proposition and differentiated trust-based social network connections; **2)** further improvement in ad monetization efficiency, ad load and eCPM, based on improved brand attractiveness and macro recovery; and **3)** user penetration growth and category expansion, alongside

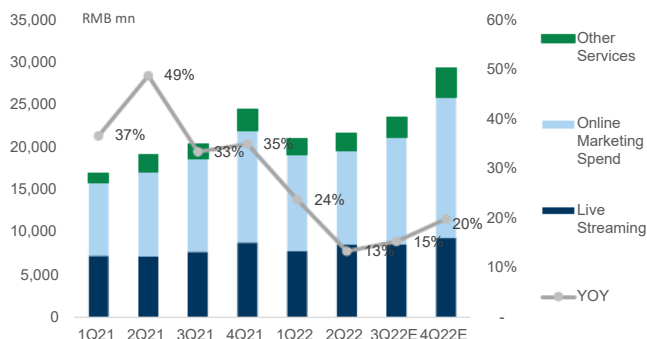
SFV's ongoing penetration in eCommerce.

Exhibit 60: We forecast Kuaishou's revenue growth trajectory at 18%/22%/18% yoy in 2022E/23E/24E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 61: We forecast revenue to grow by 15%/20% in 3Q22E/4Q22E respectively



Source: Company data, Goldman Sachs Global Investment Research

1. Advertisement - stable growth and the largest revenue generator by 2024E

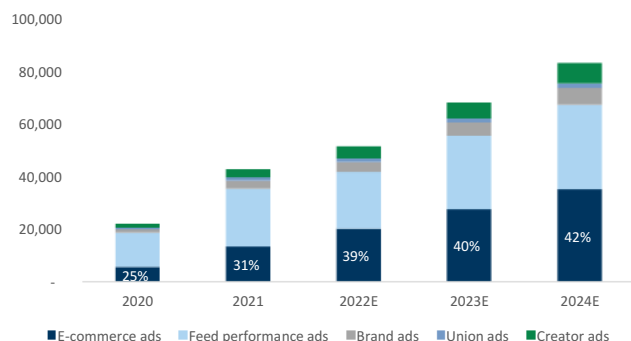
Kuaishou's advertising revenue consists of non eCommerce advertising and eCommerce related advertising, the latter stemming from Kuaishou's eCommerce business introduced in 2018. Ads launched by eCommerce merchants and KOLs have been leading to closed-loop transactions within the Kuaishou system and are categorized as eCommerce related ads (also known as internal circulation ads), and non-eCommerce ads (external circulation ads) include brand ads and performance ads. Boosted by the fast development of eCommerce related ads, advertisements have exceeded livestreaming revenue and have become the largest revenue stream in 2021 (53% of 2021 revenue). We estimate that advertisements will continue be the largest revenue generator over our forecast period.

We estimate advertising revenue to deliver a 25% CAGR over 2021-24E, driven by: **1)** 38% revenue CAGR in eCommerce advertising; **2)** 18% revenue CAGR in non eCommerce advertising.

eCommerce advertising: Noting its high dependence on the eCommerce business, we expect eCommerce related ads to gradually take up more share (to 42% in 2024E) with a 38% 2021-24E revenue CAGR due to robust eCommerce GMV growth and higher take rate.

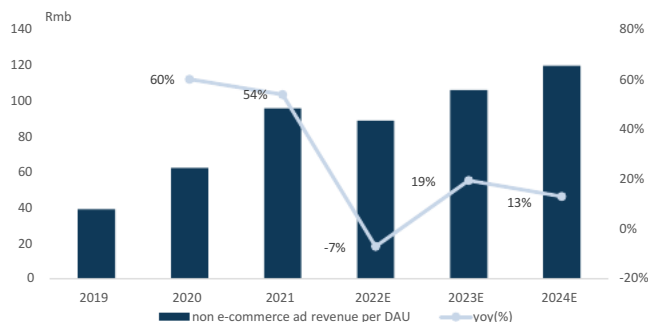
Non eCommerce advertising: Though more affected by macro economy, regulatory changes and competition compared to eCommerce ads, we believe non eCommerce advertising will still remain the largest advertising revenue contributor by 2024E, accounting for 58% of total advertising revenue. We expect an 18% revenue CAGR over 2021-24E with non eCommerce advertising revenue per DAU steadily increasing, driven by contribution from the emerging ad formats (brand ads, creator ads and ad union) to grow at 29% CAGR, outpacing the conventional feed performance ad to grow at 14% CAGR.

Exhibit 62: We expect the share of eCommerce related ads to gradually increase to 42% in 2024E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 63: We expect non eCommerce ad revenue per DAU to recover and increase steadily in 2022E-2024E
Non eCommerce ad revenue in 2019-2024E (Rmb)



Source: Company data, Goldman Sachs Global Investment Research

Comparing advertising revenue per DAU and per time spent metric, Kuaishou's Rmb139 per DAU and Rmb3.4 per 1,000 min in 2021 has already outpaced most online entertainment/social platforms in China. Looking ahead, we believe Kuaishou to further improve its advertising monetization efficiency by expanding ad load and eCPM. We expect ad revenue/DAU and ad revenue/time spent to grow by 14% and 7% CAGR over 2021-24E relatively, lowering the gap with Douyin.

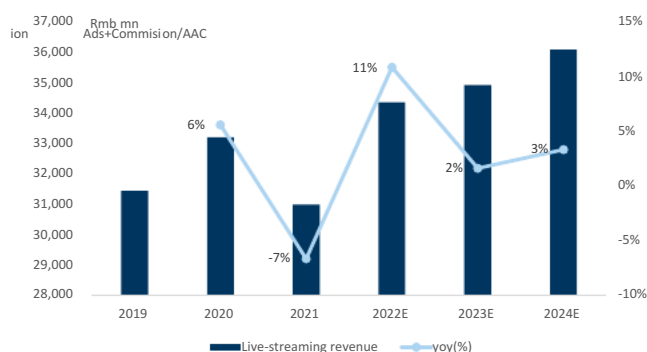
2. Livestreaming revenue - Kuaishou's share to remain steady, with low ARPPU

We forecast Kuaishou to deliver 5.2% revenue CAGR over 2021-24E for its livestreaming business, gaining back its market share to c.21% and maintaining its below average ARPPU, driven by:

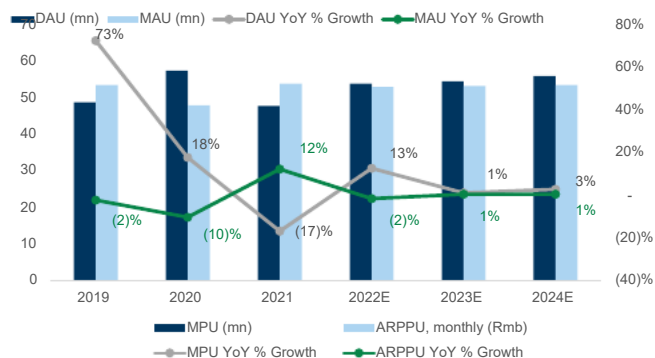
- **Engagement growth:** leveraging network effect, sufficient traffic and Kuaishou's livestreaming guild (直播公会), Kuaishou is able to attract MCNs and hosts (including top streamers and celebrities) and users to join the platform simultaneously. In 2Q 2022, Kuaishou's livestreaming MAU increased by 18% yoy.
- **Monetization potential:** despite the relatively low ARPPU, we expect Kuaishou livestreaming to increase its paying users through lower-priced virtual gifts and VAS based monetization (e.g. mini games). We forecast MPU to grow to 56.1mn in 2024E, indicating 5.4% CAGR over 2021-24E.

Exhibit 64: We expect 5.2% livestreaming revenue CAGR over 2021-24E, after the decline in 2021

Livestreaming revenue from 2019-2024E (Rmb mn)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 65: We expect MPU and ARPPU to remain at stable levels in 2021-24E


Source: Company data, Goldman Sachs Global Investment Research

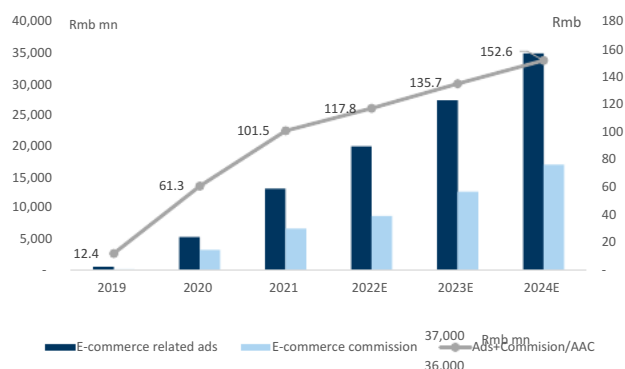
3. Other services - eCommerce as the main growth pillar with sufficient room for expansion

We estimate Kuaishou to deliver a 36% revenue CAGR for other services, mainly driven by eCommerce commission (91% of other services revenue in 2021). We believe SFV's ongoing penetration in eCommerce provides Kuaishou with ample room to improve GMV which we expect to grow 2.5x by 2025E on user penetration growth and more category expansion.

- **Consumer front:** We expect Improving penetration of Kuaishou's MAC (monthly active customer) base driven by proliferation of SKUs base across its major categories and expanding shopping formats from livestreaming to shelf eCommerce.
- **Merchant front:** We see ongoing merchant share gain by Kuaishou: Longer-term, we expect Kuaishou's total merchant base to grow quicker relative to eCommerce incumbents, as its consumer demand remains under-served, with each merchant (which we proxy with merchant app DAU) on average serving over 900 consumers as of 2Q22, while other incumbents are ranging between 300-500 consumers per merchant. Near-term, Kuaishou's merchant base expansion is also demonstrated by our high frequency tracker (see our [China 400 app tracker](#)), with Kuaishou taking 8% of the merchant MAU % share as of July-22, up from 3% in July-21, furthering the scope for potential category expansion.

Exhibit 66: We expect eCommerce related revenue per AAC to grow at a 14.6% CAGR over 2021-24E

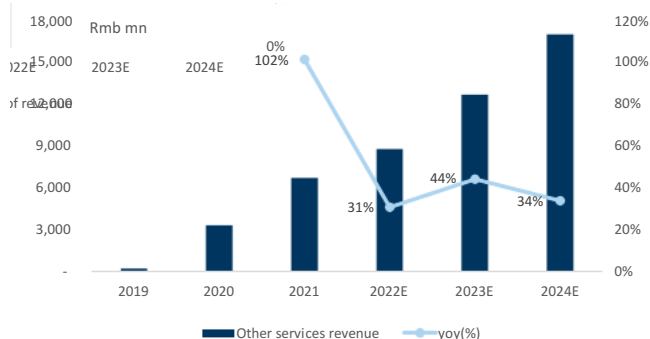
eCommerce related revenue is commission+ads revenue



Source: Company data, Goldman Sachs Global Investment Research

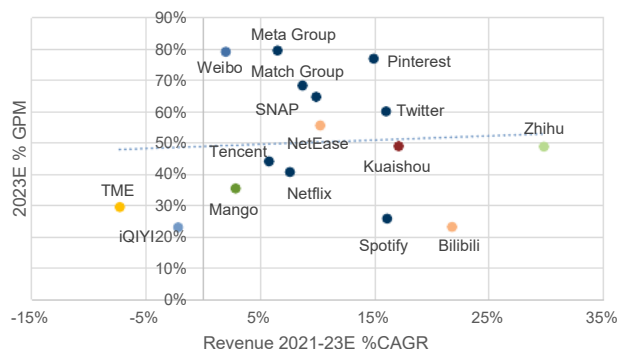
Exhibit 67: We expect a 36% other services revenue CAGR over 2021-24E, mainly driven by eCommerce business

Other services revenue from 2019-2024E (Rmb mn)

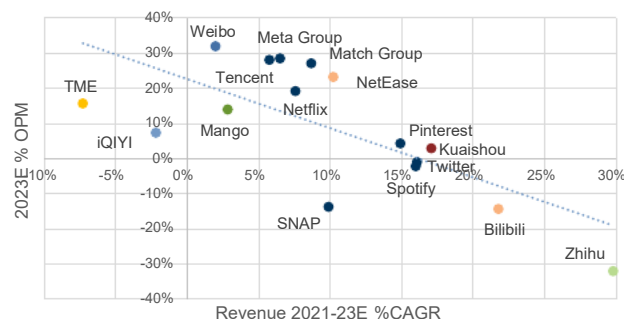


Source: Company data, Goldman Sachs Global Investment Research

II. Margin profile:

Exhibit 68: We expect Kuaishou to grow its revenue at an-above industry pace alongside GPM at the industry-average level


Source: Company data, Goldman Sachs Global Investment Research

Exhibit 69: We also expect Kuaishou's OPM to turn positive in 2023E due to its better control of S&M spending


Source: Company data, Goldman Sachs Global Investment Research

1. Gross profit margin to improve moderately with monetization efficiency improvement and further controlled revenue sharing cost

Kuaishou's COGS mainly consists of revenue sharing to streamers (30.6% of 2021 revenue), bandwidth and server custody costs (9.4%), D&A (7.7%), employee benefit expenses (4.3%), payment processing costs (2.0%) and others (4.1%). We forecast a gross profit margin improvement from 42.0% in 2021 to 50.4% in 2024E, driven mainly by increasing user base, monetization efficiency improvement and more disciplined revenue sharing cost (decreasing from 46.4% to 24.9% from 2019 to 2024E).

a. Revenue sharing cost (31% of revenue, 2022)

Revenue sharing cost has been the company's largest COGS component in 2019-2021, originating from its livestreaming and advertising business:

- For its **livestreaming** business, the company notes that the monetisation continues to improve due to rising disposable income in China and advancement of

livestreaming technology which has lowered the barriers to content creation and enhanced quality of content.

- For the **advertising business**, the company plans to invest heavily in technology, noting it serves as a bridge in (1) building trust in buyers with richness of content and continuous social interaction with streamers/viewers and (2) providing opportunities for merchants to interact more meaningfully with buyers with the continued development of eCommerce infrastructure such as tools for store operations, logistics and customer service. Kuaishou would also look to monetize some better performing VAS like online games, local services and knowledge sharing.

b. Bandwidth expenses and server custody costs (7% of revenue, 2Q22)

We expect bandwidth expenses and server custody costs to grow at a 3.2% CAGR over 2021-24E, a pace much below Kuaishou's aggregate engagement growth and revenue growth, driven by ongoing optimization of bandwidth usage efficiencies and serving custody costs. While Kuaishou's 1H22 total domestic time spent grew over 40% yoy, domestic bandwidth costs per 1,000 minutes fell substantially yoy, driven by R&D applications including video codec algorithms, image enhancement and audio compression algorithms.

c. D&A (6% of revenue, 2Q22)

Depreciation costs primarily include depreciation of computers, servers and other IT equipment, and server custody costs with internet data centers with a term of over one year. Amortization costs consists of amortization of licenses, copyrights and software. We expect D&A costs to grow at a 7.8% CAGR over 2021-24E.

d. COGS-related employee benefit expenses (3% of revenue, 2Q22)

Kuaishou employs over 28,000 employees as of Dec 2021. We expect employee benefit expenses to grow at a 9.1% CAGR over 2021-24E, considering the increase in headcount of employees and related share-based compensation expenses.

2. Operating margin improvement to come from S&M, while admin and R&D to maintain steady growth

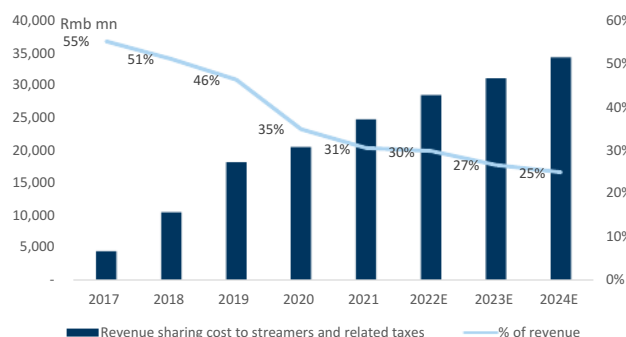
Kuaishou has been a profitable company in 2017-2019, delivering 1-11% OPM, before starting to generate negative OPM since 2020, at -14.4%/-24.5%/-7.9% of revenue for 2020/2021/2022E respectively, as the company shifted to investment mode amid pressure from Douyin. Kuaishou's sales & marketing, general & administration, and research & development accounted for 53.7%/2.9%/12.1% of 2021 revenues respectively, which have exceeded or are closer to the high-end of China entertainment peers.

a) Selling and marketing expenses (S&M)

Kuaishou's S&M expenses primarily consist of expenses associated with promotion and advertising and employee benefit. Under its organizational structure reformation, which effectively transformed its function-based structure to business unit-based structure,

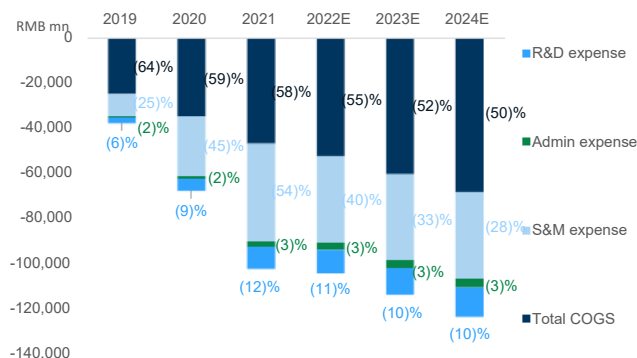
cost control ability and operational efficiency have greatly strengthened. Noting that acquisition cost per new user has already declined significantly in 2022, we expect Kuaishou to decrease its S&M expense at -4% CAGR in 2021-24E, from Rmb43.5bn (53.7% of revenue) to Rmb38.6bn (28.0% of revenue). Importantly, despite the decrease in promotion spent, MAU and time spent remain stable, delivering robust customer retention under S&M expenses cut.

Exhibit 70: We expect a % of revenue sharing cost to streamers to gradually decrease over 2021-24E
Revenue



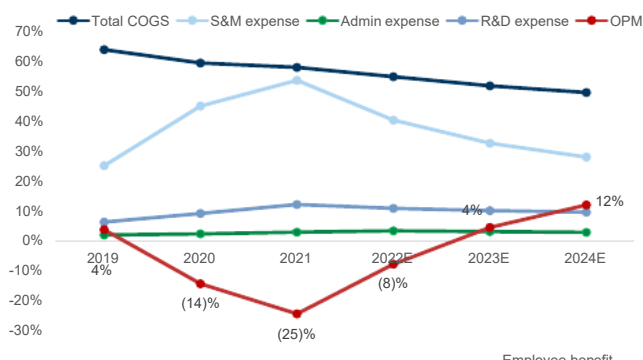
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 71: We expect a significant improvement in cost control efficiency in 2021-24E
COGS and operating expense as in 2019-2024E



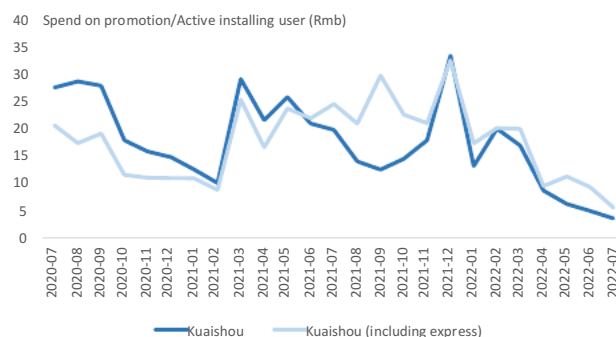
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 72: We expect OPM to gradually improve and turn positive by 2023E, mainly driven by the cut in S&M expense
Operating expenses and OPM in 2019-2024E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 73: Acquisition cost per new user witnessed a significant decline in 2022



Source: Questmobile, App Growing

b) Research and development (R&D)

With Kuaishou's continued R&D personnel expansion and investment in big data and other advanced technologies, we do not expect Kuaishou to realize substantial operating leverage from R&D (relative to S&M), and instead forecast R&D expenses to grow at a 10.2% CAGR in 2021-24E, from Rmb9.8bn to Rmb13.2bn. However, we expect R&D as a percentage of total revenue to drop from 12% of revenue in 2021 to 10% in 2024E given the scale up of monetization and the optimization of business structure.

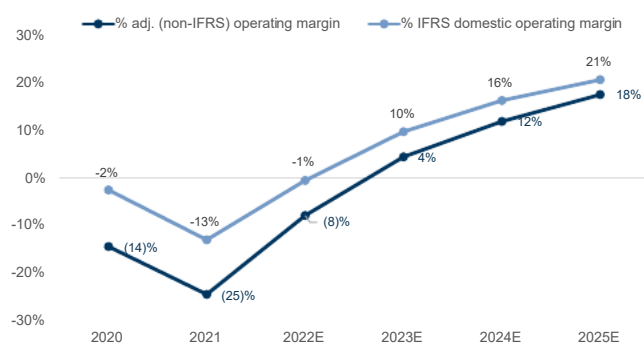
c) Administrative (Admin)

Kuaishou's administrative expenses mainly consists of employee benefit expenses for administrative personnel. We therefore forecast administrative expenses to grow at an 18.5% CAGR in 2021-24E, from Rmb2.3bn to Rmb3.9bn.

Together with the gross margin ramp up, we expect Kuaishou's non-GAAP OPM/NPM to reach 12.0%/10.1% in 2024E.

Exhibit 74: We expect operating margin, net margin and FCF margin all to turn positive by 2023E

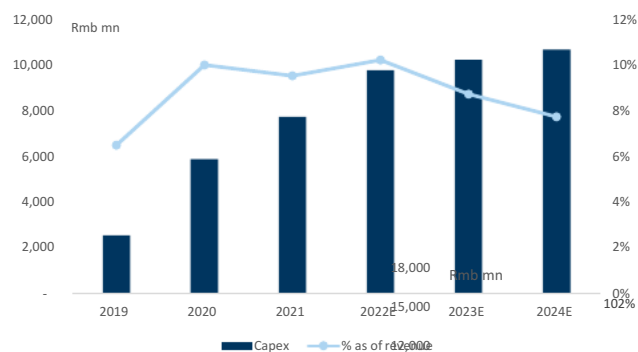
Non-IFRS OP, NP margin and FCF margin



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 75: We forecast Kuaishou's capital expenditure & purchase of intangible assets to be c.10% of total revenue going forward

Kuaishou Capex and intangible asset purchase projection



Source: Company data, Goldman Sachs Global Investment Research

III. Balance sheet & cash flow statement

1. Cash position

At the balance sheet and cash flow statement level, we expect Kuaishou to maintain its relatively strong cash position, primarily due to c.Rmb31bn net cash on hand by end-2022E, taking into account an average Rmb2-3bn operating cash outflow per quarter.

2. Capex & investments

We forecast Kuaishou's capital expenditure and purchase of intangible assets to be c. 10% of total revenue going forward in line with its historical trend.

Valuation: Target P/E of 22X 2025E EPS discounted back to 2023

Valuation

We derive our 12-month target price of HK\$112 per share based on a discounted P/E-based valuation. Our valuation is anchored on the following key assumptions:

- 2025E revenue** of Rmb158bn (18% 2022-25E CAGR), consisting of Rmb97bn of online marketing (24% CAGR or 7.3% mkt share, from 50.6% in 2022E), Rmb37bn of livestreaming (3% CAGR or 21% mkt share, flat compared with 2022E) and Rmb24bn of other revenue (34% CAGR). From the lens of time spent and monetization efficiency, we forecast Kuaishou to further improve its time spent share from 11.6% in 2022E to 13.4% in 2025E, while monetization efficiency per time spent grows at an 8% CAGR, similar to 2020's level.
- 2025E net profit** of Rmb24bn (15% net margin), through operating leverage and continued efficiency improvements, given its domestic operation achieved breakeven in 2Q22, quicker than expected, a better-than-peers revenue growth profile under extreme macro conditions, as well as its history of generating 9% net margin in 2017, alongside easing industry competition as China internet players pursue profitable growth.
- Target P/E multiple of 22x 2025E EPS** as we forecast Kuaishou to continue to deliver healthy, close to 30% OP/NP growth after 2025E, a similar pace of growth to our selected China Internet large cap peer group (during 2023-25E), and discounted back to 2023E at a 14% WACC to derive our TP. Our 22x 2025E P/E references the median of large cap's avg. P/E of 22.4x 2023E EPS and content platform's avg. 17.9x. Our target price implies 68% upside and 2023E EV/sales of 2.7x.

Exhibit 76: Our 12m TP of HK\$112 is based on discounted P/E

	2021	2022E	2023E	2024E	2025E
Net profit (Non-GAAP)	(18,852)	(7,415)	4,269	13,986	23,841
PE (X)	22	22	22	22	22
Equity value (RMB mn)					524,503
Equity value (discount at 2023E)					403,588
Equity value (US\$ mn)					61,150
12-m target price (HK\$)					112

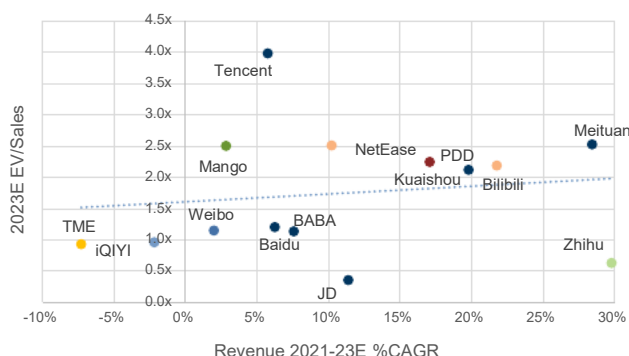
TP implied multiples				
	2022E	2023E	2024E	2025E
P/E				16.9x
P/S	3.4x	2.9x	2.6x	2.3x
P/FCF				15.9x
EV/EBIT				13.2x
EV/Sales	3.1x	2.7x	2.3x	2.1x

Content Large cap Platform	
2023E	2025E
22.4x	17.9x
	0.7x
	11.9x

Priced as of 1 September 2022

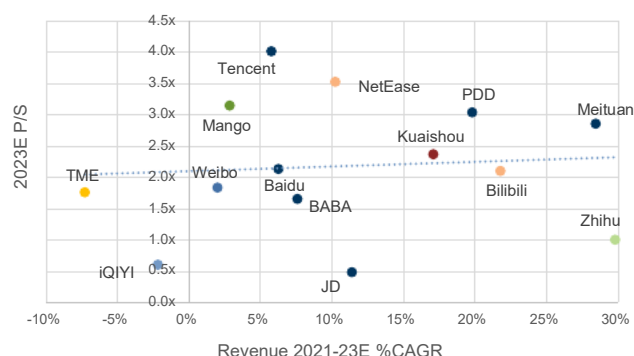
Source: Bloomberg, Company data, Goldman Sachs Global Investment Research, Bloomberg

Exhibit 77: EV/sales multiple: Benchmarking the revenue growth profile of Kuaishou vs. our China internet coverage space, Kuaishou's growth profile is at the high-end of our China Internet coverage



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 78: P/S multiple: Cross checking implied 2023E P/S with our internet coverage, while Kuaishou's growth profile lags Bili, it has better margin profile and clear path to profitable growth



Source: Company data, Goldman Sachs Global Investment Research

Valuation cross-checks

We cross-check our target valuation with DCF and SOTP.

DCF: We base our DCF on a WACC of 14% and terminal growth rate of 5%, which results in a valuation of HK\$501.6bn and implied valuation of HK\$117 (4% above our actual TP) and implied 2023E EV/Sales of 3.3x.

SOTP: We also cross-check with SOTP, using 2023E 1.0x EV/Sales for livestreaming, 17.0x P/E for advertising and 20.0x P/E for eCommerce, which results in a valuation of HK\$106 (5% below our actual TP).

Exhibit 79: DCF cross-check

Discounted cash flow (Rmb mn)	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
DAU (mn)	67	117	176	265	308	354	384	403	421	436	448	459	469	478
Revenues	8,340	20,301	39,120	58,776	81,082	95,656	117,099	138,179	158,071	177,443	193,953	210,088	224,140	239,898
% yoy		143%	93%	50%	38%	18%	22%	18%	14%	12%	9%	8%	7%	7%
Cost of Revenues	5,729	14,498	25,017	34,961	47,052	52,536	60,699	68,526	75,378	80,639	85,048	89,756	93,516	97,881
Gross Profit	2,611	5,802	14,104	23,815	34,030	43,120	56,400	69,653	82,693	96,804	108,905	120,332	130,624	142,018
GPM	31.3%	28.6%	36.1%	40.5%	42.0%	45.1%	48.2%	50.4%	52.3%	54.6%	56.2%	57.3%	58.3%	59.2%
Incremental GPM		27%	44%	49%	46%	62%	62%	63%	66%	73%	73%	71%	73%	72%
Operating Profit, IFRS	608	(521)	689	(10,320)	(27,701)	(14,731)	(2,379)	8,436	19,488	29,397	36,916	43,891	50,664	56,432
Operating Profit, non-IFRS	904	181	1,431	(8,479)	(19,871)	(7,544)	5,233	16,518	27,811	37,712	46,005	53,735	61,167	67,674
OPM, non-IFRS	10.8%	0.9%	3.7%	-14.4%	-24.5%	-7.9%	4.5%	12.0%	17.6%	21.3%	23.7%	25.6%	27.3%	28.2%
Incremental OPM, non-IFRS		-6.0%	6.6%	-50.4%	-51.1%	84.6%	59.6%	53.5%	56.8%	51.1%	50.2%	47.9%	52.9%	41.3%
Effective Tax Rate	0.5%	0.2%	2.0%	-0.5%	-1.3%	4.3%	29.1%	-29.5%	-21.3%	-19.1%	-18.6%	-18.2%	-18.0%	-17.8%
Operating Income post Tax, IFRS	611	(522)	702	(10,270)	(27,342)	(15,360)	(3,071)	5,948	15,332	23,768	30,059	35,892	41,568	46,383
Depreciation	108	1,155	2,098	4,734	6,721	7,641	8,760	9,662	10,069	10,722	11,301	12,122	12,505	13,207
Amortization	7	25	63	129	164	193	236	279	319	358	391	424	452	484
SBC	297	702	742	1,841	7,830	7,187	7,611	8,083	8,322	8,315	9,088	9,844	10,503	11,241
Gross Cash Flow	1,023	1,359	3,605	(3,566)	(12,627)	(339)	13,537	23,972	34,042	43,163	50,840	58,283	65,029	71,315
EBITDA, adj.	1,020	1,360	3,591	(3,616)	(12,986)	289	14,229	26,459	38,199	48,792	57,697	66,282	74,125	81,385
EBITDA margin, adj.	12.2%	6.7%	9.2%	-6.2%	-16.0%	0.3%	12.2%	19.1%	24.2%	27.5%	29.7%	31.5%	33.1%	33.9%
Incremental EBITDA Margin		3%	12%	-37%	-42%	91%	66%	58%	59%	56%	54%	53%	56%	46%
Less: Change in Working Capital	1,083	565	5,168	6,898	8,531	2,647	3,550	3,429	2,911	1,906	1,605	1,812	1,389	1,632
Less: Capital Expenditure	(376)	(2,866)	(2,548)	(5,908)	(7,732)	(9,824)	(10,269)	(10,736)	(11,512)	(12,095)	(12,526)	(12,833)	(12,923)	(13,027)
Free Cash Flow	1,730	(943)	6,225	(2,577)	(11,827)	(7,516)	6,818	16,665	25,442	32,973	39,919	47,261	53,495	59,920
% yoy change		-154%	-760%	-141%	359%	-36%	-191%	144%	53%	30%	21%	16%	13%	12%
FCF margin	20.7%	-4.6%	15.9%	-4.4%	-14.6%	-7.9%	5.8%	12.1%	16.1%	18.6%	20.6%	22.5%	23.9%	25.0%
yoy ppt		-25.4%	20.6%	-20.3%	-10.2%	6.7%	13.7%	6.2%	4.0%	2.5%	2.0%	1.9%	1.4%	1.1%
Terminal Value														699,070
Total FCF	1,730	(943)	6,225	(2,577)	(11,827)	(7,516)	6,818	16,665	25,442	32,973	39,919	47,261	53,495	758,990

DCF Assumptions	
WACC calculation	
Equity market premium	7.0%
Risk free rate	3.5%
Beta	1.5
Cost of equity	14.0%
Cost of debt	5.0%
Tax rate	15.0%
After-tax cost of debt	4.3%
Long-run debt-to-capital ratio	0%
WACC	14.0%
Terminal growth rate	5.0%
Exit FCF multiple	11.1

DCF Results	
	2023.30E
Firm value (Rmb mn)	385,213
Net cash (Rmb mn)	37,268
Equity value (Rmb mn)	422,482
Equity value (US\$ mn)	64,012
Equity value (HK\$ mn)	499,297
Shares Outstanding, diluted (mn)	4,270
Value per share (HKD)	117

TP implied multiples				
	2022E	2023E	2024E	2025E
P/E				17.7x
P/S	4.4x	3.6x	3.1x	2.7x
P/FCF				16.6x
EV/EBIT				13.9x
EV/Sales	4.0x	3.3x	2.8x	2.4x

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 80: SOTP cross-check

SOTP	Multiple	2023E				
		Sales	OP	NP	Value	Comments
Live streaming	1 EV/sales	34,940	(4,509)	(3,833)	34,940	1X sales
Ads (Non-EC)	17 P/E	40,707	12,212	10,380	176,467	17X PE for Non-EC ads, similar to Tencent; 30% OPM
E-commerce (inc. EC ads)	20 P/E	41,451	(3,032)	(2,577)	176,167	20X PE, EC ads+commission, 25% LT OPM, vs. JD/PPDD
Total					387,574	
Net Cash					37,268	
Total equity value					424,842	
Holdco discount	10%				382,358	
Value per share (HK\$)					106	

Source: Goldman Sachs Global Investment Research

Bull-/bear-case scenario analysis

Bull case

Under our bull-case scenario, we assume revenue +15% above the base case, alongside a 20% NPM (5ppts higher), which results in an implied value of HK\$190/share. Our key assumptions are:

- **Engagement:** DAU ramps up to 500mn by 2025E, +19% vs. the base case; time spent per DAU growing at a mid-teens CAGR, with our DAU assumption based on Kuaishou's successful penetration into a broader demographic which was not included in our base case (higher-tier cities).
- **eCommerce:** GMV above the company target of Rmb2,000bn by 2025E, vs the base case of Rmb1,725bn.

- **Advertising:** Stronger Ads market share gains driven by higher engagement and higher ad value per user due to penetration into higher-tier cities. Kuaishou to become China's top 5 online advertisers, at 8.3% market share, vs. the base case of 7%.
- **Margin:** NPM reaching 20%, vs the base case of 15%, reflecting better cost control and increasing monetization; OPM close to normalized EC/Ads players.
- **Target multiple:** At 25x P/E vs the base case of 22x, a 10% premium to the large cap average.

Bear case

Under our bear case scenario, we assume revenue -18% compared to the base case, alongside a 9% NPM (6ppts lower vs the base case), with an implied value per share of TP of HK\$56. Our key assumptions are:

- **Engagement:** DAU maturing and growth slower than expected, at -17% vs the base case.
- **eCommerce:** GMV growth slowing to industry average by 2025E and largely flattish going forward, -30% vs. the base case.
- **Advertising:** Stagnant ads market share gain and stabilized at c.5% vs the base case of 7%.
- **Margin:** NPM reaching 10%, assuming limited increase in the monetization rate and operating efficiency, on par with its NPM level in 2017.
- **Target multiple:** At 17x P/E, a 10% discount to the current large-cap multiple.

I

Exhibit 81: Bull-/bear-case scenarios

Scenarios	Bull	Base	Bear	Bull vs. Base	Bear vs. Base
Key assumptions (2025E)					
DAU (mn)	500	421	350	19%	-17%
GMV (RMB bn)	2,070	1,725	1,208	20%	-30%
Ads market share	8.3%	7.0%	5.4%	1%	-2%
Timespent (bn mins)	26,000	21,910	18,200	19%	-17%
2025E financials					
Sales	180,991	157,991	129,574	15%	-18%
Ads revenue	116,056	97,325	75,311	19%	-23%
Non EC Ads	65,239	54,977	45,667	19%	-17%
EC Ads	50,817	42,348	29,643	20%	-30%
EC revenue	25,611	21,342	14,940	20%	-30%
GP	104,975	82,633	58,308	27%	-29%
OP	41,628	27,778	18,099	50%	-35%
NP	35,687	23,813	15,516	50%	-35%
GPM	58.0%	52.3%	45.0%	6%	-7%
OPM	23.0%	17.6%	10.0%	5%	-8%
NPM	19.7%	15.1%	8.6%	5%	-6%
22-25E cagr					
Timespent	16%	9%	3%	6.4%	-6.6%
GMV	31%	24%	10%	7.7%	-13.9%
Sales	24%	18%	11%	5.5%	-7.6%
PE valuation					
Target PE	25	22	17	14%	-23%
Equity value (2025E)	892,164	523,890	263,770	70%	-50%
Equity value (2023E)	686,491	403,116	202,963	70%	-50%
Value per share (HK\$)	190	112	56		

Source: Company data, Goldman Sachs Global Investment Research

Regulation: Ads, livestreaming and eCommerce

In this section, we examine regulatory considerations for Kuaishou. Unlike larger Internet platform counterparts, we believe Kuaishou is not exposed to the most prevalent regulatory-related risks in the sector – including delisting risks, anti-trust issues, financial holdco risks and cybersecurity investigations. That said, we note its three key business components namely advertising, livestreaming eCommerce and entertainment livestreaming all face detailed regulatory requirements, as we set out below.

Exhibit 82: CAC has laid out 10 key tasks in regulating the internet ecosystem in 2022, including 5 new tasks vs. 2021

New for 2022	Crack down on rumors on internet	Continued from 2021	Regulate algorithms (including algorithm filing, application, and content promotion; regulations effective from March)
	Regulate information/content produced by MCNs (e.g. MCN regulation to be announced; MCN information disclosure requirement on internet platforms)		Regulate internet environment during Chinese New Year (completed)
	Regulate online live streaming and short-form videos (completed)		Regulate internet environment for minors during summer vacation (i.e. Draft Provisions on the Cyber Protection of Minors released in Mar, inc. anti-addiction, consumption limit, etc.)
	Regulate mobile app information services (i.e. app content review, app store listing review)		Regulate internet user account operation
	Regulate news information transmission order (e.g. value orientation, source management, we-media regulation)		Crack down on fake traffic, internet ghostwriters, etc.

Source: CAC

Advertising

We continue to expect (see our 2H22 outlook) the *Measures for the Administration of Internet Advertisements* (互联网广告管理办法), the draft of which was released in Nov 2021, will replace the *Interim Measures for the Administration of Internet Advertisements* published in 2016, and become the overarching law for online advertising; specifically concerning **1)** the identifiability of ads in formats of bidding rank, news reports, experience sharing, product evaluation or inserting shopping links in order to promote products/services; **2)** one-click-closure of ads in the formats of playing on launch, in-video ads, pop-ups, i.e. no countdown, no clear/accurate close bottom, etc.; and **3)** ads in certain verticals (e.g. financial products, medical beauty) and formats (e.g. ads in home appliances/vehicles, livestreaming ads).

We believe Kuaishou will only be moderately affected by the proposed updates to the regulations, as unlabeled advertising in SFVs only makes up c.5% of its advertising

revenue. Viewers of SFVs are also cognizant of and prepared for potential ad feeds when scrolling through SFVs, thus in our view are unlikely to be affected increased identifiability of ads.

eCommerce livestreaming

Administrative Measures for livestreaming Marketing (Trial Implementation), effective since 25 May 2021, comprehensively regulates eCommerce livestreaming, including: **1)** specifications of market entry rules, contents and corresponding supervision; **2)** detailed regulations for different participating parties, including the platform, merchants, streamers, MCN institutions, etc; and **3)** requirements to improve the ability of identifying and coping with data fabrication, and establish complaint channels.

Relevant supervision practices were taken following establishment of the regulation. In Nov 2021, top streamers on multiple platforms were fined for tax issues and in Dec 2021, Zhejiang Provincial Consumer Protection Commission called in five major eCommerce platforms (including Kuaishou) and related streamers, requiring improved clarity of label displays and ratification of exaggerated information.

Regional guidance has also been issued to further regulate the market. On 7 July, Shanghai Administration for Market Regulation issued Guidelines for Shanghai livestreaming Marketing Activities with detailed requirements for all livestreaming participants, especially for platforms and streamers to acquire and display relevant business licenses.

We believe that under the systematic regulation and supervision, livestreaming eCommerce will enter a healthy development phase, driven by **1)** a tendency towards long term marketing strategy, aiming for better retention rate; **2)** reshuffling top streamers' market share, providing more opportunities for common streamers and MCN institutions, and further benefiting the development of eCommerce livestreaming platforms.

livestreaming & protection of minors

Opinions on Further Regulating Online livestreaming Profit-making Behaviors, published in March 2022, focused on **1)** strengthening the responsibilities of livestreaming platforms (e.g. reporting livestreamers' income on a semi-annual basis), **2)** regulating livestreaming marketing activities (e.g. product safety and authenticity, ban on fake promotions), and **3)** taxation.

Opinions on regulating livestreaming and strengthening protection of minors, jointly issued by **MCT**, **NRTA** and **CAC** on 7 May, has **quantified requirements** to restrict monetization of entertainment livestreaming in specific time periods for the first time, highlighting:

- **Incremental requirements: 1)** Platforms are required to remove user rankings that are based on the value of virtual gifts sent within one month; while the value of virtual gifts received can be one, but not the only determinant of livestreaming host ranking. **2)** Strengthen management of streaming in peak hours (20:00 to 22:00),

during which platforms should limit 'PK' (hosts battle) to two times per livestreaming host account.

- **Reiteration: 1)** Platforms are prohibited from providing livestreaming tipping service to minors. **2)** Minors under the age of 16 are not allowed to stream. **3)** Optimize 'Youth Mode' by curating content suitable for minors and establish a dedicated team to handle minor tipping and refund.

However, we observe that the regulations are less restrictive than the market had anticipated, leaving reasonable room for further monetization, given: **1)** Hosts may still be able to provide user ranking within their own livestreaming rooms; **2)** Platforms may still provide functions like special effects, different ranking (which is not on tipping amount) for top users, based on our discussions with industry participants.

Key downside risks

1. Weaker-than-expected monetization: Kuaishou expects to ramp up its ad monetization quicker than industry peers while keeping its entertainment livestreaming revenue stable, specifically:

- Showcasing stronger advertising ROI and conveying Kuaishou's rising mass-market appeal to brands, through continuing to improve advertising algorithm and refine advertising format. However, if merchants believe that they can achieve better returns elsewhere, merchants/brands' spending may decline.
- Trimming revenue sharing cost to livestreamers/content creators over-aggressively could result in churn of livestreamers/content creators.
- Kuaishou's eCommerce is still at an early stage of development. If Kuaishou is unable to **1)** improve its MAC (monthly active consumer) penetration; **2)** increase the number of merchants, or if **3)** ROI of merchants is lower-than-expected, it may not be able to grow its eCommerce GMV/take rate %.
- Weaker-than-expected monetization progress in new business verticals including blue-collar recruitment.

2. Growth of its aggregate user engagement base (DAU x time spent per DAU):

Steady and sustainable user growth momentum is essential for Kuaishou's revenue growth, and failure to execute on its new user acquisition & existing user retention strategy (to a mid-term 400mn DAU target) is the second major risk in our view. We see its user growth being driven by:

- Maintaining its ability to offer, manage, and refine its high-quality content, which needs to adapt with changes in user preferences and market trends.
- Retaining and incentivizing content creators plays a crucial part in determining the breadth, depth, and quality of its content offerings.
- Executing its content diversification strategy, especially expanding into mid-length videos, is one of the major drivers for it to penetrate into lower-tier cities. As with the other ad-based internet companies, Kuaishou's video strategy is key to its longer-term growth prospects.

3. Lower-than-expected profitability: Kuaishou's ability to achieve profitability and positive operating cash flow principally depends on its ability to further expand scale up its revenue and reduce its S&M expenses while maintaining its user growth at an acceptable level. If Kuaishou is unable to generate the desired outcome from its user acquisition initiatives and manage costs effectively, its profit margins will be adversely impacted.

4. Content control: If Kuaishou's UGC violates PRC laws and regulations and Kuaishou does not manage to filter out relevant content, it could lead to punitive administrative measures from the regulators, such as its app being removed from app stores under extreme cases.

M&A framework: Rank of 3

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign an M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high probability (30%-50%) of the company becoming an acquisition target, 2 representing medium probability (15%-30%) and 3 representing low probability (0%-15%). For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. An M&A rank of 3 is considered immaterial and therefore does not factor into our target price, and may or may not be discussed in research.

We apply our Asia Internet M&A framework (please see *Asia Internet & Media: Higher M&A probability in China Internet, highlight four names, July 11, 2016* for more details) considering both qualitative factors (exposure to key markets/products, asset mix), and quantitative factors (relative valuation, and growth) to incorporate the potential that certain companies could be acquired at a premium to current share prices. We incorporate these factors into a “Can-Should-Would” framework to identify companies with a higher probability of becoming an M&A target over the next 12 months. Within this context, we assign an M&A rank of 3 to Kuaishou Inc.

“Can”: Our “Can” assessment measures the possibility of executing an acquisition if there is a bidder. We believe Kuaishou could be a likely M&A target with an overall score of 2, given: **1)** free float at 82% of total shareholding; **2)** the management team’s voting power is high at 69.5%; and **3)** Tencent is the major strategic shareholder with a 17.0% stake as of August 2022. We assign an overall “Can” score of 2 mainly due to the high free float % shareholding, partly offset by high management voting power.

Exhibit 83: We assign Kuaishou a score of “2” for “Can” given the high free float % shareholding, partly offset by high management voting power

Market cap data is based on 24 August, 2022

Ticker	As of August 2022				Can				
	Company name	Size (Mkt cap, \$mn)	% Free Float	Score	% Strategic holder	Holder	Score	Mgmt. voting power	Overall Score
1024.HK	Kuaishou Technology	40,431	82%	1	17.0%	Tencent	3	69.5%	2

Source: Company data, Goldman Sachs Global Investment Research

“Should”: Our “Should” assessment takes a fundamental view in justifying whether a company is an attractive M&A target for potential bidders. We note Kuaishou emerges as the market leader with its revenue growth (19% 2021-2024E CAGR) outpacing industry average growth. Meanwhile, amid concerns over its execution on growth due to its lack of track record, Kuaishou currently trades at 2.6x 2023E EV/Sales, compared with our broader China internet coverage’s median of 1.2x. As such, we assign a score of 3 in this category.

Exhibit 84: We assign an overall “Should” score of 3 to Kuaishou

Ticker	Company name	Rev growth (21-24E CAGR)	Industry Growth	Relative growth	Score	Should		Valuation (2023E EV/Sales)	Score	Overall Score
						Industry positioning	Score			
1024.HK	Kuaishou Technology	19%	9%		2	Leading Position	3	2.6x	3	3

Source: Company data, Goldman Sachs Global Investment Research

“Would”: In the “Would” section we measure the strategic attractiveness of the assets and management stance concerning being acquired. Throughout its 11 years of operating history, we view Kuaishou’s management stance on potential takeovers as medium, as the company still has user expansion and monetization potential, therefore management has no urgency to sell the business. Thus, we assign a score of 3 for Kuaishou in this category.

Exhibit 85: We assign an overall “Would” score of 3 to Kuaishou given its leading position and the low level of management stance towards selling the business

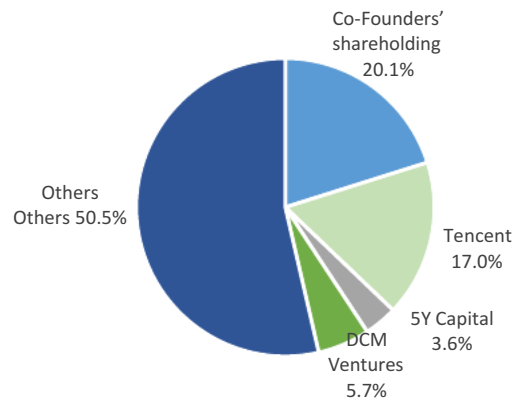
Would						M&A Rank
Company name	Strategic Appeal	Score	Stated Mgmt Stance	Score	Overall Score	
Kuaishou Technology	High	3	Neutral	3	3	3

Source: Company data, Goldman Sachs Global Investment Research

Our “Can”, “Should” and “Would” scores are combined to yield an **M&A rank of 3 for Kuaishou**.

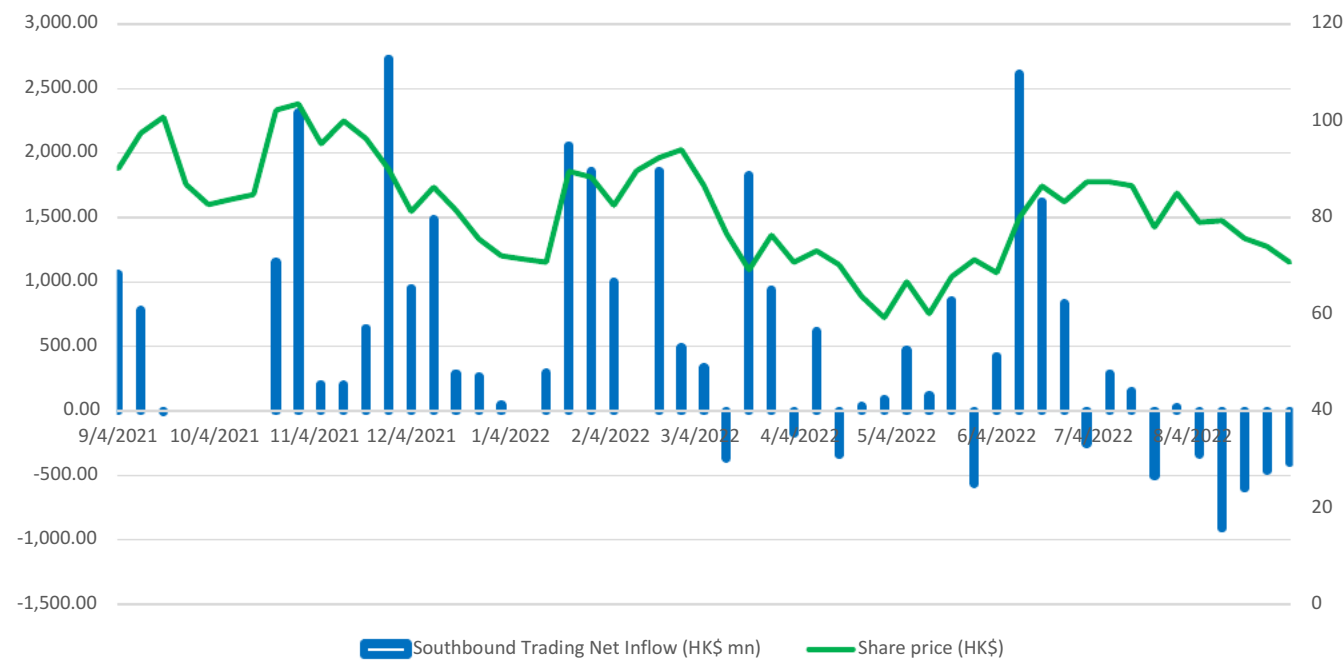
Appendix

Exhibit 86: Shareholding structure, as of August 2022



Source: Company data

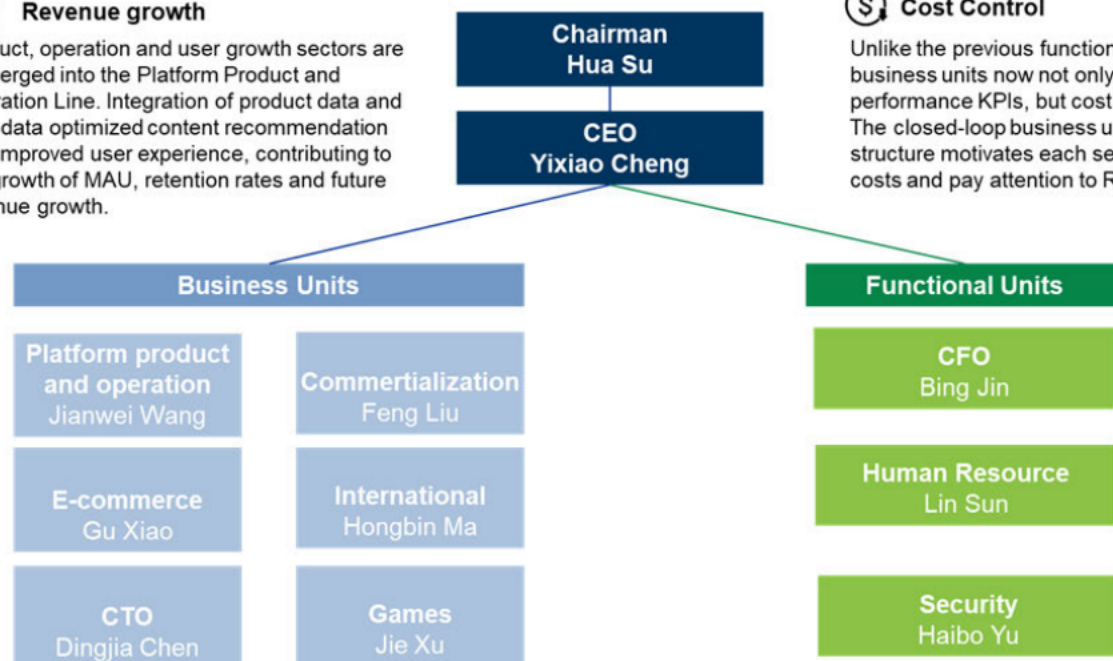
Exhibit 87: Kuaishou: Share price (HK\$) and South Bound net trading inflow (HK\$ mn)



Source: Wind

Exhibit 88: Kuaishou adopts a business unit-based structure to boost revenue growth and increase operational efficiency**Revenue growth**

Product, operation and user growth sectors are all merged into the Platform Product and Operation Line. Integration of product data and user data optimized content recommendation and improved user experience, contributing to the growth of MAU, retention rates and future revenue growth.

**Cost Control**

Unlike the previous function-based structure, business units now not only bear performance KPIs, but cost controls as well. The closed-loop business unit-based structure motivates each segment to control costs and pay attention to ROI.

Source: Company data

Exhibit 89: Investments and completed M&A

Date	Company	Sector	Amount	Type	Investors
2017/07	一起号 yiqihao	Tools	USD \$7.8mn	Investment	Kuaishou, Yunqi Partners, Kingsoft
2017/08	Togezzer 布里克斯	Tools	N/A	Investment	Kuaishou
2018/01	TONOT	AR/VR	N/A	Investment	Kuaishou
2018/01	墨镜科技 Mockai tech	E-commerce SaaS	RMB >10 mn	Investment	Kuaishou
2018/04	比达传媒 Beda media	Content	RMB >10 mn	Investment	SAIF Partners, Kuaishou
2018/05	创动空间 Chuandong net	Content	RMB 30 mn	Private placement	Kuaishou
2018/05	凉屋游戏 Chillyroom	Games	N/A	Investment	Kuaishou
2018/05	周同科技 Zhoutong tech	AI	RMB >10 mn	Investment	Kuaishou, weibo
2018/06	AcFun	Content	RMB >100 mn	M&A	Kuaishou
2018/07	大片 Da Pian	Tools	N/A	Investment	Kuaishou, BAI, Lighthouse
2018/09	知衣科技 Zhiyi tech	Video Intelligence	RMB >10 mn	Investment	Legend Capital, Kuaishou
2019/02	一流科技 OneFlow tech	AI	N/A	Investment	Kuaishou
2019/05	精准学 Intelligent learning	Education	RMB 50 mn	Investment	Vision Capital, Kuaishou
2019/08	知乎 Zhihu	Content	USD \$434mn	Investment	Capital Today, Tencent, Baidu, Kuaishou
2019/09	十字星工作室 Crossingstar studio	Content	RMB >10 mn	Investment	Tencent, Kuaishou
2019/10	中手游 CMGE	Games	HKD \$250mn	Investment	Kuaishou, Sina Weibo Fund, Bili and etc
2020/05	茄子快传 SHAREit	Tools	N/A	Investment	Tencent, Kuaishou
2020/09	太若科技 Nrealtech	AR/VR	USD \$40mn	Investment	Sequoia, GP Capital, Kuaishou, Hillhouse and etc
2020/10	英雄体育 VSPN	Games	USD \$100mn	Investment	Tencent, SIG, Tianru Capital, Kuaishou
2020/11	瀚博半导体 Vaststream	Semiconductor	USD \$50mn	Investment	Kuaishou, Redpoint, SY Capital
2020/12	小象互娱 Elephant	Content	N/A	Investment	Kuaishou
2020/12	犀牛互动 Rhinos Interactive	Games	N/A	Investment	Kuaishou
2020/12	小象大鹅 EGM	Content	RMB >100 mn	Investment	Kuaishou, Bili
2020/03	明略科技 Mininglamp tech	AI	USD \$300mn	Investment	Tencent, Temasek, Kuaishou
2020/03	赛瑞思动 Sai Rui Si Dong	Games	N/A	M&A	Kuaishou
2020/04	王牌互娱 Ace playing	Games	RMB >1 mn	Investment	IDG, Kuaishou, Youyu Games, DotC United, Bole Games
2020/04	火花思维 Huohua	Education	USD \$30mn	Investment	Kuaishou
2020/05	猫头鹰视界 Owlil (Company now de-registered)	AR/VR	N/A	M&A	Kuaishou
2020/08	YTG电竞俱乐部 YTG	Games	RMB >1 mn	M&A	Kuaishou
2021/05	爱回收 Aihuishou	3C recycle	N/A	Investment	Kuaishou
2021/09	人人视频 YYeTs	Video	N/A	Investment	Kuaishou, Xiaomi
2021/12	魂世界 Soulgame	Games	N/A	Investment	Kuaishou
2022/06	易心优选 Yixin Optimization	E-commerce Service Partner	N/A	Investment	Kuaishou

Source: Company data, Public Information

Exhibit 90: ESOP details

Date	Incentive Plan	Number of granted shares/options(mn)	Duration	Exercise Price(HKD)
Prior to listing	Pre-IPO ESOP	262.2	N/A	N/A
1/18/2021	Post-IPO Share Option Scheme	83.3	10 years	
<i>Details as follows:</i>				
1/24/2022	Post-IPO Share Option Scheme	6.2		\$86.85
3/30/2022	Post-IPO Share Option Scheme	16.2		\$76.29
4/14/2022	Post-IPO Share Option Scheme	3.2		\$66.46
4/21/2022	Post-IPO Share Option Scheme	53.7		\$62.30
6/23/2022	Post-IPO Share Option Scheme	0.01		\$83.55
7/21/2022	Post-IPO Share Option Scheme	3.8		\$82.40
1/18/2021	Post-IPO RSU Scheme	94.6	N/A	N/A
*RSU shares as of number of shares underlying RSU granted from listing date to 2021/12/31, Option shares from listing date till 2022/08/03				

Source: Company data

Disclosure Appendix

Reg AC

We, Lincoln Kong, CFA, Ronald Keung, CFA, Steve Qiu and Lynn Li, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

GS Factor Profile

The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our coverage universe) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

M&A Rank

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

Logo disclosure

Third-party brands used in this report are the property of their respective owners, and are used here for informational purposes only. The use of such brands should not be viewed as an endorsement, affiliation or sponsorship by or for Goldman Sachs or any of its products/services.

The rating(s) for Kuaishou Technology is/are relative to the other companies in its/their coverage universe: Baidu.com Inc. (ADR), Baidu.com Inc. (H), Bilibili Inc. (ADR), Bilibili Inc. (H), NetEase Inc. (ADR), NetEase Inc. (H), Zhihu Inc. (ADR), Zhihu Inc. (H), iQIYI Inc.

Company-specific regulatory disclosures

The following disclosures relate to relationships between The Goldman Sachs Group, Inc. (with its affiliates, "Goldman Sachs") and companies covered by the Global Investment Research Division of Goldman Sachs and referred to in this research.

Goldman Sachs has received compensation for investment banking services in the past 12 months: Kuaishou Technology (HK\$66.80)

Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: Kuaishou Technology (HK\$66.80)

Goldman Sachs had an investment banking services client relationship during the past 12 months with: Kuaishou Technology (HK\$66.80)

Goldman Sachs makes a market in the securities or derivatives thereof: Kuaishou Technology (HK\$66.80)

Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution				Investment Banking Relationships		
	Buy	Hold	Sell		Buy	Hold	Sell
Global	50%	35%	15%		65%	58%	45%

As of July 1, 2022, Goldman Sachs Global Investment Research had investment ratings on 3,132 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by the FINRA Rules. See 'Ratings, Coverage universe and related definitions' below. The Investment Banking Relationships chart reflects the percentage of subject companies within each rating category for whom Goldman Sachs has provided investment banking services within the previous twelve months.

Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; for equity securities, market making and/or specialist role. Goldman Sachs trades or may trade as a principal in debt securities (or in related derivatives) of issuers discussed in this report.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage.

Analyst compensation: Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy generally prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director or advisor of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman Sachs & Co. LLC and therefore may not be subject to FINRA Rule 2241 or FINRA Rule 2242 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

Distribution of ratings: See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at <https://www.gs.com/research/hedge.html>.

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** Goldman Sachs Australia Pty Ltd and its affiliates are not authorised deposit-taking institutions (as that term is defined in the Banking Act 1959 (Cth)) in Australia and do not provide banking services, nor carry on a banking business, in Australia. This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act, unless otherwise agreed by Goldman Sachs. In producing research reports, members of the Global Investment Research Division of Goldman Sachs Australia may attend site visits and other meetings hosted by the companies and other entities which are the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs Australia considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting. To the extent that the contents of this document contains any financial product advice, it is general advice only and has been prepared by Goldman Sachs without taking into account a client's objectives, financial situation or needs. A client should, before acting on any such advice, consider the appropriateness of the advice having regard to the client's own objectives, financial situation and needs. A copy of certain Goldman Sachs Australia and New Zealand disclosure of interests and a copy of Goldman Sachs' Australian Sell-Side Research Independence Policy Statement are available at: <https://www.goldmansachs.com/disclosures/australia-new-zealand/index.html>. **Brazil:** Disclosure information in relation to CVM Resolution n. 20 is available at <https://www.gs.com/worldwide/brazil/area/gir/index.html>. Where applicable, the Brazil-registered analyst primarily responsible for the content of this research report, as defined in Article 20 of CVM Resolution n. 20, is the first author named at the beginning of this report, unless indicated otherwise at the end of the text. **Canada:** This information is being provided to you for information purposes only and is not, and under no circumstances should be construed as, an advertisement, offering or solicitation by Goldman Sachs & Co. LLC for purchasers of securities in Canada to trade in any Canadian security. Goldman Sachs & Co. LLC is not registered as a dealer in any jurisdiction in Canada under applicable Canadian securities laws and generally is not permitted to trade in Canadian securities and may be prohibited from selling certain securities and products in certain jurisdictions in Canada. If you wish to trade in any Canadian securities or other products in Canada please contact Goldman Sachs Canada Inc., an affiliate of The Goldman Sachs Group Inc., or another registered Canadian dealer. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited, Research Analyst - SEBI Registration Number INH000001493, 951-A, Rational House, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India, Corporate Identity Number U74140MH2006FTC160634, Phone +91 22 6616 9000, Fax +91 22 6616 9001. Goldman Sachs may beneficially own 1% or more of the securities (as such term is defined in clause 2 (h) the Indian Securities Contracts (Regulation) Act, 1956) of the subject company or companies referred to in this research report. **Japan:** See below. **Korea:** This research, and any access to it, is intended only for "professional investors" within the meaning of the Financial Services and Capital Markets Act, unless otherwise agreed by Goldman Sachs. Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **New Zealand:** Goldman Sachs New Zealand Limited and its affiliates are neither "registered banks" nor "deposit takers" (as defined in the Reserve Bank of New Zealand Act 1989) in New Zealand. This research, and any access to it, is intended for "wholesale clients" (as defined in the Financial Advisers Act 2008) unless otherwise agreed by Goldman Sachs. A copy of certain Goldman Sachs Australia and New Zealand disclosure of interests is available at: <https://www.goldmansachs.com/disclosures/australia-new-zealand/index.html>. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in the Russian legislation, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian legislation on appraisal activity. Research reports do not constitute a personalized investment recommendation as defined in Russian laws and regulations, are not addressed to a specific client, and are prepared without analyzing the financial circumstances, investment profiles or risk profiles of clients. Goldman Sachs assumes no responsibility for any investment decisions that may be taken by a client or any other person based on this research report. **Singapore:** Goldman Sachs (Singapore) Pte. (Company Number: 198602165W), which is regulated by the Monetary Authority of Singapore, accepts legal responsibility for this research, and should be contacted with respect to any matters arising from, or in connection with, this research. **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Conduct Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union and United Kingdom: Disclosure information in relation to Article 6 (2) of the European Commission Delegated Regulation (EU) (2016/958) supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council (including as that Delegated Regulation is implemented into United Kingdom domestic law and regulation following the United Kingdom's departure from the European Union and the European Economic Area) with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest is available at <https://www.gs.com/disclosures/europeanpolicy.html> which states the European Policy for Managing Conflicts of Interest in Connection with Investment Research.

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer registered with the Kanto Financial Bureau under registration number Kinsho 69, and a member of Japan Securities Dealers Association, Financial Futures Association of Japan and Type II Financial Instruments Firms Association. Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Ratings, coverage universe and related definitions

Buy (B), Neutral (N), Sell (S) Analysts recommend stocks as Buys or Sells for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's total return potential relative to its coverage universe. Any stock not assigned as a Buy or a Sell on an Investment List with an active rating (i.e., a stock that is not Rating Suspended, Not Rated, Coverage Suspended or Not Covered), is deemed Neutral. Each region's Investment Review Committee manages Regional Conviction lists, which represent investment recommendations focused on the size of the total return potential and/or the likelihood of the realization of the return across their respective areas of coverage. The addition or removal of stocks from such Conviction lists do not represent a change in the analysts' investment rating for such stocks.

Total return potential represents the upside or downside differential between the current share price and the price target, including all paid or anticipated dividends, expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The total return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

Coverage Universe: A list of all stocks in each coverage universe is available by primary analyst, stock and coverage universe at <https://www.gs.com/research/hedge.html>.

Not Rated (NR). The investment rating, target price and earnings estimates (where relevant) have been suspended pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or in a strategic transaction involving this company, when there are legal, regulatory or policy constraints due to Goldman Sachs' involvement in a transaction, and in certain other circumstances. **Rating Suspended (RS).** Goldman Sachs Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target price. The previous investment rating and target price, if any, are no longer in effect for this stock and should not be relied upon. **Coverage Suspended (CS).** Goldman Sachs has suspended coverage of this company. **Not Covered (NC).** Goldman Sachs does not cover this company. **Not Available or Not Applicable (NA).** The information is not available for display or is not applicable. **Not Meaningful (NM).** The information is not meaningful and is therefore excluded.

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs on a global basis. Analysts based in Goldman Sachs offices around the world produce research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897); in Brazil by Goldman Sachs do Brasil Corretora de Títulos e Valores Mobiliários S.A.; Public Communication Channel Goldman Sachs Brazil: 0800 727 5764 and / or contatogoldmanbrasil@gs.com. Available Weekdays (except holidays), from 9am to 6pm. Canal de Comunicação com o Público Goldman Sachs Brasil: 0800 727 5764 e/ou contatogoldmanbrasil@gs.com. Horário de funcionamento: segunda-feira à sexta-feira (exceto feriados), das 9h às 18h; in Canada by Goldman Sachs & Co. LLC; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs New Zealand Limited; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman Sachs & Co. LLC. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom.

Effective from the date of the United Kingdom's departure from the European Union and the European Economic Area ("Brexit Day") the following information with respect to distributing entities will apply:

Goldman Sachs International ("GSI"), authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA, has approved this research in connection with its distribution in the United Kingdom.

European Economic Area: GSI, authorised by the PRA and regulated by the FCA and the PRA, disseminates research in the following jurisdictions within the European Economic Area: the Grand Duchy of Luxembourg, Italy, the Kingdom of Belgium, the Kingdom of Denmark, the Kingdom of Norway, the Republic of Finland, the Republic of Cyprus and the Republic of Ireland; GS - Succursale de Paris (Paris branch) which, from Brexit Day, will be authorised by the French Autorité de contrôle prudentiel et de résolution ("ACPR") and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers ("AMF") disseminates research in France; GSI - Sucursal en España (Madrid branch) authorized in Spain by the Comisión Nacional del Mercado de Valores disseminates research in the Kingdom of Spain; GSI - Sweden Bankfilial (Stockholm branch) is authorized by the SFSa as a "third country branch" in accordance with Chapter 4, Section 4 of the Swedish Securities and Market Act (Sv. lag (2007:528) om värdepappersmarknaden) disseminates research in the Kingdom of Sweden; Goldman Sachs Bank Europe SE ("GSBE") is a credit institution incorporated in Germany and, within the Single Supervisory Mechanism, subject to direct prudential supervision by the European Central Bank and in other respects supervised by German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and Deutsche Bundesbank and disseminates research in the Federal Republic of Germany and those jurisdictions within the European Economic Area where GSI is not authorised to disseminate research and additionally, GSBE, Copenhagen Branch filial af GSBE, Tyskland, supervised by the Danish Financial Authority disseminates research in the Kingdom of Denmark; GSBE - Sucursal en España (Madrid branch) subject (to a limited extent) to local supervision by the Bank of Spain disseminates research in the Kingdom of Spain; GSBE - Succursale Italia (Milan branch) to the relevant applicable extent, subject to local supervision by the Bank of Italy (Banca d'Italia) and the Italian Companies and Exchange Commission (Commissione Nazionale per le Società e la Borsa "Consob") disseminates research in Italy; GSBE - Succursale de Paris (Paris branch), supervised by the AMF and by the ACPR disseminates research in France; and GSBE and GSBE - Sweden Bankfilial (Stockholm branch), to a limited extent, subject to local supervision by the Swedish Financial Supervisory Authority (Finansinspektionen) disseminates research in the Kingdom of Sweden.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman Sachs & Co. LLC, the United States broker dealer, is a member of SIPC (<https://www.sipc.org>).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and principal trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, principal trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

The analysts named in this report may have from time to time discussed with our clients, including Goldman Sachs salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analyst's published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analyst's fundamental equity rating for such stocks, which rating reflects a stock's return potential relative to its coverage universe as described herein.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

The views attributed to third party presenters at Goldman Sachs arranged conferences, including individuals from other parts of Goldman Sachs, do not necessarily reflect those of Global Investment Research and are not an official view of Goldman Sachs.

Any third party referenced herein, including any salespeople, traders and other professionals or members of their household, may have positions in the products mentioned that are inconsistent with the views expressed by analysts named in this report.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options and futures disclosure documents which are available from Goldman Sachs sales representatives or at <https://www.theocc.com/about/publications/character-risks.jsp> and https://www.fiadocumentation.org/fia/regulatory-disclosures_1/fia-uniform-futures-and-options-on-futures-risk-disclosures-booklet-pdf-version-2018. Transaction costs may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

Differing Levels of Service provided by Global Investment Research: The level and types of services provided to you by the Global Investment Research division of GS may vary as compared to that provided to internal and other external clients of GS, depending on various factors including your individual preferences as to the frequency and manner of receiving communication, your risk profile and investment focus and perspective (e.g., marketwide, sector specific, long term, short term), the size and scope of your overall client relationship with GS, and legal and regulatory constraints. As an example, certain clients may request to receive notifications when research on specific securities is published, and certain clients may request that specific data underlying analysts' fundamental analysis available on our internal client websites be delivered to them electronically through data feeds or otherwise. No change to an analyst's fundamental research views (e.g., ratings, price targets, or material changes to earnings estimates for equity securities), will be communicated to any client prior to inclusion of such information in a research report broadly disseminated through electronic publication to our internal client websites or through other means, as necessary, to all clients who are entitled to receive such reports.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For research, models or other data related to one or more securities, markets or asset classes (including related services) that may be available to you, please contact your GS representative or go to <https://research.gs.com>.

Disclosure information is also available at <https://www.gs.com/research/hedge.html> or from Research Compliance, 200 West Street, New York, NY 10282.

© 2022 Goldman Sachs.

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 The Goldman Sachs Group, Inc.