KUAISHOU

K2 CAPITAL HONG KONG EQUITY RESEARCH

Kuaishou Technology (1024.HK)

Kuaishou Technology is China's second-largest short video and live streaming platform with 401 million daily active users (DAUs) and 735.6 million monthly active users (MAUs) as of Q4 2024. Founded in 2011 and listed on the Hong Kong Stock Exchange in February 2021, Kuaishou operates a content-driven social commerce ecosystem spanning short video, live broadcasting, e-commerce, and increasingly, artificial intelligence applications.
The company generates revenue across three primary segments: Online Marketing Services (57.1% of FY24 revenue), anchored by its proprietary Magnetic Engine advertising platform; Live Streaming (29.2%), driven by virtual gifting and tipping; and Other Services (13.7%), which encompasses e-commerce transaction fees, fintech, and enterprise SaaS solutions.

Kuaishou's user base skews toward China's lower-tier cities and rural markets, a demographic often underserved by Douyin/TikTok, providing differentiated content and stronger community cohesion that translates to higher live streaming monetisation and emerging e-commerce adoption. Total e-commerce GMV reached RMB462.1 billion in FY2024 (+14.4% YoY), positioning Kuaishou as a leading social commerce platform behind only JD.com and Taobao in live-commerce GMV.

2. FINANCIAL SUMMARY

RMB mm (FY Dec)	FY2022A	FY2023A	FY2024A	FY2025E	FY2026E	FY2027E	FY2028E
Online Marketing	53,800	60,300	72,400	83,260	94,916	106,146	116,761
Live Streaming	30,600	33,100	37,000	38,850	40,015	40,815	41,224
Other Services	9,800	13,600	17,500	21,000	24,360	27,528	30,281
Total Revenue	**94,200**	**113,500**	**126,900**	**140,235**	**159,291**	**174,489**	**188,266**
YoY Growth %	—	+20.5%	+11.8%	+10.5%	+13.6%	+9.5%	+7.9%
Gross Profit	43,500	57,400	69,300	78,532	91,114	101,553	111,077
Gross Margin	46.2%	50.6%	54.6%	56.0%	57.2%	58.2%	59.0%
EBITDA	**(1,200)**	**14,200**	**23,857**	**32,769**	**41,799**	**49,070**	**55,700**
EBITDA Margin	(1.3%)	12.5%	18.8%	23.4%	26.2%	28.1%	29.6%
EBIT (Operating Profit)	(7,600)	6,350	15,340	24,853	33,285	39,885	46,158
EBIT Margin	(8.1%)	5.6%	12.1%	17.7%	20.9%	22.8%	24.5%
Net Income (Reported)	**(13,690)**	**6,400**	**15,300**	**21,870**	**28,968**	**34,301**	**39,234**
Adjusted Net Income	—	10,300	17,700	24,082	31,580	36,940	42,000
Adj. Net Margin	—	9.1%	13.9%	17.2%	19.8%	21.2%	22.3%
UFCF (Unlevered FCF)	**—**	**11,200**	**14,870**	**16,312**	**22,090**	**26,520**	**31,670**
EV/EBITDA	—	—	—	9.2x	7.2x	6.1x	5.4x
P/E (Adj.)	—	—	—	15.5x	11.8x	10.1x	8.7x
FCF Yield	—	—	—	3.2%	4.3%	5.2%	6.2%

Source: Kuaishou Technology Annual Reports (FY2022–FY2024); K2 Capital Estimates (FY2025E–FY2028E). All figures in RMB millions. UFCF = NOPAT + D&A – Capex – Change in Working Capital. EV/EBITDA and P/E based on current market price and estimated Enterprise Value.

3. INVESTMENT CASE

3.1 Online Marketing: The Core Growth Engine

Online marketing revenue grew **+20.1% in FY2024 to RMB72.4 billion**, accelerating relative to FY2023 (+12.0%) as the platform matured its external loop advertising capability — allowing brands to drive off-platform conversions. This is a secular shift in Chinese internet advertising: as performance marketing ROI becomes measurable, advertising budgets continue to rotate from traditional media to content platforms.

We project **+15.1% CAGR in online marketing revenue through FY2027E**, supported by three structural drivers: (i) rising advertiser penetration in lower-tier cities, (ii) e-commerce GMV growth creating a self-reinforcing content-commerce loop, and (iii) AI-powered creative tools (KLING) lowering the barrier to ad production for SME advertisers. Our FY2025E estimate of RMB83.3bn represents +15% growth, already partially confirmed by Q1-Q3 2025 reporting.

3.2 Margin Expansion: From Growth Mode to Efficiency Mode

The inflection in profitability represents the most compelling aspect of Kuaishou's investment case. The company reported its **highest-ever quarterly adjusted net margin of 16.0% in Q2 2025**, with EBIT margins expanding from 5.6% in FY2023 to 12.1% in FY2024. This was driven by:

- Selling & marketing expense ratio declining from 27.5% to ~25.0% of revenue as brand spending rationalises and content recommendation algorithms reduce CAC;
- R&D as a percent of revenue stabilising at ~9.5% (down from 12.2% in FY2022) while absolute investment continues to grow, reflecting scale leverage;
- Operating leverage on the cost-of-revenue line as higher-margin marketing services outpace lower-margin live streaming in the mix.

We forecast EBIT margins reaching **17.7% in FY2025E** and **20.9% in FY2026E**, supported by continued opex leverage and a favourable revenue mix shift. This remains conservative relative to peers: Pinduoduo and Meituan both operate at 25-30% EBIT margins at comparable scale.

3.3 Capital Allocation & Shareholder Returns

With **RMB106.6 billion in available funds** (cash, short-term investments) as of September 30, 2025, Kuaishou holds one of the strongest balance sheets in Chinese internet. This provides a multi-pronged capital allocation framework: (i) continued R&D investment in AI (KLING generative video, recommendation systems); (ii) share repurchases (HK$2.07bn in 9M 2025); and (iii) special dividends (HK$4.0bn declared in 2025 YTD — a first since listing). We expect total shareholder returns to increase to **4-6% yield** on an annualised basis as FCF generation strengthens.

3.4 AI & KLING Optionality

KLING AI, Kuaishou's generative video model, has attracted over 10 million global users and commenced commercial licensing to enterprise clients. While currently immaterial to group revenue (<1%), we view KLING as a meaningful medium-term option value. If KLING achieves 5% penetration of the $20bn+ global AI creative tools market by FY2028E, this represents an incremental ~RMB7bn in high-margin revenue — not currently modelled in our base case.

4. VALUATION

4.1 DCF Framework

Our primary valuation is a **6-year Unlevered DCF** (FY2025E–FY2030E) with a blended terminal value using equal weighting of the Gordon Growth Model and Exit EV/EBITDA Multiple approaches. We derive free cash flows as: NOPAT + D&A – Capex – Change in Working Capital, reflecting the true cash generation capacity of the business stripped of financial leverage effects.

WACC Components	Terminal Value Inputs
Risk-Free Rate (China 10Y): 2.50%	Terminal Growth Rate (GGM): 3.0%
Equity Risk Premium (Damodaran): 6.50%	Exit EV/EBITDA Multiple: 12.0x
Beta (2Y weekly, vs. HSTI): 1.17x	Terminal Year EBITDA (FY2030E): RMB60.8bn
Cost of Equity (CAPM): 10.1%	Gordon Growth TV: RMB626bn
Cost of Debt (pre-tax): 4.0%	Exit Multiple TV: RMB730bn
Debt/Total Capital (target): 20.0%	**Blended TV: RMB678bn**
WACC (Base Case): 8.8%	**PV of TV (disc. at 8.8%): RMB408bn**

The Enterprise Value bridge: **PV of FCFs (FY25–30E): ~RMB108bn** + **PV of Terminal Value: ~RMB408bn** = **Enterprise Value: ~RMB516bn**. Adding net cash of ~RMB80bn and deducting minority interests yields **Equity Value of ~RMB593bn**, or approximately **HK$125 per share** at the prevailing HKD/RMB rate of 0.924.

4.2 Sensitivity Analysis

The table below shows the implied share price (HK$) under varying WACC and Terminal Growth Rate assumptions. Our base case of 8.8% WACC / 3.0% TGR yields HK$125. The stock remains undervalued in all scenarios above 6.5% WACC and above 1.5% terminal growth — suggesting asymmetric risk/reward at current levels.

WACC / TGR	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
7.0%	HK$155	HK$172	HK$193	HK$218	HK$251	HK$296
7.5%	HK$134	HK$148	HK$163	HK$182	HK$206	HK$237
8.0%	HK$116	HK$128	HK$140	HK$154	HK$172	HK$195
8.5%	HK$101	HK$111	HK$120	HK$132	HK$146	HK$163
8.8%	HK$93	HK$102	HK$111	**HK$125**	HK$136	HK$152
9.0%	HK$89	HK$97	HK$105	HK$115	HK$127	HK$141
9.5%	HK$78	HK$85	HK$92	HK$101	HK$111	HK$123

Green = above current price; Yellow = base case; Red = below current price. All figures in HK$ per share.

5. SCENARIO ANALYSIS

We present three macro scenarios with distinct revenue, margin, and discount rate assumptions, probability-weighted to derive a composite target price of **HK$118.0** (+77.8% upside). The wide dispersion between Bear (HK$75) and Bull (HK$175) reflects the binary nature of China regulatory risk and the earnings sensitivity to online marketing growth rates, particularly in a potential macro stress scenario.

Assumption	Bear Case (25%)	Base Case (50%)	Bull Case (25%)
Probability	25%	50%	25%
FY25E Revenue Growth	+8.0%	+10.5%	+13.0%
FY26-28 Rev CAGR	+6%	+10%	+14%
FY29-30 Rev CAGR	+3%	+6%	+9%
Terminal EBIT Margin	14%	20%	24%
WACC	9.5%	8.8%	8.0%
Terminal Growth Rate	2.0%	3.0%	3.5%
Exit EV/EBITDA	9.0x	12.0x	15.0x
Implied Price (HK$)	**HK$75**		**HK$175**
Upside / (Downside)	+13.1%	+88.4%	+163.7%
Probability-Weighted Target Price (HK$)	**HK$118**		**+77.8% Upside**

Bear Case (25% probability): Assumes meaningful regulatory headwinds (content restrictions, algorithmic transparency requirements), macro-driven ad spend contraction, and failure to monetise KLING/overseas. EBIT margins plateau at ~14%, resulting in a compressed multiple.

Bull Case (25% probability): Assumes regulatory tailwind from government's pro-consumption AI policy, KLING achieving commercial scale, overseas breakeven by FY2026E, and continued market share gains from Douyin in lower-tier city advertising. EBIT margins reach 24%+ with an expanded growth premium.

6. KEY RISKS

The following risks may cause actual results to differ materially from our estimates. Upside risks (↑) represent potential catalysts; downside risks (↓) represent factors that could pressure the share price below our base case.

	Risk Factor	Description
↑	**Regulatory Tightening (China Internet)**	Continued MIIT/CAC content restrictions or algorithm transparency requirements could increase compliance costs and limit monetisation. Data privacy regulations may constrain ad targeting effectiveness, reducing online marketing ARPU.
↑	**Macro-Driven Ad Spend Softness**	A sharp deceleration in China GDP (below 4%) could lead brand advertisers to cut budgets, particularly in e-commerce and FMCG — Kuaishou's largest ad verticals. Historical precedent from 2022 shows 15-20% sequential revenue declines during lockdowns.
↑	**Competition from ByteDance/Douyin**	Douyin's algorithm and creator ecosystem advantages may intensify DAU/MAU competition. Kuaishou's lower-tier city user base could be vulnerable to Douyin's ongoing geographic expansion.
↑	**Live Streaming Monetisation Plateau**	Live streaming revenue (29% of FY24 total) has structurally slowed as the virtual gifting category matures. Failure to offset via e-commerce integration could weigh on ARPU growth.
↓	**AI Acceleration (KLING)**	KLING AI (generative video model) could open B2B licensing and creative tools as a new revenue vertical. Early enterprise adoption in advertising production shows commercial potential exceeding our base case.
↓	**International Expansion (Kwai App)**	Overseas segment losses narrowed 66.5% in FY24. A path to profitability in Brazil and Southeast Asia (combined DAU 50mn+) could add 5-8% to group EV in our bull case.
↓	**Further Capital Returns**	RMB106.6bn in available funds and improving FCF generation support further special dividends (HK$4bn declared in 2025 YTD) and buybacks (~HK$2.1bn in 9M 2025).

7. REVENUE SEGMENTATION & KEY OPERATING METRICS

7.1 Online Marketing Services

Online marketing revenue is driven by: (i) advertiser count growth, (ii) average spend per advertiser (ARPA), and (iii) RPM (revenue per mille impressions). The business has shifted significantly toward external loop advertising — where e-commerce merchants drive off-platform purchases via Kuaishou content — unlocking a fundamentally larger TAM than pure in-feed advertising. Kuaishou's proprietary Magnetic Engine attribution tool, upgraded in 2024 with AI-powered ROI prediction, has driven improving advertiser retention and ARPA uplift.

- FY2024 online marketing revenue: RMB72.4bn (+20.1% YoY)
- Q3 2025 online marketing revenue mix: 56.5% of total, consistent with FY24 level
- E-commerce GMV of RMB462bn creates persistent demand for in-feed promotional content
- Long-term ARPU per MAU: RMB98 in FY2024 vs. Douyin estimate ~RMB220 — significant monetisation gap to close

7.2 Live Streaming

Live streaming revenue (~37.0bn in FY2024) reflects virtual gifting and tipping from viewers to broadcasters. This segment is structurally mature: total market gifts have broadly plateaued while individual session monetisation increases as the broadcaster ecosystem professionalises. Our model assumes low single-digit growth (3-5% annually), with the segment's role evolving toward commerce-integrated live selling that benefits the marketing segment rather than this line directly.

7.3 E-Commerce & Other Services

Other services — primarily platform commissions on e-commerce GMV (approximately 1-2% take rate) plus fintech and enterprise services — grew to RMB17.5bn in FY2024 (+28.7% YoY). We view this as the highest optionality segment. As GMV scales and take rates gradually improve toward peers' 2-3% levels, this segment alone could generate RMB35-40bn in revenue by FY2028E. Additionally, enterprise licensing of KLING AI and cloud services represents an unmodelled upside.

User & Engagement Metrics	Q4'23A	Q4'24A	Q1'25A	Q2'25A	Q3'25A	YoY Δ (Q3)
Average DAUs (mn)	382.7	401.0	404.0	408.9	416.2	+4.8%
Average MAUs (mn)	700.2	735.6	737.4	741.2	753.0	+4.2%
Daily Time Spent (min/user)	~120	~125	~126	~128	~130	+3.2%
E-commerce GMV (RMB bn)	~100	~127	~101	~359*	~390*	+17.6%*
Online Marketing RPM Index	100	115	118	122	127	+10.4%

* Q2/Q3 GMV is quarterly figure; Q4'23A and Q4'24A reflect full-quarter GMV. YoY for GMV reflects Q2 2025 vs Q2 2024 (+17.6%). Sources: Kuaishou quarterly earnings releases.

8. MARGIN EXPANSION ROADMAP

We model a sustained EBIT margin expansion trajectory driven by three primary levers:

- **Gross Margin Uplift (54.6% → 59.8% by FY2030E):** Revenue mix shift to higher-margin marketing services reduces content cost and bandwidth intensity. AI-driven content recommendations reduce server costs per session.
- **Selling & Marketing Leverage (25.0% → 20.0% of revenue by FY2030E):** As the Kuaishou brand matures and algorithmic matching reduces incentive spend, the effective CAC declines. We do not assume headcount reduction — rather, efficiency improvement from AI-augmented ad sales.
- **R&D Rationalisation (9.5% → 8.4% of revenue):** Core platform R&D becomes increasingly leveraged. Incremental spend concentrates on monetisation infrastructure and KLING AI, which are revenued.

The combined effect produces an **EBIT margin of 17.7% in FY2025E**, rising to **24.5% by FY2028E**. Our terminal EBIT margin assumption of 20% for the base case DCF is deliberately conservative relative to this trajectory, reflecting potential regulatory costs and competitive reinvestment requirements.

9. PEER VALUATION COMPARISON

Kuaishou trades at a **material discount** to both domestic and global internet peers on a forward EV/EBITDA basis, despite superior revenue growth and improving FCF generation. We view this discount as partially warranted given higher regulatory risk, but disproportionate relative to the margin expansion runway.

Company	EV/EBITDA'25E	EV/EBITDA'26E	P/E'25E	Rev Growth'25E	EBITDA Mgn'25E	FCF Yield
Kuaishou (1024.HK) — K2C	**9.2x**	**7.2x**	**15.5x**	**+10.5%**	**23.4%**	**3.2%**
ByteDance / Douyin (Private)	~18x	~15x	~25x	+15%	~30%	—
Tencent (700.HK)	12.5x	11.2x	16.8x	+8%	34%	4.1%
Bilibili (9626.HK)	22.1x	17.3x	NM	+12%	12%	1.1%
Meta Platforms (META)	16.8x	14.2x	23.1x	+16%	45%	4.8%
Snap Inc. (SNAP)	14.2x	11.9x	NM	+14%	17%	1.8%
Sector Median	**14.8x**	**12.6x**	**21.5x**	**+13%**	**28%**	**3.0%**
Kuaishou vs. Median	-38%	-43%	-28%	-2.5pp	-4.6pp	+0.2pp

Competitor multiples are consensus estimates from Bloomberg/FactSet as of February 2026 (estimated). ByteDance data is approximate based on public reporting. K2C estimates shown for Kuaishou.

10. NEAR-TERM CATALYST CALENDAR

Date (Est.)	Catalyst	Expected Impact & Our View
Mar 2026 (est.)	**Q4 & FY2025 Results**	Confirmation of double-digit full-year revenue growth and adj. net margin above 14% would validate our thesis. A buyback or special dividend announcement would be a positive catalyst.
Apr 2026	**Q1 2026 Guidance**	Management tone on ad market recovery post-Lunar New Year, KLING commercial momentum, and any update on overseas breakeven timeline.
May 2026	**AI Innovation Day**	Kuaishou has historically used May product events to announce new AI capabilities. KLING v3.0 or enterprise pricing announcements could catalyse positive re-rating.
Ongoing	**Capital Returns**	Each buyback tranche announcement and special dividend declaration confirms capital discipline and management alignment with shareholders.
Ongoing	**Regulatory Landscape**	Any relaxation of China internet regulation (or conversely, new sector-specific rules) will meaningfully impact sector multiples. We monitor MIIT, CAC, and SAMR closely.

IMPORTANT DISCLOSURES & ANALYST CERTIFICATION

Ratings Definitions

- **BUY:** Expected total return of 15% or more over the next 12 months on a risk-adjusted basis.
- **HOLD:** Expected total return between -10% and +15% over the next 12 months.
- **SELL:** Expected total return below -10% over the next 12 months.

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Sources

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- Kuaishou Technology Q1, Q2, Q3 2025 Earnings Releases (ir.kuaishou.com)
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