# Kuaishou Technology (1024 HK)

## 2Q26: Results Broadly In Line, But Outlook Weaker Than Expected

### Highlights

- 2Q26 results came in within expectations. Revenue increased 1.4% yoy to Rmb35.5b, largely as expected. Gross profit margin dipped 4ppt yoy to 52%. Non-IFRS net profit dropped 30% yoy to Rmb3.9b, due to increased AI investment and R&D spending, in line with our and consensus forecasts. Management guided 3Q26 revenue to decline 7.5% yoy and adjusted net profit to decrease to Rmb700m (2.2% margin), below our expectations.
- Maintain BUY with a lower target price of HK$63.00.

### 2Q26 Results

| Year to 31 Dec (Rmbm) | 2Q25 | 1Q26 | 2Q26 | QoQ | YoY | UOBKH | Var | Cons | Var |
|---|---|---|---|---|---|---|---|---|---|
| Total Net revenue | 35,046 | 33,716 | 35,535 | 5% | 1% | 1.4% | 0.2% | 35,506 | 0.1% |
| Live streaming | 10,044 | 8,492 | 8,690 | 2% | -13% | -13.5% | 0.4% | | |
| Online marketing | 19,765 | 19,643 | 20,639 | 5% | 4% | 4.4% | -1.3% | | |
| Other services | 5,237 | 5,581 | 6,206 | 11% | 19% | 18.5% | 5.0% | | |
| COGS | 15,542 | 16,467 | 17,207 | 4% | 11% | 10.7% | -0.1% | | |
| Gross profits | 19,504 | 17,249 | 18,328 | 6% | -6% | -6.0% | 0.4% | 18,316 | 0.1% |
| GPM | 56% | 51% | 52% | 1% | (4 ppts) | (4 ppts) | 0.1 ppts | 52% | (0.0 ppts) |
| Non-IFRS OP | 6,005 | 4,128 | 4,535 | 10% | -24.5% | 4,340 | 4.5% | | |
| Non-IFRS OPM | 17% | 12% | 13% | 1 ppts | (4 ppts) | 12% | 0.5 ppts | | |
| Non-IFRS net income | 5,618 | 3,374 | 3,913 | 16% | -30.3% | 3,893 | 0.5% | 3,890 | 0.6% |
| IFRS EPS (RMB) | 1.13 | 0.66 | 0.72 | 9% | -36.3% | 0.70 | 3.0% | | |
| Non-IFRS Net Margin | 16% | 10% | 11% | 1 ppts | (5 ppts) | 11.0% | 0 ppts | 11.0% | 0 ppts |

*Source: Kuaishou, UOB Kay Hian*

### Analysis

- **Lacklustre 2Q26 top-line growth.** Kuaishou Technology's (Kuaishou) online marketing revenue grew 4.4% yoy to Rmb20.6b in 2Q26 (1Q26: +9%), driven by solid demand from content consumption, lifestyle services and AI applications, alongside resilient e-commerce advertising. However, this was lower than the company's previous guidance of 6-6.5% growth. Live-streaming revenue decreased 13.5% yoy (1Q26: -13.5%; 2Q25: +8%). In 2Q26, revenue from Kling AI surpassed Rmb850m vs Rmb650m in 1Q26, representing yoy growth of over 200%.
- **Core business remains under pressure despite strong Kling growth.** Kling AI revenue exceeded Rmb850m in 2Q26, implying Rmb600m of incremental revenue vs a year ago. Excluding this contribution, we estimate Kuaishou's core revenue would have declined slightly yoy, mainly reflecting the 13.5% yoy decline in live-streaming revenue. Assuming Kling's ~40% gross margin, we estimate ex-Kling gross profit declined by more than Rmb1.5b, or 8% yoy, mainly due to higher revenue-sharing costs, including in-app advertising revenue sharing for free short dramas.

### Key Financials

| Year to 31 Dec (Rmbm) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 126,898 | 142,776 | 137,982 | 144,244 | 152,540 |
| EBITDA | 22,278 | 27,682 | 14,947 | 22,913 | 26,353 |
| Operating profit | 15,287 | 20,637 | 7,095 | 14,005 | 16,325 |
| Net profit (rep./act.) | 15,344 | 18,624 | 6,539 | 11,891 | 13,647 |
| Net profit (adj.) | 17,716 | 20,647 | 9,161 | 14,631 | 16,545 |
| EPS (Fen) | 402.1 | 469.0 | 214.0 | 338.4 | 378.9 |
| PE | 8.1 | 6.9 | 15.2 | 9.6 | 8.6 |
| P/B | 2.3 | 1.7 | 1.7 | 1.3 | 1.2 |
| EV/EBITDA | 5.8 | 4.6 | 8.6 | 5.6 | 4.9 |
| Dividend yield | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net margin | 12.1 | 13.0 | 4.7 | 8.2 | 8.9 |
| Net debt/(cash) to equity | (20.5) | (14.1) | (14.2) | (48.7) | (52.0) |
| Interest cover (x) | n.a. | 185.8 | n.a. | n.a. | n.a. |
| ROE | 27.6 | 26.3 | 8.1 | 12.8 | 12.1 |
| Consensus net profit | - | - | 13,629.5 | 15,607.3 | 18,374.8 |
| UOBKH/Consensus (x) | - | - | 0.67 | 0.94 | 0.90 |

*Source: Kuaishou, Bloomberg, UOB Kay Hian*

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### BUY (Maintained)

| | |
|---|---|
| Share Price | HK$37.80 |
| Target Price | HK$63.00 |
| Upside | 66.7% |
| Previous TP | HK$82.00 |

### Stock Data

| | |
|---|---|
| Sector | Consumer Service |
| Bloomberg ticker | 1024 HK |
| Shares issued (m) | 3,663. |
| Market cap (US$m) | 163,549. |
| Market cap (US$m) | 20,859. |
| 3-mth avg daily t'over (US$m) | 342. |

### Price Performance (%)

| 52-week high/low | | | | HK$92.6/HK$37.42 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| (12.7) | (22.7) | (44.7) | (48.7) | (40.9) |

### Major Shareholders (%)

| | |
|---|---|
| Tencent Holdings Ltd | 18.52 |

### Balance Sheet Metrics

| | |
|---|---|
| FY26 NAV/Share (Rmb$) | 19.21 |
| FY26 Net Debt/Share (Rmb$) | 2.73 |

### Price Chart


*Source: Bloomberg*

### Company Description

Kuaishou Technology operates as a content community and social platform. The company helps users create, upload and watch short videos on mobile devices. Kuaishou Technology offers services worldwide.

- **Accelerating user growth.** Average daily active users (DAU) reached 412.3m (-0.4m qoq, +3.4m yoy), while monthly active users (MAU) reached 797.3m (+83m yoy) in 2Q26. The DAU/MAU ratio, an indicator of user engagement, deteriorated to 51.7%, while average online marketing services revenue per DAU increased to Rmb50.10 from Rmb48.30 in 2Q25.
- **Margin overview.** Gross profit fell 6% yoy to Rmb18.3b, with gross profit margin down 4.1ppt to 51.6%, mainly due to higher revenue-sharing costs and related taxes. Non-IFRS operating profit declined 24.5% yoy to Rmb4.5b, with margin down 4ppt to 13%, reflecting higher AI-related R&D spending, partly offset by lower selling and marketing expenses. Domestic operating profit fell 30.9% yoy to Rmb3.7b, while the overseas loss narrowed to Rmb25m from Rmb31m in 1Q26.
- **Kling AI funding supports expansion amid intensifying competition.** Kling AI has secured external funding of up to US$3.0b, which should provide greater flexibility to support computing investment and help attract and retain key talent. However, competition is intensifying with strong Seedance momentum and MiniMax's launch of the aggressively priced H3 video model. We see greater competitive risk in price-sensitive creator and advertising-content use cases, while Kling should remain better positioned in higher-end professional segments such as short dramas and animated comics, where content quality, controllability and production consistency are more critical.
- **Capital allocation increasingly underpins valuation support.** With net cash of Rmb85b, Kling being valued at around US$18b post-money and Kuaishou retaining a 68.3% stake, we believe stronger shareholder returns could provide meaningful downside support at the current Rmb140b market cap. Conversely, without more substantial buybacks or dividends, investors may increasingly favour more direct exposure to Kling over a weakening core business. Near-term guidance will therefore remain an important catalyst for earnings expectations and share price performance.
- **3Q26/2026 outlook weaker than expected amid core-business pressure and continued AI investment.** Management expects revenue to decline 7.5% yoy in 3Q26 and 3.5% yoy in 2026, mainly reflecting softer advertising, live-streaming weakness and merchant compliance pressure. Kling remains the key growth driver, with 3Q26 revenue expected to exceed Rmb850m, up >180% yoy. gross profit margin is guided at 49%/50-51% for 3Q26/2026, while adjusted net profit is expected at Rmb0.7b/Rmb8.5b-9.0b, below expectations as weaker core revenue and continued AI/Kling investment weigh on profitability..
- **Share repurchases.** During 1H26, Kuaishou repurchased HK$1.97b of shares. Together with the HK$3.0b final dividend approved at the 2026 AGM, total shareholder returns amounted to HK$5.0b, equivalent to 3.0% of its current market cap.

## Valuation/Recommendation

- Maintain BUY with a lower target price of HK$63.00, which implies 26.5x 2026F PE, in line with peers. We adopt 20x PS for Kling on the back of its robust growth. The company is currently trading at 16x 2026F PE, against a 32% EPS CAGR over the next three years.

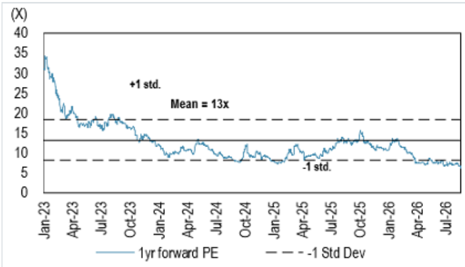
## Earnings Revision/Risk

- We cut our 2026 revenue and earnings forecasts by 7%/44%, respectively, factoring in weaker live-streaming and online marketing revenue, alongside heightened investment in Kling AI.
- Risks include: a) softer advertising growth amid a weak macro environment, b) increasing competition from Douyin, c) restrictions on the time spent on short-form videos by minors, and d) expanding losses from new initiatives.

## Share Price Catalyst

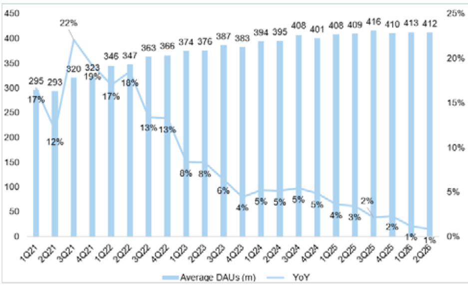
- a) Higher monetisation rates across all categories, b) increased monetisation of Kling AI, and c) lifting of regulations on internet platforms.

### 12-Month Forward PE Band




*Source; Bloomberg UOB Kay Hian*

### Average DAU




*Source: Kuaishou, UOB Kay Hian*

### SOTP-Based Valuation

| 2027F | Revenue (Rmbm) | GMV (Rmbm) | Net profit | PS(x) | PE(x) | To Kuaishou (HK$) | HK$/share |
|---|---|---|---|---|---|---|---|
| Live streaming | 32,346 | | 3,882 | | 3 | 12,460 | 3 |
| Online marketing | 84,817 | | 15,267 | 1 | 4 | 65,343 | 15 |
| E-commerce | 24,047 | 1,579,746 | 3,607 | 1 | 7 | 23,665 | 5 |
| Kling AI | 6,038 | | | 20 | | 86,039 | 19 |
| Others | 3,034 | | | 2 | | 6,492 | 1 |
| Net Cash | | | | | | 101,459 | 23 |
| SOTP value | | | | | | 278,250 | 63 |

*Source: UOB Kay Hian*

## Profit & Loss

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Net turnover | 142,776.0 | 137,982.1 | 144,243.9 | 152,539.6 |
| EBITDA | 27,682.0 | 14,946.7 | 22,912.8 | 26,353.5 |
| Deprec. & amort. | 7,045.0 | 7,851.6 | 8,907.5 | 10,028.5 |
| EBIT | 20,637.0 | 7,095.1 | 14,005.3 | 16,325.0 |
| Total other non-operating income | 0.0 | 0.0 | 0.0 | (0.0) |
| Associate contributions | (16.0) | (15.0) | 0.0 | 0.0 |
| Net interest income/(expense) | (149.0) | 1,075.8 | 672.5 | 472.9 |
| Pre-tax profit | 20,472.0 | 8,155.9 | 14,677.8 | 16,797.9 |
| Tax | (1,848.0) | (1,616.6) | (2,786.9) | (3,151.4) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 18,624.0 | 6,539.3 | 11,890.8 | 13,646.5 |
| Net profit (adj.) | 20,647.0 | 9,160.9 | 14,631.5 | 16,544.8 |

## Balance Sheet

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 22,869.0 | 34,126.0 | 31,943.4 | 35,423.4 |
| Other LT assets | 64,086.0 | 66,788.0 | 118,174.9 | 134,922.1 |
| Cash/ST investment | 11,180.0 | 11,696.0 | 50,764.8 | 62,793.0 |
| Other current assets | 66,369.0 | 87,156.0 | 87,335.6 | 88,335.8 |
| Total assets | 164,504.0 | 199,766.0 | 288,218.7 | 321,474.3 |
| ST debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Other current liabilities | 67,535.0 | 93,977.0 | 100,643.9 | 109,034.2 |
| LT debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Other LT liabilities | 17,385.0 | 23,516.0 | 57,263.7 | 65,584.2 |
| Shareholders' equity | 79,558.0 | 82,239.0 | 104,221.9 | 120,766.6 |
| Minority interest | 26.0 | 34.0 | 34.0 | 34.0 |
| Total liabilities & equity | 164,504.0 | 199,766.0 | 262,163.5 | 295,419.1 |

## Cash Flow

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Operating | 26,716.0 | 3,125.0 | 19,417.1 | 25,344.3 |
| Profit fo the year | 20,472.0 | 8,155.9 | 14,677.8 | 16,797.9 |
| Tax | (1,848.0) | (1,616.6) | (2,786.9) | (3,151.4) |
| Deprec. & amort. | 7,045.0 | 7,851.6 | 8,907.5 | 10,028.5 |
| Associates | 16.0 | 15.0 | 0.0 | 0.0 |
| Working capital changes | (1,249.0) | 7,115.4 | (3,805.3) | (1,276.7) |
| Non-cash items | 0.0 | 0.0 | 0.0 | 0.0 |
| Other operating cashflows | 2,280.0 | (18,396.3) | 2,424.0 | 2,946.0 |
| Investing | (26,256.0) | (23,958.0) | (33,176.1) | (27,152.0) |
| Capex (growth) | (14,942.0) | (43,050.4) | (33,176.1) | (27,152.0) |
| Investment | 46,115.0 | 43,909.0 | 47,012.6 | 50,116.2 |
| Others | (57,429.0) | (24,816.6) | (47,012.6) | (50,116.2) |
| Financing | (1,925.0) | 21,139.0 | 53,118.7 | 13,835.9 |
| Dividend payments | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 4,422.0 | 0.0 | 0.0 | 0.0 |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (6,347.0) | 21,139.0 | 53,118.7 | 13,835.9 |
| Net cash inflow (outflow) | (1,465.0) | 306.0 | 39,359.7 | 12,028.2 |
| Beginning cash & cash equivalent | 12,697.1 | 11,180.1 | 11,405.1 | 50,764.8 |
| Changes due to forex impact | (52.0) | (81.0) | 0.0 | 0.0 |
| Ending cash & cash equivalent | 11,180.1 | 11,405.1 | 50,764.8 | 62,793.0 |

## Key Metric

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Profitability | | | | |
| EBITDA margin | 19.4 | 10.8 | 15.9 | 17.3 |
| Pre-tax margin | 14.3 | 5.9 | 10.2 | 11.0 |
| Net margin | 13.0 | 4.7 | 8.2 | 8.9 |
| ROA | 12.2 | 3.6 | 4.9 | 4.5 |
| ROE | 26.3 | 8.1 | 12.8 | 12.1 |
| | | | | |
| Growth | | | | |
| Turnover | 12.5 | (3.4) | 4.5 | 5.8 |
| EBITDA | 24.3 | (46.0) | 53.3 | 15.0 |
| Pre-tax profit | 32.1 | (60.2) | 80.0 | 14.4 |
| Net profit | 21.4 | (64.9) | 81.8 | 14.8 |
| Net profit (adj.) | 16.5 | (55.6) | 59.7 | 13.1 |
| EPS | 16.7 | (54.4) | 58.1 | 12.0 |
| | | | | |
| Leverage | | | | |
| Debt to total capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt to equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt/(cash) to equity | (14.1) | (14.2) | (48.7) | (52.0) |
| Interest cover (x) | 185.8 | n.a. | n.a. | n.a. |