Kingsoft Corp (3888 HK)

3Q26: Earnings Beat On Higher Gross Margin Despite Weak Online Games Revenue

Highlights

- Kingsoft's 3Q26 results were mixed. Revenue rose 0.8% yoy to Rmb2.4b, around 6% below both our estimate and consensus, weighed by a 25.1% yoy decline in online games revenue and partly offset by 16.1% yoy growth in WPS revenue. Gross margin rose 0.7ppt yoy to 81.0%. Operating profit rose 40.0% yoy to Rmb387.7m, exceeding our estimates. Adjusted net profit rose 11.8% yoy to Rmb300.6m, 14% below our estimate but 10% above consensus, with adjusted net margin up 1.2ppt yoy to 12.3%.
- Maintain BUY with a lower target price of HK$30.00.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q25	2Q26	3Q26	qoq % chg	yoy % chg	2Q26	Var	Cons	Var
TOTAL REVENUE	2,419	2,510	2,439	(2.9%)	0.8%	2,606	(6.4%)	2,586	(5.7%)
Online Game	898	810	672.1	(17.1%)	(25.1%)	790	(14.9%)		
Office Software & Others	1,521	1,700	1,766	3.9%	16.1%	1,816	(2.7%)		
Cost of services	(475)	(539)	(462)	14.2%	2.7%	(573)	19.4%		
Gross profit	1,944	1,972	1,976	0.2%	1.7%	2,033	(2.8%)	2,062	(4.2%)
online game GPM	84%	81%	83%	2.0 ppt	(1.2 ppt)	78%	5 ppt		
WPS GPM	78%	77%	80%	3.0 ppt	2.3 ppt	78%	2 ppt		
online game OPM	-12%	5%	2%	(2.7 ppt)	13.6 ppt	-7%	9 ppt		
WPS OPM	25%	22%	21%	(1.2 ppt)	(3.9 ppt)	21%	1 ppt		
Operating profit	277	419	388	(7.4%)	40.0%	319	21.7%		
OPM	11%	17%	16%	(0.8 ppt)	4.5 ppt	12%	3.7 ppt		
Non-IFRS Net profit	269	330	301	(9.0%)	11.8%	351	-14%	274	9.6%
Diluted EPS (Rmb)	0.15	0.40	(0.15)	138%	-200%	0.00	-15 ppt		
GPM	80.4%	78.5%	81.0%	2.5 ppt	0.7 ppt	78.0%	3 ppt	79.8%	1.3 ppt
Net margin	11.1%	13.2%	12.3%	(0.8 ppt)	1.2 ppt	19.2%	-7 ppt		

Source: Kingsoft Corp, UOB Kay Hian

Analysis

- **Lacklustre revenue growth as online games dragged.** Online games and others revenue fell 25.1% yoy and 17.1% qoq to Rmb672.1m, 14.9% below our estimate, reflecting weaker monetisation and limited contribution from new titles. Office software and services revenue growth slowed to 16.1% yoy (2Q26: 25%), reaching Rmb1.8b, 2.7% below our estimate. WPS Individual revenue rose 17% yoy as AI upgrades improved paid conversion and spending per customer, while WPS 365 revenue grew 34% yoy as its enterprise customer base expanded. WPS software revenue rose 6% yoy on government and enterprise demand for domestic office software. Global monthly active devices rose 1.3% yoy to 678m at end-Sep 26.
- **Gross margin expanded on lower online games costs.** Cost of revenue fell 2.7% yoy to Rmb462.2m in 3Q26, due to lower revenue-sharing and personnel costs in online games, partly offset by higher costs from increased AI feature usage and higher server and bandwidth expenses in the office business. Gross profit rose 1.7% yoy to Rmb1,976.3m, while gross margin expanded 0.7ppt yoy to 81.0%, better than our and consensus estimates.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	10,318	9,683	10,055	11,119	12,236
EBITDA	4,159	2,319	2,171	2,338	2,781
Operating profit	3,647	1,775	1,592	1,764	1,986
Net profit (rep./act.)	1,552	2,004	1,628	1,110	1,505
Net profit (adj.)	1,981	1,048	1,764	1,506	1,940
EPS (Fen)	147.7	76.9	128.5	109.2	140.0
PE (x)	12.2	23.5	14.1	16.6	12.9
P/B (x)	0.8	0.8	0.7	0.7	0.7
EV/EBITDA (x)	0.1	0.2	0.2	0.2	0.1
Dividend yield (%)	0.6	0.7	0.8	4.4	4.4
Net margin (%)	15.0	20.7	16.2	10.0	12.3
Net debt/(cash) to equity (%)	(82.5)	(69.2)	(70.9)	(60.8)	(63.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	5.5	6.5	4.8	3.2	4.1
Consensus net profit	-	-	1,752.8	1,521.3	1,962.0
UOBKH/Consensus (x)	-	-	1.01	0.99	0.99

Source: Kingsoft Corp, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$21.22
Target Price	HK$30
Upside	41.4%
Previous TP	HK$35.00

Stock Data

Sector	Communication Service
Bloomberg ticker	3888 HK
Shares issued (m)	1,374.4
Market cap (US$m)	29,165.0
Market cap (US$m)	3,721.1
3-mth avg daily t'over (US$m)	21.2

Price Performance (%)

52-week high/low				HK$33.68/HK$20.50
1mth	3mth	6mth	1yr	YTD
(13.7)	(13.0)	(1.5)	(28.4)	(25.4)

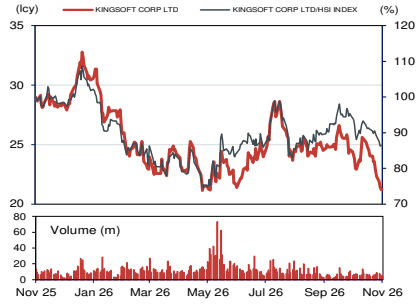
Major Shareholders (%)

Lei Jun	12.72
CH Saffron Ltd	6.99
Pak Kwan Kau	6.55

Balance Sheet Metrics

FY26 NAV/Share (Rmb$)	25.18
FY26 Net Cash/Share (Rmb$)	17.84

Price Chart



Source: Bloomberg

Company Description

The company is a leading provider of software and internet service.

- **AI cloud demand lifted revenue and profitability.** Kingsoft Cloud's revenue rose 40% yoy to Rmb3.5b in 3Q26 (2Q26: +31%), its fastest growth in five years, while adjusted operating margin reached a record 4.4%. AI cloud gross billings rose 115% yoy to Rmb1.68b, supported by demand for model training and high-concurrency inference, as well as contract repricing. Kingsoft Corp's (Kingsoft) management noted that Kingsoft Cloud had deployed more than 160 models on its Starflow model platform. Kingsoft Cloud provides model-as-a-service for WPS Comate, and Kingsoft Corp sees Xiaomi's MiMo as a long-term model partner for WPS, with adoption depending on the model's maturity.
- **Online games revenue remained under pressure.** The content pipeline remained active. Goose Goose Duck introduced party-mode gameplay alongside its July collaboration with Journey to the West. JX3 Online saw a marked increase in active users after its October Cangsheng Zhushi expansion. Management plans to upgrade the game engine and content with the launch of JX3 Online 2.0 in 2027. World of Sword 4: Infinity entered open beta across all platforms in October. Management noted a sequential improvement in the games business in 4Q26 to date and expects a more pronounced recovery in 2027, potentially in 2H27. The company also expects to provide further details on a major self-developed title around end-Dec 26.
- **Operating profit beat estimates, while investment losses weighed on reported earnings.** Operating profit rose 40.0% yoy to Rmb387.7m in 3Q26, 21.7% above our estimate and 10.5% below consensus, on higher gross margin and a 26% yoy decline in selling and distribution expenses against a high base. R&D expenses rose 5% yoy to Rmb948.5m on higher headcount for office AI and collaboration. Kingsoft's Rmb1.09b share of JV and associate losses, mainly unrealised investment losses, drove an IFRS net loss of Rmb204.1m (3Q25: Rmb213.1m profit). Non-IFRS net profit rose 11.8% yoy to Rmb300.6m, including Kingsoft Cloud's adjusted contribution.
- **Strong cash position underpins valuation.** Kingsoft had cash resources of Rmb27.46b at end-Sep 26, including Rmb24.46b in cash and bank deposits. Management plans to increase AI investment while maintaining capital discipline, with Kingsoft Cloud taking a prudent, demand-led approach to capex expansion. Our 2027 cash estimate of HK$21.7b represents HK$17 per share, accounting for around 57% of our SOTP-based target price of HK$30.00.

Valuation/Recommendation

- Maintain BUY with a lower SOTP-based target price of HK$30.00. We do not expect a near-term recovery in the games segment following its weaker-than-expected 3Q26 performance. Resilient WPS growth and accelerating AI cloud demand should cushion the impact. Our target price implies 25x 2027F PE. The company is currently trading at 18x 2027F PE, lower than its historical mean of 41x.

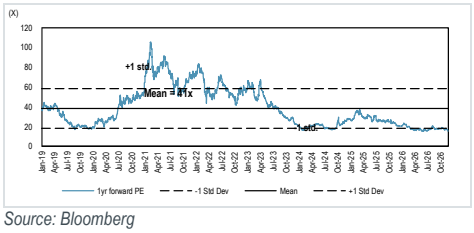
Earnings Revision/Risk

- We cut our 4Q26/2026 revenue estimates by 2%/3% respectively, and lower our 4Q26 adjusted net income estimate by 13% to Rmb237m on a weaker online games outlook.
- Risks: a) Obsolescence of its flagship PC games, and b) delays in the government software localisation project.

Share Price Catalyst

- a) Continued rollout of expansion packs to support online games growth, b) WPS revenue growth driven by software licensing, subscriptions and AI monetisation, and c) accelerating growth at Kingsoft Cloud on rising demand for AI training and inference.

12-Month Forward PE Band



Source: Bloomberg

SOTP-Based Valuation

HK$(m)	2027F revenue	2027-30F revenue CAGR	2027F non-GAAP earnings	Assumed 2027F PE	Assumed 2027F EV/SALES	Fair value (HK$m)	Kingsoft's holding (or share of total revenue)	Fair value per share (HK$)
Online games	3,448	6%	517	4x		2,069	72%	1
WPS	8,638	9%	1,728	23x	5x	43,191	51%	13
Cloud						30,523	33%	6
Total EV with 30% discount								13
2027F cash per share						21,674		17
Target price (HK$)								30.00

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	9,682.9	10,055.0	11,119.1	12,235.7
EBITDA	2,319.4	2,170.9	2,337.6	2,780.9
Deprec. & amort.	544.3	579.3	573.2	794.9
EBIT	1,775.1	1,591.6	1,764.4	1,985.9
Total other non-operating income	1,252.5	221.9	0.0	0.0
Associate contributions	(318.0)	1,171.6	0.0	0.0
Net interest income/(expense)	604.1	578.1	442.8	394.8
Pre-tax profit	3,313.7	3,563.2	2,207.2	2,380.7
Tax	(438.6)	(353.4)	(397.3)	(476.1)
Minorities	(870.7)	(1,582.2)	(700.0)	(400.0)
Net profit	2,004.4	1,627.7	1,109.9	1,504.6
Net profit (adj.)	1,048.4	1,763.9	1,506.0	1,940.5

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	2,442.3	2,328.5	3,434.1	4,495.8
Other LT assets	7,021.0	9,421.4	6,751.9	4,908.6
Cash/ST investment	22,587.2	24,461.7	21,674.3	23,623.2
Other current assets	7,482.7	6,116.4	7,602.7	8,366.2
Total assets	39,533.2	42,328.1	39,463.1	41,393.8
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	5,293.0	5,120.4	4,678.9	5,145.1
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	1,613.6	1,805.9	1,805.9	1,805.9
Shareholders' equity	32,626.7	34,525.7	35,635.6	37,140.2
Minority interest	0.0	0.0	(40.0)	(80.0)
Total liabilities & equity	39,533.2	41,452.0	42,080.4	44,011.1

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	2,291.6	2,822.6	(687.5)	1,607.4
Profit fo the year	3,313.7	3,563.2	2,207.2	2,380.7
Tax	(438.6)	(353.4)	(397.3)	(476.1)
Deprec. & amort.	544.3	579.3	573.2	794.9
Associates	318.0	(1,171.6)	0.0	0.0
Working capital changes	(4,481.0)	1,193.7	(1,927.8)	(297.3)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	3,035.3	(988.7)	(1,142.8)	(794.8)
Investing	(655.5)	(4,029.3)	990.8	(13.3)
Capex (growth)	(1,452.4)	(1,508.2)	(1,667.9)	(1,835.4)
Investment	6,884.7	9,286.8	6,500.8	4,550.6
Others	(6,087.7)	(11,807.9)	(3,842.1)	(2,728.5)
Financing	(2,159.4)	1,963.1	402.8	354.8
Dividend payments	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(2,159.4)	1,963.1	402.8	354.8
Net cash inflow (outflow)	(523.3)	756.4	706.1	1,948.9
Beginning cash & cash equivalent	23,815.0	22,587.2	15,800.6	21,674.3
Changes due to forex impact	(704.5)	(7,543.0)	5,167.6	0.0
Ending cash & cash equivalent	22,587.2	15,800.6	21,674.3	23,623.2

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	24.0	21.6	21.0	22.7
Pre-tax margin	34.2	35.4	19.9	19.5
Net margin	20.7	16.2	10.0	12.3
ROA	5.2	4.0	2.7	3.7
ROE	6.5	4.8	3.2	4.1
Growth				
Turnover	(6.2)	3.8	10.6	10.0
EBITDA	(44.2)	(6.4)	7.7	19.0
Pre-tax profit	5.8	7.5	(38.1)	7.9
Net profit	29.2	(18.8)	(31.8)	35.6
Net profit (adj.)	(47.1)	68.3	(14.6)	28.8
EPS	(47.9)	67.1	(15.0)	28.2
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	(69.2)	(70.9)	(60.8)	(63.6)

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