Kuaishou Technology (1024.HK): 1Q26 NDR takeaways: Kling AI strong ARR momentum; AI-led Capex ramp with disciplined ROI; Buy

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We hosted Kuaishou's CFO and Investor Relations team at a NDR meeting where investor focus centered on: **1) Kling AI commercialization trajectory and competitive edges/differentiation vs. peers**, with management highlighting strong ARR ramp supported by B-end demand and continuous model iteration; **2) Capex ramp driven by AI investment with clear ROI framework**, while core platform profitability remains largely stable with slight upward trend excluding AI-related investments; and **3) Main business trends**, where macro headwinds persist but growth opportunities are emerging in content consumption-related industry (short dramas and AI comics dramas), local services, and AI-related ad spending.

Kling AI

1. Client categories, and application scenarios. Management highlighted that Kling's user base is diversified across three major groups:

- **Advertising clients (~30%)**, including brand advertisers, 4A agencies and studios leveraging Kling for AI-generated marketing content.
- **Professional content creators (~30%)**, particularly in vertical video and short video production, and increasingly AI-generated short dramas and comic dramas.
- **Scenario-driven enterprise users (~40%)**, such as gaming companies and other verticals with embedded video generation use cases.

2. ARR trajectory & drivers, revenue mix and C-end dynamics. Management noted that Kling reached c.**US$500mn ARR in March**, indicating strong monetization acceleration following major version upgrades.

- **API** revenue accounted for **~60%** in 1Q26 (vs. <50% in 4Q25), demonstrating rapid scaling of enterprise demand. **Subscription** revenue accounted for ~**40%**.
- ARR growth is **version-driven**, with sharp step-ups following major technical releases, per management.
- **C-end** demand remains **event-driven** and **less predictable**, with short-term spikes driven by new features going viral in social media, while **B-end/API** demand provides a **more stable and scalable growth backbone**.

3. Video-generation AI model TAM. Management estimates the current video generation TAM at c.**US$150bn**, expanding toward US$200bn, driven by higher penetration into various content formats such as short dramas and films/TV dramas. Importantly, management noted longer-term TAM could expand further through world models / physical AI applications, although still difficult to quantify at this stage.

4. Competitive strength. Management reiterated Kling's top-tier competitive position, supported by:

- Proven **track record of SOTA innovation** and ability to define **industry "non-consensus" directions** that later become standard, including early adoption of DiT architecture, Multi-modal visual language (MVL), and Omni video models.
- **Self-reinforcing technology–commercialization flywheel**. Specifically, each wave of technology leadership (e.g., major version upgrades) has historically driven a step-up in ARR and revenue growth, enabling the company to reinvest into compute infrastructure (GPUs) and top-tier talent acquisition, thereby further strengthening model capabilities.
- Team with execution capability combining **research and engineering strength**.
- Deep video **data accumulation and multimodal understanding** via Kuaishou SFV ecosystem.

5. Differentiation vs. peers. Management highlighted clear **product positioning differentiation** vs. competing models:

- Kling mainly targets professional users and focuses on **long-prompt precision, high controllability, and superior output quality** (including native 4K).
- Peers are primarily catered to C-end users and relatively stronger in **short-prompt automation and C-end usability**.
- Management expects Kling's advantage in precision control and output quality to widen as application scenarios move toward professional production (film, TV-quality content), although top tier models' capabilities are comparable with each other in current short drama / PUGC scenarios.

6. Technology roadmap and future direction. Management outlined a dual-layer roadmap, specifically:

- **Model architecture**: 1) continue improving diffusion models; 2) explore combination of auto-regression (detail precision) + diffusion (broader structure).
- **Application layer**: 1) enhance **professional-grade features** (e.g. video quality enhancement, camera movement, physical realism, multi-language output, etc.); 2) deepen integration with creator workflows and collaborative tools.

7. Talent acquisition. Management emphasized that **AI is talent-driven**, with:

- Competitive compensation and incentive mechanisms;
- Focus on both top-tier "special forces" (leading researchers) and engineering teams.

Capex

1. Management guided c.**Rmb26bn Capex for FY26** (already Rmb12bn in 1Q26 due to frontloaded purchase on supply chain considerations).

2. Management elaborated underlying **ROI rationale for inference vs. training chips**, specifically:

- **Inference GPUs** are directly tied to revenue/ARR growth while maintaining reasonable gross margin.
    - Management noted there is **headroom for Kling gross margin improvement** driven by: **1)** inference chips cost optimization (including domestic chips); **2)** improving utilization of chips through load balancing; **3)** price hike for premium versions.
- **Training GPUs** are linked to model innovation and long-term competitiveness and its ROI has been proved by historical success of major version upgrades driving ARR surges.

Main business

Advertising. Management acknowledged **ongoing macro headwinds**, including competition and regulatory/tax impacts. However, several **growth pockets remain**:

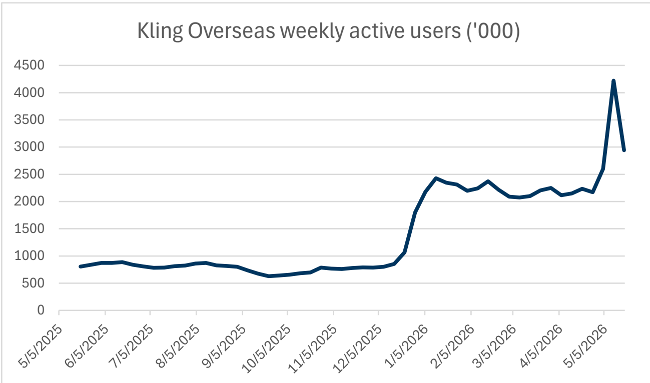
- Content consumption-related industry led by **short dramas and AI comics dramas** continues to see strong growth momentum;
- **Local services/leads-based** advertising remains decent growth trend and is underpenetrated.
- **AI-related** advertisers have sufficient budgets.

E-commerce. Management indicated near-term monetization rate faces pressure, specifically:

- **Take rate constrained by merchant support measures**, including commission rebates to KOLs and traffic subsidies for merchants.
- Near-term focus remains on supporting SMEs amid macro pressure.

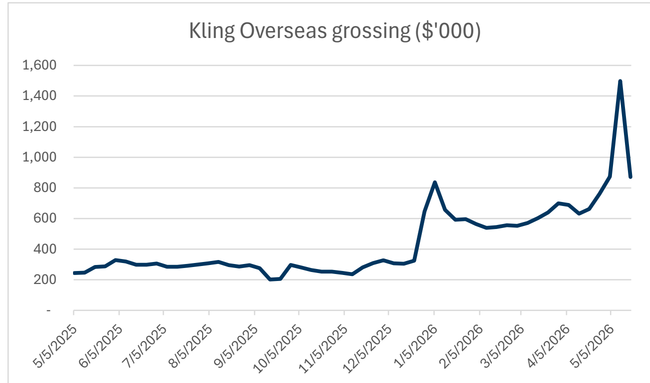
Key Highlights

Exhibit 1: Kling AI overseas weekly active users saw a strong surge in early-May due to video clips gaining popularity



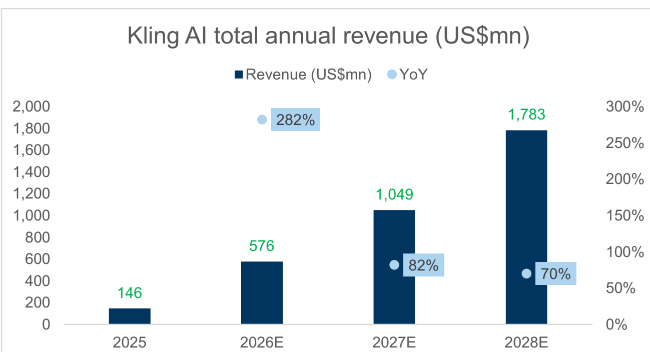
Source: SensorTower, Data compiled by Goldman Sachs Global Investment Research

Exhibit 2: Kling AI overseas weekly grossing demonstrated a notable upward trend with expanding user base



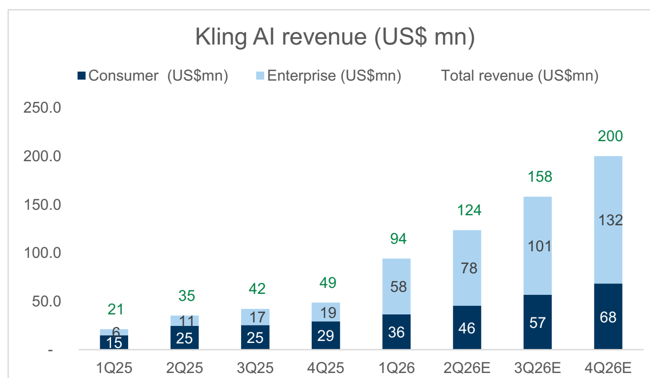
Source: SensorTower, Data compiled by Goldman Sachs Global Investment Research

Exhibit 3: Kling AI: We expect Kling AI total annual revenue to reach US$576mn in 2026E



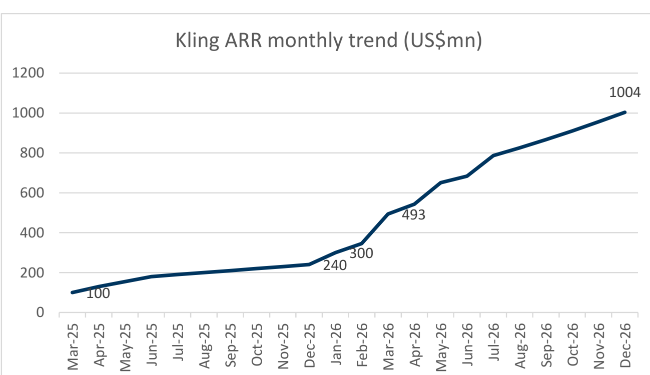
Source: Goldman Sachs Global Investment Research

Exhibit 4: Kling AI: we expect 2B revenue as % of total Kling AI revenue to continue increasing in the following quarters from c.60% in 1Q26



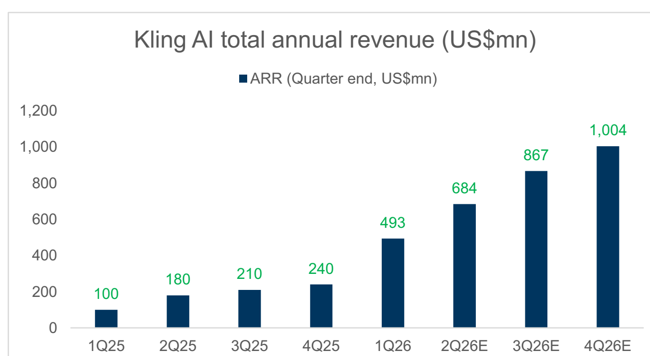
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: Kling AI: We expect ARR monthly trend to continue ramping up in 2026E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 6: Kling AI: ARR trend by quarter-end



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 7: Kuaishou: Summary of estimates

RMB mn	2021	2022	2023	2024	2025	2026E	2027E	2028E	25-28E	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E
Average DAU (mn)	**308**	**356**	**380**	**399**	**410**	**417**	**423**	**428**	1%	**408**	**409**	**416**	**408**	**413**	**414**	**422**	**421**
%yoy	*16%*	*15%*	*7%*	*5%*	*3%*	*2%*	*1%*	*1%*		*4%*	*3%*	*2%*	*2%*	*1%*	*1%*	*1%*	*3%*
Avg daily time spent per DAU (min)	**112**	**129**	**125**	**127**	**130**	**130**	**131**	**131**	0%	**134**	**127**	**134**	**126**	**131**	**127**	**135**	**128**
%yoy	*28%*	*16%*	*-4%*	*2%*	*2%*	*0%*	*1%*	*0%*		*3%*	*4%*	*1%*	*0%*	*-2%*	*0%*	*0%*	*1%*
Total time spent (bn min)	**12,539**	**16,774**	**17,283**	**18,612**	**19,490**	**19,823**	**20,290**	**20,588**	2%	**4,913**	**4,718**	**5,135**	**4,726**	**4,867**	**4,785**	**5,227**	**4,943**
%yoy	*48%*	*34%*	*3%*	*8%*	*5%*	*2%*	*2%*	*1%*		*6%*	*8%*	*4%*	*2%*	*-1%*	*1%*	*2%*	*5%*
Revenue	**81,082**	**94,183**	**113,470**	**126,898**	**142,776**	**146,778**	**155,385**	**166,600**	**5%**	**32,608**	**35,046**	**35,554**	**39,568**	**33,716**	**35,241**	**36,325**	**41,495**
% yoy	**38%**	**16%**	**20%**	**12%**	**13%**	**3%**	**6%**	**7%**		**11%**	**13%**	**14%**	**12%**	**3%**	**1%**	**2%**	**5%**
1. Live Streaming	**30,995**	**35,388**	**39,054**	**37,061**	**39,087**	**35,168**	**34,927**	**34,637**	-3.9%	**9,814**	**10,044**	**9,574**	**9,655**	**8,492**	**8,602**	**8,677**	**9,397**
%yoy	*-7%*	*14%*	*10%*	*-5%*	*5%*	*-10%*	*-1%*	*-1%*		*14%*	*8%*	*3%*	*-2%*	*-13%*	*-14%*	*-9%*	*-3%*
2. Online Marketing Spend	**42,665**	**49,042**	**60,304**	**72,419**	**81,462**	**86,253**	**91,011**	**95,926**	6%	**17,977**	**19,765**	**20,102**	**23,618**	**19,643**	**20,937**	**21,138**	**24,535**
%yoy	*95%*	*15%*	*23%*	*20%*	*12%*	*6%*	*6%*	*5%*		*8%*	*13%*	*14%*	*15%*	*9%*	*6%*	*5%*	*4%*
a. E-commerce related ads	13,797	21,011	30,730	35,504	39,646	41,726	44,287	46,194	5%	8,906	9,536	9,395	11,809	9,608	10,129	9,675	12,314
%yoy	*192%*	*52%*	*46%*	*16%*	*12%*	*5%*	*6%*	*4%*		*7%*	*13%*	*15%*	*12%*	*8%*	*6%*	*3%*	*4%*
b. Non E-commerce ads	28,868	28,031	29,574	36,915	41,816	44,527	46,724	49,732	6%	9,071	10,229	10,707	11,809	10,035	10,808	11,463	12,221
%yoy	*69%*	*-3%*	*6%*	*25%*	*13%*	*6%*	*5%*	*6%*		*9%*	*13%*	*13%*	*17%*	*11%*	*6%*	*7%*	*3%*
3. Other Services	**7,421**	**9,753**	**14,112**	**17,418**	**22,227**	**25,357**	**29,447**	**36,038**	17%	**4,817**	**5,237**	**5,878**	**6,295**	**5,581**	**5,702**	**6,510**	**7,564**
%yoy	*100%*	*31%*	*45%*	*23%*	*28%*	*14%*	*16%*	*22%*		*15%*	*26%*	*41%*	*28%*	*16%*	*9%*	*11%*	*20%*
a. E-commerce commission	6,740	9,023	13,391	16,494	20,185	20,660	21,462	22,863	4%	4,520	4,612	5,314	5,740	4,713	4,670	5,240	6,036
%yoy	*102%*	*34%*	*48%*	*23%*	*22%*	*2%*	*4%*	*7%*		*14%*	*21%*	*35%*	*21%*	*4%*	*1%*	*-1%*	*5%*
E-commerce GMV (Rmb bn)	*680*	*901*	*1,184*	*1,390*	*1,598*	*1,703*	*1,845*	*1,966*		*332*	*359*	*385*	*522*	*363*	*381*	*403*	*556*
%yoy	*78%*	*33%*	*31%*	*17%*	*15%*	*7%*	*8%*	*7%*		*15%*	*18%*	*15%*	*13%*	*9%*	*6%*	*5%*	*7%*
b. Others (Kling, game, etc)	681	730	721	924	2,042	4,697	7,985	13,175	86%	297	625	564	555	868	1,032	1,270	1,527
%yoy - Others	*83%*	*7%*	*-1%*	*28%*	*121%*	*130%*	*70%*	*65%*		*43%*	*83%*	*161%*	*250%*	*192%*	*65%*	*125%*	*175%*
i). Kling AI					1,040	3,976	7,236	12,302		150	250	300	340	650	852	1,092	1,381
GP (GAAP)	**34,030**	**42,131**	**57,391**	**69,292**	**78,549**	**75,856**	**80,994**	**88,082**	**4%**	**17,792**	**19,504**	**19,434**	**21,819**	**17,249**	**18,194**	**18,661**	**21,752**
Gross Margin	**42.0%**	**44.7%**	**50.6%**	**54.6%**	**55.0%**	**51.7%**	**52.1%**	**52.9%**		**54.6%**	**55.7%**	**54.7%**	**55.1%**	**51.2%**	**51.6%**	**51.4%**	**52.4%**
Opex (non-GAAP)	**55,676**	**49,366**	**49,229**	**54,168**	**57,756**	**59,542**	**61,361**	**65,504**	**4%**	**14,551**	**15,426**	**15,327**	**17,066**	**15,186**	**15,850**	**15,702**	**17,933**
S&M	43,533	36,612	36,205	40,913	42,014	41,725	42,494	45,121	2%	9,848	10,445	10,367	11,354	10,290	10,137	10,182	11,116
Admin	2,315	3,116	3,054	2,614	3,003	3,011	3,166	3,380	4%	750	805	604	844	697	811	654	849
R&D	9,829	9,639	9,970	10,641	12,740	14,807	15,701	17,002	10%	2,897	2,925	3,218	3,699	3,267	3,425	3,597	4,517
S&M as % Sales	*53.7%*	*38.9%*	*31.9%*	*32.2%*	*29.4%*	*28.4%*	*27.3%*	*27.1%*		*30.2%*	*29.8%*	*29.2%*	*28.7%*	*30.5%*	*28.8%*	*28.0%*	*26.8%*
Admin as % Sales	*2.9%*	*3.3%*	*2.7%*	*2.1%*	*2.1%*	*2.1%*	*2.0%*	*2.0%*		*2.3%*	*2.3%*	*1.7%*	*2.1%*	*2.1%*	*2.3%*	*1.8%*	*2.0%*
R&D as % Sales	*12.1%*	*10.2%*	*8.8%*	*8.4%*	*8.9%*	*10.1%*	*10.1%*	*10.2%*		*8.9%*	*8.3%*	*9.1%*	*9.3%*	*9.7%*	*9.7%*	*9.9%*	*10.9%*
EBIT (non-IFRS)	**(19,871)**	**(6,309)**	**10,001**	**17,636**	**23,277**	**19,711**	**22,994**	**25,974**	**4%**	**4,863**	**6,005**	**5,950**	**6,459**	**4,128**	**4,564**	**4,956**	**6,063**
%yoy	*134%*	*-68%*	*NM*	*76%*	*32%*	*-15%*	*17%*	*13%*		*13%*	*30%*	*56%*	*32%*	*-15%*	*-24%*	*-17%*	*-6%*
%margin	***-24.5%***	***-6.7%***	***8.8%***	***13.9%***	***16.3%***	***13.4%***	***14.8%***	***15.6%***		***14.9%***	***17.1%***	***16.7%***	***16.3%***	***12.2%***	***12.9%***	***13.6%***	***14.6%***
Net profit (non-IFRS)	**(18,852)**	**(5,751)**	**10,271**	**17,716**	**20,647**	**16,472**	**18,923**	**21,763**	**2%**	**4,580**	**5,618**	**4,986**	**5,463**	**3,374**	**3,957**	**4,119**	**5,022**
%yoy	*140%*	*-69%*	*NM*	*72%*	*17%*	*-20%*	*15%*	*15%*		*4%*	*20%*	*26%*	*16%*	*-26%*	*-30%*	*-17%*	*-8%*
%margin	**-23.3%**	**-6.1%**	**9.1%**	**14.0%**	**14.5%**	**11.2%**	**12.2%**	**13.1%**		**14.0%**	**16.0%**	**14.0%**	**13.8%**	**10.0%**	**11.2%**	**11.3%**	**12.1%**

Source: Company data, Goldman Sachs Global Investment Research

Price Target Risks and Methodology - Kuaishou Technology

Valuation methodology: We are Buy rated on Kuaishou with a 12m target price of **HK$70**, based on P/E valuation (target P/E multiple of 15X applied to our avg. 2026-27E EPS).

Key downside risks: 1) Slower-than-expected ad budget recovery; 2) Weaker-than-expected Kling monetization; 3) Slower-than-expected growth of its aggregate user engagement base (DAU x time spent per DAU); 4) Lower-than-expected profitability; 5) Weaker-than-expected AI progress.

1024.HK	12m Price Target: **HK$70.00**	Price: **HK$45.54**	Upside: **53.7%**

Buy

Market cap: HK$194.2bn / $24.8bn
Enterprise value: HK$176.8bn / $22.6bn
3m ADTV: HK$2.5bn / $324.8mn
Hong Kong
China Games, Entertainment & Healthcare Tech
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn)	142,776.0	146,777.8	155,384.9	166,600.4
EBITDA (Rmb mn)	34,286.3	32,018.3	36,701.7	41,119.0
EPS (Rmb)	4.69	3.82	4.36	5.01
P/E (X)	12.3	10.3	9.0	7.8
P/B (X)	3.2	1.9	1.6	1.3
Dividend yield (%)	NM	NM	NM	NM
N debt/EBITDA (ex lease,X)	(0.3)	(1.3)	(1.6)	(2.0)
CROCI (%)	56.9	38.0	36.9	37.0
FCF yield (%)	6.9	5.0	10.1	12.4

	3/26	6/26E	9/26E	12/26E
EPS (Rmb)	0.77	0.92	0.96	1.16

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 May 2026 close.