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Kuaishou (1024.HK)

Assessment on Updates on Kling 4.0 and Kling 4.0 Flash

CITI'S TAKE

On 28 Sep, Kling announced the launch of version 4.0 ~Oct, which is the flagship model, and will open a limited trial for Kling 4.0 Flash on 28 Sep. Kling 4.0 has major upgrades on high-speed motion, continuous action, tracking and orbital camera moves and outputs up to 4K/1080p with up to 30-second native generation, while 4.0 Flash is positioned as the faster and lighter version. Based on the sample videos released by Kling, it appears 4.0's video effects are catching up to the level of Seedance 2.0-2.5 versions, but we still need to observe actual hands-on results when 4.0 is officially launched. We see two important key factors: 1) whether 4.0 can catch up with Seedance 2.0, which is still widely used by users, or even Seedance 2.5, and 2) whether its pricing is more competitive vs. Seedance 2.0, and we will closely monitor actual users' feedback. Maintain Neutral.

Neutral	
Price (28 Sep 26 16:10)	HK$30.70
Target price	HK$41.00
Expected share price return	33.6%
Expected dividend yield	1.5%
Expected total return	35.0%
Market Cap	HK$132,137M
	US$16,845M

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Metrics of Kling 4.0 - **Kling 4.0:** per Kling's announcement, Kling 4.0's main upgrades center on pro-level video creation. It produces up to 4k/1080P 10-bit HDR, improving motion stability for fast action, tracking and complex camera moves. Audio gains dual-channel stereo and more natural lip-sync. Its control features include omnidirectional references (10 images + 5 videos + 7 subjects), precise video editing via text/image, and creative replication of reference films. It natively generates 30-second clips, supports up to 10 key frames, and will extend to 2 minutes through continuation. Prompt handling expands to 8k tokens with multi-language and accent support. 4.0 supports multi-round video continuation, letting users extend video clips to a maximum total runtime of ~2 minutes. **Kling 4.0 Flash**: the flash version is a fast, cost-efficient version. Its core update is speed: text-to-video, image-to-video and reference-based generation are designed for high-frequency, low-cost drafting.

Additional thoughts on the new versions - we think Kling 4.0 is targeted to achieve SOTA position in the industry to catch up with Seedance. Although Seedance 2.5 has been rolled out for a while, we have observed that still quite a large portion of users still prefer to use Seedance 2.0 for its decent quality and cheaper pricing. That said, if Kling 4.0 can exceed Seedance 2.0 with more competitive pricing, it may still gain decent market share. On the contrary, we think Kling 4.0 Flash version might target to compete with H3 on those users who are price-sensitive and don't have high requirements on video quality.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliati



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Valuation

Our target price of HK$41 is based on: 1) HK$21 for the ecommerce sector with a 6x 2027E PE assigned for the core business, which is at discount to ecommerce peers given its muted GMV trajectory; and 2) HK$20 based on Kuaishou's stake in Kling post latest financing and Kling's valuation during private financing with 20% holding discount.

Risks

Upside risks to our target price being exceeded include: 1) better-than-expected GMV performance with macro recovery; 2) strong Kling revs growth with successful updates; and 3) better-than-expected cost optimization.

Downside risks include: 1) worsen-than-expected GMV performance on macro and policy impacts; 2) slower-than-expected Kling revs growth; 3) more-than-expected AI-related investments; and 4) any stake disposal by major shareholders.