

# BOSS Zhipin IPO Analysis:

## On the Rise - Forecasting a Brighter Tomorrow



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Peking University HSBC Business School



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- Fundamental Analysis
- IPO Analysis
- Financials & Forecasts



# Executive Summary



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## Company Profile

- Kanzhun Limited engages in the provision of online recruitment solutions in the People's Republic of China. The company offers its recruitment solutions through a mobile app under the BOSS Zhipin brand name.
- Its recruitment platform assists the recruitment process between job seekers and employers for enterprises, and corporations.
- The company was founded in 2013 and is headquartered in Beijing.



## Highlights

- Fundamental Analysis
  - ① The **revenue** side is entering a **stable growth cycle**, with **selling expenses** remaining a **core variable** on the cost side.
  - ② The market penetration of the **direct communication mode** is expected to further increase, bringing potential high-growth elasticity.
- IPO Analysis
  - ① During a **rapid growth phase**, the company opted for a Nasdaq listing that aligned with its characteristics and needs. While offering substantial growth potential, there are still some potential risks.
  - ② The **Nasdaq IPO was timed relatively well**, providing historical shareholders with high returns, but the story of high returns did **not persist**.
- Financials & Forecasts
  - the price will be rounding **\$21**, exceeding the latest closing price (\$14.98). We give BZ an **overweight** rating.



## Analysts Information

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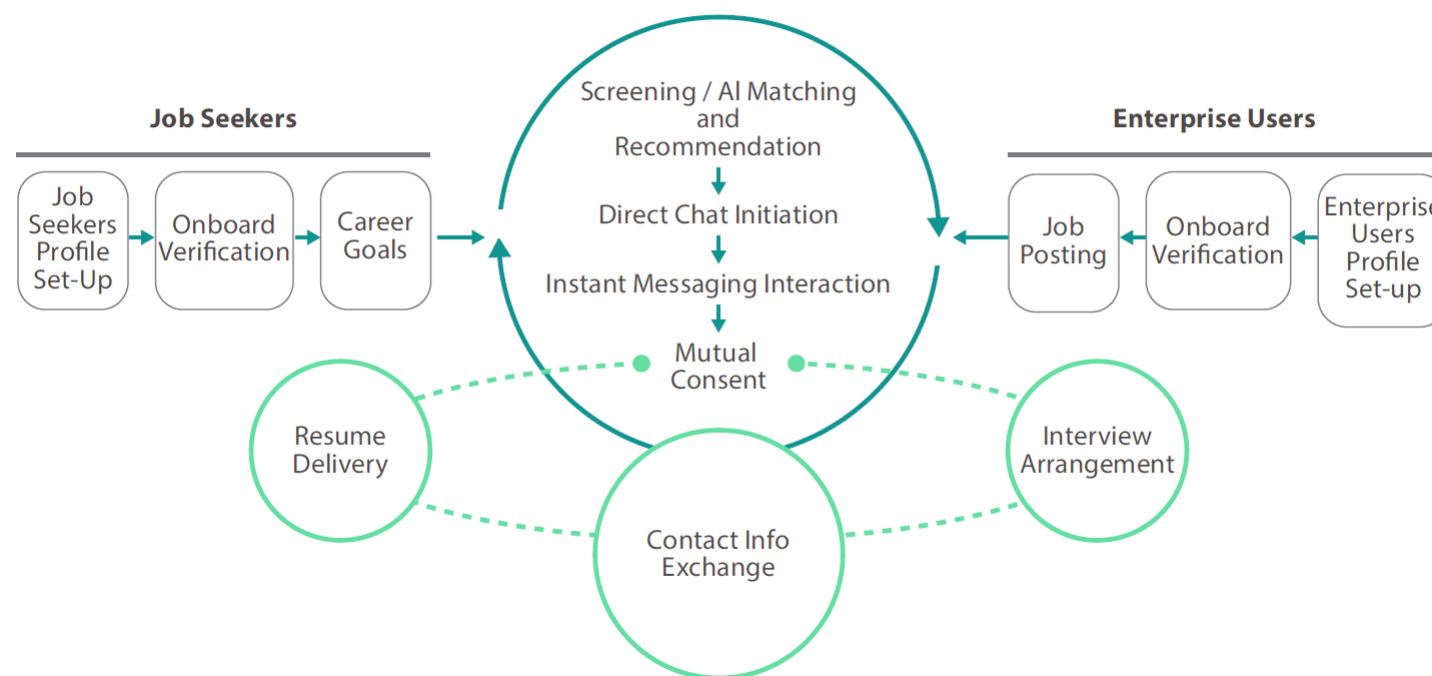
# Fundamental Analysis



# Business Introduction

The company is China's **largest online recruitment platform**. It pioneered the "direct recruitment model," utilizing a mobile-native platform to innovatively integrate two-way communication and bilateral recommendations into the online recruitment process, aiming to recreate the essence of real recruitment scenarios.

## The journey of job seekers and enterprise users using BOSS Zhipin



## Direct network effect

- High Mobility Daily Recruitment and Cross-Industry Job Recommendations
- Mitigating Competition Among Same-Side Job Seekers or Recruiters

## Indirect network effect

- Individual-centric Recruitment
- Expansion of Network Nodes for Small and Medium Enterprises

# Business Mode and Competitive Advantages of Direct Chat

## Scale effect in recruitment form

Job seeker	Communication costs	Contract standardization	Recruiting pattern	Recruiter
Gold-collar	High	Hard	For personal	Routine recruitment
White-collar	Netural	Relatively easy	For personal	Routine recruitment
Service industry	Low	Easy	For personal	Routine recruitment
On-campus recruitment	Low	Easy	Large-scale recruitment	Centralized recruitment
Manufacturin g industry	Low	Easy	Large-scale recruitment	Centralized recruitment

## Direct Chat in different markets

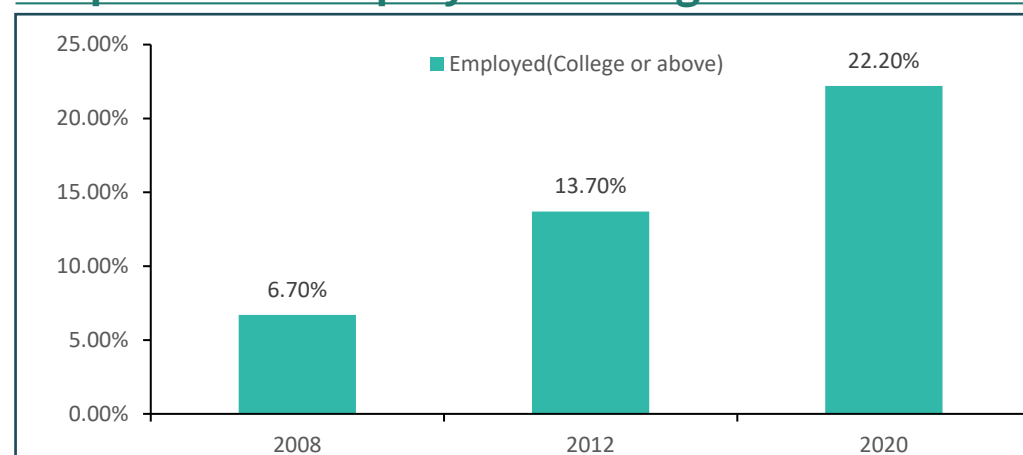
Direct chat mode is a compromise choice for HR based on the communication cost and the efficiency of recruitment forms.

**Gold-collar** Headhunters are the first choice. But with the communication cost falling, the penetration rate of direct chat mode is expected to increase.

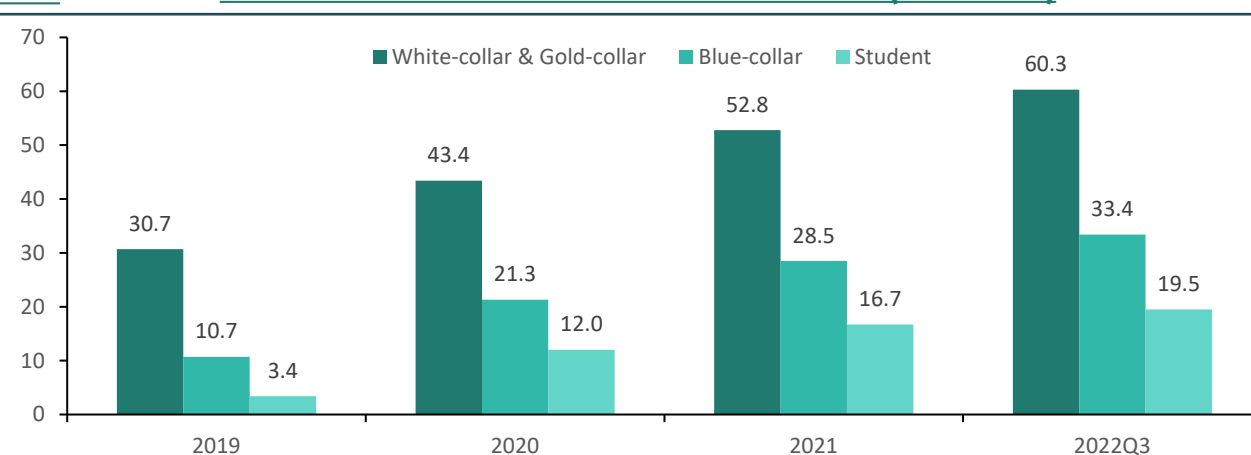
**White-collar** HR/ Department head direct chat mode. Opportunity cost is decreasing, and changing jobs is more frequent. Direct chat mode increases its market share more through frequency in the white-collar market.

**Blue-collar** Manufacturing blue-collar workers use human resource intermediary assistance more, and service industries use direct chat mode more. The penetration rate of practitioners in higher education is increasing, which has boosted students' job search expectations.

## Proportion of employed with high education in China



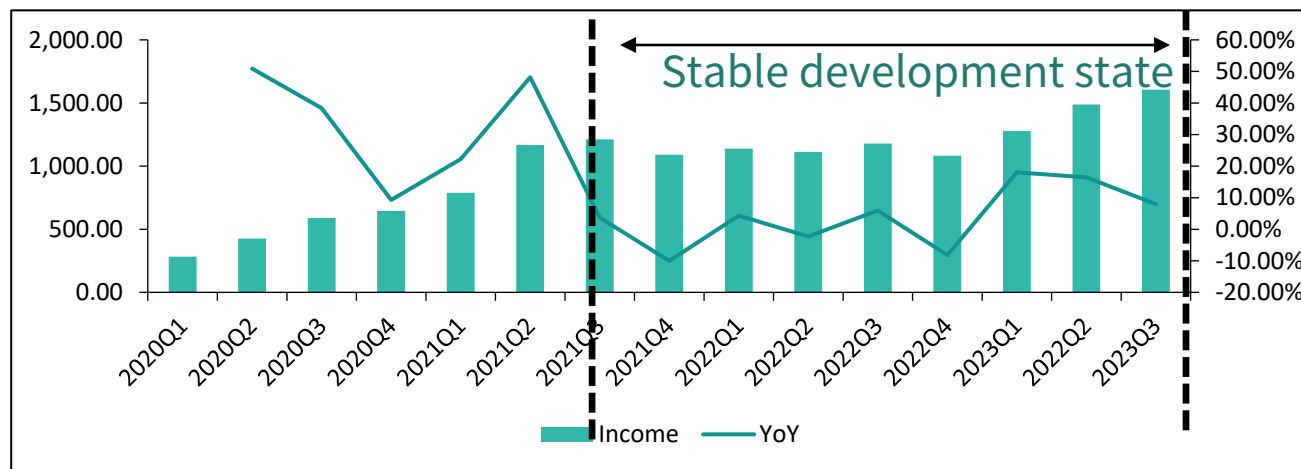
## Number of authenticated users (Million)



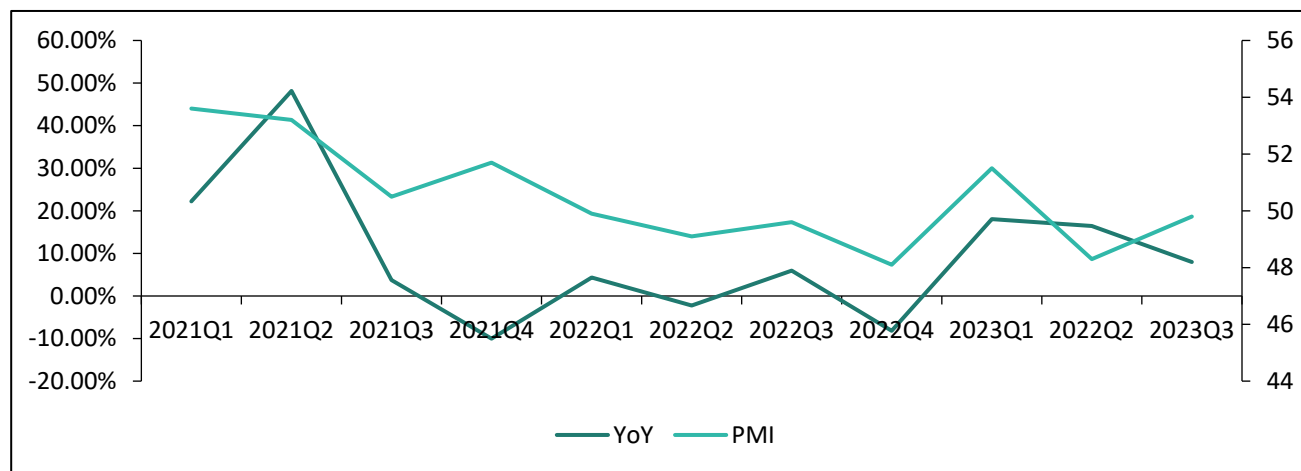
# Transition from Rapid Growth to Stable Development: Income Dynamics in Sync with Macroeconomic Cycles



## Quarterly income of Boss from 2020 to 2023(Million Yuan)



## Quarterly income growth rate and PMI



## Developmental Stage Transition

- Rapid growth state: From a business income of 998,720 thousand yuan in 2019 to 4,259,128 thousand yuan in 2021, achieving a Compound Annual Growth Rate (CAGR) of 106.51%.
- Stable growth state: From an income of 4,259,128 thousand yuan in 2021 to an expected income of 5,530,322 thousand yuan in 2023, resulting in a Compound Annual Growth Rate (CAGR) of 13.95%.

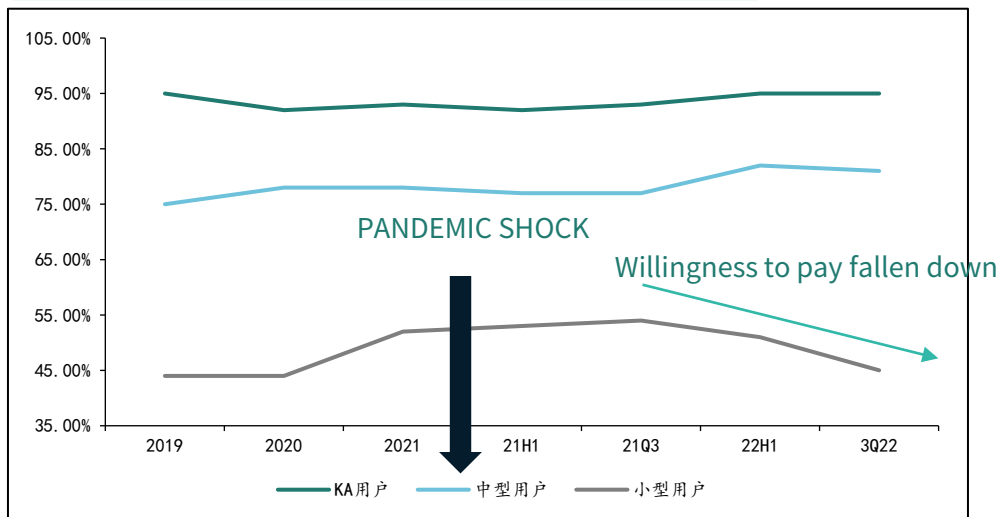
## The Cyclical Nature of Operating Income

- Strong Correlation Between Year-on-Year Growth in Operating Income and Concurrent PMI Index
- As an online recruitment platform, operating income is directly correlated with the hiring intentions of businesses on the platform
- Macro economic environment makes difference on the willingness
- The payment capacity is decided by the operation situation of company

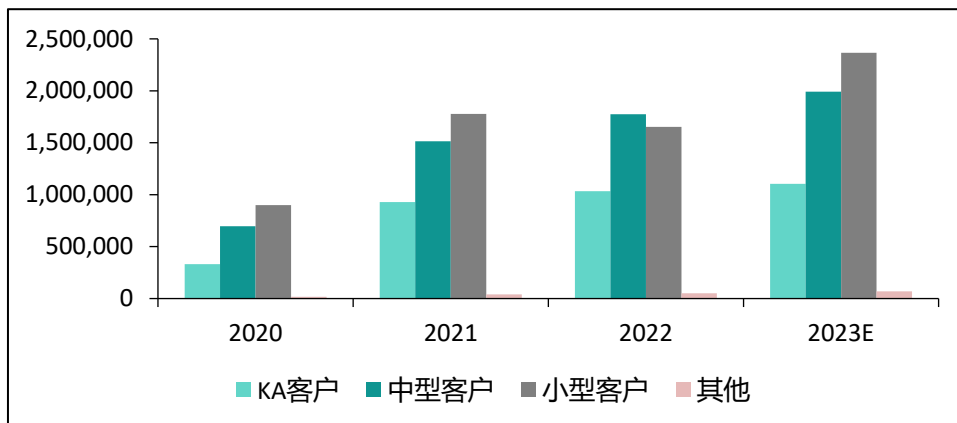


# Potential for High Growth Elasticity

## Renewal rate for different customer



## Income structure from 2020 to 2023



## Growth Potential

Increasing MAU

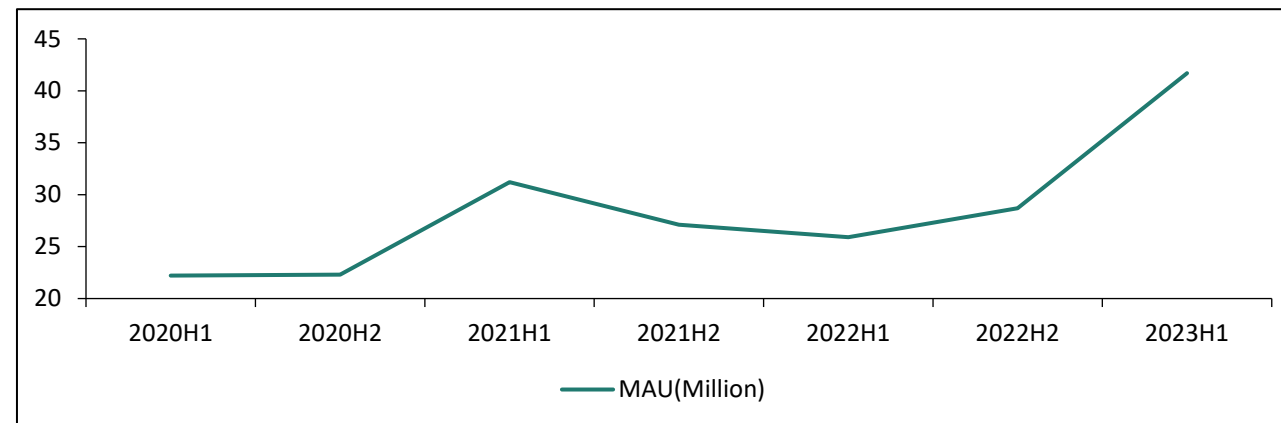
Tendency: From 2020 to 2023H1, the MAU experience a stable and huge increment with the revive of Macroeconomic environment(The potential to make profit)

The elasticity of small company

Renewal rate: The renewal rate of small company is low, which means that there is a capacity to increase.

The sensitivity of payment: When the external shock appears, the small company will reduce its payment, and when the economics revive, the willingness will revert

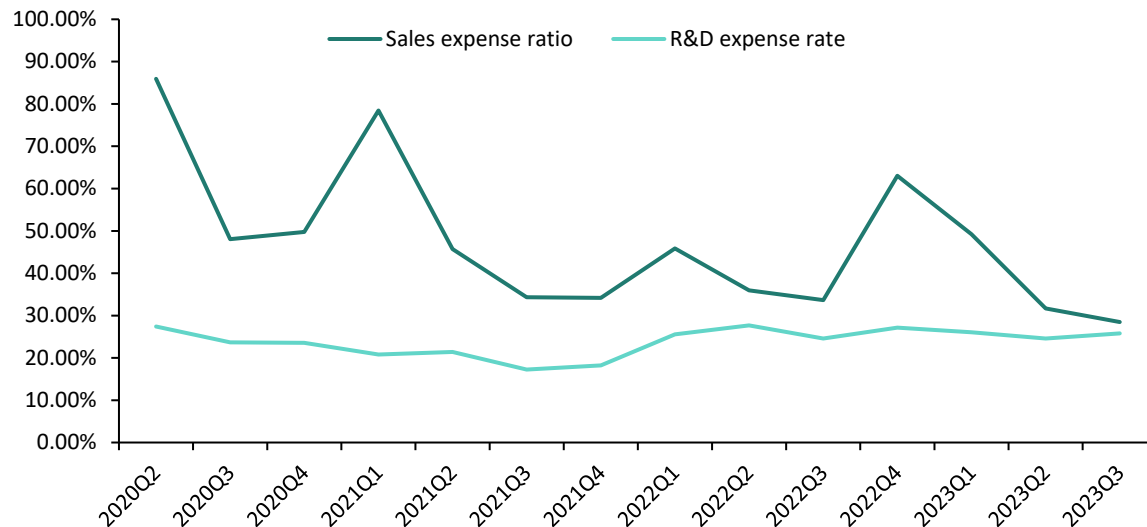
## Monthly active user from 2020 to 2023H1



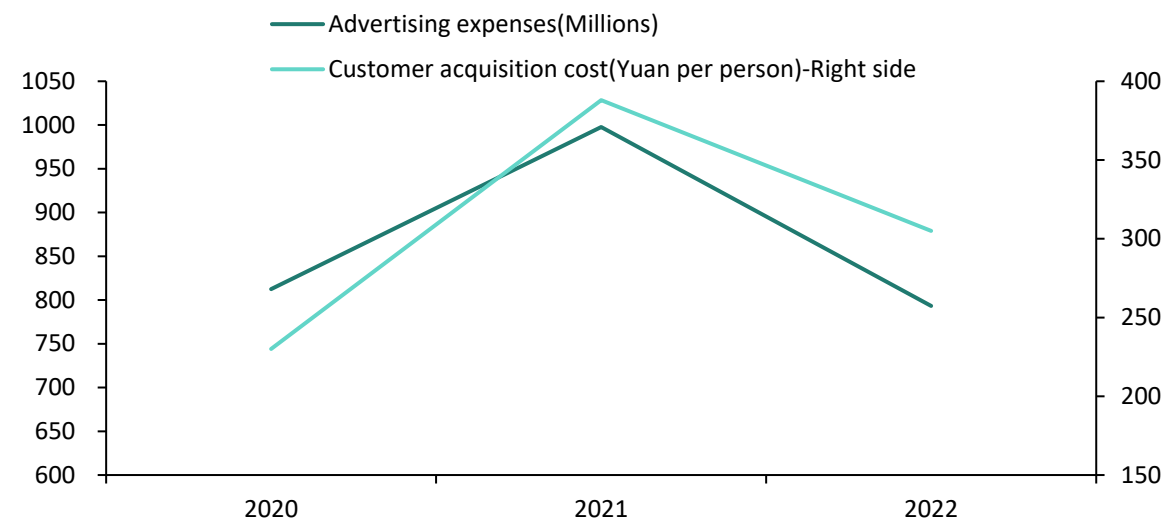


# Sales Expense is the Core Variable

## Sales expense ratio vs R&D expense ratio



## Advertising expense and Customer acquisition cost



## Advertisements of BOSS

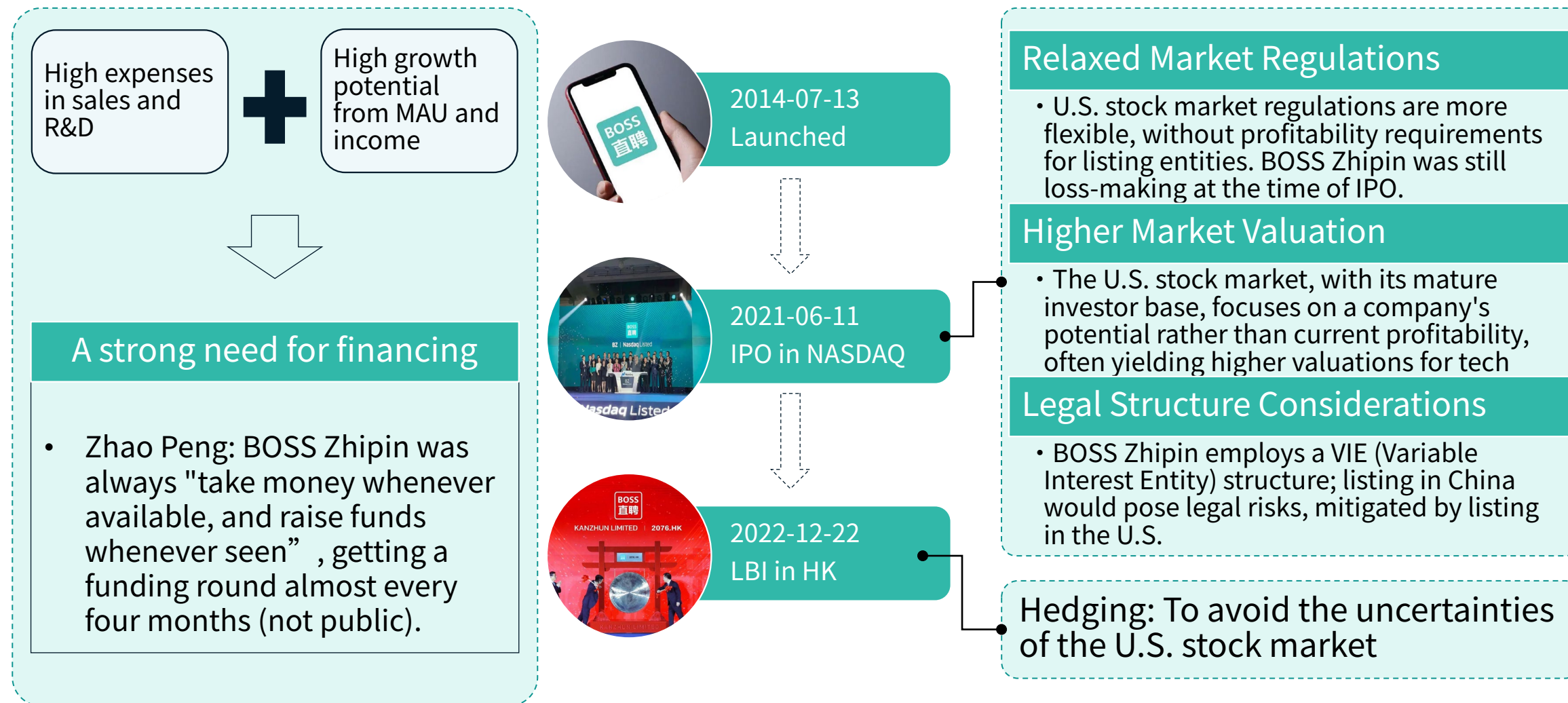


- Sales expense is the core variable and customer acquisition cost is highly controllable.
- Sales expense ratio has never fallen below 30%.
- Job hunting behavior has a low-frequency attribute, so brand advertising has great significance.
- BOSS has made major advertising investments in the past two World Cups.

# IPO Analysis



# IPO Motivations and Process



# IPO Time Choose and Future Risks Left

## Timing of the IPO

### Internal:

- Revenue increased by 94.7% in 2020 and 179.0% in Q1 2021, with a significant decrease in marketing expenses indicating imminent profitability.
- Paying enterprise numbers grew by 80.1% in 2020; the platform had the fastest MAU growth among top Chinese online recruitment platforms, validating its “Mobile + Intelligent Matching + Direct Chat” model.
- Overcame previous scandals and improved brand image by signing Shen Teng as a spokesperson in March 2021.

### External:

- The economic recovery in 2021 led to a surge in job-hopping and corporate recruitment, increasing the prominence of recruitment apps in the market.

## Future Risks Left

- Role Shift: Increasing homogenization as corporate HR and headhunters replace bosses on the platform.
- Regulatory Challenges: Innovations in recruitment model create loopholes, leading to increased difficulty and cost in regulation.
- Blue-collar Hurdles: Offline dominance in blue-collar job market challenges online recruitment.



# After IPO Triumphs: The substantial returns for BZ's investors

Round	Authorized Valuation/\$m	Investor	Shareholding	Funding Amount/\$m
A	60,000,000	10	Ceyuan Ventures	43,745,153
			Ceyuan Ventures	5,411,629
B	40,000,000	36	MSA China Fund	26,666,666
			Image Frame	1,255,038
C	48,000,000	60	CTG	48,000,000
			CTG	8,716,588
			Image Frame	9,464,867
C-1	45,319,316	92	Banyan	1,396,043
			Ceyuan Ventures	1,517,957
			GGV	581,685
			MSA China Fund	24,036
C-2	42,251,744	160	Banyan	37,557,106
C-3	11,497,073	202	CTG	3,832,358
			Image Frame	3,257,504
			CTG	7,154,072
D	60,856,049	343	Banyan	5,862,083
			GGV	70,984
			GPOP II LP	21,541,594
			GGV	32,105,485
			GPOP	6,421,087
E	83,474,263	917	Banyan	3,210,549
			Magic Stone	6,421,097
			CTG	12,842,194
			顺为	642,110
			DELICATE MASTER	3,210,549
E-1	32,373,031	1,055	INSPIRING LINK	14,715,014
			陽光人壽保險	17,658,017
E-2	28,226,073	1,150	Image Frame	28,226,073
F	48,689,976	2,312	Coatue	32,459,984
			Image Frame	16,229,992
			Coatue	7,505,868
			GGV	977,004
F+	50,664,609	4,402	华兴成长资本	3,752,934
			SCC Growth	18,764,670
			Internet Fund VI PTE	18,764,670

Before the IPO, BZ successfully completed 12 rounds of private financing, raising a total of \$750 million.





# Dashed Expectations: the story of high returns does not continue



## Listed on NASDAQ

June 11, 2021

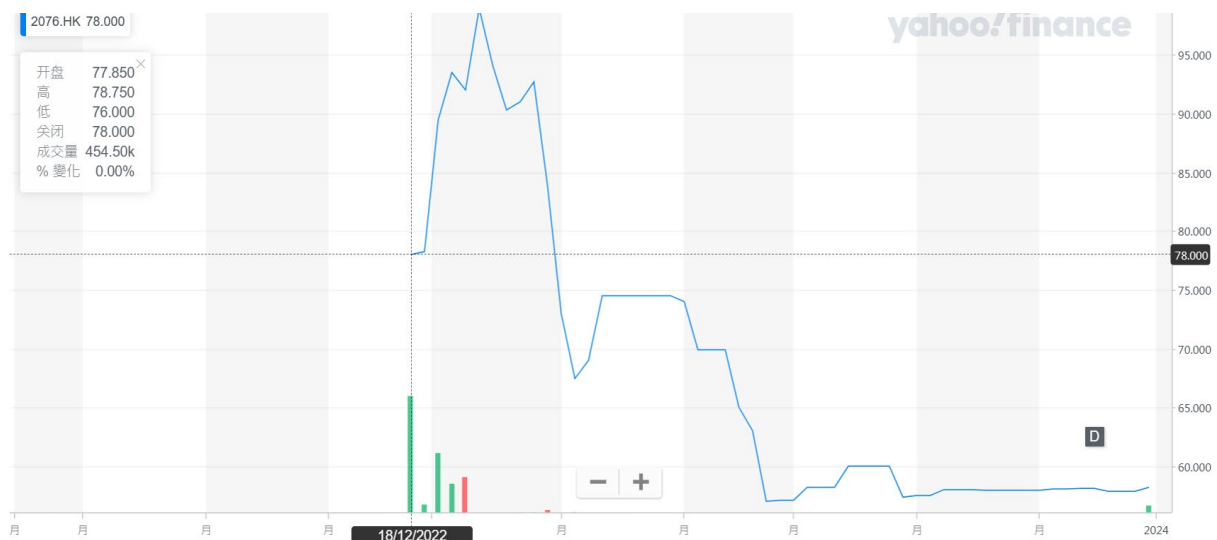
IPO on the Nasdaq Stock Market, issue price **\$19** per share.

On the first day of trading:

opening price **\$33.5**, closing price **\$37.2**, single-day return **95.79%**.

As of the closing bell, BZ achieved a market value of **\$14.8 billion**.

by January 9, 2024, its market value is of **\$6.6 billion**.



## Listed on Hong Kong

December 22, 2022

Way of introduction, with no issuance of new shares

On the first day of trading:

opening price **\$77.85**, closing price **\$78.00**, single-day return **0.19%**

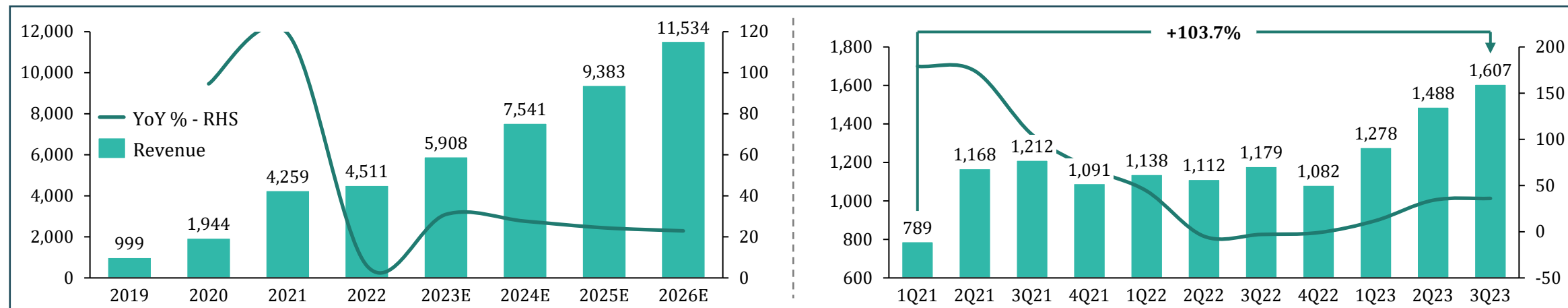
# Financials & Forecasts





# Financial Analysis

## Historical Performance and Forecasts



## Key Drivers



### Enterprise User Growth

Robust **enterprise user growth** supported by our strong network effect and full spectrum of user coverage



### Improved Paying Ratio

**Improved paying ratio** backed by our highly efficient monetization model



### ARPPU Growth

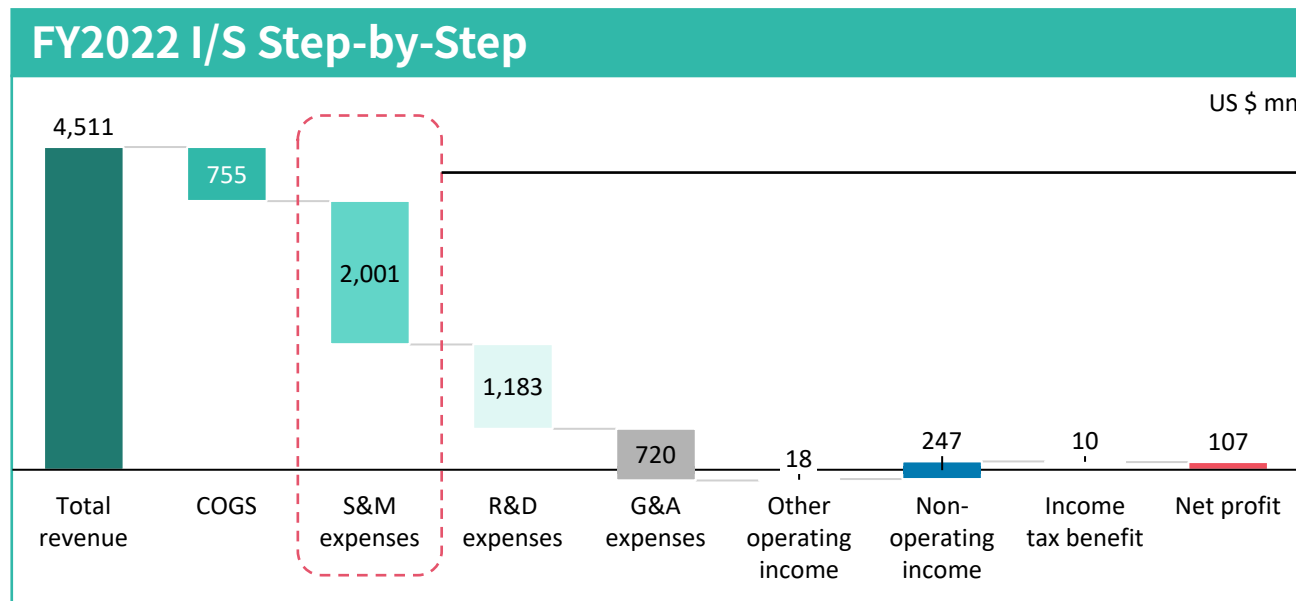
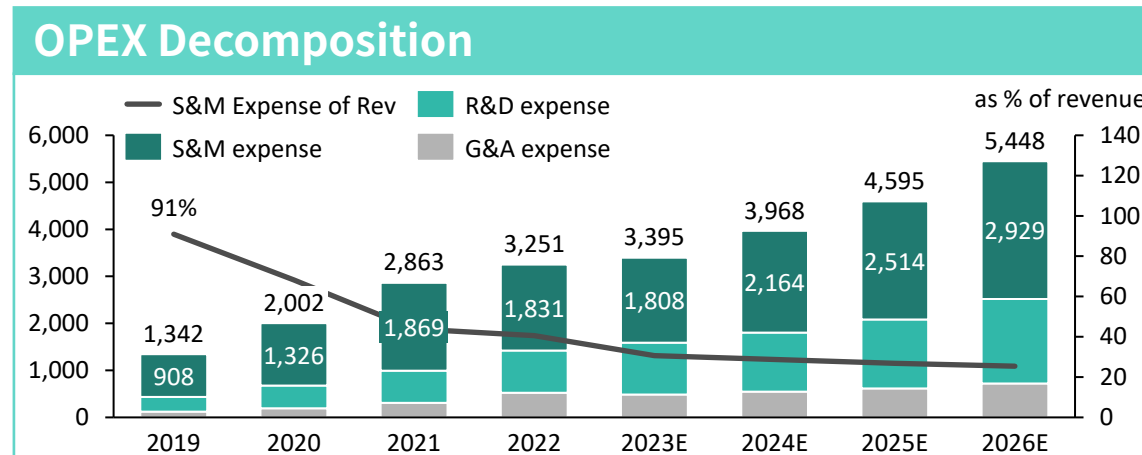
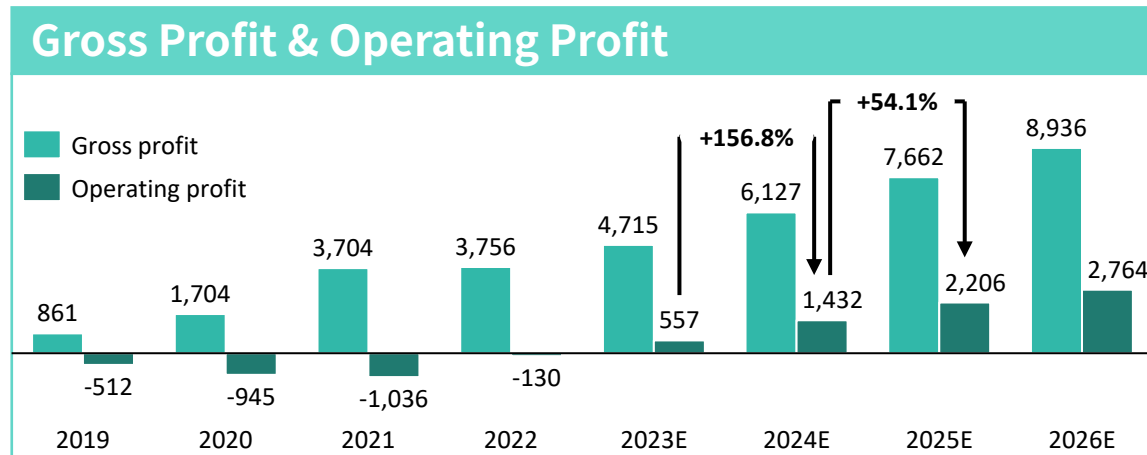
Long-term **ARPPU growth** potential with best value for money

## Forecasts

- Boss Zhipin delivered a strong **65%** revenue CAGR during 2019-2022, despite a challenging macro environment and 1-year suspension of user registration during Jul 2021 to Jun 2022.
- We project total revenue CAGR of **25%** during 2023-26 for reasons below:
  - China currently has more than 50m enterprises, implying the coverage ratio by 2026 is only ~15%;
  - RMB 1,500 ARPU is still significantly lower than that of another major industry peer 5ljob which had achieved -RMB 6000 in 2020.

# Financial Analysis

## Historical Performance and Forecasts



## Analysis

- We expect the gross margin to remain largely stable at **83%** in the next few years, as the major components including network costs.
- We expect to see strong operating leverage in S&M expense, as the network effect could help.
- Also, we agree that the profit will be driven mainly by **reduced S&M expense and advantage of network effect.**

# Financial Analysis

## Comps Analysis

US \$		Closing Price	Market Cap (US \$mn)	Share perf YTD	P/E			P/S			23-25 Rev	23-25 EPS
Company Name	Ticker				2023E	2024E	2025E	2023E	2024E	2025E	CAGR	CAGR
Boss Zhipin	BZ US	14.6	7,188	-21%	24.4	20.4	15.6	8.4	6.6	5.3	26%	25%
<b>China Internet vertical leaders</b>												
KE holdings	BEKE US	15.3	19,560	14%	14.2	14.3	15	1.8	1.6	1.4	13%	-3%
Trip.com	TCOM US	32.9	22,060	-1%	14.3	14.3	12.3	3.5	3.1	2.7	15%	8%
Autohome	ATHM US	26.1	3,281	-13%	11.3	11.3	11	3.3	3.1	3	4%	1%
<b>Average</b>					13.3	13.3	12.8	2.9	2.6	2.4	11%	2%
<b>China's large Internet platforms</b>												
Alibaba	BABA US	72.4	188,188	-16%	8.2	7.4	6.4	1.4	1.3	1.2	7%	13%
Tencent	700 HK	308.8	387,502	0%	18	15.4	13.6	4.5	4	3.7	11%	15%
<b>Average</b>					18.6	14.6	11.5	3.4	2.8	2.4	17%	26%
<b>China HR services</b>												
Liepin	6100 HK	5.7	379	-38%	28.1	12.4	8.6	1.2	1	0.8	20%	81%
Career International	300662 CH	32.5	888	-34%	27.4	20.1	15.9	0.6	0.5	0.4	25%	31%
Fesco Group	600861 CH	20.4	1,675	-4%	16.2	12	10.2	0.3	0.2	0.2	22%	26%
<b>Average</b>					23.9	14.8	11.6	0.7	0.6	2.5	23%	46%
<b>Global recruitment peers</b>												
SEEK	SEK AU	23.8	5,733	15%	37.1	54.4	44.7	7	6.7	6.1	7%	-9%
Randstad	RAND NA	54.8	10,974	-4%	13.2	12.8	11.5	0.4	0.4	0.4	3%	7%
Robert Half	RHI US	82.4	8,828	13%	21.6	21.1	16.8	1.4	1.4	1.3	3%	13%
Adecco Group	ADEN SW	41.5	8,123	41%	15.8	13.4	11.2	0.3	0.3	0.3	3%	19%
Recruit	6098 JT	5,237	62,018	29%	27.8	32.9	29.3	2.7	2.6	2.5	4%	-2%
<b>Average</b>					23.1	26.9	22.7	2.4	2.3	2.6	4%	6%

## Analysis

- Given Boss is still at a high-growth stage, we believe using a **relatively high multiple (24x P/E)** would be a more reasonable approach
- We believe BZ could deliver **much faster** topline growth than those global peers and other internet vertical leaders during 2023-25E
- However, global investors may require extra safety margin for Chinese internet stocks due to economic and geopolitical risks.
- Altogether, we choose to use 20x 2025E P/E multiple to value the stock

# Financial Analysis

## Discounted Cash Flow Valuation



### WACC Calculation

Tax rate	25.0%	Average tax rate in annual report
Debt ratio	0.0%	
Beta	1.80	The average of both China and global recruitment peers
Risk free rate	3.7%	30-year Treasury yields
Market risk premium	5.8%	the average of SHIBOR and inter-bank offered rate
Equity cost	14.1%	calculated
Debt cost	6.5%	
Debt cost (After tax)	4.9%	
WACC	14.14%	$Rd\_at * D / (D + E) + Re * E / (D + E)$

### DCF Analysis

<b>PV of FCF</b>	<b>4,866</b>		
Terminal Year Value	10,033	<b>Net Value (Rmb mn)</b>	<b>16,996</b>
<b>PV of Terminal Year Value</b>	<b>2,673</b>	Net Value (USD mn)	2,377
Enterprise Value	7,539	Total Shares (mn)	111
Net Cash	9,457	<b>Per Share Value (US\$)</b>	<b>21</b>

### Scenario Analysis

US\$, mn	Base	Bear	Bull
Key assumptions	● 26% revenue CAGR during 2023-25E ● 36% OPM	● 17% revenue CAGR during 2023-25E ● 30% OPM	● 39% revenue CAGR during 2023-25E; ● 40% OPM
2025E net profit	454	269	509
Target 2025 P/E multiple	20	15	30
Dec-2024E fair value	9,074	4,040	15,269
Value per share	20	9	33

## Conclusion

- In Comps method, we choose the Base Scenario \$20 and use the range of min-max (Bear-Bull: \$9-33)
- In DCF method, after calculation we worked out that the intrinsic value of BZ is \$2,377 mn and thus the price per share will be \$21.4, rounding \$21
- That is to say, the latest closing price is \$14.98 is below the estimated price, there is going to be an upward trend
- We give BZ, both in HKEX and NASDAQ, an overweight rating.

**Thank you !**



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