

## Hong Kong

### ADD (no change)

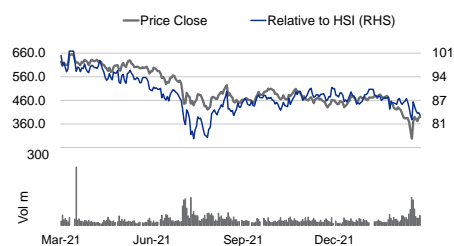
Consensus ratings\*: Buy 62 Hold 6 Sell 2

|                         |                |
|-------------------------|----------------|
| Current price:          | HK\$389.0      |
| Target price:           | HK\$485.2      |
| Previous target:        | HK\$520.3      |
| Up/downside:            | 24.7%          |
| CGI / Consensus:        | -17.5%         |
| Reuters:                | 0700.HK        |
| Bloomberg:              | 700 HK         |
| Market cap:             | US\$477,897m   |
|                         | HK\$3,739,165m |
| Average daily turnover: | US\$1,343m     |
|                         | HK\$10,487m    |
| Current shares o/s:     | 9,720m         |
| Free float:             | 59.9%          |

\*Source: Bloomberg

#### Key changes in this note

- Net profit forecasts for 2022F and 2023F decreased by 10.1% and 1.9%, respectively.



Source: Bloomberg

| Price performance | 1M    | 3M    | 12M   |
|-------------------|-------|-------|-------|
| Absolute (%)      | -12.6 | -15.8 | -38.1 |
| Relative (%)      | -6.2  | -11.3 | -15.8 |

#### Major shareholders

|             | % held |
|-------------|--------|
| Naspers Ltd | 31.0   |
| Ma Huateng  | 8.4    |

#### Analyst

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## Tencent

### 4Q22 results lower than expected; 2022 challenging

- Tencent's 4Q21 results were lower than we expected.
- The 13% yoy drop in online ad revenue dragged down overall performance. Online game revenue was impacted by policy, but the performance of fintech and business services was relatively stable.
- 2022 will be challenging for the industry, and Tencent especially in 1H, given delays in the launch online game licenses and the implementation of regulations in different segments.
- We lowered our net profit forecasts slightly for 2022F and 2023F after the 4Q21 results announcement.
- The cut in net profit forecasts and management guidance is expected to put pressure on Tencent shares in the near term. We still hold a constructive view on the Company, as we believe that its investment will translate into future growth. Reiterate ADD with a new DCF-based target price of HK\$485.2 (down from HK\$520.3). A near-term catalyst would be the resumption of the release of online game licenses by the Chinese government.

#### 4Q21 results highlights

Tencent reported total revenue of Rmb144,188m in 4Q21, up 8% yoy, but below our expectation of 15.1% yoy; the major drag was the online ad segment. Its gross profit was Rmb517,817m in 4Q21, down 2% yoy, below our expectation of -0.5% for 4Q21. Its net profit was Rmb94,958m in 4Q21, up 60% yoy. The Company reported non-IFRS net profit of Rmb24,880m in 4Q21, down 25% yoy.

#### Fintech and business services remained the growth driver in 4Q21 top-line growth

Tencent reported that its fintech and business services segment achieved strong growth in 4Q21. Regarding sub-segment performance in 4Q21: 1) Revenue from social networks increased 4% yoy to Rmb29.1bn, mainly due to Tencent's video account live-streaming services, and video and music subscription services. 2) Revenue from games increased about 8% yoy to Rmb50.6bn in 4Q21, mainly because of a 9% yoy increase in mobile game revenue and a 4% yoy increase in PC game revenue. Minors contributed about 0.9% and 1.5% of total time spent and gross receipts of domestic games, respectively. The slowdown in domestic game revenue (1% yoy growth) was offset by solid growth in overseas markets, which reported a 34% yoy increase in revenue (accounting for 26% of total online game revenue. 3) Revenue from online advertising dropped 13% yoy to Rmb18.3bn, attributable mainly to stringent regulations in several key categories, including education, games and insurance. 4) Revenue from fintech and business services increased 25% yoy to Rmb48.0bn in 4Q21, reflecting higher commercial payment volume. Business services revenue growth was driven by increased use of the Company's services by Internet services, public transportation and retail businesses.

#### Key takeaways from the post-results conference call

During the post-results conference call, management mentioned that the internet industry is moving into a new stage, in which growth is expected to be slower, but it will move at a more sustainable and healthy pace. The internet industry will focus more on user value, technology, innovation efficiency and cost-effectiveness. The Company investigated the need and eligibility to get a financial holding company license; it will be positive in the long run if the Company gets the license. There are different ways for Tencent to return value from its portfolio investment to shareholders, such as share buybacks, cash dividends and dividends in kind.

#### Financial Summary

|                                      | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rmbm)                       | 482,064 | 560,118 | 610,673 | 746,497 | 893,452 |
| Net Profit (Rmbm)                    | 159,848 | 224,823 | 124,965 | 172,255 | 209,344 |
| Normalised EPS (Rmb)                 | 16.49   | 23.13   | 12.86   | 17.72   | 21.54   |
| Normalised EPS Growth                | 70.5%   | 40.3%   | (44.4%) | 37.8%   | 21.5%   |
| FD Normalised P/E (x)                | 19.22   | 13.70   | 24.65   | 17.88   | 14.71   |
| Price To Sales (x)                   | 6.37    | 5.50    | 5.04    | 4.13    | 3.45    |
| DPS (Rmb)                            | 1.34    | 1.34    | 1.61    | 1.94    | 1.94    |
| Dividend Yield                       | 0.42%   | 0.42%   | 0.51%   | 0.61%   | 0.61%   |
| EV/EBITDA (x)                        | 15.44   | 15.48   | 17.52   | 11.88   | 9.27    |
| P/FCFE (x)                           | 41.11   | 15.50   | 72.44   | 19.14   | 17.54   |
| Net Gearing                          | (2.9%)  | (0.8%)  | (7.9%)  | (14.9%) | (18.1%) |
| P/BV (x)                             | 4.38    | 3.82    | 3.36    | 2.88    | 2.45    |
| ROE                                  | 28.1%   | 29.8%   | 14.5%   | 17.4%   | 18.0%   |
| % Change In Normalised EPS Estimates |         |         | (10.1%) | (1.9%)  |         |
| Normalised EPS/consensus EPS (x)     |         |         | 0.86    | 0.98    | 0.97    |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

## Lower forecasts and target price

We cut our revenue forecasts for 2022F and 2023F by 8.5% and 8.4%, respectively, to reflect weak performance in the social network, games and online advertising segments. We cut our net profit forecasts for 2022F and 2023F by 10.1% and 1.9%, respectively, mainly after factoring slower revenue growth and higher costs, especially in 2022. We reiterate our ADD rating with a new DCF-based target price of HK\$485.2.

**Figure 1: Quarterly performance**

| RMBm                           | 1Q 2018   | 2Q 2018   | 3Q 2018   | 4Q 2018   | 1Q 2019   | 2Q 2019   | 3Q 2019   | 4Q 2019   | 1Q 2020   | 2Q 2020   | 3Q 2020   | 4Q 2020   | 1Q 2021   | 2Q 2021   | 3Q 2021   | 4Q 2021   |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Revenue                        | 73,528    | 73,675    | 80,595    | 84,896    | 85,465    | 88,821    | 97,236    | 105,767   | 108,065   | 114,883   | 125,447   | 133,669   | 135,303   | 138,259   | 142,368   | 144,188   |
| Revenue                        | 46,877    | 42,069    | 44,049    | 43,651    | 48,974    | 48,080    | 50,629    | 52,308    | 62,429    | 65,002    | 69,802    | 66,979    | 72,443    | 72,013    | 75,203    | 71,913    |
| -online games                  | 28,778    | 25,202    | 25,813    | 25,813    | 30,123    | 29,119    | 28,603    | 28,450    | 34,267    | 40,767    | 41,422    | 36,700    | 44,205    | 52,590    | 53,434    | 39,636    |
| -social network                | 18,099    | 16,867    | 18,236    | 17,838    | 18,851    | 18,961    | 22,026    | 23,858    | 28,162    | 24,235    | 28,380    | 30,279    | 28,238    | 19,423    | 21,769    | 32,277    |
| Online advertising             | 10,689    | 14,110    | 16,247    | 17,033    | 13,377    | 16,409    | 18,366    | 20,225    | 17,713    | 18,552    | 21,351    | 24,655    | 21,820    | 22,833    | 22,495    | 21,518    |
| e-Commerce                     |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| Others                         | 15,962    | 17,496    | 20,299    | 24,212    | 23,114    | 24,332    | 28,241    | 33,234    | 27,923    | 31,329    | 34,294    | 42,035    | 41,040    | 43,413    | 44,670    | 50,757    |
| Total Revenue                  | 73,528    | 73,675    | 80,595    | 84,896    | 85,465    | 88,821    | 97,236    | 105,767   | 108,065   | 114,883   | 125,447   | 133,669   | 135,303   | 138,259   | 142,368   | 144,188   |
| YoY ch                         | 48.4%     | 30.2%     | 23.6%     | 27.9%     | 16.2%     | 20.6%     | 20.6%     | 24.6%     | 26.4%     | 29.3%     | 29.0%     | 26.4%     | 25.2%     | 20.3%     | 13.5%     | 7.9%      |
| QoQ ch                         | 10.7%     | 0.2%      | 9.4%      | 5.3%      | 0.7%      | 3.9%      | 9.5%      | 8.8%      | 2.2%      | 6.3%      | 9.2%      | 6.6%      | 1.2%      | 2.2%      | 3.0%      | 1.3%      |
| Cost of Revenue                |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| VAS                            | 17,220    | 17,253    | 19,158    | 20,330    | 20,781    | 22,783    | 24,402    | 26,120    | 25,577    | 30,100    | 33,098    | 32,512    | 32,533    | 33,890    | 35,344    | 36,869    |
| Online advertising             | 7,356     | 8,838     | 10,279    | 10,800    | 7,776     | 8,432     | 9,411     | 9,241     | 9,003     | 9,008     | 10,480    | 11,520    | 11,986    | 11,697    | 12,051    | 12,338    |
| e-Commerce                     |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| Others                         | 11,910    | 13,138    | 15,678    | 18,614    | 17,088    | 18,480    | 20,944    | 24,298    | 20,691    | 22,565    | 25,222    | 30,756    | 28,149    | 29,927    | 32,226    | 37,164    |
| Total cost of revenue          | 36,486    | 39,229    | 45,115    | 49,744    | 45,645    | 49,695    | 54,757    | 59,659    | 55,271    | 61,673    | 68,800    | 74,788    | 72,668    | 75,514    | 79,621    | 86,371    |
| Gross profit                   | 37,042    | 34,446    | 35,480    | 35,152    | 39,820    | 39,126    | 42,479    | 46,108    | 52,794    | 53,210    | 56,647    | 58,881    | 62,635    | 62,745    | 62,747    | 57,817    |
| Gross margin                   | 50.4%     | 46.8%     | 44.0%     | 41.4%     | 46.6%     | 44.1%     | 43.7%     | 43.6%     | 48.9%     | 46.3%     | 45.2%     | 44.0%     | 46.3%     | 45.4%     | 44.1%     | 40.1%     |
| Gross profit growth            | 45.6%     | 21.7%     | 12.0%     | 11.6%     | 7.5%      | 13.6%     |           |           |           |           |           |           |           |           |           |           |
| Interest Income                | 1065      | 1072      | 1082      | 1350      | 1408      | 1652      | 1674      | 1580      | 1636      | 1749      | 1864      | 1708      | 1614      | 1630      | 1703      | 1703      |
| Selling & mktg                 | (5,570)   | (6,360)   | (6,573)   | (5,730)   | (4,244)   | (4,718)   | (5,722)   | (6,712)   | (7,049)   | (7,756)   | (8,920)   | (10,033)  | (8,530)   | (10,013)  | (10,435)  | (11,616)  |
| Gen & Admin                    | (9,430)   | (9,857)   | (10,890)  | (11,345)  | (11,331)  | (12,577)  | (13,536)  | (16,002)  | (14,158)  | (16,499)  | (17,189)  | (19,779)  | (18,967)  | (22,638)  | (23,862)  | (24,380)  |
| Other income                   | 7,585     | 2,506     | 8,762     | -2,139    | 11,089    | 4,038     | 932       | 3,630     | 4,037     | 8,607     | 11,551    | 32,936    | 19,521    | 20,763    | 22,984    | 86,199    |
| Total operating exp            | (6,350)   | (12,639)  | (7,619)   | (17,864)  | (3,078)   | (11,605)  | (16,652)  | (17,504)  | (15,534)  | (13,899)  | (12,694)  | 4,832     | (13,899)  | (10,258)  | (9,610)   | 51,906    |
| Operating income (loss)        | 30,692.0  | 21,807.0  | 27,861.0  | 17,288.0  | 36,742.0  | 27,521.0  | 25,827.0  | 28,604.0  | 37,260.0  | 39,311.0  | 43,953.0  | 63,713.0  | 56,273.0  | 52,487.0  | 53,137.0  | 109,723.0 |
| Finance costs                  | (654.0)   | (1,151.0) | (1,492.0) | (1,372.0) | (1,117.0) | (1,982.0) | (1,747.0) | (2,767.0) | (1,684.0) | (2,005.0) | (1,945.0) | (2,253.0) | (1,367.0) | (1,942.0) | (1,942.0) | (1,863.0) |
| Share of Results of Associates | (319)     | 1,526     | 264       | 16        | -2,957    | 2,370     | 234       | -1,328    | -281      | -295      | 2,630     | 1,618     | 1,348     | -3,857    | -5,668    | -8,267    |
| Pretax profit                  | 29,719    | 22,182    | 26,633    | 15,932    | 32,668    | 27,909    | 24,314    | 24,509    | 35,295    | 37,011    | 44,638    | 63,078    | 56,254    | 46,688    | 45,527    | 99,593    |
| Tax                            | (5,746.0) | (3,602.0) | (3,228.0) | (1,906.0) | (4,812.0) | (3,225.0) | (3,338.0) | (2,137.0) | (5,892.0) | (4,557.0) | (5,739.0) | (3,709.0) | (7,246.0) | (3,666.0) | (5,452.0) | (3,888.0) |
| Effective tax rate             | 19.0%     | 19.0%     | 12.1%     | 12.0%     | 14.7%     | 11.6%     | 13.7%     | 8.7%      | 16.7%     | 12.3%     | 12.9%     | 5.9%      | 12.9%     | 7.9%      | 12.0%     | 3.9%      |
| Minorities                     | (683)     | (713)     | 72        | (203)     | (646)     | (548)     | (594)     | 790       | (507)     | 653       | (357)     | 67        | (1,241)   | (435)     | (665)     | 747       |
| Profit after tax               | 23,290    | 17,867    | 23,333    | 14,229    | 27,210    | 24,136    | 20,382    | 23,162    | 28,896    | 33,107    | 38,542    | 59,302    | 47,767    | 42,587    | 39,510    | 94,958    |
| Net margin                     | 31.7%     | 24.3%     | 29.0%     | 16.8%     | 31.8%     | 27.2%     | 21.0%     | 21.9%     | 26.7%     | 28.8%     | 30.7%     | 44.4%     | 35.3%     | 30.8%     | 27.8%     | 65.9%     |

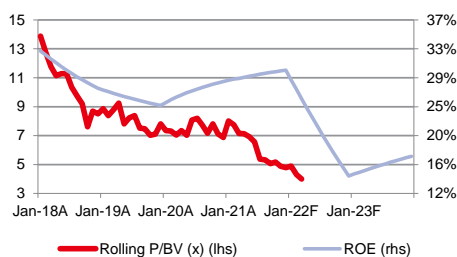
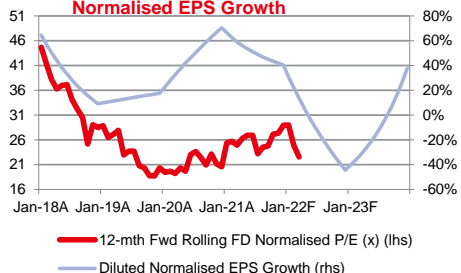
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 2: DCF valuation**

| RMB (m)                                    | 2017A     | 2018A    | 2019A    | 2020A    | 2021A    | 2022E    | 2023E     | 2024E     |
|--|-----------|----------|----------|----------|----------|----------|-----------|-----------|
| Operating Profit                           | 90,302    | 97,648   | 118,695  | 184,238  | 150,514  | 176,434  | 214,424   | 273,035   |
| Interest Income                            | (3,940)   | (4,569)  | (6,314)  | (6,957)  | (7,540)  | (9,149)  | (11,011)  | (13,171)  |
| Other gains                                | (20,140)  | (16,714) | (19,689) | (57,131) | (18,848) | (18,848) | (18,848)  | (18,848)  |
| Depreciation                               | 4,850     | 8,233    | 10,575   | 12,621   | 13,952   | 14,820   | 15,958    | 17,330    |
| Amortization                               | 18,622    | 18,622   | 18,622   | 18,622   | 18,622   | 18,622   | 18,622    | 18,622    |
| Share-based compensation                   | 6,253     | 6,253    | 6,253    | 6,253    | 6,253    | 6,253    | 6,253     | 6,253     |
| EBITDA                                     | 95,947    | 109,474  | 128,142  | 157,645  | 162,954  | 188,133  | 225,398   | 283,221   |
| Change in WC                               | (23,663)  | (14,813) | (25,501) | (22,906) | (44,396) | (42,842) | (49,878)  | (56,418)  |
| Capex                                      | (14,643)  | (14,944) | (16,438) | (16,438) | (16,438) | (18,082) | (19,890)  | (21,879)  |
| Tax  | (15,744)  | (14,482) | (13,512) | (19,897) | (16,083) | (23,879) | (29,064)  | (37,122)  |
| FCF  | 41,897    | 65,235   | 72,691   | 98,405   | 86,037   | 103,330  | 126,566   | 167,802   |
| NPV of FCF                                 |           |          | 194,418  | 296,990  | 346,507  | 432,247  | 532,692   | 668,199   |
| Discounted value                           |           |          | 87,376   | 108,931  | 87,690   | 96,965   | 109,379   | 133,518   |
| Terminal value                             |           |          |          |          |          |          | 3,168,836 | 3,168,836 |
| Explicit Forecasts                         | 930,918   |          |          |          |          |          |           |           |
| Terminal Valuation                         | 3,168,836 |          |          |          |          |          |           |           |
| Total Expected Operating Value             | 4,099,754 |          |          |          |          |          |           |           |
| Bank & Other Debt                          | 152,062   |          |          |          |          |          |           |           |
| Minorities                                 | 74,059    |          |          |          |          |          |           |           |
| Total Value Attributable to Equity Holders | 4,489,975 |          |          |          |          |          |           |           |
| Value Per Share (HK\$)                     | 552.2     |          |          |          |          |          |           |           |
| Risk free rate                             | 3.0%      |          |          |          |          |          |           |           |
| Beta                                       | 1.10      |          |          |          |          |          |           |           |
| Risk Premium                               | 8.1%      |          |          |          |          |          |           |           |
| Cost of equity                             | 11.9%     |          |          |          |          |          |           |           |
| Cost of debt                               | 4.3%      |          |          |          |          |          |           |           |
| WACC                                       | 8.6%      |          |          |          |          |          |           |           |
| Terminal growth rate                       | 2.8%      |          |          |          |          |          |           |           |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

## BY THE NUMBERS

**P/BV vs ROE**

**12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth**


### Profit & Loss

| (Rmbm)                                 | Dec-20A        | Dec-21A        | Dec-22F        | Dec-23F        | Dec-24F        |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Total Net Revenues</b>              | <b>482,064</b> | <b>560,118</b> | <b>610,673</b> | <b>746,497</b> | <b>893,452</b> |
| <b>Gross Profit</b>                    | <b>252,884</b> | <b>278,628</b> | <b>273,498</b> | <b>332,608</b> | <b>392,628</b> |
| <b>Operating EBITDA</b>                | <b>151,501</b> | <b>148,187</b> | <b>126,937</b> | <b>179,576</b> | <b>222,872</b> |
| Depreciation And Amortisation          | (31,352)       | (32,683)       | (33,551)       | (34,689)       | (36,061)       |
| <b>Operating EBIT</b>                  | <b>120,150</b> | <b>115,504</b> | <b>93,387</b>  | <b>144,887</b> | <b>186,812</b> |
| Financial Income/(Expense)             | (930)          | (464)          | (497)          | 1,843          | 2,146          |
| Pretax Income/(Loss) from Assoc.       | 3,672          | (16,444)       | (3,242)        | (3,242)        | (3,242)        |
| Non-Operating Income/(Expense)         | 57,131         | 149,467        | 52,628         | 52,628         | 52,628         |
| <b>Profit Before Tax (pre-EI)</b>      | <b>180,023</b> | <b>248,063</b> | <b>142,276</b> | <b>196,117</b> | <b>238,344</b> |
| Exceptional Items                      |                |                |                |                |                |
| <b>Pre-tax Profit</b>                  | <b>180,023</b> | <b>248,063</b> | <b>142,276</b> | <b>196,117</b> | <b>238,344</b> |
| Taxation                               | (19,897)       | (20,252)       | (15,650)       | (21,573)       | (26,218)       |
| Exceptional Income - post-tax          |                |                |                |                |                |
| <b>Profit After Tax</b>                | <b>160,126</b> | <b>227,811</b> | <b>126,626</b> | <b>174,544</b> | <b>212,127</b> |
| Minority Interests                     | (278)          | (2,988)        | (1,661)        | (2,289)        | (2,782)        |
| Preferred Dividends                    |                |                |                |                |                |
| FX Gain/(Loss) - post tax              |                |                |                |                |                |
| Other Adjustments - post-tax           |                |                |                |                |                |
| Preference Dividends (Australia)       |                |                |                |                |                |
| <b>Net Profit</b>                      | <b>159,848</b> | <b>224,823</b> | <b>124,965</b> | <b>172,255</b> | <b>209,344</b> |
| Normalised Net Profit                  | 160,126        | 227,811        | 126,626        | 174,544        | 212,127        |
| <b>Fully Diluted Normalised Profit</b> | <b>159,848</b> | <b>224,823</b> | <b>124,965</b> | <b>172,255</b> | <b>209,344</b> |

### Cash Flow

| (Rmbm)                           | Dec-20A          | Dec-21A          | Dec-22F         | Dec-23F          | Dec-24F          |
|----------------------------------|------------------|------------------|-----------------|------------------|------------------|
| <b>EBITDA</b>                    | <b>151,501</b>   | <b>148,187</b>   | <b>126,937</b>  | <b>179,576</b>   | <b>222,872</b>   |
| Cash Flow from Inv. & Assoc.     |                  |                  |                 |                  |                  |
| Change In Working Capital        | 22,907           | 97,638           | (55,697)        | 40,093           | 45,773           |
| (Incr)/Decr in Total Provisions  |                  |                  |                 |                  |                  |
| Other Non-Cash (Income)/Expense  |                  |                  |                 |                  |                  |
| Other Operating Cashflow         | 57,389           | 153,676          | 57,527          | 62,444           | 67,590           |
| Net Interest (Paid)/Received     | (7,887)          | (7,114)          | (7,825)         | (8,608)          | (9,469)          |
| Tax Paid                         | 6,444            | 5,183            | (2,842)         | 3,657            | 2,868            |
| <b>Cashflow From Operations</b>  | <b>230,354</b>   | <b>397,570</b>   | <b>118,100</b>  | <b>277,162</b>   | <b>329,635</b>   |
| Capex                            | (16,438)         | (16,438)         | (18,082)        | (19,890)         | (21,879)         |
| Disposals Of FAs/subsidiaries    |                  |                  |                 |                  |                  |
| Acq. Of Subsidiaries/investments | (128,070)        | (211,985)        | (71,572)        | (134,122)        | (173,053)        |
| Other Investing Cashflow         |                  |                  |                 |                  |                  |
| <b>Cash Flow From Investing</b>  | <b>(144,508)</b> | <b>(228,423)</b> | <b>(89,654)</b> | <b>(154,012)</b> | <b>(194,932)</b> |
| Debt Raised/(repaid)             | (11,099)         | 29,552           | 14,075          | 37,814           | 40,913           |
| Proceeds From Issue Of Shares    | 0                | 0                | 0               | 0                | 0                |
| Shares Repurchased               |                  |                  |                 |                  |                  |
| Dividends Paid                   | (13,069)         | (13,069)         | (15,683)        | (18,819)         | (18,819)         |
| Preferred Dividends              |                  |                  |                 |                  |                  |
| Other Financing Cashflow         | 0                | 0                | 0               | 0                | 0                |
| <b>Cash Flow From Financing</b>  | <b>(24,168)</b>  | <b>16,483</b>    | <b>(1,608)</b>  | <b>18,995</b>    | <b>22,094</b>    |
| Total Cash Generated             | 61,678           | 185,630          | 26,838          | 142,145          | 156,797          |
| <b>Free Cashflow To Equity</b>   | <b>74,747</b>    | <b>198,699</b>   | <b>42,521</b>   | <b>160,964</b>   | <b>175,617</b>   |
| <b>Free Cashflow To Firm</b>     | <b>93,733</b>    | <b>176,261</b>   | <b>36,272</b>   | <b>131,758</b>   | <b>144,173</b>   |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

| (Rmbm)                               | Dec-20A          | Dec-21A          | Dec-22F          | Dec-23F          | Dec-24F          |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Total Cash And Equivalents           | 152,798          | 167,966          | 248,197          | 378,185          | 490,811          |
| Total Debtors                        | 44,981           | 49,331           | 53,783           | 65,746           | 78,689           |
| Inventories                          | 814              | 1,063            | 1,254            | 1,518            | 1,817            |
| Total Other Current Assets           | 119,054          | 266,452          | 169,903          | 185,759          | 202,915          |
| <b>Total Current Assets</b>          | <b>317,647</b>   | <b>484,812</b>   | <b>473,138</b>   | <b>631,208</b>   | <b>774,232</b>   |
| Fixed Assets                         | 39,987           | 42,473           | 45,735           | 49,667           | 54,216           |
| Total Investments                    | 784,640          | 850,130          | 850,130          | 850,130          | 850,130          |
| Intangible Assets                    | 181,941          | 225,356          | 286,543          | 387,358          | 548,677          |
| Total Other Non-Current Assets       | 9,209            | 9,594            | 10,027           | 10,515           | 11,062           |
| <b>Total Non-current Assets</b>      | <b>1,015,778</b> | <b>1,127,552</b> | <b>1,192,434</b> | <b>1,297,669</b> | <b>1,464,085</b> |
| Short-term Debt                      | 18,064           | 24,449           | 20,718           | 25,326           | 30,312           |
| Current Portion of Long-Term Debt    |                  |                  |                  |                  |                  |
| Total Creditors                      | 94,030           | 109,470          | 129,175          | 156,301          | 187,071          |
| Other Current Liabilities            | 156,985          | 269,179          | 201,482          | 246,188          | 294,457          |
| <b>Total Current Liabilities</b>     | <b>269,019</b>   | <b>403,098</b>   | <b>351,375</b>   | <b>427,815</b>   | <b>511,840</b>   |
| Total Long-term Debt                 | 112,145          | 136,936          | 149,295          | 182,501          | 218,428          |
| Hybrid Debt - Debt Component         |                  |                  |                  |                  |                  |
| Total Other Non-Current Liabilities  | 147,899          | 165,994          | 154,359          | 143,623          | 133,005          |
| <b>Total Non-current Liabilities</b> | <b>260,044</b>   | <b>302,930</b>   | <b>303,654</b>   | <b>326,124</b>   | <b>351,434</b>   |
| Total Provisions                     | 26,259           | 29,643           | 22,908           | 31,576           | 38,375           |
| <b>Total Liabilities</b>             | <b>555,382</b>   | <b>735,671</b>   | <b>677,936</b>   | <b>785,516</b>   | <b>901,649</b>   |
| Shareholders' Equity                 | 703,984          | 806,299          | 915,581          | 1,069,017        | 1,259,542        |
| Minority Interests                   | 74,059           | 70,394           | 72,055           | 74,344           | 77,127           |
| <b>Total Equity</b>                  | <b>778,043</b>   | <b>876,693</b>   | <b>987,636</b>   | <b>1,143,361</b> | <b>1,336,668</b> |

**Key Ratios**

|                           | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth            | 27.8%   | 16.2%   | 9.0%    | 22.2%   | 19.7%   |
| Operating EBITDA Growth   | 24.2%   | (2.2%)  | (14.3%) | 41.5%   | 24.1%   |
| Operating EBITDA Margin   | 31.4%   | 26.5%   | 20.8%   | 24.1%   | 24.9%   |
| Net Cash Per Share (Rmb)  | 2.32    | 0.68    | 8.04    | 17.53   | 24.90   |
| BVPS (Rmb)                | 72.4    | 83.0    | 94.2    | 110.0   | 129.6   |
| Gross Interest Cover      | 15.23   | 16.24   | 11.93   | 16.83   | 19.73   |
| Effective Tax Rate        | 11.1%   | 8.2%    | 11.0%   | 11.0%   | 11.0%   |
| Net Dividend Payout Ratio | 8.2%    | 5.8%    | 12.5%   | 10.9%   | 9.0%    |
| Accounts Receivables Days | 30.68   | 30.73   | 30.82   | 29.22   | 29.58   |
| Inventory Days            | 1.22    | 1.22    | 1.25    | 1.22    | 1.22    |
| Accounts Payables Days    | 139.5   | 131.9   | 129.2   | 125.9   | 125.5   |
| ROIC (%)                  | 129%    | 80%     | 43%     | 61%     | 63%     |
| ROCE (%)                  | 16.1%   | 12.2%   | 9.0%    | 12.1%   | 13.2%   |
| Return On Average Assets  | 14.1%   | 15.5%   | 7.8%    | 9.6%    | 10.1%   |

**Key Drivers**

|                                    | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|------------------------------------|---------|---------|---------|---------|---------|
| Growth rate - VAS (%)              | 32.1%   | 10.4%   | 5.0%    | 18.0%   | 16.0%   |
| Growth rate - Online ads (%)       | 20.3%   | 7.8%    | 0.0%    | 18.0%   | 18.0%   |
| Growth rate - Fintech & others (%) | 24.5%   | 32.7%   | 20.0%   | 30.0%   | 25.0%   |

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|                     |           |           |         |          |                  |
|---------------------|-----------|-----------|---------|----------|------------------|
| <b>Score Range:</b> | 90 - 100  | 80 – 89   | 70 - 79 | Below 70 | No Survey Result |
| <b>Description:</b> | Excellent | Very Good | Good    | N/A      | N/A              |

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| Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2021 |                         |                                |
|---|-------------------------|--------------------------------|
| 619 companies under coverage for quarter ended on 31 Dec 2021                                 |                         |                                |
|   | Rating Distribution (%) | Investment Banking clients (%) |
| Add   | 71.1%                   | 1.5%                           |
| Hold  | 21.8%                   | 0.0%                           |
| Reduce  | 7.1%                    | 0.0%                           |

**Spitzer Chart for stock being researched ( 2 year data )**

**Tencent (700 HK)**

## RECOMMENDATION FRAMEWORK

### Stock Ratings

#### Definition:

|        |   |
|--------|---|
| Add    | The stock's total return is expected to reach 15% or higher over the next 12 months.                      |
| Hold   | The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months.                  |

*The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

#### Definition:

|             |  |
|-------------|--|
| Overweight  | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.  |
| Neutral     | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.       |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

### Country Ratings

#### Definition:

|             |  |
|-------------|--|
| Overweight  | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral     | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.           |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |

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