

## Hong Kong

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**ADD** (no change)

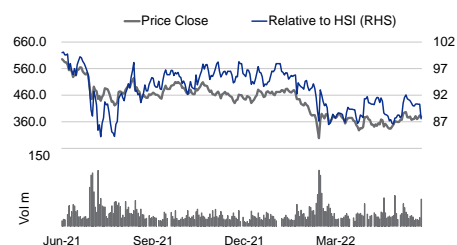
Consensus ratings\*: Buy 62 Hold 6 Sell 2

Current price:	HK\$378.2
Target price:	HK\$440.6
Previous target:	HK\$440.6
Up/downside:	16.5%
CGS-CIMB / Consensus:	-13.1%
Reuters:	0700.HK
Bloomberg:	700 HK
Market cap:	US\$463,619m
	HK\$3,639,133m
Average daily turnover:	US\$991.1m
	HK\$7,987m
Current shares o/s	9,720m
Free float:	59.9%

\*Source: Bloomberg

### Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (Rmbm)	116,014	159,967	194,154
Normalised EPS (Rmb)	11.94	16.46	19.97
Normalised EPS Growth	(48.4%)	37.9%	21.4%
FD Normalised P/E (x)	27.03	19.61	16.15
Recurring ROE	13.5%	16.4%	17.1%
P/BV (x)	3.46	2.99	2.56
DPS (Rmb)	1.61	1.94	1.94
Dividend Yield	0.50%	0.60%	0.60%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.6	6.1	-36.8
Relative (%)	3.2	2.2	-12.7

Major shareholders	% held
Naspers Ltd	31.0
Ma Huateng	8.4

# Tencent

## Largest shareholder stake sale

- Tencent's largest shareholder, Prosus, announced an open-ended share-buyback program for Prosus and Naspers, with the funding from selling holdings in Tencent.
- Shares of Tencent reacted negatively after the announcement.
- Offloading investment seems to be the trend for TMT names to realize gains.
- The Prosus plan may cap Tencent's near-term performance. But we believe the news is fully digested.

### What's new?

- Prosus and Naspers announced a long-term share-repurchase program of the shares of Naspers and Prosus. The program is designed to increase the NAV per share, taking advantage of both Prosus's and Naspers's trading discounts to their underlying net asset value. The repurchase program is open-ended and will run as long as elevated levels of the trading discount to the Group's underlying net asset value persist. The Prosus repurchase program will be funded by an orderly, on-market sale of its holdings in Tencent. The number of Tencent shares that will be sold on a daily basis will represent a small percentage of average daily trading volume of Tencent shares. According to the Prosus release, Tencent is supportive of the withdrawal by Prosus of its voluntary restriction on the sale of its Tencent Shares. The boards of both Naspers and Prosus stated that they have great confidence in Tencent's long-term prospects. Prosus hasn't announced the number of Tencent shares it will sell. According to Prosus, for example, had the Company executed the repurchase program over the past three months within European regulatory limits, the resulting number of Tencent shares that would have been sold on a daily basis would have been, on average, not more than 3% to 5% of the average daily traded volume. Shares of Tencent reacted negatively after the announcement.

### Our view

- The Prosus plan may cap Tencent's near-term performance, as the offloading by a major shareholder is expected to dampen sentiment on Tencent (Prosus also broke the commitment it made last year). But we believe the news is fully digested. Prosus's sales of Tencent shares is also subject to various factors, such as market conditions and the NAV discount. We still hold a constructive view on Tencent, as we believe that its investments will translate into future growth and that the recent messages from the Chinese government are turning more positive for the sector. We currently have an ADD rating for Tencent with a DCF-based target price of HK\$440.6. Near-term catalysts are the normalization of government policy and a pick-up in the revenue growth rate.

### Analyst

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## BY THE NUMBERS

### Profit & Loss

(Rmbm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>560,118</b>	<b>589,334</b>	<b>719,806</b>	<b>861,012</b>
<b>Gross Profit</b>	<b>278,628</b>	<b>258,443</b>	<b>313,520</b>	<b>369,591</b>
<b>Operating EBITDA</b>	<b>148,187</b>	<b>117,003</b>	<b>165,960</b>	<b>205,999</b>
Depreciation And Amortisation	(32,683)	(33,551)	(34,689)	(36,061)
<b>Operating EBIT</b>	<b>115,504</b>	<b>83,452</b>	<b>131,271</b>	<b>169,938</b>
Financial Income/(Expense)	(464)	(753)	1,469	1,724
Pretax Income/(Loss) from Assoc.	(16,444)	(3,242)	(3,242)	(3,242)
Non-Operating Income/(Expense)	149,467	52,628	52,628	52,628
<b>Profit Before Tax (pre-EI)</b>	<b>248,063</b>	<b>132,086</b>	<b>182,127</b>	<b>221,049</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>248,063</b>	<b>132,086</b>	<b>182,127</b>	<b>221,049</b>
Taxation	(20,252)	(14,529)	(20,034)	(24,315)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>227,811</b>	<b>117,556</b>	<b>162,093</b>	<b>196,734</b>
Minority Interests	(2,988)	(1,542)	(2,126)	(2,580)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Preference Dividends (Australia)				
<b>Net Profit</b>	<b>224,823</b>	<b>116,014</b>	<b>159,967</b>	<b>194,154</b>
Normalised Net Profit	227,811	117,556	162,093	196,734
<b>Fully Diluted Normalised Profit</b>	<b>224,823</b>	<b>116,014</b>	<b>159,967</b>	<b>194,154</b>

### Balance Sheet

(Rmbm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	167,966	226,088	340,292	433,878
Total Debtors	49,331	51,904	63,395	75,831
Inventories	1,063	1,233	1,492	1,785
Total Other Current Assets	266,452	167,412	182,643	199,128
<b>Total Current Assets</b>	<b>484,812</b>	<b>446,637</b>	<b>587,822</b>	<b>710,622</b>
Fixed Assets	42,473	45,735	49,667	54,216
Total Investments	850,130	850,130	850,130	850,130
Intangible Assets	225,356	286,543	387,358	548,677
Total Other Non-Current Assets	9,594	10,027	10,515	11,062
<b>Total Non-current Assets</b>	<b>1,127,552</b>	<b>1,192,434</b>	<b>1,297,669</b>	<b>1,464,085</b>
Short-term Debt	24,449	19,994	24,421	29,211
Current Portion of Long-Term Debt				
Total Creditors	109,470	126,985	153,652	183,794
Other Current Liabilities	269,179	194,047	236,937	283,195
<b>Total Current Liabilities</b>	<b>403,098</b>	<b>341,026</b>	<b>415,009</b>	<b>496,200</b>
Total Long-term Debt	136,936	144,079	175,976	210,498
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	165,994	154,133	143,341	132,663
<b>Total Non-current Liabilities</b>	<b>302,930</b>	<b>298,212</b>	<b>319,317</b>	<b>343,161</b>
Total Provisions	29,643	21,267	29,324	35,591
<b>Total Liabilities</b>	<b>735,671</b>	<b>660,505</b>	<b>763,651</b>	<b>874,952</b>
Shareholders' Equity	806,299	906,631	1,047,779	1,223,113
Minority Interests	70,394	71,936	74,062	76,642
<b>Total Equity</b>	<b>876,693</b>	<b>978,567</b>	<b>1,121,841</b>	<b>1,299,755</b>

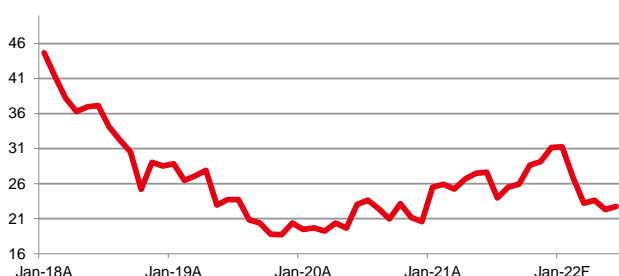
### Cash Flow

(Rmbm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	148,187	117,003	165,960	205,999
Cash Flow from Inv. & Assoc.				
Change In Working Capital	97,638	(60,237)	39,176	44,543
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	153,676	56,857	61,591	66,551
Net Interest (Paid)/Received	(7,114)	(7,825)	(8,608)	(9,469)
Tax Paid	5,183	(3,534)	3,399	2,644
<b>Cashflow From Operations</b>	<b>397,570</b>	<b>102,264</b>	<b>261,518</b>	<b>310,268</b>
Capex	(16,438)	(18,082)	(19,890)	(21,879)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments	(211,985)	(63,910)	(127,456)	(163,791)
Other Investing Cashflow				
<b>Cash Flow From Investing</b>	<b>(228,423)</b>	<b>(81,992)</b>	<b>(147,346)</b>	<b>(185,670)</b>
Debt Raised/(repaid)	29,552	8,134	36,324	39,312
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased				
Dividends Paid	(13,069)	(15,683)	(18,819)	(18,819)
Preferred Dividends				
Other Financing Cashflow	0	0	0	0
<b>Cash Flow From Financing</b>	<b>16,483</b>	<b>(7,549)</b>	<b>17,505</b>	<b>20,493</b>
Total Cash Generated	185,630	12,723	131,677	145,092
<b>Free Cashflow To Equity</b>	<b>198,699</b>	<b>28,406</b>	<b>150,496</b>	<b>163,911</b>
<b>Free Cashflow To Firm</b>	<b>176,261</b>	<b>28,098</b>	<b>122,781</b>	<b>134,067</b>

### Key Ratios

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	16.2%	5.2%	22.1%	19.6%
Operating EBITDA Growth	(2.2%)	(21.0%)	41.8%	24.1%
Operating EBITDA Margin	26.5%	19.9%	23.1%	23.9%
Net Cash Per Share (Rmb)	0.68	6.38	14.39	19.98
BVPS (Rmb)	83.0	93.3	107.8	125.8
Gross Interest Cover	16.24	10.66	15.25	17.95
Effective Tax Rate	8.2%	11.0%	11.0%	11.0%
Net Dividend Payout Ratio	5.8%	13.5%	11.8%	9.7%
Accounts Receivables Days	30.73	31.35	29.23	29.59
Inventory Days	1.22	1.27	1.22	1.22
Accounts Payables Days	131.9	130.4	126.1	125.7
ROIC (%)	80%	39%	54%	56%
ROCE (%)	12.2%	8.1%	11.2%	12.4%
Return On Average Assets	15.5%	7.3%	9.1%	9.6%

### 12-mth Fwd FD P/E (x) - Tencent



### Key Drivers

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Growth rate - VAS (%)	10.4%	2.0%	18.0%	16.0%
Growth rate - Online ads (%)	7.8%	0.0%	18.0%	18.0%
Growth rate - Fintech & others (%)	32.7%	13.0%	30.0%	25.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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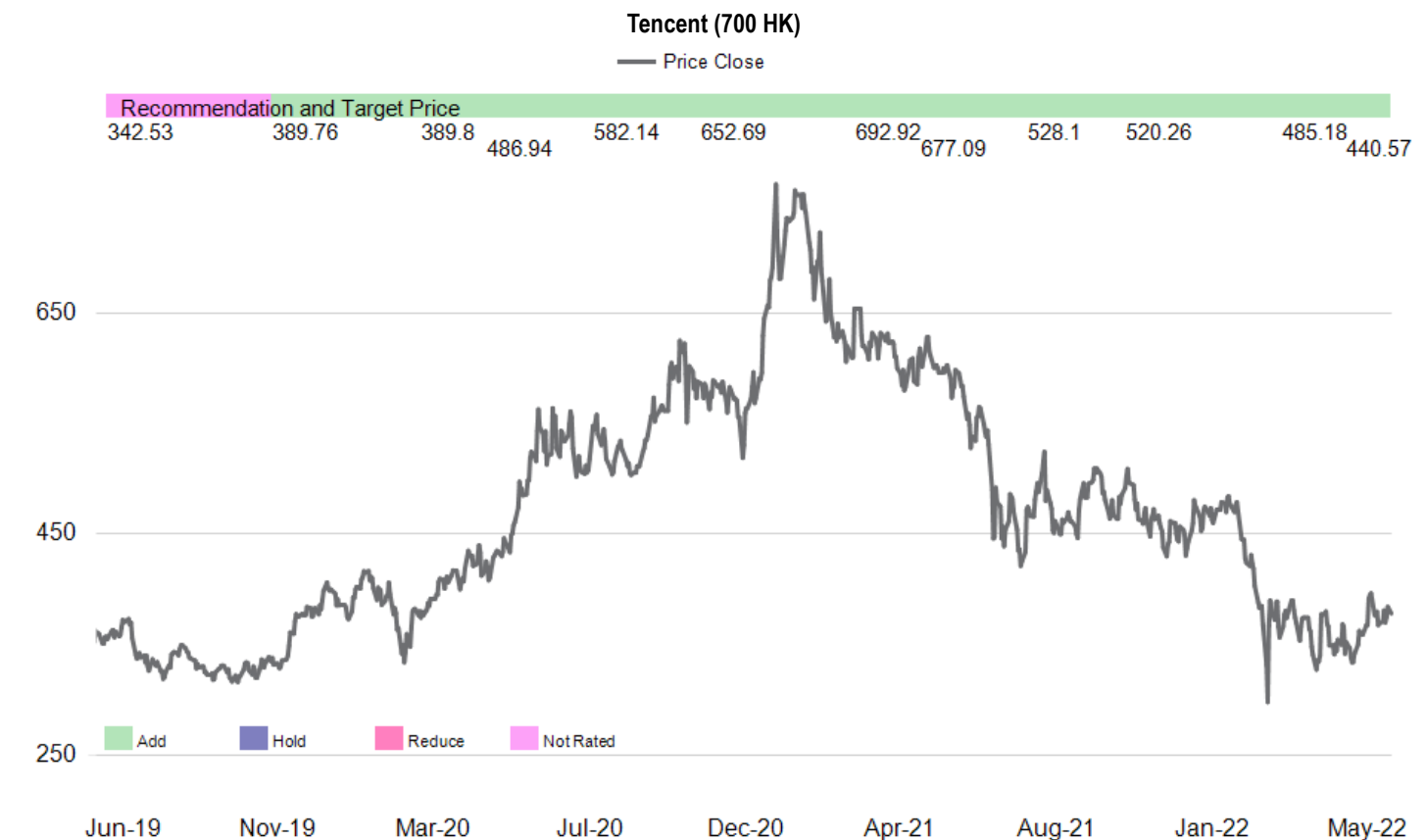
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Distribution of stock ratings and investment banking clients for quarter ended on 31 Mar 2022		
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	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

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





## 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:

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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#11