

COMPANY RESULTS

Tencent Holdings (700 HK)

1Q24: Strong Earnings Beat; Game Revenue Misses Expectations; Stepping up Repurchase Plan

Tencent's 1Q24 results came in slightly below our expectation. Revenue grew 6.3% yoy to Rmb159.5b, in line with consensus estimate. Gross margin expanded 7ppt yoy to 52.6%, better than consensus forecast. Non-IFRS operating profit recovered to Rmb58.6b, while non-IFRS operating margin rose to 36.8%, better than our estimate. Non-IFRS net profit was elevated by 54.5% yoy, 17% above consensus estimate on a positive shift in revenue mix. Maintain BUY with a higher target price of HK\$454.00.

1Q24 RESULTS

Year to 31 Dec (Rmbm)	1Q23A	4Q23A	1Q24A	UOBKHE	qoq	yoy	Var	Cons	Var
Revenue	149,986	155,196	159,501	160,630	2.8%	6.3%	-0.7%	158,807	0.4%
Social networking	31,037	28,179	30,529	31,486	8.3%	-1.6%	-3.0%		
Online games	48,300	40,900	48,100	49,558	17.6%	-0.4%	-2.9%		
Online ads	20,964	29,794	26,506	24,260	-11.0%	26.4%	9.3%		
Fintech and Cloud	48,701	54,379	52,302	54,293	-3.8%	7.4%	-3.7%		
Others	984	1,944	2,064	1,033	6.2%	109.8%	99.8%		
Gross profit	68,182	77,564	83,870	78,826	8.1%	23.0%	6.4%	78,682	6.6%
Non-IFRS OP	45,019	49,134	58,619	54,116	19.3%	30.2%	8.3%		
Non-IFRS Net Profit	32,538	42,681	50,265	43,250	17.8%	54.5%	16.2%	42,998	16.9%
GPM	45.5%	50.0%	52.6%	49.1%	2.6 ppts	7.1 ppts	3.5 ppts	49.5%	3.0 ppts
Non-IFRS OPM	30.0%	31.7%	36.8%	33.7%	5.1 ppts	6.7 ppts	3.1 ppts		
Non-IFRS NPM	21.7%	27.5%	31.5%	26.9%	4.0 ppts	9.8 ppts	4.6 ppts	27.1%	4.4 ppts

Source: Tencent, UOB Kay Hian

RESULTS

- Lacklustre momentum in online games revenue.** Tencent Holdings' (Tencent) online games revenue growth came in at Rmb48b in 1Q24 (flat yoy, up 17.6% qoq), dampened by the 2% yoy decline in domestic games revenue with domestic gross receipts turning in a positive growth of 3% yoy. Meanwhile, international games (28% of game revenue) delivered revenue growth of 3% yoy (or stable yoy, excluding the impact of currency fluctuations), primarily supported by the resurgence in popularity of Supercell's games, particularly Brawl Stars, and PUBG Mobile, but partially offset by the lengthy revenue deferral cycle for Supercell's game. The weak domestic game revenue growth was due to revenue from Honour of Kings declining yoy against a high base due to weak monetisable content in 2H23. These declines were partially offset by contributions from VALORANT and Lost Ark, alongside robust growth from Fight of the Golden Spatula.
- Resilient growth trajectory in online ad revenue.** Online advertising revenue grew strongly by 26% yoy to Rmb26.5b, propelled by strong ad demand for video accounts and the continuous upgrade of its AI-powered advertising technology platform. The monetisation of WeCom and Tencent Meeting was heightened by leveraging on generative AI-powered functionalities. The internet services, games and consumer goods categories delivered demand growth in advertising, partially offset by the automobile category.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	554,552	609,015	668,128	739,526	826,735
EBITDA	188,554	181,239	230,882	237,369	268,694
Operating profit	150,622	168,218	217,261	223,148	253,873
Net profit (rep./act.)	103,159	115,642	168,261	179,878	200,847
Net profit (adj.)	30,565	158,114	196,982	209,459	233,916
EPS (Fen)	312.8	1,645.3	2,066.9	2,203.4	2,455.7
PE (x)	113.1	21.5	17.1	16.0	14.4
P/B (x)	4.7	4.1	3.3	2.9	2.5
EV/EBITDA (x)	17.6	18.3	14.4	14.0	12.4
Dividend yield (%)	0.4	1.0	1.4	1.5	1.7
Net margin (%)	18.6	19.0	25.2	24.3	24.3
Net debt/(cash) to equity (%)	2.6	3.1	(7.1)	(8.9)	(11.4)
Interest cover (x)	20.2	14.8	20.7	24.4	27.6
ROE (%)	13.5	15.1	18.5	16.6	16.3
Consensus net profit	-	-	184,976	210,264	234,330
UOBKH/Consensus (x)	-	-	1.06	1.00	1.00

Source: Tencent Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$381.80
Target Price	HK\$454.00
Upside	+18.9%
(Previous TP)	HK\$452.00)

COMPANY DESCRIPTION

The company is one of the largest comprehensive internet service providers.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	700 HK
Shares issued (m):	9,419.5
Market cap (HK\$m):	3,596,362.0
Market cap (US\$m):	460,381.5
3-mth avg daily t'over (US\$m):	880.4

Price Performance (%)

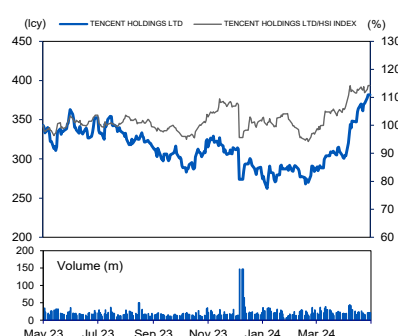
52-week high/low HK\$381.80/HK\$262.20

1mth	3mth	6mth	1yr	YTD
23.3	31.7	24.0	16.3	30.0

Major Shareholders

	%
Naspers	25.2
Ma Huateng	7.5
Vanguard Group Inc	3.1
FY24 NAV/Share (Rmb)	108.67
FY24 Net Cash/Share (Rmb)	7.73

PRICE CHART



Source: Bloomberg

ANALYST(S)

Julia Pan Meng Yao
+8621 5404 7225 ext 808
juliapan@uobkayhian.com

Soong Ming San
+603 21471912
mingsan@uobkayhian.com

STOCK IMPACT

- **FBS segment.** The fintech and business services' (FBS) segment delivered decelerated revenue growth of 7% yoy (1Q23: +14% yoy, 4Q23: +15%) to Rmb52.3b. Fintech revenue grew at by single digit yoy, mainly dragged by moderated growth in offline consumption spending and a decline in withdrawal fee revenue, but partially offset by robust growth in wealth management services. Business services revenue grew by teens yoy, underpinned by higher cloud services revenues and increased e-commerce technology service fees within video accounts.
- **Social network revenue inched down 2% yoy to Rmb30.5b.** This was due to lower revenue from music-related and games-related live streaming services, and partially mitigated by revenue growth from video accounts live streaming services and mini games platform service fees.
- **Margin expansion across the board.** Gross profit was Rmb83.9b, up 7.1% yoy with gross margin expanding 7ppt yoy to 45.5%. By segment, value-added services' (VAS) gross margin grew 3ppt yoy to 57.3%, driven by growth in subscription revenues, an increase in high-margin mini games platform service fees, and segment content cost. Online advertising gross margin was 54.8% vs 41.7% in 1Q23, resulting from resilient growth in video accounts and Weixin Search advertising revenues. FBS gross margin increased 11ppt yoy to 44.7%, attributed to increased contributions from the high-margin wealth management services and e-commerce technology service fees. Operating margin improved by 7ppt yoy to 36.8%, thanks to the optimisation of operating costs.
- **Continuous returns to shareholders.** During 1Q24, Tencent repurchased a total of 51,040,000 shares for an aggregate amount of HK\$14.8b (0.4% of market cap). Tencent stepped up its buyback plan and is on track to repurchase over HK\$100b of shares in 2024 (HK\$49b in 2023). Tencent proposed the increment of its annual dividend by 42% for the year to HK\$3.40/share (equivalent to HK\$32b).
- **Tencent will strategically focus on high quality growth by:** a) revitalising existing evergreen games such as international game Brawl Stars and the upcoming domestic game DnF. Supercell's games have experienced significant growth in both usage and revenue, with Brawl Stars achieving over a 100% yoy growth in daily active users and a more than 400% yoy surge in gross receipts internationally, and b) enhancing its adtech, enabling advertisers to establish campaigns more effectively, and making generative AI-powered advertising creation tools accessible to all advertisers.

EARNINGS REVISION/RISK

- We trim our 2Q24 revenue estimate by 1% but keep our 2024 revenue estimate largely unchanged. We model revenue growth of 9.4%/9.7% for 2Q24/2024 respectively. We also raise our non-IFRS net profit forecasts for 1Q24/2024 by 8%/5% respectively, implying a 30%/24% yoy growth with net margin of 30%/29%.
- **Risks:** Regulatory risks and slowing growth from game revenue.

VALUATION/RECOMMENDATION

- **We maintain BUY on Tencent with a higher target price of HK\$454.00 based on our 2024 SOTP valuation.** Our target price implies 20x 2024F PE. The company currently trades at 17x 2024F PE, 1SD below its historical mean of 26x.

SHARE PRICE CATALYST

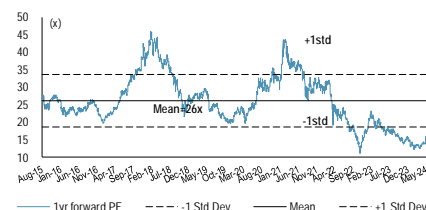
- a) Improving online advertising from Wechat video account, b) game licence approval, and c) collaboration with various internet platform operators on Tencent's WeChat ecosystem.

SOTP-BASED VALUATION

(Rmb m)	2024F revenue	2024F non-IFRS earnings	Valuation 2024 (x)	Value (LC bn)	Tencent holding (%)	Est. fair value to Tencent (RMB bn)	Fair value to Tencent (US\$ b)	Fair value/ share (HK\$)
Online game (PC + Mobile game)	190,118	65,318	18x PE	1,176	100	1,176	163	134
Social networking (QQ + Weixin VAS)	124,025	42,611	20x PE	852	100	852	118	97
Online ads (Portal + Video + Social ads)	120,772	38,348	20x PE	767	100	767	106	87
Payment	182,088	38,603	18x PE	695	100	695	96	79
Cloud	51,124		3x PS	153	100	153	21	17
Total EV	434,916	184,879	15x PE	2,795	100	2,795	321	414
Total (10% discount)						241.3	35.1	28.3
2024F cash per share (HK\$)								12
Target price (HK\$)								454

Source: UOB Kay Hian

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	609,015	668,128	739,526	826,735
EBITDA	181,239	230,882	237,369	268,694
Deprec. & amort.	13,021	13,621	14,221	14,821
EBIT	168,218	217,261	223,148	253,873
Associate contributions	5,800	2,186	0	6,917
Net interest income/(expense)	(12,268)	(11,128)	(9,732)	(9,732)
Pre-tax profit	161,750	208,319	213,416	251,059
Tax	(43,276)	(39,296)	(33,538)	(50,212)
Minorities	(2,832)	(762)	0	0
Net profit	115,642	168,261	179,878	200,847
Net profit (adj.)	158,114	196,982	209,459	233,916

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	87,279	114,053	143,789	177,253
Other LT assets	971,521	1,051,798	1,140,784	1,239,475
Cash/ST investment	172,320	269,483	300,286	346,964
Other current assets	346,126	188,225	207,494	229,569
Total assets	1,577,246	1,623,560	1,792,352	1,993,260
ST debt	41,537	41,537	41,537	41,537
Other current liabilities	310,620	151,743	182,501	227,084
LT debt	155,819	155,819	155,819	155,819
Other LT liabilities	195,589	195,589	195,589	195,589
Shareholders' equity	808,591	1,013,782	1,151,816	1,308,142
Minority interest	65,090	65,090	65,090	65,090
Total liabilities & equity	1,577,246	1,623,560	1,792,352	1,993,260

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	221,962	234,868	195,857	228,443
Pre-tax profit	161,750	208,319	213,416	251,059
Tax	(43,276)	(39,296)	(33,538)	(50,212)
Deprec. & amort.	13,021	13,621	14,221	14,821
Working capital changes	33,362	64,114	11,490	22,507
Other operating cashflows	57,105	(11,890)	(9,732)	(9,732)
Investing	(125,161)	(120,672)	(132,942)	(146,976)
Capex (growth)	(7,524)	(32,391)	(35,853)	(40,081)
Others	(117,637)	(88,281)	(97,090)	(106,895)
Financing	(82,573)	(17,033)	(32,112)	(34,789)
Dividend payments	(13,125)	(30,060)	(43,839)	(46,615)
Issue of shares	(13,488)	1,899	1,994	2,094
Proceeds from borrowings	12,268	11,128	9,732	9,732
Others/interest paid	(68,228)	0	0	0
Net cash inflow (outflow)	14,228	97,163	30,803	46,678
Beginning cash & cash equivalent	156,739	172,320	269,483	300,286
Changes due to forex impact	1,353	0	0	0
Ending cash & cash equivalent	172,320	269,483	300,286	346,964

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	29.8	34.6	32.1	32.5
Pre-tax margin	26.6	31.2	28.9	30.4
Net margin	19.0	25.2	24.3	24.3
ROA	7.3	10.5	10.5	10.6
ROE	15.1	18.5	16.6	16.3
Growth				
Turnover	9.8	9.7	10.7	11.8
EBITDA	(3.9)	27.4	2.8	13.2
Pre-tax profit	29.3	28.8	2.4	17.6
Net profit	12.1	45.5	6.9	11.7
Net profit (adj.)	417.3	24.6	6.3	11.7
EPS	426.0	25.6	6.6	11.5
Leverage				
Debt to total capital	18.4	15.5	14.0	12.6
Debt to equity	24.4	19.5	17.1	15.1
Net debt/(cash) to equity	3.1	(7.1)	(8.9)	(11.4)
Interest cover (x)	14.8	20.7	24.4	27.6

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W