

COMPANY RESULTS

Tencent Holdings (700 HK)

4Q24: Stable Capex And Margin Outlook In 2025 Amid Hunyuan LLM Reiteration

Tencent's 4Q24 results are largely within expectations. Revenue grew 11% yoy to Rmb172.4b, in line with consensus estimates. Gross margin expanded 3ppt yoy to 52.6%, in line with consensus forecasts. Non-IFRS operating profit grew 21% yoy to Rmb59.5b, while non-IFRS operating margin shrank 3ppt yoy to 34.5% on a positive shift in the revenue mix. Non-IFRS diluted EPS surged 33% yoy, beating consensus estimates by 8%. Maintain BUY with a higher target price of HK\$645.00.

4Q24 RESULTS

Year to 31 Dec (Rmbm)	4Q23	3Q24	4Q24	UOBKHE	QoQ	YoY	Var	Cons	Var
Revenue	155,196	167,193	172,446	171,916	3.1%	11.1%	0.3%	168,740	2.2%
Social networking	28,179	30,895	29,822	29,856	-3.5%	5.8%	-0.1%		
Online games	40,900	51,800	49,200	48,951	-5.0%	20.3%	0.5%		
Marketing Services	29,794	29,993	35,004	34,478	16.7%	17.5%	1.5%		
Fintech and Cloud	54,379	53,089	56,125	56,201	5.7%	3.2%	-0.1%		
Gross profit	77,564	88,828	90,653	92,016	2.1%	16.9%	-1.5%	89,922	0.8%
Non-IFRS OP	49,135	61,274	59,475	61,533	-2.9%	21.0%	-3.3%		
Non-IFRS Net Profit	42,681	59,813	55,312	55,439	-7.5%	29.6%	-0.2%	53,284	3.8%
Non-IFRS diluted EPS (Rmb)	4.44	6.34	5.91	5.94	-6.8%	33.0%	-0.5%	5.47	8.0%
GPM	50.0%	53.1%	52.6%	53.5%	-0.6 ppts	2.6 ppts	-1.0 ppts	53.3%	-0.7 ppts
Non-IFRS OPM	31.7%	36.6%	34.5%	35.8%	-2.2 ppts	2.8 ppts	-1.3 ppts		
Non-IFRS NPM	27.5%	35.8%	32.1%	32.2%	-3.7 ppts	4.6 ppts	-0.2 ppts	31.6%	0.5 ppts

Source: Tencent, UOB Kay Hian

RESULTS

- **Domestic games revenue growth re-accelerates.** Tencent Holdings' (Tencent) online games revenue growth grew 20.3% yoy to Rmb49.2b in 4Q24 (3Q24: 12.6% yoy; 2Q24: 9% yoy), bolstered by revitalised domestic games revenue growth of 23% yoy. Meanwhile, international games (32.5% of game revenue) delivered stable revenue growth of 15% yoy, spurred by strong momentum from Brawl Stars and PUBG Mobile, alongside the early access release of Path of Exile 2. The accelerated domestic game revenue growth of 23% yoy was attributed to: a) a low base in 4Q23, b) growth in revenue from major games such as Honour of Kings, Peacekeeper Elite and VALORANT, and c) contributions from recently released games DnF Mobile and Delta Force. Deferred revenue ramped up 16% yoy to Rmb100.1b in 4Q24, implying a promising 2025 momentum.
- **Revenue growth of marketing services remained intact.** Marketing services revenue growth remain resilient at 17% yoy to Rmb35b, mainly fuelled by robust advertiser demand for Video Accounts, Mini Programs and Weixin Search inventories. Advertising spending rose across most major categories in 4Q24.
- **Promising outlook for shareholders' return.** For 2025, Tencent has proposed to increase annual dividend by 32% to HK\$4.50 per share, with an aggregate of HK\$41b, implying a dividend yield of 0.8%. Meanwhile, Tencent intends to repurchase at least HK\$80b (1.6% of market cap) in 2025.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2023	2024	2025F	2026F	2027F
Net turnover	609,015	660,257	720,448	773,713	831,658
EBITDA	176,654	221,456	252,695	291,503	320,020
Operating profit	163,633	208,099	238,738	276,946	304,863
Net profit (rep./act.)	111,057	173,882	199,919	229,301	257,056
Net profit (adj.)	153,529	202,512	228,737	260,250	290,322
EPS (Fen)	1,588.8	2,137.8	2,420.7	2,761.1	3,074.0
PE (x)	31.6	23.5	20.8	18.2	16.3
P/B (x)	5.9	4.8	3.9	3.4	2.9
EV/EBITDA (x)	26.0	20.8	18.2	15.8	14.4
Dividend yield (%)	0.7	1.0	1.0	1.2	1.3
Net margin (%)	18.2	26.3	27.7	29.6	30.9
Net debt/(cash) to equity (%)	3.1	(13.3)	(7.8)	(5.1)	(4.8)
Interest cover (x)	14.4	18.5	23.7	31.1	34.2
ROE (%)	14.5	19.5	18.5	17.9	17.3
Consensus net profit	-	-	207,781.6	233,349.9	255,311.0
UOBKH/Consensus (x)	-	-	1.02	0.96	0.98

Source: Tencent Holdings Limited, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$540.00
Target Price	HK\$645.00
Upside	19.4%
(Previous TP:	HK\$608.00)

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):	9,178.8
Market cap (HK\$m):	4,956,564.2
Market cap (US\$m):	637,902.2
3-mth avg daily t'over (US\$m):	2,241.1

Price Performance (%)

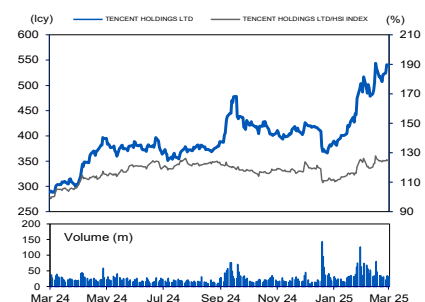
52-week high/low HK\$547/HK\$282.4

1mth	3mth	6mth	1yr	YTD
13.7	34.1	42.9	86.3	29.5

Major Shareholders

	%
Naspers	24.1
Ma Huateng	7.7
Vanguard Group Inc	3.1
FY25 NAV/Share (Rmb)	128.42
FY25 Net Cash/Share (Rmb)	10.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- FBS and social network segment.** The fintech and business services' (FBS) segment revenue growth remain modest at 3% yoy (3Q24: +2%) to Rmb56.1b. Revenue of fintech services revenue growth reflected higher revenues from wealth management services and consumer loan services, while commercial payment services revenue was broadly stable yoy. Business services delivered positive yoy growth, bolstered by growth in WeCom revenue and e-commerce technology service fees. Social network revenue growth recovered further to 5.8% yoy to Rmb29.8b, supported by growth in app-based game virtual item sales, music subscription revenues and Mini Games platform service fees.
- Margin expansion remains solid.** Gross profit was Rmb90.7b, up 2.6% yoy with gross margin expanding 3ppt yoy to 52.6%. By segment, value-added services' (VAS) gross margin grew 2ppt yoy to 55.9%, fuelled by heightened revenues from both domestic and international games. Marketing services gross margin was 57.7% vs 56.8% in 4Q23, as a result of revenue growth from Video Accounts, Mini Programs and Weixin Search. FBS gross margin rose 3ppt yoy to 45%, attributed to improved cost efficiency in the cloud services business. Operating margin improved 3ppt yoy to 34.5%.
- Revitalisation of evergreen games; solid game pipeline.** Several evergreen games experienced strong DAU growth and increased monetisation in 4Q24, driven by IP collaborations and high-profile events. Tencent is actively cultivating new evergreen titles to sustain long-term growth. This includes the recently launched Delta Force, which generated over Rmb1b in gross receipts from PC and mobile in China in 4Q24. Meanwhile, Tencent's upcoming game pipeline includes highly anticipated titles, such as The Hidden Ones, Light of Motoram, Goddess of Victory, New Hope, and VALORANT Mobile.
- Expecting AI-related capex to exert limited margin pressure.** In 4Q24, Tencent spent capex of Rmb36.6b (21% of revenue), while Alibaba spent Rmb31.8b (11% of revenue). In 2024, Tencent tripled its annual capex to Rmb76.8b (9% of revenue), driven by further GPU acquisitions for inference needs and cloud services. Looking ahead to 2025, Tencent plans to further increase capex, with expenditures expected to remain in the low teens of revenue. Meanwhile, Tencent purchased NVIDIA H20 chips worth several billion renminbi, primarily to support WeChat's integration with DeepSeek.

EARNINGS REVISION/RISK

- We raise our 1Q25/2025 revenue estimates by 1%/1%, representing 9%/9% yoy revenue growth, respectively.** We raise our non-IFRS net profit forecasts for 1Q25/2025 by 1%/1% respectively, implying an 18%/3% yoy growth and net margin of 34%/32% as Tencent has guided for a steady state of capex even after factoring in AI-related investments in 2025.
- Risks:** Regulatory risks and slowing growth from game revenue.

VALUATION/RECOMMENDATION

- We maintain BUY on Tencent with a higher target price of HK\$645.00 based on our 2025F SOTP valuation.** Our target price implies 24.5x 2025F PE. The company currently trades at 21x 2025F PE, below its historical mean of 25.3x.

SHARE PRICE CATALYST

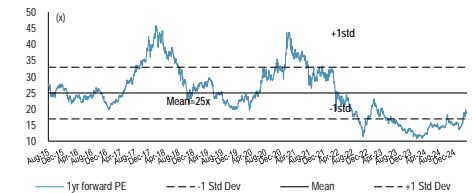
- a) Improving online advertising from Wechat video accounts, b) game licence approval, and c) collaboration with various internet platform operators on Tencent's WeChat ecosystem.**

SOTP-BASED VALUATION

(Rmb m)	2025F revenue	2025F non-GAAP earnings	Valuation 2025 (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)	221,761	79,883	20x PE	1,598	100	1,598	220	184
Social networking (QQ + Weixin VAS)	128,654	46,344	22x PE	1,020	100	1,020	140	117
Online ads (Portal + Video + Social ads)	141,183	46,620	22x PE	1,026	100	1,026	141	118
Payment	172,708	43,177	18x PE	777	100	777	107	89
Cloud	56,142		5x PS	281	100	281	39	32
Total EV	491,598	216,023	17x PE	3,643	100	3,643	389	541
Total (10% discount)						741.8	103.8	83.3
2025F cash per share (HK\$)								21
Target price (HK\$)								645

Source: UOB Kay Hian

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2024	2025F	2026F	2027F
Net turnover	660,257.0	720,447.5	773,712.8	831,658.0
EBITDA	221,456.0	252,695.4	291,502.7	320,020.4
Deprec. & amort.	13,357.0	13,957.0	14,557.0	15,157.0
EBIT	208,099.0	238,738.4	276,945.7	304,863.4
Total other non-operating income	0.0	0.0	0.0	(0.0)
Associate contributions	25,176.0	10,000.0	12,000.0	6,917.0
Net interest income/(expense)	(11,981.0)	(10,681.0)	(9,361.7)	(9,361.7)
Pre-tax profit	221,294.0	238,057.4	279,584.0	302,418.8
Tax	(45,018.0)	(38,138.1)	(50,282.7)	(45,362.8)
Minorities	(2,394.0)	0.0	0.0	0.0
Net profit	173,882.0	199,919.3	229,301.3	257,055.9
Net profit (adj.)	202,512.0	228,737.2	260,249.8	290,322.3

CASH FLOW

Year to 31 Dec (Rmbm)	2024	2025F	2026F	2027F
Operating	258,521.0	391,194.4	236,061.4	281,626.6
Profit for the year	221,294.0	238,057.4	279,584.0	302,418.8
Tax	(45,018.0)	(38,138.1)	(50,282.7)	(45,362.8)
Deprec. & amort.	13,357.0	13,957.0	14,557.0	15,157.0
Associates	(25,176.0)	(10,000.0)	(12,000.0)	(6,917.0)
Working capital changes	22,379.0	187,999.1	1,564.8	18,775.4
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	71,685.0	(681.0)	2,638.3	(2,444.7)
Investing	(122,187.0)	(200,342.8)	(225,639.3)	(237,246.9)
Capex (growth)	(76,760.0)	(93,658.2)	(108,319.8)	(108,115.5)
Investment	0.0	0.0	0.0	0.0
Others	(45,427.0)	(106,684.6)	(117,319.5)	(129,131.3)
Financing	(176,494.0)	(30,740.4)	(33,132.7)	(39,185.6)
Dividend payments	(30,225.9)	(43,575.4)	(44,756.1)	(50,922.0)
Proceeds from borrowings	11,981.0	10,681.0	9,361.7	9,361.7
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(158,249.1)	2,154.0	2,261.6	2,374.7
Net cash inflow (outflow)	(40,160.0)	160,111.2	(22,710.7)	5,194.2
Beginning cash & cash equivalent	172,320.0	132,519.0	292,630.2	269,919.6
Changes due to forex impact	359.0	0.0	0.0	0.0
Ending cash & cash equivalent	132,519.0	292,630.2	269,919.6	275,113.8

BALANCE SHEET

Year to 31 Dec (Rmbm)	2024	2025F	2026F	2027F
Fixed assets	110,166.0	197,513.2	299,022.0	399,826.5
Other LT assets	1,174,649.0	1,273,687.7	1,383,261.4	1,504,546.8
Cash/ST investment	328,830.0	292,630.2	269,919.6	275,113.8
Other current assets	167,350.0	233,026.7	253,644.1	276,231.4
Total assets	1,780,995.0	1,996,857.8	2,205,847.0	2,455,718.6
ST debt	52,885.0	52,885.0	52,885.0	52,885.0
Other current liabilities	344,024.0	342,808.8	364,991.0	406,353.8
LT debt	146,521.0	146,521.0	146,521.0	146,521.0
Other LT liabilities	183,669.0	183,669.0	183,669.0	183,669.0
Shareholders' equity	973,548.0	1,190,625.9	1,377,432.7	1,585,941.4
Minority interest	80,348.0	80,348.0	80,348.0	80,348.0
Total liabilities & equity	1,780,995.0	1,996,857.7	2,205,846.7	2,455,718.2

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	33.5	35.1	37.7	38.5
Pre-tax margin	33.5	33.0	36.1	36.4
Net margin	26.3	27.7	29.6	30.9
ROA	10.4	10.6	10.9	11.0
ROE	19.5	18.5	17.9	17.3
Growth				
Turnover	8.4	9.1	7.4	7.5
EBITDA	25.4	14.1	15.4	9.8
Pre-tax profit	40.8	7.6	17.4	8.2
Net profit	56.6	15.0	14.7	12.1
Net profit (adj.)	31.9	12.9	13.8	11.6
EPS	34.6	13.2	14.1	11.3
Leverage				
Debt to total capital	15.9	13.6	12.0	10.7
Debt to equity	20.5	16.7	14.5	12.6
Net debt/(cash) to equity	(13.3)	(7.8)	(5.1)	(4.8)
Interest cover (x)	18.5	23.7	31.1	34.2

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