

COMPANY UPDATE

Tencent Holdings (700 HK)

4Q24 Results Preview: To-C AI Application Tailwinds Will Be The New Growth Multiplier

Weixin has launched a new AI search function integrated with DeepSeek. We believe AI adoption will serve as a growth multiplier in innovative gameplay, AI agent development, advertising data analytics, and ad monetisation within Mini Programs and Mini Shops. Tencent's 4Q24 results will be released on 19 Mar 25. We forecast a 4Q24 revenue growth of 11% yoy, driven by resilient game grossing and online ad revenue growth. Maintain BUY with a higher target price of HK\$608.00.

WHAT'S NEW

- **Integration of DeepSeek into its Weixin super app.** Leveraging Tencent's proprietary Hunyuan model and DeepSeek, Weixin is well-positioned to introduce consumer-facing (to-C) AI agent applications. This move comes after Tencent Cloud AI Code Assistant and the Yuanbao App integrated DeepSeek R1, reflecting Tencent's accelerated AI strategic implementation. Compared with standalone AI chatbots, Weixin's integration of its vast content ecosystem, including social instant messaging, short-form video, public accounts, media content, and closed-loop transaction capabilities (Mini-Programs and MiniShops that facilitate in-app transactions), provides a strong foundation for a highly functional AI assistant.
- **Unlocking monetisation potential for online marketing, bolstered by incremental user interactions.** With Weixin handling 600m daily searches, the integration of DeepSeek into Weixin search is expected to enhance user engagement while strategically maintaining minimal impact on existing advertising revenue streams. AI-powered search provides new momentum for advertising by enabling DeepSeek to analyse and optimise targeted ad placements. In pilot AI search advertising scenarios, click-through rates rose by 50%, while conversion rates improved by 30%. This will thus lead to increased online ad monetisation opportunities. We estimate online marketing revenue to grow at a solid 15% yoy to Rmb34b in 4Q24.
- **Online gaming: Enhanced efficiency in innovative gameplay.** During the Chinese New Year, online gaming revenue edged up by 3% yoy, outperforming 4Q24 levels, with Tencent continuing to expand its market share and delivered 11% yoy growth, propelled by the strong performance of its evergreen titles, including Honor of Kings, Peacekeeper Elite, Golden Spatula, and CrossFire. Tencent's market share expanded 4ppt yoy during 2025's Chinese New Year. We forecast Tencent's online gaming revenue to grow 19.7% yoy to Rmb49b in 4Q24. Deferred revenue ramped up 24% yoy to Rmb106.6b in 3Q24, reflecting a promising 4Q24 and 1Q25 momentum. We forecast mobile game revenue to grow at 13% and total game revenue to grow at 10.5% yoy in 2025.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	554,552	609,015	659,727	713,571	764,932
EBITDA	188,554	176,654	225,495	251,150	289,375
Operating profit	150,622	163,633	211,874	236,929	274,554
Net profit (rep./act.)	103,159	111,057	172,551	197,402	226,536
Net profit (adj.)	30,565	153,529	203,473	225,945	257,133
EPS (Fen)	312.8	1,597.6	2,150.0	2,393.5	2,730.7
PE (x)	148.8	29.1	21.7	19.4	17.0
P/B (x)	6.2	5.4	4.2	3.7	3.2
EV/EBITDA (x)	22.6	24.1	18.9	16.9	14.7
Dividend yield (%)	0.3	0.7	1.1	1.2	1.4
Net margin (%)	18.6	18.2	26.2	27.7	29.6
Net debt/(cash) to equity (%)	2.6	3.1	(8.0)	(11.5)	(13.7)
ROE (%)	13.5	14.5	18.9	18.0	17.9
Consensus net profit	-	-	188,615.4	208,200.6	233,873.6
UOBKH/Consensus (x)	-	-	0.93	0.94	0.97

Source: Tencent Holdings Limited, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$486.80
Target Price	HK\$608.00
Upside	+24.9%
(Previous TP)	HK\$551.00)

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):	4,560,038.9
Market cap (US\$m):	586,583.2
3-mth avg daily t'over (US\$m):	1,630.4

Price Performance (%)

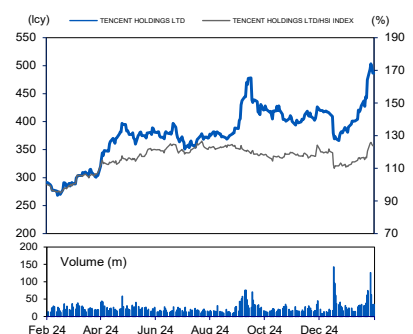
52-week high/low HK\$513.00/HK\$265.80

1mth	3mth	6mth	1yr	YTD
30.8	22.3	33.3	74.4	19.1

Major Shareholders

	%
Naspers	24.1
Ma Huateng	7.7
Vanguard Group Inc	3.0
FY24 NAV/Share (Rmb)	109.90
FY24 Net Cash/Share (Rmb)	8.81

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Sensitivity analysis in the case of DeepSeek AI integration.** Driven by the improving AI adoption and upgrade, Tencent is likely to benefit from both revenue improving in AI ads and cloud businesses as well as cost savings in gaming R&D. With AI integration, we assume AI will boost online ad + cloud revenue growth to 16-25% yoy from the current 15%, and also cause R&D expenses to drop 10-25% yoy. As such, 2025 EPS is projected to increase 6-17% compared with our base forecast EPS. We assign a 23x 2025F PE in our base scenario analysis and a 26x multiple in a sky-high scenario, which translates to a target price of HK\$631.00-758.00.
- **Potential integration into diverse user scenarios fuelling Weixin ecosystem.** Mini Programs' gross merchandise value (GMV) grew at a high teens yoy to over Rmb2t in 3Q24, driven by the company's strategic upgrade and better coverage for use cases such as food ordering, electric vehicle charging and medical services. With this, we opine Weixin's AI assistant could eventually be used for a wide range of scenarios, from ordering food and managing bookings to executing highly personalised shopping experiences, leveraging deep user insights to offer tailored recommendations. Coupled with Weixin Pay's embedded payment infrastructure, such an AI-powered assistant has the potential to drive greater user engagement and transaction efficiency within the Weixin ecosystem.
- **Tencent Cloud: DeepSeek model integration enhances Tencent's enterprise (to-B) opportunities** in its cloud hyperscaler business. We anticipate AI computing to be a key driver of Tencent's Business Services and cloud revenue growth. On 2 February, Tencent Cloud announced the one-click deployment of DeepSeek-R1 on its Hyper Application Inventor (HAI) platform, enabling developers to integrate the model in just three minutes. The HAI platform eliminates the need for purchasing GPUs, installing drivers, setting up networks, configuring storage, installing environments, frameworks, or downloading models —allowing developers to access DeepSeek-R1 with just two simple steps. On 4 February, Tencent Cloud announced on its official WeChat account that its Tencent Intelligence (TI) platform now offers a "Developer Bundle" for DeepSeek models, featuring one-click deployment and limited-time free trials. With this, we project cloud revenue to grow 8% yoy to Rmb13.2b in 4Q24 and remain at a steady 8% yoy growth in 2025, accounting for 6% of total revenue.

EARNINGS REVISION/RISK

- We keep our 4Q24/2025 revenue estimates largely unchanged at 11%/8% yoy growth, respectively. We keep our non-IFRS net profit forecasts for 4Q24/2025 largely unchanged, with a 30%/11% yoy growth and net margin of 31%/32% respectively.
- **Risks:** Regulatory risks and slowing growth from game revenue.

VALUATION/RECOMMENDATION

- **Maintain BUY on Tencent with a higher target price of HK\$608.00 which implies 23x 2025F PE.** We assign 22x 2025F PE to social networking, 22x 2025F PE to online advertising from the previous 18x-20x and 4x 2025F PS to the Tencent Cloud segment from 3x PS, as Tencent is well-positioned to introduce consumer-facing AI agent applications. Tencent is currently trading at 19x 2025F PE, below its historical mean of 26x.

SHARE PRICE CATALYST

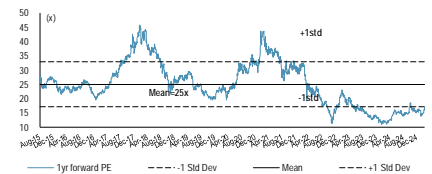
- a) Improving online advertising from Wechat video account, b) game licence approval, and c) collaboration with various internet platform operators on Tencent's WeChat ecosystem.

SOTP VALUATION

(Rmb m)	2025F revenue	2025F non-GAAP earnings	2025E non-GAAP earnings CAGR	Valuation 2025 (x)	Value (LC bn)	Est. fair value to Tencent (RMB bn)	Fair value to Tencent (US\$ b)	Fair value/ share (HK\$)
Online game (PC + Mobile game)	218,023	78,400	17%	18x PE	1,411	1,411	194	162
Social networking (QQ + Weixin VAS)	128,460	46,194	12%	22x PE	1,016	1,016	140	117
Online ads (Portal + Video + Social ads)	139,127	45,833	40%	22x PE	1,008	1,008	139	116
Payment	172,785	40,432		18x PE	728	728	100	84
Cloud	55,176			4x PS	221	221	30	25
Total EV	485,610	210,858	12%	16x PE	3,436	3,436	379	505
Total (10% discount)						742	104	83
2025F cash per share (HK\$)								20
Target price (HK\$)								608

Source: Tencent, UOB Kay Hian

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

SCENARIO ANALYSIS

EPS (cents) 2025F		Ad + Cloud Revenue Growth in 2025 (%YoY)			
R&D Expenses Decline (%YoY)		16%	19%	22%	25%
	-10%	25.3	25.8	26.3	26.8
	-15%	25.7	26.2	26.7	27.2
	-20%	26.1	26.6	27.1	27.6
	-25%	26.5	27.0	27.5	28.0
% impact to EPS		Ad + Cloud Revenue Growth in 2025 (%YoY)			
R&D Expenses Decline (%YoY)		16%	19%	22%	25%
	-10%	6%	8%	10%	12%
	-15%	7%	9%	12%	14%
	-20%	9%	11%	13%	15%
	-25%	11%	13%	15%	17%
PE (x)		23	24	25	26
TP (HK\$)		631	672	714	758
Upside (%)		28%	36%	45%	53%

Source: Tencent, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	609,015.0	659,727.2	713,571.3	764,932.4
EBITDA	176,654.0	225,495.0	251,150.1	289,375.1
Deprec. & amort.	13,021.0	13,621.0	14,221.0	14,821.0
EBIT	163,633.0	211,874.0	236,929.1	274,554.1
Total other non-operating income	0.0	0.0	(0.0)	(0.0)
Associate contributions	5,800.0	17,923.0	10,000.0	12,000.0
Net interest income/(expense)	(12,268.0)	(13,082.9)	(11,782.9)	(10,243.2)
Pre-tax profit	157,165.0	216,714.1	235,146.3	276,310.9
Tax	(43,276.0)	(41,912.2)	(37,744.3)	(49,774.9)
Minorities	(2,832.0)	(2,251.0)	0.0	0.0
Net profit	111,057.0	172,550.9	197,402.0	226,536.1
Net profit (adj.)	153,529.0	203,472.5	225,944.8	257,133.4

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	87,279.0	113,646.0	142,123.4	172,590.8
Other LT assets	971,521.0	1,051,798.1	1,140,783.7	1,239,474.6
LT debt	172,320.0	278,948.9	332,763.6	382,269.9
Cash/ST investment	346,126.0	187,372.5	204,858.3	223,294.0
Other current assets	1,577,246.0	1,631,765.5	1,820,529.0	2,017,629.2
Total assets	41,537.0	41,537.0	41,537.0	41,537.0
ST debt	310,620.0	155,659.2	188,559.2	205,370.0
Other current liabilities	155,819.0	155,819.0	155,819.0	155,819.0
Other LT liabilities	195,589.0	195,589.0	195,589.0	195,589.0
Shareholders' equity	808,591.0	1,018,071.3	1,173,934.8	1,354,224.2
Minority interest	65,090.0	65,090.0	65,090.0	65,090.0
Total liabilities & equity	1,577,246.0	1,631,765.5	1,820,529.0	2,017,629.2

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	221,962.0	241,971.7	215,254.3	229,489.1
Profit for the year	157,165.0	216,714.1	235,146.3	276,310.9
Tax	(43,276.0)	(41,912.2)	(37,744.3)	(49,774.9)
Deprec. & amort.	13,021.0	13,621.0	14,221.0	14,821.0
Associates	(5,800.0)	(17,923.0)	(10,000.0)	(12,000.0)
Working capital changes	33,362.0	68,882.7	15,414.2	(1,624.8)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	67,490.0	2,589.1	(1,782.9)	1,756.8
Investing	(125,161.0)	(120,265.1)	(131,683.9)	(143,979.3)
Capex (growth)	(7,524.0)	(31,984.0)	(34,594.4)	(37,084.4)
Investment	0.0	0.0	0.0	0.0
Others	(117,637.0)	(88,281.1)	(97,089.6)	(106,894.9)
Financing	(82,573.0)	(15,077.8)	(29,755.6)	(36,003.5)
Dividend payments	(13,124.6)	(30,060.1)	(43,532.9)	(48,340.8)
Proceeds from borrowings	12,268.0	13,082.9	11,782.9	10,243.2
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(81,716.4)	1,899.5	1,994.4	2,094.1
Net cash inflow (outflow)	14,228.0	106,628.9	53,814.7	49,506.3
Beginning cash & cash equivalent	156,739.0	172,320.0	278,948.9	332,763.6
Changes due to forex impact	1,353.0	0.0	0.0	0.0
Ending cash & cash equivalent	172,320.0	278,948.9	332,763.6	382,269.9

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	29.0	34.2	35.2	37.8
Pre-tax margin	25.8	32.8	33.0	36.1
Net margin	18.2	26.2	27.7	29.6
ROA	7.0	10.8	11.4	11.8
ROE	14.5	18.9	18.0	17.9
Growth				
Turnover	9.8	8.3	8.2	7.2
EBITDA	(6.3)	27.6	11.4	15.2
Pre-tax profit	25.6	37.9	8.5	17.5
Net profit	7.7	55.4	14.4	14.8
Net profit (adj.)	402.3	32.5	11.0	13.8
EPS	410.8	34.6	11.3	14.1
Leverage				
Debt to total capital	18.4	15.4	13.7	12.2
Debt to equity	24.4	19.4	16.8	14.6
Net debt/(cash) to equity	3.1	(8.0)	(11.5)	(13.7)

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