

## COMPANY RESULTS

### Tencent Holdings (700 HK)

4Q22: Ample Monetisation Opportunities From Video Accounts And Development Of AI Capabilities

Tencent's 4Q22 results are largely in line with our expectations. Revenue was flattish yoy at Rmb145b, in line with our and consensus estimates. Gross margin expanded 2.6ppt yoy, reported at 42.6%, in line with consensus expectation. Non-GAAP operating profit was Rmb39.4b, growing 19% yoy, and non-GAAP OPM came in at 27.2%, better than our estimate. Non-IFRS net profit increased by 19.4% yoy to Rmb29.7b, 2.2% and 3.7% below our and consensus estimates respectively, given optimised resource allocation. Maintain BUY. Target price: HK\$435.00.

#### 4Q22 RESULTS

Year to 31 Dec (Rmbm)	4Q21A	3Q22A	4Q22A	UOBKHE	QoQ	YoY	Var	Cons	Var
Revenue	144,188	140,093	144,954	146,650	3.5%	0.5%	-1.2%	144,500	0.3%
Social networking	29,113	27,827	28,617	29,304	2.8%	-1.7%	-2.3%		
Online games	42,800	44,900	41,800	42,451	-6.9%	-2.3%	-1.5%		
Online ads	21,518	21,443	24,660	21,423	15.0%	14.6%	15.1%		
Fintech and Cloud and others	50,757	45,923	49,877	53,471	8.6%	-1.7%	-6.7%		
Gross profit	57,817	61,983	61,822	64,516	-0.3%	6.9%	-4.2%	62,106	-0.5%
Non-GAAP Operating profit	33,151	40,897	39,412	35,825	-3.6%	18.9%	10.0%		
Net income	94,958	39,943	106,268	23,061	166.0%	11.9%		27,589	285.2%
Non-GAAP net income	24,880	32,254	29,711	30,394	-7.9%	19.4%	-2.2%	30,842	-3.7%
GPM	40.1%	44.2%	42.6%	44.0%	-1.6 ppts	2.6 ppts	-1.3 ppts	43.0%	-0.3 ppts
Non-GAAP OPM	23.0%	29.2%	27.2%	24.4%	-2.0 ppts	4.2 ppts	2.8 ppts		
Non-GAAP NPM	17.3%	23.0%	20.5%	20.7%	-2.5 ppts	3.2 ppts	-0.2 ppts	21.3%	-0.8 ppts

Source: Tencent, UOB Kay Hian

#### RESULTS

- Better international recovery offsetting decline in domestic game revenue.** Tencent Holdings' (Tencent) online games revenue growth came in at Rmb41.8b in 4Q22, -2.3% yoy/-6.9% qo. Domestic game revenue declined 6% yoy to Rmb27.9b due to lower deferred revenue receipts yoy as well as fewer new game releases. International games (33% of game revenue) edged up 5% yoy to Rmb13.9b, (or up 11% yoy, excluding the impact from Supercell-related true-up adjustment made in 4Q21), primarily bolstered by yoy growth in Valorant's MAU/gross and successful release of NIKKE: Goddess of Victory (first month grossing topping US\$100m). For domestic games, the company saw an increase in revenue from League of Legends and Wild Rift as well as Fight of the Golden Spatula, but a drop in Honour of Kings (HoK) and Peacekeeper Elite which resulted from minor protection measures. However, HoK achieved record-high gross receipts during the Chinese New Year holiday in 2023, according to the company. Non-GAAP net margin grew 3.2ppt yoy to 20.5%, in line with the street's estimate.
- FBS segment.** The FinTech and business services' (FBS) revenue inched down 1% yoy, (4Q21: +25% yoy; 3Q22: 4%) to Rmb47.2b. Revenue from the cloud continues to decline yoy, resulted from Tencent proactively scaling back loss-making businesses.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	560,118	554,552	621,181	690,724	796,193
EBITDA	324,617	272,470	183,732	212,801	261,487
Operating profit	271,620	235,706	146,368	174,837	222,923
Net profit (rep./act.)	224,822	188,243	118,638	142,172	173,367
Net profit (adj.)	123,788	115,649	143,485	169,801	205,214
EPS (Fen)	1,269.8	1,183.5	1,468.3	1,737.6	2,095.8
PE (x)	24.0	25.7	20.7	17.5	14.5
P/B (x)	3.6	4.0	3.3	2.8	2.5
EV/EBITDA (x)	9.2	10.9	16.2	14.0	11.4
Dividend yield (%)	0.5	0.5	0.6	0.7	0.9
Net margin (%)	40.1	33.9	19.1	20.6	21.8
Net debt/(cash) to equity (%)	(12.2)	2.6	0.8	(6.3)	(14.7)
Interest cover (x)	45.6	29.1	21.8	28.1	34.5
ROE (%)	29.8	24.6	14.7	14.9	15.8
Consensus net profit	-	-	141,127	164,524	200,910
UOBKH/Consensus (x)	-	-	1.02	1.03	1.02

Source: Tencent Holdings, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$347.20
Target Price	HK\$435.00
Upside	+25.3%

#### COMPANY DESCRIPTION

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

#### STOCK DATA

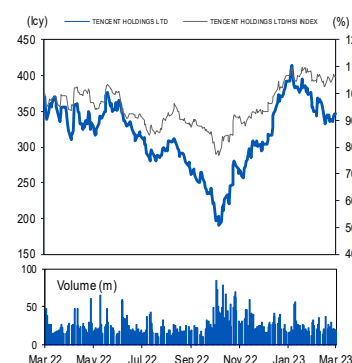
GICS sector	Communication Services
Bloomberg ticker:	700 HK
Shares issued (m):	9,568.1
Market cap (HK\$m):	3,322,036.7
Market cap (US\$m):	423,302.6
3-mth avg daily t'over (US\$m):	1,138.3
Price Performance (%)	

52-week high/low HK\$415.00/HK\$190.72

1mth	3mth	6mth	1yr	YTD
(2.5)	12.9	29.2	(5.8)	9.4

Major Shareholders	%
Naspers	27.1
Ma Huateng	7.4
BlackRock Inc	2.2
FY23 NAV/Share (Rmb)	93.47
FY23 Net Debt/Share (Rmb)	0.74

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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

### STOCK IMPACT

- Online ad revenue growth better than expectation.** Online advertising revenue saw accelerated growth of 15% and came in at Rmb24.7b, reversing the yoy decline trend since 4Q21, driven by incremental ad inventory from its video accounts (whose user time spent tripled yoy) and mini-programme ads (time spent doubled yoy), as well as the strengthened the transaction-driven advertising, with click-to-message and click-to-purchase advertisements accounting for over one-third of Weixin's ad revenue in 4Q22. Social and others advertising revenue ramped up by 17% yoy to Rmb21.4b, while media advertising revenue increased 3% yoy to Rmb3.3b, turning positive from -26% in 3Q22, which reflects increased monetisation for ad-supported music content.
- For ChatGPT and AI.** AI as the growth multiplier is anchored by the continuous advancement of the foundation model HunYuan. Tencent's businesses benefit from the recent industry breakthrough in foundation models and consequently in generative AI applications. HunYuan also helps Tencent in introducing users to machine services like Digital Assistants and Search. Tencent's strategy involves a gradual implementation of back-end models and introduction of front-end use scenarios. The extensive and diverse data accumulated through Tencent's businesses also provides a strong foundation for its model training process. The company believes this technology needs heavy investment. It is confident in its data capacity and strong cloud computing infrastructure, as well as its long history of building AI applications to supplement its existing businesses. It also has the required amount of chips to create the model. The chatbot is one of the many applications that will be launched going forward.
- Significant progress in strategy implementation.** Tencent's high-growth potential is anchored by multiple drivers including: a) expanding opportunities in advertising, fintech, services and games bode well with the gradual improvement in the macro environment, b) capturing monetisation opportunities in video accounts by leveraging the rapid expansion instruction videos and live streaming to foster new revenue streams, and c) emphasising on optimising operational efficiency and resource allocation.

### EARNINGS REVISION/RISK

- We keep our 1Q23/2023 revenue estimates unchanged** as we trimmed the online game estimate by 3% as the industry is experiencing a digestion period from the implementation of minor protection measures. We model revenue growth of 12% in 2023, driven by yoy growth of 7%/16%/19%/7% in online game/advertising/FBS/social network revenue. We raised our non-GAAP net profit forecasts for 1Q23/2023 by 1%/0%, implying a 26%/24% yoy growth with net margin of 22%/23% respectively.
- Risks:** Regulatory risks and slowing growth from the traditional media advertising segment.

### VALUATION/RECOMMENDATION

- We maintain BUY on Tencent with a target price of HK\$435.00.** Our target price implies 26.7x PE based on 2023 EPS. The company currently trades at 19.3x 12-month forward PE, 1.3SD below its historical mean of 28x.

### SHARE PRICE CATALYST

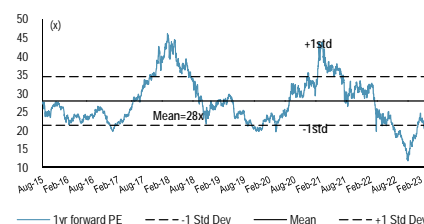
- a) Improving online advertising from Wechat video account, b) game licence approval, and c) collaboration with various internet platform operators on Tencent's WeChat ecosystem.**

### SOTP DETAILS

	2023F							
(Rmbm)	Revenue	Non-GAAP earnings	Valuation	Value (LC bn)	% Tencent holding	Est. fair value to Tencent (Rmbm)	Fair value to Tencent (US\$ b)	Fair value / share (HK\$)
Online game (PC + Mobile game)	184,515	56,236	18x PE	18x	1,012	100%	147	115
Social networking (QQ + Weixin VAS)	122,707	37,398	18x PE	18x	673	100%	98	77
Online ads (Portal + Video + Social ads)	95,975	24,114	16x PE	16x	386	100%	56	44
Payment	152,949	30,590	20x PE	20x	612	100%	89	70
Cloud	65,034		8x PS	8x	520	100%	76	59
Total EV	403,197	148,338	14x PE	14x	2,071	100%	242	364

Source: UOB Kay Hian

### FIVE-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### INVESTEES

	Fair value /share (HK\$)
2023F cash per share (HK\$)	3
Target price (HK\$)	435

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	554,552	621,181	690,724	796,193
EBITDA	272,470	183,732	212,801	261,487
Deprec. & amort.	36,764	37,364	37,964	38,564
EBIT	235,706	146,368	174,837	222,923
Associate contributions	(16,129)	0	0	6,917
Net interest income/(expense)	(9,352)	(8,417)	(7,575)	(7,575)
Pre-tax profit	210,225	137,951	167,261	222,265
Tax	(21,516)	(19,313)	(25,089)	(48,898)
Minorities	(466)	0	0	0
Net profit	188,243	118,638	142,172	173,367
Net profit (adj.)	115,649	143,485	169,801	205,214

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	85,731	80,071	73,911	67,251
Other LT assets	926,411	980,156	1,042,344	1,113,948
Cash/ST investment	156,739	167,051	237,218	344,920
Other current assets	409,250	334,189	368,242	408,252
<b>Total assets</b>	<b>1,578,131</b>	<b>1,561,467</b>	<b>1,721,715</b>	<b>1,934,370</b>
ST debt	11,580	10,422	9,380	8,442
Other current liabilities	422,624	406,043	438,167	494,223
LT debt	163,668	163,668	163,668	163,668
Other LT liabilities	197,399	197,399	197,399	197,399
Shareholders' equity	721,391	891,494	1,020,660	1,178,198
Minority interest	61,469	61,469	61,469	61,469
<b>Total liabilities &amp; equity</b>	<b>1,578,131</b>	<b>1,561,467</b>	<b>1,721,715</b>	<b>1,934,370</b>

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	146,091	98,506	170,633	220,401
Pre-tax profit	210,225	137,951	167,261	222,265
Tax	(21,516)	(19,313)	(25,089)	(48,898)
Deprec. & amort.	36,764	37,364	37,964	38,564
Working capital changes	(32,605)	(49,079)	(1,928)	16,046
Other operating cashflows	(46,777)	(8,417)	(7,575)	(7,575)
Investing	(104,871)	(85,449)	(93,992)	(103,508)
Capex (growth)	0	0	0	0
Others	(104,871)	(85,449)	(93,992)	(103,508)
Financing	(59,953)	(2,745)	(6,473)	(9,192)
Dividend payments	(14,048)	(13,125)	(16,283)	(19,270)
Issue of shares	(138,828)	3,121	3,277	3,441
Proceeds from borrowings	9,352	8,417	7,575	7,575
Others/interest paid	83,571	(1,158)	(1,042)	(938)
Net cash inflow (outflow)	(18,733)	10,312	70,168	107,702
Beginning cash & cash equivalent	167,966	156,739	167,051	237,218
Changes due to forex impact	7,506	0	0	0
Ending cash & cash equivalent	156,739	167,051	237,218	344,920

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	49.1	29.6	30.8	32.8
Pre-tax margin	37.9	22.2	24.2	27.9
Net margin	33.9	19.1	20.6	21.8
ROA	11.8	7.6	8.7	9.5
ROE	24.6	14.7	14.9	15.8
<b>Growth</b>				
Turnover	(1.0)	12.0	11.2	15.3
EBITDA	(16.1)	(32.6)	15.8	22.9
Pre-tax profit	(15.3)	(34.4)	21.2	32.9
Net profit	(16.3)	(37.0)	19.8	21.9
Net profit (adj.)	(6.6)	24.1	18.3	20.9
EPS	(6.8)	24.1	18.3	20.6
<b>Leverage</b>				
Debt to total capital	18.3	15.4	13.8	12.2
Debt to equity	24.3	19.5	17.0	14.6
Net debt/(cash) to equity	2.6	0.8	(6.3)	(14.7)
Interest cover (x)	29.1	21.8	28.1	34.5

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