

TME (TME US)

Inline 1Q25 results; online music business maintains solid momentum

TME reported 1Q25 results: total revenue was up by 9% YoY to RMB7.36bn, and non-IFRS net income increased by 25% YoY to RMB2.12bn, both largely in line with Bloomberg consensus estimate. Online music business maintained solid momentum, underpinned by the balanced growth of music subscribers and ARPPU. For 2Q25E, we estimate total revenue/non-IFRS net income to increase by 12/23% YoY, and we raise our FY25-27E earnings forecast by 0-6%, given the strong online music business and margin expansion trend. We lift our DCF-derived TP by 6% to US\$17.5. Despite macro uncertainty, we are upbeat that TME will continue to deliver robust earnings growth in FY25E, given its strong competitive moat and business model. Maintain BUY.

- Balanced growth of music subscribers and ARPPU.** Online music revenue increased by 16% YoY to RMB5.80bn in 1Q25, driven by solid growth of subscription revenue (+17% YoY). Number of subscribers reached 123mn (+8% YoY) in 1Q25, a QoQ net addition of 1.9mn. Monthly ARPPU grew by 8% YoY and 3% QoQ to RMB11.4 in 1Q25, mainly attributable to the expansion of SVIP program and more disciplined promotional activities. The number of SVIP users and their ARPPU continued to increase QoQ in 1Q25, supported by the enriching privileges and refined operations. Non-subscription music revenue grew by 14% YoY to RMB1.58bn in 1Q25, fuelled by solid revenue growth of advertising services, artist-related merchandise and offline performances. Social entertainment and others revenue was down by 12% YoY and 5% QoQ to RMB1.55bn in 1Q25, mainly due to the decline in live streaming revenue.
- Online music business to maintain solid momentum in 2Q25E.** Looking into 2Q25E, we estimate total revenue to increase by 12% YoY to RMB7.99bn, further accelerating thanks to the solid online music revenue growth (+19% YoY). For the online music business, we forecast music subscription revenue to grow by 16% YoY in 2Q25E, driven by the balanced growth of subscribers and ARPPU. And we estimate non-subscription to grow by 25% YoY in 2Q25E, supported by the ad product innovation and increased revenue from merchandise & concerts.
- Margin expansion to continue.** Overall GPM expanded by 3.1ppts YoY and 0.5ppts QoQ to 44.1% in 1Q25, mainly due to the operating leverage, ramp-up of self-produced music content and decline in revenue sharing fees. The SVIP program and enhanced ARPPU have become the key drivers of GPM expansion. Non-IFRS net margin was up by 3.7ppts YoY to 28.9% in 1Q25. For 2Q25E, we forecast GPM/non-IFRS net margin will further rise by 2.5/2.6ppts YoY to 44.5/28.8%.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	27,752	28,401	31,189	34,479	37,823
Gross margin (%)	35.3	42.3	45.0	45.6	46.0
Adjusted net profit (RMB mn)	5,923.0	7,671.0	8,918.7	10,426.0	11,930.4
YoY growth (%)	24.8	29.5	16.3	16.9	14.4
EPS (Adjusted) (RMB)	3.74	4.90	5.70	6.66	7.62
Consensus EPS (RMB)	3.74	4.90	5.57	6.55	7.43
P/E (x)	30.9	22.4	14.8	16.6	14.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$17.50
(Previous TP US\$16.50)
Up/Downside 22.1%
Current Price US\$14.33

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Stock Data

Mkt Cap (US\$ mn)	22,098.5
Avg 3 mths t/o (US\$ mn)	77.2
52w High/Low (US\$)	15.49/9.46
Total Issued Shares (mn)	1542.1

Source: FactSet

Shareholding Structure

Tencent	53.0%
Spotify	9.1%

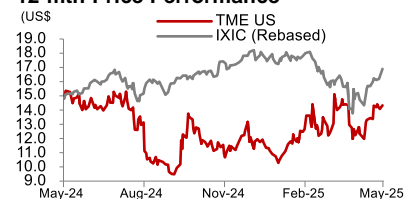
Source: Company data

Share Performance

	Absolute	Relative
1-mth	17.2%	4.7%
3-mth	12.3%	19.7%
6-mth	34.3%	38.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: TME: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	31,189	34,479	37,823	31,020	34,187	37,567	0.5%	0.9%	0.7%
Gross profit	14,026	15,715	17,387	13,967	15,661	17,387	0.4%	0.3%	0.0%
Non-IFRS net profit	8,919	10,426	11,930	8,882	10,012	11,287	0.4%	4.1%	5.7%
Non-IFRS EPS (RMB)	5.7	6.7	7.6	5.7	6.4	7.2	0.4%	4.1%	5.7%
Gross margin	45.0%	45.6%	46.0%	45.0%	45.8%	46.3%	-0.1 ppt	-0.2 ppt	-0.3 ppt
Operating margin	40.6%	33.7%	34.6%	32.1%	32.8%	33.7%	8.5 ppt	0.9 ppt	0.9 ppt
Non-IFRS net margin	28.6%	30.2%	31.5%	28.6%	29.3%	30.0%	0.0 ppt	1.0 ppt	1.5 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	31,189	34,479	37,823	31,062	34,461	37,899	0.4%	0.0%	-0.2%
Gross profit	14,026	15,715	17,387	13,925	15,971	17,674	0.7%	-1.6%	-1.6%
Non-IFRS net profit	8,919	10,426	11,930	8,586	10,106	11,459	3.9%	3.2%	4.1%
Non-IFRS EPS (RMB)	5.7	6.7	7.6	5.6	6.6	7.4	2.3%	1.6%	2.6%
Gross margin	45.0%	45.6%	46.0%	44.8%	46.3%	46.6%	0.1 ppt	-0.8 ppt	-0.7 ppt
Non-IFRS net margin	28.6%	30.2%	31.5%	27.6%	29.3%	30.2%	1.0 ppt	0.9 ppt	1.3 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: TME: quarterly financial

(RMB mn)	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	Cons.		CMBI	
Online music	4,249	4,553	5,022	5,007	5,424	5,480	5,831	5,804				
YoY change (%)	47.6%	32.7%	41.1%	43.0%	27.7%	20.4%	16.1%	15.9%				
Subscription revenue	2,890	3,193	3,417	3,618	3,740	3,842	4,032	4,219				
YoY change (%)	37.2%	42.0%	45.3%	39.2%	29.4%	20.3%	18.0%	16.6%				
Other revenue	1,359	1,360	1,605	1,389	1,684	1,638	1,799	1,585				
YoY change (%)	76.1%	15.1%	32.9%	54.0%	23.9%	20.5%	12.1%	14.1%				
Social entertainment	3,037	2,016	1,871	1,761	1,736	1,535	1,627	1,552				
YoY change (%)	-24.6%	-48.8%	-51.6%	-49.7%	-42.8%	-23.9%	-13.0%	-11.9%				
Total revenue	7,286	6,569	6,893	6,768	7,160	7,015	7,458	7,356	7,275	1.1%	7,237	1.6%
YoY change (%)	5.5%	-10.8%	-7.2%	-3.4%	-1.7%	6.8%	8.2%	8.7%				
GPM (%)	34.3%	35.7%	38.3%	40.9%	42.0%	42.6%	43.6%	44.1%				
Adjusted NPM (%)	21.0%	21.4%	22.8%	25.2%	26.2%	25.9%	30.6%	28.9%				
Adjusted net profit	1,529	1,408	1,575	1,704	1,873	1,814	2,280	2,124	2,065	2.9%	2,003	6.0%
YoY change (%)	48.6%	2.1%	9.5%	20.8%	22.5%	28.8%	44.8%	24.6%				

Source: Company data, CMBIGM

DCF valuation

Our target price of US\$17.50 is based on the DCF valuation methodology (WACC of 11.6% and terminal growth of 2.5%).

Figure 4: TME: DCF Valuation

(RMBmn)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Free cash flow	10,905	11,085	12,598	13,822	14,658	15,745	16,814	17,833
NPV of free cash flow	76,462							
Discounted terminal value	93,491							
Net cash	26,817							
Total TME valuation	196,770							
Number of ADS (diluted, mn)	1,542							
Valuation per ADS (US\$)	17.5							

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	28,339	27,752	28,401	31,189	34,479	37,823
Cost of goods sold	19,566	17,957	16,376	17,163	18,764	20,436
Gross profit	8,773	9,795	12,025	14,026	15,715	17,387
Operating expenses	4,330	3,736	3,315	1,373	4,096	4,295
Selling expense	1,144	897	865	926	973	1,003
Admin expense	4,413	4,121	3,811	3,860	4,021	4,155
Others	(1,227)	(1,282)	(1,361)	(3,413)	(898)	(864)
Operating profit	4,443	6,059	8,710	12,652	11,619	13,093
Share of (losses)/profits of associates/JV	38	127	96	92	0	0
Interest expense	(108)	(141)	(94)	(100)	(90)	(81)
Pre-tax profit	4,373	6,045	8,712	12,644	11,529	13,012
Income tax	(534)	(825)	(1,603)	(1,852)	(1,902)	(1,952)
After tax profit	3,839	5,220	7,109	10,793	9,627	11,060
Net profit	3,839	5,220	7,109	10,793	9,627	11,060
Adjusted net profit	4,745	5,923	7,671	8,919	10,426	11,930
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	26,559	29,936	34,544	37,676	43,004	49,571
Cash & equivalents	9,589	13,598	13,175	14,990	18,253	22,603
Account receivables	2,670	2,918	3,508	3,614	3,995	4,383
Inventories	14	8	23	23	23	23
Prepayment	2,958	3,438	3,793	3,600	3,739	3,868
ST bank deposits	11,291	9,937	13,999	15,399	16,939	18,633
Other current assets	37	37	46	51	56	61
Non-current assets	40,450	45,600	55,900	58,619	61,605	64,880
PP&E	323	490	803	873	948	1,029
Right-of-use assets	398	367	295	295	295	295
Deferred income tax	347	352	422	443	465	489
Investment in JVs & assos	4,330	4,274	4,669	4,719	4,769	4,819
Intangibles	2,368	2,032	2,049	1,837	1,631	1,429
Goodwill	19,493	19,542	19,647	19,897	20,147	20,397
Financial assets at FVTPL	3,168	6,540	14,498	15,948	17,543	19,297
Other non-current assets	10,023	12,003	13,517	14,608	15,807	17,125
Total assets	67,009	75,536	90,444	96,295	104,609	114,450
Current liabilities	11,717	12,014	16,550	14,589	16,254	18,014
Account payables	4,998	5,006	6,879	6,369	7,117	7,920
Tax payable	404	567	934	1,026	1,134	1,244
Other current liabilities	6,192	6,326	8,631	7,085	7,890	8,735
Lease liabilities	123	115	106	109	112	116
Long-term borrowings	6,165	6,320	4,168	4,188	4,209	4,231
Bond payables	5,536	5,636	3,572	3,572	3,572	3,572
Obligations under finance leases	306	297	219	230	241	254
Other non-current liabilities	323	387	377	386	396	405
Total liabilities	17,882	18,334	20,718	18,777	20,463	22,245
Share capital	2	2	2	2	2	2
Capital surplus	29,905	29,278	27,965	24,965	21,965	18,965
Retained earnings	12,052	16,969	20,051	30,844	40,470	51,530
Other reserves	6,140	9,658	19,845	19,845	19,845	19,845
Total shareholders equity	48,099	55,907	67,863	75,656	82,282	90,342
Minority interest	1,028	1,295	1,863	1,863	1,863	1,863
Total equity and liabilities	67,009	75,536	90,444	96,295	104,609	114,450

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,373	6,045	8,712	12,644	11,529	13,012
Depreciation & amortization	1,160	1,027	1,042	610	644	681
Tax paid	(733)	(825)	(1,355)	0	0	0
Change in working capital	2,211	786	1,556	226	1,086	1,178
Others	470	304	320	(1,852)	(1,902)	(1,952)
Net cash from operations	7,481	7,337	10,275	11,628	11,357	12,919
Investing						
Capital expenditure	(1,053)	(1,164)	(1,032)	(468)	(514)	(560)
Acquisition of subsidiaries/ investments	(165)	(9)	(34)	(250)	(250)	(250)
Net proceeds from disposal of short-term investments	1,055	(835)	(5,572)	0	0	0
Others	(1,283)	145	(180)	(3,952)	(4,342)	(4,771)
Net cash from investing	(1,446)	(1,863)	(6,818)	(4,670)	(5,106)	(5,581)
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(3,419)	(1,538)	(3,830)	(5,143)	(2,989)	(2,988)
Net cash from financing	(3,419)	(1,538)	(3,830)	(5,143)	(2,989)	(2,988)
Net change in cash						
Cash at the beginning of the year	6,591	9,589	13,598	13,175	14,990	18,253
Exchange difference	382	73	(50)	0	0	0
Cash at the end of the year	9,589	13,598	13,175	14,990	18,253	22,603
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(9.3%)	(2.1%)	2.3%	9.8%	10.5%	9.7%
Gross profit	(6.7%)	11.6%	22.8%	16.6%	12.0%	10.6%
Operating profit	16.9%	36.4%	43.8%	45.3%	(8.2%)	12.7%
Net profit	19.4%	36.0%	36.2%	51.8%	(10.8%)	14.9%
Adj. net profit	14.4%	24.8%	29.5%	16.3%	16.9%	14.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	31.0%	35.3%	42.3%	45.0%	45.6%	46.0%
Operating margin	15.7%	21.8%	30.7%	40.6%	33.7%	34.6%
Adj. net profit margin	16.7%	21.3%	27.0%	28.6%	30.2%	31.5%
Return on equity (ROE)	7.8%	10.0%	11.5%	15.0%	12.2%	12.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Current ratio (x)	2.3	2.5	2.1	2.6	2.6	2.8
Receivable turnover days	40.4	36.7	41.3	41.7	40.3	40.4
Payable turnover days	87.0	101.7	132.5	140.9	131.2	134.3
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	43.1	30.9	22.4	14.8	16.6	14.4
P/E (diluted)	43.6	31.4	22.8	15.0	16.8	14.6
P/B	3.4	2.9	2.3	2.1	1.9	1.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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