

TME (TME US)

Inline 1Q26 results; competition headwind persists

TME announced 1Q26 results on 12 May: total revenue was up by 7% YoY to RMB7.90bn and non-IFRS net income grew by 7% YoY to RMB2.27bn, both in line with Bloomberg consensus estimates. For 2Q26E, we expect total revenue to increase by 3% YoY, with growth further decelerating. Management noted that the competition headwind persists, especially given the emerging copyright issues due to AI. To weather the headwind, TME plans to further enhance copyright protection, deepen cooperation with Tencent to acquire users and improve its content & IP ecosystems. We lower our FY26-28E revenue forecast by 0-1% and also our long-term cash flow estimates in view of the competitive pressure. We trim our DCF-derived TP to US\$17.5 (previous: US\$20.0 based on DCF). That said, TME's current valuation (10x FY26E non-IFRS PE) offers attractive risk-reward, given its steady earnings growth, decent shareholder return and enhanced content ecosystem. Maintain BUY.

■ **Music-related business maintained resilient growth.** Music-related service revenue grew by 12% YoY to RMB6.51bn in 1Q26: 1) Membership services revenue was up by 7% YoY to RMB4.57bn (58% of total revenue), mainly fuelled by expansion of SVIP program and the launch of new membership products such as bubble, WeverseDM, and fan-club membership; 2) Revenues from music-related services other than membership services grew by 28% YoY to RMB1.94bn (25% of total revenue), mainly driven by the solid YoY growth of revenue from offline performances and advertising. Social entertainment and others revenue dropped by 11% YoY to RMB1.38bn in 1Q26. Looking into 2Q26E, we estimate total revenue to increase by 3% YoY to RMB8.73bn, with both membership and ads revenue slowing down, as the intense competition leads to churn of casual users.

■ **Acquisition of Ximalaya received regulatory approval.** The State Administration for Market Regulation on 12 May announced to approve TME's acquisition of Ximalaya, with five restrictive conditions such as "[The acquirer] must not increase prices or reduce service quality for the online audio services" ([Link](#)). We expect the acquisition will likely be closed in 2H26, which shall further enrich TME's audio-related product offerings and improve user experience.

■ **Increasing content and channel investment.** Overall GPM expanded by 0.8ppt YoY to 44.9% in 1Q26, while non-IFRS net margin was largely flattish YoY at 28.8% in 1Q26, as the GPM expansion was offset by the increase in S&M expenses (+36% YoY). Looking ahead, management expected GPM to stay flattish YoY in 2Q26E. To enhance shareholder return, the company plans to complete the US\$1bn stock repurchase program (c.7% of current market cap) by Mar 2027, in addition to the US\$370mn cash dividends recently paid in Apr 2026.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	28,401	32,902	35,763	38,602	40,735
Gross margin (%)	42.3	44.2	43.9	44.4	44.7
Adjusted net profit (RMB mn)	7,671.0	9,588.0	10,332.9	11,240.2	12,072.3
YoY growth (%)	29.5	25.0	7.8	8.8	7.4
EPS (Adjusted) (RMB)	4.90	6.17	6.64	7.23	7.76
Consensus EPS (RMB)	4.90	6.17	6.69	7.37	8.14
P/E (x)	13.4	8.3	9.8	9.2	8.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$17.50
(Previous TP)	US\$20.00)
Up/Downside	92.9%
Current Price	US\$9.07

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Stock Data

Mkt Cap (US\$ mn)	13,973.9
Avg 3 mths t/o (US\$ mn)	45.2
52w High/Low (US\$)	26.36/8.99
Total Issued Shares (mn)	1540.7

Source: FactSet

Shareholding Structure

Tencent	53.0%
Spotify	9.1%

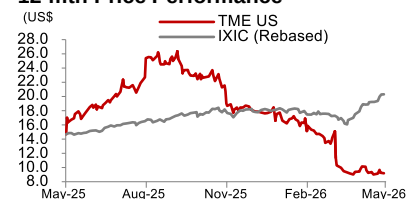
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-3.8%	-14.5%
3-mth	-42.8%	-50.5%
6-mth	-51.4%	-57.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: TME: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	35,763	38,602	40,735	36,082	38,728	40,885	-0.9%	-0.3%	-0.4%
Gross profit	15,704	17,127	18,197	15,873	17,381	18,610	-1.1%	-1.5%	-2.2%
Non-IFRS net profit	10,333	11,240	12,072	10,311	11,213	12,181	0.2%	0.2%	-0.9%
Non-IFRS EPS (RMB)	6.6	7.2	7.8	6.6	7.2	7.8	0.1%	0.2%	-1.0%
Gross margin	43.9%	44.4%	44.7%	44.0%	44.9%	45.5%	-0.1 ppt	-0.5 ppt	-0.8 ppt
Non-IFRS net margin	28.9%	29.1%	29.6%	28.6%	29.0%	29.8%	0.3 ppt	0.2 ppt	-0.2 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	35,763	38,602	40,735	36,055	39,619	43,022	-0.8%	-2.6%	-5.3%
Gross profit	15,704	17,127	18,197	15,900	17,589	19,289	-1.2%	-2.6%	-5.7%
Non-IFRS net profit	10,333	11,240	12,072	10,314	11,357	12,536	0.2%	-1.0%	-3.7%
Non-IFRS EPS (RMB)	6.6	7.2	7.8	6.7	7.4	8.1	-0.8%	-2.0%	-4.6%
Gross margin	43.9%	44.4%	44.7%	44.1%	44.4%	44.8%	-0.2 ppt	0.0 ppt	-0.2 ppt
Non-IFRS net margin	28.9%	29.1%	29.6%	28.6%	28.7%	29.1%	0.3 ppt	0.5 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

DCF valuation

Our target price of US\$17.5 is based on the DCF valuation methodology (unchanged WACC of 9.6% and terminal growth of 3.0%).

Figure 3: TME: DCF Valuation

(RMBmn)	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Free cash flow	10,424	11,272	11,924	11,764	11,347	10,776	9,947
NPV of free cash flow	60,058						
Discounted terminal value	98,446						
Net cash	24,425						
Total TME valuation	182,929						
Number of ADS (diluted, mn)	1,541						
Valuation per ADS (US\$)	17.5						

Source: Company data, CMBIGM estimates

Note: CNY/USD = 6.8

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	27,752	28,401	32,902	35,763	38,602	40,735
Cost of goods sold	17,957	16,376	18,367	20,058	21,475	22,538
Gross profit	9,795	12,025	14,535	15,704	17,127	18,197
Operating expenses	3,736	3,315	1,171	4,099	4,874	5,039
Selling expense	897	865	941	1,096	1,136	1,152
Admin expense	4,121	3,811	3,916	4,251	4,399	4,486
Others	(1,282)	(1,361)	(3,686)	(1,248)	(661)	(599)
Operating profit	6,059	8,710	13,364	11,605	12,253	13,158
Share of (losses)/profits of associates/JV	127	96	42	(28)	0	0
Interest expense	(141)	(94)	(129)	(184)	(166)	(166)
Pre-tax profit	6,045	8,712	13,277	11,393	12,087	12,992
Income tax	(825)	(1,603)	(1,924)	(1,709)	(1,813)	(1,949)
After tax profit	5,220	7,109	11,353	9,684	10,274	11,043
Net profit	5,220	7,109	11,353	9,684	10,274	11,043
Adjusted net profit	5,923	7,671	9,588	10,333	11,240	12,072

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	29,936	34,544	32,458	36,469	40,348	47,296
Cash & equivalents	13,598	13,175	8,485	10,583	12,033	16,491
Account receivables	2,918	3,508	3,903	4,028	4,347	4,588
Inventories	8	23	41	73	130	232
Prepayment	3,438	3,793	4,183	4,355	4,663	4,894
ST bank deposits	9,937	13,999	15,763	17,339	19,073	20,981
Other current assets	37	46	83	91	100	110
Non-current assets	45,600	55,900	70,064	74,634	79,608	85,007
PP&E	490	803	1,201	1,649	2,099	2,539
Right-of-use assets	367	295	287	287	287	287
Deferred income tax	352	422	498	523	549	576
Investment in JVs & assos	4,274	4,669	1,659	1,709	1,759	1,809
Intangibles	2,032	2,049	2,899	2,649	2,396	2,132
Goodwill	19,542	19,647	20,521	20,771	21,021	21,271
Financial assets at FVTPL	6,540	14,498	26,231	28,854	31,740	34,913
Other non-current assets	12,003	13,517	16,768	18,192	19,757	21,478
Total assets	75,536	90,444	102,522	111,103	119,955	132,302
Current liabilities	12,014	16,550	14,589	16,459	18,014	19,305
Account payables	5,006	6,879	6,284	7,352	8,048	8,632
Tax payable	567	934	1,092	1,187	1,281	1,352
Other current liabilities	6,326	8,631	7,097	7,801	8,562	9,195
Lease liabilities	115	106	116	119	123	127
Long-term borrowings	6,320	4,168	4,883	4,909	4,933	4,946
Bond payables	5,636	3,572	3,497	3,497	3,497	3,497
Obligations under finance leases	297	219	200	210	221	232
Other non-current liabilities	387	377	1,186	1,202	1,216	1,217
Total liabilities	18,334	20,718	19,472	21,369	22,947	24,251
Share capital	2	2	2	2	2	2
Capital surplus	29,278	27,965	28,454	25,454	22,454	22,454
Retained earnings	16,969	20,051	29,381	39,065	49,339	60,383
Other reserves	9,658	19,845	22,450	22,450	22,450	22,450
Total shareholders equity	55,907	67,863	80,287	86,971	94,245	105,289
Minority interest	1,295	1,863	2,763	2,763	2,763	2,763
Total equity and liabilities	75,536	90,444	102,522	111,103	119,955	132,302

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,045	8,712	13,277	11,393	12,087	12,992
Depreciation & amortization	1,027	1,042	233	685	745	806
Tax paid	(825)	(1,355)	0	0	0	0
Change in working capital	786	1,556	(1,355)	1,496	817	648
Others	304	320	(1,924)	(1,709)	(1,813)	(1,949)
Net cash from operations	7,337	10,275	10,231	11,866	11,836	12,498
Investing						
Capital expenditure	(1,164)	(1,032)	(1,481)	(883)	(942)	(982)
Acquisition of subsidiaries/ investments	(9)	(34)	(250)	(250)	(250)	(250)
Net proceeds from disposal of short-term investments	(835)	(5,572)	0	0	0	0
Others	145	(180)	(8,496)	(5,645)	(6,204)	(6,819)
Net cash from investing	(1,863)	(6,818)	(10,227)	(6,778)	(7,396)	(8,051)
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(1,538)	(3,830)	(4,649)	(2,990)	(2,990)	11
Net cash from financing	(1,538)	(3,830)	(4,649)	(2,990)	(2,990)	11
Net change in cash						
Cash at the beginning of the year	9,589	13,598	13,175	8,485	10,583	12,033
Exchange difference	73	(50)	(45)	0	0	0
Cash at the end of the year	13,598	13,175	8,485	10,583	12,033	16,491
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	(2.1%)	2.3%	15.8%	8.7%	7.9%	5.5%
Gross profit	11.6%	22.8%	20.9%	8.0%	9.1%	6.2%
Operating profit	36.4%	43.8%	53.4%	(13.2%)	5.6%	7.4%
Net profit	36.0%	36.2%	59.7%	(14.7%)	6.1%	7.5%
Adj. net profit	24.8%	29.5%	25.0%	7.8%	8.8%	7.4%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	35.3%	42.3%	44.2%	43.9%	44.4%	44.7%
Operating margin	21.8%	30.7%	40.6%	32.4%	31.7%	32.3%
Adj. net profit margin	21.3%	27.0%	29.1%	28.9%	29.1%	29.6%
Return on equity (ROE)	10.0%	11.5%	15.3%	11.6%	11.3%	11.1%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)
Current ratio (x)	2.5	2.1	2.2	2.2	2.2	2.4
Receivable turnover days	36.7	41.3	41.1	40.5	39.6	40.0
Payable turnover days	101.7	132.5	130.8	124.1	130.9	135.1
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	18.4	13.4	8.3	9.8	9.2	8.6
P/E (diluted)	18.7	13.6	8.4	9.9	9.3	8.7
P/B	1.7	1.4	1.2	1.1	1.0	0.9

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

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