

TME (TME US)

Better-than-feared social, with stable margin

We expect TME's 2Q22E results would be better-than-feared, with rev/adj. net profit to be RMB6.7bn/906mn (-17%/-22% YoY) in 2Q22E. Online music would slightly decline 5% YoY, in which subscription is defensive (+18% YoY), attributable to ~3mn net adds and slightly higher ARPPU of RMB8.4 (vs. RMB8.3 in 1Q22), while ads rev is under pressure due to soft macro, offsetting by resilient e-commerce ads during 618 festival. Social would be better than feared, forecasting -24% YoY in 2Q22E, thanks to manageable impact from regulations. We slightly raised its earnings forecast by 2-5% in FY22-24E, to reflect the better-than-feared social and effective opex control. Maintain HOLD with higher TP of US\$5.5 (17.5x FY22E P/E).

- 2Q22E results on track.** We forecast 2Q22E topline -17% YoY with ads and social headwinds offsetting by solid subs (+3mn net adds). Music/social -5%/-24% YoY in 2Q22E, with subs/non-subs +18%/-40% YoY. We expect adj. net profit to reach RMB904mn (-22% YoY), with stable adj. NPM at 14% (mainly on high-than-expected GPM and opex control).
- Challenges yet over, while social better-than-feared in 2Q22E.** We remain positive on subs momentum (+18.5% YoY in FY22E), driven by ARPPU recovery from 1Q22 while net adds showed moderate growth. Social entertainment would be better than feared, forecasting -24% YoY in 2Q22E, attributable to manageable impact from live streaming regulations in May, but influences incurred by soft macro, fiercer competition and regulatory headwinds would still linger into 2H22E. The visibility of ads recovery in 2H22E is unclear, due to macro uncertainty, although the long-term growth will be driven by incentive ads and online concerts.
- Stable margin thanks to effective opex control.** We expect 2Q22E GPM to be stable QoQ at 28% (vs. prior 26%), for better-than-feared social entertainment. FY22E GPM would slightly dilute to 28% (-2ppt YoY) due to lower rev mix from social entertainment and continuous investments in LFA offsetting by resilient subs, while adj. NPM was estimated at 13.1%, attributable to effective opex control.
- Maintain HOLD.** We raised FY22-24E earnings forecast by 2-5%, to reflect better-than-feared social and effective opex control. Maintain HOLD with higher TP of US\$5.5 (17.5x FY22E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY 24E
Revenue (RMB mn)	29,153	31,244	27,172	27,982	29,159
YoY growth (%)	14.6	7.2	(13)	3.0	4.2
Adj. net income (RMB mn)	4,971	4,332	3,562	3,569	3,973
Adj. EPS (RMB)	3.0	2.6	2.1	2.1	2.4
YoY growth (%)	1.0	(13)	(18)	0	11.3
Consensus EPS (RMB)	NA	NA	1.9	2.1	2.5
P/E (x)	11.6	13.3	16.2	16.2	14.5
P/B (x)	2.0	1.8	2.1	2.1	2.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	9.4	7.4	5.8	5.5	5.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price US\$5.5
(Previous TP) US\$4.6
Up/Downside +7.8%
Current Price US\$5.1

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	9,069
Avg 3 mths t/o (US\$ mn)	71.53
52w High/Low (US\$)	14.54/ 2.95
Total Issued Shares (mn)	835

Source: Bloomberg

Shareholding Structure

Baillie Gifford	4.38%
Canada Pension Plan	4.31%
Blackrock	3.57%

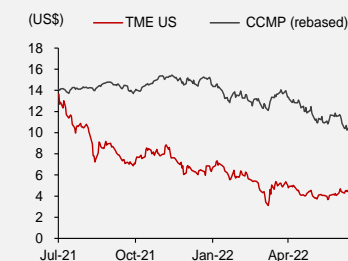
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	31.4%	39.5%
3-mth	3.1%	29.3%
6-mth	-15.6%	12.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Resilient subs to offset ads and social – 18 May 2022
- Soft social entertainment on epidemic – 21 April 2022
- Challenges into 2022 – 23 Mar 2022

Figure 1: 2Q22E financial preview

RMB mn, Dec-YE	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	QoQ	YoY	Consensus	Diff %
Revenue	7,575	8,335	7,824	8,008	7,805	7,607	6,644	6,667	0.4%	-16.7%	6,609	1%
Gross Profit	2,458	2,697	2,466	2,437	2,309	2,192	1,860	1,869	0.5%	-23.3%	1,844	1%
Operating Profit	1,026	1,018	911	1,035	919	682	749	828	10.5%	-20.0%	713	16%
Adj. net profit	1,349	1,364	1,235	1,161	1,063	873	939	906	-3.5%	-22.0%	904	0%
Adj. EPS (RMB)	0.80	0.81	0.69	0.66	0.61	0.50	0.54	0.55	1.6%	-16.1%	0.55	1%
Margin (%)												
Gross margin	32.4%	32.4%	31.5%	30.4%	29.6%	28.8%	28.0%	28.0%			27.9%	
Operating margin	13.5%	12.2%	11.6%	12.9%	11.8%	9.0%	11.3%	12.4%			10.8%	
Adj. net margin	17.8%	16.4%	15.8%	14.5%	13.6%	11.5%	14.1%	13.6%			13.7%	
Growth (%)												
Revenue (YoY)	16.4%	14.3%	24.0%	15.5%	3.0%	-8.7%	-15.1%	-16.7%			-17.5%	
Revenue (QoQ)	9.3%	10.0%	-6.1%	2.4%	-2.5%	-2.5%	-12.7%	0.4%			-0.5%	
Operating Profit	5.3%	-4.9%	11.8%	-6.5%	-10.4%	-33.0%	-17.8%	-20.0%			-31.1%	
Adj. net profit	9.3%	1.8%	12.0%	0.5%	-21.2%	-36.0%	-24.0%	-22.0%			-22.2%	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 2Q22E revenue breakdown

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	QoQ	YoY
Total revenue	7,575	8,335	7,824	8,008	7,805	7,607	6,644	6,667	0%	-16.7%
Online music service	2,324	2,760	2,749	2,950	2,888	2,880	2,616	2,803	7%	-5%
Subscription	1,460	1,580	1,690	1,790	1,900	1,950	1,990	2,104	6%	18%
Others	864	1,180	1,059	1,160	988	930	626	699	12%	-40%
Social entertainment / othe	5,251	5,575	5,075	5,058	4,917	4,727	4,028	3,864	-4%	-24%

Source: Company data

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	27,172	27,982	29,159	27,280	28,954	30,937	-0.4%	-3.4%	-5.7%
Gross profit	7,661	7,677	7,977	7,696	8,538	9,249	-0.4%	-10.1%	-13.8%
Operating profit	2,662	3,032	3,195	2,904	3,407	3,802	-8.3%	-11.0%	-16.0%
Adj. net profit	3,562	3,569	3,973	3,620	3,978	4,467	-1.6%	-10.3%	-11.1%
EPS (RMB)	2.12	2.12	2.36	1.88	2.11	2.55	12.7%	0.5%	-7.3%
Gross margin	28.2%	27.4%	27.4%	28.2%	29.5%	29.9%	-0.0ppts	-2.1ppts	-2.5ppts
Operating margin	9.8%	10.8%	11.0%	10.6%	11.8%	12.3%	-0.8ppts	-0.9ppts	-1.3ppts
Net margin	13.1%	12.8%	13.6%	13.3%	13.7%	14.4%	-0.2ppts	-1.0ppts	-0.8ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	27,172	27,982	29,159	26,933	27,915	29,201	0.9%	0.2%	-0.1%
Gross profit	7,661	7,677	7,977	7,507	7,468	7,758	2.1%	2.8%	2.8%
Operating profit	2,662	3,032	3,195	3,017	3,193	3,255	-11.8%	-5.0%	-1.9%
Adj. net profit	3,562	3,569	3,973	3,506	3,452	3,770	1.6%	3.4%	5.4%
EPS (RMB)	2.12	2.12	2.36	2.08	2.05	2.24	1.8%	3.5%	5.5%
Gross margin	28.2%	27.4%	27.4%	27.9%	26.8%	26.6%	+0.3ppts	+0.6ppts	+0.8ppts
Operating margin	9.8%	10.8%	11.0%	11.2%	11.4%	11.1%	-1.4ppts	-0.6ppts	-0.1ppts
Net margin	13.1%	12.8%	13.6%	13.0%	12.4%	12.9%	+0.1ppts	+0.4ppts	+0.7ppts

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net revenues	29,153	31,244	27,172	27,982	29,159
Online music service	9,349	11,467	11,817	13,392	14,875
Subscription	5,561	7,330	8,688	9,983	11,120
Others	3,788	4,137	3,129	3,410	3,756
Social entertainment	19,804	19,777	15,355	14,589	14,284
COGS	(19,851)	(21,840)	(19,510)	(20,305)	(21,183)
Gross profit	9,302	9,404	7,661	7,677	7,977
S&M	(2,475)	(2,678)	(1,413)	(1,455)	(1,516)
R&D	(1,859)	(2,031)	(1,766)	(1,791)	(1,808)
Admin.exp.	(1,242)	(1,978)	(1,821)	(1,399)	(1,458)
Operating profit	3,726	2,717	2,662	3,032	3,195
Other income, net	906	915	288	294	299
Pre-tax income	4,632	3,632	2,950	3,326	3,494
Income tax	(456)	(417)	(442)	(499)	(524)
Net profit	4,176	3,215	2,507	2,827	2,970
Adj. net profit	4,971	4,332	3,562	3,569	3,973

Cash flow summary

YE 31 Dec (RMB mn)	FY20E	FY21A	FY22E	FY23E	FY24E
Pre-tax income	4,632	3,632	2,950	3,326	3,494
D&A	859	484	526	567	618
Change in WC	(314)	341	(275)	103	110
Others	42	(1,086)	706	353	2,189
Operating CF	5,219	3,371	3,906	4,349	6,411
Capex	(501)	(1,624)	(308)	(317)	(330)
Investments	21	(1,029)	0	0	-
Others	(13,726)	(4,062)	(1,706)	(1,636)	(1,652)
Investing CF	(14,206)	(6,716)	(2,014)	(1,953)	(1,982)
Equity raised	0	0	0	0	0
Change of debts	0	0	0	0	0
Others	5,292	(3,040)	0	0	0
Financing CF	5,292	(3,040)	0	0	0
Net change in cash	(4,029)	(4,537)	1,357	1,953	2,366
Cash (beg of yr)	15,426	11,128	6,591	7,948	9,901
FX	(269)	0	0	0	0
Cash (end of yr)	11,128	6,591	7,948	9,901	12,267

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	36,586	39,589	56,092	57,247	58,372
Intangible assets, net	2,020	1,511	1,376	1,212	1,022
Goodwill	17,492	19,640	20,890	22,140	23,390
Financial assets	9,771	9,771	9,771	9,771	9,771
Others	7,303	8,667	24,055	24,125	24,189
Current assets	31,687	27,641	28,198	30,312	32,910
Cash, restricted cash	11,128	6,591	7,948	9,901	12,267
Accounts receivable	2,800	3,338	2,903	2,990	3,116
Other current assets	2,846	2,727	2,372	2,442	2,545
Term deposits	14,858	14,858	14,858	14,858	14,858
Others	55	127	117	120	124
Current liabilities	9,602	10,400	9,194	9,484	9,863
Accounts payables	3,565	3,291	2,940	3,060	3,192
Other payables	3,881	3,749	3,261	3,358	3,499
Deferred revenue	1,608	2,812	2,445	2,518	2,624
Others	548	548	548	548	548
Non-current liabilities	5,940	5,940	5,940	5,940	5,940
Notes payable	5,175	5,175	5,175	5,175	5,175
Deferred tax liability	265	265	265	265	265
Others	500	500	500	500	500
MI	486	486	486	486	486
Total equity	52,731	58,729	61,890	65,168	68,840
Shareholders' equity	52,245	58,243	61,404	64,682	68,354

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Online music service	32.1	36.7	43.5	47.9	51.0
Subscription	19.1	23.5	32.0	35.7	38.1
Others	13.0	13.2	11.5	12.2	12.9
Social entertainment	67.9	63.3	56.5	52.1	49.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	14.6	7.2	(13.0)	3.0	4.2
Gross profit	7.3	1.1	(18.5)	0.2	3.9
EBIT	(5.2)	(27.1)	(2.0)	13.9	5.4
Adj. net profit	1.4	(12.9)	(17.8)	0.2	11.3
P&L ratios (%)					
Operating margin	12.8	8.7	9.8	10.8	11.0
Pre-tax margin	15.9	11.6	10.9	11.9	12.0
Adj. net margin	17.1	13.9	13.1	12.8	13.6
Effective tax rate	(9.8)	(11.5)	(15.0)	(15.0)	(15.0)
Returns (%)					
ROE	9.4	7.4	5.8	5.5	5.8
ROA	7.3	6.4	4.2	4.1	4.4
Per share					
EPS (RMB)	3.0	2.6	2.1	2.1	2.4
DPS (RMB)	2.0	3.0	4.0	5.0	6.0
BVPS (RMB)	20.3	20.0	25.1	26.0	27.1

Source: Company data, CMBIGM estimates

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