

TME (TME US)

4Q25 review: Stepping up investment to drive long-term sustainable growth

TME reported 4Q25 results: total revenue grew by 16% YoY to RMB8.64bn, 3% ahead of Bloomberg consensus estimate mainly due to the stronger-than-expected performance of non-subscription music businesses (+41% YoY); non-IFRS net income increased by 9% YoY to RMB2.49bn, in line with consensus estimate. FY25 total revenue/non-IFRS net income was up by 16%/25% YoY to RMB32.90bn/9.59bn. Looking into FY26E, we forecast total revenue to grow by 10% YoY, with music subscription/non-subscription revenue up by 6%/25% YoY respectively. Management expects music subscription revenue to face short-term pressure due to the intensive competition, and the company will step up content and marketing investment to strengthen its competitive moat. Given the increased investment and competition, we trim our FY26-27E earnings forecast by 4-10%, and also lower our long-term cash flow estimates. We trim our DCF-derived TP to US\$20.0 (previous: US\$28.0 based on DCF). Maintain BUY on current attractive valuation and sustainable music business growth outlook.

- Online music business maintained strong momentum.** Online music revenue increased by 22% YoY to RMB7.10bn in 4Q25: 1) music subscription revenue grew by 13% YoY to RMB4.56bn (53% of total revenue), driven by 5%/8% YoY growth in the number of subscribers/monthly ARPPU. The number of SVIP subscribers surpassed 20mn by end-FY25, supporting solid ARPPU growth. 2) Non-subscription music revenue was up by 41% YoY to RMB2.53bn (29% of total revenue), mainly attributable to the robust YoY growth of revenue from offline performances and advertising. The company hosted 20 concerts for G-DRAGON in 2025 and attracted over 260k attendees, including 2 sold-out concerts in 4Q25. Social entertainment and others revenue declined by 5% YoY, but grew by 3% QoQ to RMB1.54bn in 4Q25.
- 1Q26 outlook.** For 1Q26E, we forecast total revenue to grow by 7% YoY to RMB7.90bn, supported by the growth of music subscription/non-subscription revenue (+6/26% YoY). We expect music subscription revenue growth to decelerate in 1Q26E due to the more intense competition. But we remain upbeat on the non-subscription music businesses like offline performances and artist-related merchandise in FY26, supported by the TME's continuous investment across the music value chain and strategic collaboration with a strong lineup of music artists.
- Increasing content and channel investment.** Overall GPM improved by 1.1ppt YoY and 1.2ppt QoQ to 44.7% in 4Q25, mainly thanks to operating leverage and disciplined cost control. Non-IFRS net margin was largely stable QoQ at 28.8% in 4Q25. Looking ahead, we expect non-IFRS net margin to decline slightly by 0.5ppt YoY to 28.6% in FY26E, mainly due to the increased investment in content and marketing. The company announced annual dividend of US\$0.24 per ADS, representing a dividend yield of c.2%.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	28,401	32,902	36,082	38,728	40,885
Gross margin (%)	42.3	44.2	44.0	44.9	45.5
Adjusted net profit (RMB mn)	7,671.0	9,588.0	10,311.0	11,213.4	12,181.2
EPS (Adjusted) (RMB)	4.90	6.17	6.63	7.21	7.84
Consensus EPS (RMB)	4.90	6.17	7.06	7.99	9.52
P/E (x)	17.0	10.6	12.5	11.7	10.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$20.00
(Previous TP)	US\$28.00)
Up/Downside	75.9%
Current Price	US\$11.37

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Stock Data

Mkt Cap (US\$ mn)	17,437.3
Avg 3 mths t/o (US\$ mn)	89.2
52w High/Low (US\$)	26.36/11.37
Total Issued Shares (mn)	1533.6

Source: FactSet

Shareholding Structure

Tencent	53.0%
Spotify	9.1%

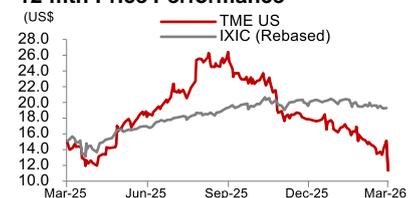
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-25.6%	-24.7%
3-mth	-36.4%	-34.9%
6-mth	-55.0%	-55.1%

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	36,082	38,728	40,885	36,799	41,005	NA	-1.9%	-5.6%	NA
Gross profit	15,873	17,381	18,610	16,017	17,852	NA	-0.9%	-2.6%	NA
Non-IFRS net profit	10,311	11,213	12,181	10,825	12,507	NA	-4.8%	-10.3%	NA
Non-IFRS EPS (RMB)	6.6	7.2	7.8	6.9	8.0	NA	-4.1%	-9.7%	NA
Gross margin	44.0%	44.9%	45.5%	43.5%	43.5%	NA	0.5 ppt	1.3 ppt	NA
Non-IFRS net margin	28.6%	29.0%	29.8%	29.4%	30.5%	NA	-0.8 ppt	-1.5 ppt	NA

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	36,082	38,728	40,885	36,811	41,128	46,426	-2.0%	-5.8%	-11.9%
Gross profit	15,873	17,381	18,610	16,290	18,486	21,100	-2.6%	-6.0%	-11.8%
Non-IFRS net profit	10,311	11,213	12,181	10,820	12,248	14,593	-4.7%	-8.4%	-16.5%
Non-IFRS EPS (RMB)	6.6	7.2	7.8	7.1	8.0	9.5	-6.0%	-9.7%	-17.6%
Gross margin	44.0%	44.9%	45.5%	44.3%	44.9%	45.4%	-0.3 ppt	-0.1 ppt	0.1 ppt
Non-IFRS net margin	28.6%	29.0%	29.8%	29.4%	29.8%	31.4%	-0.8 ppt	-0.8 ppt	-1.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: TME: quarterly financials

(RMB mn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	Cons.	Diff%
Online music	5,007	5,424	5,480	5,831	5,804	6,854	6,969	7,099	6,932	2.4%
YoY change (%)	43.0%	27.7%	20.4%	16.1%	15.9%	26.4%	27.2%	21.7%	18.9%	
Subscription revenue	3,618	3,740	3,842	4,032	4,219	4,380	4,503	4,564	4,641	-1.7%
YoY change (%)	39.2%	29.4%	20.3%	18.0%	16.6%	17.1%	17.2%	13.2%	15.1%	
Other revenue	1,389	1,684	1,638	1,799	1,585	2,474	2,466	2,535	2,296	10.4%
YoY change (%)	54.0%	23.9%	20.5%	12.1%	14.1%	46.9%	50.6%	40.9%	27.6%	
Social entertainment	1,761	1,736	1,535	1,627	1,552	1,588	1,494	1,542	1,499	2.8%
YoY change (%)	-49.7%	-42.8%	-23.9%	-13.0%	-11.9%	-8.5%	-2.7%	-5.2%	-7.8%	
Total revenue	6,768	7,160	7,015	7,458	7,356	8,442	8,463	8,641	8,425	2.6%
YoY change (%)	-3.4%	-1.7%	6.8%	8.2%	8.7%	17.9%	20.6%	15.9%	13.0%	
GPM (%)	40.9%	42.0%	42.6%	43.6%	44.1%	44.4%	43.5%	44.7%	45.1%	-0.4ppt
Adjusted net profit	1,704	1,873	1,814	2,280	2,124	2,574	2,405	2,485	2,477	0.3%
YoY change (%)	20.8%	22.5%	28.8%	44.8%	24.6%	37.4%	32.6%	9.0%	8.6%	
Adjusted NPM (%)	25.2%	26.2%	25.9%	30.6%	28.9%	30.5%	28.4%	28.8%	29.4%	

Source: Company data, Bloomberg, CMBIGM

DCF valuation

Our target price of US\$20.0 is based on the DCF valuation methodology (unchanged WACC of 9.6% and terminal growth of 3.0%).

Figure 4: TME: DCF Valuation

(RMBmn)	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Free cash flow	10,294	11,089	11,940	12,545	12,682	12,814	12,788
NPV of free cash flow	64,231						
Discounted terminal value	126,562						
Net cash	24,416						
Total TME valuation	215,209						
Number of ADS (diluted, mn)	1,534						
Valuation per ADS (US\$)	20.0						

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	27,752	28,401	32,902	36,082	38,728	40,885
Cost of goods sold	17,957	16,376	18,367	20,209	21,346	22,275
Gross profit	9,795	12,025	14,535	15,873	17,381	18,610
Operating expenses	3,736	3,315	1,171	4,459	5,212	5,382
Selling expense	897	865	941	1,070	1,102	1,118
Admin expense	4,121	3,811	3,916	4,289	4,414	4,503
Others	(1,282)	(1,361)	(3,686)	(900)	(304)	(238)
Operating profit	6,059	8,710	13,364	11,414	12,169	13,228
Share of (losses)/profits of associates/JV	127	96	42	0	0	0
Interest expense	(141)	(94)	(129)	(100)	(90)	(90)
Pre-tax profit	6,045	8,712	13,277	11,314	12,079	13,138
Income tax	(825)	(1,603)	(1,924)	(1,697)	(1,812)	(1,971)
After tax profit	5,220	7,109	11,353	9,617	10,267	11,167
Net profit	5,220	7,109	11,353	9,617	10,267	11,167
Adjusted net profit	5,923	7,671	9,588	10,311	11,213	12,181
BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	29,936	34,544	32,458	36,529	40,208	47,198
Cash & equivalents	13,598	13,175	8,485	10,574	11,908	16,434
Account receivables	2,918	3,508	3,903	4,064	4,362	4,605
Inventories	8	23	41	73	130	232
Prepayment	3,438	3,793	4,183	4,388	4,635	4,836
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	74,641	79,618	85,020
PP&E	490	803	1,201	1,654	2,105	2,547
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	2,652	2,400	2,138
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	111,170	119,827	132,218
Current liabilities	12,014	16,550	14,589	16,589	17,957	19,169
Account payables	5,006	6,879	6,284	7,408	8,000	8,531
Tax payable	567	934	1,092	1,198	1,285	1,357
Other current liabilities	6,326	8,631	7,097	7,865	8,549	9,154
Lease liabilities	115	106	116	119	123	127
Long-term borrowings	6,320	4,168	4,883	4,914	4,935	4,947
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	1,207	1,217	1,219
Total liabilities	18,334	20,718	19,472	21,503	22,892	24,117
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	38,998	49,266	60,433
Other reserves	9,658	19,845	22,450	22,450	22,450	22,450
Total shareholders equity	55,907	67,863	80,287	86,904	94,172	105,339
Minority interest	1,295	1,863	2,763	2,763	2,763	2,763
Total equity and liabilities	75,536	90,444	102,522	111,170	119,827	132,218

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,045	8,712	13,277	11,314	12,079	13,138
Depreciation & amortization	1,027	1,042	233	685	745	807
Tax paid	(825)	(1,355)	0	0	0	0
Change in working capital	786	1,556	(1,355)	1,562	710	595
Others	304	320	(1,924)	(1,697)	(1,812)	(1,971)
Net cash from operations	7,337	10,275	10,231	11,865	11,723	12,570
Investing						
Capital expenditure	(1,164)	(1,032)	(1,481)	(891)	(945)	(986)
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)	(6,786)	(7,399)	(8,055)
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	10,574	11,908
Exchange difference	73	(50)	(45)	0	0	0
Cash at the end of the year	13,598	13,175	8,485	10,574	11,908	16,434
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	(2.1%)	2.3%	15.8%	9.7%	7.3%	5.6%
Gross profit	11.6%	22.8%	20.9%	9.2%	9.5%	7.1%
Operating profit	36.4%	43.8%	53.4%	(14.6%)	6.6%	8.7%
Net profit	36.0%	36.2%	59.7%	(15.3%)	6.8%	8.8%
Adj. net profit	24.8%	29.5%	25.0%	7.5%	8.8%	8.6%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	35.3%	42.3%	44.2%	44.0%	44.9%	45.5%
Operating margin	21.8%	30.7%	40.6%	31.6%	31.4%	32.4%
Adj. net profit margin	21.3%	27.0%	29.1%	28.6%	29.0%	29.8%
Return on equity (ROE)	10.0%	11.5%	15.3%	11.5%	11.3%	11.2%
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	2.5
Receivable turnover days	36.7	41.3	41.1	40.3	39.7	40.0
Payable turnover days	101.7	132.5	130.8	123.6	131.7	135.4
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	23.4	17.0	10.6	12.5	11.7	10.8
P/E (diluted)	23.8	17.2	10.7	12.7	11.9	10.9
P/B	2.2	1.8	1.5	1.4	1.3	1.1

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

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