TME (TME US)

3Q26 results: Solid IP consumption business; ad business faced short-term headwinds

BUY (Maintain)

Target Price	**US$15.00**
Up/Downside	**58.4%**
Current Price	**US$9.47**

TME announced 3Q26 results: total revenue was up by 6% YoY to RMB8.94bn, slightly below VA consensus estimate of RMB9.14bn, primarily due to softer-than-expected advertising revenue growth; non-IFRS net profit grew by 2% YoY to RMB2.45bn, 4% ahead of VA consensus estimate, mainly thanks to the improved operating efficiency. The company further strengthened copyright protection and enriched quality content offerings, with the share of AI music streams declining QoQ. For 4Q26E, we model total revenue to grow by 8% YoY, mainly driven by the strong growth in revenue from artist-related merchandise and offline performance. We maintain our FY26-28E total revenue forecasts largely unchanged, as the strong IP consumption businesses are offset by ad business headwinds. We maintain our DCF-derived TP of US$15.0. TME's current valuation (9x FY27E non-IFRS PE) offers attractive value given its steady fundamentals and shareholder return, in our view. Maintain BUY.

- **Inline membership revenue growth; ad business faced ST headwinds.** Music-related service revenue grew by 10% YoY to RMB7.68bn in 3Q26, within which: 1) membership services revenue increased by 9% YoY to RMB4.99bn (in line with consensus), primarily fuelled by the consolidation of Ximalaya and expansion of SVIP program; SVIP recorded QoQ growth in both paid users and ARPPU, with improved user retention; 2) revenues from marketing and consumption services grew by 12% YoY to RMB2.70bn, 7% below consensus estimate mainly due to the relatively soft advertising business; but revenues from artist-related merchandise and offline performance maintained solid growth. Social entertainment and others revenue decreased by 16% YoY to RMB1.26bn in 3Q26. Looking into 4Q26E, we expect total revenue to rise by 8% YoY, primarily driven by the solid growth of marketing & consumption businesses.
- **Improving product and service offerings.** On product front, 1) the main music apps simplified music discovery through contextualized recommendations and swipe-based feeds, which led to higher daily time spent per user; 2) the lite music apps also saw steady user growth through streamlined interfaces, personalized recommendations, and targeted campaigns; 3) the company also launched more pan-IP offerings, which drove strong growth in paying users and average spending across IP consumption services.
- **Margin declined on revenue mix shift.** Overall GPM declined by 0.7ppt YoY and 1.4ppt QoQ to 42.8% in 3Q26, primarily attributable to revenue mix shift to lower-margin artist-related merchandise and offline performance services. Non-IFRS net margin dropped by 1.0ppt YoY and 2.7ppt QoQ to 27.4% in 3Q26. Looking ahead in 4Q26E, we model non-IFRS net margin to further decline by 1ppt QoQ due to the revenue mix shift. The company continued to give back to shareholders, repurchasing a total of 34.7mn ADSs with c.US$300mn cash (c.2% of current market cap) in 3Q26.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	28,401	32,902	35,137	37,887	39,983
Gross margin (%)	42.3	44.2	43.5	42.9	42.7
Adjusted net profit (RMB mn)	7,671.0	9,588.0	9,905.1	10,751.4	11,143.7
EPS (Adjusted) (RMB)	4.90	6.17	6.30	6.98	7.38
Consensus EPS (RMB)	4.90	6.17	6.26	6.75	7.24
P/E (x)	13.7	8.5	10.7	10.0	9.5

Source: Company data, Bloomberg, CMBIGM estimates

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Stock Data

Mkt Cap (US$ mn)	14,781.0
Avg 3 mths t/o (US$ mn)	25.3
52w High/Low (US$)	18.73/7.74
Total Issued Shares (mn)	1560.8

Source: FactSet

Shareholding Structure

Tencent	53.0%
Spotify	9.1%

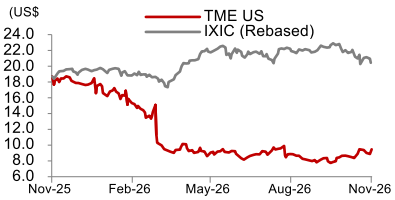
Source: Company data

Share Performance

	Absolute	Relative
1-mth	9.7%	17.0%
3-mth	7.7%	15.6%
6-mth	4.5%	11.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: TME: forecast revision

	Current			Previous			Change (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	35,137	37,887	39,983	35,344	38,066	40,162	-0.6%	-0.5%	-0.4%
Gross profit	15,290	16,254	17,062	15,458	16,354	17,161	-1.1%	-0.6%	-0.6%
Non-IFRS net profit	9,905	10,751	11,144	9,743	10,582	10,949	1.7%	1.6%	1.8%
Non-IFRS EPS (RMB)	6.3	7.0	7.4	6.2	6.7	6.9	1.8%	3.9%	6.2%
Gross margin	43.5%	42.9%	42.7%	43.7%	43.0%	42.7%	-0.2 ppt	-0.1 ppt	-0.1 ppt
Non-IFRS net margin	28.2%	28.4%	27.9%	27.6%	27.8%	27.3%	0.6 ppt	0.6 ppt	0.6 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	35,137	37,887	39,983	35,273	38,037	40,502	-0.4%	-0.4%	-1.3%
Gross profit	15,290	16,254	17,062	15,399	16,579	17,710	-0.7%	-2.0%	-3.7%
Non-IFRS net profit	9,905	10,751	11,144	9,781	10,543	11,322	1.3%	2.0%	-1.6%
Non-IFRS EPS (RMB)	6.3	7.0	7.4	6.3	6.8	7.2	0.7%	3.3%	1.8%
Gross margin	43.5%	42.9%	42.7%	43.7%	43.6%	43.7%	-0.1 ppt	-0.7 ppt	-1.1 ppt
Non-IFRS net margin	28.2%	28.4%	27.9%	27.7%	27.7%	28.0%	0.5 ppt	0.7 ppt	-0.1 ppt

Source: Bloomberg, CMBIGM estimates

DCF valuation

Our target price of US$15.0 is based on the DCF valuation methodology (unchanged WACC of 9.6% and terminal growth of 3.0%).

Figure 3: TME: DCF Valuation

(RMBmn)	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Free cash flow	10,460	10,680	10,552	10,226	9,691	8,851
NPV of free cash flow	49,117					
Discounted terminal value	88,216					
Net cash	17,986					
Total TME valuation	155,319					
Number of ADS (diluted, mn)	1,541					
Valuation per ADS (US$)	**15.0**					

Source: Company data, CMBIGM estimates
Note: CNY/USD = 6.7

Risks

Intensifying competition; macro headwinds impact ad business growth; increased investment in new initiatives drags profit margin.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**27,752**	**28,401**	**32,902**	**35,137**	**37,887**	**39,983**
Cost of goods sold	17,957	16,376	18,367	19,847	21,633	22,921
Gross profit	**9,795**	**12,025**	**14,535**	**15,290**	**16,254**	**17,062**
Operating expenses	**3,736**	**3,315**	**1,171**	**3,999**	**4,596**	**5,023**
Selling expense	897	865	941	1,091	1,129	1,145
Admin expense	4,121	3,811	3,916	4,433	4,583	4,672
Others	(1,282)	(1,361)	(3,686)	(1,525)	(1,117)	(794)
Operating profit	**6,059**	**8,710**	**13,364**	**11,291**	**11,658**	**12,038**
Share of (losses)/profits of associates/JV	127	96	42	57	0	0
Interest expense	(141)	(94)	(129)	(245)	(221)	(221)
Pre-tax profit	**6,045**	**8,712**	**13,277**	**11,103**	**11,438**	**11,818**
Income tax	(825)	(1,603)	(1,924)	(1,877)	(1,830)	(1,891)
After tax profit	**5,220**	**7,109**	**11,353**	**9,226**	**9,608**	**9,927**
Net profit	**5,220**	**7,109**	**11,353**	**9,226**	**9,608**	**9,927**
Adjusted net profit	**5,923**	**7,671**	**9,588**	**9,905**	**10,751**	**11,144**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**29,936**	**34,544**	**32,458**	**40,999**	**37,820**	**40,513**
Cash & equivalents	13,598	13,175	8,485	15,229	9,552	9,710
Account receivables	2,918	3,508	3,903	3,957	4,267	4,503
Inventories	8	23	41	73	130	232
Prepayment	3,438	3,793	4,183	4,309	4,697	4,977
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**	**77,453**	**80,946**	**84,718**
PP&E	490	803	1,201	1,640	2,080	2,511
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	2,642	2,383	2,113
Goodwill	19,542	19,647	20,521	23,606	23,606	23,606
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	18,542	18,902
Total assets	**75,536**	**90,444**	**102,522**	**118,452**	**118,766**	**125,230**
Current liabilities	**12,014**	**16,550**	**14,589**	**22,086**	**17,650**	**18,863**
Account payables	5,006	6,879	6,284	7,112	7,752	8,213
Tax payable	567	934	1,092	1,166	1,257	1,327
Other current liabilities	6,326	8,631	7,097	13,689	8,517	9,196
Lease liabilities	115	106	116	119	123	127
Long-term borrowings	6,320	4,168	4,883	12,032	12,045	12,046
Bond payables	5,636	3,572	3,497	10,639	10,639	10,639
Obligations under finance leases	297	219	200	200	200	200
Other non-current liabilities	387	377	1,186	1,193	1,206	1,207
Total liabilities	**18,334**	**20,718**	**19,472**	**34,118**	**29,694**	**30,909**
Share capital	2	2	2	2	2	2
Capital surplus	29,278	27,965	28,454	23,014	20,294	17,846
Retained earnings	16,969	20,051	29,381	36,105	43,562	51,261
Other reserves	9,658	19,845	22,450	22,450	22,450	22,450
Total shareholders equity	**55,907**	**67,863**	**80,287**	**81,571**	**86,308**	**91,559**
Minority interest	1,295	1,863	2,763	2,763	2,763	2,763
Total equity and liabilities	**75,536**	**90,444**	**102,522**	**118,452**	**118,766**	**125,230**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**6,045**	**8,712**	**13,277**	**11,103**	**11,438**	**11,818**
Depreciation & amortization	1,027	1,042	233	685	744	804
Tax paid	(825)	(1,355)	0	0	0	0
Change in working capital	786	1,556	(1,355)	1,233	752	525
Others	304	320	(1,924)	(1,877)	(1,830)	(1,891)
Net cash from operations	**7,337**	**10,275**	**10,231**	**11,145**	**11,103**	**11,256**
Investing						
Capital expenditure	(1,164)	(1,032)	(1,481)	(868)	(925)	(964)
Acquisition of subsidiaries/ investments	(9)	(34)	(250)	(3,085)	0	0
Net proceeds from disposal of short-term investments	(835)	(5,572)	0	0	0	0
Others	145	(180)	(8,496)	(5,645)	(4,988)	(5,458)
Net cash from investing	**(1,863)**	**(6,818)**	**(10,227)**	**(9,598)**	**(5,913)**	**(6,422)**
Financing						
Dividend paid	0	(1,508)	(1,981)	(2,502)	(2,150)	(2,229)
Net borrowings	0	0	0	7,142	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(1,249)	(1,925)	(390)	(5,440)	(2,720)	(2,448)
Others	(289)	(397)	(2,278)	5,997	(5,997)	0
Net cash from financing	**(1,538)**	**(3,830)**	**(4,649)**	**5,197**	**(10,867)**	**(4,677)**
Net change in cash						
Cash at the beginning of the year	9,589	13,598	13,175	8,485	15,229	9,552
Exchange difference	73	(50)	(45)	0	0	0
Cash at the end of the year	**13,598**	**13,175**	**8,485**	**15,229**	**9,552**	**9,710**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	(2.1%)	2.3%	15.8%	6.8%	7.8%	5.5%
Gross profit	11.6%	22.8%	20.9%	5.2%	6.3%	5.0%
Operating profit	36.4%	43.8%	53.4%	(15.5%)	3.3%	3.3%
Net profit	36.0%	36.2%	59.7%	(18.7%)	4.1%	3.3%
Adj. net profit	24.8%	29.5%	25.0%	3.3%	8.5%	3.6%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	35.3%	42.3%	44.2%	43.5%	42.9%	42.7%
Operating margin	21.8%	30.7%	40.6%	32.1%	30.8%	30.1%
Adj. net profit margin	21.3%	27.0%	29.1%	28.2%	28.4%	27.9%
Return on equity (ROE)	10.0%	11.5%	15.3%	11.4%	11.4%	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)	(0.0)	0.0	0.0
Current ratio (x)	2.5	2.1	2.2	1.9	2.1	2.1
Receivable turnover days	36.7	41.3	41.1	40.8	39.6	40.0
Payable turnover days	101.7	132.5	130.8	123.2	125.4	127.1

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	18.9	13.7	8.5	10.7	10.0	9.5
P/E (diluted)	19.2	13.9	8.6	10.8	10.1	9.6
P/B	1.8	1.4	1.2	1.2	1.1	1.0

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

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