

NetEase Cloud Music (9899 HK)

1H25 review: earnings beat on strong music business and enhanced efficiency

NetEase Cloud Music reported 1H25 results: total revenue declined by 6% YoY to RMB3.83bn; adjusted operating profit grew by 35% YoY to RMB905mn, which is equivalent to 57% of our full-year earnings estimates, mainly thanks to the improved music monetization, solid GPM expansion and S&M expenses control. We expect GPM expansion and efficiency gains to continue in 2H25/FY26. The company's GPM/S&M expense ratio (36%/4% in 1H25) still have room to improve, compared to that of TME (44%/3%), especially in a stable competitive environment like China's online music sector. We lift our FY25-27 operating profit forecast from RMB1.4/1.8/2.0bn to RMB1.7/1.9/2.1bn, mainly to reflect the opex control and GPM expansion. We roll forward our valuation window to FY26E, and raise our target price to HK\$330.0 on 32x FY26E PE, which is on par with global peers (previous: HK\$202.5 on 21x FY25E PE). Maintain BUY on the strong earnings prospect and southbound fund inflow.

- **Strong music business driven by subscriber growth.** Online music services revenue was up by 16% YoY to RMB2.97bn in 1H25, within which membership subscription revenue grew by 15% YoY to RMB2.47bn. MAUs and number of subscribers maintained healthy YoY growth, while monthly ARPPU declined slightly YoY in 1H25, mainly due to the change in subscriber mix. Non-subscription music revenue grew by 20% YoY to RMB498mn in 1H25, primarily driven by the solid growth of digital album sales. Social entertainment and others revenue declined by 43% YoY to RMB860mn in 1H25, as the company optimized operational strategy and product design to focus on the core music business. Looking ahead, the company will continue to focus on diversifying content offerings, optimizing music listening experience, nurturing community, cultivating paying willingness and improving profitability.
- **Solid margin expansion on improved monetization and opex control.** GPM expanded to 36.4% in 1H25, up from 32.4%/35.0% in 2H24/1H24, mainly attributable to the improved monetization of online music business and cost optimization. S&M expenses were down by 56% YoY to RMB163mn in 1H25 and better than our expectation, as the company adopted ROI-oriented marketing strategy. Leveraging content marketing and user traffic from NetEase, the company can acquire users at a more cost-effective way. Adjusted OPM rose by 7.2ppts YoY to 23.7% in 1H25.
- **2H25 revenue and margin outlook.** Looking into 2H25E, we forecast total revenue will recover to positive growth of 4% YoY, mainly fuelled by the solid online music business and stabilizing social entertainment business. We also expect continuous margin expansion on improved monetization of music business and disciplined expenses control, with GPM/adjusted OPM up by 5/6ppts YoY in 2H25E.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	7,867	7,950	7,871	8,509	8,876
YoY growth (%)	(12.5)	1.1	(1.0)	8.1	4.3
Gross margin (%)	26.7	33.7	36.7	38.3	39.1
Operating profit (RMB mn)	330.2	1,170.8	1,658.5	1,911.2	2,099.0
YoY growth (%)	na	254.6	41.6	15.2	9.8
EPS (Adjusted) (RMB)	3.89	8.14	13.70	10.18	11.01
P/S (x)	6.9	6.8	6.9	6.4	6.1
P/E (x)	73.7	34.3	19.7	27.0	24.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$330.00
(Previous TP) HK\$202.50
Up/Downside 17.9%
Current Price HK\$280.00

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Stock Data

Mkt Cap (HK\$ mn)	58,918.9
Avg 3 mths t/o (HK\$ mn)	270.6
52w High/Low (HK\$)	302.40/90.75
Total Issued Shares (mn)	210.4

Source: FactSet

Shareholding Structure

NetEase	59.5%
GIC	6.4%

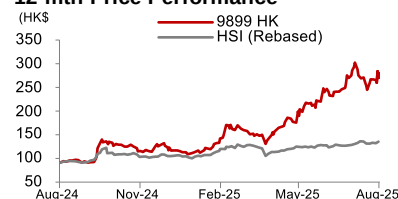
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-2.1%	-4.7%
3-mth	47.4%	36.8%
6-mth	96.9%	76.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Cloud Music: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	7,871	8,509	8,876	8,076	8,770	9,284	-2.5%	-3.0%	-4.4%
Gross profit	2,886	3,258	3,472	2,860	3,260	3,564	0.9%	-0.1%	-2.6%
Operating profit	1,658	1,911	2,099	1,419	1,765	2,017	16.9%	8.3%	4.1%
Adjusted net profit	2,887	2,145	2,319	1,882	2,161	2,380	53.4%	-0.7%	-2.6%
Adjusted EPS (RMB)	13.7	10.2	11.0	9.0	10.3	11.4	52.3%	-1.2%	-3.5%
Gross margin	36.7%	38.3%	39.1%	35.4%	37.2%	38.4%	1.3 ppt	1.1 ppt	0.7 ppt
Operating margin	21.1%	22.5%	23.6%	17.6%	20.1%	21.7%	3.5 ppt	2.4 ppt	1.9 ppt
Adjusted net margin	36.7%	25.2%	26.1%	23.3%	24.6%	25.6%	13.4 ppt	0.6 ppt	0.5 ppt

Source: CMBIGM estimates

Note: In 1H25, NetEase Cloud Music recognised a deferred income tax credit of RMB849.4mn primarily from the recognition of deferred tax assets in respect of cumulative tax losses incurred by a wholly-owned subsidiary. This led to a meaningful increase of our FY25E adjusted net profit estimate.

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	7,871	8,509	8,876	8,159	8,882	9,686	-3.5%	-4.2%	-8.4%
Gross profit	2,886	3,258	3,472	2,891	3,310	3,729	-0.2%	-1.6%	-6.9%
Adjusted net profit	2,887	2,145	2,319	1,791	2,086	2,376	61.2%	2.9%	-2.4%
Adjusted EPS (RMB)	13.7	10.2	11.0	8.3	9.6	11.0	65.0%	5.6%	-0.3%
Gross margin	36.7%	38.3%	39.1%	35.4%	37.3%	38.5%	1.2 ppt	1.0 ppt	0.6 ppt
Adjusted net margin	36.7%	25.2%	26.1%	21.9%	23.5%	24.5%	14.7 ppt	1.7 ppt	1.6 ppt

Source: Company data, CMBIGM estimates

Valuation

We value NetEase Cloud Music at HK\$330.0 per share based on 32x 2026E P/E. Our target PE multiple is on par with the global peers.

Figure 3: NetEase Cloud Music: target valuation

P/E valuation		2026E
2026E Adjusted EPS (RMB)		9.5
Target 2026E PE		32.0
Target price (RMB)		305.6
Target price (HK\$)		330.0

Source: Company data, CMBIGM estimates

Figure 4: Global music and video subscription platforms

Companies	Ticker	Price (LC)	PE(x)		PS (x)		EPS CAGR 24-26E
			2025E	2026E	2025E	2026E	
Netflix	NFLX US	1230.6	46.3	37.8	11.6	10.3	39%
Spotify	SPOT US	698.5	NA	NA	7.3	6.3	NA
TME	TME US	25.5	29.4	26.2	8.9	7.9	25%
Average			37.8	32.0	9.2	8.2	

Source: Bloomberg, CMBIGM

Note: data as of 14 Aug

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	8,992	7,867	7,950	7,871	8,509	8,876
Cost of goods sold	7,699	5,764	5,269	4,985	5,251	5,405
Gross profit	1,293	2,103	2,682	2,886	3,258	3,472
Operating expenses	1,678	1,772	1,511	1,228	1,347	1,373
Selling expense	635	758	612	394	417	431
Admin expense	172	165	185	189	194	195
R&D expense	1,011	869	780	771	783	792
Others	(140)	(20)	(65)	(126)	(47)	(45)
Operating profit	(385)	330	1,171	1,658	1,911	2,099
Investment gain/loss	(3)	(0)	(7)	0	0	0
Other gains/(losses)	0	0	0	0	0	0
Interest income	183	438	406	427	449	469
Interest expense	(0)	(0)	(0)	(0)	0	0
Pre-tax profit	(204)	768	1,570	2,085	2,360	2,568
Income tax	(17)	(33)	(5)	662	(354)	(385)
After tax profit	(221)	734	1,565	2,746	2,006	2,183
Net profit	(221)	734	1,565	2,746	2,006	2,183
Adjusted net profit	(115)	819	1,700	2,884	2,142	2,316

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	10,475	11,323	11,952	14,470	16,800	19,068
Cash & equivalents	2,917	4,020	3,795	6,108	8,058	9,970
Account receivables	558	923	1,055	992	1,019	1,010
Prepayment	662	775	640	586	601	612
ST bank deposits	6,192	5,485	6,421	6,742	7,079	7,433
Financial assets at FVTPL	0	0	7	7	8	9
Other current assets	139	98	33	33	33	33
Non-current assets	416	287	1,630	1,681	1,755	1,830
PP&E	46	33	20	13	11	9
Right-of-use assets	8	6	6	6	6	6
Investment in JVs & assos	79	79	72	72	72	72
Other non-current assets	283	169	1,531	1,590	1,666	1,742
Total assets	10,891	11,611	13,582	16,151	18,555	20,897
Current liabilities	3,010	3,100	3,312	2,998	3,253	3,276
Account payables	0	0	24	23	24	25
Tax payable	6	4	1	(100)	53	58
Other current liabilities	53	76	74	74	74	74
Lease liabilities	3	3	2	2	2	2
Contract liabilities	714	1,001	1,235	1,223	1,322	1,379
Accrued expenses	2,235	2,015	1,976	1,776	1,778	1,738
Non-current liabilities	61	70	89	88	95	98
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	61	70	89	88	95	98
Total liabilities	3,071	3,170	3,401	3,086	3,348	3,374
Share capital	0	0	0	0	0	0
Retained earnings	(10,824)	(10,091)	(8,531)	(5,784)	(3,778)	(1,596)
Other reserves	18,644	18,532	18,708	18,845	18,981	19,115
Total shareholders equity	7,820	8,441	10,178	13,061	15,203	17,519
Minority interest	na	na	4	4	4	4
Total equity and liabilities	10,891	11,611	13,582	16,151	18,555	20,897

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(204)	768	1,570	2,085	2,360	2,568
Depreciation & amortization	23	19	17	9	4	3
Tax paid	(20)	(35)	(8)	561	(201)	(380)
Change in working capital	2,102	(264)	488	(85)	63	22
Others	(58)	(300)	(292)	(289)	(313)	(336)
Net cash from operations	1,843	189	1,775	2,280	1,914	1,876
Investing						
Capital expenditure	(26)	(6)	(4)	(2)	(2)	(2)
Acquisition of subsidiaries/ investments	(13,619)	(7,248)	(25,914)	(322)	(338)	(355)
Net proceeds from disposal of short-term investments	13,650	8,061	23,701	0	0	0
Others	153	419	278	357	375	392
Net cash from investing	159	1,227	(1,939)	33	36	35
Financing						
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(31)	0	0	0	0	0
Others	28	(308)	(62)	(0)	0	0
Net cash from financing	(3)	(308)	(62)	(0)	0	0
Net change in cash						
Cash at the beginning of the year	853	2,917	4,020	3,795	6,108	8,058
Exchange difference	64	(5)	1	0	0	0
Cash at the end of the year	2,917	4,020	3,795	6,108	8,058	9,970
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	28.5%	(12.5%)	1.1%	(1.0%)	8.1%	4.3%
Gross profit	806.3%	62.6%	27.5%	7.6%	12.9%	6.6%
Operating profit	na	na	254.6%	41.6%	15.2%	9.8%
Net profit	na	na	113.2%	75.5%	(27.0%)	8.8%
Adj. net profit	na	na	107.7%	69.6%	(25.7%)	8.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	14.4%	26.7%	33.7%	36.7%	38.3%	39.1%
Operating margin	(4.3%)	4.2%	14.7%	21.1%	22.5%	23.6%
Adj. net profit margin	(1.3%)	10.4%	21.4%	36.6%	25.2%	26.1%
Return on equity (ROE)	(2.9%)	9.0%	16.8%	23.6%	14.2%	13.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(1.2)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)
Current ratio (x)	3.5	3.7	3.6	4.8	5.2	5.8
Receivable turnover days	22.7	42.8	48.4	46.0	43.7	41.5
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	73.7	34.3	19.7	27.0	24.8
P/E (diluted)	ns	73.7	34.3	19.7	27.0	24.8
P/B	6.9	6.4	5.3	4.1	3.6	3.1

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

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