24 Aug 2026

CMB International Global Markets | Equity Research | Company Update

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# NetEase Cloud Music (9899 HK)

## 1H26 review: earnings decline on revenue deceleration and rising marketing spending

**BUY (Maintain)**

| | |
|---|---|
| **Target Price** | **HK$135.00** |
| (Previous TP | HK$245.00) |
| **Up/Downside** | **42.0%** |
| **Current Price** | **HK$95.10** |

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**Stock Data**

| | |
|---|---|
| Mkt Cap (HK$ mn) | 19,872.2 |
| Avg 3 mths t/o (HK$ mn) | 121.0 |
| 52w High/Low (HK$) | 294.60/95.10 |
| Total Issued Shares (mn) | 209.0 |

Source: FactSet

**Shareholding Structure**

| | |
|---|---|
| NetEase | 59.4% |

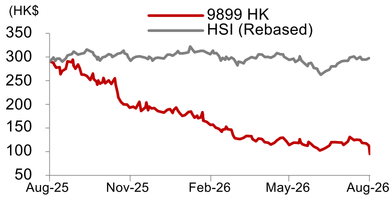
Source: Company data

**Share Performance**

| | Absolute | Relative |
|---|---|---|
| 1-mth | -20.5% | -23.2% |
| 3-mth | -16.6% | -18.6% |
| 6-mth | -39.3% | -38.3% |

Source: FactSet

**12-mth Price Performance**




Source: FactSet

NetEase Cloud Music reported 1H26 results: total revenue increased by 3% YoY to RMB3.96bn, slightly below Visible Alpha (VA) consensus estimate of RMB4.16bn due to the decline in non-subs music revenue and intensifying competition. Adjusted operating profit declined by 12% YoY to RMB797mn, primarily due to the increase in S&M expenses (+81% YoY). Looking ahead, we expect the competitive pressure from freemium music platforms and other entertainment formats will continue to weigh on the company's revenue growth in the short term. Thus, we lower our FY26-28E total revenue forecasts by 6-8%. We also cut our target price to HK$135.0 based on 15x FY26E non-GAAP PE (previous: HK$245.0 on 23x FY26E PE), as the competition impacts earnings growth outlook and online music peers' valuation. The company's current valuation offers safety margin at 10x FY26E PE, but time is needed for navigating competitive headwinds. Maintain BUY

- **Slowdown in online music revenue growth.** Online music services revenue was up by 3% YoY to RMB2.97bn in 1H26 (FY25: +12% YoY), with decelerating growth due to competitive pressure. Revenue from membership subscription increased by 5% YoY to RMB2.60bn in 1H26 (FY25: +13% YoY), mainly driven by subscriber base expansion, but partially offset by the decline in monthly ARPPU. Non-subscription music revenue was down by 6% YoY in 1H26, primarily attributable to the macro uncertainty and high base effect. Social entertainment and others revenue recovered by 4% YoY to RMB891mn in 1H26, as the business stabilized after adjustment.
- **Margin declined due to increased marketing spending.** Overall GPM expanded by 0.9ppts YoY to 37.2% in 1H26, primarily thanks to the operating leverage and recovery of social entertainment business. Adjusted operating profit declined by 12% YoY to RMB797mn in 1H26, with OPM down by 3.5ppts YoY to 20.1%, as the company increased S&M expenses (+81% YoY to RMB295mn) to enhance brand awareness, especially among the young generation.
- **Healthy user community and diversify content ecosystem.** The user community remains highly engaged, with rising DAU/MAU ratio and growing mobile music listening time. The retention and renewal rates of the membership base also improved YoY, reflecting stronger user loyalty. The company continued to enrich content library and advance product innovations by upgrading its self-developed AI generative recommendation model, Climber, and introducing innovative functions like "AI-inspired Playlist" to improve users' music discovery experience.

**Earnings Summary**

| (YE 31 Dec) | FY24A | FY25A | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|
| **Revenue (RMB mn)** | 7,950 | 7,759 | 7,900 | 8,254 | 8,617 |
| **YoY growth (%)** | 1.1 | (2.4) | 1.8 | 4.5 | 4.4 |
| **Gross margin (%)** | 33.7 | 35.7 | 37.4 | 37.7 | 38.3 |
| **Operating profit (RMB mn)** | 1,170.8 | 1,622.0 | 1,508.8 | 1,567.9 | 1,721.3 |
| **YoY growth (%)** | 254.6 | 38.5 | (7.0) | 3.9 | 9.8 |
| **Adjusted net profit (RMB mn)** | 1,700.1 | 2,857.6 | 1,714.2 | 1,815.3 | 1,932.2 |
| **YoY growth (%)** | 107.7 | 68.1 | (40.0) | 5.9 | 6.4 |
| **EPS (Adjusted) (RMB)** | 8.14 | 13.54 | 8.20 | 8.69 | 9.25 |
| **P/S (x)** | 2.1 | 2.2 | 2.2 | 2.1 | 2.0 |
| **P/E (x)** | 10.9 | 6.3 | 10.5 | 10.1 | 9.3 |

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 1: NetEase Cloud Music: forecast revision**

| | Current | | | Previous | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| RMB mn | FY26E | FY27E | FY28E | FY26E | FY27E | FY28E | FY26E | FY27E | FY28E |
| Revenue | 7,900 | 8,254 | 8,617 | 8,419 | 8,927 | 9,350 | -6.2% | -7.5% | -7.8% |
| Gross profit | 2,955 | 3,108 | 3,296 | 3,117 | 3,369 | 3,586 | -5.2% | -7.8% | -8.1% |
| Operating profit | 1,509 | 1,568 | 1,721 | 1,925 | 2,122 | 2,297 | -21.6% | -26.1% | -25.1% |
| Adjusted net profit | 1,714 | 1,815 | 1,932 | 2,138 | 2,309 | 2,441 | -19.8% | -21.4% | -20.9% |
| Adjusted EPS (RMB) | 8.2 | 8.7 | 9.2 | 10.1 | 10.9 | 11.6 | -18.9% | -20.5% | -20.1% |
| Gross margin | 37.4% | 37.7% | 38.3% | 37.0% | 37.7% | 38.4% | 0.4 ppt | -0.1 ppt | -0.1 ppt |
| Operating margin | 19.1% | 19.0% | 20.0% | 22.9% | 23.8% | 24.6% | -3.8 ppt | -4.8 ppt | -4.6 ppt |
| Adjusted net margin | 21.7% | 22.0% | 22.4% | 25.4% | 25.9% | 26.1% | -3.7 ppt | -3.9 ppt | -3.7 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 | 7,900 | 8,254 | 8,617 | 8,309 | 8,803 | 9,256 | -4.9% | -6.2% | -6.9% |
| Gross profit | 2,955 | 3,108 | 3,296 | 3,123 | 3,305 | 3,368 | -5.4% | -6.0% | -2.1% |
| Adjusted net profit | 1,714 | 1,815 | 1,932 | 1,968 | 2,111 | 2,157 | -12.9% | -14.0% | -10.4% |
| Adjusted EPS (RMB) | 8.2 | 8.7 | 9.2 | 9.4 | 10.0 | 10.3 | -12.3% | -13.5% | -9.8% |
| Gross margin | 37.4% | 37.7% | 38.3% | 37.6% | 37.5% | 36.4% | -0.2 ppt | 0.1 ppt | 1.9 ppt |
| Adjusted net margin | 21.7% | 22.0% | 22.4% | 23.7% | 24.0% | 23.3% | -2.0 ppt | -2.0 ppt | -0.9 ppt |

Source: Company data, CMBIGM estimates, Visible Alpha

## Valuation

We value NetEase Cloud Music at HK$135.0 per share based on 15x 2026E P/E. Our target PE multiple is at a discount to the global peers' (23x), mainly due to the intensifying competition in China's online music sector.

**Figure 3: NetEase Cloud Music: target valuation**

| P/E valuation | 2026E |
|---|---|
| 2026E Adjusted EPS (RMB) | 7.7 |
| Target 2026E PE | 15.0 |
| Target price (RMB) | 116.0 |
| Target price (HK$) | 135.0 |

Source: Company data, CMBIGM estimates

**Figure 4: Global music and video subscription platforms**

| Companies | Ticker | Price (LC) | PE(x) | | PS (x) | | EPS CAGR |
|---|---|---|---|---|---|---|---|
| | | | 2026E | 2027E | 2026E | 2027E | 25-27E |
| Netflix | NFLX US | 80.1 | 22.4 | 21.2 | 6.0 | 5.4 | 20% |
| Spotify | SPOT US | 533.1 | 37.5 | 29.7 | 4.7 | 4.1 | 21% |
| TME | TME US | 8.9 | 9.6 | 8.9 | 2.9 | 2.7 | 6% |
| iQiyi | IQ US | 1.0 | NA | NA | 0.3 | 0.3 | NA |
| **Average** | | | **23.1** | **19.9** | **3.5** | **3.1** | |

Source: Bloomberg, CMBIGM
Note: data as of 20 Aug

### Risks

Intensifying competition; AI-generated music leads to copyright infringement; macro headwinds.

# Financial Summary

| INCOME STATEMENT | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (RMB mn)** | | | | | | |
| **Revenue** | **7,867** | **7,950** | **7,759** | **7,900** | **8,254** | **8,617** |
| Cost of goods sold | 5,764 | 5,269 | 4,990 | 4,946 | 5,146 | 5,321 |
| **Gross profit** | **2,103** | **2,682** | **2,770** | **2,955** | **3,108** | **3,296** |
| **Operating expenses** | **1,772** | **1,511** | **1,148** | **1,446** | **1,540** | **1,575** |
| Selling expense | 758 | 612 | 409 | 585 | 605 | 625 |
| Admin expense | 165 | 185 | 177 | 166 | 173 | 177 |
| R&D expense | 869 | 780 | 762 | 782 | 793 | 803 |
| Others | (20) | (65) | (199) | (87) | (31) | (30) |
| **Operating profit** | **330** | **1,171** | **1,622** | **1,509** | **1,568** | **1,721** |
| Investment gain/loss | (0) | (7) | 0 | (12) | (12) | (13) |
| Other gains/(losses) | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest income | 438 | 406 | 446 | 371 | 435 | 443 |
| Interest expense | (0) | (0) | (0) | 0 | 0 | 0 |
| **Pre-tax profit** | **768** | **1,570** | **2,068** | **1,868** | **1,990** | **2,152** |
| Income tax | (33) | (5) | 678 | (252) | (299) | (323) |
| **After tax profit** | **734** | **1,565** | **2,746** | **1,615** | **1,692** | **1,829** |
| **Net profit** | **734** | **1,565** | **2,746** | **1,615** | **1,692** | **1,829** |
| **Adjusted net profit** | **819** | **1,700** | **2,858** | **1,714** | **1,815** | **1,932** |

| BALANCE SHEET | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (RMB mn)** | | | | | | |
| **Current assets** | **11,323** | **11,952** | **14,074** | **15,543** | **17,326** | **19,213** |
| Cash & equivalents | 4,020 | 3,795 | 3,118 | 4,194 | 5,489 | 6,810 |
| Account receivables | 923 | 1,055 | 1,068 | 1,033 | 1,025 | 1,071 |
| Prepayment | 775 | 640 | 802 | 776 | 797 | 818 |
| ST bank deposits | 5,485 | 6,421 | 9,057 | 9,510 | 9,986 | 10,485 |
| Financial assets at FVTPL | 0 | 7 | 0 | 0 | 0 | 0 |
| Other current assets | 98 | 33 | 28 | 28 | 28 | 28 |
| **Non-current assets** | **287** | **1,630** | **2,387** | **2,462** | **2,539** | **2,623** |
| PP&E | 33 | 20 | 20 | 28 | 32 | 35 |
| Right-of-use assets | 6 | 6 | 6 | 6 | 6 | 6 |
| Investment in JVs & assos | 79 | 72 | 52 | 52 | 52 | 52 |
| Other non-current assets | 169 | 1,531 | 2,310 | 2,377 | 2,449 | 2,531 |
| **Total assets** | **11,611** | **13,582** | **16,461** | **18,004** | **19,866** | **21,836** |
| | | | | | | |
| **Current liabilities** | **3,100** | **3,312** | **3,486** | **3,313** | **3,354** | **3,388** |
| Account payables | 0 | 24 | 56 | 56 | 58 | 60 |
| Tax payable | 4 | 1 | 63 | (23) | (28) | (30) |
| Other current liabilities | 76 | 74 | 38 | 38 | 38 | 38 |
| Lease liabilities | 3 | 2 | 2 | 2 | 2 | 2 |
| Contract liabilities | 1,001 | 1,235 | 1,406 | 1,432 | 1,496 | 1,562 |
| Accrued expenses | 2,015 | 1,976 | 1,921 | 1,809 | 1,788 | 1,756 |
| **Non-current liabilities** | **70** | **89** | **106** | **108** | **112** | **117** |
| Convertible bonds | 0 | 0 | 0 | 0 | 0 | 0 |
| Other non-current liabilities | 70 | 89 | 106 | 108 | 112 | 117 |
| **Total liabilities** | **3,170** | **3,401** | **3,592** | **3,421** | **3,467** | **3,505** |
| | | | | | | |
| Share capital | 0 | 0 | 0 | 0 | 0 | 0 |
| Retained earnings | (10,091) | (8,531) | (5,784) | (4,168) | (2,477) | (648) |
| Other reserves | 18,532 | 18,708 | 18,653 | 18,752 | 18,876 | 18,979 |
| **Total shareholders equity** | **8,441** | **10,178** | **12,869** | **14,584** | **16,399** | **18,331** |
| Minority interest | na | 4 | na | na | na | na |
| **Total equity and liabilities** | **11,611** | **13,582** | **16,461** | **18,004** | **19,866** | **21,836** |

| CASH FLOW | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (RMB mn)** | | | | | | |
| **Operating** | | | | | | |
| **Profit before taxation** | **768** | **1,570** | **2,068** | **1,868** | **1,990** | **2,152** |
| Depreciation & amortization | 19 | 17 | 15 | 6 | 8 | 10 |
| Tax paid | (35) | (8) | 740 | (338) | (303) | (325) |
| Change in working capital | (264) | 488 | (73) | (21) | 38 | (30) |
| Others | (300) | (292) | (334) | (272) | (311) | (340) |
| **Net cash from operations** | **189** | **1,775** | **2,416** | **1,243** | **1,422** | **1,466** |
| **Investing** | | | | | | |
| Capital expenditure | (6) | (4) | (14) | (14) | (13) | (12) |
| Acquisition of subsidiaries/ investments | (7,248) | (25,914) | (3,545) | (453) | (476) | (499) |
| Net proceeds from disposal of short-term investments | 8,061 | 23,701 | 0 | 0 | 0 | 0 |
| Others | 419 | 278 | 467 | 301 | 361 | 366 |
| **Net cash from investing** | **1,227** | **(1,939)** | **(3,093)** | **(166)** | **(128)** | **(146)** |
| **Financing** | | | | | | |
| Proceeds from share issues | 0 | 0 | 0 | 0 | 0 | 0 |
| Share repurchases | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | (308) | (62) | (0) | 0 | 0 | 0 |
| **Net cash from financing** | **(308)** | **(62)** | **(0)** | **0** | **0** | **0** |
| **Net change in cash** | | | | | | |
| Cash at the beginning of the year | 2,917 | 4,020 | 3,795 | 3,118 | 4,194 | 5,489 |
| Exchange difference | (5) | 1 | 0 | 0 | 0 | 0 |
| **Cash at the end of the year** | **4,020** | **3,795** | **3,118** | **4,194** | **5,489** | **6,810** |

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

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|---|---|
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| | |
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