

NetEase Cloud Music (9899 HK)

2H25 revenue miss on soft non-subscription business; intact FY26 earnings growth outlook

NetEase Cloud Music announced FY25 financial results: total revenue declined by 2% YoY to RMB7.76bn, slightly below Bloomberg consensus estimate of RMB7.91bn. Adjusted net profit was up by 68% YoY to RMB2.86bn, in line with consensus estimate. Excluding the impact of deferred income tax credit, adjusted operating profit grew by 32% YoY to RMB1.73bn. Share price declined by over 9% post results on 12 Feb owing to the two concerns of investors: 1) online music revenue growth decelerated to +8% YoY in 2H25 (1H25: +16% YoY); 2) overall GPM declined by 1.4ppts in 2H25 vs 1H25. Nonetheless, we note that the deceleration and GPM contraction in 2H25 was mainly due to the YoY decline in revenue from higher-margin non-subscription business, while music subscription business remained solid in 2H25. We slightly lower FY26 total revenue forecast by 1% in view of the relatively soft non-subscription businesses. We trim our target price to HK\$245.0 based on 23x FY26E non-GAAP PE (previous: HK\$330.0 on 32x FY26E PE) due to the decline in sector valuation. The company now offers attractive risk-reward on current valuation (15x FY26E PE), supported by solid OP growth outlook in FY26E. Maintain BUY.

■ Non-subscription businesses dragged online music revenue growth.

Online music services revenue grew by 8% YoY to RMB3.0bn in 2H25 (1H25: +16% YoY). Revenue from membership subscription was up by 12% YoY to RMB2.6bn in 2H25 (1H25: +15% YoY), primarily driven by growth in subscriber base, but partially offset by the decline in monthly ARPPU. Non-subscription music revenue declined by 7% YoY in 2H25, mainly due to the decline in revenue from digital album sales. Social entertainment and others revenue fell by 17% YoY to RMB905mn in 2H25, as the company focuses more on the core music business. That said, social entertainment revenue stabilised and grew by 5% HoH in 2H25.

■ Margin expansion on operating leverage and expense control. Overall GPM increased by 2.7ppts YoY but declined by 1.4ppts HoH to 35.0% in 2H25. The HoH margin decline was mainly due to the drop in revenue from higher-margin non-subscription business. Overall adjusted operating margin improved by 4.6ppts YoY to 21.1% in 2H25, thanks to the operating leverage and effective control in opex.

■ Operating income to sustain solid growth in FY26E. Looking into FY26E, we forecast total revenue to increase by 8% YoY to RMB8.4bn, mainly driven by the solid growth of online music business. We expect music subscription revenue to rise by 13% YoY to RMB5.7bn in FY26E, supported by the increase in both subscriber base and ARPPU. Underpinned by solid music revenue growth and efficiency enhancement, we model FY26E adjusted operating profit to grow by 19% YoY, with OPM up by 2ppts YoY.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	7,950	7,759	8,419	8,927	9,350
YoY growth (%)	1.1	(2.4)	8.5	6.0	4.7
Gross margin (%)	33.7	35.7	37.0	37.7	38.4
Operating profit (RMB mn)	1,170.8	1,622.0	1,924.6	2,122.0	2,296.7
Adjusted net profit (RMB mn)	1,700.1	2,857.6	2,135.5	2,307.0	2,441.2
YoY growth (%)	107.7	68.1	(25.3)	8.0	5.8
EPS (Adjusted) (RMB)	8.14	13.54	10.12	10.93	11.57
P/S (x)	3.9	4.0	3.7	3.5	3.3
P/E (x)	19.5	11.2	15.4	14.2	13.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$245.00**
 (Previous TP) **HK\$330.00**
Up/Downside **48.1%**
Current Price **HK\$165.40**

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO, CFA
 (852) 3850 5226
 franktao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	34,904.3
Avg 3 mths t/o (HK\$ mn)	137.8
52w High/Low (HK\$)	302.40/130.70
Total Issued Shares (mn)	211.0

Source: FactSet

Shareholding Structure

NetEase	59.4%
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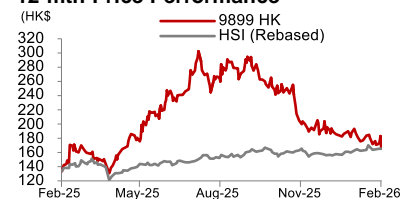
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-14.4%	-15.8%
3-mth	-19.3%	-19.6%
6-mth	-36.4%	-41.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Cloud Music: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	8,419	8,927	9,350	8,509	8,876	NA	-1.1%	0.6%	NA
Gross profit	3,117	3,369	3,586	3,258	3,472	NA	-4.3%	-2.9%	NA
Operating profit	1,925	2,122	2,297	1,911	2,099	NA	0.7%	1.1%	NA
Adjusted net profit	2,138	2,309	2,441	2,145	2,319	NA	-0.4%	-0.4%	NA
Adjusted EPS (RMB)	10.1	10.9	11.6	10.2	11.0	NA	-0.6%	-0.7%	NA
Gross margin	37.0%	37.7%	38.4%	38.3%	39.1%	NA	-1.3 ppt	-1.4 ppt	NA
Operating margin	22.9%	23.8%	24.6%	22.5%	23.6%	NA	0.4 ppt	0.1 ppt	NA
Adjusted net margin	25.4%	25.9%	26.1%	25.2%	26.1%	NA	0.2 ppt	-0.3 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	8,419	8,927	9,350	8,697	9,548	9,929	-3.2%	-6.5%	-5.8%
Gross profit	3,117	3,369	3,586	3,304	3,776	4,026	-5.7%	-10.8%	-10.9%
Adjusted net profit	2,138	2,309	2,441	2,256	2,611	2,720	-5.2%	-11.5%	-10.2%
Adjusted EPS (RMB)	10.1	10.9	11.6	10.5	12.3	13.1	-3.3%	-11.1%	-11.8%
Gross margin	37.0%	37.7%	38.4%	38.0%	39.5%	40.5%	-1.0 ppt	-1.8 ppt	-2.2 ppt
Adjusted net margin	22.9%	23.8%	24.6%	14.6%	20.9%	24.4%	8.3 ppt	2.8 ppt	0.2 ppt

Source: Company data, CMBIGM estimates

Valuation

We value NetEase Cloud Music at HK\$245.0 per share based on 23x 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	23.0
Target price (RMB)	218.3
Target price (HK\$)	245.0

Source: Company data, CMBIGM estimates

Figure 4: Global music and video subscription platforms

Companies	Ticker	Price (LC)	PE(x)		PS (x)		EPS CAGR 25-27E
			2026E	2027E	2026E	2027E	
Netflix	NFLX US	79.6	25.3	20.9	6.6	5.9	22%
Spotify	SPOT US	487.2	32.8	25.6	4.3	3.8	50%
TME	TME US	16.9	16.8	14.5	4.9	4.4	13%
iQiyi	IQ US	1.9	17.9	9.2	0.5	0.4	NA
Average			23.2	17.6	4.1	3.6	

Source: Bloomberg, CMBIGM

Note: data as of 11 Feb

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	7,867	7,950	7,759	8,419	8,927	9,350
Cost of goods sold	5,764	5,269	4,990	5,302	5,557	5,764
Gross profit	2,103	2,682	2,770	3,117	3,369	3,586
Operating expenses	1,772	1,511	1,148	1,192	1,247	1,289
Selling expense	758	612	409	413	433	449
Admin expense	165	185	177	182	187	192
R&D expense	869	780	762	775	797	809
Others	(20)	(65)	(199)	(177)	(170)	(161)
Operating profit	330	1,171	1,622	1,925	2,122	2,297
Investment gain/loss	(0)	(7)	0	0	0	0
Other gains/(losses)	0	0	0	0	0	0
Interest income	438	406	446	429	435	443
Interest expense	(0)	(0)	(0)	0	0	0
Pre-tax profit	768	1,570	2,068	2,354	2,557	2,740
Income tax	(33)	(5)	678	(353)	(383)	(411)
After tax profit	734	1,565	2,746	2,001	2,173	2,329
Net profit	734	1,565	2,746	2,001	2,173	2,329
Adjusted net profit	819	1,700	2,858	2,136	2,307	2,441

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	11,323	11,952	14,074	16,183	18,501	20,912
Cash & equivalents	4,020	3,795	3,118	4,716	6,516	8,348
Account receivables	923	1,055	1,068	1,101	1,109	1,162
Prepayment	775	640	802	827	862	888
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	2,468	2,547	2,632
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	2,383	2,457	2,540
Total assets	11,611	13,582	16,461	18,651	21,049	23,544
Current liabilities	3,100	3,312	3,486	3,532	3,616	3,664
Account payables	0	24	56	60	62	65
Tax payable	4	1	63	(33)	(36)	(38)
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	1,526	1,618	1,694
Accrued expenses	2,015	1,976	1,921	1,939	1,930	1,902
Non-current liabilities	70	89	106	115	121	127
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	70	89	106	115	121	127
Total liabilities	3,170	3,401	3,592	3,646	3,737	3,791
Share capital	0	0	0	0	0	0
Retained earnings	(10,091)	(8,531)	(5,784)	(3,783)	(1,610)	719
Other reserves	18,532	18,708	18,653	18,788	18,922	19,034
Total shareholders equity	8,441	10,178	12,869	15,005	17,312	19,753
Total equity and liabilities	11,611	13,578	16,461	18,651	21,049	23,544

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	768	1,570	2,068	2,354	2,557	2,740
Depreciation & amortization	19	17	15	6	8	10
Tax paid	(35)	(8)	740	(449)	(386)	(414)
Change in working capital	(264)	488	(73)	89	49	(27)
Others	(300)	(292)	(334)	(295)	(301)	(331)
Net cash from operations	189	1,775	2,416	1,706	1,927	1,978
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	359	361	366
Net cash from investing	1,227	(1,939)	(3,093)	(107)	(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	4,716	6,516
Exchange difference	(5)	1	0	0	0	0
Cash at the end of the year	4,020	3,795	3,118	4,716	6,516	8,348
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	(12.5%)	1.1%	(2.4%)	8.5%	6.0%	4.7%
Gross profit	62.6%	27.5%	3.3%	12.5%	8.1%	6.4%
Operating profit	na	254.6%	38.5%	18.7%	10.3%	8.2%
Net profit	na	113.2%	75.4%	(27.1%)	8.6%	7.2%
Adj. net profit	na	107.7%	68.1%	(25.3%)	8.0%	5.8%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	26.7%	33.7%	35.7%	37.0%	37.7%	38.4%
Operating margin	4.2%	14.7%	20.9%	22.9%	23.8%	24.6%
Adj. net profit margin	10.4%	21.4%	36.8%	25.4%	25.8%	26.1%
Return on equity (ROE)	9.0%	16.8%	23.8%	14.4%	13.4%	12.6%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(1.1)	(1.0)	(0.9)	(0.9)	(1.0)	(1.0)
Current ratio (x)	3.7	3.6	4.0	4.6	5.1	5.7
Receivable turnover days	42.8	48.4	50.2	47.7	45.3	45.3
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	41.9	19.5	11.2	15.4	14.2	13.3
P/E (diluted)	41.9	19.5	11.2	15.4	14.2	13.3
P/B	3.6	3.0	2.4	2.1	1.8	1.6

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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