

TME (TME US)

Prudent on 4Q21E & FY22E topline growth

TME delivered better-than-feared 3Q21 results, with rev/ adj. net profit +3%/-21% YoY in 3Q21, 0%/27% above consensus. Music subs remain intact (5mn quarterly net adds), despite regulations against exclusive music copyright. However, we are prudent on 4Q21E momentum which is dragged by soft ads, social entertainment and digital albums. Mgmt guided down FY21E rev to +8% YoY (prior +10% YoY), while FY22E rev +5% YoY, with continuous pressure from social entertainment biz (forecasting -5% YoY). We cut its topline by 1%/7%/9% in FY21/22/23E to reflect lower ads & social growth and intensified competition, and trimmed DCF-based TP to US\$9.

- 3Q21 beat on margin.** 3Q21 topline +3% YoY (in line with consensus), with solid subs (+5mn net adds) to offset soft ads, digital album and social entertainment. By segment, music/social +24%/-6% YoY in 3Q21, with music sub/other music +30%/+14% YoY. Adj. net income came in at RMB1.1bn (-21% YoY in 3Q21), 27% above consensus, mainly on higher GPM and lower-than-expected S&M.
- Rev guiding down to +8% YoY in FY21E.** Despite upbeat 3Q21, we turn more conservative on its 4Q21E and FY22E topline growth, given: 1) social entertainment to bear heavier pressure, forecasting flat YoY in FY21E; 2) ads to slow down due to app-open regulations and soft macro, forecasting 14% YoY in 4Q21E; and 3) digital albums under pressure amid fandom regulations tightening. We trimmed FY21E topline to +8% YoY from +10%, with GPM /adj. NPM at 30%/12.7%. 4Q21E rev is estimated to -5% YoY, in which music/social +13%/-15% YoY. We expect subs net add at 4mn-5mn in 4Q21E, while ARPU continues to decline QoQ.
- Prudent on FY22E growth with social biz pressure.** We forecast rev +5% YoY in FY22E, while adj. NPM at 12.2%. By segment, music/social +22%/-5% YoY, in our estimates. We expect social entertainment to remain muted with intensified competition and uncertainty in virtual gifting regulations. Long-form audio MAU climbed up to 140mn, with 5mn paying users in 3Q21, but it would take more time to see meaningful rev contribution.
- D/G to HOLD.** We cut TME topline by 1%/7%/9% in FY21/22/23E to reflect continuous headwinds. Lowered DCF-based TP to US\$9.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	25,434	29,153	31,518	32,968	35,159
YoY growth (%)	34.0	14.6	8.1	4.6	6.6
Adj. net income (RMB mn)	4,903	4,971	3,989	4,022	4,356
Adj. EPS (RMB)	2.9	3.0	2.4	2.4	2.6
YoY growth (%)	11.3	1.0	-19.7	0.8	8.3
Consensus EPS	NA	NA	2.5	3.1	4.1
P/E (x)	17.1	16.9	21.1	20.9	19.3
P/B (x)	3.3	2.9	2.7	2.6	2.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	11.2	9.4	6.8	6.5	6.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (D/G)

Target Price **US\$9**
(Previous TP **US\$10.0**)
Up/Downside **+12.5%**
Current Price **US\$8.0**

China Internet Sector

Sophie Huang
(852) 3900 0889
sophiehuang@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	13,202
Avg 3 mths t/o (US\$ mn)	133.34
52w High/Low (US\$)	32.25/ 6.8
Total Issued Shares (mn)	835

Source: Bloomberg

Shareholding Structure

Pacific Alliance	6.01%
Baillie Gifford	5.46%
Invesco	4.13%

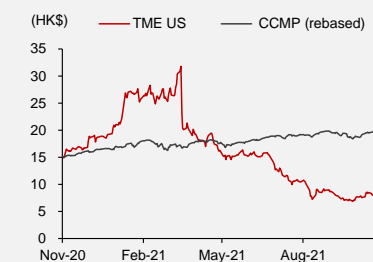
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	5.0%	-3.7%
3-mth	-25.4%	-30.7%
6-mth	-51.5%	-58.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Subs intact despite soft ads and social – 6 Oct 2021
- Multiple challenges ahead – 18 Aug 2021
- Initiation: Online music leader with LF audio initiatives – 25 Jun 2021

Figure 1: 3Q21 financial review

RMB mn, Dec-YE	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	6,932	7,575	8,335	7,824	8,008	7,805	-2.5%	3.0%	7,801	0%	7,636	2%
Operating Profit	1,107	1,026	1,018	911	1,035	919	-11.2%	-10.4%	656	40%	530	73%
Net profit	939	1,132	1,197	926	827	788	-4.7%	-30.4%	553	43%	439	80%
Adj. net profit	1,155	1,349	1,364	1,235	1,161	1,063	-8.4%	-21.2%	836	27%	728	46%
Adj. EPS (RMB)	0.69	0.80	0.81	0.69	0.66	0.61	-7.8%	-24.2%	0.49	24%	0.43	41%
Margin (%)												
Gross margin	31.3%	32.4%	32.4%	31.5%	30.4%	29.6%			28.5%		25.4%	
Operating margin	16.0%	13.5%	12.2%	11.6%	12.9%	11.8%			8.4%		6.9%	
Adj. net margin	16.7%	17.8%	16.4%	15.8%	14.5%	13.6%			10.7%		9.5%	
Growth (%)												
Revenue (YoY)	17.5%	16.4%	14.3%	24.0%	15.5%	3.0%			3.0%		0.8%	
Revenue (QoQ)	9.8%	9.3%	10.0%	-6.1%	2.4%	-2.5%			-2.6%		-4.6%	
Operating Profit	24.2%	5.3%	-4.9%	11.8%	-6.5%	-10.4%			-36.0%		-48.3%	
Adj. net profit	2.3%	9.3%	1.8%	12.0%	0.5%	-21.2%			-38.0%		-46.1%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: 3Q21 revenue breakdown

RMB mn, Dec-YE	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY
Total revenue	6,932	7,575	8,335	7,824	8,008	7,805	-3%	3%
Online music service	2,221	2,324	2,760	2,749	2,950	2,888	-2%	24%
Subscription	1,314	1,460	1,580	1,690	1,790	1,900	6%	30%
Others	907	864	1,180	1,059	1,160	988	-15%	14%
Social entertainment / others	4,711	5,251	5,575	5,075	5,058	4,917	-3%	-6%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	31,518	32,968	35,159	31,936	35,168	39,987	-1.3%	-6.3%	-12.1%
Gross Profit	9,346	9,433	10,031	9,462	10,435	11,908	-1.2%	-9.6%	-15.8%
Operating Profit	2,509	2,345	2,506	3,326	3,541	4,234	-24.6%	-33.8%	-40.8%
Adj. net profit	3,989	4,022	4,356	3,955	4,169	5,088	0.9%	-3.5%	-14.4%
EPS (RMB)	2.38	2.40	2.60	2.25	2.29	2.81	5.9%	4.9%	-7.6%
Gross Margin	29.7%	28.6%	28.5%	29.6%	29.7%	29.8%	+0.0ppts	-1.1ppts	-1.2ppts
Operating Margin	8.0%	7.1%	7.1%	10.4%	10.1%	10.6%	-2.5ppts	-3.0ppts	-3.5ppts
Net Margin	12.7%	12.2%	12.4%	12.4%	11.9%	12.7%	+0.3ppts	+0.3ppts	-0.3ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	31,518	32,968	35,159	31,887	35,330	38,512	-1.2%	-6.7%	-8.7%
Gross Profit	9,346	9,433	10,031	9,012	9,835	10,789	3.7%	-4.1%	-7.0%
Operating Profit	2,509	2,345	2,506	2,232	2,239	2,547	12.4%	4.7%	-1.6%
Adj. net profit	3,989	4,022	4,356	3,777	3,925	4,401	5.6%	2.5%	-1.0%
EPS (RMB)	2.38	2.40	2.60	2.23	2.32	2.60	6.6%	3.4%	-0.1%
Gross Margin	29.7%	28.6%	28.5%	28.3%	27.8%	28.0%	+1.4ppts	+0.8ppts	+0.5ppts
Operating Margin	8.0%	7.1%	7.1%	7.0%	6.3%	6.6%	+1.0ppts	+0.8ppts	+0.5ppts
Net Margin	12.7%	12.2%	12.4%	11.8%	11.1%	11.4%	+0.8ppts	+1.1ppts	+1.0ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net revenues	31,518	32,968	35,159	31,518	32,968
Online music service	11,713	14,240	16,097	11,713	14,240
Subscription	7,380	8,914	9,792	7,380	8,914
Others	4,333	5,326	6,305	4,333	5,326
Social entertainment	19,806	18,728	19,062	19,806	18,728
COGS	(22,172)	(23,535)	(25,129)	(22,172)	(23,535)
Gross profit	9,346	9,433	10,031	9,346	9,433
S&M	(2,834)	(3,330)	(3,586)	(2,834)	(3,330)
R&D	(2,049)	(2,110)	(2,180)	(2,049)	(2,110)
Admin.Exp.	(1,955)	(1,648)	(1,758)	(1,955)	(1,648)
Operating profit	2,509	2,345	2,506	2,509	2,345
Other income, net	849	1,171	1,345	849	1,171
Pre-tax Income	3,358	3,516	3,851	3,358	3,516
Income Tax	(389)	(527)	(578)	(389)	(527)
Net profit	2,968	2,989	3,274	2,968	2,989
Adj. net profit	3,989	4,022	4,356	3,989	4,022

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Pre-tax Income	4,540	4,632	3,358	3,516	3,851
D&A	410	457	502	556	614
Change in WC	1,135	(314)	305	176	198
Others	(1,200)	(483)	244	570	1,793
Operating CF	4,885	4,292	4,408	4,818	6,457
Capex	(286)	(330)	(357)	(373)	(398)
Investments	37	6	0	0	0
Others	(7,853)	(13,882)	(2,095)	(1,804)	(1,735)
Investing CF	(8,102)	(14,206)	(2,451)	(2,177)	(2,133)
Equity raised	12	0	0	0	0
Change of debts	0	0	0	0	0
Others	(43)	5,292	0	0	0
Financing CF	(31)	5,292	0	0	0
Net change in cash	(1,933)	(4,029)	1,981	2,231	2,685
Cash (beg of yr)	17,356	15,426	11,128	13,109	15,340
FX	3	(269)	0	0	0
Cash (end of yr)	15,426	11,128	13,109	15,340	18,025

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	25,764	36,586	40,616	42,337	43,984
Intangible assets, net	1,622	2,020	1,514	1,435	1,333
Goodwill	17,140	17,492	19,640	20,890	22,140
Financial assets	4,461	9,771	9,771	9,771	9,771
Others	2,541	7,303	9,690	10,241	10,741
Current assets	26,914	31,687	34,214	36,732	39,849
Cash, restricted cash	15,426	11,128	13,109	15,340	18,025
Accounts receivable	2,198	2,800	3,368	3,523	3,757
Other current assets	2,220	2,846	2,751	2,878	3,069
Term deposits	7,000	14,858	14,858	14,858	14,858
Others	70	55	128	134	140
Current liabilities	8,490	9,602	10,508	11,018	11,718
Accounts payables	2,559	3,565	3,341	3,546	3,787
Other payables	3,782	3,881	3,782	3,956	4,219
Deferred revenue	1,694	1,608	2,837	2,967	3,164
Others	455	548	548	548	548
Non-current liabilities	510	5,940	5,940	5,940	5,940
Notes payable	0	5,175	5,175	5,175	5,175
Deferred tax liability	297	265	265	265	265
Others	213	500	500	500	500
MI	88	486	486	486	486
Total Equity	43,678	52,731	58,382	62,111	66,175
Shareholders' equity	43,590	52,245	57,896	61,625	65,689

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Online music service	28.1	32.1	37.2	43.2	45.8
Subscription	14.0	19.1	23.4	27.0	27.9
Others	14.1	13.0	13.7	16.2	17.9
Social entertainment	71.9	67.9	62.8	56.8	54.2
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	34.0	14.6	8.1	4.6	6.6
Gross profit	19.2	7.3	0.5	0.9	6.3
EBIT	18.9	(5.2)	(32.7)	(6.5)	6.9
Adj. net profit	17.8	1.4	(19.8)	0.8	8.3
P&L ratios (%)					
Operating margin	15.4	12.8	8.0	7.1	7.1
Pre-tax margin	17.9	15.9	10.7	10.7	11.0
Adj. net margin	19.3	17.1	12.7	12.2	12.4
Effective tax rate	(12.4)	(9.8)	(11.6)	(15.0)	(15.0)
Returns (%)					
ROE	11.2	9.4	6.8	6.5	6.6
ROA	9.3	7.3	5.3	5.1	5.2
Per share					
EPS (RMB)	2.9	3.0	2.4	2.4	2.6
DPS (RMB)	1.0	2.0	3.0	4.0	5.0
BVPS (RMB)	15.8	20.3	22.3	23.6	25.0

Source: Company data, CMBIS estimates

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CMB International Securities Limited

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

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