

TME (TME US)

Resilience in the evolving industry

TME will continue to focus on improving operating efficiency in 2H22 to combat macro uncertainty and intensifying competition in social entertainment sector. We forecast total revenue to drop by 11.2% YoY to RMB27.7bn in 2022E, due to the soft performance of social entertainment and ad businesses, before recovering by 7.1/6.5% YoY to RMB29.7/31.7bn in 2023/2024E. Although non-IFRS net profit was down by 16.1% YoY to RMB1.9bn in 1H22, we expect non-IFRS net profit to recover to 30.9% YoY to RMB2.4bn in 2H22E, driven by effective cost control initiatives and recovery of core music business. We remain positive on its long-term monetization potential, and forecast non-IFRS net income CAGR of 9.8% over 2021-2024E. Our DCF-derived target price is US\$6.60, which translates into 16/15x 2022/2023E non-IFRS PE. We are transferring coverage with a BUY rating.

■ **3Q22 preview: earnings stabilize despite revenue drop.** We forecast total revenue to decline by 9.5% YoY to RMB7.1bn in 3Q22E, mainly due to the decline in social entertainment revenue (-21.5% YoY) but partially offset by steady growth of online music revenue (+11.1% YoY). Music subscription revenue to grow by 18.9% YoY to RMB2.3bn in 3Q22E based on our estimate, driven by net addition of c.3mn paying users. Supported by the rationalizing of music licensing costs and more prudent investment in audio content, overall GPM will expand from 29.6/29.9% in 3Q21/2Q22 to 31.0% in 3Q22E. With improving GPM and optimization in selling and marketing expense, we forecast non-IFRS net income would return to growth by 17.8% YoY to RMB1.2bn in 3Q22E.

■ **Core music business remains solid.** Online music business remains as the key long-term sustaining driver of TME's revenue and earnings growth. We forecast online music revenue to grow at a 10.9% CAGR over 2021-2024E and account for 49.5% of total revenue in 2024E, driven by subscription business growth and recovery of ad business. Social entertainment business entered steady development stage and industry competition is intense. TME will focus on developing innovative initiatives like audio live streaming and overseas expansion to offset the decline in its traditional business. We forecast social entertainment revenue to decrease by 20.3% YoY in 2022E, before stabilizing to grow 0.5/1.0% YoY to RMB15.8/16.0bn in 2023/2024E.

■ **Enhancing margin on effective operation improvement.** We estimate overall GPM to improve from 30.0% in 2022E to 31.2/32.0% in 2023/2024E. TME has room to further optimize opex, and we forecast selling and marketing expenses ratio to drop from 8.6% in 2021 to 4.7/4.9/4.9% in 2022/2023/2024E. Overall, we see TME's non-IFRS net margin to improve from 13.3% in 2021 to 15.7/15.9/17.3% in 2022/2023/2024E.

Earnings Summary

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------|---------|---------|---------|---------|---------|
| Revenue (RMB mn) | 29,153 | 31,244 | 27,743 | 29,724 | 31,670 |
| YoY growth (%) | 14.6 | 7.2 | (11.2) | 7.1 | 6.5 |
| Gross margin (%) | 31.9 | 30.1 | 30.0 | 31.2 | 32.0 |
| Operating profit (RMB mn) | 4,710 | 3,800 | 3,939 | 4,068 | 4,875 |
| Net profit (RMB mn) | 4,176.0 | 3,215.0 | 3,314.5 | 3,359.8 | 4,055.8 |
| Non-IFRS net profit (RMB mn) | 4,949.0 | 4,146.0 | 4,345.8 | 4,722.2 | 5,483.3 |
| P/S (x) | 1.5 | 1.4 | 1.6 | 1.5 | 1.4 |
| P/E (x) | 38.1 | 48.9 | 13.6 | 13.4 | 11.1 |
| ROE (%) | 8.7 | 6.3 | 6.4 | 6.1 | 6.9 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$6.60
Up/Downside 72.3%
Current Price US\$3.83

China Internet

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Wentao LU
 luwentao@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (US\$ mn) | 6,200.9 |
| Avg 3 mths t/o (US\$ mn) | 4.4 |
| 52w High/Low (US\$) | 8.85/3.12 |
| Total Issued Shares (mn) | 1619.0 |

Source: FactSet

Shareholding Structure

| | |
|---------|-------|
| Tencent | 53.2% |
| Spotify | 8.2% |

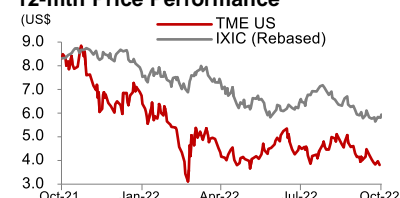
Source: Company data

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -10.9% | -8.0% |
| 3-mth | -18.0% | -8.9% |
| 6-mth | -7.9% | 11.7% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

We forecast total revenue to drop by 11.2% YoY to RMB27.7bn in 2022E, due to the soft performance of social entertainment and advertising businesses. Supported by solid growth of music subscription business and the stabilizing social entertainment business, we forecast total revenue to return to growth by 7.1/6.5% YoY to RMB29.7/31.7bn in 2023/2024E.

On the earnings front, although non-IFRS net profit was down by 16.1% YoY to RMB1.9bn in 1H22, we expect non-IFRS net profit to rebound by 30.9% YoY to RMB2.4bn in 2H22E driven by effective cost control initiatives and continuous growth of core music business. We forecast the non-IFRS net profit to further recover by 8.7/16.1% YoY to RMB4.7/5.5bn in 2023E/2024E.

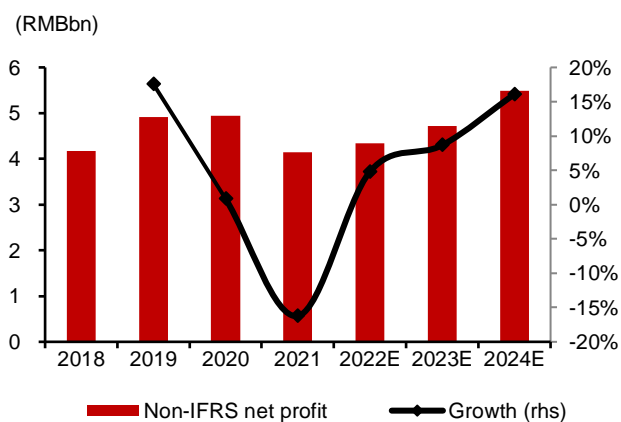
Figure 1: CMBIGM estimates vs consensus

| RMB mn | CMBIGM | | | Consensus | | | Diff (%) | | |
|---------------------|--------|--------|--------|-----------|--------|--------|----------|---------|---------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 27,743 | 29,724 | 31,670 | 27,865 | 29,547 | 31,102 | -0.4% | 0.6% | 1.8% |
| Gross Profit | 8,335 | 9,269 | 10,144 | 8,215 | 8,981 | 9,780 | 1.5% | 3.2% | 3.7% |
| Operating Profit | 3,939 | 4,068 | 4,875 | 3,705 | 4,048 | 4,524 | 6.3% | 0.5% | 7.7% |
| Non-IFRS net profit | 4,346 | 4,722 | 5,483 | 4,187 | 4,372 | 4,959 | 3.8% | 8.0% | 10.6% |
| Non-IFRS EPS (RMB) | 2.7 | 2.9 | 3.4 | 2.2 | 2.4 | 2.7 | 19.6% | 19.8% | 24.2% |
| Gross Margin | 30.0% | 31.2% | 32.0% | 29.5% | 30.4% | 31.4% | 0.6 ppt | 0.8 ppt | 0.6 ppt |
| Operating Margin | 14.2% | 13.7% | 15.4% | 13.3% | 13.7% | 14.5% | 0.9 ppt | 0.0 ppt | 0.8 ppt |
| Non-IFRS net margin | 15.7% | 15.9% | 17.3% | 15.0% | 14.8% | 15.9% | 0.6 ppt | 1.1 ppt | 1.4 ppt |

Source: Company data, CMBIGM estimates

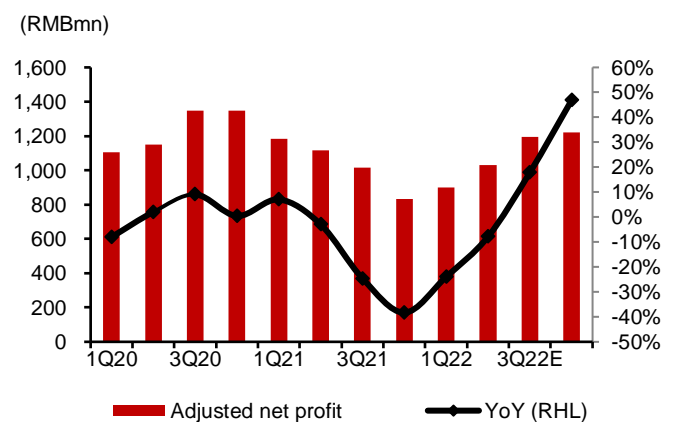
For 3Q22E, we forecast total revenue to decline by 9.5% YoY to RMB7.1bn, mainly due to the decline in social entertainment revenue (-21.5% YoY) but partially offset by solid growth of online music revenue (+11.1% YoY). Music subscription revenue to grow by 18.9% YoY to RMB2.3bn in 3Q22E based on our estimate, driven by net addition of c.3mn paying users. Supported by the rationalizing of music licensing costs and more prudent investment in audio content, overall GPM will expand from 29.6/29.9% in 3Q21/2Q22 to 31.0% in 3Q22E. With improving GPM and optimization in selling and marketing expense, we forecast non-IFRS net income would return to growth by 17.8% YoY to RMB1.2bn in 3Q22E.

Figure 2: TME: non-IFRS net income



Source: Company data, CMBIGM estimates

Figure 3: TME: non-IFRS net income (quarter)



Source: Company data, CMBIGM estimates

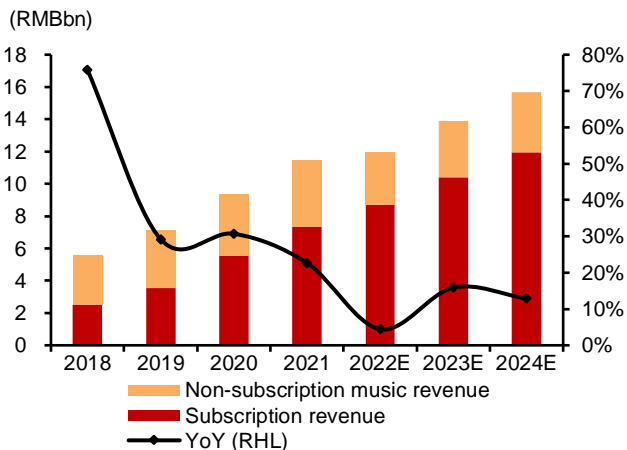
Figure 4: TME: key financial data forecasts

| (RMB mn) | 2021 | 2022E | 2023E | 2024E | 3Q22E | 4Q22E |
|---------------------------------|---------------|---------------|---------------|---------------|--------------|--------------|
| Online music | 11,467 | 11,975 | 13,877 | 15,661 | 3,209 | 3,271 |
| YoY change (%) | 22.7% | 4.4% | 15.9% | 12.9% | 11.1% | 13.6% |
| Subscription revenue | 7,335 | 8,696 | 10,401 | 11,952 | 2,261 | 2,335 |
| YoY change (%) | 31.9% | 18.6% | 19.6% | 14.9% | 18.9% | 19.8% |
| Other revenue | 4,132 | 3,278 | 3,476 | 3,710 | 949 | 936 |
| YoY change (%) | 9.1% | -20.7% | 6.0% | 6.7% | -3.9% | 0.6% |
| Social entertainment and others | 19,777 | 15,769 | 15,848 | 16,009 | 3,858 | 3,856 |
| YoY change (%) | -0.1% | -20.3% | 0.5% | 1.0% | -21.5% | -18.4% |
| Total revenue | 31,244 | 27,743 | 29,724 | 31,670 | 7,067 | 7,127 |
| YoY change (%) | 7.2% | -11.2% | 7.1% | 6.5% | -9.5% | -6.3% |
| GPM (%) | 30.1% | 30.0% | 31.2% | 32.0% | 31.0% | 31.2% |
| Non-IFRS NPM (%) | 13.3% | 15.7% | 15.9% | 17.3% | 16.9% | 17.1% |
| Non-IFRS net profit | 4,146 | 4,346 | 4,722 | 5,483 | 1,196 | 1,222 |
| YoY change (%) | -16.2% | 4.8% | 8.7% | 17.3% | 17.8% | 46.8% |

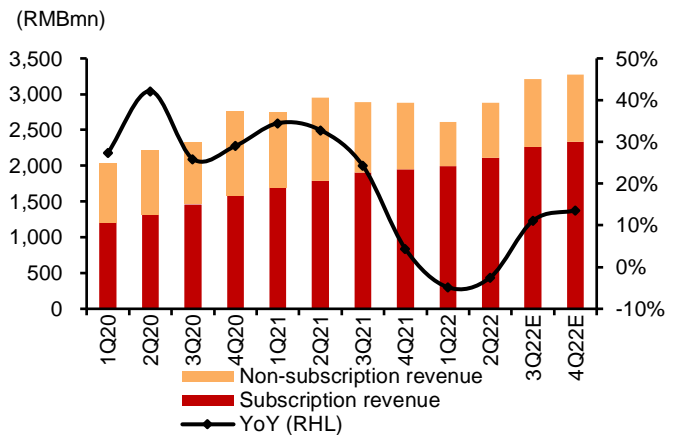
Source: Company data, CMBIGM estimates

Online music business (43.2% of 2022E total revenue)

Online music revenue growth slows down to +4.4% YoY in 2022E based on our estimate, primarily due to the weak performance of advertising and sublicensing businesses in the backdrop of macro headwind and tightening regulations. Nonetheless, subscription business remains resilient and we forecast music subscription revenue to increase by 18.6% YoY to RMB8.7bn in 2022E, driven by balanced growth of paying users and ARPPU. Looking forward, we expect online music revenue growth will reaccelerate to 15.9/12.9% YoY in 2023/2024E, driven by the solid growth of subscription business and recovery of advertising business.

Figure 5: TME: online music revenue

Source: Company data, CMBIGM estimates

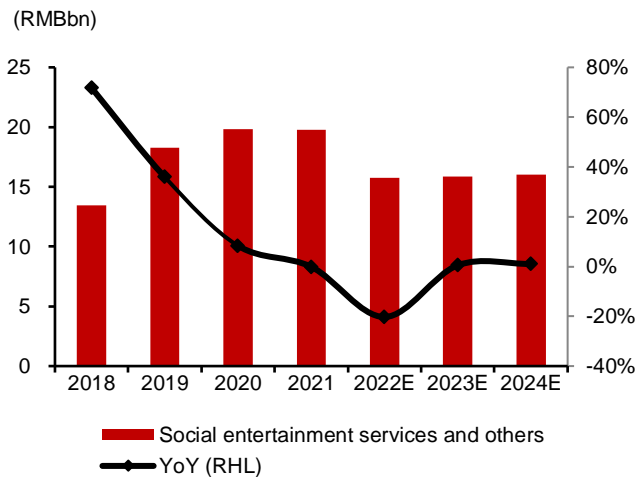
Figure 6: TME: online music revenue (quarter)

Source: Company data, CMBIGM estimates

Social entertainment business (56.8% of 2022E total revenue)

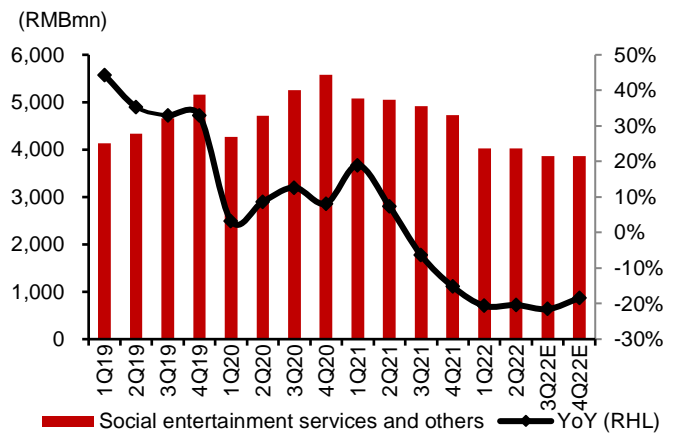
Social entertainment business entered mature development stage and faced intensifying competitions. We forecast social entertainment revenue to decrease by 20.3% YoY to RMB15.8bn in 2022E. TME will focus on developing innovative initiatives including audio live streaming and overseas expansion to drive growth of the social entertainment business. We expect social entertainment revenue to grow 0.5/1.0% YoY to RMB15.8/16.0bn in 2023/2024E.

Figure 7: TME: social entertainment revenue



Source: Company data, CMBIGM estimates

Figure 8: TME: social ent. revenue (quarter)

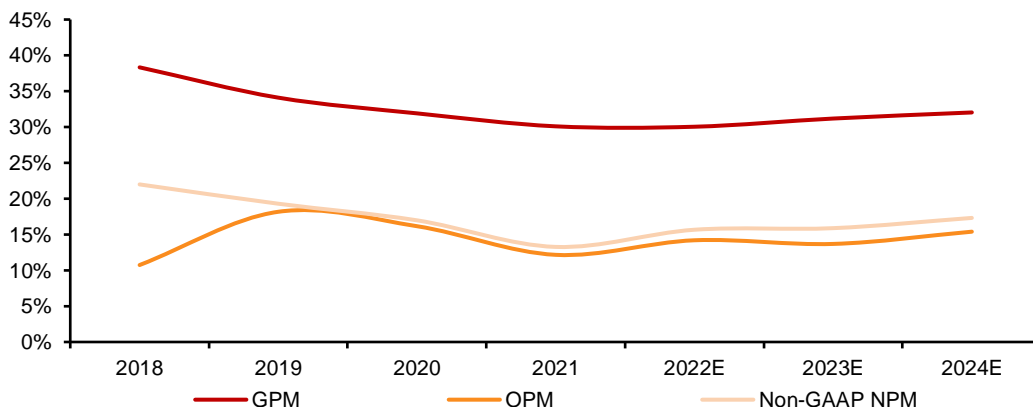


Source: Company data, CMBIGM estimates

Operating efficiency and sensitivity analysis

On the margin side, we estimate overall GPM to improve from 30.0% in 2022E to 31.2/32.0% in 2023/2024E, driven by more rational music licensing costs and more prudent investment in audio content. TME will also improve its operating efficiency. We forecast selling and marketing expenses ratio to drop from 8.6% in 2021 to 4.7/4.9/4.9% in 2022/2023/2024E. Overall, we see TME's Non-IFRS net margin to rise from 13.3% in 2021 to 15.7/15.9/17.3% in 2022/2023/2024E.

Figure 9: TME: margin trend



Source: Company data, CMBIGM estimates

We conduct sensitivity analysis to gauge TME's total revenue growth sensitivity to its non-subscription music/social entertainment businesses. Under our bull-case assumption, if non-subscription music/social entertainment revenue growth forecasts were raised by 1/3/5/8% in 2022E and 2023E driven by better-than-expected recovery of macro environment, TME's total revenue could have 0.9/2.6/4.3/6.9% upside in 2022E and 0.6/1.9/3.2/5.1% upside in 2023E. Under our bear-case assumption, if non-subscription music/social entertainment revenue growth forecasts were lowered by 1/3/5/8% in 2022E and 2023E due to slower-than-expected recovery of macro environment, TME's total revenue could have 0.9/2.6/4.3/6.9% downside in 2022E and 0.6/1.9/3.2/5.1% downside in 2023E.

We also conduct sensitivity analysis to analyse TME's non-IFRS net income growth sensitivity to its opex. Under our bull-case assumption, if total opex growth forecasts were lowered by 1/3/5/8% in 2022E and 2023E thanks to effective cost control measures, TME's non-IFRS net income could have 1.3/3.9/6.5/10.5% upside in 2022E and 1.0/3.0/4.9/7.9% upside in 2023E. Under our bear-case assumption, if total opex growth was raised by 1/3/5/8% in 2022E and 2023E as TME increased investment in production innovation, TME's non-IFRS net income could have 1.3/3.9/6.5/10.5% downside in 2022E and 1.0/3.0/4.9/7.9% downside in 2023E.

Figure 10: TME total revenue: sensitivity analysis

| 2022E (RMBmn) | Change in non-subscription music growth forecast | 2022E non-subscription music growth | Change in social entertainment growth forecast | 2022E social entertainment growth | Revenue | Comparison with base case |
|---------------|--|-------------------------------------|--|-----------------------------------|---------|---------------------------|
| Case I | -8% | -28.7% | -8% | -28.3% | 25,831 | -6.9% |
| Case II | -5% | -25.7% | -5% | -25.3% | 26,548 | -4.3% |
| Case III | -3% | -23.7% | -3% | -23.3% | 27,026 | -2.6% |
| Case IV | -1% | -21.7% | -1% | -21.3% | 27,504 | -0.9% |
| Base case | | -20.7% | | -20.3% | 27,743 | 0.0% |
| Case V | 1% | -19.7% | 1% | -19.3% | 27,983 | 0.9% |
| Case VI | 3% | -17.7% | 3% | -17.3% | 28,461 | 2.6% |
| Case VII | 5% | -15.7% | 5% | -15.3% | 28,939 | 4.3% |
| Case VIII | 8% | -12.7% | 8% | -12.3% | 29,656 | 6.9% |

| 2023E (RMBmn) | Change in non-subscription music growth forecast | 2023E non-subscription music growth | Change in social entertainment growth forecast | 2023E social entertainment growth | Revenue | Comparison with base case |
|---------------|--|-------------------------------------|--|-----------------------------------|---------|---------------------------|
| Case I | -8% | -2.0% | -8% | -7.5% | 28,201 | -5.1% |
| Case II | -5% | 1.0% | -5% | -4.5% | 28,772 | -3.2% |
| Case III | -3% | 3.0% | -3% | -2.5% | 29,153 | -1.9% |
| Case IV | -1% | 5.0% | -1% | -0.5% | 29,534 | -0.6% |
| Base case | | 6.0% | | 0.5% | 29,724 | 0.0% |
| Case V | 1% | 7.0% | 1% | 1.5% | 29,915 | 0.6% |
| Case VI | 3% | 9.0% | 3% | 3.5% | 30,296 | 1.9% |
| Case VII | 5% | 11.0% | 5% | 5.5% | 30,677 | 3.2% |
| Case VIII | 8% | 14.0% | 8% | 8.5% | 31,248 | 5.1% |

Source: Company data, CMBIGM estimates

Figure 11: TME non-IFRS net income: sensitivity analysis

| 2022E (RMBmn) | Change in opex YoY growth | S&M expense YoY growth | G&A expense YoY growth | Implied S&M expense ratio | Implied G&A expense ratio | 2022E Non-IFRS NPM | 2022E Net profit | Comparison with base case |
|---------------|---------------------------|------------------------|------------------------|---------------------------|---------------------------|--------------------|------------------|---------------------------|
| Case I | -8% | -59.4% | -3.5% | 3.9% | 13.9% | 17.3% | 4,801 | 10.5% |
| Case II | -5% | -56.4% | -0.5% | 4.2% | 14.4% | 16.7% | 4,630 | 6.5% |
| Case III | -3% | -54.4% | 1.5% | 4.4% | 14.7% | 16.3% | 4,516 | 3.9% |
| Case IV | -1% | -52.4% | 3.5% | 4.6% | 15.0% | 15.9% | 4,403 | 1.3% |
| Base case | | -51.4% | 4.5% | 4.7% | 15.1% | 15.7% | 4,346 | 0.0% |
| Case V | 1% | -50.4% | 5.5% | 4.8% | 15.2% | 15.5% | 4,289 | -1.3% |

| 2022E (RMBmn) | Change in opex YoY growth | S&M expense YoY growth | G&A expense YoY growth | Implied S&M expense ratio | Implied G&A expense ratio | 2022E Non-IFRS NPM | 2022E Net profit | Comparison with base case |
|---------------|---------------------------|------------------------|------------------------|---------------------------|---------------------------|--------------------|------------------|---------------------------|
| Case VI | 3% | -48.4% | 7.5% | 5.0% | 15.5% | 15.0% | 4,175 | -3.9% |
| Case VII | 5% | -46.4% | 9.5% | 5.2% | 15.8% | 14.6% | 4,062 | -6.5% |
| Case VIII | 8% | -43.4% | 12.5% | 5.5% | 16.3% | 14.0% | 3,891 | -10.5% |

| 2023E (RMBmn) | Change in opex YoY growth | S&M expense YoY growth | G&A expense YoY growth | Implied S&M expense ratio | Implied G&A expense ratio | 2023E Non-IFRS NPM | 2023E Net profit | Comparison with base case |
|------------------|---------------------------|------------------------|------------------------|---------------------------|---------------------------|--------------------|------------------|---------------------------|
| Case I | -8% | 3.7% | -3.0% | 4.5% | 13.7% | 17.1% | 5,096 | 7.9% |
| Case II | -5% | 6.7% | 0.0% | 4.7% | 14.1% | 16.7% | 4,956 | 4.9% |
| Case III | -3% | 8.7% | 2.0% | 4.8% | 14.4% | 16.4% | 4,862 | 3.0% |
| Case IV | -1% | 10.7% | 4.0% | 4.8% | 14.7% | 16.0% | 4,769 | 1.0% |
| Base case | | 11.7% | 5.0% | 4.9% | 14.8% | 15.9% | 4,722 | 0.0% |
| Case V | 1% | 12.7% | 6.0% | 4.9% | 14.9% | 15.7% | 4,676 | -1.0% |
| Case VI | 3% | 14.7% | 8.0% | 5.0% | 15.2% | 15.4% | 4,582 | -3.0% |
| Case VII | 5% | 16.7% | 10.0% | 5.1% | 15.5% | 15.1% | 4,489 | -4.9% |
| Case VIII | 8% | 19.7% | 13.0% | 5.2% | 15.9% | 14.6% | 4,349 | -7.9% |

Source: Company data, CMBIGM estimates

DCF valuation

Our target price is US\$6.60, based on the DCF valuation methodology (WACC of 11.6% and terminal growth of 2.5%). Our target price translates into 16/15x 2022/2023E non-IFRS PE.

Figure 12: TME: DCF Valuation

| (RMBmn) | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E |
|---------------------------------|-------------|--------|--------|--------|--------|--------|--------|
| Net revenue | 27,743 | 29,724 | 31,670 | 33,589 | 35,604 | 37,628 | 39,442 |
| Free cash flow | 1,991 | 4,224 | 4,021 | 5,751 | 5,799 | 7,805 | 7,818 |
| NPV of free cash flow | 25,451 | | | | | | |
| Discounted terminal value | 45,733 | | | | | | |
| Net cash | 3,076 | | | | | | |
| Total TME valuation | 74,260 | | | | | | |
| Number of ADS (diluted, mn) | 1,631 | | | | | | |
| Valuation per ADS (US\$) | 6.60 | | | | | | |

Source: Company data, CMBIGM estimates

TME currently trades at a market cap per MAU of US\$11.0, which offers a discount versus the peers' average market cap per MAU of US\$16.7.

Figure 13: TME: peer valuation comparison

| Companies | Ticker | Price (Local) | Revenue growth (YoY%) | | | PS(x) | | | 2Q22 MAU (mn) | Market Cap/MAU (US\$) |
|----------------|---------|---------------|-----------------------|-------|-------|------------|------------|------------|---------------|-----------------------|
| | | | 2022E | 2023E | 2024E | 2022E | 2023E | 2024E | | |
| Bilibili | BILI US | 11.1 | 11.8 | 30.4 | 25.0 | 1.4 | 1.1 | 0.8 | 306 | 14.5 |
| Spotify | SPOT US | 88.7 | 5.2 | 15.8 | 13.3 | 1.6 | 1.3 | 1.2 | 433 | 39.4 |
| Momo | MOMO US | 4.5 | (17.9) | 4.9 | 6.1 | 0.4 | 0.4 | 0.4 | 111 | 7.8 |
| Huya | HUYA US | 1.9 | (21.0) | 1.3 | 5.0 | 0.3 | 0.3 | 0.3 | 84 | 5.3 |
| Average | | | | | | 0.9 | 0.8 | 0.7 | | 16.7 |

Note: data are as of 21 Oct 2022

Source: Bloomberg, CMBIGM

Financial Summary

| INCOME STATEMENT | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 25,434 | 29,153 | 31,244 | 27,743 | 29,724 | 31,670 |
| Cost of goods sold | 16,761 | 19,851 | 21,840 | 19,409 | 20,455 | 21,526 |
| Gross profit | 8,673 | 9,302 | 9,404 | 8,335 | 9,269 | 10,144 |
| Operating expenses | 4,051 | 4,592 | 5,604 | 4,396 | 5,201 | 5,270 |
| Selling expense | 2,041 | 2,475 | 2,678 | 1,302 | 1,455 | 1,550 |
| Admin expense | 2,703 | 3,101 | 4,009 | 4,188 | 4,398 | 4,609 |
| Others | (693) | (984) | (1,083) | (1,094) | (651) | (889) |
| Operating profit | 4,622 | 4,710 | 3,800 | 3,939 | 4,068 | 4,875 |
| Share of (losses)/profits of associates/JV | (18) | 19 | (47) | 2 | 0 | 0 |
| Interest expense | (64) | (97) | (121) | (99) | (115) | (103) |
| Pre-tax profit | 4,540 | 4,632 | 3,632 | 3,842 | 3,953 | 4,772 |
| Income tax | (563) | (456) | (417) | (527) | (593) | (716) |
| After tax profit | 3,977 | 4,176 | 3,215 | 3,315 | 3,360 | 4,056 |
| Net profit | 3,977 | 4,176 | 3,215 | 3,315 | 3,360 | 4,056 |
| Non-IFRS net profit | 4,908 | 4,949 | 4,146 | 4,346 | 4,722 | 5,483 |
| BALANCE SHEET | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E |
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 26,914 | 31,687 | 26,791 | 26,543 | 32,719 | 33,735 |
| Cash & equivalents | 15,426 | 11,128 | 6,591 | 8,138 | 11,117 | 13,792 |
| Account receivables | 2,198 | 2,800 | 3,610 | 1,930 | 3,843 | 2,134 |
| Inventories | 26 | 18 | 24 | 32 | 43 | 57 |
| Prepayment | 2,220 | 2,846 | 2,731 | 2,119 | 2,880 | 2,380 |
| ST bank deposits | 7,000 | 14,858 | 12,769 | 13,152 | 13,547 | 13,953 |
| Other current assets | 44 | 37 | 1,066 | 1,173 | 1,290 | 1,419 |
| Non-current assets | 25,764 | 36,586 | 40,463 | 40,978 | 41,485 | 42,007 |
| PP&E | 179 | 176 | 243 | 232 | 231 | 236 |
| Right-of-use assets | 148 | 311 | 283 | 283 | 283 | 283 |
| Deferred income tax | 192 | 303 | 346 | 363 | 381 | 401 |
| Investment in JVs & assos | 489 | 2,255 | 3,599 | 3,649 | 3,699 | 3,749 |
| Intangibles | 1,622 | 2,020 | 2,829 | 2,684 | 2,506 | 2,321 |
| Goodwill | 17,140 | 17,492 | 19,121 | 19,371 | 19,621 | 19,871 |
| Financial assets at FVTPL | 4,461 | 9,771 | 7,302 | 7,448 | 7,597 | 7,749 |
| Other non-current assets | 1,533 | 4,258 | 6,740 | 6,947 | 7,166 | 7,397 |
| Total assets | 52,678 | 68,273 | 67,254 | 67,522 | 74,204 | 75,742 |
| Current liabilities | 8,490 | 9,602 | 10,450 | 7,435 | 10,743 | 8,211 |
| Account payables | 2,559 | 3,565 | 4,329 | 2,474 | 4,472 | 2,719 |
| Tax payable | 386 | 445 | 363 | 322 | 345 | 368 |
| Other current liabilities | 5,476 | 5,489 | 5,666 | 4,545 | 5,829 | 5,023 |
| Lease liabilities | 69 | 103 | 92 | 95 | 98 | 101 |
| Long-term borrowings | 510 | 5,940 | 5,749 | 5,717 | 5,732 | 5,746 |
| Bond payables | 0 | 5,175 | 5,062 | 5,062 | 5,062 | 5,062 |
| Obligations under finance leases | 78 | 218 | 205 | 215 | 226 | 237 |
| Other non-current liabilities | 432 | 547 | 482 | 440 | 444 | 447 |
| Total liabilities | 9,000 | 15,542 | 16,199 | 13,152 | 16,475 | 13,957 |
| Share capital | 2 | 2 | 2 | 2 | 2 | 2 |
| Capital surplus | 34,425 | 34,910 | 32,395 | 32,395 | 32,395 | 32,395 |
| Retained earnings | 7,007 | 11,111 | 14,194 | 17,509 | 20,868 | 24,924 |
| Other reserves | 2,156 | 6,222 | 3,726 | 3,726 | 3,726 | 3,726 |
| Total shareholders equity | 43,590 | 52,245 | 50,317 | 53,632 | 56,991 | 61,047 |
| Minority interest | 88 | 486 | 738 | 738 | 738 | 738 |
| Total equity and liabilities | 52,678 | 68,273 | 67,254 | 67,522 | 74,204 | 75,742 |

| CASH FLOW | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E |
|--|----------------|-----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 4,540 | 4,632 | 3,632 | 3,842 | 3,953 | 4,772 |
| Depreciation & amortization | 583 | 824 | 1,001 | 559 | 580 | 605 |
| Tax paid | (564) | (637) | (589) | 0 | 0 | 0 |
| Change in working capital | 982 | (497) | 579 | (967) | 414 | (569) |
| Others | 659 | 563 | 616 | (527) | (593) | (716) |
| Net cash from operations | 6,200 | 4,885 | 5,239 | 2,906 | 4,354 | 4,092 |
| Investing | | | | | | |
| Capital expenditure | (286) | (501) | (2,758) | (404) | (401) | (425) |
| Acquisition of subsidiaries/ investments | (45) | (540) | (2,078) | (250) | (250) | (250) |
| Net proceeds from disposal of short-term investments | 36 | 6 | (877) | 0 | 0 | 0 |
| Others | (7,807) | (13,171) | (286) | (716) | (735) | (754) |
| Net cash from investing | (8,102) | (14,206) | (5,999) | (1,370) | (1,386) | (1,429) |
| Financing | | | | | | |
| Net borrowings | 0 | 5,400 | 0 | 0 | 0 | 0 |
| Proceeds from share issues | 12 | (134) | 0 | 0 | 0 | 0 |
| Others | (43) | 26 | (3,710) | 10 | 11 | 11 |
| Net cash from financing | (31) | 5,292 | (3,710) | 10 | 11 | 11 |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 17,356 | 15,426 | 11,128 | 6,591 | 8,138 | 11,117 |
| Exchange difference | 3 | (269) | (67) | 0 | 0 | 0 |
| Cash at the end of the year | 15,426 | 11,128 | 6,591 | 8,138 | 11,117 | 13,792 |
| GROWTH | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E |
| YE 31 Dec | | | | | | |
| Revenue | 34.0% | 14.6% | 7.2% | (11.2%) | 7.1% | 6.5% |
| Gross profit | 19.2% | 7.3% | 1.1% | (11.4%) | 11.2% | 9.4% |
| Operating profit | 126.7% | 1.9% | (19.3%) | 3.6% | 3.3% | 19.8% |
| Net profit | 117.1% | 5.0% | (23.0%) | 3.1% | 1.4% | 20.7% |
| Adj. net profit | 17.6% | 0.8% | (16.2%) | 4.8% | 8.7% | 16.1% |
| PROFITABILITY | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 34.1% | 31.9% | 30.1% | 30.0% | 31.2% | 32.0% |
| Operating margin | 18.2% | 16.2% | 12.2% | 14.2% | 13.7% | 15.4% |
| Adj. net profit margin | 19.3% | 17.0% | 13.3% | 15.7% | 15.9% | 17.3% |
| Return on equity (ROE) | 9.8% | 8.7% | 6.3% | 6.4% | 6.1% | 6.9% |
| GEARING/LIQUIDITY/ACTIVITIES | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E |
| YE 31 Dec | | | | | | |
| Net debt to equity (x) | (0.3) | (0.1) | (0.0) | (0.0) | (0.1) | (0.1) |
| Current ratio (x) | 3.2 | 3.3 | 2.6 | 3.6 | 3.0 | 4.1 |
| Receivable turnover days | 26.4 | 31.3 | 37.4 | 36.4 | 35.4 | 34.4 |
| Payable turnover days | 47.8 | 56.3 | 66.0 | 64.0 | 62.0 | 61.0 |
| VALUATION | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E |
| YE 31 Dec | | | | | | |
| P/E | 42.6 | 38.1 | 48.9 | 13.6 | 13.4 | 11.1 |
| P/E (diluted) | 41.7 | 38.7 | 49.5 | 13.7 | 13.5 | 11.2 |
| P/B | 3.9 | 3.0 | 3.1 | 0.8 | 0.8 | 0.7 |

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

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