

Tencent (700 HK)

What next to look forward to?

We expect Tencent's 4Q22E results to be largely inline with our previous forecasts, except slightly severe impact on ad and FBS businesses from opening-up in Dec 2022. We slightly adjust FY22/4Q22E total revenue forecast down by 1/3%; but remain positive on the revenue recovery trajectory in FY23/24E, due to consumption recovery which should benefit Tencent's consumer internet business, incremental contribution from Video Account monetization, and quality games pipeline. We raise FY23/24E non-IFRS net income forecast by 1/2%, reflecting improved outlook of high-margin gaming and ad businesses, which should lead to better GPM in FY23/FY24E. We now forecast non-IFRS net income to grow by 16/14% YoY in FY23/24E. Our SOTP-derived target price is HK\$450.0 (previous: HK\$381.6), which translates into 28/25x FY23/24E non-IFRS PE. We expect enterprise services related business development will be next stage valuation drivers. Maintain BUY.

- **Market looks beyond 4Q22 for valuation support.** For 4Q22E, we forecast total revenue to decline by 1% YoY to RMB142.4bn (3Q22: -2% YoY); but non-IFRS net income to increase by 21% YoY to RMB30.2bn (3Q22: +2% YoY) on improved operating efficiency and easy base. Gaming business faced pressure in 4Q22E and we estimate domestic/international game revenue to decline by 5/7% YoY, but we expect online games business will recover modestly in 2023. We forecast ad revenue will return to positive YoY growth (+4% YoY) in 4Q22E, supported by the ad monetization of Video Account, which we expect to contribute over RMB1bn revenue in 4Q22. We expect Fintech and Business services revenue to be flat YoY in 4Q22, but both should be on gradual recovery in 2023, with offline activities and consumption recovery, as well as business services strive to improve its quality long-term growth potential.
- **Enhanced competitive strength in consumer internet.** We forecast total revenue and non-IFRS net income to grow by 11/8% YoY and 16/14% YoY in FY23/24E, supported by: 1) strong game pipeline with *Undawn*, *Valorant*, and *Pokémon United* etc. lined up for launch in 2023E; 2) solid ad revenue rebound with competitive edge to take over-monetized competitors' market share; 3) enhancing operating efficiency.
- **Maintain BUY.** Our SOTP-derived TP is HK\$450.0, which comprises of HK\$181.8/30.6/31.2/102.5/23.5 for gaming/SNS/ad/fintech/cloud business and HK\$14.7/65.7 for net cash/strategic investment. Tencent currently trades at 21x 2024E non-IFRS PE (or 17x 2024E PE if excluding strategic investment and net cash). Current valuation justified by its enhanced business outlook and strong earnings growth (FY22-24E CAGR: 15%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	482,064	560,118	551,995	611,483	661,991
YoY growth (%)	27.8	16.2	(1.5)	10.8	8.3
Gross margin (%)	46.0	43.9	43.0	43.1	43.4
Net profit (RMB mn)	159,847.0	224,822.0	105,173.0	135,300.3	152,627.5
YoY growth (%)	71.3	40.6	(53.2)	28.6	12.8
Adjusted net profit (RMB mn)	122,742.0	123,788.0	116,152.9	134,112.2	152,671.6
YoY growth (%)	30.1	0.9	(6.2)	15.5	13.8
EPS (Adjusted) (RMB)	12.93	12.99	12.17	14.05	15.99
Consensus EPS (RMB)	12.93	12.99	12.07	14.57	17.10
P/S (x)	6.6	5.7	5.8	5.2	4.8
P/E (x)	23.2	18.1	30.3	23.5	20.9
ROE (%)	28.1	29.8	12.3	14.0	13.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$450.00**
 (Previous TP **HK\$381.60**)
Up/Downside **17.6%**
Current Price **HK\$382.60**

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Stock Data

Mkt Cap (HK\$ mn)	3,650,291.0
Avg 3 mths t/o (HK\$ mn)	333.0
52w High/Low (HK\$)	454.94/190.72
Total Issued Shares (mn)	9540.8

Source: FactSet

Shareholding Structure

MIH TC	28.7%
Advance Data Services Limited	8.4%

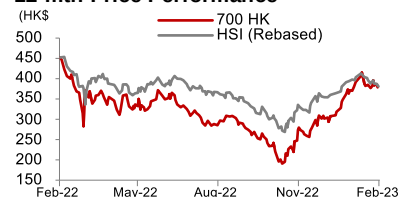
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.3%	7.1%
3-mth	36.8%	19.0%
6-mth	32.9%	25.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business and valuation update

We slightly lower FY22/4Q22E total revenue forecast by 1/3% as the surge in COVID cases in Dec 2022 slowed down the recovery of ad and fintech businesses in 4Q22E. But we expect market now looks for incremental sustainable development in 2023 for valuation support. We remain positive on the recovery trend in FY23/FY24E given the strong online and offline consumption recovery post China's reopening. Thus, we maintain FY23/24E total revenue forecast largely unchanged. We raise FY23/24E non-IFRS net income forecast by 1/2% to RMB134.1/152.7bn, mainly due to the solid recovery of high-margin gaming and ad business, which should lead to better GPM in FY23/FY24E.

Figure 1: Tencent: forecast revision

RMB bn	Current			Previous			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	552.0	611.5	662.0	555.8	611.9	662.6	-0.7%	-0.1%	-0.1%
Gross Profit	237.4	263.7	287.3	238.6	262.5	285.5	-0.5%	0.5%	0.6%
Adjusted net profit	116.2	134.1	152.7	116.5	132.9	149.9	-0.3%	0.9%	1.8%
Adjusted EPS (RMB)	12.0	13.9	15.8	12.0	13.7	15.5	0.0%	1.1%	1.8%
Gross Margin	43.0%	43.1%	43.4%	42.9%	42.9%	43.1%	0.1 ppt	0.2 ppt	0.3 ppt
Adjusted net margin	21.0%	21.9%	23.1%	21.0%	21.7%	22.6%	0.0 ppt	0.2 ppt	0.5 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB bn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	552.0	611.5	662.0	554.5	616.4	691.3	-0.4%	-0.8%	-4.2%
Gross Profit	237.4	263.7	287.3	238.7	273.3	309.2	-0.5%	-3.5%	-7.1%
Adjusted net profit	116.2	134.1	152.7	117.6	143.7	168.6	-1.2%	-6.7%	-9.4%
Adjusted EPS (RMB)	12.0	13.9	15.8	12.1	14.6	17.1	-0.6%	-4.9%	-7.8%
Gross Margin	43.0%	43.1%	43.4%	43.0%	44.3%	44.7%	0.0 ppt	-1.2 ppt	-1.3 ppt
Adjusted net margin	21.0%	21.9%	23.1%	21.2%	23.3%	24.4%	-0.2 ppt	-1.4 ppt	-1.3 ppt

Source: Bloomberg, CMBIGM estimates

For 4Q22E, we forecast total revenue to decline by 1% YoY but grow by 2% QoQ to RMB142.4bn (3Q22: -2% YoY); and non-IFRS net income to increase by 21% YoY to RMB30.2bn (3Q22: +2% YoY), primarily due to improved operating efficiency and an easy comp base. Gaming business faced pressure in 4Q22E and we estimate domestic/international game revenue to decline by 5/7% YoY, mainly due to limited new games launched in the domestic market and the high base faced by international game business. We forecast ad revenue will return to positive YoY growth (+4% YoY) in 4Q22E, supported by the ad monetization of Video Account, which we expect to contribute over RMB1bn revenue in 4Q22. We expect Fintech and Business services revenue to be flat YoY in 4Q22, as the COVID-19 impacted offline payment transactions and the strategic adjustment of Tencent Cloud remains ongoing.

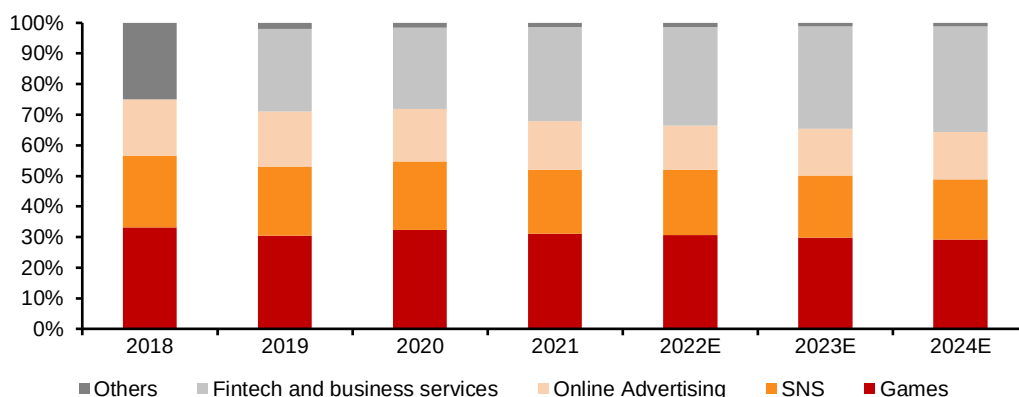
Figure 3: Tencent: key financial forecasts

(RMB bn)	2021	2022E	2023E	2024E	4Q22E
SNS revenue	117.3	117.3	124.3	129.9	29.1
YoY %	8.5	0.0	6.0	4.5	0.0
Games revenue	174.3	169.1	182.6	193.8	40.1
YoY %	11.7	(3.0)	8.0	6.1	(6.2)
Online ad revenue	88.7	80.4	92.2	102.5	22.4
YoY %	7.8	(9.3)	14.6	11.1	4.0
FBS revenue	172.2	178.0	205.1	228.6	48.2
YoY %	34.4	3.4	15.2	11.4	0.4
Total revenue	560.1	552.0	611.5	662.0	142.4
YoY %	16.2	(1.5)	10.8	8.3	(1.2)
Gross profit margin (%)	43.9	43.0	43.1	43.4	42.5

(RMB bn)	2021	2022E	2023E	2024E	4Q22E
G&A expenses as % of total revenue (%)	16.0	19.2	18.2	17.5	18.7
S&M expenses as % of total revenue (%)	7.2	5.7	5.8	5.6	5.9
Non-IFRS net profit margin (%)	22.1	21.0	21.9	23.1	21.2
Non-IFRS net profit	123.8	116.2	134.1	152.7	30.2
YoY %	0.9	(6.2)	15.5	13.8	21.4

Source: Company data, CMBIGM estimates

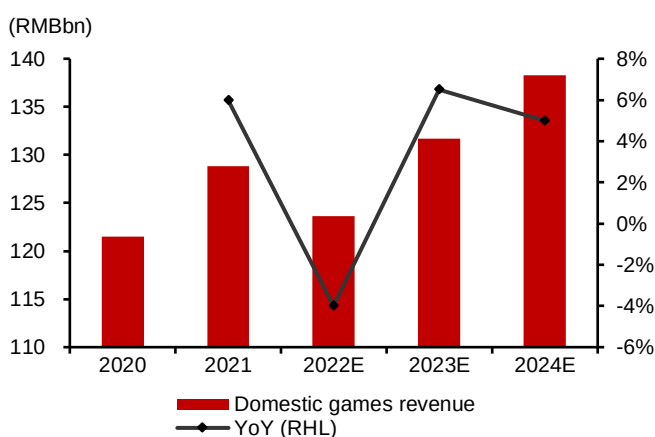
We now model games/SNS/ad/FBS business to contribute 29.3/19.6/15.5/34.5% of total revenue in 2024E, versus 31.1/20.9/15.8/30.7% in 2021.

Figure 4: Tencent: revenue mix

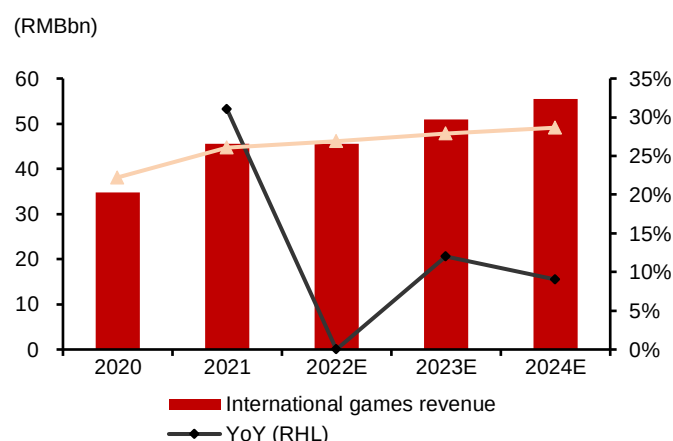
Source: Company data, CMBIGM estimates

Games (30.6% of 2022E revenue)

China's game license approval has been normalizing. Since Nov 2022, Tencent's several highly anticipated titles, including *Undawn*, *Valorant*, *Pokemon United*, *Metal Slug: Awakening* and *SYNCD: off planet*, have been approved and are likely to be launched in 2023E, supporting Tencent's domestic revenue growth. We now estimate domestic game revenue to grow by 7/5% YoY to RMB131.7/138.3bn in FY23/FY24E. We forecast international games to rebound by 12/9% YoY in FY23/24E.

Figure 5: Tencent: domestic games revenue

Source: Company data, CMBIGM estimates

Figure 6: Tencent: international games revenue

Source: Company data, CMBIGM estimates

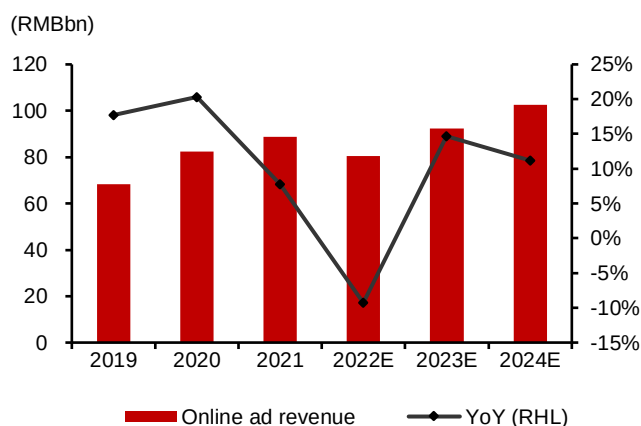
Figure 7: Tencent: games pipeline

Title	Genre	Developer	Launch time	Approved?
Undawn	Survival	Self-developed	2023E	Yes
Valorant	FPS	Self-developed	2023E	Yes
Pokemon United	Moba	Self-developed	2023E	Yes
Metal Slug: Awakening	Action	Self-developed	2023E	Yes
SYNCED: off planet	FPS	Self-developed	2023E	Yes
Alchemy Stars	Anime	Self-developed	2023E	Yes
Don't Starve: Newhome	Survival	Licensed	2023E	Yes
Lost Ark	MMORPG	Licensed	2023E	Yes
Uncharted Waters	SLG	Licensed	2023E	Yes
The Division 2	FPS	Licensed	2023E	Yes
Roco Kingdom	Sandbox	Self-developed	TBD	No
Honor of Kings: World	RPG	Self-developed	TBD	No
Honor of Kings: Dawn	Action	Self-developed	TBD	No
Our Planet	Sandbox	Licensed	TBD	No

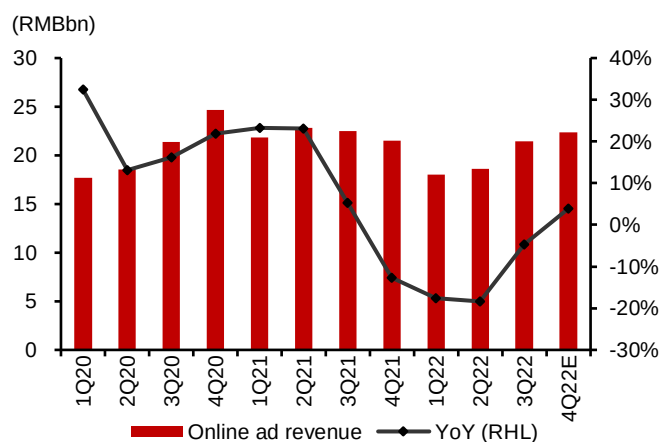
Source: Company data, CMBIGM estimates

Online advertising (14.6% of 2022E revenue)

We forecast online ad revenue to increase by 15/11% YoY to RMB92.2/102.5bn in FY23/FY24E, driven by recovery of overall ad market demand and the accelerated monetization of video account. We model Video Account to generate ad revenue of RMB12.7/27.4bn in FY23/24E, accounting for 14/27% of Tencent online ad revenue in FY23/24E.

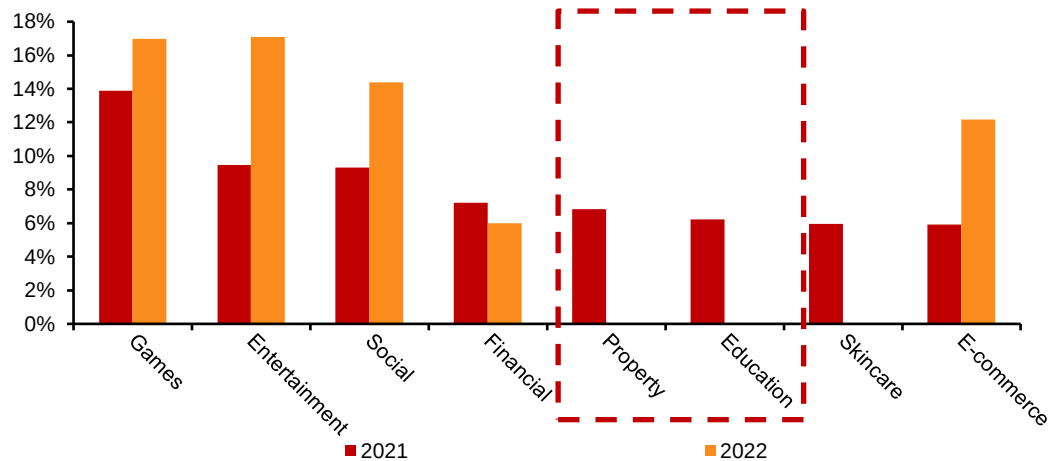
Figure 8: Tencent: online ad revenue

Source: Company data, CMBIGM estimates

Figure 9: Tencent: online ad revenue (quarterly)

Source: Company data, CMBIGM estimates

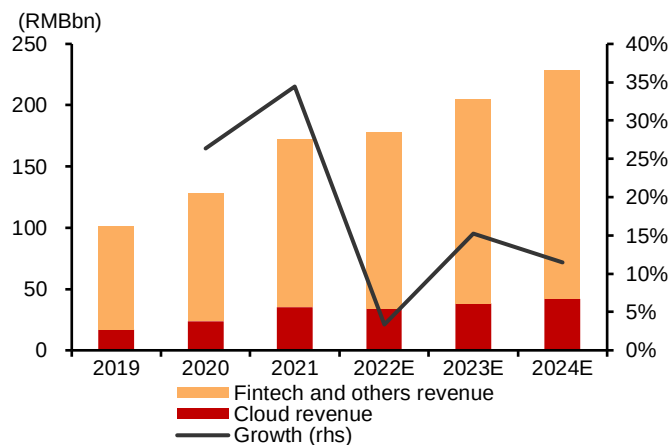
Tencent's ad business faced pressure in 2022 as several key verticals, such as property and education which accounted for 13% of total ads on Tencent in 2021 per AppGrowing, significantly cut their ad budget in 2022 due to tightening policy. As Tencent's ad business fully digested the negative impact in 2022, will have easier base in 2023E. Its gradual monetization process of its ecosystem will leave room for gradual but relatively more long-lasting growth potential in the highly competitive online advertising industry in China market.

Figure 10: Tencent: # of ads breakdown by top verticals

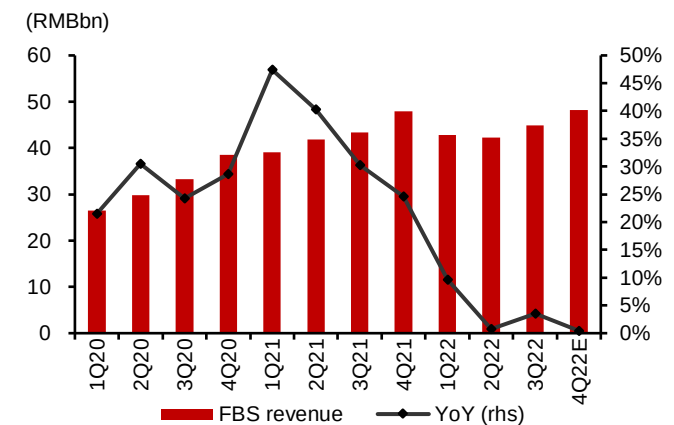
Source: AppGrowing, CMBIGM

Fintech and business service (32.2% of 2022E revenue)

We forecast FBS revenue to rebound by 15/11% YoY to RMB205/229bn in FY23/FY24, mainly driven by the recovery of offline payment transactions and the reacceleration in cloud revenue growth. For fintech business, the positive signs during 2023 CNY indicates a potential strong consumption and payment recovery throughout 2023. According to Weixin, total volume of offline commercial payment transactions was up by 23% YoY in 2023 CNY. The number of orders in catering/retail verticals grew by 40/32% YoY respectively in 2023 CNY. Supported by the recovery of offline payment, we estimate fintech revenue to grow by 16/12% YoY in FY23/24E.

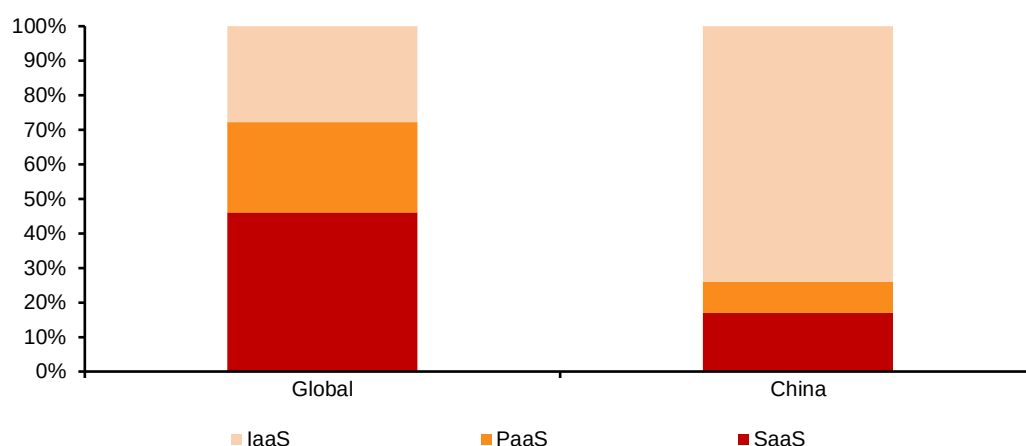
Figure 11: Tencent: FBS revenue

Source: Company data, CMBIGM

Figure 12: Tencent: FBS revenue (quarterly)

Source: Company data, CMBIGM

For the cloud business, we are not concerned about Tencent Cloud's losing market share in the short term, as it has been proactively adjusting strategy, scaling back loss-making project orders and enhancing operating efficiency since the beginning of 2022. We expect its AI cloud revenue will return to positive growth track in 2023E. On 2022 Tencent Digital Ecosystem Summit, Tencent emphasizes its product-first strategy to grow its cloud business. Supported by its focused strategy and strong product development capabilities, Tencent is well-positioned to capture the enormous developing opportunities in China's SaaS market. China SaaS market remains at early development stage with ample growth potential, which only accounted for 17% of total cloud spending in China (vs. SaaS accounting for 46% of global cloud spending).

Figure 13: Cloud spending breakdown: China vs US (2021)

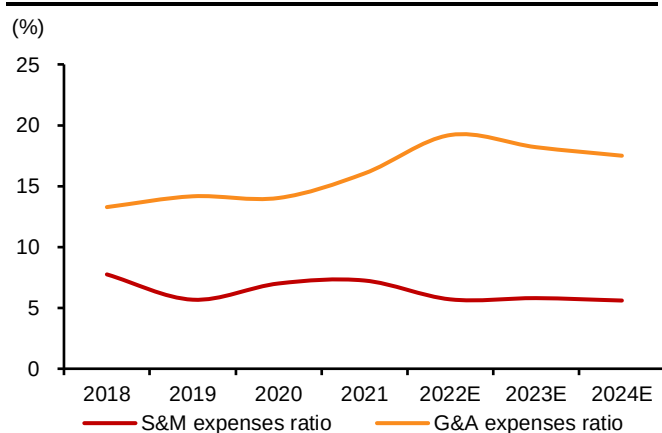
Source: CAICT, CMBIGM

Figure 14: Tencent: product-first strategy

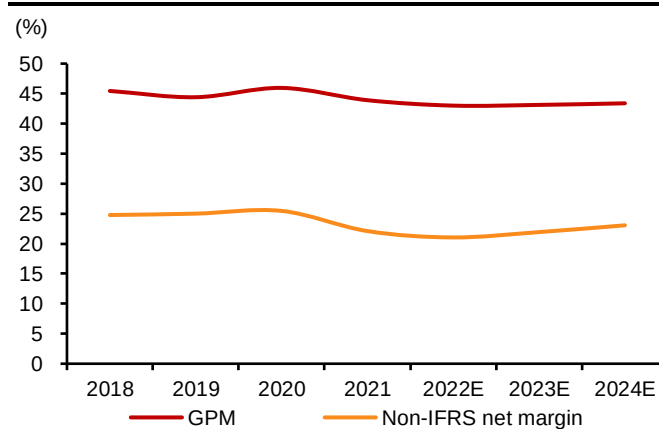
Source: Tencent Digital Ecosystem Summit, CMBIGM

Operating efficiency and margin sensitivity analysis

Tencent's expense control and efficiency improvement initiatives shall further unleash operating leverage in 2023E. We estimate operating expenses to revenue ratio to drop from 24.9% in 2022E to 24.0/23.1% in 2023/2024E. This will support non-IFRS net margin to improve from 21.0% in 2022E to 21.9/23.1% in 2023/2024E.

Figure 15: Tencent: expenses trend

Source: Company data, CMBIGM estimates

Figure 16: Tencent: margin trend

Source: Company data, CMBIGM estimates

SOTP valuation

Our SOTP-derived target price of HK\$450.0 comprises, per share:

- 1) HK\$181.8 for the online games business, based on a 20x 2023E PE, which is at discount to average PE for its global gaming peers (22x). The discount reflects Tencent's gaming business has entered mature stage with more stable growth outlook versus peers.
- 2) HK\$30.6 for the SNS business, including the market cap of Tencent's stake in its subsidiaries, the valuation of Tencent Video (based on a 3.0x 2023E PS, at a premium to the 2.7x average PS of its peers given its content and user traffic leadership), and the valuation of other membership services (based on a 2.0x 2023E PS).
- 3) HK\$31.2 for the advertising business, based on a 18x 2023E PE, at a premium to the industry average (17x), given Tencent's strong ecosystem that could offer substantial ad monetization potential in the long term.
- 4) HK\$102.5 for the fintech business, based on a 5.0x 2023E PS, at a premium to the peer average (2.6x). This mainly reflected our positive view on the recovery of China's digital payment volume in FY23/24E, and Tencent, as one of the largest digital payment platforms in China, is well positioned to benefit from the recovery
- 5) HK\$23.5 for the cloud business, based on a 5.0x 2023E PS, at a premium to the industry average (4.2x) as we expect Tencent to gradually gain market share and benefit from the growth of China SaaS market after its strategic adjustment.
- 6) HK\$65.7 for strategic investments, based on the current market value of Tencent's listed investment and the book value of its unlisted investment. We applied a 30% holding company discount to the fair value of Tencent's equity investment.
- 7) HK\$14.7 for net cash.

Figure 17: Tencent: SOTP valuation

	2023E net profit (RMBmn)	2023E revenue (RMBmn)	2023E PE (x)	2023E PS (x)	Market cap (RMBmn)	Valuation to Tencent (RMBmn)	As % of total valuation	Per share valuation (HK\$)
Online games	73,926		20x			1,478,524	40.4	181.8
Social network services (SNS)		124,308				248,513	6.8	30.6
Tencent Music (TME)					98,871	54,478	1.5	6.7
China Literature					32,865	19,450	0.5	2.4
Huya					8,361	3,963	0.1	0.5
Online video – subscription		27,300		3.0x		81,900	2.2	10.1
Others		44,361		2.0x		88,722	2.4	10.9
Online advertising	14,109		18x			253,957	6.9	31.2
Fintech		166,831		5.0x		834,153	22.8	102.5
Cloud (business services)		38,267		5.0x		191,337	5.2	23.5
Net cash						119,633	3.3	14.7
Valuation of core business						3,126,117		
RMB/HK\$						0.86		
Valuation of core business (HK\$mn)						3,666,570		
Valuation per share – core business (HK\$)						384.3		
Valuation per share – investment (HK\$)						65.7	14.6	
Valuation per share – Tencent (HK\$)						450.0		

Source: Company data, CMBIGM estimates

Figure 18: Peer comparison: online games and advertising sector

Companies	Ticker	Price	EPS growth (YoY %)			PE (x)		
		(Local)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Online games								
NetEase	NTES US	86.4	31	1	11	17	17	15
Activision Blizzard	ATVI US	77.7	(20)	26	7	26	20	19
Electronic Arts	EA US	113.3	27	(13)	6	16	19	18
Take Two Interactive	TTWO US	116.0	(18)	(33)	55	24	35	23
IGG	799 HK	2.8	na	na	142	na	44	18
iDreamSky	1119 HK	4.0	na	na	130	na	25	11
Nexon	3659 JP	3,075.0	15	1	15	24	24	21
Nintendo	7974 JP	5,498.0	4	(1)	(9)	15	15	17
Bandai Namco	7832 JP	8,665.0	61	28	1	24	19	19
Perfect World	002624 CH	14.6	86	16	16	18	15	13
37 Interactive	002555 CH	22.3	9	16	12	17	14	13
Average PE						20	22	17
Online advertising								
Focus Media	002027 CH	6.8	(49)	60	23	31	20	16
Baidu	BIDU US	152.0	12	8	42	18	17	12
Meta	Meta US	177.2	(27)	7	21	16	15	13
Google	GOOG US	97.1	(11)	10	20	19	17	14
Average PE						21	17	14

Source: Company data, CMBIGM estimates

Note: data as of the market close on 15 Feb; all data are based on Bloomberg consensus estimates

Figure 19: Peer comparison: online video, fintech, and cloud sectors

Companies	Ticker	Price	Revenue growth (YoY %)			PS (x)		
		(Local)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Online video								
iQiyi	IQ US	7.5	(11.5)	7.4	6.7	1.7	1.6	1.5
Mango Excellent Media	300413 CH	34.9	(17.8)	15.6	12.7	4.6	3.9	3.5
Average PS						3.1	2.7	2.5
Cloud								
Microsoft	MSFT US	269.3	5.8	11.1	11.8	9.6	8.6	7.7
Google	GOOG US	97.1	(17.3)	12.8	11.1	5.3	4.7	4.2
Salesforce	CRM US	171.1	17.0	10.3	12.3	5.5	5.0	4.5
Kingsoft Cloud	KC US	4.4	(12.0)	8.4	7.4	0.9	0.8	0.8
Amazon	AMZN US	101.2	(0.7)	9.1	12.6	2.0	1.9	1.7
Average PS						4.7	4.2	3.8
Fintech								
PayPal	PYPL US	77.9	8.7	6.6	9.9	3.2	3.0	2.7
Square	SQ US	82.7	(0.6)	13.7	15.9	2.8	2.5	2.1
Average PS						3.0	2.7	2.4

Source: Company data, CMBIGM estimates

Note: data as of the market close on 15 Feb; all data are based on Bloomberg consensus estimates

Our calculation for the valuation of Tencent's strategic investments is based on the current market value of Tencent's listed investment and the book value of its unlisted investment. We applied a 30% holding company discount to the fair value of Tencent's equity investment.

Figure 20: Tencent: valuation of strategic investment

Name	Ticker	Tencent's stake	Mkt cap (US\$m)	Value to Tencent (HK\$b)
PDD Holdings Inc	PDD US	15.5	119,434	144,302
Sea Ltd	SE US	20.2	36,968	58,247
Kuaishou Technology	1024 HK	20.6	34,091	54,884
Meituan	3690 HK	3.6	116,930	33,016
Snap Inc	SNAP US	17.5	17,806	24,347
KE Holdings Inc	772 HK	11.3	24,302	21,419
China International Capital Co	BEKE US	11.4	21,171	18,759
JD.com Inc	3908 HK	2.7	85,571	17,754
Spotify Technology SA	9618 HK	8.6	24,794	16,651
NU Holdings Ltd/Cayman Islands	FUTU US	7.9	24,504	15,119
Futu Holdings Ltd	SPOT US	21.6	7,743	13,051
Bilibili Inc	NU US	13.4	9,515	9,953
Tongcheng Travel Holdings Ltd	9626 HK	21.4	4,992	8,324
Vipshop Holdings Ltd	780 HK	11.5	8,909	8,005
Kanzhun Ltd	BZ US	9.9	10,259	7,898
Krafton Inc	VIPS US	13.5	6,842	7,199
Warner Music Group Corp	259960 KS	4.9	17,924	6,878
Netmarble Corp	WMG US	17.5	4,115	5,624
Yixin Group Ltd	251270 KS	53.9	923	3,877
ZhongAn Online P&C Insurance C	2858 HK	8.1	4,092	2,582
Waterdrop Inc	6060 HK	26.5	1,196	2,472
Kadokawa Corp	WDH US	6.9	2,862	1,532
Maoyan Entertainment	9857 HK	13.7	1,356	1,453
Paradox Interactive AB	9959 HK	9.1	2,040	1,449
Tuya Inc	9468 JP	11.7	1,540	1,403
Linklogis Inc	1896 HK	15.6	1,127	1,373
Oxford Nanopore Technologies P	PDX SS	7.7	2,242	1,338
Linmon Media Ltd	2391 HK	19.0	827	1,222
DHC Software Co Ltd	ONT LN	4.9	3,111	1,189
Ubisoft Entertainment SA	UBI FP	5.5	2,693	1,147
Zhihu Inc	002065 CH	12.6	1,140	1,120
Other listed entities as a whole			57,792	10,294
Listed investment (Current value)				503,883
Unlisted investment (Book Value)				391,721
Total investment value				895,604
Holdco discount				30%
Valuation of strategic investment				649,987
Valuation of strategic investment per share				65.7

Source: Bloomberg, Company data, CMBIGM estimates

Note: data as of the market close on 15 Feb

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	377,289	482,064	560,118	551,995	611,483	661,991
Cost of goods sold	(209,756)	(260,532)	(314,174)	(314,617)	(347,792)	(374,741)
Gross profit	167,533	221,532	245,944	237,377	263,691	287,250
Operating expenses	(48,839)	(37,295)	25,676	(87,460)	(94,104)	(99,064)
Selling expense	(21,396)	(33,758)	(40,594)	(31,464)	(35,466)	(37,071)
Admin expense	(53,446)	(67,625)	(89,847)	(105,983)	(111,290)	(115,848)
Others	26,003	64,088	156,117	49,987	52,651	53,856
Operating profit	118,694	184,237	271,620	149,918	169,586	188,186
Share of (losses)/profits of associates/JV	(1,681)	3,672	(16,444)	(16,286)	(3,257)	(1,303)
Interest income	6,314	6,957	6,650	8,136	9,545	9,457
Interest expense	(7,613)	(7,887)	(7,114)	(7,797)	(6,353)	(6,419)
Pre-tax profit	109,400	180,022	248,062	125,835	159,977	180,464
Income tax	(13,512)	(19,897)	(20,252)	(20,134)	(23,997)	(27,070)
After tax profit	95,888	160,125	227,810	105,701	135,980	153,394
Minority interest	(2,578)	(278)	(2,988)	(529)	(680)	(767)
Net profit	93,310	159,847	224,822	105,173	135,300	152,628
Adjusted net profit	94,351	122,742	123,788	116,153	134,112	152,672
Gross dividends	9,880	12,653	12,704	6,834	8,792	9,918
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	253,968	317,647	484,812	467,511	598,630	710,764
Cash & equivalents	132,991	152,798	167,966	268,233	335,209	450,755
Account receivables	35,839	44,981	49,331	45,078	48,438	50,866
Inventories	718	814	1,063	1,774	1,867	1,920
Prepayment	27,840	40,321	65,390	35,663	72,922	41,105
ST bank deposits	46,911	68,487	83,813	102,194	124,157	150,307
Financial assets at FVTPL	7,114	6,593	10,573	11,102	11,657	12,240
Other current assets	2,555	3,653	106,676	3,468	4,380	3,572
Non-current assets	700,018	1,015,778	1,127,552	1,165,907	1,231,407	1,275,580
PP&E	46,824	59,843	61,914	73,980	84,712	93,919
Deferred income tax	18,209	21,348	26,068	19,227	30,949	23,372
Investment in JVs & assos	221,894	305,258	323,188	338,245	353,790	369,811
Intangibles	128,860	159,437	171,376	194,460	215,579	235,900
Financial assets at FVTPL	128,822	165,944	192,184	192,184	192,184	192,184
Other non-current assets	155,409	303,948	352,822	347,810	354,193	360,394
Total assets	953,986	1,333,425	1,612,364	1,633,418	1,830,037	1,986,344
Current liabilities	240,156	269,079	403,098	299,143	354,671	355,241
Short-term borrowings	33,229	14,242	19,003	16,855	18,632	20,076
Account payables	80,690	94,030	109,470	95,234	128,792	110,178
Tax payable	9,733	12,134	12,506	14,073	15,245	16,098
Other current liabilities	113,225	144,851	256,673	167,536	186,555	203,443
Lease liabilities	3,279	3,822	5,446	5,446	5,446	5,446
Non-current liabilities	225,006	286,303	332,573	360,820	377,432	392,747
Long-term borrowings	104,257	112,145	136,936	139,423	140,182	140,411
Bond payables	83,327	122,057	145,590	156,509	162,378	165,423
Deferred income	7,334	6,678	4,526	12,585	13,912	14,990
Other non-current liabilities	30,088	45,423	45,521	52,304	60,960	71,924
Total liabilities	465,162	555,382	735,671	659,963	732,102	747,988
Retained earnings	384,651	538,464	669,911	766,144	889,944	1,029,598
Other reserves	48,055	165,520	136,388	136,388	136,388	136,388
Total shareholders equity	432,706	703,984	806,299	902,532	1,026,332	1,165,986
Minority interest	56,118	74,059	70,394	70,923	71,602	72,369
Total equity and liabilities	953,986	1,333,425	1,612,364	1,633,418	1,830,037	1,986,344

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	109,400	180,022	248,062	125,835	159,977	180,464
Depreciation & amortization	41,528	50,774	56,818	60,230	69,647	78,154
Tax paid	(13,512)	(19,897)	(20,252)	(20,134)	(23,997)	(27,070)
Change in working capital	15,330	27,423	(2,844)	32,347	11,866	27,610
Others	(4,156)	(44,203)	(106,598)	0	0	0
Net cash from operations	148,590	194,119	175,186	198,278	217,492	259,159
Investing						
Capital expenditure	(32,369)	(33,906)	(34,931)	(33,736)	(36,624)	(38,857)
Acquisition of subsidiaries/ investments	(68,512)	(108,665)	(117,642)	(21,357)	(57,080)	(40,569)
Net proceeds from disposal of short-term investments	16,411	15,376	0	0	0	0
Others	(31,700)	(54,760)	(25,976)	(61,644)	(64,873)	(68,826)
Net cash from investing	(116,170)	(181,955)	(178,549)	(116,737)	(158,577)	(148,252)
Financing						
Net borrowings	22,961	44,490	45,239	19,607	18,234	16,534
Proceeds from share issues	272	1,716	0	0	0	0
Others	(21,561)	(32,559)	(23,619)	(881)	(10,174)	(11,895)
Net cash from financing	1,672	13,647	21,620	18,726	8,061	4,639
Net change in cash						
Cash at the beginning of the year	97,814	132,991	152,798	167,966	268,233	335,209
Exchange difference	1,085	(6,004)	(3,089)	0	0	0
Cash at the end of the year	132,991	152,798	167,966	268,233	335,209	450,755
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	20.7%	27.8%	16.2%	(1.5%)	10.8%	8.3%
Gross profit	17.9%	32.2%	11.0%	(3.5%)	11.1%	8.9%
Operating profit	21.6%	55.2%	47.4%	(44.8%)	13.1%	11.0%
Net profit	18.5%	71.3%	40.6%	(53.2%)	28.6%	12.8%
Adj. net profit	21.8%	30.1%	0.9%	(6.2%)	15.5%	13.8%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	44.4%	46.0%	43.9%	43.0%	43.1%	43.4%
Operating margin	31.5%	38.2%	48.5%	27.2%	27.7%	28.4%
Adj. net profit margin	25.0%	25.5%	22.1%	21.0%	21.9%	23.1%
Return on equity (ROE)	24.7%	28.1%	29.8%	12.3%	14.0%	13.9%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	0.2	0.1	0.2	0.0	(0.0)	(0.1)
Current ratio (x)	1.1	1.2	1.2	1.6	1.7	2.0
Receivable turnover days	34.7	34.1	32.1	29.8	28.9	28.0
Payable turnover days	(140.4)	(131.7)	(127.2)	(110.5)	(135.2)	(107.3)
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	28.6	23.2	18.1	30.3	23.5	20.9
P/E (diluted)	29.1	23.6	18.4	30.7	23.9	21.2
P/B	6.2	5.3	5.0	3.5	3.1	2.7

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

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