

NetEase Cloud Music (9899 HK)

Enhanced user experience, monetization and profitability

NetEase Cloud Music reported FY24 financial results: total revenue increased by 1% YoY to RMB7.95bn in FY24, in line with consensus estimates; adjusted net profit grew by 108% YoY to RMB1.70bn, 20% ahead of consensus estimates, mainly thanks to the improved profitability of online music business and effective opex control. Looking into FY25E, the company will continue to focus on improving user experience to unlock long-term growth opportunities. Given the disciplined expense control and solid GPM expansion, we raise FY25-26E earnings forecast by 8-13%. We changed our valuation methodology from DCF to PE valuation in view of the better earnings visibility. Our target price of HK\$202.5 is based on 21x FY25E PE (previous: HK\$115.0). Maintain BUY.

- Online music business maintained solid momentum.** Online music services revenue increased by 20% YoY to RMB2.8bn in 2H24 (1H24: +27% YoY). Revenue from membership subscription grew by 19% YoY to RMB2.3bn in 2H24 (1H24: +25% YoY), mainly driven by growth of subscriber base, but partially offset by dilution in monthly ARPPU. Non-subscription online music services revenue was up by 23% YoY in 2H24, primarily attributable to the increase in digital album sales and incentive ads revenue. Social entertainment and others revenue was down by 33% YoY to RMB1.1bn in 2H24 (1H24: -20% YoY), as the company adopted a more prudent operational approach for the live streaming services, and optimized the product design of its main app to focus on the core music business.
- Focus on improving user experience to drive long-term growth.** Total MAUs grew steadily in 2024, with higher user engagement and longer time spent on the mobile app, thanks to the company's distinctive content ecosystem and improved personalised recommendations. For 2025, the company will focus on several key initiatives: 1) enriching content library with higher efficiency; 2) fostering healthy development of community; 3) driving paying willingness of users through enhanced experienced; 4) improving operating efficiency. We expect online music services revenue to maintain solid growth of 15% YoY in FY25E, mainly driven by the subscriber growth.
- Strong margin expansion in FY24.** Overall GPM rose by 3.6ppts YoY to 32.4% in 2H24, primarily due to the improved monetization and prudent cost control. We forecast GPM will further rise to 35.4% in FY25. The company also adopted a more prudent marketing strategy and acquired users through more efficient channels like collaboration with NetEase Games. Selling and marketing expenses declined by 38% YoY in 2H24. Adjusted net margin improved by 8.8ppts YoY to 21.1% in 2H24.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	7,867	7,950	8,076	8,770	9,284
YoY growth (%)	(12.5)	1.1	1.6	8.6	5.9
Gross margin (%)	26.7	33.7	35.4	37.2	38.4
Operating profit (RMB mn)	330.2	1,170.8	1,418.9	1,765.2	2,017.4
Adjusted net profit (RMB mn)	818.5	1,700.1	1,881.9	2,161.5	2,380.3
YoY growth (%)	na	107.7	10.7	14.9	10.1
EPS (Adjusted) (RMB)	3.89	8.14	9.01	10.35	11.40
P/S (x)	4.2	4.2	4.1	3.8	3.6
P/E (x)	45.7	21.3	19.1	16.5	14.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$202.50

(Previous TP) HK\$115.00)

Up/Downside 18.6%

Current Price HK\$170.70

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Stock Data

Mkt Cap (HK\$ mn)	35,650.1
Avg 3 mths t/o (HK\$ mn)	72.4
52w High/Low (HK\$)	170.70/84.80
Total Issued Shares (mn)	208.8

Source: FactSet

Shareholding Structure

NetEase	61.4%
Alibaba	9.9%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	51.5%	29.7%
3-mth	44.8%	20.9%
6-mth	82.5%	35.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Cloud Music: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	8,076	8,770	9,284	8,566	9,067	NA	-5.7%	-3.3%	NA
Gross profit	2,860	3,260	3,564	3,225	3,568	NA	-11.3%	-8.6%	NA
Operating profit	1,419	1,765	2,017	1,384	1,705	NA	2.5%	3.5%	NA
Adjusted net profit	1,882	2,161	2,380	1,659	2,002	NA	13.4%	8.0%	NA
Adjusted EPS (RMB)	9.0	10.3	11.4	7.9	9.5	NA	14.1%	8.9%	NA
Gross margin	35.4%	37.2%	38.4%	37.7%	39.4%	NA	-2.3 ppt	-2.2 ppt	NA
Operating margin	17.6%	20.1%	21.7%	16.2%	18.8%	NA	1.4 ppt	1.3 ppt	NA
Adjusted net margin	23.3%	24.6%	25.6%	19.4%	22.1%	NA	3.9 ppt	2.5 ppt	NA

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	8,076	8,770	9,284	8,631	9,313	9,637	-6.4%	-5.8%	-3.7%
Gross profit	2,860	3,260	3,564	2,978	3,327	3,543	-3.9%	-2.0%	0.6%
Adjusted net profit	1,882	2,161	2,380	1,581	1,771	1,893	19.0%	22.0%	25.7%
Adjusted EPS (RMB)	9.0	10.3	11.4	7.4	8.3	8.9	21.5%	24.0%	27.4%
Gross margin	35.4%	37.2%	38.4%	34.5%	35.7%	36.8%	0.9 ppt	1.5 ppt	1.6 ppt
Adjusted net margin	23.3%	24.6%	25.6%	18.3%	19.0%	19.6%	5.0 ppt	5.6 ppt	6.0 ppt

Source: Company data, CMBIGM estimates

Valuation

We value NetEase Cloud Music at HK\$202.5 per share based on 21x 2025E P/E. Our target PE multiple is at a discount to the global peers (22x), mainly due to the more intense competition in China's online content sector.

Figure 3: NetEase Cloud Music: target valuation

P/E valuation	2025E
2025E Adjusted EPS (RMB)	9.0
Target 2025E PE	21.0
Target price (RMB)	189.2
Target price (HK\$)	202.5

Source: Company data, CMBIGM estimates

Figure 4: Global music and video subscription platforms

Companies	Ticker	Price (LC)	PE(x)			PS (x)			EPS CAGR 24-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
Netflix	NFLX US	1024.5	NA	41.3	33.6	11.3	9.9	8.8	36%
Spotify	SPOT US	636.8	NA	NA	46.6	8.0	6.8	5.9	NA
TME	TME US	12.8	20.2	15.8	14.0	5.7	5.2	4.7	22%
iQiyi	IQ US	2.2	9.9	8.9	7.1	0.5	0.5	0.5	-6%
Average			15.0	22.0	25.3	6.4	5.6	5.0	

Source: Bloomberg, CMBIGM

Note: data as of 20 Feb

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	8,992	7,867	7,950	8,076	8,770	9,284
Cost of goods sold	7,699	5,764	5,269	5,215	5,509	5,721
Gross profit	1,293	2,103	2,682	2,860	3,260	3,564
Operating expenses	1,678	1,772	1,511	1,442	1,495	1,546
Selling expense	635	758	612	525	542	568
Admin expense	172	165	185	178	183	186
R&D expense	1,011	869	780	767	807	829
Others	(140)	(20)	(65)	(28)	(36)	(36)
Operating profit	(385)	330	1,171	1,419	1,765	2,017
Investment gain/loss	(3)	(0)	(7)	(7)	(7)	(8)
Other gains/(losses)	0	0	0	0	0	0
Interest income	183	438	406	401	439	480
Interest expense	(0)	(0)	(0)	0	0	0
Pre-tax profit	(204)	768	1,570	1,814	2,197	2,490
Income tax	(17)	(33)	(5)	(73)	(176)	(249)
After tax profit	(221)	734	1,565	1,741	2,021	2,241
Net profit	(221)	734	1,565	1,741	2,021	2,241
Adjusted net profit	(115)	819	1,700	1,882	2,161	2,380
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	10,475	11,323	11,952	13,694	15,919	18,295
Cash & equivalents	2,917	4,020	3,795	5,291	7,128	9,123
Account receivables	558	923	1,055	1,018	1,050	1,056
Prepayment	662	775	640	601	620	640
ST bank deposits	6,192	5,485	6,421	6,742	7,079	7,433
Financial assets at FVTPL	0	0	7	7	8	9
Other current assets	139	98	33	33	33	33
Non-current assets	416	287	1,630	1,684	1,758	1,834
PP&E	46	33	20	13	11	9
Right-of-use assets	8	6	6	6	6	6
Investment in JVs & assos	79	79	72	72	72	72
Other non-current assets	283	169	1,531	1,592	1,669	1,747
Total assets	10,891	11,611	13,582	15,377	17,677	20,130
Current liabilities	3,010	3,100	3,312	3,224	3,355	3,422
Account payables	0	0	24	24	25	26
Tax payable	6	4	1	11	27	38
Other current liabilities	53	76	74	74	74	74
Lease liabilities	3	3	2	2	2	2
Contract liabilities	714	1,001	1,235	1,255	1,363	1,443
Accrued expenses	2,235	2,015	1,976	1,859	1,865	1,840
Non-current liabilities	61	70	89	90	97	103
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	61	70	89	90	97	103
Total liabilities	3,071	3,170	3,401	3,314	3,452	3,525
Share capital	0	0	0	0	0	0
Retained earnings	(10,824)	(10,091)	(8,531)	(6,789)	(4,768)	(2,527)
Other reserves	18,644	18,532	18,708	18,849	18,989	19,129
Total shareholders equity	7,820	8,441	10,178	12,060	14,221	16,601
Total equity and liabilities	10,891	11,611	13,578	15,373	17,674	20,126

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(204)	768	1,570	1,814	2,197	2,490
Depreciation & amortization	23	16	15	9	4	3
Tax paid	(20)	(35)	(8)	(62)	(160)	(238)
Change in working capital	2,102	(222)	341	(12)	69	34
Others	(58)	(353)	(267)	(261)	(299)	(341)
Net cash from operations	1,843	174	1,651	1,488	1,811	1,949
Investing						
Capital expenditure	(26)	(4)	(2)	(2)	(2)	(2)
Acquisition of subsidiaries/ investments	(13,619)	707	(942)	(322)	(338)	(355)
Net proceeds from disposal of short-term investments	13,650	0	0	0	0	0
Others	153	438	(987)	331	365	403
Net cash from investing	159	1,141	(1,932)	8	26	47
Financing						
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(31)	0	0	0	0	0
Others	28	(0)	(0)	0	0	0
Net cash from financing	(3)	(0)	(0)	0	0	0
Net change in cash						
Cash at the beginning of the year	853	2,917	4,020	3,795	5,291	7,128
Exchange difference	64	(211)	(56)	0	0	0
Cash at the end of the year	2,917	4,020	3,683	5,291	7,128	9,123
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	28.5%	(12.5%)	1.1%	1.6%	8.6%	5.9%
Gross profit	806.3%	62.6%	27.5%	6.7%	14.0%	9.3%
Operating profit	na	na	254.6%	21.2%	24.4%	14.3%
Net profit	na	na	113.2%	11.2%	16.1%	10.9%
Adj. net profit	na	na	107.7%	10.7%	14.9%	10.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	14.4%	26.7%	33.7%	35.4%	37.2%	38.4%
Operating margin	(4.3%)	4.2%	14.7%	17.6%	20.1%	21.7%
Adj. net profit margin	(1.3%)	10.4%	21.4%	23.3%	24.6%	25.6%
Return on equity (ROE)	(2.9%)	9.0%	16.8%	15.7%	15.4%	14.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(1.2)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)
Current ratio (x)	3.5	3.7	3.6	4.2	4.7	5.3
Receivable turnover days	22.7	42.8	48.4	46.0	43.7	41.5
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	45.7	21.3	19.1	16.5	14.9
P/E (diluted)	ns	45.7	21.3	19.1	16.5	14.9
P/B	4.3	4.0	3.3	2.8	2.3	2.0

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

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