

# TME (TME US)

## 4Q24 earnings beat; driving quality growth in FY25

TME announced 4Q24 financial results: total revenue grew by 8% YoY to RMB7.5bn, largely in line with Bloomberg consensus estimate; non-IFRS net income was up by 45% YoY to RMB2.28bn, 15% ahead of consensus estimate, mainly thanks to better-than-expected GPM expansion and opex control. FY24 non-IFRS net income increased by 30% YoY to RMB7.67bn, driven by solid online music revenue growth and GPM expansion. For FY25E, management expects total revenue growth to accelerate and margin to further expand. We forecast FY25 total revenue/non-IFRS net income to grow by 9/16% YoY, with margin expanding at a slower pace given the high base. We slightly raise our FY25E earnings forecast in view of the better-than-expected GPM expansion trend, and lift our DCF-derived TP by 3% to US\$16.50. Maintain BUY.

- **Online music business maintained solid growth.** Online music revenue grew by 16% YoY to RMB5.8bn in 4Q24, with subscription/non-subscription revenue up by 18/12% YoY respectively. TME recorded a QoQ net addition of 2.0mn subscribers to 121mn in 4Q24 (+13% YoY), and monthly ARPPU was up by 4% YoY to RMB11.1 in 4Q24. SVIP membership continued to record solid sequential growth in the number of subscribers, ARPPU and engagement. Advertising revenue delivered a solid YoY growth in 4Q24, mainly driven by the ad-supported mode. Social entertainment and others revenue declined by 13% YoY but grew by 6% QoQ to RMB1.6bn in 4Q24, as the decline in live streaming revenue was partially offset by the solid performance of WeSing.
- **Focus on quality growth in FY25E.** Looking ahead in FY25E, we forecast total revenue to grow by 9% YoY to RMB31.0bn, with online music revenue/social entertainment revenue +16%/-14% YoY respectively. We expect music subscription revenue to increase by 16% YoY in FY25E, driven by the balanced growth of subscribers and ARPPU in FY25E, while non-subscription to grow by 17% YoY on the solid advertising business. The social entertainment business may continue to be dragged by the soft performance of live streaming business.
- **Expanding margin and enhancing shareholder return.** Overall GPM increased by 5.3ppt YoY and 1.0ppt QoQ to 43.6% in 4Q24 (0.6ppt ahead of consensus), mainly thanks to the operating leverage and the ramp-up of self-produced music content. Non-IFRS net margin rose by 7.7ppt YoY to 30.6% in 4Q24. For FY25E, we expect GPM/non-IFRS net margin will further improve by 3/2ppt YoY to 45/29%. To enhance shareholder return, TME announced a cash dividend of US\$273mn and a 2-year share repurchase program of US\$1bn, together representing c.6% of market cap.

### Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	27,752	28,401	31,020	34,187	37,567
Gross margin (%)	35.3	42.3	45.0	45.8	46.3
Adjusted net profit (RMB mn)	5,923.0	7,671.0	8,881.6	10,012.0	11,287.4
YoY growth (%)	24.8	29.5	15.8	12.7	12.7
EPS (Adjusted) (RMB)	3.74	4.90	5.67	6.40	7.21
Consensus EPS (RMB)	3.74	4.90	5.57	6.37	7.15
P/E (x)	32.6	23.6	20.6	18.3	16.2

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>US\$16.50</b>
(Previous TP)	US\$16.00)
<b>Up/Downside</b>	<b>9.3%</b>
<b>Current Price</b>	<b>US\$15.09</b>

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### Stock Data

Mkt Cap (US\$ mn)	23,270.5
Avg 3 mths t/o (US\$ mn)	86.0
52w High/Low (US\$)	15.49/9.46
Total Issued Shares (mn)	1542.1
Source: FactSet	

### Shareholding Structure

Tencent	52.5%
Spotify	8.2%

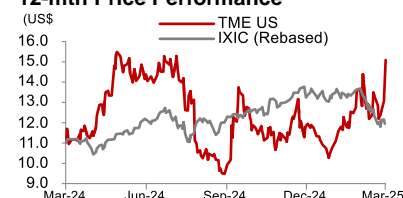
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	15.2%	32.0%
3-mth	28.0%	41.7%
6-mth	52.0%	56.4%

Source: FactSet

### 12-mth Price Performance



## Business forecasts update and valuation

Figure 1: TME: forecast revision

RMB mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	31,020	34,187	37,567	31,193	34,364	NA	-0.6%	-0.5%	NA
Gross Profit	13,967	15,661	17,387	13,876	15,629	NA	0.7%	0.2%	NA
Operating Profit	9,954	11,213	12,655	9,893	11,550	NA	0.6%	-2.9%	NA
Non-IFRS net profit	8,882	10,012	11,287	8,785	10,297	NA	1.1%	-2.8%	NA
Non-IFRS EPS (RMB)	5.7	6.4	7.2	5.6	6.6	NA	0.8%	-3.0%	NA
Gross Margin	45.0%	45.8%	46.3%	44.5%	45.5%	NA	0.5 ppt	0.3 ppt	NA
Operating Margin	32.1%	32.8%	33.7%	31.7%	33.6%	NA	0.4 ppt	-0.8 ppt	NA
Non-IFRS net margin	28.6%	29.3%	30.0%	28.2%	30.0%	NA	0.5 ppt	-0.7 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	31,020	34,187	37,567	30,933	34,182	36,818	0.3%	0.0%	2.0%
Gross Profit	13,967	15,661	17,387	13,450	15,248	16,905	3.8%	2.7%	2.9%
Operating Profit	9,954	11,213	12,655	9,493	10,892	12,389	4.9%	2.9%	2.2%
Non-IFRS net profit	8,882	10,012	11,287	8,591	9,826	11,031	3.4%	1.9%	2.3%
Non-IFRS EPS (RMB)	5.7	6.4	7.2	5.6	6.4	7.2	1.8%	0.4%	0.8%
Gross Margin	45.0%	45.8%	46.3%	43.5%	44.6%	45.9%	1.5 ppt	1.2 ppt	0.4 ppt
Operating Margin	32.1%	32.8%	33.7%	30.7%	31.9%	33.6%	1.4 ppt	0.9 ppt	0.0 ppt
Non-IFRS net margin	28.6%	29.3%	30.0%	27.8%	28.7%	30.0%	0.9 ppt	0.5 ppt	0.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: TME: quarterly financials

(RMB mn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	Cons.	Diff%	CMBI	Diff%
Online music	3,501	4,249	4,553	5,022	5,007	5,424	5,480	5,831				
YoY change (%)	33.8%	47.6%	32.7%	41.1%	43.0%	27.7%	20.4%	16.1%				
Subscription revenue	2,599	2,890	3,193	3,417	3,618	3,740	3,842	4,032				
YoY change (%)	30.4%	37.2%	42.0%	45.3%	39.2%	29.4%	20.3%	18.0%				
Other revenue	902	1,359	1,360	1,605	1,389	1,684	1,638	1,799				
YoY change (%)	44.8%	76.1%	15.1%	32.9%	54.0%	23.9%	20.5%	12.1%				
Social entertainment	3,503	3,037	2,016	1,871	1,761	1,736	1,535	1,627				
YoY change (%)	-13.0%	-24.6%	-48.8%	-51.6%	-49.7%	-42.8%	-23.9%	-13.0%				
<b>Total revenue</b>	<b>7,004</b>	<b>7,286</b>	<b>6,569</b>	<b>6,893</b>	<b>6,768</b>	<b>7,160</b>	<b>7,015</b>	<b>7,458</b>	<b>7,294</b>	<b>2.2%</b>	<b>7,311</b>	<b>2.0%</b>
YoY change (%)	5.4%	5.5%	-10.8%	-7.2%	-3.4%	-1.7%	6.8%	8.2%				
GPM (%)	33.1%	34.3%	35.7%	38.3%	40.9%	42.0%	42.6%	43.6%				
Adjusted NPM (%)	20.1%	21.0%	21.4%	22.8%	25.2%	26.2%	25.9%	30.6%				
<b>Adjusted net profit</b>	<b>1,411</b>	<b>1,529</b>	<b>1,408</b>	<b>1,575</b>	<b>1,704</b>	<b>1,873</b>	<b>1,814</b>	<b>2,280</b>	<b>1,982</b>	<b>15.0%</b>	<b>1,977</b>	<b>15.3%</b>
YoY change (%)	57.0%	48.6%	2.1%	9.5%	20.8%	22.5%	28.8%	44.8%				

Source: Company data, Bloomberg, CMBIGM estimates

## DCF valuation

Our target price of US\$16.50 is based on the DCF valuation methodology (WACC of 11.6% and terminal growth of 2.5%).

**Figure 4: TME: DCF Valuation**

(RMBmn)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Free cash flow	8,482	10,749	12,105	13,275	14,069	15,122	16,157	17,142
NPV of free cash flow	71,548							
Discounted terminal value	89,868							
Net cash	24,122							
Total TME valuation	<b>185,538</b>							
Number of ADS (diluted, mn)	1,542							
<b>Valuation per ADS (US\$)</b>	<b>16.50</b>							

Source: Company data, CMBIGM estimates

Note: USD:RMB = 7.30

## Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	28,339	27,752	28,401	31,020	34,187	37,567
Cost of goods sold	19,566	17,957	16,376	17,052	18,526	20,180
Gross profit	8,773	9,795	12,025	13,967	15,661	17,387
Operating expenses	4,330	3,736	3,315	4,013	4,448	4,731
Selling expense	1,144	897	865	922	965	998
Admin expense	4,413	4,121	3,811	4,030	4,231	4,381
Others	(1,227)	(1,282)	(1,361)	(939)	(748)	(648)
Operating profit	4,443	6,059	8,710	9,954	11,213	12,655
Share of (losses)/profits of associates/JV	38	127	96	0	0	0
Interest expense	(108)	(141)	(94)	(85)	(76)	(69)
Pre-tax profit	4,373	6,045	8,712	9,869	11,137	12,587
Income tax	(534)	(825)	(1,603)	(1,727)	(1,949)	(2,203)
After tax profit	3,839	5,220	7,109	8,142	9,188	10,384
Net profit	3,839	5,220	7,109	8,142	9,188	10,384
Adjusted net profit	4,745	5,923	7,671	8,882	10,012	11,287
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	26,559	29,936	34,544	34,938	39,735	45,620
Cash & equivalents	9,589	13,598	13,175	12,295	15,065	18,731
Account receivables	2,670	2,918	3,508	3,594	3,961	4,353
Inventories	14	8	23	23	23	23
Prepayment	2,958	3,438	3,793	3,577	3,691	3,820
ST bank deposits	11,291	9,937	13,999	15,399	16,939	18,633
Other current assets	37	37	46	51	56	61
Non-current assets	40,450	45,600	55,900	58,617	61,598	64,870
PP&E	323	490	803	872	946	1,025
Right-of-use assets	398	367	295	295	295	295
Deferred income tax	347	352	422	443	465	489
Investment in JVs & assos	4,330	4,274	4,669	4,719	4,769	4,819
Intangibles	2,368	2,032	2,049	1,835	1,627	1,423
Goodwill	19,493	19,542	19,647	19,897	20,147	20,397
Financial assets at FVTPL	3,168	6,540	14,498	15,948	17,543	19,297
Other non-current assets	10,023	12,003	13,517	14,608	15,807	17,125
Total assets	67,009	75,536	90,444	93,555	101,334	110,490
Current liabilities	11,717	12,014	16,550	14,500	16,070	17,821
Account payables	4,998	5,006	6,879	6,328	7,027	7,820
Tax payable	404	567	934	1,020	1,124	1,235
Other current liabilities	6,192	6,326	8,631	7,043	7,806	8,649
Lease liabilities	123	115	106	109	112	116
Long-term borrowings	6,165	6,320	4,168	4,186	4,208	4,229
Bond payables	5,536	5,636	3,572	3,572	3,572	3,572
Obligations under finance leases	306	297	219	230	241	254
Other non-current liabilities	323	387	377	384	394	404
Total liabilities	17,882	18,334	20,718	18,687	20,278	22,050
Share capital	2	2	2	2	2	2
Capital surplus	29,905	29,278	27,965	24,965	21,965	18,965
Retained earnings	12,052	16,969	20,051	28,193	37,381	47,765
Other reserves	6,140	9,658	19,845	19,845	19,845	19,845
Total shareholders equity	48,099	55,907	67,863	73,005	79,193	86,577
Minority interest	1,028	1,295	1,863	1,863	1,863	1,863
Total equity and liabilities	67,009	75,536	90,444	93,555	101,334	110,490

<b>CASH FLOW</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	4,373	6,045	8,712	9,869	11,137	12,587
Depreciation & amortization	1,160	1,027	380	610	644	681
Tax paid	(733)	(825)	0	0	0	0
Change in working capital	2,211	786	1,457	178	1,029	1,166
Others	470	304	(274)	(1,727)	(1,949)	(2,203)
<b>Net cash from operations</b>	<b>7,481</b>	<b>7,337</b>	<b>10,275</b>	<b>8,931</b>	<b>10,860</b>	<b>12,231</b>
<b>Investing</b>						
Capital expenditure	(1,053)	(1,164)	(710)	(465)	(509)	(556)
Acquisition of subsidiaries/ investments	(165)	(9)	(250)	(250)	(250)	(250)
Net proceeds from disposal of short-term investments	1,055	(835)	0	0	0	0
Others	(1,283)	145	(5,858)	(3,952)	(4,342)	(4,771)
<b>Net cash from investing</b>	<b>(1,446)</b>	<b>(1,863)</b>	<b>(6,818)</b>	<b>(4,668)</b>	<b>(5,102)</b>	<b>(5,577)</b>
<b>Financing</b>						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(3,419)	(1,538)	(3,830)	(5,143)	(2,989)	(2,988)
<b>Net cash from financing</b>	<b>(3,419)</b>	<b>(1,538)</b>	<b>(3,830)</b>	<b>(5,143)</b>	<b>(2,989)</b>	<b>(2,988)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	6,591	9,589	13,598	13,175	12,295	15,065
Exchange difference	382	73	(50)	0	0	0
<b>Cash at the end of the year</b>	<b>9,589</b>	<b>13,598</b>	<b>13,175</b>	<b>12,295</b>	<b>15,065</b>	<b>18,731</b>
<b>GROWTH</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Revenue	(9.3%)	(2.1%)	2.3%	9.2%	10.2%	9.9%
Gross profit	(6.7%)	11.6%	22.8%	16.2%	12.1%	11.0%
Operating profit	16.9%	36.4%	43.8%	14.3%	12.6%	12.9%
Net profit	19.4%	36.0%	36.2%	14.5%	12.8%	13.0%
Adj. net profit	14.4%	24.8%	29.5%	15.8%	12.7%	12.7%
<b>PROFITABILITY</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Gross profit margin	31.0%	35.3%	42.3%	45.0%	45.8%	46.3%
Operating margin	15.7%	21.8%	30.7%	32.1%	32.8%	33.7%
Adj. net profit margin	16.7%	21.3%	27.0%	28.6%	29.3%	30.0%
Return on equity (ROE)	7.8%	10.0%	11.5%	11.6%	12.1%	12.5%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Current ratio (x)	2.3	2.5	2.1	2.4	2.5	2.6
Receivable turnover days	40.4	36.7	41.3	41.8	40.3	40.4
Payable turnover days	87.0	101.7	132.5	141.3	131.6	134.3
<b>VALUATION</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
P/E	45.5	32.6	23.6	20.6	18.3	16.2
P/E (diluted)	45.9	33.1	24.0	21.0	18.6	16.4
P/B	3.6	3.0	2.5	2.3	2.1	1.9

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

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