

TME (TME US)

2Q25 results beat; emerging opportunities beyond subscription

TME reported 2Q25 financial results: total revenue grew by 18% YoY to RMB8.44bn, and non-IFRS net income was up by 37% YoY to RMB2.57bn, 6% and 13% ahead of Bloomberg consensus respectively, primarily attributable to the robust growth of non-subscription music revenue (i.e. ads, artist-related merchandise and offline performances). Looking ahead, we expect the online music business momentum to continue, and forecast total revenue/non-IFRS net income to grow by 17/28% YoY in 3Q25E. We raise our FY25-27E earnings forecast by 6-10%, and also the long-term forecast for online music business in view of the emerging opportunities like artist-related merchandise, offline performances, and their synergies with music subscription business. We lift our DCF-derived TP to US\$29.5 (previous: US\$17.50 based on DCF). Maintain BUY.

- Robust online music revenue growth.** Online music revenue was up by 26% YoY to RMB6.85bn in 2Q25, fuelled by the growth of both subscription (+17% YoY) and non-subscription (+47% YoY) music revenue. The number of subscribers recorded a QoQ net addition of 1.5mn to 124mn (+6% YoY) in 2Q25. And monthly ARPPU increased by 10% YoY to RMB11.7 in 2Q25, supported by the growth of SVIP subscribers, which recently surpassed 15mn. Non-subscription music revenue increased by 47% YoY to RMB2.47bn in 2Q25, driven by the robust revenue growth of advertising, artist-related merchandise and offline performances. TME launched ad-based membership in 2Q25 with optimized ad incentives, which drove strong YoY ad revenue growth. Revenues from artist-related merchandise and offline performances grew by over 100% YoY in 2Q25, thanks to the success in staging large-scale concerts for renowned artists. Social entertainment and other revenue declined by 9% YoY to RMB1.59bn in 2Q25.
- Strong momentum to continue in 3Q25E.** For 3Q25E, we project total revenue to grow by 17% YoY to RMB8.22bn, mainly thanks to the strong online music revenue growth (+22% YoY). Within the online music segment, we estimate music subscription revenue to increase by 17% YoY in 3Q25E, driven by the growth of subscribers (+6% YoY) and ARPPU (+11% YoY). Meanwhile, we estimate non-subscription music revenue to grow by 35% YoY in 3Q25E, fuelled by the continuous strong momentum of advertising and offline performance businesses.
- Margin expansion on track.** TME's GPM rose by 2.4ppts YoY and 0.3ppts QoQ to 44.4% in 2Q25, mainly driven by the growth of revenues from music subscriptions and ads, but partially offset by the growth of lower-margin businesses like artist-related merchandise and offline performances. Looking ahead, management expects GPM to maintain an upward trend in FY25/26E, driven by the growth of subscription and ad revenue. Non-IFRS net margin increased by 4.3ppts YoY to 30.5% in 2Q25.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	27,752	28,401	32,411	36,694	41,107
Gross margin (%)	35.3	42.3	44.5	45.4	45.9
Adjusted net profit (RMB mn)	5,923.0	7,671.0	9,477.8	11,242.0	13,112.2
YoY growth (%)	24.8	29.5	23.6	18.6	16.6
EPS (Adjusted) (RMB)	3.74	4.90	6.05	7.18	8.38
Consensus EPS (RMB)	3.74	4.90	5.94	6.69	7.57
P/E (x)	54.6	39.6	24.8	27.2	23.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$29.50
 (Previous TP) US\$17.50
Up/Downside 16.2%
Current Price US\$25.39

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Stock Data

Mkt Cap (US\$ mn)	39,154.3
Avg 3 mths t/o (US\$ mn)	52.0
52w High/Low (US\$)	25.39/9.46
Total Issued Shares (mn)	1542.1

Source: FactSet

Shareholding Structure

Tencent	53.0%
Spotify	9.1%

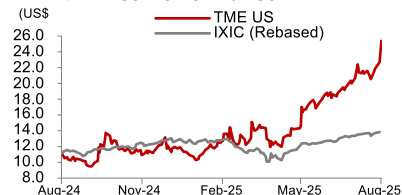
Source: Company data

Share Performance

	Absolute	Relative
1-mth	28.3%	21.8%
3-mth	72.8%	51.5%
6-mth	99.0%	83.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

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	32,411	36,694	41,107	31,189	34,479	37,823	3.9%	6.4%	8.7%
Gross profit	14,423	16,648	18,855	14,026	15,715	17,387	2.8%	5.9%	8.4%
Non-IFRS net profit	9,478	11,242	13,112	8,919	10,426	11,930	6.3%	7.8%	9.9%
Non-IFRS EPS (RMB)	6.1	7.2	8.4	5.7	6.7	7.6	6.3%	7.8%	9.9%
Gross margin	44.5%	45.4%	45.9%	45.0%	45.6%	46.0%	-0.5 ppt	-0.2 ppt	-0.1 ppt
Non-IFRS net margin	29.2%	30.6%	31.9%	28.6%	30.2%	31.5%	0.6 ppt	0.4 ppt	0.4 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	32,411	36,694	41,107	31,278	34,908	38,464	3.6%	5.1%	6.9%
Gross profit	14,423	16,648	18,855	14,026	16,173	18,116	2.8%	2.9%	4.1%
Non-IFRS net profit	9,478	11,242	13,112	9,153	10,320	11,669	3.6%	8.9%	12.4%
Non-IFRS EPS (RMB)	6.1	7.2	8.4	5.9	6.7	7.6	2.0%	7.3%	10.7%
Gross margin	44.5%	45.4%	45.9%	44.8%	46.3%	47.1%	-0.3 ppt	-1.0 ppt	-1.2 ppt
Non-IFRS net margin	29.2%	30.6%	31.9%	29.3%	29.6%	30.3%	0.0 ppt	1.1 ppt	1.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: TME: quarterly financial

(RMB mn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	Cons.	Diff%
Online music	5,007	5,424	5,480	5,831	5,804	6,854	6,446	6.3%
YoY change (%)	43.0%	27.7%	20.4%	16.1%	15.9%	26.4%	18.8%	
Subscription revenue	3,618	3,740	3,842	4,032	4,219	4,380	4,341	0.9%
YoY change (%)	39.2%	29.4%	20.3%	18.0%	16.6%	17.1%	16.1%	
Other revenue	1,389	1,684	1,638	1,799	1,585	2,474	2,094	18.2%
YoY change (%)	54.0%	23.9%	20.5%	12.1%	14.1%	46.9%	24.3%	
Social entertainment	1,761	1,736	1,535	1,627	1,552	1,588	1,543	2.9%
YoY change (%)	-49.7%	-42.8%	-23.9%	-13.0%	-11.9%	-8.5%	-11.1%	
Total revenue	6,768	7,160	7,015	7,458	7,356	8,442	7,988	5.7%
YoY change (%)	-3.4%	-1.7%	6.8%	8.2%	8.7%	17.9%	11.6%	
GPM (%)	40.9%	42.0%	42.6%	43.6%	44.1%	44.4%	44.5%	-0.1ppt
Adjusted net profit	1,704	1,873	1,814	2,280	2,124	2,574	2,270	13.4%
YoY change (%)	20.8%	22.5%	28.8%	44.8%	24.6%	37.4%	21.2%	
Adjusted NPM (%)	25.2%	26.2%	25.9%	30.6%	28.9%	30.5%	28.4%	

Source: Company data, CMBIGM

DCF valuation

Our target price of US\$29.50 is based on the DCF valuation methodology (WACC of 9.6% and terminal growth of 3.0%).

Figure 4: TME: DCF Valuation

(RMBmn)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Free cash flow	11,798	11,904	13,756	15,413	17,167	19,102	21,009	22,785

(RMBmn)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
NPV of free cash flow	94,062							
Discounted terminal value	205,849							
Net cash	27,666							
Total TME valuation	327,577							
Number of ADS (diluted, mn)	1,542							
Valuation per ADS (US\$)	29.5							

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	28,339	27,752	28,401	32,411	36,694	41,107
Cost of goods sold	19,566	17,957	16,376	17,988	20,047	22,252
Gross profit	8,773	9,795	12,025	14,423	16,648	18,855
Operating expenses	4,330	3,736	3,315	1,159	4,210	4,534
Selling expense	1,144	897	865	902	972	1,024
Admin expense	4,413	4,121	3,811	3,823	4,178	4,438
Others	(1,227)	(1,282)	(1,361)	(3,566)	(940)	(928)
Operating profit	4,443	6,059	8,710	13,264	12,438	14,320
Share of (losses)/profits of associates/JV	38	127	96	71	0	0
Interest expense	(108)	(141)	(94)	(61)	(55)	(49)
Pre-tax profit	4,373	6,045	8,712	13,274	12,383	14,271
Income tax	(534)	(825)	(1,603)	(1,904)	(2,043)	(2,141)
After tax profit	3,839	5,220	7,109	11,371	10,340	12,130
Net profit	3,839	5,220	7,109	11,371	10,340	12,130
Adjusted net profit	4,745	5,923	7,671	9,478	11,242	13,112
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	26,559	29,936	34,544	38,950	45,452	53,620
Cash & equivalents	9,589	13,598	13,175	15,839	19,858	25,340
Account receivables	2,670	2,918	3,508	3,667	4,151	4,650
Inventories	14	8	23	23	23	23
Prepayment	2,958	3,438	3,793	3,971	4,426	4,913
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	58,638	61,655	64,973
PP&E	323	490	803	879	965	1,059
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	1,849	1,664	1,493
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	97,587	107,107	118,593
Current liabilities	11,717	12,014	16,550	15,295	17,447	19,777
Account payables	4,998	5,006	6,879	6,675	7,604	8,623
Tax payable	404	567	934	1,066	1,207	1,352
Other current liabilities	6,192	6,326	8,631	7,445	8,524	9,686
Lease liabilities	123	115	106	109	112	116
Long-term borrowings	6,165	6,320	4,168	4,196	4,223	4,250
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	394	410	425
Total liabilities	17,882	18,334	20,718	19,491	21,671	24,027
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	31,422	41,761	53,891
Other reserves	6,140	9,658	19,845	19,845	19,845	19,845
Total shareholders equity	48,099	55,907	67,863	76,234	83,573	92,703
Minority interest	1,028	1,295	1,863	1,863	1,863	1,863
Total equity and liabilities	67,009	75,536	90,444	97,587	107,107	118,593

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,373	6,045	8,712	13,274	12,383	14,271
Depreciation & amortization	1,160	1,027	1,042	610	646	686
Tax paid	(733)	(825)	(1,355)	0	0	0
Change in working capital	2,211	786	1,556	515	1,161	1,284
Others	470	304	320	(1,904)	(2,043)	(2,141)
Net cash from operations	7,481	7,337	10,275	12,496	12,146	14,100
Investing						
Capital expenditure	(1,053)	(1,164)	(1,032)	(486)	(547)	(608)
Acquisition of subsidiaries/ investments	(165)	(9)	(34)	(250)	(250)	(250)
Net proceeds from disposal of short-term investments	1,055	(835)	(5,572)	0	0	0
Others	(1,283)	145	(180)	(3,952)	(4,342)	(4,771)
Net cash from investing	(1,446)	(1,863)	(6,818)	(4,689)	(5,139)	(5,629)
Financing						
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)
Net cash from financing	(3,419)	(1,538)	(3,830)	(5,143)	(2,989)	(2,988)
Net change in cash						
Cash at the beginning of the year	6,591	9,589	13,598	13,175	15,839	19,858
Exchange difference	382	73	(50)	0	0	0
Cash at the end of the year	9,589	13,598	13,175	15,839	19,858	25,340
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(9.3%)	(2.1%)	2.3%	14.1%	13.2%	12.0%
Gross profit	(6.7%)	11.6%	22.8%	19.9%	15.4%	13.3%
Operating profit	16.9%	36.4%	43.8%	52.3%	(6.2%)	15.1%
Net profit	19.4%	36.0%	36.2%	59.9%	(9.1%)	17.3%
Adj. net profit	14.4%	24.8%	29.5%	23.6%	18.6%	16.6%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	31.0%	35.3%	42.3%	44.5%	45.4%	45.9%
Operating margin	15.7%	21.8%	30.7%	40.9%	33.9%	34.8%
Adj. net profit margin	16.7%	21.3%	27.0%	29.2%	30.6%	31.9%
Return on equity (ROE)	7.8%	10.0%	11.5%	15.8%	12.9%	13.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Current ratio (x)	2.3	2.5	2.1	2.5	2.6	2.7
Receivable turnover days	40.4	36.7	41.3	40.4	38.9	39.1
Payable turnover days	87.0	101.7	132.5	137.5	130.0	133.1
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	76.2	54.6	39.6	24.8	27.2	23.2
P/E (diluted)	76.9	55.4	40.2	25.1	27.6	23.6
P/B	6.1	5.1	4.1	3.7	3.4	3.0

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

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