13 Nov 2025

CMB International Global Markets | Equity Research | Company Update

TME (TME US)

3Q25 review: investing to expand music product offerings

BUY (Maintain)

TME announced 3Q25 results: total revenue increased by 21% YoY to RMB8.46bn, and non-IFRS net income was up by 33% YoY to RMB2.41bn, 3% and 4% ahead of Bloomberg consensus respectively, mainly thanks to the better-than-expected revenue growth of non-subscription music businesses (+51% YoY) like ads and offline performances. We expect total revenue growth will decelerate to +12% YoY in 4Q25E, largely in line with consensus, mainly due to the normalisation of revenue from offline performances. For FY26E, the company will further step up investment in content and new monetization opportunities such as offline performance and artist-related merchandise, which may drive sustainable revenue growth but impact short-term margins, in our view. We lower our FY26-27E earnings forecast by 3-5% in light of the increased investment. We lower our DCF-derived TP to US$28.0 (previous: US$29.50 based on DCF). Maintain BUY.

- **Strong online music business supported by multiple drivers.** Online music revenue grew by 27% YoY to RMB6.97bn in 3Q25: 1) music subscription revenue was up by 17% YoY to RMB4.50bn (53% of total revenue), with the number of subscribers up by 6% YoY to 125.7mn and monthly ARPPU up by 11% YoY to RMB11.9. The solid ARPPU growth was mainly driven by the expansion of SVIP program. 2) Non-subscription music revenue grew by 51% YoY to RMB2.47bn (29% of total revenue), primarily due to the robust YoY growth of revenue from offline performances, ads and artist-related merchandise. Revenue from offline performances maintained strong momentum, as the company hosted 14 sold-out concerts for G-DRAGON in 3Q25, attracting over 150k attendees. Ad revenue also delivered solid YoY growth, driven by innovations in ad formats. Social entertainment and others revenue dropped by 3% YoY to RMB1.49bn in 3Q25.
- **Online music business to sustain solid growth in 4Q25E.** For 4Q25E, we forecast total revenue to increase by 12% YoY, driven by the solid growth of both music subscription/non-subscription revenue (+14/27% YoY). We expect music subscription business to maintain solid momentum in 4Q25E, thanks to the balanced growth of subscribers and ARPPU (+5% and +9% YoY on our estimates); and non-subscription revenue growth to decelerate, mainly due to the normalisation of revenue from offline performances.
- **Investing in new opportunities.** Overall GPM was 43.5% in 3Q25, up by 0.9ppt YoY but down by 0.9ppt QoQ, mainly due to the increased costs related to offline performances and artist-related merchandise. Non-IFRS net margin increased by 2.6ppt YoY to 28.4% in 3Q25. Looking ahead, TME will step up investment in new opportunities around offline performances and artist-related merchandise. As lower-margin non-subs businesses outpace overall growth, we expect overall GPM to decline by 0.8ppt YoY in FY26E.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	27,752	28,401	32,645	36,799	41,005
Gross margin (%)	35.3	42.3	44.3	43.5	43.5
Adjusted net profit (RMB mn)	5,923.0	7,671.0	9,595.9	10,825.3	12,506.9
YoY growth (%)	24.8	29.5	25.1	12.8	15.5
EPS (Adjusted) (RMB)	3.74	4.90	6.13	6.92	7.99
Consensus EPS (RMB)	3.74	4.90	6.17	7.14	8.16
P/E (x)	40.5	29.3	18.3	21.1	18.1

Source: Company data, Bloomberg, CMBIGM estimates

Target Price	**US$28.00**
(Previous TP	US$29.50)
Up/Downside	**47.3%**
Current Price	**US$19.01**

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Stock Data

Mkt Cap (US$ mn)	29,315.6
Avg 3 mths t/o (US$ mn)	44.5
52w High/Low (US$)	26.36/10.28
Total Issued Shares (mn)	1542.1

Source: FactSet

Shareholding Structure

Tencent	53.0%
Spotify	9.1%

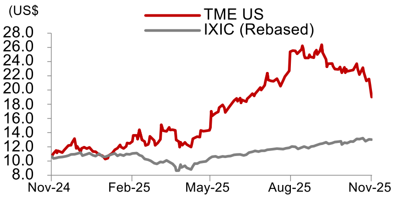
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-18.0%	-20.7%
3-mth	-25.7%	-31.3%
6-mth	29.4%	4.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: TME: forecast revision

	Current			Previous			Change (%)		
RMB mn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	32,645	36,799	41,005	32,411	36,694	41,107	0.7%	0.3%	-0.2%
Gross profit	14,477	16,017	17,852	14,423	16,648	18,855	0.4%	-3.8%	-5.3%
Non-IFRS net profit	9,596	10,825	12,507	9,478	11,242	13,112	1.2%	-3.7%	-4.6%
Non-IFRS EPS (RMB)	6.1	6.9	8.0	6.1	7.2	8.4	1.2%	-3.7%	-4.6%
Gross margin	44.3%	43.5%	43.5%	44.5%	45.4%	45.9%	-0.2 ppt	-1.8 ppt	-2.3 ppt
Non-IFRS net margin	29.4%	29.4%	30.5%	29.2%	30.6%	31.9%	0.2 ppt	-1.2 ppt	-1.4 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	32,645	36,799	41,005	32,420	36,737	40,826	0.7%	0.2%	0.4%
Gross profit	14,477	16,017	17,852	14,429	16,918	19,198	0.3%	-5.3%	-7.0%
Non-IFRS net profit	9,596	10,825	12,507	9,508	11,015	12,581	0.9%	-1.7%	-0.6%
Non-IFRS EPS (RMB)	6.1	6.9	8.0	6.2	7.1	8.2	-0.6%	-3.2%	-2.1%
Gross Margin	44.3%	43.5%	43.5%	44.5%	46.1%	47.0%	-0.2 ppt	-2.5 ppt	-3.5 ppt
Non-IFRS net margin	29.4%	29.4%	30.5%	29.3%	30.0%	30.8%	0.1 ppt	-0.6 ppt	-0.3 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: TME: quarterly financials

(RMB mn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	Cons.	Diff%
Online music	**5,007**	**5,424**	**5,480**	**5,831**	**5,804**	**6,854**	**6,969**	**6,717**	**3.8%**
YoY change (%)	*43.0%*	*27.7%*	*20.4%*	*16.1%*	*15.9%*	*26.4%*	*27.2%*	*22.6%*	
Subscription revenue	**3,618**	**3,740**	**3,842**	**4,032**	**4,219**	**4,380**	**4,503**	**4,498**	**0.1%**
YoY change (%)	*39.2%*	*29.4%*	*20.3%*	*18.0%*	*16.6%*	*17.1%*	*17.2%*	*17.1%*	
Other revenue	**1,389**	**1,684**	**1,638**	**1,799**	**1,585**	**2,474**	**2,466**	**2,203**	**11.9%**
YoY change (%)	*54.0%*	*23.9%*	*20.5%*	*12.1%*	*14.1%*	*46.9%*	*50.6%*	*34.5%*	
Social entertainment	**1,761**	**1,736**	**1,535**	**1,627**	**1,552**	**1,588**	**1,494**	**1,509**	**-1.0%**
YoY change (%)	*-49.7%*	*-42.8%*	*-23.9%*	*-13.0%*	*-11.9%*	*-8.5%*	*-2.7%*	*-1.7%*	
Total revenue	**6,768**	**7,160**	**7,015**	**7,458**	**7,356**	**8,442**	**8,463**	**8,227**	**2.9%**
YoY change (%)	*-3.4%*	*-1.7%*	*6.8%*	*8.2%*	*8.7%*	*17.9%*	*20.6%*	*17.3%*	
GPM (%)	**40.9%**	**42.0%**	**42.6%**	**43.6%**	**44.1%**	**44.4%**	**43.5%**	**44.0%**	**-0.5ppt**
Adjusted net profit	**1,704**	**1,873**	**1,814**	**2,280**	**2,124**	**2,574**	**2,405**	**2,306**	**4.3%**
YoY change (%)	*20.8%*	*22.5%*	*28.8%*	*44.8%*	*24.6%*	*37.4%*	*32.6%*	*27.1%*	
Adjusted NPM (%)	*25.2%*	*26.2%*	*25.9%*	*30.6%*	*28.9%*	*30.5%*	*28.4%*	*28.0%*	

Source: Company data, Bloomberg, CMBIGM

DCF valuation

Our target price of US$28.0 is based on the DCF valuation methodology (WACC of 9.6% and terminal growth of 3.0%, both unchanged).

Figure 4: TME: DCF Valuation

(RMBmn)	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Free cash flow	11,587	13,219	14,564	15,731	17,009	18,411	19,693
NPV of free cash flow	82,625						
Discounted terminal value	194,901						
Net cash	33,127						
Total TME valuation	310,653						
Number of ADS (diluted, mn)	1,542						
Valuation per ADS (US$)	**28.0**						

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**	**32,645**	**36,799**	**41,005**
Cost of goods sold	19,566	17,957	16,376	18,168	20,782	23,154
Gross profit	**8,773**	**9,795**	**12,025**	**14,477**	**16,017**	**17,852**
Operating expenses	**4,330**	**3,736**	**3,315**	**1,065**	**4,062**	**4,226**
Selling expense	1,144	897	865	935	1,003	1,051
Admin expense	4,413	4,121	3,811	3,880	4,006	4,099
Others	(1,227)	(1,282)	(1,361)	(3,751)	(947)	(924)
Operating profit	**4,443**	**6,059**	**8,710**	**13,412**	**11,955**	**13,625**
Share of (losses)/profits of associates/JV	38	127	96	61	0	0
Interest expense	(108)	(141)	(94)	(101)	(91)	(82)
Pre-tax profit	**4,373**	**6,045**	**8,712**	**13,372**	**11,864**	**13,544**
Income tax	(534)	(825)	(1,603)	(1,947)	(1,958)	(2,032)
After tax profit	**3,839**	**5,220**	**7,109**	**11,425**	**9,906**	**11,512**
Net profit	**3,839**	**5,220**	**7,109**	**11,425**	**9,906**	**11,512**
Adjusted net profit	**4,745**	**5,923**	**7,671**	**9,596**	**10,825**	**12,507**

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	**26,559**	**29,936**	**34,544**	**39,141**	**45,529**	**53,166**
Cash & equivalents	9,589	13,598	13,175	15,965	19,760	24,699
Account receivables	2,670	2,918	3,508	3,693	4,163	4,639
Inventories	14	8	23	23	23	23
Prepayment	2,958	3,438	3,793	4,011	4,588	5,112
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**	**58,641**	**61,659**	**64,976**
PP&E	323	490	803	880	966	1,060
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	1,851	1,668	1,495
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**	**97,783**	**107,189**	**118,142**
Current liabilities	**11,717**	**12,014**	**16,550**	**15,434**	**17,907**	**20,323**
Account payables	4,998	5,006	6,879	6,742	7,883	8,973
Tax payable	404	567	934	1,074	1,210	1,349
Other current liabilities	6,192	6,326	8,631	7,509	8,701	9,886
Lease liabilities	123	115	106	109	112	116
Long-term borrowings	6,165	6,320	4,168	4,197	4,224	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	395	411	424
Total liabilities	**17,882**	**18,334**	**20,718**	**19,631**	**22,131**	**24,573**
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	31,476	41,383	52,895
Other reserves	6,140	9,658	19,845	19,845	19,845	19,845
Total shareholders equity	**48,099**	**55,907**	**67,863**	**76,288**	**83,195**	**91,707**
Minority interest	1,028	1,295	1,863	1,863	1,863	1,863
Total equity and liabilities	**67,009**	**75,536**	**90,444**	**97,783**	**107,189**	**118,142**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**4,373**	**6,045**	**8,712**	**13,372**	**11,864**	**13,544**
Depreciation & amortization	1,160	1,027	1,042	610	646	687
Tax paid	(733)	(825)	(1,355)	0	0	0
Change in working capital	2,211	786	1,556	590	1,372	1,355
Others	470	304	320	(1,947)	(1,958)	(2,032)
Net cash from operations	**7,481**	**7,337**	**10,275**	**12,625**	**11,925**	**13,554**
Investing						
Capital expenditure	(1,053)	(1,164)	(1,032)	(490)	(548)	(607)
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)**	**(4,692)**	**(5,140)**	**(5,628)**
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	15,965	19,760
Exchange difference	382	73	(50)	0	0	0
Cash at the end of the year	**9,589**	**13,598**	**13,175**	**15,965**	**19,760**	**24,699**

GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(9.3%)	(2.1%)	2.3%	14.9%	12.7%	11.4%
Gross profit	(6.7%)	11.6%	22.8%	20.4%	10.6%	11.5%
Operating profit	16.9%	36.4%	43.8%	54.0%	(10.9%)	14.0%
Net profit	19.4%	36.0%	36.2%	60.7%	(13.3%)	16.2%
Adj. net profit	14.4%	24.8%	29.5%	25.1%	12.8%	15.5%

PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	31.0%	35.3%	42.3%	44.3%	43.5%	43.5%
Operating margin	15.7%	21.8%	30.7%	41.1%	32.5%	33.2%
Adj. net profit margin	16.7%	21.3%	27.0%	29.4%	29.4%	30.5%
Return on equity (ROE)	7.8%	10.0%	11.5%	15.9%	12.4%	13.2%

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	2.5	2.6
Receivable turnover days	40.4	36.7	41.3	40.3	39.0	39.2
Payable turnover days	87.0	101.7	132.5	136.8	128.4	132.9

VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	56.5	40.5	29.3	18.3	21.1	18.1
P/E (diluted)	57.0	41.1	29.8	18.5	21.4	18.4
P/B	4.5	3.8	3.1	2.7	2.5	2.3

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

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