

1Q26 earnings review: Himalaya acquisition approved, focus on Tencent ecosystem cooperation

Key takeaway

1Q26 earnings were broadly in line with expectations. As previously guided by the company, membership and advertising revenue were affected by market competition, but IP-based businesses achieved strong growth, with offline performance revenue posting a triple-digit YoY increase. In terms of profit, gross margin reached a new high in the first quarter. Although the company increased investment in new businesses, factors such as membership revenue growth and lower channel fees offset the negative impact. Selling expense increased as expected to address market competition. Under the combined effect, the company's net profit attributable to shareholders of the parent company was in line with expectations.

Several recent events have materialized and are expected to become new drivers for future business development. On the day of the earnings release, the Himalaya acquisition was approved by the State Administration for Market Regulation, which is expected to help the company enrich membership benefits and achieve service innovation. In addition, the company is deepening cooperation with WeChat Channels, which is expected to build a music ecosystem and drive user traffic. Going forward, we will focus on progress in IP ecosystem and business development, copyright enforcement, and Tencent ecosystem cooperation.

We estimate the company will achieve Non-IFRS net profit attributable to shareholders of the parent company of RMB10.045bn/ 10.921bn/11.859bn in 2026-2028, with YoY growth of 4.76%/8.73%/8.59%. The closing price on May 14, 2026 corresponds to a PE of 10.72/9.86/9.08x.

Event

Tencent Music released its 1Q26 earnings. During the reporting period, the company achieved revenue of RMB7.90bn, a YoY increase of 7.3%; adjusted EBITDA of RMB2.83bn, a YoY increase of 10.5%; and Non-IFRS net profit attributable to shareholders of the parent company of RMB2.27bn, a YoY increase of 7.0%.

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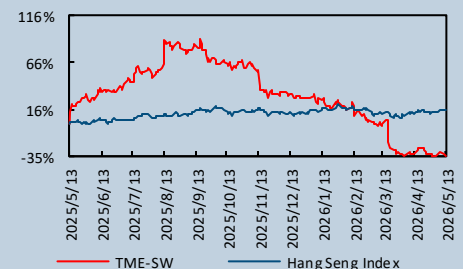
Current Price: HKD 35.28

Main Data

Absolute/relative share performance (%)

1 month	3 months	12 months
-4.34/-6.25	-45.72/-43.34	-38.11/-50.16
The highest/lowest price in recent 12 months(HKD)		102.90/35.08
Total share capital(10,000 shares)		314,780.90
Tradable H shares(10,000 shares)		314,780.90
Total market cap (HKD'00mn)		1,110.55
Tradable market cap (HKD'00mn)		523.15
3-month average daily trading volume (10,000 shares)		204.31
Main shareholders		
Min River Investment Limited		52.11%

Share performance



Related research reports

Key financial indicators

	2024	2025A	2026E	2027E	2028E
Revenue (RMB mn)	28,401	32,902	36,119	39,409	42,547
Growth rate (%)	2.34	15.85	9.78	9.11	7.96
IFRS net profit attributable to shareholders of the parent company (RMB mn)	6,644	11,056	9,445	10,384	11,388
Growth rate (%)	35.04	66.41	-14.57	9.95	9.67
Non-IFRS net profit attributable to shareholders of the parent company (RMB mn)	7,671	9,588	10,045	10,921	11,859
Growth rate (%)	29.51	24.99	4.76	8.73	8.59
Diluted EPS (RMB/share)	2.11	3.51	3.00	3.30	3.62
P/E	14.03	11.23	10.72	9.86	9.08
P/B	1.59	1.34	1.22	1.11	1.01

Source: Wind, China Securities

Quick Take

The company's earnings were broadly in line with expectations. In 1Q26, the company achieved revenue of RMB7.90bn, a YoY increase of 7.3%; IFRS net profit attributable to shareholders of the parent company was RMB2.09bn, a YoY decrease of 51.3%; Non-IFRS net profit attributable to shareholders of the parent company was RMB2.27bn, a YoY increase of 7.0%. The YoY decrease in IFRS net profit attributable to shareholders of the parent company was mainly due to the company recognizing a 2% equity stake in Universal Music Group in 1Q25, which amounted to RMB2.37bn.

By business segment, subscriptions and advertising faced pressure, while offline performances achieved high growth. In 1Q25, music services revenue reached RMB6.51bn, up 12.2% YoY, driven primarily by subscriptions and offline performance revenue. Membership services revenue was RMB4.57bn, up 6.6% YoY, with member numbers expected to maintain growth. By product, QQ Music is expected to remain steady, but Kugou Music's low-stickiness users are significantly affected by traffic diversion from free music platforms. For non-membership business, according to management, offline performance revenue achieved triple-digit YoY growth. Social entertainment revenue was RMB1.38bn, down 11.0% YoY, with the strategic contraction leading to a natural revenue decline.

New business investments did not affect 1Q25 gross margin. In 1Q25, the company's gross margin reached a record high of 44.9%, up 0.8pct YoY. The improvement was mainly driven by high-margin membership revenue growth and a reduction in Apple channel fees. Although the company increased investments in businesses such as offline performances and IP value in 1Q25, these were offset by positive impacts. For the full year, although the gross margin may fluctuate between quarters due to the investment pace of new businesses, it is expected to remain stable YoY.

Intensified competition drove an increase in selling expenses, in line with guidance. In 1Q25, selling expenses were RMB271mn, up 36.2% YoY, with a selling expense ratio of 3.4%, up 0.7pct YoY. The increase was mainly for channel and content promotion. General and administrative expenses were RMB940mn, largely stable YoY, with an expense ratio of 11.9%, down 0.9pct YoY.

In 1Q25, significant progress was made on matters such as the Himalaya acquisition, WeChat Channels cooperation, and concert venue partnerships, which are expected to become new drivers of future business development. Details of each matter are as follows:

1) The State Administration for Market Regulation approved the Himalaya acquisition. On May 12, the State Administration for Market Regulation issued an announcement approving Tencent's acquisition of equity in Himalaya with restrictive conditions. To mitigate the adverse effects of market participant concentration post-acquisition, the State Administration for Market Regulation required Tencent, Himalaya, and others to make five restrictive commitments, mainly covering aspects such as pricing, paywalls, exclusive copyrights, partnerships with automakers, and anchor collaborations.

After the merger, the company is expected to explore IP-based service integration and innovation. The acquisition of Himalaya is expected to close between 2Q and 3Q. Tencent Music will recognize Himalaya's performance contribution from the completion date of the acquisition in its financial statements. The acquisition is expected to enrich Tencent Music's long-form audio content. The company is likely to achieve incremental growth in subscription membership benefits, IP value business, and other areas. Key areas to watch are the closing timeline of the Himalaya merger and the resource integration after completion.

2) Deepening cooperation with WeChat Channels. Tencent Music is expected to co-build a music ecosystem with WeChat Channels, channeling music consumption demand generated when users browse short videos and listen to background music on WeChat Channels onto Tencent Music's platform, forming a traffic funnel with seamless listening experience switching.

3) Partnering with CR Culture & Sports to strengthen live performance advantages. According to its official account, the company signed a strategic cooperation agreement with CR Culture & Sports to jointly develop offline events such as concerts, music festivals, and official licensed merchandise. The cooperation covers marketing and promotion, membership systems, ticketing services, and other areas. The resource partnership is expected to strengthen Tencent Music's live performance advantages. CR Culture & Sports holds premier venue resources, with 20 operating venues across 10 tier-1 and tier-2 cities. It is one of the few domestic companies that operates venues for all three major sporting events: the Asian Games, the National Games, and the Universiade. Premier venues include Shenzhen Chunjian (Spring Cocoon), Guangzhou Nansha Greater Bay Area Sports Center, and Olympic Sports Centers in cities such as Hangzhou, Xi'an, and Wuxi.

4) Strengthening copyright protection. According to management communication, in response to the proliferation of pirated content driven by AI and issues such as using AI-generated content to fill gaps in music copyright, a dedicated copyright protection mechanism has been established to routinely safeguard the legitimate rights and interests of the platform, copyright holders, and creators. The company will make every effort to combat various infringements such as track washing and plagiarism.

Investment recommendation:

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We estimate the company's Non-IFRS net profit attributable to shareholders of the parent company at RMB10.045bn/10.921bn/11.859bn for 2026-2028, representing YoY growth of 4.76%/8.73%/ 8.59%, with the closing price on May 14, 2026 corresponding to P/E multiples of 10.72/9.86/9.08x.

Risks

Risks of user churn due to competition from free music platforms, risks of other platforms enriching their music resources with AI-generated content thereby diminishing the company's copyright advantage, risks of AI-generated content continuously infringing on music copyrights, risks of the merger with Himalaya progressing slower than expected, risks of music users' acceptance of long-form audio content falling short of expectations, risks of the live performance business rollout progressing slower than expected, online music business paid user growth falling short of expectations, online music business ARPPU growth falling short of expectations, risks of user churn due to price increases, risks of user time spent declining due to competition from other online entertainment, content such as short dramas and comic dramas, and livestreaming regulatory risks, among others.

Analysts

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		Overweight	Increase by 5% - 15% relative to the benchmark index
		Neutral	Increase by -5% to -5% relative to the benchmark index
		Underweight	Decrease by 5% - 15% relative to the benchmark index
		Sell	Decrease by more than 15% relative to the benchmark index
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		Neutral	Increase by -10% to -10% relative to the benchmark index
		Underperform	Decrease by more than 10% compared to the benchmark index

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