

TME (TME US)

Online music leader with LF audio initiatives

As China's online music leader, TME is expected to surf music subs growth and ads recovery tailwinds. We forecast its revenue/ adj. net profit to grow at 19%/18% in FY20-23E, backed by its massive copyright library, integrated ecosystem, new business initiatives (LF audio and TME Live). Initiate with BUY with DCF-based TP of US\$20.0.

- China online music leader riding on Tencent synergies.** TME is China's Top 1 online music player in Mar 2021 MAUs, according to Analysys. Leveraging its app portfolio and Tencent's ecosystem, TME efficiently acquires users and develops IPs through online music and social entertainment. Backed by its massive copyright library, indie musician programs and LF audio initiatives, we expect 19% rev CAGR in FY20-23E.
- High visibility on subs and ads growth.** TME's online music subs ratio (9.9% in 1Q21) lags behind domestic video (20-25%) and international music peers (Spotify's c.45%). We anticipate TME's subs ratio at 10.7% in 2021E (4-5mn net adds each quarter) with effective paywall strategy and LF audio cross-selling. Ads momentum would continue, backed by macro recovery, enriched ad formats, higher ad load & eCPM, and expanding sales team. With its lower-than-peers ads/MAU, we keep positive on ads' long-term upside, unlocked by IoT initiatives and the freemium model. We expect music subs/ other music rev at 25%/ 39% CAGR in FY20-23E (22%/ 21% total rev mix in FY23E).
- LF audio to unlock TAM.** TME is well-positioned to capture China's LF audio tailwinds (industry mkt size at 41% CAGR in 2020-22E, vs. online music's 26% CAGR). TME's cross-selling ratio for music and LF audio climbed to 11%+ in 2020 (vs. 5% in 2019), and targeted DAU to double in FY21E. We expect more synergies from its self-developed LF biz and Lazy Audio (Top 3 in China, acquired in Jan 2021), and to further enhance time spent and engagement. LF audio is still at early stage of monetization, but sees large potential from audiobook subscription and in-stream ads. While LF audio will incur incremental investment in content & marketing, we expect this segment to boost TME's profitability in the long run with its higher GPM.
- Initiate with BUY.** We set our DCF-based TP at US\$20.0 (implying 38x FY22E P/E). Recent headwinds from regulations and Archegos have been partly priced in. We expect further catalysts from: 1) more Tencent synergies with mgmt. appointment; and 2) LF audio initiatives.

Earnings Summary

(YE 31 Dec)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (RMB mn)	25,434	29,153	34,349	41,224	49,216
YoY growth (%)	34.0	14.6	17.8	20.0	19.4
Net income (RMB mn)	4,903	4,971	4,218	5,823	8,107
EPS (RMB)	2.9	3.0	2.5	3.4	4.8
Consensus EPS (RMB)	NA	NA	2.6	3.6	4.6
YoY growth (%)	11.3	1.0	-15.5	37.4	38.6
P/E (x)	33.1	32.8	38.8	28.2	20.4
P/S (x)	6.4	5.6	4.8	4.0	3.4
Yield (%)	1.0	2.0	3.0	4.0	5.0
ROE (%)	11.2	9.4	7.2	9.1	11.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	US\$20.0
Up/Downside	+32.5%
Current Price	US\$15.1

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	25,541
Avg 3 mths t/o (US\$ mn)	680.67
52w High/Low (US\$)	32.25/ 13.07
Total Issued Shares (mn)	835

Source: Bloomberg

Shareholding Structure

Pacific Alliance	6.01%
Baillie Gifford	5.51%
BlackRock	2.81%

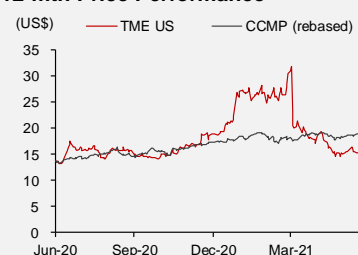
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-0.8%	-4.3%
3-mth	-50.4%	-53.3%
6-mth	-19.1%	-26.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Investment Thesis

China online music leader riding on Tencent synergies.

TME is China's Top 1 online music player in Mar 2021 MAUs, according to Analysys. Leveraging its app portfolio and Tencent's ecosystem, TME efficiently acquires users and develops IPs through online music and social entertainment. Backed by its massive copyright library, indie musician programs and LF audio initiatives, we expect 19% rev CAGR in FY20-23E.

High visibility on subs and ads growth.

TME's online music subs ratio (9.9% in 1Q21) lags behind domestic video (20-25%) and international music peers (Spotify's c.45%). We anticipate TME's subs ratio at 10.7% in 2021E (4-5mn net adds each quarter) with effective paywall strategy and LF audio cross-selling. Ads momentum would continue, backed by macro recovery, enriched ad formats, higher ad load & eCPM, and expanding sales team. With its lower-than-peers ads/MAU, we keep positive on ads' long-term upside, unlocked by IoT initiatives and the freemium model. We expect music subs/ other music rev at 25%/ 39% CAGR in FY20-23E (22%/ 21% total rev mix in FY23E).

LF audio to unlock TAM.

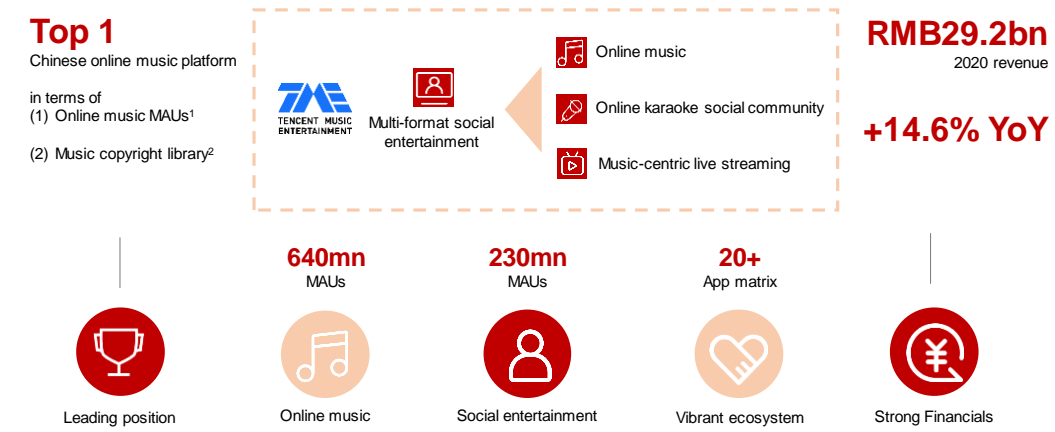
TME is well-positioned to capture China's LF audio tailwinds (industry mkt size at 41% CAGR in 2020-22E, vs. online music's 26% CAGR). TME's cross-selling ratio for music and LF audio climbed to 11%+ in 2020 (vs. 5% in 2019), and targeted DAU to double in FY21E. We expect more synergies from its self-developed LF biz and Lazy Audio (Top 3 in China, acquired in Jan 2021), and to further enhance time spent and engagement. LF audio is still at early stage of monetization, but sees large potential from audiobook subscription and in-stream ads. While LF audio will incur incremental investment in content & marketing, we expect this segment to boost TME's profitability in the long run with its higher GPM.

Initiate with BUY.

We set our DCF-based TP at US\$20.0 (implying 38x FY22E P/E). Recent headwinds from regulations and Archegos have been partly priced in. We expect further catalysts from: 1) more Tencent synergies with mgmt. appointment; and 2) LF audio initiatives.

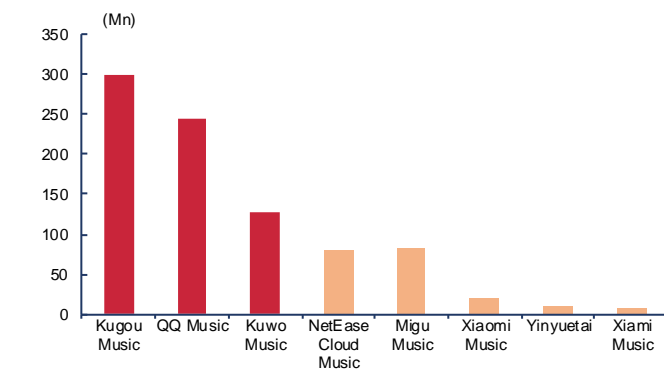
Focus Charts

Figure 1: Overview of TME



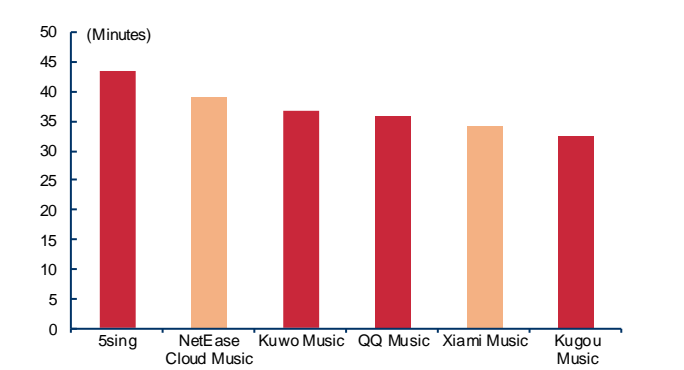
Source: Company data, iResearch, Fortune. Notes refer to Figure 6

Figure 2: Chinese music apps by MAUs in Dec 2020



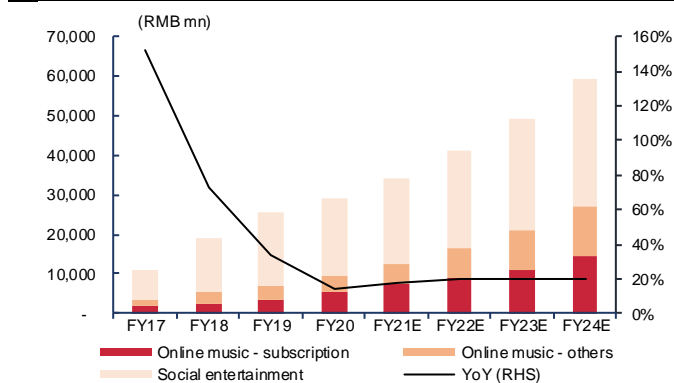
Source: iiMedia
Note: TME's apps denoted in red

Figure 3: Music app by user time in Jan-Oct 2020



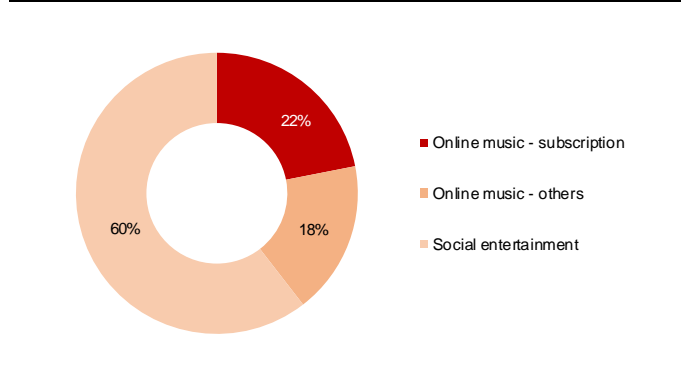
Source: Fastdata
Note: TME's apps denoted in red

Figure 4: 19% total revenue CAGR in FY20-23E



Source: Company data, CMBIS estimates

Figure 5: FY22E revenue breakdown



Source: CMBIS estimates

Company Overview

China online music leader riding on Tencent synergies

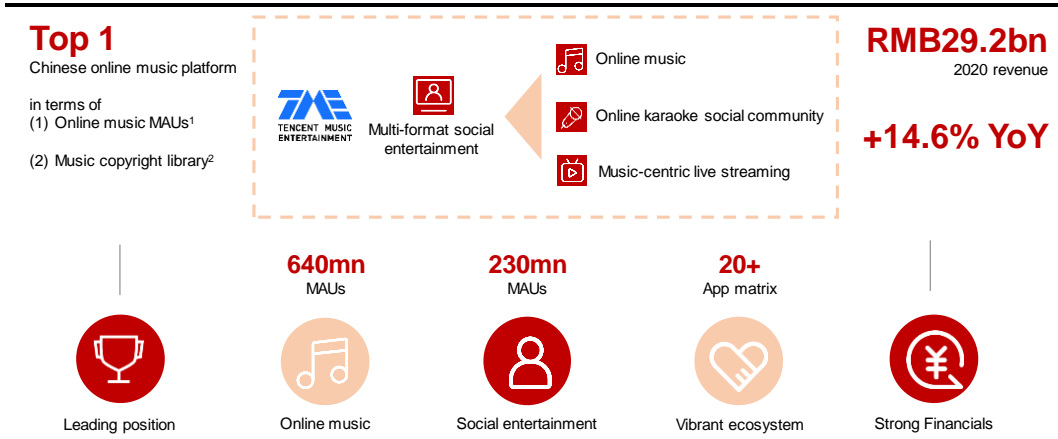
China's long-established online music leader

Tencent Music Entertainment (TME) was founded in 2016 through the merger of Tencent's online music business and China Music Corporation. Leveraging Tencent's SNS traffic, IP reserve and capital support, TME became China's largest online music platform in terms of user and copyright library, according to Analysys and Mobtech.

According to Analysys, its Kugo Music/ QQ Music/ Kuwo Music, had 257mn/ 218mn/ 169mn MAUs in Apr 2021 (vs. NetEase Cloud Music's 151mn). Its WeSing was China's largest online karaoke platform, and the newly acquired Lazy Audio was the Top 3 audio platform in China.

TME primarily offers online music, live streaming, and online karaoke services, with four core apps (Kugo, QQ, Kuwo, and WeSing) covering different user groups. By acquiring Lazy Audio in Jan 2021, TME engaged in long-form audio (LF audio) development to enrich its content offerings. As of 2020, TME's music/ social segments contributed 32%/ 68% of its rev and 640mn/ 230mn MAUs.

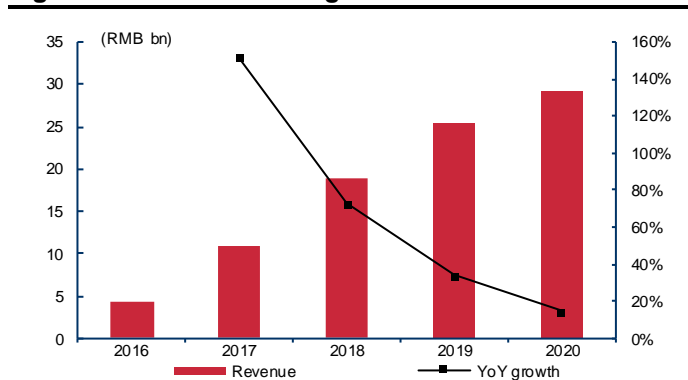
Figure 6: Overview of TME



Source: Company data, iResearch

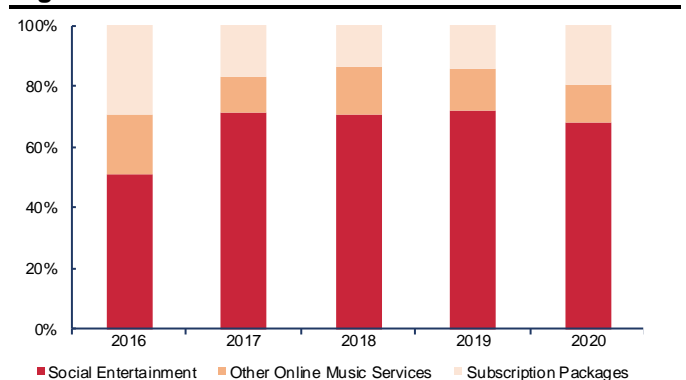
Note: 1) according to Analysys, as of Mar 2021; 2) according to Mobtech as of Sep 2020

Figure 7: TME's revenue growth



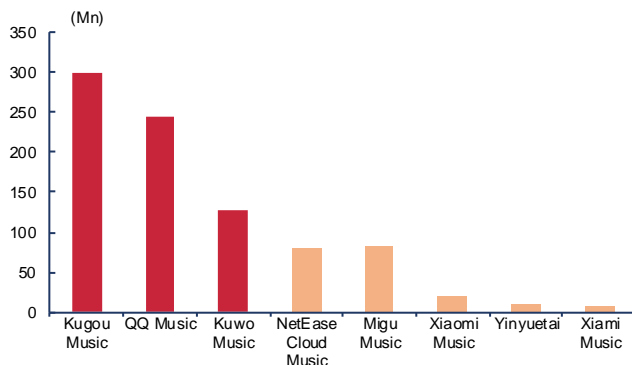
Source: Company data

Figure 8: TME's revenue mix



Source: Company data

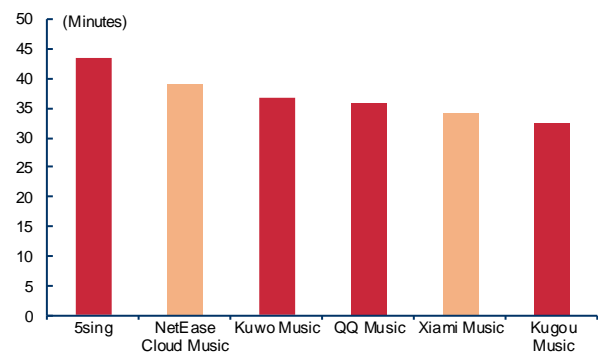
Figure 9: Chinese music apps by MAUs in Dec 2020



Source: iiMedia

Note: TME's apps highlighted in red

Figure 10: Music app by user time in Jan-Oct 2020



Source: Fastdata

Note: TME's apps highlighted in red

Diversified product matrix with music + entertainment ecosystem

TME's three flagship music apps attract diversified user groups with their differentiated positioning. According to Mobtech, only 17.1%/ 22.8% of Kugo Music/ QQ Music users use the other app, and <5% of them use Kuwo Music. TME's refined operation on music verticals improves user retention and belongingness.

The social and community features on TME's online karaoke and live-streaming apps further boosts user engagement. Backed by Tencent's QQ and WeChat, TME creates interactive scenarios to create, share, and consume music content. TME's social business also supports its online music segment with indie musicians and stable revenue streams.

TME also has niche music apps (e.g., 5sing, MOO, and Funqie) and tool apps (e.g., Kugo Ringtone), further enhancing user stickiness. In addition, TME incubates new businesses in LF audio, short video, and IoT, which could unlock TAM if executed well.

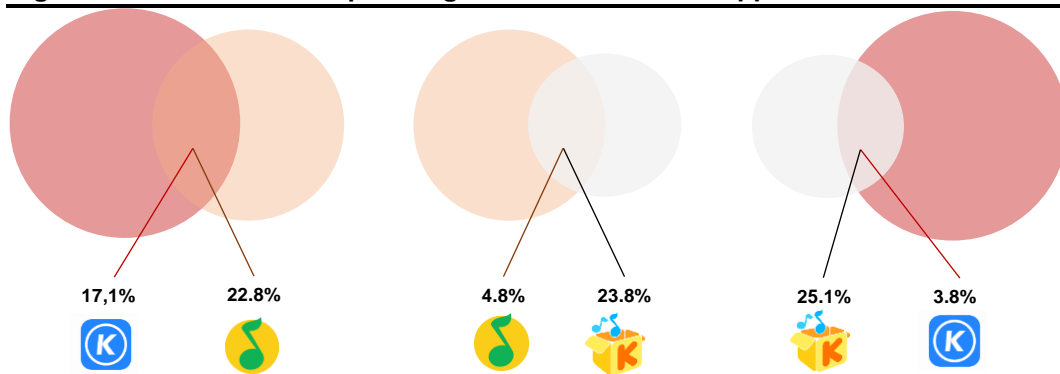
Figure 11: TME's music-centric product portfolio

Services	Product	Launched	MAUs ¹	Positioning
Online music	Kugo Music	2005	257mn	<ul style="list-style-type: none"> Targeting general music lovers in all city tiers Appealing to long-tail singers with its unique content distribution system
	QQ Music	2008	218mn	<ul style="list-style-type: none"> Focusing on pop music, young people, and higher-tier cities Promoting singer-fan interactions
	Kuwo Music	2005	169mn	<ul style="list-style-type: none"> Focusing on music verticals, such as DJ remix and nursery rhymes
	Kugo Large Print	2020	10mn	<ul style="list-style-type: none"> Targeting older users
	5sing Original Music	2004	N/A	<ul style="list-style-type: none"> Original music & cover
	MOO Music	2018	N/A	
	Funqie Music	2019	N/A	<ul style="list-style-type: none"> Old songs cover
Online karaoke	WeSing	2014	121mn	<ul style="list-style-type: none"> China's Top 1 online karaoke platform
	Kugo Changchang	2017	4mn	
	Kugo Live	2012	N/A	<ul style="list-style-type: none"> Music-centric live streaming
Live streaming	Kuwo Live	2016	N/A	
	Fan Live	2020	N/A	<ul style="list-style-type: none"> Mid to long-tail singers on QQ Music
	Qingtian Live	2020	N/A	
LF audio	Lazy Audio	2012	20mn	<ul style="list-style-type: none"> China's Top 3 audiobook platform²
	Kuwo Changting	2020	5mn	
	Penguin FM	2015	2mn	
Short video	Bodian Music	2020	N/A	<ul style="list-style-type: none"> Short video + community + music
	Kugou Duanku	2018	N/A	
B2B	Ultimate Music	2014	N/A	<ul style="list-style-type: none"> Smart devices and automobile manufacturers
Tool	Kugo Ringtone	2013	13mn	

Source: Analysis, MobTech

Note: 1) MAUs estimated by Analysis as of 22 Apr 2021; 2) after Himalaya (喜马拉雅, 118mn MAUs) and Dragonfly FM (蜻蜓 FM, 21mn MAUs)

Figure 12: Low user overlap among TME's online music apps



Source: Mobtech, as of Sep 2020

Traffic and IP synergies within Tencent ecosystem

TME is an essential part of Tencent's ecosystem for user engagement and monetization. As of Mar 2020, Tencent held 55.6% of TME's stocks and 78.7% of voting right. TME leverages Tencent's SNS to acquire and retain users, and Tencent also backs TME in music copyright.

With TME's mgmt. appointment and Tencent's PCG restructuring, we expect to see closer collaboration to develop and monetize IPs. TME has cooperated with Tencent Game's Honor of Kings <王者荣耀> to develop game music and co-launched music variety shows with Tencent Video. After TME acquired Lazy Audio in Jan 2021, we believe they will continue to co-create audiobooks for blockbuster IPs.

Figure 13: TME's synergies with Tencent subsidiaries or investees

Company	Relationship to Tencent	Synergy with TME
WeChat, QQ	Tencent's SNS	• User acquisition & interaction
China Literature	Tencent's online literature subsidiary	• Mar 2020: strategic cooperation in LF audio content • Jan 2021: China Literature's sale of Lazy Audio to TME
Tencent Video	Tencent's online video platform	• Co-membership programs • Co-producing music variety shows (e.g., talent show Produce 101 <创造 101>)
Tencent Pictures	Tencent's film producer	• Strategic cooperation
Weshi	Tencent's short video app	• Sharing music library
Tencent Games	Tencent's game producer	• Co-launch Honor of Kings soundtrack through TME Player + <TME 大玩+>
Bilibili	Tencent investee, PUGC platform	• Strategic cooperation in music library, support singers & host online events
Douyu	Tencent investee, live streaming	• Strategic cooperation with Kugo

Source: Company data, CMBIS

Figure 14: TME cooperating with Tencent Game's Honor of Kings <王者荣耀>



Source: Company data

Figure 15: QQ Music cooperating with Tencent Video's CHUANG 2020 <创造营 2020>



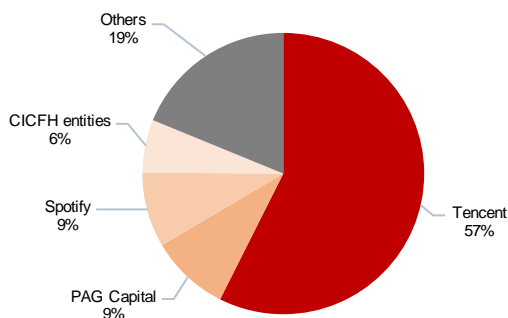
Source: Company data

Upstream collaboration solidified by shareholding programs

TME strengthens its upstream collaboration through shareholding relationships with music giants. Sony Music Entertainment and Warner Music Group aggregately invested US\$200mn in TME upon its IPO in 2018. TME also holds 10% equity stake in Universal Music Group (UMG) with the intent to acquire further 10% stake in 2021.

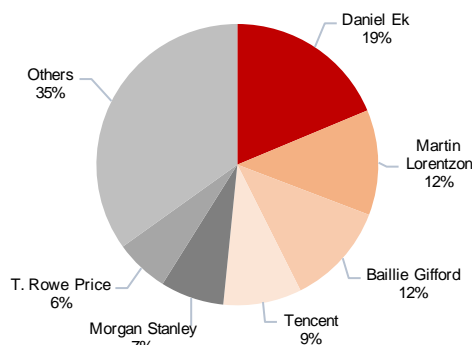
TME also maintains its deep relationship with Spotify, the world’s biggest music streaming platform, through a joint investment plan. As of Sep 2020, TME (and Tencent) / Spotify held 9%/ 9% of the other company’s shares, as the fourth/ third-largest shareholder. The joint investment supports TME and Spotify to cooperate in copyright licensing, musician development, and content offerings.

Figure 16: TME shareholder structure



Source: Fastdata, Sep 2020

Figure 17: Spotify shareholder structure



Source: Fastdata, Sep 2020

Investment Summary

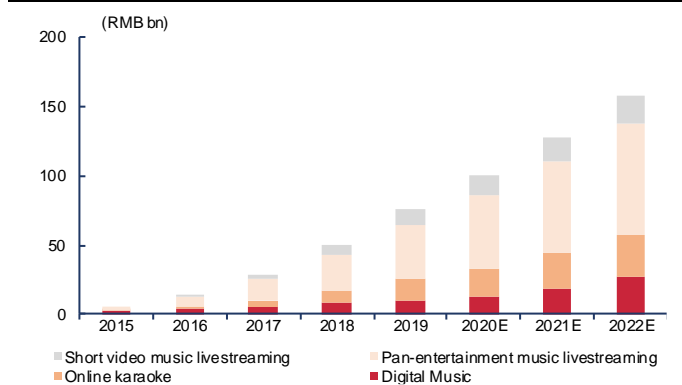
Strengthening leadership with copyright and engagement edge

Surfing on the industrial tailwinds with massive copyright library

As the long-established industry leader, TME is poised to surf China's ongoing online music tailwinds. iResearch forecasted China's online music industry to grow at 26% CAGR in 2020-22E. The digital music/ pan-entertainment music live streaming/ online karaoke/ short video live streaming was expected to grow at 43%/ 24%/ 22%/ 20% CAGR.

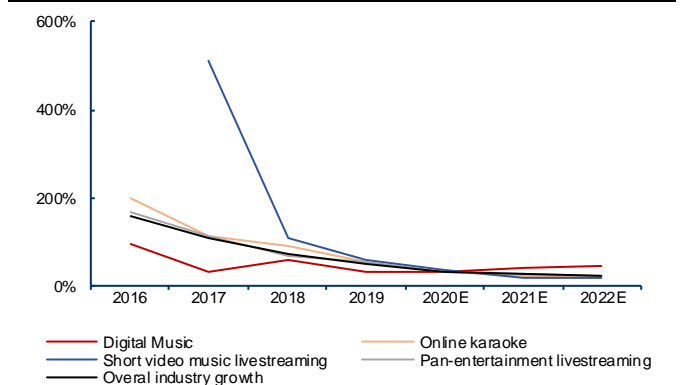
According to Mobtech, TME owns China's largest music copyright library with 30mn+ songs in Sep 2020. While TME sublicensed 99%+ of its copyright library, it still holds exclusive copyright for sought-for musicians like Jay Chou. As TME and Warner Music announced plans for music label JV in Mar 2021, we expect TME to maintain close collaboration with the industry upstream while focusing more on original music.

Figure 18: China's online music industry by revenue



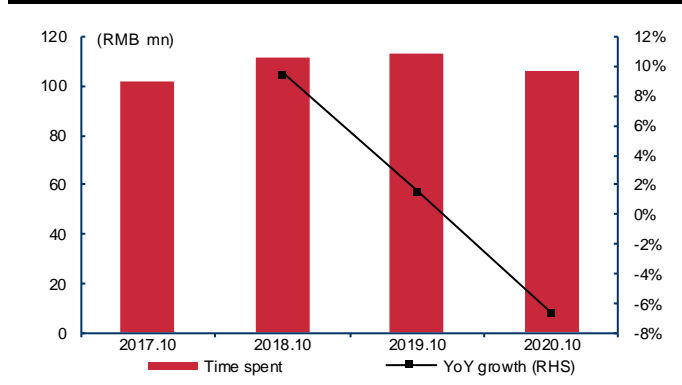
Source: iResearch

Figure 19: Segment YoY revenue growth



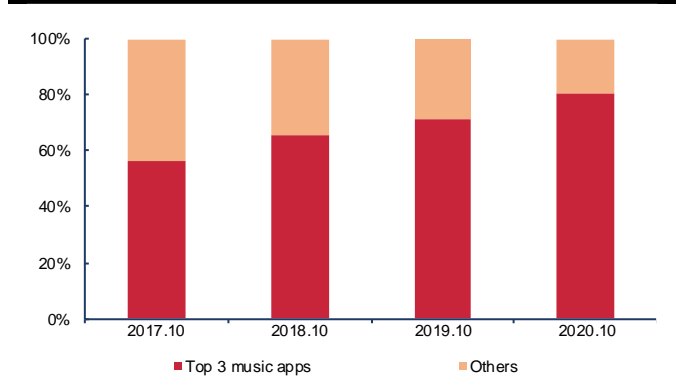
Source: iResearch

Figure 20: User time spent on online music platforms



Source: Fastdata

Figure 21: Time spent of online music platforms



Source: Fastdata

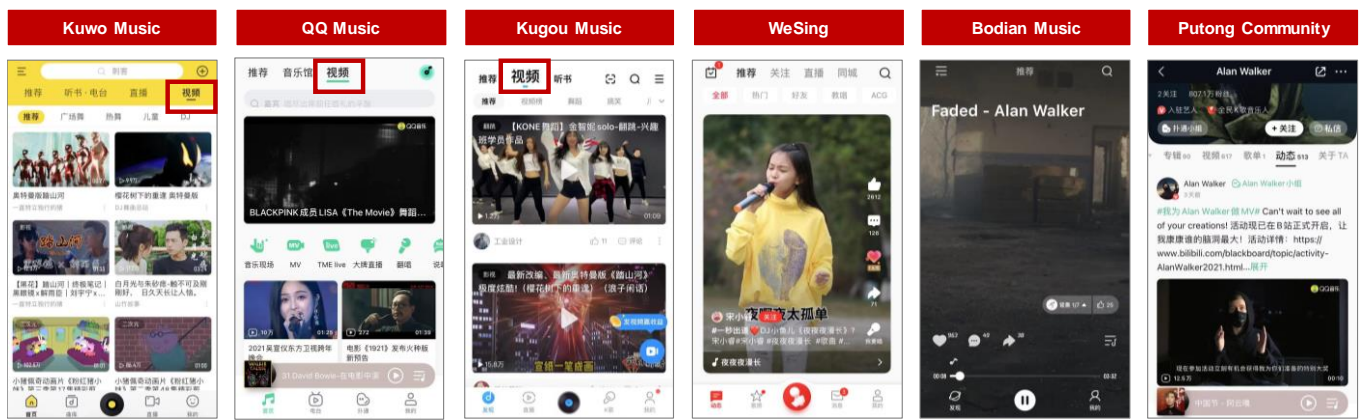
Short video integration to boost user engagement

Short videos become an attractive alternative to stream music online. According to iResearch, music short video's MAUs increased 75% YoY in 1H20 (vs. -3% YoY for digital music). The prevalence also attracts c.80% of musicians to promote their songs on short video platforms, according to Fastdata.

TME is a pioneer in integrating short videos into online music services, as its four flagship apps show music-centric videos either as a primary function or on the homepage. In Dec 2020, TME further launched Bodian Music, where users can stream music in a short-video setting and customize the dynamic backgrounds.

We believe TME's short video integration can diversify content offerings, boost user engagement, and drive ad monetization. By leveraging WeSing and Putong Community, TME's retention improved to high-double digits in Mar 2021. Short videos also increase ad inventory and diversify ad formats, further attracting more advertisers.

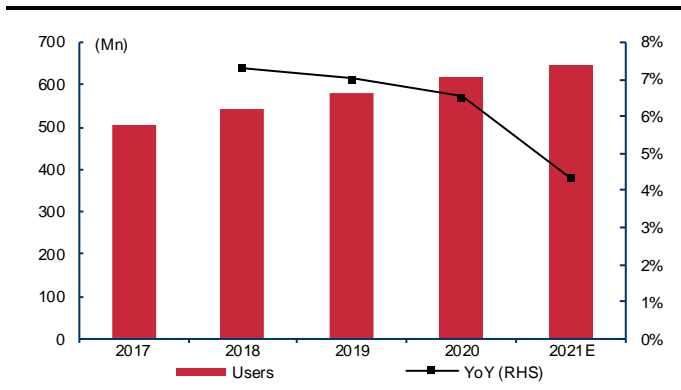
Figure 22: Video content on TME's various platforms



Source: Company data

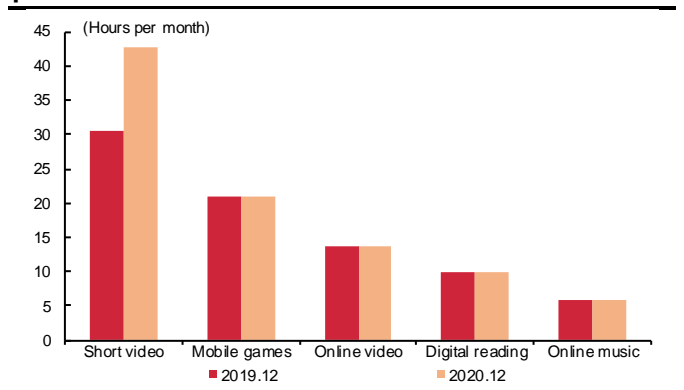
Note: 1) Video function highlighted in red; 2) Putong Community is a function on QQ Music

Figure 23: China online music near saturation in terms of users

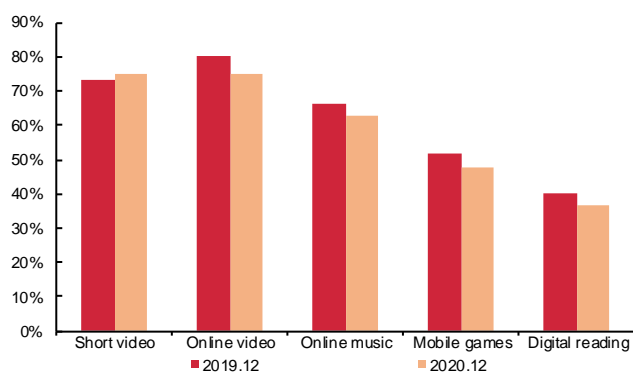


Source: iiMedia

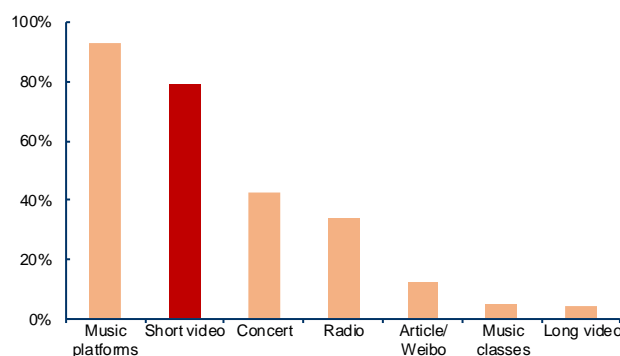
Figure 24: Short video gaining share in time spent per month



Source: QuestMobile

Figure 25: Short video gaining share in terms of user penetration rate


Source: QuestMobile

Figure 26: Short video as a popular online channel to promote music in 2020


Source: Fastdata

Building creator community with indie musician programs

We believe TME's indie musician programs build its high barrier in the fierce competition for exclusive music copyright. TME offers exposure and incentives in its social entertainment apps co-launch variety shows with Tencent Video. Its discovered celebrities include Mao Buyi (毛不易) from The Coming One <明日之子> and Rocket Girls 101 (火箭少女 101) from Produce 101 <创造 101>.

TME's indie musician programs have borne initial fruits. As of 2020, TME has accumulated 1.1mn original songs and 185k musicians (+131% YoY). Over half of TME's musicians were Gen Z (24%/ 29%/ 19% for post-00s/ 95s/ 90s), implying vibrant community and ample upside as these young musicians' work and reputation ramp up.

We believe more upstream companies (e.g., UMG and Sony/ATV) and entertainment platforms (e.g., Bilibili) will collaborate with TME for talent discovery. We anticipate TME's focus on original content to 1) reduce its reliance on upstream music labels, 2) lead to cost leverage, and 3) boost user engagement through fan-artist interactions.

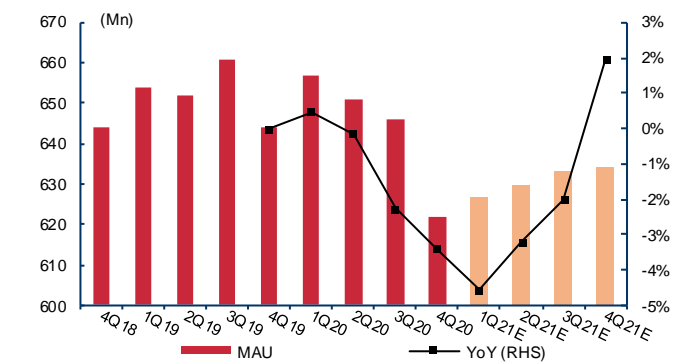
Figure 27: Musician supporting program of major music apps

Platform Type	App	Time	Program name	Support
Digital music	QQ Music	2020	Project Galaxy	Promotion, revenue sharing, growth path
	Kugo Music	2019	Project Xingyao	Training, promotion, copyright mgmt., monetization
		2020	Houshengji	Musician & works discovery
	Kuwo Music	2020	Project Yuedong	Promotion, monetization
	NetEase Cloud Music	2016	Project Stone	Training, promotion, monetization
Online karaoke	WeSing	2018	Project Yuti	Traffic support, diversified monetization
		2017	Project Xingtu	Musician & works discovery
	Changba	2017	Mercury Music Project	Promotion, monetization
		2020	Musician Sharing Project	Monetization

Source: iResearch, CMBIS

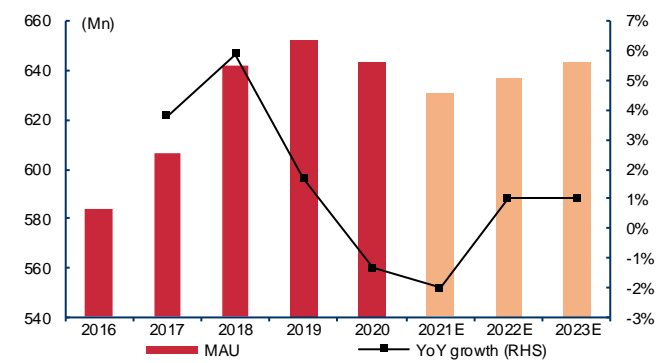
Expect online music/ social entertainment MAUs to be 644mn/239mn in 2023E.
 We expect TME's online music MAUs to sequentially improve starting from 1Q21 and remain stable due to the large base, while its social entertainment MAUs grow modestly at 0.2% CAGR in 2020-23E.

Figure 28: Quarterly online music MAUs forecast



Source: Company data, CMBIS

Figure 29: Annual online music MAUs forecast



Source: Company data, CMBIS

High visibility on online music subscription growth

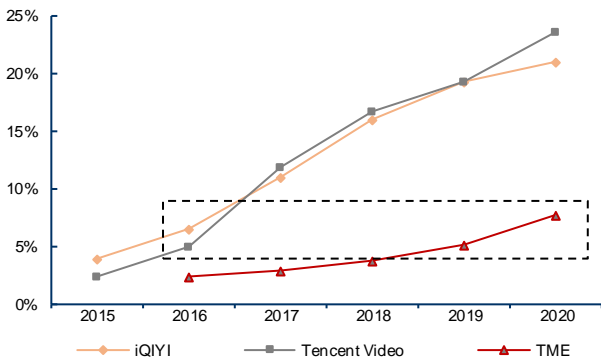
Music subs to ramp up with effective paywall strategy execution

We see ample upside in TME's online music subs. As of 2020, TME's online music paying ratio was 7.7% (9.0% in 4Q20), lagging behind the domestic video (20-25%) and international music peers (Spotify at c.45%). TME targets 40-50% paying ratio for the longer term, on par with Spotify, suggesting TAM of c.6x of its 2020 subs rev.

Paying users' differentiated experience is the backbone of subscription business. TME's free-tier users enjoy more services than Spotify's, such as ad-free music streaming and unlimited skipping. We see high visibility in TME's sub growth, as it raises paywall, incubates new business (e.g., LF audio and TME Live), and improves retention.

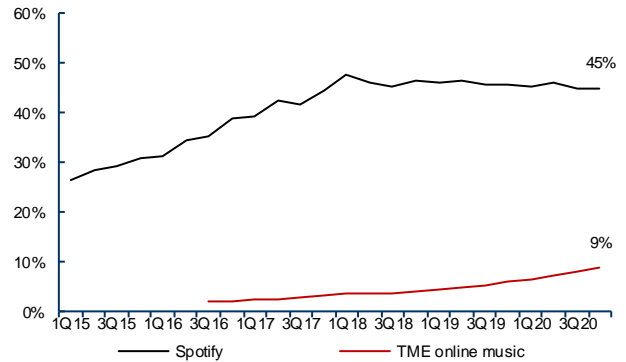
We expect TME's online music paying ratio to reach 11% in 2021E (with 4-5mn net adds of subs each quarter), following Chinese online video platforms' growing trajectory. TME targets to put c.30% of its music library behind the paywall in 2021E (vs. 10%/ 20%+ in 2019/ 2020), providing a solid driver for music sub growth.

Figure 30: TME's online music paying ratio lagging 3-4 years behind online video platforms



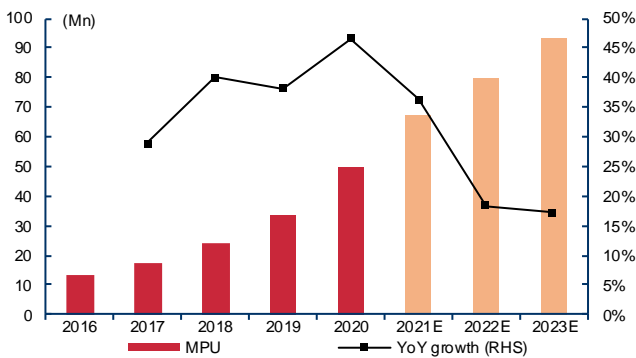
Source: Company data, CMBIS

Figure 31: Significant gap between Spotify and TME's online music paying ratio



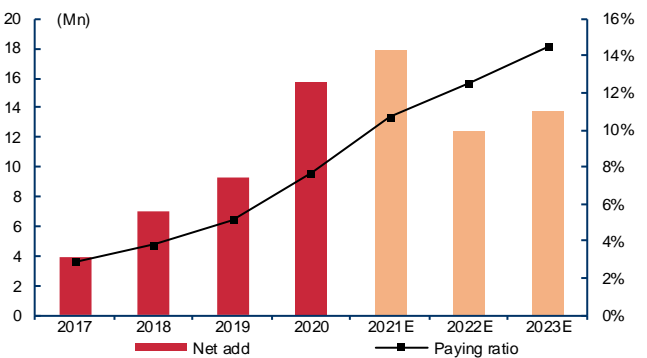
Source: Company data, Statista, CMBIS

Figure 32: TME online music MPUs forecast



Source: Company data, CMBIS

Figure 33: TME online music paying ratio forecast



Source: Company data, CMBIS

Effective LF audio content to lift time spent and unlock TAM

TME is well-positioned to capture China's LF audio tailwinds. According to iResearch, China's LF audio industry should grow at 41% CAGR in 2020-22E to RMB54.3bn (vs. online music's 26% CAGR). TME's cross-selling ratio for music and LF audio business improved to 11%+ in 2020 (vs. 5% in 2019), suggesting ample room for further synergies.

We expect TME to develop high-quality LF audio content with strategic cooperation and M&A. In Mar 2020, TME strategically cooperated with China Literature to develop its blockbuster IP into audiobooks. TME further acquired Lazy Audio in 2021, China's Top 3 online audio platform by Analysys. We expect more synergies from its self-developed LF biz and Lazy Audio, and to further enhance total time spent and engagement.

TME's LF audio has nascent monetization through 1) audiobook subscription; 2) standalone episode purchase; and 3) in-stream ads. We expect LF audio rev to still take up a small portion in 2021E, then climb up to 4% rev mix in 2023E, with 280% CAGR in 2020-23E. While LF audio will incur incremental investment in content & marketing, we expect this segment to boost TME's profitability in the long run with its higher GPM.

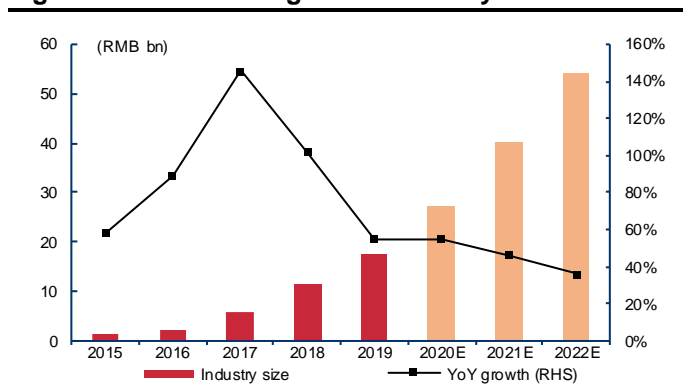
Figure 34: Chinese long-audio platform service scope in 2020

Type	App	Podcast (RSS audio)	Paid audio program	Internet radio	Audio live streaming	Audiobook	MAUs ¹
Audio platform	Himalaya (喜马拉雅)	√	√	√	√	√	118mn/ 7mn ²
	Lizhi (荔枝)	√	√	√	√	√	19mn
	Dragonfly FM (蜻蜓 FM)	√	√	√		√	21mn
	Kuwo Cangting	√	√	√		√	5mn
	Penguin FM (企鹅 FM)	√	√	√		√	3mn
	Lazy Audio	√	√			√	20mn
	MissEvan (猫耳 FM)	√			√	√	-
Reading platform	QQ Reader (QQ 阅读)		√			√	55mn
	Zhangyue (掌阅)		√			√	61mn
	Migu (咪咕阅读)	√				√	7mn

Source: iResearch, Analysys, CMBIS

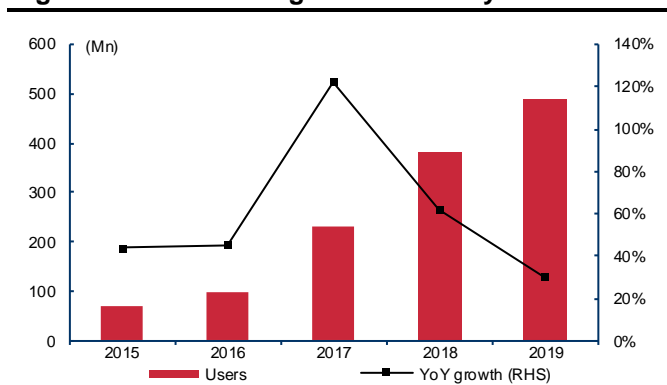
Note: 1) MAUs as of 8 Apr 2021; 2) referring to Himalaya and Himalaya Express, respectively; 3) Tencent entities highlighted in red

Figure 35: China's long-audio industry size



Source: iResearch

Figure 36: China's long-audio industry user



Source: iResearch

Moderate ARPPU ahead

TME prioritizes paying ratio over ARPPU in the short term. We expect TME's music sub ARPPU to grow at 0.8% CAGR in 2020-23E, with higher contribution of premium subscriptions. Coupled with rising paying ratio, we forecast TME's music sub rev will increase at 24.6% CAGR in the next three years.

We expect ARPPU to moderate in the short run, but would see upside in the long term, with rising paying willingness. iQIYI raised its subs price by 26% for Android in Nov 2020, the first time in nine years. As TME's pricing lags significantly behind international peers (Spotify at US\$9.99/month), we believe price hikes can be another driver in the longer term.

Coupled with LF audio initiatives and incremental ad revenue, we expect TME's online music segment to grow at 31.0% CAGR in 2020-23E.

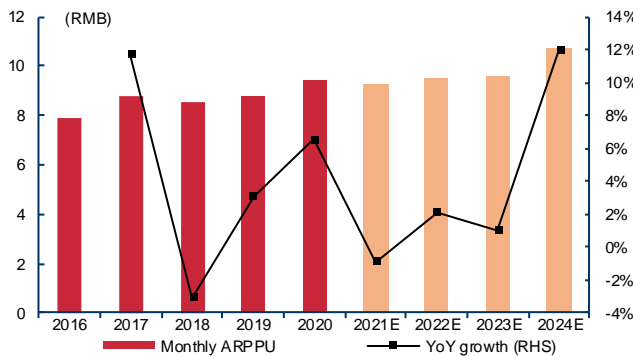
Figure 37: Monthly fee for Chinese online music services

Platforms	VIP subscription (SVIP)		Music package (VIP)	
	Monthly sub	Continuous sub	Monthly sub	Annual sub
QQ Music	RMB18	RMB12	RMB8	RMB7.3 (RMB88/ 12 months)
QQ Music (audiobook)	RMB18	RMB3		
Kugo Music	RMB18	RMB12	RMB8	RMB7.3 (RMB88/ 12 months)
Kugo Music (audiobook)	RMB6	RMB3		
Kuwo Music	RMB18	RMB12	RMB8	RMB7.3 (RMB88/ 12 months)
NetEase Cloud Music	RMB18	RMB12	RMB8	RMB7.3 (RMB88/ 12 months)
Apple Music		RMB10		
Migu Music	RMB12		RMB6	RMB3.75 (RMB45/ 12 months)
Qianqian Music	RMB12			
Xiami Music	RMB12	RMB10	RMB8	RMB7.3 (RMB88/ 12 months)

Source: Company data, CMBIS

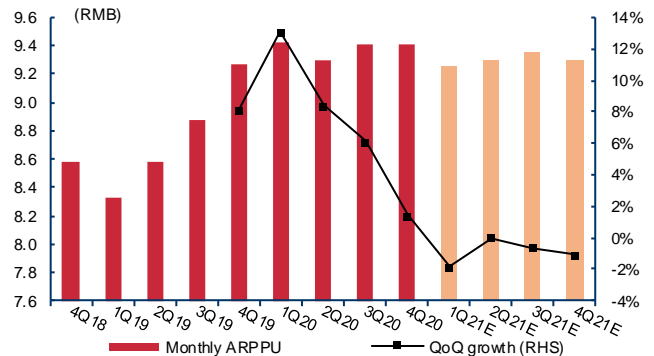
Note: 1) Alibaba's Xiami Music terminated services in Feb 2021

Figure 38: TME online music ARPPU forecast by year



Source: Company data, CMBIS

Figure 39: Online music ARPPU forecast by quarter



Source: Company data, CMBIS

Stepping-up ad monetization amid macro ad recovery

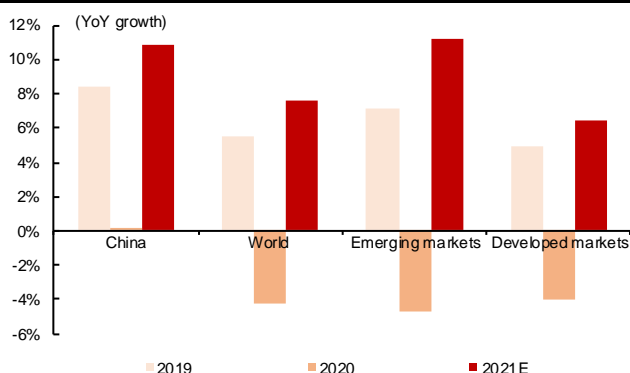
Ads as the third growth curve with macro recovery

We expect TME to benefit from the industrial ad recovery trend. With vaccine progress and economic rebound, Magna forecasted China/ global ad rev to grow 11%/ 8% in 2021E. TME's ad rev recorded triple-digit YoY growth in 2H20 and 1Q21, and we expect the strong momentum to continue in 2H21E.

We anticipate the primary ad rev drivers to be 1) diversified ad formats (LF audio, short video, TME Live) ahead, 2) higher ad load and eCPM, and 3) sales team expansion. TME may unlock further ad upside by exploring IoT music and the freemium model (in-stream ad tested in May 2020).

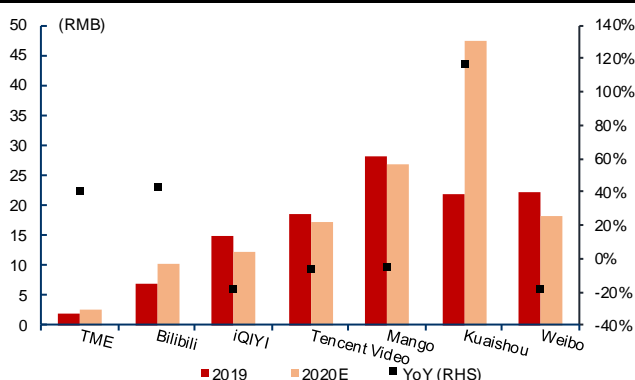
We estimate its ad rev to grow at 51.9% CAGR in 2020-23E, in which Ads/MAU lags significantly behind pan-entertainment peers, suggesting ample upside ahead.

Figure 40: Worldwide ad YoY growth in 2020/2021E



Source: Magna

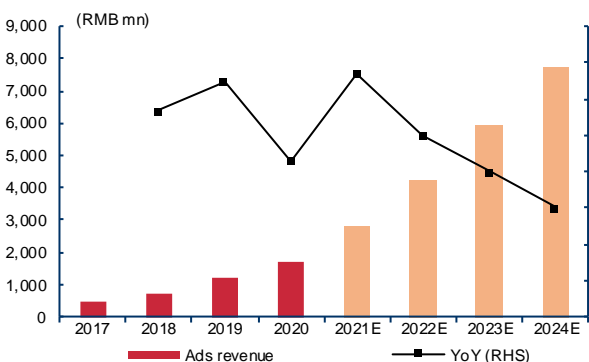
Figure 41: Ad rev per MAUs peer comparison



Source: Company data

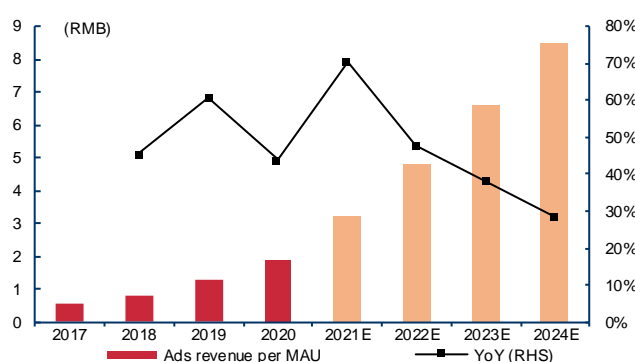
Note: only considering online music ad rev and MAUs for TME

Figure 42: TME's online music ad revenue forecast



Source: Company data, CMBIS

Figure 43: TME ad revenue per MAU forecast



Source: Company data, CMBIS

Note: only considering online music ad rev and MAUs

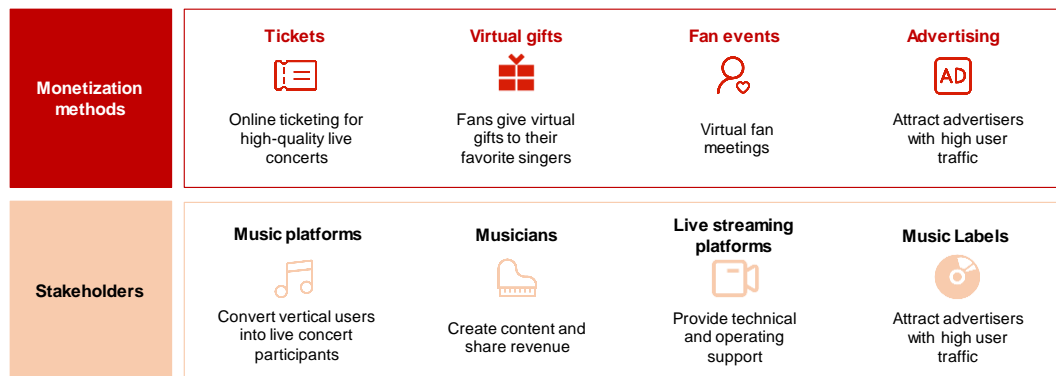
Attracting incremental traffic and advertisers with TME Live

TME's live concert brand, TME Live, was launched in Mar 2020 as China's offline music events suffered from COVID-19. TME held 50+ online concerts in 2020 (25 in 4Q20), inviting celebrities such as A-Mei (张惠妹), MayDay (五月天), and Billie Eilish.

With its well-established musician network, massive copyright library, and integrated ecosystem, TME is poised to tap into online concert market growth. In Nov 2020, TME further partners with Wave, the US virtual concerts company, to enhance its concert live streaming capabilities.

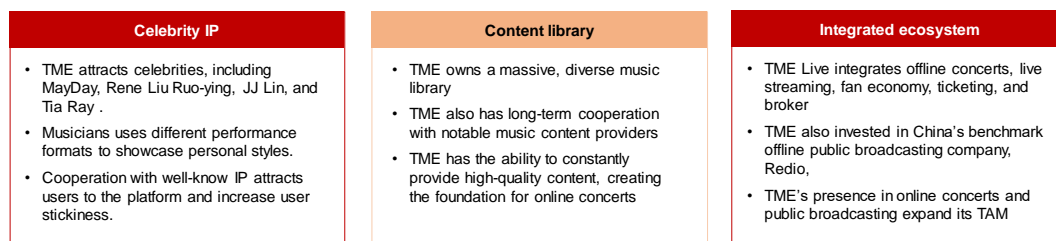
TME live is still at early stage of commercialization, but demonstrates solid potential in brand ads. TME Live has attracted advertisers across multiple verticals (e.g., Bose, Sprite, and Lufax). With this business ramp-up and sales team expansion, we expect to see higher contribution from ticketing, virtual gifts, and fan events.

Figure 44: Business model of live concerts in China



Source: iiMedia

Figure 45: TME Live’s core competence



Source: iiMedia

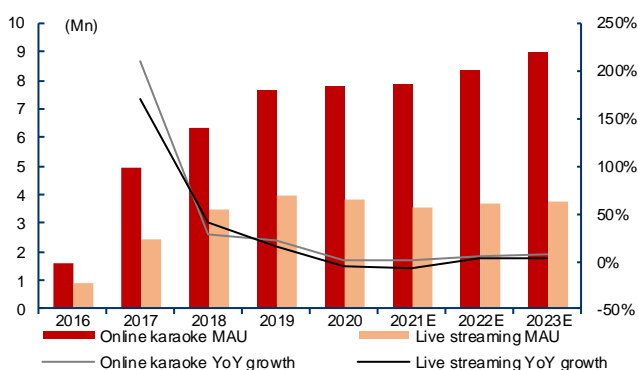
Social entertainment driven by online karaoke and live streaming

As China's live streaming industry is near saturation, we expect TME's social entertainment MAUs to grow modestly at 0.2% CAGR in 2020-23E. QQ Music launched live streaming services in 2020, and we believe TME can further convert Tencent's SNS traffic (esp. from QQ) to its social entertainment business.

We expect TME's social paying ratio to remain flat in 2021E and resume growth in 2023E. As WeSing's new recommendation algorithm gives more weight to stranger-created content, we believe user engagement will ramp up over time with less virtual gifting in the short term. With enriched product innovations (e.g., online singing room and enriched virtual gifts), we expect social ARPPU to grow at 9.1% CAGR in 2020-23E.

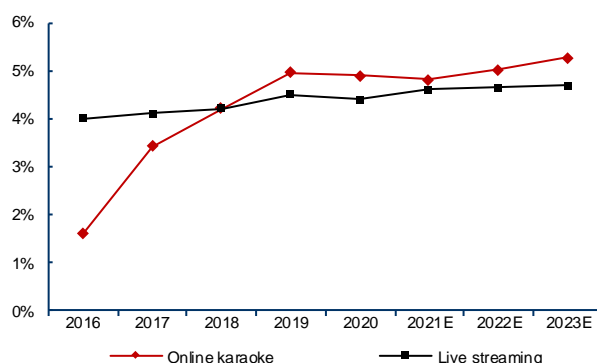
We estimate TME's social rev to grow at 12.5% CAGR in 2020-23E, with 68%/ 57% rev mix in 2020/ 2023E. We anticipate online karaoke to be the primary driver for TME's social rev, while live streaming remains soft in FY21E.

Figure 46: TME social entertainment MAUs forecast



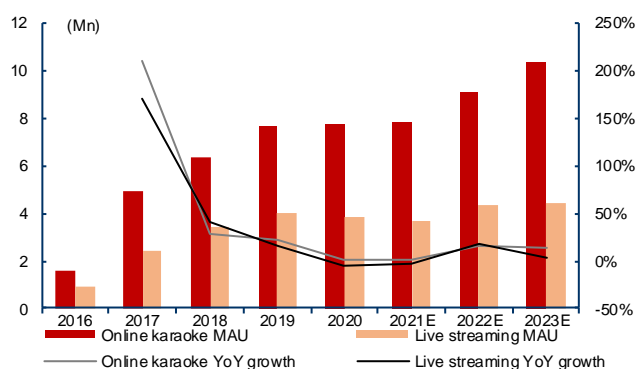
Source: Company data, CMBIS

Figure 47: Social entertainment paying ratio forecast



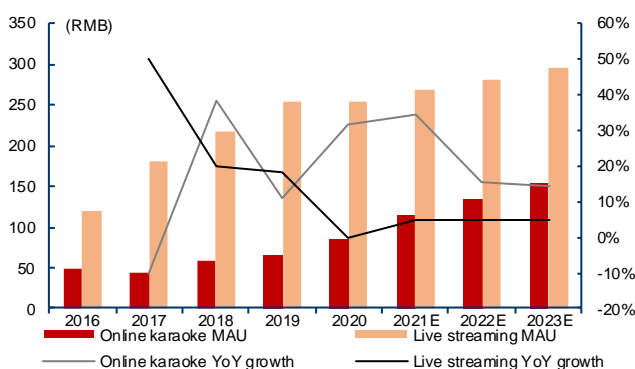
Source: Company data, CMBIS

Figure 48: TME social entertainment MPUs forecast



Source: Company data, CMBIS

Figure 49: Social entertainment ARPPU forecast



Source: Company data, CMBIS

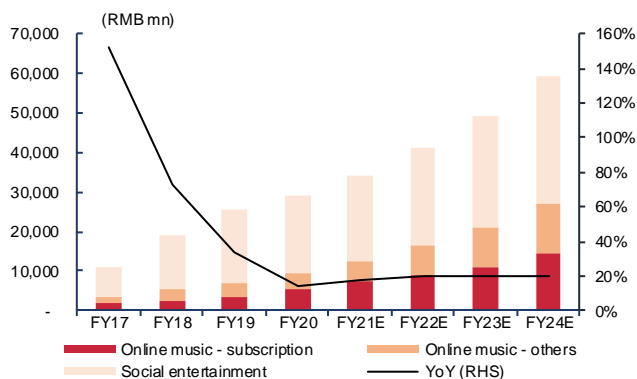
Financial Analysis

Revenue Breakdown

We expect TME rev to grow at 18%/ 20%/ 19% in FY21/ 22/ 23E, in which online music continues to be the primary rev in the short run. By segment, we forecast that online music/ social entertainment rev will grow at CAGR 31%/ 13% in FY20-23E.

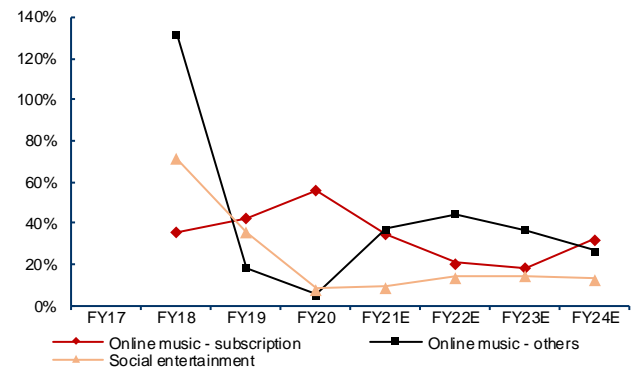
- 1) **Online music:** forecasting 31% rev CAGR in FY20-23E, with rev mix up to 40% in FY22E from 32% in FY20. We expect music sub/ other rev to grow at 25%/ 39% CAGR in FY20-23E (22%/ 18% rev mix in FY22E). We believe increasing paying ratio (7.7%/ 14.5% in FY20/ 23E) will be the key driver for music sub rev, while ad recovery and long-audio monetization could support other rev growth.
- 2) **Social entertainment:** 13% rev CAGR in FY20-23E, which accounts for 57% in FY22E (vs. 68% in FY20), mainly driven by online karaoke's increasing paying ratio and ARPPU.

Figure 50: Rev estimates



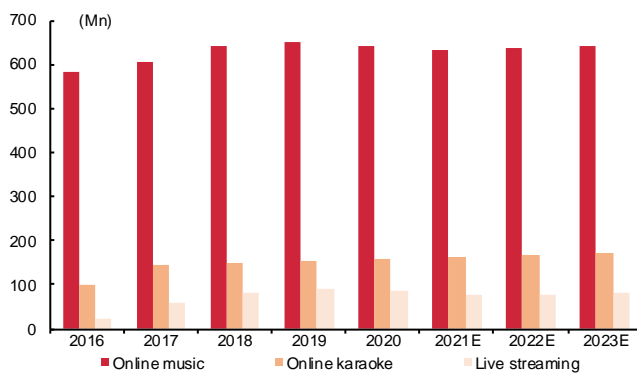
Source: Company data, CMBIS estimates

Figure 51: Rev growth rate



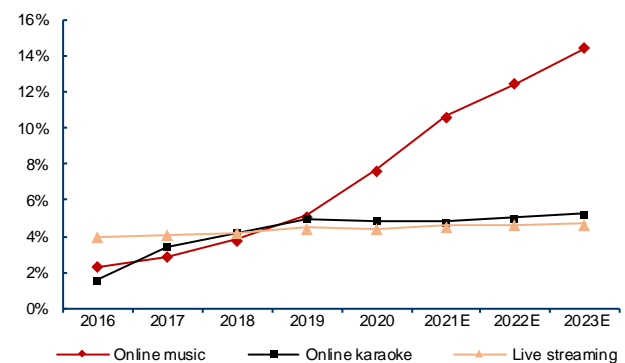
Source: Company data, CMBIS estimates

Figure 52: MAUs estimates



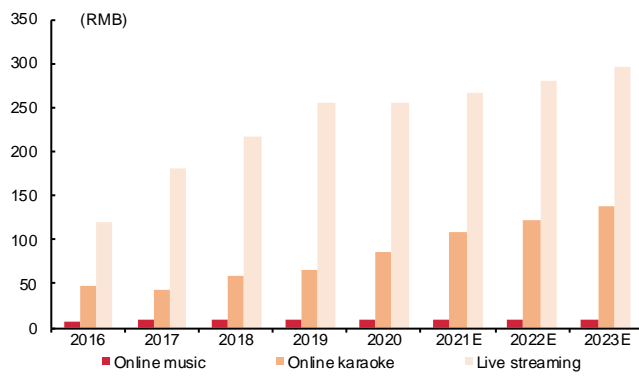
Source: Company data, CMBIS estimates

Figure 53: Paying ratio estimates



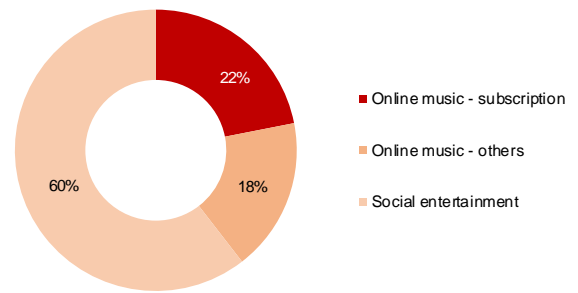
Source: Company data, CMBIS estimates

Figure 54: ARPPU estimates



Source: Company data, CMBIS estimates

Figure 55: FY22E revenue breakdown



Source: Company data, CMBIS estimates

Income Statement

Better LT margin outlook, despite FY21E margin dilution with higher investment

FY21E margin would face pressure from investment in LF audio and TME Live. But in the long run, we expect TME to enjoy accelerating earnings with better margin outlook, backed by 19% rev CAGR in FY20-23E and operating leverage (OPM at 13.1% in 2023E, vs. 12.8% in 2020).

Gross margin would decline 3ppts to 29.3% in FY21E for content investment, but up to 31.0%/ 32.8% in FY22/ 23E, thanks to improving music-related GPM (-5.9% in FY23E vs. -16.9% in FY20) and higher rev mix of ad and long-form audio. We forecast opex ratio at 19.7% in FY23E and expect further upside from: 1) scale effect; 2) better marketing with higher ROI; and 3) cost optimization.

As a result, we forecast its adj. net profit to reach RMB4,218mn/ RMB5,823mn in FY21/ 22E, with adj. net margin up to 14.1% in FY22E.

Figure 56: Income statement

RMB mn, Dec-YE	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net revenue	18,985	25,434	29,153	34,349	41,224	49,216
Cost of revenue	11,708	16,761	19,851	24,289	28,432	33,065
Gross profit	7,277	8,673	9,302	10,060	12,793	16,151
S&M	(1,714)	(2,041)	(2,475)	(3,308)	(3,875)	(4,429)
R&D	(1,003)	(1,370)	(1,859)	(2,233)	(2,638)	(2,904)
Admin.Exp.	(1,255)	(1,333)	(1,242)	(1,717)	(2,061)	(2,362)
Operating (loss)/profit	3,305	3,929	3,726	2,802	4,218	6,455
Other expenses	(1,302)	611	906	879	1,122	1,298
(Loss)/profit before income tax	2,003	4,540	4,632	3,681	5,340	7,753
Income taxes (expense)/credit	(171)	(563)	(456)	(442)	(641)	(930)
(Loss)/profit for the year	1,832	3,977	4,176	3,239	4,699	6,823
Adj. net profit	4,161	4,903	4,971	4,218	5,823	8,107
Margin Analysis						
Gross margin	38%	34%	32%	29%	31%	33%
Operating margin	17%	15%	13%	8%	10%	13%
Adj. net margin	22%	19%	17%	12%	14%	16%
Growth Analysis						
Revenue		34%	15%	18%	20%	19%
Gross profit		19%	7%	8%	27%	26%
Operating profit		19%	-5%	-25%	51%	53%
Adj. net profit		18%	1%	-15%	38%	39%

Source: Company data, CMBIS estimates

Balance Sheet

Healthy balance sheet with net cash position in FY21/22E

According to our estimates of profit before taxation and change in working capital, TME has strong operating cash inflow in supporting CAPEX in the next three years. Therefore, we believe TME can stay in net cash position in FY21/22/23E. We expect TME to hold RMB13.4bn/ RMB17.5bn cash and restricted cash as of 31 Dec of 2021E and 2022E.

Figure 57: Balance Sheet

RMB mn, Dec-YE	FY18	FY19	FY20	FY21E	FY22E	FY23E
Non-current assets	23,827	25,764	36,586	40,806	42,905	45,032
Intangible assets, net	1,763	1,622	2,020	1,542	1,539	1,560
Goodwill	17,088	17,140	17,492	19,640	20,890	22,140
Available-for-sale financial assets	3,331	4,461	9,771	9,771	9,771	9,771
Others	1,645	2,541	7,303	9,853	10,704	11,561
Current assets	20,778	26,914	31,687	35,071	40,564	48,620
Cash and restricted cash	17,356	15,426	11,128	13,408	17,549	24,034
Accounts receivable, net	1,483	2,198	2,800	3,670	4,405	5,259
Prepayments and other current assets	1,823	2,220	2,846	2,998	3,598	4,296
Term deposits	0	7,000	14,858	14,858	14,858	14,858
Others	116	70	55	137	154	173
Current liabilities	6,238	8,490	9,602	11,421	13,489	15,866
Accounts payables	1,830	2,559	3,565	3,660	4,284	4,982
Other payables and accruals	2,742	3,782	3,881	4,122	4,947	5,906
Deferred revenue	1,431	1,694	1,608	3,091	3,710	4,429
Others	235	455	548	548	548	548
Non-current liabilities	595	510	5,940	5,940	5,940	5,940
Notes payable	0	0	5,175	5,175	5,175	5,175
Deferred tax liability	354	297	265	265	265	265
Others	241	213	500	500	500	500
MI	51	88	486	486	486	486
Total Equity	37,772	43,678	52,731	58,516	64,039	71,846
Shareholders' equity	37,721	43,590	52,245	58,030	63,553	71,360

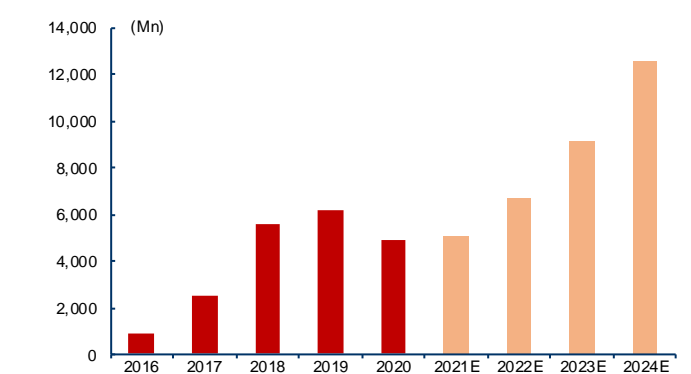
Source: Company data, CMBIS estimates

Cash Flow and Working Capital

High visibility with solid and expanding brand partner network

Backed by its climbing paying ratio and increasing ad contribution, we expect TME to maintain its strong operating cash inflow trend and record RMB4.8bn/ RMB6.6bn of operating cash inflow in FY21/ 22E, respectively.

Figure 58: Operating cash flow projections



Source: Company data, CMBIS estimates

Figure 59: Cash flow and working capital analysis

RMB mn, Dec-YE	FY18	FY19	FY20	FY21E	FY22E	FY23E
Cash Flow						
Operating cash flow	5,632	6,200	4,885	4,840	6,550	8,971
CAPEX	(144)	(286)	(330)	(389)	(467)	(557)
Others	(1,046)	(7,816)	(13,876)	(2,171)	(1,943)	(1,929)
Investing cash flow	(1,190)	(8,102)	(14,206)	(2,559)	(2,409)	(2,486)
Proceeds from share issuance	7,741	12	0	0	0	0
Others	0	(43)	5,292	0	0	0
Financing cash flow	7,741	(31)	5,292	0	0	0
Cash at period end	17,356	15,426	11,128	13,408	17,549	24,034

Source: Company data, CMBIS estimates

Valuation

Investment Thesis

We initiate BUY with DCF-based TP of US\$20.0, implying 38x FY22E P/E. We keep bullish on TME's secular growth with rising subs and LO audio upside. TME's positive price drivers and catalysts would originate from: 1) effective paywall strategy execution, 2) new business incubation, and 3) ads momentum.

Initiate with BUY

We use DCF valuation as our primary method since it is suitable to apply DCF valuation to internet companies with healthy cash flows in the long run. Assuming a WACC of 13% and a terminal growth rate of 3%, our estimated TP is US\$20.0, representing 38x FY22E P/E.

Figure 60: DCF valuation

DCF valuation (RMB mn)										
	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	2,802	4,218	6,455	9,458	13,458	18,580	24,944	32,634	41,688	52,098
Tax	(442)	(641)	(930)	(1,341)	(1,908)	(2,635)	(3,537)	(4,628)	(5,912)	(7,388)
D&A	464	531	615	712	826	945	1,067	1,191	1,316	1,441
Working capital	(569)	(496)	(550)	(651)	(664)	(678)	(691)	(705)	(719)	(733)
CAPEX	(389)	(467)	(557)	(669)	(682)	(696)	(707)	(716)	(724)	(730)
FCF	1,867	3,146	5,033	7,509	11,029	15,516	21,076	27,777	35,650	44,688
FCF Growth		69%	60%	49%	47%	41%	36%	32%	28%	25%
Terminal Value										460,287
PV (FCF+ Terminal Value)	1,867	2,784	3,942	5,204	6,764	8,422	10,123	11,807	13,410	168,098

Assumptions	
WACC	13.0%
Tax rate	15.0%
Risk free rate	3.6%
Beta	1.00
Market risk return	13.0%
Cost of equity	13.0%
Debt/Assets	0.0%
Terminal growth rate	3.0%
Debt value	0

		WACC				
		11%	12%	13%	14%	15%
Growth	1.5%	23.9	20.7	18.0	15.9	14.0
	2.0%	25.0	21.5	18.6	16.3	14.4
	2.5%	26.1	22.3	19.3	16.9	14.8
	3.0%	27.4	23.3	20.0	17.4	15.3
	3.5%	28.9	24.4	20.9	18.0	15.8
	4.0%	30.6	25.6	21.7	18.7	16.3
	4.5%	32.5	27.0	22.7	19.5	16.9

Equity Value	
PV	232,421
minus: Net cash	13,408
minus: Minority Interest	486
Equity Value	218,526
FX	6.43
Valuation (US\$ mn) based on DCF	20.0

Source: Company data, Bloomberg, CMBIS estimates

Peers comparison

Our DCF-based multiple of 38x FY22E P/E is 27% higher than industry average. We think our targeted multiple is not demanding, given: 1) high visibility on TME's music sub and ad rev growth; and 2) new business (i.e., LF audio and TME Live) to unlock its valuation if executed well.

Key market concern might lie in regulations, intensified competition and short videos impact. We think the regulation headwinds have partly priced in recent soft price. Despite competition from music peers and short video apps, TME still exceeded itself in diverse content, celebrity IP, and integrated ecosystem.

Figure 61: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBITDA			FY0-2 EPS CAGR
							FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2	
TME	TME US	25,541	USD	15	BUY	20	38.8	28.2	20.4	4.8	4.0	3.4	34.2	24.0	17.7	19%
Music																
Spotify	SPOT US	47,248	USD	248	NA	NA	NA	NA	228.6	4.2	3.5	3.0	NA	251.5	78.2	NA
Apple	AAPL US	2,177,068	USD	130	NA	NA	25.3	24.6	23.4	6.1	5.9	5.6	18.5	18.5	18.0	4%
Alphabet	GOOGL US	1,647,694	USD	2,402	NA	NA	24.7	22.4	18.4	8.4	7.2	6.2	16.6	14.3	12.4	16%
Amazon	AMZN US	1,758,526	USD	3,487	NA	NA	50.9	40.7	29.1	3.6	3.0	2.6	23.1	18.8	14.8	32%
Sirius XM	SIRI US	25,772	USD	6	NA	NA	24.1	20.0	18.1	3.1	3.0	2.8	13.3	12.7	11.9	15%
Sony	6758 JP	120,854	JPY	10,540	NA	NA	18.0	15.6	14.3	1.4	1.3	1.2	7.3	6.6	6.1	12%
Vivendi	VIV FP	39,651	EUR	29	NA	NA	22.5	19.8	18.0	2.0	1.9	1.8	15.0	13.5	12.4	12%
Warner Music	WMG US	17,859	USD	35	NA	NA	49.0	34.6	26.2	3.5	3.2	2.9	21.8	18.7	15.6	37%
Average							30.6	25.4	21.1	4.0	3.6	3.3	16.5	14.7	21.2	18%
Chinese Internet Giants																
Tencent	700 HK	729,699	HKD	591	BUY	735	33.2	26.7	21.9	8.0	6.6	5.6	22.8	19.3	16.4	23%
Alibaba	BABA US	575,570	USD	212	BUY	314	22.2	18.0	14.3	4.0	3.3	2.7	16.5	13.0	10.6	24%
Meituan	DIS US	313,275	USD	172	BUY	401	76.9	35.2	27.6	4.6	3.7	3.3	35.0	21.7	18.8	67%
Pinduoduo	PDD US	156,699	USD	125	BUY	175	NA	327.4	75.3	8.7	6.3	4.6	NA	501.9	156.8	NA
Kuaishou	1024 HK	103,481	HKD	193	BUY	382	NA	97.8	42.6	7.7	5.4	4.1	NA	67.1	24.4	NA
Average							44.1	26.6	36.3	6.6	5.1	4.1	24.8	30.3	45.4	38%
VAS & Subscribers																
Momo	MOMO US	3,051	USD	15	HOLD	15	9.4	7.5	6.5	1.3	1.2	1.1	5.7	4.6	3.9	20%
YY	YY US	5,378	USD	68	BUY	136	NA	82.0	28.0	1.9	1.4	1.1	178.8	8.2	5.2	NA
Huya	HUYA US	3,964	USD	17	NA	NA	35.8	17.8	14.1	2.1	1.8	1.6	30.0	10.7	8.0	59%
Douyu	DOYU US	2,683	USD	8	NA	NA	NA	24.2	25.3	1.8	1.5	1.3	NA	20.6	13.1	NA
Bilibili	BILI US	45,501	USD	118	BUY	173	NA	NA	NA	15.1	10.6	7.8	NA	NA	315.2	NA
Mango	300413 CH	19,260	CNY	70	NA	NA	49.4	40.2	33.8	6.8	5.6	4.8	17.7	14.1	11.9	21%
iQIYI	IQ US	11,531	USD	15	BUY	30	NA	NA	3049.6	2.3	2.1	1.8	NA	733.1	24.7	NA
China Literature	772 HK	11,920	HKD	91	NA	NA	55.8	43.5	35.9	7.4	6.3	5.5	46.5	38.4	29.9	25%
Netflix	NFLX US	222,043	USD	501	NA	NA	46.7	38.8	30.1	7.5	6.5	5.7	33.8	27.4	21.8	24%
Average							39.4	36.3	24.8	5.1	4.1	3.4	52.1	17.7	14.8	30%
Advertising																
Baidu	BIDU US	65,891	USD	186	BUY	378	19.2	16.5	13.4	3.3	2.9	2.5	11.6	10.2	8.5	20%
Weibo	WB US	10,834	USD	48	NA	NA	18.2	15.4	13.4	5.1	4.5	4.1	15.2	12.6	10.8	16%
Facebook	FB US	934,739	USD	330	NA	NA	23.3	20.1	17.6	8.1	6.7	5.7	14.3	12.1	10.2	15%
Snapchat	SNAP US	96,239	USD	63	NA	NA	339.6	113.4	50.1	24.7	16.7	11.6	238.9	80.4	38.7	160%
Twitter	TWTR US	48,566	USD	61	NA	NA	78.0	55.7	39.4	10.1	8.2	6.8	33.2	25.1	19.9	41%
Average							34.7	26.9	26.8	10.3	7.8	6.1	18.6	28.1	17.6	50%
Total Average							35.9	29.5	26.5	6.0	4.8	4.0	28.8	21.2	23.2	32%

Source: Bloomberg

Note: Data updated by 21 Jun 2021. Spotify, Meituan, Pinduoduo, Kuaishou, Douyu, Bilibili, Mango, and Snapchat are excluded from the calculation of average PE and EV/EBITDA.

Key Investment Risks

Key investment risks may derive from: 1) intensified competition; 2) newly emerging entertainment platforms diverging user time and wallet share; 3) lack of new hit songs or loss of top song copyright licensing; 4) decline in live streaming monetization rate.

Risks from intensified competition in China's online music industry

TME faces intensified competition from other Chinese online music platforms, including its closest competitor, NetEase Cloud Music. If TME cannot maintain its sought-for, exclusive music copyright, or if TME fails to provide engaging music-oriented entertainment, its users may be diverted to competing platforms.

Newly emerging entertainment platforms diverging user time and wallet share

Other emerging entertainment platforms are challenging China's traditional online music and live streaming business. In particular, short videos are gaining share in terms of MAUs and user time, as they are easy to consume and distribute. TME has integrated short video into its music ecosystem. However, if it fails to convert its existing user base to short-video music streaming, it may not build a moat against short video's intensifying competition.

Lack of new hit songs or loss of top song copyright licensing

Compared with PGC video platforms, users' consumption of online music tends to be more concentrated on the top-tier content. If TME loses its top song copyright licensing, or fails to continuously produce new hit songs, its MAUs and subscription revenue may be adversely affected.

Decline in live streaming monetization rate

China has established more stringent regulations on live streaming, involving limits on live streaming content and gifting from minors. If the regulations of the live streaming industry continue to strengthen, the paying ratio and ARPPU for TME's live streaming business may be adversely affected.

Appendix

Figure 62: Directors and Executive Officers

Name	Position/Title
Cussion Kar Shun Pang (彭迦信)	Executive Chairman
Zhenyu Xie (謝振宇)	Director
Brent Richard Irvin	Director
Martin Lau (劉焯平)	Director
James Gordon Mitchell	Director
Ross Liang(梁柱)	Director
Liang Tang	Independent director
Edith Manling Ngan	Independent director
Adrian Yau Kee Mak (麥佑基)	Independent director

Source: Wind

Figure 63: Management Team

Name	Position/Title
Zhenyu Xie	President, CTO
Ross Liang	CEO
Min Hu (胡敏)	CFO
Cheuk Tung Tony Yip	Chief Strategy Officer, Head of Ultimate Music
Dennis Tak Yeung Hau (侯德洋)	Group Vice President, QQ Music and WeSing
Tsai Chun Pan	Group Vice President, Copyright Management
Linlin Chen (陈琳琳)	Group Vice President, Kugou
Lixue Shi (史力学)	Group Vice President, Kuwo

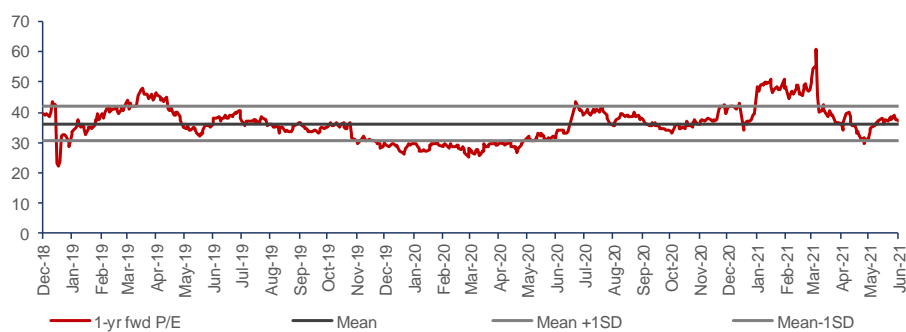
Source: Wind

Figure 64: Employees breakdown

Function	Number of employees	% of total
Research and development	2,821	59%
Content management and operation	879	18%
Sales and marketing	440	9%
Management and administration	629	13%
Total	4,769	100%

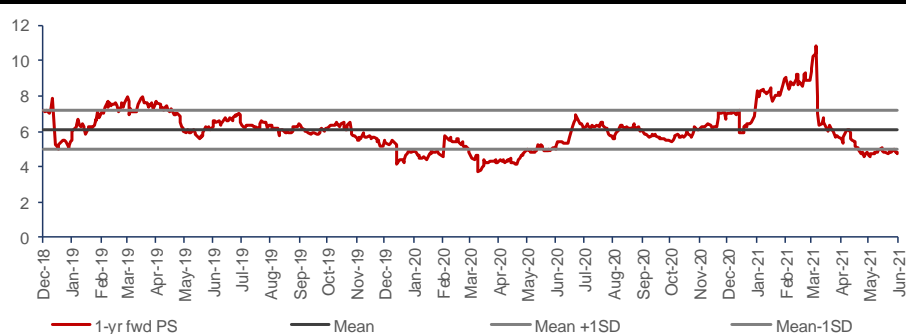
Source: Company data

Figure 65: TME's 1-year forward PE



Source: Bloomberg

Figure 66: TME's 1-year forward PS



Source: Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net revenues	25,434	29,153	34,349	41,224	49,216
Online music service	7,152	9,349	12,701	16,585	21,017
Subscription	3,560	5,561	7,509	9,082	10,752
Others	3,592	3,788	5,192	7,503	10,265
Social entertainment	18,282	19,804	21,648	24,639	28,199
COGS	(16,761)	(19,851)	(24,289)	(28,432)	(33,065)
Gross profit	8,673	9,302	10,060	12,793	16,151
S&M	(2,041)	(2,475)	(3,308)	(3,875)	(4,429)
R&D	(1,370)	(1,859)	(2,233)	(2,638)	(2,904)
Admin.Exp.	(1,333)	(1,242)	(1,717)	(2,061)	(2,362)
Operating profit	3,929	3,726	2,802	4,218	6,455
Other income, net	611	906	879	1,122	1,298
Pre-tax Income	4,540	4,632	3,681	5,340	7,753
Income Tax	(563)	(456)	(442)	(641)	(930)
Net profit	3,977	4,176	3,239	4,699	6,823
Adj. net profit	4,903	4,971	4,218	5,823	8,107

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Pre-tax Income	4,540	4,632	3,681	5,340	7,753
D&A	410	464	531	615	712
Change in WC	1,135	(314)	569	496	550
Others	(1,200)	57	1,769	2,521	3,367
Operating CF	4,885	4,840	6,550	8,971	12,381
Capex	(286)	(330)	(389)	(467)	(557)
Investments	37	6	-	-	-
Others	(7,853)	(13,882)	(2,171)	(1,943)	(1,929)
Investing CF	(8,102)	(14,206)	(2,559)	(2,409)	(2,486)
Equity raised	12	-	-	-	-
Change of debts	-	-	-	-	-
Others	(43)	5,292	-	-	-
Financing CF	(31)	5,292	-	-	-
Net change in cash	(1,933)	(4,029)	2,280	4,141	6,485
Cash (beg of yr)	17,356	15,426	11,128	13,408	17,549
FX	3	(269)	-	-	-
Cash (end of yr)	15,426	11,128	13,408	17,549	24,034

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	25,764	36,586	40,806	42,905	45,032
Intangible assets, net	1,622	2,020	1,542	1,539	1,560
Goodwill	17,140	17,492	19,640	20,890	22,140
Financial assets	4,461	9,771	9,771	9,771	9,771
Others	2,541	7,303	9,853	10,704	11,561
Current assets	26,914	31,687	35,071	40,564	48,620
Cash, restricted cash	15,426	11,128	13,408	17,549	24,034
Accounts receivable	2,198	2,800	3,670	4,405	5,259
Other current assets	2,220	2,846	2,998	3,598	4,296
Term deposits	7,000	14,858	14,858	14,858	14,858
Others	70	55	137	154	173
Current liabilities	8,490	9,602	11,421	13,489	15,866
Accounts payables	2,559	3,565	3,660	4,284	4,982
Other payables	3,782	3,881	4,122	4,947	5,906
Deferred revenue	1,694	1,608	3,091	3,710	4,429
Others	455	548	548	548	548
Non-current liabilities	510	5,940	5,940	5,940	5,940
Notes payable	-	5,175	5,175	5,175	5,175
Deferred tax liability	297	265	265	265	265
Others	213	500	500	500	500
MI	88	486	486	486	486
Total Equity	43,678	52,731	58,516	64,039	71,846
Shareholders' equity	43,590	52,245	58,030	63,553	71,360

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Online music service	28.1	32.1	37.0	40.2	42.7
Subscription	14.0	19.1	21.9	22.0	21.8
Others	14.1	13.0	15.1	18.2	20.9
Social entertainment	71.9	67.9	63.0	59.8	57.3
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	34.0	14.6	17.8	20.0	19.4
Gross profit	19.2	7.3	8.2	27.2	26.2
EBIT	18.9	(5.2)	(24.8)	50.5	53.0
Adj. net profit	17.8	1.4	(15.1)	38.1	39.2
P&L ratios (%)					
Operating margin	15.4	12.8	8.2	10.2	13.1
Pre-tax margin	17.9	15.9	10.7	13.0	15.8
Adj. net margin	19.3	17.1	12.3	14.1	16.5
Effective tax rate	(12.4)	(9.8)	(12.0)	(12.0)	(12.0)
Returns (%)					
ROE	11.2	9.4	7.2	9.1	11.3
ROA	9.3	7.3	5.6	7.0	8.7
Per share					
EPS (RMB)	2.9	3.0	2.5	3.4	4.8
DPS (RMB)	1.0	2.0	3.0	4.0	5.0
BVPS (RMB)	15.8	20.3	22.5	24.6	27.5

Source: Company data, CMBIS estimates

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