

China Internet Sector

Thoughts on updated minors protection regulations on pan-entertainment sector

What's New? The State Council announced to tighten regulations on minors protection over online games, livestreaming, video and social platforms. Minors protection would prioritize on time spent, authority and consumption management.

- Games: not new.** For game segment, we believe minors protection is not something new, as its new anti-addiction measures took effect from 1 Sep. Recent sector de-rating has already priced in multiple game regulatory headwinds, including minors protection, game licenses slowdown, and content regulation.
- Video & Social: manageable financial impact, despite short-term sentiment pressure.** This guideline triggered market concern on pan-entertainment regulatory focus shift to videos from games. Looking ahead, we expect video platforms to see tightening regulations, mainly on minors protection and content supervision. **Kuaishou, Bili, IQ** stock price would bear short-term pressure given soft sentiment, **but financial impact would be manageable**, in our view. On the one hand, video platforms have already adopted youth model, in which real-name certified users under the age of 14 could only spend <40mins per day, and are not permitted on live broadcast, rewarding and recharge. On the other hand, minors accounted for **low-single-digit** percent of its total **time spent** for short videos, and even lower in terms of monetization, based on our cross-check. Platforms would continue to enrich and optimize the protection tools, and we expect limited impact ahead and long-term fundamentals intact.
- Meituan & Tencent could be relatively defensive.** Under the new normal of regulations, we think the market has already digested the majority of regulatory headwinds, including anti-trust law, data security, and game minor protections. Among those key internet names, we think Meituan and Tencent would be relatively defensive considering their well-guided financials, optimized system in-line with regulations, and limited impact from upcoming tight content supervision. We reiterate our view on Tencent/Meituan's fundamental price floor at HK\$402/HK\$180. Suggest to buy on dips.

Valuation Table

| Company | Ticker | Mkt cap (USD mn) | Currency | Price Rating | CMBI Rating | CMBI TP | PE | | | PS | | |
|------------------------------|---------|---------------------|----------|-----------------|----------------|------------|-------|-------|-------|-------|-------|-------|
| | | | | | | | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| China Internet Giants | | | | | | | | | | | | |
| Tencent | 700 HK | 571,656 | HKD | 464 | BUY | 640 | 27.4 | 22.4 | 18.5 | 6.4 | 5.4 | 4.5 |
| Meituan | 3690 HK | 195,851 | HKD | 249 | BUY | 383 | NA | NA | 70.5 | 6.9 | 5.0 | 3.8 |
| Alibaba | BABA US | 394,353 | USD | 145 | BUY | 285 | 15.0 | 12.6 | 10.5 | 2.8 | 2.3 | 1.9 |
| Baidu | BIDU US | 54,496 | USD | 157 | BUY | 248 | 17.4 | 14.2 | 11.5 | 2.8 | 2.4 | 2.1 |
| NetEase | NTES US | 54,578 | USD | 81 | BUY | 120 | 19.7 | 17.0 | 14.8 | 4.1 | 3.5 | 3.1 |
| JD | JD US | 115,334 | USD | 74 | NA | NA | 55.2 | 35.9 | 22.1 | 0.8 | 0.6 | 0.5 |
| Kuaishou | 1024 HK | 43,467 | HKD | 81 | BUY | 110 | NA | NA | NA | 3.5 | 2.6 | 2.0 |
| Pinduoduo | PDD US | 118,498 | USD | 95 | BUY | 175 | NA | 89.1 | 36.0 | 7.0 | 5.0 | 3.7 |
| Didi | DIDI US | 38,393 | USD | 8 | NA | NA | 73.3 | NA | 50.9 | 1.3 | 1.1 | 0.9 |
| Average | | | | | | | 19.9 | 16.6 | 13.8 | 3.9 | 3.1 | 2.5 |
| Pan-entertainment | | | | | | | | | | | | |
| Kuaishou | 1024 HK | 43,467 | HKD | 81 | BUY | 110 | NA | NA | NA | 3.5 | 2.6 | 2.0 |
| Bilibili | BILI US | 27,186 | USD | 71 | BUY | 110 | NA | NA | NA | 9.1 | 6.3 | 4.7 |
| TME | TME US | 11,983 | USD | 7 | BUY | 12 | 19.8 | 18.8 | 15.5 | 2.4 | 2.2 | 1.9 |
| IQIYI | IQ US | 6,275 | USD | 8 | BUY | 13 | NA | NA | NA | 1.3 | 1.1 | 1.0 |
| China Literature | 772 HK | 8,023 | HKD | 61 | NA | NA | 39.9 | 30.6 | 24.1 | 5.4 | 4.5 | 3.9 |
| Zhihu | ZH US | 4,655 | USD | 8 | BUY | 15 | NA | NA | NA | 10.1 | 5.5 | 3.2 |
| Average | | | | | | | 29.8 | 24.7 | 19.8 | 5.3 | 3.7 | 2.8 |
| Average | | | | | | | 23.2 | 19.3 | 15.8 | 4.5 | 3.3 | 2.6 |

Source: Company data, Bloomberg, CMBIS estimates; outliers excluded from PE average

OUTPERFORM
(Maintain)

China Internet Sector

Sophie Huang

(852) 3900 0889

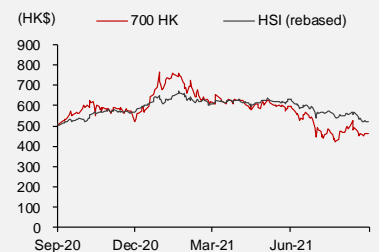
sophiehuang@cmbi.com.hk

Miriam Lu

(852) 3761 8728

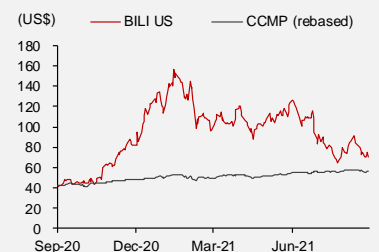
miriamlu@cmbi.com.hk

Tencent: 12-mth Price Performance



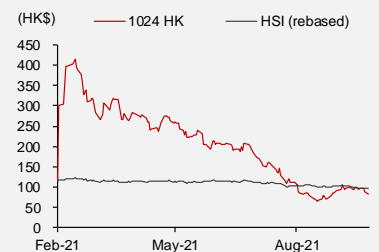
Source: Bloomberg

Bilibili: 12-mth Price Performance



Source: Bloomberg

Kuaishou: 12-mth Price Performance



Source: Bloomberg

Figure 1: Peers valuation

| Company | Ticker | Mkt cap (USD mn) | Currency | Price | CMBI Rating | CMBI TP | PE | | | PS | | | EV/EBIT | | | FY21-23 EPS |
|------------------------------|-----------|---------------------|----------|-------|----------------|------------|-------|-------|-------|-------|-------|-------|---------|-------|-------|-------------|
| | | | | | | | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | CAGR |
| China Internet Giants | | | | | | | | | | | | | | | | |
| Tencent | 700 HK | 571,656 | HKD | 464 | BUY | 640 | 27.4 | 22.4 | 18.5 | 6.4 | 5.4 | 4.5 | 21.1 | 20.4 | 16.4 | 14% |
| Meituan | 3690 HK | 195,851 | HKD | 249 | BUY | 383 | NA | NA | 70.5 | 6.9 | 5.0 | 3.8 | NA | NA | 86.6 | NA |
| Alibaba | BABA US | 394,353 | USD | 145 | BUY | 285 | 15.0 | 12.6 | 10.5 | 2.8 | 2.3 | 1.9 | 17.1 | 12.7 | 9.7 | 13% |
| Baidu | BIDU US | 54,496 | USD | 157 | BUY | 248 | 17.4 | 14.2 | 11.5 | 2.8 | 2.4 | 2.1 | 18.8 | 14.5 | 10.2 | 14% |
| NetEase | NTESE US | 54,578 | USD | 81 | BUY | 120 | 19.7 | 17.0 | 14.8 | 4.1 | 3.5 | 3.1 | 18.2 | 15.0 | 12.8 | 11% |
| JD | JD US | 115,334 | USD | 74 | NA | NA | 55.2 | 35.9 | 22.1 | 0.8 | 0.6 | 0.5 | NA | 45.6 | 24.4 | 34% |
| Pinduoduo | PDD US | 118,498 | USD | 95 | BUY | 175 | NA | 89.1 | 36.0 | 7.0 | 5.0 | 3.7 | NA | NA | 61.2 | NA |
| Didi | DIDI US | 38,393 | USD | 8 | NA | NA | 73.3 | NA | 50.9 | 1.3 | 1.1 | 0.9 | NA | NA | NA | NA |
| Kuaishou | 1024 HK | 43,467 | HKD | 81 | BUY | 110 | NA | NA | NA | 3.5 | 2.6 | 2.0 | NA | NA | NA | NA |
| Average | | | | | | | 19.9 | 16.6 | 13.8 | 3.9 | 3.1 | 2.5 | 18.8 | 15.7 | 12.3 | 17% |
| E-commerce | | | | | | | | | | | | | | | | |
| Alibaba | BABA US | 394,353 | USD | 145 | BUY | 285 | 15.0 | 12.6 | 10.5 | 2.8 | 2.3 | 1.9 | 17.1 | 12.7 | 9.7 | 13% |
| Vipshop | VIPS US | 8,087 | USD | 12 | NA | NA | 7.7 | 6.8 | 6.0 | 0.4 | 0.4 | 0.3 | 5.6 | 4.8 | 4.2 | 8% |
| Yatsen | YSG US | 2,571 | USD | 4 | NA | NA | NA | NA | NA | 2.2 | 1.6 | 1.2 | NA | NA | 63.0 | NA |
| Baozun | BZUN US | 1,379 | USD | 18 | BUY | 28 | 18.8 | 12.5 | 9.1 | 0.9 | 0.7 | 0.6 | 16.5 | 10.6 | 7.4 | 18% |
| Meituan | 3690 HK | 195,851 | HKD | 249 | BUY | 383 | NA | NA | 70.5 | 6.9 | 5.0 | 3.8 | NA | NA | 86.6 | NA |
| JD | JD US | 115,334 | USD | 74 | NA | NA | 55.2 | 35.9 | 22.1 | 0.8 | 0.6 | 0.5 | NA | 45.6 | 24.4 | 34% |
| Pinduoduo | PDD US | 118,498 | USD | 95 | BUY | 175 | NA | 89.1 | 36.0 | 7.0 | 5.0 | 3.7 | NA | NA | 61.2 | NA |
| Average | | | | | | | 13.9 | 10.6 | 8.5 | 3.0 | 2.2 | 1.7 | 13.1 | 9.4 | 21.1 | 18% |
| OTA | | | | | | | | | | | | | | | | |
| Trip.com | TCOM US | 18,531 | USD | 29 | BUY | 48 | 87.2 | 22.5 | 15.7 | 5.4 | 3.7 | 3.0 | NA | 27.7 | 16.4 | 81% |
| Tongcheng | 780 HK | 5,218 | HKD | 18 | BUY | 20 | 23.8 | 17.3 | 13.6 | 4.2 | 3.2 | 2.7 | 26.8 | 16.3 | 12.2 | 19% |
| Average | | | | | | | 23.8 | 19.9 | 14.6 | 4.8 | 3.5 | 2.8 | 26.8 | 22.0 | 14.3 | 50% |
| Game | | | | | | | | | | | | | | | | |
| Tencent | 700 HK | 571,656 | HKD | 464 | BUY | 640 | 27.4 | 22.4 | 18.5 | 6.4 | 5.4 | 4.5 | 21.1 | 20.4 | 16.4 | 14% |
| NetEase | NTESE US | 54,578 | USD | 81 | BUY | 120 | 19.7 | 17.0 | 14.8 | 4.1 | 3.5 | 3.1 | 18.2 | 15.0 | 12.8 | 11% |
| IGG | 799 HK | 1,154 | HKD | 8 | NA | NA | 8.2 | 6.9 | 6.2 | 1.4 | 1.3 | 1.3 | 1.8 | 1.9 | 1.7 | 7% |
| FriendTimes | 6820 HK | 367 | HKD | 1 | BUY | 3 | 5.0 | 4.0 | 3.2 | 1.0 | 0.8 | 0.7 | 2.5 | 2.0 | 1.7 | 14% |
| CMGE | 302 HK | 1,134 | HKD | 3 | BUY | 6 | 7.2 | 6.6 | 5.2 | 1.4 | 1.2 | 1.0 | 7.1 | 6.1 | 4.5 | 11% |
| Archosaur Games | 9990 HK | 1,039 | HKD | 10 | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Perfect World | 002624 CH | 4,644 | CNY | 15 | BUY | 49 | 18.0 | 11.9 | 10.0 | 2.8 | 2.3 | 2.0 | 17.4 | 10.6 | 8.7 | 20% |
| Sanqi Interactive | 002555 CH | 7,586 | CNY | 22 | BUY | 30 | 18.2 | 14.7 | 12.8 | 2.9 | 2.4 | 2.1 | 14.1 | 11.1 | 9.8 | 12% |
| Giant Network | 002558 CH | 3,288 | CNY | 10 | NA | NA | 18.1 | 14.1 | 12.6 | 4.3 | 3.8 | 3.1 | NA | NA | NA | 9% |
| Kingsoft | 3888 HK | 5,264 | HKD | 30 | NA | NA | 69.2 | 29.8 | 20.0 | 5.5 | 4.5 | 3.7 | 16.9 | 11.2 | 8.4 | 52% |
| XD Inc | 2400 HK | 2,898 | HKD | 47 | NA | NA | NA | NA | NA | 6.5 | 5.0 | 4.0 | NA | NA | 88.8 | NA |
| Average | | | | | | | 15.2 | 14.2 | 11.5 | 3.6 | 3.0 | 2.6 | 12.4 | 9.8 | 8.0 | 17% |
| Live Streaming | | | | | | | | | | | | | | | | |
| Hello Inc | MOMO US | 2,171 | USD | 11 | HOLD | 14 | 6.6 | 5.2 | 4.4 | 1.0 | 0.9 | 0.8 | 4.9 | 4.0 | 3.4 | 13% |
| Inke | 3700 HK | 379 | HKD | 1 | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 21% |
| Douyu | DOYU US | 1,093 | USD | 3 | NA | NA | NA | 37.6 | 14.0 | 0.7 | 0.7 | 0.6 | NA | NA | NA | NA |
| Huya | HUYA US | 1,977 | USD | 8 | BUY | 12 | 24.6 | 23.3 | 12.7 | 1.1 | 0.9 | 0.9 | 4.5 | 3.4 | 2.3 | 27% |
| JOYY | YY US | 4,212 | USD | 54 | BUY | 66 | NA | 64.9 | 29.2 | 1.6 | 1.4 | 1.2 | NA | NA | 11.2 | NA |
| Average | | | | | | | 15.6 | 22.0 | 10.3 | 1.1 | 1.0 | 0.9 | 4.7 | 3.7 | 2.9 | 20% |
| Pan-entertainment | | | | | | | | | | | | | | | | |
| TME | TME US | 11,983 | USD | 7 | BUY | 12 | 19.8 | 18.8 | 15.5 | 2.4 | 2.2 | 1.9 | 21.4 | 18.7 | 16.7 | 11% |
| iQIYI | IQ US | 6,275 | USD | 8 | BUY | 13 | NA | NA | NA | 1.3 | 1.1 | 1.0 | NA | NA | NA | NA |
| China Literature | 772 HK | 8,023 | HKD | 61 | NA | NA | 39.9 | 30.6 | 24.1 | 5.4 | 4.5 | 3.9 | 26.8 | 26.4 | 19.7 | 17% |
| Bilibili | BILI US | 27,186 | USD | 71 | BUY | 110 | NA | NA | NA | 9.1 | 6.3 | 4.7 | NA | NA | NA | NA |
| Kuaishou | 1024 HK | 43,467 | HKD | 81 | BUY | 110 | NA | NA | NA | 3.5 | 2.6 | 2.0 | NA | NA | NA | NA |
| Zhihu | ZH US | 4,655 | USD | 8 | BUY | 15 | NA | NA | NA | 10.1 | 5.5 | 3.2 | NA | NA | NA | NA |
| Average | | | | | | | 29.8 | 24.7 | 19.8 | 5.3 | 3.7 | 2.8 | 24.1 | 22.6 | 18.2 | 14% |
| Ad | | | | | | | | | | | | | | | | |
| Baidu | BIDU US | 54,496 | USD | 157 | BUY | 248 | 17.4 | 14.2 | 11.5 | 2.8 | 2.4 | 2.1 | 18.8 | 14.5 | 10.2 | 14% |
| Weibo | WB US | 10,688 | USD | 47 | NA | NA | 15.6 | 14.0 | 12.3 | 4.8 | 4.3 | 3.9 | 14.2 | 12.7 | 10.8 | 8% |
| Mobvista | 1860 HK | 1,480 | HKD | 7 | BUY | 11 | 39.3 | 38.5 | 37.0 | 2.2 | 1.7 | 1.5 | NA | 62.6 | 31.5 | 43% |
| Duiba | 1753 HK | 243 | HKD | 2 | BUY | 4 | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Average | | | | | | | 24.1 | 22.2 | 20.3 | 3.2 | 2.8 | 2.5 | 16.5 | 29.9 | 17.5 | 22% |
| CGB | | | | | | | | | | | | | | | | |
| Dingdong | DDL US | 4,623 | USD | 23 | NA | NA | NA | NA | NA | 1.4 | 0.9 | 0.6 | NA | NA | NA | NA |
| MissFresh | MF US | 1,022 | USD | 4 | NA | NA | NA | NA | NA | 0.8 | 0.6 | 0.4 | NA | NA | NA | NA |
| Average | | | | | | | NA | NA | NA | 1.1 | 0.7 | 0.5 | NA | NA | NA | NA |
| SaaS | | | | | | | | | | | | | | | | |
| Weimob | 2013 HK | 3,764 | HKD | 11 | NA | NA | NA | NA | NA | 8.8 | 6.8 | 5.2 | NA | NA | NA | NA |
| Youzan | 8083 HK | 2,084 | HKD | 1 | NA | NA | NA | NA | NA | 7.3 | 5.4 | 3.8 | NA | NA | NA | NA |
| KE Holdings | BEKE US | 19,686 | USD | 17 | NA | NA | 42.8 | 21.8 | 15.4 | 1.6 | 1.4 | 1.2 | 50.7 | 12.9 | 8.0 | 35% |
| Average | | | | | | | 42.8 | 21.8 | 15.4 | 8.6 | 6.4 | 4.7 | 50.7 | 12.9 | 8.0 | 35% |
| Verticals | | | | | | | | | | | | | | | | |
| Autohome | 2518 HK | 5,262 | HKD | 80 | NA | NA | 11.5 | 10.3 | 10.4 | 4.4 | 4.2 | 4.2 | 8.5 | 7.2 | 7.3 | 3% |
| KE Holdings | BEKE US | 19,686 | USD | 17 | NA | NA | 42.8 | 21.8 | 15.4 | 1.6 | 1.4 | 1.2 | 50.7 | 12.9 | 8.0 | 35% |
| BZ Kanzhun | BZ US | 15,136 | USD | 37 | NA | NA | NA | 58.4 | 26.9 | 22.2 | 12.0 | 7.7 | NA | 49.1 | 21.7 | 74% |
| Average | | | | | | | 27.2 | 16.1 | 12.9 | 9.4 | 5.9 | 4.3 | 29.6 | 10.1 | 7.6 | 37% |
| Average | | | | | | | 20.3 | 17.1 | 15.2 | 3.9 | 2.9 | 2.3 | 17.6 | 13.9 | 14.8 | 21% |

Source: Bloomberg

Note: Data updated by 27 Sep 2021; Meituan, JD, PDD, Didi, Trip, Kingsoft, XD, YY and Kanzhun are excluded as outliers in PE and EV/EBIT average calculation

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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