

# TME (TME US)

## Challenges into 2022

TME delivered better-than-feared 4Q21 results, with topline/bottom line -8.7%/-36% YoY, 0%/30% above consensus. Looking ahead, we keep prudent on its topline growth in FY22E (forecasting -5% YoY), given subs deceleration, challenging ads & livestreaming. Mgmt. guided subs net add per quarter at 3.5-4.0mn in FY22E (vs. 4-5mn in FY21). Coupled with soft ads (single-digit growth), we forecast online music rev +12% YoY. Social entertainment would see continuous pressure from competition and macro, with rev -15% YoY in our estimates. We expect adj. NPM stable at 14% in FY22E, in which disciplined opex to offset lower GPM. We trimmed FY22-23E rev by 6%, but adjusted earnings by +2%/-1%. Maintain HOLD with lowered TP US\$5.5 (14.5x 22E P/E).

- Better-than-feared 4Q21.** Revenue -8.7% YoY to Rmb7.6bn, in line with our estimates and consensus. Online music maintained moderate growth (+4.3% YoY) attributable to higher paying ratio offset by weaker ARPPU and ads rev, while social entertainment continuously declined to Rmb4.7bn (-15.2% YoY) amid the regulatory headwinds in live streaming. However, non-GAAP net profit of Rmb873mn (-36% YoY) was above our estimates due to low-than-expected G&A expense.
- Challenges ahead.** We keep conservative on FY22E topline growth, given: 1) pressure on ads rev, due to regulations overhang, high-base effect in 1H21 and soft macro; 2) master agreement renew, resulting in the shrinking sub-licensing rev; 3) regulatory headwinds on digit album; and 4) the decline of social entertainment amid fierce competition and challenging macro. We forecast its rev -5% YoY in FY22E, in which online music/social entertainment +12%/-15% YoY. We expect GPM will be under pressure into 2022, as revenue mix shift toward online music and continuous investment in LFA and other content, while adj. NPM remains stable at 14% attributable to opex control. LFA will achieve GPM breakeven at the end of FY22E, benefiting from the cost structure shift from minimum guarantee toward revenue sharing. 1Q22E would be a soft season, and we forecast its rev -15% YoY, in which online music/social entertainment -5%/-20% YoY.
- Maintain HOLD.** We trimmed FY22-23E rev by 6%, but adjusted earnings by +2%/-1%, to reflect the uncertainty on social entertainment and margin improvement. Maintain HOLD with lower TP US\$5.5 (14.5x 22E P/E), on lower multiple under sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY 24E
Revenue (RMB mn)	29,153	31,244	29,575	30,210	31,603
YoY growth (%)	14.6	7.2	(5)	2.1	4.6
Adj. net income (RMB mn)	4,971	4,332	4,106	3,873	4,459
Adj. EPS (RMB)	3.0	2.6	2.4	2.3	2.7
YoY growth (%)	1.0	(13)	(5)	(6)	15.1
Consensus EPS	NA	NA	2.2	2.5	3.0
P/E (x)	11.2	12.9	13.6	14.4	12.5
P/B (x)	1.9	1.8	1.9	1.8	1.8
Yield (%)	0.0	0.0	0.0	0.0	6.0
ROE (%)	9.4	7.4	6.6	5.9	6.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**HOLD (Maintain)**

Target Price	US\$5.5
(Previous TP)	US\$9.0
Up/Downside	+6%
Current Price	US\$5.2

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	8,564
Avg 3 mths t/o (US\$ mn)	88.64
52w High/Low (US\$)	32.25/ 2.95
Total Issued Shares (mn)	835
Source: Bloomberg	

### Shareholding Structure

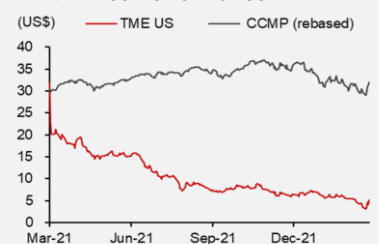
Baillie Gifford	6.17%
Canada Pension Plan	4.25%
Blackrock	3.36%
Source: Bloomberg	

### Share Performance

	Absolute	Relative
1-mth	-10.4%	-12.7%
3-mth	-15.9%	-9.4%
6-mth	-31.8%	-27.8%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

- Prudent on 4Q21E & FY22E topline growth – 10 Nov 2021
- Subs intact despite soft ads and social – 6 Oct 2021
- Multiple challenges ahead – 18 Aug 2021

**Figure 1: 4Q21 financial review**

RMB mn, Dec-YE	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	7,575	8,335	7,824	8,008	7,805	7,607	-2.5%	-8.7%	7,619	0%	7,636	0%
Operating Profit	1,026	1,018	911	1,035	919	682	-25.8%	-33.0%	694	-2%	530	29%
Net profit	1,132	1,197	926	827	788	577	-26.8%	-51.8%	861	-33%	439	31%
Adj. net profit	1,349	1,364	1,235	1,161	1,063	873	-17.9%	-36.0%	670	30%	728	20%
Adj. EPS (RMB)	0.80	0.81	0.69	0.66	0.61	0.50	-17.3%	-38.0%	0.51	-1%	0.43	17%
<b>Margin (%)</b>												
Gross margin	32.4%	32.4%	31.5%	30.4%	29.6%	28.8%			28.7%		25.4%	
Operating margin	13.5%	12.2%	11.6%	12.9%	11.8%	9.0%			9.1%		6.9%	
Adj. net margin	17.8%	16.4%	15.8%	14.5%	13.6%	11.5%			8.8%		9.5%	
<b>Growth (%)</b>												
Revenue (YoY)	16.4%	14.3%	24.0%	15.5%	3.0%	-8.7%			-8.6%		0.8%	
Revenue (QoQ)	9.3%	10.0%	-6.1%	2.4%	-2.5%	-2.5%			-2.4%		-4.6%	
Operating Profit	5.3%	-4.9%	11.8%	-6.5%	-10.4%	-33.0%			-31.9%		-48.3%	
Adj. net profit	9.3%	1.8%	12.0%	0.5%	-21.2%	-36.0%			-50.9%		-46.1%	

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 2: 4Q21 revenue breakdown**

RMB mn, Dec-YE	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
<b>Total revenue</b>	<b>7,575</b>	<b>8,335</b>	<b>7,824</b>	<b>8,008</b>	<b>7,805</b>	<b>7,607</b>	<b>-3%</b>	<b>-9%</b>
Online music service	2,324	2,760	2,749	2,950	2,888	2,880	0%	4%
Subscription	1,460	1,580	1,690	1,790	1,900	1,950	3%	23%
Others	864	1,180	1,059	1,160	988	930	-6%	-21%
Social entertainment / others	5,251	5,575	5,075	5,058	4,917	4,727	-4%	-15%

Source: Company data

**Figure 3: CMBIGM estimates vs consensus**

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	29,575	30,210	31,603	30,522	33,155	34,168	-3.1%	-8.9%	-7.5%
Gross Profit	8,767	8,558	9,026	9,112	10,123	10,988	-3.8%	-15.5%	-17.9%
Operating Profit	3,655	3,362	4,002	3,431	4,045	4,427	6.5%	-16.9%	-9.6%
Adj. net profit	4,106	3,873	4,459	3,864	4,404	5,074	6.3%	-12.1%	-12.1%
EPS (RMB)	2.44	2.30	2.65	2.18	2.52	2.95	12.3%	-8.6%	-10.3%
Gross Margin	29.6%	28.3%	28.6%	29.9%	30.5%	32.2%	-0.2ppts	-2.2ppts	-3.6ppts
Operating Margin	12.4%	11.1%	12.7%	11.2%	12.2%	13.0%	+1.1ppts	-1.1ppts	-0.3ppts
Net Margin	13.9%	12.8%	14.1%	12.7%	13.3%	14.9%	+1.2ppts	-0.5ppts	-0.7ppts

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 4: Earnings revision**

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY22E	FY24E
Revenue	29,575	30,210	31,603	31,627	32,078	NA	-6.5%	-5.8%	NA
Gross Profit	8,767	8,558	9,026	9,032	8,792	NA	-2.9%	-2.7%	NA
Operating Profit	3,655	3,362	4,002	2,233	1,927	NA	63.7%	74.4%	NA
Adj. net profit	4,106	3,873	4,459	4,006	3,905	NA	2.5%	-0.8%	NA
EPS (RMB)	2.44	2.30	2.65	2.39	2.33	NA	2.3%	-1.0%	NA
Gross Margin	29.6%	28.3%	28.6%	28.6%	27.4%	NA	+1.1ppts	+0.9ppts	NA
Operating Margin	12.4%	11.1%	12.7%	7.1%	6.0%	NA	+5.3ppts	+5.1ppts	NA
Net Margin	13.9%	12.8%	14.1%	12.7%	12.2%	NA	+1.2ppts	+0.6ppts	NA

Source: Company data, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net revenues</b>	<b>29,153</b>	<b>31,244</b>	<b>29,575</b>	<b>30,210</b>	<b>31,603</b>
Online music service	9,349	11,467	12,833	14,303	16,028
Subscription	5,561	7,330	8,801	9,850	11,087
Others	3,788	4,137	4,032	4,452	4,941
Social entertainment	19,804	19,777	16,742	15,907	15,575
COGS	(19,851)	(21,840)	(20,808)	(21,652)	(22,576)
<b>Gross profit</b>	<b>9,302</b>	<b>9,404</b>	<b>8,767</b>	<b>8,558</b>	<b>9,026</b>
S&M	(2,475)	(2,678)	(2,987)	(3,172)	(3,318)
R&D	(1,859)	(2,031)	(1,893)	(1,933)	(1,959)
Admin.Exp.	(1,242)	(1,978)	(1,479)	(1,511)	(1,580)
<b>Operating profit</b>	<b>3,726</b>	<b>2,717</b>	<b>2,408</b>	<b>1,942</b>	<b>2,169</b>
Other income, net	906	915	1,246	1,420	1,834
<b>Pre-tax Income</b>	<b>4,632</b>	<b>3,632</b>	<b>3,655</b>	<b>3,362</b>	<b>4,002</b>
Income Tax	(456)	(417)	(548)	(504)	(600)
Net profit	4,176	3,215	3,106	2,858	3,402
<b>Adj. net profit</b>	<b>4,971</b>	<b>4,332</b>	<b>4,106</b>	<b>3,873</b>	<b>4,459</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20E	FY21A	FY22E	FY23E	FY24E
Pre-tax Income	<b>4,632</b>	<b>3,632</b>	<b>3,655</b>	<b>3,362</b>	<b>4,002</b>
D&A	455	491	536	580	637
Change in WC	(314)	261	(124)	113	113
Others	(38)	(203)	164	796	1,621
<b>Operating CF</b>	<b>4,734</b>	<b>4,181</b>	<b>4,230</b>	<b>4,852</b>	<b>6,374</b>
Capex	(330)	(354)	(335)	(342)	(358)
Investments	6	0	0	0	-
Others	(13,882)	(2,087)	(1,747)	(1,667)	(1,686)
<b>Investing CF</b>	<b>(14,206)</b>	<b>(2,441)</b>	<b>(2,082)</b>	<b>(2,009)</b>	<b>(2,044)</b>
Equity raised	0	0	0	0	-
Change of debts	0	0	0	0	-
Others	5,292	0	0	0	-
<b>Financing CF</b>	<b>5,292</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>
Net change in cash	<b>(4,029)</b>	<b>2,293</b>	<b>2,100</b>	<b>2,221</b>	<b>2,808</b>
Cash (beg of yr)	15,426	11,128	13,421	15,521	17,742
FX	(269)	0	0	0	-
<b>Cash (end of yr)</b>	<b>11,128</b>	<b>13,421</b>	<b>15,521</b>	<b>17,742</b>	<b>20,551</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>36,586</b>	<b>40,597</b>	<b>42,134</b>	<b>43,627</b>	<b>45,135</b>
Intangible assets, net	2,020	1,511	1,399	1,254	1,081
Goodwill	17,492	19,640	20,890	22,140	23,390
Financial assets	9,771	9,771	9,771	9,771	9,771
Others	7,303	9,675	10,074	10,463	10,893
<b>Current assets</b>	<b>31,687</b>	<b>34,472</b>	<b>36,243</b>	<b>38,591</b>	<b>41,673</b>
Cash, restricted cash	11,128	13,421	15,521	17,742	20,551
Accounts receivable	2,800	3,338	3,160	3,228	3,377
Other current assets	2,846	2,727	2,581	2,637	2,758
Term deposits	14,858	14,858	14,858	14,858	14,858
Others	55	127	123	126	130
<b>Current liabilities</b>	<b>9,602</b>	<b>10,400</b>	<b>9,894</b>	<b>10,155</b>	<b>10,586</b>
Accounts payables	3,565	3,291	3,135	3,263	3,402
Other payables	3,881	3,749	3,549	3,625	3,792
Deferred revenue	1,608	2,812	2,662	2,719	2,844
Others	548	548	548	548	548
<b>Non-current liabilities</b>	<b>5,940</b>	<b>5,940</b>	<b>5,940</b>	<b>5,940</b>	<b>5,940</b>
Notes payable	5,175	5,175	5,175	5,175	5,175
Deferred tax liability	265	265	265	265	265
Others	500	500	500	500	500
MI	486	486	486	486	486
Total Equity	52,731	58,729	62,543	66,124	70,282
<b>Shareholders' equity</b>	<b>52,245</b>	<b>58,243</b>	<b>62,057</b>	<b>65,638</b>	<b>69,796</b>

Source: Company data, CMBIGM estimates

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Online music service	32.1	36.7	43.4	47.3	50.7
Subscription	19.1	23.5	29.8	32.6	35.1
Others	13.0	13.2	13.6	14.7	15.6
Social entertainment	67.9	63.3	56.6	52.7	49.3
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth rate (%)</b>					
Revenue	14.6	7.2	(5.3)	2.1	4.6
Gross profit	7.3	1.1	(6.8)	(2.4)	5.5
EBIT	(5.2)	(27.1)	(11.4)	(19.4)	11.7
Adj. net profit	1.4	(12.9)	(5.2)	(5.7)	15.1
<b>P&amp;L ratios (%)</b>					
Operating margin	12.8	8.7	8.1	6.4	6.9
Pre-tax margin	15.9	11.6	12.4	11.1	12.7
Adj. net margin	17.1	13.9	13.9	12.8	14.1
Effective tax rate	(9.8)	(11.5)	(15.0)	(15.0)	(15.0)
<b>Returns (%)</b>					
ROE	9.4	7.4	6.6	5.9	6.3
ROA	7.3	5.8	5.2	4.7	5.1
<b>Per share</b>					
EPS (RMB)	3.0	2.6	2.4	2.3	2.7
DPS (RMB)	2.0	3.0	4.0	5.0	6.0
BVPS (RMB)	20.3	22.3	23.3	24.4	25.8

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