

TME (TME US)

Soft social entertainment on epidemic

We expect TME's 1Q22E to be largely in line, with rev/adj net. profit to be RMB6.5bn/902mn (-17%/-27% YoY) in 1Q22E. Online music would slightly decline to RMB2.7bn (-3% YoY), in which subscription is resilient (+18% YoY) attributable to ~4mn net add offsetting by lower ARPPU of RMB8.3 (vs. RMB8.5 in 4Q21), while ads rev is under pressure due to the high base (flash-screen ads) in 1H21 and soft macro. Social entertainment would continuously decrease (-25% YoY), mainly on weak consumption sentiment given the epidemic and regulatory headwinds. We trimmed FY22-24E rev by 3.1-3.7%, and cut earnings by 0-5%, to reflect the uncertainty on social entertainment. Maintain HOLD with lower TP US\$5.0 (14.2x FY22E P/E).

- 1Q22E to be largely in-line.** We forecast 1Q22E topline -17% YoY with weak ads and social offsetting by solid subs (+4mn net adds). Music/social -3%/-25% YoY in 1Q22E, with subs/non-subs +18%/-36% YoY. We expect adj. net profit to reach RMB902mn (-27% YoY), due to pressure from the decline of social offsetting by opex control.
- 2Q22E & FY22E outlook remains challenging while backend loaded.** We keep conservative on its 2Q22E topline, considering: 1) a drop in subs ARRPU in 1Q22E and stabilization from 2Q22E due to reducing promotion campaign, but is still lower than FY21 level on a full-year basis; 2) ads under pressure in 1H22E due to high base and soft macro, and might recover in 2H22E attributable to the launch of incentive ads for the 400mn-500mn non-paying users; 3) low visibility of social entertainment dragged by epidemic resurgence, competition and regulation.
- Margin intact on cost savings.** We forecast rev to drop 11% YoY in FY22E, while adj. NPM will be at 13.6%. By segment, music/social +11%/-23% YoY, in our estimates. We expect GPM down to 29% in FY22E (-1ppt YoY) due to rev mix shift and continuous investment in LFA offsetting by fast-growing subs, while adj. NPM would keep stable at 13.6% in FY22E (vs. 13.9% in FY21) offsetting by effective opex control.
- Maintain HOLD.** We trimmed FY22E-24E rev by 3.1-3.7%, and cut earnings by 0-5%, to reflect the uncertainty on social entertainment. Maintain HOLD with lower TP US\$5.0 (14.2x FY22E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY 24E
Revenue (RMB mn)	29,153	31,244	27,943	29,206	30,619
YoY growth (%)	14.6	7.2	(11)	4.5	4.8
Adj. net income (RMB mn)	4,971	4,332	3,800	3,850	4,459
Adj. EPS (RMB)	3.0	2.6	2.3	2.3	2.7
YoY growth (%)	1.0	(13)	(12)	1	15.8
Consensus EPS	NA	NA	2.1	2.4	2.8
P/E (x)	9.9	11.4	13.0	12.8	11.1
P/B (x)	1.7	1.6	1.8	1.7	1.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	9.4	7.4	6.1	5.9	6.3
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	US\$5.0
(Previous TP)	US\$5.5)
Up/Downside	+10.0%
Current Price	US\$4.56

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Eason Xu
 (852) 3900 0849
 easonxu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	7,633
Avg 3 mths t/o (US\$ mn)	95.40
52w High/Low (US\$)	19.84/ 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	-10.9%	-7.1%
3-mth	-34.5%	-28.8%
6-mth	-41.6%	-34.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Challenges into 2022 – 23 Mar 2022
- Prudent on 4Q21E & FY22E topline growth – 10 Nov 2021
- Subs intact despite soft ads and social – 6 Oct 2021

Figure 1: 1Q22E financial preview

RMB mn, Dec-YE	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22E	QoQ	YoY	Consensus	Diff %
Revenue	8,335	7,824	8,008	7,805	7,607	6,456	-15.1%	-17.5%	6,702	-4%
Gross Profit	2,697	2,466	2,437	2,309	2,192	1,735	-20.8%	-29.6%	1,873	-7%
Operating Profit	1,018	911	1,035	919	682	787	15.4%	-13.6%	735	7%
Adj. net profit	1,364	1,235	1,161	1,063	873	902	3.3%	-27.0%	890	1%
Adj. EPS (RMB)	0.81	0.69	0.66	0.61	0.50	0.55	9.3%	-20.8%	0.52	6%
Margin (%)										
Gross margin	32.4%	31.5%	30.4%	29.6%	28.8%	26.9%			27.9%	
Operating margin	12.2%	11.6%	12.9%	11.8%	9.0%	12.2%			11.0%	
Adj. net margin	16.4%	15.8%	14.5%	13.6%	11.5%	14.0%			13.3%	
Growth (%)										
Revenue (YoY)	14.3%	24.0%	15.5%	3.0%	-8.7%	-17.5%			-14.3%	
Revenue (QoQ)	10.0%	-6.1%	2.4%	-2.5%	-2.5%	-15.1%			-11.9%	
Operating Profit	-4.9%	11.8%	-6.5%	-10.4%	-33.0%	-13.6%			-19.4%	
Adj. net profit	1.8%	12.0%	0.5%	-21.2%	-36.0%	-27.0%			-28.0%	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 1Q22E revenue breakdown

RMB mn, Dec-YE	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22E	QoQ	YoY
Total revenue	8,335	7,824	8,008	7,805	7,607	6,456	-15%	-17%
Online music service	2,760	2,749	2,950	2,888	2,880	2,670	-7%	-3%
Subscription	1,580	1,690	1,790	1,900	1,950	1,997	2%	18%
Others	1,180	1,059	1,160	988	930	673	-28%	-36%
Social entertainment / others	5,575	5,075	5,058	4,917	4,727	3,785	-20%	-25%

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	27,943	29,206	30,619	29,348	31,601	33,711	-4.8%	-7.6%	-9.2%
Gross Profit	8,110	8,168	8,556	8,688	9,671	10,530	-6.7%	-15.5%	-18.7%
Operating Profit	3,404	3,630	3,746	3,185	3,792	4,367	6.9%	-4.3%	-14.2%
Adj. net profit	3,800	3,850	4,459	3,868	4,299	4,756	-1.7%	-10.4%	-6.2%
EPS (RMB)	2.26	2.29	2.65	2.11	2.43	2.83	7.1%	-5.8%	-6.3%
Gross Margin	29.0%	28.0%	27.9%	29.6%	30.6%	31.2%	-0.6ppts	-2.6ppts	-3.3ppts
Operating Margin	12.2%	12.4%	12.2%	10.9%	12.0%	13.0%	+1.3ppts	+0.4ppts	-0.7ppts
Net Margin	13.6%	13.2%	14.6%	13.2%	13.6%	14.1%	+0.4ppts	-0.4ppts	+0.5ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	27,943	29,206	30,619	29,017	30,210	31,603	-3.7%	-3.3%	-3.1%
Gross Profit	8,110	8,168	8,556	8,604	8,558	9,026	-5.7%	-4.6%	-5.2%
Operating Profit	3,404	3,630	3,746	3,611	3,362	4,002	-5.7%	8.0%	-6.4%
Adj. net profit	3,800	3,850	4,459	4,000	3,873	4,459	-5.0%	-0.6%	0.0%
EPS (RMB)	2.26	2.29	2.65	2.38	2.30	2.65	-5.0%	-0.6%	0.0%
Gross Margin	29.0%	28.0%	27.9%	29.7%	28.3%	28.6%	-0.6ppts	-0.4ppts	-0.6ppts
Operating Margin	12.2%	12.4%	12.2%	12.4%	11.1%	12.7%	-0.3ppts	+1.3ppts	-0.4ppts
Net Margin	13.6%	13.2%	14.6%	13.8%	12.8%	14.1%	-0.2ppts	+0.4ppts	+0.5ppts

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net revenues	29,153	31,244	27,943	29,206	30,619
Online music service	9,349	11,467	12,781	14,303	16,028
Subscription	5,561	7,330	8,749	9,850	11,087
Others	3,788	4,137	4,032	4,452	4,941
Social entertainment	19,804	19,777	15,162	14,903	14,591
COGS	(19,851)	(21,840)	(19,833)	(21,037)	(22,063)
Gross profit	9,302	9,404	8,110	8,168	8,556
S&M	(2,475)	(2,678)	(2,375)	(2,628)	(3,215)
R&D	(1,859)	(2,031)	(1,816)	(1,869)	(1,898)
Admin.Exp.	(1,242)	(1,978)	(1,760)	(1,460)	(1,531)
Operating profit	3,726	2,717	2,158	2,210	1,912
Other income, net	906	915	1,246	1,420	1,834
Pre-tax Income	4,632	3,632	3,404	3,630	3,746
Income Tax	(456)	(417)	(511)	(545)	(562)
Net profit	4,176	3,215	2,893	3,086	3,184
Adj. net profit	4,971	4,332	3,800	3,850	4,459

Cash flow summary

YE 31 Dec (RMB mn)	FY20E	FY21A	FY22E	FY23E	FY24E
Pre-tax Income	4,632	3,632	3,404	3,630	3,746
D&A	455	767	530	574	629
Change in WC	(314)	(1,228)	(241)	156	114
Others	(38)	2,068	551	1,007	1,621
Operating CF	4,734	5,239	4,245	4,852	6,374
Capex	(330)	(354)	(316)	(331)	(347)
Investments	6	0	0	0	-
Others	(13,882)	(2,087)	(1,719)	(1,653)	(1,673)
Investing CF	(14,206)	(2,441)	(2,036)	(1,984)	(2,019)
Equity raised	0	0	0	0	0
Change of debts	0	0	0	0	0
Others	5,292	(3,710)	0	0	0
Financing CF	5,292	(3,710)	0	0	0
Net change in cash	(4,029)	2,293	1,718	2,261	2,808
Cash (beg of yr)	15,426	11,128	13,421	15,140	16,923
FX	(269)	0	0	0	-
Cash (end of yr)	11,128	13,421	15,140	17,401	20,576

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	36,586	40,597	42,040	43,534	45,025
Intangible assets, net	2,020	1,511	1,383	1,230	1,052
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	9,996	10,393	10,812
Current assets	31,687	34,472	35,541	38,052	41,699
Cash, restricted cash	11,128	13,421	15,140	17,401	20,576
Accounts receivable	2,800	3,338	2,986	3,121	3,272
Other current assets	2,846	2,727	2,439	2,549	2,673
Term deposits	14,858	14,858	14,858	14,858	14,858
Others	55	127	119	123	130
Current liabilities	9,602	10,400	9,405	9,851	10,303
Accounts payables	3,565	3,291	2,989	3,170	3,325
Other payables	3,881	3,749	3,353	3,505	3,674
Deferred revenue	1,608	2,812	2,515	2,628	2,756
Others	548	548	548	548	548
Non-current liabilities	5,940	5,940	5,940	5,940	5,940
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	62,237	65,795	70,307
Shareholders' equity	52,245	58,243	61,751	65,309	69,821

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Online music service	32.1	36.7	45.7	49.0	52.3
Subscription	19.1	23.5	31.3	33.7	36.2
Others	13.0	13.2	14.4	15.2	16.1
Social entertainment	67.9	63.3	54.3	51.0	47.7
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	14.6	7.2	(10.6)	4.5	4.8
Gross profit	7.3	1.1	(13.8)	0.7	5.9
EBIT	(5.2)	(27.1)	(20.6)	2.4	13.7
Adj. net profit	1.4	(12.9)	(12.3)	1.3	15.1
P&L ratios (%)					
Operating margin	12.8	8.7	7.7	7.6	6.2
Pre-tax margin	15.9	11.6	12.2	12.4	12.2
Adj. net margin	17.1	13.9	13.6	13.2	14.1
Effective tax rate	(9.8)	(11.5)	(15.0)	(15.0)	(15.0)
Returns (%)					
ROE	9.4	7.4	6.1	5.9	6.3
ROA	7.3	5.8	4.9	4.7	5.1
Per share					
EPS (RMB)	3.0	2.6	2.3	2.3	2.7
DPS (RMB)	2.0	3.0	4.0	5.0	6.0
BVPS (RMB)	20.3	22.3	23.1	24.3	25.8

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

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

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