

## Company Report: Tencent (00700 HK)

公司报告: 腾讯控股 (00700 HK)

Jason Zhou 周恒葳

(852) 2509 5347

jason.zhou@gtjas.com.hk

3 December 2019

# Social Advertising Rallied, but Gross Margin under Pressure

社交广告复苏, 但毛利率承压

- **3Q2019 shareholders' profit was below our and market expectations, dropping 12.6% yoy, mainly due to the lower-than-expected total revenue.** Non-IFRS net profit was lower than market expectations, with 23.9% yoy growth. Gross margin decreased by 0.3 ppt yoy to 43.7% due to greater content costs, costs of FinTech services and channel costs.
- **We have revised up FY19-FY21 online games revenue by 0.2%, 0.5% and 3.5%, respectively,** due to expected strong performance of Tencent smartphone games. Revenue growth of smartphone games is expected to be further strengthened in 4Q2019 as well as 2020 mainly due to the expected strong game pipeline. However, we are negative towards revenue growth of PC client games and believe that it may partially drag down growth of online games revenue in FY19-FY20.
- **We have revised down FY19-FY21 shareholders' profit by 10.4%, 8.4% and 8.1%, respectively, due to expected pressure on profit margin.** Gross profit margin is expected to be lower based on expected high content cost. We believe that marketing expense will go up in FY20-FY21 due to expected increase in promotions. Hence, we have revised down operating margin in FY19-FY21 by 2.4 pts, 1.7 pts and 1.6 pts, respectively.
- **We maintain investment rating as "Buy" and revise down TP to HK\$355.00.** Even though the Company is expected to maintain profit momentum via cost control, we believe that margins will still be under pressure. The new TP implies 31.9x FY19 PER, 28.1x FY20 PER and 24.0x FY21 PER.
- **2019 年 3 季度股东净利润低于我们和市场的预期, 同比下降 12.6%, 主要由于不及预期的总营收。** 非 IFRS 股东净利润低于市场预期, 同比上涨 23.9%。由于相对高的内容成本、金融科技服务业务成本与渠道费用, 毛利率同比下降 0.3 个百分点至 43.7%。
- **我们分别上调 2019 财年至 2021 财年在线游戏收入 0.2%、0.5% 和 3.5%,** 基于对腾讯智能手机游戏的强劲表现预测。智能手机游戏的收入增长预计将在 2019 年 4 季度和 2020 年进一步加强, 这主要是由于预期强大的游戏储备。但是, 我们对个人电脑客户端游戏的收入增长持负面态度, 并认为其将部分拖累 2019-2020 财年在线游戏收入的增长。
- **由于预期利润率承压, 我们分别下调 2019-2021 财年股东利润 10.4%、8.4% 和 8.1%。** 基于预期较高的内容成本, 毛利率预计将下降。我们认为由于促销活动的增加, 营销费用将于 2020-2021 财年提升。因此, 我们将 2019-2021 财年的经营利润率分别下调了 2.4 个百分点、1.7 个百分点和 1.6 个百分点。
- **我们维持投资评级为“买入”并下调目标价至 355.00 港元。** 即使公司预计将通过成本控制保持其盈利势头, 我们认为其利润率仍面临压力。新目标价相当于 31.9 倍 2019 财年市盈率、28.1 倍 2020 财年市盈率和 24.0 倍 2021 财年市盈率。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**HK\$355.00**

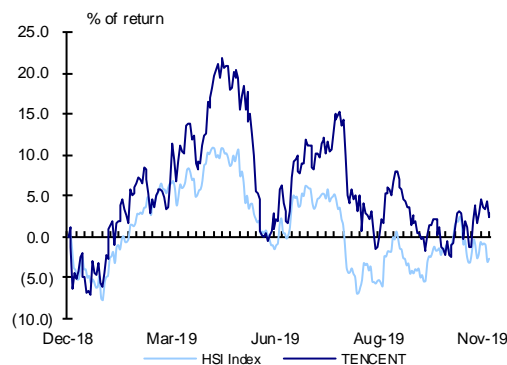
HK\$375.00

Share price 股价:

HK\$333.000

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	3.5	0.5	6.7
Rel. % to HS Index 相对恒指变动 %	6.0	(2.6)	7.0
Avg. share price (HK\$) 平均股价 (港元)	329.5	330.8	340.8

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2017A	237,760	71,510	7.598	73.4	36.5	27.210	10.2	0.537	0.2	33.2
2018A	312,694	78,719	8.336	9.7	35.1	34.256	8.5	0.741	0.3	27.2
2019F	377,471	94,762	10.001	20.0	30.0	45.401	6.6	0.889	0.3	25.1
2020F	466,376	108,059	11.366	13.6	26.4	55.434	5.4	1.010	0.3	22.6
2021F	579,898	126,914	13.296	17.0	22.5	67.093	4.5	1.181	0.4	21.7

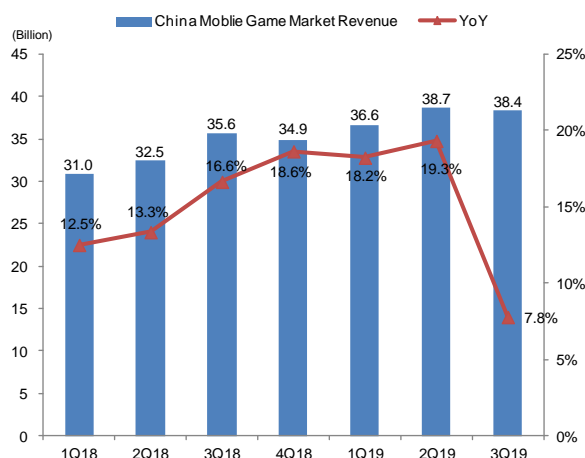
Shares in issue (m) 总股数 (m)	9,552.3	Major shareholder 大股东	Naspers Ltd 31.0%
Market cap. (HK\$ m) 市值 (HK\$ m)	3,180,915.9	Free float (%) 自由流通比率 (%)	60.1
3 month average vol. 3 个月平均成交股数 ('000)	15,737.1	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	20.0
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	400.400 / 296.974	FY19-FY21 PEG	1.9

Source: the Company, Guotai Junan International.

## Industry Update

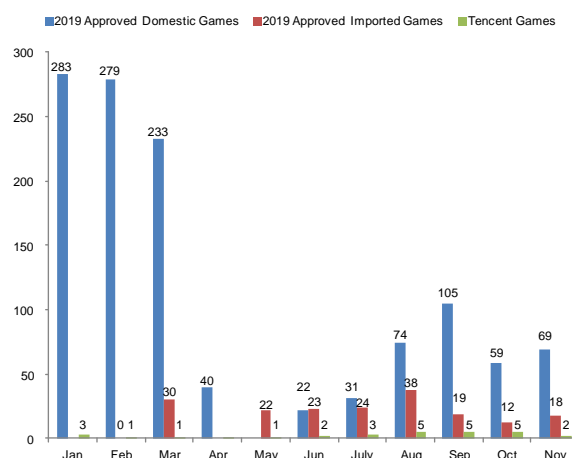
We believe that the online mobile games industry in China will further recover in 4Q2019 and 2020 from regulation headwinds. According to CNG, a games research company, China mobile games revenue grew 7.8% yoy in 3Q2019, 8.8 pts lower than that in 3Q2018, reaching RMB38.4 billion. Growth was mainly driven by outperforming revenue from new released games in 3Q2019, such as Kartrider Rush operated by Tencent. On the other hand, the total amount of new licensed games approved by the State Administration of Press, Publications, Radio, Film and Television (SAPPRFT) declined from April to July but rebounded in August. 29 Tencent games have been approved by the SAPPRFT for new game licenses from January to November this year. We expect that the total amount of approved licensed games will decrease compared to that in 2017 due to the enhancing content control levels in licensed game control standards.

**Figure-1: 3Q2019 China Mobile Game Sales Revenue**



Source: CNG, Guotai Junan International.

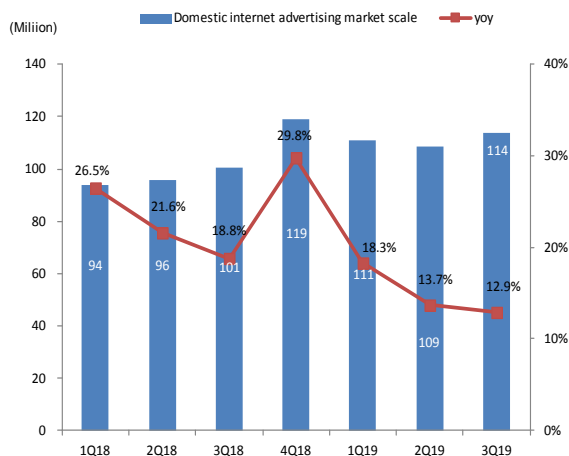
**Figure-2: Amount of Licensed Games Approved by SAPPRFT**



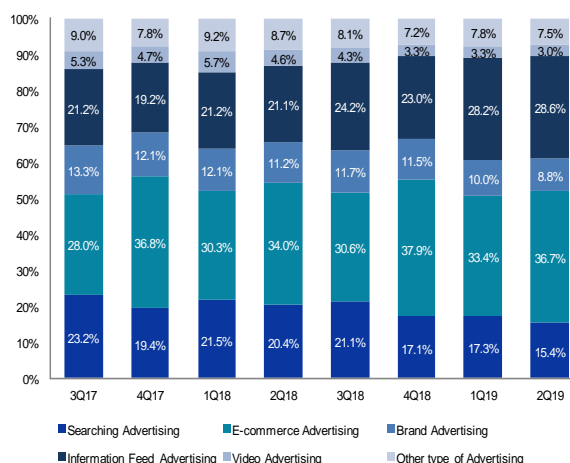
Source: SAPPRFT, Guotai Junan International.

**4Q2019 China internet advertising environment is expected to improve with stimulation from the Double 11 Shopping Festival.** According to QuestMobile, China internet advertising market scale increased by 12.9% yoy in 3Q2019, compared to an increase of 18.8% for the preceding same period. We believe the yoy decelerating growth was mainly due to 1) increasing competition in internet advertising market; and 2) advertisers reallocated their resources due to macro headwinds. However, we forecast that internet advertising market growth will slightly recover in 4Q2019 due to support of national holidays and Double11 Shopping Festival. In addition, the market share of search advertising dropped from 17.3% in 1Q2019 to 15.4% in 2Q2019, while the market share of information feed advertising increased from 33.4% in 1Q2019 to 36.7% in 2Q2019. We believe that the drop in search advertising is because search companies such as Baidu shifted a part of its search ads to information feed ads.

**Figure-3: 1Q18-3Q19 China internet advertising market scale** **Figure-4: Advertising market share from 3Q17 to 2Q19**



Source: CTR Market Research, Guotai Junan International.



Source: iResearch, Guotai Junan International.

### 3Q19 Results Review

**Tencent's 3Q2019 results were below market and our expectations, mainly due to the lower-than-expected total revenue.** Non-IFRS shareholders' net profit, excluding a fair value gain from Meituan Dianping upon its IPO in 3Q18, impairment of investments and certain other items, increased 23.9% yoy, lower than market expectations. On the revenue side, the Company's total revenue was below our expectation by 3.4%, mainly due to the below-expected revenue growth of PC client games. VAS business grew 14.9% yoy, up 10.3 ppt compared with last year same period, mainly driven by strong revenue growth of smartphone games, up 24.6% yoy. However, revenue of PC client games dropped 7.3% yoy and partially offset growth of smartphone games. Revenue of online advertising was in line with our expectations, with 13.0% yoy growth. Media advertising dropped 28.3% yoy, mainly due to the unpredictability in scheduling major content releases. However, revenue of social and others advertising achieved outstanding performance, with 31.9% yoy growth, above our expectation. Financial technology and corporate services was below our expectation, with 35.9% yoy growth. Within FinTech Services, commercial payments grew rapidly in terms of users, merchants, transaction volume and revenues, driving segment revenue growth. As for Business Services, cloud revenues grew 80% yoy to RMB4.7 billion, as a result of penetration in key verticals. On the cost side, gross profit margin decreased yoy and qoq by 0.3 ppts and 0.4 ppts, respectively, to 43.7%. On the other hand, due to effective cost control, S&M expenses fell 12.9% yoy to RMB5.72 billion. WeChat MAU increased by 6.3% yoy to 1,151.0 million. The decreasing growth was mainly due to the impact of high base of the same period last year.

**Table-1: Tencent's Income Statement Analysis**

RMB (Million)	3Q19	3Q18	yoy	1-3Q19	1-3Q18	yoy	Comments
Total revenue	97,236	80,595	20.6%	271,522	227,798	19.2%	
-VAS revenue	50,629	44,049	14.9%	147,683	132,995	11.0%	Mainly reflected growth in revenues from smartphone games, in-game virtual item as well as digital content services such as live broadcast services and video streaming subscriptions.
- Online advertising revenue	18,366	16,247	13.0%	48,152	41,046	17.3%	Benefiting from greater advertising revenue contributions from Weixin Moments.
- FinTech and Business Services	26,758	19,693	35.9%	71,435	51,541	38.6%	Primarily driven by revenue growth from commercial payment activity and cloud services.
-Others	1,483	606	144.7%	4,252	2,216	91.9%	
Cost of revenue	(54,757)	(45,115)	21.4%	(150,097)	(120,830)	24.2%	Greater content costs, costs of FinTech services and channel costs.
Gross profit	42,479	35,480	19.7%	121,425	106,968	13.5%	
Interest income	1,674	1,082	54.7%	4,734	3,219	47.1%	
Other gains, net	932	8,762	(89.4%)	16,059	18,853	(14.8%)	
S&M expenses	(5,722)	(6,573)	(12.9%)	(14,684)	(18,503)	(20.6%)	Reduction of advertising and promotion expenses as a result of internal initiatives to reduce less effective marketing campaigns..
G&A expenses	(13,536)	(10,890)	24.3%	(37,444)	(30,177)	24.1%	
Operating profit	25,827	27,861	(7.3%)	90,090	80,360	12.1%	Greater R&D expenses and

staff costs.

Finance costs, net	(1,747)	(1,492)	17.1%	(4,846)	(3,297)	47.0%
Profit before tax	24,314	26,633	(8.7%)	84,891	78,534	8.1%
Shareholders' profit	20,382	23,333	(12.6%)	71,728	64,490	11.2%
Non-IFRS Shareholders' profit	24,412	19,710	23.9%	68,867	57,739	19.3%
EPS (RMB)	2.151	2.469	(12.9%)	7.578	6.832	10.9%
Gross profit margin	43.7%	44.0%	(0.3ppt)	44.7%	47.0%	(2.3ppt)
Non-IFRS net profit margin	25.1%	24.5%	0.6ppt	25.4%	25.3%	0.1ppt

Source: the Company, Guotai Junan International.

**We have revised up FY19-FY21 revenue growth of online games by 0.2%, 0.5% and 3.5%, respectively, due to expected strong performance of Tencent smartphone games.** Online games revenues grew 10.8% yoy in 3Q2019, mainly due to revenue growth from smartphone games, up 24.6% yoy. However, growth of smartphone games was partially effected by the shrinking of PC client games growth. Revenue of PC client games was down 7.3% yoy and 1.7% qoq. The qoq decrease was mainly due to the reduced cash flow from DNF. We believe that Tencent's revenue growth of smartphone games will be further strengthened in 4Q2019 as well as 2020, mainly due to 1) steady performance of the main existing titles in 3Q2019, such as Perfect World, Peace Elite; 2) strong pipeline of games in 4Q2019, such as Call of Duty: Mobile and 3) deferral recognition of online games revenue. However, compared with expected strong growth of smartphone games, we are negative towards PC client games in the following quarters due to the following reasons: 1) more resources have been put on smartphone game development, due game licensing concerns; 2) in terms of Tencent PC games titles, we believe that the Company does not have as strong a pipeline as that of smartphone games. Therefore, we believe that PC client games will partially drag down online games revenue growth in FY19-FY20.

### Outperforming Games in 4Q19

Call of duty: Mobile (使命召唤手游)

Call of Duty: Mobile, developed by Tencent's Timi Studio in partnership with publisher Activision, was the most downloaded mobile game worldwide for October 2019 with close to 146 million installs. In terms of revenue, Call of Duty: Mobile grossed US\$53.9 million, reaching a single-day high of US\$3.1 million spent by players on October 5, according to SensorTower data. However, Call of Duty: Mobile has not been launched in mainland China yet due to the mobile game license issue. We believe that the game will have a relatively long life cycle globally due to its well-known PC IP and believe it will support Tencent's growth momentum in the short-to-medium term.

**Table-2: Tencent's Top Performing Online Mobile Games in Oct. 2019**

Ranking	Games	Genre	Game Developer
1	Honour of Kings (王者荣耀)	MOBA	Tencent
2	Peacekeeper Elite (和平精英)	FPS	Youzu
3	Perfect World Mobile (完美世界手游)	MMORPG	Perfect World
4	Dragon Raja (龙族幻想)	MMORPG	Zulong
5	Kartrider Rush (跑跑卡丁车)	Car Racing	Tiancity
6	Call of duty: Mobile (使命召唤手游)	FPS	Tencent

Source: QiMai Data, SensorTower, Guotai Junan International.

**Table-3: Expected Tencent 4Q19 Game Pipeline**

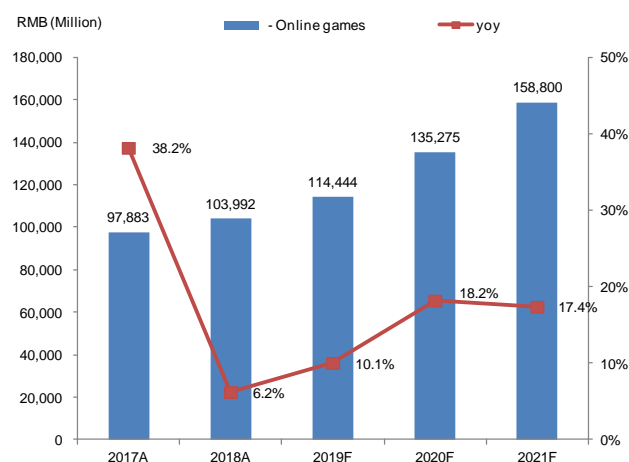
Ranking	Grossing Games	Genre	Game Developer
1	Dragon Ball Stronger Warriors (龙珠最强之战)	ARPG	Giant Interactive Group Inc
2	ReEvolve (我的起源)	MMO Sandbox	Perfect World

Source: CNG, Guotai Junan International.

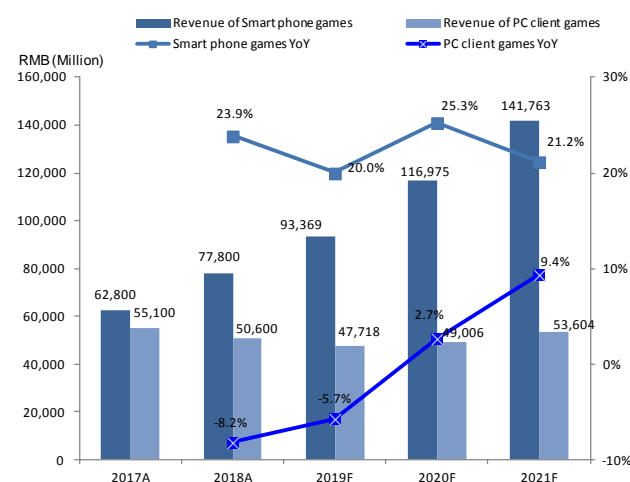
**Table-4: Top 10 Highest Income Mobile Games in China Market in 3Q2019**

Ranking	Grossing Games	Game Operators
1	Honour of Kings (王者荣耀)	Tencent
2	Peacekeeper Elite (和平精英)	Tencent
3	Fantasy of Westward Journey (梦幻西游)	NetEase
4	Kartrider Rush (跑跑卡丁车)	Tencent
5	Dragon Raja (龙族幻想)	Tencent
6	Jing-Ling-Sheng-Dian (精灵盛典)	37wan
7	Perfect World Mobile (完美世界手游)	Tencent
8	Arknights (明日方舟)	HyperGryph
9	Onmyoji (阴阳师)	NetEase
10	Westward Journey (大话西游)	NetEase

Source: CNG, Guotai Junan International.

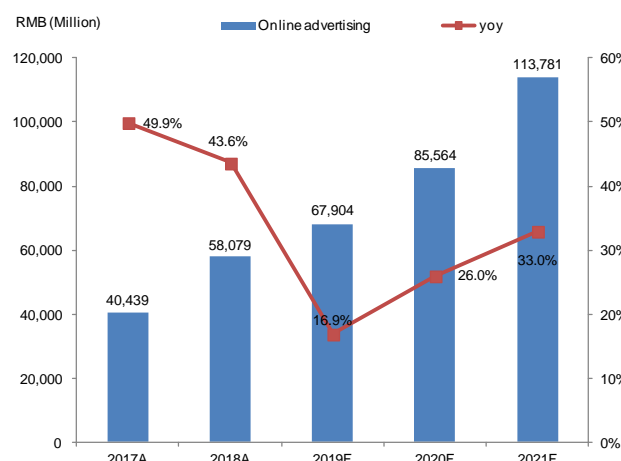
**Figure-5: Tencent's Online Games Business Revenue and yoy Growth**


Source: the Company, Guotai Junan International.

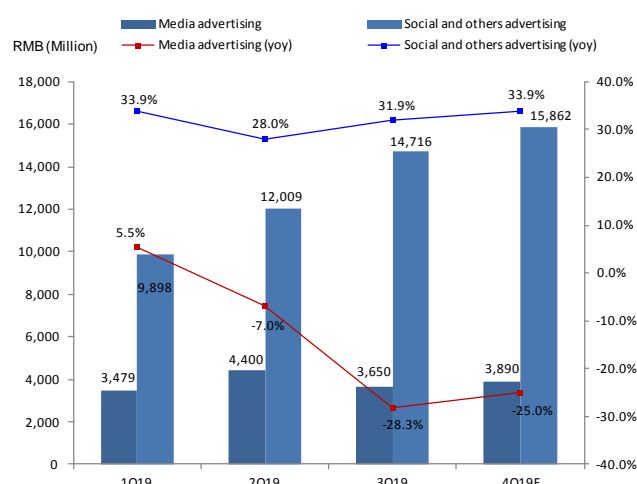
**Figure-6: Tencent's Revenue of Smartphone Games and PC Client Games and yoy Growth**


Source: the Company, Guotai Junan International.

We have revised up online advertising revenue for FY19-FY21 by 0.3%, 6.0% and 14.2%, respectively, due to expected growth recovery of social media and other advertising. 3Q2019 online advertising revenue growth slowed to 13.0% yoy, 34.1 ppt lower than that of last year same period, dragged by the drop in media advertising. Growth of social and others advertising rebounded in 3Q2019, with 31.9% yoy growth, 3.9 ppt higher than last quarter. Media advertising yoy growth declined 28.3% due to the uncertain content scheduling and lower sponsorship advertising revenues. In the short term, we believe that Tencent's media advertising will be under pressure due to the macro headwinds. In the long term, we believe that media advertising will rally due to expected further investment on Tencent's content development. On the other side, growth in social and other advertising is expected to accelerate in following quarters due to 1) constant reform on WeChat advertising space, which is expected to motivate the new type advertising and increase interaction between users and advertisers; 2) broaden advertising customers to not only focus on the automobile industry, the 3C industry, or luxuries, but to also focus on SMEs. On October 31<sup>st</sup>, WeChat released the "notification nearby" function, in which nearby stores (within 3km radius) of SMEs for example can advertise their products on WeChat moments. We believe that this reform can broaden WeChat advertising customer reach and alleviate macro headwinds stress.

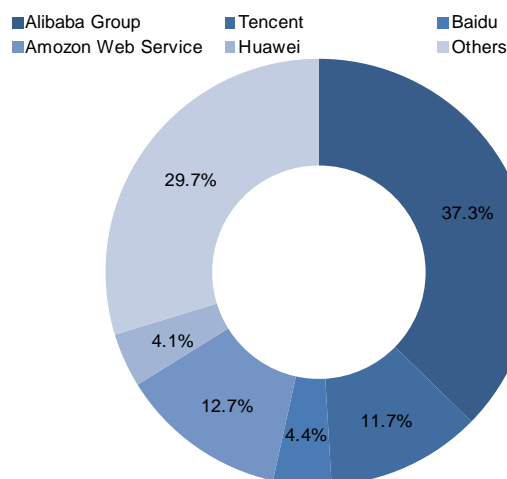
**Figure-7: Tencent's Online Advertising Business Revenue and yoy Growth**


Source: the Company, Guotai Junan International.

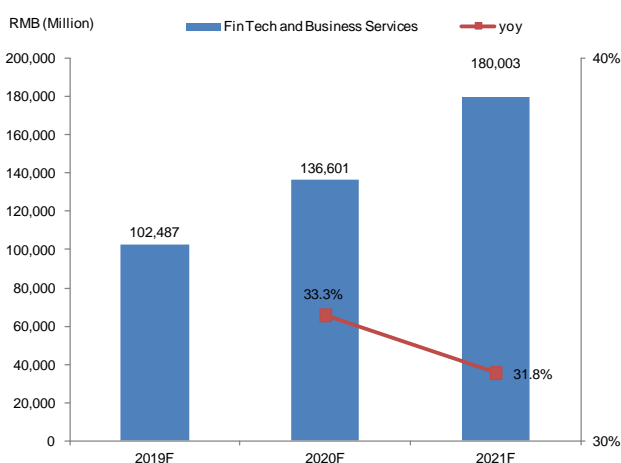
**Figure-8: The Revenue of Media Advertising and Social and Others Advertising**


Source: the Company, Guotai Junan International.

We have revised down yoy growth of FinTech and Business Services for FY19-FY21 by 1.2%, 2.1% and 8.9%, respectively. Revenue from FinTech and Business Services increased 35.9% yoy to RMB26.8 billion in 3Q2019. The increase mainly reflected greater revenue from commercial payments due to increased daily active consumers and number of transactions per user. For Tencent cloud, revenue grew 80% yoy to RMB4.7 billion due to increased consumption from existing customers and an expanded customer base in the education, financial, municipal services and retail sectors. According to IDC, Tencent has the third largest market share in the PAAS market in 1H2019, with 11.7% market share.

**Figure-9: 1H2019 PAAS Market Share in China**


Source: IDC, Guotai Junan International.

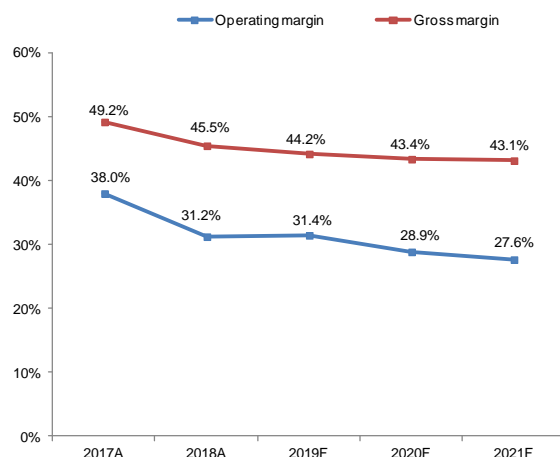
**Figure-10: Estimated Growth of FinTech and Business Services**


Source: the Company, Guotai Junan International.

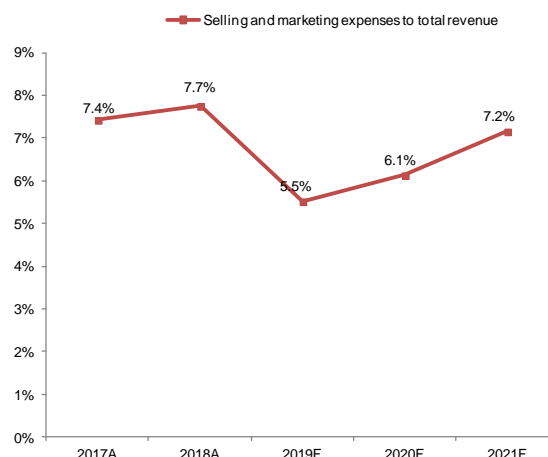
We have revised down operating margins in FY19-FY21 by 2.4 ppts, 1.7 ppts and 1.6 ppts, respectively, due to expected low gross profit margin. Gross margin in 3Q19 was 43.7%, compared to 44.0% in 3Q18 and 44.1% in 2Q19. The yoy and qoq decrease of gross margin was mainly due to 1) higher content costs for services and products including live broadcast and online games as well as greater channel costs for smartphone games; and 2) expanding scale of its FinTech and cloud services. Gross profit margin is expected to be under pressure in the following quarters due to expected high content cost, as the Company is expected to invest and provide more high quality content. In addition, the Company expects margins of overseas games to be lower than that of domestic games, due to some of overseas games being operated by other partners. However, we believe that the cost increases may be partially offset by the expected increase in revenue contribution from social media and other advertising, which have relatively low cost levels compared with media advertising. Efficient cost control is expected in FY2019 and would curb the sales and marketing expenses under the background of economic headwinds. However, marketing expenses are expected to rally in FY20 to FY21 due to increasing promotion of its payments-related



services, online video business and cloud business. Hence, we have revised down operating margin for FY19-FY21 by 2.4 pts, 1.7 pts and 1.6 pts, respectively. We estimate FY19-FY21 percentage of selling and marketing expense to total revenue to be 5.5%, 6.1% and 7.2%, respectively.

**Figure-11: Tencent's Gross Profit Margin and Operating Margin**


Source: the Company, Guotai Junan International.

**Figure-12: Tencent's Percentage of Selling and Marketing Expense to Total Revenue**


Source: the Company, Guotai Junan International.

## Profit Revision

**We have revised down FY19-21 Basic EPS by 10.4%, 8.4% and 8.1%, due to expected margin stress.** We believe that in the short-to-medium term, Tencent's media advertising will be further under pressure mainly due to the macroeconomic headwinds. We expect online advertising to rebound in 2020F and 2021F due to expected rally in social media and other advertising, and expected economic improvement. Revenue of smartphone games is expected to further rally in 4Q2019 and 2020. However, the rebound is expected to be partially offset by the decline in PC client games.

**Table-5: Financial Estimations Revisions**

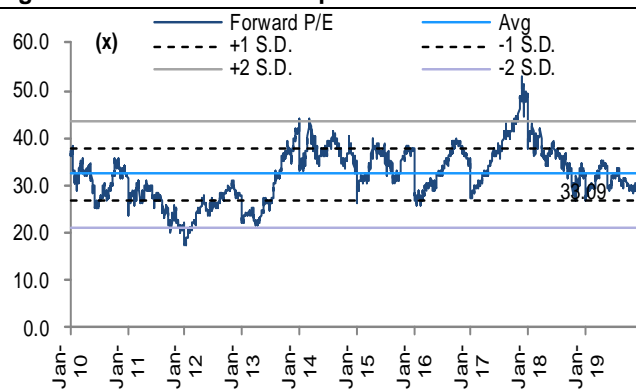
RMB (Million)	OLD			NEW			CHANGE		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Total revenue	380,273	470,974	583,907	377,471	466,376	579,898	(0.7%)	(1.0%)	(0.7%)
- VAS revenue	202,994	244,737	280,453	201,194	238,148	279,856	(0.9%)	(2.7%)	(0.2%)
- Advertising revenue	67,713	80,724	99,666	67,904	85,564	113,781	0.3%	6.0%	14.2%
- FinTech and Business Services	103,691	139,460	197,517	102,487	136,601	180,003	(1.2%)	(2.1%)	(8.9%)
Net Profit	105,721	117,912	138,092	94,762	108,059	126,914	(10.4%)	(8.4%)	(8.1%)
EPS (RMB)	11.157	12.402	14.467	10.001	11.366	13.296	(10.4%)	(8.4%)	(8.1%)

Source: Guotai Junan International.

## Valuation

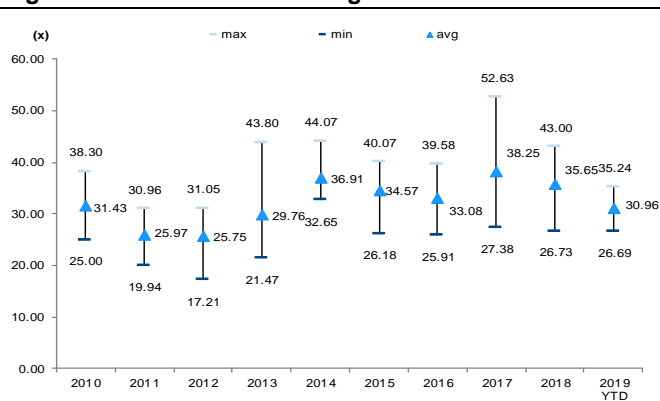
**We maintain investment rating as "Buy" but revise down TP as HK\$355.00, due to expected stressed margins.** Without game policy uncertainty and the strong online smartphone games pipeline, we believe that the Company's smartphone games business will rebound in 2H19, but to be affected by the decline in PC client games. The new TP implies 31.9x FY19 PER, 28.1x FY20 and 24.0x FY21 PER.

Figure-13: Tencent's PE Graph



Source: Bloomberg.

Figure-14: Tencent's PER Range



Source: Bloomberg.



**Table-6: Peers Comparison**

				PER (x)			PBR (x)			P/S	PEG	Market Cap
Company	Ticker	Currency	Price	19F	20F	21F	19F	20F	21F	19F	19F-21F	Local currency (million)
US Online Game Companies												
Changyou	CYOU US	USD	9.550	4.1	4.7	5.0	1.1	0.9	0.8	1.1	1.0	509
Electronic Arts Inc	EA US	USD	101.010	30.1	21.6	20.7	5.6	4.3	3.7	6.2	1.6	29,493
Activision Blizzard Inc	ATVI US	USD	54.830	24.8	21.9	19.1	3.3	3.0	2.7	6.6	3.6	42,124
Netease	NTES US	USD	315.320	20.3	19.9	17.9	4.6	4.4	3.8	4.3	1.3	40,349
Simple Average				19.8	17.0	15.7	3.7	3.1	2.7	4.6	1.9	
Weighted Average				24.5	21.0	19.0	4.4	3.8	3.3	5.7	2.2	
HK Online Game Companies												
Kingsoft Corp Ltd	3888 HK	HKD	17.440	n.a.	56.6	33.7	1.7	1.6	1.6	2.8	n.a.	23,940
Forgame Holdings Ltd	484 HK	HKD	3.550	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	566
Linekong Interactive Group C	8267 HK	HKD	0.770	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	284
Idreamsky Technology Holding	1119 HK	HKD	4.620	8.9	7.0	7.4	1.7	1.3	n.a.	1.7	0.9	5,866
Tencent	700 HK	HKD	333.000	30.3	25.1	20.7	6.8	5.4	4.3	7.6	1.5	3,180,904
Boyya Interactive Int.	434 HK	HKD	1.050	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	758
Fingertango Inc	6860 HK	HKD	0.560	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,082
Leyou Technologies Holdings	1089 HK	HKD	2.550	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7,858
Fire Rock Holdings Ltd	8345 HK	HKD	4.600	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,472
Digital Hollywood Interactiv	2022 HK	HKD	0.111	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	222
Ourgame International Holdin	6899 HK	HKD	0.550	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	601
Baioo Family Interactive Ltd	2100 HK	HKD	0.820	11.5	3.9	3.7	1.3	1.1	0.9	2.8	0.2	2,275
Feiyu Technology Internation	1022 HK	HKD	0.179	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	277
Friendtimes Inc	6820 HK	HKD	1.020	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2,244
IGG	799 HK	HKD	5.640	6.2	5.8	5.2	2.5	2.0	1.6	1.3	0.7	7,038
Zengame Technology Holding	2660 HK	HKD	0.610	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	623
Crme Technology Group Ltd	302 HK	HKD	2.540	n.a.	6.5	5.9	1.6	1.3	1.1	1.5	n.a.	5,919
Netdragon	777 HK	HKD	17.780	10.6	8.9	8.1	1.6	1.4	1.3	1.4	0.7	9,433
Simple Average				13.5	16.3	12.1	2.4	2.0	1.8	2.7	0.8	
Weighted Average				30.1	25.2	20.7	6.7	5.4	4.3	7.5	1.4	
Advertising Companies												
Momo Inc-Spon Adr	MOMO US	USD	37.540	14.7	12.0	10.3	5.0	2.3	1.7	3.2	0.8	7,784
Bilibili Inc-Sponsored Adr	BILI US	USD	17.410	n.a.	n.a.	100.1	5.4	6.2	6.2	6.0	n.a.	5,678
Sohu.Com Inc	SOHU US	USD	9.810	n.a.	n.a.	n.a.	0.8	1.1	1.5	0.2	n.a.	385
Weibo	WB US	USD	43.610	16.1	15.4	13.4	4.1	3.3	2.7	5.5	1.7	9,814
Bitauto	BITA US	USD	14.720	13.2	9.6	7.9	0.6	0.6	0.5	0.7	0.4	1,033
Cheetah Mobile	CMCM US	USD	3.270	5.8	15.7	7.7	0.6	0.5	0.5	0.9	(0.4)	469
58.com	WUBA US	USD	61.950	16.3	18.9	17.4	2.3	2.4	2.3	4.2	(4.9)	9,263
Soufun	SFUN US	USD	1.920	n.a.	1.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	172
Phoenix New Media	FENG US	USD	3.130	n.a.	n.a.	97.8	0.3	0.3	0.3	1.0	n.a.	228
Twitter Inc	TWTR US	USD	30.420	15.6	32.1	27.1	2.8	2.6	2.4	6.8	(0.6)	23,617
Sina	SINA US	USD	34.910	12.6	12.4	9.8	0.8	0.7	0.6	1.1	0.9	2,422
Facebook	FB US	USD	199.700	22.0	19.1	16.4	5.6	4.4	3.5	8.1	1.4	569,494
Simple Average				14.5	15.2	30.8	2.6	2.2	2.0	3.4	(0.1)	
Weighted Average				21.5	19.4	17.5	5.4	4.3	3.4	7.8	1.2	
E-commerce Companies												
Pinduoduo Inc-Adr	PDD US	USD	35.950	n.a.	359.5	40.3	20.6	20.7	15.2	9.7	n.a.	41,787
Alibaba*	BABA US	USD	200.000	37.5	27.4	22.9	7.0	5.6	4.7	8.4	1.3	534,670
VIPSHOP	VIPS US	USD	12.780	13.7	10.9	10.2	2.7	2.2	1.8	0.7	0.8	8,550
EBay	EBAY US	USD	35.520	12.8	12.2	10.9	10.4	10.2	8.6	2.7	1.5	28,896
JD.com	JD US	USD	32.650	31.9	23.4	17.6	4.4	3.7	3.0	0.6	0.9	47,472
AMAZON	MZN US	USD	1800.800	57.2	45.8	31.6	13.9	10.7	8.1	3.2	1.7	892,832
Simple Average				30.6	79.9	22.2	9.9	8.8	6.9	4.2	1.2	
Weighted Average				48.3	46.4	27.9	11.3	8.9	6.9	5.1	1.5	
Search Engine Companies												
Sogou Inc-Adr	SOGO US	USD	4.910	20.5	16.9	13.6	1.8	1.6	1.4	1.7	0.9	1,950
Alphabet Inc-CIA	GOOGL US	USD	1304.090	24.7	21.7	18.6	4.4	3.7	3.1	6.8	1.6	899,734
Baidu Inc - Spon Adr	BIDU US	USD	118.530	22.4	17.7	13.2	1.8	1.7	1.5	2.7	0.7	41,070
Simple Average				22.5	18.8	15.1	2.7	2.3	2.0	3.7	1.1	
Weighted Average				24.6	21.5	18.4	4.3	3.6	3.0	6.6	1.6	
Overall Average												
Overall Weighted Average				20.2	29.4	19.2	4.2	3.7	3.1	3.7	3.0	
Overall Weighted Average												
				29.8	26.7	20.7	6.4	5.2	4.2	6.5	1.9	

Source: Bloomberg.

Notes: \* represents figures of FY19/FY20/FY21

**Table-7: Technical Terms Glossary**

Abbreviation	Definitions	定义
ACG	Advanced Casual Game	高级休闲游戏
ARPG	Action Role Playing Game	动作角色扮演类游戏
ARPU	Average Revenue Per User	平均每月用户收入
DAU	Daily Active User Accounts	日活跃用户数
DNF	DnF Mobile	地下城与勇士
FPS	First Person Shooting	第一人称射击游戏
IAAS	Infrastructure as a Service	基础即服务
LOL	League of Legends	英雄联盟
MCG	Mini Casual Game	小型休闲游戏
MMO Racing	Massive Multiplayer Online Racing	大型多人在线赛车游戏
MMOFPS	Massive Multiplayer Online First-Person Shoot	大型多人在线第一人称射击游戏
MMOG	Massive Multiplayer Online Game	大型多人在线游戏
MMORPG	Massive Multiplayer Online Role-Playing Game	大型多人在线角色扮演游戏
MMORTS	Massive Multiplayer Online Real-Time Strategy	大型多人在线实时战略游戏
MOBA	Multiplayer Online Battle Arena	多人在线战术竞技游戏
PAAS	Platform as a Service	平台即服务
RPG	Role-Playing Game	角色扮演游戏
SAAS	Software as a Service	软件即服务
SNS	Social Network Site	社交网站
VAS	Value-Added Services	增值服务

Source: the Company, Guotai Junan International.

## 3 December 2019

Tencent 腾讯控股 (00700 HK)

Company Report

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

### DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for HAITIAN ANTENNA (08227 HK), CH TIANBAO GP (01427 HK), KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), JXR (01951 HK), BANK OF GANSU (02139 HK), JINSHANG BANK (02558 HK), ZHONGLIANG HLDG (02772 HK), BINHAI INVESTMENT (02886 HK), CAM SCSMALLCAP (03157 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

### DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2019 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.  
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk