

Tencent Holdings Ltd.

Asia Satellite*

Recommended since 01.04.2021

17.09.2024



Country HK	Market capitalization (bn) HKD 3549,0	Perf. since reco. (%)
Sector Communication Services	Free float 65,5%	Tencent Holding -37,3
Factset 700-HK	Closing price HKD 377,80	Sector 15,1
ISIN KYG875721634	ESG Risk score* 19,5 Low risk	



Profile
Tencent is a Chinese online giant with one of the world's largest online communities. Key services include communication and social media (WeChat and QQ), gaming, content (news, videos, music, manga and literature), services (e-mail, app store, mobile security), cloud services and financial services (Tenpay). Tencent's services are broken down into three segments: Value-added services or VAS (online gaming and social networking), online advertising and everything else (payment services, cloud services and other business services). Tencent has a monthly active user base of around 600m people on QQ and more than 1.2bn on WeChat.

Strengths/opportunities

- ⊕ Diversified portfolio of services and high capacity for innovation.
- ⊕ Monopoly and/or dominant position in a number of segments.
- ⊕ Strategic investments in content, the cloud and FinTech.

Weaknesses/threats

- ⊖ Anti-monopoly legislation and government regulations could affect Tencent's profitability.
- ⊖ Fierce competition (Alibaba, Sony, ByteDance, NetEase) with a

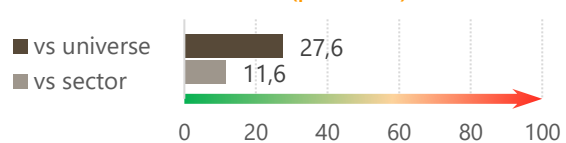
Investment case

- ⊕ Tencent is at the heart of the internet, enjoying some of the most powerful network effects of any company in the world. The group runs various high free cash flow businesses and has substantial opportunities for growth both in China and worldwide. Tencent stands out for its ability to monetise an ecosystem based around fast-growing businesses and investments: video games, subscription music and video services, e-commerce, mobile payments and online advertising.
- ⊕ Tencent's flagship product is WeChat, a unique mobile app that plays a vital role in consumers' day-to-day lives. WeChat is used for everything in China: from messaging to paying bills, it includes all kinds of functionality that makes it both a must-have product and a highly valuable source of user data.
- ⊕ In online advertising (c.19% of H1-2024 revenue), Tencent is well placed to generate long-term revenue with WeChat: this largely unmonetised asset is ideally positioned to capitalise on an advertising rebound in 2025. Another major growth driver is video games (c.30% of revenue), with the group offering a very wide range of popular games. Global growth in mobile gaming is set to average 12% a year over the period 2022-2025 – a rate Tencent is set to top.
- ⊕ The group is also well placed to monetise its user base over the long term via FinTech and business services (c.32% of revenue). Lately, the management is preparing cloud-based solutions where customers will be able to customize AI models.

Valuation

The share is trading at high ratios (P/E: 16x for 2024e and 14x for 2025e), which we consider reasonable given the company's strong growth (with EPS growth set to average 12% a year over the period 2024-2026) and lower risk than its peers. The discount is explained by the intense competition, regulations and the macro situation in China.

ESG risk vs. universe & sector (percentile)*

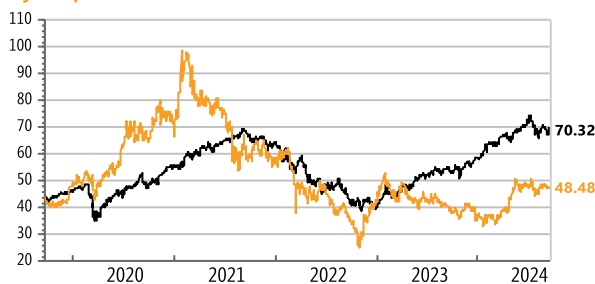


USD	12/2023	2024e	2025e
Sales revenue (mio)	85 958	92 997	101 257
Sales growth	4,4%	8,2%	8,9%
EBIT adjusted (mio)	21 930	31 526	35 430
% of sales	25,5%	33,9%	35,0%
Net income (mio)	16 262	29 081	32 385
Net income growth	-41,8%	78,8%	11,4%
FCF/Sales	259,5%	228,4%	255,2%
Net debt/Ebitda	0,0x	-0,3x	-0,7x
Dividend yield	0,9%	1,1%	1,2%
PE	21,8x	15,8x	14,2x
P/BV	3,9x	3,3x	2,8x

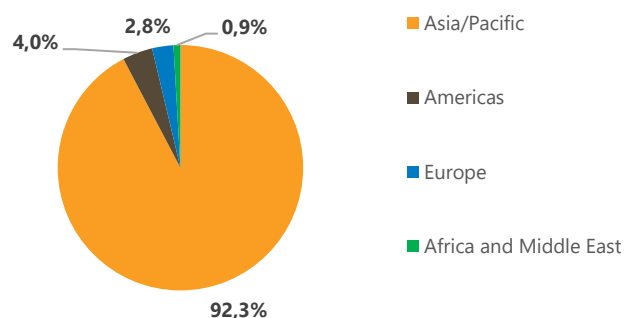
ESG - risks and key points

- ⊕ Ranked medium risk due to its use of personally identifiable information (PII).
- ⊕ Tencent remains exposed to antitrust investigations by Chinese regulators (anti-competitive practices, compliance with legislation governing online behaviours and its Variable Interest Entity structure).
- ⊕ Strict supervision of FinTech sector risks and cooperation with financial institutions in this area.

5-year performance vs sector



Sales breakdown - 12/2023



*: see overleaf

Source: Factset, Sustainabilityics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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