



Rating  
**Buy**

Asia  
China

Technology  
Software & Services

## Company Tencent Alert

Reuters 0700.HK	Bloomberg 700 HK	Exchange HKG	Ticker 0700
ADR Ticker TCEHY	ISIN US88032Q1094		

Date  
16 March 2015

## Company Update

Price at 13 Mar 2015 (HKD)	133.60
Price target - 12mth (HKD)	156.00
52-week range (HKD)	137.00 - 94.51
HANG SENG INDEX	23,823

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## 4Q: mobile monetization anticipation

### Expecting in-line 4Q

We believe Tencent's core business to continue its strong momentum in 4Q. Deepening Weixin monetization (increasingly driven by mobile ads) should be a major catalyst for FY15. We forecast 4Q revs of RMB20,569m (+21.2% YoY, +3.8% QoQ), in line with consensus. We expect non-GAAP operating income of RMB8,701m (+71.2% YoY, +5.3% QoQ). Non-GAAP net income should come in at RMB6,727m (+51.5% YoY, +4.6% QoQ) vs. consensus of RMB6,493m.

### Weixin ads monetization seems well on track

Tencent rolled out its Weixin Moments ad offering in late Jan and has received broadly positive feedback. The co remains highly selective in choosing advertisers, also controlling ad loading rate to avoid harming user experience. We expect the platform to gradually ramp up its ad load rate in 2Q and open ad inventory to more advertisers. We expect Weixin Moments ads revenue to reach RMB1.7b/RMB4.0b in FY15/16E. The co is also testing other mobile ad formats on Weixin, such as coupon-related ads embedded in its location-based "shake" function. We expect ad-centric Weixin monetization to be one of the company's main focuses this year.

### Gaming business remains stable

We expect to see a moderate rebound in the mobile games business in 4Q14, with revenue generated from Weixin/Mobile QQ games hitting RMB2.8bn (+8% QoQ). Our channel checks reveal that the company launched 12 mobile games in 4Q (vs. 9 titles in 3Q). Some key titles such as "I am MT2" and "San Guo Zhi Ren" have ranked among the top apps on iOS in terms of gross revs since their launch, according to App Annie. On the PC game side, we expect the segment to present mild sequential growth in 4Q14 (+1.4% QoQ), mainly supported by the continued strong performance of the key titles such as "League of Legends".

### Forecast unchanged; Maintain TP and Buy

We maintain Buy on Tencent. Our TP of HK\$156 is based on SoTP. Key risks: Poor Weixin monetization, user traffic deceleration and competition from other internet names.

Stock data	
Market cap (HKDm)	1,214,147
Market cap (USDm)	156,365
Shares outstanding (m)	9,237.2
Major shareholders	Naspers Ltd. (35.45%)
Free float (%)	54
Avg daily value traded (USDm)	332.3
Source: Deutsche Bank	

Key data			
FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	60,437	78,523	95,260
Net Profit (CNYm)	15,501.5	23,970.6	31,286.3
DB EPS (CNY)	1.82	2.59	3.68
PER (x)	29.8	41.6	29.2
Yield (net) (%)	0.4	0.2	0.3
Source: Deutsche Bank			

Deutsche Bank AG/Hong Kong

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