



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
19 March 2015

Results

Price at 18 Mar 2015 (HKD)	135.90
Price target - 12mth (HKD)	160.00
52-week range (HKD)	137.00 - 94.51
HANG SENG INDEX	23,901

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4Q gaming light; Wechat ads ready for next chapter

4Q14: top-line slight miss on soft gaming performance; bottom-line beat

Tencent registered 4Q revs of RMB20.978m (+24%YoY/+6%QoQ). Excluding the reclassified RMB907m mobile game revs (now booked gross), 4Q top-line would have missed DBe/consensus by 2%/1%, mainly due to an aging PC gaming segment and only mild recovery in mobile games. Non-GAAP EPS of HK\$0.9 was largely in-line with DBe and 3% above consensus. We expect P4P mobile ads, especially mobile Qzone/Weixin ads, to begin to take off in FY15, hopefully offsetting gaming segment weakness. Maintain Buy.

Gaming segment may see muted growth in FY15

The gaming business is tracking more slowly than our forecasts. 4Q mobile games booked RMB3.8b in gross revs (RMB2.9b on a net basis), suggesting a 12% QoQ rev rebound on a net basis. A stabilizing user base may drive only moderate YoY growth in FY15E. We expect ARPU improvement (+28% QoQ on a gross basis in 4Q) through a mix shift from light-core casual games to more mid-to-hard core titles, the key driver for the segment in FY15E. The PC game segment was flattish QoQ in 4Q, owing to a combination of factors including: 1) a structural shift from PC to mobile, 2) an aging game portfolio, with the exception of rapidly ramping "League of Legends" and 3) weaker international contribution due to FX issues. We lower our PC game revs forecast by 2%/3% to +12%/+11% YoY for FY15/16E.

Mobile ads primed as next growth driver, system fine-tuning ongoing

Online ads delivered strong growth (+76%YoY/+8%QoQ) in 4Q, mainly driven by robust performance-based ads (+91%YoY/+24% QoQ) and another doubling QoQ in the video segment. We believe mobile Qzone and Weixin public accounts (Tencent captures >50% of the economics) are ready to see fuller monetization in FY15E. A piloting of the new Weixin Moments ads in 1Q with selected key accounts saw a very strong response. We expect e-commerce merchants and SMEs to be invited to the party as mgmt focus on streamlining and fine-tuning its ad exchanges under GDT. We forecast total performance ads of Rmb9.2b for FY15E with PC/Mobile Qzone/Public accounts and Moments contributing 30%/36%/14%/20%, respectively.

Lifting TP by 2.6% to HK\$160; maintaining Buy

We increase FY15/16E rev by 1%/1% to reflect the rev recognition change but lower non-GAAP EPS by 5%/5% to factor in a lighter gaming outlook. Our new TP is based on an unchanged SoTP: 1) PC game +VAS at 18X FY15E P/E, 2) mobile game at 1.1x PEG against 27% (prior 33%) FY15-17E CAGR 3) 1.2x PEG for online ads against 79% (prior 58%) FY15-17E CAGR, 4) net cash of HK\$5/shr. Buy. Key risks: traffic deceleration, Weixin monetization progress.

Key changes

Price target	156.00 to 160.00	↑	2.6%
Sales (FYE)	95,260 to 96,436	↑	1.2%
Op prof margin (FYE)	41.5 to 39.6	↓	-4.6%
Net profit (FYE)	31,286.3 to 30,046.8	↓	-4.0%

Source: Deutsche Bank

Stock data

Market cap (HKDm)	1,235,050
Market cap (USDm)	159,072
Shares outstanding (m)	9,233.5
Major shareholders	Naspers Ltd. (35.45%)
Free float (%)	54
Avg daily value traded (USDm)	330.4

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (CNYm)	78,932	96,436	118,065
Net Profit (CNYm)	23,810.0	30,046.8	38,163.3
DB EPS (CNY)	2.59	3.51	4.43
PER (x)	35.6	31.2	24.7
Yield (net) (%)	0.3	0.3	0.3

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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