

Company Rating:

**Unrated**

Target Price: NA

## Tencent (700 HK) – Unrated Information Technology

### Company visit note

We visited Tencent (700 HK) to discuss its latest strategic developments. The group plans to widen revenue sources by selling chargeable products via the WeChat platform, providing online payment services to WeChat's users and capturing mobile commerce opportunity to strengthen its e-commerce platform.

**About the WeChat/Weixin.** Tencent does not expect to charge users for using WeChat/Weixin, an instant messenger service for smartphone. In the Mainland, Tencent brands this service as Weixin. In overseas, Tencent promote this service as WeChat. Tencent would like to enlarge customer base of this service platform and intend to generate profits through the following channels in the future:

i) Distribute chargeable products through WeChat/Weixin, e.g., by combining mobile games or other VAS products such as social networks, or by providing value-added digital content and serving as an O2O platform.

ii) Provide Tenpay (财付通), an online payment platform, service to WeChat/Weixin's users.

**About the e-commerce business.** This sector has weighed 10.1% of the firm's total revenue in FY12. Tencent will put more effort to achieve higher growth in the more profitable marketplaces business among this sector.

**Long-term growth drivers.** i) Weixin has approx. 194.4mn monthly active users in the Mainland and WeChat has approx. 50mn active users abroad. Users in ASEAN countries are growing rapidly. WeChat services are also promoted in the US and EU markets, where are dominated by WhatsApp. We believe overseas Chinese in US and EU will use WeChat to communicate with other Weixin users in China as WhatsApp is not popular in China. Given this huge user base in domestic market, we believe sooner or later Tencent will cross sell products or services to this group of users.

ii) Tencent has an online payment platform Tenpay, so technical barrier to build an online payment platform on WeChat/Weixin is not high. To enable the group to sell chargeable products/services to the users, the group needs to apply for online payment licenses from the PBOC and relevant overseas regulatory bodies. Before the group has successfully set up an online payment platform on WeChat/Weixin, it is not meaningful to do cross selling products/services to WeChat/Weixin's users.

**Risk factors:** 1) higher-than-expected Capex expenditure for the firm's development; 2) Slower growth in game sector; 3) regulatory changes, 4) exercise of share options & company re-purchases shares.

### Key Data

H-Share price (HK\$)	304.80
Upside potential (%)	NA
52Wk H/L(HK\$)	315/216
Issued shares (mn)	1,853
Market cap (HK\$m)	564,896
3-mth avg daily turnover (HK\$m)	1,365
Major shareholder (%):	
MIH TC Holdings Limited	34.02%

Source: Company, Bloomberg, ABCI Securities

### Revenue composition in FY12 (%)

Internet value-added services	72.9
Mobile and telecom VAS	8.5
Online advertising	7.7
E-Commerce transactions	10.1
Others	0.8
<b>Total revenue</b>	<b>100</b>

Source: Company

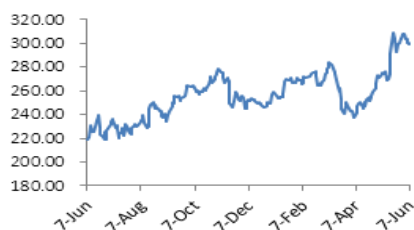
### Share performance (%)

	Absolute	Relative*
1-mth performance	9.97	22.28
3-mth performance	8.10	21.08
6-mth performance	20.51	29.98

\*Relative to HSCEI Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

### Analyst

Report Date: 13 June, 2013

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### Financial Summary

FY ended Dec 31	2009A	2010A	2011A	2012A	1Q13
Turnover (Rmb mn)	12,440	19,646	28,496	43,893	13,548
Chg (%.yoy)		57.93	45.05	54.03	40.42
Net Income (Rmb mn)	5,156	8,054	10,203	12,732	4,044
Chg (%.YoY)		56.21	26.68	24.79	37.11
EPS (Rmb)	2.79	4.33	5.49	6.83	2.17
Chg (%.YoY)		54.86	26.56	19.36	36.49
BVPS (Rmb)	6.70	11.85	15.47	22.28	24.13
Chg (%.yoy)	---	77.00	30.53	44.04	---
P/E (x)	---	---	---	35.2	---
P/B (x)	---	---	---	10.8	---
ROAE (%)	---	47.5	40.6	36.5	37.6*
ROAA (%)	---	30.2	22.0	19.3	20.7*

Note\*: annualized return rate

Source: Company, Bloomberg, ABCI Securities (assuming Rmb1.0=HK\$1.27)

## Disclosures

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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