

# Tencent Holdings (0700.HK)

## 2Q22 Earnings Review & NDR takeaways: Profit beat; Pulling ad monetization levers into 2023; Game pipeline unlocking; Buy

BUY

0700.HK 12m Price Target: **HK\$502.00** Price: **HK\$312.60** Upside: **60.6%**

**Post Tencent's better-than-expected 2Q22 earnings** on active cost control initiatives (**first take**) and management commentaries during earnings on narrowing profit declines & returning to positive profit growth in the quarters ahead, we maintain a constructive view on the company's outlook on the back of: advertising business recovery along with increasing Video Accounts contribution from Sep onwards, domestic games potential banhao approval and next year's pipeline potential, as well as more cost savings initiatives in addition to headcount control to bear fruit from 2H22. Maintain Buy with revised TP of HK\$502 per share.

Separately, we hosted Tencent management: Mr. James Mitchell (CSO, Senior Executive Vice President) and Mr. John Lo (CFO, Senior Vice President) at a post-result group NDR meeting on Aug 18.

### Key highlights from our NDR and management commentaries provided during the earnings call:

**1) Domestic games:** Despite industry-wide slowdown (domestic industry -7% yoy in 2Q22), Tencent remains positive on long-term game revenue growth re-acceleration after a 'digestion' period for 2022. Specifically, Tencent is confident to receive domestic Banhao approval within the year, and will launch **Undawn later this quarter**. Tencent is also working on the release of a **major domestic title** (with Banhao approval remains effective) after **Undawn** for 2023.

### 2) Video Accounts: Time to pull the monetization levers.

Management believes Video Accounts is achieving critical mass with timespent equivalent of 80% of Moments' level (note **Moments is around 1/3 of Tencent's ad revenue**). **eCPM:** Management highlighted the strength of the contracts ad sold for the feed-ads since July on Video Accounts, especially appealing to

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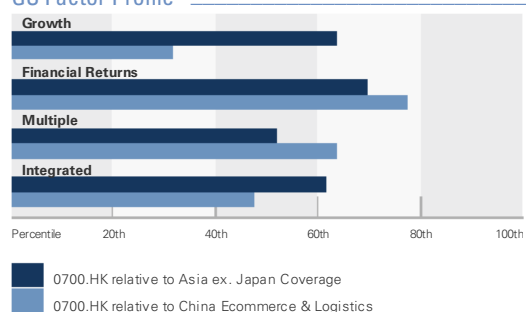
### Key Data

Market cap: HK\$3.0tr / \$386.4bn  
Enterprise value: HK\$3.1tr / \$398.7bn  
3m ADTV: HK\$8.4bn / \$1.1bn  
China  
China Ecommerce & Logistics  
M&A Rank: 3  
Leases incl. in net debt & EV?: No

### GS Forecast

	12/21	12/22E	12/23E	12/24E
<b>Revenue (Rmb mn) New</b>	<b>560,118.0</b>	<b>570,631.5</b>	<b>658,964.0</b>	<b>748,255.6</b>
Revenue (Rmb mn) Old	560,118.0	574,601.8	668,428.4	759,875.6
EBITDA (Rmb mn)	217,209.0	204,533.4	257,893.9	315,464.8
<b>EPS (Rmb) New</b>	<b>12.78</b>	<b>11.84</b>	<b>16.33</b>	<b>20.06</b>
EPS (Rmb) Old	12.78	11.40	16.34	20.10
P/E (X)	36.3	22.8	16.5	13.5
P/B (X)	5.6	2.9	2.5	2.2
Dividend yield (%)	0.3	0.5	0.7	0.8
CROCI (%)	29.9	27.9	31.0	34.2
	<b>3/22</b>	<b>6/22</b>	<b>9/22E</b>	<b>12/22E</b>
EPS (Rmb)	2.62	2.90	3.21	3.09

### GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

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Buy

## Tencent Holdings (0700.HK)

Rating since Apr 2, 2012

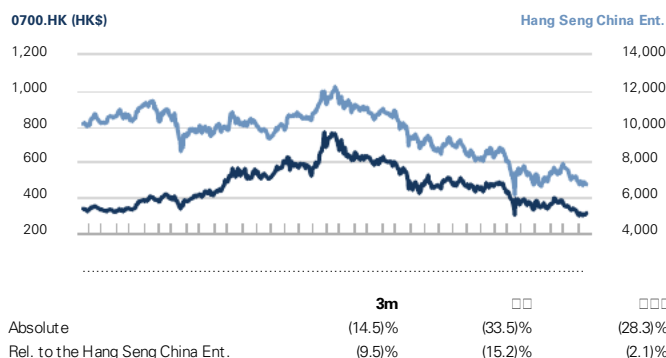
## Ratios &amp; Valuation

	12/21	12/22E	12/23E	12/24E
P/E (X)	36.3	22.8	16.5	13.5
P/B (X)	5.6	2.9	2.5	2.2
FCF yield (%)	3.3	5.4	7.3	9.0
EV/EBITDAR (X)	26.2	16.7	12.0	9.3
EV/EBITDA (excl. leases) (X)	26.2	16.7	12.0	9.3
CROCI (%)	29.9	27.9	31.0	34.2
ROE (%)	16.4	13.3	16.3	17.4
Net debt/equity (%)	5.4	1.3	(6.5)	(15.0)
Net debt/equity (excl. leases) (%)	5.4	1.3	(6.5)	(15.0)
Interest cover (X)	-	-	-	-
Days inventory outst, sales	-	0.0	0.0	0.0
Receivable days	30.7	32.0	30.1	30.4
Days payable outstanding	184.9	188.3	175.9	174.2
DuPont ROE (%)	14.1	11.7	14.2	15.3
Turnover (X)	0.3	0.4	0.4	0.4
Leverage (X)	1.8	1.6	1.6	1.5
Gross cash invested (ex cash) (Rmb)	602,443.0	657,984.5	738,605.9	820,274.1
Average capital employed (Rmb)	817,432.0	909,797.3	972,327.9	1,023,670.1
BVPS (Rmb)	83.22	94.36	107.51	123.83

## Growth &amp; Margins (%)

	12/21	12/22E	12/23E	12/24E
Total revenue growth	16.2	1.9	15.5	13.6
EBITDA growth	8.5	(5.8)	26.1	22.3
EPS growth	0.3	(7.3)	37.8	22.8
DPS growth	3.8	(6.8)	37.1	22.8
EBIT margin	28.5	26.5	28.1	30.3
EBITDA margin	38.8	35.8	39.1	42.2
Net income margin	22.1	20.1	24.2	26.5

## Price Performance



Source: FactSet. Price as of 18 Aug 2022 close.

## Income Statement (Rmb mn)

	12/21	12/22E	12/23E	12/24E
Total revenue	560,118.0	570,631.5	658,964.0	748,256.6
Cost of goods sold	(314,174.0)	(327,351.6)	(367,790.2)	(410,546.4)
SG&A	(108,219.0)	(114,337.3)	(125,392.0)	(133,741.1)
R&D	(51,880.0)	(61,751.6)	(65,896.4)	(71,084.3)
Other operating inc./.(exp.)	149,467.0	24,737.0	13,846.5	13,959.3
EBITDA	21,000.0	2,400.0	33,400.0	2,000.0
Depreciation & amortization	(57,670.0)	(53,084.6)	(72,857.8)	(89,072.7)
Net interest inc./.(exp.)	6,650.0	7,543.3	9,204.4	12,475.0
Income/(loss) from associates	(16,444.0)	(17,136.4)	(7,806.6)	(4,472.9)
Other non-operating income	24,252.0	2,000.0	1,000.0	14,000.0
Provision for taxes	(20,252.0)	(18,997.3)	(22,999.5)	(29,119.3)
Minority interest	(2,988.0)	(1,987.1)	(2,185.8)	(2,404.4)
Preferred dividends	-	-	-	-
Net income	123,000.0	114,000.0	100,000.0	100,000.0
Post-tax exceptionals	(101,034.0)	26,199.2	39,389.6	40,034.0
Net income (excl. post-tax exceptionals)	22,224.0	2,000.0	12,320.0	2,000.0
Basic EPS (Rmb)	13.00	12.00	11.00	11.00
Diluted EPS (Rmb)	12.00	11.00	10.00	10.00
Basic EPS (excl. post-tax exceptionals) (Rmb)	23.00	2.00	12.00	12.00
Diluted EPS (excl. post-tax exceptionals) (Rmb)	23.00	14.00	12.00	12.00
DPS (Rmb)	1.40	1.30	1.79	2.19
Div. payout ratio (%)	10.8	10.8	10.8	10.7

## Balance Sheet (Rmb mn)

	12/21	12/22E	12/23E	12/24E
Cash & cash equivalents	167,966.0	202,695.9	288,332.1	409,530.6
Accounts receivable	49,331.0	50,711.8	58,147.0	66,442.9
Inventory	-	1.0	1.0	1.0
Other current assets	267,515.0	165,468.0	176,018.1	186,802.7
<b>Total current assets</b>	<b>484,812.0</b>	<b>418,876.7</b>	<b>522,498.2</b>	<b>662,773.3</b>
Net PP&E	67,837.0	75,117.3	80,777.9	83,876.6
Net intangibles	189,104.0	195,168.1	193,361.7	188,297.1
Total investments	316,574.0	331,247.3	374,728.7	421,543.9
Other long-term assets	554,037.0	593,030.8	611,246.7	630,248.4
<b>Total assets</b>	<b>1,612,364.0</b>	<b>1,613,440.2</b>	<b>1,782,613.3</b>	<b>1,986,743.2</b>
Accounts payable	170,052.0	167,617.8	186,970.0	204,811.1
Short-term debt	19,003.0	19,003.0	19,003.0	19,003.0
Short-term lease liabilities	-	-	-	-
Other current liabilities	214,043.0	109,868.9	121,947.0	136,459.5
<b>Total current liabilities</b>	<b>403,098.0</b>	<b>296,489.7</b>	<b>327,920.0</b>	<b>360,273.6</b>
Long-term debt	145,590.0	145,590.0	145,590.0	145,590.0
Long-term lease liabilities	-	-	-	-
Other long-term liabilities	186,983.0	186,983.0	186,983.0	186,983.0
<b>Total long-term liabilities</b>	<b>332,573.0</b>	<b>332,573.0</b>	<b>332,573.0</b>	<b>332,573.0</b>
<b>Total liabilities</b>	<b>735,671.0</b>	<b>629,062.7</b>	<b>660,493.0</b>	<b>692,846.6</b>
Preferred shares	-	-	-	-
Total common equity	806,299.0	913,983.6	1,051,726.3	1,223,502.6
<b>Minority interest</b>	<b>70,394.0</b>	<b>70,394.0</b>	<b>70,394.0</b>	<b>70,394.0</b>
<b>Total liabilities &amp; equity</b>	<b>1,612,364.0</b>	<b>1,613,440.2</b>	<b>1,782,613.3</b>	<b>1,986,743.2</b>
Net debt, adjusted	(3,373.0)	(38,102.9)	(123,739.1)	(244,937.6)

## Cash Flow (Rmb mn)

	12/21	12/22E	12/23E	12/24E
Net income	224,822.0	88,527.7	120,326.5	158,132.3
D&A add-back	57,670.0	53,084.6	72,857.8	89,072.7
Minority interest add-back	-	-	-	-
Net (inc)/dec working capital	891.0	(6,077.3)	9,913.0	8,806.7
Other operating cash flow	116,625.0	129,259.5	151,735.9	188,020.6
<b>Cash flow from operations</b>	<b>175,186.0</b>	<b>176,266.7</b>	<b>234,506.7</b>	<b>285,900.0</b>
Capital expenditures	(29,302.0)	(34,237.9)	(39,537.8)	(44,895.3)
Acquisitions	-	-	-	-
Divestitures	-	-	-	-
Others	(149,247.0)	(93,982.0)	(96,886.6)	(102,612.0)
<b>Cash flow from investing</b>	<b>(178,549.0)</b>	<b>(128,219.9)</b>	<b>(136,424.4)</b>	<b>(147,507.4)</b>
Repayment of lease liabilities	-	-	-	-
Dividends paid (common & pref)	(12,503.0)	(13,316.9)	(12,446.1)	(17,194.1)
Inc/(dec) in debt	23,103.0	0.0	-	-
Other financing cash flows	7,931.0	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>18,531.0</b>	<b>(13,316.9)</b>	<b>(12,446.1)</b>	<b>(17,194.1)</b>
<b>Total cash flow</b>	<b>15,168.0</b>	<b>34,729.9</b>	<b>85,636.2</b>	<b>121,198.5</b>
Free cash flow	145,884.0	142,028.9	194,968.9	241,004.7

Source: Company data, Goldman Sachs Research estimates.

some high-end advertisers that are willing to pay higher eCPM. And hence **contract ad ECPM is now a premium to the 2 short-form video (SFV) incumbents**, and with no disruption to user engagement as per management.

**3) For margin & profit recovery path, management expects to reduce the rate of % yoy earnings decline and return to positive earnings growth in coming quarters.**

Tencent now moved to structurally rational mindset on headcounts, and exited unsuccessful businesses. **On capital allocation**, Management reiterated its commitment to work down the portfolio and use the proceeds to return to shareholders until the portfolio value is recognized.

In our view, Tencent remains one of the most uniquely positioned China Internet companies given its unrivaled WeChat eco-system, leadership in games and new growth drivers across Video Accounts and SaaS. Following its revenue/earnings bottoming from weak macro backdrop in 2Q, we believe Tencent is set for revenue/growth recovery from 2H22E, along with more monetization levers from Video Accounts and potential game launches for 4Q22 and 2023. Meanwhile, we expect management to continue return value to shareholders while rationalizing spending in 2022 as highlighted in our [China Internet 2H outlook](#) and China's Internet industry will be shifting toward a healthier mode focusing on user value, technology innovation, and social responsibility.

#### Exhibit 1: Tencent: Key changes to GSe

Rmb mn	New		New		New	
	2022E	chg %	2023E	chg %	2024E	chg %
Total revenues	570,632	-1%	658,964	-1%	748,256	-2%
Net profit, adj.	114,727	4%	159,716	0%	198,166	0%

Source: Company data, Goldman Sachs Global Investment Research

**What to do with the stock:** Factoring in 2Q22 results and management commentaries provided during the earnings call, we **trim our 2022E-24E revenue estimates by 1-2%** mainly on **1) 2% higher ad revenue** on Tencent unlocking its monetization potential from Video Account and Weixin ad properties being a beneficiary to interoperability/ecosystem open-up; offset by **2) 2% lowered game revenue**. In terms of profitability, we expect better gross margin profile across game and FBS. We raise adj. operating margin by 30-150bps and now expect 2022E adj. operating/net profit to drop **-5%/-7% yoy** in 2022E.

With the revised forecasts, our 12-month SOTP-based target price is fine-tuned to **HK\$502** from HK\$503 previously. We stay **Buy-rated** on Tencent. We see compelling risk-reward with Tencent/Tencent ex-investments currently trading at 20x 12-m forward P/E, >1 std below its historical avg. 12-m forward P/E. Our bear case scenario suggests moderate downside from current share price.

**Key risks:** More intense industry competition in performance-based advertising, unexpected delay in game launches/Banhuo approvals, slower-than-expected growth in FinTech and Cloud businesses, reinvestment risk.

**Exhibit 2: Our bear case scenario suggests moderate downside to current share price**

Bear case scenario

Tencent Scenarios for valuation	2023E - based	Bear case, 2023E-based, only valuing gaming, advertising, cloud, and associates/investments
<b>Gaming</b>	17X implied P/E multiple on 2023E NOPAT; 12X P/E for PC & 22X P/E for mobile	12X P/E multiple on 2023E NOPAT; at history trough level of global gaming peers
<b>Valuation per share (HK\$)</b>	<b>221</b>	<b>160</b>
<b>Advertising</b>	17X P/E multiple on 2023E advertising NOPAT	8X P/E multiple on 2023E NOPAT; in-line with our bear case valuation for BABA's core core business
<b>Valuation per share (HK\$)</b>	<b>79</b>	<b>37</b>
<b>Cloud</b>	5X EV/sales multiple on 2023E cloud revenues, in-line with our valuation on BABA's cloud business	4X EV/sales multiple on 2023E cloud revenues, multiple discount in bear case
<b>Valuation per share (HK\$)</b>	<b>28</b>	<b>22</b>
<b>Fintech</b>	SOTP	No valuation
<b>Valuation per share (HK\$)</b>	<b>88</b>	
<b>Others</b>	Tencent Video; Tencent Music; China Literature; Huya and others	No valuation
<b>Valuation per share (HK\$)</b>	<b>12</b>	
<b>Associates/investments</b>	Covers entertainment, eCommerce, financials, Auto, Internet & Software	50% discount to investment portfolio's target valuation
<b>Valuation per share (HK\$)</b>	<b>129</b>	<b>65</b>
<b>Net cash</b>	End-2022E	No valuation
<b>Valuation per share (HK\$)</b>	<b>0.1</b>	
<b>Applying holdco discount (10% )</b>		
<b>Valuation per share (HK\$)</b>	<b>502</b>	<b>255</b>

Source: Company data, Goldman Sachs Global Investment Research

## Key takeaways from post-results NDR

We hosted Tencent management Mr. James Mitchell (CSO, Senior Executive Vice President) and Mr. John Lo (CFO, Senior Vice President) at a group NDR meeting on Aug 18 where top investor questions were: **1) Online games:** timeline of unlocking Tencent's domestic backlog and evolving international game strategies; **2) Advertising:** Monetization ramp-up curve of Video Account across multiple metrics (timespent, ad load, eCPM), benchmarking with Moments and SFV peers; **3) Cloud:** Near-term business trend and longer-term monetization upsides and timeline from Tencent Meeting and WeCom; **4) Margin & Profit:** earnings recovery timeline and further development of headcount optimization progress and **5) Capital deployment:** Pace of portfolio divestment.

### Online Games

For online games, investors' focuses are on **1)** timeline of unlocking Tencent's domestic backlog (for previously obtained Bahhao titles); **2)** Tencent's evolving international game strategies.

- **Domestic games:** Despite industry-wide slowdown (domestic industry -7% yoy in 2Q22), Tencent remains positive towards long-term game revenue growth re-acceleration after a 'digestion' period for 2022.
  - Tencent will launch *Undawn* **later this quarter**,
  - while Tencent is also working on the release of a **major domestic title** (with Bahhao approval remains effective) after *Undawn*.
- **International games:**
  - **Overseas game release timeline:** Tencent noted a majority of the international pipeline is weighted towards 2023-2024, with Warhammer Darktide to come in 4Q22.
  - **Ubisoft:** Tencent noted it has a solid relationship with Ubisoft, who has successful IP but emerging presences in GAAS and mobile game. Tencent is working with Ubisoft on multiple mobile adaption projects, similar to its relationship with Nexon and Krafton.
  - **Managing international game studios: 1) Consolidated studio and publisher.** Tencent maintains frequent communication with Riot, Supercells; **2) Consolidated studio.** Tencent leverages its publishing expertise through Level Infinite to help Stunlock, a Sweden developer which focuses on development but not publishing, publishes the well-received title *V Rising*. **3) Acquisition.** Tencent noted MiniClip has a strong track record in acquiring studios in Europe (e.g. SYBO). Riot has also acquired game developer teams without game assets per Tencent.

### Advertising

For advertising, investors' focuses are on Monetization ramp-up curve of Video Accounts

across multiple metrics (timespent, ad load, eCPM), benchmarking with Moments and SFV peers;

- **Video Accounts:** Regarding the long-term online ad industry growth profile and competition, management noted when SFV kicked-off ad monetization, online ad penetration was already at 70% of China's total ad market, when SFV launched in US, US online ad % of GDP was also amongst the highest globally. Specifically:
  - **Time to pull the monetization levers.** Management believes Video Accounts is achieving critical mass after VV+200% yoy, with timespent equivalent of 80% of Moments' level. Management noted **Moments is around 1/3 of Tencent's ad revenue**, despite accounting for relatively low timespent per DAU per day, demonstrating monetization potential of the Weixin properties.
  - **Timespent.** Management noted new usage scenarios (e.g. live streaming) contribute to incremental timespent with a separate adoption curve to SFV and may continue to lengthen timespent for the format. Longer-term, management considered Video Accounts to have higher ecpm despite total timespent (potential room for ad inventory) will be lower than the industry incumbents.
  - **eCPM.** Management highlighted strong sales of the contract ad for the feed-ads since July, especially appealing to some high-end advertisers that are willing to pay higher eCPM. And hence **contract ad ECPM is now a premium to the 2 SFV incumbents**, with no disruption to user engagement.

## Cloud

For cloud, investors' focuses are on **1) Near-term revenue and GPM trends; 2) Longer-term monetization timeline and upsides for Tencent Meeting and WeCom.**

- **Near-term business trend.** With management near-term focusing on gross profit margin improvement, revenue growth will remain on a moderating trend into 2H, but management expects to see both sequential and yoy margin improvement in 2H22, with **Paas and SAAS representing half of Tencent cloud revenue.**
- Management expects to conduct monetization experiment on Tencent Meeting, but the P&L impact will come after Video Account and mini program monetization.

## Margin & Profit

For margin & profit recovery path, investors' focuses are on **1) Implication and further development of the headcount trimming progress; 2) earnings recovery timeline;** Management expects to **reduce the rate of % yoy earnings decline and return to positive earnings growth in coming quarters.**

- **Headcount,** as Tencent moving to a more structurally reasonable mindset, it expects to:
  - **Implement headcount control.** Given Tencent has increased headcount gradually from 1Q-4Q21, management expects the pace of headcount growth will be consistent with revenue growth by end-2022.

## Capital Allocation

- Management reiterated its commitment to work down the portfolio and use the proceeds to return to shareholders until the portfolio value is recognized.

## Online Games

**Domestic to see sequentially easing base starting Sept-22, International above-industry growth continues but post-COVID normalization a drag**

**We forecast game revenue growth of +0.1% yoy in 3Q22E and -0.2% yoy in 2022E.**

**By market:**

- **We forecast -0.2%/+0.1% yoy for the domestic market in 3Q22E/2022E**, given **1) Weakened deferred revenue, a high base (July-Aug) of legacy titles** to weigh on growth, but supported by **2) *Undawn*** release in Sept-Oct.
  - **Domestic: *LOL: E-sport manager*** (英雄联盟电竞经理), the e-sport simulation adaption game that's based off the *LOL IP* has turned out to be Tencent's largest new-release domestic game based on grossing contribution, with **2.0% total market share in July** (despite having only been launched on 20 July);
  - **Contraction in minors' time spent and grossing** will continue to hinder domestic game revenue growth till Sept-2022. *Honour of Kings (HoK)* saw grossing growth at -3% yoy in July, with the season 28 expansion pack, released on June 23, supporting July grossing, despite the challenging comps. *Peacekeeper Elites (PKE)* saw grossing decline of -45% yoy in July, against a record high comp in July-2021, also partly due to the decline of revenue from change in controls around minors game timespent.
- **We forecast +2%/0.8% yoy for the international market in 3Q22E/2022E**, backed by:
  - **Moderation of the overall international mobile game** industry in the midst of transition against tough comps created by the pandemic benefits. *PUBGM* grossing was hindered by post-COVID normalization, with July grossing dropping 39% yoy and the weakness to likely extend towards year-end; partly offset by:
  - **Continued launches of new titles**, backed by Tencent's deep pipeline of 40+ international games to be launched in 2022-24E. **1) *V Rising***, the PC survival action RPG developed by Tencent investee, Stunlock Studio, sold 2.5mn copies as it went into early access on May 17, grossing over US\$20mn; **2) Into 3Q22**, Tencent will release *Metal: Hellsinger* through Funcom; *Tower of Fantasy* through Level Infinite and *Turbo Golf* through Sumo Group, followed by ***Warhammer 40,000: Darktide*** in 4Q22.

**Exhibit 3: Tencent online game revenue estimates**

(RMB mn)	2020	2021	2022E	2023E	2024E	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E
<b>Gross mobile + desktop gaming</b>	<b>191,155</b>	<b>210,010</b>	<b>209,586</b>	<b>235,367</b>	<b>265,748</b>	<b>53,400</b>	<b>51,800</b>	<b>54,210</b>	<b>50,600</b>	<b>52,400</b>	<b>51,600</b>	<b>54,275</b>	<b>51,311</b>
YoY	35%	10%	0%	12%	13%	15%	10%	7%	8%	-2%	0%	0%	1%
<b>International</b>	<b>35,822</b>	<b>45,413</b>	<b>45,762</b>	<b>53,209</b>	<b>62,578</b>	<b>10,192</b>	<b>10,721</b>	<b>11,300</b>	<b>13,200</b>	<b>10,600</b>	<b>10,700</b>	<b>11,526</b>	<b>12,936</b>
% yoy	101%	27%	1%	16%	18%	30%	22%	20%	35%	4%	0%	2%	-2%
<b>China</b>	<b>155,333</b>	<b>164,597</b>	<b>163,824</b>	<b>182,158</b>	<b>203,170</b>	<b>43,208</b>	<b>41,079</b>	<b>42,910</b>	<b>37,400</b>	<b>41,800</b>	<b>40,900</b>	<b>42,749</b>	<b>38,375</b>
% yoy	26%	6%	0%	11%	12%	12%	8%	4%	1%	-3%	0%	0%	3%
<b>Gross mobile gaming</b>	<b>146,617</b>	<b>164,810</b>	<b>163,363</b>	<b>188,097</b>	<b>217,409</b>	<b>41,500</b>	<b>40,800</b>	<b>42,510</b>	<b>40,000</b>	<b>40,300</b>	<b>40,000</b>	<b>42,458</b>	<b>40,605</b>
% yoy	56%	12%	-1%	15%	16%	19%	13%	9%	9%	-3%	-2%	0%	2%
<b>International</b>	<b>28,334</b>	<b>38,110</b>	<b>36,608</b>	<b>43,597</b>	<b>52,678</b>	<b>8,828</b>	<b>9,475</b>	<b>9,572</b>	<b>10,236</b>	<b>8,750</b>	<b>8,985</b>	<b>9,520</b>	<b>9,352</b>
% yoy	121%	35%	-4%	19%	21%	41%	31%	27%	40%	-1%	-5%	-1%	-9%
<b>China Only</b>	<b>118,283</b>	<b>126,700</b>	<b>126,755</b>	<b>144,501</b>	<b>164,731</b>	<b>32,672</b>	<b>31,325</b>	<b>32,938</b>	<b>29,764</b>	<b>31,550</b>	<b>31,015</b>	<b>32,938</b>	<b>31,253</b>
% yoy	46%	7%	0%	14%	14%	15%	9%	4%	1%	-3%	-1%	0%	5%
<b>PC gaming</b>	<b>44,538</b>	<b>45,200</b>	<b>46,223</b>	<b>47,269</b>	<b>48,339</b>	<b>11,900</b>	<b>11,000</b>	<b>11,700</b>	<b>10,600</b>	<b>12,100</b>	<b>11,600</b>	<b>11,817</b>	<b>10,706</b>
% yoy	-6%	1%	2%	2%	2%	1%	1%	1%	4%	2%	5%	1%	1%

Source: Company data, Goldman Sachs Global Investment Research

**2022 recap**

**Online games revenues** (PC + mobile) declined 0.4% yoy to Rmb51.6bn (above GSe Rmb49.8bn): **a) Mobile game** revenue -2% yoy to Rmb40.0bn vs. GSe 38.7bn; **b) PC games** revenue +5% yoy to Rmb11.6bn, slightly above GSe 11.1bn; **c) Current portion of deferred revenue** was Rmb89.2bn, -7.3% yoy/-7.9% qoq, vs. -1.7% yoy in 1Q22, while current and non-current deferred revenue combined dropped -8.8% yoy (vs. -3.6% yoy in 1Q22).

**Domestic Games**

**In 2022, domestic game** revenue (ex. portion allocated to Social Network) declined **-1% yoy** to Rmb31.8bn (vs. -1% yoy in 1Q22), but ahead of industry at -7% yoy (CNG data) with:

- 1. Lack of new blockbuster release:** with Return to Empire being the only title that gained meaningful traction among the 5 newly released titles in 2Q22.
- 2. Minor protection measures impacted revenue** (minors contribution was c.mid-single-digits of grossing in 4Q20)
- 3. Lower user spending across legacy titles** (HoK, LOL PC), partly offset by incremental contribution from newly released titles (LOL Mobile, Fight of The Golden Spatula).

**Management highlights:**

- **Resumption of Banhao** should support the overall game industry, while Tencent is confident in receiving Banhao in the future.
- **Undawn** (黎明觉醒), one of Tencent's most important domestic pipelines (30mn pre-registration), has confirmed the domestic release in China within the next few weeks, after it was delayed since summer-2021.
- **Timespent** of HoK/PKE from adult players both increased yoy, yet both game saw revenue decline %yoy; implied users' game spending conversion (per timespent) dropped, likely due to weaker macro. Tencent expects to focus on deepening user engagement.
- Management highlighted positive regulatory development including pilot approval



program and fostering internationally renowned brands in games.

- **On the near-term %yoy recovery path**, management believes the weaker macro-economy could continue to undermine growth of its legacy games in 3Q.

**Exhibit 4: Timespent of games remained weak, declined by -2% yoy in July, vs. -1% yoy in June. HOK (Honour of Kings)'s timespent continued to decline to -21% yoy in July; Peacekeeper Elite -10% yoy from recent peak +26% yoy in April.**

Game	Timespent % yoy	2021-10	2021-11	2021-12	2022-01	2022-02	2022-03	2022-04	2022-05	2022-06	2022-07	July VS. June- %yoy chg
Honour of Kings	王者荣耀	-9%	-17%	-22%	-18%	-28%	-2%	4%	-13%	-22%	-21%	0%
Peacekeeper Elite	和平精英	-18%	-18%	-24%	-12%	-21%	4%	26%	13%	-5%	-10%	-5%
Anipop	开心消消乐	22%	17%	14%	21%	37%	32%	32%	22%	17%	24%	7%
Fight of The Golden Spatula	金铲铲之战	0%	0%	0%	0%	0%	0%	0%	N.M.	N.M.	N.M.	N.M.
Genshin Impact	原神	-19%	10%	12%	105%	68%	86%	135%	76%	91%	94%	3%
League of Legends: Wild Rift	英雄联盟手游	0%	0%	0%	0%	0%	0%	0%	0%	N.M.	N.M.	N.M.
Huanle Doudizhu (Tencent)	欢乐斗地主 (腾讯)	8%	-6%	-14%	-19%	-23%	-32%	-32%	-30%	-34%	-32%	2%
Tencent Huanle Mahjong	腾讯欢乐麻将全集	3%	4%	2%	5%	20%	2%	2%	-6%	-15%	-12%	3%
Tiantian Xiangqi	天天象棋	13%	8%	7%	11%	11%	19%	26%	19%	15%	23%	8%
CrossFire: Legends	穿越火线: 枪战王者	-47%	-50%	-55%	-37%	-30%	-4%	3%	-16%	-25%	0%	25%
<b>Total</b>		<b>13%</b>	<b>11%</b>	<b>-1%</b>	<b>-2%</b>	<b>-11%</b>	<b>12%</b>	<b>21%</b>	<b>7%</b>	<b>-1%</b>	<b>-2%</b>	<b>-1%</b>

Game	Timespent % share	2021-10	2021-11	2021-12	2022-01	2022-02	2022-03	2022-04	2022-05	2022-06	2022-07	July VS. June- %share chg
Honour of Kings	王者荣耀	40%	37%	37%	40%	39%	39%	40%	39%	39%	39%	-0.8%
Peacekeeper Elite	和平精英	11%	11%	12%	15%	17%	15%	16%	15%	13%	15%	1.8%
Anipop	开心消消乐	7%	7%	8%	7%	7%	8%	8%	8%	8%	8%	-0.2%
Fight of The Golden Spatula	金铲铲之战	4%	5%	6%	4%	4%	5%	4%	5%	6%	5%	-1.4%
Genshin Impact	原神	3%	3%	3%	4%	4%	4%	4%	4%	4%	5%	0.9%
League of Legends: Wild Rift	英雄联盟手游	12%	14%	9%	6%	4%	4%	4%	4%	4%	4%	0.1%
Huanle Doudizhu (Tencent)	欢乐斗地主 (腾讯)	3%	3%	3%	3%	3%	3%	3%	3%	3%	2%	-0.2%
Tencent Huanle Mahjong	腾讯欢乐麻将全集	1%	2%	2%	2%	2%	2%	2%	2%	2%	2%	-0.2%
Tiantian Xiangqi	天天象棋	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	-0.1%
CrossFire: Legends	穿越火线: 枪战王者	2%	1%	2%	2%	2%	2%	2%	2%	2%	2%	0.5%

Source: QuestMobile

**Exhibit 5: Tencent: international and domestic grossing performances**

Tencent international mobile game grossing includes Supercell, Miniclip, Pocket Gems and Marvelous

Tencent 腾讯 - International	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
International Grossing % yoy	12%	2%	6%	-25%	-27%	-40%	-36%
International Market share %	4.8%	4.5%	4.7%	4.4%	4.4%	3.8%	3.5%

Tencent 腾讯 - domestic	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Domestic Grossing % yoy - constant FX	-8%	-9%	1%	7%	8%	-4%	-8%
Domestic Grossing % mom - constant FX	27%	-9%	6%	8%	-1%	-14%	7%

Grossing % yoy - by titles		Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Honour of Kings	王者荣耀							-3%
PeaceKeeper Elite	和平精英							-45%
League of Legends Mobile	英雄联盟手游							0%
Return to Empire	重返帝国							0%
Cross Fire	穿越火线手游							-13%
Teamfight tactics	金铲铲之战							0%
QQ Speed	QQ飞车							-17%
Naruto	火影忍者							-26%
Moon Light Blade	天涯明月刀							-68%
LoL: E-sport manager	英雄联盟电竞经理							0%

Domestic Market share %	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
	45.5%	48.2%	44.0%	43.9%	43.5%	42.9%	45.3%

Market share % - by titles		Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Honour of Kings	王者荣耀							17.9%
PeaceKeeper Elite	和平精英							9.5%
League of Legends Mobile	英雄联盟手游							1.9%
Return to Empire	重返帝国							0.3%
Cross Fire	穿越火线手游							1.5%
Teamfight tactics	金铲铲之战							2.2%
QQ Speed	QQ飞车							1.2%
Naruto	火影忍者							0.9%
Moon Light Blade	天涯明月刀							0.5%
LoL: E-sport manager	英雄联盟电竞经理							2.0%

Source: SensorTower, data compiled by Goldman Sachs Global Investment Research

**Exhibit 6: Tencent: domestic game pipeline**

English Name	Chinese Name	Banhuo Status	CP	Genre	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Rest 2022
<b>Game launched</b>					1Q22			2Q22			3Q22			
Stairway to Stardom	璀璨星途	Approved	Tencent	Simulation	Public testing on 13 Jan									
The Story of Yanxi Palace	延禧攻略之凤凰于飞	Approved	Tencent	Casual		Public testing on 15 Feb								
Xuan Zhong Ji	玄中记	Approved	Seasun	SLG		Public testing on 18 Feb								
Wo Long Yin 2	卧龙吟 2	Approved	Seasun	SLG	2nd Beta testing on 4 Jan	Public testing on 22 Feb								
Joy of Life	庆余年	Approved	Tencent	MMORPG	Beta testing on 20 Jan		Public testing on 25 Mar							
Return to Empire	重返帝国	Approved	Tencent	SLG			Public testing on 29 Mar							
Noah's Heart	诺亚之心	Approved	Archosaur Games	RPG				Public testing on 13 April						
Black Desert	黑色沙漠	Approved	Tencent	RPG	Beta testing on 13 January			Public testing on 26 April						
Code: Three Kingdom	乱世逐鹿: 风起三国	Approved	Tencent	SLG			Final testing on 21 Mar		Public testing on 26 May					
3 on 3 Freestyle	全民大灌篮	Approved	Tencent	Sports						Public testing on 10 June				
Zhi Jian Ling Zhu	指尖领主	Approved	Tencent	Casual				Beta testing on 30 May			Public testing on 5 July			
Arena Breakout	暗区突围	Approved	Tencent	FPS	Beta testing on 14 Jan	Beta testing on 23 Feb	Beta testing on 31 Mar		Beta testing on 17 May		Public testing on 13 July			
League of Legends: e-sport manager	英雄联盟: 电竞经理	Approved	Tencent	SLG			Alpha testing on 18 Mar				Public testing on 20 July			
<b>Game pipeline</b>														
Kitten Match	小猫爱消除	Approved	Tencent	Casual							Public testing on 24 August			
One-Punch Man Justice is Served	一拳超人正义执行	Approved	Tencent	Action								Public testing on 30 September		
Chio Hero	奇奥英雄传	Approved	Tencent	Strategy										Public testing on 15 November
New Eternal Love	新三生三世十里桃花	Approved	Tencent	RPG										Public testing on 31 December
Music World	劲乐幻想	Approved	Tencent	Music										Public testing on 31 December
Handmade Planet	手工星球	Approved	Tencent	Sandbox										Public testing on 31 December
Bu Liang Ren3	不良人3	Approved	Tencent	Action										Public testing on 31 December
Mobile DnF	地下城与勇士	Approved	Nexon	MMOACT			Intl. launch in Mar 2022							
Dawn Awakening	黎明觉醒	Approved	Tencent	Survival										Public testing delayed to 2022
Uncharted Waters: Lord of the sea	大航海时代: 海上霸主	N	Tencent	Strategy										Public testing on 11 November
New Nobunaga's Ambition	新信长之野望	N	Tencent	Strategy										Public testing on 24 November
Wu Xu Ci Yuan	无字次元	N	Tencent	Action						Beta testing on 14 July				
Apex Legends Mobile	Apex英雄手游	NA	Tencent	Shooting					International soft launch in May 2022					

Source: Company data, Goldman Sachs Global Investment Research

**International Games**

In 2022, International games decreased by -1% yoy to Rmb10.7bn (or flat in constant currency, vs. +4% yoy in 1Q22), given international games remains in the post-pandemic digestion period (see our **July game tracker**). Nevertheless, Tencent still performs better than the industry at -7% yoy (SensorTower), partly helped by increase in revenues from games including VALORANT and newly launched V Rising (Above US\$20mn grossing in 2Q22).

**Management highlights:**

- **Normalization timeline of global gaming industry:** Depends on current weakness including post-COVID re-base or macro weakness issues. The monetization structure of game shifts towards more discretionary purchase (in-app purchase).

- Slower, yet still ongoing overseas game-related M&A, pivoted by Tencent's subsidiaries MiniClip acquiring SYBO, publisher of Subway Surfers (30mn DAU).

## Online Advertising

**Sequential recovery towards year-end helped by an easier base, Video Accounts potential and benefits from interoperability/ecosystem open-up .**

**We forecast ad revenue growth of -5% yoy in 3Q22E and -8% yoy in 2022E. By ad properties:**

- **Social and other advertising revenue** to decline **-6% yoy** (-3% if incl. Sogou) to Rmb17.8bn (from -21% in 2Q22) on weak ad demand and consequently lower eCPMs.
- **Media advertising revenues -15% yoy** to Rmb3.0bn (improved from -24% yoy in 2Q22) on lower ad revenue from Tencent Video and Tencent News Services.

**Near-term trends:** While Tencent saw weaker ad revenue % yoy performance in April and May due to COVID lockdown in Shanghai and a tough %yoy base from education ad spend, it saw **subsequent improvement in June** as post-ecosystem open-up, Tencent obtained ad dollar budget from major e-commerce platforms that previously were not on Tencent's ad properties. Although the period from **July till mid-Aug still carries a tough comp with a high base** given Summer Olympics, management expects sequential % yoy improvement towards the year-end, backed by:

- **Advertisers from verticals** such as eCommerce, automobile and F&B have seen healthy ad budgets;
- **Timespent on Weixin and Video Accounts have been growing healthily**, inline with QuestMobile (Weixin timespent +6% yoy in July-2022).

**Exhibit 7: Tencent advertising revenue estimates**

(RMB mn)	2020	2021	2022E	2023E	2024E	1Q21	2Q21	3Q21	4Q21E	1Q22	2Q22	3Q22E	4Q22E
<b>Online ad. revenue</b>	82,271	88,666	81,965	96,105	110,935	21,820	22,833	22,495	21,518	17,988	18,638	21,410	23,929
% yoy	20%	8%	-8%	17%	15%	23%	23%	5%	-13%	-18%	-18%	-5%	11%
<b>Media advertising</b>	14,277	13,313	11,048	11,380	11,380	3,339	3,300	3,473	3,200	2,300	2,500	2,952	3,296
% yoy	-8%	-7%	-17%	3%	0%	7%	0%	-4%	-25%	-31%	-24%	-15%	3%
<b>Social, others x-Sogou</b>	67,994	74,687	68,415	82,097	96,875	18,481	19,533	18,955	17,719	15,072	15,502	17,818	20,022
% yoy	29%	10%	-8%	20%	18%	27%	28%	7%	-13%	-18%	-21%	-6%	13%
<b>Sogou</b>		666	2,502	2,628	2,680			67	599	616	636	640	611
% yoy				5%	2%								2%

Source: Company data, Goldman Sachs Global Investment Research

**Video Accounts' revenue opportunities:**

- **Management expects the monetization ramp-up** of Video Accounts to be quicker than Moments, which took 5 quarters to reach Rmb1bn in revenue.
- **Timespent** is still growing strongly (total vv +200% yoy in 2Q22);
- **eCPM** of contract ad sold in past few weeks was lower than Moments; Tencent will

kick-off the bidding of in-feed ads within Video Accounts in a few weeks, and management is optimistic on pricing amid strong interest from the Video Account concert sponsorship. Comparing to other SFV peers, management believes eCPM should be on par or higher vs. SFV peers.

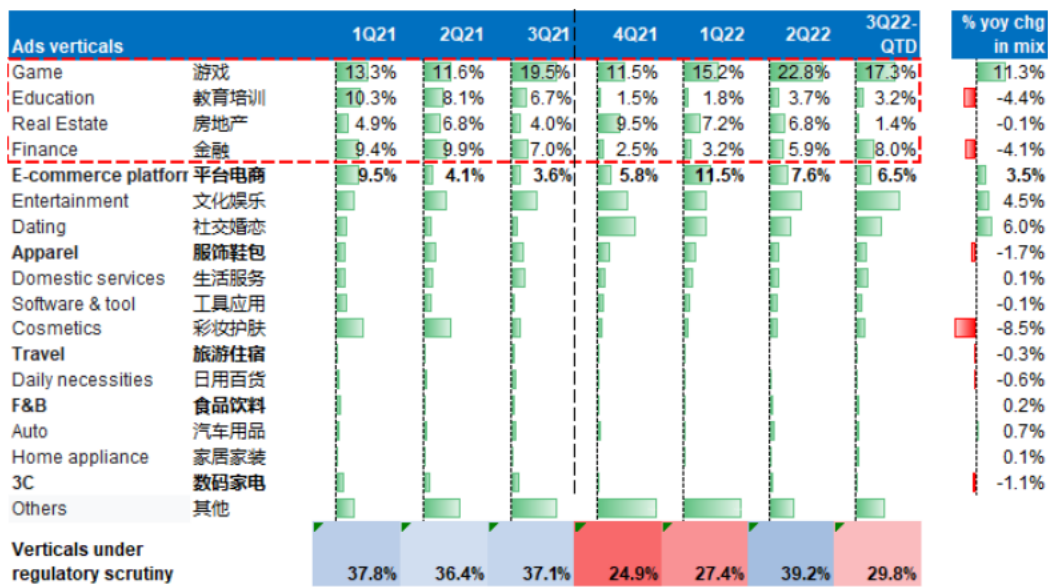
- **Higher ad load potential** as management noted the ad load of the 2 incumbents at 14-16% (vs. 2-3% effective ad load of Moments);
- **Timespent allocation within Weixin.** Management believes timespent of Video Accounts will not impact timespent of other Weixin properties given differentiated use cases, referencing timespent of Moments has not cannibalized that of the Weixin Chat function.
- Relative to other Weixin ad properties, Video Accounts enjoys clearer benchmark (compared with SFV), limited disruption to consumer engagement (as SFV is a better format to conceal advertisement), and with improved AI recommendation algorithms.
- **E-commerce live streaming** presents monetization in longer-term, as management believes live concerts help established users' viewing habits on Video Accounts. Tencent will focus on subsequent improvement of the ad system and merchant recruitment, supported by its Weixin ecosystem including mini program to complete the transaction, while private domain solutions like WeCom will help merchants to retain customers.

## 2022 recap

**Online advertising revenue** came in at Rmb18.6bn, -18% yoy (9% above GSe, on par with -18% yoy in 1Q22), with the better-than-expected results driven by sequential improvement in ad demand since June as **large eCommerce platforms** increased ad spend for 618 promotions, offset by % yoy lower eCPM due to decreased bidding density from clients of Internet services, education and finance verticals.

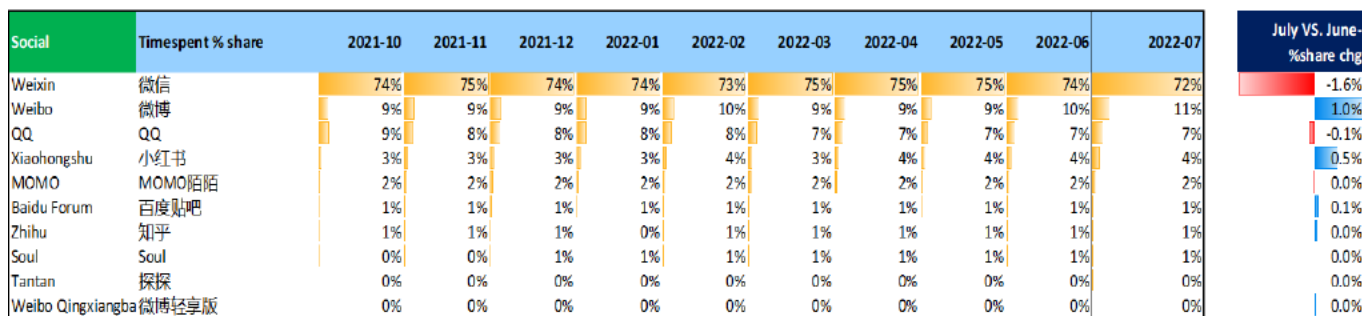
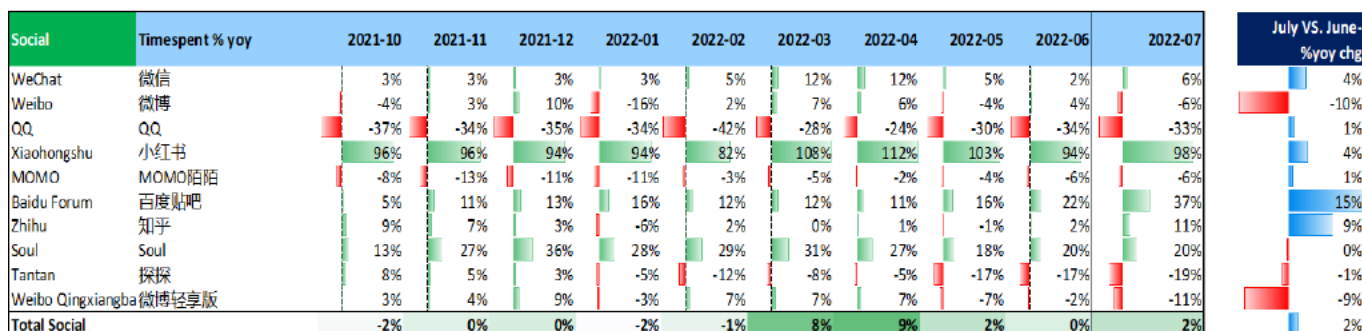
- **Social and other advertising revenue** declined **-17% yoy** to Rmb16.1bn (from -15% in 1Q22) on weak ad demand and consequently lower eCPMs.
- **Media advertising revenues -25% yoy** to Rmb2.5bn (improved from -30% yoy in 1Q22) on lower ad revenue from Tencent Video and Tencent News Services.
- **Market-share gain of conventional ad properties and June quarter improvement:** Tencent attributed the strong intra-quarter improvement in June to e-commerce platforms previously under-spent (changes to China's Internet landscape) on Tencent, and it has re-shifted its budget to Tencent properties amid 6.18 e-commerce festival, and proliferation of mini-programs.

**Exhibit 8: Our ads volume mix% tracker suggests Tencent has seen healthy ad spending from E-commerce platforms, while expecting a high base from education and real estate will lapse into 3Q**



Source: Goldman Sachs Global Investment Research

**Exhibit 9: Weixin, the largest app in China (20% of top 400 app aggregate timespent) grew +6% yoy (+4ppts mom), while yoy % decline in QQ continued for the 27th consecutive month with -33% yoy in July. Weibo dropped -6% yoy. Xiaohongshu's growth remained strong at +98% yoy.**



Source: QuestMobile

## FinTech and Business Services

**Worst is behind for FinTech payment business; cloud's strategic shift to quality growth will dent growth but help margins**

**We forecast FinTech and Business Services revenue growth of 10% yoy in 3Q22E**

**and 8% yoy in 2022E. By segment:**

- **We forecast 13%/11% yoy for Fintech revenue in 3Q22E/2022E**, given sequential improvement in commercial payment volume % yoy recovery, alongside lockdown easing in economically-developed regions.
- **We forecast -2%/-2% yoy for Business Services in 3Q22E/2022E**, with the slower yet improvement in growth being attributable to: **1)** Tencent to strategically focus on quality growth by scaling back loss-making contracts (i.e. subcontracts include hardware re-sale), and concentrating resources on higher-margin internally developed PaaS solutions; **2)** Project deployment to resume to normal capacity in 3Q22. Longer-term, Tencent expects to sharpen the company's focus on internally developed products while focusing on upselling higher-margin, internally developed PAAS products, while reducing lower margin businesses such as CDN.

**Exhibit 10: Tencent FinTech and Business Services revenue estimates**

(RMB mn)	2020	2021	2022E	2023E	2024E	1Q21	2Q21	3Q21	4Q21E	1Q22	2Q22	3Q22E	4Q22E
<b>FinTech and Business Services (F)</b>	<b>128,086</b>	<b>172,195</b>	<b>186,571</b>	<b>228,736</b>	<b>267,697</b>	<b>39,028</b>	<b>41,892</b>	<b>43,317</b>	<b>47,958</b>	<b>42,768</b>	<b>42,208</b>	<b>47,617</b>	<b>53,978</b>
% yoy	26%	34%	8%	23%	17%	47%	40%	30%	25%	10%	1%	10%	13%
<b>Fintech and payment</b>	<b>104,599</b>	<b>136,641</b>	<b>151,728</b>	<b>183,440</b>	<b>210,851</b>	<b>31,493</b>	<b>33,929</b>	<b>34,519</b>	<b>36,700</b>	<b>35,459</b>	<b>34,723</b>	<b>38,995</b>	<b>42,552</b>
% yoy	24%	31%	11%	21%	15%	44%	38%	25%	21%	13%	2%	13%	16%
<b>Cloud</b>	<b>23,487</b>	<b>35,554</b>	<b>34,843</b>	<b>45,296</b>	<b>56,846</b>	<b>7,535</b>	<b>7,963</b>	<b>8,798</b>	<b>11,258</b>	<b>7,309</b>	<b>7,485</b>	<b>8,622</b>	<b>11,426</b>
% yoy	38%	51%	-2%	30%	26%	65%	52%	56%	40%	-3%	-6%	-2%	1%

Source: Company data, Goldman Sachs Global Investment Research

**2022 recap**

**FinTech and Business Services revenue** was up 1% yoy to Rmb42.2bn in 2Q22, 2% below GSe.

- Revenue growth from **Fintech services** moderated as commercial payment volume impacted by COVID-19 resurgence in April and May 2022.
- Revenue from **Business Services** decreased slightly yoy, as Tencent proactively scaled back loss-making businesses. More importantly, revenue increased qoq due to end customer demand for Tencent's internally-developed products.

**Management highlights:**

- **Fintech**
  - **Intra-month trend:** commercial payment volume slowed to low-single-digits % yoy in April 2022, but resumed to high-teen %yoy growth in June 2022.
  - **Financial holding companies:** Management observed stable and progressive development of the Fintech business while Tencent will continue to meet regulators' most stringent requirement.
- **Cloud**
  - **Near-term objective** is on gross profit growth and narrowing absolute dollar losses. Management expects a sharp profit turnaround by cutting off subcontracting, deployment revenues.
  - 2Q22 revenue decline was primarily linked to lower spending from Internet

customers (impacted the most from weakened macro) and enterprise clients (pushed back deployment).

## Financials & Valuation

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Factoring in 2Q22 results and management commentaries provided during the earnings call, we **trim our 2022E-24E revenue estimates by 1-2%** mainly on **1) 2% higher ad revenue** on Tencent unlocking its monetization potential from Video Accounts and Weixin ad properties being a beneficiary to interoperability/ecosystem open-up; offset by **2) 2% lowered game revenue** as the global mobile game industry (ex. China) is in the midst of transition against tough comps created by the pandemic benefits, though Tencent game remains a share gainer with above-industry growth domestically and internationally.

In terms of profitability, we expect a better gross margin profile across game and FBS. We raise adj. operating margin by 30-150bps and now expect 2022E adj. operating/net profit to drop **-5%/-7%** in 2022E (vs. +7%/+1% in 2021).

With the revised earnings, our 12-month SOTP-based target price is now at **HK\$502** from HK\$503 previously. We stay **Buy-rated** on Tencent. In our view, Tencent remains one of the most uniquely positioned China Internet companies given its unrivaled WeChat eco-system, leadership in games and new growth drivers across Video Accounts, international games and SaaS. Following its revenue/earnings bottoming from weak macro in 2Q, we believe Tencent has strengthened its leading positions across its business lines and is set for a revenue growth recovery from 2H22E. Meanwhile, we expect management to rationalize spending in 2022 as China's Internet industry is shifting toward a healthier mode focusing on user value, technology innovation, and social responsibility.



## Exhibit 11: Tencent: summary of changes

Income Statement	New	Old		New	Old		New	Old	
(Rmb mn)	2022E	2022E	% diff	2023E	2023E	% diff	2024E	2024E	% diff
<b>Total revenues</b>	<b>570,632</b>	<b>574,602</b>	<b>-1%</b>	<b>658,964</b>	<b>668,428</b>	<b>-1%</b>	<b>748,256</b>	<b>759,876</b>	<b>-2%</b>
Value added services	294,410	299,517	-2%	326,054	332,666	-2%	361,172	368,048	-2%
Online advertising	81,965	80,590	2%	96,105	94,543	2%	110,935	109,187	2%
a. FinTech and Business Services	186,571	186,809	0%	228,736	233,151	-2%	267,697	274,187	-2%
b. Others	7,685	7,685	0%	8,069	8,069	0%	8,453	8,453	0%
<b>Cost of revenues</b>	<b>(327,352)</b>	<b>(334,762)</b>	<b>-2%</b>	<b>(367,790)</b>	<b>(377,228)</b>	<b>-3%</b>	<b>(410,546)</b>	<b>(421,412)</b>	<b>-3%</b>
<b>Gross profit</b>	<b>243,280</b>	<b>239,840</b>	<b>1%</b>	<b>291,174</b>	<b>291,201</b>	<b>0%</b>	<b>337,709</b>	<b>338,464</b>	<b>0%</b>
Value added services	148,447	148,207	0%	166,577	166,740	0%	185,813	185,433	0%
Online advertising	33,512	32,708	2%	45,501	47,008	-3%	53,969	55,454	-3%
Fintech & Business services	60,629	58,233	4%	78,370	76,726	2%	97,167	96,817	0%
Others	692	692	0%	726	726	0%	761	761	0%
Interest income	7,543	7,258	4%	9,204	8,857	4%	12,475	12,004	4%
Other gains, net	24,737	16,022	54%	13,846	11,861	17%	13,959	11,870	18%
Sales and marketing	(37,091)	(39,073)	-5%	(43,492)	(43,782)	-1%	(46,392)	(47,112)	-2%
General and administrative	(104,667)	(104,317)	0%	(109,577)	(106,235)	3%	(115,783)	(114,977)	1%
Total operating expenses	(109,478)	(120,110)	-9%	(130,018)	(129,300)	1%	(135,741)	(138,216)	-2%
<b>Operating profit, GAAP</b>	<b>133,802</b>	<b>119,729</b>	<b>12%</b>	<b>161,156</b>	<b>161,901</b>	<b>0%</b>	<b>201,969</b>	<b>200,248</b>	<b>1%</b>
Share-based compensation	27,421	25,967	6%	27,676	25,400	9%	28,434	27,356	4%
Gain on deemed disposal	(31,660)	(21,958)	44%	(13,846)	(11,861)	17%	(13,959)	(11,870)	18%
Amortization of intangibles	5,153	5,552	-7%	5,050	5,441	-7%	4,949	5,332	-7%
Impairment provision	13,834	13,003	6%	5,000	5,000	0%	5,000	5,000	0%
<b>Operating profit, adj.</b>	<b>151,449</b>	<b>143,647</b>	<b>5%</b>	<b>185,036</b>	<b>185,881</b>	<b>0%</b>	<b>226,392</b>	<b>226,066</b>	<b>0%</b>
Finance costs, net	(7,154)	(7,672)	7%	(7,840)	(7,840)	0%	(7,840)	(7,840)	0%
Share of profit of associates	(17,136)	(12,988)	-32%	(7,807)	(6,595)	-18%	(4,473)	(2,135)	-110%
<b>Pretax profit</b>	<b>109,512</b>	<b>99,070</b>	<b>11%</b>	<b>145,510</b>	<b>147,466</b>	<b>-1%</b>	<b>189,656</b>	<b>190,274</b>	<b>0%</b>
Taxation	(18,997)	(16,809)	13%	(22,997)	(23,109)	0%	(29,119)	(28,861)	1%
Non-controlling interests	(1,987)	(1,868)	6%	(2,186)	(2,055)	6%	(2,404)	(2,260)	6%
Net profit	88,528	80,393	10%	120,326	122,302	-2%	158,132	159,152	-1%
<b>Net profit, adj.</b>	<b>114,727</b>	<b>110,594</b>	<b>4%</b>	<b>159,716</b>	<b>160,179</b>	<b>0%</b>	<b>198,166</b>	<b>198,976</b>	<b>0%</b>
<b>Diluted EPS, adj. (Rmb)</b>	<b>11.84</b>	<b>11.40</b>	<b>4%</b>	<b>16.33</b>	<b>16.34</b>	<b>0%</b>	<b>20.06</b>	<b>20.10</b>	<b>0%</b>

Margins	New	Old		New	Old		New	New	
	2022E	2022E	diff (pp)	2023E	2023E	diff (pp)	2024E	2024E	diff (pp)
VAS gross margin	50.4%	49.5%	0.9	51.1%	50.1%	1.0	51.4%	50.4%	1.1
Online advertising gross margin	40.9%	40.6%	0.3	47.3%	49.7%	(2.4)	48.6%	50.8%	(2.1)
Fintech & Business services	32.5%	31.2%	1.3	34.3%	32.9%	1.4	36.3%	35.3%	1.0
Others	9.0%	9.0%	0.0	9.0%	9.0%	0.0	9.0%	9.0%	(0.0)
<b>Gross margin</b>	<b>42.6%</b>	<b>41.7%</b>	<b>0.9</b>	<b>44.2%</b>	<b>43.6%</b>	<b>0.6</b>	<b>45.1%</b>	<b>44.5%</b>	<b>0.6</b>
Operating margin, GAAP	23.4%	20.8%	2.6	24.5%	24.2%	0.2	27.0%	26.4%	0.6
<b>Operating margin, non-GAAP</b>	<b>26.5%</b>	<b>25.0%</b>	<b>1.5</b>	<b>28.1%</b>	<b>27.8%</b>	<b>0.3</b>	<b>30.3%</b>	<b>29.8%</b>	<b>0.5</b>
Net margin, GAAP	15.5%	14.0%	1.5	18.3%	18.3%	(0.0)	21.1%	20.9%	0.2
<b>Net margin, non-GAAP</b>	<b>20.1%</b>	<b>19.2%</b>	<b>0.9</b>	<b>24.2%</b>	<b>24.0%</b>	<b>0.3</b>	<b>26.5%</b>	<b>26.2%</b>	<b>0.3</b>

Revenue breakdown	New	Old		New	Old		New	New	
	2022E	2022E	diff (pp)	2023E	2023E	diff (pp)	2024E	2024E	diff (pp)
<b>Online advertising</b>	<b>81,965</b>	<b>80,590</b>	<b>1.7%</b>	<b>96,105</b>	<b>94,543</b>	<b>1.7%</b>	<b>110,935</b>	<b>109,187</b>	<b>1.6%</b>
Media	11,048	10,531	4.9%	11,380	10,847	4.9%	11,380	10,847	4.9%
Social and others	70,917	70,059	1.2%	84,725	83,695	1.2%	99,555	98,340	1.2%
<b>Online games</b>	<b>209,586</b>	<b>211,867</b>	<b>-1.1%</b>	<b>235,367</b>	<b>238,091</b>	<b>-1.1%</b>	<b>265,748</b>	<b>267,884</b>	<b>-0.8%</b>
Desktop gaming	46,223	45,733	1.1%	47,269	46,272	2.2%	48,339	46,818	3.2%
Gross mobile gaming	163,363	166,134	-1.7%	188,097	191,819	-1.9%	217,409	221,067	-1.7%
<b>FinTech &amp; Business Services</b>	<b>186,571</b>	<b>186,809</b>	<b>-0.1%</b>	<b>228,736</b>	<b>233,151</b>	<b>-1.9%</b>	<b>267,697</b>	<b>274,187</b>	<b>-2.4%</b>

Source: Company data, Goldman Sachs Global Investment Research

## Exhibit 12: Tencent financial summary

Income Statement (RMB mn)	2020	2021	2022E	2023E	2024E	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E
Value added services	264,212	291,572	294,410	326,054	361,172	72,443	72,013	75,203	71,913	72,738	71,683	76,114	73,876
Online advertising	82,271	88,666	81,965	96,105	110,935	21,820	22,833	22,495	21,518	17,988	18,638	21,410	23,929
Others incl. FinTech & Business Se	135,581	179,880	194,256	236,805	276,149	41,040	43,413	44,670	50,757	44,745	43,713	49,011	56,787
<b>Total revenues</b>	<b>482,064</b>	<b>560,118</b>	<b>570,632</b>	<b>658,964</b>	<b>748,256</b>	<b>135,303</b>	<b>138,259</b>	<b>142,368</b>	<b>144,188</b>	<b>135,471</b>	<b>134,034</b>	<b>146,535</b>	<b>154,592</b>
Cost of revenues	(260,532)	(314,174)	(327,352)	(367,790)	(410,546)	(72,668)	(75,514)	(79,621)	(86,371)	(78,397)	(76,167)	(83,170)	(89,618)
<b>Gross profit</b>	<b>221,532</b>	<b>245,944</b>	<b>243,280</b>	<b>291,174</b>	<b>337,709</b>	<b>62,635</b>	<b>62,745</b>	<b>62,747</b>	<b>57,817</b>	<b>57,074</b>	<b>57,867</b>	<b>63,365</b>	<b>64,974</b>
Interest income	6,957	6,650	7,543	9,204	12,475	1,614	1,630	1,703	1,703	1,737	1,945	1,889	1,973
Other gains, net	57,131	149,467	24,737	13,846	13,959	19,521	20,763	22,984	86,199	13,133	4,420	3,592	3,592
Sales and marketing	(33,758)	(40,594)	(37,091)	(43,492)	(46,392)	(8,530)	(10,013)	(10,435)	(11,616)	(8,058)	(7,932)	(9,715)	(11,386)
General and administrative	(67,625)	(89,847)	(104,667)	(109,577)	(115,783)	(18,967)	(22,638)	(23,862)	(24,380)	(26,669)	(26,233)	(25,324)	(26,441)
Total operating expenses	(37,295)	25,676	(109,478)	(130,018)	(135,741)	(6,362)	(10,258)	(9,610)	51,906	(19,857)	(27,800)	(29,557)	(32,263)
Operating profit, GAAP	184,237	271,620	133,802	161,156	201,969	56,273	52,487	53,137	109,723	37,217	30,067	33,807	32,711
Operating profit, Non-GAAP	149,404	169,539	151,449	185,036	226,392	42,758	42,802	40,828	33,151	36,538	36,667	39,875	38,368
Taxation	(19,897)	(20,252)	(18,997)	(22,997)	(29,119)	(7,246)	(3,666)	(5,452)	(3,888)	(5,269)	(4,568)	(4,722)	(4,438)
Net profit, GAAP	159,847	224,822	88,528	120,326	158,132	47,767	42,587	39,510	94,958	23,413	18,619	23,199	23,297
Net profit, Non-GAAP	122,742	123,788	114,727	159,716	198,166	33,118	34,039	31,751	24,880	25,545	28,139	31,046	29,997
Diluted EPS, Non-GAAP (Rmb)	12.74	12.78	11.84	16.33	20.06	3.42	3.50	3.27	2.55	2.62	2.90	3.21	3.09
<b>Margins</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>1Q21</b>	<b>2Q21</b>	<b>3Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22E</b>	<b>4Q22E</b>
Gross margin	46.0%	43.9%	42.6%	44.2%	45.1%	46.3%	45.4%	44.1%	40.1%	42.1%	43.2%	43.2%	42.0%
Operating margin, non-GAAP	31.0%	28.5%	26.5%	28.1%	30.3%	31.6%	31.0%	28.7%	23.0%	27.0%	27.4%	27.2%	24.8%
Net margin, non-GAAP	25.5%	22.1%	20.1%	24.2%	26.5%	24.5%	24.6%	22.3%	17.3%	18.9%	21.0%	21.2%	19.4%
<b>Revenue breakdown</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>1Q21</b>	<b>2Q21</b>	<b>3Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22E</b>	<b>4Q22E</b>
Online advertising	82,271	88,666	81,965	96,105	110,935	21,820	22,833	22,495	21,518	17,988	18,634	21,410	23,929
Media	14,277	13,313	11,048	11,380	11,380	3,339	3,300	3,473	3,200	2,300	2,500	2,952	3,296
Social and others	67,994	75,353	70,917	84,725	99,555	18,481	19,533	19,022	18,318	15,688	16,134	18,458	20,633
Gaming	191,155	210,010	209,586	235,367	265,748	53,400	51,800	54,210	50,600	52,400	51,600	54,275	51,311
Mobile Gaming	146,617	164,810	163,363	188,097	217,409	41,500	40,800	42,510	40,000	40,300	40,000	42,458	40,605
Desktop Gaming	44,538	45,200	46,223	47,269	48,339	11,900	11,000	11,700	10,600	12,100	11,600	11,817	10,706
FinTech	104,599	136,641	151,728	183,440	210,851	31,493	33,929	34,519	36,700	35,459	34,723	38,995	42,552
Cloud	23,487	35,554	34,843	45,296	56,846	7,535	7,963	8,798	11,258	7,309	7,485	8,622	11,426
<b>YoY</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>1Q21</b>	<b>2Q21</b>	<b>3Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22E</b>	<b>4Q22E</b>
Total revenues	28%	16%	2%	15%	14%	25.2%	20.3%	13.5%	7.9%	0.1%	-3.1%	2.9%	7.2%
Online advertising	20%	8%	-8%	17%	15%	23.2%	23.1%	5.4%	-12.7%	-17.6%	-18.4%	-4.8%	11.2%
Media	-8%	-7%	-17%	3%	0%	7.0%	0.3%	-3.5%	-25.0%	-31.1%	-24.2%	-15.0%	3.0%
Social and others	29%	11%	-6%	19%	18%	26.6%	28.0%	7.2%	-10.2%	-15.1%	-17.4%	-3.0%	12.6%
Gaming	35%	10%	-0.2%	12%	13%	14.7%	10.4%	6.7%	7.9%	-1.9%	-0.4%	0.1%	1.4%
Mobile Gaming	56%	12%	-1%	15%	16%	19.4%	13.4%	8.5%	9.0%	-2.9%	-2.0%	-0.1%	1.5%
Desktop Gaming	-6%	1%	2%	2%	2%	0.9%	0.8%	0.6%	3.9%	1.7%	5.5%	1.0%	1.0%
FinTech	24%	31%	11%	21%	15%	43.7%	37.8%	25.0%	20.5%	12.6%	2.3%	13.0%	15.9%
Cloud	38%	51%	-2%	30%	26%	65.0%	52.0%	56.0%	40.0%	-3.0%	-6.0%	-2.0%	1.5%
Gross profit	32%	11%	-1%	20%	16%	18.6%	17.9%	10.8%	-1.8%	-8.9%	-7.8%	1.0%	12.4%
Operating profit, Non-GAAP	30%	7%	-5%	22%	22%	20.2%	13.7%	7.1%	-13.0%	-14.5%	-14.3%	-2.3%	15.7%
Net profit, Non-GAAP	30%	1%	-7%	39%	24%	22.3%	12.9%	-1.7%	-25.1%	-22.9%	-17.3%	-2.2%	20.6%
Diluted EPS, Non-GAAP (Rmb)	31%	0%	-7%	38%	23%	21.2%	11.9%	-1.4%	-25.4%	-23.3%	-17.4%	-1.9%	21.5%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 13: Our SOTP-based 12-m TP for Tencent is now at HK\$502 per share

SUM OF PARTS	% owned	Valuation US\$m	Valuation Rmb mn	To Tencent (US\$m)	To Tencent (Rmb mn)	Rmb/bsh	HK\$/sh	% Val	COMMENT	TICKER
<b>CORE BUSINESS</b>										
Entertainment	93.4%	307,801	2,031,485	287,545	1,697,757	196	232	48%		
Gaming	94.8%	289,400	1,910,434	274,392	1,810,987	187	221	44%	@ 17x PE, 23E	
Tencent Video	100%	6,639	44,212	6,639	44,212	4.6	5.4	1%	@ DCF (14% WACC, 5% g)	
Tencent Music	99%	6,000	39,000	3,330	22,018	2.3	2.7	1%	GS target valuation	TME US
China Literature	57%	4,667	30,804	2,654	17,517	1.8	2.1	0%	Market cap	772 HK
Huya	48%	575	8,435	484	3,063	0.3	0.4	0%	Market cap	HUYA US
Advertising (ex video)	100%	96,081	647,334	98,081	647,334	66.8	79.0	16%	@ 17x PE, 23E	
FinTech (FIT) (x-WeBank)	100%	106,298	721,364	106,298	721,364	74.6	98.0	18%	SOTP	
Cloud	100%	34,315	229,478	34,315	229,478	23.4	27.6	6%	@ 5x rev, 23E	
Other	100%	1,672	12,352	1,672	12,352	1.3	1.5	0%	@ 0.5x rev, 23E	
<b>CORE</b>		<b>591,356</b>	<b>3,639,913</b>	<b>531,110</b>	<b>3,305,320</b>	<b>361.9</b>	<b>427.7</b>	<b>83%</b>		
<b>ENTERTAINMENT (a+b)</b>										
<b>a. Games</b>										
Epic Games	42.0%	47,352	372,525	19,888	131,200	13.0	16.0	3%	0x 23E revenue	
Sea Ltd	16.9%	121,987	804,986	20,674	136,760	14.0	18.8	3%	GS target valuation	SE US
Activision Blizzard	5.0%	61,687	407,002	3,077	20,309	2.1	2.5	0%	Market cap	ATVI US
NetMarble	17.5%	5,379	35,459	942	8,219	0.6	0.8	0%	GS target valuation	251270 HK
Ubisoft	6.0%	6,308	36,023	288	1,783	0.2	0.2	0%	GS target valuation	UBSFY
Kingspot	7.8%	4,338	28,531	337	2,227	0.2	0.3	0%	Market cap	3885 HK
Cheatah	16.0%	96	633	18	105	0.0	0.0	0%	Market cap	CMCM US
Century Hualong	10.0%	6,148	39,967	616	3,397	0.4	0.4	0%	Market cap	002802 CH
Archosaur Games	16.9%	518	3,421	87	577	0.1	0.1	0%	Market cap	9890 HK
iDreamSky	16.0%	512	8,021	170	1,119	0.1	0.1	0%	Market cap	1119 HK
Sasun	9.9%	1,440	9,507	143	941	0.1	0.1	0%	Last transaction value	
Carpalm Co. Ltd.	4.0%	1,304	8,505	52	342	0.0	0.0	0%	Market cap	300315 CH
Feiyu	15.2%	97	843	15	98	0.0	0.0	0%	Market cap	1622 HK
Krafton	14.2%	7,857	51,857	1,116	7,364	0.8	0.9	0%	GS target valuation	26890 KS
Investments in 2021				3,885	25,544	2.0	3.1	1%		
<b>Total Gaming</b>	<b>19.4%</b>	<b>263,281</b>	<b>1,738,317</b>	<b>51,083</b>	<b>337,146</b>	<b>34.8</b>	<b>41.1</b>	<b>8%</b>		
<b>b. Non-game Entertainment</b>										
Snapchat	15.4%	20,846	137,577	3,204	21,140	2.2	2.6	1%	GS target valuation	SNAP US
Spotify	9.5%	28,048	171,925	2,227	14,858	1.5	1.8	0%	GS target valuation	SPOT US
Kuoshou	17.0%	47,200	311,919	8,030	52,956	5.6	6.5	1%	Market cap	1624 HK
Bilibili	11.3%	12,148	80,161	1,370	9,040	0.9	1.1	0%	GS target valuation	BLI US
Zhu	12.9%	1,773	11,704	229	1,509	0.2	0.2	0%	GS target valuation	ZHU US
Hengshen Networks	19.7%	3,314	21,873	553	4,309	0.4	0.5	0%	Market cap	130 HK
Soul	46.0%	741	4,892	370	2,441	0.3	0.3	0%	Last transaction value	
Dooyu	36.9%	403	2,861	149	962	0.1	0.1	0%	Market cap	DOYU US
OHV Holdings	43.0%	6,001	40,000	2,600	17,200	1.6	2.1	0%	Last transaction value	
Huiyi Brothers	7.5%	1,159	7,847	91	603	0.1	0.1	0%	Market cap	30027 CH
Quotidiao	5.8%	39	159	2	12	0.0	0.0	0%	Market cap	QITI US
<b>Total Other Entertainment</b>	<b>16.6%</b>	<b>124,607</b>	<b>824,766</b>	<b>19,425</b>	<b>128,206</b>	<b>13.2</b>	<b>15.6</b>	<b>3%</b>		
<b>TOTAL (a+b)</b>	<b>18.2%</b>	<b>388,349</b>	<b>2,563,102</b>	<b>70,508</b>	<b>465,352</b>	<b>48.0</b>	<b>56.8</b>	<b>11%</b>		
<b>Ecommerce, O2O</b>										
Meituan	17.6%	187,794	1,239,371	31,977	211,047	21.8	26.8	6%	GS target valuation	3890 HK
JD.com	2.4%	142,838	943,393	3,359	22,170	2.3	2.7	1%	GS target valuation	JD US
Pinduoduo	15.5%	128,804	849,789	19,921	131,477	13.6	16.0	3%	GS target valuation	PDD US
KDC Holdings	16.8%	28,081	185,200	3,039	20,057	2.1	2.4	0%	GS target valuation	BEKE US
Didi Global	6.4%	7,297	47,890	464	3,001	0.3	0.4	0%	Market cap	DDI US
TongshangElong	21.6%	5,840	37,225	1,219	8,044	0.8	1.0	0%	GS target valuation	780 HK
Vipshop	9.4%	7,831	51,684	738	4,856	0.5	0.6	0%	GS target valuation	VIPS US
Medbank	27.7%	1,096	11,190	409	3,090	0.3	0.4	0%	Last transaction value	
Yangshu	5.3%	6,496	38,289	290	1,911	0.2	0.2	0%	Market cap	801923 CH
Hailan Home	5.5%	3,112	20,538	172	1,134	0.1	0.1	0%	Market cap	800358 CH
Yidu Tech	2.6%	4,399	29,033	125	825	0.1	0.1	0%	GS target valuation	2158 HK
Baiter Life Commercial	6.0%	822	5,428	49	328	0.0	0.0	0%	Market cap	002281 CH
Leju	15.0%	30	197	5	31	0.0	0.0	0%	Market cap	LEJU
<b>TOTAL</b>	<b>11.6%</b>	<b>572,668</b>	<b>3,779,510</b>	<b>66,339</b>	<b>437,838</b>	<b>46.2</b>	<b>54.4</b>	<b>11%</b>		
<b>Auto</b>										
Nio	10.5%	51,007	340,339	5,412	30,718	3.7	4.4	1%	GS target valuation	NIO US
Tesla	0.1%	1,176,226	7,768,488	1,176	7,768	0.8	0.9	0%	GS target valuation	TLA US
NanInfo	4.6%	4,793	31,636	220	1,452	0.1	0.2	0%	Market cap	002405 CH
<b>TOTAL</b>	<b>0.6%</b>	<b>1,231,676</b>	<b>8,129,062</b>	<b>6,807</b>	<b>44,927</b>	<b>4.6</b>	<b>5.5</b>	<b>1%</b>		
<b>Financials</b>										
WeBank	30.0%	12,466	82,269	3,739	24,081	2.5	3.0	1%	GS target valuation	
CICC	4.6%	12,633	89,978	611	4,021	0.4	0.6	0%	GS target valuation	3908 HK
ZhongAn Online	2.7%	4,701	31,029	125	828	0.1	0.1	0%	Market cap	8080 HK
Futu Holdings	19.6%	7,063	46,613	1,400	9,238	1.0	1.1	0%	GS target valuation	FUTU US
Lihlogis	14.7%	3,674	24,261	540	3,666	0.4	0.4	0%	GS target valuation	9669 HK
Waterdrop	20.4%	718	4,737	148	968	0.1	0.1	0%	GS target valuation	WDH US
Yixin Group	56.5%	696	5,926	368	3,268	0.3	0.4	0%	Market cap	2658 HK
Nubank	1.2%	50,696	334,590	808	4,015	0.4	0.5	0%	GS target valuation	NU US
<b>TOTAL</b>	<b>8.2%</b>	<b>93,847</b>	<b>619,393</b>	<b>7,668</b>	<b>50,510</b>	<b>5.2</b>	<b>6.2</b>	<b>1%</b>		
<b>Internet &amp; Software</b>										
Kanzhun	8.2%	13,131	88,662	1,081	7,132	0.7	0.9	0%	GS target valuation	BZ US
Kooen	1.0%	2,400	10,211	39	200	0.0	0.0	0%	Market cap	1787 HK
Waimob	8.5%	1,640	10,825	139	919	0.1	0.1	0%	Market cap	2013 HK
Youzan	6.0%	580	3,827	36	230	0.0	0.0	0%	Market cap	8083 HK
Kingspot Office	4.6%	12,697	80,077	588	3,739	0.4	0.5	0%	Market cap	808111 CH
Sunline Tech	6.7%	1,009	8,667	87	444	0.0	0.1	0%	Market cap	300348 CH
Changshun Beijing	2.7%	1,409	9,300	67	248	0.0	0.0	0%	Market cap	001028 CH
DIC Software	6.0%	2,673	19,064	145	968	0.1	0.1	0%	Market cap	002065 CH
Weaver Network	4.9%	1,428	9,422	70	461	0.0	0.1	0%	Market cap	803039 CH
Boas Software	6.4%	1,309	8,636	110	723	0.1	0.1	0%	Market cap	300525 CH
TUYA	10.4%	1,481	9,775	154	1,015	0.1	0.1	0%	Market cap	TUYA US
<b>TOTAL</b>	<b>6.1%</b>	<b>39,903</b>	<b>263,398</b>	<b>2,443</b>	<b>15,124</b>	<b>1.7</b>	<b>2.0</b>	<b>0%</b>		
<b>Others</b>										
Sunao Services	3.2%	1,559	10,290	50	332	0.0	0.0	0%	GS target valuation	1516 HK
China South City	11.8%	889	5,870	105	653	0.1	0.1	0%	Market cap	1066 HK
Excellence Commercial Property & Facilities Mgmt.	2.7%	693	3,849	18	103	0.0	0.0	0%	Market cap	8989 HK
China United Network Communications	5.2%	19,684	129,912	1,022	8,742	0.7	0.8	0%	GS target valuation	800090 CH
Investments in 2021				3,885	25,844	2.6	3.1	1%		
<b>TOTAL</b>		<b>26,533</b>	<b>169,920</b>	<b>6,551</b>	<b>43,236</b>	<b>4.6</b>	<b>5.3</b>	<b>1%</b>		
<b>Investment total</b>			<b>15,747,446</b>	<b>180,316</b>	<b>1,058,085</b>	<b>109</b>	<b>129</b>	<b>26%</b>		
<b>Net CASH</b>		<b>117</b>		<b>117</b>	<b>773</b>	<b>0.1</b>	<b>0.1</b>	<b>0%</b>	2022 net cash	
<b>NAV (pre holdco discount)</b>		<b>691,543</b>		<b>691,543</b>	<b>4,584,163</b>	<b>471</b>	<b>557</b>			
<b>Less holdco discount</b>	<b>-10%</b>	<b>(69,154)</b>		<b>(69,154)</b>	<b>(400,418)</b>	<b>(47)</b>	<b>(20)</b>	<b>-11%</b>		
<b>NAV</b>		<b>622,389</b>		<b>622,389</b>	<b>4,107,764</b>	<b>424</b>	<b>502</b>			

Source: Company data, Bloomberg, Goldman Sachs Global Investment Research

# Disclosure Appendix

## Reg AC

We, Ronald Keung, CFA, Lincoln Kong, CFA, Timothy Zhao, Steve Qiu and Lynn Li, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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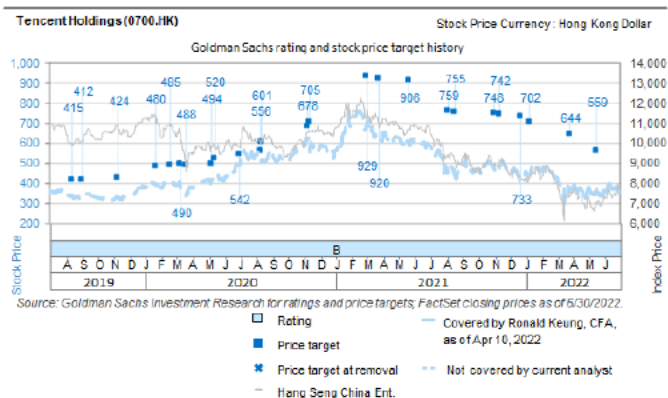
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