農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Tencent (700 HK, BUY)
China Internet Sector
Nov 14, 2024

Tencent (700 HK)
Gaining strength in online gaming

- Accelerating growth in online game revenue illustrates strengthened market position thanks to new game launches
- Ongoing margin improvement set to continue in the near term
- Maintain **BUY** on dominant market position in the online entertainment industry and shareholders' return initiatives

Company Report
Nov 14, 2024
Rating: BUY
TP: HK$ 540

Analyst : Chow Sau Shing
Tel: (852) 2147 8809
stevechow@abci.com.hk

Gaining strength in online gaming. Driven by strong performance of flagship games such as *DNF Mobile*, *Honor of Kings* (*HoK*) and *Peacekeeper Elite*, Tencent's online gaming revenue growth accelerated to 13% YoY in 3Q24 vs. 9% YoY in the previous quarter, illustrating a strengthened market position. This has helped Tencent to deliver 8% revenue growth in 3Q24.

Ongoing profitability improvement. Core net profit increased by 33% YoY to RMB 59.8bn in 3Q24. Due to ongoing cost-cutting and operational improvement, core net margin increased from 29.1% in 3Q23 to 35.8% in 3Q24.

Tapping into e-commerce. The Company has been developing social e-commerce marketplace, Mini Shops, to leverage its Weixin user base. Although it is still in the early development stage, we see medium-term monetization potential in terms of advertising and other valued-added services. Note that e-commerce-related advertising revenue increased in 3Q24, offsetting the declines in some other categories.

Maintain BUY on Tencent for its dominant market position in the online entertainment industry, ongoing margin improvement, and shareholders' return initiatives, including its HK$ 100bn share repurchase program. Our SOTP-based TP is HK$ 540, implying 19.3x 2025E core P/E. The counter is currently trading at ~14.5x 2025E core P/E, which presents a reasonable entry point for long-term investors, in our view.

Share price (HK$)	406.8
Est. share price return	32.7%
Est. cash dividend yield	1.3%
Est. total return	34.0%
Previous Rating &TP	BUY, HK$535
Previous Report Date	Nov 1, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK$)	482.4/260.2
Issued shares (mn)	9,267
Market cap (HK$ mn)	3,887,381
Avg daily turnover (HK$ mn)	10,137
Major shareholder(s)	
Naspers	25.4%
Huateng Ma	8.6%

Source(s): Bloomberg, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	-7.1	0.4
3-mth	8.3	-5.7
6-mth	6.1	3.8

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance(HK$)

Source(s): Bloomberg, ABCI Securities

Results and Valuation

| FY ended Dec 31	2022A	2023A	2024E	2025E
Revenue (RMB mn)	554,552	609,015	658,269	721,035
Chg (%,YoY)	(1.0)	9.8	8.1	9.5
Net profit (RMB mn)	188,243	115,216	204,876	203,699
Chg (%,YoY)	(16.3)	(38.8)	77.8	(0.6)
Non-GAAP net profit (RMB mn)	115,649	157,688	210,207	237,982
Chg (%,YoY)	(6.6)	36.4	33.3	13.2
EPS (RMB)	19.8	12.2	21.9	22.0
Chg (%,YoY)	(16.3)	(38.3)	79.6	0.4
Non-GAAP EPS (RMB)	12.1	16.7	22.5	25.7
Chg (%,YoY)	(6.6)	37.4	34.7	14.4
Core P/E (x)	30.7	22.4	16.6	14.5
P/B (x)	4.9	4.4	3.7	3.2
ROAE (%)	22.7	13.9	21.7	18.7
ROAA (%)	11.8	7.3	12.4	11.3
Cash DPS(HKD)	2.4	3.4	4.5	5.1
Cash dividend Yield (%)	0.6	0.8	1.1	1.3

Source(s): Bloomberg, ABCI Securities estimates

Financial Outlook

We expect revenue to grow at a 9% CAGR in 2023-25E.

Online gaming: We expect revenue to grow at a 7% CAGR in 2023-25E due to continued new game launches, cushioning the impact of low consumer spending on online entertainment. Within its gaming portfolio, its flagship games, *HoK* and *Peacekeeper Elite,* have shown improved performance in recent months, driven by enhanced content design after experiencing declines in gross receipts in early 2023. In addition, its new flagship game, *DNF Mobile*, has achieved top 3 positions on China's iOS platform in recent months, in line with *HoK and Peacekeeper Elite.* Other notable titles, such as *LOL Mobile, The Golden Spatula,* and *Naruto Mobile,* have maintained a largely stable ranking over the past months.

Exhibit 1: China mobile game - gross receipt ranking (iOS platform)
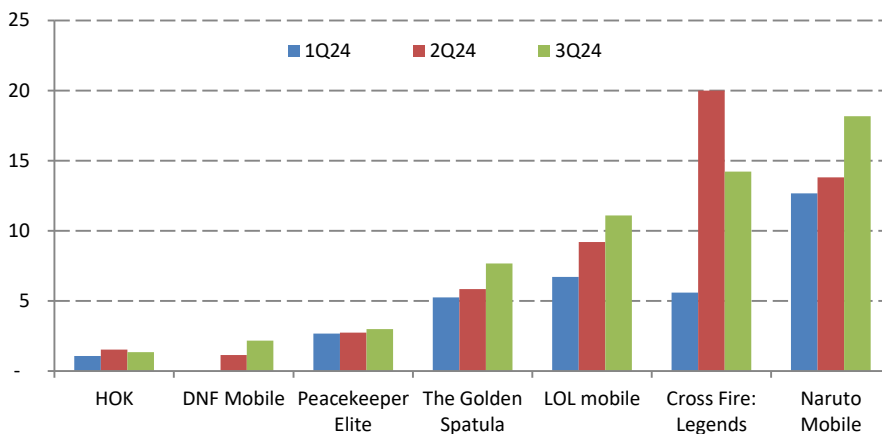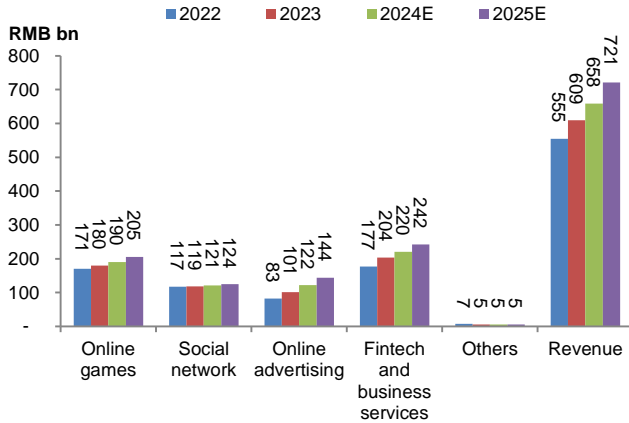

Source(s): Qimai, ABCI Securities

Social network: We expect social network revenue to increase at a 2% CAGR in 2023-25E driven by ongoing content enhancement and short-video initiatives.

Online advertising: We expect the segment revenue growth to reach 19% CAGR in 2023-25E, driven by ongoing adoption of AI-powered targeting tools leading to better ROI for advertisers, and the persisting growth of advertising in Video Accounts, Mini Stores, and Mini Programs.

FinTech and business services: We expect segment revenue to increase at 9% CAGR in 2023-25E driven by retail commercial activities. In addition, the Company has recently launched the MaaS solutions for cloud business, which allow enterprises to develop customized AI models.

Tencent has implemented various cost-control measures, including closure of non-core businesses and rationalizing underperforming businesses. We expect such efforts to continue and SG&A cost-to-revenue ratio to fall from 22.6% in 2023 to 22.1% in 2025E.
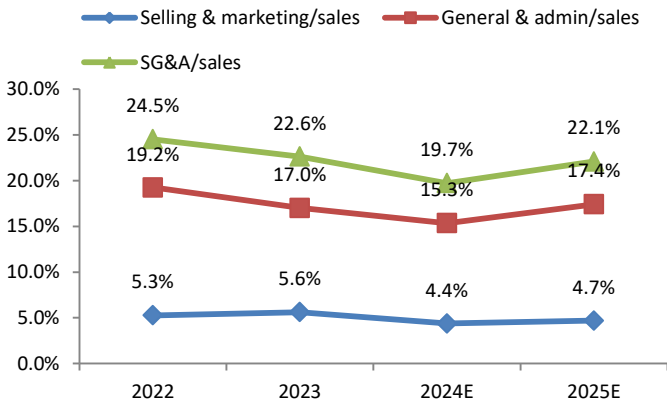
Core net margin (excl. impacts of share-based compensation and other non-operating items) would improve from 25.9% in 2023 to 33.0% in 2025E.
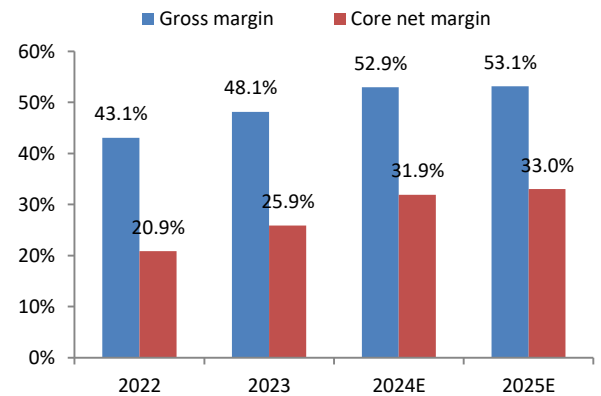
Exhibit 2: Revenue outlook

Source(s): Company, ABCI Securities estimates

Exhibit 3: Revenue mix outlook
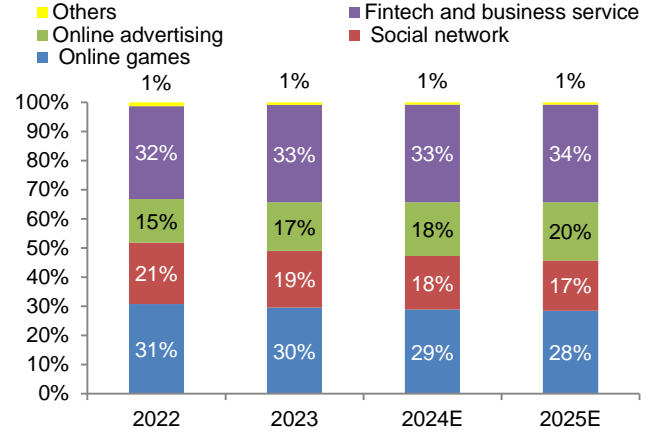
Source(s): Company, ABCI Securities estimates

Exhibit 4: Cost trend (% of revenue)

Source(s): Company, ABCI Securities estimates

Exhibit 5: Margin outlook

Source(s): Company, ABCI Securities estimates

Exhibit 6: Financial forecast changes

|	2024E			2025E			
	old	new	Diff	old	new	Diff	Comment
Revenues	658,269	658,269	0%	721,035	721,035	0%	Cost optimization and operational improvement
Core profit	204,497	210,207	3%	233,052	237,982	2%	

Source(s): ABCI Securities estimates

Valuation and recommendation

We maintain **BUY** on Tencent for its dominant market position in the online entertainment industry, ongoing cost optimization, and shareholders' return initiatives. Our revised SOTP-based TP is HK$ 540, implying 19.3x 2025E core P/E. The counter is currently trading at about 14.5x 2025E P/E, which presents a reasonable entry point for long-term investors, in our view.

Within the internet universe, we believe the online gaming industry has a more stable competitive environment than the e-commerce and local services segments due to regulatory barriers for new game approvals and long development cycles of blockbuster games, which discourage potential new entrants such as the short-video platforms.

Exhibit 7: Forward P/E
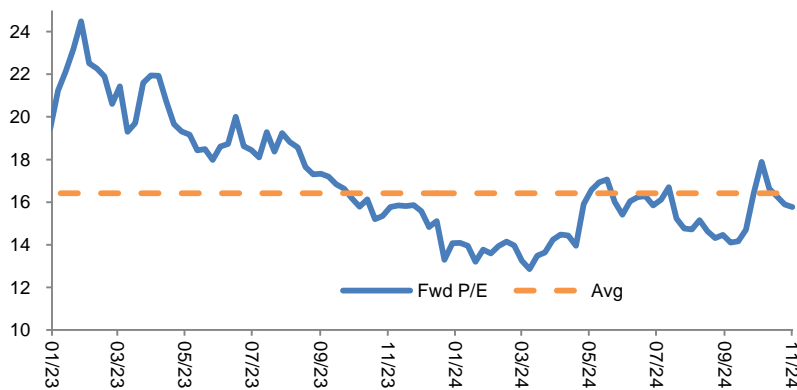
Source(s): Bloomberg, ABCI Securities

Exhibit 8: SOTP-based TP (HK$ per share)

		Remarks
Core business	475	17x 2025E core P/E
Investments	65	Book value with a 30% discount
Total	**540**	

Source(s): ABCI Securities estimates

Exhibit 9: TP changes (HK$ per share)

Old	New	Remark
535	**540**	SOTP with revised financial forecast

Source(s): ABCI Securities estimates

Company profile

Business

- **Largest online gaming platform in China** with an estimated market share roughly in the 40s range. Flagship games include *HoK, Peacekeeper Elite, PUBG Mobile, League of Legends*, and more
- Online gaming revenue size about 2.5x vs. NetEase (9999 HK), its closest follower
- Sizable **international gaming** portfolio via *Supercell, Riot Games*, etc., and cooperation with other gaming studios. International games account for about 30% of total gaming revenue currently
- **Largest communications and social network platform in China,** offering various features such as chat, Moments, Video Accounts, Mini Programs, and Official Accounts, with over 1.3bn MAUs. Monetization of traffic mainly via online advertising and fee-based subscriptions of premium content
- Some degree of cooperation with other major online platforms such as Douyin by mutually and partially opening each other's ecosystem for traffic/content sharing
- One of the largest mobile payment platforms in China
- A major public cloud platform in China with market share in the teens level; expanded into AI areas and launched Model-as-a-Service (MaaS) recently
- **Rolling out AI foundation models** such as *Tencent Hunyuan* to enhance product innovations, monetization, and operational efficiency. For example, the company has adopted AI-powered targeting tools, which lead to better ROI for advertisers

Tencent's ecosystem at a glance

Financials

- **Revenue mix (1H24)**
    - **VAS (50%):** Domestics games, international games, social networks (digital content/membership/virtual items)
    - **Online advertising (18%):** Social network (Weixin Moments/VideoAccounts/Mini Programs), content platform (video/music/news/etc.), and others
    - **FinTech and business service/others (32%):** Consumer driven (payment/wealth management/consumer loans/etc.) and enterprise-driven (cloud and others)
- VAS and online advertising enjoyed a higher gross margin (in the 50s) than FinTech and business services (in the 40s)
- Core net margin in the 30s level in recent quarters
- **One of the highest R&D spending** among major online platforms to enhance long-term competitiveness
- **Strong balance sheet** with RMB 778bn in investments, RMB 343bn in cash/term deposit against RMB 330bn in debt as of Sep 2024

Management and shareholder

- **Prosus's divestment:** Tencent's strategic shareholders, Naspers/Prosus (Prosus is majority owned by Naspers), announced in Jun 2022 to dispose of Tencent's stake orderly in the open market to fund its own share repurchase program. Its stake in Tencent has gradually reduced from 27.99% in Sep 8, 2022 to 24.99% in Dec 7, 2023
- Ma Huateng's shareholding and management team have remained largely stable in recent years

| **Shareholders' return** |
|---|
| • **Divested non-core investments,** including Meituan (3690 HK), to enhance shareholder returns through dividends distributed in specie |
| • **Sizable potential target of future divestment:** Pinduoduo (PDD US, ~ 17.2% stake), Kuaishou (1024 HK, ~ 15.5% stake) |
| • **Share repurchase:** The company targets to repurchase over HK$ 100bn of shares in 2024 |
| • **Upsized dividend** of HK$ 3.4 per share in 2023 compared to HK$ 2.4 per share in 2022 |

Corporate governance
• Various ESG initiatives
• No major regulatory fines/investigations in recent years

Segment profile: Online gaming

- China's online gaming market is **dominated by a handful of major players**. We estimate the top three players collectively accounted for over 50% of the market share, while the rest is more fragmented with numerous smaller game developers. Tencent is a distant leader with a revenue size 1.8x-2x of that of the second-largest player, NetEase. The third-largest player MiYoHo, due to its much smaller gaming portfolio than NetEase's, presents no major challenges to the latter in our view

- **Top 10 mobile games in China:** Tencent usually occupied 3-5 positions within the top 10 grossing mobile games in China, with its three major mobile games *DNF Mobile, HoK,* and *Peacekeeper Elite* within the top 5. NetEase, on the other hand, generally occupied 2-3 positions within the top 10, which usually includes *Fantasy Westward Journey*.

- Desktop PC games, on the other hand, have turned less popular in recent years as users shift to mobile games along with the widespread use of smartphones and tablets.

- In our view, **regulatory hurdles on new game approvals and long development cycles of blockbuster games discourage potential new entrants**, including the short-video platforms. This results in a **more stable competitive environment than in other subsegments,** such as e-commerce and local service, in recent years.

- One of the new entrants, **Douyin, has decided to exit the online gaming market** after brief attempts.

- The ongoing development of **generative AI** can help game developers shorten development time, reduce cost, and enhance game design, personalized player experiences, etc. As a result, this could potentially lead to increasing competition due to accelerated development cycles and lower entry barrier.

- **New game approvals** were resumed in Apr 2022 after suspending for eight months. The regulator has granted new game approvals in most months since then. The average number of approved new games per month has been gradually increasing. In addition, most games approved were from smaller game developers in the initial months after resumption, though approvals ha gradually extended to games on the larger online gaming platforms later on.

- **Tightened regulatory requirements** on user time for youngsters, gaming content, monetization method, etc. in recent years. In Dec 2023, the regulator proposed potential new online gaming rules that would tighten various user incentive mechanisms sveuch as daily login rewards, first-time spending rewards, and tighter requirements for sales of virtual items, although implementation details are still uncertain at the moment

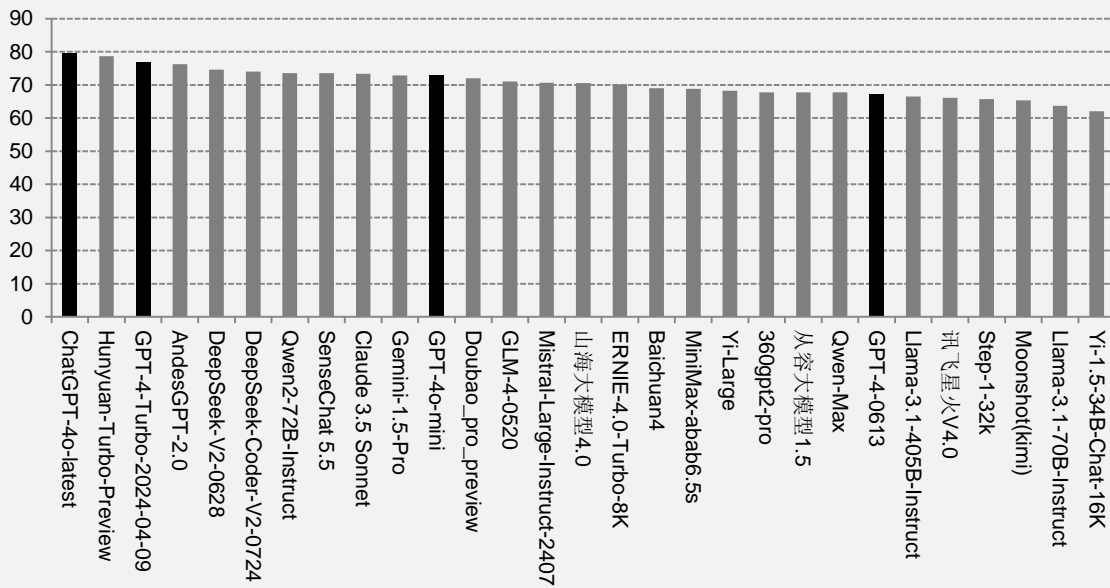**Exhibit 10: No. of new online game approval**
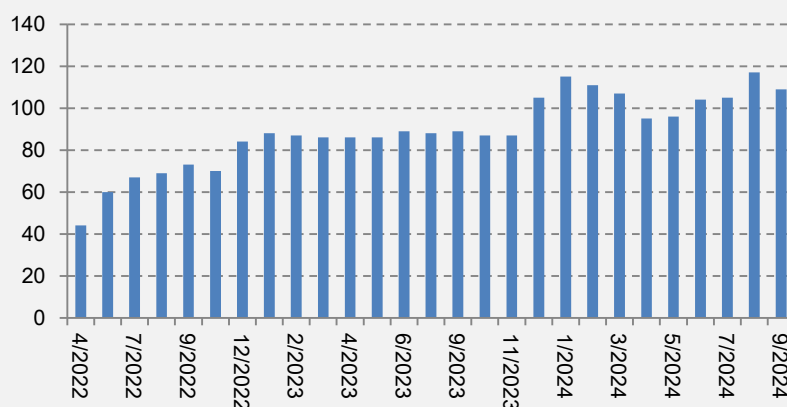
Source(s): Sapprft, ABCI Securities

Segment profile: Generative AI

- Many internet companies have been actively developing generative AI models, and **competition** in this emerging segment has been growing

- **Parameter count is a crucial attribute of language models**, as it directly influences their complexity and expressive capabilities. In recent years, there has been a **trend of increasing parameter counts in language models**, driven by advancements in hardware and optimization techniques. A higher parameter count allows a model to handle more complex tasks and process larger amounts of data. Having said that, while parameter count is an important factor, the **effectiveness of a language model also depends on a combination of factors, including training methodology, data quality, etc**. For instance, *LaMDA*, designed primarily for dialogue applications, is trained using specialized dialogue data to generate "human-like" responses. In contrast, *ChatGPT*'s training draws from a vast dataset comprising approximately 45TB of text data sourced from web pages, forums, internet books, and other sources. Additionally, human AI trainers optimize and fine-tune *ChatGP*T's performance. These differing training methodologies can lead to diverse performance outcomes when the AI model engages in various tasks.

- In addition to increasing parameter count, another significant development trend of model development is the **shift from single-model to multi-model approaches**. **Multi-modal GPT** models can handle **multiple types of inputs and outputs, such as text-to-image, image-to-text, audio-to-text, etc.** The evolution of multimodal GPT represents a significant advancement in AI capabilities, extending beyond text-based models to handle diverse inputs and outputs such as text, image, video, and audio. By integrating multimodal inputs and outputs, these models can potentially analyse and generate rich, diverse content across multiple modalities. For instance, *GPT-4o* is a multimodal model equipped to handle inputs/outputs in various formats, such as text, images, and audio.

- Generative AI models offer interactive features such as interactive dialogue, content (text and graphic) generation, etc. Platforms can utilize these features to **improve overall user experience and stickiness and explore monetization opportunities**

- Selected platforms have adopted an **open-source AI strategy,** which allows other enterprises to develop their own AI models based on the open-sourced model. E.g., a major online platform has built one of the largest open-source AI developer communities in China. Its developer community, ModelScope, has gathered over 2,300 AI models, attracting 2.8mn AI developers and over 100mn cumulative model downloads. It has also launched the open-source version of its *Tongyi Qianwen* models. In our view, this could **lower the entry barrier of AI model development especially for smaller enterprises**

- Major internet companies in China have been actively developing AI models. According to CLUE, a testing platform for Chinese large language models, there has been notable improvement in testing scores for these Chinese models. In addition, it suggests that **leading Chinese models are closing the gap with *GPT-4o* in the Chinese language environment.** Having said that, evaluating the performance of large language models remains a complex task, as these models have high complexity and diversity, making it challenging to devise standardized evaluation methodologies. Despite these challenges, the testing results offer insights into the overall technological progress and competitiveness of Chinese language models.

- **The regulatory environment of generative AI is an evolving one**, given the industry is still in its early stage. Recently announced generative AI measures that include prohibiting generative AI services to generate inappropriate contents, leveraging algorithms, data, and other information to engage in monopoly and unfair competition, etc. In addition, it required generative AI service providers to conduct security reviews and register their AI models/algorithms with regulators before product launch. Looking forward, regulators might fine-tune existing measures or introduce rules following the development of the industry

農 銀 國 際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Tencent (700 HK, BUY)
China Internet Sector
Nov 14, 2024

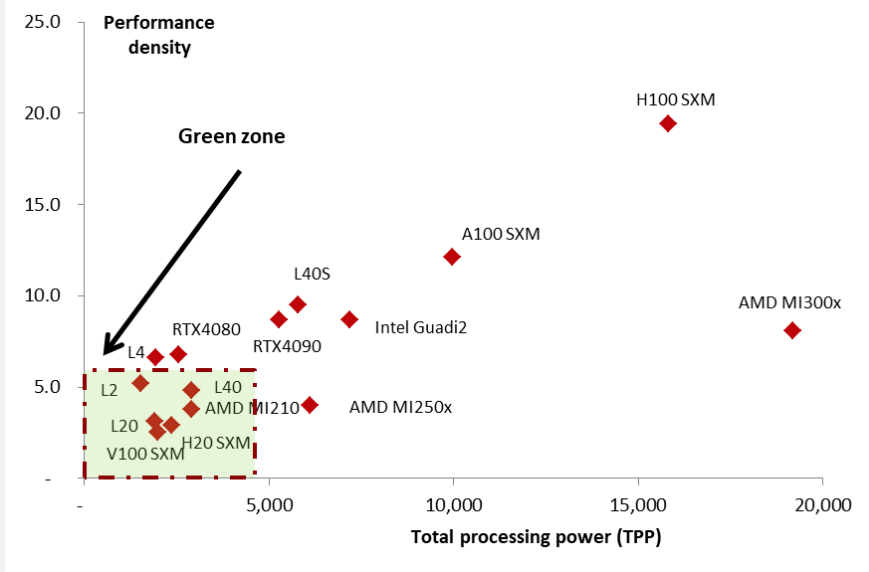**Exhibit 11: SuperCLUE benchmark test results (9/2024)**

Source(s): CLUE

- **US's export control of high-end AI chips** could hinder the industry development in the long run given the intensive computing power (GPU) required for training and running AI models. Currently, the thresholds for export control include total processing performance of 4,800 (TOPS x bit length) and performance density (performance power per die area) of 5.92. As a result, various server-grade GPU models of Nvidia (NVDA US) such as A100, A800, H100, H800, L40, and L4 have been restricted from exporting to China. In our view, **these thresholds are strict**, and the high-end consumer-grade GPU RTX4090 falls within these thresholds

- On a positive note, **Nvidia has developed various models such as H20, L20, and L2 within these regulatory thresholds for the China market,** which helps reduce some restriction impacts. **Nevertheless, the processing powers of these customized chips are inferior compared with their official models.** The following chart compares the performance metrics of various GPUs. Note that only those in the left lower corner belong to the "green zone" under the current US regulatory environment, meaning that the items can be exported without regulatory control

- In response, the **Chinese companies are developing their own AI chips.** For example, Huawei is reportedly planning to launch Ascend 910C, a GPU comparable to Nvidia's H100 in terms of performance. Its production volume could be constrained by SMIC (981 HK)'s advanced chip production capability

農 銀 國 際

ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Tencent (700 HK, BUY)
China Internet Sector
Nov 14, 2024

Exhibit 12: Performance comparison of major AI chips

Source(s): Companies, Semianalysis, ABCI Securities

農 銀 國 際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Financial forecast

Consolidated income statement (2022A-2025E)

FY Ended Dec 31 (RMB mn)	2022A	2023A	2024E	2025E
VAS	287,565	298,375	311,032	329,871
Online advertising	82,729	101,482	121,778	143,699
FinTech and business service	177,064	203,763	220,064	242,070
Others	7,194	5,395	5,395	5,395
Total revenue	**554,552**	**609,015**	**658,269**	**721,035**
Cost of sales	(315,806)	(315,906)	(309,764)	(337,955)
Gross profit	**238,746**	**293,109**	**348,506**	**383,080**
Other gains/losses	8,006	4,701	7,500	7,500
Selling & marketing expenses	(29,229)	(34,211)	(28,849)	(33,781)
General & admin expenses	(106,696)	(103,525)	(100,971)	(125,473)
Operating Profits	**110,827**	**160,074**	**226,186**	**231,326**
Net gains from investments and others	116,287	(6,090)	14,500	15,000
Finance cost	(760)	1,540	3,000	2,700
Share of profit of investments in associates	(16,129)	5,800	17,000	17,500
Profit before tax	**210,225**	**161,324**	**260,686**	**266,526**
Tax	(21,516)	(43,276)	(53,203)	(60,162)
Profit after tax	**188,709**	**118,048**	**207,483**	**206,364**
Minority interests	466	2,832	2,607	2,665
Net profit	**188,243**	**115,216**	**204,876**	**203,699**
Share based compensation	32,651	27,100	26,331	30,283
Gain/losses from investee companies	(164,840)	(6,024)	(6,000)	(6,000)
Amortization and impairment	57,206	17,466	10,000	10,000
Other non-core items	2,389	3,930	(25,000)	(0)
Non-GAAP net profit (core profit)	**115,649**	**157,688**	**210,207**	**237,982**
Growth				
Total revenue (%)	(1.0)	9.8	8.1	9.5
Gross profit (%)	(2.9)	22.8	18.9	9.9
Operating profit (%)	(59.2)	44.4	41.3	2.3
Net profit (%)	(16.3)	(38.8)	77.8	(0.6)
Non-GAAP net profit (%)	(6.6)	36.4	33.3	13.2
Operating performance				
Gross margin (%)	43.1	48.1	52.9	53.1
Operating margin (%)	20.0	26.3	34.4	32.1
Net margin (%)	33.9	18.9	31.1	28.3
Core net margin (%)	20.9	25.9	31.9	33.0
ROAE (%)	22.7	13.9	21.7	18.7
ROAA (%)	11.8	7.3	12.4	11.3

Source(s): The Company, ABCI Securities estimates

Notes: VAS includes online games and social network
Individual items may not sum to total due to rounding differences
Individual items may vary from reported figures due to rounding differences/definition differences

Consolidated balance sheet (2022A-2025E)

As of Dec 31 (RMB mn)	2022A	2023A	2024E	2025E
Fixed assets	104,336	105,028	95,028	85,028
Intangible assets	161,802	177,727	149,727	122,727
Investment in associates and JV	259,702	264,192	281,192	298,692
Financial assets	391,332	425,096	455,096	485,096
Term deposit	28,336	29,301	38,091	49,519
Other non-current assets	66,634	57,456	58,878	60,371
Total non-current assets	**1,012,142**	**1,058,800**	**1,078,012**	**1,101,433**
Cash & equivalents	156,739	172,320	231,172	282,203
Restricted cash	2,783	3,818	4,009	4,209
Term deposit	104,776	185,983	241,778	314,311
Account receivables	45,467	46,606	59,515	65,189
Deposit, prepayments and other assets	76,685	88,411	92,832	97,473
Inventories	2,333	456	479	503
Other current assets	177,206	20,852	20,852	20,852
Total current assets	**565,989**	**518,446**	**650,635**	**784,741**
Total assets	**1,578,131**	**1,577,246**	**1,728,648**	**1,886,173**
Accounts payable	92,381	100,948	98,995	108,004
Other payables & accruals	61,139	76,595	80,425	84,446
Borrowings and notes	22,026	55,698	55,698	55,698
Deferred revenue	88,570	92,322	96,938	101,785
Other current liabilities	170,088	26,594	26,594	26,594
Total current liabilities	**434,204**	**352,157**	**358,649**	**376,527**
Loans and bonds payables	312,337	292,920	292,920	292,920
Deferred revenue	3,503	3,435	3,607	3,787
Other non-current liabilities	45,227	55,053	55,935	56,861
Total non-current liabilities	**361,067**	**351,408**	**352,462**	**353,568**
Total liabilities	**795,271**	**703,565**	**711,111**	**730,095**
Net current assets	**131,785**	**166,289**	**291,986**	**408,214**
Equity attributable to shareholders	721,391	808,591	949,840	1,085,717
Non-controlling interests	61,469	65,090	67,697	70,362
Total equity	**782,860**	**873,681**	**1,017,537**	**1,156,079**

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

Individual items may vary from reported figures due to rounding differences/definition differences

Consolidated cash flows statement (2022A-2025E)

As of Dec 31 (RMB mn)	2022A	2023A	2024E	2025E
PBT	210,225	161,324	260,686	266,526
Depreciation and amortization	61,216	59,008	66,000	66,000
Other non-cash adjustments	(106,878)	(17,603)	(49,873)	(53,378)
Change in working capital	(18,472)	19,233	(76,004)	(77,011)
Operating cash flow	**146,091**	**221,962**	**200,809**	**202,137**
Acquisition of fixed asset	(22,679)	(21,008)	(22,000)	(22,000)
Net purchase of investments	(39,247)	(31,667)	(6,000)	(7,000)
Other investment cash flow	(42,945)	(72,486)	(30,000)	(30,000)
Investing cash flow	**(104,871)**	**(125,161)**	**(58,000)**	**(59,000)**
Financing cash flow	**(59,953)**	**(82,573)**	**(83,958)**	**(92,106)**
Fx effect	7,506	1,353	-	-
Net cash flow	**(11,227)**	**15,581**	**58,852**	**51,031**

Source(s): The Company, ABCI Securities estimates

Notes: Individual items may not sum to total due to rounding differences

Individual items may vary from reported figures due to rounding differences/definition differences

Risk factors

Market competition

The rise of emerging forms of online entertainment such as short video apps could steal shares from online long video in the online entertainment market.

Tightening regulation on online gaming

Mobile gaming revenue could be impacted should the regulation tighten or more stringent requirements for new game approval are imposed. Other measures, such as stricter curfews on online gaming for minors, may also affect revenue.

Strict regulation on internet finance

As the Company is exposed to the internet finance market via its commercial payment business and wealth management, further regulatory measures may affect business performance

Non-GAAP financials

The Company has disclosed the non-GAAP financial metrics, such as the non-GAAP net profit, to supplement its GAAP financial measures. Historically, there were differences between its GAAP net profit and non-GAAP net profit due to inclusion of items such as share-based compensation, impairment, fair valuation changes of investment, and disposal gains of assets in the former.

While investors tend to exclude these items when performing analysis given their non-cash nature, we believe these non-GAAP financial measures should only serve as reference.

Disclosures

Analyst Certification

The analyst, CHOW Sau Shing, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with Tencent

Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (7%)
Hold	- Market return rate (-7%) ≤ Stock return rate < Market return rate (+7%)
Sell	Stock return < - Market return (-7%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2006 (HSI total return index 2005-23 averaged at 7.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

Disclaimers

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183