

TME (01698.HK)

ARPPU as the primary growth driver
China | Internet

Company background

Tencent Music Entertainment (TME) is China’s trailblazer in online music entertainment services, offering both online music and music-centric social entertainment services. The company boasts an extensive user base and operates four leading mobile music products in the domestic market: QQ Music, Kugou Music, Kuwo Music, and WeSing. TME provides users with diversified music social entertainment products, creating an all-scenario music experience that includes "discover, listen, sing, watch, perform, and socialize." This empowers users to engage in music creation, appreciation, sharing, and interaction.

Financial performance

In the first quarter of 2025, the company generated total revenue of RMB 7.4 billion, representing a year-over-year increase of 8.7%. By segment, online music service revenue reached RMB 5.8 billion, up 15.9% year-over-year, primarily driven by growth in subscription service revenue and advertising service revenue. Social entertainment service and other service revenue amounted to RMB 1.6 billion, down 11.9% year-over-year, mainly due to impacts from compliance procedures and adjustments to live-streaming features. In terms of profitability, the company’s gross profit margin rose to 44.1% in Q1 2025, largely attributable to an optimized membership mix and increased proprietary content. Operating profit surged to RMB 4.8 billion, a 146.9% year-over-year increase, primarily fueled by a one-time gain from equity obtained through an associate company. Adjusted net profit grew to RMB 2.2 billion, up 22.8% year-over-year. Concurrently, the company announced an annual dividend of USD 0.09 per ordinary share for 2024.

Online Music Services: ARPPU as the Core Growth Engine

In the first quarter of 2025, online music subscription revenue reached RMB 4.2 billion, up 16.6% year-over-year, primarily driven by Super Digital Music Package (SDIP) growth and reduced promotional discounts. Advertising service revenue totaled RMB 1.6 billion, increasing 13.7% year-over-year, mainly attributable to diversified product offerings. Operationally, the number of online music paying users grew 8.3% YoY to 123 million, with the paying ratio further rising to 22.1%. Narrower promotional discounts lifted Average Revenue Per Paying User (ARPPU) by 7.5% YoY from RMB 10.6 to RMB 11.4 monthly, while Monthly Active Users (MAU) contracted 4.0% YoY to 555 million.

The company stimulates deeper and broader music consumption through enriched content services, diversified membership privileges, and precision operations, driving high-quality growth in both standard and premium memberships. For non-paying users: on one front, incentive-based advertisements and interactive tasks maintain engagement while generating ad revenue; on another front, fan economy models – including digital albums, merchandise, and song rewards – create additional monetization touchpoints to enhance overall user monetization efficiency. We expect ARPPU elevation to remain the primary growth driver.

24 Jul 2025

Accumulate

CMP HKD 84
(Closing price as of 21 Jul)
Target HKD 95 (+13.4%)

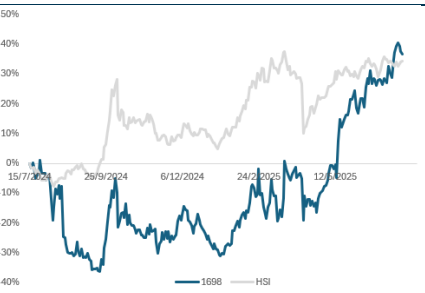
COMPANY DATA

O/S SHARES (MN) :	3,098
MARKET CAP (HKD BN) :	260
52 - WK HI/LO (HKD):	88.50/35.55

SHARE HOLDING PATTERN, %

Min River Investment Limited	52.96%
Spotify AB	9.13%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY23	FY24	FY25E	FY26E
Revenue	27,752	28,401	31,098	33,585
Net profit	4,920	6,644	8,956	8,830
EPS	1.59	2.14	2.89	2.85
P/E ratio, x	48	36	26	27
Dividend Yield, %	1.57%	1.58%	1.49%	1.49%

Source: Company reports, Phillip Securities Est.

Research Analyst

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Company valuation

According to management, the company will continue optimizing its membership system, enriching exclusive benefits, and implementing precision operation strategies to drive dual growth in both SDIP scale and ARPPU. Consequently, we forecast 2025-2027 online music service revenue at RMB25.4/28.5/31.3 billion, representing YoY growth of 17%/12%/10%. Simultaneously, considering tightening regulations and plateauing traffic in the livestreaming industry, we project social entertainment service and other service revenue at RMB5.7/5.1/4.7 billion, reflecting YoY declines of 15%/10%/7%.

For the full-year outlook, the dual engines of SVIP subscriptions and advertising revenue – coupled with optimized content cost control and deepened partnerships with copyright holders – will sustain momentum. Management anticipates accelerated full-year revenue growth and continued gross margin expansion. While sales expenses will increase moderately but at a slower pace than revenue growth, administrative expenses will remain stable. This will drive significant YoY improvement in net profit margin. Therefore, we project 2025-2027 total operating revenue at RMB31.1/33.6/36.1 billion, with net profit attributable to shareholders at RMB9.0/8.8/9.6 billion, translating to EPS of RMB2.89/2.85/3.11. Given the company's high-growth profile, we select NetEase Cloud Music and Spotify as comparable companies. Applying a 30x 2025 forecasted P/E multiple yields a target price of HKD 95. Current share price implies 2025-2027 P/E multiples of 26/27/25x. We initiate coverage with a "Accumulate" rating.

Risk factors

1) Intensifying competition; 2) Slower-than-expected user growth; 3) Copyright risks.

Financials

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	2023	2024	2025E	2026E	2027E
REVENUE	27752	28401	31098	33585	36077
Cost of revenue	-17957	-16376	-17776	-18693	-19720
Gross profit	9795	12025	13323	14892	16357
Selling and marketing expenses	-897	-865	-1069	-1155	-1240
Administrative and general expenses	-4121	-3811	-4395	-4747	-5099
Operating profit	6059	8710	11419	11106	12134
Net finance income/loss	-141	-94	-94	-94	-94
Profit before income tax and share of results of equity investees	6045	8712	11412	11115	12135
Income tax expenses	-825	-1603	-1829	-1667	-1820
Net profit					
– Equity holders of the Company	4920	6644	8956	8830	9640
– Non-controlling interests	300	465	627	618	675

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY23	FY24	FY25E	FY26E	FY27E
Current assets					
Accounts receivable	6364	7324	7668	8281	8896
Cash and cash equivalents	13567	13164	20026	25619	31958
Others	10005	14056	11814	11961	12610
Total current assets	29936	34544	39508	45862	53464
Non-current assets					
PPE	3294	3462	3648	3868	4157
Others	42306	52438	50689	51029	51652
Total non-current assets	45600	55900	54337	54897	55809
Total Assets	75536	90444	93845	100758	109273
Current liabilities					
Accounts payable	8478	12414	13393	14084	14857
Others	3536	4136	3899	4057	4223
Total current liabilities	12014	16550	17292	18141	19080
Non-current liabilities					
Long-term debt	5636	3572	2858	2286	1829
Others	684	596	596	596	596
Total non-current liabilities	6320	4168	3454	2882	2425
Total liabilities	18334	20718	20745	18141	19080
Equity attributable to equity holders of the Company	55907	67863	70610	79510	86411
Non-controlling interests	1295	1863	2490	3108	3783
Total equity	57202	69726	73100	82618	90193
Total liabilities and equity	75536	90444	93845	100758	109273

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	2023	2024	2025E	2026E	2027E
CFO	7337	10275	11290	10157	11053
Profit before tax	6045	8712	11412	11115	12135
Depreciation and Amortization	1004	978	929	883	839
Change in working capital	786	1556	872	-80	-7
Others	-498	-971	-1923	-1761	-1914
CFI	-1863	-6818	-1364	-1500	-1650
Short term and long term investment, net	-1698	-6499	-1364	-1500	-1650
Purchase of property, equipment and intangible assets	-165	-319	0	0	0
CFF	-1538	-3830	-3064	-3064	-3064
Net Change in Cash	3936	-373	6862	5593	6339
Cash, CE and Restricted cash at Beg	9555	13567	13164	20026	25619
Cash, CE and Restricted cash at Y/E	13567	13164	20026	25619	31958

Key Financial Data

Dec Y/E	FY23	FY24	FY25E	FY26E	FY27E
Valuation Ratio					
P/E ratio	48.0	35.6	26.4	26.8	24.5
Dividend Yield, %	1.57%	1.58%	1.49%	1.49%	1.49%
Per share data(RMB)					
EPS	1.59	2.14	2.89	2.85	3.11
BVPS	18.0	21.9	22.8	25.7	27.9
Growth & Margin					
Growth					
Net Revenue Growth	-2.07%	2.34%	9.50%	8.00%	7.42%
Gross Profit Growth	11.65%	22.77%	10.79%	11.78%	9.84%
EBIT Growth	36.37%	43.75%	31.10%	-2.74%	9.26%
Net Profit Growth	33.80%	35.04%	34.80%	-1.41%	9.18%
Margin					
Gross Profit Margin	35.29%	42.34%	42.84%	44.34%	45.34%
EBIT Margin	21.83%	30.67%	36.72%	33.07%	33.63%
Net Profit Margin	17.73%	23.39%	28.80%	26.29%	26.72%
Key Ratios					
ROE	8.60%	9.53%	12.25%	10.69%	10.69%
ROA	6.51%	7.35%	9.54%	8.76%	8.82%

Current Price as of: Jul 21

Exchange rate: HKD/RMB = 0.91

Source: PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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