

Tencent (00700.HK)

AI-powered growth drives robust performance across all business segments
China | Gaming | Internet

Financial performance

In the second quarter of 2025, the company reported total revenue of CNY 184.5 billion, representing a year-on-year increase of 14.5%. In terms of profitability, operating profit reached CNY 60.1 billion, up 18.5% year-on-year, with the operating profit margin rising from 31.5% in the same period last year to 32.6%. Net profit attributable to equity holders of the company was CNY 55.6 billion, reflecting a year-on-year growth of 16.8%.

By segment, Value-added Services revenue in 2Q25 saw robust growth, increasing by 15.9% year-on-year to CNY 91.4 billion, primarily driven by the sustained stability of top games. Online Marketing Services revenue grew by 19.7% year-on-year to CNY 35.8 billion, benefiting from improved user engagement, continuous AI upgrades to the advertising platform, and optimizations in the WeChat transaction ecosystem. FinTech and Business Services revenue increased by 10.1% year-on-year to CNY 55.5 billion, mainly due to growth in consumer loan services, wealth management services, as well as increased cloud services revenue and merchant service fees.

Performance Summary

Gaming Business

In the second quarter of 2025, the company's game revenue increased by 22.1% year-on-year to CNY 59.2 billion, accounting for 32.0% of total revenue, up from 30.1% in the same period last year. Among this, international market game revenue reached CNY 18.8 billion, a year-on-year increase of 35.3%, primarily driven by revenue growth from *PUBG MOBILE* and contributions from newly launched games. Domestic market game revenue grew by 16.8% year-on-year to CNY 40.4 billion, benefiting from sustained revenue growth of evergreen titles and the strong performance of the new game *Delta Action*, which achieved an average DAU of over 20 million in July, ranking among the top five in the industry by daily active users and top three by revenue. With a broader and more platform-diversified game portfolio, management expects reduced volatility in overall game revenue growth.

Social Networks Business

In the second quarter of 2025, the company's Social Networks revenue increased by 6.3% year-on-year to CNY 32.2 billion, primarily driven by growth in game virtual item sales, live streaming services from Channels, and music subscription revenue. WeChat's user traffic continued to grow in 2Q25, with combined MAU reaching 1.411 billion, up 2.9% year-on-year. Meanwhile, monthly active accounts on QQ's smart terminal saw a slight decline compared to the same period last year. The number of registered paid value-added service subscriptions remained stable at 264 million year-on-year. Tencent Music's paid members recorded healthy growth, while Tencent Video's subscription count experienced a decline.

Marketing Services Business

In the second quarter of 2025, the company's online marketing services revenue increased by 19.7% year-on-year to CNY 35.8 billion, primarily driven by AI-powered upgrades in advertising technology and new ad inventory from the Channels transaction ecosystem.

According to management, the company enhanced its AI capabilities across advertising creation, placement, recommendation, and performance analysis, significantly improving ad click-through rates, conversion rates, and return on investment. This was achieved by deploying an upgraded foundational model to revamp the advertising platform architecture, which comprehensively analyzes cross-application/service ad click-through rates, transaction data, and user interactions with text, images, and videos to determine user interests in real time and optimize ad performance.

12 Sep 2025

Accumulate

CMP HKD 633.5
(Closing price as of 10 Sep)
Target HKD 682 (+7.7%)

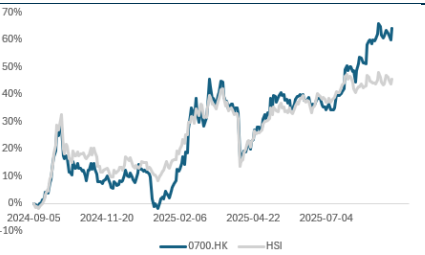
COMPANY DATA

O/S SHARES (MN) :	9,174
MARKET CAP (HKD BN) :	5,810
52 - WK HI/LO (HKD):	639.0/360.3

SHARE HOLDING PATTERN, %

MIH Internet Holdings B.V.	23.05%
Advance Data Services Limited	7.74%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY24	FY25E	FY26E	FY27E
Revenue	660,257	746,657	828,622	917,588
Net profit	227,194	300,587	321,154	356,734
EPS	21	28	30	34
P/E ratio, x	27	20	19	17
Dividend Yield, %	0.51%	0.70%	0.74%	0.74%

Source: Company reports, Phillip Securities Est.

Research Analyst

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Management noted that the company's short-form video ad load rate remains in the low single digits, compared to the industry average of 10%-15%. With continued AI-driven microtargeting, growing user traffic, and increasing advertiser demand, management expects advertising revenue to maintain healthy growth.

FinTech and Business Services Business

In the second quarter of 2025, the company's FinTech and Business Services revenue reached CNY 55.5 billion, representing a year-on-year increase of 10.1%. Revenue growth from FinTech services accelerated to mid-to-high single digits, primarily driven by commercial payment services and consumer credit offerings. Business Services revenue achieved double-digit year-on-year growth. Cloud services revenue growth accelerated compared to recent quarters, mainly due to increased demand for GPU leasing to support AI workloads and growth in API token revenue.

Company valuation

Given the company's better-than-expected growth in gaming and advertising businesses, sustained operating leverage effects, and the empowering role of AI technology across its ecosystem, we have accordingly raised our profit forecasts. Consequently, we upwardly revise our revenue estimates for 2025-2027 to CNY 746.7/828.6/917.6 billion, with adjusted net profit attributable to equity holders projected at CNY 259.1/279.2/313.9 billion. Corresponding EPS estimates are CNY 28/30/34, implying P/E ratios of 20/18/16x at the current share price. Based on SOTP valuation methodology, applying a 10% holding discount to the latest market values or valuations of subsidiaries and invested companies, we derive a total target market capitalization of CNY 5.6 trillion for Tencent in 2025. This corresponds to a target price of HKD 682 per share. We maintain our rating as 'Accumulate'.

	% owned	PE/PS	2025E x	Valuation to Tencent, RMB mn
Core business				5,005,338
Game	100%	PE	20x	2,172,702
Social Network	100%	PE	20x	600,846
Marketing services	100%	PE	20x	1,060,815
FBS	100%	PS	5x	1,170,976
Investments				1,155,000
Less: holdco discount			10%	5,544,304
Add: Net cash				147,026
Market capitalization				5,691,330

Risk factors

1) Strict gaming regulations; 2) Weak macroeconomic environment; 3) Potential competitive threats from existing and emerging social platforms.

Financials

Key Financial Data

Dec Y/E	FY23	FY24	FY25E	FY26E	FY27E
Valuation Ratio					
P/E ratio	47.3	27.2	20.4	18.9	16.8
Dividend Yield, %	0.31%	0.51%	0.70%	0.74%	0.74%
Per share data(RMB)					
EPS	12.19	21.16	28.25	30.44	34.22
BVPS	85.27	79.27	93.91	102.24	111.19
Growth & Margin					
Growth					
Net Revenue Growth	9.82%	8.41%	13.09%	26.57%	22.89%
Gross Profit Growth	22.77%	19.15%	20.50%	44.53%	32.98%
EBIT Growth	44.44%	30.00%	46.78%	36.41%	18.16%
Net Profit Growth	-37.44%	66.43%	35.14%	37.52%	21.15%
Margin					
Gross Profit Margin	48.13%	52.90%	56.36%	58.82%	60.99%
EBIT Margin	26.28%	31.52%	40.91%	39.18%	39.33%
Net Profit Margin	19.38%	29.76%	35.56%	34.52%	35.05%
Key Ratios					
ROE	13.51%	18.64%	23.32%	23.46%	23.45%
ROA	7.48%	11.03%	13.28%	13.26%	13.45%

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	2023	2024	2025E	2026E	2027E
REVENUE	603620	660257	746657	828622	917588
Cost of services	-315906	-311011	-325827	-341221	-357955
Gross profit	287714	349246	420830	487401	559632
Sales and marketing expenses	-34211	-36388	-43638	-48356	-54215
General and administrative expenses	-103525	-112761	-124108	-131328	-141912
Other gains/losses	4701	8002	52357	16953	-2597
Operating profit	160074	208099	305441	324669	360909
Finance income	7718	16004	19205	23046	27655
Finance costs	-12268	-11981	-12268	-12268	-12268
Profit before income tax and share of results of equity investees	161324	241485	331872	353167	397092
Income tax expenses	-43276	-45018	-66374	-67102	-75448
Profit for the year	118048	196467	265498	286065	321645
Net profit, IFRS					
– Equity holders of the Company	115216	194073	259128	279202	313928
– Non-controlling interests	2832	2394	6369	6863	7716

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY23	FY24	FY25E	FY26E	FY27E
Current assets					
Accounts receivable	46606	48203	62806	71709	81531
Cash and cash equivalents	172320	132519	289330	378260	524449
Others	299520	315458	323907	336084	349338
Total current assets	518446	496180	676043	786054	955318
Non-current assets					
PPE	53232	80185	81789	83424	85093
Others	1005568	1204630	1241987	1287629	1351380
Total non-current assets	1058800	1284815	1323776	1371053	1436473
Total Assets	1577246	1780995	1999819	2157107	2391792
Current liabilities					
Accounts payable	100948	118712	130583	143642	158006
Others	251209	278197	400618	464044	531713
Total current liabilities	352157	396909	531201	607686	689718
Non-current liabilities					
Long-term debt	305089	287308	287308	287308	287308
Others	46319	42882	42882	42882	42882
Total non-current liabilities	351408	330190	330190	330190	330190
Total liabilities	703565	727099	861391	937876	1019908
Equity attributable to equity holders of the Company	808591	973548	1058079	1138883	1291535
Non-controlling interests	65090	80348	80348	80348	80348
Total equity	873681	1053896	1138427	1219231	1371883
Total liabilities and equity	1577246	1780995	1999819	2157107	2391792

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	2023	2024	2025E	2026E	2027E
CFO	221962	258521	363673	377268	421695
Net profit	118048	196467	265498	286065	321645
Depreciation and Amortization	59008	56213	68118	80247	91759
Change in working capital	19233	21881	21636	3342	1996
Others	25673	-16040	8421	7613	6296
CFI	-125161	-122187	-125422	-128834	-116003
Short term and long term investment, net	-104153	-59260	-86050	-90431	-77600
Purchase of property, equipment and intangible assets	-21008	-62927	-39371	-38403	-38403
CFF	-82573	-176494	-148617	-159503	-159503
Cash paid for distribution of dividends	-21788	-31244	-39700	-42153	-42153
Cash received from financing	-60785	-145250	-108917	-117350	-117350
Effect of exchange rate changes on cash	1353	359	0	0	0
Net Change in Cash	14228	-40160	89634	88930	146189
Cash, CE and Restricted cash at Beg	156739	172320	199696	289330	378260
Cash, CE and Restricted cash at Y/E	172320	132519	289330	378260	524449

Current Price as of: Sep 10

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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