

Tencent | 700 HK

Look beyond the weak 4Q18

We expect weak 4Q18 results

Improving online game outlook for 2019F

Monetization of PUBG and rich game pipeline the key drivers

Expect weak 4Q18 results. Tencent will report 4Q18 earnings around mid-Mar, at which time we expect revenue to have grown 26.4% YoY to RMB83.9b, driven by robust advertising and other sales, in line with Bloomberg consensus. We expect gross margin to have declined from 47.4% in 4Q17 to 43.7% in 4Q18F due to a shift in the sales mix and lower margin from VAS. Opex-to-sales has also likely declined, we estimate from 22.3% in 4Q17 to 21.9% in 4Q18F. We look for 8.6% YoY growth in non-GAAP net profit to RMB19.0b, in line with Bloomberg consensus.

Better outlook for online games in 2019F. China has approved 538 games in six batches since it resumed game license approvals in late Dec, the suspension of which had been a major industry overhang. Tencent, which has seen three games receive new licenses since the suspension was lifted, is in our view one of the main beneficiaries of the improved industry outlook for 2019F. We expect Tencent to continue to outpace the domestic online gaming market in 2019F/20F on the back of (1) monetization of *PUBG Mobile*, (2) continuous overseas expansion, and (3) the company's rich game pipeline, which includes *CoD Mobile* and *DnF Mobile*.

Maintain Outperform rating and raise target price to HK\$381.00. We leave our earnings forecasts for Tencent largely unchanged as we roll over its valuation base from an average of 2018 and 2019 to 2019F. We raise our target price from HK\$355.00 to HK\$381.00, basing it on 35x 2019F non-GAAP earnings. Tencent has a number of strengths, in our view: its dominance in online games, a well-established digital content ecosystem and growth potential from cloud and mobile payments.

Forecast and valuation

| Year to 31 Dec | 2016 | 2017 | 2018F | 2019F | 2020F |
|-------------------------|----------|----------|----------|----------|----------|
| Revenue (RMB m) | 151,938 | 237,760 | 311,736 | 402,264 | 495,534 |
| YoY (%) | 47.7 | 56.5 | 31.1 | 29.0 | 23.2 |
| Non-GAAP profit (RMB m) | 45,420 | 65,126 | 76,702 | 91,521 | 114,531 |
| YoY (%) | 40.1 | 43.4 | 17.8 | 19.3 | 25.1 |
| Non-GAAP EPS (RMB) | 4.78 | 6.83 | 8.01 | 9.54 | 11.92 |
| YoY (%) | 39.2 | 42.8 | 17.4 | 19.1 | 24.9 |
| Non-GAAP P/E (x) | 61.4 | 42.4 | 35.4 | 30.7 | 24.5 |
| DPS (RMB) | 0.56 | 0.75 | 0.91 | 0.95 | 1.19 |
| Dividend yield (%) | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 |
| P/B (x) | 13.0 | 8.8 | 6.6 | 5.5 | 4.4 |
| ROAE (%) | 27.9 | 33.2 | 28.1 | 23.0 | 23.2 |
| Net debt/equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Bloomberg, CCBIS estimates

Outperform (maintained)

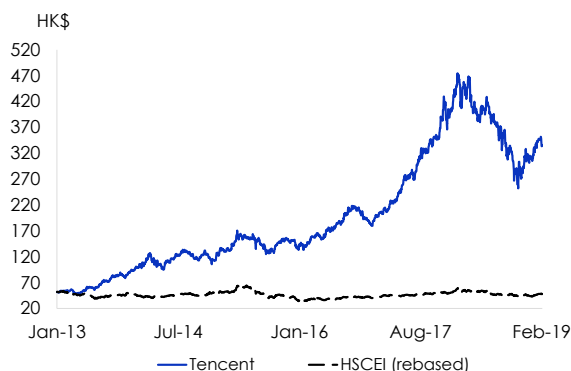
Current price: Target:
HK\$333.80 ► **HK\$381.00**
 (as at 15 Feb 2019) (up from HK\$355.00)

Trading data

| | |
|--------------------------------|-------------------|
| 52-week range | HK\$251.38–475.56 |
| Market capital (b) | HK\$3,189/US\$412 |
| Shares outstanding (m) | 9,520 |
| Free float (%) | 60 |
| 3M average daily T/O (m share) | 21 |
| 3M average daily T/O (US\$ m) | 847 |
| Expected 12-month return (%) | 14 |

Source: Bloomberg, CCBIS estimates

Share price vs HSCEI



Source: Bloomberg

Stock performance

| Performance over | 1M | 3M | 12M |
|-----------------------|----|----|-----|
| Absolute | -1 | 15 | -25 |
| Relative (%) to HSCEI | -5 | 11 | -13 |

Source: Bloomberg

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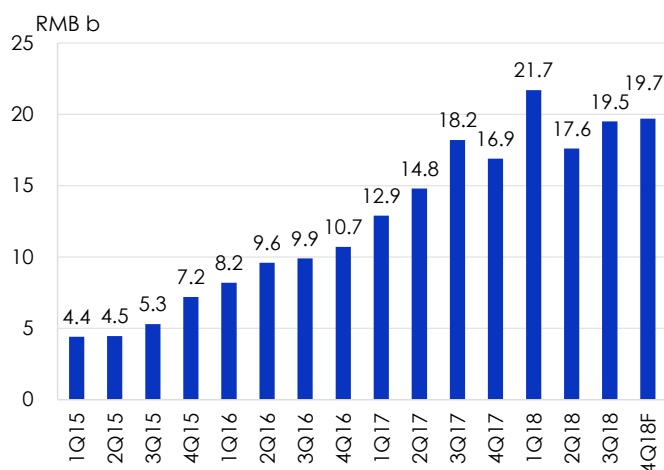
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Tencent – earnings revisions

| RMB m | New forecast | | | Old forecast | | | Change (%) | | |
|-------------------------|--------------|---------|---------|--------------|---------|---------|------------|-------|-------|
| | 2018F | 2019F | 2020F | 2018F | 2019F | 2020F | 2018F | 2019F | 2020F |
| Revenue | 311,736 | 402,264 | 495,534 | 312,102 | 402,611 | 497,013 | -0.1 | -0.1 | -0.3 |
| Gross profit | 143,674 | 175,966 | 211,673 | 143,982 | 176,406 | 213,702 | -0.2 | -0.2 | -0.9 |
| Opex | -67,023 | -81,257 | -90,187 | -67,102 | -81,327 | -90,456 | -0.1 | -0.1 | -0.3 |
| Operating profit | 98,650 | 104,708 | 131,486 | 98,880 | 104,079 | 132,245 | -0.2 | 0.6 | -0.6 |
| Net profit | 83,053 | 86,030 | 107,984 | 83,411 | 85,763 | 108,923 | -0.4 | 0.3 | -0.9 |
| Non-GAAP net profit | 76,702 | 91,521 | 114,531 | 76,660 | 91,523 | 115,701 | 0.1 | 0.0 | -1.0 |
| % | | | | | | | | | |
| Gross margin | 46.1 | 43.7 | 42.7 | 46.1 | 43.8 | 43.0 | - | - | - |
| Opex to sales | -21.5 | -20.2 | -18.2 | -21.5 | -20.2 | -18.2 | - | - | - |
| Operating profit margin | 31.6 | 26.0 | 26.5 | 31.7 | 25.9 | 26.6 | - | - | - |
| Net margin | 26.6 | 21.4 | 21.8 | 26.7 | 21.3 | 21.9 | - | - | - |
| Non-GAAP net profit | 24.6 | 22.8 | 23.1 | 24.6 | 22.7 | 23.3 | - | - | - |

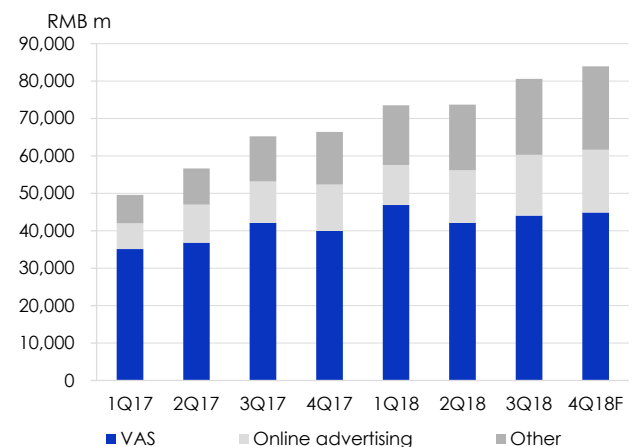
Source: CCBIS estimates

Tencent – gross mobile game revenue



Source: Company

Tencent – quarterly revenue breakdown



Source: Company

Honor of Kings



Source: Company

PUBG Mobile



Source: Company

iOS China mobile game ranking in terms of gross revenue (Dec 2017 – Dec 2018)

| 2017 | | 2018 | | | | | | | | | | | |
|------|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|-----------------------------------|----------------------------------|----------------------------------|
| Rank | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| 1 | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* | Honor of Kings 王者荣耀* |
| 2 | Fantasy Westward Journey 梦幻西游 | QQ Speed QQ 飞车* | QQ Speed QQ 飞车* | QQ Speed QQ 飞车* | Fantasy Westward Journey 梦幻西游 | Fantasy Westward Journey 梦幻西游 | Fantasy Westward Journey 梦幻西游 | Fantasy Westward Journey 梦幻西游 | I am MT 4 我叫 MT4** | Fantasy Westward Journey 梦幻西游 | Fantasy Westward Journey 梦幻西游 | Fantasy Westward Journey 梦幻西游 | Fantasy Westward Journey 梦幻西游 |
| 3 | MU Miracle 奇迹：最强者 | Fantasy Westward Journey 梦幻西游 | Fantasy Westward Journey 梦幻西游 | Fantasy Westward Journey 梦幻西游 | Chu Liuxiang 楚留香 | QQ Speed QQ 飞车* | Cross Gate 魔力宝贝** | Freedom Fantasy 自由幻想* | Fantasy Westward Journey 梦幻西游 | I am MT 4 我叫 MT4** | God of Night 神都夜行录 | LifeAfter 明日之后 | LifeAfter 明日之后 |
| 4 | Ghost 倩女幽魂 | MU Awakening 奇迹：觉醒 | Chu Liuxiang 楚留香 | Chu Liuxiang 楚留香 | QQ Speed QQ 飞车* | Chu Liuxiang 楚留香 | My Own Swordsman 武林外传 | QQ Speed QQ 飞车* | Saint Seiya Tencent 圣斗士星矢 腾讯* | Langrisser 梦幻模拟战 | QQ Speed QQ 飞车* | Westward Journey Online 大话西游 | Westward Journey Online 大话西游 |
| 5 | Westward Journey Online 大话西游 | Ghost 倩女幽魂 | Fate/Grand Order | Westward Journey Online 大话西游 | King Of Chaos 乱世王者* | QQ Dancer QQ 炫舞** | QQ Speed QQ 飞车* | Westward Journey Online 大话西游 | Langrisser 梦幻模拟战 | King of Kings 万王之王 3D** | Langrisser 梦幻模拟战 | Naruto OL 火影忍者 OL | QQ Speed QQ 飞车* |
| 6 | The Demi-Gods and Semi-Devils Mobile 天龙八部手游** | Westward Journey Online 大话西游 | MU Awakening 奇迹：觉醒** | MU Awakening 奇迹：觉醒** | QQ Dancer QQ 炫舞** | King Of Chaos 乱世王者* | King Of Chaos 乱世王者* | Chu Liuxiang 楚留香 | QQ Speed QQ 飞车* | QQ Speed QQ 飞车* | Fights Break Spheres 斗破苍穹：斗帝之路 | Onmyoji 阴阳师 | Samurai Spirits 侍魂：胧月传说 |
| 7 | King Of Chaos 乱世王者* | Love and Producer 恋与制作人 | Onmyoji 阴阳师 | King Of Chaos 乱世王者* | Westward Journey Online 大话西游 | Ghost 倩女幽魂 | Westward Journey Online 大话西游 | The Continent of Wind 风之大陆 | Freedom Fantasy 自由幻想* | Onmyoji 阴阳师 | Westward Journey Online 大话西游 | Red Alert OL 红警 OL | Onmyoji 阴阳师 |

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IOS China mobile game ranking in terms of gross revenue (Dec 2017 – Dec 2018) (continued)

| Ranki | 2017 | 2018 | | | | | | | | | | | |
|---|------------------------------|-------------------------|--|-----------------------------|---------------------|------------------------------|----------------------|----------------------|--|----------------------|---------------------------------|---------------------|-----------------------|
| | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| 8 | King Of Chaos 乱世王者* | Fate/Grand Order | The Demi-Gods and Semi-Devils Mobile 天龙八部手游** | Onmyoji 阴阳师 | King Of Chaos 乱世王者* | CrossFire** | QQ Dancer QQ 炫舞** | Onmyoji 阴阳师 | Westward Journey Online 大话西游 | FIFA Soccer** | Onmyoji 阴阳师 | Langrisser 梦幻模拟战 | Red Alert OL 红警 OL |
| 9 | Westward Journey Online 大话西游 | King Of Chaos 乱世王者* | JX Online 剑侠情缘** | Contra: Return 魂斗罗:归来** | Fate/Grand Order | Knives Out 荒野行动 | Ghost 倩女幽魂 | MU Awakening 奇迹:觉醒** | Onmyoji 阴阳师 | QQ Dancer QQ 炫舞** | One Piece Burning Will 航海王:燃烧意志 | QQ Speed QQ 飞车* | Naruto OL 火影忍者 OL |
| 10 | Contra: Return 魂斗罗:归来** | Contra: Return 魂斗罗:归来** | Vitality God 元气封神 | Archangel Sword H5 大天使之剑 H5 | CrossFire | Westward Journey Online 大话西游 | Onmyoji 阴阳师 | Ghost 倩女幽魂 | The Demi-Gods and Semi-Devils Mobile 天龙八部手游** | Chu Liuxiang 楚留香 | Fate/Grand Order | King Of Chaos 乱世王者* | Ghost 倩女幽魂 |
| No. of top-10 games from Tencent | | | | | | | | | | | | | |
| Total | 4 | 5 | 4 | 5 | 5 | 5 | 6 | 5 | 5 | 6 | 4 | 5 | 4 |
| In-house | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 2 | 2 | 2 |
| Licensed | 2 | 3 | 2 | 2 | 2 | 2 | 3 | 1 | 1 | 2 | 2 | 3 | 2 |

* In-house game from Tencent

** Licensed game from Tencent

Source: App Annie

China internet sector valuation matrix

| Company | Stock code | CCBIS rating | Share price* (LC) | Market cap (US\$ m) | Non-GAAP EPS growth | | | Non-GAAP P/E (x) | | |
|-----------------|------------|--------------|-------------------|---------------------|---------------------|-------|-------|------------------|-------|-------|
| | | | | | CY18F | CY19F | CY20F | CY18F | CY19F | CY20F |
| Mobile internet | | | | | | | | | | |
| Baidu | BIDU US | Neutral | 174.08 | 59,276 | 6.6 | 9.4 | 6.1 | 17.0 | 16.0 | 15.1 |
| TME | TME US | Not Rated | 16.99 | 26,442 | N/A | 27.6 | 40.6 | N/A | N/A | N/A |
| Weibo | WB US | Outperform | 65.53 | 14,344 | 51.2 | 18.3 | 19.1 | 24.1 | 20.4 | 17.1 |
| iQiyi | IQ US | Not Rated | 22.00 | 15,776 | N/A | -24.1 | -40.4 | N/A | N/A | N/A |
| Momo | MOMO US | Outperform | 31.23 | 6,206 | 31.1 | 16.7 | 16.0 | 13.4 | 11.7 | 10.1 |
| Bilibili | BILI US | Not Rated | 18.92 | 5,385 | N/A | N/A | N/A | N/A | N/M | N/M |
| Sina | SINA US | Not Rated | 61.04 | 4,317 | 51.2 | 9.7 | 30.2 | 19.8 | 18.1 | 13.9 |
| YY | YY US | Outperform | 68.87 | 4,365 | 15.6 | 0.6 | 9.3 | 8.8 | 9.0 | 8.2 |
| Huya | HUYA US | Not Rated | 19.80 | 3,962 | N/A | 75.1 | 72.4 | 75.9 | 43.3 | 25.1 |
| Sogou | SOGO US | Not Rated | 6.06 | 2,371 | N/A | 17.3 | 28.0 | N/A | 25.7 | 20.1 |
| Meitu | 1357 HK | Neutral | 2.98 | 1,631 | N/A | N/A | N/A | N/A | N/A | N/A |
| Cheetah Mobile | CMCM US | Not Rated | 7.24 | 1,007 | -57.5 | -68.7 | N/A | 10.3 | 32.9 | N/A |
| Average | | | | | | | | 24.2 | 22.1 | 15.7 |
| Online games | | | | | | | | | | |
| Tencent | 700 HK | Outperform | 333.80 | 410,996 | 17.4 | 19.1 | 24.9 | 35.4 | 30.7 | 24.5 |
| NetEase | NTES US | Outperform | 227.62 | 29,893 | -32.2 | 20.1 | 16.6 | 23.1 | 19.8 | 17.0 |
| Kingsoft | 3888 HK | Outperform | 14.90 | 2,689 | -86.0 | 108.3 | 23.4 | 34.7 | 16.3 | 13.2 |
| IGG | 799 HK | Neutral | 11.58 | 1,957 | 23.9 | 10.1 | 19.7 | 10.8 | 9.8 | 8.2 |
| Netdragon | 777 HK | Outperform | 15.40 | 1,072 | N/A | 31.0 | 23.0 | N/A | 25.3 | 20.9 |
| iDreamsky | 1119 HK | Not Rated | 6.03 | 987 | N/A | N/A | N/A | N/A | N/A | N/A |
| Changyou | CYOU US | Not Rated | 18.85 | 1,018 | -43.2 | -2.4 | N/A | 10.2 | 10.4 | N/A |
| Average | | | | | | | | 23.1 | 18.9 | 17.0 |

* Price as at close on 15 Feb 2019

Source: Bloomberg, CCBIS estimates

Tencent – income statement

| FYE 31 Dec (RMB m) | 2016 | 2017 | 2018F | 2019F | 2020F | 1Q18 | 2Q18 | 3Q18 | 4Q18F |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|
| Revenue | 151,938 | 237,760 | 311,736 | 402,264 | 495,534 | 73,528 | 73,675 | 80,595 | 83,938 |
| VAS | 107,810 | 153,983 | 177,850 | 206,306 | 229,000 | 46,877 | 42,069 | 44,049 | 44,855 |
| Online advertising | 26,970 | 40,439 | 57,828 | 78,067 | 101,488 | 10,689 | 14,110 | 16,247 | 16,782 |
| Other | 17,158 | 43,338 | 76,058 | 117,890 | 165,046 | 15,962 | 17,496 | 20,299 | 22,301 |
| Cost of revenue | -67,439 | -120,835 | -168,063 | -226,298 | -283,861 | -36,486 | -39,229 | -45,115 | -47,233 |
| Gross profit | 84,499 | 116,925 | 143,674 | 175,966 | 211,673 | 37,042 | 34,446 | 35,480 | 36,706 |
| Gross profit margin (%) | 55.6 | 49.2 | 46.1 | 43.7 | 42.7 | 50.4 | 46.8 | 44.0 | 43.7 |
| Other gains | 3,594 | 20,140 | 22,000 | 10,000 | 10,000 | 7,585 | 2,506 | 8,762 | 3,147 |
| Selling & marketing expense | -12,136 | -17,652 | -26,186 | -29,768 | -33,696 | -5,570 | -6,360 | -6,573 | -7,683 |
| General and admin expense | -22,459 | -33,051 | -40,837 | -51,490 | -56,491 | -9,430 | -9,857 | -10,890 | -10,660 |
| Operating profit | 53,498 | 86,362 | 98,650 | 104,708 | 131,486 | 29,627 | 20,735 | 26,779 | 21,509 |
| Operating margin (%) | 35.2 | 36.3 | 31.6 | 26.0 | 26.5 | 40.3 | 28.1 | 33.2 | 25.6 |
| Net financing cost | 664 | 1,032 | -470 | -50 | 250 | 411 | -79 | -410 | -392 |
| Share of results of associates/JCEs | -2,522 | 821 | 3,200 | 3,650 | 3,800 | -319 | 1,526 | 264 | 1,729 |
| Profit before tax | 51,640 | 88,215 | 101,380 | 108,308 | 135,536 | 29,719 | 22,182 | 26,633 | 22,846 |
| Tax expense | -10,193 | -15,744 | -16,728 | -20,579 | -25,752 | -5,746 | -3,602 | -3,228 | -4,152 |
| Minority interests | -352 | -961 | -1,600 | -1,700 | -1,800 | -683 | -713 | -72 | -132 |
| Profit to shareholders | 41,095 | 71,510 | 83,053 | 86,030 | 107,984 | 23,290 | 17,867 | 23,333 | 18,563 |
| Net profit margin (%) | 27.0 | 30.1 | 26.6 | 21.4 | 21.8 | 31.7 | 24.3 | 29.0 | 22.1 |
| Non-GAAP net profit | 45,420 | 65,126 | 76,702 | 91,521 | 114,531 | 18,313 | 19,716 | 19,710 | 18,963 |
| Non-GAAP net profit margin | 29.9 | 27.4 | 24.6 | 22.8 | 23.1 | 24.9 | 26.8 | 24.5 | 22.6 |
| Earnings per share (RMB) | 4.33 | 7.50 | 8.68 | 8.97 | 11.24 | 2.44 | 1.87 | 2.44 | 1.94 |
| Earnings per share (HK\$) | 4.92 | 8.64 | 10.20 | 10.24 | 12.82 | 2.86 | 2.20 | 2.87 | 2.28 |
| Non GAAP EPS (RMB) | 4.78 | 6.83 | 8.01 | 9.54 | 11.92 | 1.91 | 2.06 | 2.06 | 1.98 |
| Non GAAP EPS (HK\$) | 5.43 | 7.87 | 9.42 | 10.89 | 13.60 | 2.25 | 2.42 | 2.42 | 2.33 |
| Revenue growth (%) | 47.7 | 56.5 | 31.1 | 29.0 | 23.2 | 48.4 | 30.2 | 23.6 | 26.4 |
| EPS growth (%) | 39.2 | 42.8 | 17.4 | 19.1 | 24.9 | 60.0 | -2.4 | 29.1 | -10.8 |
| Gross profit margin (%) | 55.6 | 49.2 | 46.1 | 43.7 | 42.7 | 50.4 | 46.8 | 44.0 | 43.7 |
| Opex to sales (%) | -22.8 | -21.3 | -21.5 | -20.2 | -18.2 | -20.4 | -22.0 | -21.7 | -21.9 |
| Operating profit margin (%) | 35.2 | 36.3 | 31.6 | 26.0 | 26.5 | 40.3 | 28.1 | 33.2 | 25.6 |
| Net profit margin (%) | 27.0 | 30.1 | 26.6 | 21.4 | 21.8 | 31.7 | 24.3 | 29.0 | 22.1 |
| Return on equity (%) | 22.1 | 25.8 | 23.3 | 19.6 | 19.9 | - | - | - | - |
| Net debt/equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash | - | - | - | - |

Source: Company data, CCBIS estimates

Tencent | 700 HK – financial summary

Profit and loss

| FYE 31 Dec (RMB m) | 2016 | 2017 | 2018F | 2019F | 2020F |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 151,938 | 237,760 | 311,736 | 402,264 | 495,534 |
| COGS | (67,439) | (120,835) | (168,063) | (226,298) | (283,861) |
| Gross profit | 84,499 | 116,925 | 143,674 | 175,966 | 211,673 |
| Other income | 3,594 | 20,140 | 22,000 | 10,000 | 10,000 |
| Operating expenses | (34,595) | (50,703) | (67,023) | (81,257) | (90,187) |
| EBIT | 53,498 | 86,362 | 98,650 | 104,708 | 131,486 |
| Net financial income (exp.) | 664 | 1,032 | (470) | (50) | 250 |
| JVs and associates | (2,522) | 821 | 3,200 | 3,650 | 3,800 |
| Profit before tax | 51,640 | 88,215 | 101,380 | 108,308 | 135,536 |
| Tax | (10,193) | (15,744) | (16,728) | (20,579) | (25,752) |
| Total profit | 41,447 | 72,471 | 84,653 | 87,730 | 109,784 |
| Minority interest | (352) | (961) | (1,600) | (1,700) | (1,800) |
| Net profit attributable to shareholders | 41,095 | 71,510 | 83,053 | 86,030 | 107,984 |
| Non-GAAP net profit | 45,420 | 65,126 | 76,702 | 91,521 | 114,531 |
| Reported EPS (RMB) | 4.33 | 7.50 | 8.68 | 8.97 | 11.24 |
| Diluted EPS (RMB) | 4.33 | 7.50 | 8.68 | 8.97 | 11.24 |
| Non-GAAP EPS (RMB) | 4.78 | 6.83 | 8.01 | 9.54 | 11.92 |
| Dividend (RMB m) | 5,061 | 6,788 | 8,305 | 8,603 | 10,798 |
| Dividend per share (RMB) | 0.56 | 0.75 | 0.91 | 0.95 | 1.19 |

Cash flow

| FYE 31 Dec (RMB m) | 2016 | 2017 | 2018F | 2019F | 2020F |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Profit before tax | 51,640 | 88,215 | 101,380 | 108,308 | 135,536 |
| Amortization & depreciation | 12,741 | 23,611 | 22,280 | 21,647 | 22,013 |
| Net financial charge adj. | (2,619) | (3,940) | (4,280) | (4,450) | (4,550) |
| Non-cash items adjusted | 3,305 | (6,885) | (1,099) | (1,549) | (1,699) |
| Change in working capital | 2,490 | 9,695 | 17,387 | 22,105 | 21,786 |
| Tax paid | (10,516) | (13,862) | (16,728) | (20,579) | (25,752) |
| Other | 8,477 | 9,306 | 6,616 | 2,704 | 2,811 |
| Operating cash flow | 65,518 | 106,140 | 125,557 | 128,187 | 150,146 |
| Disposal of fixed assets | 650 | 25 | – | – | – |
| Capex | (17,248) | (31,958) | (15,000) | (14,000) | (14,000) |
| Investment | (12,317) | (40,994) | (13,000) | (8,000) | (6,000) |
| Net interest received (paid) | 1,718 | 3,529 | 4,280 | 4,450 | 4,550 |
| Other | (43,726) | (26,994) | – | – | – |
| Investment cash flow | (70,923) | (96,392) | (23,720) | (17,550) | (15,450) |
| Change in borrowings | 37,464 | 29,012 | – | – | – |
| Equity issues | (1,711) | (2,061) | – | – | – |
| Dividend paid | (4,606) | (5,998) | (6,788) | (8,305) | (8,603) |
| Other | 296 | 5,645 | – | – | – |
| Financing cash flow | 31,443 | 26,598 | (6,788) | (8,305) | (8,603) |
| Change in cash flow | 26,038 | 36,346 | 95,049 | 102,331 | 126,093 |
| Cash & equivalents, begin | 43,438 | 71,902 | 105,697 | 200,746 | 303,077 |
| Forex | 2,426 | (2,551) | – | – | – |
| Cash & equivalents, end | 71,902 | 105,697 | 200,746 | 303,077 | 429,171 |
| Free cash flow | 48,270 | 74,182 | 110,557 | 114,187 | 136,146 |

Source: Company data, CCBIS estimates

Balance sheet

| FYE 31 Dec (RMB m) | 2016 | 2017 | 2018F | 2019F | 2020F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash and equivalents | 71,902 | 105,697 | 200,746 | 303,077 | 429,171 |
| Pledge dep., restrict. cash | 51,070 | 38,330 | 38,330 | 38,330 | 38,330 |
| Receivables | 24,270 | 33,659 | 43,785 | 56,501 | 69,601 |
| Inventory | 263 | 295 | 921 | 1,240 | 1,555 |
| Other current assets | 1,649 | 465 | 465 | 465 | 465 |
| Total current assets | 149,154 | 178,446 | 284,247 | 399,613 | 539,122 |
| Property, plant and equip. | 13,900 | 23,597 | 24,317 | 24,170 | 23,657 |
| Intangible assets | 36,467 | 40,266 | 32,846 | 24,766 | 17,266 |
| JVs and associates | 80,299 | 144,581 | 160,781 | 172,431 | 182,231 |
| Other non-current assets | 116,079 | 167,782 | 167,292 | 166,827 | 166,385 |
| Total non-current assets | 246,745 | 376,226 | 384,656 | 388,195 | 389,539 |
| Total assets | 395,899 | 554,672 | 668,904 | 787,807 | 928,661 |
| Short-term borrowings | 12,278 | 15,696 | 15,696 | 15,696 | 15,696 |
| Trade and bills payable | 48,286 | 79,518 | 107,658 | 142,797 | 177,999 |
| Other current liabilities | 40,633 | 56,526 | 62,846 | 65,268 | 67,812 |
| Total current liabilities | 101,197 | 151,740 | 186,199 | 223,761 | 261,507 |
| Long-term borrowings | 93,753 | 111,457 | 111,457 | 111,457 | 111,457 |
| Other non-current liabilities | 14,702 | 14,382 | 14,189 | 14,005 | 13,831 |
| Total non-current liabilities | 108,455 | 125,839 | 125,646 | 125,462 | 125,288 |
| Total liabilities | 209,652 | 277,579 | 311,845 | 349,224 | 386,795 |
| Reserves & retained profits | 174,624 | 256,074 | 334,439 | 414,265 | 515,747 |
| Shareholders' equity | 174,624 | 256,074 | 334,439 | 414,265 | 515,747 |
| Minority interest | 11,623 | 21,019 | 22,619 | 24,319 | 26,119 |
| Total equity | 186,247 | 277,093 | 357,058 | 438,584 | 541,866 |
| Total equity and liabilities | 395,899 | 554,672 | 668,904 | 787,807 | 928,661 |

Ratios

| FYE 31 Dec | 2016 | 2017 | 2018F | 2019F | 2020F |
|-----------------------------------|----------|----------|----------|----------|----------|
| Growth (%) | | | | | |
| Revenue | 47.7 | 56.5 | 31.1 | 29.0 | 23.2 |
| EBITDA | 47.3 | 66.0 | 10.0 | 4.5 | 21.5 |
| EBIT | 39.7 | 61.4 | 14.2 | 6.1 | 25.6 |
| Net profit | 42.7 | 74.0 | 16.1 | 3.6 | 25.5 |
| Non-GAAP net profit | 40.1 | 43.4 | 17.8 | 19.3 | 25.1 |
| Profitability (%) | | | | | |
| Gross margin | 55.6 | 49.2 | 46.1 | 43.7 | 42.7 |
| EBITDA margin | 43.6 | 46.3 | 38.8 | 31.4 | 31.0 |
| EBIT margin | 35.2 | 36.3 | 31.6 | 26.0 | 26.5 |
| Net margin | 27.0 | 30.1 | 26.6 | 21.4 | 21.8 |
| Non-GAAP net margin | 29.9 | 27.4 | 24.6 | 22.8 | 23.1 |
| Tax rate | 19.7 | 17.8 | 16.5 | 19.0 | 19.0 |
| Efficiency (days) | | | | | |
| Inventory turnover | 1 | 1 | 1 | 2 | 2 |
| Trades receivable | 21 | 20 | 22 | 22 | 23 |
| Trades payable | 117 | 117 | 129 | 131 | 135 |
| Returns & leverage (%) | | | | | |
| ROAA | 11.7 | 15.0 | 13.6 | 11.8 | 12.6 |
| ROAE | 27.9 | 33.2 | 28.1 | 23.0 | 23.2 |
| Net debt (cash)/equity | Net cash | Net cash | Net cash | Net cash | Net cash |
| Payout ratio | 12.9 | 10.0 | 10.5 | 10.5 | 10.6 |
| Liquidity (x) | | | | | |
| Current ratio | 1.5 | 1.2 | 1.5 | 1.8 | 2.1 |
| Quick ratio | 1.5 | 1.2 | 1.5 | 1.8 | 2.1 |

Rating definitions:**Outperform (O) – expected return > 10% over the next twelve months****Neutral (N) – expected return between -10% and 10% over the next twelve months****Underperform (U) – expected return < -10% over the next twelve months****Analyst certification:**

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