

**From:** "Barrett, Paul S" <[REDACTED]>

**To:** Jeffrey Epstein <jeevacation@gmail.com>, Richard Kahn <[REDACTED]>

**Subject:** FW: Tencent: Smartphone games and video subscription lead to better earnings outlook

**Date:** Thu, 11 May 2017 11:40:07 +0000

**Attachments:** Tencent\_AY.pdf; image1.gif

JPM-pp1

Asia Pacific Equity Research

## Tencent: Smartphone games and video subscription lead to better earnings outlook

### Overweight

We turn more positive on Tencent's financial outlook in 2017 and beyond due to: 1) better smartphone games outlook in 2017 especially due to outperformance of Honor of Kings, and 2) improving long-term outlook of video business. We expect Tencent Video to close the gap with iQiyi in terms of revenue and subscriber size in the next few years. We believe its key competitive strengths lie in: 1) rich IP reserves across all major entertainment categories (e.g. online games, literature and comics, etc.), which is synergetic to original video content production, and 2) distribution power. We estimate Tencent Video to achieve breakeven in 2019 and deliver 5.5% OPM in 2020.

- **Paid subscribers to reach 172m in 2020, with 4-year CAGR of 55%.** We estimate Tencent Video's subscribers to grow at a 4-year CAGR of 55% to 172m in 2020 (vs 182m for iQiyi and 117m for Youku), with a 74% penetration rate against China's total video subscribers of 234m. It will also represent 69% of China cable TV users and 46% of broadband users in 2020. We estimate the revenue contribution from subscription business to increase from 29% in 2016 to 76% in 2020.
- **Expecting Tencent Video to achieve breakeven in 2019.** We forecast Tencent Video's total revenue to grow at FY16-20E CAGR of 52% to RMB40bn in 2020. By leveraging its extensive in-house IP resources, we estimate the content cost as % of revenue to trend down from 80% in 2016 to 64% in 2020.
- **Smartphone games continue to deliver upside surprise.** We believe that Honor of Kings, the recent hit mobile game of Tencent, continued its momentum in 1Q17. We expect the game to generate RMB6-7bn/RMB20bn+ gross revenue in 1Q17/2017.
- **Maintain OW and revise up PT to HK\$275.** We tweak up our non-GAAP EPS forecasts for 2017/18 by 4%/3% due to: 1) stronger mobile gaming outlook, and 2) better video margin outlook. Our PT is based on 2017E non-GAAP EPS of HK\$7.54, a 2017E-19E EPS CAGR of 30% and a PEG of 1.2x, and implies a 2017/2018E P/E of 36x/27x.

Click [here](#) for the full Note and disclaimers.

[Alex Yao](#)<sup>AC</sup>

[REDACTED]  
Bloomberg JPMA YAO <GO>

[Binbin Ding](#)

[Daniel Chen](#)  
(852) 2800-8579

J.P. Morgan Securities (Asia Pacific) Limited

Visit [J.P. Morgan Markets](#) for more market-leading research and financial solutions across the full trade and investment lifecycle.

[www.jpmorganmarkets.com](http://www.jpmorganmarkets.com)

---

I certify that all of the views expressed in this research email accurately reflect my personal views about any and all of the subject securities or issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein. For all Korea-based research analysts listed on the front cover, they also certify, as per KOFIA requirements, that their analysis was made in good faith and that the views reflect their own opinion, without undue influence or intervention.

This email communication is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Opinions, estimates and assumptions expressed herein are made as of the date of this communication and are subject to change without notice. This email communication has been prepared based upon information, including market prices, data and other information, believed to be reliable; however, J.P. Morgan does not warrant its completeness or accuracy. Past performance is not indicative of future results. Before making an investment decision regarding any security or company referred in this email communication, you should refer to the most recent published research for the views and analysis of the analyst, including the investment thesis and valuation and risk, regarding such security or company. Additional information is available upon request.

**Company-Specific Disclosures:** Important disclosures, including price charts and credit opinion history tables, are available for compendium reports and all J.P. Morgan-covered companies by visiting <https://jpmm.com/research/disclosures>, calling 1-800-477-0406, or e-mailing [research.disclosure.inquiries@jpmorgan.com](mailto:research.disclosure.inquiries@jpmorgan.com) with your request. J.P. Morgan's Strategy, Technical, and Quantitative Research teams may screen companies not covered by J.P. Morgan. For important disclosures for these companies, please call 1-800-477-0406 or e-mail [research.disclosure.inquiries@jpmorgan.com](mailto:research.disclosure.inquiries@jpmorgan.com).

All research reports made available to clients are simultaneously available on our client website, J.P. Morgan Markets. Not all research content is redistributed, e-mailed or made available to third-party aggregators. For all research reports available on a particular stock, please contact your sales representative.

**Confidentiality and Security Notice:** This transmission may contain information that is privileged, confidential, legally privileged, and/or exempt from disclosure under applicable law. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution, or use of the information contained herein (including any reliance thereon) is STRICTLY PROHIBITED. Although this transmission and any attachments are believed to be free of any virus or other defect that might affect any computer system into which it is received and opened, it is the responsibility of the recipient to ensure that it is virus free and no responsibility is accepted by JPMorgan Chase & Co., its subsidiaries and affiliates, as applicable, for any loss or damage arising in any way from its use. If you received this transmission in error, please immediately contact the sender and destroy the material in its entirety, whether in electronic or hard copy format.

---

This message is confidential and subject to terms at: <http://www.jpmorgan.com/emaildisclaimer> including on confidentiality, legal privilege, viruses and monitoring of electronic messages. If you are not the intended recipient, please delete this message and notify the sender immediately. Any unauthorized use is strictly prohibited.

EFTA00695860