

Tencent 腾讯 (0700.HK) 2Q17 Results: Strong Beat on Both Top and Bottom Line, Driven by Strong Performance of Gaming and WeChat

	2Q17	2Q16	YoY Change
Net Sales (RMB Bil.)	¥56.6	¥35.7	58.6%
Gross Margin	50%	57%	(700) bps%
SG&A/Sales	20.9%	21.5%	(60) bps
Operating Margin	40%	40%	(3) bps
Non-GAAP net income (RMB Bil.)	¥16.5	¥11.5	43.4%
Non-GAAP diluted EPS	¥1.721	¥1.194	44.1%

Source: Company reports

- Tencent reported 2Q17 revenues of ¥56.6 billion, up 58.6% year over year. Non-GAAP diluted EPS was ¥1.72, largely driven by gaming and Weixin (WeChat).
- Value-added services (VAS) revenues, which accounted for 65% of total revenue, increased by 43.3% year over year, mainly driven by strong revenue growth in both PC games and smartphone games.
- Advertising revenues were up 55.4% year over year, due to strong growth from media ads and the strong performance of Weixin (WeChat) Moments and WeChat Official Accounts.
- Other revenues surged 177.5% year over year, driven by mobile payment and cloud services. The payment business for commercial transactions has increased rapidly, driven by strengthened cooperations with channel partners, especially Meituan-Dianping, to expand the offline merchant base.

2Q17 Results

Tencent reported total revenues for 2Q17 of ¥56.6 billion (\$8.4 billion), up 58.6% year over year, beating the consensus estimate of ¥53.0 billion. The gross margin decreased to 50% from 57% a year ago. Non-GAAP diluted EPS was ¥1.72.

Segment Operations Breakdown

Figure 1. 2Q17 Revenue Breakdown

Revenue (RMB Mil.)	2Q17	% of Total Revenue	YoY Change
VAS	36,804	65%	43.3%
Online Advertising	10,148	18%	55.4%
Others	9,654	17%	177.5%

Source: Company reports/FGRT

Value-added service (VAS): VAS revenues were ¥36.8 billion for the quarter, up 43.3% year over year, and accounted for 65% of total revenue. Within VAS, online games revenues increased by 39% year over year to ¥23.9 billion, driven by higher revenues from both PC games (e.g., League of Legends) and smartphone games (e.g., Honor of Kings). Social network revenues increased by 51% year over year to ¥12.9 billion, driven mainly by revenue growth in digital-content services including live broadcast, video and music.



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Online advertising: Revenues for this segment were ¥10.1 billion for the quarter, up 55.4% year over year, and comprised 18% of total revenue. The increase mainly reflected higher traffic for Tencent Video services and news feed advertisements for Tencent News products. Social and other advertising revenues increased by 61% year over year to ¥6.1 billion, mainly driven by WeChat Moments and WeChat Official Accounts.

Others: Revenues for the others segment were ¥9.7 billion, up 177.5% year over year, reflecting revenue growth from payment-related and cloud services. The payment business for commercial transactions has increased rapidly, driven by strengthened cooperations with channel partners, especially Meituan-Dianping, to expand the offline merchant base.

Cloud and AI Business

Tencent Cloud expanded its global infrastructure coverage during the quarter and now operates 34 availability zones globally. Tencent maintained a leadership role in providing cloud services to the game, video and live broadcast industries, and expanded its market share in the telecommunication, media, technology and finance sectors during the quarter.

Management reiterated the importance of artificial intelligence (AI) for a better user experience and ad targeting. Tencent has recently made breakthroughs in Go Chess AI, face recognition and medical imaging. The company plans to invest further in machine learning, computer vision, speech recognition and natural language processing to improve the experience of both its users and its business partners.



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Deborah Weinswig, CPA

Managing Director
FGRT
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Charlie Poon

Research Assistant

Hong Kong:

2nd Floor, Hong Kong Spinners Industrial Building Phase 1&2
800 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 18th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com