INSTITUTO
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Valuation of Tencent Holdings Ltd.

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Master in Finance

Supervisor:
Doctor Pedro Manuel de Sousa Leite Inácio, Assistant Professor,
ISCTE-IUL

August, 2022

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BUSINESS
SCHOOL

Department of Finance

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Resumo

Tencent e Facebook, os dois gigantes dos meios de comunicação social, ocupam papéis proeminentes nos meios tecnológicos em 2017. Tencent ultrapassou o Facebook pela primeira vez em termos de capitalização bolsista, tornando-se a quinta maior empresa do mundo por capitalização de mercado, a seguir apenas à Apple, Alphabet, Microsoft, e Amazon. O preço das ações da Tencent aumentou mais de 40% desde o início de 2020, devido à situação epidémica favorável e à catálise dos seus jogos explosivos. Como resultado, a capitalização de mercado da Tencent ultrapassou a do Facebook, tornando-a pela segunda vez na empresa de comunicação social mais conhecida do mundo. Com o objetivo de dar uma proposta de investimento útil, este projeto centra-se na tendência de desenvolvimento de Tencent, e nas perspetivas de futuro da empresa.

Palavras-chave: meios tecnológicos, capitalização bolsista, recomendação de investimento

Abstract

Tencent and Facebook, the two social media behemoths, occupied prominent roles in the technology media in 2017. Tencent has surpassed Facebook in terms of market capitalization for the first time, making it the world's fifth biggest corporation by market capitalisation, after only Apple, Alphabet, Microsoft, and Amazon. Tencent's stock price has increased by more than 40% since the beginning of 2020, owing to the favourable epidemic situation and the catalysis of its explosive games. As a result, Tencent's market capitalization has surpassed that of Facebook, making it the world's most well-known social media company for the second time. Aiming to give a helpful investment recommendation, this thesis focuses on the development trend of Tencent, and the company's future prospects.

Key words: technology media, Market capitalization, investment recommendation

Abbreviations list

APV - Adjusted Present Value

CAGR - Compound Annual Growth Rate

Capex - Capital Expenditures

CAPM - Capital Asset Pricing Model

DCF - Discounted Cash Flow

DDM - Dividend Discount Model

EBIT - Earnings before Interest and Taxes

EBITDA - Earnings before Interest, Taxes, Depreciations and Amortizations

ERP - Equity Risk Premium

EVA - Economic Value Added

FCFE - Free Cash Flow to Equity

IPO - Initial Public Offering

PER - Price to Earnings

WACC - Weighted Average Cost of Capital

VAS - Value Added Services

g - Growth rate

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1. Introduction

The purpose of this master's project is to analyse and value Tencent Holdings Ltd. using several valuation techniques. The anticipated findings will be compared to historical market data to assist prospective investors in determining the market's expected future trend and making an investment choice.

Tencent is one of the biggest integrated service providers and one of the largest internet firms in China, even globally, with the most service users. According to analysts, more than two-thirds of the country's almost 1.4 billion people utilize Tencent. Tencent is a technology company that focuses in a variety of internet-related goods and services, as well as entertainment and technology. Among the several services offered by the company are social networking, media advertising, online games, fintech, and business services. Tencent has developed China's biggest online community to meet the communication, information, entertainment, and e-commerce demands of Internet users.

Tencent's purpose is to utilize technology to improve the lives of Internet users. Its business is basically divided into three segments. To begin, there is the computer-based social networking program QQ and the mobile-based instant messaging service WeChat. QQ offers all of the functionality found in WeChat and much more, although the latter is superior in terms of simplicity. Instant messaging is no longer only a conversation tool. It has evolved into a complete information platform that seamlessly integrates communication, information, entertainment, search, e-commerce, workplace collaboration, and corporate customer care.

Second, Tencent has the world's largest mobile gaming brand. Games provide the biggest percentage of revenue in Tencent's company, topping 40% and surpassing Microsoft and Sony in terms of revenue.

Tencent's third income stream comes from an ecosystem centred on its one billion users. The company provides a huge range of applications aimed at enhancing people's daily digital life.

Tencent ranked eighth among global Internet corporations in early November, with a market capitalisation of $400 billion. How much growth potential does Tencent's $400 billion market capitalization have? Is it on the verge of collapsing? Tencent was picked as the case company for this master project based on this reasoning.

2. Literature Review

2.1 Introduction

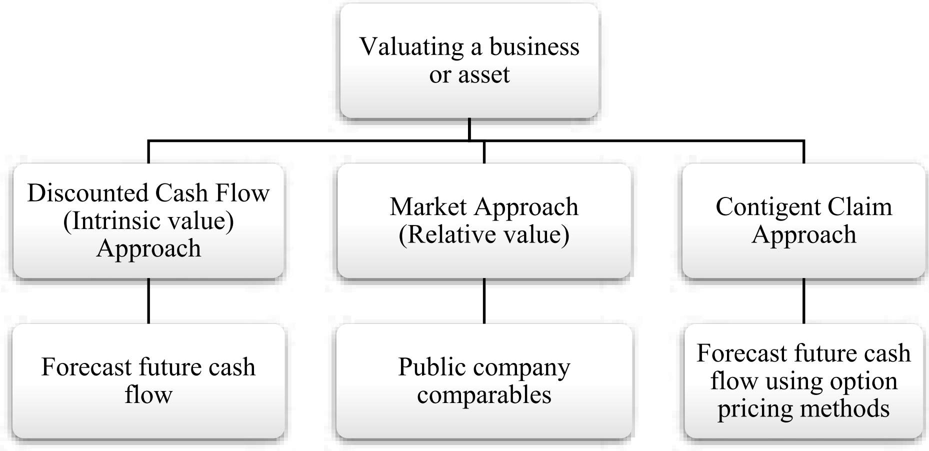
Each asset, both financial and physical, has a monetary worth. (Damodaran, 2002), and regardless of whether you are a prospective investor, a board member, or the management of a corporation, knowing and comprehending the worth of your enterprise is always advantageous, if not necessary in certain circumstances. (Friedman & Tollery, 2010). The process of assessing an asset's worth using characteristics believed to be related with future investment returns, comparisons to comparable assets, or estimations of immediate liquidation revenues, as appropriate, is considered valuation (Pinto et al., 2015). In general, asset valuation is a vital aspect of financial management, where the valuation process supports the mergers and acquisitions (M&A), capital budgeting, and investment analysis processes.

Before entering into the numerous uses of equity valuation tools and the valuation process, it is necessary to define the term "value" and to recognize that its meaning varies according to context. The concept is often used in the financial context to refer to the worth of an asset, a firm, or its financial performance. While intrinsic value is required as a starting point, other conceptions of value, such as enterprise value, liquidation value, and fair value, are equally important. (Pinto et al., 2015) It is widely accepted that the value of a stock is ultimately determined by the projected income in the form of dividends or capital gains at the time of sale; this is referred to as intrinsic value.

2.2 Valuation models

There are several methods for determining a business's worth. And, with so many kinds of company valuation models available, recognizing the distinctions between them and when to utilize each is a critical skill for all associated parties. According to Damodaran (2002), there are commonly three ways to valuation. The first, discounted cash flow valuation, compares the present value of an asset's predicted future cash flows to the asset's value. The second method, relative valuation, determines an asset's worth by comparing its price to that of other assets in relation to a common variable such as profits, cash flow, book value, or sales. Contingent valuation, on the other hand, use option pricing models to evaluate the value of assets with option characteristics.

Figure 1: *Valuation approaches and models*



Source: *Adapted from Damodaram (2002)*

2.2.1 Discounted Cash Flow Approach

Discounted Cash Flow (DCF) analysis is an intrinsic value technique in which an analyst forecasts the business's unlevered free cash flow into the future and discounts it back to today at the firm's Weighted Average Cost of Capital (WACC). The advantage of this approach is that it takes the expected return on equity into account. If the DCF value is greater than the investment's present cost, there is a possibility of earning positive returns. According to Arzac (2007) the comparison of these values can help gauging the reliability of the valuation results.

It is the most thorough of the three techniques and necessitates the use of the greatest number of estimations and assumptions. However, the time and effort necessary to develop a DCF model often results in the most accurate value. A DCF model enables the analyst to anticipate value using several scenarios and even do a sensitivity analysis.

DCF valuation may be classified into three approaches: equity valuation, business valuation, and adjusted present value (APV) valuation. The first method involves valuing only the equity portion of the business; the second method involves valuing the entire business, including all other debt holders in addition to the equity; and the third method involves valuing the business in segments, beginning with operations and ending with the impact on the value of debt and other non-equity claims. It is critical to remember that each technique requires a distinct set of cash flows and discount rate.

As previously stated, the Discounted Cash Flow Valuation technique is based on the present value rule, according to which the value of any asset is equal to the present value of its predicted future cash flows:

$$Value = \sum_{t=1}^{t=n} \frac{CF_t}{(1+r)^t} \qquad (1)$$

Where,

n = Life of the asset

CFt = Cash flow in period t

r = Discount rate reflecting the riskiness of the estimated cash flows´

DCF analysis is used to determine the amount of money an investor would get from an investment, adjusted for the time value of money. The discount rate r will be a function of the predicted cash flows' riskiness, with higher rates applied to riskier assets and lower rates applied to safer projects. Cash flow will vary by asset; safer investments will create more cash flow, while riskier assets would generate less. Investors may use the present value of money idea to analyze if the future cash flows from an investment or project are equal to or higher than the original investment's worth. If the DCF value is more than the investment's present cost, the opportunity should be explored.

2.2.1.1 Discounted Cash Flow for Equity (DCFE)

The term "free cash flow to equity" refers to the amount of cash available to a company's equity owners after all costs, reinvestment, and debt are paid. Equity value is calculated by discounting the predicted cash flows from equity by its cost. The projected cash flow for equity is the cash flow left after all costs, reinvestment needs, tax responsibilities, and net debt payments have been made, while the cost of equity is the rate of return demanded by the firm's equity investors.

$$Value\ of\ equity = \sum_{t=1}^{t=n} \frac{CF\ to\ equity_t}{(1+k_e)^t} \quad (2)$$

Where,

CF to $equity_t$ = Expected Cash Flow to equity in period t

k_e = Cost of Equity

2.2.1.2 Discounted cash flow for the Firm (DCFF)

The value of the firm is calculated by discounting the firm's predicted cash flows at the WACC rate. The expected cash flow for the business is calculated as the cash flows remaining after all operating costs, reinvestment needs, and taxes have been paid, but before payments to creditors or shareholders, whereas the WACC is calculated as the cost of the various financing components used by the business, weighted by their market value share.

$$FCFF = EBIT * (1-t) + Depreciation\ and\ Amortization - \Delta\ \text{Net Working Capital Needs} - \text{Capex} \quad (3)$$

Where,

WACC = Weighted average cost of capital

$$WACC = \frac{Net\ Debt}{EV} * rD * (1-t) + \frac{Equity}{EV} * rE \quad (4)$$

The Enterprise Value is obtained by discounted the expected cash flows at the weighted average cost of capital (WACC), also considering the Terminal Value for the perpetuity.

$$Enterprise\ Value = \sum_{t=1}^{n} \frac{FCFF_t}{(1+WACC)^t} + \frac{Terminal\ Value_n}{(1+WACC)^n} \quad (5)$$

2.2.1.3 Adjusted Present Value (APV)

Alternatively, the APV approach may be used to calculate the firm's worth. In this method, we begin by valuing the business's equity, assuming that the firm was entirely funded by equities. The gain (or reduction) in value attributable to debt is then calculated by considering the present value of the tax advantages associated with the debt as well as the anticipated bankruptcy expenses.

2.2.2 Relative valuation

Comparable company analysis (or peer group analysis or public multiple analysis) is a method of determining the financial value of a business or asset by comparing its current value to that of similar businesses or assets using the prices of comparable assets, i.e. we compare the company's value to that of its competitors. There are several forms of relative valuation ratios, including the price-to-book (P/B) and price-to-sales (P/S) ratios for equity multiples, the enterprise value-to-sales (EV/Sales) and enterprise value-to-EBITDA (EV/EBITDA) ratios for enterprise value multiples. The price-to-earnings (P/E) ratio is a frequently used relative valuation multiple. It is computed as the ratio of the stock price to the earnings per share (EPS).

The similar company technique establishes an observable value for the business or asset by comparing it to the values of other comparable businesses. This is the most often used approach since it is simple to compute and is constantly updated.

2.3 Valuation model selecting

When evaluating a business or set of businesses, the analyst wants to choose a valuation model that is suitable for the given data. In most circumstances, the available data will confine the model's selection and use. Thus, before using these valuation models and establishing assumptions, the analyst should take into consideration that the model should be as basic as feasible given the available inputs. Copeland et al., (2000) argued that Valuation depends mainly on understanding the business, its industry, and the general economic environment, and then doing a prudent job of forecasting. Careful thought and hard work lead to foresight. Correct methodology is only a small, but necessary, part of the valuation process.

Earnings variables are often more meaningful than cash flow indicators for assessing company performance, according to prior studies. Cash flow, on the other hand, may be more trustworthy than profits due to the fact that accrual needs judgment and assessment. When cash flow and earnings predictions were included in valuation models, the findings were more accurate than when they were not included. Numerous studies demonstrate that cash flow may have a greater relative importance than profits. Cash flow as an alternate model is gaining popularity.

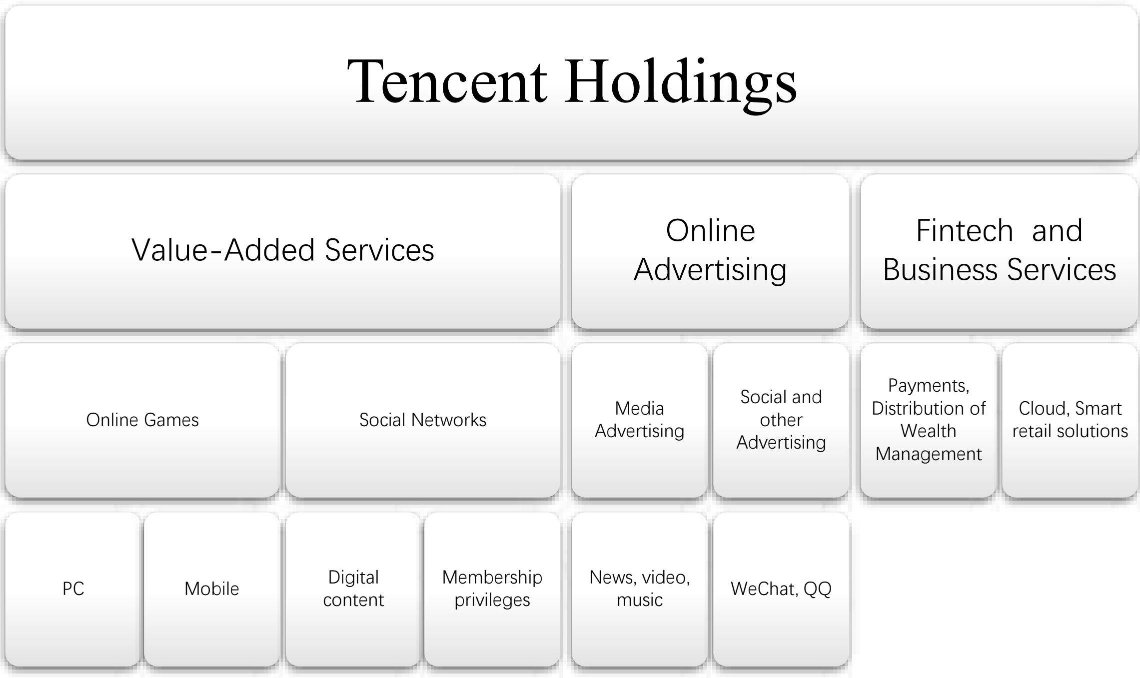
Analysts use several valuation models depending on their choice for considering shareholder value or business value (Huang el al., 2014). Additionally, empirical data indicates that various models are chosen throughout different economic stages and business cycles, but some models, such as P/E multiples, continue to be significant.

3. Business analysis

3.1 Company Overview

Tencent Holdings Limited is a Chinese Internet company headquartered in Shenzhen, Guangdong Province. It is an Internet firm that provides Value-Added Services (VAS), Online Advertising Services, and other products and services. The VAS category includes online and mobile games, community value-added services, and apps available on a variety of different Internet and mobile platforms. Online Advertising includes both display and performance-based advertising. The other segment covers trademark licensing, custom software development, software sales, and other services. In China, they are collectively referred to as BAT, along with Baidu and Alibaba.

***Figure 2**: Tencent´s service offerings*



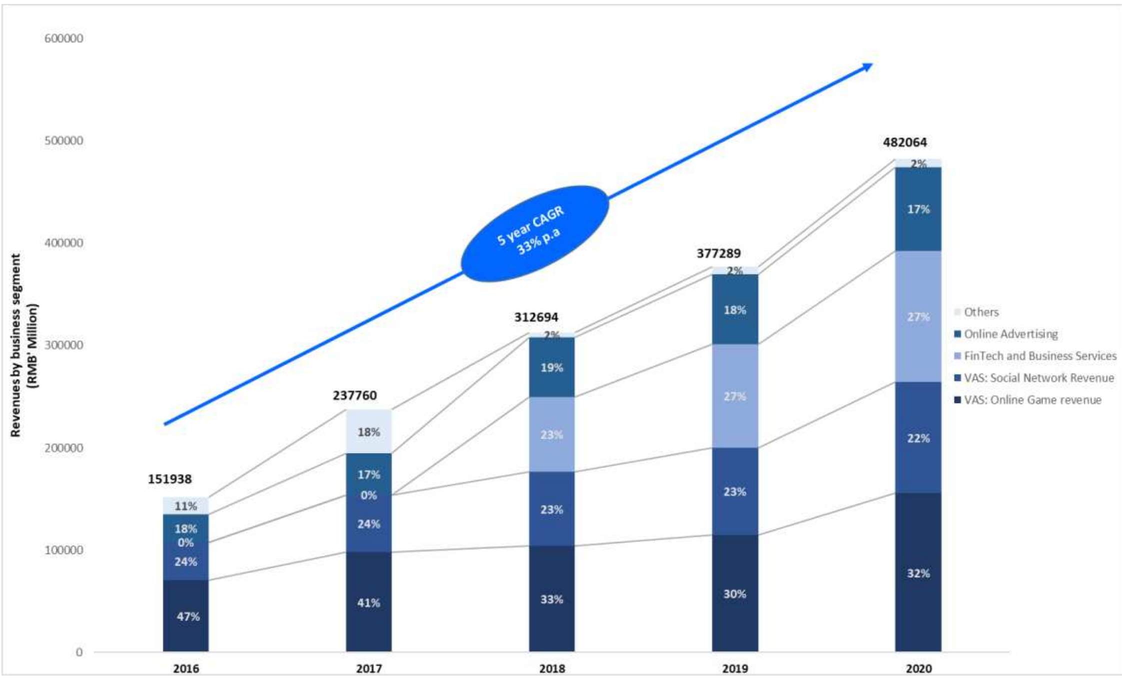
***Source**: Company data*

Tencent began operations in 1998. In 1999, OICQ was launched as a PC-based messaging program; it was eventually renamed QQ. Once QQ became profitable in 2001, it was followed by the production of more internet services goods. WeChat, the country's most popular smartphone application, was born ten years later. With one billion Monthly Active Users (MAU), WeChat has become an indispensable part of many people's lives. It is used for chatting, calling, video and picture sharing, mobile payments, shopping, dating, hotel booking, loan applications, and taxi hailing, among many other things.

Tencent began trading on the stock exchange on June 16, 2004. The stock, which is denominated in Hongkong dollars, was listed on the Stock Exchange of Hongkong's main board under the ticker number 700.HK The Initial Public Offering (IPO) was priced at HK$3.70 per share with an anticipated market capitalization of HK$1.55 billion. The firm was projected to have a market capitalization of between HK$4.66 billion and HK$6.22 billion.

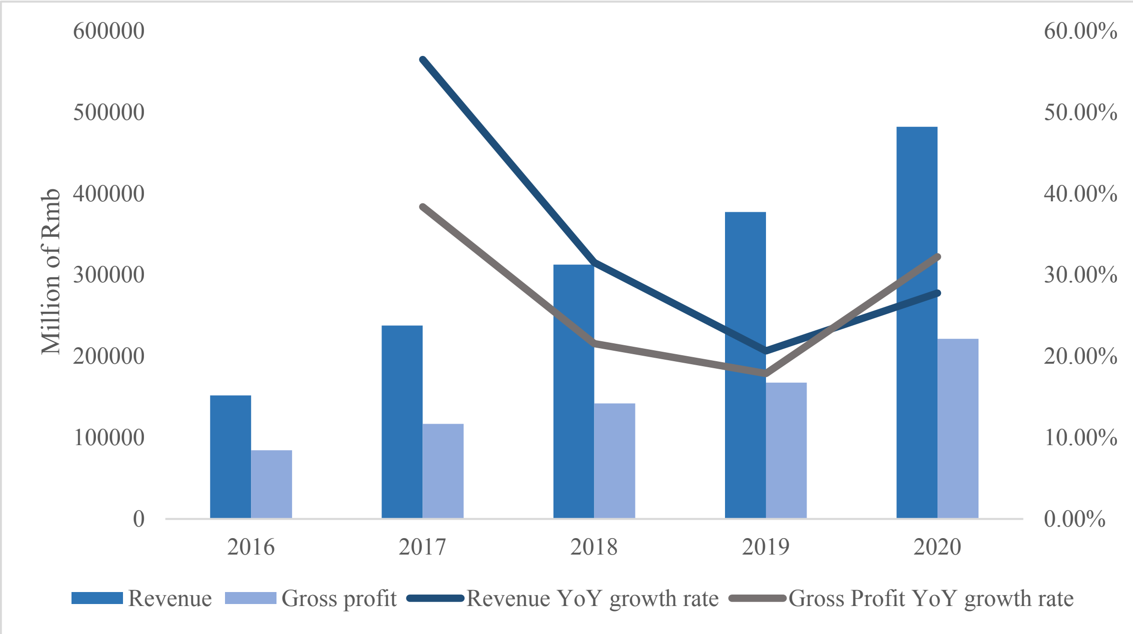
The firm earns the most of its income from Value-Added Services (VAS), such as online games and premium content, via its QQ and WeChat social media platforms. In 2020 Tencent earned 482 billion of RMB in sales (32% from online games, 27% from Fintech and Business Services, 22% from digital content, and 17% from online advertising).

***Figure 3**: Tencent´s revenue breakdown, 2016-2020*



***Source**: Company data*

***Figure 4**: Tencent´s total revenue and net profit, 2016-2020*



***Source**: Adapted from Company data*

Tencent's revenue increased 28% year on year to 482 billion of RMB in 2020, with revenue from online games, fintech, social networks, online advertising, and other growing 56% year on year, 32% year on year, 21% year on year, and 28% year on year, respectively, with a CAGR of around 33% over the last five years. Gross profit increased from Rmb 84.5 billion in 2016 to 221.5 billion of RMB in 2020, representing a nearly 27% compound annual growth rate over the previous five years.

3.2 Value-Added Services (VAS)

3.2.1 PC games and Mobile games

The majority of money generated by internet firms comes from VAS, with online games often generating the greatest profit margins. Tencent derived the largest share of its income from online gaming. In recent years, it has maintained its position as the world's largest game publisher by revenue, surpassing Sony by 1.4 billion US dollars. Tencent Mobile was the third largest publisher of iPhone games in terms of app downloads. In

China, its mobile games "Peacekeeper Elite" and "Honor of Kings" have been favorably welcomed. Indeed, the Chinese company has shares in many famous video games, including "League of Legends," "Fortnite," and "Clash of Clans." PUBG Mobile, the company's battle royale game, has exploded in popularity in global markets.

Monthly membership fees for VIP privileges and item sales provide cash for online games. Tencent's online gaming business began in 2003 with the launch of the QQ Game platform and has grown in combination with the popularity of the QQ messaging application, followed by the launch of other social networking and distribution platforms such as WeChat and the firm's official application store "Yingyongbao."

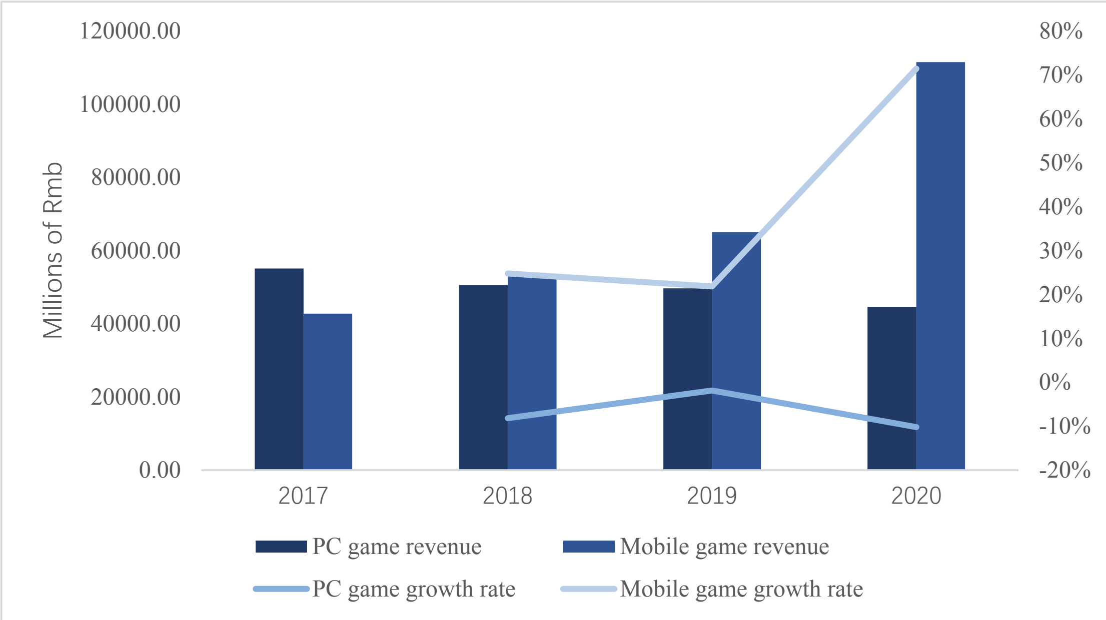
***Table 1**: Top global PC games, Mobile games and Gaming companies by digital revenue in 2021*

Rank	PC games	Mobile games	Gaming companies
1	Counter-Strike: Global Offensive	PUBG Mobile	TENCENT
2	Dota 2	Genshin Impact	SONY
3	Halo: Infinite	Honor of Kings	NETEASE
4	Rocket League	Coin Master	NINTENDO
5	Apex Legends	Lineage W	ACTIVISION BLIZZARD
6	Grand Theft Auto V	Candy Crush Saga	ELECTRONIC ARTS
7	Phasmophobia	Roblox	TAKE-TWO INTERACTIVE
8	Dead by Daylight	Garena Free Fire	NEXON
9	Tom Clancy´s Rainbow Six: Siega	Three Kingdoms Tactics	BANDAI NAMCO
10	Crab Games	Uma Musume Pretty Derby	NCSOFT

***Source**: Adapted from Newzoo, SensorTower, Bloomberg*

Since the surge in popularity of smartphones as gaming devices, the PC game sector has been under pressure, while the mobile gaming industry has seen fast expansion. Between 2017 and 2020, PC game revenue is rise at a CARG of -4%, while mobile game revenue is expanded at a powerful CAGR of 21%.

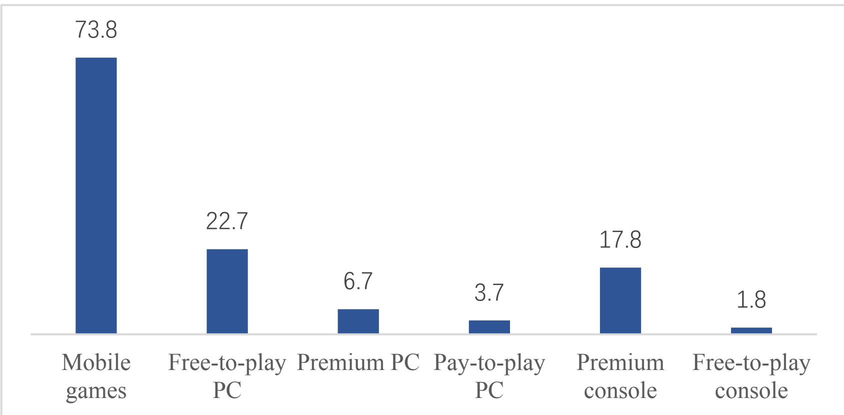
Figure 5: *Tencent's online games revenue breakdown, 2016-2020*



Source: *Adapted from Bloomberg*

According to Superdata, digital games generated $126.6 billion in 2020, an increase of 12% year over year. While the free-to-play industry grew by 9% to $98.4 billion. While free-to-play games accounted for 78% of digital sales in 2020, revenue from premium titles increased at a quicker rate of 28% compared to 9%.

Figure 6: *Digital games revenue, 2020*



Source: *Adapted from Superdata*

By 2020, the mobile market increased 10% and accounted for 58% of the entire gaming market. In Asia, the free-to-play market continues to flourish. Asia accounted for 59% of global free-to-play revenue. Six of the top ten titles were released by Asian companies.

Table 2*: Top 10 free-to-play titles, 2020*

Rank	Title	Publisher	Genre	Revenue
1	Honor of Kings	Tencent	MOBA	$2.45bn
2	Peacekeeper Elite	Tencent	Shooter	$2.32bn
3	Roblox	Roblox Corporation	Simulation	$2.29bn
4	Free Fire	Garena	Shooter	$2.13bn
5	Pokémon Go	Niantic Inc	Action-Adventure	$1.92bn
6	League of Legends	Riot Games, Tencent	MOBA	$1.75bn
7	Candy Crush Saga	King, Activision Blizard	Puzzle	$1.66bn
8	AFK Arena	Lilith Games	Strategy	$1.45bn
9	Gardenscapes - New Acres	Playrix Games	Puzzle	$1.43bn
10	Dungeon Fighter Online	Nexon	RPG	$1.41bn

Source*: Adapted from Superdata*

Tencent began assembling teams to create mobile games in 2014. Since then, the mobile gaming industry's income has constantly expanded, becoming a significant growth factor for online games. According to Superdata, Tencent's “Honor of Kings” and “Peacekeeper Elite” will each generate more than $2 billion in sales by 2020.

Tencent's games have grown in popularity as a result of extensive advertising on social media. WeChat and QQ have enabled the firm's games to reach a wide audience. Additionally, we emphasize the convenience of signing in using QQ and WeChat accounts, which allows users to access the conventional log-in restrictions (phone number, email address, or ID number). The company's dominating distribution capabilities serves as a significant competitive advantage, allowing it to bring in players at a minimal cost.

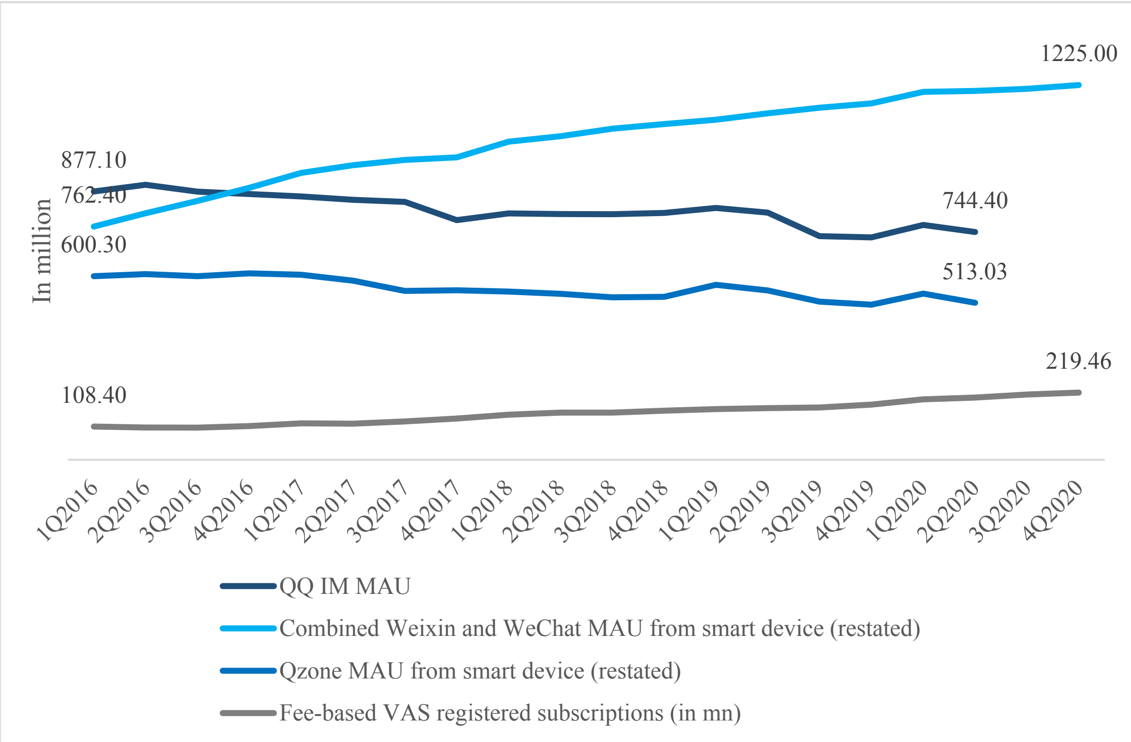
Given Tencent's diverse game portfolio, superior distribution network, and superior operational capacity, all of this indicates well for the firm's mobile gaming segment's long-term development.

3.2.2 Social Network

Apart from online gaming, Tencent earns VAS income from its social networks, where it charges favored subscription and membership fees for digital content. For a subscription fee, QQ users may have special access to QQ show, Qzone, and SVIP. Additionally, customers must pay for premium content on platforms like video, music, reading, and animation.

In China, the payment ratio for premium content and the monetization rate for licensed content remain extremely low, owing to pervasive piracy, despite significant improvement over the last two years.

***Figure 7**: Key Metrics for Tencent Social Platforms*



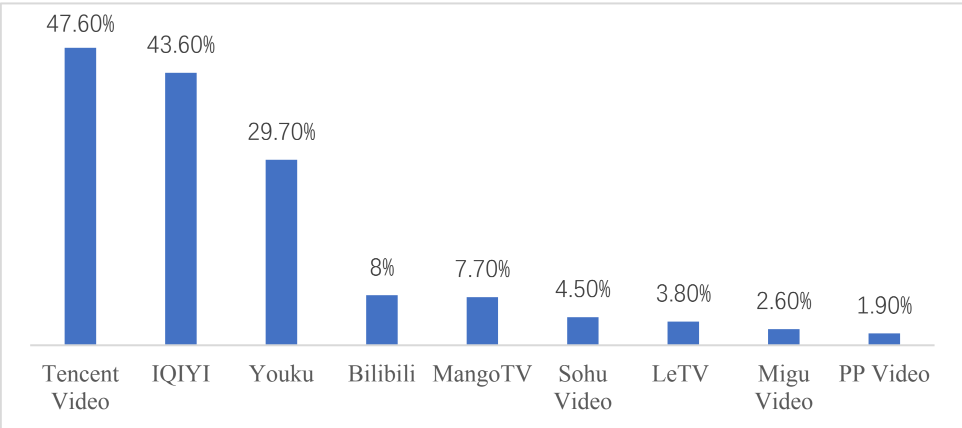
***Source**: Company data*

Premium content is highly dependent on the distribution channel. Tencent, as the operator of China's major social networks via QQ and WeChat, is well positioned to study consumer behavior and target the appropriate audience when introducing new content. While QQ IM Monthly Active Users (MAUs) are declining as consumers migrate to

WeChat, the social network remains critical for analyzing the online activity of younger users, particularly teens and university students.

The internet video company has the greatest paid user base. Every day, millions of individuals across the globe use video-on-demand (VOD) services. A typical VOD service allows consumers to choose when, where, and how they receive video content. China has 400 million video streaming users in 2021, second only to the US. The demand for high-quality videos has prompted China's video-on-demand business to transition from advertising-supported (AVOD) to subscription-based models (SVOD). Tencent Video, IQIYI, Youku, and Bilibili accounted for almost all of users' time spent on online video platforms in China. However, Tencent Video and IQIYI's paying ratios remain at 20%, far lower than in global markets, showing considerable development potential for online video platforms in China.

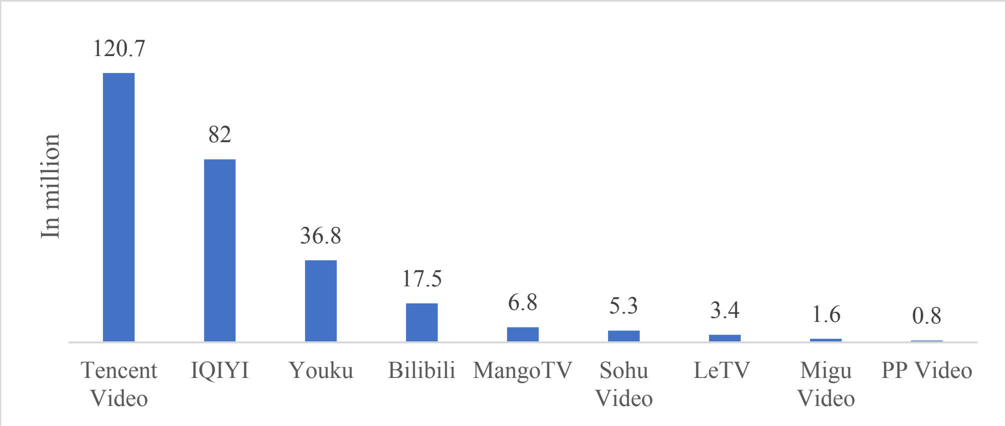
***Figure 8**: Top Online Video Apps by Penetration in 2018*



***Source**: Adapted from China Internet Watch*

With a penetration rate of 47.6%, Tencent Video topped the rating. IQIYI came in second place with a penetration rate of 43.6%. Youku (29%), Bilibili (8%) and MangoTV (7.7%) were placed third, fourth, and fifth, respectively.

Figure 9*: The Average Daily Active Users of Top Online Video Mobile App in 2018*



Source*: Adapted from China Internet Watch*

As Chinese viewers place a higher premium on the quality and uniqueness of video material, having a diverse collection of high-quality entertainment content and associated intellectual property rights will be important to the success of online video platforms in China. Additionally, unique material increases user interaction and enables businesses to dramatically minimize content expenses.

Tencent has a significant advantage over the other two platforms, owing to its social networking infrastructure. The firm's content assets include both licensed and original content. Tencent derives revenue from material developed inside its social network ecosystem, which includes China Literature, Tencent Games, Tencent Anime, and Tencent Pictures, while User-Generated Content (UGC) is disseminated through WeChat's official accounts, live streaming, and short video platforms.

Tencent is the market leader in internet music. China, with a population of over 1.4 billion, has a sizable potential audience and an increasing appetite for musical entertainment. Tencent Music Entertainment (TME) is the market leader, managing the four most popular music mobile apps in China with 800 million monthly active users (MAUs). As such, we see Tencent's digital music content as the firm's highest-quality assets within the social network category. However, China's payment ratio for online music services was just 3.9%, compared to 44% for Spotify. As is the case with online video services, online music services in China have a substantial development potential.

3.3 Fintech and Business Services

3.3.1 Payment solutions

Alipay and WeChat Pay are two major figures in the Chinese Fintech industry who began as mobile payment service providers. Alipay belongs to Ant Group, which is part of Alibaba Group, whereas WeChat Pay belongs to Tencent. Mobile payments spread to other financial services. Alibaba’s and Tencent’s impact extend beyond the Chinese economy, and both compete one other.

WeChat Pay is an integrated payment platform built by Tencent. The firm experienced some challenges with payment processing, so it established its own platform for its customers. The payment platform has turned into one of the largest in China. WeChat Pay cooperates with airline corporations, logistics/insurance companies, gaming, B2C enterprises, and many other organizations from diverse industries, and always ready to give a safe online payment solution.

Tencent employs three primary payment tools WeChat Pay, TenPay, and QQ Wallet to conduct out most of its financial activities.

WeChat Pay was released in 2013, and it was an incorporated WeChat digital wallet, which can be utilized in order to execute online payments or transmit money between contacts. In other words, it is a WeChat payment option. Payments in WeChat may be done using Quick Pay, QR code payments, in-app web-based payments, and native in-app payments, thereby supporting a broad variety of payment conditions. Combined with WeChat official accounts, WeChat Pay services help to the growth of online-to-offline (O2O) enterprises.

Tencent has developed a comprehensive internet finance ecosystem, with “Licaitong” covering wealth management, “Weilidai” covering consumer debt, “WeBank” covering banking services, “WeBao” covering internet insurance, “WeSecurity” covering stocks, “WeCredit” covering credit, and “Tencent Finance Cloud” covering the fintech business, using WeChat Pay as a core payment solution. Compared with worldwide counterparts, Tencent already possesses the biggest mobile payment user base. However, the majority of its earnings comes from transaction commission fees. We estimate Tencent's operating margin to remain the lowest among peers, given its lower operating margin than rivals focused on consumer credit interest.

3.3.2 Cloud & AI

With the evolution of artificial intelligence (AI) technology over the last several years, many Chinese industry giants have gradually expanded their investment in this new sector. Tencent began its AI approach later than Baidu and Alibaba. Following the prevalent practice at Tencent of establishing many teams to work concurrently and compete on the same plan, there are various research labs dedicated to exploring the technological capabilities of AI. Tencent's supremacy in voice and picture recognition comes from the massive amount of data gathered in its social network. The business integrated the capabilities into its current products, enabling WeChat to enable more intelligent services and Games to provide players with a more involved virtual world experience. Tencent's most visible growth is in medical research and development, particularly in the area of medical image identification and analysis. Tencent built the "Miying" technology in-house and invested in startups such as Grail and Practo that do medical research. Additionally, Tencent invests in the self-driving business via partnerships with NIO and Tesla.

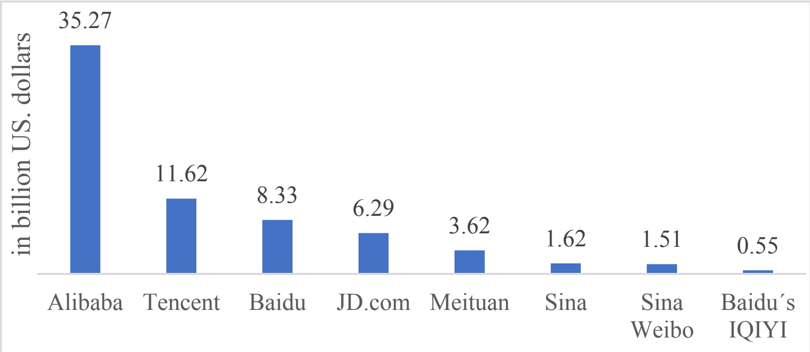
3.4 Online Advertising

Online advertising has also become an important component of the advertising business as a result of increasing internet usage. Online advertising has a numerous benefit over more traditional types of advertising, including greater client targeting, less time or space limits, and a more straightforward means of measuring the performance of commercials through clicks and actions research.

According to the latest statistics data on internet growth, China's online advertising industry will reach over 500 billion of RMB in 2020, rising 14% year on year. According to research provided by the China Internet Network Information Center, internet advertising through mobile devices grabbed a market share of 85% in 2019, up from 70%

in 2018. Additionally, the survey observed that key opinion consumers (KOCs), or individuals who have the ability to influence their friends and followers and hence impact consumption behavior, are rebuilding the online marketing communication chain and increasing advertising.

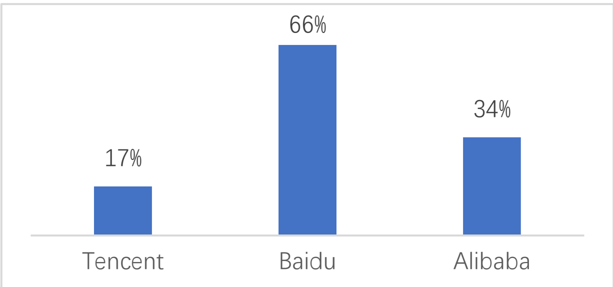
***Figure 10**: Net digital advertising revenue, in 2020*



***Source**: Adapted from Statista*

Tencent's online advertising business should have greater space to expand in comparison to its competitors. Despite controlling a significant portion of Chinese customers' online time, Tencent behind Alibaba, and Baidu in terms of money generated through online advertising. Online advertising income amounted for 17% of Tencent's overall revenue, compared to 66% for Baidu and 34% for Alibaba.

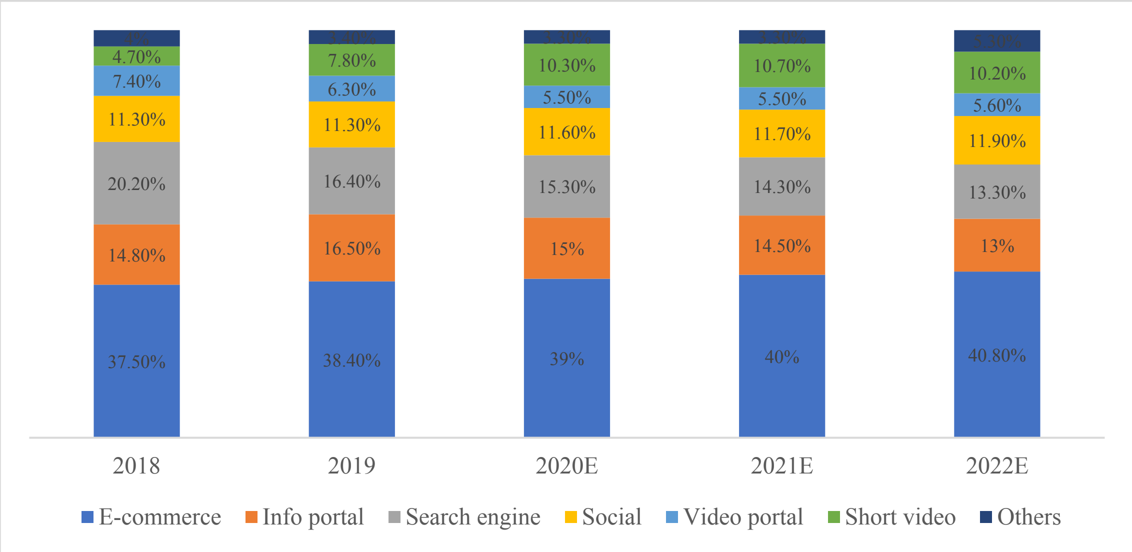
***Figure 11**: Online advertising sales comparison*



***Source**: Adapted from Bloomberg*

Alibaba's e-commerce and Baidu's search traffic may be simpler to monetize via advertising since their customers' significantly greater proclivity for online shopping makes them more appealing to marketers. Nevertheless, the success of global social networks like Facebook in generating advertising income bodes well for Tencent, whose platforms are primarily utilized for social networking and content consumption.

Figure 12: *Market share of China internet advertising by media type, 2018-2022*



Source: *Adapted from ChinaSEO*

E-commerce advertising now has the main market share distribution of all Internet media advertising, and it is continuing to grow. When information ads, search ads, and social ads are rated alongside one another, e-commerce advertisements are not far behind. E-commerce advertising is critical since it has the shortest conversion path and the best conversion efficiency of any kind of advertising.

Tencent's larger user traffic and cheaper online ad revenues compared to big rivals should enable it to develop rapidly. Its social networking platforms should continue to outperform its media platforms in terms of advertising revenue growth, owing to increased advertising demand, targeted advertising, and more ad impressions on features such as WeChat Moments, which is comparable to Facebook's News Feed. Additional growth should be aided by updated features such as short movies and “Mini-programs”.

4. Financial Statement Analysis

Financial statement analysis is the process of studying and analyzing a company's performance in relation to its industry and economic environment. It enables external stakeholders to gain an understanding of the organization's overall health in order to make decisions, as well as serving as a monitoring tool for internal constituents responsible for financial management.

4.1 Profitability Analysis

Profitability analysis is the methodical analysis of earnings from a business's numerous income sources. While there are several methods to analyze a company's profitability, profitability ratios are one of the most often used measures in financial research. They are classified into two types: margin ratios and return ratios.

Margin ratios quantify a business's capacity to convert revenues to profit to varying degrees.

Return ratios indicate a business's capacity to make profits for its shareholders.

***Figure 13**: Profitability ratios analysis*

***Source**: Adapted from CFI*

4.1.1 Margin Ratios

***Table 3**: Margin ratios analysis*

	2018	2019	2020	2021
Gross Profit	45%	44%	46%	44%
EBITDA	35%	36%	35%	31%
Operating Profit	31%	31%	38%	48%
Net Profit	26%	25%	33%	41%

***Source**: Author*

Gross profit margin is calculated by dividing gross profit by sales revenue. This metric indicates how much a firm earns after deducting the expenses associated with producing its products and services. A high gross profit margin ratio suggests that core activities are more efficient, while a low profit margin means high cost of goods sold. Tencent's gross profit margin has been constant at roughly 45% over the previous four years.

EBITDA is a measure of a company's profitability before interest, taxes, depreciation, and amortization. The advantages of adopting EBITDA margin include the ease with which it can be compared to other firms since it removes volatile or partly discretionary spending. Tencent's EBITDA margin has been stable at roughly 34% over the past four years.

Operating profit margin (often referred to as EBIT margin) measures profitability as a percentage of sales before interest and taxes are removed. Businesses with high operational profit margins are often better positioned to cover fixed expenses and interest on debt, have a greater chance of surviving an economic downturn, and are more capable of providing cheaper pricing than rivals with a lower profit margin. Tencent's operating margin has been increased from 31% to 48% over the previous four years.

Net profit margin is calculated by dividing net income by total revenue. It represents a company's profitability at the moment, after all expenditures have been deducted. Tencent's net profit margin has been over 33% for the previous four years.

4.1.2 Return Ratios

***Table 4**: Return ratios analysis*

	2018	2019	2020	2021
Return On Sales (ROS)	31%	31%	38%	48%
Return On Assets (ROA)	13%	12%	14%	18%
Return On Invested Capital (ROIC)	340%	96%	129%	164%
Return On Equity (ROE)	25%	22%	23%	28%

***Source**: Author*

Return on Sales is a metric used to determine the operational effectiveness of a business. Companies can calculate their Return on Sales by dividing the operating profit — before taxes and interest are deducted — by the net sales, across a chosen period. This metric evaluates a business's success by determining what proportion of total company sales is being transformed into profits.

The Return on Assets metric is the proportion of net profits to total assets of a business. This metric indicates how well a business can manage its assets to generate profits over time, as both management and investors evaluate the company's ability to transform its asset investments into profits.

Return on Equity is a profitability metric that indicates a business's capacity to benefit from its shareholders' investments. This is a critical metric for prospective investors because it demonstrates how well a business will utilize their money to create net income.

Return on Invested Capital, like Return on Equity, is a financial measure that indicates how profitably a firm invests the money it receives from shareholders as well as debtholders. In other words, it assesses a company's management performance by examining how the money invested by shareholders and bondholders is used to create new income. Additionally, investors use ROIC to evaluate firms across sectors and determine which company or management team is the most effective at earning returns on investors' capital.

4.2 Liquidity Analysis

Liquidity ratio analysis is the process of calculating an organization's capacity to pay its payments on time without generating additional cash. Current, quick, and cash ratios are all examples of common liquidity ratios.

***Table 5**: Liquidity analysis*

	2018	2019	2020	2021
Current Ratio	1.07	1.06	1.18	1.27
Quick Ratio	1.07	1.05	1.18	1.27
Cash Ratio	0.48	0.55	0.57	0.56

***Source**: Author*

The Current Ratio is calculated by comparing all current assets to all current liabilities. It indicates a business's capacity to pay down its short-term commitments using just current assets. In the near term, current assets such as cash, cash equivalents, and marketable securities may quickly be converted to cash. This indicates that businesses with a high level of current assets will be able to pay down current creditors more easily without selling long-term, revenue-generating assets. According to the table above, Tencent's current ratio has remained around 1.1-1.2 for the last three years, which means that all current liabilities are covered by current assets. However, if Tencent had to repay all current liabilities with current assets, there would be almost no current assets remaining.

The Cash Ratio is used to assess the amount of cash and cash equivalents held by a business to its current obligations. This ratio excludes all non-cash assets, particularly inventories. Tencent's cash ratio has remained steady at roughly 0.54, indicating that the corporation does not have enough cash on hand to pay down short-term debt.

The Quick Ratio is identical to the cash ratio, except that it includes accounts receivable as an asset. This ratio expressly excludes inventory, which may be difficult to convert to cash. Tencent's Current Ratio is almost identical to its Current Ratio; this is because inventory makes up a modest amount of Tencent's current assets.

4.3 Solvency Analysis

Solvency ratios assess a business's capacity to continue operating indefinitely by comparing its debt to its equity, assets, and profits; in other words, a Solvency ratio is used to establish if a business can remain viable in the long run. Equity Ratio, Debt Ratio, and Debt to Equity Ratio are the most often used solvency ratios.

Table 6*: Solvency analysis*

	2018	2019	2020	2021
Equity Ratio	0.49	0.51	0.58	0.58
Debt Ratio	0.51	0.49	0.42	0.42
Debt to Equity Ratio	1.03	0.95	0.71	0.72

Source*: Author*

The Equity Ratio is a solvency ratio that indicates the percentage of assets funded by the owner's investment by comparing the company's total equity to total assets. A firm with a larger equity ratio demonstrates that investors trust in it and are prepared to fund it with their money. Additionally, a greater ratio indicates to prospective creditors that the business is more sustainable and therefore less risky to lend future loans. Tencent's equity ratio has been increasing over the previous three years, going from 0.49 in 2018 to 0.58 in 2020 and 2021.

The Debt Ratio is another solvency ratio that indicates the entire liabilities of a business as a proportion of total assets; in other words, it indicates how many assets the business needs sell in order to pay off all of its creditors. Companies having a greater ratio of obligations to assets are deemed highly leveraged and hence risky for lenders. In contrast to the Equity Ratio, Tencent's Debt Ratio has been declining during the previous three years, with the same proposition.

The Debt-to-Equity Ratio compares the total debt of a business to its total equity. The Debt-to-Equity Ratio indicates how much of a business's funding originates from creditors and investors. Tencent's debt-to-equity ratio has been steadily declining over the previous four years, from 1.03 in 2018 to 0.72 in 2021, owing to an increase in investor financing relative to creditor financing.

4.4 Growth Analysis

Growth rates are used to indicate the yearly percentage change in a variable. A growth rate may be useful for evaluating and forecasting a company's success. The Compound Annual Growth Rate (CAGR) is a frequently used variant on the annual growth rate.

***Table** 7: Growth analysis, million RMB*

	2019	2020	2021	3 years CGR
Revenues	3 77 289	482 064	560 118	14%
EBITDA	167 533	221 532	245 944	14%
EBIT	118 694	184 237	271 620	32%
Net Income	95 888	160 125	227 810	33%
Assets	953 986	1 333 425	1 509 913	17%
Equity	488 824	778 043	876 693	21%
Liabilities	465 162	555 382	633 220	11%

***Source**: Author*

The compound annual growth rate of EBITDA e EBIT is more than the compound annual growth rate of Revenues, indicating that the operational leverage effect is being beneficial to the firm. Tencent can maximize profits by optimizing both fixed and variable expenses. The firm has raised its overall assets over the previous several years, mostly via shareholder financing and a small amount through creditor financing.

5. Forecasts

Tencent´s revenues are driven by three segments: Value Added Services, Online Advertising and Fintech. The forecast period is between 2022 and 2040, each segment is forecasted based on its own drivers.

5.1 Value-Added Service (VAS)

The VAS category is primarily comprised of two sub-segments: Online Gaming and Social Networking, which accounted for 59% and 41% of total VAS Revenue, respectively.

According to research from Mordor Intelligence (2021), the Gaming Market was valued at USD 198.40 billion in 2021 and is projected to reach USD 339.95 billion by 2027, registering a CAGR of 8.94% between 2022 and 2027. This information will be used to estimate Tencent's Online Gaming segment over the next five years. Given that Tencent generates the most income on the global games market, it is acceptable to assert that the company has a significant impact on industry trends.

Recent data from The Business Research Company predicts that the size of the worldwide social media industry would increase from $159.68 billion in 2021 to $223.11 billion in 2022, at a compound annual growth rate (CAGR) of 39.7%. The growth is primarily attributable to companies reorganizing their operations and recovering from the COVID-19 impact, which had previously resulted in restrictive containment measures including social distancing, remote working, and the closure of commercial activities, which posed operational challenges. At a CAGR of 39%, the market is anticipated to reach $833.50 billion by 2026. Therefore, we will predict a CAGR of 39% for Tencent Social Networking over the next five years.

The revenue prediction for global VAS will be based on the weighted average CAGR of these two subsegments. Under these conditions, the VAS segment's revenue would increase from 353 502 million RMB in 2021 to 1 390 271 million RMB in 2040.

5.2 Online Advertising and Fintech

Global expenditure on social media advertising in 2021 was around 116 billion dollars. According to The Business Research Company, worldwide expenditure on social media advertising will treble by 2028, surpassing 262 billion dollars. According to Statista, worldwide expenditure on social advertising will increase at a CAGR of 12.4% between 2021 and 2028.

According to Venture Scanner, FinTech investments increased by 144% in 2021 compared to 2020. The consulting firm BCG has determined that in 2021, three times as many companies were formed worldwide as in 2019. Considering these tendencies, research firms such as Research and Markets forecast that the worldwide FinTech industry would expand at a CAGR of 27.5% to $31.5 billion by 2026.

The projection period is anticipated to remain steady for all segments' Cost structure, which is estimated based on the average percentage of sales from each fiscal year.

Until 2040, when net income from core activities (core results) reaches 455 245 million RMB, growth will be steady.

5.3 Non-core operations and Financial Results

For all non-core Operations and Financial results, it is assumed that all of them will be increased based on the average of past 3 years during the forecast period.

6. Corporate Valuation

6.1 Discounted Cash Flow (DCF) Model

As mentioned previously, the Discounted Cash Flow Valuation was deemed to be the best appropriate approach for determining a credible price target for Tencent's shares by the end of 2022. Both the intrinsic-value-based valuation approach and the market-value-based valuation method were used to determine Tencent's Enterprise Value. Following that, a sensitivity analysis will be undertaken to determine the behavior of the shares under various scenarios.

As an intrinsic valuation tool, the DCF model is based on the premise that a company's worth may be calculated from the sum of the present value of its free cash flow (FCF). This strategy gives us the freedom to add both industry- and firm-specific data to predict the financial success of a business more accurately.

In addition to estimating the firm's future free cash flow, the Discounted Cash Flow Model needs the assessment of the weighted average cost of capital when evaluating a company (WACC). It is the anticipated return on investment that all corporate investors (including stock investors and debt investors) aim to earn. WACC consists of three major components: the cost of equity, the cost of debt, and the capital structure preferred by the business.

6.2 Weighted Average Cost of Capital (WACC)

In the DCF model, the predicted cash flows are allocated to the whole business; hence, they must be discounted by the cost of capital, which includes both the equity cost and the debt cost. The following sections will describe the assumptions used to calculate WACC.

Even though the Sum of the Parts approach is used, both firms/segments will be valuated using the same WACC. The primary rationale for this assumption is because the factors used to calculate the WACC are comparable (if not identical) across segments.

The DCF model is developed by adding the terminal value to the present value of predicted future free cash flow for the projection period (2022F-2040F).

***Table 8**: Weighted Average Cost of Capital Estimation*

	Tencent Holdings Lda
Risk Free Rate	3.17%
Levered Beta	1.27
Market Risk Premium	4.84%
Cost of Equity	**9.30%**
Pre-Tax Cost of Debt	3.6%
Tax Rate	25%
After Tax Cost of Debt	**2.7%**
Market Value of Net Debt	458.29
Market Value of Total Capital	3696.90
Weights of Net Debt	11.03%
Weights of Equity	88.97%
WACC	**8.58%**

***Source**: Author*

6.2.1 Risk Free Rate

This rate is the rate of return on a risk-free asset. These days, it is almost hard to locate such an asset. However, the relevant rate to examine in this situation is the yield on government bonds. Therefore, the decision was based on the Hongkong 10-year Bond yielding 3.17% in June 2022.

6.2.2 Risk adjustment for Tencent using the CAPM model

Tencent's Beta was calculated by regressing the company's monthly performance against that of the HSI Index from 31 March 2016 to 24 June 2022. Monthly frequency was chosen to prevent the noise that high-frequency data may produce. In this instance, the raw beta for Tencent is 1.27.

6.2.3 Market Risk Premium

The difference between the anticipated return on a market portfolio and the risk-free rate, also known as the Equity Risk Premium. According to Damodaran's research, the premium for market risk in China is around 4.84%. The pace is considered to stay constant during the duration of the project.

6.2.4 Cost of Equity

The Cost of Equity for Tencent is 9.3% by applying the CAPM equation.

6.2.5 Cost of Debt

Fitch Ratings has assigned Tencent an A+ credit rating throughout the previous five years. And for the pre-tax cost debt, we used the solid credit rating history and substituted the 10-year corporate bond yield. Using a corporation tax rate of 25%, we calculated an after-tax cost of debt of 2.7%.

Combining all the elements and applying to the WACC formula, we estimated a WACC of 8.58% for Tencent.

6.3 Free Cash Flow for the Firm (FCFF)

Departing from NOPLAT, adjustments such as changes in Net Working Capital, Capex investment (arising from both core and non-core business activities), depreciation and amortization were deducted to reach out the unlevered free cash flow. Using the WACC of 8.58%, every year free cash flow was discounted to the present value, reaching an Enterprise Value of 5 266 431 million RMB. After subtracting the net debt and non-controlling interest from the firm value, we reached a value of 5 337 175 million RMB for Equity shareholders.

6.4 Terminal Value

The perpetual growth model was used to ascertain the terminal value.

The terminal growth estimated for 2041 is the free cash flow growth projected for 2040, which is 2.94%. This growth rate estimate is based on the average weighted perpetuity growth rate of the three primary business segments (VAS, Online advertising, and Fintech). With this estimate, the present value of the terminal value is calculated to be 2 048 344 million of RMB. With a WACC of 8.58%, the share price reached 555.61 RMB, which is equal to 651.90 HKD with a 69.68% expected capital gain.

Table 9: *Share price information*

Summary	**Tencent Holdings Lda**
# of shares	9606
Share price in RMB	555.61
HKD/RMB (25/06/2022)	1.1713
Share price in HKD	**651.90**
Current share price (25/06/2022)	384.20
Expected return	**69.68%**

Source: *Author/Adapted from Bloomberg*

Table 10: *Tencent share price market data*

Market Data (Unit: HKD)	**Price**	**Date**
52 weeks high	595.70	25/06/2021
52 weeks low	296.61	15/03/2022
All time High	760.84	25/01/2021
All time low	0.6541	26/07/2004

Source: *Adopted from Yahoo Finance*

6.5 Comparable Valuation

As previously mentioned, the DCF model is dependent on the company's performance, whereas comparable valuations take into consideration both macroeconomic and industry-specific aspects. In this approach, market-based valuation might serve as a supplement to business valuation. It is vital to remember that Tencent operates in three segments; industry peers are chosen based on their relevance to Tencent's operating areas.

***Table 11**: Comparable Valuation, million HKD*

Name	Ticker	Mkt Cap (HKD)	EV	EV/EBITDA	P/E
MEITUAN-CLASS B	3690 HK Equity	1,200,998.01	1,149,685.73		
ALIBABA GROUP HOLDING-SP ADR	BABA US Equity	2,420,965.96	1,922,294.81		15.85x
NETEASE INC-ADR	NTES US Equity	479,712.32	390,087.30	14.43x	24.97x
360 SECURITY TECHNOLOGY IN-A	601360 CH Equity	70,547.11	43,641.28		72.25x
TWITTER INC	TWTR US Equity	222,975.13	225,830.24	44.84x	
NAVER CORP	035420 KS Equity	234,236.03	236,659.54	28.21x	28.33x
BAIDU INC - SPON ADR	BIDU US Equity	402,923.81	309,815.99		31.63x
Z HOLDINGS CORP	4689 JP Equity	174,464.11	198,482.36	14.45x	38.82x
NASPERS LTD-N SHS	NPN SJ Equity	526,193.22	777,145.16		27.48x
JD.COM INC-ADR	JD US Equity	788,101.09	691,661.30	25.19x	93.76x

***Source**: Adapted from Bloomberg*

Table 12: *Multiples*

Multiples	EV/EBITDA	P/E
Min	14.43x	15.85x
25th Percentile	14.45x	26.85x
Mean	**25.42x**	41.64x
Median	25.19x	**29.98x**
75th Percentile	28.21x	47.18x
Max	44.84x	93.76x

Source: *Author*

Based on the average multiple EV/EBITDA of 25.42x, the implied share price for Tencent is 502 HKD. While using the median multiple P/E of 29.98x, the implied share price for Tencent 869 HKD. It is also important to note that Tencent has a diversified business coverage, which provides the firm a solid revenue stream and a strong competitive advantage compared to its peers. Therefore, the firm will be priced at a relatively high level as demonstrated both in DCF pricing models and the comparable valuation using median multiples.

Table 13: *Implied Share Price based on average EV/EBITDA*

Implied	Share price (HKD)	Share price (RMB)
Min	288.44	245.84
25th Percentile	288.83	246.17
Mean	**501.62**	427.53
Median	497.08	423.66
75th Percentile	555.64	473.57
Max	878.11	748.41

Source: *Author*

Table 14: Implied Share Price based on P/E ratio

Implied	Share price (HKD)	Share price (RMB)
Min	459.60	391.71
25th Percentile	778.63	663.62
Mean	1207.31	1028.98
Median	**869.32**	740.92
75th Percentile	1367.98	1165.93
Max	2718.72	2317.15

***Source**: Author*

6.6 Sensitivity Analysis

Under a given set of assumptions, sensitivity analysis evaluates how various values of an independent variable influence a certain dependent variable. A sensitivity analysis must be conducted in order to have a more complete understanding of the factors influencing equity value in this model.

Table 15: Sensitivity Analysis (Price in HKD)

		WACC					
Terminal Growth Rate		**7.58%**	**8.08%**	**8.58%**	**9.08%**	**9.58%**	**10.08%**
	2.44%	757	688	630	582	540	503
	2.69%	774	701	641	590	546	508
	2.94%	793	716	652	598	553	514
	3.19%	815	732	664	608	561	520
	3.44%	839	749	678	618	569	526

Note: Between 25% - 75% percentile highlighted in grey

***Source**: Author*

__Table 16__: Price between 25th – 75th Percentile (Price in HKD)

	Share price
Min	503
25th Percentile	555
Median	624
75th Percentile	712
Max	839

***Source**: Author*

__Table 17__: Sensitivity Analysis (Expected Return)

		WACC					
		7.58%	**8.08%**	**8.58%**	**9.08%**	**9.58%**	**10.08%**
Terminal Growth Rate	**2.44%**	97%	79%	64%	51%	40%	31%
	2.69%	101%	82%	67%	53%	42%	32%
	2.94%	106%	86%	70%	56%	44%	34%
	3.19%	112%	90%	73%	58%	46%	35%
	3.44%	118%	95%	76%	61%	48%	37%

***Source**: Author*

The analysis will be based on a fluctuation of both cost of capital and the terminal growth rate. WACC will range between 7.58% and 10.08% and g will go from 2.44% to 3.44%. Based on the current sensitivity analysis, we may conduct a much more comprehensive study and facilitate a better decision-making process. It is essential to examine how potential changes in the cost of capital and growth rate would affect the share price. Providing ranges for the independent variables within which we may anticipate a favorable return will eventually help us make a more informed decision.

7. Conclusion and Recommendations

7.1 The Future perspective of Tencent

Tencent stock expected price in 2022 is 651.90 HKD, with an expected price appreciation of 69.68%. The recommendation for investors is to BUY the share.

Tencent has shown very solid financial health with high levels of cash and cash equivalent, which gives them opportunities to invest or even acquire other companies to gain more market share and grow its maintenance base.

In the most recent earnings call, the company's management emphasized that they intend to maintain Tencent's previous approach of making small investments (as opposed to outright mergers or acquisitions) in private firms and assisting their growth until they go public. As a result, Tencent is anticipated to continue divesting and lowering its shares in publicly traded firms to finance fresh investments in private companies as part of its investment portfolio cycle moving ahead.

7.2 Risks

Shorter lifespan of online games. Reduced longevity of online games. We observe that several licensed games, such as QQ Speed and I'm MT4, have a more limited shelf life than expected. If the MAUs and gross income of the flagship game Honor of Kings decline quicker than anticipated, it will have a significant and negative effect on overall revenue. We are also concerned about the possibility of a quicker slowdown in PC game revenue growth owing to Peacekeeper Elite and other mobile games' cannibalization.

Regulation risk on entertainment. The departure of K-12 education companies after the Chinese government's sector-wide crackdown, which included a prohibition on ads for education groups, was certainly the most important development in the advertiser business. In addition, the suspension of License issuances beginning in July 2021 resulted in decreased advertising income from new games for which Tencent is a distributor, since these titles were not yet monetizable. In a lesser degree, Chinese officials issued other limits on gaming ads, including a ban on the use of prominent public figures in game promotions. In the near run, the strict restriction will have a negative effect on overall income.

Regulation risk on mobile payment. According to new regulatory regulations, mobile payment operators must transfer their reserve deposits to The People's Bank of China (PBOC), resulting in the loss of mobile payment service providers' interest income from January 2019. The regulation modification will have a substantial negative effect on net profit.

Weaker performance in advertising. During the same time frame, the Chinese government also implemented rules regulating the internet advertising business. These include technical restrictions on launch screen advertisements and requirements on click-to-close features, additional regulations for advertisements targeting minors and the elderly, and changes in personal information protection laws that may prohibit the collection of sensitive information from minors.

In reaction to the changing regulatory environment, management should prioritize minimizing costs, boosting efficiency, concentrating more intently on important strategic areas, and implementing more sustainable long-term growth plans.

8. Appendix

Appendix A: *Balance Sheet*

Balance Sheet Unit: RMB' Million	2016	2017	2018	2019	2020	2021
Non-current assets	**246745**	**376226**	**506441**	**700018**	**1015778**	**1127552**
Property, Plant and Equipment	13900	23597	35091	46824	59843	61914
Constrution in progress	4674	3163	4879	3935	4939	5923
Investment properties	854	800	725	855	583	517
Land use rights	5174	5111	7106	15609	16091	17728
Intangible assets	36467	40266	56650	128860	159437	171376
Investment in associate	70042	113779	219215	213614	297609	316574
Investment in redeemable instrument of associates	9627	22976	0	0	0	0
Investment in Joint Ventures	630	7826	8575	8280	7649	6614
Available-for-sale financial assets	83806	127218	0	0	0	0
Prepayments, deposits and other assets	7363	11173	21531	23442	24630	37177
Other financial assets	1760	5159	1693	0	4	1261
Deferred income tax assets	7033	9793	15755	18209	21348	26068
Term deposits	5415	5365	0	19000	31681	19491
Financial assets at fair value through profit or loss	0	0	91702	128822	165944	192184
Financial assets at fair value through other comprehensive income	0	0	43519	81721	213091	250257
Right-of-use assets	0	0	0	10847	12929	20468
Current assets	**149154**	**178446**	**217080**	**253968**	**317647**	**382361**
Inventories	263	295	324	718	814	1063
Accounts receivable	10152	16549	28427	35839	44981	49331
Prepayments, deposits and other assets	14118	17110	18493	27840	40321	65390
Other financial assets	1649	465	339	375	1133	1749
Term deposits	50320	36724	62918	46911	68487	83813
Restricted cash	750	1606	2590	2180	2520	2476
Cash and cash equivalents	71902	105697	97814	132991	152798	167966
Financial assets at fair value through profit or loss	0	0	6175	7114	6593	10573
Total assets	**395899**	**554672**	**723521**	**953986**	**1333425**	**1509913**
Equity	**186247**	**277093**	**356207**	**488824**	**778043**	**876693**
Equity attribute to equity holders of the Company	**174624**	**256074**	**323510**	**432706**	**703984**	**806299**
Share capital	0	0	0	0	0	0
Share premium	17324	22204	27294	35271	48793	67330
Share held for share award schemes	-3136	-3970	-4173	-4002	-4412	-4843
Other reserves	23693	35158	729	16786	121139	73901
Retained earnings	136743	202682	299660	384651	538464	669911
Non controlling interests	11623	21019	32697	56118	74059	70394
Liability	**209652**	**277579**	**367314**	**465162**	**555382**	**633220**
Non-current liabilities	**108455**	**125839**	**164879**	**225006**	**286303**	**332573**
Borrowings	57549	82094	87437	104257	112145	136936
Notes payable	36204	29363	51298	83327	122057	145590
Long-term payables	4935	3862	4797	3577	9910	9966
Other financial liabilities	2576	2154	3306	5242	9254	5912
Deferred income tax liabilities	5153	5975	10964	12841	16061	13142
Deferred revenue	2038	2391	7077	7334	6678	4526
Lease liabilities	0	0	0	8428	10198	16501
Current liabilities	**101197**	**151740**	**202435**	**240156**	**269079**	**300647**
Accounts payable	27413	50085	73735	80690	94030	109470
Other payables and accruals	20873	29433	33312	45174	54308	60582
Borrowings	12278	15696	26834	22695	14242	19003
Notes payable	3466	4752	13720	10534	0	0
Current income tax liabilities	5219	8708	10210	9733	12134	12506
Other tax liabilities	745	934	1049	1245	2149	2240
Deferred revenue	31203	42132	42375	60949	82827	87846
Other financial liabilities	0	0	1200	5857	5567	3554
Lease liabilities	0	0	0	3279	3822	5446
Total equity and liabilities	**395899**	**554672**	**723521**	**953986**	**1333425**	**1509913**

Appendix B: Income Statement

Income Statement Unit: In RMB' Million	2016	2017	2018	2019	2020	2021
Revenues	151938	237760	312694	377289	482064	560118
Value added Services (VAS)	107810	153983	176646	199991	264212	291572
Online Advertising	26970	40439	58079	68377	82271	88666
FinTech and Business Services	0	0	0	101355	128086	172195
Others	17158	43338	77969	7566	7495	7685
Cost of revenues	-67439	-120835	-170574	-209756	-260532	-314174
Gross profit	84499	116925	142120	167533	221532	245944
Interest Income	2619	3940	4569	6314	6957	6650
Other gains, net	3594	20140	16714	19689	57131	149467
Selling and Marketing expenses	-12136	-17652	-24233	-21396	-33758	-40594
General and adminitrative expenses	-22459	-33051	-41522	-53446	-67625	-89847
Operating profit	56117	90302	97648	118694	184237	271620
Finance costs, net	-1955	-2908	-4669	-7613	-7887	-7114
Share of losses of associates and joint ventures	-2522	821	1487	-1681	3672	-16444
Profit before income tax	51640	88215	94466	109400	180022	248062
Income tax expenses	-10193	-15744	-14482	-13512	-19897	-20252
Profit for the year	41447	72471	79984	95888	160125	227810
Attributable to:						
Equity holders of the company	41095	71510	78719	93310	159847	224822
Non-controlling interests	352	961	1265	2578	278	2988
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)	41447	72471	79984	95888	160125	227810
Basic	4.383	7.598	8.336	9.856	16.844	23597
Diluted	4.329	7.499	8.228	9.643	16.523	23164

Appendix C: Reformulated Balance Sheet

Reformulated Balance Sheet Unit: in RMB' Million	2016	2017	2018	2019	2020	2021
Core business						
Inventories	263	295	324	718	814	1063
Accounts receivable	10152	16549	28427	35839	44981	49331
Prepayments, deposits and other assets	7592	12074	20589	28938	36112	47542
Operational cash	3039	4755	6254	7546	9641	11202
Property, Plant and Equipment	13900	23597	35091	46824	59843	61914
Land use right	5174	5111	7106	15609	16091	17728
Intangible assets	36467	40266	56650	128860	159437	171376
Accounts payable	-27413	-50085	-73735	-80690	-94030	-109470
Deferred revenue	-33241	-44523	-49452	-68283	-89505	-92372
Other payables and acrruals	-5964	-7442	-6295	-13862	-11503	-12533
Long term payables	-3859	-2597	-1415	-1281	-7290	-7049
Core business invested capital	6109.76	-1999.8	23543.88	100217.78	124591.28	138732.36
Non core business						
Deferred income tax assets	7033	9793	15755	18209	21348	26068
Prepayments, deposits and other assets	13889	16209	19435	22344	28839	55025
Term deposits	55735	42089	62918	65911	100168	103304
Restricted Cash	750	1606	2590	2180	2520	2476
Financial assets at fair value through profit or loss	0	0	97877	135936	172537	202757
Construction in progress	4674	3163	4879	3935	4939	5923
Investment properties	854	800	725	855	583	517
Investment in associate	70042	113779	219215	213614	297609	316574
Investment in redeemable instrument of associates	9627	22976	0	0	0	0
Investment in Joint Venture	630	7826	8575	8280	7649	6614
Available for sale financial assets	83806	127218	0	0	0	0
Other financial assets	3409	5624	2032	375	1137	3010
Financial assets at fair value through other comprehensive income	0	0	43519	81721	213091	250257
Right of use assets	0	0	0	10847	12929	20468
Current income tax laibilities	-5219	-8708	-10210	-9733	-12134	-12506
Long term payables	-1076	-1265	-3382	-2296	-2620	-2917
Other financial liabilities	-2576	-2154	-4506	-11099	-14821	-9466
Other tax liabilities	-745	-934	-1049	-1245	-2149	-2240
Other payables and acrruals	-14909	-21991	-27017	-31312	-42805	-48049
Deferred income tax liabilities	-5153	-5975	-10964	-12841	-16061	-13142
Non core business invested capital	220771	310056	420392	495681	772759	904673
Net Financing Assets						
Excess of Cash	68863	100942	91560	125445	143157	156764
Short Debt	-15744	-20448	-40554	-33229	-14242	-19003
Long term debt	-93753	-111457	-138735	-187584	-234202	-282526
Lease Liabilities	0	0	0	-11707	-14020	-21947
Non controlling interests	-11623	-21019	-32697	-56118	-74059	-70394
Net Financing Assets	-52257	-51982	-120426	-163193	-193366	-237106
Equity						
Share capital	0	0	0	0	0	0
Share premium	17324	22204	27294	35271	48793	67330
Share held for share award schemes	-3136	-3970	-4173	-4002	-4412	-4843
Other reserves	23693	35158	729	16786	121139	73901
Retained earnings	136743	202682	299660	384651	538464	669911
Total Equity	174624	256074	323510	432706	703984	806299

Appendix D: *Reformulated Income Statement*

Reformulated income statement Unit: in RMB' Million	2016	2017	2018	2019	2020	2021
Core operations						
Value added services segment (VAS)						
Revenues	107810	153983	176646	199991	264212	291572
Cost of revenues	-37622	-61389	-73961	-94086	-121287	-138636
Gross profit	70188	92594	102685	105905	142925	152936
Selling and marketing expenses	-8611	-11432	-13690	-11341	-18502	-21131
General and administrative expenses	-15936	-21405	-23456	-28330	-37064	-46770
Operating profit	45641	59757	65539	66233	87359	85034
Statutory taxes	-11410	-14939	-16385	-16558	-21840	-21259
VAS Result	**34230**	**44818**	**49154**	**49675**	**65519**	**63776**
Online advertising						
Revenues	26970	40439	58079	68377	82271	88666
Cost of revenues	-15396	-25586	-37273	-34860	-40011	-48072
Gross profit	11574	14853	20806	33517	42260	40594
Selling and marketing expenses	-2154	-3002	-4501	-3878	-5761	-6426
General and administrative expenses	-3987	-5621	-7712	-9686	-11541	-14223
Operating profit	5433	6229	8593	19953	24958	19945
Statutory taxes	-1358	-1557	-2148	-4988	-6239	-4986
Online advertising result	**4075**	**4672**	**6445**	**14965**	**18718**	**14959**
Fintech and Business Services						
Revenues	0	0	0	101355	128086	172195
Cost of revenues	0	0	0	-73831	-91835	-120799
Gross profit	0	0	0	27524	36251	51396
Selling and marketing expenses	0	0	0	-5748	-8970	-12480
General and administrative expenses	0	0	0	-14358	-17968	-27621
Operating profit	0	0	0	7418	9313	11295
Statutory taxes	0	0	0	-1855	-2328	-2824
Fintech and Business Services result	**0**	**0**	**0**	**5564**	**6985**	**8471**
Other Core operations						
Other Core operations	-1170	236	2233	-914	-1480	-772
Statutory taxes	292	-59	-558	228	370	193
Other core operations result	**-877**	**177**	**1675**	**-685**	**-1110**	**-579**
Total Core Result	**37428**	**49667**	**57274**	**69518**	**90112**	**86627**
Non core operations						
Interest Income	2619	3940	4569	6314	6957	6650
Other gains	3594	20140	16714	19689	57131	149467
Other comprehensive income	9560	8787	-16299	32017	161397	-36560
Share of losses of associates and joint ventures	-2522	821	1487	-1681	3672	-16444
Non core result before tax	13251	33688	6471	56339	229157	103113
Statutoty Taxes	-3313	-8422	-1618	-14085	-57289	-25778
Tax Adjustments	2717	6310	9135	13838	25109	41764
Non core result	**12655**	**31576**	**13988**	**56093**	**196977**	**119098**
Financial						
Financial costs	-1955	-2908	-4669	-7613	-7887	-7114
Financial results before taxes	-1955	-2908	-4669	-7613	-7887	-7114
Satutory Taxes	488.8	727.0	1167.3	1903.3	1971.8	1778.5
Net income from non controlling interest	423	843	1421	3231	3339	67
Financial Result	**-1889**	**-3024**	**-4923**	**-8941**	**-9254**	**-5403**
Total Comprehensive Income	**48194**	**78218**	**66339**	**116670**	**277834**	**200323**

Appendix E: Balance Sheet Forecasting

Reformulated Balance Sheet			Historical												Forecast									
Unit: in RMB' Million	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Core business																									
Inventories	263	295	324	718	814	1063	1217	1491	1832	2253	2776	2815	2858	2905	2958	3017	3083	3160	3250	3358	3492	3666	3911	4303	5169
Average Holding Period	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Accounts receivable	10152	16549	28427	35839	44981	49331	33860	41508	50972	62701	77255	78349	79644	80859	82318	83954	85808	87942	90444	93449	97179	102034	108843	119759	143855
as average collection period	24	25	33	35	34	32	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34
Prepayments, deposits and other assets	7592	12074	20589	28938	36112	47542	53912	66270	82522	99444	122330	124346	125834	128021	130320	132791	135708	139020	142890	147558	153338	160855	171391	188260	225431
as % of revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operational cash	3039	4755	6254	7546	9641	11202	13679	16665	20357	24920	30529	30954	31420	31928	32494	33128	33846	34673	35641	36803	38245	40121	42749	46956	56227
as % of revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	-27413	-50085	-73735	-80690	-94030	-109470	-134038	-164311	-201776	-248206	-305819	-310148	-314879	-320085	-325862	-332336	-339677	-348126	-358030	-369925	-384690	-403910	-430860	-474075	-569459
as average payable period	148	151	158	140	132	127	133	133	133	133	133	133	133	133	133	133	133	133	133	133	133	133	133	133	133
Other payables and acrruals	-5964	-7442	-6295	-13862	-11503	-12533	-18930	-20531	-25344	-32072	-38304	-39071	-39840	-40281	-41071	-41891	-42760	-43824	-45048	-46510	-48337	-50707	-54026	-59345	-71063
as % of revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating Working Capital	**-12331**	**-23854**	**-24436**	**-21511**	**-13985**	**-12865**	**-50300**	**-58908**	**-71438**	**-90960**	**-111233**	**-112755**	**-115063**	**-116653**	**-118842**	**-121338**	**-123992**	**-127155**	**-130853**	**-135266**	**-140773**	**-147940**	**-157994**	**-174141**	**-209838**
Property, Plant and Equipment	13900	23597	35091	46824	59843	61914	81806	98404	118156	146943	179163	181284	184559	187302	190599	194418	198572	203426	209124	215930	224393	235399	250811	275501	329898
as % of revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Land use right	5174	5111	7106	15609	16091	17728	24266	27917	34145	42585	51507	52347	53279	54021	55003	56094	57282	58684	60334	62296	64740	67914	72361	79484	95178
as % of revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangible assets	36467	40266	56650	128860	159437	171376	223052	267425	323354	400700	488580	494933	503480	511033	520118	530454	541814	555071	570602	589179	612272	642299	684355	751722	900146
as % of revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue	-33241	-44523	-49452	-68283	-89505	-92372	-121200	-146595	-175771	-218397	-266573	-269614	-274463	-278596	-283471	-289152	-295339	-302553	-311029	-321152	-333738	-350108	-373030	-409751	-490855
as % of revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Long term payables	-3859	-2597	-1415	-1281	-7290	-7049	-7083	-10571	-12087	-14502	-18419	-18356	-18624	-19041	-19303	-19681	-20136	-20611	-21192	-21885	-22739	-23856	-25418	-27920	-33433
as % of revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Core business invested capital	**6110**	**-2000**	**23544**	**100218**	**124591**	**138732**	**150541**	**177671**	**216358**	**266369**	**323025**	**327839**	**333168**	**338046**	**344102**	**350786**	**358201**	**366873**	**376987**	**389102**	**404155**	**423709**	**451084**	**494896**	**591296**
Non core business																									
Deferred income tax assets	7033	9793	15755	18209	21348	26068	21875	18841	20349	21115	21599	21641	20904	20742	21058	21177	21187	21118	21031	21052	21104	21111	21101	21086	21081
Prepayments, deposits and other assets	13889	16209	19435	22344	28839	55025	25957	27968	29928	31677	33232	33965	30454	31204	31743	32046	32107	31920	31579	31767	31860	31880	31852	31810	31791
Term deposits	55735	42089	62918	65911	100168	103304	71688	74346	79722	82523	85292	82813	79397	80682	81738	82074	81999	81451	81224	81528	81669	81658	81588	81558	81531
Restricted Cash	750	1606	2590	2180	2520	2476	2020	2232	2336	2294	2313	2279	2246	2283	2292	2285	2283	2278	2278	2283	2283	2282	2281	2281	2281
Financial assets at fair value through profit or loss	0	0	97877	135936	172537	202757	101518	118437	138177	144894	146387	142028	131907	136972	140061	140375	139621	138494	137905	138905	139227	139088	138873	138749	138731
Construction in progress	4674	3163	4879	3935	4939	5923	4586	4571	4805	4793	4936	4936	4771	4852	4841	4846	4855	4842	4826	4835	4841	4841	4840	4838	4837
Investment properties	854	800	725	855	583	517	722	700	684	677	647	658	681	675	670	668	667	670	672	670	669	669	670	670	670
Investment in associate	70042	113779	219215	213614	297609	316574	205139	227655	246634	251204	257469	250779	239813	245593	248582	248907	248524	247033	246409	247508	247827	247701	247500	247330	247379
Investment in redeemable instrument of associates	9627	22976	0	0	0	0	5434	4735	1695	1977	2307	2691	3140	2757	2428	2550	2646	2702	2704	2631	2610	2640	2656	2657	2650
Investment in Joint Venture	630	7826	8575	8280	7649	6614	6596	7590	7551	7380	7230	7160	7251	7380	7322	7284	7268	7274	7293	7300	7290	7285	7285	7288	7290
Available for sale financial assets	83806	127218	0	0	0	0	35171	27065	10373	12101	14118	16471	19216	16557	14906	15545	16119	16453	16450	15988	15893	16075	16163	16170	16123
Other financial assets	3409	5624	2032	375	1137	3010	2598	2463	1936	1920	2177	2351	2241	2181	2134	2167	2208	2214	2191	2183	2183	2191	2195	2193	2189
Financial assets at fair value through other comprehensive income	0	0	43519	81721	213091	250257	98098	114448	133522	148523	159656	150751	134166	140178	144466	146290	145918	143628	142441	143820	144427	144421	144109	143808	143838
Right of use assets	0	0	0	10847	12929	20468	7374	8603	10037	11710	11853	11674	10209	10681	11027	11192	11106	10982	10866	10976	11025	11024	10996	10978	10978
Current income tax laibilities	-5219	-8708	-10210	-9733	-12134	-12506	-9752	-10507	-10807	-10906	-11102	-10930	-10667	-10820	-10872	-10883	-10879	-10842	-10827	-10854	-10860	-10857	-10853	-10849	-10850
Long term payables	-1076	-1265	-3382	-2296	-2620	-2917	-2259	-2457	-2655	-2534	-2574	-2566	-2507	-2549	-2564	-2549	-2552	-2548	-2545	-2551	-2551	-2549	-2549	-2549	-2549
Other financial liabilities	-2576	-2154	-4506	-11099	-14821	-9466	-7437	-8247	-9263	-10055	-9882	-9058	-8990	-9249	-9416	-9442	-9340	-9249	-9281	-9330	-9343	-9331	-9312	-9308	-9317
Other tax liabilities	-745	-934	-1049	-1245	-2149	-2240	-1394	-1502	-1596	-1688	-1761	-1697	-1606	-1642	-1665	-1676	-1675	-1660	-1654	-1662	-1665	-1665	-1664	-1662	-1662
Other payables and acrruals	-14909	-21991	-27017	-31312	-42805	-48049	-31014	-33698	-35649	-37088	-38050	-37258	-35460	-36200	-36618	-36779	-36728	-36507	-36382	-36536	-36591	-36587	-36555	-36526	-36530
Deferred income tax liabilities	-5153	-5975	-10964	-12841	-16061	-13142	-10689	-11612	-12552	-12816	-12812	-12271	-12125	-12365	-12490	-12480	-12424	-12359	-12374	-12415	-12424	-12412	-12401	-12398	-12404
Non core business invested capital	**220771**	**310056**	**420392**	**495681**	**772759**	**904673**	**526229**	**571632**	**615228**	**647700**	**673037**	**656416**	**615040**	**629842**	**639544**	**643597**	**642913**	**637892**	**634805**	**638099**	**639475**	**639463**	**638774**	**638085**	**638117**
Net Financing Assets																									
Excess of Cash	68863	100942	91560	125445	143157	156764	207357	244426	297354	369097	448633	455169	463039	469737	478251	487731	498137	510361	524630	541705	562945	590550	629216	691157	827622
as % of revenue	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Short Debt	-15744	-20448	-40554	-33229	-14242	-19003	-20268	-15993	-19267	-22688	-23020	-23327	-22641	-22806	-23326	-23585	-23691	-23811	-23973	-24330	-24726	-25187	-25818	-26841	-29125
as % of Invested Capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Long term debt	-93753	-111457	-138735	-187584	-234202	-282526	-190975	-203299	-228486	-252363	-272975	-270638	-260792	-265865	-270401	-273329	-275124	-276172	-278092	-282320	-286844	-292212	-299546	-311400	-337903
as % of Invested Capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lease Liabilities	0	0	0	-11707	-14020	-21947	-15891	-17286	-18375	-17184	-17615	-17725	-17508	-17616	-17616	-17580	-17604	-17600	-17595	-17600	-17598	-17597	-17598	-17598	-17598
Non controlling interests	-11623	-21019	-32697	-56118	-74059	-70394	-66857	-70437	-69229	-68841	-69502	-69191	-69178	-69290	-69220	-69229	-69246	-69232	-69236	-69238	-69235	-69236	-69237	-69236	-69236
Net Financing Assets	**-52257**	**-51982**	**-120426**	**-163193**	**-193366**	**-237106**	**-86635**	**-62589**	**-38002**	**8021**	**65521**	**74289**	**92921**	**94160**	**97689**	**104009**	**112471**	**123546**	**135734**	**148218**	**164541**	**186316**	**217017**	**266082**	**373759**
Total Equity	**174624**	**256074**	**323510**	**432706**	**703984**	**806299**	**590135**	**686714**	**793584**	**922090**	**1061583**	**1058545**	**1041130**	**1062048**	**1081336**	**1098391**	**1113585**	**1128311**	**1147526**	**1175418**	**1208171**	**1249489**	**1306876**	**1399062**	**1603172**

Cash Flow map	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Free Cash Flow from operations		57776	31730	-7156	65738	72486	107255	116534	134945	159828	197222	252455	255613	260116	263429	267824	272781	278062	284269	291439	299857	310097	322877	339325	358845
Free Cash Flow from non-operations		-57710	-96348	-19197	-80102	-12816	502499	101308	86359	101101	111410	150045	175958	120116	124606	130550	135293	139527	137660	131269	133171	134572	135246	135245	134526
Financing Cash Flow		-67	64618	26352	14363	-59670	-609755	-217842	-221304	-260929	-308632	-402500	-431571	-380232	-388035	-398373	-408074	-417589	-421929	-422707	-433028	-444669	-458123	-474570	-493370

Total Debt	109497	131905	179289	220813	248444	301529	211244	219292	247752	275051	295995	293964	283432	288671	293726	296913	298815	299984	302065	306650	311571	317399	325364	338241	367028
Cash and Cash Equivalent	68863	100942	91560	125445	143157	156764	207357	244426	297354	369097	448633	455169	463039	469737	478251	487731	498137	510361	524630	541705	562945	590550	629216	691157	827622
Total Net Debt	40634	30963	87729	95368	105287	144765	3887	-25134	-49602	-94046	-152638	-161204	-179607	-181066	-184525	-190818	-199321	-210378	-222565	-235055	-251374	-273150	-303852	-352916	-460594
Others	-11623	-21019	-32697	-67825	-88079	-92341	-82748	-87723	-87604	-86025	-87117	-86915	-86686	-86906	-86836	-86809	-86850	-86832	-86831	-86838	-86833	-86834	-86835	-86834	-86834

Appendix F: Income Statement Forecasting

Reformulated income statement			Historical												Forecast									
Unit: in RMB' Million	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F	2040F
Core operations																									
Value added services segment (VAS)																									
Revenues	107810	153983	176646	199991	264212	291572	353502	428586	519618	629985	763794	774290	785750	798348	812312	827941	845640	865978	889780	918313	953649	999520	1063623	1165943	1390271
Cost of revenues	-37622	-61389	-73961	-94086	-121287	-138636	-155993	-189126	-229296	-277999	-337046	-341678	-346735	-352294	-358456	-365353	-373163	-382138	-392641	-405232	-420825	-441067	-469354	-514506	-613497
Gross profit	70188	92594	102685	105905	142925	152936	197509	239460	290322	351986	426748	432613	439015	446054	453856	462588	472477	483841	497139	513081	532824	558453	594269	651438	776774
Selling and marketing expenses	-8611	-11432	-13690	-11341	-18502	-21131	-25075	-30401	-36858	-44686	-54178	-54922	-55735	-56629	-57619	-58728	-59983	-61426	-63114	-65138	-67644	-70898	-75445	-82703	-98615
General and administrative expenses	-15936	-21405	-23456	-28330	-37064	-46770	-51199	-62074	-75258	-91243	-110623	-112143	-113803	-115628	-117650	-119914	-122477	-125423	-128870	-133003	-138121	-144764	-154049	-168868	-201358
Operating profit	45641	59757	65539	66233	87359	85034	121235	146986	178206	216057	261947	265547	269477	273798	278587	283947	290017	296992	305155	314940	327059	342791	364775	399867	476801
Statutory taxes	-11410	-14939	-16385	-16558	-21840	-21259	-30309	-36746	-44551	-54014	-65487	-66387	-67369	-68449	-69647	-70987	-72504	-74248	-76289	-78735	-81765	-85698	-91194	-99967	-119200
VAS Result	**34230**	**44818**	**49154**	**49675**	**65519**	**63776**	**90927**	**110239**	**133654**	**162043**	**196460**	**199160**	**202108**	**205348**	**208940**	**212960**	**217513**	**222744**	**228866**	**236205**	**245294**	**257093**	**273581**	**299900**	**357601**
Online advertising																									
Revenues	26970	40439	58079	68377	82271	88666	99661	112018	125909	141521	159070	160138	161296	162560	163949	165490	167218	169183	171455	174141	177415	181584	187274	196076	214507
Cost of revenues	-15396	-25586	-37273	-34860	-40011	-48072	-54965	-61781	-69442	-78053	-87731	-88320	-88959	-89656	-90422	-91272	-92225	-93309	-94562	-96043	-97849	-100149	-103287	-108141	-118306
Gross profit	11574	14853	20806	33517	42260	40594	44695	50237	56467	63469	71339	71818	72337	72904	73527	74218	74993	75874	76893	78098	79566	81436	83987	87935	96201
Selling and marketing expenses	-2154	-3002	-4501	-3878	-5761	-6426	-7027	-7898	-8878	-9979	-11216	-11291	-11373	-11462	-11560	-11669	-11791	-11929	-12089	-12279	-12510	-12804	-13205	-13825	-15125
General and administrative expenses	-3987	-5621	-7712	-9686	-11541	-14223	-14416	-16204	-18213	-20472	-23010	-23165	-23332	-23515	-23716	-23939	-24189	-24473	-24802	-25190	-25664	-26267	-27090	-28363	-31029
Operating profit	5433	6229	8593	19953	24958	19945	23252	26135	29376	33018	37112	37362	37632	37927	38251	38610	39013	39472	40002	40629	41392	42365	43693	45746	50046
Statutory taxes	-1358	-1557	-2148	-4988	-6239	-4986	-5813	-6534	-7344	-8255	-9278	-9340	-9408	-9482	-9563	-9653	-9753	-9868	-10000	-10157	-10348	-10591	-10923	-11437	-12512
Online advertising result	**4075**	**4672**	**6445**	**14965**	**18718**	**14959**	**17439**	**19601**	**22032**	**24764**	**27834**	**28021**	**28224**	**28445**	**28688**	**28958**	**29260**	**29604**	**30001**	**30471**	**31044**	**31774**	**32769**	**34310**	**37535**
Fintech and Business Services																									
Revenues	0	0	0	101355	128086	172195	219549	279924	356904	455052	580192	589516	599719	610964	623461	637489	653426	671804	693397	719400	751773	794060	853615	949646	1163317
Cost of revenues	0	0	0	-73831	-91835	-120799	-156592	-199655	-254560	-324564	-413819	-420470	-427747	-435767	-444681	-454686	-466053	-479161	-494562	-513109	-536198	-566360	-608837	-677331	-829730
Gross profit	0	0	0	27524	36251	51396	62957	80270	102344	130488	166373	169047	171972	175197	178780	182803	187373	192643	198835	206291	215574	227700	244778	272315	333586
Selling and marketing expenses	0	0	0	-5748	-8970	-12480	-14867	-18955	-24168	-30814	-39288	-39920	-40610	-41372	-42218	-43168	-44247	-45492	-46954	-48715	-50907	-53770	-57803	-64306	-78775
General and administrative expenses	0	0	0	-14358	-17968	-27621	-32769	-41781	-53271	-67920	-86598	-87990	-89513	-91191	-93056	-95150	-97529	-100272	-103495	-107376	-112208	-118520	-127409	-141742	-173634
Operating profit	0	0	0	7418	9313	11295	15320	19533	24905	31754	40486	41137	41849	42634	43506	44485	45597	46879	48386	50201	52460	55410	59566	66267	81178
Statutory taxes	0	0	0	-1855	-2328	-2824	-3830	-4883	-6226	-7939	-10122	-10284	-10462	-10658	-10876	-11121	-11399	-11720	-12097	-12550	-13115	-13853	-14892	-16567	-20294
Fintech and Business Services result	**0**	**0**	**0**	**5564**	**6985**	**8471**	**11490**	**14650**	**18679**	**23816**	**30365**	**30853**	**31387**	**31975**	**32629**	**33364**	**34198**	**35159**	**36290**	**37650**	**39345**	**41558**	**44675**	**49701**	**60883**
Other Core operations																									
Other Core operations	-1170	236	2233	-914	-1480	-772	-1055	-1102	-976	-1045	-1041	-1021	-1036	-1033	-1030	-1033	-1032	-1031	-1032	-1032	-1032	-1032	-1032	-1032	-1032
Statutory taxes	292	-59	-558	228	370	193	264	276	244	261	260	255	259	258	257	258	258	258	258	258	258	258	258	258	258
Other core operations result	**-877**	**177**	**1675**	**-685**	**-1110**	**-579**	**-791**	**-827**	**-732**	**-784**	**-781**	**-766**	**-777**	**-774**	**-772**	**-774**	**-774**	**-773**	**-774**	**-774**	**-774**	**-774**	**-774**	**-774**	**-774**
Total Core Result	**37428**	**49667**	**57274**	**69518**	**90112**	**86627**	**119064**	**143664**	**173633**	**209838**	**253879**	**257269**	**260942**	**264994**	**269485**	**274507**	**280197**	**286734**	**294383**	**303553**	**314910**	**329651**	**350252**	**383136**	**455245**
Non core operations																									
Interest Income	2619	3940	4569	6314	6957	6650	6640	6749	6680	6690	6706	6692	6696	6698	6695	6696	6697	6696	6696	6696	6696	6696	6696	6696	6696
Other gains	3594	20140	16714	19689	57131	149467	75429	94009	106302	91913	97408	98541	95954	97301	97265	96840	97135	97080	97019	97078	97059	97052	97063	97058	97058
Other comprehensive income	9560	8787	-16299	32017	161397	-36560	52285	59041	24922	45416	43126	37821	42121	41023	40322	41155	40833	40770	40920	40841	40844	40868	40851	40854	40858
Share of losses of associates and joint ventures	-2522	821	1487	-1681	3672	-16444	-4818	-5863	-9042	-6574	-7160	-7592	-7109	-7287	-7329	-7241	-7286	-7285	-7271	-7281	-7279	-7277	-7279	-7278	-7278
Non core result before tax	13251	33688	6471	56339	229157	103133	129537	153936	128862	137445	140081	135462	137663	137735	136953	137450	137380	137261	137364	137335	137320	137339	137331	137330	137334
Statutory Taxes	-3313	-8422	-1618	-14085	-57289	-25778	-32384	-38484	-32215	-34361	-35020	-33866	-34416	-34434	-34238	-34363	-34345	-34315	-34341	-34334	-34330	-34335	-34333	-34333	-34333
Tax Adjustments	2717	6310	9135	13838	25109	41764	26903	31258	33308	30490	31686	31828	31335	31616	31592	31515	31575	31561	31550	31562	31557	31556	31558	31557	31557
Non core result	12655	31576	13988	56093	196977	119098	124056	146710	129955	133574	136746	135425	134581	134917	134308	134602	134609	134506	134573	134563	134547	134561	134557	134555	134558
Financial																									
Financial costs	-1955	-2908	-4669	-7613	-7887	-7114	-7538	-7513	-7388	-7480	-7460	-7443	-7461	-7455	-7453	-7456	-7455	-7455	-7455	-7455	-7455	-7455	-7455	-7455	-7455
Financial results before taxes	-1955	-2908	-4669	-7613	-7887	-7114	-7538	-7513	-7388	-7480	-7460	-7443	-7461	-7455	-7453	-7456	-7455	-7455	-7455	-7455	-7455	-7455	-7455	-7455	-7455
Satutory Taxes	489	727	1167	1903	1972	1779	1885	1878	1847	1870	1865	1861	1865	1864	1863	1864	1864	1864	1864	1864	1864	1864	1864	1864	1864
Net income from non controlling interest	423	843	1421	3231	3339	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67
Financial Result	**-1889**	**-3024**	**-4923**	**-8941**	**-9254**	**-5402**	**-5721**	**-5702**	**-5608**	**-5677**	**-5662**	**-5649**	**-5663**	**-5658**	**-5657**	**-5659**	**-5658**	**-5658**	**-5658**	**-5658**	**-5658**	**-5658**	**-5658**	**-5658**	**-5658**
Total Comprehensive Income	**48194**	**78218**	**66339**	**116670**	**277834**	**200323**	**237399**	**284672**	**297979**	**337735**	**384963**	**385044**	**389861**	**394254**	**398137**	**403450**	**409148**	**415582**	**423298**	**432458**	**443799**	**458854**	**479151**	**512003**	**584145**

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