

Tencent (700 HK)

FUNDAMENTAL VIEW ¹

As of 15 Apr 2024

- We maintain our Outperform recommendation on Tencent post its resilient and largely in-line 4Q23 results. We expect the company's balance sheet to remain rock solid despite higher shareholder rewards. We see small positive earnings catalysts on domestic games and online advertising over the next 12-24 months.
- We view Tencent as attractive against A-rated Chinese tech peers and Asia A-rated quasi-sovereign, and we like longer-dated Tencent \$ bonds (7-20Y) as a core holding for duration extension in Asia credits. In addition, Tencent belly and long-end provide decent spread pick up vs A-rated US tech.

RISKS & CATALYSTS

As of 15 Apr 2024

- While Chinese regulators have adopted a more friendly stance towards tech companies, any regulatory clampdowns abroad and domestically (e.g. antitrust rules, data security, personal information protection laws) may affect Tencent's business. Tencent's gaming, music streaming, and online payment units are among those that have come under regulatory scrutiny in the past.
- Tencent uses variable interest entities (VIEs) to circumvent China's restrictions on foreign ownership of Internet Content Providers, which poses regulatory risks. Specifically, VIE transactions involving "change in control" will be subject to antitrust regulatory processes.

CREDIT QUALITY SCORE (CQS)²

As of 22 Apr 2024

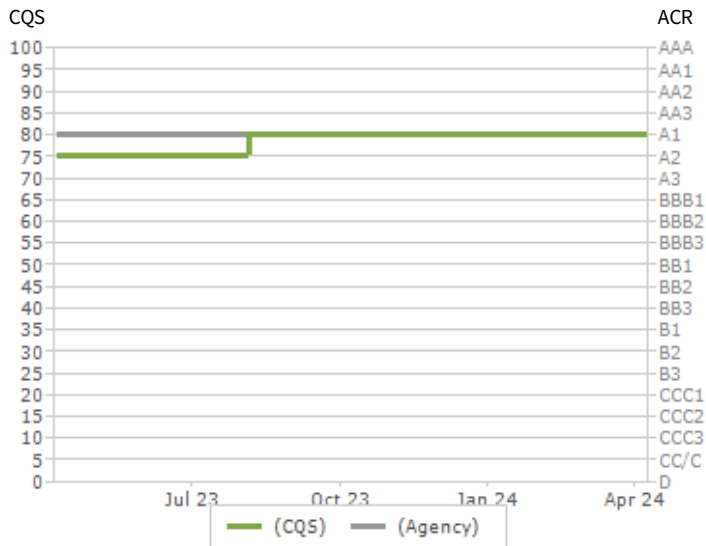
CURRENT CQS

80

CQS OUTLOOK³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 15 Apr 2024

RMB BN	FY19	FY20	FY21	FY22	FY23
Debt to Book Cap	32.2%	25.2%	27.0%	31.4%	29.8%
Net Debt to Book Cap	7.3%	4.0%	6.0%	8.5%	1.0%
Debt/Total Equity	47.6%	33.7%	36.9%	45.9%	42.5%
Debt/Total Assets	24.4%	19.7%	20.1%	22.8%	23.5%
Gross Leverage	1.6x	1.4x	1.7x	1.9x	1.6x
Net Leverage	0.4x	0.2x	0.4x	0.5x	0.1x
Interest Coverage	19.2x	24.8x	24.7x	19.0x	19.9x
EBITDA Margin	39.2%	38.3%	34.9%	34.3%	38.9%

Year-end: 31 December.

BUSINESS DESCRIPTION

As of 15 Apr 2024

- Founded in November 1998, Tencent is a leading provider of Internet value added services in China. Since its establishment, Tencent has ventured into instant messaging, social networking, online payments, digital entertainment, and PC and smartphone gaming. Most recently, it has also forayed into high-tech areas such as artificial intelligence, and cloud computing.
- Tencent's leading Internet platforms in China include Weixin/WeChat (online messaging), QQ Instant Messenger (online messaging), Tencent Games (gaming), Tencent Video/Weixin Video Accounts (video platforms), WeChat Pay (payments), and Tencent Cloud. The combined monthly average users (MAU) of Weixin and Wechat reached 1.34 bn as of 31 Dec 2023.
- In 2023, 49% of revenues came from Value Added Services (which consist of Domestic Games, International Games, and Social Networks), 33% came from FinTech and Business Services (e.g. commercial payments and cloud), 17% from Online Advertising and 1% from Others.
- Tencent is currently primarily listed on the Hong Kong Stock Exchange, with a market capitalization of HKD 2.9tn as of 15 April 2024.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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