

Tencent (700 HK)

FUNDAMENTAL VIEW ¹

As of 10 Jun 2025

- We maintain our Outperform recommendation on Tencent post its decent 1Q25 results; topline accelerated, EBITDA margin expanded, free operating cash flow remained robust, and debt metrics remained modest. We expect Tencent's topline growth to marginally accelerate in FY25, supported by its advertising, domestic/international gaming, fintech and cloud segments; we expect EBITDA margin to marginally improve as its better revenue mix offset the increased R&D spending for AI development; we expect FOCF to expand, and debt metrics to improve from 1Q25. We continue viewing Tencent as a core holding in China and Asia IG credits. We prefer its 2029/2041 notes for spread pick up against Chinese SOEs. We think Tencent is more attractive compared to BIDU/JD and more defensive than BBB China tech.

RISKS & CATALYSTS

As of 10 Jun 2025

- 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.
- US-China tension may escalate under the new Trump Administration, including additional chip sanctions, which may result in higher volatility. Failing to secure a stable supply of advanced AI chips and/or find domestic alternatives could weigh on the long-term AI development of Tencent against international peers.

CREDIT QUALITY SCORE (CQS) ²

As of 01 Jul 2025

CURRENT CQS

91

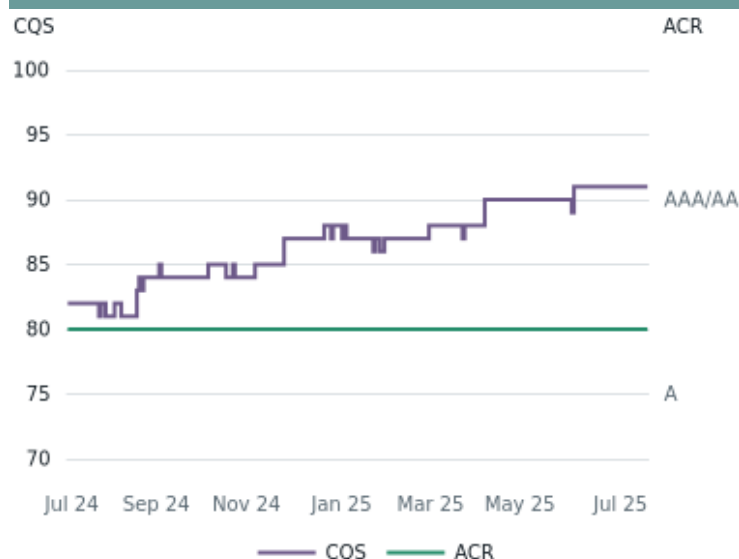
CQS OUTLOOK ³

NEGATIVE

STABLE

POSITIVE

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



KEY METRICS

As of 10 Jun 2025

RMB BN	FY21	FY22	FY23	FY24	LTM 1Q25
Debt to Book Cap	27.0%	31.4%	29.8%	25.4%	26.5%
Net Debt to Book Cap	6.0%	8.5%	1.0%	2.3%	4.4%
Debt/Total Equity	36.9%	45.9%	42.5%	34.0%	36.0%
Debt/Total Assets	20.1%	22.8%	23.5%	20.1%	21.1%
Gross Leverage	1.7x	1.9x	1.6x	1.3x	1.4x
Net Leverage	0.4x	0.5x	0.1x	0.1x	0.2x
Interest Coverage	24.7x	19.0x	19.9x	22.5x	23.0x
EBITDA Margin	34.9%	34.3%	38.9%	42.4%	43.2%

Year-end: 31 December.

BUSINESS DESCRIPTION

As of 10 Jun 2025

- 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 1.40 bn as of 31 March 2025.
- In 4Q24, 46% 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), 19% from Online Advertising and 2% from Others.
- Tencent is currently primarily listed on the Hong Kong Stock Exchange, with a market capitalization of HKD 4.7 tn as of 10 June 2025.

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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