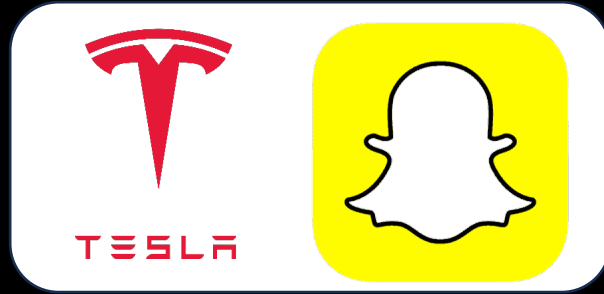


Has **Tencent** become a **private equity** fund?



Tencent 腾讯



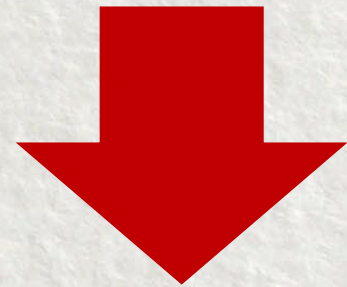
CASE STUDY
VALUATION MASTER CLASS

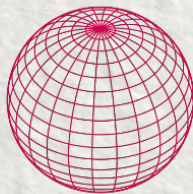
by
A. Stoltz INVESTMENT
RESEARCH

Welcome to this...



Valuation Master Class



CASE  STUDY

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Has Tencent become a private equity fund?



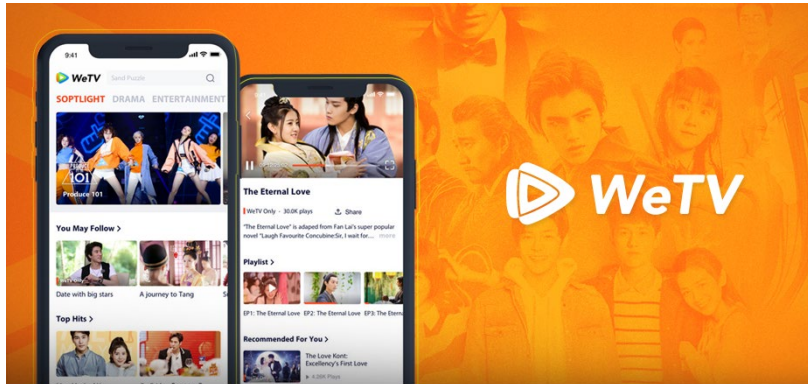
This is not a recommendation
or investment advice.

- 🌐 What is the company's background?
- 🌐 What is its competitive strategy?
- 🌐 Does its strategy lead to a competitive advantage?
- 🌐 Is it an attractive investment right now?

A powerful ecosystem that spans across various industries



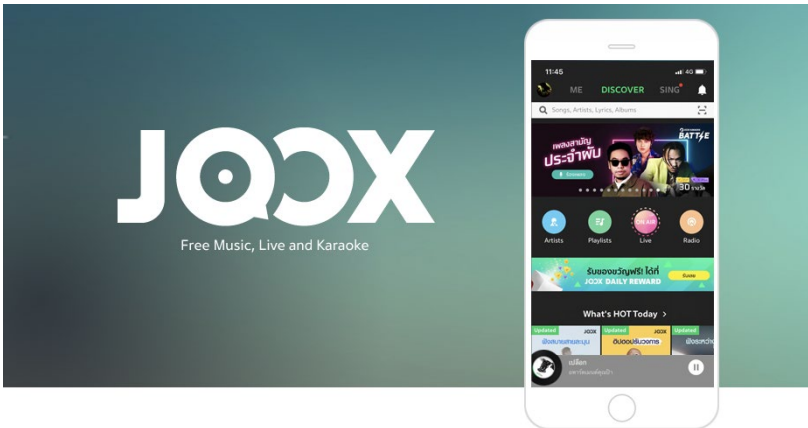
Chat applications



Watching drama series/
variety shows on WeTV



Playing Subway Surfers game



Listen to music through Joox

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Tencent's products and services helped shape China's digital ecosystem



Andrew Stotz, PhD, CFA

- ★ The giant Chinese tech company offers products and services across many sectors
 - **Social media, gaming, digital content, fintech, cloud computing, and artificial intelligence**
- ★ For instance, the so-called Super App, WeChat has become an indispensable part of daily life for many Chinese citizens

Tencent's revenue mainly comes from China, with a total of RMB609bn (US\$84bn) in 2023



China

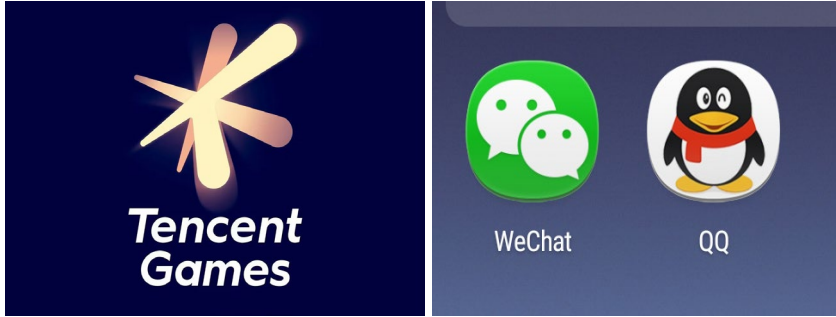
90%

- **North America**
- **Europe**
- **Other regions**

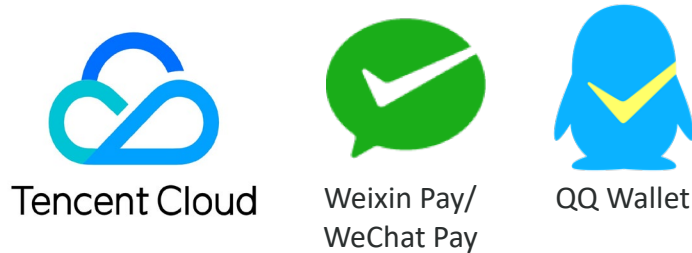
10%

Andrew Stotz, PhD, CFA

Value-added services represent almost half of Tencent's revenues



Value-added services (VAS)
49%



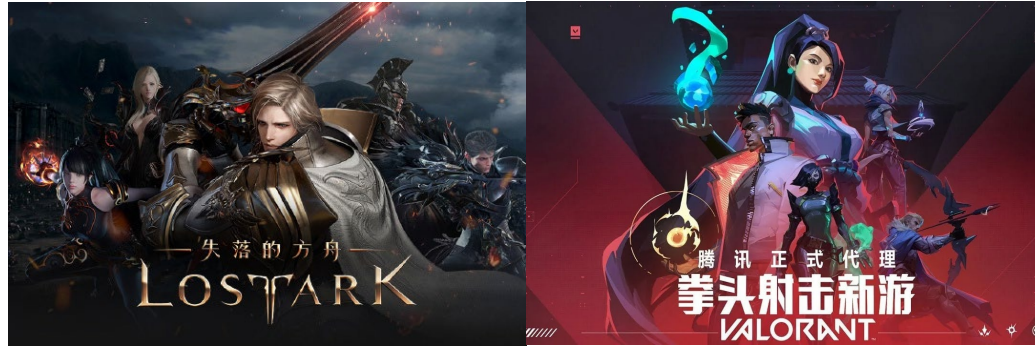
FinTech and
Business Services
33%



Advertising
17%

🌐 VAS refers to a wide variety of services that add to the core offerings a business provides

Around 60% of VAS revenues come from games



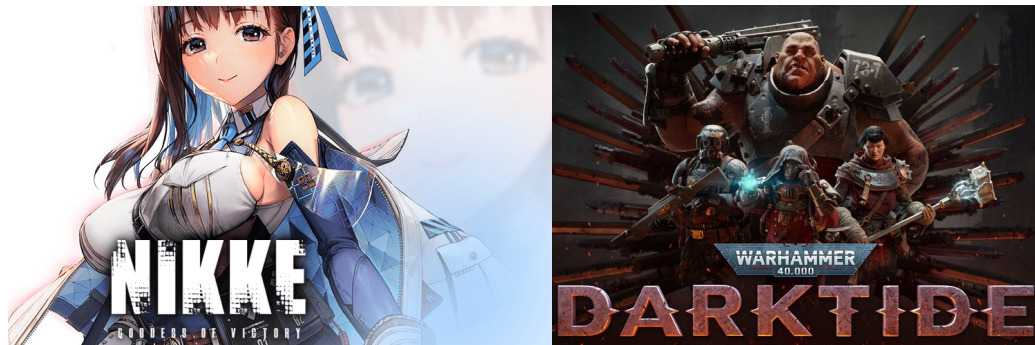
Domestic games

42%



Social Networks

40%



International

games

18%

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Tencent secured its global presence by serving the needs of its customers

- ★ The world's 24th most valuable company
 - **US\$440bn market capitalization as of April 2024**
- ★ One of the top 10 global cloud service providers in 2024
- ★ Ranked the biggest public video game company by revenue in 2023 by Newzoo

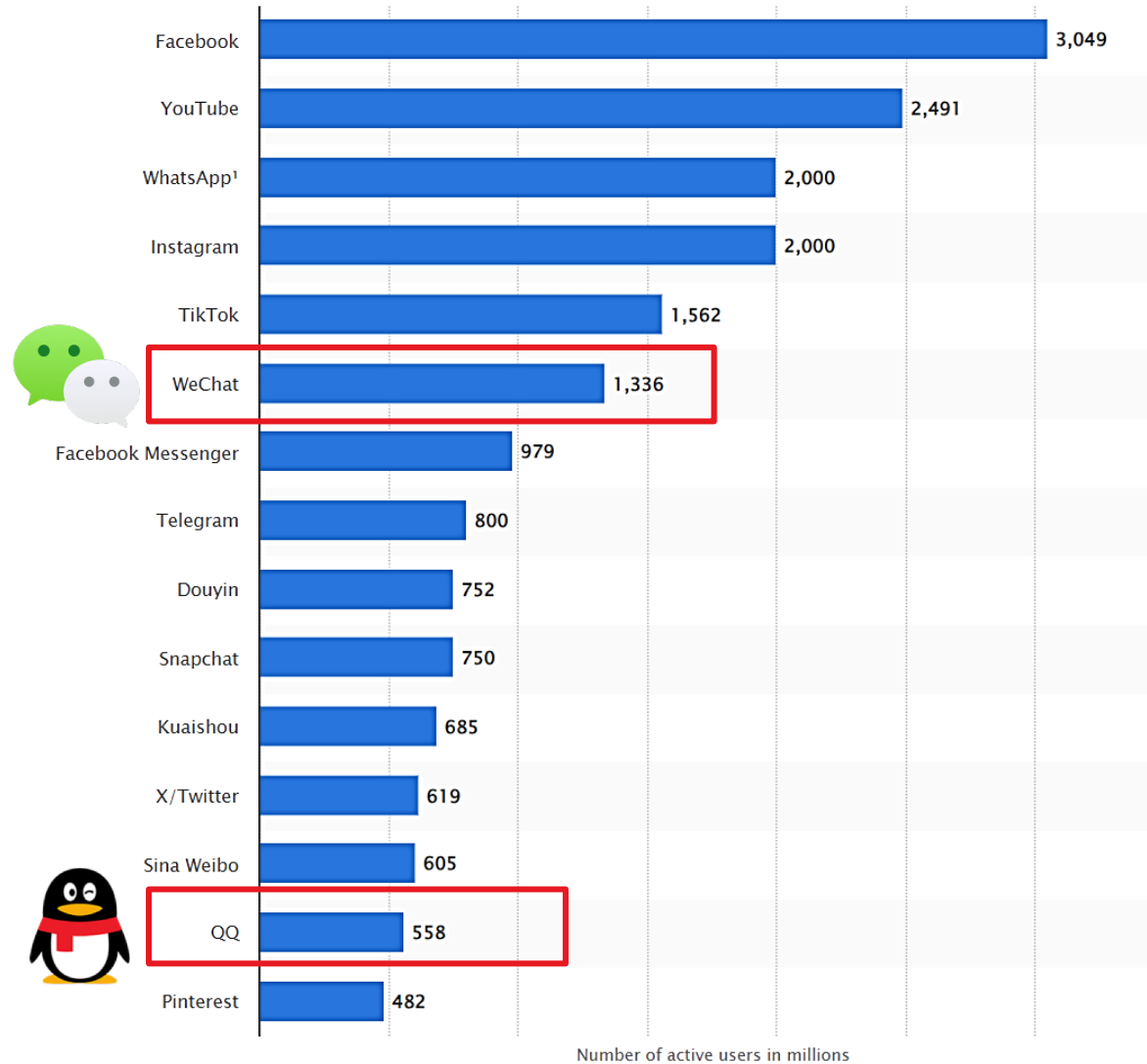


Andrew Stotz, PhD, CFA

Tencent has tapped into 1bn Chinese internet users

- ★ **WeChat** – ranked the most used social media platform in China
 - **87% of Chinese internet users actively used WeChat monthly in 2023**
- ★ **Honor of Kings game** – ranked the highest played game in China
 - **With 146m monthly active users in the third quarter of 2023**

WeChat and QQ users are among the largest in the world



Number of active users in millions

Sources: statista.com

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- 🌐 WeChat's users ranked no. 6th
- 🌐 QQ's users ranked no. 14th

Interesting facts about Wechat

- ★ From a 2016 analysis, its 889m monthly active users spent an average of 50+ minutes and about 10 separate times/day
- ★ This is the same as the “combined time” users spend daily across all Meta apps such as Instagram, Facebook, Facebook Messenger, etc.



Tencent is facing tough competition from 4 established competitors



Alibaba – China

- Primary domestic competitor
- Social networking sector e.g. Alibaba’s Weibo
- Finance & digital payment sector e.g. Alipay
- Online entertainment video sector e.g. Youku



Baidu - China

- Domestic competitor
- Online entertainment video sector e.g. iQiyi



ByteDance - China

- Domestic competitor
- Online entertainment video e.g. TikTok



Sony - Japan

- International competitor
- Gaming industry

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Tencent - China - Founded 1998

Comm. Services sector, 105,417 employees, US\$84bn revenue

Main segments/products

- WeChat
- Tencent Games
- Tencent Video

Its competitive advantage

Competitive advantage through scaling diverse digital services, gaming dominance, and strategic investments.

How it achieved its competitive advantage

By creating a powerful ecosystem that spans across various industries such as gaming, social media, e-commerce, entertainment, and more. This ecosystem helped the company dominate the market.

Built on innovative mass market products



1998

- ❑ Tencent was co-founded by Pony Ma with 4 friends



1999

- ❑ Launched first OICQ product, an instant messaging service
- ❑ Renamed to QQ after 1 year
- ❑ It remained unprofitable



2004

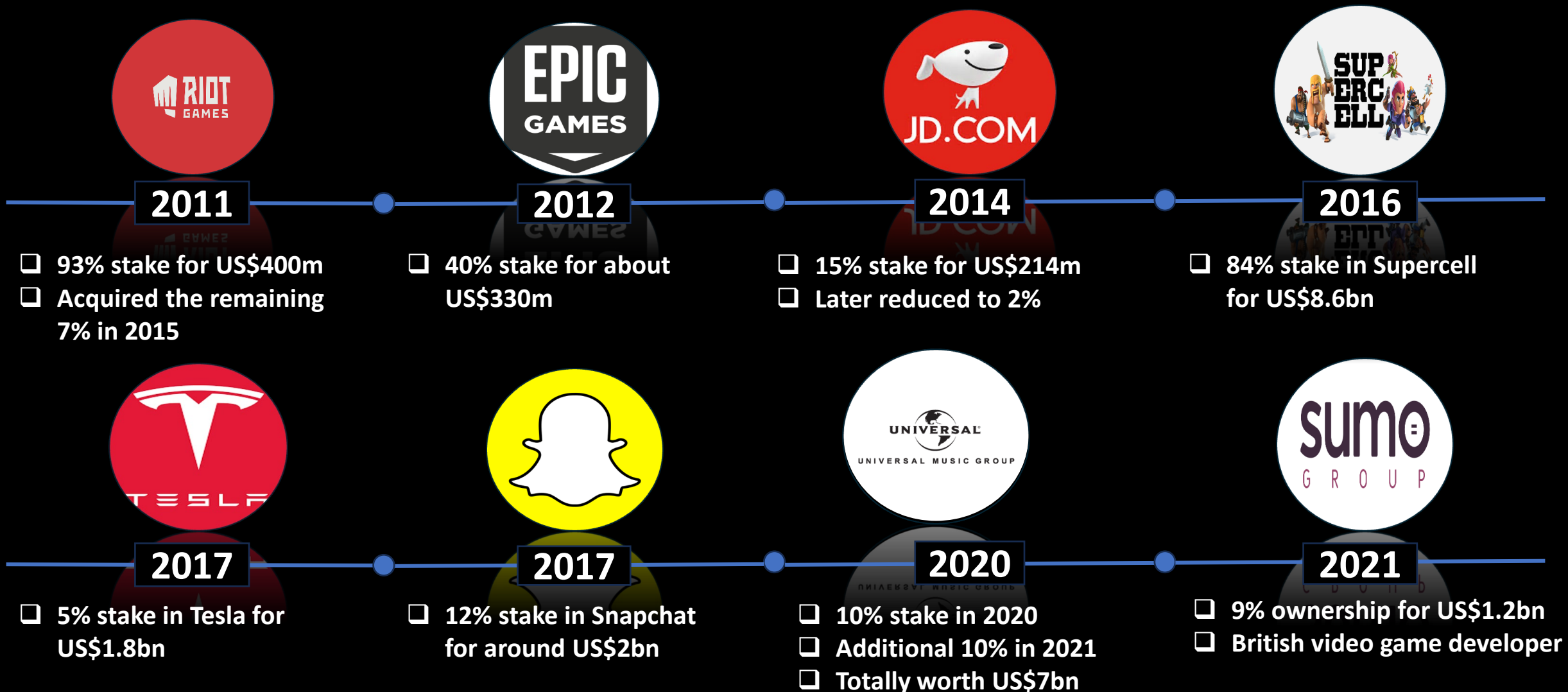
- ❑ Went public on the Hong Kong Stock Exchange



2011

- ❑ WeChat was launched
- ❑ It has become a flagship product and a central part of modern Chinese life

Since 2011 has been expanding through acquisitions



Has Tencent become a private equity fund?



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**Is the company
financially world class?**



Here's how we construct the scorecard



Andrew Stotz, PhD, CFA

- ★ My team gathers the yearly and quarterly financial data of 26,000 companies worldwide
- ★ We then calculate each company's **Profitable Growth** score
 - Which is a composite measure of both profitability and growth

Here's how we construct the scorecard

- ★ After that, we rank the company relative to sector peers of similar size
 - A decile ranking of 1 or 2 is financially world class, while 10 is the worst
- ★ We assess the company's performance over the prior four years and the past 12 months (PTM)



Andrew Stotz, PhD, CFA

**Is the company
financially
world class?**

Tencent: A. Stotz Profitable Growth



Tencent 腾讯

Benchmarked against 240 large Comm. Serv. companies worldwide.

This is not a recommendation or investment advice.

Source: A. Stotz Investment Research. Notes: 1 = top ranking and 10 = worst. Most recent year's data is based on the past 12 months (PTM) of published data

Has Tencent become a private equity fund?



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Summary

News

Chart

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Statistics

Historical Data

Profile

Financials

Analysis

Options

Holdings

Sustainability

HKSE - Delayed Quote • HKD

Tencent Holdings Limited (0700.HK)

☆ Follow

360.400 +13.200 (+3.80%)

At close: May 2 at 4:08 PM GMT+8

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Key Events ▲ ▼ ↗ ⚙



I use my **FVMR** methodology
to determine the
attractiveness of the
company



Andrew Stotz, PhD, CFA

EARNINGS

MANAGEMENT

FUNDAMENTALS

FVMR

INVESTORS

PRICE



EARNINGS

MANAGEMENT

FVMR

VALUATION

INVESTORS

PRICE



EARNINGS

MANAGEMENT

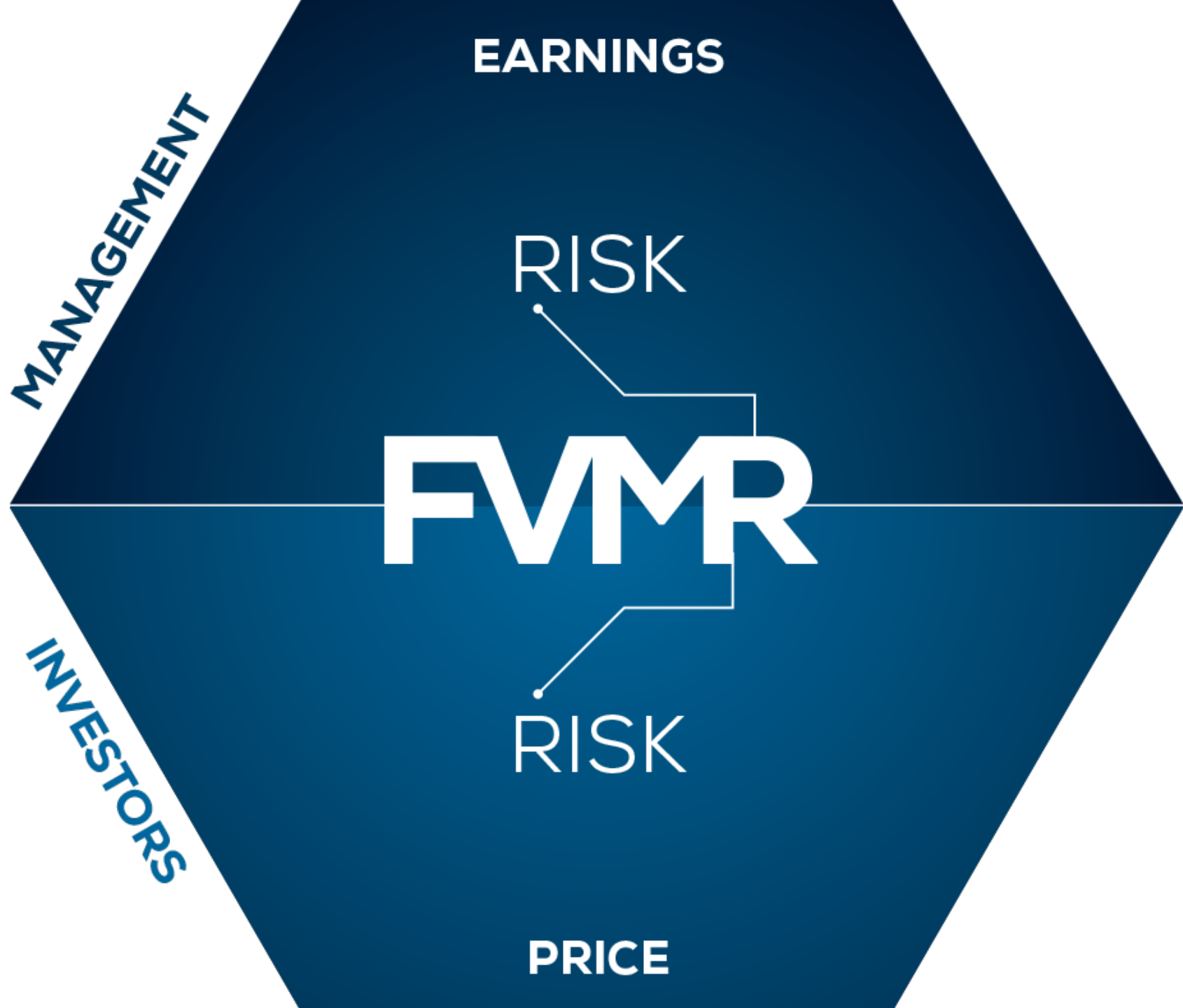
RISK

FVMR

RISK

INVESTORS

PRICE




Simplified FVMR Scorecard



A. Stotz FVMR Methodology		Mcap US\$bn	F (%)	V (x)	M (% chg)		R (x)		FVMR Rank
Sector/Company	Country		ROA	PE	EPS	Price	TIE	Beta	Out of 127
Comm. Serv.		4,834	14.8	26.3	42.4	23.8	1.9	0.8	33
Meta	USA	1,114	18.8	29.5	73.1	43.1	1.9	0.7	4
T-Mobile US	USA	194	4.0	23.9	236.4	18.8	3.5	0.1	5
China Mobile	China	196	6.8	16.7	4.6	10.9	2.6	0.3	12
Verizon	USA	165	2.2	8.3	(9.1)	23.4	2.4	0.3	15
AT&T	USA	121	4.3	7.0	(6.2)	15.3	2.5	0.4	17
Alphabet	USA	2,035	19.2	28.3	27.2	22.1	1.6	1.0	20
Comcast	USA	150	6.3	9.6	9.3	(14.1)	2.3	0.4	25
Walt Disney	USA	203	3.4	29.4	6.5	35.3	2.4	1.0	65
Netflix	USA	238	11.1	45.9	20.9	45.1	1.4	1.2	69
Tencent	Hong Kong	419	10.0	19.7	37.9	(12.0)	1.5	1.2	100

Andrew Stotz, PhD, CFA

 Click the link in the description to get this report and the Simplified FVMR Scorecard

A. Stotz FVMR Methodology		Mcap US\$bn	F (%)	V (x)	M (% chg)		R (x)		FVMR Rank
Sector/Company	Country		ROA	PE	EPS	Price	TIE	Beta	Out of 127
Cons. Disc.		5,194	10.6	41.2	2,120.7	15.5	2.2	1.3	71
PDD Holdings	USA	173	23.2	19.4	69.4	24.9	NA	0.4	1
Industria de	Spain	143	17.2	24.8	30.3	19.7	1.8	0.9	8
Airbnb	USA	99	30.7	18.4	204.7	14.4	0.7	0.8	10
Amazon	USA	1,861	6.1	61.7	5,900.0	38.3	3.6	1.1	22
McDonald's	USA	198	16.4	23.0	18.2	6.5	1.4	0.6	41
Starbucks	USA	84	14.2	21.0	19.6	(18.3)	1.8	0.7	50
Mercedes-Benz	Germany	81	5.6	5.3	(0.7)	4.3	NA	0.8	57
Volkswagen	Germany	42	2.8	4.2	7.7	(4.1)	3.1	1.4	62
Cons. Staples		2,999	12.3	27.1	6.7	5.7	1.6	0.5	70
Altria Group	USA	75	23.4	8.9	2.3	5.4	1.5	0.2	13
Philip Morris	USA	149	14.7	16.0	0.5	5.1	1.5	0.1	29
Walmart	USA	474	7.3	26.5	5.7	10.3	2.2	0.2	31
PepsiCo	USA	241	10.9	23.0	12.2	3.5	1.6	0.1	38
Coca-Cola	USA	267	12.2	23.0	8.5	11.6	1.2	0.2	59
Procter & Gamble	USA	386	12.3	27.7	1.5	12.5	1.4	0.2	69
Kweichow Moutai	China	296	28.4	28.7	19.1	(8.9)	1.4	0.7	73
Costco Wholesale	USA	320	9.5	51.0	7.8	26.4	1.6	0.7	75

A. Stotz FVMR Methodology		Mcap US\$bn	F (%)	V (x)	M (% chg)		R (x)		FVMR Rank
Sector/Company	Country		ROA	PE	EPS	Price	TIE	Beta	Out of 127
Energy		3,903	13.2	75.2	(21.1)	(1.1)	2.0	0.3	43
Petroleo Brasileiro	USA	109	13.5	4.1	(21.0)	15.4	1.9	(0.0)	6
PetroChina	China	250	5.9	11.7	7.3	20.5	3.1	1.3	18
TotalEnergies	France	175	7.9	7.3	(32.6)	9.5	2.2	(0.1)	18
Conocophillips	USA	146	11.2	14.2	(35.1)	6.2	2.4	0.1	23
Exxon Mobil	USA	459	10.3	12.2	(32.3)	0.3	1.9	(0.1)	28
Schlumberger	USA	67	6.0	15.8	36.7	(18.6)	1.9	0.4	32
Chevron	USA	295	9.5	12.2	(30.3)	(4.1)	NA	0.2	49
Financials		4,515	6.5	38.8	16.6	21.1	0.4	0.7	52
Wells Fargo	USA	208	1.0	11.3	70.8	50.3	NA	0.2	2
JPMorgan Chase	USA	551	1.3	11.8	34.4	33.4	NA	0.8	9
American Express	USA	166	3.4	20.6	13.8	54.8	NA	0.8	14
China Construction Bank	China	166	0.9	5.4	2.3	12.0	NA	0.3	26
Berkshire Hathaway	USA	862	3.7	23.4	23.0	14.0	NA	0.5	30
Ind. & Com. Bank of China	China	263	0.9	5.5	1.0	10.7	NA	0.3	35
Bank of China	China	191	0.8	6.2	1.4	13.5	NA	0.4	43
Agri. Bank of China	China	208	0.7	6.1	4.3	16.5	1.7	0.4	47
PayPal	USA	70	7.0	13.0	23.5	12.9	1.3	0.9	51

A. Stotz FVMR Methodology		Mcap US\$bn	F (%)	V (x)	M (% chg)		R (x)		FVMR Rank
Sector/Company	Country		ROA	PE	EPS	Price	TIE	Beta	Out of 127
Health Care		4,604	12.2	127.7	(7.5)	13.9	1.0	0.5	68
HCA Healthcare	USA	82	9.7	16.6	10.5	25.2	2.5	0.8	7
Novartis	Switzerland	212	13.2	12.9	12.7	7.4	1.7	0.3	10
Amgen Inc	USA	149	12.4	14.9	5.4	4.2	1.7	0.1	15
Gilead	USA	82	13.5	9.7	(7.4)	(11.6)	NA	0.2	24
Johnson & Johnson	USA	364	14.3	15.2	(2.3)	(2.6)	NA	0.4	27
Unitedhealth Group	USA	445	9.1	19.3	13.2	(5.9)	1.5	(0.6)	40
Novo Nordisk	Denmark	437	30.1	48.2	52.4	38.0	1.3	1.4	41
Eli Lilly	USA	739	10.1	122.9	(20.4)	44.3	NA	0.2	48
AbbVie	USA	286	14.5	14.6	(19.3)	9.1	1.3	0.1	53
Becton Dickinson	USA	68	6.7	19.1	7.6	(9.3)	1.9	0.5	55
Industrials		1,227	8.0	33.7	38.1	32.4	1.5	1.1	60
Caterpillar	USA	162	12.9	15.6	48.9	21.8	NA	0.6	3
Eaton Corp.	USA	125	10.0	34.2	20.5	48.4	NA	1.6	37
General Electric	USA	175	1.8	56.8	7.3	84.1	3.0	0.6	38
Siemens	Germany	151	5.4	17.7	115.9	19.9	1.7	1.7	55
Uber	USA	141	5.3	77.9	118.7	48.4	2.1	2.2	59
Airbus	France	131	4.3	24.3	10.2	15.8	1.6	0.5	77


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Sector/Company	Country		ROA	PE	EPS	Price	TIE	Beta	Out of 127
Info. Tech.		12,531	26.6	38.3	62.5	29.4	1.4	1.4	81
Cisco	USA	190	16.3	12.0	15.8	(13.9)	1.2	0.2	34
IBM	USA	151	6.8	17.1	5.4	16.8	1.6	0.4	36
SAP	Germany	223	12.0	33.7	23.8	40.0	1.7	1.2	44
Tata Consultancy Ser.	India	166	31.6	30.4	9.3	15.9	1.4	0.9	45
NVIDIA	USA	2,076	60.5	64.1	288.0	85.4	1.2	2.0	51
Oracle	USA	315	11.6	22.4	4.5	7.4	1.9	1.0	59
Salesforce	USA	260	8.1	32.7	56.9	31.9	1.8	1.7	69
Broadcom	USA	576	25.2	29.4	12.2	48.9	1.3	2.1	69
Microsoft	USA	2,935	18.9	40.3	6.5	22.7	1.4	0.9	79
Materials		528	9.1	141.5	(9.8)	10.7	2.0	0.8	79
Linde	USA	213	8.7	31.2	15.5	19.6	1.7	0.3	32
L'Air Liquide	France	103	6.3	31.2	11.7	15.4	2.3	1.0	66
Real Estate		149	2.6	60.9	6.0	4.1	4.4	1.1	100
Equinix	USA	66	3.1	67.4	34.4	(2.4)	3.8	0.6	78
American Tower	USA	83	2.2	55.6	(16.8)	9.4	4.8	1.5	122
Utilities		161	3.0	18.2	8.2	7.4	2.8	0.5	34
Southern	USA	82	2.9	20.4	1.4	18.8	2.6	0.2	21
Iberdrola	Spain	79	3.1	16.0	15.2	(4.3)	3.0	0.8	46

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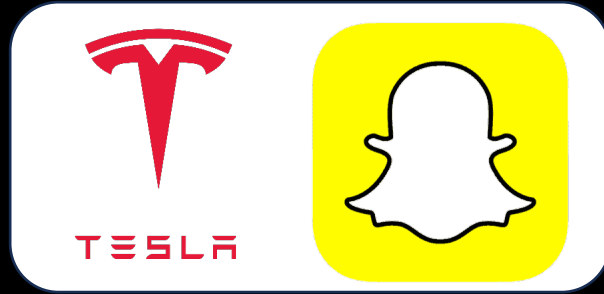


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 FVMR cheat sheet of top global firms

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Tencent 腾讯



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