

Tencent (TCEHY) 2019 Q3 Earnings Summary

November 2019

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## Tencent Is Focusing On Building Out Capabilities That Will Strengthen Their Game Globalization Strategy

### GAMES

- **Have established themselves as the pre-eminent mobile game developer for not only China, but also the global market**
  - Have partnered with many of the best game companies in the world and operate 6 of the top 10 smartphone games worldwide
  - Recently proven that they can develop games that can become global hits, such as PUBG Mobile and Call of Duty Mobile
- **They have very strong leverage over their social platforms, giving them a pre-eminent position, which is very difficult to shake up**
  - Operating high-DAU games that can themselves become platforms for new modes

### GLOBALIZATION OF GAMES

- **Largely operate their games from China, but there is enormous value to actually having an international game operation platform**
  - Beneficial to have regional live operations and regional publishing capabilities, particularly in emerging markets around the world
- **Incubating their own IPs that are suitable for global audiences and broadening their partnership with international IP owners**
  - Have been successful in first-person action games but need to pioneer new types of gameplays that can resonate worldwide
  - Gamers globally are increasingly active on smartphones and are increasingly excited about multiplayer action games

### ADVERTISING

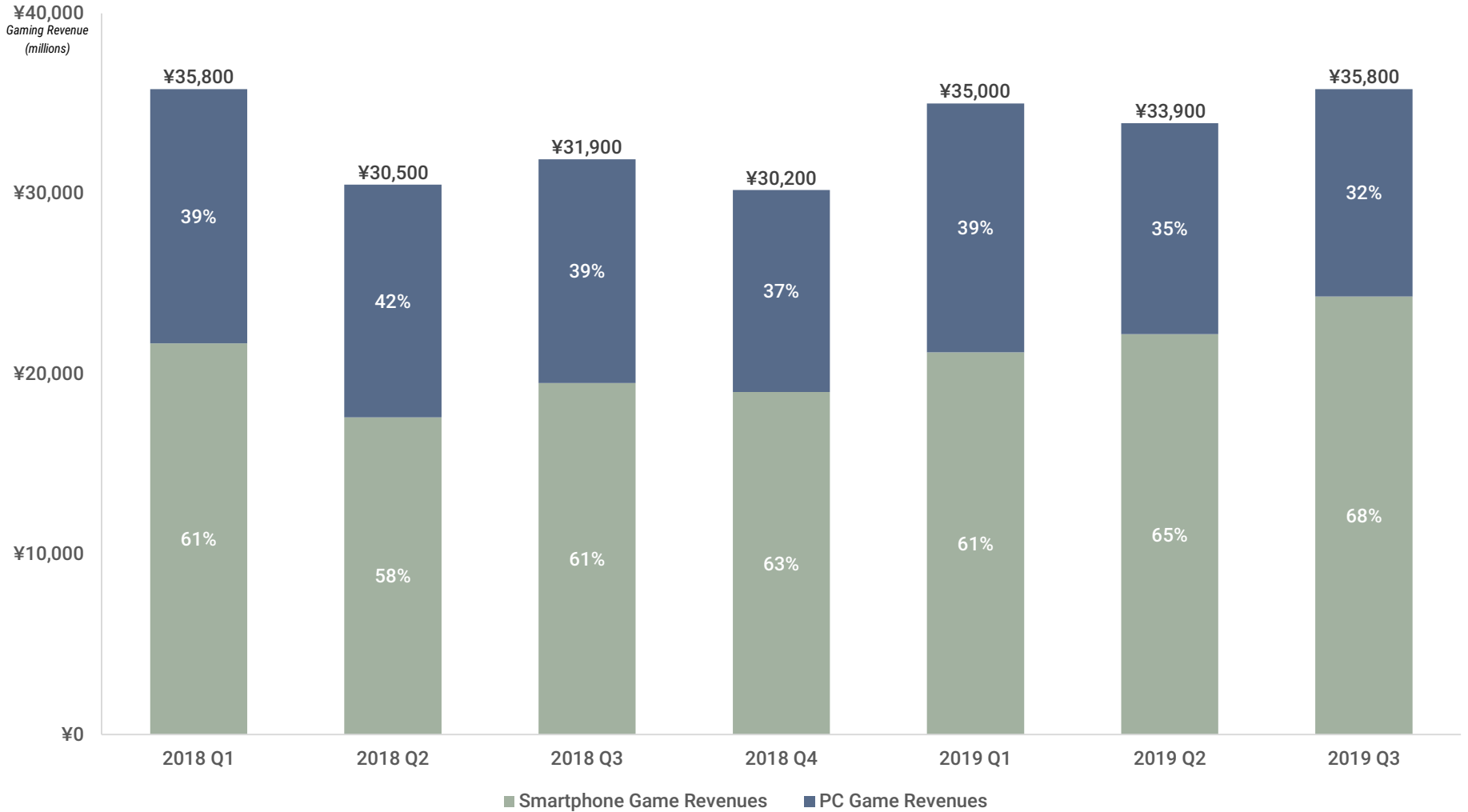
- **Combination of sales and tech into a combined advertising services group has sharply improved their competitive position**
  - Standardizing and unifying the different ad formats makes it a more liquid pool that makes it easier and more efficient to transact
- **Making use of rich data sets to target ads to their uniquely large user base across a range of social, media and affiliate properties**
  - Weixin Moments remains the premium wide-reach online advertising venue in China, providing multiple times more DAU than competitors
  - Mini Programs are key properties of future advertising revenue growth given the increasingly high volume of consumer transactions

### FIN TECH

- **Long runway for profitable growth given the value mobile payment service contributes to the economy and to society**
  - TPV is growing rapidly because of merchant adoption, increase in payment habits created by the users, and increase in average ticket size
  - Users are increasingly retaining cash, which hurts short term revenue, but is a positive sign of deepening consumer confidence in payment services
- **Trying to expand the use cases and expand the market share of mobile payment vis-à-vis other forms of payment**
  - Some of the merchant acquisition subsidy activity has decelerated, which has contributed to improvements in margins

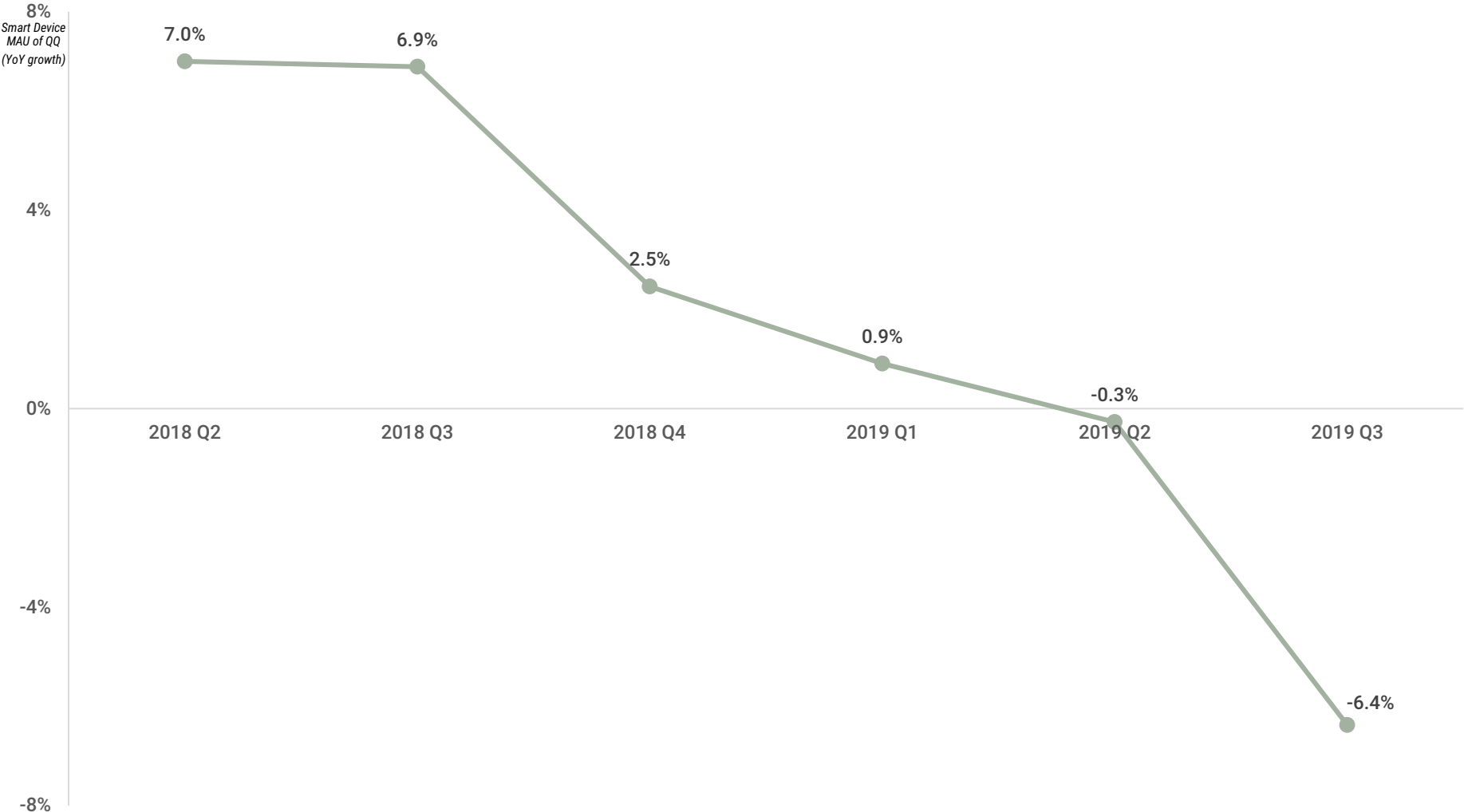
*New segments are growing and diversifying their portfolio, reducing the risk from underperforming advertising market*

## The Development Of 5G And Cloud Gaming Will Usher In A New Wave Of Mobile Gaming Experiences



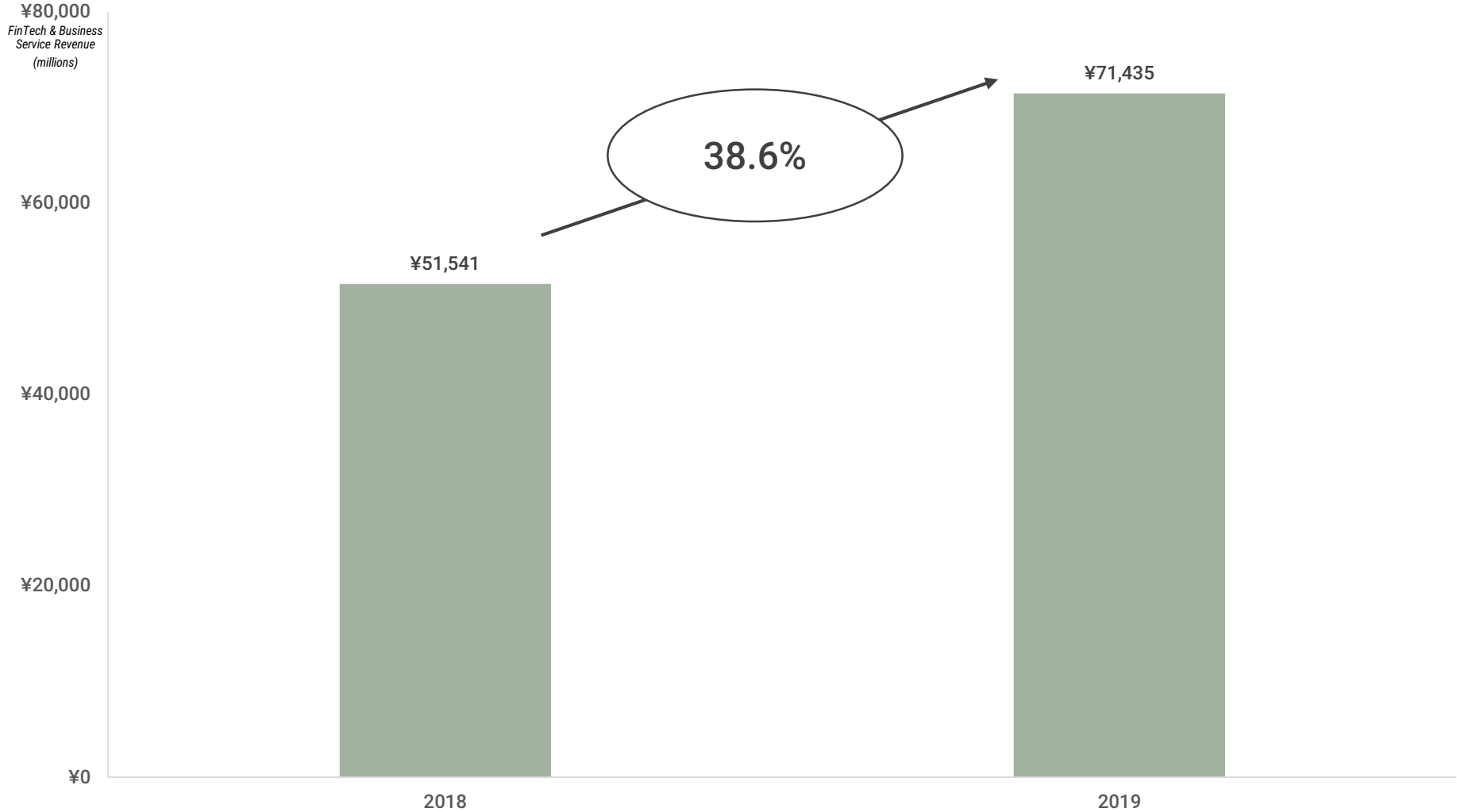
*International markets only contribute a teens percentage of overall revenue, highlighting the runway for potential growth*

User Growth Has Declined Sharply As They Proactively Clean Up The Platform And Eliminate Bot Accounts



Increasing interaction between their suite of apps to better understand consumers for content and advertising purposes

## The Overall Mobile Payment Ecosystem Is Growing In China, Providing Tailwinds For Their FinTech Solutions



*There will be increasing opportunities to aggregate and offer financial services on top of the core payment platform*