

Tencent (TCEHY) 2020 Q1 Earnings Summary

May 2020

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## Tencent Saw Increased Engagement Across Online Platforms After Stay-At-Home Orders Were Put In Place

### GAMES

- **Expect in-game consumption activities to dip back down as players go back to work and time spent in games normalizes**
  - Game markets outside China are following a somewhat similar path, with a 2-month time lag given the later start of the stay-at-home periods
  - There also may be some more consumers who are concerned about unemployment risk, which may mitigate their in-game spending
- **Games that are seeing the biggest uplift have longer session lengths because people now have more time to play these games**
  - Team-based games have also been popular, which reflects that people perhaps miss their work colleagues and want to socialize with them

### ADVERTISING

- **Expect the overall China online advertising industry to experience headwinds as consumers normalize down their time spent online**
  - Online advertisers are adjusting their customer acquisition budgets as they reflect revised customer lifetime value assumptions
- **Media advertising revenue trends will be more challenging in the second quarter as multinationals reduce their brand budgets**
  - Half of the online video ad revenue comes from local companies which has been fairly resilient
  - Historically the preponderance of video advertising was the sponsorships and the 15-second spot ads, but in-feed is growing quickly

### MINI PROGRAMS

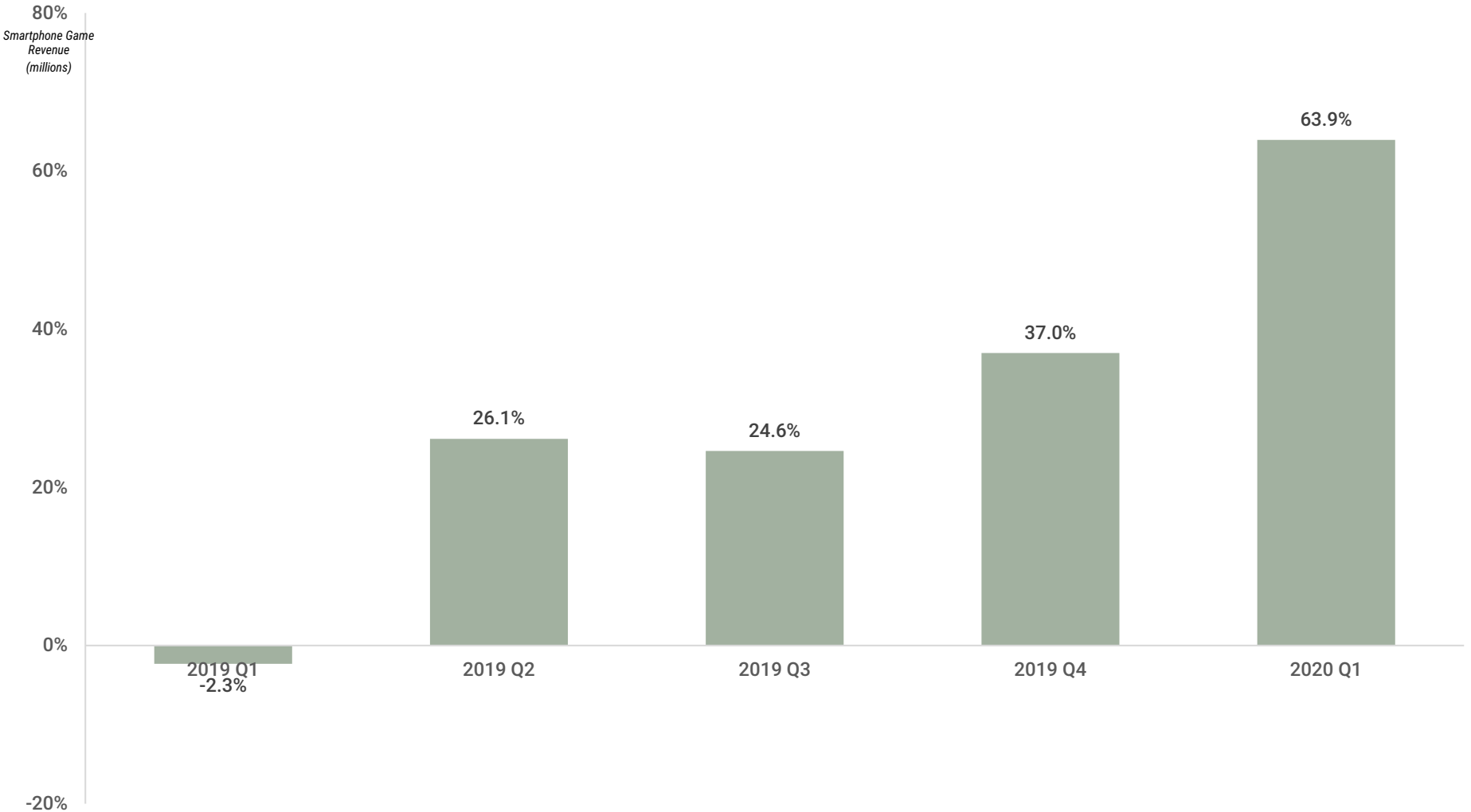
- **Establishing relationships with a lot of service providers, and it also helps them establish relationships with a lot of customers**
  - Ecosystem just gets stronger and stronger as they continue to build out the infrastructure, and it was somewhat expedited during the pandemic
  - Over time it will help their payments and advertising businesses, but it's not going to be an immediate direct impact
- **In the U.S., 50% of e-commerce activity happens with the brands going directly to the consumers, but that's very low in China**
  - A lot of brands in China are nascent, so it takes time for them to build up their franchise, and many also lack the capabilities to move online

### FINTECH

- **Not in a rush to create profit, but it's important to build market share and user behavior as well as coverage of the merchants**
  - Taking a long-term approach of progressively layering on incremental profit streams over time rather than needing to do everything at once
  - If the product can generate incremental users and value, and then over time there will be a monetization and then there will be a margin
- **Expect business services to remain challenged but will continue increasing investments, especially in enterprise software**
  - The experience of remote working will ultimately prompt off-line industries in the public sector to accelerate their digitization

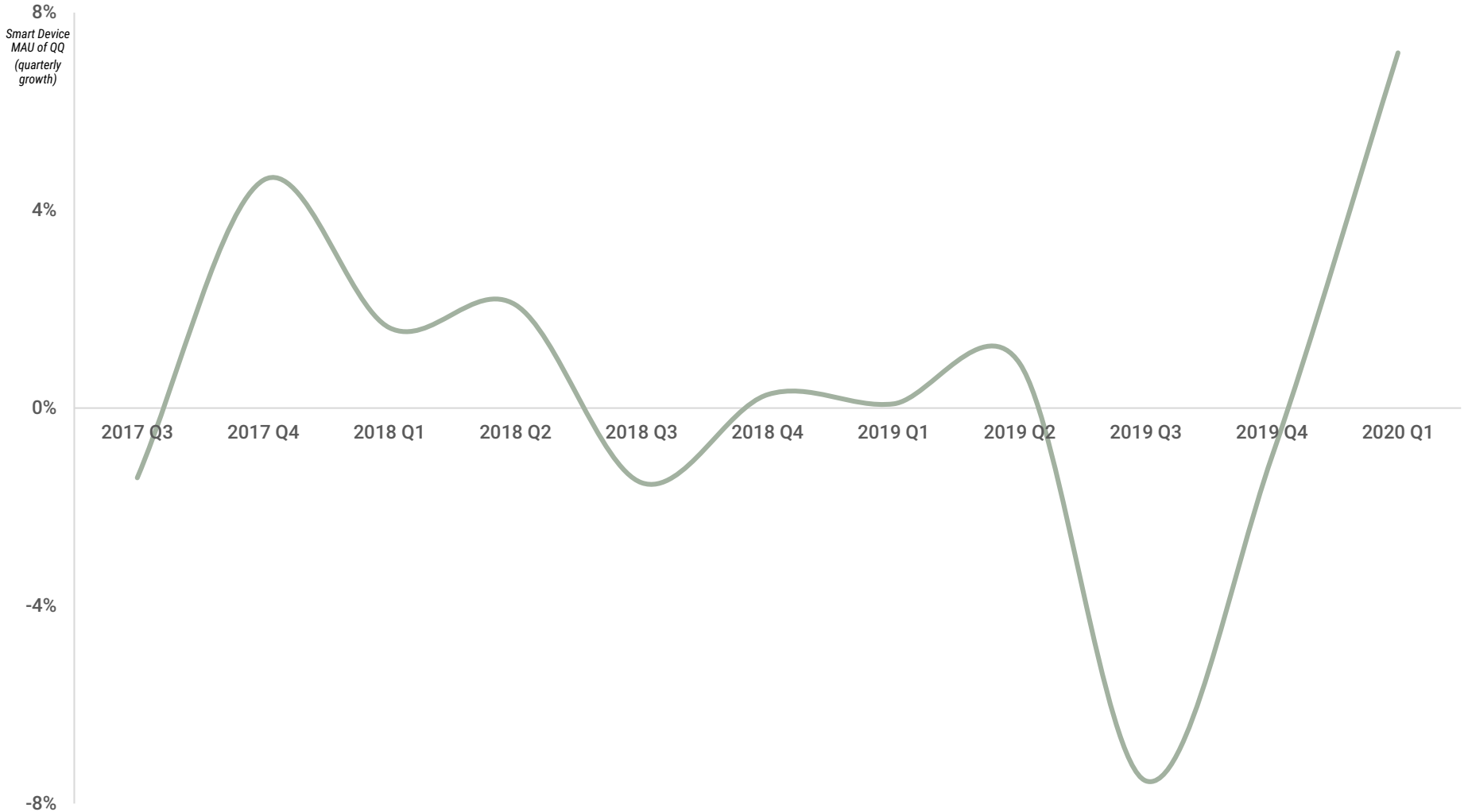
*Many companies have realized the need of online presence, which will provide tailwinds for their nascent business lines*

## The Introduction Of Team Play Systems In Popular Games Encouraged More Interaction Between Players



*While monetization might lag, they have a pipeline of global releases this year that is already receiving critical acclaim*

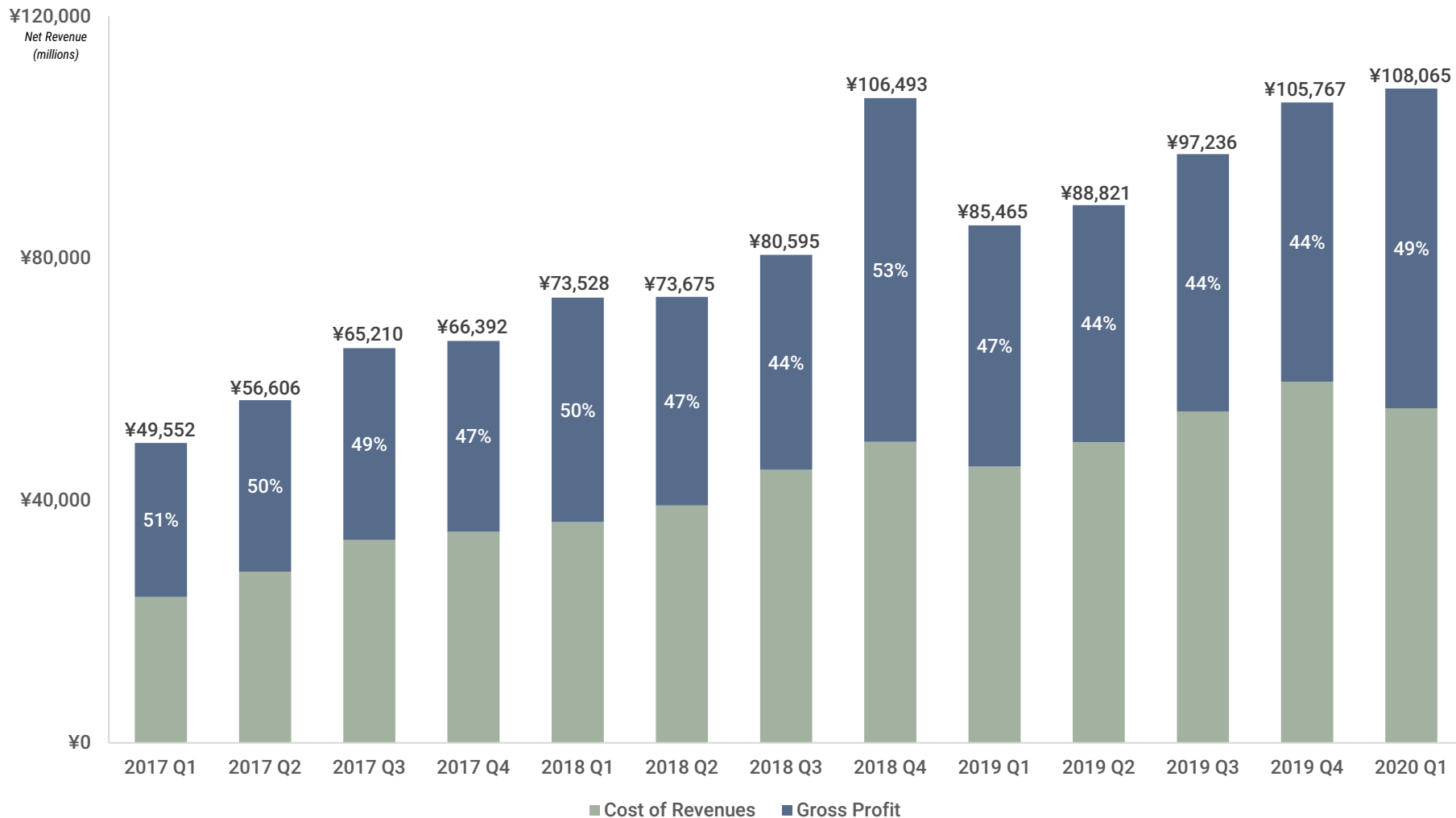
## Daily Messaging And Screen Time Increased Dramatically As People Relied More On Digital Communication



*There is an ongoing shift to embrace more short-form video, to complement their high-quality IP-oriented content*

# Gross Profit

Introduction Of New Business Lines Are Focused On Building User Behavior And Creating Network Effects



As new retail businesses start to come online for the first time, they can easily upsell into multiple types of services