Tencent Music Entertainment Group (1698 HK)

3Q26: Revenue Misses But Earnings Hold Up

Highlights

- TME's 3Q26 revenue rose 5.6% yoy to Rmb8.9b, 2-3% below our and consensus expectations, driven by online music services (+10% yoy), partly offset by weaker social entertainment revenue (-16% yoy). Non-GAAP operating profit declined 1% yoy to Rmb2.7b, with adjusted operating profit margin dipping 1ppt yoy on disciplined S&M spending, despite higher G&A expenses (+18% yoy). Adjusted net profit increased 2% yoy to Rmb2.4b, slightly below our estimates, but ahead of street expectations.
- Downgrade to HOLD with a lower target price of HK$38.00.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q25	2Q26	3Q26	QoQ	YoY	UOBKH	Var	Cons	Var
Revenue	8,463	8,933	8,941	0.1%	5.6%	9,217	-3.0%	9,139	-2.2%
Music-related services	6,969	7,605	7,682	1.0%	10.2%	8,016	-4.2%		
Social entertainment / others	1,494	1,328	1,259	-5.2%	-15.7%	1,201	4.9%		
Cost of sales	4,781	4,984	5,118	2.7%	7.0%	5,260	-2.7%		
Gross profit	3,682	3,949	3,823	-3.2%	3.8%	3,957	-3.4%	3,887	-1.6%
Gross margin	43.5%	44.2%	42.8%	(1 ppt)	(1 ppt)	43%	(0 ppt)		
Operating expenses	1,311	1,295	1,532	18%	17%	1,409	9%		
S&M	260	236	295	25%	13%	330	-11%		
G&A	433	416	575	38%	33%	396	45%		
R&D	618	643	662	3%	7%	682	-3%		
Non-GAAP OP	3,032	3,340	3,097	-7.3%	2.1%	3,123	-1%		
Non-GAAP OPM	35.8%	37.4%	34.6%	(3 ppt)	(1 ppt)	34%	1 ppt		
Non-GAAP NP	2,418	2,686	2,450	-8.8%	1.3%	2,487	-1.5%	2,357	3.9%
Non-GAAP NPM	29.3%	31.1%	28.3%	(3 ppt)	(1 ppt)	28%	1 ppt		
Non-GAAP diluted EPS (RMB)	1.54	1.70	1.55	-9.0%	0.6%	1.58	-1.8%	1.46	6.3%

Source: TME, UOB Kay Hian

Analysis

- **Music-related services growth moderated.** Tencent Music Entertainment Group's (TME) music-related services revenue rose 10.2% yoy (vs 2Q26: 11.0%) to Rmb7.68b in 3Q26, 4.2% below our estimate. Membership revenue grew 9.2% yoy (vs 2Q26: 8.1%) to Rmb4.99b, as the SVIP programme grew in both paying users and ARPPU, alongside the consolidation of Ximalaya. Revenue from marketing and consumption services grew 12.1% yoy (vs 2Q26: 16.2%) to Rmb2.70b, driven by artist-related merchandise and offline performance related services, including collaborations with Silence Wang. Meanwhile, social entertainment revenue declined 15.7% yoy to Rmb1.26b.
- **Margin pressure from IP-related business expansion.** Gross profit grew 3.8% yoy to Rmb3.82b, with gross margin declining 0.7ppt yoy and 1.4ppt qoq to 42.8%, reflecting a higher revenue contribution from lower-margin merchandise and offline concerts. Operating expenses increased 16.9% yoy, mainly due to the Ximalaya consolidation and acquisition-related intangible asset amortisation. Non-IFRS net profit attributable to shareholders increased 1.9% yoy to Rmb2.45b with net margin down 1ppt to 28.3%.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	28,401	32,902	35,632	38,311	40,966
EBITDA	6,489	8,411	9,087	9,547	10,047
Operating profit	7,349	9,678	10,444	11,041	11,684
Net profit (rep./act.)	7,109	11,353	9,539	10,027	10,766
Net profit (adj.)	8,136	9,924	10,531	11,118	11,912
EPS	257.2	317.3	338.2	354.8	380.1
PE	11.7	9.5	8.9	8.5	7.9
P/B	1.4	1.1	1.2	1.4	1.3
EV/EBITDA	12.2	9.4	8.7	8.3	7.9
Dividend yield	0.0	0.0	0.0	0.0	0.0
Net margin	25.0	34.5	26.8	26.2	26.3
Net debt/(cash) to equity	(19.4)	(10.5)	(29.1)	(34.9)	(41.8)
ROE	11.5	15.3	12.1	14.1	15.6
Consensus net profit	-	-	9,747.9	10,478.8	11,334.1
UOBKH/Consensus (x)	-	-	1.08	1.06	1.05

Source: TME, Bloomberg, UOB Kay Hian

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HOLD (Downgraded)

Share Price	HK$35.36
Target Price	HK$38.00
Upside	7.5%
Previous TP	HK$53.00

Stock Data

Sector	Communication Services
Bloomberg ticker	1698 HK
Shares issued (m)	1,636.7
Market cap (HK$m)	116,744.7
Market cap (US$m)	14,879.7
3-mth avg daily t'over (US$m)	5.7

Price Performance (%)

52-week high/low				HK$74.75/HK$30.36
1mth	3mth	6mth	1yr	YTD
3.9	2.8	4.6	(52.3)	(48.8)

Major Shareholders (%)

Spotify Technology S.A	16.0

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	25.06
FY26 Net Debt/Share (Rmb)	7.30

Price Chart



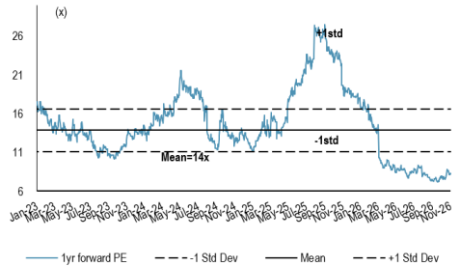
Source: Bloomberg

Company Description

TME is the world's largest online music platform by monthly average users, with the biggest market share of about 70%. It operates leading music apps including QQ Music, Kugou Music, Kuwo Music and WeSing.

- **Ximalaya and pan-IP monetisation offer incremental growth opportunities**. TME continued to expand its premium audio catalogue and integrate Ximalaya's content into its broader music ecosystem. Meanwhile, stronger artist partnerships, concert operations and merchandise offerings are supporting higher user spending beyond traditional music subscriptions. We believe these initiatives could broaden TME's long-term monetisation opportunities, although the near-term revenue mix shift may dilute margins
- **IP ecosystem broadened across music, audio and live events.** TME renewed its contract with HYBE, securing 30-day early release arrangements for selected major K-pop releases. TME also renewed its partnership with YH Entertainment Group, and staged four stadium concerts for rapper GAI that drew over 120,000 attendees. Ximalaya added more than 10,000 motion comics, which featured an upgraded playback interface and an AI assistant to improve discovery and personalisation.
- **Strong cash position supports shareholder returns.** TME ended 3Q26 with Rmb51.5b in cash, deposits and short-term investments, up from Rmb44.2b in 2Q26, partly reflecting its US$1b bond issuance. The company repurchased US$300m worth of ADSs during the quarter, demonstrating its commitment to shareholder returns.

12-Month Forward PE Band



Source: Bloomberg; UOB Kay Hian

Valuation/Recommendation

- **Downgrade TME to HOLD and lower our target price to HK$38.00** (US$10.00 per ADS). We lower our target multiple to 10x 2027F PE from 13x to reflect intensifying competition, potential margin pressure and uncertainty over AI-related disruption in the music industry. TME trades at 9.6x 2027F PE, one standard deviation below its historical mean of 14x.

Earnings Revision/Risk

- We maintain our 2026 revenue and non-GAAP net profit forecasts at Rmb35.8b (+8.7% yoy) and Rmb10.3b (+3.6% yoy) respectively, implying a non-GAAP net margin of 28.8%.
- **Key risks:** a) Interruption from rising AI content; b) slower net add growth, whereby the retention rate falls with every increase in ARPPU; and c) increasing competition from Soda Music.

Share Price Catalyst

- a) Better-than-expected music services revenue driven by ARPPU hikes; b) upward earnings revisions driven by operating leverage from higher-margin segments including music subscription and advertisement, and c) greater synergy from Ximalaya.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	32,902.0	35,632.1	38,310.6	40,966.2
EBITDA	8,411.0	9,086.9	9,546.5	10,046.9
Deprec. & amort.	(1,267.0)	(1,356.8)	(1,494.3)	(1,636.9)
EBIT	9,678.0	10,443.7	11,040.8	11,683.8
Total other non-operating income	2,674.0	613.4	613.4	613.4
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	925.0	719.4	724.4	831.8
Pre-tax profit	13,277.0	11,776.4	12,378.7	13,128.9
Tax	(1,924.0)	(2,237.5)	(2,351.9)	(2,363.2)
Minorities	0.0	0.0	0.0	0.0
Net profit	11,353.0	9,538.9	10,026.7	10,765.7
Net profit (adj.)	9,924.0	10,531.3	11,118.5	11,912.4

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	1,201.0	1,645.0	481.8	524.3
Other LT assets	68,863.0	77,418.0	63,599.9	64,757.9
Cash/ST investment	8,470.0	22,633.0	22,553.0	30,680.3
Other current assets	23,988.0	20,661.0	21,384.4	21,981.1
Total assets	102,522.0	122,357.0	108,019.1	117,943.5
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	14,589.0	17,166.0	18,007.6	19,173.1
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	4,883.0	24,610.0	24,610.0	24,610.0
Shareholders' equity	80,287.0	77,742.0	64,662.1	73,435.2
Minority interest	2,763.0	2,839.0	739.5	725.2
Total liabilities & equity	102,522.0	122,357.0	108,019.1	117,943.5

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	10,231.0	15,527.2	12,396.2	13,783.6
Profit fo the year	13,277.0	11,776.4	12,378.7	13,128.9
Tax	(1,924.0)	(2,237.5)	(2,351.9)	(2,363.2)
Deprec. & amort.	(1,267.0)	(1,356.8)	(1,494.3)	(1,636.9)
Associates	0.0	0.0	0.0	0.0
Working capital changes	(125.0)	(3,986.0)	(83.4)	(534.3)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	270.0	11,331.1	3,947.2	5,189.0
Investing	(10,227.0)	(4,892.2)	(2,718.9)	(2,820.7)
Capex (growth)	(305.0)	(71.3)	(76.6)	(81.9)
Investment	0.0	0.0	0.0	0.0
Others	(9,922.0)	(4,821.0)	(2,642.3)	(2,738.8)
Financing	(4,649.0)	(3,393.7)	(2,835.5)	(2,835.5)
Dividend payments	0.0	(3,393.7)	(2,835.5)	(2,835.5)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(243.0)	0.0	0.0	0.0
Others/interest paid	(4,406.0)	0.0	0.0	0.0
Net cash inflow (outflow)	(4,645.0)	7,241.3	6,841.8	8,127.3
Beginning cash & cash equivalent	13,164.0	8,470.0	15,711.3	22,553.0
Changes due to forex impact	(49.0)	0.0	0.0	0.0
Ending cash & cash equivalent	8,470.0	15,711.3	22,553.0	30,680.3

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	25.6	25.5	24.9	24.5
Pre-tax margin	40.4	33.1	32.3	32.0
Net margin	34.5	26.8	26.2	26.3
ROA	11.8	8.5	8.7	9.5
ROE	15.3	12.1	14.1	15.6
Growth				
Turnover	15.8	8.3	7.5	6.9
EBITDA	29.6	8.0	5.1	5.2
Pre-tax profit	52.4	(11.3)	5.1	6.1
Net profit	59.7	(16.0)	5.1	7.4
Net profit (adj.)	22.0	6.1	5.6	7.1
EPS	23.4	6.6	4.9	7.1
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(10.5)	(29.1)	(34.9)	(41.8)

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