



February 27, 2023

All Sector | NA

Sector Update

China will likely stay out of Ukraine's Spring Offensives

- State Councillor Wang Yi's accusation of US hegemony during the February 17-19 Munich Security Conference is a reply of the US test balloon about China's intention ahead of Ukraine's Spring Offensive;
- We believe China will likely stay out of the Ukraine conflict in personnel, weaponry and supply aspects to safeguard its nascent semiconductor and EV industries. We suggest investors to buy on weaknesses.

World War III? Unlikely we think

Apparently, China is in a dilemma. The West sanctions and the NATO involvement in personnel, weaponry and supplies has equipped Ukraine with the ability to recoup lost territories or even advance into Russian one in a counter offensive this spring. The fact it hasn't happened is likely due to intensive hardware negotiations on both sides. The shooting down of Chinese balloon in early February is a warning from the US to keep China out of the ring. On February 21, US Secretary of State Blinken again warned on the same subject. As Councillor Wang Yi visiting Russia as his last stop heading to a summit of Xi with Vladimir Putin and China issuing 12-point proposal, the chance for China to enter the Ukraine war once seems realistic.

Geopolitical calculation is clear on both sides, but...

We don't think the US needs to worry China entering the conflict. China is interested at protecting the political stability of Russia to *half* ensure China's energy self-sufficiency in the event of a cross-strait conflict. But the question is at what cost and how to divide the work? Apparently, Russia needs to do most of the work itself.

Whose Korea Peninsula is Ukraine becoming?

Provided Russia managed a tangible resistance to Ukraine's Spring Offensive, an armistice will likely result but with lingering hostility and negotiation for the years to come. This is not a bad outcome for China as Russian collaborations can be pursued by then. President Xi's Moscow visit is likely tasked with sizing up Russia's ability to hold on its own so that China can continue to exploit western divisions to quicken the speed of technology transfer to China.

Best pick is consumer, healthcare and semiconductor

With export challenging and investment constrained, consumers become the main impetus for GDP growth. Out TOP PICKS are Atour, Luckin, Akeso, Huahong, Pinduoduo, and Tencent.

	Revenues			Non-GAAP Operating Profit			Non-GAAP Net Income		
	2021A	2022E	2023E	2021A	2022E	2023E	2021A	2022E	2023E
Atour (RMB mn)	2,148	2,217	3,546	196	291	773	130	218	635
Luckin (RMB mn)	7,965	13,661	20,059	(236)	1,831	3,595	(2)	1,278	2,875
Akeso (RMB mn)	212	869	1,986	(1,248)	(830)	(187)	(1,258)	(861)	(217)
Hua Hong (USD mn)	1,631	2,479	2,992	179	553	699	158	517	524
Pinduoduo (RMB mn)	2,441	3,068	3,801	11,395	38,911	45,534	13,830	39,703	45,327
Tencent (RMB mn)	560,118	554,161	627,387	159,539	147,698	156,562	227,810	121,088	140,486

Source: Company data, Blue Lotus (as of Feb. 27, 2023)

BUY

HOLD

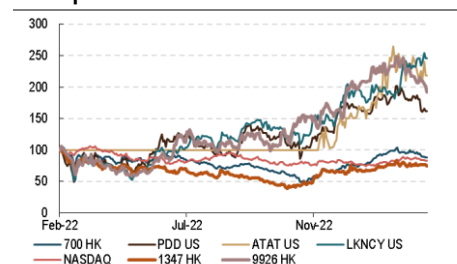
SELL

Top picks

	Ticker	Rating	Target
Atour Lifestyle	ATAT US	BUY	US\$35
Luckin Coffee	LKNCY US	BUY	US\$40
Akeso	9926 HK	BUY	HK\$50
Hua Hong Semi.	1347 HK	BUY	HK\$32
Pinduoduo	PDD US	BUY	US\$105
Tencent	700 HK	BUY	HK\$407

Source: Blue Lotus (as of Feb. 27, 2023)

Price performance and volume data



Source: Bloomberg (as of Feb. 27, 2023)

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Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

Atour Lifestyle Holdings Limited: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(RMB mn)	2021A	2022E	2023E
Net revenues	2,148	2,217	3,546
Total hotel operating costs	(1,420)	(1,406)	(2,180)
Other operating costs	(163)	(166)	(260)
Gross profit	565	644	1,107
Selling and marketing expenses	(124)	(115)	(208)
General and administrative expenses	(197)	(211)	(234)
Technology and development	(52)	(65)	(104)
Pre-opening expenses	(18)	0	0
Other operating income	22	37	35
Share based compensation	0	0	(177)
Operating profit, GAAP	196	291	596
Operating profit, non-GAAP	196	291	773
Interest income	7	12	12
Interest expense	(8)	(6)	(6)
Other income, net	0	(4)	0
Gain from ST investment	9	9	8
Pre-tax profit	204	302	610
Income tax expense	(64)	(85)	(152)
Net income, GAAP	140	216	457
Net income attributable to shareholder, GAAP	130	218	457
Net income attributable to shareholder, Non-GAAP	130	218	635
GAAP diluted EPADS (RMB)	1.21	1.52	3.19
Non-GAAP diluted EPADS (RMB)	1.21	1.52	4.43

Source: Atour Lifestyle Holdings Limited (as of Feb. 27, 2023)

Exhibit 2. Balance sheet

(RMB mn)	2021A	2022E	2023E
Cash and cash equivalents	1,039	1,460	2,503
Accounts receivable net	100	111	177
Prepayments and others	167	158	236
Amounts due from related parties	52	49	71
Inventories	59	69	114
Total current assets	1,416	1,848	3,102
Property and equipment net	439	445	500
Operating lease right-of-use assets	0	2,070	2,070
Other non-current assets	390	415	445
Total non-current assets	829	2,930	3,016
Total assets	2,245	4,778	6,117
Operating lease liabilities, current	0	346	346
Accounts payable	161	185	322
Deferred revenue	234	246	394
Salary and welfare payables	95	111	177
Accrued expenses	447	443	709
Other current liabilities	114	153	220
Total current liabilities	1,051	1,484	2,169
Total non-current liabilities	629	2,573	2,739
Total liabilities	1,681	4,057	4,908
Total equity	565	720	1,209
Total liabilities and equities	2,245	4,778	6,117

Source: Atour Lifestyle Holdings Limited (as of Feb. 27, 2023)

Company Description

Atour Lifestyle Holdings Limited, which started operating in 2013, is the largest upper midscale hotel chain in China in terms of room number, operating 96% of hotel under franchised model and 4% as self-operated. As of September 30, 2022, it has operated 880 hotels with 102k rooms, covering 151 cities in China.

Industry View

We expect the lodging industry to grow at 5-yr CAGR of 4.4% over 2021-2026E to reach RMB911bn, where the hotel industry to grow at 5-yr CAGR of 5.6% to RMB749bn in 2026E. We expect the chain hotel ratio by room number to increase from 34% in 2021 to 48% in 2026E. We expect the hotel chains industry revenue to grow at 5-yr CAGR of 10% to Rmb680bn in 2026E, where the upper midscale hotel chains to grow at 5-yr CAGR of 22% to reach RMB170bn in 2026E, outpacing the overall hotel chains growth.

Exhibit 3. Cash flow statement

(RMB mn)	2021A	2022E	2023E
Net income	140	216	457
Adjustments:			
Depreciation and amortization	94	107	124
Gain from ST investment	(9)	0	0
Net loss on disposal of property and equipment	2	0	0
Net loss on disposal of intangible asset	0	0	0
Allowance for doubtful accounts	3	3	3
Deferred income tax expense (benefit)	(9)	0	0
Changes in working capital	197	83	577
Net cash used by operating activities	418	409	1,161
Net cash used in investing activities	(42)	40	(118)
Net cash used by financing activities	(161)	(28)	(0)
Net increase in cash	206	421	1,043
Cash at the beginning of the period	833	1,039	1,460
Cash at the end of the period	1,039	1,460	2,503

Source: Atour Lifestyle Holdings Limited (as of Feb. 27, 2023)

See the last page of the report for important disclosures

Luckin Coffee Inc.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 4. Income statement

(RMB mn)	2021A	2022E	2023E
Net revenue	7,965	13,661	20,059
Operating expenses	(1,984)	(2,359)	(2,928)
Operating income	(539)	1,192	2,953
Operating margin	(6.8%)	8.7%	14.7%
S&M	(337)	(559)	(802)
G&A	(1,270)	(1,454)	(2,006)
Non-GAAP operating income	(236)	1,831	3,595
Non-GAAP operating margin	(3.0%)	13.4%	17.9%
Interest income	102	89	100
Other income, net	(17)	46	0
Pre-tax profit	623	1,145	3,031
Income tax benefit/(expense)	64	(437)	(758)
Net (loss)/income	686	708	2,273
Net margin	8.6%	5.2%	11.3%
Non-GAAP net income/(loss)	(2)	1,278	2,875
Non-GAAP net income/(loss)	(0.01)	4.04	9.10
per share — Diluted			

Source: Luckin Coffee Inc. (as of Feb. 27, 2023)

Exhibit 5. Balance sheet

(RMB mn)	2021A	2022E	2023E
Cash and cash equivalents	6,478	5,810	6,756
Restricted cash	78	78	78
Accounts receivable, net	39	73	117
Receivables from online payment platforms	172	281	392
Prepaid expenses and other current assets, net	1,044	1,518	1,987
PPE	1,238	2,022	2,836
Other non-current assets, net	164	273	401
Deferred tax assets, net	703	1,093	1,605
Operating lease right-of-use assets	1,238	2,022	2,836
Total assets	12,312	13,972	17,947
Accounts payable	294	466	667
Accrued expenses and other current liabilities	1,322	2,000	2,733
Deferred revenues	96	151	202
Operating lease liabilities	598	1,011	1,418
Non-current liabilities	575	1,011	1,418
Mezzanine equity:	1,515	1,515	1,515
Additional paid-in capital	15,038	15,038	15,038
Total liabilities and equity	12,312	13,972	17,947

Source: Luckin Coffee Inc. (as of Feb. 27, 2023)

Company Description

Luckin Coffee is one of the largest coffeehouse chains in China that offers freshly brewed coffee, tea and food. As of C3Q22, the company operates 5,373 stores in ~50 top tier cities, and 2,473 partnership stores in ~200 lower-tier cities.

Industry View

We expect China's coffee market to grow from RMB110bn in 2021 to RMB240bn in 2026 at the 5-year CAGR of 16.9%. Among that, freshly brewed coffee will grow at 19.0% CAGR, outpace the instant coffee and ready-to-drink coffee at 5.5% and 8.0% CAGR respectively in 2022-2025.

Exhibit 6. Cash flow statement

(RMB mn)	2021A	2022E	2023E
Net (loss)/income	686	708	2,273
Adjustments:			
Foreign exchange loss/ (gain), net	(120)	(12)	0
Loss on disposal of property and equipment	5	0	0
Depreciation and amortization	465	420	520
Impairment of long-lived assets	21	232	40
Share-based compensation expenses	303	(407)	(602)
Accounts receivable	(22)	(34)	(44)
Inventories	(317)	(363)	(398)
Receivables from online payment platforms	(146)	(109)	(111)
Prepaid expenses and other current assets	(102)	(474)	(469)
Cashflow from operating activities	123	95	2,033
Purchases of property and equipment	(173)	(820)	(1,143)
Cash received from disposal of PPE	1	1	1
Cashflow from investing activities	0	(818)	(1,142)
Cashflow from financing activities	1,515	0	0
Net change in cash and cash equivalents	1,616	(746)	869
Cash, cash equivalents, and restricted cash at beginning of years	4,939	6,555	5,887
Cash, cash equivalents, and restricted cash at end of years	6,555	5,887	6,834

Source: Luckin Coffee Inc. (as of Feb. 27, 2023)

See the last page of the report for important disclosures

Akeso Inc.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 7. Income statement

(RMB mn)	2021A	2022E	2023E
Product sales	212	869	1,986
License fee income	129	0	1,300
Less: distribution cost	(115)	(301)	(394)
Revenue	226	567	2,892
Gross profit	194	445	2,483
Gross margin	86.1%	78.5%	1
Selling and marketing expenses	(179)	(450)	(935)
Administrative expenses	(244)	(163)	(361)
Research and development expenses	(1,123)	(838)	(1,574)
Other expenses	(13)	(110)	(434)
Share based compensation	(181)	(54)	(289)
Operating income (IFRS)	(1,248)	(830)	(187)
Operating margin, IFRS	(553.0%)	(146.2%)	(6.5%)
Operating income (non-IFRS)	(1,183)	(952)	(98)
Operating margin, non-IFRS	(524%)	(168%)	(3.4%)
Net income	(1,258)	(861)	(217)
EPS, diluted and basic	(1.54)	(1.06)	(0.27)

Source: Akeso Inc. (as of Feb. 27, 2023)

Exhibit 8. Balance sheet

(RMB mn)	2021A	2022E	2023E
Non-current assets	1,654	2,741	3,854
PPE	1,353	2,105	2,416
Right of use assets	152	623	1,424
Intangible assets	4	3	5
Advance payments for PPE	145	10	10
Current assets	3,152	3,197	9,722
Inventories	197	672	2,655
Trade and bill receivables	102	418	1,489
Prepayments and other receivables	212	784	1,191
Bank balances and cash	2,642	1,324	4,386
Total assets	4,806	5,938	13,576
Current liabilities	656	1,877	4,159
Trade payables	206	745	1,634
Other payables and accrued exp.	395	1,099	2,450
Interest bearing borrowings	46	-	-
Lease liabilities	8	32	74
Non-current liabilities	870	813	1,825
Interest bearing borrowings	804	804	1,804
Deferred income	64	245	306
Total liabilities	1,526	2,690	5,983
Share capital	0.1	0.1	0.1
Reserves	3,164	2,303	2,086
Non-controlling interest	116	944	5,506
Equities	3,280	3,248	7,592
Total liabilities and equities	4,806	5,938	13,576

Source: Akeso Inc. (as of Feb. 27, 2023)

Company Description

Akeso is about to transform from an IP-licensing biotech to a product sales-driven biopharma. Its products and pipeline focus on BsAb and mAb with 100% in-house ratio. Penpulimab (AK105), co-marketed with SinoBio, contributed 100% of product revenue and 62% of total in 2021. Cadonilimab (AK104) shall drive product revenue to 100% of total in 2022. Through its in-house ACE Platform and TETRABODY technology, Akeso has established a systematic process for drug development.

Industry View

We estimate the global biologics market to grow from US\$341bn in 2021 to US\$665bn in 2030, in which China's biologics market will grow from US\$65bn to US\$200bn over the same period. We expect global PD-1/L1 market to grow from US\$30bn in 2021 to US\$79bn in 2030, in which China's PD-1/L1 market to grow from US\$4bn to US\$20bn.

Exhibit 9. Cash flow statement

(RMB mn)	2021A	2022E	2023E
Pretax profit, IFRS	(1,258)	(714)	(217)
Adjustment from operating activities	142	164	381
Adjustment from balance sheet			
Increase in inventories	(135)	(475)	(1,983)
Increase in trade-receivables	(102)	(316)	(1,071)
Increase in prepayments	(68)	(572)	(408)
Increase in trade payables	94	539	889
Increase in other payables	355	704	1,351
Increase in deferred income	10	181	61
Increase in contract liabilities	4	31	53
Cash used in/generated from operations	(958)	(458)	(945)
Income tax paid	0	0	0
Net cash used in operating activities	(958)	(458)	(945)
Interest received	14	11	10
Capex	(793)	(869)	(496)
Purchase of intangible assets	(4)	(2)	(7)
Proceeds from disposal of PPE	1	1	1
Decrease in pledged deposits	1,853	0	0
Net cash used in investing activities	1,071	(860)	(493)
New borrowings raised less repayment	672	0	1,000
Net cash used in financing activities	1,633	0	4,500
Cash and cash equivalents at the beginning	2,684	2,642	1,324
Effects of foreign exchange rate changes	0	0	0
Cash and cash equivalents at the end	2,642	1,324	4,386

Source: Akeso Inc. (as of Feb. 27, 2023)

See the last page of the report for important disclosures

Hua Hong Semiconductor Ltd.: Financial Summary

Fiscal year ends 31-Dec

Exhibit 10. Income statement

(USD mn)	2021A	2022E	2023E
Revenue	1,631	2,479	2,992
Cost of sales	(1,196)	(1,648)	(1,934)
Gross profit	435	831	1,058
Gross margin	26.7%	33.5%	35.4%
Administrative expenses	(245)	(286)	(344)
Operating profit, IFRS	179	533	699
Operating margin	11.0%	21.5%	23.4%
Non-operating income, net	54	(102)	107
(Loss)/Profit before income tax	233	430	806
Income tax expense	(51)	(82)	(70)
Effective tax rate	(21.8%)	(19.1%)	(8.7%)
Profit for the year, IFRS	212	415	630
Profit for the year, non-IFRS	158	517	524
Net-profit margin, non-IFRS	9.7%	20.9%	17.5%
non-IFRS EPS (USD)	0.16	0.32	0.48
EBITDA	515	1,002	1,273
EBITDA Margin	31.6%	40.4%	42.6%

Source: Company data, Blue Lotus (as of Feb. 27, 2023)

Exhibit 11. Balance sheet

(USD mn)	2021A	2022E	2023E
NON-CURRENT ASSETS	3,811	4,928	5,175
Property, plant, and equipment	3,117	4,060	4,292
Right of use assets	75	75	75
CURRENT ASSETS	2,392	2,119	2,814
Inventories	434	225	548
Trade and other receivables	181	272	268
Cash and bank balances	1,610	1,568	1,941
TOTAL ASSETS	6,203	7,047	7,989
CURRENT LIABILITIES	1,140	1,333	1,412
Trade payables	194	272	268
Other payables	560	533	554
Bank borrowings	195	209	220
NON-CURRENT LIABILITIES	1,427	1,550	1,649
Interest-bearing borrowings	1,390	1,513	1,613
Total liabilities	2,568	2,883	3,062
Total equity	3,636	4,164	4,927
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,203	7,047	7,989

Source: Company data, Blue Lotus (as of Feb. 27, 2023)

Company Description

Hua Hong Semiconductor Ltd. is Mainland China's second largest foundry. It operates three 8" fabs under Hua Hong Grace, and has majority ownership of Hua Hong Wuxi, a 12" fab producing 90-55nm and power discrete devices. It has investment in Shanghai Huali, an operator of 65-40nm and 28-14nm fabs. Hua Hong specializes in eNVM, standalone NVM, power discrete, radio frequency, and more.

Industry View

We estimate that the global foundry industry will grow to USD104bn in 2021 and will double in value by the end of the decade, driven by new IC applications and increasing share of foundries in the semiconductor production industry. In 2021 the top five foundries earned 89% of industry revenues, of which Samsung and TSMC, the most advanced foundries, earned 70%~ of global foundry revenues.

Exhibit 12. Cash flow statement

(USD mn)	2021A	2022E	2023E
Profit for the year, IFRS	212	415	630
Adjustment	-	-	-
Depreciation	336	469	541
Amortization of intangibles	0	7	7
Interest income	(13)	(23)	(23)
Finance costs	13	49	26
Share of profit from associate	(7)	(7)	(14)
Share based compensation	-	-	-
Working capital change	(14)	240	(343)
NET CASH FROM OPERATING	536	1,168	1,002
Capital expenditures	(939)	(1,417)	(776)
Interest received from investing activities	6	23	23
Government grants for PPE	66	117	64
NET CASH USED IN INVESTING	(881)	(1,277)	(689)
Net proceeds from borrowings	1,023	137	110
Proceeds from share issuance	7	-	16
Dividends paid	-	(22)	(40)
Interest paid	(11)	(49)	(26)
NET CASH FROM FINANCING	1,015	67	60
NET INCREASE IN CASH	670	(42)	374
Cash & equiv. at the beginning of the yr.	923	1,610	1,568
Cash & equiv. at the end of the year	1,610	1,568	1,941

Source: Company data, Blue Lotus (as of Feb. 27, 2023)

See the last page of the report for important disclosures

Pinduoduo Inc.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 13. Income statement

(RMB mn)	2021A	2022E	2023E
Total GMV (RMB bn)	2,441	3,068	3,801
Revenues	93,950	132,072	177,447
Online marketing services	72,563	102,597	127,836
Commission fees	14,140	27,274	38,242
Cost of products	(16,729)	(16,265)	(20,454)
Gross profit	62,232	98,759	127,451
Sales and marketing expenses	(44,802)	(53,352)	(74,578)
General and administrative expenses	(1,541)	(3,399)	(4,377)
Research and development expenses	(8,993)	(10,665)	(12,756)
Impairment	276	-	-
Share-based compensation	4,775	7,568	9,794
Operating profit(loss), GAAP	6,897	31,343	35,740
Operating profit(loss), non-GAAP	11,395	38,911	45,534
Other income/(loss)	2,559	6,112	5,810
Pre-tax (Loss)/income, GAAP	9,455	37,455	41,551
Income taxes expenses	(1,934)	(5,405)	(6,233)
Net (loss)/income, GAAP	7,769	31,984	35,361
Net (loss)/income, non-GAAP	13,830	39,703	45,327
Number of ADS (mn), diluted	1,428	1,435	1,441
EPADS (RMB), GAAP, diluted	5.44	22.29	24.54

Source: Pinduoduo Inc. (as of Feb. 27, 2023)

Exhibit 14. Balance sheet

(RMB mn)	2021A	2022E	2023E
Cash and cash equivalents and restricted cash	66,044	124,891	200,482
Receivables from online payment platforms	674	947	1,273
Short-term investments	86,517	86,517	86,517
Amounts due from related parties	4,250	5,975	8,027
Prepayments and other current assets	3,425	4,814	6,468
Total current assets	160,909	223,144	302,766
Long-term investment	-	-	-
Property and equipment, net	2,203	3,881	3,363
Intangible asset	701	799	513
Loan to a related party and others	17,396	17,365	17,365
Total non-current assets	20,301	22,044	21,241
Total asset	181,210	245,188	324,007
Amounts due to related parties	1,963	2,760	3,708
Customer advances	1,167	1,640	2,204
Payable to merchants	62,510	78,561	97,337
Accrued expenses and other	14,086	14,794	22,202
Merchant deposits	13,578	19,087	25,644
Total current liabilities	93,730	117,095	151,348
Total liabilities	106,095	129,462	151,348
Total shareholders' equity	75,115	115,726	172,659
Total liabilities, mezzanine equity and shareholders' (deficits)/equity	181,210	245,188	324,007

Source: Pinduoduo Inc. (as of Feb. 27, 2023)

Company Description

PDD is China's 3rd largest online mobile e-business company in terms of GMV. In 2021, 870mn (+30% YoY) customers placed 61,000 mn orders (+59% YoY) on the PDD platform, generating GMV of RMB 2,440 bn (+46% YoY), accounting for about ~18% of China e-commerce retail market shares.

Industry View

We estimate China's eCommerce market to grow by 13% in 2023, after growing ~10% in 2022. We estimate traditional eCommerce and social eCommerce sub-sectors to grow at 3-year CAGR of 10% and 50%, respectively, and we expect the total online retail market to grow at 11%-12% CAGR from 2022 to 2024.

Exhibit 15. Cash flow statement

(RMB mn)	2021A	2022E	2023E
Net income	7,769	31,984	35,361
Depreciation & amortization	1,495	812	803
Interest income	(147)	(210)	(210)
Share-based compensation	4,775	7,568	9,794
Receivables from online payment platforms	56	(273)	(325)
Amounts due from related parties	(10)	(1,725)	(2,053)
Prepayments and other current assets	1,745	(1,390)	(1,654)
Amounts due to related parties	(1,423)	797	948
Customer advances	(1,256)	473	564
Payables to merchants	8,686	16,051	18,776
Accrued expenses and other liabilities	4,442	515	7,106
Merchant deposits	2,651	5,509	6,557
Net cash flow generated from operating activities	28,783	60,113	75,668
Purchase of property and equipment	(3,287)	(1,321)	-
Net cash flow generated from investing activities	(35,562)	(1,321)	-
Exchange rate effect on cash and cash equivalents	(145)	55	(77)
Change in cash	(8,800)	58,847	75,591
Cash at beginning	74,843	66,044	124,891
Cash at end	66,044	124,891	200,482

Source: Pinduoduo Inc. (as of Feb. 27, 2023)

See the last page of the report for important disclosures

Tencent Holdings Limited: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1 . Income statement

RMB mn	2021A	2022E	2023E
Revenues	560,118	554,161	627,387
Cost of revenues	(314,174)	(315,346)	(360,153)
Gross profit	245,944	238,815	267,235
G&A cost	(89,847)	(104,744)	(112,311)
Marketing cost	(40,594)	(30,299)	(33,048)
Operating profit IFRS	271,620	169,346	191,145
Share based compensation	(28,946)	(26,183)	(29,643)
Operating profit non-IFRS	159,539	147,698	156,562
Finance cost/income	(7,114)	(7,477)	(6,412)
Other income/cost	156,117	65,574	69,270
Share of profits of asso. and JVs	(16,444)	(16,655)	(17,488)
Pre-tax profit, IFRS	248,062	145,213	167,245
Income tax	(20,252)	(24,126)	(26,759)
Net income, IFRS	227,810	121,088	140,486
Non-controlling interests	2,988	707	3,471
EPS, IFRS (RMB)	23.2	12.4	14.1
EPS, non-IFRS(RMB)	12.8	12.2	14.0
Gross margin	43.9%	43.1%	42.6%
Operating margin, non-IFRS	28.5%	26.7%	25.0%

Source: Tencent Holdings Limited, Blue Lotus (as of Feb. 27, 2023)

Exhibit 2 . Balance sheet

RMB mn	2021A	2022E	2023E
Cash and cash equivalent	117,876	175,375	308,455
Restricted cash and ST investment	3,024	3,629	4,355
Term deposits over three months	82,184	98,621	118,346
Accounts receivable	58,357	42,470	68,640
Prepayments and others	33,704	42,325	46,480
Inventory	2,470	1,235	617
Total current asset	297,615	363,655	546,893
Property and equipment	25,558	28,221	31,087
Construction in progress	2,470	1,235	617
Invest. in a jointly controlled entity	312,489	328,114	344,520
Intangibles, goodwill and others	20,557	23,536	22,979
Available-for-sale financial assets	444,036	488,439	563,968
Total non-current assets	903,527	976,923	1,080,717
Total assets	1,201,142	1,340,578	1,627,610
Account payables	108,590	99,970	144,144
Accrued expense and others	75,104	72,476	95,961
Deferred revenues	89,045	84,036	115,353
Short-term debt	14,954	15,702	16,487
Total current liabilities	287,693	272,184	371,946
Long-term debt	112,145	112,145	112,145
Other long-term liability	35,513	35,513	35,513
Total non-current liability	147,658	147,658	147,658
Total equity	689,231	841,601	1,026,217
Total liabilities and equity	1,201,142	1,340,578	1,627,610

Source: Tencent Holdings Limited, Blue Lotus (as of Feb. 27, 2023)

Company Description

Tencent is China's 2nd largest internet company by revenue and profits and the largest by traffic measures. Founded in 1998, Tencent dominates China's online game industry with more than 50% market share in 2020. Apart from online games, the company also has online advertising, fintech, and company services, and other revenue streams.

Industry View

China's entertainment market has continued to grow in recent years. The online game market remains one of the most promising subsectors in the entertainment market. By June 2022, the number of mobile game players exceeded 650mn. In 2022, the total China mobile game market is expected to reach RMB 350bn.

Exhibit 3 . Cash flow statement

RMB mn	2021A	2022E	2023E
Net income	227,810	121,088	140,486
Adjusted for:			
Depreciation & amortization	40,920	50,501	61,026
Taxation	18,128	20,569	23,338
Net Interest	2,491	(937)	(1,338)
Changes in			
Account receivable	(13,376)	15,887	(26,170)
Inventory	814	2,470	1,235
Account payables	14,560	(8,620)	44,174
Short term deposit	(14,201)	(17,042)	(20,450)
Other assets	0	0	0
Accrued liabilities and deferred revenues	12,731	(7,637)	54,803
Cash from operations	174,754	173,858	289,982
Capex, PPE	(15,200)	(15,039)	(17,026)
Capex, land and bldg.	0	0	0
Purchase of intangibles	(37,879)	(41,103)	(46,309)
(Increase) /decrease in term deposits	(6,336)	(7,603)	(9,124)
Cash paid for equity investment	(40,367)	(44,404)	(75,529)
Payment for business combinations	0	0	0
Cash from investing	(109,566)	(117,820)	(157,687)
Cash from financing	(100,110)	1,461	785
Change in cash	(34,922)	57,499	133,080
Cash at beginning	152,798	117,876	175,375
Cash at end	117,876	175,375	308,455

Source: Tencent Holdings Limited, Blue Lotus (as of Feb. 27, 2023)

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