

Company Evaluation of Tencent Holding Limited

Chen Yang

Shandong Normal University, Shandong 250399, China

Abstract. Tencent Holding Limited is one of the most highly evaluated stocks for many investors in China. Why Tencent can earn the trust of so many investors and how to maintain its strength and dominant position is pretty worth discussion. In the current industry background, Tencent has always been constantly changing its structure and business strategy to keep in pace with the society and to response to the competitors in the market. There are underlying risks for Tencent's operation as well as possible opportunities. In order to get an intuitive vision of how Tencent has been operating in the past few years, the passage utilized the P/E value to evaluate the company and SWOT analysis to estimate the situation the company is in. The conclusion comes out that the company is still worth investing in the current market phase.

Keywords: Gaming industry; Financial technology; Life cycle analysis; SWOT analysis; P/E evaluation.

1. Introduction

Tencent Holdings Limited, which stock code is 0700. HK, came into the market in the Hong Kong Exchanges and Clearing Market. It is a company that has been developing its business in various fields. As China's biggest social media and video games company, its products have been frequently used by people not only in China, but also in many other countries, and that is the reason why people want to buy its stock. Many products like WeChat, QQ, music apps, e-reading apps and video games are either developed or owned by Tencent. It is hard to imagine what will life be like in China without Tencent's products because it is so deeply rooted in our life. For example, WeChat is not only a communication tool for people to reach each other but also an indispensable media for online payment. Apart from the widely used product of Tencent, it has been applying and developing hi-tech products and other useful applications that will become trendy in the future such as artificial intelligence, the Internet of things and quantum computing. [1]

The profit of Tencent has been steadily increasing in the past few years. On the 23rd of March 28, 2022, the operation report of Tencent for the fourth quarter of 2021 and the whole year has come out. It has been demonstrated that in 2021 the total income of it has realized 16% of growth, with a total value of ¥56.01 billion. However, the rate of operation profit has shown a trend of declining in the growth rate. Especially in the 4th quarter of 2021, the Non-IFRS net profit of Tencent was ¥2.49 billion, which falls 25% from the fourth quarter of 2020. [2] What is the reason for its drop in profit and what will be the next movement of the company's strategy is the most urgent problem lying ahead of the management of Tencent. One of the possible reasons is probably the under-performance of the gaming department. As the biggest Internet company in China, Tencent's development is one of the most successful examples in the whole business. However, as the saying goes, everything has its pros and cons. There are also potential and obvious risks in the running process and business structure of Tencent, which will be discussed in the following part of the passage.

2. The Key Running Risks for Tencent

In the past year, Tencent has been basing its work on Internet consumption and taking the lead in the competition in China's market. For the reason that Tencent is a company with many different running departments, such as instant messenger, online gaming, digital media, online advertising and financial technology, it is hard to find one company to compare its market share with Tencent in China. The complex structure decreased the possibility of benefit loss in the whole company, at the same time, increased the operation and management cost of Tencent. It is easy for the occurrence of

corruption and redundancy in such a huge company, which brought much cost to the higher management. What's more, if the biggest revenue pillar of Tencent falls, the fluctuation it would cause for the company will be devastating. This happens to be the case in Tencent's recent under-performance with the dip in its gaming department and also led to the surpassing of the finance technology department to becoming the most money-supporting factor in Tencent.

Even though the current structure of Tencent is the result of iteration, new problems have been emerging through the fleet of time. Many main businesses of Tencent are showing the tendency of deceleration, thus leading to the pressing requirement for new sources of profit increase. There will be an inescapable outflow of cash to prevent the company from being left outdated, but it is the inevitable way of maintaining the status of Tencent. In 2020 the cost of research and development is ¥3.89 billion, which was about 8% of its total income in 2020. [3]

There are also minor risks in the different running departments of Tencent. The following paragraph will illustrate the risks of this company with the standard of classification of business scope.

2.1 The Gaming Section Confined by Multiple Factors

In the past few years, online games brought Tencent the most weighed income and have been developing at a steady pace. However, there are also underlying weaknesses as well as emerging outside policies that made the current gaming sector in a position of needing transformation. The profit earning pattern of Tencent's gaming department is based on the various skins provided by the platform. This kind of operating system has its obvious shortcoming with little focus on the gaming form and essential contents, which is detrimental to maintaining the users who have been laying more emphasis on the gaming experience. The running pattern of Tencent Gaming is more like a shop selling products instead of a factory producing playable games.

Additionally, the competition has been steeply increasing with many edging companies like Netease Games and miHoYo Games bringing tension to the Chinese gaming market. Things get more stressful for Tencent is the limitation of gaming license numbers, which is the permission of releasing new games in China. According to the statistics, the new game license number released in 2021 is 755 in total, with the announcement of the suspension on the 22nd of July. The total number is only 46.26% of 2021, which is the fourth year of progressive decrease from 2018. [4] With the evident shrink of admission to release games as well as stricter stipulations on the form of games, it is getting more difficult for Tencent to search for another growth point in the game industry. Without responding to the requests of massive game players in China, it could be hard for Tencent to search for expansion chances in the global market since the base of its income still relies heavily on the domestic market.

2.2 The Music Section hold back by Anti-monopoly Law

Although the music running section is currently a self-governed company independent of Tencent the company itself, which is called Tencent Music Entertainment (TME), it is still necessary to find out about the company running risks since its essential holder is still Tencent Holding Limited, the main discussion subject of this article. The most significant running risk lying ahead of TME is the transformation from the emphasis on music copyright to catering for the trend of the Chinese music market. On the 24th of July, 2021, the General Administration of Market Regulation demanded that TME shall not reach exclusive copyright agreements with other copyright parties or disguised as such agreements. [5] The impact of this written decision will be overwhelming as the decision will greatly benefit the running of Tencent's strong competitor Netease Music, which owns fewer copyrights of songs than Tencent. However, the ban is not devastating since the all-rounded invisible monopoly barriers like the cost of setting up an app as well as the massive number of users still exist.

2.3 The Video Section with Fierce Competition and Soaring Costs

The online video service is much similar to the music segment with an oligopoly market where manufacturers have reached a relative balance with each other. With the competition between Iqiyi,

Youku, Mango TV and Bilibili getting crueller and crueller, Tencent has to find out its way of making up for the continuing rising costs as well as valuable output of content. The failure of Youku in the animation industry has warned other stream video companies that a slip of step could cause extravagant loss of profiting chance. Costs for Tencent Video to develop a new intellectual property are the main reason for Tencent’s negative profit, therefore the urgency of continuing to find the next big hit is indispensable for its future.

2.4 The Financial Technology Section Under the Supervision of Government

Tencent Financial Technology (FiT) has become the number one profit-earning section in 2021. However, the operation will still be watched closely by the Chinese government with the example of the Ant group suspension in coming into the market. Running of the financial technology is still in its developing phase with great uncertainty and underlying risks which only can be proved safe through the flow of time including many new technologies like big data, block-chain, cloud computing. The most basic service of FiT is the payment platform, which brought China the cash-free period that no one could have imagined before. If Tencent tries to extend its work to other fields in the financial industry, the regulation of government would be inevitable and necessary. To a certain extent will this be the holding back of fin-tech in Tencent.

3. The Business and Financial Analysis of Tencent

3.1 The Business Mission of Tencent

According to the financial statement of Tencent in 2019, the mission of Tencent is to continue creating an effective and brand-new way of benefiting the society through Internet as a channel. [6] For example, WeChat and QQ are the social platforms that offered people access to all kinds of information. Through fin-tech and enterprise services, Tencent aims to promote the development of its business partners. All in all, Tencent is a company that seeks the next movement in the market to make social benefits as well as generate profit. It bases its grand work on the soaring development of the Internet and managed to exploit various possibilities to make the most use of it.

3.2 The Financial Analysis of Tencent

The chart below reveals where does the income of Tencent come from. It can be seen from the chart that the financial service contributed the most to the total income, which volume is ¥4.8 billion. The gaming department was surpassed by fin-tech and ended up with ¥4.31 billion. Social media services with ¥2.91 billion in total come third. Income that comes from advertisements on the network has a total number of ¥2.15 billion.

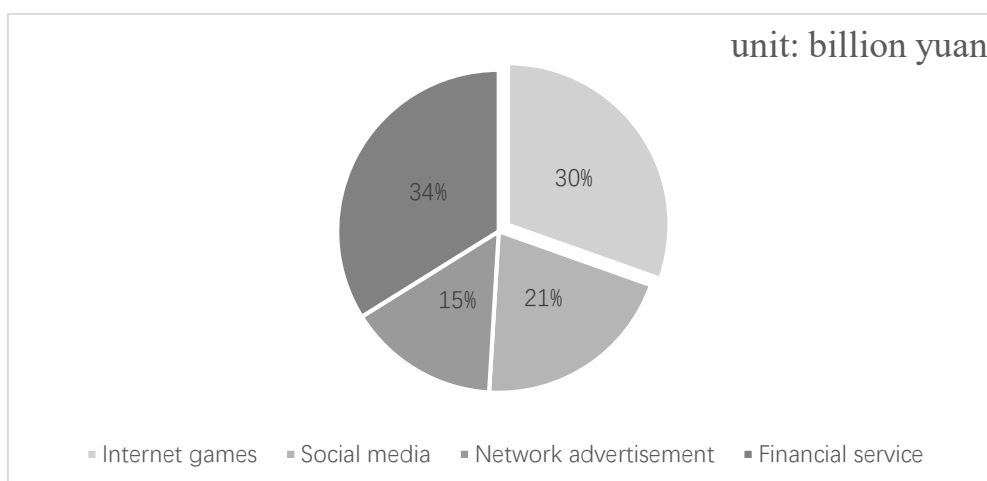


Fig. 1 The Income Distribution of Tencent’s Main Department [7]

Tencent not only got its eyes on expanding its gains in Internet services, of which online games and financial technology are the main driving forces but also invested in potential companies in many areas. The companies Tencent has been investing include Meituan, Douyu and Riot Games, with more than 255 companies in total. The cash flow of Tencent’s investment in 2021 is ¥17.85 billion, and the fair value of interests invested in listed companies (excluding subsidiaries) is ¥98.28 billion. [8]

The next movement for this company which has gained great profit will probably be to continue exploring possible investment opportunities as well as innovate in the original high-profit departments. Tencent could gradually enter the oversea market since its income from other areas in the world still has a lot of room for improvement. However, the regulation imposed by the Chinese Government would be a giant obstacle in the way to further development of Tencent. For now, the government has not put great suppression on the company. This is probably because of the well-established relationship Tencent has been running with the Chinese government. However, with the perfection of China’s antitrust laws, there might be a hardship for Tencent to maintain its advantage in a wide scope of business. Anyhow, even though supervision departments have exerted restriction pressure on the company’s fin-tech service, the company has reached an agreement with the government to operate the business under the management of risk. The development strategy of Tencent fin-tech would be stable growth of trading scale instead of instant expanding.

3.3 The structure analysis of Tencent

The company structure of Tencent has undergone three great changes in the past few years. The current system of Tencent is Business Groups (BGs), which is the structure applicable to the various products and services Tencent has been providing. The company was redivided into Corporate Development Group (CDG), Interactive Entertainment Group (IEG), Technology and Engineering Group (TEG), Weixin Group (WXG) and Cloud and Smart Industries Group (CSIG), Platform and Content Group (PCG). CDG can be seen as the financial support business group in Tencent, which is mainly accountable for the financial technology, advertisements and further development of the company. The business group which is running and developing games is IEG, with TEG in charge of the technology logistic work. In particular, the management and operation of Weixin were separated from the other department thus forming WXG. The CSIG department is responsible for applying and upgrading various innovative technology and utilizes these means in real life. Finally, with PCG that is cultivating the culture and content of Tencent’s different platforms including QQ, news websites and video platforms, the whole empire of Tencent was established.

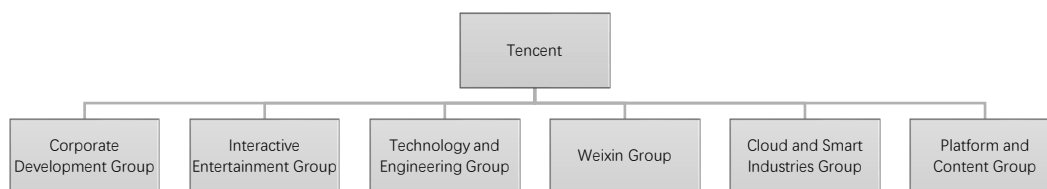


Fig. 2 The company structure of Tencent

In this reform, the original advantage of Tencent is retained in the social and flow field. It can also be interpreted that the company is beginning to compete in the cloud and content creation. Particularly, the newly established Cloud and smart business Group raises the importance of cloud and smart industry to a height that has never been before, which means that it can get more resources in the company, conducive to the focus and breakthrough of this particular industry. [9] The weakness of former structure which exists obstacles in the communication and sharing of resources was improved in the case of establishment of Weixin Group. The clarified classification of different business group bring much convenience and increase in efficiency of the company organization.

4. The Industry Analysis of Tencent

4.1 The Life Cycle Justified by Product Lines

The product line of Tencent has always been diversely developing. Among the most profitable business segment is value-added services which include communication applications, digital stream media and web-gaming sections. Online games, which have grown rapidly with China’s gaming market during the period between 2008 and 2009, were the most important contributor to cash flow in Tencent. The gaming business may be in a place within the maturing stage. Due to the restriction listed in the running risks for Tencent, there might be slowness in the growth rate of gaming to a certain degree, which caused the outnumber of financial services, which has been growing steadily.

The original business Tencent has been running since its establishment is communication software including WeChat and QQ. The user of WeChat and QQ has reached 1225 million and 594.9 million [10], which provided the potential for WeChat to come up with many functions like WeChat video channel and mini program. The new function brought the company the opportunity to cash the flow, which means to monetize their tremendous volume of user frequency, through the injection of the advertisement or the participation of business runners. In terms of the resource integration and expansion across borders, WeChat has laid out its explicit strategy. Voice and video call functions have challenged traditional operators. When it comes to navigation functions, users can share their locations with friends, which makes it stand out from traditional navigating software. In addition, Tencent launched WeChat Pay, added the "Scan" module, which are the crucial functions that changed WeChat from a simple communication app into a complex platform. [11] From the analysis above, we can see there are potential growth points of cash flow of WeChat in the future, so communication software is probably in the growing stage with a steady growth rate.

4.2 Competitors of Tencent in various industries

4.2.1 Competitors in the game industry

There might be few competitors who can outweigh the market share of the Tencent Gaming department. Strong competitors in China like Netease Games and miHoYo Games are taking up decisive parts in the gaming market. The bar chart below demonstrated the market share of game companies in China. It is obvious that Tencent and Netease are leaders in the competition but Tencent failed in keeping its leading position in the competition with Netease. If there is to be a prohibition on the issue of game license numbers, the competition between existing manufacturers would be crueler than before, especially new game companies with new ideas keep breaking into the scene.

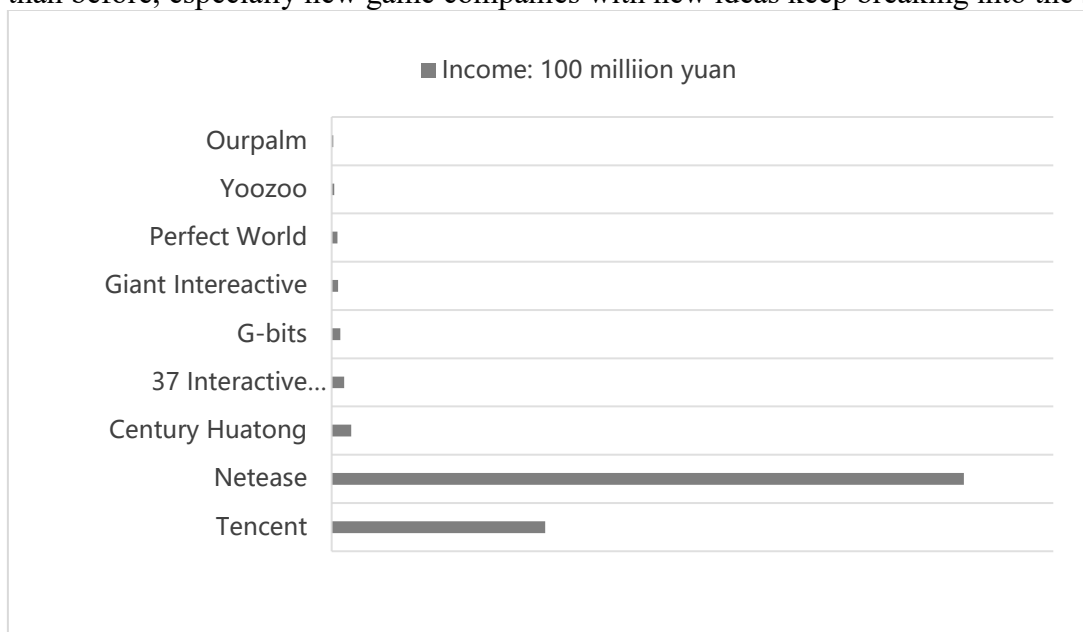


Fig. 3 The Market Share of Main Game Companies in China

During the competition of the game industry in recent years, the most urgent problem is the protection policy of the under-ages. Tencent has spent great efforts to promote cooperation on many levels, such as working with mobile phone manufacturers to embed growth guardian platform module in mobile phone engine, working with the Ministry of Education to promote the construction of safety guardian platform, and working with operators to embed juvenile templates in mobile phones. [12] The unique edge of giant company background as well as the positive action responding to the policy has led to the advantage of Tencent in the industry. Even there could be profit slowness in recent years, the future opportunity will quickly offset the negative effects.

4.2.2 Competitors in the stream video industry

One of the most important revenue sources for Tencent comes from its live streaming and video membership services, which operation belongs to the running departments like Wesee and Tencent Video. Fierce rivals including iQIYI, Youku and Mango TV together constitute the oligopoly market of long video websites in China. The main earning pattern of these video websites is membership payment, which has the characteristic of an oligopoly price setting. The few companies set the price together through contracts or tacit understanding, thus forming almost the same price of membership on different video websites. Despite their normal negative cash flow, the problem of how to occupy more of the limited market share has put down great pressure on Tencent video. From the comparison of premium subscriptions, we can see that Tencent has been maintaining its leading position in the long video industry.

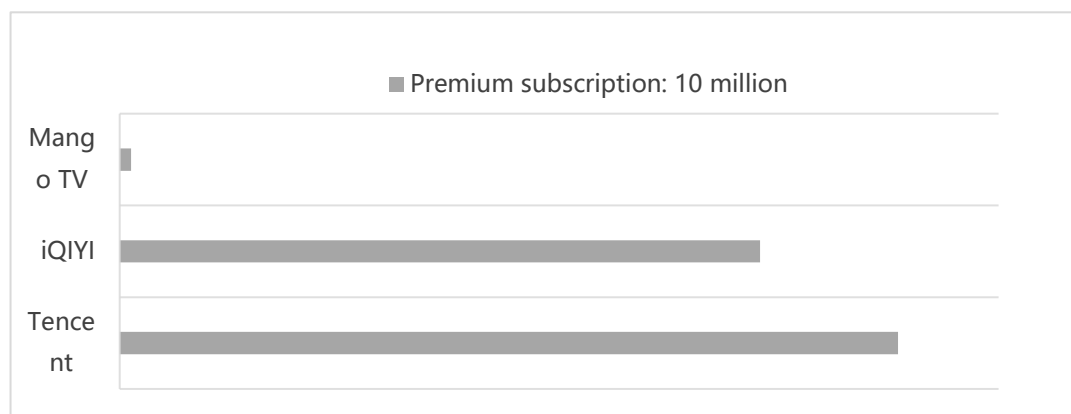


Fig. 4 The Premium Subscription of Main Long Video Companies

Meanwhile, short video apps like Tiktok and Kuaishou are contending much of the user share of the long video industry. The user of short videos reached 800 million by June 2021. The surge of this emerging industry has drawn the attention of Tencent since it has begun to map out the development of Wesee, which is a short video app. Though it is difficult for Wesee to compete with other short video operators, including Tiktok and Kuaishou, the undeveloped user saturation is still the chance for Wesee’s future earning point. If the investment of Tencent was to be injected into the industry, the return in profit could effectively neutralize the negative effect of its long video services.

The relationship between short video and long video has a deeper meaning in reality. “Long and short video platforms is always in a complex relation between competition and cooperation.”by Hong Yin, “However, the marketing value of short video is crucial to the content of long video. So many contents in film and television was recognized by the audiences and completed the consumption conversion to long video platform in this way. Meaningful short videos, in turn, can bring cash flow to the long videos .” [13] In the case of competition of stream media, the most urgent issue is to find the broader of infringement between short video and long video to prevent the occurrence of suing the copyright of long video used in the film editing in short video.

4.2.3 Competitors in the cloud service industry

The storage service of Tencent started at a relatively later stage than its competitors, for example, Baidu began its cloud storage service in 2012. Another earlier competitor is Ali-cloud, which started in 2009. But Tencent aimed its cloud storage at providing storage of data of various companies, different to Baidu Cloud which mainly provides cloud storage to individuals. One current application model of Tencent Cloud is providing TV media with the ability of the offline spread on the Internet such as cloud computing, which includes host, CDN and storage with basic skills. Also the company can help build up systems based on the spread of the Internet with PaaS (Platform as a service) as the main pattern. The ability of Tencent to offer the entire product line comes from its AI technology, the storage ability of its database and the SaaS (Software as a service) applications. [14] This could be a great opportunity for Tencent to exceed the other early beginners because there is a giant volume of need in Chinese companies for data storage.

4.3 The SWOT Analysis of Tencent

4.3.1 Strength of Tencent- The strategy of effective investment and the firm base of users demolishing the pressure of being left out

The most apparent strength of Tencent is its colossal company structure. This gives Tencent the possibility to utilize its great volume of cash. The most feasible way is to invest in other companies with the potential to bring future dividends. For example, among the video operators who have the advantage of a large number of young users and a non-negligible developing scale is Bilibili, which has made it the most possible leader in the future. Tencent has realized this trend because it has accomplished cooperation with Bilibili by holding about 18% of its total share. So far, many acknowledged unicorn companies which have high market valuations accepted the capital injection of Tencent, such as Jing Dong, Mei Tuan, Kuaishou, Huya and so on, almost 200 companies in total. Many of these have accomplished great success in the past few years.

Another competitive edge for Tencent is the vast volume of users in apps like WeChat. On 31th of December 2021, the monthly active users of WeChat reached 1268.2 million. The number is still increasing with a growth rate of 3.5% compared to the same time the year before. As the most popular social software in China, it brought much convenience to Tencent to keep its position in the domestic market. This advantage is owing to the full-fledged software Tencent has been developing since its establishment. What is more, the company has been improving the software to keep its user viscosity. This could be the most effective competing advantage of Tencent.

Further more, the product differentiation strategy has been coming into effect. The unique company positioning, products, services and marketing model and other factors contributed to the success of Tencent's differentiation strategy. [15]As the foundation of the company's positive cash flow, the elements mentioned above made Tencent the fifth most valuable company in the whole world.

4.3.2 Weakness of Tencent- Over Diversified Investment and Business Segment Made it Difficult to Achieve Perfection

Even though the diversified investment can bring future profits and reduce risks to the company, over splitting the total investment might cause a reduction in the overall revenue. [16] Chances are many of these investments either inside or outside the company could fail, which has been the case in the historical investment of Tencent. One of the failures in investment is VIP shop, in which stock price shrunk more than 60% from the time Tencent invested in the company. That led to the loss of more than \$400 million. Furthermore, in 2021, the gain from other channel of Tencent was 149.5 billion yuan. This earning mainly came from the disposal of several investment companies, including the 78.2 billion yuan from the disposal of Jingdong Group shares. From this information we can interpret that Tencent is in a urgent need to dispose of its stocks from other companies, which is seen as its exit action under the policy of "strengthening antitrust law and preventing disorderly expansion of capital." [17]

At the same time, the running business of Tencent is wasting much energy of Tencent while the payoff is not worth the effort. Some departments were set up for strategic defence from other companies, yet have not brought any real return to the whole business, some of which cannot compete with other companies which concentrate on only one profession. That might be the reason why Tencent was not able to realize its internationalization. If there is one competitive project that can become trendy in the future, the possibility for it to take up oversea market share would increase greatly.

4.3.3 Opportunities for Tencent- The encouragement of exporting and stable position of the domestic market ensure further development of Tencent

There are still future opportunities for Tencent's development in a great number of fields. One of the chances is that the current policy of the Chinese government has been advocating for the game companies in China to search for further expansion in the market abroad. Necessary back-up of government will be supplemented in the market, such as the admission of issuing oversea games. Furthermore, the ratio of users in the domestic market is also growing at a steady pace, which could be a firm support for facing the world market.

One non-negligible factor in the development of Tencent is the great demand in the Chinese market. With the rapid speed of technological advancement, people are expecting to more convenient life. There lies the opportunity for Tencent to extend further business on life services. With the fulfilment of offline trading structure and the WeChat channel accomplishing the circulation of "Liking online, consumption offline", [18] the realization of the online flow of user clicks to the real cash flow.

Even if the call for anti-monopoly is getting stronger and stronger, it is not the first time that the company has leaned in to rethink its strategy when faced with a major external challenge. In 2010, the business and consensus warfare between 360 and Tencent, known as "the war of 3Q", occurred. During the consensus war, Tencent was attacked by entrepreneurs and public opinion because of being "omnipotent" at that time. [19] However, it is the occurrence of this particular event that has made Tencent to change its altitude towards relationships with its investors and investees. Similarly, the challenge that Tencent has been facing can be seen as the opportunity for it to transform its position in Chinese market into the delegator of sustainable development of the society.

One of the effective actions of Tencent is taking the initiative to embrace the industrial Internet, combining the C-end connection tools with different industries and scenarios, which has shown a strong adaptability in current utilization. At present, Tencent has worked with more than 9,000 partners in more than 30 industries to create more than 400 industrial solutions, helping brick-and-mortar industries accelerate forward on their respective digital tracks. This is a response to the needs of The Times, but also a conscious response to the pattern of development. [20]

4.3.4 Threats of Tencent- The emergency of the gaming section threatening the pillar of revenue

Tencent's most profit earning department used to be its gaming section until 2021, which is known as IEG (Tencent Interactive Entertainment), the part accountable for the running of various games in Tencent. Despite the existing competitors in the gaming market, the most urgent issue for Tencent is the restriction on issuing game license numbers. Whether the government will push the pause button on the issue of new games in 2022 is still in the air. The freeze of the new games will put great pressure on the operation of existing games. Moreover, the banning of limited time restrictions of minor game players has already come into effect in 2021, which caused an immediate effect on constraining teenagers from indulging in games. The only time for them to play games either on computer or mobile is only 3 hours per week in total. Tencent has achieved great effect on the restriction of the under-ages. In the fourth quarter of 2021, the total playtime of teenagers reduced by almost 88% from the year before, with only taking up about 0.9% of the Chinese gaming market. Moreover, the cash flow from minors fell about 73% from last year, almost 1.5% of total cash flow.

But from a different perspective, the exit of teenage players might still be the chance for IEG. With fewer teenage players, the designer of games can focus on higher age level groups that have a higher

level of consumption, thus bringing more freedom to the form and rate of their gaming conception. The impact of banning on teenagers could be digested by the second half of 2022, according to the quarterly report of Tencent.

4.4 The Ratio Analysis of Tencent

Table 1. Vertical Analysis of Tencent (in million)

	2021 [21]	2020	2019	Company Evaluation of Tencent Holding Limited
Total Income	560,118	482,064	377,289	Company Evaluation of Tencent Holding Limited
Value-added Service	291,572	264,212	199,991	Company Evaluation of Tencent Holding Limited
Fin-tech and Enterprise service	172,195	128,086	101,355	Company Evaluation of Tencent Holding Limited
Web Advertisement	88,666	82,271	68,377	Company Evaluation of Tencent Holding Limited
Gross Margin	245,944	221,532	167,533	Company Evaluation of Tencent Holding Limited
Sales and Market Expenditure	(40,594)	(33,758)	(21,396)	Company Evaluation of Tencent Holding Limited
Operation Revenue	271,620	184,237	118,694	Company Evaluation of Tencent Holding Limited

It is not difficult to see from the chart that the total income of Tencent is steadily increasing. The value-added services including the gaming department and pay-to-watch video, contributed most of the revenue of Tencent, in contrast to the advertising operation, which only is about one-fifth of the total volume. But a concerning problem is that the expenditure has sharply jumped 1 by 0,000 million in 2021, which means Tencent has to cost more to maintain its status. Aside from that, Tencent's revenue is growing at a steady pace. The prominent profit increase of fin-tech and enterprise services made up for the fall in income growth in some way.

Table 2. Horizontal Analysis (in million)

	2021 Gross Margin	2021 Net Profit
Tencent	245,944	227,810
Alibaba	231,786	143,284
Microsoft	115,900	61,270
Apple	152,800 [22]	94,680
Jing Dong	129,100	(4,467)

It can be seen from the chart above that Tencent's revenue status is first to that of Alibaba and Jing Dong among these five companies. This probably is because they gained a large amount of profit from the online sales industry in the past few years. Aside from that, Tencent has shown great competitiveness in the worldwide market.

5. Relative Valuation of Tencent

The property of Internet companies, unlike traditional enterprises, which rely on factors of production and capital for further development, is progressing factors driven by technological innovation and knowledge management, which also contributes to their characteristics of "few assets and high valuation". [23] Therefore, it is inappropriate for the analysts to compare the asset volume instead of considering the market value or the potential of growing in the industry. In this particular condition, an effective valuation tool is P/E value, which not only demonstrated how long will the

investors regain their investment, but also reveals the value of the company to a certain extent. The chart below illustrated the horizontal comparison between Tencent and other companies which have been running more than one business across different industries. They also share the same feature of running Internet businesses. Moreover, Ali Group is one of the most threatening competitor of Tencent in Chinese market. From the chart below, it is easy to see that Tencent is undervalued at present compared to other diversely-developed companies, yet its future P/E is overvalued. That means the expectation for Tencent is still higher than other giant companies listed below.

Table 3. The comparison of P/E between all-around companies

	Trailing P/E(TTM)	Forward P/E
Tencent	17.44 [24]	22.93 [25]
Alibaba	28.18	12.72
Net Ease	24.32	23.25
Meta	15.08	15.08
Microsoft	31.38	36.60
Average	23.28	22.12

Meanwhile, it is also necessary to analyse Tencent in the gaming industry because the revenue of gaming department has brought to Tencent is strategically important. Compared to the other gaming companies, Tencent is relatively undervalued, yet the outstanding future P/E has shown the strength of Tencent being a diversified company because it has undergone a smaller impact on the gaming market relative to the other game companies.

Table 4. The comparison of P/E between game companies

	Trailing P/E(TTM)	Forward P/E
Tencent	17.44	22.93
Nintendo	14.66	2.05
Sony	14.94	14.74
Electronic Arts	58.09	18.68
Average	26.28	14.60

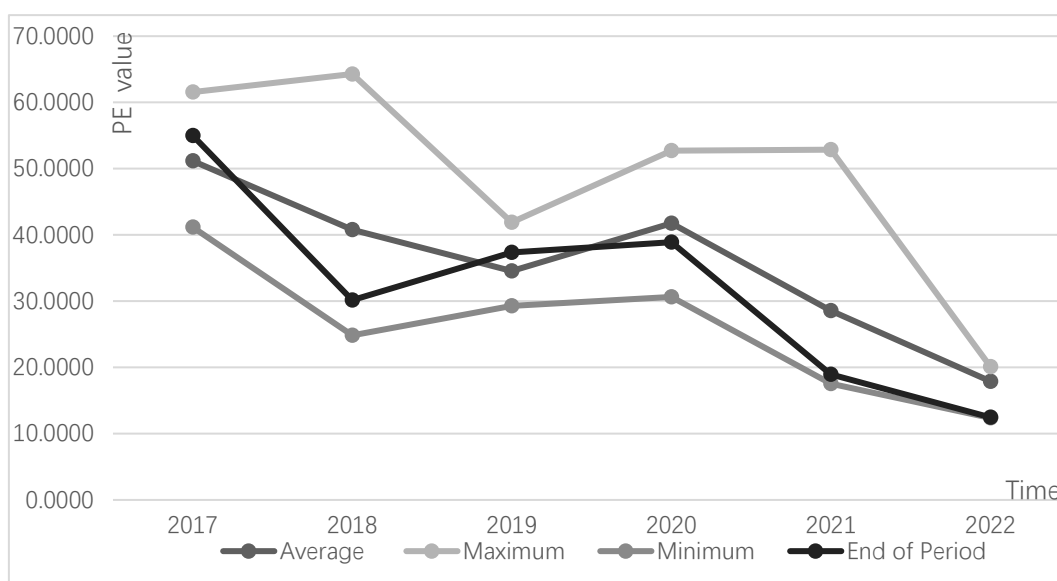


Fig. 5 The Trailing P/E(TTM) of Tencent from 2017 to 2022 [26]

The graph below demonstrated the fluctuation of the P/E value of Tencent trailing twelve months from 2017 until now. It is not hard to see that Tencent’s stock price is in a relatively most-undervalued

zone at present. This probably is because of the restriction that the government has put on the gaming industry as well as the lack of revenue innovation in the last few years, thus resulted in the undervaluation of Tencent's P/E. However, most security companies still expressed their wishes of holding stocks of the company in their assessment for Tencent.

6. Summary

Most valuation companies rated Tencent as "Accumulation" in their investment report. The stock of Tencent is still worth investment even under multiple factors of pressure. The slowness in the game department is only the occasional event in a short period and is expected to recover from the underage policy in 2022H2. With a series of product lines, Tencent can get back from profit growing slowness. Although the regulation and investment in main businesses like WeChat Video Channel and enterprise services resulted in profit loss, factors like the firmly established base of social software, various games as the core service, stable demand for advertisements and cloud services can still support the running of the company. [27] The potential of realizing the increase of double-digit in 2022H2. At least from the present perspective, buying Tencent Holding Limited is still a good choice for investors.

References

- [1] Tencent official website- business- innovation technology <https://www.tencent.com/zh-cn/business.html?page-active=innovation>.
- [2] The report of the performance of Tencent in the fourth quarter and the whole year of 2021.
- [3] Notes, Annual report of Tencent, 2020.
- [4] Report on the approval of game license numbers in 2021: the total number of license numbers is 755, down 46.26% from last year. <http://www.gamelook.com.cn/2022/01/468017>.
- [5] The written decision of the State Administration for Market Regulation on administrative penalty.
- [6] Society and regulation report. Annual report of Tencent, 2019, Environment.
- [7] Management analysis and discussion. Annual report of Tencent, 2021.
- [8] Qi Xie . Tencent Holdings (00700. HK): Profit pressure is within the estimated extent, expected to improve quarter by quarter by 2022H2. March 2022.
- [9] Muhui Su. Tencent: Reforming organizational structure to embrace industrial Internet. *New industrial economy*. 2019(10), p. 52-55.
- [10] Management analysis and discussion. Annual report of Tencent, 2020.
- [11] Maoxin Chen. Research on the practice and path of product innovation strategy in Internet enterprises-- Based on the case study of Tencent WeChat. *China Market*. Vol. 70 (2021) No. 08, p. 167-168.
- [12] Rong Yang. Tencent games responds that the promotion of underage addiction is still facing challenges. *Computers and Internet*. 2021(24), p. 10.
- [13] The debate on "short video stigmatization" has raised the war between Taotiao and Tencent. *Shanghai radio and television study*. 2021(03), p. 8-10.
- [14] Xiaoxuan Fan. Aggregated new technologies of cloud computing helps upgrade the media industry. *Modern television technology*. 2019(11), p.66-68.
- [15] Kexin Liu. Corporate strategy analysis based on positive net present value -- A case study of Tencent. *Fortune Today*. Vol. 35 (2021) No. 10, p. 71-72.
- [16] <https://wenku.baidu.com/view/3136a622ccbff121dd368393?channel=aggregation&fr=tag&word=>
- [17] The "slow" structure of Tencent is healthier. *China business times*. 2022.
- [18] Tianzi Fu. The future of exporting games remains positive, the To-B business became the first major income source for the first time -- Tencent Holdings Limited (0700. HK) in the fourth quarter of 2021 and yearly performance review. March 2022.

- [19] Jianmin Wan. What does the technical upgrade of Tencent reveals. *Chinese Entrepreneurs*. 2021(05), p. 1.
- [20] Xin Liu. The new bureau of Tencent: solid roots of digital integration, with the resonance of the times. *China Radio Film and TV*. 2022(02), p. 54-56.
- [21] Vincent Liu. 2021 Non-IFRS Shareholder's Net Profit Missed Expectation. March 2022.
- [22] The annual report of Apple Company in 2021. [https://s2.q4cdn.com/470004039/files/doc_financials/2021/q4/_10-K-2021-\(As-Filed\).pdf](https://s2.q4cdn.com/470004039/files/doc_financials/2021/q4/_10-K-2021-(As-Filed).pdf).
- [23] Xirong Gao, Jian Yang. Asset valuation and pricing model construction of Internet enterprises and Monte Carlo simulation analysis with Tencent as an example. *Modern Finance (Journal of Tianjin University of Finance and Economics)*. 2017(01), p. 90-100.
- [24] <https://eniu.com/gu/hk00700>.
- [25] <https://sg.finance.yahoo.com>.
- [26] The choice database of Eastmoney.
- [27] Liuyan Wu. Tencent Holding Limited (00700.HK) The improvement of the situation until 2022H2 with the abroad games and recovery of advertisement profit. March 2022.