



Global Network Investment Competition

Case Doctors

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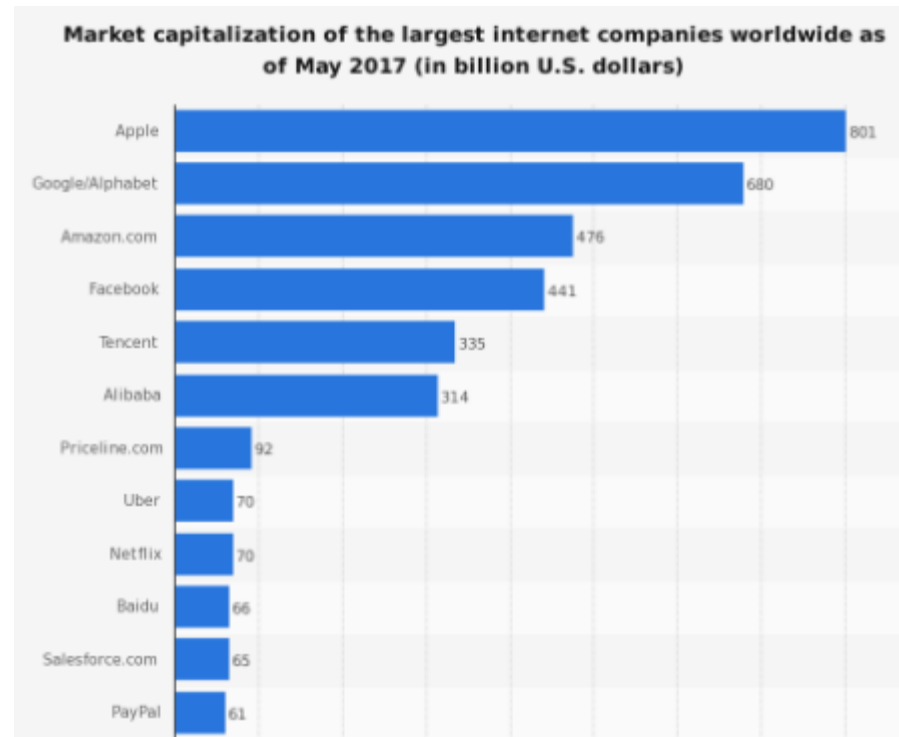
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Industry Overview - Global

- The statistic depicts the market value of the top internet companies worldwide as of May 2017. That year, e-commerce company Amazon's market value was 476 billion U.S. dollars. Search market leader Google had a market value of 680 billion U.S. dollars.
- Due to a number of high profile acquisitions, Google has expanded its portfolio beyond search, to include the video content sharing site YouTube, the digital app platform Google Play Store, the webmail service Gmail and the web browser Google Chrome, to only name a few. As of December 2016, it is also the most visited multi-platform website in the United States, with over 247 million U.S. unique visitors during that month alone



Source: Statista.com

Industry Overview – Local



One of the premier AI leaders in the world. The 2nd largest search engine in the world, and held a 76.05% market share in China's search engines market, the largest in the world, as of April 2017.



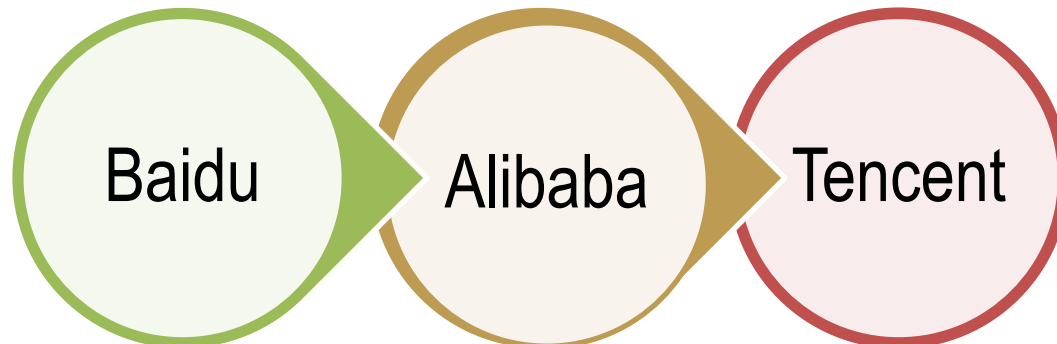
Chinese e-commerce company that provides C2C, B2C and B2B sales services via web portals.

Provides electronic payment services, a shopping search engine and data centric cloud computing services.



Provide media, entertainment, payment systems, smartphones, internet mobile phone value-added services and operate online advertising services in China.

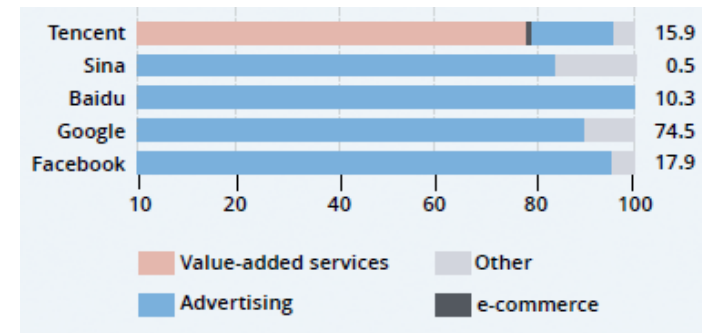
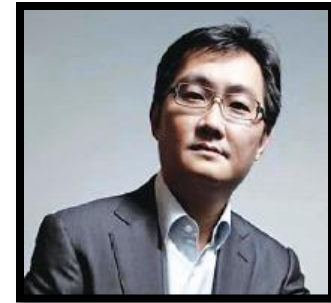
Largest Internet companies, as well as the largest, best-performing and most valuable gaming company in the world.



Overview

Tencent 腾讯

- **Founder:** Ma Huateng
- **Launch:** 1998 as QQ
- **Early growth :** Sinicizing western products.
- **Sustained growth through :-**
 - **Disruption:** Provided Value added services while industry engaged in generating advertisement revenues.
 - **Strategy :** Aggressive drive in mobile gaming.
 - **Market Forecast :** Successful pre-emption of shift to mobile platforms : We chat.
 - **Play to strength :** Deployment of Wepay in already strong Wechat community.



Internet Firm revenue (% of total & \$bn)

*Tencent report by OLMA NEXT LTD

- ❑ Tencent began a strategy of growth through investment in diverse sectors, from insurance to ride sharing, movie production and even electric auto manufacture.
- ❑ Stock market performance : 0.1\$ to 28 \$ in 10 years

Overview

Tencent 腾讯

- ONE OF THE WORLD'S LARGEST INTERNET SERVICES
- INNOVATIVE TAKE ON WEB-BASED SOCIAL MEDIA ECOSYSTEMS AND STRATEGIC PARTNERSHIPS



- News
- Video
- Mobile security
- Internet Browser
- App store downloads
- Online Games
- Music
- Literature



* By MAUs-Monthly average users

SWOT ANALYSIS

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<p>Excellent market position: Tencent is China's largest social media company (850+ mln users).</p> <p>Constant financial growth: Tencent's shares grew four-fold since early 2012. Its market cap is the biggest in Asia and among the top 10 in the world.</p> <p>Strong interconnection among products: Tencent's products are interconnected in an ecosystem in which the users can easily move from one product to another.</p>	<p>Highly Chinese-oriented: The vast majority of Tencent customer is located in China (>90%). Products offered are also targeted mainly to a Chinese audience.</p> <p>Weak international results: Tencent has users in all continents of the world, but the market reached is composed mainly by expatriated chinese communities.</p>	<p>Leverage on the users' base for advertisement: Tencent could further leverage, for advertisement purposes, to its enormous user base.</p> <p>Strategic positioning for e-commerce: With the constant growth of the Chinese e-commerce, Tencent could benefit of the leading positioning matured through its past strategic investments.</p>	<p>Chinese governmental intervention: Being the market in which Tencent operates heavily regulated by the Chinese government, some products or services might be blocked/limited after governmental action.</p> <p>Focus: Targeting new markets could move Tencent away from its core revenue generating business space that could be occupied by new entrants or competitors.</p>

PORTER'S FIVE FORCES ANALYSIS

POTENTIAL NEW ENTRANTS

THREAT LEVEL: HIGH

- Many of the Tencent's technological solutions could be copied by new entrants competitors
- Customer loyalty is low and switching costs are extremely limited.

POTENTIAL SUBSTITUTES

THREAT LEVEL: HIGH

- While many of the competing products in the industry are free to use
- Except than for IM, switch could happen in a very short limited time

INDUSTRY RIVALRY

THREAT LEVEL: HIGH

- For the vast majority of the services offered, competition to Tencent is represent by market giants: Whatsapp, Line, KakaoTalk, Messenger

BARGAINING POWER OF SUPPLIERS

THREAT LEVEL: LOW

- The benefits that Tencent brings to its suppliers (Platforms, etc) in terms of traffic and downloads, make Tencent a very interesting interlocutor to keep dealing with.

BARGAINING POWER OF BUYERS

THREAT LEVEL: LOW

- The products offered are regularly updated, popular and in majority of situation they have no entrance costs.

Investment Thesis

POLITICAL

+ China Web Regulatory - Censorship

A significant portion of Tencent's revenues relies on large Internet user communities. Any regulation that affects Internet access or usage, such as, Internet privacy, censorship and other regulations will affect the company

ECONOMIC

+ / - Dependent on the Chinese economy and Competitive pricing - China's growth slowing

Tencent's operations and finances are directly linked to the Chinese economy since it derives 94% of its revenues from mainland China.

SOCIAL

+ Increasing Internet penetration rate + Tech-savvy/connected population

The Internet penetration rate in China was estimated to be at 55% in 2015. This brings better business opportunities to well-positioned companies such as Tencent.

TECHNOLOGICAL DEVELOPMENT

+ / - High rate of technological change 50% of employees in R&D

With 50% of its staff working in R&D and by fostering a climate of internal competitiveness, Tencent has been able to create products such as WeChat, which has grown to 700 million users in a just a few year

Tencent has the advantages to lead the market in the future

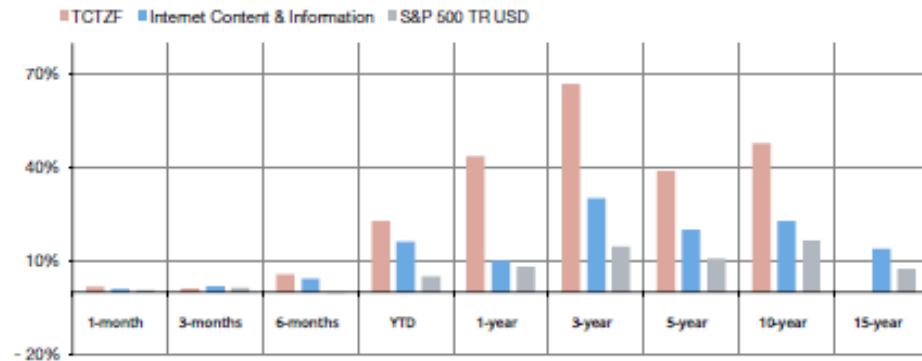
Valuation

1d 5d 1m 3m 6m 1y 5y Max



TRAILING STOCK PERFORMANCE

Total return (%) as of 31/08/2016



TOTAL RETURN (%)

AS OF 31/08/2016

	1-MTH	3-MTH	6-MTH	YTD	1-YR	3-YR	5-YR	10-YR	15-YR
TCTZF	1.65	1.23	5.67	22.81	43.58	66.86	38.75	47.70	0.00
Internet Content & Information	0.82	1.99	4.31	16.10	9.96	30.23	19.90	22.86	13.85
S&P 500	0.65	1.40	-0.09	4.95	8.24	14.56	10.70	16.51	7.45

Sources: Financial Times, Morningstar, Google finance, Yahoo finance, Amigobulls, Nasdaq, Crunchbase, 4-traders.com, CNN and Reuters

Tencent has an upward valuation trend for the past 5 years

Financial Model

Tencent Holdings Limited

Income Statement (\$m)	FY2015	FY2014
Revenues	16,551.69	12,850.12
Gross Profit	9,852.84	7,824.00
Pretax Income	5,827.51	4,723.31
Net Profit (loss)	4,635.17	3,888.96
EPS Basic Net	0.50	0.42
EPS Diluted Net	0.49	0.41
Total Operating Expense	10,014.39	8,599.90
Operating Income	6,537.29	4,250.21

Balance Sheet (\$m)	FY2015	FY2014
Total Current Assets	25,001.87	12,262.25
Total Assets	49,370.09	27,865.82
Total Liabilities	29,722.97	14,496.03
Shareholder Equity	19,647.11	13,369.78

Cash Flow Statement (\$m)	FY2015	FY2014
Cash Flow	4,683.76	6,090.99
Net Cash From Operating Activities	7,310.30	5,325.35
Net Cash From Investment Activities	(10,234.68)	(4,621.56)
Net Cash From Financing Activities	2,981.34	2,987.38
Net Change In Cash And Cash Equivalents	116.65	3,660.55



Sources: Financial Times, Morningstar, Google finance, Yahoo finance, Amigobulls, Nasdaq, Crunchbase, 4-traders.com, CNN and Reuters

Financially, year on year Tencent grew around 30% in Revenue