



Tencent Music Bulls See Trend Breakout Sustaining

Ticker/Price: TME (\$11.4)

Analysis:

Tencent Music (TME) with more than 2,500 July \$9 calls being bought today between \$2.50 and \$2.70 and follows a recent buyer of the May \$11/\$12 call spread 3000X and the January \$11 puts sold to open 3,000X on 4/17. The July \$12 short puts are in OI over 7500X from late February while notable put sales also across the \$13 and \$11 strikes. Shares are near a bull flag breakout above \$11.40 today and move back above its 50-MA with YTD VPOC above at \$12.45. TME has been in a downward channel since early 2019 and needs a longer-term move above \$12.90 to start a bigger trend shift with upside targets around volume nodes at \$14 and then \$16. The \$18.29B company trades 20.5X earnings and 5X sales with a clean balance sheet with little-to-no debt and a health Current Ratio of 3.2X. TME was plagued earlier in the year by a lingering antitrust investigation by Chinese authorities but that was dropped in February clearing a near-term overhang. TME is expecting mid-20% revenue growth in each of the next two years and recently reported a double-digit boost in revenue and 8% growth in ARPU. They continue to convert free-listeners into paid subs well adding 4.5M, up 47.9% Y/Y. On 3-31, the company was part of a consortium that closed on a deal for 10% of UMG from Vivendi. Analysts have an average target for shares of \$15.75. Hong Kong-based BOCOM raising to Neutral on 3-18. OpCo positive on 2-10 seeing the company as one of the more resilient during COVID-19 given the jump in online screen time and shift towards more individual activities centered on games, video, and music. Short interest is 1.3% and down from 2.4% in January. Hedge fund ownership surged 41% in Q4. Honeycomb Asset Management a buyer of 5.6M shares, now a 7% weight, while Merian Global and Tiger Legatus Capital other notables. Tiger Global has a 2.7M share position.

Hawk Vision:



Hawk's Perspective: TME looks solid versus recent lows as a name with limited exposure to economic weakness.

Confidence Ranking: \$\$