



Tencent Music Bullish Flows as Shares Work Off a Bottom

Ticker/Price: TME (\$13.10)

Analysis:

Tencent Music (TME) with 2,000 February \$11 ITM calls bought \$1.95 to \$2 early today and volume now up over 4,200X while 1000 July \$13 puts being sold to open for \$1.30. TME April \$12 calls with 3000 bought yesterday and has seen flows turn more bullish lately. Shares are working out of a small base and nearing a move out of its post-IPO downtrend while \$14.55 a first retracement target. The \$20.45B online music platform in China trades 25.8X Earnings, 5X EV/Sales and has a clean balance sheet. Forecasts are calling for revenues to rise 25-30% annually the next few years and profitability set to really ramp the next two years. TME will next report in mid-March and coming off a strong quarter beating estimates with 42% Y/Y growth in paying users as well as ARPU expansion. In December the company announced a proposal to acquire equity interests in Universal Music Group and TME announced a \$400M buyback on 12-17. Analysts have an average target of \$16 and short interest elevated at 10% of its float. Analyst coverage as been quiet, China Renaissance upgraded to Buy in October on paying subscriber upside. Jefferies started coverage in August at Buy with a \$16.90 target seeing better user stickiness and monetization trends. OpCo started Outperform with an \$18 target as an operator of 4 of the top 5 music apps in China with massive monetization potential. Hedge Fund ownership was down 8% in Q3 filings.

Hawk Vision:



Hawk's Perspective: TME is seeing fresh momentum and a bit extended near-term but watching for this to be a turnaround play if it clears the post-IPO downtrend.

Confidence Ranking: \$\$