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MARKETS

Tencent Stock Rallies on Strong Earnings

Shares finish 5.8% higher after company reported a better-than-expected 30% rise in profit

By *Mike Bird*

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Tencent's stock jumped Thursday, after the Chinese tech giant reported better-than-expected quarterly earnings.

ASIA MARKETS SNAPSHOT

- Hong Kong's Hang Seng led stock market gains in Asia, rising 1.7%.
- The U.S. dollar slipped slightly against the Chinese yuan, falling 0.2% to 6.9292.
- Brent crude oil recovered from an earlier fall, rising 0.6% to \$66.50.

What's Happening

Tencent stock closed 5.8% higher after it reported a 30% rise in profit, more than analysts expected. The boost still leaves the company's Hong Kong-listed shares down nearly

30% in 2018.

Net income of 23.3 billion yuan (\$3.39 billion) was lifted by 8.8 billion yuan from investments, turbocharged by the Hong Kong listing of Meituan Dianping. Meituan, whose app offers services similar to Grubhub, Yelp, and Groupon, has tumbled nearly 17% since its initial public offering.

Tencent is the country's largest videogames firm and runs WeChat,



Tencent's Hong Kong-listed shares are still down more than 30% in 2018. PHOTO: KIM KYUNG HOON/REUTERS

TCEHY 4.27%▲ the instant messaging and payments app that is close to ubiquitous in China. The company has found itself at the mercy of both increased regulatory pressure from Beijing and souring investor sentiment across the broader market. The broad Hang Seng Index is down about 14% for the year.

With a market cap of about 2.723 trillion Hong Kong dollars (US\$347.74 billion), the company is still so large that a particularly good or bad day can move entire stock indexes.

Tencent is the largest component of the MSCI Emerging Markets Index, with a 4.5% weighting, and third-largest in Hong Kong's Hang Seng, at 8.8%. On Thursday, it accounted for 29% of the

Hang Seng's 448.91 point increase, Refinitiv data showed.

Tencent's selloff this year has knocked more than 1 percentage point off the MSCI EM's annual performance, and more than 2 percentage points off the Hang Seng's.

What It Means

Analysts were broadly pleased with the results, with Nomura, Credit Suisse, CLSA and Jefferies reiterating buy ratings on the stock immediately after.

Nomura analyst Jialong Shi hailed commentary from Tencent that it had finally made inroads in selling WeChat ads to smaller businesses and local advertisers—a critical move if it is to realize WeChat's potential as a venue for advertising.

This week, BlackRock strategists voiced their increasingly bullish view of Chinese tech stocks, whose valuations have moderated. While trade tensions with the U.S. are bad news for Chinese exporters, the country's online giants are largely inwardly focused.

"The U.S. tech sector has a global bent versus China's domestic one," said Richard Turnill, global chief investment strategist at BlackRock. He said the trade dispute would actually limit direct international competition with Chinese tech firms, and provide a relative advantage to companies less dependent on international business. "We see China's focus on domestic demand and self-reliance as positives amid trade disputes," he added.

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