


# An Overall Analysis of Tencent's Business Model

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**Abstract:** In the past thirty years, our economy has developed at an unprecedented speed. At the same time, China's consumption concept and consumption structure has also undergone profound changes. With the development of electronic technology and application of electronic products, a large number of people have been exposed to Internet. Taking Tencent as an example, this paper summarizes Tencent's current macro environment, business strategy, product system and profitability status from the perspectives of PEST, 3C, product features, profit model and financial ratio through the literature research method and case analysis method, and summarizes its financial and operating conditions according to the data of Tencent's financial statements in recent years, and looks forward to the future development of Tencent. At the same time, using this paper as a reference, it provides a certain degree of practical experience and reference significance for the selection and innovation of other Internet companies.

## 1 INTRODUCTION

Tencent Holdings Limited is a Chinese multinational investment holding conglomerate, founded in November 1998 and is headquartered in Shenzhen, China. It is one of the largest internet integrated service providers and one of the internet companies with the most service users in China. Tencent specializes in various internet-related services and products, entertainment, and technology both in China and globally. Tencent also invests in AI by jointly establishing an innovation lab with MediaTek. Its many services include social network, music, e-commerce, smartphones, mobile games, and it started to buy large video game companies, making it also become the largest and most valuable gaming and social media company in the world. Tencent went public on the Stock Exchange of Hong Kong in 2004.

Tencent became Asia's largest company and one

of the world's top five firms. It growing so fast, with a market cap of more than \$720 billion, Tencent briefly overtook one of the world's largest listed company.


The research objective is the operating condition of Tencent's product industry and give Tencent some suggestions on future development.


## 2 PEST ANALYSIS


This paper selects the PEST analysis model to summarize the macro and external environment in which Tencent is surrounded.


### 2.1 Political Factors

The Chinese government has issued series of policies to improve livelihood of people and promote environmental protection through the Internet in recent years. In November 2020, the State Council issued a notice on the 'Plan for Solving the Difficulties of the Elderly in Using IT', proposing to

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effectively solve the difficulties encountered by the elderly in terms of using intelligent technology, so that the majority of the elderly can better adapt to and integrate into this smart society. Internet information enterprises took the lead in carrying out age-appropriate transformation to help ‘silver hair touch the net’. On July 15, 2021, 13 political departments jointly issued ‘Opinions on Supporting the Development of New Models and Activating the Consumer Market to Drive Employment Expansion’, innovating the supply mode of production factors, activating new consumer markets and developing new employment forms.

However, for domestic Internet giants, there is a trend of abolishing preferential tax rates in national policies. In Chinese Taxation, enterprises that have obtained the qualification of national key software enterprises enjoy a preferential corporate income tax rate of 10%. When large Internet companies have less operating pressure that is smaller than that of enterprises in other industries, the corporate income tax rate of them has returned from tax incentives to normal tax rate. According to Morgan Stanley's stock analyst Gary Yu, if Tencent's corporate income tax rate rises from 10% to 15%, Tencent's share price will be negatively impacted by 6%.

## 2.2 Economic Factors

In China, the GDP of the tertiary industry has grown rapidly in recent years. Data collected from Statistics of China-Announcement by the National Bureau of Statistics on the final verification of GDP in 2020 is shown in Figure 1, tertiary industry accounted for 54% of GDP, the total current price was 551974 billion RMB, and the constant price growth rate was 1.9% in 2020. The increasing trend in tertiary industry was partly contributed to the spread of Internet and digitalization. Chinese economy has shifted from a stage of high-speed growth to a stage of high-quality development. According to the analysis, for every 10% increase in digitalization, GDP per capita increases by 0.5% to 0.62%.

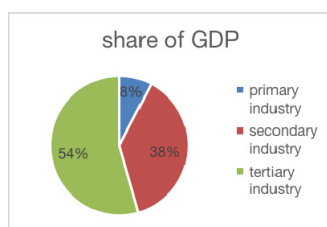


Figure 1: Proportion of GDP in three forms of industry in China in 2020.

The economic situation prompts Internet companies to differentiate their marketing of products, bringing greater opportunities and challenges to Tencent. The analysis covers the most typical and successful strategies, which distinguished Tencent Games from its competitors' product (Shen, 2021).

However, the advertising economy is sluggish. According to the three quarterly reports of various Internet companies, online giants such as Tencent and Baidu have been deeply affected by the big environment and their growth has been sluggish. In the current period, Tencent's Non-IFRS net profit of \$31,751 million decreased 2% year-over-year for the first time in 10 years (He, 2021).

## 2.3 Socialcultural Factors

Tencent occupies most of the domestic game market in China. Recently, the ‘Economic Information Daily’ sponsored by the head of the Xinhua News Agency published an article which directly pointed to the harm of online games to adolescents, such as more than half of children's myopia, addicted to games, delayed schooling, personality alienation, physical weakness, etc. Under series of control measures, Tencent Games finally limited the daily game time to 1.5 hours, shortening the game time again, which means that its revenue from games will be affected to some extent.

The development of the fan economy drives the development of Internet companies, especially those that focus on the film and television domain. In the era of pan-entertainment, Chinese consumers have ultimate experiences related to entertainment, and IP dramas are the core content of fan consumption. Since 2012, Tencent has proposed ‘pan-entertainment’, linking online and offline, and transformed IP such as games, animation and literature to create industrial chains.

## 2.4 Technological Factors

Big data technology has become the main application mean of Internet enterprise user analysis. In the modern society, data presents the characteristics of value and diversification. The user information database established through cloud computing is a key project of Internet companies. Based on big data and cloud technology, Tencent Video conducts data processing and comprehensive analysis of users' age, gender, region, Internet access scenarios, time, content preferences and so on, ultimately providing users with diversified services.

Tencent makes good use of the social software 'strong link' technology. WeChat, QQ and other social platforms have a "strong link" relationship, which is mainly based on the trust relationship. Users can watch their favorite content in Tencent Video, share it with one click to WeChat friends circle, QQ space and other platforms, achieving the effect of 'secondary dissemination' (Wei, 2019).

The Mini Program is a product developed by the WeChat of Tencent, which is on average more than 20% faster than H5. As the Mini Program technology develops, functions of Mini Programs have been more and more completed. The biggest advantage of the Mini Program is to implement the function of linking to third parties, and finally achieve seamless docking with users with high quality, high speed and great convenience.

### 3 3C ANALYSIS

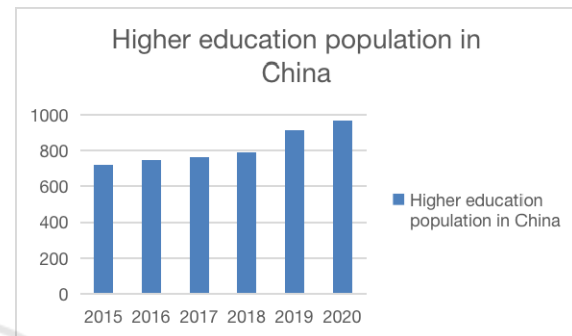
This paper selects the three c analysis business model to summarize the operational strategy of Tencent.

#### 3.1 The Customers

Tencent's clients are mostly on the Internet, regardless of their age or educational background, as long as they are netizens. Initially, Tencent focused on instant messaging and social networking platforms, as China's economy was developing at an unprecedented speed and customers were looking for a new way to communicate. Then QQ came along and became the most famous platform since 2000. The number of QQ's customers increased dramatically during this period, which was the base of Tencent's customers (Liu, 2015). Tencent caught up with the rise and popularity of smart phones, which rapidly boosted the number of users. Furthermore, at this time, national policy is very favorable to the development of Internet enterprises, the Internet economy is accelerating its penetration into the traditional economy, the development is gradually undergoing in-depth transformation, and the life of Internet users is being promoted towards a comprehensive network (Liu, 2015). After accumulating a huge number of users on QQ, Tencent launched WeChat in 2011. A new application that helps users to perform a variety of tasks that touch every part of their lives such as WeChat Pay and We Chat Health. WeChat's user base had grown to 1.225 billion by 2020.

With the growth of electronic technology and the application of electronic products, an increasing

number of people now have access to online games, and Tencent's refinement of QQ games has attracted users of all ages to the platform. Chess, cards, and mahjong are popular among not only young but even middle-aged and elderly people. Users between the ages of 18 and 35 are drawn to competitive mobile games like "King of Glory" and "PUBG." The majority of well-educated young people shown in Figure 2 are willing to try new things and have the financial ability to support their hobbies.



a. Reference: The Ministry of Education

Figure 2: Higher education population in China.

However, Tencent unconcerned about the prospective elderly clients. Tencent's customer base is currently dominated by teenagers and young people, as the majority of the middle-aged and elderly are unable to use many of the company's technology goods. Tencent should improve this element and create goods that are useful to middle-aged and senior people.

#### 3.2 The Competitors

NetEase, as one of the competitors is valued at us\$700 billion. Both Tencent and NetEase have significant gaming operation and research and development skills. NetEase's competitive advantage stems from its developed business model and extensive agency expertise. NetEase is very good at extending the life cycle of their games, and its classic works are "A Chinese Odyssey to the West" and "Dream Westward Journey" created since 2005. However, in the era of mobile games, Tencent occupies the market share earlier. With the help of social platforms and other businesses, such as QQ, WeChat and QQ browser, Tencent games are more easily known by the public. Moreover, the user stickiness of social platforms makes it easier to spread games with multiple participants. Tencent's position in the business is hard to overcome in a short term, and it possesses a significant number of

valuable resources. Tencent was one of the first companies in the game industry to create a large-scale layout, and thanks to the high stickiness of QQ, it was able to precisely divide the market and target the audience, putting its operational revenue in first position (Feng, 2019).

Tencent and NetEase's market share is expected to grow by ten percent to twenty percent. Considering Tencent's great competitiveness, trying to catch up to Tencent will be extremely tough for NetEase. However, since NetEase and Tencent have different relative advantages in different fields, NetEase can catch up with Tencent by developing online and mobile games. And since Tencent lacks the competence and experience to develop into new markets outside of China, it is not appropriate to implement an overseas internationalization strategy blindly (Li, 2014).

### 3.3 The Corporation

Tencent's roots are in the social media industry, but the game industry accounts for half of its revenue, and advertising finance is the company's future growth direction. Up to now, Tencent game development has established a solid competitive advantage in the business. First of all, Tencent has a large channel distribution capacity. Through its QQ, WeChat, and QQ browser apps, as well as its tight cooperation with Apple Inc., Tencent has become China's leading mobile game distribution provider. Tencent, on the other hand, is distinct from all other game companies. Tencent has introduced a huge number of initial consumers to its newly launched game products by building up exposure portals on social networks. Tencent's competitors have opted to collaborate with Tencent to jointly create and release classic terminal game IP in the era of terminal games.

Second, Tencent has a rich product lines which reduce the risk of relying too much on one single game. And stable revenue gain from its game business. Client games, mobile games, web games, and other fields are all covered by Tencent games. The game category is also quite diverse, with role playing games, competitive games, casual games, and chess and card games. In addition to its own research and development and agency games, acquisitions are also an important way for Tencent to expand its game territory. It acquired developer Riot Games in 2011 and made \$1.6 billion in 2015 with "League of Legends", making it the highest-grossing game in the world that year. And "clash Royale" has long been one of the top three smart phone games,

with Tencent owning 84.3% of Finnish developer Supercell for \$8.6 billion.

Third, the research and development capabilities has improved. "Honor of Kings", which was released in 2015, has dominated the global mobile gaming rankings for three years in a row. It can only keep its leadership by constantly expanding its own research and development capabilities.

## 4 PRODUCT SYSTEM

Tencent has a large number of products, covering almost all areas of the Internet. The main high-quality products are the profit sources of Tencent's profit model, and Tencent mainly relies on these products to improve quality and efficiency and create value for enterprises.

### 4.1 Communication and Social Networking

Starting from connecting people, Tencent provides a feature-rich, easy-to-use instant messaging and social networking platform that personalizes communication, sharing and exchange and enriches people's lives. Tencent's QQ, Qzone and WeChat are among the top five social networks in the world.

#### 4.1.1 WeChat

Since its launch in 2011, WeChat, the communication and social platform with the largest user base in China, not only supports sending voice, video, pictures and text, but also combines real-time communication with social information and lifestyle services. WeChat applets provide functions such as public platforms and message pushing to bring merchants and users closer together; WeChat Pay allows users to complete a fast, secure and efficient payment process. As of March 2020, WeChat has more than 1.2 billion monthly active accounts, covering more than 90% of smartphones in China.

#### 4.1.2 QQ

QQ is an Internet-based instant messaging software developed by Tencent, which supports online chatting, video calling, file sharing, network hard disk, QQ mailbox and other functions, and continues to introduce innovative features that meet the needs of young users. Among them, QQ Mailbox has over 800 million registered users and 500 to 600 million active users, making it the main free mailbox used in

China. As of March 2020, QQ had 768 million monthly active users (including PC and mobile).

#### 4.1.3 Qzone

Qzone is a social platform that supports users to share and interact with friends and family, meeting their needs for display, communication and entertainment, and sharing their lives anytime, anywhere, with the third highest number of monthly active users in the world.

### 4.2 Entertainment

At present, Tencent's entertainment products mainly include games, videos, live streaming, news, music, literature and other contents.

#### 4.2.1 Tencent Game

Founded in 2003, Tencent Game is a leading game developer and operator in the world. Tencent Game released its first game QQ Tang in 2004, and in 2015, TiMi Studio released the multiplayer online battle game Glory of Kings, which by 2017 was both the world's most popular game and the most downloaded app in the world. In 2011, Tencent Games started hosting online multiplayer games such as Call of Duty Online, consisting of previous Call of Duty titles with added content, as well as the game League of Legends, which it now fully owns ("Arena of Valor Revenue Clears \$140 Million Outside China", 2019). At the same time, Tencent Games also actively promotes the development of the eSports industry and creates a high-quality digital life experience for users.

#### 4.2.2 Tencent Video

At present, Tencent Video aggregates a large amount of content resources such as popular movies and TV shows, sports events and news and information, and has developed into China's largest online video media platform in terms of average daily active users through various forms such as PC terminal, mobile terminal and living room products.

#### 4.2.3 Wesee

Wesee is Tencent's short video creation and sharing platform, and is the main competitor of TikTok. Users can log in through their QQ and WeChat accounts and share the videos they shoot to WeChat friends, friends circle, Qzone and other platforms simultaneously.

#### 4.2.4 Tencent Music

Tencent Music Entertainment Group is a leader in digital music services in China, with China's widely popular music platforms: QQ Music, KuGou Music and Nationwide K Song, with a total monthly active user base of over 800 million. As of December 31, 2019, Tencent Music's music library exceeded 40 million tracks.

### 4.3 Financial Technology Services

Tencent Financial Technology is committed to connecting people and finance based on two platforms, WeChat Pay and QQ Wallet, and works with partners to provide global users with financial services such as mobile payment, wealth management, credit services, securities investment, etc.

#### 4.3.1 WeChat Pay

Based on the binding of bank cards, users can complete a secure and efficient payment process through their cell phones. In China, WeChat Pay has achieved full online and offline coverage, providing users with a full range of services such as retail, food and beverage, and travel. Overseas, WeChat Pay has covered more than 60 overseas markets and supports transactions in 17 currencies.

#### 4.3.2 QQ Wallet

It is a mobile payment product based on Tencent QQ, integrating different convenient payment methods such as bank cards, QR codes and NFC, etc. QQ Wallet's main customers are young people under 21 years old, and it provides mobile QQ users with various experiences such as life services, financial management, public welfare and travel by combining QQ products and merchants.

#### 4.3.3 Tencent Wealth Management

As the official financial platform of Tencent, since its launch in January 2014, Wealth Management has cooperated with banks, insurance, funds and other financial institutions to bring one-stop investment and financial management experience to hundreds of millions of users. At present, it has launched money funds, insurance-type wealth management, bond funds, hybrid funds and other financial products as well as a variety of functions such as salary fixed investment, index fixed investment, credit card repayment financing and mortgage financing. Meet



the diversified wealth management and asset allocation needs of users. By the end of 2019, the total customer assets of Wealth Management reached RMB 900 billion.

#### 4.4 Tool

Tencent provides users with a variety of tools to help them quickly solve specific needs such as network security management, fast browsing, and location travel.

##### 4.4.1 QQ Browser

With X5 kernel, it supports different end-users to access the Internet quickly. It is fast, traffic-saving and industry-leading in terms of stability. QQ Browser also provides a number of services such as information, short videos, novels and cartoons. It intelligently understands users' preferences and provides them with better search services and content browsing experience.

##### 4.4.2 Tencent Maps

It provides users with digital maps, intelligent route planning, navigation and other travel-related services. At present, Tencent Maps provides address search and bus route search services in various cities across China and has accessed more than 2,000 sets of indoor maps, providing accurate navigation in major airports, railway stations and shopping malls, making users' travel life more efficient.

## 5 PRODUCT ANALYSIS

### 5.1 One-Stop Online Lifestyle Services

Tencent takes "providing users with one-stop online lifestyle services" as its strategic goal, grasps consumers' preferences and needs, and integrates and develops similar products, making them show a diversified development trend. In order to effectively meet users' demand for information and knowledge, Tencent has launched products such as QQ Browser and QQ Mail; in order to enable users to share resources with each other, it has launched QQ Space and the Circle of Friends; in order to realize users' demands for entertainment, Tencent has launched QQ Show/pet/Game/music/Radio/TV and other series of products. At the same time, it has invariably increased customers' loyalty to Tencent's products and made them recognize the brand more.

### 5.2 High Product Viscosity

Social platforms such as WeChat and QQ have brought great success to Tencent. Through the cultivation of users for nearly a decade, customers' reliance on Tencent's products has been formed, and Tencent has thus occupied the dominant position in China's instant messaging market. At the same time, by meeting users' new needs and guiding them to new consumption behaviors, the combination of free products and value-added products has made it difficult for customers to switch to other instant messengers, thus retaining users and ultimately achieving a win-win situation among multiple applications.

Relying on its huge user base and taking advantage of people's strong demand for communication in the Internet environment, Tencent has developed its profit point from a single QQ to multiple applications; its profit source has also changed from smaller mobile QQ users in the past to paid users of other applications; some users have changed from students to workers, making customers' ability and willingness to pay also greatly enhanced, creating Tencent's current monopoly position.

### 5.3 Adapt to Development and Rapid Innovation

Tencent's financial results in 2020 showed that the growth of Tencent's Internet community value-added services revenue slowed, but in mobile and telecom value-added services, revenue achieved solid growth, and the popularity of social software and mobile games continued to grow. Tencent adapted to this change in a timely manner by vigorously developing its mobile Internet business, increasing its wireless Internet business products and enhancing the functionality and social aspects of its products.

In addition, Tencent advocates digging into customer needs and making timely adjustments and modifications based on users' feedback on the platform, constantly iterating and updating products to improve user experience. During the development of its own products, Tencent is the first to investigate and study new products and technologies in the industry. Based on the ideas and behaviors of innovators, Tencent absorbs the innovative technologies used by other brands by introducing and purchasing them, and makes appropriate adjustments and improvements in combination with its own basic situation and profit model development needs, so as to formulate more scientific competitive

solutions to enter the market and effectively improve the core competitiveness of the company.

## 6 ANALYSIS OF TENCENT'S PROFIT MODEL

The attention to the profit model stems from the rapid development of the Internet. Tencent, as a famous Internet enterprise giant in China, and its achievements are full of praise for all the Internet companies. Tencent's initial free social networking software totaled 482.064 billion RMB in 2020. Tencent made such huge profits, inseparable from the following two profit models: Tencent's QQ and WeChat profit model and Tencent's game industry profit model.

### 6.1 Tencent QQ and WeChat Profit Model Classification and Analysis

In the past 23 years, Tencent has formed effective profit models in QQ and WeChat social media, has experienced the test of practice, and has been widely adopted. Therefore, according to different business structures, the relatively mature profit model of QQ and WeChat can be divided into the following categories.

Table 1: The percentage of main sources of profit.

Business	Operating income	Percentage
Value-added services	\$2642.12billion	54.81%
Enterprise services	\$1280.86 billion	26.57%
Online advertising	\$82.271 billion	17.07%

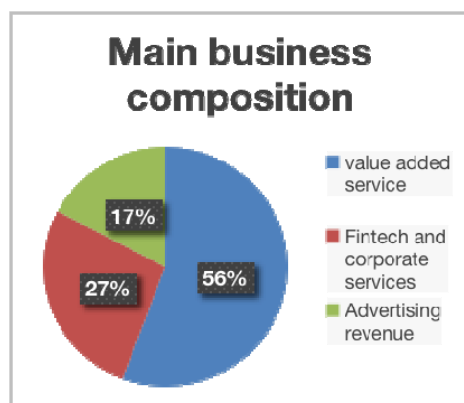


Figure 1. Main business composition of Tencent.

### 6.1.1 Member Profit Model (Value-added Service)

The membership profit model is mainly to establish an organizational form of a member club to make profits by providing products and services. According to data from table 1 and figure 3, Tencent's value-added services accounted for 54.81% in 2020, as one of the main sources of revenue. In addition, Tencent QQ mainly focuses on QQ members, QQ exhibitions and other representative Internet value-added businesses. At first, Tencent first offered free instant chat tools, so it mastered a large number of users. But if this free strategy, it will not bring any effective benefits to Tencent. So far, Tencent has been focused on how to convert market share into profits. Tencent has also added value-added services for charging services, and continues to provide customers with free instant chat tools. For example, instant chat software with a free strategy occupies an important market share, coupled with QQ membership and QQ display clothing to make a profit. The value of the content pushed by the WeChat public platform is to push the original content with its own platform characteristics, so as to attract potential users with the content, retain fans, enhance the interaction with fans and cultivate fans' dependence on the platform. At present, WeChat has entered every corner of people's life. WeChat public platform was officially launched on August 23, 2012, which is a new functional module added by Tencent on the basis of WeChat. Tencent has a clear positioning for the public platform (Han 2022).

### 6.1.2 Mobile Value-added Profit Model (Enterprise Mobile Value-added Services)

Mobile value-added profit is mainly through cooperation with operators to provide QQ voice calls, SMS and so on to obtain profits. In 2020, Tencent's Fichte and enterprise services accounted for 26.57% of the company, and its operating revenue reached 128.086 billion yuan, which specifically refers to the combination of smart-phone and computer social software to form mobile social software and increase the value-added income of SP business. For example, with the popularity of smart phones, QQ also began to bind to mobile phones and become a mobile QQ, transforming from a PC terminal to a mobile terminal, and also supporting PC to mobile phones. Thus, the interaction between the two increased, and thus the amount of information transmitted increased

substantially. Earnings by sharing revenue with telecommute operators.

### 6.1.3 Advertising Profit Model

There is no doubt that advertising is one of the earliest profit models. Online advertising accounted for 17.07% in 2020 in Tencent, so the investment of online advertising should be strengthened in the future. The establishment of official chat account mainly depends on the number of fans, the quality of the article content of the account, and the degree of activity of the public account. First, content of articles in public accounts supports the original design, which improves the popularity of public accounts and improves stream, and the greater the click power of revenue will be. Public accounts have the original foundation, which also have the certain popularity, no longer need to rely on traffic owners, commercial advertising can become the main source of personal official account of WeChat profits. Advertising profit model also includes advertising platform fees, for instance, for writers who write advertising articles in WeChat, revenue is expected to reach hundreds of thousands or tens of thousands of dollars if fans and views continue to rise. It is also mainly through stream.

## 6.2 Tencent Game Industry Profit Model Analysis

Tencent has a lot of profit returns in addition to the news agency delivery app, the game industry has brought huge profits. In the mobile game market in 2020, Tencent generated a huge marketing revenue with 20.967.6 billion RMB, which was increased by 4.84%, compared to 2019. Therefore, Tencent, as a leader in the game industry, its profit model makes huge contribution.

### 6.2.1 The Components of Tencent Game Profit Model

Firstly, relying on social media article content, such as personal WeChat official account, WeChat and other push content, Tencent obtains support of stream for its profitability from games.

Secondly, from the perspective of the profit object. The object of profit is the object of the income of the enterprise, that is, the customer of the enterprise. The size and purchasing power of the profit target group can directly determine the business profit of the enterprise. Tencent Games' profit targets are gamers. The more gamers, the better

the profitability of Tencent Games. Tencent quickly grabbed market share in mobile games while maintaining its messaging business. The constituent elements of profit patterns were based on virtual currency and network advertising profit point as the core, with individual consumers as the main target of profit, to pay for value-added services and advertising revenue as the main source of profits, in cooperation with other manufacturers to expand overseas, the development game live platform for profit leverage, vertical integration to strengthen innovation to enhance technical barriers and value chain for profit barrier.

### 6.2.2 Main Profit Model of Tencent Game

Table 2: Profit data of Tencent.

	2021, June 30th	2020, June 30th
	<i>(One million RMB)</i>	
Income	138.259	114.883
Gross profit	62,745	53.210
Operating profit	52,487	39,311
Profit during the period	43.022	32.454
The equity holders of the Company shall make a profit	42,587	33,107
Non-international financial reports into the Company		
Equity holders shall account for a profit	34.039	30.153
Earnings per share	<i>(RMB per share)</i>	
Basic EPS	4.472	3.491
Diluted EPS	4.387	3.437
Non-FIRS earnings per share	<i>(RMB per share)</i>	
Basic EPS	3.574	3.180
Diluted EPS	3.504	3.130

According to data from table 2, Tencent Game's value-added business revenue in 2021 was significantly higher than that in 2020, mainly driven by revenue growth from games such as King of Glory and PUBG Mobile. There are two main profit models:

Online advertising business. Internet companies such as Google, Facebook and Alibaba have already invested heavily in advertising and generated huge revenue. Tencent's revenue in the first quarter of



2020 was 114.883 billion RMB, increased 26% compared to the previous year, with advertising revenue of 17.713 billion RMB, accounting for 32%.

Value-added service business. Tencent game is a recharge and charging mode, with "business diversified profit" as the center, "King of Glory" is a typical example, all kinds of skins and heroes can be bought on mobile phones, and surroundings (dolls and hands) can be purchased through prepaid mobile phone virtual currency, Tencent users have exceeded hundreds of millions, so the economic benefits are very huge (Yang 2021).

## 7 ACCOUNTING ANALYSIS

According to the data of Tencent's 2020 financial statements, table 3, table 4 and table 5 are calculation results of Tencent's liquidity ratios, profitability ratios and solvency ratios.

Table 3: Liquidity ratios of Tencent in 2020.

Ratios	TENCENT	
	2019	2020
Current ratio	1.06	1.18
Acid-test(quick) ratio	1.05	1.18
Accounts receivable turnover	11.6times 31.5days	12.3times 29.7days
Inventory turnover	400times 0.9days	350.2times 1.0days

- Current ratio: It means Tencent had a better capacity to repay short-term loans that were due within the next year than 2019. The increase shown in both current assets and current liabilities caused the increase of the current ratio in 2020.
- Acid-test(quick) ratio: The calculation result shows an increase in acid-test ratio which indicates that Tencent had strong growth, quickly able to convert receivables into cash and comfortable in its financial obligation coverage. Due to the fact that Tencent had an increased figure on cash (40%) and accounts receivable (25.5%).
- Accounts receivable turnover: In 2020, Tencent had a better account receivable turnover, and it showed a short time between credit sales and cash receipts. The figure slightly decline due to the fact that Tencent had a better figure on accounts receivables. Tencent had a low accounts receivables turnover days due to the fact that the

company have a longer payment contract period.

- Inventory turnover: In 2020, the inventory turnover days of Tencent had a slightly increased, which indicates that the company had a better ability to make profits.

Table 4: Profitability ratios of Tencent in 2020.

Ratios	TENCENT	
	2019	2020
Profit margin	25.42%	33.22%
Asset turnover	0.45	0.42
Return on assets	11.43%	14.00%
Return on common stockholders' equity	20.73%	23.63%
Earnings per share	9.86	16.84
Price-earnings ratio	33.78	41.21
Payout ratio	10.54%	10.90%

- Profit margin: Revenues from Value-added Services, Online Advertising as well as Fin Tech and Business Services were all increased in 2020. The cost of revenue reasonably increased, proves that Tencent did well in maintaining revenue growth in the main business, at the same time, paid attention to the cost control.
- Asset turnover: Tencent used assets less efficient than 2019. The main reason why there was a downward trend is that the company increased its investment in assets by 2020, especially the investment in Non-current assets.
- Return on assets: The increase in return on assets shows that Tencent uses assets more efficient than 2019. Tencent did a good job in cost control, only showing a slight increase in Selling and marketing expenses and General and administrative expenses.
- Return on common stockholders' equity: It is a profit indicator that shareholders are concerned about. It shows that for every dollar a shareholder invests in Tencent, they can create about \$0.24 in value, in addition to dividends.
- Earnings per share: On the whole, Tencent's EPS is showing a growth state. Earnings per share of the Company's common shareholders rose to 16.84 from 9.86. Both show an upward trend in Tencent's annual report. Net income increased from RMB 93310 million in 2019 to RMB 159847 million, a significant increase, reflecting not only Tencent's good operating performance

and increased revenue from its main business, but also Tencent's good cost control. The number of common shares increased slightly. This is also a good phenomenon, during this period, Tencent's visibility has increased, and the enterprise has a great reputation.

- Price-earnings ratio: Compared with 2019, Tencent's the price-to-earnings ratio for 2020 has improved significantly, indicating that investors' confidence in Tencent, an internet company, has improved under the epidemic. Tencent's annual net profit growth is very large, and the return on investment in Tencent is relatively faster, so Tencent should get a trading premium at a higher valuation. Tencent's market share is large, and its main business has unique selling points, which are more extensive than the other companies, thus strengthening Tencent's pricing power. As far as managers are concerned, Tencent's managers are trusted by many people and may lead to a rush of investors. Finally, Tencent's profit quality is high. The earning cash ratio is a good measure of it. It has been calculated that Tencent's net cash from operating activities to net income ratio is greater than one, showing a volatile but relatively stable state, indicating that Tencent has more cash that can be allocated according to its own wishes, the corresponding repayment ability and the ability to pay cash increased, resulting in an increase in Tencent's P-E ratio.
- Payout ratio: Tencent's dividend payout ratio in the past two years was relatively stable between ten and eleven percent. Dividends distributed in 2020 were relatively higher. Tencent pays out a smaller percentage of its earnings to shareholders as dividends, giving it a more sustainable than others. A smaller payout ratio point to Tencent's reinvestment strategy. It reinvests the bulk of its earnings for new facilities and other operating needs, to expand operations and promote the development of the company.

Table 5: Solvency ratios of Tencent in 2020.

Ratios	TENCENT	
	2019	2020
Debt to assets ratio	48.8%	41.7%
Time Interest Earned	24 times	6.9 times

- Debt to assets ratio: was 48.8% in 2019 and 41.7% in 2020, this ratio was better than the previous year, which means that the improvement of solvency.
- Time Interest Earned: The higher the interest expense multiple, the higher the ability to pay interest. As Tencent's long-term solvency decreased, its security and stability declined either. Therefore, Tencent should take measures such as reducing debt to increase the interest coverage ratio, and not keep it low until it is lower than 1 at last.

## 8 CONCLUSIONS

Through an in-depth analysis of Tencent's business status, this paper puts forward the following suggestions for Tencent: improve its ability to cope with adverse changes in policies to better cope with risks in the future; strengthen the attention to middle-aged and elderly users; and put forward suggestions for improving the independent research and development capabilities and web games in games in view of the serious homogenization of Tencent's game products and the lack of core technologies and high-end talents. It also summarizes the common problems existing in Internet enterprises, and puts forward suggestions for other Internet companies to seize the opportunities of the times, conform to the economic development situation, accurately locate the market and target users, and accelerate the pace of innovation, so as to provide reference for the future development of Internet enterprises.

### 8.1 Our Advice

Tencent company is a leading enterprise in the game, should strengthen the overall layout of the game. Representative end games similar to NetEase games are Fantasy Westward Journey Computer Version, World 3, Against the Cold Water, etc. Representative mobile games of NetEase games are Fantasy Westward Journey mobile game, A Chinese Ghost Mobile game, Onmyoji and so on. On the whole, NetEase games have more kinds of game products and richer layout. This is Tencent to strengthen the area.

Research significance: The significance of this study is not only to analyze Tencent's financial status and business status from 2019 to 2020 and the comparison with netease, but also to analyze the future development direction of Tencent that should focus on the game industry.

Because of the booming development of the game industry, Tencent not only brought huge economic benefits, and even surpassed its competitor NetEase for a time.

## 8.2 Future Studies

Tencent's future development direction should focus on the development of the game industry and innovative development of new games. Not only in the development and construction of online social apps.

## 8.3 Limitations

### 8.3.1 The Lack of Innovation and Serious Homogenization of Developers

Compared with foreign countries, domestic game companies lack core technology to establish game differentiation and independent innovation ability in game development, so they are more inclined to increase capital investment to buy game copyright. Such as mobile game developed by foreign companies "after tomorrow", netease directly to buy its copyright, obtains the good market response, lead to directly purchase foreign copyright as a shortcut to research and development of the domestic game, and even some companies didn't get the original authorization, direct copying foreign game, so appeared in recent years several disputes about mobile game works.

### 8.3.2 Lack of Core Technology and High-end Talents

In addition to the lack of innovation, China's mobile game production quality is low, the lack of quality of the mobile game industry is also limited to further development. For example, some domestic mobile game engines, such as CoCOS2D-X and WiEngine, are developed by foreign companies, and these patent royalties also increase the cost of domestic companies. In addition, some game rendering and other later technologies are not mature enough compared with foreign countries. In terms of technology, this paper still has certain dependence on foreign companies, which makes Chinese games unable to compete with foreign countries in terms of picture quality and fluency.

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