[GS Sales Note]: Tencent Music (TME): Earnings review: 2Q26 in-line, continued transition towards content ecosystem despite near term subs pressure; Lowered multiple & TP

12 August 2026 | 7:16 AM China Standard Time

Philip Sun
Goldman Sachs (Asia) L.L.C.
FICC & Equities

Tencent Music was down 12% last night. The parent company Tencent will report result after mkt today and the stock was down 2.2% yesterday.

Our analyst thinks the TME's earnings were inline, but investors focus appears to remain on its shlow subscpriton revenue and gross margin pressure
Personally, I think the AI-generated music (one can argue they are patent violations) in the industry continues to hurt the paying subscriptions for likes such as Tencent Music and Netease Cloud Music.

TME is working closely with regulators, music labels, copyright owners and artists to address AI-generated music copyright infringement through legal action. That said, the regulatory and legal process will take time, suggesting limited visibility on a near-term inflection in subscription growth.

However, our analyst believes TME's efforts to expand the platform with diversified music/audio content, while establishing an IP ecosystem, should continue to support a differentiated positioning vs. peers over the longer term.

We lower our 2026E target P/E multiple for its China music business to 11X (from 13X prior, to reflect slowing subscription growth) and with our latest SOTP values for investments, our 12m TPs for TME move to **US$11.7/HK$46** (vs. US$13.4/HK$52 prior).

Pls let me know if you want a call with Lincoln Kong on TME, or with Ronald Keung on Tencent ahead of earnings today. Thanks.

From: Lincoln Kong, CFA <lincoln.kong@alerts.publishing.gs.com>
Sent: Wednesday, August 12, 2026 1:38 AM
To: Sun, Philip [GBM Public] <Philip.Sun@hk.email.gs.com>
Subject: Tencent Music Entertainment Group (TME): Earnings review: 2Q26 in-line, continued transition towards content ecosystem despite near term subs pressure; Buy

Goldman Sachs Research

Print PDF | Reac

Tencent Music Entertainment Group (TME): Earnings review: 2Q26 in-line, continued transition towards content ecosystem despite near term subs pressure; Buy

12 August 2026 | 1:33AM HKT | Research | Equity

TME reported inline 2Q26 results, while investor focus appears to remain on its slowing subscription revenue (excluding Ximalaya contribution) and gross margin pressure. We expect slower 2H26 subs/ads growth given competition, partially offset by solid non-sub growth driven by live events sponsoring/merchandising. We believe TME's efforts to expand the platform with diversified music/audio content, while establishing an IP ecosystem, should continue to support a differentiated positioning vs. peers over the longer term. The more aggressive buyback scheme starting from 2Q26 now implies almost a **10% total shareholder yield** (including dividend), providing downside support to its share price given the shares are trading at 2026E 10X P/E, in our view.

Positives: 1) Deepening collaboration with Tencent ecosystem, especially Weixin Video Account, could help enrich IP content and drive incremental traffic acquisition. 2) IP-related businesses continue to demonstrate strong momentum, supported by robust growth in live events and artist merchandising. 3) Management remains committed to accelerating buybacks and enhancing shareholder returns.

Negatives: 1) Music subscription growth remains under pressure amid intensifying competition. 2) Advertising business is facing headwinds from both challenging macro and traffic competition. 3) Net margin is expected to decline yoy due to gross margin pressure and higher operating expenses associated with Ximalaya integration.

Details within.

Read Full Report