

# China's Tencent targets growth in online ads

Lee Chyen Yee and Twinnie Siu, Reuters

Tencent Holdings Ltd, China's biggest internet company by revenue, plans to step up its expansion in social networking, search and e-commerce to attract more online advertisers as it looks to diversify from its competitive core gaming market.

The group, which has spent the last year spreading into areas like travel and instant messaging, beat forecasts on Wednesday with a 43 percent jump in fourth-quarter revenues.

However, net profit rose in line with expectations, as margins came under pressure from a combination of investment and stiff competition in online gaming from rivals like Shanda Games Ltd and Netease.com Inc.

Tencent said its overall pace of investment might slow because of a weaker economic climate, but it would continue to focus on beefing up in markets that could attract online advertisers, while striving to maintain market share in gaming.

"We will continue to invest selectively, but forcefully, in emerging growth opportunities, notably e-commerce and search," the company said in a statement.

Tencent President Martin Lau said the firm would also look at more deals overseas.

"We made some acquisitions overseas last year to better understand the global gaming trend, which would be applicable to China. It also paves the way for us exploring markets abroad," he told a news conference.

"We'll continue to be active in M&A this year," he said, while declining to provide further details.

Kevin Tam, senior analyst at Core Pacific-Yamaichi Securities in Hong Kong, said the diversification made sense.

"Tencent will not rely so much on its web game revenue this year, and is enhancing its development in its microblogs, e-commerce and other related business, in order to lower the contribution from web games business," he said.

However, some analysts fear the mix of investment and tougher competition in gaming will continue to weigh on margins.

"Higher operating costs associated with promotion of online games, online videos, microblogs and other social networking service (SNS) applications could continue to erode margins," said Johnie Hu, an analyst in BOC International, in a report ahead of the results.

PROFIT RISES

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Tencent posted a 15.3 percent rise in fourth-quarter net profit to 2.54 billion yuan (\$401.5 million), in line with analysts' forecast of 2.58 billion yuan. Net margins were 32.2 percent in the quarter from 32.6 percent in the previous one.

The firm said its instant-messaging platform for smartphones, Weixin, achieved significant user growth. Analysts are hoping that Weixin will help Tencent capture highly lucrative white-collar users that have eluded a company whose customers are mostly students.

Total revenues rose 43.4 percent to 7.92 billion yuan in the fourth quarter, beating forecasts of 7.75 billion yuan.

That included a 46 percent increase from internet value-added services, which encompasses online games and social networking, to 6.4 billion yuan.

Tencent said the user base and activity on its microblogging platform had increased sharply.

Sina Corp said last month it was aiming to monetize its microblogging, or Weibo, platform this year by selling ads and employing other fee-based services.

However, microblogging operators like Tencent and Sina, may face problems when new regulations requiring users to register with their real identities come into force this week.

Shares in Tencent, which is more than 30 percent owned by Naspers Ltd, South Africa's biggest media group, ended 0.1 percent higher on Wednesday before its results announcement, versus a 0.2 percent fall on the Hang Seng Index.

(\$1 = 6.3270 Chinese yuan)

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