

Tencent's Corporate Information and Investment Prospects

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Abstract:

Tencent is a world-leading Internet technology company headquartered in China and founded in 1998. The company has an in-depth presence and a significant presence in a number of areas, including social media, online gaming, financial technology, artificial intelligence, cloud computing and digital content. Tencent's WeChat and QQ are globally recognized instant messaging tools that connect hundreds of millions of users and greatly facilitate interpersonal communication and information transfer. Tencent's position in its field is crucial, not only providing users with quality products and services, but also promoting the progress and development of the entire industry.

Keywords: Digital economy, Investment, Company Development, Finance, Profit

1. Organizational Structure of the Company

Tencent's company is organized in a matrix-type organizational structure, matrix organizational structure is a complex form of organizational structure that combines the characteristics of functional organizational structure and product organizational structure. In this structure, employees typically report to more than one supervisor, who may represent different functional areas or product projects (Joblin&Eckl, 2023).

Tencent's major equity holders include its majority shareholder, MIH Internet Holdings B.V. (MIH), which holds approximately 24.96% of the shares, and its founder and CEO, Ma Huateng, who holds approximately 8.49% of the shares. In addition, Tencent has numerous other shareholders, including well-known domestic and international investment institutions and individuals.

Tencent's equity holders possess many differences from debt holders. First, as shareholders of the com-

pany, equity holders enjoy the right to receive economic benefits from the company and participate in the company's operation and management, including the right to dividends and voting rights. (Schulze&Zellweger, 2021) Debt holders, on the other hand, are creditors of the company, who obtain claims by borrowing money to the company and have the right to demand the company to repay the capital and interest according to the agreement, but do not participate in the company's management. Secondly, the earnings of equity holders are closely related to the company's operating conditions; they may receive higher dividends when the company makes a profit, but they may also bear larger losses when the company loses money. Debt holders, on the other hand, have a relatively stable income. As long as the company is able to repay the capital and interest on time, their income is guaranteed, but they do not bear any direct risk to the company's operating conditions. Finally, equity holders and debenture holders enjoy different status

and rights in the law and are protected by different laws. Equity holders, as shareholders of the company, enjoy the rights of shareholders as stipulated in the company law, while debenture holders mainly rely on legal documents such as the loan contract signed with the company to safeguard their rights and interests. (Sadok&Omrane,2017)

2. Corporate Governance Responsibilities and Agency Conflicts

Tencent's Board of Directors and senior management are core components of the Company's governance structure, and they share the important responsibility of driving the Company's strategic development, ensuring operational compliance and safeguarding the interests of shareholders. Tencent's Board of Directors consists of a group of senior executives with extensive experience and expertise, and is responsible for the Company's major decisions and strategic planning. The Board of Directors normally comprises the Chairman of the Board, executive directors and non-executive directors. The Chairman is responsible for chairing meetings of the Board and making decisions on major matters. The main duties of the Board of Directors include deliberating and approving corporate strategies, supervising corporate operations and protecting shareholders' interests.

Senior management is the core force behind Tencent's day-to-day operations and management. They are directly responsible to the Board for implementing the Board's decisions and driving the Company's business development. Senior management, on the other hand, is responsible for formulating and executing corporate plans, managing corporate operations, and defending shareholders.

Whether it is the board of directors or senior management, their primary responsibility to shareholders is to ensure that the company's decisions and actions maximize the protection of shareholders' interests. They shall disclose the company's operations and financial condition to shareholders in a timely, accurate and comprehensive manner to ensure that shareholders are fully informed of the company's operations and potential risks. They should comply with laws, regulations and ethical codes to ensure that the company's operating behavior is legal and compliant and to avoid unnecessary legal risks and losses to the company. They are also required to strive to achieve the Company's business objectives and create greater value for shareholders by optimizing resource allocation and improving operational efficiency.

Between Tencent's shareholders and managers, while generally maintaining a good cooperative relationship, there may also be potential or historical conflicts at specific times or situations. These conflicts may arise from a number of aspects, including, but not limited to, the company's strategic direction, profit distribution, and management

decisions.

First, in terms of strategic direction, shareholders may be more concerned with the company's long-term returns and market competitiveness, while managers may be more focused on short-term performance and competition for market share. Such differences may lead to disagreements in investment decisions, business expansion, and so on. However, Tencent, as a mature Internet company, has a relatively well-developed decision-making mechanism. Through governance structures such as the board of directors and the general meeting of shareholders, shareholders are able to fully express their opinions and participate in the formulation of major decisions, thus mitigating such conflicts to a certain extent.

Second, in terms of profit distribution, shareholders, as investors, expect higher dividends and capital appreciation; while managers may prefer to use profits for reinvestment or expanding market share in order to promote the company's long-term development. Such conflicts are particularly common in high-growth companies like Tencent. However, Tencent has balanced the interests of both parties to a certain extent by establishing a sound incentive mechanism and governance structure, such as the equity incentive program, which binds the interests of managers to those of shareholders. (Yang,2021)

3. Portfolio Theory and Capital Asset Pricing Models

If investors are considering adding Tencent's stock to their portfolio, the principles of portfolio theory will guide them in making the following decisions:

Diversification: Portfolio Theory emphasizes diversification to reduce risk. Investors should evaluate their existing portfolios and consider the correlation between Tencent stock and their existing assets. If Tencent stock has a low correlation with other assets in the portfolio, then including it in the portfolio will help to further diversify risk.

Risk-return trade-off: Investors should assess the potential risks and returns of Tencent stock. Based on the company's fundamental analysis (e.g., financial condition, market competitiveness, growth potential, etc.) and technical analysis (e.g., share price movement, market trend, etc.), investors can estimate the expected return and risk level of the stock. Investors then need to compare the expected performance of the Tencent stock with the expected performance of other assets in the portfolio to ensure that the overall portfolio achieves an optimal balance between risk and return.

Dynamic adjustment in investment refers to the process in which investors make timely adjustments to their investment portfolio based on changes in market environment, portfolio performance, risk preferences, or other relevant factors. This adjustment can be a change in asset allocation, an update in investment strategy, or a replacement

of investment products. The core of dynamic adjustment lies in maintaining the adaptability and efficiency of the investment portfolio to cope with constantly changing market conditions.(Bigelow&Nickerson,2019)

The principles of portfolio theory require investors to fully consider factors such as risk diversification, risk-return trade-offs, long-term investment perspectives, and dynamic adjustments when including Tencent stocks in their portfolios. By being guided by these principles, investors can develop more rational and scientific investment decisions.

Using the Capital Asset Pricing Model (CAPM) to determine the expected return on Tencent's stock, investors need to consider several key factors: the risk-free rate, the market rate of return (or market premium), and Tencent's stock beta (β). These factors work together in the CAPM formula to estimate the expected return of a particular stock.(Qin,2020)

Risk-free rate: This is the rate of return that an investor can earn without risk, and is usually represented by using the yield on long-term government bonds. The risk-free rate is the foundation in the CAPM formula, reflecting the time value of money and the minimum required rate of return for an investor on a risk-free investment. The higher the risk-free rate, the higher the theoretically expected return on all assets, as investors demand higher compensation for taking on additional risk.(Fama,2004)

$$ExpectedReturn = Risk - FreeRate + (MarketReturn - Risk - FreeRate) * \beta \tag{1}$$

In this way, investors can estimate the expected return of Tencent's stock based on current market conditions, the level of the Risk-Free Rate, and Tencent's risk characteristics.

4. Use Net Present Value to Value a Business

In the absence of an exhaustive valuation, investors will similarly focus on two key cash flow factors when evaluating Tencent's stock: future dividends and potential growth. Tencent's stock performance, as a leading Internet company in China and globally, is often deeply influenced by many factors[5].

For future dividends, Tencent, as a publicly traded company, has a clear history of dividend payments. Investors will review dividend payments over the past few years, including the dividend rate, frequency of payments and whether they have increased steadily, to understand the company's policy on rewarding shareholders. Investors will assess Tencent's profitability and cash flow position to determine whether it has sufficient financial strength to support future dividend payments. This includes metrics such as the company's revenue growth rate, net profit margin, and free cash flow.

In terms of potential growth, Tencent's core businesses include social entertainment (e.g. WeChat, QQ), online

Market Rate of Return: The market rate of return is the average return of the market as a whole (e.g. stock market index). It represents the average return that an investor can earn by investing in a market portfolio (i.e., a broadly diversified portfolio). The difference between the market rate of return and the risk-free rate is known as the market premium, which reflects the additional return that investors require to take on market risk. A higher market return indicates that the market as a whole is performing better, and investors may expect higher returns from individual stocks such as Tencent.

Beta (β) of a stock: Beta is a measure of the volatility of an individual stock relative to the market as a whole. If ByteDance's β is greater than 1, it means that its stock price fluctuation is greater than the market average, i.e., the stock is more sensitive to changes in the market; if β is less than 1, the fluctuation is less than the market average; and when β is equal to 1, it means that the stock's fluctuation is synchronized with the market. In CAPM, stocks with high β -values usually require higher expected returns to compensate for their higher risks.

To summarize, when investors use the CAPM to determine the expected return of Tencent's stock, they use the risk-free rate as a starting point, plus a risk premium that is determined by a combination of the market premium and ByteHopper's beta. Specifically:

games, and advertising services. Investors will focus on indicators such as market share, user growth, revenue growth, and profitability of these businesses to assess their future growth potential. Tencent has been continuously exploring new business areas, such as financial technology, cloud computing and artificial intelligence. These new businesses are expected to be the company's future growth areas. Investors will assess the market prospects and competitive landscape of these new businesses as well as Tencent's technological strength and resource commitment.

When evaluating Tencent's stock, investors will consider cash flow factors in two major areas: future dividends and potential growth. By reviewing historical records, focusing on future policies, evaluating profitability and cash flow, analyzing various aspects such as core business growth, new business expansion, internationalization strategy, technological innovation, and the policy environment, investors can form a comprehensive assessment of Tencent's stock and make more informed investment decisions.

According to the latest information, Tencent Holdings has issued RMB bonds in the Hong Kong stock market. This indicates that Tencent raises funds through the bond mar-

ket to meet its capital needs for operations, expansion or debt repayment.

The Net Present Value (NPV) principle is a common method for assessing the value of long-term investment projects, including bond investments. It takes into account the time value of money by discounting a series of future cash flows (e.g., interest and principal recovery) to the current point in time at a certain discount rate, and then summing them to arrive at the NPV of the project. If the NPV is greater than 0, it means that the project or investment has positive economic benefits and is worthwhile; if the NPV is less than 0, it means that the project or investment has poor economic benefits and is not recommended.

For bonds issued by Tencent, the cash flow of the bonds should be determined first. Among other things, it is necessary to determine the coupon rate of the bond and the frequency of interest payments, so as to calculate the amount of interest payments per year or per installment. The maturity period of the bond and the principal recovery at maturity should also be determined. This is followed by the selection of the discount rate, which should take into account factors such as the market risk-free rate, the credit risk of the bond, and liquidity risk. For a high credit rating company like Tencent, the discount rate for its bonds may be relatively low. Next, the discount rate should be used to discount the bond's future cash flows (including interest per period and principal at maturity) to the current point in time, and then summed to obtain NPV. It is calculated as follows:

$$NPV = \sum_{t=1}^n \left\{ \frac{C_t}{(1+r)^t} + \frac{F}{(1+r)^n} \right\} \quad (2)$$

where C_t is the interest payment in period t , F is the principal recovery at maturity, r is the discount rate, and n is the number of periods (or years) of the bond. Finally, to determine the investment value, if the calculated NPV is greater than 0, it means that the investment value of the bond is high and the investor can earn a return above the market average by purchasing the bond. If the NPV is less than 0, the investment value of the bond is low and the investor may need to consider other investment opportunities. It should be noted that the above steps are only a general description of the application of the NPV principle in bond valuation. In practice, it is also necessary to conduct specific analysis based on factors such as the specific terms of the bond, market conditions, and the investor's risk appetite. In addition, since bond market prices fluctuate due to a variety of factors, the actual investment value of bonds will also change over time. Therefore, when making bond investments, investors should pay close attention to market dynamics and make timely adjustments to their investment strategies accord-

ing to market conditions.

5. Conclusion

Tencent, as an Internet giant in China and even globally, has been attracting a lot of attention from the market in terms of its outlook. Tencent's business covers a wide range of areas, including social media, games, financial technology, advertising and cloud services, forming a diversified business layout. This layout has not only brought Tencent a stable source of income, but also provided a strong impetus for its sustained growth. Tencent has always emphasized technological innovation and investment in R&D, and has continuously promoted the upgrading of its products and services. Tencent has achieved remarkable results in cutting-edge technologies such as artificial intelligence, big data and cloud computing, which have been successfully applied in a number of business areas. Such technological innovation has not only enhanced Tencent's competitiveness, but also laid a solid foundation for its future development. I therefore believe that Tencent has a broad outlook and high investment value, but investment decisions need to take into account factors such as the market environment, valuation levels and personal risk appetite. If these factors are in line with investors' expectations and requirements, then investing in Tencent is an option worth considering.

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