Tencent Holdings Ltd

Tencent pursues quieter investment strategy amid China's Big Tech crackdown

Pony Ma seeks to avoid Beijing's push against perceived monopolists by targeting expansion overseas

Primrose Riordan in Hong Kong and **Ryan McMorrow** in Beijing 4 HOURS AGO

Almost five years ago Pony Ma, Tencent chief executive, boasted to other Chinese business leaders that his company was so vital it was becoming "more and more like a supplier of water or energy, like infrastructure".

Its control of ubiquitous superapp WeChat, a spigot controlling the flow of 1bn users, also made Tencent a valuable backer for many start-ups, helping the tech company amass a listed investment portfolio worth Rmb1.2tn ($190bn) as of September 30. It also has stakes worth tens of billions of dollars more in private companies, according to a person close to company executives.

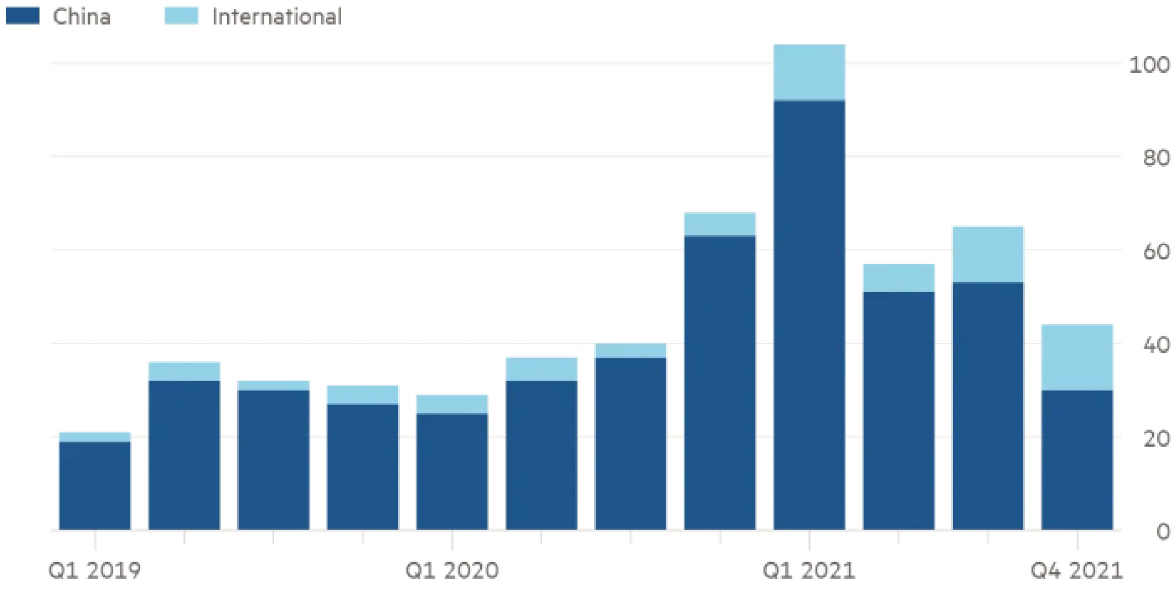
But the Chinese Communist party's campaign to rein in rival giants such as Alibaba and Meituan has prompted a dramatic rethink of Tencent's strategy of extending tentacles throughout the country's tech scene, according to company insiders, top industry executives and an analysis of investment data.

With Beijing reassessing private companies' influence over the economy and society more broadly, Ma appears to be pursuing a quieter approach to investing at home, with a focus on overseas expansion.

"We aren't any type of foundational service," Ma said at Tencent's recent end of year party in December, telling employees they were working at "just an ordinary company", which was "a good assistant" but "easily replaced".

Tencent's growing international profile

China investment pace slowed down last year (number of investments)



Data includes Tencent participation in listed companies' secondary offerings
Source: ITjuzi

Over the past year, Chinese antitrust authorities have held discussions with Ma, fined Tencent over almost three dozen of its past investments, blocked a merger and demanded the company open up its ecosystem to competitors.

Along with new rules subjecting Tencent's investments to greater regulatory scrutiny, the company also recently divested $16bn from Chinese ecommerce giant JD.com. In addition, it indicated it could continue to sell down stakes as its portfolio companies mature.

"Going forward, we expect [Tencent] to invest less in platform companies to avoid the impression of forming [alliances] through investments, which is seen as problematic under China's anti-monopoly focus," said Bo Pei, of US Tiger Securities.

Data show Tencent's investments in 2021 rose to a record 270 from 174 the prior year, but there are signs of its outlays beginning to slow. The company's China year, but there are signs of its outlays beginning to slow. The company’s China deals in the fourth quarter totalled just one-third of the number done in the first quarter, according to data from research group ITjuzi.

“As the portfolio gets bigger and bigger, it’s natural the returns would deteriorate,” a person briefed on the company’s investment strategy said. “So rather than to be empire builders and have a bigger and bigger portfolio with worse and worse returns, [Tencent] would rather just give some of the value back to shareholders.”

Part of the slowdown may be attributed to Tencent’s heightened desire to stay out of the limelight. Several venture capitalists told the Financial Times that Tencent had recently asked to leave its name off the press releases that start-ups issue to tout new funding rounds, pointing to the recent fundraisings for product design tool Lanhu and enterprise software provider XSKY.

Charlie Chai, an analyst with 86Research, said despite the JD.com divestment, the company remained in the crosshairs of authorities. He pointed to Tencent’s stakes in food delivery app Meituan, ecommerce giant Pinduoduo and online brokerage Futu as groups considered “reasonably similar to JD”, adding: “In the eyes of the regulator, they share traffic and they try to dominate by sharing users. It’s impossible for a new entrant to break in.”

There is growing sensitivity to Beijing’s demands after regulators recently scuttled Tencent’s plan to merge two video game streaming sites and fined the company and its affiliates Rmb16m for failing to report almost three dozen past investments, or the maximum Rmb500,000 penalty for each case. Late last year, Tencent received four separate fines for deals where it acquired only a minimal 10 per cent stake in the start-ups.

The fines come after Chinese authorities in November 2020 closed a loophole that allowed internet giants to go on a years-long deal spending spree without needing sign-off from the anti-monopoly regulator. Tencent must now go through China’s burdensome merger approval process when putting money into larger start-ups if it gains a modicum of control in the process.

The new rules mean Tencent has had to dial back the level of influence it can ask for when investing in start-ups to avoid problems, according to two people familiar with its dealmaking strategy.

“The size of the stake doesn’t matter. The principle is, if you can influence the target’s key business decisions, you have control,” said Scott Yu, a lawyer who has trained China’s tech giants on complying with antitrust rules.

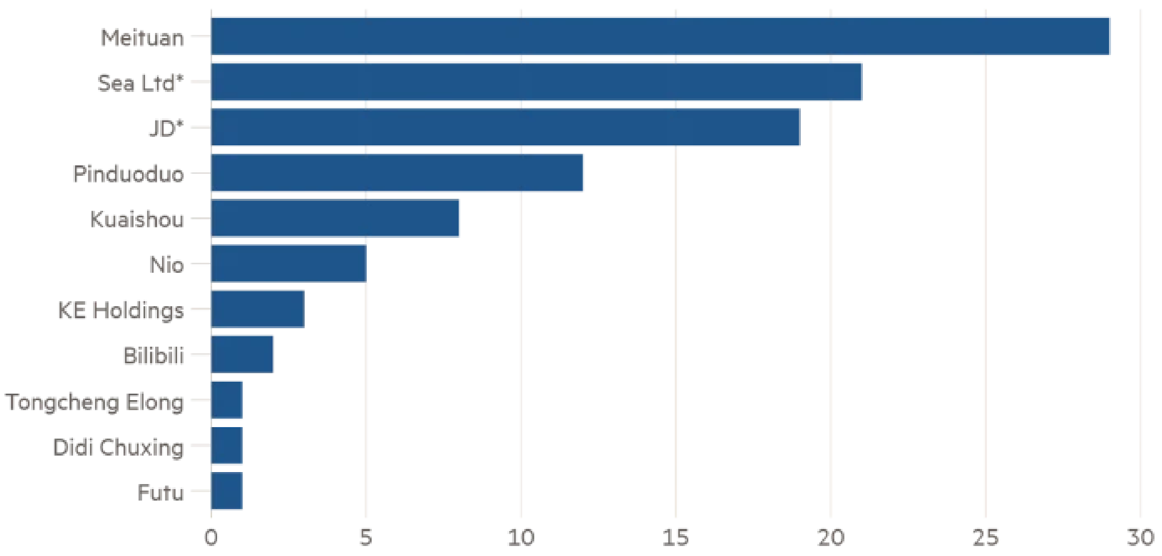
“In the past, big tech firms may ask for a board seat and require unanimous board approval for key matters like investment plans, annual budgets or appointing new executives, but now that could change."

Yu noted the target start-ups must also have Rmb400m of annual sales in China to meet the threshold for filing. Data from ITjuzi show Tencent grew its proportion of early-stage investments last year from the prior year.

In an official statement, Tencent denied there had been any change to its investment strategy, saying simply its focus was to invest in companies in their early stages. "Tencent regularly reviews its investment portfolio and considers various options which are beneficial to it and its investees," it added.

Tencent's most valuable stakes in Asian tech

$bn



* Tencent is in the process of divesting shares in JD and Sea Ltd
Source: filings
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As it navigates a murky regulatory landscape at home, Tencent is expanding abroad, with 44 deals done last year, up from 17 the year before, across industries such as gaming, ecommerce, healthcare and fintech.

Tencent is hiring aggressively in Singapore to ride the south-east Asian tech wave. Its largest shareholder, Prosus, just raised $5.25bn of new debt last week for purposes "including acquisitions and investments", according to a company statement and documents seen by the FT. In the past weeks Tencent increased its stake in Finnish mobile game company Supercell and invested in Monzo, the British online bank.

"Regulators have stated very clearly they don't want to see anti-competitive behaviour . . . [like] gobbling up every gaming company," said Wong Kok Hoi, chief investment officer at APS Asset Management. "Now they have no choice but to go international."

But being a Chinese company could hamper its international campaign. India in recent years has blocked WeChat and Tencent's other hit apps and games in the country.

This year Tencent abruptly announced it planned to sell a small amount of equity and give up voting rights in Sea Ltd after its stake in the company began to cause controversy in India.

Sea's online marketplace Shopee was just beginning to catch on in the country when a noisy nationalist trade association and Prashant Umrao, a lawyer aligned with India's ruling Bharatiya Janata party, accused the company of being an agent of the Chinese tech company. The plan will reduce Tencent's voting power at Sea from about 23 per cent to less than 10 per cent and cancels a voting agreement Tencent had with Sea's founder.

Whatever the next focus of Beijing's clampdown, where Tencent invests is no longer a private affair, with a person close to the company saying it now considers the public appearance of any investment alongside its regulatory impact.

"The market regulator intimately knows how many investments each of these tech giants have made," said a senior Chinese venture capitalist. "One official listed off the numbers to me for each company. They are watching closely."

Additional reporting by Nian Liu, Emma Zhou and Robert Smith