

China's Tencent takes 12% stake in Snapchat parent

November 8 2017



In this Thursday, March 2, 2017, file photo, a banner for Snap Inc. hangs from the front of the New York Stock Exchange, in New York. Chinese internet company Tencent buys a 10 percent stake in Snap, announced Wednesday, Nov. 8, 2017. (AP Photo/Mark Lennihan, File)

Snapchat parent Snap Inc. disclosed Wednesday that Chinese tech giant Tencent had taken a 12 percent stake, a sign of confidence in the social network that has delivered disappointing results since its share offering

this year.

A securities filing showed Tencent Holdings had purchased some 146 million shares of Snap non-voting stock in open market purchases in November.

Those shares would be worth some \$220 million at Snap's current value, or 12 percent of the equity.

Brian Wieser at Pivotal Research said the Tencent investment should not impact Snap's valuation even if it conveys some confidence in the US firm.

"It seems highly unlikely that Tencent would ever be in a position to buy the whole company," he said in a note to clients.

"It seems equally unlikely that Snap would ever be allowed to establish a foothold in China even if their relationship with Tencent were deeper."

Snap, whose social network and disappearing messages has made it a hit with young smartphone users, has seen its share price slump amid disappointing results including another quarterly update Tuesday showing its losses tripled to \$443 million.

Snap shares skidded 14.6 percent to close at \$12.91, as the news on Tencent did little to stem the decline.

Snap reported the number of daily Snapchat users rose to 178 million in the past quarter, a weaker-than-expected 17 percent increase from a year ago.

Although Snapchat is best known for its smartphone messaging, it has also developed partnerships with numerous media outlets eager to reach

its audience with news, video and other content.

Snap executives said they overestimated demand for its Spectacles sunglasses with built-in cameras, losing just shy of \$40 million that it will mark down on its books.

'We haven't seen inflection'

Mark Mahaney at RBC Capital Markets downgraded Snap following the earnings, saying growth has been disappointing.

"We still haven't seen an inflection in (user) growth despite substantial product innovation," Mahaney said in a note to clients. "Advertisers go where the eyes are and we need to see further user growth."

Tencent is one of China's largest tech firms, known for its WeChat social network and investments in media, gaming, online content and other segments.

Tencent shares have rocketed 70 percent this year on expectations of continued success in its core games business, which includes the wildly popular "Honour of Kings" and other hits, and on hopes that it will realize the advertising potential of the widely used WeChat.

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Citation: China's Tencent takes 12% stake in Snapchat parent (2017, November 8) retrieved 23 April 2024 from <https://phys.org/news/2017-11-tencent-percent-stake-snap.html>

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