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Chinese giant Tencent takes \$300m stake in Afterpay

[James Eyers](#) and [Anthony Macdonald](#)

May 1, 2020 - 8.49pm



Tencent, the Chinese technology powerhouse, has paid \$300 million for a 5 per cent equity stake in Afterpay, a move both companies are touting as a strategic partnership.

Afterpay issued a substantial shareholding notice at 7pm AEST on Friday night, announcing [Tencent Holdings, a fintech giant listed in Hong Kong with a market capitalisation of more than \\$US500 billion](#), had become a substantial shareholder.





Afterpay co-founders Anthony Eisen and Nick Molnar: to "tap into Tencent's vast experience and network is valuable." **James Brickwood**

This was followed immediately by an Afterpay media release, in which its co-founders Anthony Eisen and Nick Molnar said the investment "provides us with the opportunity to learn from one of the world's most successful digital platform businesses" and the "potential to collaborate" across a range of areas.

James Mitchell, chief strategy officer at Tencent, was quoted in Afterpay's release as saying: "We look forward to a deep and long-term business partnership between Tencent and Afterpay."

The 5 per cent stake would have cost Tencent just over \$300 million, based on its average acquisition price of \$22.63. Afterpay closed on Friday at \$29.16 and has a market capitalisation on the ASX of just over \$8 billion.

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It is understood that Tencent has been attracted to Afterpay's rapid growth in the United States.

Mr Eisen and Mr Molnar said in the statement they "feel very privileged" to welcome Tencent as a shareholder, and "being able to attract a strategic investor of this calibre is extremely rewarding and is a testament to our team and the strength of our differentiated business model".

Payments data is of growing value in the digital economy and while still a minnow on overall volumes, Afterpay has been growing strongly in Australia - and now the US since it launched there two years ago. This has turned heads at companies as large as the United States-based card schemes, Visa and Mastercard.



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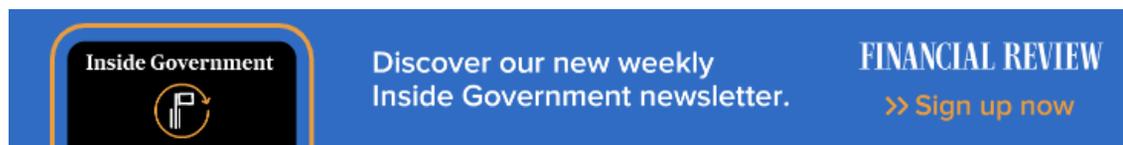
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Love it or hate it, fund managers' immediate reaction of the ASX notice was it can only be seen as a strong endorsement of Afterpay, which allows for online payments in instalments and in-store payments using QR codes pioneered by the Chinese.

Bankers reckon it would be unusual for Tencent to make a bigger play for Afterpay, having already crossed the 5 per cent mark and revealed its interest. Market sources said on Friday night it does not look like a stealth move, given Afterpay was very quick to put out its own statement welcoming Tencent to its share register.

It could also spell pain for short-sellers in the near term. There were 10.3 million Afterpay shares reported as sold short as at April 27, according to ASIC data, representing 3.86 per cent of the company's shares on issue.

Tencent's Mr Mitchell said the group had been investing in pioneering fintech companies "providing us with unique insights into emerging fintech services".

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"Afterpay's approach stands out to us not just for its attractive business model characteristics, but also because its service aligns so well with consumer trends we see developing globally in terms of Afterpay's customer centric, interest free approach as well as its integrated retail presence and ability to add significant value for its merchant base," he said in the Afterpay release.

Mr Eisen and Mr Molnar said they would be able to "tap into Tencent's vast experience and network is valuable, as is the potential to collaborate in areas such as technology, geographic expansion and future payment options on the Afterpay platform.

Tencent's Chinese fintech rival, Ant Financial, took a stake in Klarna in March. [Ant Financial owns AliPay](#), while Tencent owns the WeChat Pay network. They are the dominant payment companies in China where paying via smartphones is ubiquitous.

Afterpay has three times the search traffic of Klarna, and 1.5 times the traffic of Affirm, its major competitors, according to Google Trends.

Tencent started buying Afterpay shares on March 27 outlaying between \$17.18 and \$22 a share for an initial 0.5 per cent stake, according to its substantial shareholder notice.

It was only three days after Afterpay shares had closed at \$9.87, having crashed 75 per cent in the space of one month.

Tencent kept buying most days until April 30, when it crossed the 5 per cent disclosure threshold. It paid between \$17.11 and \$31.30 a share for its stake.

Goldman Sachs is holding the stock on Tencent's behalf.

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