

China Internet

China Internet: The second most important thing



Robin Zhu
+852 2123 2659
robin.zhu@bernsteinsg.com



Charles Gou
+852 2123 2618
charles.gou@bernsteinsg.com



Min-Joo Kang
+852 2123 2644
minjoo.kang@bernsteinsg.com

A turn in the tape? The China Internet sector has endured a difficult start to 2026, with KWEB down 14% year to date. The near-term and long-term impacts of AI on our coverage companies remains top of mind in investor discussions. But we think a meaningful turn may now be at hand for the second important driver of investor sentiment and consensus estimates. We think Alibaba, JD, and Meituan spent something like RMB120bn combined on quick commerce since Q2... moderation should help share price performance from here.

Alibaba has a decision to make - AI is the obvious answer. Key to our more positive view has been Alibaba's signalling of a halving of quick commerce losses in FY3/27E versus FY3/26. Our sense is Alibaba continues to favour over- rather than under-investment in AI. But the decline of LTM FCF to zero has likely enforced some tough decisions at the company. AI capex has converted to incremental Alicloud revenue at a rough 3-to-1 ratio, and RMB40bn redirected away from quick commerce in favour of AI capex would theoretically help to drive c. 7-8% of Alicloud revenue acceleration, all else equal. All Other losses remain an important constraint on Alibaba's group profits - and valuations anchored on group PE levels. But ongoing price increases should continue to help Alicloud economics. Better capital allocation may also mean the market gives more credence to SOTP valuations.

JD's renewed focus on profits should leave more room to run. JD's profits continue to look solid in spite of ongoing top-line headwinds lapping high electronics comps. Q1 profits look ahead of street expectations. Meanwhile, the company signalling a renewed focus on profitability may be more important. Assuming \$1bn of buybacks this (e.g. half the remaining authorisation) implies c. 6% total capital return yield at current prices. Easier comps keep hopes for H2 re-acceleration alive. Meanwhile, suggestions that 2027E profits may exceed 2024 levels potentially leave the stock on sub-7x next year PE.

Video gaming: are we done with AI disruption fears? Project Genie continues to feature occasionally in our discussions with investors, but our sense is global gaming sentiment has shown signs of stabilisation. New game approvals remains well lubricated domestically, while Google's lowering of platform fees benefits mobile developers. With expectations reset for 2026 growth, the focus on Tencent likely continues to revolve around the timing of its own Muse Spark moment. NetEase growth should accelerate in a couple quarters as deferred revenue recognition normalises... and we hopefully get an Ananta date.

The broader AI question. After the post-Q4 washout, recent moves across US peers may portend a period of better AI sentiment across our sector coverage. Reporting from Z.ai and Minimax point to vertical increases in enterprise AI ARR... but the latest high-frequency data we track continues to argue against the pace of top-funnel change among consumers (with the top AI chatbots still looking like search engine plus intelligence to remain the arbiter of performance across the listed AI landscape). The direction of P/ARR multiples will be interesting to watch from current levels if better clarity across the large caps diminishes the "only game in town" narrative.



BERNSTEIN TICKER TABLE

Ticker	Rating	Cur	15 Apr 2026	Price Target	TTM	Cur	Adjusted EPS			Adjusted P/E (x)		
			Closing Price		Rel. Perf.		2025A	2026E	2027E	2025A	2026E	2027E
700.HK (Tencent)	O	HKD	499.00	780.00	(32.2)%	CNY	28.09	29.89	34.56	15.5	14.5	12.6
OLD				790.00				30.62	35.07			
BABA (Alibaba)	O	USD	131.35	180.00	(11.0)%	CNY	65.41	28.97	42.38	13.7	30.9	21.1
OLD								30.96	51.16			
9988.HK (Alibaba)	O	HKD	128.60	176.00	(23.7)%	HKD	8.40	3.91	5.71	13.3	28.6	19.6
OLD								4.18	6.90			
NTES (NetEase)	O	USD	113.60	150.00	(13.0)%	CNY	58.02	60.09	67.39	13.3	12.9	11.5
OLD								62.95	68.81			
9999.HK (NetEase)	O	HKD	177.70	235.00	(24.9)%	HKD	12.76	13.22	14.83	13.9	13.4	12.0
OLD								13.85	15.14			
JD (JD)	O	USD	31.25	36.00	(45.4)%	CNY	18.15	20.92	28.16	11.7	10.2	7.6
OLD				34.00				19.35	26.90			
9618.HK (JD)	O	HKD	120.70	140.00	(59.2)%	HKD	10.44	12.02	16.19	11.6	10.0	7.5
OLD				135.00				10.95	15.22			
PDD (PDD)	M	USD	102.10	132.00	(20.3)%	CNY	72.38	82.92	91.15	9.6	8.4	7.6
BZ (Kanzhun)	M	USD	13.50	16.50	(34.5)%	CNY	7.87	8.85	10.78	11.7	10.4	8.5
3690.HK (Meituan)	M	HKD	86.30	85.00	(82.8)%	CNY	(3.00)	(3.20)	3.10	(25.0)	(23.4)	24.2
ASIA			1,783.03									
SPX			6,967.38									

PRICE TARGET CHANGE / ESTIMATE CHANGE IN BOLD

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

While the implications of exponential AI growth likely continues to be debated for our Internet sector coverage, we think the direction of food delivery and quick commerce investments are near a turn. Accordingly, we think there are reasons to be hopeful that better times are ahead for the China Internet sector, after a weak first few months of 2026.

In contrast with the ongoing "will they, won't they" debate surrounding more muscular regulatory action in food delivery and quick commerce, we think declining FCF generation forcing Alibaba to choose between strategic priorities represents the much more convincing - and durable - argument for a normalisation of competition. Alibaba continuing to focus on high AOV orders likely keeps some pressure on Meituan. But lower overall losses frees up capital to be deployed towards Alicloud and broader AI development. High "All Other" losses will likely continue to constrain PE based valuations for Alibaba. But more investor-friendly capital allocation should help on the margin.

Across our sector coverage, we expect investors to embrace JD's renewed focus on profitability, and expect lower H2 2026 comps to support hopes for growth re-acceleration. The e-commerce market in China remains low growth and highly competitive... but JD's shares look too cheap even if 2027E EPS doesn't get all the way to 2024 levels.

We remain constructive on video gaming, and have been encouraged by investors backing away from peak Project Genie fear. That said, inflections in Tencent and NetEase's shares likely depend on AI breakthroughs - and pipeline surprises - respectively.

We have updated our price targets for Tencent and JD. The former is based on lower earnings estimates to reflect higher AI spend, multiplied by an unchanged 20x FY+1 PE multiple, while the latter reflects an unchanged 9x FY+1 (e.g. quarter 5-8) PE multiple, incorporating higher earnings estimates in the outer years as the company prioritises profitability.

VALUATION COMPS TABLE

EXHIBIT 1: Asian Internet valuation comparison

	Rating	Price target	Last price	Crcncy	Market cap (US\$m)	2026E	PE 2027E	2028E	2026E	EV/sales 2027E	2028E
China Internet coverage											
Tencent	O	780	499.00	HKD	581,189	14.7x	12.7x	11.0x	5.0x	4.4x	3.8x
PDD	M	132	102.10	USD	144,946	8.8x	8.0x	6.9x	1.1x	0.8x	0.4x
Meituan	M	85	86.30	HKD	68,065	n.a.	24.7x	12.9x	1.0x	0.9x	0.8x
NetEase	O	150	113.60	USD	71,931	13.2x	11.7x	10.9x	3.2x	2.9x	2.6x
Boss Zhipin	M	16.5	13.50	USD	6,527	10.9x	8.9x	7.8x	2.5x	1.8x	1.3x
JD	O	36	31.25	USD	45,415	10.7x	7.9x	6.2x	0.2x	0.2x	0.2x
Alibaba	O	180	131.35	USD	313,587	30.4x	21.3x	18.7x	2.1x	2.0x	1.8x
China Internet other											
Kuaishou			45.66	HKD	25,541	10.2x	8.9x	7.9x	1.0x	0.9x	0.9x
Bilibili			25.00	USD	10,626	25.6x	19.4x	14.9x	1.7x	1.6x	1.5x
Baidu			118.23	USD	40,228	14.6x	12.5x	10.5x	1.2x	1.1x	1.0x
VIPshop			14.87	USD	8,280	5.9x	5.6x	5.4x	0.4x	0.3x	0.3x
Tencent Music			9.73	USD	15,071	10.2x	8.9x	8.0x	2.0x	1.8x	1.7x
Trip.com			52.57	USD	34,360	13.0x	11.4x	10.1x	2.7x	2.4x	2.1x
KE Holdings			16.50	USD	19,261	21.1x	18.2x	17.4x	1.1x	1.1x	1.0x
Asian Internet											
Naver	O	340,000	211,500	KRW	22,462	14.3x	12.6x	11.4x	2.0x	1.7x	1.5x
Kakao	O	80,000	49,650	KRW	14,893	32.8x	26.9x	20.5x	1.9x	1.5x	1.3x
Hybe	O	500,000	256,500	KRW	7,486	21.4x	21.5x	17.2x	2.6x	2.1x	1.9x
Coupang	U	17	20.72	USD	37,880	120.6x	43.9x	30.6x	0.9x	0.8x	0.7x
Sea Ltd.			85.60	USD	50,677	23.5x	17.7x	14.5x	1.5x	1.2x	1.1x
Grab			3.82	USD	15,664	39.8x	25.1x	18.4x	2.7x	2.2x	1.9x
US Internet											
Amazon			249.02	USD	2,677,273	27.2x	22.9x	19.4x	3.4x	3.0x	2.7x
Alphabet			332.91	USD	4,013,567	27.3x	23.6x	20.3x	9.6x	8.3x	7.2x
Meta			662.49	USD	1,676,336	20.4x	17.6x	13.9x	6.7x	5.7x	4.9x
Netflix			106.28	USD	448,731	32.9x	27.7x	23.5x	8.9x	8.0x	7.2x
Uber			72.91	USD	148,951	21.4x	16.5x	13.1x	2.7x	2.3x	2.0x
Spotify			511.36	USD	105,255	33.2x	27.0x	22.4x	4.2x	3.7x	3.3x
DoorDash			163.55	USD	71,050	30.0x	23.1x	19.7x	3.8x	3.2x	2.7x

Pricing date April 15, 2026. The valuation multiples of our China and Asian Internet coverage are based on Bernstein estimates; the other companies shown reflect Bloomberg consensus estimates.

Source: Corporate reports, Bloomberg, Bernstein estimates and analysis.

DETAILS

A LOT RIDES ON WHAT ALIBABA DOES NEXT

We write a regular look-back after every quarter, to try to summarise our takeaways from reporting by our coverage companies, and the broader sector. For Q4, the proximity of reporting to Q1 pre-close discussions means these tend to offer useful colour on the set-up for the rest of the year. Top down, Q4 reporting was chiefly characterised by weak Q4 macro (not helped by a late CNY late pulling gifting and other sources of seasonal demand into Q1), with e-commerce looking worst hit. The ads market fared somewhat better, within which the migration of ad dollars in favour of recent share winners (e.g. Tencent, Xiaohongshu, Bilibili) continued. Video gaming has remained a relative safe haven, even if the deferred revenue recognition situation at NetEase continues to drive confusion.

Narrative wise, the single biggest shift in the sector was driven by the leap in agentic AI capabilities since the start of 2026. We have mixed feelings about the burst of OpenClaw excitement in China, which already seems to be fading to some degree. But there's no debate that newly unlocked capabilities put the world on a path of accelerated technology change. The fact reasoning models and agentic workflows generate massively higher token consumption has been a boon for the hyperscaler businesses.

For the Internet platforms more broadly, the reality of inference costs means mass AI deployment represents an economic problem as much as a tech one. Our own experimentation with agentic AI services and vibe coding has mostly added to our long-term bullish view on AI as a driver of productivity gains. But when and how to pay for a billion Chinese consumers using AI services will likely remain an important question for where our coverage companies go in the medium term.

Alibaba has a decision to make on spend... AI is probably the obvious answer

In comparison, we think the question of when Alibaba decides to rejig its capital allocation to focus more on AI arguably represents the more consequential one for stock-picking over shorter time horizons. By our count, reporting from Alibaba, Meituan, and JD pointed to RMB36bn of combined losses in food delivery and quick commerce in Q4, bringing total spend since Q2 to c. RMB110bn. Freshippo grow accelerating has probably partly been driven by Alibaba's food delivery and quick commerce investments. On the other hand, Alibaba CMR growing 0.8% in the December quarter and say c. 3-4% on a normalised basis across the December and March quarters (to smooth out distortions caused by CNY timing, and Alibaba's decision to book more marketing spend contra revenue) strikes us and most investors as a fairly meagre return in Alibaba's core Taobao & Tmall ecosystems.

One of the more notable developments in recent weeks was the SAMR's publishing, un-publishing, then re-publishing of its article calling for an end to the food delivery wars. Compared with the ongoing "will they, won't they" debate around regulatory action, we think Alibaba's strategic priorities represent a more important driver of what happens next. To illustrate, Exhibit 2 and Exhibit 3 contrast Alibaba's cash incoming and outgoings which flow down to free cash flow. In the former we've included core Taobao & Tmall (excluding Quick Commerce) EBITA and Cloud EBITA, which added up to RMB59.5bn in Q3, and RMB207.0bn in the last twelve months.

Outgoings include AI capex (assuming this approximates to group capex other than in the June 2025 quarter when Quick Commerce infrastructure investments contributed), AI expenses (using All Other segment losses as a proxy), Quick Commerce losses, and EBITA losses in International and other non-core segments (which have become fairly minor in recent quarters).

The argument for prioritising AI is straightforward

For the sake of simplicity we've ignored working capital moves and other minor contributors to Alibaba's operating cash flows, but the conclusion that Alibaba's cash outflows increasingly exceeds inflows still becomes clear (see Exhibit 4). The company had over RMB600bn of net cash and equivalents at the end of December, and has expressed a willingness to dip into its coffers to invest on two fronts. We voiced caution after Q4 2025 reporting in the US Internet sector had pointed to investors tiring of AI investments funded through cash burn - the subsequent period has reflected similar attitudes permeating through the China Internet sector.

On the flip side, the fact remains that Alibaba owns a powerful collection of businesses in China's largest hyperscaler business, a top-10 global AI model in Qwen, and one of China's best compute chip development programs. We generally agree with the assessment that Chinese enterprises were shifting from AI spend as a contributor to R&D spend to considering it an essential factor of production to be costed through the COGS line. Year to date, the combination of agentic AI progress driving an explosion in token consumption and ongoing tightness in the supply of compute (despite SuperMicro's apparent best efforts...)

has driven Alicloud, Tencent Cloud, and Baidu to all cut back on incentives and raise headline prices for a variety of services. For all the concerns about Bytedance competing with no regard for profitability, third-party data suggests Alicloud has at least kept pace - if not slightly gained share in recent quarters.

Our sense is Alibaba continues to favour over- rather than under-investment in AI. Ergo, we think there's reason to believe the pivot away from quick commerce losses will remain durable to a large extent. Hard-to-quantify factors like organisational inertia, and the internal reconciliation process between investment and return will likely influence how the messaging is delivered. On the other hand, this is a management team which has a history of strategic pivots after major investment cycles.

The market has begun to price in the implications of an Alibaba pivot

The immediate implications of an eventual Alibaba pivot away from food delivery competition is likely to be positive for all of Alibaba, JD, and Meituan's shares (see Exhibit 5 and Exhibit 6). For Alibaba, the combination of lower food delivery cash burn and overall losses (enabling a greater focus on AI) could help improve investor perceptions of capital allocation, as well as how the stock looks valued on the basis of group PE multiples. Increased AI investment should have a fairly clear payoff, in light of ongoing tightness in the domestic market for compute, and Z.ai demonstrating pricing power on high complexity tokens.

Meituan's shares have already reacted positively to the combination of speculation over when more muscular regulatory action might be forthcoming, and the anticipation of an improving second derivative in the business. Guidance from JD on a continued moderation of competitive intensity in April should bode well for Q2 earnings compared with street estimates. On the flip side, we think the most likely go-forward scenario is one where Alibaba maintains a larger presence in food delivery and quick commerce than in 2021, with investment spend increasingly focused on high value orders. We think Meituan made 50 cents RMB per food delivery order in 2021... in an environment where Ele.me was an afterthought within the broader Alibaba organisation (see Exhibit 7). Competition with Bytedance in In-store, Hotel & Travel bears watching as well.

For JD, lower competitive temperature in food delivery should give the company air cover to scale back losses in its food delivery endeavours. The latter continues to drive General Merchandise growth to some degree, and we expect lower H2 2026 comps to mean Electronics & Appliances growth improves. The stock remains cheaply valued, management sponsored a 3.4% yield via the company's dividend, and all-in shareholder return yield should be higher still assuming some buybacks.

Tencent will never be the highest beta stock, but remains the sensible option in our view

Year to date, trading across our China Internet coverage has been typical of investor attitudes towards investment cycles, specifically... investing in AI is great, until it comes to actually investing in AI through the P&L. While early adopter excitement has driven massive ARR growth for the likes of Minimax and Z.ai (for now ARR seems to be the only part of the P&L that matters for these companies...), considerable skepticism persists around the Internet platforms' ability to monetise consumer-facing AI - even in the "jam tomorrow" scenario.

We wrote a fairly cautious 2026 outlook for the China Internet sector in December ([LINK](#)), and continue to consider mediocre macro and questions around the regulatory cycle headwinds. All signs point to the AI investment cycle (driven by model training and inference costs, and the need to promote new functionality) being a multi-year event. Specifically in the case of Tencent however, the company's core business continues to perform strongly, and we remain of the view that gaming and ads stand to benefit meaningfully from AI improvements. In contrast with the Street's tendency to fade out year growth projections, our most recent interactions with the company have pointed to continued strength in gaming, and sequential acceleration in ads. Falling mobile platform fees represent a tailwind for Tencent profit growth. In contrast with plateauing user traffic driving PDD management deeper into more hands-on work serving China's hinterland, Tencent's Mini Programs/Shops ecosystem remains lightly monetised.

Zooming out, AI agent app engagement data continues to support the notion that disrupting WeChat is harder than it sounds. The AI catalyst question will most likely take time to answer. On the other hand, we'd note Tencent's valuation now stands on 12.7x 2027E PE on our numbers, or 10.7x excluding say RMB60bn of AI spend, or 8.9x if we further exclude c. \$95bn of public equity investments.

Surely JD is still too cheap?

Sentiment around JD has improved in recent months, as investor attention pivoted from high electronics comps - lapping high government incentives for appliance purchases - to earnings downside protection, and top-line re-acceleration supported by easier H2 2026 comps. Our latest discussions with JD point to the former continue to hold true, with Q1 profits sounding ahead

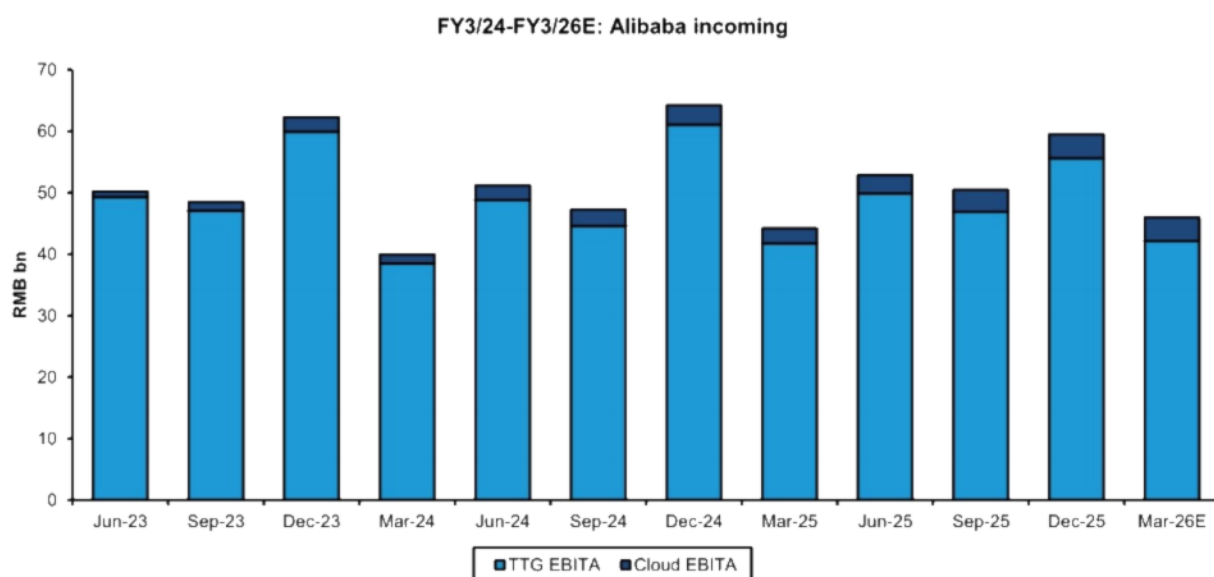
of expectations (helped by lower food delivery spend, but also solid core Retail margins).

JD has a track record of recycling savings early in the year into higher marketing spend during peak e-commerce promotions, but 2026 street numbers look doable in the context of JD signalling better e-commerce gross margins, and the intensity of food delivery competition continuing to wane across the group into April. Projected spend on JD's overseas ventures has sounded manageable too, with the focus for Joy Buy contained within a handful of key metros in Western Europe.

Putting it together, JD now trades on 10.7x 2026E and 7.9x 2027E PE on our latest projections for the company's earnings. Taking the company's suggestions that 2027E profits could exceed 2024 levels at face value would imply 2027E PE falls to something like 7x. In the meantime, assuming \$1bn of buybacks this (e.g. half the remaining authorisation) implies 2.3% capital return yield at current prices. In our discussions, the company signalled a desire to maintain steady capital returns.

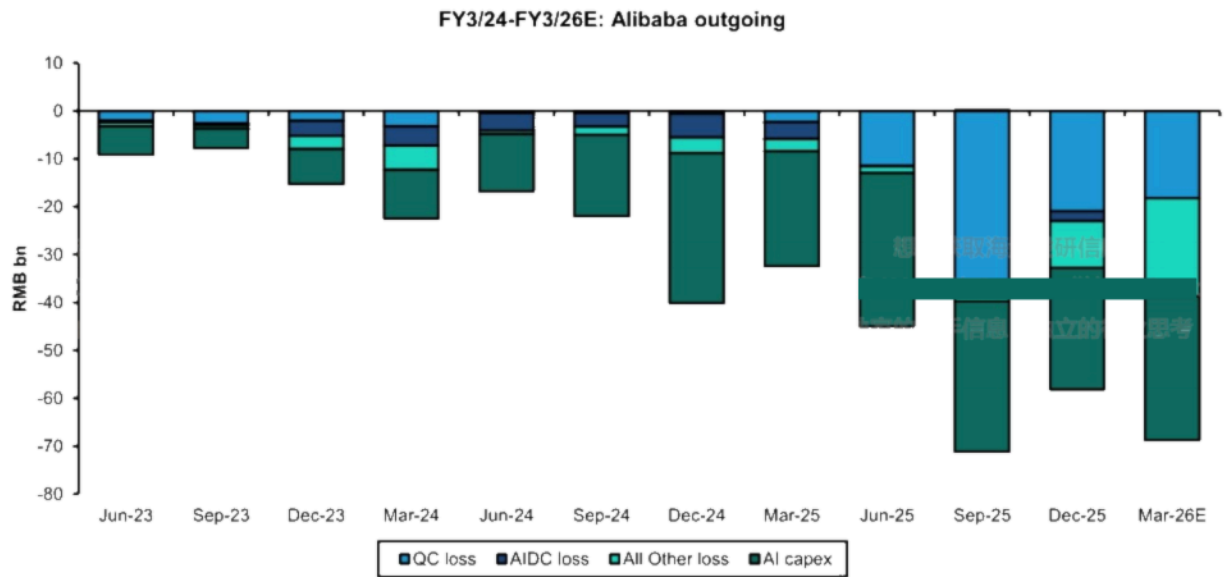
Cynics will argue that JD has gone through these periods of greater investor friendliness before, and the broader e-commerce market remains low growth - and contested by too many players. But the magnitude of cost savings from lower food delivery spend likely remains much larger than what JD can recycle into spend on new adventures, and we think the balance of risk-reward favours up more than down from here.

EXHIBIT 2: We expect Alibaba's capital allocation choices in the coming months to have important implications for several other stocks we cover



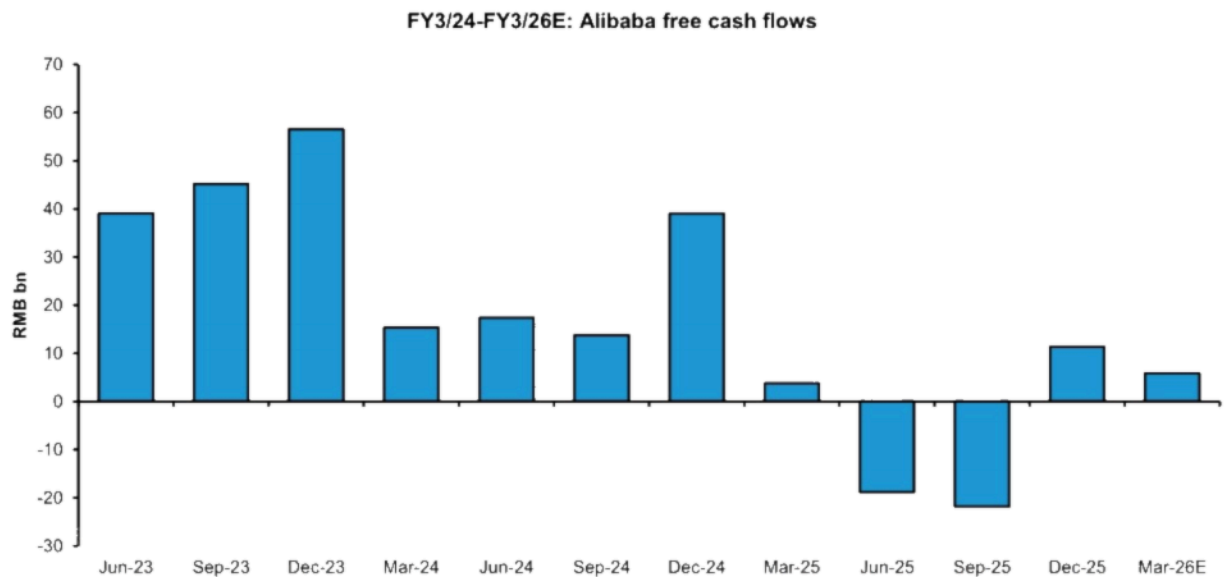
Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 3: While core e-commerce and cloud EBITA have tracked sideways, spend on AI and quick commerce has exploded, eating into cash generation



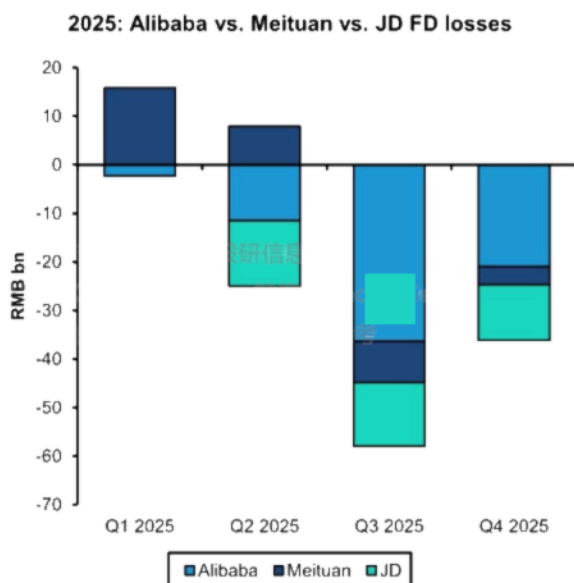
Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 4: Our sense is Alibaba remains steadfast in its desire to invest ahead in AI, scaling back quick commerce losses should enable higher capex, while helping to balance the books somewhat



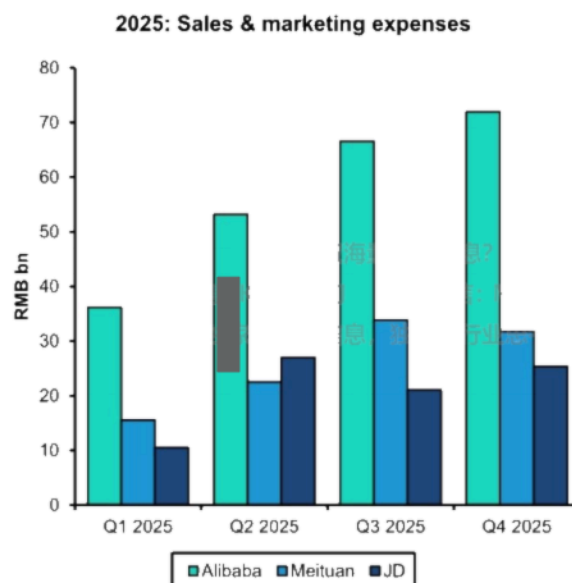
Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 5: We estimate c. RMB120bn of combined losses in quick commerce since Q2 2025



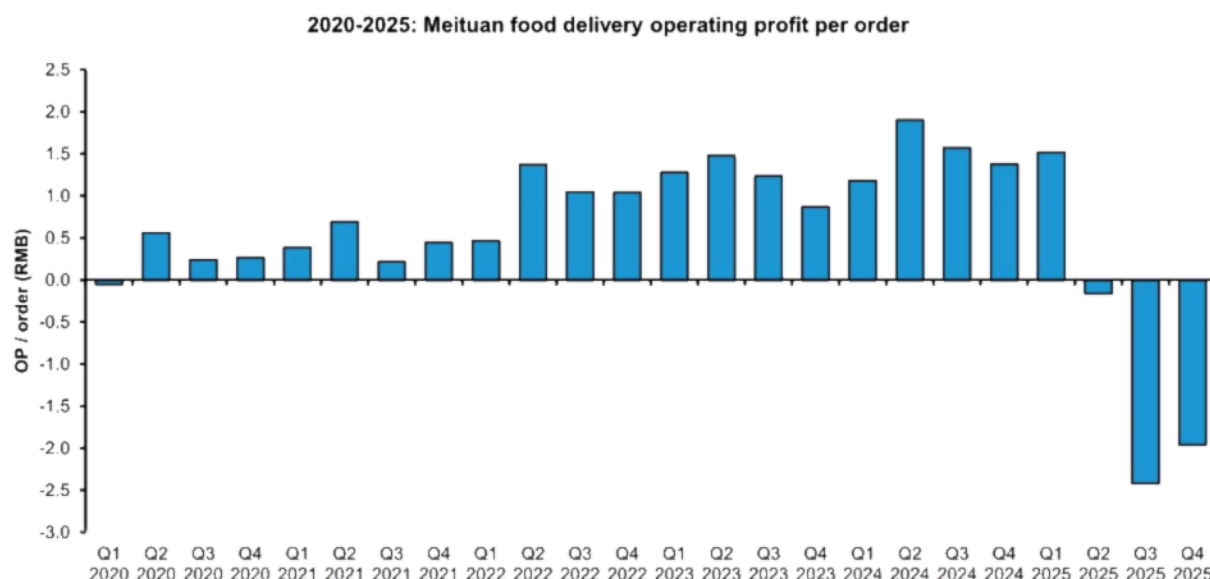
Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 6: Marketing spend has risen sharply across the group, but may now be nearing a turn



Source: Corporate reports and Bernstein analysis.

EXHIBIT 7: We do still question what food delivery industry profitability can return to though, considering Meituan generated 50 cents RMB of operating profit per order in 2021... before Alibaba ceded the market to Meituan



Source: Corporate reports, Bernstein estimates and analysis.

SECTOR VALUATION LOOKS BACK NEAR 2022-2023 LEVELS

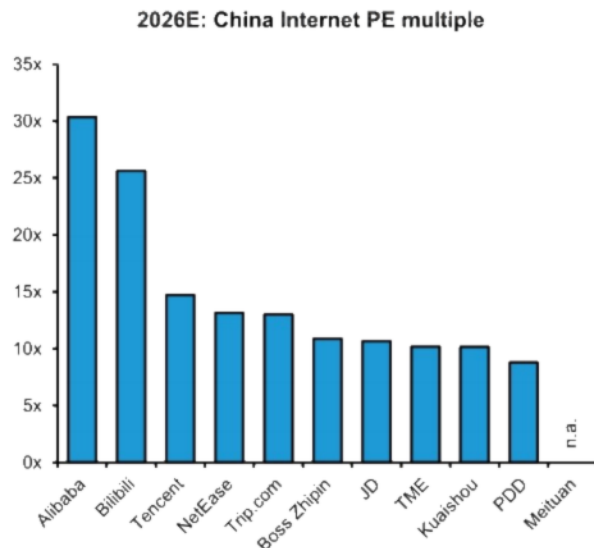
The following are a group of charts we monitor as measuring sticks for sector valuation (see Exhibit 8 to Exhibit 11). The average stock we cover now trades on 14.8x and 13.1x 2026E and 2027E PE. The latter is only slightly higher than 2022-2023 lows, when the fundamental picture was dominated by China's Zero Covid policy, and associated economic misery.

In the broader sector, the forward multiples of other hitherto expensive-looking hiding spots like Trip.com and TME have compressed, and it encourages us that Kuaishou's Kling is no longer valued at \$20-25bn like last summer. FCF/EV yields (a

metric that helped to identify bottoms in 2021-2023) now stand near 5% for Tencent, and 10-11% for JD and NetEase. Net cash now exceeds 40% for several companies we cover, like JD, Boss Zhipin and PDD. Across the latter group, JD and Boss Zhipin management have put money to work to buy back stock. The circumstances under which PDD management might follow suit remains one of life's great mysteries.

Exhibit 12 updates our plot comparing Tencent's forward PE multiple versus the average of Meta and Alphabet, as a measure of the geopolitical discount ascribed to China stocks. In recent weeks this discount has interestingly remained largely unchanged, reaffirming the idea that issues like AI ROI fears have driven de-rating across global Internet stocks.

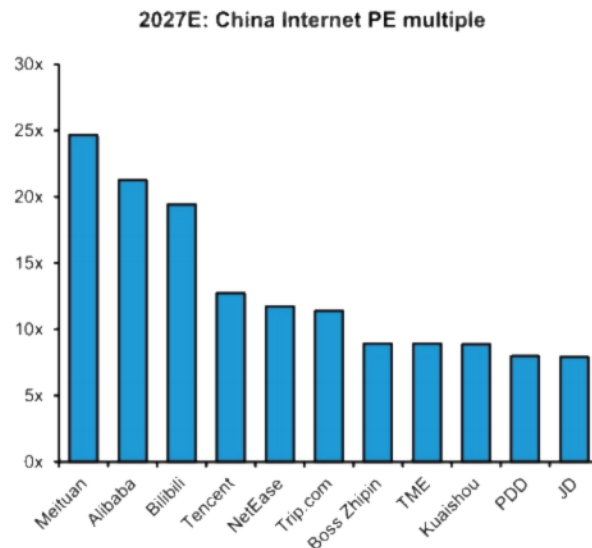
EXHIBIT 8: The top Internet platforms now trade on an average of 14.8x 2026E PE...



Multiples based on Bernstein estimates for coverage companies; Bloomberg consensus for others.

Source: Bloomberg, Bernstein estimates and analysis.

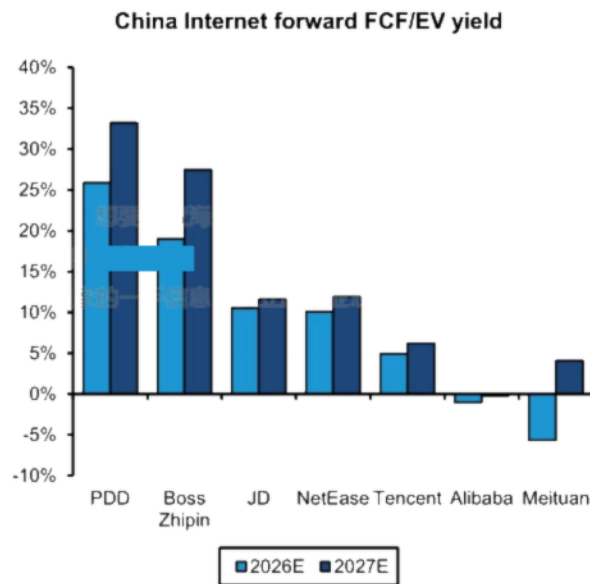
EXHIBIT 9: ...and 13.1x 2027E PE, far from expensive, but not as cheap as a year ago



Multiples based on Bernstein estimates for coverage companies; Bloomberg consensus for others.

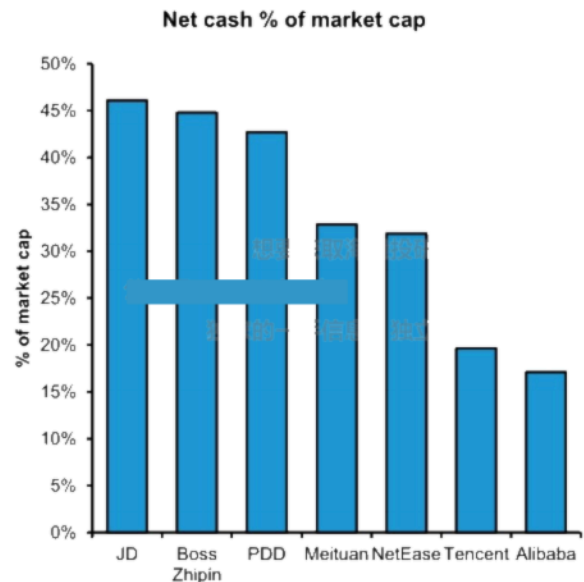
Source: Bloomberg, Bernstein estimates and analysis.

EXHIBIT 10: FCF/EV yield helped to signal a floor in 2022-2023... and may be starting to look interesting again



Source: Corporate reports, Bloomberg, and Bernstein analysis.

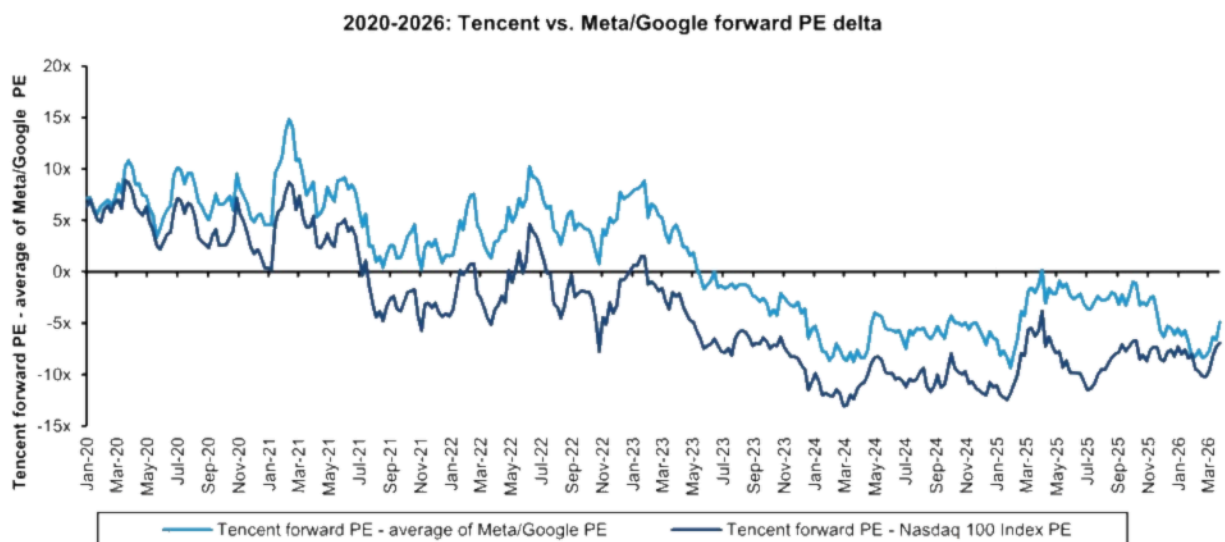
EXHIBIT 11: Which of these companies will put balance sheet cash to work? JD has signalled further buybacks



Tencent figure reflects the latest value of its listed equity investments.

Source: Corporate reports, Bloomberg, Bernstein estimates and analysis.

EXHIBIT 12: The fact the valuation gap between Tencent and US peers has narrowed year to date has been interesting to note... suggesting the recent derating has been driven by top-down AI concerns



Source: Bloomberg and Bernstein analysis.

ABRIDGED TAKEAWAYS FROM Q4 2025 REPORTING

The following section summarises updates to our industry models, and the latest market share trends across key end markets like e-commerce, digital ads, and video gaming. Macro headwinds were a recurring theme in the parts of our coverage most sensitive to changes in retail consumption growth, though this was likely made worse by a rather late CNY date - which meant more of the holiday season demand was pushed from Q4 into Q1. The channel check feedback we've heard recently on Q1 and

April has generally pointed to better trends (see Exhibit 13).

At the industry level, we estimate that aggregate GMV growth across the big five e-commerce platforms reached 6.1% year on year in Q4 2025... a further slowdown versus prior quarters (see Exhibit 14). Meanwhile, our tracker of 20 listed digital ads platforms pointed to 6.8% aggregate revenue growth in the same quarter. On a relative basis, Alibaba's share of incremental GMV across the big 5 e-commerce platforms remained around the 10-15% range, while JD's incremental share continued to moderate from high H1 2025 levels (see Exhibit 15 and Exhibit 16). Bilibili, JD, and Tencent led among the listed ads platforms, while our channel check feedback continued to point to faster growth for Xiaohongshu (see Exhibit 17 and Exhibit 18).

In comparison, we do wonder if the video gaming sector's lack of supply chains or raw material inputs might start to count in its favour at some point. The domestic games approvals pipeline remains well lubricated: a total 453 new games were approved in 3M 2026, 25.1% higher compared with a year ago (see Exhibit 19). Tencent's Q4 deferred revenue balance implied c. 11.8% year on year growth in billings, despite a typically slower Q4 after a strong year. We estimate NetEase billings grew 10.7% year on year, implying solid underlying monetisation trends.

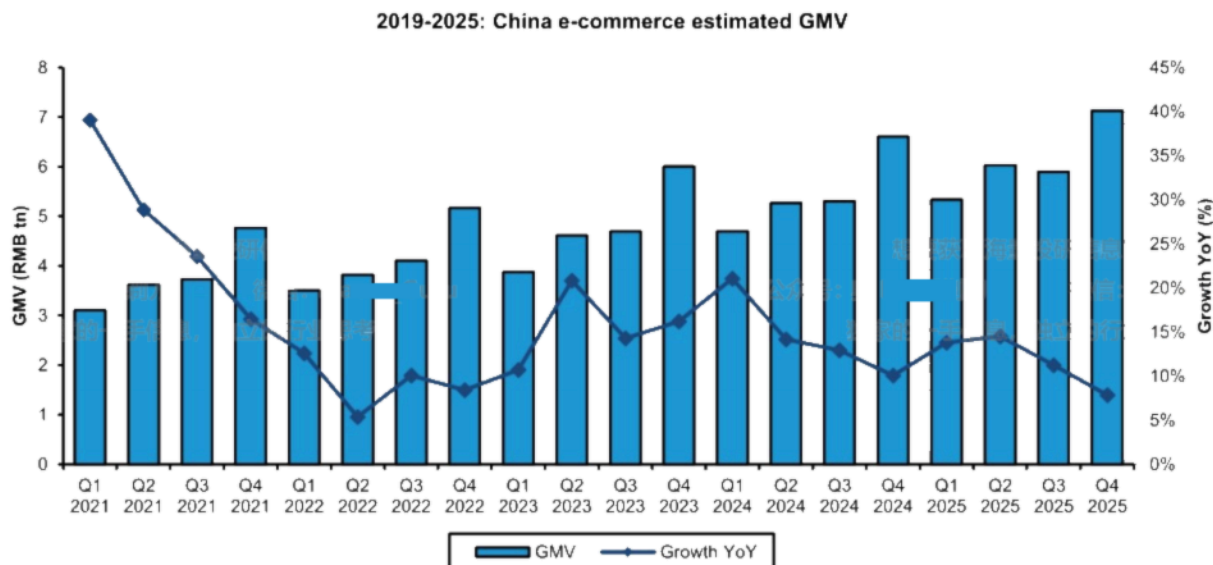
In recent discussions, Tencent management pushed back against the idea that the company's gaming revenues were due a period of slower growth. For NetEase, the lengthening of revenue deferral periods will likely continue to be a factor for a couple more quarters, though the company's continued confidence in Sea of Remnants feels notable - in contrast with widespread investor apathy.

EXHIBIT 13: Consumption growth in China continues to track along the 3% growth trendline... questions on AI impact on white collar employment has featured periodically in our recent discussions with investors



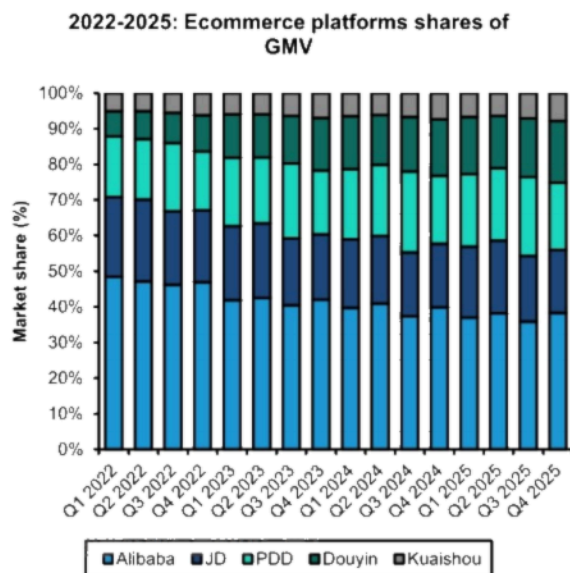
Source: NBS, Bernstein estimates and analysis.

EXHIBIT 14: We estimate that the top five e-commerce platforms in China grew their GMV by an aggregate 6.1% year on year in Q4 2025



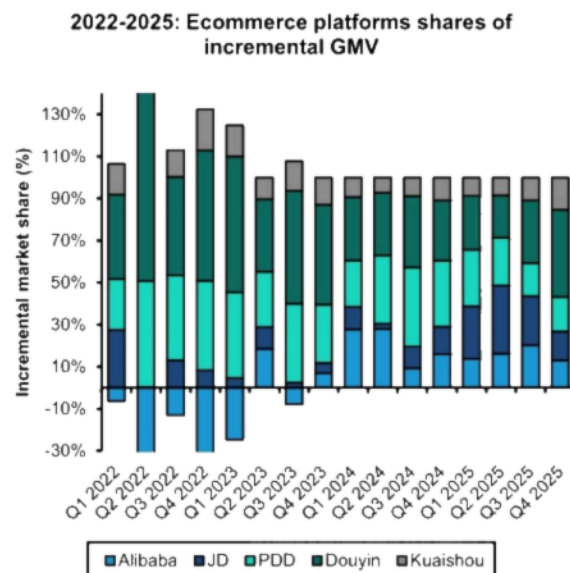
Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 15: The direction of market share in Q4 has looked consistent with recent trends



Source: Corporate reports, Bernstein estimates and analysis.

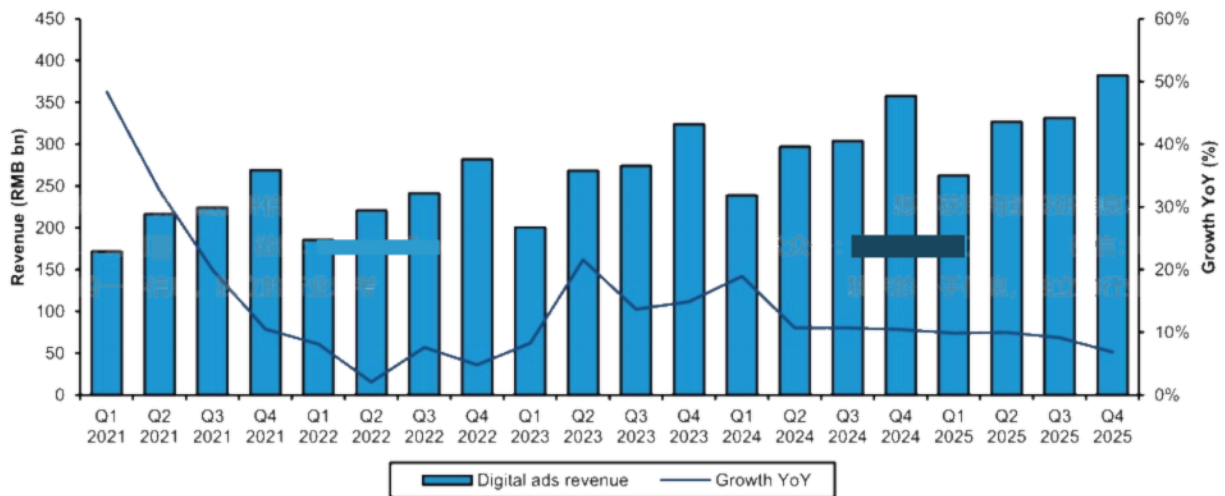
EXHIBIT 16: Douyin has won more share in recent quarters, displacing JD as electronics subsidies faded



Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 17: Slower digital ads growth in Q4 was partly a function of weaker macro, but likely also ongoing regulatory changes related to e-commerce tax enforcement and corporate profit tax deductions

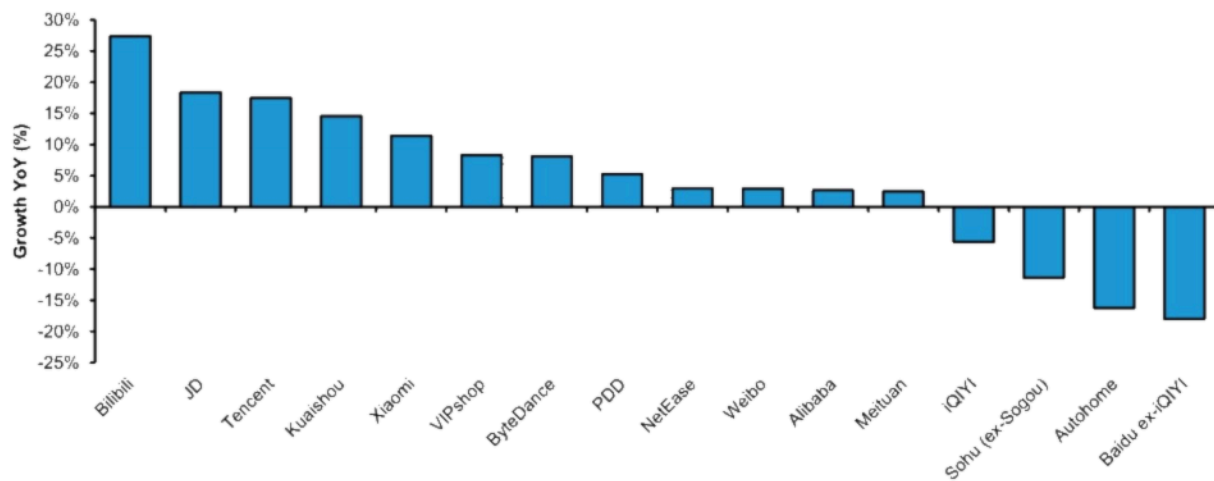
2021-2025: China digital ads revenue and growth



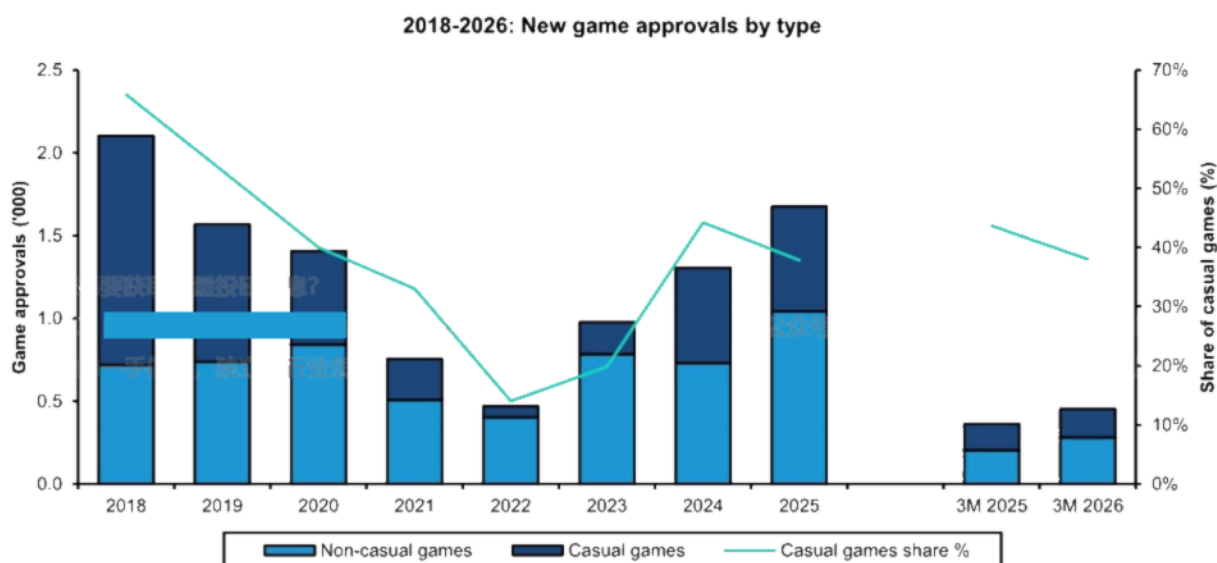
Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 18: Bilibili, Tencent and Xiaohongshu continue to lead digital ads market growth among the top of funnel platforms

Q4 2025: China digital ads revenue growth by platform



Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 19: The supply of new game approvals remains well lubricated, continuing to rise year on year in 2026

Source: Corporate reports, NPPA, and Bernstein analysis.

UPDATING OUR ESTIMATES ACROSS THE SECTOR

With this note we've updated our estimates for Tencent, Alibaba, JD, and NetEase, to reflect discussions with the companies. Our Tencent estimate changes are modest and chiefly reflect slower top-line growth in gaming and other Value Added Service revenues.

Our Alibaba estimate changes chiefly reflect the company's shift to booking more marketing spend contra revenue, lower quick commerce losses, but also higher All Other losses in the March quarter as well as on an ongoing basis. On balance our estimates for the company are lower. Our price target for the company continues to be based on our SOTP for the company. For practical purposes over more tactical horizons we'd expect 20x FY+1 PE to represent a constraint on where investors are willing to go.

Our JD and NetEase estimate changes are more minor. The latter chiefly reflects remodelling of how the company's cash billings converts to revenue and profit.

Exhibit 20 to Exhibit 23 summarise our estimate changes.

EXHIBIT 20: Tencent: Summary of estimate changes

Tencent: summary of estimate changes	2026E	2027E	2028E
Revenue			
Bernstein - Old	839,202	920,021	998,776
Growth YoY	11.6%	9.6%	8.6%
Bernstein - New	824,968	908,216	992,883
Growth YoY	9.7%	10.1%	9.3%
Consensus	831,194	914,316	998,495
Growth YoY	10.6%	10.0%	9.2%
New vs. old	-1.7%	-1.3%	-0.6%
New vs. consensus	-0.7%	-0.7%	-0.6%
Non-GAAP operating income			
Bernstein - Old	297,558	330,118	363,615
Growth YoY	6.0%	10.9%	10.1%
Margin	35.5%	35.9%	36.4%
Bernstein - New	293,497	326,754	364,666
Growth YoY	4.6%	11.3%	11.6%
Margin	35.6%	36.0%	36.7%
Consensus	306,131	344,201	381,790
Growth YoY	0.0%	12.4%	10.9%
Margin	36.8%	37.6%	38.2%
New vs. old	-1.4%	-1.0%	0.3%
New vs. consensus	-4.1%	-5.1%	-4.5%
Non-GAAP net income			
Bernstein - Old	278,716	314,087	351,684
Growth YoY	7.4%	12.7%	12.0%
Margin	33.2%	34.1%	35.2%
Bernstein - New	272,053	309,511	350,580
Growth YoY	4.8%	13.8%	13.3%
Margin	33.0%	34.1%	35.3%
Consensus	281,016	310,820	344,472
Growth YoY	8.4%	10.6%	10.8%
Margin	33.8%	34.0%	34.5%
New vs. old	-2.4%	-1.5%	-0.3%
New vs. consensus	-3.2%	-0.4%	1.8%

Source: Bloomberg, Corporate reports, Bernstein estimates and analysis.

EXHIBIT 21: Alibaba: Summary of estimate changes

Alibaba: summary of estimate changes	FY3/26E	FY3/27E	FY3/28E
Revenue (RMB mn)			
Bernstein - old	1,031,957	1,156,417	1,259,440
Growth YoY	3.6%	12.1%	8.9%
Bernstein - new	1,029,260	1,141,552	1,244,026
Growth YoY	3.3%	10.9%	9.0%
Consensus	1,027,008	1,141,650	1,276,657
Growth YoY	3.1%	11.2%	11.8%
Bernstein new vs. old	-0.3%	-1.3%	-1.2%
Bernstein new vs. consensus	0.2%	0.0%	-2.6%
Non-GAAP net income to SHs (RMB mn)			
Bernstein - old	74,337	123,245	163,040
Growth YoY	-52.9%	65.8%	32.3%
Margin	7.2%	10.7%	12.9%
Bernstein - new	69,524	102,095	115,549
Growth YoY	-56.0%	46.8%	13.2%
Margin	6.8%	8.9%	9.3%
Consensus	78,486	116,024	155,892
Growth YoY	-50.3%	47.8%	34.4%
Margin	7.6%	10.2%	12.2%
Bernstein new vs. old	-6.5%	-17.2%	-29.1%
Bernstein new vs. consensus	-11.4%	-12.0%	-25.9%

Source: Corporate reports, Bloomberg, Bernstein estimates and analysis.

EXHIBIT 22: **JD: Summary of estimate changes**

JD: summary of estimate changes	2026E	2027E	2028E
Revenue			
Bernstein - old	1,396,993	1,467,003	1,534,204
Growth YoY	6.7%	5.0%	4.6%
Bernstein - new	1,376,475	1,425,435	1,467,842
Growth YoY	5.1%	3.6%	3.0%
Consensus	1,392,093	1,477,389	1,553,330
Growth YoY	6.5%	6.1%	5.1%
New vs. old	-1.5%	-2.8%	n.a.
New vs. consensus	-1.1%	-3.5%	-5.5%
Non-GAAP operating income			
Bernstein - old	18,263	31,851	46,472
Growth YoY	89.4%	74.4%	45.9%
Margin	1.3%	2.2%	3.0%
Bernstein - new	21,283	34,611	49,629
Growth YoY	120.7%	62.6%	43.4%
Margin	1.5%	2.4%	3.4%
Consensus	19,018	30,960	41,762
Growth YoY	0.0%	62.8%	34.9%
Margin	1.4%	2.1%	2.7%
New vs. old	16.5%	8.7%	6.8%
New vs. consensus	11.9%	11.8%	18.8%
Non-GAAP net income			
Bernstein - old	28,685	40,420	52,995
Growth YoY	6.1%	40.9%	31.1%
Margin	2.1%	2.8%	3.5%
Bernstein - new	31,006	42,326	54,997
Growth YoY	14.7%	36.5%	29.9%
Margin	2.3%	3.0%	3.7%
Consensus	30,338	40,388	48,285
Growth YoY	13.7%	33.1%	19.6%
Margin	2.2%	2.7%	3.1%
New vs. old	8.1%	4.7%	3.8%
New vs. consensus	2.2%	4.8%	13.9%

Source: Corporate reports, Bloomberg, Bernstein estimates and analysis.

EXHIBIT 23: **NetEase: Summary of estimate changes**

NetEase: summary of estimate changes	FY26E	FY27E	FY28E
Revenue			
Bernstein - Old	122,291	133,168	141,141
Growth YoY	8.6%	8.9%	6.0%
Bernstein - New	117,411	130,728	139,838
Growth YoY	4.2%	11.3%	7.0%
Consensus	120,688	131,205	140,735
Growth YoY	6.0%	8.7%	7.3%
New vs. old	-4.0%	-1.8%	-0.9%
New vs. consensus	-2.7%	-0.4%	-0.6%
Non-GAAP operating profit			
Bernstein - Old	45,207	50,821	55,355
Growth YoY	14.5%	12.4%	8.9%
Margin	37.0%	38.2%	39.2%
Bernstein - New	42,989	49,687	54,742
Growth YoY	8.9%	15.6%	10.2%
Margin	36.6%	38.0%	39.1%
Consensus	43,423	48,144	48,144
Growth YoY	8.3%	10.9%	0.0%
Margin	36.0%	36.7%	34.2%
New vs. old	-4.9%	-2.2%	-1.1%
New vs. consensus	-1.0%	3.2%	13.7%
Non-GAAP net income			
Bernstein - Old	40,738	44,705	47,903
Growth YoY	9.1%	9.7%	7.2%
Margin	33.3%	33.6%	33.9%
Bernstein - New	38,887	43,783	47,394
Growth YoY	4.1%	12.6%	8.2%
Margin	33.1%	33.5%	33.9%
Consensus	40,910	45,496	48,963
Growth YoY	4.1%	11.2%	7.6%
Margin	33.9%	34.7%	34.8%
New vs. old	-4.5%	-2.1%	-1.1%
New vs. consensus	-4.9%	-3.8%	-3.2%

Source: Corporate reports, Bloomberg, Bernstein estimates and analysis.

APPENDIX - FINANCIAL FORECASTS

EXHIBIT 24: Tencent: Income Statement

RMB million	2022	2023	2024	2025	2026E	2027E	2028E
Revenue	554,552	609,015	660,257	751,766	824,968	908,216	992,883
Gross profit	238,746	293,109	349,246	422,593	471,043	528,028	592,834
Sales & marketing expenses	-29,229	-34,211	-36,388	-41,727	-48,022	-51,110	-55,879
Admin expenses	-45,295	-39,447	-42,075	-50,380	-64,135	-70,890	-86,881
R&D expense	-61,401	-64,078	-70,686	-85,747	-104,060	-120,826	-129,427
Other income, net	8,006	4,701	8,002	-3,177	2,475	2,725	2,979
Operating profit	110,827	160,074	208,099	241,562	257,301	287,927	323,626
Non-GAAP operating profit	144,526	191,886	237,811	280,656	293,497	326,754	364,666
EBITDA	164,037	214,381	256,310	310,767	331,863	383,207	406,690
Profit before tax	210,225	161,324	241,485	277,249	296,295	339,279	387,294
Income tax expense	-21,516	-43,276	-45,018	-47,448	-57,034	-64,463	-73,586
Net income	188,709	118,048	196,467	229,801	239,261	274,816	313,708
Net profit attributable to SHs	188,243	115,216	194,073	224,842	234,476	269,832	308,465
Non-GAAP net profit attributable to SHs	115,649	157,688	222,703	259,626	272,053	309,511	350,580
EPS (RMB)	19.76	12.19	20.94	24.75	26.22	30.67	35.69
Non-IFRS EPS (RMB)	11.93	16.41	23.67	28.09	29.89	34.56	39.83

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 25: Tencent: Cash Flow Statement

RMB million	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	210,225	161,324	241,485	277,249	296,295	339,279	387,294
Depreciation & amortization	61,216	59,008	56,213	63,614	94,975	120,136	112,812
Stock-based compensation	26,248	22,782	23,424	31,859	30,757	32,956	35,035
Other	-151,598	-21,152	-62,601	-69,670	-45,250	-59,400	-79,412
Cash flow from operations	146,091	221,962	258,521	303,052	376,778	432,971	455,729
Capex	-31,300	-30,300	-79,200	-95,900	-106,049	-121,956	-140,249
Additions of intangibles	-26,400	-24,700	-24,000	-24,600	-48,346	-41,681	-44,727
Other	-47,171	-70,161	-18,987	-85,232	-21,261	-28,192	-36,777
Cash flow from investments	-104,871	-125,161	-122,187	-205,732	-175,656	-191,830	-221,754
Cash flow from financing	-59,953	-82,573	-176,494	-87,155	-101,046	-124,088	-123,777
Net effect of exchange rate changes	7,506	1,353	359	-1,643	0	0	0
Net change in cash	-11,227	15,581	-39,801	8,522	100,076	117,054	110,198
Beginning cash	167,966	156,739	172,320	132,519	141,041	241,117	358,171
Ending cash	156,739	172,320	132,519	141,041	241,117	358,171	468,369

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 26: Tencent: Balance Sheet

RMB million	2022	2023	2024	2025	2026E	2027E	2028E
Cash & term deposits	261,515	358,303	325,496	377,842	477,918	594,972	705,170
Accounts receivable	45,467	46,606	48,203	49,930	52,377	55,013	57,327
Inventories	2,333	456	440	530	2,448	2,681	2,809
Other current assets	256,674	113,081	122,041	167,158	180,362	194,655	210,125
Total current assets	565,989	518,446	496,180	595,460	713,105	847,321	975,432
Long-term investments	252,715	261,665	297,415	348,712	372,547	403,208	442,319
Property, plant & equipment, net	104,336	105,028	134,084	200,231	240,860	272,096	309,534
Intangible assets	161,802	177,727	196,127	205,999	224,789	237,053	271,781
Other non-current assets	493,289	514,380	657,189	688,584	688,584	688,584	688,584
Total assets	1,578,131	1,577,246	1,780,995	2,038,986	2,239,885	2,448,262	2,687,649
Short-term debt	22,026	55,698	61,508	53,160	62,796	66,596	71,460
Accounts payable and other payables	301,485	177,543	202,744	217,623	230,428	246,605	259,591
Other current liabilities	110,693	118,916	132,657	141,968	161,089	169,606	171,040
Total current liabilities	434,204	352,157	396,909	412,751	454,314	482,806	502,091
Long-term debt	312,337	292,920	277,107	334,573	350,140	365,194	391,125
Other non-current liabilities	48,730	58,488	53,083	50,597	50,597	50,597	50,597
Total liabilities	795,271	703,565	727,099	797,921	855,050	898,598	943,813
Shareholders' equity	782,860	873,681	1,053,896	1,241,065	1,384,834	1,549,664	1,743,835
Total liabilities & shareholders' equity	1,578,131	1,577,246	1,780,995	2,038,986	2,239,885	2,448,262	2,687,649

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 27: Alibaba: Income Statement

RMB million	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26E	FY3/27E	FY3/28E
Revenue	717,289	853,062	868,687	941,168	996,347	1,029,260	1,141,552	1,244,026
Gross profit	296,084	313,612	318,992	354,845	398,062	393,927	328,310	357,039
Product development expenses	-57,236	-55,465	-56,744	-52,256	-57,151	-64,084	-70,836	-76,970
Sales & marketing expenses	-81,519	-119,799	-103,496	-115,141	-144,021	-232,580	-140,214	-141,692
General and administrative expenses	-55,124	-31,922	-42,183	-41,985	-44,239	-33,961	-37,435	-40,519
Other income/expenses, net	-12,427	-36,788	-16,218	-32,113	-11,746	-11,533	-4,992	-4,769
Operating profit	89,778	69,638	100,351	113,350	140,905	51,769	74,833	93,089
Non-GAAP EBITA	152,225	130,397	147,400	165,028	173,065	76,805	95,710	114,168
Adjusted EBITDA	178,614	158,205	175,199	191,668	202,325	113,881	147,438	177,471
Profit before tax	165,678	59,550	89,185	101,596	155,455	97,105	67,238	83,857
Income tax expense	-29,278	-26,815	-15,549	-22,529	-35,445	-23,482	-14,098	-16,790
Share of results of equity investees	6,984	14,344	-8,063	-7,735	5,966	4,445	3,445	4,339
Net income	143,384	47,079	65,573	71,332	125,976	78,068	56,584	71,406
Net profit attributable to SHs	150,408	61,959	72,509	79,741	129,470	80,623	59,592	74,414
Non-GAAP net profit to SHs	178,954	143,968	143,991	158,359	157,940	69,524	102,095	115,549
Diluted EPS (RMB)	54.70	22.74	27.46	31.24	53.59	32.74	24.74	30.96
Non-GAAP diluted EPS (RMB)	65.13	52.86	54.56	62.23	65.41	28.97	42.38	48.07

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 28: Alibaba: Cash Flow Statement

RMB million	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26E	FY3/27E	FY3/28E
Profit before tax	165,578	59,550	89,185	101,596	155,455	97,105	67,238	83,857
Stock-based compensation	50,120	23,971	30,831	18,546	13,970	11,890	15,886	16,310
Depreciation & amortization	47,909	48,065	41,303	48,232	36,133	40,708	56,720	68,072
Changes in working capital	-24,046	-31,477	7,065	12,957	-38,361	15,036	16,817	20,282
Taxes, other adjustments	-7,775	42,650	31,368	1,262	-3,688	-61,155	-14,098	-16,790
Cash flow from operations	231,786	142,759	199,752	182,593	163,509	103,583	142,562	171,731
Capex	-36,160	-53,309	-35,352	-27,579	-84,278	-125,433	-144,000	-168,000
Additions of intangibles	-1,735	-15	-22	-842	0	-939	-4,007	-4,272
Other	-206,299	-145,268	-100,132	6,597	-101,137	10,776	-89,284	-87,830
Cash flow from investments	-244,194	-198,592	-135,506	-21,824	-185,415	-115,596	-237,292	-260,101
Cash flow from financing	30,082	-64,449	-65,619	-108,244	-76,215	68,550	11,528	19,586
Net effect of exchange rate changes	-7,187	-8,834	3,530	4,389	965	-2,941	0	0
Net change in cash	10,487	-129,116	2,157	56,914	-97,156	53,597	-83,201	-68,784
Beginning cash	345,982	356,469	227,353	229,510	286,424	189,268	242,865	159,663
Ending cash	356,469	227,353	229,510	286,424	189,268	242,865	159,663	90,879

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 29: Alibaba: Balance Sheet

RMB million	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26E	FY3/27E	FY3/28E
Cash and cash equivalents	321,262	189,898	193,086	248,125	145,487	200,979	114,376	42,660
Short term investments	152,376	256,514	326,492	262,955	228,826	179,955	179,955	179,955
Prepayments, receivables and other assets	169,722	192,123	178,388	241,784	299,736	274,440	299,725	321,112
Total current assets	643,360	638,535	697,966	752,864	674,049	655,374	594,056	543,727
Prepayments, receivables and other assets	98,432	113,147	110,926	116,102	83,431	85,946	95,230	103,060
Property and equipment, net	147,412	171,806	176,031	185,161	203,348	273,136	365,408	470,105
Intangible assets, net	70,833	59,231	46,913	26,950	20,911	18,244	17,259	16,762
Other non-current assets	730,181	712,834	721,208	683,752	822,488	915,644	999,089	1,083,428
Total assets	1,690,218	1,695,553	1,753,044	1,764,829	1,804,227	1,948,343	2,071,042	2,217,080
Short-term debt	13,437	8,841	12,266	29,001	22,562	85,946	95,230	103,060
Accounts payable	286,415	293,213	288,493	306,951	344,175	359,084	391,303	424,097
Merchant deposits	15,017	14,747	13,297	12,737	274	288	302	316
Other current liabilities	62,489	66,983	71,295	72,818	68,335	68,846	75,315	81,243
Total current liabilities	377,358	383,784	385,351	421,507	435,346	514,164	562,149	608,716
Long-term debt	135,716	132,503	149,088	141,775	172,307	180,871	205,747	235,416
Other long-term liabilities	93,510	97,073	95,684	88,948	106,468	142,463	142,828	143,192
Total liabilities	606,584	613,360	630,123	652,230	714,121	837,497	910,724	987,325
Shareholders' equity	1,083,634	1,082,193	1,122,921	1,112,599	1,090,106	1,110,845	1,160,318	1,229,756
Total liabilities & shareholders' equity	1,690,218	1,695,553	1,753,044	1,764,829	1,804,227	1,948,343	2,071,042	2,217,080

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 30: JD: Income Statement

RMB million	2022	2023	2024	2025	2026E	2027E	2028E
Revenue	1,046,236	1,084,662	1,158,819	1,309,085	1,376,475	1,425,435	1,467,842
Gross profit	147,073	159,704	183,868	210,028	238,043	252,792	266,027
Fulfillment	-63,011	-64,558	-70,426	-88,176	-91,336	-93,139	-94,434
Marketing expenses	-37,772	-40,133	-47,953	-83,953	-94,845	-93,186	-89,058
Technology & content expenses	-16,893	-16,393	-17,031	-22,229	-23,904	-24,743	-25,473
Admin expenses	-11,053	-9,710	-8,888	-11,980	-12,208	-12,602	-12,955
Operating profit	19,723	26,025	38,736	2,774	15,750	29,121	44,106
Non-GAAP operating profit	27,583	35,441	44,029	9,643	21,283	34,611	49,629
Adjusted EBITDA	33,602	42,452	51,923	18,344	31,314	44,351	59,280
Profit before tax	13,867	31,650	51,538	25,323	31,419	45,314	60,753
Income tax expense	-4,176	-8,393	-6,878	-2,181	-5,341	-7,703	-10,328
Net Income	9,691	23,257	44,660	23,142	26,078	37,611	50,425
Net profit attributable to SHs	10,380	24,167	41,359	19,631	22,673	34,037	46,674
Non-GAAP net profit attributable to SHs	28,220	35,200	47,827	27,032	31,006	42,326	54,997
Non-GAAP EPADS (RMB)	17.74	22.20	31.10	18.15	20.92	28.16	36.10

Source: Company reports, Bernstein estimates and analysis.

EXHIBIT 31: JD: Cash Flow Statement

RMB million	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	13,867	31,650	51,538	25,323	31,419	45,314	60,753
Depreciation & amortization	7,236	8,292	8,904	9,747	10,031	9,740	9,651
Stock-based compensation	7,548	4,804	2,999	4,726	4,129	4,276	4,404
Changes in working capital	14,045	15,921	4,527	-4,546	12,343	4,917	4,075
Other	15,123	-1,146	-9,873	-16,259	-5,341	-7,703	-10,328
Cash flow from operations	57,819	59,521	58,095	18,991	52,581	56,544	68,554
Capex	-23,655	-25,350	-18,046	-12,735	-26,160	-27,154	-28,086
Other	-30,371	-34,193	17,175	54,567	-27,542	-15,678	-16,731
Cash flow from investments	-54,026	-59,543	-871	41,832	-53,701	-42,832	-44,817
Cash flow from financing	1,180	-5,808	-21,004	-26,728	-15,802	-14,364	-15,805
Net effect of exchange rate changes	3,490	125	98	0	0	0	0
Net change in cash	8,463	-5,705	36,318	34,095	-16,922	-651	7,932
Beginning cash	76,693	85,156	79,451	115,716	149,625	132,703	132,052
Ending cash	85,156	79,451	115,769	149,811	132,703	132,052	139,984

Source: Company reports, Bernstein estimates and analysis.

EXHIBIT 32: JD: Balance Sheet

RMB million	2022	2023	2024	2025	2026E	2027E	2028E
Cash & cash equivalents	78,861	71,892	108,350	137,488	119,563	118,497	126,092
Accounts receivable	20,576	20,302	25,596	27,333	30,275	31,363	32,295
Inventory	77,949	68,058	89,326	95,428	103,315	106,578	109,227
Other current assets	173,688	147,558	163,426	114,172	117,102	118,229	119,176
Total current assets	351,074	307,810	386,698	374,421	370,256	374,667	386,790
Long-term investments	36,270	102,564	87,538	83,368	132,693	144,347	156,945
Goodwill and intangible assets, net	9,139	6,935	7,793	7,723	6,466	5,851	5,589
Property, plant & equipment, ne	112,721	126,781	139,587	143,327	137,254	152,535	168,296
Other non-current assets	86,046	84,868	76,618	86,362	88,038	94,810	101,878
Total assets	595,250	628,958	698,234	695,201	734,706	772,210	819,499
Accrued and other liabilities	42,570	43,533	45,985	50,045	55,432	57,424	59,130
Accounts payable	160,607	166,167	192,860	188,379	203,949	210,390	215,619
Other current liabilities	63,384	55,950	60,676	67,648	71,790	73,337	74,667
Total Current Liabilities	266,561	265,650	299,521	306,072	331,171	341,151	349,416
Long-term debt	30,233	41,966	56,475	62,473	62,473	62,473	62,473
Other non-current liabilities	24,333	24,962	28,941	32,873	33,335	33,322	33,357
Total liabilities	321,127	332,578	384,937	401,418	426,979	436,947	445,247
Shareholders' equity	274,123	296,380	313,297	293,783	307,727	335,263	374,252
Total liabilities & shareholders' equity	595,250	628,958	698,234	695,201	734,706	772,210	819,499

Source: Company reports, Bernstein estimates and analysis.

EXHIBIT 33: NetEase: Income Statement

RMB million	2022	2023	2024	2025	2026E	2027E	2028E
Revenue	96,496	103,468	105,295	112,626	117,411	130,728	139,838
Gross profit	52,766	63,063	65,807	72,402	76,250	85,874	92,877
Sales & marketing expenses	-13,403	-13,969	-14,148	-14,620	-14,830	-16,099	-16,967
Admin expenses	-4,696	-4,900	-4,551	-4,228	-4,447	-4,775	-4,965
R&D expense	-15,039	-16,485	-17,525	-17,719	-17,946	-19,757	-20,875
Operating profit	19,629	27,709	29,584	35,835	39,027	45,243	50,070
Non-GAAP operating profit	22,803	30,952	33,467	39,483	42,989	49,687	54,742
EBITDA	22,487	30,764	32,002	38,082	41,449	47,865	52,925
Profit before tax	24,250	34,057	35,718	40,830	43,552	49,110	53,341
Income tax expense	-5,032	-4,700	-5,461	-6,033	-7,839	-8,840	-9,601
Net Income	19,218	29,357	30,256	34,798	35,712	40,270	43,740
Net profit attributable to SHs	20,338	29,416	29,698	33,760	34,925	39,339	42,722
Non-GAAP net income to SHs	24,058	32,608	33,511	37,344	38,887	43,783	47,394
Earnings per ADS (RMB)	36.86	50.69	52.35	58.60	60.77	68.15	73.48
Non-GAAP earnings per ADS (RMB)	36.50	50.14	51.86	58.02	60.09	67.39	72.67

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 34: NetEase: Cash Flow Statement

RMB million	2022	2023	2024	2025	2026E	2027E	2028E
Net income	19,843	29,357	30,256	34,798	35,712	40,270	43,740
Depreciation & amortization	2,858	3,055	2,418	2,247	2,423	2,621	2,855
Stock-based compensation	3,174	3,243	3,883	3,648	3,962	4,444	4,672
Other	1,834	-324	3,120	10,047	437	2,833	3,274
Cash flow from operations	27,709	35,331	39,677	50,740	42,534	50,169	54,541
Capex	-2,643	-4,276	-2,206	-1,752	-3,211	-3,681	-4,212
Other	-4,726	-12,767	20,123	-31,429	-31,437	-31,429	-31,429
Cash flow from investments	-7,370	-17,043	17,916	-33,181	-34,649	-35,110	-35,641
Cash flow from financing	-10,238	-21,467	-27,336	-20,160	-13,214	-11,511	-12,536
Net effect of exchange rate changes	110	-202	11	-382	0	0	0
Net change in cash	10,212	-3,381	30,268	-2,984	-5,328	3,548	6,363
Beginning cash	17,376	27,588	24,207	54,475	51,491	46,163	49,711
Ending cash	27,588	24,207	54,475	51,491	46,163	49,711	56,074

Source: Corporate reports, Bernstein estimates and analysis.

EXHIBIT 35: NetEase: Balance Sheet

RMB million	2022	2023	2024	2025	2026E	2027E	2028E
Cash & term deposits	109,837	122,285	126,825	139,807	134,483	138,031	144,394
Accounts receivable	5,003	6,422	5,669	5,338	6,092	6,432	6,360
Inventories	994	695	572	689	692	749	760
Other current assets	15,770	13,290	20,259	34,781	34,781	34,781	34,781
Total current assets	131,603	142,693	153,325	180,615	176,049	179,993	186,296
Property, plant & equipment, net	10,464	12,150	12,693	12,473	13,262	14,321	15,679
Other non-current assets	30,694	31,082	29,974	28,327	59,760	91,189	122,618
Total assets	172,761	185,925	195,992	221,415	249,070	285,504	324,593
Short-term debt	23,876	19,240	11,805	6,384	6,384	6,384	6,384
Accounts payable and other payables	4,320	3,453	3,480	4,517	5,073	5,691	6,320
Deferred revenue	12,519	13,362	15,299	20,515	19,977	20,363	21,332
Other current liabilities	16,114	17,788	19,084	20,953	24,091	28,761	33,049
Total current liabilities	56,829	53,842	49,668	52,369	55,526	61,200	67,085
Long term liabilities	7,059	3,998	3,830	3,942	5,142	6,342	7,542
Total liabilities	63,888	57,841	53,497	56,311	60,668	67,542	74,627
Shareholders' equity	108,737	127,968	142,410	160,296	182,840	211,499	242,514
Total liabilities and equity	172,761	185,925	195,992	221,415	249,070	285,504	324,593

Source: Corporate reports, Bernstein estimates and analysis.