Action | Citi Research

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Tencent Holdings (0700.HK)

1Q26E Preview: Resilient Gaming & Ads as AI Spend Weighs on Profit

CITI'S TAKE

Tencent is scheduled to report 1Q26 on May 13 and we expect solid revs growth thanks to resilient gaming revs attributed to CNY seasonality and steady evergreen franchise and steady ads revs benefited from increase in VA ad loads and better eCPM. While we expect GP to continue to grow slightly faster than revs, we forecast flattish OP growth reflecting higher AI-related spend in R&D, G&A and marketing promotion. Into 2Q26, we believe share price performance will be affected by the feedback and traction from upcoming release of HY3, subsequent progress of agentic AI within WeChat ecosystem and any potential disruptive forces from competition as well as grossing performance of *HoK World* and other new game release. Post estimates tweak, our TP is adjusted slightly to HK$783. Maintain Buy on attractive valuation and our belief and confidence that HY3 and WeChat agentic AI should strengthen Tencent's AI positioning.

1Q26 preview — We model 1Q26 total revs to up 9.9% yoy to Rmb197.9bn and non-GAAP net profit to +9.7% yoy to Rmb67.2bn or 34% margin, vs. Bloomberg consensus of Rmb199bn (+10.6% yoy) and Rmb67.5bn (34% margin). We forecast total online games +11.7% yoy to Rmb66.4bn with domestic/International games +10%/+16% yoy to Rmb47.2bn/Rmb19.3bn. We model online ad revs +17% yoy to Rmb37.3bn and FBS revs up 8.5% yoy to Rmb59.6bn, of which cloud revs +25% yoy to Rmb12.5bn and fintech revs +4.8% yoy to Rmb47bn. We model GP/OP to +10.7%/+0.4% yoy to Rmb111.2bn/Rmb69.6bn. We expect result likely in line with potential small deviation on upside risk to our gaming forecast.

Thoughts on upcoming HY 3 — The latest model, Hunyuan 3.0, is scheduled for release in April and we expect it could feature significant upgrades in reasoning and multimodal capabilities. We believe Hunyuan 3.0 will be aimed for future integration with WeChat, QQ, and Yuanbao, to establish it as a functional model within its ecosystem. We expect the model will focus on providing strong productivity tools to support users' daily lifestyles, workflows, and entertainment and for enterprise customers, we believe Hunyuan 3.0 aims to improve efficiency by offering tailored agentic solutions designed to meet their specific operational needs.

Estimates revision — For 2026-2028E, we tweak total revs and non-GAAP net profit by +0.7%/-1.3%, +0.6%/-2.2% and +0.5%/-1.6%. Our 1Q26 revs and non-GAAP net profit are revised by +0.5%/-0.5% incorporating higher gaming revs.

Earnings Summary

Year to 31 Dec	Net Profit (RmbM)	Diluted EPS (Rmb)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	222,703	23.672	44.3	18.8	4.2	25.0	1.0
2025A	259,626	28.086	18.6	15.8	3.5	24.4	1.2
2026E	277,880	30.091	7.1	14.8	3.2	23.0	1.2
2027E	308,746	33.440	11.1	13.3	2.9	23.2	1.2
2028E	341,075	36.950	10.5	12.0	2.6	23.1	1.3

Source: Powered by dataCentral

Buy

Price (17 Apr 26 16:10)	HK$510.50
Target price	HK$783.00↓
from HK$787.00	
Expected share price return	53.4%
Expected dividend yield	1.2%
Expected total return	54.6%
Market Cap	HK$4,658,618M
	US$594,845M

Price Performance (RIC: 0700.HK, BB: 700 HK)

Alicia Yap, CFA AC
Nelson Cheung
Vicky Wei, CFA

0700.HK: Fiscal year end 31-Dec

Price: HK$510.50; TP: HK$783.00; Market Cap: HK$4,658,618m; Recomm: Buy

Profit & Loss (Rmbm)	2024	2025	2026E	2027E	2028E
Sales revenue	660,257	751,766	821,871	894,147	966,395
Cost of sales	-311,011	-329,173	-356,633	-381,184	-408,325
Gross profit	349,246	422,593	465,238	512,963	558,071
Gross Margin (%)	52.9	56.2	56.6	57.4	57.7
EBITDA (Adj)	**287,736**	**339,449**	**355,692**	**445,234**	**493,425**
EBITDA Margin (Adj) (%)	43.6	45.2	43.3	49.8	51.1
Depreciation	-27,332	-32,799	-44,381	-96,568	-109,067
Amortisation	-28,881	-33,229	-29,587	-32,189	-33,051
EBIT (Adj)	**237,811**	**280,656**	**288,099**	**322,853**	**357,683**
EBIT Margin (Adj) (%)	36.0	37.3	35.1	36.1	37.0
Net interest	4,023	1,779	3,831	6,547	11,266
Associates	29,363	33,908	40,990	41,286	41,558
Non-Op/Except/Other Adj	-29,712	-39,094	-36,136	-37,889	-39,026
Pre-tax profit	**241,485**	**277,249**	**296,784**	**332,798**	**371,481**
Tax	-45,018	-47,448	-59,357	-66,560	-74,296
Extraord./Min.Int./Pref.div.	-2,394	-4,959	-3,231	-3,091	-2,951
Reported net profit	**194,073**	**224,842**	**234,196**	**263,147**	**294,234**
Net Margin (%)	29.4	29.9	28.5	29.4	30.4
Core NPAT	222,703	259,626	277,880	308,746	341,075
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS (Rmb)	20.629	24.323	25.360	28.501	31.875
Core EPS (Rmb)	23.672	28.086	30.091	33.440	36.950
DPS (Rmb)	4.500	5.300	5.302	5.523	5.852
CFPS (Rmb)	27.479	32.784	35.923	44.457	49.259
FCFPS (Rmb)	20.097	23.337	25.244	32.836	37.325
BVPS (Rmb)	105.033	127.039	139.613	154.902	170.758
Wtd avg ord shares (m)	9,269	9,085	9,055	9,053	9,051
Wtd avg diluted shares (m)	9,408	9,244	9,235	9,233	9,231
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	8.4	13.9	9.3	8.8	8.1
EBIT (Adj) (%)	23.9	18.0	2.7	12.1	10.8
Core NPAT (%)	41.2	16.6	7.0	11.1	10.5
Core EPS (%)	44.3	18.6	7.1	11.1	10.5
Balance Sheet (Rmbm)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	132,519	141,041	186,824	279,410	380,717
Accounts receivables	48,203	49,930	54,041	58,793	63,544
Inventory	440	530	657	715	773
Net fixed & other tangibles	282,037	322,741	363,097	376,212	379,698
Goodwill & intangibles	196,127	205,999	201,412	194,222	186,172
Financial & other assets	1,121,669	1,318,745	1,379,607	1,451,021	1,534,984
Total assets	**1,780,995**	**2,038,986**	**2,185,638**	**2,360,373**	**2,545,887**
Accounts payable	118,712	121,127	129,951	137,853	145,431
Short-term debt	61,508	53,160	55,160	57,160	59,160
Long-term debt	146,521	208,369	210,369	212,369	214,369
Provisions & other liab	400,358	415,265	435,856	457,472	485,254
Total liabilities	**727,099**	**797,921**	**831,336**	**864,853**	**904,214**
Shareholders' equity	973,548	1,154,152	1,264,158	1,402,285	1,545,487
Minority interests	80,348	86,913	90,144	93,235	96,186
Total equity	**1,053,896**	**1,241,065**	**1,354,302**	**1,495,520**	**1,641,673**
Net debt (Adj)	**75,510**	**120,488**	**78,705**	**-9,881**	**-107,188**
Net debt to equity (Adj) (%)	7.2	9.7	5.8	-0.7	-6.5

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	18.8	15.8	14.8	13.3	12.0
PB (x)	4.2	3.5	3.2	2.9	2.6
EV/EBITDA (x)	11.9	9.9	9.3	7.3	6.4
FCF yield (%)	4.5	5.3	5.7	7.4	8.4
Dividend yield (%)	1.0	1.2	1.2	1.2	1.3
Payout ratio (%)	19	19	18	17	16
ROE (%)	21.8	21.1	19.4	19.7	20.0
Cashflow (Rmbm)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	264,312	307,590	325,931	413,722	460,775
Working capital	21,881	16,484	14,248	12,474	16,899
Other	-27,672	-21,022	-8,441	-15,739	-22,972
Operating cashflow	**258,521**	**303,052**	**331,738**	**410,457**	**454,702**
Capex	-69,451	-87,324	-98,620	-107,294	-110,166
Net acq/disposals	-4,941	-34,717	-296	-126	62
Other	-47,795	-83,691	-89,155	-104,411	-122,566
Investing cashflow	**-122,187**	**-205,732**	**-188,071**	**-211,831**	**-232,671**
Dividends paid	-28,859	-37,535	-48,151	-48,010	-49,998
Financing cashflow	**-176,494**	**-87,155**	**-95,912**	**-103,674**	**-117,885**
Net change in cash	**-39,801**	**8,522**	**45,783**	**92,585**	**101,307**
Free cashflow to s/holders	**189,070**	**215,728**	**233,118**	**303,163**	**344,536**

For definitions of the items in this table, please click here.

Business Update & 1Q26E Preview

Latest updates on Tencent Cloud and AI development

With emerging agent development through OpenClaw and Hermes Agent, Tencent has been actively integrating agentic services into its consumer and enterprise products. Recently, Tencent Cloud also released HY-World 2.0 and will soon release **Hunyuan 3.0**. Below listed major development of Tencent Cloud and AI since early 2026:

- On Jan 28, Tencent open-sourced **HunyuanImage 3.0-Instruct** which ranked #7 in image edit leaderboard on LMArena. HunyuanImage 3.0-Intruct is based on MoE structure with a maximum parameter of 80B. Currently there are 3,000 derivatives image and video models based on Hunyuan, over 3mn downloads for Hunyuan model series on LLM communities.

- On Jan 30, Tencent released **CodeBuddy Code 2.0** featuring seamless AI codding coordination and collaboration.

- On Feb 18, Tencent announced that **Yuanbao**'s DAU has surpassed 50mn with MAU reaching 114mn after wrapping up its Rmb1bn red envelope distribution on Feb 17. Apart from its heavy marketing effort, Yuanbao also upgraded 159 functions within 21 days.

- On Mar 7, Tencent's QQ Open platform officially announced that all QQ users with real-name registration will be able to gain access to **OpenClaw**'s AI agent with simple installation procedure with Tencent Cloud Lighthouse. By installing the AI intelligent agent to users' device through QQ, users can direct the AI agent to complete a series of automated tasks including writing code, monitoring data, creating content through QQ chat interface. Each QQ account can register 5 independent AI agents and users can freely create/name the agent and assign tasks (link). Later on Apr 9, Tencent upgraded its **QClaw for V2 version** with improving capabilities in multi-agent collaboration, cross-app usage and enhanced security.

- On Mar 9, Tencent released its version of AI intelligent agent, **WorkBuddy**, fully compatible with OpenClaw's skills, easier to use and more secure. It is developed by the CodeBuddy team of Tencent Cloud. The key purpose of the agent is to serve as an "AI assistant for the workplace + a productivity tool for everyone". WorkBuddy can understand natural language, think for itself and manage the tasks for users (link). Later on Mar 12, Tencent announced that WorkBuddy can be directly integrated with WeChat. On Mar 31, WorkBuddy's mini program has become available.

- On Mar 27 during Tencent Global Digital Ecosystem Summit held in Shanghai, Tencent outlined its full agent product spectrum for 1) consumers including QClaw, Tencent office applications based on Skills (Tencent Meeting, Tencent Docs, ima), WorkBuddy; 2) corporate clients including Lexiang 2.0 (intelligent quality control and PPT generation), Magic Agent 2.0 for marketing and TC Data Agent; 3) coding products including CodeBuddy and ADP (agent development platform). During the summit, Tencent shared that they will soon release **Hunyuan 3.0** with lower active parameters and improving reasoning, long memory and agent capabilities. Tencent also upgraded its MaaS platform into **Token Hub** which integrates multiple models including Hunyuan, DeepSeek, MiniMax, Kimi, GLM within its Token Plan with strengthening **Harness** tools.

- On Apr 1, Tencent released **ADP Agent Portal** as a cross-platform, enterprise-level agent portal as an agent manager. On Apr 2, Tencent launched **ClawPro** as enterprise-level OpenClaw products for businesses. On Apr 3, Tencent Cloud launched **TencentDB Agent Memory** for supplement long memory capability of OpenClaw to improve answer accuracy. On Apr 8, Tencent launched **QBotClaw** on QQ Brower.

- On Apr 16, Tencent Cloud released an open-sourced **HY-World 2.0** as its latest world model which can generate 3D asset with one prompt. Tencent Cloud claimed a SOTA performance in scenario completeness and reliance on input instruct following. This is supported by HY-2.0's vertical models including HY-Pano-2.0 for end-to-end learning, HY-WorldStereo for space memory and HY-WorldMirror 2.0 for optimization.

Figure 1. Tencent Cloud Hunyuan major milestones and achievements in 2026

Date	Event	Milestones
28-Jan-26	Open source	Open-sourced Hunyuan-Image 3.0-Instruct
30-Jan-26	Product launch	Launch of CodeBuddy Code 2.0
9-Mar-26	Product launch	Launch of WorkBuddy as all-scenario AI agent
1-Apr-26	Product launch	Launch of ADP Agent Portal as cross-platform enterprise agent portal
2-Apr-26	Product launch	Launch of ClawPro as enterprise-level OpenClaw
3-Apr-26	Product launch	Launch of TencentDB Agent Memory as OpenClaw's long memory
8-Apr-26	Product launch	Launch of QBotClaw on QQ Browser
9-Apr-26	Product launch	Launch of QClaw V2
16-Apr-26	Product launch	Launch of HY-World 2.0

Source: Company Reports, Citi Research

Thoughts on upcoming release of Hunyuan 3.0

Management noted during 4Q25 earnings call that latest model Hunyuan 3.0 will be released in April. This new model is led by Chief AI Scientist, Yao Shunyu and we believe there are a few potential capabilities that could be incorporated into HY 3.0. We believe the model is likely to have meaningful upgrade in its reasoning capabilities with multimodal performance. We believe with the release of HY3.0, Tencent is likely to integrate its key products like WeChat, QQ, Yuanbao and become a functional model within its ecosystem. Given this model needs to position itself as the model that work best within Tencent ecosystem, we believe it should have strong productivity (utilities) tools, with emphasis on how AI could support users' daily lifestyle, workflow and entertainment selection. For the ToB function, we believe the new model could aim at supporting and transforming enterprises efficiency and provide tailored agentic solution for different enterprise customers based on their operational needs.

Mobile games

Tencent's titles dominate iOS grossing chart during CNY in 1Q26

During Jan-Mar 2026, there were 5/5/6 games published by Tencent ranked as top 10 mobile games in China by iOS grossing by month-end of Jan-Mar 2026, per data.ai tracking. For example, *HoK* continued to top iOS grossing chart by ranking #1/1/3 in month-end of Jan-Mar, while *Peacekeeper Elite* was ranked #3/2/1 by month-end of Jan-Mar respectively. *Delta Force* continued to maintain a strong performance which is head-to-head to *Peacekeeper Elite* by ranking #2/3/6 by month-end of Jan-Mar.

Other notable titles include: 1) *Naruto* which was ranked #4 by month-end of Jan; 2) *CrossFire Mobile* was ranked #7 by month-end of Jan; 3) other top-ranking titles include *Fight of the Golden Spatula*, *Valorant Mobile* and *Roco Kingdom* which was newly released on Mar 26. As of Apr 18, 8 out of top 10 mobile games by iOS grossing were published by Tencent including *Delta Force* (#1), *HoK* (#2), *Peacekeeper Elite* (#4), *Valorant Mobile* (#6), *Fight of the Golden Spatula* (#7), *DnF Mobile* (#8), *CrossFire* (#9) and *Roco Kingdom* (#10), per data.ai.

Figure 2. Top 10 mobile games in China by monthly iOS grossing (Jan 31, 2026)

Ranking	Game Title	Publisher
1	Honour of Kings	Tencent
2	Delta Force	Tencent
3	Peacekeeper Elite	Tencent
4	Naruto	Tencent
5	Whiteout Survival	Century Games
6	Tomb Busters	Giant Network
7	CrossFire	Tencent
8	Fantasy Westward Journey	NetEase
9	Infinity Nikki	Nikki
10	Anipop	Happy Elements

Source: data.ai, Citi Research

Figure 3. Top 10 mobile games in China by monthly iOS grossing (Feb 28, 2025)

Ranking	Game Title	Publisher
1	Honour of Kings	Tencent
2	Peacekeeper Elite	Tencent
3	Delta Force	Tencent
4	Fight of Golden Spatula	Tencent
5	Valorant Mobile	Tencent
6	Eggy Party	NetEase
7	Whiteout Survival	Century Games
8	Tomb Busters	Giant Network
9	Genshin Impact	miHoYo
10	Where Winds Meet	NetEase

Source: data.ai, Citi Research

Figure 4. Top 10 mobile games in China by monthly iOS grossing (Mar 31, 2026)

Ranking	Game Title	Publisher
1	Peacekeeper Elite	Tencent
2	Roco Kingdom	Tencent
3	Honour of Kings	Tencent
4	Whiteout Survival	Century Games
5	Love and Deepspace	Nikki
6	Delta Force	Tencent
7	Fantasy Westward Journey	NetEase
8	Fight of Golden Spatula	Tencent
9	Valorant Mobile	Tencent
10	Anipop	Happy Elements

Source: data.ai, Citi Research

Figure 5. Top 10 mobile games in China by monthly iOS grossing (Apr 18, 2026)

Ranking	Game Title	Publisher
1	Delta Force	Tencent
2	Honour of Kings	Tencent
3	Whiteout Survival	Century Games
4	Peacekeeper Elite	Tencent
5	Fantasy Westward Journey	NetEase
6	Valorant Mobile	Tencent
7	Fight of Golden Spatula	Tencent
8	DnF Mobile	Tencent
9	CrossFire	Tencent
10	Roco Kingdom	Tencent

Source: data.ai, Citi Research

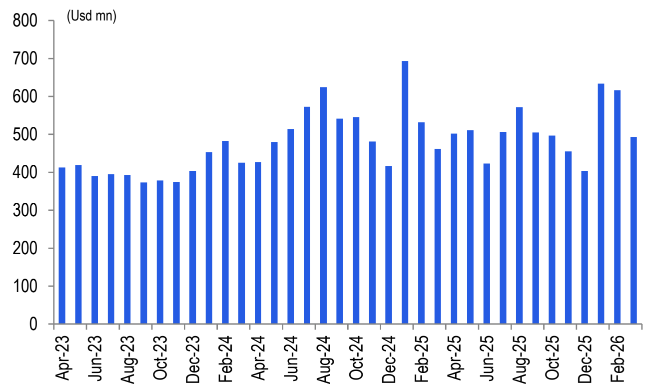
SensorTower tracking also suggested meaningful grossing growth qoq

Based on SensorTower tracking, we aggregate 207 games among Tencent's game portfolio to derive a total domestic iOS grossing of US$1.74bn in 1Q26, +29% qoq and +3.3% yoy driven by successful promotion of key franchises of Tencent entering CNY period.

In 1Q26, *HoK* has generated an estimated iOS grossing of US$545mn per SensorTower, +2.2% yoy and +39% qoq. iOS grossing of *HoK* reached peak level at US$212mn in Jan, followed by sequential normalization at US$174/159mn in Feb and Mar respectively.

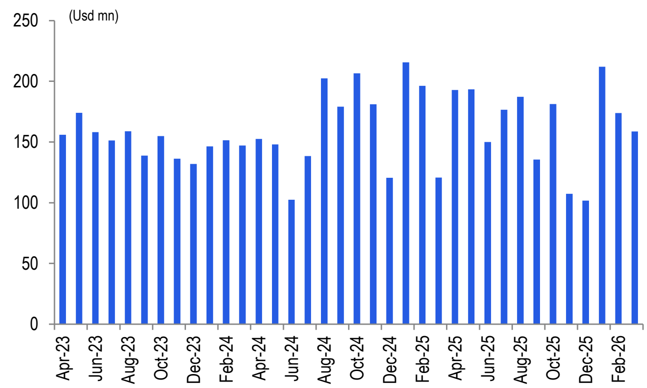
With relatively soft iOS grossing for *Peacekeeper Elite* at US$117mn in 4Q25, SensorTower suggested a strong domestic iOS grossing rebound to US$342mn in 1Q26 which grow flat yoy. Meanwhile, after reaching a peak of US$195mn in 4Q25, *Delta Force*'s domestic iOS grossing remained steady at US$186mn in 1Q26. Both titles also experienced some normalization entering Mar after CNY holiday.

Figure 6. Tencent domestic mobile game iOS grossing



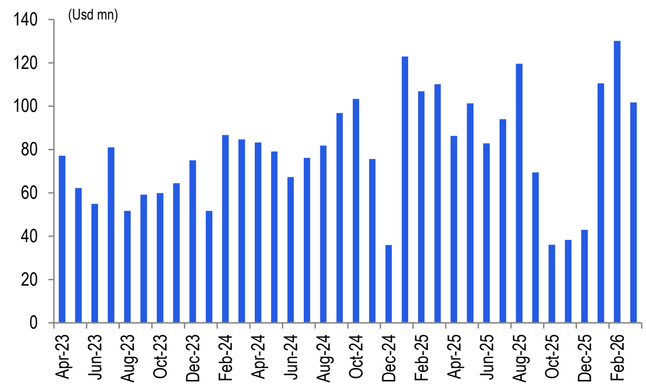
Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS App Store

Figure 7. HoK monthly iOS grossing



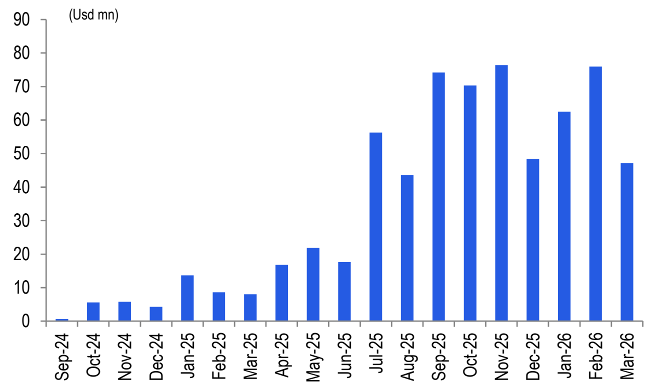
Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS App Store

Figure 8. Peacekeeper Elite monthly iOS grossing



Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS App Store

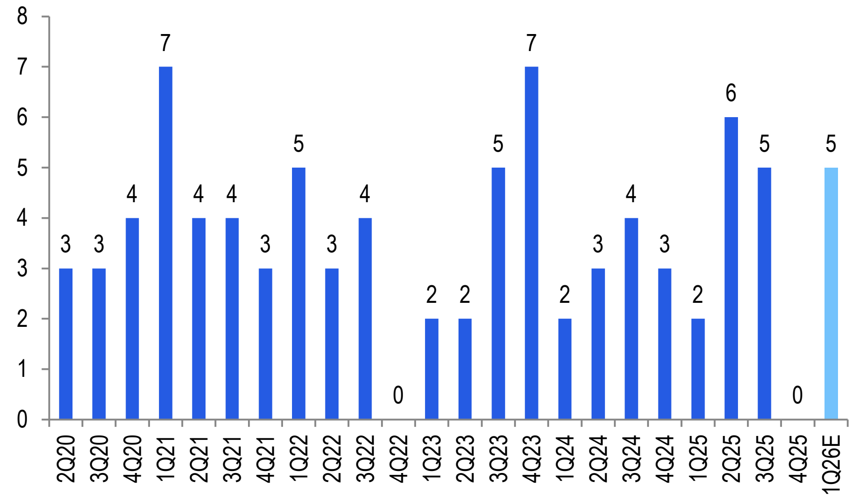
Figure 9. Delta Force monthly iOS grossing



Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS App Store

Five new games released during 1Q26

Figure 10. Number of mobile game launches domestically by quarter



Source: Company Reports, Citi Research Estimates

Per our tracking, Tencent released 5 domestic titles during 1Q26, comparing with 2 games launched in 1Q25 and nil in 4Q25. This includes: 1) *Ni Zhan: Future* (“逆战:未来”), a cross-platform FPS title published on Jan 13; 2) *All Star Awakening* (“全明星觉醒”), a mobile card game licensing from SNK and was released on Jan 22; 3) the mobile version of a legacy simulation title *QQ Farm* (“QQ 农场”) was updated on Feb 6; 4) *San Guo Zhi Yi Wen Lu* (“三国志异闻录”) is a strategy game licensing from Giraffe Game which was published on Mar 17; 5) *Roco Kingdom* (“洛克王国”) is a casual RPG which was released on Mar 26.

Since pre-installation on Mar 24, *Roco Kingdom* has topped iOS game download chart in China and currently ranked #2 by iOS game download as of Apr 18, per data.ai tracking. *Roco Kingdom* once topped iOS game grossing chart in China on Mar 28 and is now ranked within top 10 game grossing chart as of Apr 18.

Figure 11. New games launched by Tencent domestically in 1Q26 and Apr 2026

#	English name	Chinese name	Developer	Genre	Status	Publishing timeline
	Published mobile games					
1	Ni Zhan: Future (mobile + PC + console)	逆战：未来	Tencent	FPS	Published	13-Jan-26
2	All Star Awakening	全明星觉醒	Tencent, SNK	Board & Card	Published	22-Jan-26
3	QQ Farm	QQ农场	Tencent	Simulation	Published	6-Feb-26
4	San Guo Zhi Yi Wen Lu	三国志异闻录	Giraffe Game	Strategy	Published	17-Mar-26
5	Roco Kingdom	洛克王国	Tencent	Casual	Published	26-Mar-26
6	Honor of Kings: World (PC)	王者荣耀·世界	Tencent	RPG	Published	10-Apr-26
7	Honor of Kings: World (mobile)	王者荣耀·世界	Tencent	RPG	Published	17-Apr-26

Source: Company Reports, data.ai, Citi Research

HoK: World release and testing update of key new games

Tencent currently has 97 mobile games in the pipeline, 55 of which have already been approved by NPPA, or 57% of the entire pipeline. Entering 2Q26E, Tencent has already released its flagship title *HoK: World* and has commenced beta testing for key new games including *Monster Hunter Outlanders*, *Rainbow Six Siege*, *Animula Nook* and *Zhe Tian Shi Jie*. Below we list out major new games that will be launched within 2026E or might have material influence for Tencent's online game revenues in future:

- ***Honor of Kings: World ("王者荣耀•世界"):*** *HoK: World* is a flagship open-world title developed by Tencent's Timi Studio based on *HoK* IP. *HoK: World* has officially released on Apr 10 on PC and Apr 17 on mobile which currently topped iOS game download chart as of Apr 18. On Apr 17, the development team of *HoK: World* also announced a progress report to implement several in-game optimization including story length, in-game control, audio optimization. Going forward, *HoK: World* will further optimize its features in mini map, advanced in-game control, PVP anti-cheating mechanism and other customization features.

- ***Monster Hunter Outlanders ("怪物猎人：旅人"):*** *Monster Hunter Outlanders* is an ARPG developed by Timi Studio licensing from Capcom with overseas version being published by Level Infinite. As of Apr 15, global pre-registrations have surpassed 5mn. The title has conducted another round of closed paid beta testing since Apr 2.

- ***Rainbow Six Siege ("彩虹六号：攻势"):*** *Rainbow Six Siege* is a 5V5 indoor tactical shooting game licensed by Ubisoft and will be published by Tencent in China region. On Apr 16, its development team announced *Rainbow Six Siege* will conduct its first closed beta testing in China in Jun.

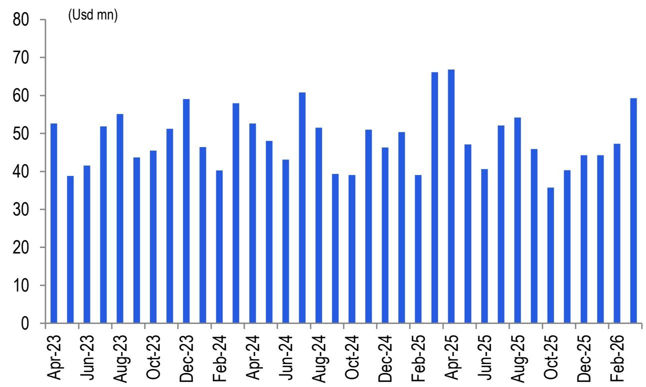
- ***Animula Nook ("粒粒的小人国"):*** *Animula Nook* is a simulation title to be published by Tencent. The title has recently concluded a large-scale beta testing between Mar 19-30.

- ***Rewinding Cadence ("归环"):*** *Rewinding Cadence* is an ACG open-world title developed by Saroasis Studios under Tencent.

Following PC and mobile launches, *HoK: World* has conducted several immediately optimization based on gamer feedback and the development team seemed to commit for continued optimization in near-term. Together with its strong social attribute, we believe *HoK: World* will still have the potential to become one of the evergreen titles within Tencent's game portfolio and contribute meaningful monetization in its full life cycle. In 2026, we currently model domestic games revs to +9.4% yoy to Rmb179.8bn and forecast international games revs to +10.0% yoy to Rmb85.1bn. We model 1Q26 domestic games revs to +10% yoy to Rmb47.2bn and international games revs to +16% to Rmb19.2bn.

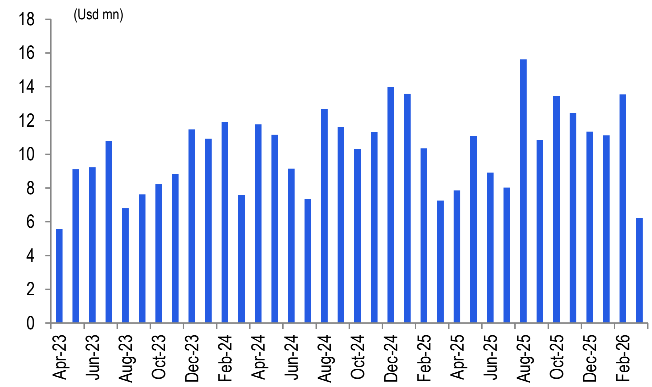
Grossing performance of other overseas titles

Figure 12. PUBG Mobile iOS + Google Play overseas grossing



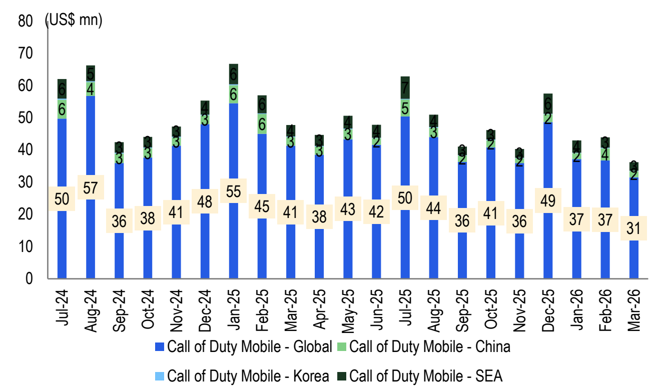
Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS and Google Play App Stores

Figure 13. LoL: Wild Rift iOS + Google Play oversea grossing



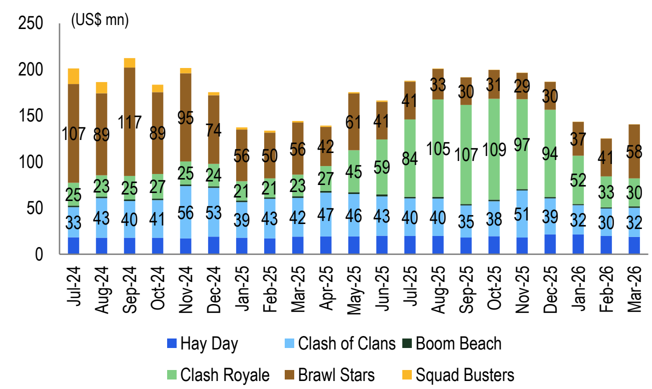
Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS and Google Play App Stores

Figure 14. All-platform grossing of CODM worldwide



Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS and Google Play App Stores, grossing from China represents grossing generated from iOS only

Figure 15. All-platform grossing of six Supercell titles



Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS and Google Play App Stores

Figure 16. Tencent mobile games pipeline

#	English name	Chinese name	Developer	Genre	Status	Publishing timeline
	New mobile game pipeline					
1	Evolution	失控进化	Rust	Survival	approved	1-May-26
2	Chaos Zero Nightmare	卡厄思梦境	Tencent, Xiao Ming Tai Ji	RPG	approved	31-May-26
3	Just Dance: Party	舞力全开： 派对	Ubisoft	Music	na	17-Jun-26
4	I am Nobody	异人之下	Tencent	ARPG	approved	2026
5	The Finals	终极角逐	Embark Studios, Nexon	FPS	approved	2026
6	Lost Records: Bloom & Rage	Lost Records: Bloom & Rage	Don't Nod	RPG	na	2026
7	CrossFire: Rainbow (mobile + PC)	穿越火线： 虹	Tencent	FPS	approved	TBC
8	Squad (PC)	战术小队： 破晓攻势	Offworld Industries	FPS	approved	TBC
9	Rewinding Cadence	归环	Saroasis Studios	RPG	approved	TBC
10	Monster Hunter Outlanders	怪物猎人： 旅人	Tencent, Capcom	ARPG	approved	TBC
11	Red Alert: Honor	红警： 荣耀	EA	Strategy	approved	TBC
12	Path of Exile 2	流放之路： 降临	Grinding Gear Games	ARPG	approved	TBC
13	Lineage II Revolution	天堂 II： 革命	NCSoft	MMORPG	na	TBC
14	The First Berserker: Khazan	地下城与勇士： 卡赞	Nexon	ARPG	na	TBC
15	FC Dream Drama	FC足球梦剧场	Electronic Arts	Simulation	na	TBC
16	Zhe Tian Shi Jie	遮天世界	Tencent	RPG	na	TBC
17	Cookie Run: Alliance	饼干人联盟	Devsisters	ARPG	na	TBC
18	Animula Nook	粒粒的小人国	Tencent	Simulation	approved	TBC
19	Rules of Engagement: The Grey State	灰境行者	Grey State Studio (Tencent)	FPS	na	TBC
20	Ragnarok Origin	仙境传说: 初心	Gravity	MMORPG	approved	TBC
21	Project: OO	Project: OO	Tencent	RPG	na	TBC
22	Project: Fate	代号： 天命	Tencent	Strategy	na	TBC
23	Project: Guofeng	代号： 国风	Tencent	TBC	na	TBC
24	Fate Trigger	命运扳机	Tencent, Saroasis Studios	TPS	approved	TBC
25	Light of Motiram	荒野起源	Tencent	Survival	na	TBC
26	Honor of Kings: Chess	王者万象棋	Tencent	Board & Card	approved	TBC
27	Honor of Kings: Dawn	王者荣耀星之破晓	Tencent	Action	approved	TBC
28	Sword Snow Stride	雪中悍刀行	Tencent	MMORPG	approved	TBC
29	Don't Starve: Newhome	饥荒： 新家园	Century Huatong, Klei	Sandbox	approved	TBC
30	Uncharted Waters	大航海时代： 海上霸主	Koei	Simulation	approved	TBC
31	A Mortal's Journey to Immortality	凡人修仙传： 星海仙途	Tencent, China Lit	RPG	approved	TBC
32	Calabiyau	卡拉彼丘	iDreamSky	TPS	approved	TBC
33	Secret Knife	秘境刀仔	Tencent	TBC	approved	TBC
34	MT5	我叫MT5	Tencent	MMORPG	na	TBC
35	Chio Hero	奇奥英雄传	Gutou Games	Board & Card	approved	TBC
36	Metal Revolution	金属对决	Next Studios	Action	approved	TBC
37	Interstellar Utopia (mobile + PC)	星际理想国	Pixel Game	Sandbox	approved	TBC
38	The War of Dragon Stones	龙石战争	Tencent	Strategy	approved	TBC
39	Tian Tian Fei Hu Dui	天天飞虎队	Tencent	TPS	na	TBC
40	Code: To Jin Yong	代号： 致金庸	Tencent	MMORPG	na	TBC
41	Xiu Xian Shi Dai	修仙时代	Electronic Soul	RPG	na	TBC
42	Phantom Blade Zero	影之刃零	Soul Frame Game	ARPG	na	TBC
43	Cronos: The New Dawn	Cronos: The New Dawn	Bloober Team	Survival	na	TBC
44	Die Zhen Ying Xiong	叠战英雄	Tencent	TBC	approved	TBC
45	Legends of Runeterra (China)	符文大地传说	Riot Games	Board & Card	na	TBC
46	Project L	Project L	Riot Games	Action	na	TBC
47	Project F	Project F	Riot Games	TBC	na	TBC
48	Hunting	狩	Tencent	TBC	approved	TBC
49	Handmade Planet	手工星球	Tencent	Sandbox	approved	TBC
50	Chuanqi Tianxia	传奇天下	Shengqu Games	MMORPG	approved	TBC
51	The Division Resurgence	全境封锁： 曙光	Ubisoft	TPS	approved	TBC
52	Assassin's Creed Jade	刺客信条： 侠隐	Ubisoft, Tencent	ARPG	approved	TBC
53	Heroes of Might and Magic	魔法门之英雄无敌： 领主争霸	Ubisoft	Strategy	approved	TBC
54	Rainbow Six Siege	彩虹六号： 攻势	Ubisoft	FPS	approved	TBC
55	New Eternal Love	新三生三世十里桃花	Tencent	Board & Card	approved	TBC
56	Haikyu!! Fly High	排球少年： 新的征程	KLab, Changyou, Prophet Games	Sports	approved	TBC
57	Guardians of the Dafeng	大奉打更人	Tencent	MMORPG	approved	TBC
58	Yan Wu	偃武	Tencent	Strategy	approved	TBC
59	Legends of the Wild	荒野国度	Whynot Games	Strategy	approved	TBC
60	Star Era	群星纪元	Tencent	Strategy	na	TBC
61	Slay the Spire	尖塔奇兵	Mega Crit Games	Board & Card	approved	TBC
62	New Nobunaga's Ambition	新信長之野望	Koei	Strategy	na	TBC
63	The Three Kingdoms	乱世逐鹿	Tencent	Strategy	approved	TBC
64	Wu Dong Ji Guang	舞动极光	Tencent	Music	na	TBC
65	Ace Force 2	王牌战士2	Tencent	FPS	approved	TBC
66	Story of Seasons	牧场物语	Tencent, Marvelous	Simulation	na	TBC
67	The Great Ruler	大主宰： 大千世界	Tencent	MMORPG	na	TBC
68	Kindlings of Civilization	文明火种	Heimai Games	Simulation	approved	TBC
69	Bad North	北方绝境	Raw Fury	Strategy	na	TBC
70	Stardew Valley	星露谷物语	ConcernedApe	Simulation	na	TBC
71	The Silver Guardian: Confrontation	银之守墓人： 对决	Oohhoo Games	Board & Card	approved	TBC
72	Chuchel	毛线先生	Amanita Design	Casual	na	TBC
73	Chinese Parents	中国式家长	Coconut Island Studio	Casual	na	TBC
74	Distrust	极地诡梦	Warm Lamp Games	Strategy	na	TBC
75	The Night Dawn	暗夜破晓： 契约	Kingnet	MMORPG	approved	TBC
76	Cong Qian You Zuo Jian Ling Shan	从前有座剑灵山	Kaiser Culture	RPG	na	TBC
77	Fullmetal Alchemist	钢之炼金术师	Shogakukan	TBC	approved	TBC
78	Wu Lin Xian Xia	武林闲侠	Tencent	Board & Card	approved	TBC
79	MT Auto Chess	我叫MT自走棋	Tencent	Strategy	approved	TBC
80	My Hero Academia: Strongest Hero	我的英雄学院： 最强英雄	Xinyuan Studio	RPG	na	TBC
81	Angry Birds Blast!	愤怒的小鸟： 梦幻岛	NA	Casual	approved	TBC
82	Dark Dungeon Survival - Lophis Fate	洛菲斯的呼唤	Fatiao Games	Board & Card	na	TBC
83	Cats Atelier	奇喵的画家	Cocone	Casual	na	TBC
84	WonderWorlds	小小寻梦星球	Tequila Works	Sandbox	na	TBC
85	Badland Brawl	迷失之地： 乱斗	Frogmind	Casual	na	TBC
86	Football Manager Mobile 2018	足球经理移动版2018	Sega	Sports	na	TBC
87	Wu Xu Ci Yuan	无序次元	Tencent	RPG	na	TBC
88	Hypnos	修普诺斯	Ourpalm	Board & Card	approved	TBC
89	Die: Jing Zhe	谍： 惊蛰	Hello Meow Studio	Strategy	na	TBC
90	Strongest Demon Fighter	最强魔斗士	Tencent	TPS	approved	TBC
91	Bring You Home	带你回家	Alike Studio	Strategy	approved	TBC
92	Mao Mi Bie Zhui Wo	猫咪别追我	Giant Network	Casual	approved	TBC
93	Wove	洼	Tencent	Music	approved	TBC
94	Set Off! Lord	出发！ 领主大人	Tencent	Strategy	approved	TBC
95	Pavlov is Busy	巴甫洛夫很忙	Tencent	Casual	na	TBC
96	Yan Qiu Ling	雁丘陵	Tencent	Casual	na	TBC
97	Health Battle	健康保卫战	Tencent	Casual	approved	TBC

Source: Company Reports, NPPA, data.ai, Citi Research

PC games performance

LoL PC will launch season 2 for 2026 season on Apr 29

LoL PC will soon launch season 2 of 2026 season on Apr 29, featuring new storyline, masteries change and new themed skins. Split 2 of major *LoL* tournaments has already started, including LCK on Apr 1, LPL, LCP and LCS on Apr 4, LEC and CBLOL on Mar 28. For international tournaments, *LoL* will hold Mid-Season Invitational (MSI) held in South Korea between Jun 26-Jul 12.

Nexon 1Q26 guidance

Nexon will report 1Q26 on May 14. To recap during 4Q25 results call, Nexon guided 1Q26 China revs to be JPY33.44bn-38.80bn, representing -11% to +3% yoy or -17% to -4% yoy on constant currency. For *DnF Mobile*, management expects revenues to remain roughly flattish sequentially while incurring yoy decline. The company also shared that the next release of co-developed content with Tencent is scheduled for 2026. For *DnF* PC, management expects yoy revenue growth driven by CNY updates.

Tencent Video

Based on the data for 1Q26, Tencent Video held a strong position with five programs ranking in the top 10 for dramas. It co-broadcast the No. 1 drama, "Pursuit of Jade" and exclusively aired "Shine on Me", which ranked No. 5.

For variety shows, Tencent Video also had a significant presence, with six programs in the top 10. Notably, it exclusively broadcast "Natural High Season 3" and "Live and Love Season 2", which ranked No. 5 and No. 6, respectively, according to Enlightent Data.

Figure 17. 1Q26 top 10 dramas and variety shows

Top 10 dramas

Rank	Program Name	Program Name	Viewership (mn)	Broadcasting Platform(s)
1	逐玉	Pursuit of Jade	2640	iQiyi, Tencent Video
2	罚罪2	The Punishment 2	1320	iQiyi
3	太平年	Swords Into Plowshares	960	iQiyi, Mango, Tencent Video
4	康熙奇案之青宫风鸣	Kangxi's Strange Cases: Cry of the Blue Palace	850	Youku
5	骄阳似我	Shine on Me	810	Tencent Video
6	成何体统	How Dare You!?	700	iQiyi
7	逍遥	The Unclouded Soul	660	iQiyi, Youku
8	小城大事	The Dream Maker	640	Tencent Video
9	玉茗茶香	Glory	610	Mango
10	纯真年代的爱情	Love Story in the 1970s	590	Tencent Video

Top 10 variety shows

Rank	Program Name	Program Name	Viewership (mn)	Broadcasting Platform(s)
1	宇宙闪烁请注意	Wander Together	340	iQIYI
2	大侦探第十一季	Who's the Murderer Season 11	190	Mango TV
3	奔跑吧·天路篇	Keep Running: Tianlu Chapter	170	iQIYI, Tencent Video, Youku
4	你好,星期六2026	Hello Saturday 2026	150	Mango TV
5	现在就出发第3季	Natural High Season 3	120	Tencent Video
6	势均力敌的我们第2季	Live and Love Season 2	91	Tencent Video
7	快乐老友·有风季	Happy for Today: Windy Season	89	Mango TV
8	奔跑吧第9季	Keep Running Season 9	88	iQIYI, Tencent Video, Youku
9	主咖和Ta的朋友们	The Main Show and His Friends	80	Tencent Video
10	王牌对王牌第9季	Ace vs. Ace Season 9	74	iQIYI, Tencent Video, Youku

Source: Citi Research, Enlightent Data

Tencent Video launched WorkRally

As reported by Geekpark News (link, 16 Apr), Tencent Video has launched WorkRally, an industrial-grade AI platform designed to streamline the production of animated dramas. The system addresses common challenges in AI-assisted animation, such as inconsistent generation results, a lack of logical coherence in character expressions and camera work, and inefficient, fragmented workflows. WorkRally integrates the entire production pipeline, from script analysis and storyboarding to asset management and final rendering. Its core features include an AI agent that understands narrative context to ensure consistency, and an automated pipeline to manage tasks and collaboration. The platform aims to lower the technical barrier for creators, improve the visual quality of the output, and increase the overall efficiency of producing high-quality animated content.

1Q26 payment and consumption trend

Per Xinhua News (link, 8 Apr), according to data from China's National Development and Reform Commission's Big Data Development Department, offline consumption payment value increased by 3.4% year-over-year, accelerating 2.2 percentage points from the previous quarter, driven by a 5.2% rise in goods consumption, particularly in electronics (+10.7%) and home appliances (+8.4%).

Service consumption also grew by 0.9%, with transportation and catering services increasing by 6.9% and 4.5%, respectively. Officials attribute this robust consumer demand to targeted policies, such as those promoting trade-ins for consumer goods, and expect the market to continue improving in both volume and quality. In parallel, investment saw positive momentum, with the contract value for projects related to computing power infrastructure and software/hardware development growing by 4.7% year-over-year.

Buyback update till Apr 9 (US$1.3bn in 2026 YTD)

From 4Q25 print in mid-Mar to mid-Apr 2026 before the blackout, Tencent had repurchased 7.61mn shares for a total consideration of HK$3.8bn or US$482mn within 8 trading days, implying average cost per share of HK$497.1. The total buyback amount is lower than last period (from 3Q25 print to prior to 4Q25 blackout mid-Nov 2025 to mid-Jan 2026) where a total of 41.48mn shares for a total consideration of HK$25.50bn or US$3.2bn, implying average cost per share of HK$614.7 which we view as typical during this shorter buyback window between 4Q and 1Q print. In 1Q26, we reconcile Tencent bought back a total of 17.81mn shares for a total consideration of US$1.3bn or HK$10.1bn.

Figure 18. Tencent Share Buyback

Date	Number of shares	Highest price (HKD)	Lowest price (HKD)
Apr-2026	5,161,000	515	485
Mar-2026	2,445,000	506	476
Jan-2026	10,205,000	638	601
Dec-2025	22,040,000	626	593
Nov-2025	9,232,000	641	607
Oct-2025	4,916,000	683	648
Sep-2025	19,152,000	667	591
Aug-2025	9,191,000	620	583
Jul-2025	7,017,000	508	493
Jun-2025	20,669,000	521	490
May-2025	9,784,000	524	496
Apr-2025	8,430,000	511	420
Mar-2025	5,924,000	518	495
Jan-2025	37,060,000	425	365

Source: Company Reports, Citi Research

Estimates revision

For 1Q26, we slightly tweak up international gaming revs and tweak down domestic gaming revs to reflect continued strength and deferred revs recognition of international games while later CNY this year could affect the revs recognition of strong grossing receipt generated during CNY period. In the meantime, we also model up higher opex to reflect AI spend. In summary, our 1Q26 revs and non-GAAP net profit is revised by +0.5%/-0.5%.

We now model international gaming revs to +16% yoy vs previously at +9% and model domestic gaming revs to +10% yoy vs previously at +11% yoy. We left other revs assumption unchanged.

For 2026-2028, we have tweaked total revs and non-GAAP net profit by +0.7%/-1.3%, +0.6%/-2.2% and +0.5%/-1.6%.

Figure 19. Citi estimate revisions

	Net revenues (Rmb m)			Non- GAAP Net Profit (Rmb m)			Non-GAAP Diluted EPS (Rmb)		
Rmb (mn except per share data)	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
1Q26E	196,981	197,910	0.5%	67,608	67,271	-0.5%	7.32	7.28	-0.5%
2Q26E	200,961	202,034	0.5%	69,959	69,010	-1.4%	7.58	7.47	-1.4%
2026E	**816,518**	**821,871**	**0.7%**	**281,464**	**277,880**	**-1.3%**	**30.48**	**30.09**	**-1.3%**
2027E	**889,082**	**894,147**	**0.6%**	**315,624**	**308,746**	**-2.2%**	**34.19**	**33.44**	**-2.2%**
2028E	**961,469**	**966,395**	**0.5%**	**346,716**	**341,075**	**-1.6%**	**37.56**	**36.95**	**-1.6%**

Source: Citi Research Estimates

Figure 20. Citi detail revenues estimates revision

	1Q26E			2Q26E			2026E			2027E			2028E		
Rmb (mn)	**Old**	**New**	**% Chg**	**Old**	**New**	**% Chg**	**Old**	**New**	**% Chg**	**Old**	**New**	**% Chg**	**Old**	**New**	**% Chg**
Total online games	**65,713**	**66,446**	**1.1%**	**64,461**	**65,308**	**1.3%**	**260,584**	**264,810**	**1.6%**	**282,344**	**286,343**	**1.4%**	**304,113**	**308,002**	**1.3%**
yoy growth rate %	***10.4%***	***11.7%***		***8.9%***	***10.3%***		***7.9%***	***9.6%***		***8.4%***	***8.1%***		***7.7%***	***7.6%***	
PC gaming	12,412	12,412	0.0%	11,973	11,973	0.0%	49,524	49,524	0.0%	49,296	49,296	0.0%	49,106	49,106	0.0%
Mobile gaming	53,301	54,034	1.4%	52,487	53,335	1.6%	211,060	215,286	2.0%	233,048	237,047	1.7%	255,007	258,896	1.5%
Smartphone games	**70,270**	**71,248**	**1.4%**	**69,201**	**70,330**	**1.6%**	**278,313**	**283,947**	**2.0%**	**307,862**	**313,194**	**1.7%**	**337,364**	**342,550**	**1.5%**
yoy growth rate %	*22.6%*	*24.3%*		*17.6%*	*19.5%*		*17.3%*	*19.7%*		*10.6%*	*10.3%*		*9.6%*	*9.4%*	
Domestic Games	**47,619**	**47,190**	**-0.9%**	**44,157**	**44,440**	**0.6%**	**178,598**	**179,752**	**0.6%**	**191,092**	**192,569**	**0.8%**	**204,722**	**206,049**	**0.6%**
yoy growth rate %	*11.0%*	*10.0%*		*9.3%*	*10.0%*		*8.7%*	*9.4%*		*7.0%*	*7.1%*		*7.1%*	*7.0%*	
International Games	**18,094**	**19,256**	**6.4%**	**20,304**	**20,868**	**2.8%**	**82,987**	**85,058**	**2.5%**	**91,250**	**93,773**	**2.8%**	**99,393**	**101,953**	**2.6%**
yoy growth rate %	*9.0%*	*16.0%*		*8.0%*	*11.0%*		*7.4%*	*10.0%*		*10.0%*	*10.2%*		*8.9%*	*8.7%*	
Total community and platform	**32,669**	**32,864**	**0.6%**	**32,362**	**32,588**	**0.7%**	**129,395**	**130,522**	**0.9%**	**136,593**	**137,659**	**0.8%**	**142,957**	**143,995**	**0.7%**
yoy growth rate %	***0.1%***	***0.7%***		***0.6%***	***1.3%***		***1.3%***	***2.2%***		***5.6%***	***5.5%***		***4.7%***	***4.6%***	
Community and open platforms	18,655	18,655	0.0%	18,562	18,562	0.0%	73,892	73,892	0.0%	75,061	75,061	0.0%	75,605	75,605	0.0%
Non-mobile game	14,014	14,210	1.4%	13,800	14,026	1.6%	55,503	56,629	2.0%	61,532	62,599	1.7%	67,353	68,390	1.5%
Online advertising	**37,263**	**37,263**	**0.0%**	**41,807**	**41,807**	**0.0%**	**169,374**	**169,374**	**0.0%**	**193,959**	**193,959**	**0.0%**	**218,283**	**218,283**	**0.0%**
yoy growth rate %	***17.0%***	***17.0%***		***16.9%***	***16.9%***		***16.8%***	***16.8%***		***14.5%***	***14.5%***		***12.5%***	***12.5%***	
Others	**61,336**	**61,336**	**0.0%**	**62,331**	**62,331**	**0.0%**	**257,165**	**257,165**	**0.0%**	**276,186**	**276,186**	**0.0%**	**296,115**	**296,115**	**0.0%**
yoy growth rate %	***9.5%***	***9.5%***		***8.6%***	***8.6%***		***8.3%***	***8.3%***		***7.4%***	***7.4%***		***7.2%***	***7.2%***	
Fintech and Business services	**59,574**	**59,574**	**0.0%**	**60,534**	**60,534**	**0.0%**	**249,207**	**249,207**	**0.0%**	**268,072**	**268,072**	**0.0%**	**287,842**	**287,842**	**0.0%**
yoy growth rate %	*8.5%*	*8.5%*		*9.0%*	*9.0%*		*8.6%*	*8.6%*		*7.6%*	*7.6%*		*7.4%*	*7.4%*	
Cloud revs	12,538	12,538	0.0%	14,019	14,019	0.0%	59,445	59,445	0.0%	69,688	69,688	0.0%	79,668	79,668	0.0%
yoy growth rate %	*25.0%*	*25.0%*		*24.0%*	*24.0%*		*22.8%*	*22.8%*		*17.2%*	*17.2%*		*14.3%*	*14.3%*	
Total revenues	**196,981**	**197,910**	**0.5%**	**200,961**	**202,034**	**0.5%**	**816,518**	**821,871**	**0.7%**	**889,082**	**894,147**	**0.6%**	**961,469**	**966,395**	**0.5%**
yoy growth rate %	***9.4%***	***9.9%***		***8.9%***	***9.5%***		***8.6%***	***9.3%***		***8.9%***	***8.8%***		***8.1%***	***8.1%***	
Gross profit	**110,636**	**111,200**	**0.5%**	**114,574**	**115,228**	**0.6%**	**461,968**	**465,238**	**0.7%**	**509,845**	**512,963**	**0.6%**	**555,031**	**558,071**	**0.5%**
yoy growth rate %	*10.1%*	*10.7%*		*9.1%*	*9.7%*		*9.3%*	*10.1%*		*10.4%*	*10.3%*		*8.9%*	*8.8%*	
GPM	56.2%	56.2%		57.0%	57.0%		56.6%	56.6%		57.3%	57.4%		57.7%	57.7%	
Non-GAAP Operating profit	**70,000**	**69,566**	**-0.6%**	**72,733**	**71,531**	**-1.7%**	**292,650**	**288,099**	**-1.6%**	**331,516**	**322,853**	**-2.6%**	**364,795**	**357,683**	**-1.9%**
yoy growth rate %	*1.0%*	*0.4%*		*5.0%*	*3.3%*		*4.3%*	*2.7%*		*13.3%*	*12.1%*		*10.0%*	*10.8%*	
Non-GAAP OPM	35.5%	35.2%		36.2%	35.4%		35.8%	35.1%		37.3%	36.1%		37.9%	37.0%	
Non-GAAP net profit	**67,608**	**67,271**	**-0.5%**	**69,959**	**69,010**	**-1.4%**	**281,464**	**277,880**	**-1.3%**	**315,624**	**308,746**	**-2.2%**	**346,716**	**341,075**	**-1.6%**
yoy growth rate %	*10.2%*	*9.7%*		*11.0%*	*9.4%*		*8.4%*	*7.0%*		*12.1%*	*11.1%*		*9.9%*	*10.5%*	
Non-GAAP NM	34.3%	34.0%		34.8%	34.2%		34.5%	33.8%		35.5%	34.5%		36.1%	35.3%	

Source: Bloomberg, Citi Research Estimates

Figure 21. Citi estimates vs Bloomberg consensus

	Total revenues (RMB m)			Non-GAAP Net Profit (RMB m)			Non-GAAP Diluted EPADS (RMB)		
RMB m (except per share data)	Citi	Consensus	% Dif	Citi	Consensus	% Chg	Citi	Consensus	% Chg
1Q26E	197,910	199,031	*-0.6%*	67,271	67,528	*-0.4%*	7.28	7.48	*-2.7%*
2Q26E	202,034	204,178	*-1.1%*	69,010	69,638	*-0.9%*	7.47	7.63	*-2.1%*
2026E	**821,871**	**830,931**	***-1.1%***	**277,880**	**280,868**	***-1.1%***	**30.09**	**30.60**	***-1.7%***
2027E	**894,147**	**914,098**	***-2.2%***	**308,746**	**310,789**	***-0.7%***	**33.44**	**34.25**	***-2.4%***
2028E	**966,395**	**998,355**	***-3.2%***	**341,075**	**344,440**	***-1.0%***	**36.95**	**37.93**	***-2.6%***

Source: Bloomberg, Citi Research Estimates

1Q26E Preview

Tencent will report 1Q26 results after HK market close on May 13th.

- **Total revs and net profit –** We model 1Q26 total revs to up 9.9% yoy to Rmb197.9bn and non-GAAP net profit to +9.7% yoy to Rmb67.2bn or 34% margin, vs. Bloomberg consensus of Rmb199bn (+10.6% yoy) and Rmb67.5bn (34% margin).

- **VAS and games –** We forecast total VAS +7.8% yoy to Rmb99.3bn with total online games +11.7% yoy to Rmb66.4bn and community and platform revs +0.7% yoy to Rmb32.9bn.

- **Domestic vs international games –** We forecast domestic games to +10% yoy to Rmb47.2bn driven by solid performance of *HoK*, *Peacekeeper*, *Delta Force* and model International games +16% yoy to Rmb19.3bn attributed to *PUBG Mobile* and *Valorant*.

- **Advertising –** We model online ad revs +17% yoy to Rmb37.3bn benefited from new ad load in Video Account and better eCPM on the back of continued AI improvement.
- **Fintech and business services –** We model FBS revs up 8.5% yoy to Rmb59.6bn, of which cloud revs +25% yoy to Rmb12.5bn and fintech revs +4.8% yoy to Rmb47bn.
- **Margins –** We model total gross margin of 56.2%, vs. 55.7% in 4Q25 and 55.8% in 1Q25. We forecast VAS, online ad and FBS gross margins at 60.7%, 57% and 51%, vs 59.5%, 59.7% and 50.7% in 4Q25. We forecast non-GAAP OpM of 35.2%, vs. 35.8% in the last quarter and 38.5% in 1Q25.
- **Net profit and margins –** We model GAAP profit of Rmb56.5bn (29% margin) and non-GAAP net profit of Rmb67.3bn or EPS of Rmb7.28 (+9.7% yoy or 34% net margins) vs Bloomberg consensus of Rmb67.5bn or Rmb7.48/share.
- **Expectation:** We expect Tencent to report results relatively in line with our/consensus estimates with potential small deviation on upside risk to our gaming forecast. More important, the comment on AI strategy and capex spend will be the focus for the call.
- **Focus on the call:** 1) traction of HY 3 and latest thoughts on upcoming AI agent on WeChat; 2) cloud demand and competitive landscape in models and token usage; 3) capex spend and AI expenses; 4) upcoming new games release; 5) advertising sentiment, ad load update and traction on Weixin AI search; 6) shareholder return on buyback.

2Q26E outlook

We now model 2Q26 total revs to up 9.5% yoy to Rmb202bn and non-GAAP NP to +9.4% yoy to Rmb69bn (34.2% margin) vs Bloomberg consensus of Rmb204.2bn (+10.7% yoy) and Rmb69.6bn (34% margin).

Maintain Buy and raise TP to HK$783

Following estimates adjustment, we adjust our TP to HK$783 (from HK$787), based on 2027 estimates. Our TP implies 23.2x 2026E and ~20.9x 2027E P/E.

- **Online games –** We apply 12x P/E (unchanged) to 2027E estimated games net profit of Rmb136bn and yield a valuation of HK$195 per share or 25% of our target price.
- **Online advertising –** We apply 22x P/E (unchanged) to 2027E estimated ads profit of Rmb82.4bn and yield a valuation of HK$217 per share or 28% of target price.
- **Social network –** While we attribute the non-gaming revs (community platform revs) as overall social network revs, given the WeChat, QQ and other Tencent apps, we apply 25x (unchanged) P/E to the estimated profit of Rmb63bn and yield a valuation of HK$190 per share or 24% of target price.
- **Fintech –** We apply 15x P/E to estimated profit of Rmb48.4bn and yield a valuation of HK$87 per share or 11% of target price.

- **Cloud/business services –** We apply 5x P/S (average of China peers) to 2027E estimated Business services revs of Rmb69.7bn and yield a valuation of HK$42 per share or 5% of target price.
- **Investment portfolio –** We apply 30% discount to equity stake in publicly listed investment portfolio and result to HK$53/share or 7% of target price.

Into 2Q26, we believe share price performance will be affected by the feedback and traction from upcoming release of HY3, subsequent progress of agentic AI within WeChat ecosystem and any potential disruptive forces from competition as well as grossing performance of *HoK World* and other new game release.

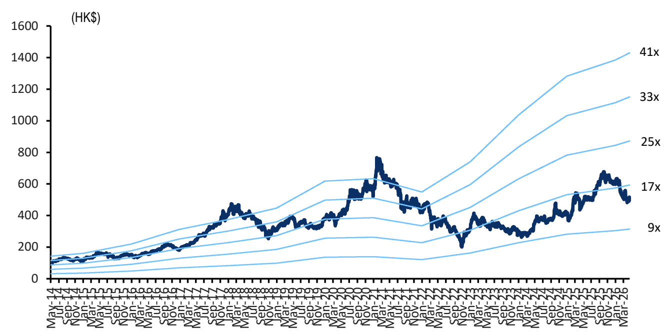
We maintain our Buy rating given attractive valuation and out belief and confident that HY3 and WeChat agentic AI should strengthen Tencent's AI positioning.

Figure 22. SOTP valuation of Tencent

	Revenues in 2027E (Rmb mn)	Non-GAAP Profit in 2027E (Rmb mn)	PE Multiple (P/S for Cloud)	Valuation (HK$ mn)	Value Per Share (HK$)	Valuation (US$ mn)	% of implied value
Online gaming	286,343	136,013	12	1,804,590	195	227,735	25%
Online advertising	193,959	82,433	22	2,005,116	217	253,041	28%
Social Network (WeChat + QQ)	137,659	63,323	25	1,750,335	190	220,888	24%
Fintech	198,384	48,356	15	801,973	87	101,207	11%
Cloud (business services)	69,688	6,272	5	385,251	42	48,618	5%
Other business	8,114	(27,651)		-	-	-	0%
Investment Portfolio (at 30% discount)				486,514	53	62,122	7%
Total	**894,147**	**308,746**		**7,233,779**	**783**	**913,610**	**100%**

Source: Citi Research Estimates

Figure 23. Tencent – Forward PE



Source: dataCentral, Citi Research

Figure 24. Tencent – PE Band

Source: dataCentral, Citi Research

Figure 25. Income statement

Year to 31 Dec (Rmb mn)	2025	1Q26E	2Q26E	3Q26E	4Q26E	2026E	2027E	2028E
Revenues								
VAS	369,281	99,311	97,896	102,959	95,167	395,332	424,002	451,997
Total online games	241,600	66,446	65,308	69,434	63,622	264,810	286,343	308,002
- Domestic Games	164,300	47,190	44,440	46,866	41,256	179,752	192,569	206,049
- International Games	77,300	19,256	20,868	22,568	22,366	85,058	93,773	101,953
Total community and platform	127,681	32,864	32,588	33,525	31,545	130,522	137,659	143,995
Online advertising	144,973	37,263	41,807	42,116	48,188	169,374	193,959	218,283
Media advertising	19,052	4,390	4,488	4,348	5,410	18,636	19,073	19,521
Social and others advertising	125,921	32,874	37,318	37,768	42,778	150,738	174,886	198,762
Others	237,512	61,336	62,331	65,126	68,371	257,165	276,186	296,115
Total revenues	**751,766**	**197,910**	**202,034**	**210,201**	**211,726**	**821,871**	**894,147**	**966,395**
YoY change	*13.9%*	*9.9%*	*9.5%*	*9.0%*	*8.9%*	*9.3%*	*8.8%*	*8.1%*
Cost of revenues								
VAS	146,985	39,029	38,179	39,948	38,067	155,223	164,238	174,391
Online advertising	61,584	16,023	16,305	16,846	18,601	67,775	76,277	85,863
Others	120,604	31,658	32,322	33,818	35,837	133,635	140,669	148,070
Total cost of revenues	329,173	86,710	86,805	90,613	92,504	356,633	381,184	408,325
Gross profit	**422,593**	**111,200**	**115,228**	**119,589**	**119,221**	**465,238**	**512,963**	**558,071**
Gross margin	*56.2%*	*56.2%*	*57.0%*	*56.9%*	*56.3%*	*56.6%*	*57.4%*	*57.7%*
Other operating exp/(income)	3,177	(1,500)	(1,500)	(1,500)	(1,500)	(6,000)	(6,000)	(6,000)
Selling and marketing	41,727	13,458	13,738	13,873	13,762	54,832	54,730	55,307
General and administration	136,127	38,592	40,407	42,040	43,404	164,443	179,269	190,107
Total operating expenses	181,031	50,550	52,645	54,414	55,666	213,275	227,999	239,413
Operating profit	**241,562**	**60,649**	**62,583**	**65,175**	**63,555**	**251,963**	**284,964**	**318,657**
Operating margin	*32.1%*	*30.6%*	*31.0%*	*31.0%*	*30.0%*	*30.7%*	*31.9%*	*33.0%*
Non-GAAP operating profit	**280,656**	**69,566**	**71,531**	**74,336**	**72,666**	**288,099**	**322,853**	**357,683**
Non-GAAP operating margin	*37.3%*	*35.2%*	*35.4%*	*35.4%*	*34.3%*	*35.1%*	*36.1%*	*37.0%*
Finance income, net	(15,130)	(3,473)	(3,473)	(3,473)	(3,473)	(13,892)	(13,492)	(13,092)
Share of loss of jointly controlled entity	23,740	6,982	6,882	6,972	6,962	27,798	28,318	28,838
Share of losses of associates	-	-	-	-	-	-	-	-
Profit before tax	277,249	71,644	73,677	76,440	75,024	296,784	332,798	371,481
Income tax expense	(47,448)	(14,329)	(14,735)	(15,288)	(15,005)	(59,357)	(66,560)	(74,296)
Minority interest	(4,959)	(819)	(814)	(804)	(794)	(3,231)	(3,091)	(2,951)
Net income	**224,842**	**56,496**	**58,127**	**60,348**	**59,225**	**234,196**	**263,147**	**294,234**
Net margin	*29.9%*	*28.5%*	*28.8%*	*28.7%*	*28.0%*	*28.5%*	*29.4%*	*30.4%*
Diluted EPS (RMB)	24.15	6.12	6.29	6.54	6.41	25.36	28.50	31.88
Diluted EPS (HKD)	27.11	6.87	7.07	7.34	7.20	28.47	31.99	35.78
Non-GAAP net income	**259,626**	**67,271**	**69,010**	**71,389**	**70,211**	**277,880**	**308,746**	**341,075**
Non-GAAP Net margin	*34.5%*	*34.0%*	*34.2%*	*34.0%*	*33.2%*	*33.8%*	*34.5%*	*35.3%*
Non-GAAP diluted EPS (RMB)	**27.88**	**7.28**	**7.47**	**7.73**	**7.60**	**30.09**	**33.44**	**36.95**
Non-GAAP diluted EPS (HK$)	**31.29**	**8.18**	**8.39**	**8.68**	**8.54**	**33.78**	**37.54**	**41.48**
Diluted shares average (m)	9,244	9,236	9,235	9,235	9,234	9,235	9,233	9,231

Source: Citi Research Estimates

Bull/Bear: Tencent Holdings (0700.HK)

HK$ 870.00 ▲70% Upside	HK$ 783.00 ▲53% Upside	HK$ 486.00 ▼4.8% Downside

Spread 75pp
Current Price and expected returns (upside/downside) as of 17 Apr 2026

BULL Assumptions

- Online gaming multiple of 15x.
- Online advertising multiple of 25x.
- Social network multiple of 26x.

BASE Assumptions

- Online gaming multiple of 12x.
- Online advertising multiple of 22x.
- Social network multiple of 25x.

BEAR Assumptions

- Online gaming multiple of 8x.
- Online advertising multiple of 10x.
- Social network multiple of 10x.

Tencent Holdings

Company description

Founded in 1998, Tencent is a leading Internet company in China engaged in multiple business lines including online games, social networking services, online advertising, and mobile value-added services. It has extended its leadership in PC over to mobile Internet with Mobile QQ and Weixin/WeChat. The company was listed on the main board of Hong Kong Stock Exchange in June 2004.

Investment strategy

We rate Tencent shares as Buy. We are positive on Tencent's overall strategic direction based on its mobile open platform initiatives that positions it to capture the significant opportunities in China's mobile Internet growth over the next few years. Leveraging off its sticky, integrated mobile user platform on WeChat, Tencent should be able to drive earnings growth by monetizing its strengths in mobile advertising, mobile gaming, and mobile payments.

Valuation

Our target price of HK$783 is based on a SOTP approach, which implies 23.2x 2026E and ~20.9x 2027E P/E. Our SOTP is based on the following: 1) Online games – We apply a 12x P/E to our 2027 estimated games net profit of Rmb136bn and yield a valuation of HK$195 per share, or 25% of our target price; 2) Online advertising – We apply a 22x P/E to our 2027 estimated ads profit of Rmb82bn which yields a valuation of HK$217 per share, or 28% of our target price; 3) Social network – While we attribute the non-gaming revs (community platform revs) as overall social network revs, given the WeChat, QQ, and other Tencent apps, we apply a 25x P/E to the estimated profit of Rmb63bn and yield a valuation of HK$190 per share, or 24% of our target price; 4) Fintech – We apply a 15x P/E to our estimated profit of Rmb48bn and yield a valuation of HK$87 per share, or 11% of our target price; 5) Cloud/business services – We apply a 5x P/S (average of China peers) to our 2027 estimated Business services revs of Rmb70bn, which yields a valuation of HK$42 per share, or 5% of our target price; 6) Investment portfolio – We apply a 30% discount to the equity stake in the publicly listed investment portfolio which implies HK$53/share.

Risks

Downside risks that could prevent the Tencent shares from reaching our target price include: i) a faster-than-expected revenue slowdown in core PC games; ii) unsuccessful launches of new mobile games; iii) a decline of Honor of Kings ranking and momentum; iv) a further slowdown in China's economy, which might negatively affect advertising demand; and v) a change in the regulatory environment.