China Equity Strategy

Takeaways from JPM AI expert call: From foundation models to industrial-scale adoption

China & HK Equity strategy

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We hosted an expert call on 3 July to get an industry insider's views on the China AI ecosystem, from foundation models to industrial adoption. Our key takeaways are: 1) China's LLM plays focusing on enterprise traction offer better growth visibility in the coming 3-6 months. Different from their US peers competing on frontier breakthrough and AGI, Chinese players operate under tighter financing and hard-tech resource constraints and prioritize cost-efficient model iteration, where monetization matters more. **Zhipu is our top LLM pick for its enterprise execution and coding agent push.** 2) Chinese hyperscalers can monetize AI through ecosystem control, proprietary data, user traffic and enterprise/customer relationships. The expert noted the high recognition of Alibaba's Accio Work AI agent in the supply-chain management industry. Meanwhile, JPM notes that Tencent's Weixin agent is boosting its AI commerce outlook. With **Tencent** trading at about -2SD on FTM P/E, we view it as a candidate to accumulate on dips for AI upside optionality. 3) AI adoption across non-TMT industries appears robust but gradual, constrained by complex industry know-how and compliance requirements, and likely to begin with small-scale pilot projects. Therefore, we view a systematic NP margin boost to be a longer-dated upside optionality, but believe it is too early to reflect this into near-term EPS forecasts.

- **Divergent AI playbooks: US frontier ambition vs. China's ROI-led commercialization**. The expert argues that the US and China are running two different AI races: the US is focused on frontier breakthroughs and AGI, supported by deeper capital, top talent and abundant compute, while China is operating under tighter resource constraints and therefore it prioritizes cost-efficient model iteration, vertical use cases and near-term enterprise ROI. This difference shows up in commercialization and pricing: Chinese labs use open weights to build developer ecosystems, but monetize through paid APIs, fine-tuning, private deployment and managed services, often at materially lower cost than US offerings. The expert also suggests that China's cost advantage is supported by lower-cost data procurement and mature model distillation practices, helping domestic models compete effectively for high-volume enterprise workloads. As a result, China's AI ecosystem appears more optimized for broad real-economy deployment. For investors, we believe the investment implication is that China's edge may lie less in matching the US on every frontier benchmark and more in scalable, cost-effective adoption.

- **Monetization shift: From consumer traffic to enterprise revenue.** The expert highlighted a clear shift in China AI monetization from consumer products to enterprise services. Despite large user traffic, consumer AI products have seen limited paid conversion, with user engagement weakening after premium features were introduced. More scalable revenue pools are now enterprise APIs, customized fine-tuning, private deployment, coding agents and managed model operations, with Alibaba, Tencent and Zhipu AI all pushing enterprise coding tools, similar to Cursor. For the strategic shift towards enterprise monetization, the key metrics to track are API usage, token volume, enterprise customer retention, deployment capability and gross margin rather than consumer DAUs alone.

- **Chinese hyperscalers vs. independent labs: stack division of strengths.** Our key takeaway is that China's internet platforms are not structurally

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

disadvantaged, but may split across the stack. Independent labs such as DeepSeek, MiniMax, Zhipu AI and Moonshot AI are viewed as especially active in frontier model iteration, while Alibaba, Tencent and ByteDance remain highly competitive in the productization, distribution, enterprise and real-world deployment. The expert attributes some difference in model-layer pace to large-platform organizational complexity and a strategic focus on embedding AI into existing businesses, including e-commerce, supply chain, social and enterprise workflows. Independent labs can build model-layer value capture, while internet platforms can monetize AI through ecosystem control, proprietary data, user traffic and enterprise/customer relationships.

- **Internet and software incumbents vs AI: the industry know-how moats.** On substitution of established software or internet service providers, the market's fear that universal AI will completely displace traditional players is likely overly pessimistic, in the expert's view. LLM adoption in traditional industries will likely be vertical, workflow-specific and data-dependent, rather than a wholesale replacement of existing enterprise software or industrial platforms. For SMEs and standardized workflows, general AI can indeed replace the most basic software functions; however, in large and sophisticated enterprise scenarios, the core competitive moat lies not in task execution, but in industry know-how sorting, business liability bearing, and customized service guarantees, competencies that traditional ERP vendors have accumulated over decades through industry process standards, compliance experience, and after-sales liability mechanisms. Also, in the OTA sector, AI provides intelligent booking entry points and simplifies consumer operations, yet the core transaction completion still relies on human verification, backend interface opening, and platform liability bearing.

- **The real-economy business adoption: proprietary data and workflow control are driving value capture.** The expert thinks industrial deployment could be uneven across sectors, depending on compliance intensity, data availability, liability allocation and regulators' tolerance for labor-market disruption. One successful implementation in China is Alibaba's Accio Work supply chain AI agent, whose value comes not from a generic model alone, but from Alibaba's proprietary merchant data, supply chain network, inventory systems and scenario-specific operating know-how, which are resources no general-purpose large model can replicate. Given the importance of industry adaptation, China LLM providers' open-source models don't hurt their monetization. The providers are able to demonstrate their capability under the open-source mode to encourage business adoption, while working together with users for industry specific deployment.

- **Macro implications: policy-led AI buildout with productivity upside and managed transition risks.** The expert noted that China's policymakers have adopted a pragmatic, dual-track approach toward AI's macroeconomic impact, framing AI as a core driver of corporate capex with the national 'AI+' policy push accelerating awareness, experimentation, and early deployment across traditional sectors. On the growth side, this policy-led diffusion should broaden AI adoption beyond internet platforms and AI-native companies, including manufacturing and other traditional industries, with early use cases remaining more productivity-led than industry-led. AI should lead to long-term productivity gains as automation reduces labor intensity, with employment effects likely bifurcated between pressure on routine entry-level roles and stronger demand for high-skill AI infrastructure and deployment jobs. Rather than suppressing technological progress, the authorities are deploying gradual,

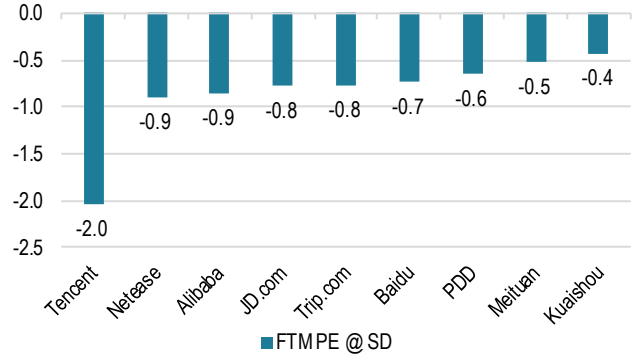
targeted policy adjustments to smoothen economic fluctuations and prevent violent industrial shocks. On the social stability front, a landmark judicial precedent in Hangzhou has established that enterprises cannot lay off employees or cut salaries on the grounds of AI replacement, effectively prohibiting AI from becoming a corporate cost-cutting tool. Pilot cities Beijing and Hangzhou have also launched mandatory weekly AI tool training courses for primary and secondary school students, aiming to help the future workforce adapt to productivity shifts. **We hold similar views: China's AI advantage is centered on scaled deployment, infrastructure buildout, and policy-led diffusion. The near-term lift shows up in high-tech capex, IP and selective exports while aggregate productivity gains remain limited until utilization and enterprise adoption broaden. The impact is K-shaped (AI infrastructure and hardware winners vs. modest spillovers to the wider economy), and the main social risk is entry-level underemployment. The overarching logic is clear: fully release AI productivity dividends while hedging social risks through education popularization, employment protection, and judicial constraints, achieving steady industrial iteration.**

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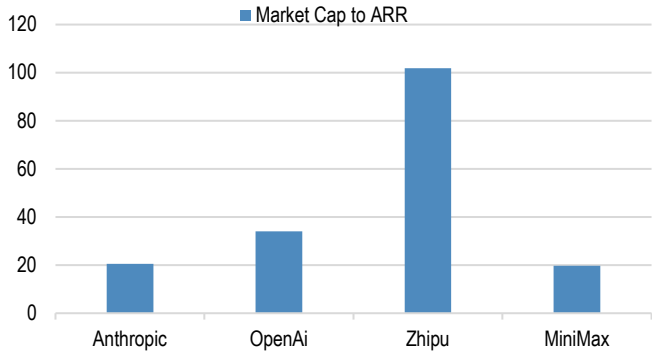
Key charts to focus

Figure 1: Selected internet stocks' FTM P/E SD



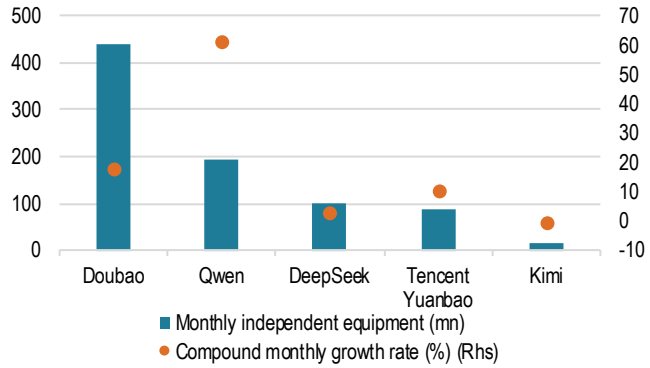
Source: LSEG Workspace (30 June 2026). Note: FTM P/E SD is vs the longest respective history available, excluding the outliers.

Figure 2: Major LLMs' market cap to ARR



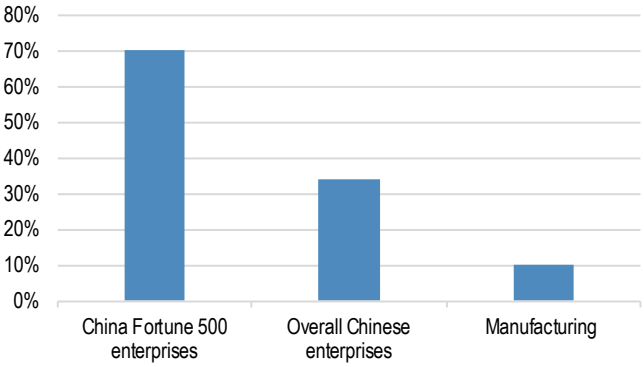
Source: LSEG Workspace (30 June 2026), J.P. Morgan estimates. Note: Note: Anthropic and OpenAi's multiples are based on the latest round of funding. Zhipu and MiniMax's are based on the latest market cap and ARR by end-2026, as per JPMe.

Figure 3: Consumer AI adoption in China



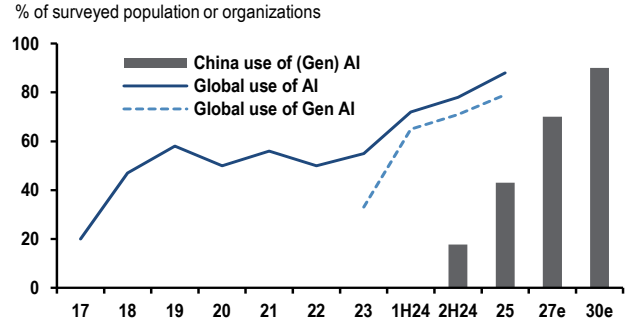
Source: 36Kr (20 May 2026). Note: Apr 2026 top AI app in China as per mUserTracker.

Figure 4: Business AI adoption in China



Source: Sina.com (15 September 2025), ITHome (9 June 2026), Caijing (13 May 2026).

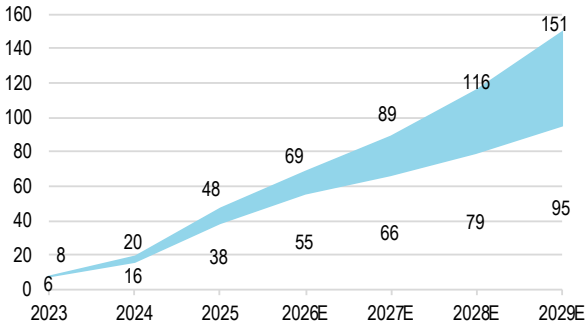
Figure 5: AI use – China vs global



Source: J.P. Morgan Economic Research (12 June 2026). Note: '27/30E are China's AI+ targets.

Figure 6: JPM's China AI capex forecasts

(US$ bn)

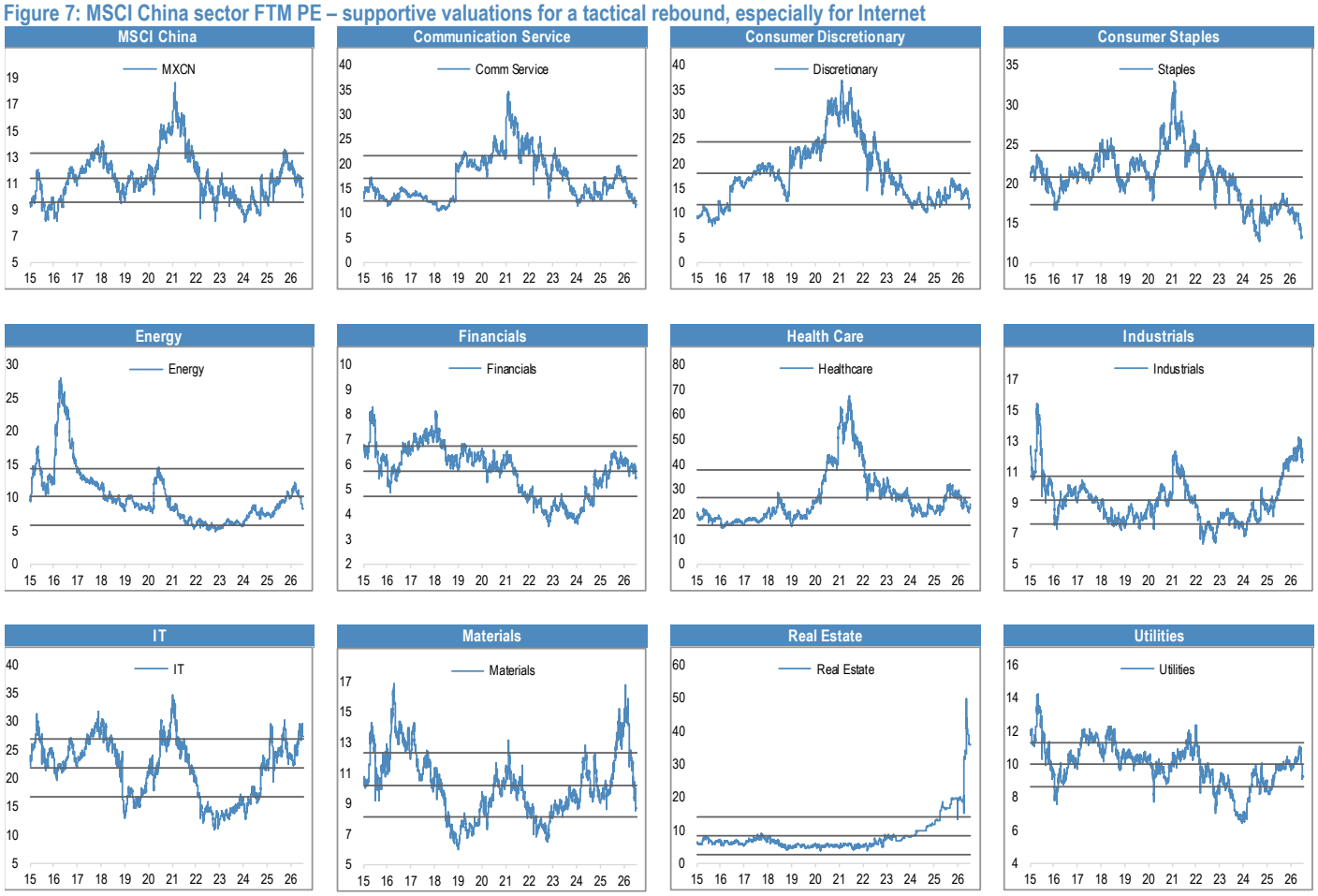


Source: Bloomberg Finance L.P. (22 May 2026), J.P. Morgan note (dated 22 May 2026), J.P. Morgan estimates (9 June 2026). Note: Only the AI capex in China by Chinese hyperscalers is taken into account.

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Figure 7: MSCI China sector FTM PE – supportive valuations for a tactical rebound, especially for Internet



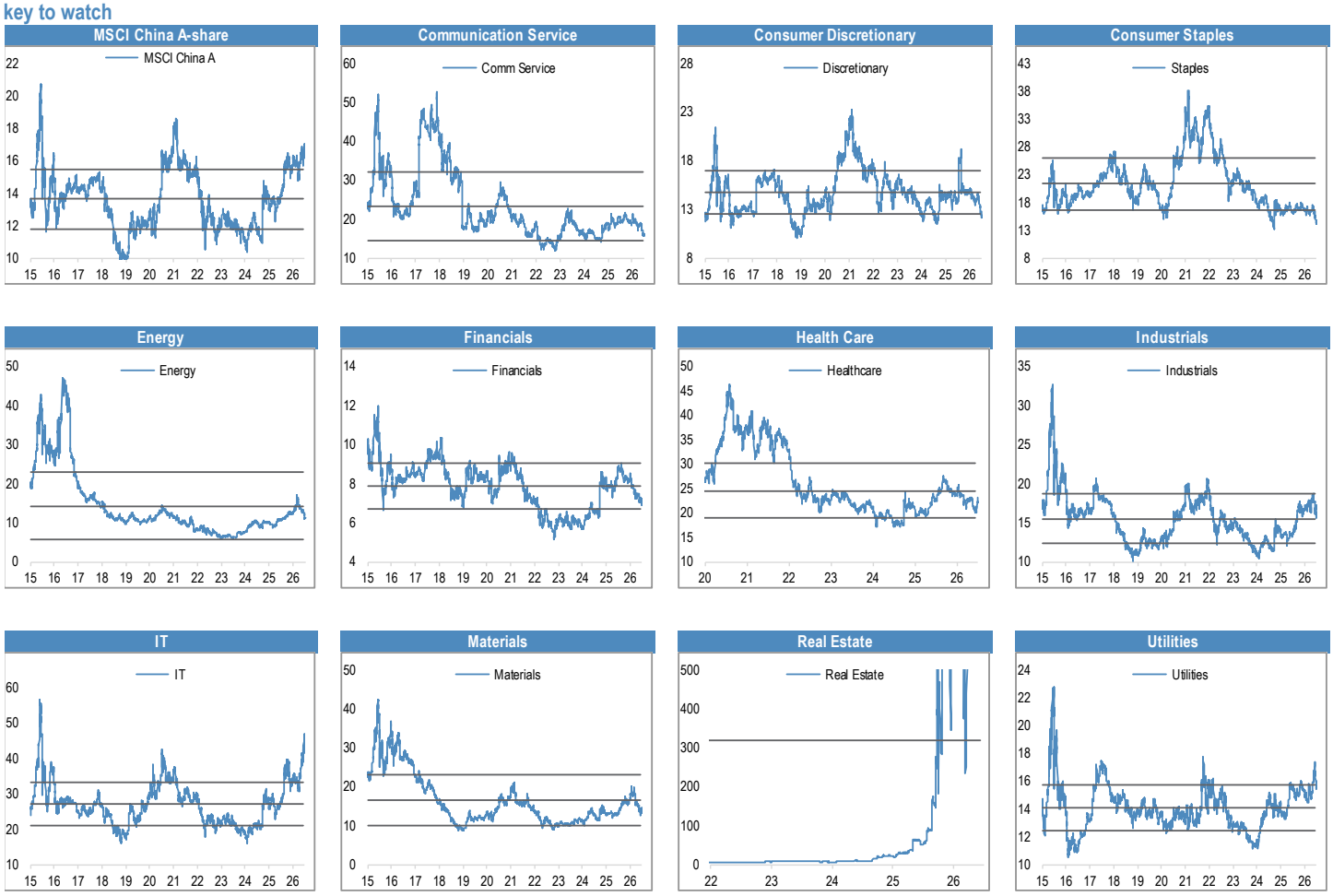
Source: Bloomberg Finance L.P. (5 July 2026), J.P. Morgan.



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Figure 8: MSCI China A-share sector FTM PE – onshore valuations are less attractive, primarily driven by IT. 1H26 tech earnings results are key to watch



Source: Bloomberg Finance L.P. (5 July 2026), J.P. Morgan.