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Tencent Holdings (0700.HK)

Quick Thoughts On Latest Ramp Momentum of WorkBuddy

CITI'S TAKE

As noted by several news reports dated July 6th citing latest data by Analysys, Tencent's WorkBuddy cross-platform MAU has reached 20mn with DAU surpassing 13mn, implying DAU/MAU ratio of 65-75%, which we view as a high DAU/MAU ratio, especially considering the product was launched only a few months ago, indicating strong user stickiness and strong daily engagement. Indeed, during the 1Q26 earnings call, management commented WorkBuddy has an 80% retention rate and has attracted a high paying willingness from its power users. While WorkBuddy is one of many important AI agent products, its success highlights the strength of Tencent's ecosystem, the synergy between its various productivity environments and more importantly, the user trust in Tencent's products and security, in our view. We maintain our Buy rating on Tencent and our Target Price of HK$763.

Buy	
Price (03 Jul 26 16:10)	HK$431.20
Target price	HK$763.00
Expected share price return	76.9%
Expected dividend yield	1.2%
Expected total return	78.1%
Market Cap	HK$3,920,572M US$499,875M

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What's new? On July 6, several news reports including ChooseAI and Gelonghui reported that per latest data tracked by Analysys, Tencent WorkBuddy's cross-platform MAU have reached 20mn, while DAU exceeded 13mn, suggesting the DAU/MAU ratio is between 65% and 75%. The report also highlighted that based on earlier report published by Analysys in May, Tencent's WorkBuddy's PC monthly visits reached 8.85mn (up 72.2% month-over-month), as of May, 2.6x higher than the 2nd-place competitor. During earlier beta in March, Analysys' report suggested that the month-over-month growth rate was 831%, with active user scale 3-4x higher than the 2nd-ranked product in the industry.

Comment during 1Q26 earnings call – Tencent management commented during the1Q26 earnings call that it believes Tencent already leads in agentic AI deployment, measured by DAU for WorkBuddy vs competing products in China. In terms of adoption metrics, management saw strong traction at early stage with CodeBuddy and WorkBuddy showing strong organic growth and high retention (60%+/80%+ retention rate among active users and paying users). Early adopters show high time spent and frequent interaction with AI agents, which creates a virtuous feedback loop for Tencent. During a Citi hosted Investor Webinar, management also noted that with higher paying willingness of WorkBuddy by high-power users, mgmt expects AI products to become a key revs generator for Tencent Cloud and expect token-related revs to become increasingly substantial in 2026 riding on the ramp of WorkBuddy and CodeBuddy adoption. Specifically, with WorkBuddy leading in agentic AI deployment, measured by DAU, mgmt believes high-power users of the product will result in higher paying ratio than typical consumer subscription service like music, video or even gaming, leading to high-quality token-based revenues for the the company.

QM call also suggested robust traffic of WorkBuddy – During our recent call with Questmobile, the expert also observed a robust traffic ramp on PC AIGC tools such as WorkBuddy given higher productivity demand under the agentic AI era, suggesting continued traffic transition from traditional gateways like search engine and social

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media further shifting to native AI applications given an accelerating consumer AI adoption in China.

Tencent Holdings

Valuation

Our target price of HK$763 is based on a SOTP approach, which implies 23.0x 2026E and ~21.7x 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 Rmb134bn and yield a valuation of HK$194 per share, or 25% of our target price; 2) Online advertising – We apply a 20x P/E to our 2027 estimated ads profit of Rmb84bn which yields a valuation of HK$202 per share, or 26% 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 Rmb62bn and yield a valuation of HK$187 per share, or 24% of our target price; 4) Fintech – We apply a 15x P/E to our estimated profit of Rmb49bn and yield a valuation of HK$88 per share, or 12% 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 6% 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$51/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.

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Appendix A-1

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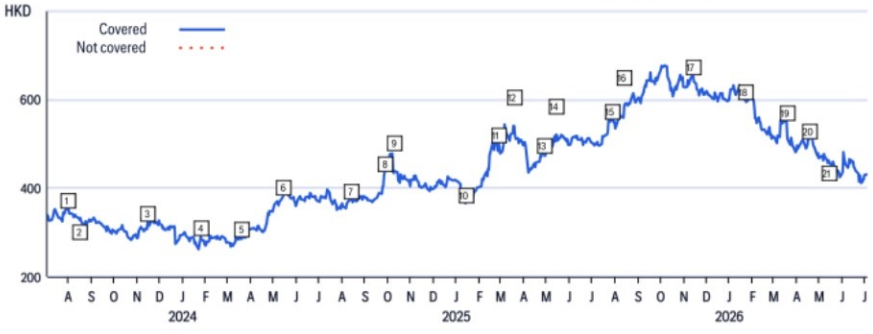
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Tencent Holdings (0700.HK)

Ratings and Target Price History
Fundamental Research

Analyst: Alicia Yap, CFA



	Date	Rating	Target Price	Closing Price
1	01-Aug-23 12:44:09	1	*491.00	354.00
2	16-Aug-23 17:24:35	1	*496.00	328.80
3	15-Nov-23 18:02:07	1	*497.00	322.60
4	25-Jan-24 16:53:37	1	*455.00	290.80
5	20-Mar-24 17:30:22	1	*459.00	288.80
6	15-May-24 11:33:19	1	*515.00	381.80
7	14-Aug-24 16:25:06	1	*527.00	373.80

	Date	Rating	Target Price	Closing Price
8	29-Sep-24 20:19:06	1	*535.00	437.80
9	10-Oct-24 13:59:11	1	*573.00	438.80
10	13-Jan-25 15:52:08	1	*563.00	366.00
11	26-Feb-25 16:59:25	1	*648.00	501.50
12	19-Mar-25 19:00:37	1	*681.00	540.00
13	28-Apr-25 16:14:07	1	*670.00	478.20
14	14-May-25 17:10:11	1	*695.00	521.00

	Date	Rating	Target Price	Closing Price
15	28-Jul-25 17:17:28	1	*699.00	555.50
16	13-Aug-25 17:51:56	1	*735.00	586.00
17	13-Nov-25 18:35:44	1	*751.00	656.00
18	22-Jan-26 17:55:08	1	*783.00	597.50
19	18-Mar-26 18:21:03	1	*787.00	550.50
20	19-Apr-26 21:30:13	1	*783.00	510.50
21	13-May-26 17:53:36	1	*763.00	462.60

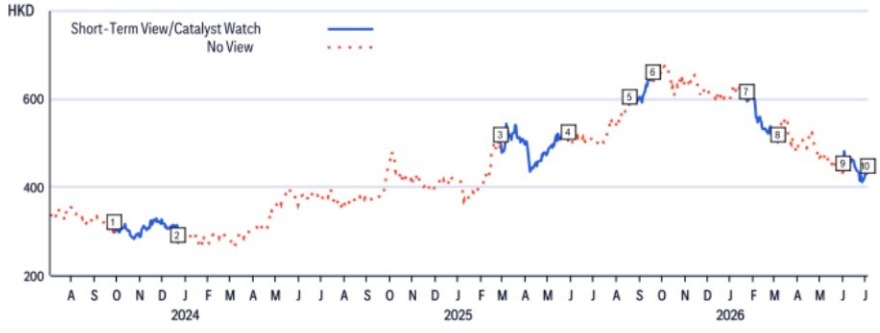
*Indicates Change

Rating/target price changes above reflect Eastern Time

Tencent Holdings (0700.HK)

Short-Term View/Catalyst Watch Research

Analyst: Alicia Yap, CFA



	Date	Action	Expected Direction	Duration	Closing Price
1	27-Sep-23 10:00:45	Add CW	Upside	90 Days	302.00
2	26-Dec-23 22:12:21	Remove CW	Upside	90 Days	274.00
3	26-Feb-25 11:59:25	Add CW	Upside	90 Days	501.50
4	28-May-25 00:26:38	Remove CW	Upside	90 Days	506.00

	Date	Action	Expected Direction	Duration	Closing Price
5	18-Aug-25 01:44:53	Add STV	Upside	30 Days	587.00
6	18-Sep-25 00:18:16	Remove STV	Upside	30 Days	642.00
7	22-Jan-26 12:55:08	Add CW	Upside	90 Days	597.50
8	05-Mar-26 02:14:38	Remove CW	Upside	90 Days	502.00

	Date	Action	Expected Direction	Duration	Closing Price
9	01-Jun-26 23:03:49	Add STV	Upside	30 Days	436.00
10	03-Jul-26 00:35:15	Remove STV	Upside	30 Days	431.20

CW - Catalyst Watch , STV - Short-Term View

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% of companies in each rating category that are investment banking clients	38%	42%	27%	42%	37%	36%

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