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Tencent Holdings (0700.HK)

Clearer AI Roadmap Backed By Accelerated AI Investment Pace

CITI'S TAKE

With the successful initial investments in its AI foundation, coupled with strong traction from both the Hy3 model and the WorkBuddy productivity agent, Tencent has further accelerated the ramp-up of its AI compute infrastructure to support the anticipated release of a more powerful Hy4 model later this year and its clearer strategic roadmap for the Weixin AI agent, Xiaowei. We believe that mgmt is confident of stronger model intelligence and that better AI applications will enhance user value, paving the way for monetization across existing businesses and new AI-native products. While resource priorities remain on model training, inference cost for WorkBuddy and other AI product initiatives, Tencent is also pivoting to monetize surplus compute capacity via its cloud services over time. Post estimate tweak, our TP is raised to HK$765; reiterate Buy as Tencent's AI initiatives show clear signs of fruition along with resilient core.

Capex and Op forecast – We raise our 2026-2028 capex assumption to Rmb200.7bn/235bn/220bn and model non-IFRS OP to grow at 5.8%/2.7%/8.5% compared to total revs growth of 9.3%/9.1%/9%, reflecting AI investment spend. In 2Q26, excluding AI-related investment, OP would have grown by 19% yoy to Rmb86bn or 42% margin vs reported 36.9%. We forecast FY26 OP to +5.8% yoy to Rmb296.8bn or +15.3% to Rmb343.6bn, if excluding Rmb46.8bn AI spend.

Compute priorities - Tencent is prioritizing capex for training larger Hunyuan models and supporting WorkBuddy inference, viewing token production as the most enduring economic driver. Mgmt framed the investment as a dynamic, front-loaded cycle, with excess capacity to be monetized via cloud services and a fallback option to pivot to profitable GPU rentals, ensuring confidence in the strategy's returns.

HY models & WorkBuddy – Tencent leads China's productivity AI market with its one-stop workspaces, WorkBuddy and CodeBuddy, which orchestrate numerous agents and skills to handle complex tasks. This leadership is underpinned by a model-product co-design approach, with the significantly improved Hy3 model demonstrating enhanced quality and agent capabilities, leading to strong adoption. Looking ahead, Tencent is developing the larger Hy4 model, expected later this year, as part of its long-term vision to evolve this architecture into a flexible, cost-effective platform that leverages a family of models to solve diverse user problems, prioritizing practical application over competing solely on benchmarks.

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	16.8	3.8	25.0	1.1
2025A	259,626	28.086	18.6	14.1	3.1	24.4	1.3
2026E	267,191	29.177	3.9	13.6	2.8	21.8	1.3
2027E	274,525	30.000	2.8	13.2	2.6	20.5	1.2
2028E	299,313	32.716	9.1	12.1	2.4	20.9	1.3

Source: Powered by dataCentral

Buy

Price (12 Aug 26 16:10)	HK$461.60
Target price	HK$765.00↑
from HK$758.00	
Expected share price return	65.7%
Expected dividend yield	1.3%
Expected total return	67.0%
Market Cap	HK$4,192,584M
	US$534,315M

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



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0700.HK: Fiscal year end 31-Dec

Price: HK$461.60; TP: HK$765.00; Market Cap: HK$4,192,584m; Recomm: Buy

Profit & Loss (Rmbm)	2024	2025	2026E	2027E	2028E
Sales revenue	660,257	751,766	822,036	896,458	976,877
Cost of sales	-311,011	-329,173	-352,376	-384,144	-419,830
Gross profit	349,246	422,593	469,660	512,313	557,047
Gross Margin (%)	52.9	56.2	57.1	57.1	57.0
EBITDA (Adj)	**287,736**	**339,449**	**410,549**	**533,521**	**564,161**
EBITDA Margin (Adj) (%)	43.6	45.2	49.9	59.5	57.8
Depreciation	-27,332	-32,799	-100,350	-211,500	-217,800
Amortisation	-28,881	-33,229	-20,070	-23,500	-22,000
EBIT (Adj)	**237,811**	**280,656**	**296,832**	**304,929**	**330,769**
EBIT Margin (Adj) (%)	36.0	37.3	36.1	34.0	33.9
Net interest	4,023	1,779	4,956	6,701	11,027
Associates	29,363	33,908	18,795	24,378	24,650
Non-Op/Except/Other Adj	-29,712	-39,094	-33,069	-33,950	-34,970
Pre-tax profit	**241,485**	**277,249**	**287,514**	**302,058**	**331,477**
Tax	-45,018	-47,448	-55,061	-60,412	-66,295
Extraord./Min.Int./Pref.div.	-2,394	-4,959	-7,134	-7,655	-7,515
Reported net profit	**194,073**	**224,842**	**225,319**	**233,991**	**257,666**
Net Margin (%)	29.4	29.9	27.4	26.1	26.4
Core NPAT	222,703	259,626	267,191	274,525	299,313

Per share data	2024	2025	2026E	2027E	2028E
Reported EPS (Rmb)	20.629	24.323	24.605	25.571	28.164
Core EPS (Rmb)	23.672	28.086	29.177	30.000	32.716
DPS (Rmb)	4.500	5.300	5.117	4.927	5.141
CFPS (Rmb)	27.479	32.784	44.349	53.832	53.858
FCFPS (Rmb)	20.097	23.337	22.433	28.152	29.811
BVPS (Rmb)	105.033	127.039	143.610	153.298	163.688
Wtd avg ord shares (m)	9,269	9,085	9,027	9,023	9,021
Wtd avg diluted shares (m)	9,408	9,244	9,158	9,151	9,149

Growth rates	2024	2025	2026E	2027E	2028E
Sales revenue (%)	8.4	13.9	9.3	9.1	9.0
EBIT (Adj) (%)	23.9	18.0	5.8	2.7	8.5
Core NPAT (%)	41.2	16.6	2.9	2.7	9.0
Core EPS (%)	44.3	18.6	3.9	2.8	9.1

Balance Sheet (Rmbm)	2024	2025	2026E	2027E	2028E
Cash & cash equiv.	132,519	141,041	257,877	313,839	357,155
Accounts receivables	48,203	49,930	55,178	58,945	64,233
Inventory	440	530	699	717	782
Net fixed & other tangibles	282,037	322,741	488,142	495,912	488,225
Goodwill & intangibles	196,127	205,999	210,929	212,429	215,429
Financial & other assets	1,121,669	1,318,745	1,338,276	1,398,208	1,476,892
Total assets	**1,780,995**	**2,038,986**	**2,351,102**	**2,480,050**	**2,602,716**
Accounts payable	118,712	121,127	178,602	189,441	184,035
Short-term debt	61,508	53,160	88,292	90,292	92,292
Long-term debt	146,521	208,369	214,650	216,650	218,650
Provisions & other liab	400,358	415,265	479,198	498,792	521,934
Total liabilities	**727,099**	**797,921**	**960,742**	**995,175**	**1,016,911**
Shareholders' equity	973,548	1,154,152	1,296,313	1,383,174	1,476,588
Minority interests	80,348	86,913	94,047	101,702	109,217
Total equity	**1,053,896**	**1,241,065**	**1,390,360**	**1,484,876**	**1,585,805**
Net debt (Adj)	**75,510**	**120,488**	**45,065**	**-6,897**	**-46,213**
Net debt to equity (Adj) (%)	7.2	9.7	3.2	-0.5	-2.9

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	16.8	14.1	13.6	13.2	12.1
PB (x)	3.8	3.1	2.8	2.6	2.4
EV/EBITDA (x)	10.4	8.6	7.0	5.3	4.9
FCF yield (%)	5.1	5.9	5.7	7.1	7.5
Dividend yield (%)	1.1	1.3	1.3	1.2	1.3
Payout ratio (%)	19	19	18	16	16
ROE (%)	21.8	21.1	18.4	17.5	18.0

Cashflow (Rmbm)	2024	2025	2026E	2027E	2028E
EBITDA	264,312	307,590	384,183	505,978	535,599
Working capital	21,881	16,484	51,847	18,785	-4,260
Other	-27,672	-21,022	-29,899	-32,159	-38,606
Operating cashflow	**258,521**	**303,052**	**406,131**	**492,604**	**492,733**
Capex	-69,451	-87,324	-200,695	-234,996	-219,997
Net acq/disposals	-4,941	-34,717	-296	-126	62
Other	-47,795	-83,691	-10,879	-98,850	-115,925
Investing cashflow	**-122,187**	**-205,732**	**-211,870**	**-333,972**	**-335,860**
Dividends paid	-28,859	-37,535	-48,151	-46,190	-44,458
Financing cashflow	**-176,494**	**-87,155**	**-75,453**	**-100,305**	**-110,718**
Net change in cash	**-39,801**	**8,522**	**116,836**	**55,962**	**43,316**
Free cashflow to s/holders	**189,070**	**215,728**	**205,436**	**257,608**	**272,736**

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

Key Takeaways from 2Q26 Result Call

2Q26 beat; revs/GP/OP +11%/13%/9% yoy

2Q26 total revenues were RMB204.8bn (+11% yoy, +4% qoq), 1.5%/1.0% above Citi/Bloomberg consensus of RMB201.73bn/RMB202.84bn.

- **VAS** +8% yoy to Rmb98bn, vs our Rmb96.3bn. **Total games revs.** of Rmb65.9bn, 3% above our Rmb64.1bn estimate, with domestic games at Rmb47.3bn (+17% yoy) and international games at Rmb18.6bn (-0.8% yoy; +4% in constant currency), versus our Rmb43.6bn/Rmb20.5bn estimates. **Community/platform revs.** of Rmb32.5bn (+0.8% yoy) vs Citi's Rmb32.2bn. Total deferred revs. were +8% yoy and -6% qoq to RMB135.8bn, with current deferred revs. +11% yoy and -5% qoq to RMB133.7bn. Total VAS sub was -2% yoy to 259mn.
- **Online ad** revs. +22% yoy to Rmb43.6bn, +2% vs Citi's Rmb42.6bn.
- **Fintech and business services** +9% yoy to Rmb60.3bn, broadly in line with our Rmb60.5bn estimate.

Non-IFRS net profit was Rmb68.4bn (+9% yoy, +0.8% qoq), 3%/broadly in line with Citi/consensus estimates of Rmb66.3bn/Rmb68.2bn. Non-IFRS basic EPS was Rmb7.433, vs our/consensus estimates of Rmb7.223/Rmb7.468. **Total capex** came in at RMB52.8bn, +65% qoq and +176% yoy.

Tencent's AI strategy update

Synergies between existing business and new AI initiatives

Management shared that existing businesses are growing solidly due to intrinsic moats and AI enablement. The intrinsic moat arises from network effects, depth and value added along supply chain, IP, low take rates, regulatory requirements and private data. AI is currently deployed across **Weixin, games and advertising** to generate positive results.

Tencent also develops new AI initiatives to support robust foundation and accelerating growth with the potential to generate substantial returns on upside from franchise products such as **Hy, WorkBuddy and Xiaowei**. These new AI initiatives will also provide clear downside protection as most of investment consists of AI infrastructure where Tencent can rent externally at attractive prices via Tencent Cloud.

Management believes this strategy represents a **completely different AI approach** vs peers in terms of compute allocation, co-design philosophy and connectivity empowerment. That said, Tencent will remain committed to invest in the long term, and economics of AI products will start to come in and generate positive profit at some point.

Accelerating progress for Hy foundation model

Tencent highlighted a big step up of Hy3 vs. Hy3 preview with improving quality and diversity of post-training data while scaling up reinforcement learning training leveraging feedback collection on 50+ products. Hy3 also showed improvement in task completion rate, hallucination rate and multi-turn question error rate.

Hy3 also demonstrates stronger agent capabilities in productivity scenarios such as coding, office work, financial modelling and front-end designs as a reliable and cost-effective model option for everyday WorkBuddy tasks. Hy3 also saw stronger advantages in front-end development, user interface design, data analysis and software development & deployment.

Meanwhile, Hy3 provides a more reliable product experience which has been widely usable in multiple agentic use cases. It also implemented fine-grained data cleaning and training constraints to reduce hallucination rate, while improving long-dialog performance through joint optimization of supervised fine-tuning (SFT) and reinforcement learning (RL).

These advantages have driven significant token usage for Hy3 which ranked top 3 on OpenRouter by token usage. In addition, daily token usage of Hy3 is around 7x of Hy3 preview across all channels during paid period, reflecting an accelerating external customer demand. Overall, Tencent believes Hy3 significantly outperforms similar-sized models and Hy3's production version represents a stepping stone towards Hy family of models attaining SOTA capabilities in future, while providing users with cost performance efficiency.

Hy3 also carried deep production integration with **WorkBuddy** to increase task success rate and cut time-to-completion for complex agent workflow, **Yuanbao** with execution quality in information retrieval, data processing, document workflows and decision making, **games** particularly AI teammate creation and code review and **Weixin** in multiple high-frequency scenarios like AI assistants in Official Accounts and developer tools for Mini Programs. Tencent will continuously feed real-world product usage and domain feedback into model training, this model-product co-design approach may allow Hy to validate model accuracy and identify edge cases for faster model iteration and sustained performance gain.

Management also highlighted that they have established a system for faster model iteration by scaling more powerful RL, upgrading Hy's multi-modal capabilities, training for the next large parameter model Hy4 to release later this year and accelerating technical iteration and pushing model intelligence towards SOTA level capabilities with a valuable AI native business consists of applications, own model and compute.

During Q&A session, management highlighted that despite a relatively smaller size of Hy3 at today's term, Hy3 has been widely used with the capability of matching or beating much larger models, a focus-driven approach on use cases rather than benchmark competing. Tencent will follow the similar principle when developing Hy4 going forward. Hy4 is expected to be a bigger and more effective model than Hy3 under a model-product co-design approach. Overall management believes models of different sizes will be able to solve different user problems at different cost efficiency, while enabling Tencent to enrich product features and capabilities within its ecosystem.

Leading productivity AI with WorkBuddy & CodeBuddy

Tencent operates WorkBuddy and CodeBuddy as the most used productivity AI service in China, serving as one-stop workspace that orchestrates multiple agents to handle complex work end-to-end. With WorkBuddy and CodeBuddy together ranking #1 among PC-based AI-native office agents in China, both products are showing fast growth with high retention rate and paying willingness as well.

Key features of WorkBuddy and CodeBuddy include: 1) remote control via Weixin, WeCom and directly via PC; 2) access to 70K+ skills from Tencent Cloud's SkillHub and ability to interact with products in Tencent's ecosystem including Tencent Docs, Tencent Meeting and ima; 3) transaction execution capabilities by embedding SkillPay and Weixin Pay inside the task flow.

Management believes the investment in WorkBuddy and CodeBuddy may unlock huge opportunities in productivity market including coding and existing office work scenarios. Currently Tencent will focus on market education and extending leadership position, which would drive economies improvement over time through paying user benefits enhancement and increasing user penetration amid token costs reduction through agent efficiency, inference efficiency and model optimization.

During Q&A sessions, management suggested that the harness architecture from WorkBuddy may eventually evolve as a new platform and a flexible workspace that potentially solve all productivity needs which leverages the capabilities of different models to solve user problems. More skills are expected to be developed over time by different developers. Management believes currently WorkBuddy is better positioned as an orchestrator with right model and skills to support user needs in cost-effective manner backed by Hy as one of the key models for WorkBuddy.

Driving broader adoption for consumer AI products

For Xiaowei which is the consumer agentic AI in Weixin, Tencent has released the prototype to deliver embedded and context-aware AI experience in Weixin, leveraging Weixin's social graph, knowledge graph, merchant reach and payment functionality.

Xiaowei is based on Weixin customized model WeLM focusing on user privacy, Weixin use case and cost efficiency. It also supports content personalization to help users navigate and derive insights from diverse Weixin content universe in a personalized and efficient way. Xiaowei also enabled service and transactions functions that leverages unique Mini Programs ecosystem to help users discover products, make purchase decisions and place transactions to lay the ground work for agent-to-agent transaction loop.

Management noted that while the prototype can technically handle advanced agentic workflows, Xiaowei currently requires user intervention and multi-step confirmations as safety measures. Tencent will work to fulfill user needs in Weixin's environment through **phased rollout** going forward: 1) enhance core capabilities including conversion, memory and recommendation; 2) integrate more services and content; 3) strengthen AI infrastructure and harness to improve GPU utilization and explore on-device inference in future. Management will target to upgrade Weixin for AI era at controlled cost to support accelerating growth and monetization within Weixin ecosystem.

For AI chatbot Yuanbao, Tencent will focus on improving capabilities and user experience, particularly in search, automatic speech recognition and text-to-speech. This helps address broader long-tail AI needs for consumers such as multimodal generation. Management believes Yuanbao plays an important role in the co-design flywheel with its conventional use cases generating valuable feedback to help improve Hy models. Over time, Yuanbao functionalities can also become atomic capabilities for WorkBuddy, CodeBuddy, Weixin and QQ Browser.

During Q&A session, management emphasized that AI will further enable the Weixin ecosystem which help users to execute transactions, explore content and manage their daily lives. As a huge opportunity for Weixin ecosystem, Weixin ecosystem will further evolve as an AI-first application and ecosystem. In such case, Xiaowei may serve as an important primary access for transaction and instruction execution at controllable costs. Management also believes the **investment in Xiaowei from the cost side will be lower** than that for Yuanbao in the past.

Management also shared their vision on agent-to-agent transaction loop by executing complex instructions from users with plenty of Mini Programs. Currently Tencent is building the architecture for agent-to-agent interactions on a step-by-step basis. For device inference, it will also be a step-by-step process that potentially put the GPU capability into individuals' devices.

Capex allocation priorities

Management shared the capex allocation priorities. The immediate primary use is training larger and more capable Hunyuan models in the near term. The secondary priority is providing inference capacity for Hunyuan and third-party models behind WorkBuddy. While WorkBuddy is primarily a strategic application investment with important feedback loops back to the model and the broader ecosystem, it also generates upfront revenue, predominantly through subscriptions, which creates a lag between cash receipt and recognized revenue. Management noted substantial ramp in cash receipts that will translate into reported Tencent Cloud revenue growth as the year progresses. Toward year-end and into the following year, additional GPU and ASIC capacity will enable Tencent to scale up bare metal GPU rental and Model-as-a-Service offerings. Management was clear that token production for WorkBuddy carries the most enduring economic value and accordingly receives the highest prioritization.

Management described capital allocation as dynamic and responsive to observed returns. If compute investments for model building, WorkBuddy token production, and Model-as-a-Service demonstrate clearly superior returns, capex will be directed accordingly, potentially at the expense of buyback volumes.

However, management was careful to frame the AI investment cycle as more of a concentrated front-loaded lump-sum commitment over the current and next year, rather than an annually escalating structural cost. Model training compute is characterized as more of a fixed cost investment, not one requiring continuous annual increments. Incremental inference capex will be justified only if it generates commensurate returns. Management also emphasized that the quantum of AI-native capex should be evaluated not solely against operating cash flow but in the context of the company's broader balance sheet, including cash holdings and the investment portfolio, providing significant financial flexibility.

The option to pivot compute toward direct rental and quickly generate profitable returns was highlighted as a standing fallback that underpins management's confidence in the investment strategy.

Tencent Cloud & margin

Business services revenues at low-20% yoy in 2Q26

In 2Q26, business services revenues grew by low-twenties % yoy thanks to AI-related demand, international expansion and increased uptake for general cloud services. Management saw AI-related demand has translated into increased revenue across GPU rental, Model-as-a-Services and WorkBuddy & CodeBuddy. Tencent Cloud international business also expanded rapidly using Skills developed with WorkBuddy and CodeBuddy which accelerated the speed of conducting cloud migration to Tencent Cloud.

During Q&A, management added that they have allocated a substantial portion of new compute to build its own models to SOTA status and support the deployment, popularity of its own AI applications within existing businesses and new AI initiatives to market leadership in China in order to achieve super intelligence that bring economic returns over longer term. In future, potential monetization include selling tokens through the work and by the applications.

Regarding margin profile for AI cloud business, management observed an extremely low token manufacturing costs compared to a low domestic token prices in China. This would result in a positive gross margin for the token business. Specifically, the gross margin for paying users of WorkBuddy and MaaS are already comparable to the gross margin for Tencent Cloud overall despite a lower gross margin for WorkBuddy overall given a larger portion of free users.

In terms of cloud product pricing, Tencent Cloud has been increasing its headline prices due to rising input prices, while substantially reducing discounts under an easing overall pricing environment in China cloud market recently, which also have a positive impact to cloud margin.

Online Games

Domestic games +17% yoy with Delta Force, Valorant and Roco Kingdom

In 2Q26, domestic game revenues grew by 17% yoy to Rmb47.3bn, driven by growth from most of its major games and notable contribution from *Delta Force*, *Valorant* PC and Mobile and *Roco Kingdom: World*. Specifically, by game titles:

- ***Delta Force*:** average DAU achieved lifetime high in 2Q26, driven by successful campaign, first professional league final and global 20v20 tournament. *Delta Force* also integrated AI tools across production workflows, such as data agents for performance analysis and Hy 3D model for asset generation.

- ***Valorant PC*:** average DAU also hit lifetime high in 2Q26, fueled by new mode with round-progressive weapons and new map with droppable walls. The title also expanded reach through influencer collaborations, on-the-ground city events and 10,000+ internet café promotions.

- ***Roco Kingdom: World*:** ranked #5 by average DAU and #8 by gross receipt across all mobile games in 2Q26, representing the highest ranked new title released YTD industry-wide. The title adopts a rapid content delivery cadence by adding ~100 creatures and expanded map with 7 new regions in ~3 months.

- ***Runaway Evolution:*** a multi-platform SOC game adapted for China players from *Rust* by expanding to mobile devices and adding sandbox safe zone for new players. It provides high risk and high reward gameplay for gamers to survive, build bases and win the server.

International games -0.8% yoy to Rmb18.6bn

In 2Q26, international game revenues down by -0.8% yoy to Rmb18.6bn or +4% on constant currency basis, mainly due to higher revenues from *Wuthering Waves* and *Valorant PC* offset by lower revenues from certain Supercell games (*Clash Royale and Clash of Clans* in our view). For individual game performance:

- ***League of Legends*:** DAU increased yoy in 2Q26 mainly driven by ARAM: Mayhem mode. *LoL* also launched League Classic as a nostalgic model in Jul to re-engage longtime fans.

- ***Warframe*:** DAU grew yoy and gross receipts achieved lifetime high in 2Q26, benefiting from new themes and storyline.

- ***Arrows – Puzzle Escape*:** the most downloaded mobile globally in 2Q26, featuring collision free clearing of intricate mazes with satisfying game experience. The title demonstrates the innovative capabilities of Miniclip's family of studios and supported by Miniclip's publishing expertise to break out leaders in new genres of casual games. Tencent shared that this title monetizes through in-app ads with revenue reported in marketing services segment.

Marketing services growth drivers

Revenues from Marketing Services were RMB43.6bn for 2Q26, up 22% year-on-year, supported by enhancements to the AI-driven ad recommendation model, upgrades to automated campaign management solution AIM+, and integration of closed-loop marketing capabilities within the Weixin ecosystem. Most major industry categories including ecommerce, internet services and local services increased marketing spending on the platforms during the quarter.

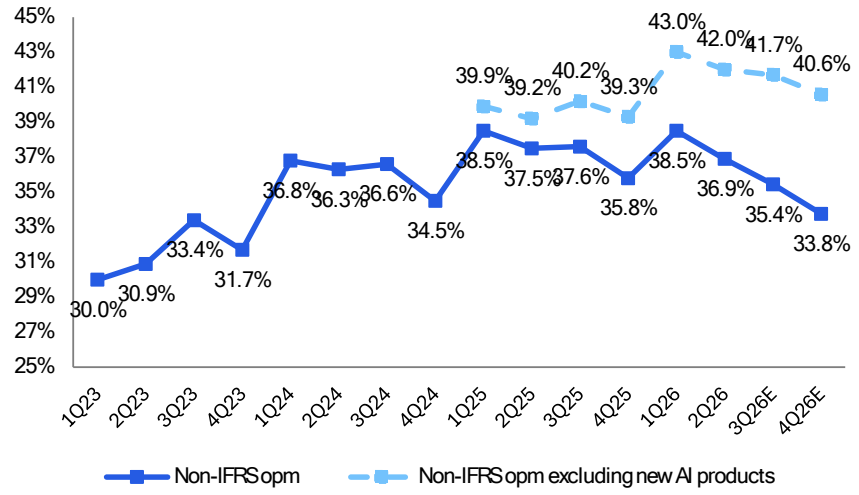
Management explained that there were about 2% of the growth rate this quarter related to in-app advertising within games (Arrows- Puzzle Escape), which is a relatively new and less predictable product format for which growth trajectory visibility is limited. The broader China consumer and advertising market remains choppy, with some macroeconomic and consumption headwinds that could affect advertising trends. Management nonetheless expressed confidence in continued outperformance versus the overall China advertising market, with continued deployment of AI-driven ad targeting tools; growing engagement with key video accounts inventory; and the ongoing structural shift toward closed-loop advertising formats that command materially higher pricing.

Fintech business updates

The FinTech and Business Services segment delivered yoy revenue growth driven by increase in commercial payment, wealth management and consumer loan services. For commercial payment, number of transactions grew yoy while the yoy decline in value per transaction continued to narrow. For wealth management, aggregated customer assets increased yoy benefitting from popularity of automated investment strategies and thematic index funds.

Estimate Revisions

Figure 1. Non-IFRS operating margin of Tencent



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Source: Company Reports, Citi Research

We adjust our 2026-28E revs/earnings by +0.1%/-0.2%, +0.3%/-3.2%, +1.0%/-4.5% respectively to reflect latest result and stepped-up capex spend.

For 3Q26, we model domestic games to +7.5% yoy and int'l games to -3% yoy to Rmb46bn/Rmb20.2bn. We model total ad revs to +20% yoy and FBS to +9.0% yoy.

For 2026, we model domestic games/int' games to +9.5%/2.6% yoy to Rmb180bn/Rmb79.3bn. We model total ad revs to +20.3% yoy and FBS to +9% yoy and forecast adj. NP to +2.9% yoy to Rmb267bn or 32.5% margin.

Figure 2. Tencent - 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
3Q26E	210,032	208,081	-0.9%	68,227	66,142	-3.1%	7.44	7.23	-2.8%
4Q26E	212,751	212,712	0.0%	65,240	64,729	-0.8%	7.11	7.07	-0.6%
2026E	**820,970**	**822,036**	**0.1%**	**267,621**	**267,191**	**-0.2%**	**29.18**	**29.18**	**0.0%**
2027E	**893,678**	**896,458**	**0.3%**	**283,476**	**274,525**	**-3.2%**	**30.91**	**30.00**	**-3.0%**
2028E	**967,569**	**976,877**	**1.0%**	**313,569**	**299,313**	**-4.5%**	**34.20**	**32.72**	**-4.3%**

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Source: Citi Research Estimates



Figure 3. Tencent – Revenue Revisions

	3Q26E			4Q26E			2026E			2027E			2028E		
Rmb (mn)	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Total online games	**68,364**	**66,186**	**-3.2%**	**63,431**	**62,989**	**-0.7%**	**260,119**	**259,275**	**-0.3%**	**281,590**	**275,757**	**-2.1%**	**302,891**	**296,323**	**-2.2%**
yoy growth rate %	***7.5%***	***4.1%***		***7.0%***	***6.2%***		***7.7%***	***7.3%***		***8.3%***	***6.4%***		***7.6%***	***7.5%***	
PC gaming	12,933	12,933	0.0%	12,206	12,206	0.0%	49,524	49,524	0.0%	49,296	49,296	0.0%	49,106	49,106	0.0%
Mobile gaming	55,431	53,253	-3.9%	51,225	50,782	-0.9%	210,595	209,750	-0.4%	232,294	226,461	-2.5%	253,785	247,217	-2.6%
Smartphone games	**73,141**	**70,237**	**-4.0%**	**67,547**	**66,957**	**-0.9%**	**280,687**	**276,360**	**-1.5%**	**306,857**	**299,079**	**-2.5%**	**335,735**	**326,977**	**-2.6%**
yoy growth rate %	*16.8%*	*12.2%*		*15.5%*	*14.5%*		*18.3%*	*16.5%*		*9.3%*	*8.2%*		*9.4%*	*9.3%*	
Domestic Games	**45,796**	**46,010**	**0.5%**	**41,065**	**41,256**	**0.5%**	**175,893**	**179,966**	**2.3%**	**188,958**	**190,852**	**1.0%**	**202,185**	**204,212**	**1.0%**
yoy growth rate %	*7.0%*	*7.5%*		*7.5%*	*8.0%*		*7.1%*	*9.5%*		*7.4%*	*6.0%*		*7.0%*	*7.0%*	
International Games	**22,568**	**20,176**	**-10.6%**	**22,366**	**21,733**	**-2.8%**	**84,226**	**79,309**	**-5.8%**	**92,632**	**84,904**	**-8.3%**	**100,708**	**92,111**	**-8.5%**
yoy growth rate %	*8.5%*	*-3.0%*		*6.0%*	*3.0%*		*9.0%*	*2.6%*		*10.0%*	*7.1%*		*8.7%*	*8.5%*	
Total community and platform	**33,108**	**32,316**	**-2.4%**	**31,368**	**31,051**	**-1.0%**	**128,566**	**127,791**	**-0.6%**	**134,609**	**132,965**	**-1.2%**	**140,860**	**139,030**	**-1.3%**
yoy growth rate %	***2.6%***	***0.2%***		***2.4%***	***1.4%***		***0.7%***	***0.1%***		***4.7%***	***4.0%***		***4.6%***	***4.6%***	
Community and open platforms	18,520	18,309	-1.1%	17,898	17,700	-1.1%	72,588	72,679	0.1%	73,277	73,189	-0.1%	73,833	73,754	-0.1%
Non-mobile game	14,588	14,007	-4.0%	13,469	13,351	-0.9%	55,977	55,112	-1.5%	61,331	59,776	-2.5%	67,027	65,275	-2.6%
Online advertising	**42,766**	**43,599**	**1.9%**	**48,627**	**49,113**	**1.0%**	**172,116**	**174,449**	**1.4%**	**196,822**	**204,485**	**3.9%**	**221,346**	**233,194**	**5.4%**
yoy growth rate %	***18.0%***	***20.3%***		***18.3%***	***19.5%***		***18.7%***	***20.3%***		***14.4%***	***17.2%***		***12.5%***	***14.0%***	
Others	**65,794**	**65,980**	**0.3%**	**69,326**	**69,559**	**0.3%**	**260,169**	**260,522**	**0.1%**	**280,657**	**283,251**	**0.9%**	**302,472**	**308,330**	**1.9%**
yoy growth rate %	***8.3%***	***8.6%***		***9.5%***	***9.8%***		***9.5%***	***9.7%***		***7.9%***	***8.7%***		***7.8%***	***8.9%***	
Fintech and Business services	**63,410**	**63,410**	**0.0%**	**65,988**	**66,474**	**0.7%**	**249,816**	**250,055**	**0.1%**	**270,101**	**273,043**	**1.1%**	**291,709**	**297,974**	**2.1%**
yoy growth rate %	*9.0%*	*9.0%*		*8.5%*	*9.3%*		*8.9%*	*9.0%*		*8.1%*	*9.2%*		*8.0%*	*9.1%*	
Cloud revs	15,953	15,953	0.0%	16,935	17,500	3.3%	59,445	59,081	-0.6%	69,688	73,852	6.0%	79,668	90,247	13.3%
yoy growth rate %	*23.0%*	*23.0%*		*20.0%*	*24.0%*		*22.8%*	*22.0%*		*17.2%*	*25.0%*		*14.3%*	*22.2%*	
Total revenues	**210,032**	**208,081**	**-0.9%**	**212,751**	**212,712**	**0.0%**	**820,970**	**822,036**	**0.1%**	**893,678**	**896,458**	**0.3%**	**967,569**	**976,877**	**1.0%**
yoy growth rate %	***8.9%***	***7.9%***		***9.5%***	***9.4%***		***9.2%***	***9.3%***		***8.9%***	***9.1%***		***8.3%***	***9.0%***	
Gross profit	**119,361**	**119,139**	**-0.2%**	**119,334**	**120,823**	**1.2%**	**464,787**	**469,660**	**1.0%**	**508,667**	**512,313**	**0.7%**	**554,356**	**557,047**	**0.5%**
yoy growth rate %	*9.7%*	*9.5%*		*10.2%*	*11.6%*		*10.0%*	*11.1%*		*9.4%*	*9.1%*		*9.0%*	*8.7%*	
GPM	56.8%	57.3%		56.1%	56.8%		56.6%	57.1%		56.9%	57.1%		57.3%	57.0%	
Non-GAAP Operating profit	**75,392**	**73,758**	**-2.2%**	**71,458**	**71,811**	**0.5%**	**295,678**	**296,832**	**0.4%**	**312,097**	**304,929**	**-2.3%**	**344,505**	**330,769**	**-4.0%**
yoy growth rate %	*3.9%*	*1.6%*		*2.8%*	*3.3%*		*5.4%*	*5.8%*		*5.6%*	*2.7%*		*10.4%*	*8.5%*	
Non-GAAP OPM	35.9%	35.4%		33.6%	33.8%		36.0%	36.1%		34.9%	34.0%		35.6%	33.9%	
Non-GAAP net profit	**68,227**	**66,142**	**-3.1%**	**65,240**	**64,729**	**-0.8%**	**267,621**	**267,191**	**-0.2%**	**283,476**	**274,525**	**-3.2%**	**313,569**	**299,313**	**-4.5%**
yoy growth rate %	*-3.3%*	*-6.2%*		*0.8%*	*0.1%*		*3.1%*	*2.9%*		*5.9%*	*2.7%*		*10.6%*	*9.0%*	
Non-GAAP NM	32.5%	31.8%		30.7%	30.4%		32.6%	32.5%		31.7%	30.6%		32.4%	30.6%	

Source: Citi Research Estimates

Maintain Buy and adjust TP to HK$765

Post estimate revision, our SOTP is raised to HK$765 (from HK$758). Our TP implies 22.7x 2026E and ~22x 2027E P/E.

- **Online games –** We apply 12x P/E (unchanged) to 2027E estimated games net profit of Rmb131bn and yield a valuation of HK$190 per share or 25% of our target price.
- **Online advertising –** We apply 20x P/E (unchanged) to 2027E estimated ads profit of Rmb86.9bn and yield a valuation of HK$210 per share or 27% 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 Rmb61bn and yield a valuation of HK$185 per share or 24% of target price.
- **Fintech –** We apply 15x P/E to estimated profit of Rmb48.5bn and yield a valuation of HK$88 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 Rmb73.8bn and yield a valuation of HK$45 per share or 6% of target price.
- **Investment portfolio –** We apply 30% discount to equity stake in publicly listed investment portfolio and result to HK$48/share or 6% of target price.

Figure 4. 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	275,757	130,984	12	1,737,875	190	219,316	25%
Online advertising	204,485	86,906	20	1,921,751	210	242,520	27%
Social Network (WeChat + QQ)	132,965	61,164	25	1,690,647	185	213,356	24%
Fintech	199,191	48,553	15	805,235	88	101,619	11%
Cloud (business services)	73,852	6,647	5	408,271	45	51,523	6%
Other business	10,209	(59,729)		-	-	-	0%
Investment Portfolio (at 30% discount)				439,902	48	56,062	6%
Total	**896,458**	**274,525**		**7,003,680**	**765**	**884,396**	**100%**

Source: Citi Research Estimates

We reiterate our Buy rating on Tencent with HK$765 TP and continue to view it as a core holding in the portfolio.

Heading into 2H26, we see few event catalysts including upcoming release of larger Hy4 models, increasing penetration and usage of WorkBuddy, continued testing and progress of Weixin AI agent, Xiaowei, future Cloud revs upside through GPU renting services and resilient and sustainable core business in gaming, advertising and paid subscription services.

Reiterate Buy and remain confident that Tencent's AI initiative gradually comes into fruition along with sustainable core profit growth.

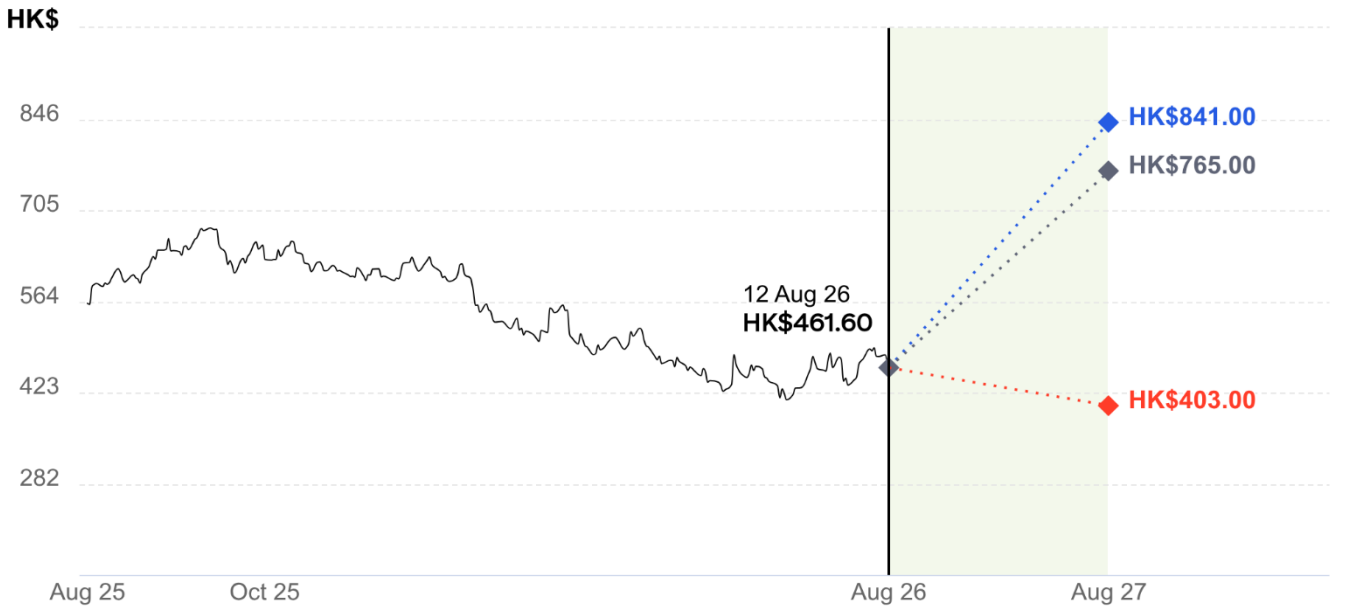
Figure 5. Income statement

Year to 31 Dec (Rmb mn)	2025	1Q26	2Q26	3Q26E	4Q26E	2026E	2027E	2028E
Revenues								
VAS	369,281	96,110	98,414	98,502	94,040	387,066	408,722	435,352
Total online games	241,600	64,200	65,900	66,186	62,989	259,275	275,757	296,323
- Domestic Games	164,300	45,400	47,300	46,010	41,256	179,966	190,852	204,212
- International Games	77,300	18,800	18,600	20,176	21,733	79,309	84,904	92,111
Total community and platform	127,681	31,910	32,514	32,316	31,051	127,791	132,965	139,030
Online advertising	144,973	38,171	43,565	43,599	49,113	174,449	204,485	233,194
Media advertising	19,052	5,154	5,471	4,348	5,410	20,383	20,075	20,543
Social and others advertising	125,921	33,017	38,094	39,251	43,703	154,066	184,409	212,651
Others	237,512	62,177	62,806	65,980	69,559	260,522	283,251	308,330
Total revenues	**751,766**	**196,458**	**204,785**	**208,081**	**212,712**	**822,036**	**896,458**	**976,877**
YoY change	*13.9%*	*9.1%*	*11.0%*	*7.9%*	*9.4%*	*9.3%*	*9.1%*	*9.0%*
Cost of revenues								
VAS	146,985	35,983	35,488	35,953	36,017	143,442	152,533	163,130
Online advertising	61,584	17,181	18,596	18,312	19,645	73,734	80,788	91,698
Others	120,604	32,029	32,268	34,678	36,226	135,201	150,823	165,001
Total cost of revenues	329,173	85,193	86,352	88,943	91,888	352,376	384,144	419,830
Gross profit	**422,593**	**111,265**	**118,433**	**119,139**	**120,823**	**469,660**	**512,313**	**557,047**
Gross margin	*56.2%*	*56.6%*	*57.8%*	*57.3%*	*56.8%*	*57.1%*	*57.1%*	*57.0%*
Other operating exp/(income)	3,177	(1,253)	480	(1,500)	(1,500)	(3,773)	(6,000)	(6,000)
Selling and marketing	41,727	11,343	11,869	12,485	13,614	49,310	54,483	58,613
General and administration	136,127	33,800	38,808	42,657	45,095	160,360	192,852	208,635
Total operating expenses	181,031	43,890	51,157	53,642	57,208	205,897	241,335	261,248
Operating profit	**241,562**	**67,375**	**67,276**	**65,497**	**63,615**	**263,763**	**270,978**	**295,799**
Operating margin	*32.1%*	*34.3%*	*32.9%*	*31.5%*	*29.9%*	*32.1%*	*30.2%*	*30.3%*
Non-GAAP operating profit	**280,656**	**75,627**	**75,636**	**73,758**	**71,811**	**296,832**	**304,929**	**330,769**
Non-GAAP operating margin	*37.3%*	*38.5%*	*36.9%*	*35.4%*	*33.8%*	*36.1%*	*34.0%*	*33.9%*
Finance income, net	(15,130)	(2,979)	(2,979)	(2,979)	(2,979)	(11,916)	(11,516)	(11,116)
Share of loss of jointly controlled entity	23,740	3,620	(9,993)	4,120	4,110	1,857	16,910	17,430
Share of losses of associates	-	-	-	-	-	-	-	-
Profit before tax	277,249	73,969	69,690	72,773	71,082	287,514	302,058	331,477
Income tax expense	(47,448)	(14,577)	(11,713)	(14,555)	(14,216)	(55,061)	(60,412)	(66,295)
Minority interest	(4,959)	(1,299)	(1,955)	(1,945)	(1,935)	(7,134)	(7,655)	(7,515)
Net income	**224,842**	**58,093**	**56,022**	**56,273**	**54,930**	**225,319**	**233,991**	**257,666**
Net margin	*29.9%*	*29.6%*	*27.4%*	*27.0%*	*25.8%*	*27.4%*	*26.1%*	*26.4%*
Diluted EPS (RMB)	24.15	6.30	6.10	6.15	6.00	24.60	25.57	28.16
Diluted EPS (HKD)	27.11	7.17	7.06	7.11	6.94	28.47	29.58	32.58
Non-GAAP net income	**259,626**	**67,905**	**68,415**	**66,142**	**64,729**	**267,191**	**274,525**	**299,313**
Non-GAAP Net margin	*34.5%*	*34.6%*	*33.4%*	*31.8%*	*30.4%*	*32.5%*	*30.6%*	*30.6%*
Non-GAAP diluted EPS (RMB)	**27.88**	**7.36**	**7.43**	**7.23**	**7.07**	**29.18**	**30.00**	**32.72**
Non-GAAP diluted EPS (HK$)	**31.29**	**8.38**	**8.60**	**8.36**	**8.18**	**33.76**	**34.71**	**37.85**
Diluted shares average (m)	9,244	9,173	9,153	9,153	9,152	9,158	9,151	9,149

Source: Citi Research Estimates

Bull/Bear: Tencent Holdings (0700.HK)

HK$ 841.00 ▲82% Upside | HK$ 765.00 ▲66% Upside | HK$ 403.00 ▼13% Downside



Spread 95pp
Current Price and expected returns (upside/downside) as of 12 Aug 2026

BULL Assumptions

- Online gaming multiple of 15x.
- Online advertising multiple of 22x.
- Social network multiple of 26x.

BASE Assumptions

- Online gaming multiple of 12x.
- Online advertising multiple of 20x.
- Social network multiple of 25x.

BEAR Assumptions

- Online gaming multiple of 5x.
- Online advertising multiple of 8x.
- Social network multiple of 8x.

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$765 is based on a SOTP approach, which implies 22.7x 2026E and ~22.0x 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 Rmb130bn and yield a valuation of HK$190 per share, or 25% of our target price; 2) Online advertising – We apply a 20x P/E to our 2027 estimated ads profit of Rmb87bn which yields a valuation of HK$210 per share, or 27% 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 Rmb61bn and yield a valuation of HK$185 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 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 Rmb74bn, which yields a valuation of HK$45 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$48/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.

If you are visually impaired and would like to speak to a Citi representative regarding the details of the graphics in this document, please call USA 1-888-500-5008 (TTY: 711), from outside the US +1-210-677-3788

Appendix A-1

ANALYST CERTIFICATION

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Tencent Holdings (0700.HK)

Ratings and Target Price History
Fundamental Research

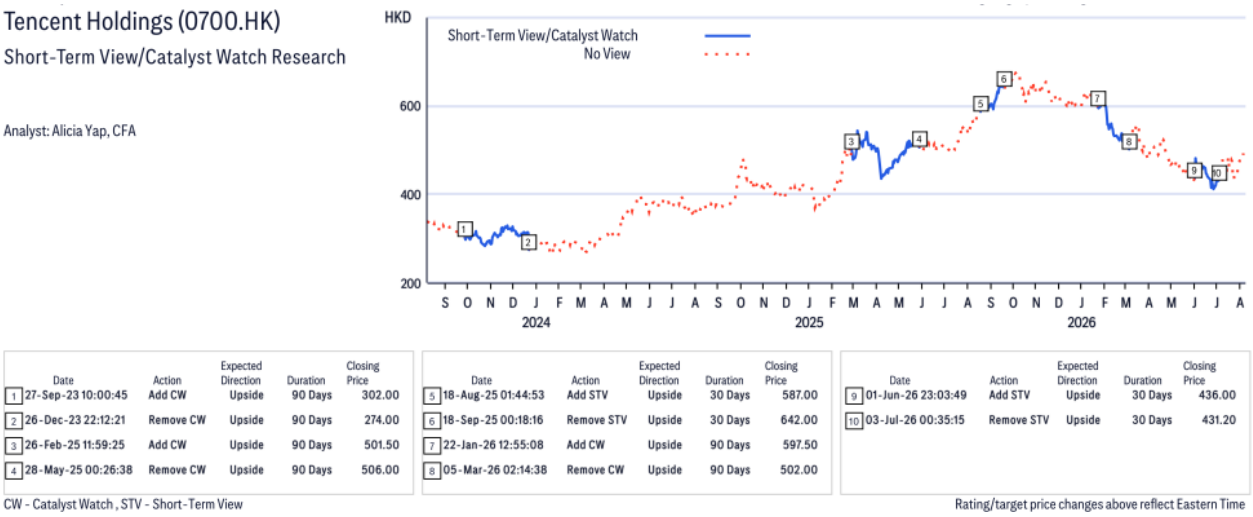
Analyst: Alicia Yap, CFA



	Date	Rating	Target Price	Closing Price
1	16-Aug-23 17:24:35	1	*496.00	328.80
2	15-Nov-23 18:02:07	1	*497.00	322.60
3	25-Jan-24 16:53:37	1	*455.00	290.80
4	20-Mar-24 17:30:22	1	*459.00	288.80
5	15-May-24 11:33:19	1	*515.00	381.80
6	14-Aug-24 16:25:06	1	*527.00	373.80
7	29-Sep-24 20:19:06	1	*535.00	437.80
8	10-Oct-24 13:59:11	1	*573.00	438.80
9	13-Jan-25 15:52:08	1	*563.00	366.00
10	26-Feb-25 16:59:25	1	*648.00	501.50
11	19-Mar-25 19:00:37	1	*681.00	540.00
12	28-Apr-25 16:14:07	1	*670.00	478.20
13	14-May-25 17:10:11	1	*695.00	521.00
14	28-Jul-25 17:17:28	1	*699.00	555.50
15	13-Aug-25 17:51:56	1	*735.00	586.00
16	13-Nov-25 18:35:44	1	*751.00	656.00
17	22-Jan-26 17:55:08	1	*783.00	597.50
18	18-Mar-26 18:21:03	1	*787.00	550.50
19	19-Apr-26 21:30:13	1	*783.00	510.50
20	13-May-26 17:53:36	1	*763.00	462.60
21	07-Jul-26 11:45:27	1	*758.00	461.20

*Indicates Change

Rating/target price changes above reflect Eastern Time



	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

Rating/target price changes above reflect Eastern Time

The Firm has made a market in the publicly traded equity securities of Tencent Holdings Ltd on at least one occasion since 1 Jan 2025.

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