China Technology

The Forest Report - 2Q26 Edition

AI Capex shows no sign of slow down fueled by accelerating cloud demand. Retail demand challenging but easier 2H26 comp should show some recovery. Ads segment largely benefiting from AI tools but BIDU continues to struggle. EV delivery outlook soft for 2H26 while margins recovered in 2Q.

Industry Update

China Technology
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Capex is stepping up alongside accelerating cloud demand. BABA cloud revenue accelerated to 45% yoy in Jun-Q and guided to 50% yoy growth in Sep-Q, with further acceleration expected in the coming quarters. MaaS ARR exceeded US$2.4bn in August, well ahead of domestic peers, while capex surged 75% yoy to RMB67.7bn as the company expanded compute capacity. With a five-year target of $100bn in external cloud revenue (implying a 40% CAGR) and segment EBITA margin of 20% (up from the current low-teens level), we believe BABA's full stack AI platform is well positioned to capitalize on AI demand. **Tencent** capex increased 190% yoy to RMB51.8bn, with investment focused on next-gen HY model training and rising inference demand from enterprise applications such as WorkBuddy and CodeBuddy. **BIDU** AI cloud infrastructure increased 50% yoy, with GPU cloud growth accelerating to 283% yoy. Capex nearly tripled from a year ago to RMB 11.4bn. **Kuaishou** Kling AI revenue increased 240% yoy to RMB 850mn. In July, Kling completed an external financing of ~$3bn with a post-valuation of $18bn, and KS retains a 68.33% ownership stake. **Xiaomi** is increasingly focused on its AI and ecosystem integration across its "Human x Car x Home." It launched next-gen operating system HyperOS 4 and Hyper XiaoAi 2.0, enabling its AI agent to execute tasks across applications and devices. Its model MiMo began generating API and token revenue in 2Q, although monetization is not the priority for the company.

Ecommerce growth is on track to recover in 2H, supported by macro demand and easier comps in trade-in categories. China retail remained subdued in 2Q with total retail sales slowing to 0.2% yoy and online physical goods decelerating to 2.3% yoy. **BABA** CMR declined -7% yoy (+1% ex-contra) while ecommerce maintained solid profitability with adj. EBITA excl. quick commerce at 32.9%. We expect CMR to improve in Sep-Q alongside the industry recovery with stable ecommerce profitability. **JD** revenue likely bottomed in 2Q, in our view, with group/ retail down -2.9%/-4.7% yoy, respectively, due to high comp, rising electronics prices and weak consumer demand. It expects retail revenue to accelerate sequentially in 2H (LSD-MSD yoy in 3Q) while retail margin should remain stable qoq in 3Q and group profit will likely accelerate throughout 2H. **PDD** online marketing increased 3.5% yoy (as a proxy of China ecommerce), and we expect growth to improve to 4.5% yoy in 3Q. Group adj. OPM improved +6ppt yoy to 25.9% partly due to Temu's deceleration, which remains loss making. **Xiaomi** smartphone shipments declined -26.5% yoy to 31.2mn units due to rising memory prices and reduced shipments in low- and mid-end smartphones, while segment revenue fell -7.5% yoy despite rising ASPs. Management expects memory sequential inflation to moderate in 3Q and further ease in 4Q. IoT

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revenue fell -19.2% yoy due to high comp, and we expect segment to recover from 3Q supported by easier comp and overseas expansion.

AI tooling and new inventory is driving acceleration for Tencent and BILI while Kuaishou stalled and BIDU's decline broadened. Tencent (OW) grew +22% yoy, up 2ppts qoq, as AI Marketing Plus extended to closed-loop mini shop and mini drama advertisers, and Video Account impressions rose on higher views and higher ad load though they are still sitting below industry average. **BILI** (OW) grew +28% yoy , its 14th consecutive Q above 20%, driven by strength from a wide range of verticals and ads formats. Revenues from AI advertisers more than doubled. **Kuaishou** (UW) decelerated to 4% yoy from 9% in 1Q26, with ecommerce ads flat and mgt. citing weak lower-tier-city consumption, stricter merchant compliance requirements and a harder comp base, which points to deteriorating 2H26, in our view. **BIDU**'s (EW) ads business fell -19% yoy overall. Legacy ads fell -23% yoy, and AI native marketing services came in flat yoy, a sharp step down from 35% yoy growth in 1Q26. We see more pressure coming through 2H26.

Margins recovered or held in 2Q26 for each name except Xiaomi, while deliveries and 3Q guidance came in soft across the group on challenging macro. LI (EW) delivered 98.3k units, -12% yoy, though vehicle margin recovered to 9.4% from 6.1% in 1Q26 as the L-series refresh completed but 3Q guidance of 95k-100k units sits well below consensus of 115k. **NIO** (UW) grew +49% yoy to 107.7k units, missed guidance, but held vehicle margin at 18.5% on a richer ES8 and ES9 mix. Mgt. guided flattish qoq 3Q deliveries and LSD% yoy decline 4Q deliveries disappointing. **XPEV** (UW) was flat yoy despite the L03 taking 46.9k orders within an hour of launch. Supply-side constraint limited deliveries for 2Q but is now resolved. Coupled with newly added second shift, deliveries should pick up nicely in Sep, in our view. **Xiaomi's** (OW) vehicle margin was down to 19.2% on an SU7-heavy mix, and we now look for FY26 deliveries of 450k against the 550k target.

AI and Cloud

FIGURE 1. **AI and Cloud - 2Q26 Results and 3Q26 Outlook**

AI and Cloud	2Q26 Results	2Q26 Notes	3Q26 Estimates	3Q26 Notes	Capex
BABA	- Cloud rev +45% yoy, in line with our est., external cloud +45% yoy - MaaS ARR $2.4bn in August - Adj. EBITA margin 11.6%	- ROIC at least mid teens level and will continue to improve	- Cloud rev +50% yoy - Adj. EBITA margin 12%	- Cloud revenue continues to accelerate in coming quarters; maintain $100bn external cloud rev by 2030 - Maintain MaaS $4.5bn ARR by year-end - 20% margin target ahead of its five-year roadmap - T-Head 2nd gen AI chip set to ramp in 2H	- Jun-Q capex RMB 67.7bn, +75% yoy - No update on RMB 380bn (~$54bn) capex plan for FY26-FY28 - AI-related Capex can achieve breakeven in ~3 years, with the potential to shorten to ~2.5 years
Tencent	- Avg. daily token usage of Hy3 rose 6x across all channels compared to the preview version	- Workbuddy and Codebuddy are now the leading AI-powered office productivity offering in China based on monthly interactions - Launched a small-scale test of Xiaowei within Weixin	/	- Demand for compute is very high as they will be training larger Hy models in the coming months, and Workbuddy and associated AI products are generating a lot of inference demand	- 2Q capex RMB 51.8bn; prepayments for compute procurement is RMB 51.4bn - The current capex level will be a lump sum concentrated in FY26 and FY27 and will not be a base case for future annual run rate
BIDU	- AI-powered business rev ~25% yoy to RMB 12.5bn - Cloud rev +31% yoy to RMB 9.8bn - AI cloud infrastructure +50% yoy to RMB 7.3bn	- Cloud AI infra rev driven by GPU cloud rev growth of 283% yoy, which accelerated from 184% yoy in 1Q26	- Cloud rev +50% yoy (incl AI cloud infra 67% yoy)	- Kunlunxin IPO in progress	- 2Q capex RMB 11.4bn, up from ~6bn in 1Q
Kuaishou	- Kling rev RMB 850mn, up from 650mn in 1Q	- In July, Kling completed an external financing(open in new tab) of ~$3bn with a post-valuation of $18bn, and KS will retain a 68.33% ownership stake in Kling post the transaction.	- Kling rev RMB 850mn	- Guidance of $500mn Kling rev for 2026 is unchanged	- FY26 capex RMB 26bn ($3.8bn) with the majority front-loaded in 1H - 2Q FCF turned positive; positive FCF in 2H26

Source: Company data, Barclays Research estimates

BABA: Cloud revenue further accelerated to 45% yoy as EBITA margin expanded to 11.6% (both in line). The company guided for 50% yoy growth in Sep-Q, which should continue to accelerate in the coming quarters. It remains confident to achieve $100bn of external cloud revenue by 2030, while we expect cloud to deliver 20%+ margin ahead of its five-year roadmap. Notably, MaaS ARR exceeded $2.4bn in August, ahead of Zhipu's (not covered) $1.6bn and

MiniMax's (private, not covered) $800mn, while BABA maintained its guidance of $4.5bn by year-end. Capex surged 75% yoy to RMB 67.7bn due to chip availability, increasing CPU demand and rising memory prices, while its RMB 380bn three-year capex plan remains unchanged. ROIC is at least mid teens level and we believe will continue to improve driven by higher margin AI and MaaS products, T-Head chip, co-investing in data centers and securing customer prepayments. In the near term, BABA believes chip shortages will persist and AI value resides in compute and cloud infrastructure. Longer term, we think the ultimate opportunity will shift to directly delivering business outcomes, creating a substantially larger monetization opportunity than today's API revenues.

Tencent: Tencent capex surged to RMB 51.8bn this quarter, and prepayments for compute procurement is RMB 51.4bn. The compute investment step-up is mainly for training the next-gen larger size HY model and supporting rising inference demand for AI applications such as WorkBuddy and CodeBuddy. Notably, this capex level will be a lump sum concentrated in FY26 and FY27 and will not be a base case for future annual run rate. On applications, management believes Workbuddy and Codebuddy have emerged as China's leading AI productivity tools, and has begun testing Xiaowei, an AI agent integrated into Weixin that can help users navigate content and transact through Mini Programs. It released the production version of Hy3 in July, with daily token usage increasing 6x versus the preview version.

BIDU: AI-powered revenue grew 25% yoy to RMB 12.5bn, accounting for more than half of BIDU's revenue for the second consecutive quarter. Growth was driven by AI cloud infrastructure revenue, which rose 50% yoy, within which GPU Cloud revenue accelerated to +283% yoy from +184% yoy in 1Q26. Management expects AI cloud infrastructure growth to remain strong, with further acceleration possible in 2H26. On foundation models, BIDU has reorganized its model and application teams and recruited new AI leadership, aiming to return ERNIE to the top tier of foundation models, with benefits from the reorganization expected to emerge over the next two to three quarters.

Kuaishou: Kling revenue grew 240% yoy and 31% qoq to RMB 850mn in 2Q, and the company maintained FY26 guidance of RMB 3,500mnm which didn't take into account of potential new model impact. Following a ~$3bn external financing round that valued Kling at $18bn, KS retains a 68.3% stake and gains greater flexibility to fund future AI investments while improving group cash flow. Meanwhile, AI is increasingly enhancing KS's core businesses, with AI-generated marketing content spending up 70% yoy and AgentX improving recommendation algorithm development by automating much of the model iteration process.

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Ecommerce

FIGURE 2. **Ecommerce and retail - 2Q26 Results and 3Q26 Outlook**

Ecommerce	2Q26 Results	2Q26 Notes	3Q26 Estimates	3Q26 Notes
BABA	- CMR -7% yoy (1% ex-contra) - Ecommerce adj. EBITA margin 19.3%; excl quick commerce's loss of ~RMB 10.5bn, margin was 32.9%	- CMR growth in line with online physical goods industry	- CMR -5% yoy (1%+ ex-contra) - Ecommerce adj. EBITA margin 17.4%; excl quick commerce's loss of ~RMB 10bn, margin was 32%	- CMR to accelerate slightly in Sep-Q in line with industry trend with ecommerce adj. EBITA to maintain yoy stable
JD	- Elec. & appliances rev -11.8% yoy, +5% vs our est. - General and mktplace rev +5.6% yoy, +0.6% vs our est. - JD retail -4.7% yoy, total -2.9% yoy - JD retail opm 4.6%, group adj. opm 1.6%	- The weakness was mainly due to the high comp across electronics & appliances and general merchandise segments, which will lap from 3Q	- Elec. rev -2% yoy; JD retail rev +3.5% yoy; group rev +4.1% yoy - Group adj. opm 1.5%	- Retail revenue to accelerate sequentially in 2H (LSD-MSD yoy in 3Q) - Retail margin should remain stable and new initiatives should narrow losses sequentially in 3Q. Group profit should accelerate yoy throughout 2H
PDD	- Online mkt rev +3.5% yoy, +1.4% vs our est. - Total rev +8..1% yoy, -9.5% vs our est. due to weaer-than-expected Temu - Adj. opm was 25.9%, +423bps vs our est.	- 2Q net income dropped 12% yoy due to its reinvestment into the ecommerce ecosystem. Net margin improved +12.4ppt to 24.2% partly due to Temu's deceleration, which remains loss making	- Online mkt rev +4.5% yoy, total +2.6% yoy - adj. opm 23.0%	- Temu faces regulatory headwind in Europe on customs duty - Xinpinmu rollout is slower than mgmt initial ly expected and requires a long development cycle
Xiaomi	- Phone rev -7.5% yoy, +142bps vs our est.; seg GM was 8.5% - IoT rev -19.2% yoy, +280bps vs our est.; seg GM 20.1%	- On smartphone, Xiaomi launched next-gen operating system HyperOS 4 and Hyper XiaoAi 2.0, that allows its AI agent to execute tasks across applications and devices	- Phone rev -7.7% yoy; seg GM 8.5% - IoT rev flat yoy seg GM 23%	- We lower FY26 smartphone shipments to 124.5mn, -24.7% yoy; ASP increase will partly offset volume decline - IoT has easier comp in 2H

Source: Company data, Barclays Research estimates

BABA: Company reported CMR at -7% yoy while +1% yoy when excluding the contra revenue impact, in line with industry online physical goods growth. BABA combined domestic and international ecommerce as the new ecommerce group from this quarter. Ecommerce adj. EBITA margin (excl. quick commerce) was 32.9%. Looking ahead, we expect 3Q CMR to improve to -5% yoy (1%+ ex-contra) in line with industry recovery, and ecommerce EBITA (excl. quick commerce) to maintain stable yoy.

JD: JD group and retail revenue growth turned negative in 2Q, down -2.9% yoy and -4.7% yoy, respectively, due to high comp that will lap from 3Q as well as weak macro consumption. We believe 2Q marked the bottom in terms of revenue growth and start of profit recovery. Looking ahead, management expects retail revenue to accelerate sequentially in 2H (LSD-MSD yoy in 3Q) and group revenue to outpace retail. Retail margin should remain stable and new initiatives should narrow losses sequentially in 3Q. Group profit should accelerate yoy throughout 2H, while AI-related R&D should continue to increase in the near term. Longer term, JD remains confident in achieving an HSD opm.

PDD: 2Q online marketing revenue increased 3.5% yoy (as a proxy of China ecommerce), while group adj. opm improved +6ppt to 25.9% partly due to Temu's deceleration, which remains loss making. According to our channel checks, Temu GMV decelerated to $20bn, up 20% yoy, with take rate falling to 27% (-2ppt qoq), dragging group transaction revenue deceleration to 13% yoy in 2Q. EU started to charge €3 customs duty per item on low-value imports from July 1, 2026, to July 1, 2028. In response, Temu is accelerating its localization strategy, reportedly targeting ~80% of orders being fulfilled from local warehouses by 3Q. Looking ahead, we expect online marketing revenue to increase 4.5% yoy while transaction revenue to further decelerate to 0.9% yoy in 3Q.

Xiaomi: Xiaomi smartphone shipments were 31.2mn units, down -26.5% yoy, due to rising memory prices and reduction of shipments in low- and mid-end smartphones. ASP surged

25.9% driven by optimization of product portfolio and higher mix from China where premium product (at or above RMB 3,000) contributed 32% of smartphone sold (+4.5ppt yoy). Management expects memory sequential inflation to moderate in 3Q and further ease in 4Q. Looking ahead, we recently lowered our FY26e smartphone shipments to 124.5mn (-2.3mn) and gross margin at 9.1% (-20bps) -- see The dark horse in AI. 3Q GM should be tough due to continued pressure in smartphone sales while 4Q will likely pick up driven by new model launch. IoT segment fell -19% yoy in 2Q due to high base from national subsidies, partly offset by strong overseas market expansion. Overseas remain a strong growth driver, and Xiaomi has opened more than 640 stores by 2Q with a target of ~1k by end-2026.

Food Delivery

FIGURE 3. **Food delivery - 2Q26 Results and 3Q26 Outlook**

Food delivery	2Q26 Results	2Q26 Notes	3Q26 Estimates	3Q26 Notes
Meituan	- CLC rev +10.1% yoy, +3.2% vs. our est. - Deliveries rev +13.1%, commission + ad rev +4.0% yoy - CLC op RMB 5.7bn; opm 7.9% - Group opm 2.6%	- Share gains in both order volume and GTV, particularly in the mid-to-high AOV segment - Food deliveries rev returned to growth at +HSD% yoy, with positive UE	- CLC rev +15.4% yoy; deliveries rev +25.6% yoy; CLC opm 5.0% - Group opm -0.2%	- Mgmt expects food UE in 3Q to remain positive and improve significantly yoy, but it could be higher sequentially due to peak seasonality
BABA	- RMB 10.5bn loss per our est., narrowing from ~RMB 18bn in Mar-Q	- Both scale and market share improved while UE, order volume, user engagement, merchant supply, and logistics all improved	- RMB 10bn loss for Sep-Q	- It expects non-food categories to surpass food in GMV over the next fiscal year - Maintain guidance of profitability in FY29 - In a longer term, quick commerce could contribute ~30% of platform GMV
JD	- Food loss narrowed to -RMB 6bn+ per our est. (narrowed over 50% yoy)	- Food orders grew 1mn+ sequentially every month throughout 2Q - UE improved amid industry-wide lower subsidy intensity	- Food loss -RMB 6bn per our est. (to narrow over 50% yoy; qoq stable)	- Loss reduction and UE improvement remain the business's top priorities

Source: Company data, Barclays Research estimates

Meituan: Core local commerce (CLC) grew 10% yoy as the industry is increasingly shifting focus from aggressive subsidies toward ROI and operating efficiency. Segment OPM turned positive at 7.9% following three quarters of losses, though this was well below the ~20% level seen before industry-wide competition. Meituan continues to see share gains in both order volume and GTV, particularly in the mid-to-high AOV segment. Food UE turned positive in 2Q. However, 2H will face tough comp. Management expects food UE in 3Q to remain positive and improve significantly yoy, but it could decrease sequentially due to peak seasonality, occupational injury insurance rolled out nationwide on July 1, as well as elevated subsidy level vs 2024 that may take a few quarters to normalize.

BABA: Jun-Q food loss was about -RMB 10.5bn and we expect loss to stay stable in Sep-Q at about -RMB 10bn due to peak season. BABA reiterated quick commerce to achieve profitability by FY29. Both scale and market share improved while UE, order volume, user engagement, merchant supply, and logistics all improved. It expects non-food categories to surpass food in GMV over the next fiscal year, driving incremental growth across physical goods categories. Longer term, we estimate quick commerce could contribute ~30% of platform GMV, becoming a meaningful second growth curve in ecommerce.

JD: In 2Q, food loss narrowed qoq and over 50% yoy, driven by improving UE amid industry-wide lower subsidy intensity. Looking ahead, management expects further meaningful loss reduction through the remainder of the year, including another >50% yoy reduction in 3Q (qoq loss to slightly narrow), while maintaining healthy order growth. Loss reduction and UE improvement remain the business's top priorities.

Digital Ads

FIGURE 4. **Digital Ads - 2Q26 Results and 3Q26 Outlook**

Company	2Q26 Results	2Q26 Notes	3Q26 Estimates	3Q26 Notes
Tencent	Rev. +21.8% yoy, +1.5% vs. Our ests.	- AIM+ extended to mini shop and mini drama advertisers - Video Accounts impressions up on higher views and ad load grew - Arrows-Puzzle Escape in-app ads added 2ppts growth	Rev +20% yoy	- Expect to see continued benefit from AIM+ and Video Accounts growth
Kuaishou	Rev. +4.4% yoy, -2% vs. Our ests.	- Domestic ads +MSD% yoy, offset by overseas decline - Ecommerce ads flat yoy, external grew +MSD% yoy	Rev -4.5% yoy	- Turns negative on weak lower-tier consumption, merchant compliance, and tough comp
BILI	Rev. +28% yoy, +0.7% vs. Our ests.	- 14th consecutive Q with growth above 20% - Search ads doubled, AI ads more than doubled; Multi-Scenario placements +50% yoy in 1H26;	Rev +23% yoy	- Mgt. guides 20%+ yoy for 3Q26 and FY26 despite soft consumption
BIDU	Rev. -19% yoy, +1.1% vs. Our ests.	- Legacy ads -23% yoy - AI-native marketing flat yoy	Rev -20% yoy	- Pressure to persist through 2H26 - Mgt. commented on holding back on monetizing AI search

Source: Company data, Barclays Research estimates

Tencent's ad revenue reached RMB 43.6bn, +22% yoy, with the growth accelerating ~2ppts qoq. Higher eCPM and higher impressions drove the quarter as spending rose across major categories. AI marketing Plus now supports closed-loop mini shop and mini drama advertisers, letting merchants auto-select products for promotion, generate product-relevant creatives, and run smart bidding on inventory. Video Accounts impressions grew rapidly on higher video views and a higher ad load, which still sits well below the industry average. In this Q, Arrows-Puzzle Escape was the most downloaded mobile game globally and what it monetized through in-app ads therefore contributed ~2ppts to ad growth. Looking ahead, we expect to see Tencent's ad revenue grow +20% yoy in 3Q26.

BILI ad revenue grew +28% yoy to RMB 3.1bn, the 14th consecutive Q above 20%. Growth was broad-based across games, digital products and home appliances, internet services, ecommerce, and automotive, with home deco, footwear and apparel, and automotive each up +60% yoy and revenue from AI advertisers more than doubling. Growth across different ad formats were also broad based. Search ads doubled yoy, and multi-scenario placements across in-app search, the watch page, smart TV, PC, and mini-program rose +50% yoy in 1H26 while the advertiser base grew +14%. Mgt. expects 20%+ growth in 3Q26 and for FY26 despite a soft consumption backdrop, and we expect to see BILI's ad revenue grow +23% yoy.

Kuaishou's online marketing revenue reached RMB 20.6bn, +4.4% yoy, decelerating from 9% yoy in 1Q26. Domestic ads grew MSD% yoy, but partially offset by overseas decline. Ecommerce ads contributed less than half of segment revenue and came in flat yoy, while external ads grew MSD% yoy. Mgt. pointed to weak consumption in lower-tier cities, stricter merchant compliance requirements, a challenging SME backdrop, and a higher comp base from AI applications and instant retail. For 3Q26, we expect to see ads revenue decline -4.5% yoy.

BIDU's core ads revenue declined -19% yoy to RMB 13.1bn. Legacy ads fell -23% yoy, and AI native marketing services came in flat yoy, a sharp step down from 35% yoy growth in 1Q26. Mgt. attributed the pressure to intensified competition for user time and to a deliberate decision to hold back on monetizing AI search and expects ads to stay under pressure through 2H26. As ads carry high margins, so the decline continues to weigh on group operating margin at the same time AI investment is stepping up. For 3Q26, we expect to see BIDU's core ads business decline -20% yoy (AI natives marketing -7% yoy and legacy ads -23% yoy).

Online Gaming

FIGURE 5. **Online Gaming - 2Q26 Results and 3Q26 Outlook**

Company	2Q26 Results	2Q26 Notes	3Q26 Estimates	3Q26 Notes
NTES	Rev +9.7% yoy, +2.4% vs. Our ests.	- Record segment GM of 76% - SoR launch soft, mgt. focusing on fixing before global launch	Rev +8% yoy	- Top line estimate trimmed on softer SoR while margin estimates raised on structural gains
Tencent	Rev +11% yoy, -2% vs. Our ests	- Domestic rev +17% yoy to RMB 47.3bn, international -1.1% yoy to RMB 18.6bn (+4% in cc terms) - Delta Force and Valorant PC both at lifetime-high avg. DAU	Rev +6.5% yoy	- International estimates lowered on a light 2H26 launch slate - Domestic games set to stay healthy against tougher comps
BILI	Rev -14% yoy, -0.8% vs. our ests.	- Fourth consecutive Q of negative yoy growth against the San Mou base	Rev. -8% yoy	- Lumi Master global launch Sep. 17; Licensed SLG San Wang in 4Q - Mgt. guides gameing revenue back to yoy growth in 4Q

Source: Company data, Barclays Research estimates

Tencent's gaming revenue grew 11% yoy to RMB 65.9bn in 2Q26, with domestic games up 17.1% yoy to RMB 47.3bn and international games down -1.1% yoy to RMB 18.6bn, or +4% yoy on a constant currency basis (-5ppts forex drag). Domestic strength came from Delta Force and Valorant PC, both at lifetime-high average DAU, alongside Valorant Mobile and Roco Kingdom: World, which ranked first by average DAU and by gross receipts among all new mobile titles released in China YTD. Internationally, growth at Wuthering Waves and Valorant PC was offset by declines at certain Supercell titles. For 3Q26, we expect to see total games revenue +6.5% yoy, with domestic games +10.5% yoy and international games -1.6% yoy.

NTES online game revenue grew +9.7% yoy to RMB 25.0bn in 2Q26, and segment gross margin reached a record 76%, +360bps above our estimate, lifting blended gross margin above 70% for the first time. The drivers were a continued mix shift towards China PC titles, a lower Apple revenue share, and lower Android channel fees, which we view as largely structural, and margin should hold near current level, but with limited upside. Established titles carried the Q while Se of Remnants had a slow start, drawing a 6.3 rating on Taptap across 8.6k reviews on a steep learning curve and thin in-game rewards. We expect mgt. to prioritize fixes over an imminent global launch. For 3Q26, we expect to see online game services revenue +8% yoy.

BILI's mobile games revenue declined -14% yoy to RMB 1.4bn in 2Q26, a 4th consecutive Qs of negative yoy growth against the high base of San Mou, which has entered a stable and mature life cycle. For upcoming titles, the casual card game San Guo: Bai Jiang Pai was launched in July with Season 2 content releases planned for Oct. The self-developed Lumi Master will launch globally on Sept 17th and licensed Three-Kingdom-themed San Wang is scheduled for 4Q. Mgt. guided game revenue to resume yoy growth from 4Q26 as Lumi Master begins to contribute. For 3Q26, we expect to see mobile game revenue to decline-8% yoy.

Electric Vehicles

FIGURE 6. **EV - 2Q26 Results and 3Q26 Outlook**

Company	2Q26 Results	2Q26 Notes	3Q26 Estimates	3Q26 Notes
Xiaomi	- 104.2k units, +16% vs.Our ests.	- EV segment GM softer on higher SU7 mix and tough comp - Segment loss RMB 2.6bn	113k units, +4% yoy	- EREV SkyNomad launches Sep targeting different demo from SU7 and YU7 - FY26 delivery outlook cut to 450k from 550k - Overseas EV entry reiterated for 2H27
XPEV	- 103.3K units, +0.1% vs. Our ests.	- L03 demand strong with 46.9k non-refundable orders in under an hour vs 10k for M03 - Overseas deliveres above 20k units for the first time	118.3k units, +2% yoy	- Mgt. guided flat-to-LSD% yoy unit growth on supply chain disruptions - Deliveries should pick up in Sep. with two-shift productions
LI	- 98.3k units, +0.3% vs. our ests.	- Vehicle margin 9.4%, recovered from 6.1% in 1Q26 but still down yoy - L-series refresh completed with L9 in May, L8 in June, and L6 in July	99k units, +6% yoy	- Mgt. guided vehicle margin toward 15% in 4Q26, longer term 15%-20% - New MEGA on Sep.2 and i9 in mid-Sep.
NIO	- 107.7k units, -4.7% vs. our ests.	- Missed guidance range of 110k-115k despite 50% yoy growth - Vehicle margin 18.5%, +1ppt vs. our estimates despite RMB 14k/vehicle additional BOM cost	108.8k units, +25% yoy	- Guided 3Q of 108k-111k and a LSD yoy decline in 4Q - Vehicle margin to hold at the current level despite a further RMB 2-3k BOM cost increase - ES9 backlog currently at 3-4 months

Source: Company data, Barclays Research estimates

LI delivered 98.3k units in 2Q26, -12% yoy and +3% qoq, with vehicles' gross margin recovering to 9.4% from 6.1% in 1Q26 but still down about 10ppts yoy on higher BOM and inventory clearing cost. The L-series refresh is now complete, with the new L9 in May, the new L8 in June, and the new L6 in July. Mgt. guided continued margin recovery in 2H26 toward 15% in 4Q26 on a higher Livis trim mix and i9 launch. 3Q guidance of 95k to 100k sits below BBG consensus of 115k. For 3Q26, we expect to see delivery volume of 99k units, +6% yoy.

NIO delivered 107.7k units in 2Q26, +49% yoy, missing its guidance range of 110k to 115k. Vehicle margin was 18.5%, up +8ppts yoy despite RMB 14k per vehicle of added material cost since the end of 4Q25 from memory chips, batteries, and other bulk materials. Much of the volume growth again came from ES8 and ES9, which carry higher ASPs and 20%+ margins. ASP for NIO brand and ONVO brand all improved. Mgt. guided 3Q deliveries of 108k to 111k and a LSD yoy decline in 4Q (40k per month), while committing to hold vehicle margin at the current level through 2H26. For 3Q26, we expect to see delivery volume of 109k units, +25% yoy.

XPEV delivered 103.3k units in 2Q26, flat yoy, with vehicle margin of 12%. Demand for the L03 has been strong, receiving 46.9k non-refundable orders within one hour of launch against 10k for the M03 at the time of its launch. However, supply chain disruptions have held back deliveries and mgt. guided flat-to-LSD% yoy unit growth for 3Q26. However, in 4Q we expect delivery to pick up with two-shift productions in place, touching 60k per month per mgt. For 3Q26, we expect to see delivery volume of 118k units, +2% yoy.

Xiaomi delivered 104.2k units in 2Q26, +28% yoy, with segment revenue of RMB 24.9bn, +17% yoy. Segment gross margin fell to 19.2%, -7ppts yoy on last year's high SU7 Ultra mix in the base, and down -1ppt qoq on a higher SU7 mix which carries lower pricing than the YU7. The EREV Sky Nomad SUV will launch in Sep. and targets a different customer demographic from the SU7 and YU7, and mgt. said initial feedback has been encouraging. We now expect FY26 deliveries of 450k, below the 550k target set at the start of the year. For 3Q26, we expect to see delivery volume of 113k units, +4% yoy.

Other Verticals

FIGURE 7. **Other Verticals - 2Q26 Results and 3Q26 Outlook**

Company	2Q26 Results	2Q26 Notes	3Q26 Estimates	3Q26 Notes
BZ (Online Recruitment)	Rev. +14.1% yoy, in line vs. Our ests.	- TTM paid enterprise customers 7.2mn +11% yoy, ARPU +7% yoy - AI closed-loop revenue RMB 80mn vs. RMB 50mn in 1Q26	Rev +13% yoy	- 2H26 cash billings guided to low-teens growth - 3Q Adj. OPM stable vs. 2Q, FY26 slightly above FY25
YMM (Freight)	Rev. +4.4% yoy, +7.7% vs. Our ests.	- Revenue beat driven by freight brokerage as third-party migration runs behind plan - Commissioned order penetration 95%, Take Rate 2%	Rev +1% yoy	- Extreme weather in Jul. and Aug. pressuring order volume - Trucker incentive investments weighing on segment revenue near term

Source: Company data, Barclays Research estimates

BZ's total revenue grew +14% yoy to RMB 2.4bn in 2Q26. Trailing 12-month paid enterprise customers rose 11% yoy to 7.2mn and ARPU grew +7% yoy. Mgt. is now running a dual strategy of user penetration in lower-tier cities and monetization in tier-1 and select tier-2 cities, where over half of the more than 10mn enterprises served annually still use the platform for free. Mgt. guided 2H26 cash billings to grow at low teens % yoy. For 3Q26, we expect to see total revenue +13% yoy.

YMM's total revenue grew 4.4% yoy to RMB 3.38bn in 2Q26, ahead of our estimate, though the beat came from freight brokerage as the shift to a third-party model ran behind plan and left more revenue booked on a gross basis. Order volume was slightly lower than we expected on high oil prices while take rate held near 2% against an unchanged mid-term target of 3%. For 3Q26 we expect to see total revenue +1% yoy as extreme weather in July and Aug disrupted shipping.

FIGURE 8. **Property - 2Q26 Results and 3Q26 Outlook**

Property	2Q26 Results	2Q26 Notes	3Q26 Estimates	3Q26 Notes
BEKE	- Existing home GTV +8% yoy, +2.8% vs our est. - New home GTV +1.2% yoy, +1.2% vs our est. - Adj. net margin 13%	- Average transactions per store increased 26% yoy - Transaction volumes recovered faster in tier 1 cities where price increased cumulatively by 3.6% in 1H26, while national prices remained broadly stable.	- Existing home GTV flat yoy - New home GTV falt yoy - Adj. net margin 8.4%	- Prices could face qoq pressure in 2H26, particularly in lower-tier cities, although yoy price declines should continue to narrow

Source: Company data, Barclays Research estimates

On property, **BEKE** 2Q new/existing home GTV increased +1.2%/+8% yoy, respectively. Existing home transaction volumes recovered faster in tier 1 cities where price increased cumulatively by 3.6% in 1H26, while national prices remained broadly stable. However, we believe prices could face qoq pressure in 2H26, particularly in lower-tier cities due to the strong recovery in 1H. The number of active stores and agents remained broadly stable, as such average transactions per store in 2Q increased 26% yoy. As such, existing home contribution margin improved to 46.1% (+6ppt yoy and +5ppt qoq). Looking ahead, management expects 3Q new/existing home GTV to stay flat yoy. Notably, Shanghai on 8/20 and Beijing on 8/8 released new policies to ease housing restrictions and boost property market recovery, and the current outlook has not included these policy impacts.