FW: [GS Sales Note]: AI Series: The risk of (Not) investing in China AI (Encore piece, worth the re-reading)

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Now the Asia Leaders Conference in HK and Communacopia TMT conference in San Francisco are over, it might be good time to pick up the "AI Changes the Game" series published by Tim Moe, Kinger Lau and APAC strategy team. I think these series have a long shelf life. Part Three: The risk of (Not) Investing in AI (Published in March 2nd , 2026)

Framing the risk/reward of China AI equities
As highlighted in Part One of the series before, we are **most positive on Power, Infra, and Semi/Model** on China's comparative advantages in the global AI universe.

If AI develops as GS economic and industry forecasts project, **the potential economic benefits via efficiency gains and new profit creation could be 50% to 100% higher than what is currently discounted in AI equity prices (as of March 2nd, 2026)**.

(1)**AI Boost economic growth:**
Per our Global Economic team's analysis, generative AI is projected to deliver a **cumulative boost of 8% to China's labor productivity over the 10 years**, equivalent to $1.6tn of economic value-add in today's dollars, compared to a gross 15% uplift ($4.5tn) for the US. Adhering to their framework and underlying assumptions, we estimate that the present discounted value (PDV) of the economic benefits from AI (cum efficiency gains and new business opportunity) could reach US$6tn to 7tn in China, **among which US$3tn could be accrued to Chinese companies as capital revenues.**

(2)**New revenue opportunity generated by AI:**
we note that the total revenue pool globally for Chinese companies could be as high as US$16tn by 2035. Applying a net margin level of around 15% for Chinese AI tech companies (vs. 10% for the non-AI ones and 25% for US Tech at present) and a cost of equity (COE) of 10%, we calculate that the PDV of **the potential AI-induced profit pool to be at around US$2.4tn.** There is significant upside risk to this US$2.4tn estimate.

(3) **Potential corporate earnings from AI:**
We estimate that widespread **AI adoption could improve Chinese corporate earnings by 3pp** per annum over the next decade through cost savings/efficiency gain (e.g. labor cost reduction), and new market opportunity (i.e. AI capex by Chinese hyperscalers and the trickle-down earnings impact to the supply chain). This implies roughly 6pp of incremental profit contribution from AI in the listed universe given the growth differential between AI and non-AI companies (also see next section fo detail). In sum, **the added earnings stream for listed companies would equate to US$800bn** in present value terms on a 10% COE.

Exhibit 13: We estimate the economic benefits accrued to AI (productivity gains and new profit pool creation) could range from US$800bn to US$3tn in present value terms

Approach	Time period	Key assumptions	AI-related PV created
1. AI boost to economic growth	2027-2037	- Productivity: cumulative **8%** uplift to China labor productivity and GDP following full adoption	**US$1.6tn** (from labor productivity gain)
	Long-term	- Capital share of AI value-add: **47%** of the incremental value add created by AI-driven productivity gains (1 - Compensation of Employees %) - Discount rate: assuming **15%** WACC	**US$3tn** (total economic value accrued to capital)
2. New revenue opportunities induced by AI	2025-2035	- TAM: based on estimates by GS China sector teams; for those with global TAM only, assuming **30%** of the global TAM is attributable to China (higher than the world GDP share of ~20%) given higher representation in AI - Higher net margin in China AI universe (**15%**, vs. currently 10% in China and 25% in the US) - Discount rate: assuming **10%** COE	**US$2.4tn** (earnings)
3. Potential corporate earnings uplift from AI	2025-2035	- Productivity gains/Cost savings: +2% earnings boost annually - New revenue opportunities: +1% earnings boost annually - In total **6%** earnings contribution from AI universe (including traditional business) - Discount rate: assuming **10%** COE	**US$0.8tn**

Chinese AI equities are poised to grow much faster than most non-AI stocks. On our projected earnings paths, Chinese AI companies will outgrow their non-AI pee by 140pp over the next decade, thereby helping to **raise the former's earnings representation in the equity universe from 37% now to 47% in 2035.** Again, our estimates have not taken into account the potential earnings and market share erosion from the latter in the case of the non-AI cohort failing to keep up with the eve expanding technological frontier.

Let me know if you want to speak to Tim Moe or Kinger Lau about their Chinese AI series. Thanks. --Philip

From: Sun, Philip [GBM Public]
Sent: Sunday, August 23, 2026 6:05 PM
Subject: [GS Sales Note]: AI Series: A top-down guide to the Chinese AI universe (Encore piece, worth the re-reading)

Some research pieces have a long shelf-life. The "AI Changes the Game" series published by Tim Moe, Kinger Lau and APAC strategy team is one of those.

The below "A Top Down Guide to the Chinese AI Universe" was published on March 1st, 2026. Now 5.5 months have passed, and we have seen quite a lot in the AI investing globally. From a nearly vertical up till end of June, then a very sharp downfall in the brutal July, then now things stabilized somewhat in August and global AI investors are wondering what to do next with AI investing. In particular, global investors are wondering what to do with China AI investing, too. Hence I feel that it is a good time to re-visit this top-down guide written about 5.5 months ago.

My general feeling about global AI investing after the brutal July was that: Down but by no means out. AI investing will continue to yield very fruitful returns to investo globally, though investors might need to be much more selective and nimble in their investing/trading strategies.

One of the most important conclusion I remembered from China AI strategy piece is that: "By sector, the **US is currently dominating the Semi, Model, and AI+ cohorts**, while the **China AI opportunity set seems better populated in Power, Infra, and Physical AI"**

The comparative advantages that China has on **Power, Infrastructure and Physical AI** were demonstrated by the technological know-how's of the companies such a **CATL, CXTM, Innolight, UniTree, WeiChai Power, Yantai Jereh, Anhui YingLiu, Sieyuan Electric, Inovance, etc.**

Of course, on the relatively weaker AI areas such as models, **China's DeepSeek, ZhiPu, MiniMax and MoonShot have been making very solid progress in the past year, too**. Some of them have come to the capital mkt to seek for aggressive fundings.

The Exhibit 7 below mapped out the top companies in mainland China, in the US and in other regions. It serves as a useful guide.

In Tim Moe and Kinger Lau's piece, regarding China AI investing, they think there are 4 key implications for global investors:

1) **China is an integral part of the global AI universe**, accounting for 10%/16% of AI-related market cap/revenue worldwide, but China AI equities are under-owne by investors;
2) By sector, the US is currently dominating the Semi, Model, and AI+ cohorts, while the **China AI opportunity set seems better populated in Power, Infra, and Physical AI;**
3) **Not all Chinese AI proxies are created equal**--high return idiosyncrasy geographically and sectorally; and,
4) **AI is not a unified investment theme**--global leadership has broadened out from Semi in the past 2 years to Infra and Power in recent months.

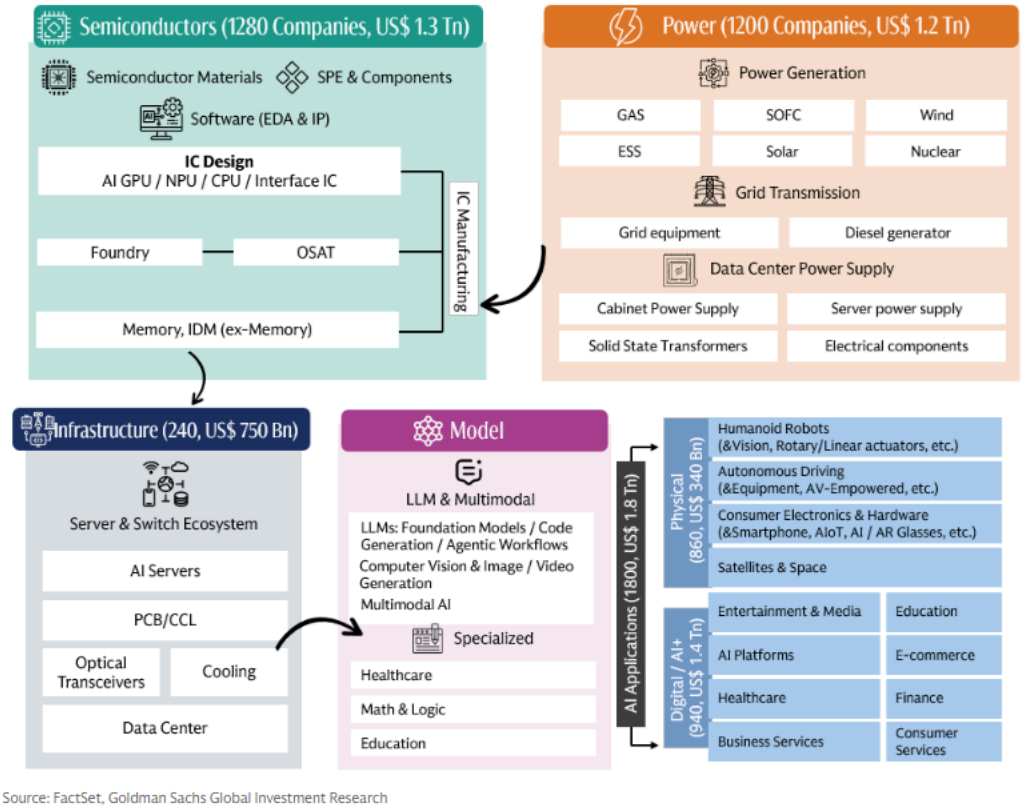
Exhibit 7: We map more than 3,700 AI companies globally onto 29 industries under 5 thematic layers, thereby forming our AI equity universe with a total market cap of US$36tn

Top Companies by Industry-Exposed Market Cap			Mainland China			United States			Others		
Layer		**Industry**	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**
Power		Power Generation	CATL	Sungrow	CNNC	Tesla	GEV	CAT	Hitachi	Siemens Energy	MHI
		Grid Transmission	Sieyuan	TEBA	Huaming	Quanta	Hubbell	GEV	ABB	Legrand	Prysmian
		Data Center Power	Kstar	Kehua	Megmeet	Vertiv	CAT	Eaton	Delta	Lite-on	Schneider
Semiconductors		SPE	NAURA	AMEC	Piotech	Lam Research	AMAT	KLA	ASML	TEL	Advantest
		Software	Verisilicon	Empyrean	Brite Semi	Synopsys	Cadence	Siemens EDA	Hitachi	Constellation	Dassault
		Materials	Kematek	SICC	Anji	Linde	Air Products	Honeywell	Air Liquide	Shin-Etsu Chemical	Siemens
		IC Design	Cambricon	Moore Threads	MetaX	NVIDIA	Broadcom	AMD	MediaTek	Realtek	ASPEED
		IDM ex-Memory	OmniVision	CR Micro	Silan Micro	Intel	TI	Analog	Sony	Infineon	NXP
		Memory	Montage	GigaDevice	Biwin	Micron	Western Digital	Sandisk	SK hynix	Samsung	Kioxia
		Foundry	SMIC	Hua Hong	Nexchip	Intel	GFS	Skywater	TSMC	UMC	Vanguard
		OSAT *(Packaging and Testing)*	JCET	Tongfu Micro	Tianshui Huatian	Amkor	QP Technologies	Cohu	ASE	Powertech	King Yuan
Infrastructure		PCB/CCL	VGT	Avary	WUS	TTM	Rogers	Sanmina	GCE	Ibiden	SEMCO
		Optical Transceivers	Innolight	Eoptolink	TFC	Coherent	Lumentum	Fabrinet	Hon Hai	Mitsubishi Elec	Landmark
		Cooling	Envicool	Shenling	Goaland	Vertiv	Flex	nVent	Schneider	Delta Electronics	AVC
		Servers and Support	FII	TFC	Inspur	HPE	DELL	SMCI	Hon Hai	Wiwynn	Fujikura
		Data Center	GDS	Kingsoft Cloud	VNET	Equinix	Digital Reality	CyrusOne	NTT	NEXTDC	
AI Model		LLM, Multimodal & Specialized	DeepSeek	Alibaba	Bytedance	OpenAI	Anthropic	Google	Mistral AI	Aleph Alpha	Sarvam AI
			Minimax	Zhipu	Moonshot	xAI	Meta	Cohere			
AI Application	Physical	Autonomous Driving	Horizon Robotics	Hesai	PonyAI	Tesla	Uber	Aptiv	Samsung	Mercedes-Benz	Grab
		Humanoid Robots	Sanhua	Tuopu	UBTech	Tesla	Agility Robotics	Boston Dynamics	Softbank (ABB)	Yaskawa Electric	Fanuc
		Consumer Hardware	Xiaomi	Insta 360	ZTE	Apple	Meta	Garmin	Samsung	Sony	Kyocera
		Satellites	China Satcom	AECC	China Spacesat	SpaceX	Rocket Lab	Viasat	Eutelsat	SES	Hanwha
	Digital / AI+	Entertainment & Media	Tencent	Netease	Giant Network	Microsoft	Amazon	Meta	Sony		
		Image & Video	Meitu	Wondershare	Bytedance	Adobe	Google	OpenAI	Canva	Blackmagic	
		E-commerce	Alibaba	PDD	JD.com	Amazon	MercadoLibre	eBay	Prosus	Sea	Naspers
		Consumer Services	Alibaba	Meituan	Baidu	Airbnb	DoorDash	Uber	Kakao	Recruit	Naver
		Healthcare	JD Health	Winning Health	BGI	ResMed	IDEXX	Illumina	Pro Medicus	Philips	Medibank
		Business Services	BlueFocus	Lenovo	Tencent	Oracle	Omnicom	ServiceNow	SAP	Publicis	TCS
		Finance	Tencent	Hundsun	Royal Flush	Intuit	Mastercard	Visa	Sage	Adyen	Xero
		AI Platform & Software	Tencent	Alibaba	Baidu	Google	Apple	Microsoft	SAP	Recruit	Atlassian
		Education	New Oriental	iFLYTEK	TAL	Alpha School	Khan Academy		Pearson	Nebius Academy	Kahoot

*Note: *Ranked by estimated industry-exposed market cap through RBICS AI-related revenue exposure as of 2024, market cap data as of Feb 16, 2026. Global AI universe with leading private AI companies applied.*



Exhibit 10: The broad Chinese AI value chain: it hosts more than 3,000 companies with an aggregate market cap of US$10tn, of which about half is directly linked with AI



Source: FactSet, Goldman Sachs Global Investment Research

GS will host our Asia Leaders Conference in JW Marriott in HK between Aug 31-Sept 2. We will have quite some distinguished AI-related speakers (e.g. co-founder of MiniMax, former Google DeepMind senior employee, Innolight Chairman etc.). Pls RSVP. Thanks

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From: Kinger Lau, CFA <kinger.lau@alerts.publishing.gs.com>
Sent: Sunday, March 1, 2026 9:53 AM
To: Sun, Philip [GBM Public] <Philip.Sun@hk.email.gs.com>
Subject: China Strategy: AI changes the game (Part 2): A top-down guide to the Chinese AI universe

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China Strategy: AI changes the game (Part 2): A top-down guide to the Chinese AI universe

1 March 2026 | 9:48AM HKT | Research | Portfolio Strategy

AI has indeed changed the game over the past one year

A year ago, we put forward our thought process (Part 1 of this series) on how AI could impact Chinese stocks via the profit, valuation, and portfolio flow channels. Since the "DeepSeek moment" in January 2025, AI adoption has accelerated, average token costs have fallen sharply, and AI has become a dominant theme in the stock market where Chinese AI equities have rallied 50% on average, 103 AI-related IPOs have made their debut in HK and mainland China, and more than US$3tn of market cap has been created in the tech universe.