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September 16, 2026 09:00 PM GMT

China Internet

AI Advertising: From Attention to Outcomes

Our Sixth AlphaWise China Advertiser Survey shows that AI advertising shifts share before expanding TAM. AI should widen wallet-share dispersion and extend leading platforms deeper into commercial workflows, unlocking greater commerce upside. Key OWs: Alibaba, Tencent, Meituan; Key UWs: Baidu, Weibo.

AlphaWise α

Key Takeaways

- As AI adoption deepens, money moves before the market expands. 72% of AI users reallocate existing ad budgets; 74% report more concentrated spending.
- AI widens rather than resets platform gaps. Douyin and Taobao/Tmall lead share gains; Tencent and Meituan benefit from integration and transaction loops.
- Gross identifiable AI monetization reaches Rmb291bn in 2030E; by 2040E, candidate-set ads reach Rmb319bn and commissions Rmb1.24tn.

Two horizons: 2030 earnings bridge, 2040 mature state. Through 2030, value should come mainly from yield gains, wallet reallocation and migration to higher-intent Search and Agent surfaces, with Rmb291bn of gross AI monetization. By 2040, as agentic workflows and closed-loop attribution mature, we estimate Rmb319bn of AI-mediated ad revenue and Rmb1.24tn of AI-attributed commissions; net TAM growth should be lower after legacy cannibalization and partner sharing.

Commercial control rather than model leadership alone determines value capture. AI reaches platform revenue through three paths. *1) Predictive AI lifts yield on existing surfaces*, with greater wallet gains for platforms that translate better matching into higher advertiser ROI. *2) Candidate-set layer upgrade as activity shifts to higher-value Search and Agent surfaces* (e.g Weixin Search/ Kuaishou Search, upcoming WeChat AI Agent, and standalone AI). Standalone and embedded AI can control the entry point; content platforms can convert attention into intent; and transaction platforms can move upstream into discovery. *3) Transaction layer upgrade to Merchant OS*, unlocking commissions and recurring merchant-workflow revenue, favoring platforms with checkout and outcome data.

AI amplifies, rather than resets, platform advantage. Douyin and Taobao/Tmall are the clearest structural share gainers; WeChat has meaningful protection and integration upside; Meituan benefits from transaction-loop economics. Kuaishou and Baidu remain recoverable, while Weibo, iQIYI and weak-context legacy inventory face more structural pressure.

Key OWs: BABA, Tencent, Meituan. Key UWs: Baidu, Weibo.

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CHINA INTERNET AND OTHER SERVICES

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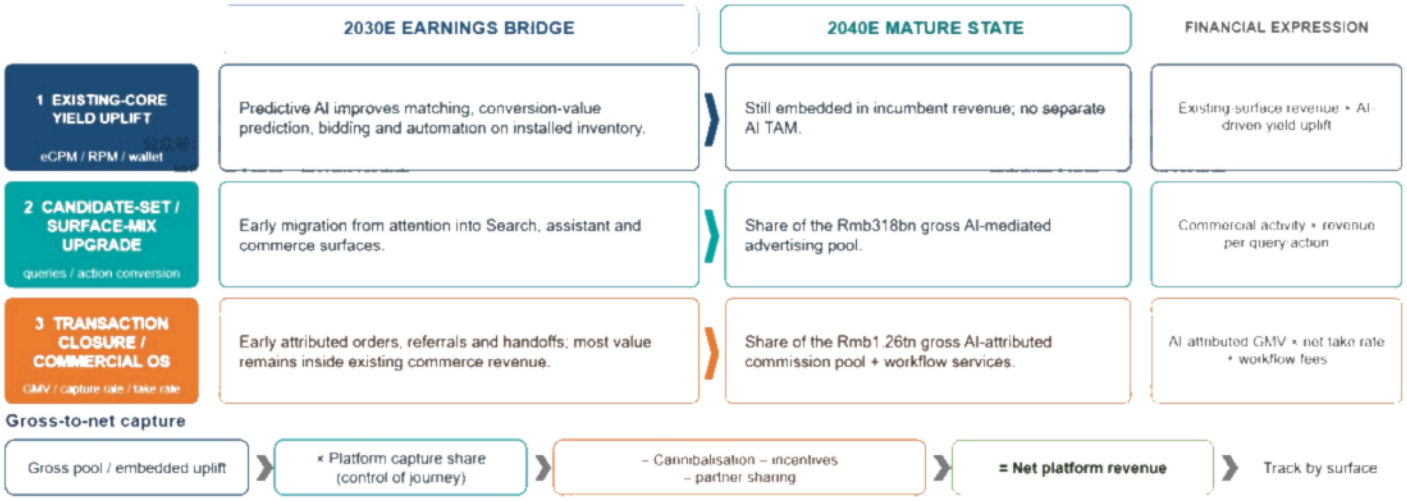
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Key Charts

Exhibit 1: AI monetization has three routes across two horizons



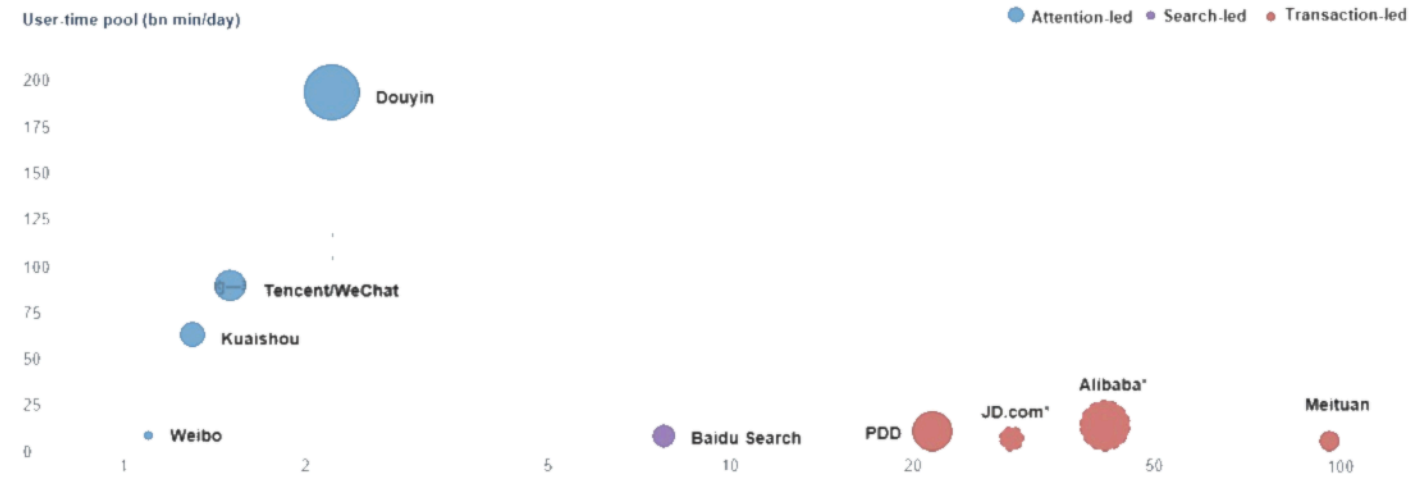
Source: Morgan Stanley Research

Exhibit 2: AI intent monetization TAM - from candidate-set advertising to transaction closure

Monetization layer	2030E (Rmb bn)	2040E (Rmb bn)	What the merchant pays for
Candidate-set advertising	10	319	new commercial inventory in AI Search and agentic interfaces
AI-attributed transaction commissions	281	1,241	transaction commissions where AI influence can be connected to closed-loop gross merchandise value (GMV)
Total AI intent monetization	291	1,560	Advertising plus commissions; additive only when they are separate merchant payments.

Source: Morgan Stanley Research

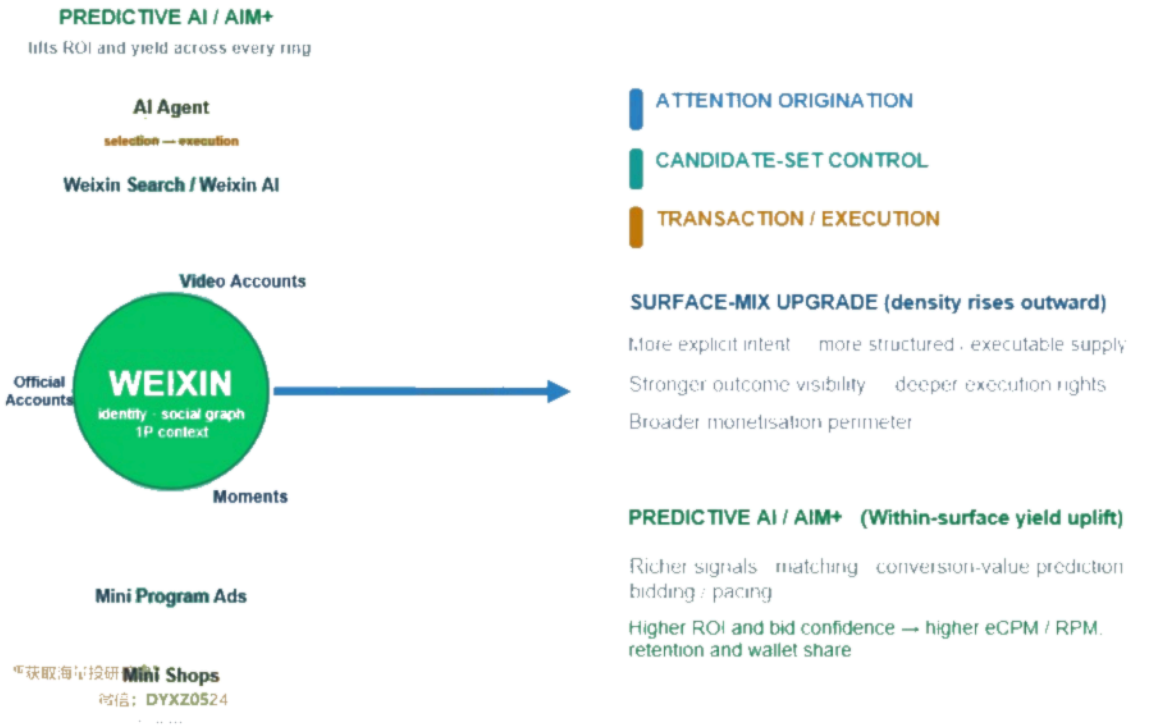
Exhibit 3: Monetization density rises with commercial intent and outcome visibility



Source: Company Data, QuestMobile, Morgan Stanley Research

* We calculate 2025 advertising revenue divided by the annual DAU time pool for the marketing density. Where a platform's disclosed revenue scope includes commissions, we mark the bubble with a dashed outline.

Exhibit 4: Tencent has two reinforcing AI monetization levers



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Source: Morgan Stanley Research

Executive Summary

This is the sixth edition of the China Advertiser Survey, conducted from May 18 to June 2, 2026, among 100 Chinese companies through online and telephone interviews.

Previous surveys were conducted in June-July 2020 (150 companies), December 2021-January 2022 (175 companies), March 2023 (166 companies), April 2024 (102 companies) and February-March 2025 (102 companies)

Where is AI adoption today – and how does it translate into platform revenue and TAM?

Adoption is broad but remains concentrated in productivity and campaign execution. In 2025, 74% of advertisers used AI for content generation and 62% for campaign management, while product-feed optimization and generative engine optimization (GEO) remained at only 9% and 5%. Creative AI delivers the first-order productivity gain, while predictive AI and campaign automation provide the clearer near-term platform-monetization path through better matching, conversion-value prediction, bidding and yield.

Outcome-linked optimization is gaining traction; full closed-loop execution is the next scaling step. 50% of advertisers report improved ROI and 46% better customer hand-offs. Further progress likely depends on connecting these point solutions through secure data, system integration and credible attribution.

Through 2030, AI should lift incumbent-platform earnings mainly through embedded gains and budget reallocation. Among AI users and intenders, 72% report no change to total advertising budget dollars but reallocation with the existing advertising budget and 74% report more concentrated cross-platform spending. We estimate Rmb291bn of gross AI-mediated TAM including advertising and AI-attributed commissions. This excludes predictive-AI yield and conversion gains on existing inventory, which remain embedded in incumbent-platform revenue, and should not be read as wholly net-new industry revenue.

By 2040, agentic AI should become a mature monetization layer across both standalone agents and incumbent platforms. As platforms embed agents across discovery, decision-making, and transaction execution, we estimate gross AI-mediated advertising revenue of Rmb319bn and gross AI-attributed transaction commissions of Rmb1.24tn. These are mature-state gross pools, not wholly net-new industry revenue; net expansion will be lower after legacy-revenue cannibalization, incentives and partner sharing. Accordingly, 2040 is a scenario anchor rather than a precise adoption date.

Who captures the economics?

Model quality is an input; value capture follows control of the commercial journey. Four linked control points matter: who originates demand, who determines the candidate set, who executes the transaction and who retains outcome data and write-back rights. The attention originator creates or captures demand and monetizes primarily through brand and performance advertising, with potential referral economics. The candidate-set controller determines which products or merchants receive serious consideration and can monetize sponsored placement, leads, cost per acquisition, affiliate or referral economics. The transaction closer controls execution and observable outcomes, anchoring commission, payments and merchant-service revenue. These are roles rather than fixed platform categories; one ecosystem may span all three.

Standalone AI has an advantage at the entry point because it can aggregate cross-domain intent and shape the shortlist before users enter a content, Search, or commerce platform.

Embedded AI starts closer to monetization because it is already connected to proprietary content, advertiser demand, structured merchant supply, campaign tools, checkout and attribution. Integrated platforms can therefore capture more value per journey, while open agents may influence a broader set of journeys but retain less economics at each handoff.

Over time, the question becomes less "AI agents versus existing platforms" and more how value is divided across an increasingly agentic commercial stack. Horizontal agents can capture sponsored discovery, lead and referral economics when they control the candidate set; commerce and service platforms retain more commission, payment and merchant-service economics when they control inventory, checkout, fulfilment, attribution and outcome write-back. Incumbents that agentify both the consumer entry point and the execution loop should capture the highest value per journey.

We expect the outcome to be shared, but closed-loop control raises the capture ceiling. Our survey shows that 47% of advertisers believe AI-created value is shared across participants, while platforms are the largest single beneficiary at 37%.

The durable beneficiaries should be those that control a recurring read–decide–execute–write-back loop. Platforms retain an advantage in media execution, transactions, and outcome data, while independent software and agencies remain relevant in cross-platform orchestration, measurement, governance and integration.

Exhibit 5: AI value capture rises with control of the commercial journey

Platform Starting Point Representative Surfaces	Attention Control Advertising	Candidate-Set Control Sponsored Placement / Lead / Referral	Transaction Closure Commission / Payment	Outcome Write-Back Commercial OS / Merchant Services
Standalone / horizontal AI **Doubao; Qwen app; Yuanbao; DeepSeek etc**	Entry Broad, cross-domain intent	**Core** **Shapes the shortlist**	Partner APIs / merchant handoff	Limited Without persistent outcome rights
Attention-led platforms **Douyin / Kuaishou; WeChat / Video Accounts; etc**	**Core** **Owns the session**	Build Search / Agent	Selective Native shop or handoff	Build Transaction and CRM loop
Search- / Agent-led incumbents **Baidu Search; Weixin Search; Taobao Search**	Intent entry Explicit queries	**Core** **Retrieval and ranking**	Build Lead / CPA / checkout	Build Attribution and outcome data
Transaction-led platforms **Taobao / Tmall; Meituan; JD / PDD; etc**	Move upstream Discovery	Build AI comparison / recommendation	**Core** **Supply, checkout, fulfilment**	Extend Service, CRM and repurchase

Source: Morgan Stanley Research

Which platforms are best positioned?

AI should amplify, rather than reset, existing advantages. Our key OWs are Alibaba, Tencent and Meituan; our key UWs are Baidu and Weibo.

- Alibaba is the clearest transaction-led beneficiary because Taobao/Tmall combines discovery, structured supply, checkout, merchant relationships and observable outcomes.
- Tencent combines protected core advertising yield with upside from converting social and content attention into explicit intent through Search and Agents, and then linking that intent to Mini Programs, Mini Shops, payments and CRM.
- Meituan benefits from high-frequency local-service demand, transaction closure and measurable merchant outcomes.
- Baidu retains valuable intent and AI capabilities, but should demonstrate that AI-native monetization and conversion gains can outgrow legacy Search cannibalization.
- Weibo remains more structurally exposed because of weak intent and limited transaction closure.

Exhibit 6: Key takeaways on the main platforms

Company	Rating	Survey key takeaway	Our qualitative view
Alibaba	**OW**	Taobao/Tmall's net spend score improved from -3 in 2024 to +55 in 2026; AI-tool users report c.10ppt higher perceived ROI.	Clearest transaction-led beneficiary: closed-loop outcome data supports CMR recovery and longer-term commission and merchant-workflow upside.
Tencent	**OW**	WeChat's 2026 net spend score is +26; 66% found Tencent's AI tools helpful and 72% plan to use them.	Core yield is protected; the larger upside depends on integrating AIM+, Search, Video Accounts, Mini Shops, payments and CRM.
Meituan	**OW**	Meituan's net spend score rose from +9 in 2024 to +55 in 2026, despite only 2% average AI-capability mindshare.	Transaction closure—not standalone AI mindshare—is the moat; AI adds medium-term ad, commission and merchant-service upside.
Kuaishou	**EW**	Kuaishou's net spend score fell from +15 in 2024 to -24 in 2026; live-commerce fell to 34% of short-video ad budgets from 43%.	AI gains are being competed away versus Douyin; weak core advertising and e-commerce offset Kling optionality.
Baidu	**UW**	Among respondents who used and found Baidu's AI tools helpful, 71% reported measurable ROI uplift; Baidu Search's spend balance was still -13.	We see efficacy-to-wallet gap, and AI-native monetization have to outgrow legacy Search cannibalization before the thesis improves.
Weibo	**UW**	Weibo's spend balance remained negative in all three survey waves and deteriorated to -39 in 2026.	Weak intent and limited outcome control make wallet loss structural; AI efficiency alone is unlikely to reset share.

Source: AlphaWise, Morgan Stanley Research

1. How AI is changing advertising: from model capability to commercial control

Key takeaways

AI's control boundary is expanding from asset production to media decisioning, outcome optimization and commercial execution. In 2025, 74% of advertisers used AI for content generation and 62% for campaign management, versus 53% for analytics, 33% for CRM, 17% for customer service, and single-digit adoption in product-feed optimization and AI discoverability.

Model leadership alone does not determine value capture. Advertisers continue to allocate budgets primarily on ROI, reach and targetability; AI matters when it improves these outcomes and expands platform control over commercial decisioning and measurable outcomes.

The next transition is from point tools to outcome-linked workflows. Advertisers already report benefits beyond creative productivity—including ROI, customer handoff, repeat purchase, and conversion—but data security, tool relevance, output reliability, and system integration continue to constrain end-to-end execution. And decision rights and outcome visibility set the capture ceiling.

Model quality is a necessary input, but not the endpoint of platform monetization. Advertisers still allocate budgets primarily on ROI, reach and targetability—cited by 86%, 61% and 51% of respondents, respectively—while general AI capabilities rank at only 5%.

AI advertising is therefore better understood as an expanding control boundary than as a single model or product shift.

Platforms are expanding AI's control boundary across the advertising workflow

AI advertising is evolving through a series of connected layers rather than through a single product shift. Generative tools first lower the cost of producing and testing content. Campaign automation then applies predictive models across targeting, bidding, asset selection, budgets and pacing. Data-loop optimization connects media decisions with customer, product and transaction outcomes. At the broadest perimeter, a Commercial OS coordinates discovery, transaction handoff, customer service, retention, and repurchase.

Our sixth AlphaWise China Advertiser Survey suggests that adoption is concentrated primarily in the first two stages. Components of the data loop are beginning to emerge, while end-to-end commercial execution remains an early direction of travel rather than the current industry state.

The economic impact also changes by stage. Advertisers capture creative-productivity gains first. Platform monetization becomes more direct as AI gains decision rights over media spend and learns from measurable outcomes.

Exhibit 7: Platform monetization rises as AI moves from asset production to decision rights and outcome control

Stage	Capability	Control boundary	Selected 2025 adoption	What AI controls/first-order value	Platform monetisation
Stage 1	Creative efficiency	Asset production	74% content generation	Asset creation and variation; lower production cost and more tests	Lower entry friction; larger asset pool
Stage 2	Campaign automation	Media decisioning	62% campaign management	Bids, budgets, placement and pacing; higher ROAS and consistency	More spend under automated decisioning
Stage 3	Data-loop optimisation	Conversion and outcome data	53% analytics; 33% CRM; 17% service	Conversion, attribution and customer follow-up; higher bid confidence	Higher ROAS and bid confidence if loops close
Stage 4	Commercial OS	Transaction, service and repurchase	9% product feed; 5% GEO	Candidate sets, live supply and transaction actions; lower purchase friction	Wider revenue perimeter if execution scales

Source: AlphaWise, Morgan Stanley Research

Stage 1: Creative efficiency – broad adoption, with advertisers capturing the first benefit

Generative AI marketing tools are scaling quickly because they reduce production time and cost, expand the number of assets that can be tested and require relatively limited system integration. In our AlphaWise survey, 74% of advertisers used AI for content generation in 2025, 73% plan to spend in this area in 2026 and 76% expect faster creative generation and greater asset variation to remain a major source of value over the next two to three years.

The immediate benefit is higher production efficiency. Platforms can also benefit indirectly if lower entry barriers broaden advertiser participation or if a larger creative pool improves matching, but creative adoption alone does not translate one-for-one into platform revenue.

Stage 2: Campaign automation – a clearer near-term platform monetization path

Predictive AI improves retrieval, click and conversion prediction, and conversion-value estimation. Campaign automation applies these gains across targeting, bidding, budgets, asset selection, placement and pacing. Examples include Tencent's AIM+ and Kuaishou's UAX, two automated campaign-management tools.

In 2025, 62% of respondents used AI for campaign management; 57% plan to spend in this area in 2026. More importantly, 74% expect greater automation and less manual campaign operation to be a major source of AI-driven value over the next 2-3 years. Compared with creative generation, campaign automation has a clearer link to platform monetization because it brings a larger share of media spending under platform decisioning.

Stage 3: Data-loop optimization – early adoption, but the basis for more durable differentiation

At this stage, AI connects to first-party data, product feeds, pricing, inventory, transaction data, customer relationship management (CRM), customer service and attribution. The objective shifts from improving a campaign metric to optimizing and learning from a business outcome, increasing the importance of attribution and write-back rights.

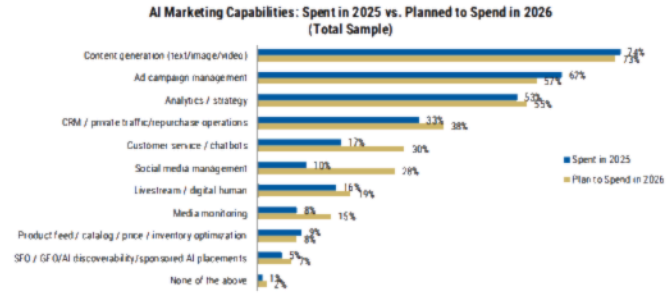
Adoption remains fragmented rather than fully closed loop: 53% used AI for analytics or strategy in 2025, 33% for CRM, private traffic or repurchase operations and 17% for customer service or chatbots. These figures measure use of individual tools rather than end-to-end integration across the workflow.

Stage 4: Commercial OS – a longer-term direction

At the furthest end of the stack, platforms could connect discovery, creative, campaign management, product feeds, transaction handoff, customer service, CRM, private traffic, repurchase and measurement. The platform would then coordinate a broader commercial workflow rather than monetize media alone.

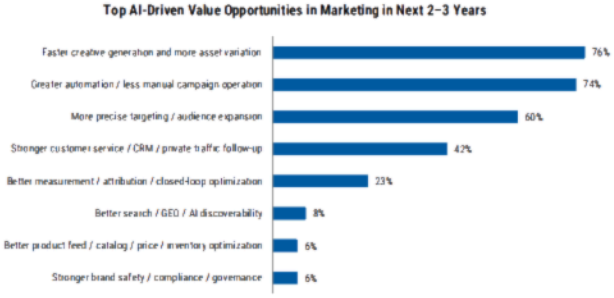
Current adoption remains limited. Product-feed, catalogue, price and inventory optimization was used by 9% of respondents in 2025 and is planned by 8% in 2026; GEO, AI discoverability and sponsored AI placements stood at 5% and 7%, respectively. We therefore see the Commercial OS as a longer-term direction rather than the current industry state.

Exhibit 8: Content generation and campaign management rank as the two most widely adopted AI marketing capabilities



Source: AlphaWise Survey, Morgan Stanley Research

Exhibit 9: Advertisers expect creative generation and campaign automation to remain the main AI value drivers over the next 2–3 years



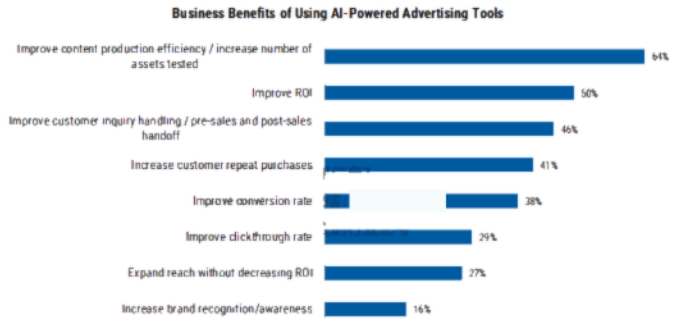
Source: AlphaWise Survey, Morgan Stanley Research

The economic read-through is asymmetric. Generative AI expands the supply of assets and lowers participation costs. As the asset pool grows, the marginal value shifts towards prediction and allocation: which creative is shown, to whom, at what bid, with which budget and against which outcome. Creative adoption is therefore an important participation indicator; campaign decisioning and outcome connectivity are the more relevant variables for platform monetization.

Advertiser benefits already extend beyond productivity

Content generation shows the clearest advertiser benefit: 64% cite improved content-production efficiency or more assets tested. The next most common responses are improved ROI at 50% and better customer inquiry handling and pre- and post-sales handoff at 46%, followed by increased repeat purchases at 41% and improved conversion rates at 38%.

Exhibit 10: Improvements in content generation, ROI and customer service are advertisers' top three AI-related benefits



Source: AlphaWise, Morgan Stanley Research

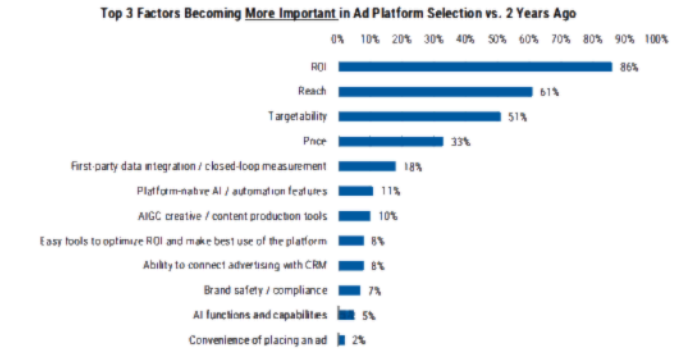
Exhibit 11: AI is already affecting marketing expenditure across multiple areas



Source: AlphaWise, Morgan Stanley Research

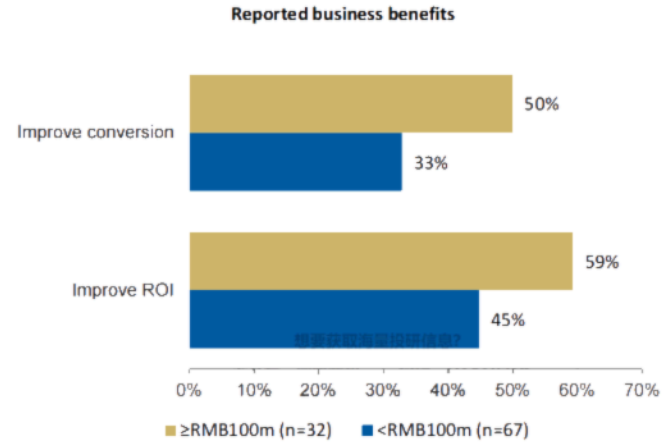
AI capabilities have not replaced the traditional criteria used to allocate advertising budgets. When asked which platform-selection factors had become more important over the past two years, 86% of respondents cited ROI, followed by reach at 61% and targetability at 51%. Individual AI-related attributes ranked materially lower: first-party data integration and closed-loop measurement was cited by 18%, platform-native AI and automation by 11%, AI-generated content (AIGC) creative tools by 10%, and general AI capabilities by 5%. The implication is not that AI lacks value, but that advertisers monetize it indirectly: better models and tools matter when they improve targeting, measurable returns or scalable reach. This also explains why broad adoption of content-generation tools does not translate one-for-one into platform revenue.

Exhibit 12: Advertisers still allocate budgets based on outcomes; AI features matter when they improve ROI, reach and targeting



Source: AlphaWise, Morgan Stanley Research

Exhibit 13: Larger advertisers saw greater improvements in ROI and conversion



Source: AlphaWise, Morgan Stanley Research

Integration—not demand or budget—is the binding constraint

Content generation and simple campaign automation can spread relatively quickly because they can operate with less structured data and limited system integration. Moving into product feeds, pricing, inventory, GEO, attribution, CRM and repurchase requires higher-quality data, more stable system connections, clearer permissions and compliance frameworks, and more credible measurement.

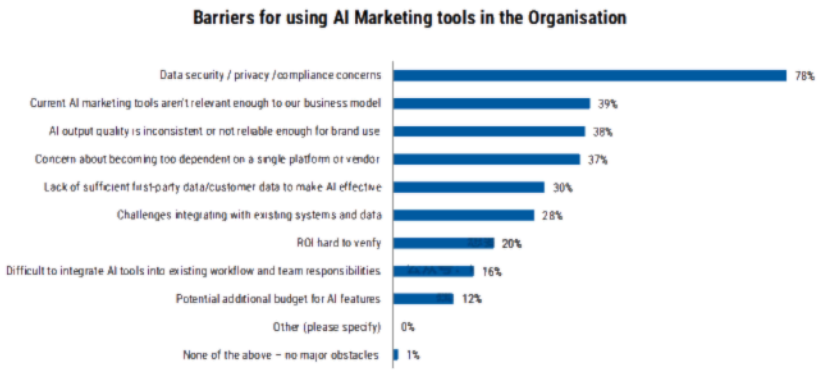
The survey points to two main clusters of friction.

1. **Data and integration:** 78% cite data security, privacy or compliance concerns, 30% insufficient first-party or customer data and 28% difficulty integrating with existing systems.
2. **Product and measurement maturity:** 39% say current tools are not relevant enough to their business model, 38% cite inconsistent output quality and 20% say ROI is hard to verify. A further 37% are concerned about dependence on a single platform or vendor. Only 12% identify additional AI budget as a major obstacle.

Leading platforms and advertisers are therefore likely to progress in stages: Scale campaign automation first, connect more CRM, transaction and service data next, and only then broaden into closed-loop commercial workflows. China's integrated ecosystems may have an advantage because many already combine content, transactions, payments, customer service and private-domain operations, although the depth of integration varies by platform and category.

A separate Morgan Stanley China CIO survey points in the same direction: customer-data integration (53%) and campaign management (41%) ranked behind content generation (65%) among CIO's marketing AI investment priorities.

Exhibit 14: Data, trust and integration are the barriers for AI marketing penetration



Source: AlphaWise, Morgan Stanley Research

2. From intent monetization to platform revenue: three paths, two horizons

Key takeaways

We size gross AI intent-monetization pools at Rmb291bn in 2030 and ~Rmb1.56tn in 2040. The 2040 pool comprises Rmb319bn of AI candidate-set advertising and Rmb1.24tn of AI-attributed transaction commissions. 2030 is the earnings bridge; 2040 sizes the mature state.

AI reaches platform revenue through three routes. Predictive AI lifts yield on existing surfaces; Search and Agent surfaces create higher-value candidate-set inventory; attributable transactions unlock commissions and recurring merchant-workflow revenue. The first route is not a separate AI TAM, while the latter two define the gross pools.

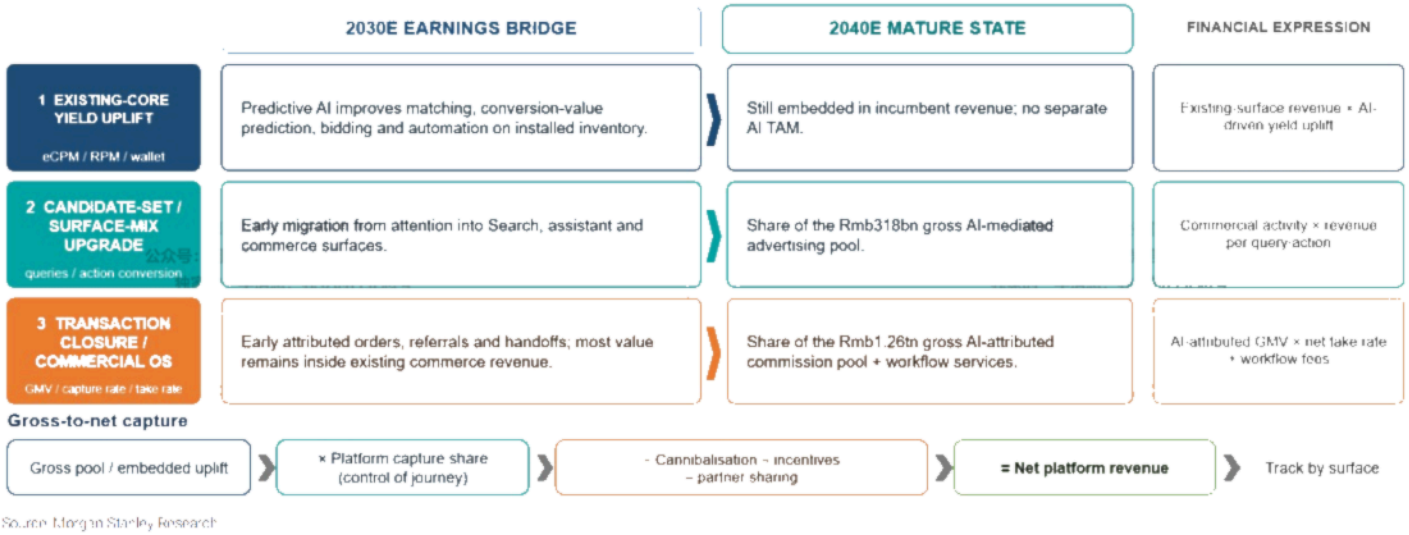
Starting point determines the route; closed-loop control determines the capture ceiling. Attention-led platforms must convert time into intent, Search- and Agent-led platforms must convert intent into qualified actions, and transaction-led platforms must make supply and outcomes executable. Integrated ecosystems can access both pools, but capture depends on attribution, contractual rights and gross-to-net offsets

AI monetization has three routes across two horizons

Through 2030, the earnings bridge is mainly embedded. Most platform upside should come from better matching, conversion-value prediction, bidding and automation on installed inventory, together with early migration from attention into higher-intent Search, assistant, and commerce surfaces. The interim model outputs for AI-native advertising and attributed commissions therefore capture only the separately identifiable portion of AI monetization, not the full company-level earnings effect.

By 2040, agentic interfaces become a mature monetization layer. As standalone and platform-embedded agents expand across discovery, decisioning, transaction execution, and outcome write-back, the boundary between "AI revenue" and existing platform revenue should blur. We use 2040 as a scenario anchor for the mature gross pools, not as a precise date at which every workflow reaches full adoption.

Exhibit 15: AI monetization has three routes across two horizons



Source: Morgan Stanley Research

Sizing the two gross pools

Sizing AI advertising TAM: We model AI-mediated advertising revenue as ad-exposed daily active users (DAU) x AI interactions/day x commercial query mix x monetized commercial query rate x ad units per monetized query x effective cost per thousand impressions (eCPM) x 365/1,000. By 2040, our base case assumes 320mn ad-exposed DAU, 13 queries per day, 36.5% commercial query mix, 63% monetized commercial query rate, 4.8 ad units per monetized query and Rmb190 eCPM. This yields Rmb318bn of AI-mediated advertising revenue, equivalent to 7.2% of China's online advertising TAM in our model. We describe this as a gross AI-mediated advertising pool rather than net incremental industry advertising spend. Part of the pool may replace traditional search, feed, affiliate or retail-media advertising. It is also best read as a candidate-set advertising pool: predictive-AI lift on existing feed, search and retail-media inventory is assessed separately at the platform level.

Sizing AI transaction commission SAM: We see transaction commission opportunities where an AI-mediated journey can be connected to an observable order, booking or payment. Our formula is addressable online GMV x AI-assisted GMV share x closed-loop attribution/capture rate x effective AI take rate.

For e-commerce, this captures AI-assisted discovery, comparison, basket formation, and checkout linked to completed orders.

For local services, it captures recommendation and order or booking flows where location, availability and fulfilment are observable.

For online travel agents (OTAs) and travel, it covers itinerary planning, comparison, booking and post-purchase service.

For hybrid platforms, only the portion of GMV in which the platform participates in the transaction handoff, attribution or fee pool should be included.

By 2040, gross AI-attributed transaction commissions could reach Rmb1.24tn in our base case. This should not be interpreted entirely as net-new commission revenue. Part of the

pool may replace commissions that would otherwise have been earned by existing e-commerce, local-services or OTA platforms. The closer may also share part of the fee with an upstream originator or candidate-set controller; that sharing reallocates the same transaction economics and should not be counted as a separate industry pool.

Exhibit 16: AI intent monetization TAM - from candidate-set advertising to transaction closure

Monetization layer	2030E (Rmb bn)	2040E (Rmb bn)	What the merchant pays for
Candidate-set advertising	10	319	new commercial inventory in AI Search and agentic interfaces
AI-attributed transaction commissions	281	1,241	transaction commissions where AI influence can be connected to closed-loop gross merchandise value (GMV)
Total AI intent monetization	291	1,560	Advertising plus commissions; additive only when they are separate merchant payments.

Source: Morgan Stanley Research

Who captures the pool: follow the commercial journey, not the app

Sizing the gross pools does not determine who captures them. Value allocation follows four linked control questions: who originates demand, who determines the candidate set, who executes the transaction, and who retains the outcome data. These are commercial roles rather than fixed platform categories; one ecosystem may span several roles, or the economics may be divided across participants.

- **The attention originator** creates or captures the commercial session and primarily monetizes demand creation through advertising. AI enhances advertising yield through earlier intent detection, but value capture remains incomplete if candidate selection or transactions occur elsewhere.
- **The candidate-set controller** determines which products or merchants receive serious consideration and can monetize sponsored inclusion, product cards, CPC(Cost per Click)/CPL(Cost per Lead)/CPA(Cost per Acquisition), affiliate fees or commission sharing. The role may sit in standalone AI, embedded AI, traditional Search, internal Search on a content platform or marketplace recommendation.
- **The transaction closer** converts the selected option into an attributable order, booking or payment and anchors commission, payment, and merchant-service revenue. Structured supply, live price and inventory, checkout, fulfilment, refunds, and after-sales create the outcome data that supports attribution and write-back.

Advertising primarily monetizes origination and selection; commissions remain anchored at closure. The value split varies by journey: content- and creator-led demand gives more weight to the originator, complex comparison to the candidate-set controller, and live inventory, fulfilment or after-sales service to the closer. Integrated platforms can retain more value per journey, while open agents may influence more journeys but capture less on each.

Standalone and embedded AI begin with different advantages. Standalone agents can aggregate cross-domain intent and shape the shortlist before users enter a content, Search or commerce platform.

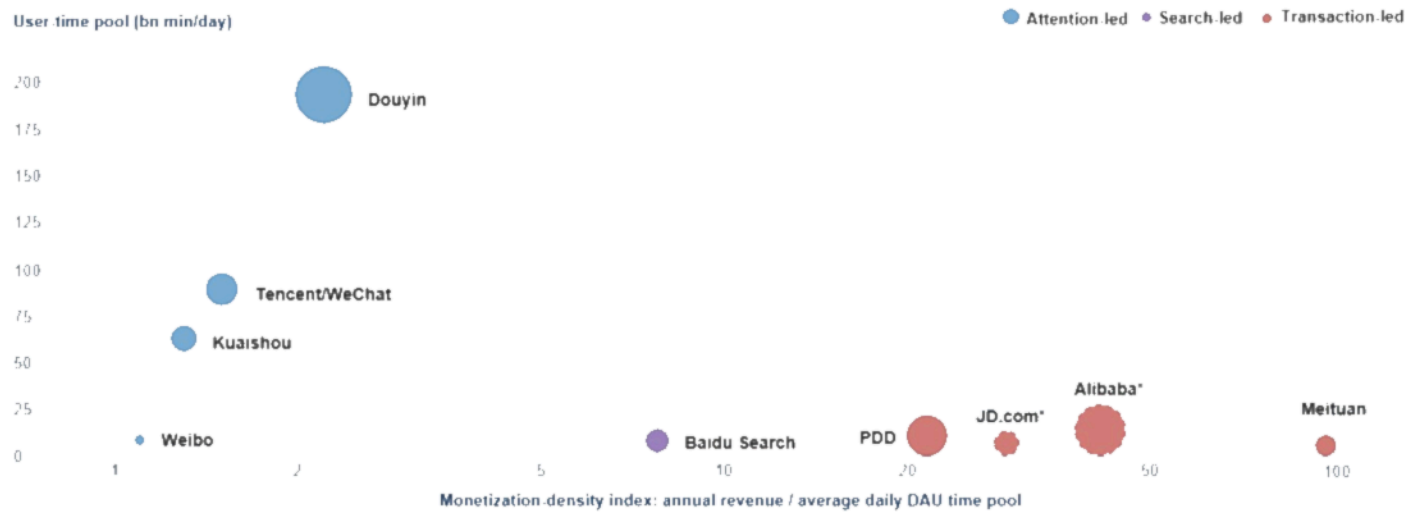
Embedded AI starts closer to monetization because it is already connected to proprietary content, advertiser demand, structured merchant supply, campaign tools, checkout and attribution. The likely outcome is therefore negotiated handoff and shared economics rather than one winner controlling every journey.

From gross pools to platform revenue

Monetization density rises with intent and outcome visibility, Transaction-led platforms > Search > attention-led platforms

Platform advertising monetization density measures how efficiently a platform converts user attention or time spent into advertising revenue. On this comparative monetization-density index, attention-led platforms score approximately 1.1–2.6, Baidu Search approximately 7.7 because explicit queries carry more intent, and transaction-led platforms approximately 21–97 because users are already in a purchase context and outcomes are observable.

Exhibit 17: Monetization density rises with commercial intent and outcome visibility



Source: Company Data, Qu'est Mobile, Morgan Stanley Research

*We calculate 2025 advertising revenue divided by the average daily DAU time pool for the monetization density. Where a platform's disclosed revenue scope includes commissions, we mark the bubble with a dashed outline.

Within-surface yield lift should appear first

Predictive AI improves retrieval, ranking, pCTR and pCVR, conversion-value prediction, creative selection, bidding, budget allocation, and pacing. The same impression, query, or commercial visit becomes more valuable because advertisers can bid with greater confidence and the platform can place more spend under automated decisioning. This route applies across all platform types and should appear first in eCPM, revenue per mille (RPM), automation penetration, advertiser retention and wallet share.

Surface-mix upgrade follows as a subset of activity migrates into higher-intent interfaces

AI can convert a subset of lower-intent engagement into explicit search, assistant or commerce interactions. The value comes from both additional commercial activity and the spread between the new surface's monetization density and the old surface's density. Not every user minute migrates; each surface should be modelled separately.

Transaction and workflow capture is the larger but later prize

Where the platform connects recommendation to an attributable order, booking or payment, monetization can extend into commissions, payments, and recurring merchant services. This is economically separate from higher advertising density and should be modelled against closed-loop GMV or workflow adoption rather than user time.

Starting point determines the route

Different starting points imply different monetization routes, but the common objective is broader control of the read–decide–execute–write-back loop. The matrix below summarizes where each platform type begins, what it can monetize first and what must be built to raise the capture ceiling.

Exhibit 18: Starting point determines the route; closed-loop control raises the capture ceiling

PLATFORM STARTING POINT	ATTENTION CONTROL Advertising	CANDIDATE-SET CONTROL Sponsored / lead / referral	TRANSACTION CLOSURE Commission / payment	OUTCOME WRITE-BACK Commercial OS / merchant services
STANDALONE AI	ENTRY	CORE	PARTNER	LIMITED
Doubao, Qwen app, Yuanbao, DeepSeek	Broad, cross-domain intent	Shapes the shortlist	APIs / merchant handoff	Without persistent outcome rights
ATTENTION-LED	CORE	BUILD	SELECTIVE	BUILD
Douyin / Kuaishou, WeChat / Video Accounts	Owns the session	Search / Agent	Native shop or handoff	Transaction and CRM loop
SEARCH- / AGENT-LED	INTENT ENTRY	CORE	BUILD	BUILD
Baidu Search, Weixin Search, embedded agents	Explicit queries	Retrieval and ranking	Lead / CPA / checkout	Attribution and outcome data
TRANSACTION-LED / INTEGRATED	MOVE UPSTREAM	BUILD	CORE	EXTEND
Taobao/Tmall, Meituan, JD/PDD, OTA	Discovery	AI comparison / recommendation	Supply, checkout, fulfilment	Service, CRM and repurchase

Source: Morgan Stanley Research

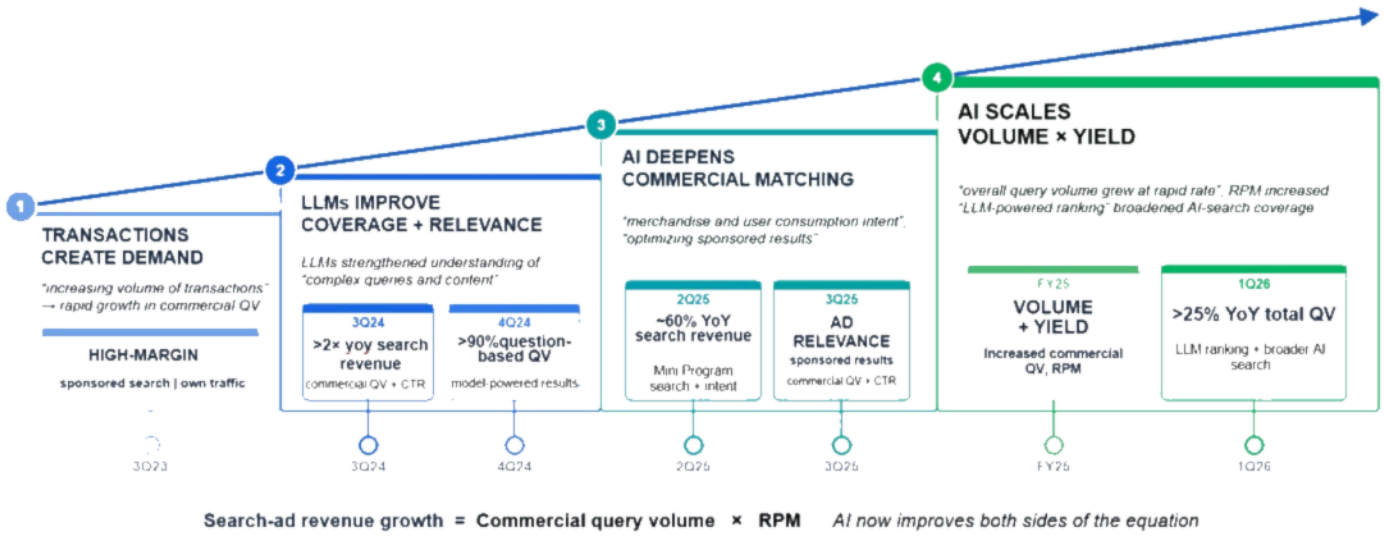
Attention-led and hybrid ecosystems: convert time into intent

Attention-led platforms start with large user-time pools but diluted commercial intent. Their lower-risk route is to improve core feed or social yield through earlier intent detection, better creative and ad matching, and optimization toward conversion value. The higher-ceiling route is to add explicit Search, Agent, and commerce surfaces that convert a subset of attention into candidate-set control and attributable hand-offs.

Tencent illustrates the path from attention to intent within a broader ecosystem-led expansion. Weixin starts with social, content, and private-domain engagement: Video Accounts and other content surfaces create attention and consideration, while Weixin Search and emerging Agent surfaces convert part of that engagement into explicit commercial queries and candidate-set control. Transactions within Mini Programs and Mini Shops reinforce the loop from the other direction by creating commercial demand and

outcome signals that can improve Search and advertising decisioning. AIM+ strengthens campaign execution, while Mini Programs, Mini Shops, Weixin Pay, WeCom and private-domain operations extend the journey into transaction, service and repurchase. Tencent's opportunity is to connect attention, intent, and outcomes into a unified read–decide–execute–write-back loop; the key test is migration into higher-intent surfaces and measurable outcome feedback.

Exhibit 19: Weixin Search has moved from high-margin inventory to AI-led volume × yield expansion



Source: Company data, Morgan Stanley Research

Douyin and Kuaishou already monetize algorithmically inferred intent at scale. Their recommendation systems translate content consumption, creator interaction, livestream behavior and product engagement into product, lead and commerce intent. The next movement is downstream into explicit Search, product cards, shops, local services, transaction closure and merchant operating workflows. The opportunity is higher commerce-touchpoint penetration, conversion certainty and merchant-service yield; the constraint is deepening capture without impairing feed experience or merchant ROAS.

Search and Agent surfaces: convert intent into qualified action

Search density is the starting point; transaction density is the prize: Traditional Search monetizes explicit intent through keywords, clicks, and sponsored ranking. An actionable Agent can additionally construct the candidate set, assemble a basket or booking, initiate checkout and connect the recommendation to an observable transaction. Its monetization ceiling should therefore be assessed against transaction-like economics rather than Search advertising alone.

Standalone agents are strongest at cross-domain intent aggregation and candidate-set control. They can monetize sponsored discovery, product cards, leads, CPA, affiliate, and referral economics. Moving further requires APIs, merchant access, user permissions, payment, and commercial agreements.

Embedded agents begin closer to execution and attribution, but may cover fewer domains. The key KPIs are eligible commercial-query growth, revenue per query, answer-to-action conversion, attribution at hand-off, partner economics, and user-trust retention.

Transaction-led platforms: move upstream into discovery and outward into Commercial OS

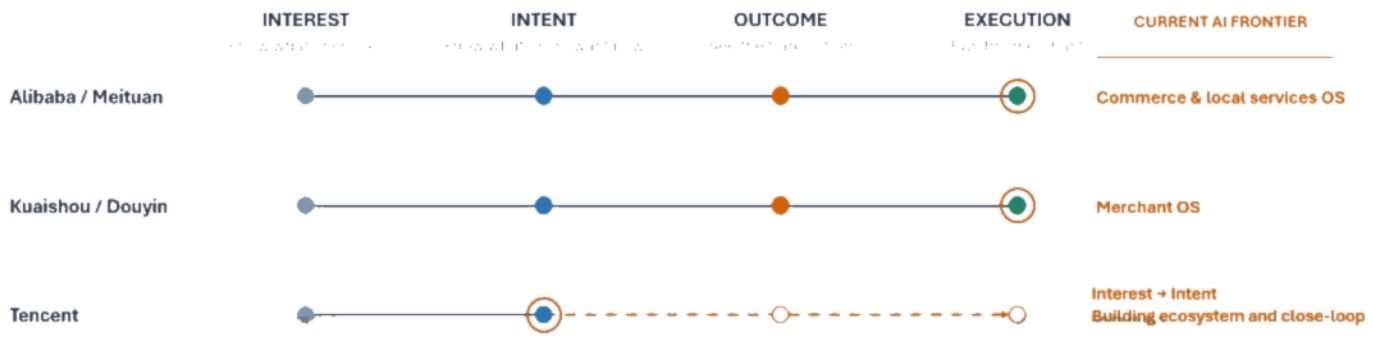
Alibaba and Meituan begin with the assets that attention and Search platforms are trying to build. Their starting advantages are structured supply, pricing and inventory or capacity, merchant relationships, checkout, payment, fulfilment, and after-sales outcomes. AI can improve matching, conversion value and merchant ROAS on the existing transaction base, move upstream into discovery and candidate-set control, and extend outward into product-feed management, customer service, fulfilment, CRM, membership, and repeat purchase.

Their upside is not primarily more advertising inventory. It is the ability to use outcome data to improve discovery and merchant ROI, expand AI-assisted GMV, retain the transaction take rate, and monetize a larger share of recurring merchant workflows. Adjacent workflow revenue should remain outside the Rmb1.26tn commission pool unless already embedded in the assumed take rate.

Platform movements: control boundaries widen from different starting points

We illustrate how major platforms are widening their control boundaries from different starting points toward a common end state: An integrated loop spanning intent recognition, execution, transaction outcomes, and feedback. Attention-led platforms are moving downstream toward explicit intent and closure, while transaction-led platforms are moving upstream into discovery and candidate-set control and outward into merchant operations.

Exhibit 20: Key platforms are expanding their AI capabilities from different starting points



Source: Company data, Morgan Stanley Research

3. Money moves before the market expands: Who controls the commercial journey?

Key takeaways

AI competition begins with reallocation, not budget expansion. Platform access remains broad, but primary-wallet and outcome control are narrowing. Primary-wallet share and workflow control are moving before aggregate advertising spend expands. Key out-performers: Douyin/Tencent/Baba/Meituan; Key under-performers: Weibo/Baidu/IQIYI.

Standalone AI can win discovery and the cross-domain candidate set; embedded AI starts closer to monetization because it controls more of the commercial workflow. The likely outcome is a divided journey and negotiated handoff, not wholesale replacement of existing platforms.

Platforms gain execution control, while independent software and agencies retain orchestration roles. The split depends on advertiser scale, data ownership, cross-platform complexity and measurement requirements.

AI is already changing who gets paid before it changes how much the industry spends. We see three linked contests:

- Which platform wins the primary wallet;
- Who controls the candidate set and attributable handoff;
- Who owns execution, measurement and outcome write-back.

The first two determine consumer-journey economics; the third determines how much of the advertiser operating stack platforms, software, and agencies can retain.

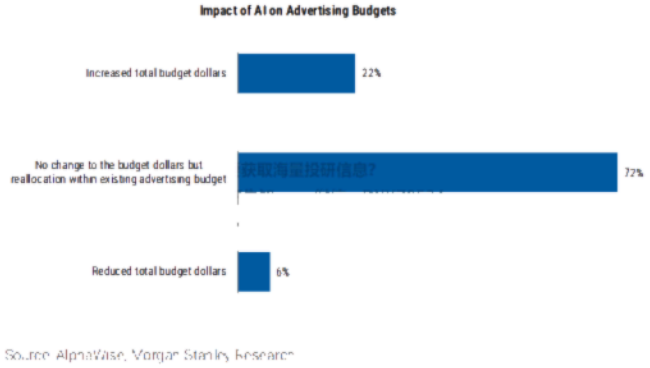
Primary-wallet control: AI widens platform dispersion

AI is entering a disciplined advertising market, not a broad-based budget up-cycle. Survey respondents expect total advertising budgets to grow only 2.4% in 2026, and ROI remains the leading media-selection criterion, cited by 87% of advertisers. AI adoption is therefore being filtered through ROI discipline rather than budget abundance.

Reallocation comes before expansion: Among AI users, 72% report no change to total advertising budget dollars but reallocation with the existing advertising budget; 22% report an increase and 6% a reduction. Separately, 74% say AI has made cross-platform media allocation more concentrated, versus 7% reporting greater di
therefore redistribute wallet share before it enlarges the aggregate

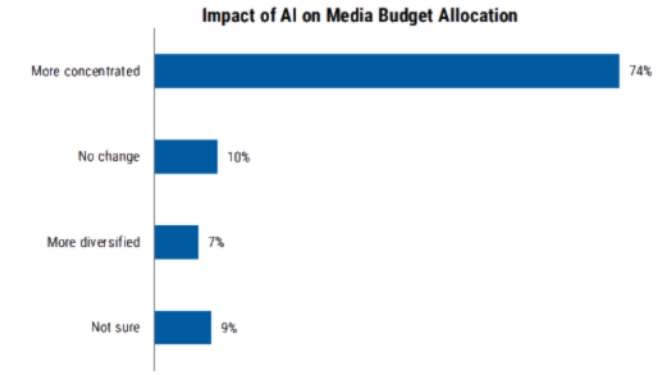


Exhibit 21: 72% report unchanged total ad dollars but internal reallocation



Source: AlphaWise, Morgan Stanley Research

Exhibit 22: AI has made cross-platform media allocation more concentrated



Source: AlphaWise, Morgan Stanley Research

AI widened an already-polarized hierarchy: The 2024 survey is the closest pre-material-AI baseline. Wallet allocation was already polarised: Douyin led by a wide margin, short video and selected transaction platforms were positive, while Baidu Search, Weibo and iQIYI were under pressure. AI did not create those starting positions; it increased the return to the control points behind them.

- Continuity - Douyin: +62% to +76%/+83%; WeChat stayed positive in all three waves.
- Positive inflection - Taobao/Tmall and Meituan: -3%/+9% in 2024 to +55%/+55% in 2026.
- Efficacy/capture gap - Kuaishou and Baidu Search: +15% to -24%, and -27% to +21% to -13%.
- Structural weakness - Weibo and iQIYI: negative in all three waves, reaching -39%/-46% in 2026.

Exhibit 23: AI widened dispersion in multi-year wallet direction (measured by advertisers' budget plan movements on each platform)

Platform	2024	2025	2026	2026-24 change	Read-through
Douyin	62%	76%	83%	21%	Persistent and strengthening leader
Taobao/Tmall	-3%	29%	55%	58%	From budget donor to closed-loop compounder
Meituan	9%	40%	55%	46%	Transaction-led improvement
WeChat	13%	35%	26%	13%	Protected core; wallet remains positive
Video Accounts	28%	33%	10%	-18%	Positive but momentum normalizes
JD	21%	0%	15%	-6%	Modest and uneven
PDD	28%	-11%	3%	-25%	Volatile; no AI-led share proof
Kuaishou	15%	2%	-24%	-39%	Category access remains; wallet weakens
Baidu Search	-27%	21%	-13%	14%	Volatile restructuring
Weibo	-13%	-32%	-39%	-26%	Persistent structural pressure
iQIYI	-26%	-9%	-46%	-20%	Persistent structural pressure

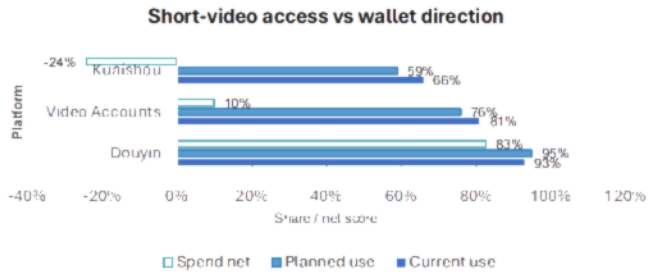
Source: AlphaWise, Morgan Stanley Research

The contest has moved from access to wallet depth. Advertisers still multi-home: Our survey indicates that advertisers used an average of 11.1 platforms in 2025 and plan to use 10.8 in 2026.

AI has therefore not reduced advertising to a winner-take-all distribution channel. The economic shift is subtler: Advertisers can retain access to many platforms while concentrating a larger share of budget, decisioning, and outcome data on a smaller number of primary platforms.

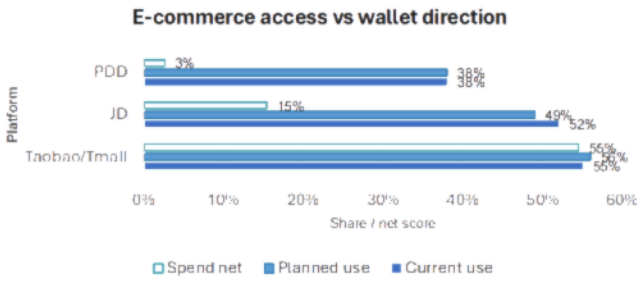
An AI label matters only when it improves the outcomes advertisers already buy - ROI, reach, and targetability. Short video and e-commerce provide the cleanest stress tests. Advertisers can continue to use multiple platforms in each format, but spend direction diverges sharply once they choose where to deepen the primary wallet.

Exhibit 24: Short-video budgets are concentrating on the top platform



Source AlphaWise, Morgan Stanley Research

Exhibit 25: E-commerce budgets are concentrating on the top platform

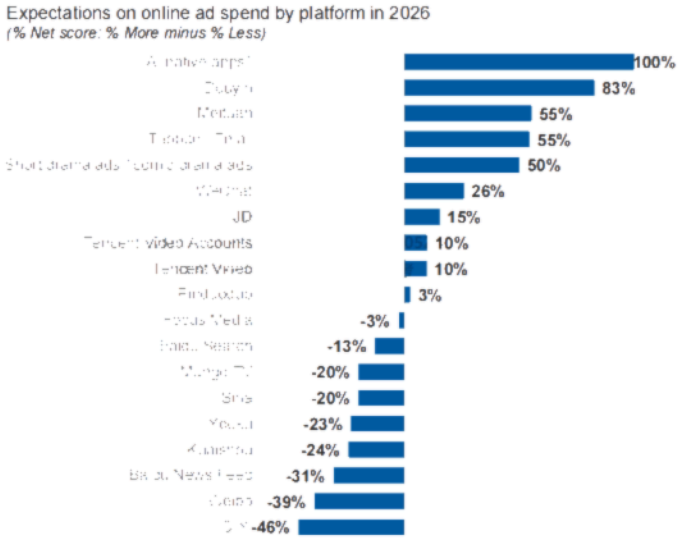


Source AlphaWise, Morgan Stanley Research

Current 2026 spend expectations reinforce the same divergence. The budget-cutter cohort provides the stronger stress test:

- **Potential scale-and-wallet winners:** Douyin, Taobao/Tmall and Meituan are winning on both advertiser penetration and wallet depth, making them the clearest scale-and-wallet beneficiaries. Especially for Douyin, Taobao/Tmall, they both gain positive plan-spend net score even in the budget-cutter group.
- **Potential in wallet share deepening:** WeChat, Video Accounts saw minor use consolidation, but retained advertisers plan to deepen their wallet. WeChat also sees the strong downside protection that even budget cutters plan to add budget.
- **Double pressure:** IQIYI/Youku/WB looks under pressure for potential loss in both scale and wallet deepening.
- **Wallet pressure:** Kuaishou, Baidu search, Baidu news feed see pressure for potential loss in wallet deepening as they all see negative to zero plan-spend net score in the budget-adders group and negative in the budget-cutters group.

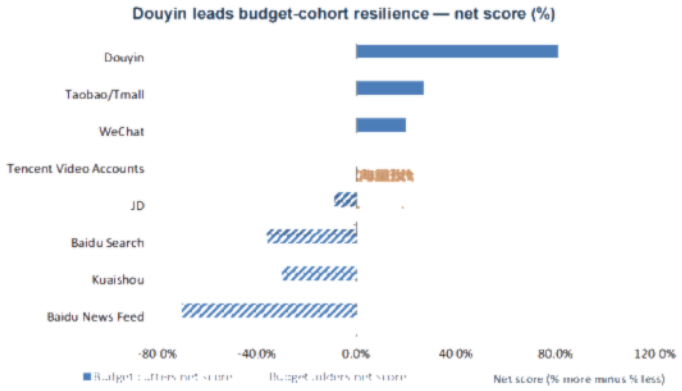
Exhibit 26: Expectations on online ad spending in 2026



Source: AlphaWise, Morgan Stanley Research

*Categories with * sign denote that they are newly added to the 2026 survey*

Exhibit 27: Budget-cutter resilience separates potential structural share gainers



Source: AlphaWise, Morgan Stanley Research

Capability mindshare: ByteDance leads, Tencent and Alibaba have structural catch-up paths

We believe advertisers' experience and mindshare shapes the default execution layer first. Leadership mindshare lowers testing costs, raises automated-spend adoption and keeps more budget and outcome data inside the platform.

- **ByteDance:** Ranks first across all five capabilities—first-party data/closed loop, AIGC, media buying, CRM, and AI-native discovery—with 49–90% of votes. Advertisers already experience it as the default execution layer.
- **Tencent:** Ranks second in first-party data/closed-loop capability, and planned use rises from 66% to 72%. The issue is not asset scarcity, but whether AIM+, Video Accounts, Search, Mini Shop, payments and CRM become one integrated experience.
- **Alibaba:** Ranks second in CRM/after-sales. A smaller adoption base already translates into stronger wallet, suggesting transaction feedback lifts capture rate.
- **Baidu:** Closest to second place in media buying and AI-native discovery, yet wallet direction remains negative; capability mindshare alone does not overcome legacy erosion.

Exhibit 28: Capability mindshare: Bytedance leads, Tencent and Alibaba follows

Platform	1P data / closed loop	AIGC creative	Media buying / optimization	CRM / after-sales	AI-native discovery	Average
ByteDance	56%	90%	52%	49%	57%	61%
Baidu	15%	1%	17%	7%	19%	12%
Tencent	17%	1%	12%	10%	6%	9%
Alibaba	5%	1%	11%	17%	9%	9%
Meituan	2%	0%	2%	2%	2%	2%
JD	0%	1%	1%	2%	2%	1%
PDD	1%	0%	1%	1%	0%	1%
Kuaishou	1%	0%	0%	1%	0%	0%

Source: AlphaWise, Morgan Stanley Research

Three first-tier paths: AI changes the slope of competition, not the starting point

We see Douyin, Taobao/Tmall and Tencent in the first tier in our survey, but through different model advantages: Douyin through scaled execution, Taobao/Tmall through transaction feedback, and Tencent through cross-surface integration. Certain category leaders still need to close hand-off or downside-proof gaps; transition platforms must show that AI-native gains exceed legacy-model erosion.

- **Douyin:** From category leader to default execution layer. Douyin led before AI became material and now also tops helpful use, capability mindshare, perceived ROI, and planned-spend momentum. The next leg is not more AIGC features, but extending the execution advantage into Search, local services and merchant operations without impairing feed user experience or merchant ROAS.
- **Taobao/Tmall:** The largest positive change in tiering. Its spend score improved from -3 to +55 between 2024 and 2026, while AI users report a c.10.2ppt perceived ROI premium. The survey most strongly supports the thesis that transaction write-back raises capture rate; the key falsifier is take-rate expansion that damages merchant ROAS and retention.
- **Tencent:** First-tier architecture, with integrated proof still pending. WeChat's core wallet remains protected and planned AI adoption continues to rise, but WeChat and Video Accounts show only modest surface-level premiums. The migration of brand budgets toward Moments and Video Accounts offers supporting evidence; the real upside depends on a cross-surface read-decide-execute-write-back loop.
- **Meituan:** Leads in certain categories (e.g., observable service transactions). AI can improve matching and operations. Attribution, commerce handoff, and merchant ROI in weaker budget conditions still require further performance evidence.
- **Baidu Search/Kuaishou:** Efficacy exists, but the capture gap remains. Baidu is a gross-to-net restructuring case; Kuaishou is a relative execution and merchant-economics repair case. Neither AI features nor single-quarter revenue growth can substitute for evidence of wallet retention.

Candidate-set and handoff control: standalone breadth versus embedded execution

Competition between standalone and embedded AI spans both the candidate-set and transaction layers, but on different timelines. Near term, the main contest is over Chapter 2's RMB318bn gross AI-mediated advertising pool, which monetizes commercial queries, recommendations and shortlist formation. Longer term, both architectures can also compete for a share of the RMB1.26tn transaction commission pool as recommendations extend into attributable handoff and transaction closure.

Standalone AI can compete first for the user entry point and cross-domain candidate set. A general-purpose assistant can aggregate intent across categories and platforms before the user opens a search, content or commerce application. This gives it the opportunity to influence which products, brands and merchants enter the candidate set, and to monetize that position through sponsored inclusion, product recommendations, qualified leads, CPA or referral economics. Over time, it can also participate in transaction economics when the recommendation becomes part of an attributable handoff or transaction.

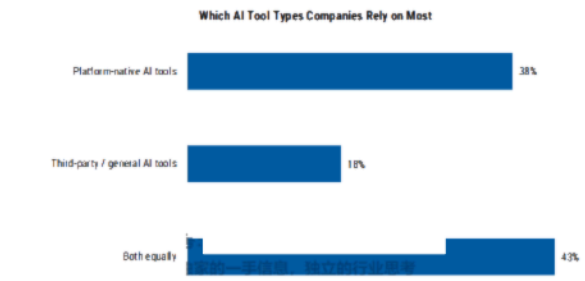
Embedded AI starts closer to the commercial workflow. It can use the host platform's installed traffic, proprietary content, advertiser demand, merchant supply, and existing campaign or transaction infrastructure. Recommendations can be connected directly to campaign tools, product pages, Mini Programs, baskets, booking, or payment, while resulting outcomes can be written back into future ranking and advertising decisions.

Survey points to a hybrid architecture

The survey suggests that neither architecture has established a dominant position. The advertiser tool stack remains hybrid: 43% rely equally on platform-native and third-party/general AI tools, 38% rely more on platform-native tools and 18% rely more on third-party/general tools. Standalone AI can therefore gain discovery without displacing embedded systems; embedded AI retains an advantage where integration with media buying, merchant supply and outcome measurement matters.

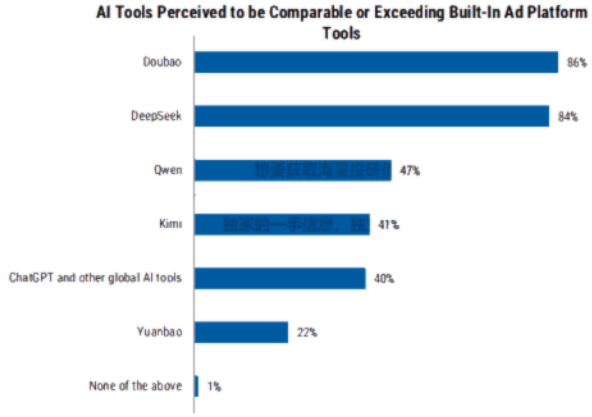
Standalone and general-purpose AI tools are already viewed as credible alternatives to pre-installed platform tools. 86% of respondents believe Doubao performs as well as or better than platform-native AI tools, while 84% say the same for DeepSeek; Qwen, Kimi and ChatGPT or other global tools score 47%, 41% and 40%, respectively. We read this as evidence that standalone applications can credibly compete for the entry point and candidate set—not as evidence that they already control the downstream economics.

Exhibit 29: Advertisers reliance on AI tools



Source: AlphaWise, Morgan Stanley Research

Exhibit 30: Stand-alone AI tools looks competitive vs built-in platform tools



Source: AlphaWise, Morgan Stanley Research

Transaction competition depends on execution and attribution

Ultimately, advertisers continue to buy outcomes rather than AI features in isolation. ROI, reach and targetability are cited by 86%, 61%, and 51% of respondents as platform-selection factors that have become more important, compared with 11% for platform-native AI or automation features and 5% for general AI capabilities.

Near-term candidate-set leadership will therefore depend on converting entry-point control into measurable commercial outcomes.

Longer-term transaction capture depends on remaining part of the attributable handoff and execution flow.

The economics are likely to be divided at the hand-off. Near term, the candidate-set controller can earn advertising, lead, or referral economics, while the platform controlling campaign execution or the transaction retains another portion of the value. Longer term, standalone and embedded agents can both compete to move further into the hand-off and share in transaction economics.

Standalone AI can gain discovery and the cross-domain candidate set; embedded AI starts closer to monetization because it controls more of the workflow. The near-term contest therefore centers on the RMB318bn candidate-set pool, divided according to who owns the entry point, who activates the recommendation, and who retains attribution at the handoff. Over the longer term, both standalone and embedded agents can compete for the RMB1.26tn transaction commission pool when they become part of attributable transaction closure, although embedded AI begins closer to execution and outcome data.

Workflow and outcome-data control: advertiser scale determines the architecture

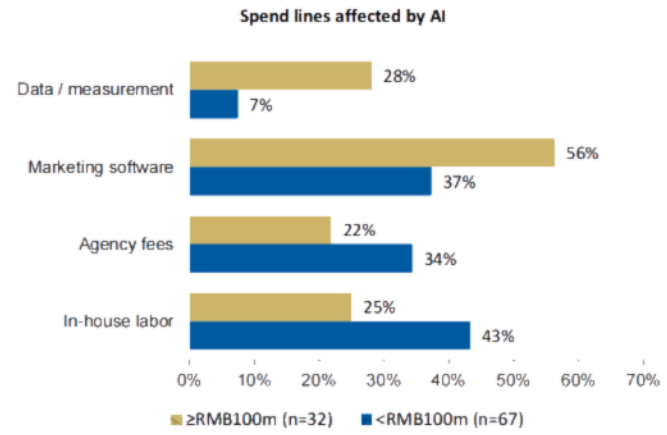
The distinction between advertising platforms and independent software suppliers is becoming less binary. According to our survey, paid media represents 47% of the annual marketing wallet, while in-house labor, agencies, and MarTech together account for a similarly large 46%.

Control of the consumer journey does not automatically confer control of the advertiser workflow. That depends on advertiser scale, first-party data, and orchestration needs. Smaller advertisers mainly solve an execution problem and are more likely to adopt platform-native, turnkey tools. Larger advertisers solve a data and coordination problem, using platforms for execution while retaining identity, attribution, governance, and cross-platform decision rights.

Smaller advertisers buy execution efficiency, default to platform-native execution: Advertisers spending less than Rmb100mn annually place greater weight on creative generation and campaign automation, and more often cite labor and agency spending as affected by AI. The economic problem is execution: Producing more assets, launching campaigns faster, and reducing operational burden. Platform-native tools are therefore the natural default because they bundle creative, media buying, optimization, and measurement inside the same workflow. Platform capture is more direct through automation penetration, campaign frequency, wallet retention, and merchant-tool attachment.

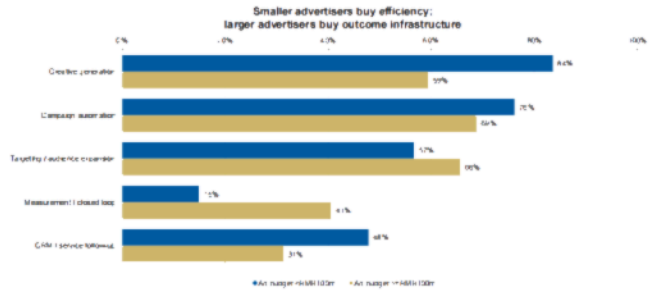
Larger advertisers retain data and orchestration: Rmb100m+ advertisers place greater weight on targeting, measurement, and closed-loop optimization. They report a larger effect on marketing software and data/measurement spend, as well as stronger ROI and conversion benefits. The operating problem is not simply execution efficiency; it is connecting first-party data, identity, CRM, measurement, and multiple media platforms without surrendering governance or neutral attribution.

Exhibit 31: Larger advertisers favor workflow optimization; smaller advertisers look for budget optimization



Source: AlphaWise, Morgan Stanley Research

Exhibit 32: Smaller advertisers buy efficiency; larger advertisers buy outcome infrastructure



Source: AlphaWise, Morgan Stanley Research

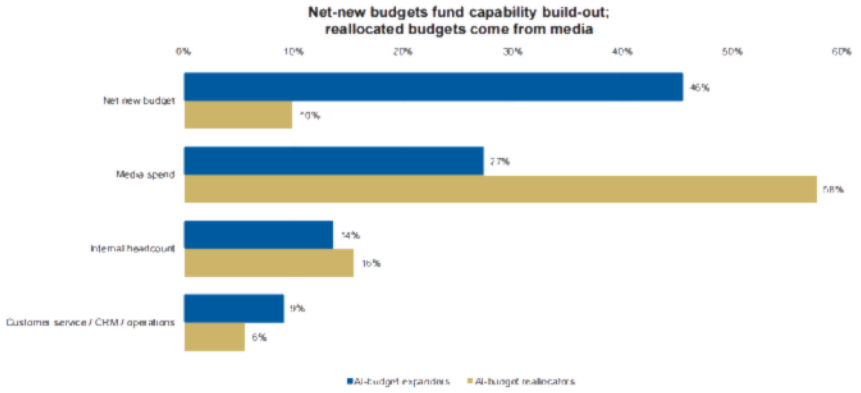
Platforms win execution, software retains cross-system orchestration

Platforms possess the strongest act-and-write rights inside their own systems. They can change targeting, bids, budgets, and creative selection in real time, observe platform outcomes and feed those results back into the model.

Independent software possesses a different advantage, read-and-coordinate rights across systems. It can connect advertiser-owned data, compare multiple platforms, manage governance, preserve data sovereignty, and provide more neutral measurement.

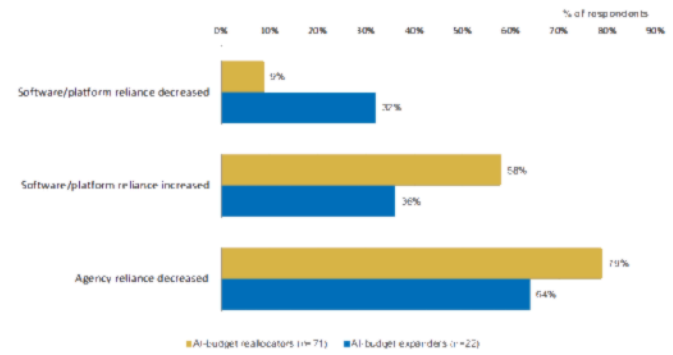
The most platform-monetizable AI dollar may be the reallocated dollar, not the new dollar. Among advertisers keeping total advertising dollars unchanged but reallocating internally, 58% report increased reliance on software vendors / advertising platforms and only 8% report decreased reliance. Among advertisers adding new dollars, the corresponding figures are 36% and 32%. Re-allocators also rely more heavily on platform-native AI tools, while budget expanders make greater use of third-party/general tools.

Exhibit 33: Net-new AI budgets fund capability build-out; reallocated budgets come from media spent



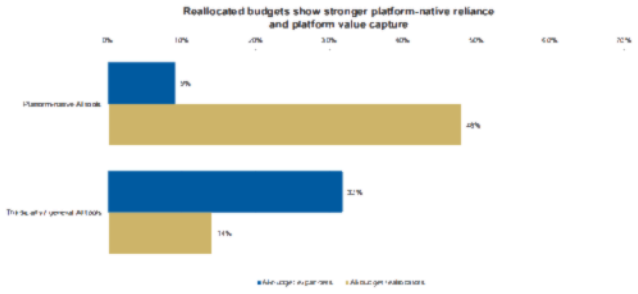
Source AlphaWise, Morgan Stanley Research

Exhibit 34: Reallocated AI budgets show stronger software/ platform workflow reliance



Source AlphaWise, Morgan Stanley Research

Exhibit 35: Reallocated budgets show stronger platform-native reliance



Source AlphaWise, Morgan Stanley Research

Agencies move upstream rather than disappear

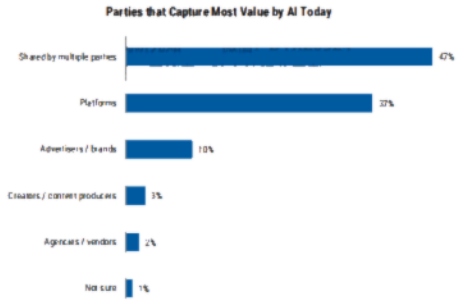
The survey points to shared economics but a shift in workflow control. 47% of respondents say AI-created value is shared; among those naming one primary beneficiary, platforms lead at 37%. At the same time, 50% report increased reliance on software vendors / advertising platforms, while 74% report decreased reliance on agencies / vendors.

These results do not imply a one-for-one transfer of budget or revenue...

...but they suggest that software- and platform-enabled workflows are gaining control as execution-heavy intermediary work comes under pressure.

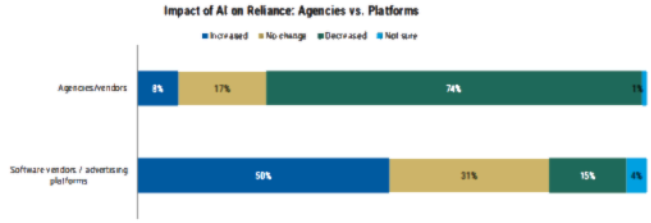
Agencies and creators therefore reposition rather than disappear. Agency value shifts toward strategy, creative direction, governance, integration, measurement design, and managed orchestration. Creator value shifts toward authentic experience, expertise, audience relationships, and discoverability—assets that remain scarce even as generic content supply expands.

Exhibit 36: AI value is shared



Source: AlphaWise, Morgan Stanley Research

Exhibit 37: Workflow reliance is shifting toward software and advertising platforms



Source: AlphaWise, Morgan Stanley Research

Stock implications

Tencent (0700.HK, OW): Predictive AI protects the core; cross-surface integration raises the ceiling

Durable core growth plus meaningful Weixin integration optionality. We believe AI should amplify Tencent's marketing advantage through two monetization paths. 1) predictive AI and AIM+ improve ROI and lift yield within each existing Weixin surface. 2) cross-surface integration move a subset of commercially relevant activity outward—from attention, to explicit intent and candidate-set control (Weixin Search/Weixin AI/Mini programs), and ultimately to transaction and service workflows (Weixin AI/Mini programs/ Mini shops) , where monetization density is structurally higher.

We also see downside protection and upside potential: Our AlphaWise survey indicates downside protection rather than execution leadership: Tencent's AI tools recorded 66% helpful use, 72% planned use and a +26% 2026 spend net score. Tencent also ranked second in first-party data/closed-loop capability, suggesting upside from integration of AIM+, Video Accounts, Search, Mini Shops, payments and CRM in which these can operate as one read–decide–execute–write-back system.

Marketing growth has outperformed as yield and inventory compound: Marketing Services revenue growth remain strong from 17% YoY in 4Q25 to 20% in 1Q26 and 22% in 2Q26. *AIM+ powered* approximately 30% of Marketing Services advertiser spend in 1Q26, and added AI-driven end-to-end execution for Mini Shop and mini-drama advertisers in 2Q26. At the same time, *LLM-powered* ranking and broader AI Search coverage helped *Weixin Search* query volume grow more than 25% YoY in 1Q26; *Video Accounts'* total time spent increased more than 20% YoY in 2Q26 while ad load remained below industry levels; and *Mini Program* rewarded ads delivered strong conversion and eCPM growth.

Maintain OW: Advertising is among the most visible evidence that Tencent's AI investment is already monetizing its installed user and advertiser base, ahead of material revenue contribution from new AI-native products. We believe within-surface yield lift is the nearer-term earnings driver, while migration into Search and AI surfaces and eventual transaction/workflow capture represent the larger, but less proven, optionality. *We estimate 17.5% /15% yoy growth in 2026/27 advertising revenue.*

Valuation remains near the lower end of Tencent's historical range; we retain our Overweight rating and HK$550 price target. Key risks include stepping-up AI investment and slower profits in the coming two years.

Exhibit 38: Tencent has two reinforcing AI monetization levers



Source: Morgan Stanley Research

Alibaba (BABA.N, OW): Transaction feedback supports wallet recovery

Closed-loop commerce gives Alibaba the clearest transaction-led AI path. We see three monetization layers.

1. Predictive AI improves retrieval, ranking, and campaign decisioning on existing Taobao/Tmall inventory, supporting merchant ROAS, retail-media yield and wallet share.
2. AI-assisted discovery and recommendation move Alibaba upstream into candidate-set control while preserving the handoff to its own marketplace.
3. Product-feed, customer-service, CRM and repurchase tools extend the revenue perimeter into recurring merchant workflows.

Alibaba already controls structured supply, checkout, payment, fulfilment, and outcome data, so it starts closer to attribution and transaction capture than attention-led peers. It can therefore access both the AI-mediated advertising pool and AI-attributed commission pool.

Our survey shows the largest positive change in platform tiering. Taobao/Tmall's 2026 planned-spend net score reached +55%, from -3% in 2024, and remained positive among budget cutters. AI users reported a c.10.2ppt perceived ROI premium, while Alibaba ranked second in CRM/after-sales capability. We read this as evidence that transaction write-back raises capture per unit of AI adoption. Alibaba does not lead broad AI-tool mindshare, but converts a smaller adoption base into stronger wallet depth. The key falsifier is monetization that weakens mercROAS or retention.

Core e-commerce is approaching a cleaner operating setup. In 1QF27, CMR fell 7% YoY on a reported basis but rose 1% LFL; management expects both CMR and e-commerce EBITA ex-QC to improve QoQ. We estimate 2Q LFL CMR growth of 2% and ex-QC e-commerce EBITA to remain broadly stable YoY. This creates scope for the survey-indicated wallet gains to become more visible in reported monetization, while narrowing quick-commerce losses reduce the group earnings offset.

We maintain OW/Top Pick and a US$180 PT, implying 17x F29e P/E. Near-term upside comes from cloud earnings upgrades and CMR stabilization; longer-term upside comes from AI-assisted GMV, commissions and merchant workflows. Key risks are delayed CMR conversion, pressure on merchant ROAS and a longer AI capex/FCF cycle; our latest model expects FCF to turn positive in F29.

Meituan (3690.HK, OW): Transaction closure anchors AI economics; recovery remains non-linear

We see three monetization routes for its core local-service business.

1. Predictive AI can improve merchant-ad matching, ranking and campaign allocation across existing surfaces, supporting conversion, merchant ROAS and advertising yield.
2. Embedded assistants can move Meituan upstream into discovery and candidate-set control across food delivery, Instashopping, in-store dining and hotels and travel.
3. When AI-influenced recommendations become attributable orders or bookings, Meituan can retain commission economics and extend outward into menu and catalogue management, pricing, inventory, customer service, CRM and repurchase workflows. This positions Meituan to capture a share of the gross AI-attributed local-services commission pool, together with relevant advertising and travel economics.

Survey evidence is materially stronger on wallet direction than on AI capability leadership. Meituan's planned-spend net score rose from +9% in 2024 to +40% in 2025 and +55% in 2026, making it one of the clearest transaction-led improvements in our multi-year survey and a potential winner on both advertiser penetration and wallet depth. However, its average capability mindshare across first-party data, AIGC, media buying, CRM and AI-native discovery was only 2%. We therefore do not base the thesis on Meituan becoming a leading standalone AI-tool provider. Rather, its advantage is that better matching or qualified demand can be written back into observable orders, fulfilment and merchant outcomes. The key KPIs are merchant advertising and commission ARPU, conversion, AI-influenced order or booking share, attribution retention and merchant ROI—not the number of AI features launched.

Maintain OW, with AI providing medium-term merchant-monetization upside rather than an immediate estimate upgrade. We forecast 2027 adjusted EBITDA of RMB48.1bn and non-GAAP EPS of RMB4.68; our price target of HK$110 implies 19x 2027E P/E. Upside requires advertising and commission monetization to increase without impairing order growth, merchant ROAS or UX.

Key risks are renewed food-delivery and quick-commerce competition, Douyin pressure in in-store services, weaker hotel and travel demand, and standalone agents controlling the candidate set without an economic handoff to Meituan.

Kuaishou (1024.HK, EW): On-line ads/live e-commerce business are both under significant pressure

Regulatory headwind overshadows the short video/drama format. Though our AlphaWise survey indicated short video ranked No.2 and short drama ranked No.3 from a budget change perspective, Kuaishou's key ads/e-commerce customers are undergoing an unfavorable regulation cycle due to the tightening of transaction tax. The negative impact intensifies significantly in 2H26 when the e-commerce tax execution deepens to SME merchants, together with further weakening of domestic consumption. To help merchants in the down cycle, Kuaishou has provided more traffic support (free traffic) and lower take-rate, which impacts its core business revenue growth. So far it is still hard to say when the inflection will come. Notably, advertisers estimated an average 34% of ad budget spent on short video ads is related to live-commerce, down from 43% in the 2025 survey. We think it echoes the industry trend that live broadcasting e-commerce is performing much weaker than overall e-commerce industry in China this year.

Among short video players, we see a widening divergence of different platforms. Our AlphaWise survey points to a large deterioration in ads spend net % score (defined by % of advertisers planning to increase budget minus % planning to cut budget on a certain platform) for Kuaishou this year. (Douyin/Tencent Video Accounts/Kuaishou 76, 33, 2 in 2025 and 83, 10, -24 in 2026, respectively). Such ranking is in-line with the ROI suggested in our survey. We think Kuaishou's platform can enjoy all the benefits from AI adtech (improvement in user engagement, content generation, ROI, automated platform etc), but to a extent less than major competitors such as Douyin (or compete away on a relative basis), considering Bytedance is perceived as a dominant AI capabilities leader by advertisers.

We are EW on Kuaishou given the Kling optionality still exists despite a weak core business. Our forecast implies core net profit of Rmb14bn in 2026 and Rmb10bn in 2027. We use SOTP to value Kuaishou with 8x 2027e target P/E for core business and 18x 2027e price to ARR for Kling (in-line with its recent private round valuation) with a 30% holding company discount. Our Kuaishou price target is HK$40. Without a sharp rebound of the core business in sight, we believe Kling's model release and competitive dynamics will become the core share price driver. Key risk is the disappointment in Kling model iteration.

Exhibit 39: Kuaishou quarterly core commerce revenue growth (2024-2026)



Source: Company data, Morgan Stanley Research estimate (E)

Baidu (BIDU.O, UW): Intent remains valuable; gross-to-net AI monetization is not yet proven

Search remains a valuable control point, but AI raises the bar from query ownership to candidate-set and action ownership. Baidu starts with explicit commercial intent and materially higher monetization density and with AI Search's potential to interpret longer and more complex queries, improve retrieval and ranking, and create new inventory through sponsored answers, product cards and merchant recommendations. However, Baidu controls less of checkout, payment, fulfilment and post-purchase outcomes than do transaction-led platforms.

Its opportunity therefore skews toward AI-driven yield on existing Search inventory and candidate-set advertising, rather than the larger transaction-commission pool. The central strategic risk is gross-to-net conversion: AI answers may improve user utility while replacing legacy paid clicks before sponsored AI formats and transaction hand-offs reach comparable monetization.

Our survey shows a clear efficacy-to-wallet gap. Around 71% of respondents using Baidu's AI advertising tools reported a measurable ROI impact, with a midpoint-estimated improvement of approximately 4.5%. Baidu ranked second behind ByteDance in advertiser mindshare for media buying and optimization and AI-native discovery. However, product efficacy has not translated into budget capture: Baidu Search's 2026 planned-spend net score was -13%, while Baidu News Feed reached -31%. The multi-year Search series remained volatile at -27% in 2024, +21% in 2025 and -13% in 2026. We therefore view Baidu as having strong AI capability, but not yet a default execution layer or a structurally improving primary-wallet position.

Reported financials confirm that new AI monetization is not yet offsetting legacy-advertising pressure. In 2Q26, core marketing revenue declined 19% YoY to RMB13.1bn. AI marketing revenue was RMB2.6bn and flat YoY, a material deceleration from 36% growth

in 1Q. We expect core advertising revenue to remain down 18.5% YoY in 3Q, with limited visibility on a second-half turnaround. The weakness reflects slower recovery in traditional advertising verticals and the structural transition from link- and click-based monetization toward AI answers and task completion. For the stock to work as an AI advertising recovery, AI marketing revenue must reaccelerate sufficiently to narrow—and ultimately exceed—the decline in legacy Search monetization.

Maintain UW: We see Baidu's new AI monetization is not yet offsetting legacy-advertising pressure. AI cloud growth is strong, but it does not remove the near-term earnings burden. A more constructive view would require several indicators to turn together: reacceleration in AI marketing revenue, stabilization of core advertising, improving advertiser-wallet scores, evidence that AI Search can sustain or raise RPM without excessive legacy cannibalisation, and stronger cloud margins and capex returns. Faster-than-expected AI infrastructure growth and Southbound fund flows remain the principal upside risks.

Weibo (WB.O, UW): AI efficiency is unlikely to reverse structural wallet loss

AI is more likely to be defensive than a share-recovery catalyst. Better recommendation, automated creative adaptation, and campaign optimization could improve the monetization of existing traffic, particularly around hot topics and brand campaigns. However, efficiency gains alone are unlikely to offset wallet migration toward short video, WeChat, commerce platforms and emerging AI-native surfaces without a clearer path from social discovery to measurable conversion.

Our AlphaWise survey points to persistent wallet pressure. Weibo's planned-spend net score remained negative across all three survey waves, deteriorating from -13% in 2024 to -32% in 2025 and -39% in 2026. Weibo also falls into the "double pressure" group, with potential erosion in both advertiser penetration and wallet depth. This is particularly relevant as 74% of AI users and intenders say AI has made cross-platform media allocation more concentrated: advertisers may continue to use multiple platforms, but primary budgets, decisioning and outcome data are shifting toward a smaller number of scaled execution and closed-loop platforms. The survey therefore provides no evidence that AI is resetting Weibo's relative position.

Maintain UW. A more constructive view would require a sustained improvement in advertiser spend intentions, stabilization in platform usage, evidence that AI tools improve advertiser ROI and budget retention, and better linkage between social engagement and attributable commercial actions. The main upside risks are a stronger-than-expected recovery in brand advertising and improved monetization of event-driven traffic; the key downside risk is further concentration of advertiser budgets on platforms with stronger intent, execution and transaction loops.

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