Z.AI Co. (2513.HK)

A clearer path to next frontier and monetization; upgrade to Buy

2513.HK	12m Price Target: **HK$1,560.00**	Price: **HK$626.50**	Upside: **149.0%**

BUY

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We upgrade Z.AI (Zhipu) to Buy from Neutral, with a revised 12-month DCF-based target price of HK$1,560 (prior HK$1,610), on a clearer monetization path with our raised 2026E year-end ARR of US$3.2bn (vs. prior GSe US$2.7bn) driven by strong token demand and new commercial terms from Oct with China & global hyperscalers, expanded compute infrastructure/strengthened balance sheet to drive scaling, superior inference gross margins on cost efficiencies and ongoing progress in harness/Co-Work products. Despite intensified competition between Chinese AI models, recent concerns on ZCode data retention, shareholder dilution from its c.US$9bn equity raisings since July 2026 and the upcoming unlocking of pre-IPO shares (from early Jan 2027), Zhipu remains one of the top Chinese AI model companies based on our competitive positioning framework, at #1 ARR run-rate amongst Chinese peers, having delivered both frontier and smaller cost-efficient flash models at the same time. Following Zhipu's 70% share price pullback since July (currently at sub-US$40bn market cap, from a peak of US$120bn), we believe risk-reward has turned favorable at 12X P/2026E year-end ARR/10X FY27E ARR (vs. 9X/6X for MiniMax), where we believe Zhipu's valuation premium vs. MiniMax is justified given its higher competitive positioning among Chinese AI models based on our pricing power, cost efficiency and financial strength framework.

We address the key debates/concerns on AI model competition, the recent ZCode data incident, cash burn and dilution within this report, and update our base/bull/bear valuations of US$98bn/157bn/32bn, implying upward skew of +149%/+299%/-19% up/downside, assuming 22%/33%/14% revenue share for Zhipu amongst Chinese AI model players by 2030E. We revise our 2026-28E revenues for Zhipu by 3-12% on a faster ARR ramp-up pace and update our earnings estimates from Rmb-4.6bn/Rmb-5.3bn/Rmb-1.4bn to Rmb-5.1bn/Rmb-5.0bn/Rmb-0.5bn respectively on higher R&D

Key Data

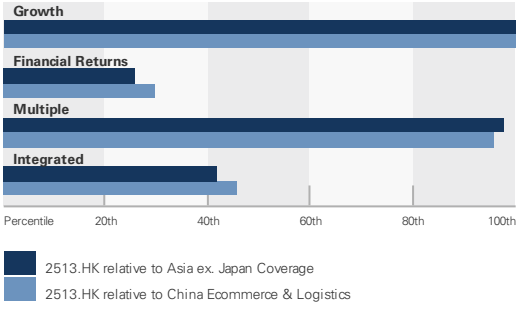
Market cap: HK$298.9bn / $38.1bn
Enterprise value: HK$222.9bn / $28.4bn
3m ADTV: HK$7.5bn / $955.2mn
China
China Ecommerce & Logistics
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn) New	**724.3**	**8,184.0**	**26,658.3**	**63,170.4**
Revenue (Rmb mn) Old	724.3	7,921.5	23,712.9	56,520.8
EBITDA (Rmb mn)	(3,505.7)	(5,632.8)	(5,536.1)	(1,251.7)
EPS (Rmb) New	**(19.95)**	**(10.95)**	**(9.58)**	**(0.90)**
EPS (Rmb) Old	(19.95)	(10.29)	(11.19)	(2.91)
P/E (X)	NM	NM	NM	NM
P/B (X)	NM	4.6	5.5	5.6
Dividend yield (%)	NM	NM	NM	NM
CROCI (%)	NM	NM	NM	NM

	12/25	6/26	12/26E	--
EPS (Rmb)	(8.96)	(4.54)	(6.30)	–

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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BUY

Z.AI Co. (2513.HK)

Rating since Oct 5, 2026

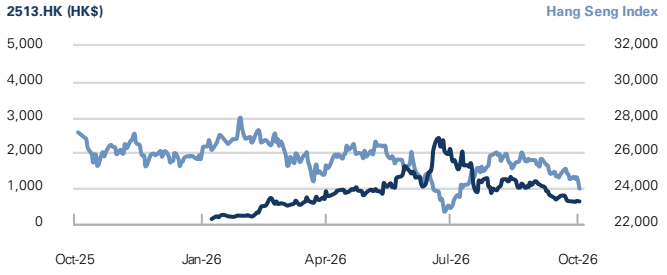
Ratios & Valuation

	12/25	12/26E	12/27E	12/28E
P/E (X)	NM	NM	NM	NM
P/B (X)	NM	4.6	5.5	5.6
FCF yield (%)	–	(0.9)	(1.0)	0.3
EV/EBITDAR (X)	–	NM	NM	NM
EV/EBITDA (excl. leases) (X)	–	NM	NM	NM
CROCI (%)	NM	NM	NM	NM
ROE (%)	NM	(21.1)	(9.4)	(0.8)
Net debt/equity (%)	12.6	(122.7)	(129.7)	(132.4)
Net debt/equity (excl. leases) (%)	19.4	(123.7)	(130.8)	(133.5)
Interest cover (X)	(51.0)	(38.8)	(38.1)	(8.7)
Days inventory outst, sales	39.9	18.0	15.2	13.7
Receivable days	344.1	80.0	60.0	40.0
Days payable outstanding	824.5	239.0	191.4	129.2
DuPont ROE (%)	23.7	(8.9)	(9.9)	(0.8)
Turnover (X)	0.1	0.1	0.4	0.8
Leverage (X)	NM	1.3	1.5	1.6
Gross cash invested (ex cash) (Rmb)	(8,503.6)	(11,222.0)	(13,364.1)	(14,501.5)
Average capital employed (Rmb)	(7,883.9)	(11,111.7)	(13,685.3)	(15,420.7)
BVPS (Rmb)	(50.85)	116.36	97.64	96.02

Growth & Margins (%)

	12/25	12/26E	12/27E	12/28E
Total revenue growth	131.9	NM	225.7	137.0
EBITDA growth	(55.2)	(60.7)	1.7	77.4
EPS growth	(29.3)	45.1	12.5	90.6
DPS growth	NM	NM	NM	NM
EBIT margin	(522.8)	(70.6)	(21.3)	(2.1)
EBITDA margin	(484.0)	(68.8)	(20.8)	(2.0)
Net income margin	(264.9)	(57.8)	(17.8)	(0.6)

Price Performance



	3m	6m	12m
Absolute	(64.3)%	(19.6)%	–
Rel. to the Hang Seng Index	(65.6)%	(15.7)%	–

Source: FactSet. Price as of 2 Oct 2026 close.

Income Statement (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Total revenue	724.3	8,184.0	26,658.3	63,170.4
Cost of goods sold	(427.7)	(6,223.8)	(18,747.3)	(43,224.4)
SG&A	(896.2)	(999.9)	(1,302.5)	(1,697.0)
R&D	(3,180.4)	(6,742.5)	(13,215.4)	(19,994.9)
Other operating inc./(exp.)	(6.7)	5.7	927.5	446.0
EBITDA	**(3,505.7)**	**(5,632.8)**	**(5,536.1)**	**(1,251.7)**
Depreciation & amortization	(281.1)	(143.6)	(143.1)	(48.2)
EBIT	**(3,786.8)**	**(5,776.5)**	**(5,679.2)**	**(1,299.9)**
Net interest inc./(exp.)	(74.3)	(148.9)	(148.9)	(148.9)
Income/(loss) from associates	55.0	144.2	–	–
Pre-tax profit	**(1,938.4)**	**(4,752.9)**	**(4,777.8)**	**(398.4)**
Provision for taxes	0.0	(2.0)	0.0	0.0
Minority interest	20.0	24.4	24.4	5.9
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**(1,918.5)**	**(4,730.5)**	**(4,753.3)**	**(392.5)**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**(1,918.5)**	**(4,730.5)**	**(4,753.3)**	**(392.5)**
EPS (basic, pre-except) (Rmb)	**(12.03)**	**(10.40)**	**(9.65)**	**(0.79)**
EPS (diluted, pre-except) (Rmb)	**(12.03)**	**(10.23)**	**(9.16)**	**(0.75)**
EPS (basic, post-except) (Rmb)	**(12.03)**	**(10.40)**	**(9.65)**	**(0.79)**
EPS (diluted, post-except) (Rmb)	**(19.95)**	**(10.95)**	**(9.58)**	**(0.90)**
DPS (Rmb)	–	–	–	–
Div. payout ratio (%)	0.0	0.0	0.0	0.0

Balance Sheet (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Cash & cash equivalents	2,259.1	66,143.1	63,603.4	64,463.9
Accounts receivable	698.9	2,888.6	5,875.8	7,969.7
Inventory	125.8	682.1	1,540.9	3,197.4
Other current assets	487.5	487.5	487.5	487.5
Total current assets	**3,571.4**	**70,201.2**	**71,507.6**	**76,118.6**
Net PP&E	655.8	531.7	413.3	394.3
Net intangibles	90.3	98.6	105.6	111.4
Total investments	338.1	338.1	338.1	338.1
Other long-term assets	198.2	198.2	198.2	198.2
Total assets	**4,853.9**	**71,367.7**	**72,562.8**	**77,160.6**
Accounts payable	1,328.6	6,820.6	12,840.6	17,763.4
Short-term debt	604.8	604.8	604.8	604.8
Short-term lease liabilities	251.3	251.3	251.3	251.3
Other current liabilities	10,221.5	10,221.5	10,221.5	10,221.5
Total current liabilities	**12,406.3**	**17,898.2**	**23,918.2**	**28,841.1**
Long-term debt	84.6	84.6	84.6	84.6
Long-term lease liabilities	293.8	293.8	293.8	293.8
Other long-term liabilities	180.1	180.1	180.1	180.1
Total long-term liabilities	**558.6**	**558.6**	**558.6**	**558.6**
Total liabilities	**12,964.8**	**18,456.8**	**24,476.8**	**29,399.7**
Preferred shares	–	–	–	–
Total common equity	(8,092.5)	52,929.5	48,104.5	47,779.5
Minority interest	**(18.5)**	**(18.5)**	**(18.5)**	**(18.5)**
Total liabilities & equity	**4,853.9**	**71,367.7**	**72,562.8**	**77,160.6**
Net debt, adjusted	(1,569.7)	(65,453.6)	(62,913.9)	(63,774.5)

Cash Flow (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Net income	(4,718.2)	(5,754.9)	(5,777.8)	(1,398.4)
D&A add-back	281.1	143.6	143.1	48.2
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	704.3	2,746.1	2,173.9	1,172.4
Other operating cash flow	1,486.7	818.8	952.8	1,073.4
Cash flow from operations	**(2,246.1)**	**(2,046.4)**	**(2,507.9)**	**895.6**
Capital expenditures	(23.1)	(27.7)	(31.9)	(35.0)
Acquisitions	(83.0)	–	–	–
Divestitures	–	–	–	–
Others	(269.9)	–	–	–
Cash flow from investing	**(375.9)**	**(27.7)**	**(31.9)**	**(35.0)**
Repayment of lease liabilities	(177.8)	–	–	–
Dividends paid (common & pref)	–	–	–	–
Inc/(dec) in debt	689.1	–	–	–
Other financing cash flows	2,234.7	65,958.0	0.0	0.0
Cash flow from financing	**2,608.8**	**65,958.0**	**0.0**	**0.0**
Total cash flow	**(13.2)**	**63,883.9**	**(2,539.7)**	**860.6**
Free cash flow	(2,447.0)	(2,074.1)	(2,539.7)	860.6

Source: Company data, Goldman Sachs Research estimates.

expenses following the latest financing round, yet reflecting stronger operating leverage into next year and with our estimation of contribution margin turning positive from 2028E (i.e. inference gross profit exceeding model training/R&D costs). Our revised 12-m TP of HK$1,560 (prior: HK$1,610) is based on a DCF valuation that assumes continued market share gain to 22% by 2030E, and a long-term adj. EBIT margin of 26% by 2035E. Our bull case implies valuation of HK$2,500 per share and our bear case implies valuation of HK$510.

1) A clearer monetization path, with our raised 2026E year-end ARR of US$3.2bn (vs. prior GSe US$2.7bn, and the company's latest target of US$3bn) driven by strong token demand, with new commercial terms with China and global hyperscalers (from Oct 2026) that can create an incremental high-margin revenue stream. We see Zhipu's data flywheel and significantly ramped-up compute capacity as drivers of GLM model performance uplift towards the next frontier as it scales its upcoming GLM-5.5 and GLM-6 models.

2) Expanded compute infrastructure/strong balance sheet to drive model training scaling/inference scaling, where we believe its nearly US$10bn new equity funding year-to-date (incl. IPO proceeds) alongside annualized US$1.3bn/1.9bn R&D spending intensity (for 2H26/FY27E) will translate to a significant increase in compute capacity that can be used for training (GSe: 50% contribution) and inference (50% contribution). We see Zhipu's financial strength as a key competitive advantage amongst independent AI labs. With 70-80% revenues generated from domestic China by mid-2026, we also note Zhipu's solid domestic foundation for growth, while exposed to the fast growing international market from overseas API revenues and new revenue sharing arrangements with hyperscalers.

3) Superior inference gross margins on cost efficiencies/optimization, where we estimate Zhipu's model intelligence/pricing power alongside cost-efficient inference architecture could drive further gross margin expansion for inference, creating a sustainable cash generation profile towards group profit turnaround by 2029E.

4) Ongoing progress in harness/Co-Work products, where we believe Chinese AI models have reached a critical level of intelligence with rising context window and cost efficiencies that can sufficiently deliver cost-competitive virtual worker/white-collar job tasks.

Key risks: Competition in the global foundation model industry; Limited near-term profit visibility due to high R&D expenses; Cash burn/self-funding capability; Risk around geopolitics under an intensified tech race between the US and China.

Exhibit 1: Competitive positioning framework for AI model players

Key themes	**Chinese models reaching critical stage of intelligence for wide adoption across agentic tasks/specific coding scenarios**		**Fragmentation between China AI models but strong to get stronger; pricing power to come from frontier performance/multi-modal**				**Agentic AI driving higher demand for value-for-money models/SLMs**		**Access to computing, where balance sheet and inference efficiency are key**	
Drivers of corporate performance	**Competitive positioning**									
CP category	**Pricing Power**			**Cost advantage**				**Financial strength**		
CP metrics	Time to market	Arena score	Pricing	Token volume	Throughput /Cache hit rate	Parameter size/ activation ratio	Inference GPM	Cash on hand	Net cash as % of asset	Valuation multiples

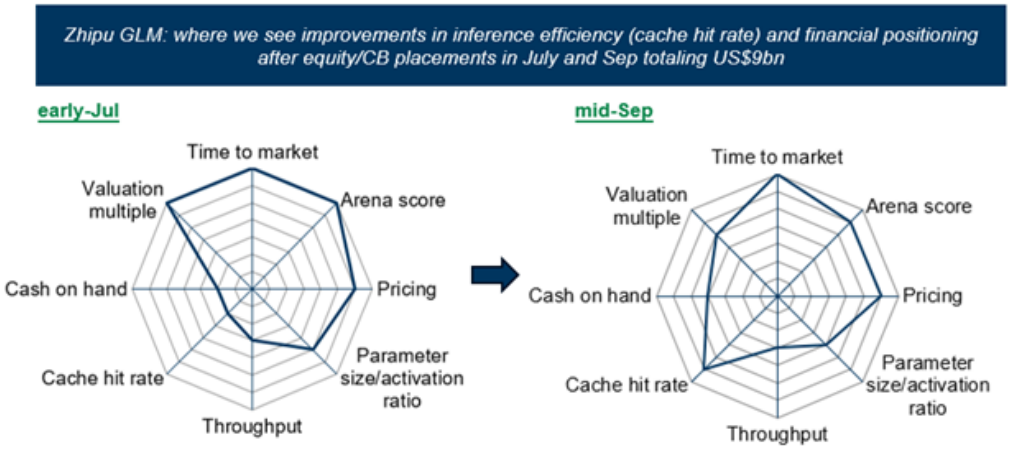
Source: Goldman Sachs Global Investment Research

Exhibit 2: Our unit economics model for Zhipu API business indicates profit turning point at FY29E

	Annualized 2H26E	FY27E	Mid-term FY29E		
			Base	Bull	Bear
Revenue, US$	$2.0bn	$3.8bn	$17.5bn	$22.3bn	$12.2bn
Inference cost	$-1.4bn	$-2.4bn	$-10.4bn	$-11.8bn	$-7.6bn
as % of ARR	-67%	-63%	-59%	-53%	-62%
Gross Profit ≈ ARR - Inference cost	$0.5bn	$1.1bn	$6.0bn	$9.2bn	$3.8bn
% Gross margin	23%	30%	34%	41%	31%
Training cost	$-1.1bn	$-1.6bn	$-3.7bn	$-3.7bn	$-3.7bn
as % of ARR	-57%	-43%	-21%	-16%	-30%
EBIT = Gross profit - Training cost & OpEx	$-0.9bn	$-0.8bn	$1.6bn	$5.1bn	$-1.1bn
% EBIT margin	-44%	-20%	9%	23%	-9%

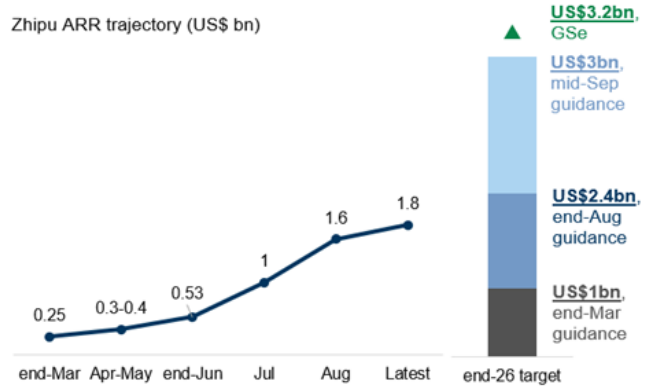
Source: Goldman Sachs Global Investment Research

Exhibit 3: We see improvements in cost efficiency and financial positioning of Zhipu GLM models, with continued inference/architecture optimization and latest financing



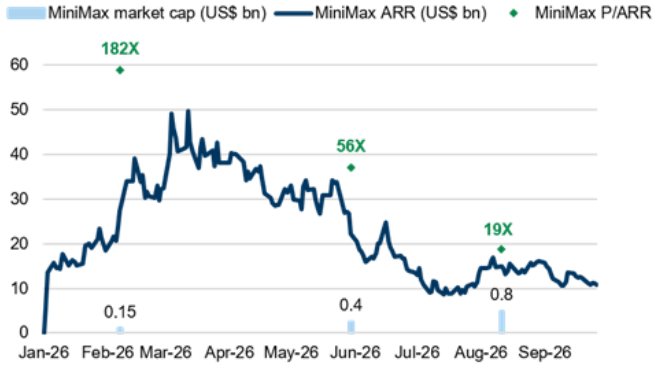
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: We now expect US$3.2bn ARR by end-26 on faster-than-expected ARR surge



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: MiniMax spot P/ARR trend



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 6: Zhipu spot P/ARR trend



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 7: We note gradual convergence between Zhipu and MiniMax valuation by P/end-26 ARR target



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 8: Z.AI – Income statement

December year-end (Rmb mn)	2023	2024	2025	2026E	2027E	2028E	1H25	2H25	1H26	2H26E
On-premise deployment	113	264	534	456	625	861	162	372	129	327
yoy %		134%	102%	-15%	37%	38%				
Cloud-based deployment	12	48	190	7,728	26,033	62,310	29	161	825	6,903
yoy %		307%	293%	3959%	237%	139%				
ARR (US$mn)				1,120	3,773	9,030				
Year-end ARR (US$mn)				3,200	7,700	18,429				
Revenue	**125**	**312**	**724**	**8,184**	**26,658**	**63,170**	**191**	**533**	**954**	**7,230**
yoy %		151%	132%	1030%	226%	137%				
Cost of sales	(44)	(137)	(428)	(6,224)	(18,747)	(43,224)	(95)	(332)	(702)	(5,521)
Gross (loss)/profit	**80**	**176**	**297**	**1,960**	**7,911**	**19,946**	**95**	**201**	**252**	**1,709**
yoy %		-119%	69%	561%	304%	152%				
GP Margin %	65%	56%	41%	24%	30%	32%	50%	38%	26%	24%
Other income			2	10	19	15	-	4	15	5
Selling and distribution expenses	(101)	(387)	(391)	(434)	(555)	(711)	(209)	(182)	(178)	(256)
Administrative expenses	(66)	(134)	(505)	(566)	(747)	(986)	(185)	(320)	(103)	(463)
Research and development expenses	(529)	(2,195)	(3,180)	(6,743)	(13,215)	(19,995)	(1,595)	(1,586)	(2,131)	(4,611)
Operating profit	(626)	(2,538)	(3,787)	(5,776)	(5,679)	(1,300)	(1,899)	(1,888)	(2,147)	(3,630)
Adj. operating profit - non-IFRS	**(620)**	**(2,515)**	**(3,228)**	**(5,107)**	**(4,875)**	**(375)**	**(1,740)**	**(1,488)**	**(2,061)**	**(3,046)**
yoy %	-535%	-305%	-28%	-58%	5%	92%	-70%	0%	-18%	-105%
OP Margin %	-498%	-805%	-446%	-62%	-18%	-44%	-912%	-279%	-216%	-42%
(Loss)/Profit before tax	**(788)**	**(2,958)**	**(4,718)**	**(5,753)**	**(5,778)**	**(1,398)**	**(2,358)**	**(2,360)**	**(2,070)**	**(3,683)**
Income tax expense	-	-	-	(2)	-	-	-	-	(2)	-
Net profit/(loss)	(788)	(2,958)	(4,718)	(5,755)	(5,778)	(1,398)	(2,358)	(2,360)	(2,072)	(3,683)
Adj. net profit/(loss) - non-IFRS	**(621)**	**(2,466)**	**(3,182)**	**(5,063)**	**(4,974)**	**(474)**	**(1,752)**	**(1,430)**	**(1,964)**	**(3,099)**
yoy %	-537%	-297%	-29%	-59%	2%	90%	-70%	0%	-12%	-117%
NP Margin %	-499%	-789%	-439%	-62%	-19%	-1%	-918%	-268%	-206%	-43%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: Z.AI: Our valuation bull/bear/base scenarios

Scenarios for valuation	Bear case	Base case	Bull case
	2027E EV/Sales-based	**DCF-based**	**DCF-based, mid-2028E ARR-implied**
Z.AI	Applying 6X EV/Sales multiple to 27E open API platform revenue. Bear case valuation implies Zhipu's revenue pool share declines from 18% to 14% from 2027 to 2030E on higher competition.	Assuming Zhipu's revenue pool share to expand from 18% in 2027 to 22% by 2030E, and 26% EBIT margin (by 2035E). Applying 12% WACC and 2% terminal growth rate (consistent with our coverage).	Bull case valuation assumes Zhipu's revenue pool share to expand from 18% in 2027 to 33% by 2030E. Implies 20X mid-2028E ARR, discounting back using 12% p.a.
Valuation per share (HK$)	**510**	**1560**	**2500**
Valuation (US$bn)	**32**	**98**	**157**

Source: Company data, Goldman Sachs Global Investment Research

Addressing debates/concerns on AI model competition, ZCode incident, cash burn and dilution

Debate #1: AI model competition

We believe a larger step-up in R&D spending will be needed on post-training given tighter access to Chain-of-Thought data sets, and control of the harness/orchestration layer will drive a more sustainable data feedback loop for model improvement and eventual recursive self-improvement. We also note that China's AI companies are taking different approaches to creating a competitive advantage. Some are pushing for premium frontier status—to create the most advanced models—while others are attempting to be more cost-efficient. We continue to believe pricing power, cost efficiencies, and the strongest financial power will differentiate sustainable competitive edge among China's AI players. For Z.AI, we see the company has further strengthened its cost efficiency (with efficiency gains from inference architecture) and financial power (with US$9bn raised in the past 3 months), while its pricing power remains among the best of its peers. Meanwhile, Z.AI sets itself apart having been able to deliver both frontier (GLM-5.3) and smaller cost-efficient (GLM-5.3 Flash) models at the same time over the past year amongst Chinese AI companies.

Debate #2: ZCode data-handling incident highlights user confidence/governance challenges for harness products

We note a recent data-handling incident involving ZCode, the company's agentic coding assistant. According to company disclosures a default-enabled "Codebase Indexing" feature could trigger uploads of local code repositories during knowledge-base generation, potentially raising concerns, around the collection of source code, development histories and other sensitive data without clear user consent. The company promptly issued an apology via social media, stating that the issue had been fixed (with specific functions disabled) and that it had open-sourced the underlying harness framework to improve transparency. In response to concerns reported in the media around the handling of uploaded data, Zhipu stated that third-party audits had confirmed that the relevant cloud storage and content within had all been deleted. The company said it has also undertaken measures to rebuild user confidence, including: i) a one-off weekly quota reset to all ZCode users (2mn in total) as immediate compensation; ii) 4 weekly resets and 4 five-hour resets for paying users; and iii) 100k distributions of 100mn free tokens daily to all ZCode users from Sep 28 to Oct 7, which in our calculation could weigh on near-term 2H26 gross margins by 0.85-1.42ppt (see Exhibit 11), depending on ZCode user paying ratio and coding plan gross margin, all else equal.

Following this incident, Zhipu's MaaS platform also introduced an opt-in zero-data-retention (ZDR) mechanism on Sep 20, under which model inputs and outputs are processed solely for the relevant inference request rather than persistently stored, which in our view narrowing a key gap vs. global SOTA's best-practice enterprise AI deployments, on significantly improved data governance and privacy protection post latest ZCode update and open-source approach of ZCode. More broadly, we view the episode as highlighting a key user confidence challenge for harness-layer products (but at a manageable impact, mainly to 2H26 gross margins on free tokens provided to customers): given their standing access to users' local files and data, the boundaries governing what information may be accessed, collected, and utilized are likely to become more clearly defined by regulatory frameworks, helping mitigate the attendant

privacy/compliance risks and ultimately supporting broader enterprise adoption.

Debate #3: Cash burn and ongoing dilution

Of the US$0.6bn in proceeds raised from the January IPO, the company had used 94% by end-June and fully depleted the proceeds by end-August, implying a cash spend run rate of US$0.1bn per month from January to June. Following the US$4bn placement in July, the company accelerated its cash spend run rate to US$0.9bn per month, having used 35% of the proceeds by end-August. We attribute the company's increased cash burn rate to stepped-up capex and rental prepayments related to compute capacity for pre- & post-training scaling and inference. In the meantime, following US$9bn of fundraising over the past two months, we see spot equity dilution of c.9% (already reflected in our numbers), to be followed by the unlocking of pre-IPO shares from early Jan 2027.

Exhibit 10: Potential catalysts/unlock events into 2H26 and next year

Zhipu (2513.HK)

Date	Event	Incremental supply (estimated)	Cumulative unlocked supply (estimated)
IPO		3%	3%
Jun 2026	(+) HSTECH inclusion (+) Southbound Stock Connect inclusion		
Jul 2026 (6M)	(-) Cornerstone unlock	6%	8%
Jul 2026	(-) Follow-on placement at HK$1,588 (US$4bn)	4%	12%
Sep 2026	(-) Follow-on placement at HK$714 (US$2bn)	5%	17%
Jan 2027 (12M)	(-) Pathfinder SII unlock	9%	26%
	(-) Unlock of other shareholders	47%	73%
	(-) Unlock of key persons	28%	
Sep 2027	(-) Potential CB conversion (US$3bn, CP HK$892.5)	5%	N.A.

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 11: ZCode compensation could potentially weigh on 2H26 GPM by 0.85-1.42ppt, flexing for paying ratio and coding plan gross margin (as a fraction of API gross margin)

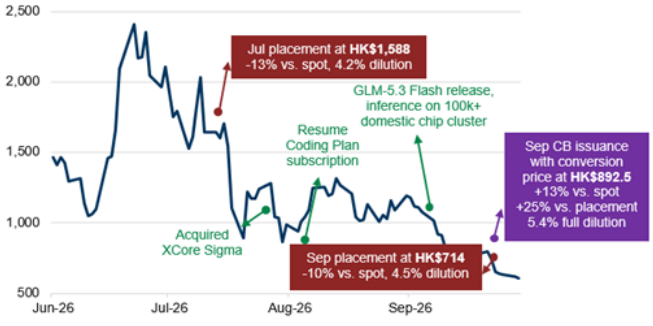
ZCode compensation impact on 2H26 GPM (ppt)

Coding plan gross margin (%) \ ZCode paying ratio (%)	30%	40%	50%	60%	70%
25.0%	0.85%	0.98%	1.12%	1.25%	1.39%
20%	0.86%	0.99%	1.13%	1.26%	1.39%
15%	0.87%	1.00%	**1.14%**	1.27%	1.40%
10%	0.88%	1.01%	1.14%	1.28%	1.41%
8%	0.88%	1.01%	1.15%	1.28%	1.42%

Source: Goldman Sachs Global Investment Research

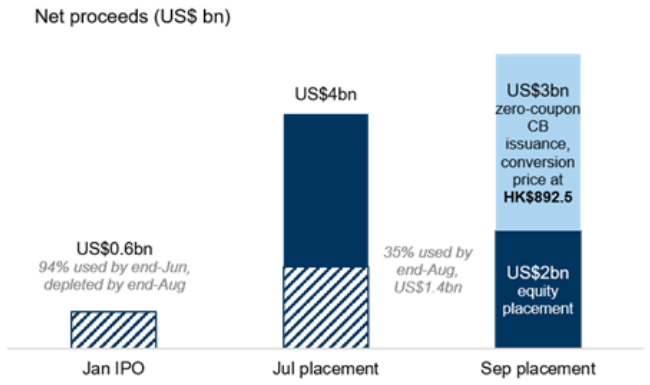
Exhibit 12: Zhipu's follow-on placements and subsequent progress in compute expansion / optimization and commercial offerings

Price as of Sep 28



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

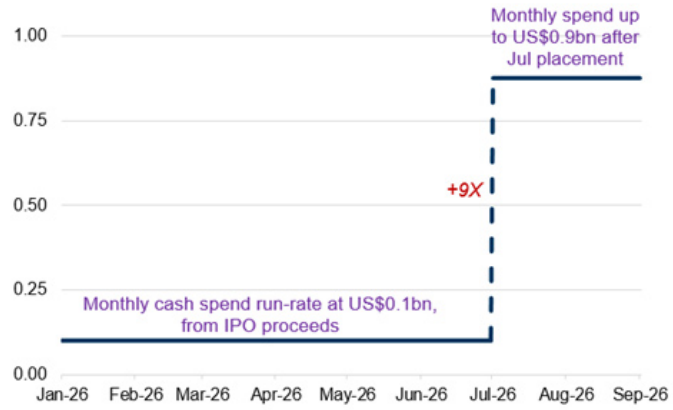
Exhibit 13: Funds raised since IPO totaling c.US$10bn



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Cash burn to be gradually funded by increasing inference gross margins

Exhibit 14: Cash spend pace accelerated after July placement mainly due to compute expansion



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

A clearer monetization path

We now see a clearer monetization path, with our lifted 2026E year-end ARR of US$3.2bn (vs. prior GSe US$2.7bn, and the company's latest target of US$3bn) driven by strong token demand (GLM-5.3 Flash handled daily 20T tokens in Sep), increased compute capacity, helped by its recent funding, new commercial terms with global hyperscalers that can create an incremental high-margin revenue stream and with co-work products as the next growth driver. We believe China AI models are reaching a critical point of intelligence for global proliferation and continue to see Zhipu's data flywheel and significantly ramped-up compute capacity as drivers of GLM model performance uplift towards the next frontier as it scales its upcoming GLM-5.5 and GLM-6 models to larger pre-training parameter sizes and continuous post-training/self-improvement.

Revenue outlook and ARR ramp-up

The latest mid-Sep ARR reached US$1.8bn (vs. US$1.6bn in August), and the company has raised year-end guidance to US$3.0bn. The company's core API business continues to grow rapidly, supported by the fast-growing user adoption of ZCode (2mn monthly active users). The company said it remains confident in ARR growth on the back of upcoming partnerships with leading cloud service providers and the large TAM of co-work scenarios. We now estimate revenue of Rmb7.2bn/8.2bn (prior: Rmb7.0bn/7.9bn) for 2H/FY26E, with our revised 2026E year-end ARR at US$3.2bn (prior: US$2.7bn).

Updated commercial terms with hyperscalers to create incremental revenue

Since the launch of GLM-5.3, hyperscalers with annual revenue of over US$10bn that operate MaaS platforms have been required to obtain a commercial license, where such shared revenue is expected to be recognized from October 2026. We see this supports an asset-light global expansion strategy, as partners provide inference infrastructure and sales channels, reducing the need for Zhipu to build and operate its own international service network. At the same time, it strengthens the R&D – commercialization flywheel by connecting model development with broader global demand, allowing leading model capabilities to convert more directly into usage volume and revenue-sharing income.

Exhibit 15: Zhipu's latest update on API business with highlights on ARR ramp-up, accelerating ZCode harness adoption, and strong token demand



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Ongoing token share gain by China open-source/open-weight models

Exhibit 16: China models have dominated top ranks of OpenRouter token usage leaderboard for several weeks

As of Aug 17th, 2026 (Rolling 7 days)		
Ranking	Model	Tokens usage
1	DeepSeek V4 Flash	11.2T
2	Hy3	9.95T
4	DeepSeek V4 Flash 0423	4.83T
5	GLM-5.2	4.33T
6	MiMo-V2.5	3.79T
7	DeepSeek V4 Pro 0423	2.74T

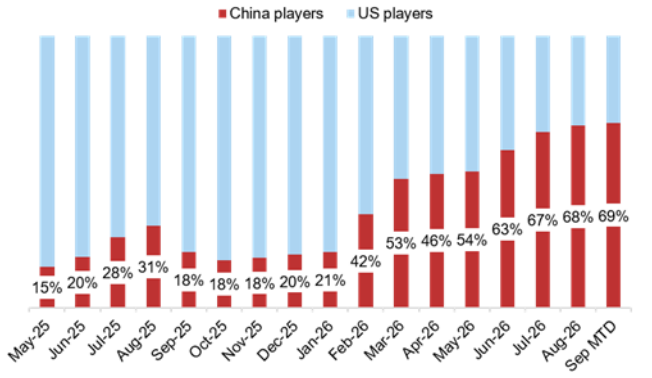
As of Aug 24th, 2026 (Rolling 7 days)		
Ranking	Model	Tokens usage
1	DeepSeek V4 Flash 0731	11.6T
2	Ox Alpha (GLM-5.3 Flash)	11.6T
3	MiMo-V2.5	9.94T
4	Hy3	8.21T
5	DeepSeek V4 Flash 0423	5.46T
8	GLM-5.2	3.42T
9	DeepSeek V4 Pro 0423	1.85T

As of Sep 4th, 2026 (Rolling 7 days)		
Ranking	Model	Tokens usage
1	GLM-5.3 Flash	11.9T
3	DeepSeek V4 Flash	11.3T
4	Hy4 preview	11T
5	Hy3	5.25T
6	DeepSeek V4 Flash 0423	5.18T
7	MiniMax M3	5.15T
8	MiMo-V2.5	4.5T

As of Oct 4th, 2026 (Rolling 7 days)		
Ranking	Model	Tokens usage
1	Space Bunny Alpha	35.9T
2	DeepSeek V4.1 Flash	25.6T
3	GLM-5.3 Flash	9.57T
4	MiMo-V2.6-Flash	9.54T
5	Hy4 preview	6.54T
6	DeepSeek V4 Flash 0731	6.08T
10	DeepSeek V4 Flash 0423	3.25T

Source: OpenRouter, Data compiled by Goldman Sachs Global Investment Research

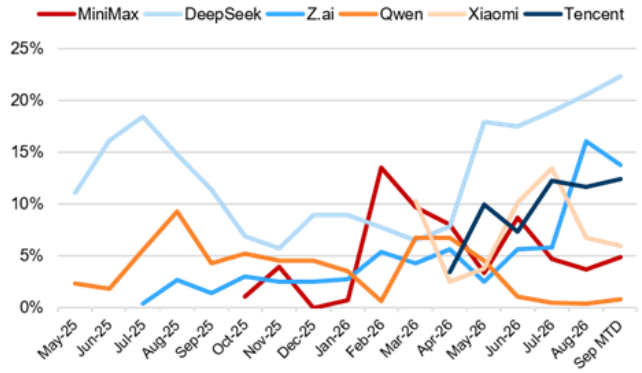
Exhibit 17: China model players continue to capture market share by token consumption on OpenRouter



Source: OpenRouter, Data compiled by Goldman Sachs Global Investment Research

Exhibit 18: Market share of China AI model players, where DeepSeek (with Flash as the main adopted model) sustained leadership even after mid-Aug price hike

Market share of Chinese AI model players, of token consumption on OpenRouter



Source: OpenRouter, Data compiled by Goldman Sachs Global Investment Research

U.S. Entity List designation: implications for compute access and overseas commercialization

Zhipu and its nine affiliates were added to the U.S. Entity List in January 2025. The designation imposes a license requirement (while subject to a presumption of denial) for the export, reexport or transfer of items subject to the U.S. Export Administration Regulations (EAR), including U.S.-origin products, foreign-produced items exceeding the applicable de minimis U.S.-content threshold (25% for China), and certain foreign-produced items covered under the relevant foreign direct product rules. In our view, the designation principally constrains Zhipu's inbound access to controlled U.S. technologies, chiefly AI accelerators, high-bandwidth memory and U.S.-origin server hardware, while not specifically restricting the company's ability to expand globally or license its open-weight GLM models.

That being said, we note that the revenue-sharing arrangements with overseas cloud service providers remain limited in disclosure, where the CSPs deploy the open-source GLM models, offering API services while bearing inference costs and remit a contracted share of generated revenue to Zhipu. Specific commercial terms remain subject to finalization, as well as the incremental counterparty and compliance considerations associated with the entity list related risks.

Expanded compute infrastructure to drive scaling

We expect expanded compute infrastructure/strong balance sheet to drive model training scaling/inference scaling, where we believe its nearly US$10bn new equity funding year-to-date (incl. IPO proceeds) alongside annualized US$1.3bn/1.9bn R&D spending intensity (for 2H26/FY27E) will translate to a significant increase in compute capacity that can be used for training (GSe: 50% contribution) and inference (50% contribution). We see Zhipu's financial strength as a key competitive advantage amongst independent AI labs and see upside to ARR as Zhipu's ASICs/inference chip capacity ramps up significantly from 2H26 and with commercial terms of its open-weight models delivering scalable revenue/profit potential.

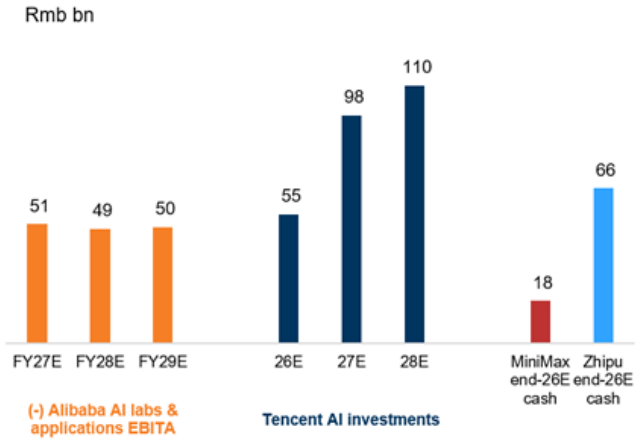
Gradual removal of compute constraints to unlock ARR growth potential

We view compute availability as one of the largest constraints on API revenue growth year-to-date, where i) demand surged by c.10X following the GLM-5 launch in Feb, leading the company to temporarily cap new coding plan subscriptions; and ii) GLM-5.2 attracted meaningful overseas adoption after its June release, while only c.10% of demand was served through Zhipu's own infrastructure (as per management), with the remaining 90% captured by third-party hosting of its open-weight models under MIT license, from which the company generated no direct revenue. Following the July equity placement and subsequent compute expansion, coding plan subscriptions were reopened in early-Aug, with sales increasing by 15X over Aug-Sep. We believe the removal of near-term compute constraints, together with accelerating overseas demand and growing inference chip capacity from 2H26, strengthens the outlook for continued ARR acceleration.

Resource allocation between training/inference

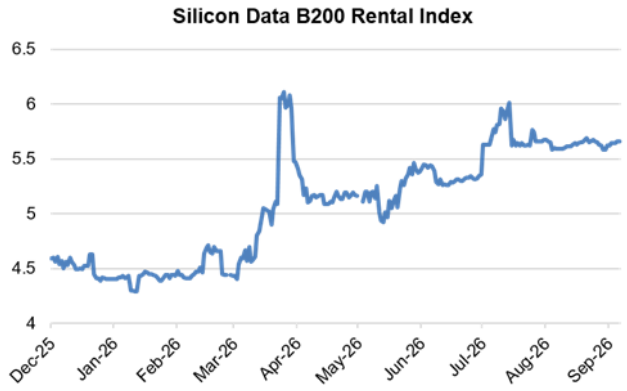
In the company's latest Sep placement, the company announced its plan of deploying roughly 40%/60% split between training and inference compute allocation. We see this as a balanced strategy that supports multiple training cycles at or above the scale of GLM-5.3 while preserving sufficient inference capacity to capture commercial demand and benefit from scale-driven compute utilization/inference cost efficiency.

Exhibit 19: Latest cash positioning of independent labs and AI-related investments of mega-caps
Rmb bn



Source: Company data, Goldman Sachs Global Investment Research

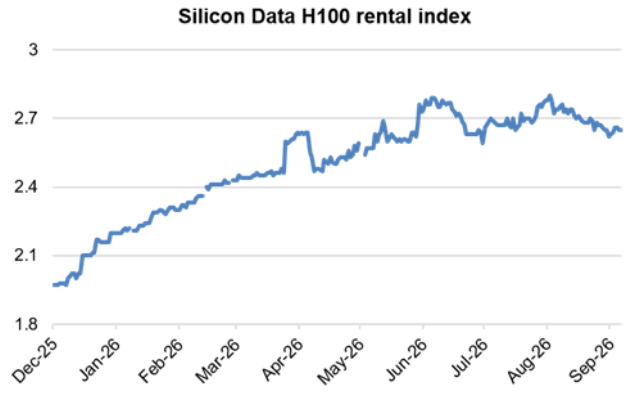
Exhibit 20: B200 spot rental pricing has remained relatively stable for the past month
US$ per GPU-hour



Silicon Data B200 Rental Price Index (SDB200RT) is a daily benchmark for on-demand NVIDIA B200 rental pricing

Source: Silicon Data, Bloomberg

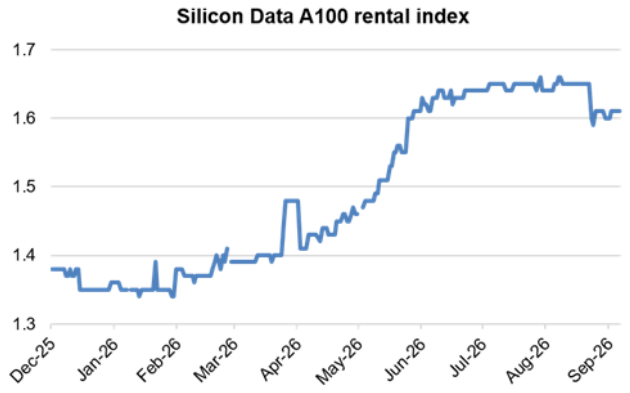
Exhibit 21: Same for H100 spot rental pricing with slight downward trend over the past month
US$ per GPU-hour



Silicon Data H100 Rental Price Index (SDH100RT) from neo-cloud is a daily benchmark for on-demand NVIDIA H100 rental pricing

Source: Silicon Data, Bloomberg

Exhibit 22: A100 spot rental pricing
US$ per GPU-hour



Silicon Data A100 Rental Price Index (SDA100RT) from neo-cloud is a daily benchmark for on-demand NVIDIA A100 rental pricing

Source: Silicon Data, Bloomberg

Superior inference gross margins on cost efficiencies/optimization

We believe cost efficiency is best illustrated through the long-term potential of inference gross margins, where we estimate Zhipu's model intelligence/pricing power alongside continued inference and infrastructure optimization could drive gross margins expansion, creating a sustainable cash generation profile, with our estimation of contribution margin turning positive from 2028E (i.e. inference gross profit exceeding model training/R&D costs), and group profit turnaround by 2029E.

Model intelligence/pricing power to sustain premium economics

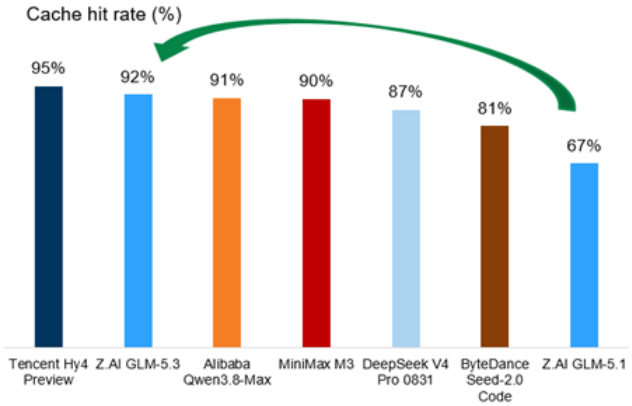
On model intelligence/pricing power, the company's API ASP increased 101% during 1H26, with the GLM-5 series maintaining a steady blended 1M token price of US$0.9, at the higher end among Chinese open-source models. We view this as evidence that model capability rather than pricing has remained the primary driver of usage growth, with third-party indicators (e.g. OpenRouter data) suggesting relatively resilient model adoption. At the same time, the newly launched GLM-5.3 Flash (at c. half the parameter size of GLM-5.3) has achieved large-scale inference deployment across a 100k domestic GPU cluster, lowering per token inference costs by 80%+ vs. the beginning of the year while preserving similar margin economics. We also note the company's recent progress in domestic and overseas CSP revenue-sharing agreements, which should begin contributing from 4Q26 at close to 100% gross margin given inference costs are largely borne by cloud partners.

Efficiency gains from inference architecture + infrastructure optimization

On efficiency, we see continued room for unit economic improvement through both inference architecture and infrastructure optimization. Improvements in attention mechanisms, MoE structures and serving frameworks have increased cache hit rates from 67% under GLM-5.1 to 92% under GLM-5.3 (see Exhibit 23), which significantly enhances token throughput per unit of compute. At the infrastructure layer, Zhipu has started building proprietary compute clusters, while acquiring XCore Sigma to

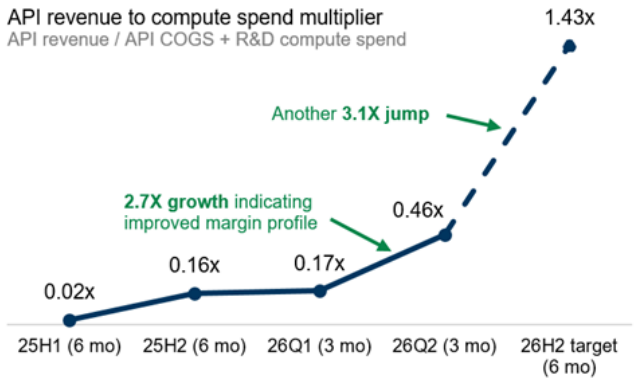
strengthen heterogeneous-compute software stack optimization. Taken together, these developments should support further margin expansion and operating leverage, where management suggested a theoretical annualized inference revenue ceiling of Rmb41bn supported by a one-off Rmb30bn compute investment amortized over four years.

Exhibit 23: GLM-5.3 improved significantly in cache hit rate vs. GLM-5.1, which led to substantial inference efficiency gain
Cache hit rate (%) of 1P hosting, per OpenRouter



Source: OpenRouter, Data compiled by Goldman Sachs Global Investment Research

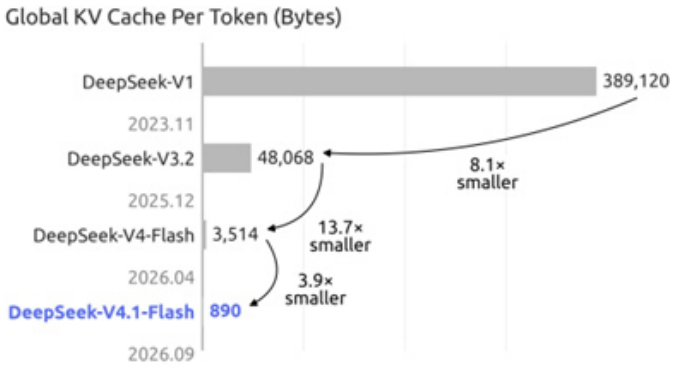
Exhibit 24: The company expects accelerating compute-spend-to-revenue conversion to gradually improve gross/profit margins



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

DeepSeek continues to drive the most ground-breaking cost efficiency uplifts, with latest innovation for V4.1 significantly reducing KV Cache/memory needed for inference

Exhibit 25: DeepSeek V4.1 Flash has reduced KV Cache per token by 437X compared to V1, supporting significant inference efficiency improvements



Source: DeepSeek

Ongoing progress in harness/Co-Work products

Co-work as the next growth driver

Coding is the first AI use case in a professional domain to generate scalable revenue, while we see Co-work as the next major scenario for model capabilities (see our views in our what to do report) to penetrate existing enterprise workflows and capture mature industry spending pools. Unlike coding, which largely creates incremental AI budgets,

Co-work addresses established enterprise spending categories (e.g. cybersecurity), although we note it is contingent on models evolving beyond productivity assistants toward near digital workers capable of completing tasks autonomously. Zhipu has integrated its products into the workflows of 100 cybersecurity enterprises, and secured Rmb1bn+ of orders within one month of GLM-5.3 launch (to be recognized over the next 1-2 years), indicating that the technology is moving from validation into production deployment.

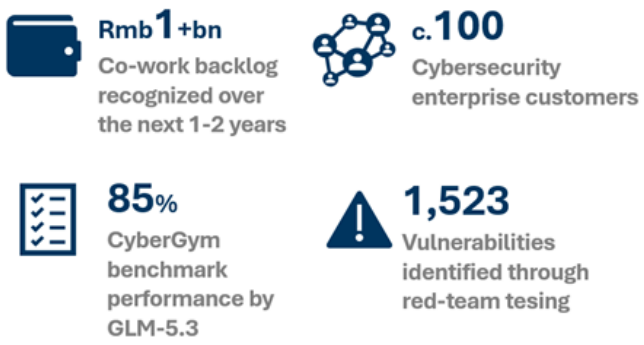
Cybersecurity as the first proof-of-concept fast-growing vertical after coding

Cybersecurity, with a TAM of US$249bn by 2026E (per Gartner), has emerged as the first vertical to be penetrated given i) its mission-critical demand, ii) high professional barriers and iii) abundant data assets requiring continuous operation. We believe these characteristics are shared by other knowledge-intensive sectors across finance, legal services and energy, supporting the potential for broader replication over time. Deeper integration into industry workflows could also generate proprietary task environments and feedback loops that further improve model performance.

Sector-specific knowledge emerging to be the next competitive frontier

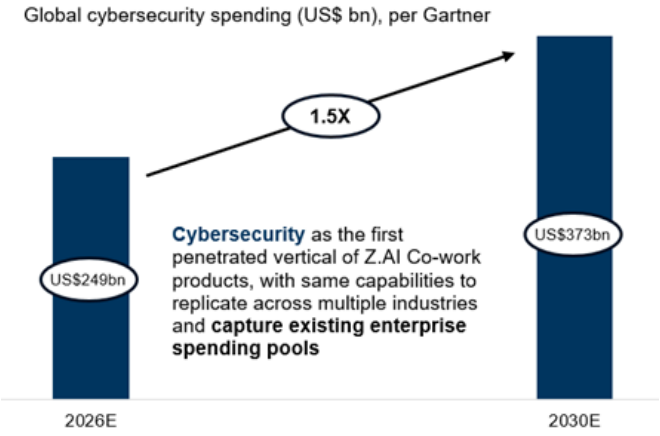
We also note an increasingly important shift in competitive focus from pure data annotation toward sector-specific knowledge construction, as Co-work applications require thousands of realistic domain-specific environments for model training and evaluation. This could represent an area of relative strength for China, supported by a rapidly expanding data-engineering ecosystem and growing participation from specialist infrastructure providers.

Exhibit 26: Commercialization progress of Z.AI Co-work products in vertical industries
As of Sep 2026



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

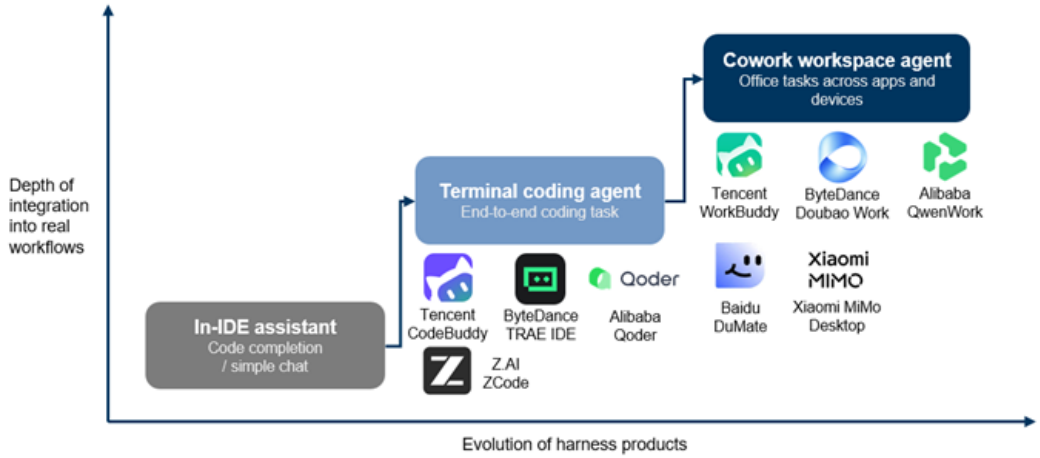
Exhibit 27: Cybersecurity, as the first penetrated vertical of Z.AI Co-work products, provides a global TAM of US$249bn by 2026 and US$373bn by 2030



Source: Gartner, Company data, Data compiled by Goldman Sachs Global Investment Research

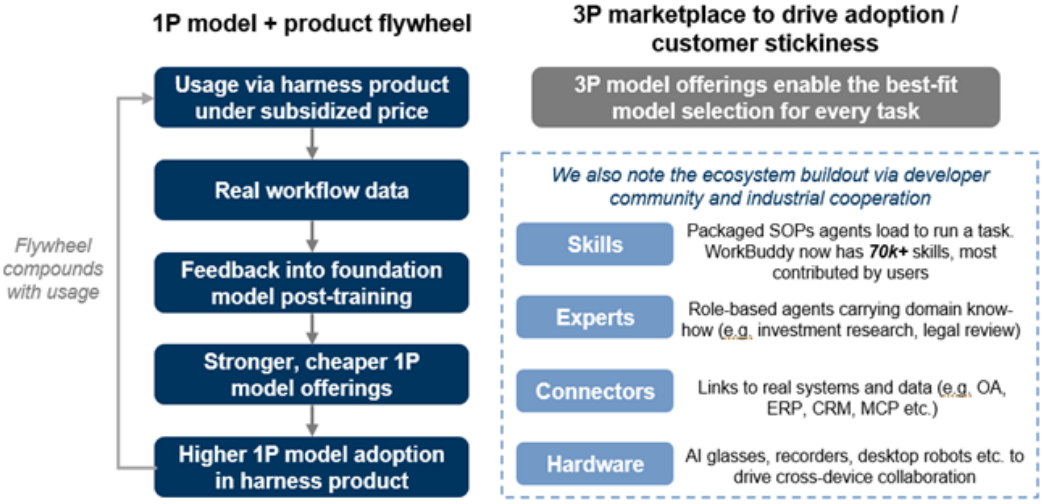
Exhibit 28: Paradigm shift for harness layer products with deeper integration into real workflows

Harness product offerings by internet mega-caps



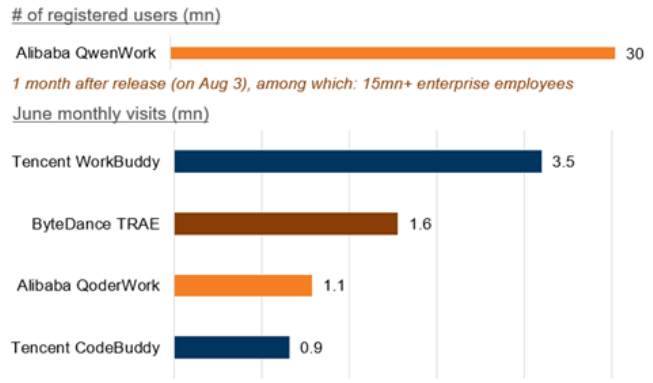
Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 29: We note workspace agents' resemblance to eComm platforms, combining a 1P model + product flywheel with a growing 3P ecosystem



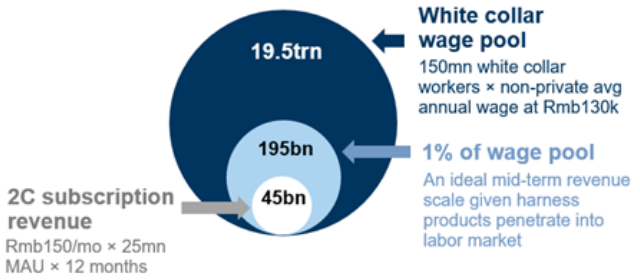
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 30: Workspace agents developed by internet platforms are leading in early user adoption, per June monthly visits data



Source: Analysys, Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 31: We note that long-term TAM growth more likely lies in labor budget substitution, rather than current subscription (at c.Rmb45bn annual revenue pool under illustrative assumptions per GSe)



Source: Company data, NBS, Goldman Sachs Global Investment Research

Estimate changes and valuation

We revise our 2026-28E revenues up by 3-12% on faster ARR ramp-up pace and update our earnings estimates from Rmb-4.6bn/Rmb-5.3bn/Rmb-1.4bn to Rmb-5.1bn/Rmb-5.0bn/Rmb-0.5bn accordingly on higher R&D expenses following the latest financing round, yet reflecting stronger operating leverage into next year and with our estimation of contribution margin turning positive from 2028E (i.e. inference gross profit exceeding model training/R&D costs). Our DCF-based 12-m TP of HK$1,560 (prior: HK$1,610) is based on a DCF valuation (with 12% WACC and 2% terminal growth rate, unchanged) that assumes continued market share gain to 22% by 2030E, and a long-term adj. EBIT margin of 26% by 2035E (vs. 20% market share prior, margin unchanged). Our bull case implies valuation of HK$2,500 per share and our bear case implies valuation of HK$510 (Exhibit 9).

Key risks:

- Competition in the global foundation model industry: Z.AI operates within the intensely competitive and rapidly evolving global foundation model industry, where the risks include the challenge of keeping pace with swift technological advancements, frequent new product introductions, and dynamic customer demand. Failure to adapt products and invest significantly in R&D in a cost-effective and timely way, could lead to diminished competitiveness.
- Limited near-term profit visibility due to high R&D expenses: Achieving and sustaining profitability in the near future could be a challenge, as success depends on continuous technological development, user experience improvement, and effective commercialization. Failure to manage escalating costs and generate adequate revenue could materially impact the company's financial position and profitability.
- Cash burn/self-funding capability: The intense capital requirements for advanced AI model training, coupled with rapid technological advancements by competitors,

could pose financing risks to the relatively fragmented Chinese AI model landscape. In addition, any models that fail to keep pace with leading peers could run into difficulties in generating sufficient revenue (ARR x inference gross margins) to cover training costs.

- Risk around geopolitics under an intensified tech race between the US and China: Any US restrictions on the use of Chinese AI models could limit market access and adoption, and Chinese AI model companies could also face increased costs if barred from training its models on US cloud service providers or be included into any list which limits procurement of US supplies from hardware to software. The evolving global chip availability dynamics also present a critical supply chain risk.

Exhibit 32: Z.AI: New vs. old estimates

December year-end (Rmb mn)	New 2026E	Old 2026E	Diff (%)	New 2027E	Old 2027E	Diff (%)	New 2028E	Old 2028E	Diff (%)
Open platform and API	7,728	7,466	4%	26,033	23,088	13%	62,310	55,660	12%
yoy %	3959%	3821%		237%	209%		139%	141%	
Implied year-end ARR (US$ mn)	*3,200*	*2,700*	*19%*	*7,700*	*6,597*	*17%*	*18,429*	*15,903*	*16%*
Full-year ARR (US$ mn)	*1,120*	*1,082*		*3,773*	*3,346*		*9,030*	*8,067*	
On-premise deployment	456	456	0%	625	625	0%	861	861	0%
yoy %	-15%	-15%		37%	37%		38%	38%	
Revenue	**8,184**	**7,921**	**3%**	**26,658**	**23,713**	**12%**	**63,170**	**56,521**	**12%**
yoy %	1030%	994%		226%	199%		137%	138%	
Cost of sales	(6,224)	(5,881)	6%	(18,747)	(17,363)	8%	(43,224)	(40,951)	6%
Gross (loss)/profit	**1,960**	**2,041**	**-4%**	**7,911**	**6,350**	**25%**	**19,946**	**15,569**	**28%**
yoy %	561%	588%		304%	211%		152%	145%	
Selling and distribution expenses	(434)	(430)	-1%	(555)	(503)	-10%	(711)	(589)	-21%
Administrative expenses	(566)	(556)	-2%	(747)	(684)	-9%	(986)	(820)	-20%
Research and development expenses	(6,743)	(6,393)	-5%	(13,215)	(11,571)	-14%	(19,995)	(16,569)	-21%
Operating profit	(5,776)	(5,332)	-8%	(5,679)	(5,968)	5%	(1,300)	(2,207)	41%
Adj. operating profit - non-IFRS	**(5,107)**	**(4,662)**	**-10%**	**(4,875)**	**(5,164)**	**6%**	**(375)**	**(1,283)**	**71%**
yoy %	-58%	-44%		5%	-11%		92%	75%	
(Loss)/Profit before tax	**(5,753)**	**(5,308)**	**-8%**	**(5,778)**	**(6,066)**	**5%**	**(1,398)**	**(2,306)**	**39%**
Income tax expense	(2)	(2)		-	-		-	-	
Net profit/(loss)	(5,755)	(5,310)	-8%	(5,778)	(6,066)	5%	(1,398)	(2,306)	39%
Adj. net profit/(loss) - non-IFRS	**(5,063)**	**(4,618)**	**-10%**	**(4,974)**	**(5,262)**	**5%**	**(474)**	**(1,381)**	**66%**
yoy %	-59%	-45%		2%	-14%		90%	74%	
GPM	24%	26%	-181bps	30%	27%	290bps	32%	28%	403bps
Adj. OPM	-62%	-59%	-354bps	-18%	-22%	349bps	-1%	-2%	167bps
Adj. NPM	-62%	-58%	-356bps	-19%	-22%	353bps	-1%	-2%	169bps

Source: Goldman Sachs Global Investment Research

Z.AI is a top China AI model company with leading model capabilities. Following Zhipu's share price pullback since July, we believe risk-reward has turned favorable, with the stock now trading below levels implied by our 2026E year-end/FY27E ARR forecast. We see **1) A clearer monetization path**, with our 2026E year-end ARR of US$3.2bn driven by strong token demand, with new commercial terms with global hyperscalers (from Oct 2026) that can create an incremental high-margin revenue stream; **2) Expanded compute infrastructure/strong balance sheet to drive model training scaling/inference scaling**, where we believe its nearly US$10bn new equity funding year-to-date (incl. IPO proceeds) alongside annualized US$1.3bn/1.9bn R&D spending intensity (for 2H26/FY27E) will translate to a significant increase in compute capacity that can be used for training (40% contribution) and inference (60% contribution); **3) Superior inference gross margins on cost efficiencies/optimization**, where we

estimate Zhipu's model intelligence/pricing power alongside cost-efficient inference architecture could drive further gross margin expansion for inference, creating a sustainable cash generation profile towards group profit turnaround by 2029E; **4) Ongoing progress in harness/Co-Work products**, where we believe Chinese AI models have reached a critical level of intelligence with rising context window and cost efficiencies that can sufficiently deliver cost-competitive virtual worker/white-collar job tasks.

We are Buy rated on Z.AI with a 12-month target price of HK$1,560. Our valuation is based on DCF valuation, with 12% WACC and 2% terminal growth rate (consistent with our coverage).

Key risks: Competition in global foundation model industry; Limited near-term profit visibility due to high R&D expenses; Cash burn/self-funding capability; Risk around geopolitics under an intensified tech race between the US and China.



Disclosure Appendix

Reg AC

We, Ronald Keung, CFA, Damian Xie and Iris Xiao, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Target price history table(s)
Z.AI Co. (2513.HK)

Date of report	Target price (HK$)	Closing price (HK$)
03-Aug-26	1,610.00	940.00
09-Jul-26	1,880.00	2,032.00

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