22 Oct 2026 12:18:43 ET | 13 pages

China Internet

Approaching Capitulation While Fundamentals Remain Resilient

Alicia Yap, CFA[AC]
Brian Gong
Nelson Cheung
Vicky Wei, CFA

CITI'S TAKE

We believe the recent widespread sell-off across Chinese equities (likely driven by macro headwinds, fund flows, concerns on AI monetization cycle, wealth tax implication and possible weak 3Q26 earnings) indicates that market sentiment is approaching, or has reached, capitulation levels. Compared to the underperformance observed in late June, meaningfully higher capex commitments have triggered downward revisions to earnings forecasts for China large-cap internet names, compounding sector-wide negative sentiment. Nevertheless, sector valuations have become compelling at current levels, even after factoring in a potential further 10–30% downward earnings revision. Supported by resilient core operational earnings and healthy balance sheet, we believe leading Chinese internet companies are well-positioned to navigate near-term market volatility and capture long-term value in the evolving Super-Intelligence cycle. We reiterate our top picks on Tencent, BABA, Meituan, PDD, and YMM.

Accelerated selling pressure — China Internet is down -23.0% YTD, underperforming global internet peers (Japan +16.8%, India -5.0%, US -9.6%, Korea -18.6%) vs broader indices like KOSPI has gained +36.1%, Nikkei +28.4% and the S&P 500 +12.7%, while HSI (-7.7%), and Nifty (-12.8%) remain in negative territory. Oct 22, selling deepened as HSI dropped -3.0% and HSTech fell -5.0%, weighed down by BABA (-6.1%), Meituan (-4.6%), and Tencent (-2.9%). Today's sharp pullback likely reflects fund flow reallocations, fading near-term AI monetization optimism, overhang from potential earnings cuts, and capital-raising concerns.

Valuation multiple — As shown in Figure 1 where we compare 1-year forward PE vs the average of past 5 years and trough valuation in the past 5 years, PDD, Meituan, YMM screen out with trading multiple close to the trough valuation at 6.1x PE (vs 5-yr trough at 5.9x), 0.9x P/S (vs 0.8x) and 10.3x PE (vs 9.6x). On the ex-cash basis, Baidu, PDD, VIPS and JD are trading at 0.3x, 2.4x, 3.0x and 4.2x 1-year forward PE.

Earnings sensitivity — We believe heightened market anxiety over further earnings downside has been a key reason for the recent sector de-rating. As shown in Fig 3, between end-June and end-Oct, we raised our 2026–28E capex projections for Tencent and BABA by ~80–130%, leading to a 2–14% cut in our earnings forecasts. Nevertheless, our stress-test analysis factoring in an additional 10–30% downward earnings revision demonstrates that valuations remain highly attractive, especially on an ex-cash basis. For example, implied trading multiple for PDD would be 6.8x/7.6x/8.7x assuming 10%/20%/30% negative earnings revision and on ex-cash basis, it would imply at 2.7x/3x/3.5x. Tencent and BABA trading multiple would be at 13.4x/15.1x/17.3x and 14.4x/16.3x/18.6x on 10%/20%/30% downside earnings revision compared to their current 1-year forward at 12x and 13x. (Fig. 1)

Net cash and shareholder return — The majority of China internet companies maintain robust net cash positions. Following recent share price pullback, Baidu, Kuaishou, and PDD stand out, with net cash representing 98%, 90%, and 60% of their current market caps, respectively. While share repurchases have moderated recently amid capital reallocation toward AI capex, we believe cash-rich companies have ample room to step up buyback activity once the window opens (Figure 6).



See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliation

Not for distribution in the People's Republic of China, excluding the Hong Kong Special Administrative Regi
Foreign Institutional Investors.

Stress Testing Earnings Sensitivity

China Internet - 2Q26 Wrap & 2H26 Outlook: AI vs. Non-AI Prospects & Debates

We published a similar earnings sensitivity assessment on valuation in our end-June report (link), when the majority of China Internet companies were also undergoing persistent selling pressure. Relative to their June 25 lows, Tencent is now trading below that prior trough, while BABA and Meituan are hovering near those June levels (Figure 5). Nevertheless, meaningfully higher capex commitments in the past three months have triggered downward revisions to earnings forecasts for China large-cap internet names, compounding sector-wide negative sentiment and putting pressure on valuation multiple. That said, following today's intensified sell-off, sector valuations have become compelling at current levels, even after factoring in a potential further 10–30% downward earnings revision. Supported by resilient core operational earnings and healthy balance sheet, we continue to believe that leading Chinese internet companies are well-positioned to navigate near-term market volatility and capture long-term value in the evolving Super-Intelligence cycle. **We reiterate our top picks on Tencent, BABA, Meituan, PDD, and Full Truck Alliance (YMM)**

As we have previously highlighted, we believe the transformative potential of AI will ultimately catalyze elevated demand for digital connectivity, leisure, entertainment, and commercial consumption. Once computing infrastructure and capacity expansion mature, AI-powered applications and ecosystems will seamlessly integrate online and offline services, physical merchandise, and experiential lifestyle offerings.

When analyzed on an ex-cash basis, valuations for many of these companies are even more attractive than their headline multiples suggest. Companies with enduring innovation DNA, superior technical execution, and disciplined management teams will navigate prevailing market volatility from a position of distinct strength.

Figure 1. Forward PE summary of major internet companies and sensitivity on EPS downside

Companies	Market cap (US$ mn, Oct 21)	1-yr forward PE avg in past 5 yrs	1-yr forward PE min. in past 5 yrs	1-yr forward PE (Oct 21, 2026)	Forward PE sensitivity			1-yr forward ex-cash PE (Oct 21)	Forward ex-cash PE sensitivity		
					EPS -10%	EPS -20%	EPS -30%		EPS -10%	EPS -20%	EPS -30%
Tencent	456,315	17.2	10.2	12.1	13.4	15.1	17.3	11.9	13.2	14.8	17.0
Alibaba	259,745	15.2	7.6	13.0	14.4	16.3	18.6	11.5	12.8	14.4	16.4
PDD	112,050	11.3	5.9	6.1	6.8	7.6	8.7	2.4	2.7	3.0	3.5
NetEase	78,748	13.3	8.3	11.6	12.9	14.5	16.6	8.0	8.8	10.0	11.4
Meituan (PS)	58,086	2.5	0.8	0.9	1.0	1.1	1.3	0.7	0.8	0.9	1.0
JD	32,193	13.0	5.2	6.9	7.7	8.6	9.9	4.2	4.6	5.2	5.9
Baidu	26,932	14.6	7.0	13.0	14.4	16.3	18.6	0.3	0.3	0.3	0.4
Trip.com	25,535	16.9	8.9	9.8	10.9	12.3	14.0	5.6	6.2	7.0	8.0
Kuaishou	15,380	16.4	7.6	11.4	12.7	14.3	16.3	1.1	1.2	1.4	1.6
Tencent Music	13,284	13.9	6.8	9.0	10.0	11.3	12.9	6.2	6.9	7.8	8.9
Full Truck Alliance	8,819	19.0	9.6	10.3	11.4	12.9	14.7	4.6	5.1	5.7	6.5
VIPShop	6,047	6.4	3.1	6.6	7.3	8.3	9.4	3.0	3.3	3.7	4.3

© 2026 Citigroup Inc. No redistribution without Citigroup's written permission.

Source: Company Reports, dataCentral, Citi Research, data as of Oct 21, 2026, close, Note: net cash of JD excludes net cash from its subsidiaries

Figure 2. Ex-cash PE ratios by major internet companies

Companies	Market cap (US$ bn)	Net cash as of 2Q26 (US$ bn)	Net cash as % of market cap	FY26E PE	FY27E PE	FY28E PE	FY26E PE (ex-net cash)	FY27E PE (ex-net cash)	FY28E PE (ex-net cash)	FY26E PS	FY27E PS	FY28E PS	FY26E EV/EBITDA	FY27E EV/EBITDA	FY28E EV/EBITDA
Tencent	456.3	8.6	1.9%	11.70	12.01	11.18	11.48	11.79	10.97	3.73	3.40	3.11	6.13	4.58	4.27
Alibaba	259.7	30.3	11.7%	18.03	11.87	9.80	15.93	10.49	8.65	1.53	1.35	1.15	7.10	4.95	3.91
PDD	112.0	67.3	60.1%	7.41	5.69	4.85	2.96	2.27	1.94	1.66	1.51	1.38	1.56	0.38	na
NetEase	78.7	24.7	31.4%	13.40	12.16	11.20	9.20	8.35	7.69	4.34	4.21	3.97	8.12	8.16	7.41
Meituan	58.1	11.7	20.1%	na	19.63	12.50	na	15.68	9.98	0.92	0.82	0.76	21.02	7.10	3.75
JD.com	32.2	12.8	39.8%	7.72	6.55	5.98	4.65	3.94	3.60	0.18	0.17	0.16	na	na	na
Baidu	26.9	26.4	98.0%	15.44	12.23	9.81	0.31	0.24	0.19	1.43	1.36	1.28	0.68	1.60	1.49
Trip.com	25.5	10.9	42.7%	10.36	9.09	7.94	5.94	5.21	4.55	2.62	2.42	2.21	4.11	0.95	na
Kuaishou	15.4	13.9	90.4%	11.72	10.46	9.23	1.13	1.01	0.89	0.76	0.74	0.71	3.51	3.69	3.30
Tencent Music Entertainment	13.3	4.1	30.9%	9.03	8.50	7.29	6.24	5.88	5.04	2.51	2.29	2.12	3.90	3.38	2.44
Full Truck Alliance	8.8	4.9	55.6%	11.32	9.51	8.01	5.03	4.22	3.56	4.68	4.58	3.87	5.27	3.73	2.41
Kanzhun	7.6	2.8	36.6%	12.68	10.78	9.45	8.04	6.83	5.99	5.49	4.96	4.53	7.91	6.03	4.31
VIPShop	6.0	3.3	54.6%	6.26	5.24	4.88	2.85	2.38	2.22	0.40	0.39	0.38	1.08	0.40	na
JOYY	4.1	3.1	74.9%	16.73	13.22	11.47	4.21	3.32	2.89	1.77	1.58	1.41	5.62	3.08	1.96
Tongcheng Travel	3.0	1.6	53.0%	5.56	4.95	4.46	2.61	2.33	2.10	0.98	0.91	0.85	2.39	1.60	0.85
Autohome	2.3	2.9	126.2%	16.31	16.41	15.81	-ve	-ve	-ve	3.20	3.34	3.39	na	na	na
Weibo	1.6	0.8	51.5%	5.44	5.65	5.42	2.64	2.74	2.63	1.03	1.04	1.00	na	na	na
iQiyi	0.9	-1.4	-158.2%	na	na	na	na	na	na	0.24	0.23	0.22	2.02	1.61	1.32
Sector average				**11.19**	**10.23**	**8.78**	**5.55**	**5.42**	**4.56**	**2.08**	**1.96**	**1.81**	**5.36**	**3.42**	**3.12**

© 2026 Citigroup Inc. No redistribution without Citigroup's written permission.

Source: dataCentral, Citi Research, data as of Oct 21, 2026, close, Note: multiples of Alibaba refers to FY27-29E, net cash of JD excludes net cash from its subsidiaries

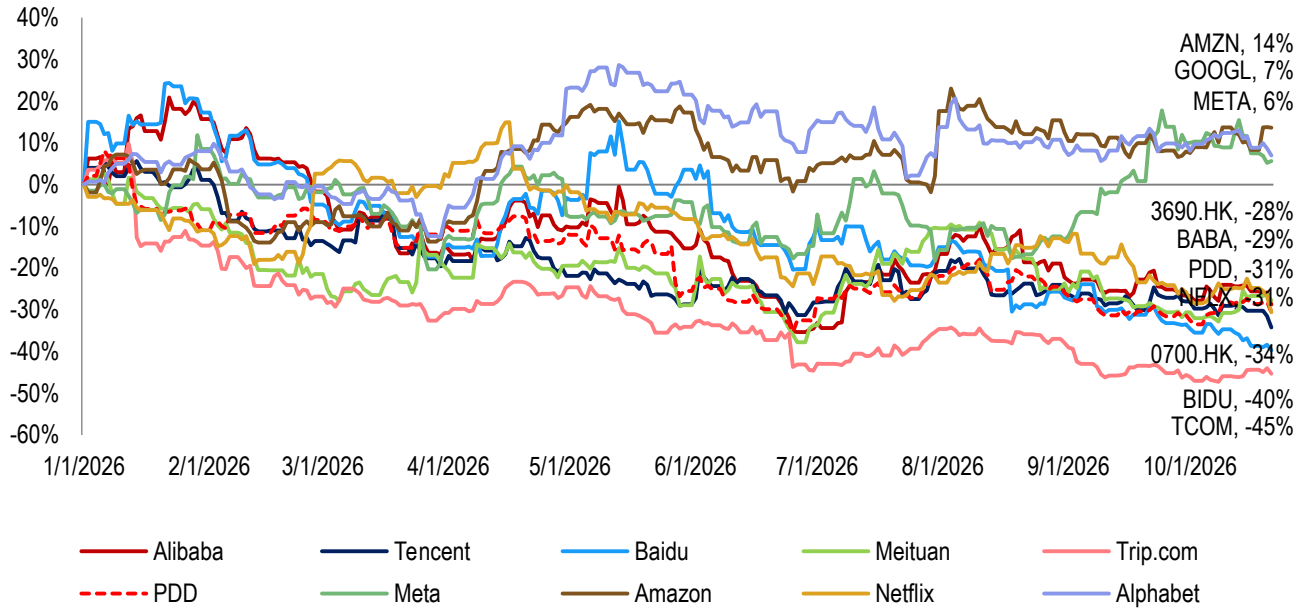
Figure 3. Estimate revisions for Tencent and Alibaba

Tencent	2026E	2027E	2028E
Adjusted profit (1Q26 review, Rmb bn)	268	283	314
Adjusted profit (3Q26 preview, Rmb bn)	**262**	**255**	**274**
% change	*-2.0%*	*-10.0%*	*-12.6%*
Capex (1Q26 review, Rmb bn)	98	108	110
Capex (3Q26 preview, Rmb bn)	**203**	**252**	**241**
% change	*107.9%*	*134.4%*	*119.1%*
Alibaba	**FY27E**	**FY28E**	**FY29E**
Adjusted profit (1Q26 review, Rmb bn)	119	164	191
Adjusted profit (3Q26 preview, Rmb bn)	**102**	**152**	**173**
% change	*-14.2%*	*-7.2%*	*-9.7%*
Capex (1Q26 review, Rmb bn)	145	138	134
Capex (3Q26 preview, Rmb bn)	**258**	**283**	**282**
% change	*78.3%*	*104.9%*	*110.3%*

© 2026 Citigroup Inc. No redistribution without Citigroup's written permission.

Source: Company Reports and Citi Research Estimates

Figure 4. YTD price performance of the ATM stocks, TCOM, PDD and US internet stocks



© 2026 Citigroup Inc. No redistribution without Citigroup's written permission.

Source: dataCentral, Citi Research, data as of Oct 21, 2026, close, ATM = Alibaba, Tencent and Meituan

Figure 5. YTD price performance summary

Company name	Ticker	1-Day	1-Week	1-Month	3-Month	YTD	Jun 25 price	Oct 22 price
Alicia Yap, CFA								
Alibaba	9988.HK	-6.1%	-8.5%	-15.2%	-14.3%	-31.8%	HK$95.00	HK$97.35
Tencent	0700.HK	-2.9%	-8.5%	-15.3%	-13.2%	-36.2%	HK$421.40	HK$382.40
Baidu	9888.HK	-3.3%	-4.1%	-16.1%	-28.1%	-42.9%	HK$103.40	HK$75.10
Meituan	3690.HK	-4.6%	-5.5%	-2.6%	-14.8%	-31.0%	HK$66.10	HK$71.30
NetEase	9999.HK	-6.5%	-7.3%	-1.8%	-5.8%	-15.3%	HK$181.80	HK$181.80
JD.com	9618.HK	-4.3%	-6.3%	-7.7%	-17.1%	-11.9%	HK$98.75	HK$98.30
PDD	PDD.O	n.a.	-3.4%	-0.7%	-7.2%	-30.6%	US$73.30	n.a.
Tencent Music Entertainment	1698.HK	-2.4%	-2.0%	-0.4%	-8.1%	-53.4%	HK$32.18	HK$32.14
Vipshop Hldgs	VIPS.N	n.a.	-2.1%	0.7%	-14.3%	-28.8%	US$12.92	n.a.
Baozun	9991.HK	-10.9%	-0.1%	10.4%	25.7%	25.0%	HK$7.14	HK$8.50
Weibo	9898.HK	-4.3%	-3.8%	-7.3%	-22.3%	-39.0%	HK$56.60	HK$48.24
Sohu	SOHU.O	n.a.	0.4%	-2.5%	-3.5%	-19.9%	US$11.74	n.a.
DiDi Global	DIDIY.PK	n.a.	-9.8%	-15.2%	-11.6%	-40.9%	US$3.48	n.a.
CaoCao	2643.HK	-2.4%	-13.5%	-19.8%	-31.8%	-68.0%	HK$22.12	HK$9.605
Sea	SE.N	n.a.	-18.2%	-24.1%	-26.7%	-38.9%	US$89.01	n.a.
Grab	GRAB.O	n.a.	-3.1%	-3.1%	-19.4%	-43.5%	US$3.46	n.a.
Brian Gong								
Kuaishou	1024.HK	-4.5%	-6.3%	-14.2%	-37.3%	-58.1%	HK$42.16	HK$26.78
Trip.com	9961.HK	-2.0%	-0.9%	-5.1%	-9.9%	-44.7%	HK$315.00	HK$306.40
Tongcheng Travel	0780.HK	-2.9%	-1.1%	-6.3%	-24.3%	-56.5%	HK$12.72	HK$9.77
Bilibili	9626.HK	-3.8%	-6.5%	-12.7%	-25.4%	-46.3%	HK$128.40	HK$103.50
JOYY	JOYY.O	n.a.	2.8%	6.3%	17.6%	30.6%	US$66.43	n.a.
Hello Group	MOMO.O	n.a.	-3.8%	-9.2%	-24.9%	-30.8%	US$5.40	n.a.
Kanzhun	2076.HK	-2.7%	-1.0%	9.8%	2.5%	-21.2%	HK$51.50	HK$61.85
Autohome	2518.HK	-1.1%	-1.2%	-6.8%	-6.5%	-10.3%	HK$36.86	HK$38.58
Full Truck Alliance	YMM.N	n.a.	-0.5%	3.7%	-6.1%	-20.8%	US$7.54	n.a.
JD Logistics	2618.HK	-2.4%	-4.2%	-6.5%	-29.4%	-14.9%	HK$11.59	HK$9.72
SF Holdings	6936.HK	-1.7%	-1.8%	-3.7%	-14.9%	-19.8%	HK$30.14	HK$27.82
J&T Express	1519.HK	-2.1%	-3.0%	-0.6%	-8.8%	-16.6%	HK$8.08	HK$8.72
STO Express	002468.SZ	-1.7%	-5.6%	-8.6%	-1.2%	1.2%	RMB13.91	RMB13.58
YTO Express	600233.SS	0%	-3.6%	-4.8%	-6.3%	2.6%	RMB15.55	RMB16.84
ZTO Express	2057.HK	-0.6%	-0.8%	0.3%	-17.1%	-3.8%	HK$169.70	HK$156.10
Yunda	002120.SZ	-1.4%	-3.2%	-6.8%	-4.2%	-5.0%	RMB6.36	RMB6.40
Youdao	DAO.N	n.a.	-5.1%	27.1%	22.7%	83.5%	US$11.03	n.a.
Kingsoft Cloud	3896.HK	-6.3%	-4.7%	-19.9%	-17.8%	-23.1%	HK$4.52	HK$4.235
Kingsoft Office	688111.SS	-0.1%	1.9%	2.4%	-1.3%	-22.9%	RMB213.10	RMB236.88

© 2026 Citigroup Inc. No redistribution without Citigroup's written permission.

Source: dataCentral, Citi Research, data as of Oct 22, 2026 close; For US-listed stocks, the data is as of Oct 21 2026

Figure 6. Shareholder return summary

Company	Cash & Cash equivalent, ST investment and deposit (2Q26, US$)	ST loans and LT Debt (2Q26, US$)	Net cash as of 2Q26 (US$)	Current authorized share repurchase program (US$)	Amount repurchased in 2Q26 (US$)	Amount repurchased in 2025 (US$)	Amount outstanding as of 2Q26 (US$)	Dividend/share announced in 2Q26	Dividend payment in 2Q26	Free cash flow in 2Q26 (US$)	Total shareholder return as % of FCF in 2Q26
Alibaba	69.6bn	39.3bn	30.3bn	65.0bn	162mn	1.7bn	18.9bn	NA	NA	-6.6bn	NA
Tencent	75.3bn	66.8bn	8.6bn	NA	HK$16.9bn	HK$80.0bn	NA	NA	NA	-2.0bn	NA
JD.com	34.6bn	10.3bn	24.3bn	5.0bn	369mn	3.0bn	1.0bn	NA	NA	4.7bn	NA
Baidu	41.7bn	15.3bn	26.4bn	5.0bn	87mn	687mn	4.7bn	NA	NA	-1.2bn	NA
Meituan	24.8bn	13.1bn	11.7bn	NA	HK$200mn	HK$392mn	NA	NA	NA	1.4bn	NA
PDD	67.3bn	NA	67.3bn	0	0	0	0	NA	NA	3.8bn	0.0%
NetEase	26.5bn	1.9bn	24.7bn	5.0bn	0.3bn	~0.1bn	2.7bn	US$0.480/ADS	US$307mn	1.5bn	40.5%
Trip.com	14.8bn	3.9bn	10.9bn	5.0bn	NA	~500mn	5.0bn	NA	NA	NA	NA
VIPShop	4.9bn	1.6bn	3.3bn	1.0bn	99.1mn	696.7mn	216.9mn	NA	NA	-110.3mn	NA
Autohome	2.9bn	NA	2.9bn	400.0mn	43.6mn	NA	NA	NA	NA	38.5mn	113.2%
Tencent Music	6.5bn	2.4bn	4.1bn	1.0bn	400mn	~60mn	0.5bn	NA	NA	422mn	94.8%
Weibo	2.6bn	1.9bn	0.8bn	NA	NA	NA	NA	NA	NA	47.4mn	0.0%
Tongcheng	2.2bn	616.8mn	1.6bn	NA	NA	NA	NA	NA	NA	388.2mn	0.0%
iQiyi	607.8mn	2.0bn	-1.4bn	100.0mn	16.1mn	NA	75.9mn	NA	NA	47.1mn	34.2%
YMM	4.9bn	NA	4.9bn	200.0mn	NA	NA	NA	US$0.084/ADS	US$87.5mn	300.7mn	29.1%
Kuaishou	17.9bn	4.0bn	13.9bn	HK$16bn	HK$885.2mn	HK$3.1bn	NA	NA	NA	872.4mn	13.0%
YY	3.1bn	43.9mn	3.1bn	600.0mn	107.9mn	134.6mn	471.6mn	US$1.55/ADS	US$79.2mn	64.9mn	288.3%
Kanzhun	2.8bn	NA	2.8bn	400mn	NA	NA	NA	US$0.51/ADS	US$230mn	139.2mn	165.2%

© 2026 Citigroup Inc. No redistribution without Citigroup's written permission.

Source: Bloomberg, Company Reports and Citi Research Estimates, Citi Research

Companies Mentioned:

Alibaba (9988.HK; HK$97.35; 1; 22 Oct 26; 16:10) | Alibaba Group Holding (BABA.N; US$104.41; 1; 21 Oct 26; 16:00) | Autohome (ATHM.N; US$19.95; 2; 21 Oct 26; 16:00) | Baidu.com (BIDU.O; US$78.82; 1; 21 Oct 26; 16:00) | Baozun (BZUN.O; US$3.62; 1; 21 Oct 26; 16:00) | Beijing Kingsoft Office Software (688111.SS; Rmb236.88; 1; 22 Oct 26; 15:00) | Bilibili (BILI.O; US$13.6; 1; 21 Oct 26; 16:00) | CaoCao (2643.HK; HK$9.61; 1H; 22 Oct 26; 16:10) | DiDi Global (DIDIY.PK; US$3.12; 1H; 21 Oct 26; 17:00) | Full Truck Alliance (YMM.N; US$8.5; 1H; 21 Oct 26; 16:00) | Grab Holdings Ltd (GRAB.O; US$2.82; 1; 21 Oct 26; 16:00) | Hello Group Inc (MOMO.O; US$4.53; 2H; 21 Oct 26; 16:00) | iQIYI (IQ.O; US$0.92; 1; 21 Oct 26; 16:00) | J&T Express (1519.HK; HK$8.72; 1; 22 Oct 26; 16:10) | JD Logistics (2618.HK; HK$9.72; 1; 22 Oct 26; 16:10) | JD.com (JD.O; US$25.79; 1; 21 Oct 26; 16:00) | JOYY (JOYY.O; US$84.56; 1; 21 Oct 26; 16:00) | Kanzhun (BZ.O; US$16.26; 1; 21 Oct 26; 16:00) | Kanzhun Ltd (2076.HK; HK$61.85; 1; 22 Oct 26; 16:10) | Kingsoft Cloud (KC.O; US$8.57; 1; 21 Oct 26; 16:00) | Kuaishou (1024.HK; HK$26.78; 2; 22 Oct 26; 16:10) | Meituan (3690.HK; HK$71.3; 1H; 22 Oct 26; 16:10) | NetEase (NTES.O; US$122.98; 1; 21 Oct 26; 16:00) | PDD Holdings Inc (PDD.O; US$78.72; 1H; 21 Oct 26; 16:00) | Sea (SE.N; US$77.94; 1; 21 Oct 26; 16:00) | Sohu (SOHU.O; US$12.52; 1; 21 Oct 26; 16:00) | STO Express (002468.SZ; Rmb13.58; 1; 22 Oct 26; 15:00) | Tencent Holdings (0700.HK; HK$382.4; 1; 22 Oct 26; 16:10) | Tencent Music Entertainment (TME.N; US$8.44; 1; 21 Oct 26; 16:00) | Tongcheng Travel Holdings (0780.HK; HK$9.77; 1; 22 Oct 26; 16:10) | Trip.com Group Ltd (TCOM.O; US$39.31; 1; 21 Oct 26; 16:00) | Vipshop Holdings (VIPS.N; US$12.59; 2; 21 Oct 26; 16:00) | Weibo (WB.O; US$6.33; 2; 21 Oct 26; 16:00) | Youdao (DAO.N; US$18.5; 1; 21 Oct 26; 16:00)