NOMURA

Global Markets Research

18 October 2026

Tencent Holdings 0700.HK 700 HK

EQUITY: INTERNET & NEW MEDIA

Expecting weaker 3Q operating profit owing to AI investment

Maintain Buy; TP lowered to HKD659

3Q26F preview: Slower gaming growth, resilient ads and accelerating cloud revenue; margins remain under pressure

For 3Q26F, we expect Tencent to report largely in-line revenue but weaker operating profit amid continued AI investment. We pencil in revenue growth of 9% y-y, but a 3% y-y decline in non-IFRS operating profit to CNY70.3bn, 2% below the latest Bloomberg consensus estimate. Our estimates build in a 4.1pp y-y decline in non-IFRS OPM to 33.5%, reflecting continued AI investment. We estimate capex reached CNY58.7bn, up 11% q-q and 352% y-y.

We forecast gaming revenue growth of 7% y-y, comprising 12% growth in domestic revenue and a 4% decline overseas. We attribute the overseas decline mainly to a challenging comparison base, following 33% revenue growth in FY25, rather than an underlying business weakness. Advertising revenue likely rose 18% y-y despite macro headwinds, supported by robust short-video advertising. Fintech revenue growth likely slowed to 3.5% y-y from 5.1% in 2Q26, as subdued retail consumption weighed on the payments business. By contrast, Tencent Cloud revenue growth likely accelerated to over 30% y-y in 3Q26F from 22% in 2Q26, supported by strong demand for AI infrastructure across China's cloud industry, led by Alibaba Cloud [owned by Alibaba (BABA US, Buy)].

Although we believe Tencent's 3Q26F performance was less robust than in previous years, we view the slowdown as temporary, reflecting the current AI investment cycle and a high comparison base for gaming revenue. In our view, Tencent has yet to demonstrate an AI product as compelling as those of ByteDance (unlisted) and Alibaba. However, we believe its upcoming WeChat agent has the potential to help establish its position in China's AI market.

We lower our FY26F/27F non-IFRS EPS by 2%/3% to reflect margin pressure from AI investments and slightly slower gaming growth. We maintain Buy but lower our SOTP-based TP to HKD659 (from HKD695), reflecting a weaker earnings outlook. The revised TP implies 19x FY27F P/E. The stock currently trades at 12x FY27F P/E.

Rating Remains	**Buy**
Target price Reduced from HKD 695.00	**HKD 659.00**
Closing price 16 October 2026	**HKD 417.80**
Implied upside	**+57.7%**
Market Cap (USD mn)	484,091.4
ADT (USD mn)	1,311.9

Relative performance chart



Source: LSEG, Nomura

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Year-end 31 Dec	FY25	FY26F		FY27F		FY28F	
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	751,766	828,758	821,373	906,945	895,256	991,030	975,682
Reported net profit (mn)	224,842	225,473	220,575	241,677	233,823	263,452	257,159
Normalised net profit (mn)	259,626	265,699	260,520	285,090	276,792	310,638	303,763
FD normalised EPS	27.89	28.83	28.27	31.25	30.34	34.39	33.63
FD norm. EPS growth (%)	18.6	3.4	1.4	8.4	7.3	10.1	10.9
FD normalised P/E (x)	13.8	–	12.7	–	11.8	–	10.7
EV/EBITDA (x)	12.8	–	11.6	–	10.8	–	9.5
Price/book (x)	3.0	–	2.4	–	2.1	–	1.8
Dividend yield (%)	1.3	–	1.3	–	1.4	–	1.5
ROE (%)	21.1	17.9	17.5	16.5	16.0	15.7	15.5
Net debt/equity (%)	9.7	8.5	9.0	1.7	2.4	net cash	net cash

Source: Company data, Nomura estimates

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Tencent Holdings

Performance

(%)	1M	3M	12M		
Absolute (HKD)	-3.6	-13.7	-32.6	M cap (USDmn)	484,091.4
Absolute (USD)	-3.6	-13.8	-33.3	Free float (%)	60.0
Rel to Hang Seng Index	-1.5	-10.4	-26.0	3-mth ADT (USDmn)	1,311.9

Income statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue	660,257	751,766	821,373	895,256	975,682
Cost of goods sold	-311,011	-329,173	-353,581	-384,735	-420,958
Gross profit	349,246	422,593	467,792	510,521	554,724
SG&A	-121,919	-143,143	-183,987	-213,071	-224,407
Employee share expense	-27,230	-34,711	-31,212	-34,020	-37,076
Operating profit	200,097	244,739	252,592	263,430	293,241
EBITDA	256,310	310,767	318,302	335,051	371,296
Depreciation	-27,332	-32,799	-24,641	-26,858	-29,270
Amortisation	-28,881	-33,229	-41,069	-44,763	-48,784
EBIT	200,097	244,739	252,592	263,430	293,241
Net interest expense	3,557	3,453	4,464	4,687	4,922
Associates & JCEs	25,176	23,740	2,000	18,829	18,829
Other income	8,468	-4,851	3,900	3,600	3,600
Earnings before tax	237,298	267,081	262,956	290,546	320,592
Income tax	-45,018	-47,448	-53,382	-56,724	-62,432
Net profit after tax	192,280	219,633	209,575	233,823	258,159
Minorities	-2,394	-4,959	-7,000	-8,000	-9,000
Other items	32,817	44,952	57,945	50,970	54,603
Preferred dividends					
Normalised NPAT	222,703	259,626	260,520	276,792	303,763
Extraordinary items	-28,630	-34,784	-39,945	-42,970	-46,603
Reported NPAT	194,073	224,842	220,575	233,823	257,159
Dividends	-37,907	-44,041	-41,921	-44,990	-49,872
Transfer to reserves	156,166	180,801	178,653	188,833	207,287
Valuations and ratios					
Reported P/E (x)	18.8	15.9	15.0	14.0	12.6
Normalised P/E (x)	16.4	13.8	12.7	11.8	10.7
FD normalised P/E (x)	16.4	13.8	12.7	11.8	10.7
Dividend yield (%)	1.1	1.3	1.3	1.4	1.5
Price/cashflow (x)	14.1	11.8	11.0	8.8	9.5
Price/book (x)	3.7	3.0	2.4	2.1	1.8
EV/EBITDA (x)	15.4	12.8	11.6	10.8	9.5
EV/EBIT (x)	19.8	16.2	14.7	13.7	12.1
Gross margin (%)	52.9	56.2	57.0	57.0	56.9
EBITDA margin (%)	38.8	41.3	38.8	37.4	38.1
EBIT margin (%)	30.3	32.6	30.8	29.4	30.1
Net margin (%)	29.4	29.9	26.9	26.1	26.4
Effective tax rate (%)	19.0	17.8	20.3	19.5	19.5
Dividend payout (%)	19.5	19.6	19.0	19.2	19.4
ROE (%)	21.8	21.1	17.5	16.0	15.5
ROA (pretax %)	14.8	15.1	12.6	12.6	12.9
Growth (%)					
Revenue	8.4	13.9	9.3	9.0	9.0
EBITDA	19.6	21.2	2.4	5.3	10.8
Normalised EPS	44.5	18.6	1.4	7.3	10.9
Normalised FDEPS	44.5	18.6	1.4	7.3	10.9

Source: Company data, Nomura estimates

Cashflow statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
EBITDA	256,310	310,767	318,302	335,051	371,296
Change in working capital	22,863	-20,825	-17,805	62,406	-10,503
Other operating cashflow	-20,652	13,110	1,240	-24,620	-20,003
CF from operations	258,521	303,052	301,737	372,837	340,790
Capital expenditure	-62,927	-87,482	-205,343	-179,051	-146,352
Free cashflow	195,594	215,570	96,394	193,785	194,437
Reduction in investments	-6,994	-43,824	0	0	0
Net acquisitions					
Dec in other LT assets	-180,662	-79,119	-61,422	-62,493	-63,608
Inc in other LT liabilities	-17,721	158	21,834	24,848	28,298
Adjustments	146,117	4,535	-23,793	-28,321	-33,472
CF after investing acts	136,334	97,320	33,013	127,818	125,656
Cash dividends	-31,244	-39,907	-44,041	-41,921	-44,990
Equity issue	1,932	2,721	0	0	0
Debt issue	-107	-107	0	0	0
Convertible debt issue	0	0	0	0	0
Others	-146,716	-51,505	0	0	0
CF from financial acts	-176,135	-88,798	-44,041	-41,921	-44,990
Net cashflow	-39,801	8,522	-11,028	85,897	80,666
Beginning cash	172,320	132,519	141,041	130,013	215,910
Ending cash	132,519	141,041	130,013	215,910	296,576
Ending net debt	76,123	112,156	123,184	37,287	-43,379

Balance sheet (CNYmn)

As at 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & equivalents	132,519	141,041	130,013	215,910	296,576
Marketable securities	192,977	236,801	236,801	236,801	236,801
Accounts receivable	48,203	49,930	53,585	59,241	63,721
Inventories	440	530	530	530	530
Other current assets	122,041	167,158	167,158	167,158	167,158
Total current assets	496,180	595,460	588,087	679,641	764,787
LT investments	0	0	0	0	0
Fixed assets	80,185	149,905	330,607	482,801	599,882
Goodwill					
Other intangible assets	196,127	205,999	193,678	180,250	165,614
Other LT assets	1,008,503	1,087,622	1,149,044	1,211,537	1,275,144
Total assets	1,780,995	2,038,986	2,261,416	2,554,228	2,805,428
Short-term debt	52,885	42,618	42,618	42,618	42,618
Accounts payable	118,712	121,127	91,990	139,905	113,823
Other current liabilities	225,312	249,006	263,994	284,141	304,200
Total current liabilities	396,909	412,751	398,602	466,664	460,641
Long-term debt	149,521	208,369	208,369	208,369	208,369
Convertible debt	6,236	2,210	2,210	2,210	2,210
Other LT liabilities	174,433	174,591	196,425	221,272	249,570
Total liabilities	727,099	797,921	805,606	898,515	920,790
Minority interest	80,348	86,913	93,913	101,913	110,913
Preferred stock					
Common stock	81,518	143,716	143,716	143,716	143,716
Retained earnings	854,123	966,395	1,176,261	1,365,094	1,580,137
Proposed dividends	37,907	44,041	41,921	44,990	49,872
Other equity and reserves					
Total shareholders' equity	973,548	1,154,152	1,361,898	1,553,799	1,773,725
Total equity & liabilities	1,780,995	2,038,986	2,261,416	2,554,228	2,805,428

Liquidity (x)					
Current ratio	1.25	1.44	1.48	1.46	1.66
Interest cover	–	–	–	–	–
Leverage					
Net debt/EBITDA (x)	0.30	0.36	0.39	0.11	net cash
Net debt/equity (%)	7.82	9.72	9.05	2.40	net cash
Per share					
Reported EPS (CNY)	20.49	24.15	23.93	25.63	28.47
Norm EPS (CNY)	23.51	27.89	28.27	30.34	33.63
FD norm EPS (CNY)	23.51	27.89	28.27	30.34	33.63
BVPS (CNY)	105.03	127.04	149.91	171.03	195.24
DPS (CNY)	4.09	4.85	4.61	4.95	5.49
Activity (days)					
Days receivable	26.2	23.8	23.0	23.0	23.1
Days inventory	0.5	0.5	0.5	0.5	0.5
Days payable	128.9	133.0	110.0	110.0	110.3
Cash cycle	-102.2	-108.6	-86.5	-86.5	-86.8

Source: Company data, Nomura estimates

Company profile

Tencent provides a wide range of services, including gaming (including PC games and mobile games), other value added services (e.g. video entertainment), online advertising, fintech and business services (including payment and cloud services). Tencent also operates WeChat, China's largest messaging app.

Valuation Methodology

We value Tencent's online gaming business at USD259bn (FY27F P/E of 15x), online advertising business at USD259bn (FY27F P/E of 18x), Fintech business at USD119bn (FY27F P/E of 10x), and Cloud business at USD55bn (FY27F P/S of 5x). We value investees at USD65bn. The resulting TP is HKD659. The benchmark for the stock is the Hang Seng Index.

Risks that may impede the achievement of the target price

Risks: High market expectations, aggressive spending on WeChat Pay and overseas marketing, and any potentially disruptive products and business models from competitors.

ESG

Tencent's business is environmental friendly as it does not cause pollution or generate greenhouse gas. Its social ecosystem is creating massive business opportunities for content creators and merchants. Tencent maintains good corporate governance practices, including easy access for investors and proper disclosures.



Fig. 1: Tencent – 3Q26F results preview

3Q26F results preview							
CNYmn	3Q26F	2Q26	3Q25	YoY	QoQ	Cons.	vs. Cons.
Revenues	209,738	204,785	192,869	9%	2%	210,897	-0.5%
Gross profit	119,654	118,433	108,798	10%	1%	120,336	-0.6%
Gross margin	57.0%	57.8%	56.4%	0.6ppt	-0.8ppt	57.1%	0.0ppt
Non-IFRS op	70,346	75,636	72,570	-3%	-7%	72,025	-2.3%
Non-IFRS op margin	33.5%	36.9%	37.6%	-4.1ppt	-3.4ppt	34.2%	-0.6ppt
Non-IFRS net profit	66,273	68,415	70,551	-6%	-3%	68,048	-2.6%
Non-IFRS net margin	31.6%	33.4%	36.6%	-5.0ppt	-1.8ppt	32.3%	-0.7ppt
Non-IFRS EPS (CNY)	7.22	7.43	7.58	-5%	-3%	7.45	-3.0%

Source: Company data, Bloomberg Finance L.P., Nomura estimates

Fig. 2: Tencent – revenue mix

Revenue mix						
CNYmn	3Q26F	2Q26	3Q25	YoY	QoQ	% of total rev.
Value Added Service (VAS)	**101,060**	**98,414**	**95,860**	**5%**	**3%**	**48%**
Online gaming business	68,052	65,900	63,600	7%	3%	32%
Incl. domestic online gaming	*48,084*	*47,300*	*42,800*	12%	2%	23%
overseas online gaming	*19,968*	*18,600*	*20,800*	-4%	7%	10%
Marketing Services	**42,766**	**43,565**	**36,242**	**18%**	**-2%**	**20%**
FinTech and Business Services	**63,293**	**60,286**	**58,174**	**9%**	**5%**	**30%**
Others	2,619	2,520	2,593	1%	4%	**1%**
Total revenue	**209,738**	**204,785**	**192,869**	**9%**	**2%**	**100%**

Source: Company data, Nomura estimates

Fig. 3: Tencent – Revisions to our earnings estimates

Nomura new estimates vs old						
	FY26F			FY27F		
(CNYmn except for EPS)	New	Old	Diff	New	Old	Diff
Revenues	821,373	828,758	-1%	895,256	906,945	-1%
Gross profit	467,792	472,460	-1%	510,521	518,002	-1%
Gross margin	57.0%	57.0%	-0.1ppt	57.0%	57.1%	-0.1ppt
Non-IFRS op	289,957	296,243	-2%	303,043	313,117	-3%
Non-IFRS op margin	35.3%	35.7%	-0.4ppt	33.8%	34.5%	-0.7ppt
Non-IFRS net profit	260,520	265,699	-2%	276,792	285,090	-3%
Non-IFRS net margin	31.7%	32.1%	-0.3ppt	30.9%	31.4%	-0.5ppt
Non-IFRS EPS (CNY)	28.27	28.83	-2%	30.34	31.25	-3%

Source: Nomura estimates

Fig. 4: Tencent – SOTP valuation

USD mn unless otherwise stated	Market cap	Stake	Attributable valuation	Note
Core business				
Online gaming	259,148	100%	259,148	15x FY27F P/E
Ads	259,268	100%	259,268	18x FY27F P/E
Fintech	118,785	100%	118,785	10x FY27F P/E (12x FY27F P/E previously)
Tencent Cloud	54,945	100%	54,945	5x FY27F P/S (6x FY27F P/S previously)
Total			692,146	
Gross value from investees			130,597	
Holding discount			50%	
Attributable value from investees			65,299	
Total EV			757,445	
Net Cash			8,685	
Target market cap			766,130	
Share counts			9,124	
Target price (HKD)			**659**	

Source: Company data, Bloomberg Finance L.P., Nomura estimates

Appendix A-1

This report has been produced by Nomura International (Hong Kong) Ltd. (NIHK), Hong Kong.
See Disclaimers for Nomura Group entity details.

Analyst Certification

We, Rachel Guo and Jialong Shi, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Tencent Holdings	700 HK	HKD 417.80	16-Oct-2026	Buy	N/A	A1,A3,A10
Alibaba Group Holding	BABA US	USD 109.11	16-Oct-2026	Buy	N/A	A10

A1 The Nomura Group has received compensation for non-investment banking products or services from the subject company in the past 12 months.

A3 The Nomura Group has had a non-securities related services client relationship with the subject company during the past 12 months.

A10 The Nomura Group is a registered market maker in the securities / related derivatives of the issuer.

Tencent Holdings (700 HK) **HKD 417.80 (16-Oct-2026)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



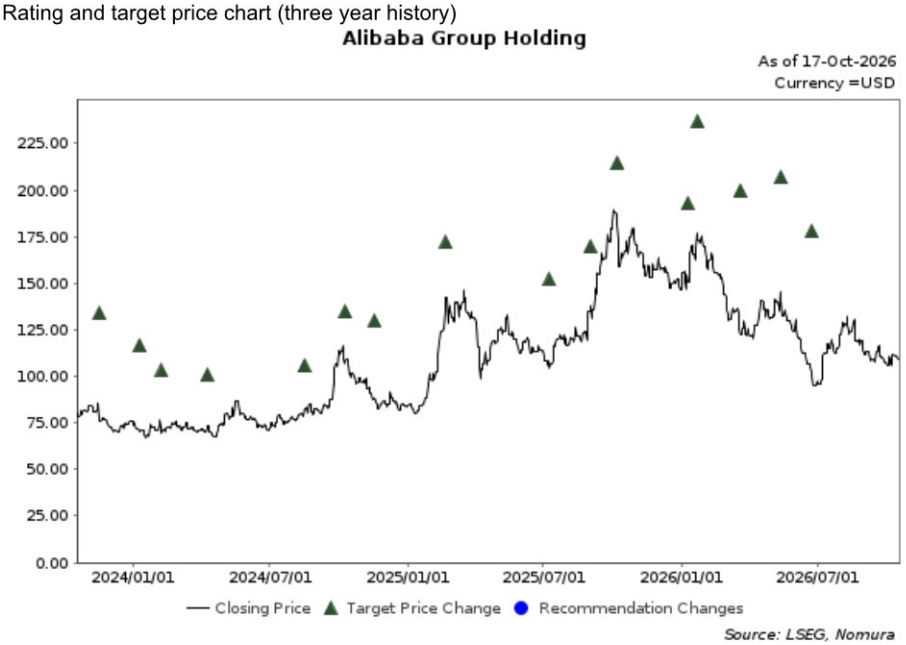
Date	Rating	Target price	Closing price
13-Aug-26		695.00	441.00
20-Mar-26		727.00	508.00
14-Nov-25		775.00	641.00
31-Oct-25		757.00	629.00
14-Aug-25		721.00	590.00
15-May-25		670.00	520.00
20-Mar-25		648.00	519.50
25-Oct-24		500.00	421.00
15-Aug-24		478.00	368.40
15-May-24		467.00	381.80
18-Jan-24		400.00	277.60
16-Nov-23		445.00	324.80

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Tencent's online gaming business at USD259bn (FY27F P/E of 15x), online advertising business at USD259bn (FY27F P/E of 18x), Fintech business at USD119bn (FY27F P/E of 10x), and Cloud business at USD55bn (FY27F P/S of 5x). We value investees at USD65bn. The resulting TP is HKD659. The benchmark for the stock is the Hang Seng Index.
Risks that may impede the achievement of the target price Risks: High market expectations, aggressive spending on WeChat Pay and overseas marketing, and any potentially disruptive products and business models from competitors.

Alibaba Group Holding (BABA US) **USD 109.11 (16-Oct-2026)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
24-Jun-26		178.00	99.80
14-May-26		207.00	141.12
20-Mar-26		200.00	122.41
23-Jan-26		237.00	173.23
09-Jan-26		193.00	150.96
08-Oct-25		215.00	181.12
01-Sep-25		170.00	135.00
09-Jul-25		152.00	103.83
21-Feb-25		172.00	142.62
18-Nov-24		130.00	88.65
10-Oct-24		135.00	108.42
16-Aug-24		106.00	82.52
09-Apr-24		101.00	71.80
08-Feb-24		103.00	69.63
10-Jan-24		117.00	70.25
17-Nov-23		134.00	76.34

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Alibaba's Ecommerce Group at USD102bn, based on 5x FY28F P/E; its AliCloud (ex T-head chips) business at USD190bn, based on 5x FY28F P/S; its T-head chips business at USD85bn, based on 13x FY28F P/S, and its net valuation of non-core assets at USD28bn. The resulting TP is USD178. The benchmark index for this stock is Nasdaq Composite.

Risks that may impede the achievement of the target price Downside risks include: lower-than-expected Alicloud revenue growth; margin downside due to ramp-up in investments; regulatory risks related to the payment and internet finance industry, which could hurt Alibaba's main business and its value in Ant Group.

Important Disclosures

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60% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 34% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services** by the Nomura Group.
38% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 57% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group
2% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 17% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group.
As at 30 September 2026.
**The Nomura Group as defined in the Disclaimer section at the end of this report.*
*** As defined by the EU Market Abuse Regulation*

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The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock,

subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan:** please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: http://go.nomuranow.com/research/m/Disclosures; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan:** Russell/Nomura Large Cap.

SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan:** Sector ratings are not assigned.

Target Price

A Target Price, if discussed, indicates the analyst's forecast for the share price with a 12-month time horizon, reflecting in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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