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Global Research
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China Internet Sector

The market is overpricing the AI bill

Equities

China

Internet Services

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China internet sector

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1) Sector recap: AI investment brings near-term pressure, but this should have been reflected in valuations

Valuation reset

China Internet shares are down 28% YTD, reflecting a 19% EPS downgrade and 24% multiple de-rating.

Manageable investment cycle

Selected hyperscalers are effectively committing around one year of core cash generation to AI.

Three ways to win

- Structural AI beneficiaries
- Resilient cash-generative core
- Bottom-up earnings recovery stories.

Preferred opportunities from us:
Alibaba, Tencent, Meituan, JOYY and Boss Zhipin

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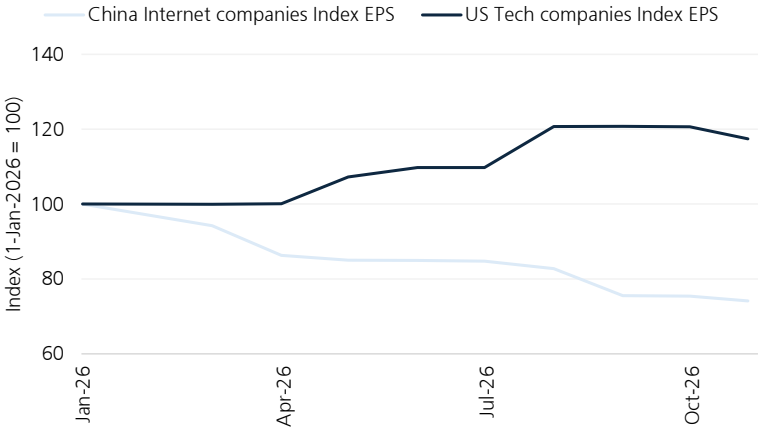
1) Sector recap: Market may be over-discounting risk and underpricing optionality

- China faces weak consumption and AI capex pressure.
- Resilient US core businesses and improving cloud profitability could provide an additional buffer against higher AI spending.

HSTech YTD indexed performance -30%



China vs US YTD cons EPS index in divergence



UBS Source: Reuters.

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2.1) 3 structural changes in AI era – Monetization and traffic

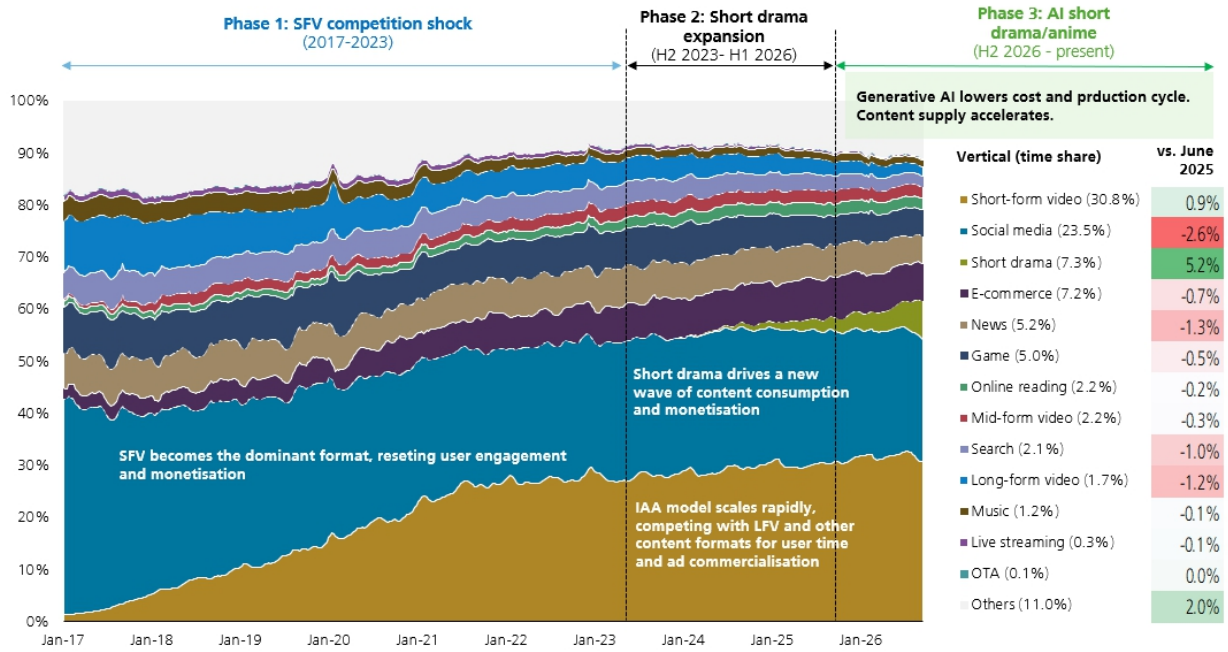
Three tests for value capture	**Binding constraint** Supply or demand side?	**Monetization upside** How much to grow?	**Platform capture** Who keeps the value?

AI impact assessment	**Sectors and applications**
More positive	Online games, short-form content, recruiting
Selective	Cloud, enterprise productivity, video-generation tools
Neutral / efficiency-led	E-commerce
More cautious	Advertising (exposed to more inventory and lower eCPM)

UBS Source: UBS estimates.

2.1) Monetization and traffic: Ad / Short drama

From SFV to AI-driven content - a three-phase shift in user time spent



- **Lower-cost supply:** AI production costs are c1/10 of live action, with cycles as short as 2–3 weeks. Douyin releases more than 50k AI short dramas and anime monthly.
- **Content-format shift:** Short-form video gave way to live-action short dramas, followed by AI-generated drama and anime. Lower costs meet rising demand for bite-sized entertainment.
- **Growing engagement:** Short drama is China's second-largest entertainment format by time spent. In Sep 2026, Hongguo reached 203mn DAU (+127% YoY) and 166 minutes of daily usage. Its short-anime app reached 79mn MAU.

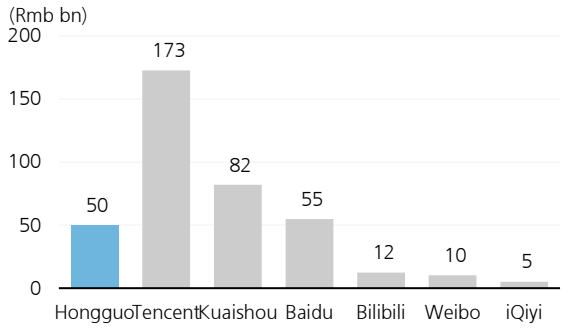
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Source: UBS Evidence Lab (> Access Dataset), UBS Research, 26 Oct 2026, pp. 5–6.

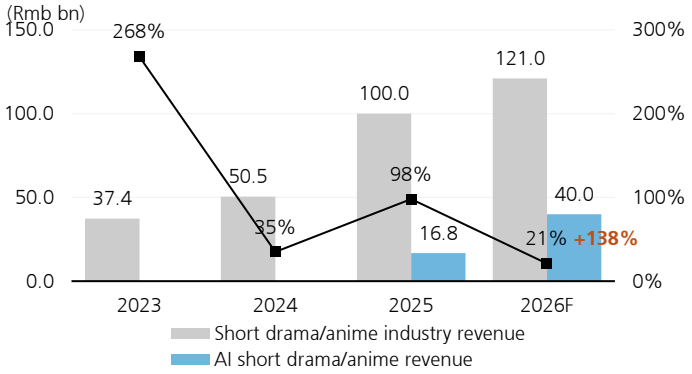
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2.1) Monetization and traffic: Ad / Short drama (cont'd)

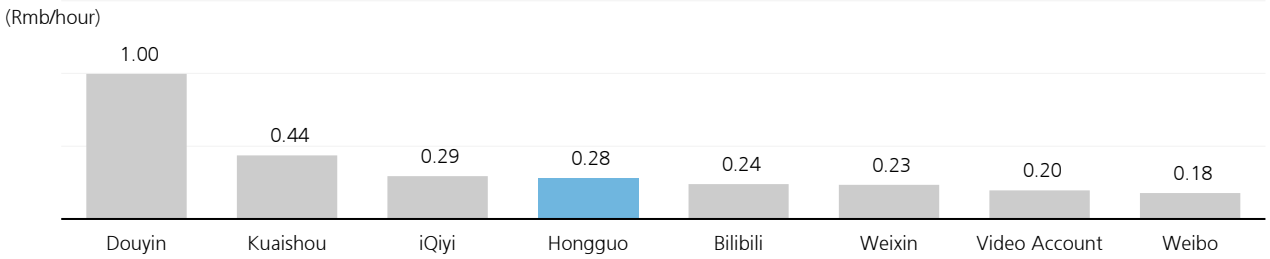
Hongguo ad revenue vs. major ad platforms, 2026E



AI short drama/anime market revenue is expected to increase 138% YoY to Rmb40bn in 2026



Ad revenue per user time spent comparison, Q326E



- **AI expands supply:** Lower production costs and faster release cycles increase content availability and advertising inventory.
- **Monetization shifts:** Paid viewing (IAP) gives way to in-app advertising (IAA). Channel checks put Hongguo ad revenue at cRmb50bn, equivalent to c30%/60% of Tencent/Kuaishou's 2026E ad revenue.
- **Distribution captures value:** More than 70% of short-drama revenue goes to traffic acquisition, favoring platforms that control distribution.
- **Monetization headroom:** Hongguo ad revenue per user-hour is cRmb0.28 versus Douyin's Rmb1.00, leaving substantial room to monetize engagement.
- **Ad-budget redistribution:** IAA inventory competes for finite advertiser budgets, pressuring industry eCPMs. As content supply expands, user attention becomes scarcer and scaled distribution gains value.

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Source: DataEye, company data, UBS estimates, UBS Research, 26 Oct 2026, pp. 5–6.

2.1) Monetization and traffic: Online games

We see online games as a more direct AI beneficiary, with potential for revenue growth and cost savings.

Faster production and updates

AI could shorten development cycles, accelerate gameplay testing and raise content density.

Broader cosmetic offerings

Content tailored to player preferences could lift engagement, payer conversion and spending.

Untapped monetization

UBS estimates HoK and PUBG payer penetration below 20% of MAU, with ARPPU around Rmb200.

Greater potential in SLG

Strategy-led games could benefit as gameplay depth and content density matter more than visual differentiation.

2.1) Monetization and traffic: E-commerce

Near-term gains center on efficiency and market-share shifts. Incremental GMV needs stronger consumer demand.

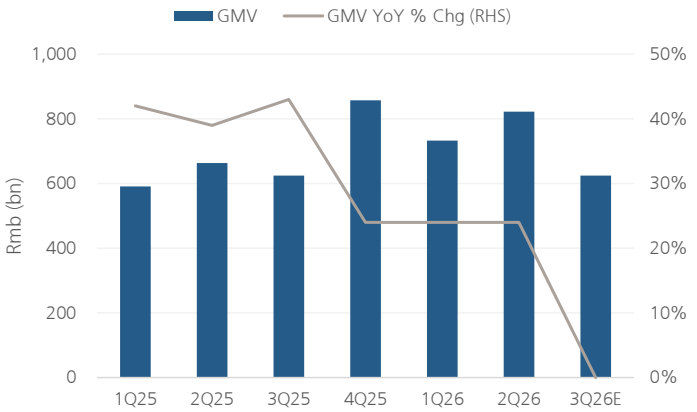
Spending constrains revenue upside

- Better targeting and personalization can improve CTR, conversion and product discovery, but higher efficiency does not necessarily translate into proportionately higher consumer spending or merchant ad budgets.
- With China's recommendation engines already sophisticated, incremental gains from better discovery could also be more limited.

Merchant efficiency offers clearer gains

- AI can automate product listings, creative generation, customer service and campaign management, lowering merchants' operating and participation costs and improving ROI.
- We therefore expect AI to drive merchant efficiency, conversion and market-share redistribution before materially expanding the overall e-commerce profit pool.

Douyin GMV YoY growth moderated



UBS Source: UBS Research (channel checks), UBS estimates.

2.2) Agentic AI: Impact on transactional platforms

While expectations for personal agents are rising in the US, we remain cautious about extrapolating the opportunity directly to China.

Summary for AI Agent Opportunity in E-commerce: US vs. China

	US	China
Online ecosystem	Predominantly PC-based; c50% mobile-based transactions	Mobile-first; c85% mobile-based transactions
Platform structure	More open ecosystem; Amazon (c50% share), alongside a fragmented long tail of independent DTC sites	Mostly walled-garden super apps; c90% share by platforms (e.g. BABA, PDD, JD, Douyin)
Platform offerings	More fragmented, with services spread across multiple platforms	More integrated; with platforms typically offering one-stop services within each vertical
Merchant structure	Higher chain store penetration	More fragmented with higher SME mix
Agent economics	More favourable, with higher ASP, and greater value addition from time savings from cross-site search, helping offset higher service costs	Less favourable; limited ToC monetization potential given lower incremental value creation

UBS Source: UBS estimates.

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2.3) Shift of AI competition: Capital, efficiency, and ecosystem

Winning position =

Capital	x	**Efficiency & specialization**	x	**Ecosystem**
Greater commitments across R&D, infrastructure and working capital		Deliver superior cost per successful task or differentiated domain value.		Connect context, authorization, execution and monetization.

The framework favors well-funded, full-stack platforms, while preserving room for differentiated specialists.

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2.3) Shift of AI competition: Capital – greater commitments across R&D, infrastructure and working capital

Drivers:

1) R&D costs rise:
Larger models raise development costs. Tighter access to frontier model outputs for distillation increases proprietary R&D needs, while differentiated, high-quality data adds to training costs.

2) Infrastructure needs grow:
Training and inference both need compute. GPU shortages limit capacity and hardware inflation raises costs. Providers need reserved supply or third-party capacity.

3) Working capital increases:
Compute prepayments secure capacity before revenue arrives. Rising receivables tie up cash, while supplier payables provide only a partial offset. Commercialization adds funding needs beyond model development.

Both Internet Company and LLM labs actively seeks funding supporting AI investment

China internet company	Date	Capital type	Amount (USD bn)	Detail
Tencent	14-Oct	Debt – Bonds	5.5	USD 1.8bn + RMB 26bn bonds
BiliBili	4-Sep	Debt – Convertible Note	0.7	USD 700m convertible-note package
Alibaba	24-Aug	Equity – Placement	10.3	HKD 80bn equity placement
Tencent	10-Jun	Debt – Bonds	4.6	USD 2.45bn + RMB 15bn bonds
JD	10-Apr	Debt – Senior Notes	1.4	RMB 10bn senior unsecured notes
Kuaishou	16-Jan	Debt – Senior Notes	2.0	USD 1.5bn + RMB 3.5bn senior notes
China internet company total			**24.5**	
LLM labs				
Zhipu	13-Sep	Mixed – Equity & Convertible Bonds	5.0	USD 5bn combined financing
Moonshot AI / Kimi	29-Jul	Equity – Series F Round	3.5	Over USD 3.5bn, Series F round
MiniMax	14-Jul–16-Jul	Mixed – Equity & Convertible Bonds	2.1	HKD 16.0bn combined financing
Zhipu	13-Jul	Equity – Placement	4.0	HKD 31.4bn equity placement
Kling AI / Kuaishou subsidiary	2-Jul	Equity – Financing	3.0	Up to USD 3bn equity financing
DeepSeek	Late Jun	Equity – External Round	7.3	RMB 51bn first external round
Moonshot AI / Kimi	May	Equity – Series D Round	2.0	USD 2bn, Series D round
Moonshot AI / Kimi	Feb	Equity – Series C+ Round	0.7	Over USD 700m, Series C+ round
MiniMax	9-Jan	Equity – IPO	0.7	HKD 5.5bn gross IPO proceeds
Zhipu	8-Jan	Equity – IPO	0.6	HKD 5bn gross IPO proceeds
LLM labs total			**28.9**	
Total			**53.4**	

Cash-generative platforms can absorb model losses and reserve compute ahead of monetization. Independent labs face tighter capacity, margin and funding trade-offs.

UBS Source: Company data, Bloomberg, Forbes, UBS estimates. UBS Research, 26 Oct 2026, pp. 8–9.

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2.3) Shift of AI competition: Efficiency / specialization: superior UE, architecture or domain expertise

Alibaba: Full-stack cost advantage

- Qwen's 460+ open-source models and 300,000+ derivatives enable cost-efficient, task-specific deployment
- Integration across cloud infrastructure and proprietary T-Head silicon provides additional levers to lower inference costs.

DeepSeek: Software efficiency

10–20% inference-margin advantage versus peers despite competitive pricing.

Kimi & Z.ai: Vertical specialization

- Kimi specializes in financials/legal analysis
- Z.ai in coding/cybersecurity

Beyond flagship models, AI developers are expanding Flash offerings for cost-efficient options

Developer	Tier	Model	Release date	Parameters (total / active)	AA Index	Input US$/mn tokens	Cached input US$/mn tokens	Output US$/mn tokens	Blended price 7:2:1 blend	Cost per task US$/task
Zhipu	Flash	GLM-5.3-Flash	26 Aug 2026	320B / 18B	41.8	$0.15	$0.03	$0.50	$0.10	$0.28
	Flagship	GLM-5.3	18 Aug 2026	753B / ~40B	44.8	$1.40	$0.26	$4.40	$0.90	$2.01
Moonshot	Flagship	Kimi K3.1 Pro	23 Oct 2026	2.8T / 104B	55.1	$2.00	$0.20	$10.00	$1.54	$2.11
	Flash	Kimi K2.8 Preview	11 Sep 2026	Not disclosed	n.a.	$1.00*	$0.25*	$4.00*	$0.78*	n.a.
	Flagship	Kimi K3	16 Jul 2026	2.8T / 104B	43.6	$3.00	$0.30	$15.00	$2.31	$2.00
Alibaba	Flash	Qwen3.8-Flash-Next	26 Aug 2026	180B / 6B	39.8	$0.15	$0.016	$0.47	$0.09	$0.37
	Flagship	Qwen3.8 Max	3 Aug 2026	Not disclosed	40.2	$2.00	$0.25	$6.00	$1.18	$2.67
Google	Flash	Gemini 3.8 Flash (high)	2 Sep 2026	Not disclosed	40.9	$0.75	$0.075	$3.75	$0.58	$1.24
	Flagship	Gemini 3.1 Pro Preview	19 Feb 2026	Not disclosed	29.7	$2.00	$0.20	$12.00	$1.74	$1.30
SpaceXAI	Flagship	Grok 4.7 (xhigh)	21 Sep 2026	Not disclosed	46.4	$2.00	$0.50	$6.00	$1.35	$3.74
	Flash	Grok Build 0.1 0616	16 Jun 2026	Not disclosed	27.2	$1.00	$0.20	$2.00	$0.54	n.a.
DeepSeek	Flash	DeepSeek V4.1 Flash	10 Sep 2026	552B / 16B	39.5	$0.295	$0.006	$1.20	$0.18	$0.48
	Flagship	DeepSeek V4 Pro 0424	24 Apr 2026	1.6T / 49B	30.4	$0.435	$0.0036	$0.87	$0.18	$0.12
OpenAI	Balanced	GPT-6.1 Sol	29 Sep 2026	Not disclosed	51.8	$2.00	$0.10	$10.00	$1.47	$0.72
	Balanced	GPT-6 Sol	22 Sep 2026	Not disclosed	47.6	$2.00	$0.20	$10.00	$1.54	$1.04
	High-volume	GPT-6 Luna	22 Sep 2026	Not disclosed	38.1	$0.10	$0.01	$0.50	$0.08	$0.07
	Flagship	GPT-6 Astra	3 Sep 2026	Not disclosed	52.7	$10.00	$1.00	$50.00	$7.70	$3.26
Anthropic	Efficient	Claude Haiku 5.5	7 Oct 2026	Not disclosed	43.4	$0.10	$0.01	$0.50	$0.08	$0.21
	Balanced	Claude Sonnet 5.5	28 Sep 2026	Not disclosed	56.0	$2.00	$0.10	$10.00	$1.47	$5.46
	Efficient	Claude Opus 5.5	22 Sep 2026	Not disclosed	57.6	$4.00	$0.20	$20.00	$2.94	$5.98
	Flagship	Claude Fable 5.1	1 Sep 2026	Not disclosed	53.4	$10.00	$0.25	$50.00	$7.18	$7.63
Meta	Flagship	Muse Wonder (max)	12 Oct 2026	Not disclosed	52.4	$4.00	$0.20	$20.00	$2.94	$4.54
	Balanced	Muse Spark 1.3 (max)	2 Sep 2026	Not disclosed	48.1	$1.25	$0.15	$4.25	$0.78	$1.60

Low price alone is becoming less defensible as global frontier models compete on both intelligence and economics

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Source: Atificial Analysis, company data, UBS. Note: Prices are in US$/mn tokens. Blended price represents a 7:2:1 blend of cached-input, input and output token prices. Parameters refer to total/active parameters where disclosed. *Kimi K2.8 Preview pricing is based on a third-party API provider. Data as of 26 October 2026.

2.3) Shift of AI competition: Ecosystem – Data ownership extends the value of model capability

As model capability converges, competitive advantage increasingly shifts from models' ranking to owning the workflow around it.

ByteDance: Content loop

- Fanqie provides content and IP.
- Seedance generates video.
- Hongguo and Douyin has distributing channels
- Volcano Engine provide ToB services and advertising channel

Muse: Product experience

Once model capability meets the use case, integration and relevant user context can become decisive adoption drivers.

Tencent: Execution loop

WorkBuddy supports an execution-led platform thesis through harness engineering, broad model access and its Skills library.

Model capability gets users through the door; workflow ownership determines who captures the economics

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3) Financial implications: Stronger moats, lower margins and heavier assets

- **AI raises the cost of staying competitive:** Higher R&D, product-development and inference costs are being incurred ahead of meaningful AI monetization, putting pressure on near-term margins.
- **Cost discipline helps fund the AI bill:** Lower subsidies, traffic acquisition and other operating costs can partly offset incremental AI spending and reduce the overall earnings drag.
- **Platforms are moving deeper into infrastructure:** Investment is shifting toward compute, proprietary supply and fulfilment, strengthening execution moats but making business models more capital intensive.
- **Capital efficiency may decline:** A less asset-light model could bring higher depreciation and working-capital requirements, potentially lowering normalized returns even as AI investment eventually moderates.

Increasing investments among China internet companies in the AI era

Infrastructure	Assets	Financial implications
Compute	Chips, data centers	Capex, depreciation, working capital (pre-payments), R&D expense
Supply	1P and private labels	Inventory, and supply chain investment
Fulfilment	Warehouses, delivery network	Lease, working capital
Merchant operations	Local BD	G&A expense

China internet companies' lower ROE in post-AI era

	ROE						YoY chg (ppt)				
	2023	2024	2025	2026E	2027E	2028E	2024	2025	2026E	2027E	2028E
NetEase	26.1%	24.7%	25.7%	28.0%	26.7%	24.9%	-1.4%	0.9%	2.4%	-1.3%	-1.8%
Tencent	19.0%	23.1%	22.6%	19.7%	16.9%	16.6%	4.1%	-0.5%	-3.0%	-2.8%	-0.4%
Bilibili	-22.8%	-0.4%	16.5%	17.3%	19.6%	20.9%	22.4%	16.9%	0.9%	2.2%	1.3%
Kuaishou	22.5%	31.8%	32.9%	13.5%	13.3%	14.4%	9.3%	1.1%	-19.4%	-0.2%	1.1%
JD	12.3%	15.7%	8.9%	10.6%	12.9%	13.9%	3.3%	-6.8%	1.7%	2.3%	1.0%
Baidu	11.9%	10.9%	10.4%	10.3%	9.9%	9.4%	-1.0%	-0.5%	-0.2%	-0.4%	-0.5%
Alibaba	14.2%	14.3%	5.9%	9.3%	12.4%	13.9%	0.2%	-8.5%	3.5%	3.1%	1.5%
Meituan	30.1%	54.9%	-23.1%	3.1%	35.4%	43.7%	24.8%	-78.0%	26.2%	32.4%	8.2%
Kingsoft Cloud	-16.5%	-13.7%	-7.7%	-4.0%	0.6%	3.7%	2.8%	6.0%	3.7%	4.6%	3.1%
Z.AI	-28.3%	-40.5%	-29.9%	-47.0%	-36.8%	-14.0%	-12.2%	10.6%	-17.1%	10.2%	22.8%

Investment implication: stronger moats may come at the expense of capital efficiency as platforms move from asset light to asset heavy.

Source: Company data, UBS estimates.

3) Financial implications: Earnings/Cash flow sensitivity to AI investments

Earnings sensitivity on AI opex

	Adj. OP		Incremental AI investment		As % of adj. OP	
(Rmb m)	2026E	2027E	2026E	2027E	2026E	2027E
Kingsoft Cloud	295	623	1,432	1,468	485%	236%
Z.AI	(4,753)	(4,736)	6,286	10,961	132%	231%
Minimax	(4,927)	(6,662)	5,414	8,663	110%	130%
Baidu	12,081	13,608	6,594	5,561	55%	41%
Tencent	288,764	270,064	55,000	110,000	19%	41%
BABA	132,535	179,391	44,861	44,861	34%	25%
Kuaishou	10,813	13,075	5,200	1,862	48%	14%
JD	23,316	39,415	9,117	4,237	39%	11%
Bilibili	2,896	3,767	500	329	17%	9%
Meituan	(2,071)	31,256	2,000	2,500	97%	8%

OCF sensitivity on capex

	OCF		Capex		As % of OCF	
(Rmb m)	2026E	2027E	2026E	2027E	2026E	2027E
Kingsoft Cloud	4,767	6,003	7,160	7,339	150%	122%
BABA	110,710	216,247	250,277	256,521	226%	119%
Kuaishou	18,489	22,559	24,995	22,638	135%	100%
Baidu	34,596	28,460	32,972	27,806	95%	98%
Tencent	325,260	401,167	252,993	247,360	78%	62%
Meituan	16,293	42,333	14,598	16,058	90%	38%
JD	48,039	44,162	13,299	9,309	28%	21%
Bilibili	4,894	7,222	1,026	987	21%	14%
Z.AI	(2,273)	(831)	536	928	n.a.	n.a.
Minimax	(4,791)	(3,909)	233	219	n.a.	n.a.

Source: Company data, UBS estimates. Note: BABA's adj. earnings for 2026E/27E refer to adj. EBITA for FY27E/28E, and AI opex refers to EBITA loss in AI labs and applications .

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4) Stock picks: AI upside works best alongside resilient core cash generation

1) Structural AI beneficiaries

Alibaba

Cloud growth, improving profitability and full-stack economics.

Potential EPS upgrades as e-commerce stabilizes, cloud accelerates and investment losses narrow.

2) Valuation-supported resilience

Tencent

Core cash generation supports the AI investment cycle.

FCF could recover before reported EPS if discretionary spending moderates.

3) Bottom-up drivers independent of AI

Meituan, **JOYY** and **Boss Zhipin**

Competition rationalization, monetization improvement and earnings recovery.

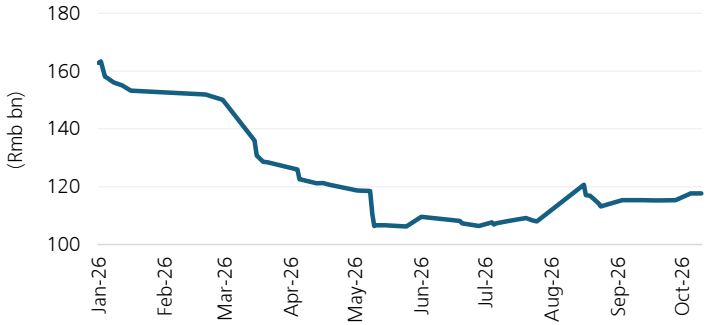
Cash-return characteristics support the portfolio case.

UBS Source: UBS Research

4) Stock picks - BABA: Cloud monetization, full-stack advantage and an approaching EPS inflection

- **EPS upgrade cycle is approaching:** Core e-commerce stabilization supports cRMB190bn of EBITA, while narrowing quick-commerce losses and stronger cloud earnings could reverse the recent downgrade cycle.
- **Cloud is becoming a larger profit driver:** Rising AI mix and margin expansion could lift AliCloud's contribution to group EBITA to 26%/37% in FY27/28E, with Dec-quarter cloud EBITA expected to cover AI-lab losses.
- **Cloud margin upside is increasingly the earnings story:** AI cloud carries substantially higher margins than non-AI cloud, with rising AI mix supporting overall AliCloud margin expansion toward **20% by mid-2027**

Cons FY27E adj. EBITA revision YTD



AliCloud's EBITA margin should expand from 12% to 14%/18% in FY27E/28E

	1QFY27	2QFY27E	3QFY27E	4QFY27E	FY27E	FY28E
AliCloud revenue	**48,437**	**60,931**	**67,090**	**65,769**	**242,227**	**363,341**
AI	12,376	18,041	22,045	25,080	77,542	154,348
Non-AI and internal	36,061	42,890	45,046	40,689	164,685	208,993
Revenue mix						
AI	26%	30%	33%	38%	32%	42%
Non-AI and internal	74%	70%	67%	62%	68%	58%
AliCloud EBITA	**5,628**	**8,530**	**10,064**	**10,523**	**34,745**	**66,651**
AI	3,713	5,773	7,275	8,277	25,037	54,022
Non-AI and internal	1,915	2,757	2,789	2,247	9,708	12,629
AliCloud EBITA margin	**11.6%**	**14.0%**	**15.0%**	**16.0%**	**14.3%**	**18.3%**
AI	30.0%	32.0%	33.0%	33.0%	34.0%	35.0%
Non-AI and internal	5.3%	6.4%	6.2%	5.5%	5.9%	6.0%

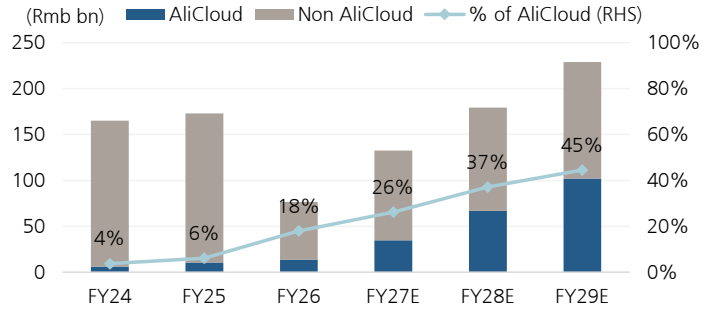
UBS

Source: UBS estimates, company data, Visible Alpha. Estimates per supplied company analysis.

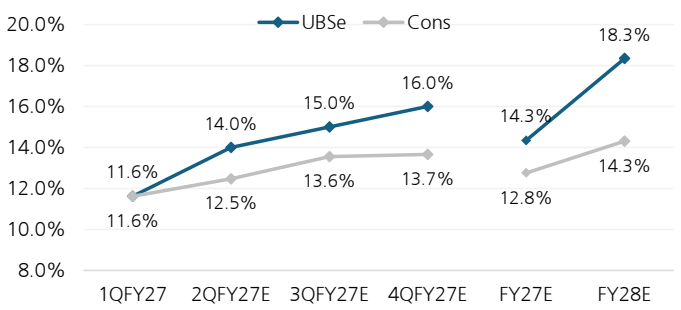
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4) Stock picks - BABA: SOTP valuation upside; Reducing equity-funding risk

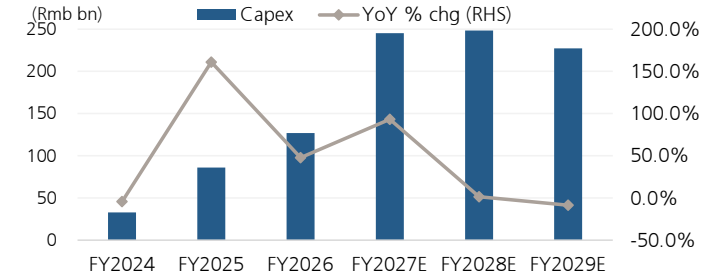
AliCloud's increasing EBITA contribution to BABA



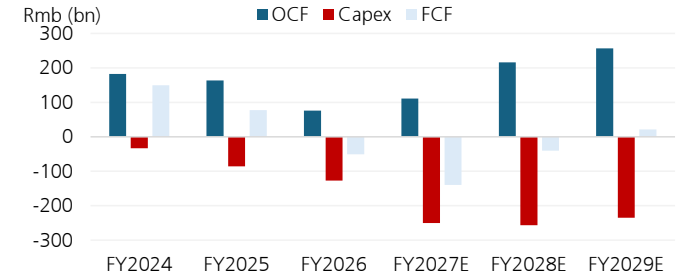
AliCloud EBITA margin: UBSe vs cons



BABA's capex estimated at Rmb200-250bn in FY27E-29E



BABA's FCF is expected to turn +ve in FY29E



- **Valuation gives limited credit to AI monetization:** Applying 7–8x P/E to e-commerce and 5x P/S to cloud implies US$100–110/share.
- **Improving profitability should reduce equity-funding risk:** Stabilizing e-commerce profits, narrowing quick-commerce losses and improving cloud earnings.

UBS

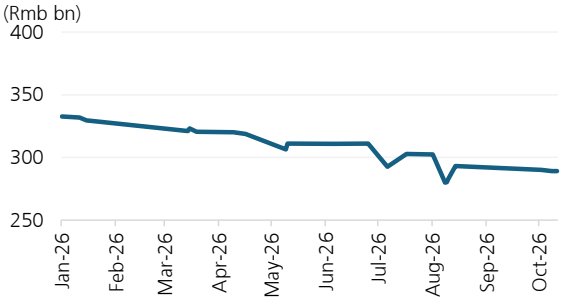
Source: UBS estimates, company data, Visible Alpha. Estimates per supplied company analysis.

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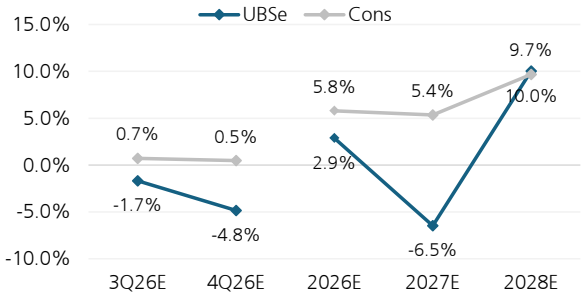
4) Stock picks - Tencent: Core earnings fund the AI option, FCF recovery protects the downside

- **Core earnings provide a buffer against elevated AI investment:** Resilient games and advertising earnings help fund the investment cycle.
- **AI earnings drag remains manageable:** Core earnings growth could offset a meaningful portion of incremental AI spending
- **FCF can recover ahead of EPS:** If AI investment intensity moderates, cash flow could recover faster than earnings given the depreciation tail.
- **Valuation may over-discount AI investment pressure:** At c.11x P/E in the underlying research assumptions, spending duration and normalized FCF matter more than near-term EPS pressure.
- **WorkBuddy and Xiaowei provide AI optionality:** Early application traction supports Tencent's AI capabilities, although meaningful group-level earnings contribution could take time.

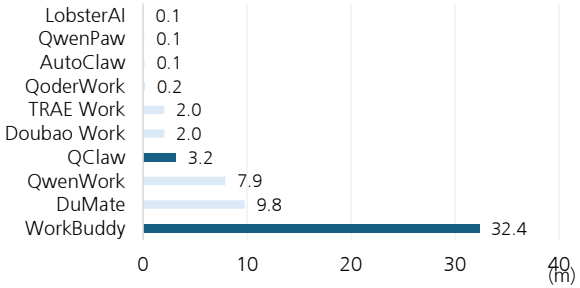
Cons 2027E adj. NP revision YTD



Adj. OP YoY growth: UBSe vs cons



Monthly interactions of PC-based AI-native office agents in China



Quantifying WorkBuddy's earnings impact to Tencent

Workbuddy revenue assumption	
China white collar population (m)	170
User penetration	50%
Paid conversion	20%
Tencent's market share in AI productivity	60%
Tencent's AI productivity paying users (m)	**10.2**
Annual subscription (Rmb)	1,000
Revenue from AI productivity (Rmb m)	**10,200**
Estimated NPM	50%
NP from AI productivity (Rmb m)	**5,100**
2027E adj. NP	248,270
% of 2027E adj. NP	2.1%

UBS

Source: Visible Alpha, Quest Mobile, CIC, UBS estimates.

4) Stock picks - Bottom-up earnings recovery: Meituan, JOYY and Boss Zhipin

Meituan

Competition normalization

- **Normalization:** Competition shifts from subsidies toward ROI and execution, supported by regulatory scrutiny and rivals' AI funding needs.
- **Recovery evidence:** September delivery UE reached Rmb0.4–0.5/order vs Rmb0.1–0.2 in July–August. UBS expects c25% 3Q in-store margins.
- **Moat:** c70% GTV share in orders above Rmb30. PinHaoFan accounts for c15–20% of volume at broadly breakeven UE, serving price-sensitive users.
- **Optionality:** Merchant tools, satellite stores and instant retail deepen the moat. Keeta, Xiaoxiang and portfolio monetization sit outside the base case.

Metrics/Valuation:
Adj. NP is expected to rise from Rmb28bn in 2027E to Rmb42bn in 2028E, with 2027E normalized P/E at c9x.

JOYY

Growth plus cash returns

- **Bigo Ads:** Google AdMob collaboration, algorithm upgrades and better ROAS support c50%+ third-party ad growth in 3Q and longer-term momentum.
- **Shopline:** Agentic transactions could accelerate merchant migration to independent sites, supporting revenue growth and loss narrowing.
- **EPS support:** UBS forecasts c20%+ EPS growth, combining high-teens adjusted-profit growth with c5% lower share count.
- **Re-rating:** Higher-growth ToB earnings could shift valuation toward SOTP. Revenue and margin delivery matter more than further yield compression.

Metrics/Valuation:
2026E–28E Adj. NP is expected to grow at a high-teens rate, with c.20% Adj. EPS growth and a 7–8% dividend yield, while 2027E P/E is c.11x.

Boss Zhipin

Monetization and blue-collar growth

- **Monetization:** The proactive strategy launched in 2Q26 should lift paying conversion and enterprise ARPPU through differentiated services and better employer ROI.
- **AI workflows:** Screening, outreach, communication and interview organization can improve recruitment outcomes, customer stickiness and willingness to pay.
- **Growth runway:** Blue-collar expansion complements higher spending per enterprise. Stable competition and limited regulatory risk support execution.
- **Key discipline:** Higher monetization must preserve retention and repurchase. Bottom-up growth and cash returns underpin the case without an AI windfall.

Metrics/Valuation:
Adj. EPS is expected to deliver a 15% CAGR over 2025–27E, alongside a c.10% cash-return yield, with 2027E P/E at c.12x

UBS Source: Company data, UBS estimates.

Valuation Method and Risk Statement

We believe key sector risks include: 1) an evolving competitive landscape and intensifying competition; 2) fast-moving trends in technology, as well as internet users' needs and preferences; 3) uncertain monetisation; 4) the rising cost of traffic acquisition, content and brand promotions; 5) the upkeep of IT systems; 6) expansion into international markets; 7) adverse changes in market sentiment; and 8) regulatory risks. Valuation methods in the sector include SOTP analysis.