Viewpoint | Citi Research

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China Interactive Media & Entertainment

AI Content Boom Benefiting Platforms, IPs & Tools, But Less for Producers

Vicky Wei, CFA[AC]
+852-2501-2742
vicky.wei@citi.com

Alicia Yap, CFA
+852-2501-2773
alicia.yap@citi.com

Brian Gong
+852-2501-2747
brian.gong@citi.com

Nelson Cheung
+852-2501-2728
nelson.cheung@citi.com

CITI'S TAKE

AI is fueling a content boom, with short-drama supply in China up 13x in 8M26, serving >800mn users for avg. >50min of daily time spent, taking time share from long videos/online novel/casual games. 1) The short drama boom has driven producer margin deterioration given Hongguo dominance & intensified content competition. 2) AI adoption is shifting to long-form content (dramas & movies) with increasing AI content on TVs/cinemas, with the first AI movie scheduled to be released on Oct 23 – a likely sector catalyst. 3) The content boom should benefit platforms, IPs and AI video tools more, while producers face intense content competition despite lower production cost. Our picks are China Literature (IP leader), Kuaishou & Minimax (platform & AI video tools). For long videos (iQiyi & Mango), which are both producers & platforms, we see short-term positive catalysts following AI content releases, but are cautious on long-term mixed impact.

AI Short Drama Boom, but Producer Economics Deteriorate — From Jan to Aug'26, 430,000 short dramas were released in China, 13x the total of 2025, 90%+ of which were AI dramas. We think Hongguo dominance & AI content boom, as well as stricter regulations, result in significant margin squeeze of short drama content producers, with 95% of producers likely loss-making (see our note), leading to a potential decline in monthly AI short drama supply. **IP Value Likely to Increase** – With the AI content surge, we believe audience views are starting to concentrate on premium IP content and IP owners' value could further increase.

Short Dramas Gaining Time Spent Share; Declines for Others — 1) The short dramas category was the largest share gainer in China's online entertainment market, with time spent+195% yoy to 6.6% market share in Aug-26, from 2.4% in Aug-25. Hongguo was the No.4 largest platform in China by time spent after Douyin, Weixin and Douyin Lite as of Aug'26, per QM. 2) Short videos also gained 1.6ppt time spent share to 32.8%. 3) By comparison, long videos' share declined 1.1ppt to 3.9%, while games and digital reading -0.4% and -0.3%, respectively.

Material Production Cost Reduction with AI — Based on selected production cases, Citi estimates that AI content (short & long dramas, and movies) costs only 10-50% of comparable live-action productions, with production cycles shortened by c.70-95% and production team sizes reduced by c.80-95%.

Next Phase: Likely More AI Content on Large Screens — Given materially lower cost, the next phase of AI-content adoption is likely the expansion from short dramas to long dramas and movies. After Mango's first AI drama on TV, the first AIGC movie, Sanxingdui: Past of the Future (三星堆: 未来往事) by Bona Film, is planned for release on Oct 23 in cinemas, which could be a near-term media sector catalyst. Similar to short dramas, we expect an AI content boom in long dramas and movies, though likely at a slower pace given higher quality requirement, to benefit IPs, platforms and AI video tools while producers could face more competition despite lower cost.

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

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Short Drama Value Chain Analysis

Key summary

In this report, we mainly analyze the short drama value chain from a supply and demand perspective.

- Demand in China's Rmb121bn (source: Dataeye and Questmobile) short drama market comes from >800mn users with daily time spent at >50 minutes. Short drama content supply currently comprises 70-80k titles per month after reaching a peak of over 100k in 1H26, primarily from short drama platform Hongguo (under Bytedance), with the company targeting revenue of Rmb42-45bn in 2026, followed by Kuaishou. Tencent's Weixin Mini Program is another leading channel for short drama distribution, with over 500mn users, per QM. While long video platforms like iQiyi and Mango continue to increase short drama content and AIGC long dramas, we believe it is challenging for them to regain user time spent share due to content and traffic competition in the longer term, while in the short term, AI content releases could be positive catalysts. The expansion of the short drama market also takes user time spent share from other entertainment formats, especially long videos and online novels, we think.

- However, the dominance of Hongguo and tightened short drama content regulations have resulted in losses at short drama content producers, with merely 5% of them likely profit-making (see our expert call note). Thus, we believe some short drama producers may exit the market or seek international expansion, potentially leading to a reduction in monthly AI short drama supply in China. We also expect view concentration to increasingly shift to quality content and IP content, which would drive IP owners' value, especially that of China Literature, which operates China's leading online novel subscription platform with a large number of IPs.

- Next, we expect more AI content to emerge in longer form content such as movies and long dramas on TVs and cinemas, as AI could lower cost by 50-90% based on Citi estimates on selected projects. With more producers trying to create AIGC long content, we expect AI blockbuster content to emerge in the future. Additionally, as compared to short dramas, long AI dramas and movies have more monetization streams other than advertising, including subscription, exclusive sponsorship and IP merchandising/licensing. We believe the next media sector catalyst could be the first AI movie that is scheduled to be released in cinemas on Oct 23.

Stock implications

- Among **IP owners**, we expect China Literature to be the key beneficiary of the likely increasing value of short drama IPs. We prefer China Literature over Zhihu for China Literature's IP leadership.

- For **platforms**, we have not seen a strong second player emerging to challenge the leadership of Hongguo (owned by Bytedance, market share of 60-70%, according to a short dram industry expert we spoke to, note), while we believe Kuaishou has the highest potential as the second-largest short video drama platform (based on user base) to further grow its market share in short dramas, potentially through further strengthened cooperation with internet partners, such as Tencent and China Literature. Tencent's Weixin Mini Program is another important channel for short drama distribution, and the company just released the Green Bubble Short Drama Mini Program in Sep'26, and we are monitoring the progress.

  - For **long videos**, while in the longer term we are cautious on how they could turn around to regain user time spent amid significant content and traffic competition, in the short term we see positive catalysts as they try to release more AI dramas and movies, which could help enrich content offerings with lower content cost.

- For **short drama content producers** (a highly fragmented market), we remain cautious due to 1) significant competition in content with the AI content boom squeezing margins; 2) the dominance of Hongguo has supported its significant bargaining power, which is unlikely to change soon unless a powerful platform emerges to challenge Hongguo's leadership.

- For **AI video generation tools**, Dataeye data shows Seedance is the current market leader by revenue, but we believe Kling (primarily owned by Kuaishou) is striving to catch up with its peers in upcoming updates, while H3 has proven MiniMax's capabilities on the video generation model. See China AI Video Models - Beyond Text & Pixels: China's Video AI Shaping Industry Monetization.

Figure 1. Comp table

Company Name	Reuters Ticker	Analyst	Price Cny	Price	Mkt Cap USD$'m	Risk/ Rating	Target Price	ETR %	P/E 2025	P/E 2026E	P/E 2027E	P/S 2025	P/S 2026E	P/S 2027E
Short drama IP owners														
China Literature	0772.HK	Vicky Wei, CFA	HKD	22.92	2,950	1	25.0	9%	23.1	25.4	16.4	2.7	2.7	2.7
iReader	603533.SS	NR	CNY	27.20	1,783	NR	NR	NR	NR	NR	NR	NR	NR	NR
Zhihu	ZH.N	Vicky Wei, CFA	USD	3.46	300	1H	4.0	16%	46.3	na	na	0.7	0.7	0.6
AI video generation tools														
Kuaishou	1024.HK	Brian Gong	HKD	28.04	15,380	2	41.0	48%	5.1	11.7	10.5	0.7	0.8	0.7
Minimax	0100.HK	Alicia Yap, CFA	HKD	171.90	7,722	1H	576.0	235%	na	na	na	30.1	12.1	4.0
Short drama platforms/channels														
Kuaishou	1024.HK	Brian Gong	HKD	28.04	15,380	2	41.0	48%	5.1	11.7	10.5	0.7	0.8	0.7
Tencent	0700.HK	Alicia Yap, CFA	HKD	393.80	456,315	1	755.0	93%	11.9	11.7	12.0	4.1	3.7	3.4
iQiyi	IQ.N	Vicky Wei, CFA	USD	0.92	885	1	1.6	75%	21.0	na	na	0.2	0.2	0.2
Mango Excellent Media	300413.SZ	Vicky Wei, CFA	CNY	22.67	6,353	2	15.8	-30%	34.6	na	77.4	3.1	3.1	2.9
iReader	603533.SS	NR	CNY	27.20	1,783	NR	NR	NR	NR	NR	NR	NR	NR	NR
Content producers														
iQiyi	IQ.N	Vicky Wei, CFA	USD	0.92	885	1	1.6	75%	21.0	na	na	0.2	0.2	0.2
Mango Excellent Media	300413.SZ	Vicky Wei, CFA	CNY	22.67	6,353	2	15.8	-30%	34.6	na	77.4	3.1	3.1	2.9
Enlight Media	300251.SZ	Vicky Wei, CFA	CNY	11.66	5,124	3H	10.0	-13%	20.5	63.9	50.9	8.5	20.0	17.6
Bona Film	001330.SZ	NR	CNY	7.40	1,520	NR	NR	NR	NR	NR	NR	8.6	7.6	4.5
Huace	300133.SZ	NR	CNY	9.21	2,586	NR	NR	NR	92.1	41.9	38.4	6.1	5.7	5.0
Maoyan	1896.HK	Vicky Wei, CFA	HKD	3.65	546	1	6.0	67%	5.3	10.3	8.5	0.8	0.9	0.8

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Source: Powered by dataCentral, Citi Research, Reuters, Note: Data as at close of Oct 21, 2026; consensus estimates for non-rated stocks.

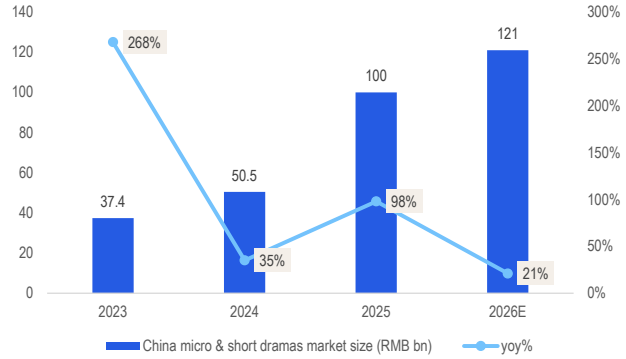
China short-drama market reaching Rmb121bn

China's short-drama market (including real-human dramas and AI dramas) expanded from Rmb37.4bn in 2023 to Rmb121bn in 2026E, based on Dataeye estimates, representing a CAGR of 48% from 2023 to 2026E. The expansion in 2025 was supported by sustained growth in free-to-watch live-action micro-dramas and the emergence of AI comic dramas as a new growth engine. Among these, China's AI-generated drama market size could reach Rmb40bn, +138% yoy in 2026E, per Dataeye estimates.

Advertising as key monetization tool

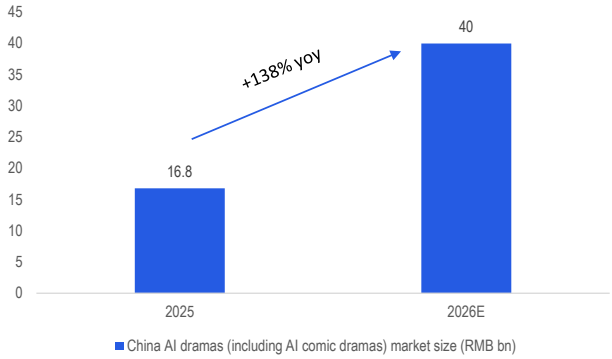
According to the *China Short Drama and Motion Comic Market Research Report (Jan–July 2026)* by Fengyi, user-paid in-app purchases (IAP) accounted for 26% of China's short-drama market in terms of revenue, while in-app advertising (IAA) represented 71%. Beauty and personal care, food and beverage, were the leading FMCG categories in short-drama advertising. Higher-ticket categories, such as automotive, are also experimenting with increased short-drama adspend, per Questmobile.

Figure 2. China micro & short drama market size



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Source: Citi Research, Dataeye

Figure 3. China AI drama (including comic drama) market size



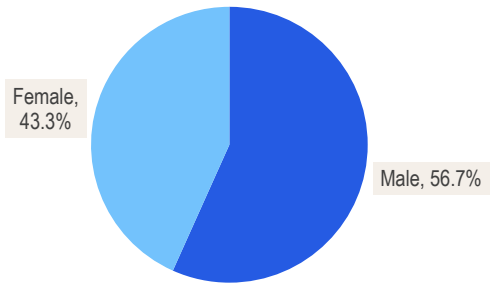
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Source: Citi Research, Dataeye

Demand: user analysis

Short drama key user profile: male, lower-tier cities, and post-1980s

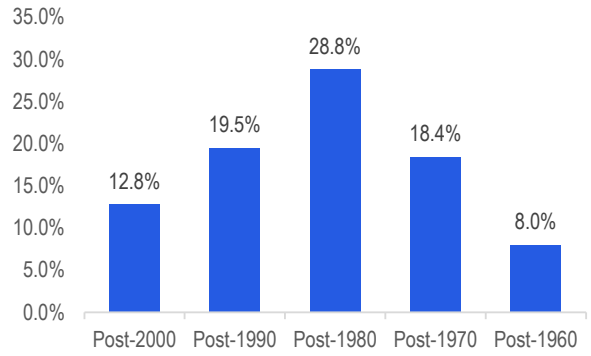
Short-drama app users skew male and middle-aged: Questmobile shows men accounted for 56.7% of users in May 2026, while the post-1980s cohort was the largest age group at 28.8% share. The audience is geographically broad but tilts toward lower-tier cities, with tier 2–4 markets accounting for 63.1% of users in May 2026. Spending power is concentrated mid-range, as 47.7% reported monthly online spending of Rmb1,000–1,999, per Questmobile data (May 2026).

Figure 4. Short drama user profile by gender (May 2026)



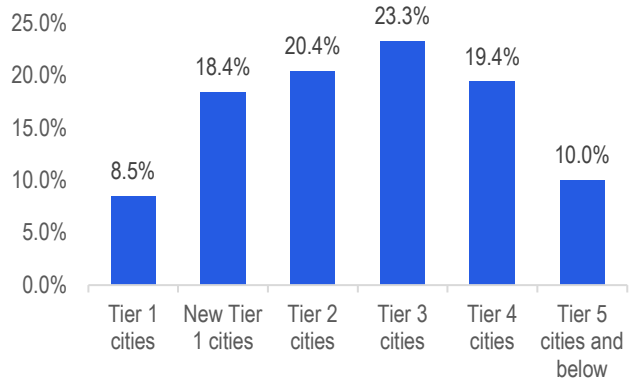
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Source: Citi Research, Questmobile

Figure 5. Short drama user profile by generation (May 2026)



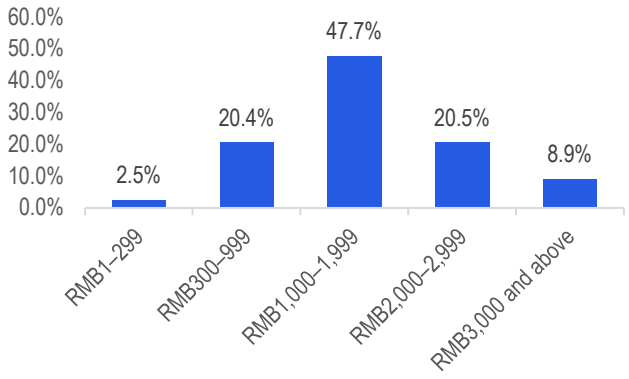
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Source: Citi Research, Questmobile

Figure 6. Short drama user profile by city tier (May 2026)



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Source: Citi Research, Questmobile

Figure 7. Short drama user profile by online spending power (May 2026)

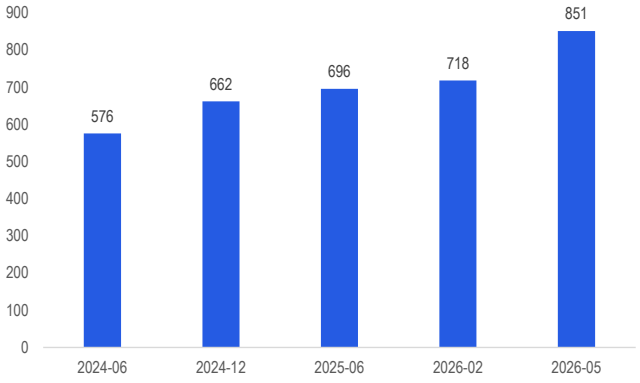


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Source: Citi Research, Questmobile

User scale & time spent surged

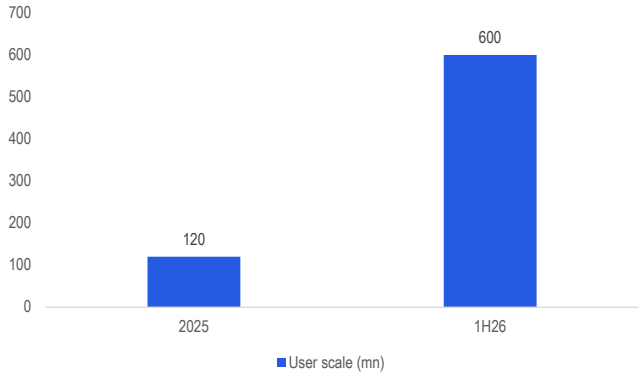
The overall short drama user base reached 851mn as of May 2026, per Dataeye. Specifically, the number of AI drama users in China grew from ~120mn in 2025 to over 600mn in 1H26, driven by advances in AI-generated content production and strong platform support. DataEye expects the user base to reach the 700mn level by early 2027.

Figure 8. China micro & short drama user base (mn)



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Source: Citi Research, Dataeye

Figure 9. China AI drama (including comic drama) user base (mn)



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Source: Citi Research, Dataeye

Short drama time spent share gained from long videos and online novel

In Aug 2026, the online total time spent in China was 15trn mins, +8% yoy. Short video was the No.1 entertainment format with 33% time spent share, up from 31% in Aug 2025. Short drama grew rapidly to 6.6% time spent share, up from 2.4% in Aug 2025, while other formats including games, long videos, digital reading and mobile music all experienced time spent share declines, especially long dramas. We think the market share gain of short dramas came from long videos, and online reading, both of which are content entertainment for users to kill time. Our check with industry expert (see our note) shared that short dramas also compete with casual games in user time spent.

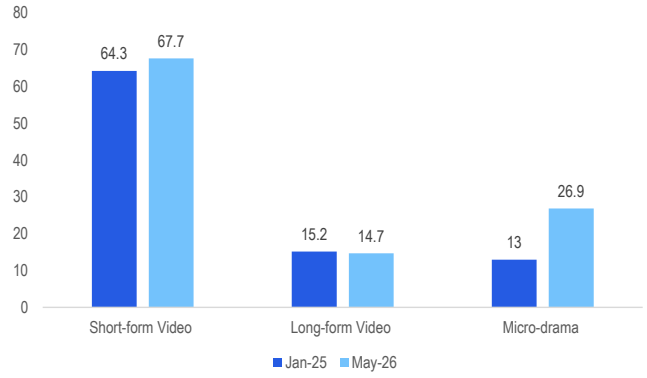
Figure 10. China online entertainment time spent share

Bn mins	Aug-25	Aug-26	yoy%
Total China online time spent	14,197	15,347	8%
yoy%	9%	8%	
Short Form Video	4,440	5,040	14%
% of total	31.3%	32.8%	1.6%
Micro Drama	344	1,017	195%
% of total	2.4%	6.6%	4.2%
Games	885	900	2%
% of total	6.2%	5.9%	-0.4%
Long Form Video	713	599	-16%
% of total	5.0%	3.9%	-1.1%
Digital Reading	451	437	-3%
% of total	3.2%	2.8%	-0.3%
Mobile Music	121	116	-5%
% of total	0.9%	0.8%	-0.10%

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Source: Citi Research, Questmobile

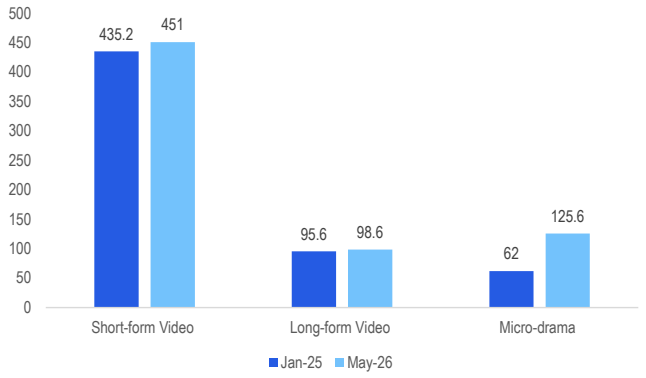
In May 2026, user time spent on short dramas was 27 hours per month, up from 13 hours in Jan 2025. Short drama user time spent was lower than that of short videos at 68 hours/month, while almost doubling long videos at 15 hours, per QM.

Figure 11. Monthly average usage time (hours per user)



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Source: Citi Research, Questmobile

Figure 12. Monthly average usage frequency (sessions per user)



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Supply: AI short drama boomed & likely peaking

Content supply surge driven by AI but views starting to concentrate

On Sep 17, China's State Council Information Office disclosed that in the first eight months of 2026, 430,000 micro-dramas were released, 13 times the total for all of 2025, with AI-produced dramas accounting for over 90%. AI significantly lowers content production cost and time, leading to a boom in AI short drama supply. Based on our industry checks, we summarize below various AI content production operating metrics.

- **AI short drama** production cost ranges Rmb10,000-200,000, vs live-action human short drama at Rmb100k+.
- **Long drama** costs Rmb100mn+ per title to produce on average, while AI long drama cost is 20-40% of that, per Citi estimates. For Mango's AI long drama, Late Journey to the West, each episode was Rmb900,000, or Rmb27mn/season. In the AI era, director, screenwriter, editor, art director and AI team lead are likely important roles in AI long drama production. As AI models mature, visual quality is likely to become less of a constraint, and competition may increasingly center on creativity, directors' shot design and visual storytelling, and how well content aligns with audience preferences.
- For **movies,** human-played movies cost about Rmb30mn-500mn (median: Rmb100mn); some big productions could cost as much as Rmb1bn each. For comparison, Bona Film's AIGC movie, Sanxingdui: Past of the Future (三星堆: 未来往事), had a cost of around Rmb20-30mn for 100-minute content, per Sohu News (Sep 29, 2026).
- **Production time** of AI short dramas is as short as days, versus 30-60 days for real human short dramas, 1-2 years for long dramas, and 1-3 years for movies.
- **Team size.** For AI short dramas, typically a team of 3-5 people is enough for producing one drama, while AIGC long dramas and movies usually involve teams of 100+, based on the cases of Sanxingdui (AIGC movie) and Post Journey to the West (AI long drama). However, this is significantly lower than the team sizes for human-played movies and long video dramas.
- **Impact on different jobs.** It is obvious that AI technology could lower production cost and speed up production time, as fewer people are needed for a project than before. We believe the adoption of AI has started to impact the demand for content production staff, including actors and actresses, camera teams, location shooting crews, etc, while the need for AI video tool staff should increase. The surge in AI short dramas likely has negative impact on short-drama actors in terms of employment, and hence we expect supportive government policies on human-played short dramas.

Figure 13. Content production comparison

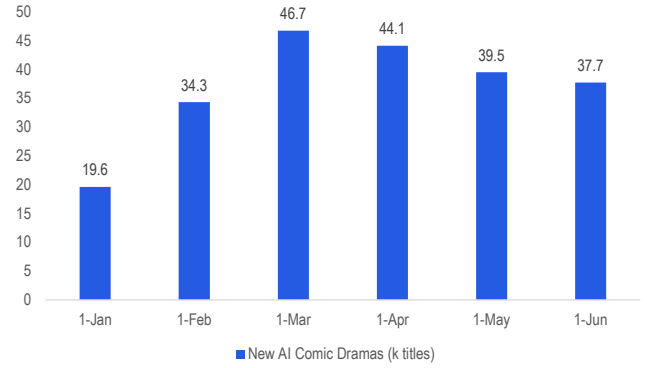
			Short drama	
	Movie	Long video drama	Real human	AI dramas
Average cost range	RMB50mn-RMB500mn; few projects could reach RMB1bn	RMB100mn+; or higher for top-tier drama	RMB100K-1mn; average RMB300-500k	RMB10,000-200,000
Production period	1-3 years	1-2 years	30-60 days	Several weeks, less than 1 month
Production team size per work	Hundred to thousand	300-600	30-50	3-5
Total market size in 2026E	Box office RMB40-50bn	RMB134bn	RMB121bn	
#of new releases per year	474 (2025)	238 (2025)	430,000+ from Jan to Aug 2026	

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Source: Citi Research, iResearch, Citi Research Estimates, Dataeye

The ease of content production has led to a content boom. However, both advertiser budgets and user time spent have not caught up at the same speed, leading to intense competition among AI short drama content. The monthly AI short drama supply started to peak out and has stabilized at 70,000-80,000 titles monthly, per our industry checks.

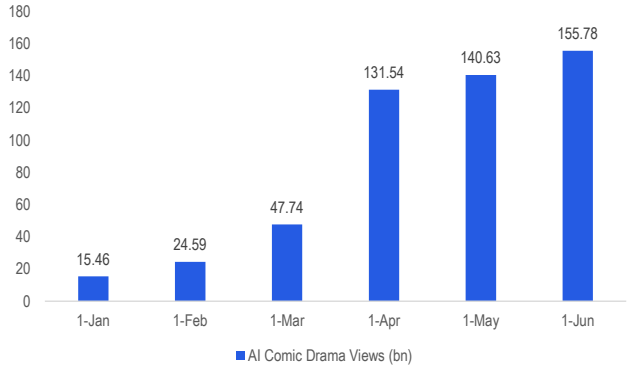
- New AI comic drama releases on the Douyin channel started to decline from 46.7k in Mar'26, to 37.7k in Jun'26, while AI comic drama view growth on the Douyin app started to decelerate from Apr'26, according to Dataeye data.
- According to Dataeye, starting from Mar 2026, the number of new dramas has declined sequentially. Using 50 million views as a breakeven benchmark, 2,886 newly released dramas surpassed this threshold in 1H26, representing only 1.3% of all new releases.

Figure 14. New AI comic dramas (k titles) on Douyin channel



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Source: Citi Research, Dataeye

Figure 15. AI comic drama views (bn) on Douyin app



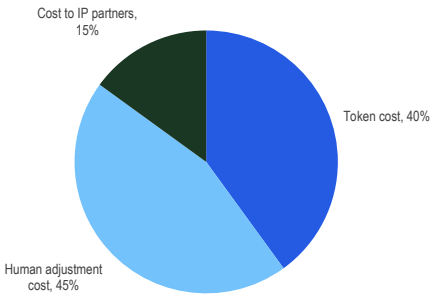
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AI tokens: 40% of short drama production cost

According to a short drama expert (see our expert call note) we recently interviewed, of the AI drama production cost, around 40% is token cost, 40%+ is human administrative cost, and the remaining 10-15% is fees to IP players. According to Dataeye estimates, Seedance-series models hold leadership with an estimated 69% share of AI-drama large-model revenue in 2026, Kling is a stable second with 17% share, and the remaining 14% is split among other players.

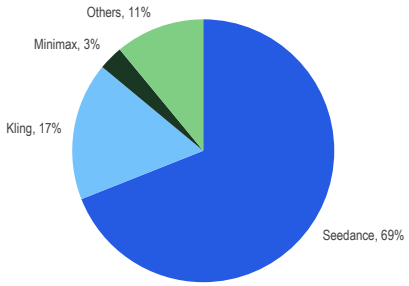
For **AI video generation tools**, despite Seedance's market leadership, we believe Kling is striving to catch up with upcoming updates, while H3 has proven MiniMax's capabilities on the video generation model. See China AI Video Models - Beyond Text & Pixels: China's Video AI Shaping Industry Monetization.

Figure 16. AI drama production cost allocation



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Source: Citi Research

Figure 17. AI video model market share in AI-comic dramas in 2026 (Dataeye estimates)



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Source: Citi Research, Dataeye

Figure 18. AI video model pricing comparison

Model	Release Date	Video Resolution	Video Output Length	Multimodal Inputs	API Pricing
Kuaishou					
Kling 4.0	Oct-26	720p / 1080p / 4K	3-30 seconds	**Video:** 5 clips **Subjects:** 7 subjects **Graphics:** 10 references	na
Kling 4.0 Flash	Sep-26	720p	3-20 seconds	**Video:** 5 clips **Subjects:** 7 subjects **Graphics:** 10 references	na
Kling 2.0 - 3.0	Feb-26 (Kling 3.0)	Native 2K / 4K (Kling 3.0)	3-15 seconds	**Video:** 3-8 seconds **Audio:** 3+ seconds **Graphics:** 10 references	**Kling 3.0 Turbo (with native audio):** US$0.112/s (720P), US$0.14/s (1080P) **Kling 3.0 (with native audio x no voice control):** US$0.126/s (720P), US$0.168/s (1080P), US$0.42/s (4K) **Kling 3.0 Omni (with video input x no native audio)**: US$0.126/s (720P), US$0.168/s (1080P), US$0.42/s (4K)
ByteDance					
Seedance 2.5	Jul-26	480p / 720p / 1080p	30 seconds with multi-round extensions	**Video:** 10 clips **Audio:** 10 recordings **Graphics:** 30 references	**Seedance 2.5 (video inclusive at 480/720P):** Rmb0.042/K tokens **Seedance 2.5 (video inclusive at 1080P):** Rmb0.046/K tokens
Seedance 2.0	Feb-26	Native 4K	4-15 seconds	**Video:** 3 clips **Audio:** 3 recordings **Graphics:** 9 references	**Seedance 2.0 (video inclusive at 480/720P):** Rmb0.028/K tokens **Seedance 2.0 (video inclusive at 1080P):** Rmb0.031/K tokens **Seedance 2.0 (video inclusive at 4K):** Rmb0.016/K tokens
Alibaba					
Wan 3.0	Aug-26	480p / 720p / 1080p	30 seconds	**Video:** 5 clips **Audio:** 5 recordings **Graphics:** 10 references	**Wan 3.0 (480P):** Rmb0.3/s **Wan 3.0 (720P):** Rmb0.6/s **Wan 3.0 (1080P):** Rmb1.2/s
HappyHorse 1.1	Jun-26	480p / 720p / 1080p	15 seconds	**Graphics:** 9 references in R2V	**HappyHorse 1.1 (480P):** Rmb0.45/s **HappyHorse 1.1 (720P):** Rmb0.9/s **HappyHorse 1.1 (1080P):** Rmb1.2/s
MiniMax					
Hailuo 3	Jul-26	768p / 2K	4-15 seconds	**Video:** 3 clips **Audio:** 3 recordings **Graphics:** 9 references	**MiniMax-H3 (768P output):** US$0.08/s **MiniMax-H3 (2K output):** US$0.13/s **MiniMax-H3 (audio input):** free **MiniMax-H3 (image input):** first 5 images free; US$0.04 per additional image **MiniMax-H3 (video input):** 768P US$0.08/s, 2K US$0.13/s
Google					
Veo 3 / 3.1	May-26	720p / 1080p / 4K at 24 FPS	4-8 seconds	Text, image, video by size	**Gemini Omni Flash (paid tier input price):** US$1.50 for text, image, video, audio per M tokens **Gemini Omni Flash (paid tier output price):** US$9.00 for text and US$17.50 for video per M tokens implying effective pricing of US$0.10/s at 720P

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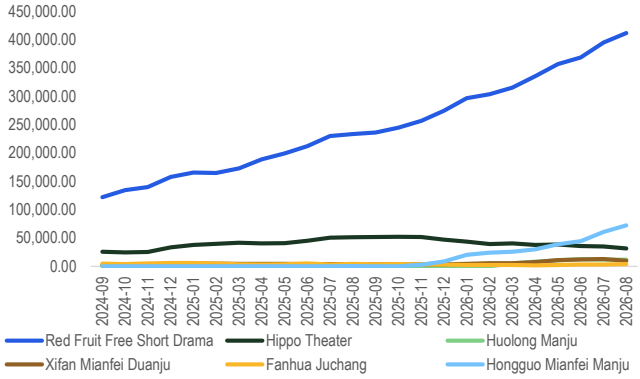
Source: Citi Research, Company Data

Competitive landscape

Platforms: Hongguo dominates; more platforms emerging

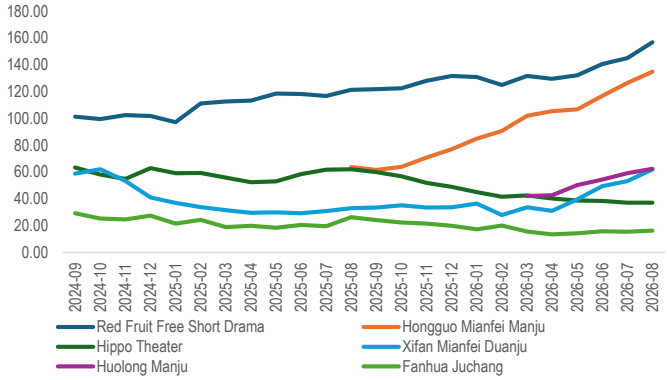
Hongguo under Bytedance is the No.1 short drama platform in China with 411mn MAU in Aug 2026. It has a 2026 revenue target of Rmb42-45bn, primarily from in-app advertising revenue, see our expert call note. By time spent, Hongguo has become the No.4 app in China with total user monthly time spent of 906bn mins in Aug 2026, after Douyin, Weixin, and Douyin Lite. Apart from Hongguo and Kuaishou, Tencent's Weixin Mini Program is another important channel for distributing short dramas, with over 500mn users, per QM data. Meanwhile, long video platforms are increasing the short drama supply on their platforms.

Figure 19. Short drama app MAU (k)



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Source: Citi Research, Questmobile

Figure 20. Short drama app daily time spent per user (mins)



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Source: Citi Research, Questmobile

Tencent's exposure in short dramas

Per Questmobile, short-drama mini-programs on Weixin reached 508 million users as of May 2026, up 25.4% yoy, representing the largest short-drama distribution channel in China by user reach. Apart from Weixin Mini Program, Tencent's short drama channels include Huolong Comic Drama, Tencent Video and Green Bubble Short Drama Mini Program, with an AI video tool, WorkRally.

Tencent's Huolong Comic Drama

- Tencent launched Huolong Comic Drama (火龙漫剧), its first standalone AI comic-drama app, on February 4, 2026. As of Aug 2026, Huolong Comic Drama app MAU was 12mn, ranking No.4 among short drama apps in China. DAU was 2mn, total time spent was 4bn min, with average time spent per MAU at 359 mins, per Questmobile.

Weixin released Green Bubble Short Drama (绿泡泡短剧)

- Per 36kr (Sep 30, 2026), Weixin launched Green Bubble Short Drama Mini Program(绿泡泡短剧) in late Sep 2026, which allows users to consume short drama directly within the Weixin ecosystem without requiring a separate app download.

- **Monetization.** Advertisers are primarily micro-drama mini-program developers and operators within the WeChat ecosystem, including Dianzhong (Hippo Theater), Rongliang, Jiuzhou Culture and iReader, as well as selected production companies creating native micro-dramas for WeChat Channels.

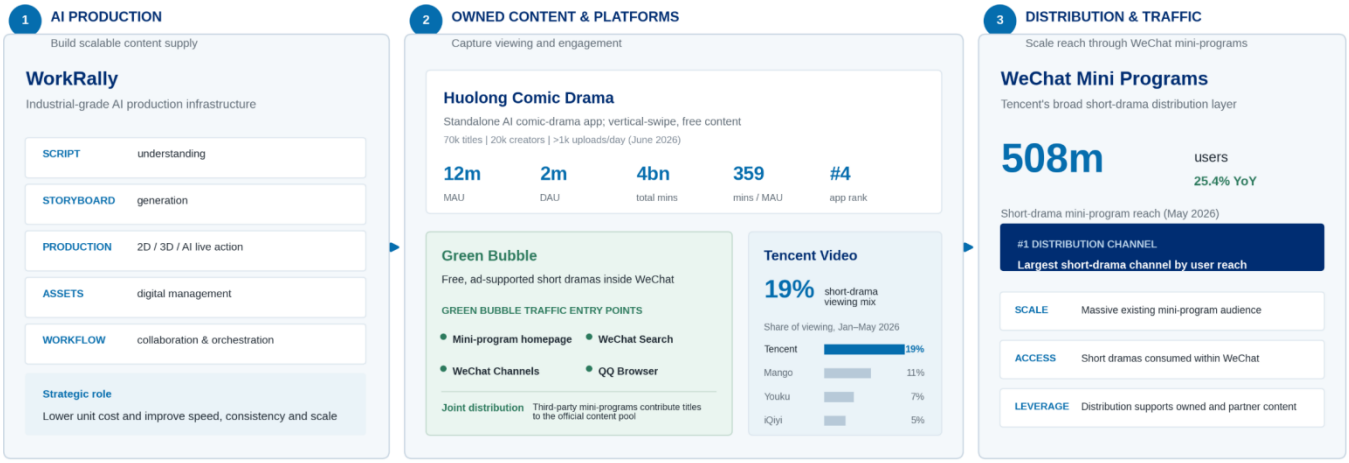
- **Leveraging Weixin ecosystem.** Green Bubble is now accessible through multiple traffic entry points across the Weixin ecosystem, including a dedicated mini-program homepage section, results generated from searches for "short dramas" within Weixin, embedded links on Weixin Channels, and recommendation placements on QQ Browser for relevant drama-title searches. The growth of the product is mainly through advertising and the integration of traffic with Weixin ecosystem.

- To expand content supply, starting in 4Q26, the platform has an incentive scheme offering qualifying high-quality new dramas a top-tier 90% cash rebate plus 10% in bonus advertising credits, equivalent to a combined 100% rebate. It is positioned as an aggregation platform rather than a direct participant in upstream IP acquisition or in-house production, helping developers in user-acquisition challenges.

Tencent's WorkRally as an AI video tool

- On April 16, Tencent Video unveiled WorkRally, its first industrial-grade AI production platform dedicated to premium motion comics. WorkRally is designed as a comprehensive AI-powered production infrastructure for motion comics, supporting 2D animation, 3D animation, and AI-generated live-action content. By combining expert AI agents, an enterprise-grade film and animation capability library, and intelligent workflow orchestration, WorkRally aims to industrialize the production of premium motion comic content and improve scalability, consistency, and production efficiency.

Figure 21. Tencent's channels for short dramas



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Source: Citi Research, Questmobile, 36kr, Company Data

Kuaishou's short drama strategy

- Kuaishou disclosed that as of April 2026, its short-drama content generated 129mn daily exposures, while users spent an average of 29 minutes per day watching Kuaishou's short dramas. Over the preceding 12 months, short-drama supply on the platform increased eightfold and the number of advertising clients

grew 2.6x. Advertising spend on Kuaishou's comic-style dramas increased nearly 20x in the previous six months. In 2026, Kuaishou plans to allocate Rmb800mn to exploring diversified revenue-sharing models, invest an additional Rmb200mn in incubating premium productions, and provide dedicated traffic support for high-quality short-drama content.

Kuaishou's Xifan free short drama

- Xifan is an independent short drama app from Kuaishou, released in 2023. As of Aug 2026, MAU was 10mn, +151% yoy, ranking No.5 among short drama apps in China. DAU was 3.5mn; total time spent was 6.7bn min, with average time spent per MAU at 668 min. Xifan primarily operates a free-to-view model and monetizes through in-app advertising. Users are not required to pay to unlock individual episodes but must watch advertisements to unlock or continue viewing content.

Long video platforms: Undergoing transformation to self-rescue

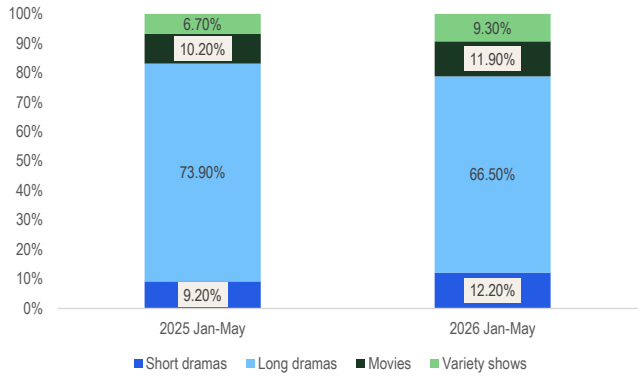
Some long video platforms have introduced short dramas to defend the threat from short drama platforms. Per QM data, from Jan to May 2026, the share of short drama broadcast views on long video platforms reached 12%, up from 9% in the prior year, while long drama views -7% to 67%. By platform, Tencent Video had the highest view % of short dramas at 19%, vs iQiyi at 5%, Youku 7% and Mango 11%.

While both iQiyi and Mango reported bottom-line misses for 2Q26, the long video sector has seen some marginal changes in AIGC content trends in the past month. Mango released a Late Journey to the West (后西游记), its first AIGC drama leveraging its Mango Lingchuang platform. iQiyi had a successful case of AIGC content through The Ferry Man Butterfly Dream (灵魂摆渡), which reached breakeven within a few days of launch. The significant cost savings from AI technology marked an initial step to materially lower the overall content cost of long videos. We expect more AI dramas and movies to be released on bigger screens on TVs, long video platforms and cinemas, and the next sector catalyst may come when the first AI movie for cinemas is released on Oct 23.

However, we believe there is a long way to go for long video platforms to self-rescue from the declining time spent market share as AI content and traffic has further fueled short drama competition. While AI content could lower production cost by up to 90% vs traditional production methods, visibility on the timing to materially lower iQiyi and Mango's group-level content costs remains low at early stages, as 1) while AI fuels a content boom, audience demand is likely to focus on premium and quality AI content, and we continue to monitor the feedback on AI content on long video platforms; and 2) the current live-action content pipeline is still on schedule to be released, which accounts for a majority of current content cost.

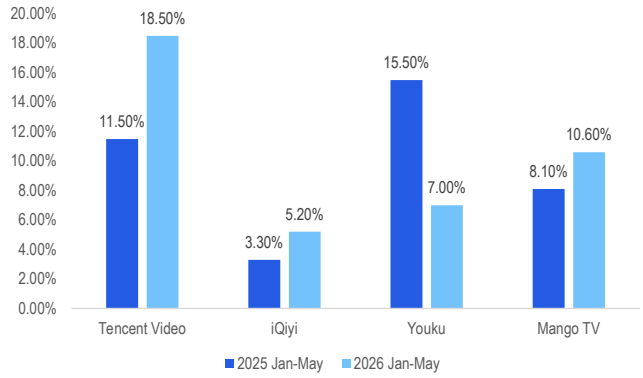
Therefore, we see positive catalysts in the short term following new AI content releases but remain cautious on the long-term prospects of long video platforms.

Figure 22. Broadcast views of long video platforms by content type



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Source: Citi Research, Questmobile

Figure 23. Short drama content broadcast views % by platform



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Source: Citi Research, Questmobile

iQiyi (iQ.US)

Supplying AI drama & introducing AIGC platform Nadou Pro

iQiyi's role in AI dramas includes 1) being a broadcasting platform for AI dramas; and 2) providing a professional AI platform for content industry professionals through its Nadou Pro offering. In 2026, iQiyi expects to release 25,000 short dramas and 35,000 AI comic dramas on its platform.

- **Broadcasting platform.** Since April this year, there has been a noticeable increase in the amount of content uploaded to the platform by creators. Story-driven content such as short dramas and AI comic dramas now sees daily uploads exceeding 100,000 episodes, with peak volumes exceeding 200,000 episodes, per iQiyi in Aug 2026.

- **Nadou Pro.** The platform was formally launched for commercial use at the iQiyi World Conference on April 20, 2026. It integrates nearly 30 leading commercial and proprietary large models with almost 70 specialized AI agents spanning scriptwriting, directing, cinematography, editing, and distribution, built on iQiyi's IP and digital-asset ecosystem, covering an IP library of over 6,000 titles, a digital asset library, a 150-voice audio library, and a roster of 118 signed artists, to deliver end-to-end AI-powered script creation, video generation, rendering, IP adaptation, and finished-content production.

Expecting content cost to decline, benefiting from AI

- Management highlighted the cost reduction potential leveraging AI at Citi's Global TMT Conference in Sep 2026. While current content cost mainly reflects historical content investment, iQiyi is confident that by leveraging proactive management control and AI technology, it could gradually bring down content cost.

Citi's view: low visibility in financial impact

- In the near term, we believe increasing AI content releases could be a positive catalyst for the whole media sector, including iQiyi. In the longer term, as current content cost continues to reflect historical investment, the cost savings from AI will be reflected in future content cost. However, the AI content boom has also

led to intensified competition among platforms as they compete for user time spent. We have low visibility on when iQiyi may turn around under the user time spent pressure from short dramas and AI content. Regarding Nadou Pro, we noticed that industry peers are also introducing similar platforms. Before we see more progress in industry-wide adoption, Nadou Pro's contribution to monetization is likely to be small, in our view.

Mango Excellent Media (300413.CH)

- **AI Drama: *The Later Journey to the West* *后西游记***
  Mango TV's The Later Journey to the West is China's first AI-generated long-form drama broadcast on satellite television. The first season consists of 30 episodes, each 40 minutes long, with all characters, scenes and visuals generated using AIGC technologies. The series premiered simultaneously on Hunan TV and Mango TV on August 31, 2026. Notably, the project was completed in less than five months from inception to release at only a fraction of the cost of a comparable traditional production.

- **Cost efficiency and AI-native production workflow**
  Production cost was approximately Rmb0.9mn per episode, or Rmb20,000-30,000 per minute, representing less than one-tenth of the cost of a traditional 3D animated series. The project adopted a streamlined production structure, with a ~100-person team organized into only four groups: creative, production, art, and visual generation. Mango TV stated that it has established a standardized workflow in which directors define the creative direction, artists create character and environment references, and AI teams execute the full text-to-image and image-to-video production process.

- **Mango Lingchuang could be a top-3 revenue generator within group**
  The drama was powered by Mango Lingchuang, Mango TV's proprietary AIGC production platform, which integrates over 40 multimodal foundation models and more than 80 AI tools, including character motion control, 3D camera manipulation, and image editing functions. The platform has served over 40,000 professional users and supported more than 3,900 projects. According to CTO Lu Haibo, Mango Lingchuang transitioned from an internal tool to a commercial platform in September 2025, attracting over 1,000 enterprise clients and supporting thousands of content projects, with management targeting it to become one of the top three revenue-generating businesses within the group.

Content producers: majority loss-making

AI further worsens content production competition

Based on our observation/analysis of the content production business in movies, long videos and short videos, we believe the content production business model generally faces risks of uncertain content performance with upfront cash outflow, with high uncertainties. The emergence of AI technology, while lowering the content production cost, further intensifies content competition. Content flourishes with AI and the technology lowers the threshold of content production, benefitting platforms, IP players and AI video tools; however, AI likely benefits content production players less as it fuels competition and lower the entry barriers to content production. The dominance of Hongguo in China, step-in regulations, and AI content boom further bring down the profit margins of short drama content producers.

In 2025, to attract AI dramas, Hongguo introduced a guarantee policy for content providers. Benefiting from the fast production capabilities of AI video creation, some small content production studios earned the guarantee from Hongguo by rapidly releasing some low-quality content on the platform. In 2026, Hongguo cancelled the guarantee policy for content suppliers, and revenue-sharing has become the cooperation scheme between the platform and content producers for AI dramas, while supportive measures remain for real-human short dramas on modern stories. As reported by HKET News (Sep 4, 2026), in 1H26, Douyin saw the launch of approximately 221,900 new AI-generated short dramas, with cumulative views exceeding 515.7 billion. This implies that a new AI short drama was released roughly every 20 seconds. However, only one out of every 77 new titles broke even, while the remaining 98.7% are still loss-making even six months after the release.

Short drama regulation increases compliance costs

According to the National Radio and Television Administration on Jul 31 (link), the Measures for the Development and Administration of Micro-Dramas (微短剧发展管理办法) would be effective on Sep 1, 2026, and short dramas are categorized into three types, subject to different guidance. We believe the guideline increases the compliance cost for short drama/AI drama producers, and to reduce the regulatory burden, content producers might choose to produce Category III content (low budget, general subjects), especially for small content producers. However, leading players likely have more resources to comply with regulations for higher-level categories.

Figure 24. Key regulatory requirements of micro dramas

	Category I	Category II	Category III
Positioning	Large-budget or special-subject productions	Medium-budget, general-subject productions	Low-budget, general-subject productions
Live-action investment threshold	RMB3mn or above	RMB1mn to below RMB3mn	Below RMB1mn
AI micro-drama investment threshold	RMB0.8mn or above	RMB0.3mn to below RMB0.8mn	Below RMB0.3mn
Subject matter	Special subject matter, or high investment	General subject matter	General subject matter
Special subjects covered	Politics, military affairs, diplomacy, national security, united front affairs, ethnicity, religion, judiciary and public security	n/a	n/a
Filing before production	Filing and publication by the NRTA	No Category I-style national filing requirement stated	No government filing requirement stated
Who reviews the completed production	Broadcasting and television authorities at or above the provincial level	Broadcasting and television authorities at or above the provincial level	Qualified online audiovisual platform
Review type	Government content review and distribution licensing	Government content review	Platform pre-broadcast review
Document required before release	Micro-Drama Distribution Licence	Approval document	Platform programme identification number
Can it be released without review?	No	No	No

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Source: Citi Research, NRTA

Intensified competition and regulations might lower domestic supply

Due to shrinking margins of short drama producers amid Hongguo dominance, supply surge, and tighter regulations, we expect some producers may 1) exit the domestic market, while some might go to other platforms with better incentives; 2) expand to overseas markets for better ROI. Per Dataeye, the overseas micro-drama market could exceed US$6bn in 2026, 50%+ yoy. While monthly AI short drama titles likely peaked out in 1H26 and are stabilizing at 70-80k titles per month,

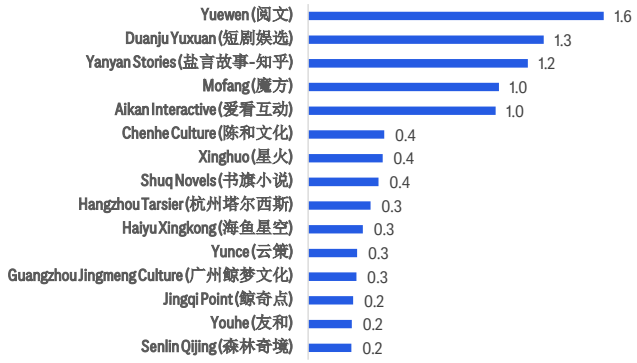
based on our checks with industry participants, we believe monthly supply may further decline if producer margins fail to recover.

Short drama IP providers' value could increase

Online novels are an important source of short drama IP, and 70% of short drama content supply came from online novel IP in 2025, per the China Writers Association's Online Literature Center. During the broadcast period of hit short dramas, average daily readership of the underlying web novels +210% sequentially, demonstrating the strong traffic spillover from screen adaptations to source IP, and supporting longer commercial lifecycles and sustained value creation.

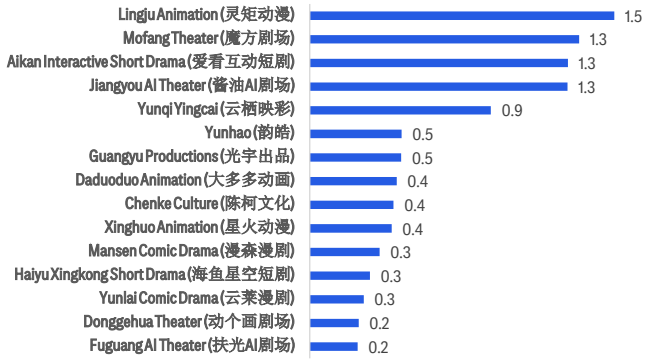
In 1H26, China Literature was the No.1 copyright owners on Hongguo AI Comic Dramas by views, while Zhihu's Yanyan Story ranked No.3, leveraging its strength in short-form stories. The top five IP owners accounted for 66.5% of aggregate peak popularity among the top 15. Following regulatory direction on supporting copyright content, and Hongguo's strategy to ensure quality supply, we expect IP providers' value to further increase amid the new dynamics.

Figure 25. Top 15 copyright owners of AI comic dramas on Hongguo in 1H26 by views (bn)



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Source: Citi Research, Dataeye

Figure 26. Top 15 producers of AI comic dramas on Hongguo in 1H26



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Source: Citi Research, Dataeye

China Literature (772.HK): IP leader by a wide margin

In 1H26, revenue from short dramas and AI-animated dramas exceeded Rmb430mn, a yoy increase of 2.3 times. Revenue surpassed Rmb100mn in 2025 for AI-animated dramas. Notably, the proportion of blockbuster short dramas was four times the market average, while 46 AI-animated dramas surpassed 100 million views each, and the number of titles exceeding one million views was five times the industry average. The short drama and AI-animated drama segment is operating at a profit margin of ~10%, driven ly by hit titles.

- **Rich IPs of Yuewen:** Yuewen has a large online literature IP base with over 10mn original works; 99% of its library remains underdeveloped, pet mgmt in Mar 2026.
- **Distribution channel of AI dramas:** Hongguo 50%+. Hongguo currently accounts for slightly over 50% of total short drama and AI-animated drama platform distribution. To structurally reduce platform dependency and capture a greater share of content economics, Yuewen launched Qidian Theatre platform

(起点剧场) in Jul 2026, focused on premium short and AI dramas. Management expects competitive pressure among multiple video platforms to gradually lead to better content producer economics over time.

- **Investment risk:** while Yuewen directly benefits from the view concentration trend on IP content, Yuewen also faces potential risks in online novel business due to time spent cannibalization from short dramas.

Zhihu (ZH. US; Yanyan Story): No.3 IP player

Leveraging its 13mn online member base and Yanyan Story's leadership in short form stories, ZH is the top-3 IP provider of AI comic dramas on TikTok and Hongguo channels. Short-form stories are naturally suitable for AI comic dramas, due to their short lengths and fast progress. As an IP provider, ZH shares revenue with content creators, and we estimate the profit margin is less than 10%. Strategically, ZH began in-house and commissioned production in the second quarter in 2026 and has seen encouraging hit rates so far, especially for leading IPs.

Conclusion

AI has fueled a content boom, with short drama supply in China up 13x, serving more than 800mn users for average >50 minutes of daily time spent, taking time share from long videos and online novel. 1) The short drama boom has led to deterioration of producer margins given Hongguo dominance & intensified content competition. 2) AI adoption is also shifting to long-form content (dramas & movies) with increasing AI content on TVs and in cinemas, and the first AI movie (scheduled to be released on Oct 230 could be a catalyst for the overall media sector. 3) The content boom should benefit platforms, IPs and AI video tools more, while content producers are likely to continue to face intense content competition despite lower production cost. Our picks are China Literature (IP leader), Kuaishou and Minimax (platform & AI video tools). For long video players, including iQiyi & Mango, which are both producers & platforms, we see short-term positive catalysts with AI content releases but are cautious on the long-term mixed impact.

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Appendix A-1

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The Firm has made a market in the publicly traded equity securities of China Literature Ltd on at least one occasion since 1 Jan 2025.
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