China TMT

AI adoption meets the funding test

AI n is becoming more visible, especially in cloud, infrastructure and hardware. We discuss liquidity walks and funding outlooks across TMT names. Remain OW on Tencent, UW Baidu.

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AI adoption is becoming more commercially visible, most directly measurable among cloud and infrastructure providers, along with select hardware names. n appears more embedded and are less directly measurable among the application-led companies.

Spending continues to accelerate, but the capex acceleration remains heavily concentrated in the infrastructure-led platforms, rather than sector-wide. Alibaba and Tencent are already operating at a different scale from the rest of the sector. Their 2Q26/Jun-Q capex totalled approximately CNY120bn, driven by data centres, servers and chips, model training, inference capacity and cloud infrastructure.

Who can fund the buildout, and how? The liquidity walks in this report assess the scale and timing of potential shortfalls. Our analysis identifies Baidu (UW) as the issuer most likely to require additional funding in the next 15 months, followed by Alibaba (MW) later in the forecast horizon. Kuaishou (MW) remains adequately funded in the base case, although its cushion is relatively thin. Under our current forecasts, additional issuance from other issuers that retain greater liquidity headroom will give them the flexibility to pace borrowing according to investment opportunities, refinancing needs and market conditions. These names include AAC Technologies (MW), Lenovo (MW), Meituan (MW), Tencent (OW) and Xiaomi (MW).

The funding question could become more complex as compute demand expands and as Chinese TMT companies extend beyond domestic procurement into overseas data centres and GPU capacity. Rather than funding all infrastructure directly, issuers may increasingly act as tenants, customers or offtakers, with data centre operators and infrastructure partners undertaking the investment, and the financing mix may vary by asset and development stages. This could create new bond issuers and financing structures outside the traditional TMT universe.

Trade ideas: 1) Switch from BIDU 4.875% '28s into TENCNT 3.595% '28s; 2) Buy LENOVO '32s; 3) Buy TENCNT ’50s and ’51s

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Trade ideas

Switch from BIDU 4.875% '28s into TENCNT 3.595% '28s

At z+54bp (TENCNT 3.595% '28s) and z+60bp (BIDU 4.875% '28s), the switch gives up 6bp in spread, but that appears modest relative to the divergence in our forecasts of liquidity and FCF. Tencent's stronger recurring cash generation and capital allocation flexibility support its ability to fund the AI buildout, while Baidu faces the clearest near-term external funding requirement in our coverage.

Buy LENOVO '32s

We like the LENOVO '32s for carry and also expect the 20bp gap versus the XIAOMI '31s to narrow. Although Lenovo carries greater working capital sensitivity as AI-server volumes scale, our liquidity walk forecasts positive and rising post-dividend FCF, increasing cash and a move into net cash through FY2028E. By contrast, Xiaomi faces a broader set of competing cash demands across EVs, AI, inventory, robotics, and international expansion. Nevertheless, Xiaomi retains substantial liquidity.

Buy TENCNT '50s and '51s

We maintain our Overweight rating on Tencent as our liquidity walk points to Tencent as having the strongest capacity to absorb the AI buildout within our coverage universe over the next 15 months. At z+169bp (both TENCNT'50s and 51s), we believe the bonds offer attractive carry and scope for curve compression.

From AI adoption to funding needs

AI adoption is becoming more commercially visible

China TMT companies, spanning internet, platform and hardware, are beginning to show clearer commercial benefits from AI, although the evidence remains uneven across companies (Figure 1). The most directly measurable revenue is concentrated among cloud and infrastructure providers. Alibaba, Baidu and Tencent, for instance, are seeing stronger demand for AI compute and cloud services, while Kuaishou has established a visible application-level revenue stream through Kling AI. Lenovo provides the clearest hardware read-through, with AI-related revenue spanning devices, servers, infrastructure and services.

Elsewhere, n appears more embedded and is less directly measurable among the application-led companies. At JD.com, Meituan, Tencent Music Entertainment and Weibo, AI is primarily improving recommendation, conversion, customer engagement, advertising performance and internal efficiency. JD.com is using AI across advertising, recommendation and supply-chain operations; Meituan across merchant tools, quick commerce and internal productivity; and Tencent Music Entertainment and Weibo to enhance content discovery, engagement and advertising performance. Xiaomi has begun generating revenue from API and token services, but AI remains embedded within a broader range of product offerings spanning smartphones, AIoT and EVs. AAC Technologies, meanwhile, is positioned as a hardware and/or components supplier through liquid cooling, thermal management, optical components, edge-AI devices and robotics rather than as a developer of proprietary AI models.

FIGURE 1. Reported commercial evidence of AI adoption

Issuer	Commercial evidence
Alibaba (BABA)	AI Cloud and Compute revenue +44.9%; AI products 35% of external cloud revenue; AI-product annualised revenue approaching USD10bn
Baidu (BIDU)	AI Cloud Infrastructure +50%; GPU cloud +283%; AI-powered businesses are an increasingly material part of Baidu Core
Kuaishou (KUAISH)	Kling AI revenue above CNY850mn, +200% y/y
Lenovo (LENOVO)	AI-related revenue USD9.3bn, +60%, or 35% of group revenue
Tencent (TENCNT)	Cloud growth accelerated to low-20%; improved AI-enabled advertising targeting and commercial cloud use cases

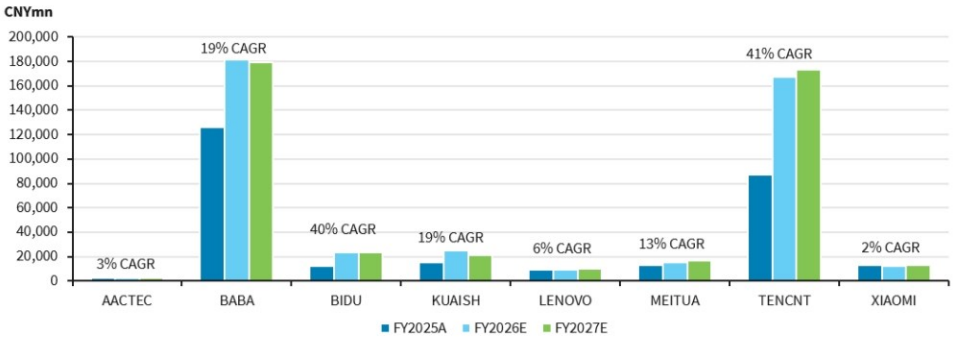
Source: Company data, Barclays Research

Spending continues to accelerate

China TMT's AI investment cycle is broadening, but the capex acceleration remains heavily concentrated in the infrastructure-led platforms, rather than sector-wide.

Alibaba and Tencent are already operating at a different scale from the rest of the sector. Their 2Q26/Jun-Q capex totalled approximately CNY120bn, driven by data centres, servers and chips, model training, inference capacity and cloud infrastructure. Alibaba had spent CNY190bn of its CNY380bn three-year plan by end-June, while Tencent's operating capex increased 190% y/y, to CNY51.8bn. Baidu is ramping investment more aggressively from a smaller base, with quarterly capex almost doubling sequentially, to CNY11.4bn, in 2Q26. Kuaishou also stepped up compute investment for Kling AI, although the company indicated that spending was front-loaded in 1H26.

FIGURE 2. Consensus capital expenditure forecasts



BABA and LENOVO fiscal year ends March; Capex CAGR shown at company level for 2025-2028
Source: Bloomberg, Barclays Research

FIGURE 3. 2Q/Jun-Q capex spending and company guidance

Issuer	2Q/June-Q Capex (CNYbn)	Capex guidance	Execution/progress	AI-related investment(s)
AAC Technologies (AACTEC)	1.3*	n.a.	n.a.	AI infrastructure components, Edge AI hardware, embodied AI.
Alibaba (BABA)	67.7	3-year CNY380bn (announced Feb 25)	CNY190bn by end-June 26	Full-stack spending spans data centres, compute, proprietary T-Head GPU/CPU/networking chips, Qwen models and AI applications.
Baidu (BIDU)	11.4	n.a.	n.a.	AI Cloud infrastructure, GPU cloud, Kunlunxin chips, ERNIE, AI Search, digital humans, agents and Apollo Go.
Kuaishou (KUAISH)	8.7^	n.a.	n.a.	Kling AI, recommendation models and internal productivity tools.
Lenovo (LENOVO)	1.4	At least USD1.4bn annually through FY27–28	n.a.	Qira and Tianxi personal-AI agents, hybrid enterprise AI, AI servers, liquid cooling and AI infrastructure.
Meituan (MEITUA)	3.2^	n.a.	n.a.	LLMs, AI at work and AI in products, including LongCat-2.0, quick-commerce tools, merchant applications and Xiaotuan.
Tencent (TENCNT)	52.8	Low-teens % of revenue	n.a.	Hunyuan model training, WorkBuddy and CodeBuddy inference, Weixin AI initiatives and cloud services.
Xiaomi (XIAOMI)	3.6	CNY16bn for FY26	CNY6.9bn by end-June 26	Smartphone, AIoT, Smart EV, AI.

Source: Company data, Bloomberg, Barclays Research

Who can fund the buildout, and how?

Is AI growth keeping pace with spending? Not yet, at least not consistently, although the growth trajectory is improving. Commercial progress is narrowing the gap, but most issuers remain in the buildout phase. Therefore, the key near-term question is not only whether companies can fund this timing gap, but also how they choose to do so.

Issuers with stronger recurring cash generation may be able to self-fund the investment cycle for longer, giving them greater flexibility to pace external borrowing. Where additional capital is required, we expect opportunistic and diversified funding activity rather than a broad wave of bond issuance. Potential channels include domestic bank financing, bond issuance (USD and CNH), convertible bonds, and share placements. Companies may also preserve liquidity by reducing share repurchases.

Unlike some US hyperscalers, we do not expect China TMT issuers to establish a once-a-year bond-issuance cadence to fund AI investment. However, issuers with substantial investment ambitions may still access the market regularly when conditions are attractive or when they wish to pre-fund future spending. The pace of supply will therefore depend not only on immediate liquidity needs, but also on investment opportunities, market access, refinancing strategy and issuers' desired liquidity buffers. The liquidity walks that follow assess the scale and timing of potential shortfalls (Liquidity walks and funding outlooks). Our analysis identifies Baidu as the issuer most likely to require additional funding in the next 15 months, followed by Alibaba later in the forecast horizon. Kuaishou remains adequately funded in the base case, although its cushion is relatively thin. AAC Technologies, Lenovo, Meituan, Tencent and Xiaomi retain greater liquidity headroom, allowing them to pace borrowing more flexibly. Any issuance from these names may support refinancing, pre-funding, additional investment or liquidity preservation, rather than indicate an immediate cash shortfall.

However, **the funding question could become more complex as compute demand expands and as Chinese TMT companies extend beyond domestic procurement into overseas data centres and GPU capacity**. Rather than funding all infrastructure directly, issuers may

increasingly act as tenants, customers or offtakers, with data centre operators and infrastructure partners or project companies undertaking the investment and raising the associated debt.

Moody's estimates that APAC data centre expansion will require approximately USD900bn of investment: USD500-550bn for servers and computing equipment; USD200-250bn for land, buildings, fibre and supporting infrastructure; and USD90-110bn for additional power generation. Funding could be provided through cloud leases, project companies, joint ventures, third-party operators or customer-backed arrangements.

The financing mix may vary by asset and development stage. Land acquisition and early development are typically funded through sponsor equity, private equity, infrastructure funds, local partners or tenant joint ventures. Construction can introduce bank loans, project finance, bilateral facilities, sustainability-linked debt and project-level bonds. Once utilisation and contracted cash flows are established, mature assets may access bank term loans, infrastructure trusts or REITs, ABS or CMBS, private credit and corporate bonds.

This could also broaden the investible China AI credit universe beyond existing TMT issuers. Data centre operators, cloud providers and project vehicles may emerge as borrowers in the bond market, with Chinese TMT companies supporting their credit profiles through long-term leases, capacity reservations or offtake commitments, or potentially providing some sort of guarantee.

At the moment, Alibaba Cloud reports a presence across 31 regions, including markets across Southeast Asia, Northeast Asia, the US, Latin America, Europe and the Middle East, and has outlined an ambition to operate more than 20GW of global data centre capacity by 2032. Tencent Cloud is present across 25 regions, including the US, Europe, Asia, Latin America and the Middle East, and has announced plans for its first Saudi Arabian data centre. Outside Alibaba and Tencent, quantified overseas commitments are less common and generally relate to market-entry or manufacturing plans rather than cloud and data centre infrastructure.

Liquidity walks and funding outlooks

AAC Technologies (AACTEC)

Barclays rating: Market Weight

AAC's 1H26 earnings mix is becoming more supportive of future FCF generation, in our view. Revenue rose 8.9% y/y, gross margin expanded 1.7pp, to 22.4%. Precision Mechanics and Heat Dissipation was the main growth contributor, with revenue rising 12.5%, gross margin improving 4.1pp, to 23.1%, and heat-dissipation revenue increasing approximately 400%. Liquid-cooling CDUs also entered volume delivery, while universal quick disconnect products moved into mass production.

The company remains sufficiently funded under our base case, supported by positive operating cash flow, manageable capex and a sharp improvement in the cash conversion cycle in 1H26. Thermal management and liquid cooling are becoming increasingly credible growth and margin contributors. While our liquidity walk shows only modest headroom above the assumed cash floor in FY2026E, we see no structural funding shortfall, and expect FCF to recover materially in FY2027E.

FIGURE 4. **AAC Technologies' Liquidity Walk**

CNYmn	FY2025A	FY2026E	FY2027E
Revenue	31,817	35,286	41,010
EBITDA	5,780	6,257	7,171
EBITDA Margin	18.2%	17.7%	17.5%
CFO	7,183	3,751	7,007
Capex	-2,581	-2,696	-2,777
Dividends	-264	-418	-516
Repurchases	-955	-570	-570
Net FCF	3,383	68	3,145
Maturities		-2,012	
Debt issuance			
Cash and cash equivalents*	8,612	6,668	9,813
Gross debt^	13,644	13,644	13,644
Net debt/(cash)	5,032	6,976	3,831
Assumed target cash	6,000		
Implied cumulative gross funding needs		**-668**	**-3,813**
Implied cumulative net funding needs		**-2,680**	**-3,813**

*Incl. short-term investments; ^incl. lease liabilities; Earnings and cash flow estimates from Bloomberg Consensus Estimates
Source: Bloomberg, Company data, Barclays Research

Alibaba Group (BABA)

Barclays rating: Market Weight

Recent equity placement and prior convertible bond issuance materially extended Alibaba's runway, but does not make the current investment cycle fully self-funded. This is consistent with the scale of the group's announced plans; Jun-Q capex reached CNY67.7bn, and CNY190bn of the CNY380bn three-year plan had been deployed by end-June 2026. Our liquidity walk points to no incremental funding requirement in FY2027E, followed by a potential shortfall in FY2028E.

Operating cash flow increased 11% y/y to CNY22.9bn in 1QFY26/27, supported by growth in cloud and improving quick-commerce economics. However, CNY67.7bn of capex pushed quarterly FCF to negative CNY44.7bn. We note that cloud external revenue rose 45% y/y and AI-related products reached 35% of external cloud revenue in 1QFY26/27, supporting a credible path toward stronger utilisation and returns. Going forward, stronger cloud margins, proprietary-chip substitution, and faster improvement in AI-application losses and quick commerce losses could reduce the shortfall. Nonetheless, **we expect Alibaba to retain an opportunistic and diversified approach to capital markets.**

FIGURE 5. **Alibaba's Liquidity Walk**

CNYmn (FY ends March)	FY2026A	FY2027E	FY2028E
Revenue	1,023,670	1,134,539	1,325,937
EBITDA	27,983	171,498	238,726
EBITDA Margin	2.7%	15.1%	18.0%
CFO	76,213	119,858	191,470
Capex	-126,063	-182,427	-180,488
Dividends	-33,732	-20,402	-27,775
Repurchases	-7,638	-7,638	-7,638
Net FCF	-91,220	-90,609	-24,431
Maturities			-17,100
Debt issuance**	10,257	21,459	
Equity placement		68,382	
Cash and cash equivalents*	286,840	286,072	244,541
Gross debt^	259,996	281,455	281,455
Net debt/(cash)	-26,844	-4,617	36,914
Assumed target cash	270,000		
Implied cumulative gross funding needs		**-16,072**	**25,459**
Implied cumulative net funding needs		**-16,072**	**8,359**

*Incl. short-term investments; ^incl. lease liabilities; ** incl convertible bonds; Earnings and cash flow estimates from Barclays Equity Research, Bloomberg Consensus Estimates
Source: Bloomberg, Company data, Barclays Research

Baidu Corp (BIDU)

Barclays rating: Underweight

Operating cash flow remained positive at CNY3.4bn in 2Q26, but was modest relative to CNY11.4bn of quarterly capex and Baidu's wider AI investment requirements. Total revenue declined 4% y/y, reflecting continued pressure on the legacy business, and we expect the advertising business to remain under pressure over the next few quarters. Consequently, this would offset incremental cloud profit and remain the most important downside risk to FCF generation.

The key thing to watch, in our view, is whether higher-margin GPU Cloud can grow quickly enough to offset advertising weakness and continued investment in ERNIE, Kunlunxin and Apollo Go. Our liquidity walk assumes capex remains around CNY23.6bn annually in FY2026E-FY2027E. We take into account CNY4.4bn of bond maturities in FY2026 and CNY6.0bn in FY2027E. Assuming a CNY100bn minimum cash balance, in order to maintain a net cash position, and continued shareholder returns, we estimate approximately CNY9.0bn of cumulative gross funding needs in FY2026E, rising to CNY34.8bn in FY2027E. Cumulative net funding needs are approximately CNY4.6bn and CNY28.7bn, respectively. **This makes Baidu the issuer within our coverage universe most likely to require additional funding over the near term**.

Therefore, we lower our rating on Baidu to Underweight from Market Weight, reflecting the growing mismatch between AI investment requirements and FCF generation, with elevated shareholder returns further reducing financial flexibility. Upside risks to our Underweight rating includes stronger AI-cloud margins and operating cash flow, stabilisation in advertising, lower

capex spending or shareholder returns, and successful external financing at Kunlunxin [1] that reduces the burden on Baidu.

FIGURE 6. Baidu's Liquidity Walk

CNYmn	FY2025A	FY2026E	FY2027E
Revenue	102,485	103,100	105,594
EBITDA	22,051	21,979	20,617
EBITDA Margin	21.5%	21.3%	19.5%
CFO	-3,119	10,632	10,785
Capex	-12,073	-23,571	-23,550
Dividends			
Repurchases	-5,536	-6,964	-6,964
Net FCF	-20,728	-19,903	-19,730
Maturities	-7,377	-4,359	-6,035
Debt issuance**	27,812		
Cash and cash equivalents*	115,267	91,005	65,240
Gross debt^	97,077	97,077	97,077
Net debt/(cash)	-18,190	6,072	31,837
Assumed target cash	100,000		
Implied cumulative gross funding needs		**8,995**	**34,760**
Implied cumulative net funding needs		**4,636**	**28,725**

*Incl. short-term investments; ^incl. lease liabilities; ** incl convertible bonds; Earnings and cash flow estimates from Barclays Equity Research, Bloomberg Consensus Estimates
Source: Bloomberg, Company data, Barclays Research

Kuaishou Technology (KUAISH)

Barclays rating: Market Weight

In 2Q26, gross margin fell to 51.6% from 55.7%, partly reflecting higher revenue-sharing costs. R&D increased 34.2% y/y, to CNY4.6bn, because of AI investment and training costs. The company generated CNY5.9bn of operating cash flow in 2Q26, and management is targeting positive FCF in 2H26. We believe AI spending will continue to weigh on 2H26 profitability and FCF. However, front-loaded capex and Kling AI financing are supportive.

The company remains adequately funded in our base case, but its cushion is thinner and more execution-dependent than the cash balance suggests. Continued dividends and shareholder returns could leave less headroom if AI investment remains elevated.

[1] Baidu's AI chip unit Kunlunxin targets $50 billion Hong Kong IPO, The Information reports, Reuters, 29 June 2026

FIGURE 7. **Kuaishou's Liquidity Walk**

CNYmn	FY2025A	FY2026E	FY2027E
Revenue	142,776	138,305	145,112
EBITDA	29,839	21,182	22,973
EBITDA Margin	20.9%	15.3%	15.8%
CFO	26,716	16,874	22,973
Capex	-14,942	-24,977	-21,194
Dividends	-2,927		
Repurchases	-2,927	-2,658	-2,658
Net FCF	5,920	-10,761	-879
Maturities			
Debt issuance		13,559	
Cash and cash equivalents*	20,061	22,859	21,980
Gross debt^	23,005	36,564	36,564
Net debt/(cash)	2,944	13,705	14,584
Assumed target cash	20,000		
Implied cumulative gross funding needs		**-2,859**	**-1,980**
Implied cumulative net funding needs		**-2,859**	**-1,980**

*Incl. short-term investments; ^incl. lease liabilities; Earnings and cash flow estimates from Barclays Equity Research, Bloomberg Consensus Estimates
Source: Bloomberg, Company data, Barclays Research

Lenovo Group (LENOVO)

Barclays rating: Market Weight

Lenovo's operating backdrop improved materially. AI-related revenue rose 60% y/y, to more than USD9bn, and reached 35% of group revenue in 1QFY26/27. ISG revenue nearly doubled to USD8.5bn, operating profit reached USD777mn, and the segment's operating margin rose to 9.1%. SSG revenue grew 28%, with a 24.2% margin.

The growing contribution from higher-margin SSG services supports our forecast recovery in operating cash flow. Managed Services, and Projects and Solutions reached a record 62.4% of SSG revenue. Long-term recurring contracts, TruScale and a multi-quarter booking backlog should also provide greater revenue visibility. In our liquidity walk, we forecast CFO rising from USD4.1bn in FY2026A to USD5.6bn in FY2027E and USD6.9bn in FY2028E, comfortably covering annual capex of USD1.3bn-1.5bn and rising dividends.

However, the latest quarter's weak cash conversion shows that SSG's positive mix effect can be outweighed in the near term by ISG-related inventory and receivables. The key risk to our walk is therefore that rapid AI-server growth keeps working capital elevated. Conversely, a larger contribution from recurring SSG revenue, combined with normalising inventory and receivables movements, would support or potentially improve our projected liquidity headroom. Nonetheless, **our liquidity walk indicates that Lenovo should retain sufficient liquidity to fund operations or capex over the next 15 months.**



FIGURE 8. **Lenovo's Liquidity Walk**

USDmn (FY ends March)	FY2026A	FY2027E	FY2028E
Revenue	83,075	106,368	125,585
EBITDA	4,648	5,992	9,085
EBITDA Margin	5.6%	5.6%	7.2%
CFO	4,138	5,604	6,887
Capex	-1,262	-1,341	-1,512
Dividends	-613	-1,073	-1,363
Repurchases			
Net FCF	2,264	3,190	4,011
Maturities	-1,000	-675	-2,600
Debt issuance**		2,000	
Cash and cash equivalents*	4,984	9,499	10,911
Gross debt^	5,473	7,473	7,473
Net debt/(cash)	489	-2,026	-3,438
Assumed target cash	3,500		
Implied cumulative gross funding needs		**-5,999**	**-7,411**
Implied cumulative net funding needs		**-6,674**	**-10,011**

*Incl. short-term investments; ^incl. lease liabilities; ** incl convertible bonds; Earnings and cash flow estimates from Bloomberg Consensus Estimates
Source: Bloomberg, Company data, Barclays Research

Meituan (MEITUAN)

Barclays rating: Market Weight

R&D rose to 7.3% of revenue in 2Q26 as AI investment increased, but management reiterated that it will not compete to become a capital-intensive “token factory”. Its three priorities are foundation models, AI at work and AI in products, with capital allocation assessed on an ROI-oriented basis. We note that Xiaotuan is increasing user engagement, merchant agents are being deployed across restaurants, retail, healthcare and travel, and AI tools are improving merchant operations and internal productivity. Management’s focus is on embedding AI into real workflows, transactions and fulfilment rather than generating standalone model revenue.

Core local commerce's segment revenue grew 10.1%, to CNY71.5bn, and segment operating profit reached CNY5.7bn in 2Q26. Food-delivery unit economics returned to positive territory, and management expects unit economics to remain positive in 3Q26 and improve meaningfully y/y. However, profitability will be lower sequentially because of seasonality, higher courier subsidies, marketing, and nationwide occupational-injury insurance. In-store margins are also expected to decline in 3Q26 and 4Q26 as investment increases. On the other hand, while New Initiatives' operating loss narrowed to CNY1.7bn in 2Q26, we expect the segment's bottom line to remain in negative territory in FY26.

Meituan held CNY168.3bn of cash and short-term treasury investments (CNY166.8bn cash at end-FY25) and CNY77.3bn of investment assets at end-June. Management indicated in the earnings call that it may consider monetizing certain aforementioned investments to free up capital for reinvestment and shareholder returns. **Meituan retains substantial liquidity and does not show near-term external funding requirement according to our liquidity walk**, although FCF generation remains sensitive to subsidy intensity, courier costs and investment in grocery retail and overseas expansion.

FIGURE 9. **Meituan's Liquidity Walk**

CNYmn	FY2025A	FY2026E	FY2027E
Revenue	365,631	420,540	475,399
EBITDA	-13,783	7,834	29,560
EBITDA Margin	-3.8%	1.9%	6.2%
CFO	-13,815	9,504	29,560
Capex	-13,271	-15,203	-16,313
Dividends			
Repurchases	-365	-342	-342
Net FCF	-27,451	-6,041	12,906
Maturities	-5,030		-9,949
Debt issuance	20,492		
Cash and cash equivalents*	166,834	160,793	163,750
Gross debt^	86,619	86,619	86,619
Net debt/(cash)	-80,215	-74,174	-77,131
Assumed target cash	100,000		
Implied cumulative gross funding needs		**-60,793**	**-63,750**
Implied cumulative net funding needs		**-60,793**	**-73,699**

*Incl. short-term investments; ^incl. lease liabilities; Earnings and cash flow estimates from Barclays Equity Research, Bloomberg Consensus Estimates
Source: Bloomberg, Company data, Barclays Research

Tencent (TENCNT)

Barclays rating: Overweight

Our liquidity walk points to Tencent having the strongest capacity to absorb the AI buildout within our coverage universe over the next 15 months. Any near-term funding would likely be to fund incremental strategic opportunities and/or preserve balance sheet liquidity. The rise in net debt and negative reported FCF in 2Q26 were significant, but largely reflects concentrated capex, compute-procurement prepayments and dividends rather than deterioration in core cash generation, in our view. We believe that games, advertising and cloud provide the strongest internal funding base, while GPU rental and MaaS offer a fallback return on compute.

Management views Tencent's elevated AI capex concentrated in 2026-27 to establish sufficient model-training, inference and cloud capacity, rather than a permanently recurring annual cash burden. This implies continued near-term FCF volatility as procurement and prepayments precede monetisation, but liquidity should remain strong given recurring cash generation from Tencent's established franchise. The next few quarters should show whether prepayments normalise and whether WorkBuddy, cloud and advertising monetisation begin to offset the AI investment drag.

FIGURE 10. **Tencent's Liquidity Walk**

CNYmn	FY2025A	FY2026E	FY2027E
Revenue	751,766	823,359	905,419
EBITDA	336,427	344,907	349,486
EBITDA Margin	44.8%	41.9%	38.6%
CFO	303,052	304,979	323,486
Capex	-87,482	-167,531	-173,563
Dividends	-37,535	-42,790	-44,666
Repurchases	-73,312	-44,514	-44,514
Net FCF	104,723	50,144	60,743
Maturities	-6,035	-10,059	
Debt issuance	9,000	31,430	
Cash and cash equivalents*	377,842	449,357	510,100
Gross debt^	406,399	437,829	437,829
Net debt/(cash)	28,557	-11,528	-72,272
Assumed target cash	300,000		
Implied cumulative gross funding needs		**-149,357**	**-210,100**
Implied cumulative net funding needs		**-159,416**	**-210,100**

*Incl. short-term investments; ^incl. lease liabilities; Earnings and cash flow estimates from Barclays Equity Research, Bloomberg Consensus Estimates
Source: Bloomberg, Company data, Barclays Research

Xiaomi Corp (XIAOMI)

Barclays rating: Market Weight

Smartphone pricing and mix helped protect revenue and the 8.5% smartphone gross margin in 2Q26 despite sharply higher memory costs. Internet Services generated CNY9bn of revenue at a 76.8% gross margin, supported by 770mn global monthly active users and a rising share of premium users. Overseas IoT revenue grew significantly, and management expects large appliances to expand more rapidly overseas. However, the Smart EV, AI and Other New Initiatives segment recorded a CNY2.6bn operating loss. Xiaomi spent CNY3.6bn of capex in the quarter, with 65.8% allocated to EVs, AI and other innovative businesses, while AI accounted for almost 30% of 1H26 R&D. The company has not changed its CNY16bn FY2026 AI-investment budget.

Xiaomi does not face near-term funding needs according to our liquidity walk, but it is becoming increasingly difficult to separate AI returns from the broader human-car-home, EV, OS, chip and robotics investment cycle. The key risks for Xiaomi are component inflation and the EV segment, in our view. Management expects storage costs to remain high, consumer demand to recover slowly, and competition to remain intense. The new EV product mix and final pricing will also affect segment margins, while AI, robots and global EV expansion require continued investment.

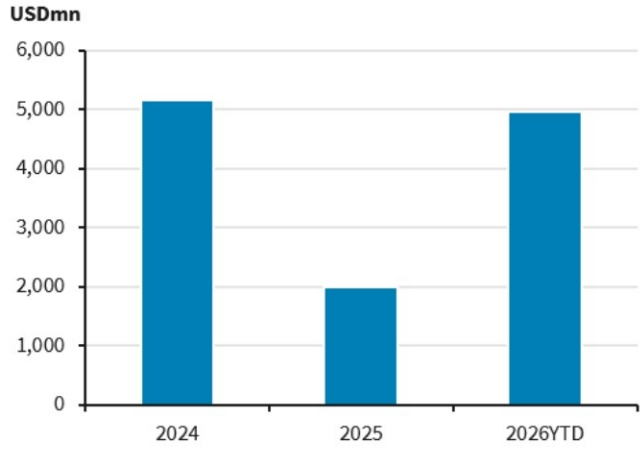
FIGURE 11. **Xiaomi's Liquidity Walk**

CNYmn	FY2025A	FY2026E	FY2027E
Revenue	457,287	430,070	519,376
EBITDA	42,924	31,355	40,514
EBITDA Margin	9.4%	7.3%	7.8%
CFO	34,142	14,685	40,426
Capex	-12,769	-12,965	-13,634
Dividends			
Repurchases	-6,173	-9,685	-9,685
Net FCF	15,200	-7,965	17,107
Maturities			-5,349
Debt issuance			
Cash and cash equivalents*	78,233	70,268	82,026
Gross debt^	36,124	36,124	36,124
Net debt/(cash)	-42,109	-34,144	-45,902
Assumed target cash	50,000		
Implied cumulative gross funding needs		**-20,268**	**-32,026**
Implied cumulative net funding needs		**-20,268**	**-37,375**

*Incl. short-term investments; ^incl. lease liabilities; Earnings and cash flow estimates from Barclays Equity Research, Bloomberg Consensus Estimates
Source: Bloomberg, Company data, Barclays Research

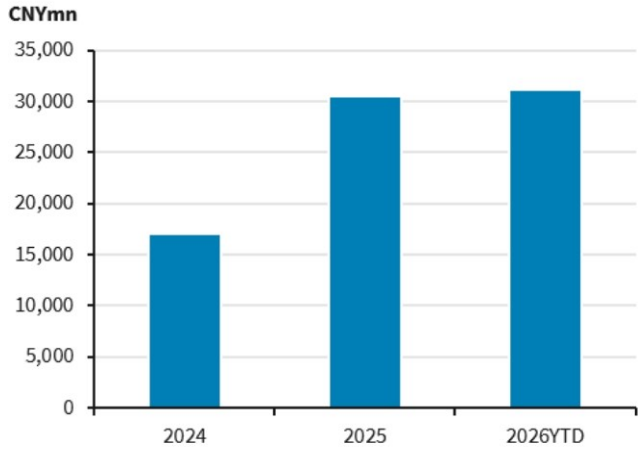
Appendix: 2026YTD issuance

FIGURE 12. **China TMT USD bond issuance**



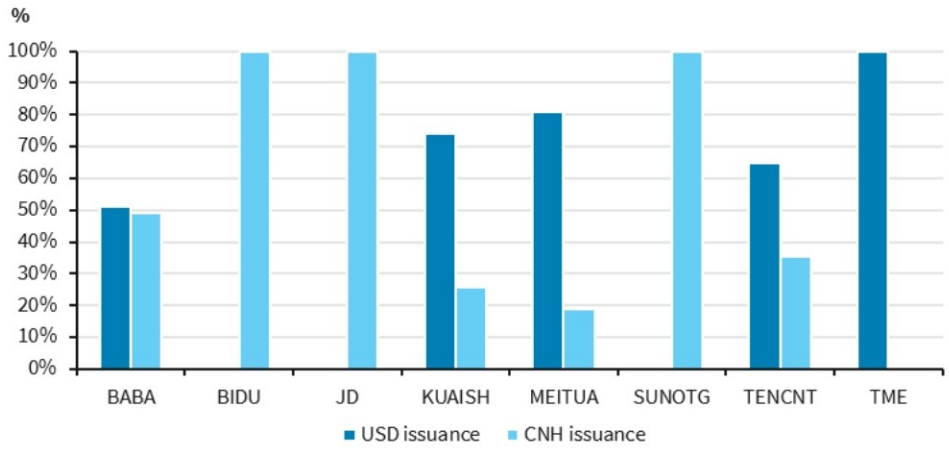
Source: Barclays Research, Bloomberg

FIGURE 13. **China TMT CNH bond issuance**



Source: Barclays Research, Bloomberg

FIGURE 14. CNH issuance has been a large source of funding for China TMT issuers



Source: Barclays Research, Bloomberg

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AAC TECHNOLOGIES HOLDINGS INC, Market Weight, CD/FA/J

Representative Bond: AACTEC 3 3/4 06/02/31 (USD 91.43, 22-Oct-2026)

ALIBABA GROUP HOLDING LTD, Market Weight, A/CD/CE/CH/D/E/FA/J/K/L/M/N

Representative Bond: BABA 4 1/2 11/28/34 (USD 91.31, 22-Oct-2026)

Representative Bond: BABA 5 1/4 05/26/35 (USD 95.33, 22-Oct-2026)

BAIDU INC, Underweight, CD/CE/CH/D/FA/J/K/L/M/N

Representative Bond: BIDU 3.425 04/07/30 (USD 94.29, 22-Oct-2026)

Representative Bond: BIDU 4 7/8 11/14/28 (USD 99.52, 22-Oct-2026)

BIDU 4 7/8 11/14/28 (USD 99.52, 22-Oct-2026)

KUAISHOU TECHNOLOGY, Market Weight, A/CD/CH/D/E/FA/J/L

Representative Bond: KUAISH 4 3/4 01/22/36 (USD 88.91, 22-Oct-2026)

LENOVO GROUP LTD, Market Weight, CD/J/K/M

Representative Bond: LENOVO 3.421 11/02/30 (USD 92.54, 22-Oct-2026)

Representative Bond: LENOVO 6.536 07/27/32 (USD 103.71, 22-Oct-2026)

LENOVO 6.536 07/27/32 (USD 103.71, 22-Oct-2026)

MEITUAN, Market Weight, CD/CH/FA/J/K/M

Representative Bond: MEITUA 3.05 10/28/30 (USD 90.34, 22-Oct-2026)

TENCENT HOLDINGS LTD, Overweight, A/CD/CH/D/E/FA/J/K/L/M/N

Representative Bond: TENCNT 2.88 04/22/31 (USD 90.67, 22-Oct-2026)

TENCNT 3.24 06/03/50 (USD 61.23, 22-Oct-2026)

TENCNT 3.595 01/19/28 (USD 98.25, 22-Oct-2026)

TENCNT 3.84 04/22/51 (USD 68.08, 22-Oct-2026)

XIAOMI BEST TIME INTERNATIONAL LTD, Market Weight, CD/J

Representative Bond: XIAOMI 3 3/8 04/29/30 (USD 93.18, 22-Oct-2026)

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