

# Tencent (700 HK)

## Expect resilient core business growth; AI investment to strengthen competitive moat

We expect a solid 1Q26E for Tencent: we forecast total revenue to grow by 10% YoY to RMB198.4bn, and non-IFRS net income to increase by 9% YoY to RMB66.8bn in 1Q26E, primarily driven by the strong core gaming and marketing businesses, but partially offset by the increased AI investment. Tencent's core businesses continue to benefit from AI and maintain solid growth momentum. Though AI investment impacts short-term margin, it also creates short-term catalysts (e.g. launch of HY 3.0 model and Weixin AI agents) and empowers core businesses over the long term, in our view. After 4Q25 results, we believe the market overreacted to the potential AI threat and near-term margin pressure from AI investments, leaving Tencent trading at an attractive valuation of 14x FY26E non-IFRS PE. We maintain our earnings forecast, and keep our SOTP-derived target price unchanged at HK\$750.0. Maintain BUY.

- Solid revenue growth across core businesses.** Looking into 1Q26E, we expect: 1) games revenue to grow 12% YoY to RMB66.4bn (vs. Bloomberg consensus +13% YoY), driven by solid growth of both domestic/overseas games revenue growth (+10%/+16% YoY). Evergreen games maintained healthy billings performance during the Spring Festival holidays, but we also noticed that the late start of Spring Festival this year led to fewer days for revenue recognition of the peak season in 1Q26; 2) marketing revenue to increase by 18% YoY to RMB37.5bn (vs. consensus +18% YoY), fuelled by the AI empowerment and increase in ad inventory of Video Account; 3) Fintech and Business Services (FBS) revenue to grow by 8% YoY to RMB59.4bn (vs. consensus +9% YoY), mainly driven by the accelerating cloud revenue growth.
- Resilient earnings growth despite AI investment.** On the margin front, we expect the solid performance of core businesses will help Tencent maintain resilient non-IFRS earnings growth in 1Q26E/FY26E (+9%/6% YoY), though stepped-up AI investment will gradually create margin pressure. We forecast overall GPM to improve by 0.5ppt YoY to 56.3% in 1Q26E, driven by strong growth of higher-margin games and marketing businesses. We expect non-IFRS net margin to decline by 0.4ppt YoY to 33.7% in 1Q26E, mainly due to the AI investment related to user acquisition, staff costs, depreciation and leasing.
- Key catalysts to support business growth and valuation.** Looking ahead, we expect several catalysts to support Tencent's fundamental and valuation recovery: 1) launch of HY 3.0 model in Apr 2026, which is Tencent's first flagship foundation model after the restructuring of Tencent AI team; 2) upgrade of agentic applications like WorkBuddy, which enables Tencent to leverage Weixin+AI to tap into the enormous AI agent market; 3) incremental revenue contribution from major new games like *Honor of Kings: World* and *Roco Kingdom: World*; 4) faster-than-sector marketing revenue growth supported by AI empowerment and improved monetization efficiency.

### Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	660,257	751,766	823,452	883,100	927,138
YoY growth (%)	8.4	13.9	9.5	7.2	5.0
Adjusted net profit (RMB mn)	222,703.0	259,626.0	276,246.7	300,101.6	322,790.4
YoY growth (%)	41.2	16.6	6.4	8.6	7.6
EPS (Adjusted) (RMB)	23.96	28.55	30.33	33.45	36.53
Consensus EPS (RMB)	23.96	28.55	30.60	34.27	37.89
P/E (x)	21.1	17.8	16.7	15.1	14.5

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **HK\$750.00**  
 Up/Downside **48.7%**  
 Current Price **HK\$504.50**

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### Stock Data

Mkt Cap (HK\$ mn)	4,518,234.5
Avg 3 mths t/o (HK\$ mn)	15,619.4
52w High/Low (HK\$)	677.50/443.40
Total Issued Shares (mn)	8955.9

Source: FactSet

### Shareholding Structure

MIH TC	22.8%
Advance Data Services Limited	7.8%

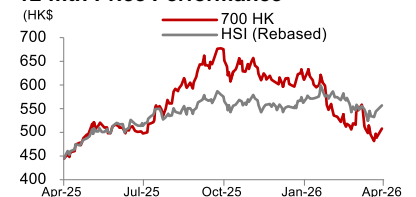
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-8.9%	-8.6%
3-mth	-17.4%	-16.4%
6-mth	-22.6%	-21.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Business forecasts and valuation

Figure 1: CMBIGM estimates vs consensus

(RMB bn)	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	823.5	883.1	927.1	831.9	914.8	998.8	-1.0%	-3.5%	-7.2%
Gross profit	468.0	506.7	536.6	473.9	527.9	583.0	-1.2%	-4.0%	-7.9%
Operating profit	258.0	286.8	311.3	274.8	310.7	345.7	-6.1%	-7.7%	-9.9%
Adjusted net profit	276.2	300.1	322.8	281.4	312.2	345.2	-1.8%	-3.9%	-6.5%
Adjusted EPS (RMB)	30.3	33.5	36.5	30.6	34.3	37.9	-0.9%	-2.4%	-3.6%
Gross margin	56.8%	57.4%	57.9%	57.0%	57.7%	58.4%	-0.1 ppt	-0.3 ppt	-0.5 ppt
Operating margin	31.3%	32.5%	33.6%	33.0%	34.0%	34.6%	-1.7 ppt	-1.5 ppt	-1.0 ppt
Adjusted net margin	33.5%	34.0%	34.8%	33.8%	34.1%	34.6%	-0.3 ppt	-0.2 ppt	0.2 ppt

Source: Bloomberg, CMBIGM estimates

Our SOTP-derived target price of HK\$750.0 comprises, per share:

1) HK\$350.5 for the games business, based on a 24x 2026E PE, which is at a premium to the average PE for its global gaming peers (18x), mainly due to Tencent's strong leadership in China's games industry and diversified games portfolio.

2) HK\$31.3 for the SNS business, including the market cap of Tencent's stake in its subsidiaries, the valuation of Tencent Video (based on a 3.5x 2026E PS, at a premium to the 1.5x average PS of its peers given its content and user traffic leadership), and the valuation of other membership services (based on a 3.5x 2026E PS).

3) HK\$148.3 for the marketing services business, based on a 22x 2026E PE, which is at a premium to the industry average (20x). This reflects Tencent's more resilient ad revenue growth outlook, supported by the solid performance of Weixin Video Account and Mini Program.

4) HK\$105.6 for the fintech business, based on a 4.5x 2026E PS, at a premium to the peer average (1.3x). This mainly reflects Tencent's strong leadership in China's digital payment market and its potential to capture other fintech business opportunities.

5) HK\$33.4 for the cloud business, based on a 4.5x 2026E PS, at a discount to the industry average (5.2x) as Tencent's current offerings mainly involve the lower-margin IaaS business.

6) HK\$72.7 for strategic investments, based on the current market value of Tencent's listed investments and the book value of its unlisted investments. We apply a 30% holding company discount to the fair value of Tencent's equity investments.

7) HK\$8.6 for net cash.

**Figure 2: Tencent: SOTP valuation**

	2026E net profit (RMBmn)	2026E revenue (RMBmn)	2026E PE (x)	2026E PS (x)	Market cap (RMBmn)	Valuation to Tencent (RMBmn)	As % of total valuation	Per share valuation (HK\$)
Games	117,051		24x			2,809,226	46.7	350.5
Social network services (SNS)		132,788				251,037	4.2	31.3
Tencent Music (TME)					98,781	54,428	0.9	6.8
China Literature					23,547	13,935	0.2	1.7
Huya					4,972	2,357	0.0	0.3
Online video – subscription		20,700		3.5x		72,450	1.2	9.0
Others		30,819		3.5x		107,867	1.8	13.5
Marketing services	54,021		22x			1,188,469	19.8	148.3
Fintech		188,036		4.5x		846,162	14.1	105.6
Cloud (business services)		59,417		4.5x		267,375	4.4	33.4
Net cash						69,247	1.2	8.6
<b>Valuation of core business</b>						<b>5,431,516</b>		
RMB/HK\$						0.88		
<b>Valuation of core business (HK\$m)</b>						<b>6,172,177</b>		
Valuation per share – core business (HK\$)						<b>677.7</b>		
Valuation per share – investments (HK\$)						72.7	9.7	
<b>Valuation per share – Tencent (HK\$)</b>						<b>750.0</b>		

Source: Company data, CMBIGM estimates

**Figure 3: Peer comparison: online games and advertising sector**

Companies	Ticker	Price (Local)	EPS growth (YoY %)		PE (x)	
			FY26E	FY27E	FY26E	FY27E
<b>Online games</b>						
NetEase	NTES US	113.3	3	11	12	11
Electronic Arts	EA US	202.2	31	8	23	22
Nexon	3659 JP	2,719.0	13	5	17	16
Bandai Namco	7832 JP	3,903.0	(0)	8	19	18
Perfect World	002624 CH	20.1	116	16	24	20
37 Interactive	002555 CH	22.4	7	9	15	14
<b>Average PE</b>					<b>18</b>	<b>17</b>
<b>Marketing services</b>						
Focus Media	002027 CH	6.3	33	6	15	14
Meta	Meta US	628.4	7	16	19	17
Google	GOOG US	316.4	12	15	26	23
<b>Average PE</b>					<b>20</b>	<b>18</b>

Source: Bloomberg, CMBIGM

Note: data as of market close on 9 Apr

**Figure 4: Peer comparison: online video, fintech, and cloud sectors**

Companies	Ticker	Price (Local)	Revenue growth (YoY %)		PS (x)	
			FY26E	FY27E	FY26E	FY27E
<b>Online video</b>						
iQiyi	IQ US	1.3	(1.4)	3.6	0.3	0.3
Mango Excellent Media	300413 CH	20.9	9.8	7.2	2.8	2.6
<b>Average PS</b>					<b>1.5</b>	<b>1.4</b>
<b>Cloud</b>						
Microsoft	MSFT US	373.1	15.5	16.6	7.3	6.3
Google	GOOG US	316.4	19.5	16.2	9.4	8.1
Salesforce	CRM US	170.9	0.0	11.2	3.8	3.4
Kingsoft Cloud	KC US	14.8	28.3	18.8	2.5	2.1
Amazon	AMZN US	233.7	12.8	11.8	3.1	2.8
<b>Average PS</b>					<b>5.2</b>	<b>4.5</b>

		Price	Revenue growth (YoY %)		PS (x)	
<b>Fintech</b>						
PayPal	PYPL US	46.0	2.5	4.2	1.2	1.2
Block	SQ US	62.7	7.6	9.6	1.4	1.3
<b>Average PS</b>					<b>1.3</b>	<b>1.2</b>

Source: Bloomberg, CMBIGM

Note: data as of market close on 9 Apr

## Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
<b>YE 31 Dec (RMB mn)</b>						
Revenue	609,015	660,257	751,766	823,452	883,100	927,138
Cost of goods sold	(315,906)	(311,011)	(329,173)	(355,485)	(376,385)	(390,504)
<b>Gross profit</b>	<b>293,109</b>	<b>349,246</b>	<b>422,593</b>	<b>467,966</b>	<b>506,714</b>	<b>536,634</b>
Operating expenses	(133,035)	(141,147)	(181,031)	(209,980)	(219,892)	(225,294)
Selling expense	(34,211)	(36,388)	(41,727)	(49,407)	(52,103)	(53,774)
Admin expense	(103,525)	(112,761)	(136,127)	(160,573)	(167,789)	(171,520)
Others	4,701	8,002	(3,177)	0	0	0
<b>Operating profit</b>	<b>160,074</b>	<b>208,099</b>	<b>241,562</b>	<b>257,986</b>	<b>286,823</b>	<b>311,339</b>
Gain/loss on financial assets at FVTPL	(6,090)	4,187	10,168	8,134	6,508	5,206
Share of (losses)/profits of associates/JV	5,800	25,176	23,740	26,114	26,114	26,114
Interest income	13,808	16,004	16,909	17,317	15,807	18,096
Interest expense	(12,268)	(11,981)	(15,130)	(15,682)	(15,962)	(16,109)
<b>Pre-tax profit</b>	<b>161,324</b>	<b>241,485</b>	<b>277,249</b>	<b>293,870</b>	<b>319,289</b>	<b>344,646</b>
Income tax	(43,276)	(45,018)	(47,448)	(52,897)	(57,472)	(62,036)
<b>After tax profit</b>	<b>118,048</b>	<b>196,467</b>	<b>229,801</b>	<b>240,973</b>	<b>261,817</b>	<b>282,610</b>
Minority interest	(2,832)	(2,394)	(4,959)	(4,819)	(5,236)	(5,652)
<b>Net profit</b>	<b>115,216</b>	<b>194,073</b>	<b>224,842</b>	<b>236,154</b>	<b>256,581</b>	<b>276,957</b>
<b>Adjusted net profit</b>	<b>157,688</b>	<b>222,703</b>	<b>259,626</b>	<b>276,247</b>	<b>300,102</b>	<b>322,790</b>
Gross dividends	28,485	27,965	42,645	48,884	53,112	57,330
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>518,446</b>	<b>496,180</b>	<b>595,460</b>	<b>615,282</b>	<b>833,120</b>	<b>1,005,446</b>
Cash & equivalents	172,320	132,519	141,041	91,234	220,933	284,654
Account receivables	46,606	48,203	49,930	52,133	54,232	55,228
Inventories	456	440	530	1,299	1,366	1,405
Prepayment	88,411	101,044	111,270	114,313	120,353	118,624
ST bank deposits	185,983	192,977	236,801	289,502	352,642	428,016
Financial assets at FVTPL	14,903	12,913	44,710	46,946	49,293	51,757
Other current assets	9,767	8,084	11,178	19,856	34,301	65,761
<b>Non-current assets</b>	<b>1,058,800</b>	<b>1,284,815</b>	<b>1,443,526</b>	<b>1,575,099</b>	<b>1,657,109</b>	<b>1,726,872</b>
PP&E	53,232	80,185	149,905	203,748	230,933	235,824
Deferred income tax	29,017	28,325	28,618	38,952	33,513	42,566
Investment in JVs & assos	261,665	297,415	348,712	363,834	379,369	395,307
Intangibles	177,727	196,127	205,999	247,022	284,033	316,137
Financial assets at FVTPL	211,145	204,999	207,157	207,157	207,157	207,157
Other non-current assets	326,014	477,764	503,135	514,385	522,104	529,881
<b>Total assets</b>	<b>1,577,246</b>	<b>1,780,995</b>	<b>2,038,986</b>	<b>2,190,381</b>	<b>2,490,229</b>	<b>2,732,318</b>
<b>Current liabilities</b>	<b>352,157</b>	<b>396,909</b>	<b>412,751</b>	<b>385,915</b>	<b>446,953</b>	<b>423,615</b>
Short-term borrowings	55,698	61,508	53,160	61,739	65,051	67,169
Account payables	100,948	118,712	121,127	89,856	133,531	98,235
Tax payable	17,664	16,586	18,558	18,708	19,412	19,737
Other current liabilities	171,693	194,503	214,520	210,226	223,572	233,088
Lease liabilities	6,154	5,600	5,386	5,386	5,386	5,386
<b>Non-current liabilities</b>	<b>351,408</b>	<b>330,190</b>	<b>385,170</b>	<b>408,394</b>	<b>416,177</b>	<b>422,536</b>
Long-term borrowings	155,819	146,521	208,369	214,620	216,552	217,136
Bond payables	137,101	130,586	126,204	126,796	127,093	127,242
Deferred income	3,435	6,236	2,210	14,219	15,055	15,620
Other non-current liabilities	55,053	46,847	48,387	52,759	57,477	62,537
<b>Total liabilities</b>	<b>703,565</b>	<b>727,099</b>	<b>797,921</b>	<b>794,309</b>	<b>863,130</b>	<b>846,151</b>
Retained earnings	813,911	892,030	1,010,436	1,205,263	1,431,054	1,684,470
Other reserves	(5,320)	81,518	143,716	99,076	99,076	99,076
<b>Total shareholders equity</b>	<b>808,591</b>	<b>973,548</b>	<b>1,154,152</b>	<b>1,304,339</b>	<b>1,530,130</b>	<b>1,783,546</b>
Minority interest	65,090	80,348	86,913	91,732	96,969	102,621
<b>Total equity and liabilities</b>	<b>1,577,246</b>	<b>1,780,995</b>	<b>2,038,986</b>	<b>2,190,381</b>	<b>2,490,229</b>	<b>2,732,318</b>

<b>CASH FLOW</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	161,324	241,485	277,249	293,870	319,289	344,646
Depreciation & amortization	59,008	56,213	63,281	86,171	110,529	126,087
Tax paid	(43,276)	(45,018)	(47,448)	(52,897)	(57,472)	(62,036)
Change in working capital	19,233	21,881	12,733	(41,580)	48,816	(25,087)
Others	25,673	(16,040)	(2,763)	0	0	0
<b>Net cash from operations</b>	<b>221,962</b>	<b>258,521</b>	<b>303,052</b>	<b>285,565</b>	<b>421,162</b>	<b>383,609</b>
<b>Investing</b>						
Capital expenditure	(23,893)	(76,760)	(79,198)	(98,814)	(88,310)	(74,171)
Acquisition of subsidiaries/ investments	(105,332)	(183,983)	(157,834)	(100,321)	(97,747)	(142,067)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	4,064	138,556	31,300	(82,223)	(86,415)	(88,910)
<b>Net cash from investing</b>	<b>(125,161)</b>	<b>(122,187)</b>	<b>(205,732)</b>	<b>(281,358)</b>	<b>(272,472)</b>	<b>(305,148)</b>
<b>Financing</b>						
Net borrowings	19,445	(107)	50,903	19,944	10,963	8,236
Proceeds from share issues	1,070	1,932	0	0	0	0
Others	(103,088)	(178,319)	(138,058)	(73,957)	(29,954)	(22,977)
<b>Net cash from financing</b>	<b>(82,573)</b>	<b>(176,494)</b>	<b>(87,155)</b>	<b>(54,013)</b>	<b>(18,991)</b>	<b>(14,740)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	156,739	172,320	132,519	141,041	91,234	220,933
Exchange difference	1,353	359	(1,643)	0	0	0
<b>Cash at the end of the year</b>	<b>172,320</b>	<b>132,519</b>	<b>141,041</b>	<b>91,234</b>	<b>220,933</b>	<b>284,654</b>
<b>GROWTH</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec</b>						
Revenue	9.8%	8.4%	13.9%	9.5%	7.2%	5.0%
Gross profit	22.8%	19.2%	21.0%	10.7%	8.3%	5.9%
Operating profit	44.4%	30.0%	16.1%	6.8%	11.2%	8.5%
Net profit	(38.8%)	68.4%	15.9%	5.0%	8.6%	7.9%
Adj. net profit	36.4%	41.2%	16.6%	6.4%	8.6%	7.6%
<b>PROFITABILITY</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec</b>						
Gross profit margin	48.1%	52.9%	56.2%	56.8%	57.4%	57.9%
Operating margin	26.3%	31.5%	32.1%	31.3%	32.5%	33.6%
Adj. net profit margin	25.9%	33.7%	34.5%	33.5%	34.0%	34.8%
Return on equity (ROE)	15.1%	21.8%	21.1%	19.2%	18.1%	16.7%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.2	0.2	0.2	0.2	0.1	0.1
Current ratio (x)	1.5	1.3	1.4	1.6	1.9	2.4
Receivable turnover days	27.9	26.6	24.2	23.1	22.4	21.7
<b>VALUATION</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 31 Dec</b>						
P/E	36.2	21.1	17.8	16.7	15.1	14.5
P/E (diluted)	36.8	21.4	18.1	17.0	15.4	14.7
P/B	5.2	4.2	3.5	3.0	2.5	2.2

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Disclosures & Disclaimers

## Analyst Certification

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