Internet

2Q26 Results Recap: AI Cloud Accelerates; E-Commerce Still Soft; Gaming Resilient

Highlights

- AI/AI cloud remained the bright spot in 2Q26, with Alibaba and Baidu delivering 45%/50% respective yoy growths in AI cloud, while Tencent reported healthy cloud growth on AI demand. E-commerce remained soft, with only selective signs of stabilisation. Gaming was resilient and largely macro-insensitive. Meanwhile, travel demand softened but the 2H outlook has improved from earlier fears.
- Maintain MARKET WEIGHT. Top BUYs: Alibaba, TCOM, NetEase and Z.ai.

Analysis

- **E-commerce remains subdued; 3Q26 may improve sequentially, but we stay cautious.** Alibaba/JD/PDD/Kuaishou reported respective core commerce/monetisation growths of +1.0%/-4.7%/+3.5%/+4.4% yoy in 2Q26. Profit trends were mixed: non-GAAP/non-IFRS net profit changed -38%/+21%/-13%/-30% yoy, respectively. Alibaba's like-for-like customer management revenue (CMR) returned to slight growth and management expects to see a recovery in e-commerce EBITA and narrower quick-commerce losses. JD expects retail revenue to return to growth at 3-3.3% yoy in 3Q26 as the electronics subsidy base normalises. PDD's domestic monetisation improved but overseas regulations remain a drag. Kuaishou guided for 3Q26 group revenue to decline 7.5% yoy. We therefore expect a modest sequential improvement in 3Q26, but remain cautious given weak discretionary demand and uneven merchant economics.

  Overall, we expect CMR and broader e-commerce monetisation to remain subdued, with persistent macro headwinds and weak discretionary demand limiting the pace of recovery despite some sequential improvement in 3Q26.

Analyst(s)

Julia Pan
juliapan@uobkh.com
+86 21 5404 7225 ext 808

MARKET WEIGHT (Maintained)

Segmental Rating

Segment	Rating
E-commerce	MARKET WEIGHT (Maintained)
Online Game	OVERWEIGHT (Maintained)
OTA	OVERWEIGHT (Maintained)
AI	OVERWEIGHT (Maintained)
Online Property Vertical	MARKET WEIGHT (Maintained)
Local Life Service	UNDERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
Alibaba	9988 HK	BUY	109.90	188.00
Tencent	700 HK	BUY	438.20	608.00
Z.ai	2513 HK	BUY	1,117.00	1,830.00
Trip.com	9961 HK	BUY	343.80	508.00
NetEase	9999 HK	BUY	186.80	252.00

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 2 Sep 26 (lcy)	Target Price (lcy)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (lcy m)	Price/ NAV ps (x)
Alibaba	9988 HK	BUY	109.90	188.00	71	Mar-26	19.3	18.5	13.1	0.96	7.98	2,185,360	1.6
JD.com Inc	9618 HK	BUY	108.60	148.00	36	Dec-25	10.9	8.6	6.8	3.65	12.30	296,656	n.a.
Pinduoduo	PDD US	BUY	83.17	115.00	38	Dec-25	7.6	8.1	6.8	-	21.08	118,384	1.6
Tencent	700 HK	BUY	438.20	608.00	39	Dec-25	13.7	12.8	12.1	1.39	18.68	3,989,001	2.5
NetEase	9999 HK	BUY	186.80	252.00	35	Dec-25	13.6	12.9	11.2	2.59	22.77	597,994	3.1
Tencent Music	1698 HK	BUY	32.78	53.00	62	Dec-25	9.0	9.1	8.5	2.02	11.17	108,931	n.a.
Baidu	9888 HK	BUY	92.35	136.00	43	Dec-25	12.6	16.2	13.3	-	4.23	250,591	n.a.
Meituan	3690 HK	HOLD	78.75	76.00	(3)	Dec-25	n.a.	n.a.	18.7	-	(1.78)	486,319	2.7
Kuaishou	1024 HK	HOLD	33.64	35.00	4	Dec-25	6.3	14.5	13.5	1.11	8.29	145,559	1.4
KE Holdings	2423 HK	BUY	46.68	60.00	29	Dec-25	n.a.	n.a.	n.a.	1.80	10.04	160,872	n.a.
Trip.com Group	9961 HK	BUY	343.80	508.00	48	Dec-25	6.7	12.6	10.8	0.18	7.36	216,493	1.1
Tongcheng Travel	780 HK	BUY	11.78	18.00	53	Dec-25	7.2	6.8	6.1	2.79	13.03	27,734	0.9
Minimax	100 HK	BUY	342.60	470.00	37	Dec-25	n.a.	n.a.	n.a.	-	8.6	119,648	-48.3
Z AI	2513 HK	BUY	1,117.00	1.830.00	64	Dec-25	n.a.	n.a.	n.a.	-	0.9	520,101	40.1
New Oriental Education	EDU US	BUY	59.15	85.00	44	May-26	18.5	14.9	12.5	2.79	13.5	9,413	2.2
TAL Education	TAL US	BUY	12.13	18.40	52	Feb-26	21.0	10.0	9.4	-	9.0	6,728	1.5
Kingsoft	3888 HK	BUY	24.44	35.00	43	Dec-25	20.7	14.9	17.9	0.55	6.83	33,591	0.9
Iflytec	002230 CH	HOLD	39.42	39.00	-1	Dec-25	n.a.	n.a.	n.a.	0.32	n.a	94,690	n.a
DIDI GLOBAL	DIDIY US	BUY	3.65	6.40	75	Dec-25	n.a.	n.a.	n.a.	-	(1.46)	16,452	n.a.

Source: Bloomberg, UOB Kay Hian

- **Gaming remains resilient and relatively insulated from macro weakness.** Tencent's online game revenue grew 8% yoy in 2Q26, with domestic games up 17% and international games rising 4% in constant currency terms. NetEase's online game revenue rose 10% yoy, while game gross margin expanded 5.9ppt to 76.1%. By contrast, Kingsoft's online game revenue declined 15% yoy to Rmb810.4m in 2Q26, mainly due to lifecycle changes in certain existing titles and intense industry competition. Existing titles and deferred revenue, which grew 11% and 14% yoy in 2Q26 for Tencent and NetEase respectively, provide solid earnings visibility, while AI-enabled content production should further improve development efficiency.

  Despite a mixed new-title pipeline at NetEase and softness with Kingsoft games, we remain constructive on the sector, supported by a favourable approval backdrop, with 1,362 games approved ytd vs 1,772 for the full year 2025. Resilient contribution from evergreen titles should also provide a stable earnings base, while we continue to forecast healthy growth for Tencent and NetEase.
- **AI cloud growth accelerated and capex stepped up materially.** Alibaba's AI cloud & compute revenue grew 45% yoy in the June quarter, with external cloud also up 45% and management expecting over 50% growth in the September quarter. Baidu AI cloud Infrastructure revenue increased 50% yoy to Rmb7.3b and GPU public-cloud revenue surged 283% yoy; management expects AI cloud infrastructure growth to re-accelerate above 60% in 3Q26. Tencent does not separately disclose cloud revenue, but said cloud growth remained healthy on AI demand, international expansion and pricing. 2Q capex reached Rmb67.7b/Rmb59.3b/Rmb11.5b for Alibaba/Tencent/Baidu, respectively. The investment cycle is pressuring near-term FCF, but stronger utilisation, proprietary chips and higher-margin AI services should improve compute economics over time.
- **Domestic AI infrastructure remains strategically important.** Alibaba has deployed Rmb190b of its Rmb380b three-year AI capex plan, while we have raised our 2026 capex estimate to Rmb200b in view of Tencent's extended capex cycle and continued AI infrastructure investment. Baidu front-loaded server, chip and raw-material purchases in 2Q26 and expects 3Q/4Q reported capex to moderate, with more leasing and financing structures. We expect domestic chips such as T-Head and Kunlunxin to become more important as hyperscalers scale inference workloads and manage supply constraints and unit costs.
- **OTA: Overall outlook was better than feared.** Tongcheng's results were broadly in line while Trip.com has yet to report its 2Q26 results. Tongcheng's 2Q26 revenue/core OTA revenue grew 6.8%/8.4% yoy respectively, while adjusted net profit rose 9.8% yoy. 3Q26 revenue is guided to grow 3-8% yoy, reflecting softer accommodation room nights and transportation demand, but the impact of high fuel prices has started to ease and international hotel room nights should remain >40% yoy. Management is monitoring whether travel demand deferred from the summer period could shift to the Mid-Autumn/National Day holiday window, which would support 4Q demand.

  Trip.com has not yet reported its 2Q26 results, with management previously guiding for 3-8% yoy net revenue growth, including 8-13% yoy growth in accommodation revenue and a 0-5% yoy decline in transportation revenue amid regulatory adjustments and airfare pressure. With the regulatory overhang now removed, we remain constructive on its medium-term outbound travel exposure, supported by easing fuel cost pressure and the upcoming Mid-Autumn/National Day holiday period.
- **Online advertising remained bifurcated, with AI helping leaders but macro pressure persisting**. Tencent's marketing services revenue grew to +22% yoy, supported by AI-driven recommendations, AIM+ and Weixin closed-loop marketing. Kuaishou's online marketing revenue grew 4.4% yoy, below prior guidance, while Baidu online marketing revenue fell 19% yoy as legacy search advertising stayed weak. PDD's online marketing revenue improved to +3.5% yoy. We expect AI-driven targeting and closed-loop

conversion to support structurally stronger platforms, but near-term ad growth remains constrained by weak consumption and merchant profitability.

- **Online music remained resilient despite competitive and AI risks.** TME's 2Q26 revenue rose 5.8% yoy and music-related services revenue grew 11.0%, while non-GAAP net profit increased 4.4% to Rmb2.7b and beat expectations. SVIP expansion and Ximalaya consolidation support monetisation, although competition and AI-generated content remain medium-term risks.
- **Mobility profitability improved.** DiDi's 2Q26 revenue grew 10.8% yoy and adjusted net profit returned to Rmb284m, ahead of expectations. China mobility remained solid while international mobility revenue grew 50% yoy. We expect 3Q26 revenue growth of about 11%, with overseas expansion and better operating leverage supporting earnings despite continued investment in autonomous driving and international markets.
- **AI commercialisation accelerated, while high R&D investment continued to pressure profitability.** Z.ai and MiniMax delivered robust 1H26 revenue growths of 400%/283% yoy respectively, driven by rapid expansion in cloud-based deployment at Z.ai and B-end/Open Platform services at MiniMax. Commercialisation momentum also strengthened, with ARR reaching US$1.6b/US$0.8b by end-August and year-end targets of US$2.4b/US$1.0b, respectively. R&D investment remained elevated at both companies as model iteration and infrastructure investment continued, keeping near-term profitability under pressure, while Z.ai also saw margin dilution from its rapid cloud mix shift. We believe further commercialisation will depend on Z.ai sustaining pricing power alongside token growth, while MiniMax's upside lies in broader monetisation of its multimodal capabilities.

  iFlytek recorded comparatively more moderate growth, with AI-related businesses expanding but partly offset by softness in traditional segments and continued high R&D spending.
- **China education names delivered resilient latest results,** with healthy K-12 learning demand and improving operating leverage supporting the earnings outlook. TAL's 1QFY27 results were above expectations, led by a sharp improvement in learning-services profitability and cost efficiency, although part of the margin upside reflected favourable learning-tablet revenue recognition. New Oriental's 4QFY26 revenue was slightly ahead while profit was softer, but FY27 revenue guidance was better than expected and further margin expansion is expected as EDU core enters the next phase of cost optimisation. Shareholder returns also remain supportive across both names.

Valuation/Recommendation

- **Alibaba (9988 HK).** Maintain BUY with a target price of HK$188.00 (US$192.00). Cloud acceleration is the key near-term catalyst, although elevated AI capex and FCF remain the main debate.
- **Tencent (700 HK).** Maintain BUY with a target price of HK$608.00. We remain constructive on resilient gaming, accelerating AI-driven advertising and cloud monetisation, while monitoring elevated capex.
- **TCOM (9961 HK).** Maintain BUY with a target price of HK$508.00. Trip.com has yet to report its 2Q26 results; we continue to favour its structural outbound travel exposure and expect deferred travel demand to support 4Q26 results.
- **NetEase (9999 HK).** Maintain BUY with a target price of HK$252.00. Existing games remain resilient and strong margins/deferred revenue provide earnings visibility despite a mixed new-game pipeline.
- **Z.ai (2513 HK).** Maintain BUY with target price of HK$1,830.00. Accelerating ARR and rapid expansion in B-end customers support strong

commercialisation momentum, although elevated R&D spending remains a near-term profitability drag.

Sector Catalyst/Risk

- **Catalysts:** a) faster AI cloud monetisation and improving compute economics, b) a sequential recovery in e-commerce demand and lower local-commerce losses, c) sustained game engagement/new launches, and d) recovery in travel demand into 4Q26**.**
- **Risks include:** a) weaker-than-expected consumption, b) higher AI capex and prolonged FCF pressure, c) intensifying e-commerce/AI competition, d) game pipeline delays, and e) renewed geopolitical or fuel-price pressure on travel.

2Q26 China Internet Sector Results Review

	Share Price change	Beat/Miss		2Q26					3Q26F				
	since results release	2Q26	3Q26F	Revenue growth (%)		Non-GAAP net profit (Rmb b)			Revenue growth (%)		Non-GAAP net profit (Rmb b)		
	(%)	Beat/Miss	Raise/Cut	Actual	Consensus	Actual	yoy (%)	Consensus	UOBKH	Consensus	UOBKH	yoy (%)	Consensus
Alibaba	-13%	Miss	Cut	9%	9%	20.7	-38	25.3	11%	9%	22.1	114	24.0
Tencent	-5%	In-line	Cut	11%	10%	68.4	9	68.2	10%	10%	69.8	-1	70.3
JD	-12%	Beat	In-line	-3%	-4%	8.9	21	7.9	3%	6%	9.0	56	9.0
PDD	-7%	Miss	Cut	8%	11%	28.5	13	28.0	11%	11%	27.7	-12	28.2
Meituan	2%	Beat	Raise	14%	10%	2.5	69	0.3	17%	12%	1.4	1	1.0
Baidu	-9%	Miss	Cut	-4%	-2%	2.6	-46	3.2	1%	0%	1.9	-50	3.8
Beike	3%	Beat	Raise	-6%	-7%	3.2	75	2.4	-11%	-3%	1.9	51	1.9
NetEase	-3%	Beat	Raise	8%	6%	7.7	-19	10.2	8%	8%	10.3	9	10.3
Kuaishou	-11%	In-line	Miss/Cut	1%	1%	3.9	-30	3.9	-7%	4%	0.8	-85	4.2
Tongcheng	-10%	In-line	Cut	7%	6%	0.9	10	0.8	5%	8%	1.1	5	1.2
Kingsoft	-4%	Beat	Raise	9%	7%	0.5	39	0.3	3%	9%	0.4	38	0.3
DIDI	5%	Beat	Cut	11%	10%	0.3	-91	-0.3	11%	10%	-0.6	-141	-0.4
iflytech	-1%	Miss	Cut	2%	27%	0.2	56	0.7	23%	29%	0.4	1	0.2
Z.ai	-7%	In-line	Cut	400%	610%	-2.0	-12	-2.7	n.a	n.a	n.a	n.a	n.a
TME	-15%	Beat	Raise	6%	4%	2.7	4	2.5	9%	9%	2.8	14	2.5
Alibaba	-13%	Miss	Cut	9%	9%	20.7	-38	25.3	11%	9%	22.1	114	24.0
Tencent	-5%	In-line	Cut	11%	10%	68.4	9	68.2	10%	10%	69.8	-1	70.3

Source: Respective companies, UOB Kay Hian