UOBKayHian

Sector – Update | Greater China

Monday, 09 November 2026

China Internet

Shifting Profit Pool: From AI Infrastructure Investment To Intelligence Monetisation

Highlights

- We see that the AI industry is transitioning from a capacity-driven investment cycle towards an intelligence monetisation cycle, where model differentiation, inference efficiency, enterprise adoption and sustainable gross profit generation will increasingly determine value capture. We remain constructive on China's AI value chain, with a preference for Alibaba and Z.ai, while viewing Tencent as a longer-term beneficiary of AI application monetisation.
- Maintain MARKET WEIGHT. Top BUYs: Alibaba, Tencent and Z.ai.

Analysis

- **Narrowing the capability gap, accelerating monetisation.** We have seen a widening of the capability gap between leading US and Chinese models since mid-26, particularly in complex reasoning, coding and long-horizon agentic tasks. Recent Artificial Analysis benchmarks highlight the divergence, with Claude Opus 5.5 scoring 58 vs 46 for Kimi K3.1 Pro and 32 for GLM-5.3. Despite persistent compute constraints, the stronger real-world data flywheels, increased investment in post-training and recursive self-improvement are likely to help Chinese models narrow the gap by mid-27. China's leading model developers are increasingly shifting their focus from benchmark performance towards real-world adoption and commercial scalability. We see coding, cloud service provider (CSP) partnerships and vertical AI agents as key drivers of the next phase of monetisation.
- **Anti-distillation could accelerate industry consolidation.** While anti-distillation measures raise data acquisition costs rather than fundamentally constrain model scaling, Chinese labs are developing harnesses and synthetic data pipelines to sustain progress. Rising capital, data and engineering requirements should increasingly favour Tier 1 labs with proprietary feedback loops, advanced post-training and efficient inference infrastructure, widening the competitive gap with smaller players.
  - **Geopolitics and interest rates: Potential tailwinds for China internet valuations.** Democratic control of Congress could accelerate a resolution to the US-Iran conflict, ease oil prices and inflation, and potentially pave the way for Fed easing and improved liquidity for China ADRs. We see three potential benefits for China's internet sector: a) improving foreign inflows into Hong Kong and China ADRs, b) lower AI hardware costs supporting CSP margins and FCF, and c) lower energy prices easing inflationary pressure and supporting consumption. We expect the liquidity-driven valuation uplift to be the most immediate catalyst, particularly for Alibaba and Tencent, while fundamental benefits could materialise more gradually.

*Click here for **Full Report** dated 06 Nov 26*

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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)
E-commerce	MARKET WEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
Z.ai	2513 HK	BUY	496.80	989.00
Alibaba	9988 HK	BUY	107.10	189.00
Tencent	700 HK	BUY	427.00	537.00

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Price @ 5 Nov 26 (lcy)	Target Price (lcy)	Upside To TP (%)	Market Cap (lcy m)	Calendarised ---Calendarised PE----- 2026F (x)	2027F (x)	2028F (x)	Calendarised -------- EV/EBITDA ----- 2026F (x)	2027F (x)	2028F (x)	Calendarised ---------- EV/Sales ------ 2026F (x)	2027F (x)	2028F (x)	---------- ROE ---------- 2026F (%)	2027F (%)	2028F (%)
China																	
Z ai Co Ltd	2513 HK	496.80	989.00	99	241,649	n.a	n.a	n.a	n.a	n.a	186.8	31.7	10.4	5.0	-10.2	-8.2	-0.7
Minimax Group Inc	100 HK	173.30	284.00	64	61,120	n.a	n.a	n.a	n.a	n.a	n.a	14.2	4.8	2.3	13.5	-0.4	-10.7
Alibaba Group Holding Ltd	9988 HK	107.10	189.00	76	2,131,500	16.6	12.0	9.4	11.4	8.1	5.9	1.3	1.1	1.0	8.4	11.1	13.3
Tencent Holdings Ltd	700 HK	427.00	537.00	26	3,877,104	12.6	12.0	11.0	10.2	9.7	8.8	4.1	3.8	3.4	18.7	17.0	16.4
Baidu Inc	9888 HK	80.30	136.00	69	219,368	14.8	10.5	8.3	9.9	9.0	7.4	0.6	0.6	0.6	4.0	4.6	5.2
Avg						14.7	11.5	9.6	10.5	8.9	52.2	10.4	4.1	2.4	6.9	4.8	4.7
US																	
Alphabet Inc	GOOG US	287.30	n.a	n.a	3,542,338	15.5	18.1	14.4	15.5	11.9	9.1	7.9	6.1	4.8	63.1	53.2	34.9
Meta Platforms Inc	META US	630.00	n.a	n.a	1,635,621	18.8	16.5	13.8	14.6	11.0	8.7	6.5	5.3	4.4	28.1	24.3	20.7
Microsoft Corp	MSFT US	555.80	n.a	n.a	4,127,479	27.8	23.1	18.9	16.9	13.7	10.8	10.6	8.8	7.2	28.8	27.3	26.2
Avg						20.7	19.2	15.7	15.7	12.2	9.5	8.3	6.7	5.5	40.0	34.9	27.3

Source: Bloomberg, UOB Kay Hian

Valuation/Recommendation

- **Alibaba (9988 HK).** Maintain BUY with a target price of HK$189.00. Its full-stack AI capabilities, spanning data centres, cloud infrastructure and models, provide greater control over compute capacity and costs, while its model portfolio covers both frontier performance and cost-efficient deployment. Ant Group's focus on trusted agent infrastructure could further broaden secure agent adoption across financial and enterprise use cases. Our target price implies 29x FY27F PE, while Alibaba is trading at 16.5x FY27F PE, against a 28% EPS three-year CAGR from FY27-30.
- **Tencent (700 HK).** Maintain BUY with a target price of HK$537.00. The expansion of its data centres across Asia, the Middle East, Europe and the Americas should support overseas cloud growth, while WorkBuddy and BuddyOne embed AI agents across Tencent's productivity tools, supporting paid adoption and recurring cloud consumption. Hunyuan's focus on efficient models could keep Tencent competitive at the frontier at a lower deployment cost. Our target price implies 16.4x 2026F PE, while Tencent currently trades at 13.1x 2027F PE, around 1SD below its historical mean of 24x.
- **Z.ai (2513 HK).** Maintain BUY with a lower target price of HK$989.00 as we lower our EV/sales benchmark to reflect the broader de-rating of AI model stocks. Self-built data centres should provide greater control over costs and compute capacity while reducing reliance on external cloud providers, while the planned trillion-parameter model could help narrow the capability gap with global frontier models. Our target price implies 6.7x 2027F and 3.2x 2028F EV/sales.
- **MiniMax (100 HK).** Maintain BUY with a lower target price of HK$284.00, as we lower our EV/sales benchmark to reflect the broader de-rating of AI model stocks. Upcoming model launches, including M3 Pro, H3.1, H3 Image and H4, should broaden its multimodal portfolio and support further monetisation, while continued global expansion is expected to sustain revenue growth. Improving inference efficiency should also help protect margins as price competition intensifies. Our target price implies 7.2x 2027F and 3.4x 2028F EV/sales.

Sector Catalyst/Risk

- **Catalysts:** a) Broader commercial deployment of domestic AI accelerators, b) improving domestic compute availability, c) improved inference cost and power efficiency, d) stronger software compatibility and model-hardware co-optimisation, and e) expanding external adoption of proprietary AI-chip platforms.
- **Risks** include: a) slower-than-expected domestic chip performance improvement, b) software ecosystem and migration constraints, c) lower utilisation of proprietary infrastructure, d) elevated capex and funding requirements, and e) geopolitical and semiconductor supply-chain restrictions.

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