Internet

Feedback From Marketing Trip

Analyst(s)

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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)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
Alibaba	9988 HK	BUY	107.50	188.00
Netease	9999 HK	BUY	182.60	252.00
Z.ai	2513 HK	BUY	793.00	1,830.00
Trip.com	9961 HK	BUY	305.60	506.00

Source: Bloomberg, UOB Kay Hian

Highlights

- **Key investor focus** areas discussed during the marketing trip include: a) AI capex requirements, b) funding methodology, c) investment payback period, and d) open-source AI monetisation and the competitive landscape.
- In our view, AI/AI Cloud, online gaming and OTAs are poised for further re-rating, supported by stronger growth delivery and eased regulatory overhangs.
- **Maintain MARKET WEIGHT.** Top BUYs: Alibaba, NetEase, Z.ai and TCOM.

Analysis

- **Positioning remains selective.** Investors focused on AI/LLM monetisation, capex returns and durable China exposure. They remain constructive on Alibaba and Tencent, but largely as a relative trade as Asian semiconductors remained the preferred earnings-momentum exposure, rather than a strategic sector reallocation. We would turn more positive on the broader sector only if earnings upgrades and fund flows broaden beyond Alibaba and Tencent.
- **What is the capex outlook for hyperscalers?** We estimate FY27/2026 capex of Rmb225b/Rmb200b/Rmb55b for Alibaba/Tencent/Baidu, vs latest-quarter spending of Rmb67.7b/Rmb59.3b/Rmb11.5b. Alibaba remains the most aggressive, having deployed around Rmb190b of its Rmb380b three-year AI plan. Tencent continues to front-load compute and storage investment, while Baidu expects capex to moderate in 3Q-4Q26 after heavy 2Q26 server and chip purchases. High capex will pressure near-term free cash flow (FCF), but improving utilisation should support returns over time.
- **How sustainable is AI capex funding?** Alibaba has the largest structural gap, with Rmb135b normalised operating cash flow vs Rmb225b FY27 capex, partly offset by its HK$80b placement and Rmb330b listed investment portfolio. Tencent is best funded, with annualised 1H26 operating cash flow of Rmb310b comfortably covering Rmb200b capex, plus further asset-recycling optionality. Baidu has weaker internal funding, with 2Q26 operating cash flow of Rmb3.4b vs Rmb11.4b capex, implying greater reliance on debt, leasing and subsidiary financing, although Rmb100b adjusted liquidity provides several years of runway.

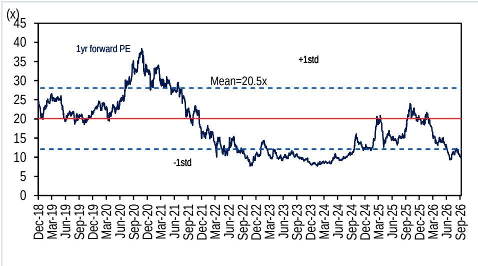
Peer Comparison

Company	Ticker	Rec*	Price 11 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	107.50	188.00	75	Mar-26	18.91	18.24	13.22	0.98	7.98	2,137,636	n.a.
JD.com Inc	9618 HK	BUY	106.50	148.00	39	Dec-25	10.73	8.39	6.61	3.98	12.30	290,920	n.a.
Pinduoduo	PDD US	BUY	77.84	115.00	48	Dec-25	7.10	7.58	6.32	0.00	20.82	110,797	1.47
Tencent	700 HK	BUY	429.20	608.00	42	Dec-25	13.46	12.50	11.83	1.42	18.66	3,907,077	2.49
NetEase	9999 HK	BUY	182.60	252.00	38	Dec-25	13.26	12.61	10.89	2.66	22.77	584,548	n.a.
Tencent Music	1698 HK	BUY	30.96	53.00	71	Dec-25	8.52	8.61	7.96	2.15	11.17	102,883	n.a.
Baidu	9888 HK	BUY	89.20	136.00	52	Dec-25	12.12	15.82	13.08	0.00	4.20	243,834	n.a.
Meituan	3690 HK	HOLD	75.20	76.00	1	Dec-25	n.a.	n.a.	16.60	0.00	-1.44	464,396	2.57
Kuaishou	1024 HK	HOLD	31.24	35.00	12	Dec-25	5.81	13.19	12.33	1.12	8.29	135,175	1.34
KE Holdings	2423 HK	BUY	44.44	60.00	35	Dec-25	n.a.	n.a.	n.a.	1.90	10.04	153,152	n.a.
Trip.com Group	9961 HK	BUY	305.60	508.00	66	Dec-25	6.00	11.39	9.68	0.20	7.20	192,438	0.96
Tongcheng Travel	780 HK	BUY	10.55	18.00	71	Dec-25	6.46	6.11	5.48	3.12	12.97	24,838	0.83
Kingsoft	3888 HK	BUY	24.32	35.00	44	Dec-25	20.61	14.44	18.49	0.56	6.83	33,426	0.91
DIDI GLOBAL	DIDIY US	BUY	3.46	6.40	85	Dec-25	n.a.	n.a.	n.a.	0.00	-1.46	15,596	n.a.
MINIMAX	100 HK	BUY	268.80	470.00	75	Dec-25	n.a.	n.a.	n.a.	0.00	12.02	93,874	-21.55
Z.ai	2513 HK	BUY	793.00	1830.00	131	Dec-25	n.a.	n.a.	n.a.	0.00	-0.56	369,239	20.51
IFLYTEK	002230 CH	HOLD	39.15	39.00	0	Dec-25	n.a.	n.a.	n.a.	0.32	4.97	94,041	n.a.

Source: Bloomberg, UOB Kay Hian

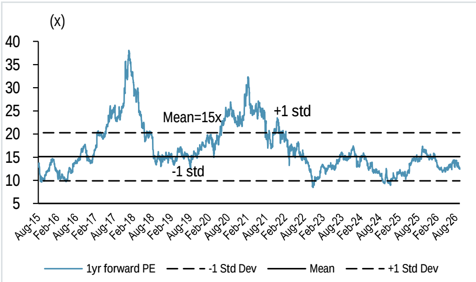
- **What is the payback period for AI investment?** Alibaba provides the clearest visibility on AI infrastructure returns, with management highlighting a roughly three-year payback period, supported by its 40% share of China AI cloud and full-stack IaaS/PaaS/MaaS offering. We estimate a two- to three-year payback period, with mature infrastructure ROIC and after-tax project IRR of 15-20%. Cloud remains the key monetisation engine, with rising utilisation, expanding MaaS revenue and improving cloud margins supporting better compute economics over time. Despite elevated near-term capex and FCF pressure, we believe the underlying return profile remains attractive.
- **Can Alibaba achieve its 20% AI Cloud gross margin target, and why is margin lower that of than US CSPs?** We do not expect Alibaba to reach 20% gross margin in FY27, but see it as achievable over the longer term as utilisation improves, scale benefits emerge and proprietary chips lower compute costs. Structurally, Alibaba's margin should remain below that of US cloud service providers (CSP) peers, mainly due to lower cloud and AI pricing in China. Lower pricing is a contributor, but the larger issue is lower revenue yield per unit of infrastructure, reflecting more intense competition, lower utilisation and a less favourable service mix.
- **What is the outlook for T-Head?** T-Head's prior-generation AI chips had cumulatively shipped over 560,000 units as of Apr 26, serving over 400 customers across more than 20 industries. The chips, together with the T-Head SAIL software stack, have been extensively validated in real-world production environments at Alibaba Cloud and leading enterprise customers, handling large-scale traffic, complex workloads and stringent SLA requirements. In Aug 26, management said its latest-generation chips had begun deployment on Alibaba AI Cloud as Supernodes, marking the start of the next production ramp and supporting broader adoption across Alibaba's AI infrastructure.
- **How do open-weight models monetise amid rising competition?** We believe open-weight models can still monetise through API usage, enterprise deployment and revenue-sharing arrangements with CSPs, where cloud platforms hosting the models share part of the related inference revenue with AI labs. Competition is intensifying in commoditised Flash/Lite models, as leading SOTA models can move down the capability curve more easily, while lower-tier models face greater difficulty reaching frontier performance.
- **Will declining LLM token prices trigger an industry-wide price war?** We do not expect a broad-based price war among frontier models, which should retain pricing power through performance differentiation. Recent US price cuts partly reflect the narrowing performance gap and lower pricing of leading Chinese models. As US frontier models remain priced at a premium, we believe leading Chinese SOTA models retain room to monetise without aggressive price cuts. Pricing pressure should be more pronounced among commoditised models with limited differentiation and weaker pricing power.
- **Will LLM companies continue to raise capital through placements?** We think further placements are highly likely given the high compute and R&D intensity of frontier model development. MiniMax and Z.ai both raised capital in July soon after their IPOs in January, largely to fund AI infrastructure and next-generation models. Z.ai's additional September placement further underscores ongoing funding needs as both companies scale capacity and prepare larger frontier models for year-end launches.
- **Could potential IPOs of DeepSeek, Kimi and Anthropic create a liquidity vacuum for listed LLM names?** We see some near-term liquidity risk as new listings compete for investor capital, but also potential valuation upside for existing LLM names. Anthropic is valued at around 2026 20x annualised revenue run rate (ARR) vs 18x for Z.ai, suggesting a successful IPO could provide a higher valuation benchmark and drive sector re-rating. Liquidity remains a concern, although near-term selling pressure should be partly contained by shareholder lock-ups extending into next year.
- **When to reconsider Tencent?** Tencent remains more of a medium-term accumulation story than a near-term AI trade. We are positive on its distribution advantage, but its AI strategy appears less mature than Alibaba's, with earlier efforts focused more on application-layer products

Alibaba 12-Month Forward PE Band



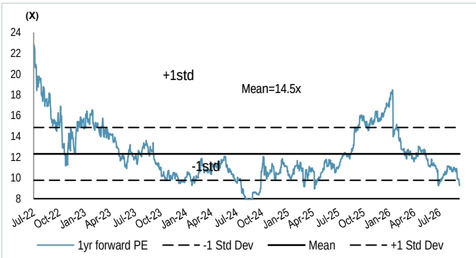
Source; Bloomberg, UOB Kay Hian

Netease 12-Month Forward PE Band



Source; Bloomberg, UOB Kay Hian

TCOM 12-Month Forward PE Band



Source; Bloomberg, UOB Kay Hian

such as WorkBuddy and CodeBuddy and only more recently shifting towards frontier proprietary models. The key missing piece is clearer monetisation and return visibility. We would turn more constructive once Tencent discloses stronger AI KPIs, including cloud growth, Hunyuan-related ARR or usage, and adoption or monetisation metrics for WorkBuddy/CodeBuddy. For now, AI returns remain difficult to assess, while capex and opex could pressure free cash flow and buybacks. We remain positive on Tencent, but would like to see clear AI monetisation without materially weakening shareholder returns.

- **What is our outlook for Trip.com following the regulatory fine?** We are turning constructive, as the company has adjusted its practices since April and the July fine removes a key overhang. We remain positive on overseas growth, normalising airfares and the upcoming 10.1 Golden Week season. While the removal of exclusivity could increase competition, we expect user stickiness to remain resilient given the low-frequency nature of travel and Trip.com's one-stop cross-selling platform. Air-ticket distribution remains subject to airline authorisation and China Air Transport Association-related requirements, providing some barriers to entry.
- **Outlook for Meituan.** Investors saw scope for a tactical recovery, but not yet a clean long-term holding, given continued uncertainty around delivery profitability and competitor subsidies. Meituan offers greater long-term upside but with higher competitive and margin uncertainty.

Valuation/Recommendation

- Our top picks in descending order of preference: Alibaba > NetEase > Z.ai > TCOM.
  - **Maintain BUY on Alibaba (9988 HK)** with a target price of HK$188.00 (US$192.00) as we raise our cloud revenue growth to 50% yoy in 2QFY27. We remain optimistic on Alibaba Cloud's accelerating revenue growth and further margin improvement, supported by stronger AI demand, operating leverage and continued cloud adoption. Alibaba is trading at 18.3x FY27F PE, on the back of a 41% EPS CAGR from FY27-30.
  - **Maintain BUY on NetEase (9999 HK)** with a target price of HK$252.00 which implies 18x 2026F PE. We expect NetEase's game pipeline to remain solid, with Ananta and Sea of Remnants slated for launch in 2H26 or 1Q27, while strong deferred revenue should provide good visibility on near-term game growth. The company is currently trading at 13.3x 2026F PE, below the historical mean of 15x.
  - **Maintain BUY on Z.ai (2513 HK)** with a target price of HK$1,830.00 which implies 11.8x 2027F EV/Sales. We prefer Z.AI, given its focus on high-value use cases such as coding and stronger monetisation, with ARR doubling from Rmb1b in July to Rmb2b in August. With its new 1GW data centre completed, we expect ARR growth to further accelerate as compute constraints ease.
  - **Maintain BUY on TCOM (9961 HK)** with a target price of HK$508.00 (US$65.00) which implies 18.5x 2026F PE, in line with global peers. We remain optimistic on Trip.com's 2H26 outlook, supported by the Golden Week holiday season and continued strong international and outbound travel expansion, while the clearing of regulatory overhang should further support a potential re-rating.

Sector Catalyst/Risk

- **Catalysts:** a) Re-accelerating AI Cloud growth with improving margins; b) proprietary chip deployment to ease compute bottlenecks and reduce reliance on foreign GPUs; c) larger-parameter model upgrades to narrow the gap with US frontier models; d) healthy game pipeline to support resilient online game growth; and e) 2H26 travel recovery, supported by Golden Week holiday demand.
- **Risks:** a) Heavy AI capex with slower-than-expected monetisation, b) failure to deliver SOTA models amid rapid industry iteration, c) persistent macro headwinds weighing on consumption and travel demand, and d) slower game pipeline or weaker-than-expected performance of new titles.