UOBKayHian

Company – Results | Greater China

Thursday, 13 August 2026

Tencent Holdings (700 HK)

2Q26: Healthy Earnings Growth; Accelerating AI-driven Marketing Revenue Growth

Highlights

- Tencent's 2Q26 earnings came in within expectations. 2Q26 revenue grew 11% yoy to Rmb204.8b, broadly in line with consensus estimates. Gross profit increased 13% yoy to Rmb118.4b, with gross margin rising 1ppt yoy to 58%. Non-IFRS profit attributable to shareholders increased 9% yoy to Rmb68.4b, while non-IFRS net profit margin deteriorated slightly by 0.8ppt yoy to 33.4%, largely consistent with expectations.
- Maintain BUY with a lower target price of HK$608.00.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q25A	1Q26A	2Q26A	UOBKHE	QoQ	YoY	Variance	Cons	Variance
Revenue	184,504	196,458	204,785	202,618	4.2%	11.0%	1.1%	202,843	1.0%
Social networking	32,168	31,910	33,643	32,904	5.4%	4.6%	2.2%		
Online games	59,200	64,200	64,771	64,525	0.9%	9.4%	0.4%		
Marketing Services	35,762	38,171	43,565	42,474	14.1%	21.8%	2.6%		
Fintech and Cloud	55,536	59,885	60,286	60,786	0.7%	8.6%	-0.8%		
Others	1,838	2,292	2,520	1,930	9.9%	37.1%	30.6%		
Gross profit	105,013	111,265	118,433	114,637	6.4%	12.8%	3.3%	115,629	2.4%
Non-IFRS Operating profit	69,248	75,627	75,636	76,177	0.0%	9.2%	-0.7%		
Non-IFRS net income	63,052	67,905	68,415	68,567	0.8%	8.5%	-0.2%	68,227	0.3%
Non-IFRS diluted EPS (RMB)	6.79	7.46	7.43	7.51	-0.4%	9.4%	-1.0%	7.46	-0.4%
GPM	56.9%	56.6%	57.8%	56.6%	1.2 ppts	0.9 ppts	1.3 ppts	57.0%	0.8 ppts
Non-IFRS OPM	37.5%	38.5%	36.9%	37.6%	-1.6 ppts	-0.6 ppts	-0.7 ppts		
Non-IFRS NPM	34.2%	34.6%	33.4%	33.8%	-1.2 ppts	-0.8 ppts	-0.4 ppts	33.6%	-0.2 ppts

Source: Tencent, UOB Kay Hian

Analysis

- **Online games revenue grew 8% yoy to Rmb64.2b.** Domestic games increased 17% yoy to Rmb47.3b, ahead of our 8% growth expectation, with: a) Delta Force and VALORANT PC/MOBILE reaching lifetime highs in average DAU, and b) Roco Kingdom: World ranking first by both average DAU and gross receipts among new mobile titles released in China ytd. International games declined 0.8% yoy to Rmb18.6b due to forex, or grew 4% in constant currency, as Wuthering Waves and VALORANT PC gains were offset by weaker Supercell titles.
- **Marketing services revenue increased 22% yoy to Rmb43.6b,** ahead of our Rmb42.5b estimate. AI-driven ad recommendation, AIM+ and closed-loop Weixin marketing continued to improve ad performance and advertiser ROI. We view this as an increasingly important structural growth driver.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	660,257	751,766	827,046	912,305	994,364
EBITDA	221,456	258,027	283,348	301,363	335,828
Operating profit	208,099	241,562	266,898	284,313	318,178
Net profit (rep./act.)	194,073	224,842	220,795	240,532	263,779
Net profit (adj.)	222,703	259,626	260,032	284,280	310,809
EPS	2,350.7	2,790.9	2,854.8	3,114.8	3,398.6
PE	16.9	14.2	13.9	12.7	11.7
P/B	3.8	3.1	3.1	2.5	2.2
EV/EBITDA	16.1	13.8	12.6	11.8	10.6
Dividend yield	1.1	1.3	1.3	1.5	1.6
Net margin	29.4	29.9	26.7	26.4	26.5
Net debt/(cash) to equity	(13.3)	(11.6)	(11.4)	8.8	11.4
ROE	21.8	21.1	19.3	19.0	17.5
Consensus net profit	-	-	274,847.6	298,794.3	330,220.9
UOBKH/Consensus (x)	-	-	0.95	0.95	0.94

Source: Tencent, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)	
Share Price	HK$461.60
Target Price	HK$608.00
Upside	31.7%
Previous TP	HK$670.00

Stock Data

Sector	Communication Services
Bloomberg ticker	700 HK
Shares issued (m)	9,082.7
Market cap (US$m)	4,192,584.4
Market cap (US$m)	534,305.0
3-mth avg daily t'over (US$m)	1,919.1

Price Performance (%)

52-week high/low HK$683.00/HK$411.00

1mth	3mth	6mth	1yr	YTD
0.3	1.0	(17.6)	(17.7)	(22.9)

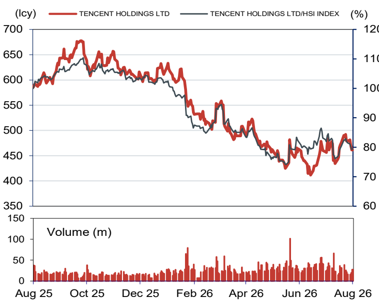
Major Shareholders (%)

Naspers	23.26

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	126.78
FY26 Net Cash/ Share (Rmb)	14.51

Price Chart



Source: Bloomberg

Company Description

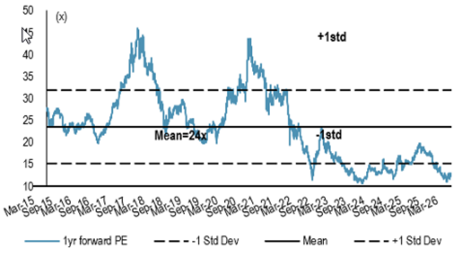
The company is one of the largest comprehensive internet service providers.

- **FinTech and business services grew 9% yoy to Rmb60.3b,** broadly in line with our Rmb60.5b estimate. Cloud growth remained healthy, supported by AI-related demand, international expansion and improved pricing, while FinTech growth reflected commercial payments, wealth management and consumer lending.
- **Gross margin expanded to 58% from 57% a year ago,** supported by higher contributions from high-margin internally developed games and marketing services. VAS gross margin improved to 64% from 60%, while marketing services margin was 57% vs 58% a year ago. Non-IFRS operating profit was broadly flat qoq at Rmb75.6b, but increased 9% yoy. Excluding new AI products, non-IFRS operating profit rose 19% yoy to Rmb86.1b. This suggests the core business continues to absorb higher AI-related R&D and infrastructure costs reasonably well. G&A expenses increased 22% yoy, mainly due to higher R&D spending on Hy model enhancements, Weixin AI initiatives and AI capabilities across Tencent's products and services. Selling and marketing expenses increased 26% yoy, reflecting higher spending on games and AI-native products.
- **AI investment drove higher capex and near-term FCF pressure.** Capex increased to Rmb59.3b in 2Q26, from Rmb31.9b in 1Q26 and Rmb19.1b in 2Q25, primarily reflecting higher investment in IT infrastructure and compute capacity. Tencent recorded negative FCF of Rmb13.8b during the quarter, while operating cash flow also included large AI-related prepayments to support Hy model enhancements, WorkBuddy and CodeBuddy inference, Weixin AI initiatives and growing cloud demand. **FCF would have been Rmb37.6b excluding these prepayments**, vs reported FCF of **-Rmb13.8b,** implying roughly **Rmb51.4b of AI-related prepayments.** We therefore lift our capex assumption for 2026/27/28 to Rmb181b/Rmb200b/Rmb178b respectively, resulting a negative net cash this year of -Rmb65b.
- **Hy3's production release in July delivered a meaningful performance** uplift and has ranked among the global top 3 models by token consumption on OpenRouter since 7 Jul 26. WorkBuddy continues to see rapid user growth and healthy retention, while CodeBuddy is also gaining traction. With both products sharing the same subscription account, individual plans span Standard/Advanced/Flagship tiers at Rmb70/Rmb140/Rmb700 per month, while Enterprise SaaS/Dedicated Enterprise plans are priced at Rmb198/Rmb316 per user per month. We estimate WorkBuddy/CodeBuddy has 1.0m-1.5m paid licences, implying Rmb1.1b–1.65b annualised subscription revenue based on ~Rmb110/month blended ARPU. We see paid-seat growth and rising usage intensity as key near-term monetisation indicators.
- **Weixin's Xiaowei agent has entered small-scale prototype testing**, powered by a customised WeLM model focused on privacy, Weixin-specific use cases and inference efficiency. We see this as an important early step toward Tencent's broader agentic ecosystem.
- **AI ecosystem entering the next phase of model and application upgrades**. Tencent plans to launch the larger-parameter Hunyuan 4 later this year, followed by Hunyuan 5 as it progresses toward SOTA-level capability, supporting more complex and higher-value AI use cases. On the consumer side, Xiaowei is positioned as a key AI gateway within Weixin, leveraging its social graph, Mini Programs, merchants and payments to enable increasingly agentic workflows and, longer term, agent-to-agent transactions.

Valuation/Recommendation

- **Maintain BUY on Tencent** with a lower target price of HK$608.00, based on our 2027 SOTP valuation. We adopt a lower PE to reflect elevated AI infrastructure capex, near-term FCF pressure and higher-than-expected marketing spend. Our target price implies 19.6x 2026F PE, while Tencent currently trades at 15x 2026F PE and 14x 2027F PE, around 1SD below its historical mean of 24x.

12-Month Forward PE Band



Source: Bloomberg UOB Kay Hian

Earnings Revision/Risk

- We leave our 2026 revenue estimate largely unchanged. We lower our non-IFRS net profit forecast for 2026/27 by 4%/9% respectively. This implies a 10%/10.3% yoy revenue growth, 0.2%/9% earnings growth, and net margin 31%/31% for 2026/27 respectively.
- **Key risks:** Increasing disruption from AI-generated content; intensifying competition; regulatory risks; slowing game revenue growth; and elevated capex requirements.

Share Price Catalyst

- a) AI-driven revenue and efficiency gains, b) stronger WeChat Video Accounts advertising, c) game licence approvals, and d) Hunyuan ecosystem expansion.

SOTP-Based Valuation

(Rmb m)	2027F revenue	2027F non-GAAP earnings	Valuation 2027 (x)	Value (LC bn)	Tencent holding (%)	Est. fair value to Tencent (RMB bn)	Fair value to Tencent (US$ b)	Fair value/ share (HK$)
Online game (PC + Mobile game)	287,390	106,072	16x PE	1,697	100	1,697	251	202
Social networking (QQ + Wexin VAS)	138,935	51,279	15x PE	769	100	769	114	92
Online ads	197,879	59,894	22x PE	1,318	100	1,318	195	157
Payment	209,011	31,352	12x PE	376	100	376	56	45
Cloud	79,090		6x PS	475	100	475	70	57
Total EV	912,305	248,597	15x PE	3,784	100	3,784	365	552
Investees	% owned		Rmb/sh.			Valuatio		
Total (15% discount)						523	79	64
2027F Net cash per share (HK$)								-8
Target price (HK$)								608

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	751,766.0	827,046.2	912,304.7	994,364.5
EBITDA	258,027.0	283,348.4	301,362.9	335,827.8
Deprec. & amort.	16,465.0	16,450.0	17,050.0	17,650.0
EBIT	241,562.0	266,898.4	284,312.9	318,177.8
Total other non-operating income	27,077.0	17,267.0	18,993.7	20,893.1
Associate contributions	23,740.0	2,027.0	6,917.0	6,917.0
Net interest income/(expense)	(15,130.0)	(12,196.8)	(12,196.8)	(12,196.8)
Pre-tax profit	277,249.0	273,995.6	298,026.8	333,791.1
Tax	(47,448.0)	(49,946.5)	(54,240.9)	(66,758.2)
Minorities	(4,959.0)	(3,254.0)	(3,254.0)	(3,254.0)
Net profit	224,842.0	220,795.1	240,531.9	263,778.9
Net profit (adj.)	259,626.0	260,032.2	284,280.1	310,809.4

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	176,942.0	223,722.0	414,376.0	582,808.6
Other LT assets	1,266,584.0	1,272,248.0	1,381,024.7	1,501,309.8
Cash/ST investment	384,819.0	428,934.0	175,325.5	114,433.0
Other current assets	210,641.0	234,490.0	257,557.2	282,676.3
Total assets	2,038,986.0	2,159,394.0	2,228,283.4	2,481,227.8
ST debt	42,618.0	86,292.0	86,292.0	86,292.0
Other current liabilities	370,133.0	429,189.0	231,861.8	272,788.4
LT debt	208,369.0	212,650.0	212,650.0	212,650.0
Other LT liabilities	176,801.0	208,750.0	208,750.0	208,750.0
Shareholders' equity	1,154,152.0	1,135,853.0	1,402,069.6	1,614,087.2
Minority interest	86,913.0	86,660.0	86,660.0	86,660.0
Total liabilities & equity	2,038,986.0	2,159,394.0	2,228,283.4	2,481,227.6

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	303,052.0	260,255.3	279,881.7	285,039.6
Profit fo the year	277,249.0	273,995.6	298,026.8	333,791.1
Tax	(47,448.0)	(49,946.5)	(54,240.9)	(66,758.2)
Deprec. & amort.	16,465.0	16,450.0	17,050.0	17,650.0
Associates	(23,740.0)	(2,027.0)	(6,917.0)	(6,917.0)
Working capital changes	(17,182.0)	35,207.0	34,496.6	15,807.5
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	97,708.0	(13,423.8)	(8,533.8)	(8,533.8)
Investing	(83,762.0)	(193,548.9)	(316,480.5)	(306,367.6)
Capex (growth)	(79,198.0)	(181,950.2)	(200,707.0)	(178,985.6)
Investment	0.0	0.0	0.0	0.0
Others	(4,564.0)	(11,598.8)	(115,773.5)	(127,382.0)
Financing	(136,165.0)	(33,779.4)	(35,003.7)	(39,564.5)
Dividend payments	(43,580.2)	(50,748.2)	(50,885.1)	(55,630.1)
Proceeds from borrowings	15,130.0	12,196.8	12,196.8	12,196.8
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(107,714.8)	4,772.0	3,684.6	3,868.8
Net cash inflow (outflow)	83,125.0	32,927.0	(71,602.5)	(60,892.5)
Beginning cash & cash equivalent	132,519.0	214,001.0	246,928.0	175,325.5
Changes due to forex impact	(1,643.0)	0.0	0.0	0.0
Ending cash & cash equivalent	214,001.0	246,928.0	175,325.5	114,433.0

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	34.3	34.3	33.0	33.8
Pre-tax margin	36.9	33.1	32.7	33.6
Net margin	29.9	26.7	26.4	26.5
ROA	11.8	10.5	11.0	11.2
ROE	21.1	19.3	19.0	17.5
Growth				
Turnover	13.9	10.0	10.3	9.0
EBITDA	16.5	9.8	6.4	11.4
Pre-tax profit	14.8	(1.2)	8.8	12.0
Net profit	15.9	(1.8)	8.9	9.7
Net profit (adj.)	16.6	0.2	9.3	9.3
EPS	18.7	2.3	9.1	9.1
Leverage				
Debt to total capital	16.8	19.6	16.7	14.9
Debt to equity	21.7	26.3	21.3	18.5
Net debt/(cash) to equity	(11.6)	(11.4)	8.8	11.4