UOBKayHian

Company – Results | Greater China

Tuesday, 01 September 2026

Z.AI Co (2513 HK)

1H26: Revenue Miss And Mix-Driven Margin Pressure, But ARR Momentum Remains Robust

Highlights

- **Z.ai's 1H26 results were mixed.** Revenue rose 400% yoy to Rmb953.9m, below consensus estimates. Cloud-based revenue surged 27x yoy to Rmb825.2m, while on-premise revenue fell 21% to Rmb128.7m. Gross margin declined 23.6ppt yoy to 26.4% on the mix shift toward lower-margin cloud deployment, while adjusted net loss widened 12.1% yoy to Rmb2.0b but beat expectations. ARR reached US$1.6b as of Aug 26, with a US$2.4b year-end target, slightly above our estimate.
- Maintain BUY with an unchanged target price of HK$1,830.00.

1H26 Results

Year to 31 Dec (Rmbm)	1H25	2H25	1H26	hoh	YoY	UOBKH	Var	Cons	Var
Total Net revenue	191	533	954	78.8%	399.7%	1,446	(34.0%)	1,355	(29.6%)
On-premise deployment	162	372	129	(65.4%)	(20.4%)	485	(73.5%)		
Cloud-based deployment	29	161	825	411.6%	2,735.7%	960	(14.1%)		
COGS	(95)	(332)	(702)	111.4%	635.7%	(996)	29.5%		
Gross profit	95	201	252	25.0%	163.7%	449	(44.0%)	447	(43.7%)
GPM	50%	38%	26%	(11.3 ppt)	(23.6 ppt)	31%	(4.7 ppt)	33%	(6.6 ppt)
Operating expenses	(1,995)	(2,089)	(2,398)	14.8%	20.2%	(3,332)	28.0%		
Non-GAAP operating income	(1,740)	(1,488)	(2,061)	38.5%	18.4%	(2,548)	19.1%		
Non-GAAP OPM	-912%	-279%	-216%	62.9 ppt	695.7 ppt	-176%	(40 ppt)		
Net profit	(2,358)	(2,360)	(2,072)	(12.2%)	(12.1%)	(2,901)	28.6%		
Non-IFRS net income	(1,752)	(1,430)	(1,964)	37.4%	12.1%	(2,566)	23.4%	(2,750)	28.6%
Non-IFRS Net Margin	-918%	-268%	-206%	62.2 ppt	711.9 ppt	-177%	(28.4 ppt)	-203%	(2.9 ppt)

Source: Z.ai, UOB Kay Hian

Analysis

- **1H26 revenue missed expectations despite strong cloud-based growth.** Revenue rose 400% yoy to Rmb953.9m (2H25: +99%), below our/consensus estimates of Rmb1.36b/Rmb1.45b. Cloud-based revenue surged 27x yoy to Rmb825.2m (2H25: +431%), accounting for 86.5% of revenue, supported by stronger model capabilities, token usage and pricing. On-premise revenue fell 21% yoy to Rmb128.7m (2H25: +57%) as Z.ai scaled back lower-quality projects. Adjusted net loss widened 12.1% yoy to Rmb2.0b but beat expectations, while R&D expenses rose 33.6% yoy on continued model-training investment.
- **Commercialisation accelerated following GLM-5.2/5.3 launches,** with both usage intensity and monetisation strengthening. Annualised revenue run-rate (ARR) reached US$1.6b as of Aug 26, with Z.ai targeting US$2.4b by year-end, slightly above our US$2.3b. MaaS token usage increased over 40x from the beginning of the year and Coding Plan usage rose over 23x, despite average API pricing increasing 101%, indicating stronger demand and monetisation. MaaS registered users reached over 7.4m (+144%) and paying DAU increased 603%. Average daily usage among the top 10 revenue contributors rose 98x, while 37 customers contributed over US$1m ARR and eight over US$10m ARR as of Aug 26.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	312	724	7,493	22,804	53,194
EBITDA	-2,261	-3,499	-2,983	-1,308	4,922
Operating profit	-2,541	-3,780	-5,124	-5,845	-1,869
Net profit (rep./act.)	-2,956	-4,698	-5,105	-5,531	-1,804
Net profit (adj.)	-2,466	-3,182	-4,457	-4,751	-847
EPS (fen)	(1,542.2)	(1,994.7)	(992.6)	(1,010.3)	(178.4)
PE (x)	n.a.	n.a.	n.a.	n.a.	n.a.
P/B (x)	n.a.	n.a.	25.0	35.2	37.8
EV/EBITDA (x)	n.a.	n.a.	n.a.	n.a.	92.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(946.3)	(648.6)	(68.1)	(24.3)	(3.4)
Net debt/(cash) to equity (%)	42.3	17.1	(121.0)	(89.8)	(58.2)
ROE (%)	n.a.	n.a.	n.a.	(34.5)	(13.6)
Consensus net profit (Rmbm)	-	-	(4,692.7)	(4,938.3)	(2,639.7)
UOBKH/Consensus (x)	-	-	1.05	1.04	1.68

Source: Z.ai, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$1,195.00
Target Price	HK$1,830.00
Upside	53.1%

Stock Data

Sector	Information Technology
Bloomberg ticker	2513 HK
Shares issued (m)	241.1
Market cap (HK$m)	556,419.6
Market cap (US$m)	70,982.8
3-mth avg daily t'over (US$m)	933.1

Price Performance (%)

52-week high/low: HK$2,980.00/HK$116.10

1mth	3mth	6mth	1yr	YTD
21.0	(25.1)	107.8	n.a.	n.a.

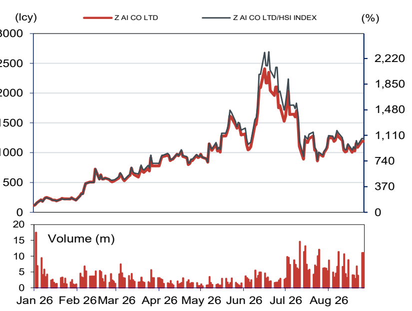
Major Shareholders (%)

Knowledge Atlas ESOP	14.96
Beijing Lianpai Technology Development	7.63
Jie Tang	6.02

Balance Sheet Metrics

FY26 NAV/Share (HK$)	41.18
FY26 Net Debt/Share (HK$)	49.80

Price Chart



Source: Bloomberg

Company Description

Z.AI Co offers technology services. The company provides cognitive intelligence general models, artificial intelligence systems, and other related solutions.

- **Gross margin declined on the rapid mix shift toward cloud-based deployment.** Group gross profit increased 164% yoy to Rmb251.6m (2H25: +31%), while gross margin declined 23.6ppt yoy to 26.4% from 50.0% in 1H25 and fell 11.3ppt from 37.7% in 2H25 mainly due to a sharp revenue mix shift toward lower-margin cloud-based deployment, which remains in an early margin ramp-up phase. By segment, cloud-based gross margin improved 25.0ppt yoy to 24.6% from -0.4% in 1H25 and increased 2.2ppt from 22.4% in 2H25, supported by economies of scale, higher pricing and lower inference costs from engineering optimisation. On-premise gross margin declined 21.2ppt yoy to 37.9% from 59.1% in 1H25 and fell 6.5ppt from 44.4% in 2H25, mainly due to a mix shift from higher-margin general-purpose model projects toward enterprise agents, alongside customer migration to cloud services.
- **Expanding beyond coding into professional workflows.** Z.ai sees coding as a foundation for long-horizon planning, tool use and self-correction, with these capabilities extending into other professional tasks. Cybersecurity is currently the most advanced area beyond coding, while legal, finance, education and data analytics remain earlier-stage and represent the next commercialisation opportunities.
- **Bifurcated model strategy is supported by scalable domestic compute.** GLM-5.3 targets higher-value professional tasks, while GLM-5.3 Flash serves high-frequency and cost-sensitive workloads at 1/10 of GLM-5.2's price. Z.ai has also achieved 100k-card-scale inference using domestic chips, with GLM-5.3 Flash's large-scale traffic largely supported by domestic compute, while infra optimisation has improved end-to-end serving performance by 3x on the same hardware.
- **API ARR has stepped up sharply alongside successive model upgrades.** Z.ai's ARR increased from Rmb0.5b at end-25 to Rmb1.7b by end-Mar 26, before accelerating to over US$1.0b in July and US$1.6b by end-August. We believe the latest inflection was largely driven by GLM-5.2 following its mid-June launch, supported by competitive coding capabilities and lower costs versus leading frontier models. The subsequent launch of GLM-5.3 further strengthened model capabilities, suggesting ARR growth has moved through successive step-ups rather than a linear ramp. Sustainability will depend on customer retention and continued conversion into recurring paid usage.
- **2H26 outlook:** Next-generation model scaling and domestic compute remain key. Z.ai has started training its next-generation GLM model, focusing on larger effective scale, longer native context and native multimodal capabilities, while longer-term development shifts toward fully self-training. Domestic chip supply is expected to improve over the next 3-6 months, supporting further training and inference expansion. We forecast ARR to reach US$2.3b by end-26.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of HK$1,830.00,** based on a DCF valuation methodology, discounted back using WACC of 12.6% and terminal EV/Sales of 5x. Our target price of HK$1,830.00 implies 11.8x and 5.1x 2027F and 2028F EV/sales.

Earnings Revision/Risk

- We trim our 2026 revenue forecast by 2.3%, implying 934% yoy growth, and lower our 2026 non-GAAP net profit estimate by 1.7%.
- **Risks:** a) Sustained investment and profitability risks, b) competitive pressure from global foundation model, and c) geopolitical and supply chain risks.

Share Price Catalyst

- Next-generation GLM model launch, b) improving domestic chip supply and compute efficiency, and c) scaling of high-value use cases beyond coding.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	724.3	7,492.6	22,803.8	53,194.3
EBITDA	(3,499.0)	(2,983.2)	(1,307.6)	4,921.5
Deprec. & amort.	281.1	2,140.9	4,537.1	6,790.5
EBIT	(3,780.0)	(5,124.1)	(5,844.7)	(1,869.0)
Total other non-operating income	(878.7)	(0.0)	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(59.5)	(2.6)	289.7	57.2
Pre-tax profit	(4,718.2)	(5,126.6)	(5,555.0)	(1,811.9)
Tax	0.0	0.0	0.0	0.0
Minorities	20.0	21.7	23.5	7.7
Net profit	(4,698.2)	(5,104.9)	(5,531.5)	(1,804.2)
Net profit (adj.)	(3,182.0)	(4,456.7)	(4,751.1)	(847.2)

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	655.8	8,520.7	15,991.8	20,972.3
Other LT assets	626.6	634.9	641.9	647.7
Cash/ST investment	2,367.7	23,246.0	13,267.0	8,470.7
Other current assets	1,203.7	3,557.1	6,637.2	9,916.8
Total assets	4,853.9	35,958.7	36,537.9	40,007.6
ST debt	604.8	604.8	604.8	604.8
Other current liabilities	11,801.4	16,400.2	21,694.8	25,975.9
LT debt	378.4	378.4	378.4	378.4
Other LT liabilities	180.1	180.1	180.1	180.1
Shareholders' equity	(8,111.0)	18,395.1	13,679.7	12,868.2
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	4,853.9	35,958.7	36,537.9	40,007.6

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	(2,246.1)	(34.9)	2,036.3	6,980.5
Profit fo the year	(4,718.2)	(5,126.6)	(5,555.0)	(1,811.9)
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	281.1	2,140.9	4,537.1	6,790.5
Associates	0.0	0.0	0.0	0.0
Working capital changes	704.3	2,245.3	2,214.5	1,001.5
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	1,486.7	705.6	839.6	1,000.4
Investing	(375.9)	(10,013.9)	(12,015.3)	(11,776.8)
Capex (growth)	(23.1)	(10,013.9)	(12,015.3)	(11,776.8)
Investment	338.1	338.1	338.1	338.1
Others	(691.0)	(338.1)	(338.1)	(338.1)
Financing	2,614.1	30,927.1	0.0	0.0
Dividend payments	0.0	0.0	0.0	0.0
Proceeds from borrowings	689.1	0.0	0.0	0.0
Loan repayment	(137.2)	0.0	0.0	0.0
Others/interest paid	2,062.2	30,927.1	0.0	0.0
Net cash inflow (outflow)	(7.9)	20,878.3	(9,979.0)	(4,796.3)
Beginning cash & cash equivalent	2,268.1	2,254.9	23,133.2	13,154.2
Changes due to forex impact	(5.3)	0.0	0.0	0.0
Ending cash & cash equivalent	2,254.9	23,133.2	13,154.2	8,357.9

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	(483.1)	(39.8)	(5.7)	9.3
Pre-tax margin	(651.4)	(68.4)	(24.4)	(3.4)
Net margin	(648.6)	(68.1)	(24.3)	(3.4)
ROA	(101.8)	(25.0)	(15.3)	(4.7)
ROE	n.a.	n.a.	(34.5)	(13.6)
Growth				
Turnover	131.9	934.4	204.4	133.3
EBITDA	n.a.	n.a.	n.a.	n.a.
Pre-tax profit	n.a.	n.a.	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.
Net profit (adj.)	n.a.	n.a.	n.a.	n.a.
EPS	n.a.	n.a.	n.a.	n.a.
Leverage				
Debt to total capital	(13.8)	5.1	6.7	7.1
Debt to equity	n.a.	5.3	7.2	7.6
Net debt/(cash) to equity	n.a.	(121.0)	(89.8)	(58.2)