07 Jul 2026 11:45:27 ET | 31 pages

Tencent Holdings (0700.HK)

2Q26E Preview: Gaming & Ads Solid with Continuing AI Investment

CITI'S TAKE

Tencent will report 2Q26 results on Aug 12. While we expect solid revs growth thanks to continued strength in gaming despite softer seasonality and steady growth of ad revs, we are cautious on AI spend and profit drag as we have more conservative profit assumption than consensus. Into 2H26, we expect focus remains on Agentic AI testing within WeChat, integration of Mini Program with Hy3, release of next iteration/upgrade of Hy model and capex spend. Moreover, we believe Tencent will continue to evaluate its investment portfolio with rotation and rebalance between strategic AI-related investment vs maturing industry with limited future synergies. Opportunistic buyback and AI investment as well as strengthening core business growth empowering with AI enhancement will remain as key priorities, in our view. Our TP is adjusted to HK$758 (from HK$763) reflecting changes in investment portfolio value. Maintain Buy on AI play.

Official HY 3, WorkBuddy traction & AI Mini Program — Tencent Cloud is rapidly advancing its AI agent ecosystem, following the June 5th launch of its "Agent-Ready" data platform and a new "Productivity Agent Suite". The advanced and cost-effective Hy3 model was officially launched on July 6th following its preview on April 23 which has attracted a 20x increase in daily token consumption since its preview, signaling strong adoption across many industries. On July 7th, WeChat announced the upgrade of its AI Mini Program Growth Plan to boost the adoption of Hy3 within WeChat ecosystem.

2Q26 preview — We model 2Q26 total revs to up 9.3% yoy to Rmb201.7bn and non-GAAP net profit to +5.1% yoy to Rmb66.25bn or 32.8% margin, vs. Bloomberg cons. of Rmb203.9bn (+10.5% yoy) and Rmb69.1bn (34% margin). We forecast total online games +8.3% yoy to Rmb64.1bn with domestic/International games +8%/+9% yoy to Rmb43.6bn/Rmb20.5bn. We model online ad revs +19% yoy to Rmb42.5bn and FBS revs up 9% yoy to Rmb60.5bn, of which cloud revs +24% yoy to Rmb14bn and fintech revs +5.2% yoy to Rmb46.5bn. We model GP/OP to +9.3%/+5.7% yoy to Rmb114.8bn/Rmb73.2bn. We expect result likely inline with potential small deviation on upside risk to our gaming forecast and downside to FBS.

New games pipeline– Into 3Q26E, Tencent has released *Just Dance: Party/ Rust* on Jul 2/9 and *Control Resonant* to be released by Sep 24. Pipeline includes *Monster Hunter Outlanders, Rainbow Six Siege* and *Animula Nook*.

Earnings Summary

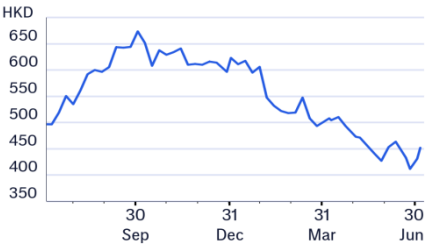
Year to 31 Dec	Net Profit (RmbM)	Diluted EPS (Rmb)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	222,703	23.672	44.3	16.5	3.7	25.0	1.2
2025A	259,626	28.086	18.6	13.9	3.1	24.4	1.4
2026E	267,621	29.177	3.9	13.4	2.8	22.3	1.3
2027E	283,476	30.913	5.9	12.6	2.6	21.9	1.3
2028E	313,569	34.202	10.6	11.4	2.4	22.2	1.4

Source: Powered by dataCentral

Buy

Price (06 Jul 26 16:10)	HK$452.00
Target price	HK$758.00↓
from HK$763.00	
Expected share price return	67.7%
Expected dividend yield	1.3%
Expected total return	69.0%
Market Cap	HK$4,109,752M
	US$523,996M

Price Performance
(RIC: 0700.HK, BB: 700 HK)



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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

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0700.HK: Fiscal year end 31-Dec						Price: HK$452.00; TP: HK$758.00; Market Cap: HK$4,109,752m; Recomm: Buy					
Profit & Loss (Rmbm)	**2024**	**2025**	**2026E**	**2027E**	**2028E**	**Valuation ratios**	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue	660,257	751,766	820,970	893,678	967,569	PE (x)	16.5	13.9	13.4	12.6	11.4
Cost of sales	-311,011	-329,173	-356,184	-385,010	-413,213	PB (x)	3.7	3.1	2.8	2.6	2.4
Gross profit	349,246	422,593	464,787	508,667	554,356	EV/EBITDA (x)	10.2	8.4	7.7	6.3	5.5
Gross Margin (%)	52.9	56.2	56.6	56.9	57.3	FCF yield (%)	5.2	6.0	6.2	7.9	8.9
EBITDA (Adj)	**287,736**	**339,449**	**363,114**	**434,475**	**480,483**	Dividend yield (%)	1.2	1.4	1.3	1.3	1.4
EBITDA Margin (Adj) (%)	43.6	45.2	44.2	48.6	49.7	Payout ratio (%)	19	19	17	16	16
Depreciation	-27,332	-32,799	-44,332	-96,517	-109,200	ROE (%)	21.8	21.1	18.8	18.3	18.9
Amortisation	-28,881	-33,229	-29,555	-32,172	-33,091	**Cashflow (Rmbm)**	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBIT (Adj)	**237,811**	**280,656**	**295,678**	**312,097**	**344,505**	EBITDA	264,312	307,590	334,123	402,980	447,797
EBIT Margin (Adj) (%)	36.0	37.3	36.0	34.9	35.6	Working capital	21,881	16,484	13,630	16,194	17,688
Net interest	4,023	1,779	4,770	6,701	11,027	Other	-27,672	-21,022	-25,739	-30,459	-37,630
Associates	29,363	33,908	22,002	22,298	22,570	**Operating cashflow**	**258,521**	**303,052**	**322,014**	**388,714**	**427,856**
Non-Op/Except/Other Adj	-29,712	-39,094	-35,443	-37,807	-38,998	Capex	-69,451	-87,324	-98,512	-107,237	-110,300
Pre-tax profit	**241,485**	**277,249**	**287,008**	**303,289**	**339,104**	Net acq/disposals	-4,941	-34,717	-296	-126	62
Tax	-45,018	-47,448	-57,185	-60,658	-67,821	Other	-47,795	-83,691	10,594	-96,352	-113,001
Extraord./Min.Int./Pref.div.	-2,394	-4,959	-5,151	-5,011	-4,871	**Investing cashflow**	**-122,187**	**-205,732**	**-88,214**	**-203,715**	**-223,239**
Reported net profit	**194,073**	**224,842**	**224,672**	**237,621**	**266,412**	Dividends paid	-28,859	-37,535	-48,151	-46,058	-45,148
Net Margin (%)	29.4	29.9	27.4	26.6	27.5	**Financing cashflow**	**-176,494**	**-87,155**	**-104,722**	**-101,808**	**-113,126**
Core NPAT	222,703	259,626	267,621	283,476	313,569	**Net change in cash**	**-39,801**	**8,522**	**127,106**	**80,825**	**88,653**
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**	**Free cashflow to s/holders**	**189,070**	**215,728**	**223,502**	**281,477**	**317,556**
Reported EPS (Rmb)	20.629	24.323	24.495	25.912	29.058						
Core EPS (Rmb)	23.672	28.086	29.177	30.913	34.202						
DPS (Rmb)	4.500	5.300	5.099	5.000	5.312						
CFPS (Rmb)	27.479	32.784	35.107	42.389	46.667						
FCFPS (Rmb)	20.097	23.337	24.367	30.695	34.637						
BVPS (Rmb)	105.033	127.039	137.364	149.884	163.029						
Wtd avg ord shares (m)	9,269	9,085	9,032	9,030	9,028						
Wtd avg diluted shares (m)	9,408	9,244	9,172	9,170	9,168						
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**						
Sales revenue (%)	8.4	13.9	9.2	8.9	8.3						
EBIT (Adj) (%)	23.9	18.0	5.4	5.6	10.4						
Core NPAT (%)	41.2	16.6	3.1	5.9	10.6						
Core EPS (%)	44.3	18.6	3.9	5.9	10.6						
Balance Sheet (Rmbm)	**2024**	**2025**	**2026E**	**2027E**	**2028E**						
Cash & cash equiv.	132,519	141,041	268,147	348,972	437,625						
Accounts receivables	48,203	49,930	53,982	58,762	63,621						
Inventory	440	530	657	715	774						
Net fixed & other tangibles	282,037	322,741	363,008	376,132	379,673						
Goodwill & intangibles	196,127	205,999	201,444	194,272	186,181						
Financial & other assets	1,121,669	1,318,745	1,276,460	1,339,877	1,414,490						
Total assets	**1,780,995**	**2,038,986**	**2,163,697**	**2,318,730**	**2,482,363**						
Accounts payable	118,712	121,127	129,787	139,237	147,172						
Short-term debt	61,508	53,160	56,574	58,574	60,574						
Long-term debt	146,521	208,369	209,881	211,881	213,881						
Provisions & other liab	400,358	415,265	434,681	458,475	486,924						
Total liabilities	**727,099**	**797,921**	**830,924**	**868,166**	**908,551**						
Shareholders' equity	973,548	1,154,152	1,240,709	1,353,488	1,471,866						
Minority interests	80,348	86,913	92,064	97,075	101,946						
Total equity	**1,053,896**	**1,241,065**	**1,332,773**	**1,450,563**	**1,573,812**						
Net debt (Adj)	**75,510**	**120,488**	**-1,692**	**-78,517**	**-163,170**						
Net debt to equity (Adj) (%)	7.2	9.7	-0.1	-5.4	-10.4						

For definitions of the items in this table, please click here.

Business Update & 2Q26E Preview

Latest updates on Tencent Cloud and AI development

Tencent Cloud upgrades Data Platform for Agents

On June 5th Tencent Cloud announced a significant upgrade to its data platform, making it "Agent-Ready" to support AI Agents as a new class of user. The new three-tier architecture includes the production-grade data agent DataBuddy, the intelligent data platform WeData, and an AI-native data infrastructure. This system is designed to facilitate seamless collaboration between humans and AI, allowing Agents to execute complex data tasks such as modeling, ETL development, and report generation through natural language commands, thereby boosting R&D efficiency by five to ten times.

A core part of the upgrade is the WeData platform, which acts as a unified control plane with a new semantic layer, enabling Agents to better understand business context and achieve over 90% accuracy in converting natural language to SQL. The underlying AI-native infrastructure has been rebuilt for intelligence across storage, computing, data, and systems, featuring a multi-Agent collaboration system and autonomous operational capabilities. These enhancements, also available for on-premises deployment, aim to accelerate the large-scale adoption of Agents in enterprise environments.

Productivity Agent Suite Debuts

On June 5th Tencent Cloud launched a comprehensive "Productivity Agent Suite" designed to integrate AI into various workflows for both individual and enterprise users. This new suite features a range of tools, including the upgraded WorkBuddy for personal productivity, CodeBuddy for software development, and the new WorkBuddy Enterprise AI Workspace, which integrates with Tencent Docs and Tencent LearnShare. The launch reflects Tencent's strategy of building practical, scalable AI solutions that solve real-world problems, with a focus on the co-design of models and products to enhance usability.

Supporting this initiative, Tencent Cloud also upgraded its core infrastructure with the Hy3 Preview model, the TokenHub platform for efficient model inference, and a new Agent Runtime for optimized performance and security. These tools have already proven effective within Tencent, with CodeBuddy reportedly reducing coding time by 40% for its engineers. The suite is now being deployed across more than 20 industries, including finance, retail, and healthcare, to foster large-scale human-AI collaboration.

Workbuddy further gains traction

On July 6, news media Gelonghui cited Analysys that Tencent's WorkBuddy ranked as top office agent with 8.85mn monthly visits in Mar 2026 compared with over 20mn monthly visits among top office agent products. The article suggested that WorkBuddy has conducted 43 version upgrades 3 months after launch. Gelonghui suggested that Tencent internally has already positioned WorkBuddy as the third phenomenal product following QQ and WeChat leveraging its straightforward deployment, WeChat ecosystem authorization, full integration with tools within Tencent ecosystem and external applications.

Figure 1. Product pricing related to WorkBuddy

Tencent Cloud Coding Plan				
Package	**Lite**		**Pro**	
Standard pricing	Rmb40 / month		Rmb200 / month	
Usage limit	1,200 requests per 5 hours, 9,000 requests per week, 18,000 requests per month		6,000 requests per 5 hours, 45,000 requests per week, 90,000 requests per month	
Code Assistant (Joint Subscription for CodeBuddy and WorkBuddy)				
Package	**Experience**	**Standard**	**Premium**	**Flagship**
Standard pricing	Free	Rmb99 / month	Rmb199 / month	Rmb999 / month
Consecutive monthly subscription	Free	Rmb70 / month	Rmb140 / month	Rmb700 / month
Model deployment	Automatic	All available	All available	All available
Scenario	Beginner	Daily light assistance	High-frequency, office	Complex
Enterprise Solution (CodeBuddy and WorkBuddy Inclusive)				
Package	**Enterprise SaaS**		**Enterprise Private Cloud**	
Standard pricing	Rmb198 / pp / month		Rmb316 / pp / month	

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Source: Company Reports, Citi Research

Hy3 is officially released on July 6th

On July 6th, Tencent announced it has officially launched Hy3, following its release of preview version on April 23. Tencent noted that the model demonstrates significantly enhanced performance relative to models of the same size, while achieving intelligence comparable to flagship models with two to five times its parameter scale. Compared with the preview version, it also delivers greater stability and cost efficiency. Hy3 has already been adopted across Tencent products and services, including WorkBuddy/CodeBuddy, Yuanbao, Marvis, ima and others. Its API is now available on Tencent Cloud TokenHub, with global third-party developer platforms set to integrate Hy3 progressively.

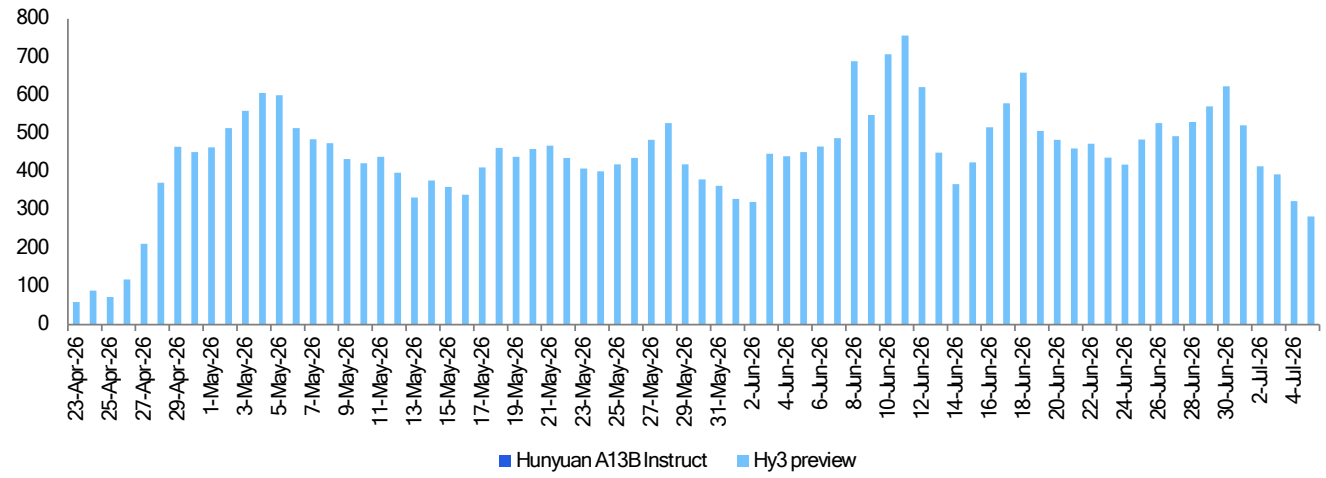
Compared to Hy3 preview, Hy3 takes another leap across a wide range of tasks through strengthened reinforcement learning and enhanced data quality and diversity, delivering performance comparable to larger-scale flagship models. Hy3 has made particularly notable progress in productivity tasks such as software development, office productivity, financial modeling, front-end design and game production, making it a reliable and cost-efficient choice. Tencent also noted that since the launch of Hy3 preview, its average daily token consumption has increased twenty-fold, reflecting growing market recognition of its positioning as a practical and cost-effective model.

Figure 2. Tencent Cloud Hunyuan major milestones and achievements in 2026

Date	Event	Milestones
28-Jan-26	Open source	Open-sourced Hunyuan-Image 3.0-Instruct
30-Jan-26	Product launch	Launch of CodeBuddy Code 2.0
9-Mar-26	Product launch	Launch of WorkBuddy as all-scenario AI agent
1-Apr-26	Product launch	Launch of ADP Agent Portal as cross-platform enterprise agent portal
2-Apr-26	Product launch	Launch of ClawPro as enterprise-level OpenClaw
3-Apr-26	Product launch	Launch of TencentDB Agent Memory as OpenClaw's long memory
8-Apr-26	Product launch	Launch of QBotClaw on QQ Browser
9-Apr-26	Product launch	Launch of QClaw V2
16-Apr-26	Product launch	Launch of HY-World 2.0
23-Apr-26	Product launch	Launch of HY3-Preview
18-May-26	Product launch	Launch of Ardot as AI design agent platform
19-May-26	Product launch	Launch of DataBuddy as big data agent platform
6-Jul-26	Product launch	Launch of HY3

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Source: Company Reports, Citi Research

Figure 3. Tencent HY tokens processed on OpenRouter by products (bn)



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Source: OpenRouter, Citi Research

Mobile games

Tencent's top 3 titles dominate iOS grossing chart in 2Q26

During Apr-Jun 2026, there were 5/6/5 games published by Tencent ranked as top 10 mobile games in China by iOS grossing by month-end of Apr-Jun 2026, per data.ai tracking. For example, *HoK* continued to top iOS grossing chart by ranking #1 in month-end of Apr-Jun, while *Peacekeeper Elite* was ranked #2/2/4 by month-end of Apr-Jun and *Delta Force* was ranked #3/4/2 by month-end of Apr-Jun respectively.

Other notable titles include: 1) *Valorant Mobile* which was ranked #9/6/5 by month-end of Apr-Jun; 2) *Fight of the Golden Spatula* which was ranked #10/10/9 by month-end of Apr-Jun; 3) other top-ranking titles include *DnF Mobile*. As of Jul 6, 4 out of top 10 mobile games by iOS grossing were published by Tencent

including *HoK* (#1), *Peacekeeper Elite* (#2), *Delta Force* (#3), *Valorant Mobile* (#8), per data.ai.

Figure 4. Top 10 mobile games in China by monthly iOS grossing (Apr 30, 2026)

Ranking	Game Title	Publisher
1	Honour of Kings	Tencent
2	Peacekeeper Elite	Tencent
3	Delta Force	Tencent
4	Whiteout Survival	Century Games
5	Fantasy Westward Journey	NetEase
6	Fishing Battle	Tuyoo
7	Tomb Busters	Giant Network
8	Genshin Impact	miHoYo
9	Valorant Mobile	Tencent
10	Fight of Golden Spatula	Tencent

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Source: data.ai, Citi Research

Figure 5. Top 10 mobile games in China by monthly iOS grossing (May 31, 2026)

Ranking	Game Title	Publisher
1	Honour of Kings	Tencent
2	Peacekeeper Elite	Tencent
3	Whiteout Survival	Century Games
4	Delta Force	Tencent
5	Fantasy Westward Journey	NetEase
6	Valorant Mobile	Tencent
7	Anipop	Happy Elements
8	DnF Mobile	Tencent
9	Eggy Party	NetEase
10	Fight of Golden Spatula	Tencent

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Source: data.ai, Citi Research

Figure 6. Top 10 mobile games in China by monthly iOS grossing (Jun 30, 2026)

Ranking	Game Title	Publisher
1	Honour of Kings	Tencent
2	Delta Force	Tencent
3	Whiteout Survival	Century Games
4	Peacekeeper Elite	Tencent
5	Valorant Mobile	Tencent
6	Fantasy Westward Journey	NetEase
7	Anipop	Happy Elements
8	Eggy Party	NetEase
9	Fight of Golden Spatula	Tencent
10	Fishing Battle	Tuyoo

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Source: data.ai, Citi Research

Figure 7. Top 10 mobile games in China by monthly iOS grossing (Jul 3, 2026)

Ranking	Game Title	Publisher
1	Honour of Kings	Tencent
2	Peacekeeper Elite	Tencent
3	Delta Force	Tencent
4	Sanguosha	Yoka Games
5	Fantasy Westward Journey	NetEase
6	Whiteout Survival	Century Games
7	Anipop	Happy Elements
8	Valorant Mobile	Tencent
9	Eggy Party	NetEase
10	Genshin Impact	miHoYo

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Source: data.ai, Citi Research

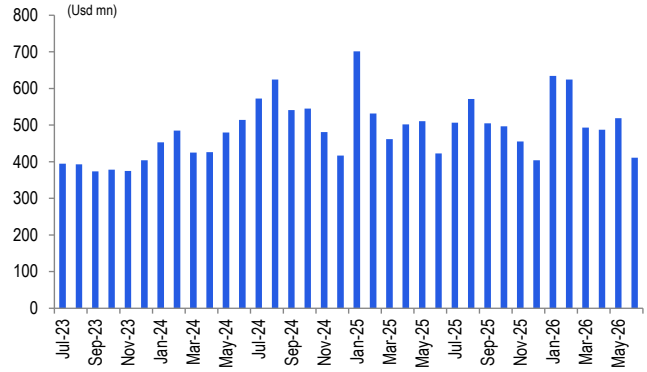
SensorTower tracking suggested mobile grossing normalization in 2Q

Based on SensorTower tracking, we aggregate 210 games among Tencent's game portfolio to derive a total domestic iOS grossing of US$1.42bn in 2Q26, -19% qoq and -1% yoy coming off from previous peak during CNY period.

In 2Q26, *HoK* generated an estimated iOS grossing of US$473mn per SensorTower, -12% yoy and -14% qoq. iOS grossing of *HoK* increased sequentially from Mar to US$162/177mn in Apr/May respectively, followed by sequential normalization at US$134mn in Jun respectively.

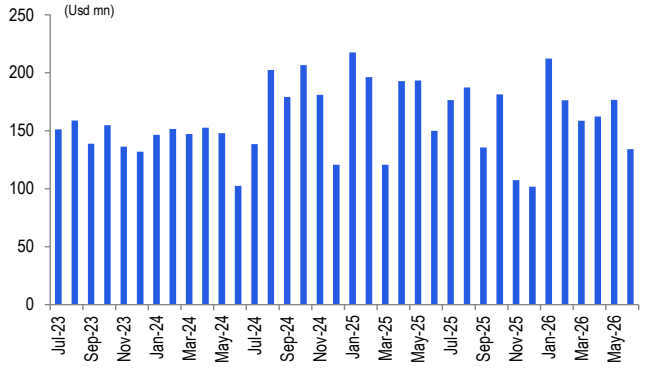
Similarly, SensorTower suggested that iOS grossing for *Peacekeeper Elite* also came off from CNY peak at US$223mn in 2Q26, comparing to US$344mn in 1Q26 and US$270mn in 2Q25, On the contrary, *Delta Force*'s domestic iOS grossing remained steady at US$182mn in 2Q26, comparing to US$186mn in 1Q26 and only US$56mn in 2Q25.

Figure 8. Tencent domestic mobile game iOS grossing



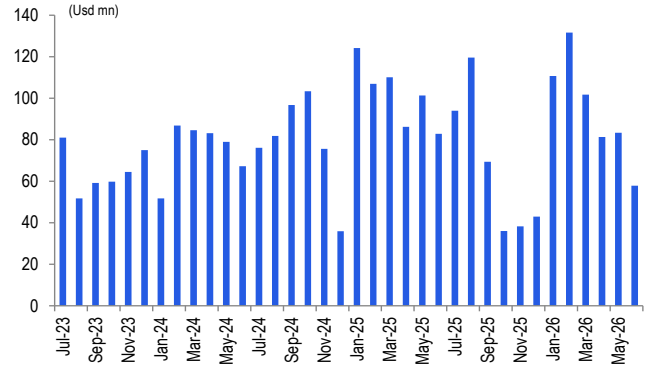
Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS App Store

Figure 9. HoK monthly iOS grossing



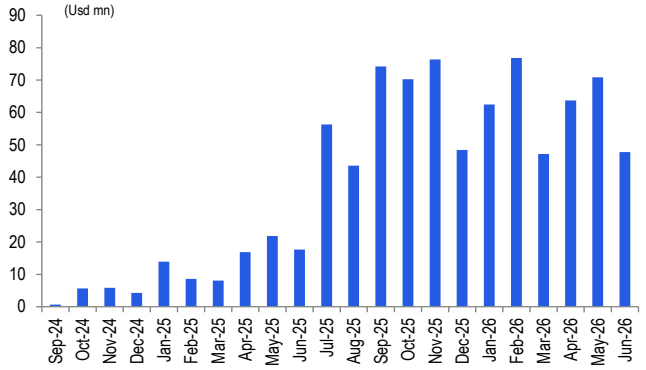
Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS App Store

Figure 10. Peacekeeper Elite monthly iOS grossing



Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS App Store

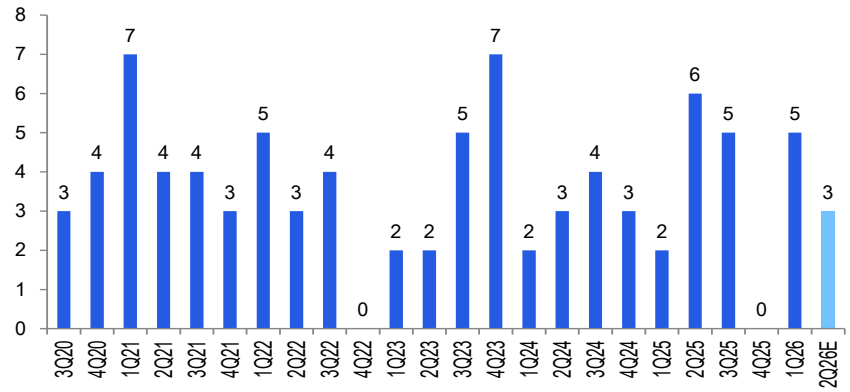
Figure 11. Delta Force monthly iOS grossing



Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS App Store

Three new games released during 2Q26

Figure 12. Number of mobile games launched domestically by quarter



Source: Company Reports, Citi Research Estimates

Per our tracking, Tencent released 3 domestic titles during 2Q26, compared with 6 games launched in 2Q25 and 5 in 1Q26. This includes: 1) *Honor of Kings: World* ("王者荣耀·世界"), a cross-platform open-world title with PC version released on Apr 10 and mobile version published on Apr 17; 2) *Chaos Zero Nightmare* ("卡厄思梦境"), a mobile roguelite card RPG licensing from Smilegate and was released on May 28; 3) *Lineage II Covenant* ("天堂 II：盟约"), a cross-platform (mobile + PC) MMORPG licensing from NCSoft which was released in China on Jun 24.

Figure 13. New games launched by Tencent domestically in 2Q26 and Jul 2026

#	English name	Chinese name	Developer	Genre	Status	Publishing timeline
	Published mobile games					
1	Honor of Kings: World (PC)	王者荣耀·世界	Tencent	RPG	Published	10-Apr-26
2	Honor of Kings: World (mobile)	王者荣耀·世界	Tencent	RPG	Published	17-Apr-26
3	Chaos Zero Nightmare	卡厄思梦境	Tencent, Xiao Ming Tai Ji	RPG	Published	28-May-26
4	Lineage II Covenant	天堂 II：盟约	NCSoft	MMORPG	Published	24-Jun-26
5	Just Dance: Party	舞力全开：派对	Ubisoft	Music	Published	2-Jul-26

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Source: Company Reports, data.ai, Citi Research

Two new games slated to release in Jul 2026

Tencent currently has 109 mobile games in the pipeline, 64 of which have already been approved by NPPA, or 59% of the entire pipeline. Entering 3Q26E, Tencent has already released *Just Dance: Party* on Jul 2 and slated to release *Rust* on Jul 9 and *Control Resonant* by Sep 24. Tencent also commenced beta testing for key new games including *Monster Hunter Outlanders*, *Rainbow Six Siege* and *Animula Nook*. Below we list out major new games that will be launched within 2026E or might have material influence for Tencent's online game revenues in future:

- ***Just Dance: Party ("舞力全开：派对"):*** *Just Dance: Party* is a mobile dancing and music game licensing from Ubisoft which was released in China by Tencent on Jul 2. The title ranked #2 by iOS download on official release on Jul 2 and currently ranked #19 by iOS download as of Jul 6, per data.ai.

- ***Rust ("失控进化"):*** *Rust* is a cross-platform (PC + mobile) survival game licensing from Facepunch which is scheduled to release in China on Jul 9. As of Jul 6, there are over 3mn pre-registrations on WeChat Game Center.

- ***Animula Nook ("粒粒的小人国"):*** *Animula Nook* is a simulation title to be published by Tencent. During TapTap Game Conference hosted on Jul 2, the title is highlighted to commence the second beta testing by fall this year.

- ***Monster Hunter Outlanders ("怪物猎人：旅人"):*** *Monster Hunter Outlanders* is an ARPG developed by Timi Studio licensing from Capcom with overseas version being published by Level Infinite. The title has started to recruit new gamers for next round of beta testing on Jul 2.

- ***Control Resonant ("控制：共振"):*** *Control Resonant* is an ARPG title licensing from Remedy Entertainment. During TapTap Game Conference hosted on Jul 2, the title will be officially published by Tencent in China on Sep 24.

- ***Rainbow Six Siege ("彩虹六号：攻势"):*** *Rainbow Six Siege* is a 5V5 indoor tactical shooting game licensed by Ubisoft and will be published by Tencent in China region.

- ***Rewinding Cadence ("归环"):*** *Rewinding Cadence* is an ACG open-world title developed by Saroasis Studios under Tencent.

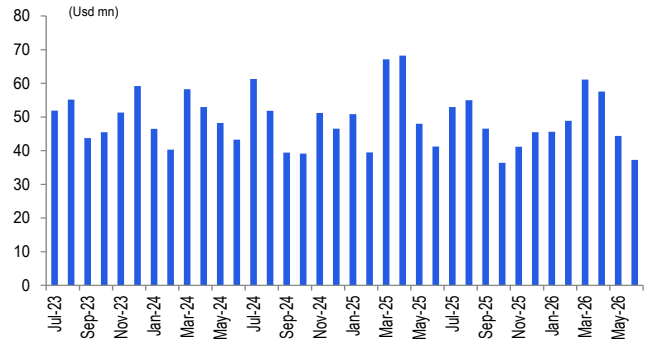
Looking into summer season, we believe Tencent has prepared sufficient content update for its evergreen titles in order to capture gamers' wallet share during peak summer season together with a few new releases set to release ahead as noted above. Looking ahead, we expect Tencent's game pipeline remains rich with multiple key titles likely to support sustainable growth for Tencent's online gaming business. In 2026, we currently model domestic games revs to +7.1% yoy to Rmb175.9bn and forecast international games revs to +9% yoy to Rmb84.2bn. We model 2Q26 domestic games revs to +8% yoy to Rmb43.6bn and international games revs to +9% to Rmb20.5bn.

AI-powered anti-addiction engine for minor protection

Reported by Sina Finance dated Jul 4 (link), Tencent Games announced minor protection measures during summer 2026 on Jul 3. In addition to existing requirements and regulations to limit weekly gaming time spent of minor, Tencent Games will also introduce dual AI anti-addiction engines including risk assessment of gamers' real-time behavior and introducing voiceprint and age recognition on top of existing facial recognition. Tencent will also upgrade its parenting platform with AI chatbot feature by integrating with large models such as HY and DeepSeek.

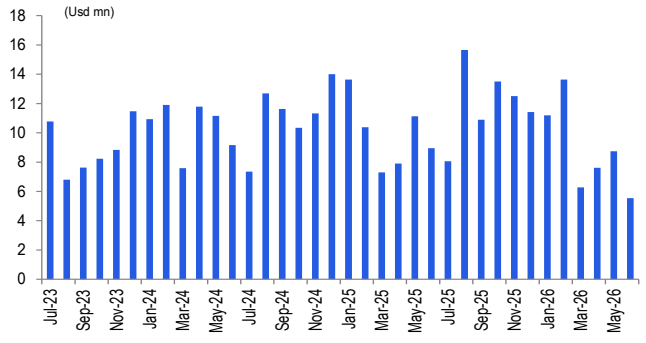
Grossing performance of other overseas titles

Figure 14. PUBG Mobile iOS + Google Play overseas grossing



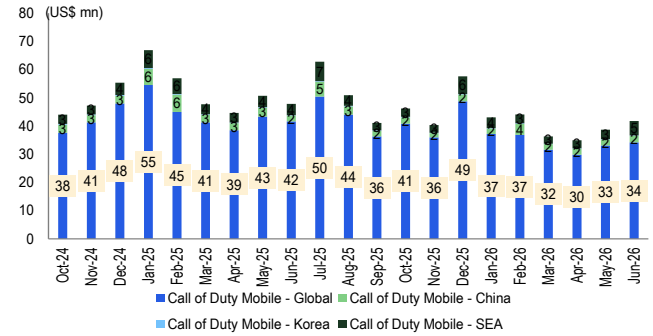
Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS and Google Play App Stores

Figure 15. LoL: Wild Rift iOS + Google Play oversea grossing



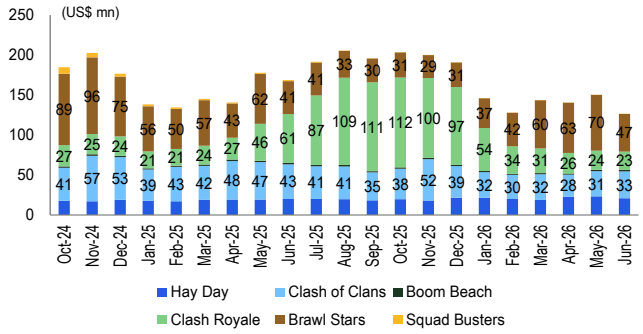
Source: SensorTower, Citi Research Estimates, Represents grossing before 30% share from iOS and Google Play App Stores

Figure 16. All-platform grossing of CODM worldwide



Source: SensorTower, Citi Research Est, Represents grossing before 30% share from iOS and Google Play App Stores, grossing from China from iOS only

Figure 17. All-platform grossing of six Supercell titles



Source: SensorTower, Citi Research Est, Represents grossing before 30% share from iOS and Google Play App Stores

Figure 18. Tencent mobile games pipeline

#	English name	Chinese name	Developer	Genre	Status	Publishing timeline
	New mobile game pipeline					
1	Rust	失控进化	Facepunch	Survival	approved	9-Jul-26
2	Control Resonant	控制：共振	Remedy Entertainment	ARPG	na	24-Sep-26
3	Honor of Kings: Chess	王者万象棋	Tencent	Board & Card	approved	2026
4	The Hidden Ones	异人之下	Tencent	ARPG	approved	2026
5	The Finals	终极角逐	Embark Studios, Nexon	FPS	approved	2026
6	Lost Records: Bloom & Rage	Lost Records: Bloom & Rage	Don't Nod	RPG	na	2026
7	Ao Xing Re Lang	奥星热浪	Tencent	TPS	approved	TBC
8	CrossFire: Rainbow (mobile + PC)	穿越火线：虹	Tencent	FPS	approved	TBC
9	Squad (PC)	战术小队：破晓攻势	Offworld Industries	FPS	approved	TBC
10	Yi Ke Si Xiao Dui (PC)	异克斯小队	Tencent	TPS	approved	TBC
11	Rewinding Cadence	归环	Saroasis Studios	RPG	approved	TBC
12	Virtual Circle	虚环	CDD Studio, Tencent	Strategy	na	TBC
13	Chasing Kaleidorider	追逐卡蕾多	Fizzglee Studio, Tencent	RPG	approved	TBC
14	Monster Hunter Outlanders	怪物猎人：旅人	Tencent, Capcom	ARPG	approved	TBC
15	mo.co	魔刻猎手	Supercell	ARPG	approved	TBC
16	Red Alert: Honor	红警：荣耀	EA	Strategy	approved	TBC
17	Path of Exile 2	流放之路：降临	Grinding Gear Games	ARPG	approved	TBC
18	Roco Kingdom: Spirit Card	洛克王国：精灵牌	Tencent	Board & Card	approved	TBC
19	ARC Raiders	弧光猎人	Embark Studios	TPS	approved	TBC
20	The First Berserker: Khazan	地下城与勇士：卡赞	Nexon	ARPG	na	TBC
21	FC Dream Drama	FC足球梦剧场	Electronic Arts	Simulation	na	TBC
22	Zhe Tian Shi Jie	遮天世界	Tencent	RPG	na	TBC
23	Cookie Run: Alliance	饼干人联盟	Devsisters	ARPG	na	TBC
24	Animula Nook	粒粒的小人国	Tencent	Simulation	approved	TBC
25	Rules of Engagement: The Grey State	灰境行者	Grey State Studio (Tencent)	FPS	approved	TBC
26	Ragnarok Origin	仙境传说: 初心	Gravity	MMORPG	approved	TBC
27	Xian Jie Da Zhang Men	仙界大掌门	Zhi Meng Qing Jue	Simulation	approved	TBC
28	Three Kingdoms	三国：战策长河	Tencent	Strategy	na	TBC
29	New Three Kingdoms	新三国：荣耀再起	Zong Shen Guan Hai	Strategy	approved	TBC
30	Project: OO	Project: OO	Tencent	RPG	na	TBC
31	Project: Fate	代号：天命	Tencent	Strategy	na	TBC
32	Project: Guofeng	代号：国风	Tencent	TBC	na	TBC
33	Fate Trigger	命运扳机	Tencent, Saroasis Studios	TPS	approved	TBC
34	Light of Motiram	荒野起源	Tencent	Survival	na	TBC
35	Honor of Kings: Dawn	王者荣耀星之破晓	Tencent	Action	approved	TBC
36	Sword Snow Stride	雪中悍刀行	Tencent	MMORPG	approved	TBC
37	Don't Starve: Newhome	饥荒：新家园	Century Huatong, Klei	Sandbox	approved	TBC
38	Uncharted Waters	大航海时代：海上霸主	Koei	Simulation	approved	TBC
39	A Mortal's Journey to Immortality	凡人修仙传：星海仙途	Tencent, China Lit	RPG	approved	TBC
40	Calabiyau	卡拉彼丘	iDreamSky	TPS	approved	TBC
41	Secret Knife	秘境刀仔	Tencent	TBC	approved	TBC
42	MT5	我叫MT5	Tencent	MMORPG	na	TBC
43	Chio Hero	奇奥英雄传	Gutou Games	Board & Card	approved	TBC
44	Metal Revolution	金属对决	Next Studios	Action	approved	TBC
45	Interstellar Utopia (mobile + PC)	星际理想国	Pixel Game	Sandbox	approved	TBC
46	The War of Dragon Stones	龙石战争	Tencent	Strategy	approved	TBC
47	Tian Tian Fei Hu Dui	天天飞虎队	Tencent	TPS	na	TBC
48	Code: To Jin Yong	代号：致金庸	Tencent	MMORPG	na	TBC
49	Xiu Xian Shi Dai	修仙时代	Electronic Soul	RPG	approved	TBC
50	Phantom Blade Zero	影之刃零	Soul Frame Game	ARPG	na	TBC
51	Cronos: The New Dawn	Cronos: The New Dawn	Bloober Team	Survival	na	TBC
52	Die Zhen Ying Xiong	叠战英雄	Tencent	TBC	approved	TBC
53	Legends of Runeterra (China)	符文大地传说	Riot Games	Board & Card	na	TBC
54	Project L	Project L	Riot Games	Action	na	TBC
55	Project F	Project F	Riot Games	TBC	na	TBC
56	Hunting	狩	Tencent	TBC	approved	TBC
57	Handmade Planet	手工星球	Tencent	Sandbox	approved	TBC
58	Chuanqi Tianxia	传奇天下	Shengqu Games	MMORPG	approved	TBC
59	The Division Resurgence	全境封锁：曙光	Ubisoft	TPS	approved	TBC
60	Assassin's Creed Jade	刺客信条：侠隐	Ubisoft, Tencent	ARPG	approved	TBC
61	Assassin's Creed Black Flag Resynced	刺客信条：黑旗记忆重置	Ubisoft, Tencent	ARPG	na	TBC
62	Heroes of Might and Magic	魔法门之英雄无敌：领主争霸	Ubisoft	Strategy	approved	TBC
63	Rainbow Six Siege	彩虹六号：攻势	Ubisoft	FPS	approved	TBC
64	Tides of Annihilation	湮灭之潮	Eclipse Glow Games	ARPG	na	TBC (offline testing in summer)
65	Cosmo Tales	Cosmo Tales	Bohemia Interactive	TPS	na	TBC
66	Everwind	风屿奇航	Bohemia Interactive	Sandbox	na	TBC
67	New Eternal Love	新三生三世十里桃花	Tencent	Board & Card	approved	TBC
68	Haikyu!! Fly High	排球少年：新的征程	KLab, Changyou, Prophet Games	Sports	approved	TBC
69	Guardians of the Dafeng	大拳打更人	Tencent	MMORPG	approved	TBC
70	Yan Wu	偃武	Tencent	Strategy	approved	TBC
71	Legends of the Wild	荒野国度	Whynot Games	Strategy	approved	TBC
72	Star Era	群星纪元	Tencent	Strategy	na	TBC
73	Slay the Spire	尖塔奇兵	Mega Crit Games	Board & Card	approved	TBC
74	New Nobunaga's Ambition	新信長之野望	Koei	Strategy	na	TBC
75	The Three Kingdoms	乱世逐鹿	Tencent	Strategy	approved	TBC
76	Wu Dong Ji Guang	舞动极光	Tencent	Music	na	TBC
77	Ace Force 2	王牌战士2	Tencent	FPS	approved	TBC
78	Story of Seasons	牧场物语	Tencent, Marvelous	Simulation	na	TBC
79	The Great Ruler	大主宰：大千世界	Tencent	MMORPG	na	TBC
80	Kindlings of Civilization	文明火种	Heimai Games	Simulation	approved	TBC
81	Bad North	北方绝境	Raw Fury	Strategy	na	TBC
82	Stardew Valley	星露谷物语	ConcernedApe	Simulation	na	TBC
83	The Silver Guardian: Confrontation	银之守墓人：对决	Oohhoo Games	Board & Card	approved	TBC
84	Chuchel	毛线先生	Amanita Design	Casual	na	TBC
85	Chinese Parents	中国式家长	Coconut Island Studio	Casual	na	TBC
86	Distrust	极地诡梦	Warm Lamp Games	Strategy	na	TBC
87	The Night Dawn	暗夜破晓：契约	Kingnet	MMORPG	approved	TBC
88	Cong Qian You Zuo Jian Ling Shan	从前有座剑灵山	Kaiser Culture	RPG	na	TBC
89	Fullmetal Alchemist	钢之炼金术师	Shogakukan	TBC	approved	TBC
90	Wu Lin Xian Xia	武林闲侠	Tencent	Board & Card	approved	TBC
91	MT Auto Chess	我叫MT自走棋	Tencent	Strategy	approved	TBC
92	My Hero Academia: Strongest Hero	我的英雄学院：最强英雄	Xinyuan Studio	RPG	na	TBC
93	Angry Birds Blast!	愤怒的小鸟：梦幻岛	NA	Casual	approved	TBC
94	Dark Dungeon Survival - Lophis Fate	洛菲斯的呼唤	Fatiao Games	Board & Card	na	TBC
95	Cats Atelier	奇喵的画家	Cocone	Casual	na	TBC
96	WonderWorlds	小小寻梦星球	Tequila Works	Sandbox	na	TBC
97	Badland Brawl	迷失之地：乱斗	Frogmind	Casual	na	TBC
98	Football Manager Mobile 2018	足球经理移动版2018	Sega	Sports	na	TBC
99	Wu Xu Ci Yuan	无序次元	Tencent	RPG	na	TBC
100	Hypnos	修普诺斯	Ourpalm	Board & Card	approved	TBC
101	Die: Jing Zhe	谍：惊蛰	Hello Meow Studio	Strategy	na	TBC
102	Strongest Demon Fighter	最强魔斗士	Tencent	TPS	approved	TBC
103	Bring You Home	带你回家	Alike Studio	Strategy	approved	TBC
104	Mao Mi Bie Zhui Wo	猫咪别追我	Giant Network	Casual	approved	TBC
105	Wove	洼	Tencent	Music	approved	TBC
106	Set Off! Lord	出发！领主大人	Tencent	Strategy	approved	TBC
107	Pavlov is Busy	巴甫洛夫很忙	Tencent	Casual	na	TBC
108	Yan Qiu Ling	雁丘陵	Tencent	Casual	na	TBC
109	Health Battle	健康保卫战	Tencent	Casual	approved	TBC

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Source: Company Reports, NPPA, data.ai, Citi Research

PC games performance

LoL PC has commenced Mid-Season Invitational starting Jun 28

LoL PC has commenced its Mid-Season Invitational as the second global tournament between Jun 28-Jul 12 which will be held in Daejeon in South Korea. This year, 11 teams from Korea, China, EMEA, rest of APAC, North America and Brazil will participate from play-in and bracket stages to compete for a prize pool of US$2mn (US$500K for champion, US$300/240K for 1st/2nd runner-up).

Nexon 2Q26 guidance

Nexon has not yet released the earnings date for its 2Q26 results. To recap during 1Q26 results call, Nexon guided 2Q26 China revs to be JPY16.78bn-20.82bn, representing -38% to -23% yoy or -45% to -31% yoy on constant currency. For *DnF Mobile*, management expects revenues to decline yoy in 2Q26 as the monetization initiatives tied to the Apr update fell below management expectations, yet management plans to leverage the Jun anniversary event to build momentum ahead of the major update aligned with the Oct National Day holiday and a new raid content. For *DnF* PC, management expects yoy revenue to decline as the May anniversary update mainly aims to increase player base through major promotions followed by new co-developed content from Tencent by summer.

Tencent Video updates

In the drama category, iQIYI was the standout performer, appearing on 7 of the Top 10 titles. Tencent Video was a close rival with 5 top dramas ranking the top 10 in 1H26, per Enlightent Data. In variety shows, Mango TV was the most distinctive player, owning 4 exclusive titles. iQIYI and Tencent Video once again dominated the high-viewership tier jointly, co-broadcasting the #1 show *HaHaHaHaHa S6* and #2 *Keep Running S10*, per Enlightent Data.

Figure 19. 1H26 top 10 drama and variety show by viewership

Dramas

Rank	Program Name	Program Name	Viewership	Broadcasting Platform(s)
1	逐玉	Pursuit of Jade	3.43B	iQIYI + Tencent Video
2	主角	The Lead	1.86B	Tencent Video
3	刑雅2	Xing Ya Season 2	1.43B	iQIYI
4	蜜语纪	The Epoch of Miyu	1.32B	iQIYI + Tencent Video
5	太平年	Swords Into Plowshares	1.06B	iQIYI, Tencent Video, Mango
6	低智商犯罪	Born with Luck	930M	iQiyi
7	唐宫奇案之青霓凤凰	Tang Palace Strange Cases: The Azure Phoenix	920M	Youku
8	朝阳似我	Shine On Me	880M	Tencent Video
9	家业	The Heir	840M	iQiyi
10	成何体统	How Dare You!?	790M	iQiyi

Variety shows

Rank	Program Name	Program Name	Viewership	Broadcasting Platform(s)
1	哈哈哈哈哈第6季	HaHaHaHaHa Season 6	890M	iQIYI + Tencent Video
2	奔跑吧第10季	Keep Running Season 10	500M	iQIYI, Tencent Video, Youku
3	乘风2026	Sisters Who Make Waves S7	450M	Mango TV
4	大侦探第十一季	Who's the Murderer Season 11	380M	Mango TV
5	宇宙闪烁请注意	Wander Together	380M	iQIYI
6	你好，星期六2026	Hello Saturday 2026	300M	Mango TV
7	奔跑吧·天路篇	Keep Running: The Heavenly Road	200M	iQIYI, Tencent Video, Youku
8	现在就出发第3季	Natural High Season 3	180M	Tencent Video
9	魔力歌先生	Mr. Magic Song	170M	Tencent Video
10	妻子的浪漫旅行2026	Viva La Romance 2026	160M	Mango TV

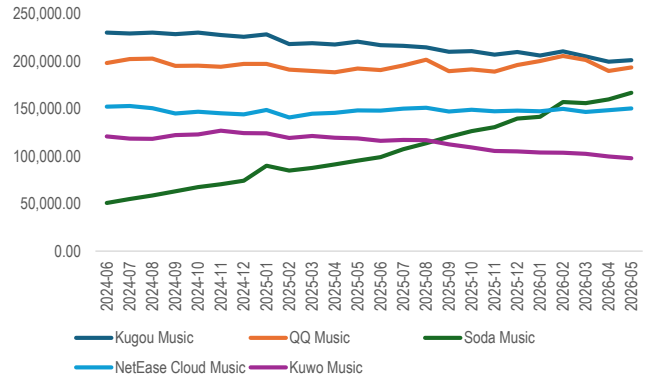
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Source: Citi Research, Enlightent Data

QM of music platforms

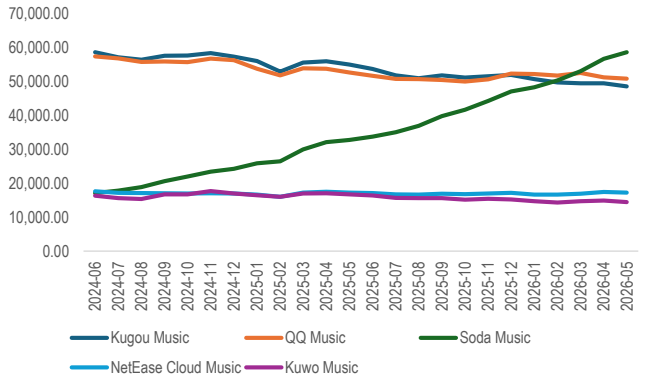
As of May 2026, MAU of Kugou Music ranked No.1 at 201mn, -9% yoy, vs QQ Music at 194mn (+1% yoy) and Soda Music at 167mn (+75% yoy). As of May 2026, DAU of Soda Music (59mn) surpassed QQ Music (51mn) and Kugou Music (49mn). Time spent of Kugou Music, QQ Music, and Soda Music was 23bn/17bn/16bn mins, and average time spent per user was 116 mins/88 mins/96 mins respectively.

Figure 20. MAU (k)



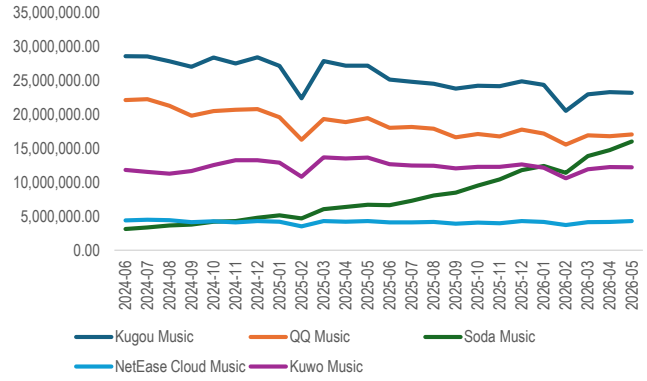
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Source: Citi Research, Questmobile

Figure 21. DAU (k)



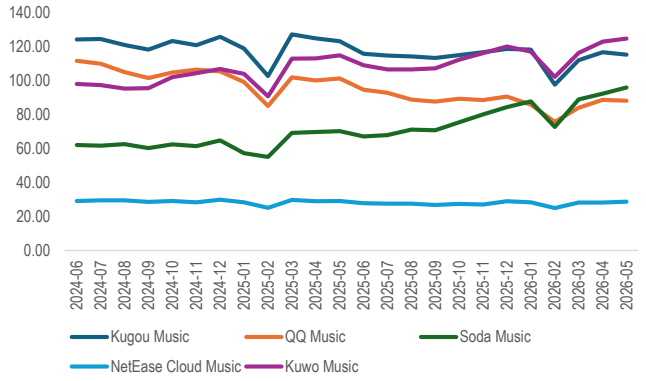
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Source: Citi Research, Questmobile

Figure 22. Time spent (k mins)



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Source: Citi Research, Questmobile

Figure 23. Average time spent per MAU (mins)



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Source: Citi Research, Questmobile

Buyback update till Jul 3 (US$3.2bn in 2026 YTD)

Post 1Q26 print in mid-May to early-Jul 2026 as of July 3rd, Tencent had repurchased 34.5mn shares for a total consideration of HK$15.3bn or US$1.9bn within 32 trading days, implying average cost per share of HK$443.2. The total buyback amount is higher than last period (from 4Q25 print to prior to 1Q26 blackout or end-Mar to early-Apr 2026) where a total of 7.61mn shares for a total consideration of HK$3.78bn or US$482mn, implying average cost per share of HK$497.1. Given the typical shorter open window period between full year result and 1Q print, there are limited days Tencent can execute its buyback program post 4Q25 print. Nevertheless, post the 1Q26 print, as mgmt also noted there has been

dislocation of Tencent share price, the company has stepped up more aggressively on its buyback program with average of HK$500mn per day. There is one more week (July 6-10th) before the blackout period kicks in and if we assume the daily buyback momentum stable around HK$500mn per day, we reconcile there could be additional HK$2.5bn worth of shares to be bought back and could suggest the total amount of buyback could reach HK$17.8bn or US$2.27bn during this open window period. YTD (as of July 3rd), we reconcile Tencent bought back a total of 52.33mn shares for a total consideration of US$3.2bn or HK$25.4bn.

Figure 24. Tencent Share Buyback

Date	Number of shares	Highest price (HKD)	Lowest price (HKD)
Jul-2026	2,295,000	444	430
Jun-2026	22,034,100	476	411
May-2026	10,186,000	469	420
Apr-2026	5,161,000	515	485
Mar-2026	2,445,000	506	476
Jan-2026	10,205,000	638	601
Dec-2025	22,040,000	626	593
Nov-2025	9,232,000	641	607
Oct-2025	4,916,000	683	648
Sep-2025	19,152,000	667	591
Aug-2025	9,191,000	620	583
Jul-2025	7,017,000	508	493
Jun-2025	20,669,000	521	490
May-2025	9,784,000	524	496
Apr-2025	8,430,000	511	420
Mar-2025	5,924,000	518	495
Jan-2025	37,060,000	425	365

Source: Company Reports, Citi Research

Assessing Investment Portfolio

To recall during Tencent's 1Q26 results call (link), management noted that it believes the company has generally sustained good returns by managing product portfolio over their full life cycle. Management remains confident in the franchise value creation to enjoy a lengthy harvest period after incubation period to drive a healthy return on sunk investment. Management will carefully balance their short-term and long-term investments to unlock more business opportunities.

During investor webinar post 1Q26 results (link), management also noted capex and buyback being important uses of capital especially as management views the current Tencent share price as dislocated. Mgmt sees this as opportunistic timing to step up more aggressively on its buyback efforts, and if necessary, mgmt is willing to tap into its investment portfolio to fund its share buyback.

Recently on Jul 6 (link), Tencent has disposed 40% of its ownership in Kuaishou through a block trade sale, reducing its stake from 15.68% to 9.37%.

While Tencent's core gaming and advertising businesses generate strong cash flow, the significant and potentially unpredictable costs of its AI initiatives, coupled with share price underperformance from a broader sector weakness, necessitate a strategic re-evaluation of its capital allocation. Consequently, we believe the

company will continue to evaluate divesting from its portfolio of mature or less strategic companies that offer limited future synergies. This rotation will likely free up capital to increase investments in high-priority, AI-related fields such as models, chips, healthcare, and infrastructure. Furthermore, we expect management to continuously weigh the returns of investing in its own shares against its portfolio of companies, with opportunistic buybacks, strategic AI investments, and AI-powered core business growth remaining the key priorities over maintaining less strategic holdings.

Estimates revision

We have kept our existing estimates unchanged for this report.

Figure 25. Citi estimate revisions

	Net revenues (Rmb m)			Non- GAAP Net Profit (Rmb m)			Non-GAAP Diluted EPS (Rmb)		
Rmb (mn except per share data)	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
2Q26E	201,729	201,729	0.0%	66,250	66,250	0.0%	7.22	7.22	0.0%
3Q26E	210,032	210,032	0.0%	68,227	68,227	0.0%	7.44	7.44	0.0%
2026E	**820,970**	**820,970**	**0.0%**	**267,621**	**267,621**	**0.0%**	**29.18**	**29.18**	**0.0%**
2027E	**893,678**	**893,678**	**0.0%**	**283,476**	**283,476**	**0.0%**	**30.91**	**30.91**	**0.0%**
2028E	**967,569**	**967,569**	**0.0%**	**313,569**	**313,569**	**0.0%**	**34.20**	**34.20**	**0.0%**

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Source: Citi Research Estimates

Figure 26. Citi detail revenue estimates revision

	2Q26E			3Q26E			2026E			2027E			2028E		
Rmb (mn)	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Total online games	**64,124**	**64,124**	**0.0%**	**68,364**	**68,364**	**0.0%**	**260,119**	**260,119**	**0.0%**	**281,590**	**281,590**	**0.0%**	**302,891**	**302,891**	**0.0%**
yoy growth rate %	***8.3%***	***8.3%***		***7.5%***	***7.5%***		***7.7%***	***7.7%***		***8.3%***	***8.3%***		***7.6%***	***7.6%***	
PC gaming	11,973	11,973	0.0%	12,933	12,933	0.0%	49,524	49,524	0.0%	49,296	49,296	0.0%	49,106	49,106	0.0%
Mobile gaming	52,151	52,151	0.0%	55,431	55,431	0.0%	210,595	210,595	0.0%	232,294	232,294	0.0%	253,785	253,785	0.0%
Smartphone games	**68,752**	**68,752**	**0.0%**	**73,141**	**73,141**	**0.0%**	**280,687**	**280,687**	**0.0%**	**306,857**	**306,857**	**0.0%**	**335,735**	**335,735**	**0.0%**
yoy growth rate %	*16.8%*	*16.8%*		*16.8%*	*16.8%*		*18.3%*	*18.3%*		*9.3%*	*9.3%*		*9.4%*	*9.4%*	
Domestic Games	**43,632**	**43,632**	**0.0%**	**45,796**	**45,796**	**0.0%**	**175,893**	**175,893**	**0.0%**	**188,958**	**188,958**	**0.0%**	**202,185**	**202,185**	**0.0%**
yoy growth rate %	*8.0%*	*8.0%*		*7.0%*	*7.0%*		*7.1%*	*7.1%*		*7.4%*	*7.4%*		*7.0%*	*7.0%*	
International Games	**20,492**	**20,492**	**0.0%**	**22,568**	**22,568**	**0.0%**	**84,226**	**84,226**	**0.0%**	**92,632**	**92,632**	**0.0%**	**100,708**	**100,708**	**0.0%**
yoy growth rate %	*9.0%*	*9.0%*		*8.5%*	*8.5%*		*9.0%*	*9.0%*		*10.0%*	*10.0%*		*8.7%*	*8.7%*	
Total community and platform	**32,180**	**32,180**	**0.0%**	**33,108**	**33,108**	**0.0%**	**128,566**	**128,566**	**0.0%**	**134,609**	**134,609**	**0.0%**	**140,860**	**140,860**	**0.0%**
yoy growth rate %	***0.0%***	***0.0%***		***2.6%***	***2.6%***		***0.7%***	***0.7%***		***4.7%***	***4.7%***		***4.6%***	***4.6%***	
Community and open platforms	18,470	18,470	0.0%	18,520	18,520	0.0%	72,588	72,588	0.0%	73,277	73,277	0.0%	73,833	73,833	0.0%
Non-mobile game	13,710	13,710	0.0%	14,588	14,588	0.0%	55,977	55,977	0.0%	61,331	61,331	0.0%	67,027	67,027	0.0%
Online advertising	**42,553**	**42,553**	**0.0%**	**42,766**	**42,766**	**0.0%**	**172,116**	**172,116**	**0.0%**	**196,822**	**196,822**	**0.0%**	**221,346**	**221,346**	**0.0%**
yoy growth rate %	***19.0%***	***19.0%***		***18.0%***	***18.0%***		***18.7%***	***18.7%***		***14.4%***	***14.4%***		***12.5%***	***12.5%***	
Others	**62,872**	**62,872**	**0.0%**	**65,794**	**65,794**	**0.0%**	**260,169**	**260,169**	**0.0%**	**280,657**	**280,657**	**0.0%**	**302,472**	**302,472**	**0.0%**
yoy growth rate %	***9.6%***	***9.6%***		***8.3%***	***8.3%***		***9.5%***	***9.5%***		***7.9%***	***7.9%***		***7.8%***	***7.8%***	
Fintech and Business services	**60,534**	**60,534**	**0.0%**	**63,410**	**63,410**	**0.0%**	**249,816**	**249,816**	**0.0%**	**270,101**	**270,101**	**0.0%**	**291,709**	**291,709**	**0.0%**
yoy growth rate %	*9.0%*	*9.0%*		*9.0%*	*9.0%*		*8.9%*	*8.9%*		*8.1%*	*8.1%*		*8.0%*	*8.0%*	
Cloud revs	14,019	14,019	0.0%	15,953	15,953	0.0%	59,445	59,445	0.0%	69,688	69,688	0.0%	79,668	79,668	0.0%
yoy growth rate %	*24.0%*	*24.0%*		*23.0%*	*23.0%*		*22.8%*	*22.8%*		*17.2%*	*17.2%*		*14.3%*	*14.3%*	
Total revenues	**201,729**	**201,729**	**0.0%**	**210,032**	**210,032**	**0.0%**	**820,970**	**820,970**	**0.0%**	**893,678**	**893,678**	**0.0%**	**967,569**	**967,569**	**0.0%**
yoy growth rate %	***9.3%***	***9.3%***		***8.9%***	***8.9%***		***9.2%***	***9.2%***		***8.9%***	***8.9%***		***8.3%***	***8.3%***	
Gross profit	**114,827**	**114,827**	**0.0%**	**119,361**	**119,361**	**0.0%**	**464,787**	**464,787**	**0.0%**	**508,667**	**508,667**	**0.0%**	**554,356**	**554,356**	**0.0%**
yoy growth rate %	*9.3%*	*9.3%*		*9.7%*	*9.7%*		*10.0%*	*10.0%*		*9.4%*	*9.4%*		*9.0%*	*9.0%*	
GPM	56.9%	56.9%		56.8%	56.8%		56.6%	56.6%		56.9%	56.9%		57.3%	57.3%	
Non-GAAP Operating profit	**73,202**	**73,202**	**0.0%**	**75,392**	**75,392**	**0.0%**	**295,678**	**295,678**	**0.0%**	**312,097**	**312,097**	**0.0%**	**344,505**	**344,505**	**0.0%**
yoy growth rate %	*5.7%*	*5.7%*		*3.9%*	*3.9%*		*5.4%*	*5.4%*		*5.6%*	*5.6%*		*10.4%*	*10.4%*	
Non-GAAP OPM	36.3%	36.3%		35.9%	35.9%		36.0%	36.0%		34.9%	34.9%		35.6%	35.6%	
Non-GAAP net profit	**66,250**	**66,250**	**0.0%**	**68,227**	**68,227**	**0.0%**	**267,621**	**267,621**	**0.0%**	**283,476**	**283,476**	**0.0%**	**313,569**	**313,569**	**0.0%**
yoy growth rate %	*5.1%*	*5.1%*		*-3.3%*	*-3.3%*		*3.1%*	*3.1%*		*5.9%*	*5.9%*		*10.6%*	*10.6%*	
Non-GAAP NM	32.8%	32.8%		32.5%	32.5%		32.6%	32.6%		31.7%	31.7%		32.4%	32.4%	

Source: Bloomberg, Citi Research Estimates

Figure 27. Citi estimates vs Bloomberg consensus

	Total revenues (RMB m)			Non-GAAP Net Profit (RMB m)			Non-GAAP Diluted EPADS (RMB)		
RMB m (except per share data)	Citi	Consensus	% Dif	Citi	Consensus	% Chg	Citi	Consensus	% Chg
2Q26E	201,729	203,855	*-1.0%*	66,250	69,144	*-4.2%*	7.22	7.53	*-4.1%*
3Q26E	210,032	212,443	*-1.1%*	68,227	71,115	*-4.1%*	7.44	7.74	*-3.8%*
2026E	**820,970**	**829,137**	***-1.0%***	**267,621**	**276,364**	***-3.2%***	**29.18**	**30.18**	***-3.3%***
2027E	**893,678**	**907,463**	***-1.5%***	**283,476**	**303,908**	***-6.7%***	**30.91**	**33.46**	***-7.6%***
2028E	**967,569**	**994,837**	***-2.7%***	**313,569**	**337,933**	***-7.2%***	**34.20**	**37.14**	***-7.9%***

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Source: Bloomberg, Citi Research Estimates

2Q26E Preview

Tencent will report 2Q26 results after HK market close on Aug 12th.

- **Total revs and net profit –** We model 2Q26 total revs to up 9.3% yoy to Rmb201.7bn and non-GAAP net profit to +5.1% yoy to Rmb66.25bn or 32.8% margin, vs. Bloomberg consensus of Rmb203.9bn (+10.5% yoy) and Rmb69.1bn (34% margin).

- **VAS and games –** We forecast total VAS +5.4% yoy to Rmb96.3bn with total online games +8.3% yoy to Rmb64.1bn and community and platform revs +0.0% yoy to Rmb32.2bn.

- **Domestic vs international games –** We forecast domestic games to +8% yoy to Rmb43.6bn driven by continued strength of *Delta Force,* and stable but softer seasonality performance of *HoK* and *Peacekeeper* and model international games +9% yoy to Rmb20.5bn attributed to *Call of Duty Mobile*, *PUBG Mobile* and *Valorant.*

- **Advertising –** We model online ad revs +19% yoy to Rmb42.5bn benefited from new ad load in Video Account and better eCPM on the back of continued Ad tech improvement.

- **Fintech and business services –** We model FBS revs up 9% yoy to Rmb60.5bn, of which cloud revs +24% yoy to Rmb14bn and fintech revs +5.2% yoy to Rmb46.5bn.

- **Margins –** We model total gross margin of 56.9%, vs. 56.6% in 1Q26 and 56.9% in 2Q25. We forecast VAS, online ad and FBS gross margins at 62%, 60% and 51%, vs 62.6%, 55% and 52.1% in 1Q26. We forecast non-GAAP OpM of 36.3%, vs. 38.5% in the last quarter and 37.5% in 2Q25.

- **Net profit and margins –** We model GAAP profit of Rmb55.3bn (27.4% margin) and non-GAAP net profit of Rmb66.25bn or EPS of Rmb7.22 (+5.1% yoy or 32.8% net margins) vs Bloomberg consensus of Rmb69.1bn or Rmb7.53/share.

- **Expectation:** We expect Tencent to report solid top-line growth with potential upside risk to our estimates on gaming revs while potential pressure on FBS for both our and consensus forecast. We also note that our non-GAAP Op and non-GAAP NP assumption is more conservative than consensus. That said, we believe Tencent will continue to disclose the operating profit with and without AI investment to better reflect its continued AI investment.

- **Focus on the call:** 1) feedback on recent AI agent testing on WeChat; 2) next iteration and version of HY model; 3) AI investment and token usage; 4) monetization of WorkBuddy and other AI product; 5) existing games performance and upcoming new games pipeline; 6) ad load, eCPM and ad budget sentiment and demand; 7) macro outlook for 2H26 and 8) investment portfolio, buyback and AI investment.

3Q26E outlook

We model 3Q26 total revs to up 8.9% yoy to Rmb210bn and non-GAAP NP to decline 3.3% yoy to Rmb68.2bn (32.5% margin) vs Bloomberg consensus of Rmb212.4bn (+10.1% yoy) and Rmb71.1bn (33% margin).

Maintain Buy and adjust TP to HK$758

While we kept our estimates unchanged, our TP has been adjusted slightly to HK$758 (from HK$763) mainly reflecting the latest change in its investment portfolio valuation. Our TP implies 22.8x 2026E and ~21.5x 2027E P/E.

- **Online games –** We apply 12x P/E (unchanged) to 2027E estimated games net profit of Rmb133.8bn and yield a valuation of HK$194 per share or 26% of our target price.
- **Online advertising –** We apply 20x P/E (unchanged) to 2027E estimated ads profit of Rmb83.6bn and yield a valuation of HK$202 per share or 27% of target price.
- **Social network –** While we attribute the non-gaming revs (community platform revs) as overall social network revs, given the WeChat, QQ and other Tencent apps, we apply 25x (unchanged) P/E to the estimated profit of Rmb61.9bn and yield a valuation of HK$187 per share or 25% of target price.
- **Fintech –** We apply 15x P/E to estimated profit of Rmb48.8bn and yield a valuation of HK$88 per share or 12% of target price.
- **Cloud/business services –** We apply 5x P/S (average of China peers) to 2027E estimated Business services revs of Rmb69.7bn and yield a valuation of HK$42 per share or 6% of target price.
- **Investment portfolio –** We apply 30% discount to equity stake in publicly listed investment portfolio and result to HK$46/share or 6% of target price.

Into 2H26, we expect focus remain on Agentic AI testing within WeChat, integration of Mini Program with Hy3, release of next iteration/upgrade of Hy model and capex spend. Moreover, we believe Tencent will continue to evaluate its investment portfolio with rotation and rebalance between strategic AI-related investment vs maturing industry with limited future synergies. Opportunistic buyback and AI investment as well as strengthening core business growth empowering with AI enhancement will remain as key priorities, in our view.

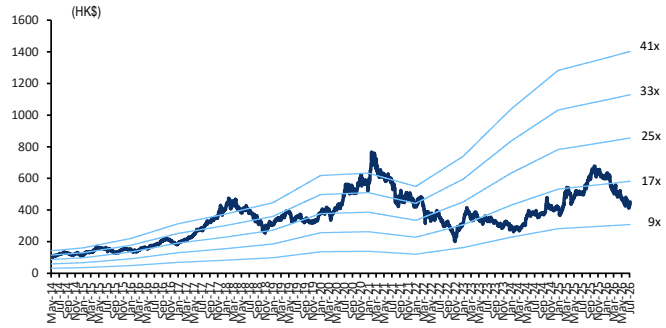
Maintain Buy and continue to believe Tencent possess catalysts to re-rate once it has proven successful Agentic AI and overall AI strategies.

Figure 28. SOTP valuation of Tencent

	Revenues in 2027E (Rmb mn)	Non-GAAP Profit in 2027E (Rmb mn)	PE Multiple (P/S for Cloud)	Valuation (HK$ mn)	Value Per Share (HK$)	Valuation (US$ mn)	% of implied value
Online gaming	281,590	133,755	12	1,774,636	194	223,955	26%
Online advertising	196,822	83,649	20	1,849,736	202	233,432	27%
Social Network (WeChat + QQ)	134,609	61,920	25	1,711,547	187	215,993	25%
Fintech	200,413	48,851	15	810,177	88	102,242	12%
Cloud (business services)	69,688	6,272	5	385,251	42	48,618	6%
Other business	10,556	(50,971)		-	-	-	0%
Investment Portfolio (at 30% discount)				420,511	46	53,615	6%
Total	**893,678**	**283,476**		**6,951,859**	**758**	**877,856**	**100%**

Source: Citi Research Estimates

Figure 29. Tencent – Forward PE



Source: dataCentral, Citi Research

Figure 30. Tencent – PE Band



Source: dataCentral, Citi Research

Figure 31. Income statement

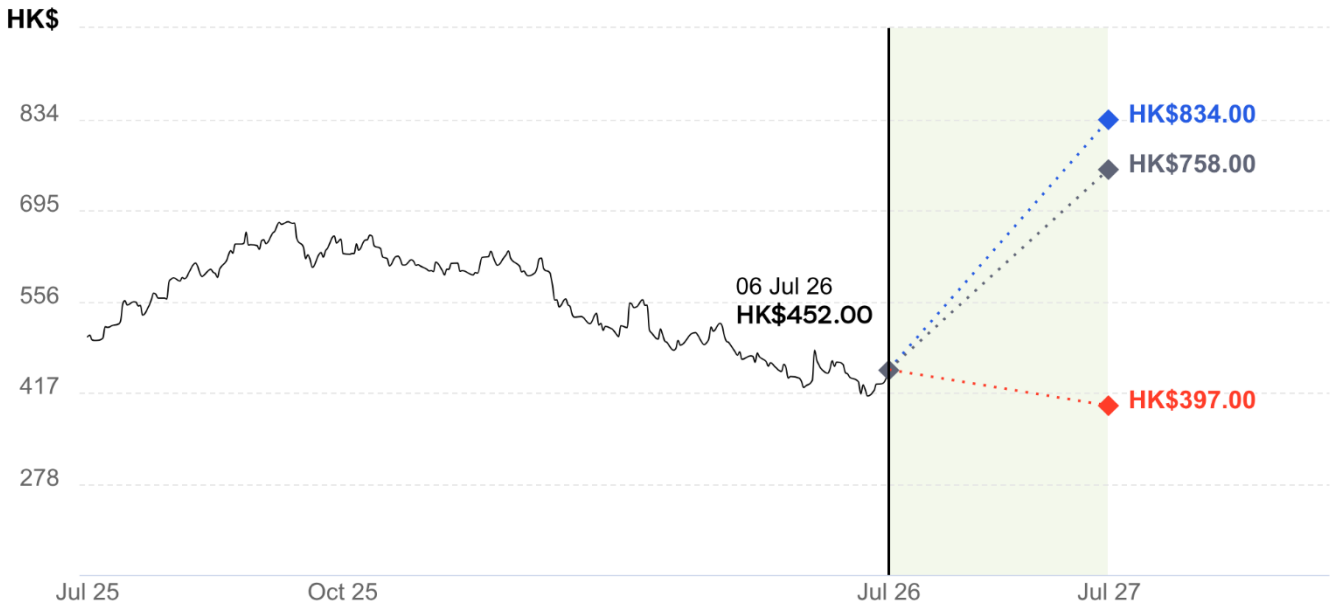
Year to 31 Dec (Rmb mn)	2025	1Q26	2Q26E	3Q26E	4Q26E	2026E	2027E	2028E
Revenues								
VAS	369,281	96,110	96,304	101,472	94,798	388,685	416,199	443,751
Total online games	241,600	64,200	64,124	68,364	63,431	260,119	281,590	302,891
- Domestic Games	164,300	45,400	43,632	45,796	41,065	175,893	188,958	202,185
- International Games	77,300	18,800	20,492	22,568	22,366	84,226	92,632	100,708
Total community and platform	127,681	31,910	32,180	33,108	31,368	128,566	134,609	140,860
Online advertising	144,973	38,171	42,553	42,766	48,627	172,116	196,822	221,346
Media advertising	19,052	5,154	4,488	4,348	5,410	19,400	19,073	19,521
Social and others advertising	125,921	33,017	38,065	38,418	43,216	152,716	177,748	201,825
Others	237,512	62,177	62,872	65,794	69,326	260,169	280,657	302,472
Total revenues	**751,766**	**196,458**	**201,729**	**210,032**	**212,751**	**820,970**	**893,678**	**967,569**
YoY change	*13.9%*	*9.1%*	*9.3%*	*8.9%*	*9.5%*	*9.2%*	*8.9%*	*8.3%*
Cost of revenues								
VAS	146,985	35,983	36,596	38,559	37,445	148,583	161,253	171,253
Online advertising	61,584	17,181	17,021	17,106	18,964	70,273	77,417	87,067
Others	120,604	32,029	33,285	35,005	37,008	137,327	146,340	154,893
Total cost of revenues	329,173	85,193	86,902	90,671	93,417	356,184	385,010	413,213
Gross profit	**422,593**	**111,265**	**114,827**	**119,361**	**119,334**	**464,787**	**508,667**	**554,356**
Gross margin	*56.2%*	*56.6%*	*56.9%*	*56.8%*	*56.1%*	*56.6%*	*56.9%*	*57.3%*
Other operating exp/(income)	3,177	(1,253)	(1,500)	(1,500)	(1,500)	(5,753)	(6,000)	(6,000)
Selling and marketing	41,727	11,343	13,718	13,022	13,829	51,911	54,695	55,372
General and administration	136,127	33,800	38,329	41,586	44,678	158,393	185,682	199,477
Total operating expenses	181,031	43,890	50,546	53,108	57,007	204,551	234,377	248,849
Operating profit	**241,562**	**67,375**	**64,281**	**66,253**	**62,327**	**260,236**	**274,290**	**305,507**
Operating margin	*32.1%*	*34.3%*	*31.9%*	*31.5%*	*29.3%*	*31.7%*	*30.7%*	*31.6%*
Non-GAAP operating profit	**280,656**	**75,627**	**73,202**	**75,392**	**71,458**	**295,678**	**312,097**	**344,505**
Non-GAAP operating margin	*37.3%*	*38.5%*	*36.3%*	*35.9%*	*33.6%*	*36.0%*	*34.9%*	*35.6%*
Finance income, net	(15,130)	(2,979)	(2,979)	(2,979)	(2,979)	(11,916)	(11,516)	(11,116)
Share of loss of jointly controlled entity	23,740	3,620	3,520	3,610	3,600	14,350	14,870	15,390
Share of losses of associates	-	-	-	-	-	-	-	-
Profit before tax	277,249	73,969	70,756	73,009	69,274	287,008	303,289	339,104
Income tax expense	(47,448)	(14,577)	(14,151)	(14,602)	(13,855)	(57,185)	(60,658)	(67,821)
Minority interest	(4,959)	(1,299)	(1,294)	(1,284)	(1,274)	(5,151)	(5,011)	(4,871)
Net income	**224,842**	**58,093**	**55,311**	**57,123**	**54,145**	**224,672**	**237,621**	**266,412**
Net margin	*29.9%*	*29.6%*	*27.4%*	*27.2%*	*25.5%*	*27.4%*	*26.6%*	*27.5%*
Diluted EPS (RMB)	24.15	6.30	6.03	6.23	5.90	24.49	25.91	29.06
Diluted EPS (HKD)	27.11	7.17	6.86	7.09	6.72	27.88	29.49	33.07
Non-GAAP net income	**259,626**	**67,905**	**66,250**	**68,227**	**65,240**	**267,621**	**283,476**	**313,569**
Non-GAAP Net margin	*34.5%*	*34.6%*	*32.8%*	*32.5%*	*30.7%*	*32.6%*	*31.7%*	*32.4%*
Non-GAAP diluted EPS (RMB)	**27.88**	**7.36**	**7.22**	**7.44**	**7.11**	**29.18**	**30.91**	**34.20**
Non-GAAP diluted EPS (HK$)	**31.29**	**8.38**	**8.22**	**8.47**	**8.10**	**33.20**	**35.18**	**38.92**
Diluted shares average (m)	9,244	9,173	9,173	9,172	9,172	9,172	9,170	9,168

Source: Citi Research Estimates

Companies Mentioned:
Tencent Holdings (0700.HK; HK$461.2; 1; 07 Jul 26; 16:10)
Automatic Data Processing Inc (ADP.O; US$239.49; 2; 06 Jul 26; 16:00)
Capcom (9697.T; ¥3325.0; 1; 07 Jul 26; 15:30)
Century Huatong (002602.SZ; Rmb14.5; 1; 07 Jul 26; 15:00)
China Literature (0772.HK; HK$19.9; 1; 07 Jul 26; 16:10)
Electronic Arts Inc (EA.O; US$205.21; 2; 06 Jul 26; 16:00)
Giant Network (002558.SZ; Rmb29.09; 1; 07 Jul 26; 15:00)
iQIYI (IQ.O; US$1.07; 1; 06 Jul 26; 16:00)
Kingnet (002517.SZ; Rmb16.91; 1; 07 Jul 26; 15:00)
Koei Tecmo Holdings (3635.T; ¥1595.5; 3; 07 Jul 26; 15:30)
Kuaishou (1024.HK; HK$40.46; 1; 07 Jul 26; 16:10)
Mango Excellent Media (300413.SZ; Rmb14.71; 1; 07 Jul 26; 15:00)
NC Corp (036570.KS; W255000.0; 1; 07 Jul 26; 15:45)
NetEase (NTES.O; US$130.99; 1; 06 Jul 26; 16:00)
Nexon (3659.T; ¥2337.0; 2; 07 Jul 26; 15:30)
Ourpalm (300315.SZ; Rmb3.92; 3H; 07 Jul 26; 15:00)
Sega Sammy Holdings (6460.T; ¥2443.0; 1; 07 Jul 26; 15:30)
Tencent Music Entertainment (TME.N; US$8.77; 1; 06 Jul 26; 16:00)
Yuanbao (YB.O; US$14.45; 2; 06 Jul 26; 16:00)

Bull/Bear: Tencent Holdings (0700.HK)

HK$ 834.00 ▲85% Upside | HK$ 758.00 ▲68% Upside | HK$ 397.00 ▼12% Downside



Spread 97pp
Current Price and expected returns (upside/downside) as of 06 Jul 2026

BULL Assumptions

- Online gaming multiple of 15x.
- Online advertising multiple of 22x.
- Social network multiple of 26x.

BASE Assumptions

- Online gaming multiple of 12x.
- Online advertising multiple of 20x.
- Social network multiple of 25x.

BEAR Assumptions

- Online gaming multiple of 5x.
- Online advertising multiple of 8x.
- Social network multiple of 8x.

Tencent Holdings

Company description

Founded in 1998, Tencent is a leading Internet company in China engaged in multiple business lines including online games, social networking services, online advertising, and mobile value-added services. It has extended its leadership in PC over to mobile Internet with Mobile QQ and Weixin/WeChat. The company was listed on the main board of Hong Kong Stock Exchange in June 2004.

Investment strategy

We rate Tencent shares as Buy. We are positive on Tencent's overall strategic direction based on its mobile open platform initiatives that positions it to capture the significant opportunities in China's mobile Internet growth over the next few years. Leveraging off its sticky, integrated mobile user platform on WeChat, Tencent should be able to drive earnings growth by monetizing its strengths in mobile advertising, mobile gaming, and mobile payments.

Valuation

Our target price of HK$758 is based on a SOTP approach, which implies 22.8x 2026E and ~21.5x 2027E P/E. Our SOTP is based on the following: 1) Online games – We apply a 12x P/E to our 2027 estimated games net profit of Rmb134bn and yield a valuation of HK$194 per share, or 26% of our target price; 2) Online advertising – We apply a 20x P/E to our 2027 estimated ads profit of Rmb84bn which yields a valuation of HK$202 per share, or 27% of our target price; 3) Social network – While we attribute the non-gaming revs (community platform revs) as overall social network revs, given the WeChat, QQ, and other Tencent apps, we apply a 25x P/E to the estimated profit of Rmb62bn and yield a valuation of HK$187 per share, or 25% of our target price; 4) Fintech – We apply a 15x P/E to our estimated profit of Rmb49bn and yield a valuation of HK$88 per share, or 12% of our target price; 5) Cloud/business services – We apply a 5x P/S (average of China peers) to our 2027 estimated Business services revs of Rmb70bn, which yields a valuation of HK$42 per share, or 6% of our target price; 6) Investment portfolio – We apply a 30% discount to the equity stake in the publicly listed investment portfolio which implies HK$46/share.

Risks

Downside risks that could prevent the Tencent shares from reaching our target price include: i) a faster-than-expected revenue slowdown in core PC games; ii) unsuccessful launches of new mobile games; iii) a decline of Honor of Kings ranking and momentum; iv) a further slowdown in China's economy, which might negatively affect advertising demand; and v) a change in the regulatory environment.

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Appendix A-1

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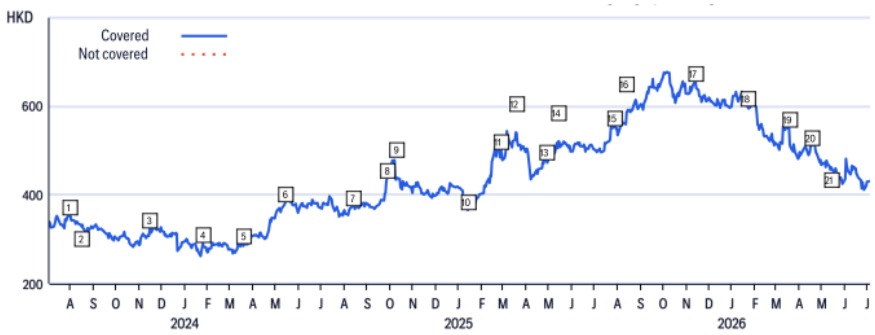
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IMPORTANT DISCLOSURES

Tencent Holdings (0700.HK)

Ratings and Target Price History
Fundamental Research

Analyst: Alicia Yap, CFA



	Date	Rating	Target Price	Closing Price
1	01-Aug-23 12:44:09	1	*491.00	354.00
2	16-Aug-23 17:24:35	1	*496.00	328.80
3	15-Nov-23 18:02:07	1	*497.00	322.60
4	25-Jan-24 16:53:37	1	*455.00	290.80
5	20-Mar-24 17:30:22	1	*459.00	288.80
6	15-May-24 11:33:19	1	*515.00	381.80
7	14-Aug-24 16:25:06	1	*527.00	373.80

	Date	Rating	Target Price	Closing Price
8	29-Sep-24 20:19:06	1	*535.00	437.80
9	10-Oct-24 13:59:11	1	*573.00	438.80
10	13-Jan-25 15:52:08	1	*563.00	366.00
11	26-Feb-25 16:59:25	1	*648.00	501.50
12	19-Mar-25 19:00:37	1	*681.00	540.00
13	28-Apr-25 16:14:07	1	*670.00	478.20
14	14-May-25 17:10:11	1	*695.00	521.00

	Date	Rating	Target Price	Closing Price
15	28-Jul-25 17:17:28	1	*699.00	555.50
16	13-Aug-25 17:51:56	1	*735.00	586.00
17	13-Nov-25 18:35:44	1	*751.00	656.00
18	22-Jan-26 17:55:08	1	*783.00	597.50
19	18-Mar-26 18:21:03	1	*787.00	550.50
20	19-Apr-26 21:30:13	1	*783.00	510.50
21	13-May-26 17:53:36	1	*763.00	462.60

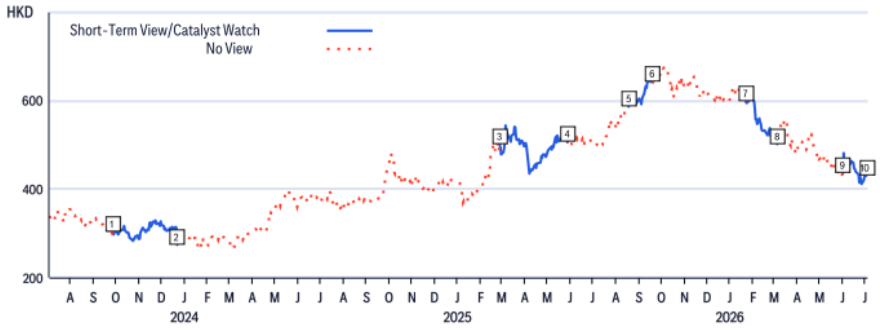
*Indicates Change

Rating/target price changes above reflect Eastern Time

Tencent Holdings (0700.HK)

Short-Term View/Catalyst Watch Research

Analyst: Alicia Yap, CFA



	Date	Action	Expected Direction	Duration	Closing Price
1	27-Sep-23 10:00:45	Add CW	Upside	90 Days	302.00
2	26-Dec-23 22:12:21	Remove CW	Upside	90 Days	274.00
3	26-Feb-25 11:59:25	Add CW	Upside	90 Days	501.50
4	28-May-25 00:26:38	Remove CW	Upside	90 Days	506.00

	Date	Action	Expected Direction	Duration	Closing Price
5	18-Aug-25 01:44:53	Add STV	Upside	30 Days	587.00
6	18-Sep-25 00:18:16	Remove STV	Upside	30 Days	642.00
7	22-Jan-26 12:55:08	Add CW	Upside	90 Days	597.50
8	05-Mar-26 02:14:38	Remove CW	Upside	90 Days	502.00

	Date	Action	Expected Direction	Duration	Closing Price
9	01-Jun-26 23:03:49	Add STV	Upside	30 Days	436.00
10	03-Jul-26 00:35:15	Remove STV	Upside	30 Days	431.20

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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