Tencent Holdings

AI offensive to drive re-rating

16 April 2026

Company Overview

Tencent is an internet company focusing on social communication and online games. Tencent operates WeChat – the largest social communications platform in China with 1.3bn+ monthly active users (MAUs). It is also the largest game developer and publisher in China, with a market share of c.40%. Online games and advertising are key drivers and accounted for c.30% and c.17% of total revenue in FY23. Other revenue streams encompass payment, services, cloud computing, and more.

Investment Overview

Largest social media platform in China. Tencent dominates China's digital landscape with >1.42bn WeChat MAUs. This ecosystem integrates Search, Mini Programs, and Video Accounts. In 4Q25, Games and Marketing Services drove 31% and 21% of total revenue, respectively. Beyond these pillars, the platform scales through FinTech and a now-profitable Cloud segment, which achieved RMB5bn in FY25 adjusted operating profit.

The strategic pivot – front-loaded AI offensive. Management plans to more than double investment in "New AI Products" in 2026, following a RMB18bn spend in FY25. This investment is front-loaded and strategic – akin to Capex – and is comfortably covered by core business profit growth. We favor Tencent's product design strength as the ultimate differentiator over model IQ. We revise FY26F/27F adjusted earnings by -5%/-4% to reflect this disciplined, long-term value capture.

AI + Weixin to drive growth. Tencent is transforming Weixin into an "Agentic Assistant," connecting users with its vast Mini Program and payment ecosystem through autonomous workflows. Supported by a revamped top-tier AI team, the HY 3.0 model (launching Apr'26) marks a significant step-up in multimodal intelligence. Despite prior constraints, GPU capacity will step up through 2026-2027 via domestic and imported supply, ensuring the long-term AI-driven topline trajectory remains intact.

Maintain BUY, TP lowered to HKD770 (prev: HKD800). Our TP is based on SOTP methodology: (1) 20x FY26 adj. PE (unchanged) for its core business (HKD689); and (2) fair value of listed investee companies (HKD81). The lower TP reflects both earnings cut and lower fair value of listed investees. Our TP implies 23x FY26 PE, 0.5SD above its 5-year average of 20x.

Risks

1) Regulatory tightening on the game approval process and anti-trustrelated market practices, (2) irrational market competition in social media segments, (3) further US sanctions such as investment ban, and (4) AI chip supply shortage.

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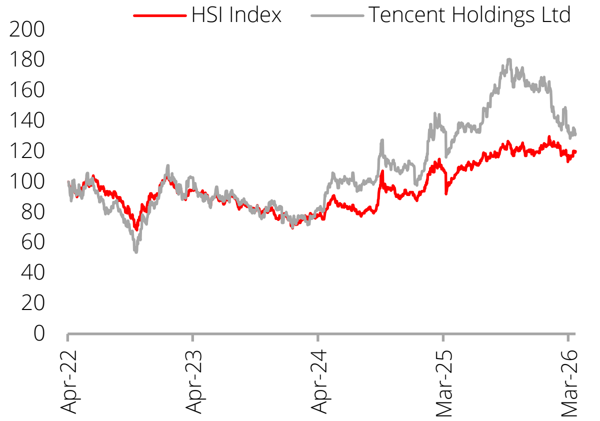
Key Financial Data

Bloomberg Ticker	700 HK
Sector	Media & Entertainment
Share Price (HKD)	493.20
DBS Rating	BUY
12-mth Target Price (HKD)	770.00
Market Cap (USDbn)	568.19
Volume (mn shares)	17.83
Dividend yield (%)	1.20
Fwd. P/E (x)	15.66
P/Book (x)	3.50
ROE (%)	21.13

Closing Price as of 14 Apr 2026
Source: Twelve Data, DBS, Visible Alpha

Indexed Share price vs Composite Index Performance

(normalised)



Source: S&P

Financial Summary (CNYmn)

FY Dec	FY2024 (A)	FY2025 (A)	FY2026 (F)	FY2027 (F)	FY2028 (F)
Sales	660,257	751,766	831,518	917,322	1,011,194
% y/y	*8.4*	*13.9*	*10.6*	*10.3*	*10.2*
Gross Profit	349,246	422,593	475,740	531,711	593,706
% y/y	*19.2*	*21.0*	*12.6*	*11.8*	*11.7*
EBITDA	322,305	366,467	413,486	465,437	521,430
% y/y	*23.4*	*13.7*	*12.8*	*12.6*	*12.0*
Net Profit (Loss)	194,073	224,842	242,790	273,085	306,734
% y/y	*68.4*	*15.9*	*8.0*	*12.5*	*12.3*
FCF	162,473	190,731	207,808	238,206	274,812
% y/y	*(6.9)*	*17.4*	*9.0*	*14.6*	*15.4*
CAPEX	(96,048)	(112,321)	(119,586)	(130,974)	(141,452)
% y/y	*102.6*	*16.9*	*6.5*	*9.5*	*8.0*
EBITDA Margin (%)	48.8	48.7	49.7	50.7	51.6
Net Margin (%)	29.4	29.9	29.2	29.8	30.3
ROA (%)	11.6	11.8	11.2	11.3	11.3
ROE (%)	21.8	21.1	19.2	18.3	17.6
Tax Rate (%)	18.6	17.1	18.5	18.5	18.5

Source: Company, DBS

Valuation Metrics

FY Dec	FY2024 (A)	FY2025 (A)	FY2026 (F)	FY2027 (F)	FY2028 (F)
PE (x)	23.1	19.5	18.1	16.1	14.3
P/B (x)	4.6	3.8	3.2	2.7	2.4
Dividend Yield (%)	0.9	1.1	1.2	1.4	1.5
EV/EBITDA (x)	14.7	12.8	11.0	9.4	8.0
FCF Yield (%)	3.4	4.1	4.6	5.5	6.6
Net DPS (HKD)	4.8	5.9	6.7	7.5	8.4
BV Per Share (HKD)	112.3	140.8	170.8	200.8	234.2

Source: Company, DBS

Credit & Cashflow Metrics

FY Dec	FY2024 (A)	FY2025 (A)	FY2026 (F)	FY2027 (F)	FY2028 (F)
Debt / Equity (x)	0.3	0.3	0.3	0.2	0.2
Net Debt / Equity (x)	0.2	0.2	0.0	cash	cash
Debt / Assets (x)	0.2	0.2	0.2	0.2	0.1
EBITDA / Int Exp (x)	nm	nm	nm	nm	nm
Debt / EBITDA (x)	1.1	1.1	0.9	0.8	0.7
Receivables Days	78.6	75.4	74.1	73.5	73.0
Days Payable	272.4	281.1	288.8	286.1	284.8
Inventory Days	0.6	0.6	0.7	0.6	0.6

Source: Company, DBS

Target Price & Ratings History

S.No.	Date	Closing Price	Target Price	Rating
1	14-Aug-25	HKD586.00	HKD786.00	BUY
2	14-Nov-25	HKD641.00	HKD800.00	BUY
3	19-Mar-26	HKD550.50	HKD770.00	BUY

Note: Share price and Target price are adjusted for corporate actions

Source: DBS

Analysts: Andy YU
Edmond FOK

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HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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