23 Jun 2025

CMB International Global Markets | Equity Research | Sector Update

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Internet

Business model/competitive barrier back in focus

OUTPERFORM (Maintain)

China Internet Sector

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Most internet companies' 1Q25 earnings met or exceeded market expectations, while concerns are mainly around over reduced earnings visibility due to intensifying competition among marketplace platforms. Expanding quality supply, reducing merchant costs, and increasing core user transaction frequency are the priorities. Looking ahead, we believe subsectors and companies having strong business model moats and less vulnerable to subsidy-driven competition may outperform, while firms with established ecosystems/network effects, higher margins, and substantial absolute profits will likely have stronger competitive positioning. **Near term, we recommend**: 1) Defensive online entertainment plays with stable competition and content-driven engagement - Kuaishou (1024 HK) for steady ad growth/AI monetization potential, NetEase (NTES US) for reaccelerating games revenue, and TME (TME US) for steady profit growth on subscriber/ARPPU expansion; 2) OTA plays such as Trip.com Group (TCOM US) for their resilient domestic demand and relative immunity to geopolitical risks; 3) platforms like Boss Zhipin (BZ US) which have higher barriers and operating leverage, and could see rapid profit growth/valuation upside as policy/macro improve. **Longer term, focus on two threads**: 1) high-tech + broad applications + superior business model, e.g., tech leaders with better-than-expected cloud revenue driven by AI or benefiting from AI advantages, such as Alibaba (BABA US) and Tencent (700 HK); 2) service export players in gaming, local services, OTA, and software/cloud services.

- **Focus on high-barrier and high-margin companies**. Under macro uncertainty and intensifying competition, they are better positioned to sustain steady earnings growth and command valuation premiums. 1) Tencent: solid advantages in SNS/gaming/advertising, with rapid growth in high-margin businesses driving resilient overall profitability; 2) NetEase: gaming business remains relatively insulated from macro and consumption headwinds, with strong FY25E earnings supported by evergreen titles and optimized cost/sales expenses; 3) TME: a stable competitive landscape and resilient FY25E profit growth on rising paying users and ARPPU growth; 4) Kuaishou: resilient core commerce growth and incremental revenue opportunities for long-term growth thanks to AI-driven improvements in monetization efficiency.
- **Local services & instant retail:** Near-term earnings visibility has weakened; focus on long-term sustainable competitive advantages. All e-commerce players are optimistic about instant retail and aim to secure a spot in the high-frequency food delivery market. JD.com's strategy of leveraging "national subsidies" to strengthen its instant retail market presence has introduced short-term disruptions to the landscape. We expect industry competition to intensify over the next few quarters, with limited visibility on the scale of incremental investments and their precise impact on profitability in near term, due to rapidly changing dynamics. However, we expect competition to eventually rationalize, amid concerns about declining group-level profits, the transition from rapid growth to a plateau phase, and further regulations to ensure healthy development of the industry. We suggest investors look beyond near-term disruptions and focus more on long-term sustainable competitive advantages when selecting stocks.
- **Sustainable shareholder returns and stable cash-generating capabilities support valuation.** As core businesses mature, beyond exploring new growth drivers, providing sustainable and attractive shareholder returns may help maintain stock valuation. This sustainability stems from stable competitive positioning and steady growth prospects in core operations. We continue to recommend companies likely to maintain high shareholder returns..

Recent report

1. Kuaishou (1024 HK): Inline 1Q25 results; AI monetization accelerating – 28 May
2. Pinduoduo (PDD US): Investment to enhance platform ecosystem, user retention impacted ST earnings – 28 May
3. Meituan (3690 HK): Proactively responding to competition in food delivery market – 27 May
4. Trip.com Group (TCOM US): Resilient revenue growth with investment on track for overseas expansion – 21 May
5. NetEase (NTES US) - Strong 1Q25 results on solid games business and disciplined opex control – 16 May
6. Alibaba (BABA US) - Core earnings a nice beat; Cloud revenue growth has the potential to accelerate further – 16 May
7. Tencent (700 HK) - 1Q25 results beat; AI accelerates business growth – 15 May
8. TME (TME US) - Inline 1Q25 results; online music business maintains solid momentum – 14 May
9. 互联网 - 短期关注防御属性及政策托底下有望受益的公司 – 8 Apr
10. AI 主题报告 - 模型调用成本下降，应用生态有望逐步繁荣 – 26 Feb
11. 互联网 2025 展望：逆风前行，但可以有更多期待 – 12 Dec

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Internet sector: 1Q25 results, full-year forecast update and 2H25 investment strategies

Most leading companies in the sector reported inline or better-than-expected earnings in 1Q25. The miss of certain companies was primarily due to the mounting pressure from overseas business development, larger-than-expected losses from new business investments, and investments on enhancing platform ecosystems and providing user subsidies with an aim to enrich high-quality offerings and increase user stickiness.

Compared with our views in the annual outlook report published in late 2024, we have spotted notable changes in terms of prosperity in the sub-industry and shareholder returns: 1) For the online entertainment sector, it is upholding a robust level of prosperity (e.g. online music and online gaming sectors). 2) For the e-commerce sector, propelled by national subsidy initiatives, those with a competitive edge in self-operated businesses showed improving core business fundamentals, which may enhance the outlook for revenue and earnings growth of core businesses, although this may be partially offset by further investments in the instant retail segment. As for local life services, the sector experienced some pull-back in sentiment due to thriving competition and reduction in revenue due to user subsidies. 3) Shareholder return has been ratcheted down, largely attributed to share price recovery and some sectors' reduction in shareholder return in response to competition. However, the shareholder return of the online music sector showed a slight rise.

Figure 1: Internet: score card on different aspects of sub-sectors

Sub-sectors	Potential room for further increase in online penetration	Revenue growth	Earnings growth	Visiablity on earnings growth	Industry competitive landscape	Resilience of foundamental	Shareholder return	Low regulatory risk
Online music	★☆☆☆☆	★★★☆☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★☆☆	★★★★☆
Online game	★☆☆☆☆	★★☆☆☆	★★★☆☆	★★★★☆	★★★☆☆	★★★★☆	★★★☆☆	★★★☆☆
OTA	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★★☆☆	★★★★☆	★★★☆☆	★☆☆☆☆	★★★★☆
E-commerce	★☆☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★★☆☆	★★☆☆☆
Local consumer services	★★★☆☆	★★☆☆☆	★☆☆☆☆	★☆☆☆☆	★☆☆☆☆	★★★☆☆	★☆☆☆☆	★★☆☆☆
Online ads	★☆☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★★☆☆	★★☆☆☆	★★★☆☆	★★★☆☆

Source: NBS, iResearch, CNNIC, CMBIGM

Note: Regarding our scoring criteria of potential room for further increase in online penetration: 1) for local consumer services, OTA, and e-commerce, the judgment is based on the penetration level of online GTV as % of total; 2) for online ads, it is based on the share of online advertising revenue as % of total ads revenue; 3) for online music and games, it is based on the penetration rate of users as % of total addressable user base; judgement criteria for revenue and earnings growth are based on CMBIGM estimates; industry competitive landscape pattern is judged based on data such as CR5 market share; the degree of resilience is judged based on factors such as the correlation between revenue growth and GDP or retail sales growth; a gray background indicates that the score has been lowered compared to our score in the annual outlook report, while an orange background represents that the score has been raised.

The major update from 1Q25 earnings season revolved around the intensified competition in marketplace platforms (e.g. local life services and instant retail), which has reduced the visibility of profit growth. In view of this, the major direction for sharpening competitiveness is to expand and enrich high-quality supply, reduce operating costs of merchants, and increase transaction frequency and stickiness among C-side users.

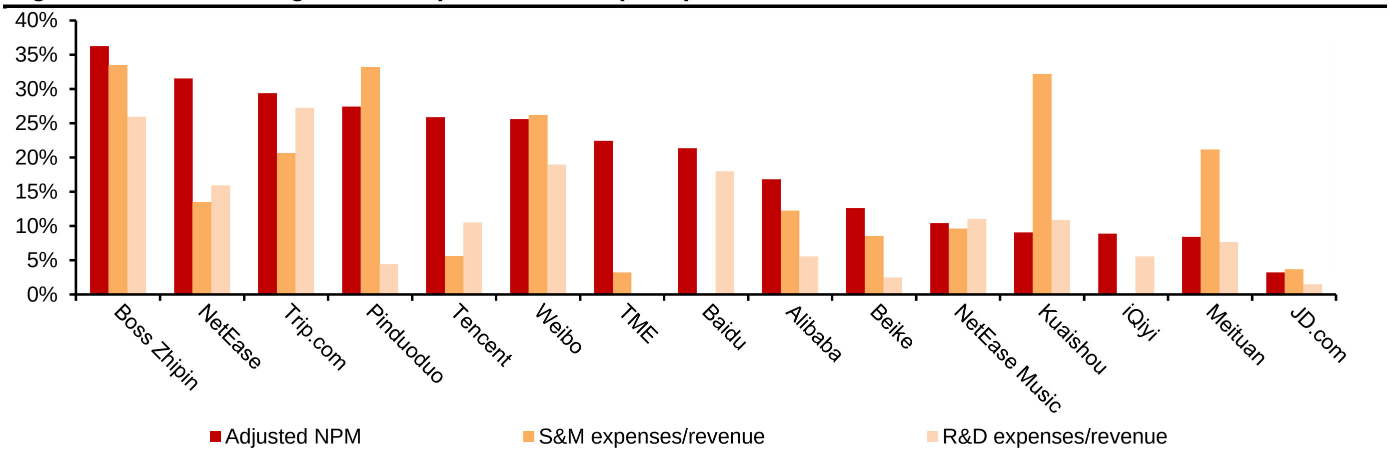
Companies with high profitability, robust business moats and competitive strength likely to outperform

Looking ahead, with stable sector allocation sentiment and capital rotation across various subsectors, we believe subsectors and companies having strong business model moats and less vulnerability to subsidy-driven competition may outperform. Faced with intensive competition, companies with established ecosystems/network effects, higher margins, and substantial absolute profits are poised to have stronger competitive positioning.

Leveraging stable competitive barriers and sound operating leverage, companies such as Boss Zhipin, Tencent, NetEase, and TME have managed to achieve consistent margin improvements across different economic cycles. Their adjusted net profit margins have been showing improvements during FY23-25E, which may support more resilient earnings growth compared to industry peers.

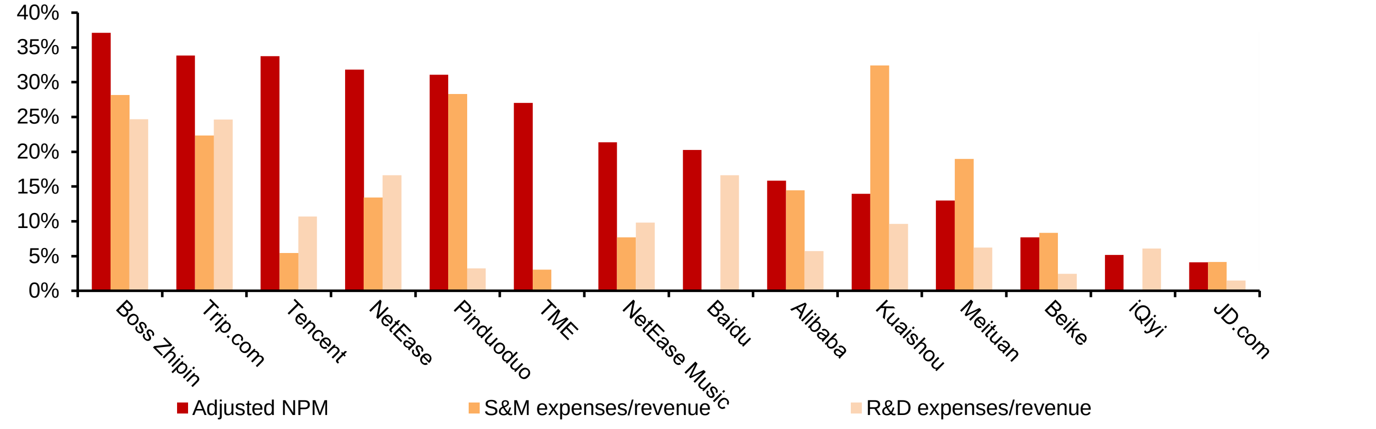
For O2O food delivery and instant retail sector, the profit impact of incremental competition-driven investments remains unclear, in our view. We expect competition to eventually rationalize, amid concerns about declining group-level profits, the transition from rapid growth to a plateau phase, and further regulations to ensure healthy development of the industry. From a long-term perspective, the reasonable level of profit margin for high-frequency food delivery traffic businesses may hinge on ecosystem efficiency (including fulfillment network scale, merchant/user coverage, and demand-matching capabilities). The diversified monetization of high-frequency traffic is likely to be the key for mid-to-long term competitive landscape. We maintain upbeat on Meituan's long-term investment value. For e-commerce sector which we think is generally undervalued, companies with clearer core profit growth trajectories and promising new business prospects may outperform. We recommend Alibaba.

Figure 2: Internet: margins and expenses ratios (2023)



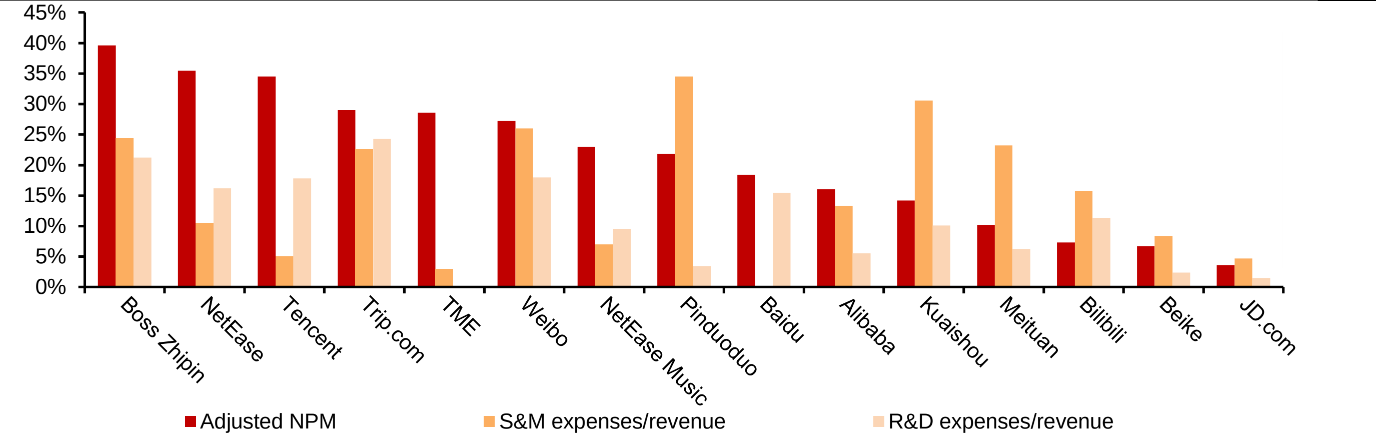
Source: Company data, CMBIGM

Figure 3: Internet: margins and expenses ratios (2024)



Source: Company data, CMBIGM

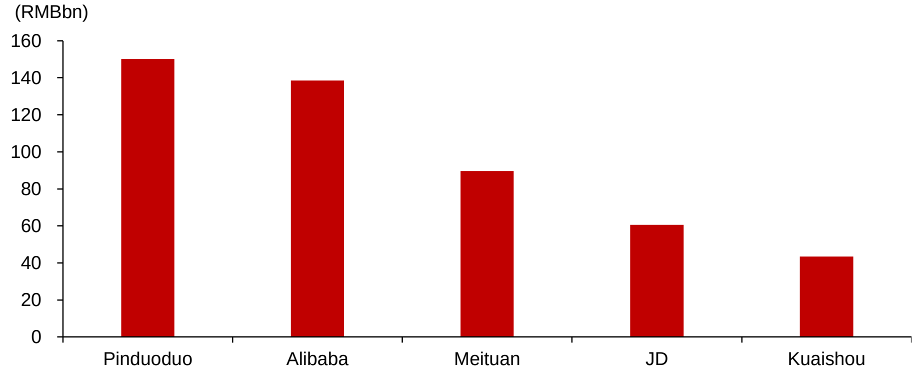
Figure 4: Internet: margins and expenses ratios (2025E)



Source: Company data, CMBIGM estimates

We have analyzed and compared the 2025 marketing budgets of major e-commerce and local services companies. Companies with superior business models, stronger self-sustaining capabilities in core operations, and higher operational efficiency may allocate more resources toward user-side subsidies in response to intensive competition. However, companies having higher absolute marketing spending may not guarantee the victory in competition. Historically, the internet sector demonstrated that sustainable advantages are built on accumulative user mindshare, operational expertise, breadth and efficiency of ecosystem, and management execution. These factors may ultimately determine mid-to long-term outcomes in competition.

Figure 5: 2025E sales and marketing expenses forecast comparison of e-commerce and local services companies

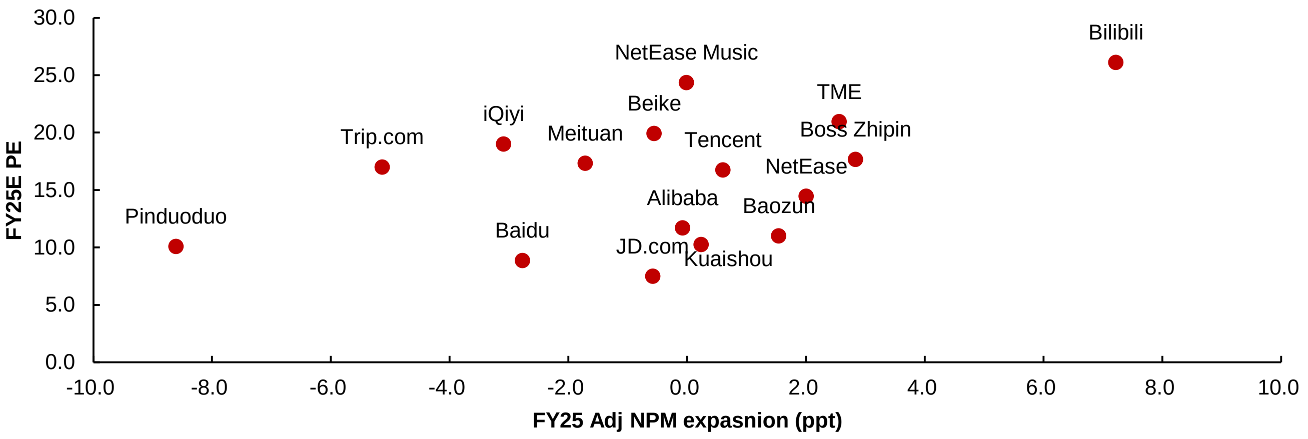


Source: CMBIGM estimates
Note: We use FY26E (March year-end) data for comparison for Alibaba

Companies with high margins and operating leverage provide better support for valuation

Amid the current macro and market environment, we favor companies with high earnings resilience and margin defensibility. On the back of robust competitive moats, operating leverage, and sustainable business models, companies including Bilibili, NetEase Cloud Music, Boss Zhipin, and Tencent have continued to deliver margin expansion despite elevated macro uncertainty and intensifying competition, showing premiums on valuation relative to peers.

Figure 6: Internet: valuation vs margin expansion



Source: Bloomberg, company data, CMBIGM estimates
Note: Data as of 9 June; margin expansion based on our estimates.

Through a comparison of different sectors, we find that: 1) the competitive landscape for online entertainment sector remains stable, with limited impact from macroeconomic factors. The focus continues to be on high-quality growth strategies, driving steady revenue and profit growth in FY25E. 2) Competition for e-commerce (mainly instant retail) and local services has been intensifying. Earnings may be under pressure in FY25E since the profitability may be weighed by increase in investments or subsidies in new businesses. 3) Monetization trends of advertising industry diverge. Platforms benefiting from AI advancements and incremental ad budgets (e.g., mini-games, short dramas) can sustain rapid ad revenue growth. However, fundamentals of Weibo and Baidu remain under pressure. 4) For vertical platforms (e.g., Boss Zhipin and KE Holdings), valuation re-rating opportunities may arise if supported by strong earnings growth. The pace of profit recovery depends on a rebound of macro economy and volume of additional investments (e.g., KE's increased spending on agent benefits and social responsibility initiatives).

Figure 7: Internet: sub-sector fundamentals and valuation comparison

Company	Ticker	Mkt cap (US$mn)	Free float (US$mn)	Free float %	YTD daily turnover (US$mn)	Turnover/mkt cap	2025E PE (x)	2025E PS (x)	2025E Adj. EPS YoY	2025E Revenue YoY
E-commerce/local life services										
Alibaba	BABA US Equity	289,749	191,264	66%	3,095	1.1%	12.3	2.1	8%	5%
Pinduoduo	PDD US Equity	144,264	79,115	55%	1,104	0.8%	9.0	2.3	-13%	11%
Meituan	3690 HK Equity	115,542	100,037	87%	988	1.0%	15.7	1.9	1%	16%
JD.com	JD US Equity	54,093	48,900	90%	535	1.1%	7.4	0.3	-1%	14%
VIPShop	VIPS US Equity	7,751	2,707	35%	57	0.8%	5.8	0.5	1%	-3%
Baozun	BZUN US Equity	177	142	81%	1	0.7%	11.5	0.1	NA	3%
Social entertainment										
Tencent	700 HK Equity	606,637	414,272	68%	2,091	0.3%	17.1	5.9	15%	11%
NetEase	NTES US Equity	82,487	44,700	54%	150	0.2%	14.5	4.9	16%	12%
Kuaishou	1024 HK Equity	34,125	23,669	69%	376	1.3%	10.0	1.4	15%	11%
TME	TME US Equity	28,670	10,869	38%	107	0.4%	21.4	6.4	21%	11%
Bilibili	BILI US Equity	8,310	3,866	47%	115	1.4%	27.5	2.0	NA	20%
NetEase Cloud Music	9899 HK Equity	6,101	2,469	40%	15	0.2%	24.7	5.3	2%	3%
Advertising										
Baidu	BIDU US Equity	30,479	25,563	84%	444	1.5%	8.8	1.6	-9%	-1%
Weibo	WB US Equity	2,397	872	36%	15	0.7%	5.0	1.3	-5%	0%
Travel										
Trip.com	TCOM US Equity	44,497	38,116	86%	245	0.6%	16.4	4.7	-2%	15%
TCEL	780 HK Equity	6,447	3,936	61%	36	0.6%	14.0	2.3	10%	10%
Verticals										
Beike	BEKE US Equity	22,622	14,077	62%	186	0.8%	20.4	1.5	7%	15%
Boss Zhipin	BZ US Equity	8,612	5,790	67%	75	0.9%	17.6	7.0	20%	8%

Source: Bloomberg, company data, CMBIGM
Note: Data as of 9 June; free float excludes shareholdings > 5%

Companies with decent shareholder returns and ample cash reserves likely to see valuation support

As core businesses gradually mature, in addition to exploring second growth curves, the provision of sustainable and attractive shareholder returns may help drive market recognition of net cash value and support valuations. The sustainability of support stems from a stable competitive landscape in the core business and steady growth prospects. From a cash perspective, companies like Vipshop, Pinduoduo, and JD.com still maintain a net cash-to-market cap ratio of above 30%, which could underpin their investment capacity, shareholder returns, and valuation levels. Although some firms may face pressure on shareholder returns due to share price recoveries since end-2024 or competitive dynamics in certain sectors, the overall shareholder return levels of internet companies remain appealing. We suggest putting an eye on internet companies with sustainably high shareholder returns in FY25, including Vipshop, Weibo, JD.com, and Alibaba. We expect that these companies may sustain a shareholder return ratio (dividends + buybacks - share-based compensation) of above 3% in FY25.

Figure 8: Internet: shareholder return

				Cash generation			Shareholder return				Dividend		Share repurchase	
Company	Ticker	Price (Local)	Mkt cap (US$mn)	FY24E Net cash (US$mn)	FCF Yield FY25E	Net cash /Mkt cap FY25E	Div+Repo-SBC FY25E	Dividend Yield FY25E	Share Repo /Mkt cap FY25E	SBC/Mkt cap FY25E	DPS (local) FY25E	DPS (local) FY24	Share repurchase (US$mn) FY25E	Share repurchase (US$mn) FY24
VIPShop	VIPS US	14.2	7,298	4,032	13.5%	55.2%	9.8%	3.4%	9.4%	-2.9%	0.48	0.48	685	721
Weibo	WB US	9.2	2,247	594	19.9%	26.4%	5.7%	8.8%	0.0%	-3.1%	0.81	0.82	-	-
JD.com	JD US	32.9	52,372	18,587	12.9%	35.5%	5.1%	3.3%	2.6%	-0.9%	1.10	1.01	1,366	3,600
Beike	BEKE US	18.0	21,613	(2,751)	6.7%	-12.7%	3.6%	2.0%	3.3%	-1.8%	0.36	0.36	716	716
Alibaba	BABA US	114.8	273,793	38,288	4.9%	14.0%	3.4%	0.9%	3.4%	-0.9%	0.99	0.99	9,200	12,382
NetEase	NTES US	123.2	78,059	14,961	6.4%	19.2%	2.8%	1.9%	1.5%	-0.7%	2.36	2.43	1,200	1,210
TME	TME US	17.4	26,889	2,812	4.6%	10.5%	2.4%	0.9%	1.9%	-0.4%	0.16	-	500	326
Tencent	700 HK	518.0	606,637	(15,075)	4.3%	-2.5%	2.0%	0.9%	1.7%	-0.7%	4.86	4.54	10,256	14,356
Kuaishou	1024 HK	52.5	28,710	3,224	10.1%	11.2%	1.1%	0.0%	2.3%	-1.1%	-	-	650	701
Boss Zhipin	BZ US	17.7	8,085	1,746	6.3%	21.6%	1.0%	0.3%	2.5%	-1.7%	0.05	-	200	229
Baidu	BIDU US	83.1	28,554	2,955	10.8%	10.3%	1.2%	0.0%	3.5%	-2.3%	-	-	1,000	1,000
China Literature	772 HK	26.5	3,455	585	5.0%	16.9%	0.3%	0.0%	0.9%	-0.5%	-	-	30	35
Trip.com	TCOM US	63.7	45,417	5,852	5.1%	12.9%	0.3%	0.5%	0.4%	-0.6%	0.30	0.30	204	104
Meituan	3690 HK	135.7	105,752	20,708	5.6%	19.6%	0.0%	0.0%	1.1%	-1.1%	-	-	1,121	3,605
TCEL	780 HK	22.1	6,579	1,114	7.2%	16.9%	0.0%	0.8%	0.0%	-0.9%	0.18	0.18	-	-
NetEase Cloud Music	9899 HK	213.8	5,926	1,654	2.6%	27.9%	-0.2%	0.0%	0.1%	-0.3%	-	-	5	4
Bilibili	BILI US	18.5	7,887	1,321	3.7%	16.8%	-0.8%	0.0%	1.3%	-2.1%	-	-	100	16
Pinduoduo	PDD US	96.4	136,911	51,777	16.2%	37.8%	-1.1%	0.0%	0.0%	-1.1%	-	-	-	-

Source: Bloomberg, company data, CMBIGM estimates
Note: Data as of 9 June; FY25 repurchase amount based on our estimates; FY25E net cash, FCF, and DPS based on Bloomberg consensus or our estimates

Figure 9: Internet: cash flow comparison

Company	Ticker	Net cash (RMBmn)			Net Cash/Mkt cap			FCF (RMBmn)			FCF Ratio		
		2022A	2023A	2024A	2022A	2023A	2024A	2022A	2023A	2024A	2022A	2023A	2024A
Tencent	700 HK	(68,385)	7,915	(14,953)	-1.6%	0.2%	-0.3%	124,242	201,479	194,884	22.4%	33.1%	29.5%
Alibaba Group	BABA US	502,099	574,638	586,357	23.6%	27.0%	27.6%	89,435	165,400	150,506	10.5%	19.0%	16.0%
Pinduoduo	PDD US	132,504	207,044	320,953	11.0%	17.2%	26.6%	47,872	93,579	120,962	36.7%	37.8%	30.7%
Meituan	3690 HK	53,944	84,540	106,734	7.1%	11.1%	14.0%	6,026	35,564	50,078	2.7%	12.9%	14.8%
JD.com	JD US	167,057	202,555	203,597	47.5%	57.6%	57.9%	34,916	39,506	44,276	3.3%	3.6%	3.8%
NetEase	NTES US	88,997	106,238	124,764	16.3%	19.4%	22.8%	25,609	33,030	38,401	26.5%	31.9%	36.5%
Kuaishou	1024 HK	14,891	27,251	18,444	7.6%	13.8%	9.4%	(4,206)	16,143	22,496	-4.5%	14.2%	17.7%
Trip.com Group	TCOM US	(4,114)	13,767	36,592	-1.3%	4.5%	11.9%	2,144	21,398	19,034	10.7%	48.1%	35.7%
Baidu	BIDU US	106,270	181,929	188,372	47.0%	80.5%	83.4%	17,884	25,425	13,100	14.5%	18.9%	9.8%
TME	TME US	21,448	26,212	31,577	11.5%	14.1%	17.0%	7,396	7,172	9,956	26.1%	25.8%	35.1%
Beike	BEKE US	42,708	35,907	21,247	25.6%	21.5%	12.7%	7,668	10,284	8,410	12.6%	13.2%	9.0%
VIPShop	VIPS US	19,878	25,202	25,176	34.9%	44.3%	44.2%	8,089	12,247	6,406	7.8%	10.9%	5.9%
New Oriental	EDU US	23,422	25,163	29,784	40.8%	43.9%	51.9%	(9,207)	5,726	6,301	-46.1%	27.6%	20.2%
Bilibili	BILI US	(509)	7,583	11,397	-0.9%	13.3%	20.0%	(4,672)	85	5,549	-21.3%	0.4%	20.7%
JD Health	6618 HK	19,521	24,112	32,699	16.8%	20.7%	28.1%	5,856	4,534	4,286	12.5%	8.5%	7.4%
Weibo	WB US	4,720	3,694	3,248	31.4%	24.6%	21.6%	3,510	4,507	4,165	28.4%	36.1%	33.0%
China Literature	772 HK	5,988	6,001	6,885	25.9%	26.0%	29.8%	1,742	1,426	3,034	22.8%	20.3%	37.4%
Full-truck Alliance	YMM US	26,144	18,203	20,748	28.1%	19.5%	22.3%	(101)	2,169	2,895	-1.5%	25.7%	25.8%
Boss Zhipin	BZ US	12,915	12,630	14,379	21.4%	20.9%	23.8%	663	2,091	2,686	14.7%	35.1%	36.5%
TCEL	780 HK	4,295	6,129	5,905	9.6%	13.7%	13.2%	(213)	3,051	2,567	-3.2%	25.6%	14.8%
Cloud Music	9899 HK	9,105	9,502	10,214	22.7%	23.7%	25.4%	1,962	601	2,047	21.8%	7.6%	25.7%
iQiyi	IQ US	(13,917)	(9,864)	(9,504)	-103.8%	-73.6%	-70.9%	(245)	3,315	2,031	-0.8%	10.4%	6.9%
TAL Education	TAL US	15,562	20,902	22,027	33.9%	45.6%	48.0%	(7,626)	(701)	1,451	-27.0%	-10.1%	13.6%
Ali Health	241 HK	10,476	10,990	9,193	13.6%	14.3%	12.0%	414	297	1,170	2.0%	1.1%	4.3%
Pingan Healthcare	1833 HK	9,186	7,188	10,621	64.6%	50.6%	74.7%	1,456	251	353	23.5%	5.4%	7.3%
Baozun	BZUN US	626	116	38	46.5%	8.6%	2.8%	176	283	(31)	2.1%	3.2%	-0.3%
SenseTime	20 HK	10,167	4,969	5,429	20.7%	10.1%	11.0%	(7,816)	(4,366)	(4,818)	NA	NA	NA

Source: Bloomberg, company data, CMBIGM
Note: FCF ratio = FCF/revenue

Overall, in terms of quarterly allocation, we recommend: 1) online entertainment sector, characterized by stable industry competition, limited exposure to macro and consumption fluctuations, as well as high defensiveness. We recommend to eye on Kuaishou (steady ad growth and potential AI-driven revenue), NetEase (re-acceleration of game revenue growth), and TME (robust profit growth driven by subscriber expansion and ARPPU improvement); 2) online travel sector bolstered by resilient domestic demand and relatively high immunity to geopolitical risks. In this sector, we recommend Trip.com; 3) BOSS Zhipin, which boasts high competitive barriers and operating leverage. The company may exhibit faster profit growth and valuation re-rating if policy support or macro recovery beats expectations. From a medium-to-long-term perspective, pay attention to two key threads: 1) high-tech + broad applications + superior business model, e.g., tech leaders with better-than-expected cloud revenue driven by AI, or those with technology strength and broad applications benefiting from AI advantages. We recommend Alibaba and Tencent; 2) service export players in gaming, local services, OTA, and software/cloud services.

1) **Tencent (700 HK, BUY):** The company built up solid strengths in social/games/ads, with high-margin businesses sending adjusted operating profit up by 16% YoY in FY25. The stock is trading at 17x FY25E non-IFRS PE (15x if excluding strategic investments), which in our view is appealing compared with earnings growth. Our SOTP-derived TP is HK$660.0. Maintain BUY.

2) **Alibaba (BABA US, BUY):** We remain upbeat that Taobao & Tmall Group may achieve steady profit growth in 1QFY26, mainly attributed to take-rate expansion and GMV recovery. As for Cloud business, we are of the view that the company may achieve revenue acceleration YoY in 1QFY26, and its investments in infrastructure construction and R&D will pave the way for long-term growth. AIDC is likely to be profitable in 1QFY26 as anticipated, while non-core business may achieve breakeven within 1-2 years. We firmly believe that Alibaba is one of the key beneficiaries in the AI era which may benefit from incremental consumption stimulus policy. Our SOTP-derived TP is US$155.5, equivalent to 15.7x FY26E PE (non-GAAP). Maintain BUY.

3) **Kuaishou (1024 HK, BUY):** We are optimistic that Kuaishou will benefit from AI applications: 1) AIGC may boost ad efficiency (RMB30mn/day spend on AI creatives in 1Q25); 2) Kling AI's revenue exceeded RMB100mn in 1Q25, and we expect that to

hit roughly RMB700mn in 2025. We expect the company to benefit from AI development and resilient earnings growth, with adjusted NP CAGR of 14% in 2025-27. Kuaishou currently trades at 12x FY25E PE, offering attractive value compared with earnings growth/historical average/industry average. Our SOTP-derived TP is HK$80.0. Maintain BUY.

4) **NetEase (NTES US, BUY):** The impacts from macro and consumption are negligible to the gaming business. On the back of new titles (e.g., Marvel Rivals) and stellar performance of evergreen titles (e.g., Identity V), together with optimization of costs and sales expenses, we expect adjusted net profit to grow 20% YoY in FY25. The stock is currently trading at 15x FY25E PE, on par with 2-year historical average, which we think is fairly reasonable. Our SOTP-derived TP is US$136.5. Maintain BUY.

5) **TME (TME US, BUY):** The music business is not susceptible to macro and consumption impacts, with steady competitive landscape and anti-cyclical/anti-risk nature. We expect FY25 adjusted net profit to increase 16% YoY driven by increasing subscribers and ARPPU. Our DCF-derived target price is US$17.5. Maintain BUY.

6) **Trip.com (TCOM US, BUY):** With potentially solid growth for domestic/outbound travel and high efficiency in overseas investments, the company may report better-than-expected earnings and margin in 2025. The stock currently trades at 17.9x 2025E PE (non-GAAP), still showing further upside compared with 2-year average of 19.7x. Our DCF-derived TP is US$70, equivalent to 20x 2025 non-GAAP PE. Maintain BUY.

7) **Boss Zhipin (BZ US, BUY):** Despite macro uncertainties and tariff impacts, we are upbeat that the company could deliver its full-year non-GAAP operating profit target of RMB3bn (+32% YoY) through operational leverage and cost control. The company may achieve accelerated improvement on earnings and valuation if policy support or macro condition exceeds expectation. The stock currently trades at 19x FY25E PE, attractive vs earnings growth. Our TP of US$21.0 is based on 21x FY25 non-GAAP PE. Maintain BUY.

Figure 10: Internet: valuation

Company	Ticker	Price (Local)	Mkt cap (US$mn)	PE (x) 2025E	PE (x) 2026E	PS (x) 2025E	PS (x) 2026E	PEG 2025E	EPS CAGR 24-26E
China									
Tencent	700 HK	518.0	598,950	17.1	15.5	5.9	5.4	1.3	13%
Alibaba Group	BABA US	121.5	289,749	12.4	9.9	2.1	2.0	0.8	16%
Pinduoduo	PDD US	101.6	144,264	11.3	8.5	2.4	2.1	24.8	0%
Meituan	3690 HK	148.4	112,022	18.8	14.5	2.1	1.8	1.5	13%
NetEase	NTES US	130.2	82,436	15.3	14.5	5.2	4.8	1.1	14%
JD.com	JD US	33.9	49,325	7.7	6.8	0.3	0.3	1.0	8%
Trip.com Group	TCOM US	62.4	40,759	16.7	14.5	4.8	4.2	2.2	8%
Kuaishou	1024 HK	62.4	33,464	11.9	10.2	1.7	1.6	0.7	16%
Baidu	BIDU US	88.7	31,084	9.7	8.8	1.7	1.6	6.0	2%
TME	TME US	18.5	28,670	22.9	19.9	6.6	6.0	1.2	19%
Beike	BEKE US	18.8	22,635	20.9	16.7	1.5	1.3	2.3	9%
JD Health	6618 HK	41.2	16,717	26.7	23.8	1.8	1.6	3.9	7%
YMM	YMM US	12.4	12,927	17.6	14.4	7.4	6.4	0.6	28%
Ali Health	241 HK	4.7	9,388	35.1	29.9	2.2	2.0	0.6	57%
Boss Zhipin	BZ US	18.8	8,583	18.8	16.7	7.5	6.6	1.1	18%
Bilibili	BILI US	19.5	8,310	27.4	18.9	2.0	1.8	NA	NA
VIPShop	VIPS US	15.1	7,749	6.2	6.1	0.5	0.5	2.0	3%
SenseTime	20 HK	1.5	6,837	NA	NA	10.3	8.2	NA	NA
TCEL	780 HK	21.7	6,551	14.4	12.4	2.4	2.1	0.8	18%
NetEase Music	9899 HK	220.0	6,357	26.1	22.6	5.6	5.1	1.3	21%
China Literature	772 HK	29.2	3,790	20.6	18.5	3.3	3.1	1.4	15%
Weibo	WB US	9.8	2,397	5.2	5.1	1.4	1.3	NA	0%
PH Healthcare	1833 HK	7.1	1,983	NA	NA	2.6	2.3	NA	22%
iQiyi	IQ US	1.8	1,704	20.2	8.8	0.4	0.4	NA	-4%
Baozun	BZUN US	2.8	162	10.8	6.4	0.1	0.1	NA	NA

Average				**17.1**	**14.1**	**3.3**	**2.9**		
US									
Microsoft	MSFT US	472.8	3,513,735	35.1	31.0	12.6	11.1	2.6	13%
NVIDIA	NVDA US	142.6	3,480,172	47.6	32.8	26.9	17.4	0.6	85%
Amazon.com	AMZN US	217.0	2,303,536	30.3	25.5	3.3	3.0	3.8	8%
Alphabet	GOOG US	176.1	2,145,918	18.2	17.3	6.5	5.9	2.0	9%
Meta	META US	694.1	1,745,094	26.8	23.7	9.3	8.2	3.1	9%
Tesla	TSLA US	308.6	993,923	NA	NA	10.2	8.4	NA	11%
Netflix	NFLX US	1224.5	521,095	47.1	39.4	11.7	10.4	2.0	23%
Palantir	PLTR US	132.1	311,650	NA	NA	80.0	62.1	NA	44%
Salesforce	CRM US	272.3	260,271	26.6	23.7	6.9	6.3	1.6	17%
ServiceNow	NOW US	1026.9	212,560	NA	NA	16.3	13.7	NA	20%
Adobe	ADBE US	416.3	177,410	20.1	18.2	7.6	6.9	2.3	9%
Palo Alto	PANW US	196.3	130,913	NA	49.5	14.3	12.5	NA	17%
Average				**31.5**	**29.0**	**17.1**	**13.8**		

Source: Bloomberg, company data, CMBIGM
Note: Data as of 9 June

Our views by sector

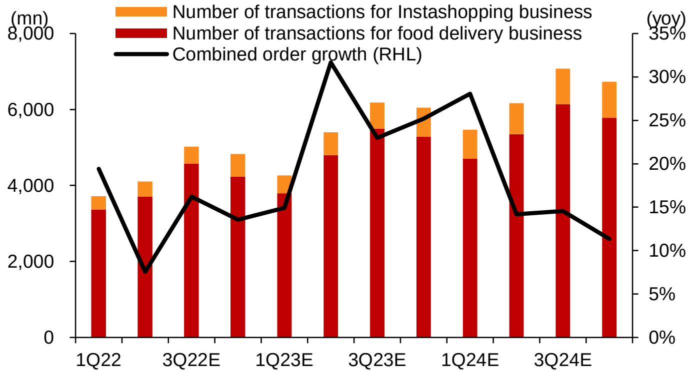
Local life services: eye on market share and synergistic development of instant retail, its large near-term impact on profit

As e-commerce players are generally optimistic about the instant retail sector and aim to set a firm foothold in the high-frequency food delivery segment (a market with relatively certain demand), JD.com's strategy to adopt an aggressive approach and strengthen its instant retail presence by leveraging the profit from "national subsidies" has bought short-term disruptions to the competitive landscape. We believe industry competition will inevitably intensify over the next few quarters. Due to the rapidly shifting dynamics in the near term, the scale of incremental investments and their actual impact on profitability remain uncertain. However, we expect competition to eventually rationalize at an appropriate timing. Growing concerns over declining group-level profits, the transition of rapidly expanding businesses into a bottleneck phase, and further regulatory efforts to standardize healthy industry development could all serve as fueling factors.

In this section, we conduct a sensitivity analysis on the potential profit impact of the food delivery competition on Meituan and JD.com in 2Q25 and 2025. From a long-term perspective, the reasonable profit margin for high-frequency food delivery business will likely depend on ecosystem efficiency (including delivery network scale, merchant and user base, and the ability for precise demand matching). Additionally, the ability to efficiently monetize high-frequency traffic may emerge as a key factor in medium-to-long-term competition. We remain bullish on Meituan's long-term investment value.

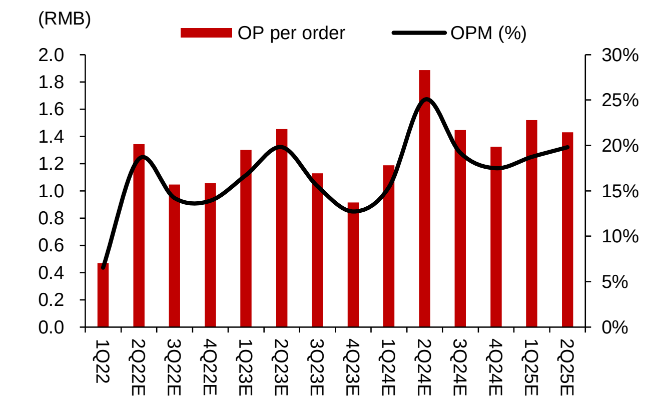
In terms of business positioning, JD has positioned its food delivery service to address three core needs: 1) consumers' demand for food safety and quality, 2) merchants' demand for reasonable commission rates, and 3) riders' demand for better welfare protections. Management noted that daily food delivery orders reached nearly 20mn as of 13 May. The current focus of JD's food delivery business includes: 1) enhancing user and merchant experience, 2) driving business scale expansion, and 3) improving return on investment (ROI), including through acquiring new users and traffic, boosting retention, and increasing repurchase rates. Its long-term goal is to strengthen synergies and operational capabilities within JD's ecosystem. In comparison, we estimate Meituan's daily food delivery orders at 56.7mn/63.8mn in 1Q25/2Q25, respectively. JD's current daily order volume of 20mn is close to one-third of our projected daily orders for Meituan's food delivery business.

Figure 11: Meituan: on-demand delivery order volume and growth forecast



Source: Company data, CMBIGM estimates

Figure 12: Meituan: OP per order forecast for food delivery



Source: Company data, CMBIGM estimates

■ Scenario analysis on the short-term impact of intensified competition on Meituan's food delivery profitability

Given the fierce competition within the industry, overall investment and loss levels are undergoing rapid and dynamic changes, making accurate forecasts more challenging. From an operational perspective, while JD.com has aggressively expanded its food delivery business with sustained high subsidies, Meituan has also significantly increased its subsidy levels to defend its market share. We believe Meituan will take proactive measures in the short term in response to the competition, and the extent of profitability decline in 2Q25 will likely be directly influenced by 618 promotional subsidies and the competitive landscape. In an attempt to quantify the impact of short-term subsidy, we have conducted a scenario analysis. Under conservative/base-case/aggressive scenarios, we assume Meituan's per-order subsidies to increase by RMB0.6/1.0/1.5 YoY in 2Q25, and its per-order UE (Unit Economics) would decline to RMB1.3/0.9/0.4, respectively (all remain constant). This would translate to an absolute operating profit decline of 26%/42%/75%.

In the short term, despite facing intense competition, we believe Meituan is likely to maintain significantly better operational efficiency than its industry peers, through its innovative supply models such as "Pin Hao Fan" (group-buying meals), "Shen Qiang Shou" (various means for flash sales), and the integration of "brand satellite stores" with traditional supply, together with stronger multi-sided network effects. And the decline in short-term profitability is highly associated with proactive strategic choices, meaning the amount of resources to invest to exert more pressure on competitors.

Figure 13: Meituan: scenario analysis on the impact of OP from increase in user subsidy

(RMB)	Conservative case	Base case	Aggressive case
2Q24 UE estimate of FD => A	1.9	1.9	1.9
2Q25E YoY increase in user subsidy（RMB）=>B	0.6	1.0	1.5
2Q25E UE estimate of FD => C=A-B	1.3	0.9	0.4
2Q25E No. of orders for food delivery (mn) => D	5,805	5,805	5,805
2Q25E FD OP (RMBmn) => E = D*C	7,470	5,148	2,245
2Q24 FD OP (RMBmn; CMBI estimates) =>F	10,095	10,095	10,095
2Q25E YoY decline of FD OP =>G=E-F	-2,625	-4,947	-7,849
2Q25E YoY decline of FD OP	-26%	-42%	-75%

Source: Company data, CMBIGM estimates
Note: FD stands for food delivery

From a full-year earnings perspective, our current forecasts are as follows: 1) Meituan: For 2025, we project that the core local commerce segment will report revenue/operating profit growth of 12%/-2% YoY. Within this, we expect the UE per food delivery order to decline YoY to RMB1.19 (2024: RMB1.48), with food delivery operating profit falling 13% YoY. 2) JD.com: We anticipate that JD's non-GAAP net profit will decrease by 2% YoY to RMB46.7bn in 2025. However, considering the stock price movements recently, the market appears to have downplayed the short-term impact of competition on profitability, instead focusing more on the long-term impact. We also encourage investors to prioritize long-term performance rather than focusing on short-term impact on competition. From a medium- to long-term perspective, we believe food delivery is a scale-driven business, where companies with stronger network effects between merchants, consumers and riders are likely to maintain significant market share and stable, reasonable profitability. In the long run, we remain confident that Meituan can sustain ~70% market share in China's food delivery industry, with GTV margins likely stabilizing at close to 3% in the medium to long term.

Figure 14: JD: operating profit by segment

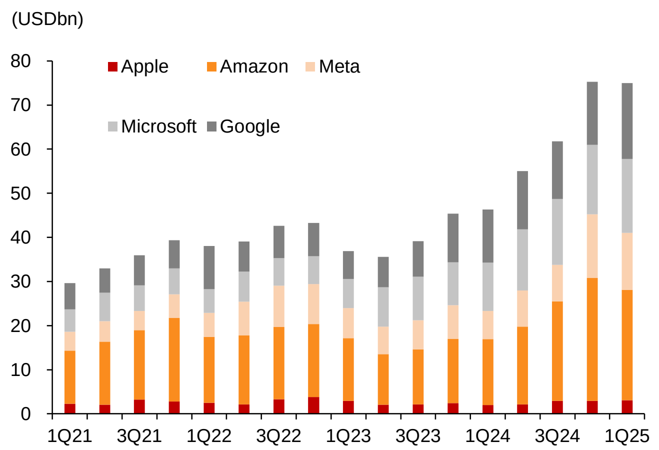
(RMBmn)	2024	2025E	2026E
Operating profit			
JD Retail	**41,077**	**50,222**	**52,727**
YoY increase	***14.3%***	*22.3%*	*5.0%*
OPM (%)	4.04%	4.43%	4.43%
JD Logistics	**6,317**	**6,693**	**8,022**
New businesses (including food delivery)	**(2,865)**	**(12,174)**	**(3,455)**
Total OP	**44,529**	**44,741**	**57,293**

Source: Company data, CMBIGM estimates

Cloud computing: supply constraints persisted; US CSPs showed diverging but strong revenue growth while Chinese players may maintain accelerated growth

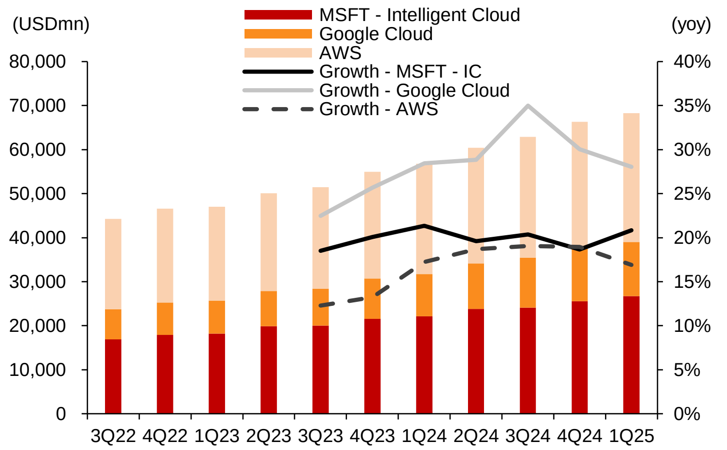
US cloud service providers (CSPs): slight divergence in revenue growth, but limited impact on margin. Based on 1Q25 earnings, the US CSPs maintained strong overall revenue growth in cloud business. Microsoft's cloud revenue reaccelerated, while Amazon and Google Cloud saw moderating growth QoQ, likely due to supply constraints and the sales cycle of cloud services. AI-related cloud revenue remained robust: Amazon's AI cloud revenue continued to deliver triple-digit YoY growth, while Microsoft's AI services contributed 16 ppts to Azure's growth. We expect supply constraints to alleviate in 2H25, which could support the rebound in revenue growth for North American CSPs. Margin trends in 1Q25: Google Cloud OPM rose to 17.8% (vs. 9.4% in 1Q24, 17.5% in 4Q24). AWS OPM improved to 39.5% (vs. 37.6% in 1Q24, 36.9% in 4Q24), showing a steady rise. That said, AI-related investments have not significantly squeezed margins. Microsoft's Intelligent Cloud operating margin declined 1.5 ppts YoY to 41.5%, but AI's drag was less severe than feared. Looking ahead, since lower-margin AI cloud revenue grows as a share of total cloud sales, its impact on profitability may be revealed in 2H25.

Figure 15: US tech giants: capex trend



Source: Company data, CMBIGM

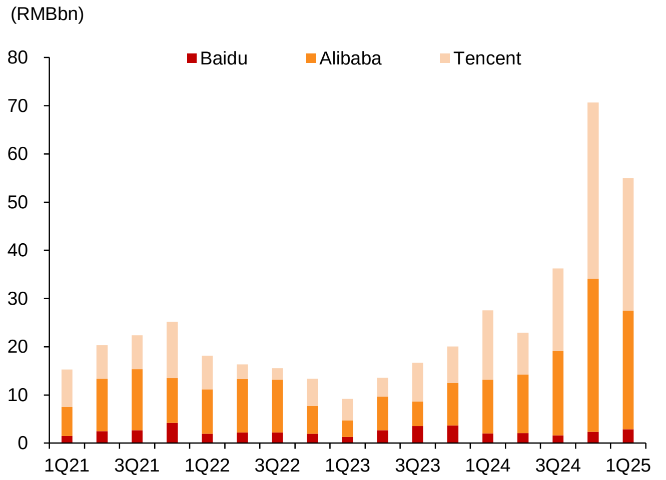
Figure 16: US hyperscalers: cloud revenue growth



Source: Company data, CMBIGM

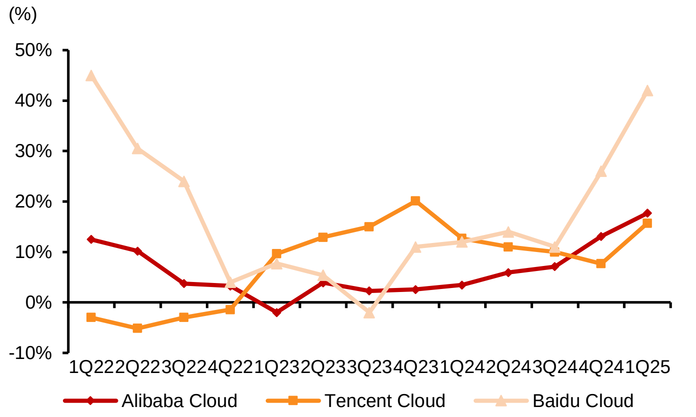
Chinese CSPs: revenue growth accelerated QoQ, near-term profit margins may fluctuate. For the cloud business development of Chinese internet companies, thanks to the conclusion of business adjustments and the scaling of AI GPU cloud services, overall revenue growth for the CSPs showed a reacceleration trend. Alibaba Cloud's revenue grew 18% YoY in 1Q25 (+13% in 4Q24), while Baidu Cloud's revenue surged 42% YoY in 1Q (exceeding market consensus of +26% YoY). Alibaba Cloud's 1Q25 profit margin was 8.0%, up 2.4 ppts YoY but down 1.9 ppts QoQ. Such change was primarily due to increased investments in infrastructure and R&D resources to seize mid-to-long-term growth opportunities. The company expects cloud margins to remain within the mid-to-high single-digit range in the coming years. On capex, both Alibaba and Tencent saw a decline YoY, which may be attributed to seasonal fluctuations or supply-side disruptions. However, their capex figures were aligned with market expectations, and both companies have maintained their full-year or three-year capex guidance.

Figure 17: China CSPs: capex trend



Source: Company data, CMBIGM

Figure 18: China CSP: revenue growth



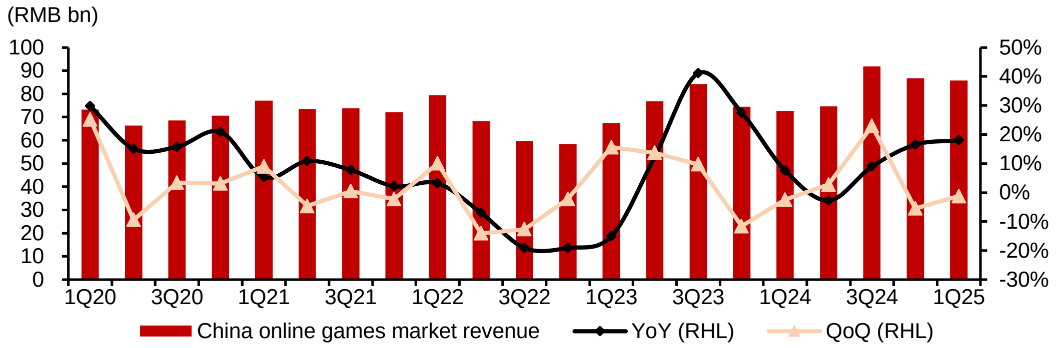
Source: Company data, CMBIGM

Online games: Robust growth amid high macro uncertainties

We remain upbeat on the revenue and profit growth of top gaming companies in FY25. We expect games revenue of Tencent, NetEase, and Bilibili to record 12%/10%/21% growth YoY respectively. The high visibility stems from: 1) a stable competitive landscape and robust performance of key evergreen game titles, as well as incremental revenue contribution from new releases in late 2024, including NetEase's *Marvel Rivals* (《漫威争锋》) and *Where Winds Meet* (《燕云十六声》), and Tencent's *Delta Force* (《三角洲行动》); and 2) margin improvement: In FY25, there have been fewer new titles with dwindling sales expenses, aiding the optimization of channel costs in the long term.

China's gaming market revenue grew 19% YoY to US$113.1bn in 4M25, driven by strong performance from top long-running titles and increasing contributions from new releases such as *Delta Force* (《三角洲行动》) and *Where Winds Meet*(《燕云十六声》). On the regulatory front, policies continue to be supportive on the healthy development of the gaming industry. In March, the General Office of the Chinese Communist Party and the State Council unveiled the Action Plan to Boost Consumer Spending (提振消费专项行动方案), explicitly advocating for increased consumption in animation, gaming, esports, and related merchandise. In May, Guangdong province introduced the Policy Measures to Promote High-quality Development of the Online Gaming Industry in Guangdong (关于推动广东网络游戏产业高质量发展的若干政策措施), proposing support for original high-quality games and technological advancements in the gaming technology.

Figure 19: China: online games market revenue



Source: CNG, CMBIGM

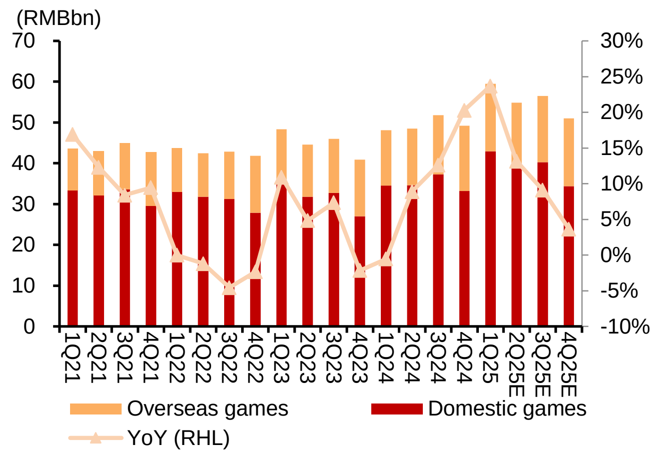
1) Tencent: In 1Q25, gaming revenue grew 24% YoY to RMB59.5bn (accounting for 33% of total revenue), beating consensus estimates by 8%. Domestic gaming revenue rose 24% YoY to RMB42.9bn in 1Q25, driven by a low base effect, contributions from new titles like *Delta Force*（《三角洲行动》）, and the steady performance of evergreen game titles such as *Honor of Kings* and *Crossfire*, both of which hit record-high grossing in 1Q25. Deferred revenue increased 16% YoY and 23% QoQ to RMB122.9 bn, implying robust gross billings growth (up 21% YoY), which should support gaming revenue in subsequent quarters. Starting from 2Q25, gaming revenue will see a higher base, with slightly eased growth QoQ.

2) NetEase: In 1Q25, gaming and related value-added services revenue grew 12% YoY to RMB24.0bn (accounting for 82% of total revenue), exceeding market expectations by 4%. This was primarily driven by: 1) increasing contributions from new titles such as *Where Winds Meet* (《燕云十六声》) and *Marvel Rivals* (《漫威争锋》); 2) revenue growth from existing games like Identity V(《第五人格》). As of March 2025, registered users of *Where Winds Meet* surpassed 30mn, while *Marvel Rivals* topped Steam's global bestseller list following its Season 2 update in April 2025. Contract liabilities increased 19%/16%

YoY/QoQ in March 2025, which we believe will further support sustained revenue growth in the forthcoming quarters. Looking ahead, NetEase plans to launch several highly anticipated new titles in global markets, including *Marvel Mystic Mayhem*(《漫威秘法狂潮》), *Destiny: Rising* (《命运崛起》), and *Ananta* (《无限大》).

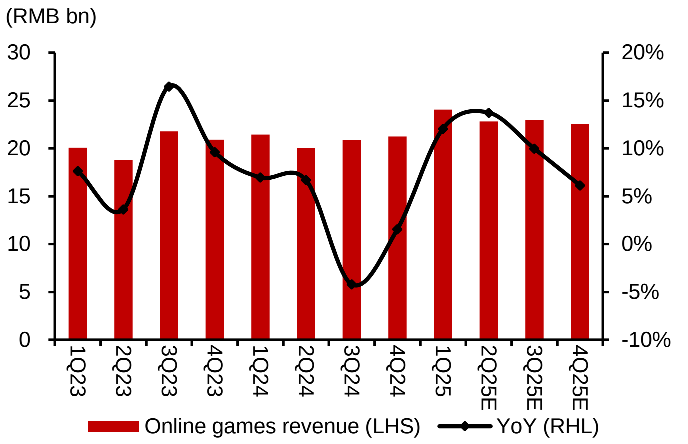
3) Bilibili: In 1Q25, mobile gaming revenue surged 76% YoY to RMB1.73bn (accounting for 25% of total revenue), primarily attributable to the strong performance of *SanMou* (《三谋》). DAUs on the first day of SanMou Season 7 hit a new high so far in 2025, while legacy titles such as *FGO* and *Azure Lane* (《碧蓝航线》) maintained stable revenue in 1Q25. Management remains upbeat on *SanMou*'s sustained growth, with Season 8 launching in May, a mini-game version scheduled for release in summer, and a traditional Chinese version for Hong Kong, Macau, and Taiwan regions by year-end. These initiatives are poised to enhance the continuous growth of mobile gaming revenue, in our view.

Figure 20: Tencent: games revenue trend



Source: Company data; CMBIGM estimates

Figure 21: NetEase: games revenue trend



Source: Company data; CMBIGM estimates

Figure 22: BiliBIli: SOTP valuation

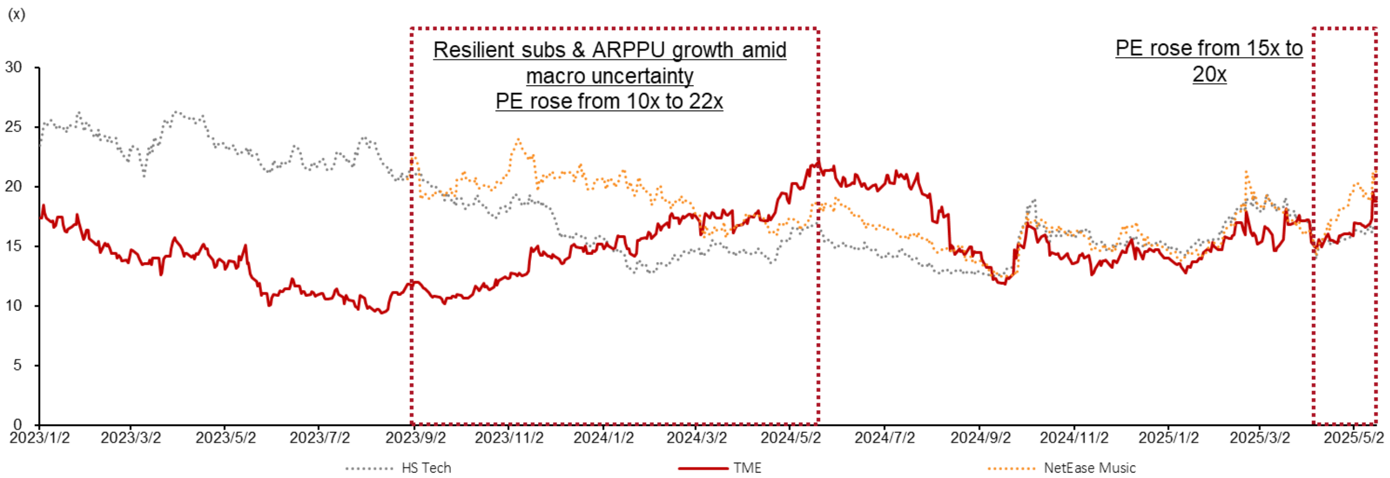
(RMBmn)	2025E revenue	Net margin (%)	Target PS (x)	Target PE (x)	Target valuation	As of total valuation
VAS (Live streaming + Membership)	12,215		1.6		19,544	24.2%
Advertising	9,661	25%		16	38,646	47.8%
Mobile games	6,829	20%		16	21,854	27.0%
IP derivatives and others	1,878		0.4		751	0.9%
Total valuation (RMBmn)					**80,795**	
Number of ADS (mn)					420	
Valuation per ADS (US$)					**26.5**	

Source: Company data; CMBIGM estimates

Online music: Soild profit growth to be fuelled by rising ARPPU and operating leverage

We expect online music platforms to maintain robust profit growth and enjoy a certain valuation premium compared to other internet companies amid macro uncertainties, primarily due to: 1) low music subscription ARPPU with user payment behavior being less susceptible to macro conditions and high membership retention rates; 2) stable industry competition, given that high content investment costs create strong competitive barriers; and 3) sustained operating leverage. We expect: 1) TME's FY25 adjusted net profit to grow 16% YoY, driven by balanced growth in paying subscribers and ARPPU. The company currently trades at 20x forward P/E, still offering roughly 10% upside compared to its previous peak valuation (22x P/E) during the last upcycle (Aug 2023 to Aug 2024). 2) We project NetEase Cloud Music's FY25 adjusted net profit to grow 12% YoY, bolstered by paying user growth and operating leverage.

Figure 23: TME: 1-year forward PE trend



Source: Bloomberg; CMBIGM

Due to the high certainty of revenue and profit growth in the music and entertainment content sector, and benefiting from capital flows within the industry, the valuation of both TME and NetEase Cloud Music's online music businesses corresponds to a PEG ratio of approximately 1.5x. We believe the valuation will be supported by sustainably increasing number of paying users and payment/monetization revenue beyond music and live streaming, such as long-form audio and advertising revenue. TME, with its larger user base, is better positioned to create sustainable monetization scenarios and synergies.

Figure 24: TME vs NetEase Cloud Music: online music vaulation comparison

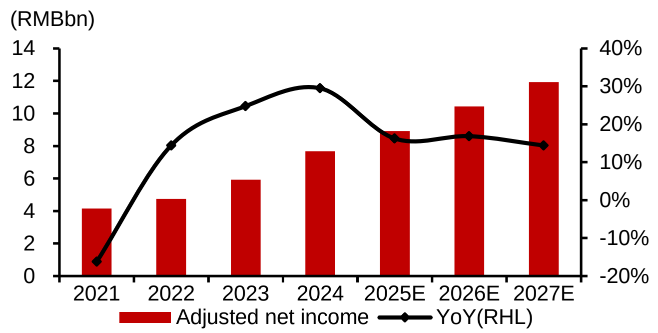
TME (RMBmn)	Revenue (2025E)	EBIT (2025E)	EBIT Margin (2025E)	EV/Sales	EV/EBIT	Valuation
Current valuation (2025/06/05)						**197,913**
- Social entertainment	5,729	1,146	20%	1.0x		5,729
- Net cash						26,817
Online music services	**25,460**	**6,365**	**25%**		**26.0x**	**165,367**
Online music EBIT FY25-27E CAGR						17.3%
Cloud Music (RMBmn)	**Revenue (2025E)**	**EBIT (2025E)**	**EBIT Margin (2025E)**	**EV/Sales**	**EV/EBIT**	**Valuation**
Current valuation (2025/06/05)						**45,055**
- Social entertainment	1,940	291	15%	1.0x		1,940
- Net cash						7,490
Online music services	**6,136**	**1,105**	**18%**		**32.3x**	**35,625**
Online music EBIT FY25-27E CAGR						21.7%

Source: Company data; CMBIGM estimates

1) TME: In 1Q25, online music revenue grew 16% YoY to RMB5.8bn, primarily driven by steady growth in subscription revenue (+17% YoY). The number of subscription users reached 123mn in 1Q25 (+8% YoY), with a net increase of 1.9mn QoQ. Monthly ARPPU rose 8% YoY to RMB11.4, mainly due to the expansion of SVIP users and reduced discounts. Long-form audio is expected to become one of the key drivers for improving SVIP membership penetration. In 1Q25, long-form audio content helped boost the renewal rate of SVIP members, and the company may continue to increase investment in the long-form audio segment to further explore monetization opportunities. According to iResearch, the online audio market size is expected to reach RMB18.8bn by 2025 (vs. TME's total revenue of RMB31.2bn in 2025E). Driven by growth in paying users and ARPPU, we forecast its adjusted net profit to grow 16% YoY in FY25.

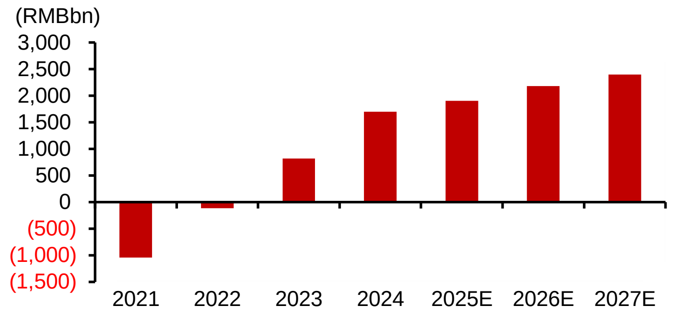
2) NetEase Cloud Music: Revenue declined 8% YoY to RMB1.86bn in 1Q25, mainly due to a drop in social entertainment revenue. However, thanks to effective cost control, music business gross margin improved by 4.8ppts QoQ to 36.7%. In FY25, the company will continue to drive growth in paying users for the music business. This, coupled with the leverage effect, should help its adjusted net profit to increase by 12% YoY in FY25 on our estimate.

Figure 25: TME: adjusted net income trend



Source: Company data; CMBIGM estimates

Figure 26: NetEase Cloud Music: adjusted net income trend



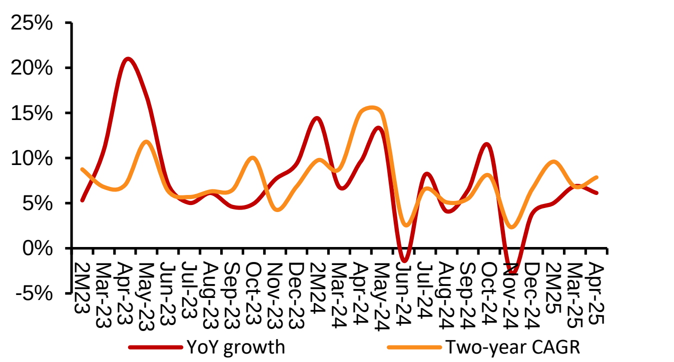
Source: Company data; CMBIGM estimates

E-commerce: Robust and better-than-expectd earnings in core business; instant retail and investmnet in delivery bring uncertainties to overall profit growth

With national subsidies driving consumer demand, the overall GMV growth of the e-commerce sector remains resilient and we believe the trend should continue in 2Q25. Additionally, driven by optimized user subsidies under the national subsidy scheme, e-commerce companies with strong self-operated business (such as Alibaba and JD.com) reported better-than-expected profits in 1Q25, while platforms with weaker self-operated business (like Pinduoduo) had to maintain higher subsidy levels to compete with rivals gaining greater consumer mindshare under the national subsidy scheme, leading to short-term challenges to profits. While shareholder returns across e-commerce platforms remained stable in 1Q25, increased investments in instant retail and food delivery may introduce greater uncertainty for overall profit growth and shareholder returns at the group level, posing near-term stock price overhang for some players. Given the sector's overall low valuation, companies with higher visibility in core profit growth and new business prospects should outperform, and Alibaba is our sector top pick.

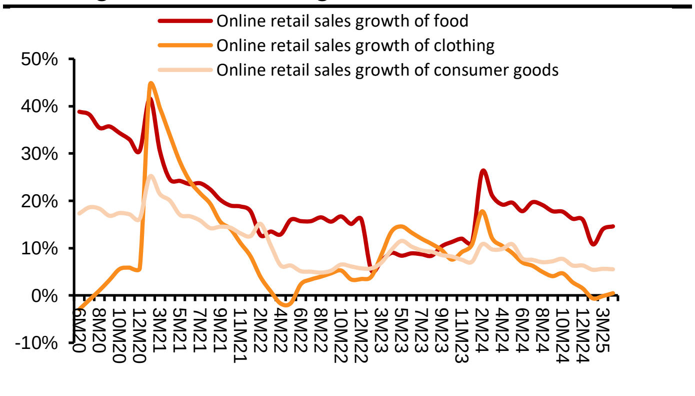
Resilient growth in overall industry GMV; trend likely to continue into 2Q25. In 1Q25, online retail sales of physical goods showed resilient growth at +5.7% YoY (vs +3.5% in 4Q24) driven by national subsidies, with our estimates indicating JD.com/Alibaba achieved GMV growth of +16%/6% YoY respectively. Subsidy-supported categories maintained strong growth momentum in April, with home appliances GMV up +38.8% YoY (vs +35.1% in March), office supplies GMV up +33.5% YoY (vs +21.5% in March), and smartphones showing resilient growth at +19.9% YoY despite a slight deceleration from +28.6% in March. Against this backdrop and based on our April data tracking for e-commerce platforms, we expect GMV growth to remain resilient in 2Q25.

Figure 27: China: YoY growth in online retail sales of physical goods and 2-year CAGR



Source: NBS, CMBIGM

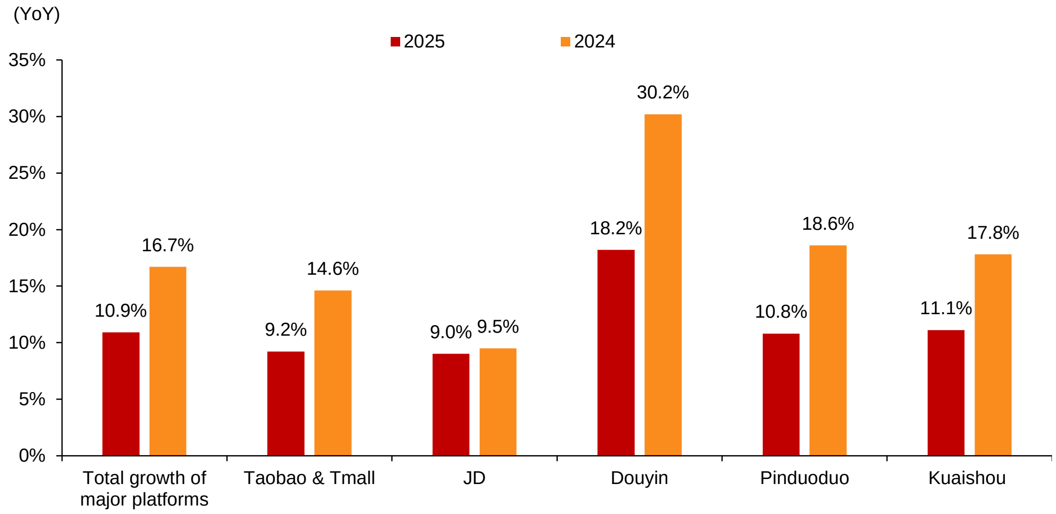
Figure 28: China: online retail sales growth of food, clothing, and consumer goods



Source: NBS, CMBIGM

Data from the first phase of the 618 shopping festival shows that while the overall industry GMV growth has slowed compared to last year, it remains within a range of stable growth. According to Analysys, the total GMV of major e-commerce platforms (including Taobao/Tmall, JD.com, Pinduoduo, Douyin, and Kuaishou) during the first phase of the 2025 "618" campaign grew by 10.9% YoY, slowing from the 16.7% growth recorded in the same period during the 2024 campaign. Douyin e-commerce continued to lead major platforms, while Kuaishou's GMV growth was largely on par with that of integrated e-commerce players. Among the integrated players, Pinduoduo's GMV growth has returned to a level comparable to Taobao/Tmall and JD.com.

Figure 29: 618 sales promotion: GMV growth in the first phase



Source: Analysis, CMBIGM
Note: 1) Major platforms includes: Taobao& Tmall, JD, PDD, Douyin, and Kuaishou; 2) the first phase of sales promotion for 2025's 618 shopping festival lasted from 13 May to 26 May; 3) the first phase of sales promotion for the 2024 618 festival lasted from 20 May to 3 Jun.

The optimization of user subsidies driven by national subsidies has led to better-than-expected profitability for e-commerce platforms with strong self-operated businesses. 1) JD Retail's 1Q25 operating profit grew 38% YoY, exceeding market expectations by 20%, with JD.com raising its full-year guidance for JD Retail to double-digit revenue and operating profit growth (previous: high single digit). We forecast JD Retail's 2025 revenue/operating profit to grow 11.6%/22.3% YoY. 2) Alibaba's Taobao & Tmall Group reported 1Q25 CMR growth of 12% YoY (4% above consensus) and adj. EBITA growth of 8% (6% above consensus). We project FY26 CMR/adj. EBITA for Taobao & Tmall Group to grow 11%/6% YoY. The stronger-than-expected profitability of both platforms indicates more efficient consumer subsidies and marketing expenditures under the national subsidy program. However, Pinduoduo's 1Q25 revenue/non-GAAP net profit missed Bloomberg consensus by 6%/39%, which we attribute to incremental merchant support measures and higher sales/marketing expenses required to maintain user engagement amid intensified competition from platforms benefiting more from national subsidies. We forecast Pinduoduo's 2025E revenue/non-GAAP net profit to grow 10% YoY/decline 22% YoY, with a potential inflection point in 4Q25 when the base effect may ease, as ecosystem enhancement initiatives and national subsidy programs reach the first anniversary.

Shareholder returns remain robust currently but may imply limited upside potential. 1) Alibaba: FY25 total buybacks and dividends reached US$16.5bn, flat YoY, representing 6% of current market cap. 2) JD.com: 1Q25 buybacks totaled US$1.5bn, accounting for 2.8% of shares outstanding at end-2024, with full-year 2024 dividends of US$1.5bn (3% of current market cap).

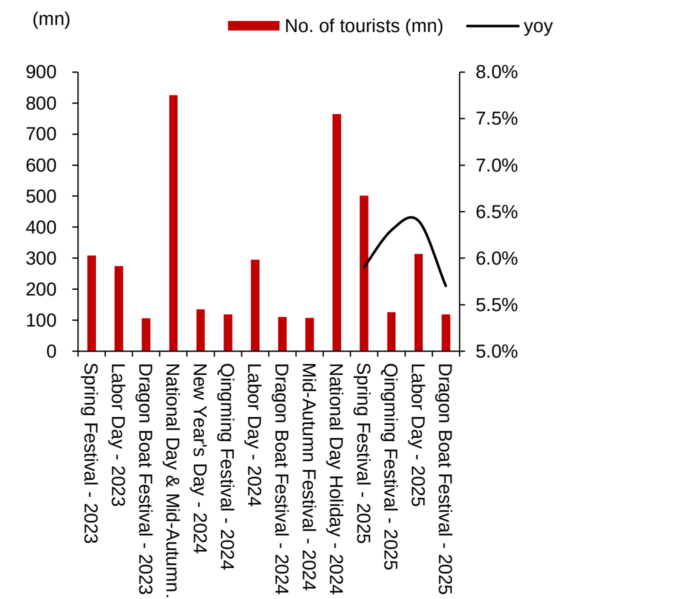
Looking ahead, however, increased investments in instant retail and food delivery are creating uncertainty for overall profit growth at the group level, putting short-term pressure on stock prices. JD.com: Post earnings, the company provided no clear guidance on group-level net profit growth. We currently forecast JD Group's 2025 non-GAAP net profit at RMB46.7bn (-2% YoY), already 2% below market consensus. However, if JD's food delivery business maintains its current growth rate, our earnings estimates may face further downward revisions. **Alibaba**: The Local Services Group reported a loss of RMB2.3bn in 1Q25, far exceeding market expectations of a RMB636mn loss, despite not yet facing intensified competition. Management indicated that investments in instant retail will be jointly borne by Taobao & Tmall Group and Ele.me, adding uncertainty to profit growth. We currently project Alibaba's FY26 EBITA to grow 14% YoY, primarily driven by Taobao & Tmall Group's EBITA expansion and reduced losses in non-core businesses.

OTA: Traval demand remains resilient, outbound business showing strength

Based on travel data for major holidays in 2Q25 and performance metrics from OTA platforms, we expect Trip.com and Tongcheng to deliver resilient earnings in 2Q25. From a full-year perspective, while travel demand remains robust, given that earnings growth expectations appear largely priced in, we believe valuation rerating will likely be the primary driver of stock price movements in the OTA sector. For 2H25, key fundamental focuses include: 1) the growth trajectory of outbound travel against a high base from the prior year, and 2) whether booking volume growth in the hotel segment can remain stable enough to support earnings growth, particularly given the relatively limited room for further take rate increases.

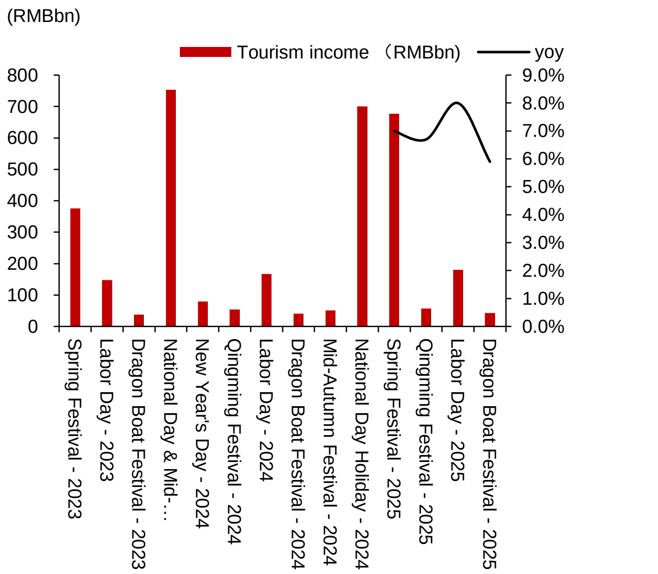
From an industry perspective, travel data during major holidays in 2Q25 generally met or exceeded market expectations. According to the Ministry of Culture and Tourism, China's domestic tourist trips during the 5-day May Day holiday reached 314mn, up 6.4% YoY, with total tourism spending of RMB180.269bn (+8.0% YoY). National Immigration Administration data shows border crossings during the May Day holiday totaled 10.896mn (averaging 217,900 daily), representing 28.7% YoY growth, including 5.778mn mainland resident border crossings, which were up 21.2% YoY, broadly in line with the growth seen during the Qingming Festival holiday and consistently outperforming our initial annual outbound travel growth expectation of 10-15%. For the Dragon Boat Festival, the Ministry of Culture and Tourism estimated 119mn domestic trips (+5.7% YoY) with total tourism expenditure of RMB42.73bn (+5.9% YoY) during the 3-day holiday.

Figure 30: China: No. of tourists for major holidays



Source: Ministry of Culture and Tourism, CMBIGM

Figure 31: China: total tourism income for major holidays



Source: Ministry of Culture and Tourism, CMBIGM

Trip.com Group (TCOM): For domestic business, management noted resilient booking volume growth QTD in 2Q25 (as of 20 May), with hotel booking volume growth standing at c. 10-15% YoY, and transportation ticketing volume growth standing at mid-to-low single digit YoY. Management also noted an improving trend in the YoY decline of average daily rate (ADR) from high single digit in 1Q to mid-to-low single digit range in 2Q for domestic accommodation reservations. Outbound air ticket and hotel bookings on TCOM's platform recovered to more than 120% of the 2019 level in 1Q25 (4Q24:

~120%; 1Q24: ~90%), consistently outperforming the overall market by c.30-40ppts. The trend could sustain in 2Q25, in our view, while revenue growth of the business cloud see tougher comps in 2H25. For pure international business, Trip.com accounted for 13% of group-level revenue in 1Q25, and sustained over 50% YoY revenue growth. We are looking for a slight acceleration trend for Trip.com's revenue growth in 2H25 given better seasonality in overseas markets, and TCOM's incremental investment to drive growth. For 2Q25E, we are looking for revenue/non-GAAP OP growth of 15%/11% YoY, thanks to the company's incremental investment in Trip.com, its pure international business to support rapid growth.

Tongcheng Travel (TC): For 2Q25E, we estimate TC to ink total revenue of RMB4.7bn, up 10% YoY, driven by 13% YoY revenue growth of core OTA segment, but offset by a 7.5% YoY decline in Tourism revenue. Within the core OTA business, we are looking for 10/12/25% YoY revenue growth for transportation ticketing/accommodation reservation (AR)/Others business. We see support for the robust revenue growth of AR to come from: 1) 9% YoY growth in hotel room night growth; and 2) 2% YoY growth in hotel average daily rate (ADR); 3) increase in hotel take rate aided by optimization in user subsidies. We are looking for a reacceleration in YoY revenue growth for AR in 3Q-4Q25, driven by easier comps and stronger seasonality, which in our view should aid recovery in both the growth of hotel room nights and ADR. We forecast non-GAAP OPM of core OTA to expand to 25.5% in 2Q25E (2Q24: 24.3%), and overall non-GAAP net profit of RMB732mn, translating into 15.7% non-GAAP net margin. From a full-year perspective, we are still looking for a 25/18% YoY growth for core OTA OP/total non-GAAP NP in 2025E. Our DCF-based TP remains unchanged at HK$24.0, translating into 15.6x 2025E PE (non-GAAP).

Online adverstising: mixed performances; strong growth in Tencent/Bilibili on enhanced commercialization efficency and AI

We expect the online advertising industry to see divergent performances. We recommend platforms that can consistently enhance advertising ROI through AI capabilities and capture incremental ad budgets, including Tencent, Kuaishou, and Bilibili. For FY25, we project Tencent/Bilibili/Kuaishou to deliver ad revenue growth of +17%/+18%/+14% YoY, driven by: 1) AI-powered improvements in advertising ROI; 2) incremental ad budgets from sectors like mini-games and short dramas; 3) higher monetization rates (e.g., Bilibili and Video Account increasing ad load).

Baidu and Weibo's advertising businesses are relatively under pressure, and we expect Baidu/Weibo's FY25 ad revenue to decline 7%/stay flat YoY. Baidu is actively innovating its search business using large language models (LLMs), which may temporarily disrupt ad monetization. While monetization could begin in 2H25, its effectiveness remains to be seen. Weibo's ad revenue is mainly affected by macro uncertainty and competitive pressures, with key revenue-generating segments like beauty and personal care continuing to reduce ad budgets.

1) Tencent: In 1Q25, marketing services revenue grew 20% YoY to RMB31.9bn (accounting for 18% of total revenue). By product: 1) Video Accounts marketing revenue grew over 60% YoY, primarily driven by recommendation algorithm optimization and the increased ad load rate implemented in August 2024; 2) Mini-programs marketing revenue saw significant YoY growth, benefiting from strong advertising demand from mini-dramas and mini-games; 3) Weixin Search revenue grew rapidly YoY, mainly due to increased commercial inquiries and click-through rates.

2) Kuaishou: In 1Q25, online marketing revenue increased by 8% YoY to RMB18.0bn (55% of total revenue), primarily driven by the external marketing services, within which marketing spending from mini games/local services industry grew by over 30/50% YoY. Closed-loop marketing services faced pressure in 1Q25, mainly due to the high-base effect and increased subsidy to SME merchants.

3) Bilibili: In 1Q25, advertising revenue was up by 20% YoY to RMB2.00bn (29% of total revenue), mainly attributable to the growth of performance ads and steady momentum of brand ads. Performance ads revenue grew by over 30% YoY, and the number of advertisers was up by over 35% YoY in 1Q25.

4) Weibo: Advertising and marketing revenue was flat YoY at US$339mn (85% of total revenue) in 1Q25. By vertical, in 1Q25: 1) ad revenue from automobile vertical maintained solid YoY growth, thanks to the increased ad budget on NEV promotion; 2) ad revenue from e-commerce and food & beverage verticals both delivered strong YoY growth, mainly supported by the consumption stimulus policies; 3) ad revenue from handset vertical declined YoY, mainly attributable to a lack of new product launches and seasonality; 4) ad revenue from online games vertical fell sharply YoY, primarily due to high-base effect and the lack of new game titles; 4) ad revenue from beauty & personal care verticals recovered QoQ, with YoY decline narrowing.

5) Baidu: In 1Q25, Baidu Core's online ads revenue was RMB16.0bn, down 6% YoY, inline with Bloomberg consensus. As the performance of LLMs is improving quickly while the cost can be significantly optimized at the same time, Baidu is more proactively leveraging LLMs to innovate its search business. In April, c. 35% of Baidu's search results were filled with Gen-AI generated results (Jan 2025: 22%), and we expect the contribution to grow to >50% in the coming quarters. We expect Baidu to still prioritize user experience improvement over monetization when starting to test new format of ads monetization. The test may start in 2Q25, but it likely takes time to launch in full. While the product innovation plan is more fast-paced and determined than we expected, it may weigh on near-term ads revenue growth recovery. But this is vital for long-term development, in our view. For Baidu Core, we are now looking for 10% YoY decline for ads revenue growth in 2Q25E, and are lowering 2025E forecast to -7.4%.

Figure 32: China: online advertising platform revenue trend

Total retail sales(RMBtn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25
Total retail sales	**11.5**	**11.3**	**11.5**	**12.9**	**12.0**	**11.6**	**11.8**	**13.4**	**12.5**
YoY	5.8%	10.7%	4.2%	8.3%	4.7%	2.6%	2.7%	3.8%	4.6%
Ad revenue (RMBmn)	**1Q23**	**2Q23**	**3Q23**	**4Q23**	**1Q24**	**2Q24**	**3Q24**	**4Q24**	**1Q25**
Tencent	20,964	25,003	25,721	29,794	26,506	29,871	29,993	35,004	31,853
Kuaishou	13,064	14,347	14,690	18,203	16,650	17,515	17,634	20,994	17,977
Baidu	16,568	19,586	19,672	19,153	17,008	19,164	18,771	17,906	15,978
Weibo	2,434	2,731	2,784	2,911	2,474	2,702	2,850	2,778	2,475
BiliBili	1,272	1,573	1,638	1,929	1,669	2,037	2,094	2,389	1,998
iQiyi	1,404	1,495	1,674	1,651	1,482	1,461	1,337	1,434	1,328
Total	**55,706**	**64,734**	**66,179**	**73,641**	**65,789**	**72,750**	**72,680**	**80,504**	**71,609**
YoY	**1Q23**	**2Q23**	**3Q23**	**4Q23**	**1Q24**	**2Q24**	**3Q24**	**4Q24**	**1Q25**
Tencent	16.5%	34.2%	20.0%	20.8%	26.4%	19.5%	16.6%	17.5%	20.2%
Kuaishou	15.1%	30.4%	26.8%	20.6%	27.4%	22.1%	20.0%	15.3%	8.0%
Baidu	6.3%	14.7%	5.2%	6.3%	2.7%	-2.2%	-4.6%	-6.5%	-6.1%
Weibo	22.2%	35.8%	20.9%	27.6%	31.2%	29.5%	27.8%	23.8%	19.7%
BiliBili	10.1%	7.3%	3.3%	4.5%	1.7%	-1.0%	2.4%	-4.6%	0.0%
iQiyi	5.0%	25.3%	34.3%	6.2%	5.6%	-2.3%	20.1%	13.1%	10.4%
Total	**11.4%**	**25.4%**	**16.1%**	**15.7%**	**18.1%**	**12.4%**	**9.8%**	**9.3%**	**8.8%**

Source: NBS, company data; CMBIGM

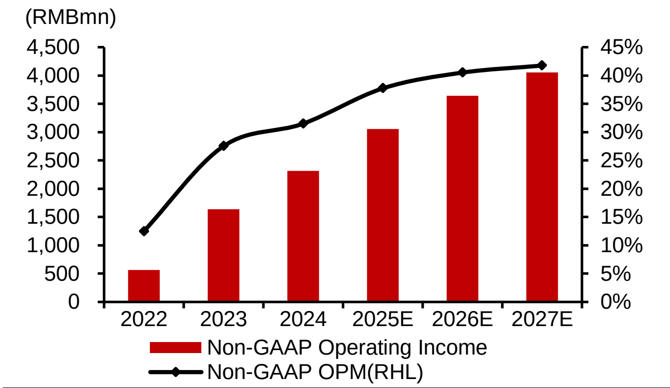
Vertical platforms: Earnings growth outlook key to valuation premium vs industry

For vertical platforms with competitive advantages in their respective fields, we believe the marginal improvement in earnings growth and growth trajectory will be key to maintaining valuation premiums relative to the broader industry in the near term.

Boss Zhipin: The platform's extensive corporate client base and job seeker network have established high competitive barriers. Benefiting from the two-sided network effect, the company enjoys low customer acquisition costs and strong operating leverage. Despite macro uncertainties and trade war impacts, we remain positive on the company's ability to achieve its full-year non-GAAP operating profit target of RMB3.0bn (+32% YoY) through operating leverage and cost control. Should policy support or macro conditions improve beyond expectations, both profitability and valuation could see rapid improvement. In 1Q25, the company's total revenue grew 13% YoY to RMB1.92bn (in line with consensus), while non-GAAP net profit surged 44% YoY to RMB764mn (11% above consensus), driven by robust operating leverage and effective operating expense control. We maintain our target price of US$21.0, based on 21x non-GAAP FY25 P/E. Maintain BUY.

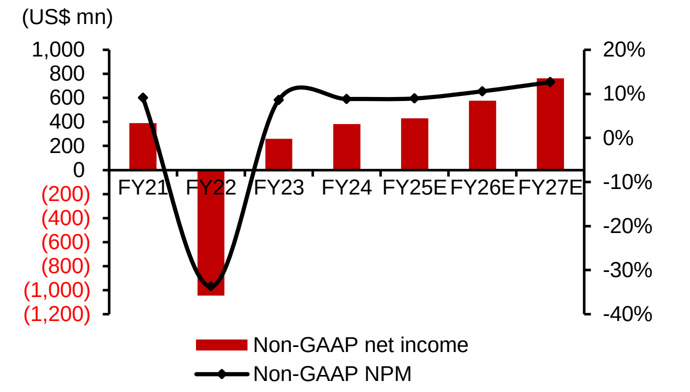
New Oriental: The company's overseas test prep and consulting business (accounting for about 25% of 3QFY25 total revenue) has been impacted by macro and geopolitical uncertainties, coupled with investments in new businesses such as tourism. We expect short-term pressure on both profits and valuation, forecasting FY25 adjusted operating profit growth of 5% YoY. The company plans to implement cost reduction measures and improve teaching facility utilization going forward. Focus could be on potential YoY margin improvement and rerating opportunities in FY26E. Our SOTP-based target price is US$76.0, corresponding to 28x non-GAAP FY25 PE. Maintain BUY.

Figure 33: Boss Zhipin: adj. operating income trend



Source: Company data; CMBIGM estimates

Figure 34: New Oriental: adj. net income trend



Source: Company data; CMBIGM estimates

KE Holdings (BEKE): BEKE's 1Q25 results beat expectations, but outlook guidance raised concerns. 1Q25 revenue rose 42% YoY to RMB23.3bn mainly driven by new home (+64% YoY) and emerging business (+46% YoY). Non-GAAP net profit reached RMB1.4bn in the quarter (flat YoY). However, its 2Q25/FY25 guidance implies FY25 non-GAAP NP of ~RMB 7.3bn based on our estimate, as the company cushions impacts from potentially reduced strength and effectiveness of property policy support vs last year's, and continued investments in staff size and compensation. We maintain our view of "cautious in the short term and positive in the long term" for BEKE. Our SOTP-based TP is US$24.6, translating to 29x 2025E PE (non-GAAP). Maintain BUY.

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OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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