19 Dec 2025

CMB International Global Markets | Equity Research | Sector Update

Internet

2026 Outlook- Bridging legacy and future: A pivotal year

We believe 2026 will be a pivotal year for competing for user mindshare in the AI era, with key focuses on lowering AI adoption thresholds, improving decision-making efficiency, and creating real value. Among traditional internet businesses, companies that possess these three characteristics are expected to have higher long-term investment value: 1) stable cash flow to support AI-related investment and exploration; 2) rich application scenarios to accumulate data and reach users; and 3) outstanding supply chain capabilities and operational excellence to drive overseas expansion for incremental growth. We still recommend adopting a barbell investment strategy, while focusing on both the certainty of profit growth and new increments brought by AI. 1) For AI themes: We favour Tencent, which is expected to see sustained rapid growth in advertising and cloud businesses driven by AI and benefits from the trend of foreign capital inflow; Alibaba, which will benefit from the AI trend with abundant application scenarios but a lower valuation compared to peers; and Kuaishou, whose positive progress in AI application monetization is expected to drive revenue growth and valuation upside. 2) For certainty of profit growth: We recommend NetEase and Trip.com, which have reasonable valuations, stable performance, and high earning visibility**.**

- **Consumption as the foundation: visibility and certainty remain key.** Looking back in 2025, e-commerce benefited from "national subsidies" as expected despite minor twists, local services competition intensified more than expected, and OTA showed stronger growth resilience than anticipated. Looking ahead to 2026, experiential consumption (travel, games, etc.) is set to outpace physical goods in growth, while online travel and gaming may see resilient profit growth. For physical goods retail, with the phasing out of national subsidies, competition may normalize. E-commerce platforms may adjust their investment priorities within the instant retail sector, balancing resources and efficiency to ease competition, although we caution against overly optimistic expectations for the pace of improvement. Instant retail is expected to maintain strong GMV growth, while on-site businesses may await macro recovery and stabilized competition. For e-commerce, we recommend to focus on companies with steady profit growth, reasonable valuations, and sustained AI benefits.
- **Technology as the breakthrough: booming AI drives application and monetization growth.** In 2025, LLM competition intensified, with improved capabilities and faster iteration of open-source models. Meanwhile, as API costs for existing models fell, industry applications flourished. Looking into 2026, competition to enhance model capabilities may persist, and AI monetization in niche segments is set to grow. We are optimistic about monetization potential from improved AI agent capabilities, as well as paid user penetration from advances in image/video generation models. Cloud and ad will remain key AI-driven growth engines for core businesses. Currently, we do not spot any over-investment risks but emphasize the need to track investment return cycles.
- **Expanding overseas: delivering long-term increments.** In 2025, the overseas expansion of OTA exceeded expectations, food delivery overseas achieved efficiency gains ahead of anticipation, game overseas growth was steady, and e-commerce overseas slowed marginally due to geopolitics. Looking ahead to 2026, the overseas expansion of cloud is set to be a new growth driver, OTA overseas may maintain high revenue growth, local services overseas may enter a high-growth phase, and e-commerce overseas will continue to prioritize efficiency over scale. Companies with strong cash flow, high profit margins, and ample cash reserves are better positioned to withstand macro and market cycles, supporting higher valuation and more stable stock performance.

OUTPERFORM
(Maintain)

China Internet Sector

Saiyi HE, CFA
(852) 3916 1739
hesaiyi@cmbi.com.hk

Ye TAO, CFA
franktao@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Joanna Ma
(852) 3761 8838
joannama@cmbi.com.hk

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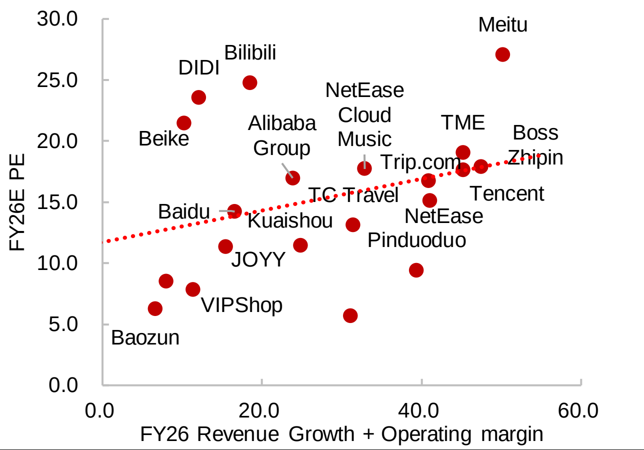
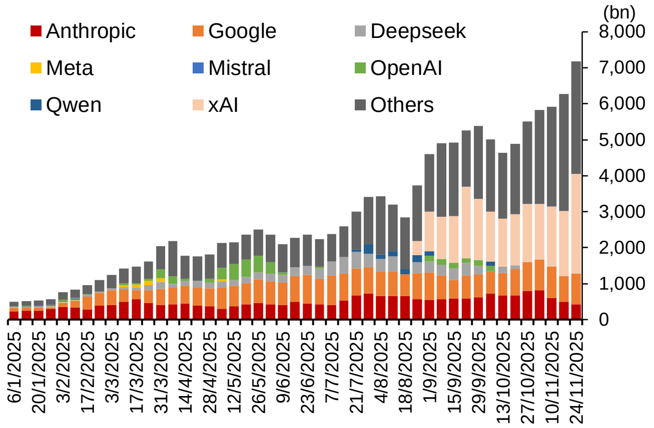
Key Charts

Figure 1: China Internet: Valuation vs fundamental outlook



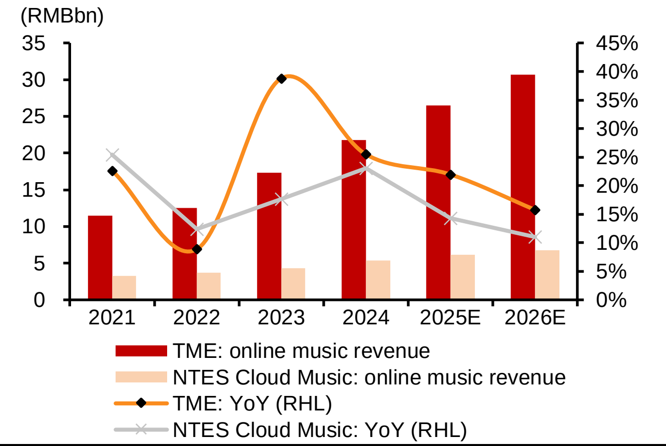
Source: Bloomberg, CMBIGM

Figure 2: 2025 Full view of token usage volume for leading large language models



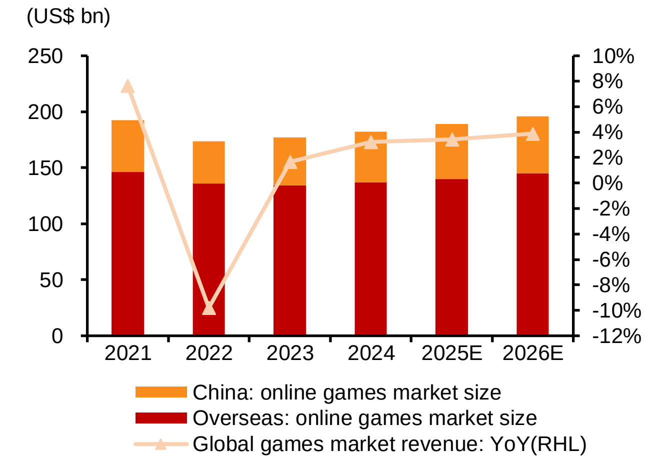
Source: OpenRouter, CMBIGM

Figure 3: Online music: online music revenue outlook



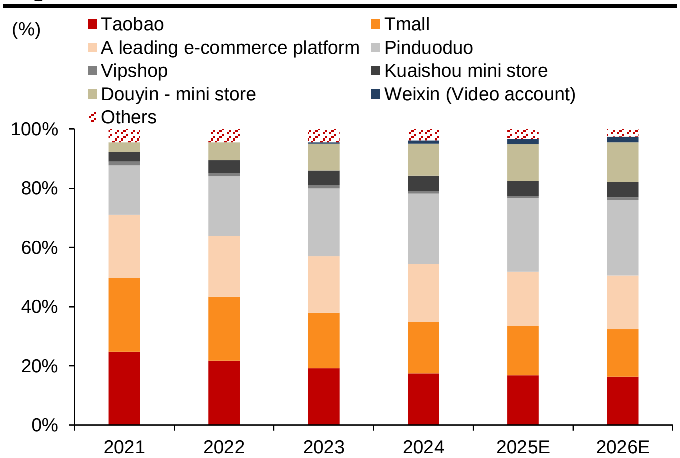
Source: Company data, CMBIGM estimates

Figure 4: Global gaming market size



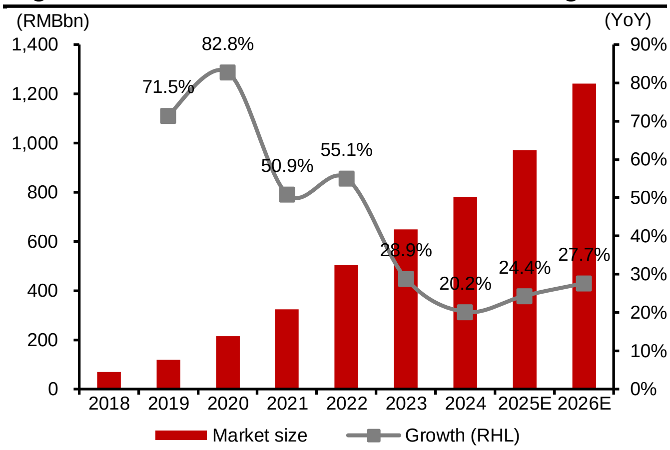
Source: Newzoo, CNG, CMBIGM estimates

Figure 5: China: E-commerce market share



Source: NBS, Latepost, Company data, CMBIGM estimates

Figure 6: China: instant retail market size & growth



Source: MOFCOM, CMBIGM estimates

China Internet: Sector Review and Investment Recommendations

2026 Outlook: 1) **Online Music** (10%-15% revenue and profit growth expected): We have slightly revised down our expectations for the industry's profit growth rate and our assessment of the competitive landscape. We expect the profit growth to closely align with the revenue growth, primarily due to a slower pace of overall gross profit margin expansion, as the rapid growth in the fan economy and offline concert businesses of leading platforms is exerting moderate pressure on gross profit margins. Regarding the competitive landscape, the fast-growing MAU of Soda Music has brought certain traffic competition pressure, but the overall industry competitive structure remains stable. Leading platforms continue to maintain their leading position by virtue of content advantages and economies of scale. 2) **Online Gaming** (~10% revenue growth, 10%-15% profit growth expected): We have slightly adjusted our judgment on the certainty of the industry's profit growth. Looking ahead to 2026, the steady performance of leading evergreen games will support earnings, but whether the industry's growth can exceed expectations will largely depend on the performance of several key new releases. 3) **Online Advertising** (~10% revenue and profit growth expected): We maintain our overall view on the industry basically unchanged, but anticipate significant divergence in performance across industry players. Companies that can continuously leverage AI to empower their advertising businesses are expected to maintain growth faster than the industry average. 4) **Online Travel Agency (OTA)** (10%-15% revenue and profit growth expected): We believe the OTA industry will exhibit overall resilience, with profit growth becoming a key driver of share price increases. The rapid development of pure international businesses is expected to unlock long-term growth potential. 5) **E-commerce:** Due to firm investments in food delivery and instant retail businesses (which have impacted profit margin levels and are expected to continue in 2026), we have revised down our expectations for the industry's shareholder return levels. Against the backdrop of the phasing out of national subsidies, the industry's overall revenue and profit growth rates may face challenges. Core user retention capability remains the critical determinant of competitive success, the market focuses on the incremental GMV and synergies brought by instant retail investments, and AI-related valuation upside will drive share prices. 6) **Local Life Services:** Affected by the macroeconomic environment and intensifying industry competition, we have revised down our expectations for fundamental resilience. Optimization of the competitive landscape remains the key factor driving valuation recovery.

Figure 7: Internet sector: sub-sector prosperity scoring table

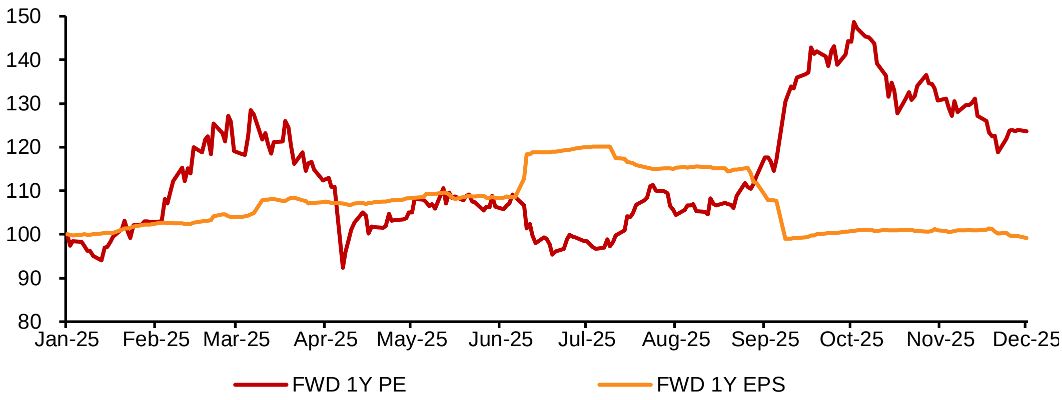
Sub-sector	Online penetration	Revenue growth	Profit growth	Profit growth certainty	Industry competitive landscape	Fundamental resilience	Shareholder return	Low regulatory
Online Music	★☆☆☆☆	★★★☆☆	★★★☆☆	★★★★☆	★★★☆☆	★★★★☆	★★★☆☆	★★★★☆
Online Gaming	★☆☆☆☆	★★☆☆☆	★★★☆☆	★★★☆☆	★★★☆☆	★★★★☆	★★★☆☆	★★★☆☆
OTA	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★★☆☆	★★★★☆	★★★☆☆	★☆☆☆☆	★★★★☆
E-Commerce	★☆☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆
Local Life Services	★★★☆☆	★★☆☆☆	★☆☆☆☆	★☆☆☆☆	★☆☆☆☆	★★☆☆☆	★☆☆☆☆	★★☆☆☆
Online Advertising	★☆☆☆☆	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★★☆☆	★★☆☆☆	★★★☆☆	★★★☆☆

Source: NBS, iResearch, CNNIC, CMBIGM

Note: Local Services/Online Travel/E-Commerce are assessed on online GTV penetration; Online Advertising on online ad revenue share; Online Music/Gaming on online user penetration; Revenue and profit growth rates are based on CMBI's 2026E outlook; Industry competitive landscape is assessed on data such as CR5 market share; Resilience is assessed on factors including the correlation between revenue growth and GDP or total retail sales growth; Grey background indicates a score downward revision vs 2H25 outlook, while orange background indicates an upward revision.

2025 Sector Performance Review: 1) At the start of 2025, event-driven catalysts like DeepSeek's launch and AI application advancements lifted HSTECH's valuation. By early March, its PE ratio reached 19x (up 28% YoY), while expected EPS remained stable with a ~5% upward revision; 2) In April, the US's reciprocal tariff policy triggered a sharp valuation pullback. By early April, Hang Seng Tech's PE hit a low of 14x (down 8% YoY) and stayed at relatively low levels through August, with expected EPS stable and slightly higher; 3) In August, progress in China-US trade talks plus rapid AI business growth of leading Chinese internet firms drove a notable valuation rebound, peaking at 23x PE in October (up 49% YoY). However, intensified local services competition and increased AI investment led to a downward revision of expected EPS from August onward, eventually in line with the start of the year.

Figure 8: HSTECH: 1-Year Forward PE & EPS Trend

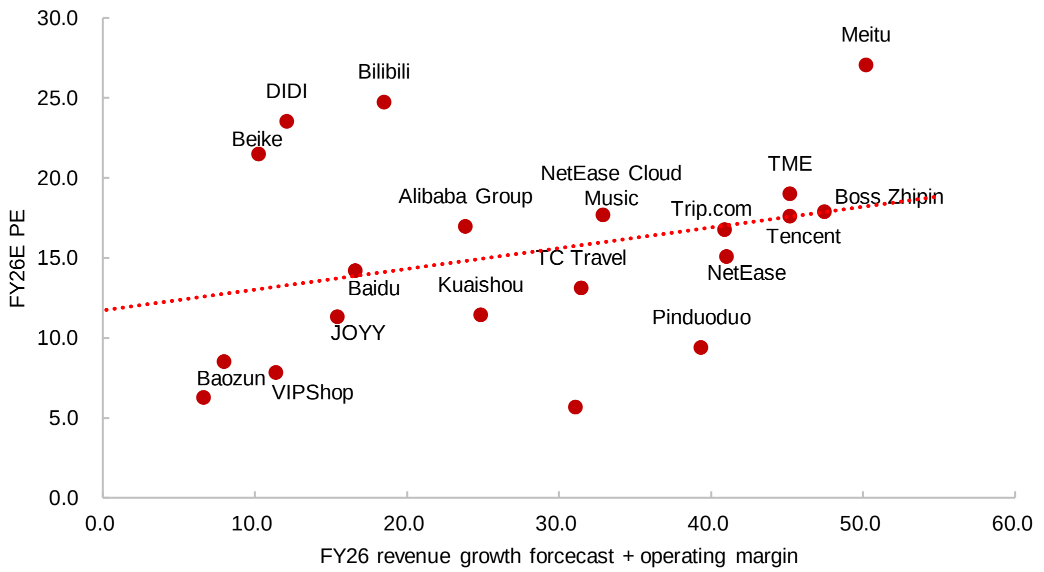


Source: Bloomberg, CMBIGM

Note: PE and EPS as of 2025/1/1 are used as the benchmark (indexed to 100).

Based on companies' FY26 fundamental expectations (FY26 revenue growth forecast + operating margin) and PE levels, from a GARP perspective: PDD/ Kuaishou/NetEase are relatively undervalued; Tencent/Baidu/Trip.com/Boss Zhipin are reasonably valued; Meitu/Beike are relatively overvalued. Overall, we believe profit growth prospects remain the key support for companies' valuations, while AI-related valuation upside may act as a key catalyst.

Figure 9: China Internet: valuation vs fundamental outlook



Source: Bloomberg, CMBIGM

Figure 10: China Internet: Valuation level

Company	Ticker	Price (Local)	Mkt cap (USDmn)	PE (x) 2025E	PE (x) 2026E	PS(x) 2025E	PS(x) 2026E	PEG 2026E	EPS CAGR 24-26E
AI theme									
Tencent	700 HK	612.0	713,178	19.4	17.2	6.7	6.1	1.2	16%
Alibaba	BABA US	157.4	375,664	24.5	17.4	2.6	2.3	NA	-1%
Kuaishou	1024 HK	67.5	37,591	12.9	11.5	1.9	1.7	0.8	15%
Baidu	BIDU US	118.7	41,623	15.8	15.0	2.3	2.2	NA	-14%
Average				**18.2**	**15.3**	**3.4**	**3.1**		
Online Entertainment									
Tencent	700 HK	612.0	713,178	19.4	17.2	6.7	6.1	1.2	16%
NetEase	NTES US	139.7	88,483	15.9	15.0	5.5	5.1	1.3	13%
Kuaishou	1024 HK	67.5	37,591	12.9	11.5	1.9	1.7	0.8	15%
Bilibili	BILI US	25.7	10,826	NA	NA	2.5	2.3	NA	NA
China Literature	772 HK	35.8	4,753	24.9	22.2	4.5	4.2	1.5	16%
JOYY	JOYY US	62.3	3,174	11.4	10.8	1.5	1.4	NA	-1%
iQiyi	IQ US	2.0	1,964	NA	17.3	0.5	0.5	NA	-26%
Average				**15.0**	**14.2**	**3.1**	**2.8**		
E-commerce									
Alibaba	BABA US	157.4	375,664	24.5	17.4	2.6	2.3	NA	-1%
Pinduoduo	PDD US	116.8	165,843	10.6	9.0	2.7	2.4	2.6	4%
Meituan	3690 HK	98.1	76,361	NA	NA	1.5	1.3	NA	-52%
VIPShop	VIPS US	19.9	10,256	8.3	8.0	0.7	0.7	7.3	1%
Baozun	BZUN US	2.9	170	17.3	6.4	0.1	0.1	NA	NA
Average				**14.3**	**9.8**	**1.3**	**1.2**		
Online Music									
TME	TME US	18.7	28,995	21.2	18.9	6.3	5.6	1.1	20%
NTES Cloud Music	9899 HK	190.1	5,246	13.2	16.2	4.7	4.3	0.8	17%
Average				**17.2**	**17.6**	**5.5**	**4.9**		
OTA									
Trip.com	TCOM US	71.1	46,484	10.5	15.9	5.3	4.7	1.3	8%
TC Travel	780 HK	22.7	6,706	14.2	12.5	2.5	2.2	0.8	18%
Average				**12.4**	**14.2**	**3.9**	**3.4**		
Online medical									
JD Health	6618 HK	60.2	24,533	29.4	26.3	2.4	2.1	1.6	18%
Ali Health	241 HK	5.5	11,222	32.8	28.0	2.3	2.0	1.5	22%
Pingan Healthcare	1833 HK	14.1	3,907	NA	NA	5.1	4.5	NA	59%
Average				**31.1**	**27.2**	**3.3**	**2.9**		
Cyclical									
Beike	BEKE US	16.8	19,668	25.0	19.8	1.5	1.4	NA	0%
Full-truck Alliance	YMM US	11.3	11,787	17.6	15.5	6.7	6.1	1.0	17%
Boss Zhipin	BZ US	21.1	10,116	19.9	17.5	8.7	7.6	0.8	23%
Average				**20.8**	**17.6**	**5.6**	**5.0**		

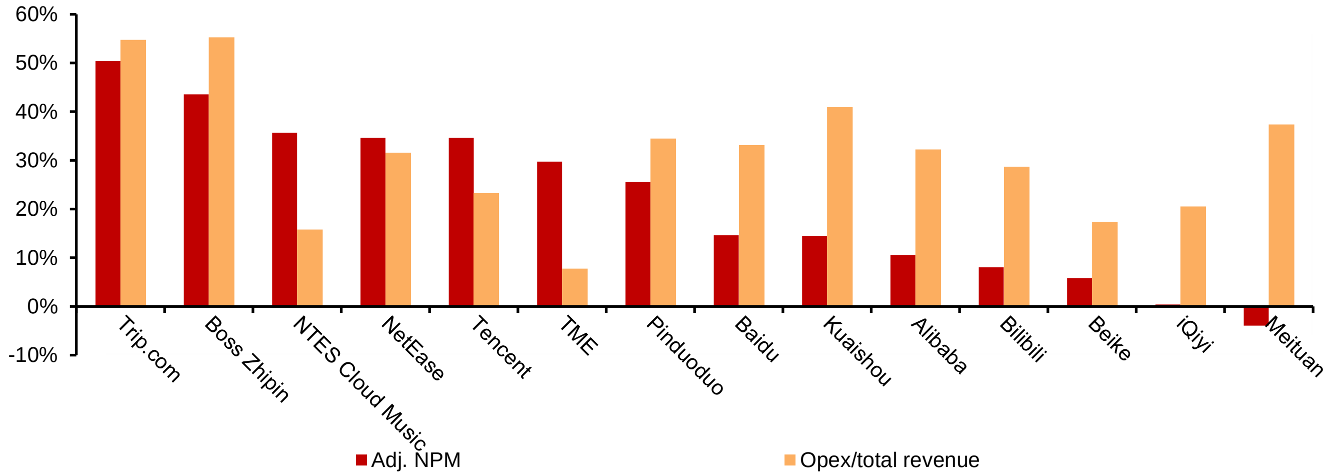
Source: Bloomberg, CMBIGM

Note: Data as of 4 Dec.

Cash flow & profit margin: strong cash flow generation capacity underpins fundamental resilience

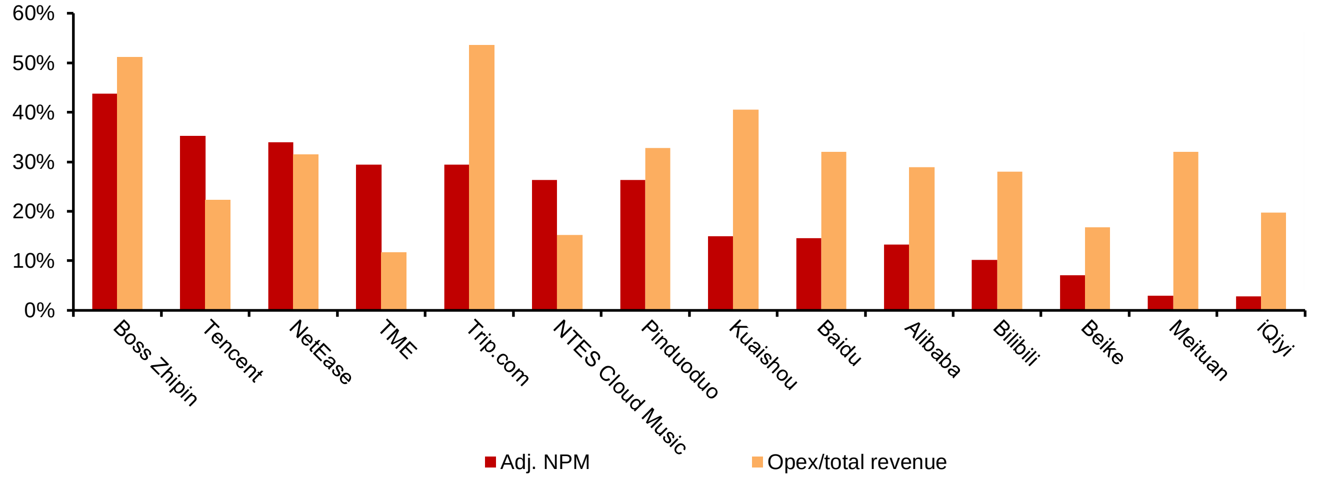
Looking forward to 2026, we believe companies with strong cash flow generation capacity and healthy profit margins are better positioned to withstand macro and market cycles, such as Tencent, NetEase, TME, and NetEase Cloud Music. Conversely, companies with higher other operating expense ratios (share of fixed-cost-like expenses) possess more significant operating leverage, meaning that their profit performance may fluctuate sharply with macro conditions and revenue growth. Examples include Boss Zhipin, Kuaishou, Baidu, and Bilibili.

Figure 11: Internet sector: profit margin & expense ratio comparison (2025E)



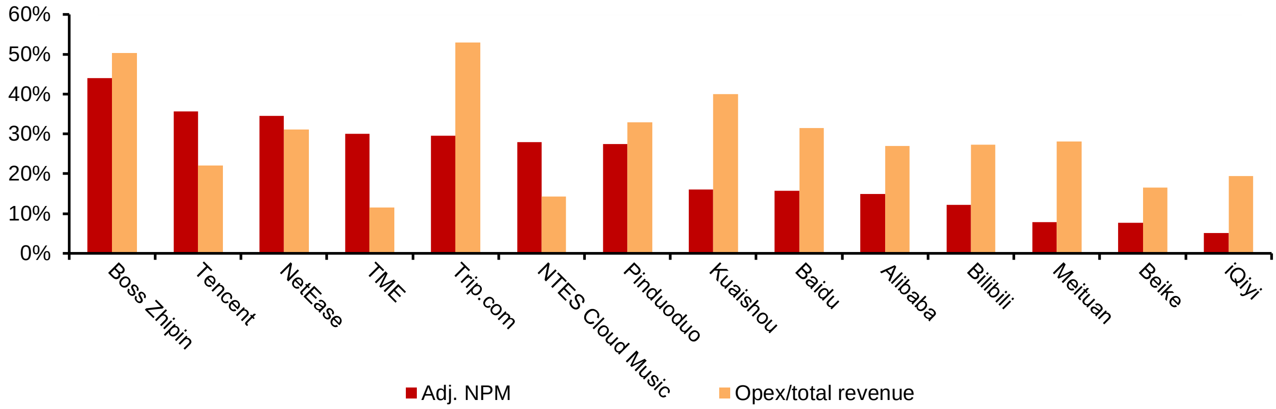
Source: Bloomberg, Company data, CMBIGM

Figure 12: Internet sector: profit margin & expense ratio comparison（2026E）



Source: Bloomberg, Company data, CMBIGM

Figure 13: Internet sector: profit margin & expense ratio comparison（2027E）



Source: Bloomberg, Company data, CMBIGM

From a cash flow perspective, companies including PDD, NetEase, Trip.com and Vipshop boast robust cash flow generation capacity (free cash flow/market cap) and high book cash levels (net cash/market cap), enabling them to better resist competition, invest in new business areas, or enhance shareholder returns.

Figure 14: Internet sector: shareholder return

				Cash generation				Shareholder return				Dividend	Buyback
Company	Ticker	Price (local)	Mkt Cap (US$mn)	FCF/mkt cap FY26E	FCF/mkt cap FY27E	Net cash/mkt cap FY26E	Net cash/mkt cap FY27E	Div+Buyback-SBC FY26E	Dividend Yield FY26E	Buyback/mkt cap FY26E	SBC/mkt cap FY26E	DPS (local) FY26E	Share buyback FY26E
VIPShop	VIPS US	19.9	10,256	12.5%	13.5%	45.4%	49.3%	6.8%	2.3%	7.2%	-2.7%	0.47	741
Beike	BEKE US	16.8	19,668	4.4%	6.5%	-10.6%	-8.8%	4.9%	1.4%	4.6%	-1.1%	0.24	900
TME	TME US	18.7	28,995	5.7%	6.0%	14.6%	19.6%	2.2%	0.9%	1.7%	-0.4%	0.17	500
Tencent	700 HK	606.0	711,930	4.7%	5.6%	-1.5%	-2.0%	1.7%	1.1%	1.4%	-0.8%	6.41	10,000
NetEase	NTES US	139.7	88,483	6.8%	7.4%	15.7%	19.7%	1.5%	2.1%	0.2%	-0.8%	2.94	150
Alibaba	BABA US	157.4	375,664	1.9%	3.2%	4.7%	7.4%	1.2%	1.3%	0.6%	-0.6%	2.00	2,195
Baidu	BIDU US	118.7	41,623	6.1%	-1.6%	48.6%	52.0%	1.1%	0.0%	2.5%	-1.4%	-	1,033
Boss Zhipin	BZ US	21.1	10,116	6.0%	6.8%	20.0%	25.3%	0.9%	0.6%	2.0%	-1.6%	0.12	200
Trip.com	TCOM US	71.1	46,484	6.3%	7.2%	24.5%	31.2%	0.4%	0.4%	0.7%	-0.7%	0.29	344
TCEL	780 HK	22.2	6,712	8.5%	9.7%	22.8%	29.3%	0.2%	1.1%	0.0%	-0.9%	0.25	-
Cloud Music	9899 HK	187.4	5,237	5.8%	6.4%	34.4%	43.2%	0.2%	0.6%	0.0%	-0.4%	1.18	
Meituan	3690 HK	97.3	76,353	2.0%	5.9%	9.4%	12.6%	0.0%	0.0%	1.4%	-1.4%	-	1,042
Kuaishou	1024 HK	67.9	37,699	9.6%	9.6%	6.8%	10.4%	0.0%	0.0%	1.1%	-1.1%	-	400
Pinduoduo	PDD US	116.8	165,843	11.0%	12.9%	41.2%	55.0%	-0.9%	0.0%	0.0%	-0.9%	-	-
Bilibili	BILI US	25.7	10,826	2.4%	3.5%	20.5%	26.0%	-1.2%	0.0%	0.5%	-1.7%	-	50

Source: Bloomberg, Company data, CMBIGM estimates

Note: Data as of December 4, 2025; 1) FY26E share repurchase amount is based on our estimates; 2) FY26/27E net cash/cash flow/dividends per share are based on Bloomberg consensus or our estimates

Investment Recommendations

1) **Tencent (700 HK):** The company has established solid competitive strengths in consumer internet segments including social, gaming, and advertising, with AI empowering its advertising, gaming, and cloud businesses across multiple dimensions. Looking ahead to FY26, we expect several drivers to support fundamental growth: 1) Evergreen games may maintain stability, while key new releases such as Honor of Kings: World are expected to contribute incremental gaming revenue; 2) AI empowerment coupled with higher ad load on Channels drives advertising revenue growth above the industry average; 3) AI-driven cloud services propel Tencent Cloud's revenue growth. Backed by solid competitive moats and operating leverage, we project FY26 adjusted operating profit to grow 11% YoY. The stock currently trades at ~17x FY26 non-IFRS PE (15x excluding strategic investments). Our SOTP-based target price is HK$760.0, corresponding to 22x FY26E non-GAAP PE.

2) **Alibaba (BABA US):** We reaffirm our positive view on Alibaba, supported by: 1) strong growth prospects for cloud computing revenue, driven by rising adoption of AI-related products and increasing digitalization demand; 2) stable e-commerce outlook, fueled by cross-selling effects from higher penetration of "Full-Site Recommendation" and rapid growth of instant retail. The latter is expected to boost user stickiness and drive better long-term customer management revenue, in our view. With robust technological capabilities and abundant AI application scenarios, Alibaba is poised to drive long-term revenue and profit growth via its two core strategic pillars: "consumption" and "AI + cloud". We view Alibaba as a key beneficiary of the AI theme. Our target price is US$206.4, corresponding to 23.4/18.1x FY27/28E PE.

3) **Kuaishou (1024 HK):** We expect Kuaishou to continue benefiting from AI application development: 1) Keling AI revenue exceeded RMB300mn in 3Q25, with management projecting full-year FY25 revenue of US$140mn (≈RMB1bn, accounting for 1% of total revenue); 2) Online marketing: Leveraging AI models such as OneRec, Kuaishou drove an additional 4-5% growth in domestic online marketing revenue in 3Q25; 3) E-commerce: Launched generative search architecture OneSearch, enabling more accurate product matching and driving ~5% growth in mall search orders. We are optimistic about its AI-driven growth and profit resilience, projecting adjusted net profit to grow 14% YoY in FY26. The stock currently trades at ~15x FY26 non-IFRS PE. Our SOTP-based target price is HK$88.0, corresponding to 15x FY26E non-GAAP PE.

4) **Trip.com (TCOM US):** Overall travel demand remains resilient. Backed by strong supply chain capabilities and high-quality customer service, Trip.com's domestic and outbound booking growth outpaces the industry average. Additionally, its overseas expansion progresses smoothly with balanced investment and revenue growth, which we believe will unlock long-term value. We forecast FY26 revenue/non-GAAP operating profit to grow 15%/14% YoY. Our DCF-based target price of US$83 corresponds to 20x 2026 non-GAAP PE". Rated Buy.

5) **NetEase (NTES US):** We expect key products to drive performance and valuation upside in FY26: 1) Swords of Legends: The Wanderer delivered better-than-expected overseas performance, with peak concurrent users exceeding 250,000 and ranking top 3 on Steam's global bestseller list. Overseas revenue contribution is expected to approach domestic levels in 2026; 2) Open-world marine RPG Forgotten Sea is scheduled for 2026 launch, poised to contribute substantial incremental revenue; 3) Open-world RPG Infinity is expected to launch in 2026. Supported by new product contributions, we project operating profit to grow 12% YoY in FY26. The stock currently trades at ~15x FY26 non-IFRS PE. Our SOTP-based target price of US$164.0 corresponds to 18x FY26E non-GAAP PE.

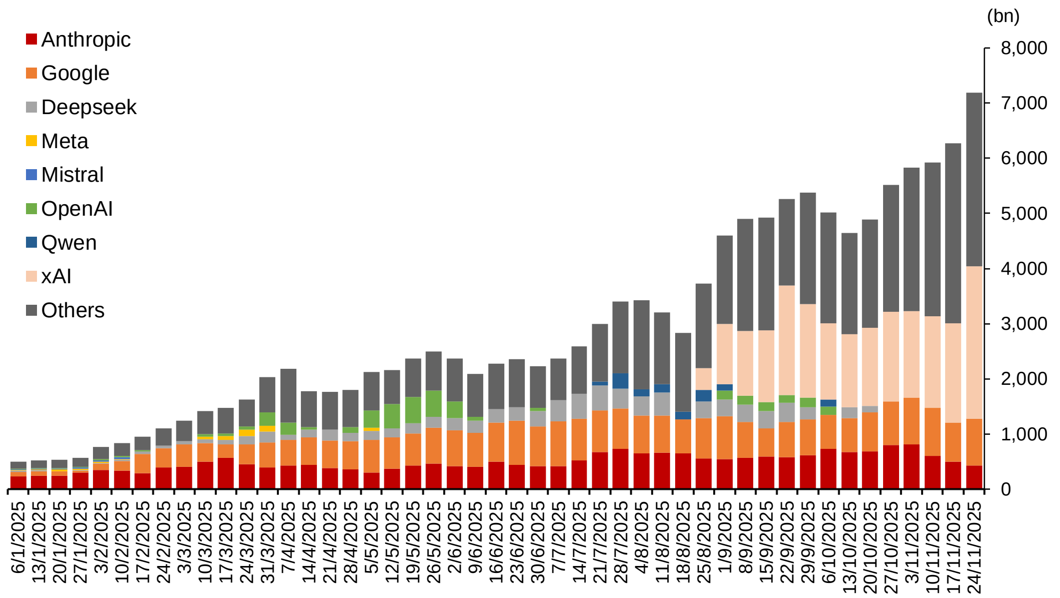
LLMs & AI Applications: Intensified industry competition, exploration of diversified applications, and cost reduction & efficiency improvement

Review of 2025: Competition has intensified across all segments within the large language model (LLM) industry, with continuous iterative upgrades in model capabilities. Meanwhile, call costs for the same models have continued to decline, and industry applications have been gradually promoted. Key industrial trends include: AI agent capabilities have emerged as a core focus; accelerated release and iteration of open-source LLMs; native end-to-end voice interaction models have become feasible for large-scale deployment; and further advancements in image editing and video generation LLMs. Looking ahead, we believe competition has not yet entered a convergence phase in 2026. The industry will continue to explore cutting-edge model capabilities while advancing industrial applications of LLMs, and monetization of AI applications in niche segments is expected to maintain growth momentum. We are optimistic about the further monetization potential driven by improved AI agent capabilities, as well as increased paid user penetration and monetization from advanced image editing and video generation LLMs.

LLM industry development trends: intensified competition, enhanced capabilities, and lower costs

Overall, global LLM Token usage volume has seen rapid growth since 2025, with the AI industry accelerating from technology validation to large-scale application. Data from the OpenRouter platform shows that the peak weekly Token usage volume of LLMs on its platform exceeded 7T in 4Q25, nearly doubling the peak in 3Q25. Among them, leading vendors such as xAI Grok and Google Gemini have witnessed prominent growth in LLM Token usage: xAI Grok's weekly Token usage reached 3.15 trillion in November 2025, surging over 692% from 397bn in end August. The adaptability of model capabilities to scenarios and pricing strategies are the core drivers of LLM Token consumption growth. xAI Grok and Google Gemini, while capable of rapid technological iteration, are bound to high-value vertical scenarios such as programming, achieving absolute leading market share in AI+programming scenarios; Anthropic Claude has maintained its market share through continuously optimized pricing strategies.

Figure15：2025 Full view of token usage volume for leading large language models

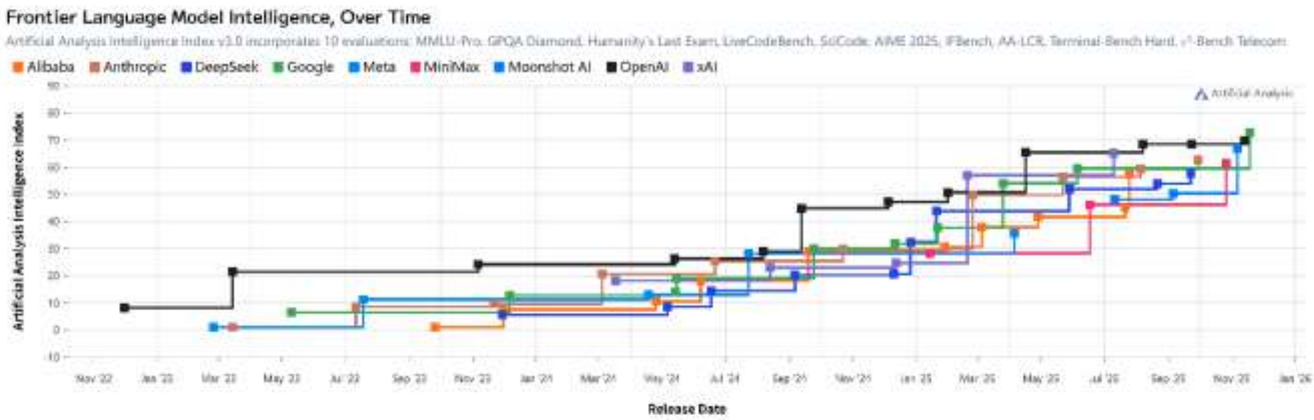


Source：OpenRouter，CMBIGM

Note: Unit price refers to the USD price per mn Tokens (input and output Token price weight ratio is 3:1, calculated on a blended basis)

Based on the iteration speed and intelligent capabilities of leading industry LLMs, the entire industry is demonstrating a trend of continuously accelerating iteration cycles and persistent breakthroughs in intelligent capabilities. According to the Artificial Analysis Intelligence Index, as of 24 November, the most capable LLM in the industry to date is Google's Gemini 3 Pro preview.

Figure16: Comparison of model capabilities among mainstream LLMs

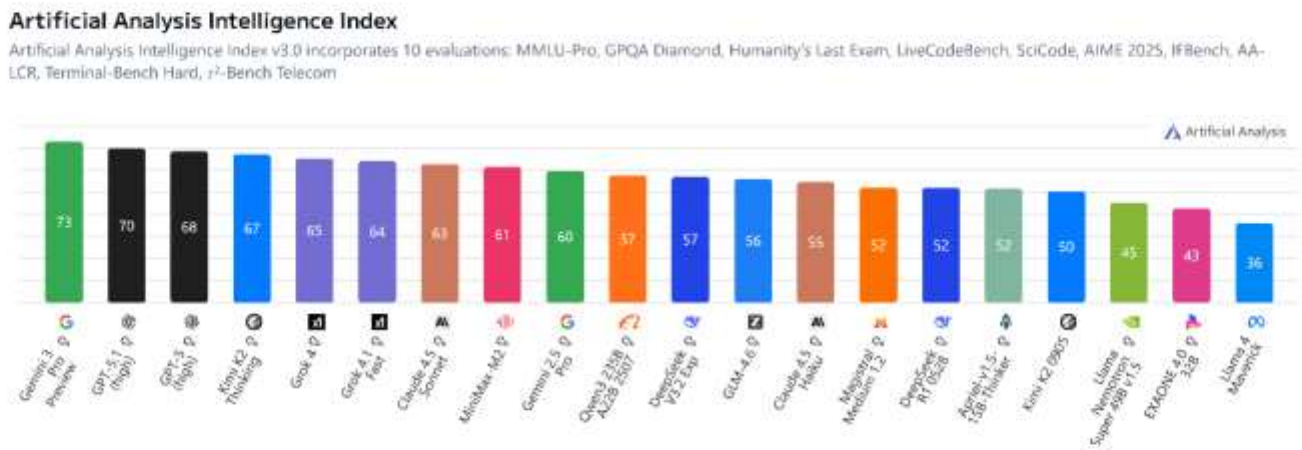


Source: Artificial Analysis, CMBIGM

Note: 1) The Artificial Analysis Intelligence Index covers 10 evaluation dimensions (the same below), mainly including: MMLU-Pro, GPQA Diamond, Humanity's Last Exam, LiveCodeBench, SciCode, AIME 2025, IFBench, AA-LCR, Terminal-Bench Hard, τ^2-Bench Telecom; 2) the ranking is non-exhaustive; 3) the ranking is as of 24 Nov 2025.

Based on the overall capability scores of LLMs from Artificial Analysis data, U.S. vendors including Google, OpenAI, xAI, and Anthropic maintain leading positions in the industry. Among Chinese vendors, the top-performing LLMs include Kimi developed by Moonshot, DeepSeek by High-Flyer Quant, Minimax by Xiyu Technology, and Qwen by Alibaba Group, all of which demonstrate industry-leading capabilities.

Figure17: Ranking of capabilities of mainstream LLMs



Source: Artificial Analysis, CMBIGM

Note: 1) ranking is based on the Artificial Analysis Intelligence Index; 2) the ranking is as of 24 Nov 2025.

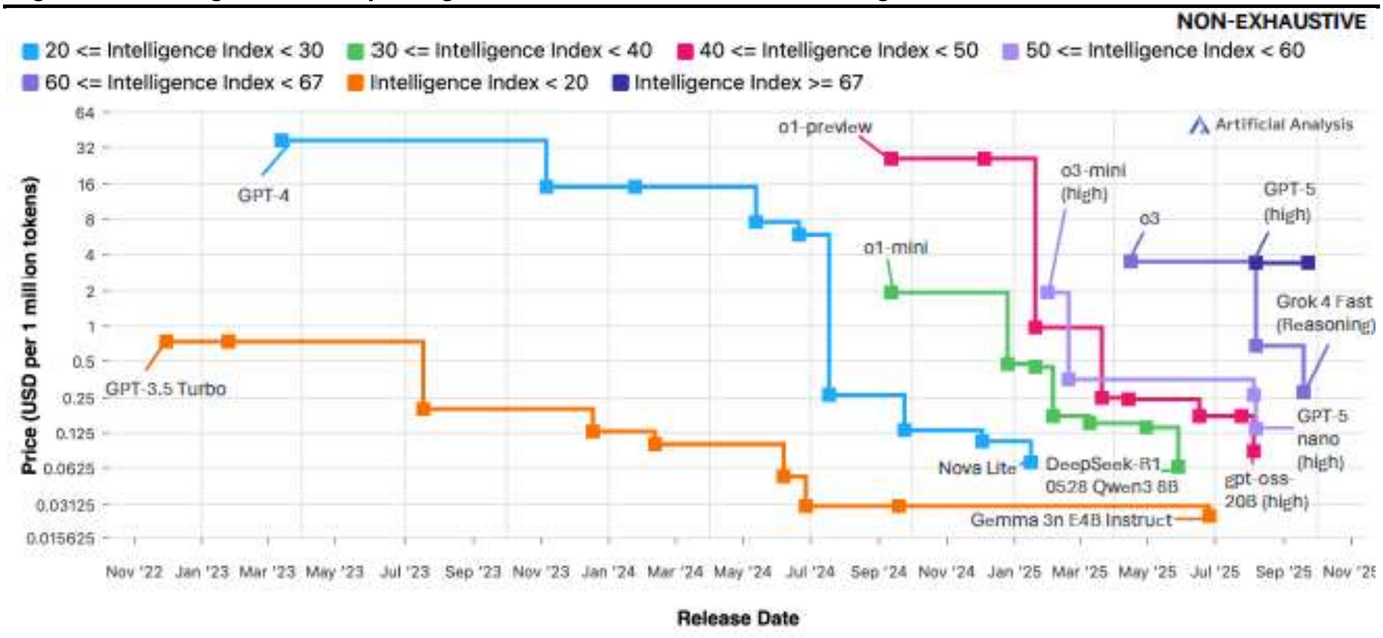
Based on the capability comparison between open-weights and proprietary models, Chinese model vendors have generally focused on exploring the open-weights route. Currently, the most capable open-source model is Kimi K2 Thinking. However, we have also observed a trend where U.S. vendors are accelerating their exploration of open-source models. For instance, OpenAI released its open-weight language model GPT-oss in August 2025.

Figure18: LLM capability comparison: Open-weights vs. proprietary model

Source: Artificial Analysis, CMBIGM
Note: 1) ranking is based on the Artificial Analysis Intelligence Index; 2) the ranking is as of 24 Nov 2025.

On the model inference cost front, based on data from Artificial Analysis, we have observed two key trends overall: 1) the inference costs of representative models within each group classified by different intelligent capability levels have continued to decline over time; 2) At the same point in time, accessing more powerful large language models (LLMs) does require a higher price; however, over an extended time horizon, the inference costs of representative models across all groups have fallen, and the narrowing cost gap between different groups is expected to further drive the prosperity of the application ecosystem.

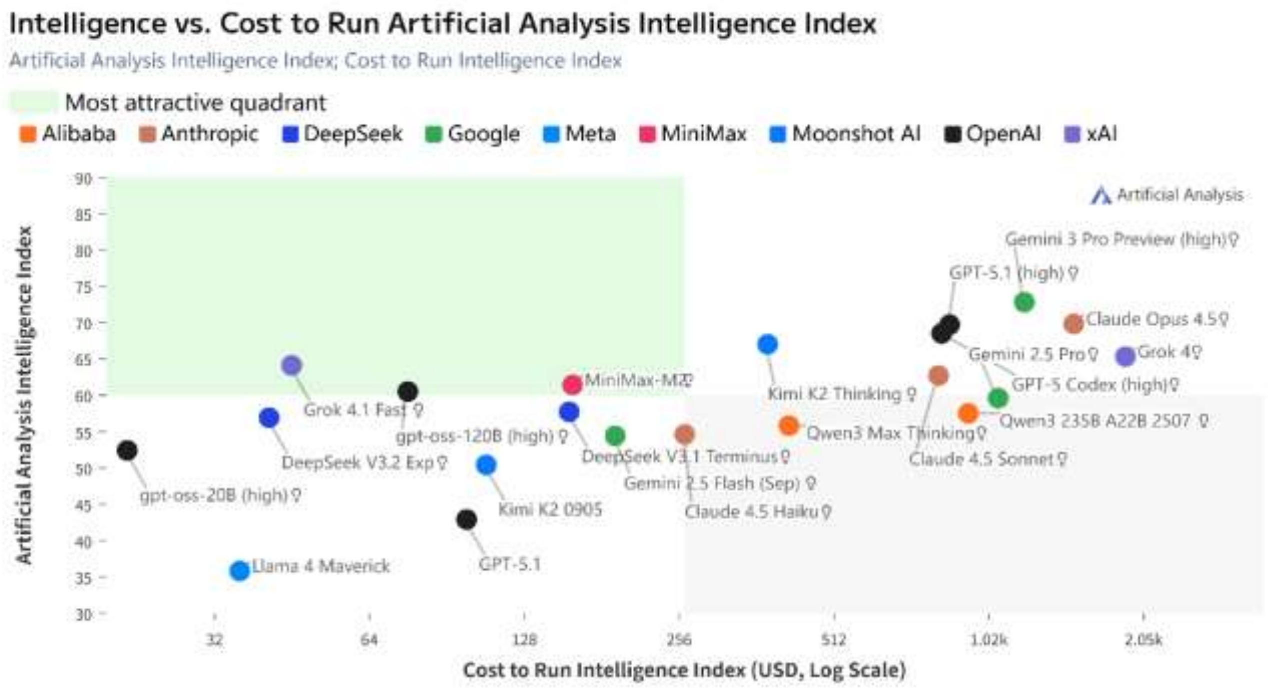
Figure19: Pricing: Inference pricing continues to fall across all intelligence classes



Source: Artificial Analysis, CMBIGM
Note: price in USD per 1mn tokens (blended input to output token price 3:1).

By comparing within the industry, based on the comprehensive measurement of cost efficiency in terms of integrating the intelligent capability index of different models and the costs required to complete the corresponding index tests, certain versions of Minimax, Grok, and GPT series rank in the most attractive quadrant among current models. Models such as Kimi and Deepseek are also close to this high-value quadrant.

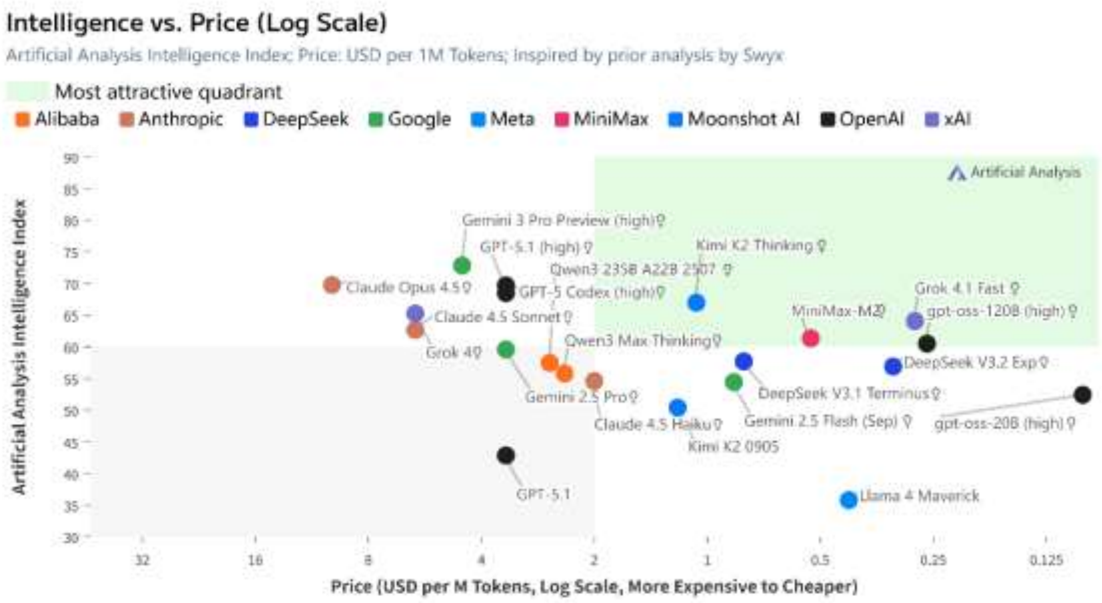
Figure 20: Intelligence vs cost to run artificial analysis intelligence index



Source: Artificial Analysis, CMBIGM

In terms of cost-performance ratio for enterprise users (i.e., the balance between model intelligence capabilities and inference pricing), certain versions of Kimi, Minimax, and Grok rank in the optimal quadrant. Meanwhile, models such as DeepSeek and Qwen are also close to this high-value range.

Figure 21: Intelligence vs price



Source: Artificial Analysis, CMBIGM
Note: 1) Price: USD per 1M Tokens; 2) Price is a blend of Input & Output token prices (3:1 ratio)

AI Applications: Empowering core business growth and facilitating internal cost reduction & efficiency improvement

AI drives core business growth across multiple dimensions: 1) AI has significantly boosted domestic cloud business demand, and we expect Alibaba Cloud/Baidu Cloud/Tencent Cloud to maintain rapid growth in FY26; 2) AI fuels advertising revenue growth by optimizing content recommendations, enhancing user stickiness, increasing ad inventory, and improving ROI of ad solutions to drive ad demand. With AI empowerment, we are optimistic that Tencent, Bilibili, and Kuaishou are managed to record faster-than-industry growth in advertising revenue; 3) AI empowers various sectors including e-commerce, local services, travel, real estate, and recruitment to enhance user experience.

Figure 22: Chinese Internet and cloud computing companies: AI empowerment of core businesses

Company	AI Progress
Tencent	1） **AI accelerates advertising revenue growth:** AI optimizes video recommendation algorithms and search capabilities, driving growth in ad impressions on WeChat Channels and Search; launched Tencent Advertising AIM+ (an intelligent delivery product matrix) in 3Q25, supporting advertisers to automatically configure targeting, bidding, and placements, and optimize ad creatives to improve marketing ROI; 2） **AI drives cloud business revenue growth:** Tencent's enterprise services revenue maintained teens% YoY growth in 3Q25, mainly supported by growth in AI cloud and e-commerce businesses; AI cloud revenue accounts for over 10% of Tencent Cloud's IaaS revenue.
Alibaba	1) **Alibaba Cloud:** As of 3Q25, AI-related cloud product revenue has achieved triple-digit growth for 9 consecutive quarters, accounting for over 20% of external customer revenue; full-stack AI capability upgrades (Qwen LLM, intelligent computing cluster); 2) **E-commerce:** AI-driven B2B procurement engine Accio improves efficiency; AI optimizes user recommendations and merchant operations.
Baidu	1) **Search/Mobile Ecosystem:** As of 3Q25, AI-generated content accounted for nearly 70% of search results; Wenxin Assistant DAU exceeded 10mn; AI application revenue reached RMB2.6bn; 2) **AI Cloud:** AI high-performance computing subscription revenue grows 128% YoY; Qianfan Platform has over 460,000 enterprise users; 3) **Advertising:** Native AI marketing services (AI agents + digital humans) revenue grows 262% YoY, accounting for 18% of Baidu Core's online marketing revenue; 4) **Autonomous Driving:** Apollo Go provided over 3.1mn fully driverless mobility services in 3Q25, covering 22 cities worldwide.
Kuaishou	1) **LLMs optimize ad recommendation and bidding:** Leveraging AI LLM technologies such as OneRec and G4RL to drive 4-5% growth in domestic online marketing revenue in 3Q25; 2) **AIGC marketing materials reduce ad delivery costs:** Total consumption of online marketing services driven by AIGC marketing materials exceeded RMB3bn in 3Q25; 3) **LLMs enhance user stickiness:** Applying OneRec to short-video content recommendations to increase user time spent and retention rate, and expand ad inventory; 4) **Driving e-commerce GMV growth:** Launched generative search architecture OneSearch to achieve more accurate product matching, driving ~5% growth in mall search orders.
Meituan	1) **Local Commerce (Food Delivery / Instant Retail):** AI dispatching optimizes delivery efficiency; AI operation tools (Kangaroo Consultant, Smart Shopkeeper) empower merchants; intelligent life assistant "Xiaomei" enters large-scale testing; 2) **Drone Delivery:** Regular operations in Hong Kong/Shenzhen, with cumulative commercial orders exceeding 670,000 in 3Q25.
Pinduoduo	**1)** **E-commerce:** Large models optimize search, advertising, and recommendation / intelligent shopping guidance; AI tools empower small and medium merchants with automated operations; **2)** **Cross-border Business:** AI translation / intelligent customer service reduce costs; intelligent pricing / logistics tracking improve efficiency.
Bilibili	1) **AI optimizes precision marketing:** Using AI to enhance precision marketing capabilities and upgrade intelligent delivery system, driving 16% YoY growth in the number of advertisers in 3Q25; 2) **Reducing ad delivery costs:** Over 50% of performance ads were generated with AIGC tools in 3Q25; 3) **AIGC creation tools help creators improve content production efficiency:** Launched AIGC tool "Huosheng" in December to help users generate video materials with AI.
Tencent Music	1) **AI enhances user experience and stickiness:** AI optimizes song recommendations, which account for ~40% of the company's playback volume, boosting user stickiness; launched AI-generated lyric cards and various modes of AI seamless song-switching function Automix to improve user experience.

Boss Zhipin	1)	**Improving job seeker efficiency:** Launched AI job-seeking assistant for all job seekers in 3Q25, driving significant QoQ growth in AI interaction volume;
	2)	**Enhancing recruitment efficiency and providing AI value-added tools:** AI communication assistant has been gradually embedded into the company's commercial product tools, driving a 7% increase in the average achievement rate of products. The company also launched other AI products such as AI Quick Recruitment, AI Interview, and AI Hosting for recruiters, which are expected to further improve recruitment efficiency and create incremental revenue in the long term.
Trip.com	1)	**Travel Services:** AI itinerary assistant visits grew 180% YoY in 3Q25, saving users 50% of decision-making time; Trip.com Flights continues to strengthen data processing and AI application capabilities, with over 80 AI application scenarios currently implemented;
	2)	**Merchant Empowerment:** AI translation helps hotels respond across languages; image-to-video tools empower merchant marketing.
Beike	1)	**Real Estate Transactions:** As of the end of 3Q25, broker AI assistant "Laike" covers 414,000 brokers; AI assistant "Haoke" identifies high-value business opportunities (contributing 50% of transactions);
	2)	**Rental Business:** Full-process intelligent operations (AI matching / pricing on property acquisition / rental sides);
	3)	**Residential Development:** Behaojia AI+C2M model guides real estate project design (17 projects implemented as of 3Q25).

Source：Company data, CMBIGM

AI is functional in improving internal operating efficiency. Currently, AI is mainly used in a number of internal processes such as programming development, customer services, and content moderation: 1) In programming, AI code generation rates of many internet companies including Tencent and Kuaishou have exceeded 30%, significantly improving product R&D efficiency; 2) In content moderation, content communities such as Bilibili use AI to enhance platform content moderation efficiency and reduce related personnel costs; 3) In customer service, companies such as Boss Zhipin use AI to improve customer service efficiency and user satisfaction.

Figure 23: Chinese Internet and cloud computing companies: AI Improving internal operating efficiency

Company	Internal AI efficiency improvement
Tencent	The company's self-developed AI programming tool CodeBuddy supports the generation of 50% of new internal code at Tencent, helping improve R&D efficiency by over 16%.
NetEase	NetEase promotes AI-assisted intelligent code generation and builds an automated game testing system, helping improve R&D efficiency by more than 50%. The "NetEase Keling" platform, built with partners such as Alibaba Cloud to create a swarm intelligence collaboration network, launches the new AOP paradigm—starting from virtual games, it migrates applications to real human-machine collaboration scenarios such as visual review and embodied intelligence.
Alibaba	The 1688 platform launches digital employees such as AI Store Manager and AI Material Operator, undertaking multiple tasks to reduce labor costs. During Tmall Double 11, Alibaba Cloud provides over 10mn core CPU computing power, helping improve the performance of core business scenarios by over 30%.
Baidu	As of April 2025, Wenxin Kuaima-generated code accounted for over 40% of Baidu's daily new code. AI agents replace 30%-40% of repetitive work. AI automatically troubleshoots server faults, reducing the average repair time from 4 hours to 15 minutes and cutting O&M labor input.
Meituan	Meituan's LongCat large model achieved a 35% automation acceptance rate in internal code review and generation scenarios in 3Q25. In November 2025, Meituan disclosed that its WOWService AI system improved customer service resolution rate by 9% and user satisfaction by 12% in complex business scenarios, with training annotation volume only 10% of traditional solutions.
Bilibili	The company launches an AI content moderation tool to enhance platform content moderation efficiency and reduce content moderation personnel costs.
Kuaishou	Kuaishou launched the AI-native programming tool CodeFlicker. As of September 2025, over 80% of Kuaishou engineers used CodeFlicker frequently, with an AI code generation rate close to 30%.
Boss Zhipin	The company promotes AI applications in R&D. In a newly established R&D department in one city, AI-generated code accounts for 70%, accelerating product R&D iteration speed. Additionally, the company applies AI in customer service, achieving results in customer service training, service quality inspection, customer emotion recognition and response, etc.
Trip.com	The travel vertical large model "Trip.com Wendao" has been applied to multiple scenarios such as itinerary planning, product information entry, and customer services, aiming to improve operational efficiency, reduce costs, and optimize user experience (e.g., AI technology shortens average product information entry time by about 10%). In 1H24, Trip.com's intelligent customer service system could handle mns of inquiries during peak periods, with an AI self-service resolution rate exceeding 75%.
Tongcheng Travel	As of end 2024, customer service robots handled over 90% of structured requests, and employee efficiency increased 43% YoY.
Ke Holdings	AI review functions were implemented in 11 cities in 3Q25, improving efficiency by 60x, saving over 33,000 working hours, and intercepting more than 16,000 risky properties.

Source：Company data, CMBIGM

C-end AI applications/agents: intensified industry competition, optimistic about long-term commercial opportunities

According to QuestMobile, the total MAU of mobile AI applications in China reached 729mn in September 2025, among which MAU of AI-native applications, AI application plug-ins, and mobile AI assistants reached 290mn, 710mn, and 540mn respectively. We observe that leading internet companies continue to increase investment in AI applications, each forming a relatively complete AI application matrix, and industry competition continues to intensify. We are optimistic about the long-term commercial opportunities of AI comprehensive assistants (ByteDance Doubao, Tencent Yuanbao, etc.), and gradual commercialization of C-end AI applications is expected in 2026.

From the perspective of AI application matrices of representative Chinese internet vendors: 1) ByteDance has achieved a significant leading position in the AI-native application track, with Doubao's MAU reaching 170mn in September. Meanwhile, the company continues to empower Douyin based on AI search functions, with Douyin's main site AI search MAU reaching 220mn, second only to Baidu AI search in the search track; 2) Tencent is rapidly catching up in the AI-native application track, with Yuanbao's MAU exceeding 30mn in September, ranking third in the industry. This was mainly supported by continuous improvement in model capabilities, increased group investment, and traffic support from WeChat. In addition, WeChat AI search traffic has also achieved rapid growth, with MAU reaching 170mn in September; 3) Baidu still holds a leading position in the AI search field, with Baidu AI search MAU reaching 350mn in September; 4) Alibaba was relatively cautious in investing in C-end AI applications in the early stage, but the company launched the Qwen App in November to increase investment in C-end AI applications, with downloads exceeding 10mn one week after public beta and monthly active users growing rapidly.

Figure 24: Internet AI agent and tools

Company	Product Type	Product name	Core functions
ByteDance	AI agent	Doubao	General-purpose AI assistant, positioned as "everyone's intelligent partner", supporting chat, writing, learning, etc.
	AI tool	Jimeng AI	Professional AI creation platform supporting text-to-image, text-to-video, and image-to-video.
	AI tool	Jianying / CapCut	Video editing tool integrating AI one-click editing, AI subtitles, AI dubbing, etc.
	AI tool	Xingtu	Image editing tool providing AI retouching, AI filters, etc.
	AI tool	Haimian Music	AI music generation tool.
	AI tool	Hemao Aixue	AI assistant for K12 and adult learning.
	AI tool	Jichuang	AI content creation tool designed for Douyin merchants.
Kuaishou	AI agent	Kwali (Super Employee)	Conversational AI assistant with multi-agent collaboration, generating short videos with one sentence.
	AI tool	Kuaiyi (Language Large Model)	Language generation model supporting copywriting, dialogue, etc.
	AI tool	Ketu (Image Large Model)	Image generation model supporting image creation, editing, etc.
	AI tool	Keling (Video Large Model)	Video generation model supporting video creation, editing, etc.
	AI tool	Nuwa Digital Human	Digital human live streaming tool.
	AI tool	Intelligent Customer Service π	Intelligent customer service tool for synchronous response to comment section inquiries.
	AI tool	CodeFlicker	AI-native intelligent code editor helping developers through natural language understanding, intelligent agents, context awareness, etc.
Tencent	AI agent	Hunyuan Assistant	General-purpose AI assistant supporting chat, writing, code generation, multi-turn dialogue, etc.
	AI tool	Tencent Yuanbao	Focusing on AI efficiency tools, providing core capabilities such as AI search, AI summarization, AI writing, etc.
	AI tool	Hunyuan 3D World Model	The industry's first 3D world generation model.
	AI tool	Tairos	Embodied intelligence open platform.
	AI tool	Tencent Docs Enterprise Edition AI Assistant	Providing core capabilities such as AI writing, AI reading, AI formula writing, AI PPT, etc.

	AI tool	Tencent Meeting AI Assistant Pro	Helping improve efficiency throughout the meeting process.
Alibaba	AI agent	Tongyi Qianwen (Qwen)	General-purpose AI assistant, positioned as "a personal AI assistant that can chat and get things done", supporting writing, code, etc.
	AI tool	Tongyi Lingma	Intelligent coding assistant supporting over 200 programming languages such as Python, Java, SQL, etc.
	AI tool	Tongyi Wanxiang	Visual generation model including text-to-image, image-to-text, text-to-video, etc.
	AI tool	Tongyi Zhiwen	AI reading assistant supporting web page reading, paper reading, book reading, and free reading.
	AI tool	Tongyi Tingwu	Supporting free Q&A for ultra-long audio and video across single records, cross records, and multiple languages.
	AI tool	Qwen-TTS/CosyVoice	Speech synthesis model supporting input of Chinese, English, and mixed Chinese-English text, with streaming audio output.
	AI tool	Tongyi Bailing	Real-time version of the new generation end-to-end speech recognition large model.
Baidu	AI agent	Xinxiang App	Mobile general super agent App dedicated to helping users solve complex problems one-stop through natural language interaction.
	AI tool	Wenxin Agent Platform	One-stop AI application building platform launched based on the Wenxin large model, aiming to help users create and deploy agents.
	AI tool	ERNIE Bot Agent	Large model agent development framework based on the orchestration capabilities of the Wenxin large model.
	AI tool	Wenxin Yiyan	Knowledge-enhanced multimodal large language model, positioned as a productivity tool in the AI era.
	AI tool	Wenxin Kuaima	AI programming assistant based on the code understanding and generation capabilities of the Wenxin large model.
	AI tool	Wenxin Yige	AI painting creation tool.
	AI tool	Baidu Brain	Open platform integrating over 270 core AI technologies such as computer vision, speech, natural language processing, and knowledge graphs.

Source: Company data, CMBIGM

PUGC/B-end AI applications: Focus on AI video application opportunities

With the development of multimodal large models, AI creative generation applications (video/image/speech) for professional/enterprise users, especially AI video applications, have achieved rapid scenario implementation and commercial development. We remain optimistic about the long-term global market space for AI creative applications. We estimate that the global creative application market size will reach US$54.6bn in 2027, with AI creative application penetration expected to reach 11%, corresponding to a global AI creative tool market size of US$5.8bn.

The global video large model industry is developing rapidly. Chinese vendors have achieved leading performance and cost advantages in the video model field based on continuous technological exploration and rich video data. According to Artificial Intelligence evaluations, Kuaishou Keling, Google Veo 3, and Lightricks LTX-2 Pro rank top three in performance, and Kuaishou Keling is superior to the other two large models in terms of API call price. Other domestic video model vendors such as SenseTime, Alibaba, and ByteDance also hold relatively leading positions in the industry and have advantages in model call costs.

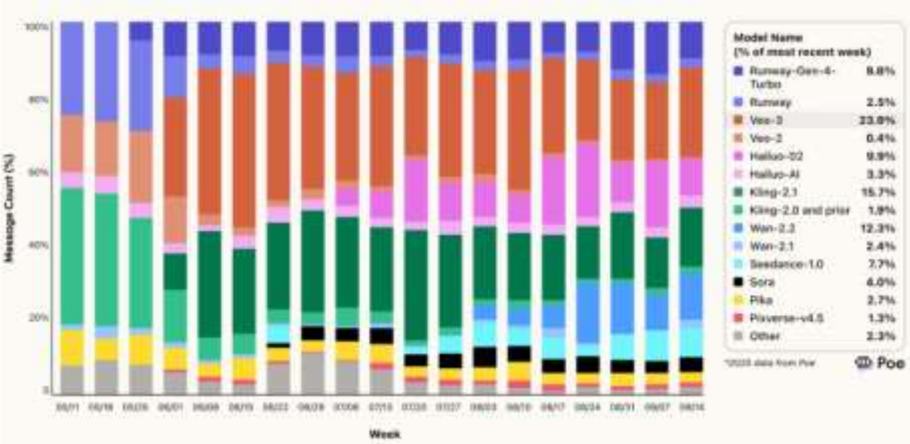
Figure 25: Leading video large models: comparison of scores and API prices

Company	Model	Launch date	Text-to-video ELO score	Resolution	API call price (USD/second)
Kuaishou	Kling 2.5 Turbo Standard	Sep-25	1,232	720p	0.04
Google	Google Veo 3 / 3.1	Jul-25	1,227	720p	0.20
Lightricks	LTX-2 Pro	Oct-25	1,198	1080p	0.06
MiniMax	MiniMax Hailuo 2.3	Oct-25	1,194	768p	0.05
Vidu	Vidu Q2 Turbo	Oct-25	1,185	720p	0.02
Alibaba	Wan 2.5	Sep-25	1,181	720p	0.09
OpenAI	Sora 2	Sep-25	1,179	720p	0.10
PixVerse	PixVerse v5	Aug-25	1,179	1080p	0.06
ByteDance	Seedance 1.0 Lite	Jun-25	1,169	720p	0.03

Source: Artificial Intelligence, CMBIGM

According to Poe, the usage of Google's Veo 3 video model has grown rapidly since its launch, with its market share approaching 24% by early September. However, domestic video model vendors have also maintained strong competitiveness. The combined market share of video models from domestic vendors (including Kuaishou, Minimax, Alibaba, and ByteDance) has reached approximately 53%. Among them, Kuaishou's Kling remains the leader with a 16% market share.

Figure 26:Video models: messages sent to models



Source：POE, CMBIGM

We remain optimistic about the long-term global market space for AI creative applications. We estimate that the global creative application market size will reach US$54.6bn in 2027, with AI creative application penetration reaching 11%, corresponding to a global AI creative tool market size of US$5.8bn.

Figure 27：Creative AI application TAM

Creativity tools TAM (US$bn)	2024	2025E	2026E	2027E
Creativity tools TAM	**39.16**	**43.79**	**48.93**	**54.61**
YoY		11.8%	11.7%	11.6%
AI creativity tools TAM		**1.86**	**4.01**	**5.80**
AI Penetration rate		4.3%	8.2%	10.6%
Professional Creativity	**2024**	**2025E**	**2026E**	**2027E**
Global number of creative pros (mn)	68.0	71.4	75.0	78.7
Free-to-paid conversion rate %	85%	85%	85%	85%
Number of subscribers (mn)	57.8	60.7	63.7	66.9
Monthly ARPPU (US$)	44.0	45.0	46.0	47.0
Creativity Cloud TAM - Professional Creativity	**305.2**	**327.7**	**351.8**	**377.4**
AI Creativity Cloud TAM - Pro Creativity		**13.1**	**26.4**	**37.7**
AI Penetration rate		4%	8%	10%
Hobbyist Creativity	**2024**	**2025E**	**2026E**	**2027E**
Global number of creative hobbyists (mn)	900.0	927.0	954.8	983.5
Free-to-paid conversion rate %	10%	11%	12%	13%
Number of subscribers (mn)	90.0	102.0	114.6	127.8
Monthly ARPPU (US$)	8.0	9.0	10.0	11.0
Creativity Cloud TAM - Hobbyist Creativity	**86.4**	**110.1**	**137.5**	**168.8**
AI Creativity Cloud TAM - Hobbyist		**5.5**	**13.7**	**20.3**
AI Penetration rate		5%	10%	12%

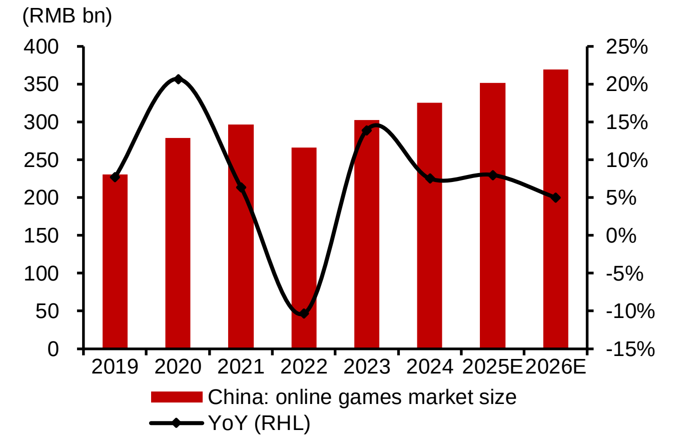
Source: Company data, International Labor Organization, CMBIGM estimates

Online games: solid revenue growth; accelerate overseas expansion

We expect China's online game market size to grow by 5% YoY to RMB369.4bn in 2026, where the revenue from evergreen games will remain relatively stable, and the growth momentum will mainly come from highly-anticipated new games, including key titles such as Tencent's Honor of Kings: World, NetEase's Sea of Remnants and ANANTA. We are upbeat on the overseas expansion opportunities for Chinese game companies in 2026, primarily due to the increasing investment from Chinese game developers in overseas businesses, which gradually forms a relatively mature global product publishing and operation pipeline. According to Newzoo, the global game market size will reach US$196.1bn in 2026, with the overseas game market (excluding China) standing at US$144.1bn, indicating a vast market potential. Chinese game developers currently hold a relatively low market share in overseas markets, with significant room for growth.

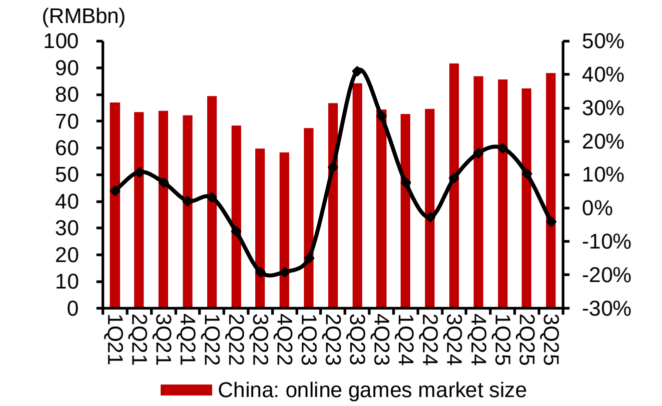
Based on data from CNG and our estimates, China's game market size will grow by 8% YoY to RMB351.8bn in 2025E, mainly driven by: 1) the healthy growth of key evergreen games, including Tencent's Honor of Kings and NetEase's Fantasy Westward Journey; 2) the incremental contribution from recently launched games such as Delta Force and Where Winds Meet. Tencent's Delta Force entered the top 3 of China's mobile game revenue rankings in 3Q25 within one year of its launch, significantly boosting the growth of the Extraction Shooter genre and the overall size of China's game market.

Figure 28: China: online games market size



Source: CNG, CMBIGM estimates

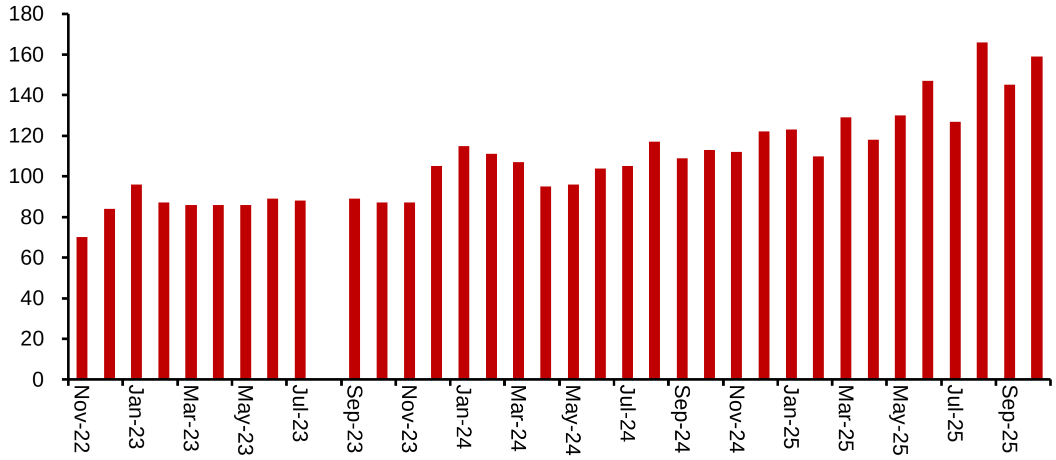
Figure 29: China: online games market size (quarterly)



Source: CNG, CMBIGM estimates

The regulatory environment for China's online game industry became milder in 2025: 1) Central and local authorities issued policies to support the healthy development of the game industry: In March, the General Office of the CCCPC and the General Office of the State Council issued the Special Action Plan for Boosting Consumption, which explicitly proposed promoting the consumption of animation, games, and esports. In April, the Ministry of Commerce issued the Work Plan for Accelerating the Expansion of Opening-up in the Service Sector, which clearly stated support for the development of overseas game business; 2) The approval speed of game Banhao accelerated: 1,441 games were approved in 10M25, exceeding the total number of approvals in 2024 (1,417 games).

Figure 30: No. of domestic game Banhao approved



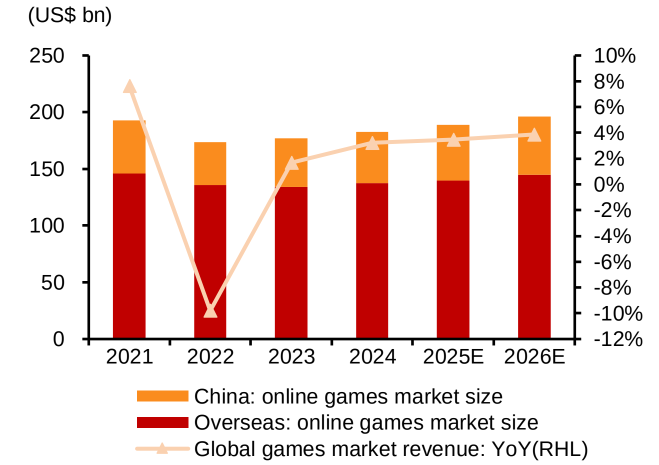
Source: NPPA, CMBIGM

Chinese game companies accelerated their overseas expansion: In 9M25, the overseas market revenue of China's self-developed games increased by 6% YoY to US$14.5bn. Compared with the size of the overall overseas game market (c.US$140bn in 2025), there is significant room for growth.

Figure 31: Overseas revenue from China's self-developed games

Source: CNG, CMBIGM estimates

Figure 32: Global & overseas games revenue



Source: Newzoo, CMBIGM estimates

We are upbeat on the overseas expansion opportunities for Chinese game companies, mainly because these companies have: 1) Clearer overseas strategic planning: Tencent Games' overseas business relies primarily on the evergreen products of its overseas subsidiaries Supercell and Riot Games, coupled with continuous investment in and acquisition of mature overseas studios such as Techland and Funcom, all of which delivered solid performance in 2025. Since 2021, NetEase has invested in and built a large number of overseas game studios, but in 2025, it has shut down most of them and shifted its focus to the overseas strategy of "domestic R&D and global publishing". Its global-oriented product Where Winds Meet achieved strong results after launch, entering the top 3 of Steam's global game bestseller list with peak concurrent players exceeding 250,000.

2) Industry-leading game product R&D and publishing capabilities: Based on 1H25 revenue, 3 Chinese game companies have entered the top 10 global game publishers. After years of experience in game R&D, operation and publishing, Chinese game companies have formed a relatively complete industrialized game production pipeline. Chinese game developers have taken the lead over European and American counterparts in terms of revenue generation and efficiency per game developer. In 2024, the revenue per game developer of NetEase/Electronic Arts (EA)/Take-Two (T2)/Ubisoft reached US$720k/US$640k/US$400k/US$140k respectively. The industry-leading game development capability and talent reserves will support the overseas development of Chinese game companies.

- **Game company outlook: expect Tencent/NetEase FY26 games revenue to grow by 8%/8% YoY**

1) **We expect Tencent's game revenue to grow by 8% YoY in FY26, with overseas/domestic game revenue increasing by 15%/5% YoY respectively.** The growth of domestic game revenue will be mainly driven by the solid performance of evergreen titles and the incremental contribution from highly anticipated new products such as Honor of Kings: World and Ni Zhan: Future. The growth of overseas game revenue will primarily benefit from the strong performance of Supercell's products and the continuous recognition of deferred revenue. Supercell's flagship games delivered robust revenue performance in 2025. Revenue of Clash Royale surged by over 400% YoY in 3Q25, and its DAU hit a new high in September 2025.

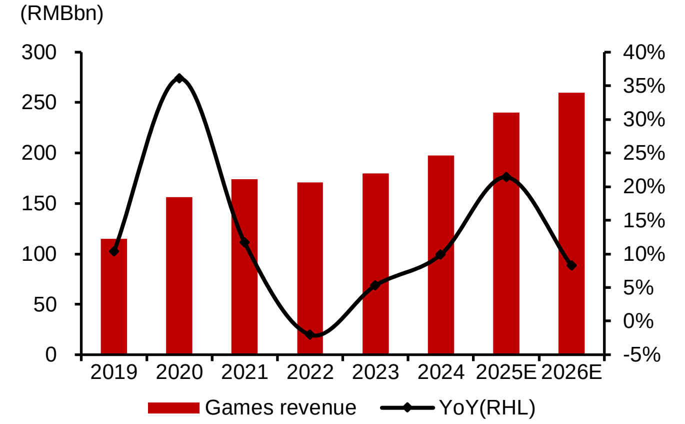
2) **We anticipate NetEase's game and other VAS revenue to rise by 8% YoY in FY26, mainly driven by new products:** 1) Where Winds Meet has outperformed expectations since its overseas launch, with peak concurrent players exceeding 250,000 and ranking among the top 3 on Steam's global game bestseller list. Its overseas revenue contribution is expected to approach the domestic level in 2026; 2) The ocean-themed RPG Sea of Remnants is scheduled to launch in 2026, likely to bring considerable incremental revenue; 3) The open-world RPG ANANTA is expected to be released in 2026, and depending on the launch timing, it is poised to make meaningful revenue contribution to the company.

Figure 33:Tencent/NetEase: game pipeline

Title	Self-developed/licensed	Genre	Banhao approval?	Expected launch time
Tencent				
Honor of Kings: World	Self-developed	Open-world RPG	Yes	2026E
Honor of Kings: Chess	Self-developed	Auto Chess	Yes	2026E
Ni Zhan: Future	Self-developed	Shooter	Yes	2026E
The Hidden Ones	Self-developed	Action	Yes	2026E
Roco Kingdom: World	Self-developed	RPG	Yes	2026E
Light of Motiram	Self-developed	RPG	Yes	2026E
Lineage 2	Licensed	RPG	Yes	TBD
DNF: Khazan	Licensed	RPG	No	TBD
NetEase				
Sea of Remnants	Self-developed	RPG	No	2026E
ANANTA	Self-developed	Open-world RPG	Yes	TBD
Blood Message	Self-developed	RPG	No	TBD
Planet Party Time	Self-developed	Casual	Yes	TBD

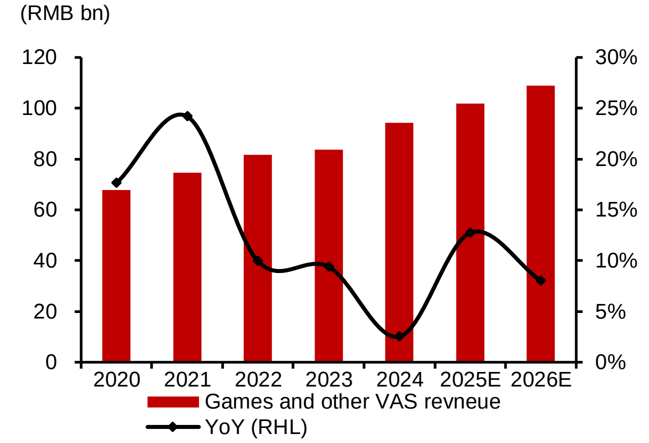
Source: Company data, CMBIGM

Figure 34: Tencent: games revenue



Source: Company data, CMBIGM estimates

Figure 35: NetEase: games and other VAS revenue

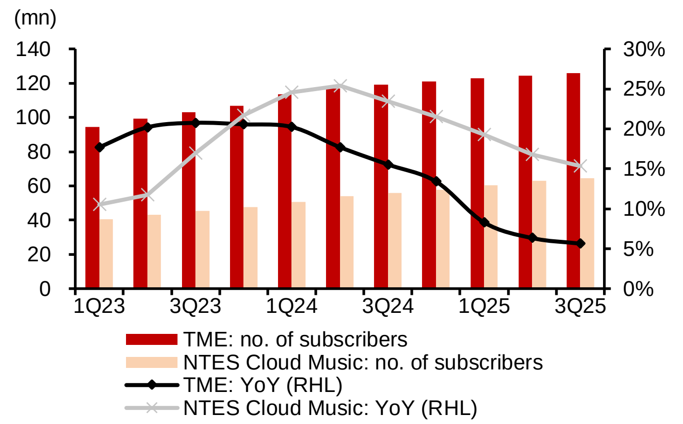


Source: Company data, CMBIGM estimates

Online music: solid subscription business; enhance monetization of fan economy

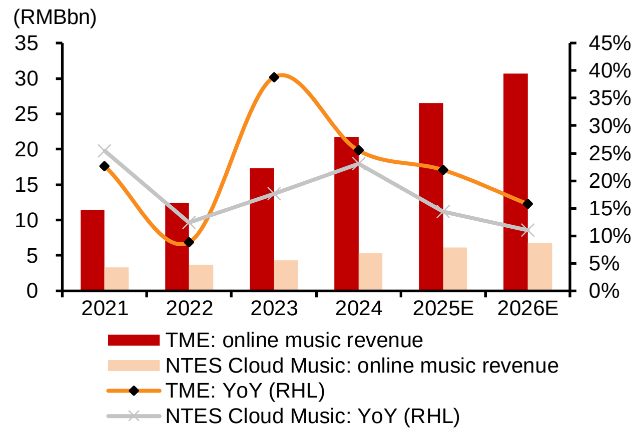
We expect major online music platforms to maintain music revenue growth of over 10% in 2026, primarily driven by the balanced growth of paying users and ARPPU, as well as the expansion of non-subscription businesses such as advertising, concert, and artist merchandise. By company: 1) we forecast TME's online music revenue to grow by 16% YoY in 2026, with subscription/non-subscription revenue increasing by 12%/23% YoY respectively. We anticipate its subscriber and ARPPU to rise by 5% and 7% YoY in 2026, respectively. The company will continue to boost the penetration rate of SVIP memberships to drive ARPPU growth. On the non-subscription front, TME will keep investing in fan economy businesses. The robust growth of segments like concerts and artist merchandise is expected to support the sustained rapid expansion of non-subscription revenue. 2) We project NetEase Cloud Music's online music revenue to grow by 11% YoY in 2026, with its subscriber and ARPPU growing by 9% and 3% YoY, respectively.

Figure 36: Online music platform: subscriber outlook



Source: Company data, CMBIGM

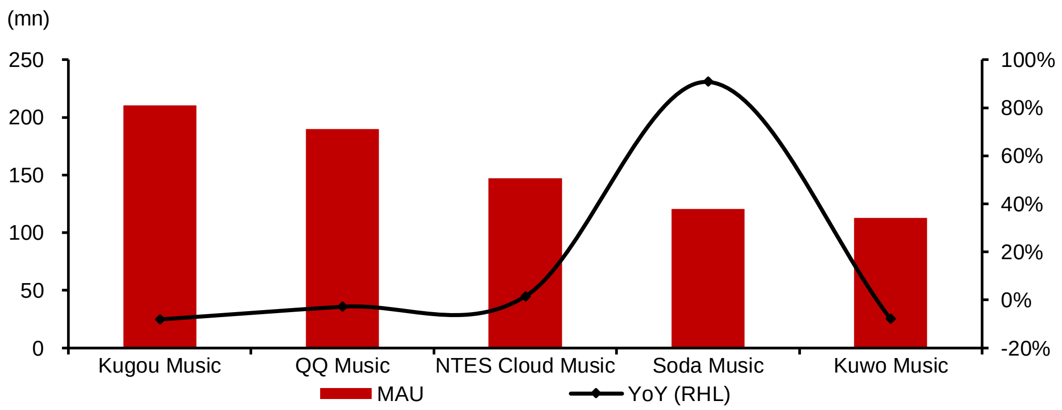
Figure 37: Online music platform: revenue outlook



Source: Company data, CMBIGM estimates

In terms of competitive landscape, despite Soda Music's strong MAU growth over the past two years, we remain upbeat on TME and NetEase Cloud Music's ability to maintain their leadership, supported by their core advantages: 1) rich music content libraries: with years of accumulated music copyrights and established self-produced music ecosystems, Tencent Music and NetEase Cloud Music lead Soda Music in content reserves.; 2) higher user stickiness and commercialization potential: compared to Soda Music users, QQ Music/NetEase Cloud Music users spend more time on the platforms and exhibit higher user engagement. The two platforms improve monetization efficiency through diversified models including memberships, advertising, and fan economy initiatives.

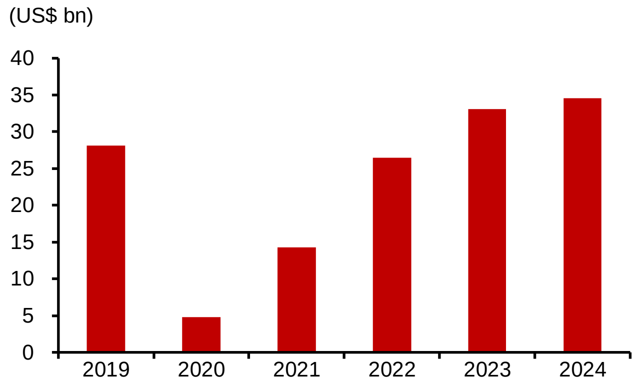
Figure 38：Online music platform: MAU comparison (Sep 2025)



Source: QuestMobile, CMBIGM

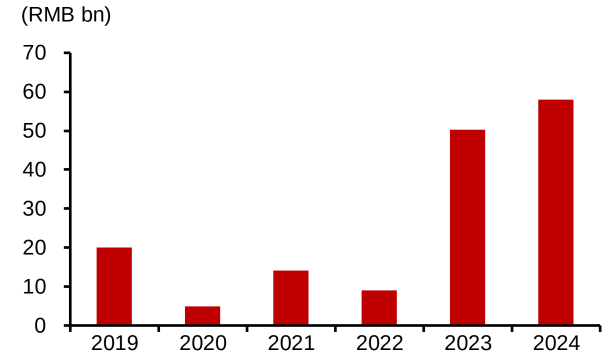
The fan economy (including music performances and artist merchandise) is poised to become a new growth driver for music businesses. According to Statista and the China Association of Performing Arts, the global music performance market reached US$34.6bn in revenue in 2024, while China's commercial performance box office hit RMB58bn. The market for music performances and artist merchandise is substantial. By integrating upstream content copyright holders and artist resources, TME is expected to accelerate its layout in the fan economy.

Figure 39: Global: music concert revenue



Source: Statista, CMBIGM

Figure 40: China: commercial performance box office



Source: China Association of Performing Arts, CMBIGM

Online advertisng: AI to drive ad revenue growth

We expect the revenue of major online advertising platforms in China to grow by 11% YoY in 2026E, showing an accelerated trend from 2025, mainly due to: 1) AI continues to drive an increase in advertising inventory, improvement in ad conversion, and reduction in ad placement costs, supporting leading advertising platforms such as Tencent, Kuaishou, and Bilibili to maintain rapid growth in advertising revenue; 2) advertising budgets of some platforms with strong media attributes, such as iQiyi, are expected to recover. This is primarily because the high-base effect (stemming from marketing campaigns for the 2024 Olympic Games) is set to fade, and ad spending in categories like food and beverage as well as apparel is likely to rebound in 2026, driven by events such as the World Cup.

Figure 41: Online advertising: revenue outlook

Total retail sales	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	FY25E	FY26E
Total retail sales	**12.0**	**11.6**	**11.8**	**13.4**	**12.5**	**12.1**	**12.0**	**51.1**	**53.4**
YoY	4.7%	2.6%	2.7%	3.8%	4.6%	5.4%	2.4%	4.2%	4.2%

Ad revenue (RMBmn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	FY25E	FY26E
Tencent	26,506	29,871	29,993	35,004	31,853	35,762	36,242	145,927	169,873
Kuaishou	16,650	17,515	17,634	20,994	17,977	19,765	20,102	81,118	88,812
Baidu	17,008	19,164	18,771	17,906	15,978	16,213	15,325	62,471	62,471
BiliBili	1,669	2,037	2,094	2,389	1,998	2,449	2,570	9,924	11,749
iQiyi	1,482	1,461	1,337	1,434	1,328	1,272	1,241	5,106	5,291
Total	**65,789**	**72,750**	**72,680**	**80,504**	**71,609**	**78,217**	**78,153**	**315,129**	**349,123**

YoY	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	FY25E	FY26E
Tencent	26.4%	19.5%	16.6%	17.5%	20.2%	19.7%	20.8%	20.2%	16.4%
Kuaishou	27.4%	22.1%	20.0%	15.3%	8.0%	12.8%	14.0%	12.0%	9.5%
Baidu	2.7%	-2.2%	-4.6%	-6.5%	-6.1%	-15.4%	-18.4%	-14.2%	0.0%
BiliBili	31.2%	29.5%	27.8%	23.8%	19.7%	20.2%	22.7%	21.2%	18.4%
iQiyi	5.6%	-2.3%	-20.1%	-13.1%	-10.4%	-12.9%	-7.2%	-10.6%	3.6%
Total	**18.1%**	**12.4%**	**9.8%**	**9.3%**	**8.8%**	**7.5%**	**7.5%**	**8.2%**	**10.8%**

Source: Wind, NBS, Company data, CMBIGM estimates

AI LLMs have emerged as one of the key drivers of advertising revenue growth: 1) AI-generated advertising creatives and automated ad placement have become standard tools for ad campaigns, lowering the threshold and costs of ad placement while improving ad ROI. In 3Q25, the total ad spending by Kuaishou's AIGC marketing materials exceeded RMB3bn. Over 50% of Bilibili's performance-based ads were generated with AIGC tools in 3Q25. 2) AI continues to enhance ad targeting capabilities and improve ad conversion. Tencent has continuously upgraded its advertising LLMs, driving a YoY increase in average eCPM in 3Q25. Kuaishou leveraged AI LLM technologies such as OneRec and G4RL to boost its domestic online marketing revenue by 4-5% in 3Q25. 3) AI optimizes content recommendation algorithms, driving growth in platform user traffic and expanding advertising inventory. Kuaishou applied OneRec to content recommendation, increasing user time spent and retention rates. Tencent used AI to optimize video recommendation algorithms, leading to growth in Weixin user traffic.

Figure 42: China online advertising platform: AI empowers ad business

Company	AI applications in ad
Tencent	**1) Increase ad inventory:** AI-optimized recommendation algorithms and delivery capabilities drive growth in personalized and programmatic ad exposure. **2) Improve ad conversion:** Upgraded ad models boosted average eCPM YoY in 3Q25. **3) Lower ad delivery costs:** Launched smart placement products AIM+ to enable automated ad placement and bidding for advertisers, and optimized ad creatives to improve ad ROI.
Kuaishou	**1) Large-model-optimized ad targeting and pricing:** Leveraged OneRec and G4RL AI large-model technologies to drive a 4-5% increase in domestic online marketing revenue in 3Q25. **2) AIGC creatives reduce ad operation costs:** ad spending powered by Kuaishou's AIGC marketing materials exceeded RMB3bn in 3Q25. **3) LLMs enhance user stickiness:** Applied OneRec to short video content recommendation, increasing user time spent and **stickiness** to expand ad inventory.
BiliBili	**1) AI-optimized ad targeting: AI-powered ad targeting** capabilities and upgraded smart bidding systems drove 16% YoY growth in advertiser count in 3Q25. **2) Lower ad placement costs:** >50% of performance-based ads generated by AIGC tools.

Source: Company data, CMBIGM

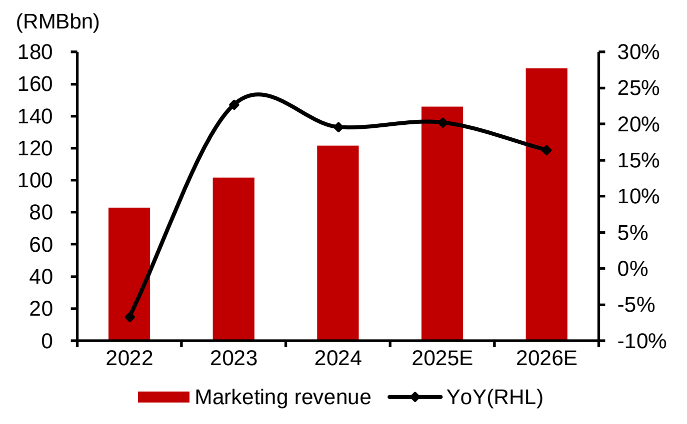
- **Advertising outlook: Expect Tencent/Kuaishou/Bilibili's ad revenue to grow 16%/10%/18% YoY in FY26**

1) **We forecast Tencent's marketing revenue to increase by 16% YoY in FY26,** mainly driven by: a) the rise in ad load rate of Weixin b) AI expanding advertising inventory, boosting ad conversion rates and eCPM; c) AI continuously enhance search capabilities, and the growth of commercial search volume will drive the revenue of Weixin search ads.

2) **We project Kuaishou's online marketing revenue to grow by 10% YoY in FY26,** primarily driven by the growth of domestic online marketing revenue, which will be partially offset by the decline in overseas marketing revenue. Key growth drivers include: a) the continuous upgrade of AI LLM such as OneRec and G4RL, which will drive traffic growth and an increase in ad eCPM, thus boosting domestic online marketing revenue; b) incremental advertising budgets from content consumption sectors such as short dramas and mini games.

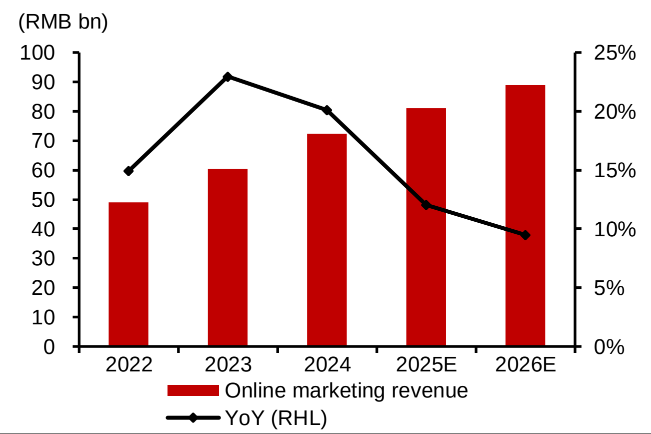
3) **We anticipate Bilibili's ad revenue to rise by 18% YoY in FY26.** The main growth drivers are: a) the continuous optimization of ad commercial infrastructure and algorithms to improve ad conversion, attracting incremental advertisers and their budgets; b) the gradual increase in the overall ad load of the platform.

Figure 43: Tencent: marketing revenue



Source: Company data, CMBIGM estimates

Figure 44: Kuaishou: online marketing revenue



Source: Company data, CMBIGM estimates

E-commerce: Seeking efficient customer acquisition and retention

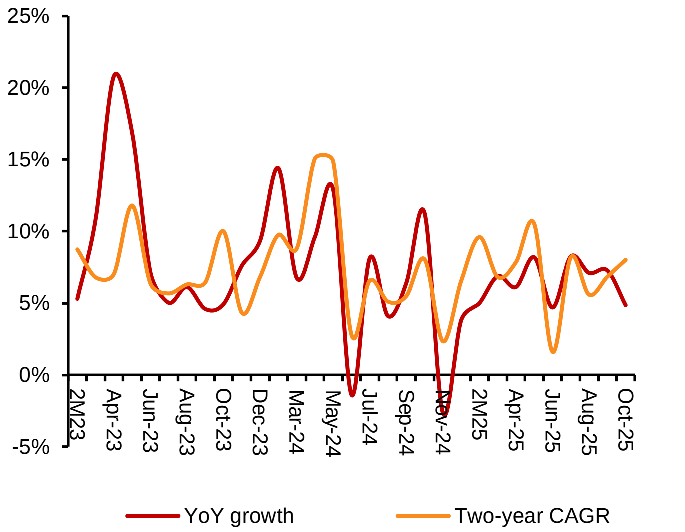
Supported by national subsidy policies in 2025, the online retail sales of physical goods maintained steady growth overall, but the growth rate slowed down after the partly phasing out of these subsidies. Industry competition still revolves around creating incremental value for core consumer groups and enhancing user stickiness. Meanwhile, e-commerce platforms are attempting to explore more efficient customer acquisition and retention through higher-frequency food delivery services within instant retail, and further drive the increase of online penetration by combining near-field and far-field models. Looking ahead into 2026, the e-commerce industry may face growth challenges amid a high base. We anticipate that e-commerce platforms will continue to deepen their exploration of instant retail, while irrational subsidies are expected to decrease year-on-year. We estimate that the overall online retail sales will grow by 6.5% YoY in 2026, among which the online retail sales of physical goods will increase by 5.2% YoY. We expect the GMV growth of non-physical goods consumption such as online tourism to continue outperforming that of physical goods' online retail sales.

For investment recommendation, we prefer Alibaba, with healthy growth in its core e-commerce business, the ability to proactively adjust investment scale to control profit margins, and excellent prospects in the AI field. We also prefer Pinduoduo, whose non-GAAP net profit has returned to positive growth with undemanding valuations.

China e-commerce: high base effect of national subsidies emerges, focus on core user consumption stickiness

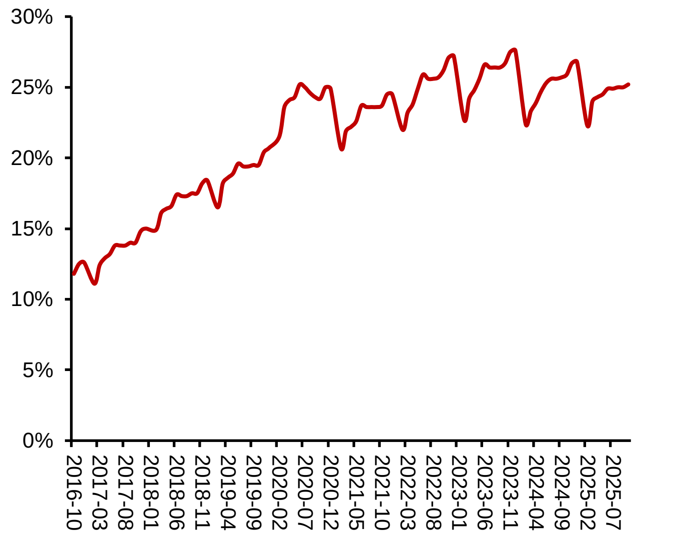
According to data from the NBS (National Bureau of Statistics), the total retail sales of consumer goods / total retail sales of consumer goods excluding automobiles in 10M25 increased by 4.3%/4.9% YoY (1H25: 5.0% / 5.5%). During the same period, online retail sales/online retail sales of physical goods rose by 9.6% / 6.3% YoY respectively (1H25: 8.5% / 6.0%). In October alone, the online retail sales of physical goods grew by 4.9% YoY, a slowdown from the previous month (Feb/ Mar/ Apr/ May/ Jun/ Jul/ Aug/ Sep: 5.0%/6.9% /6.1%/8.2%/4.7%/8.3%/7.1%/7.3%), indicating the gradual emergence of the high base effect from national subsidies, in our view. The online penetration of retail sales of physical goods in the total retail sales of consumer goods reached 25.2% in 10M25 (9M25: 25.0%; 10M24: 25.9%). Among the online retail sales of physical goods, the sales of food / clothing / daily use products in 10M25 increased by 15.1% / 3.6% / 5.1% YoY. Compared with 9M25 (15.1%/2.8%/5.7%), food products maintained stable growth, while clothing products saw accelerated growth.

Figure 45: China: YoY growth of online physical goods GMV and two-year CAGR



Source: NBS, CMBIGM

Figure 46: China: online penetration of physical goods retail sales

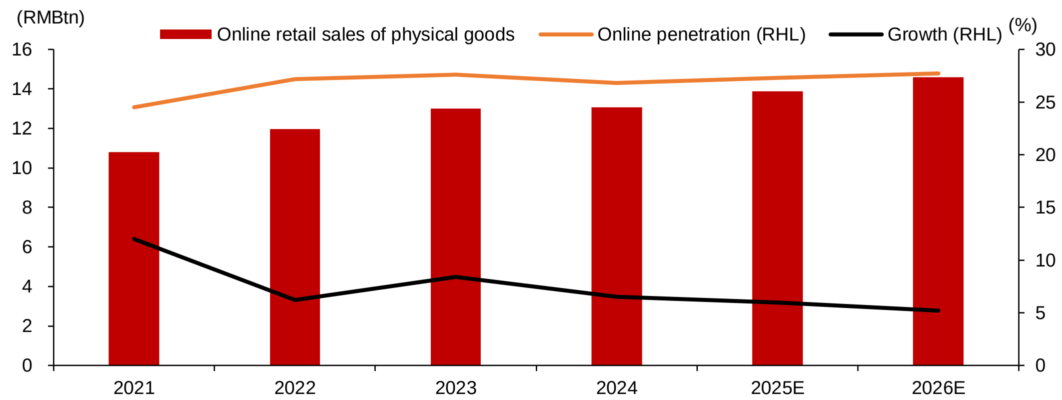


Source: NBS, CMBIGM

The high base effect from national subsidies has been notably evident in the home appliance category, while the mobile phone segment has maintained steady performance driven by new product launches. In Oct 2025: 1) retail sales of household appliances fell by 14.6% YoY (10M25: +13.8%; Sep 2025: +3.3%), with a significant sequential slowdown; 2) retail sales of telecommunication equipment rose by 23.2% YoY (10M25: 20.9%; Sep 2025: 16.2%), boosted by the launch of new mobile phones in our view; 3) retail sales of cultural and office appliances (including computers) increased by 13.5% YoY (10M25: 19.1%; Sep 2025: 6.2%).

Looking ahead, we forecast that overall online retail sales will grow by 6.5% YoY in 2026, within which online retail sales of physical goods may increase by 5.2% YoY. Also, we expect the growth rate of non-physical goods, such as service consumption including online tourism, will continue to outperform that of physical goods' online retail sales.

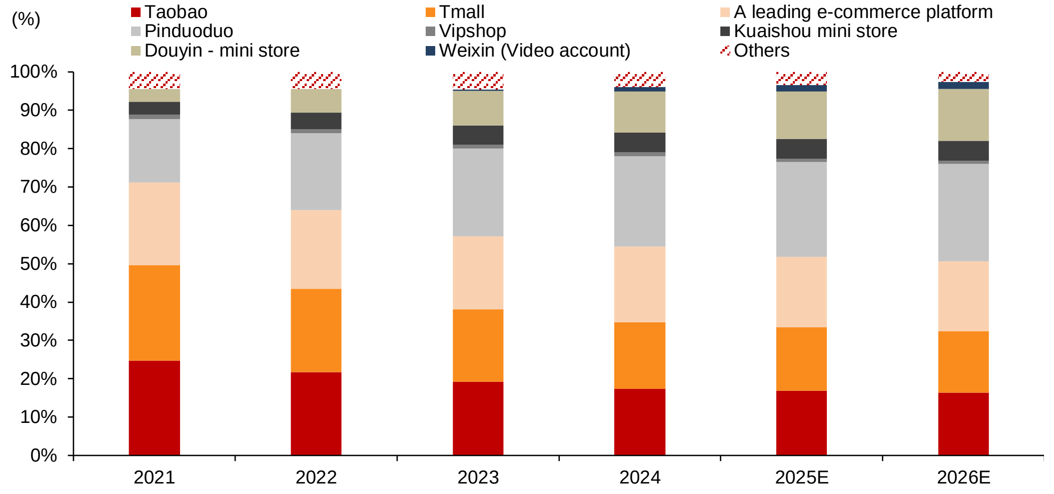
Figure 47: China: growth of online retail sales of physical goods and forecast



Source: NBS, CMBIGM estimates

In terms of market share, we anticipate that PDD/Douyin E-commerce/Kuaishou e-commerce will continue to gain market share. Additionally, we expect Weixin video account and Xiaohongshu e-commerce to sustain their market share growth trajectory.

Figure 48: China: estimate of market share in e-commerce industry



Source: NBS, Latepost, company data, CMBIGM estimates

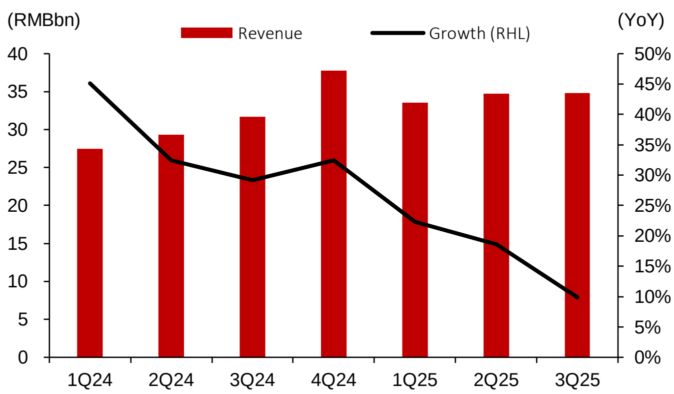
Note: 1) GMV data includes figures disclosed by companies and our estimates based on third-party data. Due to potential inconsistencies in GMV disclosure standards across e-commerce platforms, direct comparability may not be absolute; 2) when calculating market share, we have incorporated return rates to reflect actual GMV generated; 3) to avoid double-counting, only GMV from the closed-loop e-commerce segment of live streaming e-commerce channel is included in the market share calculation.

International E-commerce: Focusing on efficiency improvement amid geopolitical uncertainties

In 2025, amid lingering geopolitical uncertainties, we have observed the trend that e-commerce platforms' overseas business expansion strategy has shifted to prioritize operational efficiency and profitability improvement over scale expansion. Looking ahead to 2026, we anticipate that the trend driving operational efficiency enhancement will persist, with e-commerce platforms continuing to balance scale expansion and operational efficiency improvement.

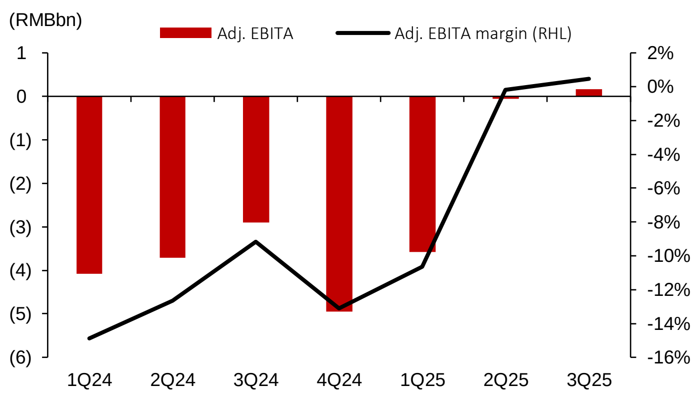
Taking Alibaba as an example, the revenue of its Alibaba International Digital Commerce (AIDC) segment reached RMB34.8bn in 3Q25, with the YoY revenue growth rate slowing to 9.9% (3Q24: 29.2%; 2Q25: 18.6%). Nevertheless, the business segment achieved break-even, with the adjusted EBITA margin increasing by 9.7ppts YoY.

Figure 49: Alibaba: AIDC segment revenue growth



Source: Company data, CMBIGM

Figure 50: Alibaba: adjusted EBITA for AIDC



Source: Company data, CMBIGM

OTA: expecting travel demand to remain resilient in 2026

The tourism industry's growth resilience continued to stand out in 2025, in line with expectations. According to data from the Ministry of Culture and Tourism, domestic tourist trips/tourism spending in 9M25 increased by 18.0%/11.5% YoY. Looking ahead to 2026, we expect the growth rate of domestic tourism revenue to still outpace GDP growth by 2-3 ppts, with an overall growth rate to reach 7%. OTA platforms are likely to achieve faster growth, benefiting from the sustained upward trend of hotel online penetration. For outbound tourism, we project that the industry's overall outbound tourism revenue growth will remain in the range of 10-15%, while we expect leading OTA platforms (e.g., Trip.com Group) to see outbound tourism revenue growth exceed 15%. Despite partial geopolitical disruptions, we anticipate that outbound tourism demand will remain stable overall and may shift to domestic long-distance travel demand amid challenges, thereby supporting the industry's growth resilience. Additionally, leading OTA platforms are continuously advancing overseas expansion, which in our view should underpin medium-to-long-term revenue and profit growth. We remain positive regarding the overseas expansion potential of leading OTA platforms. For investment recommendation, we continue to favor Trip.com Group, which is steadily expanding its GTV market share in both domestic and outbound tourism and making rapid progress in overseas expansion. In addition, we reiterate our BUY rating on Tongcheng Travel, whose overall profit growth is expected to remain resilient in 2026.

Domestic Tourism: sustained resilience amid a high base

According to the Ministry of Culture and Tourism, the number of domestic tourist trips reached 4.998bn in 9M25, up 18.0% YoY, and domestic tourism spending totaled RMB4.85tn, an increase of RMB0.50tn YoY, representing YoY growth of 11.5%. Within the total tourism spending, urban residents' tourism expenditure reached RMB4.05tn, up 9.3% YoY, and rural residents' tourism expenditure reached RMB0.80tn, up 24.0% YoY.

In 2025, "quality-oriented" and "long-haul" were the key keywords for the overall tourism industry. Taking the National Day holiday as an example: Trip.com Group’s data showed that the proportion of domestic long-haul travel orders during the holiday increased by 3 ppts, and orders for multiple long-haul outbound tourism destinations in Europe has doubled YoY. Tongcheng Travel data indicates that the number of outbound long-haul group tour departures on its platform nearly doubled YoY, significantly outpacing the growth of outbound short-haul group tours. Meanwhile, spending on domestic and outbound group tour products booked by users in non-first-tier cities increased by over 33% YoY. Fliggy (Alibaba's online travel business arm) data reveals that the per capita booking volume of transportation-related products (e.g., air tickets, car rentals) on its platform rose by 5% YoY, while the per capita booking volume of hotel, package tour, and attraction ticket products increased by 4.6% YoY. The average transaction value for holiday travel surged by 14.6% YoY.

Looking ahead, we expect the domestic tourism market to maintain growth resilience in 2026, with the industry's market size growth likely to remain 2-3 ppts higher than GDP growth, reaching approximately 7%.

Outbound Tourism: Recovery enters a stable phase

According to the National Immigration Administration, immigration authorities nationwide inspected a total of 510mn entry-exit personnel in 9M25, a YoY increase of 14.3%, approaching historical peaks. Based on data from the Civil Aviation Administration of China (CAAC) and Trip.com Group, the overall number of outbound flights has recovered to a stable level. Trip.com Group’s outbound flight recovery has consistently outperformed the industry, leading by 20-30 ppts during off-peak seasons and extending the lead to 40 ppts during peak seasons. We attribute this to three key factors: 1) comprehensive service coverage, enabling one-stop high-quality fulfillment of user needs; 2) supply chain advantages in hotels and air tickets; 3) a higher proportion of long-distance travel during peak seasons compared to weekdays, with platforms with stronger brand recognition poised to benefit more.

Figure 51: Recovery status of overall outbound flights vs Trip.com Group

	Overall recovery rate of outbound flights	Recovery rate of outbound flights on Trip.com's platform
1Q24	~70%	~90%
2Q24	>70%	~100%
3Q24	~80%	~120%
4Q24	~80%	~120%
1Q25	80-90%	~120%
2Q25	80-90%	>120%
3Q25	80-90%	~140%

Source: CAAC, Company data, CMBIGM

Looking ahead to 2026, we believe Trip.com Group should still maintain faster growth than the industry level growth in outbound travel, despite potential short-term disruptions to overall outbound tourism from geopolitical factors. We anticipate that the industry's overall outbound tourism revenue growth will remain at 10-15%, while Trip.com Group’s outbound tourism revenue growth may exceed 15%.

Overseas expansion: underpinning long-term revenue and profit growth

Leading OTA platforms have continued to advance their overseas expansion steadily, which we believe will provide strong support for medium-to-long-term revenue and profit growth. According to our estimates, the combined revenue contribution of Trip.com Group’s two pure international business platforms—Skyscanner and Trip.com—to Trip.com Group’s total revenue has exceeded 20% in 9M25, with Trip.com maintaining a YoY revenue growth rate of over 50-60%. We forecast that Skyscanner and Trip.com's combined revenue contribution to Trip.com Group will reach 26%/30% in 2026/2027. Trip.com Group will continue to efficiently drive revenue growth in its overseas business while balancing revenue growth and profitability, providing robust support for the company's medium-term revenue and profit growth.

Local life services: still has room for further online penetration, while competition normalized

The intensity of competition in the overall local life services sector in 2025 exceeded our expectations at the start of the year. We believe the primary reason is that after their core businesses entered a relatively mature stage, e-commerce platforms are seeking new ways to expand their user base, enhance user stickiness, and explore new scenarios (such as the integration of near-field and far-field commerce) to further boost e-commerce penetration. Looking ahead: 1) for food delivery: we believe the most intense phase of competition may have ended in 3Q25, and the intensity of competition and subsidies is expected to ease starting from 4Q25. However, overall industry competition is likely to become more normalized, and overly optimistic expectations should not be held for the pace of industry's return to profitability in 2026, in our view; 2) for the in-store services segment: amid macroeconomic headwinds, we anticipate that the industry's overall order volume growth rate will still outpace GTV growth; yet, amid fierce competition, revenue growth may lag behind GTV growth. Additionally, due to more intensified industry competition, the overall medium-to-long-term profit margin of the sector may be adjusted downward, in our view.

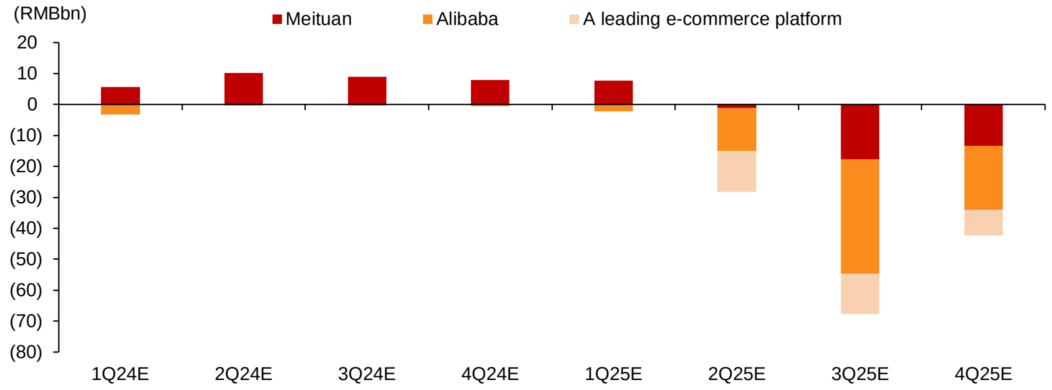
From the perspective of industry fundamentals and stock recommendations: 1) Meituan: with a greater contribution from high average order value (AOV) food delivery orders than peers and superior operational efficiency, we are optimistic about its ability to maintain the UE gap with competitors. We remain positive that Meituan can fulfil its medium-to-long-term order volume and unit profit targets for its food delivery business. The return of the food delivery business to profitability may become a key driver for the company's valuation re-rating, in our view; 2) Alibaba: we have observed early synergistic effects from the company's investment in food delivery and quick commerce businesses, including increased user acquisition and activity, cross-selling to low-price, high-frequency categories, and additional customer management revenue contributions. However, the market may still be waiting for the company to deliver more solid progress.

In the long run, the overseas expansion of local life services may open up room for long-term revenue and profit growth for companies. Meituan's management noted that its Keeta business in Hong Kong has achieved profitability in Oct 2025, which we believe reflects the company's ability to drive efficient development of overseas operations. Starting from 4Q25, the company has further promoted the expansion of Keeta's business to more Gulf Cooperation Council (GCC) countries and the Brazilian market, which is on track to unlock long-term profit growth potential, in our view.

Instant retail: from high-frequency food delivery to building a "Everything Now" mindset, exploring near-far field integration to drive growth

Competition in the food delivery industry has intensified since 2Q25, with the overall intensity exceeding our expectations at the start of the year. We attribute this mainly to e-commerce platforms seeking new ways to expand their user base, enhance user stickiness, and explore new scenarios (such as the integration of near-field and far-field commerce) after their core businesses matured, aiming to further increase e-commerce penetration. Based on our estimates, the combined losses of Meituan Food Delivery, Taobao Quick Commerce (Ele.me), and other food delivery platform reached RMB67.7bn in 3Q25, compared with a combined profit of RMB8.5bn in 3Q24.

Figure 52: China: OP and operating losses of key market players



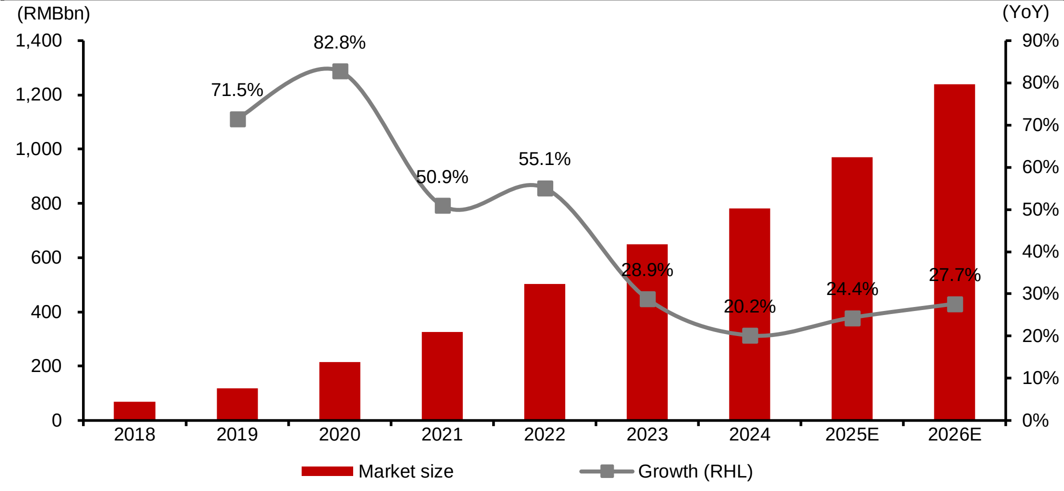
Source: Company data, CMBIGM estimates

We noticed divergent goals from major players' food delivery investments: 1) Meituan: focuses on maintaining market share in high AOV Orders, operational efficiency advantages, and core user base experience. During the 3Q25 earnings call, management noted that as of late Nov 2025, Meituan held over two-thirds of the market share in orders with an AOV above RMB15 and over 70% in orders with an AOV above RMB30; 2) Alibaba: focuses on UE improvement and driving synergies with traditional e-Commerce; management stated during the 3Q25 earnings call that the UE loss of the company's food delivery business halved by late Oct 2025, compared to July-August, as expected. And the company has achieved cross-selling in traditional e-commerce categories such as daily necessities, food, and healthcare. Meanwhile, investments in quick commerce have positively impacted customer management revenue (CMR) by driving transaction growth in related categories and enhancing user stickiness.

Looking ahead to 4Q25, we have noticed that industry competition has moderated slightly in Oct-Nov compared to that in July-August, with further easing following the Double 11 Shopping Festival. We expect the drag on profitability from the food delivery businesses of the three aforementioned platforms to narrow sequentially in 4Q25. Looking ahead, we believe that amid the phasing out of government subsidies, which in our view should prompt e-Commerce platforms to place greater marginal focus on ROI, and with all platforms prioritizing the optimization of UE models, the operating losses of the three platforms' food delivery businesses are expected to narrow YoY in 2026. However, overly optimistic expectations regarding the pace of profitability improvement may not be warranted, in our view.

In terms of market size, according to data from the Chinese Academy of International Trade and Economic Cooperation (CAITEC) under the Ministry of Commerce, China's instant retail market size is expected to reach RMB971bn in 2025, representing YoY growth of 24.4%, and will further expand by 27.7% to RMB1.2tn in 2026.

Figure 53: China: market size of instant retail and growth

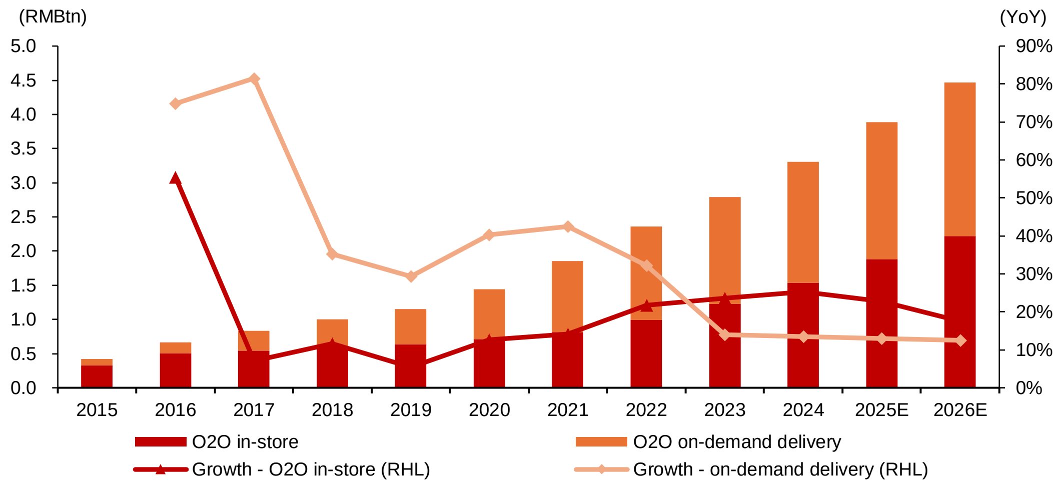


Source: Company data, CMBIGM estimates
Note: market size in terms of GMV

In-store business: still has room for further online penetration amid intensified competition

Looking back at the development of the in-store services industry in 2025, the sector overall exhibited a trend where order volume growth outpaced GTV growth, while revenue growth lagged behind GTV growth due to declined monetization rates amid intensified competition. Based on the current situation, we anticipate that the overall industry headwinds will persist in 2026 and ease somewhat in 2027. The market will remain focused on key indicators such as stabilized profit margins driven by recovering AOV and a stabilized competitive landscape. According to data from iiMedia, China's O2O in-store market size is expected to reach RMB2.2tn in 2026, representing YoY growth of 17.6%, a slowdown from the 22.8% growth rate recorded in 2025.

Figure 54: China: market size of O2O and forecast

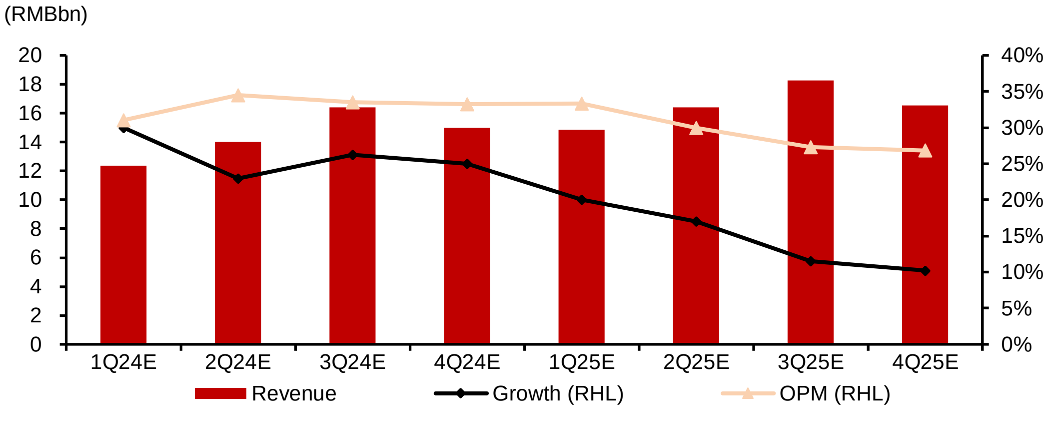


Source: iiMedia, CMBIGM
Note: market size in terms of GMV

We have observed a trend of intensified competition starting from 3Q25. For instance, Alibaba launched the "Amap Saojiebang" in Sep 2025, with users exceeding 400mn by October 3. Meanwhile, according to LatePost reports, Douyin's local services business also achieved rapid growth in 2025, with a YoY GTV growth rate of nearly 60% in 10M25 and an expected full-year GTV exceeding RMB800bn.

For Meituan: Despite the intensifying competition in its in-store business in the short term which weighs on the company's revenue growth rate and profit margin, we believe its strategy of enhancing mindshare among core user base should better support long-term growth. In the medium-to-long term, as industry competition enters a relatively stable phase and the stabilized macro environment drives the convergence of industry order volume growth and GTV growth, we expect the OPM of the in-store segment to recover to 30%.

Figure 55: Meituan: OPM of in-store segment



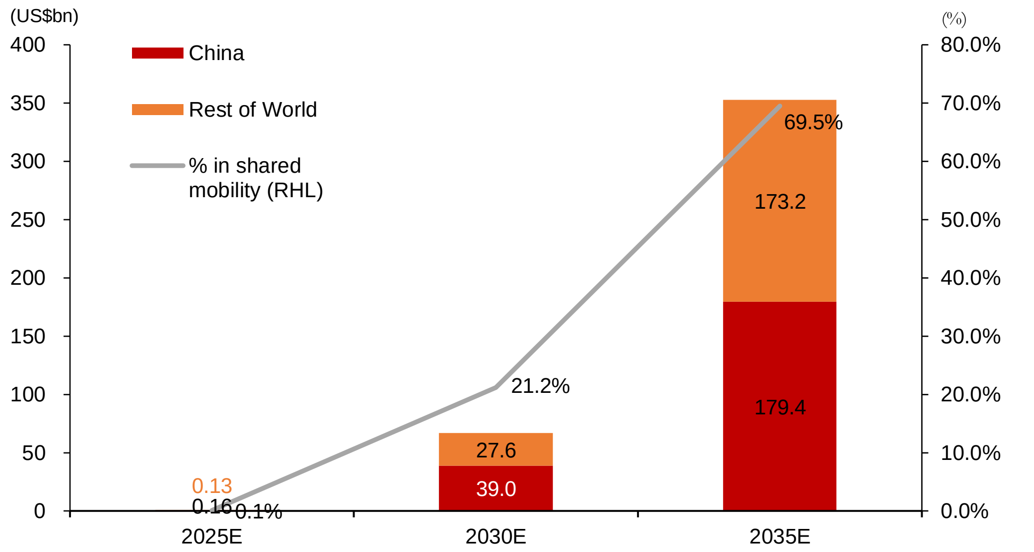
Source: Company data, CMBIGM estimates

Autonomous Driving: The Initial Year of Rapid Large-Scale Deployment Approaches

In 2025, China's Robotaxi industry achieved rapid development driven by intensive policy rollouts, generational cost reduction of core technology, and rising market demand, completing a critical transition from pilot validation to commercial implementation. Leading players saw sustained growth in cumulative orders and rapid fleet expansion. Looking ahead to 2026, with further reductions in per-vehicle costs and broader regulatory approval for operational areas, the industry is poised for accelerated large-scale deployment. Meanwhile, overseas expansion is expected to further unlock growth potential. According to Frost & Sullivan data, driven by technological advancements, supportive policies, and lower hardware costs, China's Robotaxi mobility market is projected to grow from US$160mn in 2025 to US$179.4 bn in 2035, representing a CAGR of 101.8% during 2025-2035E.

We remain optimistic about leading players in the Robotaxi industrial chain such as Baidu Apollo Go and leading lidar suppliers like Hesai, which are set to benefit from the large-scale commercialization of Robotaxis. For Hesai specifically, we also anticipate further expansion of non-automotive scenarios and shipment growth, which will support its long-term revenue and profit prospects.

Figure 56: Global Robotaxi industry scale accelerates growth



Source: Frost & Sullivan, Pony.ai, CMBIGM

Note: 1) Robotaxi services market size represents the total amount of ride fare paid by passengers for robotaxi services, as measured by the GTV of such services. 2) % in shared mobility refers to the share of global robotaxi market size in the shared mobility market.

From the perspective of regulatory liberalization for operational areas and industry development trends, the sector exhibits three key characteristics: 1) coverage expanding from core urban areas to entire cities; 2) business model shifting from free trials to market-oriented pricing; 3) liability identification evolving from ambiguity to clarity. At the national level, the "Technology Roadmap for Intelligent Connected Vehicles 2.0" specifies that the penetration rate of L2/L3 levels will reach 50% by 2025 and 70% by 2030, laying a technical foundation for Robotaxi development. In 2024, five ministries including the Ministry of Industry and Information Technology designated 20 pilot cities for "vehicle-road-cloud integration" to accelerate infrastructure development. At the local level, in July 2025, five cities including Shanghai and Guangzhou issued new regulations allowing full-city commercial operation of L4-level Robotaxis, officially abolishing the mandatory requirement for on-board safety officers and clarifying that automakers and insurers assume accident liability based on the "proportion of technical defects," resolving a core barrier to commercialization. Beijing expanded its high-level autonomous driving demonstration zone to 600 square kilometers, covering eight scenarios including airport transfers and commuter line, while Guangzhou took the lead in issuing fully driverless autonomous driving commercial licenses, enabling leading players like WeRide and Pony.ai to launch driverless paid operations.

From technology and cost perspectives, continuous cost reductions in core hardware and algorithms are critical prerequisites for large-scale deployment. On the algorithm front, end-to-end architecture innovation breaks the limitations of traditional modular division, achieving integrated optimization of perception, decision-making, and control through multimodal fusion technology, significantly reducing reliance on high-redundancy hardware. The maturity of transfer learning and self-supervised training methods improves data utilization efficiency, reduces manual annotation costs and algorithm iteration cycles, while enhanced long-tail scenario processing capabilities for complex road conditions further weaken the demand for extreme-performance hardware. On the hardware front, technological upgrades and large-scale mass production of core components such as lidar, domain controllers, and AI chips drive synergistic cost reduction: Lidar costs have been drastically reduced through solid-state technology and self-developed chips, with high-performance lidar listing prices falling to the US$200 range. Domain controllers are moving toward cockpit-chassis integration, integrating multi-domain functions to reduce hardware redundancy and wiring complexity. AI chips are optimized with dedicated instruction sets for autonomous driving scenarios, balancing computing power needs with power consumption and cost. The optimization of multi-sensor fusion solutions enables performance complementarity among different hardware, avoiding over-stacking of individual components and forming a synergistic effect of technical cost reduction.

Leading players have delivered impressive operational data, forming a closed-loop "technology + operation" model. Baidu's Apollo Go leads in order volume, with 3Q25 orders reaching 3.1mn (up 212% YoY; 2Q25/1Q25: +148%/+75% YoY), accelerating sequentially. As of October 2025, Apollo Go's weekly average orders exceeded 250,000, with cumulative safe driving of 240mn kilometers. By November, cumulative orders surpassed 17mn, covering 13 cities including Beijing, Wuhan, and Chongqing, with a fleet size exceeding 1,000 vehicles. Pony.ai focuses on first-tier cities, reducing the cost of its 7th-generation model to RMB270,000 (a 73% decrease), covering Beijing, Shanghai, Guangzhou, and Shenzhen. Its 7th-generation Robotaxis have achieved positive per-vehicle profitability in Guangzhou, with an average of 23 daily orders per vehicle. As of 3Q25, its fleet size reached 961 vehicles, and the company is expected to complete its full-year 1,000-Robotaxi target ahead of schedule, with plans to expand its operational fleet to over 3,000 vehicles by the end of 2026. WeRide's total global autonomous driving vehicles reached 1,600 in 3Q25 (up 23.1% QoQ), including 750 Robotaxis covering Guangzhou, Beijing, Nanjing, etc.. Its single-vehicle daily order records in Guangzhou and Beijing reached 25 and 23 respectively, and it is actively partnering with Uber to expand into the Middle East and overseas markets.

Looking ahead to 2026, with continuous iteration of integrated autonomous driving technologies, further advancement of national policy standardization, the arrival of the inflection point in Robotaxi operators' operational efficiency, and initial results of international expansion, we expect China's Robotaxi industry to enter a phase of deeper large-scale deployment. Benefiting from stronger full-stack self-development capabilities, first-mover advantages in vehicle-road-cloud integration, policy resources deeply tied to first-tier cities, and rapid cost reduction driven by scale, leading players such as Baidu Apollo Go, Pony.ai, and WeRide are poised to continue benefiting and leading the industry's development.

Vertical platforms: earnings growth remains as the key driver of valuation

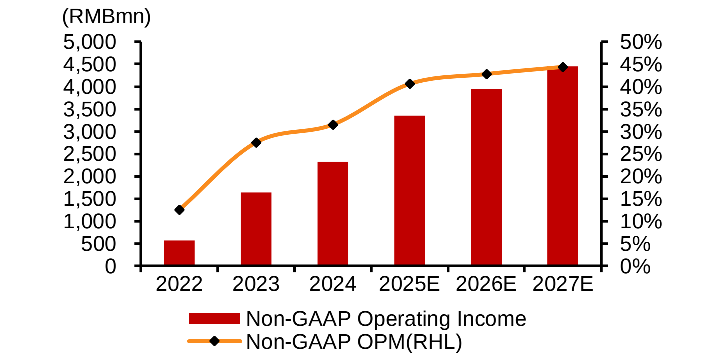
For vertical platforms with competitive advantages in their respective fields, we believe that profit growth outlook and marginal improvement in earnings outlook are the key factors supporting the valuation premiums relative to the overall sector.

Beike: Although we expect the overall real estate industry to still face challenges in recovery in 2026, we anticipate that Beike's non-GAAP net profit will grow by 28% YoY to RMB7bn in 2026, benefiting from the optimization of operating costs in core businesses and incremental operating profits brought by new businesses such as home renovation & furnishing (HR&F) and home rental services. Meanwhile, the company is enhancing shareholder returns: share repurchase expenditure reached US$675mn in 9M25, up 15.7% YoY, with the number of repurchased shares accounting for 3% of the total outstanding shares at the end of 2024. Against the backdrop of industry pressure, this initiative is expected to provide support for the company's valuation. We are optimistic about Beike's leading position in core business areas, and its new businesses are developing well, which is expected to bring long-term revenue and profit growth potential for the company. Our SOTP-derived target price is US$20.7, corresponding to 24.5x 2026E non-GAAP PE.

Boss Zhipin: The company has established strong competitive moat based on its large base of enterprise customers and job seekers. We are upbeat on the company's ability to drive sustained margin improvement through operating leverage and cost control. We forecast its non-GAAP operating profit to grow by 18% YoY to RMB3.9bn in FY26. If the macro environment or the supply-demand dynamics of the job market outperform expectations, the company's profits and valuation will have high elasticity. Recruitment demand showed a recovery trend in 3Q25: the ratio of recruiters to job seekers on the platform improved, and both enterprise renewal rates and net revenue retention rates increased. Our target price is US$25.5, based on 21x FY26 non-GAAP PE.

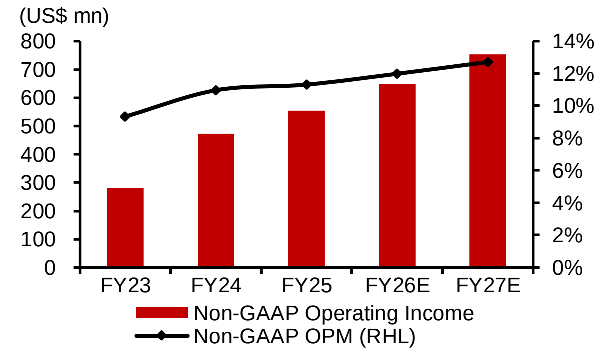
New Oriental: We expect the company to maintain relatively robust profit growth (17% YoY growth in non-GAAP operating profit) and sound shareholder returns (dividends + share repurchases accounting for approximately 5% of market cap) in FY26. Although overseas-related businesses continue to face pressure, the domestic K-12 business is accelerating thanks to higher renewal rates. The company guided FY26 revenue to grow by 5-10% YoY to US$5.15bn-US$5.39bn. In addition, the company will promote cost optimization measures, and we expect its full-year non-GAAP operating margin to increase by 1ppt YoY to 12%. To implement its shareholder return plan, the company announced two initiatives in October 2025: 1) a cash dividend of US$1.2 per ADS (totaling US$190mn); 2) the launch of a new 12-month share repurchase program with a scale of US$300mn. The combined amount of the two initiatives accounts for approximately 5% of the company's current market capitalization. Our SOTP-derived target price is US$76.0, corresponding to 21x FY26 non-GAAP PE.

Figure 57: Boss Zhipin: Adj. OP trend



Source: Company data, CMBIGM estimates

Figure 58: New Oriental: Adj. OP trend



Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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