



APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Tencent Q2 2026 results

Share Price
Date

HK\$440
14 August 2026

RESULTS SUMMARY

Tencent released a mixed set of second-quarter 2026 results. Revenue rose 11%, slightly ahead of expectations, with strong growth in Domestic Games and Marketing Services offsetting weaker International Games performance. Gross profit increased 13%, with margins benefitting from a more favourable revenue mix.

The main disappointment was at the operating level, as higher-than-expected AI investment weighed on earnings. Tencent increased spending to promote its new AI products and develop its models, resulting in adjusted EPS coming in below expectations. Capital expenditure also increased sharply, rising 176% y-o-y and pushing free cash flow into negative territory.

The market continues to look for evidence that Tencent can integrate AI into Weixin and unlock greater monetisation of its 1.4bn monthly active users. The company trades on a 12-month forward P/E multiple of 12.5x, very close to a 20-year low. While the quarter demonstrated continued strength in Tencent's core businesses, the early-stage rollout of AI within Weixin remains the key catalyst. We believe successful integration could create a significant earnings opportunity over the coming years.

OUR LONG-TERM INVESTMENT VIEW

- Tencent is one of China's largest tech companies, owning the country's largest social media platform (WeChat/Weixin), one of China's leading cloud infrastructure platforms, and the world's largest video game publishing business.
- WeChat — often called "the operating system of China" — spans work, home, retail, transport, and social life. Counting 1.4 billion people as monthly active users (and most of them daily engaged users), Tencent is in the enviable position of being able to direct traffic across its infrastructure toward its various consumer offerings.
- While the company was founded on its gaming franchises, it has steadily diversified into other verticals, including a fast-growing advertising business (linked to its social platforms) and, more recently, Tencent Cloud.
- The company is expanding its investments in AI, with work underway on its new LLM model, HunYuan, gaining traction in recent months.
- We believe that Tencent is well-placed to be one of the leaders in monetising consumer applications of AI in China at scale, as well as growing larger scale in its Cloud business.
- While the days of rapid user acquisition are behind us given its scale (indeed, MAUs grew just 2% y/y), Tencent is priced as largely ex-growth and in our view is performing better than its rating suggests.

UNPACKING THE Q2 2026 RESULTS

High level numbers

- **Revenue** increased 11% to RMB 204bn with growth coming from all 3 segments. Marketing Services and Domestic Games, within Value-add services, were the main growth drivers, up 22% and 17% respectively.
- **Gross profit** increased 13% with gross margin expanding 90bps to 57.8%, driven by an increase in mix from internally developed games.
- **Marketing Services (21% of revenue)** revenue increased 22% y-o-y on higher eCPM and impressions. Higher spending on the platforms was driven by significant updates to the AI recommendation systems as well as higher video views.
- **Fintech & Business Services (29% of revenue)** revenue increased 9% y-o-y. Fintech services growth was driven by increases in the number of transactions as well as higher aggregated

- **Adjusted operating profit** increased 9% to RMB 75.6bn with margin decreasing 60bps y-o-y. Significant increases in sales & marketing (26%) and R&D (35%) relating to AI products more than offset the gross margin expansion. Management disclosed an operating profit excl new AI products which increased 19% y-o-y and saw a margin expansion of 280bps, showing that core operations remain strong.
- **Adjusted EPS** increased 9% y-o-y to RMB 7.43
- **Free cash flow** turned negative during the quarter as capital expenditures increased 176% to RMB 52.8bn, now 25% of revenue.
- **Balance sheet** remains solid with a net cash position of RMB 58.2bn.

Key segment performance

- **Value added Services (48% of revenue)** revenue increased 8% y-o-y. Social Networks increased 1% y-o-y driven by app-based game item sales which was partially offset by decreased revenue from long-form video subscriptions. Domestic Games increased 17%, benefitting from the timing of the Spring Festival as well as the recently released game *Roco Kingdom : World*. International Games was a soft spot, down 1% as growth in certain updated titles was offset by the developer Supercells performance.

customer assets. Business services, which includes the cloud business, saw growth in the low 20% on AI related demand. AI demand was seen for GPU rental, model-as-a-service as well as new AI products WorkBuddy and CodeBuddy.

Looking ahead

AI remains the key focus for investors, with Tencent needing to demonstrate how it can integrate AI into Weixin and improve monetisation of its 1.4bn monthly active users. Early products such as WorkBuddy and CodeBuddy are showing promise, while the development of its Hunyuan model remains a priority. Management is expected to provide further updates on Hunyuan, including the planned HY4 release, during the second half of the year.

The bottom line

Tencent trades on a 12-month forward P/E multiple of 12.5x, very close to a 20-year low. While the core business continues to deliver solid growth, the market remains cautious about Tencent's ability to translate its AI investments into meaningful earnings. We believe the integration of AI into Weixin is the key catalyst for unlocking this potential and could provide a significant earnings uplift over the coming years.

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