APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Tencent Q1 2026 results

Share Price	HK$460
Date	14 May 2026

RESULTS SUMMARY

Tencent reported a set of results that were slightly underwhelming, albeit somewhat impacted at the top-line by some calendar timing issues (Spring Festival in China) which shifted revenue recognition in their gaming businesses into latter reporting periods. Net profits grew 11% year on year, with operating profit up 9% on a similar pace of revenue growth. Revenue fell short of consensus expectations by about 1.5%.

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 HY/FY 2025 RESULTS

High level numbers

- **Revenue RMB196.5bn, +9% year on year.** Adjusting for the timing of Spring Festival, revenue would have grown by 11% y/y.
- **Value added Services (VAS)** +4% year on year – growth held back by Social Networks, which saw a 2% revenue decline y/y due to lower app-based games item sales due to the afore-mentioned timing issues.
- **Marketing Services** grew 20% y/y, with management especially highlighting the impact of AI investments on ad targeting and click through rates.
- **Fintech & Business Services** grew 9% y/y, with

Looking ahead

One of the key take-aways from the earnings call was management's comments that their Cloud business has been constrained in its access to sufficient GPUs to support its Cloud customer demand.

In a moment seemingly acknowledging their underdog status in the Large Language Model (LLM) arena in China, President Martin Lau commented: *"over the last six months, we have made significant progress on our HunYuan LLM, but I would say that it is just getting started. We started the initiative by **completely overhauling our foundation model team**, centering around **newly-added** elite AI researchers and engineers with deep expertise…"*

Business Services growing 20%, aided by strong Cloud demand (Tencent's International Cloud business grew 40% y/y).

- **Gross margins expanded from 56% to 57% y/y,** while operating costs grew by 9%.
- **Earnings per share** (EPS) grew by 22% y/y, with this figure flattered somewhat by higher net interest income. Operating profit growth of 9% is more indicative of underlying performance, but management further guided that excluding investments behind their AI initiatives, operating profit would have expanded 17%. They are clearly trying to manage a narrative.
- **Balance sheet strength is a Tencent feature:** Tencent has net cash of ~RMB110bn on balance sheet (~3% of market cap), and in addition has a vast investment portfolio of equity interests in various businesses totalling >RMB800bn (20% of the market cap of Tencent).

They further commented that investors should expect a "significant" increase in capex in the remainder of the year as more China-designed ASICs (ie chips) become available to them. They are now accelerating investment behind growing this business, which investors may perceive as meaning a margin squeeze if revenue receipts do not linearly align with capex outlays – much as we've seen with other hyper-scalers in the US.

Finally, Chairman Pony Ma offered a very candid comment at the AGM in relation to Tencent's AI journey : "*A year ago, we thought we were on the boat, but later we found that the boat was leaking. Now we feel like we're on it, but we can't sit down yet. We still hope the boat can go faster.*"

Valuation

Tencent trades at a **12-month forward P/E multiple of 12,7x**, very close to a 20 year low on this metric (and almost in line with its 2022 trough valuation). Further, its premium vs MSCI China has shrunk to an all-time low at 1.1x (relative forward P/E). Clearly, the stock is being treated as an AI laggard by the market until a sharp inflection higher in growth is evidenced.

Private Clients
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