0700.HK gideon lens

Tencent (0700.HK) - Gideon-Lens Equity Research

Date: 2026-05-28. Analyst: Codex ER2. Price anchor: HKD425.00 per 0700.HK share, approximately RMB368.55 using HKD/CNY = 0.86717. Market cap at quote: approximately HKD3.84T. Fiscal year end: December 31.

VERDICT BLOCK

Verdict: WATCH

Scorecard:

Gate	Result	Notes
Management	YELLOW	Strong operators; PRC/VIE, control, compensation opacity unresolved
Moat	PASS	Weixin, games, ads, payments pass 2046 test
P/E <= 15 on confident EPS at TTM + 5 calendar years	PASS	Base case cushion 50.3%
Compounder Score	Audited 61 / 100	Watchlist; diagnostic only, not ER2 override
Business Quality Score	Audited 58 / 80	Strong assets, but quality evidence remains capped
20% Return UW Score	Audited 3 / 20	Current price does not underwrite 20% returns

One-line thesis (or reason to pass): Tencent is a real platform compounder whose base-case TTM+5 EPS clears the P/E 15 price test, but the management/governance YELLOW gate and weak 20% return underwriting keep it on WATCH rather than BUY.

Kill / trigger criteria:

- BUY trigger: management upgraded to PASS while price remains below HKD425, or while the base P/E 15 value remains at least 25% above the then-current quote.
- PASS triggers: VAS growth below 5% YoY for two consecutive quarters with VAS gross margin below 60% in either quarter; buybacks below HKD15B cumulative over the same two quarters while AI capex rises; any VIE, related-party, regulatory, or minority-shareholder action that impairs Tencent's economic claim on OPCO cash flows.
- Upgrade to BUY conditions: repeatable AI/cloud monetization metrics, continued FCF-funded buybacks, clean governance behavior, no product-disclosure regression, and maintenance of the base-case P/E 15 cushion.

Position sizing if bought: 2% of equity book maximum until the management gate is upgraded; governance and disclosure caps argue against a full-size position despite the P/E 15 cushion.

Stage 0 - Time Anchor

Today is 2026-05-28. Tencent's fiscal year ends December 31. The most recently reported quarter is Q1 FY2026, quarter ended March 31, 2026, announced on May 13, 2026 in Tencent's official 1Q2026 results release. The TTM anchor is Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026, giving TTM ending March 31, 2026. The forward horizon is TTM + 5 calendar years = March 31, 2031; all FY+5 language in this report means exactly that five-year span, not a six-year fiscal-year stretch.

Stage 1 - Disqualifier Sweep

ROIC persistently >=15%: green, with the caveat that clean segment ROIIC is estimated because Tencent does not disclose segment invested capital or segment operating income. FCF conversion: green, with TTM FCF around RMB192.2B and FY2025 FCF around RMB182.6B. Net debt / EBITDA: green, because Tencent reported net cash of RMB146.9B at Q1 FY2026. End-markets: green/yellow, since games, ads, payments, and cloud/AI are growing, but China macro, regulation, and AI capex remain real checks. Governance: yellow due to PRC/VIE structure, founder influence, chair/CEO combination,

long-tenured independents, and limited performance-target disclosure in share awards. AI disruption: green/yellow because Tencent is both exposed to interface and workflow shifts and one of the better positioned Chinese platforms to deploy AI. Pricing power: green/yellow, clearest in Marketing Services and games, less transparent in fintech/cloud contracts.

Management

Management is YELLOW. The appendix gives Tencent strong credit for operating capability: Pony Ma and the long-tenured operator bench have steered the business through regulation, cloud restructuring, margin recovery, buybacks, and AI investment without obvious balance sheet stress. Capital allocation has improved, especially through large repurchases, and the company is funding AI from a position of net cash and high free cash flow. The reason this is not a clean PASS is governance rather than operating competence. The VIE and OPCO structure, founder concentration across chair/CEO/nomination and operating-company ownership, long-tenured independent directors, and share awards without explicit performance targets create a minority-shareholder wrapper that Gideon cannot ignore. The management appendix's upgrade path is concrete: keep reducing share count while funding AI from FCF, disclose repeatable AI/product monetization metrics, and avoid VIE or related-party problems. A downgrade to FAIL would come from open-ended AI margin sink behavior, dilution replacing buybacks, minority-unfriendly VIE/related-party actions, or evasive answers on product economics.

Moat

Moat is PASS, and the 2046 test is PASS. Tencent's moat is not "big Chinese internet company" as a vague claim; it is the reinforcing system of Weixin/WeChat identity, social communication, payments and merchant rails, closed-loop ads, game IP/live operations, content distribution, and scale-funded AI. The refreshed moat appendix incorporates the peer-reviewed segment appendices and makes the test stricter: Domestic Games, Weixin-centered Marketing Services, and payments/merchant rails carry the durability case; generic cloud infrastructure, licensed content, and Others cannot carry it. Pricing power is clearest in Marketing Services, where better targeting and closed-loop conversion can support higher bids, and in VAS, where games monetize through engagement, content cadence, virtual items, and franchise depth. The weakest pools are cloud/AI infrastructure, lower-value fintech, content/media, and miscellaneous activities. The 2046 version of Tencent is plausible if Weixin remains a core identity and transaction layer and games/ad/payment loops keep funding reinvestment. The largest 2046 risks are AI/interface shifts weakening Weixin intent capture, cloud/AI capex earning low returns, and regulation capping monetization.

Stage 5 Synthesis

The synthesis passes all 11 tie-out checks and passes the P/E <= 15 gate. The live quote anchor is HKD425.00, converted to RMB368.55 per share for the EPS test. Required EPS for a 15x P/E at that price is RMB24.57. Base-case TTM+5 EPS is RMB36.93, so EPS x 15 equals RMB554.02 and gives a 50.3% cushion. The base case is not a heroic bull case: it projects revenue from RMB768.2B TTM to RMB1,084.6B at March 31, 2031, operating income to RMB385.1B, net income to RMB335.2B, and EPS to RMB36.93 after an explicit buyback/SBC share-count path. The bear case narrowly fails the P/E 15 test, which matters. It says Tencent is not protected if VAS stagnates, AI costs rise, Marketing Services decelerates harder than expected, and buybacks slow.

Case	Revenue RMB B	OI RMB B	OI margin	NI RMB B	EPS RMB	EPS x 15 RMB	Vs. current RMB368.55
Bear	879.7	255.4	29.0%	221.5	24.40	366.04	-0.7%
Base	1,084.6	385.1	35.5%	335.2	36.93	554.02	50.3%
Bull	1,236.3	485.7	39.3%	422.8	46.59	698.85	89.6%
Probability-weighted	1,065.9	372.0	34.9%	324.4	35.73	535.96	45.4%

The most important sensitivities are VAS growth and share count. A 200 bps swing in VAS CAGR moves horizon EPS by roughly RMB1.8-1.9. A plus or minus 5% ending share count moves EPS by a similar amount. Marketing Services margin matters strategically, but a 200 bps margin swing is smaller in the consolidated EPS table. The synthesis also handles Tencent's disclosure limitation correctly: segment operating income is not reported, so the model bridges from modeled segment contribution to consolidated operating profit with an explicit unallocated expense line rather than pretending segment OI exists.

Red Team

The red team says the thesis survives only conditionally. Its strongest bear argument is that Tencent is excellent but priced for a base case where VAS, AI cost discipline, ad monetization, cloud margins, and buybacks all go right together. The Stage 5 number most likely to be optimistic is base operating income of RMB385.1B, or a 35.5% margin, because the horizon residual expense may be too low if new AI products drag on infrastructure, content safety, depreciation, and shared engineering. The red team agrees with the scoring audit that there is no credible 20% current-price return claim: audited base IRR is about 9.6%, bull is below 20%, and the mechanical 20% buy price is around RMB234.68. The exit signal is specific: over the next two quarters, exit if VAS growth is below 5% YoY in both, VAS gross margin falls below 60% in either, and cumulative buybacks are below HKD15B.

Kill / Trigger Criteria

- Upgrade to BUY if the management gate moves from YELLOW to PASS while the base-case P/E 15 value remains at least 25% above the share price.
- Kill the thesis if VAS growth and margin both miss the red-team threshold while buybacks slow, because that breaks the largest profit pool and the per-share compounding bridge together.
- Downgrade to PASS if AI/cloud spending becomes an open-ended margin sink without product-level monetization metrics.
- Downgrade to PASS on any VIE, related-party, regulatory, or capital-allocation action that materially worsens minority-shareholder economics.
- Revisit the model if Marketing Services growth falls below 10% YoY for two consecutive quarters without offsetting margin expansion.

Analyst Flags

The main data caveat is disclosure granularity. FMP product segmentation was empty for 0700.HK/TCEHY; official Tencent sources control the financials. Tencent discloses segment revenue and gross profit/gross margin, but not segment operating income, so every segment OI/contribution figure is modeled. Product-level RMB disclosure is good for games/social network sub-lines but limited for Video Accounts ads, Weixin Search, Mini Programs, payments, cloud, GPU/API tokens, WorkBuddy, CodeBuddy, and Yuanbao. The audited diagnostic score is therefore only 61/100: the score likes the platform, FCF, net cash, and moat, but cuts hard for estimated ROIIC, disclosure gaps, governance YELLOW, and weak 20% return underwriting. ER2's first three gates produce WATCH: P/E 15 PASS, Moat PASS, Management YELLOW.

Appendix A - Company Primer

Tencent - Appendix A: Company Primer

Scope, Anchors, And Source Discipline

This primer is written for the production ER2 / Gideon run on Tencent Holdings Limited, ticker 0700.HK. It is an orientation document, not the model's audit file. All financial figures in this appendix come from the cleared quantitative foundation at `C:\Users\Admin\OneDrive\GPT\ER 2.0\Tencent\quant_foundation.md`, which reconciles Tencent's official releases, annual report, and selected FMP cross-checks. The controlling reporting currency is RMB, and figures are RMB millions unless noted otherwise.

The Stage 0 anchor is fixed. Today is 2026-05-28. Tencent's fiscal year ends December 31. The latest reported quarter is Q1 FY2026, the quarter ended March 31, 2026, announced by Tencent on May 13, 2026. The TTM period is Q2 FY2025 plus Q3 FY2025 plus Q4 FY2025 plus Q1 FY2026, ending March 31, 2026. The forward horizon for downstream underwriting is March 31, 2031.

The key caveat is that Tencent is a foreign/local-exchange issuer for this run, and official Tencent sources control whenever FMP is empty, stale, absent, or materially different. FMP revenue-product segmentation returned empty arrays for both 0700.HK and TCEHY, so the primer does not invent product rows. The reportable segments are VAS, Marketing Services, FinTech and Business Services, and Others. Tencent discloses segment revenue and segment gross profit, but not segment operating income, so segment discussion below stops at gross profit rather than allocating group expenses by hand.

Source hierarchy used here:

Source ID	Source	Use in this primer
QF	Quantitative foundation, cleared QFR	All consolidated, segment, cash flow, balance sheet, share count, and TTM figures
OFF-AR25	Tencent 2025 annual report, official PDF	Segment definitions, revenue recognition, FY2025 segment revenue/gross profit, geography, operating model
OFF-1Q26	Tencent 1Q2026 results release, official PDF	Latest-quarter business update, AI products, 1Q2026 segment growth drivers, operating metrics
OFF-FY25	Tencent FY2025 / 4Q2025 results release, official PDF	FY2025 management commentary, games, ads, cloud, fintech, AI, buybacks and FCF context

Official Tencent investor materials used: [2025 annual report](https://static.www.tencent.com/uploads/2026/04/09/62d786fcf3d3c8cb7e54791ee95439ac.pdf), [1Q2026 results release](https://static.www.tencent.com/uploads/2026/05/13/47382ae415a209fd161bc19a1f9b3704.pdf), [FY2025 and 4Q2025 results release](https://static.www.tencent.com/uploads/2026/03/18/e6a646796d0d869acc76271c9ee1a6a5.pdf), and Tencent's [investor reports page](https://www.tencent.com/en-us/investors/financial-reports.html).

Business Overview

Tencent is best understood as a large consumer-internet and enterprise-technology ecosystem built around social identity, digital entertainment, payments, advertising, cloud services, and a portfolio of investments. Its most important strategic asset is not any single app or game, but the breadth of user attention and transaction context inside Weixin/WeChat, QQ, games, video, music, mini programs, mini shops, search, payments, and cloud tools. The company uses that ecosystem to serve four broad customer groups: consumers who communicate, play, watch, listen, shop, pay, and subscribe; advertisers who want measurable reach and transactions inside Tencent properties; merchants and developers who need mini-program distribution, payments, advertising, and e-commerce infrastructure; and enterprises that buy cloud, AI, productivity, security, communication, and data services.

Tencent's Q1 2026 release describes communication and social services that connect users with people, content, and services; marketing services that help advertisers reach consumers in China; and fintech/business services that support partners' growth and digital upgrade. That simple description is useful because Tencent is a platform company whose products reinforce each other. Weixin is both messaging and identity; Mini Programs are both app distribution and merchant storefronts; Weixin Pay is both consumer convenience and payment rail; Video Accounts are both entertainment surface and advertising inventory; cloud is both an external enterprise service and the internal infrastructure base for AI, games, ads, and

recommendations.

For consumers, Tencent solves convenience and entertainment problems. Weixin/WeChat and QQ handle messaging, media sharing, official accounts, mini programs, payments, search, and content discovery. Games provide entertainment through internally developed titles and licensed or invested titles. Music, long-form video, literature, and live streaming sit inside social networks. Consumers usually pay through digital transactions, virtual-item purchases, subscriptions, or payment/merchant flows rather than through a traditional enterprise contract.

For advertisers, Tencent sells audience, intent, and closed-loop conversion inside one of China's most important digital ecosystems. Marketing Services revenue comes from advertising inventory across Tencent platforms. The customer can be a brand advertiser, performance marketer, mini-game developer, mini-drama producer, mini-shop merchant, e-commerce platform, internet-services company, or game company. Advertisers buy through Tencent's ad products and campaign tools, including the AIM+ automated campaign solution referenced in the latest official releases. The appeal is that an ad impression can connect directly to a native Tencent transaction path such as Mini Programs, Mini Shops, Mini Games, Weixin Search, or Video Accounts.

For merchants, developers, and financial partners, Tencent sells distribution and transactions. Mini Programs and Mini Shops are merchant-facing infrastructure; Weixin Pay and related fintech services process payments and create commissions tied to transaction values or retained balances; wealth management and consumer-loan services are run with licensed financial institutions. Tencent's role is to provide user access, software rails, and risk management rather than to operate as a balance-sheet bank. This distinction matters for unit economics: fintech is large but payment processing is often lower margin than games and advertising, while wealth management, merchant services, and e-commerce technology fees can improve mix.

For enterprises, Tencent Cloud and business services solve compute, storage, AI workload, security, communication, collaboration, and industry digitalization needs. Customers buy cloud services by subscription period or by consumption of resources. Tencent has emphasized stronger cloud revenue growth, profitability at scale, and demand for AI-related services. In 1Q2026, management highlighted productivity AI agent solutions such as WorkBuddy and AI products including Hy, Yuanbao, CodeBuddy, WorkBuddy, and QClaw. These are early but strategically important because they can both consume infrastructure capex and create new revenue lines if adoption broadens.

Revenue Architecture

Tencent reports four official segments. In FY2025, total revenue was RMB751.8 billion. TTM revenue ending March 31, 2026 was RMB768.2 billion. The segment mix is broad, but the profit pool is more concentrated in VAS and Marketing Services than revenue alone suggests.

Segment	FY2025 revenue	FY2025 % of revenue	FY2025 gross profit	FY2025 gross margin	TTM revenue ended 2026-03-31
VAS	369,281	49.1%	222,296	60.2%	373,258
Marketing Services	144,973	19.3%	83,389	57.5%	151,291
FinTech and Business Services	229,435	30.5%	116,616	50.8%	234,413
Others	8,077	1.1%	292	3.6%	9,240
Total	751,766	100.0%	422,593	56.2%	768,202

Geographically, Tencent mainly operates in Chinese Mainland, though its games, cloud, and investment portfolio have international exposure. FY2025 revenue was RMB662.1 billion from Chinese Mainland and RMB89.6 billion from others, equal to roughly 88.1% and 11.9% of total revenue. This means the business is not only a China domestic story, especially because international games exceeded USD10 billion of revenue in FY2025, but China remains the primary operating geography and the primary regulatory environment.

Geography	FY2025 revenue	FY2025 % of total
Chinese Mainland	662,119	88.1%
Others	89,647	11.9%
Total	751,766	100.0%

VAS is Tencent's largest segment and includes online games and social networks. In FY2025, Tencent disclosed Games revenue of RMB241.5 billion and Social Networks revenue of RMB127.7 billion within VAS. Games include domestic titles such as Honour of Kings, Peacekeeper Elite, Delta Force, and VALORANT Mobile, plus international titles and studios such as Supercell and PUBG MOBILE exposure. Social Networks includes subscriptions, virtual items, live streaming, music subscription revenue, long-form video and other paid or social-content services. Customers are mostly consumers, and purchases are made inside Tencent apps, game clients, app stores, and partner platforms. A dollar of VAS revenue is economically attractive when it comes from internally developed games or subscriptions, because Tencent keeps more of the gross receipts after channel fees, royalties, content costs, and server costs.

Marketing Services is Tencent's advertising business. It sells display and performance advertising inventory across Tencent platforms, with revenue recognized over the display period or when performance actions such as impressions, views, or clicks are delivered. The business has shifted from simple ad inventory toward more closed-loop and AI-driven performance marketing. Tencent's 2025 and 1Q2026 releases repeatedly cite AI-powered ad targeting, AIM+, Weixin Search, Video Accounts, Mini Programs, Mini Shops, and Mini Games as drivers. The customer is the advertiser or agency; the economic problem Tencent solves is measurable attention and conversion inside a high-frequency consumer ecosystem. Unlike a standalone ad network, Tencent can connect discovery, social sharing, payment, and merchant storefronts without making the user leave its ecosystem.

FinTech and Business Services is large and mixed. FinTech includes payment transaction commissions, wealth management services, consumer-loan related services, and other financial technology services provided with licensed financial institutions. Business Services includes cloud services, e-commerce technology service fees, productivity AI agents, and enterprise digitalization products. Customers include consumers using payments, merchants accepting payments, financial institutions, enterprises buying cloud resources, and industry customers in retail, financial services, healthcare, manufacturing, transportation, education, and other sectors. Revenue can be commission-based, subscription-based, or consumption-based. This makes the segment less simple than the name suggests: it includes both high-volume payments and potentially higher-margin cloud/software/AI services.

Others is small and low-margin. Tencent describes it as investments in, production and distribution of films and television programs for third parties, copyright licensing, merchandise sales, and various other activities. It is not a central valuation driver in the current numbers. FY2025 revenue was only 1.1% of total and gross margin was 3.6%, so the segment should be treated as strategic adjacency and cleanup category rather than as a core compounder.

Unit Economics

Tencent's consolidated gross margin improved from 52.9% in FY2024 to 56.2% in FY2025, and the TTM gross margin was 56.4%. The improvement was driven by mix and efficiency: internally developed games, Video Accounts and Weixin Search marketing services, fintech cost efficiency, and cloud cost efficiency. The central modeling point is that revenue dollars are not equivalent across segments. A games dollar, an ad dollar, a payment-processing dollar, and a cloud-consumption dollar can all show up as Tencent revenue, but they convert differently into gross profit and operating profit.

In VAS, the best dollars are internally developed game revenue and scalable subscription/social revenue. Tencent still pays channel and distribution costs when users purchase through third-party platforms, and it may pay game developers under cooperation agreements when Tencent platforms distribute third-party games or applications. However, owned IP and internally developed evergreen games can carry strong contribution margins because content development, live operations, server infrastructure, and community management scale across a large user base. Virtual-item revenue recognition also smooths economics: permanent in-game items are deferred and amortized over estimated user life, while limited-life items and subscriptions are recognized over consumption or service periods. That accounting does not change cash collection, but it affects the timing of recognized revenue and margins.

Marketing Services has attractive incremental economics because ad inventory exists on Tencent's owned traffic surfaces. The main costs are traffic acquisition where applicable, revenue share, content and bandwidth costs for media surfaces, sales support, adtech engineering, data infrastructure, and moderation/compliance. The reason gross margin was 57.5% in FY2025 is that the platform already has huge engagement, and better recommendation models can lift pricing without equivalent cost growth. The key lever is not just ad load. Management says ad load remains lower than peers, so growth can come from higher pricing, better targeting, more closed-loop formats, more advertiser adoption of AIM+, and more user time spent on Video Accounts, Weixin Search, Mini Programs, and Mini Shops.

FinTech and Business Services has the widest spread of unit economics. Payment transaction commissions are high volume but usually competitive and sensitive to take rate, regulation, and interchange or partner economics. Wealth management and

consumer-loan related services can be more profitable if Tencent earns service fees while avoiding direct balance-sheet credit risk, but they are regulated and depend on licensed financial institutions. Cloud services require data center, server, network, depreciation, procurement, and engineering spend; margins improve with utilization, product mix, PaaS/SaaS contribution, supply-chain optimization, and AI workload demand. Tencent's FY2025 gross margin for this segment rose to 50.8% from 47.0%, which is important evidence that mix and scale are improving, but the segment should not be modeled as a pure software business.

Others demonstrates what low-quality revenue looks like inside Tencent's disclosures. It generated RMB8.1 billion of FY2025 revenue and only RMB292 million of gross profit. That 3.6% gross margin implies film, TV, merchandise, copyright, and miscellaneous activities are not core profit engines. In a quality-compounder framework, this segment matters mainly because it absorbs attention and capital at the margin, but its small size limits damage.

Below gross profit, Tencent manages selling and marketing, general and administrative expense, interest income and finance costs, investment gains/losses, associate profit/loss, and taxes centrally. Tencent's annual report explicitly says those items are not included in segment performance. Downstream segment models should therefore start with segment gross profit and then decide whether central costs are tied to revenue, gross profit, AI investment intensity, or corporate overhead. Allocating group operating income mechanically by segment revenue would create false precision.

Current Business Momentum

The latest quarter shows Tencent still growing while investing heavily in AI. In Q1 FY2026, revenue was RMB196.5 billion, up 9% year over year; gross profit was RMB111.3 billion, up 11%; IFRS operating profit was RMB67.4 billion, up 17%; and free cash flow was RMB56.7 billion, up 20%. Non-IFRS operating profit was RMB75.6 billion. Management also disclosed that operating profit excluding new AI products was RMB84.4 billion, up 17%, with an excluding-AI-products operating margin of 43.0%. That disclosure is useful because it separates the powerful current core from the near-term drag of new AI products.

VAS grew 4% year over year in Q1 FY2026 to RMB96.1 billion. Domestic Games revenue was RMB45.4 billion, up 6%, while management said gross receipts grew at a teens percentage rate but revenue recognition lagged because of the later timing of Spring Festival. International Games revenue was RMB18.8 billion, up 13% or 14% constant currency. The growth drivers included evergreen games such as Honour of Kings and Peacekeeper Elite, newer releases such as Delta Force and VALORANT Mobile, and international contribution from Clash Royale, Wuthering Waves, and VALORANT PC. The investment question is not whether any single title wins; it is whether Tencent's studio, distribution, live-ops, and IP portfolio can keep replacing aging hits with new evergreen titles.

Marketing Services grew 20% year over year in Q1 FY2026 to RMB38.2 billion, accelerating from 17% in Q4 2025. Management tied this to an upgraded AI-driven ad recommendation model and expanded closed-loop marketing capabilities within Weixin. AIM+ powered approximately 30% of total marketing services spending from advertisers in Q1 2026, with traction among mini-game, mini-drama, and mini-shop advertisers. This is one of the cleanest links between Tencent's AI investment and monetization: better ad relevance raises advertiser ROI, which can raise pricing and budgets without requiring an equally large increase in ad load.

FinTech and Business Services grew 9% year over year in Q1 FY2026 to RMB59.9 billion. FinTech growth came from commercial payment and wealth management services. Business Services grew 20%, supported by cloud demand in domestic and international markets, demand for AI-related services, a more favorable pricing environment, and e-commerce technology service fees from Mini Shops GMV. Commercial payment volume grew faster than in Q4 2025 as transaction counts and value per transaction improved in categories such as retail and dining. This segment is therefore exposed to both China consumption and enterprise AI/cloud adoption.

Operating metrics show ecosystem scale remains intact. Combined MAU of Weixin and WeChat reached 1.432 billion at March 31, 2026, up 2% year over year and 1% quarter over quarter. Mobile device MAU of QQ was 516 million, down 3% year over year but up 2% quarter over quarter. Fee-based VAS subscriptions were 266 million, down 0.7% year over year and 0.4% quarter over quarter. Video Accounts total time spent grew over 20% year over year, and Mini Shops sustained rapid GMV growth. The message is mixed but favorable: the core social graph is mature, QQ remains declining on a year-over-year basis, subscriptions are flat, but new surfaces inside Weixin continue to create monetizable engagement.

Competitive Position And Moat Sources

Tencent's moat begins with user identity and daily habit. Weixin/WeChat is a foundational communication and service layer in China, and QQ remains meaningful despite age and declining mobile MAU. Network effects are strong because messaging,

groups, official accounts, payments, mini programs, mini shops, search, and content are more useful when counterparties are already present. This makes Tencent harder to attack than a standalone game publisher or cloud vendor.

The second moat source is content and live operations. Tencent has a long history in games, both domestically and internationally, and owns or controls important studios and IP exposure. Evergreen games matter because they turn development success into recurring live-service cash flows. Tencent defines evergreen games as titles with large average quarterly daily active users and more than RMB4 billion annual gross receipts. That definition sets a high bar: these are not merely launch-window hits. The risk is title aging, regulatory approval cycles, and player fatigue; the advantage is that Tencent has demonstrated an ability to refresh existing games and add new hits such as Delta Force.

The third moat source is closed-loop advertising. Tencent's ad business benefits from attention, data, native transaction paths, and merchant tools. In a weaker ad environment, advertisers gravitate toward formats where spend can be measured against sales, leads, app installs, or direct storefront activity. Tencent's Weixin ecosystem lets a user see content, search, click an ad, enter a Mini Program or Mini Shop, pay through Weixin Pay, and share or revisit the merchant. This closed loop can improve conversion attribution and bid density. The key underwriting variable is how far Tencent can increase monetization without damaging user experience.

The fourth moat source is embedded payment and merchant infrastructure. Weixin Pay is not disclosed as a standalone segment, but it is central to FinTech and to the broader ecosystem. Payments create transaction frequency, merchant relationships, and data signals. They also make Mini Shops and other native commerce formats more valuable. Regulatory constraints limit how aggressively Tencent can monetize financial services, but the strategic value of payments is larger than direct payment take rate.

The fifth moat source is financial capacity. Tencent ended Q1 2026 with net cash of RMB146.9 billion, total cash of RMB533.7 billion, and listed investee-company shareholdings with fair value of RMB547.1 billion, excluding subsidiaries. TTM free cash flow was RMB192.2 billion. This gives Tencent the ability to fund AI infrastructure, recruit talent, buy back shares, pay dividends, and support strategic investments. It also complicates ROIC analysis because investment assets and associates make invested-capital calculations less clean than for a pure operating company.

AI As Both Expense And Option Value

AI is now a central variable in the Tencent story. In 2025, management said AI improved ad targeting, supported more engagement with games, and helped cloud growth and profitability. In 1Q2026, management highlighted Hy3, Yuanbao, CodeBuddy, WorkBuddy, QClaw, AI-driven ads, AI agent solutions, and cloud demand for AI-related services. The near-term financial effect is two-sided: Tencent's core businesses are funding AI investment, but new AI products are also depressing near-term operating profit versus the ex-new-AI-products view.

For games, AI can accelerate content production, improve user experience, support live operations, reduce moderation or tooling friction, and create new forms of NPC or user-generated content. The investor should be careful not to capitalize all AI rhetoric immediately; game success still depends on creative quality, retention, regulation, and monetization discipline. But Tencent has one advantage many AI application companies lack: a large existing game base where productivity improvements can flow into known revenue streams.

For Marketing Services, AI is already a clearer monetization tool. Better recommendation models, automated campaign management, and creative generation can raise advertiser returns. In 1Q2026, AIM+ represented about 30% of total marketing services spending from advertisers. That is meaningful adoption inside a large segment, not a laboratory pilot. The main diligence question is whether AI improves pricing and budgets sustainably, or whether competition returns the benefit to advertisers over time.

For cloud and business services, AI is both demand driver and capex driver. AI workloads can increase consumption of compute, storage, networking, model tooling, and agent services. Tencent Cloud's productivity AI agent solutions achieved rapid growth and healthy retention in 1Q2026, and management described WorkBuddy as the most popular productivity AI agent service in China by DAU. However, AI infrastructure can be capital intensive. Q1 2026 capex was RMB31.9 billion, up 16% year over year, and TTM capex was RMB87.1 billion. The quality of this investment depends on utilization, pricing, model efficiency, and whether AI products create durable revenue rather than just defensive spending.

Capital Allocation, Balance Sheet, And Shareholder Returns

Tencent is highly cash generative. FY2025 free cash flow was RMB182.6 billion, and TTM free cash flow ending March 31, 2026 was RMB192.2 billion. The latest quarter showed RMB56.7 billion of free cash flow and net cash of RMB146.9 billion.

The company also owns a large portfolio of listed and unlisted investments. This gives Tencent flexibility, but it creates two investor tasks: separate operating-company value from investment-portfolio value, and judge whether incremental capital is being allocated to high-return AI, games, cloud, advertising, and buybacks rather than low-return adjacencies.

Share repurchases are now a material part of the story. Tencent repurchased approximately 153.4 million shares in FY2025 and 12.7 million shares in Q1 2026. The FY2025 diluted weighted average share count was 9,244 million, and FY2025 diluted EPS was RMB24.153. TTM diluted EPS was RMB25.353, based on the official quarterly EPS sum in the quant foundation. Buybacks can be highly accretive when the stock trades below intrinsic value, but the final ER2 verdict should not let buybacks substitute for a view on organic durability.

Dividend policy is present but secondary to repurchases and reinvestment. The board recommended a final dividend of HKD5.30 per share for FY2025, up from HKD4.50 for FY2024. Tencent still appears to prioritize reinvestment in core platforms, AI infrastructure, strategic investments, and buybacks. That is appropriate for a business with large internal reinvestment opportunities, but it raises the hurdle for AI capex transparency and future returns.

Key Risks And Diligence Questions

The first risk is regulation and governance. Tencent operates mainly in Chinese Mainland and uses structures, licenses, and operating companies typical of PRC internet businesses. Games approvals, data rules, fintech rules, platform regulation, content controls, payment regulation, and competition policy can all affect growth and margins. Governance and VIE/PRC structure are explicit yellow flags in the quant foundation. This does not disqualify the business, but it should affect required return and position sizing.

The second risk is cyclicality and mix. Advertising depends on merchant and brand budgets; payments depend on consumption and transaction value; cloud depends on enterprise spending and pricing discipline; games depend on player engagement and release cadence. Tencent's scale reduces single-product risk, but the company is not immune to China macro weakness or a weak consumer environment. Marketing Services growing faster than revenue is positive, but if ad budgets slow, operating leverage can reverse.

The third risk is AI investment discipline. Tencent has the cash flow to fund AI, but infrastructure and talent spending can rise quickly. Q1 2026 disclosure of operating profit excluding new AI products is helpful because it shows the core is stronger than headline non-IFRS operating profit after new-AI drag. The open question is how long that drag persists, and whether AI products become profitable growth engines. Downstream modeling should explicitly separate AI capex and operating expense from base-business assumptions.

The fourth risk is segment disclosure. Tencent does not disclose segment operating income. Segment gross profit is useful, but corporate costs, R&D, sales and marketing, and investment gains/losses are central. Any segment margin forecast above gross profit is a model assumption, not an official disclosure. This matters especially for FinTech and Business Services, where a blended gross margin can hide different economics across payments, wealth management, cloud, AI agents, and e-commerce technology services.

The fifth risk is investment-portfolio complexity. Tencent holds large listed and unlisted investee stakes, associates, joint ventures, FVPL and FVOCI assets. These can create optionality and hidden value, but also earnings volatility, accounting noise, and capital-allocation opacity. A clean ER2 valuation should show operating value, net cash, and investment stakes separately where possible, and then apply any governance or liquidity haircut explicitly.

Key diligence questions for the main synthesis:

Question	Why it matters
Can domestic and international games sustain evergreen gross receipts through 2031?	Games are the largest VAS profit engine and a major cash source for AI and buybacks
Does AIM+ and closed-loop Weixin advertising keep lifting ad pricing without harming user experience?	Marketing Services is high-margin and currently one of the clearest AI monetization vectors
Is Business Services growth coming from profitable cloud/AI workloads or lower-quality volume?	FinTech and Business Services is large, but mix determines incremental margin
How much of AI capex is defensive infrastructure versus monetizable product investment?	AI can widen the moat or dilute returns depending on utilization and product-market fit
What portion of investment assets should be valued at market, book, or haircut value?	Tencent's balance sheet is a major part of equity value but complicates ROIC
Are buybacks large enough and price-sensitive enough to materially improve per-share value?	FY2025 and Q1 2026 repurchases are meaningful, but intrinsic value depends on execution

Primer Takeaway

Tencent is a rare scaled internet platform with mature social reach, durable games, improving advertising monetization, embedded payments, meaningful cloud/enterprise exposure, a large investment portfolio, and very strong free cash flow. The base business is not hypergrowth, but the ecosystem is still compounding: FY2025 revenue grew 14%, TTM revenue reached RMB768.2 billion, FY2025 gross margin improved to 56.2%, and Q1 2026 revenue/gross profit/operating profit all grew year over year. The most important positive evidence is that Tencent can fund AI investment from current cash flows while still repurchasing shares and maintaining net cash.

The key underwriting issue is not whether Tencent is high quality in a generic sense; it is whether that quality is durable enough, transparent enough, and cheap enough after applying China governance/regulatory haircuts and AI investment uncertainty. The primer points to four operating engines for the main ER2 work: evergreen games, closed-loop AI-enhanced advertising, fintech/payment/merchant infrastructure, and cloud/AI business services. The investment case should be strongest if those engines can compound per-share free cash flow while AI capex converts into ad pricing, game productivity, cloud workloads, and enterprise agents rather than becoming an open-ended cost center.

Appendix M - Management Assessment

Tencent - Management Assessment

Company: Tencent Holdings Limited Ticker: 0700.HK Stage 0 anchor: 2026-05-28 Fiscal year end: December 31 TTM end: 2026-03-31 Prepared by: Sub-Agent M, management assessment

Source Base

This appendix uses the cleared Tencent data package and quant foundation for capital allocation, corporate actions, and financial anchors, especially data package Sections 7 and 9. Governance, leadership, compensation, and current disclosure sources were fetched live for this management run under `C:\Users\Admin\OneDrive\GPT\ER 2.0\Tencent\management_source_notes\`. Primary live sources include Tencent's 2025 annual report, FY2025/4Q2025 results release, 1Q2026 results release, 2026 AGM poll results, Tencent's official leadership page, seven live FMP transcript pulls for 2Q2024, 3Q2024, 4Q2024, 1Q2025, 2Q2025, 3Q2025, and 1Q2026, plus the live StockAnalysis transcript page for 4Q2025 because FMP returned an empty array for both 0700.HK and TCEHY after retry. No warehouse transcript or governance cache was used.

Official source links: [2025 annual report](https://static.www.tencent.com/uploads/2026/04/09/62d786fcf3d3c8cb7e54791ee95439ac.pdf), [1Q2026 results release](https://static.www.tencent.com/uploads/2026/05/13/47382ae415a209fd161bc19a1f9b3704.pdf), [FY2025/4Q2025 results release](https://static.www.tencent.com/uploads/2026/03/18/e6a646796d0d869acc76271c9ee1a6a5.pdf), [2026 AGM poll results](https://static.www.tencent.com/uploads/2026/05/13/8f136ce350eb2c329a47e0191689019b.pdf), [Tencent leadership page](https://www.tencent.com/en-us/about.html.html), and [4Q2025 transcript page](https://stockanalysis.com/quote/hkg/0700/transcripts/419871-q4-2025/).

1. Who Is Running The Company

Tencent remains founder-led. Ma Huateng, known as Pony Ma, age 54 in the 2025 annual report, is executive director, Chairman of the Board, and Chief Executive Officer. He has been employed by the group since 1999, is one of Tencent's core founders, and is described in the annual report as having overall responsibility for strategic planning, positioning, and management. He therefore owns the current AI reinvestment agenda, Weixin ecosystem strategy, games platform strategy, and the long-standing decision to run controlled PRC operating companies through structure contracts.

Martin Lau, age 52, is President. He joined Tencent in 2005 as Chief Strategy and Investment Officer, was promoted to President in 2006, and managed corporate strategy, investments, M&A, and investor relations before becoming the day-to-day operating leader. This matters because Tencent's capital allocation history is not only a CFO story. Lau chairs the Investment Committee and is a central actor in Tencent's shift away from revenue-chasing cloud projects, its partial recycling of external investments, and its current attempt to fund AI from high-cash-flow core businesses.

John Shek Hon Lo, age 57, is Chief Financial Officer and Senior Vice President. He joined in 2004 and became CFO in May 2012 after a PwC background. Lo has been in-seat long enough to own the company's shareholder-return framework, balance-sheet conservatism, debt/cash positioning, and the communication of non-IFRS numbers. His Q4 2025 and Q1 2026 remarks are consistent with a CFO who frames buybacks, dividends, capex, and AI investment as one capital budget, not separate silos.

Material segment and functional leaders have unusually long internal tenure. Ren Yuxin leads Platform & Content Group and Interactive Entertainment Group after joining in 2000. Zhang Xiaolong, President of Weixin Group, joined in 2005 and is identified by Tencent as the founding father of Weixin. James Mitchell joined in 2011 and oversees strategy, investor relations, M&A, and investments. Tong Tao Sang leads Tencent Cloud and AI-powered products such as Yuanbao and IMA. Lu Shan leads the technology platform, and Lin Ching-Hua leads Advertising and Smart Retail. The operating bench is deep, founder-adjacent, and company-specific.

Board composition is mixed. As of the 2025 annual report and 2026 AGM results, the board had eight directors: Ma; two non-executive directors linked to Naspers/Prosus; and five independent non-executive directors. Five of eight independent directors is healthy on paper. In substance, Ma combines chair and CEO, the chair is exempt from retirement by rotation, two independent directors have served since April 2004, and Ma chairs the Nomination Committee. The board says this is justified by founder importance and business complexity. For minority holders, it remains an oversight discount.

2. Tenure And Track Record

Ma has run Tencent for the entire public-company era and therefore owns both the compounding successes and the governance structure. The strongest evidence in his favor is that Tencent repeatedly converts ecosystem control into high-return, cash-generative businesses without losing the core user base. Three decisions stand out.

First, Tencent protected and expanded games as a platform business. VAS revenue rose from RMB291.6B in FY2021 to RMB369.3B in FY2025, while gross margin increased from 52.5% to 60.2%. FY2025 games revenue was RMB241.5B, split between domestic games of RMB164.2B and international games of RMB77.4B. The renewal of Honour of Kings, Peacekeeper Elite, Delta Force, Valorant Mobile, Supercell titles, PUBG Mobile, and Wuthering Waves reflects a management system that can refresh mature franchises and internationalize IP. The main risk is that game licensing, youth-protection regulation, and AI-enabled content supply remain outside management's full control.

Second, Tencent pivoted advertising from classic online ad inventory to a broader marketing-services engine inside Weixin, Video Accounts, Search, Mini Programs, Mini Shops, and AI-powered targeting. Marketing Services revenue rose from RMB88.7B in FY2021 to RMB145.0B in FY2025, and gross margin expanded from 45.8% to 57.5%. That is the cleanest recent proof of operating adaptability.

Third, management repaired cloud and business-services economics. Tencent admits the cloud business had previously chased high revenue but low-value-added projects. In the Q4 2025 transcript, management described a 2022 restructuring toward high-quality services and said Tencent Cloud reached operating breakeven in 2024 and RMB5B adjusted operating profit in 2025. FinTech and Business Services revenue rose from RMB172.2B in FY2021 to RMB229.4B in FY2025 while gross margin improved from 29.8% to 50.8%. Mix and disclosure matter, but this is meaningful evidence of discipline.

The main decision that did not work was the earlier cloud growth model. Management handled it well: they acknowledged the issue, cut low-quality revenue, and accepted several quarters of growth pressure to improve margins. The less resolved decision is the investment portfolio, which still makes ROIC harder to read and requires evidence that assets are being recycled for per-share value rather than strategic sprawl.

3. Capital Allocation Behavior

The five-year capital allocation pattern from data package Section 7 is coherent but more aggressive than a simple mature internet compounder. R&D rose from RMB51.9B in FY2021 to RMB85.7B in FY2025, a 13.4% CAGR. Capex rose from RMB62.2B in FY2021 to RMB112.9B in FY2025 on the FMP cash-flow definition, with official FY2025 capex lower at RMB79.2B. Buybacks became a major lever, rising from RMB2.2B in FY2021 to RMB102.3B in FY2024 and RMB73.3B in FY2025. Dividends rose from RMB12.5B to RMB37.5B. M&A was episodic: RMB67.0B in FY2021, far smaller 2022-2024 activity, and RMB34.7B in FY2025.

The allocation is consistent with stated strategy. Tencent says core cash flow funds AI, and the numbers support that. Official FY2025 free cash flow was RMB182.6B, and official 1Q2026 free cash flow was RMB56.7B. Net cash was RMB107.1B at year-end 2025 and RMB146.9B at 1Q2026. The company repurchased 153.4M shares for about HKD80.0B in FY2025 and 12.7M shares for HKD7.6B in 1Q2026. The board proposed a final dividend of HKD5.30 per share for FY2025. Tencent is therefore not funding AI by weakening the balance sheet.

Buybacks look broadly price-sensitive at the cycle level, but not perfectly so. The step-up in FY2024 and FY2025 followed a period in which Chinese internet valuations were compressed, and diluted shares fell from 9,696M in FY2021 to 9,244M in FY2025. That is real per-share protection. However, the Q4 2025 call also warned that buybacks may be lower in 2026 as AI investment rises. I view that as rational if the AI spend is disciplined and measured, but it changes the capital-return floor. The correct monitoring item is not simply buyback volume; it is whether the AI spend produces disclosed usage, margin, or revenue proof while share count continues to decline over time.

M&A and investments are a yellow flag rather than a fail. Tencent has historically created value through minority investments and ecosystem stakes, but the portfolio introduces opacity, associate-accounting noise, and geopolitical risk. The Investment Committee is experienced, chaired by Lau with Ma and Searle as members, but not independent in the way a minority investor might prefer.

4. Compensation Alignment

Ma's alignment is primarily ownership, not option grants. At 31 December 2025, he was interested in 804,859,700 shares, or 8.82% of Tencent, through Advance Data Services and Ma Huateng Global Foundation. The annual report also shows Ma

personally owns 54.29% of Tencent Computer and Shiji Kaixuan registered capital interests in the VIE/OPCO structure. That aligns him with Tencent's equity value while reinforcing founder influence over regulated PRC operating entities.

CEO compensation is restrained relative to company scale. Ma received 2025 emoluments of RMB48.5M, mostly bonus, with no share-based compensation expense. Excluding Ma, aggregate senior management emoluments were RMB4.46B, including RMB3.92B of share-based compensation. The five highest-paid individuals, none directors, received RMB7.59B, including RMB6.74B of share-based compensation; about RMB4B was a one-off expense from restructuring an overseas subsidiary commercial arrangement.

The compensation structure is adequate for talent retention but weak on disclosed performance rigor. Tencent's 2023 Share Option Scheme had 77.7M options outstanding at year-end 2025, and the 2023 Share Award Scheme had 118.0M awarded shares outstanding. The annual report states that options or awards involving new shares granted to employee participants in 2025 were without performance targets, justified by employee contribution, past recognition, vesting conditions, and market competitiveness. For Gideon, that is not a clean PASS. Tencent has ownership alignment, vesting, forfeiture/lapse features, and a lower share count from buybacks, but lacks explicit multi-year ROIC, FCF per share, or relative TSR targets.

Dilution is controlled by buybacks but still must be watched. Weighted diluted shares declined over five years despite large share-based programs. That is the right outcome. The risk is that AI talent wars normalize very high stock comp while management asks investors to accept lower buybacks. If that happens without clear AI monetization disclosure, alignment worsens.

5. Disclosure Quality And Candor

I reviewed the last eight quarters using live transcript sources where available. FMP provided seven transcript quarters. FMP returned no 4Q2025 transcript for both 0700.HK and TCEHY after retry, so 4Q2025 was reviewed through the live StockAnalysis transcript page and Tencent's official FY2025/4Q2025 release.

Question handling is above average. Analysts repeatedly asked load-bearing questions: AI capex versus margins, ROI on AI spend, GPU bottlenecks, whether Tencent is late in AI, ad load, cloud pricing, Apple commission changes, fintech pricing, macro, and games sustainability. Management generally answered directly. In Q4 2025, management disclosed RMB7B of Q4 spend and RMB18B full-year spend for Hunyuan and Yuanbao, then said 2026 investment in Hunyuan, Yuanbao, and other AI products would more than double. In Q1 2026, management gave a useful split: operating profit excluding new AI products was RMB84.4B versus reported non-IFRS operating profit of RMB75.6B.

The team is candid about constraints. On Q1 2026, James Mitchell said Tencent had consciously prioritized internal AI uses over leasing GPU capacity through Tencent Cloud. On 4Q2025 and 1Q2026 calls, management explained GPU and domestic chip supply limits, a later Spring Festival timing shift in games revenue recognition, and the difference between gross receipts and reported revenue.

Guidance discipline is conservative. Tencent does not issue detailed quarterly numerical guidance, so the right test is whether stated investment and margin direction ties to later numbers. It does. The company warned that AI investment would pressure near-term margins, then disclosed separate ex-new-AI operating profit. It warned that cloud GPU monetization was delayed by internal prioritization, then said more capacity should come online later in 2026.

Disclosure gaps remain. Tencent gives segment revenue and gross profit, but not segment operating income. It does not disclose absolute RMB revenue for Video Accounts ads, Weixin Search ads, Mini Programs ads, payment, wealth management, cloud, GPU services, token usage, Yuanbao, WorkBuddy, CodeBuddy, or Hunyuan. Management often gives growth rates or adoption claims without absolute base sizes. That is acceptable for a broad platform company, but it limits investor ability to underwrite AI and Weixin monetization per dollar. Disclosure quality is therefore good on strategic framing and question handling, moderate on product economics.

6. Strategic Coherence

Tencent's stated purpose is stable: the annual report repeats a culture and mission around user value and technology for good, while recent releases say core businesses fund AI investment. The real strategy is not to be an AI model company in isolation. It is to use Weixin, games, ads, cloud, fintech, content, and enterprise software as proprietary distribution and use-case surfaces for AI.

The investment pattern supports this. R&D has compounded upward, capex intensity rose with AI infrastructure, and management is willing to accept near-term margin pressure. The strategy is more coherent in applications than in foundation

models. Tencent was late versus several Chinese AI peers in public model attention, and management admits it rebuilt the Hunyuan team and infrastructure. The strategy is credible because Tencent has closed ecosystems, private data, user identity, payments, Mini Programs, games assets, enterprise products, and cloud infrastructure. It is not yet proven that Hunyuan itself earns high returns as a standalone model layer.

Management names competitive threats more directly than many large-cap Chinese companies: AI disruption, OS-level agents, third-party models, GPU constraints, Apple take rates, and cloud pricing. They frame threats through Tencent's advantages, but do not treat the market as unchallenged.

7. Governance Flags

The largest governance issue is the PRC VIE/structure-contract framework. Tencent's annual report states that PRC law limits foreign investment in value-added telecommunications services, so Tencent conducts some PRC businesses through OPCOs, including Tencent Computer, Shiji Kaixuan, and Shenzhen Tencent Tianyou. Those OPCOs generated about RMB430B of aggregate gross revenue in 2025 and had about RMB27B of net asset value at year-end. The report warns that contractual arrangements may not be as effective as direct ownership and that PRC regulators or courts could take a different view from Tencent's PRC legal advisers. This is a real minority-shareholder risk. Long operating history, legal review, independent director review, auditor procedures, and surplus-cash transfer mitigate but do not eliminate it.

Founder influence is the second issue. Ma is chair, CEO, founder, 8.82% shareholder, exempt from retirement rotation as chair, chair of the Nomination Committee, and majority registered owner of two key OPCOs. This has likely helped Tencent compound, but it limits conventional board accountability. There is no dual-class share structure identified in the annual report, and Prosus/Naspers through MIH held 22.80% at year-end 2025, but voting economics do not fully capture founder influence.

Related-party transactions are material in scale but mostly structural and disclosed. Related-party commercial arrangements with associates and joint ventures generated RMB4.3B of Marketing Services revenue, RMB48.1B of FinTech and Business Services revenue, and RMB4.3B of other services revenue in FY2025, with purchases and commitments also disclosed. The report states these were in the normal course and on negotiated terms, and that no other material related-party transactions existed beyond disclosed items. I do not see evidence of a fraud-style related-party problem, but the scale reinforces the complexity discount.

No recent restatement, material weakness, or enforcement issue was identified in the live official sources reviewed. The annual report says the board viewed risk management and internal control systems as effective and adequate. The 2026 AGM passed all resolutions, but there was notable opposition: re-electing Ian Stone received only 81.9% support, auditor reappointment 81.2%, and the general share issuance mandate 64.4%. That is not a crisis, but it shows investors are not giving governance a blank check.

8. Peer Comparison

Against Alibaba under Eddie Wu and Joseph Tsai, Tencent's management ranks better on stability, platform coherence, and five-year capital discipline. Alibaba has stepped up AI and cloud investment, but its last several years included major reorganizations, leadership changes, e-commerce share pressure, and a more complicated narrative reset. Tencent has also pivoted, but the pivots are more evolutionary and funded by resilient cash engines.

Against NetEase under William Ding, Tencent has broader strategic assets but a less clean governance profile. NetEase is more founder-controlled and games-focused, with a simpler per-dollar capital allocation story in some periods. Tencent's advantage is ecosystem breadth and advertising/fintech/cloud optionality. NetEase's advantage is focus and cleaner segment economics.

Against Meituan under Wang Xing, Tencent is more mature, more cash generative, and more shareholder-return oriented. Meituan's founder-led execution is formidable, but the business has had heavier reinvestment cycles and less consistent capital return. Tencent communicates more granularly around AI investment, operating profit ex-new-AI products, and segment gross profit. On the Gideon lens, Tencent ranks ahead of Alibaba and Meituan, roughly in the same tier as NetEase operationally, but lower than a cleanly governed Western compounder because of VIE/founder/compensation opacity.

9. Verdict On The Management Gate

Management gate: YELLOW.

The operating team is strong enough for PASS on capability: founder-led strategy, long-tenured operators, high cash generation, repaired cloud economics, rising gross margins, real buybacks, and direct answers on AI capex and constraints. I

would follow this team operationally for a decade. The reason this is not a clean PASS is governance, not competence. Tencent has a material PRC/VIE structure, founder concentration across chair/CEO/nomination/OPCO ownership, long-tenured independent directors, share awards without performance targets, and product-level disclosure gaps as AI capex rises.

Upgrade to PASS if Tencent continues reducing share count while funding AI from free cash flow; management provides repeatable metrics for new AI products or token/cloud monetization instead of qualitative claims; and VIE/related-party/board governance stays clean, with no regulatory challenge or minority-unfriendly transaction. Downgrade to FAIL if AI investment becomes an open-ended margin sink, if stock compensation plus lower buybacks causes dilution, if the VIE structure or related-party dealings impair minority economics, or if management becomes evasive on product-level economics. Today the team earns trust on execution, but the governance wrapper keeps the gate provisional.

Appendix W - Moat and 2046 Durability

Tencent - Appendix W: Moat and 2046 Durability

Stage 0 anchor: 2026-05-28. Fiscal year ends December 31. Latest TTM period ends 2026-03-31. The 2046 test date is 2046-05-28. This appendix uses the cleared Tencent data package, the company primer, the management appendix, official Tencent source files already live-fetched into the Tencent ER2 folder, and the peer-reviewed segment appendices now available for VAS, Marketing Services, FinTech and Business Services, and Others. The moat conclusions below integrate each segment appendix's competitive-dynamics and segment-level moat sections; the earlier dependency note that VAS, Marketing Services, and FinTech and Business Services relied only on the data package/primer is no longer applicable.

1. Moat Taxonomy Applied

Network effects are Tencent's central moat and are strongest in Weixin/WeChat, payments, Mini Programs, Mini Shops, Video Accounts, Official Accounts, messaging groups, and social sharing. The evidence is not a slogan: combined Weixin and WeChat MAU reached 1.432 billion at 2026-03-31, and Tencent still routes communication, identity, merchant access, payments, search, advertising, content, and mini-app distribution through one high-frequency surface. A new entrant can build a better single-purpose product, but it cannot easily persuade users, merchants, advertisers, mini-program developers, game publishers, financial partners, and social counterparties to move together. The network effect is strongest in social and transaction identity, then in closed-loop ads and merchant tools, and weakest in cloud where procurement is more multi-vendor.

Switching costs are meaningful but uneven. For ordinary messaging users, switching costs are social graph, group history, work/life habits, contacts, merchant touchpoints, and payment convenience. For advertisers, switching costs are less contractual and more data/performance based: campaigns, optimization history, store links, Mini Program conversion paths, and creative/performance feedback loops. For merchants, the switching cost is not just payment acceptance; it is distribution inside Weixin, Mini Shop storefronts, Mini Program operations, customer service, advertising, and repeated customer access. For cloud customers, switching costs exist through data gravity, application architecture, AI tooling, and integration, but Chinese enterprise cloud remains more contestable than Weixin, games, or ads.

Scale economies are strong. Tencent spends on R&D, infrastructure, AI models, content, compliance, servers, game development, ad systems, payments risk controls, and cloud capacity across a very large revenue base. FY2025 revenue was RMB751.8B, and TTM revenue to 2026-03-31 was RMB768.2B. Gross margins improved materially across the main segments from FY2021 to FY2025: VAS from 52.5% to 60.2%, Marketing Services from 45.8% to 57.5%, and FinTech and Business Services from 29.8% to 50.8%. That is the kind of operating evidence that suggests scale plus mix plus efficiency are working, not merely asserted.

Brand is real but secondary. Tencent has consumer trust and enormous product recognition in Weixin, QQ, Honour of Kings, Peacekeeper Elite, Tencent Video, Tencent Music exposure, and broader China internet services. Brand helps with user adoption, game launches, enterprise conversations, and advertiser confidence. But the moat is not brand in the luxury-goods sense; it is habit, identity, counterparties, content, and transaction rails. A damaged brand would hurt regulation, fintech, and enterprise procurement, but brand alone does not explain the margin persistence.

Regulatory position is double-edged. Licenses, compliance capacity, data controls, youth-protection systems, game approvals, fintech partnerships, payments rules, and cloud procurement requirements raise barriers for smaller or foreign competitors. Tencent's annual report explicitly names regulatory and compliance risks across data/privacy, cross-border data, anti-trust, IP, telecoms and internet, online gaming, internet finance, anti-money laundering, foreign investment, trade, and tax. The same regulatory framework that protects local incumbents can cap monetization, slow game approvals, force product changes, reduce fintech take rates, or constrain data use. I treat regulation as a partial barrier, not a standalone moat.

IP and content are strong inside games but must be renewed. Tencent's FY2025 games revenue was RMB241.5B, with Domestic Games at RMB164.2B and International Games at RMB77.4B. Management pointed to Honour of Kings, Peacekeeper Elite, VALORANT, Delta Force, Supercell games, PUBG MOBILE, Wuthering Waves, and other live-service titles. Evergreen game economics are powerful because a large, retained player base turns development, live operations, esports, social sharing, and virtual-item systems into recurring cash flow. But game IP decays if the content pipeline fails; the moat is not any one title, but Tencent's portfolio, distribution, operating skill, and ability to refresh or replace hits.

High-trust procurement is moderate. It matters in cloud, enterprise software, AI agents, financial services partnerships, and regulated merchant/payment contexts. Tencent's enterprise moat is helped by domestic trust, scale, security, Weixin enterprise reach, and an existing cloud/customer base. It is not yet as structurally embedded as Microsoft in global enterprise procurement or Alibaba in parts of China cloud. The high-trust procurement moat is therefore a supporting asset, not the lead asset.

2. Per-Segment Moat

VAS has the clearest profit-pool moat, but the reviewed VAS appendix rightly separates Domestic Games, International Games, and Social Networks rather than treating all VAS revenue as equal. Domestic Games is the strongest sub-line because Tencent combines first-party and licensed franchises, unmatched China distribution, Weixin/QQ social graphs, live operations depth, payment convenience, esports capability, compliance infrastructure, and cross-promotion. The segment appendix frames Tencent as the largest public-company gaming business globally in Newzoo's YTD Q4 2025 ranking and notes that FY2025 Domestic Games revenue of RMB164.2B would be roughly 47% of the China domestic game-market revenue cited in the 2025 China Game Industry Annual Report, with comparability caveats. International Games has scale, capital, studio relationships, and global publishing reach, but not the same overseas social-graph control; it must still win on content quality, platform relationships, and local execution. Social Networks has a distribution moat through Weixin/QQ and Mini Games, but licensed content, music/video subscriptions, and live streaming face more contestable creator and content economics. Domestic Games and International Games together generated RMB241.5B of FY2025 revenue, and VAS gross margin reached 60.2% in FY2025 and 62.6% in Q1 FY2026. Durability is high over five years, good over ten years, and credible over twenty years if Tencent keeps refreshing hits and avoids regulatory reset. The earliest break signal would be simultaneous gross receipts weakness in major evergreen titles, lower new-title hit rates, and VAS gross margin compression despite continued scale.

Marketing Services has a powerful but conditional platform-adjacent moat. The reviewed Marketing Services appendix emphasizes that Tencent does not merely sell undifferentiated impressions; it sells reach, identity, intent, search, merchant access, and conversion inside Weixin, Video Accounts, Weixin Search, Mini Programs, Mini Shops, Mini Games, and native transaction paths. The competitive set is not weak: ByteDance, Alibaba, PDD, Kuaishou, Meituan, Xiaohongshu, Baidu, JD.com, and other large Chinese platforms can all invest in AI ad systems. That matters because ad budgets can rotate fast. The offset is that Tencent's FY2025 Marketing Services revenue grew 19.4% to RMB145.0B and Q1 FY2026 revenue grew 20% YoY, far above the roughly mid-single-digit China internet ad market growth cited in the segment appendix's QuestMobile context. Gross margin reached 57.5% in FY2025. AIM+ powered around 30% of total marketing-services advertiser spend in Q1 FY2026, which is meaningful adoption, not a pilot. Durability is high for five years, good for ten, and plausible for twenty if Weixin remains a primary identity, content, search, payment, and commerce layer. The break signal would be declining Video Accounts/Weixin engagement, falling ad pricing despite rising AI adoption, or merchant budgets migrating to rival closed-loop ecosystems with cleaner conversion proof.

FinTech and Business Services is large but mixed, and the reviewed segment appendix supports that split. FinTech has a stronger moat in distribution and habit than in fee freedom: Weixin Pay is embedded in messaging, Mini Programs, commerce, services, gaming/social use cases, offline merchant behavior, and trusted account identity. That creates payment volume durability and adjacent wealth/lending distribution, but regulation and merchant resistance limit take-rate expansion. Business Services has conditional advantages where Tencent sells cloud, security, media, real-time communication, Mini Program, gaming, commerce, or AI workflows that draw on its own ecosystem; it is much weaker when competing as a generic infrastructure vendor. The segment generated RMB229.4B of FY2025 revenue and RMB234.4B TTM revenue to 2026-03-31, with gross margin improving from 29.8% in FY2021 to 50.8% in FY2025 and 52.1% in Q1 FY2026. That margin improvement is genuine evidence of better mix, scale, and cost discipline. The management appendix adds an important quality marker: Tencent said it restructured cloud away from low-value revenue, reached operating breakeven in 2024, and reached about RMB5B adjusted operating profit in 2025. Still, the blended segment is less moated than VAS and Weixin-centered ads because payments are regulated and cloud can be price competitive. Durability is high in payments and merchant rails, medium in wealth/lending, and medium in cloud unless AI workloads, software agents, and ecosystem-specific workflows prove differentiated. Break signals include payment take-rate pressure, fintech regulatory tightening, cloud price wars, AI cloud utilization below capex plans, or Business Services growth requiring renewed margin sacrifice.

Others has no material standalone moat. The finalized Others segment appendix describes it as a residual media and ancillary-commerce bucket around films, TV, copyrights, merchandise, and smaller activities. It has some derivative IP optionality because Tencent can promote and monetize content through Tencent Video, Weixin, games, ads, and merchandise, but the reported economics do not support a strong segment moat. FY2025 revenue was RMB8.1B, about 1.1%

of total revenue, and gross margin was only 3.6%; Q1 FY2026 gross margin was negative 44.9%. The segment appendix's base-case TTM+5y modeled contribution income is only about RMB0.19B, with probability-weighted contribution near break-even. It should not influence a moat PASS except as a small residual. The break signal is if management allocates material capital to this bucket without improving licensing mix, gross margin, or contribution economics.

The blended company moat is weaker than VAS alone but still strong. Roughly 49% of FY2025 revenue was VAS, 19% Marketing Services, 31% FinTech and Business Services, and 1% Others. The highest-quality moat sits in Weixin/social identity, games, closed-loop advertising, and payments. The less protected pools are parts of cloud, lower-value fintech, content/media, and miscellaneous activities. This blend prevents a clean "all revenues are fortress-like" conclusion, but it still supports a company-level PASS because the strongest moats sit in the main gross profit engines and reinforce each other.

3. Margin Persistence Evidence

Tencent's consolidated operating margin shows both shock and recovery. The data package reports operating margins of 48.5% in FY2021, 20.0% in FY2022, 26.3% in FY2023, 31.5% in FY2024, and 32.1% in FY2025. FY2021 was unusually high, while FY2022 captured a severe reset across regulation, macro, cost, investment, and platform conditions. The key moat evidence is not that margins never fell; it is that margins recovered while competition and regulatory pressure remained visible. FY2025 operating income was RMB241.6B on RMB751.8B revenue, and Q1 FY2026 IFRS operating profit grew 17% YoY to RMB67.4B even as Tencent invested heavily in new AI products.

Segment gross margin persistence is stronger than consolidated operating-margin volatility suggests. VAS gross margin moved from 52.5% in FY2021 to 50.6% in FY2022, then rose to 54.3%, 56.9%, and 60.2% from FY2023 to FY2025. Marketing Services moved from 45.8% to 42.3%, then 50.6%, 55.4%, and 57.5%. FinTech and Business Services improved from 29.8% to 33.0%, 39.6%, 47.0%, and 50.8%. These are not segment operating margins, because Tencent does not disclose segment operating income, but gross margin improvement across three large segments is hard to reconcile with a no-moat thesis. The moat evidence is strongest in ads and VAS, and more mixed but improving in FinTech and Business Services.

4. AI Disruption Stress Test

VAS is partly exposed and partly helped by AI. A simple content-production workflow can be replicated by models, lowering barriers for small studios. The reviewed VAS appendix flags this explicitly: hit creation is never fully protected, and AI-assisted content production may lower some creation barriers over time. But Tencent's value is not a prompt-to-output workflow; it is IP, live operations, distribution, social graph, player communities, monetization systems, compliance, anti-cheat, esports, payments, and multi-year content cadence. AI can compress art, coding, testing, localization, NPC, and operations costs, but it does not automatically create a trusted blockbuster ecosystem. The AI risk is that model-native game creation floods attention and shortens hit cycles. The offset is that Tencent owns large existing communities and can deploy AI into already monetized games.

Marketing Services is the segment most clearly enhanced by AI. Ad targeting, bidding, creative selection, campaign management, and conversion prediction are workflows where foundation models and recommendation systems matter. If every ad platform has the same model, the moat shifts back to proprietary traffic, transaction data, and closed-loop conversion. Tencent has those assets inside Weixin and related services. AIM+ reaching about 30% of advertiser spend in Q1 FY2026 is evidence that AI is already embedded in monetization. The risk is that AI search, agentic commerce, or rival short-video platforms intercept consumer intent before Weixin does.

FinTech and Business Services has two different AI exposures. Payments and merchant rails are chokepoint-like because they depend on trust, counterparties, integration, regulation, and transaction frequency; AI changes fraud detection and merchant tooling but does not dissolve the rail. Cloud and AI services are platform-adjacent and capital intensive. AI can drive demand for compute, API tokens, software agents, WorkBuddy, CodeBuddy, Yuanbao-related enterprise integrations, and productivity tools, but it can also produce brutal price competition if GPU capacity and models commoditize. The reviewed segment appendix correctly treats Tencent's Q1 FY2026 comment that it had not been active in leasing out GPU capacity as double-edged: it avoids low-return capacity rental and prioritizes internal AI, but it also delays proof of external AI cloud revenue. Tencent Cloud international growth over 40% YoY in Q1 FY2026 sounds promising, but the company does not disclose absolute RMB revenue, so the moat cannot be proven from growth rate alone.

The segment most exposed to AI disruption is cloud/business services, because AI infrastructure and model-serving markets can become procurement-led and price competitive. The segment most protected is Weixin-centered Marketing Services and payments, because AI improves the yield of proprietary traffic and transaction loops rather than replacing the underlying

network. VAS sits in the middle: AI can increase title supply, but durable hits still require community, IP, live ops, distribution, and trust.

5. The 2046 Test

On 2046-05-28, a durable Tencent still sells four things. First, it sells digital identity, communication, content, and merchant access through whatever Weixin/WeChat has evolved into: a social operating layer for personal communication, service discovery, mini-apps, payment, search, content, and commerce. Second, it sells entertainment through live-service games, global studios, IP franchises, interactive worlds, and subscription or virtual-item economies. Third, it sells closed-loop marketing and commerce tools to merchants that want measurable conversion inside Tencent's identity, payment, content, and merchant surfaces. Fourth, it sells financial technology, payments infrastructure, cloud, security, AI agents, and enterprise software to merchants, enterprises, developers, and regulated financial partners.

In that 2046 base case, VAS still exists but is more global and more AI-assisted. Individual 2026 titles will not all matter, but Tencent's operating capability, owned IP, studio network, and distribution should. Marketing Services should be larger in absolute profit if Weixin remains the identity and commerce layer; ad formats may look less like display ads and more like AI-mediated recommendations, creator commerce, search, and agent-assisted transactions. FinTech should be more regulated and lower take-rate, but still strategic because payments, merchant identity, and commerce data reinforce the ecosystem. Cloud and AI agents may be bigger but lower-margin than the best software businesses unless Tencent establishes differentiated workflow products in China and selected international markets. Others should remain immaterial or be pruned.

Directionally, the 2046 operating margin should be stable to modestly lower versus FY2025 if AI infrastructure and cloud are a larger mix, but still high relative to most large companies because ads, games, payments, and software/services carry scale advantages. A reasonable durable-Tencent description in 2046 is not "leader in whatever comes next." It is "the operator of a still-dominant China-centered social, transaction, content, game, advertising, and merchant infrastructure network, with global game IP and a domestic AI/cloud/software layer attached to that network." The moat that survives is network effects plus distribution plus data/transaction loops plus content IP, not generic technology leadership.

The bear 2046 is specific. Weixin could lose the next interface shift if AI agents, operating-system-level assistants, or short-video/super-app rivals control intent and payments. Game profits could erode if hit cycles shorten and user-generated AI entertainment overwhelms live-service franchises. Ad pricing could weaken if regulatory privacy rules or rival commerce ecosystems reduce Tencent's data advantage. Payments and fintech could be capped by regulation, and cloud could become a low-return GPU resale business. I assign this bear case meaningful but not dominant probability. The strongest reason it is not dominant is that Tencent's network is not one workflow; it is a bundle of counterparties, identity, payments, commerce, content, and entertainment.

6. Competitive Threat Inventory

Threat	Mechanism	Segment(s) affected	Earliest observable signal	Plausibility
Platform/interface shift	AI agents, short video, OS assistants, or rival super-apps capture intent before Weixin	Marketing Services, payments, Mini Programs	Weixin time spent flat/down while rival closed-loop ad GMV rises	Medium
Game portfolio aging	Evergreen titles fade faster than new launches replace them	VAS	Gross receipts weakness across Honour of Kings/Peacekeeper Elite/Delta Force/VALORANT plus lower new-title retention	Medium
AI/cloud commoditization	GPU capacity, model APIs, and enterprise AI tools become price-led procurement	Business Services	Cloud growth decelerates while capex stays high, GPU leasing remains low-return, and segment gross margin falls	Medium-high
Regulatory reset	China or overseas rules limit games, fintech, data use, payments, ads, or AI	All, especially games/fintech/ads	Game approval delays, fintech take-rate cuts, ad targeting restrictions, data-transfer limits	Medium
Rival closed-loop commerce	ByteDance, Alibaba, Meituan, JD, or other platforms win merchant budgets and transaction data	Marketing Services, payments, Mini Shops	Marketing Services growth falls below peers despite stable macro ad spend	Medium

7. Pricing Power Verification

Pricing power is strongest in Marketing Services. The clearest evidence is Q1 FY2026 management commentary that upgraded AI-driven ad recommendation models and closed-loop Weixin marketing improved ad performance and pricing, while Marketing Services revenue grew 20% YoY and AIM+ powered around 30% of advertiser spend. Tencent also says Video Accounts ad load remains low versus industry, implying monetization headroom, though that is a management claim rather than a disclosed price schedule. This is real pricing power because better conversion can support higher bids without forcing explicit list-price increases.

Pricing power in VAS is moderate to strong but manifests through engagement, virtual items, subscriptions, content cadence, and franchise depth rather than posted price hikes. Games can monetize loyal players through new content and virtual goods, but consumer tolerance, regulation, and competitive alternatives limit blunt price increases. The evidence is margin and revenue performance: VAS revenue grew 15.7% in FY2025, VAS gross margin reached 60.2%, and Q1 FY2026 VAS gross margin reached 62.6%. That supports pricing/mix power, but the appendix should not overstate it as formal contractual price escalation.

Pricing power in FinTech and Business Services is mixed. Payments are convenient and embedded but regulated and competitive; the reviewed segment appendix's right distinction is that Weixin protects volume and relevance more clearly than take-rate expansion. Wealth and lending services are distribution-advantaged but also regulated. Cloud had a "more favorable pricing environment" in Q1 FY2026 and segment gross margin has improved sharply, and management's cloud restructuring gives some evidence that Tencent is willing to abandon low-quality revenue. But cloud pricing power remains less proven because enterprise workloads can be multi-cloud and AI infrastructure can commoditize. Tencent does not disclose multi-year escalators, churn, or minimum commitments sufficient to verify enterprise pricing power. Therefore, pricing power is observable at the segment gross-margin level but not yet contractually transparent.

8. Moat Verdict

Moat gate: PASS. Tencent's moat is not a single product claim; it is the reinforcing system of Weixin/WeChat identity and communication, payments and merchant rails, closed-loop advertising, game IP/live operations, content distribution, and scale-funded AI. Segment margin evidence supports the claim: three large segments improved gross margin over five years, and consolidated operating margin recovered from the FY2022 trough despite continued competition and regulation.

2046 test: PASS. The 2046 description is specific enough to underwrite: Tencent can still be a China-centered social, transaction, game, advertising, merchant, and enterprise AI/cloud platform if Weixin remains a core identity layer and the games/ad/payments loops keep funding reinvestment. The reviewed segment appendices make the durability test stricter, not easier: Domestic Games, Weixin-centered Marketing Services, and payments/merchant rails carry the moat; generic cloud infrastructure, licensed content, and Others cannot carry the 2046 case by themselves. The biggest unresolved durability questions are not whether Tencent has a moat today, but whether an AI/interface shift weakens Weixin intent capture, whether cloud/AI capex earns high returns, and whether regulation caps monetization. These are serious watch items, but they do not currently overwhelm the observed network effects, gross-margin persistence, cash generation, or multi-segment reinforcement.

Appendix B1 - Value-Added Services

Tencent Value-Added Services - Segment Deep Dive

Stage 0 anchor: today is 2026-05-28, Tencent's fiscal year ends December 31, the TTM period is Q2 FY2025 plus Q3 FY2025 plus Q4 FY2025 plus Q1 FY2026, and the TTM+5y horizon is 2031-03-31. All financial amounts are RMB billions unless stated otherwise. The Tencent data package is the source of truth for Tencent historical revenue, gross profit, gross margin, product disclosures, and management quotes. Tencent discloses VAS segment revenue and segment gross profit, but not VAS segment operating income. All forward operating margin and operating income references in this appendix are therefore labeled as modeled operating contribution after estimated allocated opex; they are not reported Tencent segment operating income.

0. Segment Boundary And Taxonomy Note

Value-Added Services, or VAS, is Tencent's largest reportable segment. The data package defines VAS as games and social networks, with Social Networks covering music, video, mini games platform fees, live streaming, social subscriptions, and related virtual-item services. The segment boundary itself is stable across the relevant historical period, but the sub-segment disclosure changed in Q3 FY2021 when Tencent began separating Domestic Games and International Games inside VAS. The appendix therefore uses only the disclosed FY2023 to FY2025 VAS product rows and the Q2 FY2025 to Q1 FY2026 quarterly product rows for the bottom-up product model. It does not compare pre-Q3 FY2021 game sub-line dollars with the current Domestic Games and International Games taxonomy.

1. What This Segment Actually Is

VAS is the monetization layer attached to Tencent's consumer entertainment and social engagement networks. The segment has two main economic engines. The first is Games, split in management disclosure between Domestic Games, meaning PRC games excluding Hong Kong, Macau, and Taiwan, and International Games, meaning non-PRC games revenue. Domestic Games include long-running Tencent franchises and licensed or published titles such as Honour of Kings, Peacekeeper Elite, CrossFire, Delta Force, and other mobile or PC games distributed into China's highly competitive but still large gaming market. International Games include revenue from Tencent's global publishing footprint, portfolio studios, Supercell games, PUBG MOBILE, VALORANT, Wuthering Waves, and other overseas titles or channels cited in the data package.

The second engine is Social Networks. This is not a simple messaging subscription line. It is a bundle of paid digital content, memberships, live streaming, music subscription, app-based game virtual items, Video Accounts live streaming services, and Mini Games or related platform service fees that monetize Tencent's social graph and entertainment surfaces. Tencent's Weixin/WeChat ecosystem is the user-distribution substrate, but Social Networks revenue inside VAS is only the paid-content and virtual-item economics, not the advertising economics, payment take rates, or cloud fees that sit in other reportable segments.

Pricing is mostly consumer microtransaction, subscription, and revenue-share based. Games monetize through in-game items, battle passes, content events, publishing economics, and deferred revenue recognition across service periods. Social Networks monetizes through monthly or annual memberships, paid music and video services, virtual gifts, live streaming features, and platform fees from app-based game item sales. This matters because gross receipts can move ahead of reported revenue. The data package explicitly warns that Q1 FY2026 domestic games reported revenue growth lagged gross receipts growth because later Spring Festival timing shifted some revenue recognition into future periods. The go-to-market is therefore less like a one-time software license and more like live operations, content cadence, community management, payment convenience, and platform distribution.

Tencent's VAS customer is mainly the consumer, not the enterprise buyer. The payer can be a gamer buying in-game items, a music or video subscriber, a viewer purchasing live-streaming virtual gifts, or a casual user spending in mini games. Tencent's distribution edge is unusually broad: the games portfolio has direct title-level brands, while social-networking monetization can attach to Weixin, QQ, Tencent Video, Tencent Music-related services, live streaming surfaces, and Mini Games. The same scale that supports the top line also makes the segment sensitive to content cycles, regulation, youth-protection rules, platform fee changes, and user attention shifting toward short video, AI-native entertainment, or rival games.

2. Current Economics

FY2025 VAS revenue was RMB369.3B, or 49.1% of Tencent consolidated revenue, and FY2025 VAS gross profit was RMB222.3B, a 60.2% gross margin. The TTM revenue base to 2026-03-31 is RMB373.3B, constructed by the quant foundation as FY2025 revenue of RMB369.3B less Q1 FY2025 revenue of RMB92.1B plus Q1 FY2026 revenue of RMB96.1B. VAS remains the largest Tencent segment at 48.6% of TTM group revenue.

The product mix is heavily games-led. In FY2025, Games revenue was RMB241.5B, equal to 65.4% of VAS. Domestic Games were RMB164.2B, or 44.5% of VAS. International Games were RMB77.4B, or 21.0% of VAS. Social Networks was RMB127.7B, or 34.6% of VAS. In the TTM period, the disclosed quarterly sub-lines sum to Domestic Games of RMB166.8B, International Games of RMB79.5B, and Social Networks of RMB127.0B, which together tie to VAS TTM revenue of RMB373.3B. On that TTM base, Domestic Games are 44.7% of VAS, International Games are 21.3%, and Social Networks are 34.0%.

Growth is currently decelerating from a very strong FY2025 games year into a more normal Q1 FY2026 comparison. VAS grew 15.7% in FY2025, but Q1 FY2026 VAS grew 4% YoY. Domestic Games grew 17.5% in FY2025 and 6% in Q1 FY2026. International Games grew 33.4% in FY2025 and 13% in Q1 FY2026. Social Networks grew 5.2% in FY2025 and declined 2% in Q1 FY2026. That Q1 deceleration should not be interpreted mechanically as a collapse in demand because the data package notes Tencent's revenue recognition lag from the later Spring Festival. Still, the segment's forward model cannot assume FY2025 growth repeats. The FY2025 result included successful launches, evergreen title renewal, and strong international growth from a lower base.

The cleanest current profitability metric is gross profit, not operating profit. FY2025 VAS gross margin was 60.2%, and the quarterly VAS gross margins in the TTM period were 60.4% in Q2 FY2025, 61.2% in Q3 FY2025, 59.5% in Q4 FY2025, and 62.6% in Q1 FY2026. A revenue-weighted calculation from those disclosed quarterly margins gives an estimated TTM VAS gross margin of about 61.0% and TTM gross profit of about RMB227.5B. Segment operating income is not disclosed. This appendix uses a modeled current operating contribution margin of about 41% after estimated allocated opex for frame-of-reference only, reflecting that VAS gross margin is high but live operations, game development, licensing, revenue sharing, distribution, marketing, content, and central product/R&D support absorb meaningful cost below gross profit.

Capital intensity is not separately disclosed for VAS. The quant foundation gives official Tencent TTM capital expenditures of RMB87.1B, but that is a group figure and includes AI infrastructure, cloud, corporate technology, and other needs. [DATA GAP: Tencent does not disclose VAS-specific capex, VAS-specific R&D, VAS-specific sales and marketing, or VAS-specific operating income.] The segment is economically asset-light relative to cloud infrastructure, but it is not cost-light. Its reinvestment burden is mainly talent, game development, licensing, studio investment, AI tooling, content, esports, launch marketing, creator economics, and platform safety.

3. Unit Economics

VAS unit economics start with a high gross margin because successful digital goods, subscriptions, and virtual items have low marginal distribution cost after the platform, payment, content, and live-service infrastructure are in place. FY2025 VAS gross margin of 60.2% and the Q1 FY2026 VAS gross margin of 62.6% show that Tencent can convert incremental VAS revenue into gross profit at an attractive rate when title mix and content amortization are favorable. The segment's gross margin improved from 52.5% in FY2021 to 60.2% in FY2025, despite a difficult FY2022. That improvement is central to the Tencent thesis because VAS is the biggest revenue segment and the highest gross-margin segment disclosed in the package.

Games revenue becomes profit through a portfolio model. Existing evergreen games have better economics than a newly launched title because the development cost base, art pipeline, gameplay systems, esports community, payment loop, and user acquisition channels are already established. An event, season, map, character, skin, collaboration, or esports campaign can refresh engagement without rebuilding the entire product. That is why management's description of evergreen games evolving into platforms is economically important. Platform-like games can support recurring content monetization, in-game social behavior, and lower churn, while also providing a launchpad for AI-assisted content production and personalization.

The offset is that games are hit-driven and require constant reinvestment. A mature hit can decline if the content cadence slows, a rival title captures attention, regulation constrains monetization, or players tire of mechanics. A new hit can require heavy launch marketing, creator seeding, server costs, and revenue share before it becomes profitable. International Games can also carry different platform fees, publishing arrangements, foreign exchange exposure, localization costs, and studio amortization. That is why this model gives International Games a higher growth CAGR than Domestic Games, but not a structurally higher operating contribution margin.

Social Networks has a different unit-economic shape. Music subscriptions, video memberships, live streaming, app-based game item sales, and Mini Games service fees can be recurring and platform-linked, but the line contains more content-cost and revenue-sharing variability than a mature self-developed game. Music and video require licensing, production, royalties, and talent economics. Live streaming and virtual gifts often require sharing economics with creators, agencies, and performers. Mini Games platform fees can be attractive because Tencent supplies distribution and payment rails, but the underlying developer ecosystem must be healthy enough to keep supply fresh. The Social Networks line has thus grown more slowly than Games in recent years, and Q1 FY2026 was down 2% YoY.

The most important margin drivers over the next five years are product mix, title maturity, AI tooling, content amortization, and revenue-sharing intensity. Mix shift toward International Games could help growth but may dilute margin if platform fees and publishing costs are higher. Mix shift toward mini games platform fees and app-based game virtual items could help margins if Tencent captures distribution economics without bearing full development cost. AI can improve content production and user engagement, but it is not free: training, inference, tooling, and AI talent are group-wide costs. The data package quotes management saying AI provides increasingly helpful tools for games, which supports the idea of better content velocity, but it does not justify assuming frictionless margin expansion.

In the base case, VAS gross margin rises modestly from an estimated 61.0% TTM to 62.5% at TTM+5y, while modeled operating contribution margin rises from about 41% to 43.2%. The path assumes enough scale leverage and AI production benefit to offset higher international mix, content spend, and live-service investment. In the bear case, gross margin slips to 59.5% and modeled operating contribution margin falls to 38.3% as a weak content cycle and greater revenue sharing reduce leverage. In the bull case, gross margin reaches 64.5% and modeled operating contribution margin reaches 45.2% as multiple evergreen titles, international scale, and higher-margin platform fees reinforce one another.

4. Competitive Dynamics

Tencent's Games business is the largest public-company gaming business globally and the largest disclosed Chinese games business by a wide margin. Newzoo's top public games companies ranking for YTD Q4 2025 places Tencent first with USD40.2B of game revenue and NetEase fifth with USD12.6B. NetEase's own FY2025 release reports RMB92.1B of net revenues from games and related value-added services. Tencent's FY2025 Games revenue of RMB241.5B is about 2.6 times NetEase's FY2025 games and related VAS revenue, though the accounting line definitions are not perfectly identical. This is strong scale context, not a clean market-share calculation.

For China market context, China's domestic game market reportedly generated RMB350.79B of sales revenue in 2025, up 7.68% year on year, according to the 2025 China Game Industry Annual Report as reported by China Daily and China Economic Net. Tencent's Domestic Games revenue of RMB164.2B would equal roughly 47% of that domestic-market revenue figure. The comparison is imperfect because publisher revenue, consumer spend, platform fees, tax treatment, overseas exclusions, and timing can differ, but it frames the magnitude of Tencent's domestic position. The competitive implication is that Tencent is not a challenger taking easy share from a fragmented base. It is the incumbent already operating at very large scale.

The direct domestic game competitors are NetEase, miHoYo/HoYoverse, ByteDance's game operations and distribution surfaces, Century Huatong, 37 Interactive, Perfect World, Bilibili-published games, and a long tail of mobile and PC studios. NetEase remains the most credible diversified Chinese games peer, with strong MMORPG, action, anime, and licensed Blizzard exposure. HoYoverse has shown that a focused studio can create global hits with high production values and cross-platform monetization. ByteDance is less comparable as a game publisher after strategic shifts, but Douyin remains an attention and acquisition competitor because user time and marketing inventory can move away from Tencent surfaces.

Internationally, Tencent competes and partners across a more complex landscape. It competes with Sony, Microsoft, Nintendo, Electronic Arts, Take-Two, Roblox, Nexon, Netmarble, Krafton, and Ubisoft-linked assets, while also owning stakes or strategic relationships with multiple studios. Newzoo's ranking shows Tencent still ahead of Sony and Microsoft in public-company game revenue, which supports global scale advantages in funding, publishing, live operations, and portfolio risk spreading. But international markets are not winner-take-all. Distribution, platform fees, local tastes, console/PC platform ownership, content ratings, geopolitics, and studio culture reduce Tencent's ability to translate Chinese dominance one-for-one into overseas dominance.

The Social Networks part of VAS faces different competition. For paid music and audio, Tencent's ecosystem benefits from Tencent Music, whose FY2025 release reported RMB26.73B of online music services revenue, up 22.9%, and RMB17.66B of music subscription revenue, up 16.0%. Those TME numbers are not VAS line items in this appendix, but they show that paid music in China can still compound through subscriptions, SVIP tiers, offline performance links, IP merchandising, and

advertising. For live streaming and creator monetization, Kuaishou's FY2025 release reported RMB39.1B of live streaming revenue, up 5.5%, and RMB81.5B of online marketing services revenue, up 12.5%, showing that short-video platforms remain formidable competitors for creator supply, user time, and virtual-gifting budgets. Douyin is also a major attention competitor, even where its financial disclosures are not as easily comparable.

Tencent's pricing power is strongest where it owns scarce IP, social distribution, and a live-service economy that users already value. Honour of Kings and Peacekeeper Elite are not merely games; they are recurring entertainment communities with esports, social identity, seasonal content, and durable habits. That gives Tencent more pricing latitude than a new game that must buy installs. Pricing power is weaker where content is substitutable, creators can multi-home, platform revenue share is visible, or competitors subsidize users. Social Networks therefore deserves a lower growth and margin assumption than Games in the base case despite its strategic value.

Entry barriers are high but not absolute. Barriers include IP scale, development talent, publishing licenses, user distribution, payment rails, anti-cheat systems, live operations, community trust, compliance infrastructure, and capital. However, hit creation is never fully protected. A small or mid-sized studio can still create the next breakout game, and an AI-assisted content production environment may lower some creation barriers over time. The bear case reflects that risk by letting Domestic Games slow sharply and International Games normalize toward mid-single-digit growth.

5. Segment-Level Moat

VAS has a real segment-level moat, but it is not the same moat across all sub-lines. Domestic Games has the strongest moat because Tencent combines first-party and licensed franchises, unmatched China distribution, Weixin/QQ social graphs, live operations depth, payment convenience, esports know-how, and the ability to cross-promote within an ecosystem. The best Tencent games can behave like social platforms, which makes engagement less transactional and extends monetization duration. Management's comment that evergreen games such as Honour of Kings and Peacekeeper Elite evolve into platforms is the right mental model for the strongest part of VAS.

International Games has a scale moat but a less complete ecosystem moat. Tencent has capital, studio relationships, publishing experience, and a global portfolio, but it does not own the dominant social layer in most overseas markets. It must compete on content quality, platform relationships, and local execution. The moat is durable enough to support above-market growth from Tencent's current base, especially as Supercell, PUBG MOBILE, VALORANT, Wuthering Waves, and new titles contribute, but the margin and growth assumptions should include execution risk.

Social Networks has a distribution moat through Weixin/QQ and Tencent's media ecosystem, but some product economics are more contestable. Music and video subscriptions face content-cost inflation and alternative entertainment. Live streaming faces creator economics, short-video competition, and user fatigue. Mini Games and app-based virtual items are more interesting because they use Tencent's platform distribution, payment, and social graph rather than only licensed content. The moat in Social Networks is therefore highest for platform-service and embedded social monetization, and lower for licensed content that competitors can bid for.

The segment's moat durability over five to ten years depends on Tencent continuing to convert user attention into recurring digital spend without damaging engagement or provoking regulation. VAS has a better moat than most consumer internet businesses because the best games and social content have emotional identity, habit formation, and network effects. But the moat is not an entitlement to double-digit growth forever. A five-year base-case segment CAGR around 5.7% from the TTM base already assumes meaningful deceleration from the FY2025 peak while preserving a premium to slower consumer internet categories.

6. Historical Growth Rates Reproduced From Data Package

The table below reproduces the cleanest disclosed VAS product history from the data package. The product rows use FY2023 to FY2025 because the data package provides those three fiscal-year rows for Games, Domestic Games, International Games, and Social Networks. A literal FY2022-to-FY2025 product CAGR is not available for those product rows in the data package, so the CAGR column is labeled as FY2023-FY2025 disclosed-period CAGR, which is a two-period CAGR across the disclosed FY2023, FY2024, and FY2025 rows. The VAS total has a longer five-year history in data_package Section 3; its FY2023-FY2025 CAGR is shown for consistency with product rows. Every revenue cell in this table is from the cited data-package row. [DATA GAP: data package Section 4 does not provide FY2022 Domestic Games, International Games, Games, or Social Networks revenue, so a literal FY2022-FY2025 product CAGR is not available.]

Product / sub-segment	FY2023 rev	FY2024 rev	FY2025 rev	FY2023-FY2025 disclosed-period CAGR	Most recent YoY	Data package cite
VAS total	298.4	319.2	369.3	11.3% FY2023-FY2025	Q1 FY2026 +4%	data_package Section 3 VAS table Revenue and YoY rows; Section 5 segment trend row
Games	179.9	197.7	241.5	15.9% FY2023-FY2025	FY2025 +22.2%	data_package Section 4 product table row Games
Domestic Games	126.7	139.7	164.2	13.8% FY2023-FY2025	Q1 FY2026 +6%	data_package Section 4 product table row Domestic Games; Section 5 VAS sub-line row
International Games	53.2	58.0	77.4	20.6% FY2023-FY2025	Q1 FY2026 +13%	data_package Section 4 product table row International Games; Section 5 VAS sub-line row
Social Networks	118.5	121.5	127.7	3.8% FY2023-FY2025	Q1 FY2026 -2%	data_package Section 4 product table row Social Networks; Section 5 VAS sub-line row

Internal arithmetic check: VAS total revenue of RMB319.2B in FY2024 multiplied by one plus the disclosed FY2025 YoY of 15.7% equals RMB369.3B, which ties within rounding. FY2023 VAS revenue of RMB298.4B multiplied by one plus the disclosed FY2024 YoY of 7.0% equals RMB319.3B, which ties within rounding. Games revenue of RMB197.7B in FY2024 to RMB241.5B in FY2025 implies 22.2% growth, matching the product row arithmetic. Domestic Games revenue of RMB139.7B to RMB164.2B implies 17.5% growth. International Games revenue of RMB58.0B to RMB77.4B implies 33.4% growth. Social Networks revenue of RMB121.5B to RMB127.7B implies 5.2% growth. All rows pass the 2% arithmetic tolerance.

The VAS history has two important modeling implications. First, the segment has already had a reset and recovery. FY2022 was down 1.4%, FY2023 grew 3.8%, FY2024 grew 7.0%, and FY2025 grew 15.7%. A five-year forecast should not anchor blindly on FY2025 because FY2025 is the strongest year in the disclosed sequence. Second, International Games is the fastest disclosed sub-line, but it is still only about one-fifth of VAS. Even a strong International Games CAGR cannot carry VAS if Domestic Games and Social Networks slow materially.

7. Management Guidance Quoted From Data Package

The data package includes four VAS-specific management excerpts. They are short, but they matter because they show management's intended bridge from historical VAS strength to forward growth: AI-enabled production, evergreen franchise durability, and new-title refresh.

- data_package Section 6, VAS, 2026-05-13, James Mitchell: "AI provides increasingly helpful tools." Interpretation: management is linking AI to games production and engagement, not just to cloud or advertising. This supports modest margin and content-velocity upside, but it is not a numerical growth guide.

- data_package Section 6, VAS, 2025-08-13, Ma Huateng: "evergreen games such as Honour of Kings and Peacekeeper Elite evolve into platforms." Interpretation: management is emphasizing durability of the largest domestic franchises. The base case therefore treats Domestic Games as a mid-single-digit compounder rather than a terminally declining hit portfolio.

- data_package Section 6, VAS, 2026-05-13, James Mitchell: "Roco Kingdom World achieved breakout success." Interpretation: new launches can still refresh the base. This matters most for the bull case because it shows Tencent is not solely dependent on old titles, but one breakout does not by itself justify extrapolating FY2025 growth for five years.

- data_package Section 5 VAS downstream note, official quarterly-release context: Q1 FY2026 domestic games reported revenue growth lagged gross receipts growth because the later Spring Festival shifted revenue recognition into future periods. Interpretation: the Q1 FY2026 Domestic Games +6% reported revenue growth is a conservative run-rate indicator if gross receipts were stronger. The base case therefore decelerates Domestic Games, but not as severely as a simple Q1-only extrapolation would imply.

[DATA GAP: data_package Section 6 does not provide explicit Tencent VAS FY2026 revenue guidance, product-level margin guidance, segment operating income guidance, or five-year growth targets.]

8. Forward Growth Assumptions

The TTM base for the product model is the disclosed quarterly sub-line sum: Domestic Games RMB166.8B, International Games RMB79.5B, and Social Networks RMB127.0B. Those three rows add to VAS TTM revenue of RMB373.3B. The forecast compounds each product line for exactly five calendar years from the 2026-03-31 TTM anchor to 2031-03-31. The FY2023-FY2025 CAGR is not a literal FY2022-to-FY2025 three-year CAGR for product rows because FY2022 product dollars are not in the data package; where the table says "disclosed-period CAGR" for product rows, it refers to the two-period CAGR across the disclosed FY2023, FY2024, and FY2025 rows.

Base case: Tencent retains strong domestic franchise economics, International Games remains the growth engine but decelerates from FY2025's surge, and Social Networks returns to low-single-digit growth as mini games, music, and live streaming offset maturity in older social content formats.

Product	Disclosed-period historical CAGR	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Domestic Games	N/D; 13.8% FY2023-FY2025	Q1 FY2026 +6%	No numeric guide; evergreen games platform comment	6.0%	FY2025 growth was strong at 17.5%, but Q1 reported growth slowed to 6%; the base case assumes evergreen titles and deferred recognition support mid-single-digit compounding.
International Games	N/D; 20.6% FY2023-FY2025	Q1 FY2026 +13%	No numeric guide; AI tools and new-title refresh	9.0%	International Games should outgrow Domestic Games from a smaller base, but FY2025's 33.4% growth decelerates as launches mature and global competition remains intense.
Social Networks	N/D; 3.8% FY2023-FY2025	Q1 FY2026 -2%	No numeric guide	3.0%	Social Networks is mature, but music subscriptions, mini games fees, app-based virtual items, and live streaming can offset pressure in older social content lines.

Bull case: multiple new titles scale, evergreen game platforms sustain monetization, International Games benefits from portfolio breadth, and Social Networks gets a better mix of Mini Games platform fees, music subscription, and live streaming.

Product	Disclosed-period historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Domestic Games	N/D; 13.8% FY2023-FY2025	Q1 FY2026 +6%	Evergreen games platform comment	8.0%	The bull case assumes Q1 reported growth understated gross receipts momentum and that Honour of Kings, Peacekeeper Elite, Delta Force, and newer titles sustain platform-like engagement.
International Games	N/D; 20.6% FY2023-FY2025	Q1 FY2026 +13%	AI tools and breakout-launch comment	12.0%	International Games remains below its FY2025 growth rate, but Tencent's global publishing scale and portfolio titles drive sustained low-teens compounding.
Social Networks	N/D; 3.8% FY2023-FY2025	Q1 FY2026 -2%	No numeric guide	5.0%	The bull case assumes Mini Games, app-based virtual items, music subscription, and live-streaming improvements offset maturity and restore mid-single-digit growth.

Bear case: the FY2025 games cycle fades, new titles do not fully offset aging hits, international growth normalizes faster, and Social Networks remains flat as short-video and content-cost competition absorb user time and wallet share.

Product	Disclosed-period historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Domestic Games	N/D; 13.8% FY2023-FY2025	Q1 FY2026 +6%	Evergreen games platform comment	2.5%	The bear case assumes Q1 reported deceleration is a better run-rate signal and that title maturity, regulation, and attention competition compress growth.
International Games	N/D; 20.6% FY2023-FY2025	Q1 FY2026 +13%	AI tools and breakout-launch comment	4.0%	The bear case assumes international hits mature, publishing costs rise, and overseas competition prevents Tencent from sustaining premium growth.
Social Networks	N/D; 3.8% FY2023-FY2025	Q1 FY2026 -2%	No numeric guide	0.0%	Social Networks stays flat as live streaming, long-form video, and licensed-content economics face substitution from short video and alternative entertainment.

The thesis-consistency check is deliberate. Domestic Games decelerates from FY2025's 17.5% growth and Q1 FY2026's +6% to a base five-year CAGR of 6.0%, not because the business suddenly loses relevance, but because the TTM base already includes a strong FY2025 games year and the domestic market is large but mature. International Games decelerates from FY2025's 33.4% and Q1 FY2026's +13% to a 9.0% base CAGR, which is a substantial slowdown but still above the expected global games market because Tencent is under-penetrated internationally relative to its domestic position. Social Networks gets only 3.0% base CAGR because its FY2023-FY2025 disclosed-period CAGR was 3.8% and the latest quarter was negative.

9. Forward Operating Margin Assumptions

Tencent does not disclose VAS operating income. The table below is a modeled operating contribution framework after estimated allocated opex, not reported Tencent segment operating income. The official profitability bridge remains gross profit and gross margin. Current gross margin is based on official VAS gross margin disclosures in the data package. Current modeled operating contribution margin is an analytical estimate designed to translate gross profit into a segment-level operating contribution for synthesis, after development, publishing, licensing, marketing, content, creator, and allocated product/R&D costs.

Profitability bridge	Current TTM or FY2025	Bear TTM+5y	Base TTM+5y	Bull TTM+5y	Basis
VAS revenue	373.3	412.4	492.8	547.3	Current TTM from data_package Section 5; forward from Section 8 model
VAS gross margin	61.0% TTM estimate; 60.2% FY2025 official	59.5%	62.5%	64.5%	Current from data_package Section 5 quarterly margins and Section 3 FY2025; forward modeled
VAS gross profit	227.5 TTM estimate; 222.3 FY2025 official	245.4	308.0	353.0	Gross profit equals revenue times gross margin
Reported VAS operating income	N/D	N/D	N/D	N/D	Tencent does not disclose segment operating income
Modeled operating contribution margin after estimated allocated opex	41.0% estimate	38.3%	43.2%	45.2%	Analytical estimate, not reported Tencent segment OI
Modeled operating contribution after estimated allocated opex	153.0 estimate	157.9	212.7	247.1	Analytical estimate, not reported Tencent segment OI

The product-level modeled operating contribution margins below are not disclosed by Tencent. They are a weighted framework to make the segment rollup reconstructable. Domestic Games is modeled with the highest forward margin because the largest evergreen franchises can reuse live-service infrastructure and monetize existing communities. International Games is modeled slightly lower because platform fees, publishing cost, localization, and global competition dilute economics. Social Networks is modeled lower than Domestic Games because content, creator, revenue-sharing, and subscription economics are more variable.

Product	Current modeled contribution margin	Bear TTM+5y margin	Base TTM+5y margin	Bull TTM+5y margin	Mechanism for change
Domestic Games	43.0%	41.0%	46.0%	48.0%	Evergreen scale and AI tooling help margin in base and bull; weak title cycle and higher launch marketing hurt bear.
International Games	39.0%	36.0%	43.0%	45.0%	International scale improves base margin, but platform fees and publishing costs keep it below Domestic Games.
Social Networks	36.0%	36.0%	39.0%	41.0%	Mix toward mini games platform fees and subscriptions helps base and bull; content and creator economics cap upside.

The margin changes are intentionally modest relative to the gross-margin history. VAS gross margin improved by about 770 bps from FY2021 to FY2025, but repeating that pace would require a very favorable mix shift and little reinvestment drag. Tencent is increasing AI investment at the group level, and VAS should benefit from AI production tools, but the same AI push can lift infrastructure and talent expense. The base case therefore gives VAS 220 bps of modeled operating contribution margin expansion from the current 41.0% estimate to 43.2%, driven by scale, evergreen-game maturity, and better international monetization. The bull case gives 420 bps of expansion. The bear case assumes a 270 bps compression as content, launch, revenue-sharing, and competitive costs absorb gross profit.

10. Segment Rollup Built Bottoms-Up

The rollup below compounds each product from the TTM revenue base to 2031-03-31, applies the modeled product contribution margins from Section 9, and sums revenue and contribution. Segment operating contribution margin is the revenue-weighted average of product margins. This is not reported segment operating income.

Case	Product	TTM revenue	CAGR TTM to TTM+5y	TTM+5y revenue	Modeled contribution margin	Modeled operating contribution
Bear	Domestic Games	166.8	2.5%	188.7	41.0%	77.4
Bear	International Games	79.5	4.0%	96.7	36.0%	34.8
Bear	Social Networks	127.0	0.0%	127.0	36.0%	45.7
Bear	VAS total	373.3	2.0%	412.4	38.3%	157.9
Base	Domestic Games	166.8	6.0%	223.2	46.0%	102.7
Base	International Games	79.5	9.0%	122.3	43.0%	52.6
Base	Social Networks	127.0	3.0%	147.2	39.0%	57.4
Base	VAS total	373.3	5.7%	492.8	43.2%	212.7
Bull	Domestic Games	166.8	8.0%	245.1	48.0%	117.7
Bull	International Games	79.5	12.0%	140.1	45.0%	63.0
Bull	Social Networks	127.0	5.0%	162.1	41.0%	66.5
Bull	VAS total	373.3	8.0%	547.3	45.2%	247.1

The arithmetic ties within rounding. In the base case, product revenue of RMB223.2B plus RMB122.3B plus RMB147.2B equals RMB492.7B, rounded to the displayed RMB492.8B. Product contribution of RMB102.7B plus RMB52.6B plus RMB57.4B equals RMB212.7B. In the bear case, product revenue sums to RMB412.4B and contribution sums to RMB157.9B. In the bull case, product revenue sums to RMB547.3B and contribution sums to RMB247.1B. The implied five-year VAS revenue CAGR is about 2.0% in bear, 5.7% in base, and 8.0% in bull.

This rollup intentionally does not create separate modeled revenue rows for Honour of Kings, Peacekeeper Elite, Delta Force, Supercell, PUBG MOBILE, VALORANT, Wuthering Waves, music subscriptions, Tencent Video memberships, Video Accounts live streaming, or Mini Games platform fees because the data package does not provide separate RMB revenue for those product components. They appear in the qualitative drivers, not as fabricated model rows.

11. Key Risks And Wildcards

Bear risk - title-cycle fatigue. Domestic Games and International Games can both slow faster than modeled if evergreen titles lose engagement, new launches underperform, or competitors create better cross-platform experiences. The bear case captures this through 2.5% Domestic Games CAGR and 4.0% International Games CAGR.

Bear risk - regulation and youth-protection rules. China game approvals, playtime rules, monetization scrutiny, content requirements, and anti-addiction policy can reduce the number of launches, slow updates, or constrain monetization. Tencent is sophisticated at compliance, but scale makes it a visible target.

Bear and base risk - Social Networks substitution. Short video, AI-native entertainment, creator platforms, and rival live-streaming ecosystems compete for time and virtual-spend budgets. Kuaishou's live streaming and online marketing scale shows that creator ecosystems outside Tencent remain strong.

Bear risk - revenue-sharing and content-cost inflation. Music, video, live streaming, game publishing, and international platform economics can shift value toward creators, studios, app stores, or licensors. If that happens while revenue growth slows, gross margin and modeled contribution margin can compress.

Base risk - recognition versus gross receipts. The Q1 FY2026 Spring Festival timing issue is a reminder that reported revenue can lag gross receipts. This can make quarterly trend reading noisy, and synthesis should avoid overreacting to one VAS quarter without checking deferred revenue and management commentary.

Bull wildcard - AI content productivity. If Tencent's AI tools materially reduce art, level-design, localization, QA, moderation, and personalization costs, Games could sustain higher update cadence and better margins than modeled. The bull case gives some margin credit, but a step-change in production economics would justify more.

Bull wildcard - international portfolio compounding. International Games could remain above the base case if Supercell, PUBG MOBILE, VALORANT, Wuthering Waves, and newer titles build overlapping global communities. This is the main path to VAS growing faster than China's domestic games market.

Bull and base wildcard - Mini Games and platform-service fees. Social Networks could surprise positively if Mini Games, app-based game virtual items, and other platform-fee economics grow faster than licensed-content or live-streaming drag. That would improve both growth and mix.

Source Notes

Tencent historicals, segment revenue, VAS gross profit, gross margin, product rows, quarterly trends, TTM construction, and management excerpts are from the cleared `data_package.md` and `quant_foundation.md` in `C:\Users\Admin\OneDrive\GPT\ER 2.0\Tencent`. External competitive context used only for third-party market framing: [Newzoo top public games companies ranking for YTD Q4 2025](https://newzoo.com/resources/rankings/top-25-companies-game-revenues), [NetEase FY2025 results release](https://ir.netease.com/node/15256), [China Daily reporting of the 2025 China Game Industry Annual Report](https://global.chinadaily.com.cn/a/202512/23/WS6949ec3ca310d6866eb2ff54.html), [China Economic Net reporting of the same industry report](https://en.ce.cn/main/latest/202512/t20251220_2655501.shtml), [Tencent Music FY2025 results release](https://www.prnewswire.com/news-releases/tencent-music-entertainment-group-announces-fourth-quarter-and-full-year-2025-unaudited-financial-results-302715742.html), and [Kuaishou FY2025 results release](https://ir.kuaishou.com/news-releases/news-release-details/kuaishou-technology-announces-fourth-quarter-and-full-year-2025/).

Case	Segment TTM+5y Revenue	Segment TTM+5y Modeled Contribution Margin	Segment TTM+5y Modeled Contribution	Probability
Bear	RMB412.4B	38.3% modeled contribution margin	RMB157.9B modeled contribution	25%
Base	RMB492.8B	43.2% modeled contribution margin	RMB212.7B modeled contribution	55%
Bull	RMB547.3B	45.2% modeled contribution margin	RMB247.1B modeled contribution	20%

These summary margins and contribution amounts are modeled operating contribution after estimated allocated opex; Tencent does not disclose VAS segment operating income.

Appendix B2 - FinTech and Business Services

Tencent - FinTech and Business Services Segment Deep Dive

0. Segment Boundary and Taxonomy Note

Tencent's FinTech and Business Services segment is stable across the relevant historical window in the data package. The segment includes commercial payment, wealth management, consumer lending, cloud, enterprise software, e-commerce technology fees and other business services. The explicit taxonomy flag in the data package concerns the renamed Marketing Services segment, formerly Online Advertising, not this segment. Therefore the FY2021-FY2025 FinTech and Business Services revenue and gross profit series can be compared across years, while recognizing that Tencent does not disclose separate product revenue for payment, wealth management, lending, cloud, AI services, WorkBuddy, CodeBuddy or other enterprise products. The hard profitability caveat is also central: Tencent discloses segment revenue and gross profit/gross margin, but not segment operating income. Historical operating income is not reported. Forward operating income in this appendix is modeled operating contribution after estimated allocated operating expenses, not a company-disclosed segment operating profit.

1. What This Segment Actually Is

FinTech and Business Services is Tencent's transaction, financial infrastructure and enterprise technology segment. It monetizes a very different economic surface from VAS or Marketing Services. VAS sells entertainment and social-network digital services to consumers. Marketing Services sells advertiser access to Tencent's user attention and closed-loop commerce infrastructure. FinTech and Business Services sits closer to the movement of money, the servicing of merchants and consumers, and the software/infrastructure layer used by enterprises and merchants inside and outside Tencent's ecosystem.

The FinTech side is anchored by payments and adjacent financial services. Commercial payment is the core recurring activity: merchants and users transact through Weixin/WeChat Pay, and Tencent earns processing economics from transaction volume. The data package describes FinTech services as payments, wealth management and consumer lending. That means the segment is not only a payment take-rate business. It also includes distribution or facilitation economics connected to wealth products and lending services, where revenue can be affected by user balances, financial-market activity, credit demand, regulation, risk appetite and partner economics. Tencent does not disclose the revenue split among commercial payment, wealth management and consumer lending, so this appendix treats them as one modeled "FinTech services" pool rather than pretending to know product-level RMB revenue.

The Business Services side includes Tencent Cloud, enterprise software, GPU/API token services, technology service fees from e-commerce activity, and other business services. This line is more capital and technology intensive than payment processing. It sells compute, cloud infrastructure, AI-related services, enterprise collaboration tools and merchant technology. Demand drivers include cloud migration, AI inference and training requirements, enterprise software adoption, Mini Shops technology fees, cross-border cloud demand, and Tencent's ability to convert its internal infrastructure competence into external customer revenue. Management highlighted in Q1 FY2026 that Business Services revenue grew 20% year-on-year, while Tencent Cloud's international business grew revenue over 40% year-on-year, but neither figure comes with absolute RMB revenue disclosure in the data package.

The go-to-market is mixed. FinTech services are ecosystem-led: Weixin/WeChat user density, merchant acceptance and transaction habit create distribution without a conventional enterprise sales motion for each incremental payment. Wealth and lending products depend on regulated financial partners and product placement inside Tencent's consumer surfaces. Business Services is more direct and enterprise-oriented: Tencent sells cloud, AI services and software to companies, governments, developers and international customers, while also benefiting from internal proof points developed through games, social, ads and Weixin. Merchant technology fees sit between these models because they are enterprise-like revenue attached to the Mini Program/Mini Shops commerce loop.

Pricing also differs by sub-line. Commercial payments have high volume but constrained pricing, because payment take rates are regulated, competitive and merchant-sensitive. Wealth management and consumer lending economics are less purely volume-based but remain policy-sensitive. Cloud and enterprise services are usage, subscription, project, and service-fee businesses. AI-related cloud can be billed through compute, GPU access, API tokens, model services or enterprise software packaging, but Tencent specifically said in the Q1 FY2026 commentary that it had not been active in leasing out GPU capacity

and was prioritizing internal AI use before making more capacity available in Tencent Cloud. That matters for forecasting: AI can lift demand and margins over time, but near-term AI infrastructure is not automatically external cloud revenue.

2. Current Economics

The FY2025 disclosed segment revenue base was RMB229.4B, equal to 30.5% of Tencent's FY2025 revenue. FY2025 segment gross profit was RMB116.6B and gross margin was 50.8%, according to data_package Section 3, which cites Tencent annual reports and the FY2025 annual report Note 6 for segment revenue. The TTM revenue base to March 31, 2026 was RMB234.4B, built from FY2025 revenue of RMB229.4B less Q1 FY2025 revenue of RMB54.9B plus Q1 FY2026 revenue of RMB59.9B. The latest four quarters show a narrow but durable growth band: Q2 FY2025 revenue RMB55.5B, up 10%; Q3 FY2025 revenue RMB58.2B, up 10%; Q4 FY2025 revenue RMB60.8B, up 8%; and Q1 FY2026 revenue RMB59.9B, up 9%.

The recent gross margin base is materially better than the segment's earlier history. FY2021 gross margin was 29.8%, FY2022 was 33.0%, FY2023 was 39.6%, FY2024 was 47.0%, and FY2025 was 50.8%. The last four disclosed quarterly margin points were Q2 FY2025 at 52.1%, Q3 FY2025 at 50.2%, Q4 FY2025 at 50.7%, and Q1 FY2026 at 52.1%. Using the data-package quarterly revenue and gross-margin points, approximate TTM gross profit is RMB120.2B and approximate TTM gross margin is 51.3%. This calculation uses FY2025 gross profit less estimated Q1 FY2025 gross profit plus Q1 FY2026 gross profit, where Q1 FY2025 is implied by the FY2025 annual gross-profit total and the Q2/Q3/Q4 gross-profit values described in the data package. The point is directional rather than a new disclosure: Tencent's segment gross margin has stabilized around 50%-52%, well above the 2021-2023 base.

Tencent does not disclose the sub-product revenue shares. For forward modeling, I split the TTM revenue base into two analytical pools: FinTech services at 80% of TTM segment revenue, or RMB187.5B, and Business Services/cloud at 20%, or RMB46.9B. This split is not disclosed by Tencent and is therefore flagged as a modeling assumption, not a reported product mix. The calibration is based on the Q1 FY2026 facts in the data package: the segment grew 9% overall, Business Services grew 20%, and FinTech services were repeatedly described as high-single-digit or driven by commercial payment, wealth management and consumer loan services. A 20% Business Services starting share implies roughly 6.25% FinTech services growth in Q1 if Business Services grew 20%, making the 80/20 split a plausible but not unique bridge between the disclosed segment growth and the faster Business Services comment. If the actual Business Services share is materially higher, the implied FinTech growth rate would need to be lower than management's qualitative description; if it is materially lower, cloud and enterprise services would have less weight in the segment mix than the management emphasis suggests.

Capital intensity is higher than a pure payment network and lower than a standalone hyperscale cloud. At group level, official FY2025 capex was RMB79.2B per data_package Section 2, while FMP cash-flow capex was higher at RMB112.9B because it uses a broader definition. Tencent's AI infrastructure investment is group-wide and supports games, ads, cloud, Yuanbao, productivity tools and internal engineering; the data package does not allocate capex by segment. FinTech services should be relatively asset-light after payment infrastructure is built, but Business Services/cloud requires servers, networking, data centers, model infrastructure, developer tools and sales/support. The segment's rising gross margin despite AI capex indicates that cost-of-revenue optimization, service mix and pricing discipline have more than offset scale and infrastructure cost so far. The risk is that external AI cloud monetization lags infrastructure spending, causing depreciation and GPU costs to arrive before revenue.

3. Unit Economics

This segment's economics are best understood as two different unit-economic engines sharing one reporting line. The first engine is transaction and financial-service distribution. Commercial payment revenue converts gross transaction volume into revenue at a constrained take rate. The important unit drivers are payment volume, merchant mix, take rate, bank/network costs, user incentives, fraud and risk controls, and regulatory rules. Once the payment network is scaled, incremental transaction volume can be attractive because fixed platform costs are spread over enormous usage. However, payment gross margin is not infinitely expandable: payment processing includes bank, clearing, compliance, fraud, risk and customer-support costs, and merchants resist fee increases. Wealth management and consumer lending can have better fee density than basic payment processing, but they bring regulatory scrutiny, product suitability risk, credit-cycle sensitivity and partner economics.

The second engine is cloud and business services. Here the revenue unit is compute usage, storage, networking, software seat, enterprise project, API call, model token, merchant technology service fee or packaged service. Gross margin depends on utilization, depreciation, energy, hardware purchase costs, support load, network bandwidth, software mix, pricing discipline and the degree of customization. Commodity cloud infrastructure can be price competitive and margin constrained. Cloud attached to Tencent's differentiated ecosystem, AI models, media, games, security, commerce or Weixin tools can

carry better margins if the customer is paying for a business outcome rather than raw compute. International cloud growth above 40% in Q1 FY2026 is encouraging, but international cloud can also require local compliance, partner investment and regional infrastructure.

The disclosed margin history suggests a meaningful improvement in the segment's gross economics. Revenue rose from RMB172.2B in FY2021 to RMB229.4B in FY2025, while gross profit rose from RMB51.4B to RMB116.6B. Gross margin expanded from 29.8% to 50.8%. That is not a minor mix effect; it is a structural improvement in cost-of-revenue efficiency. The data package does not decompose the improvement, but plausible drivers include higher-margin financial services within FinTech, better cloud pricing discipline, exit or deemphasis of low-margin cloud projects, more standardized products, scale in payment infrastructure, and technology service fees from Mini Shops/e-commerce activity that should carry better incremental economics than pure infrastructure resale.

The margin bridge is not complete without operating expenses. Tencent's reported segment gross profit excludes selling and marketing, general and administrative expenses, R&D allocation, share-based compensation, other gains/losses and central expenses. For a forward segment model, I estimate a current TTM modeled operating contribution margin of 27.0% after allocated operating expenses. That assumption implies current modeled operating contribution of about RMB63.3B on RMB234.4B of TTM revenue, compared with approximate segment gross profit of RMB120.2B. In other words, the model allocates about RMB56.9B of operating expense burden to this segment, or about 24.3% of segment revenue. This is not a reported number. It is an analytical bridge so the combined company model can use a segment contribution figure without pretending Tencent disclosed segment operating income.

What breaks margins upward? First, FinTech services can compound payment and financial-service revenue without proportional infrastructure expansion if transaction volume and financial-product distribution grow organically through Weixin. Second, Business Services can move from custom cloud and price-competitive infrastructure toward standardized software, AI APIs, model services, merchant technology fees and higher-utilization international cloud. Third, AI can reduce internal service costs, developer workload and customer-support intensity. Fourth, if Tencent continues to avoid low-return GPU capacity leasing and only opens cloud capacity when demand is profitable, the cloud margin penalty could be less severe than a hyperscale arms race.

What breaks margins downward? Payment regulation or merchant pressure can compress take rates. Consumer lending can create risk-management and compliance expense. Wealth management can slow if capital markets weaken or regulators tighten distribution rules. Cloud can become a price war, especially if AI compute capacity is overbuilt across China. GPU depreciation can hit cost of revenue before external cloud revenue scales. International cloud can require upfront regional investment. Finally, the segment's mix can move against margins if low-margin cloud infrastructure grows faster than high-margin FinTech services. This is why the forward tables show gross margin separately from modeled operating contribution margin.

4. Competitive Dynamics

The FinTech side competes primarily with other large payment and financial platforms, banks, card networks, consumer-finance providers and embedded finance products. In China, the central competitive question is not whether consumers and merchants use digital payments; they already do. It is whether Tencent can defend transaction frequency, merchant acceptance, trust and financial-service distribution inside Weixin. Tencent's strength is ecosystem context. Payments are embedded inside messaging, Mini Programs, commerce, services, gaming/social use cases and offline merchant behavior. That gives Tencent distribution and habit formation that a standalone payment app would struggle to replicate. The drawback is that payment pricing power is structurally limited. The largest players tend to compete on acceptance, convenience, security, merchant tools and ecosystem reach rather than aggressive take-rate increases.

The cloud and Business Services side faces a more fragmented and technically intense competitive set. Competitors include Chinese hyperscale clouds, telecom-affiliated cloud providers, enterprise software vendors, AI infrastructure providers, system integrators, and specialized SaaS companies. Tencent has obvious strengths in media, games, social, security, real-time communication, Weixin commerce and internal AI deployment. A customer that wants video, gaming, social interaction, Mini Program integration, identity/login, messaging or commerce workflows can find Tencent's cloud stack more strategically relevant than a generic infrastructure provider. Tencent also has internal scale: it operates demanding games, social media, ads, payments and AI workloads, giving it operational proof points.

But cloud is not protected by social network effects in the same way as Weixin payments. Enterprise buyers compare price, reliability, compliance, service coverage, AI model capability, developer experience and switching cost. Raw compute can become commoditized. AI model progress can shift customer demand quickly. If GPU supply becomes abundant, cloud

pricing can fall. If GPU supply remains tight, customers may ration usage or prefer providers with the best capacity and model ecosystem. Tencent's Q1 FY2026 statement that it had not been active in leasing out GPU capacity is therefore double-edged. It protects against low-return capacity rental and prioritizes internal AI opportunities, but it also means near-term AI cloud revenue may not fully reflect Tencent's infrastructure investment.

Pricing power is strongest where Tencent provides embedded workflows rather than interchangeable infrastructure. Payment in a Weixin commerce context, Mini Shops technology fees, merchant tools, security, messaging, real-time communication, game/cloud integration and AI services tied to Tencent's own ecosystem should have better durability. Pricing power is weakest in generic infrastructure cloud, basic payment processing, and services where government or enterprise buyers can run tenders among multiple providers. The segment's moat is therefore uneven: FinTech has distribution and habit moats but regulated pricing; Business Services has technical and ecosystem advantages in selected verticals but faces tougher price competition.

Substitution risk is real but not uniform. Consumers can use other payment methods, but daily Weixin engagement makes Tencent hard to dislodge. Merchants can accept multiple payment methods, so Tencent's payment moat comes from ubiquity and convenience rather than exclusivity. Enterprise cloud customers can multi-cloud, use domestic alternatives, or keep workloads on-premise. AI workloads can migrate toward model providers, specialized inference platforms or open-source stacks. Tencent's best defense is to package cloud and AI into business outcomes that rely on its ecosystem, not to compete only on compute price.

5. Segment-Level Moat

The segment has a moderate moat overall, with a stronger moat in FinTech distribution and a narrower moat in cloud infrastructure. The FinTech moat starts with Weixin. User identity, messaging, groups, Mini Programs, merchant acceptance, social trust and everyday utility give payments a distribution channel that is extremely hard to replicate from scratch. The payment habit reinforces merchant acceptance, and merchant acceptance reinforces user habit. Wealth management and consumer lending benefit from the same distribution surface, though they depend more on regulation and partner economics than pure network effect.

The FinTech moat does not automatically translate into unlimited margin. Regulation can cap or influence fees. Payment is a systemic financial activity, not a free-pricing software product. Merchants can resist costs, and competing payment rails can remain present. The moat protects volume and relevance more than take-rate expansion. That is still valuable, because a large, stable, low-churn transaction base can support adjacent financial and merchant services. However, the forecast should not assume the kind of margin ceiling that consumer software can reach.

Business Services has a more conditional moat. Tencent's internal demand creates scale, engineering discipline and product proof. Its social, gaming, media and commerce assets let it build differentiated solutions in sectors where generic cloud is insufficient. Enterprise customers using Weixin, Mini Programs, security, media delivery, games or AI tools may face workflow switching costs. International customers may value Tencent's expertise in gaming, social and China-linked digital ecosystems. Still, generic cloud infrastructure is competitive and price transparent. The durable moat is in ecosystem-specific services, AI-enabled business tools, software and vertical solutions, not undifferentiated compute.

Over a five-to-ten-year horizon, the moat can widen if Tencent converts AI from internal productivity into external products with high switching costs. WorkBuddy, CodeBuddy, Yuanbao-related enterprise integrations, API token services and AI cloud offerings could help if they become workflow systems rather than one-off tools. The moat can narrow if AI infrastructure becomes a commodity, if payment/finance regulation reduces economics, if enterprise customers adopt neutral multi-cloud architectures, or if competitors replicate Tencent's merchant technology services. For the ER2 case, the segment deserves a positive but not heroic moat score: it is structurally advantaged inside Tencent's ecosystem, but part of the revenue base competes in tough, regulated or price-sensitive markets.

6. Historical Growth Rates Reproduced From Data Package

The table below reproduces disclosed historical segment data and product/sub-segment indicators from data_package Sections 3, 4, 5 and 6. Tencent does not disclose separate RMB revenue for FinTech services, Business Services/cloud, Tencent Cloud international, GPU/API tokens, WorkBuddy or CodeBuddy. Therefore product rows with no official RMB disclosure remain "N/D" rather than back-solved. The 3-year CAGR for the segment total uses FY2022 to FY2025 because the data package provides FY2022 as the three-year base. The FY-3/FY-2/FY-1 revenue columns show FY2023/FY2024/FY2025 to match the required recent historical window.

Product / sub-segment	FY-3 rev	FY-2 rev	FY-1 rev	3-yr CAGR	Most recent YoY	Data package cite
FinTech and Business Services total	RMB203.8B [Section 3 FTB row]	RMB212.0B [Section 3 FTB row]	RMB229.4B [Section 3 FTB row]	9.0% from FY2022 to FY2025 [Section 3 FTB row]	Q1 FY2026 +9% [Section 5 segment trend row]	Tencent annual reports via data_package Section 3; quarterly releases via Section 5
FinTech services: payments, wealth management, consumer lending	N/D	N/D	N/D	N/D	High single-digit qualitative growth; no exact RMB split [Section 5 notes]	data_package Section 4 product table; Section 5 segment-specific notes
Business Services and cloud	N/D	N/D	N/D	N/D	Q1 FY2026 +20% [Section 4 quarterly growth row]	data_package Section 4 product table; Section 6 commentary row
Tencent Cloud international	N/D	N/D	N/D	N/D	Q1 FY2026 over +40% [Section 4 quarterly growth row]	data_package Section 4 quarterly table; Section 6 commentary row
GPU/API tokens, WorkBuddy, CodeBuddy and other AI services	N/D	N/D	N/D	N/D	N/D; qualitative AI capacity comments only	data_package Section 4 product table; Section 6 commentary rows

Arithmetic checks: the disclosed segment total ties within the required tolerance. FY2023 to FY2024 is RMB203.8B x 1.040 = RMB212.0B, matching the reported FY2024 value. FY2024 to FY2025 is RMB212.0B x 1.082 = RMB229.4B, matching the reported FY2025 value within rounding. FY2022 to FY2025 3-year CAGR is calculated as RMB229.4B / RMB177.1B to the one-third power minus one, or approximately 9.0%. No product-level revenue row is back-solved because the data package explicitly says no separate RMB split exists for payment, wealth, lending, cloud, GPU services, API tokens, WorkBuddy, CodeBuddy or Yuanbao.

The margin history is equally important because the segment's story is not just revenue growth. Disclosed gross profit improved from RMB51.4B in FY2021 to RMB116.6B in FY2025, and gross margin rose from 29.8% to 50.8%. Recent quarterly gross margin remained around the low-50s, with Q2 FY2025 at 52.1%, Q3 FY2025 at 50.2%, Q4 FY2025 at 50.7% and Q1 FY2026 at 52.1%. Historical operating income is not disclosed in any year. Any forward operating contribution in this appendix is therefore a model assumption, not a reported history.

7. Management Commentary Quoted From Data Package Section 6

Management's forward commentary for this segment is concentrated on Business Services, cloud, AI capacity and the timing of external monetization. The relevant data-package rows are below.

First, James Mitchell said, "Revenue in the first quarter grew 20% year-on-year" in relation to cloud and services. The data package interpretation states that Business Services is accelerating despite no dollar split. This is the strongest explicit growth anchor for the Business Services/cloud pool, but it applies to the sub-line rather than the entire segment. Since segment revenue grew 9% in Q1 FY2026, the 20% Business Services growth must be smaller than the full segment or offset by slower FinTech services.

Second, James Mitchell said, "international business grew its revenue over 40%" in relation to cloud international. The data package interpretation says cloud international growth is high but not separately disclosed in RMB. The implication is that international cloud can be a high-growth contributor, but the model cannot assign it a separate revenue base. I treat it as a positive driver inside the Business Services/cloud growth assumption, not as a separate forecast line.

Third, James Mitchell said, "we have not been active in leasing out GPU capacity." The data package interpretation is that Tencent prioritized internal AI uses before external GPU monetization. This is a crucial guardrail. It argues against modeling an immediate, explosive AI cloud revenue ramp from GPU leasing. Tencent may be building valuable internal AI capability, but external Business Services revenue will depend on making profitable capacity available to customers, not merely owning GPUs.

Fourth, James Mitchell said, "making more capacity available in Tencent Cloud." The data package interpretation says management points to future cloud capacity unlocking. This supports a higher Business Services/cloud growth rate over the next five years than the consolidated segment's recent high-single-digit growth, but it also suggests a phased ramp. Capacity availability is a second-half and forward-period factor, not a fully reflected Q1 revenue base.

Fifth, the broader group/AI commentary matters indirectly. Pony Ma said Tencent's "highly resilient and cash generative core businesses" support AI reinvestment, and the Q1 CEO quote said "Our core businesses continue to grow their engagement, revenue and profit." These are not segment-specific revenue guides, but they support the premise that Tencent can fund AI infrastructure without starving FinTech or cloud product development.

[DATA GAP: The data package does not include separate quantitative management guidance for payment volume, wealth management AUM, consumer lending balances, payment take rates, cloud revenue RMB, GPU/API token revenue, WorkBuddy revenue or CodeBuddy revenue.]

8. Forward Growth Assumptions

The forward model compounds from the TTM ended March 31, 2026 base, not from FY2025. Because Tencent does not disclose product revenue splits, the product-level rollup uses modeled starting revenue pools. The starting allocation is FinTech services at 80% of TTM segment revenue, or RMB187.5B, and Business Services/cloud at 20%, or RMB46.9B. This is not a disclosed split; it is a plausible but not unique modeling bridge calibrated to Q1 FY2026 segment growth of 9%, Business Services growth of 20%, and management's qualitative description of FinTech services as high-single-digit. The international cloud growth comment is included inside the Business Services/cloud pool.

Base Case Growth

Product	3-yr historical CAGR	Latest YoY	Mgmt commentary anchor	Base CAGR TTM to TTM+5y	Justification
FinTech services	N/D product split; segment total 9.0%	High single-digit qualitative; segment Q1 +9%	No explicit payment/wealth/lending guide	5.5%	Growth slows from the segment's recent 9% because commercial payment is large, regulated and tied to macro consumption, while wealth/lending remain policy-sensitive. Distribution through Weixin supports durable growth above nominal GDP-like levels.
Business Services and cloud	N/D product split; segment total 9.0%	Q1 FY2026 +20%	Business Services +20%; Tencent Cloud international over +40%; more capacity to be made available	12.5%	The base case assumes the 20% Q1 pace decelerates as the cloud base scales and AI capacity is phased, but remains faster than FinTech due to cloud demand, Mini Shops fees, AI services and international growth.
FinTech and Business Services total	9.0% segment CAGR	Q1 FY2026 +9%	Mixed: FinTech high single-digit, Business Services +20%	7.1% implied	The segment decelerates modestly from FY2022-FY2025 CAGR because FinTech remains the larger pool and payment pricing is constrained, while faster cloud/AI mix offsets maturity.

Base case year-by-year revenue path, in RMB B:

Product	TTM 2026	Year 1	Year 2	Year 3	Year 4	TTM+5 2031
FinTech services	187.5	197.8	208.7	220.2	232.3	245.1
Business Services and cloud	46.9	52.7	59.3	66.7	75.0	84.4
Segment total	234.4	250.5	268.0	286.9	307.3	329.5

The base case is intentionally not a straight extension of Q1's 20% Business Services growth. Management has not disclosed the RMB base, and Tencent said it had not been active in leasing GPU capacity. That implies AI cloud monetization is real but staged. The 12.5% five-year CAGR for Business Services/cloud allows a deceleration from 20% toward low double digits while still incorporating international cloud over 40% from a smaller base. FinTech services at 5.5% assumes the payment and financial-service ecosystem remains healthy but cannot reaccelerate indefinitely without disclosed take-rate, volume or balance growth.

Bull Case Growth

Product	3-yr historical CAGR	Latest YoY	Mgmt commentary anchor	Bull CAGR TTM to TTM+5y	Justification
FinTech services	N/D product split; segment total 9.0%	High single-digit qualitative; segment Q1 +9%	No explicit payment/wealth/lending guide	7.0%	Bull case assumes merchant activity, wealth distribution and consumer lending remain healthy, and Weixin commerce increases payment/service frequency without material take-rate pressure.
Business Services and cloud	N/D product split; segment total 9.0%	Q1 FY2026 +20%	Business Services +20%; international cloud over +40%; more Tencent Cloud capacity	17.0%	Bull case assumes AI capacity becomes profitable external demand, international cloud remains a strong mix driver, and Mini Shops technology fees scale without heavy customization.
FinTech and Business Services total	9.0% segment CAGR	Q1 FY2026 +9%	Mixed, with Business Services leading	9.3% implied	Faster Business Services mix and resilient FinTech let the segment compound slightly above the recent three-year segment CAGR.

Bull case year-by-year revenue path, in RMB B:

Product	TTM 2026	Year 1	Year 2	Year 3	Year 4	TTM+5 2031
FinTech services	187.5	200.7	214.8	229.8	245.9	263.1
Business Services and cloud	46.9	54.8	64.1	75.0	87.7	102.7
Segment total	234.4	255.5	278.9	304.8	333.6	365.8

The bull case requires two things that are not yet proven in disclosed numbers. First, Business Services must translate AI/cloud capacity into customer revenue without becoming a low-margin GPU rental business. Second, FinTech must avoid regulatory or macro pressure and continue expanding beyond payment into higher-value financial and merchant services. This case is plausible because Tencent has ecosystem distribution and internal AI capabilities, but it is not the default because product-level revenue and unit disclosure remain limited.

Bear Case Growth

Product	3-yr historical CAGR	Latest YoY	Mgmt commentary anchor	Bear CAGR TTM to TTM+5y	Justification
FinTech services	N/D product split; segment total 9.0%	High single-digit qualitative; segment Q1 +9%	No explicit payment/wealth/lending guide	2.5%	Bear case assumes weak consumption, fee pressure, tighter financial regulation and slower lending/wealth activity reduce the large FinTech pool to low-single-digit growth.
Business Services and cloud	N/D product split; segment total 9.0%	Q1 FY2026 +20%	Business Services +20%; international cloud over +40%; future capacity	6.0%	Bear case assumes Q1 was flattered by easier comps and selected cloud demand, while price competition and slow external AI monetization drive rapid deceleration.
FinTech and Business Services total	9.0% segment CAGR	Q1 FY2026 +9%	Mixed, but cloud guide at risk	3.2% implied	Segment growth falls materially below recent history because both regulated FinTech and competitive cloud slow at once.

Bear case year-by-year revenue path, in RMB B:

Product	TTM 2026	Year 1	Year 2	Year 3	Year 4	TTM+5 2031
FinTech services	187.5	192.2	197.0	201.9	207.0	212.2
Business Services and cloud	46.9	49.7	52.7	55.9	59.2	62.8
Segment total	234.4	241.9	249.7	257.8	266.2	275.0

The bear case is not a collapse scenario. Tencent's ecosystem should still keep payment and merchant services relevant, and cloud should still grow from AI and digital demand. The issue is that growth can disappoint if payment monetization is capped,

macro activity is soft, wealth/lending are constrained, and cloud demand is won at unattractive prices. The most important warning sign would be continued Business Services growth disclosure without improvement in segment gross margin, suggesting that faster cloud growth is arriving with lower incremental profitability.

9. Forward Operating Margin Assumptions

Tencent discloses gross profit and gross margin for FinTech and Business Services, not segment operating income. This section therefore separates disclosed gross margin from modeled operating contribution margin after estimated allocated operating expenses. The current TTM gross margin is approximately 51.3%, using the data package's disclosed FY2025 and recent-quarter gross-profit/margin data. The current modeled operating contribution margin is estimated at 27.0%, which is not a disclosed Tencent figure.

The model assumes the FinTech services pool has higher current gross margin than Business Services/cloud because scaled payment/financial distribution should have better cost-of-revenue characteristics than cloud infrastructure. I use a current FinTech services gross margin of 54.0% and current Business Services/cloud gross margin of 40.5%, which blends to the segment's approximate 51.3% TTM gross margin under the 80%/20% starting split. Current modeled operating contribution margins are estimated at 31.5% for FinTech services and 9.0% for Business Services/cloud. These assumptions are judgmental, but they preserve the disclosed segment gross-profit constraint and avoid fabricating reported segment OI.

Product	Current disclosed or modeled gross margin	Current modeled op contribution margin	Bear TTM+5 op margin	Base TTM+5 op margin	Bull TTM+5 op margin	Mechanism
FinTech services	54.0% modeled within segment gross margin	31.5% modeled	28.0%	34.0%	36.0%	Payments scale helps, but regulation and fee pressure cap upside; wealth/lending mix determines spread.
Business Services and cloud	40.5% modeled within segment gross margin	9.0% modeled	10.0%	18.0%	24.0%	Utilization, AI capacity pricing, software mix and international scale drive leverage; price wars or GPU depreciation cap margins.
Segment total	51.3% approximate TTM gross margin	27.0% modeled	23.9%	29.9%	32.6%	Revenue-weighted average of product margins after estimated allocated opex.

Product	Bear TTM+5 gross margin	Base TTM+5 gross margin	Bull TTM+5 gross margin	Gross-margin rationale
FinTech services	51.0%	56.0%	58.0%	Bear assumes merchant/regulatory pressure and weaker financial-services mix; base assumes scale and mix improvement; bull assumes higher-value services grow faster.
Business Services and cloud	36.0%	49.0%	54.0%	Bear assumes cloud price competition and AI depreciation drag; base assumes better utilization and software/API mix; bull assumes profitable AI cloud and international scale.
Segment total	47.6%	54.2%	56.9%	Blended margin reflects both product-level margins and the faster-growing Business Services mix.

The base case margin expansion is driven by scale and mix, not by pretending the segment is a pure software business. FinTech services improve from 31.5% modeled operating contribution margin to 34.0% as payment and merchant service costs scale, wealth/lending distribution remains profitable, and AI reduces support/risk costs. Business Services/cloud improves from 9.0% to 18.0% as utilization rises, Tencent opens capacity selectively, and higher-margin software/API/merchant technology fees grow faster than low-margin infrastructure. The blended segment operating contribution margin rises from 27.0% to 29.9%, a roughly 290 bps increase.

The bull case requires stronger operating leverage. FinTech services reach 36.0% modeled operating contribution margin if higher-value financial services and merchant tools mix upward without regulatory pushback. Business Services/cloud reaches 24.0% if AI services, API tokens, enterprise software and international cloud scale with disciplined pricing. The blended

margin reaches 32.6%, still below the segment's gross margin by a wide margin, leaving room for R&D, sales/support, compliance and central expense allocation.

The bear case assumes the segment gives back some profitability. FinTech services fall to 28.0% modeled operating contribution margin if payment/financial-service pricing is pressured and compliance/risk costs rise. Business Services/cloud only reaches 10.0%, barely above the current modeled level, because growth is won in more competitive cloud categories and GPU depreciation arrives ahead of monetization. The blended operating contribution margin falls to 23.9%, which is severe but not implausible given the segment's mix of regulated finance and competitive cloud.

10. Segment Rollup

The rollup below is built from the modeled product revenue and modeled operating contribution margins in Sections 8 and 9. Segment totals reconcile to the product rows. Again, the operating income figures are modeled operating contribution after estimated allocated operating expenses; Tencent does not disclose segment operating income.

Case	Product	TTM+5 Revenue	TTM+5 Gross Margin	TTM+5 Gross Profit	TTM+5 Modeled Op Margin	TTM+5 Modeled Op Income
Bear	FinTech services	RMB212.2B	51.0%	RMB108.2B	28.0%	RMB59.4B
Bear	Business Services and cloud	RMB62.8B	36.0%	RMB22.6B	10.0%	RMB6.3B
Bear	Segment total	RMB275.0B	47.6%	RMB130.8B	23.9%	RMB65.7B
Base	FinTech services	RMB245.1B	56.0%	RMB137.3B	34.0%	RMB83.3B
Base	Business Services and cloud	RMB84.4B	49.0%	RMB41.4B	18.0%	RMB15.2B
Base	Segment total	RMB329.5B	54.2%	RMB178.7B	29.9%	RMB98.5B
Bull	FinTech services	RMB263.1B	58.0%	RMB152.6B	36.0%	RMB94.7B
Bull	Business Services and cloud	RMB102.7B	54.0%	RMB55.5B	24.0%	RMB24.6B
Bull	Segment total	RMB365.8B	56.9%	RMB208.1B	32.6%	RMB119.4B

Arithmetic tie-out: bear segment revenue is RMB212.2B plus RMB62.8B, or RMB275.0B, and modeled operating income is RMB59.4B plus RMB6.3B, or RMB65.7B. Base segment revenue is RMB245.1B plus RMB84.4B, or RMB329.5B, and modeled operating income is RMB83.3B plus RMB15.2B, or RMB98.5B. Bull segment revenue is RMB263.1B plus RMB102.7B, or RMB365.8B, and modeled operating income is RMB94.7B plus RMB24.6B, or RMB119.4B. The blended operating contribution margin in each case is the weighted average of the product-level operating contribution margins.

The rollup implies a base-case five-year segment revenue CAGR of about 7.1% from TTM revenue of RMB234.4B to RMB329.5B. That is below the latest Business Services growth rate but close to a normalized version of the segment's FY2022-FY2025 9.0% CAGR after allowing for a mature FinTech base. It also implies base-case modeled operating contribution grows from an estimated current RMB63.3B to RMB98.5B, a faster CAGR than revenue because gross margin and allocated opex efficiency improve. The bull case reaches RMB365.8B of revenue and RMB119.4B of modeled operating contribution, while the bear case reaches RMB275.0B and RMB65.7B.

The implied strategic read-through is that FinTech and Business Services is unlikely to be Tencent's fastest revenue grower as a whole, but it can be a large, durable profit contributor if the margin gains of FY2021-FY2025 hold. The segment's hidden option value is Business Services/cloud: small differences in the true starting revenue share and long-term cloud margin have large effects on the five-year outcome. The hidden risk is the same: because Tencent does not disclose the split, investors can over-read a 20% Business Services growth comment without knowing whether that growth is large enough or profitable enough to move the segment's economics.

11. Key Risks and Wildcards

Bear risk: regulation of payment, wealth management or consumer lending could compress economics. Tencent's FinTech services are embedded in a regulated financial system. Changes in fee rules, product distribution standards, lending oversight, data usage, consumer protection or partner-bank economics could reduce take rates, raise compliance cost or slow product growth.

Bear risk: macro softness could pressure the largest pool. Commercial payment and financial services depend on consumer spending, merchant activity, loan demand and wealth-product appetite. Even if Tencent keeps user share, weak transaction values or cautious consumers can limit revenue growth.

Bear risk: cloud price competition and AI depreciation could erode margins. Business Services is growing faster, but growth alone is not enough. If Tencent opens AI capacity into a crowded market or sells generic GPU/compute at low returns, gross margin can fall even while revenue rises. The data package quote that Tencent has not been active in GPU leasing is a positive discipline signal, but it also means external AI monetization is not yet proven.

Base risk: disclosure opacity can hide mix shifts. The data package confirms no separate RMB revenue for payment, wealth, lending, cloud, GPU services, API tokens, WorkBuddy or CodeBuddy. That makes the segment harder to underwrite. A higher cloud mix can either be positive or negative depending on margin; without product disclosure, investors must infer from gross margin and management tone.

Base/bull wildcard: Mini Shops and merchant technology fees could become a high-margin bridge between FinTech and Business Services. If commerce inside Weixin scales, Tencent can earn payment economics, advertising/marketing economics and technology service fees from the same merchant activity. This would improve both growth and margin quality.

Bull wildcard: international cloud and AI services may be underappreciated. Tencent Cloud international grew over 40% in Q1 FY2026 according to the data package, but there is no absolute RMB split. If the base is larger than assumed and profitability improves with scale, Business Services could become a more meaningful driver than the current segment disclosure suggests.

Bull wildcard: AI can lower internal cost and create external products. Tencent's group-level AI investment supports ad targeting, games, cloud and productivity products. For this segment, AI can improve fraud/risk management, customer service, developer productivity, cloud products and enterprise software. The upside case depends on AI becoming a monetized workflow layer rather than only an infrastructure cost.

Bear/base risk: financial products can create reputational and compliance issues even without balance-sheet credit losses. If consumer lending or wealth distribution causes customer harm or regulatory scrutiny, Tencent may have to pull back monetization. The model does not assume aggressive credit expansion for this reason.

Summary Table

Case	Segment TTM+5y Revenue	Segment TTM+5y Op Margin	Segment TTM+5y Op Income	Probability
Bear	RMB275.0B	23.9%	RMB65.7B	25%
Base	RMB329.5B	29.9%	RMB98.5B	55%
Bull	RMB365.8B	32.6%	RMB119.4B	20%

The probability-weighted modeled TTM+5y revenue is RMB323.1B, and the probability-weighted modeled operating contribution is RMB94.5B. The base case is the anchor because it respects both sides of the evidence: Business Services is accelerating and cloud international is growing quickly, but Tencent does not disclose the RMB base, and management has been disciplined about not simply leasing out GPU capacity. FinTech services should remain durable due to Weixin distribution, but pricing power is moderated by regulation, merchant sensitivity and macro conditions.

[DATA GAP: Tencent does not disclose product-level RMB revenue for FinTech services, Business Services/cloud, Tencent Cloud international, GPU/API tokens, WorkBuddy, CodeBuddy, payment, wealth management, consumer lending or Mini Shops technology service fees.]

[DATA GAP: Tencent does not disclose segment operating income. All forward operating margin and operating income figures in this appendix are modeled operating contribution after estimated allocated operating expenses, not reported segment OI.]

Appendix B3 - Marketing Services

Tencent Marketing Services - Segment Deep Dive

Company: Tencent Holdings Limited Ticker: 0700.HK Segment: Marketing Services Stage 0 anchor: 2026-05-28 TTM anchor: Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026, ended 2026-03-31 Forward horizon: TTM+5y, ended 2031-03-31

All financial figures are RMB billions unless noted. Tencent discloses Marketing Services revenue and gross profit, not segment operating income. Any forward operating margin or operating income in this appendix is therefore explicitly a modeled operating contribution after estimated allocated opex, not a reported Tencent segment operating income figure.

0. Segment Boundary and Taxonomy Note

Tencent's Marketing Services segment is the renamed Online Advertising segment. The data package flags the explicit taxonomy boundary: starting in Q3 FY2024, Tencent renamed "Online Advertising" to "Marketing Services" to reflect a broader set of marketing solutions and technology services, while FY2024 and FY2025 annual reports restated FY2023 comparatives under the Marketing Services label. FY2021 to FY2023 annual reports use Online Advertising, but the economic series is treated as comparable; this appendix keeps the label-change footnote and does not silently mix a new product boundary with an old one. The current segment includes ad targeting, closed-loop marketing, Video Accounts, Weixin Search, Mini Programs, Mini Shops and mobile ad network monetization, but Tencent does not disclose RMB revenue for those product lines separately [data_package Â§1, reporting structure rows; data_package Â§4, Marketing Services product rows].

1. What This Segment Actually Is

Marketing Services is Tencent's advertising and marketing technology business. The customer is the advertiser: consumer brands, game publishers, merchants, app developers, local service providers, financial institutions, education providers, and increasingly AI and e-commerce advertisers seeking users inside the Weixin and broader Tencent ecosystem. The end user is not paying Tencent directly in this segment; the end user supplies attention, intent, content consumption, search behavior, mini-program activity and transaction signals that make the ad inventory valuable.

The segment is not simply banner advertising. It is a portfolio of performance and brand ad products embedded across Tencent's social, content, commerce and utility surfaces. The data package identifies the important product-level evidence as AI-powered ad targeting, AIM+, Video Accounts, Weixin Search, Mini Programs, Mini Shops and closed-loop ads [data_package Â§5, segment-specific downstream notes]. In practice, those buckets map to four economic engines. First, Video Accounts gives Tencent short-video and live-stream inventory inside Weixin, with feed ads, creator-related placements and commerce-ad adjacencies. Second, Weixin Search gives advertisers intent-led inventory inside an app where search is closely tied to official accounts, mini programs, services and commerce. Third, Mini Programs and Mini Shops allow a more closed-loop funnel: a merchant can acquire traffic, convert within a mini program or mini shop, and measure behavior without pushing the user out of the Weixin environment. Fourth, the legacy and broader ad stack includes Moments, official accounts, mobile ad network supply, social and display inventory, and the core targeting infrastructure that makes Tencent advertising spendable at scale.

Pricing is a mix of auction-based cost-per-click, cost-per-mille, optimized conversion bidding, brand package and performance campaign formats. The core unit of value is not raw impressions; it is conversion-adjusted demand for high-intent users. That matters because Tencent's edge is not necessarily having the most open-web inventory. It is having a large, authenticated, socially anchored user graph and high-frequency engagement surfaces where advertisers can reach users across content, messaging, search, payment-adjacent commerce and mini-program usage. The data package records that AIM+ powered around 30% of total Marketing Services advertiser spending in Q1 FY2026, suggesting that automated AI bidding and creative or targeting optimization has already become a material part of how advertiser budgets are deployed [data_package Â§4, recent growth indicators row; data_package Â§6, Marketing Services commentary row 183].

Go-to-market is therefore both direct and platform-led. Large advertisers and agencies buy Tencent inventory for brand reach and performance. Merchants and small businesses use self-serve tools, mini-program traffic and closed-loop measurement. Game publishers, local services and e-commerce participants can buy campaigns tied to Tencent's own content and commerce surfaces. Tencent's strategic objective is to raise monetization per unit of user time without damaging the core Weixin user experience. That is why management's comment that "ad load on video accounts is still the lowest in the industry" is important: it frames growth as a controlled monetization runway, not only a macro advertising-cycle call [data_package Â§6, Marketing Services commentary row 186].

2. Current Economics

Marketing Services was RMB145.0B of revenue in FY2025, or 19.3% of Tencent's FY2025 total revenue [data_package Â§1, segment mix row Marketing Services]. FY2025 revenue grew 19.4%, after growth of 19.6% in FY2024 and 22.7% in FY2023; the segment had recovered strongly from the FY2022 advertising downturn, when revenue declined 6.7% [data_package Â§3, Marketing Services revenue and YoY rows]. FY2025 gross profit was RMB83.4B and gross margin was 57.5%, up from 42.3% in FY2022 and 50.6% in FY2023 [data_package Â§3, Marketing Services gross profit and gross margin rows]. This is one of Tencent's high-margin operating engines, close to VAS gross margin and above FinTech and Business Services gross margin.

For the required forward anchor, the TTM base is not FY2025. The quant foundation and data package define TTM as Q2 FY2025 through Q1 FY2026, ending 2026-03-31. Marketing Services TTM revenue is RMB151.3B, built as FY2025 revenue of RMB145.0B, less Q1 FY2025 revenue of RMB31.9B, plus Q1 FY2026 revenue of RMB38.2B [data_package Â§5, TTM segment revenue row; quant_foundation P2, segment TTM revenue roll-forward row]. The last four quarterly revenues were RMB35.8B in Q2 FY2025, RMB36.2B in Q3 FY2025, RMB41.1B in Q4 FY2025 and RMB38.2B in Q1 FY2026, with YoY growth of 20%, 21%, 17% and 20%, respectively [data_package Â§5, most recent quarterly trend row Marketing Services].

The segment's current gross economics are visible but its operating economics are not. Tencent discloses segment revenue and gross profit, not segment operating income [data_package Â§3, segment historicals note; quant_foundation P2, segment profitability base]. Using reported quarter gross margins of 57.6%, 56.7%, 59.7% and 55.0% for the TTM quarters gives an estimated TTM gross profit of about RMB86.7B and a TTM gross margin of roughly 57.3%. That estimate is a mechanical gross-profit approximation from the data package's quarterly revenue and gross-margin rows, not a separate Tencent operating-income disclosure.

Capital intensity is also not disclosed by segment. The group has rising AI infrastructure capex, and the data package notes that capital allocation and capex intensity increased as AI infrastructure spending rose [data_package Â§7, capital allocation interpretation]. Marketing Services consumes shared AI models, ad-serving infrastructure, data systems, compute and engineering resources, but there is no segment capex table. [DATA GAP: Tencent does not disclose Marketing Services capex, AI infrastructure allocation, depreciation allocation, or segment operating income.]

3. Unit Economics

The Marketing Services income statement starts with advertiser spend. Spend becomes net revenue through Tencent's ad auction, brand ad packages, performance campaigns, closed-loop merchant tools and mobile ad network economics. The cost of revenue includes traffic acquisition or revenue-share costs where applicable, bandwidth and cloud delivery costs, content or creator-related costs for certain surfaces, payment or commerce enablement costs tied to closed-loop formats, ad-serving infrastructure, and depreciation for relevant technology assets. Above gross profit, the major opex drivers are sales and agency coverage, product and engineering headcount, ad quality and safety systems, AI model development, data infrastructure, measurement tools, and shared G&A.

The gross-margin history shows real operating leverage. Marketing Services gross margin declined to 42.3% in FY2022, then recovered to 50.6% in FY2023, 55.4% in FY2024 and 57.5% in FY2025 [data_package Â§3, Marketing Services gross margin row]. The recovery likely reflects three forces. First, ad demand normalized after the FY2022 trough. Second, the mix shifted toward higher-quality internal inventory such as Video Accounts, Weixin Search and Mini Programs rather than lower-margin or less differentiated inventory. Third, AI targeting and automated bidding increased monetization efficiency per impression. Management explicitly tied strategic AI investment to ad targeting and foundation-model upgrades in Marketing Services [data_package Â§6, Marketing Services commentary rows 184 and 185].

The unit economics can break in both directions. Gross margin can rise if Tencent monetizes high-intent Weixin surfaces, increases AIM+ adoption, raises auction liquidity, improves conversion measurement and keeps traffic-acquisition costs low. It can fall if user experience constraints cap ad load, if ByteDance, Alibaba, Kuaishou, Xiaohongshu, Meituan and other platforms force advertiser return-on-ad-spend competition, if creator or content costs rise, or if AI compute costs are pushed into ad serving faster than revenue yields improve. The most important margin question is not whether Tencent can serve another ad impression. It is whether the next unit of ad load or targeting precision carries high incremental gross profit without triggering user fatigue inside Weixin.

For operating contribution, I use a modeled current segment operating contribution margin of 34.5% on the RMB151.3B TTM revenue base. This is not reported. It assumes a TTM gross margin of 57.3% and estimated allocated opex of 22.8% of revenue for segment sales, R&D, ad platform operations, safety, measurement and allocated G&A. That is a deliberately

conservative bridge: it preserves the disclosed gross-profit base and makes the model pay for the substantial engineering and AI investment that supports the ad stack. The forward cases in sections 9 and 10 model operating contribution after estimated allocated opex, not Tencent segment OI.

4. Competitive Dynamics

Tencent competes in China's digital advertising market against ByteDance, Alibaba, Kuaishou, Baidu, JD.com, PDD, Meituan, Xiaohongshu and other specialized inventory owners. The competitive battlefield is no longer generic display inventory. It is conversion data, commerce proximity, user attention, creator ecosystems, recommendation quality, search intent, closed-loop attribution and AI-assisted bidding or creative optimization.

The market is large but not uniformly fast. QuestMobile's 2025 annual mobile internet report, republished by Pedaily, estimated China's 2025 internet advertising market at RMB793.08B, up 4.6% YoY, and described the market as steady growth driven by AI marketing and platform commercialization expansion. That market-level growth rate is far below Tencent Marketing Services' FY2025 growth of 19.4% and Q1 FY2026 growth of 20%, implying share gain or mix shift rather than simple market beta. QuestMobile's July 2025 marketing media study also said internet advertising's share of China's internet market was expected to reach 24.9% in 2025, and that media ad revenue was increasingly concentrated in top media, with 2025 H1 ad revenue more concentrated in the top 10 media and media with more than 100 million DAU taking nearly 90% of media ad revenue. Those statements support the idea that scale platforms remain advantaged, but also that competition among the largest platforms is intense.

ByteDance is the most direct attention and performance-ad competitor because Douyin combines short video, live commerce, recommendation algorithms and advertiser tools. Alibaba and PDD are more direct retail-media competitors because advertisers near the point of transaction can measure sales more cleanly. Kuaishou competes in short video and live commerce. Xiaohongshu competes for lifestyle discovery, influencer-led demand generation and premium consumer categories. Meituan competes for local services and transaction-intent spend. Baidu competes in search, though mobile super-app behavior has fragmented classic search intent. Western ad giants such as Google and Meta are structurally limited in mainland China, which keeps the domestic competitive set distinct from global digital advertising.

Tencent's pricing power is strongest where the ad impression is tied to Weixin identity, social graph, mini-program usage, search intent or a closed-loop merchant transaction. It is weaker where the advertiser can buy similar attention from Douyin, Kuaishou, Xiaohongshu or Alibaba with cleaner performance data. The entry barriers are high because a new entrant cannot easily replicate Weixin's daily utility, identity graph, merchant ecosystem, payments adjacency and mini-program developer base. But substitution risk is real: advertisers are ruthlessly return-on-ad-spend oriented, and they reallocate budgets quickly if another platform offers better conversion or lower customer acquisition cost.

Global context also matters because Chinese ad sellers are increasingly large on a world scale. Axios, citing WPP Media, reported in June 2025 that China had a 20% share of the global ad market and that nine of the world's top 25 ad sellers were Chinese, including ByteDance, Alibaba, PDD, Tencent, Baidu, JD.com, Kuaishou, Meituan and Xiaomi. This confirms that Tencent is not fighting a fragmented long tail. It is competing against a group of scaled, technically capable, AI-enabled Chinese platforms that can all invest in ad systems.

5. Segment-Level Moat

The segment has a real but conditional moat. The moat is not "Tencent sells ads." Many companies sell ads. The moat is that Tencent can sell ads against authenticated, high-frequency, socially embedded and increasingly commerce-linked user behavior inside Weixin. The company has multiple monetizable surfaces that are difficult to recreate: messaging adjacency, Moments, Video Accounts, official accounts, mini programs, mini shops, search, payment-adjacent merchant behavior and mobile ad network reach. Advertisers value these surfaces because they can combine reach, identity, intent and conversion.

A second moat layer is data and model feedback. AIM+ powered around 30% of Marketing Services spending in Q1 FY2026 [data_package Â§4, recent growth indicators row; data_package Â§6, Marketing Services commentary row 183]. If AIM+ improves campaign returns, more spend runs through the automated system, which produces more learning data, which can improve targeting and bidding, which can raise advertiser retention. This is not unbreakable, because ByteDance and Alibaba also have powerful AI advertising systems, but it is a scale advantage.

A third moat layer is user-experience control. Tencent can choose to monetize slowly and protect the long-term utility of Weixin. Management's statement that Video Accounts ad load remains the lowest in the industry is economically significant because it means the company believes there is unused inventory capacity [data_package Â§6, Marketing Services

commentary row 186]. The risk is that the same restraint that protects the moat also caps near-term revenue. A platform with a durable social utility cannot push ad load indefinitely without degrading the user experience that created the ad opportunity.

Over five to ten years, I would rate the segment moat as strong but not dominant. It is stronger than a stand-alone ad network because the inventory is proprietary and identity-rich. It is weaker than Tencent's top game franchises because ad budgets can rotate rapidly and competitors are sophisticated. The likely outcome is continued share gain in Weixin-native and closed-loop formats, offset by intensifying competition in short-video, live-commerce, retail media and local services budgets.

6. Historical Growth Rates Reproduced From Data Package

Tencent provides a clean five-year historical revenue and gross profit series for Marketing Services or Online Advertising, but it does not provide RMB revenue by Video Accounts ads, Weixin Search ads, Mini Programs ads, Mini Shops ads, AIM+ or mobile ad network. Product rows below therefore show "N/D" for dollars where Tencent does not separately disclose them, and the product growth or adoption indicators are not treated as reported RMB revenue. The only historical RMB revenue row that can be used without fabrication is the total Marketing Services segment row.

Product or sub-segment	FY2021 rev	FY2022 rev	FY2023 rev	FY2024 rev	FY2025 rev	FY2022-FY2025 CAGR	Latest disclosed indicator	Data package cite
Marketing Services or Online Advertising total	88.7	82.7	101.5	121.4	145.0	20.6%	19.4%	data_package Â§3, Marketing Services revenue and YoY rows
Video Accounts marketing ads	N/D	N/D	N/D	N/D	N/D	N/D	about 50% in 2Q2025	data_package Â§4, Marketing Services Video Accounts row and recent indicators row
Weixin Search marketing ads	N/D	N/D	N/D	N/D	N/D	N/D	about 60% in 2Q2025	data_package Â§4, Marketing Services Weixin Search row and recent indicators row
Mini Programs and Mini Shops ads	N/D	N/D	N/D	N/D	N/D	N/D	about 50% in 2Q2025	data_package Â§4, Marketing Services Mini Programs and Mini Shops row; data_package Â§5 downstream notes
AIM+ automated ad spend	N/D	N/D	N/D	N/D	N/D	N/D	about 30% of 1Q2026 spend	data_package Â§4, AIM+ ad spend row; data_package Â§6 row 183

Arithmetic tie-out for the disclosed total row: FY2021 RMB88.7B x 0.933 = RMB82.8B, close to reported FY2022 RMB82.7B. FY2022 RMB82.7B x 1.227 = RMB101.5B, matching FY2023. FY2023 RMB101.5B x 1.196 = RMB121.4B, matching FY2024. FY2024 RMB121.4B x 1.194 = RMB145.0B, matching FY2025. All checks are within the required 2% tolerance. No product-level RMB back-solve is attempted because the data package does not provide a disclosed product base from which to back-solve. [DATA GAP: Tencent does not disclose product-level Marketing Services revenue dollars.]

The quarterly trend confirms that the FY2025 run-rate carried into Q1 FY2026. Segment revenue was RMB35.8B in Q2 FY2025, RMB36.2B in Q3 FY2025, RMB41.1B in Q4 FY2025 and RMB38.2B in Q1 FY2026, with YoY growth of 20%, 21%, 17% and 20% [data_package Â§5, most recent quarterly trend row]. TTM revenue of RMB151.3B is the forward modeling base [data_package Â§5, TTM segment revenue row].

7. Management Guidance Quoted From Data Package

The data package provides four Marketing Services management comments. They are not formal numeric guidance, but they establish management's forward growth logic.

- Row 183, 2026-05-13, James Mitchell, CSO: "AI Marketing Plus powered around 30%" [data_package Â§6, Marketing Services commentary row 183]. Interpretation: AIM+ is no longer an experiment; it is already a material share of advertiser spend. The modeling implication is that AI bidding and targeting can support growth and margin if it improves return on ad spend faster than compute and engineering costs rise.

- Row 184, 2025-11-13, Ma Huateng, Chairman and CEO: "strategic investments in AI are benefitting us in business areas such as ad targeting" [data_package Â§6, Marketing Services commentary row 184]. Interpretation: management is explicitly connecting AI investment to advertising monetization, not only cloud or productivity products. This supports a base case where Tencent continues to take share in higher-quality ad budgets.

- Row 185, 2025-08-13, Ma Huateng, Chairman and CEO: "upgraded our advertising foundation model" [data_package Â§6, Marketing Services commentary row 185]. Interpretation: model quality is a core part of the ad stack. The competitive question is whether Tencent's model and data loop is enough to close the monetization gap versus short-video and retail-media peers.

- Row 186, 2026-05-13, James Mitchell, CSO: "ad load on video accounts is still the lowest in the industry" [data_package Â§6, Marketing Services commentary row 186]. Interpretation: Video Accounts has monetization headroom, but management is also signaling a user-experience constraint. This should not be modeled as a straight-line continuation of 50% Video Accounts marketing growth for five years.

[DATA GAP: The data package contains no formal FY2026 or FY+1 numeric revenue guide for Marketing Services, no product-level revenue guide, and no segment operating margin guide.]

8. Forward Growth Assumptions

Because Tencent does not disclose product-level Marketing Services RMB revenue, the forward product model begins with a labeled modeled allocation of the official RMB151.3B TTM segment base. The allocation is not a historical disclosure, is not a back-solve from the disclosed non-dollar product growth indicators, and should not be read as reported Video Accounts, Weixin Search or Mini Programs revenue. It exists only to make the five-year rollup explicit and auditable. I allocate the TTM base as RMB56.0B to Video Accounts marketing ads, RMB16.6B to Weixin Search marketing ads, RMB28.7B to Mini Programs and Mini Shops closed-loop ads, and RMB50.0B to legacy social, mobile network and other advertising. The modeled split intentionally gives a large residual to mature ad formats because the data package only says Video Accounts, Weixin Search and Mini Programs are high-growth drivers, not that they already constitute most of segment revenue.

Base case: Marketing Services grows from RMB151.3B to RMB252.6B by TTM+5y, a 10.8% CAGR. This assumes the high-growth lines decelerate materially from disclosed non-dollar 2Q2025 product growth indicators as they scale, while the mature residual grows modestly.

Product	Modeled TTM base	3-yr historical CAGR	Latest non-dollar indicator	Mgmt FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Video Accounts marketing ads	56.0	N/D product dollars	about 50% in 2Q2025	No numeric guide	13.0%	Ad load headroom supports growth, but I fade the line from about 50% toward low teens as inventory scales and user-experience limits matter.
Weixin Search marketing ads	16.6	N/D product dollars	about 60% in 2Q2025	No numeric guide	15.0%	Search has intent quality and small-base growth, but classic search and commerce alternatives cap a long high-growth runway.
Mini Programs and Mini Shops closed-loop ads	28.7	N/D product dollars	about 50% in 2Q2025	No numeric guide	14.0%	Closed-loop commerce and mini-program attribution should gain budget, then decelerate as merchant adoption matures.
Legacy social, mobile network and other ads	50.0	Segment total FY2022-FY2025 CAGR 20.6%	Segment +20% in 1Q2026	No numeric guide	4.0%	Mature inventory grows below segment because the incremental growth engine is shifting to Video Accounts, Search, AIM+ and closed-loop formats.

The base case deceleration path is explicit. Video Accounts and Mini Programs move from about 50% disclosed 2Q2025 non-dollar growth indicators toward roughly 11% in year five. Weixin Search moves from an about 60% disclosed non-dollar indicator toward about 12%. Legacy formats move from low single-digit implied growth toward about 3%. The weighted

segment CAGR is 10.8%, roughly half the FY2022-FY2025 segment CAGR of 20.6% and below the latest 20% quarterly segment revenue growth, because the TTM+5y horizon should not assume five more years of post-trough recovery and low-ad-load catch-up.

Bull case: Marketing Services grows to RMB311.4B, a 15.5% CAGR. The bull case assumes Weixin Search and Video Accounts prove more durable as ad inventory, AIM+ materially improves advertiser returns, and mini-shop commerce tightens attribution.

Product	Modeled TTM base	3-yr historical CAGR	Latest non-dollar indicator	Mgmt FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Video Accounts marketing ads	56.0	N/D product dollars	about 50% in 2Q2025	No numeric guide	18.0%	Low ad load plus better AI targeting allows several years of monetization catch-up without damaging engagement.
Weixin Search marketing ads	16.6	N/D product dollars	about 60% in 2Q2025	No numeric guide	20.0%	Search becomes a larger Weixin intent layer as users search services, merchants, mini programs and content inside the ecosystem.
Mini Programs and Mini Shops closed-loop ads	28.7	N/D product dollars	about 50% in 2Q2025	No numeric guide	19.0%	Closed-loop ads compound as merchants shift spend to measurable conversion paths and mini shops deepen the transaction loop.
Legacy social, mobile network and other ads	50.0	Segment total FY2022-FY2025 CAGR 20.6%	Segment +20% in 1Q2026	No numeric guide	8.0%	Mature formats still grow if AIM+ lifts yield and advertiser demand remains concentrated in top media platforms.

Bear case: Marketing Services grows to RMB184.8B, a 4.1% CAGR. This is close to broad China internet ad market growth cited by QuestMobile for 2025 and assumes Tencent's recent share-gain engine fades.

Product	Modeled TTM base	3-yr historical CAGR	Latest non-dollar indicator	Mgmt FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Video Accounts marketing ads	56.0	N/D product dollars	about 50% in 2Q2025	No numeric guide	6.0%	Ad load restraint, Douyin competition and weaker advertiser budgets make early growth non-repeatable.
Weixin Search marketing ads	16.6	N/D product dollars	about 60% in 2Q2025	No numeric guide	8.0%	Search grows from a small base but loses some intent budgets to commerce and local-service platforms.
Mini Programs and Mini Shops closed-loop ads	28.7	N/D product dollars	about 50% in 2Q2025	No numeric guide	7.0%	Merchant demand remains positive, but conversion data and subsidies from other platforms pressure ROI.
Legacy social, mobile network and other ads	50.0	Segment total FY2022-FY2025 CAGR 20.6%	Segment +20% in 1Q2026	No numeric guide	-2.0%	Mature display and network inventory declines as budgets migrate toward short video, retail media and closed-loop commerce alternatives.

The bull and bear cases are not simple +/- sensitivities. They reflect different beliefs about the durability of Tencent's AI targeting and Weixin monetization runway. In the bull case, the management comments on AIM+, foundation model upgrades and low Video Accounts ad load convert into durable share gains. In the bear case, those same initiatives are real but not enough to overcome advertiser budget rotation toward Douyin, Alibaba/PDD retail media, Meituan local services and Xiaohongshu lifestyle discovery.

9. Forward Operating Margin Assumptions

The gross-profit base is disclosed; the operating contribution is modeled. The key gross-margin fact is that Marketing Services gross margin improved from 42.3% in FY2022 to 57.5% in FY2025 [data_package Â§3, Marketing Services gross margin row]. Recent quarterly gross margins were 57.6%, 56.7%, 59.7% and 55.0% for Q2 FY2025 through Q1 FY2026 [data_package Â§5, quarterly gross margin row]. I use roughly 57.3% as the current TTM gross margin.

Period or case	Revenue	Gross margin	Gross profit	Source or status
FY2025 reported	145.0	57.5%	83.4	data_package Â§3, Marketing Services rows
TTM ended 2026-03-31 estimated	151.3	57.3%	86.7	Estimated from data_package Â§5 quarterly revenue and gross margin rows
Bear TTM+5y modeled	184.8	54.5%	100.7	Modeled gross profit, not disclosed
Base TTM+5y modeled	252.6	59.0%	149.0	Modeled gross profit, not disclosed
Bull TTM+5y modeled	311.4	61.5%	191.5	Modeled gross profit, not disclosed

For operating contribution after allocated opex, I assume the current modeled TTM margin is 34.5%. The bridge is current gross margin of about 57.3% less estimated allocated opex of 22.8% of revenue. That opex pool covers ad sales, product and engineering, AI model work, ad integrity, measurement, infrastructure operations and G&A allocation. It is not a reported Tencent segment OI number.

Product	Current gross margin evidence	Modeled current op contribution margin	Bear TTM+5y margin	Base TTM+5y margin	Bull TTM+5y margin	Mechanism
Video Accounts marketing ads	Segment TTM gross margin about 57.3%	34.0%	30.0%	37.0%	43.0%	Higher ad load and AI yield create leverage, but creator/content and compute costs limit downside and upside.
Weixin Search marketing ads	Segment TTM gross margin about 57.3%	36.0%	32.0%	40.0%	45.0%	Search-intent ads should be structurally high margin if query quality and measurement improve.
Mini Programs and Mini Shops closed-loop ads	Segment TTM gross margin about 57.3%	35.0%	31.0%	38.0%	44.0%	Merchant tools scale well, but commerce support and conversion tooling require reinvestment.
Legacy social, mobile network and other ads	Segment TTM gross margin about 57.3%	33.0%	29.0%	35.0%	39.0%	Mature formats have less mix upside and more pricing pressure, partly offset by AIM+ automation.

The base case margin rises from the modeled current 34.5% to 37.1% by TTM+5y. The mechanism is mix shift toward higher-intent Search and closed-loop formats, better auction density, and AIM+ automation leverage. This is a 260 bps modeled improvement, which is meaningful but less aggressive than the historical gross margin recovery because that recovery partly reflected the rebound from FY2022 weakness. The bull case reaches 42.5% operating contribution margin because higher ad load, AI targeting and closed-loop commerce scale faster than opex. The bear case falls to 30.2% because Tencent keeps spending on AI and ad systems while pricing and ad-load limits restrain revenue growth.

10. Segment Rollup Built Bottoms-Up

The following table rolls product-level modeled revenue to segment TTM+5y revenue. The starting product allocation is modeled, but the total starting base is the official TTM segment revenue of RMB151.3B from the data package and quant foundation.

Case	Video Accounts ads	Weixin Search ads	Mini Programs and Mini Shops ads	Legacy social, network and other ads	Segment TTM+5y revenue	Revenue CAGR
Bear	74.9	24.4	40.3	45.2	184.8	4.1%
Base	103.2	33.4	55.3	60.8	252.6	10.8%
Bull	128.1	41.3	68.5	73.5	311.4	15.5%

The operating contribution rollup uses the product margin assumptions in section 9. It is not reported segment OI.

Case	Segment revenue	Blended modeled op contribution margin	Modeled op contribution after allocated opex	Gross margin assumption	Modeled gross profit	Arithmetic status
Bear	184.8	30.2%	55.9	54.5%	100.7	Product revenue and margin rollup ties
Base	252.6	37.1%	93.8	59.0%	149.0	Product revenue and margin rollup ties
Bull	311.4	42.5%	132.5	61.5%	191.5	Product revenue and margin rollup ties

Base-case arithmetic: RMB56.0B of modeled Video Accounts revenue compounded at 13.0% for five years becomes RMB103.2B. RMB16.6B of Weixin Search at 15.0% becomes RMB33.4B. RMB28.7B of Mini Programs and Mini Shops at 14.0% becomes RMB55.3B. RMB50.0B of legacy and other advertising at 4.0% becomes RMB60.8B. The sum is RMB252.6B, and the product-level operating contribution sum is RMB93.8B, producing a 37.1% blended contribution margin. The product totals reconcile within rounding.

The base case implies Marketing Services remains a growth engine but not an indefinitely 20% grower. Segment revenue increases by RMB101.3B over five years. Roughly half of that increase comes from Video Accounts, because the line combines a large modeled base with continuing monetization runway. Weixin Search remains smaller but high quality. Mini Programs and Mini Shops become more important because Tencent can connect ads to commerce and services. Mature advertising grows slowly and becomes a smaller share of the mix.

11. Key Risks and Wildcards

Bear risk - advertiser budget cyclicality. Advertising is economically sensitive. If China consumer demand weakens, merchant and brand budgets can be cut quickly. Marketing Services would feel that faster than subscription or payment businesses.

Bear risk - short-video and retail-media competition. Douyin, Kuaishou, Alibaba, PDD, JD.com, Meituan and Xiaohongshu all compete for measurable performance budgets. If their conversion loops outperform Tencent's, Tencent's ad load headroom will not translate into pricing power.

Bear risk - user-experience ceiling. Management says Video Accounts ad load is low, but Weixin's moat depends on utility and trust. Tencent may choose to protect engagement rather than maximize near-term ad impressions, lowering revenue upside.

Bear/base risk - AI cost and model parity. AIM+ adoption is positive, but every large platform is investing in AI ad tools. If model improvements become table stakes, Tencent may bear higher compute and R&D costs without durable pricing power.

Base wildcard - Weixin Search becomes a larger intent layer. If users increasingly search for services, content, brands and mini programs inside Weixin, Search ads could compound above the base case for longer.

Bull wildcard - closed-loop commerce attribution. Mini Programs and Mini Shops could make Tencent more competitive with retail media if merchants can measure conversion and lifetime value clearly inside the ecosystem.

Bull wildcard - ad load runway on Video Accounts. If Tencent can raise Video Accounts monetization without hurting engagement, the segment could sustain mid-teens growth for longer than the base case.

Governance/regulatory risk - PRC platform regulation. Advertising practices, data usage, algorithmic recommendations, youth protections, medical/financial ad rules and platform competition rules can all affect inventory, targeting and advertiser demand.

Source Notes

Tencent historical segment revenue, gross profit, gross margin, quarterly trends, TTM construction and management quotes come from `data_package.md` and `quant_foundation.md` as cited inline. External competitive context uses QuestMobile/Pedaily's March 2026 republication of the 2025 China mobile internet annual report, which cites RMB793.08B of 2025 China internet ad market size and 4.6% YoY growth; QuestMobile's July 2025 marketing media study, which discusses top-media concentration and ad revenue concentration among platforms with over 100 million DAU; and Axios's June 2025 summary of WPP Media's global ad forecast naming Tencent among nine Chinese companies in the global top 25 ad sellers. These external sources are used only for industry context, not for Tencent historical financials.

Summary Table

Case	Segment TTM+5y Revenue	Segment TTM+5y Op Margin	Segment TTM+5y Op Income	Probability
Bear	184.8	30.2%	55.9	25%
Base	252.6	37.1%	93.8	50%
Bull	311.4	42.5%	132.5	25%

Note: "Op Margin" and "Op Income" in the summary table mean modeled operating contribution margin and modeled operating contribution after estimated allocated opex. Tencent does not disclose Marketing Services segment operating income.

Appendix B4 - Others

Others - Segment Deep Dive

This appendix covers Tencent's Others segment only. It is intentionally shorter than the normal production target because Others is an immaterial residual segment, representing about 1.2% of Tencent TTM revenue, and Tencent provides no product-level split or segment operating-income disclosure for the line. The appendix therefore focuses on a tight, auditable model rather than false granularity. All Tencent historical segment figures and management quotes are sourced from the cleared data package and quant foundation; external references are used only for competitive context.

0. Segment Boundary And Taxonomy Note

Tencent's current reportable segments are VAS, Marketing Services, FinTech and Business Services, and Others. The data package describes Others as films, TV, copyrights, merchandise, and various smaller activities. No recent Others-specific restatement boundary is flagged. The relevant taxonomy caveat belongs to Marketing Services, which was renamed from Online Advertising starting in Q3 FY2024 and restated FY2023 comparatives; that change does not alter the Others segment boundary. For this appendix, FY2021 through FY2025 Others revenue and gross profit are treated as comparable official reportable-segment history. Tencent discloses segment revenue and segment gross profit, not segment operating income, so all operating-margin and operating-income tables below are explicitly modeled contribution figures and not reported segment operating income.

1. What This Segment Actually Is

Others is the residual media and ancillary-commerce segment around Tencent's content ecosystem. The data package describes the line as films, TV, copyrights, merchandise, and other activities [data_package section 1, Segment taxonomy table, Others row].

The customer set is mixed. On the film and television side, customers include cinema distributors, broadcast and streaming partners, advertisers or sponsors attached to content, and consumers who eventually pay for tickets or subscriptions at downstream windows. On copyrights licensing, customers are publishers, platforms, consumer-products partners, music or video services, and other counterparties that need legal access to Tencent-controlled IP or content rights. Merchandise customers are end consumers or channel partners buying physical goods tied to Tencent IP, entertainment properties, and related brands.

The pricing model is therefore not a single SaaS-like contract. It includes project revenue, licensing minimum guarantees, royalty participation, merchandise sales, and potentially revenue shares from distribution windows. Revenue recognition can be lumpy because film releases, TV production schedules, rights renewals, and merchandising campaigns do not arrive evenly across quarters. That explains why the segment can grow 83% YoY in a single quarter and still be economically immaterial at the group level [data_package section 5, Most Recent Quarterly Trend, Others row].

Go-to-market is also different from Tencent's main segments. VAS, Marketing Services, and FinTech and Business Services monetize daily-use platforms with enormous traffic and recurring behavior. Others monetizes specific content assets and adjacent IP. Some of that benefit may show up outside the Others segment: a successful drama or film can help Tencent Video engagement, Weixin discussion, game IP vitality, or advertising demand without the residual Others line capturing the full economics. That creates an analytical trap. The strategic value of Tencent's IP library may be higher than the segment's reported revenue, but the investable financial value of Others as a reportable segment is tiny unless Tencent changes disclosure or contributes a larger asset base to the line.

2. Current Economics

FY2025 Others revenue was RMB8.1B, equal to about 1.1% of Tencent's FY2025 total revenue [data_package section 1, Segment taxonomy table, Others row]. TTM revenue ended March 31, 2026 was RMB9.2B, equal to 1.2% of group TTM revenue [data_package section 5, TTM segment revenue table, Others row]. The TTM construction is FY2025 revenue of RMB8.1B, less Q1 FY2025 revenue of RMB1.1B, plus Q1 FY2026 revenue of RMB2.3B [data_package section 5, TTM segment revenue table, Others row].

The segment's recent revenue growth looks optically strong because the base is small. Quarterly revenue was RMB1.8B in Q2 FY2025, RMB2.6B in Q3 FY2025, RMB2.5B in Q4 FY2025, and RMB2.3B in Q1 FY2026. Reported YoY growth rates for

those quarters were -7%, 83%, 10%, and 103% [data_package section 5, Most Recent Quarterly Trend, Others row]. That pattern is not evidence of a new compounding engine. It is consistent with project timing and a depressed prior-year comparison.

Profitability is weak and volatile. FY2025 gross profit was only RMB0.3B on RMB8.1B of revenue, or a 3.6% gross margin [data_package section 3, Others table, Gross profit and Gross margin rows]. Q1 FY2026 gross profit was negative RMB1.0B, and Q1 FY2026 gross margin was negative 44.9% [data_package segment-specific downstream notes, Others; data_package section 5, gross-margin table, Others row]. Tencent does not disclose segment operating income. The correct base for profitability is reported gross profit and gross margin, then a modeled contribution layer for forecasting.

Capital intensity is not separately disclosed. The segment likely carries more working-capital and content-cost lumpiness than payments or advertising, but it is not the driver of Tencent's group capex surge. The data package flags that Tencent does not disclose segment capital expenditure and that group capex definitions differ between FMP and Tencent's official KPI [data_package section 10, Open Data Gaps; data_package section 2, Consolidated Historicals]. Given the segment size, any segment-specific capital-intensity estimate would be precision theater. The model assumes no standalone capex bridge for Others and treats its economics through revenue, gross margin, and modeled contribution margin.

3. Unit Economics

Others revenue becomes profit through a hit-based content and IP pathway. Film and TV production or investment carries upfront development cost, production cost, marketing support, and uncertain revenue windows. Copyright licensing can be better economics when Tencent owns or controls IP and licenses it without bearing a new production budget. Merchandise can be profitable when attached to proven IP and sold through efficient channels, but physical goods introduce inventory, manufacturing, returns, logistics, and channel margin.

The reported numbers show that the blend is not reliably attractive. Gross margin moved from 13.2% in FY2021 to negative 3.9% in FY2022, negative 14.6% in FY2023, positive 8.5% in FY2024, and 3.6% in FY2025 [data_package section 3, Others table, Gross margin row]. That is a low-quality margin series. A line with durable pricing power would not normally swing from negative teens gross margin to positive high single digits and back to low single digits without a mix or impairment explanation. The simplest reading is that Others is a small portfolio of heterogeneous activities, not a coherent scaled operating platform.

Margin can improve in three ways. First, Tencent can shift the mix toward licensing and merchandise tied to proven IP rather than production projects with high upfront cost. Second, it can use the broader Tencent ecosystem to reduce customer acquisition and distribution costs, because Tencent Video, Weixin, Mini Programs, games communities, and ad products can amplify content. Third, generative AI tools may lower content-development or localization cost over time, though that benefit is more visible in VAS and Marketing Services commentary than in Others.

Margin can break in the opposite direction through content underperformance. If a film or TV slate misses, the revenue shortfall arrives against fixed production spend. Merchandise can also be exposed to inventory markdowns if a release underperforms. Copyright licensing is exposed to enforcement and negotiation strength. Because Tencent does not disclose Others operating expenses or operating income, this appendix models contribution margin as a conservative post-gross-profit measure and does not present it as a reported Tencent metric.

4. Competitive Dynamics

Others competes across three overlapping arenas: Chinese film and television production or distribution, long-form video and content licensing, and IP merchandise. In film and TV, Tencent faces state-backed studios, private studios, streaming platforms, and platform-linked film arms such as Alibaba Pictures. The film market can be large but volatile. China Film Administration data cited by CCTV reported 2025 national box-office revenue of RMB51.832B, or about USD7.4B, after a strong domestic-film year led by "Ne Zha 2" [CCTV, China 2025 film industry closes on a high note](https://english.cctv.cn/2026/01/02/ARTIc9x5PSnVLLHtDYgmFqy3260102.shtml). That industry scale is far larger than Tencent's Others revenue, which underlines the point that Others is not a pure market-share proxy for Tencent's content footprint.

The long-form video and content-licensing market is crowded. Tencent Video, iQIYI, Youku, Mango TV, and Bilibili compete for audience attention, content rights, creators, and subscription or ad budgets. iQIYI's 2025 Form 20-F reported RMB27.3B of 2025 revenue, down 7% from 2024, and attributed a membership-services decline to a lighter content slate and competition among online entertainment video providers [iQIYI 2025 Form

20-F](https://www.sec.gov/Archives/edgar/data/1329099/000119312526109289/d38065d20f.htm). That is a useful comparator for Tencent's Others line because it shows the broader premium-video market is not a simple volume-growth story. Competition can force platforms to spend on content while monetization shifts toward short-form video, micro-dramas, games, and social feeds.

Bilibili is relevant as a substitute competitor rather than a like-for-like content studio. Its 2025 public materials describe a video community monetized through advertising, VAS, games, live broadcasting, and creator economics [Bilibili 2025 Annual Report](https://www1.hkexnews.hk/listedco/listconews/sehk/2026/0416/2026041601346.pdf). For Tencent's Others line, Bilibili matters because user-generated and professional-user-generated content can absorb entertainment time that otherwise supports long-form paid video or licensed content economics.

Short-form video and micro-drama platforms are a separate substitution threat. Even when Tencent wins in long-form dramas or films, consumer attention is increasingly fragmented. That weakens pricing power for standalone content windows and increases the importance of IP that can travel across social, games, merchandise, and ads. Tencent has an advantage here because it owns Weixin, QQ, games, music, video, literature, and ad infrastructure. But the Others segment itself captures only a narrow slice of that advantage. Much of the ecosystem value is likely embedded in VAS engagement or Marketing Services monetization rather than Others revenue.

5. Moat At The Segment Level

The segment-level moat is weak to moderate, and mostly derivative of Tencent's broader ecosystem. Others does not appear to have a standalone moat comparable to Tencent's games, social network traffic, ad targeting data, or payments network. The line is too small, too volatile, and too lightly disclosed to support a high-conviction moat claim on its own.

The real protection is IP optionality. Tencent can source, promote, and monetize content across a large ecosystem. A film or drama can be discovered through Tencent Video, discussed through Weixin, marketed through Tencent ads, extended through literature or comics, adapted into games, and monetized through merchandise. That cross-platform capability can reduce launch risk and increase lifetime value for selected IP.

The weakness is that the reported segment has not translated that ecosystem into consistent gross margin. FY2023 gross margin was negative 14.6%, FY2024 was positive 8.5%, and FY2025 was only 3.6% [data_package section 3, Others table, Gross margin row]. If the moat were strong at the segment level, one would expect the licensing and merchandise mix to create steadier positive gross profit. Instead, the data says Others is an optionality bucket with small absolute stakes and volatile accounting outcomes.

The 5- to 10-year durability assessment is therefore modest. Tencent will likely retain the ability to monetize IP better than most smaller studios, but the disclosed Others segment is unlikely to become a core profit pool without a deliberate strategy change. The base case treats it as a residual line growing with nominal media activity and Tencent IP breadth, not as a new compounder.

6. Historical Growth Rates

The table below reproduces the disclosed Others annual revenue and gross-profit history from the data package. No product-level dollar split exists for films, TV, copyrights, merchandise, or other activities, so the finest auditable line is the total Others segment.

Product or sub-segment	FY2021 rev	FY2022 rev	FY2023 rev	FY2024 rev	FY2025 rev	3-yr CAGR FY2022-FY2025	Most recent annual YoY	Gross margin FY2025	Data package cite
Others total: films, TV, copyrights, merchandise, other	RMB7.7B	RMB7.2B	RMB5.4B	RMB7.8B	RMB8.1B	4.0%	4.1%	3.6%	data_package section 3, Others table, Revenue, YoY, Gross margin rows

Arithmetic tie-out: FY2023 revenue of RMB5.4B multiplied by the disclosed FY2024 YoY growth of 43.8% equals RMB7.8B after rounding, which matches the data package. FY2024 revenue of RMB7.8B multiplied by the disclosed FY2025 YoY growth of 4.1% equals RMB8.1B after rounding, also within the required tolerance. The FY2022 to FY2025 CAGR is calculated as RMB8.1B divided by RMB7.2B to the one-third power, less one, or about 4.0%. This is a math descriptor on top of the disclosed data, not a newly sourced historical figure.

Quarterly trend is more volatile than the annual CAGR. Q2 FY2025 revenue declined 7% YoY, Q3 FY2025 grew 83%, Q4 FY2025 grew 10%, and Q1 FY2026 grew 103% [data_package section 5, Most Recent Quarterly Trend, Others row]. That spread is too wide to use a single latest-quarter growth rate as the forecast anchor. The model therefore anchors to TTM revenue of RMB9.2B and assumes normalization from the Q1 FY2026 spike.

7. Management Guidance

There is no Others-specific forward management quote in data_package section 6. The data package's management-commentary table includes Group and AI, VAS, Marketing Services, FinTech and Business Services, and Group and capital rows, but no row tagged Others [data_package section 6, Management Commentary on Forward Growth]. This is a data gap for segment-specific guidance: [DATA GAP: no Others-specific management commentary or forward guide in data_package section 6].

The most relevant group-level framing is that Pony Ma described Tencent's core businesses as continuing to grow engagement, revenue, and profit, and separately described them as resilient and cash generative [data_package section 6, Group and AI rows]. Interpretation: Others should not be treated as a primary AI-funding or capital-allocation engine. It sits behind the core businesses in strategic importance, and the available commentary does not indicate a management push to turn it into a major standalone segment.

Another relevant group-level clue is Tencent's AI focus. Management discussed AI benefits in games production, ad targeting, and cloud capacity, but not Others specifically [data_package section 6, VAS, Marketing Services, and FinTech and Business Services rows]. Interpretation: AI may help content production costs over time, but the cleared quote set does not support a numerical uplift for Others. Any AI benefit in this appendix is therefore embedded only indirectly in the bull-case margin and growth assumptions.

8. Forward Growth Assumptions

The base unit is one disclosed line: Others total. Tencent does not disclose product revenue for films, TV, copyrights, merchandise, or other activities. The model compounds TTM revenue of RMB9.240B for exactly five calendar years from March 31, 2026 to March 31, 2031, consistent with the data package's March 31, 2026 TTM anchor and March 31, 2031 forward horizon [data_package introduction; data_package section 5, TTM segment revenue table].

Base case:

Product	3-yr historical CAGR	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM to TTM+5y	TTM+5y revenue	Justification
Others total	4.0%	Q1 FY2026 +103%	None disclosed	1.0%	RMB9.71B	Annual history is low single digit and quarterly growth is timing-driven. Base assumes residual IP and licensing activity grows slightly above flat but below group core segments.

Bull case:

Product	3-yr historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM to TTM+5y	TTM+5y revenue	Justification
Others total	4.0%	Q1 FY2026 +103%	None disclosed	5.0%	RMB11.79B	Bull assumes Tencent improves IP conversion from films, TV, copyrights, and merchandise, with more licensing-led revenue and fewer loss-making production cycles.

Bear case:

Product	3-yr historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM to TTM+5y	TTM+5y revenue	Justification
Others total	4.0%	Q1 FY2026 +103%	None disclosed	-4.0%	RMB7.53B	Bear assumes Q1 FY2026 was a temporary comparison spike, content slates miss, and short-form video substitutes pressure long-form licensing and merchandise economics.

The year-by-year base path is intentionally smooth after a volatile TTM base: RMB9.24B in TTM, then RMB9.33B, RMB9.43B, RMB9.52B, RMB9.62B, and RMB9.71B. The bull path reaches RMB11.79B, still only a modest absolute increase of RMB2.55B over five years. The bear path reaches RMB7.53B, roughly back toward the FY2021 to FY2025 annual range. Those assumptions avoid over-interpreting Q1 FY2026's 103% YoY growth because the disclosed quarter was only RMB2.3B of revenue [data_package section 5, Most Recent Quarterly Trend, Others row].

9. Forward Operating Margin Assumptions

Tencent does not disclose Others operating income. The following table therefore uses two layers: reported or modeled gross margin, and modeled contribution margin. Modeled contribution margin is an analytical assumption for segment rollup work. It is not Tencent-reported segment operating margin and should not be cited as disclosed operating income.

Product	Current disclosed margin base	Current OI margin	TTM+5y gross margin	TTM+5y modeled contribution margin	Mechanism
Others total bear	FY2025 gross margin 3.6%; Q1 FY2026 gross margin -44.9%	N/D	-3.0%	-8.0%	Failed slate or inventory/copyright write-downs keep gross margin negative and require support spend.
Others total base	FY2025 gross margin 3.6%; Q1 FY2026 gross margin -44.9%	N/D	5.0%	2.0%	Mix normalizes toward licensing and merchandise, but scale remains too small for strong leverage.
Others total bull	FY2025 gross margin 3.6%; Q1 FY2026 gross margin -44.9%	N/D	13.0%	8.0%	Better IP selection and licensing mix recover toward the high end of recent gross-margin history.

The >100 bps changes from FY2025 require explicit mechanisms. In the bear case, the mechanism is negative content economics: production and distribution cost cannot be flexed quickly enough when projects underperform. In the base case, the mechanism is modest mix repair after a negative Q1 FY2026 margin, but no heroic scale leverage. In the bull case, the mechanism is an IP licensing and merchandise mix that resembles the better FY2021 gross-margin outcome but does not assume a permanently high-margin platform business. FY2021 gross margin was 13.2%, so the bull gross margin of 13.0% is not outside disclosed history [data_package section 3, Others table, Gross margin row].

Because no product split is available, there is no product-level weighted-average margin calculation. The segment total is the product total. That is less satisfying than a full product bridge, but it is the only auditable treatment under the disclosure.

10. Segment Rollup

The rollup is bottoms-up from the only disclosed product line: Others total. Revenue equals TTM revenue of RMB9.240B compounded for five years by each case CAGR. Modeled contribution income equals case revenue multiplied by modeled contribution margin. Gross profit is shown separately because gross profit is the reported segment profit layer Tencent actually discloses.

Case	Product revenue	Segment TTM+5y revenue	TTM+5y gross margin	TTM+5y gross profit	Modeled contribution margin	Modeled contribution income	Tie check
Bear	RMB7.53B	RMB7.53B	-3.0%	RMB-0.23B	-8.0%	RMB-0.60B	Product equals segment
Base	RMB9.71B	RMB9.71B	5.0%	RMB0.49B	2.0%	RMB0.19B	Product equals segment
Bull	RMB11.79B	RMB11.79B	13.0%	RMB1.53B	8.0%	RMB0.94B	Product equals segment

The arithmetic ties by construction because there is one modeled line. The important modeling point is materiality. Even in the bull case, modeled contribution income is only RMB0.94B at TTM+5y, less than 0.4% of Tencent's FY2025 operating income of RMB241.6B [data_package section 2, Consolidated Historicals, Operating income row]. Others therefore cannot move the group thesis unless it signals a larger strategic content or IP shift outside the disclosed segment.

Probability weighting uses a conservative distribution: 30% bear, 55% base, and 15% bull. That produces probability-weighted TTM+5y revenue of about RMB9.37B and modeled contribution income of about RMB0.07B. The expected value is near break-even because the segment has recently shown both positive gross profit and material negative quarterly gross margin.

11. Key Risks And Wildcards

Bear risk: content slate underperformance. The largest downside is that film or TV projects miss audience expectations, while production and distribution costs have already been committed. That can turn a small revenue line into negative gross profit, as seen in FY2022, FY2023, Q4 FY2025, and Q1 FY2026 gross-margin evidence [data_package section 3, Others table; data_package section 5, gross-margin table].

Bear risk: attention substitution. Short-form video, micro-dramas, games, and creator platforms can reduce the value of long-form content windows and licensing. This does not destroy Tencent's ecosystem, but it can hurt the residual Others line if monetization migrates to VAS or Marketing Services instead.

Base risk: disclosure opacity. Tencent does not provide product-level revenue, gross profit by activity, or operating income for Others. The model may be directionally right but cannot identify whether films, copyrights, merchandise, or miscellaneous activities are driving the volatility. The right response is smaller model weight, not false precision.

Base/bull wildcard: IP flywheel. Tencent can still create valuable cross-media IP. If content travels from literature or video into games, merchandise, advertising, and social engagement, reported Others revenue may understate strategic value. The company-level benefit may appear in VAS or Marketing Services before it appears in Others.

Bull wildcard: AI-assisted production. Management did not give Others-specific AI guidance, but group commentary around AI tools in games and ad targeting suggests Tencent is investing heavily in creative and commercial AI capabilities [data_package section 6, VAS and Marketing Services rows]. If similar tools reduce production, localization, or marketing costs for film and TV content, gross margin could recover toward the higher end of recent history.

Bear/base risk: regulatory and content approvals. Film, TV, and online audio-visual content in China remain subject to approval, censorship, distribution-window, and platform-governance constraints. These risks can delay revenue, reduce monetization, or force edits that lower commercial appeal.

Summary Table

Case	Segment TTM+5y Revenue	Segment TTM+5y Op Margin	Segment TTM+5y Op Income	Probability
Bear	RMB7.53B	-8.0% modeled contribution margin	RMB-0.60B modeled contribution income	30%
Base	RMB9.71B	2.0% modeled contribution margin	RMB0.19B modeled contribution income	55%
Bull	RMB11.79B	8.0% modeled contribution margin	RMB0.94B modeled contribution income	15%

[DATA GAP: no Others-specific management commentary or forward guide in data_package section 6].

[DATA GAP: Tencent discloses Others revenue and gross profit, but not Others product-level revenue, product-level gross profit, segment operating expense, segment operating income, or segment capital expenditure].

Appendix S - Synthesis (Combined Earnings Model)

Tencent - Synthesis (Combined Earnings Model)

Production ER2 / Gideon appendix for Tencent Holdings Limited, ticker 0700.HK. All model financials are in RMB billions unless a row explicitly says RMB per share, HKD per share, shares, or percent. This appendix uses the cleared quant foundation, the cleared data package, the four reviewed segment appendices, the management appendix, and the moat appendix already in the Tencent ER2 folder. It does not refetch price, financial statements, transcripts, or foreign exchange data.

The main caveat is structural. Tencent discloses reportable segment revenue and segment gross profit or gross margin. It does not disclose segment operating income. Therefore, every segment "operating income" number below is not reported segment OI. It is the modeled operating contribution after estimated allocated operating expenses from the reviewed segment appendices. The synthesis bridges those modeled contributions to Tencent's consolidated operating profit through an explicit unallocated corporate and residual expense line. The bridge is required because otherwise the appendix would imply a precision that the company does not disclose.

The valuation test uses the orchestrator's live price anchor: HKD425.00 per 0700.HK ordinary share, saved from the FMP quote at 2026-05-28 16:08:30 Singapore time. Tencent reports in RMB and the share trades in HKD. The instructed FX bridge is HKD/CNY = 0.86717, meaning HKD1.00 equals RMB0.86717. That converts the current price to approximately RMB368.55 per share. The required EPS for a P/E of 15 is therefore RMB24.57 per share, or HKD28.33 per share. All EPS comparisons below use RMB EPS against RMB price unless the row explicitly shows the HKD equivalent.

1. Anchors

- Today: 2026-05-28.
- Fiscal year end: December 31.
- TTM anchor end date: 2026-03-31.
- TTM quarters: Q2 FY2025 plus Q3 FY2025 plus Q4 FY2025 plus Q1 FY2026.
- Latest completed fiscal year label for historical tie-out only: FY2025.
- Horizon date: 2031-03-31.
- Compounding span: exactly 5.0 calendar years from TTM end.
- Current price: HKD425.00 per 0700.HK share, approximately RMB368.55 per share at HKD/CNY = 0.86717.
- Required EPS for P/E 15: RMB24.57 per share, equivalent to HKD28.33 per share.
- TTM diluted share count: approximately 9,273.6M shares, derived from TTM profit attributable to equity holders of RMB235.114B divided by summed official quarterly diluted EPS of RMB25.353. This is an analytical TTM share base because quarterly diluted share counts are not all presented as one TTM weighted-average line.
- Source anchors: `quant_foundation.md` P0, P3, P4, and P6; `data_package.md` introduction and Sections 2, 5, 7, and 8.

2. Segment-level forward assumptions

The table reproduces the reviewed segment appendices. Revenue and contribution figures are RMB billions. Margins are modeled contribution margins after estimated allocated opex, not Tencent-reported segment operating margins. The TTM revenue base is the March 31, 2026 TTM base, not FY2025.

Segment	TTM revenue RMB B	Bear TTM+5y rev	Base TTM+5y rev	Bull TTM+5y rev	Bear OI margin	Base OI margin	Bull OI margin	Source
VAS	373.3	412.4	492.8	547.3	38.3%	43.2%	45.2%	`appendix_B_vas.md` Sections 8 and 10

Segment	TTM revenue RMB B	Bear TTM+5y rev	Base TTM+5y rev	Bull TTM+5y rev	Bear OI margin	Base OI margin	Bull OI margin	Source
Marketing Services	151.3	184.8	252.6	311.4	30.2%	37.1%	42.5%	`appendix_B_marketing_services.md` Sections 8 and 10
FinTech and Business Services	234.4	275.0	329.5	365.8	23.9%	29.9%	32.6%	`appendix_B_fintech_business_services.md` Sections 8 and 10
Others	9.2	7.5	9.7	11.8	-8.0%	2.0%	8.0%	`appendix_B_others.md` Sections 8 and 10

VAS is the largest profit pool. Its base case grows from RMB373.3B of TTM revenue to RMB492.8B at the horizon, a 5.7% five-year CAGR. The reviewed VAS appendix deliberately slows Domestic Games, International Games, and Social Networks from the strong FY2025 recovery because the TTM base already includes a large games year and because the March 2026 quarter had revenue-recognition timing noise around Spring Festival. The base contribution margin rises to 43.2%, supported by evergreen games, international scale, Mini Games, AI production tooling, and operating leverage, but still leaves cost for development, publishing, licensing, content, marketing, creators, and allocated product/R&D.

Marketing Services is the fastest base-case revenue compounder among the large segments. It grows from RMB151.3B to RMB252.6B, a 10.8% CAGR, because Video Accounts, Weixin Search, Mini Programs, Mini Shops, closed-loop ads, and AIM+ remain under-monetized relative to Tencent's user and merchant surface. The base margin of 37.1% is not reported. It reflects the segment appendix's bridge from a roughly 57.3% current TTM gross margin to contribution after ad sales, product and engineering, AI models, measurement, ad safety, infrastructure operations, and allocated G&A.

FinTech and Business Services grows from RMB234.4B to RMB329.5B in the base case. The segment appendix models an 80% FinTech services pool and a 20% Business Services/cloud pool at the TTM base because Tencent does not disclose the split. This is a modeling bridge, not a company disclosure. The base margin reaches 29.9%, with FinTech services benefiting from scale and Business Services/cloud improving through better utilization, software/API mix, merchant technology fees, and disciplined external AI/cloud monetization.

Others remains immaterial. The base case reaches only RMB9.7B of revenue and RMB0.2B of modeled contribution. It is included for completeness and for the 11 checks, but it does not drive the P/E 15 result.

3. Combined revenue build

There is no forward corporate revenue elimination in the segment appendices. The data package's TTM segment revenue rows sum to consolidated revenue, and the four segment appendices use those same TTM bases. Therefore the horizon model sums the four reportable segments directly. The implied CAGR is calculated over exactly five calendar years from consolidated TTM revenue of RMB768.2B.

Line	Bear	Base	Bull
Sum of segment TTM+5y revenue	879.7	1,084.6	1,236.3
Corporate eliminations	0.0	0.0	0.0
Combined TTM+5y revenue	879.7	1,084.6	1,236.3
Implied TTM to TTM+5y CAGR	2.8%	7.1%	10.0%

The base case is a meaningful but not heroic revenue forecast. It requires Marketing Services to keep taking share and monetizing Weixin surfaces, FinTech and Business Services to compound at a high-single-digit blended rate, and VAS to avoid a post-FY2025 games fade. It does not require Others to matter. The consolidated base CAGR of 7.1% sits below Marketing Services and FinTech/Business Services recent strongest indicators, but above Tencent's mature VAS run-rate. This is the right shape for a large internet platform with a strong moat but some macro, regulation, AI-capex, and product-disclosure uncertainty.

4. Combined operating income build

The segment appendices produce modeled operating contribution after estimated allocated opex. To avoid treating modeled segment contribution as reported segment OI, I reconcile to the consolidated TTM operating profit anchor. Current modeled contribution is estimated as VAS at 41.0% of TTM revenue, Marketing Services at 34.5%, FinTech and Business Services at

the segment appendix's RMB63.3B current contribution estimate, and Others at a conservative negative RMB0.7B current contribution estimate. That gives current modeled contribution of RMB267.9B. Reported consolidated TTM operating profit is RMB251.4B. The residual is RMB16.5B of unallocated corporate, group-level AI product cost, holding-company, investment-operation, central G&A, and other non-segment expense.

The forward model grows that RMB16.5B residual at 4.0% per year for five years, producing RMB20.1B of horizon unallocated expense. The 4.0% rate is lower than base-case revenue growth because much central infrastructure and management cost should scale, but it is not zero because AI products, governance, platform safety, public-company cost, and shared engineering capacity still grow.

Line	Bear	Base	Bull
Sum of segment TTM+5y modeled contribution	278.9	405.2	499.9
Unallocated corporate expense	-20.1	-20.1	-20.1
Combined TTM+5y operating income	258.8	385.1	479.9
Implied operating margin	29.4%	35.5%	38.8%

The bear case has revenue growth but operating margin below TTM because VAS slows, Marketing Services margin compresses, Business Services/cloud does not monetize AI infrastructure well, and unallocated expense continues to grow. The base case expands operating margin because VAS, Marketing Services, and FinTech/Business Services all get some mix and scale benefit. The bull case is not merely a revenue bull case; it requires higher ad monetization, stronger game/content productivity, better cloud utilization, and disciplined AI-capex conversion.

5. Net income and EPS build

The net income bridge is intentionally conservative relative to Tencent's investment-asset optionality. Tencent has a large net cash and investment position, but investment gains can be volatile and are not the core durability thesis. The model uses modest net interest income and other income assumptions. Other income includes associates, investment and other below-operating-profit lines. Non-controlling interests are shown separately so EPS uses profit attributable to Tencent equity holders.

Line	Bear	Base	Bull
Combined TTM+5y operating income	258.8	385.1	479.9
Net interest income	6.0	8.0	10.0
Other income and associates	8.0	18.0	28.0
Pre-tax income	272.8	411.1	517.9
Tax rate assumed	17.0%	17.0%	17.0%
Tax expense	-46.4	-69.9	-88.0
Profit after tax	226.5	341.2	429.8
Less non-controlling interests	-5.0	-6.0	-7.0
Net income attributable	221.5	335.2	422.8
Diluted share count at TTM+5y, M	9,076.8	9,076.8	9,076.8
EPS at TTM+5y, RMB	24.40	36.93	46.59

The tax rate uses the data package's FY2025 reported tax-rate reference of about 17.1%, rounded to 17.0% for the model. That is reasonable because Tencent's global games, investment income, PRC incentives, R&D deductions, and offshore structure can move the effective rate, but a much lower rate would overstate certainty. The net income bridge also does not capitalize a large recurring investment-gain stream. If Tencent's investment portfolio contributes more, the P/E cushion improves; if associates and investment marks are weaker, the downside case is more exposed.

6. Share count path

The starting TTM diluted share count is 9,273.6M. The path assumes annual buybacks of RMB60.0B for five years, lower than FY2024 and FY2025 peak cash deployment but still material. This respects the management appendix's point that buybacks became a major lever, while also acknowledging management's warning that 2026 buybacks may be lower as AI investment

rises. The assumed average repurchase price starts at HKD500 in Year 1 and rises 5.0% per year, converted to RMB at HKD/CNY = 0.86717 for the retirement math.

SBC issuance is approximated from FY2025 share-based compensation expense of RMB31.859B divided by the current RMB share price of RMB368.55, or 86.4M shares per year. This is a rough annual SBC-equivalent issuance rate, as required by the framework. Actual dilution can differ because Tencent uses share award trusts, purchases and withholds shares for award schemes, and grants awards that vest over time. The purpose is not to forecast legal share issuance perfectly; it is to prevent an unsupported flat-share-count shortcut.

Year	Starting share count, M	Buyback RMB B	Avg price HKD	Shares retired, M	SBC issuance, M	Ending share count, M
Year 1	9,273.6	60.0	500.0	138.4	86.4	9,221.7
Year 2	9,221.7	60.0	525.0	131.8	86.4	9,176.3
Year 3	9,176.3	60.0	551.3	125.5	86.4	9,137.3
Year 4	9,137.3	60.0	578.8	119.5	86.4	9,104.2
Year 5	9,104.2	60.0	607.8	113.8	86.4	9,076.8

The path retires 629.1M shares and adds back 432.2M SBC-equivalent shares, for a net reduction of 196.8M over five years. The ending diluted share count is therefore 9,076.8M, down about 2.1% from the TTM analytical base. This is deliberately less aggressive than simply extending FY2025's 153.4M actual repurchased shares per year without SBC. It also avoids penalizing Tencent with no buybacks despite a net cash balance, large FCF base, and explicit historical buyback program.

7. P/E 15 test

The confident case that matters is the base case. A bull case cannot rescue a thesis if base-case EPS times 15 is below today's price. The table uses RMB EPS and RMB price for the primary pass/fail test. HKD equivalents are included only for intuition.

Case	EPS at TTM+5y, RMB	EPS x 15, RMB	Current price, RMB	Cushion	Pass?
Bear	24.40	365.99	368.55	-0.7%	FAIL
Base	36.93	554.02	368.55	50.3%	PASS
Bull	46.59	698.79	368.55	89.6%	PASS

Case	EPS at TTM+5y, HKD equivalent	EPS x 15, HKD	Current price, HKD	Cushion	Pass?
Bear	28.14	422.05	425.00	-0.7%	FAIL
Base	42.59	638.88	425.00	50.3%	PASS
Bull	53.72	805.82	425.00	89.6%	PASS

The required EPS at today's price is RMB24.57. The base case produces RMB36.93, a cushion of RMB12.36 per share, or 50.3% on the P/E 15 value test. This is a clean quantitative PASS on price under the base case. The bear case fails by less than 1%, which is informative: the current quote is not protected if Tencent only delivers low-single-digit revenue growth and loses operating leverage. The valuation conclusion is therefore not "anything works." It is that a reasonable base case clears the Gideon P/E 15 hurdle with meaningful cushion, while a weak execution path can still leave the stock approximately fully valued.

8. Reflexivity check

The forward model compounds from the reported TTM base. The first reflexivity check is revenue. The data package and quant foundation both show TTM segment revenue of RMB373.3B for VAS, RMB151.3B for Marketing Services, RMB234.4B for FinTech and Business Services, and RMB9.2B for Others. The sum is RMB768.2B, matching consolidated TTM revenue of RMB768.2B within rounding.

The second reflexivity check is operating profit. Tencent does not disclose segment OI, so there is no direct reported segment OI sum to compare with consolidated operating profit. The model therefore uses the explicit residual bridge in Section 4. Current modeled segment contribution is RMB267.9B. Less RMB16.5B of unallocated corporate and residual expense equals RMB251.4B, matching reported consolidated TTM operating profit of RMB251.4B. This is a model calibration, not a disclosure claim. It is acceptable only because the unallocated line is shown and carried forward transparently.

For latest completed FY2025, segment revenue also ties. FY2025 segment revenue was VAS RMB369.3B, Marketing Services RMB145.0B, FinTech and Business Services RMB229.4B, and Others RMB8.1B, summing to RMB751.8B and matching consolidated FY2025 revenue. FY2025 consolidated operating profit was RMB241.6B. Because Tencent does not disclose FY2025 segment OI, the synthesis cannot perform a reported segment-OI reconstruction for FY2025. The check is therefore passed on reported consolidated and segment revenue, and passed on operating profit only through the explicit contribution-plus-residual model bridge.

9. In-progress FY reconciliation

Stage 0 did not treat FY2026 as effectively complete. The forecast anchor is the most recent four quarters ended March 31, 2026. Therefore a full in-progress FY reconciliation is not required. Still, Q1 FY2026 is useful as a recency guardrail.

Q1 FY2026 revenue was RMB196.5B, up 9% year over year, and Q1 FY2026 operating profit was RMB67.4B, up 17% year over year. Annualizing Q1 mechanically would imply revenue of about RMB785.8B and operating profit of about RMB269.5B. That revenue run-rate is 2.3% above the TTM revenue base of RMB768.2B, while the operating-profit run-rate is 7.2% above TTM operating profit of RMB251.4B. Both are within a 10% reasonableness band. The model does not use the Q1 annualized figure as the base because Tencent's games revenue recognition was affected by later Spring Festival timing and because quarterly advertising, games, cloud, and content releases are seasonal. The recency check is a guardrail, not a substitute for the TTM anchor.

The base-case first-forward-year revenue implied by the segment models is approximately RMB822B, or about 7% above TTM. That is within 10% of the most recent four-quarter annualized run-rate and is consistent with Q1 FY2026 revenue growth after allowing for Spring Festival timing, continued Marketing Services momentum, and FinTech/Business Services growth. The model therefore does not start from an inflated run-rate.

10. Sensitivity

The sensitivity table holds the rest of the base case constant and varies one factor at a time. EPS is RMB per share at the TTM+5y horizon. The base-case EPS is RMB36.93. VAS revenue CAGR sensitivity uses the VAS segment base case of 5.7% and shifts it by plus or minus 200 bps, applying the base VAS contribution margin to the revenue delta. Marketing Services margin sensitivity shifts the base horizon contribution margin by plus or minus 200 bps on base Marketing Services revenue. Share count and tax rate sensitivities use the consolidated base model.

Variable shocked	Downside setting	EPS downside	Upside setting	EPS upside	Base EPS	Interpretation
VAS revenue CAGR	3.7%	35.15	7.7%	38.84	36.93	VAS growth is a major driver because it is large and high-margin
Marketing Services OI margin	35.1%	36.47	39.1%	37.40	36.93	Margin matters, but the absolute EPS swing is smaller than VAS growth
Share count	9,530.6M	35.18	8,622.9M	38.88	36.93	Buyback discipline is a major per-share driver
Tax rate	20.0%	35.58	14.0%	38.29	36.93	Tax matters, but less than VAS growth and share count

The most important variables are VAS growth and share count. VAS matters because it combines Tencent's largest revenue base with the highest modeled contribution dollars. A 200 bps swing in VAS CAGR changes horizon EPS by about RMB1.8 to RMB1.9 per share. Share count matters because buybacks are part of the per-share thesis; a plus or minus 5% ending share count changes EPS by roughly RMB1.8 to RMB1.9. Marketing Services margin is strategically important, but a 200 bps horizon margin swing on that segment changes EPS by less than RMB0.5 in this one-variable table. Tax rate is meaningful but not thesis-defining unless the effective rate structurally resets above the low-20s.

The kill criteria therefore should watch VAS gross receipts, reported revenue conversion, and margin quality; group buyback pace net of SBC; and whether AI capex produces product proof without forcing management to stop retiring shares. The trigger criteria should watch Video Accounts and AIM+ monetization, Business Services gross margin, Tencent Cloud AI monetization, and continued consolidated operating leverage. The management gate is YELLOW, so capital allocation proof matters nearly as much as segment revenue proof.

11. Combined earnings summary table

Probability weights are 25% bear, 55% base, and 20% bull. This is not a uniform distribution. It reflects a moat PASS and a 2046 test PASS, offset by a management gate YELLOW, PRC/VIE and governance risks, AI capex uncertainty, and product-level disclosure gaps in Marketing Services and FinTech/Business Services. The base case gets the highest weight because the recent trend is constructive across the main segments, but the bull case is not allowed to dominate because Tencent still has meaningful regulatory, macro, cloud/AI, and disclosure risks.

Case	Revenue RMB B	OI RMB B	OI margin	NI RMB B	EPS RMB	Probability	EPS x 15 RMB	Vs. RMB368.55
Bear	879.7	258.8	29.4%	221.5	24.40	25%	365.99	-0.7%
Base	1,084.6	385.1	35.5%	335.2	36.93	55%	554.02	50.3%
Bull	1,236.3	479.9	38.8%	422.8	46.59	20%	698.79	89.6%
Probability-weighted	1,063.7	372.5	35.0%	324.3	35.73	100%	535.96	45.4%

The probability-weighted EPS of RMB35.73 also clears the P/E 15 bar. Because the base case clears by 50.3%, the final P/E 15 gate is PASS. The cushion is large enough to absorb moderate errors in tax, share count, or one segment margin, but it is not large enough to ignore a broad Tencent slowdown. The bear case failing by 0.7% means the model is sensitive to the difference between "resilient compounder" and "mature platform with rising AI cost." The combined synthesis therefore supports a BUY-capable quantitative gate, subject to the broader ER2 verdict using management, moat, governance, and disqualifier gates.

Tie-out checks

- Reported-financial tie-out: PASS with disclosure caveat. TTM segment revenue sums to RMB768.2B and matches consolidated TTM revenue. FY2025 segment revenue sums to RMB751.8B and matches consolidated FY2025 revenue. TTM modeled contribution of RMB267.9B less explicit unallocated expense of RMB16.5B matches consolidated TTM operating profit of RMB251.4B. Tencent does not disclose segment OI, so FY2025 OI cannot be reconstructed from reported segment OI; the bridge is model contribution plus residual, not reported segment OI.

- NI divided by shares equals EPS: PASS. Bear RMB221.5B divided by 9,076.8M shares equals RMB24.40. Base RMB335.2B divided by 9,076.8M equals RMB36.93. Bull RMB422.8B divided by 9,076.8M equals RMB46.59. Differences are rounding only.

- Segment sum tie-out at horizon: PASS. Combined horizon revenue equals the sum of the four segment appendices in each case: RMB879.7B bear, RMB1,084.6B base, and RMB1,236.3B bull. Corporate eliminations are zero. The ratio to segment sum is 100.0% in each case.

- Product-to-segment rollup: PASS. The VAS appendix ties Domestic Games, International Games, and Social Networks to VAS totals. The Marketing Services appendix ties modeled Video Accounts, Weixin Search, Mini Programs/Mini Shops, and legacy ads to segment totals. The FinTech and Business Services appendix ties modeled FinTech services and Business Services/cloud to segment totals. The Others appendix has one product line, so product equals segment by construction.

- Weighted margin check: PASS. VAS, Marketing Services, and FinTech and Business Services appendices each calculate blended modeled contribution margin from product-level contribution and revenue. Others has one line, so weighted margin is identical to the segment margin. The synthesis reproduces the appendix segment margins and contribution dollars.

- Share count path: PASS. Starting diluted share count of 9,273.6M less total modeled buyback retirements of 629.1M plus total SBC-equivalent issuance of 432.2M equals ending share count of 9,076.8M. The path uses exactly five years and does not assume flat share count.

- Growth plausibility: PASS. Base segment CAGRs are VAS 5.7%, Marketing Services 10.8%, FinTech and Business Services 7.1%, and Others 1.0%. VAS is below the FY2025 recovery rate. Marketing Services is below its FY2022-FY2025 post-trough CAGR and supported by AIM+, Video Accounts, Search, and low ad-load runway.

FinTech and Business Services is below or near recent segment history, despite Business Services growing faster. Others is below historical volatility.

- Historical arithmetic: PASS. Segment appendices compute TTM revenue compounded over exactly five years to horizon revenue. Spot checks tie within rounding: VAS RMB373.3B to RMB492.8B at 5.7%; Marketing Services RMB151.3B to RMB252.6B at 10.8%; FinTech and Business Services RMB234.4B to RMB329.5B at 7.1%; Others RMB9.24B to RMB9.71B at 1.0%.

- Recency anchor: PASS. The base first-forward-year run-rate is approximately RMB822B, about 7% above the most recent four-quarter TTM revenue of RMB768.2B and within the 10% tolerance. Q1 FY2026 annualized revenue of RMB785.8B is also within 10% of the TTM base. The model does not begin from an inflated FY2026 run-rate.

- Currency and P/E arithmetic: PASS. The HKD425.00 share price is converted to RMB368.55 using HKD/CNY = 0.86717. Required EPS for P/E 15 is RMB24.57. Base EPS of RMB36.93 times 15 equals RMB554.02, giving a 50.3% cushion. No HKD price is compared with RMB EPS.

- Probability-weighted and table arithmetic: PASS. Probability weights sum to 100%. Probability-weighted EPS is RMB35.73, and EPS times 15 is RMB535.96. Summary-table revenue, OI, NI, EPS, valuation, and cushion rows tie to the case tables within rounding. Markdown table structure was checked for the required sections.

Source notes

Core sources are `quant_foundation.md`, `data_package.md`, `appendix_B_vas.md`, `appendix_B_marketing_services.md`, `appendix_B_fintech_business_services.md`, `appendix_B_others.md`, `appendix_management.md`, and `appendix_moat.md` in `C:\Users\Admin\OneDrive\GPT\ER 2.0\Tencent`. The price anchor is the orchestrator-provided live FMP quote saved at `raw\fmp_0700.HK_quote.json`. The FX bridge is the orchestrator-provided HKD/CNY approximation. The FY2025 SBC expense, share-award trust purchases, and share-allotment context are from the official FY2025 annual report text already present in `raw\qfr_live_official_tencent_2025_annual_report.txt`.

Appendix CS - Compounder Score

Tencent - Compounder Score

Production ER2 / Gideon compounder-score appendix for Tencent Holdings Limited, ticker 0700.HK. Analysis date is 2026-05-28. Reporting currency and model currency are RMB unless otherwise stated. The current price anchor is HKD425.00 per share, converted at HKD/CNY 0.86717 to approximately RMB368.55 per share. TTM_END is 2026-03-31. HORIZON_DATE is 2031-03-31.

1. Executive Verdict

Tencent is a very good business, but this diagnostic rubric is intentionally harder than the ER2 P/E 15 test. The evidence supports a strong business-quality score because Tencent has multiple cash-generative platforms, improving segment gross margins, a large net cash position, and a credible five-year growth runway in games, Weixin-centered ads, payments, merchant services, and selected cloud/AI services. The evidence does not support calling it a 20% annualized return underwrite at HKD425 without either a much higher exit multiple, materially faster earnings growth than the base synthesis case, or a much lower entry price.

The compounder score is **71/100**. The business quality score is **66/80**. The valuation and 20% return underwriting score is **5/20**. The score-implied classification is **Buy only at lower price**. This is a diagnostic classification only; it does not mechanically override the ER2 verdict. It says the quality case is good enough to want the asset, while the specific 20% shareholder-return hurdle is not met from the current price.

The score is capped for three reasons. First, management quality is operationally strong but the management appendix is YELLOW because of the PRC VIE/structure-contract framework, founder concentration across chair/CEO/nomination/OPCO ownership, long-tenured independent directors, and share awards without disclosed performance targets. Second, Tencent's product-level disclosure is thin outside VAS sub-lines: no separate RMB revenue for Video Accounts ads, Weixin Search ads, Mini Programs ads, payment, wealth management, consumer lending, Tencent Cloud, GPU services, API tokens, WorkBuddy, CodeBuddy, or Yuanbao. Third, the 20% case requires too much. The base synthesis case produces RMB36.93 of FY+5 EPS and passes the P/E 15 test, but RMB36.93 times 15 plus estimated dividends is only about a 9.6% annualized shareholder return from RMB368.55.

The dream investment under this rubric is a high-ROIIC business with a long runway, honest accounting, disciplined capital allocation, and a price that leaves room for 20% annualized returns. Tencent meets much of the business-description test. It does not meet the current-price return test.

2. Data Source Map

Evidence area	Primary source used	Treatment in this appendix
Price, market cap, listing	`quant_foundation.md`, raw FMP quote `fmp_0700.HK_quote.json`	HKD425.00 converted to RMB368.55; market cap converted from HKD to RMB.
Income statement	`quant_foundation.md`, `data_package.md`, official Tencent releases	Official Tencent statements control TTM and FY2025.
Balance sheet and liquidity	`quant_foundation.md`, `data_package.md`, official FY2025 and 1Q2026 releases	Q1 FY2026 net cash of RMB146.9B used for current EV bridge.
Cash flow and FCF	`quant_foundation.md`, `data_package.md`, official Tencent releases	Official TTM FCF of RMB192.2B controls valuation metrics.
Segment revenue and gross profit	`quant_foundation.md`, `data_package.md`, segment appendices	Reported segment revenue and gross profit only; no reported segment OI.
VAS model	`appendix_B_vas.md`	Uses disclosed domestic games, international games, and social networks revenue.
Marketing Services model	`appendix_B_marketing_services.md`	Uses segment revenue plus disclosed growth indicators for Video Accounts, Search, Mini Programs, and AIM+.
FinTech and Business Services model	`appendix_B_fintech_business_services.md`	Uses segment revenue, gross margin, and management commentary; sub-split is modeled, not disclosed.
Others model	`appendix_B_others.md`	Treated as immaterial residual with weak standalone economics.

Evidence area	Primary source used	Treatment in this appendix
Management and governance	`appendix_management.md`	Management gate is YELLOW and caps governance/capital-allocation scoring.
Moat and 2046 durability	`appendix_moat.md`	Moat gate PASS and 2046 test PASS, with AI/interface and cloud commoditization watch items.
Forward model and P/E 15	`appendix_synthesis.md`	P/E 15 gate PASS; base EPS RMB36.93 at 2031-03-31.

The source confidence is medium. The official historical anchors are high quality, but the compounder score depends on adjusted ROIC, ROIIC, and product-level reinvestment economics where Tencent does not provide enough direct disclosure to justify a high-confidence precision score.

3. Key Financial and Quality Metrics

The current market capitalization is approximately RMB3,330.5B, calculated from HKD3,840.7B of FMP market cap multiplied by HKD/CNY 0.86717. Using Q1 FY2026 net cash of RMB146.9B gives approximate current enterprise value of RMB3,183.7B. TTM operating profit is RMB251.4B. Applying the synthesis tax rate of 17.0% gives approximate TTM NOPAT of RMB208.6B. Current EV/NOPAT is therefore about 15.3x. Official TTM FCF is RMB192.2B, giving an FCF yield of about 5.8% on current market cap and current market cap / FCF of about 17.3x. The current P/E on TTM diluted EPS of RMB25.353 is about 14.5x.

Metric	Evidence	Interpretation
TTM revenue	RMB768.2B	Official quarter-sum from Q2 FY2025 through Q1 FY2026.
TTM gross profit	RMB433.4B	Gross margin near 56.4%, supported by segment mix and scale.
TTM operating profit	RMB251.4B	Operating margin about 32.7%.
Approximate TTM NOPAT	RMB208.6B	Operating profit times 83.0% after-tax factor.
Official TTM FCF	RMB192.2B	FCF conversion is strong.
Q1 FY2026 net cash	RMB146.9B	Balance sheet risk is low.
TTM diluted EPS	RMB25.353	Current P/E about 14.5x at RMB368.55.
Current EV / NOPAT	15.3x	Not obviously expensive, but not enough for 20% returns.
FCF yield	5.8%	Helpful, not sufficient for 20% hurdle.
FY2025 SBC / revenue	4.2%	Real economic cost; annual report SBC is RMB31.859B.
FY2025 SBC / official FCF	17.4%	Material enough to cap accounting and dilution score.

Historical growth is good but not smooth. Revenue grew from RMB560.1B in FY2021 to RMB751.8B in FY2025, a four-year CAGR of about 7.6%. FCF grew from RMB113.0B to roughly RMB190.2B on the FMP cash-flow definition, a four-year CAGR of about 13.9%; official FY2025 FCF was RMB182.6B, still very strong. Diluted shares fell from about 9,696M in FY2021 to 9,244M in FY2025, about a 1.2% annual decline. That supports per-share compounding, though not enough to ignore SBC.

The ROIC evidence is mixed. FMP reported ROIC was 20.3% in FY2021, 8.6% in FY2022, 9.1% in FY2023, 11.6% in FY2024, and 11.9% in FY2025. The data package flags official FY2025 ROCE at 14.8% and notes that a large investment portfolio depresses conventional invested-capital math. I therefore do not give Tencent a simple high-ROIC score based on reported data. The operating business almost certainly earns better returns than the consolidated reported ROIC line suggests, but the evidence does not support a clean 30% adjusted ROIC claim.

4. Rubric Scorecard

Category	Score	Max	Rationale
Incremental returns on capital	19	25	Strong cash conversion and operating evidence, but ROIIC is estimated and reported ROIC is not cleanly high.

Category	Score	Max	Rationale
Reinvestment runway	17	20	Large runway in ads, games, payments, merchant tech, AI tools, and cloud, capped for disclosure gaps and regulation.
Durability of moat	13	15	Moat appendix PASS and 2046 PASS; AI/interface shift and cloud commoditization remain serious watch items.
Accounting and financial quality	8	10	Cash flow and balance sheet are strong; SBC, VIE complexity, product-level opacity, and related-party scale cap the score.
Capital allocation discipline	9	10	Buybacks, R&D, cloud repair, and net cash are positive; M&A opacity and performance-target disclosure keep it below perfect.
Price and 20% underwriting	5	20	P/E 15 passes, but the current price does not support 20% annualized returns without major upside.
Total	71	100	Strong business, insufficient current-price 20% return underwrite.

Sub-score detail:

Subcategory	Score	Max	Note
1A. Normalized ROIC is high	3	5	Reported ROIC median is not high; adjusted operating returns are likely higher but not directly disclosed.
1B. ROIIC is high	5	8	Post-reset organic ROIIC appears attractive, but acquisition-inclusive and AI-capex returns are not proven.
1C. ROIIC is not deteriorating sharply	3	3	Margins and FCF have recovered from FY2022.
1D. Unit economics support reported returns	3	3	VAS, Marketing Services, and FBS gross-margin evidence supports the quality claim.
1E. Cash conversion is real	3	3	Official TTM FCF of RMB192.2B is close to approximate NOPAT.
1F. ROIC is not an accounting artifact	2	3	Large investments and VIE complexity make the calculation noisy.
2A. Large remaining market opportunity	4	5	Strong surfaces remain, but China macro/regulation cap monetization.
2B. Proven ability to reinvest at scale	5	5	Tencent has repeatedly reinvested into games, ads, fintech, cloud, and AI.
2C. Organic growth opportunity	3	4	Organic growth exists, but several drivers lack dollar disclosure.
2D. Repeatable expansion playbook	3	3	Weixin traffic, social graph, games, payments, and ads reinforce each other.
2E. Market structure supports long growth	1	2	Strong incumbency, but regulation and competition limit take-rate freedom.
2F. Growth does not require ROIC collapse	1	1	Base case assumes operating leverage rather than growth at any cost.
3A. Clear source of advantage	4	4	Weixin identity, games IP/live ops, payments, ads, and scale-funded AI.
3B. Pricing power	2	3	Clearer in games/ads than in fintech and cloud.
3C. Competitive evidence	3	3	Segment margins and growth show resilience.
3D. Customer stickiness	2	2	Weixin, payments, games, merchants, and social graph are sticky.

Subcategory	Score	Max	Note
3E. Resilience through stress	2	2	FY2022 reset was followed by margin and FCF recovery.
3F. Low disruption risk	0	1	AI/interface shift and cloud commoditization are real risks.
4A. Clean revenue and earnings quality	2	2	No restatement or material weakness identified.
4B. Cash flow supports earnings	2	2	CFO and FCF support reported profit.
4C. Conservative treatment of SBC and dilution	1	2	Buybacks reduce shares, but SBC is material.
4D. Balance sheet strength	2	2	Net cash and high FCF.
4E. Transparent disclosures	0.5	1	Segment gross profit only; no segment OI or many product dollars.
4F. No governance/accounting red flags	0.5	1	No fraud flag, but VIE/founder/related-party complexity caps the score.
5A. Reinvestment priority is rational	2	2	Core cash flow funds AI and product reinvestment.
5B. Acquisition discipline	1.5	2	History is mostly coherent, but returns on acquisitions/investments are opaque.
5C. Buyback discipline	2	2	Major buybacks in compressed valuation years reduced share count.
5D. Incentives align with value creation	1	2	Founder ownership helps; performance-target disclosure is weak.
5E. Owner mentality	1	1	Ma's ownership and long tenure support this.
5F. Evidence from past decisions	1	1	Cloud repair, margin recovery, and buybacks support full credit here.

For category math, Capital Allocation is capped at 9/10 because the management gate is YELLOW. The table leaves the qualitative evidence visible, but the score does not give full credit.

5. ROIIC and Reinvestment Analysis

The evidence supports high-quality incremental economics, but not a clean "35%+ ROIIC proven" conclusion. Tencent's reported ROIC and invested capital are distorted by a large portfolio of investments, associates, intangibles, and cash/debt/investment-asset movements. Excluding those assets would likely raise the operating ROIC of VAS, Marketing Services, and parts of FinTech, but the ER2 packet does not provide enough reported segment invested capital to calculate that directly.

Using the data package's annual operating income and tax-burden references, approximate NOPAT was RMB246.2B in FY2021, RMB99.2B in FY2022, RMB114.3B in FY2023, RMB167.2B in FY2024, and RMB195.9B in FY2025. FY2021 is an unusually high operating-margin year and FY2022 is the reset year. A naive FY2021-to-FY2025 ROIIC would punish Tencent for starting from a peak. A post-reset FY2022-to-FY2025 view is more informative: approximate NOPAT rose by RMB96.7B. Cumulative capex, R&D, and acquisitions from FY2023 to FY2025 were roughly RMB505B using FMP annual cash-flow and income-statement lines. That acquisition-inclusive post-reset ROIIC is around 19%. Excluding acquisitions, the comparable figure is around 23%. This is attractive, but it is not enough to score the maximum tier.

The qualitative ROIIC evidence is stronger than the consolidated arithmetic. VAS gross margin improved from 52.5% in FY2021 to 60.2% in FY2025 and 62.6% in Q1 FY2026. Marketing Services gross margin improved from 45.8% to 57.5%. FinTech and Business Services gross margin improved from 29.8% to 50.8% and 52.1% in Q1 FY2026. Those are not management slogans; they are reported gross-profit outcomes. They show that Tencent has reinvested in scale, product mix, AI ad systems, payment/merchant infrastructure, and cloud discipline without destroying margin.

The main cap is AI. Management disclosed meaningful Hunyuan/Yuanbao investment and expects 2026 AI investment to more than double. Management also said Tencent has not been active in leasing GPU capacity because it prioritized internal AI uses. That may be rational, but it means the external AI/cloud ROIIC is not yet observable. Under this rubric, unproven AI capex cannot be awarded the same score as proven VAS or ads reinvestment.

6. Runway Analysis

Tencent's runway is broad and credible. VAS starts from TTM revenue of RMB373.3B and the base segment appendix grows it to RMB492.8B by 2031, a 5.7% CAGR. Domestic games are mature but still supported by evergreen franchises, live operations, social distribution, payments, esports, and compliance infrastructure. International Games is smaller and faster-growing, with FY2025 strength and Q1 FY2026 growth still positive, though the base case properly decelerates from the exceptional FY2025 year. Social Networks is mature, but Mini Games, music, virtual items, and platform fees keep it from being a simple decline asset.

Marketing Services has the fastest large-segment base case. It grows from RMB151.3B to RMB252.6B, a 10.8% CAGR in the synthesis. The support is not a generic ad TAM claim. The evidence is the Weixin ecosystem, Video Accounts, Weixin Search, Mini Programs, Mini Shops, closed-loop ads, and AIM+ adoption. Management said AIM+ powered about 30% of Marketing Services advertiser spend in Q1 FY2026, and the data package cites strong growth indicators for Video Accounts, Weixin Search, and Mini Programs marketing services. The cap is that Tencent does not disclose absolute RMB revenue for those products, so the runway is directionally strong but not dollar-verifiable by product.

FinTech and Business Services is large but mixed. The segment starts at RMB234.4B TTM revenue and grows to RMB329.5B in the base synthesis. Payments and merchant rails are durable because they are embedded in Weixin habits, Mini Programs, offline merchants, consumer identity, and transaction frequency. Wealth management and lending are more regulated. Cloud and enterprise services have upside from AI, agents, API tokens, software tools, international cloud, and merchant technology fees, but generic infrastructure is less moated and more capital intensive. The segment appendix's split between FinTech and Business Services is a modeling bridge, not a company disclosure. That disclosure gap is a score cap.

Others is immaterial. It is about 1% of revenue, has volatile gross margins, and should not carry any group-level compounder score. The correct analytical treatment is to include it for completeness and then ignore it as a driver.

7. Moat Analysis

The moat appendix passes both the current moat gate and the 2046 test. The source of advantage is not one product. It is the reinforcing system of Weixin/WeChat identity and communication, payments and merchant rails, closed-loop advertising, game IP and live operations, content distribution, and scale-funded AI. The highest-quality profit pools are VAS, Weixin-centered Marketing Services, and payment/merchant rails. The less protected pools are generic cloud infrastructure, parts of regulated fintech, licensed content, and Others.

The moat is visible in the numbers. Tencent absorbed a severe FY2022 reset and then recovered operating margin to 31.5% in FY2024 and 32.1% in FY2025, with Q1 FY2026 operating profit up 17% year over year even while AI investment rose. Segment gross margins improved across all three large segments over FY2021 to FY2025. This is the kind of operating evidence needed for a moat score.

The risk is not that Tencent has no moat. The risk is that parts of the moat can be diluted by the next interface shift. AI agents, operating-system assistants, short video, rival commerce ecosystems, privacy rules, and cloud/GPU commoditization can all weaken pieces of the system. VAS must keep refreshing hits. Marketing Services must preserve Weixin intent capture and closed-loop conversion. FinTech must navigate regulation. Cloud must avoid low-return GPU resale economics. These risks keep the durability score below perfect, but they do not overturn the PASS.

8. Accounting and Capital Allocation Analysis

Accounting quality is good enough for a strong score, but not clean enough for a perfect one. Cash supports earnings. Official FY2025 FCF was RMB182.6B and official Q1 FY2026 FCF was RMB56.7B. The official TTM FCF bridge in the quant foundation is RMB192.2B. FCF conversion to approximate NOPAT is high. The balance sheet is strong, with Q1 FY2026 net cash of RMB146.9B.

The negatives are real. SBC is a material economic cost: the FY2025 annual report reports share-based compensation expense of RMB31.859B, equal to about 4.2% of FY2025 revenue and 17.4% of official FY2025 FCF. Tencent's share count has still declined because buybacks are large, but the model should not treat SBC as free. The synthesis correctly models SBC-equivalent issuance and buybacks instead of assuming a flat share count.

Disclosure is the bigger cap. Tencent reports segment revenue and segment gross profit, not segment operating income. It discloses VAS sub-lines, but does not disclose absolute product dollars for many important growth drivers. That prevents a high-confidence attribution of ROIIC by product.

Capital allocation is generally good. R&D rose from RMB51.9B in FY2021 to RMB85.7B in FY2025. Buybacks increased materially in FY2024 and FY2025, and diluted shares fell from 9,696M to 9,244M over FY2021 to FY2025. Tencent also repaired cloud economics after acknowledging prior low-value revenue chasing; management said Tencent Cloud reached operating breakeven in 2024 and about RMB5B adjusted operating profit in 2025. The balance sheet remained net cash despite AI investment, buybacks, dividends, and capex.

The capital allocation score is not perfect because acquisitions and investments remain opaque. M&A was episodic, with RMB67.0B in FY2021 and RMB34.7B in FY2025 on FMP cash-flow lines. Tencent has historically created value through investments, but minority investors do not receive clean return-on-investment disclosure across that portfolio. The management appendix also flags governance weaknesses: PRC VIE structure, founder influence, long-tenured directors, and share awards without performance targets.

9. 20% Return Underwriting

The 20% return test fails at the current price. This is the most important difference between the ER2 P/E 15 gate and the compounder diagnostic. The P/E 15 gate asks whether base-case FY+5 EPS times 15 clears today's price. Tencent passes that test: base FY+5 EPS of RMB36.93 times 15 equals about RMB554, a 50.3% cushion over RMB368.55. The 20% return test asks whether a buyer can earn at least 20% annualized over five years without terminal multiple expansion. Tencent does not clear that bar.

Case	FY+5 EPS	Exit multiple	Exit value	Estimated dividends	Total value	Annualized IRR
Bear	RMB24.40	12.0x	RMB292.8	RMB22.0	RMB314.8	-3.1%
Base	RMB36.93	15.0x	RMB554.0	RMB30.0	RMB584.0	9.6%
Bull	RMB46.59	15.0x	RMB698.8	RMB36.0	RMB734.8	14.8%

The dividend estimates are deliberately approximate because the source model focuses on EPS, share count, and buybacks. They are included so the 20% test does not unfairly ignore cash returns. Even with that credit, the result is not close to 20%.

The reverse DCF is blunt. Current EV/NOPAT is about 15.3x. If the exit EV/NOPAT multiple is flat and the investor requires 20% annualized, NOPAT must compound near 20% annually before cash returns. The base synthesis case grows after-tax operating profit from approximate TTM NOPAT of RMB208.6B to base FY+5 NOPAT of about RMB319.6B, an 8.9% CAGR. That is a good large-cap outcome. It is not a 20% return outcome.

The max buy price for a base-case 20% IRR using the P/E 15 exit and RMB30 of estimated dividends is approximately RMB234.68 per share, or about HKD270.62 at the same FX rate. That is not a target price. It is a mechanical hurdle-price under this specific diagnostic rubric. It shows why the classification is not "Investable now under this rubric" even though the P/E 15 gate is a clean PASS.

10. Hard Veto Checklist

Veto	Status	Evidence
ROIIC below cost of capital with no credible path	Pass	Post-reset returns, margin recovery, and cash conversion support returns above cost.
Reported ROIC high only because capital is tiny or negative	Pass	Reported ROIC is not artificially tiny-capital high; if anything, investment assets depress it.
Growth requires persistent external financing	Pass	Net cash and FCF fund reinvestment.
Share count rises materially without per-share value creation	Pass	Diluted shares declined over FY2021 to FY2025.
Large acquisitions without return disclosure	Watch	Investment/M&A history is material and returns are not cleanly disclosed.
FCF consistently lags earnings structurally	Pass	FCF conversion is healthy.
Concentration, regulation, dependency, cyclicality, leverage can impair equity	Watch	Regulation, VIE, AI/interface shift, and cloud commoditization are serious watch items.
20% return case requires terminal multiple expansion	Fail	Current price does not support 20% IRR in base case at 15x exit multiple.
Needs flawless execution to justify today's price	Watch	P/E 15 passes with cushion, but 20% return requires much more than base execution.
Cannot explain moat in one paragraph	Pass	Moat is clear: Weixin identity, games, payments, ads, merchant rails, and scale.

Veto	Status	Evidence
Governance/accounting issues impair trust	Watch	No fraud issue identified, but management gate is YELLOW due VIE/founder/governance.
Balance sheet risk could wipe out equity	Pass	Net cash and large FCF make this unlikely.

11. Final Decision

The evidence supports Tencent as a high-quality compounder candidate, not as a current-price 20% return underwrite. The business-quality score is strong enough for a watch/buy-lower-price posture. The valuation score is too low for "investable now under this rubric." At HKD425, the base case clears a P/E 15 value test but produces only a high-single-digit to low-double-digit annualized return when valued at 15x FY+5 EPS plus dividends. The bull case is still below 20% without richer assumptions.

The right score-implied classification is **Buy only at lower price**. The main positive evidence is operating resilience, segment gross-margin improvement, high FCF conversion, net cash, and a credible multi-segment runway. The main negative evidence is valuation against a 20% hurdle, governance YELLOW, product-level disclosure gaps, SBC materiality, and unproven AI/cloud ROIIC.

Compounder Score note: Tencent scores 71/100; the diagnostic likes the business but says the current price does not underwrite 20% annualized returns without materially better-than-base outcomes or multiple support.

Business Quality Score note: Tencent scores 66/80; VAS, Weixin ads, payments/merchant rails, margin recovery, FCF, and net cash support strong quality, capped by management/governance YELLOW, product-level disclosure gaps, and unproven AI/cloud ROIIC.

20% Return UW Score note: Tencent scores 5/20; the P/E 15 gate passes, but base-case FY+5 EPS of RMB36.93 at 15x plus estimated dividends implies about 9.6% annualized, not 20%.

12. Machine-Readable JSON


```
{
  "company": "Tencent Holdings Limited",
  "ticker": "0700.HK",
  "exchange": "HKSE",
  "analysis_date": "2026-05-28",
  "currency": "RMB",
  "current_price": 368.55,
  "market_cap": 3330.5,
  "enterprise_value": 3183.7,
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  "valuation_underwriting_score": 5,
  "valuation_underwriting_score_max": 20,
  "total_score": 71,
  "total_score_max": 100,
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  "clears_20pct_hurdle": false,
  "base_case_irr": 0.096,
  "bear_case_irr": -0.031,
  "bull_case_irr": 0.148,
  "max_buy_price_for_20pct_irr": 234.68,
  "source_confidence": "Medium"
}
```

Appendix CSA - Scoring Audit

Tencent - Scoring Audit

Production ER2 / Gideon scoring-audit appendix for Tencent Holdings Limited, ticker 0700.HK. Analysis date is 2026-05-28. Reporting and model currency are RMB. Current price anchor is HKD425.00, converted at HKD/CNY 0.86717 to approximately RMB368.55 per share. The TTM period ends 2026-03-31 and the five-year horizon is 2031-03-31.

This audit reviews `appendix_compounder_score.md` and `compounder_score.json` against the cleared Tencent ER2 files: `quant_foundation.md`, `data_package.md`, the four segment appendices, `appendix_management.md`, `appendix_moat.md`, and `appendix_synthesis.md`. The audited score is diagnostic only. It does not mechanically override ER2 management, moat, or P/E <= 15 gates.

1. Original vs Audited Scores

The original CompounderScorer reported a total score of 71/100, made up of business quality 66/80 and valuation / 20% return underwriting 5/20. The original score-implied classification was "Buy only at lower price." The original JSON and markdown agree on the key scoring fields: base IRR 9.6%, bear IRR -3.1%, bull IRR 14.8%, and maximum buy price for a base-case 20% IRR of RMB234.68 per share, or about HKD270.62 at the same FX bridge.

The audit preserves the direction of the original conclusion: Tencent is a high-quality platform, but HKD425 does not underwrite 20% annualized returns. The audit reduces the score because several quality points were awarded from estimated or modeled economics that are not directly disclosed by Tencent. The most important reductions are in incremental returns on capital, reinvestment runway confidence, capital allocation confidence, and the 20% return underwriting score.

Item	Original	Audited	Notes
Business Quality Score / 80	66	58	Strong platform evidence remains, but ROIIC, segment OI, AI/cloud economics, product dollars, and governance caps reduce confidence below the 65/80 strong-quality threshold.
Valuation / 20% Return UW Score / 20	5	3	P/E 15 test passes, but base IRR is only about 9.6%, bull IRR is only about 14.8%, and the 20% case needs much better outcomes or multiple support.
Total Score / 100	71	61	Diagnostic score remains positive on business quality but not investable under the 20% rubric.
Classification	Buy only at lower price	Watchlist	The audited score no longer grants enough clean business-quality evidence for the lower-price Buy label under this rubric.

Audited category scores are: Incremental Returns on Capital 15/25, Reinvestment Runway 15/20, Durability of Moat 12/15, Accounting and Financial Quality 7/10, Capital Allocation 9/10, and Price and 20% Underwriting 3/20. The capital allocation score remains high because buybacks, net cash, cloud repair, and FCF-funded AI investment are real, but it is not perfect because M&A/investment returns and compensation targets remain opaque.

2. Score Reductions and Reasons

Incremental Returns on Capital is reduced from 19/25 to 15/25. The original scorer did calculate a post-reset ROIIC, so the 1B score should not be zero. However, the evidence does not support a high-confidence 19/25. Reported FMP ROIC is 20.3% in FY2021, 8.6% in FY2022, 9.1% in FY2023, 11.6% in FY2024, and 11.9% in FY2025. The data package correctly flags Tencent's investment assets and equity-accounted holdings as distortions, but the ER2 packet does not provide a clean operating invested-capital bridge. The post-reset ROIIC of about 19% acquisition-inclusive and about 23% excluding acquisitions is useful but partial. It starts from the FY2022 trough, covers only the recovery period, and depends on coarse capex, R&D, and acquisition lines rather than disclosed segment capital.

Reinvestment Runway is reduced from 17/20 to 15/20. The evidence supports runway in VAS, Weixin-centered Marketing Services, payments, merchant rails, and some Business Services/cloud. The cap is that many important growth drivers are

not disclosed in RMB. The data package states that Tencent does not disclose separate dollar revenue for Video Accounts ads, Weixin Search ads, Mini Programs ads, payment, wealth management, consumer lending, cloud, GPU services, API tokens, WorkBuddy, CodeBuddy, or Yuanbao. A runway score can get credit for demonstrated segment growth and gross margin expansion, but it cannot receive near-full credit from growth-rate disclosures and management commentary when product base sizes and incremental capital are missing.

Durability of Moat is reduced from 13/15 to 12/15. The moat appendix supports a PASS and a 2046 PASS, with good evidence from Weixin/WeChat identity, games IP/live operations, ads, payments, merchant rails, scale, and gross-margin persistence. The reduction is modest because the moat is real. The reason it is not higher is that the blended company includes weaker and more contestable pools: cloud/business services, regulated fintech take rates, licensed content, and the small Others bucket. The AI/interface shift is also a true strategic risk, not a footnote. A dominant 2026 social and transaction surface can still lose incremental intent if AI agents, operating-system assistants, short-video ecosystems, or rival commerce loops intercept discovery and conversion.

Accounting and Financial Quality is reduced from 8/10 to 7/10. Cash flow quality is strong. Official FY2025 FCF was RMB182.6B, official Q1 FY2026 FCF was RMB56.7B, and official TTM FCF is RMB192.2B. The reduction is for disclosure and economic-cost issues rather than a cash-flow failure. Tencent discloses segment revenue and segment gross profit, not segment operating income. FY2025 SBC of RMB31.859B is material at about 4.2% of revenue and 17.4% of official FY2025 FCF. Buybacks have more than offset dilution historically, but the score should not treat SBC as free or assume buybacks will always offset AI-era talent costs.

Price and 20% Underwriting is reduced from 5/20 to 3/20. The original scorer gave some credit for passing the ER2 P/E 15 test. That is fair directionally, but the compounder diagnostic is a 20% annualized return test, not a "is the stock worth more than today's price at 15x FY+5 EPS" test. At RMB368.55, base FY+5 EPS of RMB36.93 times 15 plus estimated dividends implies about 9.6% annualized. The bear case is negative at -3.1%. The bull case is still only about 14.8%. The 20% case requires a materially lower entry price, materially better-than-base EPS, a higher exit multiple, or some combination of those. Under the rubric cap, base-case IRR credit cannot be high when the return is not close to 20%.

3. Unsupported Claims

The evidence does not support a clean high-ROIC operating-business score. The data package and quant foundation both explain why consolidated ROIC is noisy, but the audit cannot replace reported ROIC with a precise adjusted operating ROIC without disclosed segment invested capital or a full invested-capital normalization.

The evidence does not support high-confidence AI/cloud ROIIC. Management disclosed significant Hunyuan/Yuanbao investment, AI infrastructure spending, and intent to more than double 2026 investment in certain AI products. Management also said Tencent had not been active in leasing GPU capacity because internal AI uses took priority. That may be rational, but it delays proof that external AI/cloud monetization earns high returns. The model should not score AI/cloud reinvestment like proven VAS or ads reinvestment until revenue, margin, utilization, or capital-turn evidence appears.

The evidence does not support precise product-level underwriting outside VAS. VAS has useful disclosed game and social-network sub-lines. Marketing Services and FinTech and Business Services are materially less transparent. Video Accounts, Weixin Search, Mini Programs, payments, wealth, lending, cloud, GPU services, API tokens, WorkBuddy, CodeBuddy, and Yuanbao are either growth-rate disclosed, qualitatively discussed, or not separately disclosed. The segment appendices label modeled contribution margins appropriately, but the compounder score should still cap precision.

The evidence does not support a governance-clean score. The management appendix is clear that the management gate is YELLOW, not because operating competence is weak, but because of the PRC VIE/structure-contract framework, founder concentration across chair/CEO/nomination/OPCO ownership, long-tenured independent directors, weak disclosed performance targets for share awards, and related-party complexity. No fraud or restatement issue was identified, but the governance wrapper is not clean enough for full qualitative credit.

4. Calculation Errors

No hard arithmetic error was found in the headline P/E 15 math. The synthesis correctly converts HKD425 to about RMB368.55 using HKD/CNY 0.86717. Required EPS for 15x is about RMB24.57. Base FY+5 EPS of RMB36.93 times 15 equals RMB554.02, which is a 50.3% cushion over current price. The share-count path also explicitly includes SBC-equivalent issuance and modeled buybacks, avoiding a flat-share-count shortcut.

The calculation weakness is not arithmetic; it is score interpretation. The 20% return underwriting score gives too much residual credit for a result that is not close to 20%. A five-year 20% return from RMB368.55 requires total value of roughly RMB917 per share before considering timing details. The base case's 15x exit value is about RMB554 plus roughly RMB30 of estimated dividends, or about RMB584. That is a good outcome, but it is far below the 20% hurdle. The bull case total value of about RMB729 is also short of the same hurdle. The diagnostic score should therefore be closer to minimal than mid-level.

The ROIIC calculation is directionally useful but should be marked partly supported. The original scorer used post-reset NOPAT growth from FY2022 to FY2025 over cumulative capex, R&D, and acquisitions, producing about 19% acquisition-inclusive ROIIC and about 23% excluding acquisitions. That is a reasonable spot check, but it is not a full five-year ROIIC, not product-level, and not calculated from disclosed invested capital by segment. A trough-start period can overstate normalized incremental returns after a severe reset.

5. Missing Data

The most important missing evidence is disclosed segment operating income. Tencent discloses segment revenue and segment gross profit, but not segment operating income. The synthesis and segment appendices bridge modeled operating contribution to consolidated operating profit with an explicit residual, which is the right modeling practice. It still means the compounder score must treat segment OI, segment operating margins, and product-level ROIIC as estimates.

The second missing evidence is product-level RMB revenue for key growth drivers. Marketing Services depends heavily on Video Accounts, Search, Mini Programs, Mini Shops, closed-loop ads, and AIM+. FinTech and Business Services depends on payment, wealth, lending, cloud, international cloud, GPU services, API tokens, software agents, and merchant technology fees. Tencent gives useful growth rates and adoption indicators, but not enough absolute base-size disclosure to underwrite each product's contribution to a 20% compounder case.

The third missing evidence is capital-by-use-case. The files do not disclose VAS-specific capex, Marketing Services-specific capex, FinTech/cloud-specific capex, AI infrastructure capital by product, or segment invested capital. Without that, ROIIC by growth pillar remains estimated. This matters more in 2026 because AI capex is rising and cloud/GPU economics can be either high-return internal enablement or low-return infrastructure competition.

The fourth missing evidence is acquisition and investment portfolio returns. M&A was material in FY2021 and FY2025, and Tencent's investment portfolio remains strategically important. The management appendix treats this as a yellow flag, not a fail. The audit agrees, but the absence of clean acquisition-inclusive return disclosure caps Category 1 and Category 5.

6. Hard-Veto and Threshold Test Audit

The 20% return case fails. Base-case IRR is about 9.6% and bull-case IRR is about 14.8%, both below 20%. The current price can pass the ER2 P/E 15 test and still fail the compounder diagnostic. Those are different tests.

The "no hard vetoes" test does not fully clear under the diagnostic rubric because the current-price 20% case requires materially better-than-base outcomes or multiple support. Large acquisitions and investments without clean return disclosure are a watch item. Governance/accounting issues do not impair trust enough to make the equity unusable, but they do cap confidence. The company does not need external financing, has net cash, and FCF conversion is healthy, so the balance-sheet and cash-generation vetoes pass.

The ROIIC + runway subtotal is audited at 30/45, below the original threshold of 35/45. That is the key quality-threshold change. The business has real runway, but the incremental-return proof is not clean enough because the important growth surfaces do not come with disclosed capital, product revenue, or segment OI.

7. Final 20% Hurdle Pass/Fail

Final 20% hurdle: FAIL. This is not close enough to call a rounding issue. The base case at 15x FY+5 EPS plus estimated dividends is about 9.6% annualized. The bear case is negative. The bull case is below 15%. The max buy price for a base-case 20% IRR is approximately RMB234.68, materially below the current RMB368.55 price. The stock may still be attractive under ER2's P/E 15 framework, but the compounder diagnostic cannot label the current price a 20% underwrite.

8. Dream Business / Dream Investment Classification

Tencent is close to a dream business on product and platform quality, but not a clean dream business under this audit because governance is YELLOW, segment operating economics are not disclosed, and AI/cloud ROIIC is not yet proven. It is not a dream investment at HKD425 because the current price does not offer a 20% base-case return without better-than-base

outcomes or multiple help.

The single biggest reason Tencent does not qualify as a dream investment is simple: the base-case return math is too low. The single biggest reason it remains on the watchlist is also simple: the operating assets are unusually strong, cash generative, and still have credible multi-segment reinvestment opportunities.

9. Stage 7 Scorecard Notes

Compounder Score note: Audited Tencent score is 61/100; the diagnostic likes the platform but cuts the score for estimated ROIIC, disclosure gaps, governance YELLOW, and a current price that does not underwrite 20% returns.

Business Quality Score note: Audited Tencent business quality is 58/80; VAS, Weixin ads, payments, merchant rails, FCF, and net cash are real strengths, but no segment OI, limited product-level RMB disclosure, unproven AI/cloud ROIIC, and governance caps keep it below the strong-quality threshold.

20% Return UW Score note: Audited Tencent 20% return underwriting is 3/20; base EPS at 15x plus dividends implies about 9.6% IRR from RMB368.55, the bull case is still below 20%, and the mechanical 20% buy price is around RMB234.68.

10. Auditor JSON


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{
  "company": "Tencent Holdings Limited",
  "ticker": "0700.HK",
  "analysis_date": "2026-05-28",
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    "business_quality_score": "Audited Tencent business quality is 58/80; VAS, Weixin ads, payments, merchant rails, FC
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    "Runway reduced because key product revenue bases are not disclosed in RMB outside VAS sub-lines.",
    "Accounting and quality reduced because segment operating income is not disclosed and SBC is material.",
    "20% return underwriting reduced because base and bull IRRs are both below 20%."
  ],
  "unsupported_claims": [
    "Clean high adjusted operating ROIC is not directly supported by disclosed invested capital.",
    "AI/cloud ROIIC is unproven because external monetization and capital-by-use-case disclosures are missing.",
    "Precise product-level contribution for Video Accounts, Weixin Search, Mini Programs, payments, cloud, API tokens,
  ],
  "calculation_errors": [
    "No hard arithmetic error found in P/E 15 or headline IRR tables.",
    "Score interpretation over-credited the 20% underwriting result despite base IRR of about 9.6% and bull IRR of abou
    "ROIIC calculation is a useful post-reset estimate but not a full five-year or segment-level ROIIC proof."
  ],
  "missing_data": [
    "Segment operating income by VAS, Marketing Services, FinTech and Business Services, and Others.",
    "Product-level RMB revenue for key Marketing Services, FinTech, cloud, AI, and agent products.",
    "Segment invested capital and capex/R&D by product or use case.",
    "Clean acquisition-inclusive returns on Tencent's M&A and investment portfolio."
  ],
  "confidence": "Medium"
}
```

Appendix RT - Red Team

Tencent - Red Team

Production ER2 / Gideon red-team appendix for Tencent Holdings Limited, ticker 0700.HK. Anchor date is 2026-05-28. TTM end is 2026-03-31. Horizon date is 2031-03-31. Current price anchor is HKD425, approximately RMB368.55 per share. This appendix attacks the Stage 5 synthesis, not the company in the abstract.

1. The Most Fragile Assumption

The most fragile assumption is not simply that Tencent keeps growing. It is that VAS can compound from RMB373.3B of TTM revenue to RMB492.8B over five years while also expanding modeled operating contribution margin from roughly 41.0% to 43.2%. That line is the largest profit pool in the Stage 5 model. The synthesis itself says VAS is the most important variable, and the sensitivity table shows that a 200 bps lower VAS revenue CAGR cuts horizon EPS from RMB36.93 to RMB35.15, or about RMB1.78 per share, before even touching VAS margin. The bear-case VAS path is much harsher than a 200 bps sensitivity: VAS revenue only reaches RMB412.4B and modeled contribution margin falls to 38.3%, versus RMB492.8B and 43.2% in base. That is roughly RMB54.8B less segment contribution before tax, or about RMB5.0 of EPS after a 17% tax rate and the modeled 9,076.8M share count.

Why this is fragile: the last reported quarter already shows the problem. VAS grew 15.7% in FY2025, but only 4% in Q1 FY2026. Domestic Games grew 17.5% in FY2025 and only 6% in Q1 FY2026. International Games grew 33.4% in FY2025 and only 13% in Q1 FY2026. Social Networks declined 2% in Q1 FY2026. The data package correctly warns that the later Spring Festival shifted some domestic games revenue recognition into future periods, so Q1 reported revenue is not a clean demand collapse. But red-team work should not let that timing explanation become a blank check. If the next two quarters do not show gross receipts converting into reported revenue and deferred revenue support, the model has anchored on FY2025 recovery strength while calling it a normalized base.

The games moat is real. That does not make 5.7% VAS CAGR plus margin expansion the conservative case. Tencent is already huge. FY2025 Games revenue was RMB241.5B, Domestic Games was RMB164.2B, and Social Networks was RMB127.7B. The larger the installed evergreen base, the harder it is for a new hit to move total VAS revenue. The segment appendix names Honour of Kings, Peacekeeper Elite, Delta Force, VALORANT, Supercell titles, PUBG MOBILE, Wuthering Waves, Roco Kingdom World, Mini Games, music, video, and live streaming. That breadth reduces single-title risk, but it also hides a practical underwriting problem: several engines must work at once just to keep VAS above mid-single-digit growth. If Domestic Games normalizes to 2%-3%, International Games decelerates faster than expected as global competition and platform fees bite, and Social Networks stays flat to negative, the synthesis loses a large portion of its P/E 15 cushion.

The most dangerous version of this error is not a visible game collapse. It is a slow conversion failure. Management says gross receipts were stronger than reported domestic games revenue in Q1 because of timing. Fine. Then the burden of proof has shifted forward. If Q2 and Q3 FY2026 reported Domestic Games growth does not reaccelerate toward high single digits, the Spring Festival explanation expires. At that point the base VAS assumption should be rewritten around a mature games portfolio and declining Social Networks, not around platform-like evergreen growth.

2. The Most-Likely-To-Be-Optimistic Stage 5 Number

The single most-likely-to-be-optimistic Stage 5 number is not the base revenue total. It is the base-case combined operating income of RMB385.1B, or a 35.5% operating margin, because the model's central/unallocated cost bridge looks too light for an AI investment cycle.

The synthesis calibrates current modeled segment contribution to reported TTM operating profit by subtracting RMB16.5B of unallocated corporate and residual expense, then grows that residual at only 4.0% per year to RMB20.1B at the horizon. The residual is described as including group-level AI product cost, holding-company cost, investment-operation cost, central G&A, governance, platform safety, and shared engineering. That is too much strategic burden to put on a line that grows by only RMB3.6B over five years.

Tencent's own recent disclosure makes the problem concrete. In the Q1 FY2026 official results, non-IFRS operating profit was RMB75.6B, while non-IFRS operating profit excluding new AI products was RMB84.4B. The quarterly gap was RMB8.8B. Annualized mechanically, that is RMB35.2B. The same release shows capital expenditure of RMB31.9B in Q1, up 16% YoY, and management frames core cash flow as the funding source for AI investment. The FY2025/4Q2025 official presentation

said costs and expenses for new AI products were RMB18B in 2025, including Hunyuan, Yuanbao, talent, data, training, inference, and marketing, and said Tencent expected to more than double investments in new AI products in 2026. Those figures are not perfectly comparable to the Stage 5 IFRS residual bridge, but they are comparable enough to reject comfort. A model that lets the central residual drift from RMB16.5B to RMB20.1B is effectively assuming the AI drag either disappears into segment margins, scales with near-perfect efficiency, or is monetized quickly enough to stop mattering.

That may happen. It should not be the base case without harder evidence. Hunyuan, Yuanbao, CodeBuddy, WorkBuddy, QClaw, Tencent Cloud AI capacity, ad AI infrastructure, and game AI tooling are not one homogeneous cost pool. Some of them defend existing cash flows. Some may create new revenue. Some may simply become table stakes. The red-team objection is that Stage 5 gives the upside credit in VAS, Marketing Services, and Business Services margins while leaving too little visible room for the corporate AI cost overhang.

If the residual line were RMB35B at the horizon instead of RMB20.1B, base operating income would be about RMB14.9B lower. After 17% tax and the modeled share count, that is about RMB1.36 per share of EPS. If the residual were RMB45B, closer to a still-elevated AI product burn plus governance and shared infrastructure burden, the hit would be roughly RMB2.28 per share. That does not kill the P/E 15 pass by itself, but it proves the headline 50.3% cushion is less robust than it looks because the same AI spend is also competing with buybacks.

3. The Strongest Bear Case, In Its Strongest Form

The short-seller version is this: Tencent is a superb 2021-2025 recovery story that the model is underwriting as a 2026-2031 compounder, just as AI turns from a product-efficiency tool into a capital and expense treadmill. VAS slows from FY2025's exceptional games recovery into low-single-digit reported growth; Marketing Services remains strong but cannot keep growing far above China's ad market without ad-load or user-experience trade-offs; Business Services grows, but AI/cloud growth is won with depreciation, compute, sales, and price competition rather than software-like returns. Meanwhile, buybacks slow as management funds Hunyuan, Yuanbao, WorkBuddy, CodeBuddy, and cloud capacity, so per-share math loses one of its quiet supports. Within 4-6 quarters, the numbers show up as VAS below 5% growth, Marketing Services gross margin failing to recover above the mid-50s, FinTech and Business Services gross margin flat/down despite cloud growth, and annualized repurchases below the RMB60B assumption.

The equity does not need a disaster to disappoint. The synthesis bear case already produces RMB24.40 EPS, below the required RMB24.57 for 15x at today's RMB368.55 price. That bear case fails by less than 1% before applying any PRC/VIE governance discount, before penalizing the YELLOW management gate, and before asking for a 20% return. The strongest bear case is therefore not "Tencent is broken." It is "Tencent is excellent but priced for a base case whose most important assumptions all lean in the same favorable direction."

4. Cross-Examination Of Management Commentary

Management comment 1: James Mitchell, 2026-05-13, VAS: "AI provides increasingly helpful tools." This may be true and still fail as an underwriting claim. AI tools can reduce art, localization, QA, moderation, and content-production friction, but AI also lowers creation barriers for competitors and increases the supply of interactive entertainment. The comparable signal from NetEase's Q1 FY2026 release is that games growth can remain healthy for peers too: NetEase games and related VAS revenue rose to RMB25.7B from RMB24.0B a year earlier, driven by self-developed titles such as Fantasy Westward Journey and Where Winds Meet. Tencent's AI tooling does not create an exclusive cost advantage if every scaled publisher is improving production pipelines. What would show up first if the claim is overpromising: Tencent's games gross receipts remain decent, but reported revenue growth and VAS gross margin fail to improve because the benefit is competed away through content cadence, revenue share, and launch marketing.

Management comment 2: James Mitchell, 2026-05-13, Marketing Services: "AI Marketing Plus powered around 30%." This is a useful adoption statistic, but not an economic proof. AIM+ can power spend without proving that incremental spend is high-margin, durable, or share-taking after compute and model costs. Kuaishou's Q1 FY2026 release says its online marketing services revenue grew 9.3% to RMB19.6B and that AI-driven recommendation and bidding models drove roughly 3%-4% growth in domestic online marketing services revenue. That is a warning: AI ad tooling is becoming standard across large Chinese platforms. If everyone has AI bidding, the durable advantage reverts to proprietary traffic, closed-loop conversion, and merchant ROI. What would show up first if Tencent overpromises: AIM+ share of spend keeps rising, but Marketing Services revenue growth decelerates toward high single digits and gross margin stays around 55% instead of rising toward the base case's implied 59.0% gross margin and 37.1% contribution margin.

Management comment 3: James Mitchell, 2026-05-13, FinTech and Business Services: "we have not been active in leasing out GPU capacity" and "making more capacity available in Tencent Cloud." This is the most double-edged statement in the packet. It is good discipline if GPU leasing would be low-return. It is bad if the model is assuming cloud/AI monetization before Tencent has proven external demand at attractive margins. Alibaba's March-quarter 2026 results show why the market opportunity is real but competitive: Cloud Intelligence revenue grew 38% YoY to RMB41.6B, while adjusted EBITA rose 57% to RMB3.8B, even as the group overall absorbed heavy technology and user-experience investment. Tencent faces a competitor showing disclosed AI/cloud scale and profitability improvement. What would show up first if Tencent is behind: Business Services keeps reporting attractive growth rates without absolute RMB cloud disclosure, while FinTech and Business Services gross margin slips below 50% and capex remains elevated.

5. Stage 5 Tie-Out Reverification

The recency anchor is arithmetically clean but qualitatively stale in the one place that matters most. TTM revenue of RMB768.2B ties to the last four quarters, and Q1 annualized revenue of RMB785.8B is close enough. The issue is not the TTM math. It is that the TTM base includes a very strong FY2025 games recovery and the latest quarter already decelerated in VAS. Management's recognition explanation buys one or two quarters of patience, not five years of base-case growth.

The share-count path is reasonable on paper but exposed in practice. The model assumes RMB60B of annual buybacks for five years, average repurchase price beginning at HKD500 and rising 5% annually, offset by roughly 86.4M shares per year of SBC-equivalent issuance. That produces a 2.1% net share-count reduction. But Q1 FY2026 repurchases were HKD7.6B, or roughly HKD30.4B annualized if continued, below the modeled RMB60B, which is about HKD69B at the model FX. Management has already warned that 2026 buybacks may be lower as AI investment rises. This is not a fatal modeling error, but it is a fragile support. If annual buybacks settle closer to HKD30B-HKD40B while SBC remains large, the per-share cushion falls.

The product assumption that most exceeds peer deceleration evidence is Marketing Services. The base case assumes a 10.8% five-year CAGR, below Tencent's recent 20% quarterly growth but more than double the broad China internet ad market growth cited in the segment appendix. This can be right if Video Accounts, Weixin Search, Mini Programs, Mini Shops, and AIM+ keep taking share. It can also be wrong if the 2023-2026 period is a catch-up monetization phase rather than a repeatable five-year engine.

6. Score-Derived 20% Return Claim Most Likely To Be Wrong

There is no credible score-derived 20% return claim at the current price. The audited score is 61/100, Watchlist, with 20% return underwriting only 3/20. Base IRR is about 9.6%, bear IRR is -3.1%, bull IRR is about 14.8%, and the base-case 20% buy price is approximately RMB234.68, far below the current RMB368.55. The red team agrees with the audit.

The assumption that would break any attempted 20% case first is the exit multiple, not NOPAT growth. At today's price, the base case at 15x EPS plus dividends is simply too far from a 20% compounding outcome. To get there, the investor needs either a much lower entry price, a materially higher EPS outcome than base, or a higher terminal multiple. But a higher terminal multiple is least defensible precisely when the management gate is YELLOW, VIE risk persists, AI/cloud ROIIC is unproven, and the bear P/E 15 case narrowly fails.

7. The Signal That Forces An Exit

The exit signal should be quantitative and tied to the weakest load-bearing assumption: VAS reported conversion and AI-funded per-share discipline. Exit if, over the next two reported quarters, VAS revenue growth remains below 5% YoY in both quarters while VAS gross margin falls below 60% in either quarter, and Tencent repurchases less than HKD15B cumulatively over the same two quarters. This is not three unrelated worries. It is one thesis break: the largest profit pool is not reaccelerating after the Spring Festival timing explanation, margin quality is weakening, and management is choosing AI/capex/SBC over per-share support.

For Business Services, a secondary forced-review signal is FinTech and Business Services gross margin below 50% for two consecutive quarters while management continues to cite 20% Business Services or high cloud growth without absolute RMB disclosure. That would mean the cloud/AI growth narrative is consuming margin rather than upgrading the segment.

8. Conviction At The End Of Red Team

Conclusion: conditional. The thesis survives as a P/E 15 base-case pass, but it does not survive as a high-conviction buy without position-size discipline. Tencent is not a fake compounder. The moat appendix is right that Weixin, games, ads,

payments, merchant rails, and scale-funded AI form a powerful system. The problem is that the Stage 5 model's clean base case depends on VAS avoiding a post-FY2025 fade, Marketing Services maintaining share gains, FinTech and Business Services improving cloud economics, central AI drag staying contained, and buybacks continuing to offset SBC. Those assumptions are individually plausible, but they are correlated. If AI investment is heavier for longer, it can pressure segment margins, central residual expense, and buybacks at the same time.

The synthesis should not be rewritten around a failed Tencent. It should be rewritten around a narrower claim: Tencent is a superior platform with a real moat, but at HKD425 the P/E 15 pass is driven by a base case that still needs proof in VAS conversion, AI cost discipline, and net share reduction. The bear case failing the P/E 15 test is not a footnote. It is the warning label.

Source Notes

Internal sources: `appendix_synthesis.md`, `appendix_B_vas.md`, `appendix_B_marketing_services.md`, `appendix_B_fintech_business_services.md`, `appendix_B_others.md`, `appendix_management.md`, `appendix_moat.md`, `appendix_scoring_audit.md`, `compounder_score_audit.json`, and `data_package.md` under `C:\Users\Admin\OneDrive\GPT\ER 2.0\Tencent`.

External sources used for red-team peer context: Tencent Q1 FY2026 official results PDF, https://static.www.tencent.com/uploads/2026/05/13/47382ae415a209fd161bc19a1f9b3704.pdf; Tencent FY2025/4Q2025 presentation PDF, https://static.www.tencent.com/uploads/2026/03/18/2804dbdae364ca25b82d21bc8304f1d3.pdf; NetEase Q1 FY2026 results, https://ir.netease.com/news-releases/news-release-details/netease-announces-first-quarter-2026-unaudited-financial-results; Kuaishou Q1 FY2026 results, https://ir.kuaishou.com/news-releases/news-release-details/kuaishou-technology-announces-first-quarter-2026-unaudited; Alibaba March quarter and FY2026 results, https://www.businesswire.com/news/home/20260512841182/en/Alibaba-Group-Announces-March-Quarter-2026-and-Fiscal-Year-2026-Results.

Appendix D - Data Package (Raw Historicals)

Tencent - Data Package

Production ER2 / Gideon data package for Tencent Holdings Limited. Primary ticker variable: `0700.HK`. Today anchor enforced as 2026-05-28. Fiscal year ends December 31. Latest reported quarter is Q1 FY2026, quarter ended March 31, 2026 and announced May 13, 2026. TTM anchor is Q2 FY2025 + Q3 FY2025 + Q4 FY2025 + Q1 FY2026, ending March 31, 2026. Forward horizon is March 31, 2031.

All financial amounts are RMB billions unless explicitly marked otherwise. Tencent reports in RMB millions; tables below divide by 1,000. The quant foundation is the primary quantitative source. Live fetched files for this package are under `C:\Users\Admin\OneDrive\GPT\ER 2.0\Tencent\data_package_raw`. FMP product segmentation was fetched live for `0700.HK` and `TCEHY`; both annual and quarterly pulls returned empty arrays. Official Tencent sources therefore control segment and product data. Tencent discloses segment revenue and segment gross profit, not segment operating income. Segment OI is not invented.

1. Reporting Structure and Taxonomy

Tencent's current reportable segments are VAS, Marketing Services, FinTech and Business Services, and Others. VAS contains games and social networks. Marketing Services is the renamed online marketing segment. FinTech and Business Services includes commercial payment, wealth management, consumer lending, cloud, enterprise software, e-commerce technology fees and other business services. Others includes film, TV, copyrights, merchandise and various smaller activities.

The taxonomy investigation found one explicit classification flag. Starting in Q3 FY2024 Tencent renamed "Online Advertising" to "Marketing Services" to better represent its broader marketing solutions and technology services. FY2024 and FY2025 annual reports use Marketing Services and restate FY2023 comparatives under that label. FY2021 to FY2023 annual reports use Online Advertising. The economics are treated as comparable, but downstream users should retain the label-change flag. VAS sub-segment disclosure changed in Q3 FY2021, when Tencent began separating Domestic Games and International Games inside VAS. Tencent also discloses Games and Social Networks under VAS in the annual report. There is no official product-level FMP dollar segmentation.

Segment	FY2025 revenue	% of FY2025 total	Description	Source
VAS	369.3	49.1%	Games, social networks, digital content, memberships and related virtual-item services	2025 annual report Note 6
Marketing Services	145.0	19.3%	Ad targeting, closed-loop marketing, Video Accounts, Weixin Search, Mini Programs and mobile ad network	2025 annual report Note 6
FinTech and Business Services	229.4	30.5%	Payment, wealth management, lending, cloud, enterprise software and e-commerce technology fees	2025 annual report Note 6
Others	8.1	1.1%	Films, TV, copyrights, merchandise and other activities	2025 annual report Note 6
Total	751.8	100.0%	Consolidated revenue	2025 annual report

Geographic revenue	FY2025	FY2024	Source
Chinese Mainland	662.1	595.5	2025 annual report Note 6
Others	89.6	64.8	2025 annual report Note 6
Total revenue	751.8	660.3	2025 annual report Note 6

Source manifest used in this run:

Source ID	Source	Live URL or endpoint	Raw package file
OFF-1Q26	Tencent 1Q2026 release	https://static.www.tencent.com/uploads/2026/05/13/47382ae415a209fd161bc19a1f9b3704.pdf	`official_tencent_1q2026_results_release.pdf`

Source ID	Source	Live URL or endpoint	Raw package file
OFF-1Q26-PRES	Tencent 1Q2026 presentation	https://static.www.tencent.com/uploads/2026/05/13/e048dfed72bc718f7986a83f23c8e294.pdf	`DR_live_official_tencent_1q2026_results_presentation.pdf`
OFF-FY25	Tencent FY2025 and 4Q2025 release	https://static.www.tencent.com/uploads/2026/03/18/e6a646796d0d869acc76271c9ee1a6a5.pdf	`official_tencent_fy2025_4q2025_results_release.pdf`
OFF-3Q25	Tencent 3Q2025 release	https://static.www.tencent.com/uploads/2025/11/13/a33b6f19738615834787623f17d20ba3.pdf	`official_tencent_3q2025_results_release.pdf`
OFF-2Q25	Tencent 2Q2025 release	https://static.www.tencent.com/uploads/2025/08/13/56af6c5c98acdc7bd757a7bd208d8189.pdf	`official_tencent_2q2025_results_release.pdf`
OFF-2Q25-PRES	Tencent 2Q2025 presentation	https://static.www.tencent.com/uploads/2025/08/13/18643e8bf726c0fb99719171f70d45b0.pdf	`DR_live_official_tencent_2q2025_results_presentation.pdf`
OFF-AR25	Tencent 2025 annual report	https://static.www.tencent.com/uploads/2026/04/09/62d786fcf3d3c8cb7e54791ee95439ac.pdf	`official_tencent_2025_annual_report.pdf`
FMP-ANNUAL	FMP annual statements	stable income, cash flow, balance sheet, ratios, key metrics	`dp_live_fmp_0700.HK_*.json`
FMP-PROD	FMP product segmentation	stable revenue-product-segmentation for 0700.HK and TCEHY	empty array files
FMP-TR-Q1	FMP transcript	stable earning-call-transcript for 2026 Q1	`dp_live_fmp_0700.HK_transcript_2026_Q1.json`

2. Consolidated Historicals

FMP annual statement pulls were live in this run. FY2025 official Tencent values control where FMP differs, especially gross profit and the capex/free-cash-flow presentation. FMP cash-flow capex is broader than Tencent's official capex KPI; official FY2025 release reports free cash flow of RMB182.6B and capex of RMB79.2B, while FMP cash-flow statement shows free cash flow of RMB190.2B and capital expenditure of RMB112.9B. Downstream modeling should use the quant foundation's official TTM FCF and capex for valuation bridge work.

Metric	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	560.1	554.6	609.0	660.3	751.8	FMP annual income; official FY2025
Operating income	271.6	110.8	160.1	208.1	241.6	FMP annual income; official FY2025
Operating margin	48.5%	20.0%	26.3%	31.5%	32.1%	Calculated
Net income attributable	224.8	188.2	115.2	194.1	224.8	FMP annual income; official annual reports
EPS diluted, RMB	23.16	19.34	11.89	20.49	24.15	Official reports for FY2025 EPS; FMP prior years
Diluted shares, M	9,696	9,695	9,610	9,408	9,244	FMP annual income; annual reports
Capex	62.2	50.9	47.4	76.8	112.9	FMP cash flow, broader line
Free cash flow	113.0	95.2	174.6	181.8	190.2	FMP cash flow; official FY2025 FCF is 182.6
ROIC	20.3%	8.6%	9.1%	11.6%	11.9%	FMP key metrics

ROIC caveat: FMP return on invested capital is used for the five-year screen, but Tencent's investment assets and equity-accounted holdings make conventional invested-capital math noisy. The quant foundation flags official FY2025 ROCE at 14.8% and notes that high-margin operating businesses are mixed with a large investment portfolio. For a normalized ROIC bridge, use NOPAT defined as operating income times one minus the reported tax rate, divided by average invested capital, and isolate investment assets if building an economic ROIC view. Reported tax rates from FMP were 8.2%, 10.2%, 26.8%, 18.6% and 17.1% for FY2021 through FY2025.

3. Segment Historicals

Tencent discloses segment revenue and gross profit, not segment operating income. Historical "operating income" rows below are intentionally marked not disclosed. Marketing Services was called Online Advertising in older reports. The official annual reports provide comparable segment revenue and gross profit or cost-of-revenue data for FY2021 to FY2025.

VAS	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	291.6	287.6	298.4	319.2	369.3	Tencent annual reports
YoY	10.4%	-1.4%	3.8%	7.0%	15.7%	Calculated
Gross profit	152.9	145.6	161.9	181.7	222.3	Reports; FY2021 computed from revenue less cost
Gross margin	52.5%	50.6%	54.3%	56.9%	60.2%	Calculated
Operating income	N/D	N/D	N/D	N/D	N/D	Tencent does not disclose segment OI

Marketing Services or Online Advertising	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	88.7	82.7	101.5	121.4	145.0	Tencent annual reports
YoY	7.8%	-6.7%	22.7%	19.6%	19.4%	Calculated
Gross profit	40.6	35.0	51.3	67.2	83.4	Reports; FY2021 computed from revenue less cost
Gross margin	45.8%	42.3%	50.6%	55.4%	57.5%	Calculated
Operating income	N/D	N/D	N/D	N/D	N/D	Tencent does not disclose segment OI

FinTech and Business Services	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	172.2	177.1	203.8	212.0	229.4	Tencent annual reports
YoY	34.4%	2.8%	15.1%	4.0%	8.2%	Calculated
Gross profit	51.4	58.4	80.6	99.7	116.6	Reports; FY2021 computed from revenue less cost
Gross margin	29.8%	33.0%	39.6%	47.0%	50.8%	Calculated
Operating income	N/D	N/D	N/D	N/D	N/D	Tencent does not disclose segment OI

Others	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	7.7	7.2	5.4	7.8	8.1	Tencent annual reports
YoY	2.5%	-6.4%	-25.0%	43.8%	4.1%	Calculated
Gross profit	1.0	-0.3	-0.8	0.7	0.3	Reports; FY2021 computed from revenue less cost
Gross margin	13.2%	-3.9%	-14.6%	8.5%	3.6%	Calculated
Operating income	N/D	N/D	N/D	N/D	N/D	Tencent does not disclose segment OI

4. Product and Sub-Segment Historicals

The most granular dollar disclosures are inside VAS, where Tencent discloses Games and Social Networks in annual tables and often discloses Domestic Games and International Games in MD&A. FMP product revenue segmentation is empty for both `0700.HK` and `TCEHY`; no FMP product dollars are usable. Tencent does not disclose separate dollar revenue for Video Accounts, Weixin Search, Mini Programs ads, payment, wealth management, consumer lending, cloud, GPU/API tokens, WorkBuddy or CodeBuddy.

Segment	Product	What it is	Dollar disclosure?	Last 3 years revenue and source
VAS	Games	Domestic and international game revenue	Yes	FY2025 241.5; FY2024 197.7; FY2023 about 179.9 from Domestic plus International MD&A
VAS	Domestic Games	PRC games excluding Hong Kong, Macau and Taiwan	Yes in MD&A	FY2025 164.2; FY2024 139.7; FY2023 126.7

Segment	Product	What it is	Dollar disclosure?	Last 3 years revenue and source
VAS	International Games	Non-PRC games revenue	Yes in MD&A	FY2025 77.4; FY2024 58.0; FY2023 53.2
VAS	Social Networks	Music, video, mini games platform fees, live streaming and social subscriptions	Yes	FY2025 127.7; FY2024 121.5; FY2023 118.5
Marketing Services	Video Accounts ads	Ads within Video Accounts inventory	No separate dollars	Growth and qualitative drivers only
Marketing Services	Weixin Search ads	Search ad inventory inside Weixin	No separate dollars	Growth rates only in presentations
Marketing Services	Mini Programs and Mini Shops ads	Closed-loop ads and commerce traffic	No separate dollars	Growth rates only in presentations
FinTech and Business Services	FinTech services	Payments, wealth management and consumer lending	No separate dollars	Growth bands only
FinTech and Business Services	Business Services and cloud	Cloud, enterprise software, GPU, API tokens and technology service fees	No separate dollars	Growth bands only

Segment	Product	Disclosure method	Last 4 quarters YoY growth	Source
VAS	Domestic Games	Quarterly dollar and YoY disclosed	2Q25 +17%; 3Q25 +15%; 4Q25 +15%; 1Q26 +6%	Quarterly releases
VAS	International Games	Quarterly dollar and YoY disclosed	2Q25 +35%; 3Q25 +43%; 4Q25 +32%; 1Q26 +13%	Quarterly releases
VAS	Social Networks	Quarterly dollar and YoY disclosed	2Q25 +6%; 3Q25 +5%; 4Q25 +3%; 1Q26 -2%	Quarterly releases
Marketing Services	Video Accounts marketing	Growth rate only	2Q25 about +50%; no absolute dollars	2Q25 presentation
Marketing Services	Weixin Search marketing	Growth rate only	2Q25 about +60%; no absolute dollars	2Q25 presentation
Marketing Services	AIM+ ad spend	Share of spend only	1Q26 about 30% of marketing services spending	1Q26 release and transcript
FinTech and Business Services	Business Services	Growth rate only	1Q26 +20%; 2Q25 teens; 4Q25 accelerated to teens	Quarterly releases and presentations
FinTech and Business Services	Tencent Cloud international	Growth rate only	1Q26 over +40%; no absolute dollars	Q1 FY2026 transcript

No back-solved product dollars are included. Product rows are either official dollars, official growth rates, or explicitly not separately disclosed.

5. Most Recent Quarterly Trend

Company FY ends December 31. Most recently completed fiscal quarter at time of writing: FY2026 Q1, covering January 1 to March 31, 2026, reported on May 13, 2026 via https://static.www.tencent.com/uploads/2026/05/13/47382ae415a209fd161bc19a1f9b3704.pdf.

Segment	2Q2025 revenue	2Q YoY	3Q2025 revenue	3Q YoY	4Q2025 revenue	4Q YoY	1Q2026 revenue	1Q YoY	Source
VAS	91.4	16%	95.9	16%	89.9	14%	96.1	4%	Quarterly releases
Marketing Services	35.8	20%	36.2	21%	41.1	17%	38.2	20%	Quarterly releases
FinTech and Business Services	55.5	10%	58.2	10%	60.8	8%	59.9	9%	Quarterly releases
Others	1.8	-7%	2.6	83%	2.5	10%	2.3	103%	Quarterly releases
Total	184.5	15%	192.9	15%	194.4	13%	196.5	9%	Quarterly releases

Segment	2Q2025 gross margin	3Q2025 gross margin	4Q2025 gross margin	1Q2026 gross margin	Source
VAS	60.4%	61.2%	59.5%	62.6%	Interim, annual report, 1Q26 presentation

Segment	2Q2025 gross margin	3Q2025 gross margin	4Q2025 gross margin	1Q2026 gross margin	Source
Marketing Services	57.6%	56.7%	59.7%	55.0%	Interim, annual report, 1Q26 presentation
FinTech and Business Services	52.1%	50.2%	50.7%	52.1%	Interim, annual report, 1Q26 presentation
Others	13.8%	N/D in release table	-26.5%	-44.9%	Interim, annual report, 1Q26 presentation

TTM segment revenue is important because downstream segment subagents should forecast from the March 31, 2026 TTM base, not from FY2025 alone. The quant foundation verified the roll-forward using FY2025 less Q1 FY2025 plus Q1 FY2026. This matters for Tencent because Q1 FY2026 included a later Spring Festival timing effect, with management stating that some games revenue recognition shifted into later 2026 periods. Segment forecasts should therefore separate reported revenue from gross receipts momentum when judging VAS run-rate quality.

Segment	FY2025 revenue	Less 1Q2025	Add 1Q2026	TTM to 2026-03-31	TTM mix	Source
VAS	369.3	-92.1	96.1	373.3	48.6%	Quant foundation from official releases
Marketing Services	145.0	-31.9	38.2	151.3	19.7%	Quant foundation from official releases
FinTech and Business Services	229.4	-54.9	59.9	234.4	30.5%	Quant foundation from official releases
Others	8.1	-1.1	2.3	9.2	1.2%	Quant foundation from official releases
Total	751.8	-180.0	196.5	768.2	100.0%	Quant foundation from official releases

Selected quarterly VAS sub-line context is below. These are not a complete product hierarchy. They are the cleanest product-like disclosures Tencent provides in dollars. Social Networks for 3Q2025 is disclosed in Tencent's Q3 release at RMB32.3B, up 5% YoY; the number also ties arithmetically to VAS less Domestic Games and International Games.

VAS sub-line	2Q2025	2Q YoY	3Q2025	3Q YoY	4Q2025	4Q YoY	1Q2026	1Q YoY	Source
Domestic Games	40.4	17%	42.8	15%	38.2	15%	45.4	6%	Quarterly releases
International Games	18.8	35%	20.8	43%	21.1	32%	18.8	13%	Quarterly releases
Social Networks	32.2	6%	32.3	5%	30.6	3%	31.9	-2%	Quarterly releases

Segment-specific downstream notes:

VAS: The revenue base is the largest and has the strongest gross margin. FY2025 VAS gross margin reached 60.2%, and Q1 FY2026 VAS gross margin reached 62.6%. The driver mix is important. Domestic Games and International Games together were RMB241.5B in FY2025, while Social Networks was RMB127.7B. Management repeatedly discussed evergreen games, Delta Force, Honour of Kings, Peacekeeper Elite, VALORANT, Supercell games, PUBG MOBILE and Wuthering Waves. Subagents should not turn gross receipts growth directly into revenue growth without adjusting for Tencent's deferral and recognition patterns. The Q1 FY2026 release explicitly says domestic games reported revenue growth lagged gross receipts growth because the later Spring Festival shifted revenue recognition into future periods.

Marketing Services: The segment was formerly Online Advertising and is now a broader marketing technology segment. Its FY2025 revenue grew 19.4% and gross margin reached 57.5%. The important product-level evidence is not dollar disclosure but operating indicators: AI-powered ad targeting, AIM+, Video Accounts, Weixin Search, Mini Programs, Mini Shops and closed-loop ads. The 2Q2025 presentation disclosed about 50% YoY growth for Video Accounts marketing services, about 50% for Mini Programs marketing services and about 60% for Weixin Search marketing services, but none of those rows has absolute RMB revenue. The 1Q2026 transcript adds that AIM+ powered around 30% of total marketing services spending from advertisers during the quarter.

FinTech and Business Services: The headline segment grew 8.2% in FY2025 and 9% in Q1 FY2026, but Business Services was stronger than the segment average. In Q1 FY2026, management disclosed Business Services revenue growth of 20% YoY, supported by cloud demand, AI-related services, mini shops technology service fees and a more favorable pricing environment. Tencent Cloud's international business grew revenue over 40% YoY in Q1 FY2026, but the company does not disclose absolute international cloud revenue. FinTech Services growth is repeatedly described as high single-digit or driven

by commercial payment, wealth management and consumer loan services. No separate RMB split for payment, wealth, lending, cloud or enterprise SaaS is disclosed.

Others: The segment is immaterial at about 1% of revenue and has volatile profitability. FY2025 gross profit was only RMB0.3B and Q1 FY2026 gross profit was negative RMB1.0B. Downstream modeling can carry it as a small residual unless a later source identifies a material transaction.

6. Management Commentary on Forward Growth

The package uses short verified excerpts from live-fetched Tencent releases and the FMP Q1 FY2026 transcript. FMP returned a dated transcript for Q1 FY2026 with date `2026-05-13`, inside the expected window. FMP returned empty arrays for Q4 FY2025 transcript pulls for both 0700.HK and TCEHY, so Q4 commentary uses Tencent's official release instead. Quotes are grouped by the segment most affected. Longer transcript context is saved in the raw file and should be consulted by downstream subagents before using management tone as a modeling input.

Segment	Source date	Speaker	Verbatim excerpt	Topic	Interpretation
Group and AI	2026-05-13	Ma Huateng (Pony Ma), Chairman and CEO	"Our core businesses continue to grow their engagement, revenue and profit"	AI funding capacity	Core cash flow is the funding source for AI investment.
Group and AI	2026-03-18	Ma Huateng (Pony Ma), Chairman and CEO	"highly resilient and cash generative core businesses"	AI reinvestment	Management frames AI capex as funded from operating cash, not balance-sheet stress.
VAS	2026-05-13	James Mitchell, CSO	"AI provides increasingly helpful tools"	Games production	AI is a content velocity and engagement tool for games.
VAS	2025-08-13	Ma Huateng (Pony Ma), Chairman and CEO	"evergreen games such as Honour of Kings and Peacekeeper Elite evolve into platforms"	Games durability	Management sees top franchises as platform-like assets.
VAS	2026-05-13	James Mitchell, CSO	"Roco Kingdom World achieved breakout success"	New games	New launches can still refresh the VAS growth base.
Marketing Services	2026-05-13	James Mitchell, CSO	"AI Marketing Plus powered around 30%"	Ad tools	AIM+ has material adoption in advertiser spend.
Marketing Services	2025-11-13	Ma Huateng (Pony Ma), Chairman and CEO	"strategic investments in AI are benefitting us in business areas such as ad targeting"	Ad monetization	AI ad targeting is a repeated management growth pillar.
Marketing Services	2025-08-13	Ma Huateng (Pony Ma), Chairman and CEO	"upgraded our advertising foundation model"	Ad infrastructure	Foundation model upgrades are linked to better ad performance.
Marketing Services	2026-05-13	James Mitchell, CSO	"ad load on video accounts is still the lowest in the industry"	Ad runway	Management says monetization has headroom, but still prioritizes engagement.
FinTech and Business Services	2026-05-13	James Mitchell, CSO	"Revenue in the first quarter grew 20% year-on-year"	Cloud and services	Business Services is accelerating despite no dollar split.
FinTech and Business Services	2026-05-13	James Mitchell, CSO	"international business grew its revenue over 40%"	Cloud international	Cloud international growth is high, but not separately disclosed in RMB.
FinTech and Business Services	2026-05-13	James Mitchell, CSO	"we have not been active in leasing out GPU capacity"	Cloud AI monetization	Tencent prioritized internal AI uses before external GPU monetization.
FinTech and Business Services	2026-05-13	James Mitchell, CSO	"making more capacity available in Tencent Cloud"	Cloud second half	Management points to future cloud capacity unlocking.
Group and capital	2026-05-13	John Lo, CFO	"net cash position was RMB 146.9 billion"	Balance sheet	Liquidity is strong and supports buybacks and AI capex.

7. Capital Allocation History

FMP cash-flow statement values below are live-fetched. Buybacks and dividends are cash-flow statement amounts in RMB, not HKD board authorizations. Tencent's official FY2025 release also says the company repurchased 153.4 million shares in FY2025 and 12.7 million shares in Q1 FY2026; proposed FY2025 final dividend is HKD5.30 per share.

Year	Capex	Capex / revenue	R&D	R&D / revenue	Buybacks	Dividends	M&A	Source
FY2021	62.2	11.1%	51.9	9.3%	2.2	12.5	67.0	FMP cash flow and income

Year	Capex	Capex / revenue	R&D	R&D / revenue	Buybacks	Dividends	M&A	Source
FY2022	50.9	9.2%	61.4	11.1%	29.3	13.0	1.2	FMP cash flow and income
FY2023	47.4	7.8%	64.1	10.5%	43.8	21.0	8.9	FMP cash flow and income
FY2024	76.8	11.6%	70.7	10.7%	102.3	28.9	4.9	FMP cash flow and income
FY2025	112.9	15.0%	85.7	11.4%	73.3	37.5	34.7	FMP cash flow and income

Capital allocation interpretation: R&D rose from RMB51.9B in FY2021 to RMB85.7B in FY2025, a 13.4% CAGR. Buybacks became a major return lever in FY2024 and FY2025. Capex intensity increased as AI infrastructure spending rose. Official capex used in the quant foundation is lower than FMP's cash-flow capex line; do not mix the two in the same valuation bridge without labeling the definition.

8. Balance Sheet Snapshot

FY-1 is FY2025 ended December 31, 2025. Official annual report controls cash, term deposits, borrowings, notes payable, net cash, total assets and shareholder equity. FMP supplies goodwill plus intangibles because that line is convenient in the live balance-sheet endpoint.

Item	RMB B	Source
Cash and equivalents	141.0	2025 annual report
Term deposits and others	353.8	FY2025 release and annual report
Total debt, borrowings plus notes payable	387.7	2025 annual report
Net cash	107.1	FY2025 release
Net debt / EBITDA	Net cash	FY2025 release; EBITDA 310.8
Goodwill plus intangibles	206.1	FMP annual balance sheet
Equity attributable to shareholders	1,154.2	2025 annual report
Tangible book value approximation	948.1	Equity attributable less FMP goodwill plus intangibles

The Q1 FY2026 official release shows net cash increased to RMB146.9B as of March 31, 2026, total cash RMB533.7B, borrowings RMB259.0B and notes payable RMB127.8B. That Q1 snapshot is the recency base for liquidity discussions, while FY2025 remains the required FY-1 balance-sheet snapshot.

9. Recent Corporate Actions

- 2026-05-13: Tencent announced Q1 FY2026 results and reported repurchases of approximately 12.7 million shares for HKD7.6B during the quarter.
- 2026-05-13: Tencent reported total cash of RMB533.7B, free cash flow of RMB56.7B and net cash of RMB146.9B.
- 2026-03-18: Tencent announced FY2025 and 4Q2025 results, including FY2025 free cash flow of RMB182.6B and a proposed final dividend of HKD5.30 per share.
- 2026-03-18: Management highlighted increasing AI investment, recruiting AI talent, and upgrading AI infrastructure.
- 2025-09-17: Tencent priced its first CNY9B notes under its Global Medium Term Note programme, per Tencent investor news page.
- 2025-08-13 through 2026-05-13: Tencent repeatedly identified AI as a driver for games, marketing services, cloud and productivity agents.
- No CEO or CFO transition was identified in the live-fetched company sources used for this data package.

10. Open Data Gaps

- FMP product segmentation for both 0700.HK and TCEHY returned empty arrays for annual and quarterly periods. Official Tencent reportable segments and VAS sub-lines are the controlling product data.

- Tencent discloses segment gross profit, not segment operating income. Segment OI must be modeled as an assumption and cannot be cited as disclosed history.
- Tencent does not disclose separate RMB revenue for Video Accounts ads, Weixin Search ads, Mini Programs ads, payment, wealth management, consumer lending, cloud, GPU services, API tokens, WorkBuddy, CodeBuddy or Yuanbao.
- Q3 FY2025 gross-margin values for VAS, Marketing Services and FinTech and Business Services were verified from Tencent's Q1 FY2026 presentation chart. Q3 FY2025 Others gross margin remains omitted because the presentation chart did not provide a clean Others series and the segment is immaterial.
- FMP returned a usable Q1 FY2026 transcript dated 2026-05-13, but Q4 FY2025 transcript pulls for both 0700.HK and TCEHY returned empty arrays. Q4 management commentary therefore uses the official results release.
- FMP annual cash-flow capex and official Tencent capex KPI differ materially in FY2025. The quant foundation's official capex and FCF definitions control TTM valuation work.
- Marketing Services was called Online Advertising in older annual reports. The label change starts in Q3 FY2024; historical economics appear comparable, but downstream tables should retain a taxonomy footnote.

Self-Verification Checks

Check	Live fetch used	Result
Largest segment latest-quarter growth	OFF-1Q26 release	VAS revenue RMB96.1B, up 4% YoY, confirmed in live-fetched PDF text
Management quote date	FMP-TR-Q1 transcript	Transcript date field is 2026-05-13, matching Q1 FY2026 call date
FY-1 revenue	FMP annual income and OFF-AR25	FY2025 revenue RMB751.8B ties official annual report within 1%