UOBKayHian

Country Daily | Greater China

Thursday, 13 August 2026

Key Indices

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	53791.9	(0.3)	(0.5)	2.2	11.9
S&P 500	7728.2	(0.3)	(0.1)	2.0	12.9
FTSE 100	10844.2	(0.2)	(0.3)	3.3	9.2
AS30	9443.7	0.2	1.4	4.9	4.7
CSI 300	4663.8	(0.8)	1.4	(2.4)	0.7
FSSTI	5754.2	1.0	2.5	5.2	23.8
HSCEI	8528.1	(1.1)	(0.5)	6.1	(4.3)
HSI	25652.8	(1.1)	(0.8)	6.1	0.1
JCI	6267.9	(1.5)	(0.8)	5.8	(27.5)
KLCI	1731.5	(0.2)	(0.1)	2.4	3.1
KOSPI	6345.5	0.7	(0.2)	(15.1)	50.6
Nikkei 225	66970.2	2.1	5.0	(2.3)	33.0
SET	1612.6	(0.7)	(0.3)	(0.9)	28.0
TWSE	45120.7	0.4	4.1	(0.5)	55.8
BDI	3046	(1.2)	3.7	3.5	62.3
CPO (RM/mt)	4530	0.4	0.6	1.1	15.2
Brent Crude (US$/bbl)	89	1.4	12.0	17.0	46.1

Source: Bloomberg

Corporate Events

	Venue	Begin	Close
Hybrid Meeting with UltraGreen.ai Ltd (UGAI SP)	Singapore	13 Aug	13 Aug
Virtual Meeting on Indonesia Economic Outlook by Mr. Enrico Tanuwidjaja	Indonesia	19 Aug	19 Aug
Analyst Marketing by Julia Pan on Greater China Internet Sector	Singapore	07 Sep	08 Sep
Analyst Marketing by Julia Pan on Greater China Internet Sector	Malaysia	09 Sep	11 Sep

Corporate and Macro Calendar

Economic Indicator/Event	Country/Region	Date
Jul Money Supply (M2, M1, M0)	China	9-15 Aug
Jul FDI YTD YoY CNY	China	11-17 Aug
2Q P BoP Current Account Balance	China	14 Aug
2Q F GDP (SA QoQ, YoY)	Hong Kong	14 Aug
Jul Retail Sales	China	17 Aug
Jul Industrial Production	China	17 Aug
Jul Fixed Assets Ex Rural	China	17 Aug
Jul Surveyed Jobless Rate	China	17 Aug

Top Stories

Company Results | ECARX Holdings Inc (ECX US/**BUY**/US$1.04/Target: US$2.70)

Page 3 →

- 2Q26 revenue rose 44.7% yoy and 71.3% qoq to US$225.2m on flat shipments, driven by a shift to the higher-value Antora and Pikes platforms. Gross margin nearly doubled yoy to 19.8%, with positive adjusted EBITDA for a fourth straight quarter. Management reiterated 2026 guidance of US$1.0b-1.1b but flagged 2H margin pressure from memory costs. We cut our 2026-28 forecasts to a US$2.5m loss and US$28.6m and US$74.9m profits respectively. Maintain BUY on ECARX and trim our target price to US$2.70.

Company Results | Galaxy Entertainment Group (27 HK/**BUY**/HK$34.20/Target: HK$47.00)

Page 6 →

- Galaxy's 2Q26 results are in line but the increased dividend payout came as a positive surprise. We see further room for dividend improvement ahead. Volumes rebounded quickly after the World Cup semi-finals, with momentum extending into early-August. Phase 4 remains on schedule for completion by end-27, with HK$5b-6b of project spending planned for 2026. At StarWorld, the gaming floor refurbishment has been completed, and full room completion is expected by 1Q27. Maintain BUY; cut target price by 2% to HK$47.00.

Company Results | Nexteer (1316 HK/**BUY**/HK$4.48/Target: HK$11.40)

Page 9 →

- Nexteer's 1H26 results beat our full-year run rate on margins and tax. Net profit rose 35.2% yoy to US$85.8m, free cash flow almost trebled to US$108.8m, and net cash reached US$515.5m. We raise our 2026-28 net profit forecasts by 20.6%, 23.2% and 22.0% respectively and roll our valuation base to 2027, lifting the target price from HK$8.30 to HK$11.40 on an unchanged 20x PE. Maintain BUY.

Company Results | Tencent Holdings (700 HK/**BUY**/HK$461.60/Target: HK$608.00)

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- Tencent's 2Q26 earnings came in within expectations. 2Q26 revenue grew 11% yoy to Rmb204.8b, broadly in line with consensus estimates. Gross profit increased 13% yoy to Rmb118.4b, with gross margin rising 1ppt yoy to 58%. Non-IFRS profit attributable to shareholders increased 9% yoy to Rmb68.4b, while non-IFRS net profit margin deteriorated slightly by 0.8ppt yoy to 33.4%, largely consistent with expectations. Maintain BUY with a lower target price of HK$608.00.

Company Update | Foxconn Industrial Internet (601138 CH/**BUY**/Rmb65.60/Target: Rmb89.50) Page 16 →

- FII's parent company, Hon Hai Precision. guided for strong growth for the rest of 2026 on accelerating AI demand. Vera Rubin and CPO switch timelines are unchanged from prior guidance – mass production in 3Q26, shipments from 4Q26 – while the positive surprise is sustained demand for the previous-generation Grace Blackwell racks, which management expects to persist into 2027. Maintain BUY. Target price: Rmb89.50.

Technical Analysis

China Resources Land | 1109 HK Page 19 →

- Support levels: HK$32.50/HK$32.04
- Resistance levels: HK$37.56/HK$41.00

Galaxy Entertainment Group | 0027 HK Page 19 →

- Support levels: HK$32.32/HK$31.66
- Resistance levels: HK$37.06/HK$38.30

ECARX Holdings Inc (ECX US)

2Q26: Revenue Up 44.7% yoy On Higher-value Platforms

Highlights

- 2Q26 revenue rose 44.7% yoy and 71.3% qoq to US$225.2m, as Antora and Pikes platform shipments spiked 52% yoy and over 2,000% yoy respectively on broadly flat total volume.
- Gross margin nearly doubled yoy to 19.8% and adjusted EBITDA remained positive at US$0.5m for a fourth consecutive quarter.
- Management reiterated 2026 revenue guidance of US$1.0b–1.1b, but flagged memory costs as a source of 2H26 margin pressure.
- We cut 2026-28 bottom line forecasts to a US$2.5m net loss, and net profits of US$29m and US$75m respectively. Maintain BUY and trim target price from US$2.80 to US$2.70.

2Q26 Results

Year to 31 Dec (US$m)	2Q25	1Q26	2Q26	yoy %	qoq %	1H26	yoy %	2026F	yoy %
Total revenue	155.6	131.5	225.2	44.7	71.3	356.7	10.3	1,051.3	24.0
Gross profit	16.8	28.2	44.5	164.9	57.8	72.7	45.4	197.7	22.6
Gross margin (%)	10.8	21.4	19.8	9.0	(1.7)	20.4	4.9	18.8	(0.2)
EBIT	(40.4)	(13.0)	(6.2)	(84.7)	(52.3)	(19.2)	(70.5)	13.7	n.a.
EBIT margin (%)	(26.0)	(9.9)	(2.8)	23.2	7.1	(5.4)	14.8	1.3	7.8
Net profit	(43.0)	(10.6)	(10.4)	(75.8)	(1.9)	(21.0)	(69.6)	(2.5)	n.a.
Net margin (%)	(27.6)	(8.1)	(4.6)	23.0	3.4	(5.9)	15.5	(0.2)	7.6

Source: ECARX, UOB Kay Hian

Analysis

- **2Q26 revenue grew on price and mix, not volume.** ECARX Holdings Inc's (ECARX) revenue rose 44.7% yoy and 71.3% qoq to US$225.2m on broadly flat total shipments. Sales of goods revenue rose 49.7% yoy to US$196.4m, driven by: a) next-generation Antora and Pikes platforms growing 52% yoy and over 2,000% yoy respectively; and b) elevated memory costs being passed on through pricing adjustments. Service revenue rose 21.1% yoy to US$28.1m on a heavier schedule of new model launches. Software licence revenue was only US$0.7m against US$1.2m in 2Q25.
- **Gross margin nearly doubled yoy, and operating costs fell again.** Gross margin reached 19.8% in 2Q26 (+9.0ppt yoy/−1.7ppt qoq). R&D and SG&A expenses fell 13.9% and 7.7% yoy respectively to US$29.1m/US$21.6m, aided by AI-assisted development and tighter resource allocation. Operating loss narrowed by 84.7% yoy and 52.3% qoq to US$6.2m, and net loss narrowed to US$10.4m.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	771.5	847.9	1,051.3	1,366.7	1,708.4
EBITDA	(102.3)	(34.9)	33.7	84.2	129.3
Operating profit	(122.9)	(54.8)	13.7	64.2	109.3
Net profit (rep./act.)	(129.8)	(66.0)	(2.5)	28.6	74.9
Net profit (adj.)	(125.7)	(77.1)	(2.5)	28.6	74.9
EPS (US cents)	(38.5)	(19.5)	(0.6)	7.5	19.7
PE (x)	n.m.	n.m.	n.m.	13.9	5.3
P/B (x)	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBITDA (x)	n.m.	n.m.	21.3	8.5	5.6
Dividend yield (%)	-	-	-	-	-
Net margin (%)	(16.8)	(7.8)	(0.2)	2.1	4.4
Net debt/(cash) to equity (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Interest cover (x)	n.a.	n.a.	0.5	1.8	3.2
ROE (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Consensus net profit	-	-	(3.9)	41.0	86.3
UOBKH/Consensus (x)	-	-	n.a.	0.70	0.87

Source: ECARX, Bloomberg, UOB Kay Hian

Analyst(s)

Ken Lee
ken.lee@uobkh.com
+852 2236 6760

BUY (Maintained)

Share Price	US$1.04
Target Price	US$2.70
Upside	+159.6%
Previous TP	US$2.80

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	ECX US
Shares issued (m)	381.1
Market cap (US$m)	396.3
3-mth avg daily t'over (US$m)	1.8

Price Performance (%)

52-week high/low US$2.70/US$0.88

1mth	3mth	6mth	1yr	YTD
(9.6)	(3.7)	(46.1)	(32.0)	(39.5)

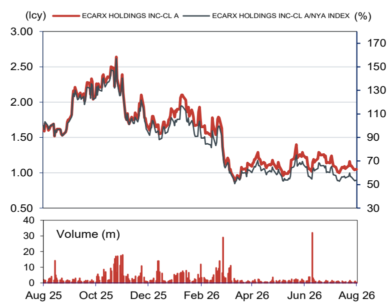
Major Shareholders (%)

Fu&Li Industrious Innovators Ltd.	43.10
Geely Technology Group Co., Ltd.	10.99
Baidu Holdings Ltd.	6.68

Balance Sheet Metrics

FY26 NTAV/Share (US$)	(0.88)
FY26 Net Debt/Share (US$)	1.17

Price Chart



Source: Bloomberg

Company Description

ECARX Holdings is the world's leading automobile intelligent solutions supplier, mainly engaged in the R&D of software and hardware solutions for automobile intelligence, including intelligent cockpit computing platforms, ADAS computing platforms, and central computing platforms.

- **Adjusted EBITDA remained positive for the fourth consecutive quarter.** Adjusted EBITDA, which excludes share-based compensation of US$1.5m as well as interest, tax, depreciation and amortisation, was US$0.5m in 2Q26 against a US$29.8m loss in 2Q25 – a fourth consecutive positive quarter. This brings 1H26 adjusted EBITDA to US$4.5m, against a US$44.3m loss in 1H25.
- **Reaching even the bottom of guidance requires a strong 2H26.** Management reiterated full-year 2026 revenue guidance of US$1.0b–1.1b on the current backlog and commercial pipeline. 1H26 revenue of US$356.7m is only 33.9% of the US$1,051m mid-point, against 1H25's 38.1% of 2025 revenue, so the mid-point needs 2H26 revenue of US$694.7m (+32.4% yoy/+94.7% hoh). This is demanding but not unprecedented: 2H25 revenue grew 62.3% on 1H25, helped by 4Q25's US$304.7m, which remains the company's highest quarter. We therefore set 2026 revenue at the mid-point rather than at the top of the range.
- **Memory costs are the swing factor for 2H26 margin.** Management expects gross margin and operating profitability to be negatively affected by memory cost dynamics in the coming quarters, partly offset by product mix and by continued efficiency gains. We hold 2H26 gross margin at 18.0%, which is 3.2ppt below 2H25's 21.2% and 2.4ppt below the 1H26 outcome, giving a full-year 18.8%. We hold 2H26 R&D and SG&A expenses flat on 1H26 in absolute terms, at US$52.6m and US$39.3m, so that the full-year ratios to revenue rise to 10.0% and 7.5% only because the revenue base is lower.
- **The Flyme acquisition is a strategic positive that we have not yet included in our model.** ECARX has signed a definitive agreement to buy the full Flyme software portfolio for about US$266m, comprising Flyme Auto – a cockpit operating system already running in more than 2m vehicles, many of them ECARX platforms – and the cross-device Flyme operating system. It gives ECARX the application layer above its own Cloudpeak middleware and therefore end-to-end control of the software stack. We have not input it into our forecasts, as neither the completion date nor the funding mix has been disclosed.
- **Programme milestones are unchanged.** The Zenith central computing platform, built on Qualcomm's 4nm Snapdragon Ride SA8797P, remains in validation for mass production in 2027; the Volkswagen Antora 1000 and 500 programmes remain in industrialisation for a 2027 launch in Brazil and India; and the May Mobility robotaxi platform and the 30% overseas revenue target for 2028 are unchanged.

Earnings Revision/Risk

- **We cut our 2026-28 net profit forecasts to a net loss of US$2.5m and net profits of US$28.6m and US$74.9m respectively,** from a net profit of US$9.5m/US$58.2m/US$110.4m. The main risk to our forecasts is a sharper memory-cost squeeze.

Valuation/Recommendation

- **Maintain BUY and trim target price from US$2.80 to US$2.70,** based on 10-year DCF (WACC: 14%, terminal growth: 4%).

Share Price Catalyst

- Evidence that 3Q26 revenue is tracking guidance.
- Completion and funding of the Flyme acquisition.
- New global OEM partnerships.

Profit & Loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	847.9	1,051.3	1,366.7	1,708.4
EBITDA	(34.9)	33.7	84.2	129.3
Deprec. & amort.	(19.9)	(20.0)	(20.0)	(20.0)
EBIT	(54.8)	13.7	64.2	109.3
Total other non-operating income	7.1	12.7	-	-
Associate contributions	1.2	14.2	-	-
Net interest income/(expense)	(20.1)	(29.8)	(35.7)	(34.4)
Pre-tax profit	(67.7)	(3.5)	28.6	74.9
Tax	(1.2)	(1.0)	-	-
Minorities	2.9	2.0	-	-
Net profit	(66.0)	(2.5)	28.6	74.9
Net profit (adj.)	(77.1)	(2.5)	28.6	74.9

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	26.7	36.7	37.7	38.7
Other LT assets	152.5	158.5	159.5	160.5
Cash/ST investment	93.3	236.0	246.6	299.7
Other current assets	389.9	575.2	713.4	861.4
Total assets	662.4	1,006.5	1,157.2	1,360.4
ST debt	349.5	469.5	469.5	469.5
Other current liabilities	473.5	554.5	676.7	804.9
LT debt	65.9	213.4	213.4	213.4
Other LT liabilities	57.0	57.0	57.0	57.0
Shareholders' equity	(282.7)	(285.1)	(256.5)	(181.6)
Minority interest	(0.8)	(2.8)	(2.8)	(2.8)
Total liabilities & equity	662.4	1,006.5	1,157.2	1,360.4

Cash Flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	(94.4)	(88.8)	32.6	75.1
Pre-tax profit	(68.9)	(4.5)	28.6	74.9
Tax	(1.2)	(1.0)	-	-
Deprec. & amort.	19.9	20.0	20.0	20.0
Working capital changes	(37.5)	(104.3)	(16.0)	(19.8)
Non-cash items	(6.6)	1.0	-	-
Other operating cashflows	-	-	-	-
Investing	(70.5)	(36.0)	(22.0)	(22.0)
Capex (growth)	(12.2)	(36.0)	(22.0)	(22.0)
Investments	-	1.0	2.0	3.0
Others	(58.3)	(1.0)	(2.0)	(3.0)
Financing	203.9	267.6	-	-
Dividend payments	-	-	-	-
Proceeds from borrowings	334.0	434.1	300.0	300.0
Loan repayment	(216.6)	(300.0)	(300.0)	(300.0)
Others/interest paid	86.5	133.4	-	-
Net cash inflow (outflow)	39.0	142.8	10.6	53.1
Beginning cash & cash equivalent	50.2	93.3	236.0	246.6
Changes due to forex impact	4.1	-	-	-
Ending cash & cash equivalent	93.3	236.0	246.6	299.7

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	(4.1)	3.2	6.2	7.6
Pre-tax margin	(8.0)	(0.3)	2.1	4.4
Net margin	(7.8)	(0.2)	2.1	4.4
ROA	(11.2)	(0.3)	2.6	6.0
ROE	n.a.	n.a.	n.a.	n.a.
Growth				
Turnover	9.9	24.0	30.0	25.0
EBITDA	n.a.	n.a.	150.2	53.5
Pre-tax profit	n.a.	n.a.	n.a.	162.2
Net profit	n.a.	n.a.	n.a.	162.2
Net profit (adj.)	n.a.	n.a.	n.a.	162.2
EPS	n.a.	n.a.	n.a.	162.2
Leverage				
Debt to total capital	62.7	67.9	59.0	50.2
Debt to equity	n.a.	n.a.	n.a.	n.a.
Net debt/(cash) to equity	n.a.	n.a.	n.a.	n.a.
Interest cover (x)	n.a.	0.5	1.8	3.2

Galaxy Entertainment Group (27 HK)

2Q26: Results In Line; Dividend A Positive Surprise

Highlights

- Galaxy's 2Q26 results are in line but the increased dividend payout came as a positive surprise. Looking ahead, we see further room for dividend improvement.
- Management noted that volumes rebounded quickly after the World Cup semi-finals, particularly in the VIP and premium segments, with momentum extending into early-August.
- Phase 4 remains on schedule for completion by end-27, with HK$5b-6b of project spending planned for 2026. At StarWorld, the gaming floor refurbishment has been completed, and full room completion is expected by 1Q27. Maintain BUY; cut target price by 2% to HK$47.00.

2Q26 Results

Year to 31 Dec (HK$m)	2Q19	2Q25	1Q26	2Q26	yoy chg (%)	qoq chg (%)
Net revenue	13,174	12,044	12,396	11,835	(1.7)	(4.5)
Adjusted EBITDA	4,332	3,569	3,576	3,380	(5.3)	(5.5)
EBITDA margin (%)	32.9	29.6	28.8	28.6	(1.1)	(0.3)
Normalised EBITDA	3,983	3,162	3,578	3,401	7.6	(4.9)
Normalised EBITDA margin (%)	30.2	26.3	28.9	28.7	2.5	(0.1)
Gross gaming revenue	15,198	12,009	12,728	12,043	0.3	(5.4)
VIP revenue	7,325	2,413	2,341	1,636	(32.2)	(30.1)
Mass revenue	7,266	8,811	9,602	9,473	7.5	(1.3)
Slot revenue	607	785	785	934	19.0	19.0
- VIP rolling chip volume	179,666	55,764	74,834	53,275	(4.5)	(28.8)
Win rate (%)	4.1	4.3	3.1	3.1	(1.3)	(0.1)
- Mass market chip drop	30,391	35,076	34,053	33,855	(3.5)	(0.6)
Hold rate (%)	23.9	25.1	28.2	28.0	2.9	(0.2)

Source: Galaxy Entertainment, UOB Kay Hian

Analysis

- **2Q26 results in line.** In 2Q26, Galaxy Entertainment Group (Galaxy) achieved a net revenue of HK$11,835m (-2% yoy, -5% qoq,). Adjusted EBITDA was HK$3,380m (-5% yoy, -5% qoq). Galaxy played slightly unlucky in 2Q26, which decreased its adjusted EBITDA by HK$21m. Thus, normalised adjusted EBITDA came in at HK$3,401m (+8% yoy, -5% qoq), and normalised EBITDA margin was 28.7% (+2.5ppt yoy, -0.1ppt qoq).

Key Financials

Year to 31 Dec (HK$m)	2024	2025	2026F	2027F	2028F
Net turnover	43,432	49,242	51,200	55,441	59,893
EBITDA	12,188	14,502	14,631	15,891	17,327
Operating profit	7,858	9,751	9,769	10,562	11,530
Net profit (rep./act.)	8,759	10,674	10,833	11,608	12,553
Net profit (adj.)	8,759	10,674	10,833	11,608	12,553
EPS (HK$ cent)	200.2	243.6	247.6	265.3	286.9
PE (x)	17.1	14.0	13.8	12.9	11.9
P/B (x)	2.0	1.8	1.7	1.7	1.6
EV/EBITDA (x)	11.0	9.5	9.7	9.1	8.5
Dividend yield (%)	2.9	4.4	5.4	5.8	6.3
Net margin (%)	20.2	21.7	21.2	20.9	21.0
Net debt/(cash) to equity (%)	(38.2)	(45.2)	(37.8)	(32.6)	(29.0)
ROE (%)	11.9	13.3	12.7	13.1	13.7
Consensus EBITDA	-	-	14,663.9	15,873.2	17,513.5
UOBKH/Consensus (x)	-	-	1.00	1.00	0.99

Source: Galaxy Entertainment, Bloomberg, UOB Kay Hian

Analyst(s)

Stella Guo
stella.guo@uobkh.com
+852 2236 6798

Ejann Hiew
hejann@uobkh.com
+603 2147 1995

BUY (Maintained)

Share Price	HK$34.20
Target Price	HK$47.00
Upside	+37.4%
Previous TP	HK$48.00

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	27 HK
Shares issued (m)	4,379.2
Market cap (HK$m)	149,770.0
Market cap (US$m)	19,086.0
3-mth avg daily t'over (US$m)	58.0

Price Performance (%)

52-week high/low: HK$44.22/HK$28.68

1mth	3mth	6mth	1yr	YTD
8.6	5.8	(22.1)	(13.5)	(10.8)

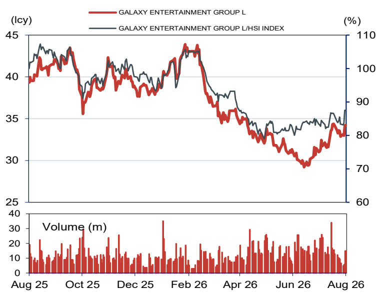
Major Shareholders (%)

City Lion Profits Crop	22.25
Lui Che Woo	9.14
Capital Group Cos Inc/The	4.78

Balance Sheet Metrics

FY26 NAV/Share (HK$)	19.78
FY26 Net Cash/Share (HK$)	7.37

Price Chart



Source: Bloomberg

Company Description

Galaxy Entertainment Group primarily develops and operates a large portfolio of integrated resort, retail, dining, hotel and gaming facilities in Macau. It operates three flagship destinations in Macau: on Cotai, Galaxy Macau, one of the world's largest integrated destination resorts, and the adjoining Broadway Macau, a unique landmark entertainment and food street destination; and on the Peninsula, StarWorld Hotel, an award-winning world-class five-star luxury hotel.

- **Gross gaming revenue (GGR) was HK$12,043m in 2Q26 (flat yoy, -5% qoq),** outperforming the industry's 7% qoq decline**, and recovering to 79% of 2019's level (vs recovery rate of 83% in 1Q26). Of this, VIP/mass/slot GGR changed -30%/-1%/+19% qoq, representing 22%/130%/154% of 2019's level, respectively. We estimate that Galaxy's GGR market share increased 0.4ppt qoq to 20.3% in 2Q26.**
- **Interim payout raised to 75%.** The company declared an interim dividend of HK$0.90 per share, raising the payout ratio to 75% (vs 64% in 2H25). Looking ahead, management emphasised that dividend decisions will depend on market conditions and the company's performance. However, they noted that owners' interests are aligned with those of shareholders, which, in our view, suggests further room for dividend improvement.
- **Swift post-World Cup recovery.** Management sees no structural concerns regarding a continued World Cup impact, noting that volumes rebounded quickly after the semi-finals, particularly in the VIP and premium segments, with momentum extending into early-August. On competition, management observed greater rationality emerging in the market, while Galaxy's 2Q26 reinvestment was flat to slightly down yoy.
- **Phase 4 construction on schedule.** Management noted that Phase 4 is on schedule for completion by end-27, with HK$5b-6b of project spending planned for 2026. At StarWorld, the renovation impacted EBITDA by HK$14m, but the company recovered HK$8m by relocating some high-value customers to Galaxy Macau. The gaming floor refurbishment has been completed and the focus has shifted to rooms, with around 40% of the room inventory currently out of service and full completion expected by 1Q27.

Earnings Revision/Risk

- **We lower our 2026/27 EBITDA forecasts both by 1% each.**

Valuation/Recommendation

- **Maintain BUY; cut target price by 2% to HK$47.00.** Our target price is based on 12.0x target 2026F EV/EBITDA ratio, and our target price is lowered by 2% to HK$47.00. The stock currently trades at 9.7x 2026F EV/EBITDA.

Individual Casino Performance

(HK$m)	2Q19	2Q25	1Q26	2Q26	qoq chg (%)	yoy chg (%)	% of 2Q19
GALAXY MACAU							
Net revenue	9,526	10,000	10,344	9,929	(0.7)	(4.0)	104.2
Property EBITDA	3,235	3,325	3,343	3,199	(3.8)	(4.3)	98.9
EBITDA margin (%)	34.0	33.3	32.3	32.2	(1.0)	(0.1)	-
VIP GGR	5,501	2,391	2,330	1,626	(32.0)	(30.2)	29.6
VIP rolling chip volume	125,051	54,859	74,240	52,395	(4.5)	(29.4)	41.9
VIP win rate (%)	4.4	4.4	3.1	3.1	(1.3)	(0.0)	-
Mass GGR	4,993	7,669	8,264	8,233	7.4	(0.4)	164.9
Mass drop volume	18,118	27,416	26,699	26,794	(2.3)	0.4	147.9
Mass win rate (%)	27.6	28.0	31.0	30.7	2.8	(0.2)	-
Slot GGR	512	611	640	790	29.3	23.4	154.3
Slot handle	11,235	18,435	20,074	19,479	5.7	(3.0)	173.4
Slot win rate (%)	4.6	3.3	3.2	4.1	0.7	0.9	-
STARWORLD MACAU							
Net revenue	2,756	1,171	1,342	1,222	4.4	(8.9)	44.3
Property EBITDA	943	303	383	303	0.0	(20.9)	32.1
EBITDA margin (%)	34.2	25.9	28.5	24.8	(1.1)	(3.7)	-
Mass GGR	1,730	1,112	1,338	1,240	11.5	(7.3)	71.7
Mass drop volume	8,877	7,501	7,354	7,061	(5.9)	(4.0)	79.5
Mass win rate (%)	19.5	14.8	18.2	17.6	2.7	(0.6)	-
Slot GGR	40	162	145	144	(11.1)	(0.7)	360.0
Slot handle	1,967	9,284	8,354	7,942	(14.5)	(4.9)	403.8
Slot win rate (%)	2.0	1.7	1.7	1.8	0.1	0.1	-
BROADWAY MACAU							
Net revenue	147	51	44	41	(19.6)	(6.8)	27.9
Property EBITDA	6	4	7	0	(100.0)	(100.0)	0.0

Source: Galaxy Entertainment, UOB Kay Hian

Profit & loss

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Net turnover	49,242.3	51,199.9	55,440.8	59,892.9
EBITDA	14,502.0	14,631.0	15,891.3	17,327.4
Deprec. & amort.	4,751.5	4,861.9	5,329.5	5,797.0
EBIT	9,750.5	9,769.1	10,561.9	11,530.4
Associate contributions	69.1	69.1	69.1	69.0
Net interest income/(expense)	1,109.2	1,254.1	1,254.1	1,254.1
Pre-tax profit	10,928.8	11,092.2	11,885.0	12,853.4
Tax	(208.8)	(212.0)	(227.1)	(245.6)
Minorities	(46.2)	(46.9)	(50.3)	(54.4)
Net profit	10,673.8	10,833.4	11,607.6	12,553.5
Net profit (adj.)	10,673.8	10,833.4	11,607.6	12,553.5

Balance Sheet

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Fixed assets	54,846.2	62,750.0	70,186.2	77,154.9
Other LT assets	24,925.2	24,682.1	24,439.0	24,195.9
Cash/ST investment	14,321.5	10,385.3	7,054.6	4,794.6
Other current assets	5,751.6	5,859.9	6,136.2	6,497.3
Total assets	99,844.5	103,677.3	107,816.0	112,642.7
ST debt	1,294.1	1,294.1	1,294.1	1,294.1
Other current liabilities	11,602.5	11,992.9	13,005.6	14,325.1
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	3,316.4	3,316.4	3,316.4	3,316.4
Shareholders' equity	83,143.5	86,538.9	89,614.7	93,067.6
Minority interest	488.0	534.9	585.2	639.5
Total liabilities & equity	99,844.5	103,677.3	107,816.0	112,642.7

Cash flow

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Operating	14,253.6	14,996.5	16,695.8	18,335.4
Pre-tax profit	10,928.8	11,092.2	11,885.0	12,853.4
Tax	(208.8)	(212.0)	(227.1)	(245.6)
Deprec. & amort.	4,751.5	4,861.9	5,329.5	5,797.0
Associates	(69.1)	(70.6)	(70.6)	(70.6)
Working capital changes	675.5	282.2	736.3	958.4
Non-cash items	(1,046.9)	(1,270.2)	(1,270.2)	(1,270.2)
Other operating cashflows	178.2	0.0	0.0	0.0
Investing	(10,332.4)	(11,494.7)	(11,494.7)	(11,494.7)
Capex (growth)	(3,439.7)	(11,494.7)	(11,494.7)	(11,494.7)
Investments	(41.7)	0.0	0.0	0.0
Proceeds from sale of assets	5.2	0.0	0.0	0.0
Others	(6,856.2)	0.0	0.0	0.0
Financing	(8,148.3)	(7,438.0)	(8,531.8)	(9,100.6)
Dividend payments	(5,263.2)	(7,438.0)	(8,531.8)	(9,100.6)
Issue of shares	0.1	0.0	0.0	0.0
Proceeds from borrowings	1,586.9	0.0	0.0	0.0
Loan repayment	(4,025.8)	0.0	0.0	0.0
Others/interest paid	(446.2)	0.0	0.0	0.0
Net cash inflow (outflow)	(4,227.1)	(3,936.2)	(3,330.7)	(2,259.9)
Beginning cash & cash equivalent	11,417.7	7,198.9	3,262.6	(68.1)
Other monetary funds	7,130.9	7,122.6	7,122.6	7,122.6
Ending cash & cash equivalent	14,321.5	10,385.3	7,054.6	4,794.6

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	29.5	28.6	28.7	28.9
Pre-tax margin	22.2	21.7	21.4	21.5
Net margin	21.7	21.2	20.9	21.0
ROA	11.5	11.5	12.0	12.7
ROE	13.3	12.7	13.1	13.7
Growth				
Turnover	13.4	4.0	8.3	8.0
EBITDA	19.0	0.9	8.6	9.0
Pre-tax profit	21.9	1.5	7.1	8.1
Net profit	21.9	1.5	7.1	8.1
Net profit (adj.)	21.9	1.5	7.1	8.1
EPS	21.7	1.6	7.1	8.1
Leverage				
Debt to total capital	1.6	1.5	1.4	1.4
Debt to equity	1.6	1.5	1.5	1.4
Net debt/(cash) to equity	(45.2)	(37.8)	(32.6)	(29.0)

Nexteer (1316 HK)

1H26: Net Profit Up 35.2% yoy As EMEASA Margins And A Lower Tax Rate More Than Offset Soft Volumes

Highlights

- Nexteer's 1H26 net profit rose 35.2% yoy to US$85.8m, on a 3.9% yoy revenue growth and a 1.0ppt gain in adjusted EBITDA margin to 11.3%.
- Management has guided for the 2026 effective tax rate to be slightly below 25%, against the 33% assumed.
- We lift 2026-28 net profit forecasts by 20.6%/23.2%/22.0% respectively and roll the valuation base to 2027 at an unchanged 20x PE, taking our target price to HK$11.40 from HK$8.30.

1H26 Results

Year to 31 Dec (US$m)	1H26	yoy %	hoh %	2026F	yoy %	Comment
Revenue	2,328.8	3.9	(0.6)	4,709.0	2.7	In line (49% of 2026F)
Gross profit	278.3	7.5	5.4	560.4	7.1	In line (50% of 2026F)
Gross margin (%)	*12.0*	*0.4*	*0.7*	*11.9*	*0.5*	*In line (+0.1ppt vs 2026F)*
EBITDA	262.8	14.1	8.8	535.6	13.5	In line (49% of 2026F)
EBITDA margin (%)	*11.3*	*1.0*	*1.0*	*11.4*	*1.1*	*In line (−0.1ppt vs 2026F)*
EBIT	115.9	24.5	67.1	222.4	36.8	Miss (52% of 2026F)
EBIT margin (%)	*5.0*	*0.8*	*2.0*	*4.7*	*1.2*	*In line (+0.3ppt vs 2026F)*
Net profit	85.8	35.2	122.7	161.7	58.5	Miss (53% of 2026F)
Net profit – adj	76.0	23.3	129.4	161.7	70.5	Miss (47% of 2026F)
Net margin (%)	*3.7*	*0.9*	*2.0*	*3.4*	*1.2*	*In line (+0.3ppt vs 2026F)*
Operating cash flow	262.2	84.2	(0.2)	385.3	(4.8)	Beat (68% of 2026F)
FCF	108.8	196.7	24.7	39.2	(68.4)	1H26 is 277% of the 2026F full-year figure

Source: Nexteer, UOB Kay Hian

Analysis

- Revenue rose 3.9% yoy to a record US$2,329m, with the Europe, Middle East and South America (EMEASA) segment up 11.6%, North America up 2.7%, and Asia Pacific up 3.2%. Excluding currency and commodity pass-throughs, growth was 0.8%, or 180bp above a global production market that was down about 1%; however, this is short of the 200-300bp guided in March, which management attributed to weaker volumes in China.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	4,276.1	4,584.2	4,709.0	4,952.0	5,292.0
EBITDA	424.4	471.9	535.6	575.5	620.9
Operating profit	114.8	162.5	222.4	252.1	287.5
Net profit (rep./act.)	61.7	102.0	161.7	183.7	210.5
Net profit (adj.)	47.6	94.8	161.7	183.7	210.5
EPS (US cents)	2.46	4.06	6.44	7.32	8.39
PE (x)	23.2	14.0	8.9	7.8	6.8
P/B (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x)	2.6	2.2	1.9	1.7	1.4
Dividend yield (%)	1.5	3.2	5.1	5.8	6.6
Net margin (%)	1.4	2.2	3.4	3.7	4.0
Net debt/(cash) to equity	(16.3)	(19.2)	(17.5)	(19.4)	(21.7)
Interest cover (x)	14.5	20.2	28.4	32.2	36.7
ROE (%)	3.1	4.8	7.3	7.9	8.5
Consensus net profit	n.a.	n.a.	n.a.	n.a.	n.a.
UOBKH/Consensus (x)	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Nexteer, Bloomberg, UOB Kay Hian

Analyst(s)

Ken Lee
ken.lee@uobkh.com
+852 2236 6760

BUY (Maintained)

Share Price	HK$4.48
Target Price	HK$11.40
Upside	154.5%
Previous TP	HK$8.30

Stock Data

Sector	Auto Parts
Bloomberg ticker	1316 HK
Shares issued (m)	2,509.8
Market cap (HK$m)	11,244
Market cap (US$m)	1,433
3-mth avg daily t'over (US$m)	3.6

Price Performance (%)

52-week high/low				HK$8.69/HK$3.81
1mth	3mth	6mth	1yr	YTD
17.3	(16.3)	(37.0)	(32.2)	(29.8)

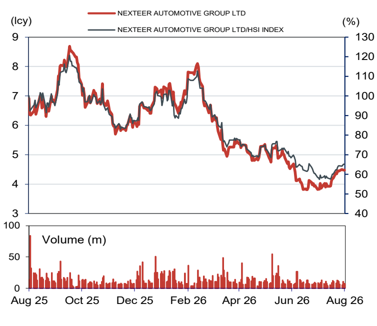
Major Shareholders (%)

Nexteer Automotive (HK) Holdings	44.0
Beijing E-Town International	16.0

Balance Sheet Metrics

FY26 NAV/Share (HK$)	6.96
FY26 Net Debt/Share (HK$)	(1.25)

Price Chart



Source: Bloomberg

Company Description

Nexteer Automotive designs and manufactures electric and hydraulic power steering systems, steering columns and intermediate shafts, halfshafts and, increasingly, steer-by-wire and brake-by-wire systems, supplying global and Chinese vehicle makers from North America, Asia Pacific, Europe and South America.

- Adjusted EBITDA rose 14.1% yoy to US$263m, with margin expanding 1.0ppt to 11.3%. EMEASA drove the increase, contributing EBITDA of US$55m (+56% yoy, +62% hoh) and a margin of 12.2% (+3.5ppt yoy, +3.7ppt hoh), underpinned by its regional margin enhancement programme. Asia Pacific held at 16.9% despite pricing pressure and higher commodity costs, while North America slipped to 7.3% (−0.3ppt yoy) on a plant outage and adverse currency, with an insurance recovery expected in 2H26.
- US$8m of 2025 tariff costs were recovered, though nothing has yet been booked on the North American electric vehicle cancellations that cost US$24m in 2H25. Depreciation and amortisation rose 6.1% yoy to US$146m, while the effective tax rate fell to 21.6% (-6.3ppt yoy), driven by stronger US profitability and tax planning. Minority interests accounted for 5.0% of profit (-3.0ppt yoy), and adjusted net profit increased 23.3% yoy to US$76m.
- Operating cash flow rose 84.2% yoy to US$262m and free cash flow reached US$109m (+197% yoy), lifting net cash to US$516m (+40.5% yoy) with total liquidity of US$968m. Capex and intangible additions rose 42.6% yoy to US$158m, so the improvement came from earnings and working capital, not underinvestment.
- Bookings reached US$3.3b (+120% yoy), tracking toward the reaffirmed full-year target of US$6b, supported by 28 programme launches, 26 of which were for new or conquest business. First steer-by-wire production launches were achieved, though management does not expect the technology to contribute meaningfully to group revenue until after 2030. For 2H26, it flags price give-backs closer to 2% and no commodity escalation cover on Chinese customers.

Earnings Revision/Risk

- We cut 2026-28 revenue forecasts by 0.9%/1.0%/1.1% to US$4,709m/US$4,952m/US$5,292m respectively, based on management guidance; the 2027-28 cuts carry a lower base at unchanged growth rates.
- We raise the EMEASA EBITDA margin from 8.0% to 11.5%, trim the North American 2026 EBITDA margin to 7.7%, and reduce the effective tax rate from 33% to 24.5% on guidance.
- All in all, we raise 2026-28 net profit forecasts by 20.6%/23.2%/22.0% to US$162m/US$184m/US$210m respectively.
- Risks: a) no recovery of electric vehicle cancellations, b) further commodity cost hikes in China, and c) a weaker currency tailwind.

Valuation/Recommendation

- We maintain BUY and raise our target price from HK$8.30 to HK$11.40, rolling the basis forward one year from 20x 2026F PE to 20x 2027F PE with the multiple unchanged and on par with the historical mean.

Share Price Catalyst

- Catalysts: a) Progress on 2H26 bookings toward the US$6b full-year target, b) insurance recovery for the plant outage, c) a settlement on the EV cancellations, d) further steer-by-wire launches, and e) 2027 guidance in Mar 27.

Profit & Loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	4,584.2	4,709.0	4,952.0	5,292.0
EBITDA	471.9	535.6	575.5	620.9
Deprec. & amort.	(285.0)	(313.2)	(323.4)	(333.3)
EBIT	162.5	222.4	252.1	287.5
Total other non-operating income/(expense)	0.0	0.0	0.0	0.0
Associate contributions	4.9	2.0	2.5	3.0
Net interest income/(expense)	0.5	1.0	1.5	2.9
Pre-tax profit	167.8	225.4	256.1	293.4
Tax	(55.3)	(55.2)	(62.8)	(71.9)
Minorities	(10.5)	(8.5)	(9.7)	(11.1)
Net profit	102.0	161.7	183.7	210.5
Net profit (adj.)	94.8	161.7	183.7	210.5

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	1,055.1	1,105.9	1,144.9	1,172.7
Other LT assets	764.6	757.6	752.7	749.6
Cash/ST investment	500.7	486.2	553.2	640.1
Other current assets	1,450.1	1,534.8	1,612.9	1,722.3
Total assets	3,770.5	3,884.4	4,063.7	4,284.6
ST debt	17.4	17.4	17.4	17.4
Other current liabilities	1,229.8	1,219.5	1,278.1	1,360.2
LT debt	69.6	69.6	69.6	69.6
Other LT liabilities	294.5	294.5	294.5	294.5
Shareholders' equity	2,111.6	2,227.4	2,338.3	2,466.1
Minority interest	47.5	56.0	65.7	76.8
Total liabilities & equity	3,770.5	3,884.4	4,063.7	4,284.6

Cash Flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating				
Pre-tax profit	167.8	225.4	256.1	293.4
Tax	(55.3)	(55.2)	(62.8)	(71.9)
Deprec. & amort.	305.0	313.2	323.4	333.3
Associates	(4.9)	(2.0)	(2.5)	(3.0)
Working capital changes	(63.2)	(95.0)	(19.5)	(27.3)
Non-cash items				
Other operating cashflows	(0.5)	(1.0)	(1.5)	(2.9)
Investing				
Capex (growth)	(341.7)	(355.0)	(355.0)	(355.0)
Investments				
Proceeds from sale of assets				
Others	8.5	8.9	9.4	10.7
Financing				
Dividend payments	(21.8)	(45.9)	(72.8)	(82.7)
Issue of shares				
Proceeds from borrowings	200.0	200.0	200.0	200.0
Loan repayment	(200.0)	(200.0)	(200.0)	(200.0)
Others/interest paid	(8.1)	(7.8)	(7.8)	(7.8)
Net cash inflow (outflow)	62.4	(14.6)	67.0	86.9
Beginning cash & cash equivalent	422.3	500.7	486.2	553.2
Ending cash & cash equivalent	500.7	486.2	553.2	640.1

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	10.3	11.4	11.6	11.7
Pre-tax margin	3.7	4.8	5.2	5.5
Net margin	2.2	3.4	3.7	4.0
ROA	2.7	4.2	4.5	4.9
ROE	4.8	7.3	7.9	8.5
Growth				
Turnover	7.2	2.7	5.2	6.9
EBITDA	11.2	13.5	7.5	7.9
Pre-tax profit	43.2	34.3	13.6	14.6
Net profit	65.3	58.5	13.6	14.6
Net profit (adj.)	99.3	70.5	13.6	14.6
EPS	65.3	58.5	13.6	14.6
Leverage				
Debt to total capital	3.9	3.7	3.5	3.3
Debt to equity	4.0	3.8	3.6	3.4
Net debt/(cash) to equity	(19.2)	(17.5)	(19.4)	(21.7)
Interest cover (x)	20.2	28.4	32.2	36.7

UOBKayHian

Company – Results | Greater China

Thursday, 13 August 2026

Tencent Holdings (700 HK)

2Q26: Healthy Earnings Growth; Accelerating AI-driven Marketing Revenue Growth

Highlights

- Tencent's 2Q26 earnings came in within expectations. 2Q26 revenue grew 11% yoy to Rmb204.8b, broadly in line with consensus estimates. Gross profit increased 13% yoy to Rmb118.4b, with gross margin rising 1ppt yoy to 58%. Non-IFRS profit attributable to shareholders increased 9% yoy to Rmb68.4b, while non-IFRS net profit margin deteriorated slightly by 0.8ppt yoy to 33.4%, largely consistent with expectations.
- Maintain BUY with a lower target price of HK$608.00.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q25A	1Q26A	2Q26A	UOBKHE	QoQ	YoY	Variance	Cons	Variance
Revenue	184,504	196,458	204,785	202,618	4.2%	11.0%	1.1%	202,843	1.0%
Social networking	32,168	31,910	33,643	32,904	5.4%	4.6%	2.2%		
Online games	59,200	64,200	64,771	64,525	0.9%	9.4%	0.4%		
Marketing Services	35,762	38,171	43,565	42,474	14.1%	21.8%	2.6%		
Fintech and Cloud	55,536	59,885	60,286	60,786	0.7%	8.6%	-0.8%		
Others	1,838	2,292	2,520	1,930	9.9%	37.1%	30.6%		
Gross profit	105,013	111,265	118,433	114,637	6.4%	12.8%	3.3%	115,629	2.4%
Non-IFRS Operating profit	69,248	75,627	75,636	76,177	0.0%	9.2%	-0.7%		
Non-IFRS net income	63,052	67,905	68,415	68,567	0.8%	8.5%	-0.2%	68,227	0.3%
Non-IFRS diluted EPS (RMB)	6.79	7.46	7.43	7.51	-0.4%	9.4%	-1.0%	7.46	-0.4%
GPM	56.9%	56.6%	57.8%	56.6%	1.2 ppts	0.9 ppts	1.3 ppts	57.0%	0.8 ppts
Non-IFRS OPM	37.5%	38.5%	36.9%	37.6%	-1.6 ppts	-0.6 ppts	-0.7 ppts		
Non-IFRS NPM	34.2%	34.6%	33.4%	33.8%	-1.2 ppts	-0.8 ppts	-0.4 ppts	33.6%	-0.2 ppts

Source: Tencent, UOB Kay Hian

Analysis

- **Online games revenue grew 8% yoy to Rmb64.2b.** Domestic games increased 17% yoy to Rmb47.3b, ahead of our 8% growth expectation, with: a) Delta Force and VALORANT PC/MOBILE reaching lifetime highs in average DAU, and b) Roco Kingdom: World ranking first by both average DAU and gross receipts among new mobile titles released in China ytd. International games declined 0.8% yoy to Rmb18.6b due to forex, or grew 4% in constant currency, as Wuthering Waves and VALORANT PC gains were offset by weaker Supercell titles.
- **Marketing services revenue increased 22% yoy to Rmb43.6b,** ahead of our Rmb42.5b estimate. AI-driven ad recommendation, AIM+ and closed-loop Weixin marketing continued to improve ad performance and advertiser ROI. We view this as an increasingly important structural growth driver.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	660,257	751,766	827,046	912,305	994,364
EBITDA	221,456	258,027	283,348	301,363	335,828
Operating profit	208,099	241,562	266,898	284,313	318,178
Net profit (rep./act.)	194,073	224,842	220,795	240,532	263,779
Net profit (adj.)	222,703	259,626	260,032	284,280	310,809
EPS	2,350.7	2,790.9	2,854.8	3,114.8	3,398.6
PE	16.9	14.2	13.9	12.7	11.7
P/B	3.8	3.1	3.1	2.5	2.2
EV/EBITDA	16.1	13.8	12.6	11.8	10.6
Dividend yield	1.1	1.3	1.3	1.5	1.6
Net margin	29.4	29.9	26.7	26.4	26.5
Net debt/(cash) to equity	(13.3)	(11.6)	(11.4)	8.8	11.4
ROE	21.8	21.1	19.3	19.0	17.5
Consensus net profit	-	-	274,847.6	298,794.3	330,220.9
UOBKH/Consensus (x)	-	-	0.95	0.95	0.94

Source: Tencent, Bloomberg, UOB Kay Hian

Analyst(s)

Julia Pan

juliapan@uobkh.com.

+86 21 5404 7225 ext 808

BUY (Maintained)

Share Price	HK$461.60
Target Price	HK$608.00
Upside	31.7%
Previous TP	HK$670.00

Stock Data

Sector	Communication Services
Bloomberg ticker	700 HK
Shares issued (m)	9,082.7
Market cap (US$m)	4,192,584.4
Market cap (US$m)	534,305.0
3-mth avg daily t'over (US$m)	1,919.1

Price Performance (%)

52-week high/low: HK$683.00/HK$411.00

1mth	3mth	6mth	1yr	YTD
0.3	1.0	(17.6)	(17.7)	(22.9)

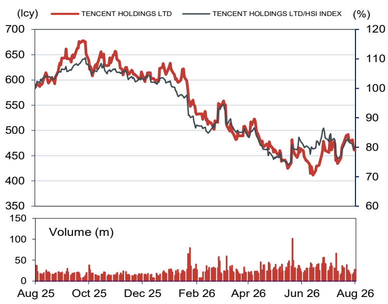
Major Shareholders (%)

Naspers	23.26

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	126.78
FY26 Net Cash/ Share (Rmb)	14.51

Price Chart



Source: Bloomberg

Company Description

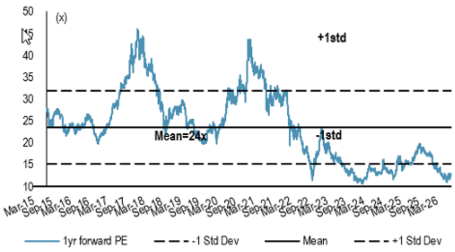
The company is one of the largest comprehensive internet service providers.

- **FinTech and business services grew 9% yoy to Rmb60.3b,** broadly in line with our Rmb60.5b estimate. Cloud growth remained healthy, supported by AI-related demand, international expansion and improved pricing, while FinTech growth reflected commercial payments, wealth management and consumer lending.
- **Gross margin expanded to 58% from 57% a year ago,** supported by higher contributions from high-margin internally developed games and marketing services. VAS gross margin improved to 64% from 60%, while marketing services margin was 57% vs 58% a year ago. Non-IFRS operating profit was broadly flat qoq at Rmb75.6b, but increased 9% yoy. Excluding new AI products, non-IFRS operating profit rose 19% yoy to Rmb86.1b. This suggests the core business continues to absorb higher AI-related R&D and infrastructure costs reasonably well. G&A expenses increased 22% yoy, mainly due to higher R&D spending on Hy model enhancements, Weixin AI initiatives and AI capabilities across Tencent's products and services. Selling and marketing expenses increased 26% yoy, reflecting higher spending on games and AI-native products.
- **AI investment drove higher capex and near-term FCF pressure.** Capex increased to Rmb59.3b in 2Q26, from Rmb31.9b in 1Q26 and Rmb19.1b in 2Q25, primarily reflecting higher investment in IT infrastructure and compute capacity. Tencent recorded negative FCF of Rmb13.8b during the quarter, while operating cash flow also included large AI-related prepayments to support Hy model enhancements, WorkBuddy and CodeBuddy inference, Weixin AI initiatives and growing cloud demand. **FCF would have been Rmb37.6b excluding these prepayments**, vs reported FCF of **-Rmb13.8b,** implying roughly **Rmb51.4b of AI-related prepayments.** We therefore lift our capex assumption for 2026/27/28 to Rmb181b/Rmb200b/Rmb178b respectively, resulting a negative net cash this year of -Rmb65b.
- **Hy3's production release in July delivered a meaningful performance** uplift and has ranked among the global top 3 models by token consumption on OpenRouter since 7 Jul 26. WorkBuddy continues to see rapid user growth and healthy retention, while CodeBuddy is also gaining traction. With both products sharing the same subscription account, individual plans span Standard/Advanced/Flagship tiers at Rmb70/Rmb140/Rmb700 per month, while Enterprise SaaS/Dedicated Enterprise plans are priced at Rmb198/Rmb316 per user per month. We estimate WorkBuddy/CodeBuddy has 1.0m-1.5m paid licences, implying Rmb1.1b–1.65b annualised subscription revenue based on ~Rmb110/month blended ARPU. We see paid-seat growth and rising usage intensity as key near-term monetisation indicators.
- **Weixin's Xiaowei agent has entered small-scale prototype testing**, powered by a customised WeLM model focused on privacy, Weixin-specific use cases and inference efficiency. We see this as an important early step toward Tencent's broader agentic ecosystem.
- **AI ecosystem entering the next phase of model and application upgrades**. Tencent plans to launch the larger-parameter Hunyuan 4 later this year, followed by Hunyuan 5 as it progresses toward SOTA-level capability, supporting more complex and higher-value AI use cases. On the consumer side, Xiaowei is positioned as a key AI gateway within Weixin, leveraging its social graph, Mini Programs, merchants and payments to enable increasingly agentic workflows and, longer term, agent-to-agent transactions.

Valuation/Recommendation

- **Maintain BUY on Tencent** with a lower target price of HK$608.00, based on our 2027 SOTP valuation. We adopt a lower PE to reflect elevated AI infrastructure capex, near-term FCF pressure and higher-than-expected marketing spend. Our target price implies 19.6x 2026F PE, while Tencent currently trades at 15x 2026F PE and 14x 2027F PE, around 1SD below its historical mean of 24x.

12-Month Forward PE Band



Source: Bloomberg UOB Kay Hian

Earnings Revision/Risk

- We leave our 2026 revenue estimate largely unchanged. We lower our non-IFRS net profit forecast for 2026/27 by 4%/9% respectively. This implies a 10%/10.3% yoy revenue growth, 0.2%/9% earnings growth, and net margin 31%/31% for 2026/27 respectively.
- **Key risks:** Increasing disruption from AI-generated content; intensifying competition; regulatory risks; slowing game revenue growth; and elevated capex requirements.

Share Price Catalyst

- a) AI-driven revenue and efficiency gains, b) stronger WeChat Video Accounts advertising, c) game licence approvals, and d) Hunyuan ecosystem expansion.

SOTP-Based Valuation

(Rmb m)	2027F revenue	2027F non-GAAP earnings	Valuation 2027 (x)	Value (LC bn)	Tencent holding (%)	Est. fair value to Tencent (RMB bn)	Fair value to Tencent (US$ b)	Fair value/ share (HK$)
Online game (PC + Mobile game)	287,390	106,072	16x PE	1,697	100	1,697	251	202
Social networking (QQ + Wexin VAS)	138,935	51,279	15x PE	769	100	769	114	92
Online ads	197,879	59,894	22x PE	1,318	100	1,318	195	157
Payment	209,011	31,352	12x PE	376	100	376	56	45
Cloud	79,090		6x PS	475	100	475	70	57
Total EV	912,305	248,597	15x PE	3,784	100	3,784	365	552
Investees	% owned		Rmb/sh.			Valuatio		
Total (15% discount)						523	79	64
2027F Net cash per share (HK$)								-8
Target price (HK$)								608

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	751,766.0	827,046.2	912,304.7	994,364.5
EBITDA	258,027.0	283,348.4	301,362.9	335,827.8
Deprec. & amort.	16,465.0	16,450.0	17,050.0	17,650.0
EBIT	241,562.0	266,898.4	284,312.9	318,177.8
Total other non-operating income	27,077.0	17,267.0	18,993.7	20,893.1
Associate contributions	23,740.0	2,027.0	6,917.0	6,917.0
Net interest income/(expense)	(15,130.0)	(12,196.8)	(12,196.8)	(12,196.8)
Pre-tax profit	277,249.0	273,995.6	298,026.8	333,791.1
Tax	(47,448.0)	(49,946.5)	(54,240.9)	(66,758.2)
Minorities	(4,959.0)	(3,254.0)	(3,254.0)	(3,254.0)
Net profit	224,842.0	220,795.1	240,531.9	263,778.9
Net profit (adj.)	259,626.0	260,032.2	284,280.1	310,809.4

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	176,942.0	223,722.0	414,376.0	582,808.6
Other LT assets	1,266,584.0	1,272,248.0	1,381,024.7	1,501,309.8
Cash/ST investment	384,819.0	428,934.0	175,325.5	114,433.0
Other current assets	210,641.0	234,490.0	257,557.2	282,676.3
Total assets	2,038,986.0	2,159,394.0	2,228,283.4	2,481,227.8
ST debt	42,618.0	86,292.0	86,292.0	86,292.0
Other current liabilities	370,133.0	429,189.0	231,861.8	272,788.4
LT debt	208,369.0	212,650.0	212,650.0	212,650.0
Other LT liabilities	176,801.0	208,750.0	208,750.0	208,750.0
Shareholders' equity	1,154,152.0	1,135,853.0	1,402,069.6	1,614,087.2
Minority interest	86,913.0	86,660.0	86,660.0	86,660.0
Total liabilities & equity	2,038,986.0	2,159,394.0	2,228,283.4	2,481,227.6

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	303,052.0	260,255.3	279,881.7	285,039.6
Profit fo the year	277,249.0	273,995.6	298,026.8	333,791.1
Tax	(47,448.0)	(49,946.5)	(54,240.9)	(66,758.2)
Deprec. & amort.	16,465.0	16,450.0	17,050.0	17,650.0
Associates	(23,740.0)	(2,027.0)	(6,917.0)	(6,917.0)
Working capital changes	(17,182.0)	35,207.0	34,496.6	15,807.5
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	97,708.0	(13,423.8)	(8,533.8)	(8,533.8)
Investing	(83,762.0)	(193,548.9)	(316,480.5)	(306,367.6)
Capex (growth)	(79,198.0)	(181,950.2)	(200,707.0)	(178,985.6)
Investment	0.0	0.0	0.0	0.0
Others	(4,564.0)	(11,598.8)	(115,773.5)	(127,382.0)
Financing	(136,165.0)	(33,779.4)	(35,003.7)	(39,564.5)
Dividend payments	(43,580.2)	(50,748.2)	(50,885.1)	(55,630.1)
Proceeds from borrowings	15,130.0	12,196.8	12,196.8	12,196.8
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(107,714.8)	4,772.0	3,684.6	3,868.8
Net cash inflow (outflow)	83,125.0	32,927.0	(71,602.5)	(60,892.5)
Beginning cash & cash equivalent	132,519.0	214,001.0	246,928.0	175,325.5
Changes due to forex impact	(1,643.0)	0.0	0.0	0.0
Ending cash & cash equivalent	214,001.0	246,928.0	175,325.5	114,433.0

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	34.3	34.3	33.0	33.8
Pre-tax margin	36.9	33.1	32.7	33.6
Net margin	29.9	26.7	26.4	26.5
ROA	11.8	10.5	11.0	11.2
ROE	21.1	19.3	19.0	17.5
Growth				
Turnover	13.9	10.0	10.3	9.0
EBITDA	16.5	9.8	6.4	11.4
Pre-tax profit	14.8	(1.2)	8.8	12.0
Net profit	15.9	(1.8)	8.9	9.7
Net profit (adj.)	16.6	0.2	9.3	9.3
EPS	18.7	2.3	9.1	9.1
Leverage				
Debt to total capital	16.8	19.6	16.7	14.9
Debt to equity	21.7	26.3	21.3	18.5
Net debt/(cash) to equity	(11.6)	(11.4)	8.8	11.4

Foxconn Industrial Internet (601138 CH)

Read Across From 2Q26 Hon Hai Precision Earnings Call

Highlights

- Guidance remains solid, driven by sustained AI infrastructure investments, alongside a seasonal rebound in ICT and consumer electronics.
- Mass production for Vera Rubin and silicon photonics CPO switches are on track to commence in 3Q26, with the primary near-term supply chain bottlenecks being chip supply and advanced packaging capacity.

Analysis

- **Cloud business guidance remains robust for the rest of 2026**, with AI rack shipments in 3Q26 expected to expand in high double digits qoq and more than double for 2026. General-purpose servers are forecast to deliver double-digit yoy revenue growth in 2H26, fuelled by strengthening CPU demand for Agentic AI deployments.
- **Vera Rubin mass production in 3Q26 is on track**, with initial shipments starting in 4Q26 before scaling progressively throughout 2027 as the core growth engine. Management targets a 50% market share, with primary near-term supply chain bottlenecks being chip supply and TSMC CoWoS advanced packaging capacity. Sustained demand for the Grace Blackwell platform remains strong in the near term and should persist into 2027 to bridge the VR ramp.
- **CPO switches for scale-out applications have commenced shipments**, with scale-up deployments scheduled for future rollout. Silicon photonics CPO switches are expected to enter mass production in 3Q26, with full-year shipments guided to reach 10,000 units, and result in high-speed networking revenue (800G+ switches) doubling yoy in 2026.
- **Increased adoption of consignment procurement model expected to ease gross margin pressure.** While ASIC server projects are mostly consignment based, they only accounted for 10% of total server revenue last year. Management actively aims to expand consignment structures across GPU servers and targets a >40% market share in ASIC projects over the medium term, and expects ASIC servers to make up to 40% of total AI server shipment by 2030, compared with 28% now.
- Smart consumer electronics is expected to register solid revenue growth both yoy and qoq in 3Q26, driven by seasonality and higher product prices.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	609,135	902,887	1,534,532	2,038,466	2,272,045
EBITDA	33,432	52,470	79,994	95,972	102,191
Operating profit	26,836	44,001	71,543	86,886	92,303
Net profit (rep./act.)	23,216	35,286	61,151	75,057	80,223
Net profit (adj.)	23,414	34,001	61,151	75,057	80,223
EPS (Fen)	117.8	171.2	307.9	378.0	404.0
PE (x)	55.7	38.3	20.8	16.9	15.8
P/B (x)	8.5	7.8	6.1	5.1	4.4
EV/EBITDA (x)	42.9	27.3	17.4	14.5	13.6
Dividend yield (%)	1.0	1.5	2.7	3.3	3.5
Net margin (%)	4.4	3.8	3.9	4.0	3.7
Net debt/(cash) to equity (%)	(23.9)	(3.5)	9.0	(2.2)	(8.1)
Interest cover (x)	51.0	(31.4)	(22.4)	(27.8)	(32.7)
ROE (%)	15.9	22.1	32.6	32.8	29.8
Consensus net profit	-	-	60,748	81,629	104,502
UOBKH/Consensus (x)	-	-	1.01	0.92	0.77

Source: FII, Bloomberg, UOB Kay Hian

Analyst(s)

Johnny Yum
johnny.yum@uobkh.com
+852 2235 6760

Murphy Li
murphy.li@uobkh.com
+852 2826 4867

Buy (Maintained)

Share Price	Rmb65.60
Target Price	Rmb89.50
Upside	+35.59%

Stock Data

Sector	EMS/ODM
Bloomberg ticker	601138 CH
Shares issued (m)	19,859
Market cap (Rmbm)	1,310,923
Market cap (US$m)	184,637
3-mth avg daily t'over (US$m)	1,548.6

Price Performance (%)

52-week high/low				Rmb84.95/Rmb35.10
1mth	3mth	6mth	1yr	YTD
(0.4)	0.3	19.6	81.6	6.4

Major Shareholders (%)

Futaihua Industry Shenzhen	21.99

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	10.21
FY26 Net Debt/Share (Rmb)	0.95

Price Chart

Source: Bloomberg

Company Description

Foxconn Industrial Internet operates as a communication network equipment development company. It develops and sells network switches, routers, wireless devices, webservers, set top boxes, smart home gateways, and other products. The company also manufactures storage equipment.

Valuation/Recommendation

- **Maintain BUY with a target price of Rmb89.50, b**ased on 23.7x 2027F PE, pegged to 2SD above historical average mean.

Earnings Revision/Risk

- None.

Share Price Catalyst

- None.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	902,887	1,534,532	2,038,466	2,272,045
EBITDA	52,470	79,994	95,972	102,191
Deprec. & amort.	(8,469)	(8,451)	(9,087)	(9,888)
EBIT	44,001	71,543	86,886	92,303
Total other non-op. income	(1,285)	-	-	-
Associate contributions	-	-	-	-
Net interest income/(expense)	(1,673)	(3,564)	(3,448)	(3,122)
Pre-tax profit	41,042	67,980	83,438	89,182
Tax	(5,713)	(6,798)	(8,344)	(8,918)
Minorities	(44)	(31)	(38)	(40)
Net profit	35,286	61,151	75,057	80,223
Net profit (adj.)	34,001	61,151	75,057	80,223

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	24,037	24,558	24,538	23,977
Other LT assets	29,393	22,628	20,993	19,097
Cash/ST investment	94,759	85,383	109,725	127,491
Other current assets	308,034	525,270	545,208	642,552
Total assets	456,224	657,839	700,464	813,118
ST debt	104,229	104,229	104,229	104,229
Other current liabilities	176,170	336,054	337,293	411,059
LT debt	4	4	4	4
Other LT liabilities	8,707	8,707	8,707	8,707
Shareholders' equity	166,778	208,478	249,826	288,676
Minority interest	336	367	404	444
Total liabilities & equity	456,224	657,839	700,464	813,118

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	5,238	21,160	68,930	69,694
Pre-tax profit	41,042	67,980	83,438	89,182
Tax	(5,713)	(6,798)	(8,344)	(8,918)
Deprec. & amort.	8,469	8,451	9,087	9,888
Associates	-	-	-	-
Working capital changes	(43,942)	(72,617)	(18,699)	(23,579)
Non-cash items	5,381	24,145	3,448	3,122
Other operating cashflows	2,584	20,581	-	-
Investing	(29,746)	(7,522)	(7,432)	(7,432)
Capex (growth)	(17,230)	(7,522)	(7,432)	(7,432)
Investment	(13,456)	-	-	-
Proceeds from sale of assets	785	-	-	-
Others	155	-	-	-
Financing	47,397	(23,015)	(37,157)	(44,496)
Dividend payments	(16,740)	(23,015)	(37,157)	(44,496)
Issue of shares	-	-	-	-
Proceeds from borrowings	106,204	135,000	135,000	135,000
Loan repayment	(39,780)	(135,000)	(135,000)	(135,000)
Others/interest paid	(2,287)	-	-	-
Net cash inflow (outflow)	22,888	(9,376)	24,342	17,767
Beginning cash & cash equiv.	72,311	94,759	85,383	109,725
Changes due to forex impact	(440)	-	-	-
Ending cash & cash equiv.	94,759	85,383	109,725	127,491

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	7.0	6.0	5.4	5.1
Pre-tax margin	4.5	4.4	4.1	3.9
Net margin	3.9	4.0	3.7	3.5
ROA	9.1	11.0	11.1	10.6
ROE	22.1	32.6	32.8	29.8
Growth (% yoy)				
Turnover	48.2	70.0	32.8	11.5
EBITDA	42.1	46.7	18.2	6.2
Pre-tax profit	58.0	65.6	22.7	6.9
Net profit	52.0	73.3	22.7	6.9
Net profit (adj.)	45.2	79.9	22.7	6.9
EPS	52.1	73.3	22.7	6.9
Leverage				
Debt to total capital	1.2	0.9	0.8	0.7
Debt to equity	3.4	2.7	2.2	1.9
Net debt/(cash) to equity	(3.5)	9.0	(2.2)	(8.1)
Interest cover (x)	(31.4)	(22.4)	(27.8)	(32.7)

Technical Analysis

Analyst(s)
Greater China Research Team
research-hk@uobkh.com
Tham Mun Hon, CFA
munhon.tham@uobkh.com
+852 2236 6799

Source: TradingView

China Resources Land (1109 HK)

Last price:	HK$35.00
Support levels:	HK$32.50/HK$32.04
Resistance levels:	HK$37.56/HK$41.00

Technical View:

Price action continues to hold above its resistance-turned-support level, consolidating within a triangle pattern. Technical momentum indicators favour an upside continuation, as the RSI remains elevated above its neutral 50-midline and trends higher. This hints at a high-probability bullish breakout, projecting a price extension toward upper overhead resistance zones once the pattern's upper trendline is decisively cleared.

Average timeframe: Around two weeks.

Source: TradingView

Galaxy Entertainment Group (0027 HK)

Last price:	HK$34.20
Support levels:	HK$32.32/HK$31.66
Resistance levels:	HK$37.06/HK$38.30

Technical View:

Price action has executed a decisive breakout from a bullish flag pattern following a successful retest of its resistance-turned-support zone. The RSI maintains its position above the neutral 50-midline and continues to trend upward. This signals further price expansion toward higher overhead targets as long as the flag breakout level remains defended.

Average timeframe: Around two weeks.