UOBKayHian

Country Daily | Greater China

Wednesday, 12 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 | FIT Hon Teng (6088 HK/**BUY**/HK$5.13/Target: HK$9.19)

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- 1H26 revenue/net profit grew 8.3%/20.9% yoy to US$2,496m/US$38m, representing 43%/13% of our full-year estimates respectively. Despite 2Q26 margin pressure from rising material costs, management noted that AI infrastructure investment remained intact. For 2026, FIT maintains its revenue guidance of high single-digit growth and operating profit guidance of a 70% yoy growth, backed by AI product ramp-up in 2H26, a 20% gross margin and improved operating efficiency. Maintain BUY and a lower target price of HK$9.19 based on 20.7x 2027F PE.

Company Results | Foxconn Industrial Internet (601138 CH/**BUY**/Rmb66.10/Target: Rmb89.50)

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- 2Q26 earnings grew 91.0% yoy to Rmb13.1b, which is largely in line with our expectations. Cloud computing remained the growth engine, with 1H26 revenue up 75.7% yoy and cloud service providers' AI server revenue up 230%. We fine-tune our ASP and sales mix assumptions, and raise our 2026-28 earnings forecasts by 0.0%/3.7%/3.4% respectively. Maintain BUY on FII with a target price of Rmb89.50.

Company Results | Tencent Music Entertainment Group (1698 HK/**BUY**/HK$38.56/Target: HK$53.00)

Page 9 →

- TME delivered solid 2Q26 results that were slightly above our expectation. Revenue rose 5.8% yoy to Rmb8.9b, while music-related services revenue increased 11.0% yoy to Rmb7.6b. Membership revenue grew 8.1% yoy to Rmb4.79b, supported by continued SVIP expansion and the consolidation of Ximalaya. Non-GAAP net profit rose 4.4% yoy to Rmb2.7b, 7% ahead of our and consensus expectations, with net margins remaining solid at 31%. Maintain BUY with a higher target price of HK$53.00 (US$14.00).

Technical Analysis

AAC Technologies | 2018 HK Page 12 →

- Support levels: HK$40.46/HK$39.88
- Resistance levels: HK$47.32/HK$50.05

Horizon Robotics | 9660 HK Page 12 →

- Support levels: HK$4.83/HK$4.62
- Resistance levels: HK$5.53/HK$6.06

FIT Hon Teng (6088 HK)

2Q26: Operating Profit Miss; 2026 Guidance Unchanged

Highlights

- FIT's 1H26 revenue/net profit grew 8.3%/20.9% to US$2,496m/US$38m, representing 43%/13% of our full-year estimates respectively.
- While management has lowered its 2026 revenue guidance for the consumer interconnect segment due to rising raw material costs, it maintains revenue guidance of high single-digit revenue growth, 20% gross margin and a 70% yoy operating profit growth in 2026, backed by AI product ramp-up.
- Maintain BUY but cut target price from HK$11.04 to HK$9.19 based on 20.7x 2027F PE.

1H26 Results

Year to 31 Dec (US$m)	1H26	qoq	yoy	1H25	2H25	2025
Revenue	2,496	8.3%	-7.5%	2,305	2,698	5,003
Smartphone	376	2.9%	-18.2%	365	459	824
Cloud	552	55.8%	20.1%	354	459	813
Consumer interconnects	343	-20.6%	-21.4%	432	437	869
Automobility	431	-6.2%	-8.8%	460	473	932
System products	676	14.9%	-11.8%	589	766	1,355
Others	118	11.7%	13.3%	105	104	209
Gross profit	477	11.4%	-7.7%	429	517	946
Operating profit	77	52.6%	-55.4%	50	173	223
Net profit	38	20.9%	-69.4%	32	125	156
Margins (%)						
Gross margin	19.1	0.5ppt	0.0ppt	18.6	19.2	18.9
Operating margin	3.1	0.9ppt	-3.3ppt	2.2	6.4	4.5
Net margin	1.5	0.2ppt	-3.1ppt	1.4	4.6	3.1

Source: FIT Hon Teng, UOB Kay Hian

Analysis

- **1H26 results**. FIT Hon Teng's (FIT) 1H26 revenue grew 8.3% yoy to US$2,496m, representing 43% of our full-year estimate. This was led by a 55.8% yoy growth for the cloud segment, but partially offset by a 20.6% decline for consumer interconnect segment due to memory supply constraints. Gross margin improved slightly to 19.1% from 18.6% on a higher AI mix, but partially offset by higher raw material prices and AI products capacity ramp-up. Operating profit (excluding non-operating items such as other income) rose 52.6% yoy to US$77m, thanks to gross margin expansion and effective cost control measures. Attributable net profit increased 20.9% yoy to US$38m, representing 13% of our full-year estimate, mainly due to net forex losses. Net margin widened 0.2ppt yoy to 1.5%.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	4,451	5,003	5,652	6,728	7,681
Gross profit	879	946	1,152	1,477	1,762
EBITDA	428	504	650	854	1,019
Operating profit	176	223	352	532	683
Net profit	154	156	266	404	520
Net profit (adj.)	154	156	266	404	520
EPS (cents)	2.2	2.2	3.7	5.7	7.3
P/E (x)	30.3	29.9	17.6	11.6	9.0
P/BV (x)	1.9	1.7	1.6	1.4	1.2
EV/EBITDA (x)	12.6	10.7	8.3	6.3	5.3
DPS (cent)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Net margin (%)	3.5	3.1	4.7	6.0	6.8
Net debt to equity (%)	19.6	30.1	19.8	10.0	(0.5)
Interest cover (x)	3.7	4.6	6.3	10.3	14.7
ROE (%)	6.3	6.1	9.5	12.8	14.4
Consensus	-		284	419	535
UOBKH/Consensus	-		0.94	0.96	0.97

Source: FIT Hon Teng, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$5.13
Target Price	HK$9.19
Upside	79.1%
Previous TP	HK$11.04

Stock Data

Sector	Electronics Components
Bloomberg ticker	6088 HK
Shares issued (m)	7,304
Market cap (HK$m)	37,468
Market cap (US$m)	4,804
3-mth avg daily t'over (US$m)	61.8

Price Performance (%)

52-week high/low				HK$10.89/HK$3.31
1mth	3mth	6mth	1yr	YTD
(15.5)	(48.0)	(10.3)	42.1	3.6

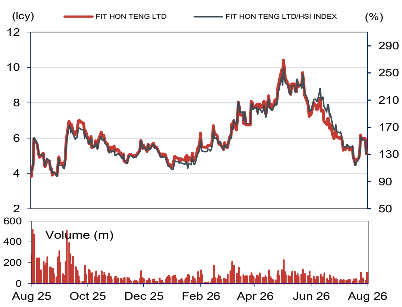
Major Shareholders (%)

Hon Hai	71.0
Lu Sung Ching	5.7

Balance Sheet Metrics

FY26 NAV/Share (US$)	0.42
FY26 Net Debt/Share (US$)	0.08

Price Chart



Source: Bloomberg

Company Description

FIT Hon Teng is a subsidiary of Hon Hai Technology Group (Foxconn) that manufactures and distributes electrical components. The company produces backplane connectors, memory cards, sockets, terminal blocks, and other products.

- **Solid cloud revenue growth.** Cloud revenue grew 55.8% yoy to US$552m in 1H26, accounting for 22.1% of sales (vs 15.4% in 1H25), driven by strong demand for AI products such as higher speed connectivity solutions, backplane connectors and liquid cooling solutions. Management maintains its guidance of high double-digit/70% yoy cloud segment revenue growth in 3Q26/2026 respectively, supported by meaningful contribution from 800G/1.6T optical products in 2H26. We are monitoring its cable cartridge shipment in late-26 and expect its optical products to become key long-term growth drivers.
- **Mixed performance of non-AI segments.** FIT expects rising memory costs to continue weighing on consumer interconnect demand, and has revised down its revenue guidance for the segment from flattish growth to double-digit decline in 2026. For the smartphone segment, FIT maintains its target of flattish growth in 3Q26 and 2026, thanks to stabilised shipments. The automobility segment continues to face near-term pressure from softened end-market demand while system product shipments are expected to normalise after a strong yoy growth of 14.9% in 1H26 from a low base in 1H25. As such, FIT is maintaining its target of flattish growth for the automobility segment in 3Q26 and 2026 and flattish/low double-digit growth for the system product segment in 3Q26/2026.
- **2026 guidance unchanged**. Management maintains its guidance of high single-digit revenue growth for 2026, supported by continued AI demand, healthy order backlog and capacity ramp-up in 2H26. It also maintains its guidance of operating profit growth of 70% for 2026, backed by a guided 20% gross margin and improved efficiency from capacity ramp-up in 2H26 as it has overcome critical production bottlenecks for new AI products. The company will host FIT Tech Day on 16 Sep 26 to showcase its technology roadmap, AI ecosystem strategy and long-term growth opportunities.

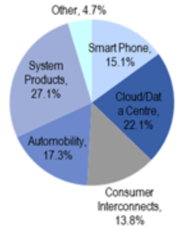
Earnings Revision

- We lower our 2026-28 revenue forecasts by 2.0%/1.9%/1.7% respectively to reflect weaker-than-expected performance for the consumer interconnect segment. We also lower 2026-28 net profit forecasts by 7.0%/4.9%/3.9% respectively to factor in lower revenue forecasts, a slightly lower gross margin due to higher raw material prices and lower other income from forex losses.

Valuation/Recommendation

- Maintain BUY and a target price of HK$9.19 based 20.7x 2027F PE, on par with its peers' average. FIT currently trades at 13.4x 2027F PE, which is around its historical mean of 12.7x in 2021-25.

1H26 Revenue Breakdown (By Segment)



Source: FIT Hon Teng, UOB Kay Hian

Profit & loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	5,003	5,652	6,728	7,681
Gross profit	946	1,152	1,477	1,762
EBITDA	504	650	854	1,019
Deprec. & amort.	(281)	(297)	(322)	(335)
EBIT	223	352	532	683
Total other non-op. income	63	60	60	60
Net interest income/(expense)	(48)	(56)	(52)	(47)
Pre-tax profit	238	356	541	697
Tax	(82)	(89)	(135)	(174)
Minorities	(1)	(1)	(2)	(2)
Net profit	156	266	404	520
Net profit (adj.)	156	266	404	520

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	1,382	1,489	1,567	1,628
Other LT assets	1,102	1,058	1,018	982
Cash/ST investment	1,067	1,272	1,506	1,854
Other current assets	2,379	2,447	2,755	3,119
Total assets	5,930	6,266	6,847	7,583
ST debt	1,200	1,200	1,200	1,200
Other current liabilities	1,318	1,404	1,593	1,817
LT debt	675	657	643	632
Other LT liabilities	51	51	51	51
Shareholders' equity	2,686	2,954	3,359	3,882
Minority interest	11	12	13	16
Total liabilities & equity	5,930	6,266	6,847	7,583

Cash flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	267	639	659	765
Pre-tax profit	238	356	541	697
Tax	(82)	(89)	(135)	(174)
Deprec. & amort.	(281)	(297)	(322)	(335)
Working capital changes	(236)	18	(119)	(140)
Other operating cashflows	627	651	695	718
Investing	(483)	(339)	(335)	(331)
Capex (growth)	(410)	(350)	(350)	(350)
Others	(73)	11	15	19
Financing	109	(95)	(90)	(87)
Dividend payments	-	-	-	-
Proceeds from borrowings	9,684	8,000	8,000	8,000
Loan repayment	(9,482)	(8,000)	(8,000)	(8,000)
Others/interest paid	(93)	(95)	(90)	(87)
Net cash inflow (outflow)	(107)	205	234	347
Beginning cash & cash equiv.	1,113	1,035	1,240	1,474
Changes due to forex impact	29	-	-	-
Ending cash & cash equiv.	1,035	1,240	1,474	1,821

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	18.9	20.4	22.0	22.9
Pre-tax margin	4.8	6.3	8.0	9.1
Net margin	3.1	4.7	6.0	6.8
ROA	2.7	4.4	6.2	7.2
ROE	6.1	9.5	12.8	14.4
Growth (% yoy)				
Turnover	12.4	13.0	19.0	14.2
EBITDA	7.6	21.8	28.3	19.3
Pre-tax profit	8.0	49.5	51.8	28.8
Net profit	1.5	70.5	51.8	28.8
Net profit (adj.)	1.5	70.5	51.8	28.8
EPS	1.4	70.0	51.8	28.8
Leverage				
Debt to total capital	31.6	29.6	26.9	24.2
Debt to equity	69.8	62.9	54.9	47.2
Net debt/(cash) to equity	30.1	19.8	10.0	(0.5)
Interest cover (x)	4.6	6.3	10.3	14.7

Foxconn Industrial Internet (601138 CH)

2Q26: Results Largely In Line; AI Business Retains Robust Growth

Highlights

- 2Q26 earnings grew 91.0% yoy and 24.1% qoq to Rmb13.1b, which is 1.7% below consensus estimates but in line with our expectations and profit guidance.
- Cloud computing remains the key growth engine with 1H26 revenue up 75.7% yoy. GPU AI racks, ASIC AI racks, and ASIC CPU racks all registered multiple times yoy growth during the period.
- Maintain BUY with an unchanged target price of Rmb89.50.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q25	1Q26	2Q26	yoy%	qoq%
Revenue	200,345	251,078	306,783	53.1	22.2
Gross Profit	13,022	18,456	21,435	64.6	16.1
OP Profit	8,404	13,978	17,016	102.5	21.7
Net Profit	6,883	10,595	13,146	91.0	24.1
Core net profit	6,765	10,250	12,735	88.2	24.2
Margins (%)					
GPM	6.5	7.4	7.0	0.5	(0.4)
OPM	4.2	5.6	5.5	1.4	(0.0)
NPM	3.4	4.2	4.3	0.8	0.1

Source: FII, UOB Kay Hian

Analysis

- **2Q26 revenue in line with consensus, but a slight miss on gross margin.** Foxconn Industrial Internet's (FII) 2Q26 revenue rose 53.1% yoy and 22.2% qoq to Rmb307b, which is in line with consensus estimates. Gross margin expanded 0.5ppt yoy but declined 0.4ppt qoq, which is a slight miss vs consensus expectation at 7.3% likely due to an elevated component cost. Net profit expanded 91.0% yoy and 24.1% qoq to Rmb13.1b (vs guidance of Rmb12.8b-13.8b), which is 1.7% below consensus estimates due to worse-than-expected forex losses; however, do note that this should be largely in line with our estimate of around Rmb13b.

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)	56.0	38.6	20.8	16.9	15.8
P/B (x)	8.6	7.9	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)

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BUY (Maintained)

Share Price	Rmb66.10
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

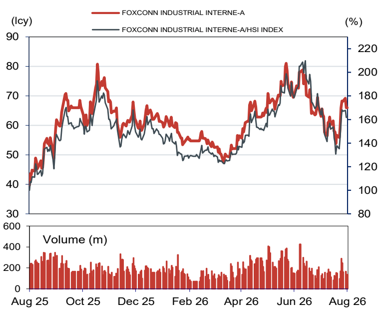
Major Shareholders (%)

Futaihua Industry Shenzhen	21.98

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.

- **Cloud computing revenue grew 75.7% yoy in 1H26 and remains the core growth engine.** Management attributes the growth to surging AI compute demand and customer share gains. Within cloud computing, AI server revenue from cloud service providers rose 2.3x yoy, GPU AI rack shipments surged 3.2x yoy, ASIC AI rack shipments expanded 3x and ASIC CPU server shipments grew 2.5x. In communications and networking, data centre high-speed networking revenue doubled yoy, 800G-plus switch and SuperNIC shipments each rose 140%, and CPO all-optical switch prototypes shipped. Precision components stayed resilient on flagship smartphone shipments and the AI-phone upgrade cycle.

Valuation/Recommendation

- **Maintain BUY and keep target price at Rmb89.50.** We are rolling over to our 2027 estimates, and adjust our PE multiple to 23.7x, now pegged to 2SD above historical average mean.

Earnings Revision/Risk

- We fine-tune our 2026-28 assumptions, with our revenue forecasts adjusted by -0.5%/+8.7%/+9.8% to Rmb1,545b/Rmb2,038b/Rmb2,272b respectively. Our 2026-28 net profit estimates are adjusted by flat/+3.7%/+3.4% to Rmb61b/Rmb75b/Rmb80b respectively. We have factored in a much higher NVL72 rack ASP given the surge in component costs, particularly in memory/PCB/CPU/substrates, which would lead to lower blended margins as ODM's dollar content is unaffected by server ASP ie assembly fee remains fixed. This is however partially offset by FII's sustained content gain in server components such as liquid cooling, server chassis, power supply etc, as well as a higher consignment mix going forward.

Share Price Catalyst

- **Ramp-up of Vera Rubin rack shipments throughout 3Q-4Q26.** Nvidia's Vera Rubin platform moved into mass production in 3Q26, with the company confirming in July that systems have been delivered to, and are being deployed by all of its major customers; the rack-level ramp should step up further in 4Q26. As one of the platform's key rack-level ODM partners, FII should see cloud service equipment revenue accelerate sequentially into 4Q26, on top of continued ASIC AI rack and 800G-plus networking momentum. We expect the AI data centre buildout to remain strong in 2027, with hyperscaler capex guidance and further design wins at cloud service providers as the near-term catalysts.

Changes to 2026-28 estimates

Year to 31 Dec	-------------- Old Estimates ---------			----------- New Estimates -----------			------ Differences (%) ------		
(Rmbm)	2026	2027	2028	2026F	2027F	2028F	2026F	2027F	2028F
Revenue	1,541,515	1,875,953	2,069,450	1,534,532	2,038,466	2,272,045	(0.5)	8.7	9.8
Communication and network Equipment	290,057	297,253	300,937	290,057	297,253	300,937	-	-	-
Cloud Service Equipment	1,249,687	1,576,829	1,766,643	1,242,704	1,739,342	1,969,237	(0.6)	10.3	11.5
Robots and Technology Service	850	950	950	850	950	950	-	-	-
Gross margin	6.1	5.8	5.6	6.0	5.4	5.1	(0.1)	(0.4)	(0.5)
Communication and network Equipment	9.8	10.2	9.6	9.8	10.2	9.6	-	-	-
Cloud Service Equipment	5.2	4.9	4.9	5.1	4.5	4.4	(0.1)	(0.4)	(0.5)
Robots and Technology Service	45.0	45.0	45.0	45.0	45.0	45.0	-	-	-
Operating profit	71,550	83,669	89,121	71,543	86,886	92,303	(0.0)	3.8	3.6
Net profit	61,147	72,347	77,568	61,151	75,057	80,223	0.0	3.7	3.4

Source: FII, UOB Kay Hian

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)

Tencent Music Entertainment Group (1698 HK)

2Q26: Resilient Earnings With Potential Ximalaya Synergies

Highlights

- TME delivered solid 2Q26 results that were slightly above our expectation. Revenue rose 5.8% yoy to Rmb8.9b, while music-related services revenue increased 11.0% yoy to Rmb7.6b. Membership revenue grew 8.1% yoy to Rmb4.79b, supported by continued SVIP expansion and the consolidation of Ximalaya. Non-GAAP net profit rose 4.4% yoy to Rmb2.7b, 7% ahead of our and consensus expectations, with net margin remaining solid at 31%.
- Maintain BUY with a higher target price of HK$53.00 (US$14.00).

2Q26 Results

Year to 31 Dec (Rmbm)	2Q25	1Q26	2Q26	QoQ	YoY	UOBKH	Var	Cons	Var
Revenue	8,442	7,895	8,933	13.1%	5.8%	8,812	1.4%	8,754	2.0%
Online music service	6,854	6,514	7,605	16.7%	11.0%	7,348	3.5%		
Social entertainment / others	1,588	1,381	1,328	-3.8%	-16.4%	1,464	-9.3%		
Cost of sales	4,693	4,349	4,984	14.6%	6.2%	4,999	-0.3%		
Gross profit	3,749	3,546	3,949	11.4%	5.3%	3,813	3.6%	3,872	2.0%
Gross margin	44%	45%	44%	(1 ppt)	(0 ppt)	43%	1 ppt		
Operating expenses	1,156	1,211	1,295	7%	12%	1,240	4%		
S&M	216	271	236	-13%	9%	244	-3%		
G&A	332	332	434	31%	31%	379	14%		
R&D	608	608	625	3%	3%	617	1%		
Non-GAAP OP	3,212	2,897	3,340	15.3%	4.0%	3,197	4%		
Non-GAAP OPM	38%	37%	37%	1 ppt	(1 ppt)	36%	1 ppt		
Non-GAAP NP	2,574	2,273	2,686	18.2%	4.4%	2,512	6.9%		
Non-GAAP NPM	31%	30%	31%	2 ppt	(0 ppt)	29%	2 ppt		
Non-GAAP diluted EPS (RMB)	1.66	1.46	1.70	16.7%	2.8%	1.61	5.9%	1.59	7.2%

Source: Minimax, UOB Kay Hian

Analysis

- **Resilient music-related services growth**. Tencent Music Entertainment Group's (TME) music related services revenue rose 11.0% yoy to Rmb7.6b in 2Q26 (vs 1Q26: 12.2%) to Rmb7.1b, supported by solid growth in advertising revenues. Subscription revenue grew 8.1% yoy (vs 1Q26: 6.7%) to Rmb4.79b. Revenues from marketing and consumption grew 16.2% yoy (vs 1Q26: 28.0%) to Rmb2.81b. Revenues from offline performances related services achieved robust yoy growth.
- **Social entertainment services and other revenue declined 16% yoy** (vs 1Q26: -11%) to Rmb1.33b, due to the adjustments to certain live-streaming interactive functions.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	28,401	32,902	35,948	38,939	42,311
EBITDA	6,489	8,411	9,352	10,242	11,415
Operating profit	7,349	9,678	10,710	11,740	13,062
Net profit (rep./act.)	7,109	11,353	9,955	10,788	12,090
Net profit (adj.)	6,082	12,782	8,977	9,683	10,916
EPS	192.3	408.7	288.3	309.2	348.6
PE	17.2	8.1	11.5	10.7	9.5
P/B	1.5	1.3	1.3	1.6	1.4
EV/EBITDA	13.8	10.6	9.5	8.7	7.8
Dividend yield	0.0	0.0	0.0	0.0	0.0
Net margin	25.0	34.5	27.7	27.7	28.6
Net debt/(cash) to equity	(19.4)	(10.5)	(30.3)	(37.8)	(45.1)
ROE	11.5	15.3	12.6	15.0	17.1
Consensus net profit	-	-	10,046.7	11,056.0	12,177.7
UOBKH/Consensus (x)	-	-	0.89	0.88	0.90

Source: TME, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	HK$38.56
Target Price	HK$53.00
Upside	37.4%
Previous TP	HK$50.00

Stock Data

Sector	Communication Services
Bloomberg ticker	1698 HK
Shares issued (m)	1,658.1
Market cap (US$m)	128,138.7
Market cap (US$m)	16,331.3
3-mth avg daily t'over (US$m)	8.9

Price Performance (%)

52-week high/low				HK$104/HK$31.16
1mth	3mth	6mth	1yr	YTD
10.0	5.0	(38.7)	(55.0)	(44.1)

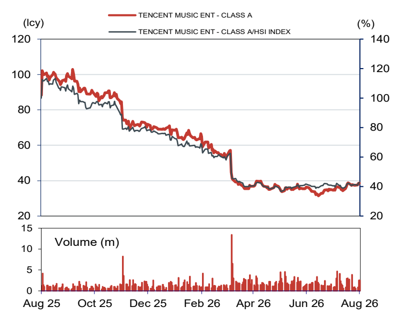
Major Shareholders (%)

Spotify Technology S.A	16.0

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	25.25
FY26 Net Debt/Share (Rmb)	7.65

Price Chart



Source: Bloomberg

Company Description

TME is the world's largest online music platform by monthly average users, with the biggest market share of about 70%. It operates leading music apps including QQ Music, Kugou Music, Kuwo Music and WeSing.

- **Margin improvement.** Gross profit grew 5.3% yoy to Rmb3.9b, with gross margin shrinking 0.2ppt yoy to 44.2% in 2Q26, with the consolidation of Ximalaya having a positive impact on its gross margin this quarter; this was however offset by the decrease in social entertainment revenue. Non-GAAP operating profit rose 4% yoy to Rmb3.3b, with operating margin remaining flattish at 37%.
- **Ximalaya adds scale and broadens TME's audio ecosystem.** Ximalaya contributed Rmb407m of revenue following its consolidation from 18 May 26. Management highlighted its extensive audio content library and expects backend integration to support operational efficiency over time, while also strengthening TME's SVIP offering.
- **AI emerging as an incremental engagement and monetisation driver**. TME is increasingly integrating AI agents across its music ecosystem to enhance personalised discovery, playlist generation and user interaction. Management noted that early adoption has improved retention, particularly among high-value users, while also supporting recommendation engagement and operating efficiency. Generative-AI music features have already delivered positive commercial returns, and management sees further opportunities for AI to support subscription growth and become an incremental revenue contributor over time.
- **Margin outlook remains resilient despite higher Ximalaya investment.** Management expects 2H26 gross margin to increase slightly yoy, supported by a favourable contribution from Ximalaya. From July, TME resumed ROI-disciplined marketing investment in Ximalaya, which should drive a slight increase in 2026 S&M and operating expenses. As a result, 2026 net margin is expected to decline slightly, while adjusted EBITDA should still edge up slightly, supported by continued gross profit growth and cost discipline.
- **Strong cash position supports continued shareholder returns.** TME ended 2Q26 with Rmb44.2b in cash, cash equivalents, term deposits and short-term investments, providing ample liquidity to sustain shareholder returns. Under its existing US$1b share repurchase programme, the company completed US$400m of share buybacks in 2Q26 alone and remains committed to completing the remaining programme. Management also indicated that it is preparing for another round of share repurchases, highlighting continued confidence in the company’s outlook and potential for further capital returns.

Valuation/Recommendation

- **Maintain BUY on TME with a higher target price of HK$53.00 (US$14.00),** based on lower 15x 2026F PE and 13x 2027F PE from the previous 20x, reflecting concerns over intensifying competition, potential margin pressure and uncertainties around AI-related industry disruption. Our 15x 2027F PE target multiple also remains below the historical average. We see potential for a re-rating if music-related services growth remains resilient, Ximalaya synergies become more visible and competitive concerns ease. The company currently trades at **8.9x 2026F PE, more than 1SD below its historical mean of 14x**, suggesting potential re-rating upside.

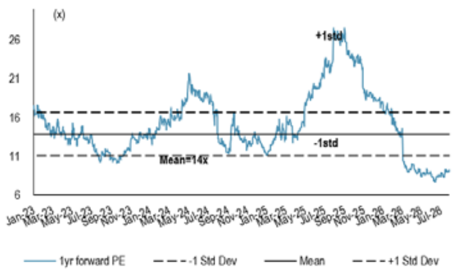
Earnings Revision/Risk

- Our 2026 revenue estimate is largely unchanged, representing a 9.3% yoy revenue growth. We raise 2026 net profit forecast by 6%, implying a 10% yoy growth and a net margin of 34% in 2026.
- **Key risks:** a) Interruption from rising AI content; b) slower net add growth, whereby the retention rate falls with every increase in ARPPU; and c) increasing competition from Soda Music.

Share Price Catalyst

- a) Better-than-expected music services revenue driven by ARPPU hikes; b) upward earnings revisions driven by operating leverage from higher-margin segments including music subscription and advertisement, and c) greater synergy from Ximalaya.

12-Month Forward PE Band



Source: Bloomberg; UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	32,902.0	35,948.2	38,938.9	42,311.2
EBITDA	8,411.0	9,352.0	10,241.9	11,415.3
Deprec. & amort.	(1,267.0)	(1,358.3)	(1,498.5)	(1,646.8)
EBIT	9,678.0	10,710.3	11,740.4	13,062.1
Total other non-operating income	2,674.0	626.0	626.0	626.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	925.0	954.1	952.4	1,056.3
Pre-tax profit	13,277.0	12,290.4	13,318.8	14,744.4
Tax	(1,924.0)	(2,335.2)	(2,530.6)	(2,654.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	11,353.0	9,955.2	10,788.2	12,090.4
Net profit (adj.)	12,782.0	8,977.2	9,683.4	10,915.9

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	1,201.0	1,540.0	481.8	524.3
Other LT assets	68,863.0	75,718.0	61,670.1	62,874.5
Cash/ST investment	8,470.0	23,698.0	24,810.2	34,119.0
Other current assets	23,988.0	15,991.0	16,339.4	17,150.8
Total assets	102,522.0	116,947.0	103,301.5	114,668.6
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	14,589.0	16,750.0	17,795.1	19,180.0
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	4,883.0	19,124.0	19,124.0	19,124.0
Shareholders' equity	80,287.0	78,272.0	65,642.9	75,639.3
Minority interest	2,763.0	2,801.0	739.5	725.2
Total liabilities & equity	102,522.0	116,947.0	103,301.5	114,668.6

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	10,231.0	14,233.4	13,751.1	15,143.4
Profit fo the year	13,277.0	12,290.4	13,318.8	14,744.4
Tax	(1,924.0)	(2,335.2)	(2,530.6)	(2,654.0)
Deprec. & amort.	(1,267.0)	(1,358.3)	(1,498.5)	(1,646.8)
Associates	0.0	0.0	0.0	0.0
Working capital changes	(125.0)	(2,207.0)	(659.7)	(531.8)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	270.0	7,843.5	5,121.1	5,231.6
Investing	(10,227.0)	(2,545.3)	(2,743.0)	(2,872.3)
Capex (growth)	(305.0)	(71.9)	(77.9)	(84.6)
Investment	0.0	0.0	0.0	0.0
Others	(9,922.0)	(2,473.4)	(2,665.1)	(2,787.7)
Financing	(4,649.0)	(3,393.7)	(2,962.3)	(2,962.3)
Dividend payments	0.0	(3,393.7)	(2,962.3)	(2,962.3)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(243.0)	0.0	0.0	0.0
Others/interest paid	(4,406.0)	0.0	0.0	0.0
Net cash inflow (outflow)	(4,645.0)	8,294.4	8,045.8	9,308.8
Beginning cash & cash equivalent	13,164.0	8,470.0	16,764.4	24,810.2
Changes due to forex impact	(49.0)	0.0	0.0	0.0
Ending cash & cash equivalent	8,470.0	16,764.4	24,810.2	34,119.0

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	25.6	26.0	26.3	27.0
Pre-tax margin	40.4	34.2	34.2	34.8
Net margin	34.5	27.7	27.7	28.6
ROA	11.8	9.1	9.8	11.1
ROE	15.3	12.6	15.0	17.1
Growth				
Turnover	15.8	9.3	8.3	8.7
EBITDA	29.6	11.2	9.5	11.5
Pre-tax profit	52.4	(7.4)	8.4	10.7
Net profit	59.7	(12.3)	8.4	12.1
Net profit (adj.)	110.2	(29.8)	7.9	12.7
EPS	112.5	(29.5)	7.2	12.7
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(10.5)	(30.3)	(37.8)	(45.1)

Technical Analysis

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AAC Technologies (2018 HK)

Last price:	HK$42.72
Support levels:	HK$40.46/HK$39.88
Resistance levels:	HK$47.32/HK$50.05

Technical View:

The price has extended its uptrend with a decisive breakout above previous resistance, reinforcing a healthy pattern of higher highs and higher lows. Supported by an RSI that continues to trade above neutral, buyer momentum remains firm. The technical bias stays tilted to the upside, pointing toward further gains as long as the current market structure holds.

Average timeframe: Around two weeks.

Horizon Robotics (9660 HK)

Last price:	HK$5.10
Support levels:	HK$4.83/HK$4.62
Resistance levels:	HK$5.53/HK$6.06

Technical View:

Following a successful breakout, the price is consolidating above resistance-turned-support zone to form a potential flag pattern. Backed by an RSI that maintains its position above neutral territory, the broader bullish posture remains intact. A high-volume move out of this flag structure would signal a resumption of the primary uptrend toward higher resistance levels.

Average timeframe: Around two weeks.