Beansprout

# China's AI Ecosystem

## China's push for AI self-sufficiency

- **China AI ecosystem:** Artificial intelligence has become one of the most important global investment themes, and China is building its own AI ecosystem across chips, cloud infrastructure, models and applications.
- **What is driving investor interest in China's AI stack?** Investor interest has grown as Chinese AI models gain real usage traction, with OpenRouter data showing Chinese-developed models surpassing US models in global token usage for the first time in February 2026. China's AI stack is also supported by domestic substitution, US export controls, a large consumer internet market and demand for Chinese-language enterprise AI tools, driving investment across chips, cloud infrastructure, models and applications.
- **The four layers of China's AI stack.** China's AI ecosystem can be viewed across four connected layers: chips, cloud infrastructure, foundation models and applications. Each layer plays a different role, from providing compute power to deploying AI in consumer and enterprise use cases.
- **Layer 1: Chips & Semiconductor Manufacturing.** SMIC provides direct exposure to China's push for semiconductor self-sufficiency, supplying the chips needed for AI training, inference and data centres. Rising domestic revenue and stronger Q2 2026 guidance suggest improving demand.
- **Layer 2: AI Infrastructure & Cloud.** Alibaba Cloud, Baidu AI Cloud and Tencent Cloud provide the compute, storage and cloud platforms needed to train and deploy AI models. Rising adoption of AI agents and enterprise workflows is driving demand.
- **Layer 3: Foundation Models & AI Agents.** Alibaba's Qwen, Baidu's ERNIE and Tencent's Hunyuan models form the intelligence layer of China's AI stack, powering applications such as coding, document analysis, workflow automation and customer service. AI agents such as WorkBuddy and CodeBuddy show how these models are moving into enterprise workflows, potentially driving more cloud usage, adoption and monetisation.
- **Layer 4: Consumer & Enterprise Applications.** Alibaba, Baidu and Tencent bring AI directly to users through e-commerce, search, social media, games, advertising, autonomous driving and workplace tools. This is where AI can be monetised through higher engagement, better ad targeting, productivity tools and new digital services.
- **Valuations reflect different roles in the AI stack.** Within the group, valuations differ by role in the AI stack, with SMIC valued for semiconductor scarcity, Alibaba and Tencent supported by profitable platform businesses, and Baidu trading at a discount as its AI transition is still being proven.
- **Key risks.** Key risks include US technology export controls, Chinese regulatory uncertainty, macro slowdown, uncertain AI investment returns, model commoditisation, and broader US-China geopolitical tensions.

**Research Analyst**

Ng Hui Min
huimin@growbeansprout.com

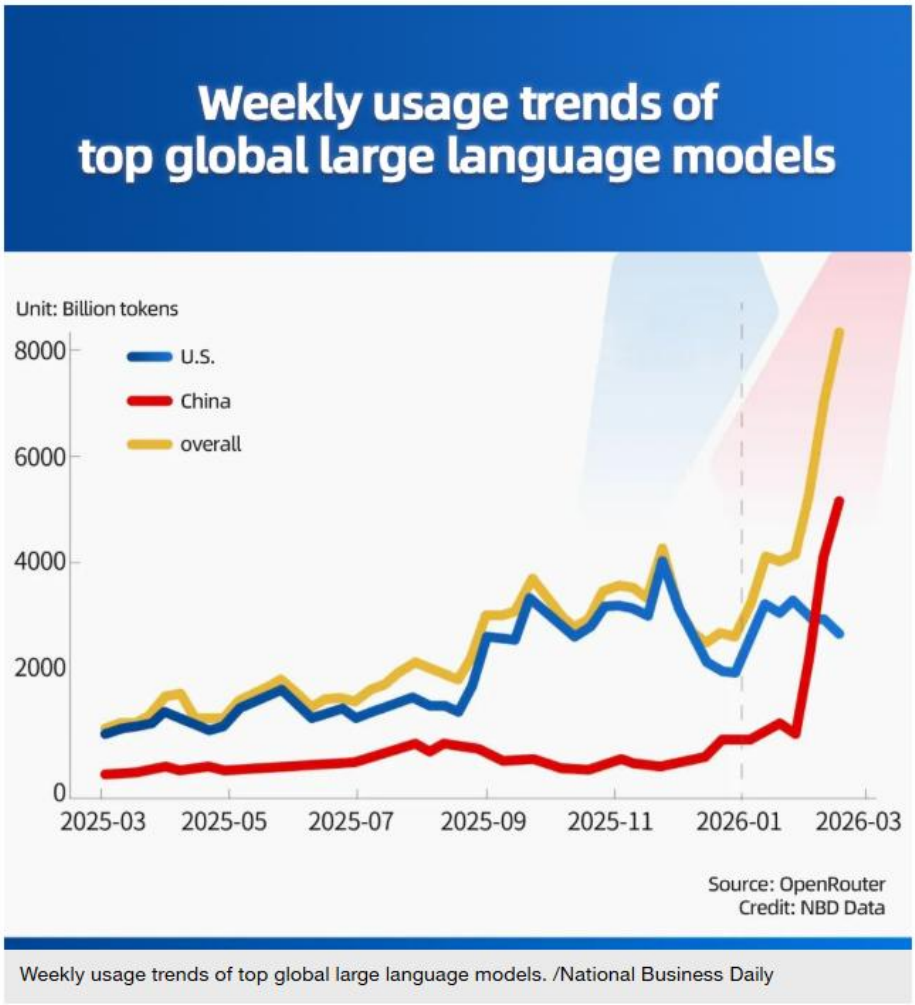
## What is driving investor interest in China's AI stack?

Artificial intelligence has become one of the most important investment themes globally. In the US, investors have focused heavily on companies such as Nvidia, Microsoft, Alphabet, Amazon and Meta, which sit across the AI semiconductor, cloud and application layers. In China, a similar AI ecosystem is taking shape, but with its own characteristics.

One reason investor interest has grown is that China is no longer seen only as a fast follower in AI. Usage data suggests that Chinese AI models are gaining real traction.

According to OpenRouter data, Chinese-developed AI models surpassed US counterparts in global token usage for the first time in February 2026, reaching about 5.16 trillion weekly tokens compared with around 2.7 trillion tokens for US models.

**Figure 1: Weekly usage trends of top global large language models**




*Source: OpenRouter, National Business Daily, CGTN*

This matters because token usage is a practical indicator of adoption. It reflects how often models are being used by developers, applications and enterprises, rather than just how impressive they look in benchmark tests.

China's AI stack has a slightly different structure from the US. It is shaped by domestic substitution, US export controls, a large consumer internet market, and strong demand from enterprises looking to adopt AI tools in Chinese-language workflows. This has created a broad AI value chain that includes domestic chip manufacturing, proprietary AI chips, foundation models, cloud infrastructure, enterprise software, consumer apps, advertising tools and autonomous driving.

The key point is that China's AI opportunity is not limited to one part of the market. It spans the full stack, from chips and cloud infrastructure to models and applications. This is why companies such as SMIC, Alibaba, Tencent and Baidu are increasingly viewed as different ways to gain exposure to China's AI ecosystem.

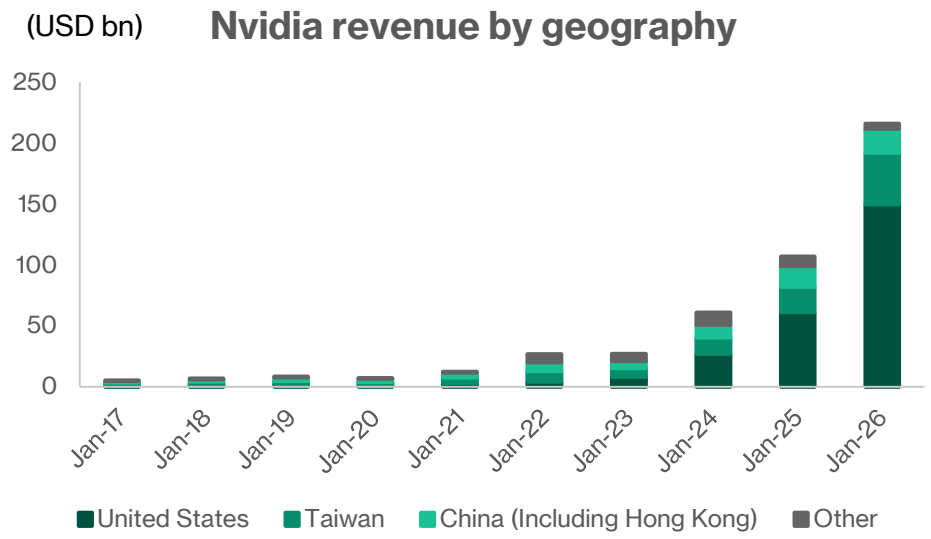
**#1 – Geopolitical pressures are accelerating domestic substitution**

US restrictions on advanced semiconductors have made it more urgent for China to build its own chip supply chain. This is a structural tailwind for SMIC, as more Chinese chip designers look for domestic foundry partners instead of relying on overseas manufacturers.

At the same time, large Chinese technology companies such as Alibaba and Baidu are investing in their own AI chips, including Alibaba's T-Head chips and Baidu's Kunlun chips. This helps reduce reliance on Nvidia hardware, which has become harder for Chinese companies to access.

The key point is that geopolitical pressure is not slowing China's AI ambitions. Instead, it is accelerating domestic substitution across chips, cloud infrastructure and AI platforms.

**Figure 2: Nvidia revenue by geography**




*Source: Factset.*

**#2 – AI agent adoption is driving an inflection in cloud spending**

The AI opportunity is moving beyond chatbots. The next phase is AI agents, which can complete multi-step tasks such as coding, workflow automation, customer service, document analysis and enterprise search. These use cases require much more

computing power than simple chatbot queries. AI agents consume more tokens, need more inference capacity, and often require real-time access to enterprise data.

This is driving stronger demand for cloud infrastructure. Alibaba reported that AI-related cloud revenue has grown at triple-digit rates for 11 consecutive quarters, with AI-related products accounting for 30% of cloud revenue in the latest quarter. Baidu's GPU Cloud revenue also grew 184% year-on-year, reflecting strong enterprise demand for AI compute. Tencent's WorkBuddy has become one of China's most widely used productivity AI agents, showing how AI agents are starting to move into real business workflows.

**#3 – Open-source models are lowering the barrier to AI adoption**

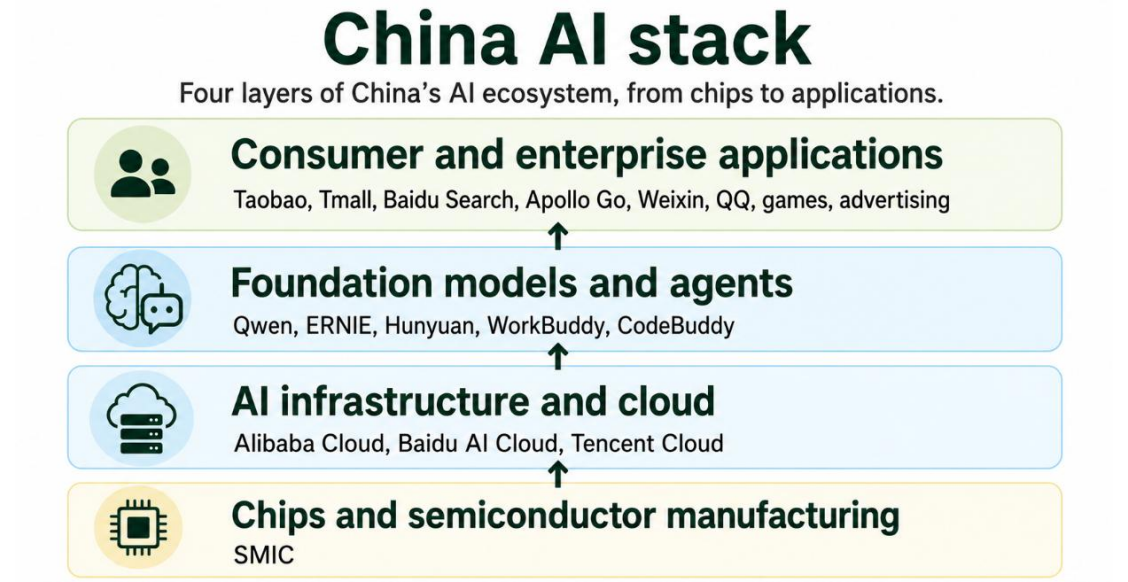
Another important development is the rise of capable and cost-efficient open-source AI models in China. Models from Chinese AI labs and major technology companies are making it easier for developers and enterprises to build AI applications without having to train large models from scratch.

Alibaba has its Qwen model family, Baidu has ERNIE, and Tencent has Hunyuan. As these models become more capable and easier to deploy, they could increase demand for AI cloud services, developer tools, model inference and enterprise AI platforms. Better models can lead to more AI applications. More applications can drive greater cloud demand. And higher cloud demand can support further investment in chips and infrastructure.

## The 4 layers of China's AI stack

China's AI ecosystem can be viewed across four layers, from chips and infrastructure to models and end-user applications. Each layer plays a different role in enabling AI adoption, and the SGX-listed SDRs provide exposure to companies across this stack.

**Figure 3: Four layers of China's AI ecosystem**




*Source: Beansprout Research*

The four layers are connected. Chips provide the computing foundation. Cloud platforms turn compute into scalable infrastructure. Foundation models and agents

create the intelligence layer. Applications bring AI into everyday consumer and enterprise use cases.

This is why investors may find it useful to view SMIC, Alibaba, Baidu and Tencent as complementary exposures rather than direct substitutes. SMIC provides exposure to the chip manufacturing layer. Alibaba, Baidu and Tencent provide exposure to AI infrastructure and cloud, foundation models and agents, and the application layer through their large consumer and enterprise ecosystems.

## How Singapore investors can access the theme

Several Singapore Depository Receipts (SDRs) listed on SGX now offer investors exposure to China's AI ecosystem.

Together, they cover different layers of the technology stack, from semiconductor manufacturing to cloud infrastructure, AI models, and consumer and enterprise applications.

SDRs are instruments that represent beneficial interest in shares of overseas-listed companies. They are issued on an unsponsored basis by Phillip Securities and trade on SGX in Singapore dollars during local market hours.

This allows Singapore investors to gain exposure to selected Hong Kong-listed companies without opening a separate Hong Kong brokerage account.

SDRs also have lower minimum investment amounts compared with buying the underlying shares directly on HKEX, as each SDR represents a fractional interest in the underlying share.

Investors who wish to do so can also convert between SDRs and the underlying shares through the issuance and cancellation process.

**Figure 4: List of SDRs**

| Company | SDR Code | SDR : HK Share Ratio | Sector exposure | Listed on SGX |
|---|---|---|---|---|
| **Semiconductor Manufacturing International Corporation (SMIC)** | HSMD | 5 SDRs : 1 HK share | Chips / Semiconductor foundry | 23-Jun-25 |
| **Alibaba Group Holding** | HBBD | 5 SDRs : 1 HK share | Cloud, e-commerce, AI models | 30-Oct-24 |
| **Tencent Holdings** | HTCD | 10 SDRs : 1 HK share | Social, gaming, AI applications | 30-Oct-24 |
| **Baidu** | HBUD | 10 SDRs : 1 HK share | AI platform, cloud, autonomy | 12-Nov-25 |

*Source: SGX*

### #1 - Layer 1: Chips & Semiconductor Manufacturing

At the base of the AI stack is semiconductor manufacturing. AI workloads require chips to train models, run inference and power data centres. While China still relies on global suppliers for the most advanced AI chips, domestic semiconductor manufacturing has become increasingly important as the country pushes for greater technology self-sufficiency.

This layer provides exposure to the upstream part of China's AI buildout, where demand is driven by domestic substitution, semiconductor capacity expansion and the need for locally produced chips.

**SMIC (SGX: HSMD)**

Semiconductor Manufacturing International Corporation, or SMIC, is China's largest contract chip manufacturer and one of the largest foundries globally.

Headquartered in Shanghai, SMIC operates wafer fabrication facilities in Shanghai, Beijing, Tianjin and Shenzhen, serving customers across both 8-inch and 12-inch wafers.

SMIC is the most direct listed proxy for China's push towards semiconductor self-sufficiency.

Unlike AI chip designers, SMIC is a foundry. This means it manufactures chips designed by other companies.

As China's domestic semiconductor ecosystem develops, SMIC could benefit from rising demand from local chip designers, consumer electronics companies, industrial customers, automotive players and AI-related semiconductor firms.

SMIC's SDR trades on SGX under the ticker HSMD, with a ratio of 5 SDRs to 1 Hong Kong-listed share. This lowers the minimum investment amount compared with buying the underlying share directly in Hong Kong.

**1Q2026 financial performance**

SMIC delivered a steady set of Q1 2026 results.

**Figure 5: SMIC 1Q26 Financial highlights**

SMIC Q1 2026 Financial Highlights

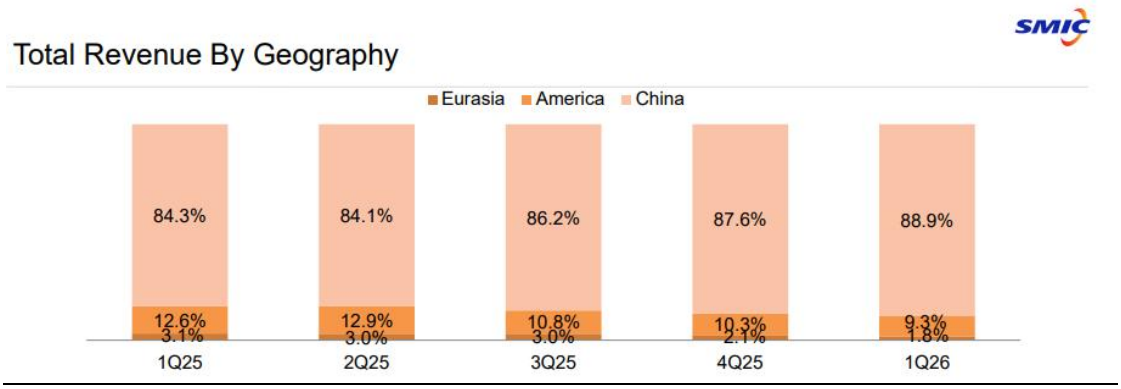
| Metric | Latest (Q1 2026) | YoY / QoQ Change |
|---|---|---|
| Revenue (Q1 2026) | US$2,505M | +11.5% YoY |
| Gross Profit | US$504M | +5.3% QoQ |
| Gross Margin | 20.1% | vs 19.2% in Q4 2025 |
| EBITDA | US$1,435M | EBITDA margin: 57.3% |
| Profit attributable to SMIC | US$197M | +14.2% QoQ |
| Monthly Capacity | 1,078,250 wafers (8-inch equivalent) | – |
| Utilization Rate | 93.1% | vs 95.7% in Q4 2025 |
| Wafer Shipments | 2,509,137 wafers | +9.5% YoY |
| Capex (Q1 2026) | US$1,563M | Heavy investment cycle |

*Source: Company data, Beansprout Research.*

Revenue rose 0.7% quarter-on-quarter and 11.5% year-on-year, reflecting continued demand for China-made semiconductors. Gross margin improved to 20.1%, from 19.2% in the previous quarter, supported by a better product mix and average selling prices. Profit attributable to shareholders rose 14.2% quarter-on-quarter to US$197 million.

One important trend is SMIC's growing exposure to China. China accounted for 88.9% of revenue in Q1 2026, up from 84.3% a year earlier, highlighting the accelerating shift towards domestic semiconductor supply.

**Figure 6: Total revenue breakdown by geography**

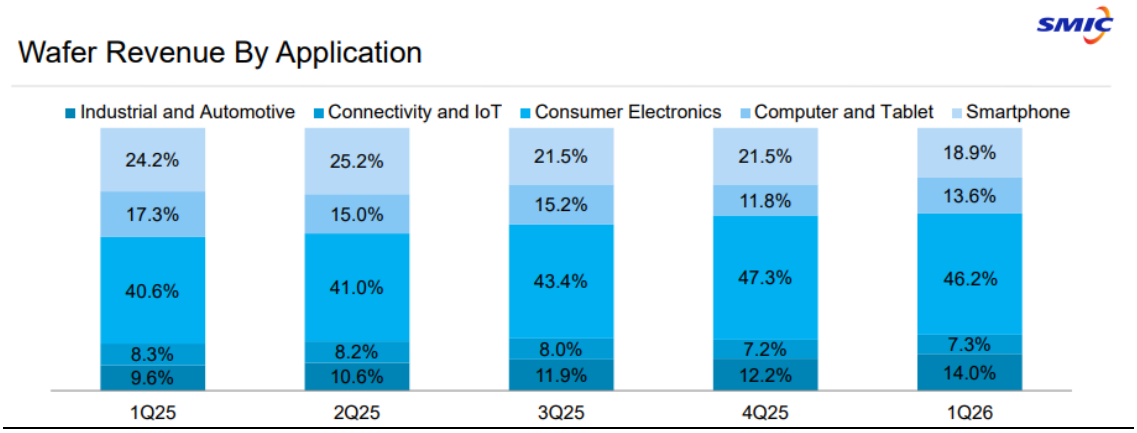



*Source: Company data.*

SMIC's application mix is also becoming more diversified.

Consumer electronics remained the largest segment at 46.2% of wafer revenue, while industrial and automotive revenue rose to 14.0%, from 9.6% a year earlier.

**Figure 7: Wafer revenue by application**




*Source: Company data.*

This suggests that SMIC is not only dependent on smartphones or consumer devices, but is also gaining exposure to broader demand from industrial, automotive and AI-related applications.

**Q2 2026 guidance signals stronger momentum**

SMIC's guidance suggests that business momentum could improve meaningfully in Q2 2026.

The company guided for revenue growth of 14% to 16% quarter-on-quarter, a clear acceleration from the 0.7% sequential growth recorded in Q1 2026.

It also expects gross margin to come in between 20% and 22%, broadly in line with Q1's 20.1%.

Management said it has become more optimistic about the full-year outlook, supported by customer demand and orders on hand.

At the midpoint of SMIC's Q2 revenue guidance, revenue would reach around US$2.88 billion, suggesting that order momentum is building.

One possible driver is stronger demand from Chinese chip designers and technology companies seeking local alternatives, as access to advanced foreign semiconductors and equipment remains constrained.

However, investors should also note that SMIC is a capital-intensive business.

Capital expenditure was US$1.56 billion in Q1 2026, and more than US$8 billion over the trailing twelve months.

These investments may support future capacity growth, but they could also weigh on near-term free cash flow and returns.

**#2 - Layer 2: AI Infrastructure & Cloud**

Above the chip layer is AI infrastructure and cloud. This includes the data centres, servers, compute capacity, storage, networking and cloud platforms needed to train and deploy AI models. As companies move from simple AI chatbots to more advanced AI agents and enterprise workflows, demand for cloud infrastructure and AI compute is increasing.

This layer includes Alibaba Cloud, Baidu AI Cloud and Tencent Cloud. Alibaba is one of the clearest beneficiaries, with AI-related products already accounting for a meaningful share of cloud revenue. Baidu is seeing strong demand for AI Cloud Infrastructure and GPU Cloud as enterprises adopt AI services. Tencent benefits through its cloud and business services segment, where AI-related demand is growing alongside its broader ecosystem.

**Alibaba (SGX: HBBD) – cloud and AI infrastructure**

Alibaba Group is one of China's largest e-commerce and cloud computing companies. For AI investors, the key business to watch is Alibaba Cloud, which sits under its Cloud Intelligence Group. Alibaba Cloud is one of China's leading public cloud providers, offering cloud infrastructure, AI compute and model-as-a-service platforms.

Alibaba has also built a full-stack AI strategy, spanning proprietary T-Head chips, the Qwen family of large language models, cloud infrastructure, developer tools, and enterprise and consumer AI applications. Alibaba's SDR trades on SGX under the ticker HBBD, with a ratio of 5 SDRs to 1 Hong Kong-listed share. The underlying shares are listed in Hong Kong under 9988 and in New York under BABA.

**Alibaba Cloud shows AI is already driving revenue growth**

Alibaba's Cloud Intelligence Group delivered one of the clearest signs that China's AI infrastructure buildout is translating into real revenue. Full-year cloud revenue rose 34% year-on-year to RMB158 billion in FY2026. The momentum was even stronger in the final quarter, with external cloud revenue growing 40% year-on-year.

AI-related product revenue has now grown at triple-digit rates for 11 consecutive quarters. This suggests that AI is no longer just a future opportunity for Alibaba. Developers and enterprises are already using Alibaba's model APIs, inference infrastructure and agent services in production workloads.

Alibaba's full-stack approach is designed to capture spending across multiple layers of the AI value chain. CEO Eddie Wu has highlighted AI agents as a major opportunity, as they take on more work across the digital economy. The trade-off is higher investment. Free cash flow swung from an inflow of RMB73.9 billion in FY2025 to an outflow of RMB46.6 billion in FY2026, mainly due to heavier spending on cloud infrastructure. The key question is whether this capex cycle can translate into sustained cloud revenue growth and stronger profitability over time.

**Figure 8: Alibaba Cloud Intelligence Group – key financial metrics**

Alibaba

**Alibaba Cloud Intelligence Group — Key financial metrics**

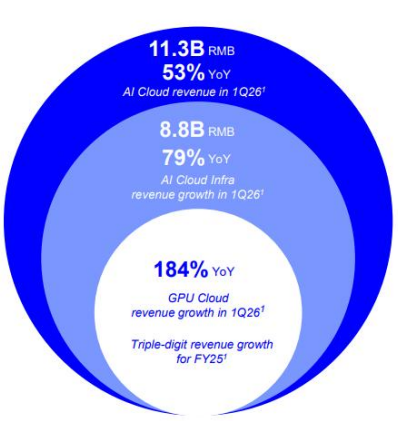
| Metric | Value | Change |
|---|---|---|
| Cloud Revenue (FY2026) | RMB158bn (US$22.9bn) | +34% YoY |
| Cloud Revenue (March Quarter 2026) | RMB41.6bn (US$6.0bn) | +38% YoY |
| Cloud External Revenue Growth | 40% YoY | March Quarter 2026 |
| AI-Related Product Revenue (Q4 FY2026) | RMB8,971M | 11th consecutive quarter of 100%+ growth |
| AI as % of Cloud Revenue | 30% | March Quarter 2026 |
| Cloud Adjusted EBITA (FY2026) | RMB14.3bn (US$2.1bn) | +35% YoY |
| Group Revenue (March Quarter 2026) | RMB243.4bn | +11% YoY |

*Source: Company data, Beansprout Research.*

### Baidu (SGX: HBUD) – AI cloud infrastructure

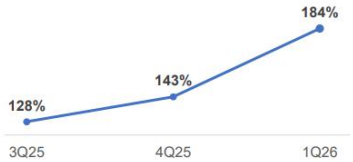
Baidu is investing heavily in its AI Cloud Infrastructure, with Kunlun AI chips and the PaddlePaddle deep learning framework forming the backbone of its cloud offering. The company believes that integrating these layers gives it a competitive edge, rather than competing only on price.

**Figure 9: AI Cloud Infra: Delivering Exceptional Growth**




**Key Highlights**

- GPU Cloud revenue YoY growth continued to accelerate[1,2].




- Kunlunxin is increasingly recognized for its high efficiency, strong stability, broad compatibility and versatility.
- Qianfan MaaS platform
  - **Daily average token consumption** from external customers reached **~7x** year-ago level[3].
  - Expanded model library with **a growing set of in-demand models,** including ERNIE and popular models from Zhipu AI, MiniMax, Kimi, and DeepSeek.

Note: [1] The revenue presented in this slide is derived from the Company's internal management accounts and records, which has not been audited. AI Cloud revenue includes revenue from AI Cloud Infra and AI Applications. [2] GPU Cloud revenue was previously referred to as subscription-based revenue from AI accelerator infrastructure. This change in naming does not imply any change in the underlying revenue definition or scope. [3] Company data in March, 2026.

2

*Source: Company data.*

Baidu's AI Cloud Infrastructure revenue grew 79% year-on-year, while GPU Cloud revenue surged 184% year-on-year, reflecting strong enterprise demand for AI compute. This makes Baidu one of the fastest-growing AI cloud providers in China at the infrastructure level.

**Tencent (SGX: HTCD) – business services and cloud**

Tencent's Business Services segment, which includes Tencent Cloud, grew 20% year-on-year in Q1 2026, helped by stronger cloud revenue and AI-related demand from both domestic and international customers. As Tencent's AI capabilities expand, its cloud business provides infrastructure support across its consumer and enterprise ecosystem.

**#3 - Layer 3: Foundation Models & AI Agents**

The third layer is foundation models and AI agents. Foundation models are the large language models and multimodal models that power AI applications. AI agents build on these models by completing more complex tasks, such as coding, document analysis, workflow automation, customer service and enterprise productivity.

This layer includes Qwen (Alibaba), ERNIE (Baidu), Hunyuan (Tencent), WorkBuddy and CodeBuddy. The stronger the models and agents become, the more likely they are to drive cloud usage, enterprise adoption and application monetisation.

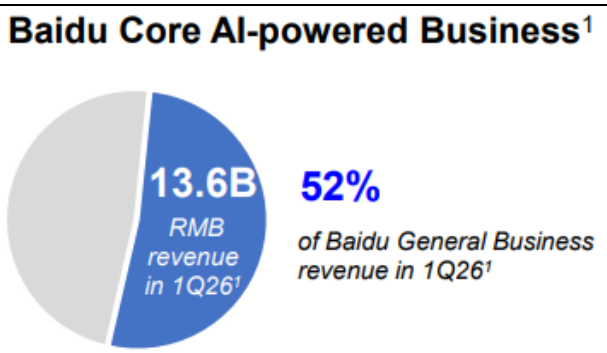
**Alibaba – Qwen model family**

Alibaba's Qwen model family supports its cloud, developer and enterprise AI ecosystem. The Qwen family is among the leading open-source models globally, and Alibaba has continued to release updates – three within a three-month period. The latest Qwen3.7-Max is engineered specifically for agentic tasks. This model strength underpins Alibaba Cloud's growing share of AI-related workloads, as developers and enterprises select cloud providers based on the quality of their model offerings.

**Baidu – ERNIE and AI agent ecosystem**

Baidu's ERNIE models power its AI search, AI cloud, productivity tools and enterprise applications. Baidu's strategy is built around full-stack AI development: Kunlun chips, PaddlePaddle, ERNIE and Baidu AI Cloud work together as an integrated system. This integration is cited as the basis for competitive differentiation. Baidu's AI-powered business revenue, which spans AI cloud, AI-native marketing and AI enterprise services, reached RMB13.6 billion in Q1 2026, growing 49% year-on-year and exceeding 50% of core revenue for the first time.

**Figure 10: AI-powered Business: Exceeding 50% of Baidu General Business Revenue**




| RMB in billions | 1Q25 | 1Q26 | YoY |
|---|---|---|---|
| **Baidu Core AI-powered Business[1]** | **9.1** | **13.6** | **49%** |
| - AI Cloud Infra | 4.9 | 8.8 | 79% |
| - AI Applications | 2.5 | 2.5 | 0% |
| - AI-native Marketing Services | 1.7 | 2.3 | 36% |

*Source: Company data. Note: 1 Starting in 4Q25, we redefined Baidu Core as Baidu General Business. Baidu General Business includes Baidu Core AI-powered Business, Legacy Business, and Others. Legacy Business mainly consists of traditional advertising services across Search, Feed and other properties. The revenue and operational data presented in this slide are derived from the Company's internal management accounts and records, which have not been audited*

**Tencent – Hunyuan, WorkBuddy and CodeBuddy**

Tencent has rebuilt its large language model team and upgraded its training infrastructure, helping Hunyuan become more competitive. The Hunyuan model is already deployed across many of Tencent's internal products, including Yuanbao, QQ, WorkBuddy and Tencent News.

WorkBuddy is one of China's most widely used enterprise AI agents. It shows how Tencent can turn AI capabilities into real productivity tools. CodeBuddy brings AI-assisted coding to the developer ecosystem. These agent products are showing strong organic user growth and high retention, and represent an emerging high-margin, recurring revenue opportunity.

**#4 - Layer 4: Consumer & Enterprise Applications**

At the top of the stack are consumer and enterprise applications. This is where AI reaches users directly. Applications turn AI capabilities into real use cases, whether through e-commerce, search, social media, games, advertising, autonomous driving or workplace productivity tools.

This layer is where AI may ultimately be monetised through higher engagement, better advertising efficiency, productivity tools, autonomous mobility and new digital services.

**Alibaba – e-commerce and enterprise applications**

Alibaba can embed AI across Taobao, Tmall, merchant tools and customer service use cases. AI-enhanced product recommendations, dynamic pricing, and automated customer service agents could improve conversion rates and reduce costs across the

platform. The Wukong enterprise agent platform enables businesses to automate complex workflows using Alibaba Cloud and Qwen.

**Baidu – search, AI-native marketing and Apollo Go**

Baidu is integrating AI into search and also scaling Apollo Go, its autonomous driving platform. Apollo Go delivered 3.2 million fully driverless rides in Q1 2026, making it one of the most commercially deployed robotaxi services globally.

**Figure 11: Baidu 1Q26 financial metrics**

Baidu 百度 Key financial metrics (Q1 2026)

| Metric | Value | Change |
|---|---|---|
| Baidu General Business Revenue | RMB26.0bn | +2% YoY – first positive growth in several quarters |
| AI-Powered Business Revenue | RMB13.6bn | +49% YoY; 52% of Baidu General Business |
| AI Cloud Infrastructure Revenue | RMB8.8bn | +79% YoY |
| GPU Cloud Revenue Growth | +184% YoY | Accelerating from +143% in Q4 2025 |
| Total AI Cloud Revenue | RMB11.3bn | AI Cloud Infra + AI Applications |
| Non-GAAP Operating Income | RMB4.0bn | +39% QoQ; non-GAAP margin 12% |
| Operating Cash Flow | RMB2.7bn | 3rd consecutive positive quarter |
| Apollo Go Rides (Q1 2026) | 3.2M | Fully driverless rides in the quarter |

*Source: Company data.*

Baidu General Business revenue returned to growth at +2% year-on-year after several quarters of decline. However, Baidu's traditional search advertising business remains under pressure as users shift towards AI-native search interfaces. AI-native marketing revenue is growing, but remains too small to fully offset the decline in legacy advertising revenue. Baidu is also investing heavily in AI infrastructure, with capital expenditure rising sharply year-on-year. This could increase depreciation costs and weigh on margins in the near term.

**Tencent – Weixin, gaming, advertising and enterprise**

Tencent has one of the strongest application ecosystems in China, with Weixin, QQ, games, advertising, Mini Programs and enterprise tools offering multiple channels for AI adoption. Weixin has more than 1.4 billion users – a scale that gives Tencent a powerful channel to deploy AI tools directly within the apps that consumers and businesses already use every day.

Tencent's Q1 2026 results showed that its core business remains resilient, even as it invests in new AI products. Excluding investments in new AI products such as Hunyuan, Yuanbao, CodeBuddy, WorkBuddy and QClaw, non-IFRS operating profit grew 17% year-on-year, with an operating margin of 43%. This underlying earnings power gives Tencent the financial capacity to keep investing in AI.

Marketing Services was the standout segment, growing 20% year-on-year, supported by AI-enhanced advertising recommendations within the WeChat ecosystem. Tencent's AI opportunity is not just about building models. It is about using its massive ecosystem to distribute AI applications at scale.

**Figure 13: Tencent 1Q26 Financial highlights**

Tencent 腾讯 Tencent — Key financial metrics (Q1 2026)

| Metric | Value | Change |
|---|---|---|
| Total Revenue | RMB196.5bn | +9% YoY |
| Gross Profit | RMB111.3bn | +11% YoY |
| Non-IFRS Operating Profit | RMB75.6bn | +9% YoY; margin stable at 38.5% |
| Operating Profit (ex. New AI) | RMB84.4bn | +17% YoY; margin 43% |
| Net Profit (Non-IFRS) | RMB69.8bn | +11% YoY |
| Marketing Services Revenue | RMB38.2bn | +20% YoY |
| FinTech & Business Services | RMB59.9bn | +9% YoY; Business Services +20% YoY |
| Weixin/WeChat MAU | 1,432M | +2% YoY |
| Free Cash Flow | RMB56.7bn | +20% YoY |
| Net Cash Position | RMB146.9bn | +63% YoY |
| Capital Expenditure | RMB31.9bn | +16% YoY |

*Source: Company data, Beansprout Research.*

One of the most important developments is Tencent's Hunyuan model family.

Tencent has rebuilt its large language model team and upgraded its training infrastructure, helping Hunyuan become more competitive. The model is already being used across many of Tencent's internal products, including Yuanbao, QQ, WorkBuddy and Tencent News.

The bigger opportunity may come from AI agents.

Tencent has a major distribution advantage through WeChat, which has more than 1.4 billion users. This gives the company a powerful channel to roll out AI tools directly within the apps that consumers and businesses already use every day.

WorkBuddy is one example of this strategy. It has become one of China's most widely used enterprise AI agents, showing how Tencent can turn AI capabilities into real productivity tools.

Tencent's AI opportunity is not just about building models. It is about using its massive ecosystem to distribute AI applications at scale.

## Valuations reflect different roles in the AI stack

**Figure 14: Peer comparison**

| Company Name | Ticker | Currency | Price | Market Value (US$b) | P/E NTM (x) | P/BV (x) | Dividend Yield (%) | ROE (%) |
|---|---|---|---|---|---|---|---|---|
| Semiconductor Manufacturing International Corp. | 981-HK | HKD | 76.50 | 100.3 | 72.6 | 3.4 | - | 3.3 |
| Alibaba Group Holding Limited | 9988-HK | HKD | 104.90 | 256.9 | 17.0 | 1.8 | 0.9 | 10.2 |
| Tencent Holdings Ltd | 700-HK | HKD | 440.20 | 511.6 | 12.8 | 4.2 | 0.9 | 21.0 |
| Baidu, Inc. Class A | 9888-HK | HKD | 111.70 | 33.1 | 14.7 | 1.2 | - | 1.8 |
| NVIDIA Corporation | NVDA-US | USD | 210.7 | 5098.7 | 23.6 | 29.0 | 0.0 | 101.5 |
| Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR | TSM-US | USD | 462.1 | 1981.0 | 29.4 | 9.1 | 0.9 | 36.4 |
| Microsoft Corporation | MSFT-US | USD | 379.4 | 2818.3 | 22.6 | 10.8 | 0.0 | 33.3 |
| Alphabet Inc. Class C | GOOG-US | USD | 367.5 | 4148.4 | 25.8 | 9.1 | 0.0 | 35.7 |
| Meta Platforms Inc Class A | META-US | USD | 577.2 | 1267.6 | 17.5 | 7.7 | 0.0 | 30.2 |
| Amazon.com, Inc. | AMZN-US | USD | 244.4 | 2628.9 | 27.8 | 6.0 | 0.0 | 22.3 |
| Average | | | | | 26.4x | 8.2x | 0.3% | 29.6 |
| Median | | | | | 23.1x | 6.9x | 0.0% | 26.3 |

*Source: Factset, Data as of 19 June 2026*

The four China AI SDRs trade at significantly lower valuations than many global AI leaders, despite operating at meaningful scale in their respective markets.

This partly reflects the different risk profiles of Chinese technology companies, including geopolitical risk, regulatory uncertainty and concerns about returns on AI investment.

Within the group, valuations also differ meaningfully.

SMIC trades at the highest forward P/E among the four, reflecting its scarcity value as China's leading domestic foundry with scale. However, its ROE remains low at 3.3%, highlighting the capital-intensive nature of semiconductor manufacturing.

Alibaba and Tencent trade at more moderate forward P/E multiples of 17.0 times and 12.8 times respectively. Both are supported by large, profitable core businesses, while offering exposure to cloud, models, AI applications and enterprise adoption.

Baidu trades at a lower valuation, with a forward P/E of 14.7 times and price-to-book of 1.2 times. This reflects investor concerns over its legacy search advertising business, although the discount could narrow if AI revenue continues to grow as a share of total revenue.

Compared with global AI leaders such as Nvidia, TSMC, Microsoft, Alphabet, Meta and Amazon, the China AI names generally trade at lower price-to-book multiples and lower ROEs.

This suggests that investors are paying less for China AI exposure, but also demanding a higher risk premium.

Dividend yields across the four SDRs are low or negligible, apart from small yields from Alibaba and Tencent. Investors should therefore view these names mainly as structural growth exposures to China's AI buildout, rather than income stocks.

The key question is whether their AI investments can translate into sustained revenue growth, stronger margins and better returns on capital over time.

## Key risks

The China AI theme is compelling, but investors should not ignore the risks.

**US technology export controls**

The first risk is US technology export controls. Further restrictions on semiconductor equipment, AI chips, cloud software or data transfer could affect China's AI development. SMIC could face constraints in capacity expansion, while Alibaba and Baidu may find it harder to access high-performance AI hardware. At the same time, these restrictions could also accelerate China's push towards domestic alternatives.

**Chinese regulatory risk**

The second risk is Chinese regulation. Large technology companies in China remain exposed to policy changes across gaming, fintech, social media, cloud services and AI content. A return to the more aggressive regulatory environment seen in 2021 and 2022 could weigh on earnings and valuations.

**Macro slowdown and enterprise IT budget pressure**

The third risk is a weaker macro environment. If China's economic recovery disappoints, companies may slow spending on cloud services, AI infrastructure and digital transformation. This would affect Alibaba and Baidu most directly, while Tencent could also feel the impact through softer advertising and gaming revenue.

**AI investment returns remain uncertain**

The fourth risk is uncertain returns from AI investment. SMIC, Alibaba, Tencent and Baidu are all investing heavily in AI-related infrastructure, models and applications. If enterprise AI adoption is slower than expected, or if cloud pricing becomes more competitive, returns on these investments may disappoint.

**Technology competition and model commoditisation**

The fifth risk is technology competition. Open-source models are helping to broaden AI adoption, but they could also reduce pricing power for model providers and cloud platforms over time. This may put pressure on margins for Alibaba Cloud and Baidu AI Cloud.

**Geopolitical escalation beyond technology**

Finally, investors should be mindful of broader geopolitical risk. Any escalation in US-China tensions could affect sentiment towards Chinese equities and SDRs, even if the underlying businesses continue to perform.

## Disclosure Appendix

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