

**Tencent's 1.4 Billion Users Give It an AI Edge No Western Platform Can Match****Price \$63.50****Growth Holding****April 6, 2026**

- Chinese internet conglomerate spanning gaming, social media, fintech, and cloud computing, anchored by WeChat/Weixin with 1.4 billion monthly active users.
- Management guiding ~80% of earnings returned to shareholders via dividends and buybacks; forward dividend yield of 1.1% with an 18% proposed dividend increase.
- WeChat Pay processes over 1 billion commercial transactions per day, making Tencent a co-dominant player in Chinese digital payments alongside Alipay
- Largest gaming company in the world by revenue; international holdings include Riot Games (League of Legends, Valorant), Supercell, and significant stakes in Epic Games and Ubisoft

Investment Thesis

Tencent (TCEHY) is a Chinese internet giant covering products and services in gaming, social media, fintech and cloud computing. WeChat and its domestic counterpart Weixin are dominant messaging apps with more than 1.4 billion monthly active users. In the quarter ending December 2025, the fintech arm processed more than 1 billion commercial payment transactions per day. While not publishing total payment volume, competitor Alipay with 53% market share (compared to WeChat Pay's 42%) processed \$20.1 trillion in volume in 2025.

We believe that Tencent's high penetration among Chinese consumers provides a strong ecosystem to deploy AI-enabled products, while the existing business units will allow for a largely self-funding development cycle. During FY25, Tencent generated \$32 billion in free cash flow, with management guiding toward \$5.8 billion in additional capex spend connected to AI in 2026.

Estimated Fair Value

EFV (Estimated Fair Value) = EFY27 EPS (Earnings Per Share) times P/E (Price/EPS)

EFV = E27 EPS X P/E = \$4.99 X 20.0 = \$99.98



Since 2020, Tencent's P/E has compressed meaningfully. Even since mid 2025, the P/E has contracted from the mid 20s range down to the low teens, which we believe discounts the strong free cash flow generation that allows for self-funding of AI products.

	E2026	E2027	E2028
Price-to-Sales	4.6	4.2	3.9
Price-to-Earnings	13.7	12.7	11.6

SeekingAlpha Analyst Consensus

AI Search Substitution is Reality in China

Tencent's AI development can be split into the consumer and professional areas. On the consumer side is Yuanbao, an AI assistant embedded within Weixin (WeChat). During the first quarter of 2026, Yuanbao hit 114 million monthly active users. The primary Yuanbao assistant is deployed on the internally developed Hunyuan model, and is capable of searching for content, general assistant functions like reminders, and deep reasoning including image editing and writing code. On a benchmark basis, the current iteration performs marginally worse than DeepSeek R1, though users can switch through available models including R1. Users are also now able to use the popular OpenClaw (branded as QClaw) agent within Weixin. For professionals, the model can be deployed agentially through WorkBuddy to write code. Professional users can also switch to popular Chinese thinking models such as DeepSeek and Kimi.

AI-driven search substitution was a brief fear in the West following several announcements by OpenAI and potential cannibalization fears within Google. However, these fears never meaningfully materialized in the data, with Google retaining around 84% of its search share in the US. In China, consumer behavior has trended toward internal discovery, with most users within closed ecosystems like Douyin (TikTok), Xiaohongshu (RedNote), or Weixin (WeChat) typically not leaving those apps to search. As a result Baidu, the primary search engine in China, typically rests at around 50-75% of share depending on methodology.

AI-apps are not fighting an uphill battle in China, instead most users demonstrate a general willingness to utilize AI so long as they are within ecosystems already utilized. According to CNNIC's statistical report, China now has 1.3 billion internet users (80.1% of the country), with 602 million of those adopting some form of generative AI. The US has a just 28% adoption rate, though it is important to note that Chinese adoption rates are likely similar for standalone apps.



TRADITION

TRADITIONMENT.COM

(850) 418-6182

Unlike Western labs, the competitive position in China appears to be determined by reach and cost rather than intelligence. Kimi by MoonshotAI was once a powerhouse in China backed by Alibaba and even rivaled Anthropic's Claude in capability during its initial release, but its relatively high cost and more limited uses caused it to drop from 3rd most popular model in August 2024 to 7th by June 2025.

As for cost, a RAND report noted that many of these Chinese flagship models operate at a fraction of their western counterparts, which allows for much stronger subsidized usage to encourage adoption. During the most recent Lunar holidays, all of the major Chinese firms launched promotional campaigns for AI-use, with ByteDance's DouBao surpassing 100 million daily active users, and Tencent's own Yuanbao passing 50 million daily active users.

Operations

Tencent operates 4 segments, VAS (value added services) which includes gaming, social networking and streaming makes up 49.1% of revenues, followed by FinTech and business services making up 30.5%, marketing making up 19.3%, and the remaining 1.1% being licensing and distribution.

By revenue, Tencent is the largest gaming company in the world, with its flagship domestic titles peaking 50 million daily active players. Internationally, Tencent owns Riot Games, creator of popular titles League of Legends and Valorant, and mobile gaming giant Supercell. Tencent has a prolific investment arm, and owns a large stake in Epic Games and Ubisoft.

FinTech and Business segment is dominated by the previously discussed Weixin pay, one of the two dominant payment ecosystems in China. Because the payment chain sits within Weixin, Tencent captures high-margin fees from the 1 billion payments processed per day. As for consumer-facing services, Tencent offers a wealth-management office that includes consumer loans, insurance, and investments. The segment also contains a small cloud service provider, which achieved first profitability during 2025 driven by AI demand.

Marketing services monetize Tencent's own content through streaming services, and advertisements on its own short-form video service, Video Accounts. While not nearly as large as its competitors, time spent on Video Accounts grew 20% year over year in 2025. The increase in time spent was due to improvements in content serving algorithms, which Tencent has deployed in its advertising arm. In the AIM+ service, small and medium businesses set a budget and target audience and allow AIM+ to decide bidding, creative optimization, and targeting. These ads are designed to be closed-loop, meaning when a user clicks an ad it leads them to a store within Tencent's own ecosystem, reducing user friction.



TRADITION

TRADITIONMENT.COM

(850) 418-6182

Risk

The Chinese government approves games to be released and, in the past, such as 2018 and 2021, suspended the issuance of new licenses. While currently the industry is strong with the government approving 467 games during the quarter ending March 2026, a 22% year over year increase, the enforcement of rules tends to be opaque and arbitrary.

We believe that management's stated figures for doubling AI spending are sustainable for now, but a failure to monetize or rising costs due to limited hardware would create margin pressure quickly. Within China, there is a subsidy race which has forced all of the majors (Tencent, Alibaba, Bytedance) into a cash-burning posture to acquire as many users as possible.

Financials

For the fiscal year ending December 2025, revenues were up 14% year over year. On a segment basis the value-added services segment grew 16% year over year driven by an 18% year over year increase in domestic gaming revenue and 33% increase in international revenue. Marketing grew 19% year over year due to advances in AI-based ad targeting. Finally, Fintech and Business services grew 8% year over year due to increased fees from wealth management services, the consumer loan portfolio, and international demand for cloud services.

Operating margin was flat year over year at 32.0%, driven both by promotional spending on Yuanbao and additional G&A expenses connected to AI talent acquisition and compute costs.

Free cash flow was up 18% year over year to \$32 billion, though Tencent reports a more conservative \$26.5 billion figure which also subtracts recurring lease liabilities and media licensing fees. We believe the balance sheet is strong, with Tencent reporting \$61 billion in cash on the balance sheet against \$47 billion in long-term debt. Long-term debt to adjusted EBITDA was 1.2x at year end, with an interest coverage ratio north of 25.0x.

While we only briefly discussed the portfolio of companies earlier, Tencent holds \$96 billion in investments in publicly listed entities, with unlisted companies at \$52 billion. Recently, the Trump administration has begun debating whether or not it will force [Tencent to divest its holdings in US-based gaming](#). While we believe this is unlikely to happen at its most restrictive, Tencent likely holds more than \$20 billion in value tied to the US.

Management has guided toward around 80% of earnings being returned to shareholders through dividends and repurchases. Based on the proposed 18% dividend increase, Tencent has a forward yield of 1.1%. While 80% of free cash being deployed to



TRADITION

TRADITIONMENT.COM

(850) 418-6182

repurchases would be around 4.5% of float, however based on the 2025 run rate and comments that the pace of buybacks will be lower in 2026 due to capex, we believe that repurchases will likely be around 2.0% of float.

Conclusion

We believe that Tencent offers a compelling investment for investors seeking exposure to a younger AI market without taking the risk of investing in a single model. The core business is a free cash machine, and we believe is fully capable of self-funding its AI efforts. We believe that the Chinese market favors platform operators over standalone builders, and friction within the ecosystem is far lower than in the West, allowing for relatively fast user adoption across the 1.4 billion monthly active users of Weixin.

Peer Comparisons

	Tencent (TCEHY)	Alibaba (BABA)	Baidu (BIDU)	Bilibili (BILI)
Price-to-Earnings	13.66	24.48	13.61	21.86
Price-to-Sales (TTM)	5.22	2.00	2.06	2.18
EV-to-EBITDA (FWD)	10.96	15.69	11.02	11.71
EBITDA Margin	36.59%	13.64%	19.22%	11.37%
PEG (Non-GAAP)	????	2.94	4.14	-
Dividend Yield	0.91%	0.84%	-	-



Disclaimer and Related Information

This report was written by Julie Brown and reviewed and edited by Benjamin C. Halliburton.

This article or video features Benjamin C. Halliburton, CFA or an investment idea(s) that Mr. Halliburton or Tradition Investment Management, LLC (Tradition) may invest in. Mr. Halliburton is the founder and owner of Tradition Investment Management, LLC, a registered investment adviser. Tradition is doing business as (DBA) Building Benjamins in the publishing, email, and website space. All material on the website should be considered paid advertising by Tradition. This article is a financial publication and is provided for educational purposes only. It is not an investment recommendation nor investment advice. It does not take into account your personal circumstances and whether this investment is appropriate for you, your objectives, or your risk tolerance. Under no circumstance is Building Benjamins or Tradition Investment Management LLC responsible for any actions that you may take after reading this educational information. Nothing from Building Benjamins should be considered personal investment advice. Building Benjamins and Tradition Investment Management LLC, the website, emails, interviews, social media pages, and other materials are published by Building Benjamins and do not necessarily match the opinions of the individuals or companies published or quoted herein. Investing, particularly stock or ETF investing, is risky and may result in losses and sometimes loss of your entire investment. Stock investing has company-specific operational risks like demand, competition, legal and regulatory, and broader financial market risks like liquidity, Economic cycle, and government policy. You may lose money in any stock investment or other investments and are solely responsible for those decisions.

Mr. Halliburton, Tradition Investment Management LLC, and/or the authors on this site may or may not have positions in the securities discussed in this educational report. Neither the author(s) nor Tradition Investment Management, LLC will knowingly trade ahead of any customer buy or sell resulting from this information. The information herein is shared as an educational endeavor. Mr. Halliburton, Tradition Investment Management LLC, and/or the authors on this site may transact in the security discussed at a later date, prior to, or without notification in this format. This is not investment advice but only a discussion of select investments for educational purposes. Building Benjamins is an investment website, blog, or newsletter, and the information contained cannot be reproduced, copied, or redistributed without the prior written authorization of Building Benjamins or Tradition Investment Management LLC. US copyright laws apply. We rely on information from sources we believe reliable, including the companies themselves, but cannot guarantee the accuracy of the information we provide. You rely on this information at your own risk and are responsible for the verification of the data.



TRADITION

TRADITIONMENT.COM

(850) 418-6182