

China Internet

China Internet: AI Total War - our thoughts on full stack competition



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AI's fair in love and AI. One of the more interesting ongoing debates we've had with investors and industry contacts relates to the potential for AI-enabled services to shake up the established order at the top of the Internet funnel. In this note we've outlined some thoughts on the state of play in China, and implications for our coverage. High level, we expect the leading Chinese devs to remain fast followers on model development. But we expect unique domain data and entrenched user intent to continue to shape competition. Reprogramming human behaviour often takes at least as long as programming the AI.

AI chatbots have looked more like search engines than top-funnel disruptors. The fact Doubao hit 70mn DAUs (per QuestMobile) - and continues to grow rapidly - has focused investor attention on AI chatbot development. While it certainly behaves peers to accelerate development, an average of 10-12 minutes of use over 5-7 sessions a day makes the AI chatbot collective look more like search engine replacements than a new top-funnel entrance for user traffic. The fact ChatGPT, Gemini, and other top Western leaders have shown similar usage patterns feels instructive - whether new transactional use cases can drive engagement growth will be key to watch.

Everyone wants to be a super app. WeChat serves as the template for wannabe super apps globally, and we expect "everyone uses WeChat because everyone uses WeChat" to remain a robust moat. Elsewhere, Alibaba's strategy has pivoted to building a transaction-based ecosystem around Qwen, and its various consumer-facing ecosystems. Bytedance has put resources into adding music, text-based content, payments, and an input method (IME) app. Elsewhere, "big gets bigger" has competitive implications for the smaller platforms we cover, e.g. Meituan.

Alibaba: can agentic services catalyse engagement growth? On Thursday, Alibaba unveiled a series of upgrades to its Qwen app, leveraging Taobao, Alipay, Amap, and Fliggy commercial inventory to enable Qwen users to transact in a broader range of ways. Alibaba's shares had already front-run the event, and a consolidation period feels likely. But the announcement represents a positive strategic move in our view. The extent to which the Qwen transaction experience can be refined, and drive incremental user engagement in the coming weeks and months will be important to watch.

Tencent: AI monetisation success vs. the AI narrative issue. Measured on earnings impact, we think a solid case can be made that Tencent's AI monetisation in gaming and ads has been among the sector's most successful to date. But the fact Tencent is perceived as having fallen behind on AI chatbot development remains a notable sentiment overhang. Our bias is it will take much longer for peers to reprogramme top-funnel engagement than for Tencent to raise its game on model development. In the meantime, we'd urge Tencent management to be more explicit about the company's AI investments, the returns thereon, and product roadmap.

BERNSTEIN TICKER TABLE

Ticker	Rating	Cur	14 Jan 2026		TTM Rel. Perf.	Adjusted EPS			Adjusted P/E (x)			
			Closing Price	Price Target		Cur	2024A	2025E	2026E	2024A	2025E	2026E
700.HK (Tencent)	O	HKD	633.00	820.00	29.3%	CNY	23.67	28.64	33.91	23.9	19.8	16.7
NTES (NetEase)	O	USD	139.00	155.00	26.2%	CNY	51.86	60.65	64.32	18.7	16.0	15.1
9999.HK (NetEase)	O	HKD	220.40	240.00	5.1%	HKD	11.41	13.34	14.15	19.3	16.5	15.6
BABA (Alibaba)	O	USD	169.90	190.00	91.1%	CNY	140,905	85,011	132,319	18.1	27.4	20.4
9988.HK (Alibaba)	O	HKD	169.00	186.00	75.8%	HKD	8.82	5.83	7.84	17.1	25.9	19.3
JD (JD)	O	USD	29.83	38.00	(32.7)%	CNY	31.10	16.73	19.49	6.7	12.4	10.7
9618.HK (JD)	O	HKD	115.90	150.00	(52.7)%	HKD	17.03	9.16	10.67	6.8	12.7	10.9
BZ (Kanzhun)	M	USD	19.59	23.50	20.9%	CNY	6.00	8.05	9.01	22.8	17.0	15.2
PDD (PDD)	M	USD	107.85	135.00	(8.6)%	CNY	82.71	74.14	81.47	9.1	10.1	9.2
3690.HK (Meituan)	M	HKD	101.50	85.00	(67.0)%	CNY	7.03	(2.77)	(1.23)	12.9	(32.7)	(74.0)
ASIAx			1,711.77									
SPX			6,926.60									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

BABA estimate is Operating Earnings (M) Adjusted EPS; BABA, 9988.HK base year is 2025;

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

We're generally bullish on the Chinese Internet companies' ability to remain fast followers on AI, and ability to continue to win share overseas. Domestically, the shift among China's largest consumer Internet ecosystems towards becoming super-app ecosystems feels like the most notable development to watch. To date, the top AI chatbots have shown engagement trends that resemble enhanced search engines rather than true top-funnel disruptors... whether new agentic services can catalyse engagement growth will likely be key to watch in 2026. We see expansion into alternate form factors like smart glasses and AI smartphones through the lens of these companies trying to engender incremental user engagement, and potentially one day change how users transaction and interact with media content.

We remain bullish on Tencent as our top pick in the Internet sector, and on Alibaba as the leader in AI model development. Grumbling about the former's lack of progress on chatbot development will probably continue until Vines Yao and the recently reshuffled AI team delivers on their promise (and large comp packages). Sentiment headwinds aside, we think Tencent has plenty of earnings levers to pull to deliver another year of 15-20% core earnings growth. For Alibaba, the latest Qwen update struck us as promising, though we'd advise caution after the recent jump in AI sentiment. \$100-120 for e-commerce plus AI upside remains our mental heuristic around tactical trading ranges.

VALUATION COMPS TABLE

EXHIBIT 1: China Internet: Valuation summary

	Rating	Price target	Last price	Crncy	Market cap (US\$m)	PE			EV/sales		
						2025E	2026E	2027E	2025E	2026E	2027E
China Internet coverage											
Tencent	O	820	624.50	HKD	732,376	20.0x	16.9x	14.6x	7.4x	6.5x	5.8x
PDD	M	135	107.85	USD	153,109	10.4x	9.4x	8.6x	1.6x	1.2x	0.9x
Meituan	M	85	100.80	HKD	79,004	n.a.	n.a.	22.1x	1.3x	1.2x	1.1x
NetEase	O	155	139.00	USD	88,015	16.5x	15.4x	14.1x	4.1x	3.7x	3.3x
Boss Zhipin	M	23.5	19.59	USD	9,469	17.4x	15.5x	12.7x	5.5x	4.6x	3.5x
JD	O	38	29.83	USD	43,352	12.7x	10.9x	6.9x	0.2x	0.2x	0.2x
Alibaba	O	190	169.90	USD	405,402	26.5x	20.2x	15.9x	2.8x	2.6x	2.4x
China Internet other											
Kuaishou			79.15	HKD	44,221	14.9x	13.1x	11.3x	2.0x	1.8x	1.7x
Bilibili			33.34	USD	14,077	43.4x	31.4x	23.5x	2.8x	2.6x	2.4x
Baidu			150.50	USD	52,765	20.6x	18.6x	15.9x	2.0x	1.9x	1.8x
VIPshop			18.45	USD	9,500	7.9x	7.4x	7.1x	0.5x	0.4x	0.4x
Tencent Music			17.46	USD	27,044	19.1x	18.0x	15.5x	4.9x	4.3x	3.9x
Trip.com			62.78	USD	43,284	9.6x	14.9x	13.1x	4.1x	3.6x	3.2x
KE Holdings			17.32	USD	20,157	26.8x	21.2x	18.2x	1.2x	1.2x	1.1x
Asian Internet											
Sea Ltd.			125.25	USD	74,150	34.7x	24.8x	18.7x	3.1x	2.5x	2.1x
Grab			4.63	USD	18,863	112.9x	44.5x	29.3x	4.1x	3.4x	2.9x
Coupang			20.79	USD	37,976	121.6x	43.6x	24.1x	1.0x	0.9x	0.8x
Naver			258,500	KRW	27,559	19.2x	18.3x	16.3x	3.1x	2.8x	2.5x
Kakao			58,600	KRW	17,625	47.7x	39.6x	33.8x	3.0x	2.7x	2.5x
Nexon			4,232	JPY	22,069	31.0x	27.1x	24.6x	5.8x	5.4x	5.1x
US Internet											
Amazon			236.65	USD	2,529,840	27.5x	25.4x	20.6x	3.6x	3.3x	2.9x
Alphabet			335.84	USD	4,055,320	30.7x	28.3x	24.0x	11.7x	10.2x	9.0x
Meta			615.52	USD	1,551,768	21.3x	18.2x	16.1x	7.8x	6.6x	5.7x
Netflix			88.55	USD	404,629	35.9x	30.6x	26.6x	9.1x	8.1x	7.2x
Uber			84.65	USD	175,888	14.2x	20.6x	17.3x	3.5x	3.0x	2.6x
Spotify			528.92	USD	110,272	61.7x	37.6x	29.3x	5.1x	4.5x	3.9x
DoorDash			213.13	USD	91,859	41.7x	36.6x	28.0x	6.6x	5.1x	4.3x

The valuation multiples of our China Internet coverage are based on Bernstein estimates; the other companies shown reflect Bloomberg consensus estimates.
Source: Corporate reports, Bloomberg, Bernstein estimates and analysis.

DETAILS

AI REMAINS THE DOMINANT NARRATIVE IN CHINA INTERNET

In our outlook note for the China Internet sector in 2026 ([LINK](#)), we argued for a shift in the AI debate - away from superficial debates about AI capex dollars and chatbot MAUs to full stack development, and the ability of agentic AI services to drive real business change. In this note we review the AI ecosystem landscape in China, and try to assess whether currently observable vectors for AI development pose a threat to the established order at the top of the funnel in China Internet.

In recent years, we've argued on various occasions that LLM development as it stands represents a sustaining innovation for the largest internet platforms, and that differentiated content and entrenched user intent represent the key to victory longer-term. This view largely persists: programming human users to behave differently can easily take more time and money than programming new AI capabilities - see Alibaba spending RMB55bn and counting to persuade consumers to use a second food delivery app. But developments like rising Doubao user traction, Bytedance debuting an AI-enabled smartphone, and Alibaba launching smart glasses have driven the debate in new directions.

Our world view on AI development: consumer use cases matter as much as model development

In Exhibit 2 we've reproduced a framework we drew up in April 2023, shortly after the ChatGPT debut, to assess relative positioning among China's Internet giants as they chased US peers on AI development. Bottom up, 2023 us overly simplified the challenge and lead times associated with leading edge model development. Alibaba and Bytedance have become the accepted leaders on this front in China, while Tencent management have spoken of retooling HY model development. Our views on Alibaba execution at the time were coloured by longstanding negativity towards the e-commerce vertical, and we've since turned positive on the company's AI endeavours. In line with our 2023 views, we remain of the view that industry structure and competitive environments matter as much for AI monetisation as the underlying tech. Competitive headwinds in e-commerce for example remain an important drag on Alibaba AI monetisation, while monetising AI gains via ads and gaming has been easier for Tencent. Putting everything together, we remain of the view that unique and differentiable datasets, and entrenched user behaviour and commercial intent represent critical components of commercial AI success.

Compared with the US leaders, the gap in frontier model capabilities is generally thought to be in the 6-12 months range. Between data sources like HuggingFace (e.g. 700mn Qwen downloads) and Open Router, commentary from AirBNB CEO Brian Chesky pointing to the company's use of Alibaba's Qwen model, and Meta reportedly distilling Qwen as part of its own AI development, we think it's become clear that Chinese models have found growing traction among global users. The Chinese preference for open source (and sometimes open weight) models has helped to attract usage as part of freemium business models. The fact that Chinese models come in a variety of sizes, and with a greater emphasis on vertical domain expertise has meant (in contrast with the Western preference for large monolithic models) inference is often run on fewer parameters, in turn translating to lower token costs, adjusted for performance. On the consumer front, the existence of every kind of entrenched commercial intent within China's Internet ecosystems should represent an important asset for AI developers.

Thoughts on the supply of compute, geopolitical risks

We're generally on board with the bull case for global AI development - that frontier AI models are about to experience a step change in performance as they become trained on next-generation (e.g. Blackwell) GPUs. But both the fact the Chinese Internet giants have been able to access leading edge compute overseas - and ongoing development in the domestic semis space - make us believe the Chinese developers we cover can continue to mostly keep pace. Reports that Tencent investee Enflame had regained a licence to fab chips at TSMC sounded encouraging too. The view that cluster-level matters as much as chip-level compute should remain important too.

Further twists and turns are probably likely, notably including the Remote Access Security Act (H.R. 2683) currently going through the US legislative process, which seeks to restrict access to remote and cloud-based services. But the recent (and ongoing) wave of fundraising for Chinese semis and AI companies probably argues for more capacity over time. In our conversations, management at our coverage companies mostly pointed to GPU supply becoming a problem on the way to being resolved over the course of 2026.

Thinking longer term, the tendency for strategically encouraged industries in China (e.g. see solar, EVs) to become overbuilt is probably a good thing for companies seeking to leverage compute to improve their businesses. In the fullness of time, it would surprise us if AI inference *didn't* become another industry where the Chinese ability to productionise new tech and reduce costs

drove share gains - especially behind the leading edge.

From Question To Action: our reactions post the Qwen press conference

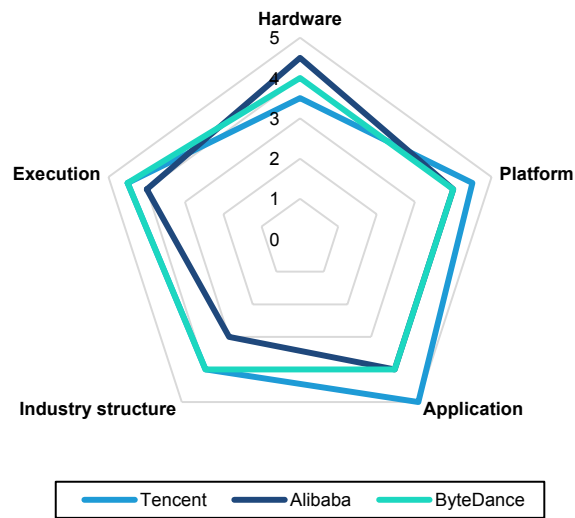
Top down, we have more sympathy for the “model as a product” mentality in enterprise use cases. For consumer-facing ones we remain of the view that consumer force of habit - and entrenched commercial intent - matter at least as much as the model itself. After Alibaba’s Q2 reporting, we argued that the more interesting debate related to “how the company can consolidate users, merchants, product and service listings, and multi-modal behavioral insights across hitherto fairly disparate ecosystems... and drive greater visitation to a more coherent consumption super app experience”. The Qwen update unveiled on Thursday was a concrete move in this direction, integrating Taobao, Amap, Alipay, Fliggy into the range of services the chatbot is able to cater to.

If we were to nit-pick, the fact the demos shown on stage (food delivery orders, travel and hotel bookings, doing homework...) were pre-recorded rather than projected live likely detracted from their immediate visual impact. We couldn't help but feel like the (highly detailed) presentations were more geared towards impressing developers and ecosystem partners (...including internal ones) as much as creating a moment of magic trying to impress users into using Qwen. But overall we felt the release painted the picture of much more capable personal assistant which caters to a broader range of transactional use cases. Whether (or when) Alibaba eventually opens up Qwen to third-party ecosystem partners will be an interesting wrinkle to watch in the coming months. It’s probably objectively true that (maybe Tencent and WeChat aside) Alibaba has the most complete suite of transactional ecosystems in the industry - ahead of Bytedance.

Alibaba’s shares had traded up into the event, and it doesn’t surprise us that “sell the news” was the immediate response. The proof in the pudding remains the extent to which Alibaba has fully integrated data sharing across its internal ecosystems (the company assures us this is now frictionless), inevitable early glitches are ironed out, and users respond by engaging more with Qwen (as opposed to simply buying from Taobao directly via what’s already a highly optimised user interface). The extent to which commercial impact can show through in the face of ongoing e-commerce competition will continue to feature too.

EXHIBIT 2: Tencent, Alibaba, Bytedance have become consensus AI winners among the Internet giants in China... model development aside, we stand by the importance of entrenched user intent, and favourable industry structures

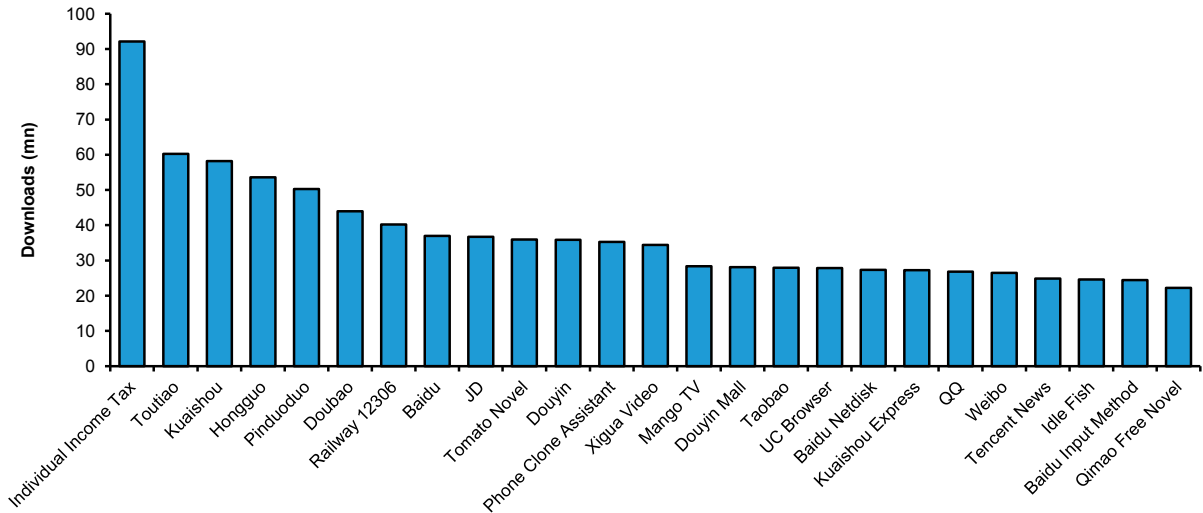
Our 5-point framework for assessing AI leaders in China



Source: Bernstein estimates and analysis.

EXHIBIT 3: AI has once again become the dominant sector narrative to start 2026, including the growth of AI chatbots, and how their functionality has evolved over time

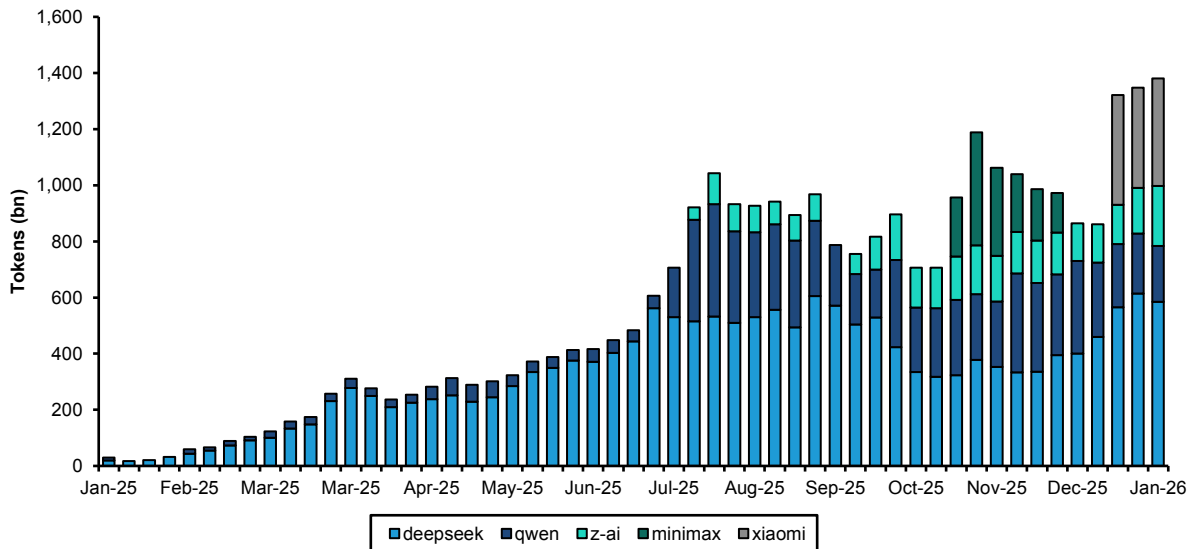
Dec 2025: Top 25 apps in China by monthly downloads



Source: QuestMobile and Bernstein analysis.

EXHIBIT 4: The Minimax and Zhipu IPOs have driven considerable excitement since the start of the year... we expect Chinese model developers to remain fast followers in the model layer

2025-2026: OpenRouter Chinese models token consumption



Source: OpenRouter and Bernstein analysis.

AI CHATBOTS HAVE NOT LOOKED LIKE A DISRUPTIVE FORCE (...YET?)

For all the excitement around the rise of AI chatbots, we think it’s clear that they’ve yet to become a serious disruptive force in the Internet sector. Bytedance’s Doubao has seen user traction grow rapidly since it debuted - the latest QuestMobile data points to 227mn MAUs and 70mn DAUs in December. Comparisons of the ratio between DAUs and MAUs point to growing engagement. Yuanbao’s inability to date to keep pace with Doubao has become one of the few (we think somewhat misguided,

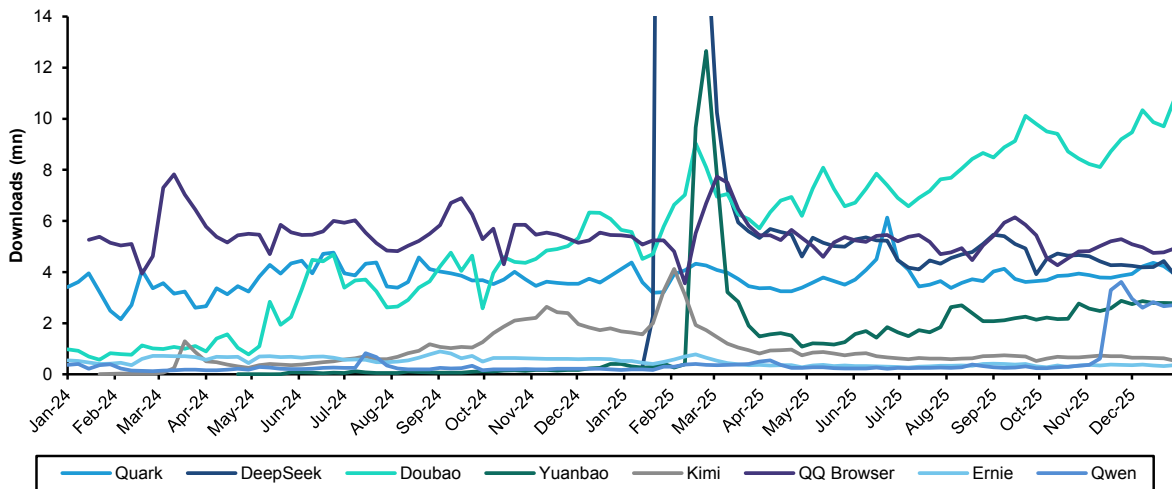
but nevertheless) bearish arguments against Tencent’s shares. Looking at the pattern of usage of both Doubao specifically and AI chatbots more broadly though we think the engagement patterns shown by these apps look most similar to search... rather than pose a serious threat to dominant top-funnel ecosystems like WeChat or Xiaohongshu.

In Exhibit 6 and Exhibit 7 we’ve shown average usage of a range of the top AI chatbots and AI-enabled browsers in China, measured on metrics like daily app sessions and time spent. These are generally used somewhere between four and seven times a day, for 10-12 minutes in total. Interestingly that’s actually well aligned with trends observed among Western AI leaders like ChatGPT and Google Gemini. All of the AI chatbots in our comparison added up to c. 0.6% of total app sessions in China in November. In contrast, WeChat is activated over 40 times a day, and used for an average of 100 minutes a day. Douyin and Xiaohongshu saw 15.6 and 16.4 daily app sessions last month, and 123 and 89 minutes of daily time spent per DAU. Even if we assume that half of WeChat’s activations reflect users responding to messages and is difficult to leverage commercially, it’s clear the gap between these top-of-funnel entrances and the AI chatbot collective remains large.

Could things change? The pace of AI development is so rapid that the answer by default is probably... maybe? Charts of the user scale of Doubao, Yuanbao, and Qwen all look up-and-to-the-right (DeepSeek actually looks rather underwhelming in comparison, with engagement tracking sideways). One surmises that Bytedance, Tencent, and Alibaba will continue to invest heavily in their success: for Alibaba how to engender greater visitation to the Qwen app represents one of the most critical questions for management, given the company’s strategy to build a transaction ecosystem centred around the company’s AI efforts (whether and when to allow third-party services onto the platform will be an interesting strategic choice). Our base case is that daily engagement will continue to increase as more functionality is added to these services. The flip side argument against AI driving top-funnel disruption is chiefly that as all the large Internet platforms roll out AI features, their relative impacts will eventually cancel each other out. But lead times and speed of iteration will likely drive shifts in user and investor perception, and stock performance.

EXHIBIT 5: Rising Doubao traction more than anything else has driven talk of disruption at the top of the funnel, and the idea of “models as a product”

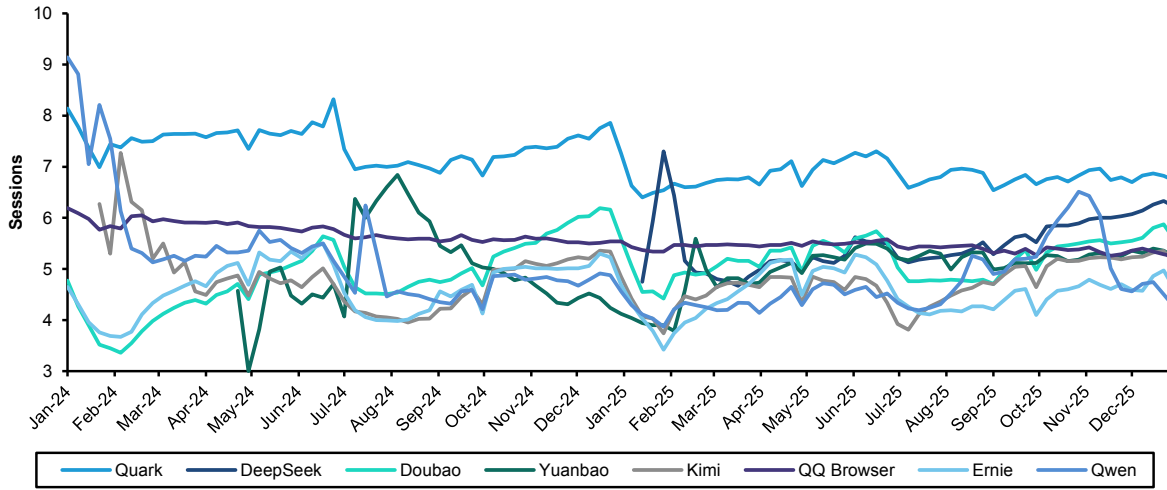
2024-2025: China top AI apps weekly downloads



Source: QuestMobile and Bernstein analysis.

EXHIBIT 6: To date though most of the AI chatbots remain used for 10-12 minutes over 5-7 sessions a day... more akin to search engine usage than the current leaders at the top of the funnel

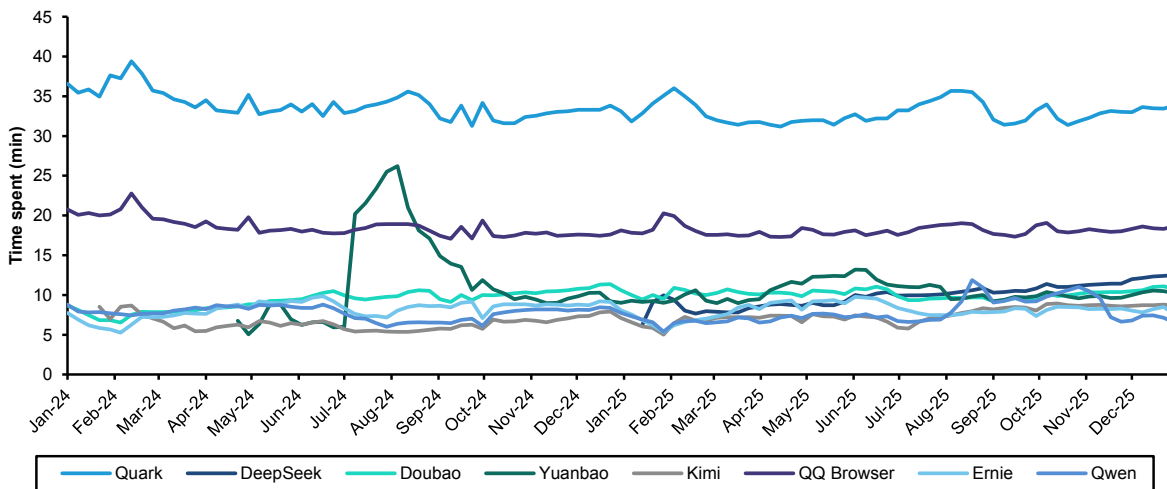
2024-2025: China top AI apps daily sessions



Source: QuestMobile and Bernstein analysis.

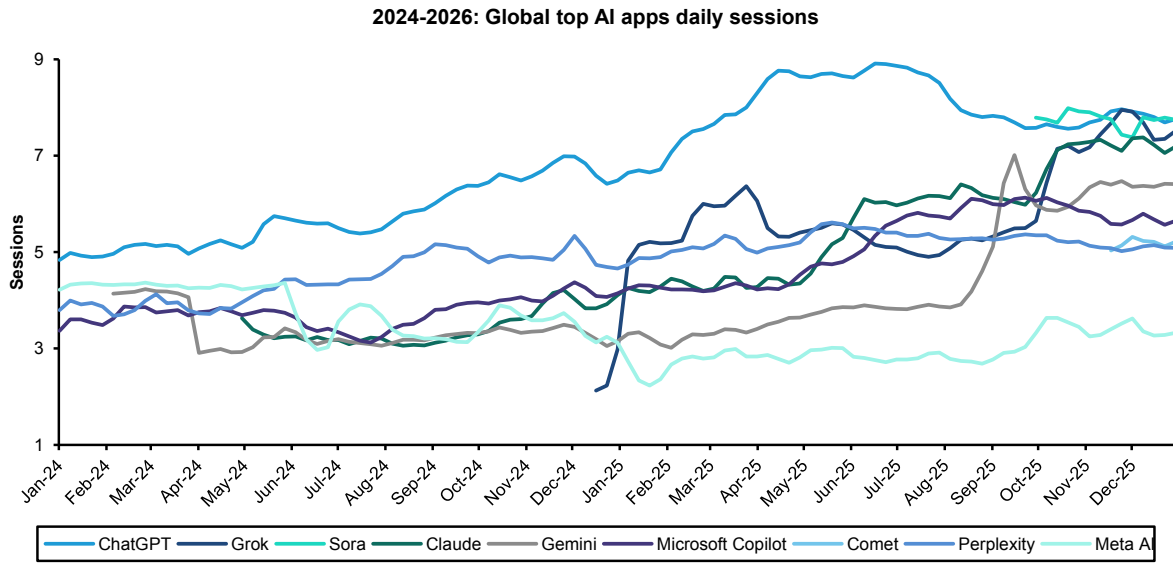
EXHIBIT 7: Even browser apps like Quark and QQ Browser currently occupy significantly more daily usage than the AI chatbot collective

2024-2025: China top AI apps daily time spent



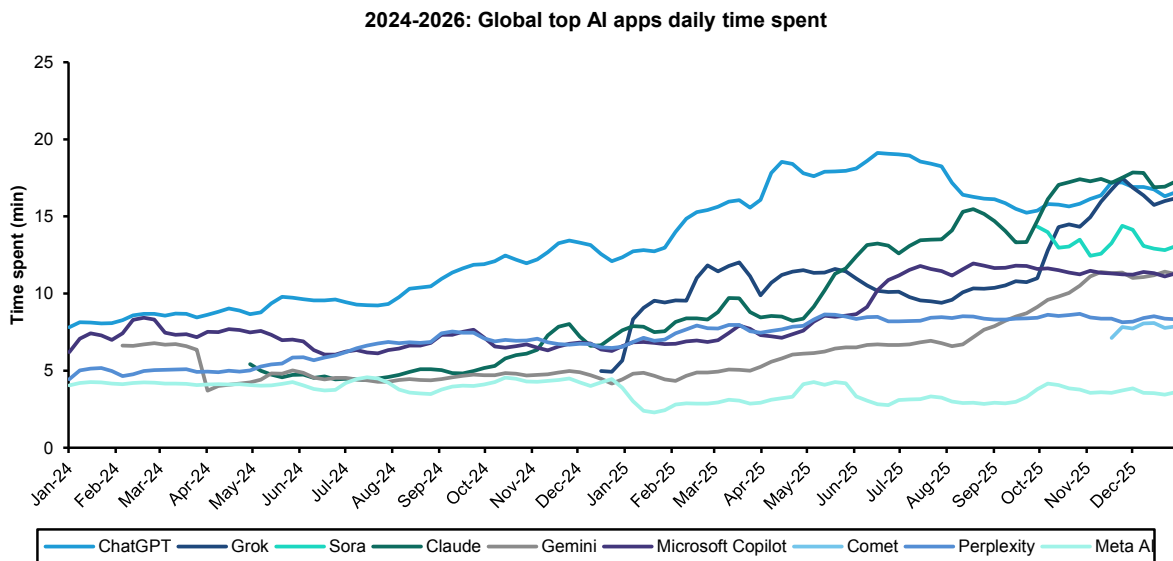
Source: QuestMobile and Bernstein analysis.

EXHIBIT 8: **The top global AI chatbot apps demonstrate similar usage patterns...**



Source: Sensor Tower and Bernstein analysis.

EXHIBIT 9: **...though daily time spent has continued to rise over time**



Source: Sensor Tower and Bernstein analysis.

LIFE, LIBERTY, AND THE PURSUIT OF FULL STACK DOMINANCE

The evolution of AI chatbot engagement is worth monitoring both for its own sake as a vector of change in the Internet top funnel in China, and because it's become increasingly clear that the giants in the sector - Tencent, Alibaba, Bytedance - are all pursuing super app strategies. Tencent is the clear incumbent in this regard, with WeChat serving as the template for wannabe super apps globally. We've written about Alibaba's focus on creating a transactional ecosystem around Taobao/Tmall and Qwen. Bytedance rounds out the quorum of top consumer apps in China.

It's through a similar lens that we perceive ongoing attempts from the likes of Alibaba and Bytedance to expand beyond the Internet application layer. The hope is that Internet users can be retrained to interact with the AI assistants embedded in new

devices. See Alibaba debuting its Quark smart glasses in November, or Bytedance's introduction of an AI-enabled phone. With the smartphone plateauing as the dominant mobile form factor, the tech industry has been trying to will smart glasses adoption into existence... without much success to date. But data from IDC suggests that growth has at least been rapid from a small base.

Alibaba and other developers of these devices will hope these surfaces can help to drive incremental visitation to their ecosystems. Taking a step back though, 4.2mn units sold over the last two years is both a big number in isolation... and a rounding error compared with the user bases of China's top user ecosystems. The bull case is that this is a backward-looking number, and adoption should continue to pick up as AI functionality improves. On the other hand, most of the products in the market today remain essentially at the prototype stage. In at least some of the cases, we suspect the products were introduced for the sake of ticking a box in the product line-up chart, before they were truly production ready with a suite of features attractive to users. Baidu's smart glasses for example come with several functions where the small print indicate that they "will be enabled through upcoming OTA updates."

Hands on with Alibaba's Quark smart glasses... and related thoughts

We recently had some hands-on time with the Quark smart glasses.

At a high level, both underlying smart glasses technology and the supported user experience remain work in progress, in our view. The display was monochrome, voice control suffered from notable latency, while shunting all of the controls to one side struck us as an unusual UI design choice. But what we saw nonetheless raised some interesting questions for what the new tech could become, given more time to iterate. The Quark glasses currently support Taobao, Alipay, Amap, and enable tasks such as shopping, payments, and navigation. As it stands the Quark glasses need to be paired with a smartphone, similar to current smart watches. We'd imagine over time this will change, meaning the smart glasses can be operated independently. But even in the longer term, the lack of WeChat support makes us doubt it can be a user's primary device.

Alibaba aside, more or less every smartphone maker in China has committed resources to developing AI assistants of their own. Rather than committing to a single model provider, they are working with multiple partners. Oppo, for example, has rolled out AI-enabled phones powered by Qwen while also doing parallel versions using Doubao and DeepSeek. Our bias is the Internet companies win out (e.g. see how many people use the Google voice assistant on Android phones, versus say the Samsung one), but it's probably best to reserve judgment while the technology continues to develop and scale.

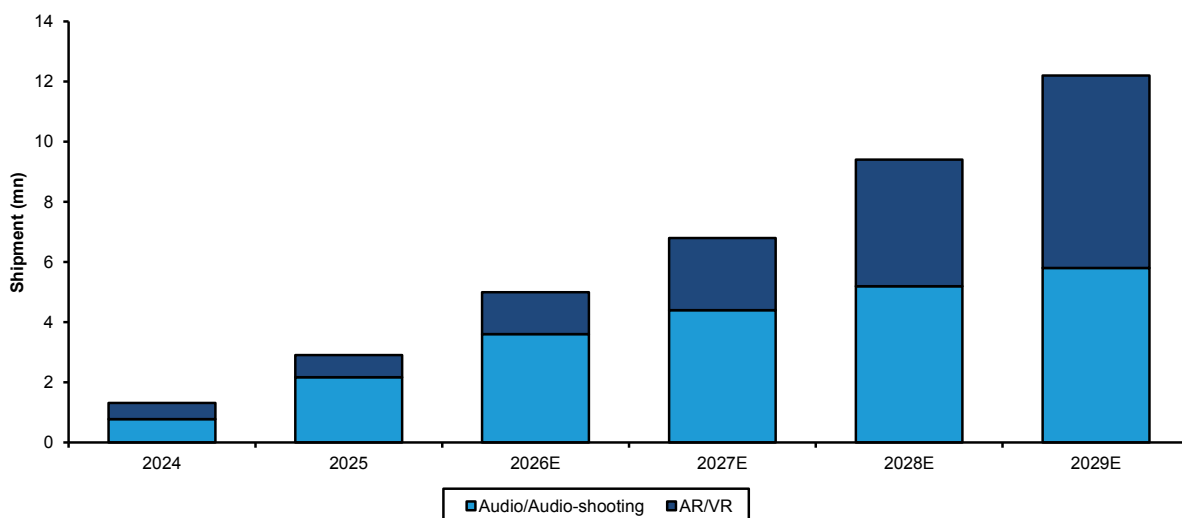
Is the Bytedance phone a catalyst for full stack competition?

Compared with smart glasses, we think the Bytedance phone raises the more interesting strategic questions. As far as we could tell, the phone worked essentially by reading screenshots and simulating human clicks, rather than interact with apps via the API layer. But strategically it's clear the project is far more ambitious and broader in scope than just the company's own ecosystem. On the flip side, the fact WeChat, Taobao, and other top apps reacted to the phone by essentially locking users out of their ecosystems was entirely predictable, and demonstrates the power these large consumer ecosystems have over the rest of the tech stack, which we think will persist.

Our base case is that China's large consumer ecosystems will continue to withhold API access, and prevent rival agentic AI services from manipulating their apps. Alibaba gets around this problem via its ownership of a diverse group of transactional ecosystems. Tencent shareholders can probably take some comfort from the idea that any new hardware device that doesn't support WeChat will be niche at best... and more likely just unviable as a primary consumer device. On the other hand, whether we might see more alliances between the Internet ecosystem giants and hardware device manufacturers makers might represent the more intriguing question to ponder. The fact Xiaomi, Huawei, Oppo, et al. are all trying to develop their own AI assistants probably represents the main counter-argument in terms of feasibility.

EXHIBIT 13: IDC data points to c. 4mn smart glasses sold in China in 2024-2025, a rounding error compared with the user bases of the top Internet ecosystems... but the tech continues to evolve rapidly

2024-2029E: China smart eyewear market size estimates



Source: IDC, Bernstein estimates and analysis.

EXHIBIT 14: Alibaba's Quark S1 leverages the company's various ecosystems and brings the most complete set of features to the table... but generally they remain niche endeavours for early adopters

	Alibaba Quark S1	Rokid	Xiaomi	Baidu Xiaodu Pro
Type	AR/VR	AR/VR	Audio + Camera	Audio + Camera
Display	Micro-LED display	Micro-LED display	No display	No display
AI	Quark AI assistant	Multiple (Qwen, Doubao, DeepSeek, etc.)	Super Xiao Ai	Xiaodu AI
Ecosystem integration	Taobao, Alipay, Amap, etc.	n.a.	Xiaomi phone, vehicle, smart home, etc.	Baidu search, maps, NetEase Cloud Music, etc.
Functionality				
Object recognition	✓	✓	✓	✓
Real-time translation	✓	✓	✓	✓
Meeting transcription	✓	✓	✓	✓
E-commerce	✓			
Payments	✓			
Navigation	✓	✓		
Smart home control			✓	
Teleprompting		✓		

Source: Corporate reports and Bernstein analysis.

ON PERCEIVED DISRUPTION RISK... AND STOCK NARRATIVES

On the margin, we expect e-commerce and local service listings to be easier to replicate on these new hardware devices. Merchants are incentivised to sell everywhere that offers user traffic at a reasonable price. Any notion of “disruption” from new devices remains a theoretical construct, in our view. In November all of the AI chatbots combined for 0.3% of total Internet time spent, and 0.6% of app sessions in China... compared with WeChat on 20% and 36%. But we’ve done this job for long enough to understand the market’s appetite for bite-sized narratives, and the ability to skew perceptions and stock valuations for years while the event horizon for change edges slowly closer over multiple years.

The market really wants Tencent to improve Yuanbao; we do too... some perspective

Within our coverage, our base case is that any new hardware device will struggle to gain mainstream traction as users' main devices unless they support WeChat. For Tencent, if the bullish argument for is that AI features deemed good enough to ship can automatically be scaled to over 1 bn users, the counter-argument to date has been the relative lack of visible progress. It's probably true that Tencent and WeChat (as critical social infrastructure in China) face a higher quality bar when shipping new features compared with Minimax et al., or even Bytedance. In our minds the company has made good progress realising AI gains via its gaming and ads businesses (we think the former is especially underappreciated among investors... Quantum Studios execs talked up user retention, engagement, and ARPU uplift during a December event in Bangkok). But the fact Tencent finds itself behind on AI chatbot development and traction has represented the main sentiment overhang for a stock where management has plenty of earnings levers to pull to get to 15-20% core earnings growth.

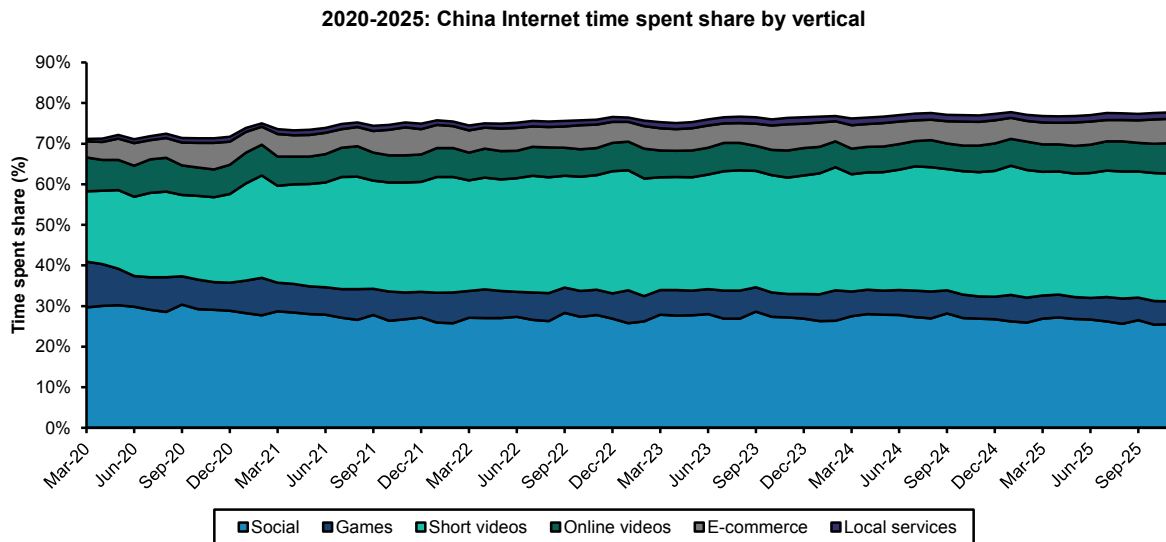
The high profile hiring of Vines Yao (ex-OpenAI) and other senior AI researchers has coincided with a broader reset of HY model development, and will hopefully lead to improvement. In the meantime we'd urge Tencent management to be more forthcoming on disclosure related to the company's AI investments, the returns thereon, and the go-forward product release roadmap.

The Alibaba ecosystem growth thesis

After Alibaba's September quarter print, we called the company's capex dollars and quarterly cloud growth the "trees" to the "forest" of a broader strategy to reorganise the company's user ecosystems around Taobao and Qwen. Amap user traction has exploded since it pivoted from being a navigation tool to a hub for location-based information more akin to Google Map. We consider Alibaba's investments in food delivery and local services partly through the lens of an effort to grab a greater share of high-intent search traffic - as much as simply trying to eat Meituan's lunch in food delivery.

The fact that Qwen to date has "merely" served as one of many search alternatives raises some questions on the Alibaba ecosystem growth thesis. The core e-commerce business remains at the mercy of moribund retail consumption trends in China. On the other hand, the fact that Zhipu, Minimax, and Kunlunxin are now (or will soon be) worth \$10bn or more raises a question about the value of the Alibaba equivalents. What would a pair of Qwen and T-head/PPU IPOs be worth in the current climate?

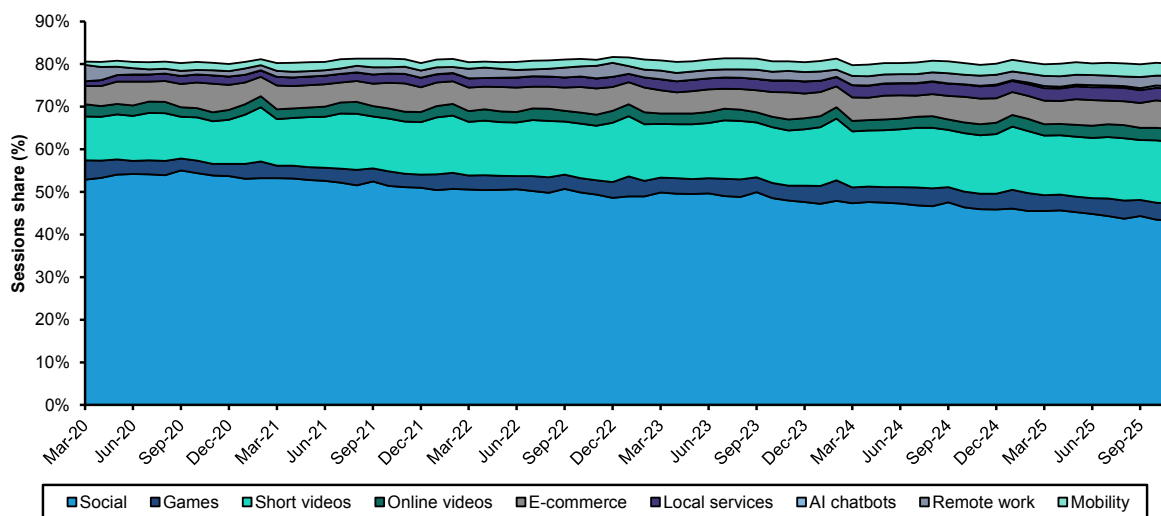
EXHIBIT 15: **The main shift in Internet usage in China in recent years was driven by the rise of short form video**



Source: QuestMobile and Bernstein analysis.

EXHIBIT 16: We expect the top AI chatbots to continue to grow in usage, but top down they’ve collectively had a miniscule impact on how Chinese Internet users interact with their phones

2020-2025: China Internet sessions share by vertical



Source: QuestMobile and Bernstein analysis.

COMPETITIVE IMPLICATIONS FOR THE SMALLER PLAYERS

One of our main complaints around AI growth to date has been that it’s mainly served to redistribute Internet sector engagement, rather than grow the whole pie. For all the excitement around DeepSeek and Doubao, their impact on top-down Internet time spent and app sessions growth has been limited. If we reduce the AI chatbot race to an attempt to redraw top-of-funnel market share, however, the implications for the smaller platforms we cover are clear too. Conventionally, greater competition at the top of the funnel benefits the advertising platforms that act as sources of user eyeballs. Alibaba is thought to have become one of Tencent’s larger ads customers; see also Alibaba’s e-commerce deal with Xiaohongshu, and Bilibili’s various deals with the large e-commerce platforms. Smaller platforms who rely on paid user acquisition lose as a result of having to pay higher user acquisition costs.

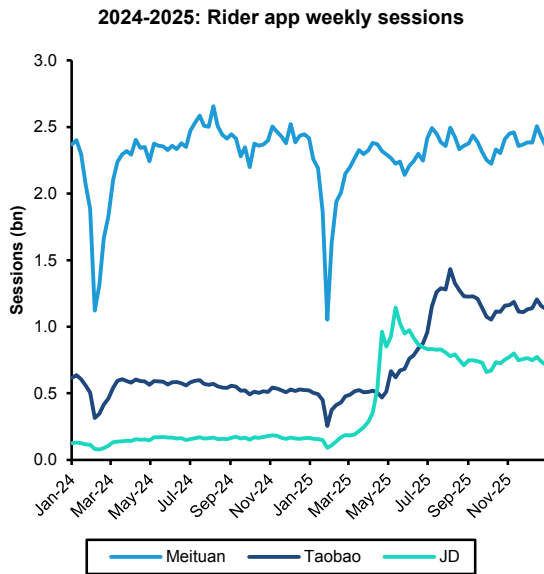
Meituan remains our primary example of an ecosystem loser

On the flip side, we think the companies most at risk include (1) those that occupy large, contestable markets where the reward of future market share gains justifies the investment needed to displace existing incumbents; and (2) where homogeneity of supply means it’s easier for agentic AI services to understand and navigate the transaction process. For Meituan, Alibaba’s recent commitment to taking a majority share of the market aligns better with our world view than the view held by some investors that Meituan food delivery was on a path back to profitability in 2026. Elsewhere, we’ve always been somewhat wary of the travel vertical as one that made sense to be bundled as part of larger super app ecosystems. Whether Ctrip chooses to expose its commercial inventory to emerging AI chatbot ecosystems - rather than run the risk of being left behind if top-funnel Internet engagement starts to shift - strikes us as an interesting strategic question to monitor.

Vertical niches might be better protected; we remain fond of first-party content

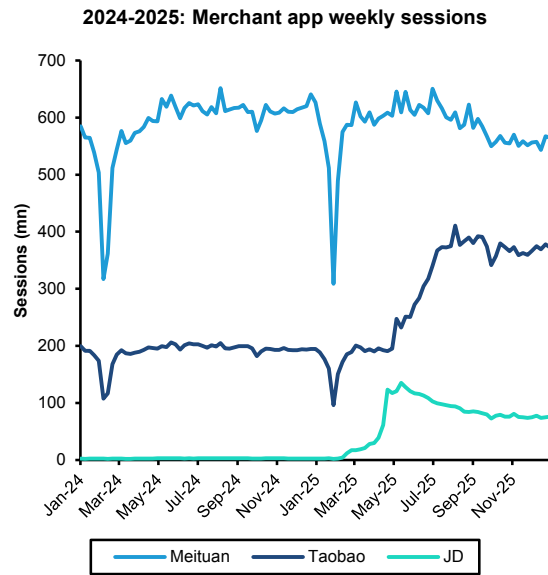
Some of the smaller platforms in the sector like Boss Zhipin actually feel better insulated to us in the environment we describe above, given relatively limited exposure to high user acquisition costs, and the fact their smaller markets are less likely to attract direct competition, and the product being sold (job applicant information) is long tail and highly heterogeneous. But at least over shorter time horizons, the “don’t buy what Tencent sells” mental heuristic probably applies. Elsewhere in the Internet sector, we remain fond of video game developers like NetEase, and other developers of first-party content. AI’s inability to create all-new Internet engagement argues in favour of our view that first-party content (i.e. *what* to do, watch, play, consume...) will become increasingly important over time.

EXHIBIT 17: **We increasingly think the convergence of competition between food delivery and e-commerce...**



Source: QuestMobile and Bernstein analysis.

EXHIBIT 18: **...fits into a broader pattern of the largest Internet companies wanting to build integrated super apps**



Source: QuestMobile and Bernstein analysis.

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