

# China Internet

## February online game market recap

Revenue of China's online game market decreased by 23% YoY to RMB21.6bn in Feb 2023 per CNG, as new games were yet to make meaningful revenue contribution, and 2022 Chinese New Year (CNY) holiday fell in February whilst it took place in January in 2023, which led to a tougher comp. Smoothing out CNY impact, 2M23 online games market revenue was down 20% YoY. As game license approval resumed, many highly anticipated game titles are lined up for launch and will lead industry recovery from 2Q23 onwards, in our view. 210 games licenses have been approved YTD, equivalent to 28/41% of the no. of game licenses approved in FY21/22. We prefer leading online games companies such as Tencent and NetEase, given their strong game pipeline in FY23 and capability to expand overseas & enlarge TAM.

- **Supply constraint continued to weigh on mobile game sector.** China's mobile game market revenue dropped by 28% YoY to RMB15.5bn in Feb 2023, or declined by 25% YoY in 2M23, according to CNG. Few new games reported meaningful incremental revenue in Feb 2023. Tencent's *Undawn* was the top grossing new game in Feb, with estimated gross revenue of over RMB300mn, per CNG. Other new games launched in Feb generated less than RMB100mn revenue. We expect more highly-anticipated mobile games to be launched and drive revenue growth from 2Q23 onwards. PC games market revenue grew by 3.7% YoY to RMB5.3bn in Feb 2023.
- **Overseas gaming market still experiencing near-term high base effect.** Overseas revenue from China's self-developed games dropped by 14% YoY to US\$1.24bn in Feb 2023 (Jan 2023: -15% YoY), as the overseas market is still digesting reopening effect and users control their spending on games amid macro uncertainty. Despite the short-term headwind, Chinese game developers remained dedicated to expand overseas, with their revenue contribution from the overseas market rising from 26.1% in Feb 2022 to 28.1% in Feb 2023. Tencent's overseas revenue was up 5% YoY to RMB13.9bn and represented 33% of its game revenue in 4Q22, supported by the successful launches of *NIKKE* and *Darktide* in 4Q22.
- **Positive on games revenue growth of leading companies in FY23.** We forecast Tencent's games revenue to increase by 8% YoY in FY23, driven by a strong game pipeline in the domestic game market and reaccelerating growth of international game revenue. We forecast NetEase's online game revenue to increase by 7% YoY in FY23, supported by Justice Mobile planned for launch in June and the resilient performance of legacy titles. We are also positive on Bili's mobile game revenue growth in FY23, in view of the approval of highly anticipated game title *Petty Derby* in March 2023. According to Sensor Tower, *Petty Derby* generated global revenue of US\$965mn in the first year of its launch in the international market.

### China Internet Sector

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