

# China Internet

## Game license approval further normalises

The NPPA released this year's first batch of domestic game licenses on 17 January. 88 new games were approved and 24 legacy games received approval for changes of operation. This is the highest number of domestic game license approved since the resumption of license approval in Apr 2022, showing further normalizing trend for game licenses approval. On average, only c.66 games per month were approved in 2022. Several highly anticipated games received approval, including Tencent's *Undawn* and *Alchemy Stars*, and NetEase's *Justice Mobile*. We expect *Undawn* and *Justice Mobile* are likely to be launched in 1H23, supporting games revenue growth of Tencent and NetEase in FY23.

- **Game license approval further normalises.** 88 new domestic games were approved in Jan 2023 (versus 84/70/73/69/67 approved games in Dec/Nov/Sep/Aug/Jul 2022), including 84/3/1 mobile/PC/console games. The approved games cover a wide range of genres (e.g. survival, anime-style and female-oriented games), and leading companies like Tencent and NetEase have received game licenses for three consecutive months. These further eased investors' concern on the tightening regulations on gaming content and monopoly in the gaming market, showing that regulations aim to promote healthy development of the gaming sector instead of curbing growth.
- **Tencent obtained approval for several highly anticipated games.** Three Tencent's games were approved in January, including *Undawn*, *Alchemy Stars*, and *Yuanmengzhixin*. *Undawn* is an open-world survival game, which has already attracted over 20mn pre-registration. *Undawn* was previously expected to be launched in 4Q22, but was delayed to 2023. Based on our estimate, if launched in 1H23, we expect the game to contribute low-to-mid single digit of Tencent games revenue in 2023E. *Alchemy Stars* is another highly-anticipated anime game, which was first launched in the overseas market and achieved success. In the first month of its launch (Jun 2021), *Alchemy Stars* became Japan's most downloaded tactical RPG in July 2021 and generated US\$17mn revenue. Apart from incremental revenue contribution, *Alchemy Stars* will also strengthen Tencent's presence in anime-style game genre, in our view.
- **NetEase's Justice Mobile was approved.** Launched in 2018, NetEase's *Justice* is one of the most popular MMORPG PC games in China. Its mobile version is also highly anticipated and attracted over 10mn pre-registration as of Dec 2022. With the license approved, we expect *Justice Mobile* to be launched in 1H23E and contributed mid-to-high single digit of NetEase games revenue in FY23E. NetEase's *Badlanders*, an FPS mobile game, was also approved.
- **China's online gaming sector is onset for quality growth.** We are positive on the game sector outlook in 2023E and expect sector revenue will return to positive growth track by 2Q23E, mainly attributable to the further normalisation of game license approval, quality game launches and high-base effect wears-off. We favour leading online gaming companies Tencent and NetEase, due to: 1) their strong game pipeline; 2) solid leadership in the domestic market; 3) investing for growth in the overseas gaming development and publishing infrastructure.

### China Internet Sector

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