

China Internet

November online game market recap

China online game market revenue declined 19.2% YoY and 3.0% QoQ to RMB19.2bn in Nov 2022 (Oct: -18% YoY; 3Q22: -19% YoY), according to CNG. The online game sector performance remained weak in November primarily due to lack of new game titles and high base effect. 11M22 online game revenue declined 9.5% YoY to RMB246bn, which is largely in line with our forecast. We expect the online game market revenue will return to positive YoY growth by 2Q23E, as the game license approval resumes and high-base effect wears off by then. We favour leading online games players such as Tencent and NetEase, as they could leverage strong operation and development capability to solidify leadership in both domestic and overseas markets. The resumption of games license approval at year end help to boost sector sentiment.

- **Supply constraint continued to weigh on mobile game sector.** China's mobile game market revenue growth dropped by 25.7% YoY to RMB13.5bn in Nov 2022 (Oct 2022: -27% YoY), according to CNG. The lack of quality new content remains as the key constraint for sector growth, in our view. Several new games launched in November delivered soft monetization performance, none of which generated >RMB200mn monthly grossing in the first month after their launch. However, the normalisation of domestic game approval and the resumption of imported game license approval in Dec 2022 could be a key positive for the sector recovery. For the PC game market, total revenue was up 6.3% YoY to RMB4.8bn in Nov 2022, mainly driven by the solid growth of the legacy titles including Tencent's League of Legends and NetEase's Fantasy Westward Journey.
- **Imported games license approval resumed.** Imported game license approval resumed and 44 imported games were approved on 28 Dec 2022 after an 18-month wait, indicating further normalisation of game license approval. At the same time, 84 domestic games were also approved in Dec 2022, up from 70/73/69 in Nov/Sep/Aug 2022. In this batch of games approved, Tencent and NetEase each had 6 and 3 games approved, including Tencent's highly-anticipated PC game VALORANT. Launched in June 2020, VALORANT was ranked the 6th PC game globally across all genres by MAU in Mar 2022.
- **Overseas gaming market still experiencing near-term softness.** Overseas revenue from China's self-developed games declined by 8% YoY but flat QoQ to US\$1.36bn in Nov 2022, according to CNG, mainly due to 1) the normalisation of ongoing user time spend post-COVID in overseas markets; 2) macro concerns weighed on high ARPU games; 3) slowing new games launches. China games developers such as Tencent and NetEase continued to strengthen their game development and publication capability in the international markets, in order to capture the long-term opportunities. Tencent's licensed game GODDESS OF VICTORY: NIKKE achieved a global success and has generated over US\$100mn global revenue in one month since its launch on 4 Nov, ranked the top 5 mobile games by global grossing in November, per Sensor Tower.
- **Tencent and NetEase continued to solidify leadership.** We forecast Tencent's 1) domestic game revenue to drop by 7% YoY in 4Q22, mainly due to lack of new titles launched in 2H22; 2) international game revenue to decline by 9% YoY, primarily attributable to the high base in 4Q21 and soft performance of PUBG Mobile. We forecast NetEase online game revenue growth will slow to +4% YoY in 4Q22E (3Q22: +9% YoY), mainly due to the YoY decline in revenue from *Harry Potter: Magic Awakened*. Despite the sector downturn, we expect both companies to take market share, as user spending was further concentrated to quality legacy games. We forecast Tencent/NetEase games revenue growth of 8%/3% in 2023E.

China Internet Sector

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