

China Internet

July online game market recap

China's online game market revenue grew by 37.5% YoY to RMB28.6bn in Jul 2023, with growth further accelerating (May/Jun: +16.0/23.6% YoY), according to CNG. The strong YoY growth was mainly due to the launch of new games and low-base effect. Overseas revenue from China's self-developed games also returned to positive growth track in July (+7.6% YoY), thanks to the solid performance of Tencent's and NetEase's overseas mobile games. We expect China's online game market to maintain strong growth momentum in 2H23, but also the competition to become more intense. Tencent/NetEase/miHoYo/Alibaba/ByteDance each has 3/3/2/1/1 titles ranking the top 10 mobile games by grossing in July 2023, versus 6/2/1/1/0 in July 2022. We favor leading online games companies Tencent and NetEase, given their strong game portfolio and capability to expand overseas. Maintain BUY on Tencent and NetEase.

- **Mobile game market revenue +51% YoY in July.** Mobile game market revenue increased by 51.1% YoY to RMB22.1bn in July 2023 (May/Jun: +23.0/29.7% YoY), driven by the strong performance of new games like NetEase's *Justice Mobile* and ByteDance's *Crystal of Atlan*. According to Sensor Tower, *Justice Mobile* generated revenue of US\$113mn on iOS channel and ranked among the top 3 mobile games by grossing in July. Tencent's Honor of Kings/PUBG Mobile revenue was up 0/5% YoY to US\$220mn/US\$172mn in July, driven by new in-game content and events. PC games market revenue grew by 7.6% YoY to RMB5.70bn in July 2023, mainly attributable to Tencent's new PC games *Valorant* and *Lost Ark*.
- **Overseas gaming revenue returns to positive growth track.** Overseas revenue from China's self-developed games was up 7.6% YoY and 2.4% QoQ to US\$1.51bn in July 2023. Top overseas games including *Call of Duty Mobile* (Tencent) and *PUBG Mobile* (Tencent) delivered solid revenue growth of 47% MoM and 15% MoM in July, thanks to successful in-game events. And *Harry Potter: Magic Awakened* (NetEase) and *Undawn* (Tencent), which were launched in June, began to generate meaningful revenue in July. Global mobile game spending was flattish YoY at US\$6.56bn in July 2023.
- **Expect games revenue growth to accelerate in 3Q23E.** Driven by quality new games launched in June and July, we expect games revenue of Tencent and NetEase to show accelerated growth in 3Q23E. We forecast Tencent's games revenue to increase 8% YoY in 3Q23E, driven by the launch of new titles such as *Valorant*, *Lost Ark* and *Maple Story Mobile*. We estimate NetEase games revenue to increase 14% YoY in 3Q23E, supported by the launch of *Justice Mobile* and *Racing Master*. NetEase's new games *Dunk City Dynasty* delivered better-than-expected performance after its launch on 23 Aug, ranking among the top 10 on China iOS game grossing chart. *Dunk City Dynasty* further enriched NetEase's games portfolio and genres, and will drive its game revenue growth in 4Q23E, in our view.

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