

China Internet

1Q23 online game market recap

China's online game market revenue declined by 15% YoY but increased by 16% QoQ to RMB67.5bn in 1Q23, according to CNG. We saw an early recovering sign in March 2023, with monthly game market revenue down by only 3% YoY (versus -23%/17% YoY in Feb/Jan), thanks to more quality game launches. Looking ahead, we are positive that online game market revenue will recover to positive YoY growth in 2Q23E, supported by the normalisation of game license approval and the launch of highly-anticipated titles like Tencent's *Metal Slug: Awakening* and miHoYo's *Honkai: Star Rail*. We prefer leading online games companies such as Tencent and NetEase, given their strong game pipeline in FY23 and capability to expand overseas.

- **Expect mobile game market revenue to rebound in 2Q23E.** China's mobile game market revenue was down by 19% YoY but up by 19% QoQ to RMB48.7bn in 1Q23. The QoQ growth was mainly driven by the Chinese New Year effect, strong performance of NetEase's Egg Party, and the launch of new game titles. March mobile game market revenue declined by 6% YoY to RMB15.6bn, but with narrowing decline rate (vs Feb/Jan: -28%/21% YoY). We expect mobile game market revenue to rebound in 2Q23E, supported by the strong 2Q23 game pipeline: *Honkai: Star Rail* (miHoYo), *Metal Slug: Awakening* (Tencent), *Pretty Derby* (Bilibili) and *Justice Mobile* (NetEase). PC game market revenue delivered resilient YoY growth of 6.7% to RMB16.5bn in 1Q23, mainly attributable to strong performance of Tencent's and NetEase's key PC games.
- **Overseas gaming market remains under pressure.** Overseas revenue from China's self-developed games dropped by 15% YoY to US\$3.9bn in 1Q23, primarily due to soft performance of key game titles and lack of new games. Overseas revenue in March was also down 15% YoY. Overseas revenue contribution to Chinese game developers was largely flat YoY at 28% in 1Q23. Tencent's PUBG Mobile overseas revenue grew by 26% MoM and ranked second by overseas revenue among all Chinese mobile games in March 2023 (source: Sensor Tower), thanks to the new content launch and in-game events during its 5th anniversary.
- **Tencent and NetEase leadership remains intact.** We forecast Tencent/NetEase games revenue to grow 8/7% YoY in FY23. NetEase's Egg Party saw robust revenue and user growth in 1Q23, ranking the fourth by revenue among all mobile games in 1Q23, per CNG. Egg Party's monthly revenue continued to grow and reached a record high in March 2023, with its MAUs ranking the second among all domestic mobile games (source: Sensor Tower). Tencent maintained its leadership in mobile game market. Five Tencent's game titles ranked the top 10 by revenue in 1Q23, according to CNG. Tencent's new title *Metal Slug: Awakening* achieve early success, has ranked the top 15 in China's iOS grossing chart since its launch on 18 Apr.

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