

China Internet

Online game sector: rebounded in 2Q23

China online game market revenue decreased 2.4% YoY but grew 22% HoH to RMB144.3bn in 1H23, according to GPC. Supported by the recovery of game supply and paying willingness, online game market revenue returned to positive growth track and was up by 12% YoY in 2Q23, with a 2-year CAGR of 2%. We expect China online game market to maintain steady growth momentum in 2H23E, mainly due to the launch of quality new games YTD and the low-base effect. Competition in the online gaming market became more intensified in 2023, as more quality games in the emerging genres (like anime games) are taking greater market share. That said, Tencent and NetEase maintained their leadership supported by their quality pipeline and resilient performance of legacy titles. Maintain BUY on Tencent and NetEase.

- **Strong rebound of mobile game market in 2Q23.** Mobile game market revenue declined 3% YoY but grew 29% HoH to RMB106.7bn in 1H23. 2Q23 mobile game revenue was up 16% YoY to RMB58bn (2-year CAGR: 2%), driven by quality new games launched by Tencent, NetEase and miHoYo in 1H23. MOBA/FPS/RPG remained as the top three genres in terms of revenue, accounting for 16.7/16.4/13.6% of total revenue of top 100 mobile games in 1H23 (1H22: 14.3/13.9/18.5%). PC games market was resilient, with its revenue up by 7% YoY in 1H23, supported by the solid performance of e-sports and anime games. Also, more new games chose to publish both mobile and PC version.
- **Invest for long-term opportunities in overseas gaming markets.** Overseas revenue from China's self-developed games decreased 9% YoY to US\$8.2bn in 1H23, mainly due to the soft paying willingness and the rising user acquisition costs in the overseas markets. The US/Japan/Korea remained as the top three markets and accounted for 31.8/19.7/8.5% of overseas revenue in 1H23 (1H22: 31.7%/17.5%/6.3%). China's gaming companies also enrich their game genres in overseas markets. The top three genres (SLG/RPG/FPS) accounted for less than 60% of total overseas revenue in 1H23, compared to 63.5% in 1H22. Despite short-term pressure, leading companies continue to step up investment in overseas gaming studios. Tencent invested in three renowned overseas game studios in July, including *Techland*, *Lucid Games* and *Lighthouse Games*.
- **Improving games revenue growth outlook in 2H23E.** We expect both Tencent and NetEase games revenue growth to accelerate in 2H23E, mainly attributable to the launch of quality titles and the recovery of player consumption sentiment. We estimate Tencent's games revenue to grow 10% YoY in 2H23E, driven by the launch of key titles such as *Valorant*, *Lost Ark*, and *SYNCED: Off-Planet*. We forecast NetEase games revenue to increase 12% YoY in 2H23E, mainly driven by the launch of Justice Mobile and Racing Master, but partially offset by the loss of Blizzard games revenue. Justice Mobile/Racing Master delivered strong performance, ranking the top 5/20 on iOS grossing chart since their launch in June.

China Internet Sector

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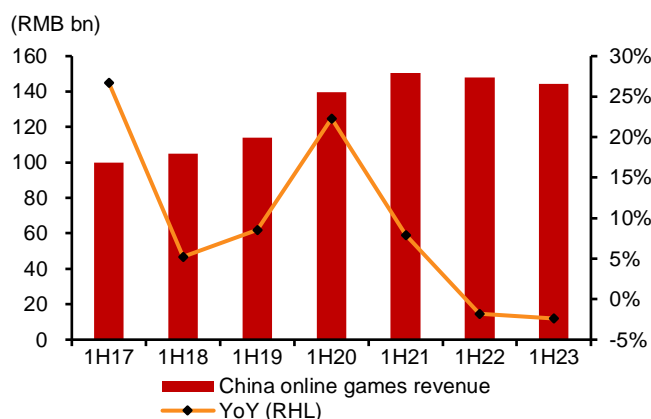
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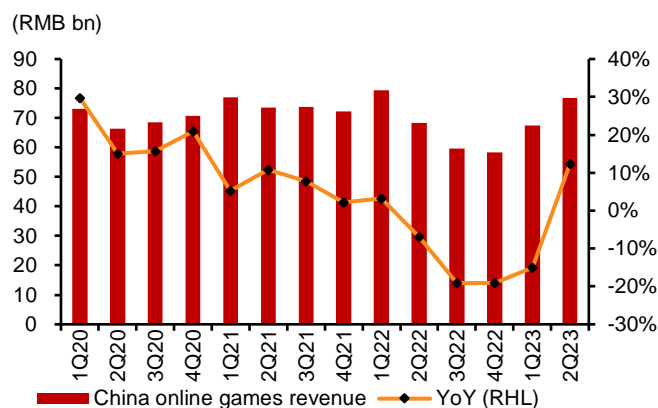
1H23 online games

Figure 1: China: online games revenue (semi)



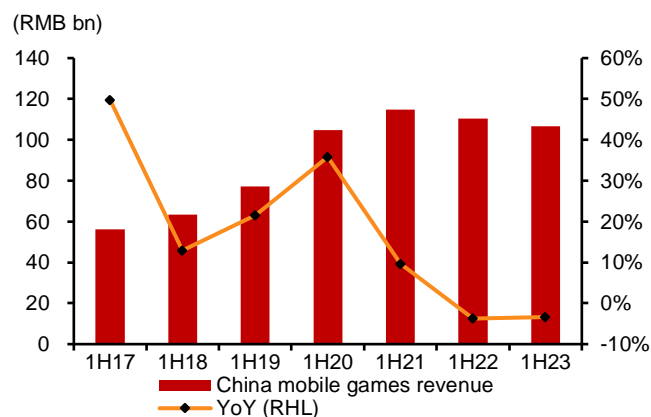
Source: GPC, CMBIGM

Figure 2: China: online games revenue (quarter)



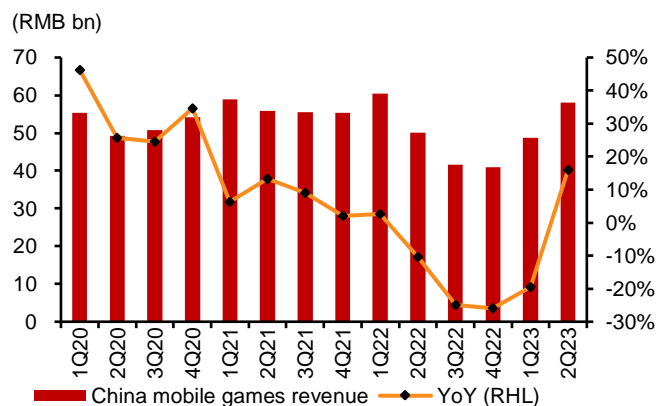
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Figure 3: China: mobile games revenue (semi)



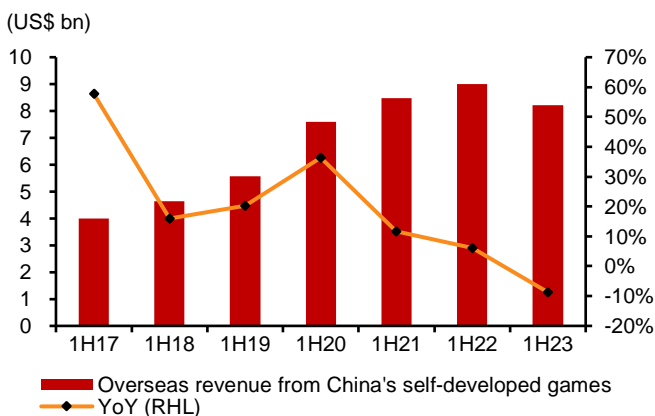
Source: GPC, CMBIGM

Figure 4: China: mobile games revenue (quarter)



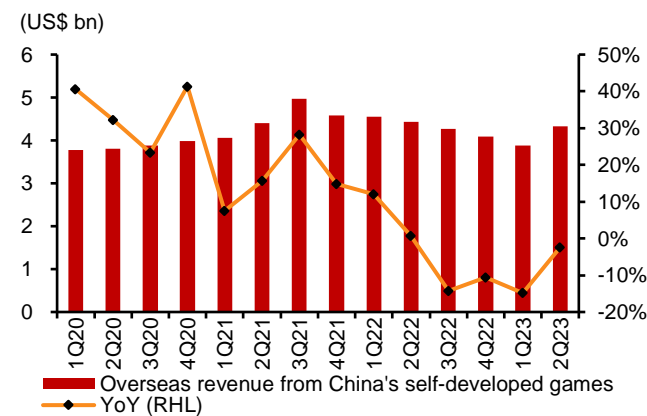
Source: GPC, CMBIGM

Figure 5: Overseas revenue from China's self-developed games (semi)



Source: GPC, CMBIGM

Figure 6: Overseas revenue from China's self-developed games (quarter)



Source: GPC, CMBIGM

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