

China Internet

2023 online games recap: Start of a new growth phase

China online games market revenue grew by 13.9% YoY to RMB303.0bn in 2023, representing a 2-year CAGR of 1.1%, according to GPC. Online games market revenue recorded robust growth of 34.4% YoY in 2H23, underpinned by the launch of several blockbuster titles and the recovery of user paying willingness. Despite the flattish user growth, ARPU was up 13% YoY to RMB453 in 2023. We see further consolidation of the gaming market in 2023, as smaller players exit the market due to relatively weak development or operation capabilities. Looking ahead, we forecast online games market revenue to grow by 6% YoY in FY24E, with Tencent/NetEase games revenue up by 6/10% YoY respectively. We continue to favour leading companies like Tencent and NetEase. Supported by their strong development and operation capabilities, Tencent and NetEase can maintain their current leadership while expanding into new genres and the overseas market to capture emerging opportunities.

- **China mobile game market revenue +17.5% YoY in 2023.** Mobile game market revenue increased by 17.5% YoY to RMB226.9bn and accounted for 75% of online games market revenue in 2023, as per GPC. Mobile game market revenue was up 45.3% YoY in 2H23 to RMB120.0bn. The solid growth was mainly driven by the successful launch of NetEase's *Justice Mobile* (estimated grossing of c.RMB5-6bn in 2023) and miHoYo's *Honkai: Star Rail*, and the strong performance of *Eggy Party* (estimated grossing of c.RMB6-7bn in 2023). PC games market revenue was up 8.0% YoY to RMB66.3bn in 2023, driven by more PC game launches.
- **Investing overseas gaming opportunities.** Overseas revenue from China's self-developed games dropped by 5.6% YoY to US\$16.4bn in 2023, due to the intensifying competition and rising operation costs in the overseas market. Overseas revenue was down 2.4% YoY in 2H23. The US/Japan/Korea remained as the top 3 overseas markets and their share further increased, accounting for 32.5/18.9/8.2% of the total overseas revenue in 2023 (2022: 32.3/17.1/7.0%). Tencent continued to make solid progress in the overseas market, with its overseas game revenue up by 19% YoY to RMB39.2bn in 9M23, driven by the strong performance of *Nikke* and *Valorant*. NetEase further invested in overseas development capabilities and YTD has set up five new game studios in the overseas market. We expect NetEase's overseas investment to gradually bear fruit from 2025 onwards, after which more quality games will be launched overseas.
- **Maintain BUY on Tencent and NetEase.** We forecast Tencent/NetEase online games revenue to grow by 6/10% YoY in FY24E. 1) Tencent: we expect the recent launch of *Dream Stars* to be the key driver for its games business and to contribute RMB6-8bn incremental revenue (c.3-4% of games revenue) in FY24E; but the title's potential cannibalization of user time spend on Tencent's other large-DAU games might slightly drag overall games revenue growth in FY24E; 2) NetEase: we are cautious on NetEase's short-term stock price and games revenue growth prior to 2Q24E, as *Eggy Party* faces heightening competitive pressure from *Dream Stars*. However, we are positive on NetEase's game pipeline and games revenue growth in FY24E. We expect the launch of key titles such as *Where Winds Meet* in 2Q24E to be the catalyst and key driver for its game business growth in FY24E.

China Internet Sector

Saiyi HE, CFA

(852) 3916 1739

hesaiyi@cmbi.com.hk

Wentao LU, CFA

luwentao@cmbi.com.hk

Ye TAO

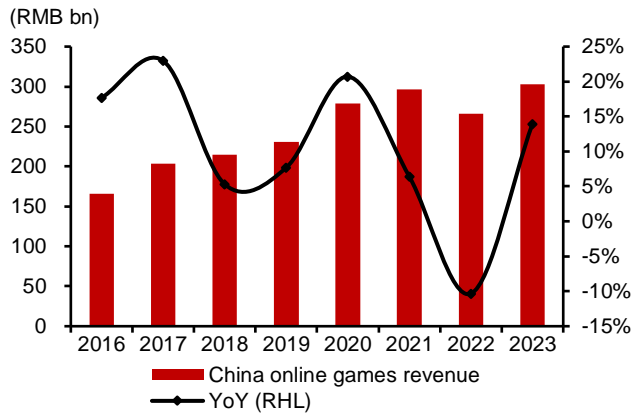
franktao@cmbi.com.hk

Related Reports

1. [Bilibili \(BILI US\) - Game business weighed on revenue growth despite resilient ad and VAS business - 30 Nov](#)
2. [NetEase \(NTES US\) - Games revenue growth accelerated with solid margin expansion - 17 Nov](#)
3. [Tencent \(700 HK\) - 3Q23 earnings beat on strong operating leverage and business innovation - 16 Nov](#)
4. [China Internet - Online Game: July online game market recap - 7 Sept](#)
5. [NetEase \(NTES US\) - Upbeat on games revenue growth and margin expansion in 2H23E - 25 Aug](#)
6. [Bilibili \(BILI US\) - Monetization improvement while driving for ecosystem growth - 18 Aug](#)
7. [Tencent \(700 HK\) - Solid earnings growth on GPM expansion - 17 Aug](#)
8. [China Internet - Online games: rebounded in 2Q23 - 28 Jul](#)
9. [Bilibili \(BILI US\) - 2023 investor day: commercialization and content ecosystem drive business growth - 24 Jul](#)
10. [Tencent \(700 HK\) - 2Q23 preview: expecting strong recovery ahead - 18 Jul](#)

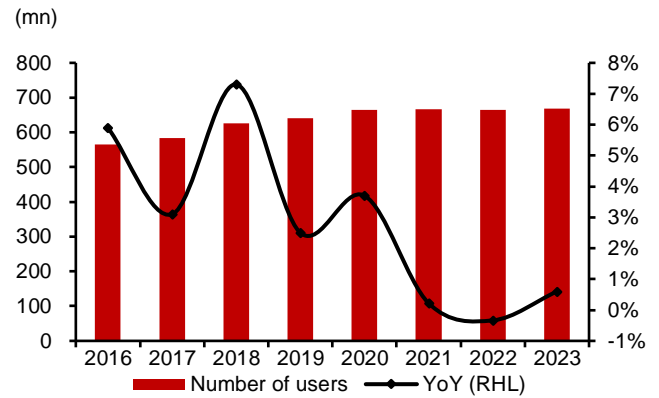
2023 online games recap

Figure 1: China: online games revenue



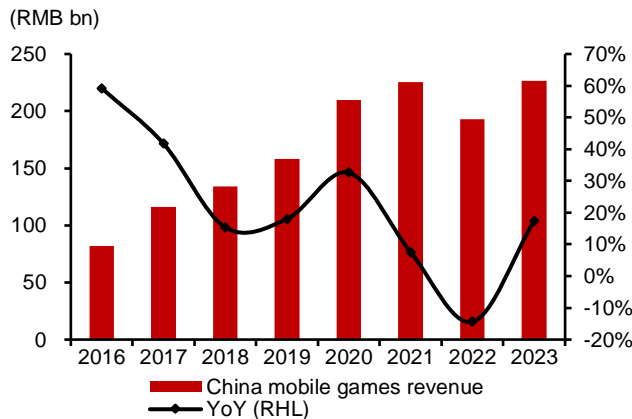
Source: GPC, CMBIGM

Figure 2: China: number of online games users



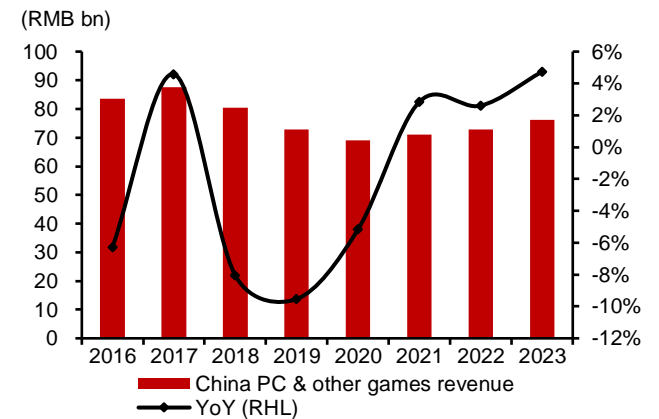
Source: GPC, CMBIGM

Figure 3: China: mobile games revenue



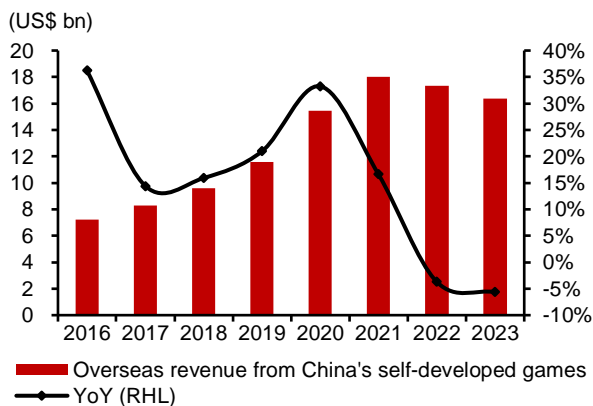
Source: GPC, CMBIGM

Figure 4: China: PC and other games revenue



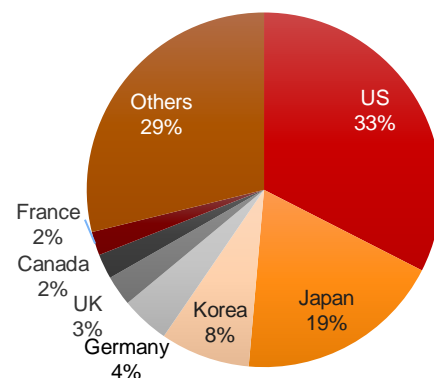
Source: GPC, CMBIGM

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



Source: GPC, CMBIGM

Figure 6: Overseas revenue breakdown by country (2023)



Source: GPC, CMBIGM

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.