

China Internet Sector

Comments on resumption of new games approval

The National Press and Publication Administration (NPPA) released a list of new video game licenses yesterday, ending over eight-month suspension since Jul 2021. We view it positive to game industry and internet sector sentiment. It is still a big catalyst to the whole game sector, and we expect next batch with different genres to come soon. Additionally, the resumption of games approval also supports the indicator of regulation trough in 3.16 Meeting, further alleviating market concern on regulation uncertainty. Among all subsectors in China Internet, we believe games would be the most defensive segment in 2Q22E & 2H22E. Game sector is trading at 12x FY22E P/E (Tencent/NetEase at 22/20x, tier-2 boutique at 5-8x), below historical average of 15x. Suggest to buy the dips. Our pecking order in game segment: NetEase> Tencent> Bilibili.

- What's new.** The National Press and Publication Administration (NPPA) released a list of new video game licenses yesterday, ending over eight-month suspension since Jul 2021. The first batch include 45 games approvals, in which 39 are mobile. ([List link: https://www.nppa.gov.cn/nppa/contents/320/103799.shtml](https://www.nppa.gov.cn/nppa/contents/320/103799.shtml)).
- Our Comments:** We view it positive to game industry and internet sector sentiment. Although this batch didn't include titles from top players Tencent/NetEase (similar to 2018), it is still a big catalyst to the whole game sector, and we expect next batch with different genres to come soon. Key beneficiaries within our coverage include: 1) game companies: Tencent, NetEase, Bilibili, CMGE, FriendTimes; 2) game broadcasting platforms: Kuaishou, Douyu, Huyu; and 3) ads platforms (to see rising ads demand from new games promotion): Tencent, Bilibili, Kuaishou, Zhihu.
- Additionally, the resumption of games approval also supports the indicator of regulation trough in 3.16 Meeting, further alleviating market concern on regulation uncertainty. Among all subsectors in China Internet, we believe games would be the most defensive segment in 2Q22E & 2H22E, as it is more resilient to COVID-19 resurgence (or even benefit from higher online time spent), compared to challenging ecommerce, lifestyles & ads (dragged by lockdowns). Game sector is trading at 12x FY22E P/E (Tencent/NetEase at 22/20x, below historical average of 15x. Suggest to buy the dips. Our pecking order in game segment: NetEase> Tencent> Bilibili.

Valuation Table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS		
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Game												
Tencent	700 HK	449,833	HKD	354	BUY	550	21.9	17.8	15.1	4.6	4.0	3.5
NetEase	NTES US	63,750	USD	95	BUY	132	19.9	17.2	15.1	4.1	3.6	3.3
Bilibili	BILI US	10,686	USD	28	BUY	110	NA	NA	NA	2.7	2.1	1.6
XD Inc	2400 HK	1,560	HKD	25	NA	NA	NA	NA	24.3	3.0	2.3	1.8
Kingsoft	3888 HK	4,064	HKD	23	NA	NA	58.7	32.1	21.8	3.3	2.7	2.2
IGG	799 HK	537	HKD	4	NA	NA	7.9	4.9	11.6	0.7	0.7	0.7
FriendTimes	6820 HK	367	HKD	1	BUY	3	5.7	4.8	NA	1.1	0.9	NA
CMGE	302 HK	830	HKD	2	BUY	6	5.2	4.4	4.7	0.9	0.8	0.8
Archosaur Gam	9990 HK	830	HKD	8	NA	NA	16.8	8.8	NA	2.5	1.8	NA
Perfect World	002624 CH	3,799	CNY	12	BUY	49	23.8	11.0	9.3	2.6	2.1	1.8
Sanqi Interactive	002555 CH	8,627	CNY	24	BUY	30	20.1	16.7	14.1	3.2	2.7	2.3
Giant Network	002558 CH	3,151	CNY	10	NA	NA	19.3	17.5	16.2	5.7	4.9	7.5
Average							19.9	13.5	14.7	2.9	2.4	2.6
Average (HK&US-listed)							12.1	9.8	11.6	2.3	2.0	2.1

Source: Company data, CMBIGM estimates

OUTPERFORM
(Maintain)

China Internet Sector

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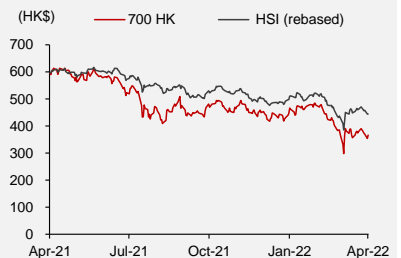
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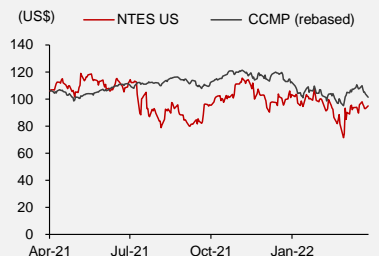
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Tencent: 12-mth Price Performance



Source: Bloomberg

NetEase: 12-mth Price Performance



Source: Bloomberg

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