

NetEase (NTES US)

Inline 2Q25 earnings; upbeat on 2H25 game business outlook

NetEase reported 2Q25 results: total revenue increased by 9% YoY to RMB27.9bn, 2% below Bloomberg consensus estimate; non-GAAP net income was up by 22% YoY to RMB9.5bn, largely in line with consensus estimate. We expect the slower-than-expected games revenue growth to impact short-term investor sentiment, but we also note that the games revenue outlook in 2H25E remains resilient (+13% YoY on our estimate), supported by the solid performance of evergreen games and strong growth of contract liabilities in 2Q25 (+25% YoY). We maintain our FY25-27 earnings forecasts largely unchanged. We lift our SOTP-derived target price to US\$160.0 (previous: US\$136.5), given the valuation rerating of the games sector. Maintain BUY on solid games and earnings outlook in 2H25E.

- Evergreen games delivered solid performance.** Games & related VAS revenue grew by 14% YoY to RMB22.8bn in 2Q25. Contract liabilities maintained healthy growth of 25% YoY to RMB17.0bn as of Jun 2025. Several evergreen games achieved strong performance after the content update in July, which should pave way for solid games revenue growth in 2H25E, in our view. *Sword of Justice*, *Identity V*, *Naraka: Bladepoint mobile* and *Eggy Party* all reached top 10 positions on China's iOS grossing chart after anniversary or seasonal update in July. Management notes that *Where Winds Meet* continued to deliver solid performance since its launch, and exceeded expectations in terms of both active users and monetization. Looking ahead, several new games are lined up for global launch, including *Diablo II Remastered* (27 Aug), *Destiny: Rising* (28 Aug), ocean adventure RPG *Sea of Remnants* (2026E), and story-driven action game *Blood Message* (2026E).
- Non-gaming businesses focus on quality growth.** NetEase Cloud music revenue decreased by 4% YoY to RMB1.97bn in 2Q25, but with music GPM up by 4.0ppts YoY to 36.1%, mainly supported by operating leverage and growth of the online music business. Youdao revenue grew by 7% YoY to RMB1.42bn in 2Q25, primarily driven by growth of online marketing services. Innovative businesses and others revenue was down by 18% YoY to RMB1.70bn in 2Q25.
- Better-than-expected margin expansion.** Margin expansion continued to beat expectation: 1) GPM improved by 1.8ppts YoY to 64.7% in 2Q25, primarily attributable to the optimized channel costs and favourable revenue mix shift to self-developed games; 2) OPM increased by 5.0ppts YoY to 32.5% in 2Q25, thanks to the operating leverage. S&M/G&A expenses ratio was down 0.9/1.9ppts YoY to 12.8%/15.6% in 2Q25. We expect S&M expenses to grow by 19% YoY in 2H25E, as NetEase entered a more normalized cycle to promote both new and legacy games. Overall, we expect OPM to increase by 5ppts YoY to 32.8% in FY25.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	103,468	105,295	115,251	123,376	131,365
Gross margin (%)	60.9	62.5	64.1	64.4	64.6
Adjusted net profit (RMB mn)	32,608.3	33,510.6	40,206.6	43,807.3	46,880.7
EPS (Adjusted) (RMB)	50.69	52.35	62.58	68.18	72.96
Consensus EPS (RMB)	50.69	52.35	60.97	63.81	69.16
P/S (x)	5.7	5.6	5.1	4.8	4.5
P/E (x)	20.3	20.0	16.4	15.1	14.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$160.00
 (Previous TP) US\$136.50
Up/Downside 23.4%
Current Price US\$129.67

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Stock Data

Mkt Cap (US\$ mn)	82,598.5
Avg 3 mths t/o (US\$ mn)	51.0
52w High/Low (US\$)	140.56/76.28
Total Issued Shares (mn)	637.0

Source: FactSet

Shareholding Structure

William Lei Ding	44.2%
Invesco	2.2%

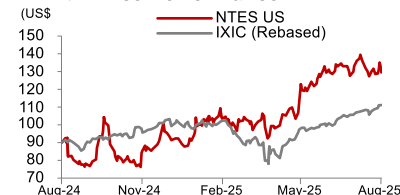
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-2.6%	-7.2%
3-mth	5.6%	-7.0%
6-mth	25.3%	15.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: NetEase: earnings revision

RMB bn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	115.3	123.4	131.4	114.7	123.3	132.8	0.4%	0.0%	-1.0%
Gross profit	73.9	79.4	84.8	72.4	78.3	85.0	2.0%	1.4%	-0.2%
Operating profit	37.8	41.7	45.7	37.0	39.9	44.0	2.3%	4.4%	3.8%
Adjusted net profit	40.2	43.8	46.9	39.2	41.1	44.7	2.6%	6.6%	4.8%
Adjusted EPS (RMB)	62.6	68.2	73.0	61.0	63.8	69.2	2.6%	6.8%	5.5%
Gross margin	64.1%	64.4%	64.6%	63.1%	63.5%	64.0%	1.0 ppt	0.9 ppt	0.6 ppt
Operating margin	32.8%	33.8%	34.8%	32.2%	32.4%	33.2%	0.6 ppt	1.4 ppt	1.6 ppt
Adjusted net margin	34.9%	35.5%	35.7%	34.1%	33.3%	33.7%	0.7 ppt	2.2 ppt	2.0 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB bn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	115.3	123.4	131.4	113.1	121.1	128.9	1.9%	1.9%	1.9%
Gross profit	73.9	79.4	84.8	72.3	77.9	83.2	2.2%	2.0%	2.0%
Operating profit	37.8	41.7	45.7	38.0	42.1	46.2	-0.5%	-1.1%	-1.1%
Adjusted net profit	40.2	43.8	46.9	40.1	43.7	46.8	0.2%	0.2%	0.1%
Adjusted EPS (RMB)	62.6	68.2	73.0	62.5	68.2	73.1	0.0%	0.0%	-0.1%
Gross margin	64.1%	64.4%	64.6%	63.9%	64.3%	64.6%	0.2 ppt	0.1 ppt	0.0 ppt
Operating margin	32.8%	33.8%	34.8%	33.6%	34.8%	35.9%	-0.8 ppt	-1.0 ppt	-1.1 ppt
Adjusted net margin	34.9%	35.5%	35.7%	35.5%	36.1%	36.3%	-0.6 ppt	-0.6 ppt	-0.7 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: NetEase: key financial data forecasts

(RMB mn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	Cons.	Diff%
Online games revenue	21,460	20,056	20,864	21,242	24,048	22,806	23,371	-2.4%
YoY%	7.0%	6.7%	-4.2%	1.5%	12.1%	13.7%		
As % of total revenue	79.9%	78.7%	79.6%	79.4%	83.4%	81.8%		
Youdao revenue	1,392	1,322	1,573	1,340	1,298	1,418	1,334	6.3%
YoY%	19.7%	9.5%	2.2%	-9.5%	-6.7%	7.2%		
As % of total revenue	5.2%	5.2%	6.0%	5.0%	4.5%	5.1%		
Cloud Music revenue	2,030	2,041	1,999	1,880	1,858	1,969	1,985	-0.8%
YoY%	3.6%	4.7%	1.3%	-5.3%	-8.4%	-3.5%		
As % of total revenue	7.6%	8.0%	7.6%	7.0%	6.4%	7.1%		
Innovative businesses	1,970	2,067	1,774	2,285	1,624	1,699	1,809	-6.1%
YoY%	6.1%	0.5%	-10.3%	-17.0%	-17.6%	-17.8%		
As % of total revenue	7.3%	8.1%	6.8%	8.5%	5.6%	6.1%		
Total revenue	26,852	25,486	26,210	26,748	28,829	27,892	28,398	-1.8%
YoY%	7.2%	6.1%	-3.9%	-1.4%	7.4%	9.4%		
Gross profit margin (%)	63.4%	62.9%	62.9%	60.8%	64.1%	64.7%	63.4%	1.4ppt
S&M expenses ratio (%)	15.0%	13.7%	14.5%	10.5%	9.4%	12.8%		
R&D expenses ratio (%)	15.5%	17.5%	16.9%	16.7%	15.2%	15.6%		
Non-GAAP net profit	8,511	7,819	7,499	9,682	11,237	9,532	9,608	-0.8%
YoY%	12.5%	-13.3%	-13.3%	31.2%	32.0%	21.9%		
Non-GAAP NPM (%)	31.7%	30.7%	28.6%	36.2%	39.0%	34.2%		

Source: Company data, CMBIGM estimates

We use sum-of-the-parts (SOTP) valuation methodology to value NetEase's four main business segments. Our SOTP-derived target price is US\$160.0, comprising:

- 1) US\$144.0 for the online game business (90.0% of total valuation), based on 20x 2025E EV/EBIT which is on par with the industry average.
- 2) US\$0.9 for Youdao (0.5% of total valuation), based on 1.2x 2025E EV/revenue, on par with the industry average;
- 3) US\$4.9 (3.1% of total valuation) for the NetEase Cloud Music business, based on 4.7x 2025E EV/revenue, on par with the industry average;
- 4) US\$1.6 (1.0% of total valuation) for the innovative businesses and others, based on 1.0x 2025E EV/revenue, on par with the industry average;
- 5) US\$8.7 for net cash.

Figure 4: NetEase: SOTP Valuation

(RMBmn)	Valuation basis	Multiple (x)	2025E sales	2025E EBIT	Valuation	Shareholding (%)	Valuation to NetEase	Valuation per ADS (US\$)
Online games	EV/EBIT	20.0	94,471	32,876	657,515	100.0%	657,515	144.0
Youdao	EV/revenue	1.2	5,626		6,751	59.2%	3,997	0.9
Cloud Music	EV/revenue	4.7	8,030		37,739	59.5%	22,470	4.9
Innovative businesses	EV/revenue	1.0	7,125		7,125	100.0%	7,125	1.6
Enterprise value							691,107	
Net cash							39,578	8.7
Equity value							730,685	
RMB/US\$							7.2	
Valuation (US\$mn)							101,909	
No. of ADSs (mn)							637	
Value per ADS (US\$)							160.0	

Source: Company data, CMBIGM estimates

Figure 5: Peer comparison: online games

Company	Ticker	Price (LC)	EBIT growth (YoY %)		EV/EBIT (x)	
			FY25E	FY26E	FY25E	FY26E
Tencent	700 HK	586.0	15	14	21	18
Electronic Arts	EA US	178.4	(13)	10	23	21
Nexon	3659 JP	3,273.0	(3)	10	17	15
Bandai Namco	7832 JP	5,520.0	124	(10)	17	19
Perfect World	002624 CH	15.4	(197)	85	30	16
37 Interactive	002555 CH	17.0	11	16	11	9
Average EV/EBIT					20	16

Source: Bloomberg consensus estimates, CMBIGM

Note: data as of market close on 13 Aug

Figure 6: Peer comparison: education, online music, and e-commerce

Company	Ticker	Price (LC)	Revenue growth (YoY %)		EV/revenue (x)	
			FY25E	FY26E	FY25E	FY26E
Education						
New Oriental	EDU US	46.8	13	11	0.9	0.8
TAL Education	TAL US	11.7	57	31	1.8	1.4
Gaotu	GOTU US	3.9	34	25	0.9	0.7
Average					1.2	0.9
Community						
TME	TME US	25.6	14	13	8.1	7.2
Spotify	SPOT US	695.0	23	15	6.8	5.9
Bilibili	BILI US	24.4	15	9	2.0	1.9
Kuaishou	1024 HK	75.0	13	9	2.0	1.8
Average					4.7	4.2
E-commerce						
Alibaba	BABA US	126.9	6	9	1.6	1.5
JD	JD US	32.5	14	6	0.2	0.2
Pinduoduo	PDD US	116.6	9	16	1.9	1.7
Vipshop	VIPS US	16.4	(0)	2	0.4	0.4
Average					1.0	0.9

Source: Bloomberg consensus estimates, CMBIGM

Note: data as of market close on 13 Aug

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	96,496	103,468	105,295	115,251	123,376	131,365
Cost of goods sold	(43,730)	(40,405)	(39,488)	(41,352)	(43,943)	(46,519)
Gross profit	52,766	63,063	65,807	73,899	79,434	84,847
Operating expenses	(33,138)	(35,354)	(36,223)	(36,074)	(37,753)	(39,147)
Selling expense	(13,403)	(13,969)	(14,148)	(14,176)	(14,929)	(15,501)
Admin expense	(4,696)	(4,900)	(4,551)	(4,149)	(4,318)	(4,466)
R&D expense	(15,039)	(16,485)	(17,525)	(17,749)	(18,506)	(19,179)
Operating profit	19,629	27,709	29,584	37,825	41,680	45,700
Investment gain/loss	54	1,307	355	1,678	839	671
Other gains/(losses)	847	1,054	602	447	0	0
Interest income	2,150	4,120	4,921	3,897	4,036	3,479
Foreign exchange gain/loss	1,571	(133)	255	116	0	0
Pre-tax profit	24,250	34,057	35,718	43,964	46,556	49,850
Income tax	(5,032)	(4,700)	(5,461)	(6,814)	(7,216)	(7,727)
After tax profit	19,218	29,357	30,256	37,150	39,340	42,124
Minority interest	494	59	(559)	(1,117)	0	0
Net profit	19,713	29,417	29,698	36,033	39,340	42,124
Adjusted net profit	22,808	32,608	33,511	40,207	43,807	46,881
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	131,603	142,693	153,325	186,305	219,383	254,439
Cash & equivalents	24,889	21,429	51,383	75,222	98,601	123,137
Restricted cash	2,699	2,777	3,086	3,241	3,403	3,573
Account receivables	5,003	6,422	5,669	6,081	6,379	6,657
Inventories	994	695	572	599	636	673
Prepayment	5,448	6,077	6,417	6,883	7,221	7,535
ST bank deposits	84,948	100,856	75,441	82,985	91,284	100,412
Other current assets	7,623	4,436	10,756	11,294	11,859	12,452
Non-current assets	41,158	43,232	42,667	41,031	39,634	38,470
PP&E	6,342	8,075	8,520	8,990	9,485	10,008
Other non-current assets	34,815	35,157	34,147	32,041	30,149	28,462
Total assets	172,761	185,925	195,992	227,336	259,018	292,909
Current liabilities	56,829	53,842	49,668	54,724	58,591	62,723
Short-term borrowings	23,876	19,240	11,805	14,219	15,394	16,864
Account payables	1,507	881	721	755	802	849
Tax payable	2,813	2,572	2,759	3,020	3,233	3,442
Other current liabilities	17,252	18,219	19,982	21,650	23,138	24,604
Accrued expenses	11,381	12,930	14,401	15,080	16,025	16,965
Non-current liabilities	7,059	3,998	3,830	4,113	4,390	4,663
Other non-current liabilities	7,059	3,998	3,830	4,113	4,390	4,663
Total liabilities	63,888	57,841	53,497	58,837	62,981	67,386
Total shareholders equity	104,731	124,286	138,686	163,574	191,111	220,598
Minority interest	4,142	3,798	3,809	4,925	4,925	4,925
Total equity and liabilities	172,761	185,925	195,992	227,336	259,018	292,909

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	24,250	34,057	35,718	43,964	46,556	49,850
Depreciation & amortization	2,858	3,055	2,418	4,260	4,495	4,743
Tax paid	(5,032)	(4,700)	(5,461)	(6,814)	(7,216)	(7,727)
Change in working capital	3,497	376	3,652	1,737	2,019	2,034
Others	2,135	2,543	3,351	0	0	0
Net cash from operations	27,709	35,331	39,677	43,147	45,853	48,900
Investing						
Capital expenditure	(2,602)	(4,266)	(2,192)	(4,829)	(5,092)	(5,370)
Net cash from investing	(7,370)	(17,043)	17,916	(10,428)	(11,685)	(13,027)
Financing						
Dividend paid	(6,724)	(8,014)	(11,165)	(11,145)	(11,802)	(12,637)
Net borrowings	5,119	(8,305)	(7,476)	2,414	1,175	1,470
Proceeds from share issues	(274)	0	0	0	0	0
Others	(8,359)	(5,148)	(8,694)	0	0	0
Net cash from financing	(10,238)	(21,467)	(27,336)	(8,731)	(10,627)	(11,167)
Net change in cash						
Cash at the beginning of the year	17,376	27,588	24,207	54,475	78,463	102,004
Exchange difference	110	(202)	11	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	27,588	24,207	54,475	78,463	102,004	126,710
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	10.1%	7.2%	1.8%	9.5%	7.0%	6.5%
Gross profit	12.3%	19.5%	4.4%	12.3%	7.5%	6.8%
Operating profit	19.6%	41.2%	6.8%	27.9%	10.2%	9.6%
Net profit	16.9%	49.2%	1.0%	21.3%	9.2%	7.1%
Adj. net profit	15.4%	43.0%	2.8%	20.0%	9.0%	7.0%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	54.7%	60.9%	62.5%	64.1%	64.4%	64.6%
Operating margin	20.3%	26.8%	28.1%	32.8%	33.8%	34.8%
Adj. net profit margin	23.6%	31.5%	31.8%	34.9%	35.5%	35.7%
Return on equity (ROE)	19.7%	25.7%	22.6%	23.8%	22.2%	20.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)
Current ratio (x)	2.3	2.7	3.1	3.4	3.7	4.1
Receivable turnover days	18.9	22.7	19.7	19.3	18.9	18.5
Payable turnover days	12.6	8.0	6.7	6.7	6.7	6.7
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	30.8	20.3	20.0	16.4	15.1	14.1
P/E (diluted)	31.1	20.6	20.2	16.6	15.2	14.2
P/B	5.8	4.8	4.3	3.6	3.1	2.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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