

NetEase (NTES US)

4Q25 results: strong contract liabilities growth despite revenue miss

NetEase reported 4Q25 results: total revenue increased by 3% YoY to RMB27.5bn, 4% below Bloomberg consensus estimate due to slower-than-expected games revenue growth and the prolonged revenue recognition period. Operating income grew by 6% YoY to RMB8.3bn, 6% below consensus estimate. That said, we remain constructive on FY26E revenue growth outlook, given that 1) contract liabilities were up by 34% YoY in 4Q25; 2) several highly anticipated games are lined up for launch in FY26, including *Sea of Remnants*. We slightly lower our FY26-27E total revenue forecasts by 1-2% in view of the prolonged revenue recognition period. We fine-tune our SOTP-derived target price to US\$161.5 (previous: US\$164.0). Maintain BUY.

- Strong growth of contract liabilities.** Games & related VAS revenue grew by 3% YoY to RMB22.0bn in 4Q25. Contract liabilities were up by 34% YoY to RMB20.5bn as of Dec 2025, showing healthy game business and user engagement trend. By titles: 1) *Where Winds Meet* surpassed 80mn cumulative players after its global launch; 2) *Fantasy Westward Journey* franchise and Blizzard titles achieved record-high annual revenue in FY25; 3) legacy titles like *Identity V* and *Eggy Party* all maintained strong user engagement thanks to innovative content and events. In terms of the pipeline, several highly anticipated games are lined up for launch in FY26E: *Sea of Remnants* (3Q26E), *YaoYaoQi (2026E)*, *ANANTA* (TBA), and *Blood Message* (TBA). In terms of AI, management believes that the World Model like Genie 3 will not pose direct threats to the company, but may enhance both quality and efficiency of the game development. The company has integrated AI into different phases of game development, including art, programming, animation and quality assurance.
- Music and Youdao businesses achieved steady growth.** NetEase Cloud music revenue increased by 5% YoY to RMB2.0bn in 4Q25, mainly attributable to the solid growth of online music revenue. Youdao revenue grew by 17% YoY to RMB1.6bn in 4Q25, mainly driven by the solid growth of online marketing services. Innovative businesses and others revenue dropped by 10% YoY to RMB2.0bn in 4Q25, mainly reflecting elimination of certain inter-segment transactions.
- Expanding margin and steady shareholder return.** Overall GPM rose by 3.4ppts YoY to 64.2% in 4Q25, primarily due to revenue mix shift to higher-margin self-developed games. OPM expanded by 1.0ppt YoY to 30.2% in 4Q25. The company maintained decent shareholder return of RMB14.5bn in 2025, equivalent to c.3% of the market cap. As the company's trading volume in HK exceeded 55% of total trading volume in HK & US markets in 2025, the company is expected to migrate to primary listing in HK and be included in stock connect afterwards, as per HKEX listing rules. This should be an additional catalyst for NetEase in 2026, in our view.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	105,295	112,626	120,763	129,077	137,432
Gross margin (%)	62.5	64.3	64.8	65.0	65.2
Adjusted net profit (RMB mn)	33,510.6	37,343.7	41,448.6	44,707.9	47,509.7
EPS (Adjusted) (RMB)	52.35	58.83	64.40	69.46	73.81
Consensus EPS (RMB)	52.35	58.83	64.55	71.36	78.52
P/S (x)	5.2	4.8	4.5	4.2	4.0
P/E (x)	18.4	16.1	14.7	13.6	12.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$161.50**
 (Previous TP **US\$164.00**)
 Up/Downside **30.7%**
 Current Price **US\$123.52**

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO, CFA
 (852) 3850 5226
 franktao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	78,718.2
Avg 3 mths t/o (US\$ mn)	92.3
52w High/Low (US\$)	159.34/91.37
Total Issued Shares (mn)	637.3

Source: FactSet

Shareholding Structure

William Lei Ding	45.8%
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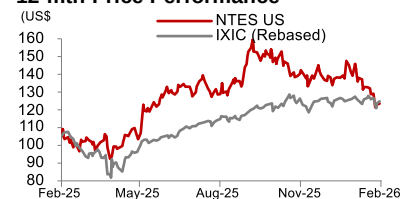
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-11.3%	-9.1%
3-mth	-13.2%	-11.8%
6-mth	-4.2%	-11.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: NetEase: earnings revision

RMB bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	120.8	129.1	137.4	122.8	130.4	NA	-1.6%	-1.0%	NA
Gross profit	78.2	83.9	89.6	79.4	84.6	NA	-1.5%	-0.8%	NA
Operating profit	39.8	43.8	47.7	41.0	45.2	NA	-2.9%	-3.2%	NA
Adjusted net profit	41.4	44.7	47.5	43.3	46.6	NA	-4.3%	-4.1%	NA
Adjusted EPS (RMB)	64.4	69.5	73.8	67.3	72.4	NA	-4.3%	-4.1%	NA
Gross margin	64.8%	65.0%	65.2%	64.7%	64.9%	NA	0.1 ppt	0.1 ppt	NA
Operating margin	33.0%	33.9%	34.7%	33.4%	34.7%	NA	-0.4 ppt	-0.8 ppt	NA
Adjusted net margin	34.3%	34.6%	34.6%	35.3%	35.7%	NA	-1.0 ppt	-1.1 ppt	NA

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB bn	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	120.8	129.1	137.4	123.1	133.6	145.8	-1.9%	-3.4%	-5.7%
Gross profit	78.2	83.9	89.6	79.4	87.1	95.0	-1.5%	-3.6%	-5.7%
Operating profit	39.8	43.8	47.7	40.7	45.6	50.1	-2.3%	-4.0%	-4.9%
Adjusted net profit	41.4	44.7	47.5	41.7	46.0	51.6	-0.5%	-2.8%	-8.0%
Adjusted EPS (RMB)	64.4	69.5	73.8	64.6	71.4	78.5	-0.2%	-2.7%	-6.0%
Gross margin	64.8%	65.0%	65.2%	64.5%	65.2%	65.2%	0.3 ppt	-0.2 ppt	0.0 ppt
Operating margin	33.0%	33.9%	34.7%	33.1%	34.1%	34.4%	-0.1 ppt	-0.2 ppt	0.3 ppt
Adjusted net margin	34.3%	34.6%	34.6%	33.8%	34.5%	35.4%	0.5 ppt	0.2 ppt	-0.9 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: NetEase: key financial data forecasts

(RMB mn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	Cons.	Diff%
Online games revenue	21,460	20,056	20,864	21,242	24,048	22,806	23,328	21,967	23,421	-6.2%
YoY%	7.0%	6.7%	-4.2%	1.5%	12.1%	13.7%	11.8%	3.4%		
As % of total revenue	79.9%	78.7%	79.6%	79.4%	83.4%	81.8%	82.3%	79.7%		
Youdao revenue	1,392	1,322	1,573	1,340	1,298	1,418	1,629	1,565	1,450	7.9%
YoY%	19.7%	9.5%	2.2%	-9.5%	-6.7%	7.2%	3.6%	16.8%		
As % of total revenue	5.2%	5.2%	6.0%	5.0%	4.5%	5.1%	5.7%	5.7%		
Cloud Music revenue	2,030	2,041	1,999	1,880	1,858	1,969	1,964	1,968	1,992	-1.2%
YoY%	3.6%	4.7%	1.3%	-5.3%	-8.4%	-3.5%	-1.8%	4.7%		
As % of total revenue	7.6%	8.0%	7.6%	7.0%	6.4%	7.1%	6.9%	7.1%		
Innovative businesses	1,970	2,067	1,774	2,285	1,624	1,699	1,439	2,047	1,890	8.3%
YoY%	6.1%	0.5%	-10.3%	-17.0%	-17.6%	-17.8%	-18.9%	-10.4%		
As % of total revenue	7.3%	8.1%	6.8%	8.5%	5.6%	6.1%	5.1%	7.4%		
Total revenue	26,852	25,486	26,210	26,748	28,829	27,892	28,359	27,547	28,787	-4.3%
YoY%	7.2%	6.1%	-3.9%	-1.4%	7.4%	9.4%	8.2%	3.0%		
Gross profit margin (%)	63.4%	62.9%	62.9%	60.8%	64.1%	64.7%	64.1%	64.2%	63.4%	0.8ppt
S&M expenses ratio (%)	15.0%	13.7%	14.5%	10.5%	9.4%	12.8%	15.7%	14.1%		
R&D expenses ratio (%)	15.5%	17.5%	16.9%	16.7%	15.2%	15.6%	16.0%	16.1%		
Non-GAAP net profit	8,511	7,819	7,499	9,682	11,237	9,532	9,502	7,073	9,230	-23.4%
YoY%	12.5%	-13.3%	-13.3%	31.2%	32.0%	21.9%	26.7%	-26.9%		
Non-GAAP NPM (%)	31.7%	30.7%	28.6%	36.2%	39.0%	34.2%	33.5%	25.7%		

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\$161.5, comprising:

- 1) US\$142.1 for the online game business (88.0% of total valuation), based on 17x 2026E EV/EBIT which is on par with the industry average.
- 2) US\$0.7 for Youdao (0.4% of total valuation), based on 0.9x 2026E EV/revenue, on par with the industry average;
- 3) US\$3.4 (2.1% of total valuation) for the NetEase Cloud Music business, based on 3.0x 2026E EV/revenue, on par with the industry average;
- 4) US\$1.5 (0.9% of total valuation) for the innovative businesses and others, based on 1.0x 2026E EV/revenue, on par with the industry average;
- 5) US\$13.8 for net cash.

Figure 4: NetEase: SOTP Valuation

(RMBmn)	Valuation basis	Multiple (x)	2026E sales	2026E EBIT	Valuation	Shareholding (%)	Valuation to NetEase	Valuation per ADS (US\$)
Online games	EV/EBIT	17.0	99,445	37,292	633,960	100.0%	633,960	142.1
Youdao	EV/revenue	0.9	6,204		5,584	57.1%	3,188	0.7
Cloud Music	EV/revenue	3.0	8,509		25,527	59.4%	15,163	3.4
Innovative businesses	EV/revenue	1.0	6,604		6,604	100.0%	6,604	1.5
Enterprise value							658,916	
Net cash							61,529	13.8
Equity value							720,445	
RMB/US\$							7.0	
Valuation (US\$m)							102,921	
No. of ADSs (mn)							637	
Value per ADS (US\$)							161.5	

Source: Company data, CMBIGM estimates

Figure 5: Peer comparison: online games

Company	Ticker	Price (LC)	EBIT growth (YoY %)		EV/EBIT (x)	
			FY26E	FY27E	FY26E	FY27E
Tencent	700 HK	551.0	16	13	16	14
Electronic Arts	EA US	202.6	6	23	24	19
Nexon	3659 JP	3,735.0	7	7	15	14
Bandai Namco	7832 JP	4,171.0	(12)	7	13	12
Perfect World	002624 CH	22.5	94	18	19	16
37 Interactive	002555 CH	26.2	9	9	14	13
Average EV/EBIT					17	15

Source: Bloomberg consensus estimates, CMBIGM

Note: data as of market close on 10 Feb

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

Company	Ticker	Price (LC)	Revenue growth (YoY %)		EV/revenue (x)	
			FY26E	FY27E	FY26E	FY27E
Education						
New Oriental	EDU US	60.9	12	11	1.1	1.0
TAL Education	TAL US	12.3	32	23	1.4	1.2
Gaotu	GOTU US	2.2	15	15	0.3	0.3
Average					0.9	0.8
Community						
TME	TME US	16.9	13	12	4.1	3.7
Spotify	SPOT US	476.0	15	14	3.8	3.3
BiliBili	BILI US	31.0	9	9	2.3	2.1
Kuaishou	1024 HK	70.4	9	8	1.6	1.5
Average					3.0	2.7
E-commerce						
Alibaba	BABA US	166.5	11	10	2.0	1.8
JD	JD US	28.4	5	6	0.1	0.1
Pinduoduo	PDD US	105.4	15	13	1.3	1.1
Vipshop	VIPS US	17.6	2	4	0.4	0.4
Average					1.0	0.9

Source: Bloomberg consensus estimates, CMBIGM

Note: data as of market close on 10 Feb

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	103,468	105,295	112,626	120,763	129,077	137,432
Cost of goods sold	(40,405)	(39,488)	(40,224)	(42,565)	(45,156)	(47,809)
Gross profit	63,063	65,807	72,402	78,198	83,921	89,623
Operating expenses	(35,354)	(36,223)	(36,567)	(38,403)	(40,143)	(41,917)
Selling expense	(13,969)	(14,148)	(14,620)	(15,699)	(16,780)	(17,866)
Admin expense	(4,900)	(4,551)	(4,228)	(4,347)	(4,518)	(4,673)
R&D expense	(16,485)	(17,525)	(17,719)	(18,356)	(18,845)	(19,378)
Operating profit	27,709	29,584	35,835	39,796	43,778	47,706
Investment gain/loss	1,307	355	732	219	176	53
Other gains/(losses)	1,054	602	1,087	0	0	0
Interest income	4,120	4,921	3,953	3,603	3,145	2,280
Foreign exchange gain/loss	(133)	255	(776)	0	0	0
Pre-tax profit	34,057	35,718	40,830	43,618	47,098	50,039
Income tax	(4,700)	(5,461)	(6,033)	(6,543)	(7,065)	(7,506)
After tax profit	29,357	30,256	34,798	37,075	40,034	42,533
Minority interest	59	(559)	(1,038)	0	0	0
Net profit	29,417	29,698	33,760	37,075	40,034	42,533
Adjusted net profit	32,608	33,511	37,344	41,449	44,708	47,510
BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	142,693	153,325	180,615	213,040	247,486	282,245
Cash & equivalents	21,429	51,383	47,168	68,272	90,412	111,799
Restricted cash	2,777	3,086	4,319	4,535	4,762	5,000
Account receivables	6,422	5,669	5,338	5,609	5,875	6,130
Inventories	695	572	689	729	774	819
Prepayment	6,077	6,417	7,658	8,047	8,429	8,796
ST bank deposits	100,856	75,441	92,639	101,903	112,094	123,303
Other current assets	4,436	10,756	22,804	23,944	25,141	26,398
Non-current assets	43,232	42,667	40,800	37,971	35,533	33,431
PP&E	8,075	8,520	8,425	8,332	8,239	8,147
Other non-current assets	35,157	34,147	32,374	29,640	27,295	25,283
Total assets	185,925	195,992	221,415	251,011	283,020	315,675
Current liabilities	53,842	49,668	52,369	55,746	59,452	62,053
Short-term borrowings	19,240	11,805	6,384	6,742	7,257	6,624
Account payables	881	721	643	681	722	764
Tax payable	2,572	2,759	3,874	4,154	4,440	4,727
Other current liabilities	18,219	19,982	25,404	27,171	29,000	30,845
Accrued expenses	12,930	14,401	16,063	16,998	18,033	19,092
Non-current liabilities	3,998	3,830	3,942	4,209	4,487	4,769
Other non-current liabilities	3,998	3,830	3,942	4,209	4,487	4,769
Total liabilities	57,841	53,497	56,311	59,954	63,940	66,822
Total shareholders equity	124,286	138,686	160,296	186,249	214,273	244,046
Minority interest	3,798	3,809	4,808	4,808	4,808	4,808
Total equity and liabilities	185,925	195,992	221,415	251,011	283,020	315,675

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	34,057	35,718	40,830	43,618	47,098	50,039
Depreciation & amortization	3,055	2,418	2,247	4,213	4,166	4,119
Tax paid	(4,700)	(5,461)	(6,033)	(6,543)	(7,065)	(7,506)
Change in working capital	376	3,652	8,721	2,318	2,499	2,567
Others	2,543	3,351	4,973	0	0	0
Net cash from operations	35,331	39,677	50,740	43,606	46,699	49,219
Investing						
Capital expenditure	(4,266)	(2,192)	(2,007)	(3,998)	(3,955)	(3,914)
Net cash from investing	(17,043)	17,916	(33,181)	(11,526)	(12,837)	(14,201)
Financing						
Dividend paid	(8,014)	(11,165)	(13,826)	(11,123)	(12,010)	(12,760)
Net borrowings	(8,305)	(7,476)	(5,799)	358	515	(633)
Proceeds from share issues	0	0	0	0	0	0
Others	(5,148)	(8,694)	(536)	0	0	0
Net cash from financing	(21,467)	(27,336)	(20,160)	(10,765)	(11,495)	(13,393)
Net change in cash						
Cash at the beginning of the year	24,889	21,429	51,383	47,168	68,272	90,412
Exchange difference	(202)	11	(382)	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	21,429	51,383	47,168	68,272	90,412	111,799
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	7.2%	1.8%	7.0%	7.2%	6.9%	6.5%
Gross profit	19.5%	4.4%	10.0%	8.0%	7.3%	6.8%
Operating profit	41.2%	6.8%	21.1%	11.1%	10.0%	9.0%
Net profit	49.2%	1.0%	13.7%	9.8%	8.0%	6.2%
Adj. net profit	43.0%	2.8%	11.4%	11.0%	7.9%	6.3%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	60.9%	62.5%	64.3%	64.8%	65.0%	65.2%
Operating margin	26.8%	28.1%	31.8%	33.0%	33.9%	34.7%
Adj. net profit margin	31.5%	31.8%	33.2%	34.3%	34.6%	34.6%
Return on equity (ROE)	25.7%	22.6%	22.6%	21.4%	20.0%	18.6%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)
Current ratio (x)	2.7	3.1	3.4	3.8	4.2	4.5
Receivable turnover days	22.7	19.7	17.3	17.0	16.6	16.3
Payable turnover days	8.0	6.7	5.8	5.8	5.8	5.8
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	18.7	18.4	16.1	14.7	13.6	12.8
P/E (diluted)	18.9	18.6	16.2	14.8	13.7	12.9
P/B	4.4	3.9	3.4	2.9	2.5	2.2

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

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CMB International Global Markets Limited

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

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