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Securities Research Report · H-share Quick Take   Game

Southbound Stock Connect inclusion brings improved liquidity; focus on the new product cycle of Sea of Remnants and Ananta

NTES (9999.HK)

Key takeaway

The company completed its dual primary listing on June 30 and was included in the Southbound Stock Connect on the same day. Liquidity is expected to continue improving. In FY2025, Hong Kong trading volume accounted for more than 55% of the company's global trading volume, making it the first Hong Kong-listed company to passively trigger this clause. The company chose to officially convert starting from June 30, 2026, and was included in the Southbound Stock Connect on the same day. The liquidity of its Hong Kong shares is expected to improve significantly, and the valuation discount is likely to narrow.

The company's product strategy is shifting toward "fewer but better", with focus on the new product cycle of Sea of Remnants and Ananta. The new title Sea of Remnants launched this year is positioned as an ocean adventure open-world RPG with a novel theme and differentiated features. The PC version is scheduled for July 9; Ananta is positioned as an anime-style urban open-world game with strong market attention and is expected to launch in 2027. Both products feature quality barriers and global expansion potential. They are expected to bring incremental profit growth with high visibility, and their subsequent performance warrants continued attention.

Event

On March 2, 2026, the company triggered the "migration of trading majority" clause as Hong Kong trading volume accounted for more than the 55% threshold of global trading volume in FY2025. The company announced that it officially converted to a dual primary listing in Hong Kong starting from June 30 and was included in the Southbound Stock Connect on the same day.

Maintain Buy

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9 July 2026

Current Price: HKD212.60

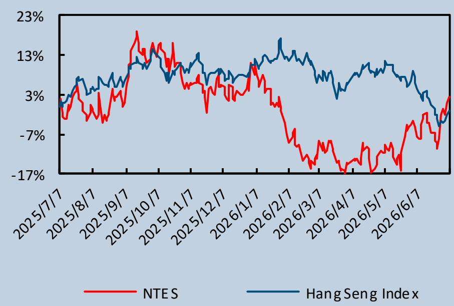
Key Data

Absolute/relative share performance (%)

1 month	3 months	12 months
10.62/16.01	19.22/25.20	-0.76/0.49

12-month high/low (HKD)	246.40/170.50
Total share capital (10,000 shares)	321,956.46
Outstanding H shares (10k shares)	321,956.46
Total market capitalization (HKD'00mn)	6,709.57
Free-float market capitalization (HKD'00mn)	6,709.57
3-month average daily trading volume (10,000 shares)	739.25
Major shareholders	
Shining Globe International Limited	45.05%

Share performance



Key financial indicators

	2024	2025	2026E	2027E	2028E
Revenue (RMB mn)	105,295.24	112,625.81	117,686.33	130,119.01	136,430.91
YoY (%)	1.77	6.96	4.49	10.56	4.85
Non-IFRS net profit	33,508.67	37,343.48	40,673.48	47,218.50	49,314.72
YoY (%)	2.76	11.44	8.92	16.09	4.44
Gross margin (%)	62.50	64.29	66.84	68.59	68.56
Net profit margin (%)	31.82	33.16	34.56	36.29	36.15
ROE(%)	21.41	21.05	19.00	19.22	17.76
EPS (Diluted/RMB)	10.41	11.60	12.63	14.67	15.32
P/E (x)	17.42	15.63	14.35	12.36	11.84
P/B (x)	4.21	3.64	3.19	2.79	2.47

Source: iFinD, China Securities

I. Dual primary listing: The company has been included in the Southbound Stock Connect, with improved liquidity and value re-rating expected

The company announced that more than 55% of its global trading volume in FY2025was conducted on the Hong Kong Stock Exchange. Trading in its shares was therefore deemed to have permanently migrated primarily to the Hong Kong market. The company has elected to become a dual-primary-listed company starting June 30, at which point the "-S" secondary-listing marker will be removed from its stock short name. This marks NetEase ending its transitional grace period eight months early, becoming the first listed company in Hong Kong Stock Exchange history to trigger a mandatory conversion due to local trading volume share.

The following key changes will take place upon completion of the conversion: 1) The stock short name will remove the "S" marker, while the stock code will remain unchanged. The Hong Kong listing status will carry the same legal effect and regulatory weight as the primary listing on the NYSE. 2) Certain exemptions applicable to secondary-listed issuers and existing waivers granted at the time of the 2020 listing will no longer apply, and compliance requirements will increase significantly. As a dual primary-listed company, each share repurchase must be reported through a "Next Day Disclosure Return" before market open on the following trading day. Under the previous secondary-listing status, disclosure was only required in quarterly financial reports. Repurchase transparency will therefore improve substantially. 3) The company has obtained approval from the Hong Kong Stock Exchange for multiple migration waivers, including the adoption of U.S. GAAP and exemptions from certain continuing connected transaction requirements, ensuring a smooth transition of the conversion.

On the day the dual primary listing is completed, NetEase will be included in the Stock Connect program, which is expected to bring multiple positive impacts: 1) Significant improvement in liquidity: Following inclusion in Stock Connect, mainland investors will be able to directly trade the company's Hong Kong-listed shares through the Shanghai and Shenzhen stock exchanges. This is expected to bring substantial incremental capital inflows to the company. **2) Diversification of the investor base:** Currently, the company's Hong Kong shareholders are mainly overseas institutions. Inclusion in Stock Connect will attract a large number of mainland mutual funds, insurance capital, and retail investors, helping reduce share price volatility and lift the valuation center. **3) Enhanced pricing power and share price recovery**: The company's current P/E ratio is significantly below the industry average, indicating a clear valuation discount. As of 1Q26, the company's net cash balance reached RMB167.5bn, providing strong support for continued share repurchases and dividend distributions. Amid expectations of inclusion in Stock Connect, continued shareholder returns are expected to further attract southbound funds seeking certainty in allocation. This is expected to strengthen Hong Kong market pricing power and support a full recovery in the share price. **4) Diversification of listing risks:** This conversion also represents a continuation of the "homecoming trend" among Chinese internet companies. A dual primary listing will further strengthen the company's position in the global capital markets, while also reducing reliance on a single market**.**

II. Game business update: Evergreen IPs regain momentum, new game pipeline ready for launch

NetEase's online game services revenue reached RMB25.71bn in 1Q26, up 6.92% YoY and accounting for 84% of total revenue. The gross margin of the gaming business increased significantly to 74.79% (+5.96pcts YoY). This was mainly driven by: 1) a higher revenue contribution from high-margin in-house PC games such as Fantasy Westward Journey and Where Winds Meet, which optimized the product mix; 2) the company's continued efforts to guide players to recharge through its official website, increasing the proportion of official servers and reducing channel revenue-sharing costs; 3) cost optimization resulting from the overall decline in platform revenue-sharing ratios.

2.1 Existing games: Evergreen premium titles continue to grow, with operating metrics reaching record highs

In recent years, NetEase has clearly shifted its strategy toward "long-term operations + premiumization." Its core approach is to allocate more resources to proven successful products and extend product lifecycles through technology upgrades, gameplay innovation, and refined operations. Since 2025, multiple classic IPs that have been in operation for many years have achieved record-high operating metrics, validating the effectiveness of the "evergreen games" strategy.

(1) Fantasy Westward Journey: The unrestricted-play server model drives returning users, with concurrent player records hitting all-time highs. Fantasy Westward Journey, as NetEase's core IP that has been operated for more than 22 years, launched the unrestricted-play server model in July 2025. The game removed the traditional hourly charging model and shifted to time-package or fixed-price payment options, while simplifying systems and gameplay, effectively driving the return of former players and attracting new users. After the launch of the unrestricted-play servers, the game's PC version repeatedly broke concurrent player records, reaching 3.9mn on March 1, 2026, a new historical high. On the operations side, the company established a KOL and short-video content matrix, replacing traditional advertising placements with authentic experience-based content, in line with its strategic transition toward technology- and content-driven development. At the 520 launch event, the PC version partnered with Dunhuang cultural tourism to introduce the 520 Lotus Dance costume set, while the mobile version opened the mysterious Reincarnation Realm space. The sustained pace of content updates highlights the IP's long-term vitality.

(2) Sword of Justice: New World update launched, further strengthening game operations Currently, Sword of Justice Mobile maintains an active player community through frequent version updates. On April 30, the large-scale expansion Demon Lord Returns was launched, bringing back classic original bosses and significantly driving user return and engagement. On June 26, the New World version of Sword of Justice officially launched, pioneering fully interconnected gameplay and delivering comprehensive upgrades across gameplay, graphics, story, social interaction, and combat, making it one of the most important summer version updates. For the PC game, the 2026 NetEase 520 Games Conference introduced two new class variants, Ye·Suimeng and Yue·Suwen, further expanding the depth of its class system.

(3) Identity V: Stable growth maintained in 2026, with the eighth anniversary celebration strengthening its leadership in the category. The game maintained a very high update frequency in 2026. According to the 1Q26 financial report, the game maintained stable growth momentum by continuously enriching asymmetric competitive gameplay and system content. During the Spring Festival and eighth anniversary celebrations, the game introduced new characters and themed content to further deepen gameplay and reinforce its dominant position in the asymmetric competitive gaming category. At the 2026 520 launch event, the game unveiled new casual gameplay modes, IP collaborations, and brand-new characters, continuing to expand content depth.

(4) Eggy Party: Maintaining a leading position in the party game category, with significantly improved community engagement. During the Spring Festival, the game created a social and festive experience centered around Eggy Island, and collaborated with multiple well-known IPs such as My Little Pony in February, significantly boosting community engagement and climbing to the top ranks of China's iOS top-grossing chart. At the 2026 520 launch event, the game announced a collaboration with RABBIT KIKI, continuing to expand its UGC ecosystem. The game lowered the barrier to UGC creation through an AI-assisted map editor, driving continued growth in user-generated content. As NetEase's core product in the party game segment, Eggy Party has maintained a stable user base and active community despite user diversion pressure from competing products such as Tencent's DreamStar, validating the effectiveness of its UGC ecosystem moat.

(5) Where Winds Meet: Revenue hit a record high in 1Q26, with continued breakthroughs in overseas expansion. Where Winds Meet significantly exceeded expectations in 2026, with domestic revenue reaching a record high and key metrics including user activity, revenue scale, and social media popularity all hitting new records, with all indicators surpassing the same period last year. Overseas, the game launched its first major expansion pack, Hexi, in March, adding the Qinchuan region and the Wind Riding exploration mechanism to enhance the freedom and immersion of the open world. Its positive review rate on Steam remained stable at 87%, and it climbed to No. 2 on Steam's global top sellers chart after the update. Where Winds Meet has demonstrated sustained and strong vitality in overseas markets, completely breaking the conventional perception that wuxia games struggle to penetrate European and US markets, and has been positioned as one of the most representative long-term new titles under NetEase's globalization strategy. As of June 2026, the game's cumulative global player base exceeded 80mn and ranked No. 1 on the iOS download charts in more than 60 markets.

(6) Other products: Multi-product portfolio delivers synergistic growth. Marvel Rivals continued to expand its global influence in 2026. After the content update on April 10, it ranked No. 2 on Steam's US top sellers chart, and naturally integrated new modes and event content with Marvel's broader narrative universe through its full-year roadmap. In addition, Blizzard titles continued to contribute after returning to China: World of Warcraft globally launched the Nightfall expansion simultaneously on March 3, achieving solid user retention and engagement; the China server launch of the Diablo II: Resurrected Lord of the Necromancer expansion pack significantly boosted monthly active users; the Tianxia PC game has been online for 18 years, with revenue and user payment rate reaching record highs in 1Q26.

2.2 New games: Differentiated themes and positioning open up growth potential for the new game pipeline

At the NetEase Games 520 launch event, the company disclosed the latest updates on more than 40 products, among which only four were unreleased new titles. This indicates that the company's overall product strategy will become more focused: devote greater effort to refining and deepening already successful products, while new projects will place stronger emphasis on high quality and differentiation, with substantial investment reserved only for titles with clear competitiveness and long-term potential. The following two titles in the company's new game pipeline deserve particular attention:

(1) Sea of Remnants: Breaking through with a differentiated ocean-themed concept. The game is an ocean adventure open-world RPG independently developed by the Identity V development team using NetEase's proprietary engine, with a seven-year development cycle. In terms of product positioning, Sea of Remnants focuses on an ocean-themed "open world + multi-character progression" experience, centered on maritime navigation gameplay. Diverse combat styles are created through a rich combination of characters and classes, making it significantly different from the traditional anime-style card game approach. The game adopts a puppet gothic art style, features an original "Forgetfulness" mechanism, and integrates a dual-track combat system combining naval battles (real-time control) and land battles (turn-based strategy). In addition, the game incorporates real-time fluid dynamics simulation and a complex dynamic weather system to deliver a highly precise and realistic navigation experience, addressing the long-term replayability challenge of its core gameplay.

Based on the testing and launch schedule, the game launched the "Wanderer Test" (PC technical closed beta with save data wiped) on February 5, 2026, followed by the "Dawn Test" on May 28. On April 29, 2026, the game officially received its publishing license according to the approval information released by the National Press and Publication Administration, and it is currently scheduled for official open beta launch in July 2026. Based on feedback from the 520 launch event, Sea of Forgetfulness was one of the most closely watched new games, with strong market expectations.

(2) Ananta: Differentiated exploration in an urban open world. The game is positioned as an urban-themed open-world RPG and is planned for release across PC, mobile, and console platforms. In September 2025, the title won the "Japan Game Awards: Future Division" at the Tokyo Game Show, and market attention has continued to rise. In terms of testing progress, the product completed its first round of offline closed beta testing in early January 2025, with a new round of closed beta testing conducted in early 2026. From the product positioning perspective, Infinite has chosen the urban open-world direction, with its core differentiation reflected in several aspects: first, the game replaces fantasy alternate-world settings with a modern urban environment, avoiding direct competition with titles such as Genshin Impact and Wuthering Waves; second, the game replaces the traditional anime-style gameplay loop of character gacha, progression, and combat with life-simulation elements such as exploration, driving, social interaction, and management, and its business model may move beyond the character gacha framework; finally, the product targets mainstream users rather than the anime-style niche community, with its art style and narrative intentionally downplaying anime-style labels in pursuit of broader user coverage.

2026 will be a critical window period for China's open-world game segment, with leading publishers such as miHoYo and Tencent planning to launch similar products, intensifying market competition. However, the product ultimately did not appear on NetEase's 520 launch event showcase list. The company believes that this category has a high market ceiling and strong user demand, and that high-quality products are expected to jointly expand incremental market growth rather than merely compete for existing users. Therefore, uncertainty surrounding the game's launch timing will increase in the short term, but this decision is expected to improve the product's success rate and lifecycle value over the medium to long term.

(3)Outlook for other upcoming game reserves:"Infinite Borders: Three Kingdoms" is developed by the original team behind "Infinite Borders" and positioned as a premium standalone historical war strategy game. At the 520 launch event, the company confirmed the project restart and showcased UGC creation features including an AI editor with built-in OpenCode, creative template packs, and map editing tools. Players can freely edit story scripts and general parameters. "Floatopia" is a healing-oriented fantasy management adventure game featuring multiplayer social interaction and life simulation gameplay. It launched its first limited closed beta test with data wipe on June 25 across Android, iOS, and PC platforms. The game remains in the early testing stage and is still some distance away from official public launch. "Planet Party Time" launched its PC early access version on April 28, integrating life simulation with casual party-style light gameplay. It has a 7.6 rating on TapTap. Players have shown strong recognition for the cube planet six-sided building gameplay, although mobile operation and performance optimization remain the main pain points. The launch schedule for the official version still requires further tracking.

III. Investment recommendation

Progress in dual primary listing exceeded expectations. The core gaming business remains highly resilient, while operating metrics for evergreen products collectively reached record highs. The peak concurrent users of the PC version of "Fantasy Westward Journey" reached 3.9mn, while cumulative global players of "Where Winds Meet" exceeded 80mn, providing solid support from the existing user base. "Sea of Remnants" is approaching its public beta launch in July and is expected to become a key growth driver in 2H25. "Ananta" targets a global launch in 2026, although the timeline remains uncertain. Following the conversion to dual primary listing, the company is expected to be included in the Hong Kong Stock Connect program soon. Enhanced liquidity driven by the opening of the southbound capital channel will strengthen pricing power for its Hong Kong shares and become an important valuation catalyst. **We expect the company's revenue for 2026 to 2028 to reach approximately RMB117.69bn, RMB130.12bn, and RMB136.43bn, representing YoY growth of 4.5%, 10.6%, and 4.9%, respectively. Non-IFRS net profit is expected to reach approximately RMB40.67bn, RMB47.22bn, and RMB49.31bn, representing YoY growth of 8.9%, 16.1%, and 4.4%, respectively. Based on the latest share price, corresponding PE ratios are 14.4x, 12.4x, and 11.8x, respectively. We maintain a "Buy" rating.**

Risks:

Macroeconomic downside; declining industry prosperity; declining gross billings from existing games; a decrease in the total number of game users; operational missteps in key projects; delays in new game launches; weaker-than-expected performance of new games after launch; uncertainty over the timing of inclusion in Southbound Stock Connect; lower marketing ROI; rising user acquisition costs; slower-than-expected license approvals for games yet to receive licenses; content regulation in the gaming industry; intense industry competition; rising labor costs; loss of core talent; FX fluctuations affecting net profit; investment income volatility affecting net profit; and shifts in player preferences.

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Investment rating standard		Ratings	Description
The rating standard involved in the investment recommendations in the report is based on the performance relative to the market within 6 months after the release date, i.e., the performance of the company's stock price (or industry index) within 6 months after the release date is benchmarked against the change of representative index of the relevant securities market over the same period. CSI 300 Index serves as the benchmark index for the A-share market; the NEEQ Component Index serves as the benchmark index for the NEEQ market; Hang Seng Index serves as the benchmark index for the Hong Kong market; and S&P 500 Index serves as the benchmark index of the US market.	Stock ratings	Buy	Increase by more than 15% relative to the benchmark index
		Overweight	Increase by 5%-15% relative to the benchmark index
		Neutral	Increase by -5%-5% relative to the benchmark index
		Underweight	Decrease by 5%-15% relative to the benchmark index
		Sell	Decrease by more than 15% relative to the benchmark index
	Industry ratings	Outperform	Increase by more than 10% relative to the benchmark index
		Neutral	Increase by -10-10% relative to the benchmark index
		Underperform	Decrease by more than 10% relative to the benchmark index

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