



## Flash Note: NetEase (NTES US)

快讯: 网易 (NTES US)

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# 3Q2019 Non-GAAP Shareholders' Profit up 74.2%, Above Expectation

2019年第三季度非GAAP股东净利同比上涨74.2%，高于预期

- NetEase (the "Company") posted its unaudited 3Q2019 results. Key fundamentals are as follows:

**Table-1: NetEase's Key Unaudited 3Q2019 Results**

	3Q2019 (RMB)	YoY%
<b>Revenue</b>	14.6 Bn	11.2
<b>Shareholders' Net Profit</b>	12.7 Bn	697.5
<b>Earnings per ADS</b>	99.86	521.8

Source: the Company.

- NetEase's 3Q19 results were higher than market and our expectations, mainly due to the gain from the disposal of Kaola and investment income. Non-GAAP net income from continuing operations attributable to the Company's shareholders was also above our and the market expectations, with 74.2% yoy growth. The Company updated its 3Q18 financial data which excluded the related revenue of Kaola. On the revenue side, net revenue growth of online game services was higher than our expectation with 11.5% yoy growth, 16.0 ppts less than that of last quarter. The yoy increase of net online games services revenue was primarily due to increased net revenue from mobile games such as Life-After, as well as certain PC-client games. The Company sold its Kaola e-commerce business in September 2019. In addition, the Company has commenced separately reporting the results of its majority-controlled subsidiary Youdao, Inc. which completed its initial public offering and listing on the New York Stock Exchange in this October 2019. Specifically, gross profit margin for online games services for 3Q19 was 63.8%, down 1.3 ppts yoy, due to higher revenue contribution from mobile games with comparatively lower margin. The overall margin was 53.8%, down 1.1ppts yoy. S&M expense decreased 7.4% yoy due to decreased marketing expenditures related to NetEase's online games services. In addition, the board of directors approved a dividend of US\$7.59 per ADS for 3Q19.
- According to CNG, China mobile game revenue grew 7.8% yoy in 3Q19, 8.8 ppts lower than that of 3Q18, reaching RMB38.38 billion. We believe that China mobile games will further rally in 2020. We expect that the total amount of approved licensed games will decrease compared to 2017 due to the increase in licensed game control standards and we believe that NetEase will be a major beneficiary due to its quality game content and strong financial support. 28 NetEase games have been approved by the State Administration of Press, Publications, Radio, Film and Television (SAPPRFT) for new game licenses since the granting of new game licenses was restarted last December. On November 4<sup>th</sup>, NetEase's signature mobile game Fantasy Westward Journey 3D ("FWJ 3D") received license approval by the SAPPRFT. On September 6<sup>th</sup>, Alibaba (BABA US) announced the acquisition of Kaola for approximately US\$2 billion. We believe that the transaction will enhance the Company's shareholders' profit.
- Our current investment rating for the Company is "Buy" with a target price of US\$285.00 per ADS, the current share price has exceeded our target price. We believe that the Company will face intense competition within the mobile games market in fourth quarter this year, but we also expect the Company to maintain its mobile games market share according to its existing games and its strong pipeline. We maintain our investment rating as "Buy". Due to the disposal of Kaola; we will increase our profit forecasts and target price in our next Company Report.

- 网易（“公司”）公布了 2019 财年第三季度未经审计的业绩，主要指标如下：

**表-1：网易未经审计 2019 财年第三季度未经审计业绩**

	2019 年第三季度（人民币）	同比（%）
收入	14.6 十亿元	11.2
股东净利	12.7 十亿元	697.5
每份 ADS 净利	99.86 元	521.8

资料来源：公司。

- 网易 2019 财年第三季度业绩高于市场以及我们的预期，主要由于出售考拉所带来的收益与投资收入。非 GAAP 持续经营股东净利润也高于市场与我们的预期，同比上涨 74.2%。公司对 2018 财年第三季度的财务数据进行更新，剔除了网易考拉的相关收入。在收入方面，在线游戏服务的净收入增长高于我们的预期，同比增长 11.5%，比上一季度下降 16.0 个百分点。在线游戏服务净收入同比增长主要是由于《明日之后》等手机游戏的净收入增加，以及某些电脑客户端游戏的净收入增加。公司于 2019 年 9 月出售考拉电子商务业务。此外，公司已开始分别报告其多数股权控股子公司有道的业绩，该公司于今年 10 月完成了首次公开募股并在纽约证券交易所上市。具体而言，由于移动游戏相对较低的毛利润且收入贡献较大，2019 财年第三季度在线游戏服务的毛利率为 63.8%，同比下降 1.3 个百分点。整体而言，毛利率为 53.8%，同比下降 1.1 个百分点。由于网易在线游戏服务营销支出减少，营销与市场费用同比下降 7.4%。此外，董事会已批准 2019 年第三季度每股 ADS 7.59 美元的股息。
- 伽马数据表示，中国移动游戏收入在 2019 年第三季度同比增长 7.8%，比 2018 年第三季度低 8.8 个百分点，达到人民币 383.8 亿元。我们认为中国手机游戏收入将在 2020 年进一步反弹。由于版号游戏控制标准的增加，我们预计版号游戏发放总量将比 2017 年减少，我们认为网易因其优质游戏内容和强大的财务支持将成为主要受益者。自去年 12 月份新游戏版号发放重启以来，已有 28 款网易游戏获国家新闻出版广电总局新游戏版号批复。在 11 月 4 号，网易主打移动游戏《梦幻西游三维版》获得由国家新闻出版广电总局批准版号。阿里巴巴 (BABA US) 于 9 月 6 号宣布以约 20 亿美元收购考拉。我们认为该交易将有利于提升公司的股东净利。
- 我们目前对公司的投资评级为“买入”，目标价为每 ADS 285.00 美元，目前股价超过我们的目标价。我们认为公司将在今年第四季度面临手机游戏市场的激烈竞争，但我们也预计公司将根据其现有游戏与其强劲的游戏储备维持其手机游戏市场份额。我们维持投资评级为“买入”。由于出售考拉业务，我们将在下一份公司报告中上调盈利预测与目标价。

**Company Rating Definition**

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

**Sector Rating Definition**

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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