



Rising smartphone penetration boosts mobile gaming market

## What you need to know about mobile gaming in Asia

Asia Pacific is expected to account for the largest pie with a 48.4% market share. **By Alicia Yap, Head of China Internet Research, Barclays**

We are in the midst of an exciting period in which growing smartphone penetration globally has brought both opportunities and challenges to many internet companies around the world. Some have made a smooth transition migrating from PC to mobile, while many are still exploring ways to cope with the change and catch up with investments while protecting their core PC business growth.

Newzoo, a Netherlands-based market research firm that focuses on the games industry, estimates that global mobile games (including smartphone and tablet games) revenues will grow 34% y/y to reach US\$12.2bn in 2013, accounting for 17.4% of the total global gaming market. Benefiting from rising smartphone

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penetration, especially in emerging markets, Newzoo estimates that the global mobile gaming market will reach US\$23.9bn by 2016E, representing a 25% CAGR over 2013-16E. Of the total market, the Asia Pacific region is expected to account for the largest pie, with a 48.4% market share, or US\$5.9bn revenues in 2013E, followed by North America with a 25% share, or US\$3bn revenues.

### Mobile games – “new hope” for gaming industry

After many years of difficult development and operational environment during the feature phone era, 2013 finally saw the China mobile games industry show signs of taking off. This was mainly due to rising smartphone penetration and the availability of cheap/low-end smartphones

and data network connections. iResearch estimates the China mobile games market to grow 47% y/y to Rmb11.6bn in 2013E, and to reach Rmb25.8bn by 2016E, at three-year CAGR of 31% over 2013-16E).

In terms of revenue breakdown by phone type, smartphone-based mobile games are expected to contribute about Rmb4.8bn (or 41% of total mobile games revenues), while feature phone-based mobile games will still contribute 59% of total mobile games revenues, or Rmb6.8bn. This is a material change compared with 24% for smartphone-based games and 76% for feature phone-based games in 2012.

With the continued rise in smartphone penetration and more second- and third-tier cities migrating from feature phones to smartphones, iResearch estimates that total smartphone-based mobile games will generate revenue of Rmb17.8bn and account for 69% of total mobile games revenues in 2016. On the other hand, feature phone-based games will only grow at a 5% CAGR and reach Rmb8bn by 2016, with their percentage contribution falling to 31%.

Extrapolating from Newzoo's global estimates and iResearch's estimates, we estimate that China will account for c32% of Asia Pacific revenues, or US\$1.9bn a reasonable estimate, given the lower smartphone penetration in China compared to Korea and Japan.

### The global mobile games development

Looking across the top mobile games publishing ecosystems around the world, Apple IOS and Google Play are the app store users tend to use to download their games.

Most mobile games developers would agree that publishing self-developed mobile games on the IOS platform in China is considered relatively easier

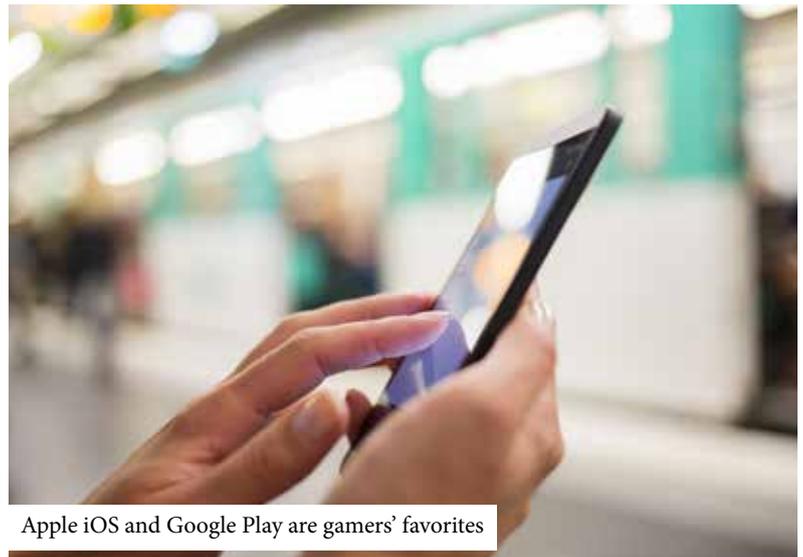
compared to the Android platform. Since officially Google Play barely exists in China, this creates a lot of opportunities for third-party Android-based app stores, which we have seen emerging over the past two years.

Other than the app stores of the handset manufacturers and telecom operators, there are a number of popular third-party app stores such as Qihoo's Mobile Assistant and 91 Wireless' app store that are gaining meaningful market share in China. According to Barclays' proprietary survey of smartphone users in China, Qihoo's mobile assistant and Baidu's 91 Wireless app store ranked head-to-head with penetration rates of 39% and 38.5%, respectively, for users to search and download apps.

In Japan and Korea, the games publishing value chain also involves three players: the developer, the publisher and the distribution platform. By leveraging the social graph (ie, the friends circle within the social networking sites) and strong user stickiness, mobile messaging apps such as LINE (Japan) and KakaoTalk (Korea) have emerged as successful mobile games distribution platforms.

According to App Annie Index (a third-party analytic firm with offices in the US and China), as of September 2013, eight of the top ten global publishers on Google Play by revenue were from Japan and South Korea, and nine of the top ten games on Google Play by

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Apple iOS and Google Play are gamers' favorites

revenue were games from Japan and Korea publishers. Similar to the success LINE and KakaoTalk have had, we believe Tencent is best positioned in China to capture mobile games exposure, in light of its successful track record of proprietary mobile games recently released on WeChat and Wireless QQ game center.

### Global app store performance

Analyzing recent app store data metrics (as of September 2013) provided by App Annie, we conclude that virtual item sales for mobile games remain as the most profitable and easiest way to monetize among all the apps available on app stores globally.

Because of the size of the smartphone user populations in the US and China, we were not surprised that the app stores in those countries were ranked number 1 and 2, respectively, by total number of app downloads. However, we were surprised by the size and profitability levels of the Japan and Korea app markets in terms of revenues and monetization. We attribute this to highly profitable and high user traction of mobile games in these markets.

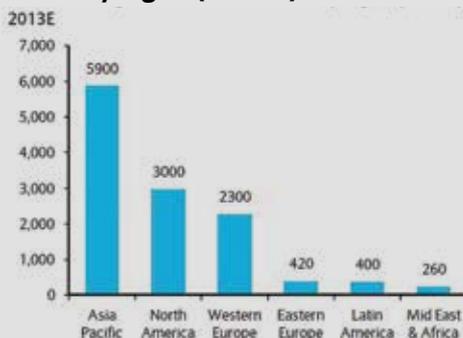
According to App Annie (dated 30 Oct 2013), the US is ranked number 1 with the largest number of apps download from iOS App Store during 3Q13, followed by China, Japan, the UK and Russia.

In terms of the top app store by gross revenues generated, the US also held its No.1, followed by Japan, China, the UK and Australia. Specifically, the US and China jointly contributed 40% of total app downloads from the iOS App Store in 3Q13, while the US, Japan and China jointly contributed to 50% of total revenues generated from the iOS App Store globally.

As for Google Play, interestingly, while the US hold the number 1 position in terms of total number of apps downloaded, it is ranked number 3 in terms of total gross revenues generated. Some emerging countries, like India and Brazil along with Korea, were able to capture the top 5 spots, suggesting Android-based smartphones are likely to be more dominant in those countries. Another interesting conclusion, when we look at top countries by revenues generated, three Asian countries – Japan, Korea and Taiwan – were able to capture top five spots, which we believe is mainly due to gaming revenues contribution from those countries (particularly in Japan and Korea), especially following the success of social gaming influence by LINE and KakaoTalk.

There is no doubt that games consistently rank as number 1 in both iOS App Store and Google Play, whether by number of total app downloads or by revenues generated.

### Global mobile games revenue breakdown by region (US\$m)



Source: Newzoo, Barclays Research