Perfect World (002624.SZ)

4Q25/1Q26 results wrap; NTE initial performance; Neutral

002624.SZ	12m Price Target: **Rmb16.40**	Price: **Rmb16.82**	Downside: **2.5%**

Perfect World reported lukewarm 4Q25/1Q26 results with total revenue at -17%/-42% yoy and net profit at -66% yoy for 1Q26, mainly due to lifecycle of legacy games, fade of World of Jade Dynasty (诛仙世界) and shrinking video production revenue.

That said, we expect Perfect World revenue and profit to re-**accelerate from 2Q26E**, with +27% yoy revenue and +103% yoy net profit growth for the company in 2026E on the back the new game Neverness to Everness (NTE) launching globally in late-Apr 2026 and its revenue gradually being recognized and flowing into P&L in following quarters. Stay **Neutral** on Perfect World on valuation and low visibility for future pipeline.

- NTE's grossing performance, esp. its ranking at no. 13~27 (vs. no. 5~11 of Wuthering Waves for the first week) on domestic iOS gaming grossing chart in the first week after release, seemed to disappoint the market initially considering the previous high expectation. However, we note that iOS channel only accounts for a small portion (c. 15%) of its total domestic grossing as **PC** and Perfect World's proprietary Android channel contributed **65%** and 20% of domestic grossing respectively for NTE, and PC & console takes up 75% of NTE's overseas grossing, per company. In addition, the game's **deliberately restrained approach to monetization initially** and weakness in mobile version optimization should also lead to the seemingly mediocre iOS grossing performance in the first week, in our view. However, the game surged to **no. 5 in domestic iOS gaming grossing chart** on May 7 propelled by the release of new character and new banner, demonstrating its monetization potential with more attractive characters to be launched on the back of its **solid user retention** (Day 3 retention at 50%+, even higher than the Day 1 retention of Tower of Fantasy, and Day 7 retention is also meaningfully higher than that of Fantasy of Tower, as per

■ NEUTRAL

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Key Data

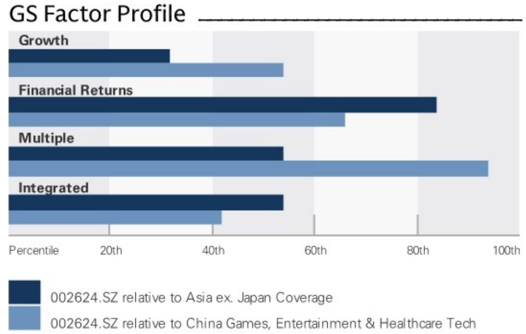
Market cap: Rmb32.6bn / $4.8bn
Enterprise value: Rmb29.5bn / $4.3bn
3m ADTV: Rmb1.5bn / $218.0mn
China
China Games, Entertainment & Healthcare Tech
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn) New	**6,659.6**	**8,431.5**	**8,134.1**	**8,550.6**
Revenue (Rmb mn) Old	6,963.0	8,476.3	9,352.2	9,749.5
EBITDA (Rmb mn)	1,249.8	1,885.3	2,165.4	2,378.9
EPS (Rmb) New	**0.39**	**0.77**	**0.88**	**0.97**
EPS (Rmb) Old	0.38	0.73	0.84	1.01
P/E (X)	36.3	22.0	19.1	17.3
P/B (X)	3.8	4.1	3.9	3.4
Dividend yield (%)	2.3	4.0	2.6	2.9
CROCI (%)	20.7	35.2	35.5	37.9

	3/26	6/26E	9/26E	12/26E
EPS (Rmb)	0.05	0.06	0.26	0.39

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

NEUTRAL

Perfect World (002624.SZ)

Rating since May 21, 2023

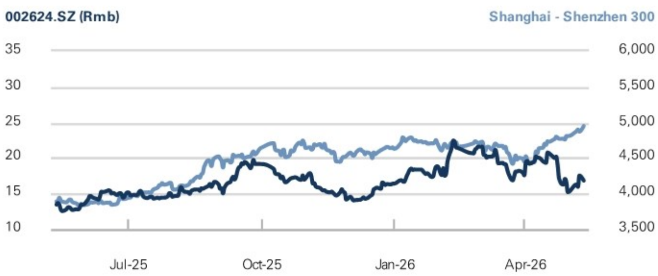
Ratios & Valuation

	12/25	12/26E	12/27E	12/28E
P/E (X)	36.3	22.0	19.1	17.3
P/B (X)	3.8	4.1	3.9	3.4
FCF yield (%)	4.0	3.3	5.6	6.3
EV/EBITDAR (X)	19.5	15.7	13.4	11.7
EV/EBITDA (excl. leases) (X)	19.2	15.4	13.2	11.5
CROCI (%)	20.7	35.2	35.5	37.9
ROE (%)	10.0	19.1	20.2	20.6
Net debt/equity (%)	(44.0)	(39.4)	(43.8)	(51.9)
Net debt/equity (excl. leases) (%)	(50.2)	(44.8)	(49.0)	(56.5)
Interest cover (X)	42.1	81.6	96.5	106.7
Days inventory outst, sales	81.5	55.2	60.6	58.0
Receivable days	32.1	32.1	43.3	41.5
Days payable outstanding	47.8	35.9	41.9	39.9
DuPont ROE (%)	10.0	18.4	20.2	19.8
Turnover (X)	0.6	0.7	0.7	0.6
Leverage (X)	1.5	1.5	1.5	1.4
Gross cash invested (ex cash) (Rmb)	4,447.3	5,469.8	5,627.4	5,744.2
Average capital employed (Rmb)	3,666.6	3,896.4	4,275.8	4,129.4
BVPS (Rmb)	3.67	4.15	4.36	4.89

Growth & Margins (%)

	12/25	12/26E	12/27E	12/28E
Total revenue growth	19.6	26.6	(3.5)	5.1
EBITDA growth	626.5	50.8	14.9	9.9
EPS growth	157.6	96.3	14.9	10.3
DPS growth	46.4	103.2	(34.4)	10.3
EBIT margin	15.3	18.9	23.1	24.3
EBITDA margin	18.8	22.4	26.6	27.8
Net income margin	10.4	17.2	20.5	21.6

Price Performance



	3m	6m	12m
Absolute	(24.4)%	7.9%	25.7%
Rel. to the Shanghai - Shenzhen 300	(28.0)%	1.4%	(2.4)%

Source: FactSet. Price as of 11 May 2026 close.

Income Statement (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Total revenue	6,659.6	8,431.5	8,134.1	8,550.6
Cost of goods sold	(2,645.4)	(3,131.1)	(2,958.8)	(3,084.7)
SG&A	(1,372.3)	(1,888.8)	(1,594.4)	(1,616.2)
R&D	(1,624.7)	(1,821.0)	(1,699.8)	(1,769.7)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**1,249.8**	**1,885.3**	**2,165.4**	**2,378.9**
Depreciation & amortization	(232.7)	(294.7)	(284.3)	(298.8)
EBIT	**1,017.1**	**1,590.7**	**1,881.1**	**2,080.0**
Net interest inc./(exp.)	70.9	78.9	61.9	73.6
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**979.9**	**1,763.7**	**2,034.0**	**2,249.0**
Provision for taxes	(288.1)	(317.5)	(366.1)	(404.8)
Minority interest	–	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**691.8**	**1,446.3**	**1,667.8**	**1,844.2**
Post-tax exceptionals	39.0	39.0	39.0	39.0
Net inc. (post-exceptionals)	**730.9**	**1,485.3**	**1,706.9**	**1,883.2**
EPS (basic, pre-except) (Rmb)	**0.36**	**0.75**	**0.86**	**0.95**
EPS (diluted, pre-except) (Rmb)	**0.36**	**0.75**	**0.86**	**0.95**
EPS (basic, post-except) (Rmb)	**0.38**	**0.77**	**0.88**	**0.97**
EPS (diluted, post-except) (Rmb)	**0.38**	**0.77**	**0.88**	**0.97**
DPS (Rmb)	0.33	0.67	0.44	0.49
Div. payout ratio (%)	92.5	90.0	51.2	51.1

Balance Sheet (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Cash & cash equivalents	3,547.0	3,590.6	4,115.4	5,319.0
Accounts receivable	503.7	981.5	946.9	995.4
Inventory	1,177.9	1,374.0	1,325.5	1,393.4
Other current assets	877.3	1,227.4	1,205.3	1,236.3
Total current assets	**6,105.8**	**7,173.6**	**7,593.1**	**8,944.1**
Net PP&E	718.9	1,231.7	1,116.8	996.0
Net intangibles	821.6	533.3	535.8	538.6
Total investments	1,120.0	1,120.0	1,120.0	1,120.0
Other long-term assets	1,702.1	1,851.8	1,859.6	1,867.7
Total assets	**10,468.4**	**11,910.4**	**12,225.3**	**13,466.4**
Accounts payable	266.9	349.4	330.2	344.2
Short-term debt	67.7	67.7	67.7	67.7
Short-term lease liabilities	–	–	–	–
Other current liabilities	2,694.8	3,133.0	3,061.3	3,258.6
Total current liabilities	**3,029.4**	**3,550.1**	**3,459.2**	**3,670.5**
Long-term debt	–	–	–	–
Long-term lease liabilities	429.2	429.2	429.2	429.2
Other long-term liabilities	72.9	72.9	72.9	72.9
Total long-term liabilities	**502.1**	**502.1**	**502.1**	**502.1**
Total liabilities	**3,531.5**	**4,052.2**	**3,961.3**	**4,172.6**
Preferred shares	–	–	–	–
Total common equity	7,128.7	8,049.9	8,455.8	9,485.6
Minority interest	**(191.7)**	**(191.7)**	**(191.7)**	**(191.7)**
Total liabilities & equity	**10,468.4**	**11,910.4**	**12,225.3**	**13,466.4**
Net debt, adjusted	(3,479.4)	(3,523.0)	(4,047.7)	(5,251.4)

Cash Flow (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Net income	691.8	1,446.3	1,667.8	1,844.2
D&A add-back	232.7	294.7	284.3	298.8
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	271.6	(503.4)	14.3	63.9
Other operating cash flow	63.6	70.2	69.1	70.6
Cash flow from operations	**1,259.8**	**1,307.7**	**2,035.5**	**2,277.5**
Capital expenditures	(171.7)	(217.3)	(209.7)	(220.4)
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Others	–	–	–	–
Cash flow from investing	**(171.7)**	**(217.3)**	**(209.7)**	**(220.4)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	(437.4)	(640.2)	(1,301.0)	(853.4)
Inc/(dec) in debt	–	–	–	–
Other financing cash flows	(202.7)	(406.5)	0.0	0.0
Cash flow from financing	**(640.1)**	**(1,046.7)**	**(1,301.0)**	**(853.4)**
Total cash flow	**448.0**	**43.6**	**524.8**	**1,203.6**
Free cash flow	1,088.1	1,090.3	1,825.8	2,057.1

Source: Company data, Goldman Sachs Research estimates.

company).

- That said, we believe the **future content update** (esp. the continuous release of more attractive characters), **improvement of game optimization, balance between user experience and enhancing monetizion** together with **long-term operation** are significant to the longevity of NTE, and **overseas performance** is worth watching as well. Currently we see its overall performance is largely inline with our expectation and **maintain our forecast for NTE** at a total first-12m global grossing of **Rmb4.6bn** combining all platforms.

What to do with the stock: We revise our 2026-27E revenue by -1%~-13% mainly on the declining legacy titles and lower-than-expected video production revenue, yet raise our 2026-27E net income by +5% to factor in well-managed OPEX. We adjust our 2028E revenue by -14% and net income by -8% considering the low pipeline visibility. We raise our 12-month target price to **Rmb16.4** (vs. prior Rmb14.5) as we roll over to avg. 2026E-27E P/E of 20x (vs. prior 2026E P/E of 20x) to better reflect the contribution of NTE. Maintain **Neutral**.

Exhibit 1: Perfect World: key changes to GSe

Pefect World Rmb mn	New 2026E	% Diff.	New 2027E	% Diff.	New 2028E	% Diff.
Total revenues	8,432	-1%	8,134	-13%	8,551	-14%
Net income (loss) to shareholders	1,485	5%	1,707	5%	1,883	-8%

Source: Goldman Sachs Global Investment Research

Exhibit 2: Neverness to Everness: We expect first 12m revenue estimate to reach Rmb4.6bn

Neverness to Everness annualized revenue estimate (Rmb bn)

		Annualized ARPU (Rmb)		
		1,100	1,300	1,700
MAU (mn)	3.0	3.3	3.9	5.1
	3.5	3.9	4.6	6.0
	4.2	4.6	5.5	7.1

As a % of our 26E PW game revenue	41.9%	58.3%	91.5%
Benchmark	Global cross-platfrom	Global cross-platfrom	Global cross-platfrom
			
English	*Tower of Fantasy*	*Wuthering Waves*	*Zenless Zone Zero*
Chinese	*幻塔*	*鸣潮*	*绝区零*
Genre	*Open-world MMORPG*	*Open-world ARPG*	*ARPG*
Year	**2022**	**First 12m**	**First 12m**
Annual revenue (Rmb bn)	**3.0**	**4.5**	**9.0**
MAU (mn)	**2.2**	**15.0**	**20.0**
ARPU (Rmb, k)	**1.4**	**0.3**	**0.5**

Source: SensorTower, Newzoo, Company data, Goldman Sachs Global Investment Research

Key upside risks: 1) Better-than-expected performances of Neverness to Everness and legacy games; 2) Speeding up cost reduction and margin improvement.

Key downside risks: 1) Lower-than-expected performances of Neverness to Everness; 2) Worse-than-expected longevity of legacy games; 3) Higher-than-expected margin pressure.

Financials

Exhibit 3: Perfect World: valuation

Target P/E valuation	2024	2025	2026E	2027E	avg. 2026-27E
Net profit	(1,288)	731	1,485	1,707	1,596
PE (X)	20.0x	20.0x	20.0x	20.0x	20.0x
Equity value (RMB mn)	(25,751)	14,617	29,706	34,138	31,922
Implied value per share (Rmb)					**16.4**

Our 20x target multiple is still at discount to Tencent, but higher than tier-2 publishers given PW's topline/bottomline growth of 25%+/100%+ yoy in 2026E are significantly higher than peers in our coverage.

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Perfect World: financial summary

RMB mn	2022	2023	2024	2025	2026E	2027E	2028E
Revenue	7,670	7,791	5,570	6,660	8,432	8,134	8,551
% yoy	-10%	2%	-28%	20%	27%	-4%	5%
1. Online Games	7,251	6,669	5,181	5,711	7,528	7,256	7,690
%yoy	-2%	-8%	-22%	10%	32%	-4%	6%
2. Video production and others	419	1,121	390	949	903	878	861
%yoy	-62%	167%	-65%	143%	-5%	-3%	-2%
COGS	2,420	3,139	2,347	2,645	3,131	2,959	3,085
Online Games	2,119	2,236	1,882	1,815			
Video production	262	857	395	794			
GP	5,250	4,651	3,224	4,014	5,300	5,175	5,466
Online Games	5,132	4,433	3,298	3,896			
Video production	59	153	(98)	108			
Gross Margin	68.4%	59.7%	57.9%	60.3%	62.9%	63.6%	63.9%
yoy chg (ppts)	7.0%	-8.7%	-1.8%	2.4%	2.6%	0.8%	0.3%
Online Games	70.8%	66.5%	63.7%	68.2%			
Video production	18.3%	15.1%	32.9%	12.0%			
Opex	4,165	4,119	3,656	2,997	3,710	3,294	3,386
S&M	1,109	1,195	870	665	1,137	853	854
G&A	734	705	837	680	717	708	727
R&D	2,290	2,195	1,927	1,625	1,821	1,700	1,770
Business tax	33	24	21	28	35	34	36
S&M as % Sales	14.5%	15.3%	15.6%	10.0%	13.5%	10.5%	10.0%
G&A as % Sales	9.6%	9.1%	15.0%	10.2%	8.5%	8.7%	8.5%
R&D as % Sales	29.9%	28.2%	34.6%	24.4%	21.6%	20.9%	20.7%
Business tax as % Sales	0.4%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%
EBIT (GS definition)	1,085	532	(432)	1,017	1,591	1,881	2,080
%yoy	292%	-51%	n.m.	n.m.	56%	18%	11%
%margin	14.1%	6.8%	-7.8%	15.3%	18.9%	23.1%	24.3%
Net income (loss) to shareholders of the parent company	1,377	491	(1,288)	731	1,485	1,707	1,883
%yoy	273%	-64%	n.m.	n.m.	103%	15%	10%
%margin	18.0%	6.3%	-23.1%	11.0%	17.6%	21.0%	22.0%
Net profit after deduction of non-recurring	691	210	(1,313)	564			
%yoy	580%	-70%	n.m.	n.m.			
%margin	9.0%	2.7%	-23.6%	8.5%			
Basic EPS	0.72	0.26	(0.68)	0.39	0.77	0.88	0.97
%yoy	279%	-64%	n.m.	n.m.	96%	15%	10%

RMB mn	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E
Revenue	1,329	1,431	1,313	1,498	2,023	1,668	1,726	1,243	1,171	1,807	2,620	2,833
% yoy	-30%	-44%	-24%	-6%	52%	17%	31%	-17%	-42%	8%	52%	128%
1. Online Games	1,285	1,365	1,252	1,279	1,418	1,488	1,569	1,236	1,076	1,573	2,348	2,530
%yoy	-24%	-30%	-23%	-8%	10%	9%	25%	-3%	-24%	6%	50%	105%
2. Video production and others	35	26	61	219	596	153	157	7	91	230	267	269
%yoy	-84%	-95%	-42%	8%	1616%	485%	160%	-97%	-85%	50%	70%	4028%
COGS	439	530	633	744	965	634	607	440	390	656	1,001	1,084
GP	890	901	680	753	1,058	1,034	1,119	803	781	1,151	1,619	1,749
Gross Margin	66.9%	63.0%	51.8%	50.3%	52.3%	62.0%	64.8%	64.6%	66.7%	63.7%	61.8%	61.7%
yoy chg (ppts)	1.8%	9.4%	-11.8%	-8.4%	-14.6%	-1.0%	13.1%	14.3%	14.4%	1.7%	-3.0%	-2.9%
Opex	992	940	785	939	823	797	795	582	709	1,066	1,061	874
S&M	230	276	182	182	169	161	215	121	199	361	314	262
G&A	259	206	164	208	146	190	154	190	155	208	157	196
R&D	498	453	435	541	500	442	420	262	348	488	576	408
Business tax	5	4	4	8	7	5	6	9	6	9	13	7
S&M as % Sales	17.3%	19.3%	13.8%	12.1%	8.4%	9.6%	12.4%	9.7%	17.0%	20.0%	12.0%	9.2%
G&A as % Sales	19.5%	14.4%	12.5%	13.9%	7.2%	11.4%	8.9%	15.3%	13.3%	11.5%	6.0%	6.9%
R&D as % Sales	37.5%	31.7%	33.1%	36.1%	24.7%	26.5%	24.3%	21.1%	29.7%	27.0%	22.0%	14.4%
Business tax as % Sales	0.4%	0.3%	0.3%	0.5%	0.4%	0.3%	0.4%	0.7%	0.5%	0.5%	0.5%	0.3%
EBIT (GS definition)	(102)	(39)	(105)	(186)	235	237	324	221	72	85	558	875
%yoy	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	-69%	-64%	72%	296%
%margin	-7.7%	-2.7%	-8.0%	-12.4%	11.6%	14.2%	18.7%	17.8%	6.2%	4.7%	21.3%	30.9%
Net income (loss) to shareholders of the parent company	(30)	(147)	(212)	(899)	302	201	162	65	103	116	512	755
%yoy	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	-66%	-42%	215%	1056%
%margin	-2.2%	-10.3%	-16.1%	-60.0%	14.9%	12.1%	9.4%	5.3%	8.8%	6.4%	19.5%	26.7%
Net profit after deduction of non-recurring	(158)	(77)	(213)	(864)	163	155	165	81	61			
%yoy	-178%	-195%	-224%	250%	-203%	-301%	-178%	-109%	-62%			
%margin	-11.9%	-5.4%	-16.2%	-57.7%	8.1%	9.3%	9.6%	6.5%	5.2%			
Basic EPS	(0.02)	(0.08)	(0.11)	(0.46)	0.16	0.10	0.08	0.03	0.05	0.06	0.26	0.39
%yoy	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	-68%	-42%	215%	1056%

Source: Company data, Goldman Sachs Global Investment Research

Price Target Risks and Methodology - Perfect World

Valuation methodology: We are **Neutral**-rated on Perfect World and derive our 12-month target price of **Rmb16.4** based on avg. 2026E-27E P/E of 20x.

Key risks: 1) Stronger/Weaker-than-expected performance of Neverness to Everness; 2) Execution in extending legacy game life cycle; 3) Penetration into other non-MMORPG genre and; 4) Multiple expansion/contraction across the online game sector.

Disclosure Appendix

Reg AC

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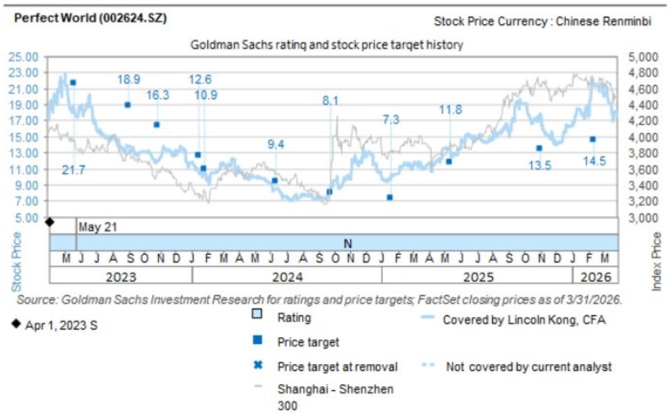
Price target and rating history chart(s)



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Target price history table(s)

Perfect World (002624.SZ)

Date of report	Target price (Rmb)	Closing price (Rmb)
14-Feb-26	14.50	21.42
03-Nov-25	13.50	17.88
14-May-25	11.80	13.46
21-Jan-25	7.30	10.44
25-Sep-24	8.10	8.24
12-Jun-24	9.40	8.60
28-Jan-24	10.90	10.61
17-Jan-24	12.60	10.39
30-Oct-23	16.30	12.00
03-Sep-23	18.90	13.93
21-May-23	21.70	18.41

Price targets shown in table(s) are unadjusted for corporate actions.

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