NetEase Inc. (NTES)

A compelling "non-AI" compounder, well-placed into 2H26 with catalysts ahead; reiterate Buy

NTES	12m Price Target: **$169.00**	Price: **$123.71**	Upside: **36.6%**
9999.HK	12m Price Target: **HK$264.00**	Price: **HK$187.50**	Upside: **40.8%**

NTES' share price has been largely resilient post its solid 1Q26 result in May (up 3% vs. HSTech down 15%), and we believe it will continue to demonstrate strength. In contrast to the overall market concerns of AI disruption for software/applications and the much higher AI investments weighing on profit margins among many China Internet peers, NTES differentiates itself as a compelling "non-AI" compounder, in our view. It's set to deliver **margin expansion, with 20% yoy OP growth and 9% FCF yield** in 2026, while AI is being well integrated into its game development workflow and already optimizing its organizational structure. Into 2H26, we see a few **imminent catalysts:** 1) new game launch - the Sea of Remnants is set to launch in July (domestically PC first on July 9th) and we estimate 5%+ incremental sales contribution for next 12 months, 2) the inclusion into Southbound Connect, no later than Sep 2026 after the completion of its dual primary HK listing in end June. The stock is trading at 11-12X fwd PE, with sales/OP both set to accelerate in 2H26. Reiterate Buy with TPs of **US$169/HK$264**.

What to do with the stock: For 2026E-28E, we keep our revenue forecasts unchanged, while we lower our 2026E net profit estimates by -4%, mainly dragged by investment losses despite OP margin expansion. That said, we slightly revise up our 2027-2028E net profit estimates by 1% driven by elevated operating efficiency. Our target multiples are unchanged at 18x for Mobile and PC Games. In light of the above, our 12-month SOTP-based target prices are lifted to **US$169/HK$264** for NTES/9999.HK (vs. prior US$166/HK$260).

BUY

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Key Data

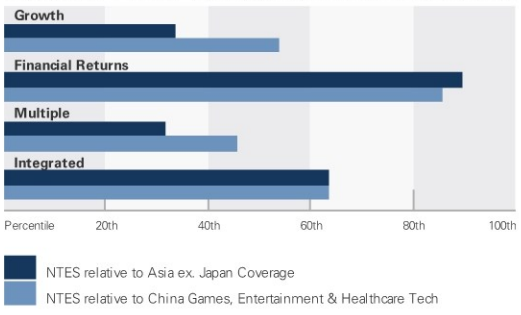
Market cap: $78.5bn
Enterprise value: $51.8bn
3m ADTV: $105.8mn
China
China Games, Entertainment & Healthcare Tech
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn) New	**112,625.8**	**120,246.6**	**131,255.1**	**141,867.1**
Revenue (Rmb mn) Old	112,625.8	120,246.6	131,255.1	141,867.1
EBITDA (Rmb mn)	41,666.2	49,269.9	54,390.0	59,274.6
EPS ($) New	**8.13**	**9.19**	**10.71**	**11.60**
EPS ($) Old	8.13	9.54	10.66	11.43
P/E (X)	15.2	13.3	11.5	10.7
P/B (X)	3.6	3.1	2.7	2.4
Dividend yield (%)	2.4	2.8	3.2	3.5
CROCI (%)	49.4	44.0	46.5	52.2

	3/26	6/26E	9/26E	12/26E
EPS ($)	2.53	1.99	2.27	2.43

GS Factor Profile



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

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BUY

NetEase Inc. (NTES)

Rating since Dec 4, 2019

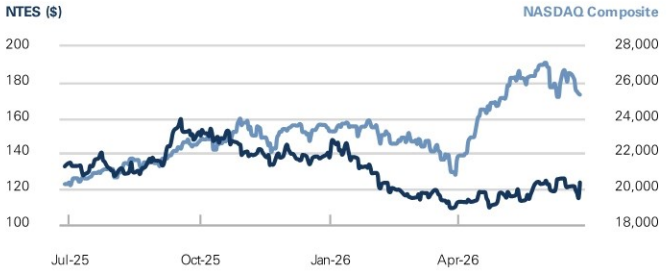
Ratios & Valuation

	12/25	12/26E	12/27E	12/28E
P/E (X)	15.2	13.3	11.5	10.7
P/B (X)	3.6	3.1	2.7	2.4
FCF yield (%)	8.7	9.0	9.5	10.2
EV/EBITDAR (X)	9.9	7.4	6.1	5.1
EV/EBITDA (excl. leases) (X)	9.9	7.4	6.1	5.1
CROCI (%)	49.4	44.0	46.5	52.2
ROE (%)	25.0	24.2	25.1	24.2
Net debt/equity (%)	(99.1)	(103.5)	(104.9)	(106.0)
Net debt/equity (excl. leases) (%)	(99.1)	(103.5)	(104.9)	(106.0)
Interest cover (X)	–	–	–	–
Days inventory outst, sales	–	–	–	–
Receivable days	17.8	16.3	16.6	17.6
Days payable outstanding	6.2	6.5	6.6	6.8
DuPont ROE (%)	22.6	22.4	23.2	22.4
Turnover (X)	0.5	0.5	0.5	0.5
Leverage (X)	1.3	1.3	1.3	1.3
Gross cash invested (ex cash) (Rmb)	108,963.7	103,209.0	101,725.0	99,899.5
Average capital employed (Rmb)	113,618.2	120,363.5	114,617.4	110,925.7
BVPS (Rmb)	249.05	275.80	310.97	349.60

Growth & Margins (%)

	12/25	12/26E	12/27E	12/28E
Total revenue growth	7.0	6.8	9.2	8.1
EBITDA growth	16.3	18.2	10.4	9.0
EPS growth	12.8	7.9	15.5	8.3
DPS growth	24.3	10.3	17.1	8.0
EBIT margin	35.0	39.2	39.8	40.4
EBITDA margin	37.0	41.0	41.4	41.8
Net income margin	33.2	34.0	36.1	36.1

Price Performance



	3m	6m	12m
Absolute	12.5%	(10.4)%	(6.9)%
Rel. to the NASDAQ Composite	(4.8)%	(16.4)%	(25.8)%

Source: FactSet. Price as of 26 Jun 2026 close.

Income Statement (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Total revenue	112,625.8	120,246.6	131,255.1	141,867.1
Cost of goods sold	(40,223.9)	(37,244.4)	(39,650.9)	(41,943.9)
SG&A	(18,847.9)	(20,131.9)	(22,106.2)	(24,035.4)
R&D	(17,719.1)	(18,383.3)	(20,066.3)	(21,688.7)
Other operating inc./(exp.)	3,583.9	2,623.9	2,864.2	3,095.7
EBITDA	**41,666.2**	**49,269.9**	**54,390.0**	**59,274.6**
Depreciation & amortization	(2,247.4)	(2,159.0)	(2,094.2)	(1,979.7)
EBIT	**39,418.8**	**47,110.9**	**52,295.8**	**57,294.9**
Net interest inc./(exp.)	3,953.5	3,983.9	4,578.9	4,339.2
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**44,414.4**	**49,560.9**	**57,535.4**	**62,294.7**
Provision for taxes	(6,032.7)	(7,509.9)	(8,747.4)	(9,767.8)
Minority interest	(1,033.7)	(1,171.2)	(1,364.2)	(1,364.2)
Preferred dividends	(4.3)	(4.3)	(4.3)	(4.3)
Net inc. (pre-exceptionals)	**37,343.7**	**40,875.5**	**47,419.5**	**51,158.4**
Post-tax exceptionals	(3,583.9)	(2,623.9)	(2,864.2)	(3,095.7)
Net inc. (post-exceptionals)	**33,759.8**	**38,251.5**	**44,555.3**	**48,062.6**
EPS (basic, pre-except) (Rmb)	**58.66**	**64.08**	**74.74**	**80.93**
EPS (diluted, pre-except) (Rmb)	**58.02**	**63.38**	**73.93**	**80.04**
EPS (basic, post-except) (Rmb)	**53.03**	**59.97**	**70.23**	**76.03**
EPS (diluted, post-except) (Rmb)	**52.45**	**59.31**	**69.46**	**75.20**
DPS (Rmb)	21.48	23.68	27.74	29.96
Div. payout ratio (%)	36.6	37.0	37.1	37.0

Balance Sheet (Rmb mn)

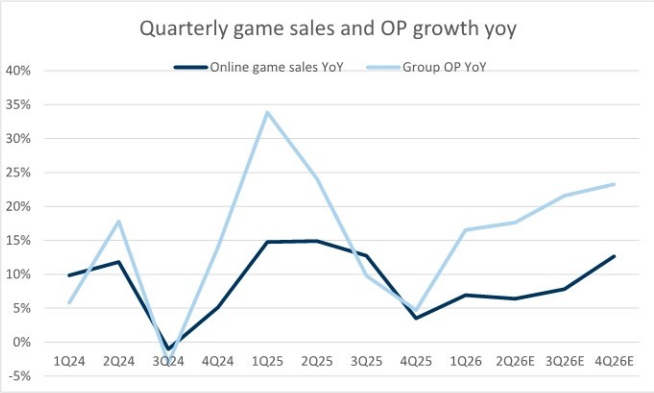
	12/25	12/26E	12/27E	12/28E
Cash & cash equivalents	47,167.9	72,655.9	97,831.4	125,614.1
Accounts receivable	5,337.8	5,411.1	6,562.8	7,093.4
Inventory	–	–	–	–
Other current assets	128,109.8	127,526.7	128,207.8	128,737.9
Total current assets	**180,615.5**	**205,593.7**	**232,602.0**	**261,445.4**
Net PP&E	8,425.3	7,644.3	7,316.7	7,246.5
Net intangibles	4,047.4	4,047.4	4,047.4	4,047.4
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	28,326.9	28,326.9	28,326.9	28,326.9
Total assets	**221,415.1**	**245,612.2**	**272,293.0**	**301,066.1**
Accounts payable	643.2	686.7	749.5	810.2
Short-term debt	6,384.4	6,384.4	6,384.4	6,384.4
Short-term lease liabilities	–	–	–	–
Other current liabilities	45,341.8	51,921.1	56,941.6	61,676.7
Total current liabilities	**52,369.4**	**58,992.2**	**64,075.6**	**68,871.3**
Long-term debt	–	–	–	–
Long-term lease liabilities	–	–	–	–
Other long-term liabilities	3,942.1	3,942.1	3,942.1	3,942.1
Total long-term liabilities	**3,942.1**	**3,942.1**	**3,942.1**	**3,942.1**
Total liabilities	**56,311.4**	**62,934.3**	**68,017.7**	**72,813.4**
Preferred shares	91.3	91.3	91.3	91.3
Total common equity	160,296.1	177,870.0	199,467.4	223,444.8
Minority interest	**4,716.6**	**4,716.6**	**4,716.6**	**4,716.6**
Total liabilities & equity	**221,415.5**	**245,612.2**	**272,293.0**	**301,066.1**
Net debt, adjusted	(163,449.4)	(188,937.4)	(214,112.9)	(241,895.6)

Cash Flow (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Net income	34,797.8	38,251.5	44,555.3	48,062.6
D&A add-back	2,247.4	2,159.0	2,094.2	1,979.7
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	(408.6)	116.8	1,214.5	591.2
Other operating cash flow	14,103.2	9,639.8	4,900.3	6,239.5
Cash flow from operations	**50,739.8**	**50,167.1**	**52,764.3**	**56,873.0**
Capital expenditures	(1,065.4)	(1,378.0)	(1,766.6)	(1,909.5)
Acquisitions	(268.9)	–	–	–
Divestitures	–	–	–	–
Others	(32,229.6)	–	–	–
Cash flow from investing	**(33,563.8)**	**(1,378.0)**	**(1,766.6)**	**(1,909.5)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	(13,825.7)	(15,275.1)	(17,792.1)	(19,151.0)
Inc/(dec) in debt	(5,798.6)	–	–	–
Other financing cash flows	(535.5)	(8,030.0)	(8,030.0)	(8,030.0)
Cash flow from financing	**(20,159.8)**	**(23,305.1)**	**(25,822.1)**	**(27,181.0)**
Total cash flow	**(2,983.8)**	**25,488.0**	**25,175.6**	**27,782.6**
Free cash flow	49,674.4	48,789.2	50,997.7	54,963.6

Source: Company data, Goldman Sachs Research estimates.

Exhibit 1: We look for acceleration of sales/OP growth for rest of 2026



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: NetEase stock catalysts for next 6 months

Date	Catalysts
July 9th	Sea of Remnants PC domestic launch
Mid/late July	Sea of Remnants Mobile domestic launch
No later than Sep	Southbound Connect inclusion
Before Dec 26	Sea of Remnants overseas launch
2027	Ananta global launch

Source: Goldman Sachs Global Investment Research

Key highlights

1. New game launches - Sea of Remnants in 2H26, Ananta/Blood Message in 2027 beyond

While NTES has significantly reduced the number of new game launches over time, and evergreen titles remain solid, we see the upcoming launches and pipelines beyond 2026 should still give investors comfort over the longer term sustainable revenue growth and hence higher multiple on the name. The games in the pipeline including Sea of Remnants, Ananda and Blood Message are in very different game genres, and could be important milestones for NTES to demonstrate its developing capabilities and further step up in the global market.

NTES aims to launch its Sea of Remnants in July. We estimate a **RMB5.8bn+** first 12m grossing for the new title (a combination of domestic and overseas, cross platform), driving double digit game grossing/revenue growth for 2H26. We expect a first domestic launch in July (PC on July 9th and Mobile shortly after), following overseas debut within 2026. This game is differentiated enough vs. other games in the market today, and has the potential to accumulate large user base/credibility, then followed by steady growing monetization (which is relatively light in the early stage of the game mechanism in our view.

Future game pipeline - Ananta: this is NetEase's highly anticipated free-to-play, anime-style **urban open-world sandbox RPG**. We believe the game will generate immense hype for pushing the boundaries of what an "anime game" can do, instead of following the traditional mobile gacha formula. We now expect a launch timeline around mid 2027 as the game is still in development stage, but see potential for an earlier launch timing.

Blood Message: a breakthough vs. NTES's existing game franchise, set for launch in 2027 or after. This is a narrative-driven, single-player action-adventure game developed by NetEase's Thunder Fire Universe, utilizing Unreal Engine 5 (UE5). As one of NetEase's debut masterpieces entering the **high-quality (3A-level) single-player market**, it abandons the company's traditional online game in-app purchase model, opting instead

for a pure buy-to-play distribution method.

Exhibit 3: Sea of Remnants: We expect the first-12m revenue to reach Rmb5.8bn+





	Sea of Remnants	Identity V	Supernatural Squad
		Peak 12m run-rate	*Peak 12m run-rate*
Date of Launch - domestic mobile	3Q26	Apr 2018	Jan 2025
Total grossing (RMB mn)	**5,850**	**8,500**	**5,000**
First 12m mobile grossing (Rmb mn)	**2,250**		
MAU (mn)	18.0	25.0	35.0
ARPU (Rmb)	125	340	143
First 12m PC grossing (Rmb mn)	**3,600**		
MAU (mn)	14.4		
ARPU (RMB)	250		

Source: Sensor Tower, QuestMobile, Company data, Goldman Sachs Global Investment Research

Exhibit 4: NetEase: PC game revenue by titles (Rmb mn)
We expect Sea of Remnants to contribute incremental revenue to 2026E while FWJ, WWM should continue to see strong growth

PC Games revenue by titles	Chinese name	2021	2022	2023	2024	2025	2026E
Fantasy Westward Journey	梦幻西游	8,000	9,000	9,000	7,650	9,945	11,934
Naraka Bladepoint	永劫无间	1,500	4,000	3,400	4,420	4,862	4,862
FragPunk	界外狂潮					400	300
Marvel Rivals	漫威争锋				300	3,600	3,000
Justice Mobile	逆水寒	3,000	2,500	2,000	1,800	1,620	1,458
Blizzard Games	暴雪	3,000	3,000	300	1,800	3,400	3,060
Where Wind Meets	燕云十六声				200	2,727	4,726
Sea of Remants	遗忘之海						1,600
Others (legacy game)	其他	3,028	4,229	4,119	5,740	3,577	3,141
Total		**18,528**	**22,729**	**18,819**	**21,910**	**30,131**	**34,081**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: NetEase: Mobile games cash revenue by titles (Rmb mn)

Mobile Games revenue by titles	Chinese name	2021	2022	2023	2024	2025E	2026E
Fantasy Westward Journey	梦幻西游	11,511	12,205	12,997	14,488	16,128	17,741
Naraka Bladepoint: Mobile	永劫无间：无拘	-	-	-	1,891	2,084	1,876
Justice Mobile	逆水寒	-	-	9,839	8,126	5,070	4,563
Eggy Party	蛋仔派对	-	820	8,350	4,939	3,289	3,454
Where Wind Meets	燕云十六声				-	2,300	3,100
Identity V	第五人格	415	870	1,171	4,181	3,980	3,582
Sea of Remants	遗忘之海						1,000
Others (legacy game)	其他	33,454	32,633	25,257	26,383	30,178	30,235
Total		**45,380**	**46,528**	**57,614**	**60,008**	**63,030**	**65,551**

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

Exhibit 6: NTES: key game pipeline for 2026-2027E onwards

English Name	Chinese Name	Genre	Platform	Banhao Approved	Approval Date	2025	2026	2027
Game launched								
Tian Xia: Wan Xiang	天下：万象	MMO	PC/Mobile	Y	8/21/2025	Launch on Oct 24		
Sword of Justice	逆水寒	Open world, MMORPG	PC/Mobile - global	N		Launch on Nov 7		
Where Winds Meet	**燕云十六声**	**RPG**	**PC/PS5 - global**	**N**		**Launch on Nov 14**		
Diablo IV	暗黑破坏神IV	Action/RPG	PC	Y	7/21/2025	Launch on Dec 12		
Planet Party Time	星绘友晴天	Life simulation	PC	Y	9/24/2025		Soft launch on Apr 28	
Game pipeline	**Chinese Name**	**Genre**	**Platform**	**Banhao Approved**	**Approval Date**			
Sea of Remnants	**遗忘之海**	**RPG**	**Cross Platform**	**Y**	**4/28/2026**		**Launch in Jul 2026**	
Planet Party Time	星绘友晴天	Life simulation	Mobile	Y	9/24/2025		Launch in 2026 onwards	
Floatopia	山海奇旅	Life simulation	PC/Mobile	Y	3/21/2025		Launch in 2026 onwards	
Infinite Borders: Three Kingdoms	万民长歌：三国	Single-player, SLG	PC	N				Launch in 2027 onwards
Ananta	**无限大**	**Open World, Sci-Fi**	**Cross Platform**	**Y**	**12/24/2024**			**Launch in 2027 onwards**
Extreme Battlefield	极限战场	MMORPG	Mobile/PC	Y	4/21/2025			Launch in 2027 onwards
Blood Message	归唐	Action	PC/ Console	N				Launch in 2027 onwards
Code: Oni	妖妖棋	Auto Chess	Mobile/PC	Y	1/23/2026			Launch in 2027 onwards
Onmyoji: Auto Chess	风华决战	Auto Chess	Mobile/PC	N				Launch in 2027 onwards
Sword Heart Carving Dragon	剑心雕龙	Single-player, ARPG	Mobile/ Switch	N				Launch in 2027 onwards

Source: Company data, Goldman Sachs Global Investment Research

2. Solid margin expansion and FCF generation makes it a "non-AI" exposure option

Among all the AI enthusiasm and elevated investments, we see NetEase has been fairly disciplined in its AI strategy and balances well the AI investments and benefits.

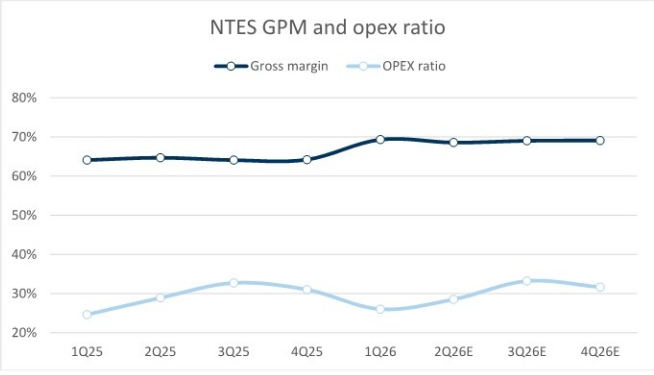
Over the past 2-3 years, the company's margin has continued to trend higher on the back of shift of 3rd party mobile payment channel to its proprietary channel, and a streamlined corporate structure.

Over the past 3 years, NTES' employee count has been stable/declining as they close out overseas/smaller studios, and optimize the team on the back of R&D efficiency gains and a focus on concentrated game titles. That helped them to deliver consistent FCF and share buybacks/dividend payouts, in contrast to many Internet peers elevating their AI investments in the past 12 months.

For 2026E, we look for 20%+ OP growth yoy, driven by the gross margin tailwinds and optimization of organization/headcounts as AI gets integrated into the development process.

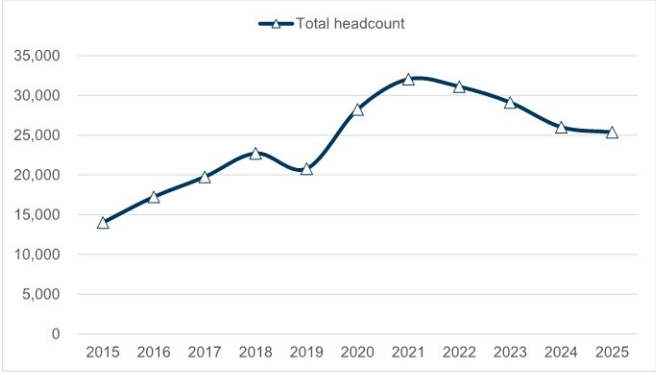
We think this puts NTES as a solid **"non-AI" exposure option** that delivers consistent cash flow/shareholder returns, but still benefits from AI, rather than being disrupted by AI, on its core gaming business.

Exhibit 7: NTES: quarterly GPM and OPEX ratio % trend



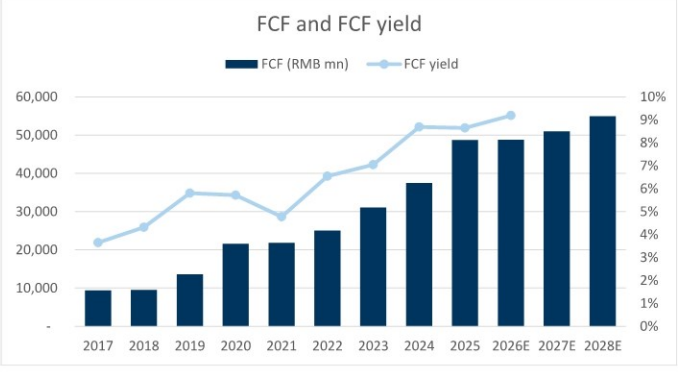
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 8: NTES: company has been streamlining its workforce since 2021



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 9: NTES: FCF and FCF yield has been healthy and improving over time



Source: Company data, Goldman Sachs Global Investment Research

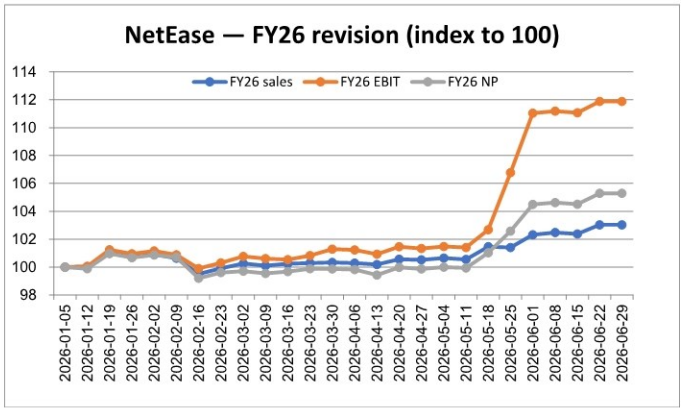
3. Valuation upside to come from earnings upward revisions and game outlook

The valuation upside potential is a constant debate for NTES, as it is closely benchmarked to Tencent and the overall gaming sector. Looking back over the past 5 years, Tencent has been traded at a premium on PE for the majority of time, except for periods like late 2023/early 2024 where NTES could deliver faster revenue growth (esp. on gaming) and had solid titles to work with.

Another key factor is on the level of sales growth and earnings revisions. In periods when the sales growth outlook can accelerate to 10-15% yoy, we see NTES's PE multiple can also expand towards 15X+, especially if we continue to see upward earnings revisions. We expect the company to have sales/OP upside vs. consensus, while net income could

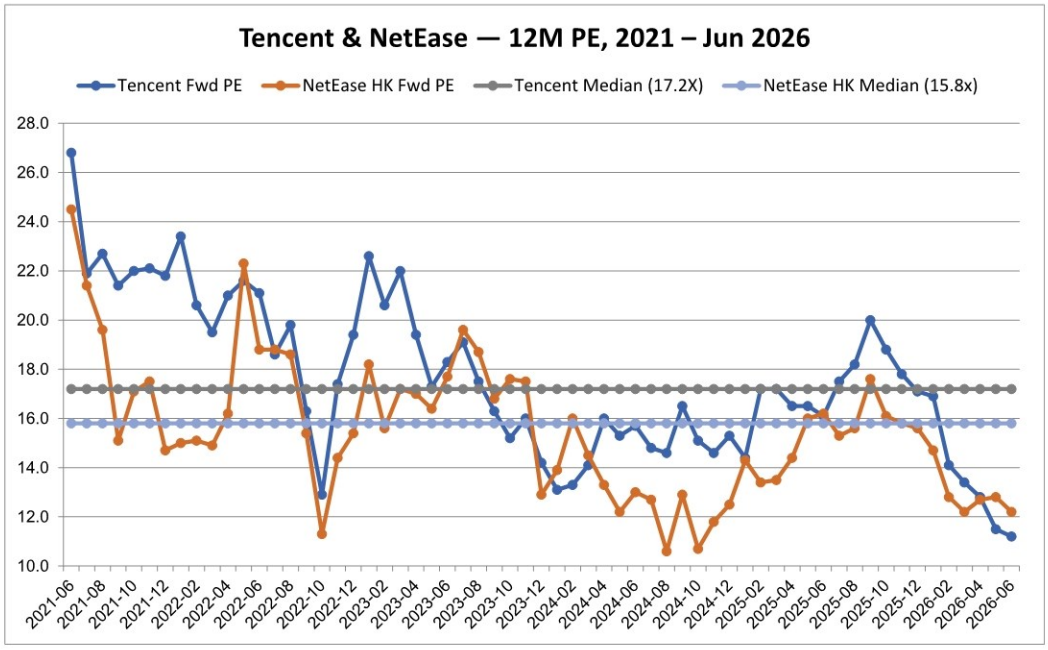
be temporarily impacted by investment losses (PDD stake mainly).

Exhibit 10: NTES: FY26 earnings revisions



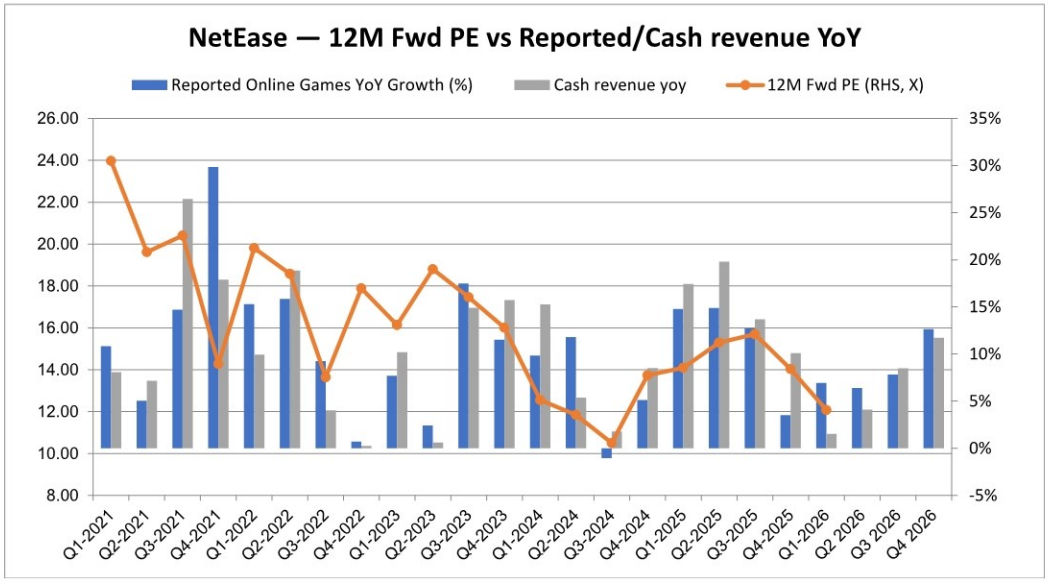
Source: Workspace, Data compiled by Goldman Sachs Global Investment Research

Exhibit 11: NTES vs. Tencent: 12m-fwd P/E trend in the past 5 years



Source: Workspace, Data compiled by Goldman Sachs Global Investment Research

Exhibit 12: NTES: 12m-fwd P/E vs. reported revenue/cash revenue yoy % growth



Source: Workspace, Company data, Data compiled by Goldman Sachs Global Investment Research

Financial/TP changes

Exhibit 13: NetEase: Summary of financials

RMB mn	2021	2022	2023	2024	2025	2026E	2027E	2028E	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E
Revenue	87,606	96,496	103,468	105,295	112,626	120,247	131,255	141,867	28,829	27,892	28,359	27,547	30,591	29,338	30,202	30,116
% yoy	19%	10%	7%	2%	7%	7%	9%	8%	7%	9%	8%	3%	6%	5%	6%	9%
1. Online games & VAS (new)	67,819	74,566	81,565	83,623	92,149	99,656	109,833	119,070	24,048	22,806	23,328	21,967	25,713	24,223	25,106	24,614
%yoy		10%	9%	3%	10%	8%	10%	8%	12%	14%	12%	3%	7%	6%	8%	12%
Online games	62,806	68,999	75,787	80,442	89,623	97,130	107,307	116,419	23,447	22,145	22,768	21,264	25,070	23,562	24,546	23,952
%yoy	15%	10%	10%	6%	11%	8%	10%	8%	15%	15%	13%	4%	7%	6%	8%	13%
a. Mobile games	44,279	46,270	56,969	58,531	59,492	63,049	69,205	74,342	15,381	14,837	15,254	14,034	16,045	15,315	16,094	15,595
%yoy	13%	4%	23%	3%	2%	6%	10%	7%	-4%	1%	7%	5%	4%	3%	6%	11%
b. PC Games	18,528	22,729	18,819	21,910	30,131	34,081	38,102	42,077	8,066	7,308	7,513	7,230	9,025	8,247	8,452	8,357
%yoy	21%	23%	-17%	16%	38%	13%	12%	10%	84%	61%	27%	1%	12%	13%	12%	16%
Online games cash revenue	64,369	69,383	76,645	82,470	94,952	100,984	109,772	118,625	26,146	21,218	25,380	22,208	26,548	22,088	27,533	24,815
%yoy	15%	8%	10%	8%	15%	6%	9%	8%	17%	20%	14%	10%	2%	4%	8%	12%
a. Mobile games	45,380	46,528	57,614	60,008	63,030	65,551	70,795	75,751	17,152	14,216	17,005	14,657	16,991	14,442	18,053	16,066
b. PC Games	18,988	22,855	19,032	22,463	31,922	35,434	38,977	42,875	8,994	7,002	8,375	7,551	9,557	7,646	9,481	8,750
c. Non-game (CC Live streaming & VAS)	5,013	5,568	5,778	3,181	2,525	2,525	2,525	2,652	601	661	560	703	643	661	560	661
%yoy		11%	4%	-45%	-21%	0%	0%	5%	-42%	-15%	-16%	0%	7%	0%	0%	-6%
2. Youdao	5,354	5,013	5,389	5,626	5,909	6,310	6,904	7,571	1,298	1,418	1,629	1,565	1,348	1,533	1,767	1,663
%yoy	69%	-6%	8%	4%	5%	7%	9%	10%	-7%	7%	4%	17%	4%	8%	8%	6%
3. Cloud Music	6,998	8,992	7,867	7,950	7,759	8,060	8,703	9,822	1,858	1,969	1,964	1,968	1,981	2,026	1,999	2,054
%yoy	43%	29%	-13%	1%	-2%	4%	8%	13%	-8%	-4%	-2%	5%	7%	3%	2%	4%
4. Other Innovative business (new)	7,435	7,924	8,647	8,097	6,809	6,220	5,815	5,403	1,624	1,699	1,439	2,047	1,549	1,556	1,330	1,785
GP (GAAP)	46,971	52,766	63,063	65,807	72,402	83,002	91,604	99,923	18,479	18,052	18,178	17,692	21,217	20,119	20,853	20,813
Gross Margin	53.6%	54.7%	60.9%	62.5%	64.3%	69.0%	69.8%	70.4%	64.1%	64.7%	64.1%	64.2%	69.4%	68.6%	69.0%	69.1%
Opex (non-GAAP)	28,346	30,722	32,935	33,526	33,924	36,580	40,060	43,441	7,320	8,336	9,529	8,738	8,229	8,656	10,329	9,366
S&M	12,096	13,283	13,837	14,043	14,487	16,429	18,065	19,667	2,663	3,541	4,429	3,855	3,417	3,786	4,953	4,273
G&A	3,158	3,481	3,781	3,481	3,312	2,934	3,203	3,462	695	849	955	812	592	763	846	734
R&D	13,092	13,958	15,318	16,002	16,125	17,216	18,793	20,312	3,962	3,946	4,146	4,071	4,220	4,107	4,530	4,359
S&M as % Sales	13.8%	13.8%	13.4%	13.3%	12.9%	13.7%	13.8%	13.9%	9.2%	12.7%	15.6%	14.0%	11.2%	12.9%	16.4%	14.2%
G&A as % Sales	3.6%	3.6%	3.7%	3.3%	2.9%	2.4%	2.4%	2.4%	2.4%	3.0%	3.4%	2.9%	1.9%	2.6%	2.8%	2.4%
R&D as % Sales	14.9%	14.5%	14.8%	15.2%	14.3%	14.3%	14.3%	14.3%	13.7%	14.1%	14.6%	14.8%	13.8%	14.0%	15.0%	14.5%
EBIT (non-GAAP)	19,348	22,724	30,901	33,397	39,419	47,111	52,296	57,295	11,377	9,992	8,900	9,150	13,258	11,753	10,822	11,279
%yoy	13%	17%	36%	8%	18%	20%	11%	10%	34%	24%	10%	5%	17%	18%	22%	23%
%margin	22.1%	23.5%	29.9%	31.7%	35.0%	39.2%	39.8%	40.4%	39.5%	35.8%	31.4%	33.2%	43.3%	40.1%	35.8%	37.5%
Net profit (non-GAAP)	19,788	22,808	32,608	33,511	37,344	40,875	47,419	51,158	11,237	9,532	9,502	7,073	11,275	8,851	10,041	10,709
%yoy	35%	15%	43%	3%	11%	9%	16%	8%	32%	22%	27%	-27%	0%	-7%	6%	51%
%margin	22.6%	23.6%	31.5%	31.8%	33.2%	34.0%	36.1%	36.1%	39.0%	34.2%	33.5%	25.7%	36.9%	30.2%	33.2%	35.6%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 14: NetEase: Key changes to GSe

Rmb mn	New 2026E	Change	New 2027E	Change	New 2028E	Change
Net Revenues	120,247	0%	131,255	0%	141,867	0%
Operating profit, non-GAAP	47,111	2%	52,296	2%	57,295	2%
Net profit, non-GAAP	40,875	-4%	47,419	1%	51,158	1%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 15: NetEase: Our 12-month SoTP-based TPs for NTES/9999.HK are US$169/HK$264

US$mn	PER 2026E	Valuation	Stake	to NTES	Value per sh	% total value
Games	**18.0 x**	**98,338**	**100%**	**98,338**	**153**	**90%**
PC games	18.0 x	40,161	100%	40,161	62	37%
Mobile games	18.0 x	58,177	100%	58,177	90	53%
Other businesses		**4,610**		**3,014**	**5**	**3%**
Total	**17.9 x**	**102,948**		**101,352**	**157**	**93%**
Net cash				19,963	31	18%
Total valuation	**21.4 x**			**121,314**	**188**	**112%**
Holdco. discount			*-10%*	(12,495)	(19)	-11%
SOTP (US$)	**19.2 x**			**108,819**	**169**	
in HK$				**850,964**	**264**	

Source: Company data, Goldman Sachs Global Investment Research

Price Target Risks and Methodology - NetEase Inc.

Valuation methodology: We are Buy rated on NetEase (NTES/9999.HK), with 12-month SOTP-based target prices of **US$169/HK$264**.

Key downside risks: 1) Weaker performance of legacy games; 2) slower-than-expected monetization ramp-up of new games; 3) more intensive competition in games, e-commerce, education and other business areas; 4) rising content costs associated with music and advertising expenses related to the online education business.

Investment Thesis - Net Ease Inc.

NetEase is the world's second largest game company (ex. console sales) by revenue. We view NetEase as well-positioned for global market share gains in a macro-defensive industry & further profit acceleration with the company's structural shift towards better operating efficiency. With a track record of delivering healthy revenue growth and consistent margin improvement, we expect further profitability expansion through leverage from new games with high incremental margin, structurally lower channel cost and AI benefiting organizational efficiency. The strong IPs and the longevity of NetEase's legacy games should continue to provide solid cash revenue growth, while further revenue acceleration is supported by new games catering to global audiences. NTES' current valuation level remains at a discount to global gaming peers, while the track record for profit growth, FCF generation and shareholder return is solid even in AI investment stage. Key risks include 1) weaker performance of legacy games; 2) slower-than-expected monetization ramp-up of new games; 3) industry wide format change of future gaming.

Disclosure Appendix

Reg AC

We, Lincoln Kong, CFA, Ronald Keung, CFA and Luqing Zhou, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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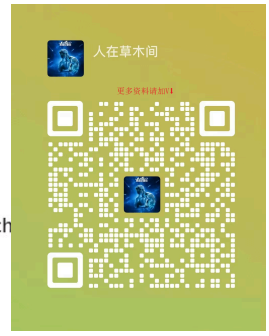
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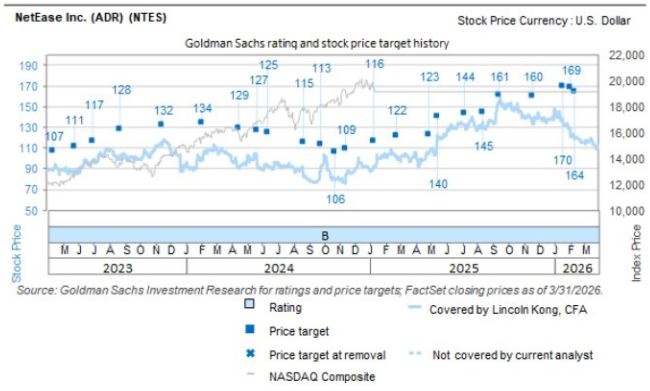
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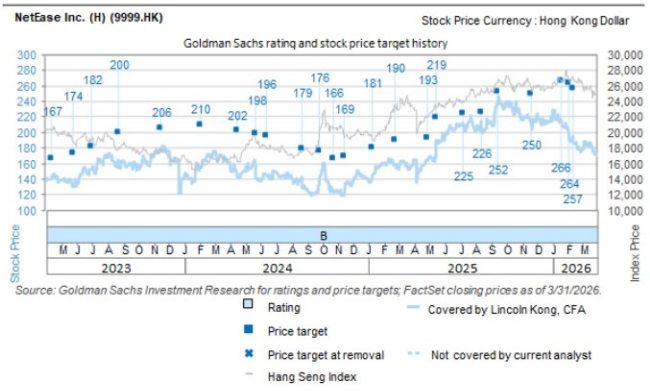


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The price targets shown should be considered in the context of all prior published Goldman Sachs research, which may or may not have included price targets, as well as developments relating to the company, its industry and financial markets.

Target price history table(s)

NetEase Inc. (H) (9999.HK)

Date of report	Target price (HK$)	Closing price (HK$)
21-May-26	260.00	171.70
21-Apr-26	250.00	182.90
11-Feb-26	257.00	195.00
03-Feb-26	264.00	198.50
18-Jan-26	266.00	215.60
20-Nov-25	250.00	212.60
14-Sep-25	252.00	236.40
14-Aug-25	226.00	207.80
08-Jul-25	225.00	212.00
15-May-25	219.00	168.10
29-Apr-25	193.00	163.80
23-Feb-25	190.00	160.00
09-Jan-25	181.00	144.70
14-Nov-24	169.00	119.50
23-Oct-24	166.00	125.80
25-Sep-24	176.00	133.10
22-Aug-24	179.00	143.00
12-Jun-24	196.00	146.00
23-May-24	198.00	141.50
16-Apr-24	202.00	142.30
02-Feb-24	210.00	155.80
16-Nov-23	206.00	175.70
24-Aug-23	200.00	164.60
02-Jul-23	182.00	152.60

NetEase Inc. (ADR) (NTES)

Date of report	Target price ($)	Closing price ($)
21-May-26	166.00	114.34
21-Apr-26	160.00	114.81
11-Feb-26	164.00	118.50
03-Feb-26	169.00	128.36
18-Jan-26	170.00	137.97
20-Nov-25	160.00	133.95
14-Sep-25	161.00	152.80
14-Aug-25	145.00	129.67
08-Jul-25	144.00	133.28
15-May-25	140.00	122.76
29-Apr-25	123.00	106.36
23-Feb-25	122.00	103.22
09-Jan-25	116.00	92.28
14-Nov-24	109.00	84.22
23-Oct-24	106.00	80.05
25-Sep-24	113.00	86.89
22-Aug-24	115.00	82.25
12-Jun-24	125.00	92.92
23-May-24	127.00	94.74
16-Apr-24	129.00	90.42
02-Feb-24	134.00	98.83
16-Nov-23	132.00	112.35
24-Aug-23	128.00	98.59
02-Jul-23	117.00	96.69

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