

Game/Internet Sector

Implications of Overseas Results (3): LINE's Apr-June Results Attest to Brisk Business in Domestic Native App Market

Korean Internet company NHN released Apr-Jun financial results for its LINE business on August 8. They reveal a 67% QoQ increase in overall revenues and 80% increase in LINE game sales, thereby underscoring a brisk business in the domestic (Japan) native application market. The current market situation allows major software producers to leverage their strengths, and so we could see some hits as they put out new titles toward the end of the year.

- Apr-Jun LINE revenues up 67% YoY:** NHN, parent company of Line Corporation, a South Korean messaging app service with more than 45 million users in Japan, released 2Q (Apr-Jun) financial figures for that entity on the morning of August 8 (NHN is covered by J.P. Morgan analyst Helaine Kang). With regards to the closely watched LINE business, they reveal a 67% QoQ revenue increase for the latest quarter (revenues of ¥3.0 billion in 4Q, ¥5.9 billion in 1Q, ¥9.8 billion in 2Q; Figure 1), thus attesting to a brisk business in the domestic native app market. Behind this figure are a 53% increase in LINE games and a 27% increase in LINE stamps. Japan still accounts for more than 80% of the total, but the business also seems to be benefiting from sales growth in Thailand, Taiwan, and other areas. Management held a telephone conference, and there participant questions were centered on the LINE business. A spokesman said that the business will continue to actively promote its services this year as it gives first priority to expanding its user base. LINE signed up its 200-millionth user in July and sees steady growth in, among others, Spain and other European countries, India, and South America.
- Sales trends by leading player within the domestic app market:** According to App Annie, game revenues within the domestic native app market (as of June) are ranked by Google Play as (1) GungHo Online Entertainment, (2) LINE, (3) COLOPL, (4) GREE and (5) Namco Bandai Games. An iOS ranking contains the same names, although with the third and fourth positions reversed (i.e., GREE comes third and COLOPL fourth). Apr-Jun revenues for the top three breaks down as ¥42.1 billion (up 44% QoQ) for GungHo (mobile consumer business), ¥5.2 billion (up 77%) for LINE (LINE Games), and ¥3.9 billion (up 76%) for COLOPL (smartphone native apps).
- High hopes for major game producers, although foreign entrants are a worry:** Mobile/social game revenues for the major game software companies fared weakly in the Apr-Jun quarter, generally down 10-20% QoQ. As least relative to conventional browser-centered (i.e., web app) social games, native apps require a fairly high degree of developmental and planning proficiency (so as to create, for instance, appealing storylines amid interesting worldviews), and thus the market provides a good opportunity for the major game software to users to leverage their strengths. While it currently appears that Namco Bandai Games is a step ahead of the others in terms of revenues (a company spokesman describes the impact as slight), we should see a wave of new launches—and, within it, a few hits—by that and other companies toward the end of the year. On the other hand, we do note the possibility of intensify competition with overseas rivals. Top overseas publishers, among them Supercell and King, appear to have launched active promotional campaigns targeted at the rapidly growing Japanese market, while South Korean and Chinese companies also seem keen to enter it.

Games, Internet, Leisure

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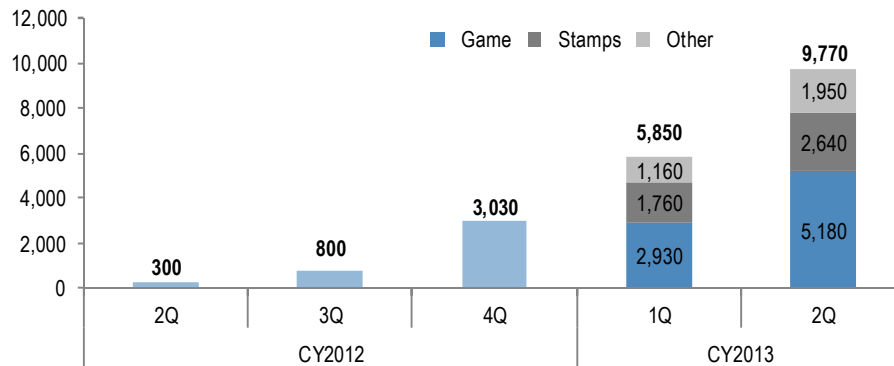
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Figure 1: Trend of LINE revenues

¥ million



Source: Company reports and J.P. Morgan.

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