

How the coronavirus is impacting the gaming and esports sector...

As we all know coronavirus (aka COVID-19) is currently causing havoc with the stock markets. In the real economy some sectors are losing while others are winning. For example, tourism is being smashed while health care is in huge demand. Today I give an update on the gaming and esports sector to see how it is being impacted in the real economy.

Gaming

Gaming in China is booming as a result of the coronavirus enforced lockdowns and more time spent at home. Anecdotal reports suggest gaming in China has increased in early 2020 as consumers were stuck at home.

SensorTower reported:

*"The top mobile game by worldwide revenue for January 2020 was PUBG Mobile from Tencent with more than \$176.3 million in user spending, **which was nearly four times more than the title generated in January 2019.** Approximately 52.8 percent of PUBG Mobile's revenue was from China.....Honor of Kings from Tencent was the second highest earning mobile game by worldwide revenue for January 2020 with more than \$151.3 million in gross revenue, **which represented 25 percent year-over-year growth from January 2019.**"*

The Gaming Recap reports (no link):

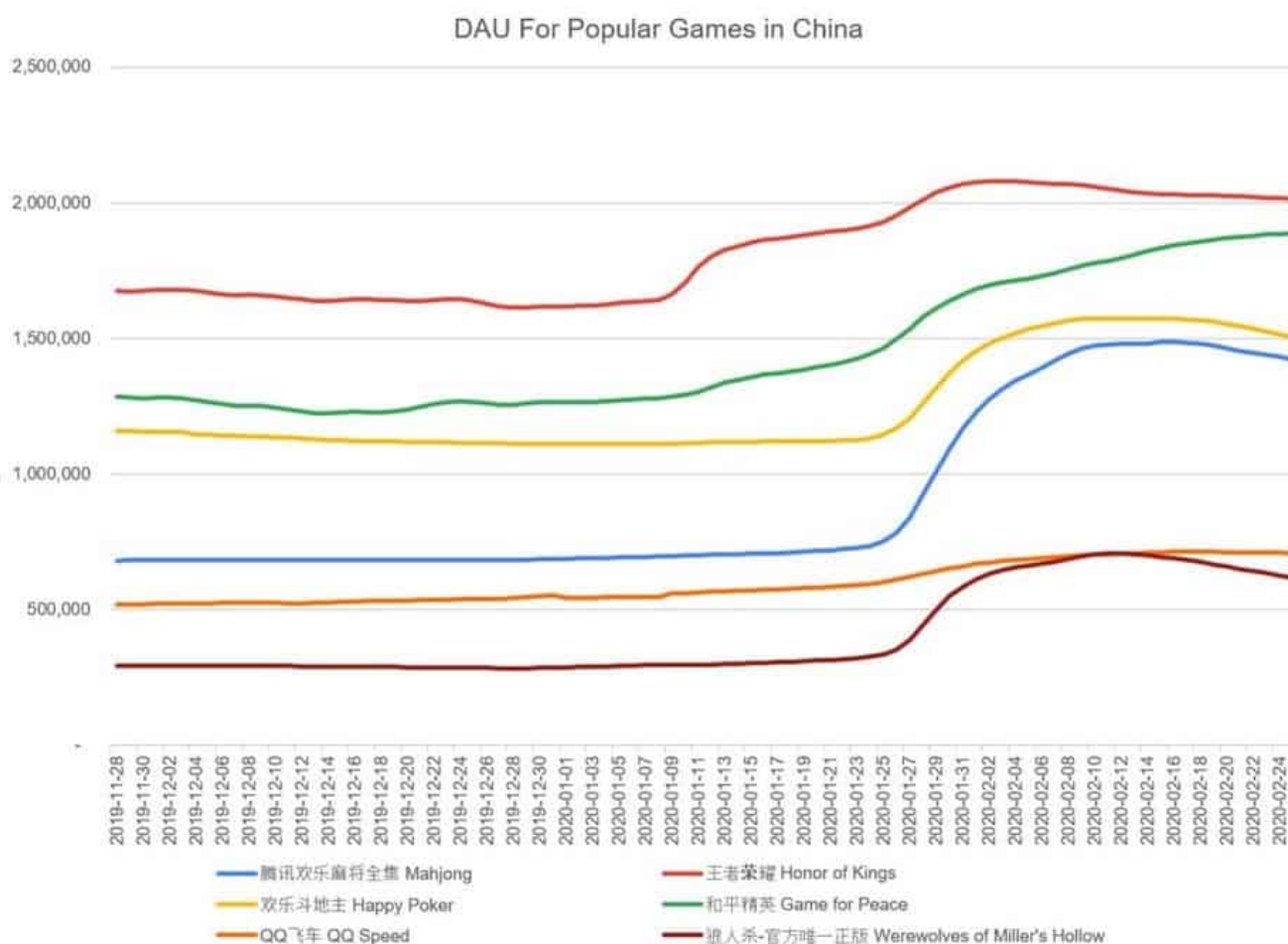
"Year over year in January, aggregate online game time spent for Tencent's most popular games would increase 28%, monetization of these games was seen to be up 50-60% from normal seasonality, with nation-wide online games seeing cash

grossing increasing 30-50%. **In February, China would see a 62% jump in mobile game downloads.**"

Bloomberg reports:

"Virus quarantines in China spur Tencent, NetEase gaming surge. Mobile gaming DAUs grew 48% since December, topping year prior. For Mahjong and Game For Peace (PUBG), two of Tencent's most popular titles, daily active users increased 109% and 44%, respectively, in the two months through February."

Daily Average Users for popular games in China



Source: Bloomberg, Apptopia Source: Bloomberg, Apptopia

Source

Back in January in the InvestorIntel article "The Wuhan Coronavirus crisis leads to some investment opportunities", I

wrote:

“As consumers choose the safety of home, online shopping and entertainment sites should be winners.....online shopping companies Alibaba (NASDAQ: BABA) and JD.com (NASDAQ: JD), food delivery giant Meituan, and gaming and social media giant Tencent (OTC: TCEHY).”

Online gaming has been a big winner simply because it is a popular form of entertainment and in many cases provides some online social interaction. Both of these will continue in future years, and in the short term with coronavirus leading to increasing global lockdowns the thematic will only get stronger. There will be a shift towards more global consumers matching the coronavirus global pandemic shift, where previously it was mostly a China problem. This will lead to increased revenues for gaming companies that service the global marketplace. Tencent will still be a leader, but other gaming related stocks will also do well.

Some other global gaming companies include Sony Corp. (NYSE: SNE), Activision Blizzard (NASDAQ: ATVI), Electronic Arts (NASDAQ: EA), NCsoft Corporation (OTC: NCSCF), Nexon Co Ltd (OTC: NEXOF), NetEase, Inc. (NASDAQ: NTES), Nvidia (NASDAQ: NVDA), Advanced Micro Devices (NASDAQ: AMD), Changyou.com Ltd. (NASDAQ: CYOU), and SciPlay Corp. (NASDAQ: SCPL).

The current most popular gaming model has been free to air games with players spending money on in-game purchases. While this will continue, a new model of cloud gaming will allow a whole new breed of online players to play the latest and greatest online games, from practically any device, for a small monthly subscription. This new trend is known as ‘cloud gaming’ (or Gaming as a Service (GaaS)) as it involves internet streaming to deliver games on your device of choice. Key companies in the market are Google Stadia, Microsoft xCloud, Sony Playstation Now, Apple Arcade, Shadow, Vortex, Parsec, and Nvidia’s GeForce Now.

Esports

Esports has been impacted by the coronavirus as stadium tournament events with large crowds are being canceled, due to new rules limiting crowd gatherings (usually to <500, and sometimes to <100). This then impacts the number of events that can be held, or if they are held with no crowd it can reduce the excitement. The flip side is that as conventional sporting events are canceled due to coronavirus then this may attract new viewers to esports.

Closing thoughts

For the next few months, the gaming sector is looking a stronger bet than the esports sector. The good news for investors is that the market-wide sell-off in equities has been almost across the board in every sector. This means gaming companies with booming revenues are now more attractively valued and should be on investor's radars. The esports sector may not get the same revenue boom but again stocks have been sold down indiscriminately leaving plenty of bargains.

What we need to remember is that in bad times people want to have fun and tune out from all the stress and worry of coronavirus. And that is exactly what the gaming and esports sector offers, and why it will continue to have success in 2020.