

Analysis of the Investment Value of Tencent's Game Industry — Honor of Kings as an Example

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Abstract. With the advancement of Internet technology, online gaming has emerged as a predominant form of entertainment, and Tencent stands out as one of China's leading online gaming enterprises. This paper aims to take Honor of Kings as a representative to analyze the investment value of Tencent's online game industry, to comprehensively evaluate and prospect its investment in the game industry. Consequently, the research focus of this paper lies in examining the influence of Tencent's investment strategy on the value proposition within the gaming industry. This article has collected Tencent's investment information and relevant data in the past two years and conducted a professional analysis of its investment strategy using data analysis and case analysis methods. The study found that Tencent still has a huge influence in the domestic and foreign game industry, but its independent research and development ability has certain limitations, which threatens other competing companies. To secure its business position, it is necessary to improve its own research and development ability.

Keywords: Tencent, online games, value investment, Honor of Kings.

1. Introduction

As a leading global Internet technology company, Tencent has demonstrated its outstanding strength and profound influence in multiple fields, especially in the game industry. Tencent not only occupies an important position in the domestic market of China, but also has carried out extensive investment and layout in the global scope. Tencent Holdings Ltd. (0700.HK) recently released its fourth quarter and full-year results for 2023, revealing that despite the contraction of the global mobile game market, Tencent's online game business demonstrated robust growth. Notably, its international game business witnessed a remarkable surge of 14%, amounting to 53.2 billion yuan, which translates to an impressive 8% increase after excluding the impact of exchange rate fluctuations. Furthermore, overseas revenue accounted for a significant portion of 30% [1]. In addition, this paper will focus on Tencent's innovation ability and technological advantages in the game industry, as well as how it improves user experience and market competitiveness through continuous technological innovation and product upgrades. In the context of globalization, Tencent's investment in the game industry has not only had a profound impact on the Chinese and global game market, but also provided valuable reference and inspiration for investors. Through a comprehensive analysis of Tencent's investment value in the game industry, this paper's aim is to provide valuable information and insights for researchers, investors, and gaming enthusiasts in related fields. Together, this paper can foster the healthy development and sustainable prosperity of the game industry. This analysis seeks to delve into the profound investment potential of Tencent in the game industry by employing a multi-dimensional evaluation and prospective research methodology. Firstly, this paper will commence by examining the developmental history of Tencent and the fundamental landscape of the gaming industry, meticulously outlining its progress and accomplishments in the realm of gaming. Subsequently, this paper shall scrutinize Tencent's investment strategy within the gaming sector, encompassing its selection criteria for diverse game companies, optimal timing for investments, as well as post-investment resource integration and management. The research on these issues provides valuable insights into the recent development of China's game industry, thereby exerting a positive influence on its future growth.

2. Analysis of Tencent's Investment in the Gaming Industry

Tencent released its fourth quarter and full-year earnings report on March 20, reporting a total revenue of 609.15 billion yuan and a net profit of 157.688 billion yuan for the year. Tencent also announced that it would at least double its buyback in 2024, from HK\$49 billion in 2023 to more than HK\$100 billion in 2024. "In 2023, Tencent made breakthroughs in a number of products and services," said Tencent's chairman and CEO. "The total user usage time of video accounts doubled, improvements in advertising AI models significantly improved the effectiveness of precision delivery, and international games accounted for a new high of 30% of game revenue. These developments drove high-quality revenue sources, pushed gross profit up by 23%, and provided strong support for Tencent's plans to increase capital returns to shareholders." [2]. The main business supporting Tencent is its game industry. In the financial report, Tencent has divided its game business into two parts: international market games and domestic market games. In the fourth quarter of 2023, Tencent's revenue from international market games increased by 1% year on year to 13.9 billion yuan, while the revenue from domestic market games decreased by 3% year on year to 27 billion yuan. For the whole year of 2023, the revenue from international market games increased by 14% year on year to 53.2 billion yuan, while the revenue from domestic market games increased by 2% year on year to 126.7 billion yuan [3]. In the game industry, *Honor of Kings* occupies the majority of Tencent's game industry. According to Sensor Tower store intelligence data, in January 2024, *Honor of Kings*' revenue from the global App Store and Google Play reached 233 million US dollars, about 1.678 billion yuan. This achievement makes *Honor of Kings* successfully return to the top of the global mobile game best-selling list. The growth of revenue in the month was attributed to the release of new "skins", the opening of the new season and the return of "limited-time skins" and other activities, especially the peak of single-day flow on January 5. Since its release in 2015, *Honor of Kings*' cumulative revenue has exceeded 10 billion US dollars, about 64.4 billion yuan, becoming the first mobile game to achieve this achievement. This milestone highlights *Honor of Kings*' popularity and commercial success worldwide. And it is closely related to its pioneering gameplay. It can be seen that *Honor of Kings* is a miniature of Tencent's game industry. Therefore, I will analyze the advantages of *Honor of Kings* from the following aspects, and take *Honor of Kings* as a representative to summarize the investment strategy advantages of Tencent's game industry.

2.1. Innovative Gameplay Reflects Tencent's R&D Investment Advantages

This is an action game called *Honor of Kings*. MOBA is Tencent to promote the game "League of Legends", which is a multiplayer game derived from RPG and action games. In this game, in general, players will be divided into two groups, through the RTS style screen to choose their characters, and then fight on different maps. The most prominent feature of this game is: the keyboard is easy to use. When you first log in, there will be detailed graphics and instructions to guide you how to do it, you just need to follow the instructions of the system. Rich and interesting plot, more than 100 different characters, bring you more fun. While familiar with the action, you can understand the special skills of the plot and characters, which makes it easier for you to enter the world of this game. The biggest feature of this game is 5V5 fighting competition. The map of this game is fixed, but in each game, everyone is changing, everyone's personality is different, which stimulates players to study in this game, hone their skills, and constantly challenge themselves. In addition, this game has other more entertaining gameplay, so that you can enjoy the fun in the casual mode [4]. This innovative gameplay is one of the main reasons for the popularity of *Honor of Kings*, which reflects Tencent's ability to develop games, and is the reason why Tencent has been able to strive for the leadership position in China's game industry since 2015.

2.2. The Improvement of Brand Influence and User Stickiness, and the Game Industry Drives Other Fields

Honor of Kings success is not only reflected in revenue, but also greatly enhances the brand influence of Tencent Games. Through rich game content, continuous updates and optimization, as well as various online and offline activities, the game effectively enhances user stickiness, keeping the player community active and loyal. For Tencent, this means a stable user base, providing strong support for the promotion and sales of other products and services of the company. *Honor of Kings* has a mature user operation system, from new recruitment, retention to transformation, each link has been carefully designed. For example, through the QQ and WeChat social network promotion, the use of internal resources and external channels for advertising, effectively attracted many new users. In terms of brand influence, *Honor of Kings* has been endorsed by authoritative media and recognized by the list for many years, such as the top ten IP list of Xinhua News Agency, which has greatly improved its brand influence. Through these lists and media publicity, the popularity and influence of the game has been further spread. This has made Tencent a huge profit in the investment in the game industry.

2.3. Integrate Games with Culture

In the context of the current international community's widespread "cultural identity" crisis, the Chinese people's cognitive way and mode of "digital" identity has had a great impact, and people have higher expectations for the new concept of "digital". In recent years, a mobile game called "Chinese style" has appeared, which integrates Chinese traditional culture into the mobile game, and *Honor of Kings* is the best example [5]. *Honor of Kings* is not just a game, but a super IP through the deep integration of Chinese culture. The characters and story background in the game are mostly taken from Chinese history and myths, so that players can feel the strong cultural atmosphere in the game. In addition, the game has further expanded its cultural influence through derivative works such as film, literature, music, etc., making *Honor of Kings* an important bridge connecting Chinese traditional culture and modern entertainment. By deeply integrating with traditional culture, *Honor of Kings* not only enriches the cultural connotation of the game, but also opens a new path for the inheritance and innovation of traditional culture. As an important cultural carrier in the digital age, the combination of games and traditional culture not only makes traditional culture present to the new generation in a more modern and interactive form, but also makes a positive contribution to the dissemination and popularization of traditional culture. In this way of mutual empowerment, *Honor of Kings* not only becomes a bridge connecting the past and the future, but also becomes a model of the integration of traditional culture and modern life. Tencent based on national culture, so that consumers to consume, which is also one of the investment means of Tencent in the game industry.

2.4. Construction of Ecosystem and Diversified Development

The success of *Honor of Kings* has also built a huge game ecosystem for Tencent. Around the game, Tencent has launched diversified content including esports events, live broadcasts, derivatives, films and TV series, etc., forming a complete industrial chain. This not only brings diversified income sources for Tencent, but also maximizes the IP value of *Honor of Kings*. The construction of *Honor of Kings*' ecosystem is a continuous evolution process. It provides players with a diversified and interactive game environment through the coordinated work of game design, social interaction, operation strategy, and event activities. Through continuous optimization and innovation, *Honor of Kings* aims to create a healthy, active, and sustainable esports ecosystem, so that every player can find their own place in this ecology and enjoy the fun brought by the game.

2.5. Entering the Overseas Market

At present, Chinese game companies are competing for overseas markets. Throughout the performance of recent years, although the major game companies are negative, but they have set their eyes on the foreign market, with high-quality works as the breakthrough, gradually opening the

international market belonging to China [6]. As a leading global game company, the launch of its overseas game business brand "Level Infinite" marks the company's full speed of internationalization. In addition, the change of domestic policy environment also prompts game companies to seek opportunities in overseas markets. *Honor of Kings's* e-sports competition is an important part of its globalization strategy. *Honor of Kings's* esports is an important part of its globalization strategy. Tencent plans to invest \$15 million to build an international esports ecosystem and hold *Honor of Kings's* international invitational series, including intercontinental and global invitational tournaments, to enhance the international influence of the game. *Honor of Kings's* overseas expansion is a key step in Tencent's globalization strategy. Despite many challenges, *Honor of Kings* is expected to achieve new success in the global market through strategies such as technical optimization, market adaptation, esports promotion and IP building. This process is not only of great significance to Tencent, but also plays a positive role in promoting the internationalization of the entire Chinese game industry.

Honor of Kings, as a popular mobile MOBA game worldwide, has achieved great success, but it also faces a series of challenges in the development process. The following is a detailed analysis of the current challenges faced by *Honor of Kings*, as well as an exploration of the shortcomings of Tencent's game industry.

Despite the success of *Honor of Kings* in the domestic market, the overseas market environment and player habits are significantly different from those in China. The international server of *Honor of Kings* needs to make appropriate adjustments in the game's UI, mechanisms, characters, skills, and other aspects to adapt to the needs of players in different regions. In addition, the overseas market is also highly competitive, and Tencent must face many strong competitors. Tencent's efforts to actively seek cooperation with other companies to expand its influence are the best indication of the difficulties it faces.

With the increasing influence of *Honor of Kings*, Tencent has also begun to seek cooperation with other platforms and companies. For example, Tencent and ByteDance have established a partnership that allows *Honor of Kings* to livestream on TikTok, which not only helps *Honor of Kings* to further expand its user base, but also opens up new cooperation space for Tencent in the field of game live broadcasting. At the same time, this cooperation may also change the pattern of game live broadcasting industry and bring new competitive advantages for Tencent. In the eyes of industry insiders, cooperation between the strong is a good thing, but if the two companies join, no matter in terms of purchase quantity or live broadcasting, it will have a huge impact on the entire game industry. Perhaps after *Honor of Kings* joins Douyin, the entire game industry will "evaluate the situation" and make plans for its future [7].

Of course, such a dilemma is not only reflected in *Honor of Kings*, but also in other games. This time, Tencent and Douyin have joined hands to provide enough "content" for TikTok's games and e-sports. The competition between Tencent's *Yuanmeng star* and NetEase's *Danzai Party* is inseparable from the popularity of TikTok [8]. Party games have not received much attention in China before, so it can be said to be an area to be explored. However, the viability of leisure is very strong, and party games are an emerging vertical market. In the future, this game may become more diversified, combining different ways of gathering, gradually forming a kind of game like social games, or VR, AR and other technologies, so that the real world and the virtual world resonate [9]. But during the Spring Festival, Tencent's *Yuanmeng star* competed with NetEase's *Danzai Party*, and Tencent unfortunately lost. This means that Tencent's huge investment has not been rewarded, which is the biggest failure of Tencent in these years, which reflects the declining trend of Tencent's investment in the game industry. It has to be said that the map is very important in the game between *Yuanmeng star* and *Danzai Party*. However, due to the different production methods, *Danzai Party* itself is a content platform, and the large amount of UGC in the game also provides a protection for *Danzai Party* [10]. Therefore, Tencent's failure has both objective and subjective factors. Unsustainable innovation and outdated game technology are the main disadvantages.

(1) Continuous innovation is the key to the sustainable growth of any business. Tencent needs to continuously launch new game genres and gameplay to maintain its market leadership. Tencent is

seeking to achieve this goal through the mining of core gameplay and the development of narrative ability. However, this requires a large amount of R&D investment and innovative thinking, which is a challenge.

(2) With the rapid development of technology, Tencent games need to continuously update their technology to maintain competitiveness. This includes the application of emerging technologies such as VR, AR, AI. The rapid development of technology also means that Tencent needs to constantly learn and adapt to maintain its leading position in the industry.

So, there are many shortcomings in the current Tencent game industry, but due to Tencent's huge size, I believe that if the company can correct its shortcomings, it can still achieve great success.

3. Conclusion

Tencent has significant investment value in the game industry. Through the case of *Honor of Kings*, we can see that Tencent has significant advantages in the investment strategy and research and development ability of the game industry. The success of the game is not only reflected in the huge economic benefits, but also reflected in the improvement of brand influence and the enhancement of user stickiness. In addition, Tencent has successfully integrated games and culture by connecting with traditional Chinese culture, further expanding its cultural influence. Innovative gameplay is the key. The success of *Honor of Kings* is largely attributed to its innovative gameplay, which reflects Tencent's investment advantage in game research and development. By constantly introducing new game types and gameplay, Tencent can maintain its leading position in the market. Ecosystem construction and diversified development. Tencent has achieved diversified development by building a game ecosystem with *Honor of Kings* as the core. This not only brings diversified income sources for the company, but also maximizes the IP value of the game. The importance of overseas market expansion. Tencent has actively entered the overseas market and continuously improved the international influence of the game through strategies such as technical optimization, market adaptation and e-sports event promotion. This is of great significance for Tencent and even the international development of the Chinese game industry. Despite its great success, Tencent's game industry is also facing a series of challenges in the development process, including adaptation to overseas markets, fierce international competition, and the continuous need for technological innovation. In addition, Tencent needs to be vigilant about the decline in investment in the game industry, especially in terms of continuous innovation and technological update. In the future, Tencent needs to continue to strengthen its independent research and development capacity, improve the level of technological innovation, to cope with the rapidly changing market environment. At the same time, Tencent should continue to deepen the integration with traditional culture, strengthen the construction of the ecosystem, and expand overseas markets, to stabilize and enhance its leadership position in the game industry.

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