

NCsoft (036570 KS)

Game

Guild Wars 2 likely to be more successful than Aion

Increased foreign buying since the third CBT for Guild Wars 2

Guild Wars 2 is a massively multiplayer online role playing game (MMORPG) that is being developed by NCsoft's wholly-owned subsidiary ArenaNet (based in the US). NCsoft conducted small-scale first and second closed beta tests (CBT) for the game in December. And the company carried out a 72-hour third CBT during March 24th~26th. Detailed content was unveiled during the third CBT, and NCsoft has received positive feedback from gamers. Some gamers even project that Guild Wars 2 could find more success than Diablo 3 (to be released by Blizzard Entertainment). Indeed, since the third CBT was completed, foreign investors have been increasing their buying of NCsoft shares.

NCsoft is scheduled to begin pre-sales for Guild Wars 2 on April 10th (including pre-orders and pre-purchases) via the buy.guildwars2.com website. The game will be available in three versions (a standard edition priced at US\$59.99, a digital deluxe edition at US\$79.99, and a collector's edition at US\$149.99). All pre-sale buyers will be allowed to participate in upcoming CBT events. NCsoft plans to hold a larger-scale fourth CBT at end-April.

Outlooks for two potential blockbusters to become clearer in April

The outlook for Guild Wars 2's CD sales should be clarified after the pre-sale and the fourth CBT. Investors can gain access to information about order trends and sales performances at online distribution channels via the game's website. NCsoft confirmed that it will recognize US\$48 (vs. retail price of US\$59.99) in net revenues for each standard CD copy of Guild Wars 2 sold. Furthermore, NCsoft will generate additional revenues via in-game item sales. Meanwhile, NCsoft plans to release additional scheduling details for Blade & Soul on April 21st. We forecast the third CBT for Blade & Soul to come in end-April.

Guild Wars 2's website has drawn 9 times more visitors than Aion's

NCsoft's Aion recorded 1.5mn CD sales in the US and Europe in 2009. Guild Wars 1's CD sales volume exceeded 7mn over the last three years. After comparing the number of unique visitors to the Aion website in 2009 (in the two months before the pre-sale) to the number of unique visitors to the Guild Wars 2 website, we found that the number of visitors to the Guild Wars 2 website (178,000) has far exceeded the Aion figure (21,000). As such, we believe that Guild Wars 2 CD sales are highly likely to surpass Aion's. We assume that Guild Wars 2 CD sales in the US and Europe will reach 3.12mn in 2012.

Earnings & Valuation Metrics

FY	Revenues (Wbn)	OP (Wbn)	OP Margin (%)	NP (Wbn)	EPS (Won)	EBITDA (Wbn)	FCF (Wbn)	ROE (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
12/10	515	251	48.7	174	7,985	265	200	24.1	26.1	5.7	15.1
12/11	500	197	39.4	177	8,104	207	7	19.9	37.9	7.1	29.3
12/12F	753	388	51.6	372	16,998	406	367	32.6	18.9	5.4	14.8
12/13F	960	527	54.9	504	23,044	538	460	32.7	13.9	4.0	10.4
12/14F	1,071	598	55.9	589	26,957	607	506	28.8	11.9	3.0	8.4

Note: All figures are based on non-consolidated K-IFRS; NP refers to net profit attributable to controlling interests, Source: Company data, KDB Daewoo Securities Research estimates

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Buy (Maintain)

Target Price (12M, W)	510,000
Share Price (04/05/12, W)	321,000
Expected Return (%)	58.9
EPS Growth (12F, %)	109.7
Market EPS Growth (12F, %)	16.6
P/E (12F, x)	18.9
Market P/E (12F, x)	10.1
KOSPI	2,028.77
Market Cap (Wbn)	7,016
Shares Outstanding (mn)	22
Avg Trading Volume (60D, '000)	184
Avg Trading Value (60D, Wbn)	53
Dividend Yield (12F, %)	0.3
Free Float (%)	65.6
52-Week Low (W)	246,000
52-Week High (W)	386,000
Beta (12M, Daily Rate of Return)	0.5
Price Return Volatility (12M Daily, %, SD)	2.7
Foreign Ownership (%)	27.8

Major Shareholder(s)

TJ Kim et al. (25.39%)

NPS (9.21%)

Treasury shares (9.02%)

Price Performance

(%)	1M	6M	12M
Absolute	14.2	2.1	25.2
Relative	13.6	-19.7	29.9

Key Business

Lineage 1 (35.9%)

Lineage 2 (9.2%)

Aion (33.6%)

Overseas (19.2%)

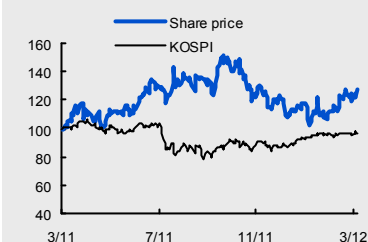
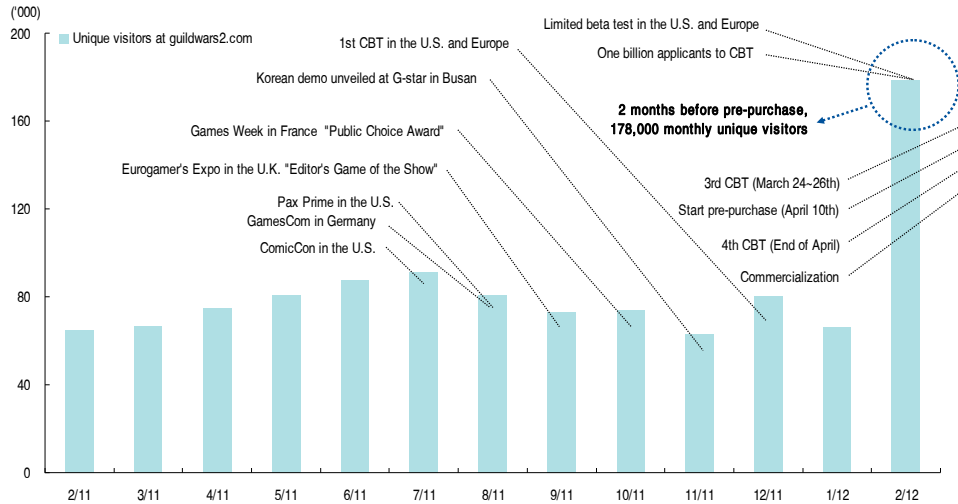
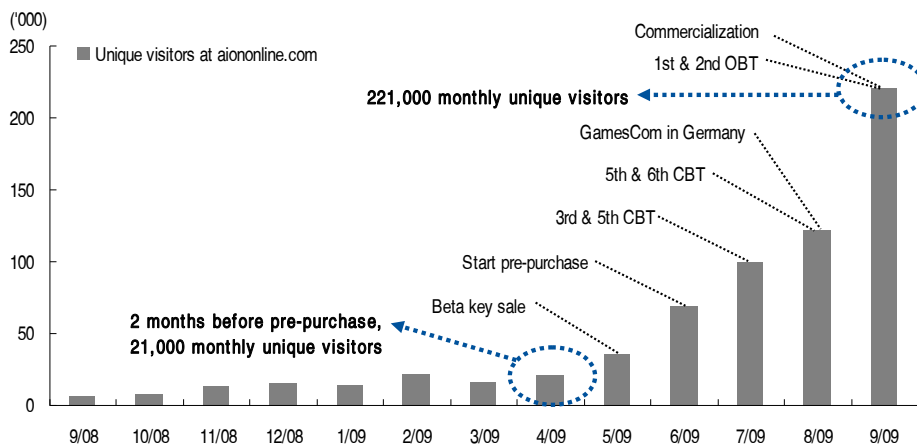


Figure 1. Monthly unique visitors trend of Guild Wars 2's official site (guildwars2.com) (2/11~2/12)



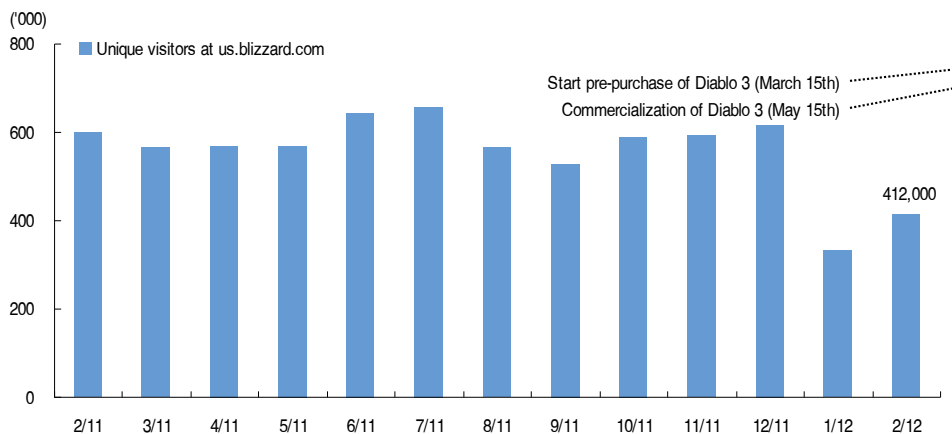
Source: Compete.com, KDB Daewoo Securities Research

Figure 2. Monthly unique visitors trend of Aion's official site (aiononline.com) (9/08~9/09)



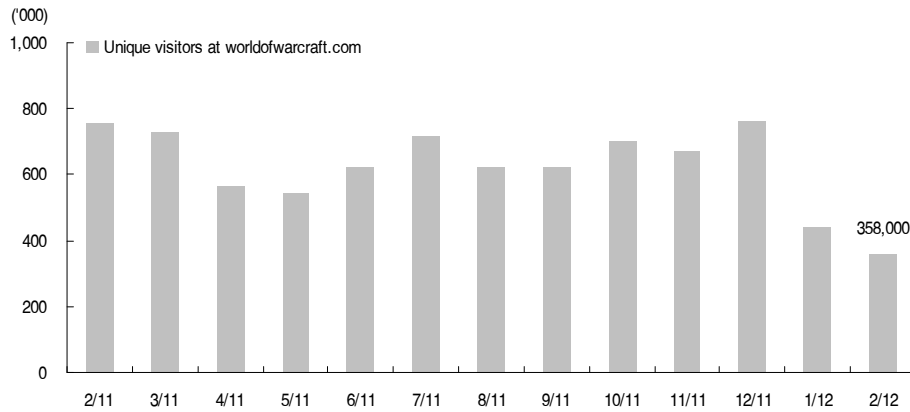
Note: The numbers of unique visitors to Battle.net/d3 cannot be checked on Compete.com and the ones for Diablo3.com are too small to be used.
Source: Compete.com, KDB Daewoo Securities Research

Figure 3. Monthly unique visitors trend of Blizzard's official site (us.blizzard.com) (2/11~2/12)



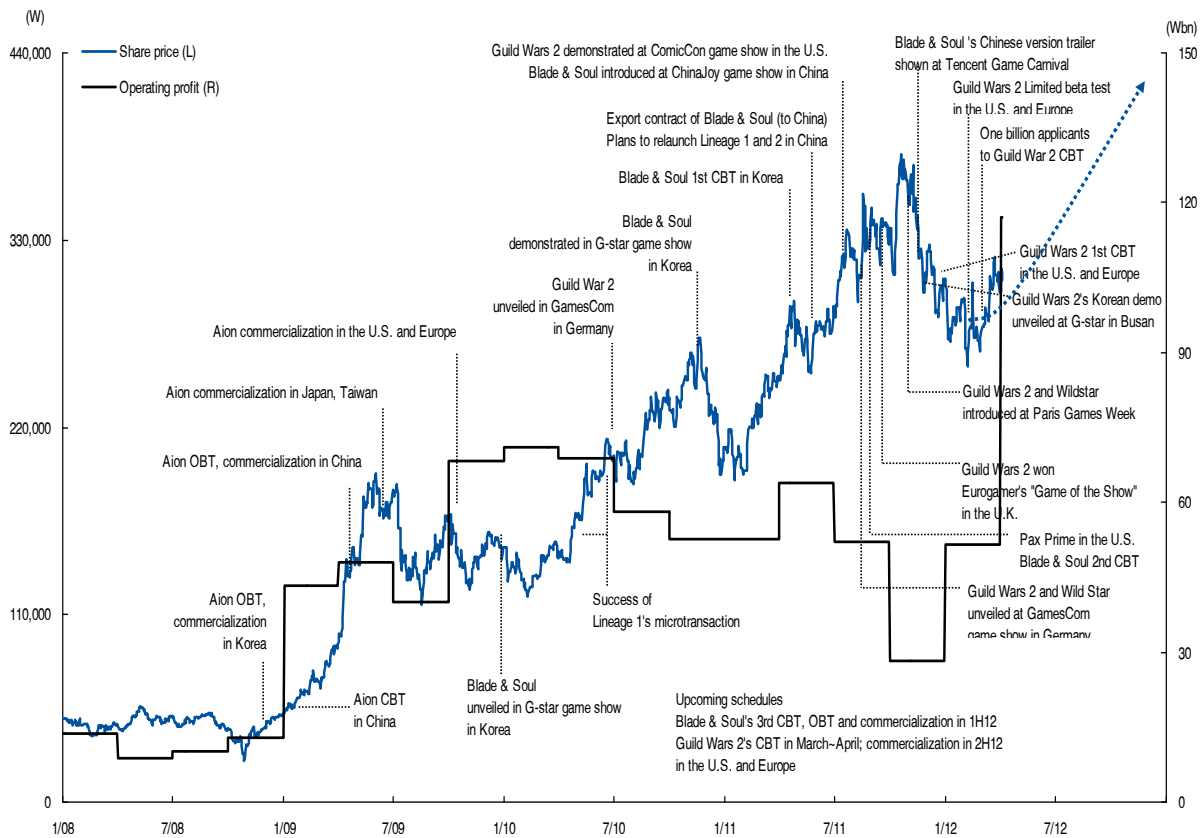
Source: Compete.com, KDB Daewoo Securities Research

Figure 4. Monthly unique visitor indicator trend of 'Warcraft 3' official site (worldofwarcraft.com) (2/11~2/12)



Source: Compete.com, KDB Daewoo Securities Research

Figure 5. NCsoft's new game momentum and share price trend



Source: KDB Daewoo Securities Research

NCsoft (036570 KS/Buy/TP: W510,000)

Comprehensive Income Statement (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Revenues	500	753	960	1,071
Cost of Sales	95	126	151	163
Gross Profit	405	627	809	908
SG&A Expenses	208	238	283	310
Operating Profit (Adj)	197	388	527	598
Operating Profit	197	388	527	598
Non-Operating Profit	26	72	97	131
Net Financial Income	-25	-29	-44	-63
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	220	460	623	729
Income Tax	44	88	120	140
Profit from Continuing Operations	177	372	504	589
Profit from Discontinued Operations	0	0	0	0
Net Profit	177	372	504	589
Controlling Interests	177	372	504	589
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	174	369	501	586
Controlling Interests	174	369	501	586
Non-Controlling Interests	0	0	0	0
EBITDA	207	406	538	607
FCF (Free Cash Flow)	7	367	460	506
EBITDA Margin (%)	41.5	53.9	56.1	56.7
Operating Profit Margin (%)	39.4	51.6	54.9	55.9
Net Profit Margin (%)	35.4	49.3	52.5	55.0

Cash Flows (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Cash Flows from Op Activities	143	354	442	481
Net Profit	177	372	504	589
Non-Cash Income and Expense	40	35	35	18
Depreciation	5	8	7	7
Amortization	6	10	5	2
Others	-14	42	52	67
Chg in Working Capital	-16	36	24	14
Chg in AR & Other Receivables	17	-32	-26	-14
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	0	5	4	2
Income Tax Paid	-58	-88	-120	-140
Cash Flows from Inv Activities	24	28	43	63
Chg in PP&E	-160	0	0	0
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	79	0	0	0
Others	105	29	44	63
Cash Flows from Fin Activities	-9	-30	-40	-40
Chg in Financial Liabilities	0	0	0	0
Chg in Equity	3	0	0	0
Dividends Paid	-12	-30	-40	-40
Others	0	0	0	0
Increase (Decrease) in Cash	159	352	446	504
Beginning Balance	10	169	521	967
Ending Balance	169	521	967	1,472

Source: Company data, KDB Daewoo Securities Research estimates

Statement of Financial Condition (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Current Assets	740	1,133	1,612	2,134
Cash and Cash Equivalents	169	521	967	1,472
AR & Other Receivables	63	95	122	136
Inventories	0	0	0	0
Other Current Assets	16	24	31	34
Non-Current Assets	425	472	506	568
Investments in Associates	4	4	4	4
Property, Plant and Equipment	335	327	320	314
Intangible Assets	18	8	4	2
Total Assets	1,165	1,605	2,118	2,702
Current Liabilities	139	210	267	298
AP & Other Payables	9	14	18	20
Short-Term Financial Liabilities	0	0	0	0
Other Current Liabilities	130	196	249	278
Non-Current Liabilities	56	88	81	88
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	37	68	62	69
Total Liabilities	196	297	348	386
Controlling Interests	969	1,308	1,769	2,316
Capital Stock	11	11	11	11
Capital Surplus	216	216	216	216
Retained Earnings	846	1,187	1,651	2,201
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	969	1,308	1,769	2,316

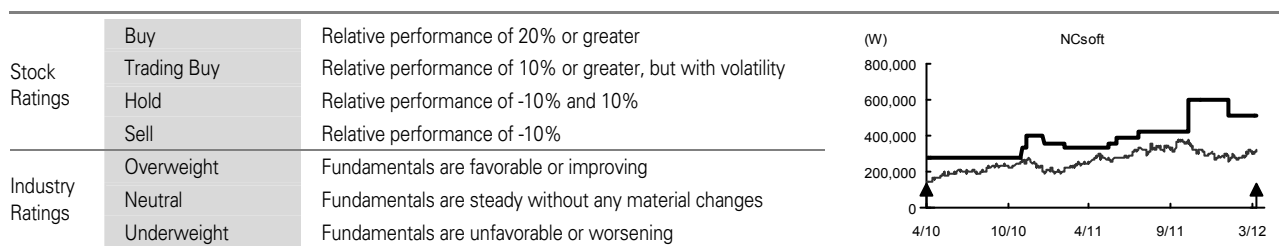
Forecasts/Valuations (Summarized)				
	12/11	12/12F	12/13F	12/14F
P/E (x)	37.9	18.9	13.9	11.9
P/CF (x)	35.8	18.0	13.6	11.7
P/B (x)	7.1	5.4	4.0	3.0
EV/EBITDA (x)	29.3	14.8	10.4	8.4
EPS (W)	8,104	16,998	23,044	26,957
CFPS (W)	8,587	17,808	23,580	27,359
BPS (W)	43,533	59,480	80,774	105,872
DPS (W)	500	1,000	1,000	1,000
Payout ratio (%)	5.6	5.3	3.9	3.4
Dividend Yield (%)	0.2	0.3	0.3	0.3
Revenue Growth (%)	-2.8	50.5	27.5	11.6
EBITDA Growth (%)	-21.7	95.7	32.6	12.8
Operating Profit Growth (%)	-21.5	97.1	35.6	13.6
EPS Growth (%)	1.5	109.8	35.6	17.0
Accounts Receivable Turnover (x)	8.7	10.6	9.9	9.3
Inventory Turnover (x)	2,535.0	3,090.4	2,882.2	2,712.2
Accounts Payable Turnover (x)				
ROA (%)	16.3	26.8	27.1	24.5
ROE (%)	19.9	32.6	32.7	28.8
ROIC (%)	79.6	120.1	196.0	256.9
Liability to Equity Ratio (%)	20.2	22.7	19.7	16.7
Current Ratio (%)	531.8	540.6	603.4	716.1
Net Debt to Equity Ratio (%)	-68.2	-77.5	-82.5	-84.8
Interest Coverage Ratio (x)				

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