

# NCsoft

(036570 KS)

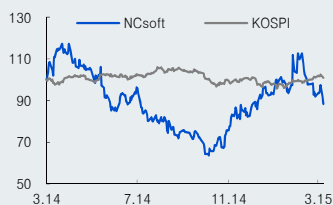
## Buy low in 1H and sell high in 2H

### Games

Company Update  
March 11, 2015

(Maintain)	<b>Buy</b>
Target Price (12M, W)	<b>240,000</b>
Share Price (3/10/15, W)	<b>171,500</b>
Expected Return	<b>40%</b>

OP (15F, Wbn)	311
Consensus OP (15F, Wbn)	310
EPS Growth (15F, %)	22.5
Market EPS Growth (14F, %)	-1.9
P/E (15F, x)	13.5
Market P/E (14F, x)	13.7
KOSPI	1,984.77
Market Cap (Wbn)	3,761
Shares Outstanding (mn)	22
Free Float (%)	84.9
Foreign Ownership (%)	38.9
Beta (12M)	0.42
52-Week Low	123,500
52-Week High	227,500
<b>(%)</b>	<b>1M</b> <b>6M</b> <b>12M</b>
Absolute	-20.0 17.9 -16.1
Relative	-22.0 21.7 -17.4



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[Internet/Game/Entertainment]

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### Earnings to be weak in 1H but strong in 2H

During January and February, the average total time spent per day on NCsoft games remained relatively resilient compared to 4Q14 data. Daily average figures were up 0.2% and 3.3% (vs. 4Q14), respectively, for *Lineage I* and *Aion*, and down 7.8% and 8.7%, respectively, for *Lineage II* and *Blade & Soul*.

We forecast 1Q15 revenue at W179bn (+0.4% YoY). More specifically, we project *Lineage I* revenue to jump 50.4% YoY to W62bn, buoyed by a microtransaction event held in February.

We expect 1Q15 operating profit of W52bn (+15.9% YoY). Overall operating expenses should decline on the removal of several items, including pro baseball team-related expenses as well as the bonus payouts and G-Star marketing spend seen in 4Q14.

### New release momentum concentrated in 2H

The second beta test for *Blade & Soul China* mobile as well as beta tests for *Lineage Eternal* and *Master X Master (MXM)* are anticipated to take place in early 2Q. The release schedule for the *Guild Wars 2* expansion pack should also become clear in 2Q. *Guild Wars 2* has so far sold 4.6mn copies since its debut in August 2012, with around 2.5mn copies sold in its first year of release. Meanwhile, a mobile version of *Aion* and the mobile and PC versions of *MXM* are expected to hit the market in 2H.

### Further pullback would raise likelihood of Nexon assuming control

NCsoft's stock has been falling ever since its 4Q14 earnings release, weighed down by 1) worries that the company may have overpaid for Netmarble shares in its recent share swap, 2) concerns over 1H15 earnings, 3) a lack of new game momentum, and 4) the waning of M&A expectations ahead of the March 27<sup>th</sup> general shareholders' meeting.

Earnings and new release momentum will be concentrated in the second half of this year, as was the case in 2013 and 2014. We believe the current management will focus on preparing for next year's annual general meeting in March (when the terms of many executive board members are set to end), or for any special meeting that could be called by Nexon.

NCsoft's dividend yield would be 2% based on its 2014 DPS of W3,430 and the current share price. The company also has W1.9tr in assets, including W800bn in cash, W700bn in real estate and W380bn in Netmarble shares, and generates a cash flow of over W200bn every year.

Against this backdrop, the company's major shareholders are vying for control. Regardless, the stock has so far failed to gain upside momentum. We recommend buying on the cheap in 1H in light of expectations for positive earnings and new release momentum in 2H. We reiterate our Buy call and target price of W240,000.

FY (Dec.)	12/11	12/12	12/13	12/14	12/15F	12/16F
Revenue (Wbn)	609	754	757	839	921	1,067
OP (Wbn)	136	151	205	278	311	353
OP margin (%)	22.3	20.0	27.1	33.1	33.8	33.1
NP (Wbn)	121	156	159	228	279	303
EPS (W)	5,529	7,120	7,245	10,378	12,710	13,806
ROE (%)	14.6	16.8	14.8	18.2	19.1	18.1
P/E (x)	55.6	21.1	34.3	17.5	13.5	12.4
P/B (x)	7.0	3.0	4.4	2.7	2.3	2.0

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

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## Share price drivers

**Table 1. Key variables**

Variables	Base case
Release dates for and performances of new mobile games	2Q-3Q15
Results of <i>Lineage Eternal</i> /beta test	1H15
Release date and performance of <i>Guild Wars 2</i> expansion pack	2H15
Performances of existing games	
Management issues	
- 2015 shareholders' meeting: another term for CEO Kim Taek-jin	No movement until 2016
- 2016 shareholders' meeting: terms of five of seven executive board members to end	

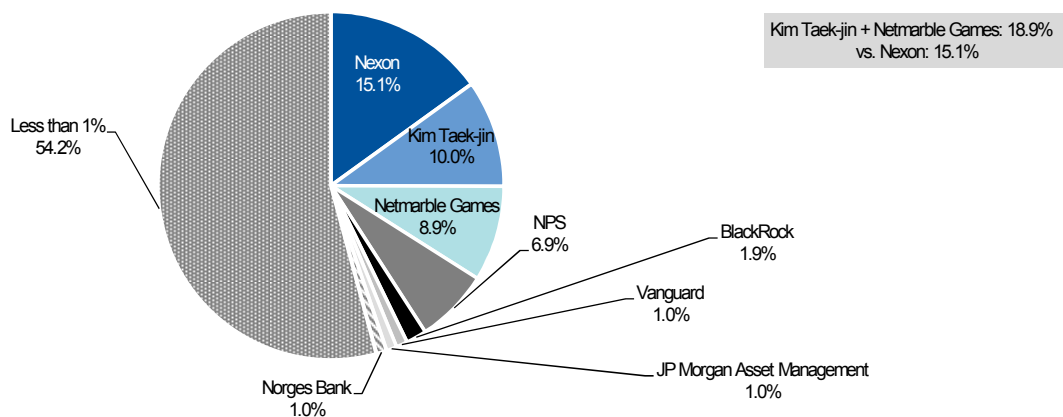
Source: KDB Daewoo Securities Research

**Table 2. Scenario analysis**

Share price scenario	Potential drivers	Impact
Rise (above W250,000)	Mobile games released without delay; better-than-expected sales Successful beta testing for <i>Lineage Eternal</i> <i>Guild Wars 2</i> sales volume in excess of 3mn copies	NCsoft management to remain strong → Nexon could sell off its shares
Flat	Mobile games fail to generate meaningful revenue <i>Lineage Eternal</i> /beta testing in 1H15 <i>Guild Wars 2</i> sales volume of around 2mn copies Revenue from existing games remains at the 2014 level	Institutional investors and foreign investors could support management control by Nexon
Fall	Delays to mobile game releases; sales fall short of expectations Delays or negative feedback to <i>Lineage Eternal</i> beta testing <i>Guild Wars 2</i> expansion pack release delayed to 2016 <i>Guild Wars 2</i> sales volume below 2mn copies	Board to be dominated by Nexon (with the support of institutional and foreign investors)

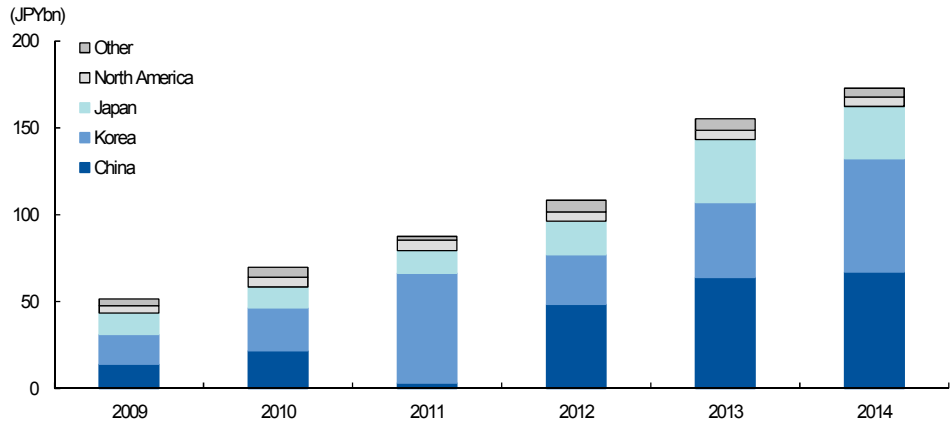
Source: KDB Daewoo Securities Research

**Figure 1. Shareholding structure of NCsoft**



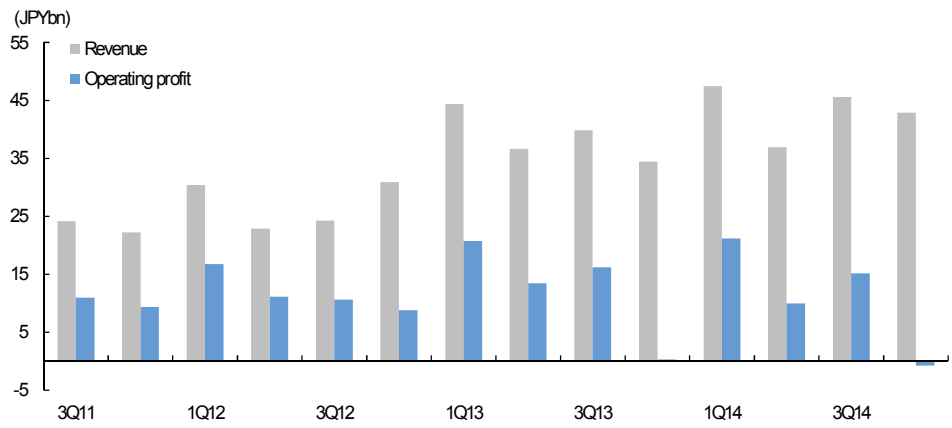
Source: Bloomberg, Company data, KDB Daewoo Securities Research

**Figure 2. Nexon's revenue breakdown by region**



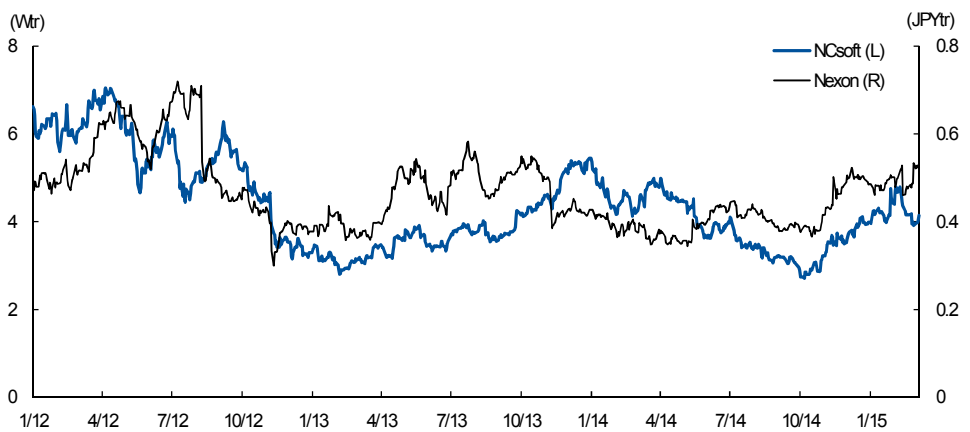
Source: Company data, KDB Daewoo Securities Research

**Figure 3. Nexon's quarterly earnings**



Source: Company data, KDB Daewoo Securities Research

**Figure 4. Market cap trends of NCsoft and Nexon**



Source: Thomson Reuters, KDB Daewoo Securities Research

## Earnings and forecasts

**Table 3. Quarterly and annual earnings**

(Wbn, %)

	1Q14	2Q14	3Q14	4Q14	1Q15F	2Q15F	3Q15F	4Q15F	2013	2014	2015F
Revenue	178	214	212	235	179	181	279	283	757	839	921
<i>Lineage</i>	41	57	69	97	62	63	67	64	288	263	256
<i>Lineage II</i>	12	14	15	19	13	13	13	16	57	59	56
<i>Aion</i>	22	18	33	21	19	19	26	21	96	94	85
<i>Blade &amp; Soul</i>	19	19	20	25	20	20	20	21	69	83	79
<i>Guild Wars 2</i>	25	22	20	19	17	14	84	74	123	86	189
<i>WildStar</i>	-	28	16	5	2	2	2	3	-	50	11
<i>MXM</i>	-	-	-	-	-	-	20	32	-	-	52
Royalties	45	38	22	32	27	29	26	27	66	137	110
Other	14	18	18	16	18	21	21	24	58	67	83
<b>Revenue breakdown</b>											
<i>Lineage</i>	23.0	26.6	32.4	41.1	34.5	34.7	23.9	22.8	38.0	31.4	27.7
<i>Lineage II</i>	6.5	6.3	7.0	8.3	7.5	7.5	4.8	5.7	7.6	7.1	6.1
<i>Aion</i>	12.5	8.6	15.6	8.9	10.6	10.5	9.3	7.5	12.7	11.3	9.2
<i>Blade &amp; Soul</i>	10.8	8.9	9.3	10.5	10.9	10.8	7.0	7.3	9.1	9.9	8.6
<i>Guild Wars 2</i>	14.1	10.4	9.3	8.2	9.5	7.8	30.1	26.0	16.3	10.2	20.5
<i>WildStar</i>	-	13.1	7.6	2.3	1.4	1.4	0.9	1.1	-	5.9	1.2
<i>MXM</i>	-	-	-	-	-	-	7.2	11.5	-	-	5.7
Royalties	25.0	17.6	10.5	13.8	15.3	15.8	9.4	9.6	8.7	16.3	11.9
Other	8.1	8.4	8.3	6.9	10.2	11.5	7.4	8.4	7.6	8.0	9.1
Operating expenses	134	149	130	148	127	133	171	179	551	561	610
Operating profit	45	65	81	87	52	47	108	104	205	278	311
OP margin (%)	25.0	30.4	38.4	37.2	28.8	26.1	38.8	36.8	27.1	33.2	33.8
Net profit	37	53	76	62	45	42	93	99	159	227	279
Net margin (%)	20.5	24.8	35.8	26.5	25.0	23.1	33.3	35.1	21.0	27.1	30.2
<b>YoY growth</b>											
Revenue	-3.6	11.4	24.7	12.0	0.4	-15.6	32.0	20.2	0.4	10.8	9.9
<i>Lineage</i>	-37.9	-32.9	10.0	29.4	50.4	10.2	-2.6	-33.4	40.3	-8.6	-2.9
<i>Lineage II</i>	-18.5	-5.1	13.7	25.1	16.2	-0.7	-9.2	-17.6	-12.2	4.1	-5.1
<i>Aion</i>	-21.4	-21.1	45.7	-3.2	-14.8	3.2	-21.3	1.8	-32.2	-1.4	-9.9
<i>Blade &amp; Soul</i>	16.5	35.2	-2.7	37.4	1.8	2.3	-0.9	-15.6	10.8	20.1	-3.9
<i>Guild Wars 2</i>	-30.9	-23.1	-19.6	-42.6	-32.1	-36.7	327.1	281.6	-25.2	-30.6	120.4
<i>WildStar</i>	-	-	-	-	-	-91.1	-84.5	-41.2	-	-	-78.4
Royalties	314.9	188.4	125.9	0.3	-38.5	-24.1	18.3	-15.9	2.9	107.5	-19.9
Other	13.1	32.8	2.8	13.4	27.1	15.1	17.9	45.8	13.8	15.9	24.7
Operating profit	-19.8	4.3	164.7	54.0	15.9	-27.5	33.3	19.0	35.7	35.5	11.8
Net profit	-30.1	54.8	187.9	36.4	22.3	-21.3	22.8	59.2	3.2	43.4	22.5

Note: All figures are based on consolidated K-IFRS

Source: Company data, KDB Daewoo Securities Research estimates

**Table 4. Earnings forecast revisions**

(Wbn, W, %, %p)

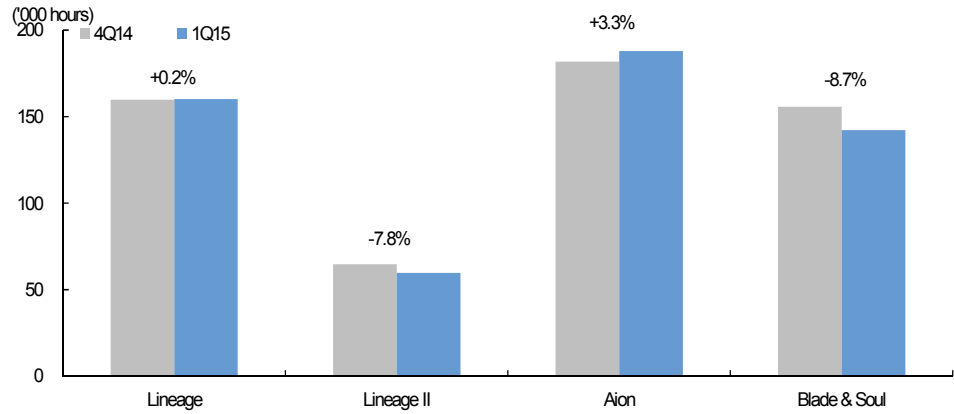
	Previous		Revised		% chg.	
	2015F	2016F	2015F	2016F	2015F	2016F
Revenue	911	1,059	921	1,067	1.1	0.8
Operating profit	312	357	311	353	-0.3	-1.1
Pretax profit	344	395	344	389	0.0	-1.5
Net profit	279	311	279	303	0.0	-2.6
EPS	12,715	14,184	12,710	13,806	0.0	-2.7
OP margin	34.2	33.7	33.8	33.1	-0.5	-0.6
Net margin	30.6	29.4	30.3	28.4	-0.3	-1.0

Note: All figures are based on consolidated K-IFRS

Source: Company data, KDB Daewoo Securities Research estimates

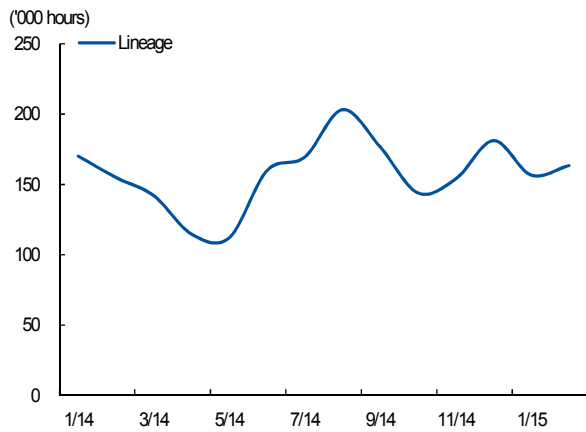
## Traffic trends of major games

Figure 5. Daily average time spent playing NCsoft games



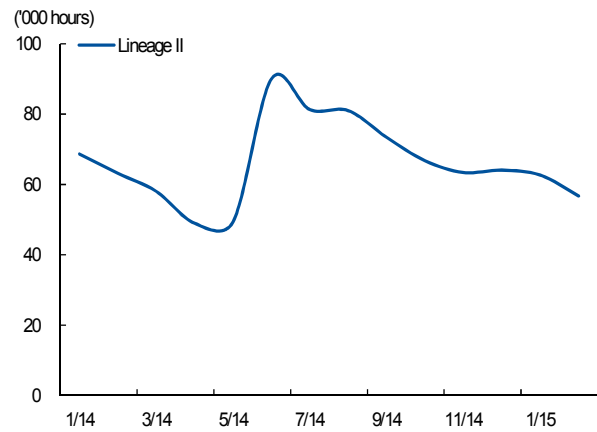
Note: 1Q15 numbers are daily averages of January-February 2015 data  
 Source: Gametrics, KDB Daewoo Securities Research

Figure 6. Daily average time spent playing *Lineage*



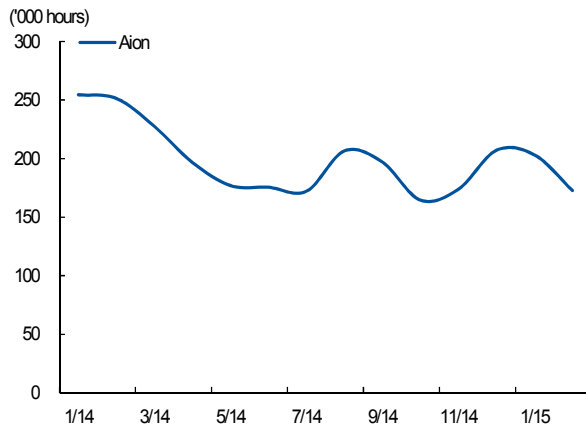
Source: Gametrics, KDB Daewoo Securities Research

Figure 7. Daily average time spent playing *Lineage II*



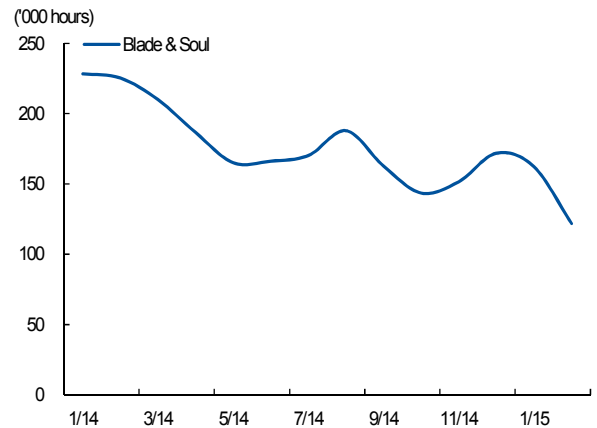
Source: Gametrics, KDB Daewoo Securities Research

Figure 8. Daily average time spent playing *Aion*



Source: Gametrics, KDB Daewoo Securities Research

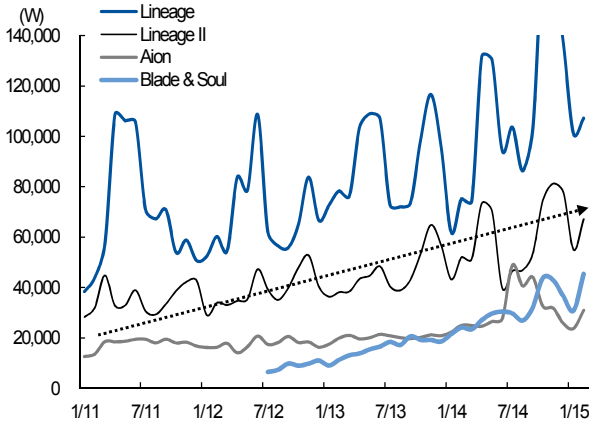
Figure 9. Daily average time spent playing *Blade & Soul*



Source: Gametrics, KDB Daewoo Securities Research

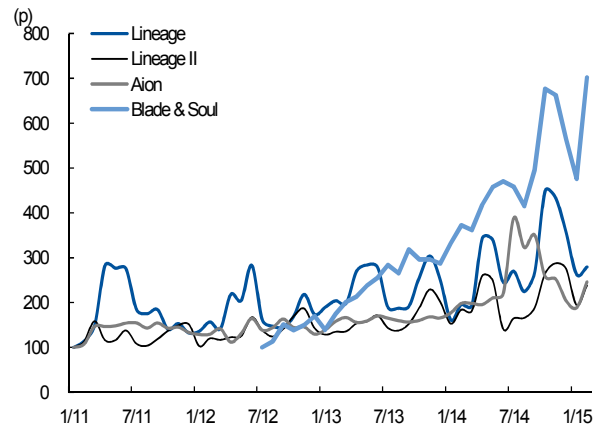
# ARPU and earnings trends

Figure 10. ARPU trends by game



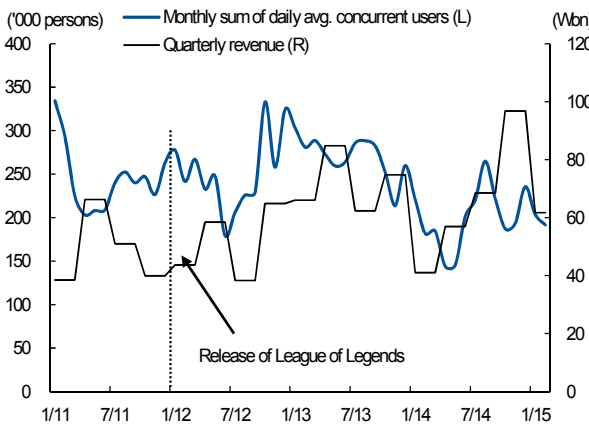
Note: Monthly revenue (quarterly revenue divided by three) divided by the sum of daily average concurrent users for each month; this calculation provides a good measure of changes in per-user revenue  
 Source: Gametrics, company data, KDB Daewoo Securities Research

Figure 11. Relative changes in ARPU by game



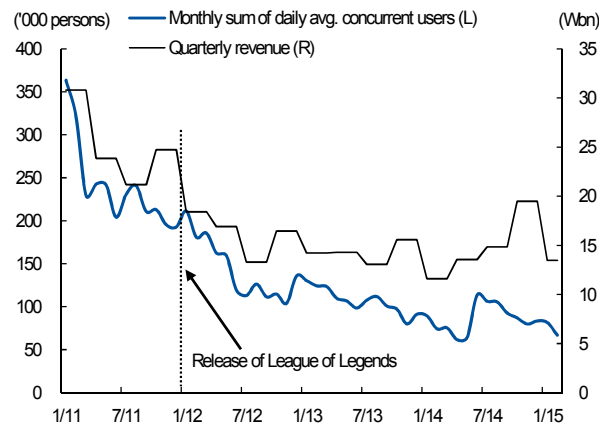
Note: As of January 2011  
 Source: Gametrics, company data, KDB Daewoo Securities Research

Figure 12. Lineage: Revenue and concurrent users



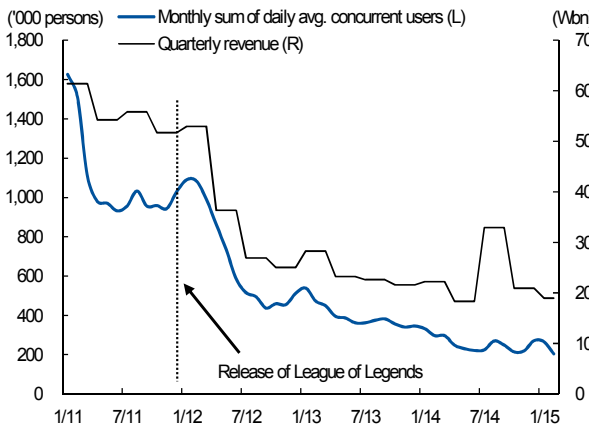
Source: Gametrics, Company data, KDB Daewoo Securities Research

Figure 13. Lineage II: Revenue and concurrent users



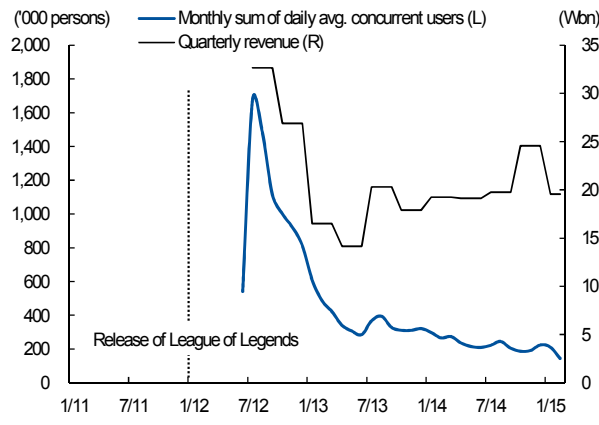
Source: Gametrics, Company data, KDB Daewoo Securities Research

Figure 14. Aion: Revenue and concurrent users



Source: Gametrics, Company data, KDB Daewoo Securities Research

Figure 15. Blade & Soul: Revenue and concurrent users



Source: Gametrics, Company data, KDB Daewoo Securities Research

Table 5. Earnings forecasts for global internet companies

(US\$m, %)

	Market cap	Revenue			Operating profit			OP margin			Net profit			Net margin			EPS		
		14(F)	15F	16F	14(F)	15F	16F	14(F)	15F	16F	14(F)	15F	16F	14(F)	15F	16F	14(F)	15F	16F
NCsoft	3,351	797	803	875	264	277	316	33.2	34.4	36.1	218	230	263	27.4	28.6	30.1	10.7	12.1	
Neowiz Games	414	191	225	251	28	53	62	14.7	23.8	24.8	43	36	43	22.4	16.1	16.9	0.6	1.6	1.9
NHN Ent.	1,215	529	595	665	11	4	49	2.1	0.6	7.3	48	16	56	9.1	2.7	8.4	1.1	3.2	
Gamevil	718	138	194	230	11	24	36	7.8	12.6	15.5	22	40	50	15.9	20.6	21.8	2.9	5.8	7.2
Com2uS	1,732	223	321	346	96	143	154	43.1	44.6	44.3	75	116	124	33.8	36.2	35.9	6.1	11.6	12.4
WeMade	570	155	180	226	-30	3	29	-19.3	1.8	13.0	203	9	32	131.5	5.2	14.3	-1.1	0.5	1.9
Nexon	4,077	1,638	1,498	1,560	431	493	508	26.3	32.9	32.5	278	336	349	17.0	22.4	22.4	0.6	0.8	0.8
Activision Blizzard	16,855	4,408	4,439	4,832	1,183	1,360	1,637	26.8	30.6	33.9	835	889	861	18.9	20.0	17.8	1.1	1.2	1.5
Electronic Arts	17,568	4,284	4,536	4,711	992	1,087	1,249	23.2	24.0	26.5	834	851	838	19.5	18.8	17.8	2.4	2.6	3.0
Take-Two	2,094	1,707	1,541	1,722	246	200	296	14.4	13.0	17.2	56	96	141	3.3	6.2		1.8	1.4	2.0
Zynga	2,316	690	701	788	-245	-93	25	-35.4	-13.3	3.2	-226	-180	-119	-32.7	-25.7	-15.1	-0.2	0.0	0.0
Gameloft	377	310	258	305	33	-4	21	10.7	-1.4	6.8	10	-2	14	3.2	-0.9	4.6	0.1	0.0	0.2
Glu Mobile	514	223	266	297	2	28	39	0.9	10.4	13.3	8	11	20	3.7	4.2	6.8	0.1	0.3	0.3
Nintendo	15,716	4,539	4,338	4,084	212	261	238	4.7	6.0	5.8	310	195	171	6.8	4.5	4.2	2.6	1.5	1.3
Sega Sammy	3,968	3,056	3,141	3,294	146	217	317	4.8	6.9	9.6	-102	132	195	-3.3	4.2	5.9	-0.4	0.5	0.8
Namco Bandai	4,109	4,500	4,601	4,701	459	485	510	10.2	10.5	10.9	287	304	325	6.4	6.6	6.9	1.3	1.4	1.5
Konami	2,680	1,811	2,083	2,009	124	249	226	6.9	11.9	11.2	76	147	131	4.2	7.0	6.5	0.6	1.1	1.0
DeNA	1,736	1,175	1,213	1,242	209	212	218	17.8	17.5	17.5	126	128	132	10.7	10.5	10.6	1.0	1.0	1.0
Gree	1,337	1,243	830	834	347	182	174	27.9	22.0	20.8	172	8	107	13.8	1.0	12.8	0.1	0.0	0.4
GungHo Online	3,888	1,639	1,239	1,124	893	657	586	54.5	53.0	52.2	587	395	348	35.8	31.9	31.0	0.5	0.4	0.3
Shanda Games	1,578	749	789	-	282	301	-	37.7	38.1		213	223	-	28.4	28.3		-	-	-
Netease.com	13,069	1,888	2,377	2,809	768	901	1,064	40.7	37.9	37.9	767	881	1,035	40.6	37.1	36.9	5.9	6.9	8.2
Tencent	158,383	12,532	15,391	19,298	4,630	5,901	7,468	36.9	38.3	38.7	3,829	4,849	6,207	30.6	31.5	32.2	0.4	0.5	0.7
Kingsoft	2,615	523	773	1,102	85	143	263	16.2	18.5	23.8	119	137	219	22.8	17.7	19.8	0.1	0.1	0.2
Avg.								16.9	19.8	21.9				19.6	13.9	15.8			

Note: Based on Bloomberg consensus as of March 10<sup>th</sup>

Source: Bloomberg, KDB Daewoo Securities Research

Table 6. Valuation comparison of global internet companies

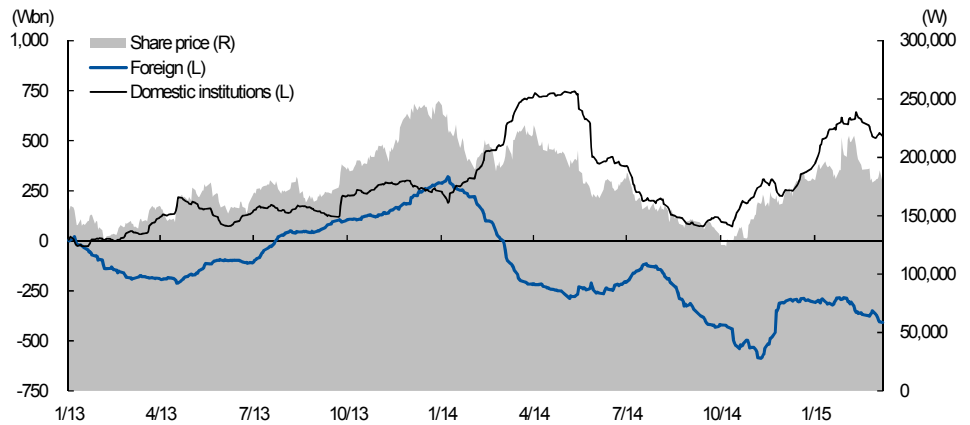
(x, %)

	Market cap	P/E			P/B			P/S			EV/EBITDA			ROE			ROA		
		14(F)	15F	16F	14(F)	15F	16F	14(F)	15F	16F	14(F)	15F	16F	14(F)	15F	16F	14(F)	15F	16F
NCsoft	3,351	-	14.4	12.8	-	2.3	2.0	-	4.2	3.9	-	8.6	7.6	18.4	17.5	17.2	14.5	14.3	14.3
Neowiz Games	414	36.7	11.8	10.0	1.5	1.5	1.3	2.1	1.9	1.7	11.1	6.8	6.1	4.2	13.0	13.6	2.3	9.3	9.9
NHN Ent.	1,215	20.6	56.1	19.7	1.0	1.0	1.0	1.9	2.1	1.8	27.0	52.9	13.6	-	1.5	5.0	-	1.2	4.0
Gamevil	718	40.5	19.2	15.4	4.2	3.4	2.7	6.4	3.7	3.2	50.2	23.5	17.8	11.2	20.5	20.7	10.1	16.9	17.0
Com2uS	1,732	30.2	15.0	14.0	10.0	5.9	4.2	11.0	5.5	5.1	23.6	11.3	10.7	42.8	50.4	35.9	38.6	45.6	33.8
WeMade	570	-	65.4	18.0	2.5	1.6	1.4	3.7	3.2	2.6	-	33.2	16.4	-7.0	3.1	7.2	-5.2	1.5	5.2
Nexon	4,077	17.1	12.4	11.9	1.5	1.4	1.2	2.9	2.7	2.6	6.7	5.7	5.5	9.0	11.7	11.7	6.9	9.4	9.4
Activision Blizzard	16,855	20.5	19.6	16.0	2.3	2.2	1.9	3.8	3.8	3.5	9.2	11.1	9.2	11.9	11.5	12.2	5.8	7.7	8.4
Electronic Arts	17,568	23.8	21.6	19.2	6.8	5.7	4.6	4.1	3.9	3.7	12.7	12.1	11.0	31.9	29.8	32.8	14.2	13.8	15.2
Take-Two	2,094	14.2	18.4	12.6	2.8	2.4	1.9	1.2	1.4	1.2	6.4	7.1	5.2	12.4	9.9	9.6	7.9	5.8	6.8
Zynga	2,316	-	-	254.0	1.2	1.2	1.3	3.2	3.3	2.9	-	123.9	20.1	-12.0	-3.4	-0.3	-9.8	-2.6	0.5
Gameloft	377	60.7	-	28.9	2.5	2.6	2.4	1.4	1.5	1.3	-	25.8	9.1	4.1	-3.1	6.7	2.9	-	-
Glu Mobile	514	51.7	18.9	13.9	3.0	3.1	2.6	2.0	1.9	1.7	35.1	13.4	9.8	8.2	15.3	22.0	4.8	10.5	15.2
Nintendo	15,716	43.6	73.7	83.8	1.4	1.4	1.4	3.5	3.6	3.9	27.9	29.3	30.4	3.5	1.7	1.3	2.8	1.6	1.4
Sega Sammy	3,968	-	28.2	19.0	1.3	1.3	1.3	1.3	1.3	1.2	9.9	7.5	6.4	-3.6	5.0	6.0	6.1	4.1	4.6
Namco Bandai	4,109	14.5	13.7	12.7	1.7	1.5	1.4	0.9	0.9	0.9	5.0	4.8	4.6	11.9	11.4	11.3	9.8	9.4	9.9
Konami	2,680	33.6	17.3	19.4	1.4	1.3	1.2	1.5	1.3	1.4	12.2	7.8	8.6	4.0	7.2	6.1	3.3	5.8	5.1
DeNA	1,736	12.0	11.9	11.7	1.2	1.1	1.0	1.5	1.4	1.4	5.1	5.1	5.1	10.4	9.2	8.5	8.6	7.4	6.7
Gree	1,337	46.9	131.0	12.5	1.5	1.3	1.3	1.5	1.6	1.6	-	4.1	4.4	3.1	0.8	9.2	2.3	5.7	7.7
GungHo Online	3,888	7.6	9.7	10.7	3.7	2.8	2.3	2.7	3.2	3.5	3.9	4.5	5.1	61.0	29.1	20.0	43.3	25.4	18.4
Shanda Games	1,578	-	-	-	1.4	1.1	-	2.1	2.0	-	5.1	4.9	-	20.4	17.5	-	-	-	-
Netease.com	13,069	17.1	14.5	12.2	3.5	2.8	2.4	6.9	5.5	4.7	12.1	10.1	8.4	21.6	21.4	20.9	17.2	17.2	16.9
Tencent	158,383	41.1	31.0	24.2	12.2	9.2	6.8	12.6	10.3	8.2	28.7	22.5	17.8	33.8	32.0	30.6	19.1	19.5	19.8
Kingsoft	2,615	23.2	19.2	12.1	3.5	3.0	2.4	5.0	3.4	2.4	20.8	13.2	7.2	17.0	16.3	24.2	9.9	9.2	13.2
Avg.		29.2	29.7	28.9	3.1	2.5	2.2	3.6	3.1	2.8	16.4	18.7	10.5	13.8	13.7	14.5	9.8	10.9	11.1

Note: Based on Bloomberg consensus as of March 10<sup>th</sup>

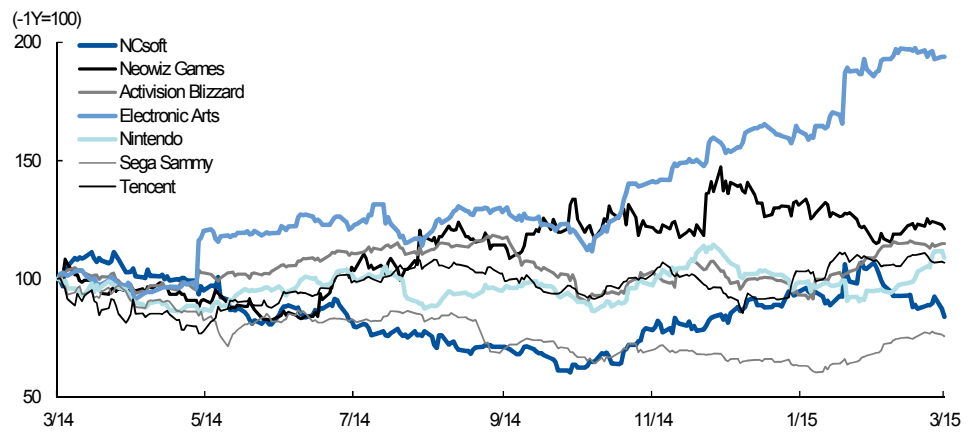
Source: Bloomberg, KDB Daewoo Securities Research

Figure 16. Fund flows: Net buying of NCsoft shares



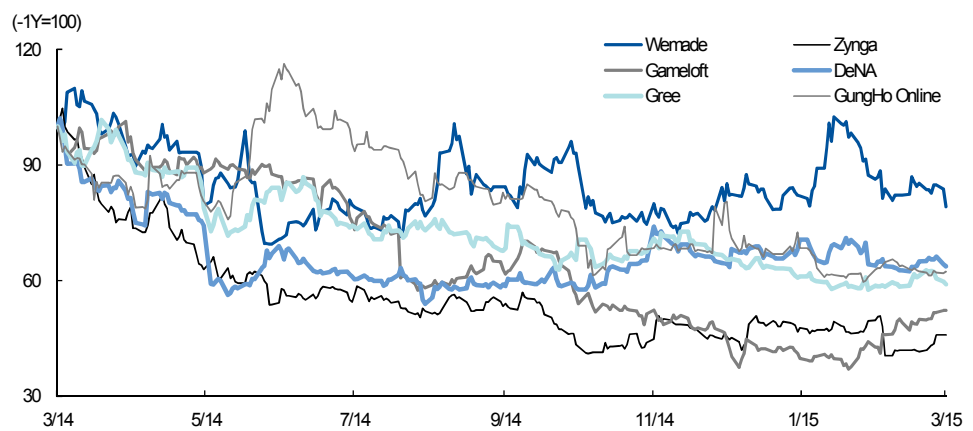
Source: QuantiWise, KDB Daewoo Securities Research

Figure 17. PC/console game developer stock price trends



Source: Thomson Reuters, KDB Daewoo Securities Research

Figure 18. Mobile game developer stock price trends



Source: Thomson Reuters, KDB Daewoo Securities Research



## NCsoft (036570 KS/Buy/TP: W240,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
<b>Revenue</b>	<b>757</b>	<b>839</b>	<b>921</b>	<b>1,067</b>
<b>Cost of Sales</b>	<b>220</b>	<b>220</b>	<b>228</b>	<b>264</b>
<b>Gross Profit</b>	<b>537</b>	<b>619</b>	<b>693</b>	<b>803</b>
<b>SG&amp;A Expenses</b>	<b>331</b>	<b>341</b>	<b>382</b>	<b>450</b>
<b>Operating Profit (Adj)</b>	<b>205</b>	<b>278</b>	<b>311</b>	<b>353</b>
<b>Operating Profit</b>	<b>205</b>	<b>278</b>	<b>311</b>	<b>353</b>
<b>Non-Operating Profit</b>	<b>11</b>	<b>11</b>	<b>33</b>	<b>36</b>
Net Financial Income	16	22	29	36
Net Gain from Inv in Associates	4	4	5	5
Pretax Profit	216	289	344	389
Income Tax	58	61	65	87
Profit from Continuing Operations	159	227	279	303
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>159</b>	<b>227</b>	<b>279</b>	<b>303</b>
Controlling Interests	159	228	279	303
Non-Controlling Interests	0	0	0	0
<b>Total Comprehensive Profit</b>	<b>148</b>	<b>227</b>	<b>279</b>	<b>303</b>
Controlling Interests	151	232	284	308
Non-Controlling Interests	-3	-4	-5	-6
EBITDA	241	309	338	376
FCF (Free Cash Flow)	135	279	328	365
EBITDA Margin (%)	31.8	36.8	36.7	35.2
Operating Profit Margin (%)	27.1	33.1	33.8	33.1
Net Profit Margin (%)	21.0	27.2	30.3	28.4

## Cash Flows (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Cash Flows from Op Activities	236	279	328	365
Net Profit	159	227	279	303
Non-Cash Income and Expense	99	68	61	72
Depreciation	29	25	22	20
Amortization	6	5	5	4
Others	64	38	34	48
Chg in Working Capital	-16	21	22	39
Chg in AR & Other Receivables	-9	-9	-9	-16
Chg in Inventories	1	0	0	0
Chg in AP & Other Payables	1	1	1	1
<b>Income Tax Paid</b>	<b>-26</b>	<b>-61</b>	<b>-65</b>	<b>-87</b>
Cash Flows from Inv Activities	-214	-63	-63	-111
Chg in PP&E	-101	0	0	0
Chg in Intangible Assets	-1	0	0	0
Chg in Financial Assets	-112	-63	-63	-111
<b>Others</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cash Flows from Fin Activities	-17	-12	-68	-84
Chg in Financial Liabilities	-15	0	0	0
Chg in Equity	1	0	0	0
Dividends Paid	-12	-12	-68	-84
<b>Others</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>0</b>
Increase (Decrease) in Cash	0	202	194	166
Beginning Balance	123	123	326	520
<b>Ending Balance</b>	<b>123</b>	<b>326</b>	<b>520</b>	<b>686</b>

Source: Company data, KDB Daewoo Securities Research estimates

## Statement of Financial Condition (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
<b>Current Assets</b>	<b>786</b>	<b>1,061</b>	<b>1,327</b>	<b>1,621</b>
Cash and Cash Equivalents	123	326	520	686
AR & Other Receivables	83	93	102	118
Inventories	1	1	1	1
Other Current Assets	579	641	704	816
<b>Non-Current Assets</b>	<b>694</b>	<b>668</b>	<b>646</b>	<b>631</b>
Investments in Associates	23	25	28	32
Property, Plant and Equipment	248	223	200	181
Intangible Assets	112	107	102	98
<b>Total Assets</b>	<b>1,480</b>	<b>1,729</b>	<b>1,973</b>	<b>2,252</b>
<b>Current Liabilities</b>	<b>252</b>	<b>279</b>	<b>306</b>	<b>354</b>
AP & Other Payables	23	25	27	32
Short-Term Financial Liabilities	3	3	3	3
Other Current Liabilities	226	251	276	319
<b>Non-Current Liabilities</b>	<b>69</b>	<b>76</b>	<b>83</b>	<b>95</b>
Long-Term Financial Liabilities	5	5	5	5
Other Non-Current Liabilities	64	71	78	90
<b>Total Liabilities</b>	<b>321</b>	<b>355</b>	<b>389</b>	<b>449</b>
<b>Controlling Interests</b>	<b>1,141</b>	<b>1,357</b>	<b>1,567</b>	<b>1,786</b>
Capital Stock	11	11	11	11
Capital Surplus	221	221	221	221
Retained Earnings	1,017	1,232	1,443	1,661
<b>Non-Controlling Interests</b>	<b>18</b>	<b>17</b>	<b>17</b>	<b>17</b>
<b>Stockholders' Equity</b>	<b>1,159</b>	<b>1,374</b>	<b>1,584</b>	<b>1,803</b>

## Forecasts/Valuations (Summarized)

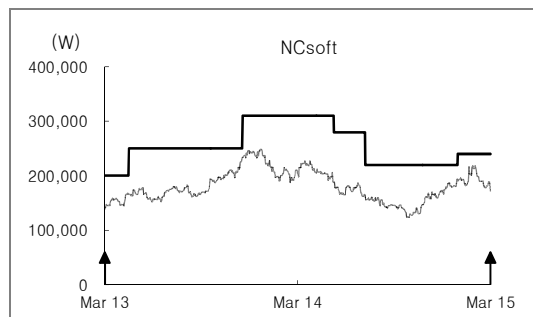
	12/13	12/14F	12/15F	12/16F
P/E (x)	34.3	17.5	13.5	12.4
P/CF (x)	21.1	13.5	11.1	10.0
P/B (x)	4.4	2.7	2.3	2.0
EV/EBITDA (x)	19.9	10.0	7.7	6.2
EPS (W)	7,245	10,378	12,710	13,806
CFPS (W)	11,778	13,460	15,472	17,068
BPS (W)	56,765	66,560	76,146	86,123
DPS (W)	600	3,430	3,830	4,230
Payout ratio (%)	7.5	30.1	30.1	30.6
Dividend Yield (%)	0.2	1.9	2.2	2.5
Revenue Growth (%)	0.4	10.8	9.8	15.9
EBITDA Growth (%)	26.8	28.2	9.4	11.2
Operating Profit Growth (%)	35.8	35.6	11.9	13.5
EPS Growth (%)	1.8	43.2	22.5	8.6
Accounts Receivable Turnover (x)	9.6	9.8	9.7	10.0
Inventory Turnover (x)				
Accounts Payable Turnover (x)	30.9	27.7	26.1	26.8
ROA (%)	11.4	14.2	15.1	14.3
ROE (%)	14.8	18.2	19.1	18.1
ROIC (%)	42.6	101.7	146.9	218.9
Liability to Equity Ratio (%)	27.7	25.8	24.5	24.9
Current Ratio (%)	311.9	380.6	433.8	458.3
Net Debt to Equity Ratio (%)				
Interest Coverage Ratio (x)				

# APPENDIX 1

## Important Disclosures & Disclaimers

### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
NCsoft (036570)	01/07/2015	Buy	240,000
	07/16/2014	Buy	220,000
	05/18/2014	Buy	280,000
	11/26/2013	Buy	310,000
	04/25/2013	Buy	250,000
	02/26/2013	Buy	200,000



### Stock Ratings

Buy : Relative performance of 20% or greater  
 Trading Buy : Relative performance of 10% or greater, but with volatility  
 Hold : Relative performance of -10% and 10%  
 Sell : Relative performance of -10%

### Industry Ratings

Overweight : Fundamentals are favorable or improving  
 Neutral : Fundamentals are steady without any material changes  
 Underweight : Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

\* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

\* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

\* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

\* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

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