

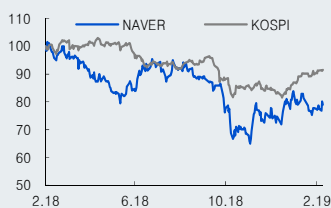
Internet

Company Report
February 28, 2019

(Maintain)	Buy
Target Price (12M, W)	176,000
Share Price (02/27/19, W)	129,500
Expected Return	36%

OP (18P, Wbn)	942
Consensus OP (18F, Wbn)	963
EPS Growth (18P, %)	-17.5
Market EPS Growth (18F, %)	4.7
P/E (18P, x)	31.5
Market P/E (18F, x)	9.3
KOSPI	2,234.79
Market Cap (Wbn)	21,343
Shares Outstanding (mn)	165
Free Float (%)	78.8
Foreign Ownership (%)	59.5
Beta (12M)	0.77
52-Week Low	106,500
52-Week High	164,000

(%)	1M	6M	12M
Absolute	-0.4	-15.8	-19.5
Relative	-2.9	-13.4	-11.5



Mirae Asset Daewoo Co., Ltd.

[Internet]

Chang-kwean Kim
+822-3774-1614
changkwean.kim@miraeasset.com

NAVER

(035420 KS)

E-commerce: Battle between NAVER and Coupang

Investor attention to shift to new trends in 2019

These days, many people are weighing whether to subscribe to video and music streaming services that have become more diverse, but also more expensive. People also have diverse choices when it comes to transportation, such as calling Kakao Taxi or Tada. As we move into late 2019, we think people will increasingly mull over whether to use credit cards or simplified payments when making purchases, both online and offline.

For global equity investors, the debate is no longer about whether to buy into the ad model of Facebook (FB US/CP: US\$162.81) or the e-commerce business model of Amazon (AMZN US/CP: US\$1,641.09). Global fund managers are now considering whether they should invest in sharing economy (mobility) platforms like Uber, Lyft, and Didi Chuxing, which are preparing for what look to be astonishingly expensive IPOs.

Empty storefronts not entirely due to slowing economy

In 2018, roughly one out of every four items was bought online. In 2019, that number has increased to nearly one out of three. While retail giants like Lotte and Shinsegae are going all-in on e-commerce this year, we believe the market right now is largely a battle between NAVER (a host platform for C2C shopping malls) and Coupang (which is centered on B2C). In 2018, gross merchandise volume (GMV) grew more than 50% for NAVER's Smartstore and 70% for Coupang.

In 2019, we expect NAVER Shopping to become Korea's no. 1 e-commerce player in terms of GMV (including Smartstore and purchases made via NAVER search), backed by its advantage as the dominant platform for product searches. Moreover, unlike other companies, NAVER's e-commerce revenue comes from ad revenues that are essentially cost-free.

Time to rethink valuation of e-commerce; maintain TP of W176,000

We believe LINE will continue to have a neutral impact on NAVER's shares this year, given worries about rising costs related to new businesses. However, we also think the market will begin to rethink the valuation of NAVER's e-commerce business in 2019, as we are fast-approaching a world where almost one out of two items will be purchased online.

NAVER's e-commerce business looks steeply undervalued compared to peers, including: 1) Coupang, which reportedly has been valued at around W10tr; 2) Cafe24 (042000KQ/Buy/TP: W156,000/CP: W127,000), which has a market value of W1.3tr; and 3) Alibaba (BABA US/ US\$184.58), which is worth hundreds of trillions of won.

We maintain our Buy rating and target price of W176,000 on NAVER. Our target price is based on: 1) a 30% discount to the market value of LINE on the Tokyo Stock Exchange; and 2) a P/E of 21.6x—the weighted average multiple of global ad and e-commerce firms—our 2019 non-consolidated net profit forecast for the domestic NAVER business.

FY (12)	12/15	12/16	12/17	12/18P	12/19F	12/20F
Revenue (Wbn)	3,254	4,023	4,678	5,587	6,505	7,521
OP (Wbn)	830	1,102	1,179	942	920	1,055
OP margin (%)	25.5	27.4	25.2	16.9	14.1	14.0
NP (Wbn)	519	749	773	638	606	680
EPS (W)	3,147	4,546	4,689	3,871	3,677	4,126
ROE (%)	26.5	26.2	18.5	12.6	10.7	10.9
P/E (x)	41.8	34.1	37.1	31.5	35.2	31.4
P/B (x)	6.8	5.2	4.8	3.1	3.0	2.8
Dividend yield (%)	0.2	0.1	0.2	0.2	0.2	0.2

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

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I. E-commerce market

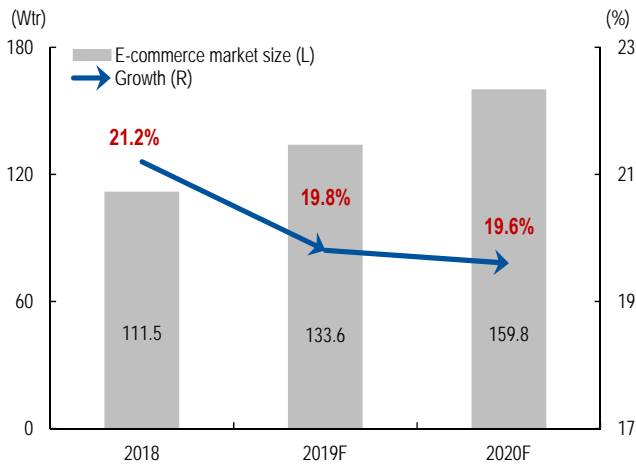
Korea set to spearhead global e-commerce market in 2019

We believe the Korean e-commerce market is opening a new chapter in its growth story in 2019. According to Statistics Korea, the Korean e-commerce market reached W111.5tr (+21.2% YoY) in 2018 and is likely to continue to expand rapidly, with a growth rate estimated at 19.8% YoY in 2019 and 19.6% YoY in 2020.

The Korean e-commerce market is expanding in both size and as a percentage of total retail spend. The penetration rate of e-commerce (i.e., internet and electronic shopping) is projected to increase from 24.1% in 2018 to 27.3% in 2019 and 31% in 2020 (see Figure 2).

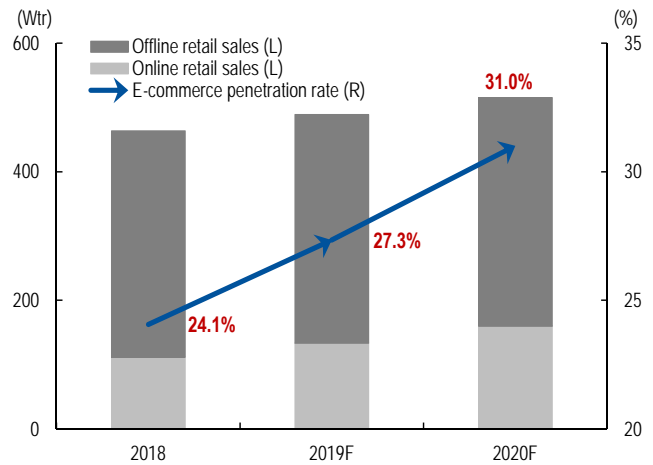
Notably, Korea is making the world's fastest transition from offline to e-commerce retail. Korea recorded the highest e-commerce penetration rate among major markets in 2018 (see Figure 3), becoming an e-commerce leader that can provide insight into future consumption patterns in major markets around the world.

Figure 1. Korean e-commerce market size and growth forecasts



Source: Statistics Korea, Postal Service Research Center, Mirae Asset Daewoo Research

Figure 2. Korean market size and e-commerce penetration rate



Source: Statistics Korea, Postal Service Research Center, Mirae Asset Daewoo Research

Figure 3. Global e-commerce penetration rate in 2018



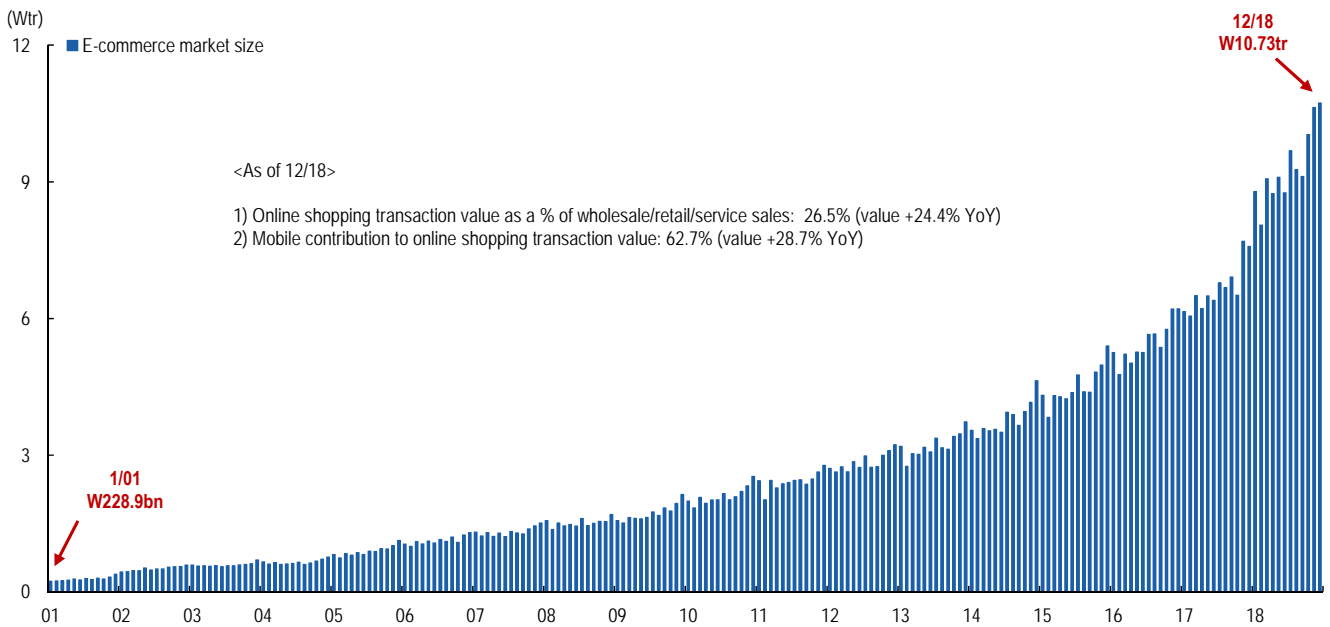
Note: Penetration is defined as percentage of online sales over total retail sales
 Source: eMarketer, Statista, SCMP, Tech in Asia, CNC, national statistical offices, Mirae Asset Daewoo Research

When e-commerce began to emerge in Korea, the most commonly purchased items online were standardized products such as books and consumer electronics, whose prices can be quickly checked for comparison. The initial business model was B2C, where retailers carry inventory and offer a limited range of products and services online (see Figure 5).

As Korea's e-commerce market grew to include small-batch products such as clothing, which are produced on small scale to meet changes in market trends and varied consumer preferences, the C2C model became mainstream, allowing users to buy and sell a broad range of products.

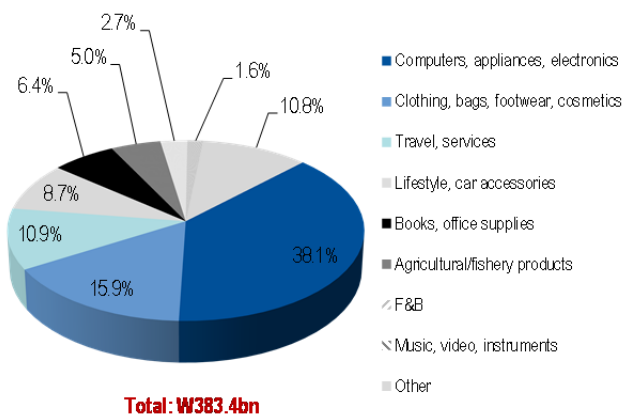
Today, the scope of online shopping has further expanded to include anything from travel to transportation, food and beverage, and dining (see Figure 6). We believe Korea has embraced all forms of online shopping, as exemplified by Coupang (a B2C leader which also has a foot in the C2C market), NAVER (a C2C marketplace which hosts platform for other C2C shopping malls, such as Gmarket and Coupang), retail giants (Lotte and Shinsegae), and SK Telecom, and the country is likely to set the future direction for the global e-commerce market.

Figure 4. Korean e-commerce market size by month



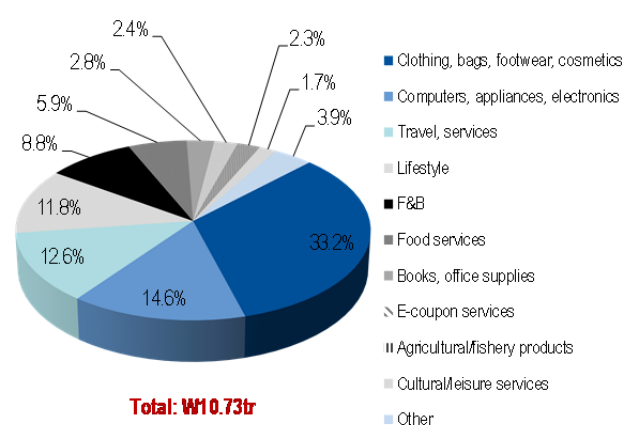
Source: Statistics Korea, Mirae Asset Daewoo Research

Figure 5. Korean online shopping by category at end-2001



Source: Statistics Korea, Mirae Asset Daewoo Research

Figure 6. Korean online shopping by category at end-2018



Source: Statistics Korea, Mirae Asset Daewoo Research

II. C2C vs B2C

C2C-centered NAVER and B2C-oriented Coupang

Amazon, a leading B2C shopping mall, commands more than 60% of the US e-commerce market, with 65% of Amazon’s GMV coming from its own private-label offerings and 35% from marketplace sellers. Alibaba, a C2C shopping mall with an advertising-based revenue model, is a dominant player in the Chinese mobile shopping market with a share of 85%.

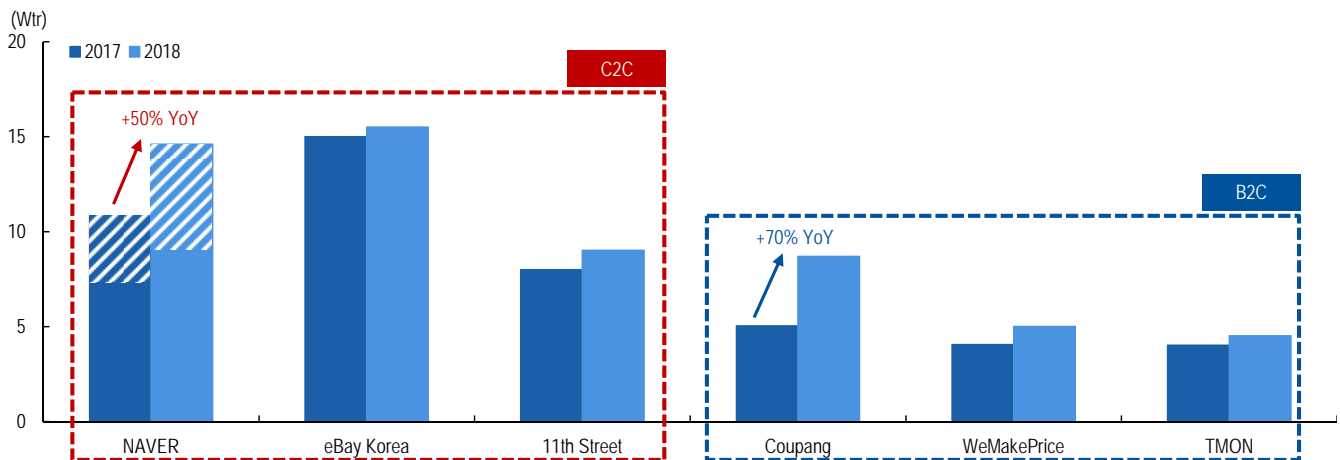
Recently, we identified a new development in the Korean e-commerce market. NAVER and Coupang recorded robust GMV growth in 2018, but their rivals displayed relatively slow growth in GMV (see Figure 7).

NAVER Shopping’s margin improves in tandem with GMV growth, as the C2C shopping mall has an advertising-based revenue model that charges sales commissions both on Smartstore and purchases made via NAVER search.

Based on Smartstore, NAVER’s GMV expanded more than 50% YoY in 2018. Factoring in purchases made via NAVER search, NAVER’s GMV is nearing that of eBay Korea, Korea’s no. 1 e-commerce player.

We estimate NAVER’s total GMV (including Smartstore and purchases made via NAVER search) expanded 50% YoY in 2016, 30% YoY in 2017, and 28% in 2018.

Figure 7. GMV by Korean online shopping mall (2017-2018)



Note 1: The striped area is based on Smartstore’s GMV. Smartstore is NAVER’s online marketplace for small and medium-sized shopping malls, offline retailers, such as small to medium-sized companies, department stores, discount stores, and overseas direct purchase businesses.

Note 2: Business to consumer (B2C) refers to e-commerce conducted directly between a company and consumers. B2C companies sell their inventories on their own shopping malls. In contrast, customer to customer (C2C) refers to e-commerce activities between customers. C2C platform enables consumers to sell and buy products from other consumer, as is the case with Gmarket, 11street and flea markets.

Source: Media reports, Mirae Asset Daewoo Research

E-commerce transactions take place in two stages: 1) commerce, characterized by product search and purchase; and 2) delivery of customer orders, mostly covered by third-party parcel delivery service providers.

C2C companies have sought to yield high-quality search results by attracting high-performing sellers and developing extensive product databases. Through inducements such as promotional coupons and discounts, C2C companies hope to make their websites more competitive, and thus attract consumers.

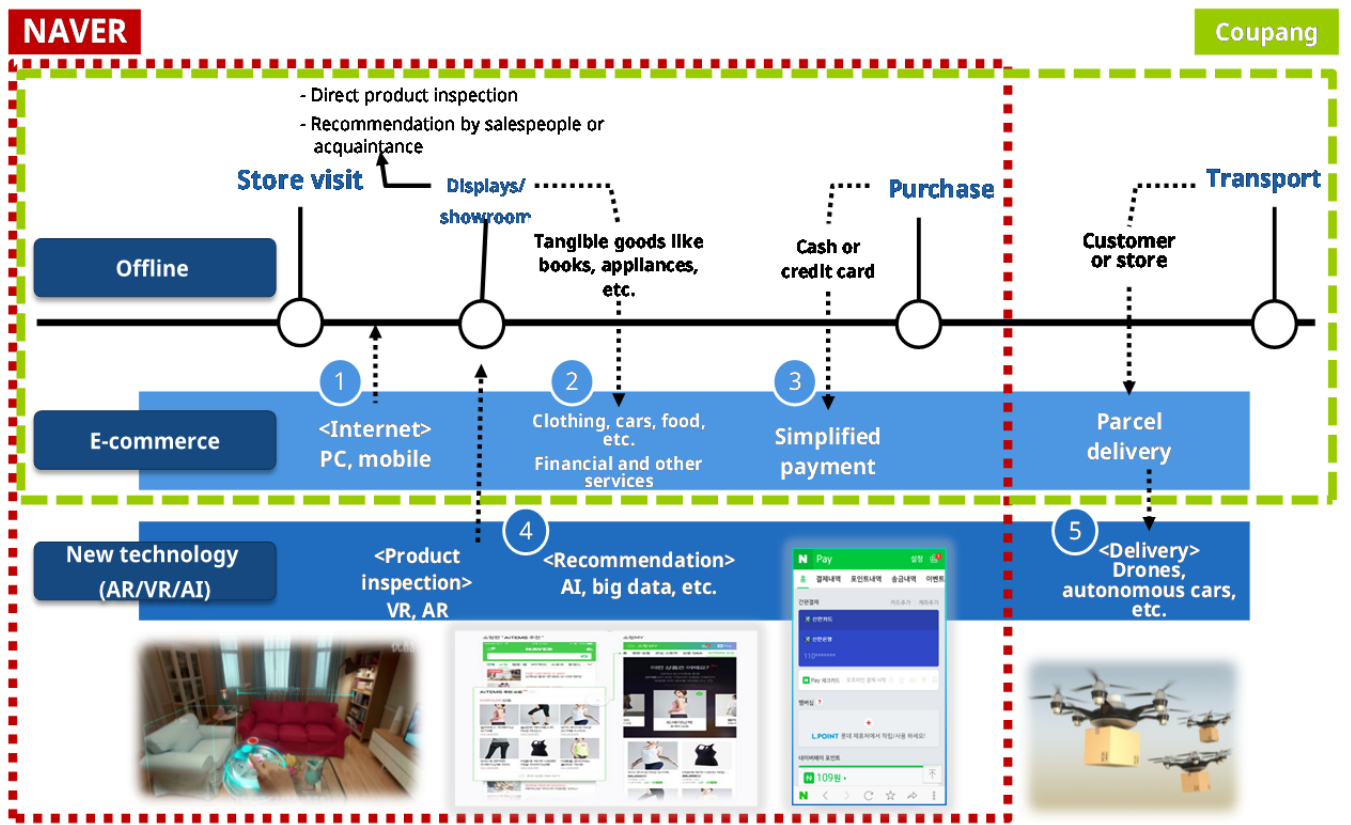
Coupage covers both commerce and delivery stages. Armed with Coupang Fulfillment Services (CFS) and its own fleet of delivery agents, known as Coupang Men, Coupang launched Rocket Delivery (overnight shipping service) in 2014. Coupang's GMV and delivery volume have surged since October 2018 with the introduction of the Rocket WoW Club, which offers unlimited overnight shipping service for a monthly membership fee of ₩2,900.

Leveraging its competitiveness in product searches, NAVER has increased the number of its marketplace sellers and diversified its services to include direct shipping from fresh food producers, direct purchase from overseas, and tourism. NAVER also provides a product database, enabling consumers to make a product comparison across shopping malls, such as Coupang, 11street, and Gmarket.

Consumers can search almost all products and services available on the Korean e-commerce market through NAVER and make simple payment with NAVER Pay.

Coupang has secured strong competitiveness in the quality and speed of delivery service. Currently, Coupang ships 5.12mn-5.13mn SKUs, which are available for overnight delivery, directly to consumers through its logistics networks in 60 locations nationwide and fulfillment centers in Incheon and Deokpyeong. In 2017, Coupang generated 88% of total GMV from its directly sourced products.

Figure 8. E-commerce by stage



Source: Mirae Asset Daewoo Research

NAVER, a host platform for C2C

We divided Smartstore's GMV into two according to its source: Smartstore sellers (40%) and products searched via NAVER and purchased through other e-commerce services, such as Coupang, Gmarket, and 11street (60%) (see Figure 7).

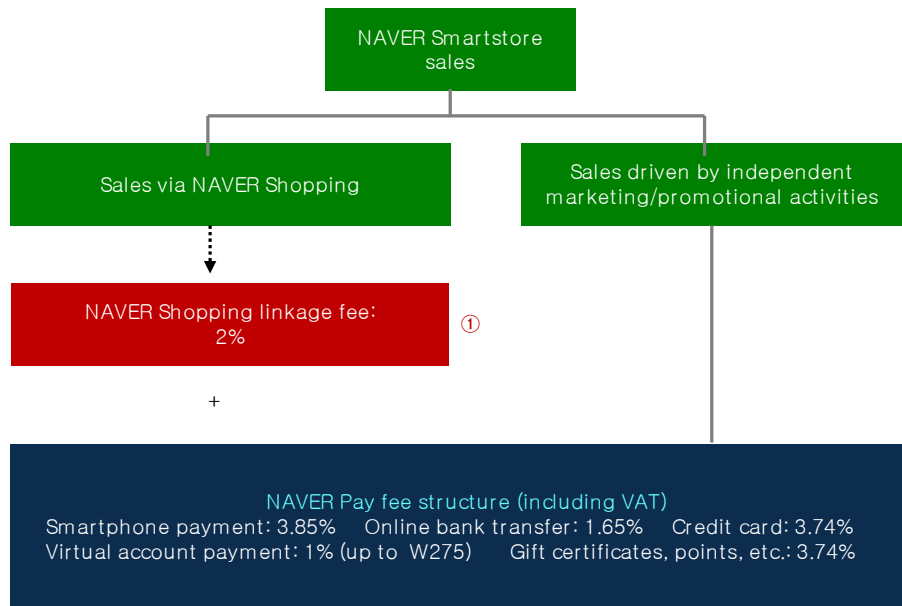
We believe NAVER Pay, NAVER's simple payment system, which facilitates purchase transactions after product search, serves as a new growth driver. The number of Smartstore sellers increased from 100,000 in 1Q17 to 240,000 in 4Q18; meanwhile, NAVER Pay's merchants increased from 200,000 in 1Q18 to 260,000 in 4Q18.

In 2018, NAVER reported a 63.4% YoY increase in IT platform revenue, which includes NAVER Pay's fee income that reflects the growth of NAVER's e-commerce. The government is set to deregulate the simple payment market from 2H19, by allowing simple payment platforms such as NAVER Pay to offer credit payment options, lift the reload limit, and provide public transit payment services.

For online shopping businesses, Smartstore's key advantage is low fees (see Table 1). Instead of charging entry fees, registration fees, and sales charges, Smartstore charges a sales commission of 2%, when purchases are made via NAVER Shopping search (see Figure 9, ①).

If purchases are made as result of sellers' own marketing and PR activities, only payment fees are charged (see Figure 9, ②). When payment is made through Shopping MY>Cart, only NAVER Pay fees are charged (see Table 2).

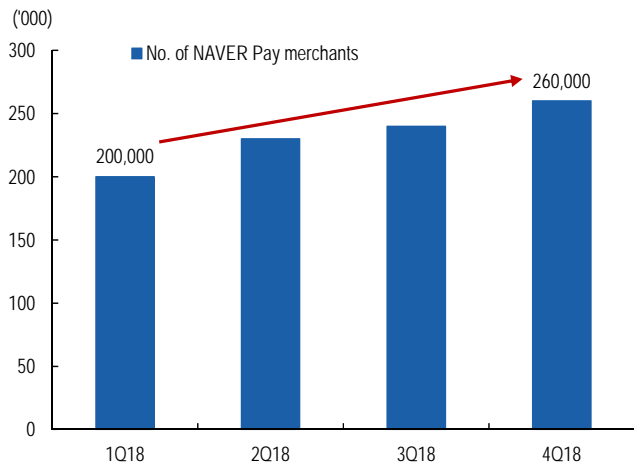
Figure 9. Smartstore's fee structure



Note: When purchases are made via NAVER Shopping search, a sales commission of 2% is charged (①); when purchases are made as result of sellers' own marketing and PR activities, only payment fees are charged (②); when purchases are made via mobile payment after NAVER Shopping search, max. 5.85% fees are charged (①+②)

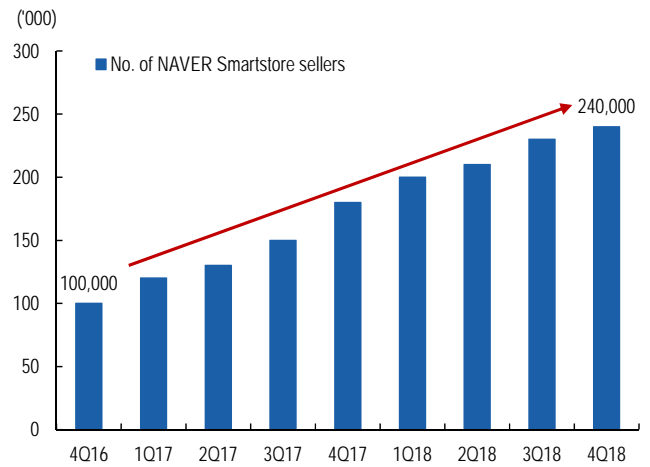
Source: Smartstore Marketing, Mirae Asset Daewoo Research

Figure 10. NAVER Pay merchants (1Q18-4Q18)



Source: NAVER, Mirae Asset Daewoo Research

Figure 11. Smartstore sellers (4Q16-4Q18)



Note: Pre-2018 figures are based on NAVER Shop N and StoreFarm
Source: NAVER, Mirae Asset Daewoo Research

Table 1. Comparison: Smartstore, open market, and personal shopping malls

	Open market	Smartstore	Personal shopping mall
Strength	1) High consumer awareness likely to drive sales 2) No need for maintenance manpower 3) Huge pool of potential customers 4) Possible to sell single product category 5) Open to operate mini-shops	1) No initial system building investments 2) One-stop shopping mall 3) No sales commission; possible to carry low SKUs 4) Convenience (social media channels connected with NAVER Shopping) 5) Optimized for mobile shopping mall	1) Independent marketing and management 2) Prompt response to changes in the environment and customer preferences 3) Well positioned to create shopping malls with unique concept and personality 4) Aggressive marketing and customer database management
Weakness	1) High sales commission (10~12%) 2) Not functional as independent shopping mall 3) Intense competition within the market 4) Unlikely to develop operating knowhow 5) Difficult to build a brand	1) Difficult to differentiate and customize services 2) Need own promotion plans 3) Primarily target NAVER users	1) Need heavy initial investments in system building 2) Need to allocate manpower to system management, production and maintenance 3) Need direct PR and advertising activities 4) Need to enter agreements with payment gateways, card issuers and parcel delivery service providers

Source: Smartstore Marketing, Mirae Asset Daewoo Research

Table 2. NAVER Shopping's fee structure

(W)

payment fee	Channel fee	NAVER Shopping sales commission	Sales charge (Previously)	Amount to be settled	Consumer path to purchase
-29,601	0	0	0	1,764,399	Search>Shopping Search (NAVER Shopping)
-4,487	0	-2399	0	113,104	Search> Shopping Search (channels others than NAVER Shopping)
-4,487	0	0	0	115,503	Search>Shopping Search (NAVER Shopping)
-4,487	0	-2399	0	113,104	Channels others than NAVER Shopping
-4,487	0	-2399	0	113,104	NAVER Pay>Homepage (NAVER Shopping)
-4,487	0	-2399	0	113,104	Search>Shopping Search (NAVER Shopping)
-112	0	-60	0	2,828	Search>Shopping Search (NAVER Shopping)
-4,487	0	-2399	0	113,104	Search>Shopping Search (NAVER Shopping)
-4,487	0	0	0	115,503	Shopping MY>Cart (NAVER Shopping)
-2,318	0	0	0	59,672	Shopping MY>Cart (NAVER Shopping)
-4,487	0	-2399	0	113,104	NAVER Pay>Homepage (NAVER Shopping)
-4,487	0	-2399	0	113,104	NAVER Pay>Homepage (NAVER Shopping)
-275	0	-2399	0	117,316	NAVER Pay>Homepage (NAVER Shopping)

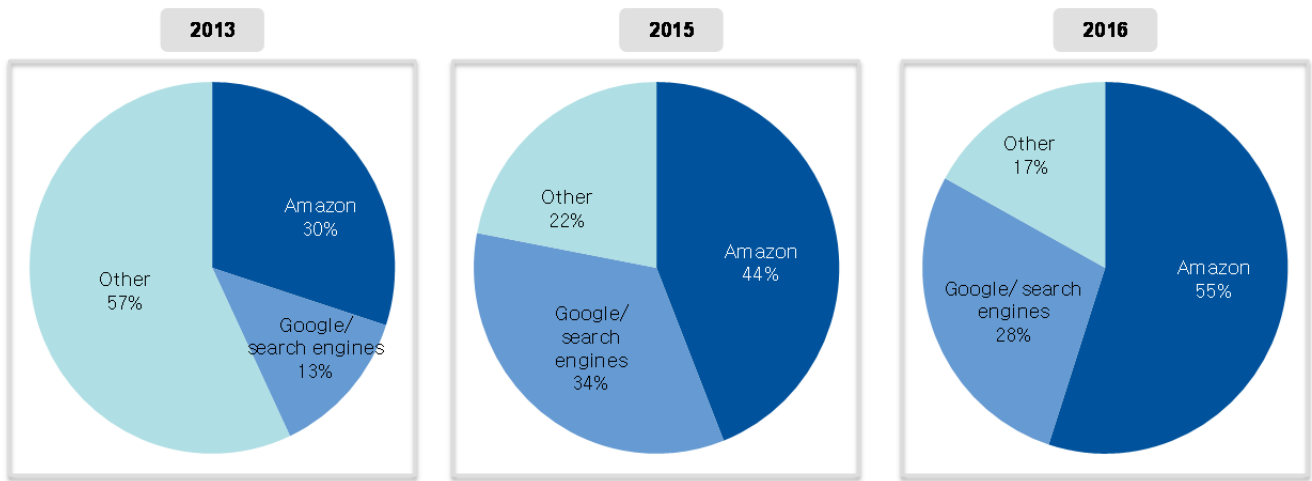
Note: Additional sales commission of 2% imposed when purchases are made after NAVER Shopping search or through NAVER Pay's homepage

Source: Smartstore Marketing, Mirae Asset Daewoo Research

As for NAVER, the company does not incur additional variable costs related to commission (advertising) income. The spending for generating traffic to maintain its search competitiveness is recognized as fixed costs. If NAVER Shopping records W15tr in GMV (from both stores in Smart Store and in external shopping malls), commission income (W300bn, 2% of GMV) and advertising revenue will be recognized as earnings.

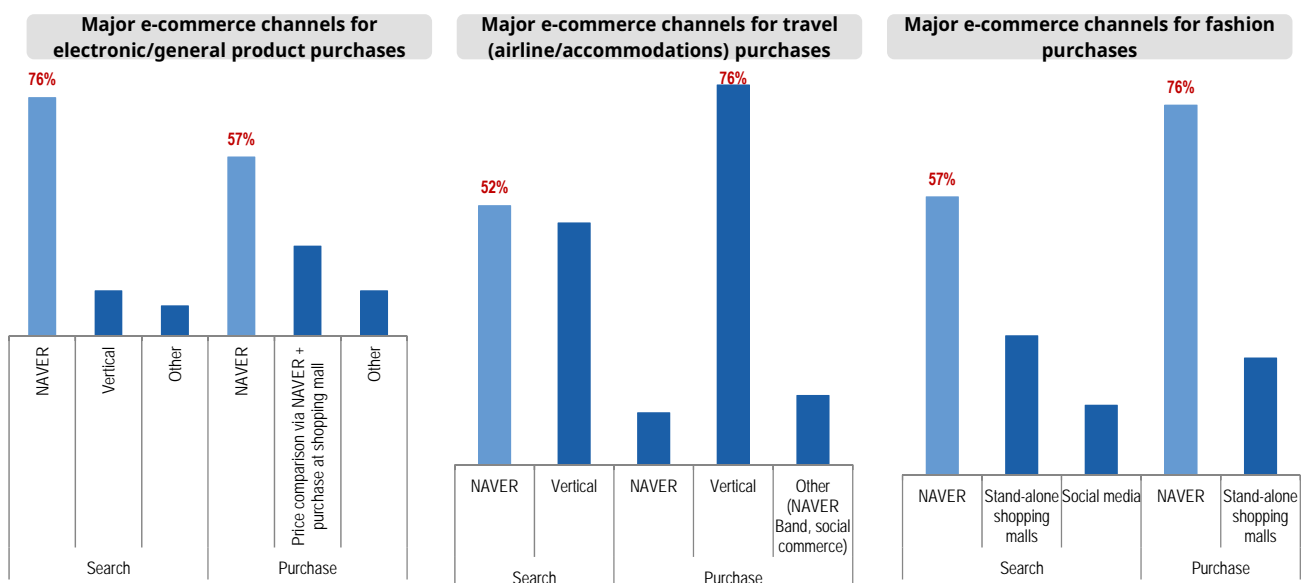
Like Amazon, the strong competitiveness of NAVER Shopping comes from its dominance in product search. Amazon has steadily solidified its leadership in the US e-commerce space by differentiating itself in product offerings, prices, and logistical convenience. Of note, Amazon's share of product searches has continued to expand from 2013 through 2016 (see Figure 12). In Korea, NAVER is by far the first choice of online product searches (see Figure 13).

Figure 12. US e-commerce consumers' product search sources



Source: Bloomberg Intelligence, Mirae Asset Daewoo Research

Figure 13. NAVER's dominance in the Korean e-commerce market



Source: Bloomberg Intelligence, Mirae Asset Daewoo Research

Coupage on path to achieve economies of scale

Coupage has been heavily weighed down by losses, reporting operating loss of W565bn in 2016, W630bn in 2017, and W800bn in 2018.

The company had spent over W10,000 per delivery, factoring in initial capex for direct delivery services (e.g., logistics centers, etc.) and labor costs for in-house delivery personnel (Coupage Man). Recently, the costs are estimated to have declined to W5,000-7,000, but they are still significantly above the cost of third-party logistics (W2,000-2,500 per delivery).

Currently, about 24,000-25,000 employees, including part-time delivery personnel for its crowd delivery system Coupage Flex (3,000 at the head office; 21,000 including logistics-related staff), handle over 5.1mn products for the Rocket Delivery service.

Coupage's daily delivery volume is expected to increase to 1.7mn in February 2019 from an average of 1mn in 2018. In addition, the company has maintained GMV growth of around 70% YoY since 2018.

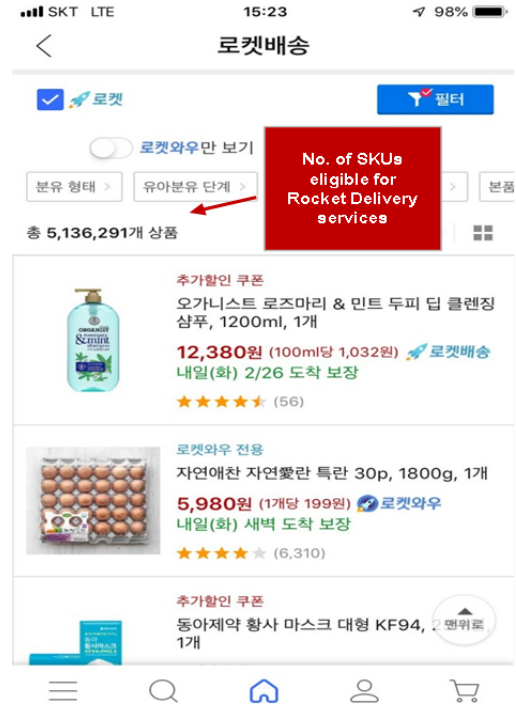
In our view, Coupage could turn to profit once it achieves the economies of scale based on growth in daily delivery volume and it secures additional revenue sources, like advertising income. In an effort to increase volume, the company expanded the coverage of its Coupage Fresh service in January this year. It also resumed the provision of product database to NAVER and launched Coupage Eats.

Figure 14. Coupage launched Rocket Wow service



Note: Rocket Wow is a membership based service for unlimited Rocket Delivery services for a monthly fee of W2,900
 Source: Coupage, Mirae Asset Daewoo Research

Figure 15. Coupage's SKUs for Rocket Delivery



Note: Stock keeping unit (SKU) a distinct type of items for sale and generally refers to a specific item stored to a specific location
 Source: Coupage, Mirae Asset Daewoo Research

Table 3. Coupang's valuation scenario 1

(Wbn)

	2014	2015	2016	2017	2018F	2019F	P/S	Value
Revenue	348.5	1,133.8	1,915.9	2,684.6	5,000	8,000		10,029.2
Merchandise revenue	194.9	990.4	1,704.7	2,459.2	4,661.8	7,492.7	x1	7,492.7
Commission and other revenue	153.6	143.4	211.2	225.5	338.2	507.3	x5	2,536.4
Assumptions	Commission and other revenue growth of 50% in 2018 and 2019							
	Industry average P/S of 1x for direct purchase and 5x for open markets							

Source: Mirae Asset Daewoo Research

Table 4. Coupang's valuation scenario 2

(Wbn)

	2014	2015	2016	2017	2018F	2019F	P/S	Value
Revenue	348.5	1,133.8	1,915.9	2,684.6	5,000	8,000		10,308.7
Merchandise revenue	194.9	990.4	1,704.7	2,459.2	4,639.3	7,422.8	x1	7,422.8
Commission and other revenue	153.6	143.4	211.2	225.5	360.7	577.2	x5	2,885.9
Assumptions	Commission and other revenue growth of 60% in 2018 and 2019							
	Industry average P/S of 1x for direct purchase and 5x for open markets							

Source: Mirae Asset Daewoo Research

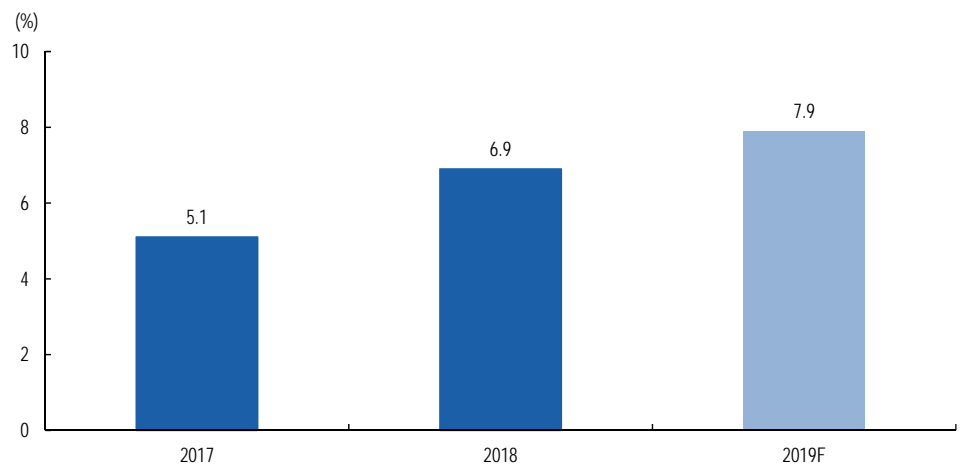
Table 5. Coupang's valuation scenario 3

(Wbn)

	2014	2015	2016	2017	2018F	2019F	P/S	Value
Revenue	348.5	1,133.8	1,915.9	2,684.6	5,000	8,000		10,606.3
Merchandise revenue	194.9	990.4	1,704.7	2,459.2	4,616.7	7,348.4	x1	7,348.4
Commission and other revenue	153.6	143.4	211.2	225.5	383.3	651.6	x5	3,257.9
Assumptions	Commission and other revenue growth of 70% in 2018 and 2019							
	Industry average P/S of 1x for direct purchase and 5x for open markets							

Source: Mirae Asset Daewoo Research

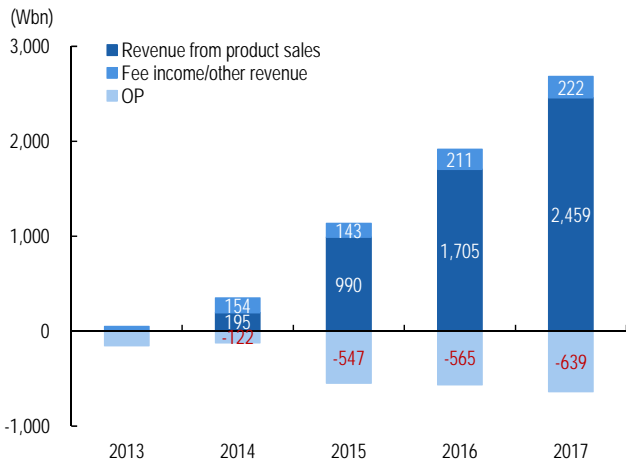
Figure 16. Coupang's e-commerce market share trend



Note: Based on our estimate for Coupang's GMV

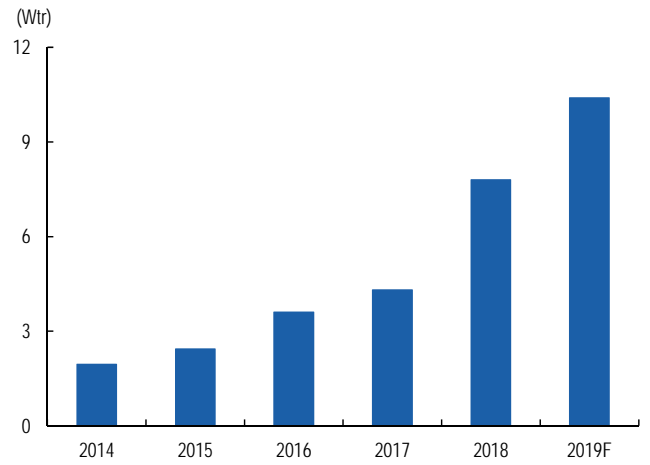
Source: Media reports, Mirae Asset Daewoo Research

Figure 17. Coupang's operating profit trend



Source: DART, Mirae Asset Daewoo Research

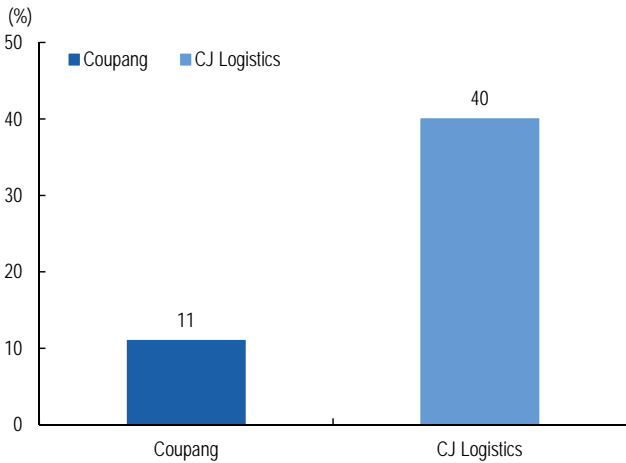
Figure 18. Coupang's GMV trend



Note: 2018 and 2019 GMVs are based on our revenue estimates of W5.5tr in 2018 and W8tr in 2019

Source: Media reports, Mirae Asset Daewoo Research

Figure 19. Parcel delivery market share: Coupang vs. CJ Logistics



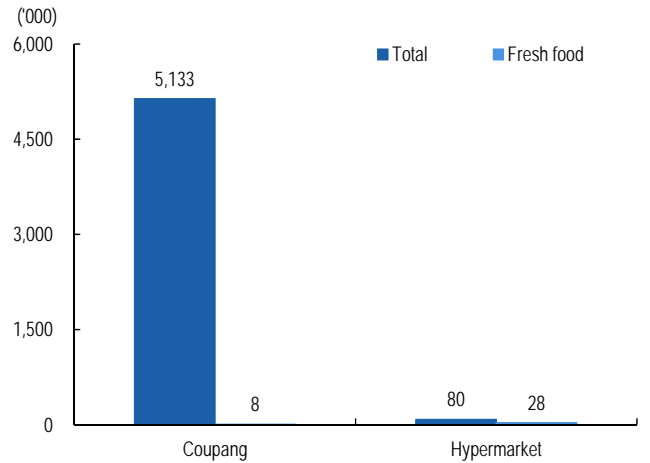
Note 1: Based on parcel delivery volume data in CJ Logistics' IR materials

Note 2: Based on the assumption that CJ Logistics' parcel delivery volume data does not include Coupang's volume

Note 3: Based on the assumption of Coupang's daily delivery volume of 800,000 units

Source: Mirae Asset Daewoo Research

Figure 20. SKU comparison: Coupang vs. hypermarkets



Note 1: Coupang's SKU is based on Rocket Delivery items only

Note 2: Hypermarkets' average SKU is based on our estimate

Source: Mirae Asset Daewoo Research

III. Outlook for LINE

2019 marks beginning of LINE's full-scale expansion into online-only banking

As seen in <Figure 21>, NAVER's shares have been bouncing back, alongside that of LINE, following the LINE Fintech Conference on November 27th. Japan's simplified mobile payment market is expected to grow materially in 2019, fueled by the government's efforts to promote cashless payments ahead of the 2020 Tokyo Olympics.

LINE Pay's transaction volume grew 17.8 times from JPY21bn in 1Q17 to JPY375bn in 4Q18, largely driven by income tax and insurance payments in Taiwan. In Japan, we forecast LINE Pay's transaction volume to grow considerably this year, given its growing merchant network and aggressive marketing.

LINE is moving to establish online-only banks in Japan, Taiwan, and Indonesia (see Figure 26). In November 2018, LINE Financial Taiwan unveiled a consortium for the application of online-only banking license for LINE Bank (in which LINE Financial Taiwan holds a 49.9% stake and a local bank 25.1%).

LINE Financial Asia plans to launch online-only banking services by setting up a joint venture (Kasikorn LINE) with Kasikorn Bank, with LINE Financial Asia expected to own the largest stake. In addition, LINE has recently expanded into the Indonesian financial market by acquiring a 20% stake in KEB Hana Bank's Indonesian subsidiary.

Currently, it is too early to evaluate LINE's expansion into online-only banking services, as this year marks the beginning of the company's new businesses in various countries and thus tangible results are likely to be confirmed in two to three years. For now, the only thing clear about LINE's strategic businesses is the likelihood of margin deterioration stemming from aggressive spending.

During its 4Q18 earning call, LINE guided 2019 marketing expenses of JPY60bn, double the 2018 figure. We expect LINE's shares to fluctuate on the performances and expenses of its new businesses (to be confirmed via quarterly earnings announcements) for the time being. Indeed, in 1Q19, LINE Pay promotion expenses should expand amid fiercer competition with Rakuten Pay and SoftBank's PayPay.

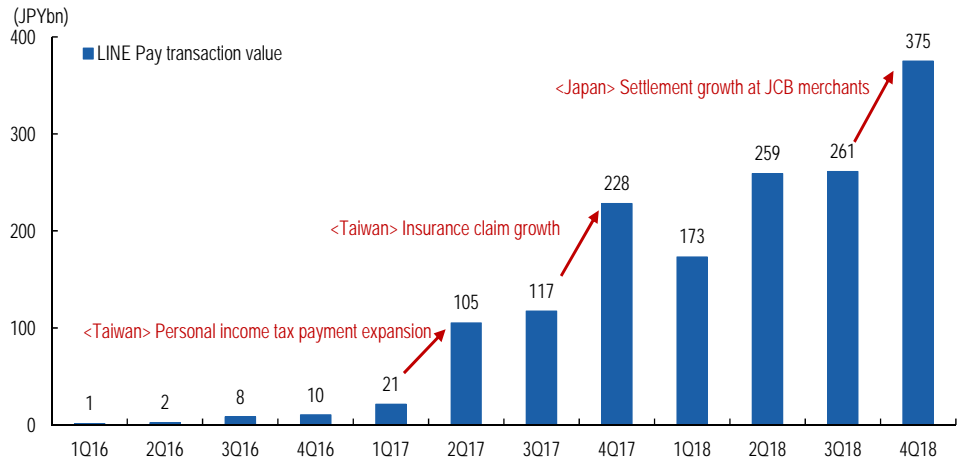
From a short-term perspective, LINE will have a neutral impact on NAVER's consolidated earnings and share price, in light of the combination of increasing expenses and new business expectations.

Figure 21. Relative share performance of NAVER and LINE (Jul. 2016-Feb. 2019)



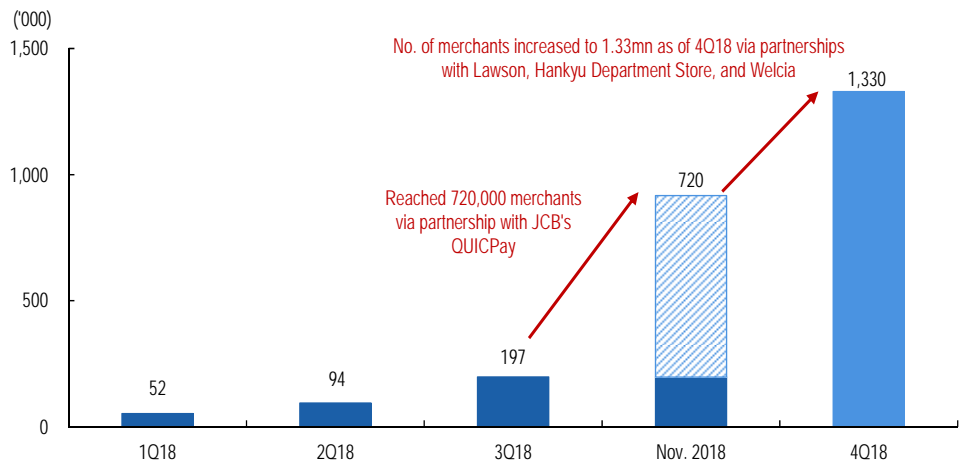
Source: Bloomberg, Mirae Asset Daewoo Research

Figure 22. LINE Pay transaction volume trend (1Q16-4Q18)



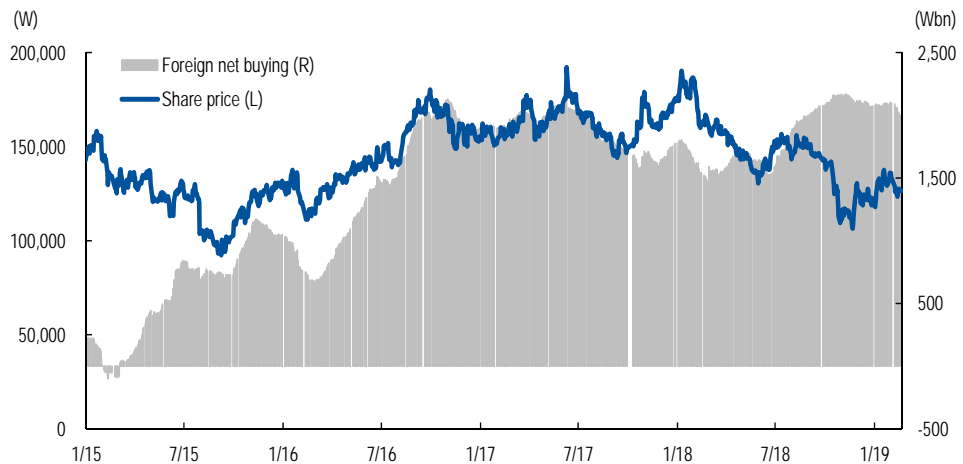
Source: LINE, Mirae Asset Daewoo Research

Figure 23. Number of LINE Pay merchants in Japan (1Q18-4Q18)



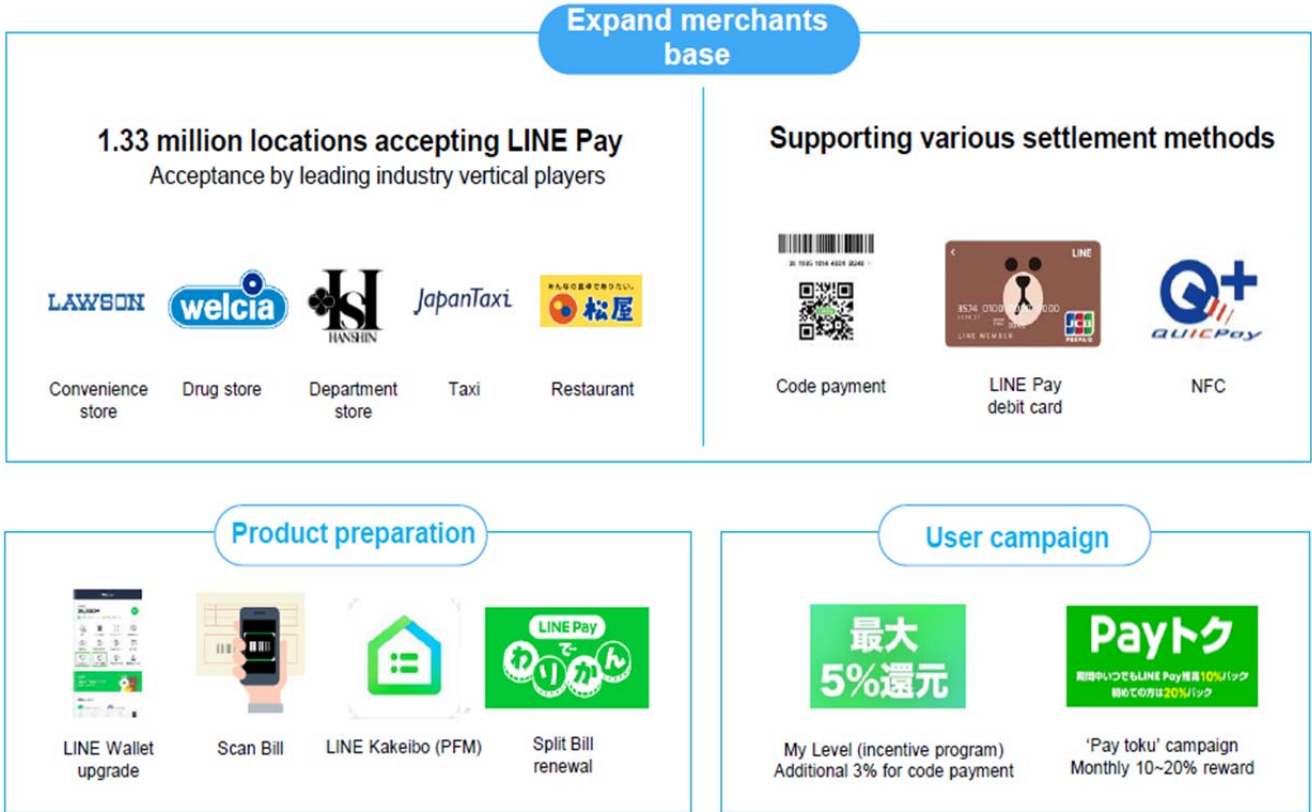
Source: LINE, Mirae Asset Daewoo Research

Figure 24. NAVER's cumulative foreign net buying and LINE's share price



Source: Bloomberg, Mirae Asset Daewoo Research

Figure 25. Growth of LINE Pay in Japan



Source: LINE, Mirae Asset Daewoo Research

Figure 26. LINE's global financial services

	Investment	Insurance	Scoring	Loan	Bank			Blockchain related business			
Service name	LINE スマート投資	LINE 証券	LINE ほけん	LINE スコア	LINE ポケットマネー	LINE Bank (temp)			BITBOX	Preparing	
Country											
Strategic partner	folio	NOMURA	東京海上火災保険	+	MIZUHO Orico	MIZUHO	Fubon Bank and other five partners	KASIKORN BANK	KEB Hana Bank	-	NOMURA
Service release	October 2018	2019 (plan)	October 2018	2019 1H (plan)	2019 1H (plan)	Preparing license application	Preparing license application	2019 2H (plan)	2019 2H (plan)	July 2018 (ex. Japan/US)	Preparing virtual currency exchange application

Source: LINE, Mirae Asset Daewoo Research

Table 6. LINE's quarterly and annual earnings

(JPYbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18P	2017	2018P
Global MAU (mn)	171	169	168	168	165	164	165	164	168	164
No. of official paid ad accounts	567	605	631	645	657	672	677	774	645	774
LINE Pay global transaction value (JPYbn)	22	105	115	228	173	259	261	375	470	1,068
No. of LAP impressions (mn)	12	15	16	16	18	21	23	24	59	86
Revenue	40.7	41.6	44.3	47.9	48.7	50.6	51.9	56	174.5	207.2
(1) Core businesses	37.4	37.2	40.1	41.4	42.7	44.6	44.7	46.5	156.1	178.4
Ads	18.3	19.1	22	23.8	25.2	27.2	26.9	29	83.3	108.2
Communication	8.1	7.5	7.5	7.1	7.4	7.3	6.9	6.9	30.2	28.5
Content	10.4	10.1	9.9	9.7	9.2	9.3	9.9	9.7	40.1	38.2
Other	0.7	0.5	0.7	0.9	0.9	0.8	0.9	0.9	2.8	3.4
(2) Strategic businesses	3.2	4.3	4.2	6.3	6.1	6	7.2	9.5	18	28.8
LINE Friends	2.6	2.5	3	4.1	3.4	4.1	5.2	6.9	12.3	19.6
Fintech/AI/commerce/mobile	0.6	1.8	1.2	2.2	2.7	2	2	2.6	5.7	9.2
Other operating profit	3.4	10.7	0.5	0.5	1.5	9.7	0.9	16.9	15.1	28.9
Operating profit	4	14.6	5.9	0.6	-0.1	-0.4	-3.6	-7.3	25.1	-11.4
OP margin	9.9	35.1	13.2	1.3	-0.2	-0.8	-6.9	-13	14.4	-5.5
(1) Core businesses					8.1	7.2	6	5.3	33.9	34.8
(2) Strategic businesses					-7.1	-6.9	-8.8	-12	-17.7	-22.1
Net profit	1.6	8.9	1.6	-4	-3	-4.3	-9.6	-12.6	8.1	-29.5
Net margin	3.9	21.4	3.6	-8.4	-6.2	-8.5	-18.5	-22.5	4.6	-14.2
YoY growth										
Revenue					19.7	21.7	16.9	16.9		18.7
(1) Core businesses					14	19.5	11.3	11.8		14
Ads					37.9	41.9	22.3	21.6		30
Communication					-8.1	-3.1	-8.3	-2.7		-5.6
Content					-11.6	-7.3	0.5	-0.1		-4.8
Other					30.5	42.9	28.8	-3.6		21.1
(2) Strategic businesses					88.3	41.6	70.4	49.8		59.5
LINE Friends					28.3	64.1	69.6	68.5		59.2
Fintech/AI/commerce/mobile					364.3	10.1	72.4	15.1		60.2
Other operating profit					-56.8	-9.8	89.4	3302.8		91.7
Operating profit					-102.5	-102.7	TTR	RR		TTR
Net profit					TTR	-148.3	TTR	RR		TTR

Note: A one-off gain of JPY12.3bn resulting from investments in LINE Games is not reflected in operating profit; other operating profit is not included in operating profit

Source: Company data, Mirae Asset Daewoo Research estimates

IV. Earnings forecasts for NAVER

Concerns over LINE's cost increases in 2019

For 4Q18, NAVER reported consolidated revenue of W1.52tr (+19.8% YoY). Ad revenue rose only 3.1% YoY, due to lackluster ad sales on BAND (mobile app). E-commerce-related revenue outperformed our expectations, however, with business and IT platforms showing revenue growth of 14.4% and 59% YoY, respectively, on: 1) robust search ad sales; 2) an increase in e-commerce transaction volume; and 3) the expansion of NAVER Pay's merchant network.

Cloud revenue nearly doubled YoY, driven by the acquisition of new customers, such as SK Telecom and PUBG Corporation, and strong subscriber growth of the new cloud-based office service, Line Works.

Consolidated operating profit fell to W213.3bn (-26.7% YoY), hurt by higher operating expenses. Marketing expenses related to NAVER Pay Point rose 48.4% YoY, and expenses related to LINE (especially LINE Pay) and other platforms climbed 46.5% YoY.

LINE's 4Q18 revenue came in at JPY56bn (+16.8% YoY). While the content business (games, etc.) remained weak, ad revenue expanded 31.8% YoY, thanks to improving performance indicators (e.g., impressions), and revenue from strategic businesses expanded 49.8% YoY, driving overall growth.

Stripping away a one-off factor (foreign investment in LINE Games), LINE posted an operating loss of JPY7.3bn in 4Q18, turning to loss YoY. Employee head count rose to about 7,000 in 2018 (an increase of 2,000), and marketing spending on strategic businesses such as LINE Pay expanded sharply.

In 2019, LINE will likely see cost increases, in light of its full-scale expansion into online-only bank/insurance/securities services as well as simplified payment services. We expect consolidated revenue to grow 16.4% YoY, but operating profit to fall 2.3% YoY.

Table 7. Quarterly and annual earnings

(Wbn, %)

	1Q18	2Q18	3Q18	4Q18P	1Q19F	2Q19F	3Q19F	4Q19F	2018P	2019F	2020F
Revenue	1,309	1,364	1,398	1,517	1,503	1,565	1,674	1,762	5,587	6,505	7,521
Advertising	133	149	136	155	132	153	152	168	573	606	635
Business platform	593	612	613	659	649	663	698	731	2,476	2,741	3,006
IT platform	73	86	91	106	104	118	140	158	356	520	706
Content	30	31	33	32	34	35	38	38	126	145	163
LINE and other	481	486	524	565	585	597	646	666	2,056	2,493	3,011
Operating profit	257	251	222	213	222	234	235	229	942	920	1,055
OP margin	19.6	18.4	15.9	14.1	14.8	14.9	14.1	13	16.9	14.1	14
Net profit	154	282	68	133	139	157	153	155	636	604	678
Net margin	11.7	20.6	4.9	8.7	9.2	10	9.1	8.8	11.4	9.3	9
YoY											
Revenue	21	20.7	16.4	19.8	14.8	14.8	19.7	16.2	19.4	16.4	15.6
Advertising	18.6	11.1	2.4	3.1	-0.5	3	11.8	8.5	8.2	5.7	4.8
Business platform	16.1	17.2	11.5	14.4	9.4	8.4	13.9	11	14.7	10.7	9.7
IT platform	67.1	74.9	56	59	42.8	36.4	52.9	50	63.4	46	36
Content	19.8	24	22.1	15.8	15.4	11.6	13.3	19.3	20.4	14.9	12.9
LINE and other	22.9	21.6	21.2	26.8	21.6	22.8	23.2	17.8	23.2	21.3	20.8
Operating profit	-11.6	-12.1	-29	-26.7	-13.6	-6.6	6.2	7.3	-20.1	-2.3	14.6
Net profit	-27.1	64.3	-68.3	-22.9	-9.7	-44.2	123.8	16.6	-17.4	-5.1	12.3

Source: Company data, Mirae Asset Daewoo Research estimates

V. Valuation

Is Coupang valued fairly?

In November 2018, Coupang received a W2.2tr (US\$2bn) investment from SoftBank, which valued the company at W10tr (US\$9bn). The media forecasts Coupang's revenue at W8tr for this year. Applying 1) a P/S of 1x direct sales of W7.5tr and 2) a P/S of 5x open market sales of W0.5tr (assuming 50% YoY growth in 2018 and 2019), the company's value comes in at exactly W10tr.

In our view, Coupang deserves a value of W10tr, in light of: 1) its market influence and the competitiveness of its internalized logistics system; and 2) the growth potential of online shopping platforms in Korea. If open market sales and advertising revenue expand sharply, its value could well exceed W10tr.

In 2018, NAVER's share price tumbled on the fear of the growing share of YouTube in the online advertising market and traffic and concerns over cost increases from LINE's business expansion. However, we believe that the market will begin to rethink the valuation of NAVER's e-commerce business in 2019. Amid the high penetration of e-commerce in Korea, the aggressive market entry of retail and telecom giants – namely, Lotte, Shinsegae, and SKT - should expand the overall size of the domestic e-commerce market.

NAVER is the core search source for C2C online shopping malls in Korea. Thus, intensifying competition in the e-commerce space should boost the company's advertising income. We reiterate our Buy rating and target price of W176,000 on NAVER. Our target price is based on: 1) a 30% discount to the market value of LINE on the Tokyo Stock Exchange; and 2) a P/E of 21.6x—the weighted average multiple of global ad and e-commerce firms—our 2019 non-consolidated net profit forecast for the domestic NAVER business.

Table 8. Valuation (NAVER's parent value + value of its stake in LINE)

(Wbn, W, x, %)

Section	2018P	2019F	Notes
(1) NAVER value			
Net profit	919	1,133	
Applied P/E	25.8	21.6	Weighted average P/E of global peers (ads: Alphabet, Facebook, Baidu, Yahoo Japan; e-commerce: Amazon, Alibaba)
Total market value	23,742.50	24,491.9	Value of the domestic NAVER portal (based on 2019F net profit)
(2) Value of LINE stake			
LINE's market cap		9464.6	Value of the shares on the Japanese stock market (as of Jan. 23, 2019)
NAVER's stake in LINE (%)		72.86	
Estimated value		4,827.2	30% discount to the value of NAVER's stake in LINE
Sum (1) + (2)		29,319.1	
Target price (W)		176,000	Upside: 36%

Source: Company data, Mirae Asset Daewoo Research estimates

Table 9. Estimates of individual annual earnings of NAVER

(Wbn, %)

	2014	2015	2016	2017	2018F	2019F
Sales	1,637	2,141	2,496	2,931	3,459	4,102
OP	712	826	968	1,178	1,264	1,453
NI	43.5	38.6	38.8	40.2	36.5	35.4
YoY growth rate	461	643	652	849	919	1,133
Sales						
OP		30.8	16.6	17.4	18	18.6
NI		16.1	17.2	21.7	7.2	15

Source: Company data, Mirae Asset Daewoo Research estimates

Table 10. Global peer valuation table

(Wbn, x, %)

Company	Market cap	Revenue		OP		NP		EV/EBITDA		P/E		P/B		ROE	
		19F	20F	19F	20F	19F	20F	19F	20F	19F	20F	19F	20F	19F	20F
NAVER (KR)	21343	6447	7323	928	1174	647	809	16.6	13.4	31.6	25.3	3.4	3.1	11.6	13.0
Kakao	8756	2848	3261	165	256	135	200	25.4	19.1	60.7	43.2	1.7	1.7	2.9	4.1
Cafe24	1198	208	251	31	49	26	40	28.7	19.0	46.8	29.8	11.5	7.5	28.2	31.1
NHN Entertainment	1507	1527	1634	102	124	80	95	8.9	7.9	18.4	15.5	0.9	0.8	5.1	5.5
Interpark	188	566	595	14	17	8	9	6.1	5.6	25.7	21.2	1.1	1.1	4.3	5.1
Alphabet (US)	869570	147622	175084	40875	47776	43924	51398	11.4	9.8	20.6	17.7	3.7	3.1	16.6	15.7
Amazon	899055	307127	362849	19901	28753	20131	28279	19.3	15.1	44.9	33.0	12.2	8.4	24.2	25.0
Facebook	523934	77287	93492	28316	33174	29446	33583	11.8	9.8	18.6	15.8	4.6	3.7	23.0	21.5
EBay	38251	12195	12914	3430	3665	2559	2758	9.3	8.8	14.0	12.2	7.7	5.2	57.7	64.1
Snap	14894	1728	2239	-524	-270	-518	-201	-	-	-	-	7.0	7.9	-35.8	-25.4
Twitter	26597	3914	4447	958	1148	723	881	15.9	13.4	36.0	30.3	3.1	2.8	11.3	7.9
Shopify	22930	1665	2204	19	79	57	114	345.9	175.0	438.5	217.7	9.7	9.8	1.3	2.5
MercadoLibre (AR)	18681	2209	3087	-3	163	20	114	220.1	76.6	618.9	162.3	46.4	40.7	0.6	9.9
Yahoo Japan (JP)	15968	9714	10292	1506	1547	909	919	4.8	4.6	17.9	17.4	1.8	1.7	9.5	10.0
Rakuten	12744	12473	14103	980	941	577	515	3.6	3.4	20.7	22.7	1.4	1.4	7.5	5.4
LINE	10222	2477	2918	-108	90	-173	-3	178.5	38.2	-	1447.1	5.5	5.5	-8.0	-0.4
Tencent (CH)	461506	52071	66959	16909	18762	12815	15374	23.8	20.7	34.5	29.3	8.1	6.4	26.7	24.1
Alibaba	532148	62626	85660	9762	14654	14578	19022	26.0	20.4	34.1	27.6	6.5	5.6	17.4	17.0
Baidu	63150	19813	22988	2636	4172	3521	4670	13.8	10.2	17.3	13.3	2.1	1.8	11.6	12.6
JD.com	43029	76571	91267	-652	-262	375	774	65.8	37.0	111.9	53.7	4.6	4.5	0.2	0.7
Weibo	18533	1919	2317	704	829	681	790	24.6	20.8	28.0	24.5	8.4	6.1	36.7	29.7
Momo	7984	2237	2693	555	682	570	691	11.9	9.6	14.9	12.5	5.6	4.1	35.2	31.8
Yandex (RU)	12124	2821	3526	656	888	528	716	12.7	9.5	24.0	17.7	3.4	2.9	16.0	19.5
Average								18.6	20.1	33.0	27.1	4.9	4.6	23.6	13.5

Note: Market cap, revenue, operating profit, and net profit are based on Bloomberg data (exchange rates as of Feb. 27); average P/E and P/B figures exclude LINE, Shopify, and MercadoLibre

Source: Bloomberg, Mirae Asset Daewoo Research

NAVER (035420 KS/Buy/TP: W176,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Revenue	4,678	5,587	6,505	7,521
Cost of Sales	0	0	0	0
Gross Profit	4,678	5,587	6,505	7,521
SG&A Expenses	3,499	4,645	5,584	6,466
Operating Profit (Adj)	1,179	942	920	1,055
Operating Profit	1,179	942	920	1,055
Non-Operating Profit	17	187	110	101
Net Financial Income	36	41	48	55
Net Gain from Inv in Associates	-14	1	0	0
Pretax Profit	1,196	1,129	1,030	1,156
Income Tax	423	494	426	478
Profit from Continuing Operations	773	636	604	678
Profit from Discontinued Operations	-3	0	0	0
Net Profit	770	636	604	678
Controlling Interests	773	638	606	680
Non-Controlling Interests	-3	-2	-2	-2
Total Comprehensive Profit	627	636	604	678
Controlling Interests	673	682	647	726
Non-Controlling Interests	-45	-46	-44	-49
EBITDA	1,385	1,112	1,060	1,170
FCF (Free Cash Flow)	468	1,125	978	1,053
EBITDA Margin (%)	29.6	19.9	16.3	15.6
Operating Profit Margin (%)	25.2	16.9	14.1	14.0
Net Profit Margin (%)	16.5	11.4	9.3	9.0

Cash Flows (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Cash Flows from Op Activities	940	1,125	978	1,053
Net Profit	770	636	604	678
Non-Cash Income and Expense	663	601	497	517
Depreciation	183	150	124	102
Amortization	24	19	16	13
Others	456	432	357	402
Chg in Working Capital	-139	320	235	260
Chg in AR & Other Receivables	-176	-121	-122	-135
Chg in Inventories	0	-7	-7	-8
Chg in AP & Other Payables	97	0	0	0
Income Tax Paid	-415	-494	-426	-478
Cash Flows from Inv Activities	-1,310	-543	-548	-608
Chg in PP&E	-466	0	0	0
Chg in Intangible Assets	-28	0	0	0
Chg in Financial Assets	-514	-543	-548	-608
Others	-302	0	0	0
Cash Flows from Fin Activities	636	-192	-42	-42
Chg in Financial Liabilities	38	-150	0	0
Chg in Equity	291	0	0	0
Dividends Paid	-33	-42	-42	-42
Others	340	0	0	0
Increase (Decrease) in Cash	181	335	332	342
Beginning Balance	1,726	1,908	2,243	2,575
Ending Balance	1,908	2,243	2,575	2,917

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Current Assets	4,784	5,574	6,453	7,401
Cash and Cash Equivalents	1,908	2,243	2,575	2,917
AR & Other Receivables	1,014	1,107	1,289	1,490
Inventories	36	43	50	58
Other Current Assets	1,826	2,181	2,539	2,936
Non-Current Assets	3,235	3,335	3,468	3,655
Investments in Associates	281	336	391	452
Property, Plant and Equipment	1,150	1,000	876	774
Intangible Assets	340	320	304	291
Total Assets	8,019	8,909	9,921	11,056
Current Liabilities	2,303	2,530	2,911	3,333
AP & Other Payables	544	649	756	874
Short-Term Financial Liabilities	361	211	211	211
Other Current Liabilities	1,398	1,670	1,944	2,248
Non-Current Liabilities	411	481	551	628
Long-Term Financial Liabilities	55	55	55	55
Other Non-Current Liabilities	356	426	496	573
Total Liabilities	2,714	3,010	3,461	3,961
Controlling Interests	4,762	5,357	5,922	6,559
Capital Stock	16	16	16	16
Capital Surplus	1,508	1,508	1,508	1,508
Retained Earnings	4,556	5,151	5,715	6,352
Non-Controlling Interests	543	541	538	536
Stockholders' Equity	5,305	5,898	6,460	7,095

Forecasts/Valuations (Summarized)

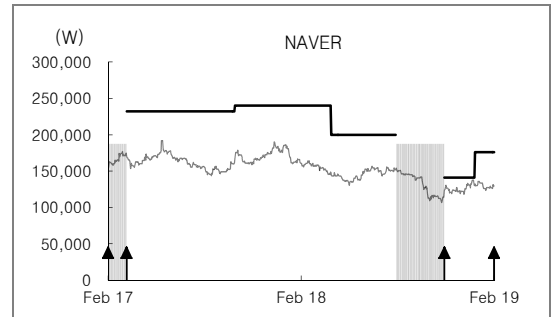
	12/17	12/18F	12/19F	12/20F
P/E (x)	37.1	31.5	35.2	31.4
P/CF (x)	20.0	16.3	19.4	17.9
P/B (x)	4.8	3.1	3.0	2.8
EV/EBITDA (x)	18.8	15.0	16.3	14.1
EPS (W)	4,689	3,871	3,677	4,126
CFPS (W)	8,698	7,504	6,678	7,247
BPS (W)	36,008	39,621	43,041	46,911
DPS (W)	289	289	289	289
Payout ratio (%)	5.5	6.7	7.0	6.2
Dividend Yield (%)	0.2	0.2	0.2	0.2
Revenue Growth (%)	16.3	19.4	16.4	15.6
EBITDA Growth (%)	9.5	-19.7	-4.7	10.4
Operating Profit Growth (%)	7.0	-20.1	-2.3	14.7
EPS Growth (%)	3.1	-17.4	-5.0	12.2
Accounts Receivable Turnover (x)	8.5	8.2	8.1	8.1
Inventory Turnover (x)	201.0	140.7	139.0	138.6
Accounts Payable Turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	10.7	7.5	6.4	6.5
ROE (%)	18.5	12.6	10.7	10.9
ROIC (%)	125.6	83.6	194.9	-3,040.1
Liability to Equity Ratio (%)	51.2	51.0	53.6	55.8
Current Ratio (%)	207.8	220.3	221.7	222.1
Net Debt to Equity Ratio (%)	-60.0	-67.7	-72.1	-75.6
Interest Coverage Ratio (x)	2,073.9	1,929.3	2,416.1	2,769.4

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
NAVER (035420)	01/23/2019	Buy	176,000
	11/26/2018	Buy	141,000
	08/27/2018	No Coverage	
	04/26/2018	Buy	200,000
	10/26/2017	Buy	240,000
	04/04/2017	Buy	232,000
	01/02/2017	No Coverage	



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 Mirae Asset Daewoo Co., Ltd., 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.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	81.28%	9.63%	9.09%	0.00%
Investment Banking Services	84.61%	3.85%	11.54%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2018)

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Mirae Asset Daewoo International Network

Mirae Asset Daewoo Co., Ltd. (Seoul)

Global Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

PT. Mirae Asset Sekuritas Indonesia

Equity Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-53 Jakarta Selatan
12190
Indonesia

Tel: 62-21-515-3281

Mirae Asset Securities Mongolia UTsK LLC

#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area Shanghai
200120
China

Tel: 86-21-5013-6392

Mirae Asset Securities (HK) Ltd.

Suites 1109-1114, 11th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
China

Tel: 852-2845-6332

Mirae Asset Wealth Management (USA) Inc.

555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA

Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building Vila
Olimpia
Sao Paulo - SP
04551-060
Brasil

Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)
