

Media/Entertainment

Rise of webtoons presents opportunities in content providers

The rise of webtoons

Webtoons are emerging as a profitable new content format, just as video and music streaming services have in the past. In 2015, webtoons were successfully monetized in Korea and Japan by NAVER (035420 KS/Buy/TP: W241,000/CP: W166,500) and Kakao (035720 KS/Buy/TP: W243,000/CP: W158,000). In late 2018, webtoon user numbers began to grow in the US and Southeast Asia, following global monetization. This year, NAVER Webtoon's entry into Europe, combined with growing content consumption due to COVID-19 and the success of several webtoon-based dramas, has led to increasing opportunities for Korean webtoon companies. Based on Google Trends data, interest in webtoons is hitting all-time highs across major regions.

Korea is the global leader in webtoons; Market outlook appears bullish

Korea is the birthplace of webtoons. Over the past two decades, Korea's webtoon industry has created sophisticated platforms and content, making it well-positioned for growth in both price and volume. 1) Notably, the domestic webtoon industry adopted a partial monetization model, which is better suited to webtoons than monthly subscriptions and ads and has more upside potential in transaction volume. 2) The industry also has a well-established content ecosystem that centers on platforms. We believe average revenue per paying user (ARPPU), which is currently around W3,000, can rise to over W10,000 (similar to that of music and video streaming services) upon full monetization. Profit sharing between platforms and producers (providing strong motivation to webtoon creators) and ongoing campaigns to attract new authors are likely to improve content quality. As the case of YouTube demonstrates, quality content is an important driver behind the growth of both content supply and usage.

Small/mid-sized content providers offer good alternatives to platforms

We believe the initial beneficiary of market growth is platforms. Most income sources—user payments, ads, and intellectual property (IP)—flow through platforms. But once platforms become well-established, opportunities open up for authors and content providers through profit sharing. Notably, globalization has become a major trend among not only big platform players like NAVER and Kakao but also niche-genre players like Lezhin Comics and Delitooon. Alongside these platforms, we believe domestic content providers, which supply most of the titles, will also see growth.

Content providers that are listed in Korea include D&C Media, Kidari Studio, and Mr. Blue. We see investment opportunities in these content providers from both a market growth (given the global monetization and increasing popularity of webtoons) and value chain (given their role as an enabler of content production and an agent between platforms and authors) perspective.

Key content providers: D&C Media, Kidari Studio and Mr. Blue

Increasing interest in new content sparked by growing mobile consumption amid COVID-19 has coincided with the global expansion of major platforms, fueling the popularity of Korean webtoons. Because of their low fees per transaction, webtoons are more resilient to economic downturns. We believe opportunities will emerge not only for global platforms, but also for content providers that supply the content.

D&C Media (263720 KQ/Buy/TP: W30,000/CP: W21,300; Initiate coverage) is the no. 1 provider of web novel content. The company's collaborations with KakaoPage, which is also its second largest shareholder, allows market growth to translate into earnings. Armed with a robust content library, its Kakao partnership, and its strong networks, the company is expected to advance further into overseas markets in 2020.

Kidari Studio (020120 KS/CP: W5,030) is a leader in niche genres that engages in both content production and platform operation. The platform Bomtoon, which has strong competitiveness in the romance genre, is the company's cash cow. Kidari Studio also owns the fast-growing French webtoon platform Delitooon, which will be fully consolidated into earnings from 2020.

Mr. Blue (207760 KQ/CP: W7,390) is the top platform/content provider in the martial arts genre. The company is widely expected to deliver record earnings again in 2020, driven by the overseas launch of the game *EOS Red* and subscription price hikes.

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I. Investment points

1. Korean webtoons beginning to generate revenue overseas

Webtoons, which are easy to produce and distribute and offer a more instant form of entertainment than print comics, are growing in popularity around the world. Indeed, as demand for mobile entertainment increases, webtoons are emerging as the next big entertainment format after video streaming. The format was essentially created in Korea, and domestic webtoon companies now provide high-quality content on some of the most advanced platforms in the world. We expect Korean webtoon companies to benefit from market growth over the long term.

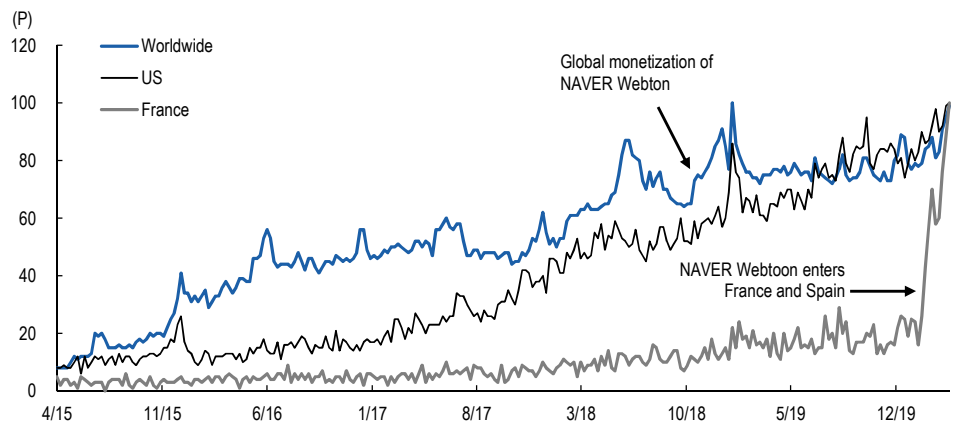
Webtoons are already the second most popular type of entertainment in Korea. According to Nielsen Koreanclick, webtoon apps have roughly 9mn daily average users in Korea alone. Time spent on webtoons is now equivalent to 73% of time spent on viewing videos. Notably, user demographics (which had skewed younger) have become more balanced; the percentage of users in their 20s or younger fell from 46% in 2015 to 30% in 2018, as an increasing variety of genres and aggressive marketing efforts have helped attract users in their 30s and 40s, who have stronger purchasing power. Given such positive changes in user demographics, we believe the domestic webtoon market (which is currently estimated at approximately W400bn) will grow significantly once monetization increases further.

If similar user growth dynamics play out overseas, we believe webtoons could surpass the global print comics market (valued at W15tr) by becoming a major part of the massive mobile content market (valued at more than W100tr). Overseas, the percentage of webtoon users aged 24 or under is fairly high, at 59% in Thailand, 71% in Indonesia, 61% in Taiwan, and 77% in the US, similar to where Korea and Japan were about a decade ago.

NAVER extended its webtoon monetization model beyond Korea (NAVER Webtoon) and Japan (LINE Manga) to all other regions in November 2018. Since then, traffic and transaction volume have grown dramatically, especially in the US, Thailand, and Taiwan. NAVER Webtoon’s transaction volume (excluding Japan) jumped from W140bn in 2018 to W330bn in 2019, and the share of overseas transaction volume increased from 0% to 20% in 4Q19. Kakao is also seeking to move beyond Korea (KakaoPage) and Japan (Piccoma) and expand into Indonesia, China, and Thailand (KakaoPage Global). Kakao’s webtoon transaction volume (including Piccoma) grew from W290bn in 2018 to W430bn in 2019.

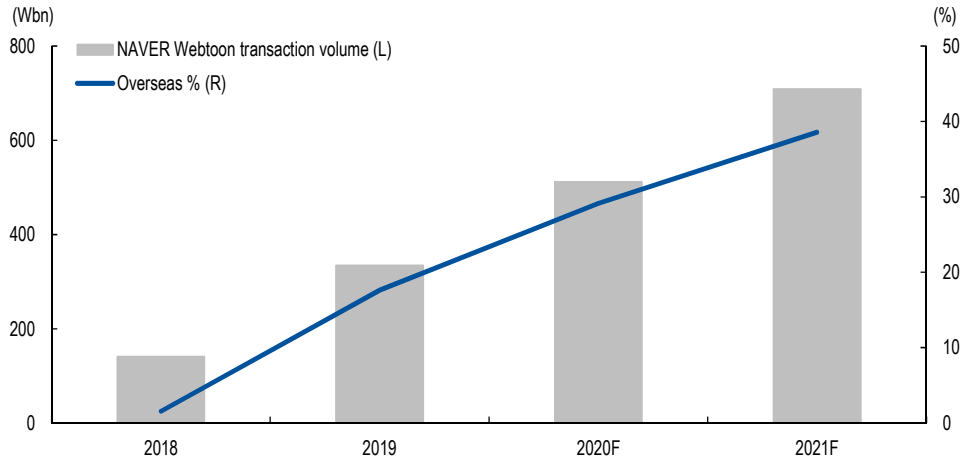
Webtoons, which have already become popular in the US, are now gaining traction across Europe, including France and Spain. With a solid supply/demand ecosystem and plenty of content already in place, we believe webtoons have the potential to become a new form of entertainment that is on par with music and video streaming. We expect both major platforms and content providers to share in the spoils.

Figure 1. Google Trends data suggest that interest in webtoons is hitting all-time highs across major regions



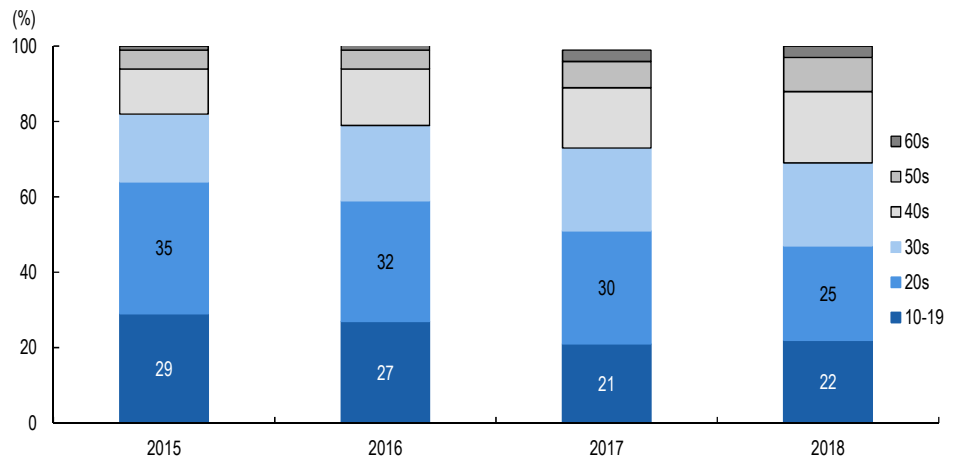
Source: Google, Mirae Asset Daewoo Research

Figure 2. NAVER Webtoon’s transaction volume has grown dramatically thanks to increased domestic monetization and global expansion



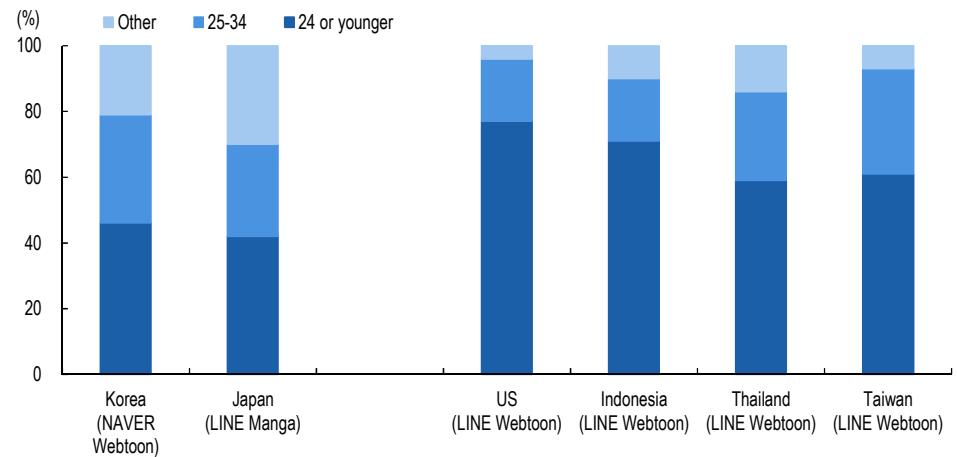
Source: NAVER Webtoon, Mirae Asset Daewoo Research

Figure 3. Domestic webtoon user demographics have become more balanced



Source: Nielsen Koreanclick, Mirae Asset Daewoo Research

Figure 4. Webtoons are gaining traction among young people in the US



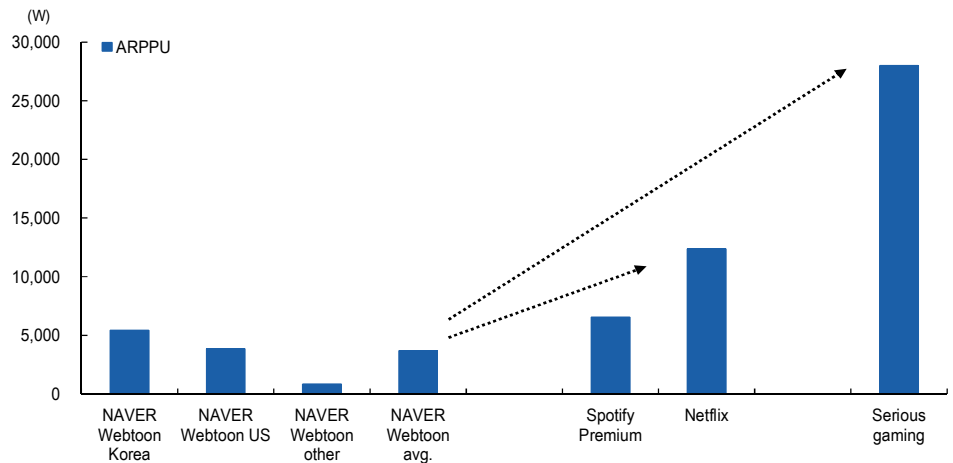
Source: NAVER, Mirae Asset Daewoo Research

2. Growth in both price and volume

The “freemium” model has successfully taken hold in the webtoon industry, gaining wide acceptance among users. Under this business model, platform operators first attract users by providing a certain number of episodes for free, and then generate revenue by charging for additional episodes. This kind of partial monetization, unlike subscriptions, charges users based on how many episodes they view. As such, compared to Netflix (NFLX US/CP: US\$371.12; subscriptions), YouTube (ads), or Spotify (SPOT US/CP US\$126.04; ads and subscriptions), we believe webtoons have greater potential for transaction volume growth when traffic increases. The use of microtransactions (W500 or less per episode), which were adopted to lower the psychological resistance to monetization, is also contributing to the long-term growth of platform transaction volume.

In addition, we expect ARPPU to grow as users become more familiar with paid transactions and as monetization expands further. In Korea, where the user culture is well-developed, webtoons are ahead of music services and comparable to video services across most user metrics, such as average time spent, frequency of use, and user retention rate. We see strong potential for further monetization in webtoon services and expect ARPPU—currently around W3,000—to near the levels of music and video streaming services (W8,000 and W10,000, respectively).

Figure 5. Webtoons could potentially surpass music/video streaming in terms of ARPPU



Notes: NAVER Webtoon figures are based on our estimates.
Source: Company data, Mirae Asset Daewoo Research

Table 1. Mobile app usage for the week of February 24, 2020

	No. of unique users	Average time spent (min)	Average frequency of use (days)	User retention (%)
NAVER Webtoon	3,829,087	120.84	4.40	88.12
KakaoPage	3,240,443	312.06	4.96	87.08
Melon	2,221,714	28.51	3.11	70.03
YouTube	23,675,956	411.48	4.28	88.82
Netflix	1,759,957	170.78	2.82	75.55

Note: Based on Android apps
Source: Nielsen Koreanclick, Mirae Asset Daewoo Research

Table 2. Mobile app usage for February 2020

	No. of unique users	Average time spent (min)	Average frequency of use (days)	User retention (%)
NAVER Webtoon	4,754,749	411.29	3.08	89.61
KakaoPage	4,471,980	954.5	2.97	77.32
Melon	3,763,036	75.1	2.40	74.84
YouTube	28,192,940	1,356.07	3.09	93.86
Netflix	2,641,342	431.24	2.39	74.93

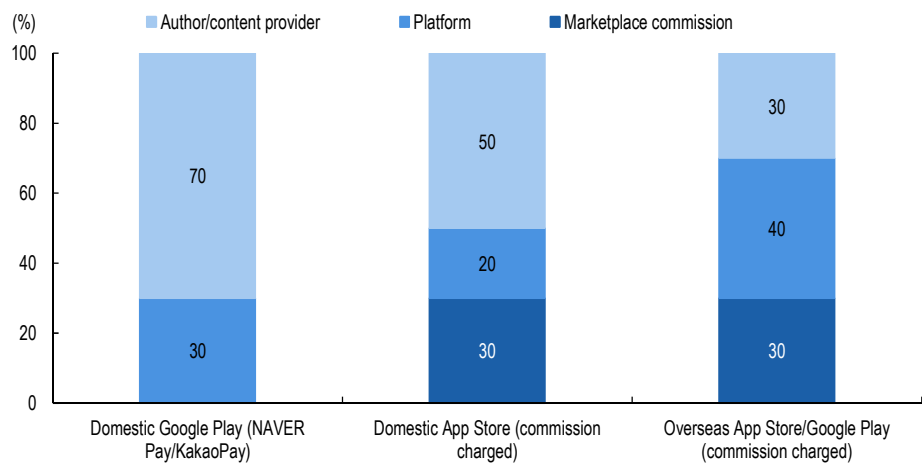
Note: Based on Android apps
Source: Nielsen Koreanclick, Mirae Asset Daewoo Research

To ensure the long-term growth of a content format, a platform with a user base and a self-sustaining content supply system are needed. A case in point is YouTube, which has been the driving force of online video consumption over the past decade. YouTube allows creators to publish and monetize their content and develop solid subscriber bases around the world. This has led to content quality improvement and helped stimulate content creation and consumption. Major webtoon platforms share some similarities with YouTube. We believe webtoons have the potential for long-term growth as a new form of entertainment content.

1) Webtoon services have well-established revenue-sharing schemes. In the ad revenue-driven business models of the past, content creators typically received contribution fees according to their seniority, similar to salaried workers. In today's content monetization model, revenue-sharing schemes are more important than contribution fees, and the rapid expansion of the webtoon market provides strong monetary incentives.

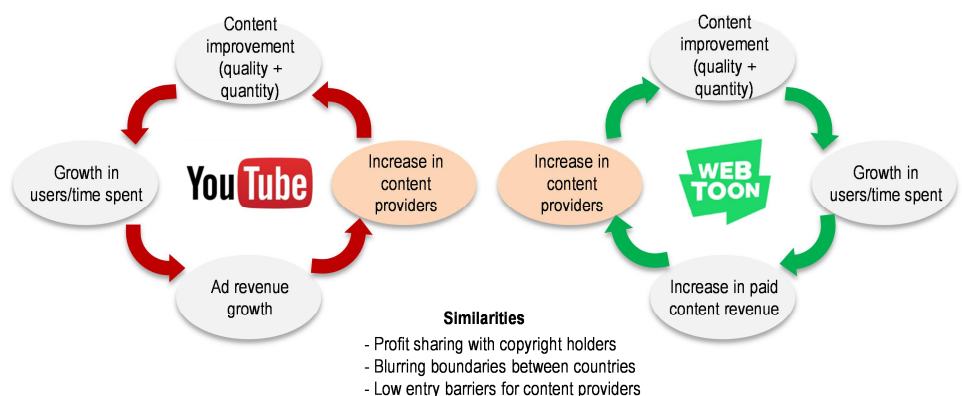
2) Webtoon services are continuing to attract new artists in major countries. LINE Manga has successfully carved out a place in Japan, and LINE Webtoon (NAVER Webtoon) has done the same in the US and Southeast Asia. While they launched their services with Korean webtoon content, LINE Manga and LINE Webtoon have since offered localized content by recruiting local creators through contests (i.e., giving amateur authors opportunities to win cash prizes and publish their work). LINE Webtoon has secured nearly 60,000 works in the US through the user-generated content platform CANVAS, with locally created content accounting for almost 50% and US-based artists making up more than half of the top 20 list.

Figure 6. Webtoon/web novel content revenue-sharing breakdowns



Source: Mirae Asset Daewoo Research

Figure 7. Virtuous cycle: Webtoons vs. YouTube



Source: Mirae Asset Daewoo Research

Table 3. NAVER Webtoon's top 10 titles in Korea span various genres (all Korean content)

Ranking	Title	Genre	Author	Country	Ranking	Title	Genre	Author	Country
1	<i>Lookism</i>	Fantasy, drama	Park Tae-jun	Korea	6	<i>Fashion King</i>	Drama	Kian84	Korea
2	<i>Love Revolution</i>	Comedy/drama	232	Korea	7	<i>Tower of God</i>	Fantasy	SIU	Korea
3	<i>True Beauty</i>	Drama/romance	Yaongyi	Korea	8	<i>Odd Girl Out</i>	Drama/romance	Morangg	Korea
4	<i>Yumi's Cells</i>	Slice of life/romance	Lee Dong-geon	Korea	9	<i>The God of High School</i>	Fantasy	Park Yong-je	Korea
5	<i>Free Draw</i>	Drama	Jeon Seon-uk	Korea	10	<i>Tales of the Unusual</i>	Thriller	Oh Seong-dae	Korea

Source: NAVER Webtoon, Mirae Asset Daewoo Research

Table 4. LINE Webtoon's top 10 titles in Thailand: Korean content fares well in Asia

Ranking	Title	Genre	Author	Country	Ranking	Title	Genre	Author	Country
1	<i>True Beauty</i>	Drama	Yaongyi	Korea	6	<i>Murderstagram</i>	Thriller	Ryung	Korea
2	<i>Remarried Empress</i>	Romance	Alpha Tart	Korea	7	<i>Summer Night</i>	Romance	Boran/Jormungand	Local
3	<i>Who Made Me a Princess</i>	Romance	Plutus/Spoon	Korea	8	<i>Study Group</i>	Slice of Life/Action	Shin Hyung-wook	Korea
4	<i>ฟ้าหลังตะวันหนึ่งจ่าเป็น</i>	Fantasy	lonely cat	Local	9	<i>The Villain</i>	Romance	Myeong Rang	Korea
5	<i>I Wanna Be U</i>	Drama	SAM	Korea	10	<i>Wendy the Florist</i>	Fantasy	Sizh	Korea

Source: NAVER Webtoon, Mirae Asset Daewoo Research

Table 5. LINE Webtoon's top 10 titles in Taiwan: Korean content fares well in Asia

Ranking	Title	Genre	Author	Country	Ranking	Title	Genre	Author	Country
1	<i>True Beauty</i>	Drama	Yaongyi	Korea	6	<i>Hell is Other People</i>	Thriller	Kim Yong-ki	Korea
2	<i>Lookism</i>	Drama	Park Tae-jun	Korea	7	<i>Tales of the Unusual</i>	Thriller	Oh Seong-dae	Korea
3	<i>某天成為公主</i>	Drama	Plutus/Spoon	Local	8	<i>海線電車</i>	Romance	榭桂	Local
4	<i>So, I Married an Anti-Fan</i>	Romance	Jaerim	Korea	9	<i>1加1</i>	Romance	寶阿	Local
5	<i>微不韙辭易</i>	Comedy	微終	Local	10	<i>Odd Girl Out</i>	Drama, romance	Morangg	Korea

Source: NAVER Webtoon, Mirae Asset Daewoo Research

Table 6. LINE Webtoon's top 10 titles in the US: Dominated by local content

Ranking	Title	Genre	Author	Country	Ranking	Title	Genre	Author	Country
1	<i>Lore Olympus</i>	Romance	Rachel Smythe	Local	6	<i>Freaking Romance</i>	Romance	Snailords	Local
2	<i>Let's Play</i>	Romance	Mongie	Local	7	<i>I Love Yoo</i>	Romance	Quimchee	Local
3	<i>True Beauty</i>	Drama	Yaongyi	Korea	8	<i>Cursed Princess Club</i>	Comedy	LambCat	Local
4	<i>SubZero</i>	Romance	Junepurr	Local	9	<i>Age Matters</i>	Romance	Enjelicious	Local
5	<i>unOrdinary</i>	Fantasy	uru-chan	Local	10	<i>Siren's Lament</i>	Romance	instantmiso	Local

Source: NAVER Webtoon, Mirae Asset Daewoo Research

Table 7. LINE Webtoon's top 10 titles in Spain: Dominated by US/local content

Ranking	Title	Genre	Author	Country	Ranking	Title	Genre	Author	Country
1	<i>True Beauty</i>	Drama	Yaongyi	Korea	6	<i>Mi secreto mas intimo</i>	Drama	Hanza Art	Local
2	<i>Lore Olympus</i>	Romance	Rachel Smythe	US	7	<i>Cursed Princess Club</i>	Comedy	LambCat	US
3	<i>Age Matters</i>	Romance	Enjelicious	US	8	<i>El lamento de la sirena</i>	Romance	instantmiso	Local
4	<i>Sweet Home</i>	Thriller	Kim Camby/ Hwang Young-chan	Korea	9	<i>Consejos sentimentales del gran duque infernal</i>	Comedy	unfins	Local
5	<i>Freaking Romance</i>	Romance	Snailords	US	10	<i>Seras mi reina</i>	Fantasy	Color_LES	Local

Source: NAVER Webtoon, Mirae Asset Daewoo Research

II. Beneficiaries of webtoon market expansion

1. Platform operators to be first to benefit

In the webtoon value chain, platform operators have been the first to benefit from market growth, as they manage the flow and recognition of all content revenue. Specifically, NAVER and Kakao's industry leading webtoon service platforms have exhibited rapid earnings growth, supported by robust user traffic growth in Korea and abroad. NAVER Webtoon is recording sharp increases in user traffic and earnings in overseas markets such as the US; the platform's global MAU figure exceeded 60mn (+27% YoY) at end-2019, with annual transaction volume surpassing W330bn (+137% YoY; LINE Manga excluded; based on our estimates). Overseas markets accounted for 20% of total transaction volume in 4Q19.

Meanwhile, Kakao's webtoon growth has been concentrated in Korea and Japan. Kakao's annual transaction volume (KakaoPage, Daum Webtoon, and Piccoma combined) amounted to W430bn (+47% YoY) in 2019. The company acquired Indonesia's leading webtoon platform (WebComics) in December 2018 as part of its global expansion and relaunched it as KakaoPage Global in 4Q19. Kakao is set to further expand its services in Asia to include Taiwan, Thailand, and China in 2020.

Table 8. NAVER Webtoon: Annual earnings estimates

(Wbn, mn people, %, W)

	2017	2018	2019	2020F	2021F
Revenue	34	72	161	246	339
Content (NAVER Webtoon/Series)		60	128	203	292
Korea		60	92	120	142
US		0	20	48	91
Other		0	16	35	59
Advertising/IP/other		12	33	43	48
* LINE Manga (not included in above figures)		85	118	122	135
Operating expenses	72	126	182	276	297
Operating profit	-38	-54	-21	-29	43
OP margin (%)	-111.7	-75.4	-12.9	-12.0	12.5
Key assumptions					
Transaction volume		200	327	471	637
MAU		45.9	58.1	68.9	76.9
Paid user ratio		12.1	14.1	16.1	18.6
Monthly ARPPU		2,997	3,318	3,543	3,707
Transaction value growth (YoY)			63.7	44.1	35.1

Notes: All figures excluding annual revenue and operating profit are based on our estimates.

Source: NAVER, Mirae Asset Daewoo Research

Table 9. KakaoPage: Annual earnings estimates

(Wbn, mn people, %, W)

	2017	2018	2019	2020F	2021F
Revenue (incl. Daum Webtoon, advertising)	118	188	257	299	346
Domestic platform	110	168	198	231	270
Global IP distribution	8	20	28	34	38
Ads/other	10	21	31	34	39
* Piccoma (not included in above figures)	19	51	125	214	311
KakaoPage's operating profit	3	13	31	41	52
OP margin (%)	2.8	6.7	11.9	13.8	15.0
Content transaction volume (Piccoma included)	160	290	429	574	733

Notes: All figures excluding annual revenue and operating profit are based on our estimates.

Source: Kakao, Mirae Asset Daewoo Research

2. Opportunities for content providers: Beneficiary of market growth and larger role in value chain

Platforms source webtoon content through in-house studios or by contracting with individual authors/content providers. At present, NAVER, which operates an open platform centered around user-generated content, focuses on forging contracts with individual creators/writers/artists. In contrast, Kakao endeavors to secure steady content supply by making equity investments in major content partners. Other platform operators secure content through in-house creators (with employment contracts), outside sourcing (with revenue sharing), or partnerships.

For small/medium-sized content providers (e.g., D&C Media, Kidari Studio, and Mr. Blue) listed on the domestic stock market, we see investment appeal on two fronts: 1) expansion of the overall pie; and 2) the growing importance of content providers in the value chain (i.e., linking platforms with content creators/authors).

Beneficiary of overall market expansion: As platforms increasingly gain traction, content providers/studios/creators will naturally share in the spoils. In light of this, we believe that Korean content providers are well-positioned to benefit from growing webtoon consumption around the world and the global expansion of Korean platforms

Korean platform operators—major players (NAVER, and Kakao) and niche players (Lezhin Comics and Delitooon) alike—are going global. Most of the content published by these platforms is supplied by Korean content providers.

Greater role in the value chain: Content providers have been extending their reach beyond content distribution to include full-on content production, just as film distributors have expanded to film production.

The increase in the number of webtoon titles published and the deepening segmentation of the content creation process (e.g., storyline development, illustrating, coloring, writing, and editing) highlight the importance of production management and planning. To achieve higher quality, writers are likely to team up with content providers (vs. working alone). For reference, at major drama studios, most projects have a dedicated team comprising writers, producers, and creative directors.

Table 10. Webtoon/web novel platforms

Type	Name	Monetization	Additional monetization models	Main genres
Portal-based	NAVER Webtoon, KakaoPage, Daum Webtoon	Free	"Pay or wait"	General
Webtoon-dedicated	Bomtoon, Lezhin Comics, Mr. Blue, Toptoon, Toomics	Pay-per-view (only initial episodes are free)	Subscription	Adult/general

Source: Mirae Asset Daewoo Research

Table 11. Key roles of content providers

Role	Details
Author/artist	Web artists; independent content creation
Studio	Creation/production; content production supported by in-house assistants
Agency	Original IP management; OSMU (movie/drama remakes; merchandise development, gaming, etc.) and export support
Management	Talent identification/training; career management for content creators
Entertainment	Direct/indirect participation in IP-based content production

Source: Mirae Asset Daewoo Research

Table 12. Key webtoon/web novel players

Type	Company	Details
Content providers	D&C Media	Webtoon/web novel production; 18.5% owned by Kakao
	Daewon Media	Webtoon production; 19.8% owned by Kakao
	Haksan	Webtoon production; 19.8% owned by Kakao
	Seoul Media Comics	Webtoon production; 77.8% owned by Seoul Cultural Publishers, 22.2% owned by Kakao
	Kidari Studio	Webtoon/web novel production; 53.3% owned by Daou Data
Content providers/ platform	Bomtoon	Kidari Studio's webtoon/web novel platform; focus on romance/BL
	Lezhin Comics	Webtoon/web novel production distribution; focus on romance/BL; 9.6% owned by NCsoft
	Mr. Blue	Webtoon/web novel production distribution; focus on martial arts-related content
	Toomics	Webtoon/web novel production distribution; focus on adult content
	Toptoon	Webtoon/web novel production distribution. focus on adult content
	Justoon	Webtoon/web novel production distribution; diverse genres
Platform	NAVER Webtoon	Global webtoon/web novel platform; 100% owned by NAVER
	KakaoPage	Global webtoon/web novel platform; 63.6% owned by Kakao
	Daum Webtoon	Domestic webtoon/web novel platform; Kakao in-house business unit
	KTOON	KT's webtoon/web novel platform.

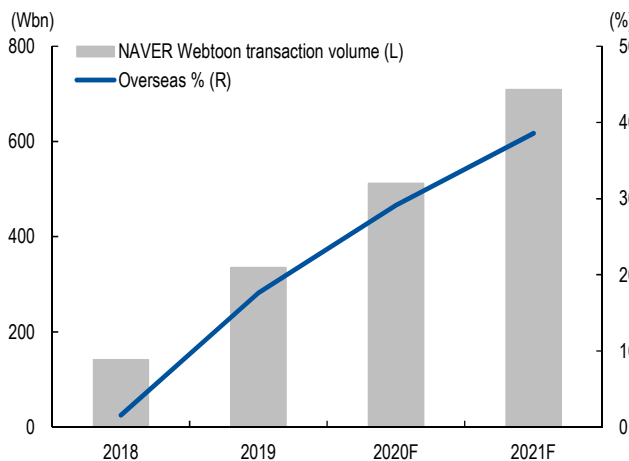
Source: Mirae Asset Daewoo Research

Table 13. Income/expenses in the webtoon/web novel value chain

	Income	Expenses
Artists/authors	Profit sharing (based on transaction volume)	Labor expenses
	Monthly salary	Studio maintenance expenses
	Advertising	Training expenses
	Fees from content providers	
	Licensing fees	
Content providers	Revenue sharing (based on transaction volume)	In-house labor expenses
	Licensing fees	Operating expenses (e.g., scouting fees)
	Advertising	
Platforms	User payments	Maintenance expenses (e.g., app/website)
	Advertising	In-house labor expenses
	Licensing fees	Marketing expenses
	Redistribution to overseas platforms	

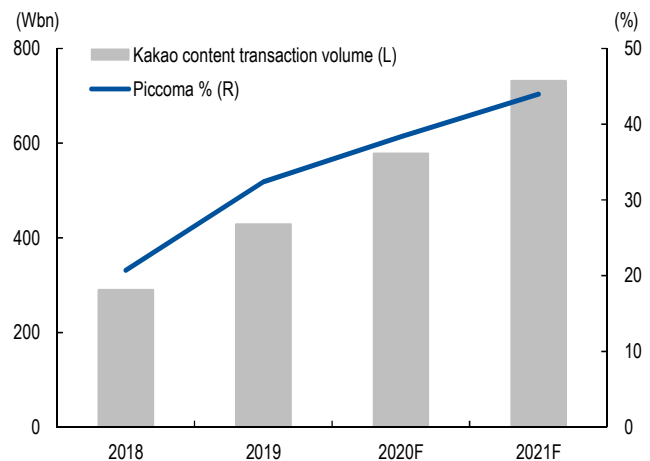
Source: Mirae Asset Daewoo Research

Figure 8. NAVER: Webtoon transaction volume



Note: Excluding LINE Manga
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 9. Kakao: Webtoon transaction volume



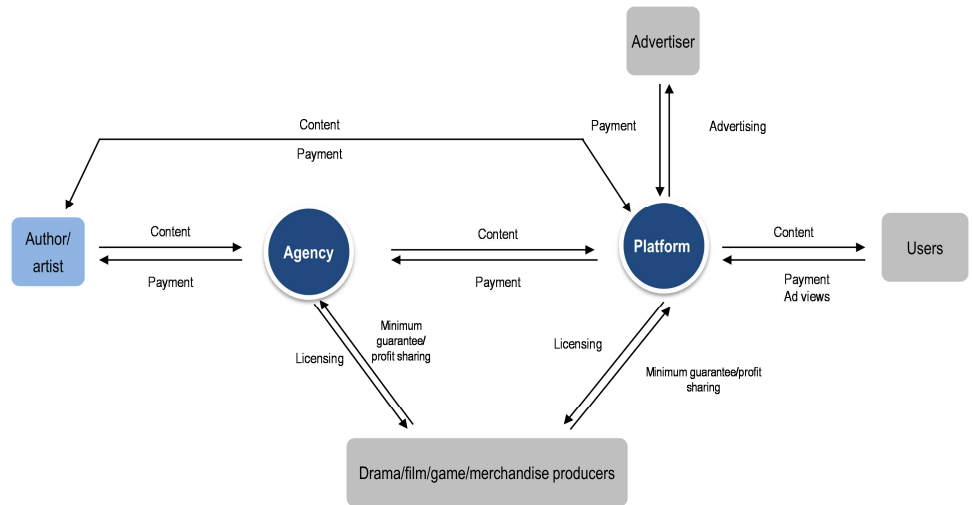
Note: Based on data for KakaoPage, Daum Webtoon, Piccoma
Source: Company data, Mirae Asset Daewoo Research estimates

3. User payments account for lion's share of income

Webtoons and web novels generate income from user payments, ads, and licensing fees (IP), with user payments being the initial driver of market growth and the largest contributor to earnings. Indeed, several platforms, including NAVER Webtoon and KakaoPage, derive more than 90% of their transaction volume from payments for content. For the time being, these payments will likely continue to rise sharply, helped by ongoing traffic growth.

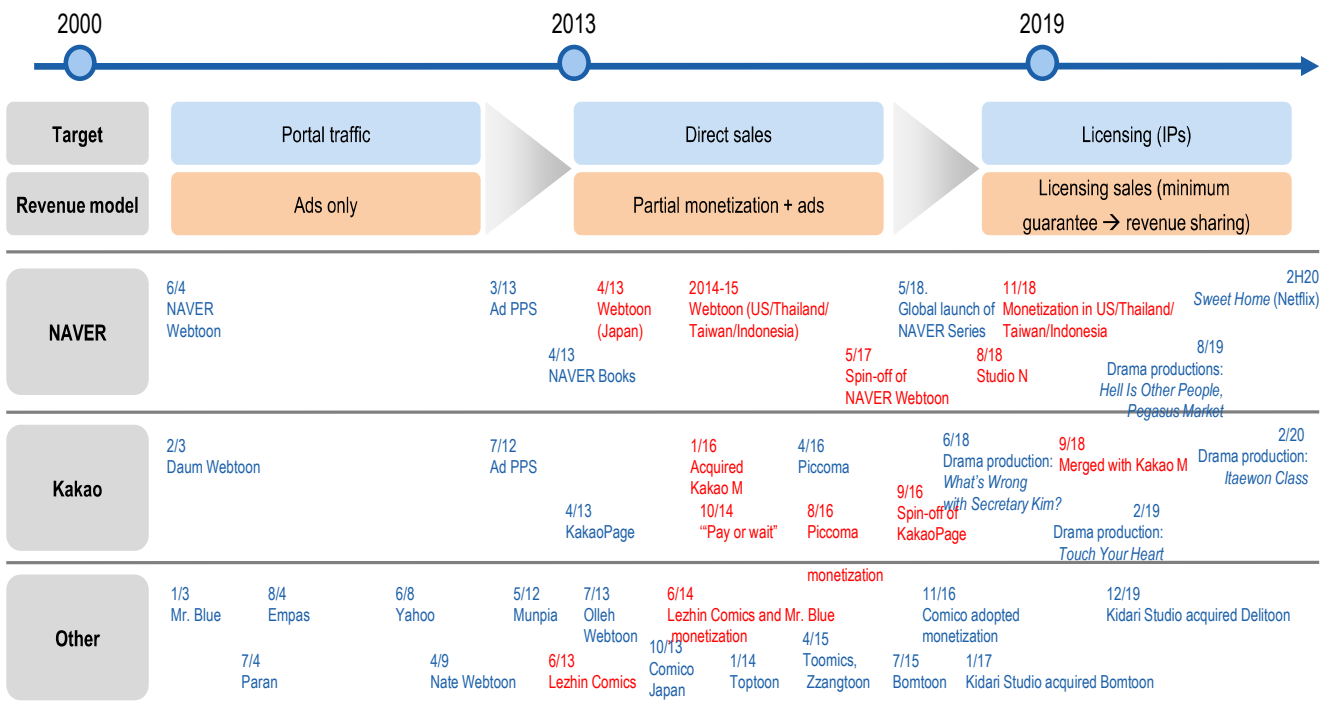
Income from ads and IP licensing is also on the rise. While their contributions remain limited at present, we believe they can potentially become important engines from a long-term perspective, given the increasing sophistication of ads and the growing utilization of IP.

Figure 10. Webtoon market structure



Source: KOCCA, Mirae Asset Daewoo Research

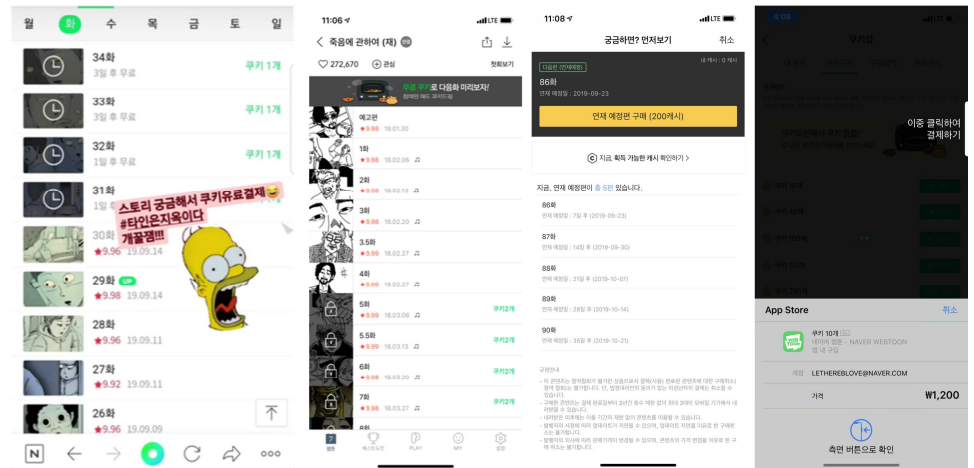
Figure 11. Growing global monetization of Korean webtoon services



Source: Mirae Asset Daewoo Research

1) A major payment model adopted by web novel/webtoon platforms is partial monetization, or the “pay or wait” scheme. Under this model, a certain number of episodes are provided for free; however, users wishing to access additional episodes must pay or wait a certain amount of time. (Notably, adult content and popular concluded series are usually fully monetized.) The degree of monetization is often determined by popularity, user retention rate, and episode count. In the domestic webtoon market, monetization is quickly gaining traction as a growing number of users become accustomed to paying for content.

Figure 12. Successful monetization through “pay or wait” scheme



Source: NAVER, Kakao, Mirae Asset Daewoo Research

2) Webtoon ads are growing more sophisticated, evolving from simple banner ads to content-relevant ads, including product placements, branded webtoons, and character-based ads.

Significantly, content-relevant ads can generate income for content providers. Indeed, platform operators are adopting profit-sharing models for content-relevant ads exceeding a certain number of impressions.

Figure 13. Webtoon product placement



Source: NAVER Webtoon, Mirae Asset Daewoo Research

Figure 14. Webtoon product placement



Source: NAVER Webtoon, Mirae Asset Daewoo Research

3) Film/TV licensing sales are increasing, with webtoon/web novel-based dramas and movies increasingly finding success. Generally speaking, movies/dramas based on popular webtoons have a leg up, thanks to their name recognition and established fan bases (which make heavy marketing spending less important). These advantages—when coupled with high-quality content—can significantly reduce risks and increase profit upside. In light of this, we think the production of webtoon-based content will become increasingly prevalent in the movie and drama industries.

Notably, the balance of power in the licensing market is tilting toward rights holders. Before 2018, licensing sales were mostly one-time transactions with minimum guarantees of less than W100bn. Starting from 2019, however, a growing number of licensing agreements have added revenue-sharing clauses, helped by both: 1) rising demand for webtoon IP; and 2) the strengthened negotiating power of platforms (NAVER and Kakao) due to their production capabilities.

Going forward, businesses adopting one-source multi-use (OSMU) strategies will likely increasingly focus on fostering synergies among affiliates and developing efficient profit-sharing schemes. And webtoons' expansion into OTT services and broadcasting should create opportunities for all value-chain participants.

Table 14. Webtoon-based dramas

Drama release	Webtoon	Drama	Webtoon platform	Production studio
2015	<i>Dr. Jekyll is Mr. Hyde</i>	<i>Hyde, Jekyll, Me</i>	Daum Webtoon	Onda Entertainment
	<i>Hogu's Love</i>	<i>Hogu's Love</i>	Daum Webtoon	MI Co.
	<i>Super Daddy Yeol</i>	<i>Super Daddy Yeol</i>	Neo Cartoon	tvN
	<i>A Girl Who Sees Smells</i>	<i>A Girl Who Sees Smells</i>	KTOON	SBS Plus
	<i>Orange Marmalade</i>	<i>Orange Marmalade</i>	NAVER Webtoon	KBS N, ZEN Production
	<i>The Scholar Who Walks the Night</i>	<i>The Scholar Who Walks the Night</i>	KakaoPage	Content K
	<i>Last</i>	<i>Last</i>	Daum Webtoon	Drama House, AStory
	<i>The Chat of Joseon Dynasty</i>	<i>Webtoon Hero Toondra Show</i>	NAVER Webtoon	MBC Plus
	<i>Awl</i>	<i>Awl</i>	NAVER Webtoon	Signal
	<i>Imaginary Cat</i>	<i>Imaginary Cat</i>	Daum Webtoon	
2016	<i>Cheese In the Trap</i>	<i>Cheese in the Trap</i>	NAVER Webtoon	Eight Works, Kross Pictures
	<i>My Lawyer, Mr. Jo</i>	<i>My Lawyer, Mr. Jo</i>	NAVER Webtoon	SM C&C
	<i>Lucky Romance</i>	<i>Lucky Romance</i>	NAVER Webtoon	H. Brothers
	<i>Hey Ghost, Let's Fight</i>	<i>Hey Ghost, Let's Fight</i>	NAVER Webtoon	THE Unicorn
	<i>Sweet Stranger and Me</i>	<i>Sweet Stranger and Me</i>	Daum Webtoon	Content K
	<i>The Sound of Your Heart</i>	<i>The Sound of Your Heart</i>	NAVER Webtoon	Kross Pictures
2017	<i>Out of the World</i>	<i>Save Me</i>	Daum Webtoon	Hidden Sequence
	<i>Do It One More Time</i>	<i>Confession Couple</i>	NAVER Webtoon	Zium Content
	<i>Avengers Social Club</i>	<i>Avengers Social Club</i>	Daum Webtoon	JS Pictures
2018	<i>Tale of Fairy</i>	<i>Tale of Fairy</i>	NAVER Webtoon	JS Pictures
	<i>Clean with Passion for Now</i>	<i>Clean with Passion for Now</i>	Kakao Page	Drama House
	<i>Gangnam Beauty</i>	<i>Gangnam Beauty</i>	NAVER Webtoon	Art & Culture
	<i>Feel Good to Die</i>	<i>Feel Good to Die</i>	Daum Webtoon	Y-People, Production H
	<i>Your House Helper</i>	<i>Your House Helper</i>	KTOON	Art & Culture
	<i>Ping Pong Ball</i>	<i>Ping Pong Ball</i>	Daum Webtoon	Drama House
	<i>My First Love</i>	<i>My First Love</i>	Bomtoon	SBS Plus
2019	<i>The Tale of Nokdu</i>	<i>The Tale of Nokdu</i>	NAVER Webtoon	Production H, Monster Union
	<i>Love Alarm</i>	<i>Love Alarm</i>	Daum Webtoon	Studio Dragon
	<i>Pegasus Market</i>	<i>Pegasus Market</i>	NAVER Webtoon	Studio N, CJ ENM
	<i>Hell Is Other People</i>	<i>Hell Is Other People</i>	NAVER Webtoon	Woo Sang Film, Studio N
	<i>Item</i>	<i>Item</i>	KakaoPage	MBC
2020	<i>Itaewon Class</i>	<i>Itaewon Class</i>	Daum Webtoon	Showbox, Zium Content

Source: Press reports, Mirae Asset Daewoo Research

III. Key investment variables

1. Stable content supply to platforms (earnings determinant)

We note that investing in content plays can prove tricky due to their high earnings volatility and low earnings visibility. Indeed, moving along the webtoon/web novel chain (markets → platforms → content providers → content), there is a plethora of micro factors that can affect the performance of content providers. Against this backdrop, content providers' earnings stability is highly reliant on the success of the platforms through which they distribute their titles/series. In other words, for content players, the strength of the platforms with which they work, as well as the stability of their supply, are key investment considerations.

In order to mitigate risks related to their high earnings volatility and low earnings visibility, content providers must secure reliable markets and platforms. We note that Korea and Japan are thriving markets characterized by large volumes of webtoon content, low resistance to monetization, and steady inflows of new subscribers. As webtoon services have been active in Korean and Japan for quite some time (via internet portals such as NAVER and Daum and mobile messengers such as LINE and KakaoTalk), these countries already enjoy some degree of stability in terms of market size and user patterns.

NAVER and Kakao-affiliated webtoon services are unrivaled market leaders that have achieved regional diversification. As such, content providers providing stable supply to these platforms are generally less exposed to risks arising from high earnings volatility and low earnings visibility, and thus deserve valuation premiums.

From this perspective, we are positive on D&C Media, a major content supplier to KakaoPage, Daum Webtoon, and Piccoma that has secured large market shares in Korea and Japan. In addition, KakaoPage is the company's second largest shareholder with an 18.5% stake. Indeed, to ensure stable content supply, Kakao has chosen to invest in content providers instead of signing contracts with individual authors/artists. The partnership between D&C Media and Kakao has paid off, fueling growth for both parties, and we expect it to remain intact for a long time.

Going forward, platforms could increasingly pursue partnerships with new content providers. Although NAVER has thus far been focused on securing content from individual authors/artists, the company has recently shown interest in expanding partnerships with content providers to better cope with growing demand. Kakao may also make additional investments to secure new content providers and/or writers.

Table 15. Kakao's ownership stakes in webtoon/web novel/print comics players

	Investee	Details	Ownership (%)
Subsidiaries	Samyang C&C	Webtoons/web novel content production	70
	Daon Creative	Webtoons/web novel content production	66.19
	NeoBazar	Webtoon platform; base for expansion into Southeast Asian markets	68.39
Affiliates	D&C Media	Webtoons/web novel content production	18.54
	Daewon CI	Comic publication/imports	19.8
	Haksan	Comic publication/imports	19.8
	Seoul Media Comics	Comic publication/imports	22.22
	Mega Monster	Drama production	21.9

Source: Mirae Asset Daewoo Research

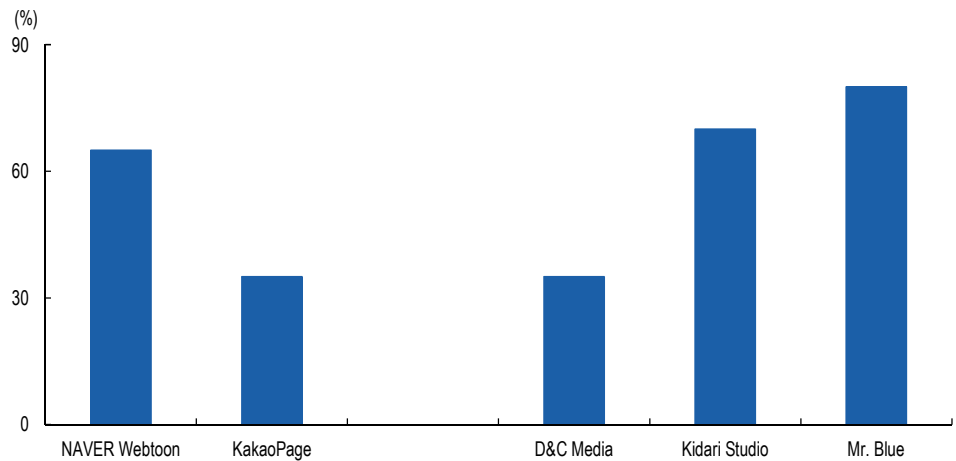
2. Global expansion potential (valuation multiple determinant)

To assess whether content providers can achieve long-term growth, we need to evaluate their ability to expand overseas, for which a new set of metrics—other than their recent performances in the Korean and Japanese markets (platform exposure)—is required.

One of the factors worth noting is content format. Webtoons are better positioned than text-based web novels to gain popularity globally, given potential translation issues. Notably, the success of web novels is determined early in serial production, and supplying a large volume of content promptly is key. Hence, hiring professional translators for web novels does not make economic sense. While webtoons tend to start generating profits three years into serial production (initial run of 15 episodes), web novel sales tend to be concentrated in the first year (initial run of 100 episodes).

The revenue share of webtoons is higher at NAVER Webtoon (more than 60%) than at KakaoPage (less than 40%). Looking at the top three listed content providers, Mr. Blue and Kidari Studio generate around 70% of their revenue from webtoons, while the share at D&C Media is less than 40%. That said, it should be noted that all three content providers are striving to strategically increase their webtoon revenue share by converting popular web novels into webtoons and/or securing their own webtoon IP through in-house studios/production units.

Figure 15. Webtoon/web novel revenue contributions for major platforms/content providers



Source: Company data, Mirae Asset Daewoo Research

Another important factor is genre. In niche genres, even small/medium-sized domestic content providers have secured competitiveness at home and abroad. Niche-genres such as (boys' love) BL, romance, and adult content often have age restrictions and target a limited customer base. Success can be found by appealing to these limited user bases, even without major marketing efforts or huge traffic. Indeed, niche-genre platforms like Lezhin Comics, Bomtoon (Kidari Studio), and Mr. Blue always rank highly in surveys of digital comic platform use thanks to their effective positioning and stable writer/content supply.

Some niche-genre platforms have already taken firm hold in the US and Europe. Lezhin Comics started its US services in December 2015 and established a business entity in 2016. Revenue spiked right after the launch, as users in the US and the domestic market were able to access the same content just by changing the language settings. Meanwhile, Kidari Studio increased its stake in Delitoon, the no. 1 webtoon platform in France, to 83% (end-2019). Delitoon mainly uses existing Bomtoon IP (in-house produced/outsourced), with a focus on genres popular in France (BL and romance). Traffic is increasing steadily, aided by the growing popularity of digital comics in the country.

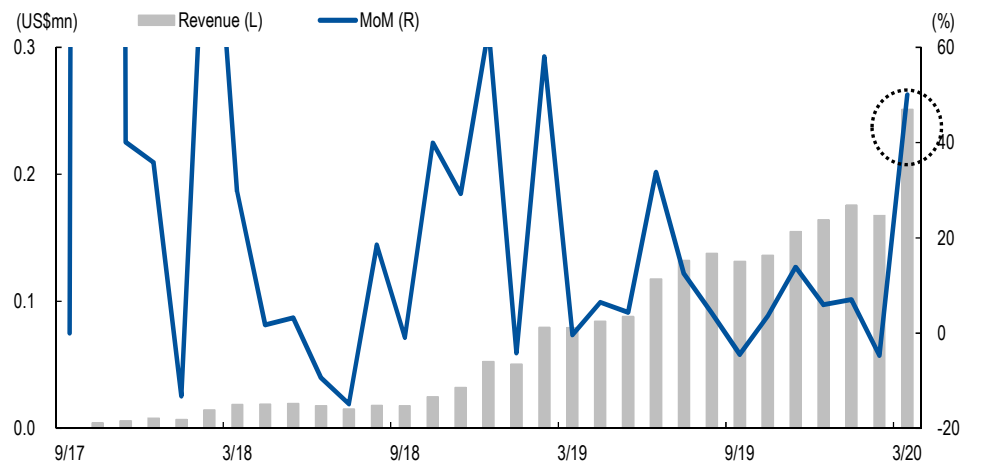
NAVER has expanded from Korea and Japan to the US, Thailand, Taiwan, and now Europe (i.e., Spain and France in December 2019). Kakao, too, is seeking to move beyond Korea and Japan by launching services in China, Taiwan, and Thailand this year (rebranding WebComics as KakaoPage Global). The overseas performances of niche-genre platforms are impressive, even compared to those of major platforms. With growth already starting to take off in some markets, including France, we advise investors to closely follow the growing dominance of domestic content providers.

Table 16. Surveys of digital comic platform preferences (single choice)

2016			2017		2018	
Rank	Platform	Votes (%)	Platform	Votes (%)	Platform	Votes (%)
1	NAVER Webtoon	66.9	NAVER Webtoon	76.9	NAVER Webtoon	81.1
2	Daum Webtoon	16.8	Daum Webtoon	9.4	KakaoPage	7.2
3	KakaoPage	5.5	Lezhin Comics	3.8	Daum Webtoon	5.3
4	KT	4.9	KakaoPage	2.9	Lezhin Comics	2.3
5	Toptoon	2.4	KTOON	1.2	Toptoon	0.9
6	Lezhin Comics	1.3	Toptoon	0.7	KTOON	0.8
7	Zzangtoon	0.6	Toomics	0.5	Mr. Blue	0.8
8	Comico	0.4	Justoon	0.3	Toomics	0.7
9	Bomtoon	0.1	Foxtoon	0.1	Bomtoon	0.3
10	Other	1.1	Other	4.0	Other	0.6

Source: KOCCA, Mirae Asset Daewoo Research

Figure 16. Revenue growth of Delitoon platform (83% owned by Kidari Studio) following introduction of webtoons to France



3. Value of existing IP (valuation multiple determinant)

In our view, the value of hit webtoon titles is probably greater than commonly believed. A growing number of webtoons are gaining huge popularity, which is not easy with more than 10,000 titles (both concluded and ongoing) competing for readership. The biggest titles—those that earn “must-read” status among new users make the re-reading list of many existing users—are highly likely to generate profits over a long period of time.

Domestic hit titles are well-positioned to become hits globally. Despite differences in tastes across regions, it is important to note that content popular in the domestic market has invariably been well-received overseas. For instance, *Lookism* and *Advent of a Goddess* are widely popular in Asian markets (where the school life and romance genres are popular), and *Sweet Home* has been a big hit in the US and Spain, where thriller/fantasy titles are in high demand.

Unlike dramas, the sale of publication rights is not commonplace for webtoons. Rather, revenue sharing between authors and platforms is much more common. As such, webtoons’ value tends to be driven by traffic growth and profits (earned by platforms/content providers), rather than by one-time income from the sale of publication rights.

Investors should note the hit titles and genres common on each platform. Kakao has several mega-hit titles, with content mostly sourced from subsidiaries, while NAVER offers a wider variety of genres with smaller-scale hit titles. While each platform has its pros and cons, NAVER is likely to do a better job of appealing to users in dissimilar cultures, whereas Kakao is more likely to fare well in Asian markets with similar cultures.

There are also important differences among the top three content providers. *Solo Leveling* (D&C Media) and *Surgeon Elysee* (Kidari Studio) were hugely successful on KakaoPage, and are currently the most and second-most viewed titles on Piccoma of Japan. These titles are highly likely to be successful in other markets if exported. Mr. Blue has secured a strong customer base in the martial arts genre. While martial arts webtoons are not expected to be as popular as other genres overseas, we think the platform’s strong author lineup can serve as effective leverage for price hikes and new customer acquisition.

Figure 17. No. 1 and no. 2 titles on Piccoma (produced by domestic content providers)

総合	恋愛	ドラマ
 <p>1위는 나혼자만 레벨업(디앤씨미디어) 俺だけレベルアップな件 DUBU(REDECIE STUDIO) Ch...</p>	 <p>1 青楼オベラ 桜小路かのこ</p>	 <p>1 極道高校生 原作 lee hoon young 作画 ki...</p>
 <p>2 外科医エリーゼ 原作 yuin / 漫画 mini 2위는 외과 의사 엘리제(키다리스튜디오)</p>	 <p>2 アデライト 漫画: SUHO 原作: Chae Habin</p>	 <p>2 あなたが抱いているのは私じゃない。(フルカラー) Aro Hazy</p>
 <p>3 公認令嬢の囁み 桐宮スギ 澤亜 双葉はづき</p>	 <p>3 転生したら王女様になりました... マゼンタブラック/キム・レクア(作画)...</p>	 <p>3 旦那がマッチングアプリでやりとりしてる相手は嫁です もなか 蒼衣ユノ</p>
 <p>4 極道高校生 原作 lee hoon young 作画 ki...</p>	 <p>4 Immoral 極道あゆみ 梨里緒</p>	 <p>4 監禁嬢 河野那歩也</p>
 <p>5 青楼オベラ 桜小路かのこ</p>	 <p>5 ある日、私は冷血公認の娘になった 作画 Cotton 原作 Siya</p>	 <p>5 重鎮 橋本以蔵 たなか亜希夫</p>

Source: Piccoma, Mirae Asset Daewoo Research

Second, platform operators and content providers can generate additional revenue by licensing their webtoon content for drama production. We think the status of content IP holders will continue to strengthen amid: 1) increasing webtoon-based drama/film production; and 2) platform operators' vertical integration (for in-house content production). In addition, licensing revenue could expand significantly, as contract terms are increasingly adopting revenue-sharing language (vs. minimum guarantees).

Against this backdrop, we see opportunities for NAVER and Kakao which have been expanding their in-house production studios and engaging in drama production since 2019. Studio N (wholly owned by NAVER Webtoon) jointly produced *Hell Is Other People* (OCN) and *Pegasus Market* (tvN) with Studio Dragon (253450 KQ/Buy/TP: W112,000/CP: W74,900) and CJ ENM (035760 KQ/Trading Buy/TP: W190,000/CP: W105,000), respectively, and Mega Monster (Kakao M 67%; KakaoPage 22%) co-produced *Touch Your Heart* (tvN) with Zium Content.

In 2020, the programming of webtoon-based dramas on TV channels and OTTs will likely increase sharply. In particular, *Sweet Home*, an upcoming big-budget drama based on the ongoing webtoon of the same name, is set to be released on Netflix in 2H20. Of note, we are seeing an increasing number of writers and drama producers moving from traditional media firms to NAVER or Kakao production affiliates—a trend reminiscent of 2012-14, when star creatives began to move from terrestrial broadcasters to CJ Group media firms.

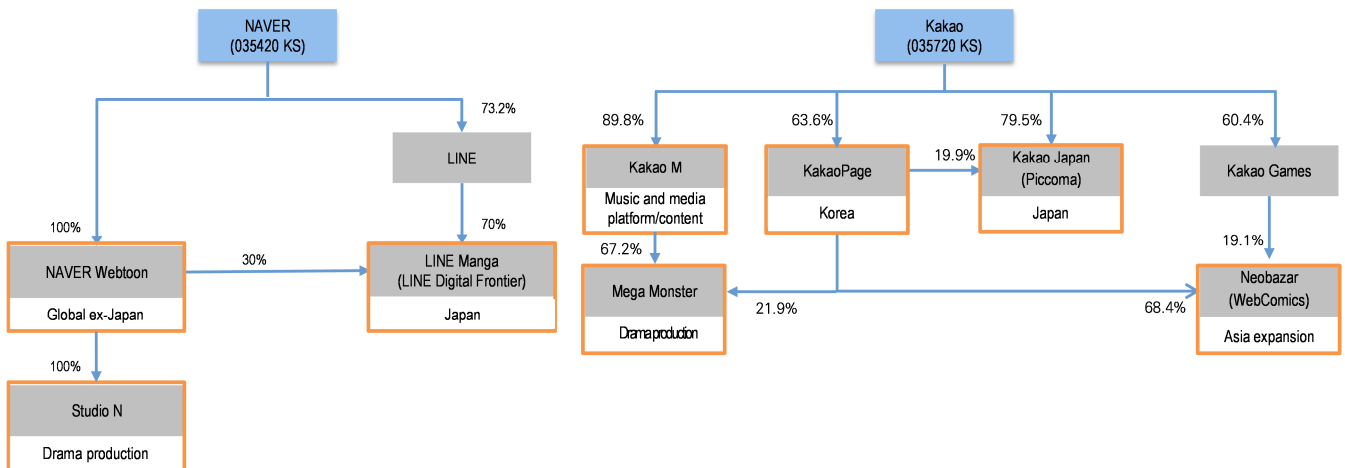
We think major domestic content providers warrant attention, as they control webtoon/web novels IP. Specifically, D&C Media, which works in genres with mass appeal (including romance fantasy), is better positioned than players focusing on niche genres (e.g., martial arts). Of note, Kidari Studio has a film/drama production affiliate, Kidari ENT.

Figure 18. Virtuous cycle: Web novels → Webtoons → Dramas → Steady IP revenue



Source: Press materials, Mirae Asset Daewoo Research

Figure 19. NAVER and Kakao: Vertical integration in content production



Source: Dart, Mirae Asset Daewoo Research

IV. Valuation

1. China Literature: A listed comp for domestic webtoon players

For domestic webtoon providers that have access to stable platforms and popular authors, we believe China Literature (772 HK/CP: HK\$31.10)—China’s top web novel platform/content provider—is a suitable comp. In 2019, the firm posted revenue of W838.2bn and operating profit of W168.1bn. The firm is now trading at a 2020F P/E of 21.6x (market cap of W500mn).

China Literature is a leading source of IP (across all content categories) for Tencent (700 HK/CP: HK\$385). As of end-2019, the firm has roughly 8mn contracted authors and nearly 2.2bn MAU. Notably, 18 of China’s 20 best-selling authors are now signed to China Literature (based on top 10 lists for male and female readers).

Following monetization in 1H17, the firm has delivered dramatic top-line growth through content sales. In addition, its 2H18 acquisition of New Classics Media, a renowned local TV/film producer, has enabled further content redistribution/licensing expansion. Notably, we think China Literature and some domestic webtoon providers share similar business models and growth stories, despite striking differences in target markets (China vs. Asia ex-China) and scale (e.g. author/user bases).

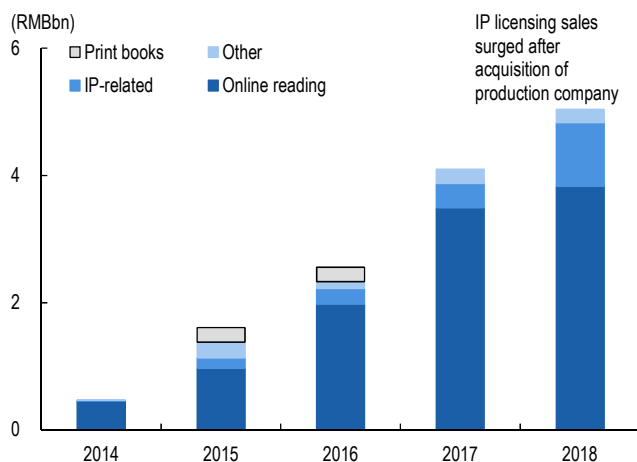
We believe that certain domestic webtoon/web novel platform operators (e.g., KakaoPage, NAVER Webtoon, Ridibooks, Munpia) have the potential to pursue IPOs within the next year or two

Table 17. China Literature: Annual earnings (RMBmn)

	2014	2015	2016	2017	2018	2019F	2020F
Revenue	466	1,607	2,557	4,095	5,038	7,000	9,200
Operating profit	4	-267	-56	503	798	1,223	1,436
Pretax profit	4	-286	-55	647	865	1,172	1,490
Net profit	-21	-348	37	556	911	995	1,307
YoY							
Revenue		244.6	59.1	60.2	23.0	38.9	31.4
Operating profit		-6,855.8	-79.2	-1,004.0	58.8	53.3	17.4

Source: Bloomberg, Mirae Asset Daewoo Research

Figure 20. Growth drivers for China Literature: Monetization in 2017, IP in 2018



Source: China Literature, Mirae Asset Daewoo Research

Figure 21. China Literature: 12-month forward P/E band



Source: Bloomberg, Mirae Asset Daewoo Research

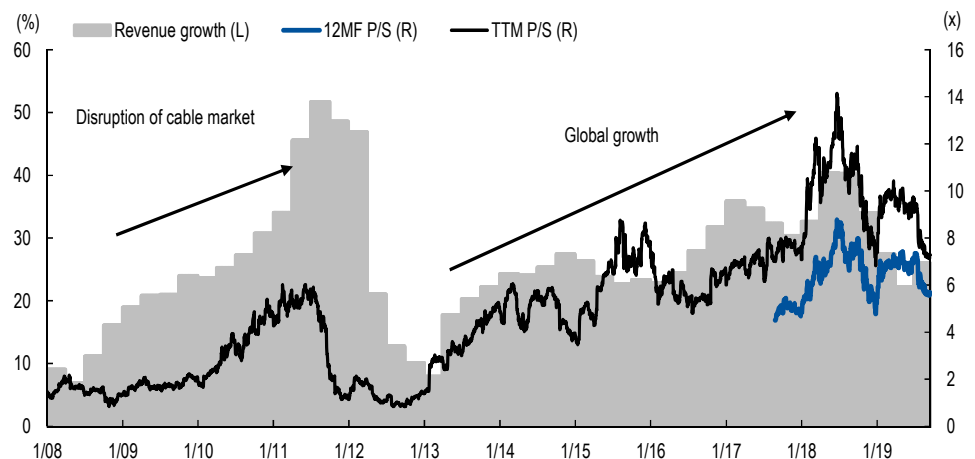
2. Netflix traded at 7x P/S during global expansion phase

For webtoon platforms that have a global presence, a target P/S of 7x, Netflix's average multiple during its global expansion phase, appears justifiable. Indeed, we note that: 1) major webtoon platforms are now pursuing global monetization after successful efforts to attract users with free offerings; and 2) content quantity and quality should increase over the long term on the back of a robust ecosystem.

For NAVER Webtoon, transaction volume more than doubled YoY in 2019, thanks to its efforts to monetize its 20mn MAU in Korea and 10mn MAU in the US. We think NAVER Webtoon stands to benefit the most from webtoon market growth, in light of its recent entry into Europe in early 2020 (following successful entries into Asia and North America). Meanwhile, leveraging its success in Korea/Japan, we believe Kakao is now poised to expand into Southeast Asian markets. And given its focus on securing original content IP, Kakao is favorably positioned for the likely growth in demand for webtoon IP.

We expect strong operating leverage effects to help sustain platform operators' high valuations. Assuming fixed costs increase 10% annually and content revenue growth is strong enough to make fixed costs almost negligible, we estimate that gross margins could theoretically reach as high as 73% in Korea and 62% overseas, depending on revenue-sharing breakdowns.

Figure 22. Netflix: Valuation re-rating coincided with revenue growth amid global expansion



Source: Bloomberg, Mirae Asset Daewoo Research

Table 18. Valuation of major global content platforms

(Wbn, %, x)

Company	Mkt cap	Revenue			Operating profit			OP margin			P/E			ROE			EPS growth		
		19	20F	21F	19	20F	21F	19	20F	21F	19	20F	21F	19	20F	21F	19	20F	21F
Integrated platform (Korea)																			
NAVER	28,171	6,593	7,563	8,543	710	1,021	1,381	10.8	13.5	16.2	42.6	38.7	27.0	10.6	11.8	14.7	-8.4	25.3	43.3
Kakao	13,422	3,070	3,771	4,401	207	406	563	6.7	10.8	12.8	-	41.3	30.3	-5.8	5.9	7.5	-	205.3	36.2
Web literature platform/content																			
D&C Media	238	42	54	68	8	12	15	18.8	21.5	21.8	27.6	23.0	19.3	17.0	22.2	21.3	36.9	-	19.1
Kidari Studio	71	27	-	-	1	-	-	2.6	-	-	30.8	-	-	12.3	-	-	826.7	-	-
Mr. Blue	171	64	82	-	14	23	-	21.7	28.1	-	14.1	9.0	-	32.1	35.2	-	338.1	-	-
China Literature	5,018	838	1,583	1,746	168	255	294	20.1	16.1	16.8	34.3	21.6	19.2	5.0	6.3	6.7	36.5	9.8	12.3
Music/video streaming																			
Netflix	198,234	23,496	29,545	35,192	3,036	4,793	6,616	12.9	16.2	18.8	88.2	53.6	38.7	29.1	29.1	29.0	53.2	40.4	38.4
Spotify	28,033	8,825	11,163	13,492	-95	-247	-71	-1.1	-2.2	-0.5	-	-	-	-9.0	-7.9	0.6	-134.1	-8.5	69.5
Integrated platform (global)																			
Alphabet	941,460	188,674	172,002	-	39,903	41,193	55,896	21.1	23.9	-	23.0	20.4	15.8	18.1	15.5	16.7	12.1	19.1	29.3
Facebook	564,489	82,410	94,636	119,875	27,960	31,544	43,375	33.9	33.3	36.2	19.5	19.0	14.3	20.0	19.7	20.9	-15.3	-14.2	32.7
Tencent	572,773	52,019	79,740	97,060	15,370	23,239	28,029	29.5	29.1	28.9	37.9	29.1	23.7	23.9	22.2	22.1	9.7	21.6	22.7
Avg.								15.5	17.2	18.0	33.9	27.5	22.8	11.7	2.7	6.3	48.5	14.7	33.4

Source: Bloomberg, Mirae Asset Daewoo Research

D&C Media (263720 KQ)

Leveling up alongside Kakao

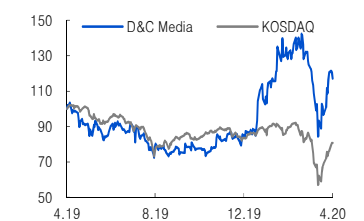
Entertainment

(Initiate)	Buy
Target Price (12M, W)	30,000
Share Price (04/08/20, W)	20,550
Expected Return	46%

OP (20F, Wbn)	12
Consensus OP (20F, Wbn)	11
EPS Growth (20F, %)	114.8
Market EPS Growth (20F, %)	41.8
P/E (20F, x)	23.8
Market P/E (20F, x)	11.0
KOSDAQ	607.37

Market Cap (Wbn)	252
Shares Outstanding (mn)	12
Free Float (%)	46.6
Foreign Ownership (%)	2.5
Beta (12M)	0.83
52-Week Low	12,700
52-Week High	25,000

(%)	1M	6M	12M
Absolute	-6.2	50.5	17.1
Relative	-0.7	57.5	45.0



Leading content provider expanding beyond Korea and Japan

D&C Media is a provider of webtoon, web novel, and genre fiction content, specializing in the romance, fantasy, and light novel genres. The company publishes content produced by its sub-labels through web platforms (e.g., KakaoPage, NAVER Webtoon, and Ridibooks) under a profit-sharing model (based on gross revenue). Its largest shareholders are Shin Hyun-ho (34.2%) and KakaoPage (18.1%). As of 2019, e-books (i.e., web novels and webtoons) accounted for 83% of revenue, and print books made up the remaining 17%. Domestic and overseas revenue of the e-books business has been growing rapidly, driven by the increasing popularity of “novel comics” (webtoons adapted from web novels) amid the rise of mobile content consumption.

Investment points: Kakao partnership, overseas advance, and growing role of content providers

Kakao partnership: D&C Media is a major content supplier for KakaoPage, which has acquired a stake in the company to ensure stable content supply. Strong platform support allows market growth to translate into earnings. The partnership with KakaoPage guarantees that a certain number of series are published on the platform every year, provides advantages in terms of exposure and marketing, and improves web novel IP diversification prospects (novel comics and adaptation into dramas).

Overseas advance: In 2020, we expect the company's overseas exposure to increase. While the company stands to benefit indirectly from KakaoPage's move into Southeast Asia, it is also utilizing its own networks (regional partners) to expand overseas. The experience of NAVER Webtoon and Piccoma suggests that the overseas advance of platforms tends to be driven by domestic hit titles that have already been published. Given 1) the growing popularity of Korean webtoons overseas and 2) the company's library of hits (such as *Solo Leveling*, *Daughter of the Emperor*, and *Empress of Another World*), we believe overseas expansion will provide a lift to earnings.

No. 1 content provider: With the need for quality control in web novels rising due to the global expansion of major platforms and IP diversification, we expect content providers to play a more prominent role in content planning, distribution, and reproduction. As content production becomes more segmented and systemized, we are likely to see greater involvement from content providers. D&C Media already has a roster of more than 500 creators, which gives it a wider range of options for content planning. The company's access to a stable platform is also a major appeal for authors. We expect D&C Media to maintain or strengthen its position as the no. 1 content provider going forward.

Initiate coverage with Buy and TP of W30,000

We initiate our coverage on D&C Media with a Buy rating and target price of W30,000. We derived our target price by applying a P/E of 35x to our 2020 net profit estimate (W10.3bn). Our target P/E is based on China Literature's multiple in 1H19, as we believe D&C Media is at a similar stage of growth (driven by monetization and IP diversification). Increasing interest in new content sparked by growing mobile consumption amid COVID-19 has coincided with the global expansion of major platforms, fueling the popularity of Korean webtoons. We believe opportunities will emerge not only for platforms that are expanding globally (NAVER and Kakao), but also for content providers that supply content to these platforms.

FY (Dec.)	12/16	12/17	12/18	12/19	12/20F
Revenue (Wbn)	-	27	32	42	56
OP (Wbn)	-	5	6	8	12
OP Margin (%)	-	18.5	18.8	19.0	21.4
NP (Wbn)	-	5	5	5	11
EPS (W)	-	442	408	403	865
ROE (%)	-	14.2	14.4	12.4	22.7
P/E (x)	-	16.0	34.6	48.3	23.8
P/B (x)	-	2.6	4.6	5.6	4.8
Dividend Yield (%)	-	0.0	0.0	0.0	0.0

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

Investment points

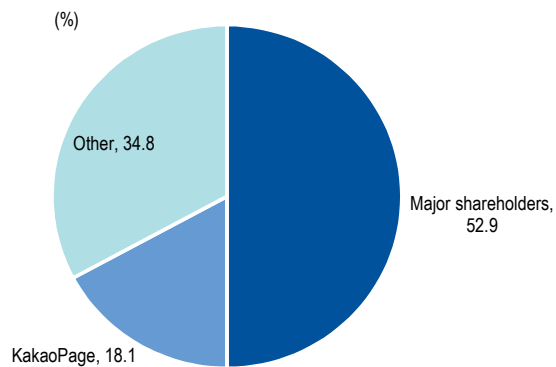
Benefiting from market growth through collaboration with KakaoPage

D&C Media receives significant support from KakaoPage, its second-largest shareholder (18.1% stake). This close relationship with the leading domestic web novel platform helps D&C Media take full advantage of its strengths and overcome its weaknesses.

1) D&C Media stands to benefit from the growth of the content services market, supported by its partnership with KakaoPage, a dominant player in reliable growth markets (Korea/Japan). We believe that, by working closely with a platform operator, D&C Media is able to mitigate a key weakness inherent to content providers—a lack of visibility on titles’ commercial prospects.

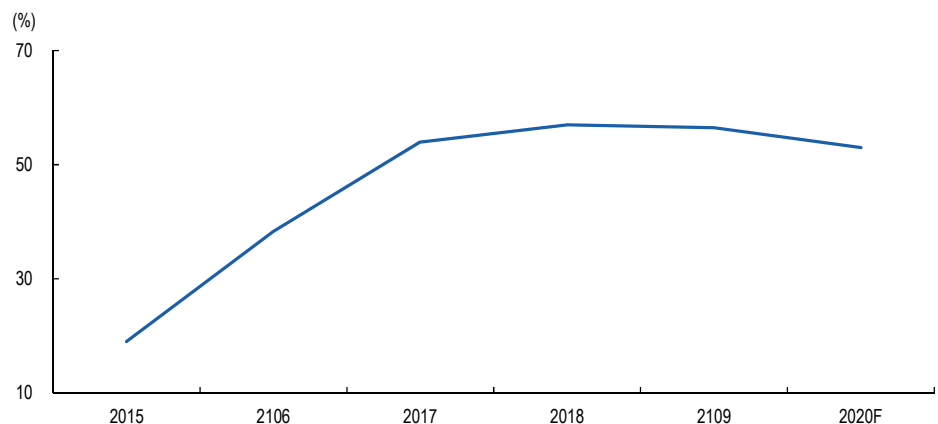
In the drama content/licensing space, the cases of Studio Dragon and J Contentree (036420 KS/Buy/TP: W52,000/CP: W29,300) illustrate the mutually beneficial relationship that can arise between content providers and platforms. Amid the expansion of the drama licensing market since 2017, both companies have enjoyed top-line and margin improvements thanks to a combination of bigger budgets, better content quality, and revenue diversification. Significantly, Studio Dragon and J Contentree were able to achieve greater and faster growth than rivals thanks to their captive demand from affiliated program providers—and we expect a similar scenario to unfold in the webtoon market. Specifically, we believe D&C Media’s special ties with KakaoPage provide the company with a stable base for content production.

Figure 23. D&C Media’s ownership structure



Source: Dart, Mirae Asset Daewoo Research

Figure 24. KakaoPage accounts for 57% of D&C Media’s e-book sales

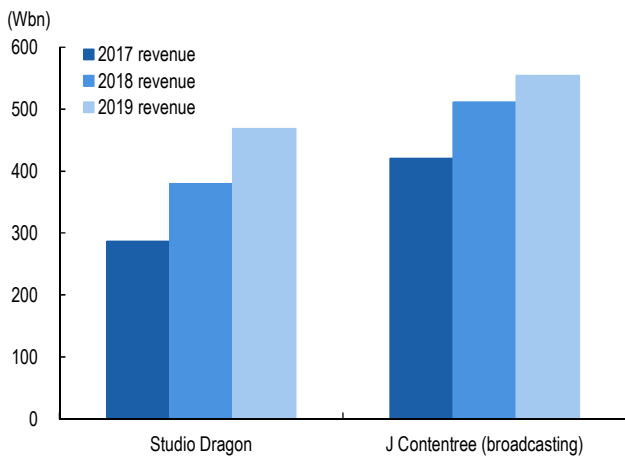


Source: Company data, Mirae Asset Daewoo Research

2) D&C Media titles generally enjoy a relatively high rate of success, as they receive greater exposure than other series on KakaoPage. While externally sourced content is placed under category tabs such as day of the week or genre, KakaoPage originals (i.e., content sourced from subsidiaries/affiliates) are displayed up-front on the main page. Moreover, titles produced by subsidiaries/affiliates receive special consideration when KakaoPage launches promotions.

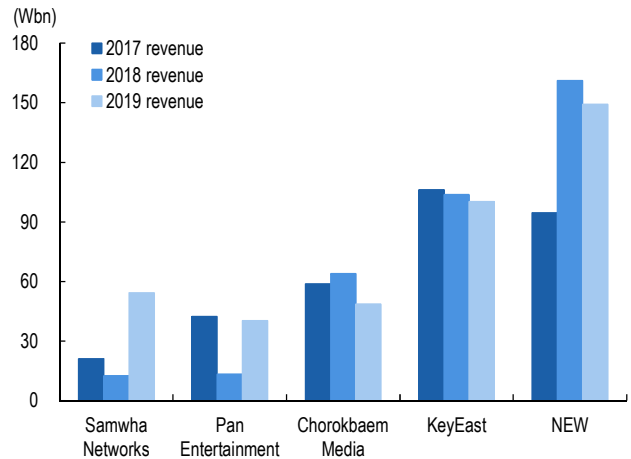
3) D&C Media appears to be successfully implementing an OSMU strategy. For instance, by leveraging already popular web novel storylines (as well as user data harvested by its market-leading platform partner), the company can give its novel comics a leg up on the competition. Indeed, many of D&C Media's globally popular titles (e.g., *Solo Leveling* and *Daughter of the Emperor*) are web novel adaptations.

Figure 25. Drama market: Affiliated program providers → Captive demand → Benefits from market growth



Source: WISEfn, Mirae Asset Daewoo Research

Figure 26. Absence of captive market → Uncertainty over programming → Higher volatility



Source: WISEfn, Mirae Asset Daewoo Research

Overseas expansion

Over the past five years, web novels and webtoons have served as a growth driver for D&C Media. While company-wide revenue increased at a CAGR of 35.9% between 2014 and 2019 (W9.1bn → W42.1bn), e-book revenue expanded at a CAGR of 64.2% (W2.9bn → W34.5bn). While top-line exposure to the domestic market is high at 86%, the overseas contribution has been growing (W400mn in 2017 → W4.7bn in 2019). D&C Media expects to see more business opportunities from increasing global webtoon demand and is taking a two-pronged approach to overseas markets.

1) Growth aligned with KakaoPage’s global expansion: KakaoPage acquired Indonesia-based WebComics in late 2019 and rebranded it as KakaoPage Global in February 2020 as part of its efforts to expand beyond Korea and Japan to the rest of Asia. One of KakaoPage’s key strengths is a massive pool of domestically sourced content, including major hits such as D&C Media’s *Solo Leveling*, a long-time top webtoon in both Korea and Japan (Piccoma). As KakaoPage pursues global expansion, it will surely leverage its blockbusters, which should bring about new opportunities for key D&C Media titles such as *Solo Leveling*.

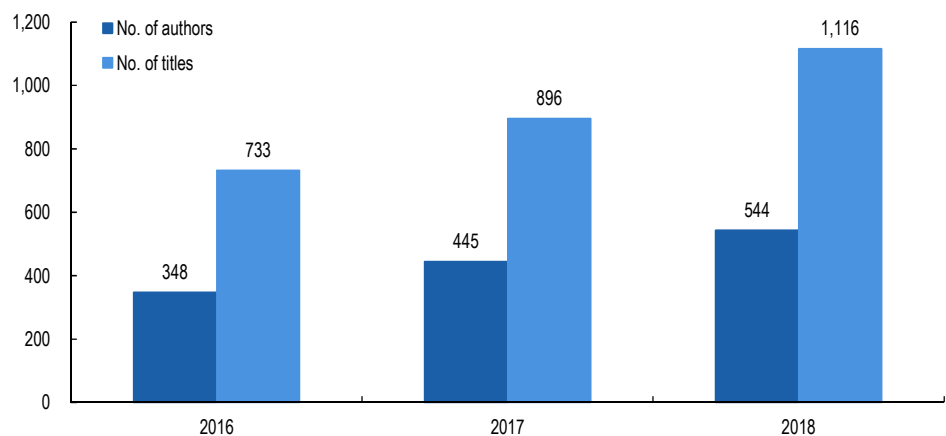
2) Expansion through partnerships with local players. D&C Media is working with local partners (e.g., Kuaikan in China and Comico and Ookbee in Thailand) in markets where KakaoPage has no direct presence. China is a growth market characterized by platform (Tencent/Weibo) and user growth as well as successful monetization (from 2017). We believe China offers attractive prospective income streams such as user payments and licensing sales. Meanwhile, web literature is also gaining footholds in Thailand, Vietnam, Malaysia, and Singapore.

Content providers to play a greater role in the value chain; D&C Media is the market leader

New webtoon authors have two options: either work alone throughout the entire creative process or work as part of a team. Recently, production has become more segmented and systemized, with content providers stepping in across the planning, team building, and production processes to meet the growing need for quality management.

With a long track record and an extensive network of partners across different genres, D&C Media has a roster of more than 500 creators across storyline development, illustrating, writing, and planning. With content production increasingly being organized into projects, we expect D&C Media to maintain its position as the no. 1 content provider going forward, supported by its vast talent pool. The company’s access to a captive market is also a major appeal for authors.

Figure 27. D&C Media has the largest pool of authors and titles



Source: Company data, Mirae Asset Daewoo Research

Valuation

We initiate coverage on D&C Media with a Buy rating and target price of W30,000. We derived our target price by applying a P/E of 35x to our 2020 net profit estimate (W10.3bn). Our target multiple reflects the company's entry into a rapid growth phase driven by monetization and regional diversification. One of our major comps for D&C Media is China Literature, which traded at over 50x P/E in 2017, when revenue growth climbed over 60% YoY thanks to monetization, leading to a bottom-line turnaround. However, the Chinese player's multiple declined to the 20-30x range in 2018, as paid content revenue growth slowed following the firm's acquisition of a film producer (in 2H18), driving a shift in focus toward IP distribution.

China Literature is a leading source of IP (across all content categories) for Tencent. As of end-2019, the firm has roughly 8mn contracted authors and nearly 2.2bn MAU. Notably, 18 of China's 20 best-selling authors are now signed to China Literature (based on top 10 lists for male and female readers).

Following monetization in 1H17, the firm has delivered dramatic top-line growth through content sales. In addition, its 2H18 acquisition of New Classics Media, a renowned local TV/film producer, enabled further content redistribution/licensing expansion. Notably, we think China Literature and some domestic webtoon providers share similar business models and growth stories, despite striking differences in target markets (China vs. Asia ex-China) and scale (e.g., author/user bases).

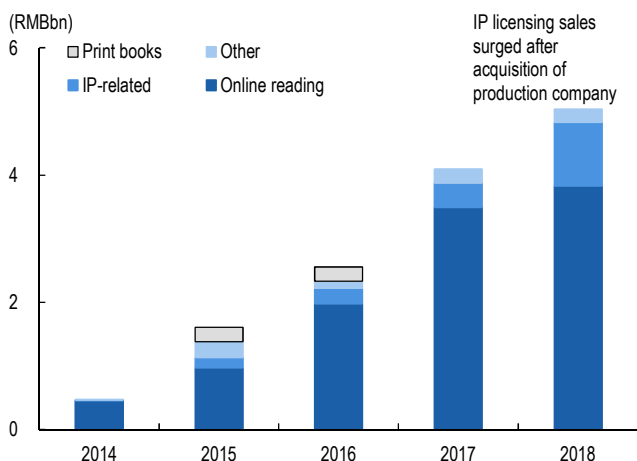
We believe that certain domestic webtoon/web novel platform operators (e.g., KakaoPage, NAVER Webtoon, Ridibooks, Munpia) have the potential to pursue IPOs within the next year or two.

Table 19. China Literature: Annual earnings (RMBmn)

	2014	2015	2016	2017	2018	2019F	2020F
Revenue	466	1,607	2,557	4,095	5,038	7,000	9,200
Operating profit	4	-267	-56	503	798	1,223	1,436
Pretax profit	4	-286	-55	647	865	1,172	1,490
Net profit	-21	-348	37	556	911	995	1,307
YoY							
Revenue		244.6	59.1	60.2	23.0	38.9	31.4
Operating profit		-6,855.8	-79.2	-1,004.0	58.8	53.3	17.4

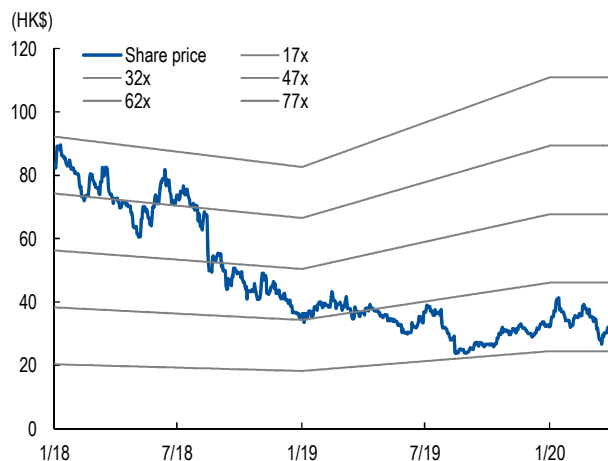
Source: Bloomberg, Mirae Asset Daewoo Research

Figure 28. Growth drivers for China Literature: Monetization in 2017, IP in 2018



Source: Bloomberg, Mirae Asset Daewoo Research

Figure 29. China Literature: 12-month forward P/E band



Source: Bloomberg, Mirae Asset Daewoo Research

Earnings outlook

We forecast D&C Media's 2020 revenue at W56.3bn (+33.6%), and operating profit at W12.5bn (+57.8%). At end-2019, the firm decided to shut down its mobile gaming business, which had been operated via subsidiary D&C of Storm. The subsequent decline in earnings volatility alongside webtoon/web novel business expansion in both Korea and overseas should drive company-wide earnings growth from 2020 onward.

D&C Media generates revenue from new content as well as its library of existing hits, ensuring a steady revenue flow. For 2020, we estimate the firm's captive revenue (tied to KakaoPage) at W26.5bn (+32.6%), and non-captive revenue at W29.8bn (+34.5%). Notably, overseas revenue mix should sharply increase to 19% (from 3%), backed by KakaoPage's overseas expansion and stronger partnership ties. Potential earnings catalysts include KakaoPage Global taking hold in overseas markets and web novel demand growth globally.

Table 20. Annual earnings (consolidated from 2018)

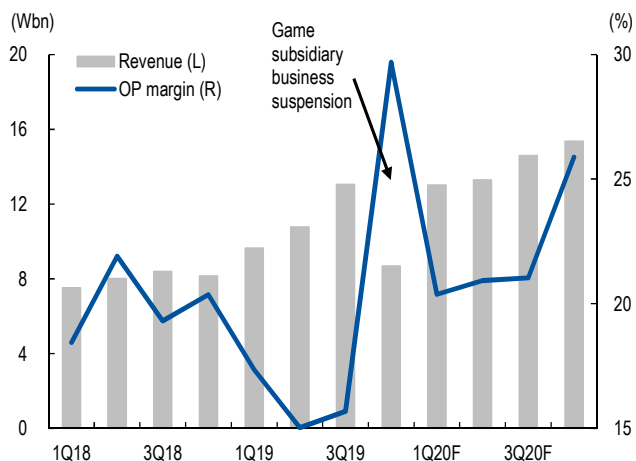
(Wmn, %)

	2016	2017	2018	2019	2020F
Revenue	19	27	32	42	56
E-books	11	17	23	35	49
Print books	8	10	9	7	7
Other	0	0	0	0	0
Gaming	0	0	1	3	0
SG&A	0	0	26	34	44
Operating profit	4	5	6	8	12
OP margin	19.6	20.5	20.0	18.8	22.2
Pretax profit	4	6	7	8	13
Net profit	3	5	5	5	11
Net margin	15.9	17.1	15.3	11.5	18.9
YoY					
Revenue	31.5	40.5	20.9	31.4	33.6
E-books	42.8	52.0	40.5	49.5	41.2
Paper books	19.2	23.9	-12.1	-16.9	-3.0
Other	-5.7	70.5	-3.1	-17.9	1.0
Operating profit	40.7	47.1	18.2	23.2	57.8
Net profit	41.9	50.6	8.4	-1.3	118.8
Key assumptions					
KakaoPage transactions	0	0	222	290	334
Piccoma transactions	0	0	60	140	241

Note: E-books include web novels and webtoons

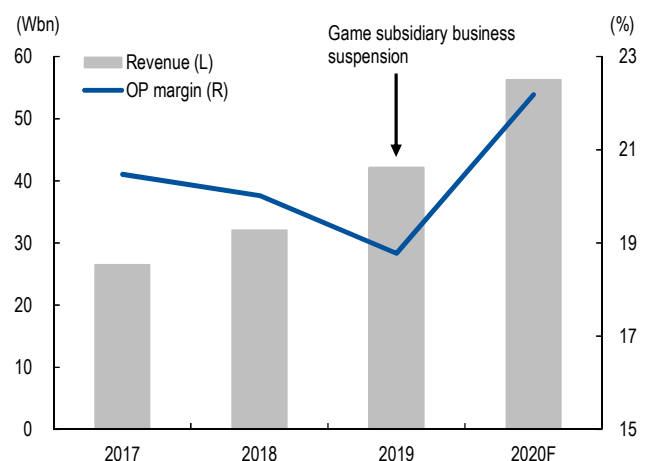
Source: Mirae Asset Daewoo Research

Figure 30. Quarterly earnings: OP margin stabilized following the closure of the gaming business



Source: WISEfn, Mirae Asset Daewoo Research

Figure 31. Annual earnings: KakaoPage's overseas expansion and growing demand for web novels/webtoons globally



Source: WISEfn, Mirae Asset Daewoo Research

Table 21. Quarterly earnings

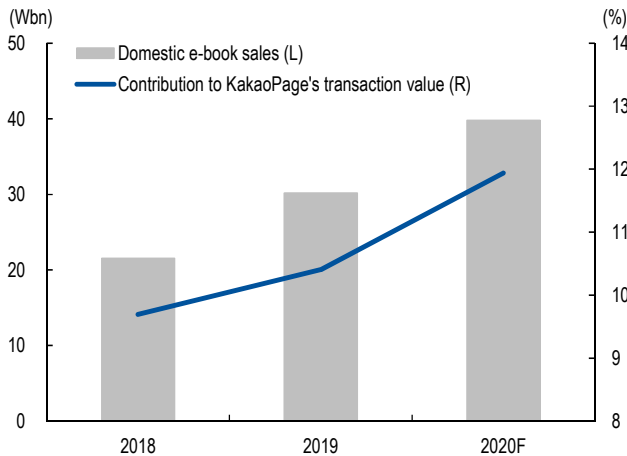
(Wmn, %)

(Wbn, %, %p)	1Q19	2Q19	3Q19	4Q19P	1Q20F	2Q20F	3Q20F	4Q20F
Revenue	10	11	13	9	13	13	15	15
E-books	7	8	9	10	11	12	13	14
Print books	2	2	2	2	2	2	2	2
Other	0	0	0	0	0	0	0	0
Gaming	0	1	2	0	0	0	0	0
Operating expense	8	9	11	6	10	11	12	11
Operating profit	2	2	2	3	3	3	3	4
OP margin	17.4	15.0	15.7	29.7	20.4	20.9	21.0	25.9
Pretax profit	2	2	2	3	3	3	3	4
Net profit	1	1	2	1	2	2	3	3
Net margin	14.8	11.8	12.3	6.4	17.3	18.0	17.9	21.9
YoY								
Revenue	28.2	34.4	55.6	6.3	35.1	23.5	11.9	77.2
E-books	38.7	41.0	44.5	72.3	54.1	45.2	37.5	32.4
Operating profit	20.7	-7.8	26.3	55.1	58.7	72.1	50.2	54.4
Net profit	18.7	-11.9	20.7	-41.5	57.9	88.1	63.1	509.4
Key assumptions								
KakaoPage transactions	68	68	75	79	78	78	87	91
Piccoma transactions	25	33	37	45	53	58	63	67

Note: E-books include web novels and webtoons

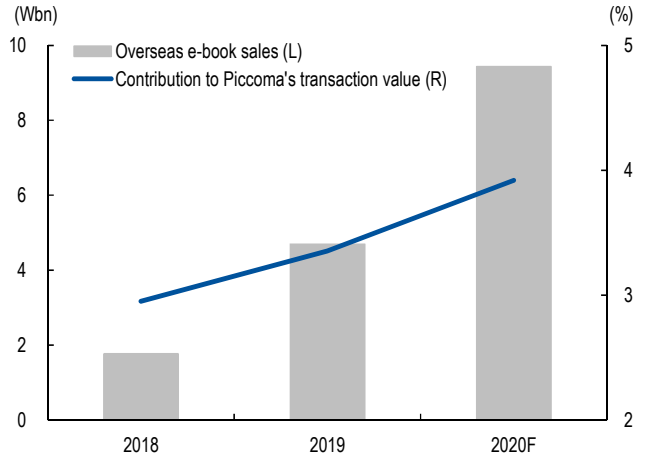
Source: Mirae Asset Daewoo Research

Figure 32. D&C Media's share of KakaoPage transactions



Source: Company data, Mirae Asset Daewoo Research

Figure 33. D&C Media's share of Piccoma transactions



Source: Company data, Mirae Asset Daewoo Research

D&C Media (263720 KQ/Buy/TP: W30,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/18	12/19	12/20F	12/21F
Revenue	32	42	56	69
Cost of Sales	0	0	0	0
Gross Profit	32	42	56	69
SG&A Expenses	26	34	44	53
Operating Profit (Adj)	6	8	12	16
Operating Profit	6	8	12	16
Non-Operating Profit	1	0	1	1
Net Financial Income	0	0	1	1
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	7	8	13	17
Income Tax	1	2	2	3
Profit from Continuing Operations	6	7	11	13
Profit from Discontinued Operations	-1	-2	0	0
Net Profit	5	5	11	13
Controlling Interests	5	5	11	13
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	5	5	11	13
Controlling Interests	5	5	11	13
Non-Controlling Interests	0	0	0	0
EBITDA	6	8	13	16
FCF (Free Cash Flow)	4	4	9	13
EBITDA Margin (%)	18.8	19.0	23.2	23.2
Operating Profit Margin (%)	18.8	19.0	21.4	23.2
Net Profit Margin (%)	15.6	11.9	19.6	18.8

Cash Flows (Summarized)

(Wbn)	12/18	12/19	12/20F	12/21F
Cash Flows from Op Activities	4	5	9	13
Net Profit	5	5	11	13
Non-Cash Income and Expense	1	2	2	3
Depreciation	0	0	0	0
Amortization	0	0	0	0
Others	1	2	2	3
Chg in Working Capital	0	-1	-2	-1
Chg in AR & Other Receivables	-1	-2	-4	-2
Chg in Inventories	0	0	-1	0
Chg in AP & Other Payables	0	1	0	0
Income Tax Paid	-1	-1	-2	-3
Cash Flows from Inv Activities	-2	-7	0	0
Chg in PP&E	0	-1	0	0
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	22	0	0	0
Others	-24	-6	0	0
Cash Flows from Fin Activities	0	2	0	0
Chg in Financial Liabilities	0	2	0	0
Chg in Equity	0	1	0	0
Dividends Paid	0	0	0	0
Others	0	-1	0	0
Increase (Decrease) in Cash	3	0	8	12
Beginning Balance	6	9	9	17
Ending Balance	9	9	17	29

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/18	12/19	12/20F	12/21F
Current Assets	40	49	66	83
Cash and Cash Equivalents	9	9	17	29
AR & Other Receivables	3	6	11	13
Inventories	1	1	2	2
Other Current Assets	27	33	36	39
Non-Current Assets	4	4	5	5
Investments in Associates	1	1	2	2
Property, Plant and Equipment	2	3	3	2
Intangible Assets	0	0	0	0
Total Assets	44	53	72	88
Current Liabilities	7	11	18	22
AP & Other Payables	0	1	2	2
Short-Term Financial Liabilities	0	2	2	2
Other Current Liabilities	7	8	14	18
Non-Current Liabilities	0	1	1	1
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	0	1	1	1
Total Liabilities	7	12	19	23
Controlling Interests	37	42	52	65
Capital Stock	6	6	6	6
Capital Surplus	16	16	16	16
Retained Earnings	15	20	31	44
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	37	42	52	65

Forecasts/Valuations (Summarized)

	12/18	12/19	12/20F	12/21F
P/E (x)	34.6	48.3	23.8	19.0
P/CF (x)	30.7	36.1	19.7	15.6
P/B (x)	4.6	5.6	4.8	3.8
EV/EBITDA (x)	21.6	28.1	16.5	12.2
EPS (W)	408	403	865	1,084
CFPS (W)	461	539	1,041	1,314
BPS (W)	3,079	3,448	4,313	5,397
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	18.5	31.3	33.3	23.2
EBITDA Growth (%)	20.0	33.3	62.5	23.1
Operating Profit Growth (%)	20.0	33.3	50.0	33.3
EPS Growth (%)	-7.7	-1.2	114.6	25.3
Accounts Receivable Turnover (x)	10.4	9.2	7.1	6.1
Inventory Turnover (x)	63.9	48.4	40.0	34.4
Accounts Payable Turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	12.4	10.0	17.0	16.6
ROE (%)	14.4	12.4	22.7	22.6
ROIC (%)	110.8	119.9	147.6	154.8
Liability to Equity Ratio (%)	19.5	28.7	37.2	35.2
Current Ratio (%)	591.4	432.5	360.1	379.7
Net Debt to Equity Ratio (%)	-83.8	-15.8	-82.1	-84.0
Interest Coverage Ratio (x)	0.0	2,138.9	-180.4	-241.3

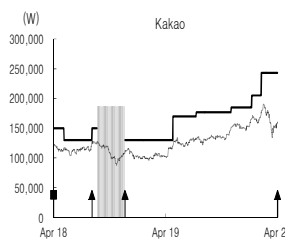
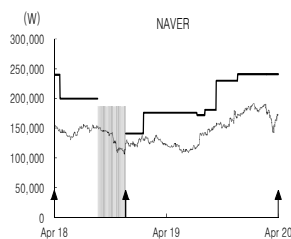
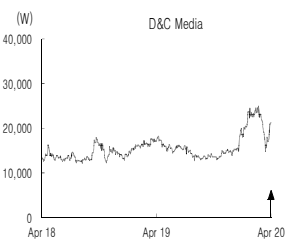
APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price	Company (Code)	Date	Rating	Target Price
D&C Media (263720)	04/06/2020	Buy	30,000		02/13/2020	Buy	243,000
					01/13/2020	Buy	205,000
NAVER (035420)					11/07/2019	Buy	185,000
	11/26/2019	Buy	241,000		07/16/2019	Buy	177,000
	09/17/2019	Buy	230,000		05/01/2019	Buy	170,000
	08/11/2019	Buy	181,000		11/26/2018	Buy	130,000
	07/16/2019	Buy	172,000		08/27/2018	No Coverage	
	01/23/2019	Buy	176,000		08/10/2018	Buy	150,000
	11/26/2018	Buy	141,000		05/11/2018	Trading Buy	130,000
	08/27/2018	No Coverage			02/08/2018	Trading Buy	150,000
	04/26/2018	Buy	200,000				
	10/26/2017	Buy	240,000				

Kakao (035720)



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	82.04%	12.57%	5.39%	0.00%
Investment Banking Services	80.77%	11.54%	7.69%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2020)

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