

Media/Entertainment (Overweight/Maintain)

Webtoons and dramas: Strengthening growth profile

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The power of K-content

Global market share of K-content to expand on the back of strong brand identity

- Korea has emerged as a cultural powerhouse, winning Academy Awards and topping Billboard charts.
- A strong brand identity has grown around K-content, aided by Korea's economic development and success in films/music/webtoons/dramas.
- In the webtoon space, high-quality platforms have expanded their global footprint and helped to increase the overall market size, partly driven by the appeal of the format itself.
- Competition among global OTT players has fueled spending on drama content, leading to an increase in deals for production companies.

Korean players are poised to benefit

Directly benefiting from market expansion amid growing popularity of K-content

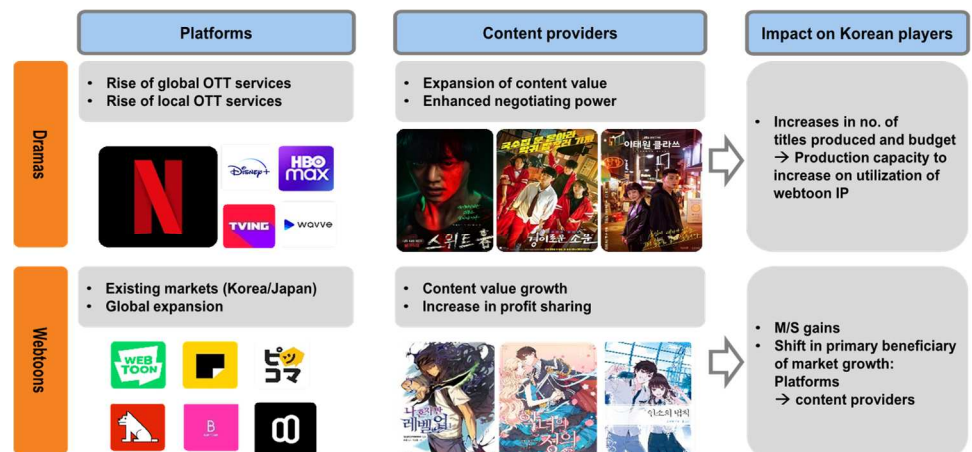
- K-content, once thought of as "niche" or "Asia-oriented," has expanded its reach to global audiences.
- Korean players have: 1) raised their profiles as video/music content providers; and 2) secured an early lead across the webtoon value chain (platforms and content providers).
- Simply put, once-small players have grown into formidable content providers and platform operators.
- We expect the webtoon and drama markets to continue to expand for quite some time, backed by: 1) the unique characteristics of each market; and 2) synergies between the two markets.
- Webtoons: Webtoons have quickly taken hold as a distinct mobile-based market (separate from paper comics). We expect user inflow to accelerate, spurred by the success of adaptations.
- Dramas: Steady replacement demand (new titles), proven sources (webtoons), and the marketing needs of OTT services should support the growth of the drama market.

Investment strategy

Major drama studios and webtoon platform/content providers to undergo re-ratings

- Webtoon platform/content providers: Globally, the number of webtoon users and webtoon transaction value are continuing to grow. Discussions on profit sharing for copyright holders are getting underway for screen adaptations of titles released in the past two to three years.
- Drama content producers: Global contracts for big-budget titles tend to precede or accompany the growth of global OTT platforms. We expect the value of content producers to rise, as recently launched domestic and global OTT platforms should lead to increased competition.
- Our top pick is Kidari Studio (webtoon platform/content provider): We initiate coverage of the stock and present a target price of W17,000. Kidari Studio's acquisition of Lezhin Entertainment has given it a dominant position in niche genres. We expect the company to benefit from acquisition synergies (distribution leverage) and see increasing market opportunities from drama adaptations of niche genres.
- Studio Dragon: We raise our target price to W120,000. We believe Studio Dragon has the best access to webtoons and OTTs services among video content producers.
- D&C Media: We maintain our target price of W45,000. We expect D&C Media to benefit from growth not only in Korea and Japan but also in China and the US.

Korean players securing a leading position in the global content value chain



Source: Mirae Asset Daewoo Research

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I. Korea emerging as a content powerhouse

Securing leading position on the back of K-content's strong brand power

Recently, we have seen a growing number of adaptations of Korean source material (webtoons, etc.) into global TV series and movies (e.g., the Netflix series *Itaewon Class* and *Sweet Home*). Notably, such adaptations are marketed in a way that highlights their Korean origins, as "K-content" has become a buzzword in the global market.

Indeed, Korean dramas and webtoons are forming their own brand identity. This is significant, as the brand power of content will become increasingly important as the supply of content increases to newly emerging platforms/formats. Given that content consumers have only so much free time, top-tier titles are expected to attract the bulk of traffic on these platforms.

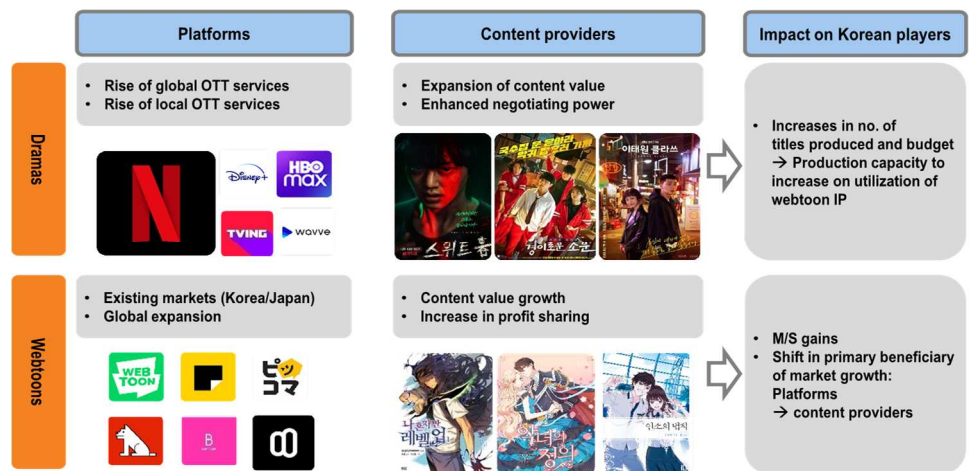
In the past, when Korean content providers were small and relied on country-specific platforms to generate revenue, K-content was thought of as "niche" or "Asia-oriented." Now, K-content is going mainstream and spanning genres, creating opportunities for Korean players to increase their global market shares and enhance their negotiating power.

The success of webtoons, a relatively new content format, is particularly encouraging. After years of trial and error in the domestic market, Korean players now provide competitive content and platforms that have allowed webtoons to take hold in the global market. Furthermore, Korean players function as both content providers and platform operators, allowing them to secure an early lead across the webtoon value chain. This business structure also allows market expansion to translate directly into corporate earnings.

Typically, cultural brands develop quietly at first, sustained by an ardent yet small group of enthusiasts. When they finally click with the wider public, they grow in earnest. Once established, a cultural brand identity is not easily reversed. This phenomenon has played out in Korea in recent years, aided by the country's increased national profile and policies to support its emergence as a cultural powerhouse. Japan offers another good example; the country's content offerings (J-pop and anime) witnessed explosive growth in the 1980s-90s, when they gained recognition from international audiences. Three decades later, Japanese animation is still globally relevant.

Given the vast and growing demand for content across the world, we see opportunities for Korean players to further expand their global footprint. With this in mind, we believe now is time to incorporate future earnings potential into the valuation of Korean players.

Figure 1. Korean players to re-rate higher in the long term due to 1) their enhanced position in the global content value chain and 2) the expansion of the webtoon market



Source: Mirae Asset Daewoo Research

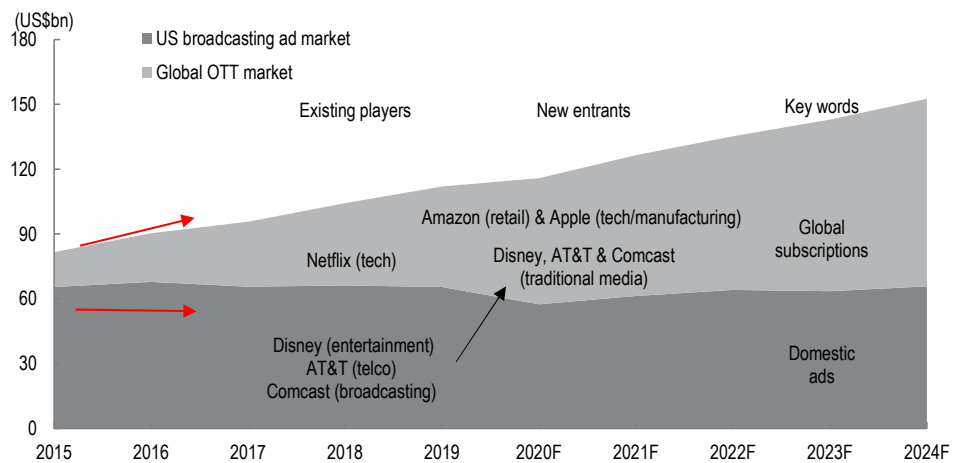
Korea: No. 2 country in terms of Netflix content power (dramas)

In 2020, hit dramas such as *Kingdom*, *Crash Landing on You*, *Itaewon Class*, and *Sweet Home* set the bar higher. By country, Korea now has the second-highest number of dramas in Netflix's top 50 list, and Korean players are gaining recognition and building loyal fan bases in countries around the world. Of note, the rise of the global OTT market (at the expense of the TV ad market) should lead to qualitative and quantitative growth for Korean players for years to come.

The latest K-dramas feature Chinese product placement ads (e.g., instant foods and the e-commerce platform JD.com). Meanwhile, the China-based OTT platform iQIYI purchased the global distribution rights to *Jiri Mountain* (excluding Korea and China) for more than W25bn. Production is also underway for a new webtoon-based drama, *My Roommate is a Gumiho*, which is scheduled to air on tvN and iQIYI in 1H21. Although this title will not be broadcast in China, the scale of demand for K-dramas in Southeast Asia and other Chinese-speaking areas is large enough to reasonably guarantee the project's viability.

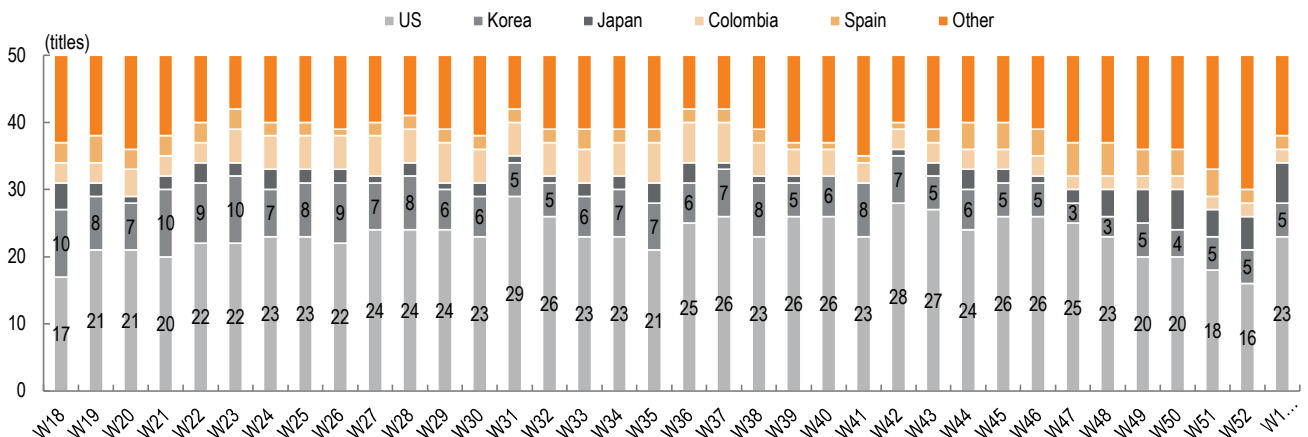
Notably, Netflix has invested in K-content by launching Netflix Entertainment Korea, its first content production firm in Asia. In addition, Apple TV announced production of *Pachinko*, an original series based on Lee Min Jin's best-selling book of the same title, with a goal of entering the Asian market in mid-2021. The entry of Disney+ into Korea also looks imminent. We expect K-content providers to continue to win big-budget projects from global OTTs.

Figure 2. Growth drivers for OTT platforms: 1) launch of subscription business models and 2) encroachment into TV ad market



Source: PwC, Mirae Asset Daewoo Research

Figure 3. Korea boasts the second-highest share of Netflix's top 50 titles



Source: FlixPatrol, Mirae Asset Daewoo Research

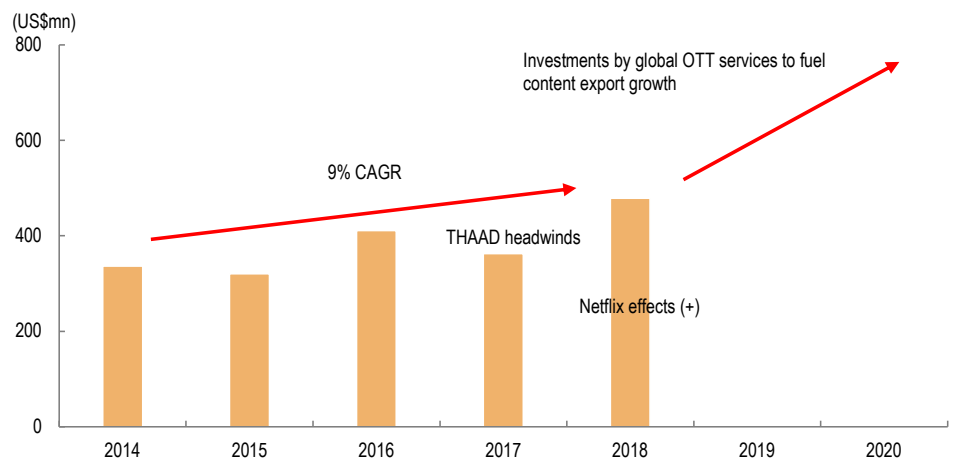
II. Expansion of drama production capacity

Right timing and right moves

Global OTT platforms have been a gateway for introducing high-quality K-dramas to the world. Korea now has the second-highest number of dramas in Netflix’s top 50 list, behind only the US. Notably, from 2014 to 2018, Korean exports of broadcasting content grew at a CAGR of 9% (from W350bn to W500bn) on the back of improvements in both content quality and distribution networks.

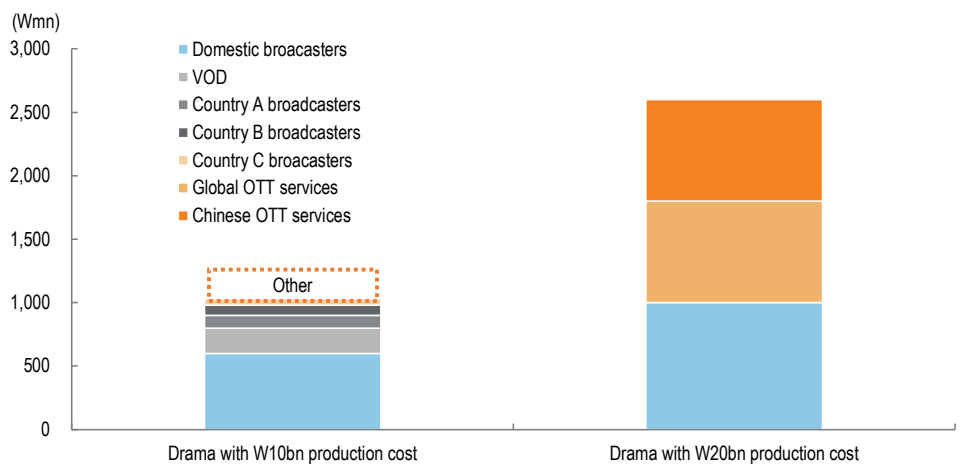
In particular, the global success of Netflix has triggered a sharp rise in K-drama exports. In the past, content was exported through more localized distribution networks (local broadcasting companies and regional OTTs). In this way, K-dramas gained a firm foothold in Asia, supported by cultural similarities and a strong track record. However, their audience reach elsewhere was limited, resulting in a marginal presence in Europe and the Americas. Nowadays, thanks to Netflix, worldwide simultaneous releases have become the norm. It has become easier for content providers and platform operators to negotiate global licensing deals. As a result, projects are bigger in scale, and content exports are on the rise.

Figure 4. Korea’s broadcasting content exports



Source: KOCCA, Mirae Asset Daewoo Research

Figure 5. Business model comparison: Traditional exports vs. exports to global OTT services



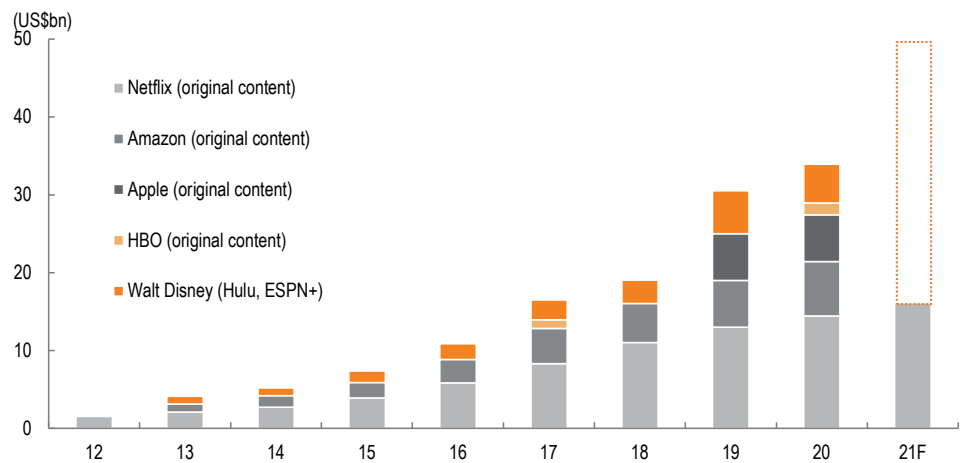
Source: Mirae Asset Daewoo Research

More than simply contributing to export growth, content exports to Netflix have enabled Korean players to build a successful track record in the production of globally targeted content. And given Netflix's huge market reach relative to traditional broadcasting companies, larger-scale projects are now possible. The quality and performance of big-budget projects have been improving, as seen in the recent success of *Sweet Home*, which followed the limited success of *Arthdal Chronicles*. We believe the performance of *Sweet Home* will make a compelling case for other OTT operators to take advantage of K-dramas to extend their reach to Asia and the rest of the world.

Currently, OTT operators such as Walt Disney (Disney+, Hulu), AT&T (HBO Max), Apple, and Amazon are seeking to emulate Netflix, expanding their content spending with an eye on geographic expansion. Major Korean content providers such as Studio Dragon and J Contentree have entered multi-year agreements with Netflix to provide a steady supply of content. As these contracts are not exclusive, content providers have opportunities to expand their customer base. Against this backdrop, we find it positive that Korean content providers have already built track records that will help them seize such valuable opportunities.

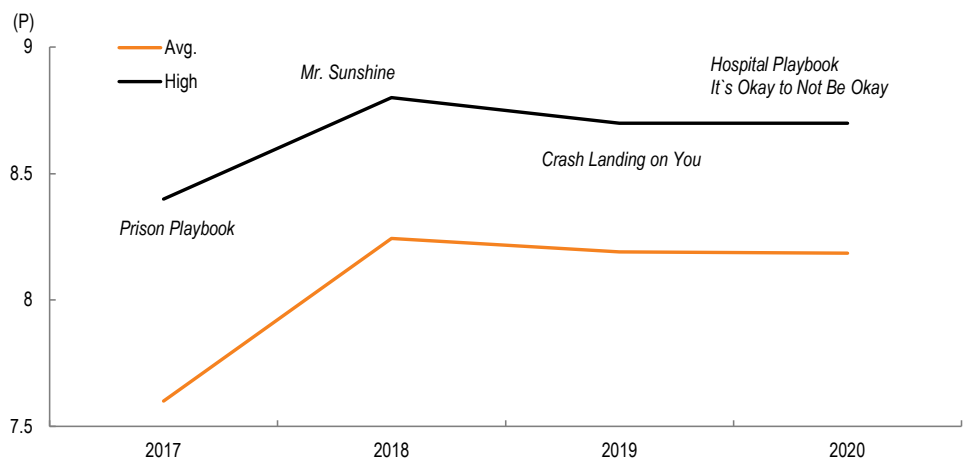
Considering the fierce competition among OTT services, we expect drama production revenue models to rapidly diversify over the next two to three years, including: 1) existing tentpoles (*Crash Landing on You*, domestic networks + US-based OTTs); 2) sales of tentpole titles to China (*Jiri Mountain*, terrestrial broadcasting companies + Chinese OTTs); 3) original series from US/Chinese OTTs (*Sweet Home*); and 4) sales of older titles. We expect such diversified licensing models to support earnings improvements for Korean content providers.

Figure 6. Content investment is at the heart of competition among global OTT services



Source: Mirae Asset Daewoo Research

Figure 7. Despite growing content to choose from, K-dramas have continued to receive solid reviews from viewers in recent years (based on IMDb ratings)



Source: IMDb, Mirae Asset Daewoo Research

Webtoon content to drive rapid expansion of drama production capacity

We expect competition among OTT services to cause: 1) an increase in project contracts/production; and 2) the diversification of licensing distribution channels over the next two to three years.

First, content spending by OTT platforms should drive an increase in project contracts. Homegrown OTT platforms are joining their global counterparts in expanding content spending at least through 2023. Capitalizing on their ties to broadcasting companies, Tving and Wavve each aim to attract 5mn paid subscribers by 2030. Tving recently announced that JTBC Studio has become its second-largest shareholder (16.7% stake) and that it will invest W400bn over the next three years. The size of Tving's planned investments matches that of Wavve (which pledged in 2019 to invest W400bn on content production for four years). We expect Tving and Wavve to launch more projects, including both long-form dramas (to compete against global rivals) and short/mid-form content (to carve out a niche).

In response to the growing number of projects, we expect domestic production companies to actively embrace high-quality webtoon series. As seen in the cases of *Itaewon Class* and *Sweet Home*, adapting webtoons into dramas can serve as an avenue for production studios to sharply expand their capacity. More than 10,000 webtoon titles are already available, offering a vast pool of content to choose from. The growing global popularity of webtoons also makes them attractive as source material.

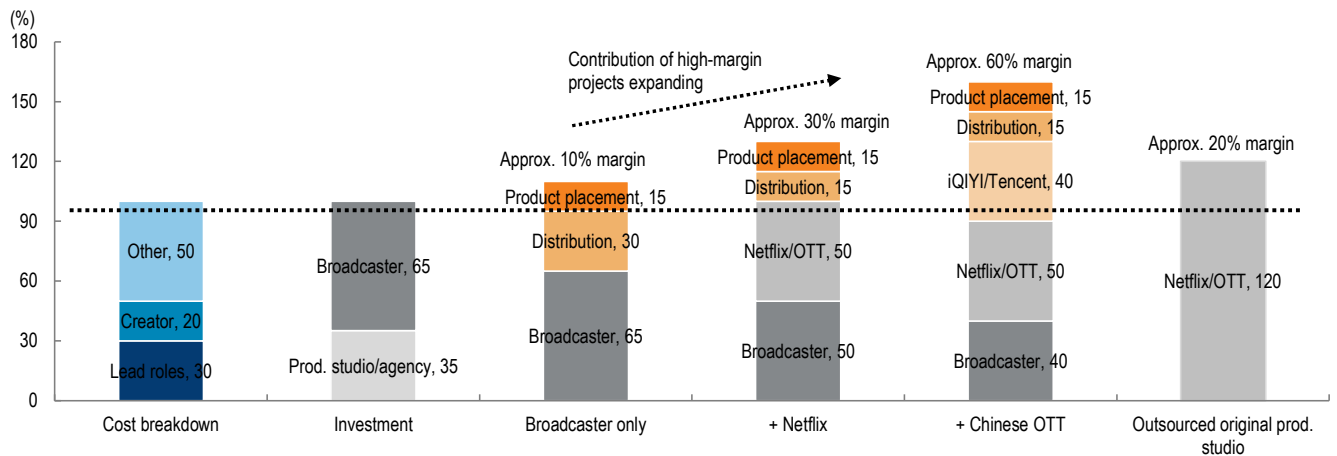
The annual production capacity of a drama production studio is usually determined by how many writers it has. Generally speaking, it takes two years for a writer to script a series. Therefore, a production studio's capacity equals about 50% of the number of contracted writers. Given that the market leader, Studio Dragon, has approximately 100 writers, we believe the available pool of 10,000 webtoons is more than sufficient for production studios to further expand their capacity and meet an increase in contracts.

Second, we believe the diversification of licensing schemes will reshape the revenue model for production companies. Business models are likely to diversify, taking forms such as: (a) existing tentpoles (*Crash Landing on You*, domestic networks + US-based OTTs); (b) sales of tentpole titles to China (*Jiri Mountain*, terrestrial broadcasting companies + Chinese/US OTTs); (c) original series from US/Chinese OTTs (*Sweet Home*); (d) sales of older titles; and (e) production outsourcing services for domestic broadcasting stations/homegrown OTT operators.

Accordingly, we can project a production company's earnings by applying a mix of business models. We simplified the characteristics of each model above as follows: (a) a production cost of over W1bn per episode with a 20-30% margin; (b) a production cost of over W1.5bn with a more than 50% margin; (c) a production cost of over W1.5bn with a 15-20% margin; (d) zero production cost (costs have been recognized already) with an 80% margin (after distribution fees); and (e) production cost of under W1bn with a 10% margin.

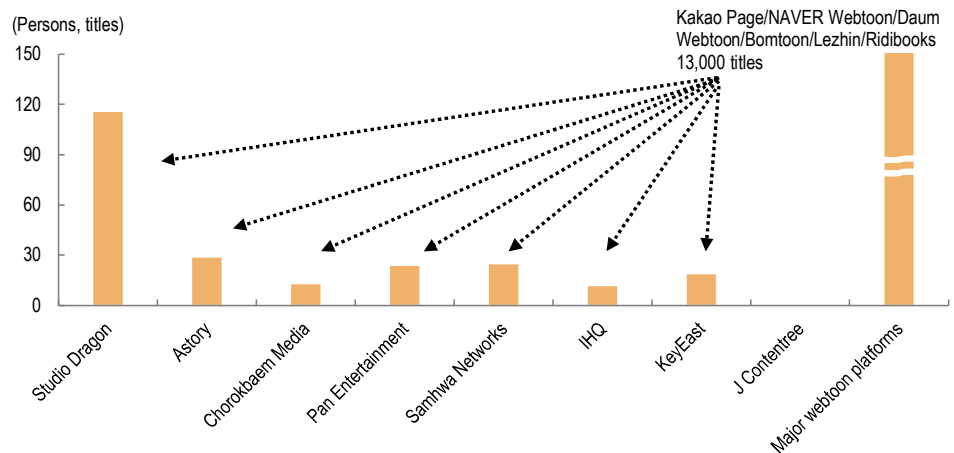
Amid the slowdown in programming by broadcasting networks and increased investments by OTT players, we expect major production studios with captive channels to gradually shift their focus away from model (a) and expand their exposure to higher-margin schemes—(b), (c), and (d). We believe the scaling up of projects will lead to strong operating leverage, and margin expansion is also likely depending on the pace of the opening of the Chinese market. Small/mid-sized production companies that lack captive channels and focus on (e) are likely to see more opportunities to expand their exposure to (c) and (d). If so, we also look for top-line growth and margin expansion.

Figure 8. Diversified revenue models based on licensing



Source: Mirae Asset Daewoo Research

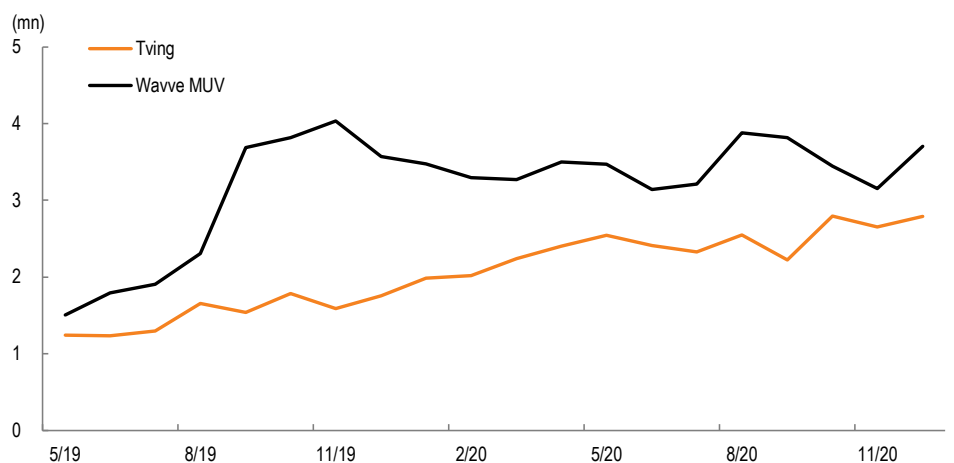
Figure 9. Drama production capacity hinges on the number of contracted writers → Vast pool of webtoon IP to expand capacity



Note: Data for some platforms include web novels.

Source: WebtoonInsight, press reports, Mirae Asset Daewoo Research

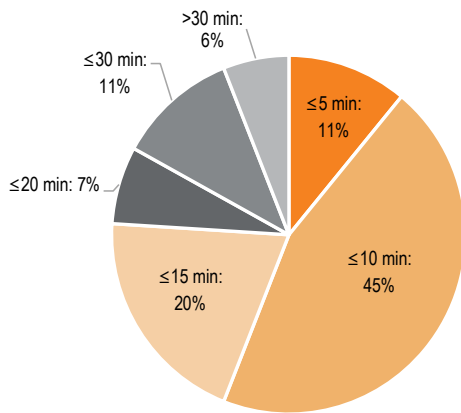
Figure 10. Tving and Wavve: Increase in paid subscribers



Note: Based on both Android and iOS

Source: Nielsen Koreanclick, Mirae Asset Daewoo Research

Figure 11. Preferred video length among teens



Source: Mezzomedia, Mirae Asset Daewoo Research

Figure 12. Opportunities in short/medium-form content: NAVER's Playlist (web drama with 15-minute episodes)



Source: Playlist, Mirae Asset Daewoo Research

III. Rise of webtoon platforms

Webtoon Entertainment (NAVER Webtoon): Unrivaled global leader

For Webtoon Entertainment (NAVER Webtoon), the world's leading webtoon platform, we estimate transaction value at W824.7bn (+152.3% YoY) for 2020 and W220bn (US: +86% YoY, Korea/Japan: +40% YoY) for 3Q20. We estimate global MAU at 67mn, which breaks down to 47mn for Korea/Japan, 12mn for North America, and 8mn for other. We believe Webtoon Entertainment is the largest contributor to and beneficiary of the expansion of global webtoon traffic. The business has attracted users in new markets through high-quality services backed by deep know-how and aggressive marketing.

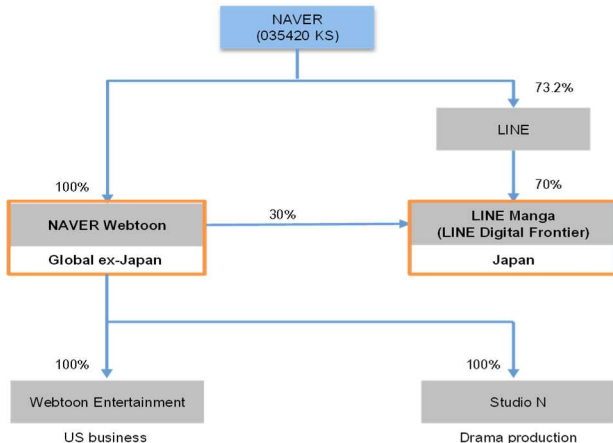
After 10 years of offering free services, NAVER began to partially monetize its webtoon services in mid-2010. NAVER laid a foundation for growth in Korea and Japan before successfully entering Southeast Asian markets such as Thailand and Taiwan in 2018. The firm advanced to the US in earnest in 2019 and is extending its reach to the rest of the world (Europe and South America) amid the rising popularity of webtoons among Generation Z.

NAVER Webtoon acquired a 70% stake in LINE Manga in 2020 and moved its headquarters from Korea to the US, changing its name to Webtoon Entertainment in the process. Thanks to sharp increases in traffic and transaction value over the past three years, we now estimate its fair value at W10tr. Recently, Webtoon Entertainment has been focusing on expanding its market share in Japan. With the rapid growth of the market and fierce competition with Kakao Japan's Piccoma, the firm has made a strategic shift (from stand-alone publications to series) to lock in users and secure steady revenue flows.

We believe webtoon intellectual property (IP) licensing will drive future earnings growth. The success of dramas adapted from webtoon series (e.g., *Sweet Home* and *True Beauty*) has added to the appeal of webtoon IP. In Oct. 2020, NAVER exchanged shares with CJ ENM and Studio Dragon as part of a partnership agreement aimed at promoting: 1) the planning/development of premium IP; 2) joint investment/production/distribution of digital content; and 3) the expansion of Tving's original content offerings and paid subscribers. Meanwhile, NAVER is collaborating with US-based production studios (movie/TV series) for adaptations of its popular properties.

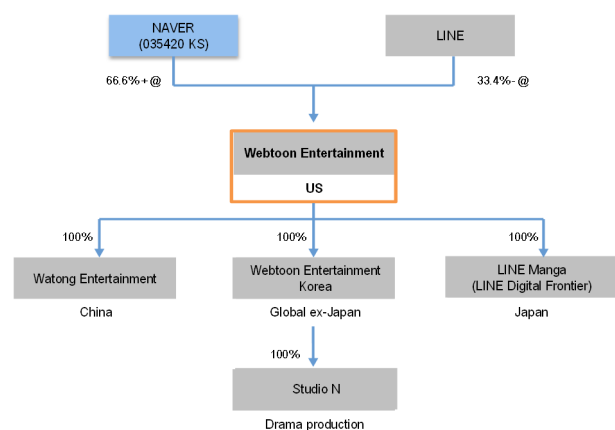
As Webtoon Entertainment generally secures content via voluntary uploads by individual creators, its content pool has strong potential in terms of diversity/scope. NAVER is expanding its existing content ecosystem to new markets via content/ad revenue sharing with creators and contests. In addition, like Webtoon Challenge and Best Challenge in the Korean market, Canvas, Webtoon Entertainment's overseas self-publishing platform, serves a key role in the content supply chain. Globally, there are more than 700,000 amateur content creators.

Figure 13. Webtoon business structure (before reorganization): NAVER oversees NAVER Webtoon; LINE controls LINE Manga



Source: NAVER, Mirae Asset Daewoo Research

Figure 14. Webtoon business structure (after reorganization): Webtoon Entertainment (US) to oversee global webtoon business



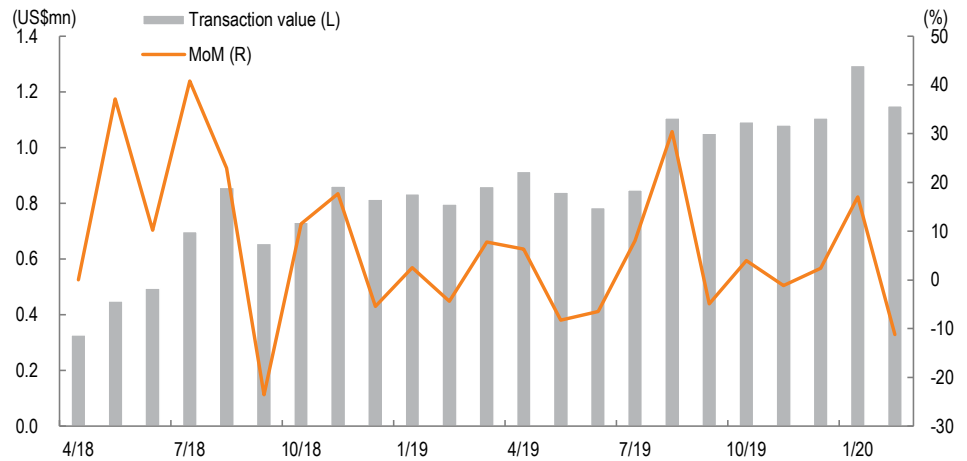
Source: NAVER, Mirae Asset Daewoo Research

Table 1. NAVER's webtoon business: Quarterly transaction value and revenue estimates

(Wbn, %)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	
Webtoon Entertainment revenue	14	16	19	23	25	40	46	50	51	60	94	
Content (webtoon/series)	13	14	14	19	21	29	37	41	41	50	83	
Korea	13	14	14	18	18	20	26	28	26	30	32	
Japan (cons. from 3Q20)	6	8	12	13	16	17	16	17	18	22	29	
US	0	0	0	0	1	4	7	8	9	13	14	
Other	0	0	0	0	2	4	5	5	6	7	8	
Ad /IP/other	1	2	5	4	4	11	9	9	10	10	11	
YoY												
Webtoon Entertainment					78.6	150.0	142.1	117.4	102.9	51.1	103.8	
Content transaction value												
Webtoon Entertainment	45	46	47	62	60	74	93	100	170	199	229	
Korea	45	46	46	61	54	61	76	80	73	85	91	
Japan (cons. from 3Q20)	31	40	54	58	66	69	68	70	73	83	105	
US	0	0	0	0	2	7	10	12	14	20	21	
Other	0	0	0	0	4	6	7	8	9	11	12	
Total ex-Japan	45	46	47	62	60	74	93	100	97	116	124	

Source: NAVER, Sensor Tower, Mirae Asset Daewoo Research

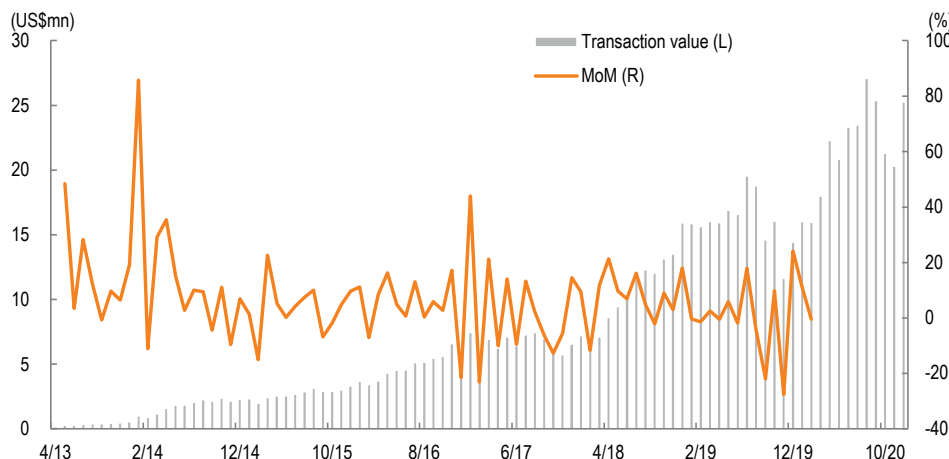
Figure 15. Webtoon Entertainment: App transaction value in Japan (LINE Manga)



Note: Transaction value data are based on Sensor Tower estimates and could differ from actual data.

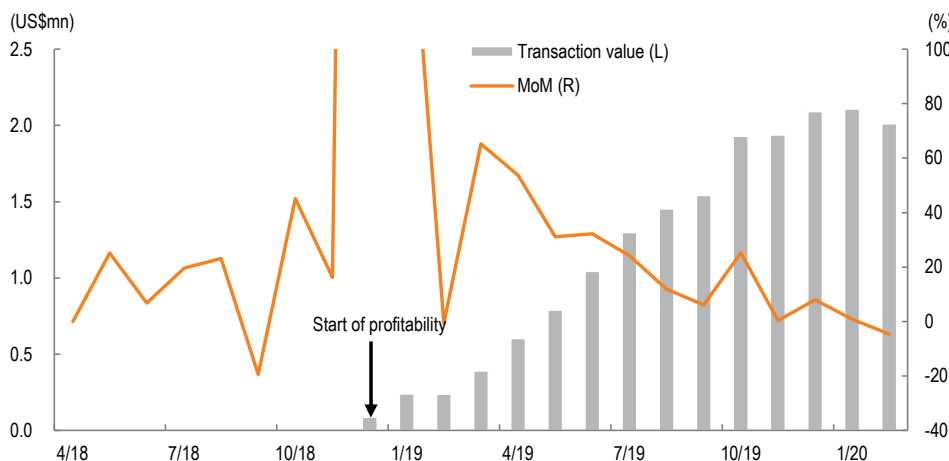
Source: Sensor Tower, Mirae Asset Daewoo Research

Figure 16. Webtoon Entertainment: App transaction value in Korea



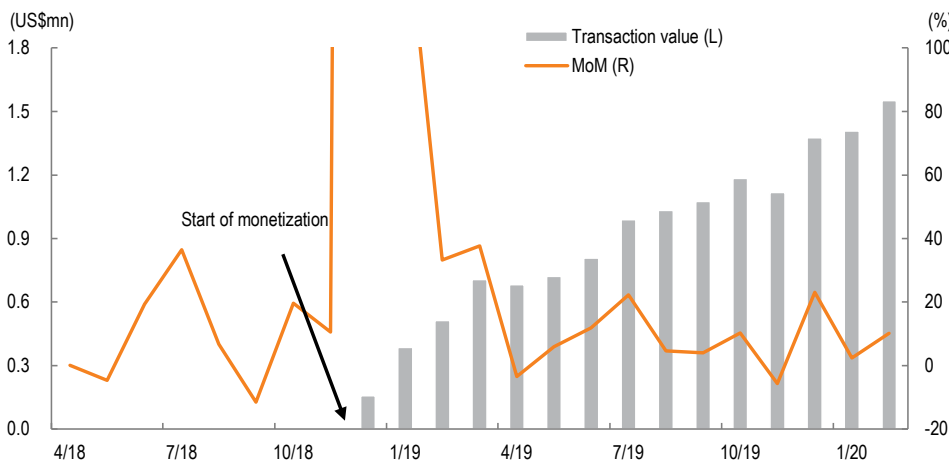
Note: Transaction value data are based on Sensor Tower estimates and could differ from actual data
 Source: Sensor Tower, Mirae Asset Daewoo Research

Figure 17. Webtoon Entertainment: App transaction value in the US



Note: Transaction value data are based on Sensor Tower estimates and could differ from actual data
 Source: Sensor Tower, Mirae Asset Daewoo Research

Figure 18. Webtoon Entertainment: App transaction value in other regions



Note: Transaction value data are based on Sensor Tower estimates and could differ from actual data
 Source: Sensor Tower, Mirae Asset Daewoo Research

Figure 19. Business integration key to facilitating LINE Manga's transition from stand-alone publications to serialized webtoons → M/S gains and cost savings



Source: LINE Manga, Mirae Asset Daewoo Research

Kakao Page/Piccoma: Expanding its reach across Asia

For 2020, we estimate the transaction value of Kakao-affiliated webtoon platforms (Kakao Page in Korea and Piccoma in Japan) at W760bn (+77% YoY).

By platform, we estimate Kakao Page's transaction value reached W350bn in 2020. Kakao Page has steadily grown since its introduction of a partial monetization model ("pay or wait" system) in Oct. 2014. Notably, Kakao Page has improved its supply of high-quality content by directly investing in major content providers in Korea and abroad. This has allowed the platform to secure IP rights in preparation for increased demand for adaptations/derivative works.

We estimate that the transaction value of Kakao Japan's webtoon platform, Piccoma, came in at approximately W400bn in 2020. We believe that Piccoma's transaction value tripled YoY in 2020, driven by the explosive growth of the Japanese market. Piccoma has successfully shifted its offerings toward serialized webtoons while competing against LINE Manga and local web anime services (which focus on stand-alone publications). Piccoma remains the highest grossing app in the non-game category (based on both App Store and Google Play data) in Japan, the world's second-largest content market. As such, traditional manga publishers have entered the webtoon market through Piccoma, and the number of new titles on the platform has surged from 1,700 per month to more than 3,000.

Unlike NAVER, Kakao prioritizes sourcing webtoon content through major content providers in Korea and abroad and boasts content alliances with a proven track record. This approach enables Kakao to have strong control over content quality and publishing schedules. As Kakao hold equity stakes in several highly competitive domestic and foreign content providers, the firm is well positioned to share in revenue from adaptations, which are viewed as the future growth driver for the webtoon industry.

Kakao's strength is its extensive library of rights to Korean webtoon classics and blockbusters. During its global expansion push, Kakao has leveraged its hit Korean titles (e.g., *Solo Leveling*, *Abandoned Empress*, and *Love Alarm*) to achieve an explosive increase in transaction value overseas. Indeed, Korean webtoons account for 1.3% of Piccoma's titles but generate 40% of total revenue.

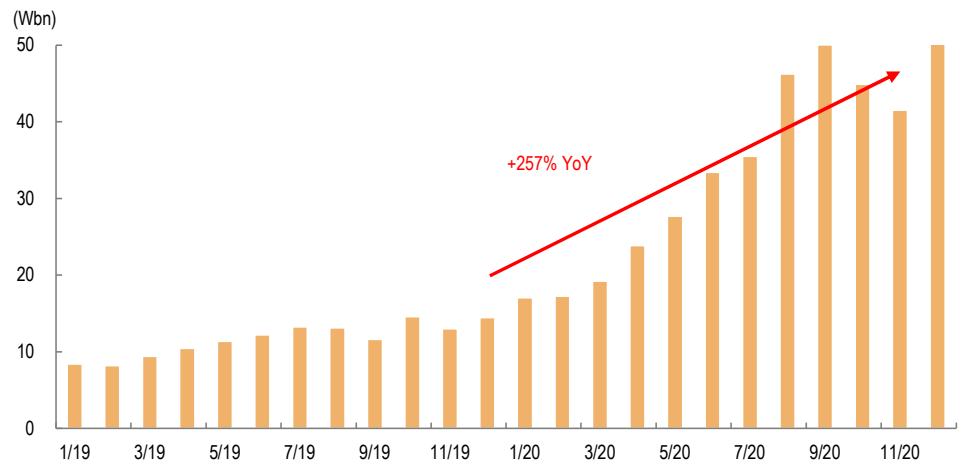
Kakao Page is looking to further step up its global expansion efforts in 2021. Kakao Page rebranded Neobazar (an Indonesian webtoon platform operator that the company acquired in 2019 to enter Southeast Asia) as Kakao Page Global in Feb. 2020. Recently, Kakao Page acquired a 30% stake in Tapas, one of the top three webtoon platforms in North America. Tapas boasts 3mn MAU, 80,000 webtoon/web novel titles, and cumulative transaction value of W80bn. Going forward, the platform will serve as a US distribution channel for Kakao Page's IP. Meanwhile, the firm plans to distribute webtoon IP in China in 1H21 through its joint venture with Tencent. By establishing distribution channels in major regions, we believe Kakao Page will continue to benefit from the expansion of the global webtoon market.

Table 2. Kakao-affiliated webtoon platforms: Quarterly transaction value and revenue estimates

(Wbn)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
Paid content revenue	44	51	60	64	64	68	79	85	97	119	148
Kakao Page	35	40	45	47	52	52	59	62	69	70	77
Piccoma	8	11	15	17	12	16	20	23	28	49	71
Breakdown											
Kakao Page	81%	79%	74%	73%	81%	77%	75%	73%	71%	59%	52%
Piccoma	19%	21%	26%	27%	19%	23%	25%	27%	29%	41%	48%
YoY											
Combined	75%	76%	68%	70%	48%	33%	31%	33%	51%	75%	88%
Kakao Page	55%	55%	52%	55%	47%	31%	31%	33%	32%	34%	31%
Piccoma	306%	253%	142%	130%	51%	43%	29%	35%	131%	212%	259%
Transaction value											
Combined	50	69	80	83	93	101	112	124	140	169	223
Kakao Page	50	53	59	60	68	68	75	79	87	84	91
Piccoma		16	21	23	25	33	37	45	54	85	132

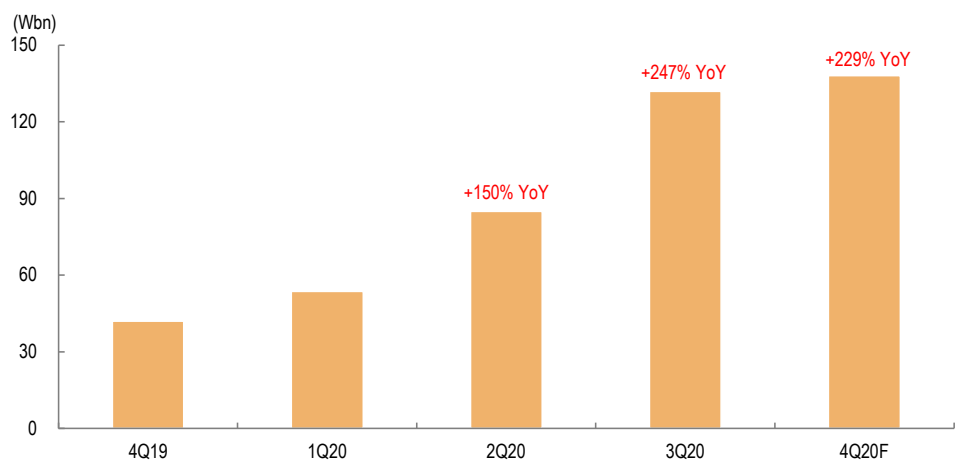
Source: Kakao, Sensor Tower, Mirae Asset Daewoo Research

Figure 20. Piccoma: Monthly transaction value



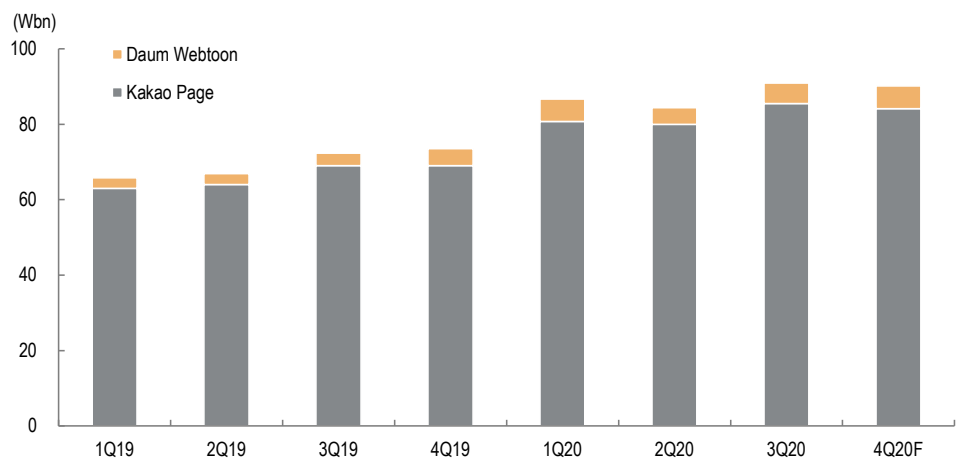
Note: Transaction value data are based on Sensor Tower estimates and could differ from actual data.
 Source: SensorTower, Mirae Asset Daewoo Research

Figure 21. Piccoma: Quarterly transaction value



Note: Transaction value data are based on Sensor Tower estimates and could differ from actual data.
 Source: Sensor Tower, Mirae Asset Daewoo Research

Figure 22. Kakao Page: Quarterly transaction value



Note: Transaction value data are based on Sensor Tower estimates, and could differ from actual data.
 Source: Sensor Tower, Mirae Asset Daewoo Research

Kidari Studio-Lezhin Entertainment: A union of two niche-genre powerhouses

In addition to the two major webtoon platform operators (NAVER and Kakao), the domestic market also has several platforms specializing in niche genres. Among them, Kidari Studio and Lezhin Entertainment have a strong presence in the BL (boys' love), adult, and romance genres. These platforms: 1) mainly serve adult readers (who have greater purchasing power); 2) generate stable revenue from loyal users; and 3) have seen a rise in global traffic due to increasing webtoon consumption amid the pandemic.

On Dec. 14, Kidari Studio officially announced that it would acquire Lezhin Entertainment in an all-stock deal by issuing 13,468,382 new shares (73% of total outstanding shares) to Lezhin Entertainment's existing shareholders. After the acquisition, Kidari Studio will own 100% of Lezhin Entertainment. If the proposal is approved at the general shareholders' meeting on Jan. 22, the stock swap will take place on Feb. 23, and the new shares will be listed on Mar. 15.

We view the deal as favorable to the acquirer. For one, we expect to see studio-platform synergies through regional expansion once Lezhin (a platform operator that is seeing growing North American traffic) and Kidari Studio (a Korean/French platform operator that is also a competitive content provider) are joined. We also think the union of the two companies is a smart move in the sense that both are leaders in niche genres. Most importantly, we believe the deal undervalues Lezhin Entertainment (W123bn).

According to a recent public disclosure, Lezhin Entertainment recorded revenue of W38bn through Sep. 2020 and is expected to post revenue of W54.6bn in 2020 and W74.5bn in 2021. The company is also estimated to have broken even in 2020. We think these estimates are reasonable, assuming the recent strong growth in US traffic continues. Based on these estimates, the exchange price implies 2020F and 2021F P/S ratios of just 2.3x and 1.7x, respectively.

NAVER Webtoon has been seeking funding from a number of venture capital firms at a valuation reportedly ranging between W5tr and W10tr. The median value of W7.5tr implies 2020F and 2021F P/S ratios of 9.1x and 5.9x, respectively, based on our transaction value estimates. Given these levels, Lezhin Entertainment appears undervalued under the deal, even after accounting for discount factors such as the company's niche profile and the difference in the quality of the supply/demand ecosystem.

The Lezhin Entertainment shareholders set to receive Kidari Studio's new shares include Han Hee-sung (38.8%), Kwon Jung-hyuk (22.5%), IMM Private Equity (16.3%), and NCsoft (9.6%). It should be noted that Lezhin's financial investors are still in the red due to the long investment cycle and the high valuations they paid. (The acquisition price represents 50% of the valuation at the time of IMM's investment in 2016.) We think overhang risks are limited in the near term given that new shares will be subject to a one-year lock-up period.

Table 3. Kidari Studio-Lezhin Entertainment stock swap schedule

Event	Date	
Stock exchange/transfer agreement	Dec. 14, 2020	
Record date	Dec. 29, 2020	
Registry closure	Start date	Dec. 30, 2020
	End date	Dec. 30, 2020
Notice of intent to exercise appraisal rights	Start date	Jan. 7, 2021
	End date	Jan. 21, 2021
Shareholders' meeting	Jan. 22, 2021	
Exercise of appraisal rights	Start date	Jan. 22, 2021
	End date	Feb. 15, 2021
Submission of existing stock	Start date	Jan. 21, 2021
	End date	Feb. 22, 2021
Suspension of trading	Start date	-
	End date	-
Stock exchange/transfer	Feb. 23, 2021	
Allotment of new shares	-	
Listing of new shares	Mar. 15, 2021	

Source: Kidari Studio, Lezhin Entertainment, Mirae Asset Daewoo Research

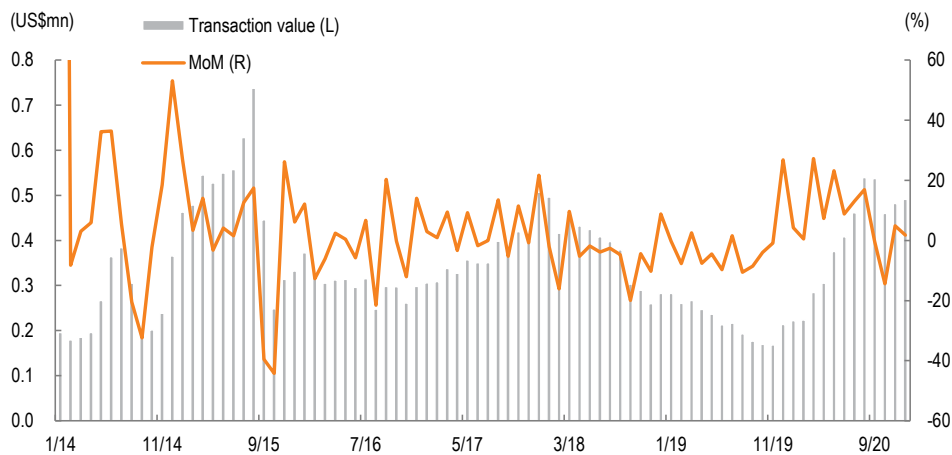
Kidari Studio is a platform operator and content provider specializing in the BL genre and represents the only pure webtoon platform play among listed firms. The company seeks out compelling stories to develop/publish in a variety of formats (webtoons/web novels, education, films, etc.). Starting out as a semiconductor software distributor, the company changed its name and entered the webtoon business by acquiring Bom Comics (Bomtoon) in Jan. 2018. In Apr. 2019, the company took over Kidari ENT's webtoon production/distribution business. As part of the Daou Kiwoom Group, Kidari Studio's largest shareholder is Daou Data (52.7%), and specially related parties also own an 8.0% stake. The company produces around 70 webtoon titles annually (studio) and publishes them on its platforms (Bomtoon in Korea and Delitoo in France). Once the holdback period is over, episodes are republished on third-party platforms like Kakao, NAVER, and Lezhin Comics.

Lezhin Entertainment is an adult comics service that targets more mature audiences. The company launched its app (Lezhin Comics platform) in 2013, introducing a monetization model from the very beginning. The company rapidly took over the market, but suffered a slowdown domestically due to the emergence of illegal platforms and similar services after 2H16. However, we believe the company has been enjoying a resurgence of late, fueled by the introduction of the webtoon format in the US and increasing consumption in the wake of the pandemic. We estimate the company turned to profitability in 2020 on the back of robust top-line growth.

Both Kidari Studio and Lezhin Entertainment specialize in niche genres that are not dominated by large platform operators such as NAVER or Kakao. They face limited competition risks, as there is little incentive for large platform operators to directly enter niche markets. Another advantage is that their key demographic is adults, who generally have greater purchasing power. Adult comics account for nine out of the top 10 titles on Bomtoon and eight out of the top 10 titles on Lezhin Comics.

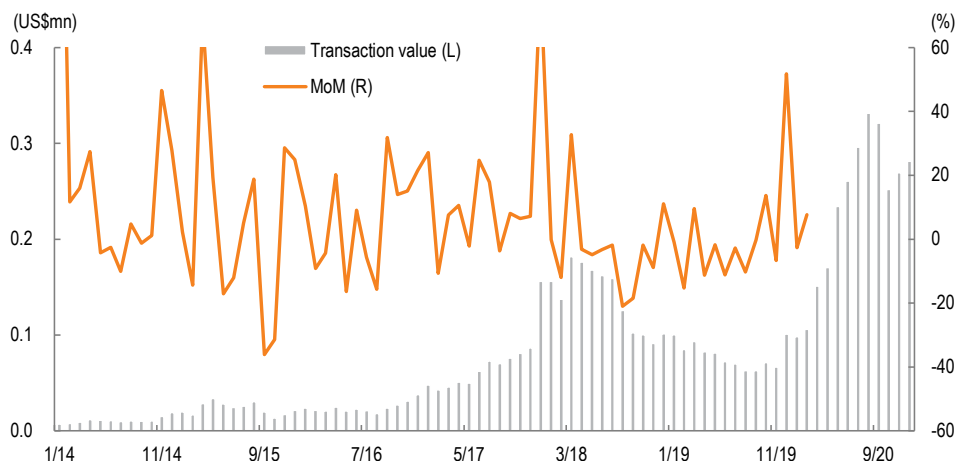
In the case of Bomtoon, Kidari Studio's domestic webtoon platform, approximately 90% of its 2mn paid subscribers are women. The platform does not see big increases or decreases in the number of users, given that it focuses its resources on specific segments. However, the platform can act as a clear cash cow that generates stable revenue on the back of loyal users.

Figure 23. Lezhin Comics' global transaction value has rebounded sharply



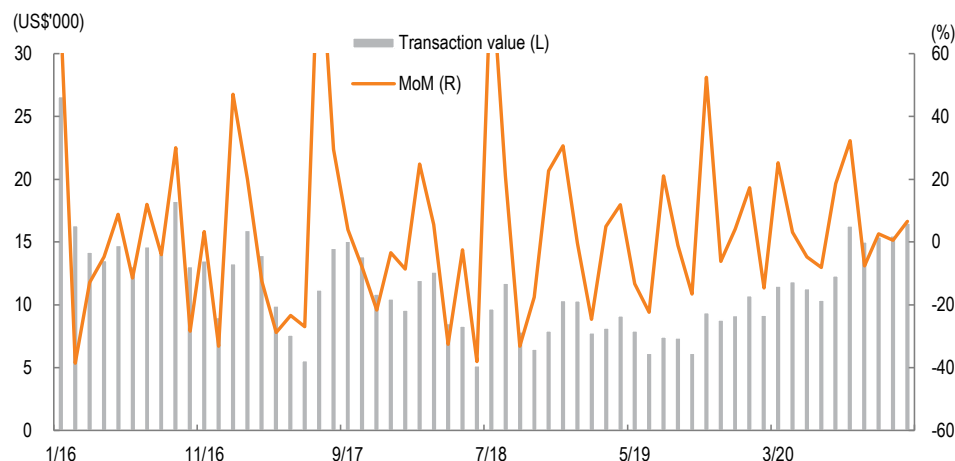
Note: Transaction value data are based on Sensor Tower data and may differ from actual numbers.
 Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Figure 24. Lezhin Comics' US transaction value has seen impressive growth



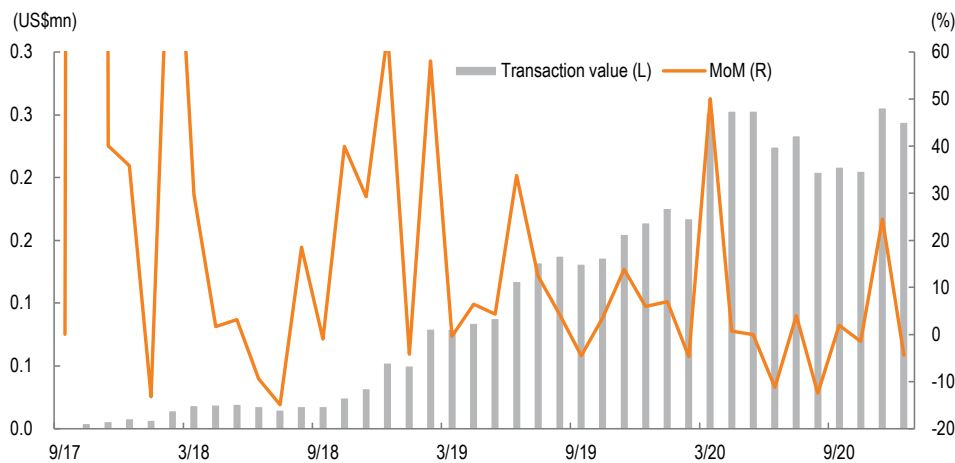
Note: Transaction value data are based on Sensor Tower data and may differ from actual numbers.
 Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Figure 25. Bomtoon's transaction value has been growing since 2H19



Note: Transaction value data are based on Sensor Tower data and may differ from actual numbers.
 Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Figure 26. Delitoon's transaction value has steadily increased



Note: The above estimates are based on Sensor Tower data and may differ from actual numbers.
 Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Drama/film adaptations: A new driver in the webtoon value chain

Drama production studios are increasingly turning to webtoon IP to meet the soaring content demand from OTT services in Korea and abroad. Indeed, the importance of webtoons is growing, due to the following factors: 1) tens of thousands of webtoons in a variety of genres are available on numerous platforms; 2) adaptations of titles with robust readerships generally have strong prospects for success; and 3) webtoon-based productions generally require fewer creative resources (e.g., writers), thus increasing production efficiency.

In addition, drama/film adaptations: 1) generate ancillary revenue without additional costs; and 2) foster genre diversification, larger-scale projects, and improvements in content quality (amid an increased focus on releasing adaptation-friendly titles).

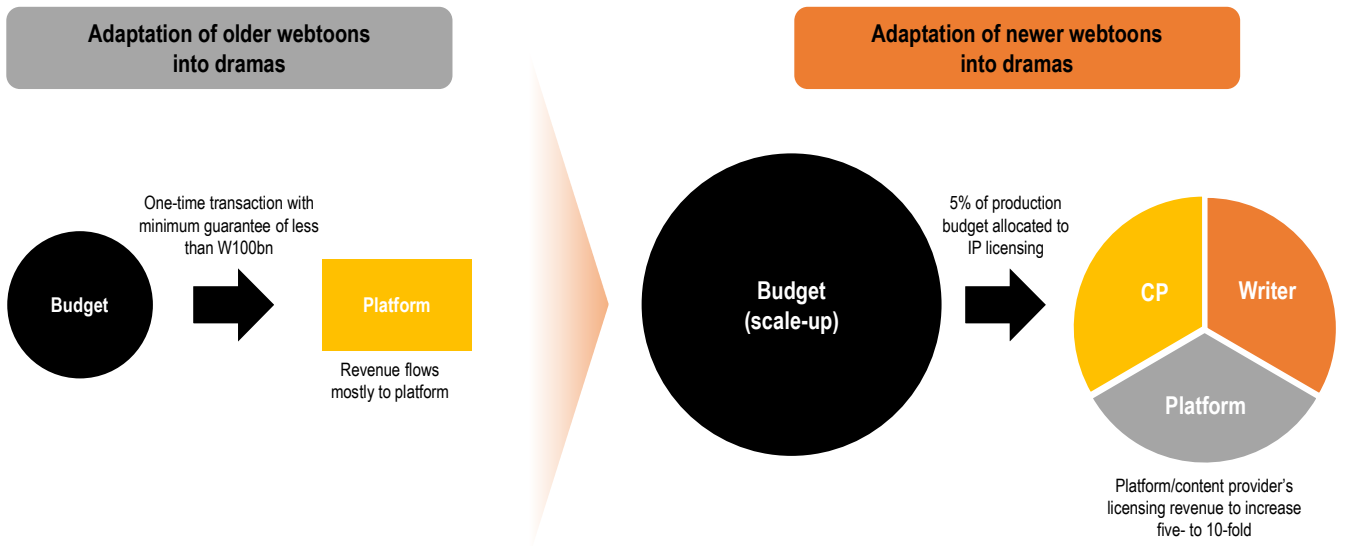
In film/TV licensing sales, agreements between IP rights holders and production companies differ by project, with two major variables being: 1) contract structure (minimum guarantee vs. revenue sharing) and 2) IP ownership (writers, content providers, or platforms).

1) Until recently, most licensing sales involved 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. In some recent cases, a certain percentage (5% or lower) of a production’s budget has been allocated to IP licensing. As such, in the last couple years, webtoon content providers/authors have been able to enjoy more robust licensing revenue than in the past.

2) Since 2019, webtoon IP ownership has attracted keen attention. Until recently, IP rights were held almost exclusively by platforms. Now, however, IP rights are shared among platforms, writers, and content providers.

With the scale of webtoon-based drama projects (e.g., *Kingdom* and *Sweet Home*) increasing, webtoon platforms/content providers’ licensing revenue has the potential to increase five- to 10-fold. And we believe that licensing revenue can be added to our earnings estimates for webtoon players from 2021.

Figure 27. Adaptations of new webtoons into dramas offer opportunities for platforms and content providers



Notes: Older webtoons are titles that are at least three years old; newer webtoons are titles that are under three years old.
Source: Mirae Asset Daewoo Research

Company analysis

[Kidari Studio \(020120 KS/Buy\)](#) Lezhin acquisition to solidify dominance in niche genres

[Studio Dragon \(253450 KQ/Buy\)](#) OTT players' big bets are coming

[D&C Media \(263720 KQ/Buy\)](#) Waiting for the next big hit

Kidari Studio

(020120 KS)

Lezhin acquisition to solidify dominance in niche genres

Mirae Asset Daewoo Co., Ltd.

Jeong-yeob Park jay.park@miraeasset.com

Buy

(Initiate)

TP: W17,000

Upside: 42.9%

Company overview

A leader in niche genres engaged in both content production and platform operation

- Value chain exposure: Kidari Studio operates two webtoon platforms—Bomtoon (Korea) and Delitooon (France)—and also owns a production studio.
- The company is part of the Daou Kiwoom Group. Its major shareholders include Daou Data (52.7%), e-Money (4.3%), and specially related parties (3.8%). The company produces around 80 webtoon titles per year and distributes them on its own platforms as well as third-party platforms (Kakao, NAVER, Lezhin Comics, etc.).

Advancing to the next level with Lezhin acquisition

Set to become no. 3 webtoon operator with Korea/Japan/North America/Europe exposure

- Kidari Studio will acquire a 100% stake in Lezhin Entertainment. Under the deal, the company will issue roughly 13.47mn new shares (73% stock increase) to Lezhin Entertainment's existing shareholders.
- We believe the tie-up of Kidari Studio, which has exposure to Korea and France, and Lezhin Entertainment, which has exposure to the US and Japan, will lead to production-distribution synergies through regional expansion. We also think the deal is a smart move in the sense that both companies are leaders in niche genres. We expect the companies' existing partnership to strengthen further.
- With the exchange price (W123bn) implying 2020F and 2021F P/S ratios of 2.3x and 1.7x, respectively, we believe the deal undervalues Lezhin Entertainment.

Potential of niche genres

Dominant market position, limited competition; upside from potential drama adaptations

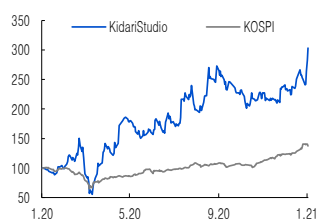
- Kidari Studio is strongly positioned in niche genres (e.g., romance, BL). Its platforms act as steady cash cows, helped by higher average spending and low defection rates.
- The company faces limited competition from NAVER and Kakao, and its popular titles make it well-positioned to benefit from market expansion.
- We also see potential for expansion into dramas, given the recent drama adaptation of the BL webtoon *Color Rush* by another company.

Recommendation

Initiate coverage with Buy and TP of W17,000

- Our target price of W17,000 corresponds to a 2021F P/S of 4.1x and 2021F P/E of 40x, assuming the closing of the Lezhin Entertainment acquisition. In deriving our target price, we applied a 30% discount to NAVER Webtoon's P/S and a 15% premium to D&C Media's P/E.
- For 2021, we forecast consolidated revenue of W134.2bn (+31.1%) and operating profit of W17.1bn (+148.9%). After turning to profit in 2020, we expect the firm to benefit from operating leverage effects. Key variables include Delitooon's geographical expansion and Lezhin's US traffic.

Key data



Current price (1/15/21, W)	11,900	Market cap (Wbn)	220
OP (20F, Wbn)	6	Shares outstanding (mn)	32
Consensus OP (20F, Wbn)	5	Free float (%)	39.3
EPS growth (20F, %)	-47.3	Foreign ownership (%)	2.5
P/E (20F, x)	112.3	Beta (12M)	1.54
Market P/E (20F, x)	21.4	52-week low (W)	2,190
KOSPI	3,085.90	52-week high (W)	11,900

Share performance

(%)	1M	6M	12M
Absolute	30.5	74.7	205.9
Relative	16.6	24.7	121.2

Earnings and valuation metrics

(Dec.)	2017	2018	2019	2020F	2021F	2022F
Revenue (Wbn)	14	20	27	48	134	165
OP (Wbn)	0	0	1	6	17	27
OP margin (%)	0.0	0.0	3.7	12.5	12.7	16.4
NP (Wbn)	-2	0	3	2	13	21
EPS (W)	-142	10	166	87	445	649
ROE (%)	-13.5	0.9	14.5	6.3	38.2	40.0
P/E (x)	-	235.4	24.3	112.3	26.8	18.3
P/B (x)	2.6	2.1	3.3	6.4	9.2	6.1
Div. yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Daewoo Research estimates

Valuation

Initiate coverage with Buy and TP of W17,000 (43% upside)

We initiate our coverage on Kidari Studio with a Buy recommendation and a target price of W17,000, which corresponds to a 2021F P/S of 4.1x and 2021F P/E of 40x (factoring in the Lezhin Entertainment acquisition). The company swung to profit in 2020, backed by surging user traffic growth globally, and is likely to enjoy operating leverage effects from 2021.

In deriving our target price, we applied a 30% discount to Webtoon Entertainment's 2021F P/S. Kidari has solidified its global dominance in niche genres with the acquisition of Lezhin. While we expect to see sustained growth over the long term amid surging traffic, we also note the limitations of the company's focus on niche genres.

In our previous reports, we valued Webtoon Entertainment (NAVER Webtoon) at W10tr. As a next-generation platform poised to secure a dominant position in global markets, we believe that it warrants a fair P/S of 8x, in line with the valuations of leading online video (Netflix; P/S of 7-8x during the subscriber base expansion period) and music (Spotify; 6-7x) platforms. According to recent press reports, Webtoon Entertainment is seeking to raise funding from US-based venture capital firms at a valuation of W5-10tr. Based on the median value of W7.5tr and our transaction value estimates, the platform's 2020F and 2021F P/S would be 9.1x and 5.9x, respectively.

In calculating our target price, we also applied a 15% premium to content producer D&C Media's P/E, reflecting Kidari-Lezhin's position as the only listed global webtoon platform and its advantages as a platform over pure content producers.

Indeed, platforms are better-positioned than content providers to benefit from webtoons' global expansion. Platforms that publish a variety of content generally see steady user traffic and transaction value (which rarely decrease once a subscriber base is secured), resulting in business stability. While content producers also benefit from market growth, they are more vulnerable to earnings fluctuations depending on the success of their content. As Kidari-Lezhin is engaged in both content production and platform operation and has already secured stable global user traffic, we believe its valuation premium (to pure content providers) is justified.

Table 4. Fair value of Kidari Studio-Lezhin Entertainment (P/S)

(x, Wbn, %)

P/S	2020F	2021F	2022F
Current P/S	3.7	2.8	2.3
Fair market value (including newly issued shares)	554	554	554
Revenue	102	134	165
Target P/S	5.4	4.1	3.4
Fair price (W)	17,339	17,339	17,339
Upside (%)	45.7	45.7	45.7

Note: 13.47mn new shares will be issued (73% increase).

Source: Mirae Asset Daewoo Research

Table 5. Fair value of Kidari Studio-Lezhin Entertainment (P/E)

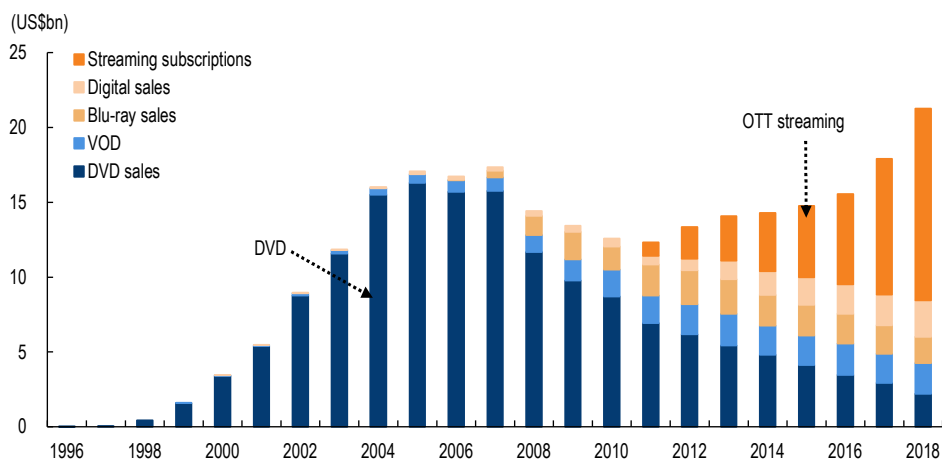
(x, Wbn, %)

P/E	2020F	2021F	2022F
Current P/E	154.0	28.5	18.3
Fair market value (including newly issued shares)	533	533	533
NP	2	13	21
Target P/E	215.8	40.0	25.7
Fair price (W)	16,673	16,673	16,673
Upside (%)	40.1	40.1	40.1

Note: 13.47mn new shares will be issued (73% increase).

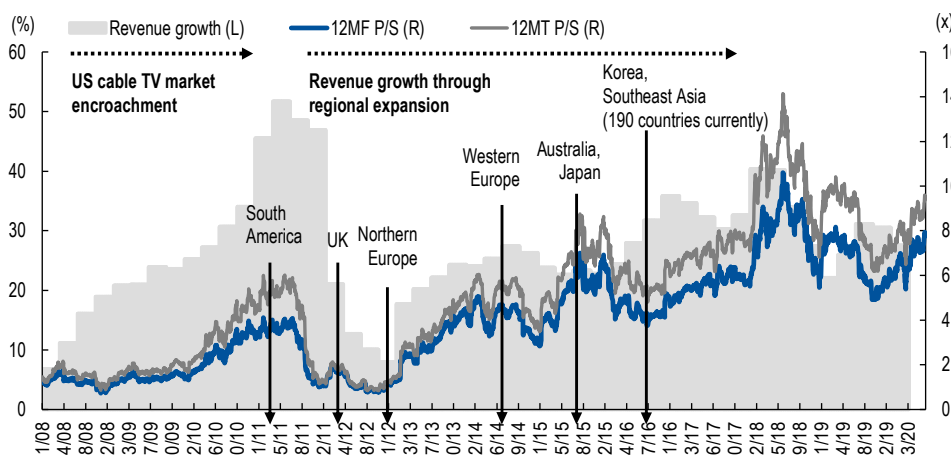
Source: Mirae Asset Daewoo Research

Figure 28. OTT streaming helped turn around the US home video market



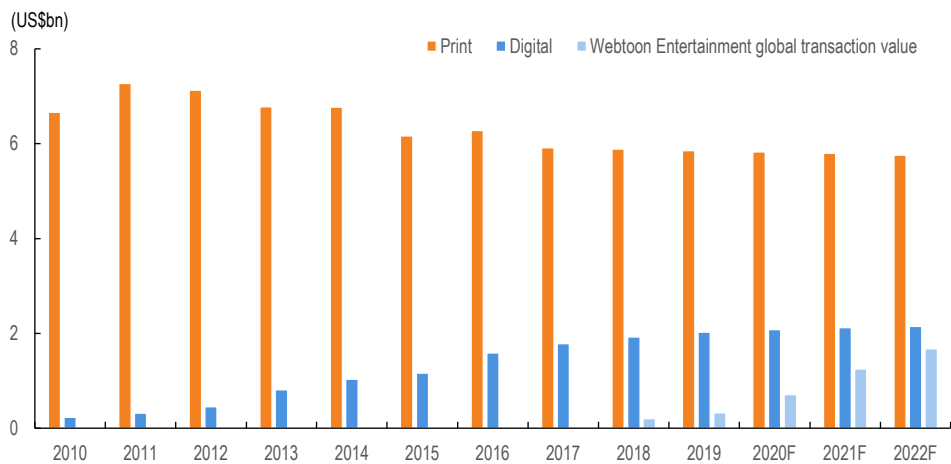
Source: Mirae Asset Daewoo Research

Figure 29. Netflix's revenue and valuation (P/S) grew in tandem amid global subscriber base expansion



Source: Bloomberg, Mirae Asset Daewoo Research

Figure 30. Comics market value has ample room for expansion



Source: ICv2, PwC, SNE Research, Mirae Asset Daewoo Research

Earnings and forecasts

Swung to profit in 2020; operating leverage effects to arise in 2021

For 2021, we forecast Kidari Studio to post revenue of W134.2bn (+31.1% YoY) and operating profit of W17.1bn (+148.9% YoY), assuming the closing of the Lezhin Entertainment acquisition. In 2020, both companies turned to profit, supported by increased media consumption amid the pandemic and rising global demand for webtoons.

Looking ahead, earnings will likely be driven by: 1) operating leverage from the content distribution business (following the acquisition of Lezhin); and 2) steady transaction value growth at Bomtoon (Korea), Delitooon (France), and Lezhin Comics (mainly the US). Engaged in both content production and platform operation, Kidari Studio and Lezhin Entertainment can generate operating leverage once their gross profits (excluding fees/royalties paid to app stores/artists) exceed SG&A.

As both companies swung to profit in 2020, operating leverage should increase along with user traffic growth. Given their firm grip on niche genres and solid webtoon traffic, we see strong upside to earnings. Delitooon's potential expansion in Europe and Lezhin Comics' further traffic increase in the US could also boost earnings expansion.

Table 6. Kidari Studio–Lezhin Entertainment: Consolidated earnings and forecasts

(Wmn, %)

	2017	2018	2019	2020F	2021F	2022F
Revenue	63,228	66,471	66,602	102,397	134,235	165,311
Kidari Studio	11,904	19,623	26,738	47,824	59,760	73,719
Lezhin Entertainment	51,324	46,848	39,864	54,573	74,475	91,592
OP	-12,545	-9,474	-4,602	6,855	17,059	26,573
OP margin	-19.8	-14.3	-6.9	6.7	12.7	16.1
Kidari Studio	-93	267	703	5,669	8,466	12,742
OP margin	-0.8	1.4	2.6	11.9	14.2	17.3
Lezhin Entertainment	-12,452	-9,741	-5,305	1,186	8,593	13,831
OP margin	-24.3	-20.8	-13.3	2.2	11.5	15.1
NOPAT	-2,199	151	2,273	2,471	13,328	20,749
NOPAT margin	-3.5	0.2	3.4	2.4	9.9	12.6
Kidari Studio	-2,199	151	2,273	1,524	6,604	9,939
NOPAT margin	-18	1	9	3	11	13
Lezhin Entertainment	0	0	0	947	6,724	10,810
NOPAT margin	0.0	0.0	0.0	1.7	9.0	11.8
YoY						
Revenue		5.1	0.2	53.7	31.1	23.2
Kidari Studio		64.8	36.3	78.9	25.0	23.4
Lezhin Entertainment		-8.7	-14.9	36.9	36.5	23.0
OP		RR	RR	TTP	148.9	55.8
Kidari Studio		TTP	163.3	706.5	49.4	50.5
Lezhin Entertainment		RR	RR	TTP	624.5	61.0
NOPAT		TTP	1,405.6	8.7	439.4	55.7
Kidari Studio		TTP	1,405.6	-33.0	333.4	50.5
Lezhin Entertainment					610.0	60.8

Note: Lezhin Entertainment's earnings are based on figures and estimates from company reports.

Source: Company data, Mirae Asset Daewoo Research

Table 7. Kidari Studio: Consolidated earnings and forecasts

(Wmn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20F	2020F	2021F	2022F
Revenue	5,293	4,936	7,654	8,855	11,336	11,663	11,957	12,868	47,824	59,760	73,719
Unconsolidated	5,293	4,936	6,910	8,050	10,048	10,051	10,802	11,230	42,131	51,842	63,881
Content	5,237	4,918	7,641	8,855	11,336	11,663	11,957	12,868	47,824	59,760	73,719
Webtoons	2,662	2,883	6,030	6,855	8,878	9,750	10,055	10,968	39,651	51,546	65,463
Web novels	2,575	2,034	1,611	2,000	2,458	1,913	1,903	1,900	8,173	8,214	8,255
Software	55	19	13	0	0	0	0	0	0	0	0
Delitoon	0	0	743	805	1,289	1,612	1,155	1,638	5,693	7,918	9,838
OP	295	-8	197	219	1,081	1,611	1,307	1,671	5,669	8,466	12,742
OP margin	5.6	-0.2	2.6	2.5	9.5	13.8	10.9	13.0	11.9	14.2	17.3
Pretax profit	215	8	-11	2,060	1,001	-799	858	1,222	2,282	8,466	12,742
NP	215	-53	-24	2,136	752	-664	506	929	1,524	6,604	9,939
Net margin	4.1	-1.1	-0.3	24.1	6.6	-5.7	4.2	7.2	3.2	11.1	13.5
YoY											
Revenue	29.1	-9.0	45.3	83.4	114.2	136.3	56.2	45.3	78.9	25.0	23.4
Unconsolidated	29.1	-9.0	31.2	66.7	89.8	103.6	56.3	39.5	67.3	23.0	23.2
Delitoon	-	-	-	-	-	-	55.3	103.4	267.6	39.1	24.2
OP	TTB	TTR	TTB	58.2	266.4	TTB	561.9	663.0	706.5	49.4	50.5
NP	TTB	TTB	CR	7,393.6	250.6	CR	TTB	-56.5	-33.0	333.4	50.5

Source: Company data, Mirae Asset Daewoo Research

Table 8. Lezhin Entertainment: Consolidated earnings and forecasts

(Wmn, %)

(Wmn, %, %p)	2017	2018	2019	1Q-3Q20	2020F	2021F	2022F	2023F	2024F
Revenue	51,324	46,848	39,864	38,000	54,573	74,475	91,592	110,951	133,383
Content/ads	50,232	45,920	39,067	37,371	53,770	74,476	91,592	110,952	133,382
Korea	40,477	30,775	27,970	24,285	33,632	42,822	52,865	65,268	80,746
Japan	2,856	3,997	3,551	4,309	7,430	12,494	14,621	17,006	19,710
America	6,352	10,465	7,096	8,298	12,065	18,410	23,241	27,674	31,755
Other	547	683	450	479	643	750	865	1,004	1,171
Publications/goods	1,091	927	796	629	801	0	0	0	0
B2C	49,684	44,687	37,872	34,396	48,468	64,726	80,587	98,516	119,315
B2B	1	0	179	2,010	3,995	8,300	9,398	10,643	12,054
Ads	0	550	566	486	664	700	742	789	842
Publications	877	843	746	448	568	0	0	0	0
Goods	214	84	50	181	233	0	0	0	0
Other	547	683	450	479	643	750	865	1,004	1,171
OP	-12,452	-9,741	-5,305	-527	1,186	8,593	13,831	19,303	25,734
OP margin	-24.3	-20.8	-13.3	-1.4	2.2	11.5	15.1	17.4	19.3
Income tax	0	0	0	0	239	1,868	3,021	4,225	5,766
NOPAT	0	0	0	0	947	6,724	10,810	15,079	19,968
YoY									
Revenue		-8.7	-14.9	-	36.9	36.5	23.0	21.1	20.2
Content/ads		-8.6	-14.9	-	37.6	38.5	23.0	21.1	20.2
Korea		-24.0	-9.1	-	20.2	27.3	23.5	23.5	23.7
Japan		40.0	-11.2	-	109.2	68.2	17.0	16.3	15.9
America		64.8	-32.2	-	70.0	52.6	26.2	19.1	14.7
Other		24.9	-34.1	-	42.9	16.6	15.3	16.1	16.6
Publications/goods		-15.0	-14.1	-	0.6	-100.0	-	-	-
OP		CR	CR	-	TTB	624.5	61.0	39.6	33.3
NOPAT		-	-	-	-	610.0	60.8	39.5	32.4

Note: Lezhin Entertainment's earnings are based on figures and estimates from company reports.

Source: Company data, Mirae Asset Daewoo Research

Investment points

Lezhin acquisition to solidify dominance in niche genres

In addition to the two big webtoon platform operators (NAVER and Kakao), the domestic market also has several platforms specializing in niche genres. Among them, Kidari Studio and Lezhin Entertainment have a strong presence in the BL, adult, and romance genres. These platforms: 1) mainly serve adult readers (who have greater purchasing power); 2) generate stable revenue from loyal users; and 3) have seen a rise in global traffic due to increasing webtoon consumption amid the pandemic.

On Dec. 14, Kidari Studio officially announced that it would acquire Lezhin Entertainment in an all-stock deal by issuing 13,468,382 new shares (73% of total outstanding shares) to Lezhin Entertainment's existing shareholders. After the acquisition, Kidari Studio will own 100% of Lezhin Entertainment. If the proposal is approved at the general shareholders' meeting on Jan. 22, the stock swap will take place on Feb. 23, and the new shares will be listed on Mar. 15.

We view the deal as favorable to the acquirer. For one, we expect to see studio-platform synergies through regional expansion once Lezhin (a platform operator that is seeing growing North American traffic) and Kidari Studio (a Korean/French platform operator that is also a competitive content provider) are joined. We also think the union of the two companies is a smart move in the sense that both are leaders in niche genres. Most importantly, we believe the deal undervalues Lezhin Entertainment (W123bn) based on the exchange price.

According to a recent public disclosure, Lezhin Entertainment recorded revenue of W38bn through Sep. 2020 and is expected to post revenue of W54.6bn in 2020 and W74.5bn in 2021. The company is also estimated to have broken even in 2020. We think these estimates are reasonable, assuming the recent strong growth in US traffic continues. Based on these estimates, the exchange price implies 2020-21F P/S ratios of just 2.3x and 1.7x, respectively.

The Lezhin Entertainment shareholders set to receive Kidari Studio's new shares include Han Hee-sung (38.8%), Kwon Jung-hyuk (22.5%), IMM Private Equity (16.3%), and NCsoft (9.6%). It should be noted that the company's financial investors are still in the red due to their long investment cycles and the high valuations they paid (The acquisition price represents 50% of the valuation at the time of IMM's investment in 2016.) We think overhang risks are limited in the near term given that new shares will be subject to a one-year lock-up period.

Table 1. Kidari Studio-Lezhin Entertainment stock swap schedule

Event	Date	
Stock exchange/transfer agreement	Dec. 14, 2020	
Record date	Dec. 29, 2020	
Registry closure	Start date	Dec. 30, 2020
	End date	Dec. 30, 2020
Notice of shareholder intent to exercise appraisal rights	Start date	Jan. 7, 2021
	End date	Jan. 21, 2021
Shareholders' meeting	Jan. 22, 2021	
Exercise of appraisal rights	Start date	Jan. 22, 2021
	End date	Feb. 15, 2021
Submission of existing shares	Start date	Jan. 21, 2021
	End date	Feb. 22, 2021
Suspension of trading	Start date	-
	End date	-
Stock exchange/transfer	Feb. 23, 2021	
Allotment of new shares	-	
Listing of new shares	Mar. 15, 2021	

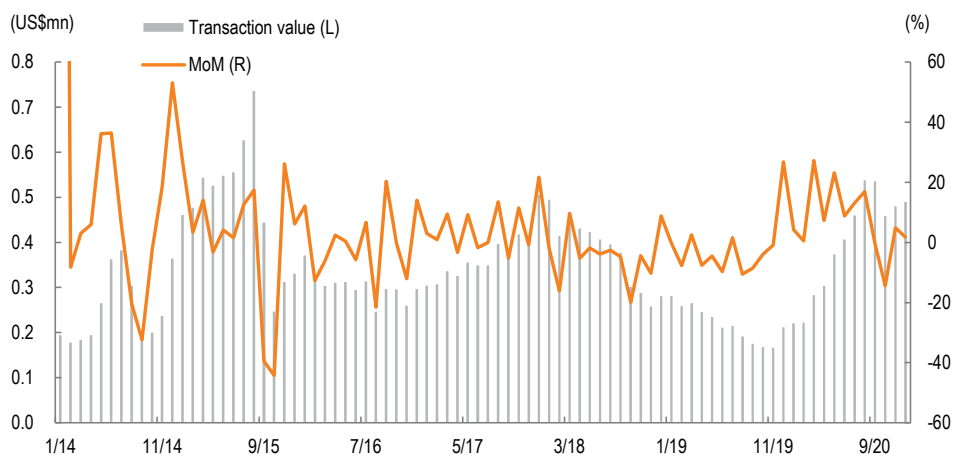
Source: Company data, Mirae Asset Daewoo Research

Kidari Studio, a platform operator and content provider specializing in the BL genre, represents the only pure webtoon platform play among listed firms. The company seeks out compelling stories to develop/publish in a variety of formats (webtoons/web novels, education, films, etc.). Starting out as a semiconductor software distributor, the company changed its name and entered the webtoon business by acquiring Bom Comics (Bomtoon) in Jan. 2018. In Apr. 2019, the company took over Kidari ENT's webtoon production/distribution business. As part of the Daou Kiwoom Group, Kidari Studio's largest shareholder is Daou Data (52.7%), and specially related parties also own an 8.0% stake. The company produces around 70 webtoon titles annually (studio) and publishes them on its platforms (Bomtoon in Korea and Delitoon in France). Once the holdback period is over, episodes are republished on third-party platforms like Kakao, NAVER, and Lezhin Comics.

Lezhin Entertainment operate Lezhin Comics, an adult comics platform that targets a more mature audience. The company launched its app in 2013 and introduced a monetization model from the very beginning. The company rapidly took over the market, but suffered a slowdown domestically due to the emergence of illegal platforms and similar services after 2H16. However, we believe the company has been enjoying a resurgence of late, fueled by the introduction of the webtoon format in the US and increasing consumption in the wake of the pandemic. We estimate the company swung to profitability in 2020 on the back of robust top-line growth.

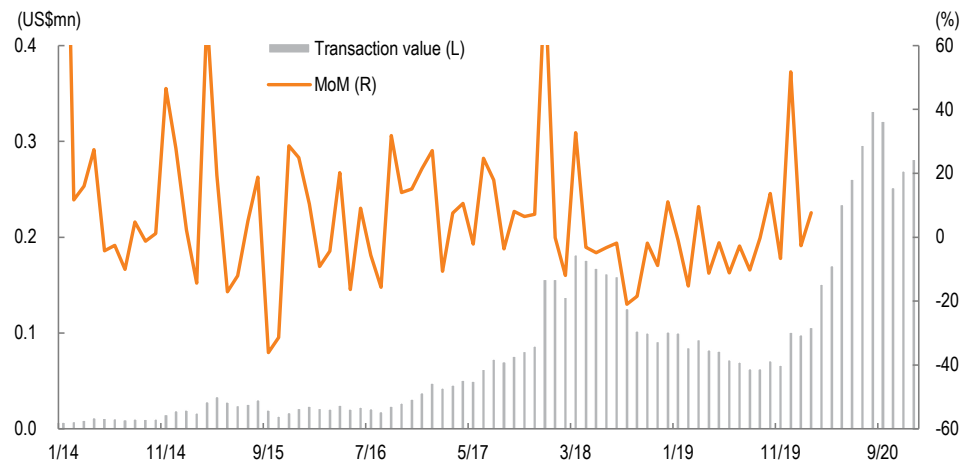
Both Kidari Studio and Lezhin Entertainment specialize in niche genres that are not dominated by large platform operators such as NAVER or Kakao. They face limited competition risks, as there is little incentive for large platform operators to directly enter niche markets. Another advantage is that their key demographic is adults, who generally have greater purchasing power. Adult comics account for nine out of the top 10 titles on Bomtoon and eight out of the top 10 titles on Lezhin Comics.

Figure 31. Lezhin Comics' global transaction value has rebounded sharply



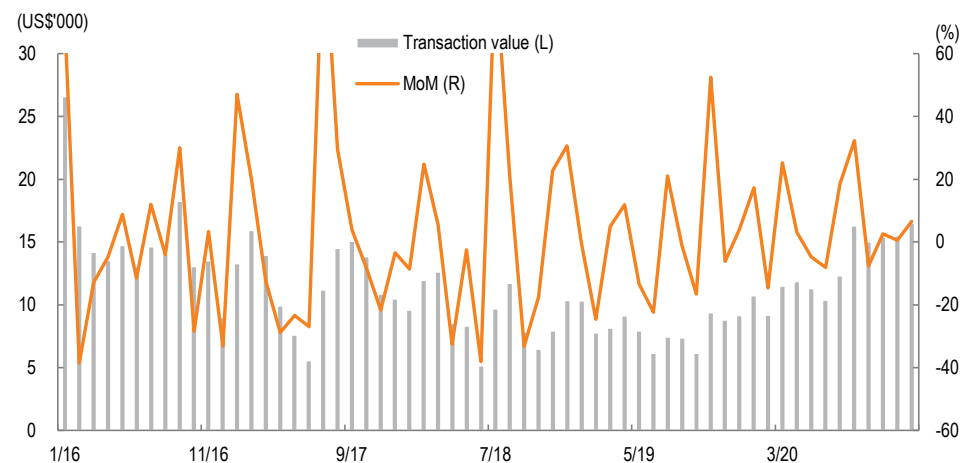
Note: Transaction value data are based on Sensor Tower data and may differ from actual numbers.
 Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Figure 32. Lezhin Comics' US transaction value has seen impressive growth



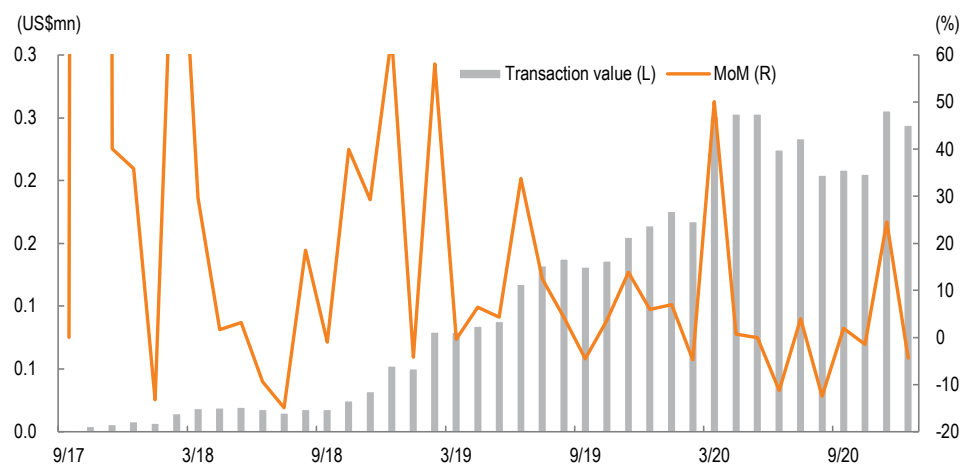
Note: Transaction value data are based on Sensor Tower data and may differ from actual numbers.
 Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Figure 33. Bomtoon's transaction value has been growing since 2H19



Note: Transaction value data are based on Sensor Tower data and may differ from actual numbers.
 Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Figure 34. Delitoon's transaction value has steadily increased



Note: Transaction value data are based on Sensor Tower data and may differ from actual numbers.
 Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Potential expansion of niche genres

Kidari Studio is strongly positioned in niche genres (e.g., romance, BL, GL). While many see this positioning as limiting the firm’s subscriber base growth, it conversely means that competition from NAVER and Kakao is limited. With Kidari’s platforms already acting as steady cash cows, we think the company has the potential for geographical/genre expansion.

Limited competition from NAVER and Kakao: Around 90% of Bomtoon’s 4mn users are women. Subscriber base growth has been slow due to its focus on a specific user segment, but the platform generates steady cash flows from its loyal readers.

Going global with popular titles: With its two hugely popular webtoons, Kidari Studio is set to benefit strongly from new user inflows (Korea and Japan) and/or overseas market growth. *Light and Shadow* is serviced on seven platforms in six countries, including Delitooon (France), Kuaikan (China), Piccoma/Comico (Japan), Comico (Taiwan), WebComics (Indonesia), and Tappytoon (US), generating revenue of W2.5bn annually. *Doctor Elise: The Royal Lady with the Lamp* records annual revenue of over W2bn from six platforms in six countries. Kidari’s titles also rank high on the rapidly growing Piccoma platform.

Exposure to the French market: Kidari owns a 98.8% stake in Delitooon, the leading webtoon platform in France, providing the translated content of in-house-produced webtoons and Lezhin Comics. Since NAVER Webtoon’s entry into the French market in early 2020, webtoons have gained increasing attention in neighboring markets. We think Kidari will be able to capitalize on its exposure to a growing market with its platforms and content production capabilities.

Kidari’s profit structure is improving thanks to steady cash cows (Bomtoon) and growing opportunities in Japan and France. Looking ahead, profits should expand more rapidly as the firm’s popular titles gain more subscribers and Delitooon results become consolidated on a full-year basis.

Meanwhile, the production of niche genre dramas can also potentially boost the company’s value. At end-2020, *Color Rush* (BL) was co-produced by Storywiz, KT Group’s web novel/webtoon content-producing subsidiary, and Convergence TV, an OTT drama producer. The drama is now serviced on SkyLife, NAVER’s Series On, Viu (OTT video streaming service in Southeast Asia), and Rakuten Viki (US and Europe). The expansion of genres in webtoon adaptations, from romance and school stories to niche genres, should present good opportunities for Kidari Studio.

Figure 35. Growing presence of niche genres in webtoon/web novel adaptations



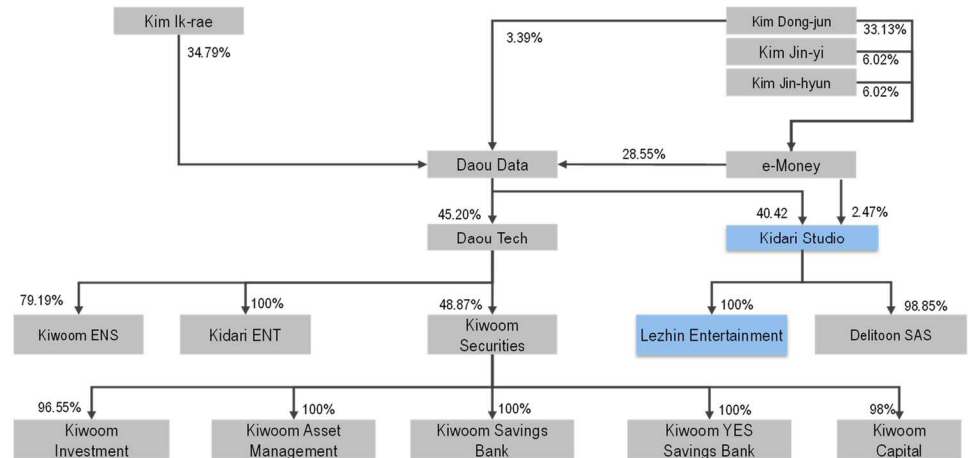
Source: Storywiz, Mirae Asset Daewoo Research

Company overview

Kidari Studio is a platform operator and content provider specializing in niche genres. The firm seeks out compelling stories to develop/publish in a variety of formats (webtoons/web novels, education, films, etc.). The firm has been ramping up its competitiveness across the webtoon value chain, operating various content platforms, including Bomtoon, Delitooon (webtoons), and Fanmurim (web novels), as well as a production studio. Starting out as a semiconductor software distributor, the company changed its name and entered the webtoon business by acquiring Bom Comics (Bomtoon) in Jan. 2018. In 2019, the firm launched its web novel platform Fanmurim and took over Kidari ENT's webtoon production/distribution business. In Dec. 2020, the firm announced that it would acquire Lezhin Entertainment via a share swap.

As part of the Daou Kiwoom Group, Kidari Studio's largest shareholder is Daou Data (52.7%), and specially related parties also own an 8% stake. The company produces around 70 webtoon titles annually (studio) and publishes them on its platforms (Bomtoon in Korea and Delitooon in France). Once the holdback period is over, episodes are republished on third-party platforms like Kakao, NAVER, and Lezhin Comics.

Figure 36. Kidari Studio and Daou Kiwoom Group: Corporate structure



Source: Mirae Asset Daewoo Research

Figure 37. Kidari Studio: Ownership structure (before Lezhin Entertainment acquisition)

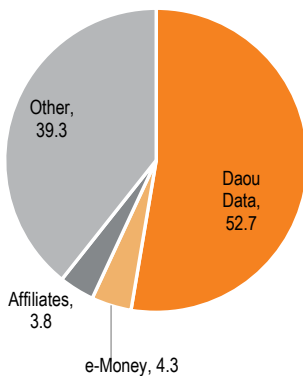


Figure 38. Kidari Studio: Post-acquisition ownership structure (estimate)

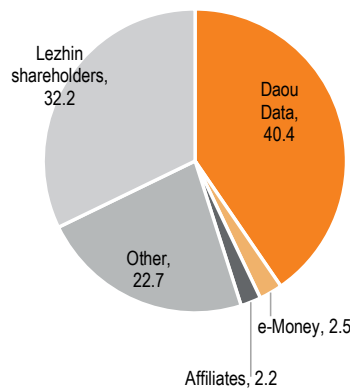
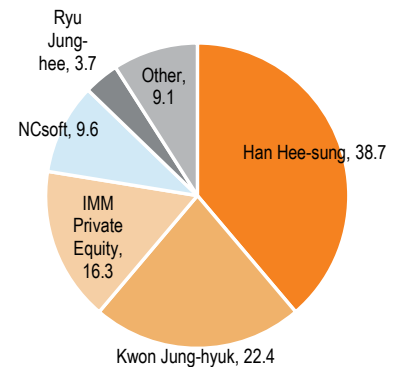


Figure 39. Lezhin Entertainment's existing shareholders



Source: Mirae Asset Daewoo Research

Notes: Estimates based on ownership disclosures; new shares will be subject to a one-year lock-up period
Source: Mirae Asset Daewoo Research

Note: Based on 2019 data
Source: Mirae Asset Daewoo Research

Kidari Studio (020120 KS)

Income statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
Revenue	27	48	134	165
Cost of revenue	18	30	87	107
GP	9	18	47	58
SG&A expenses	8	12	30	31
OP (adj.)	1	6	17	27
OP	1	6	17	27
Non-operating profit	1	-4	0	0
Net financial income	0	0	0	0
Net income from associates	0	0	0	0
Pretax profit	2	2	17	27
Income tax	0	1	4	6
Profit from continuing operations	2	2	13	21
Profit from discontinued operations	0	0	0	0
NP	2	2	13	21
Attributable to owners	3	2	13	21
Attributable to minority interests	0	0	0	0
Total comprehensive income	2	2	13	21
Attributable to owners	2	2	14	21
Attributable to minority interests	0	0	0	-1
EBITDA	2	5	16	25
FCF	1	0	25	22
EBITDA margin (%)	7.4	10.4	11.9	15.2
OP margin (%)	3.7	12.5	12.7	16.4
Net margin (%)	11.1	4.2	9.7	12.7

Balance sheet (summarized)

(Wbn)	2019	2020F	2021F	2022F
Current assets	22	24	49	72
Cash & equivalents	11	7	32	53
AR & other receivables	2	3	3	4
Inventory	0	0	0	0
Other current assets	9	14	14	15
Non-current assets	20	24	25	29
Investments in associates	5	7	8	9
PP&E	0	1	2	2
Intangible assets	12	14	15	16
Total assets	42	47	75	101
Current liabilities	8	11	24	29
AP & other payables	1	2	6	7
Short-term financial liabilities	3	4	4	4
Other current liabilities	4	5	14	18
Non-current liabilities	13	8	9	9
Long-term financial liabilities	13	8	8	8
Other non-current liabilities	0	0	1	1
Total liabilities	21	19	33	38
Equity attributable to owners	21	28	42	62
Capital stock	8	9	9	9
Capital surplus	6	13	13	13
Retained earnings	9	11	24	45
Minority interests	0	0	0	0
Shareholders' equity	21	28	42	62

Cash flow statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
Operating cash flow	1	1	25	22
NP	2	2	13	21
Non-cash income/expenses	0	5	3	4
Depreciation	0	0	0	-1
Amortization	1	-1	-1	-1
Other	-1	6	4	6
Chg. in working capital	-1	-5	13	3
Chg. in AR & other receivables	0	0	0	-1
Chg. in inventory	0	0	0	0
Chg. in AP & other payables	0	1	1	0
Income tax	0	0	-4	-6
Cash flow from investing activities	-10	-3	0	0
Chg. in PP&E	0	-1	0	0
Chg. in intangible assets	0	-1	0	0
Chg. in financial assets	1	0	0	0
Other	-11	-1	0	0
Cash flow from financing activities	19	0	1	0
Chg. in financial liabilities	16	-4	1	0
Chg. in equity	4	8	0	0
Dividends	0	0	0	0
Other	-1	-4	0	0
Chg. in cash	10	-4	25	20
Beginning balance	1	9	7	32
Ending balance	11	7	32	53

Key valuation metrics/ratios

	2019	2020F	2021F	2022F
P/E (x)	24.3	112.3	26.8	18.3
P/CF (x)	33.7	26.9	22.4	15.1
P/B (x)	3.3	6.4	9.2	6.1
EV/EBITDA (x)	42.4	39.1	12.5	7.1
EPS (W)	166	87	445	649
CFPS (W)	120	365	532	789
BPS (W)	1,213	1,526	1,300	1,949
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	35.0	77.8	179.2	23.1
EBITDA growth (%)	100.0	150.0	220.0	56.3
OP growth (%)	-	500.0	183.3	58.8
EPS growth (%)	1,560.0	-47.6	411.5	45.8
AR turnover (x)	20.4	23.1	53.3	57.4
Inventory turnover (x)	0.0	0.0	0.0	0.0
AP turnover (x)	47.9	55.6	72.2	54.0
ROA (%)	7.5	3.4	21.8	23.6
ROE (%)	14.5	6.3	38.2	40.0
ROIC (%)	4.8	15.4	70.2	159.8
Debt-to-equity ratio (%)	100.2	67.2	80.1	61.7
Current ratio (%)	271.8	218.6	202.6	244.8
Net debt-to-equity ratio (%)	23.3	15.3	-49.3	-65.0
Interest coverage ratio (x)	1.9	0.0	0.0	0.0

Source: Company data, Mirae Asset Daewoo Research estimates

Studio Dragon

(253450 KQ)

OTT players' big bets are coming

Buy

(Maintain)

TP: W120,000 ▲

Upside: 20.4%

Mirae Asset Daewoo Co., Ltd.

Jeong-yeob Park jay.park@miraeasset.com

Proven production competitiveness

Playing a central role in the brand-making of Korean dramas and webtoons

- Studio Dragon has demonstrated its competitiveness through the big-budget original drama *Sweet Home* (which cost W3bn per episode).
- At the height of its popularity, the drama was the third most popular show on Netflix (current rank: 15).
- Korea has the second-highest number of dramas in Netflix's top 50 list, behind only the US.

Production capacity to increase through utilization of webtoon IPs

Distribution channels and production capacity to expand in 2021

- In 2021, both global (Disney+ and Apple TV) and domestic (Tving and Wavve) OTTs are expected to spend aggressively.
- We believe Studio Dragon will be one of the most sought-after production companies, given its experience in making big-budget titles and extensive pool of hit-making writers.
- Distribution channel expansion: We believe the company's distribution channel mix will expand beyond broadcast networks and Netflix to China (margins) and domestic/global OTTs (top line).
- Production capacity expansion: The stock swap with NAVER (preferential rights to webtoon IP) and the rollout of Tving-NAVER bundled packages should allow Studio Dragon to diversify its offerings to include short/mid-form content and lift its current capacity limitations (writer pool).

4Q20 preview

Revenue of W128.9bn (+32.4% YoY) and OP of W10.6bn (turning to profit YoY)

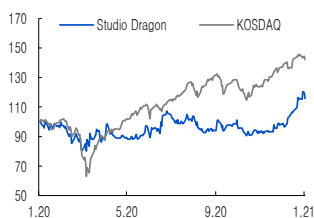
- Despite a decline in programming revenue (-29.5% YoY) due to fewer dramas being aired, the company likely turned to a profit in 4Q20, thanks to the sale of a big-budget original title.
- We believe revenue from the licensing of older titles to China, which was partially recognized in 3Q20 (W6bn), was not booked in 4Q20.

Recommendation

Maintain Buy and raise TP by 12% to W120,000

- We believe the simultaneous expansion of licensing sales and production capacity will support top-line growth and margin improvements over the long term.
- Our target valuation of W3.6tr is based on a 2022F P/E of 40x.
- In our view, Studio Dragon is best-positioned to take advantage of NAVER Webtoon's IP and global OTTs' demand for big-budget titles.

Key data



Current price (1/15/21, W)	99,700	Market cap (Wbn)	2,991
OP (20F, Wbn)	55	Shares outstanding (mn)	30
Consensus OP (20F, Wbn)	56	Free float (%)	43.1
EPS growth (20F, %)	53.8	Foreign ownership (%)	11.9
P/E (20F, x)	63.9	Beta (12M)	0.37
Market P/E (20F, x)	21.4	52-week low (W)	69,100
KOSDAQ	964.44	52-week high (W)	103,700

Share performance

(%)	1M	6M	12M
Absolute	17.4	12.7	15.4
Relative	13.4	-8.7	-18.7

Earnings and valuation metrics

(Dec.)	2017	2018	2019	2020F	2021F	2022F
Revenue (Wbn)	287	380	469	517	601	711
OP (Wbn)	33	40	29	55	82	117
OP margin (%)	11.5	10.5	6.2	10.6	13.6	16.5
NP (Wbn)	24	36	26	41	65	91
EPS (W)	1,050	1,278	941	1,448	2,169	3,024
ROE (%)	12.9	9.3	6.4	9.2	13.0	15.7
P/E (x)	61.9	72.3	85.9	63.9	46.0	33.0
P/B (x)	4.9	6.5	5.3	5.9	5.6	4.8
Div. yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Daewoo Research estimates

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Table 10. Studio Dragon: Consolidated earnings and forecasts

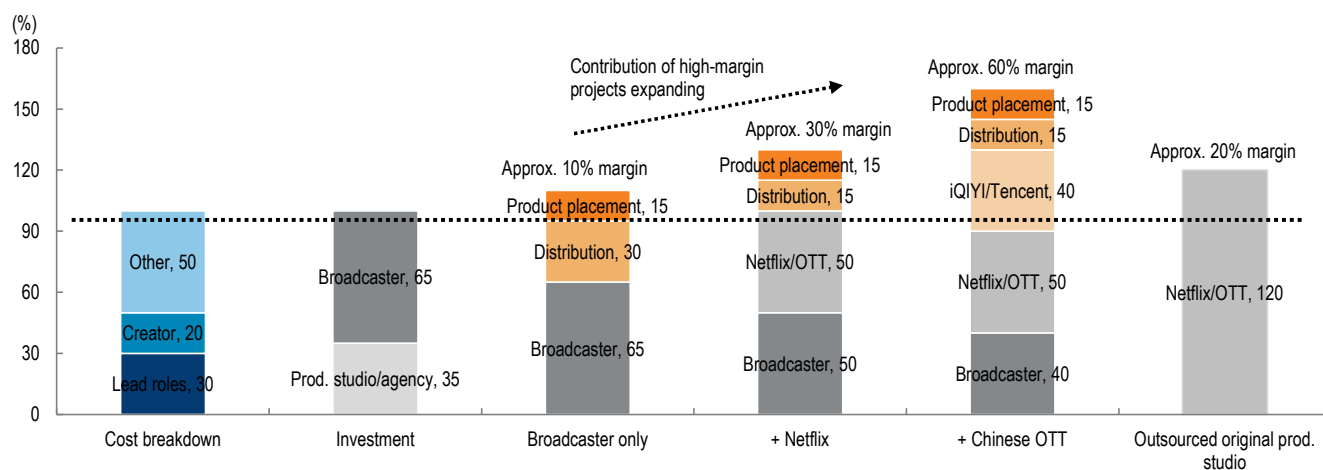
(Wbn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20F	2020F	2021F	2022F
Revenue	112	128	131	97	120	161	106	129	517	601	711
Programming	44	58	61	46	45	65	46	36	192	190	178
Licensing	56	60	60	43	67	76	51	82	275	353	467
Other	12	10	10	9	8	20	10	11	49	57	66
Costs	97	113	116	95	104	140	85	112	440	495	568
Production costs	49	65	71	49	62	75	47	69	253	297	325
Commission fees	15	10	10	11	11	14	11	14	50	66	86
Depreciation/amortization	27	32	28	28	26	45	19	21	111	98	114
Other	6	6	6	7	4	5	8	8	25	35	43
SG&A	4	5	4	6	5	5	5	7	22	23	26
EBITDA	38	43	40	24	38	63	35	32	168	180	231
OP	11	11	11	-4	11	17	16	11	55	82	117
OP margin	9.9	8.4	8.3	-4.2	9.5	10.5	15.1	8.2	10.6	13.7	16.4
Pretax profit	13	12	13	-5	12	17	15	11	56	86	119
NP	9	7	12	-2	8	13	11	9	41	65	91
Net margin	8.2	5.7	8.8	-1.7	7.0	8.3	10.0	6.6	7.9	10.8	12.8
YoY											
Revenue	40.0	72.5	6.0	-4.3	7.6	25.9	-19.0	32.4	10.3	16.3	18.2
Programming	8.4	70.5	24.4	-16.1	2.5	12.6	-24.9	-21.7	-8.0	-1.0	-6.4
Licensing	75.1	109.2	-5.4	13.3	19.1	25.5	-15.2	91.6	25.6	28.3	32.0
Other	63.1	-14.1	-9.0	-6.7	-29.2	107.1	-6.4	25.0	21.4	16.5	15.0
EBITDA	34.7	182.5	-11.5	-8.5	0.0	44.3	-10.8	32.0	15.6	7.3	28.2
OP	3.5	48.8	-49.3	TTR	4.1	56.8	46.7	TTB	92.0	49.6	41.7
NP	16.1	-17.8	-33.1	TTR	-7.6	84.0	-8.5	TTB	55.7	58.5	39.4
Major assumptions											
No. of titles aired	6.5	7.5	7.0	6.5	6.5	6.5	6.5	5.5	25.0	26.0	24.0
No. of titles licensed to Netflix	1.5	2.5	1.5	0.4	1.5	2.0	2.5	1.0	7.0	8.0	10.0

Note: Under consolidated K-IFRS

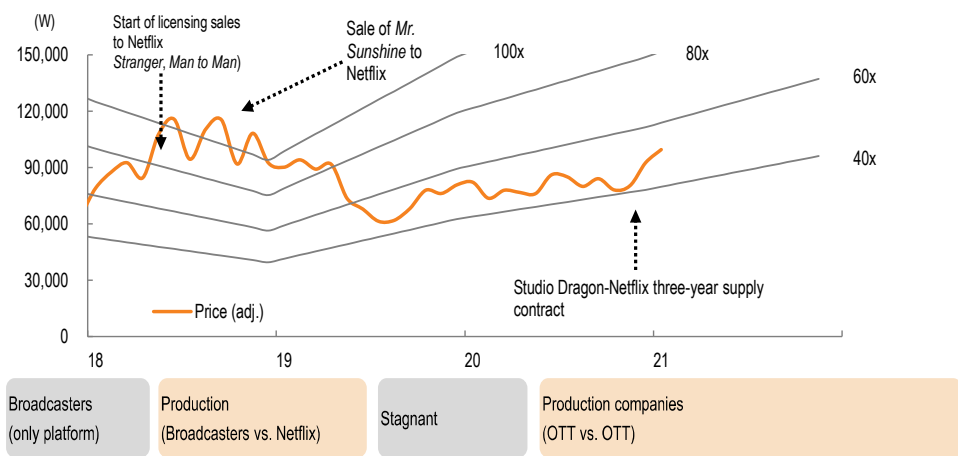
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 40. Licensing sales (to Chinese OTTs) and original title production to support margin improvement and top-line growth



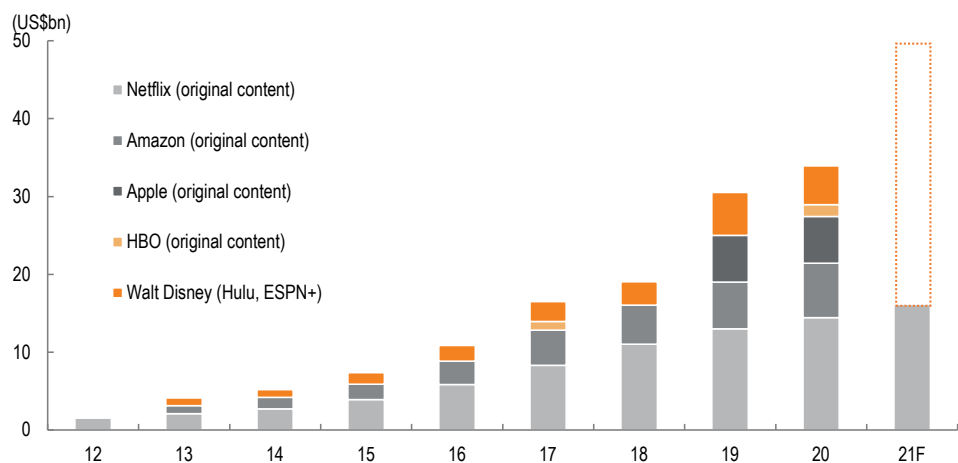
Source: Mirae Asset Daewoo Research

Figure 41. Studio Dragon: Licensing demand → P/E expansion



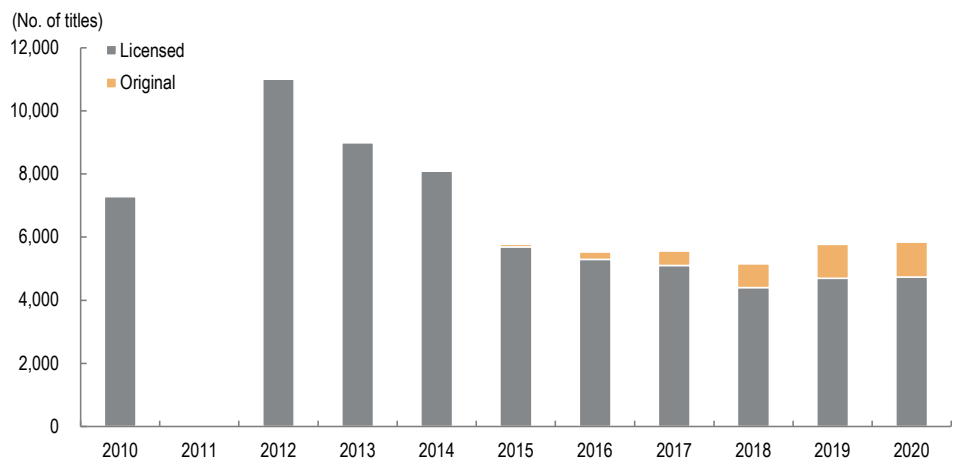
Source: WISEfn, Mirae Asset Daewoo Research

Figure 42. Reasons for valuation premium: 1) Increase in the no. of global/local OTT services



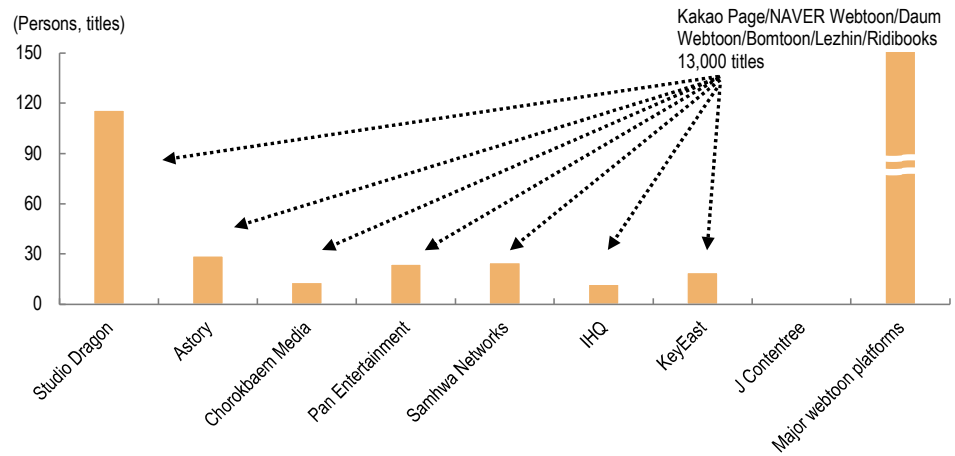
Source: Mirae Asset Daewoo Research

Figure 43. 2) Increased investments will support production of big-budget originals



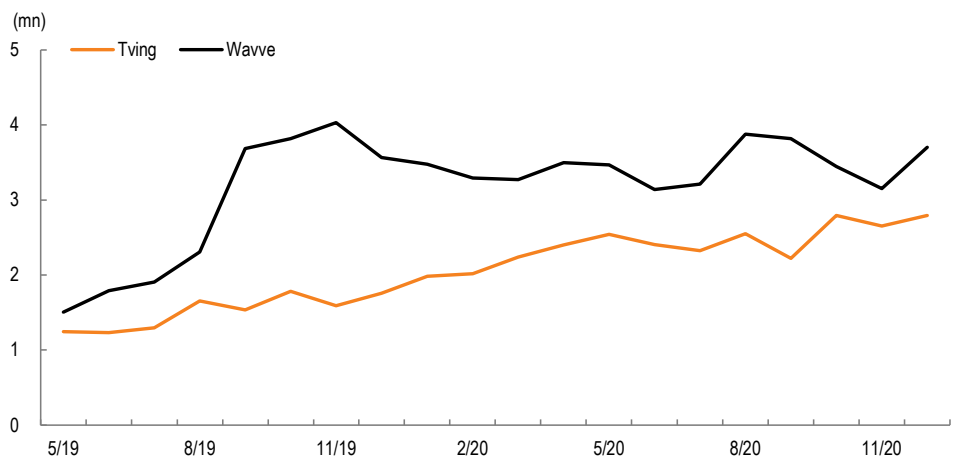
Source: Reelgood, Mirae Asset Daewoo Research

Figure 44. Production of webtoon-based dramas to continue



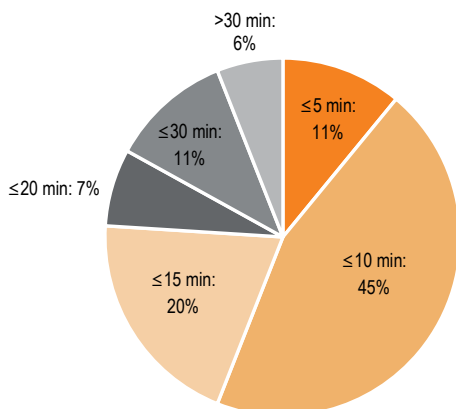
Note: Data for some platforms includes web novel.
 Source: WebtoonInsight, media reports, Mirae Asset Daewoo Research

Figure 45. Tving and Wavve: Increase in paid subscribers



Note: Based on Android and iOS data
 Source: Koreanclick, Mirae Asset Daewoo Research

Figure 46. Preferred video length among teens



Source: Mezzomedia, Mirae Asset Daewoo Research

Figure 47. Opportunities in short/medium-form content: NAVER's Playlist (web drama with 15-minute episodes)



Source: Playlist, Mirae Asset Daewoo Research

Studio Dragon (253450 KQ)

Income statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
Revenue	469	517	601	711
Cost of revenue	421	440	495	568
GP	48	77	106	143
SG&A expenses	19	22	23	26
OP (adj.)	29	55	82	117
OP	29	55	82	117
Non-operating profit	4	1	4	2
Net financial income	3	2	3	4
Net income from associates	0	0	0	0
Pretax profit	33	56	86	119
Income tax	7	15	21	29
Profit from continuing operations	26	41	65	91
Profit from discontinued operations	0	0	0	0
NP	26	41	65	91
Attributable to owners	26	41	65	91
Attributable to minority interests	0	0	0	0
Total comprehensive income	26	41	65	91
Attributable to owners	26	41	65	91
Attributable to minority interests	0	0	0	0
EBITDA	146	168	125	159
FCF	-13	50	109	134
EBITDA margin (%)	31.1	32.5	20.8	22.4
OP margin (%)	6.2	10.6	13.6	16.5
Net margin (%)	5.5	7.9	10.8	12.8

Cash flow statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
Operating cash flow	-12	57	109	134
NP	26	41	65	91
Non-cash income/expenses	124	128	61	67
Depreciation	2	3	2	1
Amortization	115	111	41	41
Other	7	14	18	25
Chg. in working capital	-143	-96	3	4
Chg. in AR & other receivables	-22	-29	-18	-23
Chg. in inventory	1	0	0	0
Chg. in AP & other payables	9	11	4	5
Income tax	-19	-16	-21	-29
Cash flow from investing activities	-81	19	-28	-47
Chg. in PP&E	0	-7	0	0
Chg. in intangible assets	0	0	-30	-50
Chg. in financial assets	-42	39	-1	-2
Other	-39	-13	3	5
Cash flow from financing activities	0	-1	0	0
Chg. in financial liabilities	8	0	0	1
Chg. in equity	2	1	0	0
Dividends	0	0	0	0
Other	-10	-2	0	-1
Chg. in cash	-93	75	81	86
Beginning balance	153	60	135	216
Ending balance	60	135	216	302

Source: Company data, Mirae Asset Daewoo Research estimates

Balance sheet (summarized)

(Wbn)	2019	2020F	2021F	2022F
Current assets	244	319	427	549
Cash & equivalents	60	135	216	302
AR & other receivables	84	111	129	152
Inventory	0	0	0	0
Other current assets	100	73	82	95
Non-current assets	337	350	338	348
Investments in associates	0	0	0	0
PP&E	1	7	5	4
Intangible assets	233	205	194	203
Total assets	582	669	765	897
Current liabilities	145	192	223	264
AP & other payables	64	85	99	117
Short-term financial liabilities	2	3	3	4
Other current liabilities	79	104	121	143
Non-current liabilities	8	8	8	8
Long-term financial liabilities	8	8	8	8
Other non-current liabilities	0	0	0	0
Total liabilities	153	200	231	272
Equity attributable to owners	428	469	534	625
Capital stock	14	14	14	14
Capital surplus	322	323	323	323
Retained earnings	94	135	200	290
Minority interests	0	0	0	0
Shareholders' equity	428	469	534	625

Key valuation metrics/ratios

	2019	2020F	2021F	2022F
P/E (x)	85.9	63.9	46.0	33.0
P/CF (x)	15.1	15.5	23.7	18.9
P/B (x)	5.3	5.9	5.6	4.8
EV/EBITDA (x)	15.0	15.7	22.1	16.9
EPS (W)	941	1,448	2,169	3,024
CFPS (W)	5,346	5,961	4,205	5,265
BPS (W)	15,242	15,637	17,805	20,829
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	23.4	10.2	16.2	18.3
EBITDA growth (%)	27.0	15.1	-25.6	27.2
OP growth (%)	-27.5	89.7	49.1	42.7
EPS growth (%)	-26.4	53.9	49.8	39.4
AR turnover (x)	6.2	5.3	5.0	5.1
Inventory turnover (x)	1,620.7	0.0	0.0	0.0
AP turnover (x)	22.1	20.6	18.8	18.4
ROA (%)	4.8	6.6	9.1	10.9
ROE (%)	6.4	9.2	13.0	15.7
ROIC (%)	8.7	13.5	22.6	32.9
Debt-to-equity ratio (%)	35.8	42.6	43.3	43.5
Current ratio (%)	168.4	166.1	191.3	208.1
Net debt-to-equity ratio (%)	-21.2	-29.6	-41.0	-48.8
Interest coverage ratio (x)	58.1	97.3	140.0	189.5

D&C Media

(263720 KQ)

Waiting for the next big hit

Buy

(Maintain)

TP: W45,000

Upside: 19.4%

Mirae Asset Daewoo Co., Ltd.

Jeong-yeob Park jay.park@miraeasset.com

4Q20 preview

Revenue of W17bn (+95.7% YoY) and OP of W4.1bn (+59.7% YoY); likely to be in line with consensus

- We believe D&C Media saw continued top-line growth in 4Q20, supported by an expanded content lineup and increased exports. We estimate overseas webtoon revenue continued strong growth, increasing to W5.7bn (+240% YoY, +20% QoQ).
- We estimate OP margin gained 1.0%p QoQ to 24.2%, driven by operating leverage effects from domestic and overseas transaction value growth.
- Piccoma's strong performance in Japan likely translated into increased payments for D&C Media's titles. We believe the company will continue to serve as a proxy of the webtoon industry.

Waiting for the next big hit

Strong earnings power: 1) Piccoma's traffic; and 2) return of popular title/new title launch

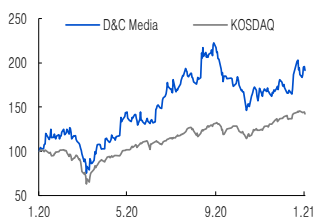
- In Japan, webtoon user count and ARPU are simultaneously increasing. Piccoma and LINE Manga are among the country's top five grossing apps.
- The growth of Japan's webtoon market is accelerating, spurred by Piccoma's promotions and the overhaul of rival LINE Manga.
- Piccoma's revenue and downloads continued to grow sharply in 4Q20 (+360% YoY and +124% YoY, respectively, based on our estimates).
- D&C Media's hit titles *Solo Leveling* and *The Story of How I Became a Duke's Maid* are still among the most-viewed webtoons. That said, newly released titles are threatening their status, suggesting the company needs to come up with a new hit.

Recommendation

Retain Buy and TP of W45,000

- Our target price is based on a P/E of 35x and our 2021 net profit estimate of W15.7bn. For reference, China Literature, China's top web novel platform/content provider, has traded at a P/E of 40-70x since service monetization.
- We expect D&C Media's earnings power to continue to strengthen on the back of Japan's rapidly growing webtoon market.
- Korean webtoons make up 5% of Piccoma's content but generate 40% of transaction value. We see potential for more hit titles beyond *Solo Leveling*.
- IPO/investment events regarding e-book platform operators (Kakao Page, NAVER Webtoon, Ridibooks, etc.) could help drive a re-rating in D&C Media's shares.
- Additional growth drivers: 1) Kakao's global expansion (China, Taiwan, Thailand, and the US); and 2) increased utilization of webtoon/web novel IP (dramas, games, etc.)

Key data



Current price (1/15/21, W)	37,700	Market cap (Wbn)	463
OP (20F, Wbn)	14	Shares outstanding (mn)	12
Consensus OP (20F, Wbn)	14	Free float (%)	52.0
EPS growth (20F, %)	126.7	Foreign ownership (%)	1.1
P/E (20F, x)	40.3	Beta (12M)	0.89
Market P/E (20F, x)	21.4	52-week low (W)	14,800
KOSDAQ	964.44	52-week high (W)	43,800

Share performance

(%)	1M	6M	12M
Absolute	9.8	14.8	84.8
Relative	6.0	-7.0	30.1

Earnings and valuation metrics

(Dec.)	2017	2018	2019	2020F	2021F	2022F
Revenue (Wbn)	27	32	42	59	76	102
OP (Wbn)	5	6	8	14	19	28
OP margin (%)	18.5	18.8	19.0	23.7	25.0	27.5
NP (Wbn)	5	5	5	11	16	23
EPS (W)	442	408	403	913	1,274	1,888
ROE (%)	14.2	14.4	12.4	23.8	25.9	29.0
P/E (x)	16.0	34.6	48.3	40.3	29.6	20.0
P/B (x)	2.6	4.6	5.6	8.4	6.7	5.0
Div. yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Daewoo Research estimates

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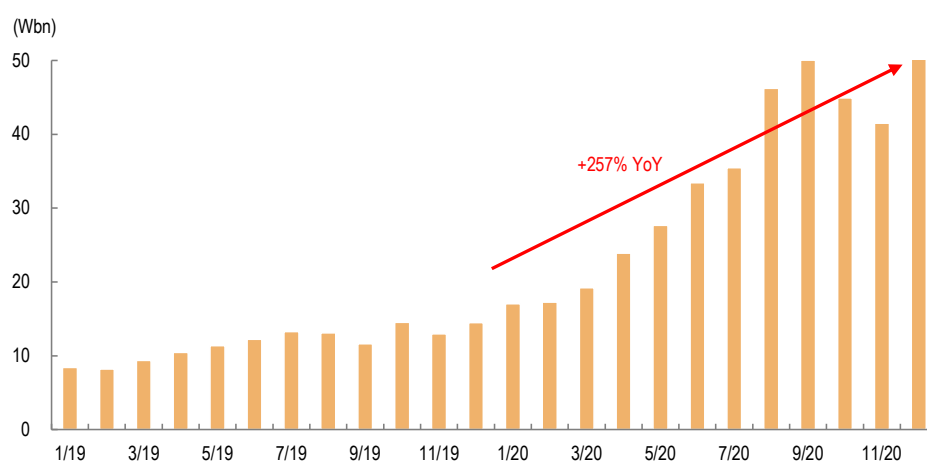
Table 11. D&C Media: Quarterly and annual earnings

(Wbn, %, %p)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20F	2019	2020F	2021F
Revenue	9.6	10.8	13.1	8.7	12.6	14.0	15.5	17.0	42.1	59.2	76.0
E-books	7.2	8.1	9.3	10.3	10.7	12.5	13.6	15.2	34.9	52.0	68.9
On Kakao Page	4.2	4.7	5.5	5.6	5.6	7.3	8.2	9.9	20.0	31.0	44.6
On other platforms	3.0	3.4	3.8	4.7	5.1	5.1	5.4	5.3	22.2	28.2	31.3
Print books	1.9	1.6	1.8	1.7	1.8	1.5	1.8	1.7	7.1	6.8	6.6
Domestic	9.0	9.8	11.7	10.4	10.7	9.8	10.8	11.3	40.9	42.6	46.8
Overseas	0.6	1.0	1.4	1.7	1.9	4.2	4.8	5.7	4.7	16.6	29.2
SG&A	8.0	9.2	11.0	6.1	9.9	10.8	11.9	12.9	34.2	45.6	57.2
Wages	0.9	1.0	1.1	0.5	1.0	1.1	1.1	1.1	3.5	4.4	4.5
Commissions	6.0	6.9	8.2	5.9	8.0	8.8	9.8	10.6	26.9	37.2	47.6
OP	1.7	1.6	2.0	2.6	2.7	3.2	3.6	4.1	7.9	13.6	18.8
OP margin	17.4	15.0	15.7	29.7	21.3	22.8	23.2	24.2	18.8	23.0	24.8
Pretax profit	1.7	1.7	2.1	2.6	2.8	3.3	3.8	4.3	8.2	14.2	19.6
NP	1.4	1.3	1.6	0.6	2.3	2.6	3.0	3.4	4.9	11.2	15.7
Net margin	14.8	11.8	12.3	6.4	18.2	18.3	19.0	20.0	11.5	18.9	20.6
YoY											
Revenue	28.2	34.4	55.6	6.3	31.1	30.0	19.1	95.7	31.4	40.4	28.4
E-books	38.7	41.0	44.5	72.3	48.8	54.6	46.4	47.7	49.5	49.2	32.5
Print books	-15.8	-26.2	-3.7	-20.4	-5.5	-10.0	-1.5	-2.0	-16.9	-4.6	-2.0
Domestic	26.3	27.6	48.7	22.6	19.0	0.4	-7.4	8.1	31.2	4.2	9.8
Overseas	62.3	195.7	153.2	239.3	200.8	328.8	239.4	240.0	165.0	252.8	76.3
OP	20.7	-7.8	26.3	55.1	60.6	96.9	76.5	59.7	23.2	71.8	38.4
NP	18.7	-11.9	20.7	-41.5	61.1	101.2	84.8	514.7	-1.3	131.0	39.8
Key assumptions											
Kakao Page transaction value	66	67	72	73	87	84	91	90	279	352	405
Piccoma transaction value	26	34	38	42	54	85	132	138	140	408	474

Source: Company data, Mirae Asset Daewoo Research estimates

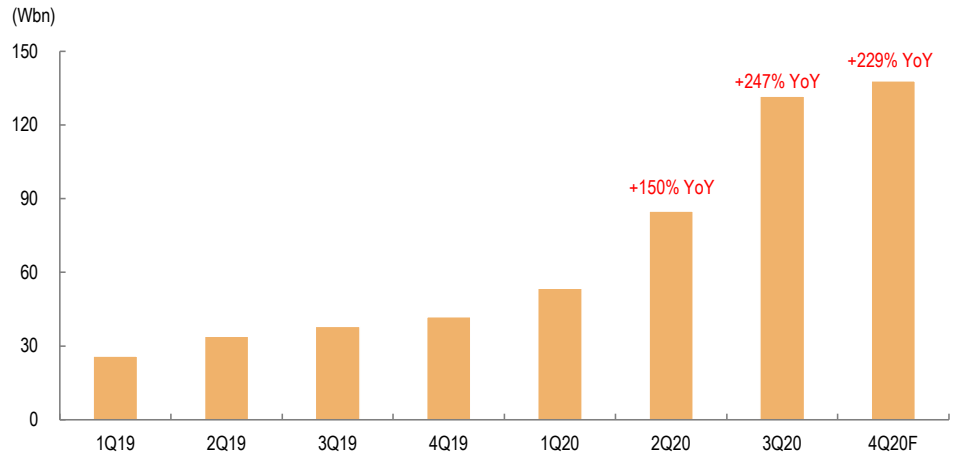
Figure 48. Piccoma: Dec. transaction value growth estimated at +257% YoY



Note: Transaction value data are based on Sensor Tower estimates and could differ from actual data.

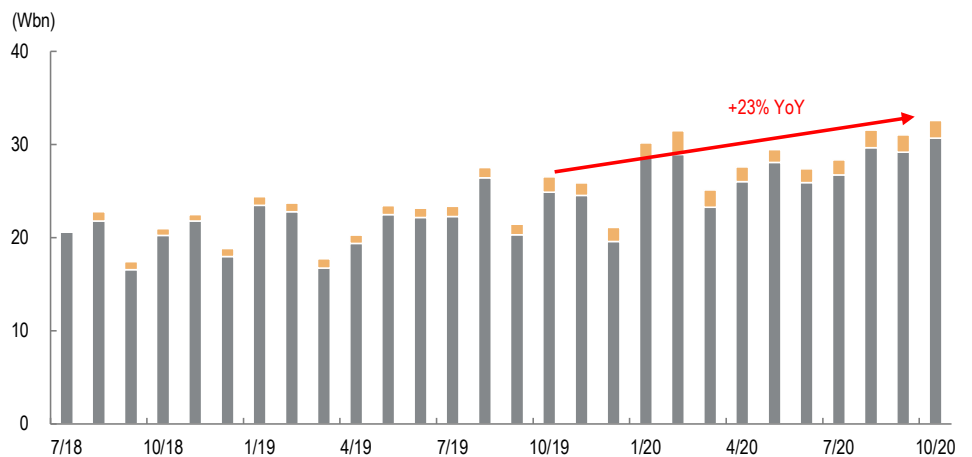
Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Figure 49. Piccoma: 4Q20 transaction value growth estimated at +229% YoY



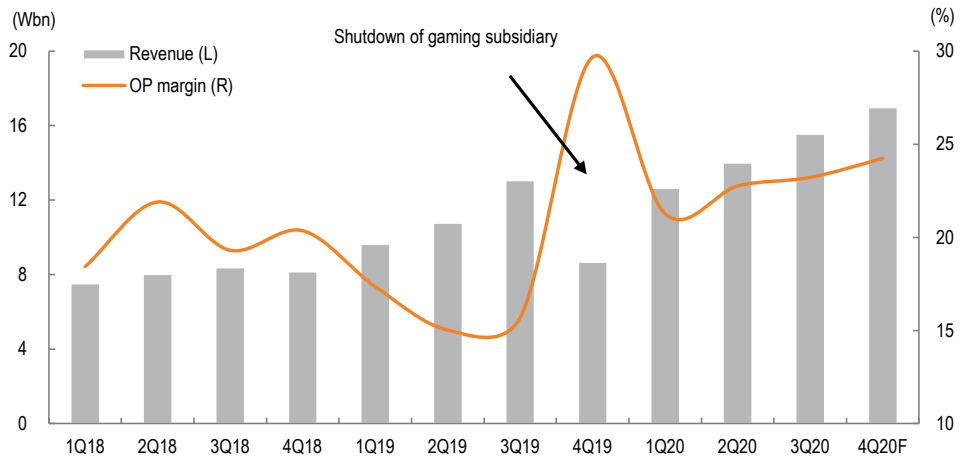
Note: Transaction value data are based on Sensor Tower estimates and could differ from actual data.
Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Figure 50. Kakao Page (incl. Daum Webtoon): October transaction value growth of +23% YoY



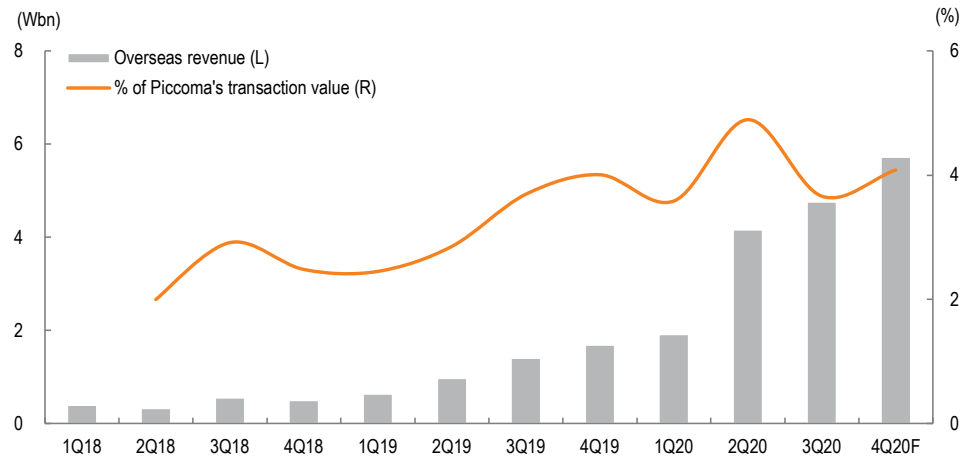
Note: Transaction value data are based on Sensor Tower estimates and could differ from actual data.
Source: Sensor Tower, Mirae Asset Daewoo Research estimates

Figure 51. D&C Media: Both revenue and OP margin are on the rise



Source: Company data, Mirae Asset Daewoo Research

Figure 52. D&C Media: Overseas revenue has surged since 2Q20



Source: Mirae Asset Daewoo Research

Figure 53. Piccoma and LINE Manga are among the top 10 grossing apps in Japan; Piccoma, LINE Manga, and LINE are the only non-gaming apps among the top 10 grossing apps

Free		Paid		Top Grossing	
1	PayPay Corporation PayPay-ペイペイ(キャッシュレスでスマートにお支払い) ★★★★★ (578,457) \$55,326*	Free +1 Mojang Minecraft ★★★★★ (63,894) \$570*	\$12,305*	\$860.00 KONAMI プロ野球スリッパA ★★★★★ (456,877) \$3,219*	Free
2	LINE Corporation LINE ★★★★★ (303,307) \$41,229*	Free +1 GAPPOOM モンスターハンター ストーリーズ ★★★★★ (1,382) \$373*	\$1,800*	\$500.00 NFLAG, Inc. モンスターストライク ★★★★★ (462,422) \$2,385*	Free +3
3	Bubblygun Games LLC Project Makeover ★★★★★ (27,561) \$36,847*	Free +3 OLIVESTONE Lab. MOODA ★★★★★ (958) \$140*	\$60*	\$120.00 SQUARE ENIX ドラゴンクエストタクト ★★★★★ (223,714) \$1,784*	Free -1
4	Zoom ZOOM Cloud Meetings ★★★★★ (152,408) \$84,829*	Free -3 Yoko Yamamoto 280blocker:コンテンツブロッカー-280 ★★★★★ (22,967) \$281*	\$1,156*	\$500.00 Gungho Online Entertainment, Inc. バズル&ドラゴンズ ★★★★★ (151,528) \$2,576*	Free
5	DEMAE-CAN CO.LTD 出前館 ★★★★★ (77,851) \$34,256*	Free +2 SQUARE ENIX ドラゴンクエストV 天空の花嫁 ★★★★★ (3,420) \$212*	\$2,879*	\$1840.00 Kakao Japan Corp. ピッコマ ★★★★★ (584,921) \$11,351*	Free +3
6	AMZN Mobile LLC Amazon プライム・ビデオ ★★★★★ (1,022,772) \$33,451*	Free -2 ComiSeed Corporation パチスロ モンスターハンター-ワールドTM ★★★★★ (2) \$130*	\$1,672*	\$1220.00 Yostar, Inc. 雀魂-じゃんたま- ★★★★★ (197,408) \$9,359*	Free -3
7	Google LLC YouTube ★★★★★ (3,864,783) \$27,330*	Free -2 Tantasia AutoSleep Watchを使って睡眠を自動で追跡します ★★★★★ (6,566) \$227*	\$946*	\$490.00 Niantic, Inc. Pokémon GO ★★★★★ (144,868) \$3,922*	Free -1
8	Mercari, Inc. メルカリ(メルペイ),フリマアプリ&スマホ決済 ★★★★★ (2,308,913) \$27,800*	Free Barnell Fisher Getting Over It ★★★★★ (3,038) \$143*	\$719*	\$610.00 netshiro Limited 原神 ★★★★★ (40,048) \$5,807*	Free -1
9	株式会社NTTドコモ d払い - スマホ決済アプリ、キャッシュレスでお支払い ★★★★★ (541,397) \$18,823*	Free +9 EXINQA LLC ヒューマンフォールフラット ★★★★★ (1,051) \$130*	\$688*	\$610.00 LINE Corporation LINEマンガ ★★★★★ (84,144) \$11,714*	Free +2
10	Uber Technologies, Inc. Uber Eats (ウーバーイーツ) 出前/デリバリー注文 ★★★★★ (85,112) \$25,122*	Free +3 SQUARE ENIX ドラゴンクエストVII エデンの戦士たち ★★★★★ (1,207) \$88*	\$1,296*	\$1840.00 SQUARE ENIX ドラゴンクエストウォーク ★★★★★ (59,754) \$1,064*	Free

Note: Based on Jan. 15 Sensor Tower data

Source: Sensor Tower, Mirae Asset Daewoo Research

D&C Media (263720 KQ)

Income statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
Revenue	42	59	76	102
Cost of revenue	0	0	0	0
GP	42	59	76	102
SG&A expenses	34	46	57	74
OP (adj.)	8	14	19	28
OP	8	14	19	28
Non-operating profit	0	0	1	1
Net financial income	0	0	1	1
Net income from associates	0	0	0	0
Pretax profit	8	14	20	29
Income tax	2	3	4	6
Profit from continuing operations	7	11	16	23
Profit from discontinued operations	-2	0	0	0
NP	5	11	16	23
Attributable to owners	5	11	16	23
Attributable to minority interests	0	0	0	0
Total comprehensive income	5	11	16	23
Attributable to owners	5	11	16	23
Attributable to minority interests	0	0	0	0
EBITDA	8	14	19	28
FCF	4	18	17	25
EBITDA margin (%)	19.0	23.7	25.0	27.5
OP margin (%)	19.0	23.7	25.0	27.5
Net margin (%)	11.9	18.6	21.1	22.5

Balance sheet (summarized)

(Wbn)	2019	2020F	2021F	2022F
Current assets	49	66	87	117
Cash & equivalents	9	52	68	93
AR & other receivables	6	7	8	11
Inventory	1	2	3	3
Other current assets	33	5	8	10
Non-current assets	4	5	6	7
Investments in associates	1	2	3	4
PP&E	3	3	2	2
Intangible assets	0	0	0	0
Total assets	53	72	93	124
Current liabilities	11	18	23	31
AP & other payables	1	2	3	4
Short-term financial liabilities	2	0	0	0
Other current liabilities	8	16	20	27
Non-current liabilities	1	1	1	2
Long-term financial liabilities	0	0	0	0
Other non-current liabilities	1	1	1	2
Total liabilities	12	19	24	33
Equity attributable to owners	42	53	68	91
Capital stock	6	6	6	6
Capital surplus	16	16	16	16
Retained earnings	20	31	47	70
Minority interests	0	0	0	0
Shareholders' equity	42	53	68	91

Cash flow statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
Operating cash flow	5	18	17	25
NP	5	11	16	23
Non-cash income/expenses	2	3	3	5
Depreciation	0	0	0	0
Amortization	0	0	0	0
Other	2	3	3	5
Chg. in working capital	-1	6	1	2
Chg. in AR & other receivables	-2	0	-2	-3
Chg. in inventory	0	-1	-1	-1
Chg. in AP & other payables	1	0	0	0
Income tax	-1	-2	-4	-6
Cash flow from investing activities	-7	28	0	0
Chg. in PP&E	-1	0	0	0
Chg. in intangible assets	0	0	0	0
Chg. in financial assets	0	0	0	0
Other	-6	28	0	0
Cash flow from financing activities	2	-2	0	0
Chg. in financial liabilities	2	-2	0	0
Chg. in equity	1	0	0	0
Dividends	0	0	0	0
Other	-1	0	0	0
Chg. in cash	0	43	16	24
Beginning balance	9	9	52	68
Ending balance	9	52	68	93

Key valuation metrics/ratios

	2019	2020F	2021F	2022F
P/E (x)	48.3	40.3	29.6	20.0
P/CF (x)	36.1	32.2	24.3	16.4
P/B (x)	5.6	8.4	6.7	5.0
EV/EBITDA (x)	28.1	28.8	20.8	13.1
EPS (W)	403	913	1,274	1,888
CFPS (W)	539	1,145	1,553	2,296
BPS (W)	3,448	4,360	5,634	7,522
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	31.3	40.5	28.8	34.2
EBITDA growth (%)	33.3	75.0	35.7	47.4
OP growth (%)	33.3	75.0	35.7	47.4
EPS growth (%)	-1.2	126.6	39.5	48.2
AR turnover (x)	9.2	9.8	10.5	10.7
Inventory turnover (x)	48.4	39.4	33.5	34.1
AP turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	10.0	17.9	19.0	21.4
ROE (%)	12.4	23.8	25.9	29.0
ROIC (%)	119.9	426.3	-1,005.8	-727.2
Debt-to-equity ratio (%)	28.7	36.6	35.9	35.9
Current ratio (%)	432.5	364.0	374.3	377.5
Net debt-to-equity ratio (%)	-15.8	-98.4	-100.3	-101.5
Interest coverage ratio (x)	2,138.9	1,913.3	17,179.0	47,319.0

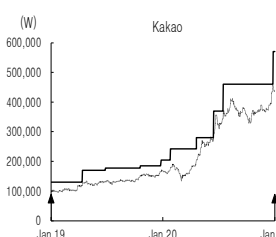
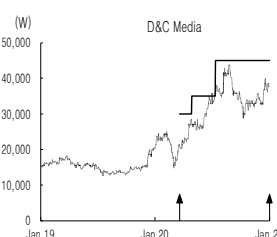
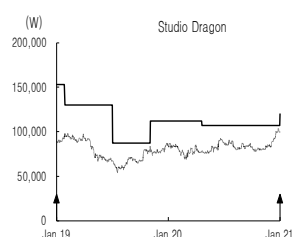
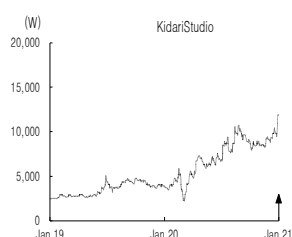
Source: Company data, Mirae Asset Daewoo Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)	Company	Date	Rating	TP (W)
Kidari Studio (020120)	01/18/21	Buy	17,000	Kakao (035720)	01/13/21	Buy	570,000
Studio Dragon (253450)	01/18/21	Buy	120,000		08/03/20	Buy	460,000
	05/08/20	Buy	107,000		07/03/20	Buy	370,000
	11/22/19	Buy	112,000		05/08/20	Buy	280,000
	07/21/19	Buy	87,000		02/13/20	Buy	243,000
	02/15/19	Buy	130,000		01/13/20	Buy	205,000
	11/08/18	Buy	153,000		11/07/19	Buy	185,000
D&C Media (263720)	07/30/20	Buy	45,000		07/16/19	Buy	177,000
	05/15/20	Buy	35,000		05/01/19	Buy	170,000
	04/06/20	Buy	30,000		11/26/18	Buy	130,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Daewoo Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	78.43%	11.76%	8.50%	1.31%
Investment banking services	66.67%	22.22%	11.11%	0.00%

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

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