COMPANY ANALYSIS

[Korea] Games

March 21, 2023

# Nexon Games

(225570 KQ)

## Top pick for Chinese game market reopening theme

**Buy**
(Maintain)

**TP: W26,000** ▲
Upside: 77.1%

*Mirae Asset Securities Co., Ltd.*
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**China approves imported games**

### *Blue Archive* obtains license in China

- Nexon Games' subculture collectible RPG *Blue Archive* was approved by Chinese authorities.
- The title will be published by Shanghai Roaming Star, a subsidiary of prominent subculture game publisher Yostar.
- Notably, Yostar is *Blue Archive*'s publisher in Japan, the game's main target market. (In Korea, the title was published by Nexon.)

**_Blue Archive_'s China launch to drive growth**

### 2024F revisions: +10% for revenue and +37% for OP

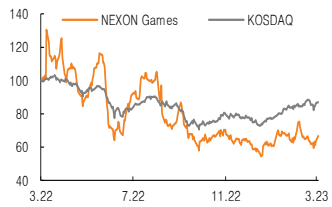
- For 2024, we look for revenue of W274bn (+50% YoY) and operating profit of W86bn (+455% YoY).
- In arriving at our forecasts, we assumed daily China revenue (gross) at W1.2bn initially and W800mn annually, with recognition beginning in 1Q24.
- In 2018-21, it took nine to 10 months on average for imported games to hit the Chinese market after receiving approval.
- We believe the subculture game *Blue Archive* has greater potential for success in China than MMORPGs. Notably, the revenue share of subculture games in China climbed to 10% in 2022.
- *Blue Archive* is set against a cheerful and lighthearted backdrop—a rarity in the Chinese subculture scene, which is dominated by post-apocalyptic games.
- While the title is unlikely to compete with blockbusters such as *Genshin Impact*, we it has the potential to find solid success in China's subculture game market.

**Raise TP by 37%**

### Lift TP to W26,000; reaffirm Buy

- We raise our 2024 EPS estimate by 37% and keep our target P/E unchanged at 25x. Nexon Games remains one of our top picks for the China reopening theme.
- We believe the firm's strong development capabilities in the subculture and FPS genres, which are popular in China, will stand out going forward.
- We see robust momentum continuing in 2023 (three new title launches + expansion in China).
- With Korean companies (e.g., Nexon Games and Netmarble) continuing to secure publishing licenses in China, expectations on further approvals for Nexon Games' titles (both new and existing) are likely to rise.

### Key data




| | | | |
|---|---|---|---|
| Current price (3/20/23, W) | 14,680 | Market cap (Wbn) | 965 |
| OP (22, Wbn) | 5 | Shares outstanding (mn) | 66 |
| Consensus OP (22F, Wbn) | - | Free float (%) | 33.5 |
| EPS growth (22, %) | - | Foreign ownership (%) | 2.2 |
| P/E (22, x) | 120.8 | Beta (12M) | 1.54 |
| Market P/E (22, x) | 11.5 | 52-week low (W) | 12,000 |
| KOSDAQ | 802.20 | 52-week high (W) | 28,700 |

**Share performance**

| (%) | 1M | 6M | 12M |
|---|---|---|---|
| Absolute | -5.0 | -21.5 | -33.3 |
| Relative | -6.6 | -25.6 | -23.2 |

**Earnings and valuation metrics**

| (Dec.) | 2019 | 2020 | 2021 | 2022 | 2023F | 2024F |
|---|---|---|---|---|---|---|
| Revenue (Wbn) | - | - | - | 132 | 183 | 274 |
| OP (Wbn) | - | - | - | 5 | 15 | 86 |
| OP margin (%) | - | - | - | 3.8 | 8.2 | 31.4 |
| NP (Wbn) | - | - | - | 6 | 12 | 68 |
| EPS (W) | - | - | - | 107 | 187 | 1,041 |
| ROE (%) | - | - | - | 2.6 | 5.1 | 24.1 |
| P/E (x) | - | - | - | 120.8 | 78.3 | 14.1 |
| P/B (x) | - | - | - | 3.2 | 3.4 | 2.8 |
| Div. yield (%) | - | - | - | 0.0 | 0.0 | 0.0 |

Notes: Under individual K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research estimates

MIRAE ASSET Securities

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**Table 1. Quarterly and annual earnings** (Wbn)

| | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23F | 2Q23F | 3Q23F | 4Q23F | 2022 | 2023F | 2024F |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **19.2** | **24.4** | **46.2** | **42.7** | **47.0** | **38.0** | **42.9** | **54.9** | **132.4** | **182.8** | **273.9** |
| (YoY) | | | | | 0.0% | 56.1% | -7.0% | 28.6% | | 38.1% | 49.8% |
| Mobile | 19.2 | 14.3 | 36.3 | 33.1 | 37.5 | 28.7 | 26.9 | 33.0 | 102.8 | 126.2 | 181.6 |
| PC | | 9.7 | 9.5 | 9.3 | 9.1 | 8.9 | 15.7 | 21.5 | 28.5 | 55.2 | 90.8 |
| Other | | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 1.1 | 1.4 | 1.4 |
| **Operating expenses** | **20.7** | **31.2** | **37.2** | **38.2** | **39.6** | **41.1** | **42.6** | **44.2** | **127.2** | **167.4** | **188.3** |
| Labor | 16.9 | 24.4 | 27.0 | 28.4 | 29.7 | 31.0 | 32.4 | 33.9 | 96.6 | 127.0 | 146.0 |
| Stock rewards | 1.0 | 2.1 | 4.4 | 4.3 | 4.4 | 4.5 | 4.6 | 4.7 | 11.8 | 18.2 | 19.7 |
| Commissions | 0.9 | 2.2 | 3.3 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 | 9.3 | 12.0 | 12.5 |
| Other | 2.0 | 2.6 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 9.5 | 10.1 | 10.1 |
| **OP** | **-1.5** | **-6.8** | **9.0** | **4.5** | **7.3** | **-3.0** | **0.3** | **10.8** | **5.2** | **15.4** | **85.6** |
| (YoY) | | | | | TTB | RR | -96.1% | 138.9% | | 198.9% | 455.4% |
| OP margin | -7.9% | -28.0% | 19.5% | 10.5% | 15.6% | -8.0% | 0.8% | 19.6% | 3.9% | 8.4% | 31.2% |
| **NP attributable to owners of the parent** | **-1.8** | **-6.0** | **10.1** | **3.7** | **5.9** | **-2.4** | **0.3** | **8.6** | **6.0** | **12.3** | **68.5** |
| Net margin | -9.1% | -24.5% | 21.8% | 8.7% | 12.5% | -6.4% | 0.6% | 15.7% | 4.6% | 6.7% | 25.0% |

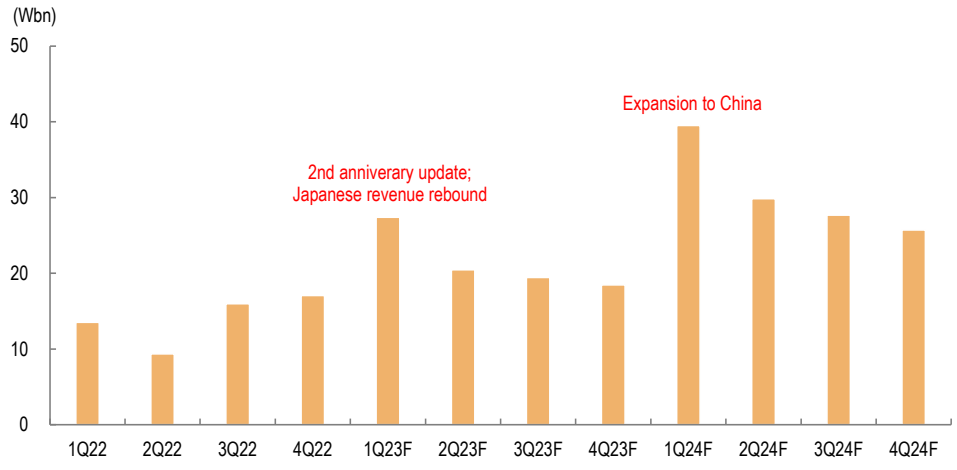
Source: Company data, Mirae Asset Securities Research

**Table 2. Annual earnings forecast revisions** (Wbn)

| | Previous | | Revised | | % chg. | | Notes |
|---|---|---|---|---|---|---|---|
| | 2023F | 2024F | 2023F | 2024F | 2023F | 2024F | |
| Revenue | 183 | 248 | 183 | 274 | 0% | 10% | |
| OP | 15 | 63 | 15 | 86 | 0% | 37% | |
| NP | 12 | 50 | 12 | 68 | 0% | 37% | *Blue Archive*'s China revenue to be recognized from 1Q24 |
| OP margin | 8.4% | 25.2% | 8.4% | 31.2% | - | - | |
| Net margin | 6.7% | 20.2% | 6.7% | 25.0% | - | - | |

Source: Mirae Asset Securities Research

**Figure 1. *Blue Archive*: Quarterly revenue (based on developer's share)**




Source: Sensor Tower, Mirae Asset Securities Research estimates

**Table 3. Valuation**

| | Value | Notes |
|---|---|---|
| 2024F NP attributable to owners of the parent (Wbn) | 68 | |
| Target P/E (x) | 25 | NCsoft's avg. multiple in 2H19-1H20, when the company's expanded lineup drove margin improvements |
| Target market cap (Wbn) | 1,711 | |
| No. of shares ('000) | 65,761 | |
| TP (W) | 26,000 | |
| CP (W) | 14,680 | |
| Upside | 77.1% | |

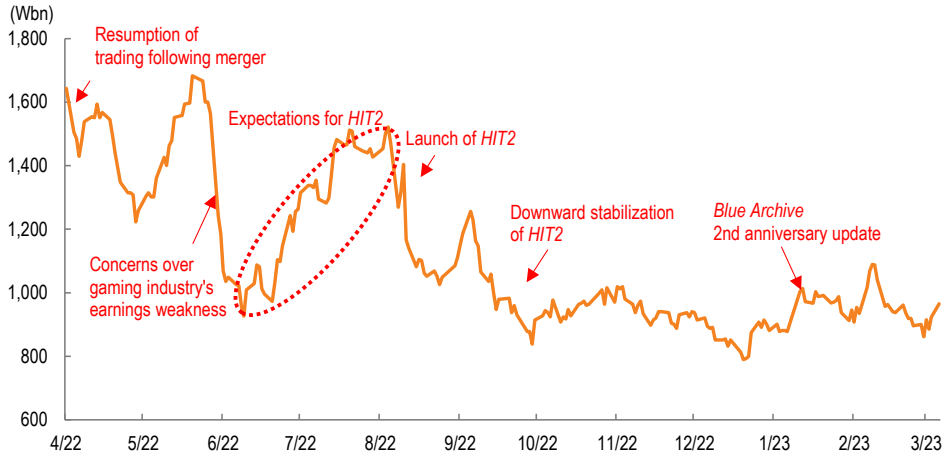
Source: Mirae Asset Securities Research

**Table 4. Annual earnings and valuation**

| | 2020 | 2021 | 2022 | 2023F | 2024F |
|---|---|---|---|---|---|
| Revenue (Wbn) | 109 | 119 | 132 | 183 | 274 |
| OP (Wbn) | 29 | 23 | 5 | 15 | 86 |
| NP (Wbn) | 30 | 19 | 6 | 12 | 68 |
| P/S (avg., x) | 5.7 | 7.5 | 9.0 | 5.3 | 3.5 |
| P/E (avg., x) | 20.6 | 46.5 | 196.5 | 78.3 | 14.1 |

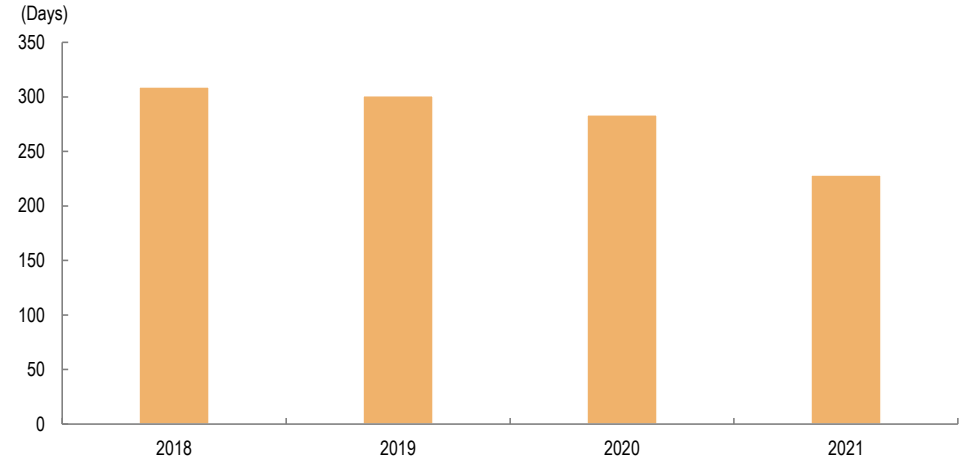
Note: 2020-21 earnings figures represent combined results of NAT Games and Nexon GT; multiples are based on the combined market cap of the two companies.
Source: Company data, Mirae Asset Securities Research

**Figure 2. Market cap trend**




Source: Mirae Asset Securities Research

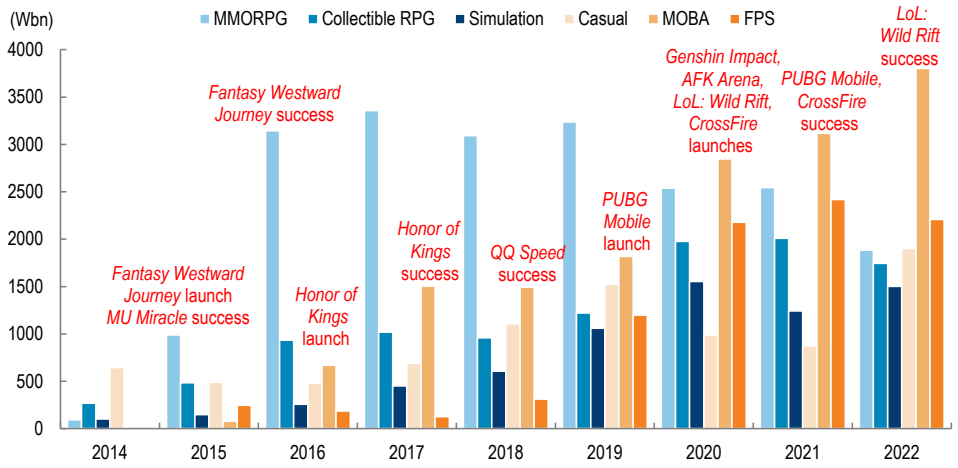
**Figure 3. Avg. time to release for titles that received licenses in 2018-21**




Source: Mirae Asset Securities Research estimates

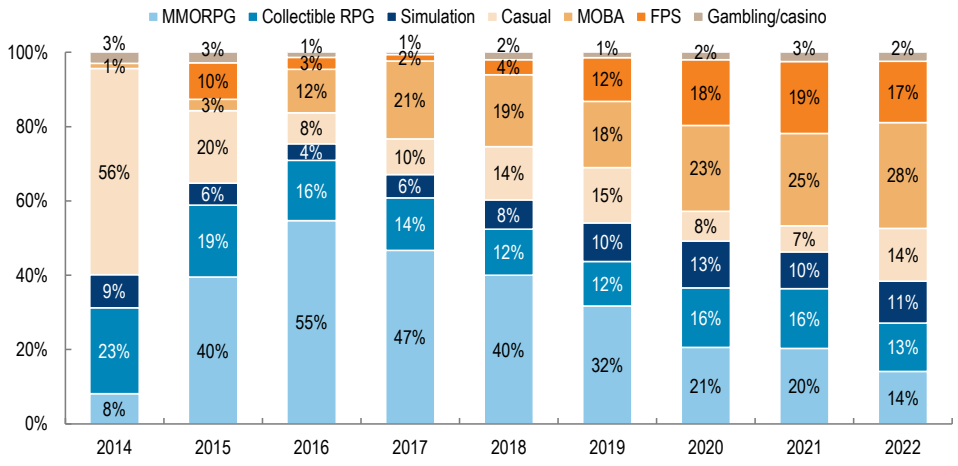
## Chinese gaming market trends

**Figure 4. Annual revenue of China's top 50 highest-grossing games in 2014-22 by genre (App Store)**



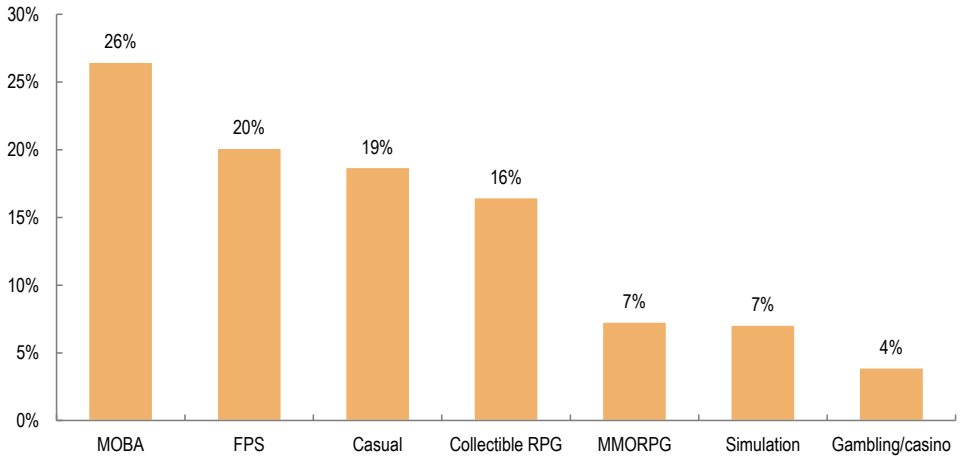

Source: Sensor Tower, Mirae Asset Securities Research estimates

**Figure 5. Revenue mix of China's top 50 highest-grossing games in 2014-22 by genre (App Store)**



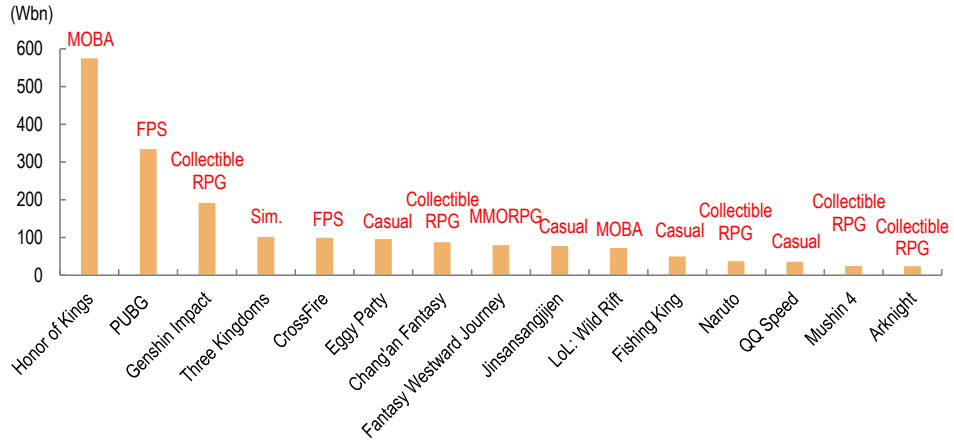

Source: Sensor Tower, Mirae Asset Securities Research estimates

**Figure 6. Revenue share of top 50 mobile games by genre in Jan.-Feb. 2023 (App Store)**




Source: Sensor Tower, Mirae Asset Securities Research

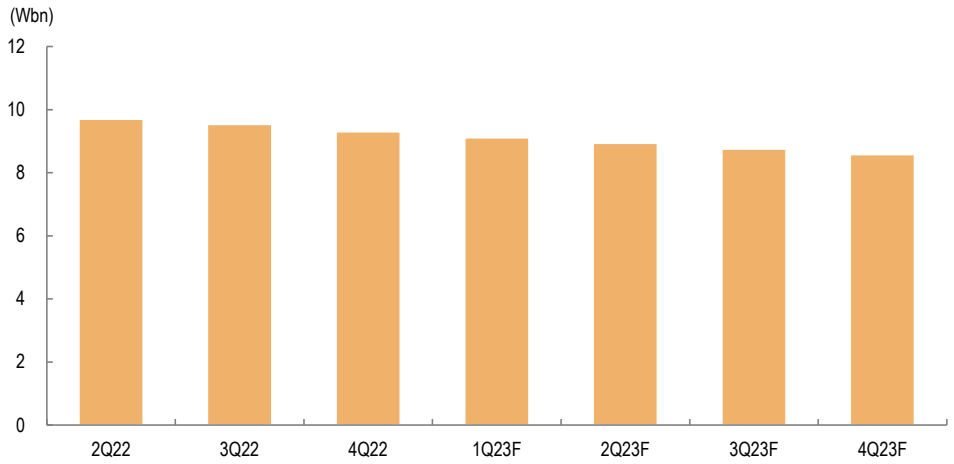
**Figure 7. Revenue of China's top 15 mobile games in Jan.-Feb. 2023 (App Store)**




Source: Sensor Tower, Mirae Asset Securities Research

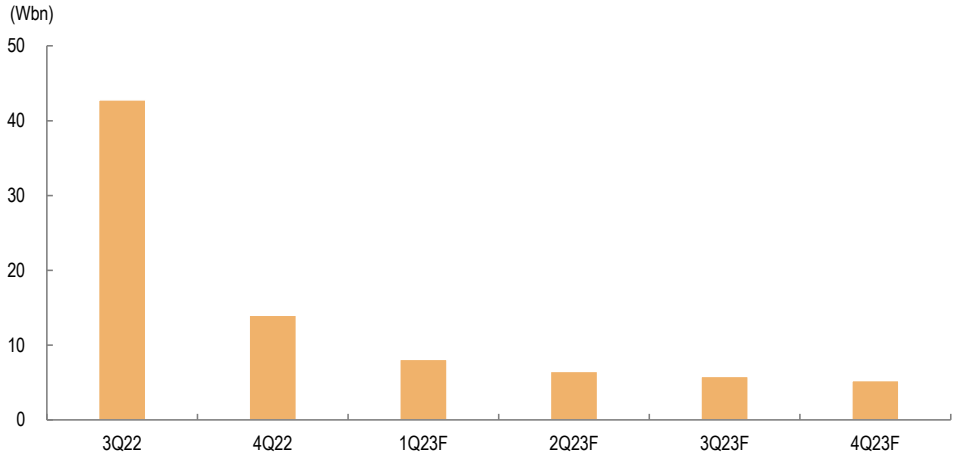
## Other major games

**Figure 8. *Sudden Attack*: Quarterly revenue (based on developer's share)**



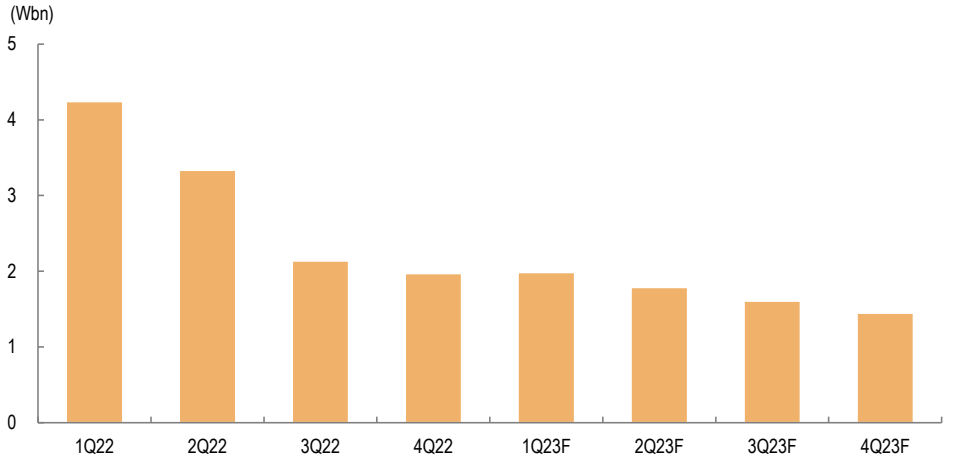

Source: Mirae Asset Securities Research estimates

**Figure 9. *HIT2*: Quarterly revenue (based on developer's share)**




Source: Mirae Asset Securities Research estimates

**Figure 10. *V4*: Quarterly revenue (based on developer's share)**




Source: Mirae Asset Securities Research estimates

## Nexon Games (225570 KQ)

### Income statement (summarized)

| (Wbn) | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| **Revenue** | - | **132** | **183** | **274** |
| **Cost of revenue** | - | **0** | **0** | **0** |
| **GP** | - | **132** | **183** | **274** |
| **SG&A expenses** | - | **127** | **167** | **188** |
| **OP (adj.)** | - | **5** | **15** | **86** |
| **OP** | - | **5** | **15** | **86** |
| **Non-operating profit** | - | **1** | **0** | **0** |
| Net financial income | - | 0 | 0 | 0 |
| Net income from associates | - | 0 | 0 | 0 |
| Pretax profit | - | 6 | 15 | 86 |
| Income tax | - | 0 | 3 | 17 |
| Profit from continuing operations | - | 6 | 12 | 68 |
| Profit from discontinued operations | - | 0 | 0 | 0 |
| **NP** | - | **6** | **12** | **68** |
| Attributable to owners | - | 6 | 12 | 68 |
| Attributable to minority interests | - | 0 | 0 | 0 |
| **Total comprehensive income** | - | **6** | **12** | **68** |
| Attributable to owners | - | 6 | 12 | 68 |
| Attributable to minority interests | - | 0 | 0 | 0 |
| EBITDA | - | 10 | 20 | 91 |
| FCF | - | -5 | 19 | 73 |
| EBITDA margin (%) | - | 7.6 | 10.9 | 33.2 |
| OP margin (%) | - | 3.8 | 8.2 | 31.4 |
| Net margin (%) | - | 4.5 | 6.6 | 24.8 |

### Balance sheet (summarized)

| (Wbn) | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| **Current assets** | - | **204** | **223** | **294** |
| Cash & equivalents | - | 115 | 129 | 195 |
| AR & other receivables | - | 27 | 29 | 30 |
| Inventory | - | 0 | 0 | 0 |
| Other current assets | - | 62 | 65 | 69 |
| **Non-current assets** | - | **121** | **122** | **128** |
| Investments in associates | - | 0 | 0 | 0 |
| PP&E | - | 50 | 50 | 53 |
| Intangible assets | - | 36 | 37 | 41 |
| **Total assets** | - | **326** | **345** | **422** |
| **Current liabilities** | - | **60** | **66** | **72** |
| AP & other payables | - | 0 | 0 | 0 |
| Short-term financial liabilities | - | 7 | 7 | 8 |
| Other current liabilities | - | 53 | 59 | 64 |
| **Non-current liabilities** | - | **29** | **30** | **32** |
| Long-term financial liabilities | - | 13 | 13 | 13 |
| Other non-current liabilities | - | 16 | 17 | 19 |
| **Total liabilities** | - | **88** | **96** | **104** |
| **Equity attributable to owners** | - | **237** | **249** | **318** |
| Capital stock | - | 33 | 33 | 33 |
| Capital surplus | - | 213 | 213 | 213 |
| Retained earnings | - | -8 | 4 | 73 |
| **Minority interests** | - | **0** | **0** | **0** |
| **Shareholders' equity** | - | **237** | **249** | **318** |

### Cash flow statement (summarized)

| (Wbn) | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| **Operating cash flow** | - | **49** | **23** | **80** |
| NP | - | 6 | 12 | 68 |
| Non-cash income/expenses | - | 5 | 8 | 22 |
| Depreciation | - | 4 | 4 | 5 |
| Amortization | - | 1 | 1 | 1 |
| Other | - | 0 | 3 | 16 |
| Chg. in working capital | - | 39 | 5 | 6 |
| Chg. in AR & other receivables | - | -27 | -1 | -1 |
| Chg. in inventory | - | 0 | 0 | 0 |
| Chg. in AP & other payables | - | 0 | 0 | 0 |
| Income tax | - | 0 | -3 | -17 |
| **Cash flow from investing activities** | - | **-185** | **-9** | **-14** |
| Chg. in PP&E | - | -54 | -4 | -7 |
| Chg. in intangible assets | - | -36 | -2 | -4 |
| Chg. in financial assets | - | -62 | -3 | -3 |
| Other | - | -33 | 0 | 0 |
| **Cash flow from financing activities** | - | **265** | **1** | **1** |
| Chg. in financial liabilities | - | 20 | 1 | 1 |
| Chg. in equity | - | 246 | 0 | 0 |
| Dividends | - | 0 | 0 | 0 |
| Other | - | -1 | 0 | 0 |
| **Chg. in cash** | - | **115** | **14** | **66** |
| Beginning balance | - | 0 | 115 | 129 |
| Ending balance | - | 115 | 129 | 195 |

### Key valuation metrics/ratios

| | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| P/E (x) | - | 120.8 | 78.3 | 14.1 |
| P/CF (x) | - | 68.7 | 47.7 | 10.6 |
| P/B (x) | - | 3.2 | 3.4 | 2.8 |
| EV/EBITDA (x) | - | 72.2 | 39.3 | 8.0 |
| EPS (W) | - | 107 | 187 | 1,041 |
| CFPS (W) | - | 188 | 308 | 1,380 |
| BPS (W) | - | 4,103 | 4,290 | 5,331 |
| DPS (W) | - | 0 | 0 | 0 |
| Dividend payout ratio (%) | - | 0.0 | 0.0 | 0.0 |
| Dividend yield (%) | - | 0.0 | 0.0 | 0.0 |
| Revenue growth (%) | - | - | 38.1 | 49.8 |
| EBITDA growth (%) | - | - | 109.5 | 348.6 |
| OP growth (%) | - | - | 198.9 | 455.4 |
| EPS growth (%) | - | - | 74.9 | 455.4 |
| AR turnover (x) | - | 4.9 | 6.6 | 9.4 |
| Inventory turnover (x) | - | 0.0 | 0.0 | 0.0 |
| AP turnover (x) | - | 0.0 | 0.0 | 0.0 |
| ROA (%) | - | 1.9 | 3.7 | 17.8 |
| ROE (%) | - | 2.6 | 5.1 | 24.1 |
| ROIC (%) | - | 0.0 | 19.0 | 106.4 |
| Debt-to-equity ratio (%) | - | 37.3 | 38.5 | 32.8 |
| Current ratio (%) | - | 342.5 | 339.6 | 406.8 |
| Net debt-to-equity ratio (%) | - | -65.2 | -68.6 | -75.3 |
| Interest coverage ratio (x) | - | 0.0 | 0.0 | 0.0 |

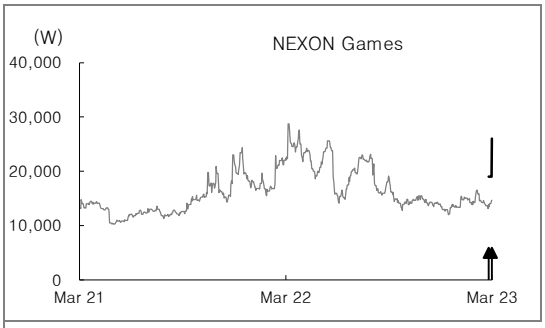
Source: Company data, Mirae Asset Securities Research estimates

# Appendix 1

## Important disclosures and disclaimers

**Two-year rating and TP history**

| Company | Date | Rating | TP (W) |
|---|---|---|---|
| Nexon Games (225570) | 03/21/23 | Buy | 26,000 |
| | 03/15/23 | Buy | 19,000 |




| 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 Securities 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 | 85.18% | 8.89% | 5.19% | 0.74% |
| Investment banking services | 83.33% | 16.67% | 0% | 0% |

* Based on recommendations in the last 12-months (as of December 31, 2022)

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