

Mirae Asset Securities Co., Ltd.

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035420 KS · Internet

# NAVER

## Poised for a re-rating

(Maintain)

**Buy**

 Target price  
**W290,000 ▲**

 Upside  
**29.8%**

 Current price (8/4/23)  
**W223,500**

KOSPI	2,602.80	Market cap (Wbn)	36,665	Shares outstanding (mn)	164	Foreign ownership (%)	47.1
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### Report summary

#### 2Q23 review: Margins recover in earnest

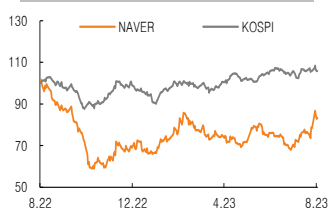
For 2Q23, NAVER reported revenue of W2.41tr (+18% YoY) and operating profit of W373bn (+11% YoY), in line with the consensus. Search platform revenue came in at W925bn (+0.5% YoY), 2% below the consensus, hurt by slowing growth in search ads and continued weakness in display ads. OP margin recovered to 15.5% (expanding QoQ for the first time in four quarters), aided by cost control efforts.

#### Maintain Buy and lift TP by 4% to W290,000

We revise up our earnings forecasts for NAVER and accordingly lift our target price by 4% to W290,000 (from W280,000), which is based on a target P/E of 39x. We recommend aggressively accumulating the stock, as we see momentum building over both the short term (release of AI-enabled services) and medium/long term (earnings growth). AI-related expectations should increase with the upcoming release of HyperCLOVA X (set to be unveiled on Aug. 24). The stock is trading at a 12-month forward P/E of 29x, the lower end of the post-2016 valuation range. We expect the stock to be re-rated in 2H23, backed by margin improvement and visibility on new growth engines.

### Key data

#### Price performance



(%)	1M	6M	12M
Absolute	18.4	0.0	-18.3
Relative	18.0	-4.7	-22.4

#### Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	6,818	8,220	9,764	11,087	12,516
OP (Wbn)	1,325	1,305	1,513	1,822	2,392
OP margin (%)	19.4	15.9	15.5	16.4	19.1
NP (Wbn)	16,490	760	955	1,441	1,881
EPS (W)	100,400	4,634	5,824	8,784	11,465
ROE (%)	106.7	3.3	4.1	6.0	7.3
P/E (x)	3.8	38.3	38.4	25.4	19.5
P/B (x)	2.5	1.2	1.5	1.4	1.3
Dividend yield (%)	0.1	0.5	0.4	0.4	0.4

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

Source: Company data, Mirae Asset Securities Research estimates

## 2Q23 review: Margins recover in earnest

For 2Q23, NAVER reported revenue of W2.41tr (+18% YoY) and operating profit of W373bn (+11% YoY), in line with the consensus. Search platform revenue came in at W925bn (+0.5% YoY), 2% below the consensus, hurt by slowing growth in search ads and continued weakness in display ads. Search ad revenue growth slowed to 4% YoY (from 5% YoY in 1Q23), while display ad revenue continued negative growth (-10% YoY). We believe the domestic ad market is recovering at a slower-than-expected pace, in contrast to the relatively strong recoveries seen at global big tech firms. Indeed, Alphabet, Meta, and Amazon have reported earnings surprises, supported by a recovery in the ad segment.

In 2Q23, OP margin recovered to 15.5% (expanding QoQ for the first time in four quarters), aided by cost control efforts (e.g., head count management and efficient marketing spend). Labor expenses as a percentage of revenue declined 0.8%p QoQ to 22.7%. We expect NAVER to continue aggressive cost control efforts in 2H23.

## AI story to materialize from end-August

We expect an AI-driven growth story to take hold once NAVER unveils HyperCLOVA X, its next-generation large language model (LLM), on Aug. 24. CLOVA X, an interactive AI chat platform, is also scheduled to be released in August. In September, NAVER plans to launch a PC beta version of Cue, a generative AI search service; the company plans to partially deploy the service within its integrated search service beginning in November. CLOVA for Writing, an AI tool for content creators, will also begin beta service on the NAVER platform in September. CLOVA Studio, which enables companies to use their own data to build customized AI models, is set to be released in October.

## Maintain Buy and lift TP by 4% to W290,000

We revise up our 2023 and 2024 operating profit forecasts by 6% and 7%, respectively, and accordingly lift our target price by 4% to W290,000 (from W280,000), which is based on a target P/E of 39x. Our upward earnings revisions reflect the firm's aggressive cost control efforts (labor and marketing). Indeed, margin improvements are accelerating despite the ad segment's delayed recovery, aided by increased cost efficiency.

We recommend aggressively accumulating the stock, as we see momentum building over both the short term (release of AI-enabled services) and medium/long term (earnings growth). AI-related expectations should increase with the upcoming release of HyperCLOVA X. The stock is trading at a 12-month forward P/E of 29x, the lower end of the post-2016 valuation range. We expect the stock to be re-rated in 2H23, backed by margin improvement and visibility on new growth engines.

Table 1. Quarterly and annual earnings

(Wbn)

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23F	4Q23F	2021	2022	2023F	2024F
<b>Revenue</b>	<b>1,845</b>	<b>2,046</b>	<b>2,057</b>	<b>2,272</b>	<b>2,280</b>	<b>2,408</b>	<b>2,506</b>	<b>2,570</b>	<b>6,818</b>	<b>8,220</b>	<b>9,764</b>	<b>11,087</b>
(YoY)	23.1%	23.0%	19.1%	17.8%	23.6%	17.7%	21.8%	13.1%	28.5%	20.6%	18.8%	13.5%
Search platform	850	906	896	916	852	910	925	967	3,308	3,568	3,655	4,000
Search	623	661	665	660	656	689	705	713	2,400	2,609	2,763	3,039
Display	221	241	228	250	192	217	217	250	885	941	877	945
Others	6	4	3	6	4	4	4	4	23	19	15	17
Commerce	416	439	458	487	606	633	659	703	1,488	1,801	2,600	3,088
Commerce ads	261	274	268	276	264	280	294	316	944	1,078	1,155	1,415
Commissions/sales	132	142	157	173	303	310	321	340	476	604	1,274	1,463
Membership	24	24	34	37	39	42	44	46	69	119	172	210
Fintech	275	296	296	320	318	340	350	371	979	1,187	1,379	1,648
Content	212	300	312	437	411	420	463	417	660	1,262	1,712	1,847
Webtoon	164	251	268	383	353	370	410	362	492	1,066	1,495	1,603
Snow	33	27	29	38	45	36	38	39	84	128	158	179
Other	15	22	14	16	13	15	15	16	84	67	59	66
Cloud	92	105	95	111	93	104	109	113	383	403	419	502
NCP/Works (B2B)	86	92	92	100	91	99	102	105	329	370	398	454
Clova/Labs	7	13	3	11	2	5	6	8	53	33	21	49
<b>S&amp;A expenses</b>	<b>1,543</b>	<b>1,710</b>	<b>1,727</b>	<b>1,935</b>	<b>1,950</b>	<b>2,035</b>	<b>2,108</b>	<b>2,158</b>	<b>5,492</b>	<b>6,915</b>	<b>8,251</b>	<b>9,265</b>
Development/operations	472	515	522	562	635	644	659	670	1,753	2,070	2,609	2,830
Partners	624	720	722	898	832	866	901	924	2,172	2,964	3,522	3,985
Infrastructure	133	141	152	154	133	142	149	155	496	581	579	684
Marketing	315	333	331	322	350	383	399	409	1,072	1,301	1,542	1,765
<b>OP</b>	<b>302</b>	<b>336</b>	<b>330</b>	<b>336</b>	<b>330</b>	<b>373</b>	<b>398</b>	<b>412</b>	<b>1,325</b>	<b>1,305</b>	<b>1,513</b>	<b>1,822</b>
(YoY)	4.5%	0.2%	-5.6%	-4.2%	9.5%	10.9%	20.4%	22.5%	9.1%	-1.6%	16.0%	20.4%
OP margin	16.4%	16.4%	16.1%	14.8%	14.5%	15.5%	15.9%	16.0%	19.4%	15.9%	15.5%	16.4%
<b>NP attributable to owners of the parent</b>	<b>171</b>	<b>183</b>	<b>257</b>	<b>149</b>	<b>55</b>	<b>268</b>	<b>310</b>	<b>323</b>	<b>16,490</b>	<b>760</b>	<b>955</b>	<b>1,441</b>
Net margin	9.3%	9.0%	12.5%	6.5%	2.4%	11.1%	12.4%	12.6%	241.9%	9.2%	9.8%	13.0%

Source: Company data, Mirae Asset Securities Research

Table 2. Annual earnings forecast revisions

(Wbn)

	Previous		Revised		Chg.		Consensus		Diff.		Notes
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	
Revenue	9,810	11,119	9,764	11,087	0%	0%	9,778	11,035	0%	0%	
OP	1,427	1,696	1,513	1,822	6%	7%	1,400	1,598	8%	14%	
NP	923	1,424	955	1,441	4%	1%	1,044	1,279	-8%	13%	
OP margin	14.5%	15.3%	15.5%	16.4%	-	-	14.3%	14.5%	-	-	
Net margin	9.4%	12.8%	9.8%	13.0%	-	-	10.7%	11.6%	-	-	

Source: FnGuide, Mirae Asset Securities Research

**Table 3. 2Q23 review**

(Wbn)

	Actual	Mirae Asset	Diff.	Consensus	Diff.
Revenue	2,408	2,428	-1%	2,431	-1%
OP	373	345	8%	368	1%
NP attributable to owners of the parent	268	270	-1%	263	2%

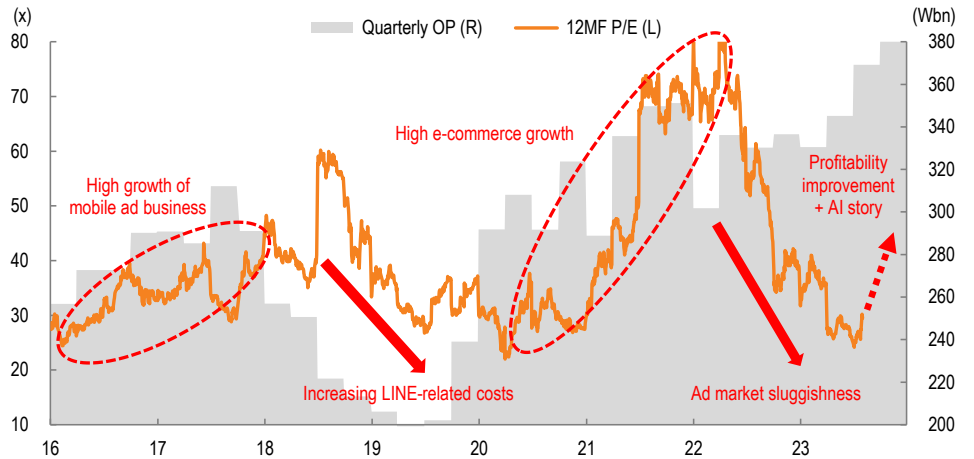
Source: Company data, FnGuide, Mirae Asset Securities Research

**Table 4. Valuation**

	Value	Notes
3Q23-2Q24F NP attributable to owners of the parent (Wbn)	1,214	
Target P/E (x)	39.2	Avg. P/E in 2019, when margins slowly recovered following a plunge in OP due to LINE-related expenses
Target market cap (Wbn)	47,576	
No. of shares ('000)	164,049	
TP (W)	290,000	
CP (W)	223,500	
Upside	29.8%	

Source: Company data, FnGuide, Mirae Asset Securities Research

**Figure 1. NAVER: 12-month forward P/E and quarterly OP trends**



Notes: 2019 OP reflects consolidation of LINE; 2021 P/E does not reflect one-off equity-method gains from LINE  
 Source: Mirae Asset Securities Research

## NAVER (035420 KS)

## Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
<b>Revenue</b>	<b>8,220</b>	<b>9,764</b>	<b>11,087</b>	<b>12,516</b>
<b>Cost of revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>GP</b>	<b>8,220</b>	<b>9,764</b>	<b>11,087</b>	<b>12,516</b>
<b>SG&amp;A expenses</b>	<b>6,915</b>	<b>8,251</b>	<b>9,265</b>	<b>10,123</b>
<b>OP (adj.)</b>	<b>1,305</b>	<b>1,513</b>	<b>1,822</b>	<b>2,392</b>
<b>OP</b>	<b>1,305</b>	<b>1,513</b>	<b>1,822</b>	<b>2,392</b>
<b>Non-operating profit</b>	<b>-221</b>	<b>-138</b>	<b>84</b>	<b>61</b>
Net financial income	-13	-16	-10	13
Net income from associates	97	243	321	300
Pretax profit	1,084	1,375	1,906	2,453
Income tax	411	458	572	711
Profit from continuing operations	673	916	1,334	1,741
Profit from discontinued operations	0	0	0	0
<b>NP</b>	<b>673</b>	<b>916</b>	<b>1,334</b>	<b>1,741</b>
Attributable to owners	760	955	1,441	1,881
Attributable to minority interests	-87	-39	-107	-139
<b>Total comprehensive income</b>	<b>-715</b>	<b>916</b>	<b>1,334</b>	<b>1,741</b>
Attributable to owners	-681	873	1,272	1,660
Attributable to minority interests	-34	43	63	82
EBITDA	1,866	2,041	2,367	2,920
FCF	753	1,550	1,674	2,017
EBITDA margin (%)	22.7	20.9	21.3	23.3
OP margin (%)	15.9	15.5	16.4	19.1
Net margin (%)	9.2	9.8	13.0	15.0

## Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
<b>Current assets</b>	<b>6,440</b>	<b>6,208</b>	<b>7,667</b>	<b>9,787</b>
Cash & equivalents	2,724	2,420	3,804	5,847
AR & other receivables	0	0	0	0
Inventory	9	10	12	13
Other current assets	3,707	3,778	3,851	3,927
<b>Non-current assets</b>	<b>27,459</b>	<b>29,131</b>	<b>28,942</b>	<b>28,765</b>
Investments in associates	18,541	18,541	18,541	18,541
PP&E	2,458	2,362	2,290	2,273
Intangible assets	1,481	3,249	3,131	2,971
<b>Total assets</b>	<b>33,899</b>	<b>35,340</b>	<b>36,610</b>	<b>38,553</b>
<b>Current liabilities</b>	<b>5,481</b>	<b>5,778</b>	<b>5,804</b>	<b>6,093</b>
AP & other payables	899	917	936	954
Short-term financial liabilities	1,575	1,603	1,544	1,748
Other current liabilities	3,007	3,258	3,324	3,391
<b>Non-current liabilities</b>	<b>4,968</b>	<b>5,333</b>	<b>5,380</b>	<b>5,430</b>
Long-term financial liabilities	2,622	3,621	3,621	3,621
Other non-current liabilities	2,346	1,712	1,759	1,809
<b>Total liabilities</b>	<b>10,449</b>	<b>11,111</b>	<b>11,184</b>	<b>11,523</b>
<b>Equity attributable to owners</b>	<b>22,744</b>	<b>23,562</b>	<b>24,866</b>	<b>26,609</b>
Capital stock	16	16	16	16
Capital surplus	1,556	1,556	1,556	1,556
Retained earnings	23,646	24,464	25,767	27,510
<b>Minority interests</b>	<b>706</b>	<b>667</b>	<b>560</b>	<b>421</b>
<b>Shareholders' equity</b>	<b>23,450</b>	<b>24,229</b>	<b>25,426</b>	<b>27,030</b>

## Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
<b>Operating cash flow</b>	<b>1,453</b>	<b>1,800</b>	<b>1,974</b>	<b>2,367</b>
NP	673	916	1,334	1,741
Non-cash income/expenses	1,318	968	1,091	1,191
Depreciation	519	346	372	367
Amortization	42	182	173	160
Other	757	440	546	664
Chg. in working capital	307	355	96	98
Chg. in AR & other receivables	-56	0	0	0
Chg. in inventory	0	-2	-1	-2
Chg. in AP & other payables	133	0	0	0
Income tax	-861	-458	-572	-711
<b>Cash flow from investing activities</b>	<b>-1,216</b>	<b>-2,238</b>	<b>-394</b>	<b>-390</b>
Chg. in PP&E	-689	-250	-300	-350
Chg. in intangible assets	-55	-1,950	-55	0
Chg. in financial assets	-444	-38	-39	-40
Other	-28	0	0	0
<b>Cash flow from financing activities</b>	<b>-339</b>	<b>134</b>	<b>-196</b>	<b>66</b>
Chg. in financial liabilities	235	271	-59	204
Chg. in equity	66	0	0	0
Dividends	-213	-138	-138	-138
Other	-427	1	1	0
<b>Chg. in cash</b>	<b>-57</b>	<b>-305</b>	<b>1,384</b>	<b>2,043</b>
Beginning balance	2,781	2,724	2,420	3,804
Ending balance	2,724	2,420	3,804	5,847

Source: Company data, Mirae Asset Securities Research estimates

## Key valuation metrics/ratios

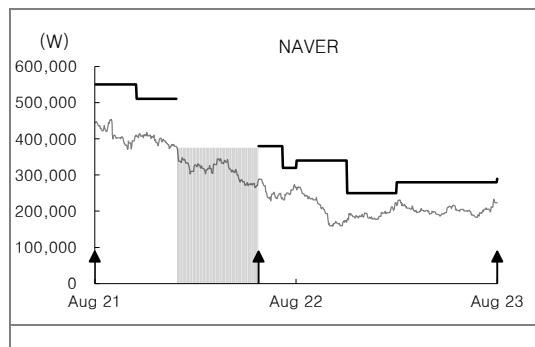
	2022	2023F	2024F	2025F
P/E (x)	38.3	38.4	25.4	19.5
P/CF (x)	14.6	19.5	15.1	12.5
P/B (x)	1.2	1.5	1.4	1.3
EV/EBITDA (x)	16.1	18.7	15.4	11.8
EPS (W)	4,634	5,824	8,784	11,465
CFPS (W)	12,138	11,485	14,785	17,876
BPS (W)	144,841	149,826	157,772	168,399
DPS (W)	914	914	914	914
Dividend payout ratio (%)	20.4	15.0	10.3	7.9
Dividend yield (%)	0.5	0.4	0.4	0.4
Revenue growth (%)	20.6	18.8	13.5	12.9
EBITDA growth (%)	6.1	9.4	15.9	23.4
OP growth (%)	-1.6	16.0	20.4	31.3
EPS growth (%)	-95.4	25.7	50.8	30.5
AR turnover (x)	0.0	0.0	0.0	0.0
Inventory turnover (x)	1,111.4	1,031.7	1,010.4	1,007.6
AP turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	2.0	2.6	3.7	4.6
ROE (%)	3.3	4.1	6.0	7.3
ROIC (%)	37.6	29.9	32.4	45.6
Debt-to-equity ratio (%)	44.6	45.9	44.0	42.6
Current ratio (x)	117.5	107.4	132.1	160.6
Net debt-to-equity ratio (%)	1.0	3.2	-2.8	-9.5
Interest coverage ratio (x)	18.2	19.5	23.1	29.9

## Appendix 1

### Important disclosures and disclaimers

#### Two-year rating and TP history

Company	Date	Rating	TP (₩)
NAVER (035420)	08/07/23	Buy	290,000
	02/06/23	Buy	280,000
	11/08/22	Buy	250,000
	08/08/22	Buy	340,000
	07/14/22	Buy	320,000
	05/31/22	Buy	380,000
	01/03/22	No Coverage	
	10/22/21	Buy	510,000
	07/07/21	Buy	550,000



#### 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	89.09%	7.88%	2.42%	0.61%
Investment banking services	100%	0%	0%	0%

\* Based on recommendations in the last 12-months (as of June 30, 2023)

#### Disclosures

As of the publication date, Mirae Asset Securities Co., Ltd. and/or its affiliates own 1% or more of NAVER's shares outstanding.

As of the publication date, Mirae Asset Securities Co., Ltd. has acted as a liquidity provider for equity-linked warrants backed by shares of NAVER as an underlying asset; other than this, Mirae Asset Securities has no other special interests in the covered companies.

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