

Mirae Asset Securities Co., Ltd.

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035420 KS · Internet

# NAVER

## HyperCLOVA X and AI business strategy unveiled

(Maintain)

**Buy**
**Target price**  
**₩290,000**
**Upside**  
**26.6%**
**Current price (8/24/23)**  
**₩229,000**

KOSPI	2,537.68	Market cap (Wbn)	37,567	Shares outstanding (mn)	164	Foreign ownership (%)	47.0
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### Report summary

#### Strong synergies expected in ads and commerce

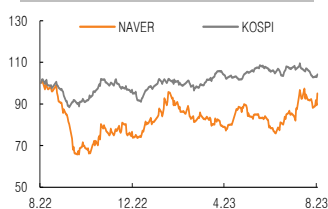
Once NAVER fully integrates its generative AI search service Cue, we anticipate ad pricing gains to accelerate to over 15% YoY. We also expect the introduction of HyperCLOVA X to help reverse the slowdown in GMV growth. According to NAVER, the application of HyperCLOVA X-based AI targeting to internal marketing led to a threefold increase in the conversion rate. Once multi-modal (images plus text) searches are introduced, we expect to see an accelerating move toward hyper-personalization, with product exposures tailored to specific locations and individuals.

#### Maintain Buy and TP of ₩290,000

We expect NAVER to see sustained momentum in the coming months, backed by the release of a flurry of generative AI services (including Cue, which is set to be integrated into search services in November following a beta release in September). Valuation also remains inexpensive, at a 2024F P/E of 26x. We view current levels as an attractive entry point, given: 1) the company's AI story; 2) ongoing margin improvements driven by cost efficiency; and 3) the possibility of a domestic ad market rebound. We continue to recommend the stock as our top internet pick.

### Key data

#### Price performance



(%)	1M	6M	12M
Absolute	12.8	10.1	-5.2
Relative	16.8	5.1	-8.5

#### 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	39.3	26.1	20.0
P/B (x)	2.5	1.2	1.5	1.5	1.4
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

### **NAVER unveils HyperCLOVA X and more details on AI business strategy**

On Aug. 24, NAVER held its DAN 23 conference, where it unveiled its generative AI tool HyperCLOVA X. The company also launched a beta service for its AI chatbot CLOVA X immediately after the conference. In September, the company will start beta services for Cue, a generative AI search service, and CLOVA for Writing, an AI-powered writing tool for creators. (NAVER began to recruit CLOVA for Writing users immediately after the conference.) The company also unveiled CLOVA Studio, which enables companies to use their own data to build customized AI models, and Neurocloud for HyperCLOVA X, a hybrid cloud service for corporate clients that want to build their own generative AI with strong security features. Both services will launch in October. In November, NAVER plans to integrate Cue into NAVER searches and introduce CLOVA for Ad, a generative AI-based ad offering.

### **Strong synergies expected in ads and commerce**

After Cue is introduced in November, we expect ad pricing to rise on the back of more advanced targeting. We believe searches based on sentences will help better identify user intentions and preferences, allowing the NAVER platform to display ads more efficiently. After adopting its Glad for Advertiser (GFA) ad platform in 2019, NAVER has seen its ad pricing rise by more than 10% YoY (internal estimates based on total time spent) through enhanced targeting. Once the Cue service is fully integrated, we anticipate ad pricing gains to accelerate to over 15%. We also expect the introduction of HyperCLOVA X to help reverse the slowdown in GMV growth. According to NAVER, the application of HyperCLOVA X-based AI targeting to internal marketing led to a threefold increase in the conversion rate. Once multi-modal (images plus text) searches are introduced, we expect to see an accelerating move toward hyper-personalization, with product exposures tailored to specific locations and individuals.

### **Maintain Buy and TP of W290,000**

We expect NAVER to see sustained momentum in the coming months, backed by the release of a flurry of generative AI services (including Cue, which is set to be integrated into search services in November following a beta release in September). While the company is likely to face intense competition from global big tech firms in generative AI, we believe its access to Korean-specific data will work to its advantage. NAVER's stock has recently moved higher on expectations related to the conference, but valuation still looks inexpensive, at a 2024F P/E of 26x. We view current levels as an attractive entry point, given: 1) the company's AI story; 2) ongoing margin improvements driven by cost efficiency; and 3) the possibility of a domestic ad market rebound. We continue to recommend the stock as our top internet pick.

## 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

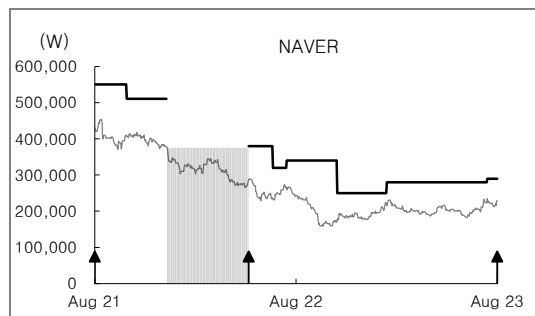
	2022	2023F	2024F	2025F
P/E (x)	38.3	39.3	26.1	20.0
P/CF (x)	14.6	19.9	15.5	12.8
P/B (x)	1.2	1.5	1.5	1.4
EV/EBITDA (x)	16.1	19.1	15.8	12.1
EPS (W)	4,634	5,824	8,784	11,465
CFPS (W)	12,138	11,485	14,785	17,876
BPS (W)	144,841	149,826	157,772	168,399
DPS (W)	914	914	914	914
Dividend payout ratio (%)	20.4	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 (%)	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)

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