

Mirae Asset Securities Co., Ltd.

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036570 KS • Games

NCsoft

Future growth depends on *Throne and Liberty*

(Maintain)

Buy

Target price

W330,000 ▼

Upside

22.4%

Current price (11/24/23)

W269,500

KOSPI	2,496.63	Market cap (Wbn)	5,917	Shares outstanding (mn)	22	Foreign ownership (%)	40.6
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Report summary

Secular declines for existing titles; future growth to depend on *TL*

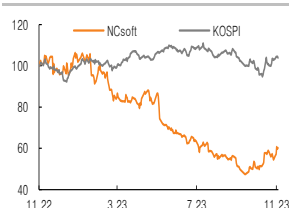
NCsoft continues to see declining revenue from existing titles, with 3Q23 revenue plunging 18% YoY for *Lineage M* (W120bn), 36% YoY for *Lineage 2M* (W55bn), and 54% YoY for *Lineage W* (W90bn). To make up for the dwindling contribution of existing titles, we estimate that *Throne and Liberty* (TL) needs to generate average daily revenue of at least W600mn in 2024. (TL is set to be released in Korea on Dec. 7 and in global markets in 1Q-2Q24.) For our earnings forecasts, we assumed TL's 2024 average daily revenue at W900mn.

Trim TP by 3%; retain Buy rating

We trim our target price for NCsoft by 3% to W330,000. We now forecast full revenue recognition for TL to begin in 1Q24 in the domestic market and in 2Q24 in global markets and estimate the title's 2024 average daily revenue at W900mn. As the firm will adopt a pass (subscription) system for monetization, the new title is not likely to see explosive revenue growth initially (unlike the firm's previous MMORPGs).

Key data

Price performance



(%)	1M	6M	12M
Absolute	17.4	-29.5	-41.3
Relative	12.1	-27.4	-42.6

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	2,309	2,572	1,790	1,999	2,146
OP (Wbn)	375	559	151	319	395
OP margin (%)	16.2	21.7	8.4	16.0	18.4
NP (Wbn)	397	436	210	290	352
EPS (W)	18,078	19,847	9,578	13,200	16,035
ROE (%)	12.6	13.7	6.5	8.7	10.0
P/E (x)	35.6	22.6	28.1	20.4	16.8
P/B (x)	3.7	2.6	1.5	1.5	1.4
Dividend yield (%)	0.9	1.5	2.5	2.5	2.5

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

Source: Company data, Mirae Asset Securities Research estimates

Secular declines for existing titles; future growth to depend on *TL*

Amid the ongoing contraction in the domestic gaming market, NCsoft is seeing steady revenue declines from its cash-cow titles, with 3Q23 revenue plunging 18% YoY for *Lineage M* (W120bn), 36% YoY for *Lineage 2M* (W55bn), and 54% YoY for *Lineage W* (W90bn). This appears to be a secular trend, meaning a turnaround is unlikely.

To make up for the dwindling contribution of existing titles, we estimate that *TL* needs to generate average daily revenue of at least W600mn in 2024. (*TL* is set to be released in Korea on Dec. 7 and in global markets in 1Q-2Q24.) For our earnings forecasts, we assumed *TL*'s 2024 average daily revenue at W900mn.

G-Star demo for seven new titles

NCsoft showcased seven new titles at G-Star 2023, including *LLL* (shooting game), *Battle Crush* (battle brawler), *Project BSS* (collectible RPG), *Puzzup Amitoi* (match-three puzzle game), *TL* (MMORPG), *Project G* (MMO real-time strategy game), and *Project M* (interactive adventure). The firm participated in the event for the first time in eight years.

Among the seven new games, *LLL*, *Battle Crush*, and *Project BSS* had their first gameplay reveals. *LLL*, an open-world MMO shooting game, garnered widespread interest and praise for its realistic graphics and interactive gameplay.

Trim TP by 3%; retain Buy rating

We trim our target price for NCsoft by 3% to W330,000, as we revised down our 2024 earnings estimates to reflect changes in *TL*'s release date and average daily revenue assumption. We now forecast full revenue recognition for the title to begin in 1Q24 in the domestic market and in 2Q24 in global markets and estimate its 2024 average daily revenue at W900mn. As the firm will adopt a pass system for monetization, *TL* is not likely to see explosive revenue growth initially (unlike the firm's previous MMORPGs).

Other than *TL*, the new games showcased at G-Star 2023 do not seem to have blockbuster potential. Given that *TL* expectations have been sufficiently priced into 2024 consensus estimates and that the title is nearing its domestic release, we think a conservative view is warranted until the domestic market performance is confirmed.

Table 1. Quarterly and annual earnings

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2021	2022	2023F	2024F
Revenue	479	440	423	447	479	511	503	507	2,309	2,572	1,790	1,999
(YoY)	-39.4%	-30.0%	-30.0%	-18.3%	0.0%	16.1%	18.8%	13.2%	-4.4%	11.4%	-30.4%	11.7%
PC	91	88	93	121	164	189	168	158	426	390	393	679
Lineage	25	24	26	26	26	26	25	25	134	107	101	102
Lineage II	21	23	21	20	20	20	20	20	100	94	85	79
Aion	18	16	19	19	18	18	18	17	75	68	72	72
Blade & Soul	7	6	6	6	6	6	5	5	44	26	25	22
Guild Wars 2	20	19	21	21	20	20	19	19	74	95	81	78
TL	0	0	0	29	73	100	80	72	0	0	29	326
Mobile	331	297	274	271	259	266	279	293	1,611	1,934	1,173	1,097
Lineage M	130	128	120	111	106	100	95	91	546	516	489	392
Lineage 2M	73	62	55	53	52	50	49	47	653	391	243	198
Lineage W	123	103	90	88	87	85	83	81	358	971	404	336
Blade & Soul 2	5	4	9	18	14	11	10	9	54	56	37	43
Other	0	0	0	0	2	20	42	65	0	0	0	129
Other	14	19	21	21	21	21	22	22	100	90	75	86
Royalties	42	36	35	35	35	34	34	34	172	157	149	136
Operating expenses	397	405	407	430	418	418	420	425	1,934	2,013	1,639	1,680
Labor	212	209	198	199	200	201	202	203	849	847	818	807
Marketing	5	12	28	45	25	15	17	19	283	189	90	76
D&A	28	28	29	30	31	32	31	30	94	106	115	124
Commissions	110	108	101	105	111	118	117	120	548	689	424	465
Other	43	49	50	51	51	52	52	53	159	181	192	208
OP	82	35	17	17	61	93	83	82	375	559	151	319
(YoY)	-66.6%	-71.3%	-88.6%	-64.0%	-25.7%	163.8%	401.9%	380.1%	-54.5%	49.0%	-73.1%	111.7%
OP margin	17.0%	8.0%	3.9%	3.8%	12.7%	18.2%	16.5%	16.2%	16.3%	21.7%	8.4%	15.9%
NP attributable to owners of the parent	114	30	44	23	57	82	75	76	397	436	210	290
Net margin	23.7%	6.8%	10.3%	5.2%	11.8%	16.0%	15.0%	15.0%	17.2%	16.9%	11.7%	14.5%

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	1,848	2,141	1,790	1,999	-3%	-7%	1,804	2,078	-1%	-4%	7L: Domestic revenue to be reflected from Dec. 2023 and global revenue from 2Q24 Cost efficiency trend reflected
OP	175	330	151	319	-14%	-3%	156	293	-3%	9%	
NP	205	299	210	290	3%	-3%	207	293	2%	-1%	
OP margin	9.5%	15.4%	8.4%	15.9%	-	-	8.6%	14.1%	-	-	
Net margin	11.1%	13.9%	11.7%	14.5%	-	-	11.5%	14.1%	-	-	

Source: FnGuide, Mirae Asset Securities Research

Figure 1. 7L gameplay trailer



Source: Company materials, Mirae Asset Securities Research

Figure 2. LLL gameplay trailer



Source: Company materials, Mirae Asset Securities Research

Figure 3. *BSS* gameplay trailer

Source: Company materials, Mirae Asset Securities Research

Figure 4. *Project G* gameplay trailer

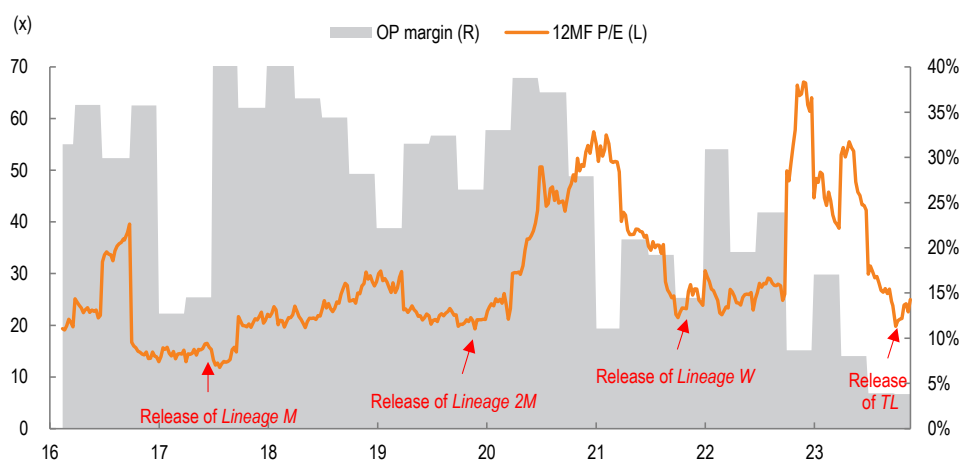
Source: Company materials, Mirae Asset Securities Research

Table 3. Valuation table

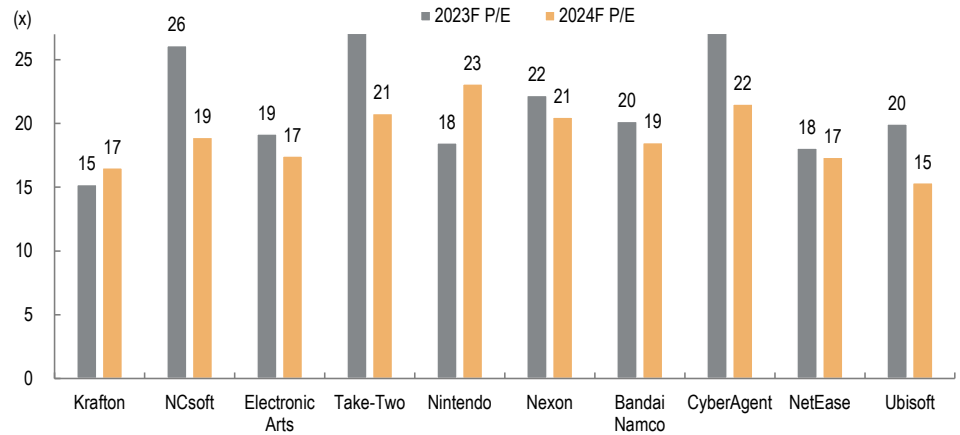
	Value	Notes
2024F NP attributable to owners of the parent (Wbn)	290	
Target P/E (x)	25	Avg. P/E in 2H19-1H20, when expectations for upcoming games mounted amid downward stabilization in revenue from a key title
Target market cap (Wbn)	7,245	
No. of shares ('000)	21,954	
TP (W)	330,000	
CP (W)	269,500	
Upside	22.4%	

Source: Mirae Asset Securities Research

Figure 5. OP margin and 12-month forward P/E



Source: Mirae Asset Securities Research estimates

Figure 6. Global game studios' 2023F and 2024F P/E's (Bloomberg consensus)

Source: Bloomberg, Mirae Asset Securities Research

Table 4. Global game company valuations (Bloomberg consensus)

(Wbn, x, %)

	Market cap	P/E		P/S		P/B		EV/EBITDA		OP margin	
		23F	24F	23F	24F	23F	24F	23F	24F	23F	24F
Krafton (Korea)	9,939	15.2	16.5	5.5	5.1	1.7	1.6	8.9	8.9	39.1	35.8
NCsoft	5,917	26.1	18.9	3.2	2.8	1.8	1.7	15.8	10.4	9.8	15.0
Netmarble	4,770	-	79.2	1.8	1.6	0.9	0.9	37.3	20.8	-0.8	3.3
Kakao Games	2,187	68.6	20.7	2.1	1.7	1.3	1.2	16.5	11.7	8.0	12.8
Nexon Games	1,053	52.1	20.1	5.3	4.0	3.8	3.2	28.4	12.4	12.1	24.2
Pearl Abyss	2,608	142.3	20.3	7.6	4.5	3.6	3.1	160.5	16.1	-3.0	20.5
Wemade	1,744	-	25.0	2.8	2.0	6.6	5.7	-	28.2	-14.2	4.4
NHN	800	13.3	10.2	0.3	0.3	0.5	0.4	3.4	2.9	3.8	4.4
Neowiz	604	7.9	11.2	1.6	1.5	1.2	1.1	6.1	6.0	13.5	14.0
Com2uS	645	18.2	16.0	0.8	0.7	0.5	0.5	64.4	14.9	-2.3	2.5
DoubleU Games	844	5.7	5.7	1.5	1.3	0.9	0.8	3.3	3.1	34.9	34.0
Webzen	520	10.5	7.9	2.9	2.3	0.8	0.7	8.5	5.7	24.3	29.1
JoyCity	192	24.3	12.7	1.4	1.1	1.8	1.6	13.8	10.6	11.0	12.2
Electronic Arts (US)	47,908	19.2	17.5	4.8	4.5	4.8	4.4	14.2	13.0	28.9	30.5
Take-Two Interactive	34,665	49.7	20.8	4.8	3.4	3.1	3.0	33.3	17.7	13.8	20.1
Nintendo (Japan)	77,622	18.5	23.1	5.5	5.7	3.2	3.1	13.1	16.3	32.7	29.1
Nexon	23,184	22.2	20.5	6.2	5.6	2.7	2.4	14.0	12.1	33.1	34.2
Bandai Namco	17,574	20.2	18.5	1.9	1.8	2.9	2.7	10.9	9.8	12.8	13.5
Konami	9,203	18.5	17.1	3.1	2.9	2.4	2.2	8.9	8.2	21.8	22.0
CyberAgent	4,085	30.5	21.5	0.6	0.6	3.1	2.7	10.1	8.6	4.5	5.2
Square Enix	5,527	17.7	15.4	1.8	1.8	1.8	1.7	8.2	6.6	12.8	15.6
Tencent (China)	511,018	18.3	15.6	4.5	4.1	3.3	2.8	13.3	11.7	28.0	29.5
NetEase	94,535	18.1	17.4	4.9	4.4	4.2	4.1	13.1	11.7	27.6	28.2
Kingsoft	6,204	55.0	27.3	3.9	3.3	1.7	1.6	7.4	6.0	25.0	25.5
Youzu Interactive	1,996	34.6	28.5	4.1	3.1	2.2	2.1	56.6	31.0	2.2	4.7
Ubisoft (France)	5,390	20.0	15.4	1.8	1.6	2.2	2.0	5.7	4.7	16.3	17.4

Source: Bloomberg, Mirae Asset Securities Research

NCsoft (036570 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	2,572	1,790	1,999	2,146
Cost of revenue	5	0	0	0
GP	2,567	1,790	1,999	2,146
SG&A expenses	2,008	1,639	1,680	1,751
OP (adj.)	559	151	319	395
OP	559	151	319	395
Non-operating profit	50	106	67	74
Net financial income	38	43	46	50
Net income from associates	-8	0	0	0
Pretax profit	609	257	386	469
Income tax	173	46	97	117
Profit from continuing operations	436	212	290	352
Profit from discontinued operations	0	0	0	0
NP	436	212	290	352
Attributable to owners	436	210	290	352
Attributable to minority interests	0	2	0	0
Total comprehensive income	167	212	290	352
Attributable to owners	166	211	289	351
Attributable to minority interests	0	0	0	1
EBITDA	665	215	382	459
FCF	486	215	319	370
EBITDA margin (%)	25.9	12.0	19.1	21.4
OP margin (%)	21.7	8.4	16.0	18.4
Net margin (%)	17.0	11.7	14.5	16.4

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	2,691	2,766	2,965	3,214
Cash & equivalents	286	298	425	599
AR & other receivables	202	207	219	231
Inventory	1	1	1	1
Other current assets	2,202	2,260	2,320	2,383
Non-current assets	1,747	1,728	1,722	1,724
Investments in associates	26	28	29	30
PP&E	930	912	905	908
Intangible assets	43	42	40	38
Total assets	4,438	4,494	4,686	4,939
Current liabilities	515	499	529	558
AP & other payables	83	58	65	69
Short-term financial liabilities	35	25	27	29
Other current liabilities	397	416	437	460
Non-current liabilities	724	720	728	735
Long-term financial liabilities	593	593	593	593
Other non-current liabilities	131	127	135	142
Total liabilities	1,239	1,219	1,257	1,293
Equity attributable to owners	3,197	3,271	3,425	3,641
Capital stock	11	11	11	11
Capital surplus	433	433	433	433
Retained earnings	3,409	3,484	3,638	3,855
Minority interests	2	4	4	4
Shareholders' equity	3,199	3,275	3,429	3,645

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	736	260	374	435
NP	436	212	290	352
Non-cash income/expenses	359	62	109	126
Depreciation	104	63	62	62
Amortization	2	2	2	2
Other	253	-3	45	62
Chg. in working capital	50	-17	20	19
Chg. in AR & other receivables	101	-9	-9	-10
Chg. in inventory	5	0	0	0
Chg. in AP & other payables	0	0	0	0
Income tax	-139	-46	-97	-117
Cash flow from investing activities	-392	-100	-113	-126
Chg. in PP&E	-249	-45	-55	-65
Chg. in intangible assets	-3	0	0	0
Chg. in financial assets	-670	-55	-58	-61
Other	530	0	0	0
Cash flow from financing activities	-304	-146	-133	-134
Chg. in financial liabilities	-152	-11	3	2
Chg. in equity	0	0	0	0
Dividends	-119	-136	-136	-136
Other	-33	1	0	0
Chg. in cash	30	12	127	174
Beginning balance	256	286	298	425
Ending balance	286	298	425	599

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

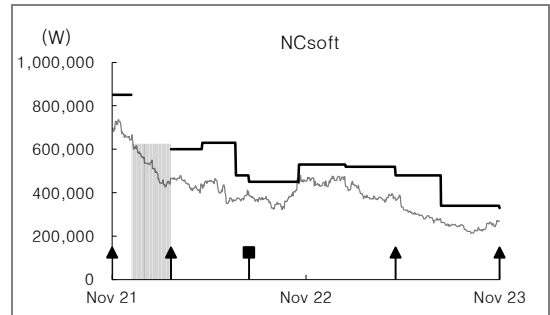
	2022	2023F	2024F	2025F
P/E (x)	22.6	28.1	20.4	16.8
P/CF (x)	12.4	21.6	14.8	12.4
P/B (x)	2.6	1.5	1.5	1.4
EV/EBITDA (x)	13.7	18.8	10.1	7.9
EPS (W)	19,847	9,578	13,200	16,035
CFPS (W)	36,227	12,481	18,186	21,778
BPS (W)	173,629	177,028	184,049	193,905
DPS (W)	6,680	6,680	6,680	6,680
Dividend payout ratio (%)	31.1	64.0	46.8	38.5
Dividend yield (%)	1.5	2.5	2.5	2.5
Revenue growth (%)	11.4	-30.4	11.7	7.3
EBITDA growth (%)	41.8	-67.6	77.6	20.0
OP growth (%)	49.0	-73.1	111.7	23.9
EPS growth (%)	9.8	-51.7	37.8	21.5
AR turnover (x)	11.3	10.0	10.6	10.8
Inventory turnover (x)	653.2	1,409.7	1,812.7	1,778.5
AP turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	9.7	4.7	6.3	7.3
ROE (%)	13.7	6.5	8.7	10.0
ROIC (%)	50.1	14.5	28.6	36.1
Debt-to-equity ratio (%)	38.7	37.2	36.7	35.5
Current ratio (x)	522.2	554.3	560.0	575.9
Net debt-to-equity ratio (%)	-23.4	-57.4	-60.1	-62.9
Interest coverage ratio (x)	59.0	18.0	38.3	47.2

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
NCsoft (036570)	11/27/23	Buy	330,000
	08/09/23	Buy	340,000
	05/15/23	Buy	480,000
	02/10/23	Trading Buy	520,000
	11/14/22	Trading Buy	530,000
	08/12/22	Trading Buy	450,000
	07/18/22	Buy	480,000
	05/16/22	Buy	630,000
	03/18/22	Buy	600,000
	01/03/22	No Coverage	
	09/01/21	Buy	850,000



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	88.81%	7.24%	3.29%	0.66%
Investment banking services	95.65%	4.35%	0%	0%

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

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