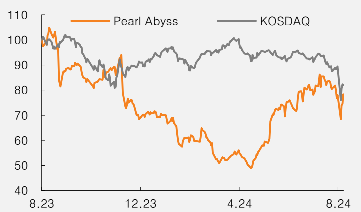
MIRAE ASSET Securities

Equity Research
August 8, 2024

(Maintain)	Hold
Target price	▲ W41,000
Current price (8/8/24)	W43,250
Downside	-5.2%

OP (24F, Wbn)	-23
Consensus OP (24F, Wbn)	-18
EPS growth (24F, %)	12.3
Market EPS growth (24F, %)	86.2
P/E (24F, x)	162.8
Market P/E (24F, x)	9.9
KOSDAQ	745.28
Market cap (Wbn)	2,779
Shares (mn)	64
Free float (%)	51.4
Foreign ownership (%)	8.3
Beta (12M)	0.11
52-week low (W)	27,000
52-week high (W)	57,900

(%)	1M	6M	12M
Absolute	-3.9	31.3	-20.1
Relative	10.8	45.6	-4.3



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263750 KQ · Games

Pearl Abyss

Expecting positive reception at Gamescom

2Q24 review: In-line results

For 2Q24, Pearl Abyss reported revenue of W81.8bn (+4% YoY) and an operating loss of W5.8bn (remaining in the red YoY), in line with the consensus (revenue of W84.4bn and operating loss of W5.1bn). *Black Desert* revenue was W60bn (2% lower than expected), rising 6% YoY but declining QoQ amid a downtrend for both the PC and mobile versions. *EVE* revenue grew 7% YoY to W21.6bn (14% higher than expected), aided by the release of a new expansion pack. Operating expenses dipped 5% YoY to W87.6bn, as effective cost management continued. In particular, labor costs fell 8% YoY to W45.7bn. The number of game development employees decreased to 759 (-3% QoQ, -5% YoY), but the number of workers in business/support roles climbed to 572 (+1% QoQ, +6% YoY).

Release timeline for *Crimson Desert*

With development nearing completion, *Crimson Desert* appears to be on track for a 2025 release. Marketing is likely to pick up in earnest, with Pearl Abyss planning to present game demos at several industry events at home and abroad, including Gamescom (August) and G-Star (November). The company is preparing demos that will allow participants at these events approximately 30 minutes of gameplay.

In terms of publishing strategy, Pearl Abyss hinted that it is leaning toward servicing *Crimson Desert* directly to maximize profits. (The company had previously mentioned approaching several publishers about an exclusive partnership, but nothing has been confirmed.)

Lift TP by 2%; maintain Hold

We raise our target price for Pearl Abyss to W41,000 (from W40,000), as we revised up our 2025 earnings estimates to reflect strong *EVE* revenue. That said, valuation looks rather demanding, with expectations related to Gamescom appearing to be fully priced in (as the event is now imminent).

In 2H24, we expect the launch of *Black Desert* (PC) in China to provide momentum. The title obtained a license in the country in June and is likely to debut after the Mid-Autumn Festival. It recently completed a technical test and received positive feedback from Chinese users at the ChinaJoy event in July.

(Dec.)	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	386	333	331	633	579
OP (Wbn)	16	-16	-23	152	125
OP margin (%)	4.1	-4.8	-6.9	24.0	21.6
NP (Wbn)	-43	15	17	130	110
EPS (W)	-662	237	266	2,021	1,713
ROE (%)	-6.1	2.1	2.3	16.1	11.9
P/E (x)	-	163.7	162.8	21.4	25.3
P/B (x)	3.7	3.3	3.6	3.1	2.7
Dividend yield (%)	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 Securities Research estimates

Table 1. Quarterly and annual earnings (Wbn)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24F	4Q24F	2022	2023	2024F	2025F
Revenue	86	78	85	84	85	82	82	82	386	333	331	633
(YoY)	-6.2%	-16.7%	-12.7%	-18.0%	-0.4%	4.3%	-3.4%	-3.0%	-4.5%	-13.5%	-0.7%	91.0%
Black Desert	68	57	68	60	67	60	59	57	293	253	243	219
EVE	17	20	16	20	18	22	23	24	73	73	86	91
Crimson Desert	0	0	0	0	0	0	0	0	0	0	0	320
DokeV & other new games	0	0	0	0	0	0	0	0	0	0	0	0
Other	1	2	1	4	1	1	1	1	20	8	3	3
Operating expenses	85	92	83	90	85	88	92	89	369	350	354	481
Labor	44	50	41	41	46	46	44	43	178	175	179	190
Commissions	19	18	14	17	17	18	19	18	78	69	73	156
Marketing	6	8	10	8	6	7	14	11	41	32	38	69
D&A	6	7	6	7	6	6	6	6	26	26	26	26
Other	9	10	11	17	10	10	10	10	46	48	39	39
OP	1	-14	2	-5	1	-6	-10	-7	16	-16	-23	152
(YoY)	-78.9%	RR	-82.2%	TTR	-46.3%	RR	TTR	RR	-61.9%	TTR	RR	TTB
OP margin	1.3%	-18.0%	2.5%	-6.5%	0.7%	-7.1%	-12.7%	-8.5%	4.2%	-4.9%	-6.8%	24.0%
NP attributable to owners of the parent	9	-4	15	-5	13	9	-4	-1	-43	15	17	130
Net margin	11.0%	-5.7%	17.5%	-5.4%	15.0%	11.0%	-4.5%	-1.4%	-11.1%	4.6%	5.1%	20.5%

Source: Company data, Mirae Asset Securities Research

Table 2. Annual earnings forecast revisions (Wbn)

	Previous		Revised		Chg.		Consensus		Diff.		Notes
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	
Revenue	327	586	331	633	1%	8%	343	633	-3%	0%	Raised *EVE* revenue Assuming direct publishing of *Crimson Desert*
OP	-15	149	-23	152	-	2%	-18	164	-	-8%	
NP	12	127	17	130	-	3%	16	154	-	-16%	
OP margin	-4.7%	25.5%	-6.8%	24.0%	-	-	-5.3%	25.9%	-	-	
Net margin	3.7%	21.6%	5.1%	20.5%	-	-	4.6%	24.3%	-	-	

Source: FnGuide, Mirae Asset Securities Research

Table 3. 2Q24 review (Wbn)

	Actual	Mirae Asset	Diff.	Consensus	Diff.
Revenue	81.8	81.0	1%	84.4	-3%
OP	-5.8	-4.9	-	-5.1	-
NP attributable to owners of the parent	9.0	0.1	-	1.8	-

Source: Company data, FnGuide, Mirae Asset Securities Research

Table 4. Valuation table

	Value	Notes
2025F NP attributable to owners of the parent (Wbn)	130	
Target P/E (x)	20	Avg. P/E from 2H19 to 1H20, when expectations for new releases were mixed with worries about delays
Target market cap (Wbn)	2,636	
No. of shares ('000)	64,248	
TP (W)	41,000	
CP (W)	43,250	
Upside	-5.2%	

Source: Mirae Asset Securities Research

Pearl Abyss (263750 KQ)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	**333**	**331**	**633**	**579**
Cost of revenue	**0**	**0**	**0**	**0**
GP	**333**	**331**	**633**	**579**
SG&A expenses	**350**	**354**	**481**	**454**
OP (adj.)	**-16**	**-23**	**152**	**125**
OP	**-16**	**-23**	**152**	**125**
Non-operating profit	**38**	**44**	**21**	**22**
Net financial income	2	4	6	10
Net income from associates	-6	39	15	12
Pretax profit	22	21	173	147
Income tax	7	4	43	37
Profit from continuing operations	15	17	130	110
Profit from discontinued operations	0	0	0	0
NP	**15**	**17**	**130**	**110**
Attributable to owners	15	17	130	110
Attributable to minority interests	0	0	0	0
Total comprehensive income	**18**	**17**	**130**	**110**
Attributable to owners	18	17	130	110
Attributable to minority interests	0	0	0	0
EBITDA	10	2	175	147
FCF	23	27	141	126
EBITDA margin (%)	3.0	0.6	27.6	25.4
OP margin (%)	-4.8	-6.9	24.0	21.6
Net margin (%)	4.5	5.1	20.5	19.0

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	**583**	**576**	**716**	**830**
Cash & equivalents	236	226	354	466
AR & other receivables	48	48	56	55
Inventory	0	0	0	0
Other current assets	299	302	306	309
Non-current assets	**630**	**649**	**642**	**640**
Investments in associates	48	52	53	53
PP&E	194	188	179	173
Intangible assets	227	239	240	244
Total assets	**1,213**	**1,225**	**1,358**	**1,470**
Current liabilities	**316**	**301**	**303**	**304**
AP & other payables	17	17	17	18
Short-term financial liabilities	163	163	163	163
Other current liabilities	136	121	123	123
Non-current liabilities	**172**	**182**	**183**	**184**
Long-term financial liabilities	85	85	85	85
Other non-current liabilities	87	97	98	99
Total liabilities	**488**	**483**	**486**	**488**
Equity attributable to owners	**725**	**742**	**872**	**982**
Capital stock	7	7	7	7
Capital surplus	220	220	220	220
Retained earnings	498	515	645	755
Minority interests	**0**	**0**	**0**	**0**
Shareholders' equity	**725**	**742**	**872**	**982**

Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Operating cash flow	**32**	**37**	**147**	**135**
NP	15	17	130	110
Non-cash income/expenses	18	24	60	48
Depreciation	17	16	15	15
Amortization	9	8	8	7
Other	-8	0	37	26
Chg. in working capital	8	-5	-6	3
Chg. in AR & other receivables	1	0	0	0
Chg. in inventory	0	0	0	0
Chg. in AP & other payables	0	0	0	0
Income tax	-9	-4	-43	-37
Cash flow from investing activities	**134**	**-33**	**-18**	**-23**
Chg. in PP&E	-9	-10	-6	-9
Chg. in intangible assets	36	-20	-9	-11
Chg. in financial assets	-80	-3	-3	-3
Other	187	0	0	0
Cash flow from financing activities	**-90**	**0**	**0**	**0**
Chg. in financial liabilities	-81	0	0	0
Chg. in equity	4	0	0	0
Dividends	0	0	0	0
Other	-13	0	0	0
Chg. in cash	**76**	**-10**	**129**	**112**
Beginning balance	160	236	226	354
Ending balance	236	226	354	466

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

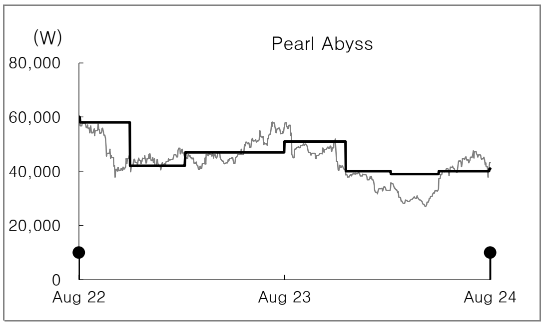
	2023	2024F	2025F	2026F
P/E (x)	163.7	162.8	21.4	25.3
P/CF (x)	74.7	67.9	14.6	17.5
P/B (x)	3.3	3.6	3.1	2.7
EV/EBITDA (x)	229.8	1,197.8	13.7	15.5
EPS (W)	237	266	2,021	1,713
CFPS (W)	519	637	2,953	2,466
BPS (W)	11,826	12,091	14,112	15,825
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	-13.5	-0.7	91.0	-8.4
EBITDA growth (%)	-76.9	-78.3	8,216.4	-16.0
OP growth (%)	-	-	-	-17.7
EPS growth (%)	-	12.3	660.5	-15.2
AR turnover (x)	8.3	8.4	15.9	14.4
Inventory turnover (x)	0.0	0.0	0.0	0.0
AP turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	1.2	1.4	10.1	7.8
ROE (%)	2.1	2.3	16.1	11.9
ROIC (%)	-3.2	-5.2	31.7	26.3
Debt-to-equity ratio (%)	67.3	65.1	55.7	49.7
Current ratio (%)	184.5	191.2	236.5	272.8
Net debt-to-equity ratio (%)	-36.0	-35.1	-45.0	-51.6
Interest coverage ratio (x)	-1.3	-2.1	13.9	11.4

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Pearl Abyss (263750)	08/08/24	Hold	41,000
	05/10/24	Hold	40,000
	02/15/24	Hold	39,000
	11/27/23	Hold	40,000
	08/10/23	Hold	51,000
	02/15/23	Hold	47,000
	11/09/22	Hold	42,000
	08/12/22	Hold	58,000
	05/13/22	Hold	60,000



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	79.52%	12.05%	8.43%	0%
Investment banking services	85%	5%	10%	0%

* Based on recommendations in the last 12-months (as of June 30, 2024)

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