

Neowiz Games (095660 KQ)

Game

Merger with Neowiz Internet: A fresh starting point

Long-term momentum to come from alliance with KakaoTalk and mobile games

Neowiz Games announced its plan to merge with its subsidiary Neowiz Internet. Neowiz Internet posted revenues of W47.5bn, an operating profit of W7.1bn, and a net profit of W7.6bn in 2011. We confirmed that 70% of these revenues stemmed from Bugs Music (music service unit), while 30% of revenues came from Say Club (online chat service). Revenue contribution by the mobile game unit was only minimal. In 1H12, Neowiz Internet's revenues expanded 13.5% YoY to W25.2bn (from W22.2bn). However, operating profits swung to a loss of W1.49bn (from a profit of W8.5bn in 1H11) due to increased expenses related to its mobile internet business.

Since its launch in April 2011, Pmang Plus (Neowiz Internet's mobile game platform) has acquired 23mn subscribers internationally. And Tab Sonic (a mobile game) recorded downloads of 15mn. Neowiz Internet plans to roll out roughly 20 new mobile games until end-2013, and the company's Bugs Music is pushing to forge an alliance with KakaoTalk.

Market cap of merged firm to reach W779.3bn

The merger ratio would be 1:0.584 (Neowiz Games (surviving entity): Neowiz Internet). Factoring in this ratio, we estimate a total of 7.47mn Neowiz Games shares will go to Neowiz Internet shareholders. The number of shares issued for the merged firm will reach 29.4mn, and its market cap will amount to W779.3bn based on October 12th closing prices (on October 12th, the market caps of Neowiz Games and Neowiz Internet stood at W580.7bn and W219.8bn, respectively).

Neowiz Games shareholders can exercise their preemptive rights at W26,625/sh (vs. the October 12th closing price of W26,500/sh), while Neowiz Internet shareholders can exercise their rights at W15,309/sh (vs. the October 12th closing price of W16,250). The shareholders' meeting is scheduled to be held on November 22nd.

If preemptive rights-related expenses exceed W20bn, this merger attempt could falter. Preemptive rights are exercisable between November 23rd and December 12th. The M&A is scheduled to be finalized on January 1, 2013. The name of the surviving entity will change to Neowiz I.

► Earnings & Valuation Metrics

FY	Revenues (Wbn)	OP (Wbn)	OP Margin (%)	NP (Wbn)	EPS (Won)	EBITDA (Wbn)	FCF (Wbn)	ROE (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
12/10	431	27	6.3	26	1,202	115	139	11.3	38.2	5.2	8.0
12/11	668	107	16.0	73	3,334	156	-149	30.1	13.0	5.3	7.0
12/12F	733	130	17.8	89	4,050	151	104	30.5	6.5	2.2	4.5
12/13F	731	94	12.8	63	2,890	115	76	17.5	9.2	1.8	5.3
12/14F	758	77	10.1	55	2,494	98	59	13.1	10.6	1.5	5.6

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, KDB Daewoo Securities Research estimates

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Hold (Maintain)

Target Price (12M, W)	-
Share Price (10/12/12, W)	26,500
Expected Return (%)	0.0
EPS Growth (12F, %)	21.5
Market EPS Growth (12F, %)	12.3
P/E (12F, x)	6.5
Market P/E (12F, x)	10.2
KOSDAQ	539.86
Market Cap (Wbn)	581
Shares Outstanding (mn)	22
Avg Trading Volume (60D, '000)	755
Avg Trading Value (60D, Wbn)	19
Dividend Yield (12F, %)	0.0
Free Float (%)	47.8
52-Week Low (W)	21,100
52-Week High (W)	74,700
Beta (12M, Daily Rate of Return)	0.87
Price Return Volatility (12M Daily, %, SD)	3.6
Foreign Ownership (%)	19.2

Major Shareholder(s)

Neowiz Corp et al. (47.05%)

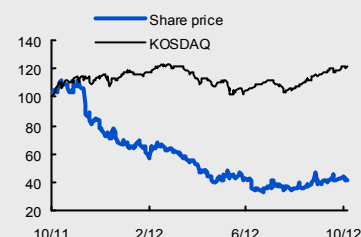
Treasury stock (5.19%)

Price Performance

(%)	1M	6M	12M
Absolute	1.5	-9.6	-60.4
Relative	2.4	-6.9	-67.2

Key Business

Game development and publishing.



Neowiz Games (095660 KS/Hold/)

Comprehensive Income Statement (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Revenues	668	733	731	758
Cost of Sales	405	399	413	437
Gross Profit	263	334	318	321
SG&A Expenses	129	204	224	244
Operating Profit (Adj)	134	130	94	77
Operating Profit	107	130	94	77
Non-Operating Profit	-6	-15	-11	-6
Net Financial Income	2	7	4	-1
Net Gain from Inv in Associates	-2	0	0	0
Pretax Profit	101	116	83	71
Income Tax	28	28	20	17
Profit from Continuing Operations	73	88	63	54
Profit from Discontinued Operations	0	0	0	0
Net Profit	73	88	63	54
Controlling Interests	73	89	63	55
Non-Controlling Interests	-1	-1	-1	-1
Total Comprehensive Profit	61	83	58	49
Controlling Interests	58	84	59	50
Non-Controlling Interests	2	-1	-1	-1
EBITDA	156	151	115	98
FCF (Free Cash Flow)	-149	104	76	59
EBITDA Margin (%)	23.3	20.6	15.7	12.9
Operating Profit Margin (%)	16.0	17.8	12.8	10.1
Net Profit Margin (%)	10.9	12.1	8.7	7.2

Statement of Financial Condition (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Current Assets	238	273	346	414
Cash and Cash Equivalents	79	68	142	203
AR & Other Receivables	142	156	155	161
Inventories	1	1	1	1
Other Current Assets	16	17	17	18
Non-Current Assets	389	436	432	431
Investments in Associates	63	64	64	64
Property, Plant and Equipment	117	116	113	111
Intangible Assets	94	92	89	88
Total Assets	626	709	778	845
Current Liabilities	198	231	230	236
AP & Other Payables	81	89	88	92
Short-Term Financial Liabilities	45	63	63	63
Other Current Liabilities	72	79	79	82
Non-Current Liabilities	156	122	133	145
Long-Term Financial Liabilities	147	104	104	104
Other Non-Current Liabilities	3	11	22	34
Total Liabilities	353	352	363	381
Controlling Interests	249	333	392	442
Capital Stock	11	11	11	11
Capital Surplus	133	126	126	126
Retained Earnings	160	249	312	367
Non-Controlling Interests	24	24	23	22
Stockholders' Equity	273	357	414	463

Cash Flows (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Cash Flows from Op Activities	2	48	95	78
Net Profit	73	88	63	54
Non-Cash Income and Expense	101	70	52	44
Depreciation	9	3	2	2
Amortization	13	19	19	19
Others	-23	-11	-4	-4
Chg in Working Capital	-144	-82	0	-3
Chg in AR & Other Receivables	-46	-40	0	-6
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	-6	11	0	3
Income Tax Paid	-28	-27	-20	-17
Cash Flows from Inv Activities	-99	-22	-10	-5
Chg in PP&E	-98	-1	0	0
Chg in Intangible Assets	-17	-17	-17	-17
Chg in Financial Assets	-18	-7	0	0
Others	33	3	7	12
Cash Flows from Fin Activities	148	-35	-11	-11
Chg in Financial Liabilities	193	-22	0	0
Chg in Equity	-50	0	0	0
Dividends Paid	0	0	0	0
Others	5	-13	-11	-11
Increase (Decrease) in Cash	25	-11	74	61
Beginning Balance	54	79	68	142
Ending Balance	79	68	142	203

Forecasts/Valuations (Summarized)				
	12/11	12/12F	12/13F	12/14F
P/E (x)	13.0	6.5	9.2	10.6
P/CF (x)	10.0	5.3	6.8	7.7
P/B (x)	5.3	2.2	1.8	1.5
EV/EBITDA (x)	7.0	4.5	5.3	5.6
EPS (W)	3,334	4,050	2,890	2,494
CFPS (W)	4,319	5,030	3,875	3,446
BPS (W)	8,156	12,132	14,902	17,251
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	55.1	9.8	-0.3	3.7
EBITDA Growth (%)	35.9	-2.8	-23.9	-15.0
Operating Profit Growth (%)	297.1	22.0	-28.3	-17.7
EPS Growth (%)	177.3	21.5	-28.6	-13.7
Accounts Receivable Turnover (x)	6.2	5.0	4.7	4.8
Inventory Turnover (x)	2,219.3	1,548.0	1,476.9	1,505.8
Accounts Payable Turnover (x)	11.1	9.6	9.1	9.3
ROA (%)	13.7	13.2	8.4	6.7
ROE (%)	30.1	30.5	17.5	13.1
ROIC (%)	65.2	33.6	24.7	20.5
Liability to Equity Ratio (%)	129.4	98.8	87.7	82.3
Current Ratio (%)	120.4	118.2	150.4	175.0
Net Debt to Equity Ratio (%)				
Interest Coverage Ratio (x)				

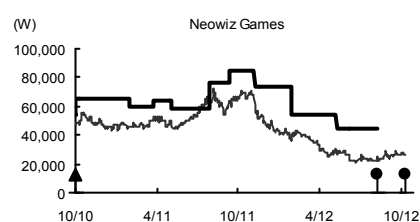
Source: Company data, KDB Daewoo Securities Research estimates

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