

AfreecaTV

(067160 KQ)

A changing media landscape

Internet

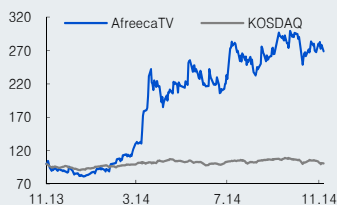
Initiation Report

November 11, 2014

(Initiate)	Buy
Target Price (12M, W)	49,000
Share Price (11/10/14, W)	29,450
Expected Return	66%

OP (14F, Wbn)	6
Consensus OP (14F, Wbn)	8
EPS Growth (14F, %)	1,773.9
Market EPS Growth (14F, %)	2.4
P/E (14F, x)	49.2
Market P/E (14F, x)	12.5
KOSDAQ	539.22
Market Cap (Wbn)	304
Shares Outstanding (mn)	10
Free Float (%)	76.4
Foreign Ownership (%)	23.5
Beta (12M)	1.33
52-Week Low	8,900
52-Week High	32,750

(%)	1M	6M	12M
Absolute	-1.3	20.2	183.2
Relative	1.7	22.6	170.8



Daewoo Securities Co., Ltd.

[Small Cap]

Daewoo Lee
+822-768-4132
daewoo.lee.a@dwsec.com

Initiate coverage with Buy and TP of W49,000

We initiate our coverage of AfreecaTV with a Buy rating and target price of W49,000. We based our target price on the value per daily unique visitor (DUV) of Twitch, which was acquired by Amazon in August.

AfreecaTV's monthly unique visitors (MUV) reached a record-high 7.62mn in September and broke the record again at 7.86mn the following month. We expect traffic growth to continue in 4Q and into 2015, on the back of diversification of both content and the viewer base. Furthermore, the company's efforts to make its service more mainstream should increase its appeal as an ad platform, leading to greater ad revenue.

A leading personal broadcasting platform

For live streaming services, the key to success lies in acquiring a certain critical level of traffic early on. Although penetration remains low, AfreecaTV already enjoys sufficient traffic as a first mover in the live streaming market. The interactive nature of the internet has given viewers greater power to choose what they watch online, spurring more video consumption, especially among younger people. As such, we believe the viewership of personal broadcasting will expand going forward, which should benefit AfreecaTV.

AfreecaTV is looking to advance overseas, targeting markets based on two factors: broadband internet infrastructure and the local appeal of "Hallyu" (Korean pop culture). With this in mind, the company plans to move first into the Japanese market in 2015. We see strong potential in Japan, given the country's high demand and enthusiasm for cultural content.

A changing media landscape

The mobile device-led expansion of multiscreen videos is expected to not only encourage consumption of video and game content, but also broaden over-the-top (OTT) services. Many industry experts believe traditional broadcast channels will be increasingly replaced by OTT apps. We believe AfreecaTV's unique content offerings (such as game streaming) make it better positioned to expand its OTT user base.

Valuation: Focus more on subscriber value than on profits

Because the video streaming industry is still in the very early stages of growth, we believe value per subscriber is a more appropriate metric than earnings in valuing AfreecaTV and its peers Twitch, YY, and Netflix. AfreecaTV's value per DUV is still only half that of Twitch (based on the latter's acquisition price). AfreecaTV's undervaluation is also supported by the fact that the company already generates stable profits, whereas Twitch is still making huge losses.

FY (Dec.)	12/11	12/12	12/13	12/14F	12/15F	12/16F
Revenue (Wbn)	48	49	48	57	67	88
OP (Wbn)	4	1	4	6	10	17
OP margin (%)	8.3	2.0	8.3	10.5	14.9	19.3
NP (Wbn)	1	2	0	6	9	15
EPS (W)	87	220	32	599	789	1,321
ROE (%)	1.7	6.9	0.9	15.2	17.0	21.9
P/E (x)	90.5	33.2	287.2	49.2	37.3	22.3
P/B (x)	2.4	2.0	2.4	6.4	5.2	4.3

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

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the U.S. PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES & DISCLAIMERS IN APPENDIX 1 AT THE END OF REPORT.

Media landscape is changing

We initiate our coverage of AfreecaTV with a Buy rating and target price of W49,000. Our target price represents a 66.4% upside from the current price. The company is currently enjoying a first-mover advantage in the online live streaming segment and preparing to grow into a comprehensive broadcasting platform.

The accelerating N-screen trend (whereby content can be viewed on multiple screens across various devices) and the interactive nature of the internet are sharply changing the landscape of the media industry. AfreecaTV is leading this trend on the back of Korea's advanced broadband internet infrastructure.

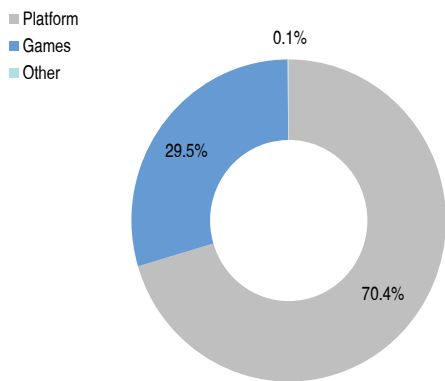
1. Company overview

Established in April 1996, AfreecaTV changed its name from Wins Technology to Wins Technet in 2000 and to Nowcom in 2008. By spinning off the network security (in January 2011) and web storage/personal cloud computing (in July 2011) businesses, the company established Wins Technet and Zetta Media, respectively. In December 2011, the current CEO Seo Su-gil took office.

The company once invested in mobile game developers, but has since steadily streamlined its businesses. It recently decided to sell the Tales Runner (mobile game) business in an effort to focus on the broadcast platform business. Currently, AfreecaTV's major businesses are platform and mobile game publishing.

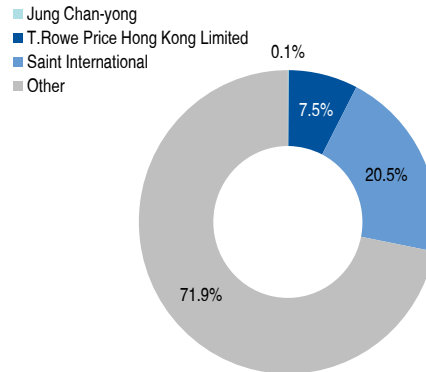
The largest shareholder of AfreecaTV is Saint International, in which Mr. Seo held a 95.30% stake as of 2013. The company's equity capital and gross asset value stand at W17.4bn and W20.9bn, respectively.

Figure 1. Revenue breakdown by business unit (3Q14)



Source: Company data, KDB Daewoo Securities Research

Figure 2. Major shareholders



Source: Company data, KDB Daewoo Securities Research

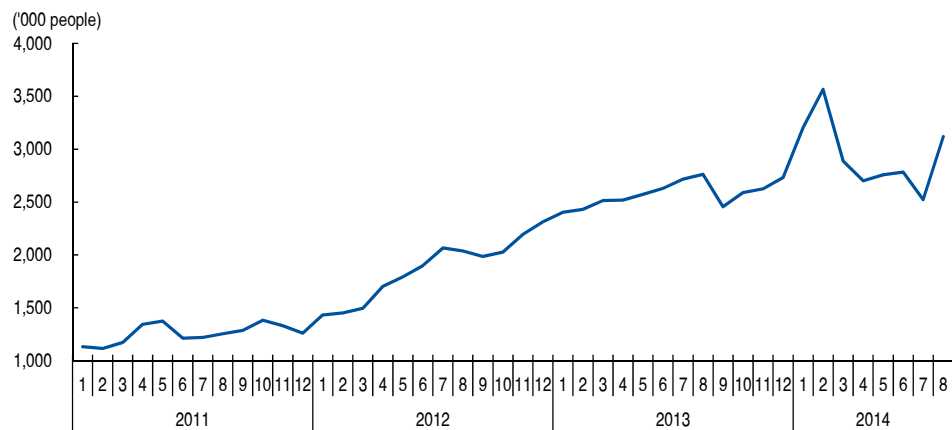
2. Business: A representative P2PTV platform

(1) Barriers to entry: Traffic

The platform unit, the firm’s key business, provides live video streaming and internet broadcast services. Like other internet businesses, the firm’s platform unit can achieve long tail effects. It differs from online portal and shopping mall businesses, however, in that platforms require broadband internet infrastructure and a high quality of service (QoS) to help control the large traffic. These requirements pose high technological barriers. As viewers become more accustomed to high-definition videos, traffic growth should surge, making technological barriers even higher.

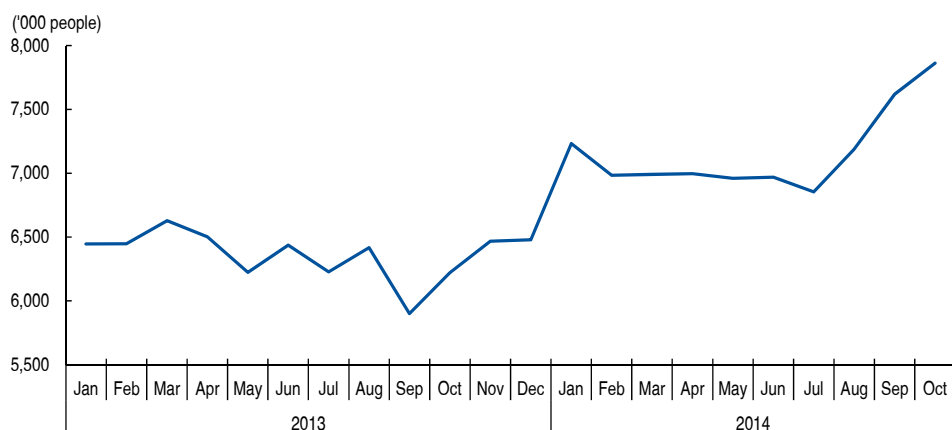
The steepest barrier, however, is securing a level of traffic that exceeds critical mass. In fact, technological barriers seem easy to surmount compared to the challenge of gaining sufficient traffic. As such, businesses that bring in decent traffic are deemed highly valuable, as evidenced by Amazon’s US\$970mn acquisition of Twitch despite its continued losses.

Figure 3. Monthly maximum DUV trend (Jan. 2011 to Aug. 2014)



Source: Company data, KDB Daewoo Securities Research

Figure 4. MUV trend (Jan. 2013 to Oct. 2014)



Source: Company data, KDB Daewoo Securities Research

AfreecaTV is mainly focused on the P2PTV platform, on which anyone can open his or her own channel to broadcast content. Whatever the show’s purpose (to make money, promote certain items, etc.), what matters most is that a large number of people watch it. Without traffic, broadcasting can be as futile as trying to sell products on a desolate mountain path. Thus, for live streaming services, the key to success lies in acquiring a certain critical level of traffic early on.

For late entrants wishing to enhance their market presence, it will be necessary to target specific segments; this should prove very difficult. Although penetration remains low, AfreecaTV already enjoys sufficient traffic as a first mover in the live streaming market. Indeed, many broadcast jockeys consider only AfreecaTV despite the fact that other players are now in the market. Indeed, "AfreecaTV" has become a byword for live streaming services. With internet users, especially younger ones, consuming a greater quantity and variety of video content, we believe viewership of personal broadcasting will expand going forward, which should benefit AfreecaTV.

AfreecaTV released peak daily unique visitor (DUV) figures starting in January 2011, and then switched to monthly unique visitor (MUV) data starting in September of this year. In our view, MUV data are more useful in estimating earnings. The company's peak DUV stood at the lower 1mn level in early 2011 and steadily increased to 3mn by early this year. MUV figures remained at the low- to mid-6mn level in 2013 and grew to the 7mn level this year. The company's MUV reached a record-high 7.62mn in September and broke the record again at 7.86mn the following month. We expect traffic growth to continue in 4Q despite weak seasonality.

Figure 5. Home shopping broadcasting on AfreecaTV (1)



Source: YouTube, KDB Daewoo Securities Research

Figure 6. Home shopping broadcasting on AfreecaTV (2)



Source: YouTube, KDB Daewoo Securities Research

We see about a 100% upside to the service's penetration in Korea. Over the long term, its MUV is expected to peak at 14-15mn. We believe AfreecaTV's diversifying user base will drive up traffic growth. Given that games currently account for about half of the company's total traffic, it is unsurprising that men in their 20s are the service's major users. However, the recent increase in sports content is boosting traffic from users in their 30s and older. In an effort to further diversify its user base, the company is in talks with home shopping, terrestrial, multi-content, and cable channels to secure real-time and VOD content. Recently, the company began airing CJ O Shopping's home shopping programs. In addition, the company is expected to secure rights to air content from MBC, which should enable it to broadcast content from major TV channels, excluding CJ E&M channels and SBS (which provide content to Tving and Pooq, respectively).

AfreecaTV's efforts should also improve its value as an advertising platform. If the user base expands to a wider range of ages and greater gender mix, the company's pool of advertisers (which now mainly consist of game companies) should diversify, boosting advertising revenue.

The company's efforts to enhance its dominance in the platform segment and secure live streaming traffic ahead of its competitors are now bearing fruit. The company is now offering unique and advanced live streaming services. Based on its solid traffic base, AfreecaTV is expected to develop new monetization models and see an increase in advertising slots going forward.

(2) Overseas expansion efforts

Globally, internet infrastructure is steadily improving. However, internet environments still vary widely by country. In addition, improvements in internet infrastructure tend to progress slowly, often getting bogged down in conflicts of interest between the dominant telcos of each country. The advanced web infrastructure of Korea, where the "Giga Internet" era is on the horizon, has provided an optimal environment for AfreecaTV's business model.

AfreecaTV is strengthening its global outreach efforts. In selecting markets, the company takes two factors into consideration: 1) a country's internet infrastructure and 2) the popularity of Korean cultural content (e.g., games, dramas, etc.) in that country. Based on those criteria, the company selected Japan as the first country in which to offer its services, with Taiwan, Hong Kong, Thailand, and the US as the next targets. We believe entering overseas markets requires considerable time to prepare, including inviting local broadcast jockeys and securing certain levels of traffic.

For its Japan rollout, AfreecaTV released beta services for the mobile version in March and for the PC version in September, and is seeing content on these services begin to diversify. AfreecaTV regards Japan as a very promising market in light of its well-developed internet infrastructure and the strong local appeal of Korean cultural content. In addition, Japanese people tend to form strong fan communities around cultural content, and seem accustomed to paying for intangible goods. Thus, the company's services will likely manage to secure a solid traffic base in a short period of time. Compared to Korea, the company expects the Japanese market to generate higher ARPU and eventually larger operating revenue. However, we did not reflect expected earnings from Japan in our earnings estimates, as detailed plans for the market have not yet been finalized. Still, expectations for its advance into the Japanese market should provide newfound momentum to the company's share performance.

3. Media market undergoing internet-induced changes

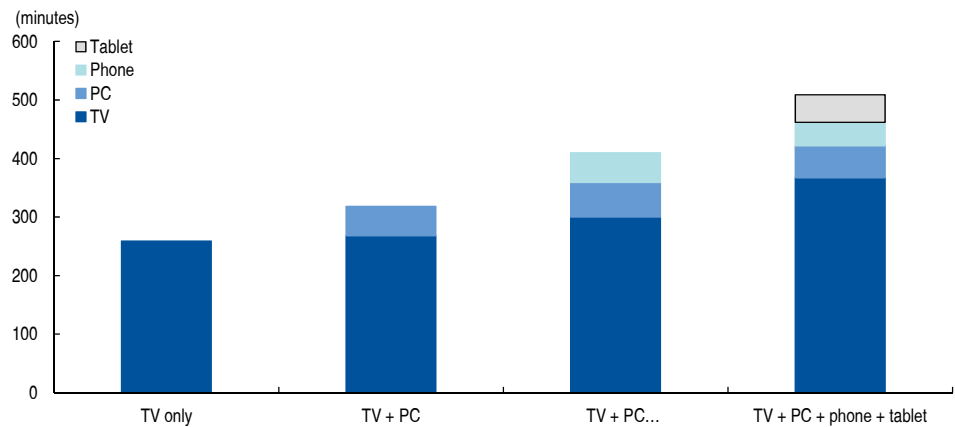
Considerable time has passed since the internet brought seismic changes to retailing, with the “long-tail” principle of e-commerce replacing the Pareto principle of brick-and-mortar stores. However, internet-induced changes are still ongoing in other spheres, particularly the media industry. The web is in the process of remaking this industry, aided by the increasing penetration of broadband networks and mobile smart devices. Internet infrastructure—in both mobile and more traditional web environments—is improving, although the pace of improvement varies by country. Infrastructure upgrades enable faster speed and cheaper rates, which in turn should allow more people to access high-definition videos and quicken the spread of video streaming services. Moreover, with mobile devices increasingly allowing users to enjoy content across various platforms, demand for video and game content will likely continue to rise.

(1) Multiscreen videos to boost video and OTT content demand

The proliferation of mobile devices should help attract more viewers to video content, including those who formerly had little interest in or difficulty accessing such content. And the use of mobile devices (tablets, smartphones, etc.) for video consumption does not adversely affect the TV platform <see Figure 8>.

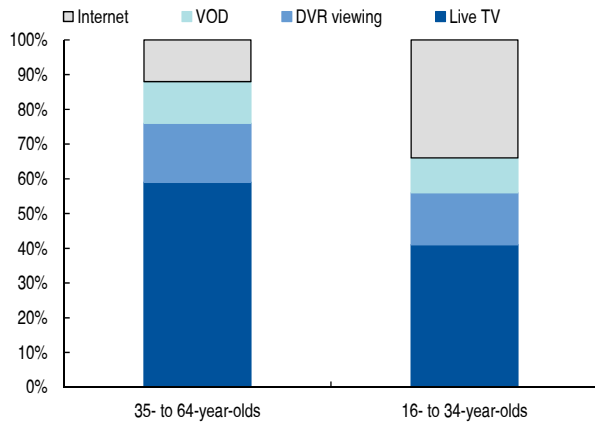
Interactivity is another feature introduced by the internet. Indeed, YouTube and other internet sites encourage active media consumption, particularly among young viewers. Looking ahead, we expect interactive media experiences to become increasingly commonplace.

Figure 7. 2012 Summer Olympics audience’s daily average media usage

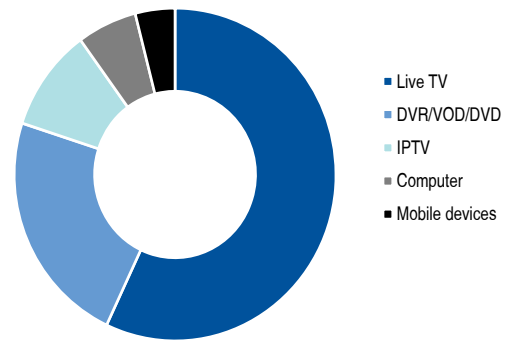


Source: KOCCA, KPCB, ComScore, KDB Daewoo Securities Research

Figure 8. TV usage in the US: Breakdown by age **Figure 9. Consumption of TV content in the US: Breakdown by platform (2014)**



Source: KOCCA, KPCB, Verizon, KDB Daewoo Securities Research

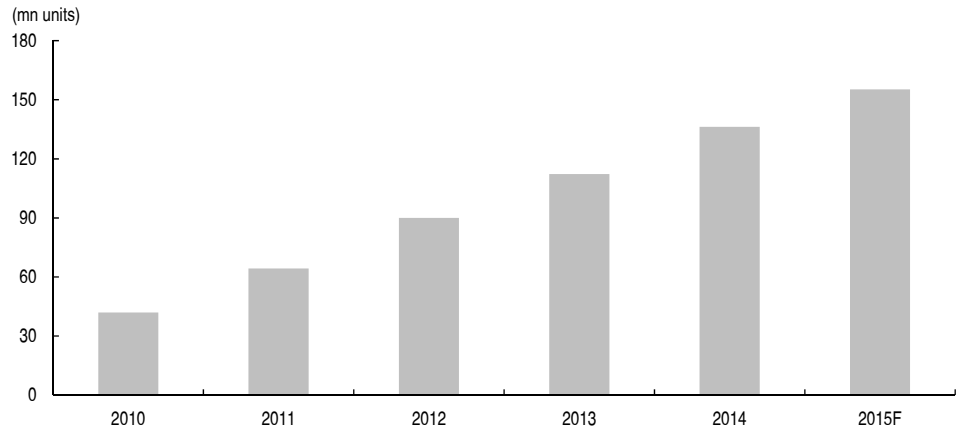


Source: KOCCA, KPCB, Horowitz Associates, KDB Daewoo Securities Research

The internet has also spawned a number of OTT services, such as Netflix and Hulu. As of 1Q14, Netflix had 48.4mn subscribers globally—more than the US’ largest and second-largest cable TV operators combined (21.7mn for Comcast and 11.4mn for Time Warner Cable). The success of OTT service providers has inspired similar services by several big name companies, including Google (Chromecast), Apple (Apple TV), and Amazon (Fire TV), as well as existing pay TV channels such as ESPN and HBO. With these companies participating in the market (e.g., by launching smart TVs), the growth of the OTT content market should accelerate. Many experts believe that OTT applications will gradually replace existing broadcast channels as smart TVs become more popular.

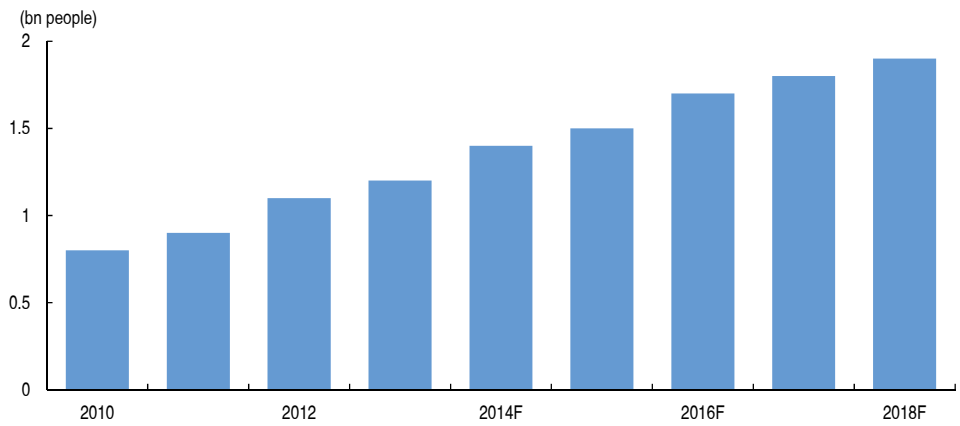
In Korea, too, various OTT services are available on the market. In addition to IPTVs, terrestrial networks and cable TV operators have started to provide OTT services on mobile platforms. AfreecaTV is one of the new operators in this segment, with its strong content leading to relatively rapid user traffic growth.

Figure 10. Global smart TV shipments: Trends and forecast



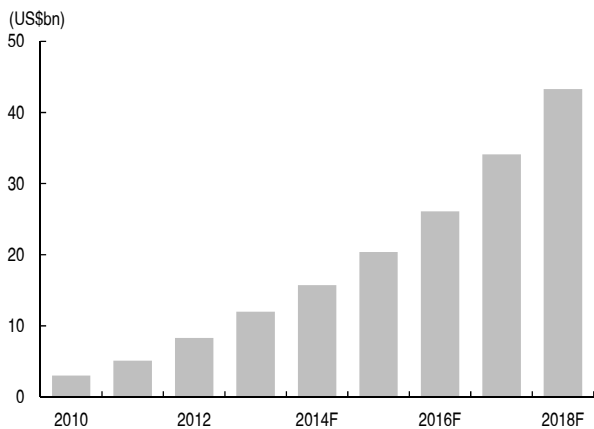
Source: DisplaySearch (2012), KDB Daewoo Securities Research

Figure 11. Global OTT users: Trends and forecast



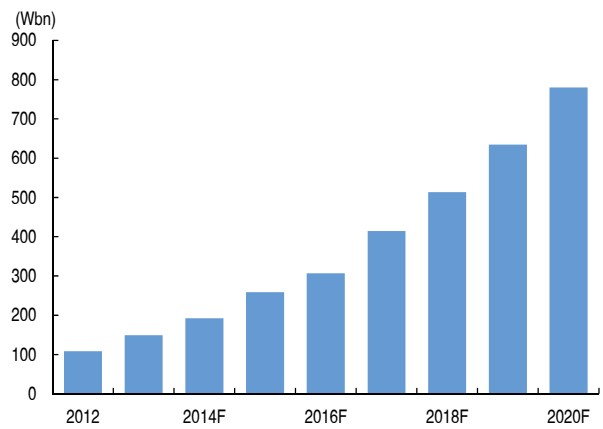
Source: etnews.com, ABI research, KDB Daewoo Securities Research

Figure 12. Global OTT revenue: Trends and forecast



Source: etnews.com, ABI research, KDB Daewoo Securities Research

Figure 13. Korean OTT market: Trends and forecast



Source: etnews.com, KCC, IDATE, KDB Daewoo Securities Research

Table 1. Major Korean OTT services

Terrestrial	System Operator	IPTV	New players
· Pooq (MBC, SBS)	· Tving (CJ HelloVision) · EveryOn TV (Hyundai HCN)	· Olleh TV Mobile (KT) · B tv mobile (SK Broadband) · U+HDTV (LG Uplus)	AfreecaTV, Gom TV, Hoppin, Daum TV Pot

Source: etnews.com, KCC, KDB Daewoo Securities Research

(2) Game streaming market growing on the back of improvements in internet and game content

The proliferation of mobile devices should lead to an expanded gamer base, as mobile device users can access video content and games even on the move.

In addition, the game market is likely to be boosted by 1) the economic slump and 2) the spread of ultra-fast internet. Game stocks have traditionally been a defensive play, as demand for affordable entertainment and time-killing activities tends to grow amid tough economies. Although the online game markets in North America and Europe are still small, demand for online games should grow on the back of improving internet speed and falling internet bills.

A case study on Twitch, the world’s leading game streaming website, found that improvements in internet infrastructure led to an expansion of the live steaming service market and the overall game market. In Korea, AfreecaTV has been the unparalleled leader in this segment, as evidenced by its strong popularity as a platform for professional game leagues. And the company also seems to have promising global growth potential.

We estimate Twitch’s DUV at approximately 7mn. With a base of 60mn subscribers currently, Twitch is showing stellar growth. In 2012, it is estimated that 20mn subscribers watched 6bn video clips, while in 2013 an estimated 45mn subscribers watched 12bn clips. Amazon acquired the website in August for US\$970mn, or W990bn. Encouraged by the success of Twitch, a number of new players, such as Azubu, are springing up.

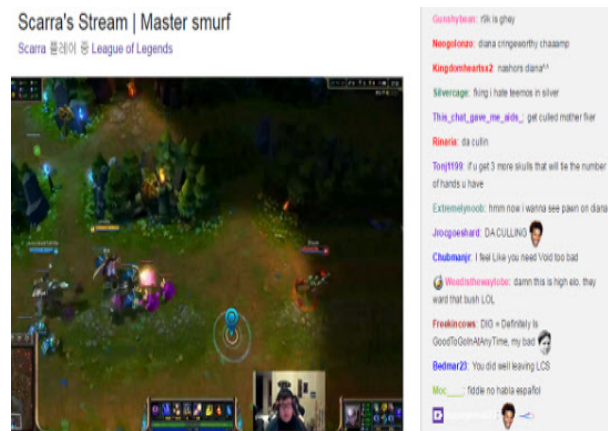
AfreecaTV is the undisputable leader in domestic game streaming services, which account for more than half of the platform’s overall traffic and content. Although the company is striving to become a comprehensive broadcast platform, its competitiveness in game streaming should continue to provide a strong foundation for growth, especially in overseas business.

Figure 14. Game broadcasting on AfreecaTV



Source: NAVER, KDB Daewoo Securities Research

Figure 15. Game broadcasting on Twitch



Source: Chosunbiz.com, KDB Daewoo Securities Research

4. Earnings outlook and valuation

(1) Operating leverage to grow in 2015-2016

For 4Q, we forecast AfreecaTV to generate operating revenue of W12.7bn (+0.3% YoY; -23.1% QoQ) and an operating profit of W1.7bn. We assumed MUV of 7.35mn (+15% QoQ), which seems conservative in light of October traffic growth. Operating revenue is forecast to decline QoQ despite traffic growth, as earnings results for the Tales Runner business unit will be reflected in 3Q earnings (despite the sale of this unit being completed). However, the sale of Tales Runner should have only a minimal impact on overall earnings, as expenses will decrease, as well. Due to gains (W1.7bn) on the sale of Tales Runner, we expect AfreecaTV's 4Q net profit to soar QoQ to W2.9bn from W900mn.

For 2014, we project AfreecaTV to post solid earnings growth, with revenue of W57.4bn (+19.4% YoY) and operating profit of W6.3bn (+42.8% YoY), as: 1) the company appears to be entering a stage of maximized operating leverage due to low variable costs this year; and 2) traffic growth has boosted both item and ad sales.

We project traffic to increase by 25% YoY in 2015 and 17% YoY in 2016. We also project annual average MUVs of 9.18mn for 2015 and 10.74mn for 2016. The company is likely to see increased traffic, diversified traffic sources, and a higher contribution of ad sales on the back of 1) more diverse content (from terrestrial broadcasters, multi-channel and cable-channel operators, and home shopping channels), 2) an improved user interface, and 3) promotional activities. For 2015 and 2016, we project revenue of W66.8bn (+16.3% YoY) and W88bn (+31.7% YoY), and operating profit of W10.4bn (+63.6% YoY) and W17.4bn (+68.2% YoY), respectively. Now that the company has completed its efforts to secure content, any increase in operating expenses is likely to arise only from ad expenses and commission payments to payment gateway firms and telcos.

In our earnings forecasts, we did not take into account 1) the chance that a ping pong game (currently available only for Kakao) will be launched on other game platforms at home and abroad, and 2) potential revenue growth from overseas subsidiaries. Given that no concrete plans have yet appeared, we believe it is too early to reflect these factors in our earnings estimates. These two factors, however, could boost revenue while limiting the risk of cost increases, and thus we believe our earnings estimates are conservative.

(2) Valuation based on value per DUV of Twitch

We considered Twitch, YY, and Netflix as peers of AfreecaTV. Because an earnings-based valuation methodology seems inappropriate in light of the high uncertainties regarding earnings estimates for 2015 and beyond, we based our target price on the value per DUV of Twitch, which was acquired by Amazon for around W990bn in August.

As of end-July, AfreecaTV's market cap stood at W311.2bn on the assumption of the complete conversion of warrants into shares; this compares to Twitch's acquisition price of around W990bn. Twitch's DUV (4.37mn as of end-July) was 1.5 times AfreecaTV's DUV (2.98mn; average of maximum DUV from Jan. to July 2014). AfreecaTV's value per DUV reached W104,283, while that of Twitch stood at W226,615. As such, Twitch's value per DUV was around 2.17 times (=226,615/104,283) that of AfreecaTV.

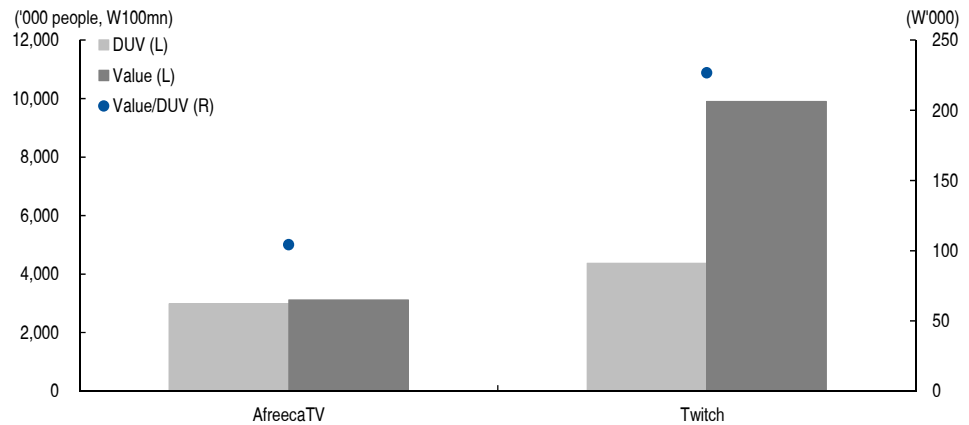
We applied a 20% discount to this multiple, as: 1) Twitch is currently focusing on game streaming; and 2) its major subscribers are from the North America and Europe, where broadband internet connections are not widespread. As such, we arrived at our target multiple of 1.74x, which appears conservative, given that AfreecaTV has posted steady operating profit, unlike the loss-making Twitch. We applied 1.74x to the company's market cap (W311.2bn as of July 31st) to arrive at our target market cap (W541bn) and divided this value by the number of shares (11,113,567 shares based on the assumption that warrants were completely converted), arriving at our target price of W49,000 (W48,677).

Table 2. Comparison between AfreecaTV and Twitch (as of its acquisition by Amazon)

	AfreecaTV	Twitch
DUV (persons)	2,984,000	4,368,639
Value (Wbn)	311.2	990
Value/DUV (W)	104,283	226,615

Notes: AfreecaTV's DUV is the average of maximum DUV from Jan. to July 2014; Twitch's DUV is as of the end of July 2014; Value of AfreecaTV is based on full dilution assumption; Value of Twitch is acquisition price paid by Amazon
Source: Company data, QuantCast, VentureBeat, KDB Daewoo Securities Research

Figure 16. Comparison between AfreecaTV and Twitch (as of its acquisition by Amazon)

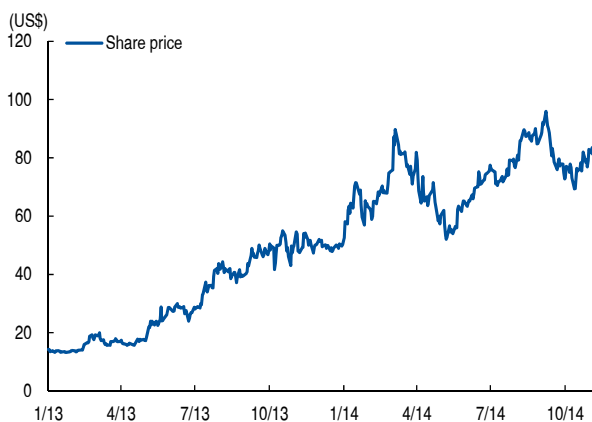


Source: Company data, www.quantcast.com, www.venturebeat.com, KDB Daewoo Securities Research

China-based YY, a late entrant in the live streaming business, is showing rapid growth, and has successfully launched game, music, and educational content services. It recently signed a partnership with Baidu Tieba to boost traffic. On the back of such efforts, the company's shares are showing stable performance.

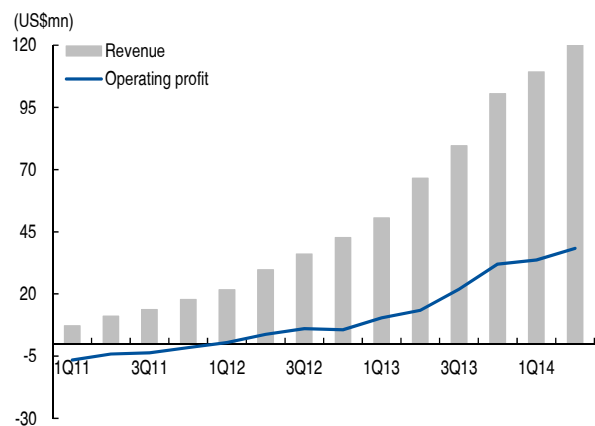
AfreecaTV and YY have certain things in common; both are leaders of the fledging live streaming businesses in their respective markets, and both have game services as their flagship unit. However, they differ in that AfreecaTV offers a free platform, while YY provides fee-based entertainment and educational content. The growth potential of YY appears huge, considering its still-low penetration, as well as China's expected improvement in internet infrastructure. However, we find AfreecaTV more attractive in light of its promising earnings growth potential, and the strong prospects of overseas expansion driven by game content and the popularity of Korean culture.

Figure 17. YY's share price trend



Source: Bloomberg, KDB Daewoo Securities Research

Figure 18. YY's quarterly earnings



Source: Bloomberg, KDB Daewoo Securities Research

Table 3. Global media players' earnings

(% Wbn)

	Share price chg.		Mkt. cap	Revenue			OP			OP margin			Net profit		
	-1M	-3M		13	14F	15F	13	14F	15F	13	14F	15F	13	14F	15F
AfreecaTV	-1.3	13.1	304	48	57	67	4	6	10	9.2	11.0	15.5	0	6	9
YY (China)	8.8	-7.5	4,821	325	621	926	85	182	271	26.1	29.3	29.3	85	154	226
Netflix (US)	-15.0	-13.8	25,109	4,789	5,997	7,359	250	435	601	5.2	7.3	8.2	123	231	334
Average	-2.5	-2.8								13.5	15.8	17.6			

Source: Bloomberg, KDB Daewoo Securities Research

Table 4. Global media players' valuation

(% x)

	ROE			P/E			P/B			EV/EBITDA		
	13	14F	15F	13	14F	15F	13	14F	15F	13	14F	15F
AfreecaTV	0.9	15.2	17.0	287.2	49.2	37.3	2.4	6.4	5.2	12.7	27.6	19.0
YY (China)	37.5	40.0	39.4	40.2	29.2	20.3	11.7	9.7	6.4	28.0	22.6	15.0
Netflix (US)	15.8	14.4	15.3	102.2	84.9	63.8	13.4	13.9	11.5	55.9	41.3	31.8
Average	18.1	23.2	23.9	143.2	54.4	40.5	9.1	10.0	7.7	32.2	30.5	21.9

Source: Bloomberg, KDB Daewoo Securities Research

P/E valuation is currently meaningless for AfreecaTV and its peers, as they still need to spend a significant amount of money bolstering their platform dominance. With leading SNS firms proving their high monetizing potential on the back of platform dominance, we believe that valuation based on value per DUV is more appropriate.

There are currently a total of 794,700 warrants outstanding (397,450 warrants each for the third and fourth rounds of issuance), which are held by the company's largest shareholder, Saint International. The third and fourth rounds of warrants can be exercised by May 2016 and November 2017, respectively.

AfreecaTV (067160 KQ/Buy/TP: W49,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Revenue	48	57	67	88
Cost of Sales	0	0	0	0
Gross Profit	48	57	67	88
SG&A Expenses	44	51	56	71
Operating Profit (Adj)	4	6	10	17
Operating Profit	4	6	10	17
Non-Operating Profit	-4	0	0	0
Net Financial Income	-1	0	0	-1
Net Gain from Inv in Associates	-1	0	0	0
Pretax Profit	0	6	10	17
Income Tax	0	1	1	1
Profit from Continuing Operations	0	6	9	15
Profit from Discontinued Operations	0	0	0	0
Net Profit	0	6	9	15
Controlling Interests	0	6	9	15
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	0	6	9	15
Controlling Interests	0	6	9	15
Non-Controlling Interests	0	-1	0	0
EBITDA	8	11	15	22
FCF (Free Cash Flow)	5	8	5	10
EBITDA Margin (%)	16.7	19.3	22.4	25.0
Operating Profit Margin (%)	8.3	10.5	14.9	19.3
Net Profit Margin (%)	0.0	10.5	13.4	17.0

Statement of Financial Condition (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Current Assets	25	35	50	61
Cash and Cash Equivalents	4	21	33	39
AR & Other Receivables	16	14	16	21
Inventories	0	0	0	0
Other Current Assets	5	0	1	1
Non-Current Assets	33	22	25	27
Investments in Associates	8	-3	-3	-5
Property, Plant and Equipment	11	12	15	17
Intangible Assets	8	7	8	9
Total Assets	58	57	74	89
Current Liabilities	16	8	7	7
AP & Other Payables	3	3	3	4
Short-Term Financial Liabilities	6	5	3	2
Other Current Liabilities	7	0	1	1
Non-Current Liabilities	4	3	3	3
Long-Term Financial Liabilities	4	3	3	3
Other Non-Current Liabilities	0	0	0	0
Total Liabilities	21	12	10	10
Controlling Interests	36	45	63	77
Capital Stock	5	5	6	6
Capital Surplus	30	33	43	43
Retained Earnings	3	8	16	30
Non-Controlling Interests	1	1	1	1
Stockholders' Equity	37	46	64	78

Cash Flows (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Cash Flows from Op Activities	6	11	9	14
Net Profit	0	6	9	15
Non-Cash Income and Expense	8	6	5	6
Depreciation	2	2	2	2
Amortization	2	2	2	2
Others	4	2	1	2
Chg in Working Capital	-2	0	-4	-6
Chg in AR & Other Receivables	7	0	-1	-2
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	0	0	0	0
Income Tax Paid	0	-1	-1	-1
Cash Flows from Inv Activities	-5	-6	-8	-8
Chg in PP&E	-2	-3	-4	-4
Chg in Intangible Assets	-1	-3	-3	-3
Chg in Financial Assets	-1	-1	-1	-1
Others	-1	1	0	0
Cash Flows from Fin Activities	-3	0	7	-2
Chg in Financial Liabilities	-	-	-	-
Chg in Equity	5	3	10	0
Dividends Paid	-1	-1	-1	-1
Others	-	-	-	-
Increase (Decrease) in Cash	-2	17	12	6
Beginning Balance	6	4	21	33
Ending Balance	4	21	33	39

Source: Company data, KDB Daewoo Securities Research estimates

Forecasts/Valuations (Summarized)

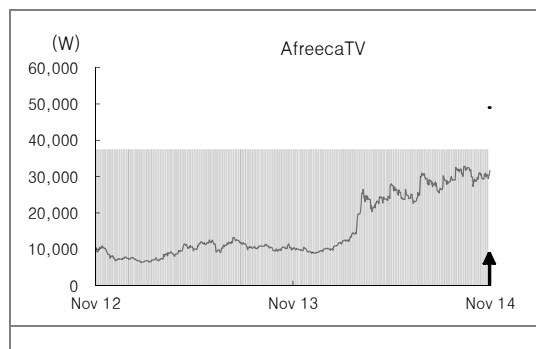
	12/13	12/14F	12/15F	12/16F
P/E (x)	287.2	49.2	37.3	22.3
P/CF (x)	10.9	25.5	23.6	15.9
P/B (x)	2.4	6.4	5.2	4.3
EV/EBITDA (x)	12.7	27.6	19.0	12.5
EPS (W)	32	599	789	1,321
CFPS (W)	839	1,155	1,245	1,849
BPS (W)	3,896	4,607	5,647	6,857
DPS (W)	115	115	115	115
Payout ratio (%)	620.6	19.7	14.2	8.5
Dividend Yield (%)	1.3	0.4	0.4	0.4
Revenue Growth (%)	-2.0	18.8	17.5	31.3
EBITDA Growth (%)	100.0	37.5	36.4	46.7
Operating Profit Growth (%)	300.0	50.0	66.7	70.0
EPS Growth (%)	-85.5	1,771.9	31.7	67.4
Accounts Receivable Turnover (x)	9.9	12.2	13.0	13.7
Inventory Turnover (x)	0.0	0.0	0.0	0.0
Accounts Payable Turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	0.3	10.2	14.0	19.0
ROE (%)	0.9	15.2	17.0	21.9
ROIC (%)	49.3	17.9	27.3	39.5
Liability to Equity Ratio (%)	56.0	25.5	15.8	13.0
Current Ratio (%)	152.8	432.8	746.6	910.8
Net Debt to Equity Ratio (%)	16.6	-28.8	-42.4	-44.2
Interest Coverage Ratio (x)	5.0	16.8	27.5	34.9

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
AfreecaTV(067160)	11/11/2014	Buy	49,000
		No Coverage	



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Disclosures

As of the publication date, Daewoo Securities Co., Ltd and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.

Analyst Certification

The research analysts who prepared this report (the "Analysts") are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws and regulations thereof. Opinions expressed in this publication about the subject securities and companies accurately reflect the personal views of the Analysts primarily responsible for this report. Daewoo Securities Co., Ltd. policy prohibits its Analysts and members of their households from owning securities of any company in the Analyst's area of coverage, and the Analysts do not serve as an officer, director or advisory board member of the subject companies. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report. No part of the compensation of the Analysts was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report but, like all employees of Daewoo Securities, the Analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading and private client division. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or Daewoo Securities Co., Ltd. except as otherwise stated herein.

Disclaimers

This report is published by Daewoo Securities Co., Ltd. ("Daewoo"), a broker-dealer registered in the Republic of Korea and a member of the Korea Exchange. Information and opinions contained herein have been compiled from sources believed to be reliable and in good faith, but such information has not been independently verified and Daewoo makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained herein or of any translation into English from the Korean language. If this report is an English translation of a report prepared in the Korean language, the original Korean language report may have been made available to investors in advance of this report. Daewoo, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising from the use hereof. This report is for general information purposes only and it is not and should not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws and accounting principles and no person whose receipt or use of this report would violate any laws and regulations or subject Daewoo and its affiliates to registration or licensing requirements in any jurisdiction should receive or make any use hereof. Information and opinions contained herein are subject to change without notice and no part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Daewoo. Daewoo, its affiliates and their directors, officers, employees and agents may have long or short positions in any of the subject securities at any time and may make a purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents. Daewoo and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making or other financial services as are permitted under applicable laws and regulations. The price and value of the investments referred to in this report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur.

Distribution

United Kingdom: This report is being distributed by Daewoo Securities (Europe) Ltd. in the United Kingdom only to (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as "Relevant Persons"). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents.

United States: This report is distributed in the U.S. by Daewoo Securities (America) Inc., a member of FINRA/SIPC, and is only intended for major institutional investors as defined in Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Daewoo or its affiliates. Any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Daewoo Securities (America) Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

Hong Kong: This document has been approved for distribution in Hong Kong by Daewoo Securities (Hong Kong) Ltd., which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Daewoo or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Daewoo and its affiliates to any registration or licensing requirement within such jurisdiction.

KDB Daewoo Securities International Network

Daewoo Securities Co. Ltd. (Seoul) Head Office 34-3 Yeouido-dong, Yeongdeungpo-gu Seoul 150-716 Korea Tel: 82-2-768-3026	Daewoo Securities (Hong Kong) Ltd. Two International Finance Centre Suites 2005-2012 8 Finance Street, Central Hong Kong, China Tel: 85-2-2845-6332	Daewoo Securities (America) Inc. 320 Park Avenue 31st Floor New York, NY 10022 United States Tel: 1-212-407-1000
Daewoo Securities (Europe) Ltd. 41st Floor, Tower 42 25 Old Broad St. London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000	Daewoo Securities (Singapore) Pte. Ltd. Six Battery Road #11-01 Singapore, 049909 Tel: 65-6671-9845	Tokyo Branch 7th Floor, Yusen Building 2-3-2 Marunouchi, Chiyoda-ku Tokyo 100-0005 Japan Tel: 81-3- 3211-5511
Beijing Representative Office 2401A, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9299	Shanghai Representative Office Room 38T31, 38F SWFC 100 Century Avenue Pudong New Area, Shanghai 200120 China Tel: 86-21-5013-6392	Ho Chi Minh Representative Office Suite 2103, Saigon Trade Center 37 Ton Duc Thang St, Dist. 1, Ho Chi Minh City, Vietnam Tel: 84-8-3910-6000
Daewoo Investment Advisory (Beijing) Co., Ltd. 2401B, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue, Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699	Daewoo Securities (Mongolia) LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0807	PT. Daewoo Securities Indonesia Equity Tower Building Lt.50 Sudirman Central Business District Jl. Jendral Sudirman Kav. 52-53, Jakarta Selatan Indonesia 12190 Tel: 62-21-515-1140