

**Game**

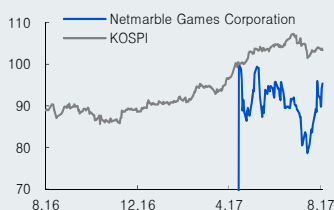
Company Update  
September 1, 2017

(Upgrade)	<b>Buy</b>
Target Price (12M, W)	▲ <b>190,000</b>
Share Price (08/31/17, W)	154,500
Expected Return	23%

OP (17F, Wbn)	591
Consensus OP (17F, Wbn)	644
EPS Growth (17F, %)	81.9
Market EPS Growth (17F, %)	43.8
P/E (17F, x)	33.1
Market P/E (17F, x)	9.9
KOSPI	2,363.19

Market Cap (Wbn)	13,135
Shares Outstanding (mn)	85
Free Float (%)	27.9
Foreign Ownership (%)	26.1
Beta (12M)	0.88
52-Week Low	127,500
52-Week High	162,000

(%)	1M	6M	12M
Absolute	8.0	0.0	0.0
Relative	9.8	0.0	0.0



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[Internet/Game/Advertising]

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# Netmarble Games Corporation

(251270 KS)

## Time to gauge growth potential

### L2R revenue estimate raised in light of positive showing in Asia

Netmarble Games' stock is now trading at the high end of its post-IPO trading range. We believe any further upside will hinge on the company's growth potential. Key variables will be the overseas performance of *Lineage II: Revolution (L2R)* and the release of new titles.

Following the company's 2Q17 earnings report, we took a more conservative view on the potential overseas performance of *L2R* and earnings contribution of new titles. However, we are now raising our revenue estimate for *L2R*, given its recent steady showing in major Asian countries. We forecast the game's 2H17 daily average revenue at W2.8bn, reflecting overseas sales. Our previous estimate of W1.4bn consisted primarily of domestic sales.

On June 14<sup>th</sup>, *L2R* was launched in 11 countries in Southeast Asia. In Taiwan, one of the most important markets in the region, *L2R* remains the top grossing mobile app. More recently, the game was released in Japan (August 23), where, backed by marketing efforts, it has quickly become one of the top five grossing mobile apps.

### New title releases and L2R overseas rollouts expected in 4Q17

**New releases in 2H17:** Netmarble Games has several big mobile titles lined up for 2H17, including *Tera M*, *Seven Knights MMORPG*, and *Blade & Soul Mobile*. Among these titles, *Tera M* is likely to come out first. The game is being developed by Bluehole Squall, with Netmarble Games in charge of publishing. Therefore, the company's revenue share will be less than it would be if it were an in-house developed game. Still, we expect *Tera M* to help fill the void until the rollout of major in-house titles (pre-registrations for the game will begin on September 8<sup>th</sup>). Other new releases planned for 2H17 include *Phantom Gate*, *Knights Chronicle*, and *Teria Saga*.

**L2R overseas rollouts:** For *L2R*, additional overseas launches are planned in North America/Europe and China. North America/Europe has a smaller mobile MMORPG market than Asia, but Netmarble Games is approaching the regions through localization. In China, *L2R* will be published via Tencent. While licensing and release dates in China have yet to be confirmed, we believe the company's localization efforts are almost complete.

### Upgrade to Buy and raise TP to W190,000

We upgrade our rating on Netmarble Games to Buy from Trading Buy. As *L2R*'s overseas trends become more visible and the release of new mobile titles approaches, we believe positive expectations will be reflected in the stock's performance.

We raise our target price to W190,000 from W150,000. Previously, we modeled mostly domestic revenue for *L2R*, but are now reflecting overseas revenue, in light of the recent positive developments in Japan and Taiwan. We also lifted our target multiple applied to the company's operating value to account for the multiple expansion of comparable peers.

FY (12)	12/14	12/15	12/16	12/17F	12/18F	12/19F
Revenue (Wbn)	362	1,073	1,500	2,484	2,505	2,581
OP (Wbn)	89	225	295	591	595	599
OP margin (%)	24.6	21.0	19.7	23.8	23.8	23.2
NP (Wbn)	25	121	174	397	404	405
EPS (W)	457	2,024	2,567	4,669	4,751	4,764
ROE (%)	7.8	14.8	15.3	14.6	9.1	8.4
P/E (x)	-	-	-	33.1	32.5	32.4
P/B (x)	-	-	-	3.1	2.8	2.6
Dividend yield (%)	-	-	-	0.0	0.0	0.0

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

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## Earnings forecasts

**Table 1. Annual and quarterly earnings trends**

(Wbn, %)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17F	4Q17F	2015	2016	2017F
<b>Revenue</b>	<b>326</b>	<b>352</b>	<b>359</b>	<b>463</b>	<b>687</b>	<b>540</b>	<b>577</b>	<b>680</b>	<b>1,073</b>	<b>1,500</b>	<b>2,484</b>
Domestic	168	149	159	268	477	261	255	315	886	744	1,308
Overseas	158	203	200	195	211	279	322	365	187	756	1,177
Mobile games					664	517	554	658	970	1,406	2,393
MMORPG					389	211	236	307	17	150	1,143
RPG					156	173	176	184	544	638	689
Casual					112	124	130	138	350	561	505
Other					7	9	11	29	59	58	58
Online games					14	13	13	12	82	61	52
Other revenue					10	10	10	10	21	33	39
<b>Operating profit</b>	<b>59</b>	<b>53</b>	<b>65</b>	<b>118</b>	<b>200</b>	<b>105</b>	<b>115</b>	<b>171</b>	<b>225</b>	<b>295</b>	<b>591</b>
OP margin	18.2	15.0	18.0	25.5	29.1	19.5	19.9	25.1	21.0	19.6	23.8
<b>Net profit</b>	<b>55</b>	<b>32</b>	<b>41</b>	<b>81</b>	<b>146</b>	<b>78</b>	<b>88</b>	<b>130</b>	<b>169</b>	<b>209</b>	<b>443</b>
Net margin	16.7	9.2	11.5	17.5	21.3	14.5	15.2	19.2	15.7	13.9	17.8
<b>YoY growth</b>											
<b>Revenue</b>					110.7	53.5	60.7	46.9	196.1	39.8	65.6
Domestic					183.2	75.3	60.6	17.7	196.1	-16.0	75.8
Overseas					33.4	37.6	60.8	87.0	195.9	303.6	55.6
Mobile games									252.9	45.0	70.2
MMORPG									39.5	768.8	660.3
RPG									276.8	17.1	8.0
Casual									340.7	60.4	-10.0
Other									51.6	-1.8	0.0
Online games									27.7	-25.3	-15.0
Other revenue									-9.1	54.8	19.0
Operating profit					236.9	99.8	78.0	44.4	153.8	30.8	100.5
Net profit					167.5	140.4	112.7	61.5	299.9	24.1	111.5

Note: All figures are based on consolidated K-IFRS; mobile game revenue by genre is based on estimates, not available for 2016; other revenue includes rental income; *Lineage II: Revolution* is included in MMORPGs; we assumed *Lineage II: Revolution* daily average revenue at W2.5bn for 3Q17 and W3bn for 4Q17; net profit refers to net profit attributable to controlling and non-controlling interests

Source: Company data, Mirae Asset Daewoo Research estimates

**Table 2. Earnings forecast revisions**

(Wbn, W, %)

	Previous		Revised		% chg.		Notes
	17F	18F	17F	18F	17F	18F	
Revenue	2,286	2,214	2,484	2,505	8.7	13.1	- Upwards-revised revenue estimates for MMORPG, including L2R - Reflected operating leverage effects from revenue upgrade
Operating profit	518	477	591	595	14.0	24.7	
Net profit	388	360	443	449	14.1	24.7	
EPS	4,092	3,811	4,669	4,751	14.1	24.7	
OP margin	22.7	21.5	23.8	23.7			
Net margin	17.0	16.3	17.8	17.9			

Notes: All figures are based on consolidated K-IFRS; EPS is based on net profit attributable to controlling interests

Source: Mirae Asset Daewoo Research estimates

## Valuation and stock price

**Table 3. 12-month target price calculation**

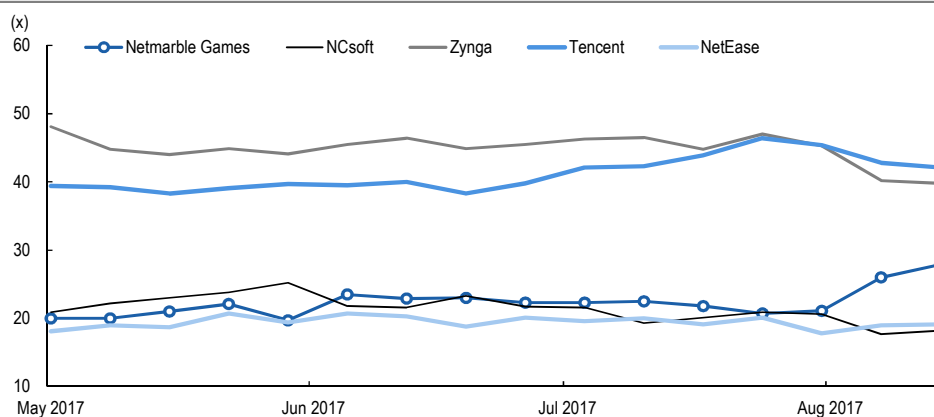
(Wbn, x, W)

	Valuation	Notes
<b>Operating value (1)</b>	<b>12,094</b>	
12MF NP attributable to controlling interests Multiple		
Consolidated	400 30.2 12,094	Based on average 12-month forward P/E of peers
<b>Investment asset value (2)</b>	<b>800</b>	
Available-for-sale financial assets	794	2Q17
Investments in affiliates	6	2Q17
<b>Total asset value (1+2=3)</b>	<b>12,894</b>	
Net debt (4)	-2,447	2Q17
<b>Net asset value (3-4)</b>	<b>15,341</b>	
No. of shares ('000 shares)	85,018	Total shares outstanding as of August 7 <sup>th</sup>
<b>Target price</b>	<b>190,000</b>	Rounded

Note: Peer group includes NetEase, Tencent, and Zynga

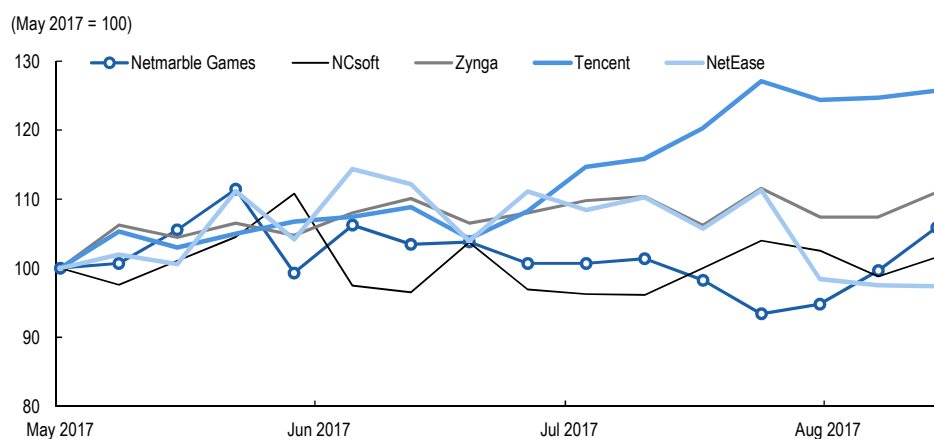
Source: Bloomberg, FSS, Mirae Asset Daewoo Research estimates

**Figure 1. Major game stocks' 12MF P/E trends**



Note: Based on 12M-forward consensus; Source: Thomson Reuters, Mirae Asset Daewoo Research

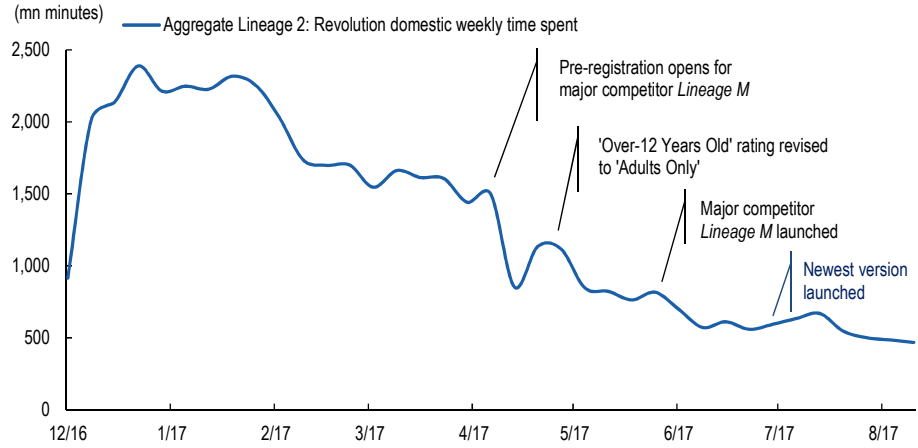
**Figure 2. Major game stocks' recent share performances**



Note: Relative stock prices based on the Netmarble Games' IPO date; Source: Thomson Reuters, Mirae Asset Daewoo Research

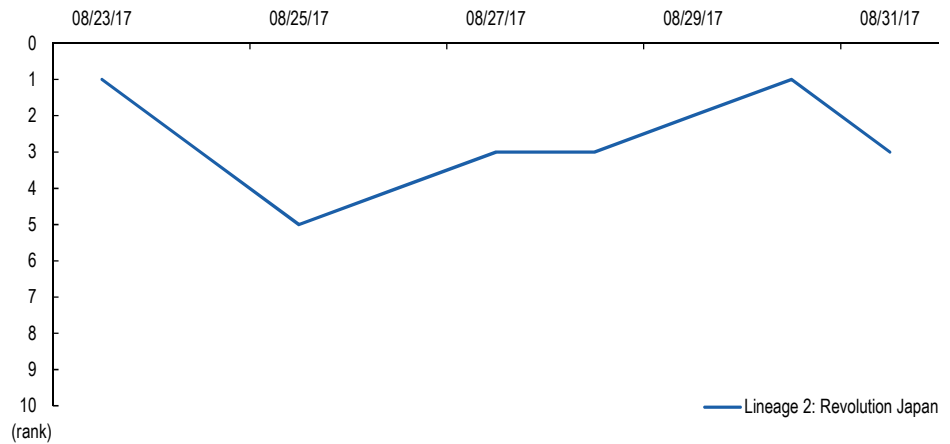
## Lineage II: Revolution trends

**Figure 3. Weekly time spent on *Lineage II: Revolution* on Android**



Note: Launched on December 14th, 2016 in Korea; based on total time spent on Android; Android's market share estimated at 80% in Korea  
 Source: Nielson Koreanclick, Mirae Asset Daewoo Research

**Figure 4. Revenue ranking of *Lineage II: Revolution* on iOS in Japan**



Note: Launched on August 23rd, 2017 in Japan; based on daily revenue on iOS; iOS' market share estimated at 70% in Japan  
 Source: App Annie, Mirae Asset Daewoo Research

**Table 4. Current game revenue ranking of *L2R* in major Southeast Asian countries** (rank)

	Taiwan	Hong Kong	Singapore	Macao	Thailand	Philippines	Malaysia	Laos	Cambodia	Brunei
Android	1	1	1	1	2	3	6	-	35	-
iOS	1	1	4	16	2	2	15	22	37	41

Note: L2R was released on June 14<sup>th</sup> 2017; ranking as of August 30<sup>th</sup>; data for Myanmar unavailable  
 Source: App Annie, Mirae Asset Daewoo Research estimates

## Major new mobile game releases in 2H

**Figure 5. Tera M**(to be launched in 4Q, with reservations starting on September 8th)



Note: Developed by Bluehole Squall  
Source: Company data, Mirae Asset Daewoo Research

**Figure 6. Seven Knights**(MMORPG)



Note: One of the most anticipated game titles in Netmarble's mobile lineup  
Source: Company data, Mirae Asset Daewoo Research

**Figure 7. Blade & Soul Mobile**(MMORPG)



Note: One of the most anticipated game titles in Netmarble's mobile lineup  
Source: Company data, Mirae Asset Daewoo Research

**Figure 8. Phantom Gate**(RPG)



Source: Company data, Mirae Asset Daewoo Research

**Figure 9. Knights Chronicle**(turn-based RPG)



Source: Company data, Mirae Asset Daewoo Research

**Figure 10. Teria Saga**(RPG, to be launched in Japan)



Source: Company data, Mirae Asset Daewoo Research

## Netmarble Games Corporation (251270 KS/Buy/TP: W190,000)

**Comprehensive Income Statement (Summarized)**

(Wbn)	12/16	12/17F	12/18F	12/19F
<b>Revenue</b>	<b>1,500</b>	<b>2,484</b>	<b>2,505</b>	<b>2,581</b>
<b>Cost of Sales</b>	<b>751</b>	<b>1,244</b>	<b>1,255</b>	<b>1,293</b>
<b>Gross Profit</b>	<b>749</b>	<b>1,240</b>	<b>1,250</b>	<b>1,288</b>
<b>SG&amp;A Expenses</b>	<b>454</b>	<b>649</b>	<b>655</b>	<b>689</b>
<b>Operating Profit (Adj)</b>	<b>295</b>	<b>591</b>	<b>595</b>	<b>599</b>
<b>Operating Profit</b>	<b>295</b>	<b>591</b>	<b>595</b>	<b>599</b>
<b>Non-Operating Profit</b>	<b>-19</b>	<b>1</b>	<b>1</b>	<b>1</b>
Net Financial Income	2	0	0	0
Net Gain from Inv in Associates	-3	0	0	0
Pretax Profit	276	592	596	600
Income Tax	66	148	147	150
Profit from Continuing Operations	209	443	449	450
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>209</b>	<b>443</b>	<b>449</b>	<b>450</b>
Controlling Interests	174	397	404	405
Non-Controlling Interests	35	46	45	45
<b>Total Comprehensive Profit</b>	<b>275</b>	<b>443</b>	<b>449</b>	<b>450</b>
Controlling Interests	239	384	389	390
Non-Controlling Interests	36	59	59	60
EBITDA	325	621	626	630
FCF (Free Cash Flow)	107	497	480	482
EBITDA Margin (%)	21.7	25.0	25.0	24.4
Operating Profit Margin (%)	19.7	23.8	23.8	23.2
Net Profit Margin (%)	11.6	16.0	16.1	15.7

**Cash Flows (Summarized)**

(Wbn)	12/16	12/17F	12/18F	12/19F
Cash Flows from Op Activities	197	497	480	482
Net Profit	209	443	449	450
Non-Cash Income and Expense	130	174	172	175
Depreciation	8	8	8	8
Amortization	22	22	22	22
Others	100	144	142	145
Chg in Working Capital	-82	24	1	2
Chg in AR & Other Receivables	-103	-160	-3	-12
Chg in Inventories	-2	-1	0	0
Chg in AP & Other Payables	0	71	2	6
<b>Income Tax Paid</b>	<b>-67</b>	<b>-148</b>	<b>-147</b>	<b>-150</b>
Cash Flows from Inv Activities	-207	-449	-10	-35
Chg in PP&E	-89	0	0	0
Chg in Intangible Assets	-7	0	0	0
Chg in Financial Assets	-134	-449	-10	-35
<b>Others</b>	<b>23</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cash Flows from Fin Activities	63	2,585	0	0
Chg in Financial Liabilities	-	-	-	-
Chg in Equity	276	2,605	0	0
Dividends Paid	-4	0	0	0
<b>Others</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Increase (Decrease) in Cash	57	2,629	470	447
Beginning Balance	216	273	2,902	3,372
<b>Ending Balance</b>	<b>273</b>	<b>2,902</b>	<b>3,372</b>	<b>3,820</b>

Source: Company data, Mirae Asset Daewoo Research estimates

**Statement of Financial Condition (Summarized)**

(Wbn)	12/16	12/17F	12/18F	12/19F
<b>Current Assets</b>	<b>721</b>	<b>3,645</b>	<b>4,122</b>	<b>4,592</b>
Cash and Cash Equivalents	273	2,902	3,372	3,820
AR & Other Receivables	247	409	412	425
Inventories	2	3	3	3
Other Current Assets	199	331	335	344
<b>Non-Current Assets</b>	<b>1,236</b>	<b>1,562</b>	<b>1,539</b>	<b>1,536</b>
Investments in Associates	6	11	11	11
Property, Plant and Equipment	123	115	107	98
Intangible Assets	540	518	495	473
<b>Total Assets</b>	<b>1,957</b>	<b>5,207</b>	<b>5,661</b>	<b>6,128</b>
<b>Current Liabilities</b>	<b>421</b>	<b>626</b>	<b>630</b>	<b>646</b>
AP & Other Payables	152	251	253	261
Short-Term Financial Liabilities	109	109	0	0
Other Current Liabilities	160	266	377	385
<b>Non-Current Liabilities</b>	<b>226</b>	<b>223</b>	<b>223</b>	<b>224</b>
Long-Term Financial Liabilities	200	180	0	0
Other Non-Current Liabilities	26	43	223	224
<b>Total Liabilities</b>	<b>647</b>	<b>849</b>	<b>853</b>	<b>870</b>
<b>Controlling Interests</b>	<b>1,216</b>	<b>4,219</b>	<b>4,623</b>	<b>5,028</b>
Capital Stock	7	7	7	7
Capital Surplus	1,200	3,806	3,806	3,806
Retained Earnings	294	691	1,095	1,500
<b>Non-Controlling Interests</b>	<b>94</b>	<b>140</b>	<b>185</b>	<b>230</b>
<b>Stockholders' Equity</b>	<b>1,310</b>	<b>4,359</b>	<b>4,808</b>	<b>5,258</b>

**Forecasts/Valuations (Summarized)**

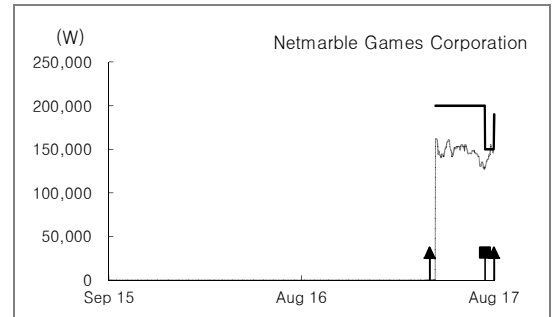
	12/16	12/17F	12/18F	12/19F
P/E (x)	-	33.1	32.5	32.4
P/CF (x)	-	21.3	21.1	21.0
P/B (x)	-	3.1	2.8	2.6
EV/EBITDA (x)	-	16.8	16.0	15.2
EPS (W)	2,567	4,669	4,751	4,764
CFPS (W)	5,004	7,254	7,307	7,354
BPS (W)	17,949	49,623	54,374	59,138
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	-	0.0	0.0	0.0
Revenue Growth (%)	39.8	65.6	0.8	3.0
EBITDA Growth (%)	31.0	91.1	0.8	0.6
Operating Profit Growth (%)	31.1	100.3	0.7	0.7
EPS Growth (%)	26.8	81.9	1.8	0.3
Accounts Receivable Turnover (x)	8.1	7.7	6.2	6.2
Inventory Turnover (x)	1,374.8	992.0	798.9	807.4
Accounts Payable Turnover (x)	8.5	8.6	6.9	7.0
ROA (%)	12.3	12.4	8.3	7.6
ROE (%)	15.3	14.6	9.1	8.4
ROIC (%)	38.9	66.7	71.2	75.1
Liability to Equity Ratio (%)	49.4	19.5	17.8	16.6
Current Ratio (%)	171.3	582.3	653.9	710.6
Net Debt to Equity Ratio (%)	-8.4	-65.5	-69.2	-72.0
Interest Coverage Ratio (x)	149.2	0.0	0.0	0.0

## APPENDIX 1

### Important Disclosures & Disclaimers

#### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Netmarble Games Corporation (251270)	08/31/2017	Buy	190,000
	08/14/2017	Trading Buy	150,000
	05/01/2017	Buy	



#### 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 Mirae Asset Daewoo Co., Ltd., 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.

#### Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	69.67%	17.06%	13.27%	0.00%
Investment Banking Services	70.73%	17.07%	12.20%	0.00%

\* Based on recommendations in the last 12-months (as of March 31, 2016)

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