

**Internet**

Results Comment  
January 26, 2018

(Maintain) **Buy**

Target Price (12M, W) **1,200,000**

Share Price (01/25/18, W) **913,000**

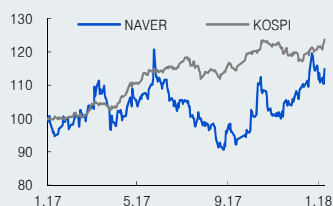
Expected Return **31%**

OP (17F, Wbn) 1,179  
Consensus OP (17F, Wbn) 1,208

EPS Growth (17F, %) 3.1  
Market EPS Growth (17F, %) 45.7  
P/E (17F, x) 37.1  
Market P/E (17F, x) 10.4  
KOSPI 2,562.23

Market Cap (Wbn) 30,095  
Shares Outstanding (mn) 33  
Free Float (%) 78.3  
Foreign Ownership (%) 59.5  
Beta (12M) 0.66  
52-Week Low 720,000  
52-Week High 960,000

(%)	1M	6M	12M
Absolute	5.9	9.1	19.7
Relative	0.9	3.9	-3.5



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[Internet/Game/Advertising]

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# NAVER

(035420 KS)

## Commerce and content deserve attention

### 4Q17 review: Above-consensus revenue, below-consensus OP, resuming share repurchasing

NAVER's consolidated revenue beat the consensus, but operating profit missed.

**Positives:** The business platform segment, which includes the search ad business (NAVER's traditional area of strength), was stronger than expected, with revenue growing 17% YoY on the successful stabilization of the shopping search ad service (launched in November 2016), the introduction of image search, and an upgraded product recommendation feature. IT platform revenue surged 70% YoY, supported by the growing use of NAVER Pay.

**Negatives:** Cost increases had a notable impact. For the parent company, expenses related to agents and partners increased more than expected. We believe news content-related fees increased starting in 4Q17, with the introduction of a news channel feature on the NAVER mobile app main page. The sharp QoQ increase in operating expenses in the LINE/other platform segment weighed on consolidated operating profit.

**More favorable shareholder policy:** NAVER announced a 2017 dividend per share of W1,446—higher than our previous estimate of W1,200—and a share buyback plan worth W119bn, resuming share repurchasing after a one-year hiatus.

### Internet platform business strategy focused on commerce and content

In their effort to secure user traffic and develop sustainable growth models, global internet companies have adopted a strategic focus on commerce and content.

**Commerce:** Advertising is the key revenue source for the internet platform business. However, in the domestic ad market, close to 40% of ad expenditures in 2017 went toward online advertising, and growth is slowing. In contrast, online still accounts for less than 20% of the domestic retail market, implying strong growth potential. NAVER is enhancing its commerce business; the company plans to rebrand Store Farm (platform for small businesses) as Smart Store and introduce additional features, and recently improved features (i.e., search nearby, booking) to the already-upgraded NAVER Map mobile app. In addition, voice-activated commerce is being introduced to AI speakers, and LINE is also expanding its shopping and fintech businesses through LINE Pay.

**Content:** Internet firms traditionally generate revenue not from users directly, but by charging advertisers at rates based on their user bases. Now, though, content is coming into greater focus as a way to charge users directly through subscription fees. Key examples include Netflix (video on-demand streaming service; NFLX NASDAQ, CP: US\$269.70) and LOEN Entertainment (online music service provider; 016170 KQ, CP: W113,100). NAVER has decided to make equity investments in global content platforms, such as NAVER Webtoon and WAV Media.

### Maintain Buy and TP of W1,200,000

We remain optimistic on NAVER, given notable revenue growth at its core business platform segment. We expect NAVER to gain further growth momentum by enhancing its commerce and content services. We maintain our Buy call and target price of W1,200,000.

FY (12)	12/14	12/15	12/16	12/17F	12/18F	12/19F
Revenue (Wbn)	2,758	3,254	4,023	4,679	5,461	6,297
OP (Wbn)	758	830	1,102	1,179	1,431	1,747
OP margin (%)	27.5	25.5	27.4	25.2	26.2	27.7
NP (Wbn)	454	519	749	773	996	1,212
EPS (W)	13,787	15,737	22,732	23,436	30,204	36,768
ROE (%)	27.8	26.5	26.2	18.5	19.0	19.3
P/E (x)	51.6	41.8	34.1	37.1	30.2	24.8
P/B (x)	8.7	6.8	5.2	4.8	4.4	3.7
Dividend yield (%)	0.1	0.2	0.1	0.2	0.2	0.2

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. 4Q17 review**

(Wbn, %)

	4Q16	3Q17	4Q17P			Growth	
			Preliminary	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	1,085	1,201	1,266	1,279	1,249	16.7	5.4
Operating profit	290	312	291	333	320	0.3	-6.8
OP margin (%)	26.7	26.0	23.0	26.1	25.7		
Net profit	183	216	172	229	231	-6.2	-20.3

Note: All figures are based on consolidated K-IFRS; net profit is attributable to controlling and non-controlling interests

Source: Company data, FnGuide, Mirae Asset Daewoo Research estimates

**Table 2. Quarterly and annual earnings and forecasts**

(Wbn, %)

	1Q17	2Q17	3Q17	4Q17P	1Q18F	2Q18F	3Q18F	4Q18F	2016	2017P	2018F
<b>Revenue</b>	<b>1,082</b>	<b>1,130</b>	<b>1,201</b>	<b>1,266</b>	<b>1,250</b>	<b>1,326</b>	<b>1,392</b>	<b>1,494</b>	<b>4,023</b>	<b>4,679</b>	<b>5,461</b>
Ads	100	118	114	130	109	131	126	142	400	461	507
Business platform	510	521	549	574	581	604	631	660	1,866	2,153	2,476
IT platform	43	49	59	66	74	84	96	106	121	218	359
Content services	24	24	27	27	27	27	28	29	103	102	112
LINE and other platforms	406	418	453	469	459	480	511	556	1,534	1,745	2,006
<b>Operating profit</b>	<b>291</b>	<b>285</b>	<b>312</b>	<b>291</b>	<b>315</b>	<b>338</b>	<b>387</b>	<b>390</b>	<b>1,102</b>	<b>1,179</b>	<b>1,431</b>
OP margin	26.9	25.2	26.0	23.0	25.2	25.5	27.8	26.1	27.4	25.2	26.2
<b>Net profit</b>	<b>211</b>	<b>171</b>	<b>216</b>	<b>172</b>	<b>222</b>	<b>240</b>	<b>265</b>	<b>266</b>	<b>759</b>	<b>770</b>	<b>993</b>
Net margin	19.5	15.2	18.0	13.6	17.8	18.1	19.1	17.8	18.9	16.5	18.2
<b>YoY</b>											
Revenue	15.5	14.4	18.5	16.7	15.5	17.4	15.9	18.0	23.6	16.3	16.7
Ads	22.3	21.8	16.1	5.4	9.0	11.0	10.0	9.9		15.4	10.0
Business platform	13.3	12.6	18.7	16.9	14.0	16.0	15.0	15.0		15.4	15.0
IT platform	92.0	75.8	90.3	70.3	70.0	70.0	63.0	59.8		80.7	65.0
Content services	-23.7	-10.9	18.7	20.0	16.0	11.0	5.0	8.8		-1.6	10.0
LINE and other platforms	15.1	12.0	13.4	14.5	13.0	15.0	13.0	18.7		13.8	15.0
Operating profit	13.2	4.6	10.6	0.3	8.4	18.5	24.0	34.1	32.7	7.0	21.3
Net profit	27.8	-19.6	9.0	-6.2	5.2	39.8	22.9	54.8	46.8	1.5	28.9

Notes: All figures are based on consolidated K-IFRS; revenue was reclassified into five segments: ads, business platform, IT platform, content services, and LINE and other platforms; new classification only applies from 2017; ads include general and shopping display ads and video ads; business platform includes general and shopping search ads; IT platform includes NAVER Pay, IT services, and cloud services; content services include music, webtoon, and V Live; LINE and other platforms include LINE, Camp Mobile, and Snow; net profit is attributable to controlling and non-controlling interests

Source: Company data, Mirae Asset Daewoo Research estimates

**Table 3. Earnings forecast revisions**

(Wbn, W, %)

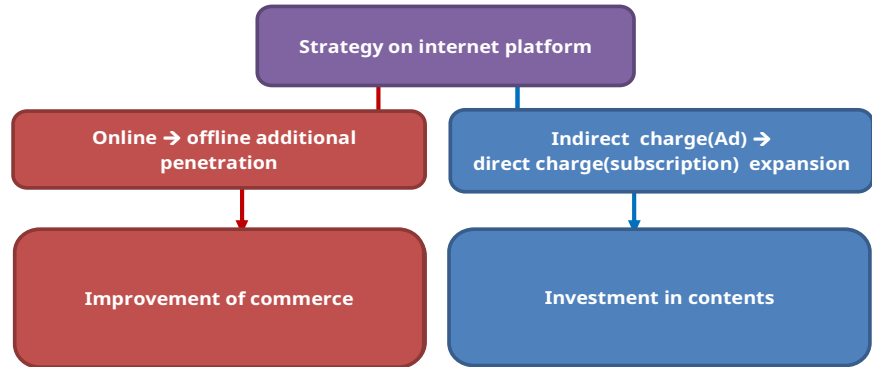
	Previous		Revised		% chg.		Notes
	18F	19F	18F	19F	18F	19F	
Revenue	5,455	6,270	5,461	6,297	0.1	0.4	- Revised business platform and IT platform upwards; revised ad estimates downwards
Operating profit	1,548	1,833	1,431	1,747	-7.6	-4.7	- Revised agency and partner expense estimates upwards; revised LINE and other platforms expense estimates upwards
Net profit	1,097	1,292	993	1,208	-9.5	-6.5	- Revised corporate tax rate estimates upwards
EPS (W)	33,072	38,950	30,204	36,768	-8.7	-5.6	
OP margin	28.4	29.2	26.2	27.7			
Net margin	20.1	20.6	18.2	19.2			

Notes: Net profit is attributable to controlling and non-controlling interests; EPS is attributable to controlling interests

Source: Mirae Asset Daewoo Research estimates

# NAVER's business strategy

Figure 1. Internet platform business strategy focused on commerce and content



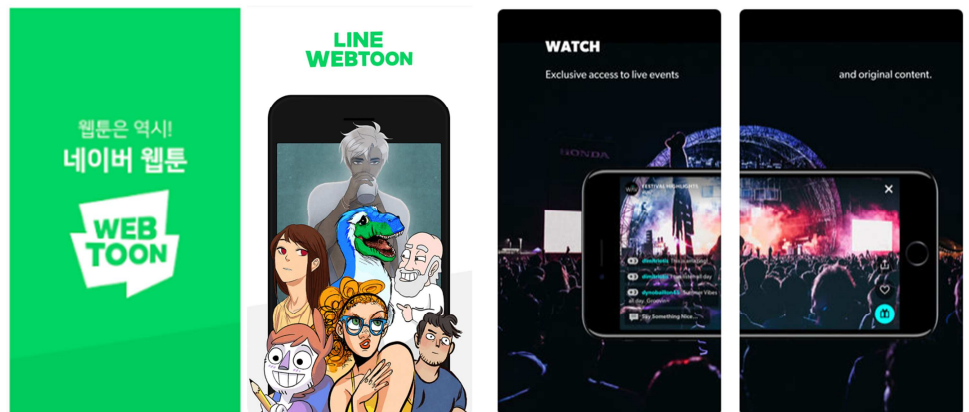
Source: Mirae Asset Daewoo Research

Figure 2. NAVER is enhancing its commerce business: Rebranding Store Farm as Smart Store and introducing additional features to NAVER Map mobile app.



Notes: On left, search function on Smart Store (platform for small business); on right, search nearby on NAVER Map mobile app  
 Source: Company data, Mirae Asset Daewoo Research

Figure 3. NAVER has decided to make equity investments in global content platforms (NAVER Webtoon and WAV Media)



Notes: On left, NAVER and LINE Webtoon (NAVER has invested W60bn in these platforms); on right, WAV Media in North America (NAVER has invested W53.4bn)

Source: Company Data, Mirae Asset Daewoo Research

## Valuation

**Table 4. 12-month target price calculation**

(Wbn, x, W)

			Valuation	Notes
<b>Operating value (1)</b>			<b>35,605</b>	
	12MF NP attributable to controlling interests	Multiple		
Consolidated	996	35.8	35,605	2018F P/E (Alphabet, Baidu, Amazon) average
<b>Investment asset value (2)</b>			<b>1,354</b>	
Available-for-sale financial assets			1,052	As of end-3Q17; fair value; including unlisted shares
Investments in associates			303	As of end-3Q17; book value
Total asset value (1+2=3)			36,960	
Net debt (4)			-2,946	As of end-3Q17; consolidated
<b>Net asset value (3-4)</b>			<b>39,906</b>	
Share count ('000 shares)			32,963	Total shares outstanding, including treasury shares
<b>Target price</b>			<b>1,200,000</b>	

Note: Based on end-3Q17 figures, as audited report as of end-4Q17 has yet to be submitted

Source: Bloomberg, Mirae Asset Daewoo Research estimates

**Table 5. Earnings and valuation comparison of major global internet companies**

(Wbn, x, %)

Company	Market cap	Revenue		Operating profit		Net profit		P/E		P/B		ROE	
		17F	18F	17F	18F	17F	18F	17F	18F	17F	18F	17F	18F
NAVER	30,095	4,679	5,461	1,179	1,431	770	993	37.1	30.2	4.8	4.4	18.5	19.0
Kakao	9,168	1,961	2,244	177	236	140	157	75.4	66.2	2.3	2.2	3.3	3.4
Interpark	323	485	528	28	31	16	18	20.8	18.8	1.8	1.7	8.7	9.4
Alphabet	860,562	95,673	113,260	40,135	47,876	32,366	39,046	27.3	22.8	5.0	4.2	15.6	16.5
Amazon	693,964	190,711	245,959	3,751	7,083	6,060	8,619	116.0	84.0	24.9	18.6	9.8	14.4
Facebook	577,572	42,957	57,415	20,696	24,672	20,996	24,838	26.6	23.5	7.1	5.9	24.3	23.4
Netflix	119,955	16,776	20,579	1,693	2,728	1,527	2,485	84.5	52.3	23.0	16.3	26.2	28.3
eBay	44,127	10,292	11,039	3,026	3,235	2,331	2,481	19.9	18.0	4.0	3.5	19.4	18.4
Twitter	18,448	852	1,371	-886	-1,002	-809	-797	-	-	6.3	9.1	-33.1	-33.1
Snap	17,628	2,578	2,760	484	491	300	344	54.6	47.1	3.3	3.2	6.1	6.2
Shopify	12,697	704	1,019	-2	25	6	27	2,346.5	417.0	11.9	12.1	0.8	2.6
MercadoLibre	16,658	1,467	2,108	154	164	128	137	138.3	121.6	36.3	30.0	26.2	24.2
Yahoo Japan	29,735	8,779	9,445	1,883	2,107	1,293	1,428	23.0	20.8	3.0	2.7	13.5	13.6
Rakuten	13,639	9,014	10,014	1,444	1,293	835	747	15.5	16.8	1.9	1.8	12.8	10.7
LINE	11,427	1,683	1,903	279	285	139	155	72.4	63.4	6.0	5.5	9.2	9.6
Tencent	593,304	40,194	56,113	13,989	17,166	10,960	14,307	54.0	41.4	15.0	11.1	30.9	29.5
Alibaba	531,265	40,776	55,775	12,255	17,294	14,556	19,121	36.3	28.1	8.5	6.7	19.9	22.0
Baidu	94,653	14,201	17,466	2,561	3,240	3,288	3,521	28.9	27.0	5.0	4.2	17.1	15.6
JD.com	70,825	60,604	78,873	55	695	828	1,435	86.4	54.0	9.7	8.5	1.7	9.4
Weibo	29,824	1,213	1,802	428	709	408	662	75.6	47.0	24.6	16.2	36.9	40.3
Momo	6,066	1,404	1,824	375	482	378	478	17.3	13.7	6.0	4.2	39.8	34.4
Average								48.4	37.5	7.0	6.0	17.0	17.5

Note: Data for domestic companies are based on Mirae Asset Daewoo estimates; data for overseas companies are based on consensus; excluded outliers when calculating average

Source: Bloomberg, Mirae Asset Daewoo Research estimates

## NAVER (035420 KS/Buy/TP: W1,200,000)

**Comprehensive Income Statement (Summarized)**

(Wbn)	12/16	12/17F	12/18F	12/19F
<b>Revenue</b>	<b>4,023</b>	<b>4,679</b>	<b>5,461</b>	<b>6,297</b>
<b>Cost of Sales</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Gross Profit</b>	<b>4,023</b>	<b>4,679</b>	<b>5,461</b>	<b>6,297</b>
<b>SG&amp;A Expenses</b>	<b>2,921</b>	<b>3,499</b>	<b>4,030</b>	<b>4,550</b>
<b>Operating Profit (Adj)</b>	<b>1,102</b>	<b>1,179</b>	<b>1,431</b>	<b>1,747</b>
<b>Operating Profit</b>	<b>1,102</b>	<b>1,179</b>	<b>1,431</b>	<b>1,747</b>
<b>Non-Operating Profit</b>	<b>30</b>	<b>17</b>	<b>29</b>	<b>30</b>
Net Financial Income	30	34	44	55
Net Gain from Inv in Associates	-9	-1	0	0
Pretax Profit	1,132	1,196	1,460	1,777
Income Tax	361	423	467	569
Profit from Continuing Operations	771	773	993	1,208
Profit from Discontinued Operations	-12	-3	0	0
<b>Net Profit</b>	<b>759</b>	<b>770</b>	<b>993</b>	<b>1,208</b>
Controlling Interests	749	773	996	1,212
Non-Controlling Interests	10	-2	-3	-4
<b>Total Comprehensive Profit</b>	<b>724</b>	<b>725</b>	<b>993</b>	<b>1,208</b>
Controlling Interests	733	726	994	1,209
Non-Controlling Interests	-9	-1	-1	-1
EBITDA	1,265	1,369	1,580	1,874
FCF (Free Cash Flow)	1,010	749	1,369	1,559
EBITDA Margin (%)	31.4	29.3	28.9	29.8
Operating Profit Margin (%)	27.4	25.2	26.2	27.7
Net Profit Margin (%)	18.6	16.5	18.2	19.2

**Cash Flows (Summarized)**

(Wbn)	12/16	12/17F	12/18F	12/19F
<b>Cash Flows from Op Activities</b>	<b>1,164</b>	<b>1,055</b>	<b>1,369</b>	<b>1,559</b>
Net Profit	759	770	993	1,208
Non-Cash Income and Expense	624	583	565	633
Depreciation	146	174	149	127
Amortization	17	15	0	0
Others	461	394	416	506
Chg in Working Capital	88	96	228	224
Chg in AR & Other Receivables	-56	-721	-93	-99
Chg in Inventories	0	18	-2	-2
Chg in AP & Other Payables	11	32	0	0
Income Tax Paid	-339	-436	-467	-569
<b>Cash Flows from Inv Activities</b>	<b>-942</b>	<b>-878</b>	<b>-445</b>	<b>-476</b>
Chg in PP&E	-97	-303	0	0
Chg in Intangible Assets	-21	-20	0	0
Chg in Financial Assets	-662	-381	-445	-476
Others	-162	-174	0	0
<b>Cash Flows from Fin Activities</b>	<b>698</b>	<b>483</b>	<b>-42</b>	<b>-49</b>
Chg in Financial Liabilities	-290	-1	0	0
Chg in Equity	1,084	235	0	0
Dividends Paid	-32	-33	-42	-49
Others	-64	282	0	0
<b>Increase (Decrease) in Cash</b>	<b>913</b>	<b>726</b>	<b>846</b>	<b>996</b>
Beginning Balance	813	1,726	2,452	3,297
Ending Balance	1,726	2,452	3,297	4,293

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>4,200</b>	<b>5,338</b>	<b>6,645</b>	<b>8,154</b>
Cash and Cash Equivalents	1,726	2,452	3,298	4,293
AR & Other Receivables	694	810	924	1,065
Inventories	10	12	14	16
Other Current Assets	1,770	2,064	2,409	2,780
<b>Non-Current Assets</b>	<b>2,171</b>	<b>2,529</b>	<b>2,536</b>	<b>2,575</b>
Investments in Associates	182	213	248	286
Property, Plant and Equipment	863	1,018	870	743
Intangible Assets	112	239	239	239
<b>Total Assets</b>	<b>6,371</b>	<b>7,867</b>	<b>9,181</b>	<b>10,729</b>
<b>Current Liabilities</b>	<b>1,804</b>	<b>2,065</b>	<b>2,373</b>	<b>2,701</b>
AP & Other Payables	425	496	579	667
Short-Term Financial Liabilities	227	225	225	225
Other Current Liabilities	1,152	1,344	1,569	1,809
<b>Non-Current Liabilities</b>	<b>437</b>	<b>486</b>	<b>542</b>	<b>602</b>
Long-Term Financial Liabilities	150	151	151	151
Other Non-Current Liabilities	287	335	391	451
<b>Total Liabilities</b>	<b>2,241</b>	<b>2,551</b>	<b>2,915</b>	<b>3,304</b>
<b>Controlling Interests</b>	<b>3,595</b>	<b>4,753</b>	<b>5,706</b>	<b>6,868</b>
Capital Stock	16	16	16	16
Capital Surplus	1,217	1,452	1,452	1,452
Retained Earnings	3,810	4,550	5,503	6,666
<b>Non-Controlling Interests</b>	<b>535</b>	<b>563</b>	<b>560</b>	<b>557</b>
<b>Stockholders' Equity</b>	<b>4,130</b>	<b>5,316</b>	<b>6,266</b>	<b>7,425</b>

**Forecasts/Valuations (Summarized)**

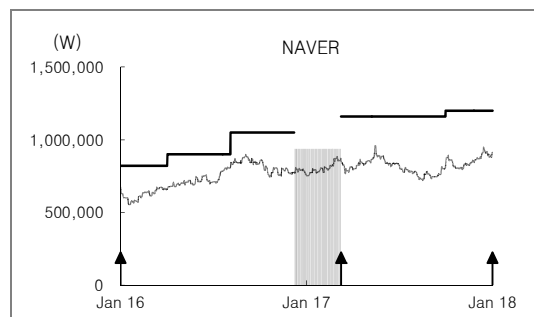
	12/16	12/17F	12/18F	12/19F
P/E (x)	34.1	37.1	30.2	24.8
P/CF (x)	18.5	21.2	19.3	16.3
P/B (x)	5.2	4.8	4.4	3.7
EV/EBITDA (x)	18.2	18.4	16.1	12.9
EPS (W)	22,732	23,436	30,204	36,768
CFPS (W)	41,966	41,043	47,250	55,874
BPS (W)	150,192	179,739	208,654	243,925
DPS (W)	1,131	1,446	1,680	2,050
Payout ratio (%)	4.3	5.5	5.0	5.0
Dividend Yield (%)	0.1	0.2	0.2	0.2
Revenue Growth (%)	23.6	16.3	16.7	15.3
EBITDA Growth (%)	28.3	8.2	15.4	18.6
Operating Profit Growth (%)	32.8	7.0	21.4	22.1
EPS Growth (%)	44.4	3.1	28.9	21.7
Accounts Receivable Turnover (x)	9.1	9.1	9.1	9.0
Inventory Turnover (x)	311.2	417.4	417.5	415.1
Accounts Payable Turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	14.1	10.8	11.6	12.1
ROE (%)	26.2	18.5	19.0	19.3
ROIC (%)	169.2	177.0	285.5	2,599.8
Liability to Equity Ratio (%)	54.3	48.0	46.5	44.5
Current Ratio (%)	232.8	258.5	280.1	301.8
Net Debt to Equity Ratio (%)	-73.1	-75.7	-82.9	-88.0
Interest Coverage Ratio (x)	181.5	3,368.2	4,091.6	4,995.3

## APPENDIX 1

### Important Disclosures & Disclaimers

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

Company (Code)	Date	Rating	Target Price
NAVER (035420)	10/26/2017	Buy	1,200,000
	04/04/2017	Buy	1,160,000
	01/02/2017	No Coverage	
	08/30/2016	Buy	1,050,000
	04/28/2016	Buy	900,000
	07/30/2015	Buy	820,000



#### 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	75.50%	16.00%	8.50%	0.00%
Investment Banking Services	62.50%	33.33%	4.17%	0.00%

\* Based on recommendations in the last 12-months (as of December 31, 2017)

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