MIRAE ASSET
Building on principles

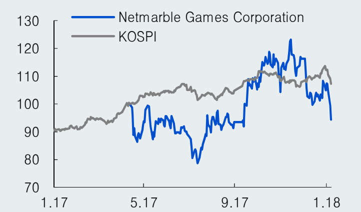
Game

Results Comment
February 7, 2018

(Downgrade)	**Trading Buy**
Target Price (12M, W)	▼ 180,000
Share Price (02/06/18, W)	153,000
Expected Return	18%

OP (17F, Wbn)	510
Consensus OP (17F, Wbn)	531
EPS Growth (17F, %)	42.5
Market EPS Growth (17F, %)	45.3
P/E (17F, x)	51.5
Market P/E (17F, x)	10.2
KOSPI	2,453.31
Market Cap (Wbn)	13,009
Shares Outstanding (mn)	85
Free Float (%)	28.2
Foreign Ownership (%)	27.2
Beta (12M)	1.23
52-Week Low	127,500
52-Week High	199,500

(%)	1M	6M	12M
Absolute	-8.1	17.2	0.0
Relative	-6.5	14.5	0.0



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[Internet/Game/Advertising]

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Netmarble Games Corporation
(251270 KS)

MMORPG-led global and platform expansion

4Q17 review: Results miss consensus on increased expenses

Netmarble Games reported 4Q17 results that missed the consensus overall.

Revenue: 4Q17 revenue grew 33% YoY and 6% QoQ. Growth naturally slowed, as we moved further away from the initial release of *Lineage II: Revolution* (*L2R*). Domestic revenue and MMORPG revenue picked up QoQ, helped by the November launch of *Tera M*. Overseas accounted for 68% of overall revenue. In the US, the debut of *L2R* in November boosted revenue QoQ. In Southeast Asia, however, revenue contracted QoQ, as the initial effects of *L2R* (launched in June) tapered off.

Expenses: Overall operating expenses jumped 52% YoY and 11% QoQ, dragging down OP margin to 15%, the lowest level in 2017. Marketing spend as a percentage of revenue was 19%, higher than that of any other quarter in the year. We believe the company spent heavily on advertising in Japan and North America to promote *L2R* and build an MMORPG presence. Commissions also rose, amid a higher mix of published games and IP-licensed games, while non-operating expenses increased, largely as a result of equity-method losses.

2018: Tapping highly-anticipated MMORPGs as tentpoles, while expanding overseas lineup

Netmarble Games has more new titles coming out this year, compared with last year.

Tentpoles: We believe the highly-anticipated mobile MMORPGs, *Blade & Soul Revolution* (1H18) and *Seven Knights 2* (2H18), will serve as the company's tentpoles in 2018.

Overseas-dedicated lineup: Netmarble Games has prepared a number of new titles based on unique IPs that take into account the cultural contexts of different markets, including Western countries, Japan, and China. While 2017 was about building an overseas footprint through *L2R*, we believe that, in 2018, the company will focus on adding new titles to its established lineup. Upcoming new titles targeted at overseas markets include: 1) *Harry Porter Hogwarts Mystery*, *First Born*, and *Phantom Gate* for Western markets; 2) *Teria Saga*, *Seven Deadly Sins*, *The King of Fighters All Star*, *Extreme MaguMagu*, and *Yo-kai Watch Medal Wars* for Japan; and 3) *Stone Age MMORPG* for China. *L2R* and *Blade & Soul Revolution*, which will be published in China by Tencent, are currently awaiting local regulatory approval.

Platform expansion: The company intends to develop a console game based on its *Seven Knights* IP for Nintendo Switch, and is also considering developing games for the online game platform, Steam.

Downgrade to Trading Buy and lower TP to W180,000

While expectations on new titles and overseas revenue remain intact, we lowered our earnings estimates to reflect related expense pressures (marketing spend, etc.). As such, we downgrade our rating on the stock to Trading Buy (from Buy) and lower our target price to W180,000 (from W230,000). The stock is trading at a relatively high multiple, compared with other gaming companies, while earnings momentum is likely to be concentrated in 2H18, rather than in 1H18.

FY (12)	12/14	12/15	12/16	12/17F	12/18F	12/19F
Revenue (Wbn)	362	1,073	1,500	2,425	2,597	2,632
OP (Wbn)	89	225	295	510	514	530
OP margin (%)	24.6	21.0	19.7	21.0	19.8	20.1
NP (Wbn)	25	121	174	311	314	325
EPS (W)	457	2,024	2,567	3,659	3,693	3,819
ROE (%)	7.8	14.8	15.3	11.6	7.3	7.1
P/E (x)	-	-	-	51.5	41.4	40.1
P/B (x)	-	-	-	3.9	2.9	2.8
Dividend yield (%)	-	-	-	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

Earnings review and forecasts

Table 1. 4Q17 review (Wbn, %)

	4Q16	3Q17	4Q17P			Growth	
			Preliminary	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	463	582	616	625	637	33.0	5.8
Operating profit	118	112	93	127	127	-21.6	-17.2
OP margin	25.5	19.2	15.0	20.4	19.9		
Net profit	81	84	54	92	99	-32.9	-35.6

Notes: All figures are based on consolidated K-IFRS
Source: Company data, FnGuide, Mirae Asset Daewoo Research estimates

Table 2. Annual and quarterly earnings trends (Wbn, %)

	1Q17	2Q17	3Q17	4Q17P	1Q18F	2Q18F	3Q18F	4Q18F	2016	2017P	2018F
Revenue	**687**	**540**	**582**	**616**	**615**	**613**	**710**	**658**	**1,500**	**2,425**	**2,597**
Domestic	477	261	171	197	246	214	320	258	744	1,106	1,039
Overseas	211	279	410	419	369	398	391	400	756	1,319	1,558
Mobile games	664	517	555	589	589	586	684	631	1,406	2,326	2,490
MMORPG	389	211	268	277	291	276	398	343	150	1,144	1,308
RPG	156	173	145	166	161	177	159	175	638	640	672
Casual	112	124	134	129	129	124	118	103	561	499	474
Other	8	9	9	17	8	9	9	11	58	42	36
Online games	14	13	10	10	10	10	10	10	61	46	39
Other	10	10	17	17	17	17	17	17	33	53	67
Operating profit	**200**	**105**	**112**	**93**	**121**	**105**	**159**	**128**	**295**	**510**	**514**
OP margin	29.1	19.5	19.2	15.0	19.7	17.2	22.4	19.4	19.6	21.0	19.8
Net profit	**146**	**78**	**84**	**54**	**85**	**82**	**117**	**81**	**209**	**363**	**365**
NP margin	21.3	14.5	14.5	8.8	13.9	13.5	16.4	12.3	13.9	15.0	14.1
YoY											
Revenue	110.7	53.5	62.0	33.0	-10.4	13.4	22.1	6.9	39.8	61.7	7.1
Domestic	183.2	75.3	7.9	-26.4	-48.3	-17.8	86.5	31.1	-16.0	48.7	-6.1
Overseas	33.4	37.6	104.9	114.4	75.3	42.7	-4.8	-4.5	303.6	74.4	18.1
Mobile games					-11.3	13.5	23.2	7.0	45.0	65.4	7.1
MMORPG					-25.2	31.2	48.8	23.6	768.8	661.3	14.3
RPG					3.4	2.4	9.5	5.2	17.1	0.4	5.0
Casual					15.7	0.0	-11.8	-20.6	60.4	-11.0	-5.0
Other					0.0	-4.0	1.2	-36.4	-1.8	-26.7	-15.0
Operating profit	236.9	99.8	73.1	-21.6	-39.3	0.2	42.6	38.2	30.8	72.9	0.8
Net profit	167.5	140.4	103.9	-32.9	-41.6	5.5	38.4	49.4	24.1	73.3	0.7

Notes: 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*, *Tera M*, and *Blade&Soul Revolution* are included in MMORPGs; release schedule for 2018 is provided in Table 4; 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	2,676	2,678	2,597	2,632	-3.0	-1.7	Revised MMORPG/casual revenue estimates downward; revised RPG revenue estimates upward
Operating profit	631	613	514	530	-18.5	-13.6	Revised marketing spend/commission fees upward
Net profit	469	453	365	378	-22.1	-16.6	Revised non-operating expenses estimates upward
EPS (W)	4,910	4,733	3,693	3,819	-24.8	-19.3	Revised non-controlling interests estimates upward
OP margin	23.6	22.9	19.8	20.1			
NP margin	17.5	16.9	14.1	14.4			

Notes: All figures are based on consolidated K-IFRS; EPS figures are based on net profit attributable to controlling interests
Source: Mirae Asset Daewoo Research estimates

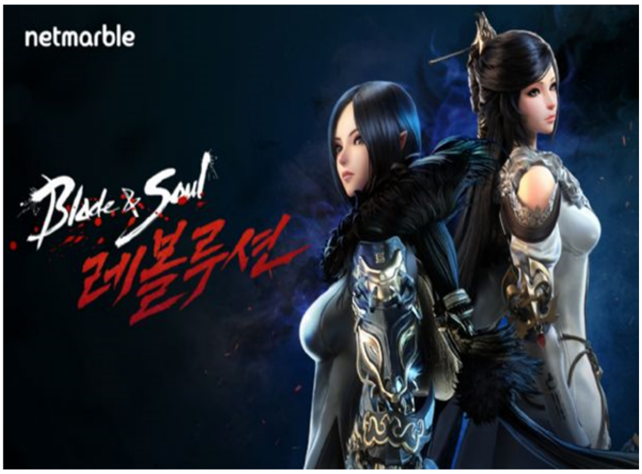
New releases and valuation comparison

Table 4. 2018 lineup

Game title	Genre	Release	Notes
Fishing Strike	Sports (fishing)	1Q18 (February, global)	Publishing (developed by WeMade)
Blade&Soul Revolution	**MMORPG**	**1H18**	**External IP (NCsoft); highly anticipated; Tencent confirmed as Chinese publisher**
Harry Potter: Hogwarts Mystery	Adventure RPG	1H18 (Spring, global)	External IP
First Born	Strategy RPG	1H18 (targeted for Western markets)	External IP
Teria Saga	Strategy RPG	1H18 (Japan)	Proprietary IP
Icarus M	MMORPG	1H18 likely	Publishing (developed by WeMade)
BTS WORLD	Simulation	1H18 likely	External IP (BTS)
Seven Knights II	**MMORPG**	**Within 2018**	**Proprietary IP; highly anticipated**
The Seven Deadly Sins RPG	RPG	Within 2018 (Japan)	External IP
The King of Fighters All Star	Action RPG	Within 2018 (Japan)	External IP
Extreme MaguMagu (tentative)	Sports (baseball)	Within 2018 (Japan)	Proprietary IP
Yo-kai Watch Medal Wars	RPG	Within 2018 (Japan)	External IP
Rich Ground	Casual	Within 2018	Proprietary IP (*Modoo Marble*)
Stone Age MMORPG	MMORPG	Undecided (targeted for China)	Proprietary IP
Phantom Gate	RPG	Undecided (targeted for Western markets)	
Magic the Gathering M	TCG	Undecided	External IP
Koongya Catchmind	Casual	Undecided	Proprietary IP
Koongya Green Village (tentative)	RPG	Undecided	Proprietary IP
Knight of the Round (tentative)	Open-world MMORPG	Undecided	

Notes: Actual release dates are subject to change; notes are based on media reports
Source: Company data, media reports, Mirae Asset Daewoo Research

Figure 1. *Blade&Soul Revolution* (most anticipated in 1H18)



Source: Company data, Mirae Asset Daewoo Research

Figure 2. *Seven Knights* (proprietary IP) in development for mobile MMORPG and console (Nintendo Switch)

Notes: *Seven Knights II* is a new mobile MMORPG, slated for release within 2018
Source: Company data, Mirae Asset Daewoo Research

Valuation

Table 5. 12-month target price calculation (Wbn, x, W)

			Valuation	Notes
Operating value (1)			**11,562**	
	12MF NP attributable to controlling interests	Multiple		
Consolidated	314	36.8	11,562	Based on 12-month forward peer average P/E
Investment asset value (2)			**925**	
Available-for-sale financial assets			919	4Q17P
Investments in affiliates			6	3Q17
Total asset value (1+2=3)			12,487	
Net debt (4)			-2,460	3Q17
Net asset value (3-4)			**14,946**	
No. of shares ('000 shares)			85,026	Total shares outstanding as of Dec. 22, 2017
Target price			**180,000**	Rounded

Notes: Peer group includes Zynga, Glu Mobile, and Tencent; Investments in affiliates and net debt are based on 3Q17, as audit report is not yet available
Source: Bloomberg, FSS, Mirae Asset Daewoo Research estimates

Table 6. Earnings and valuation comparison of global game companies (Wbn, x, %)

Company	Market cap	Revenue		Operating profit		Net profit		P/E		EV/EBITDA		P/B		ROE	
		17F	18F	17F	18F	17F	18F	17F	18F	17F	18F	17F	18F	17F	18F
Netmarble Games	13,009	2,425	2,597	510	514	363	365	51.5	41.4	24.7	18.6	3.9	2.9	11.6	7.3
NCsoft	9,149	1,832	2,616	629	957	504	723	19.5	12.6	12.1	6.9	3.6	2.8	22.5	25.2
Com2uS	1,921	512	573	197	211	145	156	12.1	12.3	5.2	5.0	2.2	2.1	20.8	18.7
NHN Entertainment	1,485	911	1,028	42	66	47	72	24.1	17.6	12.2	11.1	0.9	0.9	3.7	5.4
Activision Blizzard	55,902	7,689	8,039	2,623	2,929	1,895	2,171	29.9	26.4	20.3	17.8	5.0	4.4	15.1	15.9
Electronic Arts	40,737	5,611	6,011	1,782	2,097	1,424	1,663	28.5	24.5	18.8	15.9	8.7	7.1	30.6	29.5
Take-Two	14,554	2,207	3,116	508	832	405	659	38.6	24.3	25.9	15.0	8.0	6.1	23.2	29.9
Zynga	3,323	907	1,003	117	153	95	130	37.7	26.2	18.2	13.4	2.0	1.9	5.1	6.9
Glu Mobile	519	303	309	-13	13	-10	9	-	47.7	-	35.2	2.6	2.5	-5.4	8.6
Ubisoft	9,768	2,233	2,777	338	536	252	395	39.0	26.2	10.3	8.1	5.8	4.8	14.5	19.0
Nintendo	62,844	10,207	13,268	1,513	2,873	1,226	2,067	43.3	25.3	31.9	16.9	4.0	3.7	9.8	15.9
Nexon	14,666	2,245	2,465	898	1,039	695	824	20.9	17.3	11.1	10.1	3.3	2.8	17.5	17.2
Square Enix	5,970	2,618	2,813	408	449	271	301	21.6	19.6	9.8	8.9	3.0	2.7	14.4	14.0
DeNA	3,352	1,418	1,474	264	304	188	202	17.3	15.8	6.9	6.0	1.3	1.2	7.7	8.1
Gungho Online	2,783	814	770	291	287	182	183	11.8	12.2	7.5	7.7	3.0	2.4	26.1	14.6
GREE	1,605	684	820	84	121	127	79	47.8	19.3	14.7	5.4	1.4	1.3	3.0	7.2
Tencent	541,750	41,313	57,569	14,553	17,807	11,217	14,721	47.7	36.4	34.4	26.1	13.2	9.8	31.0	30.2
NetEase	44,231	9,207	11,749	2,252	2,518	2,238	2,562	19.7	17.5	16.0	13.8	5.4	4.3	28.5	26.8
Kingsoft	4,429	894	1,242	146	239	202	285	17.2	16.5	16.4	11.3	2.5	2.3	11.8	13.2
Youzu Interactive	3,387	579	753	126	177	131	180	23.4	17.2	21.0	15.4	5.7	4.4	24.7	26.9
Changyou	1,717	600	595	130	117	148	139	11.5	12.4	4.2	4.9	1.3	1.2	12.9	9.5
Average								28.2	22.3	16.1	13.0	4.1	3.4	15.7	16.7

Notes: Data for domestic companies are based on Mirae Asset Daewoo Estimates; data for overseas companies are based on consensus
Source: Bloomberg, Mirae Asset Daewoo Research estimates

Netmarble Games Corporation (251270 KS/Trading Buy/TP: W180,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Revenue	**1,500**	**2,425**	**2,597**	**2,632**
Cost of Sales	**751**	**1,194**	**1,298**	**1,311**
Gross Profit	**749**	**1,231**	**1,299**	**1,321**
SG&A Expenses	**454**	**721**	**785**	**792**
Operating Profit (Adj)	**295**	**510**	**514**	**530**
Operating Profit	**295**	**510**	**514**	**530**
Non-Operating Profit	**-19**	**-34**	**-34**	**-33**
Net Financial Income	2	4	4	4
Net Gain from Inv in Associates	-3	0	0	0
Pretax Profit	276	476	480	497
Income Tax	66	113	115	119
Profit from Continuing Operations	209	363	365	378
Profit from Discontinued Operations	0	0	0	0
Net Profit	209	363	365	378
Controlling Interests	174	311	314	325
Non-Controlling Interests	35	52	51	53
Total Comprehensive Profit	**275**	**363**	**365**	**378**
Controlling Interests	239	315	317	328
Non-Controlling Interests	36	48	48	50
EBITDA	325	541	545	560
FCF (Free Cash Flow)	107	416	400	409
EBITDA Margin (%)	21.7	22.3	21.0	21.3
Operating Profit Margin (%)	19.7	21.0	19.8	20.1
Net Profit Margin (%)	11.6	12.8	12.1	12.3

Statement of Financial Condition (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Current Assets	**721**	**3,573**	**3,915**	**4,288**
Cash and Cash Equivalents	273	2,848	3,138	3,500
AR & Other Receivables	247	399	428	433
Inventories	2	3	3	3
Other Current Assets	199	323	346	352
Non-Current Assets	**1,236**	**1,541**	**1,572**	**1,555**
Investments in Associates	6	10	11	11
Property, Plant and Equipment	123	115	107	98
Intangible Assets	540	518	495	473
Total Assets	**1,957**	**5,114**	**5,487**	**5,842**
Current Liabilities	**421**	**614**	**649**	**657**
AP & Other Payables	152	245	263	266
Short-Term Financial Liabilities	109	109	0	0
Other Current Liabilities	160	260	386	391
Non-Current Liabilities	**226**	**222**	**225**	**225**
Long-Term Financial Liabilities	200	180	0	0
Other Non-Current Liabilities	26	42	225	225
Total Liabilities	**647**	**835**	**874**	**882**
Controlling Interests	**1,216**	**4,133**	**4,416**	**4,710**
Capital Stock	7	7	7	7
Capital Surplus	1,200	3,806	3,806	3,806
Retained Earnings	294	605	888	1,183
Non-Controlling Interests	**94**	**146**	**197**	**250**
Stockholders' Equity	**1,310**	**4,279**	**4,613**	**4,960**

Cash Flows (Summarized)

(Wbn)	12/16	12/17F	12/18F	12/19F
Cash Flows from Op Activities	**197**	**416**	**400**	**409**
Net Profit	209	363	365	378
Non-Cash Income and Expense	130	134	136	140
Depreciation	8	8	8	8
Amortization	22	22	22	22
Others	100	104	106	110
Chg in Working Capital	-82	22	4	1
Chg in AR & Other Receivables	-103	-151	-28	-6
Chg in Inventories	-2	-1	0	0
Chg in AP & Other Payables	0	67	12	3
Income Tax Paid	-67	-113	-115	-119
Cash Flows from Inv Activities	**-207**	**-422**	**-78**	**-16**
Chg in PP&E	-89	0	0	0
Chg in Intangible Assets	-7	0	0	0
Chg in Financial Assets	-134	-422	-78	-16
Others	23	0	0	0
Cash Flows from Fin Activities	**63**	**2,585**	**-31**	**-31**
Chg in Financial Liabilities	-	-	-	-
Chg in Equity	276	2,605	0	0
Dividends Paid	-4	0	-31	-31
Others	-	-	-	-
Increase (Decrease) in Cash	**57**	**2,575**	**290**	**362**
Beginning Balance	216	273	2,848	3,138
Ending Balance	273	2,848	3,138	3,500

Source: Company data, Mirae Asset Daewoo Research estimates

Forecasts/Valuations (Summarized)

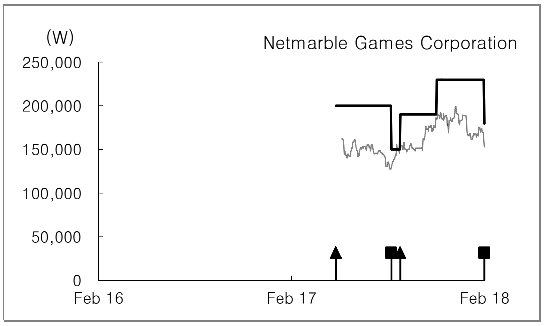
	12/16	12/17F	12/18F	12/19F
P/E (x)	-	51.5	41.4	40.1
P/CF (x)	-	32.2	26.0	25.1
P/B (x)	-	3.9	2.9	2.8
EV/EBITDA (x)	-	24.7	18.6	17.5
EPS (W)	2,567	3,659	3,693	3,819
CFPS (W)	5,004	5,848	5,895	6,088
BPS (W)	17,949	48,609	51,941	55,400
DPS (W)	0	360	360	360
Payout ratio (%)	0.0	8.4	8.4	8.1
Dividend Yield (%)	-	0.2	0.2	0.2
Revenue Growth (%)	39.8	61.7	7.1	1.3
EBITDA Growth (%)	31.0	66.5	0.7	2.8
Operating Profit Growth (%)	31.1	72.9	0.8	3.1
EPS Growth (%)	26.8	42.5	0.9	3.4
Accounts Receivable Turnover (x)	8.1	7.6	6.4	6.2
Inventory Turnover (x)	1,374.8	983.0	822.7	801.0
Accounts Payable Turnover (x)	8.5	8.4	7.1	6.9
ROA (%)	12.3	10.3	6.9	6.7
ROE (%)	15.3	11.6	7.3	7.1
ROIC (%)	38.9	58.6	62.1	67.4
Liability to Equity Ratio (%)	49.4	19.5	18.9	17.8
Current Ratio (%)	171.3	582.3	602.9	652.7
Net Debt to Equity Ratio (%)	-8.4	-65.4	-67.3	-69.9
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)	02/06/2018	Trading Buy	180,000
	11/08/2017	Buy	230,000
	08/31/2017	Buy	190,000
	08/14/2017	Trading Buy	150,000
	05/01/2017	Buy	200,000



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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