

**Internet Solutions**

Results Comment

July 26, 2018

(Maintain) **Buy**

Target Price (12M, W) **70,000**

Share Price (07/25/18, W) **58,000**

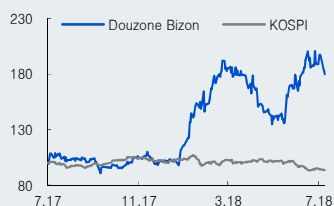
Expected Return **21%**

OP (18F, Wbn) 58  
Consensus OP (18F, Wbn) 58

EPS Growth (18F, %) 9.7  
Market EPS Growth (18F, %) 10.4  
P/E (18F, x) 39.2  
Market P/E (18F, x) 9.0  
KOSPI 2,273.03

Market Cap (Wbn) 1,721  
Shares Outstanding (mn) 30  
Free Float (%) 60.5  
Foreign Ownership (%) 39.6  
Beta (12M) 0.79  
52-Week Low 29,300  
52-Week High 64,700

(%)	1M	6M	12M
Absolute	-0.9	31.5	71.9
Relative	2.8	48.3	84.5



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[Internet/Game/Advertising]

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# Douzone Bizon

(012510 KS)

## Growth potential supported by cloud, plus customer base expansion

### 2Q18 review: Stronger YoY growth compared with 1Q18

For 2Q18, Douzone Bizon reported results that were largely in line with the consensus.

**Positives:** In 2Q18, revenue and operating profit growth accelerated to 14% and 12% YoY, respectively, from a respective 12% and 9% in 1Q18. Revenue from the cloud segment, the company's key growth driver, grew 23% YoY, while revenue from the groupware segment, which has recently emerged as another growth driver, surged 68% YoY. Despite higher operating expenses related to new business development, OP margin improved 2%p QoQ to 23%.

**Negatives:** Unlike other businesses, the ERP segment saw growth slow to 7% YoY. That said, we note that 2Q is typically a slow season and that growth is likely to resume as new products (D\_ERP, etc.) drive customer base expansion. E-finance was the only business segment to record negative YoY growth in 2Q18, but this was attributable to a temporary dip in quarterly revenue recognition resulting from accounting standard changes adopted in 1Q18. Meanwhile, COGS was higher than expected, increasing 22% YoY. We believe this was largely due to higher costs related to new product development.

### Rising share prices and valuations of global cloud-based business solution providers

**Global peers:** Globally, the share prices and valuations of cloud-based business software companies have continued to move higher. Over the past year, US firm Qualys (cloud security; QLYS US, US\$96.80) has rallied 122%, making it one of the best performers in the space, while ServiceNow (cloud computing; NOW US, US\$183.86) and Salesforce (cloud-based customer relationship management; CRM US, US\$148.87) have gained 67% and 64%, respectively. On a 12-month forward P/E basis, Qualys, ServiceNow, and Salesforce are trading at 64x, 80x, and 63x, respectively.

**Douzone Bizon:** Douzone Bizon's cloud revenue mix has steadily increased from 0% in 2011 to 20% in 2Q18. At a 12-month forward P/E of 37x, we think the company's valuation has more room to expand, compared with global cloud-related stocks.

### New businesses to broaden customer base at both ends

We expect Douzone Bizon's new products to help expand its customer base beyond SMEs in 2019. With its new "D\_ERP" solution, the company plans to target the large corporation segment currently dominated by foreign providers. The company also plans to take aim at small businesses and self-employed business owners with its new "WEHAGO" platform.

### Maintain Buy and TP of W70,000

We reiterate our Buy call and target price of W70,000 on Douzone Bizon. We are optimistic on the structural growth of the global cloud-based business software market and customer base expansion through new rollouts.

FY (12)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	158	177	206	238	277	316
OP (Wbn)	29	38	52	58	77	93
OP margin (%)	18.4	21.5	25.2	24.4	27.8	29.4
NP (Wbn)	21	28	40	44	58	71
EPS (W)	720	949	1,350	1,480	1,968	2,378
ROE (%)	17.2	19.8	23.8	22.0	24.5	24.5
P/E (x)	28.5	22.6	24.7	39.2	29.5	24.4
P/B (x)	4.6	4.2	5.4	8.0	6.6	5.5
Dividend yield (%)	1.1	1.4	1.2	0.8	1.0	1.3

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 and forecasts

**Table 1. Quarterly consolidated earnings**

(Wbn, %)

	2Q17	3Q17	4Q17	1Q18	2Q18P	YoY
<b>Revenue</b>	<b>49</b>	<b>46</b>	<b>63</b>	<b>52</b>	<b>55</b>	13.5
ERP	28	26	33	29	30	6.9
Cloud	9	9	11	10	11	23.2
E-finance	4	4	4	3	3	-12.7
Information security	3	2	3	2	3	14.3
Groupware	4	4	8	5	6	67.8
Other	2	2	4	2	2	12.0
Operating profit	11	9	20	11	13	12.1
Net profit	9	9	14	9	10	3.6

Notes: Based on consolidated K-IFRS; 2017 figures are different from disclosed data, as revenue from contracts with customers has been retroactively reflected in accordance with K-IFRS 1115

Source: Company data, Mirae Asset Daewoo Research

**Table 2. Annual consolidated earnings and forecasts**

(Wbn, %)

	2014	2015	2016	2017	2018F	2019F
<b>Revenue</b>	<b>136</b>	<b>158</b>	<b>177</b>	<b>204</b>	<b>238</b>	<b>277</b>
ERP	89	90	100	113	129	149
Cloud	17	21	29	38	47	59
E-finance	10	12	14	14	13	13
Information security	7	7	9	10	11	13
Groupware	5	10	13	19	27	33
Other	9	17	13	10	10	10
<b>Operating profit</b>	<b>21</b>	<b>29</b>	<b>38</b>	<b>51</b>	<b>58</b>	<b>77</b>
OP margin	15.1	18.4	21.5	24.7	24.4	27.8
<b>Net profit</b>	<b>11</b>	<b>22</b>	<b>28</b>	<b>40</b>	<b>44</b>	<b>59</b>
Net margin	8.0	13.7	16.0	19.4	18.7	21.3
<b>YoY growth</b>						
Revenue	5.2	15.7	12.1	15.7	16.2	16.8
ERP	-2.3	1.2	11.0	13.9	13.8	15.1
Cloud	74.3	29.0	34.8	30.9	25.0	25.0
E-finance	-12.6	19.7	12.1	6.5	-12.0	5.0
Information security	13.1	-3.0	34.7	14.1	11.0	10.0
Groupware	15.2	96.2	24.5	47.4	40.0	25.0
Other	25.1	96.4	-27.2	-24.5	8.9	0.0
Operating profit	11.8	41.2	32.5	31.5	14.9	33.0
Net profit	-20.2	98.2	30.2	40.5	11.9	33.0

Notes: Based on consolidated K-IFRS; 2017 figures are different from disclosed data, as revenue from contracts with customers has been retroactively reflected in accordance with K-IFRS 1115

Source: Company data, Mirae Asset Daewoo Research estimates

**Table 3. Earnings forecast revisions**

(Wbn, W)

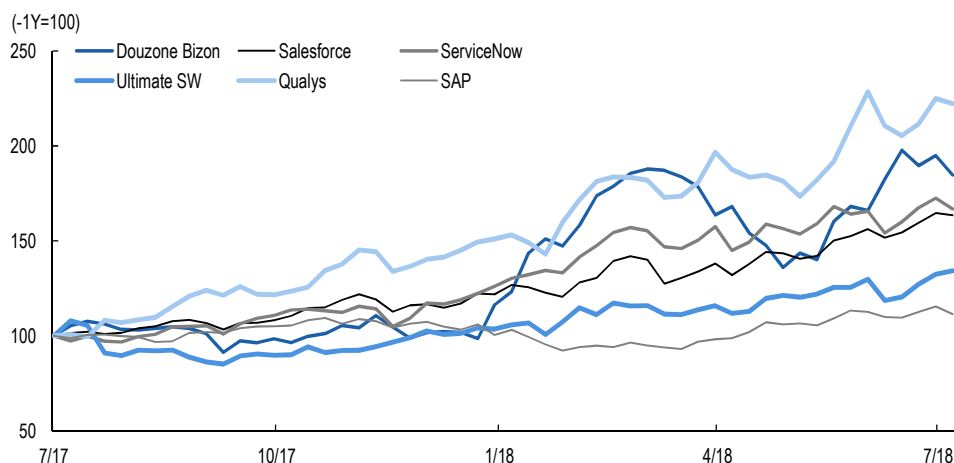
	Previous		Revised		% chg.		Notes
	18F	19F	18F	19F	18F	19F	
Revenue	238	274	238	277	0.0	1.2	Groupware revenue forecast revised upward; e-banking revenue forecast revised downward
Operating profit	61	76	58	77	-4.8	1.6	
Net profit	47	60	44	59	-5.5	-1.6	Effective corporate tax rate revised upward
EPS	1,591	2,001	1,480	1,968	-7.0	-1.6	

Note: Based on consolidated K-IFRS

Source: Company data, Mirae Asset Daewoo Research estimates

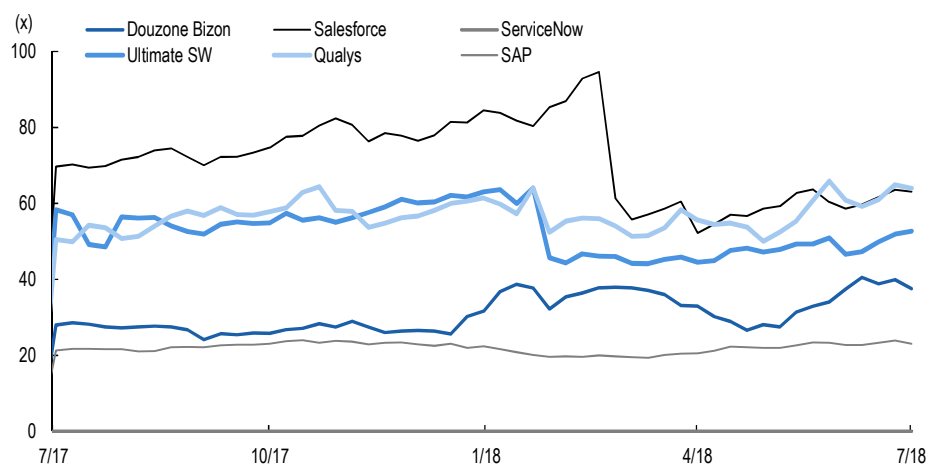
## Valuation and share prices

**Figure 1. Shares of Douzone Bizon and global cloud-based business management software firms have been trending upwards**



Source: Thomson Reuters, Mirae Asset Daewoo Research

**Figure 2. Douzone Bizon is undervalued vs. global peers in 12-month forward P/E**



Source: Thomson Reuters, Mirae Asset Daewoo Research

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

				Valuation	Notes	(Wbn, x, W)
<b>Operating value (1)</b>				<b>1,867</b>		
	12MF net profit attributable to controlling interests	Applied multiple				
Consolidated	52	36.1		1,867	Upper end of the historical 12MF P/E range	
<b>Investment asset value (2)</b>				<b>6</b>		
Available-for-sale financial assets				2	Fair value as of end-1Q18; including unlisted stocks	
Real estate for investment				4	Book value as of end-1Q18	
<b>Total asset value (1+2=3)</b>				<b>1,874</b>		
Net debt (4)				-44	Consolidated; as of end-1Q18	
<b>Net asset value (3-4)</b>				<b>1,917</b>		
Share count ('000 shares)				29,673	Total shares outstanding, including treasury shares	
<b>Target price</b>				<b>70,000</b>	Rounded up	

Source: Mirae Asset Daewoo Research estimates

## Customer expansion and shift in business focus

Douzone Bizon plans to broaden its customer base at both ends, by targeting large companies with its new “D\_ERP” solution, and small businesses with its new “WEHAGO” platform. The firm is also looking to expand the revenue contribution from existing SME customers by inducing them to switch to the next-generation groupware “enterprise business portal (EBP) solution and cloud-based services.

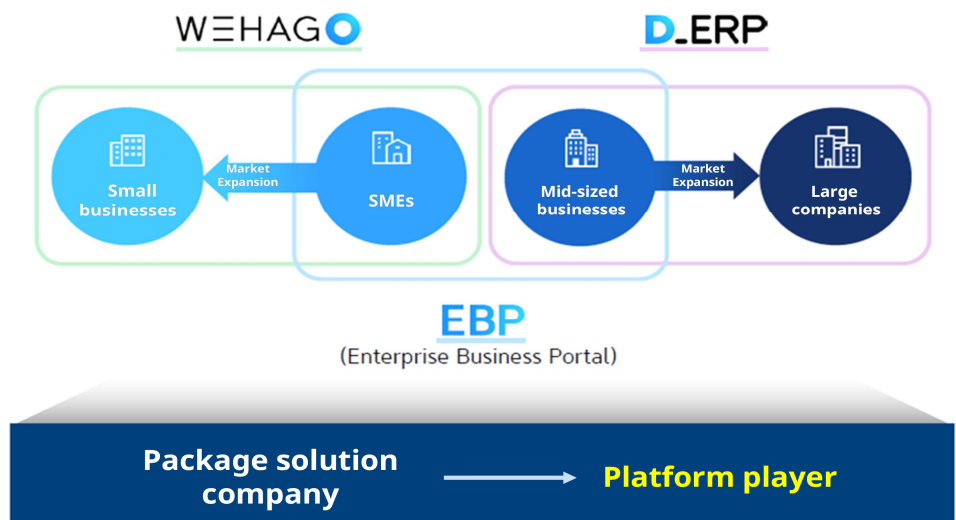
Douzone Bizon is expected to increasingly shift the focus of its business from software product (mainly package solutions) sales to cloud-based platform services. If the firm evolves into a platform player, we think it will enjoy greater business opportunities (e.g., partnership with fintech firms, big data-based AI accounting services) in the medium to long term.

**Figure 3. Plans to expand customer base with new products D\_ERP, EBP and WEHAGO**



Source: Company data, Mirae Asset Daewoo Research

**Figure 4. Aims to expand customer base (beyond SMEs) to include small businesses (“WEHAGO”) and large companies (“D\_ERP”)**



Source: Company data, Mirae Asset Daewoo Research



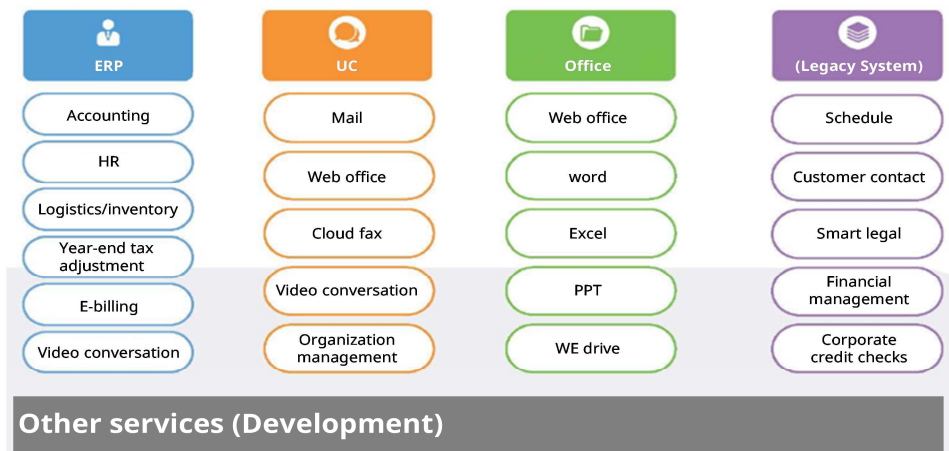
## New business 2): WEHAGO targeting small businesses

Douzone Bizon is scheduled to officially launch WEHAGO in 2019, targeting small businesses and self-employed business owners. The platform is expected to boast strong price efficiency by providing business administration solutions, co-working tools, and other various services on reasonable fixed monthly rates.

Currently, Douzone Bizon operates the beta website for the platform (<https://www.wehago.com>), providing services to 101 companies on a test basis. As a next step, the company plans to sell the platform to its 60,000 corporate customers already using ERP maintenance and upgrade services. In addition, the company plans to launch a fintech business based on its platforms, in cooperation with credit card firms and credit rating agencies.

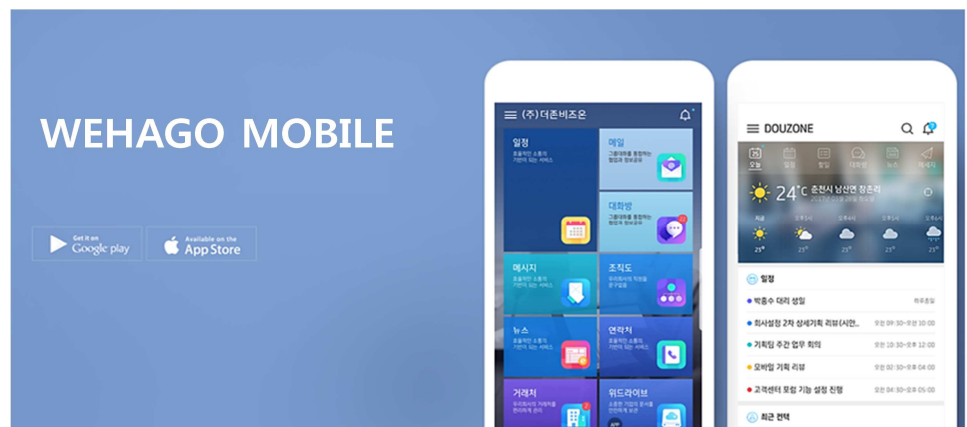
Meanwhile, Douzone Bizon also plans to provide enterprise business platform (EBP) to SMEs, the company's core customers. The platform is considered the 3.0 version of Douzone Bizon's groupware perfectly supporting the mobile work environment. At the company's presentation unveiling new services on July 13th, Oneoffice, a web-based office document editing program, on EBP received the most favorable feedback from participants. The program is a software-as-a-service (SaaS) application, similar to Google Docs and Office 365, offering convenient and intuitive features.

**Figure 7. WEHAGO's basic services: To provide management and business solutions for small businesses at reasonable prices**



Source: Company data, Mirae Asset Daewoo Research

**Figure 8. WEHAGO platform to also be provided with a mobile app, aiming to serve as a "small but perfect office"**



Source: wehago.com, Mirae Asset Daewoo Research

## Douzone Bizon (012510 KS/Buy /TP: W70,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
<b>Revenue</b>	<b>206</b>	<b>238</b>	<b>277</b>	<b>316</b>
<b>Cost of Sales</b>	<b>84</b>	<b>101</b>	<b>115</b>	<b>131</b>
<b>Gross Profit</b>	<b>122</b>	<b>137</b>	<b>162</b>	<b>185</b>
<b>SG&amp;A Expenses</b>	<b>70</b>	<b>79</b>	<b>85</b>	<b>92</b>
<b>Operating Profit (Adj)</b>	<b>52</b>	<b>58</b>	<b>77</b>	<b>93</b>
<b>Operating Profit</b>	<b>52</b>	<b>58</b>	<b>77</b>	<b>93</b>
<b>Non-Operating Profit</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net Financial Income	0	0	0	0
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	49	58	77	93
Income Tax	9	14	18	22
Profit from Continuing Operations	41	44	59	71
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>41</b>	<b>44</b>	<b>59</b>	<b>71</b>
Controlling Interests	40	44	58	71
Non-Controlling Interests	1	0	0	0
<b>Total Comprehensive Profit</b>	<b>41</b>	<b>44</b>	<b>59</b>	<b>71</b>
Controlling Interests	40	44	58	70
Non-Controlling Interests	1	1	1	1
EBITDA	67	74	93	109
FCF (Free Cash Flow)	17	51	66	76
EBITDA Margin (%)	32.5	31.1	33.6	34.5
Operating Profit Margin (%)	25.2	24.4	27.8	29.4
Net Profit Margin (%)	19.4	18.5	20.9	22.5

## Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
<b>Current Assets</b>	<b>123</b>	<b>163</b>	<b>218</b>	<b>281</b>
Cash and Cash Equivalents	53	60	56	40
AR & Other Receivables	34	39	46	52
Inventories	1	1	1	2
Other Current Assets	35	63	115	187
<b>Non-Current Assets</b>	<b>150</b>	<b>152</b>	<b>154</b>	<b>156</b>
Investments in Associates	0	0	0	0
Property, Plant and Equipment	104	103	103	103
Intangible Assets	29	29	30	30
<b>Total Assets</b>	<b>273</b>	<b>315</b>	<b>372</b>	<b>436</b>
<b>Current Liabilities</b>	<b>83</b>	<b>91</b>	<b>102</b>	<b>112</b>
AP & Other Payables	15	17	20	23
Short-Term Financial Liabilities	28	0	0	0
Other Current Liabilities	40	74	82	89
<b>Non-Current Liabilities</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Long-Term Financial Liabilities	1	0	0	0
Other Non-Current Liabilities	4	6	7	8
<b>Total Liabilities</b>	<b>88</b>	<b>97</b>	<b>108</b>	<b>120</b>
<b>Controlling Interests</b>	<b>185</b>	<b>216</b>	<b>261</b>	<b>315</b>
Capital Stock	15	15	15	15
Capital Surplus	47	47	47	47
Retained Earnings	122	154	200	253
<b>Non-Controlling Interests</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Stockholders' Equity</b>	<b>186</b>	<b>218</b>	<b>263</b>	<b>317</b>

## Cash Flows (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
<b>Cash Flows from Op Activities</b>	<b>50</b>	<b>62</b>	<b>77</b>	<b>87</b>
Net Profit	41	44	59	71
Non-Cash Income and Expense	31	30	34	38
Depreciation	11	11	11	11
Amortization	5	5	5	5
Others	15	14	18	22
Chg in Working Capital	-13	2	3	0
Chg in AR & Other Receivables	-5	-5	-6	-6
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	0	0	0	0
Income Tax Paid	-8	-14	-18	-22
<b>Cash Flows from Inv Activities</b>	<b>-24</b>	<b>-43</b>	<b>-68</b>	<b>-88</b>
Chg in PP&E	-32	-11	-11	-11
Chg in Intangible Assets	-3	-5	-5	-5
Chg in Financial Assets	10	-27	-52	-72
Others	1	0	0	0
<b>Cash Flows from Fin Activities</b>	<b>-11</b>	<b>-12</b>	<b>-13</b>	<b>-17</b>
Chg in Financial Liabilities	-	-	-	-
Chg in Equity	0	0	0	0
Dividends Paid	-9	-12	-13	-17
Others	-	-	-	-
<b>Increase (Decrease) in Cash</b>	<b>15</b>	<b>8</b>	<b>-4</b>	<b>-16</b>
Beginning Balance	38	53	60	56
Ending Balance	53	60	56	40

## Forecasts/Valuations (Summarized)

	12/17	12/18F	12/19F	12/20F
P/E (x)	24.7	39.2	29.5	24.4
P/CF (x)	13.8	23.4	18.6	15.8
P/B (x)	5.4	8.0	6.6	5.5
EV/EBITDA (x)	14.0	22.3	17.2	14.2
EPS (W)	1,350	1,480	1,968	2,378
CFPS (W)	2,410	2,483	3,123	3,663
BPS (W)	6,203	7,283	8,810	10,601
DPS (W)	400	450	600	730
Payout ratio (%)	29.2	29.6	29.7	29.9
Dividend Yield (%)	1.2	0.8	1.0	1.3
Revenue Growth (%)	16.4	15.5	16.4	14.1
EBITDA Growth (%)	24.1	10.4	25.7	17.2
Operating Profit Growth (%)	36.8	11.5	32.8	20.8
EPS Growth (%)	42.3	9.6	33.0	20.8
Accounts Receivable Turnover (x)	6.9	7.0	7.0	6.9
Inventory Turnover (x)	170.3	200.2	200.7	198.9
Accounts Payable Turnover (x)	47.6	48.4	47.5	47.0
ROA (%)	15.9	15.0	17.1	17.5
ROE (%)	23.8	22.0	24.5	24.5
ROIC (%)	35.4	33.5	45.0	55.0
Liability to Equity Ratio (%)	47.4	44.6	41.2	37.7
Current Ratio (%)	148.5	178.3	214.3	250.6
Net Debt to Equity Ratio (%)	-26.4	-37.6	-48.7	-57.6
Interest Coverage Ratio (x)	62.1	69.7	92.5	111.7

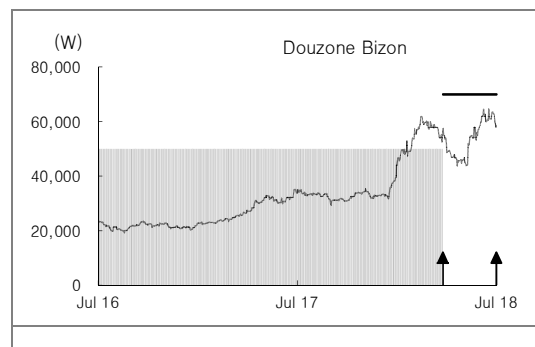
Source: Company data, Mirae Asset Daewoo Research estimates

## APPENDIX 1

### Important Disclosures & Disclaimers

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

Company (Code)	Date	Rating	Target Price
Douzone Bizon(012510)	04/19/2018	Buy	70,000



#### 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	73.40%	14.78%	11.82%	0.00%
Investment Banking Services	77.42%	9.68%	12.90%	0.00%

\* Based on recommendations in the last 12-months (as of June 30, 2018)

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