

# NCSOFT

(036570 KS)

## Lineage I alone could drive growth in the coming years

### Game

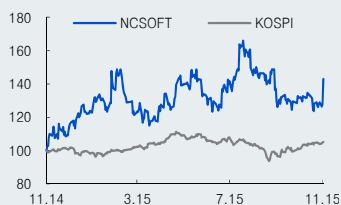
#### Results Comment

November 5, 2015

(Maintain)	<b>Buy</b>
Target Price (12M, W)	<b>270,000</b>
Share Price (11/04/15, W)	210,000
Expected Return	<b>29%</b>

OP (15F, Wbn)	252
Consensus OP (15F, Wbn)	265
EPS Growth (15F, %)	-12.7
Market EPS Growth (15F, %)	19.7
P/E (15F, x)	22.9
Market P/E (15F, x)	12.0
KOSPI	2,052.77
Market Cap (Wbn)	4,605
Shares Outstanding (mn)	22
Free Float (%)	87.8
Foreign Ownership (%)	32.6
Beta (12M)	0.99
52-Week Low	150,500
52-Week High	244,000

(%)	1M	6M	12M
Absolute	8.5	2.2	39.5
Relative	4.1	6.1	31.5



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[Internet/Game/Entertainment]

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### 3Q15 review: *Lineage I* surprises, but mobile games underwhelm

NCSOFT's 3Q earnings disappointed both our expectations and the consensus, with revenue and operating profit falling 8% and 38% YoY to W195.6bn and W50.6bn, respectively. The biggest cause of the sluggish performance was a sharp decline in revenue from mobile titles released in 2Q.

One positive worth noting is that *Lineage I* revenue climbed 14.2% YoY in 3Q to a much better-than-expected W78.2bn, even though there were no microtransaction events that took place entirely in the quarter.

### Content competitiveness deserves renewed attention

We believe NCSOFT will be able to grow on *Lineage I* alone in the coming years. We forecast the title's 2015 revenue to jump 19.9% YoY to W315.5bn (from W263.1bn in 2014). Just six years ago, in 2009, the title's revenue was W111.4bn, less than half of the 2015F figure.

We estimate *Lineage I* generates a monthly ARPU of W53,300, higher than *Lineage II* (W35,500), *Aion* (W40,500), and *Blade & Soul* (W22,600). On the flip side, the title's revenue per time spent per user is only 69% that of *Lineage II*, meaning it is a relatively cheaper game to play for the same amount of time.

The factors driving the success of *Lineage I*—its high ARPU, long gameplay time, and strong player loyalty—should continue for quite some time. With no real competition around, *Lineage I* gamers have long stayed loyal to the game, with 87% of players now in their 30s or older (28% are in their 50s or older).

### Keep Buy and TP of W270,000; 2016 to mark the beginning of the mobile era

On its earnings call, the company gave more details on its mobile release schedule for 2016. *Blade & Soul China* mobile (published by Tencent) is set to come out any day now. The company has two mobile titles based on its *Lineage I* intellectual property and plans to commercially launch one of them and conduct a beta test for the other in 1H16.

Also lined up for 1H16 are the commercial release of Master X Master (MXM) in Korea, Japan, and Taiwan, and beta testing for the highly anticipated blockbuster *Lineage Eternal*. *Lineage II* mobile (developed by Netmarble for Korea and Snail Games for China) and mobile publishing titles are also in the works.

In 2016, we believe NCSOFT's stock will be better appreciated by the market, thanks to the proven cash-generating power of legacy titles (*Lineage I*, etc.), and revenue from new releases, such as *Lineage I* mobile and *MXM*. We also think the market could begin pricing in blockbuster expectations for *Lineage Eternal*. We maintain our Buy rating and target price of W270,000.

FY (Dec.)	12/12	12/13	12/14	12/15F	12/16F	12/17F
Revenue (Wbn)	754	757	839	854	979	1,120
OP (Wbn)	151	205	278	252	326	390
OP margin (%)	20.0	27.1	33.1	29.5	33.3	34.8
NP (Wbn)	156	159	230	201	270	332
EPS (W)	7,120	7,245	10,487	9,154	12,292	15,121
ROE (%)	16.8	14.8	18.4	14.1	17.0	18.3
P/E (x)	21.1	34.3	17.4	22.9	17.1	13.9
P/B (x)	3.0	4.4	2.7	2.9	2.6	2.3

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

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## Earnings and forecasts

Table 1. Quarterly and annual earnings

(Wbn, %)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15P	4Q15F	2013	2014	2015F
Revenue	178	214	212	235	188	218	196	253	757	839	854
<i>Lineage I</i>	41	57	69	97	66	85	78	86	288	263	316
<i>Lineage II</i>	12	14	15	19	11	16	16	15	57	59	58
<i>Aion</i>	22	18	33	21	18	20	17	20	96	94	75
<i>Blade &amp; Soul</i>	19	19	20	25	27	30	25	24	69	83	105
<i>Guild Wars 2</i>	25	22	20	19	20	22	21	66	123	86	129
<i>WildStar</i>	0	28	16	5	3	2	2	2	0	50	9
Royalties	45	38	22	32	26	21	23	24	66	137	94
Other	14	18	18	16	18	20	15	16	58	67	68
<b>Revenue portion</b>											
<i>Lineage I</i>	23.0	26.6	32.4	41.1	35.1	39.3	40.0	33.9	38.0	31.4	36.9
<i>Lineage II</i>	6.5	6.3	7.0	8.3	5.9	7.5	8.0	6.1	7.6	7.1	6.8
<i>Aion</i>	12.5	8.6	15.6	8.9	9.7	9.2	8.6	7.9	12.7	11.3	8.8
<i>Blade &amp; Soul</i>	10.8	8.9	9.3	10.5	14.2	13.7	12.7	9.5	9.1	9.9	12.3
<i>Guild Wars 2</i>	14.1	10.4	9.3	8.2	10.6	10.3	10.6	26.0	16.3	10.2	15.1
<i>WildStar</i>	0.0	13.1	7.6	2.3	1.4	1.0	0.9	0.9	0.0	5.9	1.0
Royalties	25.0	17.6	10.5	13.8	13.6	9.6	11.7	9.5	8.7	16.3	11.0
Other	8.1	8.4	8.3	6.9	9.5	9.4	7.6	6.1	7.6	8.0	8.0
Operating expenses	134	149	130	148	143	150	145	164	551	561	603
Operating profit	45	65	81	87	45	67	51	89	205	278	252
OP margin (%)	25.0	30.4	38.4	37.2	23.9	30.8	25.9	35.2	27.1	33.2	29.4
Net profit	37	53	76	62	36	58	31	74	159	227	199
Net margin (%)	20.5	24.8	35.8	26.5	18.9	26.6	15.7	29.4	21.0	27.1	23.2
<b>YoY growth</b>											
Revenue	-3.6	11.4	24.7	12.0	5.6	1.7	-7.5	7.5	0.4	10.8	1.8
<i>Lineage I</i>	-37.9	-32.9	10.0	29.4	61.0	50.3	14.2	-11.3	40.3	-8.6	19.9
<i>Lineage II</i>	-18.5	-5.1	13.7	25.1	-5.0	19.9	5.2	-20.4	-12.2	4.1	-1.8
<i>Aion</i>	-21.4	-21.1	45.7	-3.2	-17.8	9.5	-49.1	-4.6	-32.2	-1.4	-20.5
<i>Blade &amp; Soul</i>	16.5	35.2	-2.7	37.4	39.2	55.6	26.1	-2.3	10.8	20.1	27.5
<i>Guild Wars 2</i>	-30.9	-23.1	-19.6	-42.6	-20.3	1.2	5.1	241.2	-25.2	-30.6	50.6
<i>WildStar</i>	-	-	-	-	-	-92.6	-89.3	-57.9	-	-	-82.4
Royalties	314.9	188.4	125.9	0.3	-42.5	-44.2	3.1	-26.0	2.9	107.5	-31.6
Other	13.1	32.8	2.8	13.4	23.9	13.1	-16.1	-4.7	13.8	15.9	2.3
Operating profit	-19.8	4.3	164.7	54.0	0.8	3.3	-37.8	1.8	35.7	35.5	-9.6
Net profit	-30.1	54.8	187.9	36.4	-2.7	9.5	-59.5	19.3	3.2	43.4	-12.7

Notes: All figures are based on consolidated K-IFRS

Source: Company data, KDB Daewoo Securities Research estimates

Table 2. Earnings forecast revisions

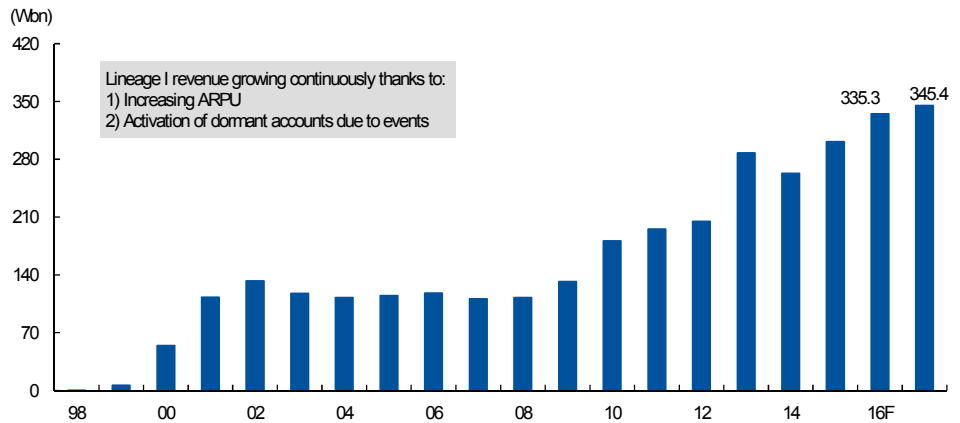
(Wbn, W, %, %p)

	Previous		Revised		% chg.	
	2015F	2016F	2015F	2016F	2015F	2016F
Revenue	880	977	854	979	-3.0	0.2
Operating profit	269	323	252	326	-6.3	0.9
Pretax profit	281	339	245	343	-12.8	1.2
Net profit	230	266	201	270	-12.6	1.5
EPS	10,489	12,135	9,154	12,292	-12.7	1.3
OP margin	30.6	33.1	29.5	33.3	-1.1	0.2
Net margin	26.1	27.2	23.5	27.6	-2.6	0.4

Notes: All figures are based on consolidated K-IFRS

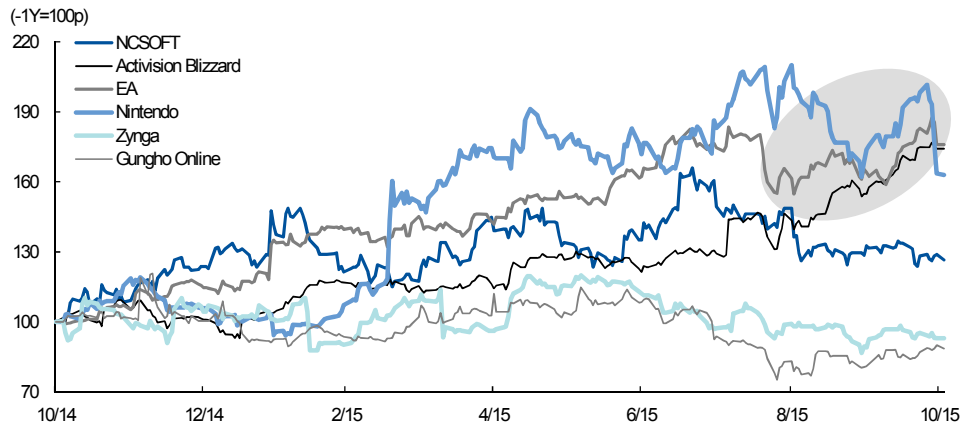
Source: Company data, KDB Daewoo Securities Research estimates

**Figure 1. Annual revenue of Lineage I**



Source: Company data, KDB Daewoo Securities Research

**Figure 2. Relative share performances of global game developers**



Source: Thomson Reuters, KDB Daewoo Securities Research

**Figure 3. Expected release schedule**

Platform	Game	Period	Key Milestones
PC	Lineage Eternal	Jun. 15	Focus group test (1st)
		4Q15F	Focus group test (2nd)
		1H16F	Closed beta test
	2H16F	Global commercialization	
	Guild Wars 2 expansion pack	Jun. 15-	Presale in US/EU
		Oct. 15-	Launch in US/EU
	MXM	1H16F	Commercialization after open beta test in Korea, Japan, and Taiwan
		2H16F	Commercialization after tests in China
Mobile	Blade & Soul Mobile	Jun. 15	2nd technical test
		Sep. 15	Final test
		4Q15F	Commercialization in China
	Aion Legions	1H16F	Commercialization in Korea
	Two mobile titles based on Lineage I intellectual property	1H16F	Commercialization for one, beta test for other
Lineage II Mobile	1Q16F	Closed beta test	
	2Q16F	Commercialization in Korea	

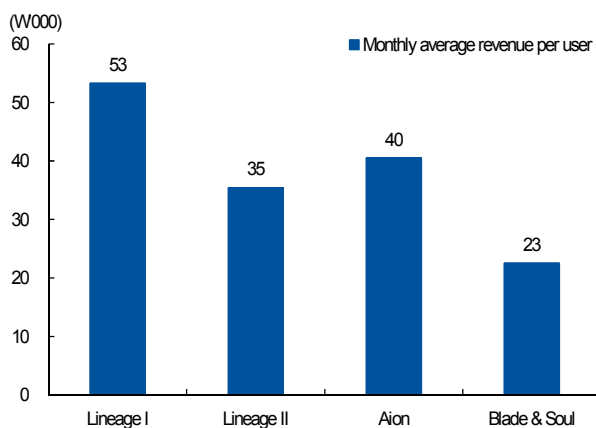
Source: Company data, KDB Daewoo Securities Research

## Game revenue breakdown

Along with the mobile game *Anipang 2 for Kakao*, *Lineage I* has among the oldest gamer bases. For *Lineage I*, 87% of players are in their 30s or older, and 28% are in their 50s or older <Figure 10>. For *Anipang 2*, 92% of players are in their 30s or older <Figure 15>.

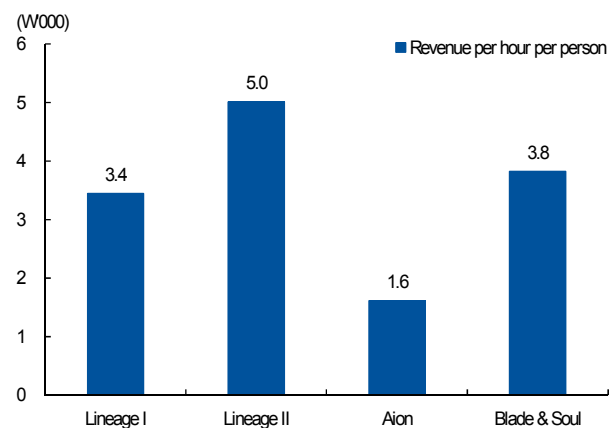
We estimate *Lineage I* generates a monthly ARPU of W53,300, higher than that of *Lineage II*. At the same time, the title's revenue per time spent per user (W3,448) is lower than that of *Lineage II* (and similar to that of *Blade & Soul*) <Figure 5>. This suggests there is strong upside to *Lineage I* ARPU, as game revenues tend to rise in tandem with the time spent. The fact that all of the title's players are paying customers (monthly fees) also brightens the outlook for ARPU growth. (On average, game developers monetize only around 10% of their total game users.)

Figure 4. Monthly average revenue per user



Source: KDB Daewoo Securities Research

Figure 5. Average revenue per hour per user



Source: KDB Daewoo Securities Research

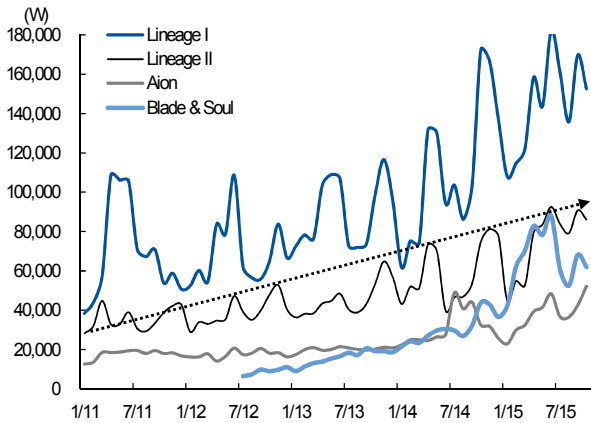
Table 3. *Lineage I* ARPU estimation (based on time spent)

	<i>Lineage I</i>	<i>Lineage II</i>	<i>Aion</i>	<i>Blade &amp; Soul</i>	Remarks	
Quarterly revenue (Wmn)	78,211	15,619	16,775	24,919	A	Based on 3Q15 revenue
Monthly revenue (Wmn)	26,070	5,206	5,592	8,306	A'=A/3	
Portion of revenue from PC cafés	10%	15%	20%	30%	B	
Revenue not from PC cafés (Wmn)	23,463	4,425	4,473	5,814	C=A'x(1-B)	
Monthly average unique users ('000 persons)	102	29	26	60	D	Koreanclick data
Concurrent users ('000 persons)	220	62	55	129	E=DxF	Users of <i>Lineage</i> are based on company data; other data are our estimates
	2.2				F=E/D	Calculated the no. of concurrent users for four games assuming the ratio of monthly average unique users to concurrent users at 1 (Koreanclick): 2.2 (company data)
Total users/concurrent users	2.0	2.0	2.0	2.0	F	Concurrent users are based on historical data
Total users ('000 persons)	440	125	110	258	G=ExF	
Monthly average revenue per user (W'000)	53.3	35.5	40.5	22.6	H=C/G	
Monthly time spent ('000 mins)	408,309	52,982	166,239	91,245		
Monthly time spent ('000 hours)	6,805	883	2,771	1,521	I	
Monthly time spent per person (hours)	15.5	7.1	25.1	5.9	J=I/H	
Revenue per hour per person (W)	3,448	5,011	1,615	3,823	K=H/J	

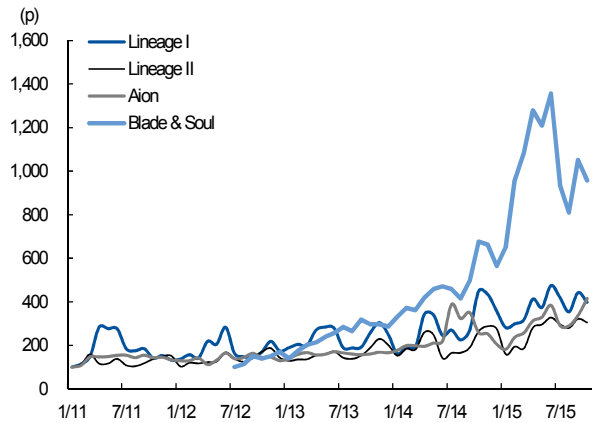
Note: Due to small sample size and resulting low level of confidence, we used our estimates (based on the above statistics) for comparison purposes only.

Source: Company data, Koreanclick, KDB Daewoo Securities Research

**Figure 6. ARPU trends by game**



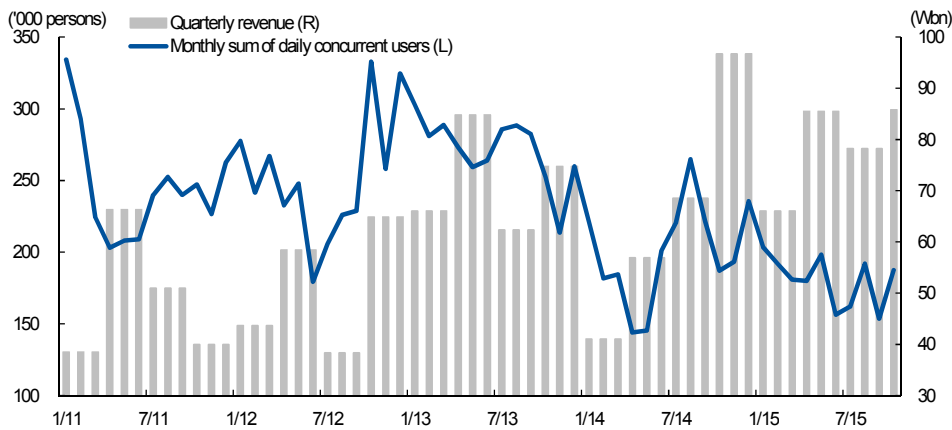
**Figure 7. Relative changes in ARPU by game**



Notes: Monthly revenue (quarterly revenue divided by three) divided by the sum of daily average concurrent users for each month; this calculation provides a good measure of changes in per-user revenue  
 Source: Gametrics, company data, KDB Daewoo Securities Research

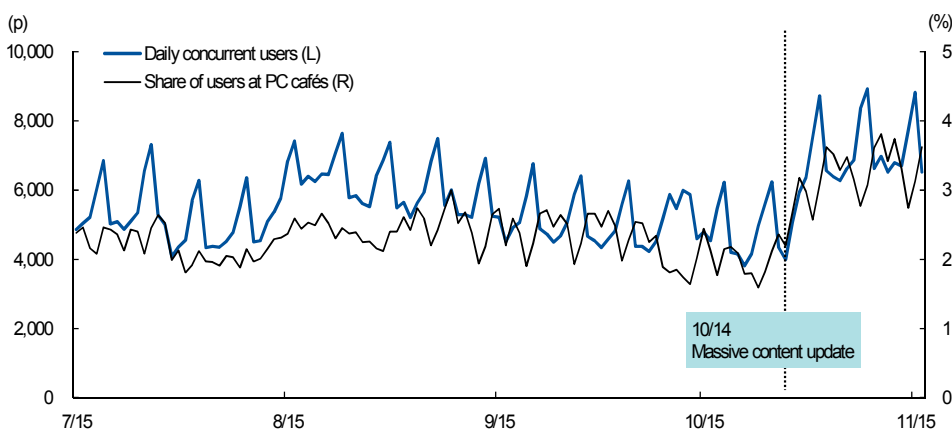
Note: As of January 2011; B&S revenue includes revenue from Japan and Taiwan  
 Source: Gametrics, company data, KDB Daewoo Securities Research

**Figure 8. Lineage I concurrent users and revenue trends**



Source: Gametrics, KDB Daewoo Securities Research

**Figure 9. Lineage I user index before and after content update**



Source: Gametrics, KDB Daewoo Securities Research

# Breakdown of game players

Figure 10. *Lineage I*

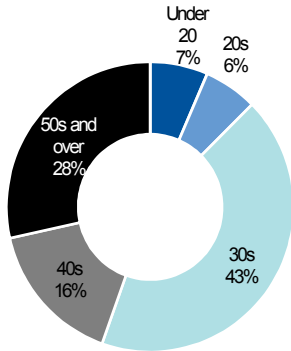


Figure 11. *League of Legends* (PC, simulation)

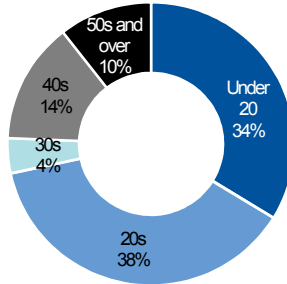


Figure 12. *Starcraft* (PC, simulation)

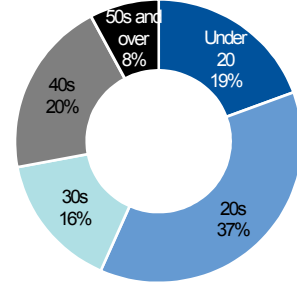


Figure 13. *FIFA Online 3* (PC, sports)

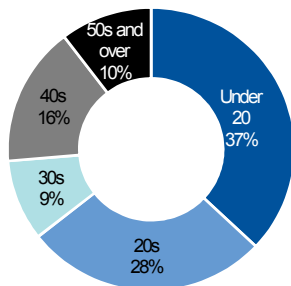


Figure 14. *Diablo 3* (PC, RPG)

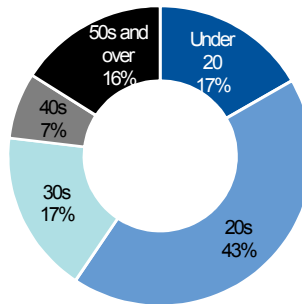


Figure 15. *Anipang 2* (mobile, puzzle)

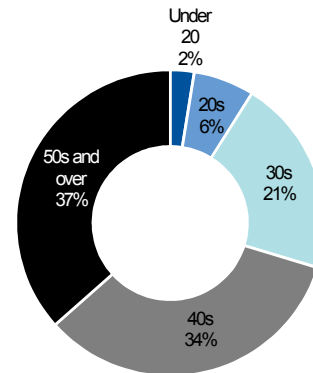


Figure 16. *Clash of Clans* (mobile, RPG)

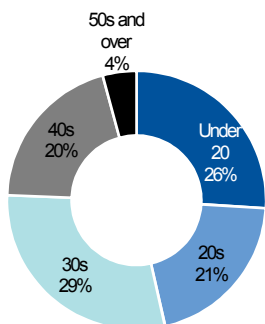


Figure 17. *Let's Get Rich* (mobile, puzzle)

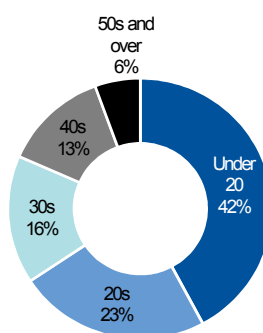
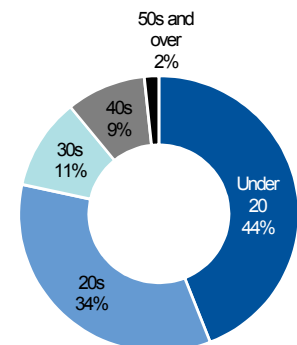
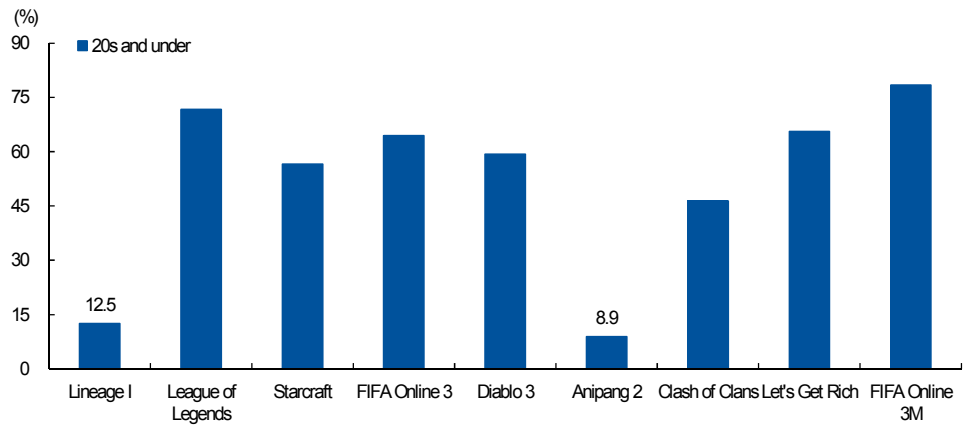


Figure 18. *FIFA Online 3M* (mobile, sports)



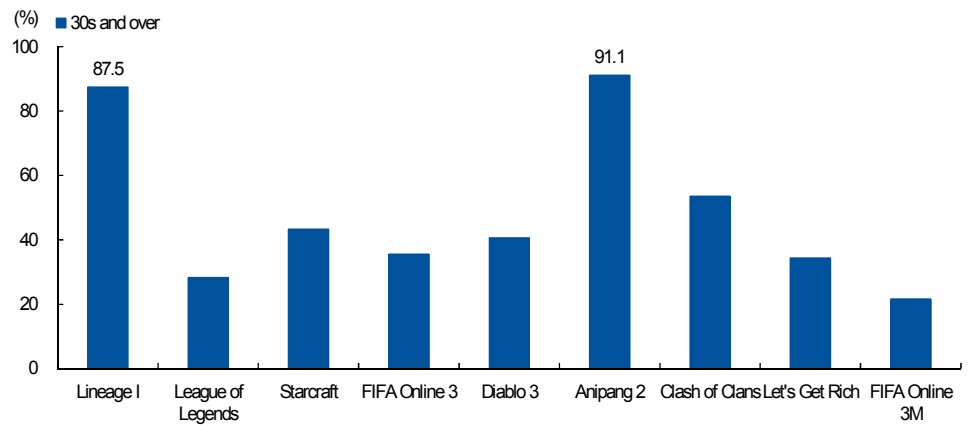
Source: Koreanclick, KDB Daewoo Securities Research

**Figure 19. Proportion of players in their 20s and younger**



Note: Monthly average during 3Q15  
 Source: Koreanclick, KDB Daewoo Securities Research

**Figure 20. Proportion of players in their 30s and older**



Note: Monthly average during 3Q15  
 Source: Koreanclick, KDB Daewoo Securities Research

## Global peer comparison

**Table 4. Earnings forecasts for global internet companies**

(US\$m, %)

	Market cap.	Revenue			Operating profit			OP margin			Net profit			Net margin			EPS		
		14	15F	16F	14	15F	16F	14	15F	16F	14	15F	16F	14	15F	16F	14	15F	16F
NCSOFT	4,068	797	765	870	264	235	295	33.2	30.7	34.0	218	194	243	27.4	25.3	28.0	10.5	8.9	11.1
Neowiz Games	362	191	180	212	28	28	48	14.7	15.5	22.7	-7	15	33	-3.8	8.2	15.4	-0.5	0.6	1.5
NHN Ent.	1,006	529	494	567	11	-56	-17	2.1	-11.3	-2.9	48	20	3	9.1	4.0	0.5	1.6	0.8	0.2
Gamevil	461	138	131	164	11	1	11	7.8	0.5	6.9	22	19	30	16.0	14.1	18.4	3.8	2.8	4.6
Com2uS	1,308	223	377	425	96	140	163	43.1	37.2	38.2	75	110	129	33.8	29.1	30.4	10.0	8.9	9.7
WeMade	683	155	124	175	-30	-3	51	-19.3	-2.1	29.1	201	-3	37	130.2	-2.5	21.2	12.1	-0.2	2.2
Nexon	6,015	1,638	1,542	1,639	431	496	554	26.3	32.2	33.8	278	419	449	17.0	27.2	27.4	0.8	1.0	1.0
Activision Blizzard	26,114	4,408	4,663	5,026	1,183	1,522	1,766	26.8	32.7	35.1	835	810	913	18.9	17.4	18.2	1.5	1.3	1.6
Electronic Arts	22,415	4,515	4,543	4,845	948	1,267	1,474	21.0	27.9	30.4	875	830	1,050	19.4	18.3	21.7	2.6	3.1	3.5
Take-Two	2,897	1,083	1,435	1,700	-258	155	263	-23.9	10.8	15.5	-279	-25	62	-25.8	-1.7		-4.0	1.0	1.8
Zynga	2,264	690	753	793	-245	-31	42	-35.4	-4.1	5.2	-226	-120	-40	-32.7	-15.9	-5.0	-0.1	0.0	0.0
Nintendo	23,024	5,026	4,808	5,594	226	431	715	4.5	9.0	12.8	383	328	484	7.6	6.8	8.6	2.8	2.7	4.0
Sega Sammy	2,716	3,245	3,205	3,352	161	198	270	5.0	6.2	8.1	-103	138	184	-3.2	4.3	5.5	-0.3	0.6	0.8
Namco Bandai	5,349	5,170	4,690	4,819	515	488	526	10.0	10.4	10.9	344	323	349	6.6	6.9	7.2	1.6	1.5	1.6
Konami	3,398	1,994	2,095	2,036	140	246	248	7.0	11.8	12.2	91	152	155	4.5	7.3	7.6	0.9	1.1	1.1
DeNA	2,382	1,302	1,266	1,521	226	196	313	17.4	15.5	20.6	137	120	191	10.5	9.4	12.6	0.9	0.9	1.4
GREE	1,147	810	648	623	177	116	106	21.9	18.0	17.0	-90	72	65	-11.2	11.0	10.5	-0.4	0.3	0.3
GungHo Online	3,408	1,639	1,304	1,199	893	628	573	54.5	48.1	47.8	587	393	360	35.8	30.2	30.1	0.4	0.4	0.4
Netease.com	18,635	1,888	3,002	3,842	768	936	1,134	40.7	31.2	29.5	767	910	1,080	40.6	30.3	28.1	6.3	7.7	9.2
Tencent	185,225	12,811	15,435	19,593	4,662	6,031	7,603	36.4	39.1	38.8	3,865	4,681	6,056	30.2	30.3	30.9	0.4	0.5	0.7
Kingsoft	3,109	544	861	1,312	84	69	186	15.4	8.0	14.2	125	71	157	22.9	8.3	12.0	0.1	0.1	0.1
Average								14.7	17.5	21.9				16.9	12.8	16.5			

Notes: Based on Bloomberg consensus as of Nov. 4<sup>th</sup>

Source: Bloomberg, KDB Daewoo Securities Research

**Table 5. Valuation comparison of global internet companies**

(x, %)

	Market cap.	P/E			P/B			P/S			EV/EBITDA			ROE			ROA		
		14	15F	16F	14	15F	16F	14	15F	16F	14	15F	16F	14	15F	16F	14	15F	16F
NCSOFT	4,068	18.6	20.7	16.6	2.7	2.8	2.5	5.1	5.3	4.7	11.0	12.3	10.1	15.8	14.6	15.8	12.6	11.7	13.0
Neowiz Games	362	-	29.9	11.3	1.4	1.4	1.2	2.2	2.0	1.7	13.7	9.2	5.8	-3.8	7.5	12.3	-2.4	5.4	9.0
NHN Ent.	1,006	34.4	60.8	262.3	0.9	0.9	0.9	1.7	2.0	1.8	104.0	-	39.6	2.3	1.5	0.2	1.8	0.9	-0.6
Gamevil	461	19.5	25.1	15.4	2.6	2.4	2.1	3.3	3.5	2.8	46.5	113.6	34.0	14.1	10.3	14.7	12.7	8.8	12.4
Com2uS	1,308	10.7	11.4	10.5	4.8	3.6	2.7	3.3	3.5	3.1	6.5	8.1	7.2	59.7	39.4	29.6	54.2	37.3	29.7
WeMade	683	3.5	-	18.7	1.9	1.8	1.7	5.3	5.5	3.9	-	92.6	11.5	66.0	-0.8	9.3	49.4	-1.3	7.1
Nexon	6,015	17.8	14.3	13.3	1.9	1.9	1.7	3.9	3.9	3.7	10.1	8.6	8.2	11.9	14.1	13.9	9.5	8.1	7.4
Activision Blizzard	26,114	24.2	26.7	22.7	3.3	3.2	2.9	5.3	5.6	5.2	11.3	16.0	13.8	14.5	12.1	12.3	7.8	7.6	7.9
Electronic Arts	22,415	27.4	23.5	20.4	7.1	6.3	4.9	5.2	4.9	4.6	16.3	13.7	12.4	28.8	29.1	26.4	13.9	16.0	16.3
Take-Two	2,897	-	33.4	19.1	5.7	6.8	6.2	2.2	2.0	1.7	-	12.3	7.5	-48.0	18.3	12.2	-15.7	4.1	6.0
Zynga	2,264	-	-	62.8	1.2	1.2	1.2	2.9	3.0	2.9	-	82.7	13.0	-9.1	-1.4	4.1	-7.5	-0.9	1.7
Nintendo	23,024	60.0	60.3	40.8	2.0	2.0	2.0	4.0	4.8	4.1	-	31.1	20.6	3.4	3.4	4.7	2.9	3.0	4.2
Sega Sammy	2,716	-	17.7	13.1	0.9	0.9	0.9	0.8	0.8	0.8	13.2	6.0	4.8	-2.5	5.3	6.9	-1.5	3.9	5.0
Namco Bandai	5,349	16.1	16.5	15.2	2.1	1.9	1.8	1.1	1.1	1.1	-	6.0	5.7	13.8	12.2	12.1	9.7	8.5	9.0
Konami	3,398	28.3	21.7	21.3	1.8	1.7	1.6	1.7	1.6	1.7	9.6	8.8	8.9	6.2	7.9	7.5	4.2	5.8	5.8
DeNA	2,382	19.0	17.6	11.5	1.5	1.5	1.3	1.8	1.9	1.6	8.9	7.0	4.7	8.1	8.6	12.6	5.8	5.8	11.8
GREE	1,147	-	15.6	17.1	1.4	1.2	1.2	1.6	1.8	1.8	2.4	4.4	4.7	-10.9	8.5	7.1	-9.0	6.9	6.0
GungHo Online	3,408	8.6	8.6	9.2	4.5	3.4	2.9	2.7	2.6	2.9	4.6	4.2	4.1	49.9	41.3	34.8	42.5	36.4	31.3
Netease.com	18,635	23.2	18.6	15.4	4.6	4.2	3.4	8.0	6.2	4.8	18.0	15.1	12.3	21.8	23.4	23.1	16.5	18.0	18.0
Tencent	185,225	45.0	37.3	28.9	12.0	10.6	7.9	13.3	12.0	9.4	30.5	26.6	21.3	30.7	31.3	30.1	13.9	16.1	16.8
Kingsoft	3,109	29.1	37.9	18.2	2.6	2.9	2.5	4.2	3.6	2.4	-	25.0	10.8	10.1	9.0	17.3	5.1	4.1	7.7
Average		24.1	26.2	31.6	3.2	3.0	2.5	3.8	3.7	3.2	20.4	25.2	12.4	13.5	14.1	14.6	10.8	9.8	10.7

Notes: Based on Bloomberg consensus as of Nov. 4<sup>th</sup>



Source: Bloomberg, KDB Daewoo Securities Research

## NCSOFT (036570 KS/Buy/TP: W270,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
<b>Revenue</b>	<b>839</b>	<b>854</b>	<b>979</b>	<b>1,120</b>
<b>Cost of Sales</b>	<b>220</b>	<b>221</b>	<b>253</b>	<b>289</b>
<b>Gross Profit</b>	<b>619</b>	<b>633</b>	<b>726</b>	<b>831</b>
<b>SG&amp;A Expenses</b>	<b>340</b>	<b>382</b>	<b>400</b>	<b>440</b>
<b>Operating Profit (Adj)</b>	<b>278</b>	<b>252</b>	<b>326</b>	<b>390</b>
<b>Operating Profit</b>	<b>278</b>	<b>252</b>	<b>326</b>	<b>390</b>
<b>Non-Operating Profit</b>	<b>11</b>	<b>-7</b>	<b>17</b>	<b>25</b>
Net Financial Income	17	22	26	32
Net Gain from Inv in Associates	-2	-1	-1	-1
Pretax Profit	289	245	343	415
Income Tax	61	47	77	86
Profit from Continuing Operations	228	199	267	328
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>228</b>	<b>199</b>	<b>267</b>	<b>328</b>
Controlling Interests	230	201	270	332
Non-Controlling Interests	-2	-2	-3	-4
<b>Total Comprehensive Profit</b>	<b>224</b>	<b>199</b>	<b>267</b>	<b>328</b>
Controlling Interests	228	202	271	333
Non-Controlling Interests	-4	-3	-4	-5
EBITDA	315	283	353	414
FCF (Free Cash Flow)	244	234	324	385
EBITDA Margin (%)	37.5	33.1	36.1	37.0
Operating Profit Margin (%)	33.1	29.5	33.3	34.8
Net Profit Margin (%)	27.4	23.5	27.6	29.6

## Cash Flows (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Cash Flows from Op Activities	264	234	324	385
Net Profit	228	199	267	328
Non-Cash Income and Expense	109	55	76	76
Depreciation	30	26	23	20
Amortization	6	5	4	4
Others	73	24	49	52
Chg in Working Capital	-21	3	30	34
Chg in AR & Other Receivables	-11	-2	-13	-15
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	1	0	1	1
<b>Income Tax Paid</b>	<b>-69</b>	<b>-47</b>	<b>-77</b>	<b>-86</b>
Cash Flows from Inv Activities	-176	-13	-107	-121
Chg in PP&E	-19	0	0	0
Chg in Intangible Assets	-2	0	0	0
Chg in Financial Assets	-146	-13	-107	-121
<b>Others</b>	<b>-9</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cash Flows from Fin Activities	-12	-68	-75	-84
Chg in Financial Liabilities	-8	0	0	0
Chg in Equity	1	0	0	0
Dividends Paid	-12	-68	-75	-84
<b>Others</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>
Increase (Decrease) in Cash	79	151	137	175
Beginning Balance	123	203	354	491
<b>Ending Balance</b>	<b>203</b>	<b>354</b>	<b>491</b>	<b>666</b>

Source: Company data, KDB Daewoo Securities Research estimates

## Statement of Financial Condition (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
<b>Current Assets</b>	<b>1,020</b>	<b>1,186</b>	<b>1,445</b>	<b>1,757</b>
Cash and Cash Equivalents	203	354	491	666
AR & Other Receivables	90	92	106	121
Inventories	1	1	1	1
Other Current Assets	726	739	847	969
<b>Non-Current Assets</b>	<b>679</b>	<b>649</b>	<b>630</b>	<b>616</b>
Investments in Associates	29	30	34	39
Property, Plant and Equipment	241	215	192	172
Intangible Assets	95	89	85	81
<b>Total Assets</b>	<b>1,699</b>	<b>1,835</b>	<b>2,074</b>	<b>2,372</b>
<b>Current Liabilities</b>	<b>245</b>	<b>250</b>	<b>286</b>	<b>328</b>
AP & Other Payables	25	26	30	34
Short-Term Financial Liabilities	0	0	0	0
Other Current Liabilities	220	224	256	294
<b>Non-Current Liabilities</b>	<b>78</b>	<b>79</b>	<b>91</b>	<b>104</b>
Long-Term Financial Liabilities	1	1	1	1
Other Non-Current Liabilities	77	78	90	103
<b>Total Liabilities</b>	<b>323</b>	<b>329</b>	<b>377</b>	<b>431</b>
<b>Controlling Interests</b>	<b>1,361</b>	<b>1,493</b>	<b>1,687</b>	<b>1,934</b>
Capital Stock	11	11	11	11
Capital Surplus	222	222	222	222
Retained Earnings	1,234	1,367	1,561	1,809
<b>Non-Controlling Interests</b>	<b>15</b>	<b>13</b>	<b>10</b>	<b>7</b>
<b>Stockholders' Equity</b>	<b>1,376</b>	<b>1,506</b>	<b>1,697</b>	<b>1,941</b>

## Forecasts/Valuations (Summarized)

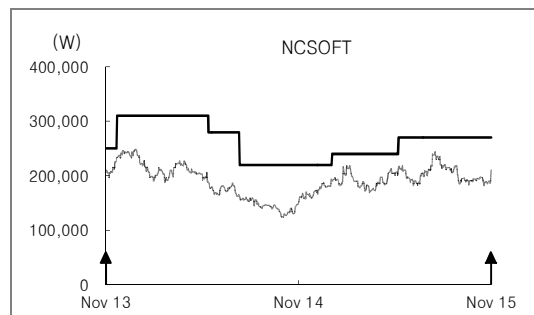
	12/14	12/15F	12/16F	12/17F
P/E (x)	17.4	22.9	17.1	13.9
P/CF (x)	11.9	18.2	13.4	11.4
P/B (x)	2.7	2.9	2.6	2.3
EV/EBITDA (x)	9.9	12.6	9.4	7.3
EPS (W)	10,487	9,154	12,292	15,121
CFPS (W)	15,336	11,550	15,618	18,432
BPS (W)	66,702	72,733	81,596	92,889
DPS (W)	3,430	3,430	3,830	4,830
Payout ratio (%)	30.1	37.9	31.5	32.3
Dividend Yield (%)	1.9	1.6	1.8	2.3
Revenue Growth (%)	10.8	1.8	14.6	14.4
EBITDA Growth (%)	30.7	-10.2	24.7	17.3
Operating Profit Growth (%)	35.6	-9.4	29.4	19.6
EPS Growth (%)	44.7	-12.7	34.3	23.0
Accounts Receivable Turnover (x)	9.8	9.4	10.0	10.0
Inventory Turnover (x)	1,021.0	1,194.8	1,264.4	1,263.4
Accounts Payable Turnover (x)	27.7	26.1	27.6	27.6
ROA (%)	14.3	11.2	13.6	14.8
ROE (%)	18.4	14.1	17.0	18.3
ROIC (%)	93.7	95.6	145.9	240.3
Liability to Equity Ratio (%)	23.5	21.9	22.2	22.2
Current Ratio (%)	415.5	474.7	504.5	536.4
Net Debt to Equity Ratio (%)	-65.2	-70.5	-76.7	-82.0
Interest Coverage Ratio (x)	9,729.2	41,019.9	53,113.1	63,660.2

## APPENDIX 1

### Important Disclosures & Disclaimers

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

Company (Code)	Date	Rating	Target Price
NCSOFT(036570)	05/13/2015	Buy	270,000
	01/07/2015	Buy	240,000
	07/16/2014	Buy	220,000
	05/18/2014	Buy	280,000
	11/26/2013	Buy	310,000
	10/23/2013	Buy	250,000



#### 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 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.

#### Equity Ratings Distribution

Buy	Trading Buy	Hold	Sell
72.77%	13.86%	13.37%	0.00%

\* Based on recommendations in the last 12-months (as of September 30, 2015)

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