

Gameville – 063080

Courtesy: Shinyoung Securities

Buy rating with a target price of 160,000 KRW, or a 38% appreciation from the 115,800 KRW market price. The total market cap is 888B KRW at 160,000 KRW. Initiated coverage of the game developer of sports, action and non-casual game genres. The co. is highly competitive and recently announced an agreement with a large Chinese game publisher. They are preparing for entry into the Chinese and Japanese markets. Also, they will release 3 games in the NHN "Line" series, which will propel their sales in the 4th quarter. Until 2014, the forecasted YoY revenue growth is expected to be 43%, to 70B KRW while EBIT is 26B KRW. Internal game development and publishing will support the 43% growth rate with additional growth coming from overseas expansion. A ROE in the high 20s and revenue growth from 30M USD to 126M by 2014. The co. is anticipating a 27x PE on 2013 Earnings, or a 25% premium off the 2010-2011 peak PE of 21.8x.

Aside from the strategic expansion plans, we need to see the gaming portfolio and analyze whether there is substantiating development in the space, as we want to avoid a Zynga investment, which is heavily dependent on 1 platform – Facebook.

They launched 3 smartphone, mobile accessible games, of which "Fishing Master" ranked in the top 10 list in Google Play. The game registered 100,000 users, mainly males in their 30-40s and recognized 1B KRW in revenues, or about \$10/user. The co. is releasing about 10 internally developed games/year and published around 35 games in 2012. Generating about \$20MM in revenue/qtr, about 50/50 split domestic and international sales. In 2011, publishing started off as a 5% contributor to revenue, but is now near 50%.

NHN, a powerhouse in the Korean gaming industry, will develop their 40 MM user "Line" platform into a smartphone App and the co. will develop games for Line. There are 20 MM users in Japan alone and the co. will launch new games in the 4th quarter. The co. is adept in developing games for IM, or social messaging applications such as Kakaotalk. The phenomena, Anypang, is linked with Kakaotalk and most Kakaotalk users have downloaded the game to compete against acquaintances in their Kakao friend list.

We think 300B KRW is a fair value for the co. We would not purchase the co. at 880B KRW. Maybe go as high as 500B, but 880B is off our charts. The company's growth and momentum seems credible. It is very possible the co. stock price can appreciate 38%, in light of their phenomenal growth. Given our risk adverseness, we feel an investment would be justified at lower P/FCF multiples, and right now it is 20x at 880B, where we feel more comfortable at 7x.