

NAVER

(035420 KS)

Mobile revenue is growing

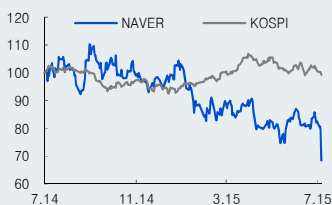
Internet

Results Comment
July 31, 2015

(Maintain)	Buy
Target Price (12M, W)	820,000
Share Price (7/30/15, W)	518,000
Expected Return	58%

OP (15F, Wbn)	855
Consensus OP (15F, Wbn)	891
EPS Growth (15F, %)	32.0
Market EPS Growth (15F, %)	31.1
P/E (15F, x)	28.5
Market P/E (15F, x)	11.0
KOSPI	2,019.03
Market Cap (Wbn)	17,075
Shares Outstanding (mn)	33
Free Float (%)	78.4
Foreign Ownership (%)	55.5
Beta (12M)	0.82
52-Week Low	518,000
52-Week High	834,000

(%)	1M	6M	12M
Absolute	-18.3	-27.7	-32.6
Relative	-16.1	-30.2	-30.5



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2Q earnings weighed down by weaker LINE revenue and acquisition costs

NAVER reported 2Q earnings that were far below our estimates and the consensus. The domestic business delivered a positive surprise, but overall earnings were undermined by LINE's disappointing performance and costs related to the recent acquisition of MixRadio.

2Q consolidated revenue grew 13.8% YoY to W780.8bn, driven by content revenue (games, stickers and webtoons), which jumped 26.6% YoY.

2Q consolidated operating profit contracted 11.6% YoY to W167.2bn, hit by costs (W20bn) related to the MixRadio acquisition, which was finalized in mid-March.

LINE Corp.'s 2Q consolidated revenue fell 1.1% QoQ to JPY27.8bn. This marked the first time revenue has fallen since LINE switched to a paid model. In contrast, the domestic business saw revenue and operating profit (parent) grow robustly by 9% and 12.3% QoQ, respectively, boosted by a sharp increase in mobile ad revenue.

Marketing expenses to decline; New subscription services set for launch

Marketing expenses, which climbed to W86.7bn in 2Q, should decline in 3Q. Management has said that it intends to keep full-year marketing expenses in line with last year's level. Stock-based compensation (which has risen from W8bn in 4Q14 to W21.1bn in 1Q15 and W27.7bn in 2Q15) is also unlikely to increase further.

LINE's newest business models are expected to come into view in August and September. LINE Music, in which LINE owns a 33.4% stake, is set to launch a subscription plan in August. LINE should get a cut of the streaming service's gross revenue (similar to LINE's game revenue accounting) and also recognize equity-method profits. The service has achieved initial success, with 6.6mn downloads so far.

LINE@ ad services are also expected to move to paid subscription in September in Japan. As of end-2Q, LINE@ has 840,000 active accounts worldwide and 320,000 active accounts in Japan alone (up from 240,000 at end-1Q). Under the subscription model, advertisers in Japan will have to pay at least JPY5,400 a month beginning September if they want to continue to use the service.

Maintain Buy, but Lower TP to W820,000

Despite generating W208.5bn in operating profit from the domestic business alone in 2Q, NAVER has seen its market cap plummet to W17tr.

We see a brighter outlook for 2H, supported by lower expenses and the monetization of new services. But in light of the disappointing 2Q results, we revised down our 2015F and 2016F EPS by 6.3% and 3.8%, respectively, and accordingly reduced our target price to W820,000 (from W890,000).

FY (Dec.)	12/12	12/13	12/14	12/15F	12/16F	12/17F
Revenue (Wbn)	1,799	2,312	2,758	3,233	3,601	3,917
OP (Wbn)	521	524	758	855	1,149	1,415
OP margin (%)	29.0	22.7	27.5	26.4	31.9	36.1
NP (Wbn)	546	1,897	454	600	813	985
EPS (W)	11,346	45,425	13,787	18,205	24,665	29,867
ROE (%)	31.4	112.7	27.8	28.8	29.4	27.1
P/E (x)	19.9	15.9	51.6	28.5	21.0	17.3
P/B (x)	3.8	11.3	8.7	5.2	4.2	3.4

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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Table 1. 2Q15P review

(Wbn, %, %p)

	2Q14	1Q15	2Q15P			Growth	
			Actual	KDB Daewoo	Consensus	YoY	QoQ
Revenue	686	741	781	794	791	13.8	5.4
Operating profit	189	192	167	208	213	-11.6	-12.9
OP margin	27.3	25.9	21.4	28.1	27.0	-5.9	-4.5
Pretax profit	67	223	161	232	218	139.3	-27.7
Net profit	40	135	124	145	148	210.1	-7.9

Source: WISEfn, KDB Daewoo Securities Research estimates

Table 2. Quarterly and annual earnings

(Wbn, %)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15P	3Q15F	4Q15F	2013	2014	2015F
Revenue	626	686	700	747	741	781	812	900	2,287	2,759	3,233
- Advertisements	477	504	498	540	530	559	566	628	1,742	2,019	2,283
- Content	131	168	191	196	200	213	234	259	431	687	906
- Other	17	13	11	11	11	9	12	12	114	53	44
LINE											
- LINE (gross)	229	286	328	384	379	375	406	456	578	1,227	1,616
- LINE (net)	145	183	209	222	234	232	251	282	454	759	999
Revenue breakdown											
Advertisements	76.2	73.5	71.1	72.3	71.6	71.5	69.7	69.8	76.2	73.2	70.6
Content	21.0	24.5	27.3	26.2	27.0	27.3	28.8	28.8	18.8	24.9	28.0
Other	2.8	1.9	1.6	1.4	1.4	1.2	1.5	1.4	5.0	1.9	1.4
LINE											
- LINE (gross)	36.6	41.7	46.9	51.4	51.2	48.0	50.0	50.7	25.3	44.5	50.0
- LINE (net)	23.2	26.7	29.8	29.7	31.6	29.7	30.9	31.4	19.9	27.5	30.9
Operating expenses	439	497	511	553	549	614	596	621	1,772	2,000	2,379
Operating profit	186	189	189	194	192	167	216	279	515	758	855
OP margin (%)	29.8	27.6	27.0	26.0	25.9	21.4	26.6	31.1	22.5	27.5	26.4
Non-operating profit	15	13	28	40	48	45	34	34	87	96	162
Non-operating expenses	15	135	9	36	17	51	10	10	154	196	88
Taxes	59	46	64	68	89	37	95	121	127	237	342
Net profit	129	39	154	130	135	124	150	188	1,895	452	597
Net margin (%)	20.6	5.7	22.0	17.4	18.2	15.9	18.5	20.9	82.9	16.4	18.4
YoY growth											
Revenue	21.5	20.1	22.3	18.8	18.3	15.8	17.5	22.7	22.6	20.6	18.7
- Advertisements	15.5	18.2	16.5	13.6	11.1	12.5	16.3	21.8	44.1	15.9	15.6
- Content	92.8	48.3	62.8	48.8	52.1	27.4	18.7	20.0	22.9	59.4	27.6
- Other	-48.7	-56.0	-60.1	-50.8	-39.2	-4.9	50.2	111.6	93.1	-53.8	19.1
LINE											
- LINE (gross)	240.2	144.2	82.4	80.0	65.4	42.7	35.4	33.7	880.4	112.4	42.2
- LINE (net)	115.6	56.2	57.2	61.9	61.4	37.9	31.8	43.1	670.9	67.0	42.2
Operating expenses	13.0	14.8	8.3	15.6	24.8	17.9	15.7	12.1	31.5	12.9	17.3
Operating profit	47.7	36.9	87.9	28.7	3.0	10.2	22.2	52.8	-0.5	47.1	22.3
Net profit	-17.9	-68.0	-90.2	139.7	4.3	269.1	3.3	52.8	368.6	-76.2	41.0

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

Source: Company data, KDB Daewoo Securities Research estimates

Table 3. Earnings forecast revisions

(Wbn, W, %, %p)

	Previous		Revised		% chg.	
	2015F	2016F	2015F	2016F	2015F	2016F
Revenue	3,273	3,645	3,233	3,601	-1.2	-1.2
Operating profit	927	1,193	855	1,149	-7.8	-3.7
Pretax profit	925	1,184	867	1,139	-6.3	-3.8
Net profit	637	841	597	808	-6.3	-3.9
EPS	19,436	25,652	18,205	24,665	-6.3	-3.8
OP margin	28.3	32.7	26.4	31.9	-1.9	-0.8
Net margin	19.5	23.1	18.5	22.4	-1.0	-0.6

Note: All figures are based on consolidated K-IFRS

Source: Company data, KDB Daewoo Securities Research estimates

Table 4. Earnings comparison of 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
NAVER	14,557	2,621	2,759	3,234	720	774	1,035	27.5	28.1	32.0	432	543	727	16.5	19.7	22.5	138	16.7	22.2
Daum Kakao	6,609	474	878	1,047	168	185	275	35.4	21.0	26.3	143	141	209	30.1	16.0	20.0	48	2.4	3.5
Interpark	666	387	371	404	16	24	31	4.2	6.4	7.7	10	18	24	2.7	4.7	6.0	0.3	0.5	0.7
Google	442,525	66,001	59,967	70,923	16,496	22,859	27,064	25.0	38.1	38.2	14,444	16,190	19,476	21.9	27.0	27.5	-	28.9	33.4
Yahoo	35,351	4,618	4,203	4,174	143	396	368	3.1	9.4	8.8	7,522	186	305	162.9	4.4	7.3	0.7	0.7	0.7
Amazon	247,419	88,988	105,717	126,227	178	1,884	3,641	0.2	1.8	2.9	-241	665	2,136	-0.3	0.6	1.7	-0.2	4.8	8.6
Facebook	272,371	12,466	17,115	22,936	4,994	9,020	12,207	40.1	52.7	53.2	2,925	2,864	4,818	23.5	16.7	21.0	1.0	2.0	2.7
Twitter	20,455	1,403	2,228	3,246	-539	276	570	-38.4	12.4	17.6	-578	-597	-381	-41.2	-26.8	-11.7	-0.9	0.3	0.6
LinkedIn	29,224	2,219	2,908	3,821	36	375	568	1.6	12.9	14.9	-16	-347	-76	-0.7	-11.9	-2.0	-0.4	1.9	3.4
Groupon	3,275	3,192	3,205	3,573	-15	112	161	-0.5	3.5	4.5	-73	-13	34	-2.3	-0.4	0.9	-0.1	0.2	0.2
Yahoo Japan	23,216	3,917	3,810	4,150	1,803	1,661	1,794	46.0	43.6	43.2	1,216	1,088	1,176	31.1	28.6	28.3	0.2	0.2	0.2
Rakuten	22,978	5,668	5,627	6,425	1,008	1,045	1,301	17.8	18.6	20.2	669	603	781	11.8	10.7	12.2	0.5	0.4	0.6
Alibaba	201,647	12,302	16,379	21,887	3,735	5,014	7,519	30.4	30.6	34.4	3,917	4,256	6,531	31.8	26.0	29.8	1.3	2.8	3.7
Baidu	59,713	7,962	10,816	14,286	2,078	1,818	2,569	26.1	16.8	18.0	2,140	2,007	2,720	26.9	18.6	19.0	6.1	6.3	8.2
Sohu	1,785	1,673	1,985	2,342	-205	-2	79	-12.3	-0.1	3.4	-167	-107	-19	-10.0	-5.4	-0.8	-1.8	-1.9	0.8
Sina	2,403	768	839	990	-26	-35	25	-3.4	-4.2	2.5	177	3	42	23.0	0.3	4.3	1.1	0.6	1.4
Youku	3,857	685	1,014	1,403	-137	-259	-194	-20.0	-25.5	-13.8	-136	-245	-171	-19.8	-24.2	-12.2	-1.0	-1.1	-0.9
Tencent	172,754	12,811	16,179	21,036	3,832	6,056	7,827	29.9	37.4	37.2	3,865	4,816	6,328	30.2	29.8	30.1	0.4	0.5	0.7
Average								11.8	16.9	19.5				18.8	7.5	11.3			

Note: Based on Bloomberg consensus on Jul. 30th

Source: Bloomberg, KDB Daewoo Securities Research

Table 5. Valuation comparison of global internet companies

(US\$m, 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
NAVER	14,557	35.4	26.5	20.0	8.0	6.9	5.2	5.3	5.3	4.5	20.6	15.1	11.7	26.2	29.8	29.8	14.3	16.6	18.2
Daum Kakao	6,609	25.3	46.8	31.3	3.1	3.0	2.8	4.6	7.5	6.3	-	24.6	18.7	11.4	6.5	8.9	9.8	5.6	7.7
Interpark	666	70.0	37.6	27.6	5.0	5.0	4.4	1.9	1.8	1.7	26.9	20.7	16.7	8.5	12.6	15.3	2.7	4.7	6.2
Google	442,525	-	21.8	18.9	-	3.5	3.0	-	7.4	6.2	13.3	12.6	10.8	14.0	16.1	16.2	11.6	13.2	13.6
Yahoo	35,351	52.4	55.2	55.2	1.1	1.0	1.1	7.4	8.4	8.5	56.6	29.8	29.8	30.0	1.9	2.2	20.8	1.2	1.4
Amazon	247,419		110.2	61.3	21.0	20.4	14.8	2.6	2.3	2.0	31.4	24.1	19.5	-1.7	11.4	24.4	-0.4	2.3	5.6
Facebook	272,371	99.0	48.0	36.4	7.1	6.5	5.6	18.1	15.9	11.9	36.6	24.3	18.0	9.4	11.0	13.2	8.4	11.7	13.6
Twitter	20,455	-	95.0	49.4	4.8	5.0	4.7	11.2	9.2	6.3	-	34.4	20.7	-16.5	-2.7	2.4	-12.2	-3.9	0.5
LinkedIn	29,224	-	119.7	67.8	8.5	9.7	9.0	12.1	10.1	7.6	103.3	42.1	27.6	-1.5	8.2	17.6	-1.0	5.3	10.3
Groupon	3,275	-	29.5	23.2	4.3	3.8	2.8	1.0	1.0	0.9	25.6	7.2	5.9	-6.2	11.7	8.4	-2.2	5.6	4.3
Yahoo Japan	23,216	22.2	21.5	19.8	4.1	3.5	3.1	6.6	6.1	5.6	-	-	-	19.4	17.5	16.7	14.4	12.8	12.5
Rakuten	22,978	38.5	36.6	28.5	6.1	5.1	4.3	4.3	4.1	3.6	10.5	9.8	8.1	18.5	15.6	16.7	2.0	1.9	2.4
Alibaba	201,647	64.3	29.1	21.8	8.5	6.9	5.3	15.4	12.3	9.2	44.0	22.8	17.6	27.5	22.0	24.4	13.2	12.7	13.8
Baidu	59,713	28.2	27.2	20.7	6.2	5.7	4.5	6.5	5.5	4.2	-	22.0	16.3	25.3	21.8	23.1	12.7	10.1	11.7
Sohu	1,785	-	-	55.9	1.5	1.6	1.3	1.0	0.9	0.8	18.2	9.5	5.3	-8.7	-6.4	1.6	-3.7	-2.3	1.1
Sina	2,403	37.4	67.4	29.4	1.2	1.1	1.0	3.3	2.9	2.4	707.8	35.0	14.0	12.6	1.7	3.9	6.2	1.5	2.4
Youku	3,857	-	-	-	1.8	2.0	2.2	5.4	3.8	2.7	28.3	-	-	-10.5	-9.7	-9.2	-8.4	-8.4	-6.2
Tencent	172,754	43.6	34.2	26.2	12.1	9.8	7.4	12.8	10.7	8.2	33.7	24.2	19.0	31.7	31.5	30.8	14.7	16.9	18.0
Average		46.9	50.4	34.9	6.1	5.6	4.6	7.0	6.4	5.1	82.6	22.4	16.2	10.5	11.1	13.7	5.7	6.0	7.6

Note: Based on Bloomberg consensus on Jul. 30th

Source: Bloomberg, KDB Daewoo Securities Research

NAVER (035420 KS/Buy/TP: W820,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Revenue	2,758	3,233	3,601	3,917
Cost of Sales	0	0	0	0
Gross Profit	2,758	3,233	3,601	3,917
SG&A Expenses	2,000	2,379	2,452	2,502
Operating Profit (Adj)	758	855	1,149	1,415
Operating Profit	758	855	1,149	1,415
Non-Operating Profit	-99	12	-10	15
Net Financial Income	17	28	43	62
Net Gain from Inv in Associates	-1	0	0	0
Pretax Profit	659	867	1,139	1,430
Income Tax	237	270	330	451
Profit from Continuing Operations	422	597	808	979
Profit from Discontinued Operations	30	0	0	0
Net Profit	452	597	808	979
Controlling Interests	454	600	813	985
Non-Controlling Interests	-3	-4	-5	-6
Total Comprehensive Profit	563	597	808	979
Controlling Interests	565	599	812	984
Non-Controlling Interests	-3	-3	-4	-5
EBITDA	902	975	1,249	1,499
FCF (Free Cash Flow)	508	878	1,038	1,179
EBITDA Margin (%)	32.7	30.2	34.7	38.3
Operating Profit Margin (%)	27.5	26.4	31.9	36.1
Net Profit Margin (%)	16.5	18.6	22.6	25.1

Cash Flows (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Cash Flows from Op Activities	779	878	1,038	1,179
Net Profit	452	597	808	979
Non-Cash Income and Expense	503	394	419	504
Depreciation	132	110	92	76
Amortization	12	11	9	8
Others	359	273	318	420
Chg in Working Capital	35	121	89	76
Chg in AR & Other Receivables	-107	-54	-42	-36
Chg in Inventories	-17	-3	-2	-2
Chg in AP & Other Payables	206	0	0	0
Income Tax Paid	-234	-270	-330	-451
Cash Flows from Inv Activities	-379	-167	-129	-111
Chg in PP&E	-260	0	0	0
Chg in Intangible Assets	-6	0	0	0
Chg in Financial Assets	-178	-167	-129	-111
Others	65	0	0	0
Cash Flows from Fin Activities	-112	-28	-29	-35
Chg in Financial Liabilities	104	-5	0	0
Chg in Equity	0	0	0	0
Dividends Paid	-22	-23	-29	-35
Others	-194	0	0	0
Increase (Decrease) in Cash	287	638	835	989
Beginning Balance	435	723	1,360	2,195
Ending Balance	723	1,360	2,195	3,184

Source: Company data, KDB Daewoo Securities Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Current Assets	1,946	2,786	3,783	4,911
Cash and Cash Equivalents	723	1,360	2,195	3,184
AR & Other Receivables	414	478	532	579
Inventories	17	19	22	23
Other Current Assets	792	929	1,034	1,125
Non-Current Assets	1,449	1,373	1,307	1,253
Investments in Associates	36	42	47	51
Property, Plant and Equipment	901	791	700	623
Intangible Assets	121	110	101	93
Total Assets	3,394	4,160	5,091	6,165
Current Liabilities	1,081	1,225	1,341	1,440
AP & Other Payables	315	369	411	447
Short-Term Financial Liabilities	213	209	209	209
Other Current Liabilities	553	647	721	784
Non-Current Liabilities	516	563	600	631
Long-Term Financial Liabilities	243	243	243	243
Other Non-Current Liabilities	273	320	357	388
Total Liabilities	1,597	1,789	1,941	2,072
Controlling Interests	1,796	2,373	3,157	4,106
Capital Stock	16	16	16	16
Capital Surplus	133	133	133	133
Retained Earnings	2,584	3,161	3,944	4,893
Non-Controlling Interests	1	-2	-7	-13
Stockholders' Equity	1,797	2,371	3,150	4,093

Forecasts/Valuations (Summarized)

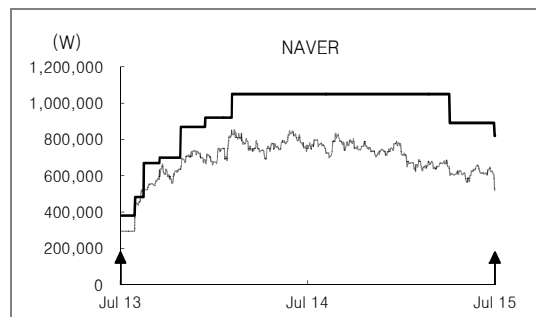
	12/14	12/15F	12/16F	12/17F
P/E (x)	51.6	28.5	21.0	17.3
P/CF (x)	24.6	17.2	13.9	11.5
P/B (x)	8.7	5.2	4.2	3.4
EV/EBITDA (x)	24.9	15.7	11.5	8.9
EPS (W)	13,787	18,205	24,665	29,867
CFPS (W)	28,959	30,048	37,227	44,991
BPS (W)	81,551	99,057	122,829	151,623
DPS (W)	782	1,000	1,200	1,400
Payout ratio (%)	5.1	4.9	4.4	4.2
Dividend Yield (%)	0.1	0.2	0.2	0.3
Revenue Growth (%)	19.3	17.2	11.4	8.8
EBITDA Growth (%)	37.5	8.1	28.1	20.0
Operating Profit Growth (%)	44.7	12.8	34.4	23.2
EPS Growth (%)	-69.6	32.0	35.5	21.1
Accounts Receivable Turnover (x)	10.1	9.5	9.3	9.2
Inventory Turnover (x)	334.0	180.2	176.0	174.0
Accounts Payable Turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	14.8	15.8	17.5	17.4
ROE (%)	27.8	28.8	29.4	27.1
ROIC (%)	68.3	100.1	196.9	354.5
Liability to Equity Ratio (%)	88.9	75.5	61.6	50.6
Current Ratio (%)	180.0	227.4	282.1	341.0
Net Debt to Equity Ratio (%)				
Interest Coverage Ratio (x)				

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
NAVER (035420)	07/30/2015	Buy	820,000
	05/04/2015	Buy	890,000
	03/06/2014	Buy	1,050,000
	01/13/2014	Buy	920,000
	11/26/2013	Buy	870,000
	10/16/2013	Buy	700,000
	09/15/2013	Buy	670,000
	08/29/2013	Buy	483,000
	07/12/2013	Buy	382,000



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
72.36%	13.57%	14.07%	0.00%

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

Disclosures

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