

Com2uS (078340.KQ)

Further launch delay disappointing, but remain calm

Company Comment | Nov 8, 2018

With the launch of Skylanders having been delayed once again, Com2uS's share price has dropped sharply. Although the repeated delays are increasingly frustrating the market, we point out that the situation is not equivalent to a new title failing to catch on after its release. Accordingly, Com2uS's share price momentum should regain steam upon the approach of the Skylanders rollout next year.

3Q18 review: Earnings come in satisfactory

Com2uS posted 3Q18 sales of W119.8bn (-4.7% y-y, -3.4% q-q) and OP of W38.0bn (-23.3% y-y, +4.4% q-q), with OP meeting both our estimate (W39.1bn) and consensus (W38.7bn).

The firm showed overseas sales of W99.4bn (-9.7% y-y, -3.5% q-q) and domestic sales of W20.4bn (+30.2% y-y, -3.3% q-q). Despite unfavorable seasonality (3Q), Summoners War sales proved stable q-q on the Tartaros' Labyrinth update and an e-sports event, the Summoners War World Arena Championship 2018 (SWC 2018).

Meanwhile, marketing costs totaled W17.9bn (-13.5% y-y, -3.0% q-q). We note that the firm's 3Q18 marketing cost-to-sales ratio stood at 14.9%, remaining within the annual guidance of 14~15%.

Further delay disappointing, but remain upbeat towards Skylanders' success potential

A recent drop in Com2uS's share price evidences the market frustration over the repeated launch delays for Skylanders: Ring of Heroes (Skylanders). The market had anticipated that the firm would roll out the game in Europe in November and North America and other global markets in December. But, Com2uS now says that the game will be introduced first in Canada and Australia in December, with the remaining regions to follow in January.

Our previous 4Q18 earnings projections reflected sales of W30.0bn for Skylanders. Adjusting our earnings estimates in line with the game's debut being put off to 2019, we lower our TP from W170,000 to W160,000.

However, we adhere to a Buy rating. Despite disappointment over the repeated rollout delays, we are still upbeat towards Skylanders' success potential, believing that Com2uS's earnings growth momentum will be re-energized upon the debut of the new game next year.

3Q18 review

(Units: Wbn, %)

	3Q17	4Q17	1Q18	2Q18	3Q18P					4Q18E
					Actual	y-y	q-q	Estimate	Consensus	
Sales	125.7	132.6	114.0	124.1	119.8	-4.7	-3.4	124.4	122.9	124.5
OP	49.6	46.0	39.4	36.4	38.0	-23.3	4.4	39.1	38.7	40.0
OPM	39.4	34.7	34.6	29.4	31.7	-	-	31.4	31.5	32.2
Pre-tax profit	53.4	37.7	49.7	46.0	39.8	-25.4	-13.5	41.8	42.8	41.5
NP(excl minority interests)	39.8	28.3	36.5	35.2	29.7	-25.3	-15.4	31.7	31.6	31.2

Note: IFRS consolidated; Source: Com2uS, WISEfn, NH I&S Research Center estimates

Buy (maintain)

TP **W160,000 (lower)**
CP (2018/11/07) **W122,300**

Sector	Game
Kospi/Kosdaq	2,078.69 / 682.37
Market cap (common)	US\$1,407.51mn
Outstanding shares (common)	12.9mn
52W high ('18/05/31)	W191,500
low ('17/11/09)	W119,200
Average trading value (60D)	US\$13.95mn
Dividend yield (2018E)	1.14%
Foreign ownership	29.7%

Major shareholders	
Gamevil & 3 others	24.5%
KB Asset Mgmt	10.3%

Share perf	3M	6M	12M
Absolute (%)	-20.2	-25.3	-2.0
Relative (%)p	-8.2	-6.3	0.7

	2017	2018E	2019F	2020F
Sales	508.0	482.5	604.1	763.7
Chg	-1.0	-5.0	25.2	26.4
OP	194.6	153.9	206.2	279.5
OPM	38.3	31.9	34.1	36.6
NP	142.4	133.1	170.7	227.4
EPS	11,066	10,344	13,271	17,672
Chg	-6.2	-6.5	28.3	33.2
P/E	12.3	11.8	9.2	6.9
P/B	2.3	1.8	1.5	1.3
EV/EBITDA	5.5	5.3	3.4	1.8
ROE	20.4	16.3	17.9	20.1
Debt/equity	10.2	9.8	9.9	8.2
Net debt	-670.1	-738.2	-870.8	-1,079

Units: Wbn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates



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While we reiterate our Buy rating on Com2uS, we lower our TP from W170,000 to W160,000, reflecting downward revisions to our earnings estimates due to delayed game releases. Equating to a 2019F P/E of 12.1x, our RIM-derived TP assumes a risk free rate of 4.0%, market risk premium of 6.0%, and beta of 0.8, and offers 30.8% upside from the current share price.

(Units: Wbn. won)

* Risk free rate = 4.0% (standardized)

Game lineup

Title	Genre	Developer	Launch date
Dungeon Delivery	Casual RPG	Com2uS	Apr 24, 2017
Majestia	Strategy	Com2uS	May 25,
MLB 9 Innings GM	Sports	Com2uS	Jun 24, 2017
Chain Strike	Simulation RPG	Com2uS	Mar 29, 2018
Skylanders: Ring of Heroes	RPG	Com2uS	Dec 2018
Birdie Crush	Sports	Com2uS	2019
Dancevil	Sandbox casual	Com2uS	2019
Heroes War 2	RPG	Com2uS	2019
Summoners War MMORPG	MMORPG	Com2uS	2019

Source: Com2uS, NH I&S Research Center

Earnings forecasts (IFRS consolidated)

(Units: Wbn, won, x, %)

		2017	2018E	2019F	2020F
Sales	- Revised	508.0	482.5	604.1	763.7
	- Previous	-	524.5	678.4	825.0
	- Change	-	-8.0	-11.0	-7.4
OP	- Revised	194.6	153.9	206.2	279.5
	- Previous	-	169.3	235.7	301.2
	- Change	-	-9.1	-12.5	-7.2
OPM	- Revised	38.3	31.9	34.1	36.6
EBITDA		197.4	156.2	208.7	282.1
NP (excl minority interests)		142.4	133.1	170.7	227.4
EPS	- Revised	11,066	10,344	13,271	17,672
	- Previous	-	11,295	15,072	19,040
	- Change	-	-8.4	-11.9	-7.2
P/E		12.3	11.8	9.2	6.9
P/B		2.3	1.8	1.5	1.3
EV/EBITDA		5.5	5.3	3.4	1.8
ROE		20.4	16.3	17.9	20.1

Note: EPS, P/E, P/B, and ROE based on NP (excluding minority interests)

Source: NH I&S Research Center estimates

Quarterly earnings forecasts

(Units: Wbn, %)

	1Q18	2Q18	3Q18P	4Q18E	1Q19F	2Q19F	3Q19F	4Q19F	2017	2018E	2019F
Sales	114.0	124.1	119.8	124.5	149.2	159.0	148.9	147.1	508.0	482.5	604.1
Domestic	16.7	21.1	20.4	21.6	23.8	25.6	24.3	22.9	63.2	80.0	96.6
Overseas	97.3	103.0	99.4	102.9	125.4	133.4	124.5	124.2	444.8	402.5	507.5
Summoners War	96.1	98.5	95.8	100.5	92.7	88.0	83.6	87.3	399.9	389.6	351.7
Skylanders	-	-	-	-	33.0	46.8	42.1	37.9	-	-	159.8
Operating expenses	74.6	87.7	81.8	84.5	96.6	106.6	97.9	96.7	313.3	328.5	397.9
Labor costs	11.3	14.3	12.4	13.4	12.6	14.7	13.5	14.2	48.3	51.4	55.0
Royalty fees	2.8	3.7	3.2	3.7	4.8	6.5	4.6	4.0	12.7	13.4	19.9
Commission	41.3	44.9	42.9	43.6	52.6	55.8	51.9	50.7	165.4	172.7	211.0
Marketing expenses	13.3	18.7	17.9	18.6	21.1	22.7	21.5	21.1	66.1	68.5	86.5
OP	39.4	36.4	38.0	40.0	52.6	52.3	50.9	50.4	194.6	153.9	206.2
OPM	34.6	29.4	31.7	32.2	35.3	32.9	34.2	34.3	38.3	31.9	34.1
Pre-tax profit	49.7	46.0	39.8	41.5	59.2	58.1	55.1	54.0	193.2	177.1	226.4
NP	36.5	35.2	29.8	31.2	44.5	43.9	41.6	40.7	142.4	133.2	170.8

Source: Com2uS, NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Sales	508.0	482.5	604.1	763.7
Growth (%)	-1.0	-5.0	25.2	26.4
COGS	51.3	55.3	63.9	66.1
Gross Profit	456.7	427.2	540.3	697.6
Gross margin (%)	89.9	88.5	89.4	91.3
SG&A	262.0	273.2	334.0	418.1
Operating Income	194.6	153.9	206.2	279.5
Growth (%)	1.4	-20.9	34.0	35.5
Operating margin (%)	38.3	31.9	34.1	36.6
EBITDA	197.4	156.2	208.7	282.1
Non-Operating Profit	-1.5	23.2	20.2	21.9
Financial Income (Costs)	7.6	12.9	14.8	17.5
Other Non-Operating Profit	-9.7	9.8	4.8	3.8
Gains(Losses) in Associates, Subsidiaries and JVs	0.6	0.5	0.6	0.6
Pre-tax Profit from Cont. Op.	193.2	177.1	226.4	301.4
Income Taxes	50.9	44.0	55.5	73.9
Profit from Continuing Op.	142.4	133.2	170.8	227.5
Net Profit	142.4	133.2	170.8	227.5
Growth (%)	-6.2	-6.5	28.2	33.2
Net margin (%)	28.0	27.6	28.3	29.8
Net Profit of Parent	142.4	133.1	170.7	227.4
Net Profit to Non-Controlling	0.0	0.1	0.1	0.1
Other Comprehensive Income	-0.9	0.0	0.0	0.0
Total Comprehensive Income	141.5	133.2	170.8	227.5

Valuation / Profitability / Stability				
	2017/12A	2018/12E	2019/12F	2020/12F
Price/Earnings (x)	12.3	11.8	9.2	6.9
Price/Book Value (x)	2.3	1.8	1.5	1.3
Price/Gross Cash Flow (x)	9.1	9.4	7.3	5.5
Price/Sales (x)	3.4	3.3	2.6	2.1
EV/EBITDA (x)	5.5	5.3	3.4	1.8
EV/EBIT (x)	5.6	5.4	3.4	1.8
Fully diluted EPS (won)	11,066	10,344	13,271	17,672
BVPS (won)	59,141	68,121	79,931	96,045
Sales PS (won)	39,482	37,499	46,953	59,356
ROE (%)	20.4	16.3	17.9	20.1
ROA (%)	18.4	14.8	16.3	18.4
ROIC (%)	669.6	308.4	303.3	381.1
Dividend Yield (%)	1.0	1.1	1.2	1.3
Payout Ratio (%)	12.3	13.2	11.0	8.8
Total Cash Dividend (Wbn)	17.5	17.5	18.8	20.0
Cash DPS (won)	1,400	1,400	1,500	1,600
Net debt (cash)/equity (%)	-88.1	-84.2	-84.7	-87.3
Debt/equity (%)	10.2	9.8	9.9	8.2
Interest-Bearing Debts (Wbn)	0.0	0.0	0.0	0.0
Current Ratio (%)	1,003.8	1,020.0	1,017.2	1,235.6
Total shares (mn)	13	13	13	13
Par value (won)	500	500	500	500
Share price (won)	136,100	122,300	122,300	122,300
Market Cap (Wbn)	1,751	1,574	1,574	1,574

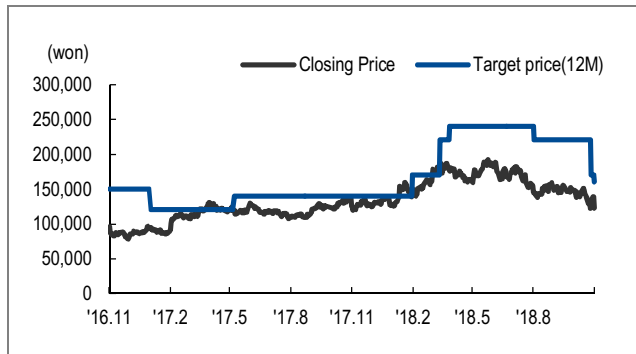
STATEMENT OF FINANCIAL POSITION				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Cash and Cash Equivalents	25.8	25.7	27.6	244.2
Accounts Receivables	74.1	81.9	96.9	96.0
Total Current Assets	768.0	864.3	1,020	1,227
Tangible Assets	2.9	3.2	3.5	3.6
Investment Assets	34.5	63.8	75.5	74.7
Non-Current Assets	70.3	98.6	110.8	110.4
Assets	838.3	962.9	1,131	1,337
Short-Term Debt	0.0	0.0	0.0	0.0
Account Payables	0.0	0.0	0.0	0.0
Current Liabilities	76.5	84.7	100.3	99.3
Long-Term Debt	0.0	0.0	0.0	0.0
Long-Term Allowance	0.0	0.0	0.0	0.0
Non-Current Liabilities	0.9	1.6	1.9	1.9
Liabilities	77.4	86.3	102.2	101.2
Capital Stock	6.4	6.4	6.4	6.4
Capital Surplus	208.5	208.5	208.5	208.5
Retained Earnings	559.7	675.3	827.2	1,035
Non-Controlling Interests Equity	0.0	0.1	0.2	0.3
Shareholders' Equity	760.9	876.5	1,029	1,236

CASH FLOW STATEMENT				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Operating Cash Flow	134.5	116.3	164.8	229.3
Net Profit	142.4	133.2	170.8	227.5
Depreciation & Amortization	2.8	2.3	2.5	2.6
+ Loss (Gains) from Subs	-0.7	0.0	0.0	0.0
+ FC translation loss (profit)	4.1	0.0	0.0	0.0
Gross Cash Flow	192.5	167.7	215.3	287.7
- Incr. (Decr.) in WC	-11.1	-19.2	-8.5	-0.8
Investing Cash Flow	-182.0	-98.8	-145.4	6.1
+ Decr. In Tangible Assets	0.0	0.0	0.0	0.0
- Incr. In Tangible Assets (capex)	-1.1	-2.0	-2.0	-2.0
+ Disp. (Acq.) of Inv. Assets	-11.7	-29.3	-11.7	0.7
Free Cash Flow	133.5	114.3	162.8	227.3
Net Cash Flow	-47.5	17.5	19.4	235.4
Financing Cash Flow	-15.9	-17.5	-17.5	-18.8
Equity Financing	0.0	0.0	0.0	0.0
Debt Financing	-15.9	-17.5	-17.5	-18.8
Incr. (Decr.) in Cash	-64.2	-0.1	1.9	216.6
Ending Cash and Cash Equivalents	25.8	25.7	27.6	244.2
Net Debt (Cash)	-670.1	-738.2	-870.8	-1,079

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2018.11.07	Buy	W160,000(12M)	-	-
2018.11.02	Buy	W170,000(12M)	-18.5%	-18.4%
2018.08.09	Buy	W220,000(12M)	-33.7%	-27.7%
2018.04.03	Buy	W240,000(12M)	-28.5%	-20.2%
2018.03.20	Buy	W220,000(12M)	-17.0%	-15.1%
2018.02.06	Buy	W170,000(12M)	-5.8%	6.6%
2017.07.12	Buy	W150,000(12M)	-16.1%	6.1%
2017.05.14	Buy	W140,000(12M)	-15.1%	-7.1%
2017.01.08	Buy	W120,000(12M)	-8.2%	8.7%
2016.11.08	Buy	W150,000(12M)	-42.3%	-35.8%

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1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Nov 2, 2018).

● NH I&S' stock rating distribution

Buy	Hold	Sell
80.6%	19.4%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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