

NatGames (225570.KQ)

Needs new game momentum

Company Comment | Dec 26, 2018

Through its successful launches of HIT and OverHit, NatGames has proved its development capability. As a subsidiary of NEXON, the company boasts a solid parent company and publisher. However, having recorded operating losses, the firm is in need of new game momentum.

Proven track record: HIT and OverHit

NatGames developed mobile RPG game HIT (2015) and collectible RPG OverHit (2017), two titles which proved highly successful.

In Jun 2018, the then second-largest shareholder Nexon Korea acquired an additional 30% stake in the firm, bringing up its stake to 47.66% and becoming the largest shareholder of NatGames (previously, Barunson E&A was the largest shareholder).

To showcase three new titles in 2019

At the recent G-Star 2018 Gaming Convention, NatGames unveiled PROJECT V4 (previously known as MULTIHIT), its first new title since Dec 2017.

Backed by its existing HIT IPs, the game developer is also planning to release mobile MMORPG and multi-hero RPG versions in 2019.

Losses inevitable in 2019; needs to outperform market expectations

NatGames posted 2017 sales of W22.4bn, an operating loss of 3.7bn, and a net loss of W3.1bn. Over 1Q18~3Q18, the firm registered sales of W20.8bn, an operating loss of W5.16bn, and a net loss of W1.95bn.

Although OverHit performed well after its initial release in Korea (Nov 2017) and Japan (May 2018), the game's mobile rankings have been slipping and overall sales are declining. Meanwhile, as the number of projects currently underway at the company has grown from one to three, its number of employees expanded from 329 at end-2017 to 375 as of 3Q18. With labor costs and other expenses rising as a result, both operating income and net income have fallen into the red.

For NatGames to turn to profit, its three games planned for launch in 2019 must secure a certain level of success. We estimate the firm's 2019 sales at W30.6bn, with an operating loss of W4.7bn and a net loss of 2.1bn.

Not Rated

CP (2018/12/24) **W6,990**

Sector	Game
Kospi/Kosdaq	2,055.01 / 669.79
Market cap (common)	US\$148.92mn
Outstanding shares (common)	24.0mn
52W high ('18/05/30)	W19,850
low ('18/12/21)	W6,740
Average trading value (60D)	US\$0.44mn
Dividend yield (2018E)	0.00%
Foreign ownership	0.3%

Major shareholders	
NEXON Korea	47.6%
Barunson E&A	10.9%

Share perf	3M	6M	12M
Absolute (%)	-30.4	-46.4	-31.3
Relative (%)p	-14.0	-33.6	-21.9

	2016	2017	2018E	2019F
Sales	26	22	26	31
Chg	319.5	-12.6	15.3	18.4
OP	10	-4	-9	-5
OPM	40.3	-16.7	-34.1	-15.4
NP	10	-3	-4	-2
EPS	456	-140	-160	-88
Chg	244.7	TTL	RR	RR
P/E	21.7	N/A	N/A	N/A
P/B	13.8	9.3	6.5	7.1
EV/EBITDA	0.6	N/A	N/A	N/A
ROE	97.7	-13.8	-13.7	-8.6
Debt/equity	32.0	45.7	132.4	151.6
Net debt	-12	-32	-47	-47

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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Earnings forecasts (IFRS consolidated)

(Units: Wbn, won, x, %)

	2016	2017	2018E	2019F
Sales	26	22	26	31
OP	10	-4	-9	-5
OPM	40.3	-18.2	-34.6	-16.1
EBITDA	11	-3	-8	-4
NP (excl minority interests)	10	-3	-4	-2
EPS	456	-140	-160	-88
P/E	2.2	N/A	N/A	N/A
P/B	1.4	9.3	6.5	7.1
EV/EBITDA	0.1	N/A	N/A	N/A
ROE	9.8	-13.8	-13.7	-8.6

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

Source: NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2016/12A	2017/12A	2018/12E	2019/12F
Sales	26	22	26	31
Growth (%)	319.5	-12.6	15.3	18.4
COGS	0	0	0	0
Gross Profit	26	22	26	31
Gross margin (%)	100.0	100.0	100.0	100.0
SG&A	15	26	35	35
Operating Income	10	-4	-9	-5
Growth (%)	1,037.6	TTL	RR	RR
Operating margin (%)	40.3	-16.7	-34.1	-15.4
EBITDA	11	-3	-7	-4
Non-Operating Profit	0	-3	1	1
Financial Income (Costs)	0	0	1	1
Other Non-Operating Profit	0	-3	1	1
Gains(Losses) in Associates, Subsidiaries and JVs	0	0	0	0
Pre-tax Profit from Cont. Op.	10	-6	-8	-4
Income Taxes	1	-3	-4	-1
Profit from Continuing Op.	10	-3	-4	-2
Net Profit	10	-3	-4	-2
Growth (%)	525.7	TTL	RR	RR
Net margin (%)	37.7	-13.7	-14.7	-6.9
Net Profit of Parent	10	-3	-4	-2
Net Profit to Non-Controlling	0	0	0	0
Other Comprehensive Income	0	0	0	0
Total Comprehensive Income	10	-3	-4	-2

Valuation / Profitability / Stability				
	2016/12A	2017/12A	2018/12E	2019/12F
Price/Earnings (x)	21.7	N/A	N/A	N/A
Price/Book Value (x)	13.8	9.3	6.5	7.1
Price/Gross Cash Flow (x)	17.2	-288.0	-23.9	-47.8
Price/Sales (x)	8.2	11.7	6.4	5.5
EV/EBITDA (x)	0.6	N/A	N/A	N/A
EV/EBIT (x)	0.6	N/A	N/A	N/A
Fully diluted EPS (won)	456	-140	-160	-88
BVPS (won)	715	1,282	1,071	983
Sales PS (won)	1,211	1,021	1,089	1,274
ROE (%)	97.7	-13.8	-13.7	-8.6
ROA (%)	69.7	-9.8	-7.4	-3.6
ROIC (%)	222.8	-282.0	124.2	24.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Total Cash Dividend (Wbn)	0	0	0	0
Cash DPS (won)	0	0	0	0
Net debt (cash)/equity (%)	-76.2	-110.1	-184.2	-199.8
Debt/equity (%)	32.0	45.7	132.4	151.6
Interest-Bearing Debts (Wbn)	0	1	1	1
Current Ratio (%)	560.5	672.4	323.1	318.6
Total shares (mn)	21	23	24	24
Par value (won)	1,000	100	500	500
Share price (won)	9,900	11,925	6,990	6,990
Market Cap (Wbn)	18	275	168	168

STATEMENT OF FINANCIAL POSITION				
(Wbn)	2016/12A	2017/12A	2018/12E	2019/12F
Cash and Cash Equivalents	11.5	32.5	47.2	46.7
Accounts Receivables	5.4	2.2	2.6	3.0
Total Current Assets	17.1	35.7	50.9	51.2
Tangible Assets	0.8	1.0	0.5	0.3
Investment Assets	0.5	0.0	0.0	0.0
Non-Current Assets	2.9	7.3	8.8	8.1
Assets	20.0	43.0	59.8	59.3
Short-Term Debt	0.0	0.0	0.0	0.0
Account Payables	0.0	0.0	0.0	0.0
Current Liabilities	3.0	5.3	15.8	16.1
Long-Term Debt	0.0	0.9	0.9	0.9
Long-Term Allowance	1.3	2.4	2.8	3.3
Non-Current Liabilities	1.8	8.2	18.3	19.7
Liabilities	4.8	13.5	34.0	35.8
Capital Stock	9.7	11.5	11.5	11.5
Capital Surplus	1.2	15.8	15.8	15.8
Retained Earnings	3.3	0.2	-3.6	-5.7
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
Shareholders' Equity	15.1	29.5	25.7	23.6

CASH FLOW STATEMENT				
(Wbn)	2016/12A	2017/12A	2018/12E	2019/12F
Operating Cash Flow	13.9	9.0	17.9	-0.1
Net Profit	9.7	-3.1	-3.8	-2.1
Depreciation & Amortization	0.4	0.8	1.3	0.7
+ Loss (Gains) from Subs	0.0	0.0	0.0	0.0
+ FC translation loss (profit)	0.0	0.1	0.0	0.0
Gross Cash Flow	12.2	-0.9	-6.9	-3.5
- Incr. (Decr.) in WC	2.1	9.8	20.2	1.2
Investing Cash Flow	-1.4	11.1	-3.0	-0.2
+ Decr. In Tangible Assets	0.0	0.0	0.0	0.0
- Incr. In Tangible Assets (capex)	-0.8	-0.8	0.0	0.0
+ Disp.(Acq.) of Inv. Assets	-0.3	0.5	0.0	0.0
Free Cash Flow	13.1	8.2	17.9	-0.1
Net Cash Flow	12.4	20.1	14.9	-0.3
Financing Cash Flow	-1.0	0.9	-0.2	-0.1
Equity Financing	0.0	16.5	0.0	0.0
Debt Financing	-1.0	-15.5	-0.1	-0.1
Incr.(Decr.) in Cash	11.5	20.9	14.7	-0.4
Ending Cash and Cash Equivalents	11.5	32.5	47.2	46.7
Net Debt (Cash)	-11.5	-32.5	-47.4	-47.1

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