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Company Update



Donghwan Oh
Analyst
dh1.oh@samsung.com
822 2020 7808

Junyong Lee
Research Associate
jbrad.lee@samsung.com
822 2020 7981

AT A GLANCE

SELL HOLD BUY

Target price KRW36,000 (17.6%)

Current price KRW30,600

Market cap KRW514.08b/USD459.41m
Shares (float) 16,800,000 (50.6%)
52-week high/low KRW60,000/KRW19,900
Avg daily trading value (60-day) KRW3.4b/USD3.0m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Wemade Entertainment (%)	17.9	-32.7	-41.6
Vs Kosdaq (%pts)	22.6	-20.6	-29.1

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	36,000	28,000	28.6%
2018E EPS	-696	-774	n/a
2019E EPS	336	35	860.0%

SAMSUNG vs THE STREET

No of estimates	5
Target price	38,600
Recommendation	3.8

BUY★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★: 1

Wemade Entertainment (112040)

Prevails in China legal dispute

- Wemade Entertainment on Dec 30 reported that it won a copyright infringement lawsuit filed against Chinese player 37Games, which bodes well for the Korean firm's other legal disputes related with Mir IP.
- Wemade's Mir II out-licensing business should normalize this year as China also on Dec 30 resumed game license issuances, which will also likely help ease the former's discount for its subsidiary ChuanQi IP.

WHAT'S THE STORY?

Wins 37Games lawsuit: Wemade Entertainment on Dec 30 reported that it won a copyright infringement lawsuit filed in Beijing against Chinese player 37Games, with the court ruling on Dec 28 that the latter must stop servicing its game Legend of Dominance Tour (ChuanQiBaYe). This should help the Korean firm: 1) collect related royalties not received over the past three years; and 2) formalize a license contract for Mir II and ensure future revenue. Wemade stands to gain leverage in other Mir IP-related lawsuits after this first such ruling in China regarding copyright infringements stemming from the sub-licensing activities of Shanda Games.

License business to normalize with China's resumed license issuances: Also on Dec 30, Chinese authorities issued licenses for around 80 homegrown games, which ended a nine-month lull. Even though this excluded IP offerings from Wemade, Mir II-based titles could hit that market this quarter, which would help the firm's related out-licensing business there normalize within this year.

Doubts linger, as does upside: 37Games might appeal last week's ruling, so no one knows when or how much Wemade will see in related royalties, but we expect them to reach upwards of KRW130b since 37Games enjoyed web-game sales of KRW1.6t over 2015-1H18, with Legend of Dominance Tour long being its top such title. The Korean firm's monies owed could rise further, however, as the China ruling will probably help it in other Mir IP disputes with local players like Kingnet and Shanda Games.

ChuanQi IP JV risk waning: Wemade subsidiary ChuanQi IP continues to attract investors to its planned JV in China, but the abovementioned events of Dec 30 have substantially diminished related risk. After cutting our discount on the subsidiary's value and to reflect the likelihood of the parent's license sales rebounding, we revise up our 12-month target price by 28.6% to KRW36,000 and reiterate the stock at BUY.

SUMMARY FINANCIAL DATA

	2017	2018E	2019E	2020E
Revenue (KRWb)	110	121	119	143
Net profit (adj) (KRWb)	(1)	(5)	(6)	15
EPS (adj) (KRW)	6,028	(696)	336	1,475
EPS (adj) growth (% y-y)	433.2	nm	nm	338.9
EBITDA margin (%)	11.2	3.8	(1.0)	11.3
ROE (%)	3.3	3.8	2.1	8.6
P/E (adj) (x)	5.1	n/a	91.0	20.7
P/B (x)	1.7	1.7	1.8	1.7
EV/EBITDA (x)	26.5	88.3	n/a	27.9
Dividend yield (%)	2.0	2.0	2.0	2.0

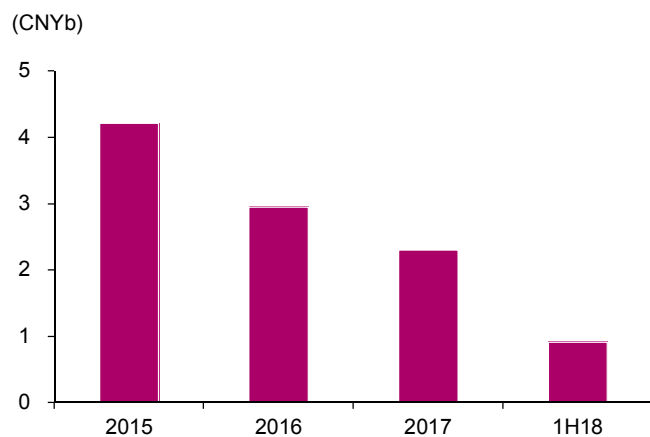
Source: Company data, Samsung Securities estimates

Quarterly results and forecasts

(KRWb)	4Q18E			Diff (%)		4Q17	3Q18	Chg	
	Old	New	Consensus	New	Consensus			(% y-y)	(% q-q)
Sales	26.0	33.4	27.5	(22.4)	(5.7)	29.1	31.8	(10.9)	(18.4)
PC games	3.9	3.2		22.6		7.7	4.1	(49.1)	(4.3)
Mobile games	9.5	16.3		(41.7)		7.6	14.2	25.2	(33.5)
Royalties	12.1	13.6		(11.2)		13.7	13.0	(11.7)	(6.8)
Other	0.5	0.4		22.6		0.2	0.5	189.6	(2.0)
SG&A expenses	29.3	33.6		(12.8)		23.7	36.2	23.5	(19.1)
Labor costs	10.7	9.2		16.1		7.5	10.5	41.5	1.8
R&D expenses	4.2	5.5		(23.8)		4.6	4.0	(9.1)	3.1
Commission paid	8.7	10.0		(12.8)		7.1	11.0	22.8	(20.7)
Advertising expenses	1.3	5.4		(75.8)		0.6	6.5	100.2	(79.9)
Other	4.5	3.7		22.8		3.9	4.3	15.3	4.7
Operating profit	(3.3)	(0.2)	(2.1)	nm	nm	5.4	(4.4)	nm	nm
Pre-tax profit	(3.0)	1.0	(1.3)	nm	nm	(0.6)	(5.7)	nm	nm
Net profit	(3.9)	0.7	(0.4)	nm	nm	(1.4)	(7.4)	nm	nm
Attrib. to parent company	(0.4)	4.6	(3.0)	nm	nm	3.3	(3.8)	nm	nm
Margins (%)									
Operating profit	(12.9)	(0.5)	(7.6)			18.6	(13.9)		
Pre-tax profit	(11.5)	3.0	(4.8)			(2.0)	(18.0)		
Net profit	(14.9)	2.2	(1.5)			(4.7)	(23.4)		
Attrib. to parent company	(1.4)	13.8	(10.9)			11.3	(11.8)		

Source: Company data, WiseFn, Samsung Securities

37Games: Web game sales



Note: 2015 includes all game types

Source: Company data

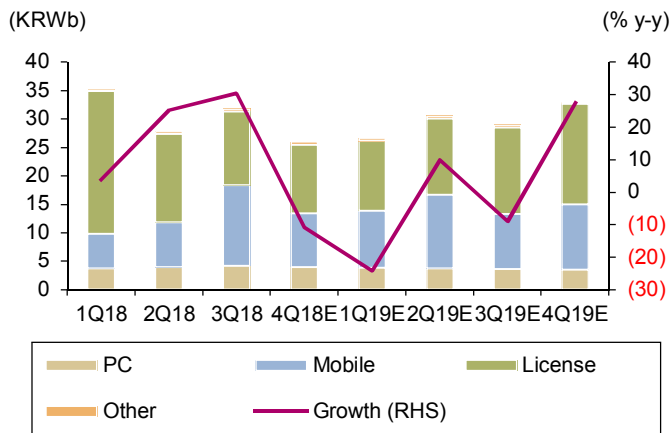
Legend of Dominance Tour (ChuanQiBaYe) remains #1 in China

1	传奇霸业	魔幻	进入游戏
2	猛将天下	魔幻	进入游戏
3	黑域战界	魔幻	进入游戏
4	灭神	魔幻	进入游戏
5	血盟荣耀	魔幻	进入游戏
6	太极崛起	武侠	进入游戏
7	镇魔曲网页版	仙侠	进入游戏
8	大天使之剑	魔幻	进入游戏

Note: Based on 37 Games web page

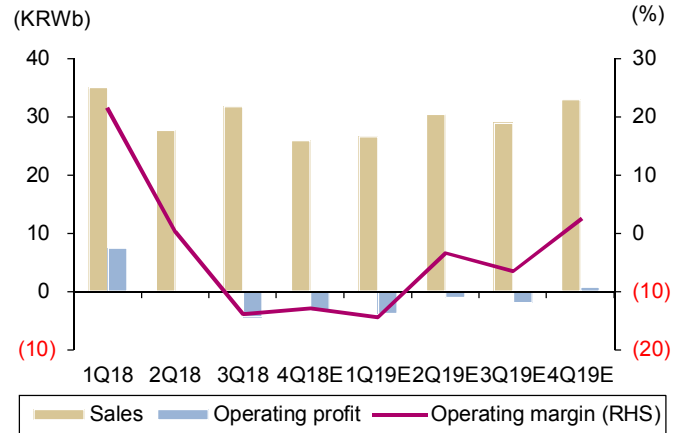
Source: Company data

Sales breakdown



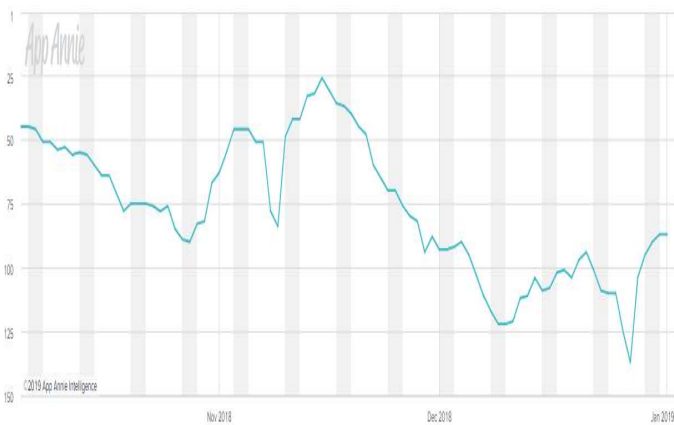
Source: Company data, Samsung Securities estimates

Sales, operating profit, and margin



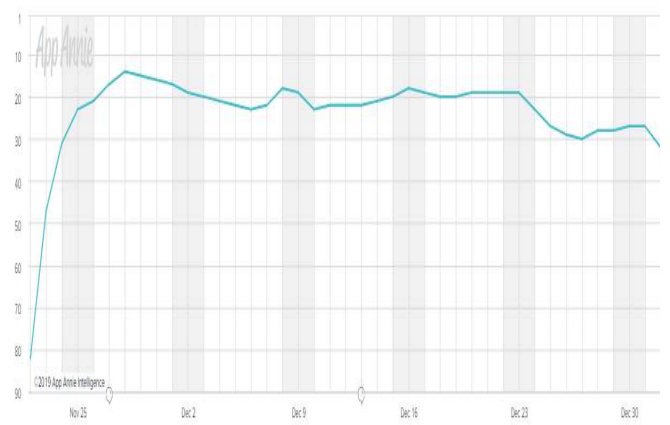
Source: Company data, Samsung Securities estimates

Icarus M: Game sales ranking (Google Play Korea)



Source: AppAnnie

Legend of Mir reboot: Game sales ranking (Google Play Korea)



Source: AppAnnie

Release schedule

Date	Game	Genre	Note
4Q18	Legend of Mir reboot	MMORPG	Korean version of ZuiChuanQi
1H19	2-3 HTML5 licensing games	MMORPG	Based on Mir IP
	Mir IV Mobile	MMORPG	Collaboration with a Chinese developer
	Icarus M	MMORPG	To be released in Japan/Taiwan
2H19	Mir M (ReXieChuanQi M)	MMORPG	To be released in Korea/China
	Hustle	Action	Developed by Joy Max
	4 HTML5 licensing games	MMORPG	Based on Mir IP
	2 mobile licensing game	MMORPG	To be released in China
	TBD	Simulation	Ndream developing based on Mir IP

Source: Company data, Samsung Securities

Valuation

(KRWb)	
Enterprise value (A=B+C)	597.8
Non-Mir IP operating value (B=a*d)	3.8
Total operating value (a=b*c)	7.5
2018E net profit attributable to controlling shareholders (b)	1.1
Target P/E (x) (c)*	6.6
Portion of sales from non-Mir IP (%) (d)	51.0
Net asset value (C=e+h)	594.0
ChuanQi IP value (e=f*(1-g))	448.0
IP value (f)	1,120.0
Discount rate (%) (g)	60.0
Net cash (h)	146.0
Shares outstanding (D)	16,800,000
Fair value per share (KRW) (E=A/D)	35,586
Target price (KRW)	36,000
Current price (KRW)	30,600
Upside (%)	17.6

Note: Based on Jan 2 close

*20% discount to average 2019 P/E at which major mobile game companies are trading

Source: Samsung Securities estimates

Peer P/E valuations

(x)	2019E
Gamevil	10.4
Com2Us	8.6
Webzen	7.8
SundayToz	6.0
Average	8.2
Discount (%)	20
Target P/E	6.6

Note: Based on Jan 2 close

Source: Bloomberg, Samsung Securities

Revisions to full-year forecasts

(KRWb)	2018E			2019E			2020E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Sales	119.5	120.6	0.9	115.1	119.0	3.4	126.1	143.0	13.4
PC games	15.6	15.6	0.0	14.6	14.6	0.0	13.0	13.0	0.0
Mobile games	36.0	37.7	4.7	39.5	44.2	12.1	36.7	39.7	8.4
Royalties	66.4	65.8	(0.9)	59.3	58.4	(1.4)	74.9	88.7	18.4
Other	1.5	1.5	0.0	1.7	1.7	0.0	1.6	1.6	0.0
SG&A expenses	120.9	120.8	(0.1)	122.4	125.0	2.1	127.8	131.9	3.2
Labor costs	36.2	38.6	6.8	39.3	44.5	13.2	42.1	47.7	13.2
R&D expenses	20.9	17.9	(14.2)	24.4	17.9	(26.6)	27.5	20.2	(26.6)
Commission paid	39.7	38.7	(2.5)	37.7	37.6	(0.4)	37.6	37.0	(1.8)
Advertising expenses	10.2	10.2	0.2	5.4	6.5	20.5	3.8	7.1	89.0
Other	13.9	15.3	9.8	15.6	18.5	18.4	16.8	19.9	18.3
Operating profit	(1.5)	(0.2)	nm	(7.4)	(6.0)	nm	(1.7)	11.1	nm
Pre-tax profit	3.1	6.1	98.7	(14.6)	(4.9)	nm	(11.5)	11.6	nm
Net profit	(9.3)	(5.4)	nm	(19.0)	(6.3)	nm	(14.9)	15.1	nm
Attrib. to parent company	7.2	11.1	54.8	(6.7)	6.0	nm	(4.9)	25.1	nm
Adjusted EPS (KRW)*	(774)	(696)	nm	35	336	849	194	1,475	662.0
Margins (%)									
Operating profit	(1.2)	(0.2)		(6.4)	(5.0)		(1.4)	7.8	
Pre-tax profit	2.6	5.1		(12.7)	(4.1)		(9.1)	8.1	
Net profit	(7.8)	(4.4)		(16.5)	(5.3)		(11.8)	10.6	
Attrib. to parent company	6.0	9.2		(5.8)	5.0		(3.9)	17.6	

Note: *Fully diluted, excluding one-off items; K-IFRS consolidated figures

Source: Company data, Samsung Securities estimates

Quarterly results and forecasts

(KRWb)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Sales	33.8	22.2	24.4	29.1	35.1	27.8	31.8	26.0	26.6	30.5	28.9	33.0
PC games	6.3	4.8	5.1	7.7	3.7	3.9	4.1	3.9	3.8	3.7	3.6	3.5
Mobile games	6.3	7.8	7.5	7.6	6.1	7.9	14.2	9.5	10.1	13.0	9.7	11.5
Royalties	21.2	9.4	11.7	13.7	25.2	15.6	13.0	12.1	12.2	13.4	15.2	17.6
Other	0.1	0.2	0.2	0.2	0.2	0.4	0.5	0.5	0.4	0.4	0.4	0.4
SG&A expenses	31.4	25.0	23.4	23.7	27.6	27.7	36.2	29.3	30.4	31.5	30.8	32.3
Labor costs	9.4	10.2	9.4	7.5	8.6	8.9	10.5	10.7	10.8	11.0	11.2	11.4
R&D expenses	3.3	(3.1)	8.5	4.6	4.6	5.1	4.0	4.2	4.3	4.4	4.5	4.7
Commission paid	5.5	7.3	6.9	7.1	10.6	8.5	11.0	8.7	9.0	10.0	9.0	9.6
Advertising expenses	9.1	1.0	0.5	0.6	0.7	1.8	6.5	1.3	1.9	1.5	1.4	1.7
Other	4.2	9.6	(1.8)	3.9	3.2	3.3	4.3	4.5	4.4	4.5	4.6	4.9
Operating profit	2.4	(2.8)	1.0	5.4	7.5	0.1	(4.4)	(3.3)	(3.8)	(1.0)	(1.9)	0.8
Pre-tax profit	(1.8)	11.5	5.4	(0.6)	8.2	6.6	(5.7)	(3.0)	(3.5)	(0.8)	(1.6)	1.0
Net profit	(2.5)	(0.1)	3.0	(1.4)	4.5	1.5	(7.4)	(3.9)	(4.5)	(1.0)	(2.1)	1.3
Attrib. to parent company	0.3	0.1	6.1	3.3	9.4	5.8	(3.8)	(0.4)	(1.2)	2.2	0.9	4.1
Adjusted EPS (KRW)*	(14)	551	(160)	(637)	475	(970)	(174)	(27)	(77)	125	46	241
Margins (%)												
Operating profit	7.1	(12.7)	4.0	18.6	21.2	0.3	(13.9)	(12.9)	(14.4)	(3.4)	(6.6)	2.3
Pre-tax profit	(5.3)	51.7	22.3	(2.0)	23.4	23.7	(18.0)	(11.5)	(13.1)	(2.5)	(5.7)	3.0
Net profit	(7.3)	(0.4)	12.4	(4.7)	12.7	5.3	(23.4)	(14.9)	(17.0)	(3.2)	(7.4)	3.9
Attrib. to parent company	0.9	0.3	25.0	11.3	26.9	20.9	(11.8)	(1.4)	(4.5)	7.1	3.0	12.5

Note: *Fully diluted, excluding one-off items; K-IFRS consolidated figures

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Sales	108	110	121	119	143
Cost of goods sold	0	0	0	0	0
Gross profit	108	110	121	119	143
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
SG&A expenses	104	104	121	125	132
Operating profit	4	6	(0)	(6)	11
Operating margin (%)	3.8	5.5	(0.2)	(5.0)	7.8
Non-operating gains (losses)	(93)	9	6	1	1
Financial profit	12	21	9	3	3
Financial costs	96	12	3	2	2
Equity-method gains (losses)	0	(0)	0	0	0
Other	(9)	(0)	0	0	0
Pre-tax profit	(89)	15	6	(5)	12
Taxes	(16)	15	11	1	(3)
Effective tax rate (%)	17.6	106.1	187.7	(29.8)	(29.8)
Profit from continuing operations	(73)	(1)	(5)	(6)	15
Profit from discontinued operations	0	0	0	0	0
Net profit	(73)	(1)	(5)	(6)	15
Net margin (%)	(67.6)	(0.8)	(4.4)	(5.3)	10.6
Net profit (controlling interests)	(71)	10	11	6	25
Net profit (non-controlling interests)	(2)	(11)	(16)	(12)	(10)
EBITDA	12	12	5	(1)	16
EBITDA margin (%)	11.4	11.2	3.8	(1.0)	11.3
EPS (parent-based) (KRW)	(4,224)	580	662	356	1,496
EPS (consolidated) (KRW)	(4,345)	(53)	(319)	(377)	899
Adjusted EPS (KRW)*	1,131	6,028	(696)	336	1,475

Cash flow statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	10	(9)	(19)	(13)	13
Net profit	(73)	(1)	(5)	(6)	15
Non-cash profit and expenses	87	14	16	5	1
Depreciation	5	4	2	2	3
Amortization	4	2	2	2	3
Other	79	8	11	1	(4)
Changes in A/L from operating activities	2	(20)	11	(12)	(9)
Cash flow from investments	(17)	85	(23)	8	(3)
Change in tangible assets	(1)	(0)	(4)	(8)	(8)
Change in financial assets	75	77	(15)	24	13
Other	(92)	9	(4)	(8)	(8)
Cash flow from financing	4	(8)	(20)	(7)	(9)
Change in debt	(2)	2	(2)	3	2
Change in equity	3	5	0	0	0
Dividends	0	(10)	(10)	(10)	(10)
Other	3	(5)	(9)	(1)	(1)
Change in cash	(1)	65	(64)	(12)	1
Cash at beginning of year	63	62	127	63	51
Cash at end of year	62	127	63	51	52
Gross cash flow	14	13	11	(1)	17
Free cash flow	9	(10)	(23)	(21)	5

Note: * Excluding one off items, ** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Current assets	132	322	221	195	186
Cash & equivalents	62	127	63	51	52
Accounts receivable	32	65	57	72	81
Inventories	0	0	0	0	0
Other current assets	39	130	102	72	53
Fixed assets	271	131	186	204	222
Investment assets	196	30	76	82	90
Tangible assets	53	49	51	56	62
Intangible assets	15	19	19	25	30
Other long-term assets	7	33	41	41	41
Total assets	403	453	408	399	408
Current liabilities	21	94	87	95	98
Accounts payable	0	0	0	0	0
Short-term debt	0	0	0	0	0
Other current liabilities	21	94	87	95	98
Long-term liabilities	34	18	0	0	0
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	34	18	0	0	0
Total liabilities	55	111	87	95	98
Owners of parent equity	294	296	287	283	299
Capital stock	9	9	9	9	9
Capital surplus	159	164	164	164	164
Retained earnings	137	137	138	134	150
Other	(11)	(14)	(24)	(24)	(24)
Non-controlling interests' equity	54	46	34	21	11
Total equity	348	342	321	305	310
Net debt	(82)	(234)	(141)	(95)	(73)

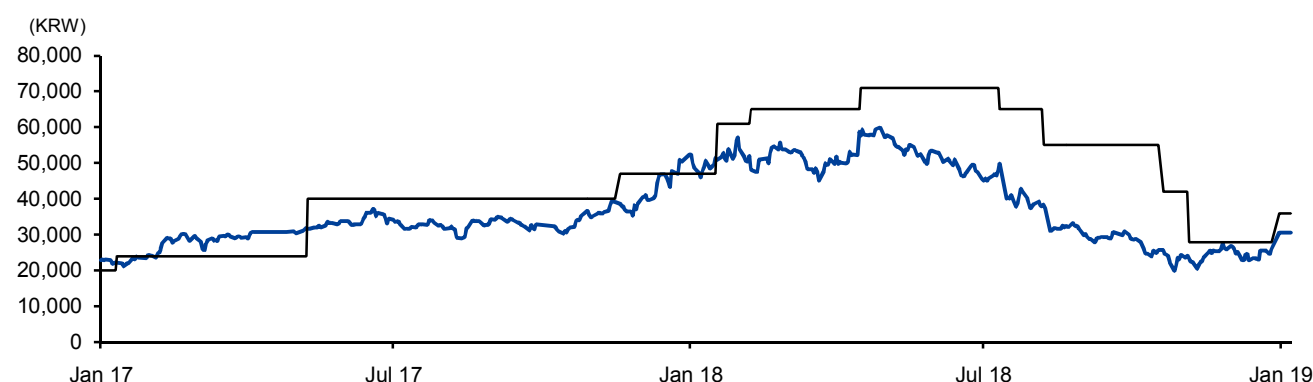
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	(14.7)	1.5	10.1	(1.3)	20.1
Operating profit	nm	44.7	nm	nm	nm
Net profit	nm	nm	nm	nm	nm
Adjusted EPS**	101.7	433.2	nm	nm	338.9
Per-share data (KRW)					
EPS (parent-based)	(4,224)	580	662	356	1,496
EPS (consolidated)	(4,345)	(53)	(319)	(377)	899
Adjusted EPS**	1,131	6,028	(696)	336	1,475
BVPS	17,702	17,798	17,506	17,270	18,203
DPS (common)	600	600	600	600	600
Valuations (x)					
P/E***	27.1	5.1	n/a	91.0	20.7
P/B***	1.7	1.7	1.7	1.8	1.7
EV/EBITDA	39.5	26.5	88.3	n/a	27.9
Ratios (%)					
ROE	(21.7)	3.3	3.8	2.1	8.6
ROA	(16.3)	(0.2)	(1.2)	(1.6)	3.7
ROIC	3.5	(0.5)	(2.4)	(8.4)	12.7
Payout ratio	(14.0)	102.5	88.5	164.7	39.2
Dividend yield (common)	2.0	2.0	2.0	2.0	2.0
Net debt to equity	(23.6)	(68.5)	(43.9)	(31.1)	(23.6)
Interest coverage (x)	1.9	2.4	(0.1)	(7.1)	10.7

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2016/10/12	2017/1/13	5/11	11/20	2018/1/19	2/9	4/18	7/13	8/9	10/22	11/7	2019/1/2
Recommendation	HOLD	HOLD	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	20,000	24,000	40,000	47,000	61,000	65,000	71,000	65,000	55,000	42,000	28,000	36,000
Gap* (average)	5.34	17.57	(16.22)	(5.60)	(13.78)	(21.18)	(26.92)	(38.93)	(46.19)	(44.73)	(12.72)	
(max or min)**	22.50	32.92	(1.38)	11.49	(6.07)	(9.38)	(15.49)	(34.08)	(31.91)	(41.55)	(1.25)	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

Samsung Securities uses the following investment ratings.

Company

BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Sep 30, 2018

BUY (85%) | HOLD (15%) | SELL (0%)

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General

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