

Incross (216050 KQ)

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Rating

BUY

maintain

6M TP (W)

31,000

reduce

CP (W)
(19.01.10)**15,650**

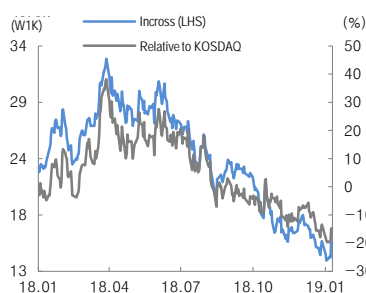
Media

Industry 4.0 safety rating

■ Sky Blue

| | |
|--------------------------------|-----------------------------|
| KOSDAQ | 683.34 |
| Market cap (Wbn) | 125 |
| Market cap portion (%) | 0.06 |
| Paid-in capital (common; Wbn) | 4 |
| 52w high/low (W) | 32,800 / 14,000 |
| 120d avg. trading volume (Wbn) | 0.9 |
| Foreign ownership (%) | 7.36 |
| Major shareholders | NHN Entertainment+4: 45.40% |

| (%) | 1M | 3M | 6M | 12M |
|-------------|-------|-------|-------|-------|
| Abs. return | -9.3 | -17.0 | -39.6 | -30.9 |
| Rel. return | -11.0 | -9.2 | -28.1 | -15.6 |



Flat top-line growth in 4Q18

BUY maintained; TP cut 11% to W31,000

- The new target price is derived by applying a target P/E of 23x to the 12-month forward EPS of W1,306. The target multiple represents a 20% discount to the historical average, reflecting the 5% reduction in 2019E OP.

4Q18 preview: OP W3.7bn (up 0.2% yoy)

- 4Q18 revenue and OP are forecast at W10.8bn (down 0.7% yoy) and W3.7bn (up 0.2% yoy), respectively.

- Media selling revenue is forecast to climb 12% yoy to W7.8bn, holding up well considering the high comparison base of a year-ago period. (Media-selling revenue expanded as much as 23% yoy in 4Q17.)

- Ad network revenue is forecast at W1.8bn, down 23% yoy as consumer appetite shifted to YouTube. By nature, however, the ad network business doesn't make a significant contribution to the company's overall results. In 1Q18-3Q18, it generated 22% of companywide revenue and less than 5% of companywide OP.

- For all of 2018, revenue and OP are forecast at W36.8bn (up 0.2% yoy) and W11.7bn (up 14% yoy), respectively, with OP margin of 32% (up 4%p).

2019 OP and OP margin forecast at W13.2bn (up 13% yoy) and 32%

- In 2019, both revenue and OP are estimated to increase by 13% yoy, reaching W41.7bn and W13.2bn, respectively. Revenue breakdown: media-selling W31.0bn (up 22% yoy), ad network W8.0bn (up 2% yoy).

- The company's media-selling business will continue to see steeper growth than the market (up 9% yoy). The intensifying competition will push Incross to lure a host of new customers with the support of the technological and marketing capabilities of its major shareholder (NHN Entertainment). Rollouts of major new online games could help improve market conditions. This, coupled with the re-opening of the Chinese market, could be a boon for the company.

- Video ads, which make up more than 20% of gross revenue, are continuing double-digit growth. In all, the media-selling business is forecast to sustain its annual growth pace of over 20%, driven by the ongoing YouTube-led video ad market expansion.

- The current P/E of 12x is attractive considering the company's rapidly growing core businesses and high OP margin (32%). But in light of 1Q18 earnings that came in solid on the back of the 2018 Pyeongchang Winter Olympic Games, we expect the stock to rebound once the continued revenue growth is confirmed. OP is projected to climb 4% yoy in 1H19, before further rising 21% yoy in 2H19.

(Wbn, %)

| | 4Q17 | 3Q18 | Previous estimate | Daishin estimate | 4Q18(F) | | | 1Q19 | | |
|---------|------|------|-------------------|------------------|---------|------|-----------|------------------|------|-------|
| | | | | | YoY | QoQ | Consensus | Daishin estimate | YoY | QoQ |
| Revenue | 11 | 9 | 11 | 11 | -0.7 | 23.4 | 12 | 8 | -4.0 | -25.7 |
| OP | 4 | 2 | 4 | 4 | 0.2 | 49.0 | 4 | 2 | -5.6 | -34.5 |
| NP | 3 | 2 | 3 | 3 | 2.3 | 42.2 | 3 | 2 | -9.1 | -33.5 |

| | 2016 | 2017 | Previous estimate | Daishin estimate | 2018(F) | | Growth | |
|---------|------|------|-------------------|------------------|---------|-----------|--------|---------|
| | | | | | Chg | Consensus | 2017 | 2018(F) |
| Revenue | 31 | 37 | 37 | 37 | -1.2 | 38 | 16.8 | 0.2 |
| OP | 9 | 10 | 12 | 12 | -2.7 | 12 | 13.9 | 14.3 |
| NP | 6 | 8 | 9 | 9 | -0.2 | 10 | 31.1 | 12.6 |

Operating results and major financial data (Wbn, W, x, %)

| | 2016A | 2017A | 2018F | 2019F | 2020F |
|-----------------------|--------|-------|-------|--------|--------|
| Revenue | 31 | 37 | 37 | 42 | 47 |
| OP | 9 | 10 | 12 | 13 | 15 |
| Pretax profit | 9 | 11 | 12 | 14 | 15 |
| NP (controlling int.) | 6 | 8 | 9 | 10 | 11 |
| EPS | 2,351 | 1,071 | 1,173 | 1,294 | 1,433 |
| PER | 19.2 | 21.4 | 13.3 | 12.1 | 10.9 |
| BPS | 15,906 | 7,850 | 8,900 | 10,194 | 11,249 |
| PBR | 2.8 | 2.9 | 1.8 | 1.5 | 1.4 |
| ROE | 18.6 | 15.3 | 14.0 | 13.6 | 13.4 |

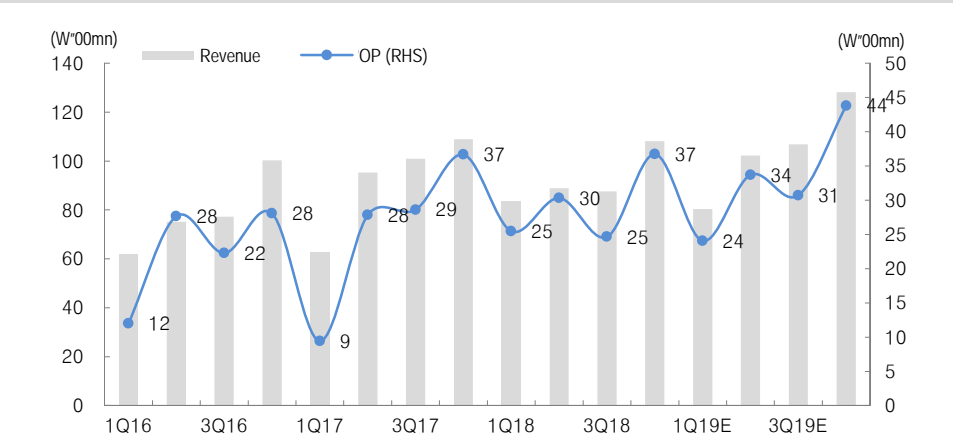
Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Incross, Daishin Securities Research Center

Yearly earnings forecast revision (Wbn, W, %, %p)

| | Previous | | Revised | | Chg | |
|------------------------|----------|-------|---------|-------|-------|-------|
| | 2018F | 2019F | 2018F | 2019F | 2018F | 2019F |
| Revenue | 37 | 42 | 37 | 42 | -1.2 | -0.7 |
| S&A expense | 5 | 5 | 5 | 6 | 1.2 | 4.2 |
| OP | 12 | 14 | 12 | 13 | -2.7 | -2.7 |
| OP margin | 32.3 | 32.3 | 31.8 | 31.7 | -0.5 | -0.6 |
| Non-operating profit | 0 | 0 | 1 | 1 | 84.8 | 33.9 |
| Pretax profit | 12 | 14 | 12 | 14 | -0.2 | -1.7 |
| NP (controlling int.) | 9 | 11 | 9 | 10 | -0.2 | -1.6 |
| NP margin | 25.1 | 25.1 | 25.4 | 24.8 | 0.3 | -0.2 |
| EPS (controlling int.) | 1,176 | 1,316 | 1,173 | 1,294 | -0.2 | -1.6 |

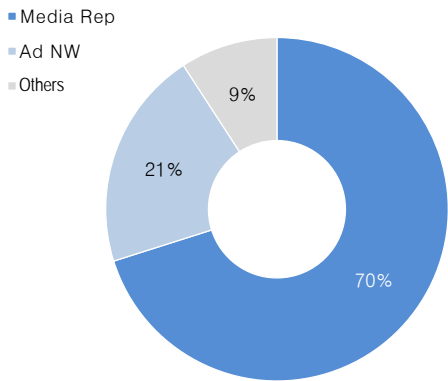
Source: Incross, Daishin Securities Research Center

Fig 1. Incross' quarterly results



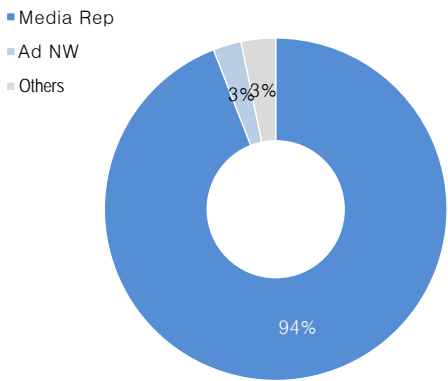
Source: Incross, Daishin Securities Research Center estimates

Fig 2. Revenue breakdown (3Q18)



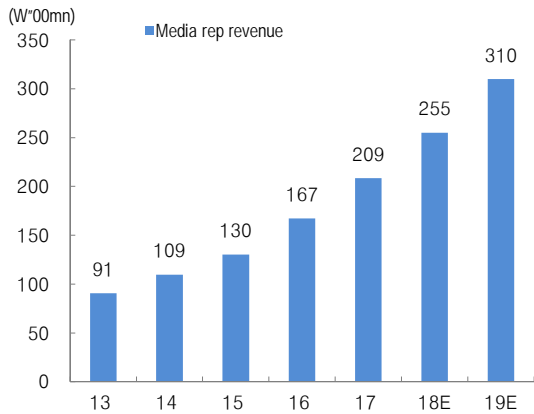
Source: Incross, Daishin Securities Research Center

Fig 3. OP breakdown (3Q18)



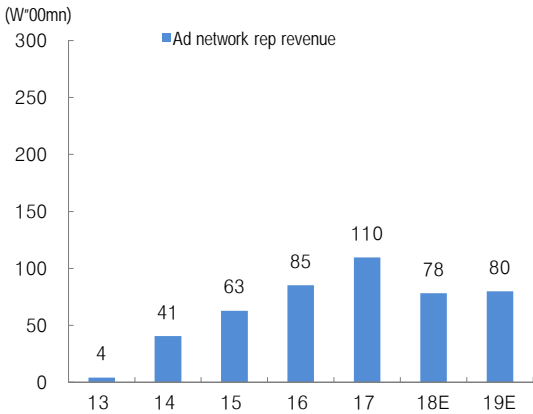
Source: Incross, Daishin Securities Research Center

Fig 4. Incross: Media rep revenue



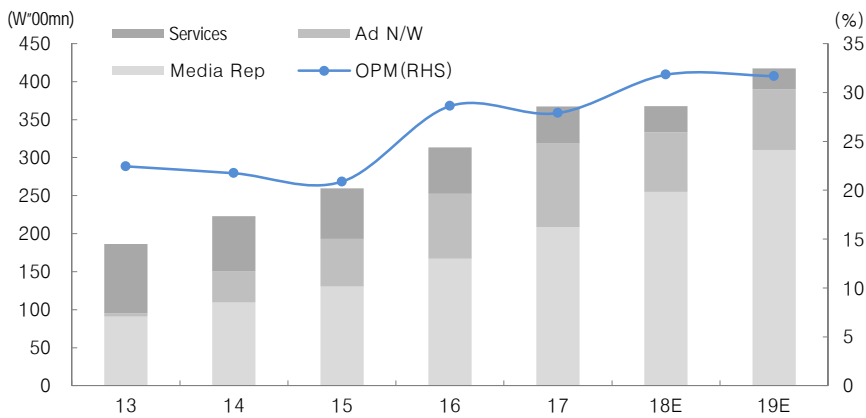
Source: Incross, Daishin Securities Research Center estimates

Fig 5. Incross: Ad network revenue



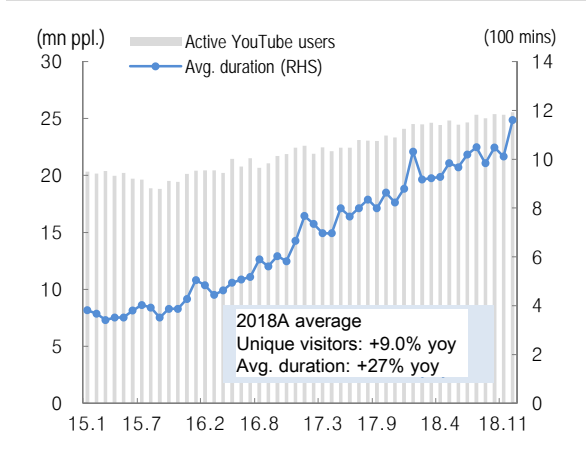
Source: Incross, Daishin Securities Research Center estimates

Fig 6. Incross' yearly results



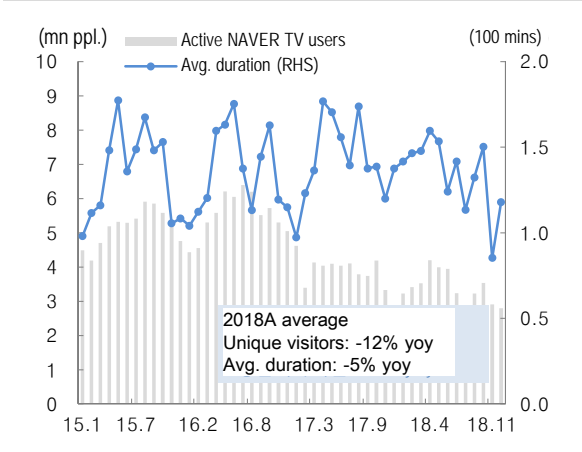
Source: Incross, Daishin Securities Research Center estimates

Fig 7. YouTube: Active users and avg. duration time



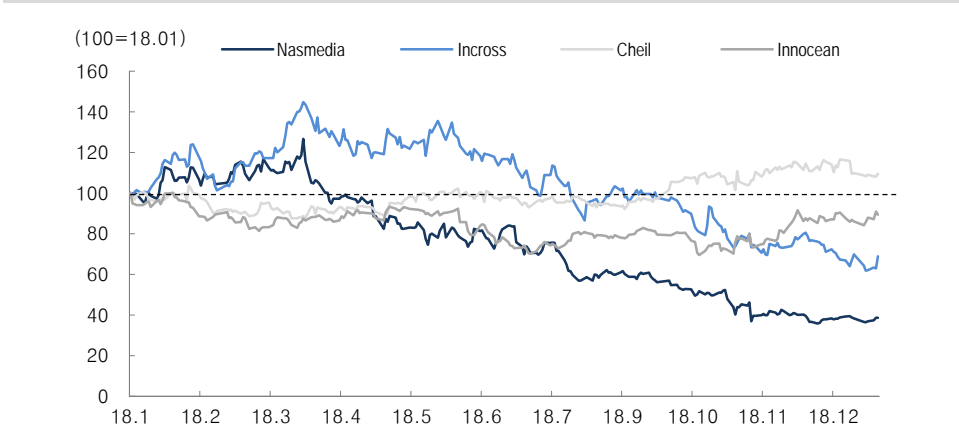
Source: Koreandick, Daishin Securities Research Center

Fig 8. NAVER TV: Active users and avg. duration time



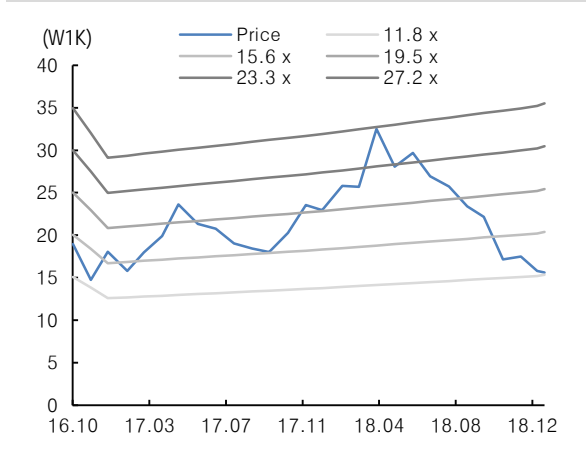
Source: Koreandick, Daishin Securities Research Center

Fig 9. Share price performance of major ad agencies since the start of the year



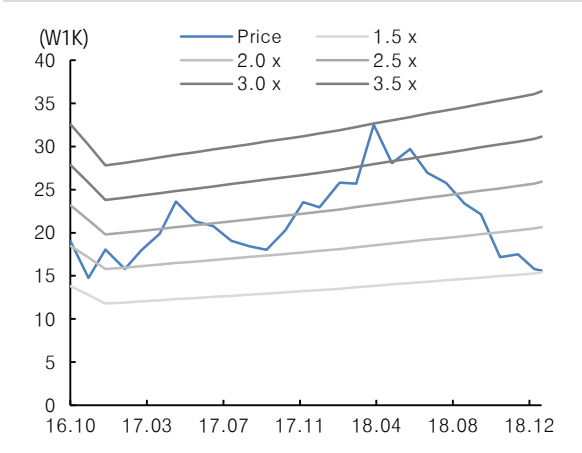
Source: Dataguide, Daishin Securities Research Center

Fig 10. Incross 12MF P/E band



Source: Incross, Daishin Securities Research Center

Fig 11. Incross 12MF P/B band



Source: Incross, Daishin Securities Research Center

Company profile

Overview

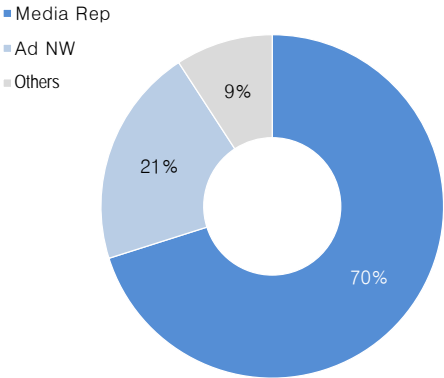
- Revenue W36.8bn, OP W10.2bn, NP W8.3bn (2017)
- Revenue breakdown: media rep 57%, ad networks 30%, services 13% (2017)
- 2017 revenue mix : media-selling 57%, ad-brokering 30%, services 13%
- Major shareholders (3Q18): NHN Entertainment 34.9%, Lee Jun-ho 4.9%, Lee Jae-won 4.9%, National Pension Service 5.4%

Share price catalysts

- Growth potential of the domestic online ad market
- New types of customers

Source: Incross, Daishin Securities Research Center

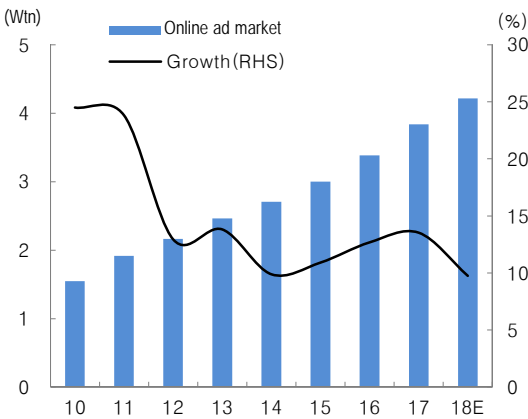
Revenue breakdown by business (3Q18)



Source: Incross, Daishin Securities Research Center

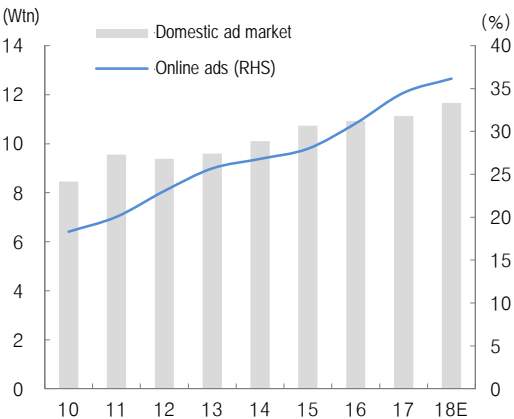
Earnings drivers

Fig 12. Domestic online ad market



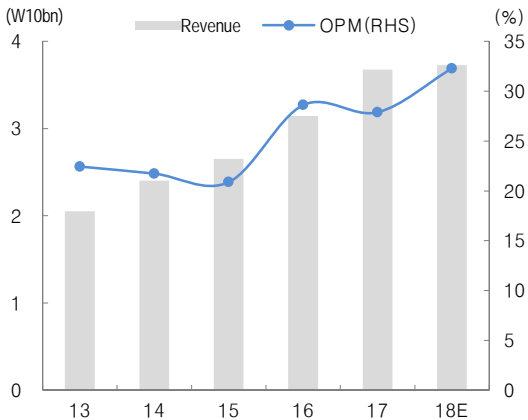
Source: Cheil Worldwide, Daishin Securities Research Center

Fig 13. Online ads as a share of broader ad market



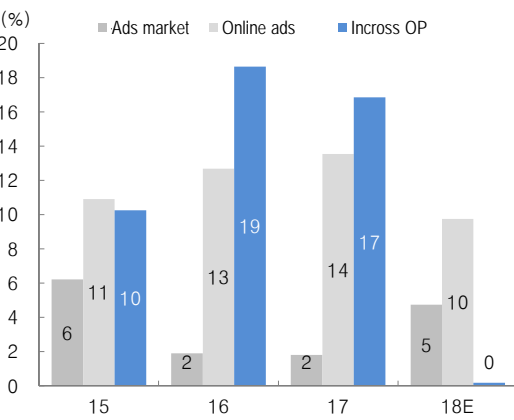
Source: Cheil Worldwide, Daishin Securities Research Center

Fig 14. Yearly revenue and OP margin



Source: Incross, Daishin Securities Research Center

Fig 15. Ad market growth



Source: Incross, Daishin Securities Research Center

Financial statements

| Income statement | | | | | (Wbn) |
|----------------------------------|-------|-------|-------|-------|-------|
| | 2016A | 2017A | 2018F | 2019F | 2020F |
| Revenue | 31 | 37 | 37 | 42 | 47 |
| Cost of goods sold | 19 | 22 | 20 | 23 | 26 |
| Gross profit | 13 | 15 | 16 | 19 | 21 |
| SG&A expenses | 4 | 4 | 5 | 6 | 7 |
| OP | 9 | 10 | 12 | 13 | 15 |
| OP margin | 28.6 | 27.9 | 31.8 | 31.7 | 31.3 |
| EBITDA | 9 | 11 | 12 | 14 | 15 |
| Non-OP | 0 | 1 | 1 | 1 | 1 |
| Income from affiliates | 0 | 0 | 0 | 0 | 0 |
| Financial revenue | 0 | 1 | 1 | 1 | 1 |
| FX related gains | 0 | 0 | 0 | 0 | 0 |
| Financial expense | 0 | 0 | 0 | 0 | 0 |
| FX related losses | 0 | 0 | 0 | 0 | 0 |
| Others | -1 | 0 | 0 | 0 | 0 |
| Income before taxes | 9 | 11 | 12 | 14 | 15 |
| Income tax expense | -2 | -3 | -3 | -3 | -4 |
| Income from cont. op. | 6 | 8 | 9 | 10 | 11 |
| Income from discount. op. | 0 | 0 | 0 | 0 | 0 |
| NP | 6 | 8 | 9 | 10 | 11 |
| NP margin | 20.1 | 22.6 | 25.4 | 24.8 | 24.4 |
| NP for non-contr. interest | 0 | 0 | 0 | 0 | 0 |
| NP for contr. interest | 6 | 8 | 9 | 10 | 11 |
| Valuation of AFS fin. assets | 0 | 0 | 0 | 0 | 0 |
| Other compreh. income | 0 | 0 | 0 | 0 | 0 |
| Comprehensive income | 6 | 8 | 10 | 11 | 12 |
| Comp. income for non-contr. int. | 0 | 0 | 0 | 0 | 0 |
| Comp. income for contr. int. | 6 | 8 | 10 | 11 | 12 |

| Valuation metrics | | | | | (W, x, %) |
|-------------------|--------|-------|-------|--------|-----------|
| | 2016A | 2017A | 2018F | 2019F | 2020F |
| EPS | 2,351 | 1,071 | 1,173 | 1,294 | 1,433 |
| PER | 192 | 214 | 13.3 | 12.1 | 10.9 |
| BPS | 15,906 | 7,850 | 8,900 | 10,194 | 11,249 |
| PBR | 2.8 | 2.9 | 1.8 | 1.5 | 1.4 |
| EBITDAPS | 3,452 | 1,380 | 1,536 | 1,726 | 1,917 |
| EV/EBITDA | 10.4 | 12.9 | 5.9 | 4.5 | 3.6 |
| SPS | 11,692 | 4,746 | 4,624 | 5,211 | 5,867 |
| PSR | 3.9 | 4.8 | 3.4 | 2.7 | 2.4 |
| CFPS | 3,461 | 1,466 | 1,622 | 1,812 | 2,003 |
| DPS | 0 | 0 | 0 | 400 | 450 |

| Financial ratios | | | | | (W, x, %) |
|-------------------------|-------------|----------|-------|-------|-----------|
| | 2016A | 2017A | 2018F | 2019F | 2020F |
| Growth potential | | | | | |
| Revenue growth | 18.6 | 16.8 | 0.2 | 13.4 | 12.6 |
| OP growth | 62.6 | 13.9 | 14.3 | 12.9 | 11.1 |
| NP growth | TTB | 31.1 | 12.6 | 11.0 | 10.7 |
| Profitability | | | | | |
| ROIC | 394.1 | 191.2 | 119.9 | 128.7 | 132.4 |
| ROA | 12.5 | 9.5 | 9.0 | 9.5 | 9.8 |
| ROE | 18.6 | 15.3 | 14.0 | 13.6 | 13.4 |
| Stability | | | | | |
| Debt ratio | 93.7 | 101.7 | 88.3 | 77.8 | 71.1 |
| Net borrowings ratio | -76.4 | -70.3 | -74.0 | -76.6 | -78.1 |
| Interest coverage ratio | 4,499,131.3 | 16,912.4 | 0.0 | 0.0 | 0.0 |

Source: Incross, Daishin Securities Research Center

| Balance sheet | | | | | (Wbn) |
|-----------------------------|-------|-------|-------|-------|-------|
| | 2016A | 2017A | 2018F | 2019F | 2020F |
| Current assets | 83 | 115 | 125 | 135 | 145 |
| Cash & cash equiv. | 3 | 10 | 20 | 29 | 37 |
| Trade & other receive. | 47 | 72 | 72 | 73 | 74 |
| Inventories | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 33 | 33 | 33 | 33 | 33 |
| Long-term assets | 7 | 10 | 10 | 10 | 10 |
| Tangible assets | 0 | 1 | 1 | 1 | 2 |
| Investments in affiliates | 0 | 0 | 0 | 0 | 0 |
| Other long-term assets | 7 | 9 | 8 | 8 | 8 |
| Total assets | 91 | 125 | 134 | 145 | 154 |
| Current liabilities | 43 | 63 | 63 | 63 | 64 |
| Payables & other liab. | 40 | 61 | 61 | 61 | 62 |
| Borrowings | 0 | 0 | 0 | 0 | 0 |
| Current portion of LT debts | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 3 | 2 | 2 | 2 | 2 |
| Long-term liabilities | 0 | 0 | 0 | 0 | 0 |
| Borrowings | 0 | 0 | 0 | 0 | 0 |
| Convertible securities | 0 | 0 | 0 | 0 | 0 |
| Other long-term liab. | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 44 | 63 | 63 | 64 | 64 |
| Controlling interest | 47 | 62 | 71 | 82 | 90 |
| Capital stock | 1 | 4 | 4 | 4 | 4 |
| Capital surplus | 36 | 40 | 40 | 40 | 40 |
| Retained earnings | 9 | 17 | 27 | 37 | 46 |
| Other capital changes | 0 | 0 | 0 | 0 | 0 |
| Non-controlling interest | 0 | 0 | 0 | 0 | 0 |
| Total shareholder's equity | 47 | 62 | 71 | 82 | 90 |
| Net borrowings | -36 | -44 | -53 | -63 | -70 |

| Cash flow statement | | | | | (Wbn) |
|------------------------|-------|-------|-------|-------|-------|
| | 2016A | 2017A | 2018F | 2019F | 2020F |
| Operating cash flows | 3 | 4 | 10 | 11 | 12 |
| NP | 6 | 8 | 9 | 10 | 11 |
| Non-cash items | 3 | 3 | 4 | 4 | 5 |
| Depreciation | 0 | 0 | 1 | 1 | 1 |
| FX gains | 0 | 0 | 0 | 0 | 0 |
| Equity method gain | 0 | 0 | 0 | 0 | 0 |
| Others | 3 | 3 | 3 | 4 | 4 |
| Chg in assets & liab. | -6 | -4 | -1 | -1 | -1 |
| Other cash flows | 0 | -4 | -2 | -3 | -3 |
| Investing cash flow | -23 | -3 | -1 | -1 | -1 |
| Investment assets | 0 | -1 | 0 | 0 | 0 |
| Tangible assets | 0 | -1 | -1 | -1 | -1 |
| Others | -23 | -1 | -1 | -1 | -1 |
| Financing cash flows | 20 | 7 | 1 | 1 | -2 |
| Short-term borrowings | 0 | 0 | 0 | 0 | 0 |
| Bonds payable | 0 | 0 | 0 | 0 | 0 |
| Long-term borrowings | 0 | 0 | 0 | 0 | 0 |
| Rights offering | 13 | 6 | 0 | 0 | 0 |
| Cash dividends | 0 | 0 | 0 | 0 | -3 |
| Others | 8 | 1 | 1 | 1 | 1 |
| Net chg in cash | 1 | 8 | 9 | 10 | 8 |
| Beginning cash balance | 2 | 3 | 10 | 20 | 29 |
| Ending cash balance | 3 | 10 | 20 | 29 | 37 |
| NOPLAT | 7 | 8 | 9 | 10 | 11 |
| FCF | 7 | 7 | 9 | 10 | 11 |

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

| | | |
|----------------------|-------------------------|---------------------|
| Dark Gray (negative) | Neutral Green (neutral) | Sky Blue (positive) |
|----------------------|-------------------------|---------------------|

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[Investment rating breakdown]

Incross (216050 KQ)

| | | | | | | |
|---------------------|----------|----------|----------|----------|----------|------------|
| Date | 19.01.11 | 18.10.01 | 18.05.11 | 18.01.21 | 17.11.19 | 17.10.26 |
| Rating | BUY | BUY | BUY | BUY | BUY | 6M passed. |
| Target price | 31,000 | 35,000 | 38,000 | 33,000 | 71,000 | 28,400 |
| Diff. (avr. %) | | (50.92) | (34.14) | (16.34) | (67.32) | (20.42) |
| Diff. (max/min., %) | | (38.71) | (19.21) | (0.61) | (62.75) | (10.43) |

| | |
|---------------------|----------|
| Date | 17.04.26 |
| Rating | BUY |
| Target price | 28,400 |
| Diff. (avr. %) | (31.57) |
| Diff. (max/min., %) | (16.76) |

| | |
|---------------------|--|
| Date | |
| Rating | |
| Target price | |
| Diff. (avr. %) | |
| Diff. (max/min., %) | |

| | |
|---------------------|--|
| Date | |
| Rating | |
| Target price | |
| Diff. (avr. %) | |
| Diff. (max/min., %) | |

Investment rating breakdown and framework (Jan 8, 2019)

| | BUY | MARKETPERFORM | UNDERPERFORM |
|-------|-------|---------------|--------------|
| Ratio | 85.8% | 13.2% | 1.1% |

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.