

2019. 2. 11

Company Update



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AT A GLANCE

SELL **HOLD** BUY

Target price KRW130,000 (6.1%)

Current price KRW122,500

Market cap	KRW1.6t/USD1.4b
Shares (float)	12,866,420 (71.2%)
52-week high/low	KRW191,500/KRW108,400
Avg daily trading value (60-day)	KRW13.2b/ USD11.8m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Com2us (%)	0.5	-15.3	-17.8
Vs Kosdaq (%pts)	-7.8	-8.9	-2.8

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	HOLD	HOLD	
Target price	130,000	130,000	0.0%
2018E EPS	9,250	9,122	1.4%
2019E EPS	9,749	9,717	0.3%

SAMSUNG vs THE STREET

No of estimates	16
Target price	162,313
Recommendation	3.9

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

Com2us (078340)

Skylanders is key to 2019 performance

- Com2us reported 4Q results showing sales up 3.3% q-q, largely thanks to year-end promotions of Summoners War. Operating profit, however, fell 13.9% q-q to KRW32.7b—missing consensus by 12.8%—due to: 1) incentives paid to developers; and 2) a rise in marketing costs.
- Although an announcement of plans to develop more titles based on Summoners War has enhanced the likelihood of a lineup expansion, we maintain our HOLD rating on Com2us as it remains highly uncertain whether Skylanders will enjoy global success—which would be key to shares rallying in 2019.

WHAT'S THE STORY?

4Q review: Consolidated sales at Com2us rose 3.3% q-q to KRW123.8b in 4Q—meeting consensus—as year-end promotions boosted Summoners War sales an estimated 7% q-q to KRW97.8b. But operating profit fell 28.9% y-y and 13.9% q-q to KRW32.7b—some 12.8% below consensus—as labor costs rose 9.8% q-q due to: 1) incentives for Summoners War developers; and 2) a 21.1% q-q jump in marketing costs due to Summoners War promotions.

Skylanders launch target set: Com2us is aiming to launch Skylanders in North America and Europe on Feb 28. Even if the AppStore inspection delays the launch, the title should debut in early March at the latest. Since Skylanders has performed poorly in terms of sales ranking in countries where it has already launched (eg, Canada), its success in North America and Europe likely depends on how a second update (scheduled for mid-February) is received and how effective marketing campaigns in such regions prove to be. We estimate that Skylanders' daily sales will average KRW300m globally in its early days.

More titles based on Summoners War: Besides a Summoners War MMORPG, the firm has unveiled plans to launch a real-time strategy game based on the same intellectual property (IP). The game, Summoners War: Hundred Years' War, is scheduled to launch in 2H20 after focus group testing this year. We like that the firm plans to release a series of titles based on Summoners War, as this means it is expanding its lineup beyond Skylanders.

Skylanders is key to whether shares will rally: We raise our target price by 8.3% from KRW120,000 to KRW130,000 as we now apply a higher target valuation multiple to reflect the higher chances of a lineup expansion following the announcement of more titles based on Summoners War. Still, we maintain our HOLD rating given that it remains unclear whether Skylanders will enjoy global success (which would serve as a key share-price catalyst this year), due to various unknowns. Moreover, shares are trading at 12.6x 2019 P/E, not undemanding compared to the band in which they have traded over the past 3 years.

SUMMARY OF 4Q RESULTS

(KRWb)	4Q18	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	123.8	(6.6)	3.3	1.3	(1.1)
Operating profit	32.7	(28.9)	(13.9)	1.4	(12.8)
Pre-tax profit	33.6	(10.9)	(15.8)	(11.4)	(17.9)
Net profit	25.5	(10.0)	(14.4)	(10.9)	(19.0)
Margins (%)					
Operating profit	26.5				
Pre-tax profit	27.1				
Net profit	20.6				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

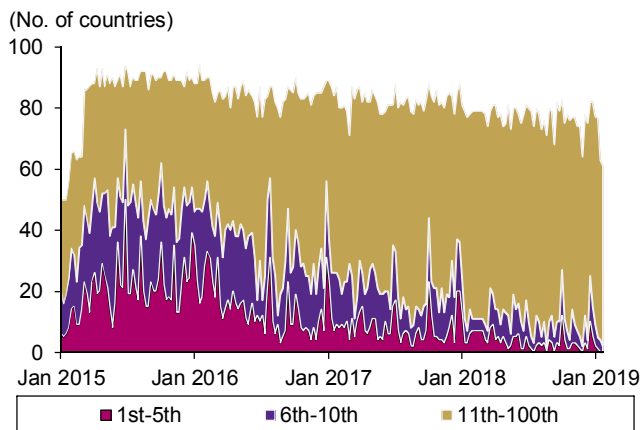
	2017	2018E	2019E
Multiples (x)			
P/E	10.2	13.2	12.6
P/B	2.0	1.7	1.5
EV/EBITDA	4.6	5.7	5.0
Div yield (%)	1.1	1.1	1.1
EPS growth (% y-y)	0.9	(23.0)	5.4
ROE (%)	20.4	15.6	13.1
Per-share data (KRW)			
EPS	12,012	9,250	9,749
BVPS	60,822	70,666	79,147
DPS	1,400	1,400	1,400

Quarterly results and forecasts

(KRWb)	4Q18			Diff (%)		4Q17	3Q18	Chg	
	New	Old	Consensus	Old	Consensus			(% y-y)	(% q-q)
Sales	123.8	122.2	125.2	1.3	(1.1)	132.6	119.8	(6.6)	3.3
Summers War	97.8	102.4		(4.5)		106.5	91.4	(8.2)	7.0
Other	26.0	19.9		31.0		26.1	28.4	(0.2)	(8.5)
Cost of sales	17.6	14.8		18.7		13.2	13.4	33.7	31.1
SG&A costs	73.5	75.1		(2.2)		73.4	68.4	0.1	7.4
Labor	6.2	7.2		(13.7)		6.1	5.7	1.5	9.8
Commission paid	44.0	44.0		(0.0)		43.7	42.9	0.7	2.4
Advertising	7.0	6.7		4.3		3.7	6.2	88.5	13.5
Promotions	14.7	15.3		(3.9)		17.8	11.7	(17.7)	25.1
Other	1.6	1.9		(18.2)		2.0	1.9	(23.6)	(16.5)
Operating profit	32.7	32.3	37.5	1.4	(12.8)	46.0	38.0	(28.9)	(13.9)
Pre-tax profit	33.6	37.9	40.9	(11.4)	(17.9)	37.7	39.8	(10.9)	(15.8)
Net profit	25.5	28.6	31.5	(10.9)	(19.0)	28.3	29.8	(10.0)	(14.4)
Attrib. to controlling interests	25.5	28.6	29.5	(10.8)	(13.6)	28.3	29.7	(10.0)	(14.3)
Margins (%)									
Operating profit	26.5	26.4	30.0			34.7	31.7		
Pre-tax profit	27.1	31.0	32.6			28.4	33.2		
Net profit	20.6	23.4	25.1			21.4	24.8		
Attrib. to controlling interests	20.6	23.4	23.6			21.4	24.8		

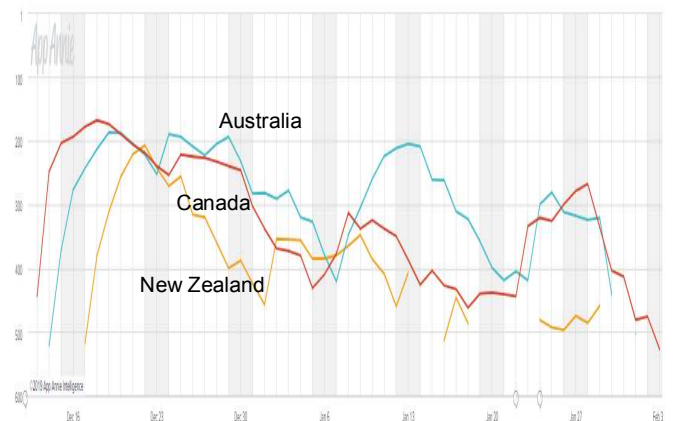
Source: Company data, WiseFn, Samsung Securities

Summoners War: Sales rankings (Google Play—Games)



Source: AppAnnie, Samsung Securities

Skylanders: Gross sales rankings (Google Play—Games)



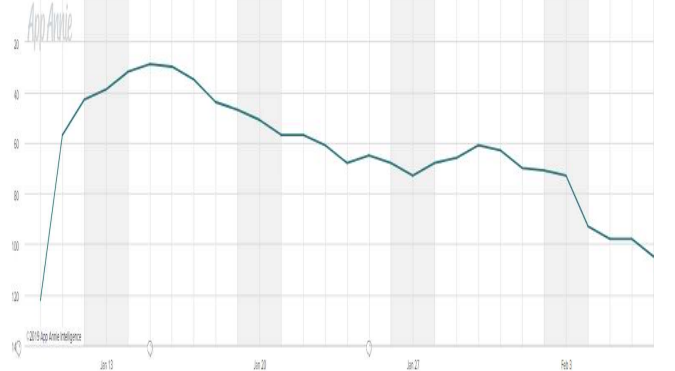
Source: AppAnnie

Skylanders Ring of Heroes



Source: Company image

Dancevil: Gross sales rankings (Google Play: Casual games)



Source: Company image

In-house developed game lineup

Expected launch	Title	Genre	Note
4Q18	Skylanders Ring of Heroes	Strategy RPG	Canada, Australia, New Zealand
1Q19	Dancevil	Casual	In-house development
	Skylanders Ring of Heroes	Strategy RPG	Global launch on Feb 28
2Q19	Birdie Crush	Sports	To launch in Southeast Asia in April
2H19	Heroes War II	RPG	FGT in February
	Summoners War MMORPG	MMORPG	Summoners War IP
2020	Summoners War: Hundred Years' War	Real-time strategy	Summoners War IP

Source: Company data, Samsung Securities

Valuation

(KRW)	
2019E EPS	9,749
Target P/E (x)*	12.8
Fair price	125,062
Target price	130,000
Current price	122,500
Upside (%)	6.1

Note: Based on Feb 8 close;

*Average 2019E P/E at which peers are trading

Source: Samsung Securities estimates

Peer P/E valuations

(x)	2019E
Gamevil	11.4
Gungho	15.6
Gree	16.9
Kunlun	10.1
OurPalm	10.2
Average	12.8

Note: Based on Feb 8 close

Source: Bloomberg, Samsung Securities

Quarterly results and forecasts

(KRWb)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19E	2Q19E	3Q19E	4Q19E
Sales	120.3	129.4	125.7	132.6	114.0	124.1	119.8	123.8	115.0	134.8	124.5	128.5
Summoners War	94.0	100.6	99.6	106.5	90.5	93.3	91.4	97.8	88.0	91.5	85.1	87.7
Other	26.3	28.8	26.2	26.1	23.5	30.8	28.4	26.0	27.0	43.3	39.3	40.8
Cost of sales	11.8	12.1	14.3	13.2	12.5	15.3	13.4	17.6	15.6	17.7	17.5	19.6
SG&A costs	58.4	68.4	61.9	73.4	62.1	72.3	68.4	73.5	67.1	75.8	68.3	73.9
Labor	6.5	5.5	5.0	6.1	5.3	6.9	5.7	6.2	6.3	6.0	6.0	7.0
Commission paid	38.2	42.3	41.2	43.7	41.3	44.9	42.9	44.0	40.9	47.9	44.2	45.7
Advertising	1.9	7.5	2.2	3.7	2.2	5.0	6.2	7.0	5.8	6.7	6.5	6.7
Promotions	10.1	11.5	11.8	17.8	11.1	13.7	11.7	14.7	12.7	13.5	10.0	12.9
Other	1.7	1.6	1.7	2.0	2.2	1.8	1.9	1.6	1.5	1.7	1.6	1.7
Operating profit	50.1	49.0	49.6	46.0	39.4	36.4	38.0	32.7	32.3	41.3	38.6	35.0
Pre-tax profit	50.0	52.1	53.4	37.7	49.7	46.0	39.8	33.6	35.9	44.0	42.4	37.9
Net profit	36.7	37.5	39.8	28.3	36.5	35.2	29.8	25.5	27.1	33.3	32.0	28.6
Attrib. to controlling interests	36.7	37.5	39.8	28.3	36.5	35.2	29.7	25.5	27.1	33.3	32.0	28.6
Adjusted EPS (KRW)*	3,037	2,851	3,002	3,122	2,285	2,277	2,454	2,235	2,149	2,707	2,538	2,355
Margins (%)												
Operating profit	41.6	37.8	39.4	34.7	34.6	29.4	31.7	26.5	28.1	30.6	31.0	27.2
Pre-tax profit	41.6	40.3	42.5	28.4	43.6	37.1	33.2	27.1	31.2	32.6	34.1	29.5
Net profit	30.5	29.0	31.7	21.4	32.0	28.4	24.8	20.6	23.5	24.7	25.7	22.3
Attrib. to controlling interests	30.5	29.0	31.7	21.4	32.0	28.3	24.8	20.6	23.5	24.7	25.7	22.3

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

Source: Company data, Samsung Securities estimates

Revisions to full-year forecasts

(KRWb)	2018E			2019E			2020E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Sales	480.2	481.8	0.3	509.5	502.8	(1.3)	543.7	555.9	2.2
Summoners War	377.6	373.0	(1.2)	352.0	352.4	0.1	327.8	328.9	0.3
Other	102.6	108.7	6.0	157.5	150.4	(4.5)	216.0	227.0	5.1
Cost of sales	56.1	58.8	4.9	67.5	70.5	4.4	73.1	77.4	5.9
SG&A costs	277.9	276.3	(0.6)	291.9	285.1	(2.3)	307.1	312.6	1.8
Labor	25.1	24.1	(3.9)	26.1	25.3	(2.9)	27.4	26.5	(3.3)
Commission paid	173.1	173.1	(0.0)	183.4	178.7	(2.6)	195.7	197.6	0.9
Advertising	20.1	20.4	1.4	24.2	25.7	5.9	26.4	28.6	8.4
Promotions	51.8	51.2	(1.2)	50.2	48.9	(2.4)	48.9	52.9	8.0
Other	7.8	7.4	(4.5)	8.0	6.5	(18.8)	8.6	7.1	(17.5)
Operating profit	146.2	146.6	0.3	150.1	147.2	(1.9)	163.6	165.9	1.4
Pre-tax profit	173.5	169.2	(2.5)	172.2	160.2	(7.0)	188.6	180.9	(4.1)
Net profit	130.1	126.9	(2.4)	129.6	121.0	(6.7)	142.0	136.6	(3.8)
Attrib. to controlling interests	130.0	126.9	(2.4)	129.5	121.0	(6.6)	141.9	136.6	(3.7)
Adjusted EPS (KRW)*	9,122	9,250	1.4	9,717	9,749	0.3	10,640	10,982	3.2
Margins (%)									
Operating profit	30.4	30.4		29.5	29.3		30.1	29.9	
Pre-tax profit	36.1	35.1		33.8	31.9		34.7	32.5	
Net profit	27.1	26.4		25.4	24.1		26.1	24.6	
Attrib. to controlling interests	27.1	26.3		25.4	24.1		26.1	24.6	

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

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Sales	513	508	482	503	556
Cost of goods sold	52	51	59	70	77
Gross profit	462	457	423	432	479
Gross margin (%)	90.0	89.9	87.8	86.0	86.1
SG&A expenses	270	262	276	285	313
Operating profit	192	195	147	147	166
Operating margin (%)	37.4	38.3	30.4	29.3	29.9
Non-operating gains (losses)	7	(1)	23	13	15
Financial profit	8	10	16	19	21
Financial costs	2	3	2	3	3
Equity-method gains (losses)	0	1	(0)	0	0
Other	0	(10)	8	(3)	(3)
Pre-tax profit	199	193	169	160	181
Taxes	47	51	42	39	44
Effective tax rate (%)	23.7	26.3	25.0	24.5	24.5
Profit from continuing operations	152	142	127	121	137
Profit from discontinued operations	0	0	0	0	0
Net profit	152	142	127	121	137
Net margin (%)	29.6	28.0	26.4	24.1	24.6
Net profit (controlling interests)	152	142	127	121	137
Net profit (non-controlling interests)	0	0	0	(0)	(0)
EBITDA	195	197	149	150	169
EBITDA margin (%)	38.0	38.9	31.0	29.9	30.5
EPS (parent-based) (KRW)	11,796	11,066	9,862	9,402	10,619
EPS (consolidated) (KRW)	11,796	11,066	9,866	9,402	10,619
Adjusted EPS (KRW)*	11,903	12,012	9,250	9,749	10,982

Cash flow statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	156	135	119	120	136
Net profit	152	142	127	121	137
Non-cash profit and expenses	43	50	18	23	26
Depreciation	2	2	2	2	2
Amortization	1	1	1	1	1
Other	40	47	15	20	22
Changes in A/L from operating activities	4	(11)	5	(2)	(2)
Cash flow from investments	(131)	(182)	(86)	(40)	(40)
Change in tangible assets	(1)	(1)	(2)	(2)	(2)
Change in financial assets	(119)	(174)	(86)	(39)	(39)
Other	(11)	(7)	2	1	1
Cash flow from financing	(20)	(16)	(17)	(17)	(17)
Change in debt	0	0	0	0	0
Change in equity	0	0	0	0	0
Dividends	0	(17)	(18)	(17)	(17)
Other	(20)	2	0	0	0
Change in cash	5	(64)	14	62	77
Cash at beginning of year	85	90	26	40	103
Cash at end of year	90	26	40	103	180
Gross cash flow	195	192	145	144	162
Free cash flow	155	133	117	118	134

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	654	768	816	911	1,026
Cash & equivalents	90	26	40	103	180
Accounts receivable	62	74	63	65	72
Inventories	0	0	0	0	0
Other current assets	502	668	714	743	775
Fixed assets	58	70	122	134	145
Investment assets	22	35	87	98	110
Tangible assets	3	3	3	3	3
Intangible assets	3	3	2	2	2
Other long-term assets	30	30	30	30	30
Total assets	712	838	938	1,045	1,171
Current liabilities	74	77	67	70	77
Accounts payable	0	0	0	0	0
Short-term debt	0	0	0	0	0
Other current liabilities	74	77	67	70	77
Long-term liabilities	3	1	0	0	0
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	3	1	0	0	0
Total liabilities	77	77	67	70	77
Owners of parent equity	635	761	871	974	1,094
Capital stock	6	6	6	6	6
Capital surplus	208	208	209	209	209
Retained earnings	435	560	672	776	896
Other	(15)	(14)	(17)	(17)	(17)
Non-controlling interests' equity	0	0	0	0	0
Total equity	635	761	871	975	1,094
Net debt	(571)	(670)	(732)	(822)	(928)

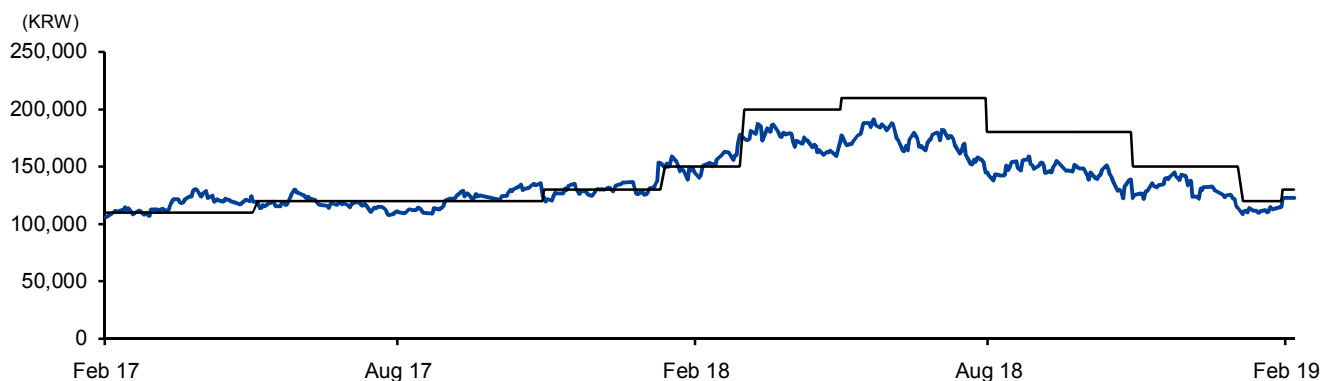
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	18.3	(1.0)	(5.2)	4.4	10.6
Operating profit	15.7	1.4	(24.7)	0.4	12.7
Net profit	20.6	(6.2)	(10.8)	(4.7)	12.9
Adjusted EPS**	12.7	0.9	(23.0)	5.4	12.7
Per-share data (KRW)					
EPS (parent-based)	11,796	11,066	9,862	9,402	10,619
EPS (consolidated)	11,796	11,066	9,866	9,402	10,619
Adjusted EPS**	11,903	12,012	9,250	9,749	10,982
BVPS	50,952	60,822	70,666	79,147	88,844
DPS (common)	1,400	1,400	1,400	1,400	1,400
Valuations (x)					
P/E***	10.3	10.2	13.2	12.6	11.2
P/B***	2.4	2.0	1.7	1.5	1.4
EV/EBITDA	5.2	4.6	5.7	5.0	3.8
Ratios (%)					
ROE	26.5	20.4	15.6	13.1	13.2
ROA	23.5	18.4	14.3	12.2	12.3
ROIC	969.4	674.4	423.7	451.3	478.7
Payout ratio	11.5	12.3	13.6	14.2	12.6
Dividend yield (common)	1.1	1.1	1.1	1.1	1.1
Net debt to equity	(89.9)	(88.1)	(84.0)	(84.3)	(84.8)
Interest coverage (x)	6,487.4	8,420.1	8,405.2	n/a	n/a

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- As of Feb 8, 2019, Samsung Securities' holdings of shares and debt instruments convertible into shares of each company covered in this report would not, if such debt instruments were converted, exceed 1% of each company's outstanding shares.
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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2017/2/9	5/15	11/8	2018/1/22	3/12	5/11	8/9	11/7	2019/1/13	2/8
Recommendation	HOLD	HOLD	HOLD	HOLD	BUY	BUY	BUY	BUY	HOLD	HOLD
Target price (KRW)	110,000	120,000	130,000	150,000	200,000	210,000	180,000	150,000	120,000	130,000
Gap* (average)	6.44	(0.53)	0.09	2.26	(13.09)	(17.90)	(19.27)	(12.81)	(7.08)	
(max or min)**	18.55	13.17	18.08	(7.60)	(6.35)	(8.81)	(11.67)	(3.33)	(4.33)	

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 Dec 31, 2018

BUY (83.3%) | HOLD (16.7%) | SELL (0%)

Global Disclosures & Disclaimers

General

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