

SundayToz (123420.KQ)

Entering new game lineup expansion phase

Company Note | Mar 21, 2019

Having found success with its Anipang series, SundayToz stands as the dominant domestic puzzle game developer. The company's new game momentum continued last year with the launches of We Bare Bears the Puzzle and other global IP-based titles. We expect the firm to enjoy strong earnings growth in 2019, backed by an expanding lineup of new IP-based offerings.

Entering new game lineup expansion phase

Backed by the arrival of a full-fledged expansion phase for its new game lineup, SundayToz is expected to enjoy improving sales and profitability going forward. We note that the firm boasts sound financial stability, with 2018 net cash of W128bn.

Specializing in the development of puzzle games (Anipang 1, 2, & 3, Anipang Matgo/Poker, Anipang Touch, etc), SundayToz has played a leading role in driving up the growth of the mobile game market. Since 2017, the developer has found success with its releases of global IP-based titles such as Snoopy Spot the Difference and We Bare Bears the Puzzle, breaking new ground in the puzzle genre.

In light of the aforementioned successes, we expect SundayToz's new global IP-based lineups to enjoy a favorable reception. Starting with Disney Pop (to be released in early April), the firm plans to introduce a platter of new IP-driven titles, including games based on: 1) CrossFire (3Q19; IP of parent company Smilegate Entertainment); 2) popular domestic IPs and the Anipang series (4Q19); and 3) Cartoon Network IPs (early 2020).

All new games are scheduled for global release in the quarter following their respective domestic launch. Of note, regarding the firm's CrossFire IP-based title, we expect the title to enter the Chinese market upon the resolving of licensing issues.

In addition, going forward, the company's games are no longer to rely solely upon messenger platforms such as KakaoTalk, a fact which promises to boost overall profitability.

Earnings to rise sharply from 2H19

We expect SundayToz to record 2019 sales of W106.5bn (+23.8% y-y) and OP of W18.0bn (+109.3% y-y), with earnings growth set to accelerate in earnest from 2H19 on the release of new games.

With the share prices of competitors having recently climbed on growing expectations towards upcoming famous IP-based puzzle games, we believe that the competitiveness of SundayToz's puzzle offerings will soon enjoy strong attention on the global stage. Trading at a 12-month forward P/E of 9.2x, we view SundayToz as being undervalued relative to peers.

Not Rated

CP ('19/03/20) **W23,050**

Sector	Game
Kospi/ Kosdaq	2,177.10 / 749.76
Market cap (common)	US\$195.78mn
Outstanding shares (common)	9.6mn
52W high ('18/05/18)	W47,650
low('18/10/30)	W14,950
Average trading value (60D)	US\$2.57mn
Dividend yield (2019E)	0.00%
Foreign ownership	3.2%

Major shareholders
Smilegate Holdings & 2 others 35.6%

Share perf	3M	6M	12M
Absolute (%)	29.1	10.3	-37.7
Relative (%)p	15.1	20.8	-26.0

	2018	2019E	2020F	2021F
Sales	86.0	106.5	142.0	156.9
Chg	18.3	23.8	33.3	10.5
OP	8.6	18.0	35.1	42.7
Chg	-31.2	109.3	95.0	21.7
OPM	10.1	16.9	24.7	27.2
NP	9.9	17.7	32.5	39.4
EPS	1,037	1,850	3,394	4,119
Chg	-27.6	78.4	83.5	21.4
P/E	18.0	12.5	6.8	5.6
P/B	1.3	1.4	1.2	1.0
EV/EBITDA	10.1	6.0	2.5	1.5
ROE	7.5	12.1	19.0	19.1
Debt/equity	11.3	9.8	9.0	8.4
Net debt	-85.9	-106.6	-129.6	-154.7

Unit: 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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To release a slew of new games from 2019

As SundayToz is forecast to release a slew of new games from 2019, its earnings should improve remarkably down the road. Having rolled out one to two games pa through 2018, the company is expected to launch three to five games pa from 2019.

Starting with Disney Pop (to be released in early April), the firm plans to introduce a platter of new IP-driven titles, including games based on: 1) CrossFire (3Q19; IP of parent company Smilegate Entertainment); 2) popular domestic IPs and the Anipang series (4Q19); and 3) Cartoon Network IPs (The Powerpuff Girls, Adventure Time with Finn & Jake, the Amazing World of Gumball; early 2020).

SundayToz has been active in R&D personnel recruitment to expand its game line-up, and as a result, its R&D workforce has increased from 125 in end-2015 to 261 in 1Q19, which should help the company release three to five games pa. We also note that SundayToz is preparing to launch HTML5 games and social casino games.

SundayToz's game lineup

Title	Genre	Developer	Launch
Anipang Sudda for Kakao	Web board	SundayToz	Jan 3, 2017
Snoopy Spot the Difference for Kakao	Puzzle	SundayToz	Oct 31, 2017
We Bare Bears the Puzzle for Kakao (Korea)	Puzzle	SundayToz	Jan 9, 2018
We Bare Bears the Puzzle for Kakao (Global)	Puzzle	SundayToz	May 29, 2018
Disney Pop	Puzzle	SundayToz	Apr 2019
CrossFire IP-based puzzle game	Puzzle	SundayToz	3Q19
Domestic IP-based game	Puzzle	SundayToz	4Q19
New Anipang game	Puzzle	SundayToz	4Q19
Cartoon Network IPs-based games	Puzzle	SundayToz	Early 2020

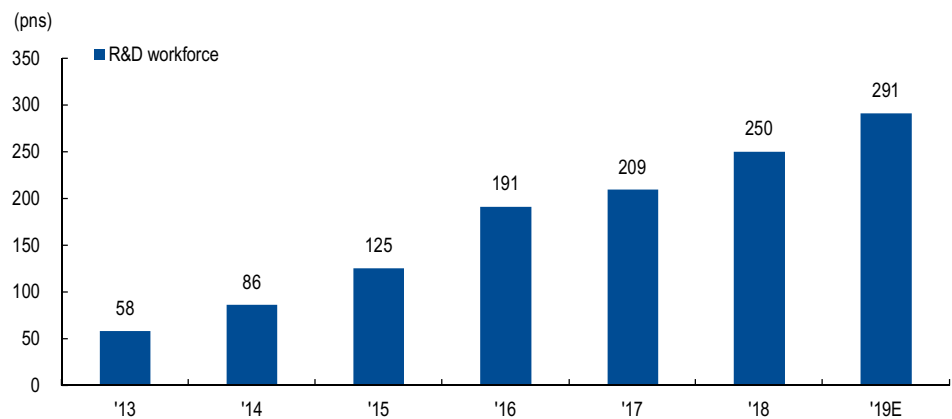
Source: SundayToz, Media reports, NH I&S Research Center

Having rolled out one to two games pa through 2018, SundayToz to launch three to five games pa from 2019

	2012년~2015년	2016년	2017년	2018년
국내	 2012년 7월 애니팡 for Kakao  2013년 2월 애니팡 사정성 for Kakao  2014년 1월 애니팡2 for Kakao  2014년 7월 아쿠아스토리 for Kakao	 7월 애니팡 포커 for Kakao  9월 애니팡3 for Kakao  11월 애니팡 터치 for Kakao	 1월 애니팡 섀터 for Kakao  10월 스누피 롤링그림찾기 for Kakao	 1월 위 베어 베어스 더 퍼즐 for Kakao  5월 We Bare Bears Match3 Repairs  10월 Snoopy: Spot the Difference
해외		 6월 Shanghai Smash	 7월 BACKYARD BLAST	
HTML5	 2017. 10월 Dino Ballz (Facebook Instant Games)	 2018. 2월 Space Bullet Time (Facebook Instant Games)	 2018. 6월 Slot Mate (Facebook Instant Games)	 2018. 7월 Dino Ballz (LINE Quick Game)  2018. 11월 Golden Baseball Derby (Facebook Instant Games)

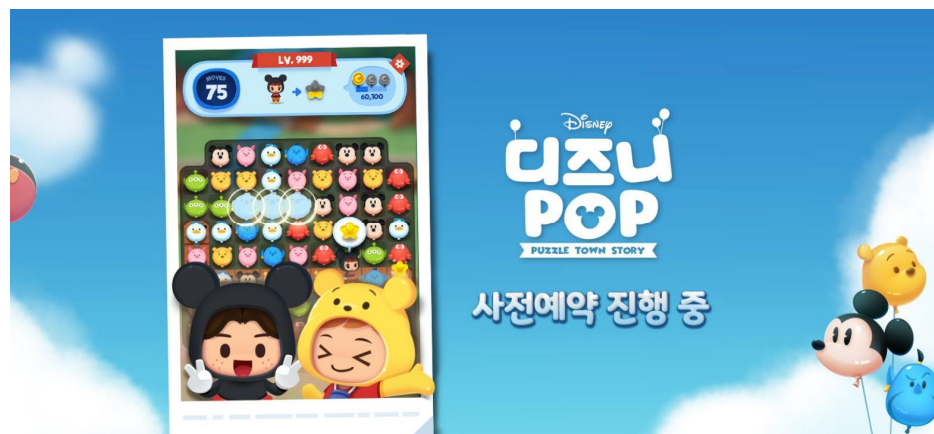
Source: SundayToz, NH I&S Research Center

R&D workforce



Source: SundayToz, NH I&S Research Center

Disney Pop slated for launch in early April



Source: SundayToz, NH I&S Research Center

Cartoon Network IPs-based games



Source: Apple, Google, NH I&S Research Center

Strategy of developing puzzle games based on storylines of popular global IPs while using similar puzzle-solving mechanisms from popular puzzle games

Puzzle games are plentiful these days, but many of them are not rich in the storyline. Accordingly, to make its puzzle games stand out from others, SundayToz has deployed a differentiated strategy of developing puzzle games based on the storylines of popular global IPs while using similar puzzle-solving mechanisms from popular puzzle games in the market. For instance, its We Bare Bears the Puzzle, which drove up the firm's 2018 top-line growth, has an awesome gameplay where users help bears fix up their cave that has been destroyed due to certain reasons.

SundayToz's Disney Pop slated for release in April also has a gameplay where users build Disney towns that have been destroyed by putting together puzzle pieces. The game should begin with Mickey and Pooh storylines and then move to Aladdin, Alice in the Wonderland, and Frozen World storylines.

Entering global market

Puzzle games are one of the best-selling genres around the world, and language differences hardly present a concern when puzzle games hit global markets. Accordingly, SundayToz plans to globally release its new games a quarter after their respective domestic launch.

While having made it to the top 10 sales charts of Korea's app stores last year, We Bare Bears the Puzzle has fared ill in the global market. But, the game's sales entered the top 10 charts in some Asian countries such as Hong Kong, Taiwan, Singapore, and Thailand where bear characters are beloved.

The company also plans to release CrossFire IP-based title in the domestic market in 3Q19, and then launch the title in China once licensing issues are resolved.

We Bare Bears the Puzzle, based on fun storyline



Source: SundayToz, NH I&S Research Center

Disney Pop allows users to build various Disney towns

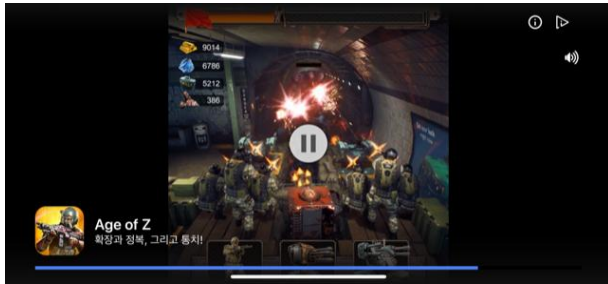


Source: SundayToz, NH I&S Research Center

In-game ad revenue fast increasing

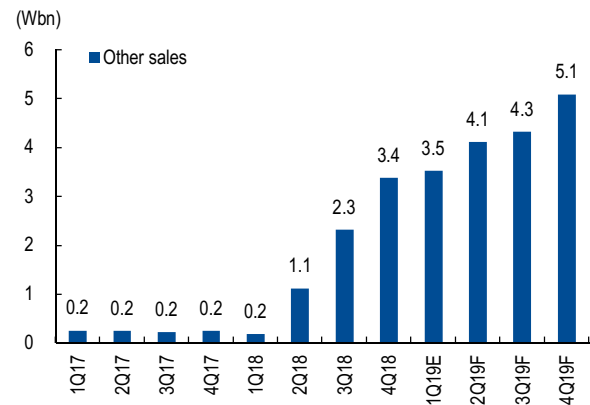
Ad revenue at SundayToz is on the fast rise. The company has an in-game advertising strategy under which it can earn revenue while users can play games for free. Having come to around W200mn per quarter, other sales (including ad revenue) at SundayToz have rapidly increased since its introduction of the strategy. Other sales reached W3.4bn in 4Q18, accounting for 15.9% of its total sales.

In-game ad revenue is on the rise



Source: NH I&S Research Center

Other sales (including ad revenue) to keep growing



Source: NH I&S Research Center

2019 earnings to grow strongly

Driven by a number of new releases, earnings at SundayToz should dramatically increase this year. The game developer is estimated to record 2019 sales of W106.5bn (+23.8% y-y), OP of W18bn (+109.3% y-y), and NP (excl minority interests) of W17.7bn (+77.7% y-y). Its earnings should see a growth spurt from 2H19.

If SundayToz's new games turn out to be global successes, its earnings should grow fast through 2020. We estimate its 2020 sales at W142bn (+33.3% y-y) and OP at W35.1bn (+95.0% y-y)

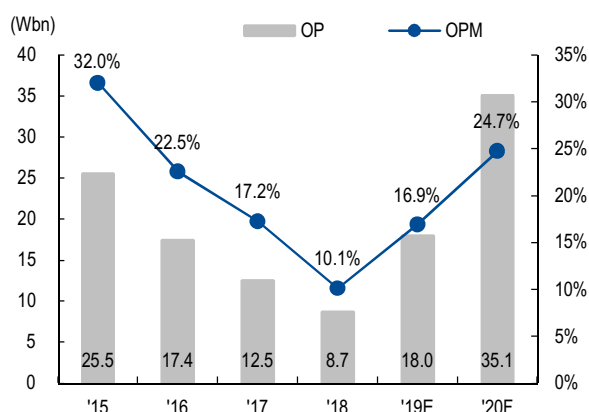
OPM to improve from 10.1% in 2018 to 16.9% in 2019 and 24.7% in 2020

The company should also display bottom-line growth. Its OPM should jump from 10.1% in 2018 to 16.9% in 2019 and 24.7% in 2020.

SundayToz plans not to use messenger platforms for most of its new games, which should help reduce its commission costs. Having spent a large sum of money on overseas marketing for We Bare Bears the Puzzle, the company plans to take different marketing approaches, depending on regions and early performance of games.

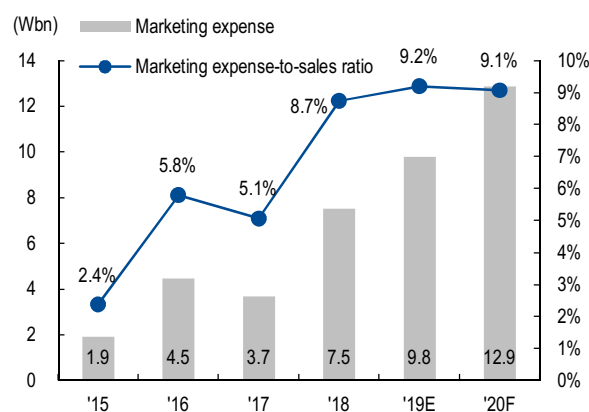
That said, marketing expense at SundayToz should climb from W7.5bn in 2018 to W9.8bn in 2019 and W12.9bn in 2020, as the number of new releases is set to increase. But, its 2019 marketing expense growth should be slower than that in 2018.

OPM to uptrend



Source: NH I&S Research Center

While marketing expense to climb, growth to slow



Source: NH I&S Research Center

Earnings forecasts (IFRS consolidated)

(Unit: Wbn, won, x, %)

	2018	2019E	2020F	2021F
Sales	86	107	142	157
OP	9	18	35	43
OPM	10.1	16.9	24.7	27.2
EBITDA	9	19	36	44
NP (excl minority interests)	10	18	33	39
EPS	1,037	1,850	3,394	4,119
P/E	18.0	12.5	6.8	5.6
P/B	1.3	1.4	1.2	1.0
EV/EBITDA	10.1	6.0	2.5	1.5
ROE	7.5	12.1	19.0	19.1

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

Source: NH I&S Research Center estimates

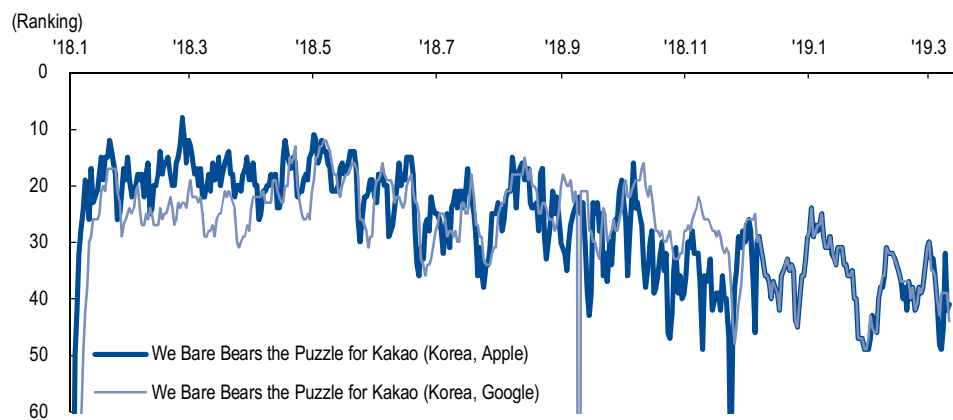
Quarterly earnings forecasts

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19E	2Q19F	3Q19F	4Q19F	2018	2019E	2020F
Sales	20.5	22.4	22.0	21.3	20.8	25.1	28.8	31.7	86.1	106.5	142.0
Mobile	20.3	21.3	19.6	17.9	17.3	21.0	24.5	26.6	79.1	89.4	119.4
PC and others	0.2	1.1	2.3	3.4	3.5	4.1	4.3	5.1	7.0	17.0	22.6
Disney Pop	-	-	-	-	-	4.2	6.0	6.6	-	16.8	23.4
CrossFire IP-based title	-	-	-	-	-	-	2.3	4.3	-	6.5	18.6
Operating expense	18.4	22.4	18.9	17.8	18.1	22.2	24.1	24.0	77.4	88.5	106.9
Labor	2.8	3.6	3.3	3.5	4.2	4.6	4.6	4.9	13.2	18.3	20.1
Marketing	1.7	4.0	1.5	0.3	0.9	3.2	3.6	2.1	7.5	9.8	12.9
Game commission	10.6	10.9	10.0	9.3	9.0	9.9	10.9	11.4	40.8	41.1	48.2
Sales commission	0.9	1.7	1.7	2.1	1.4	2.9	4.4	4.9	6.4	13.6	25.3
OP	2.1	0.0	3.0	3.5	2.7	2.8	4.7	7.7	8.7	18.0	35.1
OPM	10.3	0.2	13.8	16.5	13.1	11.4	16.3	24.3	10.1	16.9	24.7
Pre-tax profit	2.9	1.1	3.8	4.4	3.8	4.2	5.6	8.2	12.2	21.7	39.6
NP	1.9	1.1	3.2	3.7	3.1	3.5	4.5	6.6	10.0	17.7	32.5

Source: SundayToz, NH I&S Research Center estimates

We Bare Bears the Puzzle: Sales rankings at app stores (Korea)

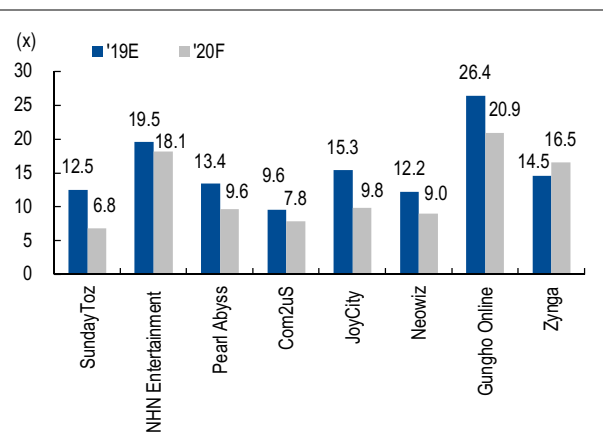


Source: SundayToz, NH I&S Research Center

,SundayToz is trading at a undervalued 12M FWD P/E of 9.2x

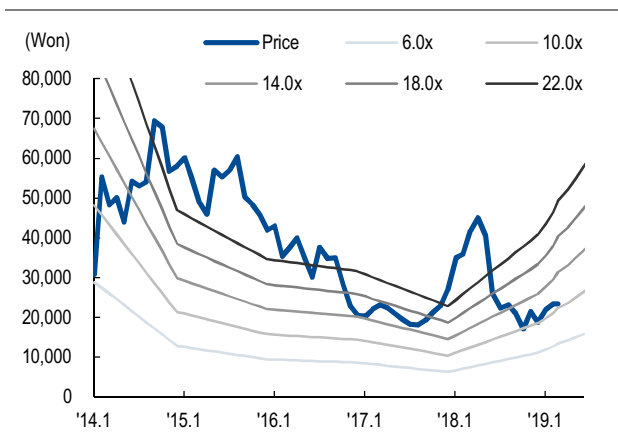
Share prices at competitors have recently climbed on growing expectations towards upcoming puzzle games based on famous IPs. This bodes well for SundayToz, whose puzzle game competitiveness is expected to be recognized globally. We find SundayToz's shares appealing, given that despite its earnings growth potential and W128bn cash and cash equivalents as of end-2018, the company is trading at a undervalued 2019 P/E of 12.5x, 12M FWD P/E of 9.2x, and 2020F P/E of 6.8x.

Lower P/E level than rivals



Source: Bloomberg, NH I&S Research Center

12M FWD P/E



Source: NH I&S Research Center

SundayToz's fair price estimated at W30,500

We estimate SundayToz's fair share price at W30,500. Our RIM-derived fair share price assumes a risk free rate of 4.0%, market risk premium of 7.0%, and beta of 1.0, and equates to a 2019E P/E of 16.5x and 2020F P/E of 8.9x.

RIM valuation

(Unit: Wbn, won)

	2019E	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Net profit	18	32	39	46	56	63	69	75	81	88	96	106
Shareholder's equity	155	187	227	272	328	391	459	530	606	688	775	868
Forecast ROE (FROE)	12.1%	19.0%	19.1%	18.3%	18.6%	17.6%	16.2%	15.1%	14.3%	13.6%	13.2%	12.9%
Spread (FROE-COE)	1.1%	8.0%	8.1%	7.3%	7.6%	6.6%	5.2%	4.1%	3.3%	2.6%	2.2%	1.9%
Residual income	2	14	17	18	23	24	22	20	18	17	16	15
Cost of equity (COE)	11.0%											
Beta	1.0											
Market risk premium (Rm-Rf)	7.0%											
Risk-free rate (Rf)	4.0%											
Beginning shareholder's equity	137											
PV of forecast period RI	108											
PV of continuing value	19											
Equity value (C+P)	264											
No of shares (common, mn)	9,570											
		12m TP										
Fair price (C)		30,591										
Current price (C)		23,050										
Upside (-downside)		32.7%										
Implied P/B (x)		2.1										
Implied P/E (x)		13.7										

Note: RIM (Residual Income Model) is a cash flow approach that yields a fair shareholder value (value of equity) by adding shareholders' equity and present value of residual income (meaning income excluding cost of equity).

Value of equity = shareholders' equity + sum of present value of future residual income

* Residual income (Rit) = NP (t) - shareholders' equity (t-1) * cost of equity (t) = shareholders' equity (t-1) * (ROEt - COEt)

NH I&S uses RIM as our primary valuation model as RIM is an objective model that minimizes subjectivity of valuation indicators while producing same results as DDM (dividend discount model) and DCF.

Market risk premium assessment guidelines

	Mega cap	Large cap	Mid cap	Small cap
Criteria	Market cap of W10tn or higher + credit rating of 'AAA' or higher	Market cap of W1~10tn + credit rating of 'A0' or higher	Market cap of W200bn-1tn + credit rating of 'BBB+' or higher	Market cap of less than W200bn + credit rating of 'BBB-' or higher
Risk premium	5.2%	6.0%	7.0%	8.0%

* Risk Free Rate = 4.0% (standardized)

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Sales	86.0	106.5	142.0	156.9
Growth (%)	18.3	23.8	33.3	10.5
COGS	0.0	40.6	54.4	60.1
Gross Profit	86.0	65.9	87.5	96.8
Gross margin (%)	100.0	61.9	61.6	61.7
SG&A	77.4	47.9	52.4	54.1
Operating Income	8.6	18.0	35.1	42.7
Growth (%)	-31.2	109.3	95.0	21.7
Operating margin (%)	10.1	16.9	24.7	27.2
EBITDA	9.2	19.0	36.1	43.8
Non-Operating Profits	3.5	3.8	4.6	5.5
Financial Income(Costs)	3.9	4.2	5.0	5.9
Other Non-Operating Profits	0.1	0.2	0.2	0.2
Gains(Losses) in Associates, Subsidiaries and JVs	-0.5	-0.6	-0.6	-0.6
Pre-tax Profit from Cont. Op.	12.1	21.7	39.6	48.2
Income Taxes	2.1	4.0	7.1	8.8
Profit from Continuing Op.	9.9	17.7	32.5	39.4
Net Profit	9.9	17.7	32.5	39.4
Growth (%)	-29.8	78.8	83.6	21.2
Net margin (%)	11.5	16.6	22.9	25.1
Net Profit of Parent	9.9	17.7	32.5	39.4
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0
Other Comprehensive Income	-0.4	0.0	0.0	0.0
Total Comprehensive Income	9.6	17.7	32.5	39.4

Valuation / Profitability / Stability				
	2018/12A	2019/12E	2020/12F	2021/12F
Price/ Earning (X)	18.0	12.5	6.8	5.6
Price/ Book Value (X)	1.3	1.4	1.2	1.0
Price/ Gross Cash Flow (X)	14.6	11.6	6.1	5.0
Price/ Sales (X)	2.1	2.1	1.6	1.4
EV/ EBITDA (X)	10.1	6.0	2.5	1.5
EV/ EBIT (X)	10.8	6.3	2.6	1.5
Fully diluted EPS (W)	1,037	1,850	3,394	4,119
BVPS (W)	14,313	16,163	19,557	23,676
Sales PS (W)	8,985	11,124	14,833	16,394
ROE (%)	7.5	12.1	19.0	19.1
ROA (%)	6.8	11.0	17.4	17.5
ROIC (%)	784.8	3,546.0	3,372.0	1,662.5
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	0.0	0.0
Cash DPS (W)	0	0	0	0
Net debt(cash)/ equity (%)	-62.7	-68.9	-69.3	-68.3
Debt/ equity (%)	11.3	9.8	9.0	8.4
Interest-Bearing Debts (Wbn)	0.0	0.0	0.0	0.0
Current Ratio (%)	706.6	867.4	963.2	1,031.4
Total shares (mn)	10	10	10	10
Par value (W)	500	500	500	500
Share price (W)	18,650	23,050	23,050	23,050
Market Cap (Wbn)	178.5	220.6	220.6	220.6

STATEMENT OF FINANCIAL POSITION				
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Cash and Cash Equivalents	19.7	46.4	58.3	66.4
Accounts Receivables	6.8	6.6	7.8	9.7
Total Current Assets	97.5	117.8	143.0	171.2
Tangible Assets	2.2	2.1	2.0	1.9
Investment Assets	50.5	47.5	56.3	69.5
Non-Current Assets	55.0	52.0	61.0	74.4
Assets	152.5	169.9	203.9	245.6
Short-Term Debt	0.0	0.0	0.0	0.0
Account Payables	0.0	0.0	0.0	0.0
Current Liabilities	13.8	13.6	14.8	16.6
Long-Term Debt	0.0	0.0	0.0	0.0
Long-Term Allowance	1.4	1.3	1.6	2.0
Non-Current Liabilities	1.7	1.6	1.9	2.4
Liabilities	15.5	15.2	16.8	19.0
Capital Stock	4.8	4.8	4.8	4.8
Capital Surplus	16.2	16.2	16.2	16.2
Retained Earnings	123.9	141.6	174.1	213.5
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
Shareholders' Equity	137.0	154.7	187.2	226.6

CASH FLOW STATEMENT				
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Operating Cash Flow	9.7	18.7	32.9	39.5
Net Profit	9.9	17.7	32.5	39.4
Depreciation&Amortization	0.6	1.0	1.0	1.1
+ Loss(Gains) from Subs	0.5	0.0	0.0	0.0
+ FC translation loss(profit)	0.0	0.0	0.0	0.0
Gross Cash Flow	12.2	19.1	36.2	43.9
- Incr. (Decr.) in WC	-4.4	0.0	-0.5	-0.9
Investing Cash Flow	-9.6	8.0	-21.1	-31.4
+ Decr. In Tangible Assets	0.0	0.0	0.0	0.0
- Incr. In Tangible Assets(CAPEX)	-0.7	-0.5	-0.6	-0.6
+ Disp.(Acq.) of Inv. Assets	-16.4	3.0	-8.8	-13.3
Free Cash Flow	9.0	18.2	32.4	38.9
Net Cash Flow	0.0	26.6	11.9	8.2
Financing Cash Flow	0.0	0.0	0.0	0.0
Equity Financing	0.0	0.0	0.0	0.0
Debt Financing	0.0	0.0	0.0	0.0
Incr.(Decr.) in Cash	0.0	26.6	11.9	8.2
Ending Cash and Cash Equivalents	19.7	46.4	58.3	66.4
Net Debt (Cash)	-85.9	-106.6	-129.6	-154.7

NH Investment & Securities Stock Ratings

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 Mar 15, 2019).

- NH I&S' stock rating distribution

Buy	Hold	Sell
76.8%	23.2%	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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