

Cafe24 (042000.KQ)

Clues of possible share price rebound in play

Company Note | May 28, 2019

Since its 1Q19 earnings release, Cafe24's share price has plunged 40%. Believing that negatives have been over-reflected in its share price, we view that the potential of the firm's platform business is currently undervalued. In light of both an uptick in foreigners' purchasing on Korean online shopping malls and the rise of influencer commerce, we expect Cafe24's growth trajectory to proceed uninterrupted going forward.

Recent share price plunge represents opportunity

Cafe24 is a platform company that specializes in solutions for online shopping malls. We attribute the firm's recent share price drop to: 1) lackluster 1Q19 GMV growth that is lagging the market's growth; 2) concerns towards a decline in M/S stemming from the launches of competing services such as that of NHN Godo; and 3) profitability deterioration driven by increased labor costs. However, we believe that such concerns have been over-reflected in Cafe24's share price as of late.

Our optimism stems from the following: 1) Cafe24's platform boasts 160,000 locked-in shopping mall accounts, and new subscriber growth is expected. Accordingly, we expect Cafe24's GMV growth rate to be similar with the growth rate of the online shopping market going forward. 2) While market competition remains a factor, Cafe24's sales figures greatly exceed those of competitors. Believing that the firm's platform strength remains valid, we see the company's prospects for achieving business expansion and profit leverage effects as also remaining robust. 3) Sales growth momentum is visible, thanks to both a significant uptick in foreigners' purchasing on Korean online shopping malls and the rise of influencer commerce. Meanwhile, among overseas markets, we draw attention to Japan as a likely source of future sales growth.

Boasts scalable business model; sales to expand 30% y-y in 2019

Cafe24's platform is expected to enjoy synergy effects backed by ongoing M&A efforts and investment. We note that recent acquisition Pimz boasts an integrated management platform for shopping malls (Ezadmin) which provides solutions (such as order management) that were previously lacking in Cafe24's platform. In light of the strong performances of Playauto and Sabangnet (two players with similar business models to that of Ezadmin), Ezadmin appears well-positioned to enjoy both robust sales growth and strong margins going forward. While compared to global top-tier player Shopify, Cafe24's GMV growth rate and global market position look unimpressive, we note that Cafe24 has already turned profitable. In addition, Cafe24's market cap/GMV sits at just 0.06x, a figure which appears to represent a significant undervaluation relative to that of global peers (0.6x in the case of Shopify). We expect Cafe24 to enjoy ongoing growth, estimating 2019 sales of W216bn (+30.6% y-y). Believing that its earnings will normalize going forward, we view the firm's shares (currently trading at 2020F P/E of 24.3x) as attractive.

Not Rated

CP ('19/05/24) **W58,500**

Sector	Internet
Kospi/Kosdaq	2045.31 / 690.03
Market cap (common)	US\$465.4mn
Outstanding shares (common)	9.4mn
52W high ('18/07/16)	W204,000
low ('19/05/26)	W55,600
Average trading value (60D)	US\$9.8mn
Dividend yield (2019E)	0.00%
Foreign ownership	22.6%

Major shareholders
CK Woo and 12 others 28.7%

Share perf	3M	6M	12M
Absolute (%)	-55.2	-37.6	-63.6
Relative (%)	-51.7	-38.3	-53.9

	2018	2019E	2020F	2021F
Sales	165.4	216.0	253.9	306.9
Chg	16.0	30.6	17.5	20.9
OP	15.6	17.8	26.2	43.6
Chg	110.7	14.5	47.0	66.4
OPM	9.4	8.3	10.3	14.2
NP	-28.4	16.9	22.7	37.0
EPS	-3,149	1,792	2,408	3,924
Chg	TTL	TTP	34.4	63.0
P/E	N/A	32.6	24.3	14.9
P/B	9.4	4.3	3.7	3.0
EV/EBITDA	44.3	13.6	12.5	7.6
ROE	-45.9	14.3	16.4	22.0
Debt/equity	29.6	30.4	31.0	30.4
Net debt	-77.4	-98.7	-119.8	-155.7

Unit: Wbn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, and ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates



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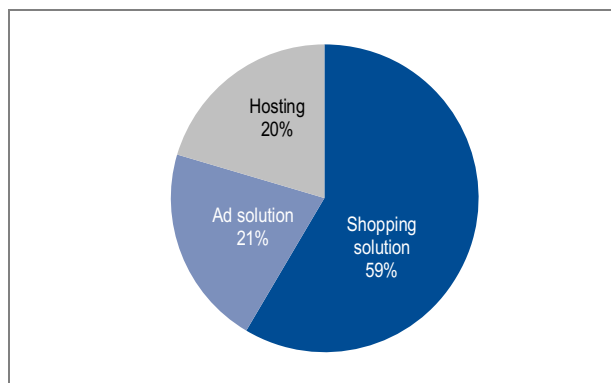
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Company overview

- Established in 1999, Cafe24's business initially focused on web and server hosting. In 2003, the firm launched an online shopping mall solution business, which has now secured about 1.7mn shopping mall accounts.
- Recently, Cafe24's regional coverage has been widening, along with the aggressive entry of domestic online shopping malls into overseas markets. In addition, the number of overseas shopping malls using Cafe24's platform service has been on the rise.
- Largest shareholder CK Woo and related parties (including CEO JS Lee) own a combined 28.7% stake. Of note, Cafe24 is the first tech startup to be registered on the Kosdaq under the 'Tesla qualification' rule. Boasting a similar business model as Shopify, Cafe24 has been favored by foreign investors (foreign ownership stood at 22.6% as of May 24, 2019).

Sales breakdown

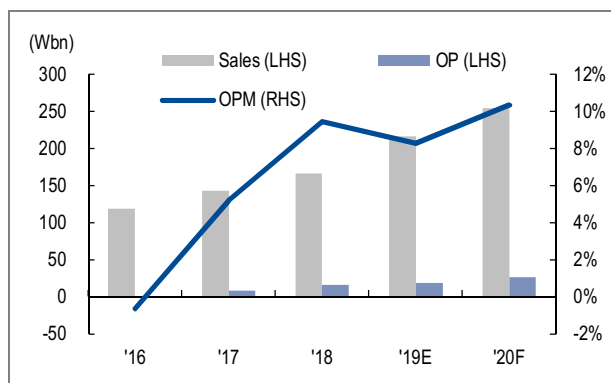
- Shopping mall solutions: Cafe24 receives commissions from shopping mall companies (through PG players) for its platform service. The division's sales also include sales at subsidiaries.
- Ad solutions: The firm's marketing center offers domestic and overseas marketing solutions for search ad, display ad, and social media marketing services.
- Hosting service: The hosting service business is divided into web hosting and server hosting.



Note: As of 2018
Source: Cafe24, NH I&S Research Center

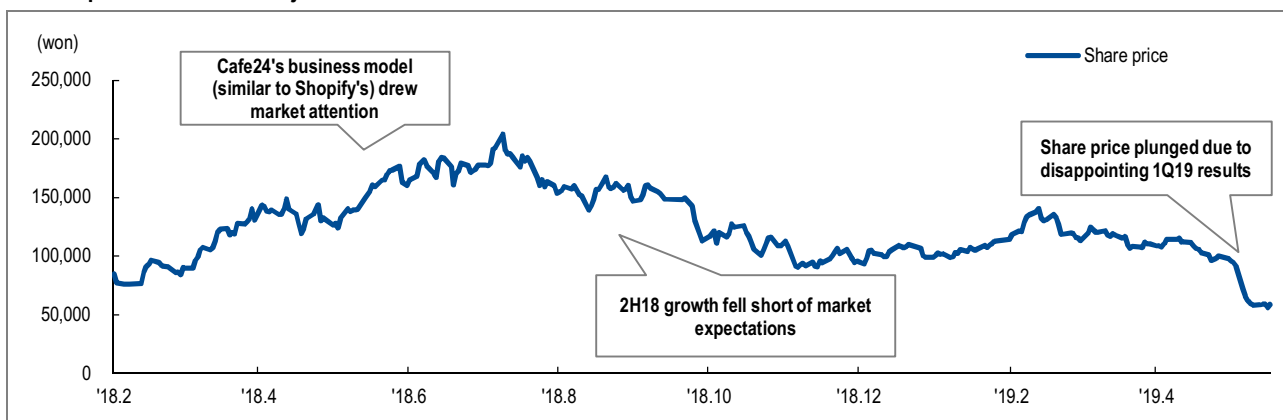
Earnings

- Cafe24 turned to black in 2017. In 2018, the firm recorded sales of ₩165.4bn and OP of ₩15.6bn.
- The company's 2019 sales growth is expected to outpace that of the overall online shopping mall market, thanks to strong growth at subsidiaries.



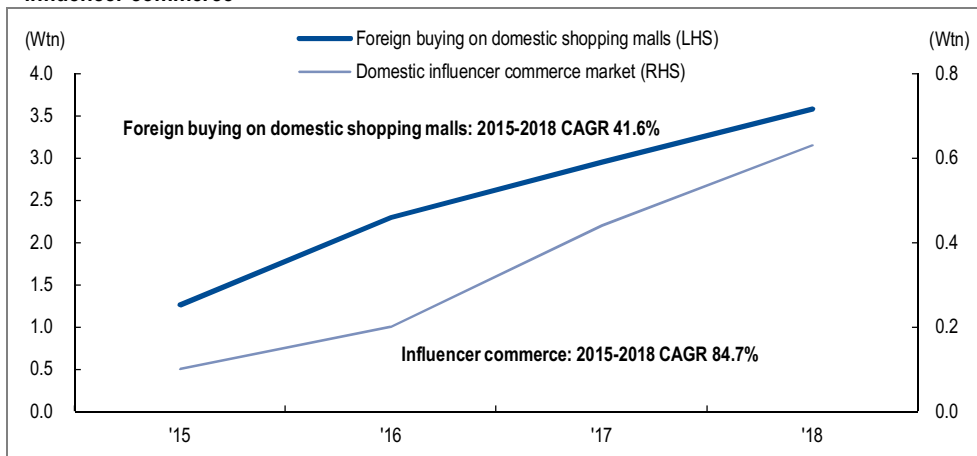
Source: Cafe24, NH I&S Research Center estimates

Share performance and major events



Source: DataGuide, NH I&S Research Center

Cafe24 to benefit from greater foreign buying on domestic shopping malls, and increase in influencer commerce



Source: KOSTAT, Mediakicks, NH I&S Research Center

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 May 24, 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.

Compliance notice

- NH I&S does not have a stake greater than or equal to 1% in Cafe24 as of the preparation date.
- NH I&S has not provided this material to any institutional investor or other third party in advance. The Korean version of this material was distributed on May 27, 2019.
- The analyst and his/her spouse do not own any securities of Cafe24 as of the preparation date.
- Cafe24 is not under coverage at NH I&S. Thus, NH I&S does not present a rating and target price on the counter. This material is for reference purpose only.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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