Com2uS
078340 KS

Tough going, in a tough environment

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Com2uS saw solid and stable revenue from its core mobile games in April-May

- It expects Wonder Tactics to reignite revenue-growth momentum from 3Q15
- Management believes the right offerings should boost its global-expansion strategy

Background
Com2uS is a leading mobile-game developer in Korea, which has been successfully riding on the smartphone wave since 2012. Gamevil (063080 KS) acquired a 24.4% stake in Com2uS in November 2013 and has pursued business synergies for global game distribution jointly.

Geographically, the company generated revenue from Korea (17%), ex-Korea Asia (42%), US/Europe (36%), and others (5%).

Highlights
Core mobile game updates. We heard from management that Summoners War has benefited from its mass marketing efforts using TV commercials in the US and other Asian countries, leading to solid gamer traffic and steady game sales. It noted that daily active users of Summoners War remain stable at 1.2m and total cumulative downloads was around 40m, indicating that this mega hit mobile role-playing game (RPG) continues to enhance its game-platform power for in-game item commerce. Actually, its top-5 mobile games including Summoners War and Ace Fishing generated around 92% of total revenue in 1Q15, compared to 90% in 2014. Com2uS plans to conduct a large-scale content update (new battle modes, storylines, and in-game items) for Summoners War in 3Q15.

Seeking both organic and inorganic growth initiatives. Com2uS announced on 22 May that it would issue 1.61m new shares (16.3% of total outstanding shares excluding treasury shares) and bonus issues after a rights offering. Management expects the proceeds of KRW181bn from the rights offering to be invested in new game intellectual property (IP), talent game-development studios, and game developers for both existing and new game titles.

At the meeting, management did not specify any potential acquisition targets, but highlighted that Com2uS is keen to acquire strong game IPs, which could work for global markets, smart devices, and all generation. It emphasised that the competition in the global mobile-game market is intensifying and the hit ratio of new games has continued to decline, while the costs for marketing and R&D are surging. With its one-build mobile game, Com2uS aims to benefit from the growing scale of global users, in-game communities on its platform, and in-app item commerce.

Sticking with the plan. Com2uS has rolled out 3 mobile RPGs (East Legend, Soul Seeker, and Dragon Knights), and several casual mobile games featuring sports and puzzle. Meanwhile, we sensed that the company has high expectations for Wonder Tactics, a new mobile RPG being developed by internal game engineers who have valuable experience in the successful launch of similar RPGs previously, and are sharing their knowhow of the commercial service of Summoners War and Ace Fishing. Management believes Com2uS will continue to release high quality games, in order to add new revenue streams and extend the service span of its existing games.

2015 business targets on track. Management noted that the company is now on track to meet its 2015 business targets (revenue of KRW399bn, up 70% YoY and operating profit of KRW157bn, up 55% YoY with operating-profit margin of 39%). Meanwhile, it stated that the company ramped up its marketing costs for Summoners War and other mobile games in 2Q15, where it could see a high return on investment.

Valuation
Com2uS is trading currently at a PER of 11.86x for 2015 and 10.36x for 2016, on the Bloomberg consensus EPS forecasts.

Target (KRW): n.a. Up/downside: - 25 Jun price (KRW): 134,000

Source: FactSet, Daiwa

Share price performance

See important disclosures, including any required research certifications, beginning on page 3
Share price and Daiwa recommendation trend

Com2uS: share price and Daiwa recommendation trend

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Source: Daiwa
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Source: Daiwa
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