

## Internet - Korea

## Year Ahead 2024: incrementally bullish on Korea internet

Industry Overview

## 2024: incrementally bullish on Korea internet

We turn incrementally bullish on the Korea internet sector in 2024 on back of earnings recovery, profitability turnaround, and positive catalysts. Korea internet stocks (Naver, Kakao) started to rebound from 4Q23, and we expect improved visibility on balancing growth with profitability heading into 2024E. We expect a gradual ad recovery (on easier comps), SFV (Clip) ramp up & live streaming monetization, AI driven improvements in ad targeting & measurement. Risks: intensified competition in Korea eCommerce (mainly triggered by foreign cross-border platforms) and potential new regulatory measures.

## Key themes – ad recovery, AI, live streaming, SFV

**Ads** – with a stable Korea economic outlook with 2.3% GDP growth (vs. 1.4% in 2023), we expect digital ad market to moderately rebound in 2024 on easier-comps and modest boost from Olympics (26 Jul-11 Aug) and national election (10 Apr). **eCommerce** – we project 2024 Korea eCommerce sales (excluding service) to reach \$132bn (8% y/y in FX-neutral basis). **AI** – leveraging AI as an ads and productivity driver continues to be key theme. Naver is testing new features related to search/ shopping to enhance user experience and enable deeper AI integration across its apps. **Live streaming & SFV** – triggered by Twitch's official exit from Korea (on 27 Feb), local competitors are leaping forward to fill the space. Naver's CHZZK started open beta test on 19 Dec. SFV focus continues including Naver's Clip. **Gaming** – long-awaited PC/ console title launches will deliver extra growth, yet uncertainties linger around domestic mobile, China business.

## Risks – competition, anti-trust regulation

**Competition** – a key risk to Korea eComm sector is the rise of cross-border competition. While cross-border GMV remains relatively small (total cross-border accounted for ~4%), rapid growth led by aggressive marketing could impact peers in 2024. Fashion and F&B more vulnerable. **Regulations** – the regulatory outlook in 2024 will likely be impacted by the enactment of Platform Competition Promotion Act (by Fair Trade Committee), which include provisions to designate operators with significant influence in the market as 'dominant platform operators' and prohibit frequently observed unfair practices. **Gaming** – revised Game Industry Promotion Act, which includes the mandatory disclosure of information on gacha probabilities, will be implemented from 22 Mar.

## Coupang: reiterate Neutral

Coupang remains one of the best-managed companies in our coverage with market leadership in Korea EC, in our view. We also view its announcement to acquire Farfetch positive in a long-run, as it could help build up its presence in the global luxury goods segment. Nevertheless, we reiterate our Neutral rating and \$20 PO. We are concerned the company may struggle to balance profitability with growth in a near-term, due to competition in domestic market (i.e., cross-border entities) and overseas expansion.

16 January 2024

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## Glossary

SFV: short form video  
GMV: gross merchandise value  
F&B: food and beverage

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Timestamp: 15 January 2024 05:00PM EST

# Executive summary

## Exhibit 2: Our thoughts mapped across various sub-sectors going into 2024

Below are the key themes for Korea Internet and Gaming sectors for 2024

	Online ad	eCommerce	Generative AI	Gaming	Any other sub-sector
Key themes	<ul style="list-style-type: none"> <li>- With a stable Korea economic outlook with 2.3% GDP growth (vs. 1.4% in 2023), we expect digital ad market to moderately rebound in 2024 on easier-comps and modest boost from Olympics (26 Jul-11 Aug) and national election (10 Apr).</li> <li>- Ramping short-form video (SFV) &amp; live streaming monetization, AI driven improvements in ad targeting &amp; measurement.</li> </ul>	<ul style="list-style-type: none"> <li>- We estimate digital ad market to moderately rebound on easier comps and led by a couple of specific catalysts such as Paris Olympic (on 26 Jul – 11 Aug) and national election (on 10 Apr) in 2024.</li> <li>- Food delivery market growth to decelerate in 2024.</li> </ul>	<ul style="list-style-type: none"> <li>- Leveraging AI as an ads and productivity driver continues to be key theme. Naver is testing new features related to search/shopping to enhance user experience and enable deeper AI integration across its apps.</li> </ul>	<ul style="list-style-type: none"> <li>- Korea gaming market is expected to grow 7% YoY in 2024E: PC +5%, mobile +9%, console +8%, respectively. It implies meaningful business opportunities for both PC and console, both of which declined in 2022/23E.</li> <li>- Korean game developers have strategically focused on genre and platform diversification. Genres are varied from collectible RPG to action and life simulation, rather than just MMORPG, while platforms are expanded to PC and console from mobile.</li> </ul>	<ul style="list-style-type: none"> <li>- Live streaming: triggered by Twitch's official exit from Korea, local competitors are leaping forward to fill the space. Naver's CHZZK started open beta test.</li> <li>- Short-form video: Users traffic into short-form contents continue to remain strong, making Naver to focus on its SFV products Clip.</li> </ul>
Competition	<ul style="list-style-type: none"> <li>- Naver and Kakao still dominate internet platforms, chatting apps.</li> <li>- Live streaming: triggered by Twitch's official exit from Korea, local competitors are leaping forward to fill the space. Naver's CHZZK started open beta test.</li> </ul>	<ul style="list-style-type: none"> <li>- Online retail: Coupang and Naver to benefit from online retail consolidation. While cross-border GMV remains relatively small, rapid growth led by aggressive marketing could impact peers in 2024</li> <li>- Food delivery: still dominated by Baemin, yet competition heightened mainly led by Coupang Eats' promotion (10% discount).</li> </ul>	<ul style="list-style-type: none"> <li>- Domestic players, Naver and Kakao, operate the biggest internet/mobile platforms in Korea. The two players have been making investments into and preparing AI solutions, and we believe Naver to deliver meaningful progress around AI this year.</li> <li>- Naver implemented CUE, based on HyperCLOVA X, to its Search (Nov 2023). CUE: works with Naver's Shopping and Local. Additionally, Naver is offering Clova Studio to its corporate clients from Oct 2023. It enables clients to create custom AI models with their datasets.</li> </ul>	<ul style="list-style-type: none"> <li>- Competition to move on to PC &amp; console platforms. Major pipelines include Project Black Budget (Krafton; PC/ console), Paragon: The Overprime (Netmarble; PC/ console) and Battle Crush (PC/ console/ mobile).</li> <li>- China: We see some of the late-Dec draft measures are likely to impact user engagement and game grossing, while consider it is just draft measures and we believe regulator should have further discussion with game companies/ publics and expect to see more detailed and rationalized measures in the official version.</li> </ul>	
Regulation	<ul style="list-style-type: none"> <li>- Enactment of Platform Competition Promotion Act (by Fair Trade Committee) at the 21st National Assembly (by 29 May 2024).</li> </ul>	<ul style="list-style-type: none"> <li>- Enactment of Platform Competition Promotion Act (by Fair Trade Committee) at the 21st National Assembly (by 29 May 2024).</li> </ul>	<ul style="list-style-type: none"> <li>- Korea Newspaper Association filed a complaint with the Fair Trade Commission, regarding Naver's use of news content in training HyperCLOVA X (on 28 Dec).</li> </ul>	<ul style="list-style-type: none"> <li>- Regulation on gacha being enforced – On 2 Jan, the Ministry of Culture, Sports and Tourism announced that the revised Game Industry Promotion Act, which includes the mandatory disclosure of information on gacha probabilities, will be implemented from 22 Mar. The amendment details the types and display requirements of gacha items, identifies the games subject to the obligation, and outlines the methods for displaying probabilities.</li> </ul>	

Source: BofA Global Research

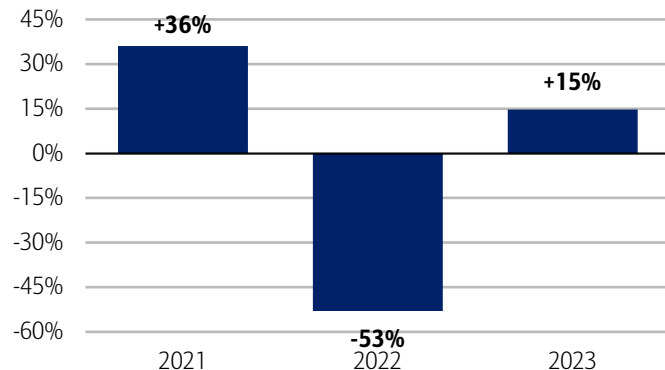
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## 2023: stocks started to rebound from 4Q

We are incrementally bullish on the Korea internet sector in 2024 on back of earnings recovery, profitability turnaround, and incremental catalysts. Korea internet stocks (Naver, Kakao) started to rebound from 4Q23, making annual gain of +15% in 2023 vs. negative 53% in 2022. Meanwhile, we are largely cautious on Korea gaming sector in 2024, as competition within domestic mobile gaming market remains tough. Korea gaming stocks (NCSOFT/ Krafton/ Netmarble/ Kakao Games/ PearlAbyss/ Com2uS) continued to decline making 18% decline in 2023, following 54% decline in 2022.

### Exhibit 2: Aggregated market cap of BofA Korea Internet stocks (YoY change)

Aggregated market cap increased 15% YoY in 2023

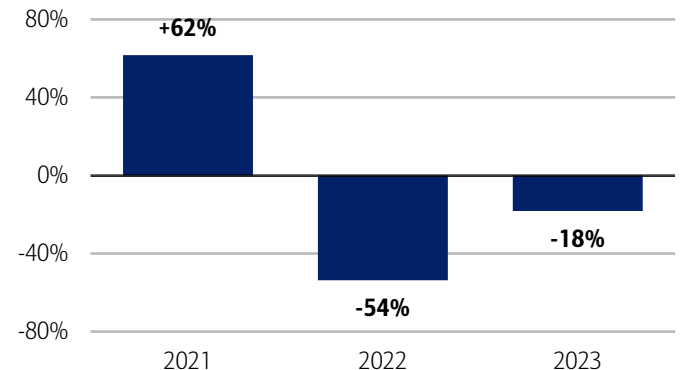


Source: BofA Global Research, Bloomberg; Note: including Naver, Kakao

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### Exhibit 3: Aggregated market cap of BofA Korea Gaming stocks (YoY change)

Aggregated market cap decreased 18% YoY in 2023

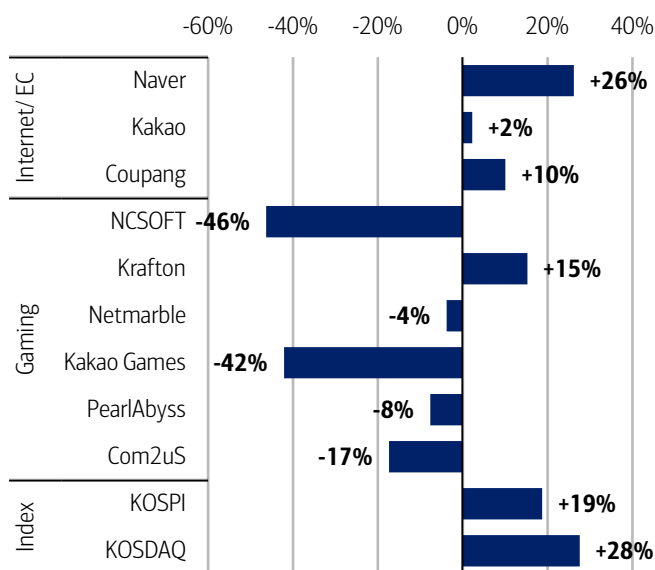


Source: BofA Global Research, Bloomberg; Note: including NCSOFT/ Krafton/ Netmarble/ Kakao Games/ PearlAbyss/ Com2uS

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### Exhibit 4: Stock Performance (2023)

Naver outperformed KOSPI in 2023

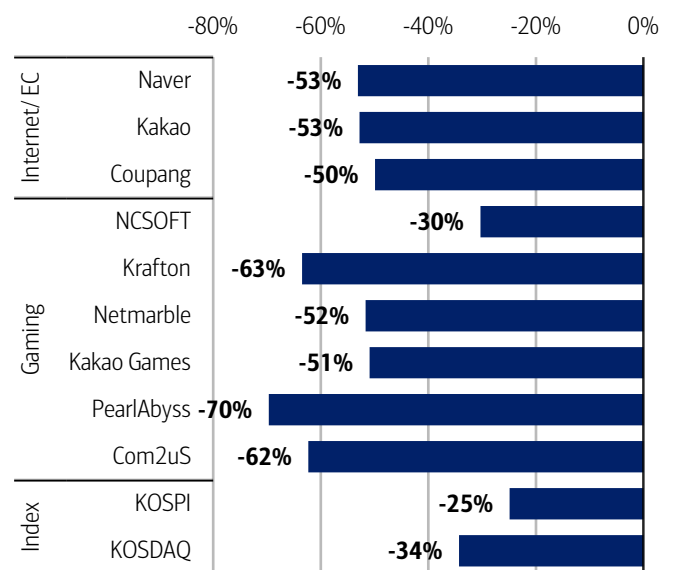


Source: BofA Global Research, Bloomberg

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### Exhibit 5: Stock Performance (2022)

Both internet and gaming sectors underperformed the indices in 2022



Source: BofA Global Research, Bloomberg

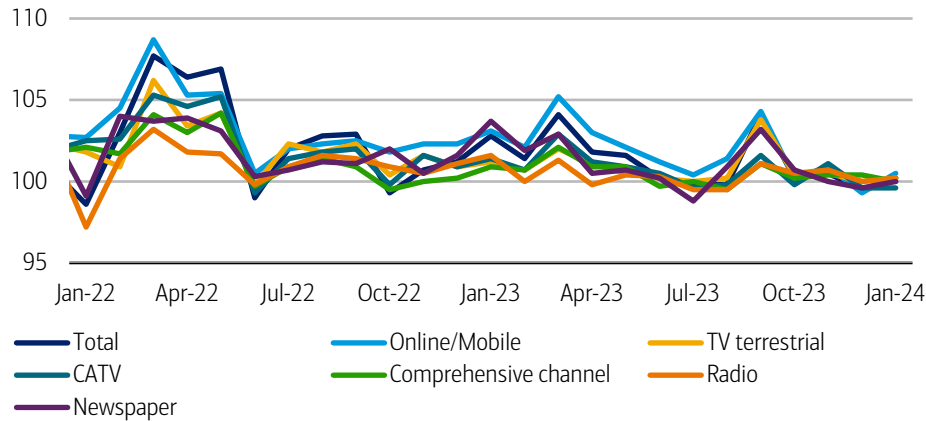
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## Online ad to moderately recover

With a stable Korea economic outlook with 2.3% GDP growth (vs. 1.4% in 2023), we expect digital ad market to moderately rebound in 2024 on easier-comps and modest boost from Olympics (26 Jul-11 Aug) and national election (10 Apr).

### Exhibit 6: Media KAI (Korea Advertising Index)

Total KAI for Jan 2024 is 100.2, indicating an expected moderate increase in ad spending vs. Dec 2023



Source: KOBACO, CJ ENM

Note:

\* KAI = 100: the number of companies responding expected increase in ad spending is equal to the number responding expected decrease, KAI > 100: more companies are reporting expected increase, KAI < 100: more companies are reporting expected decrease

\*\* KAI is a survey index, asking to advertisers of their month-on-month ad spending expectation, which is weighted per advertiser; and thus, does not reflect the actual size of the change in ad spending.

\*\*\* CATV: Community Antenna Television, Cable Television; average figure of cable TV and comprehensive channels

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## Macro: Export-led cyclical recovery on the way

Our economist Benson Wu expects that Korea exports growth has turned around lately. We expect such momentum to sustain throughout 2024, with the help of: 1) the tech-cycle rebound; 2) the US capex cycle upturn & stabilized China demand; and 3) easing stance from major central banks. Given the significance and spillover of the exports sector, we expect the external tailwind to boost both domestic consumption and investment; hence, see a healthy and balanced recovery in 2024. Specifically, we forecast GDP will grow to 2.3%/2.5% in 2024/25 (See our report [Korea Watch: Year Ahead 2024: Export-led cyclical recovery on the way 23 November 2023](#)).

### Exhibit 9: Major economic indicators for Korea

We expect Korea GDP to rebound to 2.3%/2.5% in 2024/25

		2019	2020	2021	2022	2023F	2024F	2025F
<b>GDP by expenditure</b>								
Real GDP growth	% yoy	2.2	-0.7	4.3	2.6	1.4	2.3	2.5
Final consumption expenditure	% yoy	3.2	-2.2	4.1	4.1	1.6	1.4	2.3
Gross capital formation	% yoy	-2.1	3.5	3.2	-0.5	1.5	1.5	1.8
Contribution to GDP growth								
Net exports	pp	0.8	0.4	0.6	-0.1	-0.2	0.6	0.5
<b>Major activity indicators</b>								
Household consumption	% yoy	2.1	-4.8	3.6	4.1	1.8	1.7	2.5
Construction investment	% yoy	-1.7	1.5	-1.6	-2.8	2.7	1.5	-1.3
Facility investment	% yoy	-6.6	7.2	9.3	-0.9	-0.8	1.4	5.8
Intangibles investment	% yoy	3.1	3.4	6.1	5.0	1.7	1.5	2.8
Exports of goods	% yoy	-1.1	-0.2	10.7	3.6	2.5	5.9	5.9
Import of goods	% yoy	-2.5	0.3	12.6	4.3	-0.4	2.9	5.3

Source: Haver, BofA Global Research estimates

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## Global ad budget: digital to take share from traditional

Digital spend is now the top driver of global ad market and is expected to continue take share from traditional media. For 2024, aided by increasing monetization of short form video and AI driven improved ad targeting, we expect global digital ad spending to grow 12% y/y to \$629bn. US is the biggest online ad markets and is expected to grow in line with the global market. Given current FX rates and BofA estimates, we estimate FX will be modest sector tailwind in 2024. Risks for the sector, in addition to macro risks above, include: 1) Google Cookie phase out and Android platform changes, 2) Online time spent and ad dollar saturation, and 3) New AI-driven capex cycle. See our report:

[Internet/e-Commerce: 2024 Online Media Year Ahead 11 December 2023](#)

### Exhibit 10: Global Internet Advertising Spend (\$mn)

We estimate 12% Global internet advertising spend in 2024, and strong Online ad growth to help drive 6% total ad growth.

#### Global Internet Advertising Spending by Region

in \$ millions	2018	2019	2020	2021	2022	2023E	2024E	2025E
<b>United States</b>	<b>\$105,365</b>	<b>\$127,730</b>	<b>\$146,930</b>	<b>\$197,977</b>	<b>\$213,544</b>	<b>\$235,994</b>	<b>\$263,699</b>	<b>\$293,531</b>
Y/Y Change	20%	21%	15%	35%	8%	11%	12%	11%
Share	40%	41%	41%	42%	42%	42%	42%	42%
<b>Canada</b>	<b>\$6,013</b>	<b>\$7,336</b>	<b>\$8,509</b>	<b>\$11,062</b>	<b>\$12,168</b>	<b>\$13,628</b>	<b>\$15,400</b>	<b>\$17,248</b>
Y/Y Change	19%	22%	16%	30%	10%	12%	13%	12%
Share	2.3%	2.3%	2.4%	2.3%	2.4%	2.4%	2.4%	2.5%
<b>Western Europe</b>	<b>\$54,378</b>	<b>\$62,630</b>	<b>\$68,764</b>	<b>\$97,873</b>	<b>\$97,410</b>	<b>\$108,498</b>	<b>\$121,161</b>	<b>\$132,501</b>
Y/Y Change	13%	15%	10%	42%	3%	11%	12%	9%
Share	21%	20%	19%	21%	19%	19%	19%	19%
<b>China</b>	<b>\$42,110</b>	<b>\$53,047</b>	<b>\$62,051</b>	<b>\$78,933</b>	<b>\$80,512</b>	<b>\$86,147</b>	<b>\$93,901</b>	<b>\$102,727</b>
Y/Y Change	40%	26%	17%	27%	2%	7%	9%	9%
Share	16.1%	16.9%	17.3%	16.6%	16.0%	15.4%	14.9%	14.6%
<b>Asia Pacific (ex-China)</b>	<b>\$36,401</b>	<b>\$42,933</b>	<b>\$47,226</b>	<b>\$55,335</b>	<b>\$61,422</b>	<b>\$70,635</b>	<b>\$81,937</b>	<b>\$94,227</b>
Y/Y Change	18%	18%	10%	17%	11%	15%	16%	15%
Share	13.9%	13.6%	13.1%	11.7%	12.2%	12.6%	13.0%	13.4%
<b>Central and Eastern Europe</b>	<b>\$5,683</b>	<b>\$6,655</b>	<b>\$7,321</b>	<b>\$9,151</b>	<b>\$8,968</b>	<b>\$9,327</b>	<b>\$9,886</b>	<b>\$10,381</b>
Y/Y Change	19%	17%	10%	25%	(2%)	4%	6%	5%
Share	2.2%	2.1%	2.0%	1.9%	1.8%	1.7%	1.6%	1.5%
<b>Other (Middle East and Latin America)</b>	<b>\$11,386</b>	<b>\$14,232</b>	<b>\$18,359</b>	<b>\$24,418</b>	<b>\$28,813</b>	<b>\$35,152</b>	<b>\$43,237</b>	<b>\$52,749</b>
Y/Y Change	27%	25%	29%	33%	18%	22%	23%	22%
Share	4.4%	4.5%	5.1%	5.1%	5.7%	6.3%	6.9%	7.5%
<b>Global Internet Advertising Spending</b>	<b>\$261,336</b>	<b>\$314,563</b>	<b>\$359,160</b>	<b>\$474,749</b>	<b>\$502,837</b>	<b>\$559,381</b>	<b>\$629,221</b>	<b>\$703,364</b>
Y/Y Change	21%	20%	14%	32%	6%	11%	12%	12%
<b>Global Total Major Media Advertising Spending</b>	<b>\$565,177</b>	<b>\$621,694</b>	<b>\$658,996</b>	<b>\$777,615</b>	<b>\$793,168</b>	<b>\$832,826</b>	<b>\$882,795</b>	<b>\$935,763</b>
Y/Y Change	3%	10%	6%	18%	2%	5%	6%	6%
Online Share	46%	51%	55%	61%	63%	67%	71%	75%

Source: BofA Global Research, eMarketer, Magna, Denstu and Zenith

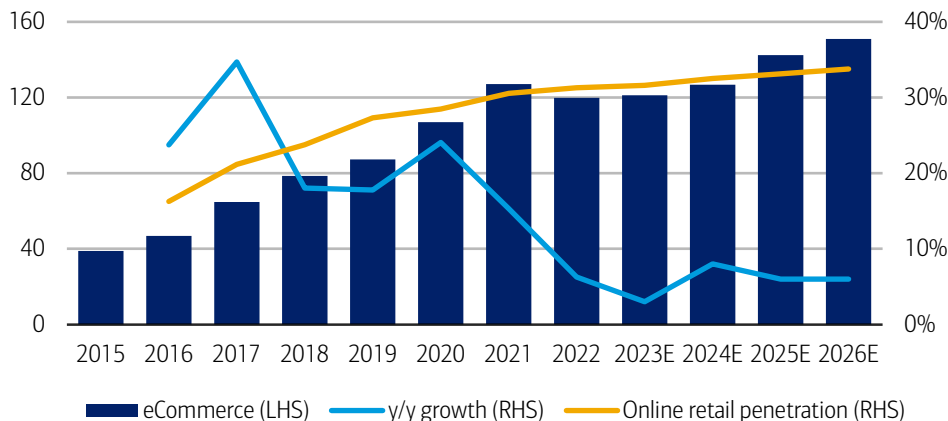
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## eCommerce growth continues

We project 2024 Korea eCommerce sales (excluding service) to reach \$132bn (8% y/y in FX-neutral basis), up from \$122bn (3% y/y in FX-neutral basis) in 2023. We expect online penetration of applicable retail sales to expand 90bps y/y to 32.5% in 2024, an acceleration from 30bps y/y in 2023, and largely similar to 80bps y/y in 2022. Slowing domestic consumption growth could be a headwind to retail sales growth, but we would expect tailwinds from improving eCommerce service levels and an improvement in discretionary spends.

### Exhibit 9: Korea eCommerce

We project 2024 Korea eCommerce sales (excluding service) to reach \$132bn (8% y/y in FX-neutral basis), up from \$122bn (3% y/y in FX-neutral basis) in 2023.



Source: National Statistics Organization, BofA Global Research estimates

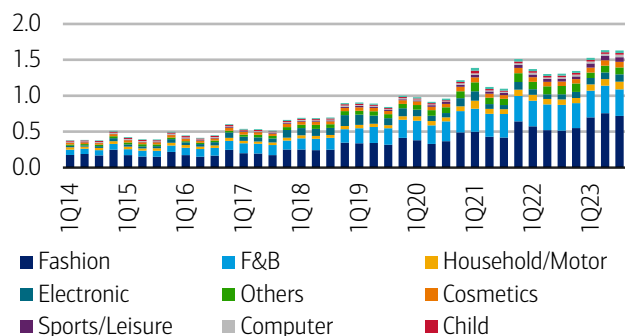
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## Cross-border eCommerce

A key risk to Korea eComm sector is the rise of cross-border competition. While cross-border GMV remains relatively small (total cross-border accounted for ~4%; Chinese cross-border at ~2% of total online retail in Jun-Sep '23), rapid growth led by aggressive marketing could impact peers in 2024. Cross-border GMV from China rose 106% YoY, much faster than online retail growth of 4% YoY in the same period. Total cross-border GMV is more focused on the categories of fashion (45% of total) and F&B (23%).

### Exhibit 10: Quarterly cross-border trade by categories (Wtn)

Fashion accounted for the largest portion with 45% in Jan-Sep 2023.

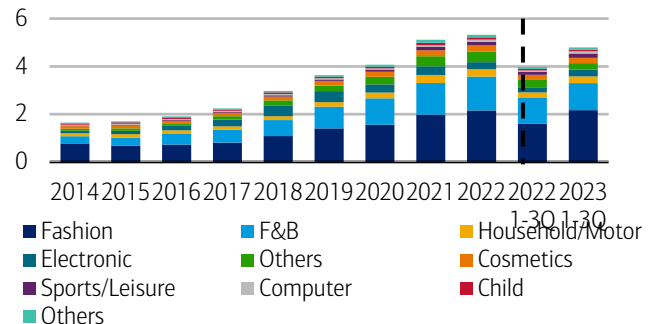


Source: Korea Customs Service

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### Exhibit 11: Annual cross-border trade by categories (Wtn)

The portion of fashion category was 45% in Jan-Sep 2023

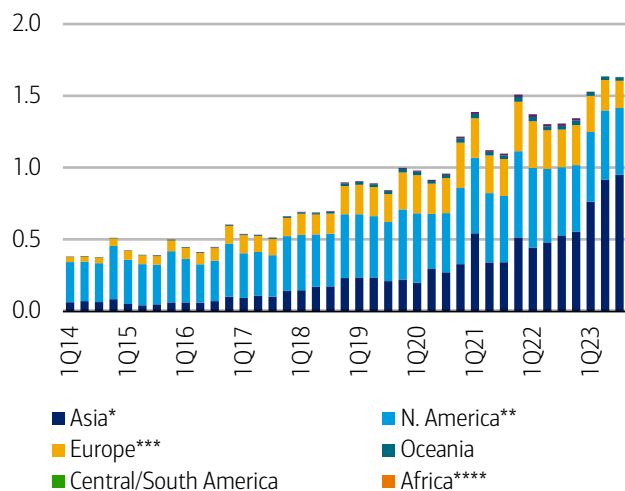


Source: Korea Customs Service

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**Exhibit 12: Quarterly cross-border trade by countries (Wtn)**

China secured the top position in Korean cross-border eCommerce (or direct purchase), surpassing the US for the first time.



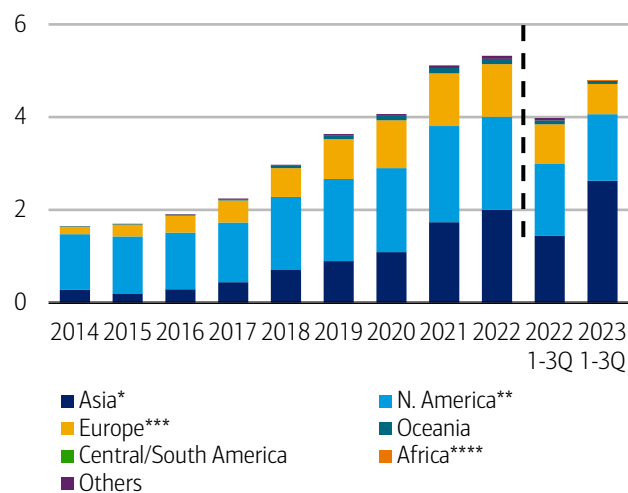
Source: Korea Customs Service

Note: \* China, Japan, ASEAN, Middle East aggregate amount up to 4Q22, \*\* US amount up to 4Q22, \*\*\* EU, UK aggregate amount up to 4Q22, \*\*\*\* Amount available from 1Q23

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**Exhibit 13: Annual cross-border trade by countries (Wtn)**

The cross-border purchase from China increased 106% YoY in Jan-Sep 2023



Source: Korea Customs Service

Note: \* China, Japan, ASEAN, Middle East aggregate amount up to 4Q22, \*\* US amount up to 4Q22, \*\*\* EU, UK aggregate amount up to 4Q22, \*\*\*\* Amount available from 1Q23

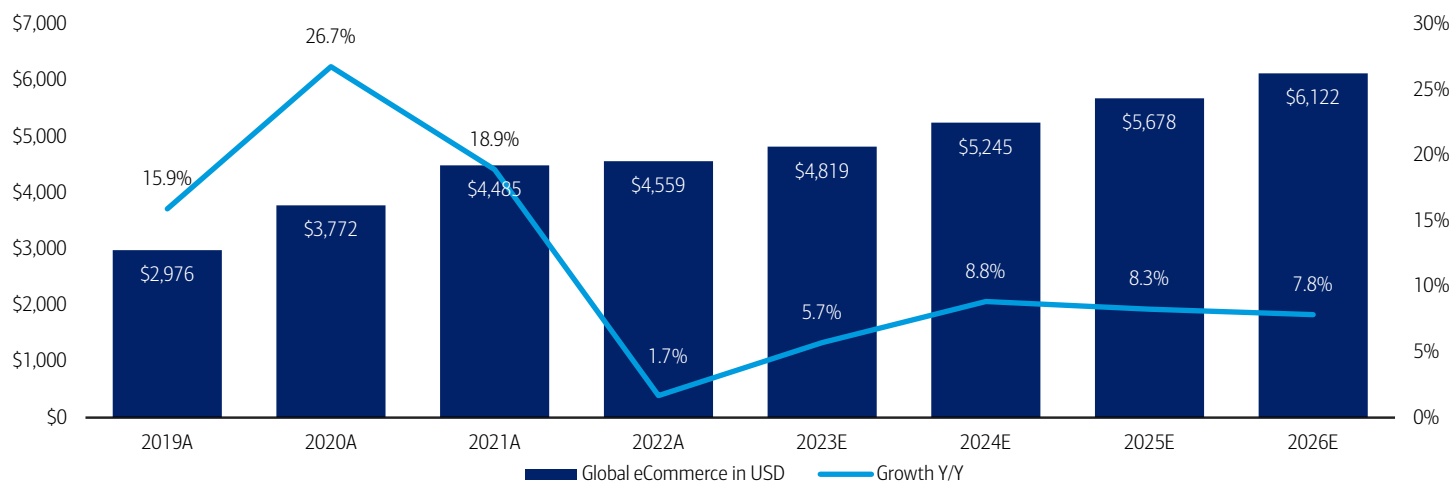
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**Global eCommerce to grow 9% in 2024E**

We project global 2024 growth in US\$ to accelerate 3pts to 9% y/y (\$5.2tn US\$), but see more modest trends on an FX-neutral basis, as China is expected to decelerate 50bps in CC. China remains the largest market at 50% of Global GMV (vs. US at 23%), and we expect 8% US\$ growth in 2024. Globally, we project eComm penetration to increase 70bps y/y to 24.8% in 2024 as return to in-store shopping trends fade. We think overall Global Online penetration can grow to 26% by 2026, with China and South Korea leading. See our report [Internet/e-Commerce: eCommerce Year Ahead: Global eCommerce outlook and top stocks for 2024 07 December 2023](#)

**Exhibit 14: Global Retail eCommerce Sales (\$bn)**

We estimate global eCommerce industry revenues will reach \$6.12tn in 2026E, representing an 8.3% 3-yr CAGR.



Source: Company reports BofA Global Research, Euromonitor, US Census Bureau

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## Leveraging AI as a productivity driver

Domestic players, Naver and Kakao, operate the biggest internet/mobile platforms in Korea. The two players have been making investments into and preparing AI solutions, and we believe Naver to deliver meaningful progress around AI this year. Naver implemented CUE, based on HyperCLOVA X, to its Search (Nov 2023). CUE works with Naver's Shopping and Local. Additionally, Naver is offering Clova Studio to its corporate clients from Oct 2023. It enables clients to create custom AI models with their datasets.

### Exhibit 17: Naver & Kakao AI models

Naver and Kakao will put their AI models into their internet/mobile services

Company	Naver	Kakao
Hyper-scale AI model	HyperCLOVA X	KoGPT 2.0
Competitive edge	Image and voice recognition	Expanded parameters and data tokens
B2C services	Search, shopping, booking, ...	KakaoTalk profile customization, personal assistant, ...
B2B services	Productivity tools	Chatbot

Source: Press report

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### Exhibit 18: Naver - Generative AI businesses (B2C)

HyperCLOVA X, which has strengths in Korean language, will be launched on 24 August

	HyperCLOVA X	CLOVA X	CUE:
Launch	- 24 August 2023	- August 2023 (beta service)	- September 2023 (beta service) - Will be applied to Naver's search engine in 2023
Strengths & services	<b>&lt; Hyper-scale AI model &gt;</b> - Learned 6,500x Korean data compared to ChatGPT. - Understands Korean legal, system, culture based on user data as well as news and blogs. - Using "Channel Tech" to launch application that encompasses services for general users and corporate business tools.	<b>&lt; Conversational agent &gt;</b> - Provides answers to queries, and can be used as personal productivity tool through text writing (text creation and summary) - Can incorporate different services as plug-ins	<b>&lt; Generative AI for search &gt;</b> - Search solution using Naver's contents and database. - Understands complex queries and provides answers using up-to-date information. - Expanded to Naver's services including shopping and commerce.

Source: Company, Press report

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### Exhibit 19: Kakao - Generative AI businesses

Kakao's hyper-scale AI model KoGPT2.0 is expected to be unveiled in 3Q23

	KoGPT2.0	Karlo 2.0	KoChatGPT (chatbot)	AI in healthcare (PASTA)
Launch	- TBD	- 10 July 2023	- TBD	- Feb 2024 (TBD)
Strengths & services	<b>&lt; Hyper-scale AI model &gt;</b> - Expanded parameters and data tokens - Kakao invested W170bn in generative AI (W70bn in Kakao Brain and W100bn in Kakao Enterprise) - Expected to be incorporated into Kakao's various verticals including reservations, commerce, payment, KakaoTalk profile customization, personal assistant, etc.	<b>&lt; Hyper-scale AI image generator &gt;</b> - Generates high-quality images based on language inputs after learning 300mn text and image dataset.	<b>&lt; AI Chatbot &gt;</b> - Conversational virtual assistant that works in line with Kakao's services incl. Kakao Talk and Karlo 2.0. - Acquired data from the chatbot service test in 1H23.	<b>&lt; Blood sugar management &gt;</b> - PASTA is a blood sugar management service utilizing continuous glucose monitoring devices and smartphones. It was developed with Dexcom, Novo Nordisk, and i-SENS. PASTA features AI-based food recognition and nutrient analysis, real-time blood sugar measurement, guidance, and community functions. - Analyzes data and life logs from connected continuous blood glucose monitors using AI and proposes diet and exercises to those in need of blood sugar management.

Source: Company, Press report

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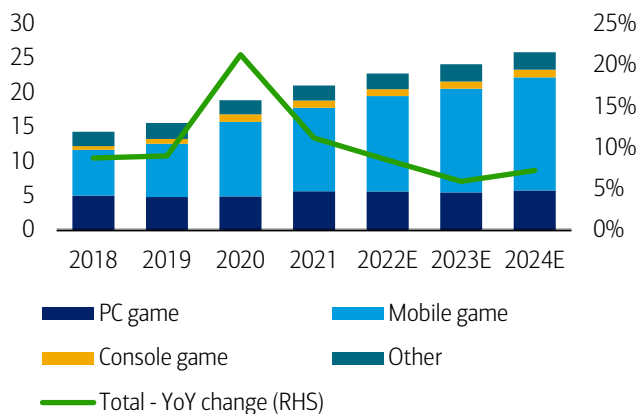


## Gaming: PC/ console transition ahead

Despite heavy capital requirements and incumbent competition, the PC/ console market clearly offers monetization advantages, thanks to hardcore gamers, being a primary mode of entertainment, and immersive and social game play – a total package for the MMORPG genre. We expect the Korea gaming market to also see some growth from the PC/ console market, driven by a series of blockbuster title launches in mid-2023. Korea gaming market is expected to grow 7% YoY in 2024E: PC +5%, mobile +9%, console +8%, respectively (as per KOCCA). It implies meaningful business opportunities for both PC and console, both of which declined in 2022/23E.

### Exhibit 18: Korea gaming market size (Wtn; 2018A-2024E)

Korea gaming market size is expected to have grown 6% YoY in 2023 (vs. 8% in 2022)

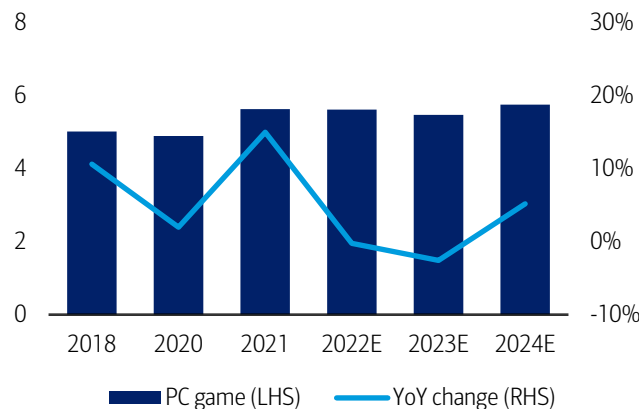


Source: KOCCA

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### Exhibit 19: Korea PC game market size (Wtn; 2018-2024E)

It is expected to show -3%/+5% YoY growth in 2023/24E

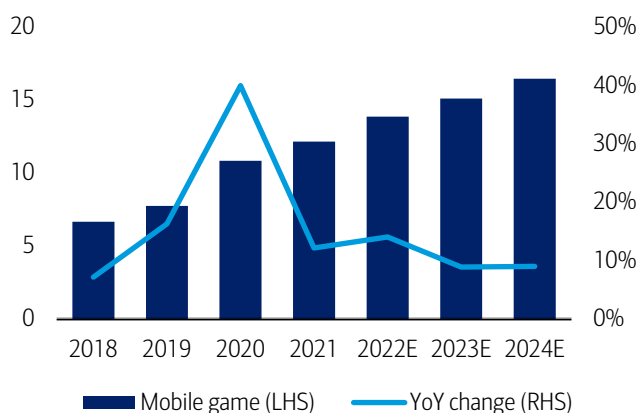


Source: KOCCA

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### Exhibit 20: Korea mobile game market size (Wtn; 2018-2024E)

It is expected to show +9%/+9% YoY growth in 2023/2024E

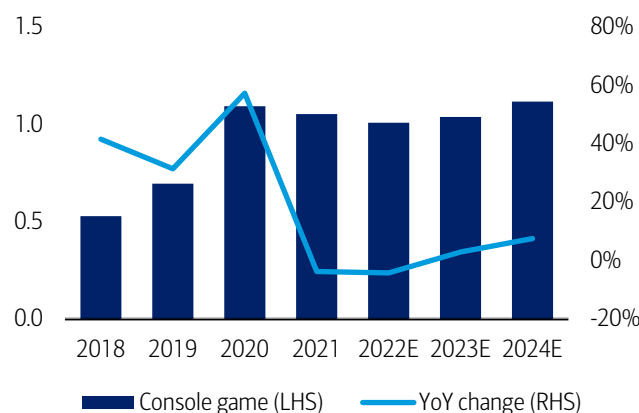


Source: KOCCA

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### Exhibit 21: Korea console game market size (Wtn; 2018-2024E)

It is expected to show +3%/+8% YoY growth in 2023/2024E



Source: KOCCA

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### Exhibit 24: Korea gaming market size (Wbn; 2013A-2024E)

Korea gaming market is expected to grow 8% p.a. in 2020-2024E

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Total		9,720	9,971	10,722	10,895	13,142	14,290	15,575	18,886	20,991	22,772	24,117	25,858
YoY		0%	3%	8%	2%	21%	9%	9%	21%	11%	8%	6%	7%
PC game		5,490	5,576	5,318	4,679	4,541	5,024	4,806	4,901	5,637	5,624	5,479	5,763
YoY		-20%	2%	-5%	-12%	-3%	11%	-4%	2%	15%	0%	-3%	5%

**Exhibit 24: Korea gaming market size (Wbn; 2013A-2024E)**

Korea gaming market is expected to grow 8% p.a. in 2020-2024E

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
	Mobile game	2,328	2,914	3,484	4,330	6,210	6,656	7,740	10,831	12,148	13,856	15,089	16,449
	YoY	191%	25%	20%	24%	43%	7%	16%	40%	12%	14%	9%	9%
	Console game	94	160	166	263	373	529	695	1,093	1,052	1,008	1,038	1,116
	YoY	0%	71%	4%	58%	42%	42%	31%	57%	-4%	-4%	3%	8%
	Other	1,808	1,321	1,754	1,623	2,018	2,082	2,335	2,061	2,177	2,285	2,511	2,530
	YoY	-7%	-27%	33%	-7%	24%	3%	12%	-12%	6%	5%	10%	1%

Source: KOCCA

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**Exhibit 25: Korea gaming – Pipeline**

Korean gaming companies are planning to launch titles of diverse genres on mobile and PC/ console platforms in 2024-2025

Company	Release	Platform	Game title	Region	Genre
NCSOFT	7 Dec '23	PC/Console	Throne & Liberty	Korea	MMORPG
	1H24	Mobile	Project BSS	Global	Collectible RPG
		PC/Console/Mobile	Battle Crush	Global	Action battle royale
	2H24	Mobile	Project G	Global	MMORTS
	2024	PC/Console	Throne & Liberty	Global	MMORPG
	TBD	Mobile	Lineage W	NA/EU	MMORPG
		PC/Console	Project E	TBD	MMORPG
			Project LLL	TBD	Shooting
			Project M	TBD	Interactive adventure
		PC/Mobile	Aion 2 (Late-2024/Early-2025)	TBD	MMORPG
Krafton	1H24	Mobile	Dark and Darker Mobile	Global	Extraction RPG
	2H24	PC	inZOI	Global	Life simulation
		PC/Console	Project Black Budget	TBD	Extraction shooter
	1H25	PC/Console	Project Gold Rush	TBD	Pick-up & play action (sandbox)
			The Next Subnautica	TBD	Adventure/Survival
	2024-2026	TBD	7+ 2nd-party publishing projects	TBD	TBD
Netmarble	1H24	PC/Console	Project Windless (The Bird that Drinks Tear)	TBD	TBD
		PC/Mobile	Paragon: The Overprime	Global	TPS MOBA
			Arthdal Chronicles	Korea, Taiwan, Hong Kong, Macao	MMORPG
			King Arthur: Legends Rise	Global	Collection strategy RPG
			Ni no Kuni: Cross Worlds	China	MMORPG
			Solo Leveling: ARISE	Global	Action RPG
			Raven 2	Korea	MMORPG
			Let's Get Rich 2	Korea	Casual
	TBD	PC/Console/Mobile	The Seven Deadly Sins: Origin	TBD	open world RPG
		PC/Mobile	Demis Re:Born	TBD	Collectible RPG
			RF Online Next	TBD	MMORPG
Kakao Games	1H24	Mobile	Eversoul	Japan	Collectible RPG
			Goddess Order	Global (excl. China)	Action RPG
			Project V	Global	Rogue-like casual RPG
		PC/Mobile	ArcheAge War	Taiwan, Japan, etc.	MMORPG
			Odin: Valhalla Rising	N. America / EU	MMORPG
			R.O.M	Global	MMORPG
PearlAbyss	2024	Mobile	EVE Galaxy Conquest	TBD	FPS
		PC/Console	Crimson Desert	Global	Open world action adventure
	TBD	TBD	EVE Vanguard (CBT in Dec 2023)	TBD	Casual
		PC/Console	Doke V	Global	Casual MMO
			Plan 8	Global	MMO + FPS
Com2uS	1Q24	Mobile	Starseed: Asnia Trigger	Korea	Subculture collectible RPG
	2Q24	Mobile	1945	Global	Casual
	1H24	Mobile	BTS Cooking On: Tinytan Restaurant	Global	Cooking simulation
			Frostpunk: Beyond the Ice	Global (excl. China)	Survival simulation
	1H25	Mobile	Golf Star2	Global	Sports
		PC/Console/Mobile	The Starlight (Project TS)	Global	MMORPG

Source: Company

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## Regulatory risks

The regulatory outlook in 2024 will likely be impacted by the enactment of Platform Competition Promotion Act (by Fair Trade Committee) at the 21st National Assembly (by 29 May 2024). On the gaming side, the key focus should be on enforcement of regulation on gacha.

- **Platform Competition Promotion Act** - On 19 Dec, the FTC announced its plans to enact the Platform Competition Promotion Act (Promotion Act) to prevent unfair practices by online platforms that have monopolistic status and to stimulate the market. The core objective of the legislation is to proactively designate key platform operators with market-controlling monopoly power and to strengthen supervision to prevent the operators from abusing their dominant market positions. According to *Dong-A Ilbo* (26 Dec), the FTC chairman, Han Ki-jeong, expressed his determination to do his best to ensure that the Promotion Act is processed during the 21<sup>st</sup> National Assembly, which ends on 29 May 2024.
- **Regulation on gacha is being enforced** – On 2 Jan, the Ministry of Culture, Sports and Tourism announced that the revised Game Industry Promotion Act, which includes the mandatory disclosure of information on gacha probabilities, will be implemented from 22 Mar. The amendment details the types and display requirements of gacha items, identifies the games subject to the obligation, and outlines the methods for displaying probabilities. It categorizes gacha items into types (capsule, enhancement, synthesis, complete gacha, etc.) and ceiling systems, and requires information on the probability and available period displayed for each type. Additionally, it mandates that information is displayed in a user-friendly way. The government is also establishing a 24-member monitoring team to enforce compliance.
- **Potential tightened control on China game industry** – Chinese regulator announced in late-Dec, with a wide range of draft measures to tighten control on game industry. We do see some of the draft measures are new and are likely to impact user engagement (e.g., no incentive for daily-log-in) and game grossing (e.g., game top-up cap), while consider it is just draft measures and we expect the regulator to have further discussion with game companies/publics and expect to see more detailed and rationalized measures in the official version. We are relatively conservative on game industry in near-term on regulatory uncertainties while believe top game companies with matured game biz model, experienced game operation capabilities and core gamer base should see manageable impact or able to create more monetization channels and models (See our BofA report: [Internet - China: Game industry updates: potential regulatory restrictions as a surprise 22 December 2023](#)).

### Exhibit 26: Key points of the Platform Competition Promotion Act

Promotion Act will enforce penalties on unfair practices done by designated dominant operators

Key points	Description
Designation of Dominant Platform Operators	- Comprehensive assessment integrating both quantitative metrics (revenue, user base, market share) and qualitative factors (market impact).
Prohibition of Unfair Practices	- Favoring own products: Prohibits preferential display of proprietary products/services over competitors. - Demanding preferential treatment: Restricts demands for more favorable pricing compared to competing platforms. - Bundling: Forbids compulsory bundling of own services with other offerings. - Restricting multihoming: Restricts platform users from engaging with competing platforms.
Regulatory Measures for Non-Compliance	- Enforcement of corrective orders and fines. - Provision for operators to demonstrate the legitimacy of their actions for exemption.

Source: FTC, Press report

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## Price objective basis & risk

### Coupang (CPNG)

Our SOTP-derived PO for Coupang is \$20. Our implied valuation is \$36bn: eCommerce \$31bn (0.8x 2024E GMV), food delivery \$1.4bn (0.5x 2024E GMV), and net cash \$3.7bn (as of Sep-23).

By individual units, 1) eCommerce - 0.8x on Coupang's eCommerce GMV estimates in 2024E. We keep our 10% premium to its global eCommerce comps' average multiple which stand at 0.7x 2024E, 0.8x 2023E. We assign a premium, as Coupang is expected to deliver faster GMV growth at 15% vs. comps' 10% in 2023-25E. 2) Food delivery - we assign 0.5x 2024E EV/GMV, which is 20% lower than the simple average of global food delivery peers at 0.6x. We expect Coupang's food delivery GMV (generated from Coupang Eats) to deliver 20% CAGR in 2023-25E, which is largely in line with that of global food players' average of high-teen level. However, it continues to record significant losses on increased discounts and merchant acquisition cost.

Risks: Upside: 1) Faster than expected market share expansion impacting its growth trajectory. 2) Higher bargaining power against brand companies leading to consistently meaningful GP margin expansion.

Risks: Upside: 1) Faster than expected market share expansion impacting its growth trajectory. 2) Higher bargaining power against brand companies leading to consistently meaningful GP margin expansion.

Downside: 1) Potential further stake sale by Softbank at discounted price.

## Analyst Certification

We, Susie Lee and Jeehoon Jeong, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Agora	API	API US	Daley Li, CFA
	AiHuiShou	RERE	RERE US	Joyce Ju
	Alibaba Group	BABA	BABA US	Joyce Ju
	Alibaba Group	BABAF	9988 HK	Joyce Ju
	Alibaba Health	ALBHF	241 HK	Miranda Zhuang, CFA
	Baidu.com	BIDU	BIDU US	Miranda Zhuang, CFA
	Baidu.com	BAIDF	9888 HK	Miranda Zhuang, CFA
	Bilibili	BILI	BILI US	Lei Zhang
	Bilibili	BLBLF	9626 HK	Lei Zhang
	CAR Group	CRSLF	CAR AU	Sriharsh Singh
	Chinasoft International	CFTLF	354 HK	Daley Li, CFA
	Cloud Music	XVWJF	9899 HK	Lei Zhang
	Com2uS Corp	XOYAF	078340 KS	Jeehoon Jeong, CFA
	DBAPPSecurity	XDBAF	688023 CH	Daley Li, CFA
	Delhivery	XDVLF	DELHIVER IN	Sachin Salgaonkar
	Dingdong	DDL	DDL US	Joyce Ju
	East Money	XEQTF	300059 CH	Michael Li
	Grab Holdings	GRAB	GRAB US	Sachin Salgaonkar
	Hello Group	MOMO	MOMO US	Lei Zhang
	Hundsun Technologies	XYTGF	600570 CH	Daley Li, CFA
	HYBE	XBGOF	352820 KS	Susie Lee
	iQIYI	IQ	IQ US	Lei Zhang
	JD Health	JDHIF	6618 HK	Miranda Zhuang, CFA
	JD.com	JD	JD US	Joyce Ju
	JD.com	JDCMF	9618 HK	Joyce Ju
	JYP Entertainment	ALNNF	035900 KS	Susie Lee
	Kingdee International Software	KGDEF	268 HK	Daley Li, CFA
	Kingsoft Corporation	KSFTF	3888 HK	Daley Li, CFA
	Kuaishou	KUASF	1024 HK	Lei Zhang
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Meituan	MPNGF	3690 HK	Lei Zhang
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang
	Nine Entertainment Company	NNMTF	NEC AU	Alice Lei, CFA
	Paytm	XUXBF	PAYTM IN	Sachin Salgaonkar
	Pinduoduo Inc.	PDD	PDD US	Joyce Ju
	Plan B Media PCL	XMKTF	PLANB TB	Thititthep Nophaket
	PT Bukalapak.com	BKLPF	BUKA IJ	Sachin Salgaonkar
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh
	Tencent Holdings	TCTZF	700 HK	Miranda Zhuang, CFA
	Tencent Music	TME	TME US	Lei Zhang
	Tencent Music	XWFWF	1698 HK	Lei Zhang
	Tongcheng Travel	TNGCF	780 HK	Janet Yang
	Trip.com Group	TCOM	TCOM US	Joyce Ju
	Trip.com Group	TRPCF	9961 HK	Joyce Ju
	TUHU Car	XTCRF	9690 HK	Miranda Zhuang, CFA
	Venustech	XVCGF	002439 CH	Daley Li, CFA
	Vipshop Holdings	VIPS	VIPS US	Joyce Ju
	Xero Limited	XROLF	XRO AU	Sriharsh Singh
	YG Entertainment	XYEIF	122870 KS	Susie Lee
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA
	YY	YY	YY US	Lei Zhang
	Zee Entertainment Enterprises	XZETF	Z IN	Sachin Salgaonkar
	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar
<b>NEUTRAL</b>				
	AfreecaTV	WNTHF	067160 KS	Susie Lee
	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Coupang	CPNG	CPNG US	Susie Lee
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA

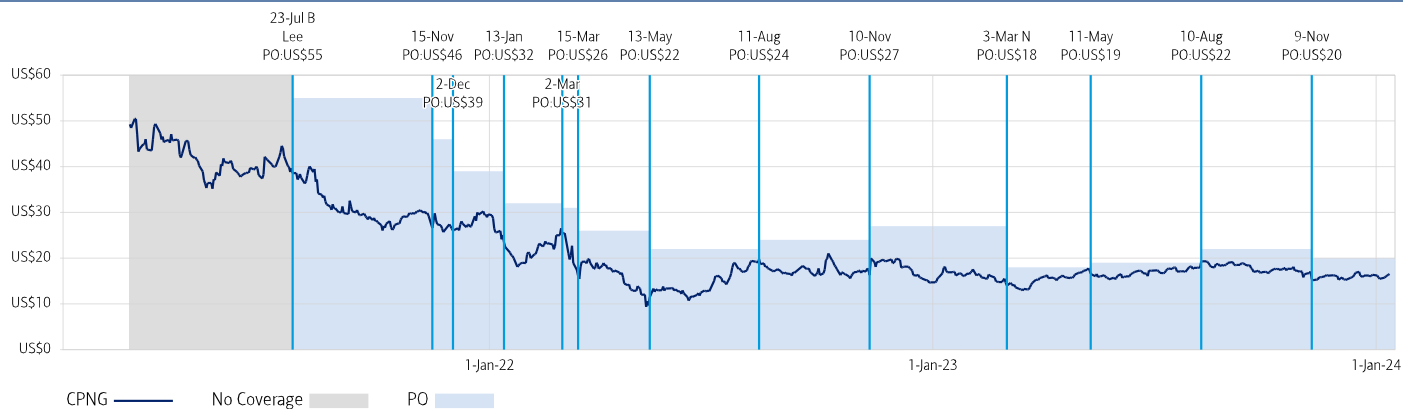


**APR - Internet, Media and Software Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	GoTo Group	GTOFF	GOTO JJ	Sachin Salgaonkar
	Huya	HUYA	HUYA US	Lei Zhang
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	KE Holdings	BEKE	BEKE US	Miranda Zhuang, CFA
	KE Holdings	XSQRF	2423 HK	Miranda Zhuang, CFA
	Kingsoft Cloud	KC	KC US	Daley Li, CFA
	Kingsoft Cloud	KCLHF	3896 HK	Daley Li, CFA
	Krafton	XKINF	259960 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee
	Nykaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPFXF	POLICYBZ IN	Sachin Salgaonkar
	PropertyGuru	PGRU	PGRU US	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Alice Lei, CFA
	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	Weimob	WEMXF	2013 HK	Daley Li, CFA
	WiseTech Global Limited	WTC HF	WTC AU	Ware Kuo
	XD Inc.	XDNCF	2400 HK	Lei Zhang
<b>UNDERPERFORM</b>				
	Altium Limited	ALMFF	ALU AU	Ware Kuo
	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBJHF	BEC TB	Thititthep Nophaket
	CJ ENM	CJHOF	035760 KS	Susie Lee
	Douyu	DOYU	DOYU US	Lei Zhang
	Indiamart InterMesh Limited	XEITF	INMART IN	Sachin Salgaonkar
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Kakao Games	XKKGf	293490 KS	Susie Lee
	Kingsoft Office	XBKOF	688111 CH	Daley Li, CFA
	Ming Yuan Cloud	XWTAF	909 HK	Daley Li, CFA
	NavInfo	XWLHF	002405 CH	Daley Li, CFA
	Netmarble	XLGHF	251270 KS	Susie Lee
	Pearl Abyss Corp	XEPAF	263750 KS	Susie Lee
	Ping An Healthcare and Technology	PANHF	1833 HK	Miranda Zhuang, CFA
	Qi An Xin	XQTDf	688561 CH	Daley Li, CFA
	Technology One Limited	THNOF	TNE AU	Ware Kuo
	ThunderSoft	XSTSf	300496 CH	Daley Li, CFA
	Weibo Corporation	WB	WB US	Miranda Zhuang, CFA
	Weibo Corporation	WEIBF	9898 HK	Miranda Zhuang, CFA
	Zip Co Limited	ZIZTF	ZIP AU	Ware Kuo
<b>RVW</b>				
	Dada Nexus	DADA	DADA US	Lei Zhang

## Disclosures

### Important Disclosures

**Coupage (CPNG) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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