

ConnectWave (119860 KS)

The change has begun!

Downstream industries growing

ConnectWave provides services across the e-commerce value chain, including data commerce (Danawa, Enuri), e-commerce solutions (Make Shop, Playauto), and cross-border commerce (Malltail). Domestic online transactions are the indicator for the data commerce and e-commerce solution divisions, and cross-border purchases by country for the cross-border commerce division. Online shopping transactions have continued to grow since 1Q22 and cross-border purchases have also increased YoY.

Private LLM: PLAi

In the B2B generative AI market, large language models (LLM) are divided into public and private LLMs. Although public LLMs are driving the popularization of generative AI, their use of external clouds is raising issues including: 1) the risk of information leakage; 2) AI “hallucinations,” whereby LLMs generates outputs that are nonsensical or false; and 3) a lack of up-to-date information. In contrast, private LLMs are more stable in terms of security as they use internal data, as well as being more cost-competitive. In Sep 2023, ConnectWave signed a contract to develop an in-house private LLM with AI start-up Upstage. The company unveiled its private LLM brand “PLAi” on Nov 8.

Expected effects from adopting PLAi to business platforms

The company is attempting new things for its business platforms, and we advise focusing on the fact that it will begin implementing the private LLM in 2024. We expect the private LLM to elevate the price search service provided on the company's price comparison platforms Danawa and Enuri. It will also enable the company to provide more advanced personalized services including analysis of customer consumption patterns. On Make Shop, the company's e-commerce service platform, the private LLM will enable auto replies to customer reviews, improving the shopping experience and strengthening customer pattern analysis for companies. For cross-border e-commerce service Malltail, fulfillment efficiency will likely be improved.

Myoung-chun Kwon

Small cap

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Not Rated (I)

Target price

W (I)

Current price (Dec 13)

W12,650

Upside potential

-

Market cap (Wbn) 591

Shares outstanding 46,747,183

Avg daily T/O (2M, Wbn) 1

Avg daily volume (2M, shrs) 60,803

52-week high/low (won) 18,200 / 9,810

Foreign ownership (%) 3.12%

Dividend yield 0.00%

Major shareholders (%) Korea E-Commerce Holdings & others

Stock performance

(%)	1M	3M	12M
Absolute	16.2	10.2	(30.3)
Relative	8.5	17.3	(39.9)
Abs (US\$)	16.6	11.0	(31.0)

Forecasts and valuations (K-IFRS, Consolidated)

(Wbn)

FY ends Dec	2019A	2020A	2021A	2022A
Sales	171	232	339	453
OP	28	38	17	32
Net profit, CI	24	31	9	7
P/E (x)	12.6	11.8	44.8	42.5
P/B (x)	2.7	2.6	1.3	1.3
EV/EBITDA (x)	6.4	6.3	14.8	6.1
ROE (%)	23.6	25.1	4.1	1.6

Note: CI = controlling interest; Source: Yuanta Securities

ConnectWave (119860 KS) pro forma financial statements (K-IFRS, Consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2018A	2019A	2020A	2021A	2022A
Sales	121	171	232	339	453
Cost of sales	0	97	146	0	0
Gross profit	121	74	86	339	453
SG&A	101	46	48	322	420
Operating profit	20	28	38	17	32
EBITDA	21	31	41	31	53
Non-operating profit	1	1	2	-6	-9
Forex gains	0	0	0	1	0
Net interest income	1	1	1	-1	-9
Equity-method gains	0	0	0	-1	2
Other	0	0	0	-5	-2
Net prof before income tax	21	29	39	12	23
Income tax	5	6	8	1	2
Net profit from continuing ops	16	24	32	11	21
Net profit from discontinued ops	0	0	-1	0	0
Net profit	16	24	31	11	21
NP for controlling interest	16	24	31	9	7
Total comprehensive income	16	23	31	14	24
Total comprehensive income, CI	16	23	31	12	9

Statement of financial position

FY ends Dec (Wbn)	2018A	2019A	2020A	2021A	2022A
Current assets	73	119	131	183	334
Cash & cash equivalents	17	44	29	41	50
Accounts receivables & other	14	10	11	37	42
Inventory	4	10	10	29	30
Non-current assets	36	35	32	305	644
Tangible assets	10	9	7	60	55
Investment in affiliates	0	0	0	36	27
Other investment assets	16	13	6	22	12
Total assets	108	154	163	488	978
Current liabilities	17	41	25	144	141
Accounts payable & other	12	32	16	38	41
ST financial liabilities	1	0	0	82	71
Liquid LT liabilities	0	0	1	6	1
Non-current liabilities	2	4	2	35	226
LT financial liabilities	1	1	0	3	3
Debentures	0	0	0	0	160
Total liabilities	18	45	26	179	368
Equity, controlling interest	90	110	137	297	596
Paid-in capital	7	7	7	13	24
Capital surplus	16	16	16	207	433
Retained earnings	69	89	116	78	86
Equity, non-controlling interest	0	0	0	12	14
Total equity	90	110	137	309	610
Net debt	-52	-94	-107	47	27
Total debt	2	4	2	118	282

Cash flow statement

FY ends Dec (Wbn)	2018A	2019A	2020A	2021A	2022A
Operating cash flow	17	49	21	31	52
Net profit	16	24	31	11	21
Depreciation & amortization	1	3	3	8	11
Forex gains	0	0	0	0	0
Affiliate investment gains	0	0	0	1	-2
Increase in net working cap	-5	18	-16	-2	10
Other	4	4	3	13	12
Investing cash flow	-15	-15	-28	-81	-390
Investment	0	2	-14	-32	-8
Increase in tangible assets	-2	-1	-1	-3	-6
Decrease in tangible assets	0	0	0	0	2
Other	-14	-16	-13	-45	-378
Financing cash flow	-2	-7	-7	54	348
ST financial liabilities	1	1	-1	85	-9
Debenture/LT financial liabilities	0	1	0	30	173
Equity	0	0	0	197	238
Cash dividend	-3	-4	-5	0	0
Other cash flow	0	-5	0	-258	-53
Consolidation adj and other	0	0	0	1	-2
Increase in cash & equivalents	-1	27	-14	5	9
Beginning cash & equivalents	17	17	44	36	41
Ending cash & equivalents	17	44	29	41	50
NOPLAT	20	28	38	17	32
FCF	15	48	19	27	46

Valuation

FY ends Dec	2018A	2019A	2020A	2021A	2022A
EPS (won)	1,255	1,804	2,366	686	459
BPS (won)	6,972	8,461	10,554	22,937	14,989
EBITDA/shr (won)	1,638	2,408	3,115	2,383	3,281
SPS (won)	9,282	13,102	17,741	25,962	28,187
DPS (won)	320	400	600	0	0
P/E (x)	13.5	12.6	11.8	44.8	42.5
P/B (x)	2.4	2.7	2.6	1.3	1.3
EV/EBITDA (x)	7.9	6.4	6.3	14.8	6.1
P/S (x)	1.8	1.7	1.6	1.2	0.7

Key financial data

FY ends Dec	2018A	2019A	2020A	2021A	2022A
Sales (% YoY)	12.8	41.2	35.4	46.3	33.3
Operating profit (%YoY)	32.3	40.6	33.2	-53.9	86.1
Net profit, CI (%YoY)	21.4	43.7	31.2	-71.0	-17.9
Gross margin (%)	100.0	43.2	36.9	100.0	100.0
Operating margin (%)	16.6	16.6	16.3	5.1	7.2
Net margin, CI (%)	13.5	13.8	13.3	2.6	1.6
EBITDA margin (%)	17.6	18.4	17.6	9.2	11.6
ROIC (%)	116.0	387.1	1,453.0	11.9	7.3
ROA (%)	16.3	18.0	19.5	2.8	1.0
ROE (%)	19.7	23.6	25.1	4.1	1.6
Debt-to-equity (%)	20.5	40.6	19.3	57.9	60.3
Net debt-to-equity (%)	-57.4	-85.9	-78.0	16.0	4.5
OP/financing cost (x)	279.2	203.6	390.6	7.5	2.5

Note: CI = controlling interest

Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

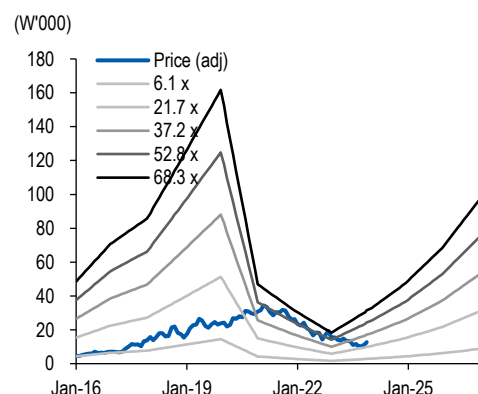
EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

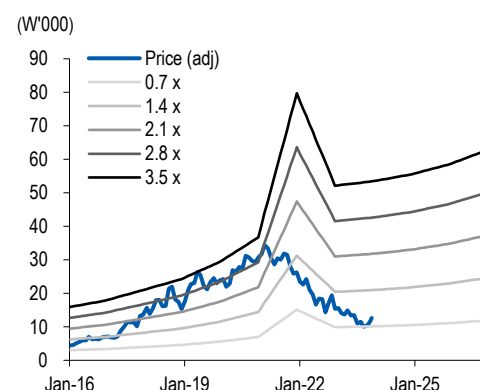
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

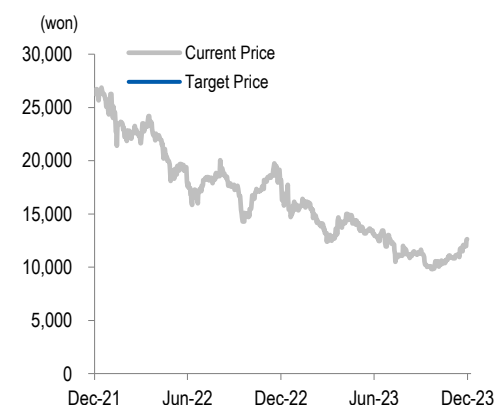
P/E band chart



P/B band chart



ConnectWave (119860 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2023/12/14	NOT RATED	-	1 yr		
	Analyst changed				
2021/05/17	NOT RATED	-	1 yr		

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Rating	Share (%)
STRONG BUY	0
BUY	88.6
HOLD	11.4
SELL	0
Total	100.0

Note: As of Dec 14, 2023

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I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
 - Strong Buy: Expected to return 30% or more
 - Buy: Expected to return between 10% and 30%
 - Hold: Expected to return between -10 and +10%
 - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
 - Overweight: Investment weighting is higher than the market capitalization weighting
 - Neutral: Investment weighting is equal to the market capitalization weighting
 - Underweight: Investment weighting is lower than the market capitalization weighting

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