

Bright outlook for e-book business

Content aggregator that provides content available for multiple devices

Korea Electronic Publishing Hub (Korea E-Hub), which Yes24, publishers, and distributors established in September 2009, should act as a content aggregator which provides content available for multiple devices. Moreover, Korea E-Hub is expected to provide comprehensive e-book service through partnership with various content providers. That means content can be provided through diverse media platforms, increasing the value of content distributed by Korea E-Hub. In addition, the rich content of Korea E-Hub should be attractive to wireless carriers and handset manufacturers that are trying to enter the e-book market. Thus they should have a partnership with Korea E-Hub. The question is whether its non-integrated model (that does not need dedicated handsets) should be successful, and the answer is yes. Of course, Amazon Kindle makes success as it offers both content and hardware devices. But the overseas e-book market shows that in order to achieve meaningful success in the market, what is most important is to secure diverse content. Given that the quality of content determines the success of e-book business, we believe Yes24 has a bright outlook as it has 1) strong content competitiveness and 2) ability to swiftly deal with distribution issues regarding killer content.

To have a considerable share and profitability in e-book market

As Korea's e-book market is growing steadily, Yes24 should have a considerable market share and profitability. That's because e-books are cheaper than paper books, and their price sensitivity is almost the same. Thus 1) customers are likely to visit Yes24's website which has larger customer base and strong service competitiveness, and 2) Yes24 should have a significant market share due to increasing customer loyalty based on its existing database and review service.

Maintain BUY and TP of W10,600

We maintain BUY and our target price of W10,600 given expectations for earnings growth, as the online bookstore market should continue to grow in 2010; the company should have higher market share; and ad revenues which contribute the most to margin improvement should also keep increasing. Our estimates for FY09-10 earnings do not include forecast for e-learning and e-book services. We believe the e-learning and e-book businesses should be reflected in earnings forecast when the company makes visible achievements in those areas. Then, we should reevaluate the stock and revise up our target price.

Financial Data

		2007	2008	2009F	2010F	2011F
Sales	Wbn	214.3	256.0	317.0	390.6	469.3
OP	Wbn	5.9	10.2	13.6	19.4	24.1
PTP	Wbn	5.8	11.0	12.3	19.9	24.6
NP	Wbn	7.0	7.2	9.4	15.7	19.4
EPS	W	512	422	631	913	1,130
Chg	%	205.4	(17.7)	49.6	44.8	23.8
P/E	X	16.9	20.5	13.7	9.5	7.7
P/B	X	0.0	1.7	3.1	2.4	1.9
EV/EBITDA	X	(1.6)	4.0	9.4	5.2	3.6
ROE	%	57.3	25.8	21.6	28.7	27.6
BPS	W	1,146	2,322	2,771	3,584	4,615
Net DER	%	(67.9)	(55.3)	(63.7)	(70.3)	(74.7)

Source: company data, Hana Daetoo Securities

Company In-depth Company Analysis

TP(12M): W10,600
CP(11/3): W8,650

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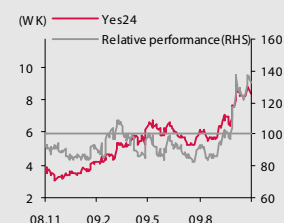
Key Data

KOSPI		478.76	
52 week High/Low(W)		9,330/3,505	
Market cap (Wbn)		148.8	
Shares out ('000)		17,200.0	
60-D avg. daily volume ('000)		638.7	
60-D avg. daily value (Wbn)		5.5	
DPS (W, 08)		100	
DPS Est. (W, 09)		100	
Foreign ownership (%)		4.34	
Performance	1M	6M	12M
Absolute	7.5	30.7	93.5
Relative	12.2	35.1	46.5

Consensus Data

	2009	2010
Sales (Wbn)	317.5	378.8
OP (Wbn)	13.5	17.3
NP (Wbn)	9.7	14.3
EPS (W)	565	834
BPS (W)	2,867	3,587

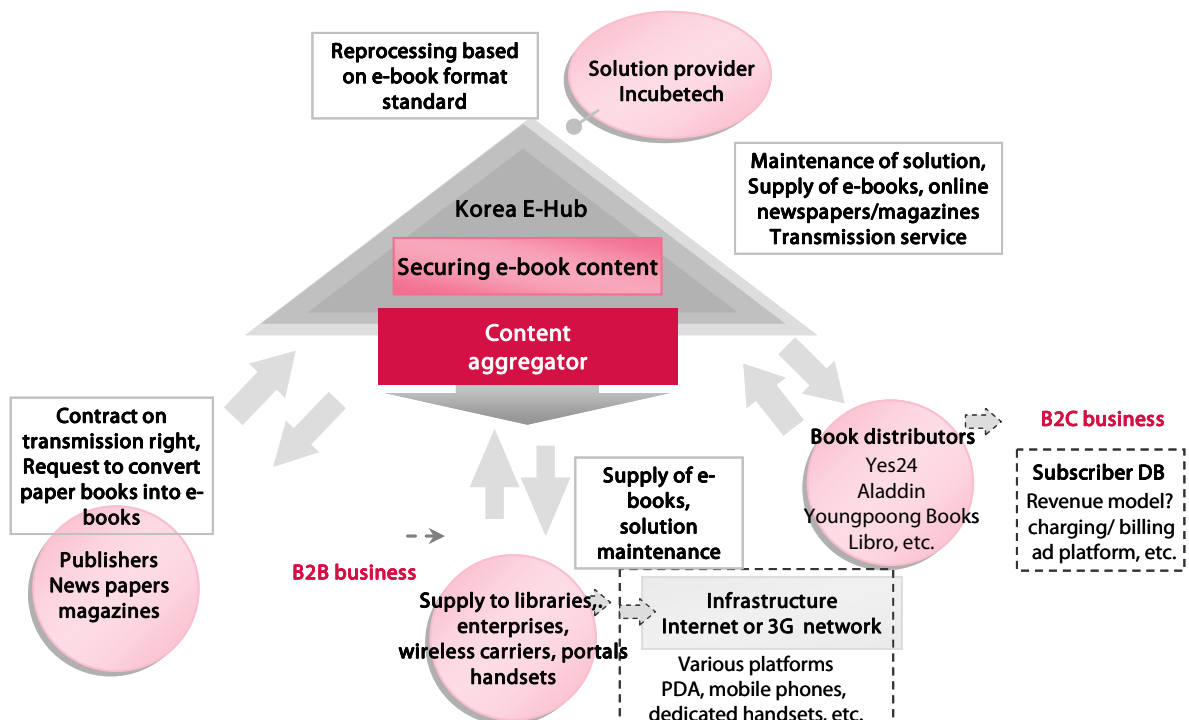
Stock Price



Summary

Rating	▪ BUY
TP	• W10,600
Investment points	<ul style="list-style-type: none"> • Growth potential: High growth potential of online bookstore market + favorable business conditions • Stability: solid customer community +customer loyalty => stronger market dominance • Profitability: economies of scale + larger online ad revenues • Mid- and long-term momentum: e-book and e-learning businesses
Mid- and long-term momentum : e-book business	<ul style="list-style-type: none"> • Market size is increasing with participation of major companies and better infrastructure • Open handset policy: the value of content should rise steadily as it is available on various platforms • Likely to take an early lead in the market with strong content competitiveness and rapid responsiveness • To secure a significant market share and margins on the back of broad customer base and service competitiveness
Earnings outlook	<ul style="list-style-type: none"> • Strong top-line growth and huge earnings improvement • FY09 sales of W317bn (+23.8% y-y), operating profit of W13.6bn (+ 33.1% y-y) • The highest quarterly earnings in 3Q with sales of W85.4bn and OP of W4bn

Yes24's e-book business model



Source: company data, Hana Daetoo Securities

Bright outlook for e-book business

Expectations are growing for the e-book market

- 1) promising combination of services, handsets, and telecom
- 2) participation by major companies
- 3) government policy support => rising market expectations and demand
- The decent stock performance is attributable to expectations for the growth of the e-book market. Recently, e-books are drawing attention in Korea thanks to positive news that e-book service offers the lucrative combination of related services, handsets, and telecom; 2) major companies are entering the e-book market; and 3) the Korean government plans to cut telecom service fees and promote wireless internet connection. In short, companies' efforts to expand the market and provide good services have boosted market expectations and demand.

Yes24 has a bright outlook in e-book market

- Yes24 should benefit the most from the e-book market growth based on its content and distribution network
- The questions are whether the domestic e-book market can develop like Amazon's e-book service and whether Yes24 should benefit the most from the growth of the market. The answer is yes. That is because 1) domestic e-book companies are trying to expand the market through new business model that combines handsets, content, and other related services, and 2) given that the quality of content determines the success of e-book business, Yes24 has a bright outlook as it has strong competitiveness in terms of content and distribution.

Table 1. Several companies are entering the e-book market

Electronics companies	
Samsung Electronics	Launched Papyrus (e-book device) in July, storage capacity of 400 titles, telecom service to be added
Iriver	Launched Story (e-book device) in September, education and WiFi-enabled version to be rolled out
Neolux	NUUT, NUUT 2, provide newspaper service on B2B basis through WiFi
Publishers and distributors	
Kyobo Book	30,000-40,000 titles in PDF format, 2,500 titles in e-Pub format
Interpark Book	To launch handset in 2010, partnership with publishers
Qbooks Network	10,000 titles, to launch dedicated handsets in December
Telecom companies	
SK Telecom	To develop dedicated handsets
KT	To carry out MVNO business in cooperation with content distributors and handset manufacturers

Source: Hana Daetoo Securities

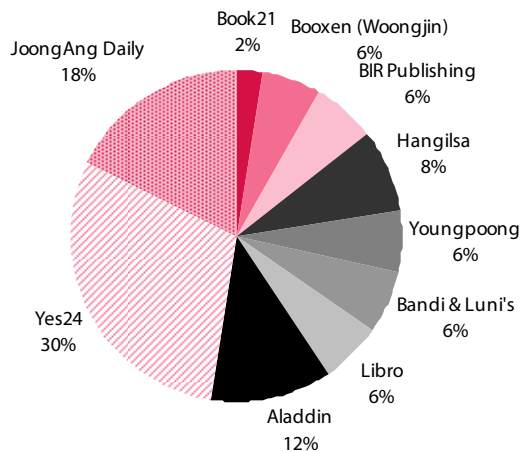
Yes24's e-book business model

Yes24 has expanded into e-book business

Korea E-Hub to act as a content aggregator

Yes24, publishers, and distributors established Korea E-Hub on September 15, 2009, which plans to start to provide service in January 2010. Korea E-Hub aims to set technology standards, cut content production costs, and enhance negotiating power of publishers and non-publishers in order to expand the e-book market. Of note, Korea E-Hub is not a typical distributor that just purchase copyrights and resell content to various media outlets, but it should act as a content aggregator which provides comprehensive service regarding e-books. Thus the value of content provided by Korea E-Hub should increase steadily through a variety of media platforms.

Chart 1. Shareholders of Korea E-Hub



Source: company data

Open handset policy : content available on various platforms

Win-win situation for content providers, distributors and handset makers

Yes24's e-book business model does not require dedicated handsets. It might look less attractive compared to the integrated model of Interpark which combines handsets, content, and wireless connection, but Yes24's open handset policy should lead to diversified customer base. The quality of e-book content is getting more important abroad. A good example is that Microsoft, Yahoo and others launched Open Book Alliance to expand e-book market. Thus we believe that Yes24 also intends to help increase the size of market by providing quality content and then shift to customizing strategy.

Significant market share based on strong service competitiveness and large database

Margin of e-books is two times higher than that of paper books

To have a considerable share and profitability in e-book market

As Korea's e-book market is growing steadily with participation from major companies, Yes24 should have a considerable market share and profitability based on the business model mentioned above. That's because e-books are cheaper than paper books, and their price sensitivity is almost the same. Thus 1) customers are likely to visit Yes24's website which has larger customer base and strong service competitiveness, and 2) Yes24 should have a significant market share due to increasing customer loyalty based on its existing database and review service.

Moreover, e-books have higher margin than paper books, which should contribute to higher profitability. E-books are cheaper than paper books as the production of e-books involves little costs regarding raw materials, processing and distribution. According to Yes24, the price of e-books should be 40-50% of that of paper books. The margin of e-books is about 10%, thus higher e-book sales should boost the operating margin of Yes24.

Table 2. Yes24's existing profit structure & e-book profit structure

	Books and non-book business	e-books	Online ad
Gross Merchandise Sales	100	100	100
Usage of mileage and other costs	(13)	?	0
Sales	87	100	100
COGS	(64)	90	0
Gross profit	23	10	100
Operating expense	20.9	0	0
Operating profit	2.1	10	100
Margin			
As % of GMS	2.1%	10%	100%
As % of sales	2.5%	10%	100%

Source: company data, Hana Daetoo Securities

* Note: numbers regarding books, non-books business and online ad are based on 2008 earnings

Will Yes24's e-book business make success? Yes!

To take an early lead in the market with strong content competitiveness and rapid responsiveness

To secure various content through the participation of media and publishing companies

Korea E-Hub is capable of securing rich content which includes magazines and newspapers as well as books, because publishers and media companies participated in the establishment of Korea E-Hub. Publishers that engage in Korea E-Hub account for 25% of Korea's publishing market, and in terms of the scope of content, Korea E-Hub should be ahead of other e-book companies. In addition, book market growth are led by new books and bestsellers, so securing killer content is critical to taking an early lead in the e-book market. Cooperation among the participating companies through Korea E-Hub should help easily deal with issues concerning copyrights and transmission rights. Also, Korea E-Hub is open to other content providers, so if new participants from the publishing sector provide content, Korea E-Hub should win in content and distribution competition.

Open handset policy as new business model

Amazon is shifting the focus from handsets to content

Open handset strategy has taken root in the e-book market. For example, Amazon allowed e-book content to be available on the iPod Touch last March. The move suggests that the company is trying to expand the e-book market by shifting its focus from promoting handset Kindle, and places more importance on content than on handsets as a revenue source. That means content provision should determine the success of e-book business. Thus the value of Yes24's e-book content should increase steadily based on its open handset policy.

Partnerships with wireless carriers and handset makers

1) MVNO for new ARPU
2) partnerships on the back of the growth of smartphones and App Store

Yes24's content should look attractive to wireless carriers and handset makers that plan to enter the e-book market, thus B2B model should also make success. Given Kindle of Amazon, 1) wireless carriers are likely to start wireless wholesale business regarding e-books to generate new ARPU, 2) some of them plan to launch e-book service for dedicated handsets, and 3) wireless carriers should aggressively make partnership with content providers, as the Korean version of App Store should be rolled out on the back of the growth of smartphones.

3Q earnings preview

The highest ever quarterly earnings

Yes24 should post the highest ever quarterly earnings in 3Q: sales should increase 30.9% q-q and 26.0% y-y to W85.4bn, and operating profit should grow 140.1% q-q and 21.9% y-y to W4bn. That is attributable to 1) seasonally strong demand on strong sales of education materials ahead of the Korean Scholastic Aptitude Test, 2) decent sales of KSAT-related education materials under the exclusive deal with EBS, and 3) effects of Chuseok holidays. Yet, pre-tax profit should come in at W34.9bn and net profit should stand at W27.5bn due to losses from investment securities which amount to W720mn.

High expectations for high-margin unbox business

Expectations for high-margin unbox business are still high. As Yes24 said at its IR meeting in Vietnam, the outlook for unbox business such as e-learning and e-books is bright considering 1) broad subscriber base and 2) close relationship with partner companies based on extensive experience. The margin of unbox business is over two times higher than that of traditional book business, so unbox business should make great contribution to profitability improvement.

Maintain BUY and TP of W10,600

The stock price is under short-term corrections after showing a good performance over the last three months on the back of earnings expectations. As of November 3, the closing price is W8,650, which is not demanding level (13.7x FY09E adj. EPS, 9.5x FY10E adj. EPS).

Our FY09-10 earnings estimates do not include estimates for e-learning and e-books. We believe the e-learning and e-book businesses should be reflected in earnings forecast when the company makes visible achievements in those areas. Then, we should reevaluate the stock and revise up our target price.

Summary financials

Income Statement

(W bn)

	2007	2008	2009F	2010F	2011F
Sales	214.3	256.0	317.0	390.6	469.3
Cost of goods sold	153.7	184.2	231.2	282.4	337.0
Gross Profit	60.6	71.8	85.8	108.3	132.2
SG&A expenses	54.6	61.6	72.2	88.9	108.1
Operating profit	5.9	10.2	13.6	19.4	24.1
Non-operating income	(0.1)	0.7	(1.3)	0.5	0.5
Interest income	0.1	0.6	1.0	0.9	0.9
Equity-method profit	(0.3)	(0.5)	(0.5)	(0.4)	(0.4)
Forex gains	0.0	0.0	0.0	0.0	0.0
Others	(0.0)	0.6	(1.8)	0.0	0.0
Pre-tax profit	5.8	11.0	12.3	19.9	24.6
Taxes	(1.2)	3.8	2.8	4.2	5.2
Continuing OP	7.0	7.2	9.4	15.7	19.4
Discontinued OP	0.0	0.0	0.0	0.0	0.0
Net profit	7.0	7.2	9.4	15.7	19.4
NOPAT	6.9	6.8	8.7	15.0	18.7
EBITDA	6.8	11.6	12.6	20.3	25.0
Growth (%)					
Sales	21.2	19.4	23.8	23.2	20.1
EBITDA	115.9	69.9	8.2	61.0	23.5
OP	154.1	72.7	33.1	42.3	24.3
Continuing OP	239.2	2.5	31.3	66.3	23.8
EPS	235.4	(12.4)	22.7	66.3	23.8
Profitability (%)					
Gross profit margin	28.3	28.1	27.1	27.7	28.2
EBITDA margin	3.2	4.5	4.0	5.2	5.3
OP margin	2.8	4.0	4.3	5.0	5.1
Continuing OP margin	3.3	2.8	3.0	4.0	4.1

Financial ratios

	2007	2008	2009F	2010F	2011F
Per share value (W)					
EPS	511	447	549	913	1,130
BPS	1,146	2,322	2,771	3,584	4,615
CFPS	534	756	946	1,200	1,430
EBITDAPS	498	724	732	1,178	1,455
SPS	15,587	15,921	18,432	22,711	27,282
DPS	0	100	100	100	100
Indicators (x)					
PER	0.0	8.9	15.8	9.5	7.7
PBR	0.0	1.7	3.1	2.4	1.9
PCFR	0.0	5.3	9.1	7.2	6.0
EV/EBITDA	(1.6)	4.0	9.4	5.2	3.6
PSR	0.0	0.3	0.5	0.4	0.3
Ratios (%)					
ROE	57.3	25.8	21.6	28.7	27.6
ROA	15.4	10.8	10.3	13.7	13.6
ROIC	166.2	59.2	49.5	84.2	97.6
Liabilities/equity	221.8	107.2	112.8	106.5	98.8
Net debt/equity	(67.9)	(55.3)	(63.7)	(70.3)	(74.7)
Interest coverage (x)	205.4	77,055.9	0.0	0.0	0.0

Source: company data, Hana Daetoo Securities estimates

Country Aggregates

	PER(x)			EPS growth (%)	
	2009	2010	12M Fwd	2009	2010
Korea	13.8	10.3	10.8	47.7	33.8
Emerging Market	16.2	12.8	13.3	(2.5)	26.5
World	17.8	14.1	14.7	(7.1)	26.3

Source: MSCI I/B/E/S Aggregates

Balance Sheet

(W bn)

	2007	2008	2009F	2010F	2011F
Current assets	28.8	45.0	59.0	78.4	101.2
Cash & equivalents	9.7	14.4	23.2	33.9	46.4
Financial goods	1.0	7.7	7.2	9.4	12.9
Accounts receivable	7.7	7.6	9.4	11.6	14.0
Inventories	9.9	14.0	17.6	21.5	25.7
Others	0.6	1.2	1.5	1.9	2.3
Fixed assets	21.9	37.8	42.5	49.0	56.5
Investment assets	2.4	17.0	20.2	24.9	30.6
Tangible assets	15.5	15.3	15.7	16.2	16.6
Intangible assets	0.8	0.7	0.7	0.7	0.7
Total assets	50.7	82.8	101.4	127.3	157.8
Current liabilities	25.1	31.7	39.8	48.6	58.0
Accounts payable	16.2	21.3	26.7	32.7	39.0
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Current portion of LT debt	0.0	0.0	0.0	0.0	0.0
Others	8.9	10.4	13.0	15.9	19.0
Long-term liabilities	9.9	11.2	14.0	17.1	20.4
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term debt	0.0	0.0	0.0	0.0	0.0
Others	9.9	11.2	14.0	17.1	20.4
Total liabilities	35.0	42.8	53.8	65.7	78.4
Capital stock	6.9	8.6	8.6	8.6	8.6
Capital surplus	18.6	28.5	28.5	28.5	28.5
Capital adjustments	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Other comprehensive income	0.0	(4.2)	(4.2)	(4.2)	(4.2)
Retained earnings	(9.7)	7.2	14.9	28.9	46.6
Total equity	15.8	39.9	47.7	61.7	79.4
Net debt	(10.7)	(22.1)	(30.4)	(43.3)	(59.3)

Cash Flow

(W bn)

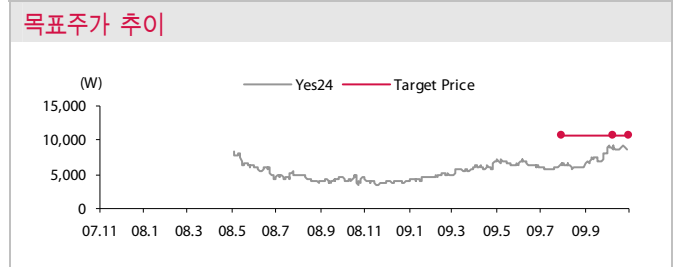
	2007	2008	2009F	2010F	2011F
Operating cash flow	7.2	11.7	15.5	19.9	23.9
Net profit	7.0	7.2	9.4	15.7	19.4
Chg in non-cash items	2.3	2.2	3.7	1.9	1.9
Depreciation	1.2	1.3	1.3	1.3	1.3
Forex gains (losses)	0.0	0.0	0.0	0.0	0.0
Equity method gains (losses)	0.3	0.5	0.5	0.4	0.4
Others	0.9	0.4	2.0	0.2	0.2
Chg in working capital	(2.1)	2.3	2.4	2.4	2.5
Investment cash flow	(2.0)	(28.3)	(7.9)	(10.6)	(13.0)
Chg in investment assets	0.0	(20.7)	(3.7)	(5.1)	(6.1)
Chg in tangible assets	(1.3)	(0.1)	(1.4)	(1.5)	(1.5)
Others	(0.7)	(7.4)	(2.8)	(4.0)	(5.4)
Financing cash flow	(3.0)	21.2	1.1	1.4	1.6
Chg in bonds	(3.0)	0.0	0.0	0.0	0.0
Recapitalization	0.0	21.3	0.0	0.0	0.0
Cash dividends	0.0	0.0	(1.7)	(1.7)	(1.7)
Others	0.0	(0.1)	2.9	3.1	3.3
Chg in cash	(2.2)	(4.7)	8.8	10.7	12.5
Unlevered CFO	7.3	12.1	16.3	20.6	24.6
Free Cash Flow	5.0	(6.0)	9.3	14.0	17.0

Sector Aggregates

	PER(x)			EPS growth (%)	
	2009	2010	12M Fwd	2009	2010
Korea	18.3	15.0	15.5	36.8	22.1
Emerging Market	21.2	18.1	18.8	7.8	17.0
World	17.6	16.3	16.4	0.7	7.9

투자 의견 변동 내역

Company	Date	Rating	Target Price (W)
Yes24	09.11.4	BUY	10,600
	09.10.13	BUY	10,600
	09.8.5	BUY	10,600



Hana Daetoo Securities Rating Definitions

Stock ratings for the next twelve months

Rating	Definition
BUY	Target Price implies at least 15% upside potential
Neutral	Target Price implies less than 15% upside or downside potential
Reduce	Target Price implies at least 15% downside potential

Sector ratings for the next twelve months

Rating	Definition
Overweight	Sector index implies at least 15% upside potential
Neutral	Sector index implies less than 15% upside or downside potential
Underweight	Sector index implies at least 15% downside potential

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