

Media/entertainment



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Rating	STRONG BUY (M)
Target price	W11,000 (M)
Current price (Nov 6)	W4,650
Upside potential	137%

Market cap (Wbn)	670
Shares outstanding	144,068,982
Avg daily T/O (2M, Wbn)	10
Avg daily volume (2M, shrs)	1,678,024
52-week high (won)	8,054
52-week low (won)	3,946
Foreign ownership (%)	2.3
Major shareholders (%)	
JoongAng Holdings & other	33.3

Stock performance

(%)	1M	3M	12M
Absolute	(21.2)	(24.9)	17.8
Relative	(11.8)	(15.1)	19.9
Abs (US\$)	(20.7)	(24.9)	16.9

Mid- to long-term outlook positive

3Q18 review

- Jcontentree's consolidated sales came to W157.0bn (+36% YoY), OP W18.2bn (+71% YoY), and net profit from controlling interest W9.7bn (turning to profit YoY), with OP beating consensus by about 15%. By division, Megabox OP came to W15.0bn and broadcasting W3.3bn (parent IP investment W0.8bn, JTBC Content Hub W2.5bn). Earnings missed consensus mainly because of impairment loss on the parent company's old drama IP.
- **Megabox:** Sales came to W102.2bn (+21% YoY) and OP W15.0bn (+47% YoY). While Korean box-office ticket sales in 3Q18 came to 66.84mn, down 7.7% from two years ago, tickets sold by directly-run Megabox cinemas rose 8.0% to 7.62mn, as an increase in the number of directly-run cinemas from 31 in 3Q16 to 41 in 3Q18 boosted market share from 9.7% in 3Q16 to 11.4% in 3Q18. ► **Broadcasting:** Sales came to W55.5bn (+49% YoY) and OP W3.3bn (+50% YoY). 1) Parent distribution revenue rose from W1.0bn in 3Q17 to W6.8bn in 3Q18. We attribute most of the increase to distribution revenue from "Life" to Netflix and overseas distribution revenue from "Misty." **Parent OP came to just W0.8bn, due to the impairment loss on intangible assets (about W3.0bn).** Without the loss, parent OP would have come to almost W4.0bn. 2) JTBC Content Hub's OP fell by W2.3bn QoQ to W2.5bn. Given the one-off expense in 2Q18 (production cost for channel JTBC4), OP actually fell by about W4.0bn~4.5bn QoQ, as distribution revenue from Life, a major drama in 3Q18, was lower than that of "Something in the Rain" in 2Q18, and **distribution commissions related to smart media reps (SMR) fell by W1.9bn YoY.**

Remain positive in mid- to long-term

- Shares have underperformed Studio Dragon since May 2018. While Studio Dragon will very likely see record earnings in 3Q18 thanks to "Mr. Sunshine," expectations for Jcontentree's 3Q18 broadcasting earnings were low. In 4Q18, expectations are high for Studio Dragon's blockbuster dramas, like "Memories of the Alhambra." But, it is hard to expect short-term momentum for Jcontentree, given a lack of blockbuster dramas in its lineup. However, we remain bullish for the mid- to long term, as: 1) **JTBC will air two~three blockbuster dramas in 2019;** 2) **JTBC is likely to allocate a new drama slot (Wednesday~Thursday);** and 3) **Jcontentree will likely acquire a drama production firm to expand its capacity.** In 2020, it plans to produce 19~20 dramas, about half of Studio Dragon's, and is likely to enjoy a higher margin thanks to investment in and production/distribution of blockbuster dramas. Currently, **the value of broadcasting/drama accounts for about W350.0bn of its market cap** (excluding the movie business's value of W300.0bn). Shares are seriously undervalued given Studio Dragon's market cap of W2.8tn.

Quarterly earnings

(Wbn)	3Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	157	35.6	41.1	152	3.5
OP	18	71.3	120.1	21	-14.9
Pre-tax net profit	16	97.7	72.0	20	-18.3
Net profit, CI	10	TTB	291.8	11	-11.0
OPM (%)	11.6	+2.4 %pt	+4.2 %pt	14.1	-2.5 %pt
NPM (%)	6.2	TTB	+4.0 %pt	7.2	-1.0 %pt

Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		335	420	523	681
OP		29	33	42	88
Net profit, CI		19	6	22	41
P/E (x)		26.9	78.2	30.4	16.2
P/B (x)		6.1	3.1	1.9	1.7
EV/EBITDA		17.8	12.2	9.8	5.9
ROE (%)		26.3	5.3	8.8	11.4

Source: Yuanta Securities

Jcontentree (036420 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Sales	335	420	523	681	770
Cost of sales	153	200	264	326	365
Gross profit	183	221	259	355	405
SG&A	154	187	217	267	298
Operating profit	29	33	42	88	107
EBITDA	43	59	79	125	135
Non-op profit/loss	6	-9	2	-4	-2
Forex gain/loss	0	-1	1	0	0
Net interest income	-1	-5	-2	-4	-2
Equity-meth gain/loss	7	0	0	0	0
Other	0	-3	3	0	0
Net profit before income tax	35	24	44	84	105
Income tax	9	13	10	20	25
Net profit from continuing ops	26	11	34	64	79
Net profit from discontinued ops	-3	0	0	0	0
Net profit	22	11	34	64	79
NP for controlling interest	19	6	22	41	53
Total comprehensive income	25	9	34	64	79
Total comprehensive income, CI	22	5	13	23	29

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

Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Current assets	136	208	473	529	611
Cash & cash equivalents	55	49	298	330	394
Accts rec & other	47	85	77	94	105
Inventory	23	24	36	44	50
Non-current assets	414	454	447	425	413
Tangible assets	213	193	191	190	188
Investment in affiliates	1	0	1	1	1
Other non-current	67	81	84	84	84
Total assets	550	662	919	954	1,024
Current liabilities	330	289	272	246	263
Accts payable & other	67	127	89	93	121
ST financial liabilities	193	60	161	130	119
Liquid LT liabilities	35	81	1	1	1
Non-current liabilities	96	138	139	139	139
LT financial liabilities	24	74	96	96	96
Debentures	35	20	0	0	0
Total liabilities	425	426	411	385	402
Equity, controlling interest	84	158	342	383	436
Paid-in capital	57	57	72	72	72
Capital surplus	-51	14	161	161	161
Retained earnings	69	75	98	139	192
Equity, non-controlling interest	41	77	166	186	186
Total equity	125	236	508	569	622
Net debt	236	172	-56	-117	-193
Total debt	294	254	276	245	235

Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Operating cash flow	18	-4	-12	30	67
Net profit	22	11	34	64	79
Depreciation & amortization	13	16	17	17	18
Forex gain/loss	0	0	0	0	0
Affiliate invest gain/loss	-2	0	0	0	0
Inc (dec) in net working cap	-5	-42	-70	-56	-25
Other	-9	11	7	5	-5
Investing cash flow	-66	-75	-24	-26	-26
Investment	16	-5	0	0	0
Inc in tangible assets	-91	-33	-17	-16	-16
Dec in tangible assets	0	0	0	0	0
Other	9	-38	-8	-10	-10
Financing cash flow	70	73	182	-33	-13
Inc (dec) in ST fin liab	34	-133	48	-31	-11
Inc (dec) in LT fin liab	15	85	-25	0	0
Inc (dec) in equity	0	0	162	0	0
Cash dividend	0	0	-1	-1	-1
Other	22	120	-1	-1	-1
Other cash flow	0	0	102	60	37
Inc (dec) in cash & equivalents	23	-6	249	31	65
Beginning cash & equivalents	33	55	49	298	330
Ending cash & equivalents	55	49	298	330	394
NOPLAT	29	33	42	88	107
FCF	-61	-34	-17	32	68

Note: CI = controlling interest

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: Yuanta Securities

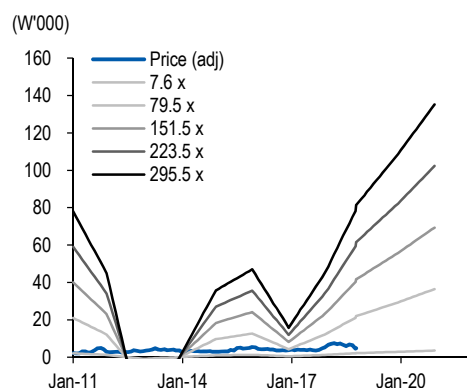
Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	159	53	153	287	368
BPS (won)	704	1,328	2,399	2,688	3,060
EBITDA/shr (won)	376	519	551	871	938
SPS (won)	2,773	3,477	3,633	4,728	5,345
DPS (won)	0	0	0	0	0
P/E (x)	26.9	78.2	30.4	16.2	12.6
P/B (x)	6.1	3.1	1.9	1.7	1.5
EV/EBITDA (x)	17.8	12.2	9.8	5.9	4.9
P/S (x)	1.5	1.2	1.3	1.0	0.9

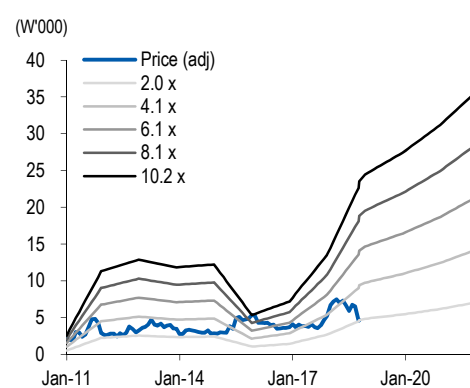
Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
Sales (% YoY)	9.6	25.4	24.5	30.1	13.0
Operating profit (%YoY)	-12.0	15.2	26.4	108.1	22.2
Net profit, CI (%YoY)	68.4	-66.5	242.0	87.9	28.2
Gross margin (%)	54.5	52.5	49.6	52.1	52.7
Operating margin (%)	8.6	7.9	8.1	12.9	13.9
Net margin, CI (%)	5.7	1.5	4.2	6.1	6.9
EBITDA margin (%)	12.8	14.1	15.2	18.4	17.6
ROIC (%)	9.3	5.6	11.7	22.3	28.4
ROA (%)	3.8	1.1	2.8	4.4	5.4
ROE (%)	26.3	5.3	8.8	11.4	12.9
Debt-to-equity (%)	340.1	180.8	80.9	67.6	64.5
Net debt-to-equity (%)	280.6	108.4	-16.2	-30.6	-44.3
OP/financing cost (x)	3.1	3.8	10.0	11.4	14.7

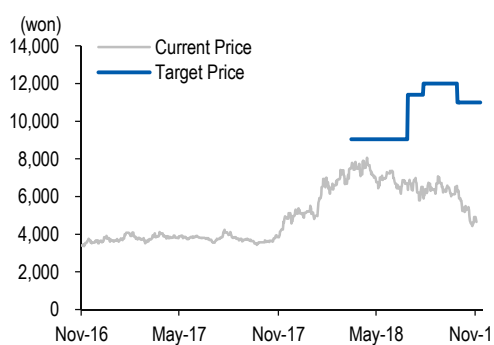
P/E band chart



P/B band chart



Jcontentree (036420 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2018/11/07	Strong Buy	11,000	1 yr		
2018/10/02	Strong Buy	11,000	1 yr		
2018/07/02	Strong Buy	11,411	1 yr	-43.70	-38.04
2018/03/19	BUY	9,034	1 yr	-20.79	-10.85

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

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.7
BUY	83.5
HOLD	14.2
SELL	0.6
Total	100.0

Note: As of Nov 4

Excluding reports written or published by overseas affiliates

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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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