

2018. 11. 8

Company Update



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AT A GLANCE

SELL HOLD **BUY**

Target price KRW280,000 (28.1%)

Current price KRW218,500

Market cap	KRW4.8t/USD4.3b
Shares (float)	21,926,384 (46.8%)
52-week high/low	KRW286,400/KRW191,700
Avg daily trading value (60-day)	KRW23.1b/ USD20.6m

ONE-YEAR PERFORMANCE

	1M	6M	12M
CJ ENM (%)	-11.3	0.6	12.7
Vs Kosdaq (%pts)	0.5	26.2	15.8

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	280,000	280,000	0.0%
2018E EPS	8,269	9,111	-9.2%
2019E EPS	13,474	14,196	-5.1%

SAMSUNG vs THE STREET

No of estimates	11
Target price	318,000
Recommendation	4.0

BUY★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★: 1

CJ ENM (035760)

Media business solid

- CJ ENM's operating profit rose 23.7% y-y to KRW76.5b in 3Q, missing consensus by 10.1%.
- The media division registered strong earnings, with broadcast ad sales climbing 23.8% y-y on the popularity of *Mr. Sunshine*. But the movie division incurred an operating loss of KRW2.3b, and earnings at the commerce division fell short of expectations due to IPTV commission hikes.
- We maintain our BUY rating and target price of KRW280,000. While profits on broadcast ads remain strong, investors are advised to monitor growth of digital ads over the longer term.

WHAT'S THE STORY?

3Q review: CJ ENM posted 3Q results showing operating profit up 23.7% y-y to KRW76.5b, short of consensus (KRW85.1b) by 10.1%. Although operating profit at the media division surged 304.3b y-y to KRW37.2b despite low seasonality, the commerce unit saw operating profit tumble 41.8% y-y to KRW17.8b, and the movie division incurred an operating loss of KRW2.3b.

- **Media:** The media division had a strong 3Q, backed by a solid performance from the firm's drama lineup and the sale of the *Mr. Sunshine* copyright. Broadcast ad sales rose 23.8% y-y (vs a quarterly average of 10.3% y-y in 1H) while digital ads and content sales also leapt a respective 53.7% and 59.1% y-y. Earnings momentum should remain strong in 4Q thanks to two tent pole dramas.
- **Music and movies:** At the music division, sales fell 12.2% y-y due to: 1) the absence of CJ Digital Music (which merged with Genie Music in October) from consolidated accounting; and 2) a y-y drop in album releases. Yet, margin stayed solid at 5.6%.
- **Commerce:** Sales at the commerce unit rose 6.8% y-y, with a 41.3% y-y leap in digital platform sales negating an 11.7% y-y decline in TV platform sales. Nevertheless, IPTV commission hikes (around KRW13b q-q) led operating margin to fall 5.1%pts y-y to 6%. CJ ENM plans to rein in SO commission growth next year.

Must prove growth potential of digital ads: We reiterate BUY on CJ ENM with an unchanged target price of KRW280,000. The most important thing for earnings is to boost broadcast ad sales and thereby lift profits at the media division. Broadcast ad sales expanded 14.8% y-y over 1Q-3Q18 (in line with company guidance of 15% growth for the full year). Such remarkable momentum, however, is probably not sustainable amid tepid market conditions. We believe the sustainability of earnings momentum hinges on whether digital ads (which account for 14% of total media sales now) can replace broadcast ads as a major growth engine.

SUMMARY OF 3Q RESULTS

(KRWb)	3Q18	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	1,096	12.8	4.5	4.6	3.3
Operating profit	77	23.7	(3.3)	2.9	(10.1)
Pre-tax profit	73	21.2	(25.8)	(16.2)	(23.2)
Net profit	54	42.4	(31.2)	(16.5)	(24.6)
Margins (%)					
Operating profit	7.0				
Pre-tax profit	6.6				
Net profit	4.9				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2017	2018E	2019E
Multiples (x)			
P/E	10.4	26.4	16.2
P/B	1.3	2.0	1.8
EV/EBITDA	12.2	11.2	9.1
Div yield (%)	1.4	1.5	1.5
EPS growth (% y-y)	458.6	(60.7)	62.9
ROE (%)	13.5	11.4	13.0
Per-share data (KRW)			
EPS	21,054	8,269	13,474
BVPS	170,555	110,239	122,037
DPS	3,000	3,250	3,250

Table 1. 3Q results

(KRWb)	3Q18			Diff (%)		3Q17	2Q18	Chg	
	Actual	Samsung	Consensus	Samsung	Consensus			(% y-y)	(% q-q)
Sales	1,096	1,048	1,061	4.6	3.3	972	1,049	12.8	4.5
Media	407	374	n/a	8.7	n/a	310	362	31.4	12.5
Commerce	295	281	n/a	5.0	n/a	276	307	6.8	(4.1)
Movie	45	59	n/a	(23.7)	n/a	56	36	(20.2)	25.0
Music	58	63	n/a	(7.9)	n/a	66	67	(12.2)	(12.5)
CJ Hello	291	271	n/a	7.5	n/a	264	277	10.5	5.1
Operating profit	77	74	85	2.9	(10.1)	62	79	23.7	(3.3)
Media	37	29	n/a	26.5	n/a	9	29	304.3	27.4
Commerce	18	30	n/a	(40.7)	n/a	31	34	(41.9)	(47.5)
Movie	(2)	(2)	n/a	26.8	n/a	(3)	(4)	n/a	n/a
Music	3	3	n/a	18.9	n/a	7	4	(51.5)	(21.4)
CJ Hello	21	14	n/a	46.2	n/a	19	16	11.0	30.7
Pre-tax profit	73	87	95	(16.2)	(23.2)	60	98	21.2	(25.8)
Net profit	54	65	72	(16.5)	(24.6)	38	79	42.4	(31.2)
EBITDA	148	169	162	(12.4)	(8.6)	108	123	37.4	20.2
Margins (%)									
Operating margin	7.0	7.1	8.0			6.4	7.5		
Pre-tax margin	6.6	8.3	8.9			6.2	9.3		
Net margin	4.9	6.2	6.8			3.9	7.5		
EBITDA margin	13.5	16.1	15.3			11.1	11.7		

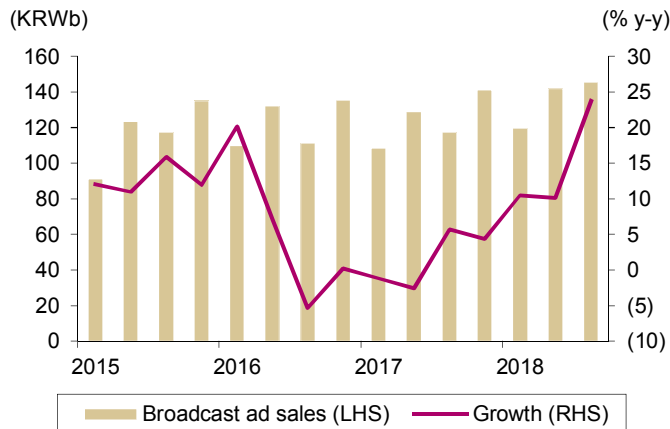
Source: Company data, FnGuide, Samsung Securities

Table 2. Forecast revisions

(KRWb)	2018E					2019E				
	Old	New	Chg (%)	Consensus	Diff (%)	Old	New	Chg (%)	Consensus	Diff (%)
Sales	4,226	4,282	1.3	3,869	10.7	4,407	4,497	2.0	4,644	(3.2)
Operating profit	319	326	2.5	311	4.9	378	378	0.2	393	(3.7)
Pre-tax profit	381	369	(3.2)	356	3.6	437	415	(5.1)	464	(10.7)
Net profit	298	288	(3.2)	279	3.4	328	311	(5.1)	359	(13.5)
EBITDA	545	553	1.5	603	(8.3)	631	631	0.1	668	(5.4)
Adj. EPS (KRW)	12,902	12,059	(6.5)	17,906	(32.7)	14,196	13,474	(5.1)	14,936	(9.8)
Margins (%)										
Operating margin	7.5	7.6		8.0		8.6	8.4		8.5	
Pre-tax margin	9.0	8.6		9.2		9.9	9.2		10.0	
Net margin	7.0	6.7		7.2		7.4	6.9		7.7	
EBITDA margin	12.9	12.9		15.6		14.3	14.0		14.4	

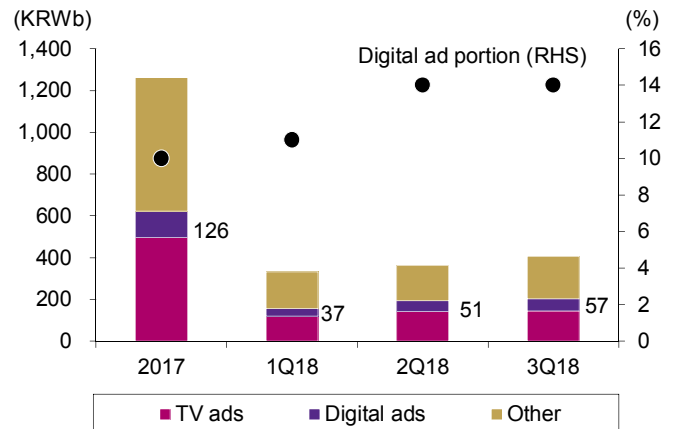
Source: Samsung Securities estimates

Chart 1. Broadcast ad sales and growth



Source: Company data, Samsung Securities

Chart 2. Digital ad portion of media sales



Source: Company data, Samsung Securities

Key takeaways from 3Q earnings conference call

Q: Post-merger synergy outlook?

It is hard to describe post-merger synergies quantitatively at this point. But CJ ENM recently created a new organization to promote synergies between the commerce and content units. Probable new businesses include own-brand product placement and commercializing intellectual property.

Q: VOD price hikes?

The company's monthly flat fee for new subscribers climbed from KRW10,000 to KRW13,000 in August. Taking this into account, CJ ENM plans to alter its pricing policy and make sure that any price adjustment will be made in a way that maximizes value for subscribers (eg, UHD services).

Q: SO commission?

CJ ENM expects SO commission to rise around 8% in 2018 as: 1) a contract it signed in June with KT includes an increase IPTV commission; and 2) the firm changed its TV channel number to a more expensive one. Nonetheless, CJ ENM forecasts that SO commission will grow less than 8% y-y next year, as it plans to cut commission paid to MSOs.

Table 3. Results and forecasts

(KRWb)	2017	2018E	2019E	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Sales	3,973	4,282	4,497	933	978	972	1,090	1,032	1,049	1,096	1,105	1,104	1,117	1,120	1,156
Media	1,262	1,494	1,675	279	323	310	351	333	362	407	393	392	430	420	434
Commerce	1,193	1,208	1,219	286	300	276	331	291	307	295	315	299	303	298	319
Movie	225	205	189	61	46	56	62	80	36	45	44	61	32	48	49
Music	231	246	262	47	47	66	70	56	67	58	65	65	64	66	66
CJ Hello	1,062	1,130	1,152	260	261	264	277	272	277	291	289	287	289	288	289
Operating expenses	3,685	3,956	4,119	856	889	910	1,030	942	970	1,020	1,025	1,007	1,019	1,035	1,058
Operating profit	288	326	378	77	88	62	61	90	79	77	81	97	98	85	98
Media	62	111	152	20	24	9	9	25	29	37	20	33	42	35	41
Commerce	152	132	138	36	46	31	39	42	34	18	37	39	34	27	39
Movie	(10)	(1)	(3)	1	(2)	(3)	(6)	7	(4)	(2)	(2)	(1)	(1)	(1)	(1)
Music	12	15	18	2	2	7	1	3	4	3	5	4	4	5	5
CJ Hello	73	70	73	18	19	19	18	13	16	21	21	21	19	19	14
Pre-tax profit	777	369	415	92	593	60	32	120	98	73	79	119	110	91	95
Net profit	565	288	311	67	440	38	21	96	79	54	59	89	82	68	72
EBITDA	469	553	631	117	127	108	117	129	123	150	151	164	163	147	157
Adj. EPS (KRW)	21,054	8,269	13,474												
Major indicators (%)															
Operating margin	7.2	7.6	8.4	8.2	9.0	6.4	5.6	8.7	7.5	7.0	7.3	8.8	8.8	7.6	8.5
Pre-tax margin	19.5	8.6	9.2	9.9	60.6	6.2	2.9	11.6	9.3	6.6	7.1	10.8	9.8	8.1	8.3
Net margin	14.2	6.7	6.9	7.1	45.0	3.9	1.9	9.3	7.5	4.9	5.3	8.1	7.4	6.1	6.2
EBITDA margin	11.8	12.9	14.0	12.6	13.0	11.1	10.8	12.5	11.7	13.7	13.7	14.9	14.6	13.1	13.6
Dividend yield	1.3	1.4	1.4												

Note: 2017 and 2018 figures reflect data from CJ E&M and CJ O Shopping, whereas income statement reflects only CJ O Shopping data before the merger

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Sales	2,209	2,260	3,352	4,497	4,687
Cost of goods sold	1,000	988	1,580	2,171	2,262
Gross profit	1,209	1,272	1,772	2,326	2,425
Gross margin (%)	54.7	56.3	52.9	51.7	51.7
SG&A expenses	1,030	1,047	1,510	1,948	1,983
Operating profit	179	224	262	378	442
Operating margin (%)	8.1	9.9	7.8	8.4	9.4
Non-operating gains (losses)	(117)	(40)	6	36	2
Financial profit	13	12	12	6	6
Financial costs	28	25	19	12	13
Equity-method gains (losses)	(11)	6	60	100	72
Other	(91)	(33)	(48)	(57)	(63)
Pre-tax profit	62	184	269	415	444
Taxes	30	41	65	104	111
Effective tax rate (%)	47.6	22.2	24.2	25.0	25.0
Profit from continuing operations	33	143	204	311	333
Profit from discontinued operations	0	0	0	0	0
Net profit	33	143	204	311	333
Net margin (%)	1.5	6.3	6.1	6.9	7.1
Net profit (controlling interests)	23	131	181	295	316
Net profit (non-controlling interests)	9	13	22	16	17
EBITDA	446	469	553	631	655
EBITDA margin (%)	20.2	20.8	16.5	14.0	14.0
EPS (parent-based) (KRW)	3,769	21,054	8,269	13,474	14,430
EPS (consolidated) (KRW)	5,242	23,078	9,286	14,183	15,189
Adjusted EPS (KRW)*	3,769	21,054	8,269	13,474	14,430

Cash flow statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	416	330	823	499	507
Net profit	33	143	204	311	333
Non-cash profit and expenses	424	332	303	272	267
Depreciation	169	166	162	131	105
Amortization	98	79	128	122	108
Other	157	87	13	19	54
Changes in A/L from operating activities	16	(94)	393	25	24
Cash flow from investments	(329)	(256)	(1,187)	(27)	(25)
Change in tangible assets	(117)	(182)	(116)	0	0
Change in financial assets	(112)	18	(117)	(19)	(17)
Other	(100)	(92)	(954)	(9)	(8)
Cash flow from financing	(298)	(62)	2,231	(214)	(214)
Change in debt	(292)	(40)	1,282	(150)	(150)
Change in equity	(1)	(5)	1,163	0	0
Dividends	(18)	(18)	(21)	(64)	(64)
Other	13	1	(193)	0	0
Change in cash	(211)	11	808	300	287
Cash at beginning of year	314	103	114	922	1,222
Cash at end of year	103	114	922	1,222	1,509
Gross cash flow	457	475	507	583	601
Free cash flow	223	147	(191)	499	507

Note: * Excluding one off items, ** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Current assets	689	664	1,934	2,280	2,610
Cash & equivalents	103	114	922	1,222	1,509
Accounts receivable	327	320	581	607	632
Inventories	62	76	139	145	151
Other current assets	197	153	292	306	318
Fixed assets	2,065	2,138	4,122	3,938	3,787
Investment assets	255	288	1,486	1,555	1,618
Tangible assets	815	816	762	630	525
Intangible assets	934	950	1,806	1,684	1,576
Other long-term assets	61	84	69	69	69
Total assets	2,754	2,802	6,056	6,218	6,398
Current liabilities	1,017	732	1,923	1,831	1,733
Accounts payable	40	36	180	188	196
Short-term debt	157	22	359	259	159
Other current liabilities	820	674	1,384	1,383	1,378
Long-term liabilities	373	586	1,474	1,482	1,489
Bonds & long-term debt	301	511	1,295	1,295	1,295
Other long-term liabilities	72	75	180	187	195
Total liabilities	1,391	1,318	3,398	3,312	3,223
Owners of parent equity	917	1,028	2,164	2,396	2,648
Capital stock	31	31	225	225	225
Capital surplus	85	80	1,050	1,050	1,050
Retained earnings	812	924	1,092	1,324	1,577
Other	(10)	(7)	(203)	(203)	(203)
Non-controlling interests' equity	446	456	494	510	526
Total equity	1,363	1,484	2,658	2,906	3,175
Net debt	473	489	895	438	(5)

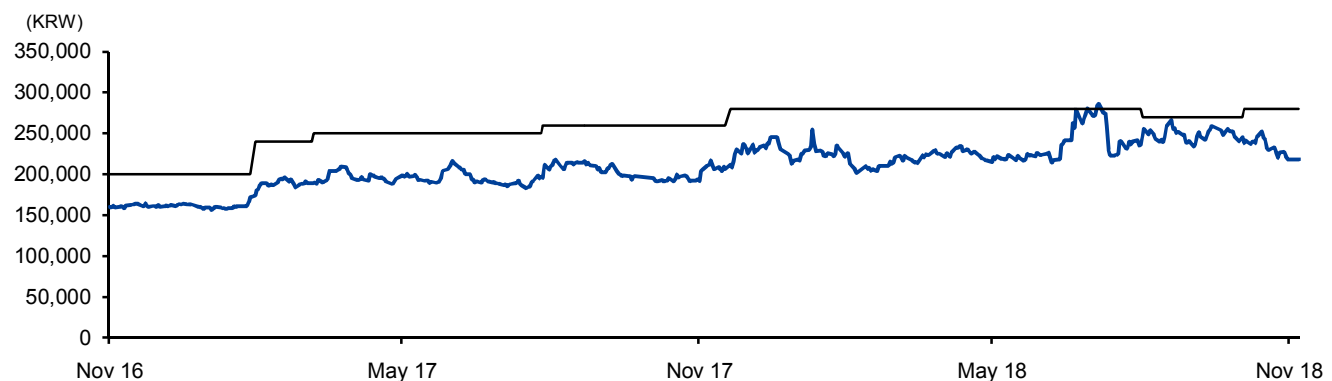
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	(4.3)	2.3	48.3	34.2	4.2
Operating profit	(14.7)	25.5	16.9	44.1	16.8
Net profit	(70.9)	340.2	41.9	52.7	7.1
Adjusted EPS**	(72.4)	458.6	(60.7)	62.9	7.1
Per-share data (KRW)					
EPS (parent-based)	3,769	21,054	8,269	13,474	14,430
EPS (consolidated)	5,242	23,078	9,286	14,183	15,189
Adjusted EPS**	3,769	21,054	8,269	13,474	14,430
BVPS	152,157	170,555	110,239	122,037	134,904
DPS (common)	2,500	3,000	3,250	3,250	3,250
Valuations (x)					
P/E***	58.0	10.4	26.4	16.2	15.1
P/B***	1.4	1.3	2.0	1.8	1.6
EV/EBITDA	12.8	12.2	11.2	9.1	8.1
Ratios (%)					
ROE	2.6	13.5	11.4	13.0	12.5
ROA	1.1	5.2	4.6	5.1	5.3
ROIC	5.5	10.4	12.9	13.8	18.0
Payout ratio	64.3	13.8	35.2	21.6	20.2
Dividend yield (common)	1.1	1.4	1.5	1.5	1.5
Net debt to equity	34.7	32.9	33.7	15.1	(0.2)
Interest coverage (x)	7.0	11.1	40.1	30.4	35.0

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2016/11/3	2017/2/6	3/14	8/3	11/27	2018/8/9	10/11
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	200,000	240,000	250,000	260,000	280,000	270,000	280,000
Gap* (average)	(19.51)	(21.25)	(21.84)	(21.58)	(18.22)	(7.96)	
(max or min)**	(14.00)	(18.17)	(13.20)	(16.12)	2.29	(1.30)	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Company

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HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Sep 30, 2018

BUY (85%) | HOLD (15%) | SELL (0%)

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