

Genie Music (043610.KQ)

Boasts strongest growth among music platform players

Company Comment | Nov 8, 2018

Thanks to increased subscriber numbers, Genie Music is enjoying rising B2C sales. In addition, helped by improvements in its B2B settlement structure, the firm's 3Q18 OPM stood at 4.8%. With the merger with CJ Digital Music (Oct 12) to be reflected in the company's earnings from 4Q18, we expect to see an overall earnings improvement in 2019.

B2C sales showing robust growth

On Nov 7, Genie Music announced (preliminary) 3Q18 sales of W41.2bn (-1.7% y-y) and OP of W2.0bn (+86.6% y-y), with OPM rising from just 1.9% in 1H18 to 4.8% in 3Q18. We attribute the jump in OP to: 1) an increase in high-ARPU B2C subscribers; and 2) an improved B2B settlement structure for the firm's captive market.

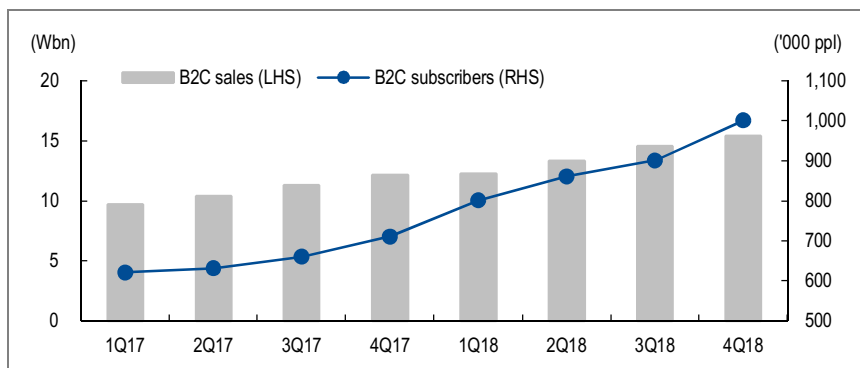
Genie's 3Q18 B2C sales totaled W14.5bn (+28.8% y-y), showing ongoing steady growth, with its B2C subscriber number climbing to 900,000 (+36.4% y-y). ARPU at the B2C business climbed to W5,400 in 3Q18, thanks to an increased number of B2C subscribers paying non-discounted rates (we note that many B2C subscribers were originally attracted through promotional deals). Given that the number of Mnet users is anticipated to hit 1mn in 4Q18, the company's B2C sales should expand rapidly. As B2C sales offer higher margins than B2B sales, B2C sales growth is to translate into a widening OPM.

Earnings to level up in 2019

Due to: 1) ongoing lackluster earnings; and 2) its merger with CJ Digital Music (which recorded an operating loss in 2017), market concerns towards Genie Music linger. However, we point out that Genie's low-ARPU B2B sales, which negatively impacted OPM in 2Q18, have started to show stronger margins thanks to improvements to the firm's settlement structure. Expecting the settlement price to be adjusted further in 2019 to reflect actual costs, we believe the B2B division's margins will climb higher on an increasing ARPU.

Turning to CJ Digital Music, we expect 2019 sales of W60.1bn and OP of W4.2bn. We expect that the merger with CJ Digital Music will contribute to bolstering Genie Music's overall earnings going forward, noting: 1) the separation of the loss-making musical device business from CJ Digital Music prior to the merger; 2) greater content distribution sales on the addition of music content from Mnet; and 3) an inflow of Mnet platform subscribers.

B2C subscribers and sales



Source: Genie Music, NH I&S Research Center estimates

Not Rated

CP (2018/11/07) **W4,630**

Sector	Digital content
Kospi/Kosdaq	2,078.69 / 682.37
Market cap (common)	US\$240.7mn
Outstanding shares (common)	58.1mn
52W high ('18/09/04)	W6,970
low ('17/11/16)	W3,675
Average trading value (60D)	US\$2.2mn
Dividend yield (2018E)	0.00%
Foreign ownership	1.2%

Major shareholders	
KT	36.0%
CJ E&M	15.4%
LGU+	12.7%

Share perf	3M	6M	12M
Absolute (%)	-20.2	-10.8	18.7
Relative (%)	-8.2	12.0	22.0

	2017	2018E	2019F	2020F
Sales	155.6	167.6	234.7	273.0
Chg	39.9	7.7	40.1	16.3
OP	2.4	7.3	18.1	23.2
OPM	1.5	4.4	7.7	8.5
NP	-3.4	6.9	15.6	19.9
EPS	-72	136	268	342
Chg	TTL	TTP	97.8	27.6
P/E	N/A	34.2	17.3	13.5
P/B	2.6	2.7	2.4	2.0
EV/EBITDA	27.4	20.3	7.9	5.4
ROE	-4.3	7.3	14.7	16.1
Debt/equity	53.3	53.3	64.4	63.8
Net debt	-83.1	-86.5	-112.2	-134.1

Units: Wbn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates



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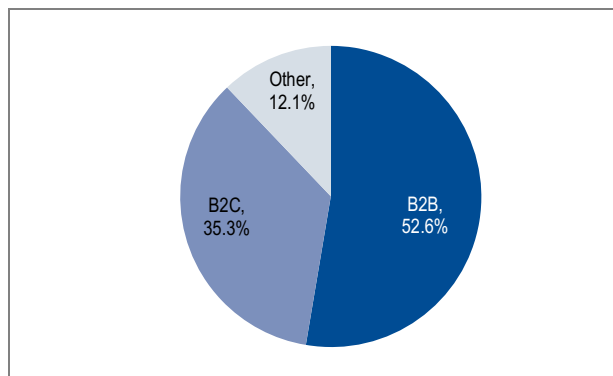
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Company overview

- Genie Music operates three main businesses: 1) music; 2) content (distribution); and 3) other.
- As Genie Music's largest shareholder, KT (the second biggest domestic telco) currently owns a 36.0% stake in the firm. Meanwhile, following the merger of Genie Music and CJ Digital Music (a subsidiary of CJ ENM) in Oct 2018, CJ ENM has become the second largest shareholder with a 15.4% stake. Having acquired a 12.7% stake in the firm via third-party rights offering in Mar 2017, LGU+ stands as the third largest shareholder.
- Owing to its music streaming service being offered to KT's mobile subscribers, the firm has risen to the number-two spot in the domestic digital music market. Moreover, the launch of its music service for LG U+ mobile subscribers in Apr 2017 has strengthened its position in the B2B music market.

Sales breakdown

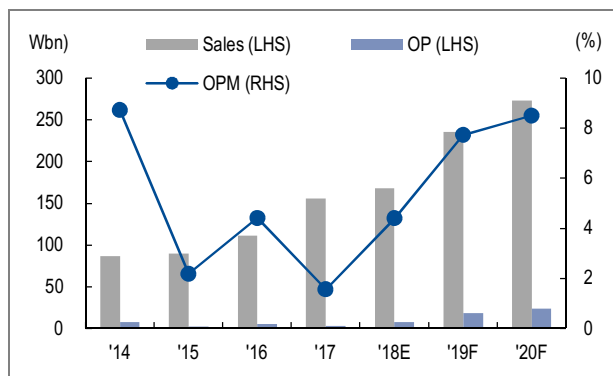
- Genie Music's 3Q18 sales broke down into: B2B 52.6%, B2C 35.3%, and other 12.1%
- In detail: 1) B2B sales are generated via a music streaming service exclusively offered to captive clients (KT and LGU+'s mobile subscribers) and music content distribution; 2) B2C sales come from a music streaming service offered to non-captive clients (non KT or LGU+ subscribers); and 3) other sales include those of the music service development business and artists-related merchandising



Note: As of 3Q18
Source: Genie Music, NH I&S Research Center

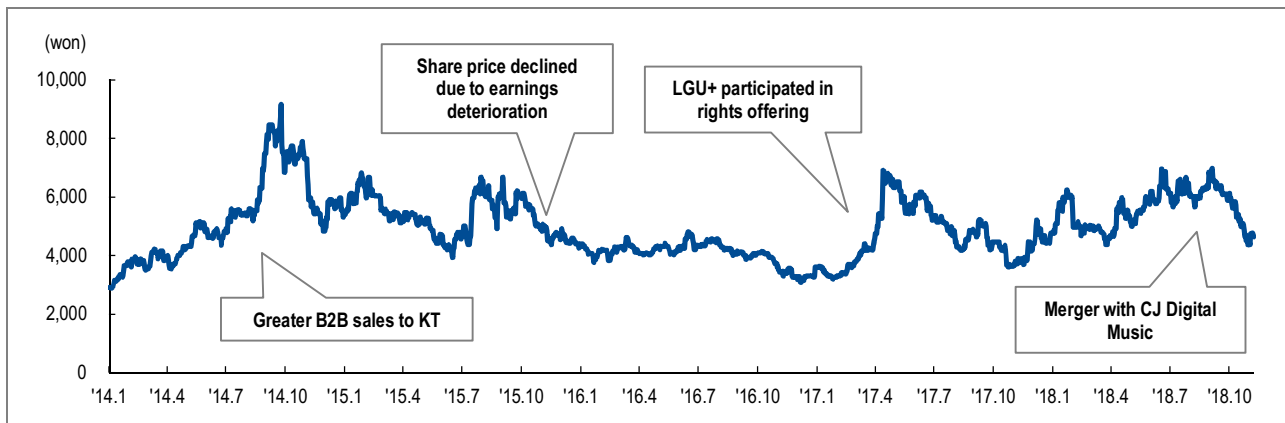
Earnings

- Genie Music registered 3Q18 (preliminary) sales of W41.2bn (-1.7% y-y) and OP of W2.0bn (+86.6%). While music business sales increased, content distribution business sales fell due to customer defection to rivals (eg, SM Entertainment and JYP Entertainment)
- The firm booked 3Q18 OPM of 4.8%, thanks to: 1) decreased overall operating expenses on a reduction in ad/promotion expenses and lower cost burden at the content business; 2) greater sales to captive clients; and 3) increasing sales to high-ARPU B2C clients



Source: Genie Music, NH I&S Research Center

Share performance and major events



Source: DataGuide, NH I&S Research Center

NH Investment & Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Nov 2, 2018).

- NH I&S' stock rating distribution

Buy	Hold	Sell
80.6%	19.4%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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