

J Contentree (036420 KQ)

HJ Kim

hoijae.kim@daishin.com

Rating

BUY
maintain

6M TP (₩)

8,200
maintain

CP (₩)
(18.11.06)

4,650

Media

BUY; TP maintained at ₩8,200

- Our ₩8,200 target price for J Contentree is based on the 12-month forward EPS of ₩291 and a target P/E of 28x, a 20% premium over the average multiple of 23x since 2011. The valuation premium is justified by the following factors: 1) The company's theater-chain business, Megabox, is showing improvements in both top- and bottom-line results; and 2) emboldened by last year's profit turnaround at its cable-channel unit JTBC, the media company is set to expand its TV drama business.

- The stock is valued at ₩8,900 based on the residual income model.

3Q18 results highest ever thanks to strong theater business

- J Contentree's third-quarter OP came in at ₩18.2bn (up 120% qoq; up 71% yoy), slightly below our projection of ₩20.3bn. Revenue was ₩160bn (up 41% qoq; up 36% yoy).

- The underperformance is attributable to the early amortization of TV rights, which usually are booked as intangible assets and then stay on the book for one and a half years before being written off gradually. Such a move may lead to a short-term increase in costs but help relieve future burden.

- Megabox's revenue hit ₩100bn (up 58% qoq; up 21% yoy), a milestone that has never been reached before. OP also rose (up 796% qoq; up 48% yoy) to ₩15bn. OP margin, which once fell to 8% levels as the theater-chain operator added 15 directly-operated locations since 2H15, bounced back to 14.7% as the investment started to pay off.

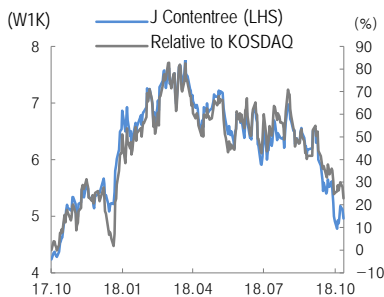
- TV revenue soared 49% yoy to ₩55.5bn (down 14% qoq), as the unit kicked off the production of a new drama for the newly-added Monday-Tuesday spot at its cable TV affiliate JTBC and sealed content deals with Netflix and a Chinese media firm. OP jumped 49% yoy to ₩3.3bn (down 50% qoq).

- In 2019, the division is forecast to show a 44% yoy increase in revenue at ₩260bn as it creates more dramas for JTBC (14 compared to 12 in 2018). Next year's lineup will include a couple of tentpole dramas, which will be financed by the proceeds from the successful September rights offer.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	691.55
Market cap (₩bn)	670
Market cap portion (%)	0.29
Paid-in capital (common; ₩bn)	72
52w high/low (₩)	8,054 / 3,946
120d avg. trading volume (₩bn)	11.3
Foreign ownership (%)	2.38
Major shareholders	Joongang Media Network+1: 33.32%
	National Pension Service: 8.13

(%)	1M	3M	6M	12M
Abs. return	-21.2	-24.9	-31.3	17.8
Rel. return	-11.8	-15.1	-15.0	19.9



(Wbn, %)										
	3Q17	2Q18	Previous estimate	Results	3Q18			4Q18		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	116	111	159	157	35.6	41.1	152	131	8.0	-16.7
OP	11	8	20	18	70.9	119.6	21	14	61.2	-23.6
NP	-1	2	14	10	TTB	291.3	11	10	1,235.9	5.3

Operating results and major financial data

	2016A	2017A	2018F	2019F	2020F
Revenue	335	420	509	608	687
OP	29	33	44	60	72
Pretax profit	35	24	51	74	88
NP	22	11	39	56	66
NP (controlling int.)	19	6	27	43	51
EPS	169	56	213	298	354
PER	22.9	96.8	21.9	15.6	13.1
BPS	736	1,389	2,412	2,710	3,064
PBR	5.3	3.9	1.9	1.7	1.5
ROE	26.3	5.3	10.7	11.6	12.3

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: J Contentree, Daishin Securities Research Center

	2016	2017	Previous estimate	2018(F)			Growth	
				Daishin estimate	Change	Consensus	2017	2018(F)
Revenue	335	420	523	509	-2.7	506	25.4	21.0
OP	29	33	47	44	-5.7	48	15.2	33.1
NP	19	6	31	27	-13.5	25	-66.5	320.9

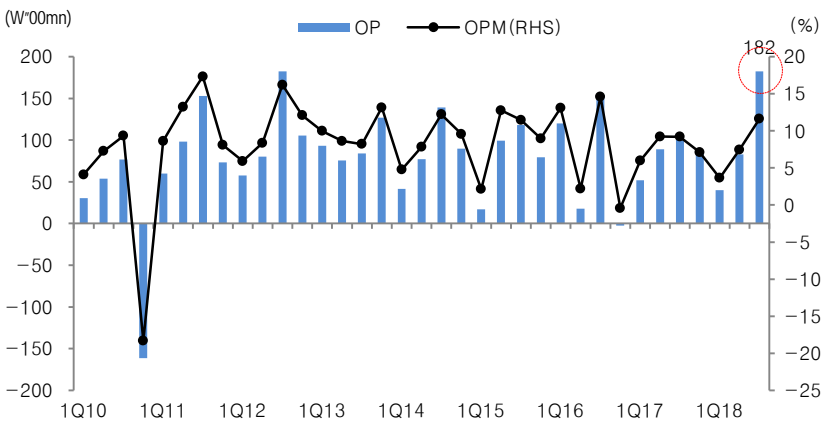
Source: J Contentree, WISEfn, Daishin Securities Research Center

Earnings forecast revision (Wbn, W, %, %p)

	Previous		Revised		Change	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	523	617	509	608	-2.7	-1.5
SG&A expense	216	265	212	262	-2.0	-1.1
OP	47	62	44	60	-5.7	-2.3
OP margin	9.0	10.0	8.7	9.9	-0.3	-0.1
Non-operating profit	12	14	6	14	-44.3	0.0
Pretax profit	59	76	51	74	-13.3	-1.8
NP (contr. int.)	31	44	27	43	-13.5	-1.8
NP margin	8.5	9.2	7.7	9.2	-0.8	0.0
EPS (contr. int.)	246	304	213	298	-13.5	-1.8

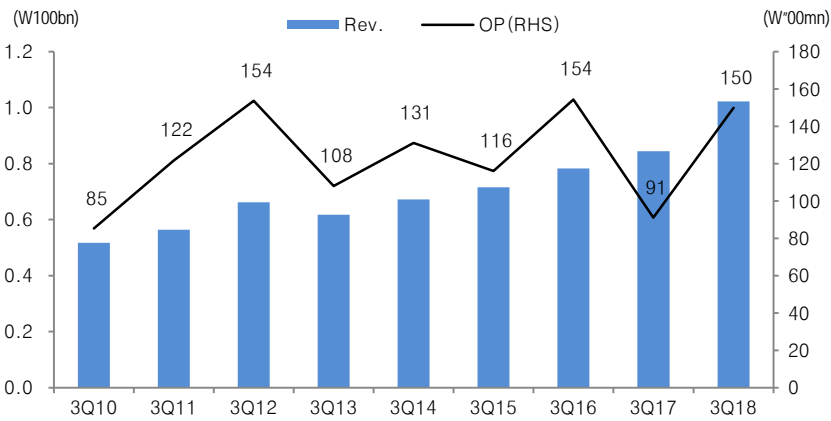
Source: J Contentree, Daishin Securities Research Center

Fig 1. Best-ever OP



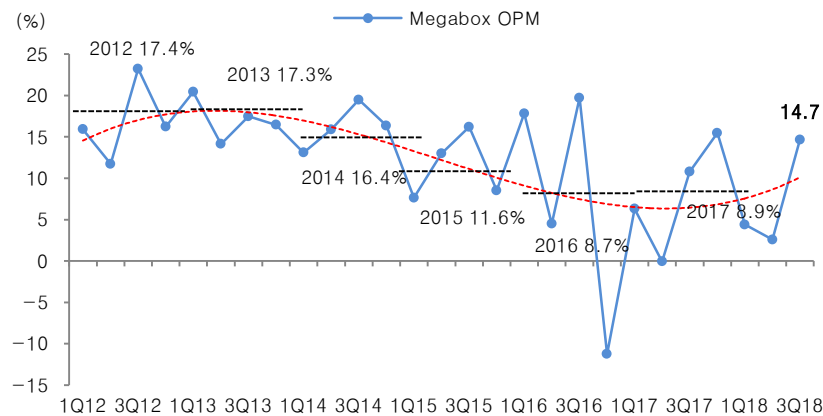
Source: J Contentree, Daishin Securities Research Center

Fig 2. Megabox's revenue and OP



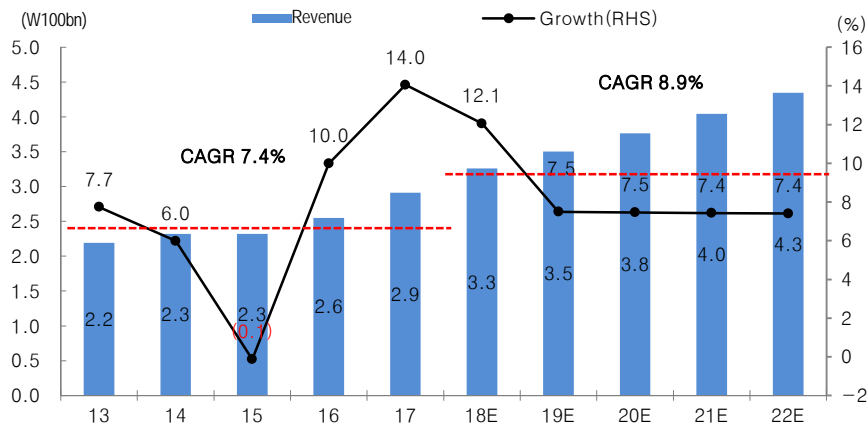
Source: J Contentree, Daishin Securities Research Center

Fig 3. Megabox OP margin improving



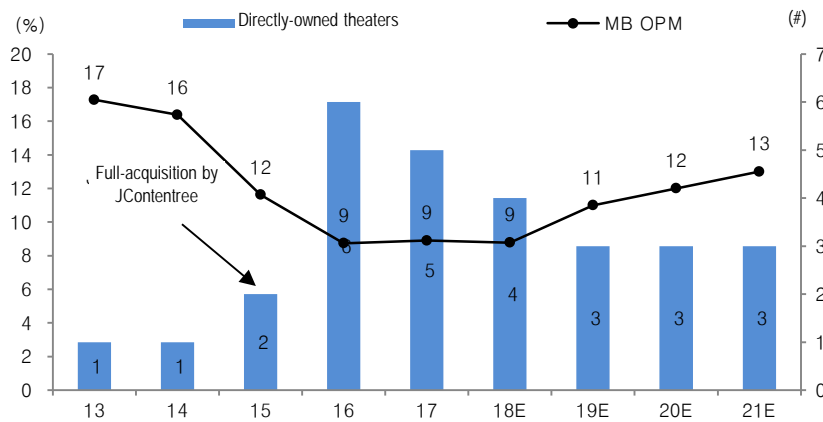
Source: J Contentree, Daishin Securities Research Center

Fig 4. Megabox's CAGR 8.9%



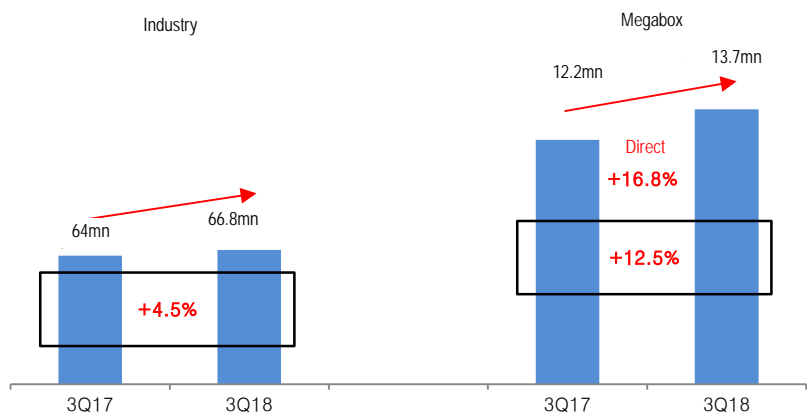
Source: J Contentree, Daishin Securities Research Center estimates

Fig 5. Number of directly-owned locations vs. OP margin



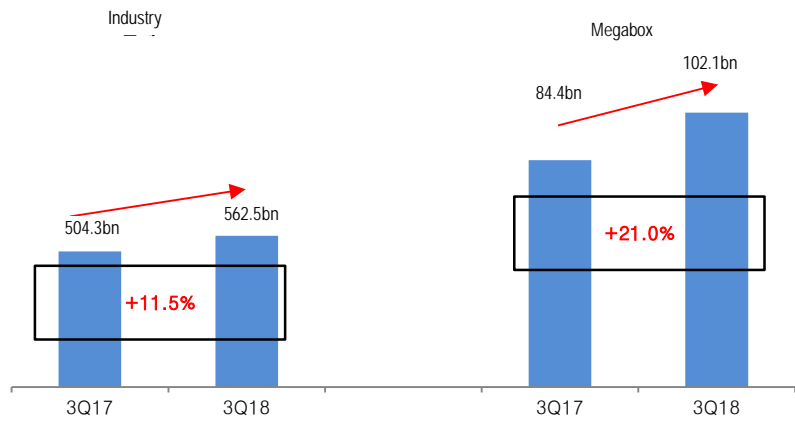
Source: J Contentree, Daishin Securities Research Center estimates

Fig 6. Q3 audience growth



Source: Korean Film Council, J Contentree, Daishin Securities Research Center estimates

Fig 7. Q3 box office revenue



Source: Korean Film Council, J Contentree, Daishin Securities Research Center estimates

Company profile

Overview

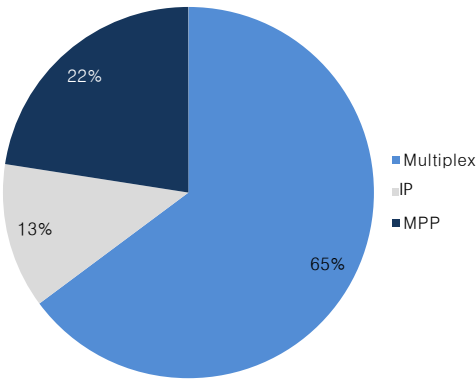
- 2017 performance: Revenue W420.3bn, OP W33.3bn, NP W10.9bn
- Major shareholders: Joongang Holdings 33.23%, National Pension Service 7.3%

Stock movement

- Shares of J Contentree are performing strongly following an announcement on a large-scale rights offering aimed at raising funds for the drama business expansion. The effort follows a profit turnaround at the cable-channel unit JTBC and comes amid Netflix' beefing up a lineup of Korean content.

Source: J Contentree, Daishin Securities Research Center

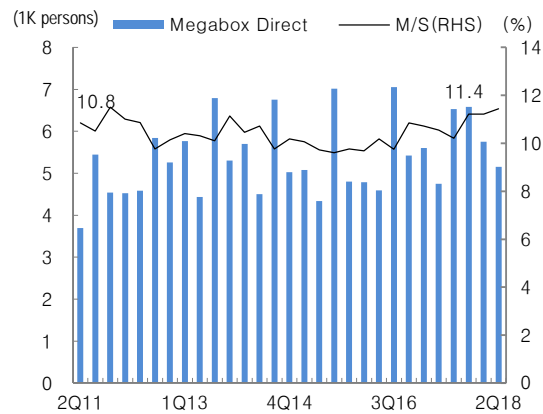
Revenue mix (3Q18)



Source: J Contentree, Daishin Securities Research Center

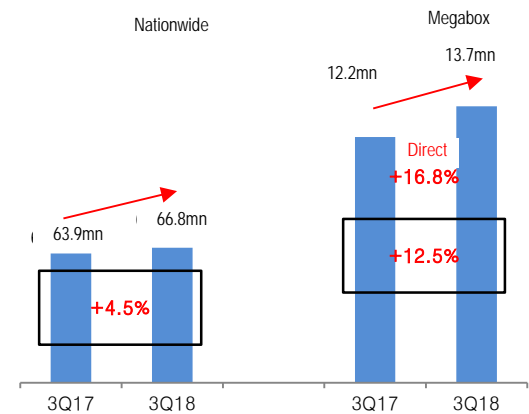
Earnings drivers

Fig 8. Audience count (2Q18)



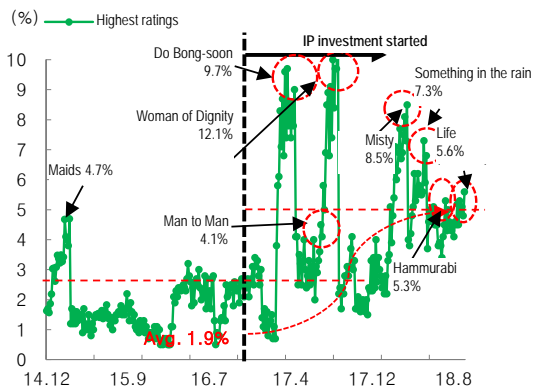
Source: J Contentree, Daishin Securities Research Center

Fig 9. Market-beating audience growth (3Q18)



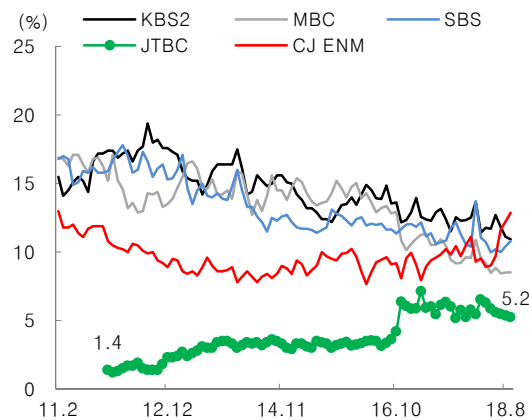
Source: J Contentree, Daishin Securities Research Center

Fig 10. Viewer ratings on the rise since 2017



Source: AGB Nielson, Daishin Securities Research Center

Fig 11. Market share (18.9)



Source: CJ ENM, Daishin Securities Research Center

Intrinsic value

Residual Income Model

(Wbn, W, %)

		2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
I	NP (contr. int.) ^(Note 2)	27	43	51	57	64	72	81	90	101	113
II	Shareholders' equity (contr. int.) ^(Note 2)	348	390	441	499	544	595	647	705	770	843
	Estimated ROE	10.7	11.6	12.3	11.5	11.8	12.1	12.5	12.8	13.1	13.4
III	Required rate of return ^(Note 3)	4.9									
	Risk free rate of return ^(Note 4)	2.1									
	Market risk premium ^(Note 5)	4.0									
	Beta	0.70									
IV	Spread (estimated ROE – required rate of return)	5.8	6.7	7.4	6.6	6.9	7.2	7.6	7.9	8.2	8.5
V	Required income	8	17	19	22	24	27	29	32	35	38
VI	Residual income (I - V)	19	26	32	36	40	45	51	59	67	75
	Present value factor	1.00	0.95	0.91	0.86	0.82	0.78	0.75	0.71	0.68	0.65
	PV of residual income	19	25	29	31	33	35	38	42	45	49
VII	Sum of residual income	346									
VIII	PV of residual income following forecasting period	783									
	Terminal growth (g) ^(Note 6)	0.0%									
IX	Beginning shareholders' equity	158									
X	Fair market cap (VII+VIII+IX)	1,288									
	Total number of shares (1K)	122,914									
XI	Per share value (W)	8,938									
	Current share price (W)	4,650									
	Upside potential (%)	92.2%									

Note 1: Under the residual income model (RIM), we add the current shareholders' equity to the residual income based on the earnings forecast for the next ten years before adding the result to the residual income after the forecasting period to derive the value of shareholders' stakes. The RIM is considered less subjective than similar valuation models such as DDM, DCF, and EVA.

Note 2: The RIM reflects consolidated subsidiaries' earnings not in their entirety but only for the stake controlled by the company.

Note 3: The required rate of return (i.e., cost of equity) is the rate of return expected by the shareholders who take risks. It is derived by the capital asset price model: Cost of equity = Risk-free interest rate + Beta * Market risk premium.

Note 4: The yield on five-year government bonds was used as the proxy for the risk-free interest rate.

Note 5: Market risk premium refers to the gap between the expected return on the market portfolio and the risk-free interest rate. It has been lowered from 6-8% to 3-5% in reflection of the current low-growth environment.

Note 6: The terminal growth was assumed to be zero.

Financial statements

Income statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Revenue	335	420	509	608	687
Cost of goods sold	153	200	252	285	335
Gross profit	183	221	256	323	352
S&A expenses	154	187	212	262	279
OP	29	33	44	60	72
OP margin	8.6	7.9	8.7	9.9	10.5
EBITDA	43	59	64	80	93
Non-OP	6	-9	6	14	16
Income from affiliates	7	0	1	3	2
Financial revenue	8	4	6	8	9
FX related gains	0	0	0	0	0
Financial expense	-9	-9	-8	-5	-4
FX related losses	0	0	0	0	0
Others	0	-4	7	8	9
Income before taxes	35	24	51	74	88
Income tax expense	-9	-13	-12	-19	-22
Income from cont. op.	26	11	39	56	66
Income from discount. op.	-3	0	0	0	0
NP	22	11	39	56	66
NP margin	6.7	2.6	7.7	9.2	9.7
NP for non-cont. interest	3	4	12	13	15
NP for contr. interest	19	6	27	43	51
Valuation of AFS fin. assets	2	-2	-2	-2	-2
Other compreh. income	0	0	0	0	0
Comprehensive income	25	9	37	54	65
Comp. income for non-cont. int.	3	4	12	12	15
Comp. income for contr. int.	22	5	26	42	50

Valuation metrics (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
EPS	169	56	213	298	354
PER	22.9	96.8	21.9	15.6	13.1
BPS	736	1,389	2,412	2,710	3,064
PBR	5.3	3.9	1.9	1.7	1.5
EBITDAPS	376	519	499	557	645
EV/EBITDA	16.6	14.4	11.5	8.8	7.2
SPS	2,938	3,685	3,992	4,218	4,766
PSR	1.3	1.5	1.2	1.1	1.0
CFPS	340	539	583	651	745
DPS	0	0	0	0	0

Financial ratios (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Sales growth	9.6	25.4	21.0	19.5	13.0
OP growth	-12.0	15.2	33.1	36.1	19.9
NP growth	14.1	-51.4	259.7	42.4	18.9
Profitability					
ROIC	7.7	4.5	9.6	12.1	14.0
ROA	5.8	5.5	5.7	6.9	8.2
ROE	26.3	5.3	10.7	11.6	12.3
Stability					
Debt ratio	340.1	180.8	110.4	81.9	74.4
Net borrowings ratio	183.4	65.1	-3.6	-9.1	-15.5
Interest coverage ratio	3.1	3.8	5.8	12.5	16.3

Source: J Contentree, Daishin Securities Research Center

Balance sheet (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Current assets	136	208	430	381	431
Cash & cash equiv.	55	49	258	195	233
Trade & other receive.	47	85	98	113	124
Inventories	23	24	24	24	24
Other current assets	10	50	50	50	50
Long-term assets	414	454	464	470	474
Tangible assets	213	193	209	219	228
Investments in affiliates	1	0	0	0	0
Other long-term assets	200	260	255	250	245
Total assets	550	662	894	851	905
Current liabilities	330	289	314	270	276
Payables & other liab.	67	127	131	135	138
Borrowings	193	60	80	30	30
Current portion of LT debts	35	81	83	86	88
Other current liabilities	34	20	20	20	20
Long-term liabilities	96	138	155	113	110
Borrowings	59	94	112	69	67
Convertible securities	0	0	0	0	0
Other long-term liab.	36	43	43	43	43
Total liabilities	425	426	469	383	386
Controlling interest	84	158	348	390	441
Capital stock	57	57	72	72	72
Capital surplus	-51	14	161	161	161
Retained earnings	69	75	102	145	196
Other capital changes	9	12	12	12	12
Non-controlling interest	41	77	77	77	77
Total shareholder's equity	125	236	425	468	519
Net borrowings	229	153	-15	-42	-80

Cash flow statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	18	-4	44	60	74
NP	22	11	39	56	66
Non-cash items	16	51	35	38	41
Depreciation	14	26	19	20	21
FX gains	0	0	0	0	0
Equity method gain	-2	0	0	0	0
Others	5	24	16	18	20
Chg in assets & liab.	-5	-42	-17	-18	-16
Other cash flows	-15	-23	-13	-15	-18
Investing cash flow	-66	-75	-38	-33	-33
Investment assets	10	-5	0	0	0
Tangible assets	-91	-33	-30	-25	-25
Others	15	-38	-8	-8	-8
Financing cash flows	70	73	322	30	120
Short-term borrowings	34	-133	20	-50	0
Bonds payable	35	59	20	-40	0
Long-term borrowings	14	41	-3	-3	-3
Rights offering	0	0	162	0	0
Cash dividends	0	0	0	0	0
Others	-12	106	123	123	123
Net chg in cash	23	-6	208	-63	38
Beginning cash balance	33	55	49	258	195
Ending cash balance	55	49	258	195	233
NOPLAT	21	15	34	45	54
FCF	-57	7	23	40	50

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)	Neutral Green (neutral)	Sky Blue (positive)
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[Investment rating & Target price history]

J Contentree (036420 KQ)



Investment rating breakdown and framework (Nov. 4, 2018)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	84.3%	14.7%	1.0%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.