

Localization strategy to win more hearts

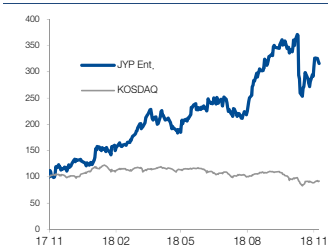
Share price (KRW, Nov 21)	33,500
Upside (%)	39.4
Market cap (KRW bn)	1,178
Shares outstanding ('000)	35,327
Paid-in capital (KRW bn)/ Face value (KRW)	17/500
52-week high/low (KRW)	39,150/10,500
60-day avg. daily T/O (KRW bn)	33
Foreign ownership (%)	10.75
Major shareholders (%)	Park Jin young and 3 persons 18.38

Price performance	1M	3M	6M
Absolute (%)	-12.0	16.4	50.9
Relative (%p)	-6.3	31.7	89.3

K-IFRS, consolidated

(KRW)	18F EPS	19F EPS	TP
Previous	-	-	-
Revised	636	1,093	46,500
Consensus	694	1,080	44,250
Difference	-8.4%	1.2%	5.1%

12-month price performance



Source: WiseFn, Hyundai Motor Securities

1) Investment highlights

- We initiate coverage of JYP with BUY and a target price of KRW46,500.
- The agency's most popular girl group Twice will pick up activities globally, starting with the Japanese dome tour.
- JYP is prepping for the debut of a girl group in Korea, another girl group in Japan, and a boy group in China next year.
- A contract with global music distributor Orchard means growth in digital music sales overseas.

2) Major issues and earnings outlook

- Twice is scheduled to begin the dome tour in Japan in 1Q19. Previously, other popular girl acts such as Kara and Girl's Generation were able to fill the Japanese domes but it is notable that Twice achieved such a milestone so quickly. Twice will also begin the US leg of the tour next year.
- Several girl and boy groups are slated to debut in 1Q19 in various countries: a girl group in Korea, another girl group in Japan, and a boy group in China. The localization and diversification of artists are expected to provide further momentum for growth.
- In November, JYP entered an agreement with Orchard, a Sony subsidiary specializing in music distribution, to supply its music content. Thus, JYP is now set to enjoy revenues from iTunes and Spotify in addition to YouTube, and its overseas digital music sales will increase.
- Its boy group GOT7 will tour more heavily in 2019, through North and Latin America as well as Europe. A newer act Stray Kids' increasing global recognition level means higher revenue from the boy group segment next year.
- For 2018, we forecast KRW124.4bn in sales (+22% YoY) and KRW27.3bn in operating profit (+40% YoY). Next year, we expect sales to grow further to KRW160.8bn (+43% YoY) and operating profit to KRW43.1bn (+58% YoY).

3) Share price outlook and valuation

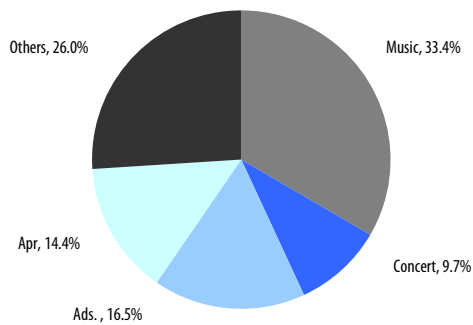
- There is renewed attention on entertainment stocks because of clear earnings visibility next year. There are also mounting expectations for the thawing of relations between Korea and China. Against this backdrop, we expect JYP shares to move upwards in accordance with the company's earnings.
- For our target price, we applied 42.8x target P/E (the average P/E of the recent three years) to 2019F EPS of KRW1,093.

Earnings forecasts and valuations

	Sales (KRW bn)	OP (KRW bn)	NP (KRW bn)	EBITDA (KRW bn)	EPS (KRW)	Growth (%YoY)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Div. yield (%)
2016	74	14	8	16	246	162.7	20.0	2.5	8.5	13.4	0.0
2017	102	19	16	22	471	91.2	29.2	5.6	19.6	21.4	0.0
2018F	124	27	22	29	636	35.1	52.4	10.0	38.8	21.9	0.0
2019F	161	43	39	46	1,093	71.9	30.5	7.6	23.3	28.2	0.0
2020F	192	51	49	54	1,394	27.5	23.9	5.7	18.8	27.3	0.0

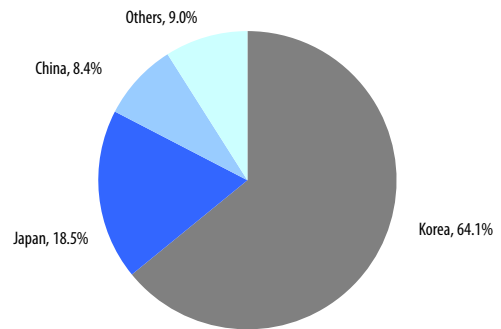
Note: K-IFRS, consolidated

Fig 1. Sales trend



Source: Company data, Hyundai Motor Securities

Fig 2. Sales trend



Source: Company data, Hyundai Motor Securities

Fig 3. Twice



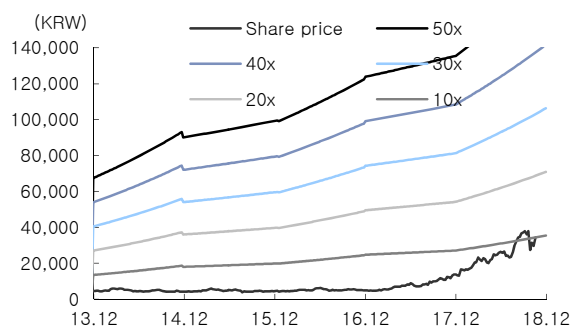
Source: Company data, Hyundai Motor Securities

Fig 4. Stray Kid



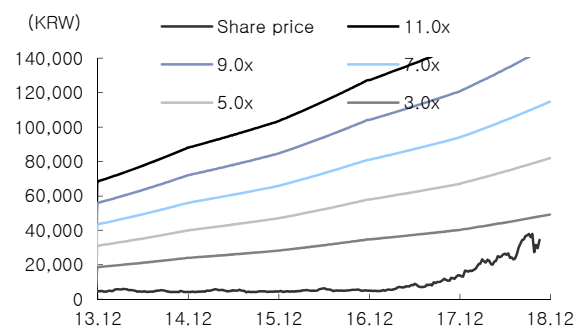
Source: Company data, Hyundai Motor Securities

Fig 5. P/E bands



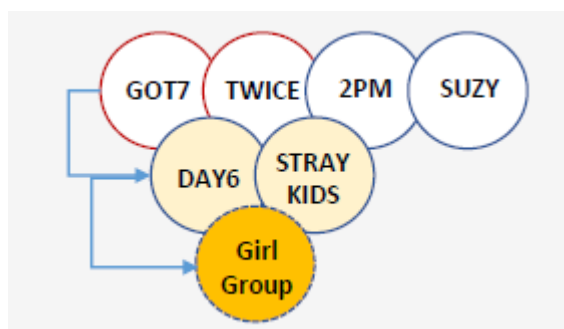
Source: Dataguide, Hyundai Motor Securities

Fig 6. P/B bands



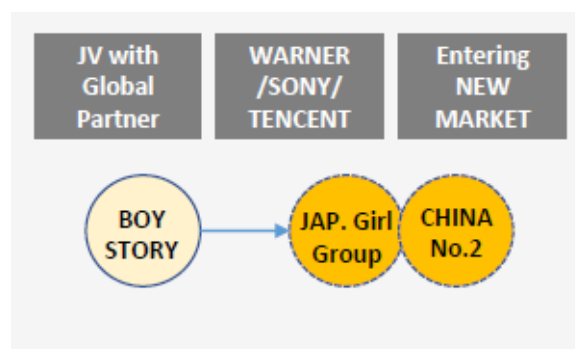
Source: Dataguide, Hyundai Motor Securities

Fig 7. JYP core business



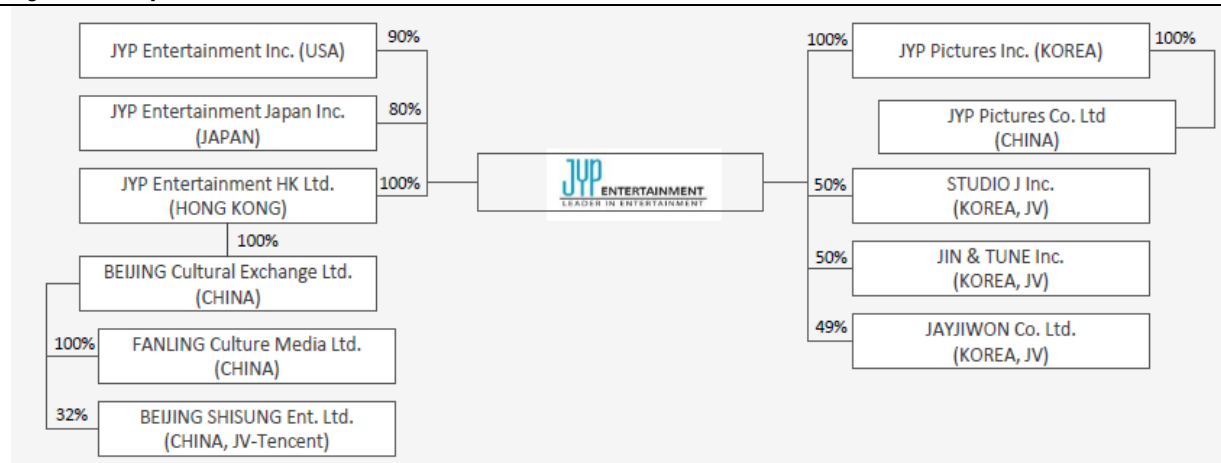
Source: Company data, Hyundai Motor Securities

Fig 8. Global expansion



Source: Company data, Hyundai Motor Securities

Fig 9. Global expansion



Source: Company data, Hyundai Motor Securities

Fig 10. Day6



Source: Company data, Hyundai Motor Securities

Fig 11. Boy Story



Source: Company data, Hyundai Motor Securities

COMPANY NOTE

Income statement

(KRW bn)	2016	2017	2018F	2019F	2020F
Sales	74	102	124	161	192
Change (%)	45.7	38.8	21.7	29.2	19.3
Cost of goods sold	46	63	70	90	108
% of sales	62.9	61.6	56.1	56.2	56.2
Gross profit	27	39	55	70	84
Gross margin (%)	37.1	38.4	43.9	43.8	43.8
Change (%)	74.7	43.7	38.9	29.0	19.3
SG&A expenses	14	20	27	27	33
% of sales	18.4	19.4	21.9	17.0	17.0
EBITDA	16	22	29	46	54
EBITDA margin (%)	22.1	21.8	23.1	28.6	28.1
Change (%)	143.5	37.2	28.9	60.1	17.0
Operating profit	14	19	27	43	51
Operating margin (%)	18.8	19.0	21.9	26.8	26.8
Change (%)	229.0	40.9	40.0	58.1	19.3
Non-operating profit	0	2	2	3	4
Interest income	1	1	2	1	1
Interest expenses	0	1	0	0	0
Other non-operating income	-1	2	0	2	3
Subsidiaries/affiliate income	0	-1	0	4	8
Pretax profit from cont ops	13	21	29	50	63
Pretax margin (%)	17.7	20.6	23.4	30.9	33.1
Change (%)	241.7	61.2	38.0	71.1	27.5
Income tax	5	5	6	10	13
Profit from continuing ops	9	16	23	40	51
Profit from discontinuing ops	0	0	0	0	0
Net profit	9	16	23	40	51
Net margin (%)	11.6	16.0	18.2	24.8	26.5
Change (%)	164.5	92.0	38.4	75.7	27.5
NP from controlling interest	8	16	22	39	49
NP from non-controlling interest	0	0	1	1	2
Other comprehensive income	0	0	1	0	0
Total comprehensive income	8	16	24	40	51

Cash flow

(KRW bn)	2016	2017	2018F	2019F	2020F
Operating cash flow	15	27	32	47	58
Net profit	9	16	23	40	51
Depreciation on tangible assets	0	0	1	3	2
Amortization on intangible assets	2	3	0	0	0
FX-related profit	0	0	0	0	0
Dec (inc) in working capital	0	5	7	4	5
Others	4	2	1	0	0
Investing cash flow	-4	-29	-9	-3	-4
Dec (inc) in investment assets	0	3	0	-1	-1
Decrease in tangible assets	0	0	0	0	0
Increase in tangible assets	0	-25	-10	0	0
Others	-4	-6	1	-3	-3
Financing cash flow	0	2	1	0	0
Increase (decrease) in debt	0	0	0	0	0
Increase (decrease) in bond	0	0	0	0	0
Increase in capital	0	2	4	0	0
Dividend	0	0	0	0	0
Others	0	0	-3	0	0
Other cash flow	0	0	0	0	0
Increase (decrease) in cash	12	1	24	43	54
Beginning cash	13	25	25	50	93
Ending cash	25	25	50	93	147

Note: K-IFRS, consolidated

Balance sheet

(KRW bn)	2016	2017	2018	2019F	2020F
Current assets	293	441	567	665	778
Cash and cash equivalents	170	195	292	367	441
Short-term investment assets	12	4	4	4	5
Accounts receivable	44	121	135	147	166
Inventory assets	11	9	10	10	12
Other current assets	57	112	126	136	154
Non-current assets	232	357	444	442	449
Tangible assets	104	93	98	100	103
Intangible assets	37	113	173	156	141
Investment assets	76	127	142	154	174
Other non-current assets	15	23	32	32	32
Other financial assets	0	0	0	0	0
Total assets	525	798	1,011	1,107	1,228
Current liabilities	135	330	405	447	509
Short-term debt	11	11	79	79	79
Accounts payable	27	124	139	150	170
Current portion of long-term debt	35	37	8	24	40
Other current debt	62	159	179	194	220
Non-current liabilities	15	31	33	35	38
Bonds	0	6	7	7	7
Long-term debt	11	5	4	4	4
LT financial debt (incl. lease)	0	0	0	0	0
Other non-current debt	4	20	23	24	28
Other financial liabilities	0	0	0	0	0
Total liabilities	150	362	438	483	547
Owners of parent equity	329	344	425	468	516
Paid-in capital	11	11	11	11	11
Capital surplus	165	170	213	213	213
Capital adjustment, etc.	22	32	30	30	30
Other accumulations and comp income	1	-3	-9	-9	-9
Retained earnings	131	134	179	222	270
Non-controlling interest	46	91	149	156	165
Total equity	376	436	573	624	680

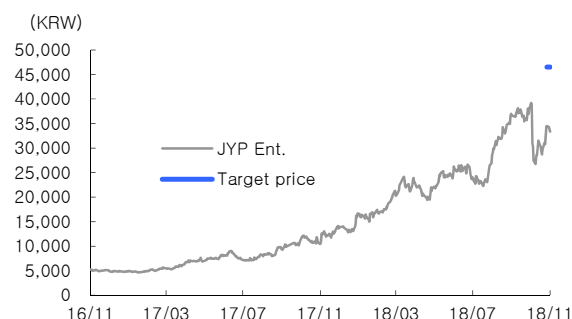
Key financial data

(KRW, x, %)	2016	2017	2018	2019F	2020F
EPS (based on net profit)	250	476	651	1,127	1,437
EPS (based on parent net profit)	246	471	636	1,093	1,394
BPS (based on total equity)	1,969	2,477	3,362	4,489	5,926
BPS (based on owners of parent equity)	1,952	2,452	3,324	4,417	5,811
DPS	0	0	0	0	0
P/E (based on net profit)	19.7	28.9	51.2	29.6	23.2
P/E (based on parent net profit)	20.0	29.2	52.4	30.5	23.9
P/B (based on total equity)	2.5	5.6	9.9	7.4	5.6
P/B (based on owners of parent equity)	2.5	5.6	10.0	7.6	5.7
EV/EBITDA (reported)	8.5	19.6	38.8	23.3	18.8
Dividend yield	0.0	0.0	0.0	0.0	0.0
Growth (%)					
EPS (based on net profit)	164.5	90.2	36.6	73.1	27.5
EPS (based on parent net profit)	162.7	91.2	35.1	71.9	27.5
Profitability (%)					
ROE (based on net profit)	13.5	21.4	22.2	28.7	27.6
ROE (based on parent net profit)	13.4	21.4	21.9	28.2	27.3
ROA	10.6	15.5	16.0	21.7	21.4
Stability (%)					
Total liabilities/equity	29.1	45.1	34.3	30.6	27.6
Net debt/equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage	N/A	N/A	N/A	N/A	N/A

Investment rating and target price history

Date	Rating	TP	Difference (%)	
			Average	High/Low
18/11/22	BUY	46,500		

Two-year price chart



Compliance note

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Stock ratings distribution (October 1, 2017-September 30, 2018)

Rating	Count	% of rating category
BUY	145	90.06
MARKETPERFORM	16	9.94
SELL	0	0.0

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