

J Contentree (036420 KQ)

HJ Kim

hojae.kim@daishin.com

Rating

BUY

maintain

6M TP (₩)

8,200

maintain

CP (₩)
(19.01.04)**4,740**

Media

Quality content to drive future growth

BUY; TP reiterated at ₩8,200

- Our ₩8,200 target price for J Contentree is based on the 12-month forward EPS of ₩284 and a target P/E of 28x, a 20% premium to the since-2011 average of 23x. The valuation premium is justified by the stronger revenue and profit at the media firm's theater-chain Megabox and the bright prospect for the drama business following the profit turnaround at the cable TV unit JTBC that plans to beef up investment in soap opera.

Ratings for new drama "Sky Castle" sky high

- J Contentree's new Drama Sky Castle, co-produced with the company's production arm Drama House and aired on JTBC, is enjoying high viewer ratings (up from 1.7% for the first episode to 15.8% for the fourteenth episode, the highest the cable unit has ever seen). At the current pace (up 1%p with each episode), the 20-episode weekend drama (Friday-Saturday) is set to overtake rival tvN's blockbuster dramas Mr. Sunshine (highest rating: 18.1%) and Goblin (21%) in viewership. The company's dramas are fetching an average rating of 5%, almost double the figure it saw before it started investing in drama intellectual property (IP) in 2017.
- In 2019, the media firm is planning to boost its drama lineup (to 13 titles from 11 in 2018), which will include two tentpole dramas, or productions that cost more than ₩1bn per episode. The expenses will be financed by a ₩150bn rights offer.
- Most of the company's latest dramas, including last year's hit shows Misty and Something in the Rain have landed content deals in key Asian countries. A Beautiful World, set to air in April this year, is also expected to be exported to those markets.
- With China set to open up its market to Korea's cultural content soon, the TV business will serve as the company's future growth driver. We project the TV business to grow at a CAGR of 20%, making up 35% of the company's top-line by 2022 (at ₩320bn), up from 28% in 2017 (at ₩130bn).

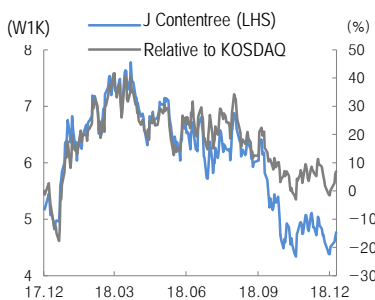
Cinema unit to prop up growth

- Theater-chain operator Megabox is expected to trim profits in 4Q18 (₩7.1n) due to fewer holidays and the weaker performance of Korean-made movies compared to a year-ago period (₩12.5bn).
- Still, its market share jumped to 20% in that quarter as the company continued to expand its fleet of theaters, especially large-scale directly-operated theaters. (Those locations reached a record 12.6% in market share in 4Q18).
- Its revenue is forecast to grow at an average annual pace of 8.4% through 2022.

Industry 4.0 safety rating ■ Neutral Green

KOSDAQ	664.49
Market cap (₩bn)	683
Market cap portion (%)	0.30
Paid-in capital (common; ₩bn)	72
52w high/low (₩)	8,054 / 4,270
120d avg. trading volume (₩bn)	9.5
Foreign ownership (%)	1.83
Major shareholders	Joongang Media Network+1: 33.32%
	National Pension Service: 8.10%

(%)	1M	3M	6M	12M
Abs. return	-7.4	-24.8	-29.6	-6.7
Rel. return	-1.3	-10.7	-15.3	13.5



(Wbn, %)

	4Q17	3Q18	Previous estimate	Daishin estimate	4Q18(F)			1Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	121	157	132	132	8.7	-16.2	135	132	20.0	-0.1
OP	9	18	10	10	19.5	-43.5	12	8	89.9	-26.2
NP	1	10	8	8	987.1	-14.4	6	6	38.5	-23.3

	2016	2017	Previous estimate	Daishin estimate	2018(F)		Growth	
					Change	Consensus	2017	2018(F)
Revenue	335	420	510	510	0.0	513	25.4	21.2
OP	29	33	41	41	0.0	43	15.2	22.4
NP	19	6	25	25	0.0	21	-66.5	291.4

Source: J Contentree FnGuide, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, x)

	2016A	2017A	2018F	2019F	2020F
Revenue	335	420	510	605	687
OP	29	33	41	55	72
Pretax profit	35	24	47	69	88
NP	22	11	36	52	66
NP (controlling int.)	19	6	25	40	51
EPS	169	56	198	278	351
PER	22.9	96.8	24.0	17.1	13.5
BPS	736	1,389	2,399	2,677	3,028
PBR	5.3	3.9	2.0	1.8	1.6
ROE	26.3	5.3	10.0	11.0	12.3

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

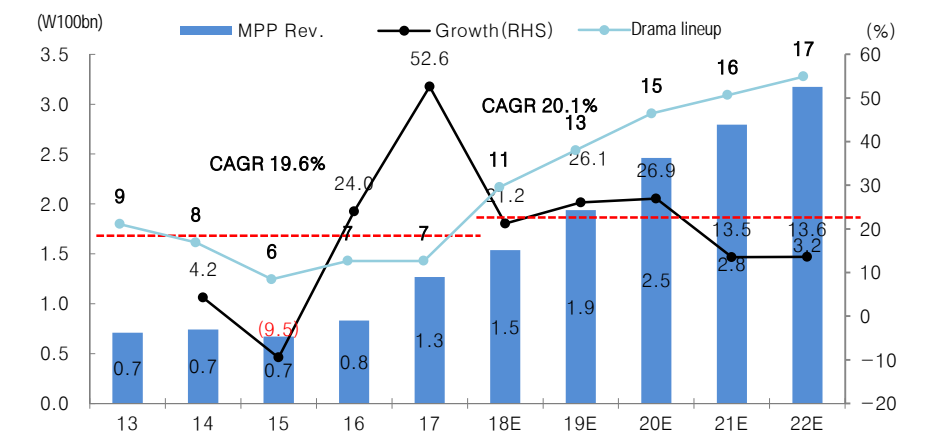
Earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Change	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	510	605	510	605	0.0	0.0
SG&A expense	202	253	202	253	0.0	0.0
OP	41	55	41	55	0.0	0.0
OP margin	8.0	9.2	8.0	9.2	0.0	0.0
Non-operating profit	6	14	6	14	0.0	0.0
Pretax profit	47	69	47	69	0.0	0.0
NP (contr. int.)	25	40	25	40	0.0	0.0
NP margin	7.1	8.6	7.1	8.6	0.0	0.0
EPS (contr. int.)	198	278	198	278	0.0	0.0

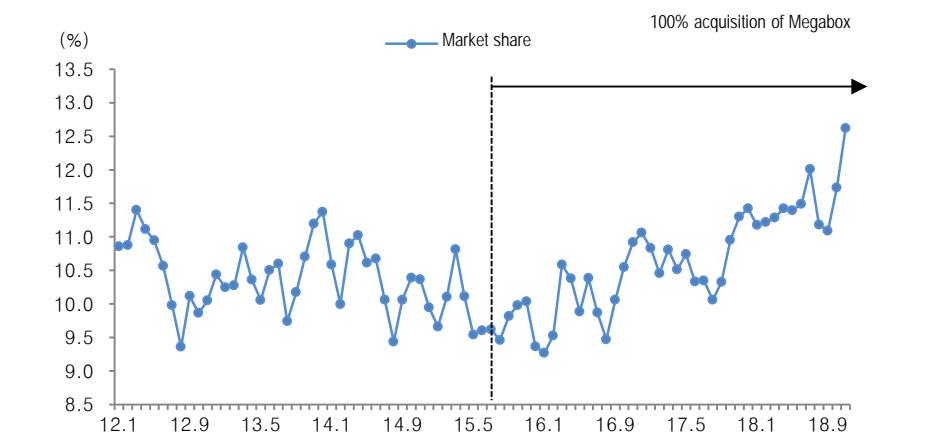
Source: J Contentree, Daishin Securities Research Center

Fig 1. TV revenue to grow at a CAGR of 20.1%



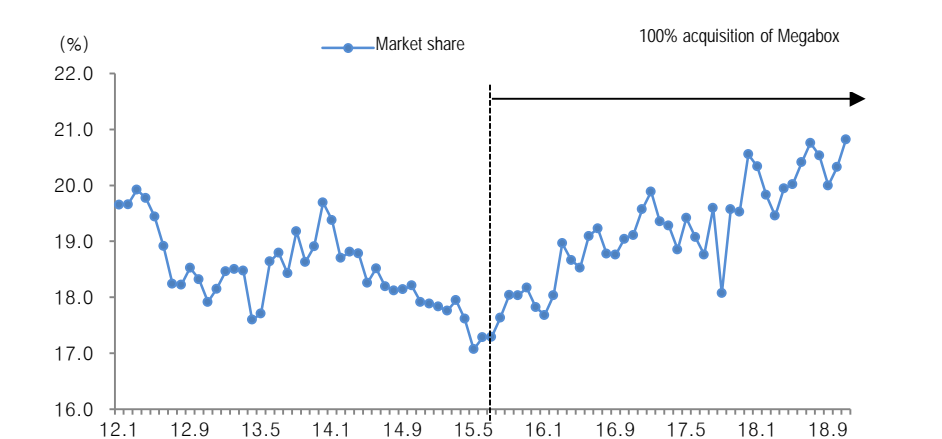
Source: J Contentree, Daishin Securities Research Center

Fig 2. Market share of Megabox's directly-operated theaters expand



Source: J Contentree, Daishin Securities Research Center

Fig 3. Megabox's market share expand



Source: J Contentree, Daishin Securities Research Center

Fig 4. Megabox's revenue to grow at a CAGR of 8.4% through 2022

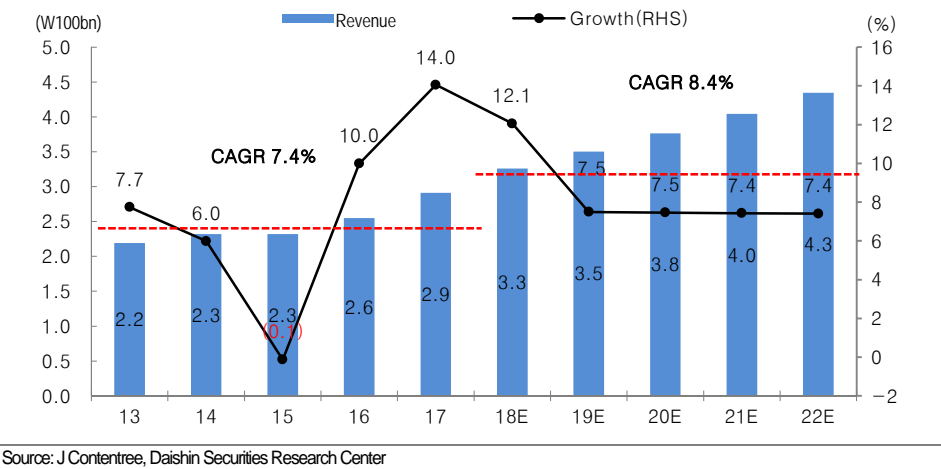
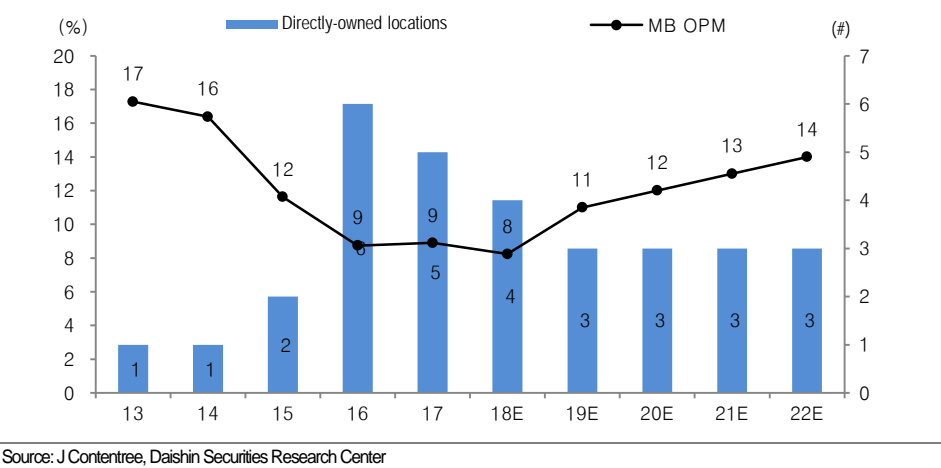


Fig 5. Directly-owned locations boost profit



Company profile

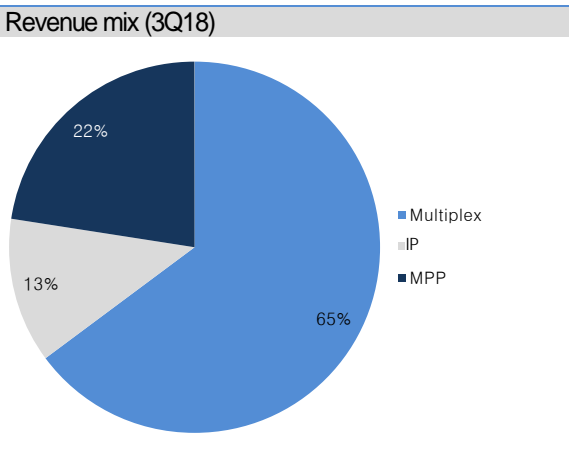
Overview

- 2017 performance: Revenue W420.3bn, OP W33.3bn, NP W10.9bn
- Major shareholders: Joongang Holdings 32.26%, National Pension Service 8.13%

Stock movement

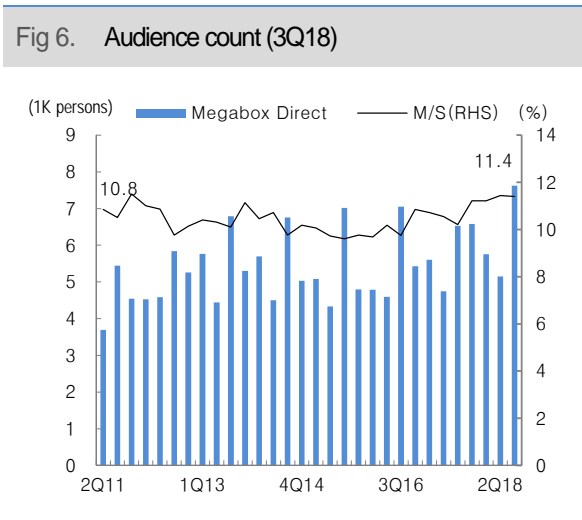
- Viewer ratings for SKY Castles are skyrocketing
- Drama lineups to expand (including two tentpole dramas) in 2019

Source: J Contentree, Daishin Securities Research Center

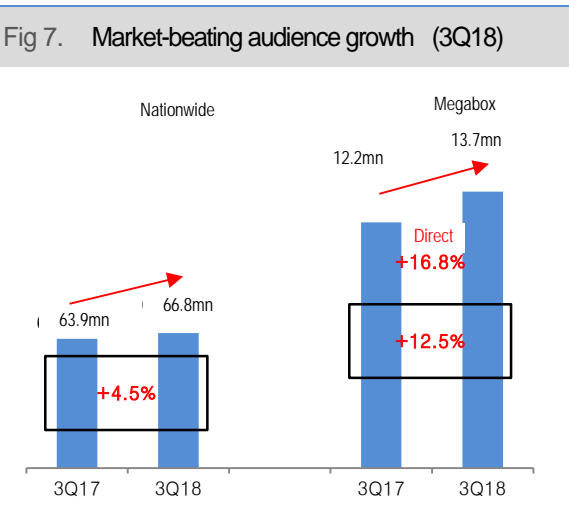


Source: J Contentree, Daishin Securities Research Center

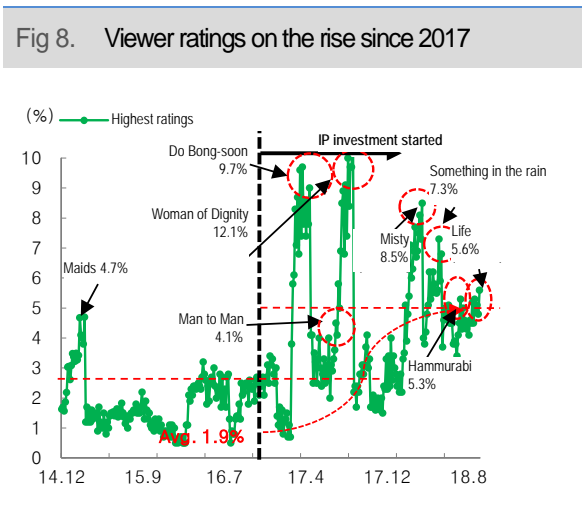
Earnings drivers



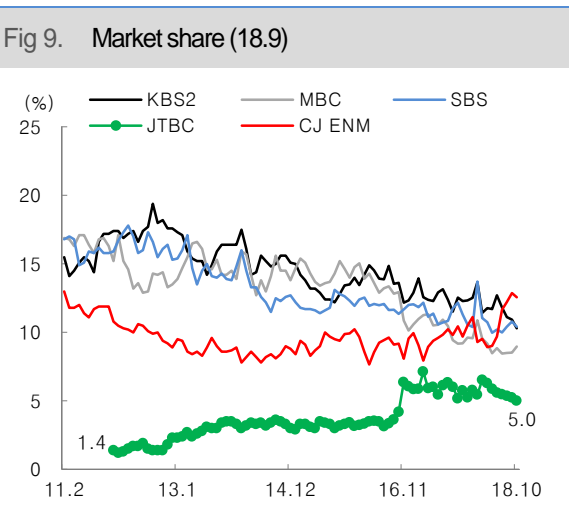
Source: J Contentree, Daishin Securities Research Center



Source: J Contentree, Daishin Securities Research Center



Source: AGB Nielson, Daishin Securities Research Center



Source: CJ ENM, Daishin Securities Research Center

Financial statements

Income statement		(Wbn)				
	2016A	2017A	2018F	2019F	2020F	
Revenue	335	420	510	605	687	
Cost of goods sold	153	200	267	296	348	
Gross profit	183	221	242	309	339	
S&A expenses	154	187	202	253	267	
OP	29	33	41	55	72	
OP margin	8.6	7.9	8.0	9.2	10.4	
EBITDA	43	59	60	75	92	
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	47	69	88	
Income tax expense	-9	-13	-11	-17	-22	
Income from cont. op.	26	11	36	52	66	
Income from discount. op.	-3	0	0	0	0	
NP	22	11	36	52	66	
NP margin	6.7	2.6	7.1	8.6	9.6	
NP for non-contr. interest	3	4	11	12	15	
NP for contr. interest	19	6	25	40	51	
Valuation of AFS fin. assets	2	-2	-2	-2	-2	
Other compreh. income	0	0	0	0	0	
Comprehensive income	25	9	35	50	64	
Comp. income for non-contr. int.	3	4	11	12	15	
Comp. income for contr. int.	22	5	24	39	49	

Valuation metrics		(W, x, %)				
	2016A	2017A	2018F	2019F	2020F	
EPS	169	56	198	278	351	
PER	22.9	96.8	24.0	17.1	13.5	
BPS	736	1,389	2,399	2,677	3,028	
PBR	5.3	3.9	2.0	1.8	1.6	
EBITDAPS	376	519	471	522	639	
EV/EBITDA	16.6	14.4	12.4	9.6	7.4	
SPS	2,938	3,685	3,999	4,196	4,766	
PSR	1.3	1.5	1.1	1.1	1.0	
CFPS	340	539	555	616	739	
DPS	0	0	0	0	0	

Financial ratios		(W, x, %)				
	2016A	2017A	2018F	2019F	2020F	
Growth potential						
Sales growth	9.6	25.4	21.2	18.6	13.6	
OP growth	-12.0	15.2	22.4	35.7	29.2	
NP growth	14.1	-51.4	234.5	42.8	26.3	
Profitability						
ROIC	7.7	4.5	8.8	11.1	13.8	
ROA	5.8	5.5	5.3	6.4	8.2	
ROE	26.3	5.3	10.0	11.0	12.3	
Stability						
Debt ratio	340.1	180.8	110.9	82.7	75.2	
Net borrowings ratio	183.4	65.1	-3.2	-8.2	-14.6	
Interest coverage ratio	3.1	3.8	5.3	11.5	16.1	

Source: J Contentree, Daishin Securities Research Center

Balance sheet		(Wbn)				
	2016A	2017A	2018F	2019F	2020F	
Current assets	136	208	428	376	426	
Cash & cash equiv.	55	49	256	190	228	
Trade & other receive.	47	85	98	112	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	892	846	900	
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	346	386	436	
Capital stock	57	57	72	72	72	
Capital surplus	-51	14	161	161	161	
Retained earnings	69	75	100	140	191	
Other capital changes	9	12	12	12	12	
Non-controlling interest	41	77	77	77	77	
Total shareholder's equity	125	236	423	463	514	
Net borrowings	229	153	-13	-38	-75	

Cash flow statement		(Wbn)				
	2016A	2017A	2018F	2019F	2020F	
Operating cash flows	18	-4	41	57	73	
NP	22	11	36	52	66	
Non-cash items	16	51	34	37	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	15	17	20	
Chg in assets & liab.	-5	-42	-17	-18	-16	
Other cash flows	-15	-23	-12	-14	-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	206	-65	37	
Beginning cash balance	33	55	49	256	190	
Ending cash balance	55	49	256	190	228	
NOPLAT	21	15	31	42	54	
FCF	-57	7	21	36	49	

[Daishin House View: Industry 4.0 safety rating]

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- 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]

