

## Media/entertainment



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Rating **STRONG BUY (M)**

Target price **W11,000 (M)**

Current price (Jan 3) **W4,645**

Upside potential **137%**

Market cap (Wbn)	683
Shares outstanding	144,068,982
Avg daily T/O (2M, Wbn)	8
Avg daily volume (2M, shrs)	1,576,552
52-week high (won)	8,054
52-week low (won)	4,270
Foreign ownership (%)	1.8
Major shareholders (%)	
JoongAng Holdings & other	33.3

### Stock performance

(%)	1M	3M	12M
Absolute	(7.4)	(24.8)	(6.7)
Relative	(1.3)	(10.7)	13.5
Abs (US\$)	(9.0)	(24.4)	(11.8)

## Blockbuster dramas to air in 2H19

### 4Q18 preview

- Jcontentree's 4Q18 consolidated sales likely came to W145.2bn (+20% YoY), OP W10.1bn (+17% YoY), and net profit attributable to controlling interest W4.8bn (+521% YoY). **We estimate film OP at W5.3bn (Megabox W5.0bn, investment/distribution W0.3bn) and broadcasting at W4.8bn (parent IP investment W2.0bn, JTBC Content Hub W2.8bn).**
- **Film:** In 4Q18, Korean box-office ticket sales fell 9% YoY to 53.17mn. The market share of Megabox's directly-run cinemas rose from 11.2% in 1Q18 to 11.4% in 2Q18, 11.4% in 3Q18, and 12.2% in Oct~Nov 2018. Assuming their market share at 12.0% in 4Q18, tickets sold by the directly-run cinemas likely fell 3% YoY to 6.38mn. The number of directly-run cinemas rose from 35 in 4Q16 to 40 in 4Q17 and 41 in 4Q18 (Sangam branch). Megabox OP in 4Q18 likely came to W5.0bn, below the level seen before the company suffered a huge one-off expense two years ago. Investment/distribution OP of W0.3bn likely came from "Door Lock." ► **Broadcasting:** There are many factors in 4Qs that affect earnings, such as amortization of intangible assets and allocation of bad debt reserves. Assuming there was no special event, 4Q18 broadcasting OP likely rose 45% QoQ to W4.8bn. In 3Q18, broadcasting OP would have come to W6.0bn~6.5bn, excluding amortization of intangible assets. **Major factors for 4Q18 earnings are some overseas sales of "Life" (Japan) and "Something in the Rain."** "Beauty Inside" and "The Third Charm" also likely generated revenue from Netflix transmission rights and other overseas sales.

### Blockbuster dramas to air in 2H19

- Both of JTBC's two blockbuster dramas in 2019 will be programmed in 2H19. One of them, "My Country," has been already revealed by the media. **A historic drama set at the end of the Goryeo Dynasty and early-Joseon Dynasty**, it will be directed by Kim Jin-won and written by Chae Seung-dae, and star Yang Se-jong and Wu Do-hwan. The production cost is about W1bn per episode. **After deducting about W300bn of Megabox's value estimate from total market cap, the company's broadcasting/drama market cap is about W370bn, just 13% of Studio Dragon's current market cap of W2.83tn.** In valuing Jcontentree's broadcasting/drama business, three discount factors (even considering these, Jcontentree shares are undervalued) should be taken into account: 1) Jcontentree will invest in/produce 20 dramas in 2020, vs 40 at Studio Dragon; 2) parent Jcontentree owns 42.4% of JTBC Content Hub; and 3) it has a lower drama project margin than Studio Dragon. The third factor can be dispelled significantly, as the firm plans to acquire a production firm, thus improving in-house production capabilities. As the company's plan will become visible in 2019, we advise investors to buy shares now while they are undervalued.

### Quarterly earnings

(Wbn)	4Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	145	19.9	-7.5	135	7.7
OP	10	17.0	-44.7	12	-16.4
Pre-tax net profit	9	285.2	-43.3	10	-12.5
Net profit, CI	5	520.5	-51.1	6	-20.0
OPM (%)	6.9	-0.2 %pt	-4.7 %pt	9.0	-2.1 %pt
NPM (%)	3.3	+2.7 %pt	-2.9 %pt	4.4	-1.1 %pt

Source: Yuanta Securities

### Forecasts and valuations (K-IFRS, consolidated)

	2016A	2017A	2018E	2019E
FY ends Dec				
Sales	335	420	523	678
OP	29	33	41	77
Net profit, CI	19	6	22	37
P/E (x)	26.9	78.2	31.6	18.5
P/B (x)	6.1	3.1	2.0	1.8
EV/EBITDA	17.8	12.2	9.6	6.4
ROE (%)	26.3	5.3	8.8	10.4

Source: Yuanta Securities

## Jcontentree (036420 KS) pro forma financial statements (K-IFRS, consolidated)

## Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Sales</b>	<b>335</b>	<b>420</b>	<b>523</b>	<b>678</b>	<b>770</b>
Cost of sales	153	200	275	331	370
Gross profit	183	221	248	347	399
SG&A	154	187	207	271	303
<b>Operating profit</b>	<b>29</b>	<b>33</b>	<b>41</b>	<b>77</b>	<b>96</b>
EBITDA	43	59	82	117	126
Non-op profit/loss	6	-9	2	-3	-2
Forex gain/loss	0	-1	0	0	0
Net interest income	-1	-5	-1	-3	-2
Equity-meth gain/loss	7	0	0	0	0
Other	0	-3	2	0	0
Net profit before income tax	35	24	42	73	94
Income tax	9	13	10	18	23
Net profit from continuing ops	26	11	33	56	71
Net profit from discontinued ops	-3	0	0	0	0
Net profit	22	11	33	56	71
<b>NP for controlling interest</b>	<b>19</b>	<b>6</b>	<b>22</b>	<b>37</b>	<b>49</b>
Total comprehensive income	25	9	33	56	71
Total comprehensive income, CI	22	5	21	33	43

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

## Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Current assets</b>	<b>136</b>	<b>208</b>	<b>401</b>	<b>443</b>	<b>523</b>
Cash & cash equivalents	55	49	207	227	290
Accts rec & other	47	85	103	118	131
Inventory	23	24	22	30	34
Non-current assets	414	454	463	439	425
Tangible assets	213	193	198	196	193
Investment in affiliates	1	0	1	1	1
Other non-current	67	81	87	87	87
<b>Total assets</b>	<b>550</b>	<b>662</b>	<b>863</b>	<b>882</b>	<b>949</b>
Current liabilities	330	289	263	239	256
Accts payable & other	67	127	122	126	143
ST financial liabilities	193	60	119	91	91
Liquid LT liabilities	35	81	1	1	1
Non-current liabilities	96	138	124	124	124
LT financial liabilities	24	74	81	81	81
Debentures	35	20	0	0	0
<b>Total liabilities</b>	<b>425</b>	<b>426</b>	<b>387</b>	<b>363</b>	<b>380</b>
Equity, controlling interest	84	158	335	372	421
Paid-in capital	57	57	72	72	72
Capital surplus	-51	14	154	154	154
Retained earnings	69	75	97	134	184
Equity, non-controlling interest	41	77	141	147	147
<b>Total equity</b>	<b>125</b>	<b>236</b>	<b>476</b>	<b>519</b>	<b>568</b>
<b>Net debt</b>	<b>236</b>	<b>172</b>	<b>-38</b>	<b>-85</b>	<b>-148</b>
Total debt	294	254	218	190	190

## Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Operating cash flow</b>	<b>18</b>	<b>-4</b>	<b>29</b>	<b>88</b>	<b>112</b>
Net profit	22	11	33	56	71
Depreciation & amortization	13	16	18	18	19
Forex gain/loss	0	0	0	0	0
Affiliate invest gain/loss	-2	0	0	0	0
Inc (dec) in net working cap	-5	-42	-36	0	20
Other	-9	11	15	14	2
<b>Investing cash flow</b>	<b>-66</b>	<b>-75</b>	<b>-43</b>	<b>-20</b>	<b>-20</b>
Investment	16	-5	-2	0	0
Inc in tangible assets	-91	-33	-24	-16	-16
Dec in tangible assets	0	0	1	0	0
Other	9	-38	-18	-4	-4
<b>Financing cash flow</b>	<b>70</b>	<b>73</b>	<b>117</b>	<b>-31</b>	<b>-3</b>
Inc (dec) in ST fin liab	34	-133	18	-28	0
Inc (dec) in LT fin liab	15	85	-53	0	0
Inc (dec) in equity	0	0	155	0	0
Cash dividend	0	0	-1	-1	-1
Other	22	120	-2	-2	-2
Other cash flow	0	0	55	-17	-25
<b>Inc (dec) in cash &amp; equivalents</b>	<b>23</b>	<b>-6</b>	<b>158</b>	<b>20</b>	<b>63</b>
Beginning cash & equivalents	33	55	49	207	227
Ending cash & equivalents	55	49	207	227	290
<b>NOPLAT</b>	<b>29</b>	<b>33</b>	<b>41</b>	<b>77</b>	<b>96</b>
<b>FCF</b>	<b>-61</b>	<b>-34</b>	<b>13</b>	<b>83</b>	<b>106</b>

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuanta Securities

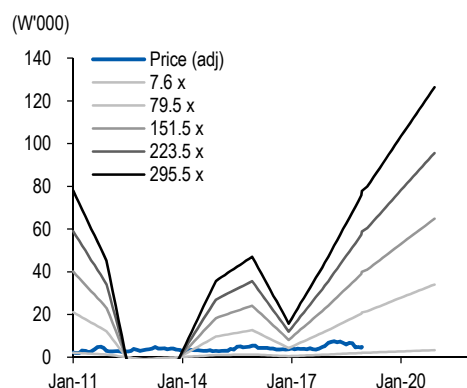
## Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	159	53	150	256	343
BPS (won)	704	1,328	2,349	2,607	2,954
EBITDA/shr (won)	376	519	566	811	873
SPS (won)	2,773	3,477	3,631	4,709	5,342
DPS (won)	0	0	0	0	0
<b>P/E (x)</b>	<b>26.9</b>	<b>78.2</b>	<b>31.6</b>	<b>18.5</b>	<b>13.8</b>
<b>P/B (x)</b>	<b>6.1</b>	<b>3.1</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>
<b>EV/EBITDA (x)</b>	<b>17.8</b>	<b>12.2</b>	<b>9.6</b>	<b>6.4</b>	<b>5.4</b>
<b>P/S (x)</b>	<b>1.5</b>	<b>1.2</b>	<b>1.3</b>	<b>1.0</b>	<b>0.9</b>

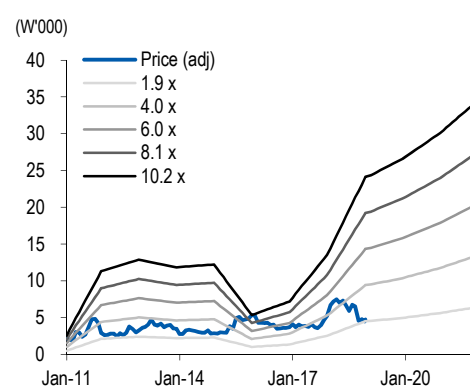
## Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
<b>Sales (% YoY)</b>	<b>9.6</b>	<b>25.4</b>	<b>24.4</b>	<b>29.7</b>	<b>13.4</b>
<b>Operating profit (%YoY)</b>	<b>-12.0</b>	<b>15.2</b>	<b>21.8</b>	<b>88.9</b>	<b>25.3</b>
<b>Net profit, CI (%YoY)</b>	<b>68.4</b>	<b>-66.5</b>	<b>235.8</b>	<b>70.8</b>	<b>33.9</b>
Gross margin (%)	54.5	52.5	47.4	51.2	51.9
<b>Operating margin (%)</b>	<b>8.6</b>	<b>7.9</b>	<b>7.8</b>	<b>11.3</b>	<b>12.5</b>
Net margin, CI (%)	5.7	1.5	4.1	5.4	6.4
EBITDA margin (%)	12.8	14.1	15.6	17.2	16.3
ROIC (%)	9.3	5.6	11.7	21.0	27.2
ROA (%)	3.8	1.1	2.8	4.2	5.4
<b>ROE (%)</b>	<b>26.3</b>	<b>5.3</b>	<b>8.8</b>	<b>10.4</b>	<b>12.5</b>
Debt-to-equity (%)	340.1	180.8	81.3	70.0	66.9
Net debt-to-equity (%)	280.6	108.4	-11.2	-22.9	-35.2
OP/financing cost (x)	3.1	3.8	20.3	10.5	13.2

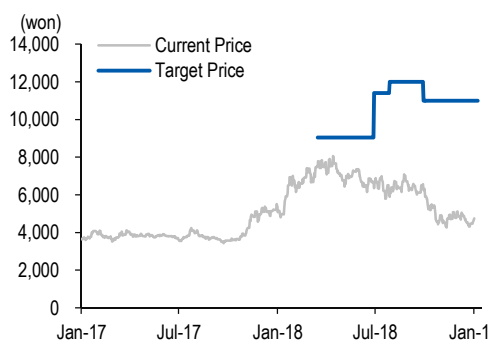
P/E band chart



P/B band chart



Jcontentree (036420 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2019/01/07	Strong Buy	11,000	1 yr		
2018/10/02	Strong Buy	11,000	1 yr		
2018/07/02	Strong Buy	11,411	1 yr	-43.70	-38.04
2018/03/19	BUY	9,034	1 yr	-20.79	-10.85

Note: Difference = (actual price\* - target price) / target price x 100

\* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.6
BUY	85.3
HOLD	12.6
SELL	0.5
Total	100.0

Note: As of Jan 4

Excluding reports written or published by overseas affiliates

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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