

Nasmedia (089600 KQ)

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Rating

BUY
maintain

6M TP (₩)

51,000
maintain
CP (₩)
(19.01.17)
30,850

Media

At the end of a long, winding road

BUY and 6M TP of ₩51,000 maintained

- The target price is derived by applying a target P/E of 20x to the 12-month forward EPS of ₩2,569.

4Q18 preview (consolidated): Revenue ₩27.3bn (-12% yoy), OP ₩7.2bn (-28% yoy)

- Non-consolidated OP likely fell 19% yoy to ₩6.2bn on higher media commissions and a high comparison base of 4Q17 when IPTV operators benefitted from the labor strikes at terrestrial broadcasters. Digital out of home (DOOH) and online ads likely remained flat yoy.

- Subsidiary PlayD is expected to see OP drop 57% yoy to ₩1.0bn as the attraction of large advertisers resulted in deeper rate discounts and the search ad business faced intensified competition.

2019 preview (consolidated): Revenue ₩112.3bn (+6% yoy), OP ₩30.1bn (+18% yoy)

- On a non-consolidated basis, revenue and OP are forecast at ₩77.6bn (up 7% yoy) and ₩24.9bn (up 20% yoy), respectively, with OP margin likely up 4%p yoy to 32%.

- We project the domestic online ad market to expand 9% yoy in 2019, driven by mobile/video ads (YouTube). Nasmedia's mobile ad platform Nswitch will be on a stable footing, supported by sophistication of fraud detection algorithm, recovering CPI marketing demand, and expanding distribution network (both domestic and overseas).

- Nasmedia's global business will be in full swing. Demand for marketing on Chinese media outlets had already begun to rise in 4Q18. The media agency will gain a foothold in the local market via its Thai subsidiary (established in August 2018) and strengthen its ties with domestic game developers this year.

- IPTV commission rates, the largest detractor to the company's profitability, will return to normal levels when Nasmedia renews its annual contracts with media firms. Seoul Metro, which runs subway lines 5, 6, 7, and 8 in Seoul, will not likely keep the low-performing ad spots, hurting the company's DOOH top-line. (Seoul Metro accounts for about 80% of DOOH revenue.) But this will help slash media purchase costs by about ₩2bn, which, together with renewed deals with key advertisers, will greatly contribute to companywide margins.

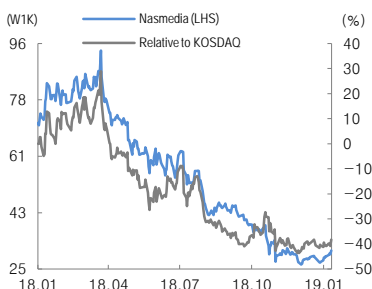
- PlayD is forecast to report OP of ₩5.1bn (up 5% yoy) on revenue of ₩34.7bn (up 5% yoy) this year as the now-normalizing commission rates, new large advertisers, and cost controls (pre-emptive staffing) will help stabilize the company's operations.

- Nasmedia is Korea's largest media representative that offers all types of digital media planning services. Its valuations will grab investors' attention as individual operations undergo structural changes that will help get the company back on a growth trajectory and improve margins. Its 12-month forward P/E is the lowest among peers at 11x despite the highest OP growth forecast of 18% yoy.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	686.35
Market cap (₩bn)	270
Market cap portion (%)	0.12
Paid-in capital (common; ₩bn)	4
52w high/low (₩)	93,700 / 26,450
120d avg. trading volume (₩bn)	1.6
Foreign ownership (%)	14.85
Major shareholders	KT+1: 59.76%

(%)	1M	3M	6M	12M
Abs. return	9.0	-18.0	-40.3	-60.3
Rel. return	5.1	-11.6	-28.7	-48.8



(₩bn, %)

	4Q17	3Q18	Previous estimate	Daishin estimate	4Q18(F)			1Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	31	25	27	27	-11.9	9.6	27	26	-2.2	-3.1
OP	10	5	7	7	-27.9	43.7	8	8	6.6	4.3
NP	7	4	5	5	-27.6	29.9	6	5	0.7	3.8

Operating results and major financial data (Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	70	120	106	112	123
OP	15	34	26	30	34
Pretax profit	16	35	26	31	35
NP (contr. int.)	12	25	19	22	25
EPS	1,413	2,805	2,202	2,569	2,884
PER	28.0	26.6	14.0	12.0	10.7
BPS	11,207	13,659	15,171	17,190	19,374
PBR	3.5	5.5	2.0	1.8	1.6
ROE	14.1	22.6	15.3	15.9	15.8

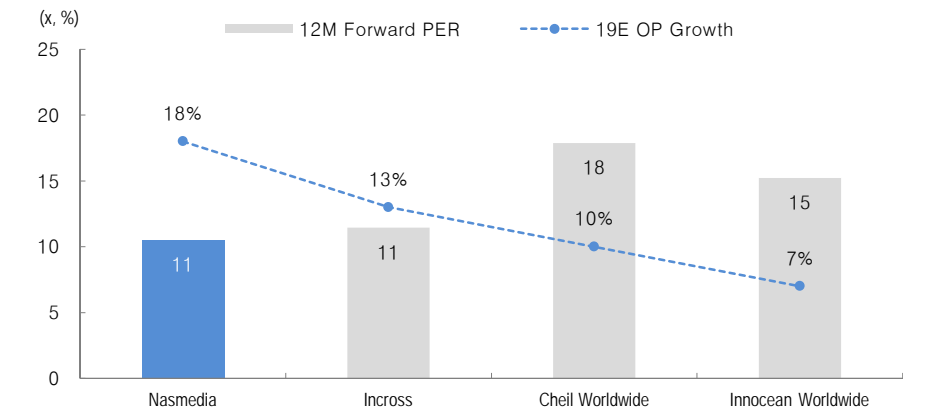
Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Nasmedia, Daishin Securities Research Center

Yearly earnings forecast revision (Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	106	119	106	112	0.0	-5.3
Selling & adm. expense	80	88	80	82	0.0	-7.0
OP	26	30	26	30	0.0	-0.2
OP margin	24.2	25.4	24.2	26.8	0.0	1.4
Non-operating profit	1	1	1	1	0.0	33.3
Pretax profit	26	31	26	31	0.0	0.5
NP (controlling int.)	19	22	19	22	0.0	0.5
NP margin	19.4	20.1	19.4	21.3	0.0	1.2
EPS (controlling int.)	2,202	2,557	2,202	2,569	0.0	0.5

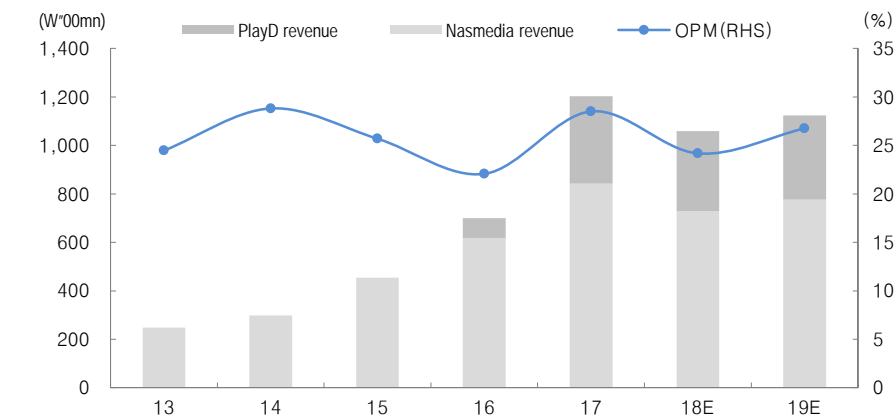
Source: Nasmedia, Daishin Securities Research Center

Fig 1. Major domestic ad agencies' 12M P/E and OP growth (2019E)



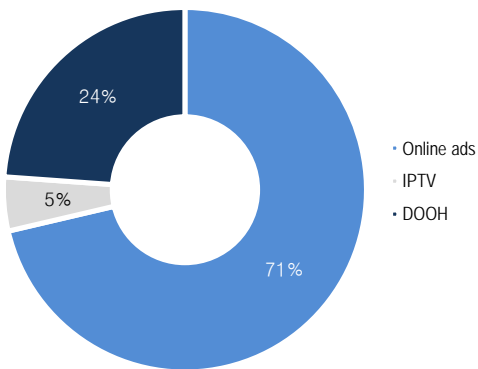
Source: Dataguide, Daishin Securities Research Center estimates

Fig 2. Nasmedia's yearly results



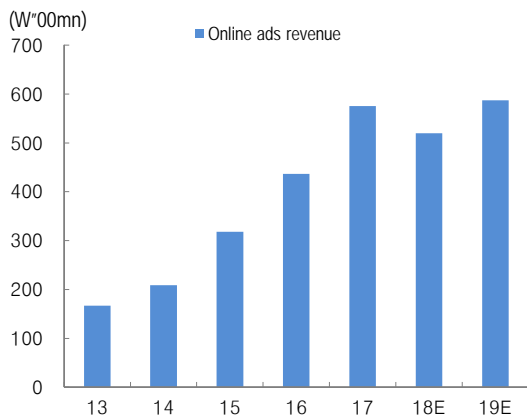
Source: Nasmedia, Daishin Securities Research Center estimates

Fig 3. Nasmedia's non-consoli. results mix (2018E)



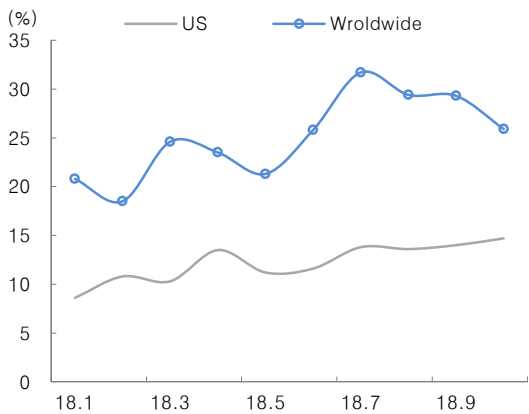
Source: Nasmedia, Daishin Securities Research Center estimates

Fig 4. Online ads revenue



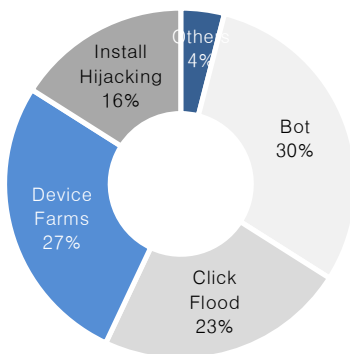
Source: Nasmedia, Daishin Securities Research Center estimates

Fig 5. Mobile app install fraud rate



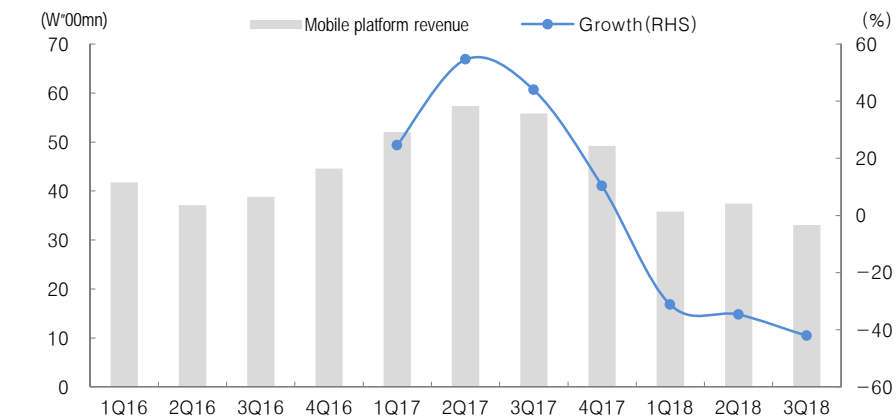
Source: AppsFlyer, Daishin Securities Research Center

Fig 6. App install fraud distribution by type



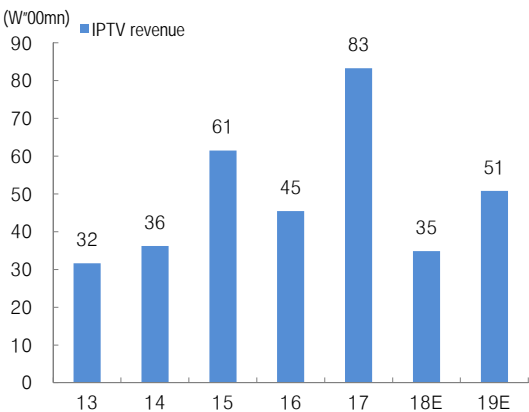
Source: AppsFlyer, Daishin Securities Research Center estimates

Fig 7. Nasmedia's mobile platform revenue



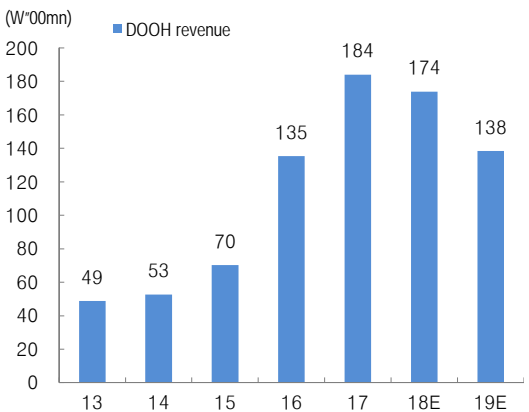
Source: Nasmedia, Daishin Securities Research Center estimates

Fig 8. IPTV revenue



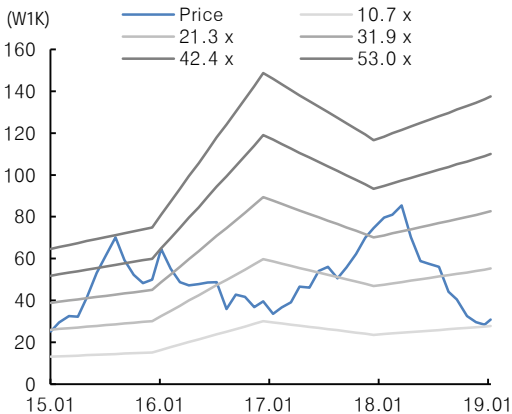
Source: Nasmedia, Daishin Securities Research Center estimates

Fig 9. DOOH revenue



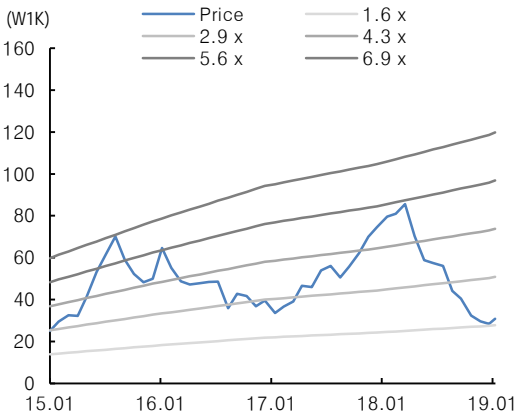
Source: Nasmedia, Daishin Securities Research Center estimates

Fig 10. Nasmedia 12M Forward PER Band



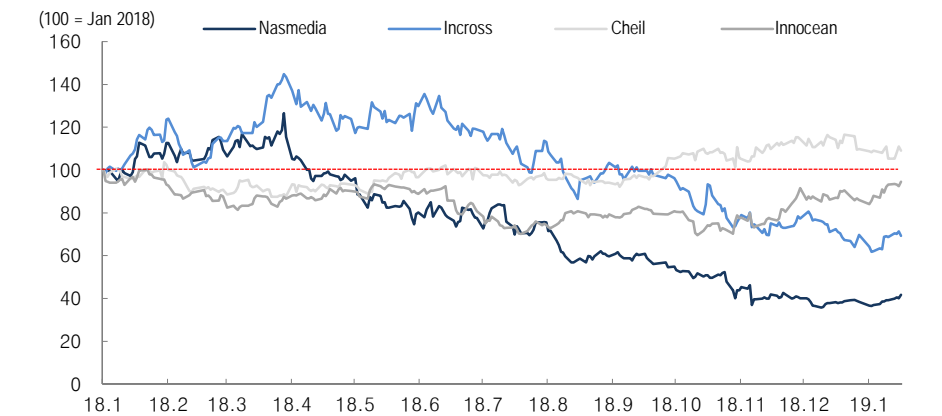
Source: Wisefn, Daishin Securities Research Center

Fig 11. Nasmedia 12M Forward PBR Band



Source: Wisefn, Daishin Securities Research Center

Fig 12. Domestic major ad agencies' share prices (100 = Jan 2018)

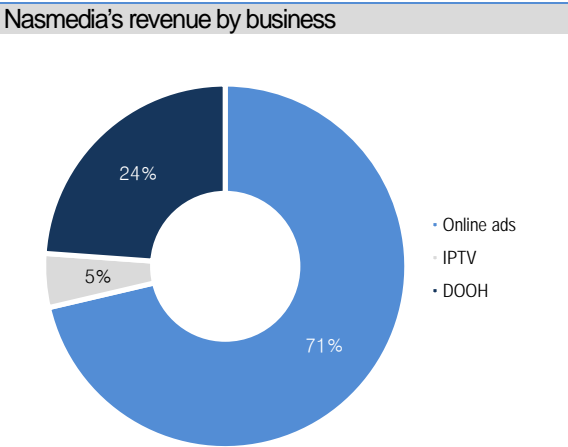


Source: Dataguide, Daishin Securities Research Center

1. Company profile

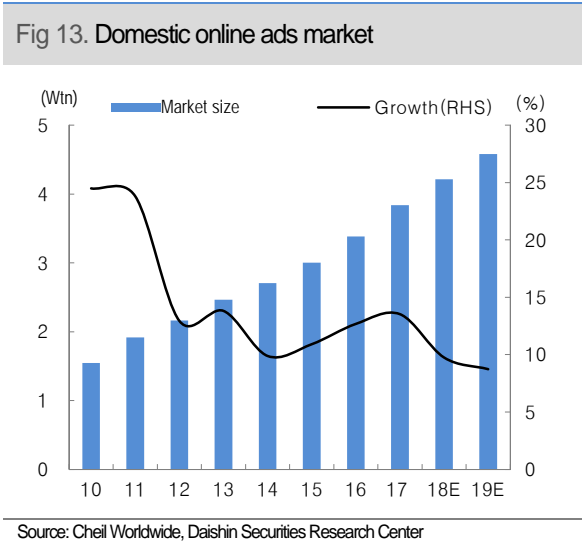
Overview
- 2017 consolidated results: revenue W120.3bn, OP W34.3bn, NP W26.7bn
- 2017 non-consolidated results: revenue W84.3bn, OP W25.7bn, NP W20.2bn
- 2017 revenue breakdown: online 68%, IPTV 10%, DOOH 22%
- Shareholders (3Q18): KT 42.75%, Jeong Ki-ho 14.84%, others 39.79%
Share price catalysts
- Korea's largest media representative
- Individual ops are expected to undergo structural changes, which will put Nasmedia back on a growth trajectory and boost margins
- Currently trading at 2019E P/E of 11x (the lowest among peers)

Source: Nasmedia, Daishin Securities Research Center

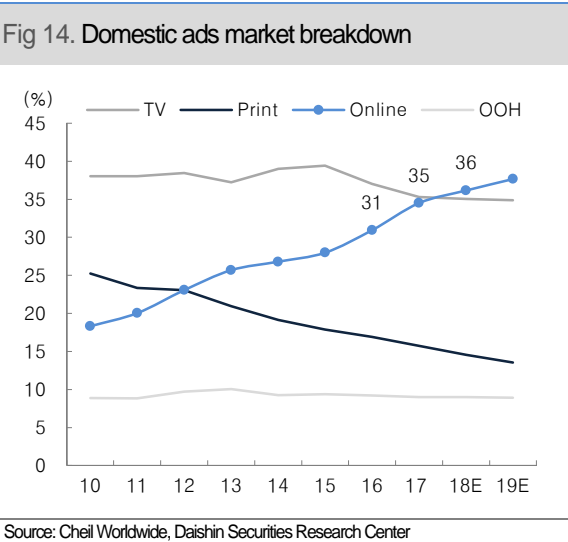


Source: Nasmedia, Daishin Securities Research Center

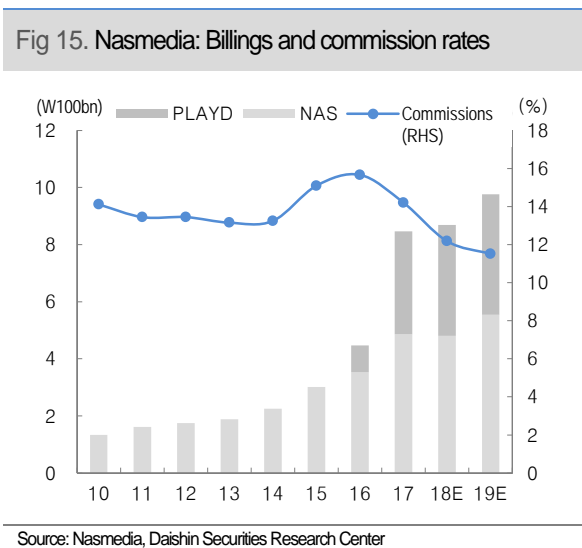
2. Earnings drivers



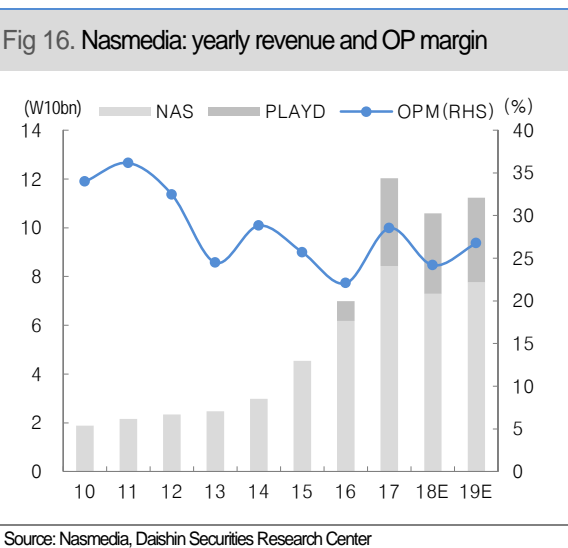
Source: Cheil Worldwide, Daishin Securities Research Center



Source: Cheil Worldwide, Daishin Securities Research Center



Source: Nasmedia, Daishin Securities Research Center



Source: Nasmedia, Daishin Securities Research Center

Financial statements

Income statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Sales	70	120	106	112	123
Cost of goods sold	0	0	0	0	0
Gross profit	70	120	106	112	123
S&A expenses	55	86	80	82	89
OP	15	34	26	30	34
OP margin	22.1	28.5	24.2	26.8	27.5
EBITDA	17	37	28	33	36
Non-OP	0	1	1	1	1
Income from affiliates	0	0	0	0	0
Financial revenue	1	1	1	1	1
FX related gains	0	0	0	0	0
Financial expense	0	0	-1	-1	-1
FX related losses	0	0	0	0	0
Others	0	0	0	0	0
Income before taxes	16	35	26	31	35
Income tax expense	-4	-8	-6	-7	-8
Income from cont. op.	12	27	21	24	27
Income from discount op.	0	0	0	0	0
NP	12	27	21	24	27
NP margin	17.1	22.2	19.4	21.3	21.8
NP for non-cont. interest	0	2	1	1	2
NP for contr. interest	12	25	19	22	25
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-2	0	0	0	0
Comprehensive income	10	27	21	24	27
Comp. income for non-cont. int.	0	2	1	1	2
Comp. income for contr. int.	10	25	19	23	25

Valuation metrics (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
EPS	1,413	2,805	2,202	2,569	2,884
PER	28.0	26.6	14.0	12.0	10.7
BPS	11,207	13,659	15,171	17,190	19,374
PBR	3.5	5.5	2.0	1.8	1.6
EBITDAPS	2,014	4,264	3,227	3,713	4,131
EV/EBITDA	19.4	16.7	8.5	6.8	5.5
SPS	8,365	13,738	12,090	12,830	14,082
PSR	4.7	5.4	2.3	2.3	2.1
CFPS	2,327	4,668	3,656	4,141	4,559
DPS	390	690	550	700	750

Financial ratios (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Sales growth	53.8	72.0	-12.0	6.1	9.8
OP growth	32.0	122.2	-25.4	17.5	12.8
NP growth	20.7	122.8	-23.0	16.5	12.5
Profitability					
ROIC	-34.0	-62.5	-45.7	-60.8	-66.2
ROA	7.6	11.8	8.1	9.2	9.7
ROE	14.1	22.6	15.3	15.9	15.8
Stability					
Debt ratio	152.7	147.3	122.7	108.4	98.9
Net borrowings ratio	-24.4	-28.0	-28.1	-36.7	-45.5
Interest coverage ratio	171.6	147.4	55.0	64.6	72.9

Source: Nasmedia, Daishin Securities Research Center

Balance sheet (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Current assets	188	241	244	265	292
Cash & cash equiv.	28	17	24	43	67
Trade & other receive.	156	199	194	196	200
Inventories	0	0	0	0	0
Other current assets	5	25	25	25	25
Long-term assets	76	75	72	70	69
Tangible assets	12	12	12	11	11
Investments in affiliates	0	0	0	1	1
Other long-term assets	64	63	60	58	57
Total assets	264	316	316	335	361
Current liabilities	141	172	157	158	163
Payables & other liab.	136	162	145	145	150
Borrowings	0	0	0	0	0
Current portion of LT debts	0	0	3	3	3
Other current liabilities	5	10	10	10	10
Long-term liabilities	19	17	17	17	17
Borrowings	6	3	3	3	3
Convertible securities	0	0	0	0	0
Other long-term liab.	13	14	14	14	14
Total liabilities	160	188	174	174	179
Controlling interest	98	120	133	150	170
Capital stock	5	5	5	5	5
Capital surplus	43	43	43	43	43
Retained earnings	50	72	85	103	122
Other capital changes	0	0	0	0	0
Non-controlling interest	6	8	9	10	12
Total shareholder's equity	104	128	142	161	181
Net borrowings	-25	-36	-40	-59	-83

Cash flow statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	17	15	10	24	30
NP	12	27	21	24	27
Non-cash items	7	14	11	12	13
Depreciation	1	3	3	2	2
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	6	11	9	10	11
Chg in assets & liab.	1	-22	-16	-6	-2
Other cash flows	-3	-5	-6	-7	-8
Investing cash flow	3	-19	0	0	0
Investment assets	-10	0	0	0	0
Tangible assets	0	-1	-1	-1	-1
Others	13	-18	0	0	0
Financing cash flows	-6	-6	-3	-5	-6
Short-term borrowings	0	0	0	0	0
Bonds payable	0	0	0	0	0
Long-term borrowings	-3	-3	0	0	0
Rights offering	0	0	0	0	0
Cash dividends	-3	-3	-6	-5	-6
Others	0	0	3	0	0
Net chg in cash	14	-10	7	19	24
Beginning cash balance	13	28	17	24	43
Ending cash balance	28	17	24	43	67
NOPLAT	12	26	20	23	26
FCF	12	28	22	25	28

[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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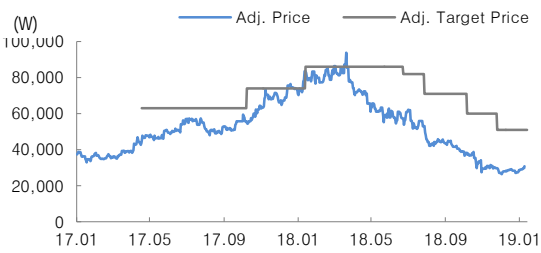
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[Investment rating & Target price history]

Nasmedia (089600 KQ)



Date	19.01.18	18.12.03	18.10.14	18.08.05	18.07.01	18.01.21
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	51,000	51,000	60,000	71,000	82,000	86,000
Diff. (avr. %)		(44.45)	(45.86)	(39.33)	(31.92)	(15.62)
Diff. (max/min, %)		(39.51)	(35.42)	(30.21)	(24.27)	8.95

Date	17.10.16	17.04.26
Rating	Buy	Buy
Target price	74,000	63,000
Diff. (avr. %)	(8.51)	(18.25)
Diff. (max/min, %)	12.84	(5.56)

Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min, %)	

Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min, %)	

Investment rating breakdown and framework (Jan 15, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	86.2%	12.7%	1.1%

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.