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Media subsidiary of JoongAng Group

Jcontentree is a subsidiary of JoongAng Holdings that was listed on the KOSDAQ in Mar 2000. Its main businesses include 1) investments in dramas and movie IPs, 2) operation of the multiplex chain, Megabox, and 3) production and distribution of broadcast media programs.

Competence in content production highlighted by success of "Sky Castle"

Jcontentree achieved modest success from dramas aired in 1H18, such as "Misty" (peak Nielsen rating of 8.5%) and "Something in the Rain" (peak Nielsen rating of 7.3%). In 2H18, Jcontentree enjoyed unprecedented success through "Sky Castle" (peak Nielsen rating of 23.2%), repeatedly setting the company's viewership record as its most-watched program. The broadcast media business will rise to prominence in 2019 as growth is fueled by increases in average production costs of dramas and number of produced series. The company plans to channel KRW51.2bn out of KRW156.0bn raised via capital increase in 2018 to produce dramas. As a result, high expectations are placed on the tentpole dramas scheduled to be produced in 2019-20 (two per year). Meanwhile, Jcontentree plans to invest in IPs, domestic/foreign OTT platforms and other areas to produce more competitive dramas and step up forays into overseas markets. The company produced a total of six drama series in 2018, but will continue to increase its output.

OR growth of 13.4% YoY and OP growth of 35.9% expected in 2019

Market consensus places Jcontentree's 2019 OR at KRW581.3bn (+13.4% YoY) and OP at KRW56.4bn. The movie segment is expected to continue single-digit growth, while the broadcast media business will achieve fast-past growth and act as the company's main earnings driver. The broadcast media business' growth will be propelled by

Not Rated

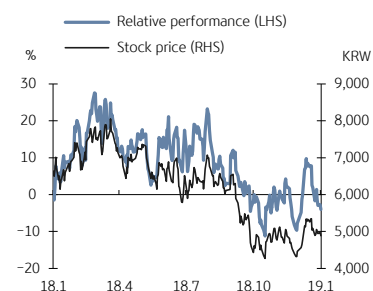
Target Price	NA
Upside/Downside	NA
Current price (Jan 29)	KRW4,885
Consensus Target Price	KRW7,450
Market cap	USD630mn

Trading Data	
Free float	65.6%
Avg T/O Val (3M, KRWbn)	8.3
Foreign ownership	2.2%
Major shareholders	JoongAng Holdings, LTD. and 1 others 33.3% NPS 8.1%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	9.5	10.3	-25.0	-26.4
Relative	4.1	-2.3	-18.3	-4.0

Forecast earnings & valuation

FY-end	2014A	2015A	2016A	2017A
OR (KRWbn)	369	306	335	420
OP (KRWbn)	36	33	29	33
NP to parent (KRWbn)	0	11	19	6
EPS (KRW)	-1	121	159	53
EPS Growth (%)	Loss Cont.	TB	31.4	-66.7
PER (x)	NA	44.2	23.1	97.5
EV/EBITDA (x)	7.4	17.6	16.9	14.8
PBR (x)	2.5	10.3	5.3	4.0
ROE (%)	-0.1	15.0	26.3	5.3
Div. Yield (%)	NA	NA	NA	NA



Source: Jcontentree, KB Securities estimates

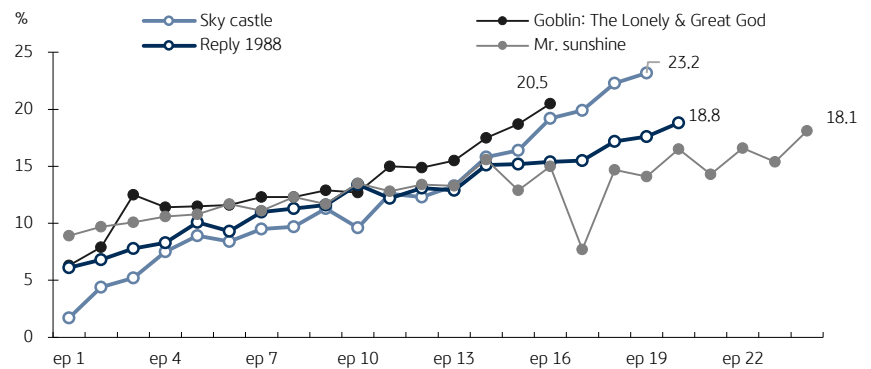
1) increases in the number of produced contents and average production costs, 2) content licensing deals with and original content production orders from Netflix and 3) content license sales to China. The company will gain additional growth potential if it manages to score deals that have its dramas aired simultaneously in China and Korea.

Risk factors:

- 1) Stagnant domestic box office growth**
- 2) Increased content investments by small/mid-sized domestic companies**

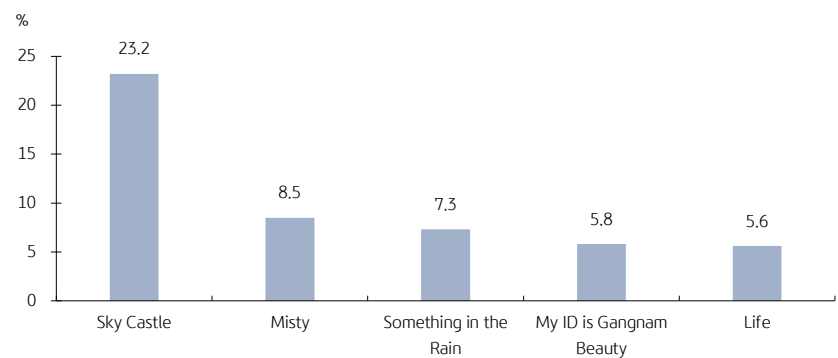
Risk factors for Jcontentree are stagnant domestic box office growth and increased investments by small/mid-sized domestic production companies. In 2018, domestic box office hits dropped 8.1% due to an increase in OTT service subscribers and a lack of blockbuster contents. Even so, Megabox managed to increase its market share and register OPM improvements, indicating that the company was able to defend itself against the impact of the box office slump.

Fig 1. Viewership rating comparison with tvN drama



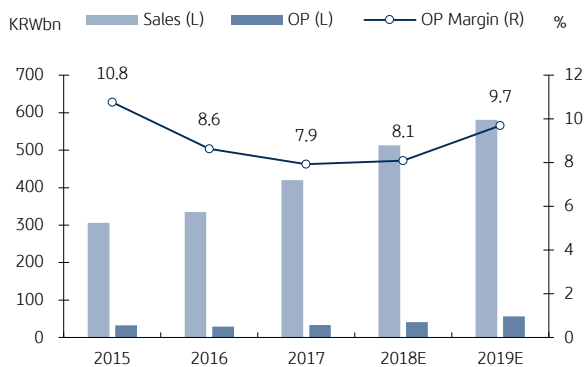
Source: Nielsen Korea, KB Securities

Fig 2. Comparison of JTBC's in-house drama viewership rating



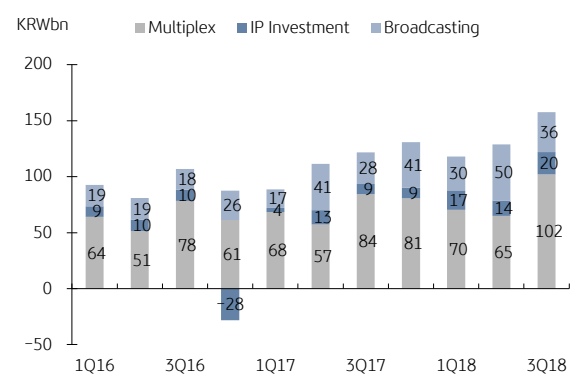
Source: Nielsen Korea, KB Securities

Fig 3. Earnings trend and forecast



Source: Company data, Fnguide, KB Securities

Fig 4. Earnings trend by division



Source: Company data, Fnguide, KB Securities

Profit & Loss					
(KRWbn)	2013A	2014A	2015A	2016A	2017A
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	380	369	306	335	420
Cost of sales	202	182	140	153	200
Gross profit	179	187	165	183	221
SG&A expenses	141	151	133	154	187
Operating profit	38	36	33	29	33
EBITDA	61	58	50	43	59
Non-operating accounts	-24	-17	-3	6	-9
Interest income	6	6	5	8	4
Interest expenses	14	10	10	9	9
Profit on equity method	2	2	2	7	0
Net other non-operating income	-17	-15	0	0	-4
Profit before tax	14	19	30	35	24
Income tax expense	10	8	10	9	14
Net profit	4	15	20	22	11
NP to parent	-10	0	11	19	6
Adj. net profit	-10	0	11	19	6

Operating Statistics & Ratios					
(%)	2013A	2014A	2015A	2016A	2017A
OR growth	-3.3	-2.9	-17.2	9.6	25.4
OP growth	-10.7	-4.1	-9.8	-12.0	15.2
EBITDA growth	-3.4	-4.1	-14.8	-13.9	37.9
NP growth of parent	TR	Loss Tont.	TB	68.4	-66.5
GP margin	47.0	50.7	54.1	54.5	52.5
OP margin	10.0	9.9	10.8	8.6	7.9
EBITDA margin	16.0	15.8	16.3	12.8	14.1
EBT margin	3.8	5.3	9.8	10.5	5.8
NP margin	1.0	3.9	6.4	6.7	2.6

Cash Flow					
(KRWbn)	2013A	2014A	2015A	2016A	2017A
Cash flow from operating activities	22	55	23	18	-4
Net profit	4	15	20	22	11
Depreciation & amortization	23	22	17	14	26
Other non-cash adjustments	40	30	21	2	25
Investments in working capital	-23	1	-22	-5	-42
Decrease(Increase) in Receivables	1	5	8	-7	-44
Decrease(Increase) in Inventories	0	-2	-5	-10	-1
Increase(Decrease) in Payables	-7	-9	-11	25	10
Other operating cash flow	-21	-13	-13	-15	-23
Cash flow from investing activities	-18	-27	-15	-66	-75
Capital expenditure	-14	-25	-16	-91	-33
Investments in intangibles	-15	-8	-4	-1	-1
Changes in investment assets	-2	-2	6	10	-5
Other investment cash flow	0	6	1	7	-8
Cash flow from financing activities	-18	-34	-26	70	73
Proceeds from (repayments of) debt	-15	-28	-5	46	-50
Changes in equity	0	0	146	0	0
Dividends paid	-3	-5	-5	0	0
Other financing cash flow	0	0	-161	24	123
Other cash flow	0	0	0	0	0
Increase/decrease in cash	-14	-6	-18	23	-6
Cash and cash equivalents at FYE	56	51	33	55	49
Free cash flow	8	30	7	-72	-36
Net cash flow	-18	33	-92	-20	68
Net cash (net debt)	-163	-130	-222	-242	-174

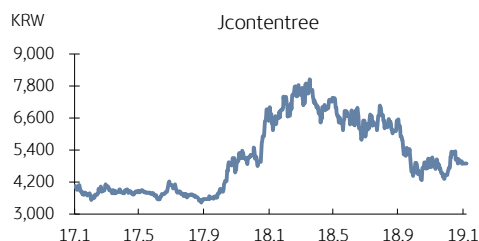
Source: Jcontentree, KB Securities estimates

Statement of financial position					
(KRWbn)	2013A	2014A	2015A	2016A	2017A
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	507	481	456	550	662
Current assets	193	141	98	136	208
Cash and cash equivalents	56	51	33	55	49
Current financial assets	11	9	5	3	33
Trade receivables	63	51	34	31	62
Inventories	6	7	14	23	24
Other current assets	57	22	10	23	41
Non-current assets	313	340	358	414	454
Investment assets	109	103	100	81	129
Property, plant and equipment	99	120	137	213	193
Intangible assets	79	82	77	76	84
Other non-current assets	19	28	34	31	36
Total liabilities	369	316	378	425	426
Current liabilities	240	218	313	330	289
Trade payables	24	20	10	10	16
Short-term financial liabilities	123	112	222	235	144
Other current liabilities	92	85	78	84	129
Non-current liabilities	128	98	65	96	138
Non-current financial liabilities	108	78	37	66	113
Other non-current liabilities	8	9	12	15	13
Total equity	138	165	78	125	236
Issued capital	33	33	57	57	57
Share premium	45	48	-51	-51	14
Other equity interest	-5	-5	-5	-5	-5
Accumulated other comprehensive income	1	1	12	15	17
Retained earnings	14	14	49	69	75
Equity attributable to owners of parent	86	90	62	84	158
Non-controlling Interests	52	75	16	41	77

Key Ratio					
(X, %, KRW)	2013A	2014A	2015A	2016A	2017A
Multiples					
PER	NA	NA	44.2	23.1	97.5
PBR	3.0	2.5	10.3	5.3	4.0
PSR	0.7	0.6	1.7	1.3	1.5
EV/EBITDA	8.0	7.4	17.6	16.9	14.8
EV/EBIT	12.8	11.9	26.7	25.0	26.2
Dividend yield, ordinary (%)	NA	NA	NA	NA	NA
EPS	-131	-1	121	159	53
BPS	1,136	1,172	517	694	1,311
SPS	4,999	4,848	3,232	2,773	3,477
DPS (Annual, Ordnry.)	0	0	0	0	0
Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
ROE	-11.1	-0.1	15.0	26.3	5.3
ROA	0.7	2.9	4.2	4.5	1.8
ROIC	12.0	12.4	10.8	8.6	6.2
Financial structure (%)					
Total liab./equity	267.1	191.3	482.9	340.1	180.8
Net debt/equity	118.2	78.7	283.9	193.6	73.8
Current Ratio	0.8	0.7	0.3	0.4	0.7
Interest coverage (x)	2.8	3.6	3.4	3.1	3.8
Activity ratios					
Asset turnover (x)	0.8	0.8	0.7	0.7	0.7
Receivables turnover (x)	6.3	6.4	7.1	10.2	9.0
Inventory turnover (x)	66.9	56.5	28.3	17.8	17.9

Disclosures

Rating and Target Price Changes (Share price —, Target Price —)



Jcontentree (036420)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
19-01-29	Not Rated			

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Proportion of investment rating (as of December 31, 2018)

Buy	Hold	Sell
70.6	29.4	—

* Note: Based on reports presented with investment ratings over the past one year

Classification and Standards for Investment Rating

Investment Rating for Company

(based on estimation of six-month absolute returns)

Buy: +15% or beyond	Hold: Between 15% and -15%	Sell: -15% or beyond
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Note: KB Securities's classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

Investment Rating for Industry

(based on estimation of six-month absolute returns)

Positive:	Neutral:	Negative:
To outperform market	To match market performance	To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017

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