

Media/enter



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Rating	BUY (M)
Target price	W41,000 (M)
Current price (Feb 8)	W28,550
Upside potential	44%

Market cap (Wbn)	1,011
Shares outstanding	35,393,704
Avg daily T/O (2M, Wbn)	21
Avg daily volume (2M, shrs)	690,885
52-week high (won)	39,150
52-week low (won)	15,850
Foreign ownership (%)	12.5
Major shareholders (%)	
Jin-yeong Park & others	18.4

Stock performance

(%)	1M	3M	12M
Absolute	(9.4)	(0.5)	72.0
Relative	(16.9)	(5.3)	103.4
Abs (US\$)	(9.3)	(1.1)	66.5

Globalization through localization

Girl Group Project launched in Japan

- On Feb 7, JYP Entertainment's chief producer JY Park signed a partnership agreement with Sony Music, Japan's largest music company, to launch "Nizi Project," a television show through which JYP's new Japanese girl group will be selected. The Nizi Project is part of JYP Entertainment's third-stage globalization plan of globalization through localization. It is the next project after Boy Story, which debuted in China in Sep 2018. JYP Entertainment is also preparing to launch another Chinese boy group "Project C." From 2021, three localized groups will likely operate. The third stage of its globalization strategy is launching groups comprised of foreign talent overseas through the K-pop system. The company casts and trains members overseas, produces albums, and manages the group.
- According to JY Park, the company will hold auditions in eight cities in Japan and two in the US over Jul~Aug, 2019, and select candidates of a girl group that will debut in Tokyo, Japan. The audition process will be broadcast as a reality TV show starting in Oct 2019. After training at JYP Entertainment, final members of the group will debut in Nov 2020. The training process will also be aired. The Japanese girl group will mainly operate in Japan and seek to enter global markets.

Profit to grow even after 2020

- JYP Entertainment is speeding up its content creation through exclusive labels for key artists Twice and GOT7, while maintaining high quality. In 2018, GOT7 made more appearances in America and Europe, while Twice did the same in Asia. In 2019 and 2020, these two groups are set to hold more frequent and bigger concerts, likely driving the company's profit growth. However, as GOT7 and Twice are set to renew their contracts in 2021 in 2022, respectively, with their share of profits to rise, earnings will likely stagnate from 2021. However, in 2021, it will be two to four years since Stray Kids, Boy Story, Project C, and a Japanese girl group debuted. If at least half of the above groups are successful, the company's earnings momentum will remain even after 2020.

Strong mid- to long-term growth momentum

- We maintain BUY and our target price of W41,000, which implies a 2020E P/E of 30x. Despite concerns over short-term earnings, expectations for strong mid- to long-term growth remain given the worldwide growth of music and YouTube platforms, the expansion of K-pop, and nurturing of local talent overseas.

Quarterly earnings

(Wbn)	4Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	36	4.1	5.4	36	-2.0
OP	8	6.4	-4.2	10	-16.0
Pre-tax net profit	8	25.0	-2.9	10	-13.6
Net profit, CI	6	8.0	-7.7	8	-25.3
OPM (%)	22.7	+0.5 %pt	-2.3 %pt	26.5	-3.8 %pt
NPM (%)	16.8	+0.6 %pt	-2.4 %pt	22.0	-5.2 %pt

Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	2016A	2017A	2018E	2019E
FY ends Dec				
Sales	74	102	124	157
OP	14	19	27	46
Net profit, CI	8	16	22	36
P/E (x)	20.7	17.0	49.1	28.0
P/B (x)	2.4	3.0	8.5	6.2
EV/EBITDA	8.8	10.6	34.3	19.5
ROE (%)	13.4	21.4	21.4	27.0

Source: Yuanta Securities

JYP Entertainment (035900 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Sales	74	102	124	157	186
Cost of sales	46	63	69	81	94
Gross profit	27	39	55	75	92
SG&A	14	20	28	29	32
Operating profit	14	19	27	46	60
EBITDA	16	22	28	48	61
Non-op profit/loss	-1	2	2	3	6
Forex gain/loss	1	-1	0	0	0
Net interest income	0	0	0	1	1
Equity-meth gain/loss	0	-1	0	1	3
Other	-1	2	1	2	2
Net prof before income tax	13	21	29	50	66
Income tax	5	5	7	12	15
Net profit from continuing ops	9	16	22	38	51
Net profit from discontinued ops	0	0	0	0	0
Net profit	9	16	22	38	51
NP for controlling interest	8	16	22	36	49
Total comprehensive income	8	16	24	38	51
Total comprehensive income, CI	8	16	23	37	50

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
Current assets	44	58	67	104	157
Cash & cash equivalents	25	25	37	72	122
Accts rec & other	8	11	11	14	16
Inventory	1	2	2	2	2
Non-current assets	43	66	79	79	80
Tangible assets	0	25	35	35	35
Investment in affiliates	1	0	2	1	2
Other non-current	4	3	4	4	4
Total assets	87	124	146	183	237
Current liabilities	19	35	27	28	33
Accts payable & other	9	15	12	13	18
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	0	0	0	0	0
Non-current liabilities	1	4	1	1	1
LT financial liabilities	0	0	0	0	0
Debentures	0	0	0	0	0
Total liabilities	20	39	28	28	33
Equity, controlling interest	66	85	117	153	202
Paid-in capital	17	17	18	18	18
Capital surplus	53	55	59	59	59
Retained earnings	11	27	48	85	134
Equity, non-controlling interest	1	1	1	1	1
Total equity	67	86	118	155	204
Net debt	-31	-40	-50	-85	-135
Total debt	0	0	0	0	0

Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Operating cash flow	15	27	24	42	57
Net profit	9	16	22	38	51
Depreciation & amortization	0	0	1	1	1
Forex gain/loss	0	0	0	0	0
Affiliate invest gain/loss	0	1	0	-1	-3
Inc (dec) in net working cap	0	5	-2	0	5
Other	6	4	2	3	3
Investing cash flow	-4	-29	-11	-1	-1
Investment	-1	5	0	0	0
Inc in tangible assets	0	-25	-11	-1	-1
Dec in tangible assets	0	0	0	0	0
Other	-3	-9	0	0	0
Financing cash flow	0	2	2	2	2
Inc (dec) in ST fin liab	0	0	0	0	0
Inc (dec) in LT fin liab	0	0	0	0	0
Inc (dec) in equity	0	2	0	0	0
Cash dividend	0	0	0	0	0
Other	0	0	2	2	2
Other cash flow	0	0	-3	-7	-7
Inc (dec) in cash & equivalents	12	1	12	35	50
Beginning cash & equivalents	13	25	25	37	72
Ending cash & equivalents	25	25	37	72	122
NOPLAT	14	19	27	46	60
FCF	12	-1	10	36	52

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

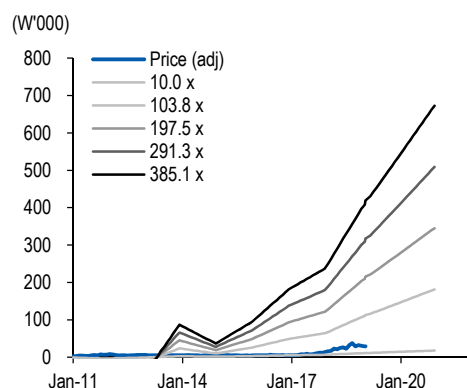
Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	246	471	616	1,030	1,386
BPS (won)	2,126	2,667	3,553	4,647	6,134
EBITDA/shr (won)	478	649	798	1,343	1,735
SPS (won)	2,163	2,975	3,539	4,430	5,252
DPS (won)	0	0	0	0	0
P/E (x)	20.7	17.0	49.1	28.0	20.8
P/B (x)	2.4	3.0	8.5	6.2	4.7
EV/EBITDA (x)	8.8	10.6	34.3	19.5	14.3
P/S (x)	2.4	2.7	8.5	6.5	5.5

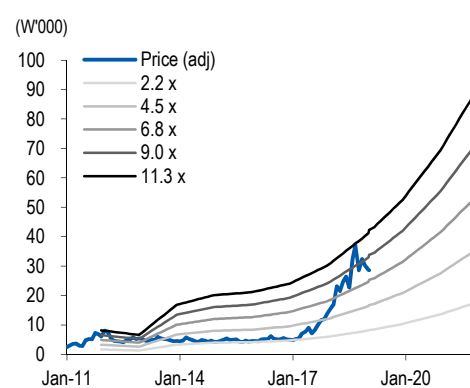
Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
Sales (% YoY)	45.7	38.8	21.5	26.3	18.6
Operating profit (%YoY)	229.0	40.9	38.7	71.0	30.0
Net profit, CI (%YoY)	162.7	93.0	33.6	68.7	34.6
Gross margin (%)	37.1	38.4	44.7	48.1	49.6
Operating margin (%)	18.8	19.0	21.7	29.5	32.3
Net margin, CI (%)	11.4	15.8	17.4	23.2	26.4
EBITDA margin (%)	22.1	21.8	22.5	30.3	33.0
ROIC (%)	31.7	47.5	45.7	65.0	84.9
ROA (%)	10.4	15.3	16.0	22.2	23.4
ROE (%)	13.4	21.4	21.4	27.0	27.6
Debt-to-equity (%)	29.1	45.1	23.5	18.2	16.2
Net debt-to-equity (%)	-46.4	-46.6	-42.7	-55.1	-66.6
OP/financing cost (x)	0.0	0.0	0.0	0.0	0.0

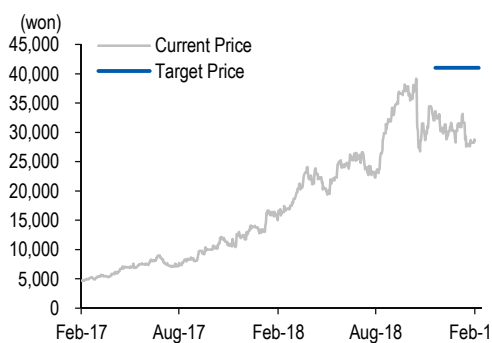
P/E band chart



P/B band chart



JYP Entertainment (035900 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2019/02/11	BUY	41,000	1 yr		
2018/11/27	BUY	41,000	1 yr		

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	0.5
BUY	84.9
HOLD	14.6
SELL	0.0
Total	100.0

Note: As of Feb 8

Excluding reports written or published by overseas affiliates

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I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

Stock and sector ratings

- **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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