

Media/entertainment



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Rating	BUY (M)
Target price	W338,000 (U)
Current price (Feb 14)	W216,400
Upside potential	56%

Market cap (Wbn)	4,745
Shares outstanding	21,926,384
Avg daily T/O (2M, Wbn)	15
Avg daily volume (2M, shrs)	69,837
52-week high (won)	286,400
52-week low (won)	191,200
Foreign ownership (%)	19.2
Major shareholders (%)	
CJ Corp & others	42.7

Stock performance

(%)	1M	3M	12M
Absolute	2.3	4.7	6.6
Relative	(5.9)	(5.3)	21.8
Abs (US\$)	2.1	5.5	2.1

Strong in digital ads and content

4Q18 review

- CJ ENM's consolidated sales came to W1.2tn (+10% YoY; pro-forma basis) OP W69.4bn (+15% YoY), and net profit attributable to controlling interest W37.3bn (+66% YoY), with OP missing consensus by 15%. **By business, media OP came to W20.5bn (Studio Dragon W0.4bn, other W20.1bn), commerce W30.2bn**, film -W1.9bn, music W0.9bn, and CJ Hello W19.6bn. OP missed consensus due to one-off expenses of W13.5bn (amortization W11bn + bonus payment W2.5bn) at Studio Dragon. In non-operating terms, the company saw a goodwill impairment loss (CJ Blue W22.8bn, CJ Grand W15.4bn) as well as valuation gains of W11.4bn on available-for-sale financial assets related to FORMATION 8. **Media OP rose from W5.1bn in 4Q17 to W20.1bn in 4Q18** if we exclude Studio Dragon. Strong earnings in the media business are attributable to double-digit growth of TV ad revenue to W158.2bn (+12% YoY) and strong operating leverage from robust growth in digital ad revenue of 74% centered on platform-in-platform (PIP) and multi-channel network (MCN). We believe digital ad revenue increased by W25bn YoY. Increased TV ad revenue likely offset the increased production cost, while digital ad revenue boosted profit growth.

2019 earnings guidance

- CJ ENM's OP guidance for 2019 is W370bn, or about W300bn excluding CJ Hello's OP (2019E consensus W69.6bn), which is up for sale. CJ ENM's 2018 OP was W315bn (OP of former CJ O Shopping and CJ E&M combined). Excluding CJ Hello, it was W246.1bn. In sum, **CJ ENM expects 2019 OP to rise by about W50bn~W60bn YoY (excluding CJ Hello)**. Some of the increase will likely come from Studio Dragon. In 2019, the media business aims to boost TV ad revenue by 13% YoY and digital ad revenue by 35% YoY. If it meets this goal, TV ad revenue will likely rise by W73.5bn. CJ ENM plans to expand its broadcasting content production budget by W70bn from W300bn in 2018 to W370bn in 2019. Digital ad and overseas distribution commissions received for Studio Dragon's dramas will likely play a vital role in boosting the media business's OP, like in 2018.

Strong in digital ads and content

- We maintain BUY and revise up our target price to W338,000, based on SOTP. The media business is involved in digital ads and content production. FYI, shares of UUUM, a Japanese multi-channel network, now trade at a P/E of 100x (based on FY2019E~2020E average earnings). As CJ ENM's DIA TV has a similar business structure to UUUM, its value has yet to be recognized. **Excluding commerce, most businesses deserve a high multiple.** The disposal of CJ Hello, which has weak growth potential, will also be positive. **Proceeds from the disposal of W800bn could be used to fund key businesses.**

Quarterly earnings

(Wbn)	4Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	1,198	96.6	11.1	1,142	4.9
OP	69	21.5	-9.4	83	-16.7
Pre-tax net profit	27	-40.7	-62.3	81	-66.4
Net profit, CI	37	-17.5	-11.0	54	-30.2
OPM (%)	5.8	-3.6 %pt	-1.3 %pt	7.3	-1.5 %pt
NPM (%)	3.1	-4.3 %pt	-0.8 %pt	4.7	-1.6 %pt

Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		2,209	2,260	3,427	4,302
OP		179	224	251	378
Net profit, CI		23	131	163	288
P/E (x)		46.3	9.4	27.2	16.7
P/B (x)		1.1	1.2	1.4	1.4
EV/EBITDA		4.5	4.6	9.9	7.6
ROE (%)		2.6	13.5	8.5	9.9

Source: Yuanta Securities

CJ ENM (035760 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Sales	2,209	2,260	3,427	4,302	3,997
Cost of sales	1,000	988	1,998	2,629	2,391
Gross profit	1,209	1,272	1,429	1,673	1,606
SG&A	1,030	1,047	1,178	1,295	1,178
Operating profit	179	224	251	378	428
EBITDA	446	469	700	848	861
Non-op profit/loss	-117	-40	-34	53	88
Forex gain/loss	0	0	0	0	0
Net interest income	-18	-14	-2	-9	-2
Equity-meth gain/loss	-11	6	-2	81	109
Other	-88	-33	-29	-20	-20
Net prof before income tax	62	184	217	430	516
Income tax	30	41	33	104	125
Net profit from continuing ops	33	143	184	326	391
Net profit from discontinued ops	0	0	0	0	0
Net profit	33	143	184	326	391
NP for controlling interest	23	131	163	288	334
Total comprehensive income	31	142	157	309	374
Total comprehensive income, CI	22	131	133	250	302

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	689	664	2,397	2,754	3,548
Cash & cash equivalents	103	114	658	1,193	2,054
Accts rec & other	354	372	1,099	938	878
Inventory	62	76	113	95	88
Non-current assets	2,065	2,138	4,918	4,815	4,406
Tangible assets	815	816	1,374	1,374	1,374
Investment in affiliates	112	96	1,209	1,176	1,200
Other non-current	143	192	285	285	285
Total assets	2,754	2,802	7,314	7,568	7,954
Current liabilities	1,017	732	2,040	2,009	2,100
Accts payable & other	510	462	831	800	891
ST financial liabilities	157	22	681	681	681
Liquid LT liabilities	268	152	231	231	231
Non-current liabilities	373	586	1,361	1,361	1,361
LT financial liabilities	2	0	252	252	252
Debentures	300	511	762	762	762
Total liabilities	1,391	1,318	3,401	3,371	3,462
Equity, controlling interest	917	1,028	2,786	3,033	3,328
Paid-in capital	31	31	111	111	111
Capital surplus	85	80	2,246	2,246	2,246
Retained earnings	812	924	1,074	1,338	1,633
Equity, non-controlling interest	446	456	1,128	1,165	1,165
Total equity	1,363	1,484	3,913	4,198	4,493
Net debt	473	489	1,062	527	-334
Total debt	727	686	1,933	1,933	1,933

Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Operating cash flow	416	330	399	884	895
Net profit	33	143	184	326	391
Depreciation & amortization	169	166	132	0	0
Forex gain/loss	-1	0	4	0	0
Affiliate invest gain/loss	11	-6	4	-81	-109
Inc (dec) in net working cap	16	-94	-265	143	154
Other	188	121	339	496	459
Investing cash flow	-329	-256	-171	-105	295
Investment	-22	-55	31	57	57
Inc in tangible assets	-128	-183	-112	0	0
Dec in tangible assets	10	1	2	0	0
Other	-190	-19	-92	-162	238
Financing cash flow	-298	-62	-92	-29	-44
Inc (dec) in ST fin liab	144	-137	125	0	0
Inc (dec) in LT fin liab	-424	93	0	0	0
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-18	-18	-23	-29	-45
Other	0	0	-193	0	0
Other cash flow	0	-1	407	-216	-284
Inc (dec) in cash & equivalents	-211	11	543	535	862
Beginning cash & equivalents	314	103	114	658	1,193
Ending cash & equivalents	103	114	658	1,193	2,054
NOPLAT	179	224	251	378	428
FCF	249	142	285	899	911

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

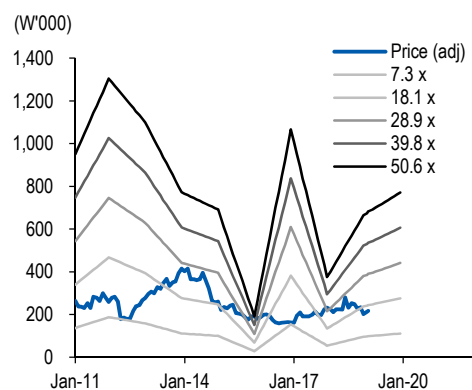
Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	3,769	21,054	7,417	13,134	15,227
BPS (won)	152,157	170,555	141,904	154,492	169,498
EBITDA/shr (won)	71,726	75,472	31,937	38,666	39,283
SPS (won)	355,336	363,607	156,287	196,182	182,290
DPS (won)	2,500	3,000	1,200	2,000	2,300
P/E (x)	46.3	9.4	27.2	16.7	14.4
P/B (x)	1.1	1.2	1.4	1.4	1.3
EV/EBITDA (x)	4.5	4.6	9.9	7.6	6.5
P/S (x)	0.5	0.5	1.3	1.1	1.2

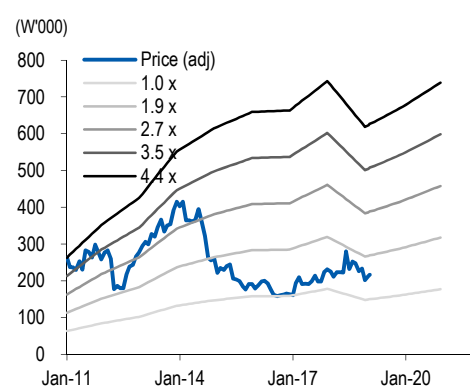
Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
Sales (% YoY)	-4.3	2.3	51.6	25.5	-7.1
Operating profit (%YoY)	-14.7	25.5	11.8	50.4	13.4
Net profit, CI (%YoY)	-72.4	458.6	24.3	77.1	15.9
Gross margin (%)	54.7	56.3	41.7	38.9	40.2
Operating margin (%)	8.1	9.9	7.3	8.8	10.7
Net margin, CI (%)	1.1	5.8	4.7	6.7	8.4
EBITDA margin (%)	20.2	20.8	20.4	19.7	21.5
ROIC (%)	5.6	10.7	8.1	8.3	10.6
ROA (%)	0.8	4.7	3.2	3.9	4.3
ROE (%)	2.6	13.5	8.5	9.9	10.5
Debt-to-equity (%)	102.0	88.8	86.9	80.3	77.1
Net debt-to-equity (%)	51.6	47.6	38.1	17.4	-10.1
OP/financing cost (x)	7.0	11.1	40.5	15.2	20.0

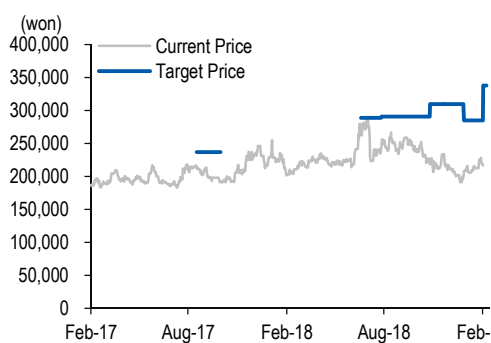
P/E band chart



P/B band chart



CJ ENM (035760 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2019/02/15	BUY	338,000	1 yr		
2019/01/10	BUY	285,000	1 yr	-25.05	-19.93
2018/11/08	BUY	310,000	1 yr	-31.53	-24.52
2018/08/09	BUY	291,000	1 yr	-16.27	-8.42
2018/07/02	HOLD	289,000	1 yr	-13.10	-
	Analyst changed				
2017/08/30	BUY	237,000	1 yr	-8.07	17.97
	Analyst changed				
2017/07/18	After 1yr		1 yr	-11.48	-5.17
2016/07/18	BUY	230,000	1 yr	-22.32	-5.17

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 13

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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