

February 15, 2019

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**Maintain BUY and trim target price
1.7% to KRW285,000**

We maintain our BUY rating on CJ ENM, but lower our target price 1.7% to KRW285,000. The target price was adjusted in light of revised down earnings projections for key businesses and a lowered non-operating value.

**Sales growth highlighted in 4Q18; OP
meets market consensus when
disregarding one-off expenses**

CJ ENM turned in OR of KRW1.2tr (+9.9% YoY, +11.1% QoQ) and OP of KRW69.4bn (+14.6% YoY, -9.4% QoQ) in 4Q18. Brisk OR growth was spearheaded by rapid advances by the media and commerce businesses. The media business' growth outpaced ad market growth by a large margin thanks to TV ad revenues increasing 14% YoY and digital ad revenues 51.8% YoY. As a result, the media wing's OP skyrocketed 138.5% YoY. The commerce business saw OR increase 21.4% YoY, buoyed by across-the-board GMV growth, but suffered a 23.2% YoY drop in OP as expenses were boosted by the restructuring of overseas operations and SO fee hikes. Consolidated OP was in line with market consensus when disregarding KRW13.5bn in one-off expenses (KRW11bn in contents amortization expenses, KRW2.5bn in incentives).

**Efforts to boost profitability continue
as media business sustains growth in
2019**

CJ ENM is projected to turn in OR of KRW4.8tr (+10.8% YoY) and OP of KRW367.6bn (+16.7% YoY) in 2019. OP growth is estimated at 17.9% when excluding CJ Hello from consolidated earnings. The media wing is expected to see revenues from broadcast media ads (+13.3% YoY) continue brisk growth. The introduction of commercial breaks will have a limited impact, because terrestrial broadcasters have already introduced premium CMs (commercial messages). High hopes are placed on ad slot prices and overseas licensing deals for Studio Dragon's tent pole drama, "Asadal Chronicles." If season one proves to be a hit, the series will become a steady source of revenue.

Buy maintain

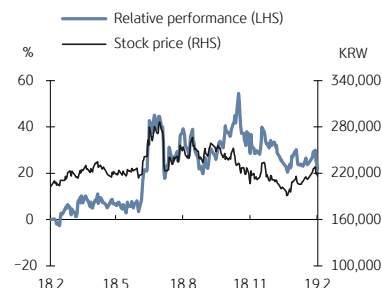
Target Price (lowered)	KRW285,000
Upside/Downside	31.7%
Current price (Feb 14)	KRW216,400
Consensus Target Price	KRW291,667
Market cap	USD4.2bn

Trading Data	
Free float	46.8%
Avg T/O Val (3M, KRWbn)	14.9
Foreign ownership	19.2%
Major shareholders	CJ Corp and 5 others 42.7%
	NPS 5.0%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.3	4.7	-14.8	6.6
Relative	-5.9	-5.3	-12.5	21.8

Forecast earnings & valuation

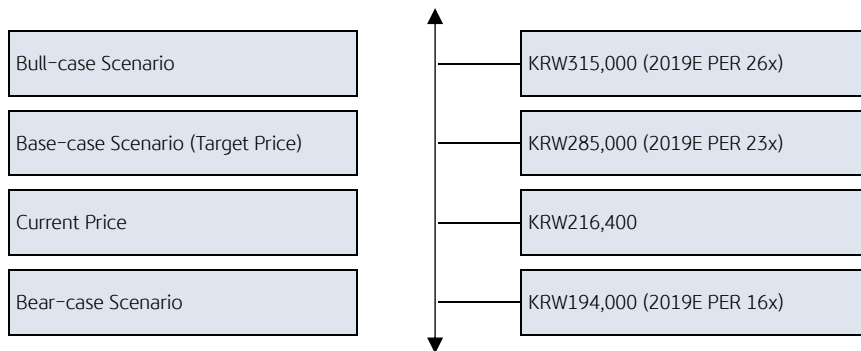
FY-end	2018P	2019E	2020E	2021E
OR (KRWbn)	3,427	4,829	5,210	5,565
OP (KRWbn)	251	368	411	481
NP to parent (KRWbn)	163	266	312	387
EPS (KRW)	7,417	12,128	14,218	17,666
EPS Growth (%)	-64.8	63.5	17.2	24.3
PER (x)	27.2	17.8	15.2	12.2
EV/EBITDA (x)	5.8	4.0	3.5	2.7
PBR (x)	1.6	1.6	1.5	1.3
ROE (%)	8.5	9.2	10.0	11.4
Div. Yield (%)	1.5	1.4	1.4	1.4



Source: CJ ENM, KB Securities estimates

For the commerce business, cost burdens have lightened as the SO fee hike was lowered from 13% in 2018 to a single-digit rate in 2019, while profit margins are expected to improve on the shutdown of unprofitable business segments, which includes CJ Grand Shopping. Furthermore, CJ ENM will gain the financial capacity to pursue a wider range of M&A and strategic investment options once it receives the KRW800bn for the sale of CJ Hello.

Investment opinion and risks



Base-case Scenario: Catalysts

- 1) Earnings improvement by movie unit
- 2) Media and music wings continue top-line growth

Bull-case Scenario: Upside risks

- 1) Movie unit's earnings skyrocket
- 2) Media and music wings' OR surge

Bear-case Scenario: Downside risks

- 1) Movie unit's earnings continue to slow
- 2) Media and music wings' top-line growth slows

Revised earnings estimates

(KRWbn, %)	Previous		Revised		Change	
	2018P	2019E	2018E	2019E	2018P	2019E
OR	4,376.9	4,691.1	4,357.6	4,828.8	-0.4	2.9
OP	328.9	396.0	315.0	367.6	-4.2	-7.2
NP to parent	265.2	298.6	243.6	265.9	-8.1	-11.0

Source: KB Securities estimates

Difference vs. Consensus

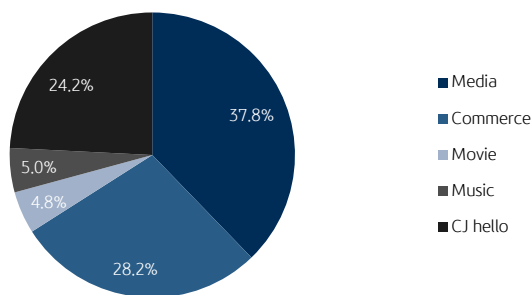
(KRWbn, %)	KB est.		Consensus		Contrast	
	2018P	2019E	2018E	2019E	2018P	2019E
OR	4,357.6	4,828.8	3,957.5	4,660.3	10.1	3.6
OP	315.0	367.6	297.8	390.7	5.8	-5.9
NP to parent	243.6	265.9	219.1	300.9	11.2	-11.6

Source: Fnguide, KB Securities estimates

Valuation and target price calculation

- 1) Valuation method:
SOTP Valuation
- 2) Target price calculation:
Operating value KRW2.4tr
Non-operating value KRW3.9tr
- 3) Target price range:
KRW315,000 ~ KRW194,000
- 4) Valuation at target price:
2019E PER of 23x

OR composition (%): End-2019 basis



Source: Company data, KB Securities

Earnings sensitivity analysis

(%)	EPS change	
	2018E	2019E
1% rise in FX Rate	+0.6	+0.6
1%p rise in interest rate	+1.1	+1.1

PEER group comparison

(KRWbn, X, %)	Market cap.	PER		PBR		EV/EBITDA		ROE		Dividend Yield	
		2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
CBS	20,418	9.3	8.4	6.6	4.7	8.5	8.0	83.1	61.9	1.6	1.7
Netflix	173,040	109.4	76.7	30.7	21.2	80.0	51.2	25.7	28.3	0.0	0.0
Walt Disney	185,097	16.0	15.7	3.5	3.0	10.5	10.6	24.4	20.5	1.5	1.6
Amazon	907,599	56.9	45.0	18.1	12.2	24.6	19.4	27.3	25.7	0.0	0.0

Source: Bloomberg, KB Securities

Table 1. CJ E&M's 4Q18 consolidated earnings review

(KRWon, %, %p)	4Q18P	3Q18	QoQ	4Q17	YoY	KB estimates	Diff.	Consensus	Diff.
OR	1,198.2	1,078.6	11.1	1,090.2	9.9	1,199.8	(0.1)	1,138.2	5.3
OP	69.4	76.5	(9.4)	60.5	14.6	83.2	(16.6)	83.1	(16.6)
OPM	5.8	7.1	(1.3)	5.6	0.2	6.9	(1.1)	7.3	(1.5)
NP to parent	37.3	42.0	(11.0)	91.8	(59.3)	58.9	(36.6)	52.7	(29.1)
NPM	3.1	3.9	(0.8)	8.4	(5.3)	4.9	(1.8)	4.6	(1.5)

Source: FnGuide, KB Securities estimates

Table 2. CJ ENM's consolidated earnings trend and forecast

(KRWbn)	1Q18	2Q18	3Q18	4Q18P	1Q19E	2Q19E	3Q19E	4Q19E	2017	2018P	2019E	2020E
OR	1,031.7	1,049.0	1,078.6	1,198.2	1,136.0	1,179.0	1,157.0	1,356.9	3,973.4	4,357.6	4,828.8	5,210.1
Media	340.4	369.5	406.8	451.2	401.9	458.2	443.6	519.9	1,294.2	1,567.8	1,823.6	2,018.4
Commerce	290.9	307.5	292.7	402.4	303.4	322.6	307.2	429.1	1,193.3	1,293.4	1,362.2	1,466.3
Pictures	80.0	36.0	45.0	52.3	85.2	38.8	51.5	56.2	225.2	213.2	231.7	245.7
Music	56.2	66.5	58.2	52.6	58.4	67.5	61.1	55.2	230.7	233.5	242.2	252.0
CJ Hello	264.3	269.6	276.0	239.9	287.2	291.9	293.6	296.4	1,030.0	1,049.8	1,169.2	1,227.6
OP	89.9	79.2	76.5	69.4	83.2	92.5	91.9	100.0	287.6	315.0	367.6	411.3
OPM (%)	8.7	7.5	7.1	5.8	7.3	7.8	7.9	7.4	7.2	7.2	7.6	7.9
EBT	120.2	97.8	72.6	27.3	83.4	94.8	95.5	103.1	776.6	317.9	376.8	440.4
EBT margin (%)	11.6	9.3	6.7	2.3	7.3	8.0	8.3	7.6	19.5	7.3	7.8	8.5
NP to parent	91.8	72.5	42.0	37.3	58.3	67.1	67.6	72.9	559.1	243.6	265.9	311.7
NPM (%)	8.9	6.9	3.9	3.1	5.1	5.7	5.8	5.4	14.1	5.6	5.5	6.0
Growth (YoY %)												
OR	10.6	7.3	10.9	9.9	10.1	12.4	7.3	13.2	n/a	9.7	10.8	7.9
Media	19.1	11.2	28.2	25.6	18.1	24.0	9.0	15.2	n/a	21.1	16.3	10.7
Commerce	1.8	2.5	6.0	21.4	4.3	4.9	4.9	6.7	n/a	8.4	5.3	7.6
Pictures	30.9	(21.9)	(20.4)	(15.0)	6.5	7.8	14.4	7.6	n/a	(5.3)	8.7	6.1
Music	18.4	41.1	(12.2)	(24.7)	4.0	1.4	5.0	5.0	n/a	1.2	3.7	4.1
CJ Hello	4.4	6.9	7.7	(10.6)	8.7	8.3	6.4	23.6	n/a	1.9	11.4	5.0
OP	17.0	(10.4)	23.6	14.6	(7.5)	16.9	20.1	44.1	n/a	9.5	16.7	11.9
EBT	30.3	(83.5)	21.1	(14.9)	(30.6)	(3.1)	31.7	277.1	n/a	(59.1)	18.5	16.9
NP to parent	48.2	(83.4)	12.1	68.2	(36.5)	(7.5)	61.1	95.3	n/a	(56.4)	9.2	17.2

Source: Compnay data, KB Securities estimates

Note: YoY comparison is based on CJ ENM consolidated pro-forma statements

Table 3. Comparison of adjusted earnings estimates

(KRWbn, %, %p)	2018P					2018E				
	Changed	Previous	Diff.	Cons.	Diff.	Changed	Previous	Diff.	Cons.	Diff.
OR	4,357.6	4,376.9	(0.4)	3,957.5	10.1	4,828.8	4,691.1	2.9	4,660.3	3.6
OP	315.0	328.9	(4.2)	297.8	5.8	367.6	396.0	(7.2)	390.7	(5.9)
OPM	7.2	7.5	(0.3)	7.5	(0.3)	7.6	8.4	(0.8)	8.4	(0.8)
NP to parent	243.6	265.2	(8.1)	219.1	11.2	265.9	298.6	(11.0)	300.9	(11.6)
NPM	5.6	6.1	(0.5)	5.5	0.1	5.5	6.4	(0.9)	6.5	(1.0)

Source: FnGuide, KB Securities estimates

Profit & Loss					
(KRWbn)	2017A	2018E	2019E	2020E	2021E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	2,260	3,427	4,829	5,210	5,565
Cost of sales	988	1,998	2,963	3,197	3,383
Gross profit	1,272	1,429	1,866	2,013	2,182
SG&A expenses	1,047	1,178	1,498	1,602	1,701
Operating profit	224	251	368	411	481
EBITDA	469	758	987	923	912
Non-operating accounts	-40	-34	9	29	66
Interest income	7	17	29	41	54
Interest expenses	20	19	19	19	19
Profit on equity method	6	-2	26	46	84
Net other non-operating income	-33	-29	-29	-33	-37
Profit before tax	184	217	377	440	547
Income tax expense	41	33	95	110	137
Net profit	143	184	282	330	410
NP to parent	131	163	266	312	387
Adj. net profit	131	163	266	312	387

Operating Statistics & Ratios					
(%)	2017A	2018E	2019E	2020E	2021E
OR growth	2.3	51.6	40.9	7.9	6.8
OP growth	25.5	11.8	46.5	11.9	16.9
EBITDA growth	5.2	61.6	30.1	-6.5	-1.1
NP growth of parent	458.5	24.3	63.5	17.2	24.3
GP margin	56.3	41.7	38.6	38.6	39.2
OP margin	9.9	7.3	7.6	7.9	8.6
EBITDA margin	20.8	22.1	20.4	17.7	16.4
EBT margin	8.2	6.3	7.8	8.5	9.8
NP margin	6.4	5.4	5.8	6.3	7.4

Cash Flow					
(KRWbn)	2017A	2018E	2019E	2020E	2021E
Cash flow from operating activities	330	1,316	1,201	1,131	1,094
Net profit	143	184	282	330	410
Depreciation & amortization	245	507	619	512	431
Other non-cash adjustments	87	60	69	64	53
Investments in working capital	-94	601	326	335	335
Decrease(Increase) in Receivables	-9	456	-10	-10	-10
Decrease(Increase) in Inventories	-10	-14	0	0	0
Increase(Decrease) in Payables	-6	-149	5	5	5
Other operating cash flow	-51	-36	-95	-110	-137
Cash flow from investing activities	-256	1,228	-27	-27	-27
Capital expenditure	-182	-115	-20	-20	-20
Investments in intangibles	-81	-263	-4	-4	-4
Changes in investment assets	-55	1,225	-3	-3	-3
Other investment cash flow	-13	169	0	0	0
Cash flow from financing activities	-62	-151	-363	-351	-314
Proceeds from (repayments of) debt	-44	125	2	2	2
Changes in equity	0	-193	0	0	0
Dividends paid	-18	-21	-26	-42	-49
Other financing cash flow	0	-62	-339	-311	-267
Other cash flow	-1	-1	0	0	0
Increase/decrease in cash	11	2,392	811	753	752
Cash and cash equivalents at FYE	114	2,506	3,318	4,070	4,822
Free cash flow	148	1,201	1,181	1,111	1,074
Net cash flow	-14	1,150	809	751	750
Net cash (net debt)	-488	663	1,472	2,222	2,973

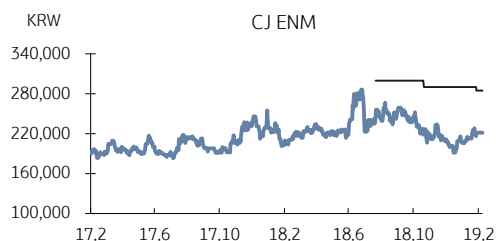
Statement of financial position					
(KRWbn)	2017A	2018E	2019E	2020E	2021E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	2,802	6,657	6,887	7,166	7,524
Current assets	664	3,089	3,911	4,674	5,437
Cash and cash equivalents	114	2,506	3,318	4,070	4,822
Current financial assets	83	83	83	83	83
Trade receivables	320	330	340	350	360
Inventories	76	101	101	101	101
Other current assets	68	68	69	69	70
Non-current assets	2,138	3,568	2,976	2,492	2,087
Investment assets	298	301	304	307	310
Property, plant and equipment	816	1,332	1,161	991	821
Intangible assets	950	1,693	1,268	951	714
Other non-current assets	43	176	176	176	176
Total liabilities	1,318	3,205	3,212	3,219	3,226
Current liabilities	732	1,843	1,848	1,853	1,858
Trade payables	36	41	46	51	56
Short-term financial liabilities	174	912	912	912	912
Other current liabilities	519	889	889	889	889
Non-current liabilities	586	1,362	1,364	1,366	1,368
Non-current financial liabilities	511	1,015	1,017	1,019	1,021
Other non-current liabilities	9	21	21	21	21
Total equity	1,484	3,453	3,676	3,947	4,299
Issued capital	31	111	111	111	111
Share premium	80	2,246	2,246	2,246	2,246
Other equity interest	-12	-513	-513	-513	-513
Accumulated other comprehensive income	5	-127	-127	-127	-127
Retained earnings	924	1,074	1,281	1,534	1,862
Equity attributable to owners of parent	1,028	2,790	2,997	3,250	3,578
Non-controlling Interests	456	663	678	697	720

Key Ratio					
(X, %, KRW)	2017A	2018E	2019E	2020E	2021E
Multiples					
PER	11.0	27.2	17.8	15.2	12.2
PBR	1.4	1.6	1.6	1.5	1.3
PSR	0.6	1.3	1.0	0.9	0.9
EV/EBITDA	5.1	5.8	4.0	3.5	2.7
EV/EBIT	10.6	17.6	10.7	7.8	5.2
Dividend yield, ordinary (%)	1.3	1.5	1.4	1.4	1.4
EPS	21,054	7,417	12,128	14,218	17,666
BPS	165,443	127,250	136,692	148,224	163,204
SPS	363,607	156,287	220,230	237,617	253,786
DPS (Annual, Ordnry.)	3,000	3,000	3,000	3,000	3,000
Cash dividends payout ratio (%)	13.8	36.2	22.2	18.9	15.2
Operating performance					
ROE	13.5	8.5	9.2	10.0	11.4
ROA	5.2	3.9	4.2	4.7	5.6
ROIC	10.5	9.4	11.2	16.1	24.4
Financial structure (%)					
Total liab./equity	88.8	92.8	87.4	81.6	75.0
Net debt/equity	32.9	Net Cash	Net Cash	Net Cash	Net Cash
Current Ratio	0.9	1.7	2.1	2.5	2.9
Interest coverage (x)	11.1	13.5	19.8	22.1	25.7
Activity ratios					
Asset turnover (x)	0.8	0.7	0.7	0.7	0.8
Receivables turnover (x)	7.0	10.5	14.4	15.1	15.7
Inventory turnover (x)	32.6	38.5	47.6	51.3	54.8

Source: CJ ENM, KB Securities estimates

Disclosures

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



CJ ENM (035760)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
18-08-09	Buy	300,000	-18.78	-11.17
18-11-08	Buy	290,000	-26.67	-19.31
19-02-15	Buy	285,000		

KB Securities is the issuer of ELW that has [CJ ENM] as an underlying asset as of this date of publication.

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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

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

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