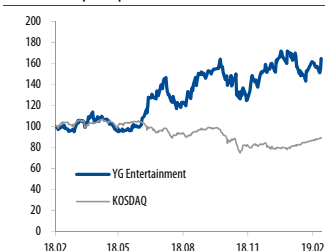


2019 to be a recovery period

Share price (KRW, Feb 21)	46,900		
Upside (%)	17.3		
Market cap (KRW bn)	853		
Shares outstanding ('000)	18,186		
Paid-in capital (KRW bn)/ Face value (KRW)	9/500		
52-week high/low (KRW)	48,950/27,050		
60-day avg. daily T/O (KRW bn)	14		
Foreign ownership (%)	16.27		
Major shareholders (%)	Yang Hyun-suk and 6 others 21.17		
Price performance	1M	3M	6M
Absolute (%)	9.6	14.7	22.5
Relative (%p)	2.0	6.8	29.0
K-IFRS, consolidated			
(KRW)	18F EPS	19F EPS	TP
Previous	609	1,660	45,000
Revised	1,029	1,693	55,000
Consensus	414	1,094	58,200
Difference	148.5%	54.7%	-5.5%

12-month price performance



Source: WiseFn, Hyundai Motor Securities

1) Investment highlights

- We maintain BUY on YG Entertainment and raise our target price to KRW55,000.
- 4Q18 results were below expectations due to a lack of concerts.
- Subsidiary YG Plus remains on a growth trajectory, posting an operating profit of KRW800mn. We believe earnings will continue to grow in 2019.
- Black Pink is slated to embark on an international tour after releasing a new album in March. A new idol boy group Treasure 13 is scheduled for debut in 2H19.

2) Major issues and earnings outlook

- YG reported 4Q18 sales of KRW80.7bn (-16% YoY) and an operating profit of KRW3.1bn (-32% YoY), missing the consensus and our estimates.
- 4Q18 recognized Asian tours by IKON, Winner, and Black Pink's concerts in Korea. IKON and Black Pink's Japanese leg of the tour, which attracted 150K concertgoers was also recognized. Given Black Pink's March comeback and their subsequent international tour as well as Treasure 13's debut in 2H19, 2019 should be a busier year for YG artists, both at home and abroad.
- YG Plus's business has almost normalized, with its cosmetics division reporting only a small loss in 2018. We expect the cosmetics division to turn to profit in 2019 led by overseas sales growth. The food equipment retailer that YG acquired in May 2017, began to fully contribute to earnings in 2018. VIBE, an AI-based music service launched in 2H18 also helped 2H18 earnings turn to the black. In 2019, we expect earnings to expand further as YG artists' new songs begin to be distributed digitally. We project YG Plus will report KRW3-5bn in operating profit in 2019.

3) Share price outlook and valuation

- We forecast both earnings and shares to move northwards in 2019 on the back of YG artists' busier overseas schedules, the addition of new artists, and growing earnings at YG Plus.
- We applied a 33x target P/E to 2019F EPS, a 20% premium to our previous target P/E in light of Black Pink's US debut, new artist momentum, and the turnaround of YG Plus.

Earnings forecasts and valuations

	Sales	OP	NP	EBITDA	EPS	Growth	P/E	P/B	EV/EBITDA	ROE	Div. yield
	(KRW bn)	(KRW bn)	(KRW bn)	(KRW bn)	(KRW)	(%YoY)	(x)	(x)	(x)	(%)	(%)
2016	322	32	19	39	1,171	-35.8	24.2	1.8	10.3	7.7	0.7
2017	350	24	18	34	991	-15.4	29.1	1.6	13.8	5.7	0.5
2018F	286	9	19	18	1,029	3.8	46.2	2.6	51.3	5.3	0.3
2019F	344	34	31	40	1,677	63.1	26.4	2.2	21.5	8.2	0.3
2020F	380	38	34	43	1,860	10.9	23.8	2.1	19.9	8.4	0.3

Note: K-IFRS, consolidated

Fig 1. 4Q18 earnings review

(KRW bn)	Earnings			Growth		HMC estimates		Consensus	
	4Q18P	4Q17	3Q18	(%YoY)	(%QoQ)	4Q18F	%difference	3Q16F	%difference
Sales	80.7	95.5	65.2	-15.5	23.7	84.4	-4.5	79.3	1.7
Operating profit	3.1	4.6	2.6	-31.6	19.2	4.8	-34.4	4.6	-31.8
Operating margin (%)	3.9	4.8	4.0			5.7		5.8	
Pretax profit	3.4	2.6	3.2	29.6	7.6	5.0	-31.8	4.8	-28.8
Net profit (CI)	2.7	-0.1	2.0	TB	34.7	3.1	-15.4	4.2	-36.7

Note: K-IFRS, consolidated
Source: Hyundai Motor Securities

Fig 2. Quarterly earnings trends

(KRW bn)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18F	2017	2018F	2019F
Sales	106.9	72.3	5.2	95.5	77.3	62.7	65.2	80.7	349.8	285.8	344.4
Digital/record/MD	26.6	31.7	24.1	50.2	19.4	25.8	29.9	25.7	132.6	101.1	104.8
Concert	12.5	7.0	21.5	15.1	1.8	1.2	4.8	5.6	56.1	13.3	23.0
Endorsement	9.2	12.3	10.4	8.0	7.3	7.9	7.0	8.0	39.9	30.1	35.2
Royalty	49.3	5.8	5.4	1.3	34.7	5.0	4.0	5.7	61.8	49.3	25.6
Appearance	5.1	4.2	4.7	6.3	3.2	4.7	3.7	4.8	20.3	16.4	20.1
Commission	4.2	11.2	9.2	10.7	7.4	17.8	9.0	8.8	35.4	39.5	39.8
Operating profit	14.8	4.3	1.5	4.6	2.3	1.4	2.6	3.1	25.2	9.5	34.0
OPM (%)	13.9	6.0	2.0	4.8	3.0	2.2	4.0	3.9	7.2	3.3	9.9
Net profit	6.0	4.7	5.3	-4.1	0.8	-0.4	1.1	14.4	11.9	15.9	27.0
Net margin (%)	5.6	6.	7.1	-4.3	1.0	-0.6	1.7	17.9	3.4	5.6	7.8

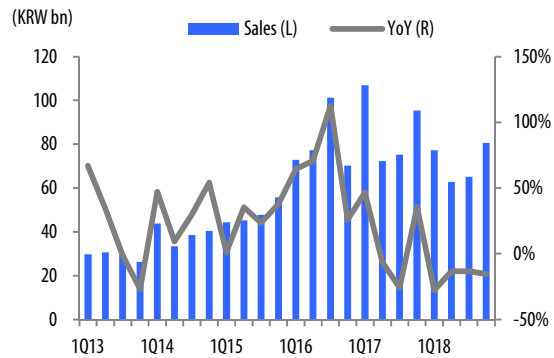
Note: K-IFRS, consolidated
Source: Hyundai Motor Securities

Fig 3. Earnings revisions

(KRW bn)	Revised		Previous		%change	
	2018F	2019F	2018F	2019F	2018F	2019F
Sales	285.8	344.4	289.6	341.4	-1.3	0.9
Operating profit	9.5	34.0	13.7	33.6	-30.8	1.2
Pretax profit	11.3	34.6	17.8	34.2	-36.7	1.2
Net profit	15.9	27.0	7.2	26.7	121.5	1.1

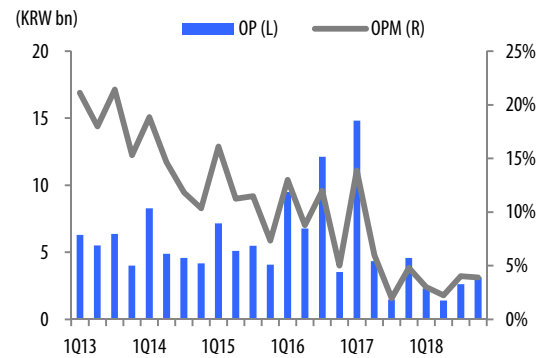
Note: K-IFRS, consolidated
Source: Hyundai Motor Securities

Fig 4. Sales trend



Note: K-IFRS, consolidated
Source: Company data, Hyundai Motor Securities

Fig 5. Operating margin and trend



Source: Company data, Hyundai Motor Securities

Fig 6. Black Pink performed on US TV's The Late Show



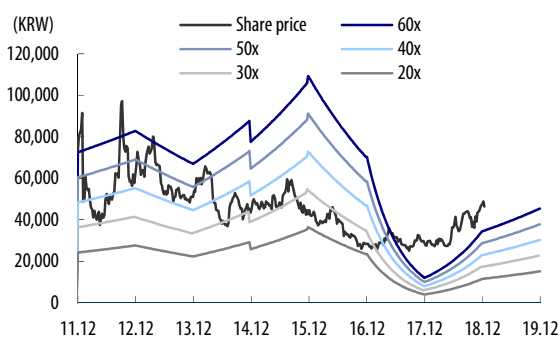
Source: Company data, Hyundai Motor Securities

Fig 7. Treasure 13



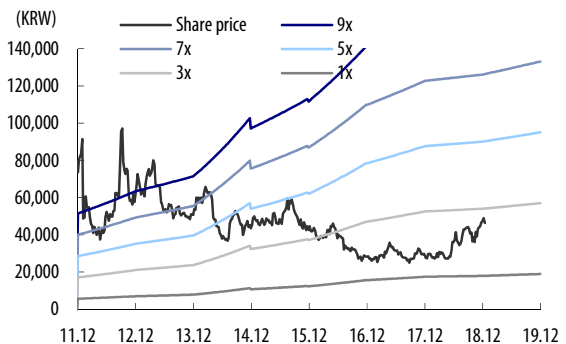
Source: Company data, Hyundai Motor Securities

Fig 8. P/E bands



Source: Dataguide, Hyundai Motor Securities

Fig 9. P/B bands



Source: Dataguide, Hyundai Motor Securities

COMPANY NOTE

Income statement

(KRW bn)	2016	2017	2018F	2019F	2020F
Sales	322	350	286	344	380
Change (%)	66.7	8.7	-18.3	20.5	10.2
Cost of goods sold	227	249	201	232	256
% of sales	70.5	71.2	70.3	67.5	67.5
Gross profit	95	101	85	112	123
Gross margin (%)	29.5	28.8	29.7	32.5	32.5
Change (%)	43.3	6.0	-15.5	31.6	10.2
SG&A expenses	63	77	76	78	85
% of sales	19.6	21.9	26.6	22.6	22.5
EBITDA	39	34	18	40	43
EBITDA margin (%)	12.2	9.8	6.2	11.6	11.3
Change (%)	48.4	-12.4	-48.3	124.9	7.7
Operating profit	32	24	9	34	38
Operating margin (%)	9.9	6.9	3.2	9.9	10.0
Change (%)	46.3	-24.3	-62.3	273.1	11.9
Non-operating profit	1	6	2	1	0
Interest income	12	16	11	5	4
Interest expenses	8	10	7	2	2
Other non-operating income	-2	0	-2	-2	-2
Subsidiaries/affiliate income	0	0	0	0	0
Pretax profit from cont ops	33	30	11	35	38
Pretax margin (%)	10.2	8.6	3.9	10.0	10.1
Change (%)	-0.7	-8.9	-62.5	207.0	10.9
Income tax	19	18	10	8	8
Profit from continuing ops	14	12	16	27	30
Profit from discontinuing ops	0	0	0	0	0
Net profit	14	12	16	27	30
Net margin (%)	4.4	3.4	5.6	7.8	7.9
Change (%)	-41.2	-15.5	33.9	69.3	10.9
NP from controlling interest	19	18	19	31	34
NP from non-controlling interest	-5	-6	-3	-4	-4
Other comprehensive income	4	-6	0	0	0
Total comprehensive income	19	6	16	27	30

Cash flow

(KRW bn)	2016	2017	2018F	2019F	2020F
Operating cash flow	32	22	21	30	32
Net profit	14	12	16	27	30
Depreciation on tangible assets	3	4	5	4	4
Amortization on intangible assets	4	6	4	1	1
FX-related profit	0	1	0	0	0
Dec (inc) in working capital	7	-7	-5	-3	-3
Others	4	6	1	0	0
Investing cash flow	-68	-54	-132	-50	-48
Dec (inc) in investment assets	-68	-8	-89	-23	-22
Decrease in tangible assets	1	0	0	0	0
Increase in tangible assets	-18	-30	-21	-12	-12
Others	17	-16	-22	-15	-14
Financing cash flow	63	71	1	-3	-3
Increase (decrease) in debt	4	7	6	0	0
Increase (decrease) in bond	0	3	0	0	0
Increase in capital	64	50	0	0	0
Dividend	-6	-4	-3	-3	-3
Others	1	14	-2	0	0
Other cash flow	0	-2	0	0	0
Increase (decrease) in cash	28	37	-109	-23	-18
Beginning cash	34	62	99	-10	-34
Ending cash	62	99	-10	-34	-52

Note: K-IFRS, consolidated

Balance sheet

(KRW bn)	2016	2017	2018F	2019F	2020F
Current assets	276	307	221	224	230
Cash and cash equivalents	62	99	-10	-33	-52
Short-term investment assets	138	120	133	148	162
Accounts receivable	28	38	24	27	29
Inventory assets	16	18	27	30	33
Other current assets	32	32	47	52	57
Non-current assets	210	276	379	409	437
Tangible assets	61	87	100	108	116
Intangible assets	33	63	62	60	59
Investment assets	111	119	208	232	253
Other non-current assets	5	8	9	9	9
Other financial assets	0	0	0	0	0
Total assets	487	584	600	633	667
Current liabilities	68	73	71	79	86
Short-term debt	0	2	3	3	3
Accounts payable	10	12	9	10	11
Current portion of long-term debt	0	0	0	0	0
Other current debt	58	60	59	65	71
Non-current liabilities	68	78	83	84	84
Bonds	0	3	4	4	4
Long-term debt	0	4	76	76	76
LT financial debt (incl. lease)	67	68	0	0	0
Other non-current debt	1	3	4	4	4
Other financial liabilities	0	0	0	0	0
Total liabilities	136	151	154	162	170
Owners of parent equity	281	343	360	388	419
Paid-in capital	8	9	9	9	9
Capital surplus	160	209	209	209	209
Capital adjustment, etc.	-1	2	3	3	3
Other accumul earnings and comp income	3	-2	-2	-2	-2
Retained earnings	110	124	140	168	199
Non-controlling interest	69	89	86	82	78
Total equity	350	432	446	470	497

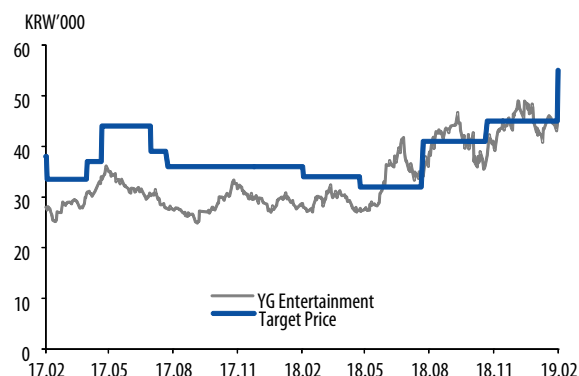
Key financial data

(KRW, x, %)	2016	2017	2018F	2019F	2020F
EPS (based on net profit)	877	659	877	1,484	1,646
EPS (based on parent net profit)	1,171	991	1,029	1,677	1,860
BPS (based on total equity)	19,591	22,108	22,803	24,045	25,438
BPS (based on owners of parent equity)	15,705	17,539	18,416	19,838	21,431
DPS	200	150	150	150	150
P/E (based on net profit)	32.3	43.8	54.2	29.8	26.9
P/E (based on parent net profit)	24.2	29.1	46.2	26.4	23.8
P/B (based on total equity)	1.4	1.3	2.1	1.8	1.7
P/B (based on owners of parent equity)	1.8	1.6	2.6	2.2	2.1
EV/EBITDA (reported)	10.3	13.8	51.3	21.5	19.9
Dividend yield	0.7	0.5	0.3	0.3	0.3
Growth (%)					
EPS (based on net profit)	-43.8	-24.9	33.1	69.3	10.9
EPS (based on parent net profit)	-35.8	-15.4	3.8	63.1	10.9
Profitability (%)					
ROE (based on net profit)	4.6	3.0	3.6	5.9	6.2
ROE (based on parent net profit)	7.7	5.7	5.3	8.2	8.4
ROA	3.3	2.2	2.7	4.4	4.6
Stability (%)					
Total liabilities/equity	38.9	35.1	34.7	34.6	34.2
Net debt/equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage	21.4	14.0	4.4	16.1	18.0

Investment rating and target price history

Date	Rating	TP	Difference (%)	
			Average	High/Low
17/02/23	BUY	33,500	-16.2	-8.4
17/04/21	BUY	37,000	-14.6	-8.1
17/05/12	BUY	44,000	-26.3	-17.8
17/07/21	BUY	39,000	-24.7	-19.2
17/08/14	BUY	36,000	-25.0	-21.1
17/10/24	BUY	36,000	-23.0	-14.6
17/11/13	BUY	36,000	-20.0	-7.4
18/01/29	BUY	36,000	-19.9	-7.4
18/02/23	BUY	34,000	-13.5	-4.7
18/05/15	BUY	32,000	5.5	30.5
18/08/13	BUY	41,000	-1.1	13.9
18/11/12	BUY	45,000	-1.4	8.8
19/02/22	BUY	55,000	-	-

Two-year price chart



Compliance note

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- Hyundai Motor Securities has not disclosed the material contained in this report to any institutional investor or third party prior to its publication.
- Hyundai Motor Securities has no special interest in the subject company as of the date of recommendation.
- This report accurately reflects the author(s)'s professional views and was written without any undue external influence or interference.

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Hyundai Motor Securities offers three sector investment ratings based on six-month forward fundamentals and share price outlook.

- OVERWEIGHT: Sector-wide fundamentals and share prices are expected to turn up.
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- SELL: Excess return of -15%p or less

Stock ratings distribution (January 1-December 31, 2018)

Rating	Count	% of rating category
BUY	147	92.45
MARKETPERFORM	12	7.55
SELL	0	0

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