

D&C Media (263720.KQ)

To enjoy strongest-ever earnings performance in 1Q19

Company Comment | Feb 26, 2019

While D&C Media's 4Q18 results fell short of our projections, we expect the firm to enjoy quarterly sales growth going forward, as it continues to amass IPs and develop new series. We attribute sluggish 4Q18 OP to increased game publishing costs.

Sales to rise continuously q-q, backed by ongoing IP accumulation

D&C Media's 4Q18 earnings missed both our estimates and the market projections, with sales of W9bn (+27.5% y-y), OP of W1bn (-24.9% y-y), and NP of W900mn (-19.8% y-y). We mainly attribute the sluggish profit figures to: 1) tepid sales (relative to cost) of new game Sake Sword: Guardian of the Saga at the company's game publishing subsidiary; and 2) inventory disposal costs and other expenses at the paper book business.

Helped by the ongoing accumulation of IPs and development of new series at D&C Media's web novels and webtoons business, we expect the firm to enjoy a steady q-q uptick in readership numbers and resultant increase in sales going forward. Thus far in 1Q19, the company's webtoon I Alone Level Up (web novel version boasted 1.6mn readers) has attracted over 500,000 viewers, benefiting from KakaoPage's 'wait and get content for free' model. In light of these strong numbers, we revise up our 1Q19 earnings forecasts.

We expect D&C Media's 1Q19 earnings to be its strongest ever. Backed by a growing content library, the firm's KakaoPage webtoon readership has expanded by 1.5mn users in 2019.

Boasts largest readership among CPs on Kakao; undervalued relative to IP holdings

As of end-February, D&C Media boasts the highest combined webtoon readership figure among content providers (CPs) on KakaoPage. Particularly noteworthy are the increase in the number of readers of D&C Media's content and the uptick in its KakaoPage traffic—both favorable signs for a top-ranking player in the webtoon and web novel space.

Noting the rising importance of CPs as sources of inspiration for content such as dramas, we believe that D&C Media's web novel supply capabilities warrant reevaluation. Upon confirmation of strong profitability driven by its IP competitiveness, we expect the firm's P/E multiple to rise.

4Q18 review

(Unit: Wbn, %)

	4Q17	1Q18	2Q18	3Q18	4Q18P					1Q19E
					Actual	y-y	q-q	Estimate	Consen	
Sales	7.1	7.5	8.0	8.4	9.0	27.5	7.2	9.6	9.8	9.9
OP	1.4	1.5	1.9	1.8	1.0	-24.9	-35.9	1.6	2.1	2.1
OPM	19.6	19.8	23.4	21.1	11.6			16.8	21.4	21.0
Pre-tax profit	1.5	1.6	2.0	1.9	1.1	-24.4	-35.1	1.3	N/A	2.2
NP (excl minority interests)	1.2	1.3	1.6	1.5	0.9	-19.8	-29.0	1.1	1.8	1.8

Note: IFRS consolidated; Source: D&C Media, FnGuide, NH I&S Research Center estimates

Buy (maintain)

TP	W20,000 (maintain)		
CP (2019/02/25)	W16,250		
Sector	Digital content		
Kospi/Kosdaq	2,232.56 / 750.40		
Market cap (common)	US\$175.09mn		
Outstanding shares (common)	12.0mn		
52W high ('18/09/27)	W17,950		
low ('18/03/15)	W11,400		
Average trading value (60D)	US\$0.62mn		
Dividend yield (2019E)	0.00%		
Foreign ownership	2.3%		
Major shareholders			
HH Shin & 2 others	52.6%		
KakaoPage	18.4%		
Share perf	3M	6M	12M
Absolute (%)	8.7	25.5	28.5
Relative (%)	-1.1	33.5	49.8
	2017	2018P	2019E
Sales	26.5	32.9	45.0
Chg	40.5	24.0	36.7
OP	5.4	5.8	9.6
OPM	20.5	17.6	21.4
NP	4.5	4.8	8.5
EPS	442	396	702
Chg	22.7	-10.3	77.1
P/E	16.0	35.7	23.1
P/B	2.7	4.6	4.3
EV/EBITDA	10.5	23.9	16.3
ROE	23.4	13.9	20.6
Debt/equity	11.8	11.9	10.5
Net debt	-27.7	-31.5	-38.2

Unit: Wbn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates



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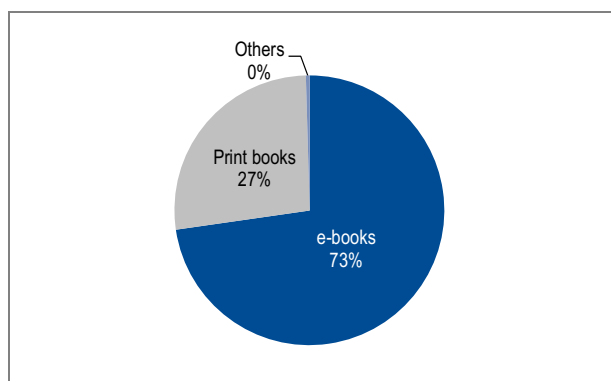
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Company overview

- Founded in Jun 2002 with a focus on fantasy/martial arts novels, D&C Media has since cemented its position as a content provider for web novels and webtoons.
- Owning diverse brands, including Papyrus, Black Label Club, and Seed Novel, the firm targets audiences by age.
- D&C Media is the largest content provider on the KakaoPage platform, with KakaoPage (formerly, Podotree) owning an 18.5% stake in D&C Media.
- In combination with related parties, largest shareholder HH Shin (34.8% stake) owns a 52.7% stake.

Sales breakdown

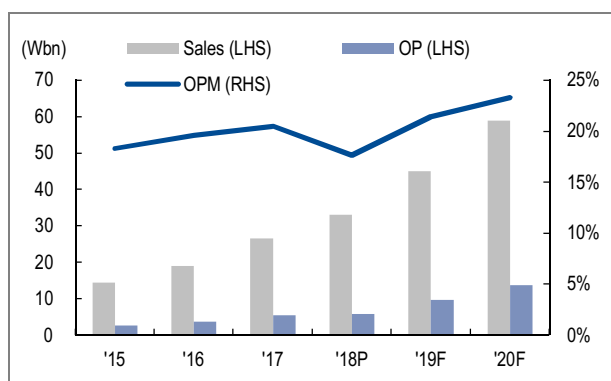
- In 1H18, sales at D&C Media broke down into: e-books (73%) and print books (27%)
- Webtoons make up around 20% of the company's e-book sales, and the portion is on the rise



Note: As of 1H18
Source: D&C Media, NH I&S Research Center

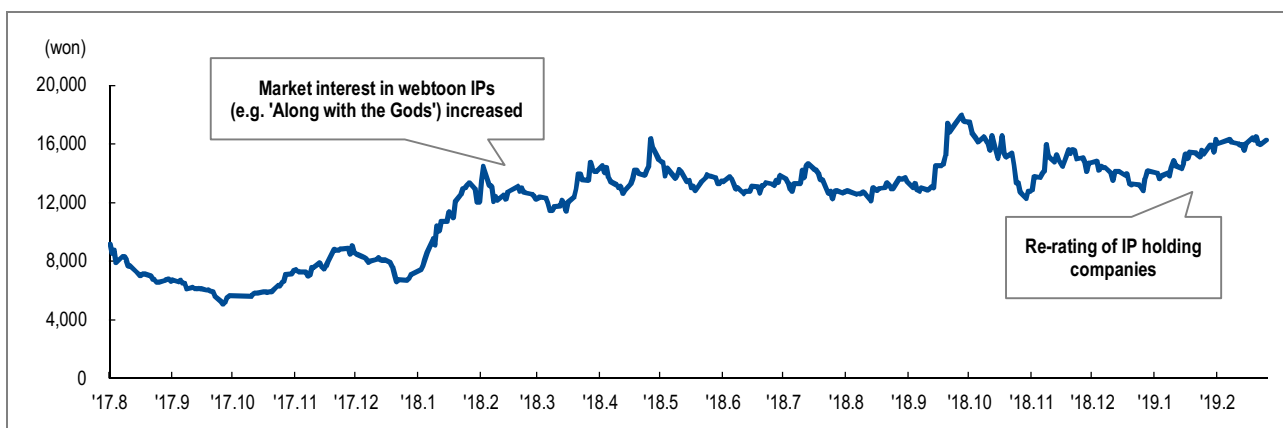
Earnings

- The firm booked 2018 sales of W32.9bn (+24.0% y-y), OP of W5.8bn (+6.8% y-y), and NP (excluding minority interests) of W4.8bn (+8.4% y-y)
- As D&C Media receives its platform fees prior to distributing profits to creators, the firm's OPM has remained at a steady low-20% level. Of note, the firm produces in-house webtoons in order to enhance OPM



Source: NH I&S Research Center estimates

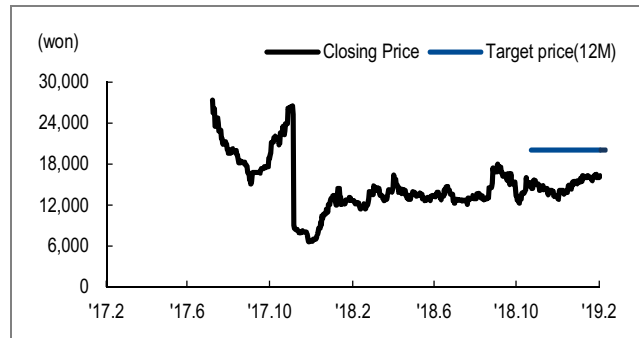
Share performance and major events



Source: DataGuide, NH I&S Research Center

Rating and TP update

Company	Code	Date	Rating	TP
D&C Media	263720.KQ	2018.11.19	Buy	W20,000(12M)



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1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

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Buy	Hold	Sell
77.3%	22.7%	0.0%

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