

YG Entertainment (122870.KQ)

Strong growth hidden by noise

Company Comment | Apr 22, 2019

We note that YG Ent's BLACKPINK: 1) enjoyed a successful debut at Coachella; and 2) boasts a new song Kill This Love, which reached 30th in the Spotify US weekly rankings (global weekly: 5th). As the firm has proved its ability to appeal to a large global audience, the elimination of non-operating noise is to take center stage.

BLACKPINK's global expansion proceeding smoothly

On Apr 12 and 19, YG Ent's BLACKPINK performed in the Coachella Valley Music and Arts Festival's Sahara Tent, attracting an audience of more than the tent's capacity of roughly 12,500 people. Considering that the Coachella audience is made up primarily not of K-pop fans but of the general public, such strong attendance figures indicate that BLACKPINK boasts significant appeal in the US. We find further evidence of the group's strength in the Spotify weekly rankings, where BLACKPINK has reached 30th in the US and 5th globally.

Looking at YouTube traffic, Kill This Love recorded 2bn views in just 11 days. Meanwhile, shortly after the song's release, it ranked number one on iTunes in 37 countries (including the US). We view these results as verifying the strength of demand for YG Ent's offerings as well as that of BLACKPINK's global fanbase.

Temporary slowdown in 1Q19, but growth to pick up from 2Q19

While IKON's I'm OK (released Jan 7) represents YG Ent's only new release in 1Q19, the quarter's earnings are to reflect sales from major releases such as Jennie's SOLO (Nov 12), MINO's Fiance (Nov 26), and Winner's Millions (Dec 19), due to a one-month lag in the reflection of digital content sales. In addition, BLACKPINK's Southeast Asia tour likely provided a strong boost to 1Q19 royalty income.

Turning to 2Q19, we expect the firm's earnings to be helped by the April release of BLACKPINK's Kill This Love. Additional favorable 2Q19 momentum is to be provided by a new album release from Winner, as well as the debut of artists SOMI and Treasure 13.

Despite noise, strong growth prospects remain

In light of the recent robust performances of its major acts, we maintain a Buy rating on YG Ent despite a historical low for investment sentiment driven by the deepening Burning Sun nightclub scandal and resulting special tax investigation into the company.

In order for its strong growth to translate into share price momentum, it appears necessary for YG Ent to: 1) put to rest the ongoing tax investigation (a short-term concern); and 2) renew its corporate image (mid/long-term). Believing that YG Ent boasts the strongest growth prospects among domestic entertainment companies, we advise paying continuing attention to the play.

Buy (maintain)

TP	W56,000(maintain)			
CP ('19/04/19)	W36,550			
Sector	Entertainment			
Kospi/Kosdaq	2,216.15 / 762.57			
Market cap (common)	US\$584.4mn			
Outstanding shares (common)	18.2mn			
52W high ('18/12/26)	W48,950			
low ('18/05/10)	W27,050			
Average trading value (60D)	US\$16.0mn			
Dividend yield (2019E)	0.41%			
Foreign ownership	16.8%			
Major shareholders				
HS Yang & 6 others	21.2%			
NAVER	9.1%			
Share perf	3M	6M	12M	
Absolute (%)	-18.0	-11.3	20.6	
Relative (%)p	-25.2	-13.9	39.6	
	2018	2019E	2020F	2021F
Sales	285.8	339.9	381.7	430.3
Chg	-18.3	18.9	12.3	12.7
OP	9.6	26.9	34.4	36.1
Chg	-60.3	180.2	27.9	4.9
OPM	3.4	7.9	9.0	8.4
NP	17.8	26.7	32.5	32.9
EPS	968	1,466	1,787	1,810
Chg	-2.3	51.4	21.9	1.3
P/E	49.1	24.9	20.5	20.2
P/B	2.6	1.9	1.7	1.6
EV/EBITDA	47.1	16.5	13.2	12.0
ROE	5.1	7.2	8.2	7.7
Debt/equity	32.2	28.8	27.5	25.4
Net debt	-54.3	-204.7	-234.5	-264.2

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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1Q19 preview (K-IFRS consolidated)

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19E					2Q19F
					Estimate	y-y	q-q	Previous	Consen	
Sales	77.3	62.7	65.2	80.7	70.1	-9.2	-13.1	79.9	70.9	84.7
OP	1.9	1.8	2.3	3.6	3.4	80.6	-5.0	5.2	3.8	6.2
OPM	2.5	2.8	3.5	4.5	4.9			6.4	5.4	7.4
Pre-tax profit	2.9	1.7	3.2	17.1	4.3	46.1	-75.1	8.4	5.3	7.1
NP (excl minority interest)	2.3	-0.1	2.0	13.6	3.3	44.2	-75.6	6.3	5.8	5.5

Source: WISEfn, NH I&S Research Center estimates

Earnings forecasts (IFRS consolidated)

(Unit: Wbn, won, x, %)

		2018	2019E	2020F	2021F
Sales	- Revised	285.8	339.9	381.7	430.3
	- Previous	278.0	344.6	508.0	516.7
	- Change		-1.4	-24.9	-16.7
OP	- Revised	9.6	26.9	34.4	36.1
	- Previous	9.5	28.7	49.0	41.2
	- Change		-6.3	-29.8	-12.4
OPM	- Revised	3.4	7.9	9.0	8.4
EBITDA		19.1	33.3	39.4	40.7
NP (excl minority interests)		17.8	26.7	32.5	32.9
EPS	- Revised	968	1,466	1,787	1,810
	- Previous		1,357	2,145	1,917
	- Change		8.0	-16.7	-5.6
P/E		49.1	24.9	20.5	20.2
P/B		2.6	1.9	1.7	1.6
EV/EBITDA		47.1	16.5	13.2	12.0
ROE		5.1	7.2	8.2	7.7

Note 1: EPS, P/E, P/B, and ROE based on NP (excluding minority interests)

Note 2: Big Bang-related earnings (reflected from 2H20 and afterwards) revised down

Source: NH I&S Research Center estimates

Quarterly earnings forecasts

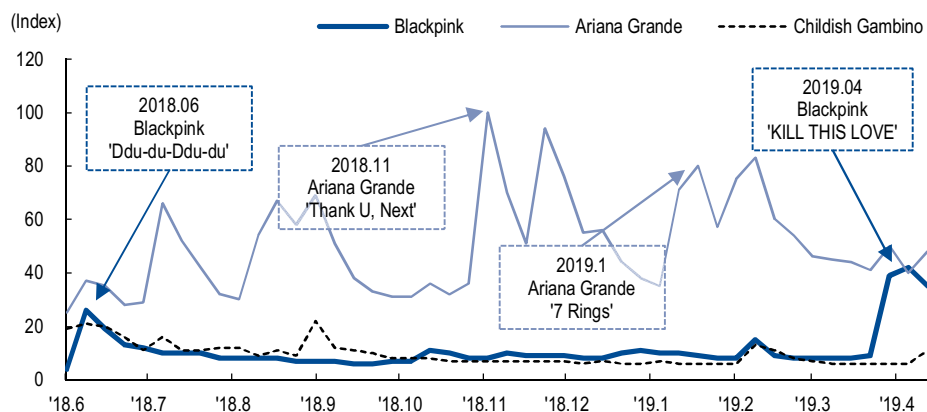
(Unit: Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19E	2Q19F	3Q19F	4Q19F	2017	2018E	2019F
Sales	106.9	72.3	75.2	95.5	77.3	62.7	65.2	80.7	70.1	84.7	93.6	91.5	349.9	285.8	339.9
Physical/digital/ merchandise	26.6	31.7	24.1	30.1	19.6	25.8	29.9	25.7	24.8	32.4	36.5	36.1	112.5	101.1	129.8
Physical music	5.2	6.5	3.7	2.5	2.1	3.4	2.6	2.4	1.2	4.0	3.6	3.6	18.0	10.5	12.4
Digital music	13.0	15.9	12.1	14.1	11.3	13.0	14.1	11.5	14.0	20.2	23.5	22.9	55.1	49.9	80.6
Merchandise (others)	8.3	9.3	8.2	13.5	6.2	9.4	13.3	11.7	9.7	8.2	9.4	9.6	39.3	40.6	36.8
Concert	12.5	7.0	21.5	15.1	1.8	1.2	4.8	5.6	15.0	10.6	13.6	13.1	56.1	13.3	52.3
Ad	9.2	12.3	10.4	8.0	7.3	7.9	7.0	8.0	7.6	12.1	13.5	13.2	39.9	30.1	46.5
Royalty	49.3	5.8	5.4	21.4	34.7	5.0	4.0	5.7	5.3	3.7	5.7	6.2	81.8	49.3	20.9
Performance fee	5.1	4.2	4.7	6.4	3.2	4.7	3.7	4.8	6.1	9.7	10.8	10.6	20.3	16.4	37.2
Production	-	-	-	3.9	3.3	0.4	1.3	11.9	1.0	1.0	1.0	1.0	3.9	16.9	4.0
Commission	4.2	11.2	9.2	10.7	7.4	14.2	9.0	8.8	0.1	5.0	2.3	1.0	35.4	39.5	8.5
(Reference) YG PLUS	8.8	9.0	7.3	7.7	6.7	13.1	17.7	31.2	37.7	42.8	40.0	38.7	32.7	68.7	159.2
Sales y-y (%)	47%	-6%	-26%	36%	-28%	-13%	-13%	-16%	-9%	35%	44%	13%	9%	-18%	19%
COGS	73.9	47.6	54.4	73.2	56.8	41.0	43.7	59.3	47.8	57.6	63.7	62.4	249.2	200.8	231.5
Album	17.7	18.1	16.2	19.1	11.0	18.0	21.5	25.0	21.9	28.2	31.0	30.7	71.1	75.5	111.7
Concert	10.1	6.0	18.1	12.3	2.2	1.4	4.4	5.0	13.1	9.0	11.5	11.2	46.6	13.0	44.8
Service	46.1	23.6	20.0	33.8	36.4	18.9	14.8	17.3	11.8	19.3	20.1	19.5	123.6	87.5	70.7
Production	0.5	-0.1	-0.3	0.5	-0.2	-0.1	-0.2	-0.2	-0.2	0.4	0.5	0.1	0.1	-0.2	0.2
COGS-to-sales ratio	69%	66%	72%	77%	73%	65%	67%	74%	68%	68%	68%	68%	71%	70%	68%
COGS y-y (%)	49%	-12%	-25%	46%	-23%	-14%	-20%	-19%	-16%	40%	46%	5%	10%	-19%	15%
GP	33.0	24.6	20.8	22.3	20.5	21.7	21.5	21.3	22.3	27.1	29.9	29.1	100.7	85.0	108.5
GPM	31%	34%	28%	23%	27%	35%	33%	26%	32%	32%	32%	32%	29%	30%	32%
GP y-y (%)	42%	7%	-27%	11%	-38%	-12%	3%	-4%	9%	25%	39%	37%	6%	-16%	28%
OP	14.8	4.3	1.5	3.5	1.9	1.8	2.6	3.1	3.4	6.2	8.1	9.1	24.2	9.4	26.9
OPM	14%	6%	2%	4%	2%	3%	4%	4%	5%	7%	9%	10%	7%	3%	8%
OP y-y (%)	56%	-36%	-88%	0%	-87%	-59%	78%	-11%	81%	254%	209%	191%	-24%	-61%	185%
NP (excl minority interests)	7.3	4.4	6.2	-0.1	2.3	-0.1	2.0	14.5	3.3	5.5	10.1	7.7	17.8	18.7	26.7
NPM (cont.)	7%	6%	8%	0%	3%	0%	3%	18%	5%	6%	11%	8%	5%	7%	8%
NP (excl minority interests) %y-y	3%	-34%	88%	-105%	-68%	-102%	-68%	TTP	44%	TTP	412%	-47%	-5%	5%	43%

Note: Service = Ad+royalty+performance fee+commission

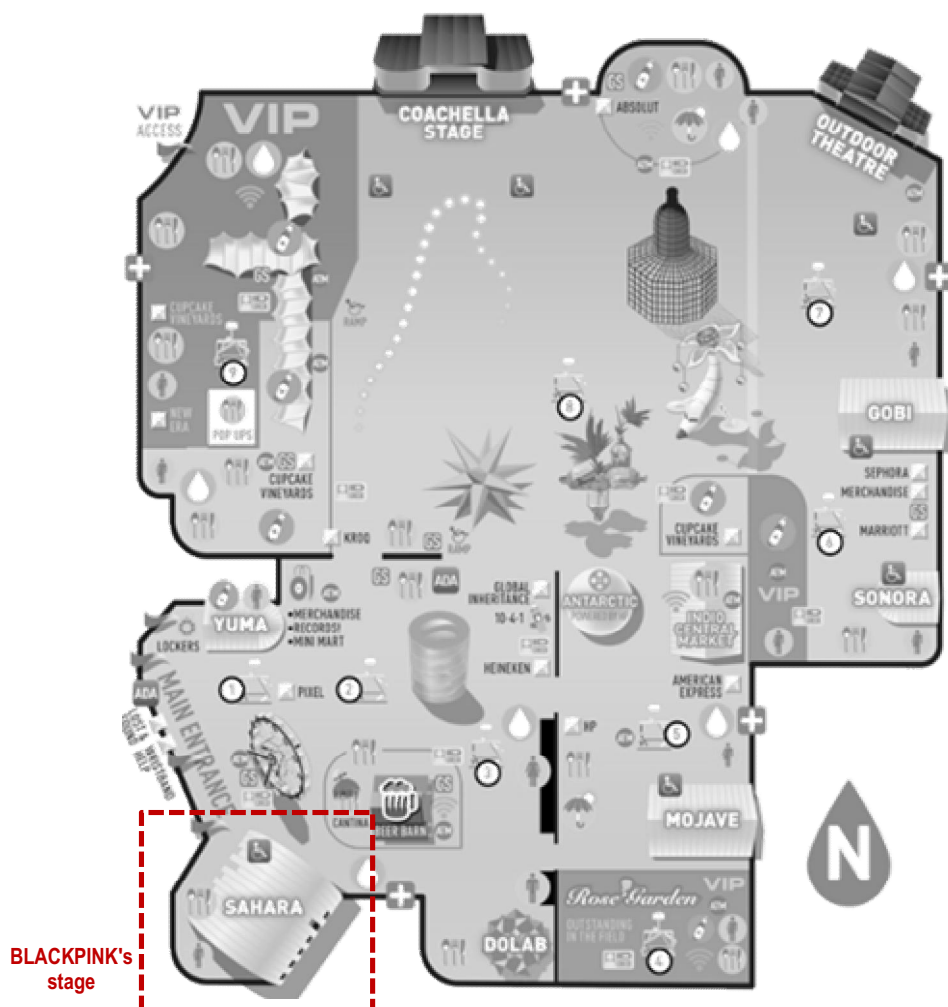
Source: YG Ent, NH I&S Research Center estimates

US Google Trends: BLACKPINK enjoyed strong attention during Coachella



Note: Coachella held on Apr 12,13,14,19, 20, and 21; BLACKPINK played on Apr 12 and 19
Source: Google Trends (YouTube), NH I&S Research Center

Coachella Festival map: BLACKPINK played on Sahara stage



Source: Coachella, NH I&S Research Center

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Sales	285.8	339.9	381.7	430.3
Growth (%)	-18.3	18.9	12.3	12.7
COGS	200.8	231.5	272.7	313.9
Gross Profit	85.0	108.5	109.0	116.5
Gross margin (%)	29.7	31.9	28.6	27.1
SG&A	75.4	81.6	74.6	80.3
Operating Income	9.6	26.9	34.4	36.1
Growth (%)	-60.3	180.2	27.9	4.9
Operating margin (%)	3.4	7.9	9.0	8.4
EBITDA	19.1	33.3	39.4	40.7
Non-Operating Profit	16.8	7.3	7.3	7.7
Financial Income(Costs)	23.1	-0.7	-0.7	7.9
Other Non-Operating Profit	-6.3	8.0	8.0	-0.2
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	0.0	0.0	0.0
Pre-tax Profit from Cont. Op.	26.4	34.2	41.7	43.9
Income Taxes	8.9	7.5	9.2	11.0
Profit from Continuing Op.	17.5	26.7	32.5	32.9
Net Profit	15.9	26.7	32.5	32.9
Growth (%)	33.6	67.9	21.7	1.2
Net margin (%)	5.6	7.9	8.5	7.6
Net Profit of Parent	17.8	26.7	32.5	32.9
Net Profit to Non-Controlling	-1.9	0.0	0.0	0.0
Other Comprehensive Income	1.0	0.0	0.0	0.0
Total Comprehensive Income	17.0	26.7	32.5	32.9

Valuation / Profitability / Stability				
	2018/12A	2019/12E	2020/12F	2021/12F
Price/ Earnings (X)	49.1	24.9	20.5	20.2
Price/ Book Value (X)	2.6	1.9	1.7	1.6
Price/ Gross Cash Flow (X)	34.6	17.5	16.1	15.8
Price/ Sales (X)	3.0	2.0	1.7	1.5
EV/ EBITDA (X)	47.1	16.5	13.2	12.0
EV/ EBIT (X)	93.7	20.4	15.1	13.6
Fully diluted EPS (W)	968	1,466	1,787	1,810
BVPS (W)	18,407	19,633	21,157	22,702
Sales PS (W)	15,718	18,693	20,990	23,663
ROE (%)	5.1	7.2	8.2	7.7
ROA (%)	2.7	4.4	5.2	5.0
ROIC (%)	3.2	8.7	10.7	10.6
Dividend Yield (%)	0.3	0.4	0.4	0.4
Payout Ratio (%)	15.2	5.6	8.3	12.2
Total Cash Dividend (Wbn)	2.9	1.5	2.7	4.0
Cash DPS (W)	150	150	150	150
Net debt(cash)/ equity (%)	-12.1	-43.2	-46.6	-49.5
Debt/ equity (%)	32.2	28.8	27.5	25.4
Interest-Bearing Debts (Wbn)	14.0	17.3	18.7	17.1
Current Ratio (%)	371.2	717.3	756.0	865.1
Total shares (mn)	20	20	20	20
Par value (W)	500	500	500	500
Share price (W)	47,500	36,550	36,550	36,550
Market Cap (Wbn)	863.8	664.9	664.9	664.9

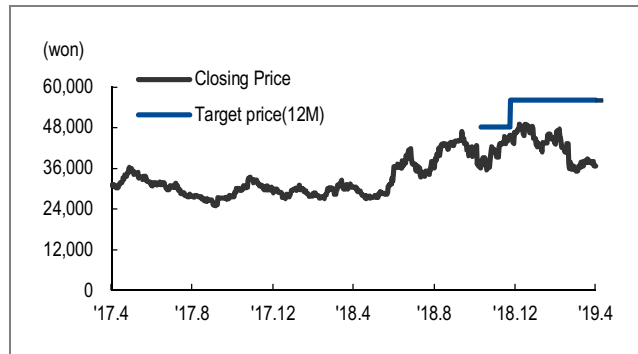
STATEMENT OF FINANCIAL POSITION				
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Cash and Cash Equivalents	58.6	211.3	242.5	270.6
Accounts Receivables	22.7	20.5	18.4	17.5
Total Current Assets	232.7	385.3	422.8	453.3
Tangible Assets	105.4	111.6	109.4	107.4
Investment Assets	188.3	46.6	45.3	45.3
Non-Current Assets	361.6	224.3	219.0	215.4
Assets	594.3	609.6	641.8	668.7
Short-Term Debt	3.4	6.7	8.1	6.5
Account Payables	10.2	8.7	9.6	7.6
Current Liabilities	62.7	53.7	55.9	52.4
Long-Term Debt	80.7	80.7	80.7	80.7
Long-Term Allowance	0.0	0.0	0.0	0.0
Non-Current Liabilities	82.2	82.5	82.7	83.0
Liabilities	144.9	136.2	138.6	135.4
Capital Stock	9.3	9.3	9.3	9.3
Capital Surplus	209.5	209.5	209.5	209.5
Retained Earnings	139.7	163.6	193.4	223.6
Non-Controlling Interests Equity	89.7	89.7	89.7	89.7
Shareholders' Equity	449.4	473.4	503.2	533.4

CASH FLOW STATEMENT				
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Operating Cash Flow	22.5	22.3	32.2	33.4
Net Profit	15.9	26.7	32.5	32.9
Depreciation&Amortization	9.5	6.4	5.0	4.6
+ Loss(Gains) from Subs	0.7	0.0	0.0	0.0
+ FC translation loss(profit)	0.0	0.0	0.0	0.0
Gross Cash Flow	25.0	38.1	41.3	42.0
- Incr. (Decr.) in WC	2.7	-10.7	-5.2	-4.1
Investing Cash Flow	-65.6	130.0	0.3	-1.0
+ Decr. In Tangible Assets	0.1	0.0	0.0	0.0
- Incr. In Tangible Assets(CAPEX)	-25.9	-10.7	-1.0	-1.0
+ Disp.(Acq.) of Inv. Assets	-70.8	141.7	1.3	0.0
Free Cash Flow	-3.4	11.6	31.2	32.4
Net Cash Flow	-43.2	152.3	32.6	32.4
Financing Cash Flow	1.4	0.4	-1.4	-4.3
Equity Financing	0.0	0.0	0.0	0.0
Debt Financing	1.4	0.4	-1.4	-4.3
Incr.(Decr.) in Cash	-40.3	152.7	31.2	28.0
Ending Cash and Cash Equivalents	58.6	211.3	242.5	270.6
Net Debt (Cash)	-54.3	-204.7	-234.5	-264.2

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2018.12.13	Buy	W56,000(12M)	-	-
2018.10.30	Buy	W48,000(12M)	-14.7%	-5.1%

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NH Investment & Securities stock ratings

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%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Apr 15, 2019).

● NH I&S' stock rating distribution

Buy	Hold	Sell
77.7%	22.3%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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- NH I&S has not provided this material to any institutional investor or other third party in advance.
- The analyst and his/her spouse do not own any securities of YG Entertainment as of the preparation date.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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