

J Contentree (036420 KQ)

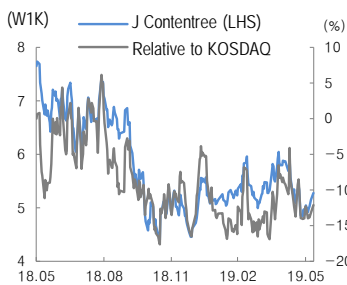
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Rating **BUY**
maintain
6M TP (W) **8,200**
maintain
CP (W)
(19.06.10) **5,080**
Media

Industry 4.0 safety rating ■ Neutral Green

KOSDAQ	721.14
Market cap (Wbn)	732
Market cap portion (%)	0.30
Paid-in capital (common; Wbn)	72
52w high/low (W)	7,070 / 4,270
120d avg. trading volume (Wbn)	10.1
Foreign ownership (%)	2.32
Major shareholders	Joongang Holdings+1: 33.32% National Pension Service: 6.99%

(%)	1M	3M	6M	12M
Abs. return	-5.0	-9.1	8.3	-24.0
Rel. return	-4.9	-7.3	0.7	-7.4



A path-breaker in China's content market

BUY, TP maintained at W8,200

- Our W8,200 target price for J Contentree is based on a 12-month forward EPS of W287 and a target P/E ratio of 28.

TV unit's growth potential strong, film business stable

- The media company derives 58% of its revenue from the cinema business, which involves a theater-chain (Megabox) operation and film investment. The rest (42%) comes from its TV business by way of investment (via J Contentree) and production and distribution of shows (via subsidiary JTBC ContentHub).
- The TV business will get busier as the company's cable affiliate JTBC adds more slots for dramas, up to 20 eventually from the current 11. (The No.2 media company, by drama production volume, has created an average of five dramas a year, for a total of 36, since 2012.)
- The recent tie-up with film/TV studio Film Monster will add to the company's production capability.
- Further boosting the TV unit's outlook is the company's eye for hit content. Since it began engaging itself more directly in drama IP (intellectual property) investment, viewer ratings for JTBC dramas have more than doubled, from an average of 2.4% to 5.4%. Its latest project Sky Castle hit a record viewership for a cable TV drama at 23.8%.
- * With ramped-up investment, J Contentree now owns rights to all of the cable channel's dramas.
- We expect the TV business to grow at a CAGR of 21% over the next five years, driving the company's top-line growth. In 2013, the unit's revenue is forecast to reach W500bn (making up 52% of J Contentree's estimated W1tn revenue in that year), up from W200bn in 2018 (38%).
- Companywide, we expect revenue to grow by 13% and OP by 25% on a CAGR basis over the next five years.

A pioneer in China's content market

- J Contentree beat Studio Dragon in tapping into overseas markets, putting its drama Man-to-Man on Netflix earlier than Studio's Mr. Sunshine.
- The company was also the first to enter the hard-to-crack Chinese TV market. Before the diplomatic friction between Korea and China broke out a few years back, the company sealed multiple license deals for its hit reality shows. Even with the bilateral relations yet to fully recover, J Contentree still managed to strike a deal with China's online video providers to sell its hit drama Misty.

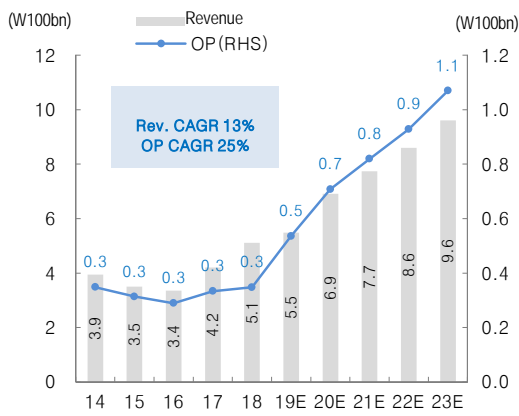
Operating results and major financial data

(Wbn, W, x)

	2017A	2018A	2019F	2020F	2021F
Revenue	420	511	565	687	768
OP	33	35	54	69	79
Pretax profit	24	34	57	77	90
NP	11	26	44	59	68
NP (controlling int.)	6	18	35	48	54
EPS	53	145	243	330	378
PER	97.5	30.8	20.9	15.4	13.4
BPS	1,311	2,645	2,582	2,913	3,291
PBR	4.0	1.7	1.6	1.5	1.3
ROE	5.3	7.4	9.9	12.0	12.2

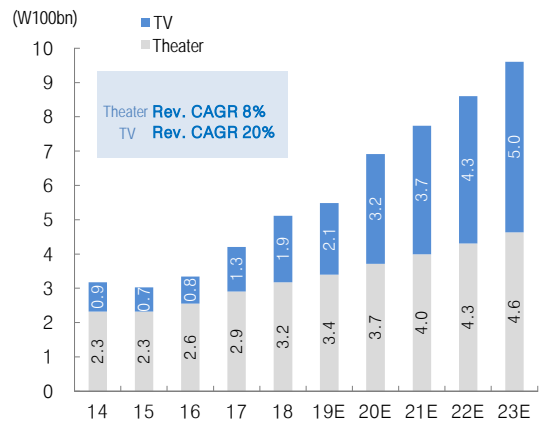
Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: J Contentree, Daishin Securities Research Center

Fig 1. Revenue and OP outlook



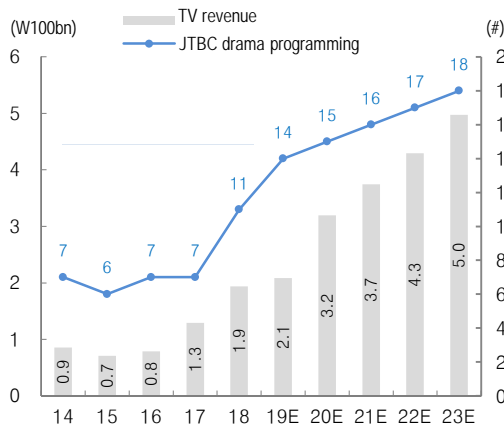
Source: J Contentree, Daishin Securities Research Center estimates

Fig 2. Revenue outlook: TV vs. theater



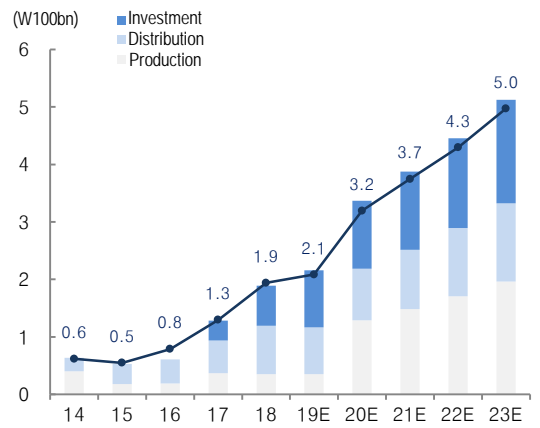
Source: J Contentree, Daishin Securities Research Center estimates

Fig 3. JTBC drama programming vs. revenue



Source: J Contentree, Daishin Securities Research Center estimates

Fig 4. Revenue by business



Source: J Contentree, Daishin Securities Research Center estimates

Financial statements

Income statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Revenue	420	511	565	687	768
Cost of goods sold	200	274	277	348	397
Gross profit	221	237	287	339	371
S&A expenses	187	203	233	269	292
OP	33	35	54	69	79
OP margin	7.9	6.8	9.5	10.1	10.3
EBITDA	59	77	99	118	131
Non-OP	-9	-1	3	8	10
Income from affiliates	0	0	2	2	2
Financial revenue	4	5	6	7	7
FX related gains	0	0	0	0	0
Financial expense	-9	-8	-7	-5	-5
FX related losses	0	0	0	0	0
Others	-4	2	2	4	6
Income before taxes	24	34	57	77	90
Income tax expense	-13	-8	-13	-18	-22
Income from cont. op.	11	26	44	59	68
Income from discout. op.	0	0	0	0	0
NP	11	26	44	59	68
NP margin	2.6	5.0	7.8	8.7	8.9
NP for non-contr. interest	4	7	9	12	14
NP for contr. interest	6	18	35	48	54
Valuation of AFS fin. assets	-2	0	0	0	0
Other compreh. income	0	4	4	4	4
Comprehensive income	9	30	48	64	72
Comp. income for non-contr. int.	4	8	10	13	14
Comp. income for contr. int.	5	22	39	51	58

Valuation metrics	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
EPS	53	145	243	330	378
PER	97.5	30.8	20.9	15.4	13.4
BPS	1,311	2,645	2,582	2,913	3,291
PBR	4.0	1.7	1.6	1.5	1.3
EBITDAPS	490	604	684	818	907
EV/EBITDA	14.4	9.5	7.9	6.4	5.5
SPS	3,477	4,013	3,918	4,766	5,332
PSR	1.5	1.1	1.5	1.2	1.1
CFPS	509	727	792	941	1,044
DPS	0	0	0	0	130

Financial ratios	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Sales growth	25.4	21.6	10.4	21.6	11.9
OP growth	15.2	42	54.6	29.1	14.6
NP growth	-51.4	134.8	71.4	35.8	14.5
Profitability					
ROIC	4.5	7.2	10.4	12.8	13.8
ROA	5.5	4.7	6.7	8.5	9.2
ROE	5.3	7.4	9.9	12.0	12.2
Stability					
Debt ratio	180.8	95.1	72.8	66.6	60.6
Net borrowings ratio	65.1	0.3	-7.2	-11.3	-17.3
Interest coverage ratio	3.8	4.2	7.5	14.1	16.5

Balance sheet	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Current assets	208	342	315	357	409
Cash & cash equiv.	49	142	106	130	170
Trade & other receive.	85	91	99	118	130
Inventories	24	33	33	33	33
Other current assets	50	76	76	76	76
Long-term assets	454	479	473	482	487
Tangible assets	193	209	218	227	232
Investments in affiliates	0	0	0	0	0
Other long-term assets	260	270	255	255	255
Total assets	662	821	788	839	896
Current liabilities	289	271	240	243	246
Payables & other liab.	127	129	131	135	137
Borrowings	60	63	30	30	30
Current portion of LT debts	81	56	56	56	56
Other current liabilities	20	23	23	23	23
Long-term liabilities	138	129	92	92	92
Borrowings	94	80	43	43	43
Convertible securities	0	0	0	0	0
Other long-term liab.	43	49	49	49	49
Total liabilities	426	400	332	335	338
Controlling interest	158	337	372	420	474
Capital stock	57	72	72	72	72
Capital surplus	19	158	158	158	158
Retained earnings	75	95	130	178	233
Other capital changes	8	11	11	11	11
Non-controlling interest	77	84	84	84	84
Total shareholder's equity	236	421	456	504	558
Net borrowings	153	1	-33	-57	-97

Cash flow statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	-4	25	56	67	83
NP	11	26	44	59	68
Non-cash items	51	67	70	76	82
Depreciation	26	42	45	49	51
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	24	25	26	28	31
Chg in assets & liab.	-42	-54	-44	-53	-48
Other cash flows	-23	-14	-14	-16	-19
Investing cash flow	-75	-48	-37	-56	-54
Investment assets	-5	-3	16	0	0
Tangible assets	-33	-28	-25	-25	-20
Others	-38	-17	-28	-31	-34
Financing cash flows	73	115	-72	-3	-3
Short-term borrowings	-133	3	-33	0	0
Bonds payable	59	0	-37	0	0
Long-term borrowings	41	40	0	0	0
Rights offering	0	155	0	0	0
Cash dividends	0	-1	0	0	0
Others	106	-81	-3	-3	-3
Net chg in cash	-6	92	-36	24	40
Beginning cash balance	55	49	142	106	130
Ending cash balance	49	142	106	130	170
NOPLAT	15	26	41	53	60
FCF	7	41	31	44	55

Source: J Contentree, Daishin Securities Research Center

[Daishin House View: Industry 4.0 safety rating]

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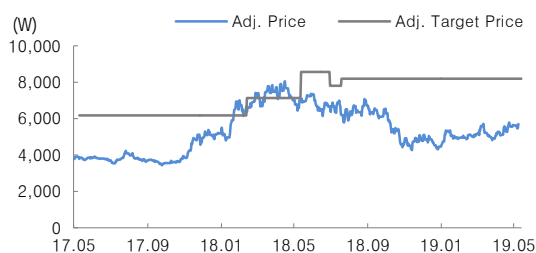
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[Investment rating & Target price history]

J Contentree (036420 KQ)



Date	19.06.12	19.01.20	18.07.20	18.07.01	18.05.14	18.02.13
Rating	Buy	GM passed	Buy	Buy	Buy	Buy
Target price	8,200	8,200	8,200	7,800	8,600	7,100
Diff. (avr. %)		(37.30)	(32.95)	(15.07)	(19.84)	2.01
Diff. (max/min, %)		(29.39)	(13.78)	(10.36)	(14.00)	12.93
Date	17.12.11	17.06.11				
Rating	GM passed	Buy				
Target price	6,200	6,200				
Diff. (avr. %)	(7.59)	(35.86)				
Diff. (max/min, %)	13.38	(13.08)				
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						

Investment rating breakdown and framework (Jun.9, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	87.8%	11.6%	0.0%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.