

J Contentree (036420.KQ)

Cinema business driving 2Q19 earnings

Company Comment | Jun 21, 2019

J Contentree's 2Q19 OP is expected to exceed consensus. At the drama business, sales of Chief of Staff to Netflix prior to airing are to be recognized in 2Q19 results, while the cinema business is to continue enjoying audience growth on a rising number of box-office hits.

Chief of Staff generating meaningful results

The production cost for J Contentree's Chief of Staff (produced as a multi-season drama) comes to W0.8bn per episode, with the series containing a total of 20 episodes (2 seasons of 10 episodes each). Sales of the drama's first season to Netflix are estimated at 50% of the production cost for season one, with broadcasting rights extending only to Korea, the US, and Europe. In other words, the broadcasting rights exclude Asia, a traditionally strong market for Korean content. Nevertheless, the firm's recoup rate for production costs via the drama's sales to Netflix appears similar to levels seen for previous sales of global broadcasting rights.

Looking at the case of Chief of Staff, we can get a glimpse into: 1) the importance of multi-season dramas in the OTT environment; and 2) the differentiation among regions in terms of genre success (Asia: romance, the West: non-romance). While we view it as positive that the company has begun distributing multi-season dramas towards global OTT players with Chief of Staff, as the series is not self-produced, profit leverage effects should be relatively weak. However, given the production capacity of subsidiary Film Monster (the producer of Trap and Intimate Strangers), J Contentree appears to possess sufficient capacity to produce its own multi-season dramas down the road, a factor that should contribute to bolstering the firm's margins.

2Q19 preview: Avengers and Chief of Staff driving earnings

We estimate J Contentree's 2Q19 consolidated sales at W134.2bn (+20.6% y-y) and OP at W11.9bn (+43.1% y-y) in light of strong earnings at the cinema business.

Drama business: We expect the drama business to log 2Q19 OP of W2.1bn (-63.6% y-y). Sales of Chief of Staff (a multi-season tent-pole drama) to Netflix are likely to translate into OP of W1.2bn, a figure that considers: 1) the fact that out of season 1's 10 episodes, 6 episodes are scheduled to air in 2Q19; and 2) the share of revenue required for outsourced production. However, affected by a tepid response to dramas aired in April and May, expectations towards distribution sales remain muted.

Cinema business: We forecast 2Q19 OP of W9.7bn (+477.4% y-y) at the cinema business, attributing the robust growth to favorable figures for Avengers: Endgame (whose audience numbers and sales increased by 2.75mn and W22.6bn, respectively, versus Infinity War), with Parasite, Aladdin, and others likely also making significant contributions. We expect the business's annual OP to reach the company's guidance thanks to ongoing full-fledged improvements to cost structure efficiency that began last year.

Buy (maintain)

TP 12-mth **W6,900 (maintain)**
CP ('19/06/20) **W4,915**

Sector	Entertainment
Kospi/Kosdaq	2,131.29 / 727.32
Market cap (common)	US\$609.75mn
Outstanding shares (common)	144.1mn
52W high ('18/08/27)	W7,070
low ('18/11/14)	W4,270
Average trading value (60D)	US\$8.44mn
Dividend yield (2019E)	0.00%
Foreign ownership	2.6%
Major shareholders	
Joongang Holdings and 1 other	33.3%
NPS	7.0%

Share perf	3M	6M	12M
Absolute (%)	-2.5	7.1	-24.2
Relative (%)	0.5	-1.6	-12.5

	2018	2019E	2020F	2021F
Sales	511.3	561.8	631.2	662.1
Chg	21.7	9.9	12.4	4.9
OP	34.7	51.5	75.3	80.8
Chg	4.2	48.4	46.2	7.3
OPM	6.8	9.2	11.9	12.2
NP	18.4	26.9	40.9	44.5
EPS	145	187	284	309
Chg	173.6	29.0	51.9	8.8
P/E	30.8	26.3	17.3	15.9
P/B	1.9	1.3	1.2	1.2
EV/EBITDA	9.5	7.9	5.8	4.6
ROE	7.4	7.7	10.6	10.4
Debt/equity	95.1	138.3	118.7	105.7
Net debt	1.3	-39.4	-97.2	-198.7

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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2Q19 preview

(Unit: Wbn, %)

	2Q18	3Q18	4Q18	1Q19	2Q19E					3Q19F
					Estimate	y-y	q-q	Previous	Consen	
Sales	111.3	157.0	133.4	126.3	134.2	20.6	6.2	119.8	125.4	159.2
OP	8.3	18.2	4.2	11.1	11.9	43.1	7.2	6.9	9.8	18.6
OPM	7.4	11.6	3.2	8.8	8.8			5.8	7.8	11.7
Pre-tax profit	9.3	16.1	0.3	8.3	11.8	26.0	41.1	6.7	9.3	18.3
NP (excl minority interests)	2.5	9.7	1.6	4.0	6.6	166.2	64.3	5.2	5.6	10.3

Note: K-IFRS consolidated

Source: FnGuide, NH I&S Research Center estimates

Earnings forecasts (IFRS consolidated)

(Unit: Wbn, won, x, %)

		2018	2019E	2020F	2021F
Sales	- Revised	511.3	561.8	631.2	662.1
	- Previous	-	580.9	658.0	687.3
	- Change	-	-3.3	-4.1	-3.7
OP	- Revised	34.7	51.5	75.3	80.8
	- Previous	-	50.6	72.6	81.2
	- Change	-	1.8	3.7	-0.5
OPM	- Revised	6.8	9.2	11.9	12.2
EBITDA		77.0	96.6	125.7	138.4
NP (excl minority interests)		18.4	26.9	40.9	44.5
EPS	- Revised	145	187	284	309
	- Previous	-	192	291	304
	- Change	-	-2.8	-2.5	1.7
P/E		30.8	26.3	17.3	15.9
P/B		1.9	1.9	1.7	1.6
EV/EBITDA		9.5	5.8	4.6	3.9
ROE		7.4	7.7	10.6	10.4

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

Source: NH I&S Research Center estimates

J Contentree's plans for proceeds from rights offering

(Unit: Wbn)

		Details	Priority	2018	2019	2020	Total
Working capital	Dramas	- Expand investment in drama IPs and tent-pole drama production	1	-	32.0	19.2	51.2
	Movies	- Increase investment in movie production	2	3.0	10.0	9.5	22.5
	IPs	- Secure IPs to popular web fictions and webtoons and invest in writers' club/production firms	3	1.0	22.0	10.0	33.0
	Distribution channels	- Invest in domestic and overseas OTT platform businesses	4	-	5.0	10.0	15.0
	Debt repayment	- Pay down debt	5	3.0	37.0	-	40.0
Total				7.0	106.0	48.7	161.7

Source: J Contentree, NH I&S Research Center

Quarterly earnings forecasts

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19E	3Q19F	4Q19F	2017	2018	2019E	2020F
Sales	109.6	111.3	157.0	133.4	126.3	134.2	159.2	142.1	420.3	511.3	561.8	631.2
Cinema	70.4	64.8	102.2	79.7	73.8	77.8	96.0	88.1	290.9	317.2	335.7	368.3
TV	38.7	46.0	54.7	53.5	51.9	56.3	63.2	54.0	129.4	192.9	225.5	262.9
<i>Adjustment for consolidation</i>	0.5	0.4	0.2	0.1	0.6	0.5	0.5	0.5	-	-	-	-
<i>%y-y growth</i>												
<i>Sales</i>	26%	15%	36%	10%	15%	21%	1%	7%	25%	22%	10%	12%
<i>Cinema</i>	3%	13%	21%	-1%	5%	20%	-6%	10%	14%	9%	6%	10%
<i>TV</i>	108%	17%	74%	33%	34%	22%	16%	1%		49%	17%	17%
GP	50.8	56.0	70.3	60.3	59.3	61.3	72.4	65.0	220.6	237.5	258.0	289.8
GPM	46%	50%	45%	45%	47%	46%	45%	46%	52%	46%	46%	46%
OP	4.0	8.3	18.2	4.5	11.1	11.9	18.6	10.0	33.3	35.1	51.5	75.3
Cinema	3.1	1.7	15.0	1.7	5.5	9.7	15.0	9.2	28.0	21.4	39.4	55.5
TV	0.3	5.9	3.5	2.5	5.6	2.1	3.5	0.7	5.4	12.2	12.0	19.5
<i>Adjustment for consolidation</i>	0.6	0.7	-0.2	0.4	-0.0	0.1	0.1	0.1	-	-	-	-
OPM	4%	7%	12%	3%	9%	9%	12%	7%	8%	7%	9%	12%
OPM (cinema)	4%	3%	15%	2%	7%	12%	16%	10%	10%	7%	12%	15%
OPM (TV)	1%	13%	6%	5%	11%	4%	6%	1%	4%	6%	5%	7%
<i>%y-y growth</i>												
<i>OP</i>	-23%	-7%	71%	-47%	176%	43%	2%	119%	15%	5%	47%	46%
<i>Cinema</i>	-28%	67%	48%	-87%	77%	477%	0%	460%	25%	-23%	84%	41%
<i>TV</i>	0%	0%	0%	0%	1657%	-64%	2%	-73%	-19%	126%	-2%	63%
NP (excl minority interests)	4.6	2.5	9.7	1.6	4.0	6.6	10.3	4.6	6.4	18.4	25.6	38.9
NPM	6%	6%	8%	0%	6%	7%	9%	5%	3%	5%	7%	9%

Note: One-off costs of W3.4bn (incentives) incurred at cinema division in 4Q18

Source: NH I&S Research Center estimates

Top 5 box-office hits in 2Q19

(Unit: Wbn, mn pns, won)

Release date	Movie	Revenue	Attendance	ATP	Distributor
Jun 2019 box-office revenue estimates		158.9	18.6	8,566	
Jun 2019 revenue estimates for Top 5 hits		127.1	14.8	8,566	
'19.05	Avengers: Endgame	57.9	6.5	8,930	Walt Disney Company Korea
'19.05	The Gangster, the Cop, the Devil	27.4	3.2	8,658	Acemaker Movieworks, Kiwi Media Group
'19.05	Miss & Mrs Cops	13.6	1.6	8,490	CJ ENM
'19.05	Aladdin	12.8	1.5	8,335	Walt Disney Company Korea
'19.05	Inseparable Bros	11.8	1.4	8,218	NEW
May 2019 box-office revenue		154.6	18.1	8,557	
May 2019 revenue for Top 5 hits		123.6	14.2	8,684	
'19.04	Avengers: Endgame	63.2	7.3	8,620	Walt Disney Company Korea
'19.04	Birthday	9.7	1.2	8,263	NEW
'19.04	Money	6.1	0.7	8,445	Showbox
'19.04	Shazam!	5.7	0.7	8,729	Warner Bros Korea
'19.04	US	4.7	0.5	8,707	Universal Pictures International Korea
Apr 2019 box-office revenue		113.2	13.3	8,485	
Apr 2019 revenue for Top 5 hits		89.4	10.4	8,579	
2Q19 box-office revenue estimates		426.7	50.0	8,541	
2Q19 revenue estimates for Top 5 hits		340.1	39.5	8,612	

Source: KOFIC, NH I&S Research Center

Top 5 box-office hits in 2Q18

(Unit: Wbn, mn pns, won)

Release date	Movie	Revenue	Attendance	ATP	Distributor
'18.06	Jurassic World: Fallen Kingdom	48.6	5.5	8,801	Universal Pictures International Korea
'18.06	The Accidental Detective 2	22.9	2.7	8,551	CJ ENM
'18.06	Believer	21.9	2.5	8,762	NEW
'18.06	Ocean's 8	11.0	1.3	8,766	Warner Bros Korea
'18.06	The Witch	5.5	0.7	8,380	Warner Bros Korea
Jun 2018 box-office revenue		130.7	15.1	8,657	
Jun 2018 revenue for Top 5 hits		109.8	12.6	8,715	
'18.05	Avengers: Infinity War	52.4	5.8	9,027	Walt Disney Company Korea
'18.05	Deadpool 2	30.6	3.4	9,036	20th Century FOX Korea
'18.05	Believer	21.5	2.5	8,417	NEW
'18.05	Champion	9.4	1.1	8,391	Warner Bros Korea
'18.05	Wrestler	6.4	0.8	8,412	Lotte Shopping/Lotte Entertainment
May 2018 box-office revenue		138.8	15.9	8,735	
May 2018 revenue for Top 5 hits		120.3	13.6	8,828	
'18.04	Avengers: Infinity War	46.1	5.3	8,769	Walt Disney Company Korea
'18.04	Gonjam	13.7	1.7	8,170	Showbox
'18.04	Ready Player One	13.9	1.5	8,981	Warner Bros Korea
'18.04	Rampage	11.9	1.4	8,630	Warner Bros Korea
'18.04	What a Man Wants	9.7	1.2	8,195	NEW
Apr 2018 box-office revenue		119.7	14.1	8,512	
Apr 2018 revenue for Top 5 hits		95.3	11.0	8,629	
2Q18 box-office revenue		389.3	45.1	8,639	
2Q18 revenue for Top 5 hits		325.4	37.3	8,731	

Source: KOFIC, NH I&S Research Center

STATEMENT OF COMPREHENSIVE INCOME

(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Sales	511.3	561.8	631.2	662.1
Growth (%)	21.7	9.9	12.4	4.9
COGS	273.8	303.8	341.4	360.3
Gross Profit	237.5	258.0	289.8	301.7
Gross margin (%)	46.5	45.9	45.9	45.6
SG&A	202.7	206.5	214.5	220.9
Operating Income	34.7	51.5	75.3	80.8
Growth (%)	4.2	48.4	46.2	7.3
Operating margin (%)	6.8	9.2	11.9	12.2
EBITDA	77.0	131.2	155.6	164.3
Non-Operating Profit	-1.2	-5.0	-2.5	-1.6
Financial Income(Costs)	-3.5	-4.4	-4.3	-4.1
Other Non-Operating Profit	2.4	-1.1	1.1	1.8
Gains(Losses) in Associates, Subsidiaries and JVs	-0.1	0.5	0.7	0.7
Pre-tax Profit from Cont. Op.	33.6	46.6	72.8	79.2
Income Taxes	8.0	9.2	16.0	17.4
Profit from Continuing Op.	25.6	37.3	56.7	61.8
Net Profit	25.6	37.3	56.7	61.8
Growth (%)	134.9	45.7	52.0	9.0
Net margin (%)	5.0	6.6	9.0	9.3
Net Profit of Parent	18.4	26.9	40.9	44.5
Net Profit to Non-Controlling	7.1	10.4	15.9	17.3
Other Comprehensive Income	4.3	0.0	0.0	0.0
Total Comprehensive Income	29.9	37.3	56.7	61.8

Valuation / Profitability / Stability

	2018/12A	2019/12E	2020/12F	2021/12F
Price/ Earnings (X)	30.8	26.3	17.3	15.9
Price/ Book Value (X)	1.9	1.9	1.7	1.6
Price/ Gross Cash Flow (X)	6.1	5.6	4.7	4.5
Price/ Sales (X)	1.1	1.3	1.1	1.1
EV/ EBITDA (X)	9.5	5.8	4.6	3.9
EV/ EBIT (X)	20.9	14.8	9.6	7.9
Fully diluted EPS (W)	145	187	284	309
BVPS (W)	2,339	2,526	2,809	3,118
Sales PS (W)	4,013	3,899	4,381	4,596
ROE (%)	7.4	7.7	10.6	10.4
ROA (%)	3.4	3.9	5.1	5.3
ROIC (%)	7.9	9.8	10.9	11.7
Dividend Yield (%)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Total Cash Dividend (Wbn)	0.0	0.0	0.0	0.0
Cash DPS (W)	0	0	0	0
Net debt(cash)/ equity (%)	0.3	-8.6	-18.9	-34.4
Debt/ equity (%)	95.1	138.3	118.7	105.7
Interest-Bearing Debts (Wbn)	199.2	180.3	182.5	177.9
Current Ratio (%)	126.2	148.0	193.6	237.8
Total shares (mn)	144	144	144	144
Par value (W)	500	500	500	500
Share price (W)	4,460	4,915	4,915	4,915
Market Cap (Wbn)	642.5	708.1	708.1	708.1

STATEMENT OF FINANCIAL POSITION

(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Cash and Cash Equivalents	141.6	152.2	205.4	302.3
Accounts Receivables	77.1	69.4	69.4	69.4
Total Current Assets	342.1	373.4	443.6	540.5
Tangible Assets	208.5	409.3	375.0	349.9
Investment Assets	82.2	117.0	100.5	80.0
Non-Current Assets	479.1	718.7	682.5	646.0
Assets	821.2	1,092	1,126	1,187
Short-Term Debt	119.7	100.8	103.1	98.5
Account Payables	15.1	15.1	17.0	19.8
Current Liabilities	271.1	252.3	229.1	227.3
Long-Term Debt	102.6	354.6	354.6	354.6
Long-Term Allowance	0.4	0.4	0.4	0.5
Non-Current Liabilities	129.2	381.6	382.1	382.5
Liabilities	400.3	633.9	611.2	609.8
Capital Stock	72.0	72.0	72.0	72.0
Capital Surplus	158.3	158.3	158.3	158.3
Retained Earnings	95.5	122.3	163.2	207.7
Non-Controlling Interests Equity	83.9	94.4	110.3	127.5
Shareholders' Equity	420.9	458.3	515.0	576.8

CASH FLOW STATEMENT

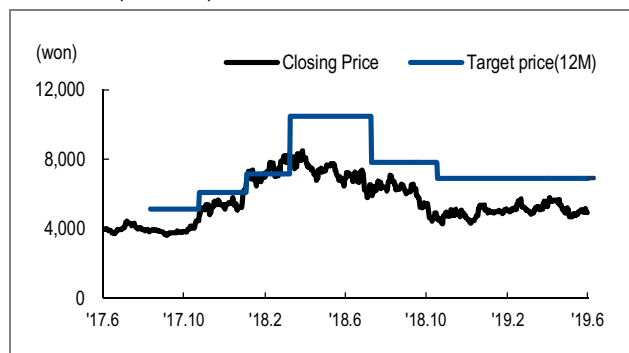
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Operating Cash Flow	24.8	108.0	101.8	148.6
Net Profit	25.6	37.3	56.7	61.8
Depreciation&Amortization	42.2	79.7	80.3	83.6
+ Loss(Gains) from Subs	0.1	0.0	0.0	0.0
+ FC translation loss(profit)	-0.2	0.0	0.0	0.0
Gross Cash Flow	92.6	126.7	151.9	159.0
- Incr. (Decr.) in WC	-53.5	-9.0	-35.2	3.2
Investing Cash Flow	-47.8	-90.5	-50.9	-47.1
+ Decr. In Tangible Assets	0.4	0.0	0.0	0.0
- Incr. In Tangible Assets(CAPEX)	-28.8	-15.0	-15.0	-20.0
+ Disp.(Acq.) of Inv. Assets	-0.9	-34.8	16.5	20.5
Free Cash Flow	-4.0	93.0	86.8	128.6
Net Cash Flow	-23.0	17.4	50.9	101.5
Financing Cash Flow	115.2	233.2	2.2	-4.6
Equity Financing	154.8	0.0	0.0	0.0
Debt Financing	-39.6	233.2	2.2	-4.6
Incr.(Decr.) in Cash	92.2	10.7	53.2	96.9
Ending Cash and Cash Equivalents	141.6	152.2	205.4	302.3
Net Debt (Cash)	1.3	-39.4	-97.2	-198.7

Source: NH I&S Research Center

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2018.11.06	Buy	W6,900(12M)	-	-
2018.07.30	Buy	W7,800(12M)	-23.3%	-9.4%
2018.03.30	Buy	W11,000(12M)	-33.8%	-23.0%
2018.01.23	Buy	W7,500(12M)	-2.0%	9.9%
2017.11.13	Buy	W6,400(12M)	-16.2%	0.3%
2017.08.31	Buy	W5,400(12M)	-27.6%	-17.4%

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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 Jun 7, 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 J Contentree 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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