

Jcontentree (036420 KS)

Distribution adds to broadcasting and cinema

BUY (Maintain)

CP (Jun. 21) KRW4,935
 TP (6 months) KRW6,800
 Upside 37.8%

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KOSPI	2,125.62p
KOSDAQ	722.64p
Market cap	KRW711.0bn/USD623.7mn
Par value	KRW500
Outstanding shares	144.1mn
Free float	94.6mn (65.6%)
52-week high/low	KRW7,070/KRW4,270
60-day avg. trading volume	1,862,035shrs
60-day avg. turnover	KRW9,816mn
Foreign ownership	2.59%
Major shareholders	
JoongAng Holdings and 1 other	33.32%
NPS	6.99%
Absolute performance	3M -3.2%
	6M 8.8%
	12M -24.7%
Relative performance	3M -0.4%
to KOSDAQ	6M 1.4%
	12M -13.9%

- ◆ 2Q19 OP to reach KRW12bn (+45.1% YoY) as previously projected
- ◆ Value of Megabox Plus M to be spotlighted
- ◆ Retain BUY for a target price of KRW6,800

2Q19 OP to reach KRW12bn (+45.1% YoY) as previously projected

Jcontentree's 2Q consolidated operating profit is expected to reach KRW12bn (+45.1% YoY) on sales of KRW124.9bn (+12.3% YoY), as we had previously forecast in our June 10 report. Earnings growth should be driven by the cinema division (Megabox), which is likely to report operating profit of KRW10.5bn (+530% YoY). While domestic movie attendance continues to record strong growth, the company will focus on improving company-wide cost efficiency throughout the year. We may well expect earnings surprises every quarter.

Value of Megabox Plus M to be spotlighted

The King's Letters, the most anticipated film to be distributed by Megabox Plus M, will hit cinemas on July 24. The movie is about the last eight years of King Sejong's reign, during which he created the Korean alphabet, and stars Song Kang-ho and Park Hae-il, two of the most bankable actors in Korea. It is estimated to have run up KRW12bn-13bn in production cost and break even with a modest audience of 3.3mn viewers, even when excluding revenues from ancillary rights. With the cinema market entering the strong season, it expects to draw at least 7mn-8mn viewers. Its success should spotlight the value of Jcontentree's distribution unit.

Both cinema and broadcasting businesses will likely do well throughout this year. Full-year cinema operating profit is forecast to jump 88.3% YoY to KRW40.3bn. It is positive that all three leading cinema operators are concentrating their efforts on profitability. Broadcasting operating profit is expected to grow up to KRW15.3bn (+9.3% YoY). The recent plunge of the bellwether media stock, caused by concerns over rising production costs, is unlikely to have a negative impact on the company. Negotiations are also underway for the distribution of core contents in China.

Retain BUY for a target price of KRW6,800

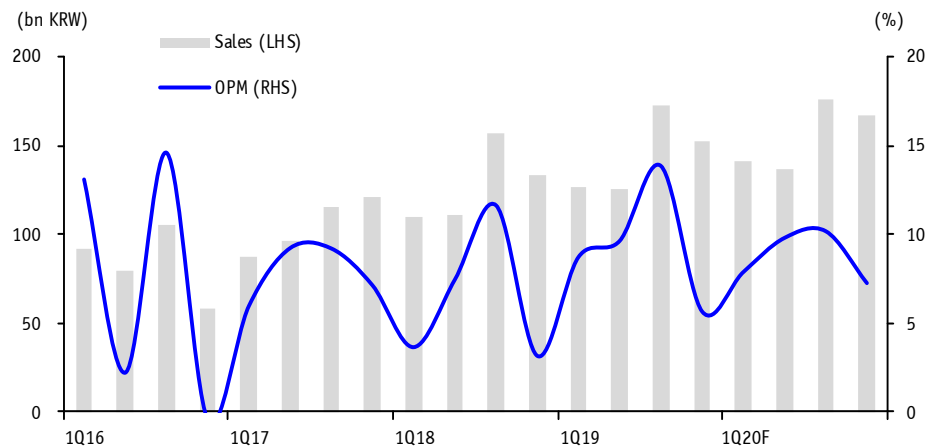
We keep our target price for Jcontentree unchanged at KRW6,800, based on 2019F EPS and a target PER of 33x (past three-year average). We retain our BUY rating in view of: 1) sharp increase in profitability of the cinema business (2019F operating profit +88.3% YoY); 2) continuing growth in broadcasting earnings; and 3) 2019F PER down to 24.1x. The company is the dark horse of 2H19.

Year to	Sales	OP	Pre-tax	NP	EPS	Growth	BPS	PER	EV/EBITDA	PBR	ROE	Net debt
December	(bn KRW)	(bn KRW)	(bn KRW)	(bn KRW)	(KRW)	(%)	(KRW)	(x)	(x)	(x)	(%)	ratio (%)
2017	420.3	33.3	24.4	6.4	53	(66.5)	1,311	97.5	14.8	4.0	5.3	73.8
2018	511.3	34.7	33.6	18.4	145	171.9	2,339	30.8	9.8	1.9	7.4	5.8
2019F	575.6	55.5	51.5	29.5	205	41.6	2,544	24.1	6.0	1.9	8.4	5.9
2020F	619.3	54.3	56.6	29.9	208	1.3	2,752	23.8	5.8	1.8	7.8	1.2
2021F	653.4	57.2	59.7	31.5	219	5.4	2,971	22.5	5.5	1.7	7.7	(4.2)

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

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Sales and operating profit margin (K-IFRS consolidated)



Source: Company data, Shinhan Investment Corp.

Earnings trend and outlook (K-IFRS consolidated)

(bn KRW, 1,000 people, KRW, %)	1Q17	2Q17	3Q17	4Q17P	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19F	3Q19F	4Q19F	2017	2018	2019F	2020F
< Cinema market assumptions >																
Nationwide movie attendance	52.3	45.0	64.0	58.6	51.4	45.1	66.8	53.2	55.1	50.1	71.2	56.6	219.9	216.5	233.0	228.5
Megabox movie attendance	5.6	4.7	6.5	6.6	5.8	5.2	7.6	6.4	5.9	5.7	8.2	6.7	23.5	24.9	26.6	26.5
Megabox market share	10.7	10.5	10.2	11.2	11.2	11.4	11.4	12.0	10.8	11.4	11.6	11.9	10.7	11.5	11.4	11.6
Megabox ATP	6,557	7,167	7,005	7,107	6,521	7,578	7,309	7,460	7,509	7,520	7,525	7,543	6,961	7,408	7,524	7,560
<Earnings forecasts>																
Sales	86.9	96.6	115.8	120.1	109.6	111.3	157.0	133.4	126.3	124.9	172.4	152.0	420.3	511.3	575.6	619.3
Broadcasting	20.3	54.2	37.2	50.1	47.5	64.1	55.5	64.5	51.9	50.6	62.3	63.1	161.8	231.6	228.0	262.1
Cinema	68.3	57.3	84.4	80.8	70.4	64.8	102.2	79.7	73.8	74.3	110.0	88.9	290.9	317.2	347.1	357.2
Consolidated adjustment	(1.7)	(15.0)	(5.8)	(10.8)	(8.4)	(17.7)	(0.6)	(10.8)	0.6	0.0	0.0	0.0	(32.3)	(37.5)	0.6	0.0
Sales share of cinema	78.6	59.4	72.9	67.3	64.3	58.3	65.1	59.8	58.4	59.5	63.8	58.5	69.2	62.0	60.3	57.7
OP	5.2	8.9	10.7	10.2	4.0	8.3	18.2	4.6	11.0	12.0	23.8	8.6	33.4	34.7	55.5	54.3
- Broadcasting	1.0	9.0	2.2	(0.5)	1.1	6.6	3.3	3.0	5.7	1.6	4.2	3.9	11.7	14.0	15.3	17.5
- Cinema	4.3	(0.0)	9.1	12.6	3.1	1.7	15.0	1.7	5.5	10.5	19.7	4.6	25.9	21.4	40.3	36.8
Consolidated adjustment	(0.1)	(0.1)	(0.7)	(3.4)	(0.1)	(0.0)	(0.1)	(0.4)	(0.1)	0.0	0.0	0.0	(4.3)	(0.7)	(0.1)	0.0
NP	3.8	6.3	1.7	(0.4)	6.6	6.6	12.7	(0.0)	7.5	9.9	17.7	3.8	10.9	25.5	38.9	42.0
<% YoY growth >																
Sales	(5.3)	21.2	9.6	107.0	26.2	15.2	35.6	10.2	15.2	12.3	9.8	14.0	25.4	21.6	12.6	7.6
OP	(56.8)	404.6	(30.9)	TB	(22.8)	(6.8)	71.3	(47.1)	175.4	45.1	30.7	104.1	15.3	4.2	59.7	(2.0)
NP	(42.8)	(771.1)	(85.9)	TR	74.3	4.7	630.6	RR	13.1	49.7	39.8	TB	(57.8)	134.6	52.1	8.1
<Margin, % >																
OPM	6.0	9.2	9.2	8.5	3.6	7.4	11.6	3.4	8.7	9.6	13.8	5.7	7.9	6.8	9.6	8.8
NPM	4.4	6.5	1.5	(0.3)	6.0	5.9	8.1	(0.0)	5.9	7.9	10.3	2.5	2.6	5.0	6.8	6.8

Source: Company data, Shinhan Investment Corp.

Note: Based on total net profit; see page 1 of this report for net profit of controlling interests

PER valuation based on 2019F EPS: Target price of KRW6,800

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2018 NP	18.4	2019F NP	29.5	2020F NP	29.9
EPS (KRW)	145	EPS (KRW)	205	EPS (KRW)	208
Target price (KRW)	4,800	Target price (KRW)	6,800	Target price (KRW)	6,900
Target PER (x)	33	Target PER (x)	33	Target PER (x)	33
		Current price (KRW)	4,935		
		Current PER (x)	24.1		

Source: Shinhan Investment Corp.

Note: Megabox's movie attendance is growing faster than the market average, driving up the company's market share near 20%.

The broadcasting division reported strong operating profit growth in 2016 and 2017. Drama House continues to strengthen its competitiveness in media contents. Valuation multiple of 33x is the past 3-year average.

PER trend

(x)	2014	2015	2016	2017	2018	Past 3-year average
PER (high)	19.9	29.6	32.0	60.6	40.4	44.5
PER (low)	13.4	13.3	17.0	38.0	20.2	25.1
PER (average)	16.1	19.0	21.9	44.0	30.8	32.3

Source: Shinhan Investment Corp.

2Q19 forecast

(bn KRW)	2Q19F	1Q19	% QoQ	2Q18	% YoY	Previous	Consensus
Sales	124.9	126.3	(1.1)	111.3	12.3	124.9	127.3
OP	12.0	11.0	9.1	8.3	45.1	12.0	10.4
NP	9.9	7.5	32.0	6.6	49.7	9.9	8.3

Source: Company data, FnGuide, Shinhan Investment Corp.

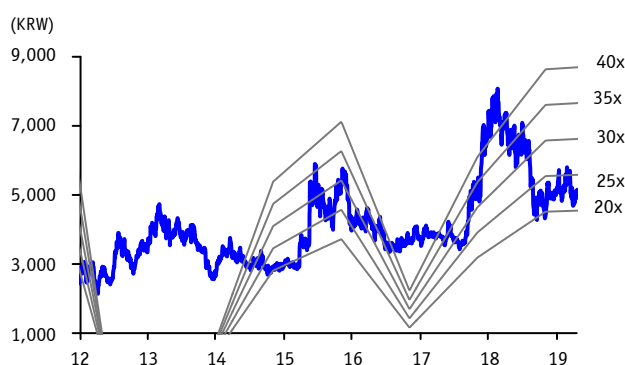
Note: Based on total net profit

Earnings forecast revision (K-IFRS consolidated)

(bn KRW)	2019F			2020F		
	Previous	Revised	Change (%)	Previous	Revised	Change (%)
Sales	575.6	575.6	0.0	619.3	619.3	0.0
OP	55.5	55.5	0.0	54.3	54.3	0.0
NP	38.9	38.9	0.0	42.0	42.0	0.0

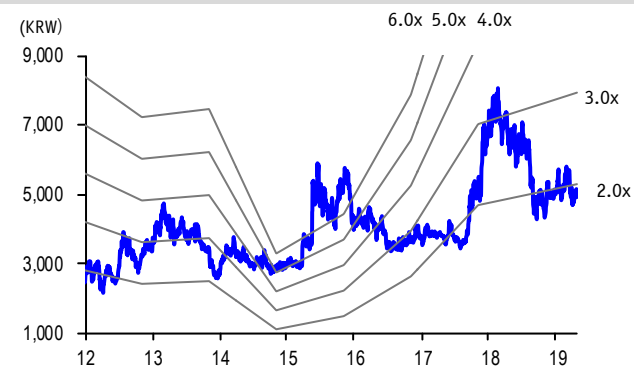
Source: Shinhan Investment Corp.

12-month forward consolidated PER band



Source: QuantiWise, Shinhan Investment Corp.

12-month forward consolidated PBR band

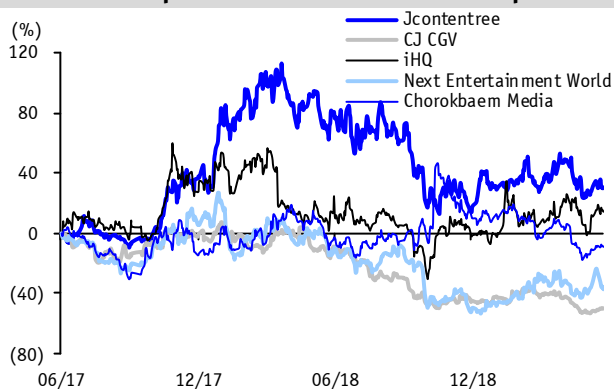


Source: QuantiWise, Shinhan Investment Corp.

Peer group valuation		036420 KS	253450 KS	003560 KS	079160 KS	002739 CH	CNK US	KIN BB
Ticker		Jcontentree	Studio Dragon	iHQ	CJ CGV	Wanda Cinema	Cinemark Holdings	Kinepolis
Company		Jcontentree	Studio Dragon	iHQ	CJ CGV	Wanda Cinema	Cinemark Holdings	Kinepolis
Market cap (bn KRW)		711.0	1994.8	315.1	786.1	6,768.3	4,996.6	1,690.8
Sales (bn KRW)	2018	511.3	379.6	109.4	1,769.4	2,263.6	3,545.7	618.2
	2019F	573.0	504.2	151.5	1,032.6	2,745.3	3,976.2	687.9
	2020F	650.7	599.0	163.6	1,065.5	2,916.8	4,052.8	714.7
OP (bn KRW)	2018	34.7	39.9	9.9	77.7	308.4	505.6	103.8
	2019F	54.2	62.2	24.7	47.3	356.4	532.8	124.5
	2020F	63.8	98.4	29.3	49.9	348.2	549.3	136.0
OPM (%)	2018	6.8	(10.5)	9.1	4.4	13.6	14.3	16.8
	2019F	9.5	(12.3)	16.3	4.6	13.0	13.4	18.1
	2020F	9.8	(16.4)	17.9	4.7	11.9	13.6	19.0
NP (bn KRW)	2018	23.1	35.8	8.4	(75.1)	214.3	298.4	62.4
	2019F	28.2	54.2	15.3	5.4	278.5	331.7	77.6
	2020F	33.0	82.7	18.3	6.9	284.5	355.0	87.3
Sales growth (% YoY)	2018	21.6	32.4	(13.7)	3.2	5.7	4.8	-
	2019F	12.1	32.8	38.4	(41.6)	21.3	12.1	11.3
	2020F	13.6	18.8	8.0	3.2	6.2	1.9	3.9
EPS growth (% YoY)	2018	170.9	21.7	(16.3)	(1,364.0)	(10.5)	(8.7)	-
	2019F	1.0	51.1	76.5	-	19.7	6.1	-
	2020F	18.9	52.6	19.8	-	12.2	4.4	-
PER (x)	2018	29.3	72.3	-	-	29.7	15.4	27.7
	2019F	25.6	36.1	20.6	-	22.7	15.9	21.9
	2020F	21.6	23.6	17.2	-	20.3	15.3	19.4
PBR (x)	2018	1.9	6.5	1.3	7.8	3.1	2.9	7.5
	2019F	1.9	4.3	1.4	-	2.3	2.6	6.6
	2020F	1.8	3.6	1.3	-	2.1	2.4	5.6
EV/EBITDA (x)	2018	9.7	21.2	4.7	8.6	18.1	8.1	13.6
	2019F	10.4	11.4	9.0	-	13.3	9.2	11.2
	2020F	9.6	8.6	8.2	-	14.0	9.1	10.5
ROE (%)	2018	9.3	9.3	4.0	(35.8)	10.6	19.1	27.2
	2019F	8.0	12.6	7.3	-	11.1	18.1	31.3
	2020F	9.3	16.6	8.1	-	10.3	16.2	31.1

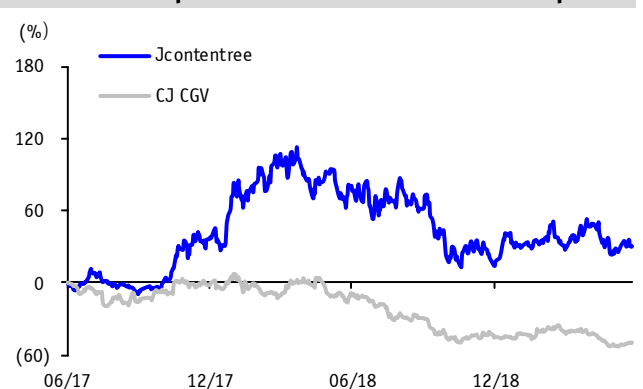
Source: Bloomberg, Shinhan Investment Corp.

Relative share performance vs. domestic drama producers



Source: Bloomberg, Shinhan Investment Corp.

Relative share performance vs. domestic cinema operator



Source: Bloomberg, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Total assets	661.9	821.2	865.5	912.6	960.9
Current assets	208.4	342.1	355.6	392.4	431.5
Cash and equivalents	49.4	141.6	136.4	154.5	180.4
Accounts receivable	61.6	77.1	87.3	98.7	104.1
Inventories	23.7	32.9	37.1	39.9	42.1
Non-current assets	453.6	479.1	509.9	520.1	529.4
Tangible assets	192.8	208.5	213.3	217.5	221.5
Intangible assets	84.4	87.4	110.2	112.8	114.7
Investment assets	81.4	82.2	85.5	88.9	92.4
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	426.2	400.3	405.7	409.9	413.3
Current liabilities	288.7	271.1	273.2	275.1	276.7
Short-term borrowings	60.4	62.9	62.9	62.9	62.9
Accounts payable	16.1	15.1	15.5	15.8	16.1
Current portion of long-term debt	80.8	56.0	56.0	56.0	56.0
Non-current liabilities	137.5	129.2	132.5	134.8	136.6
Bonds	55.4	37.1	37.1	37.1	37.1
Long-term borrowings	57.1	65.5	65.5	65.5	65.5
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	235.7	420.9	459.8	502.6	547.6
Capital stock	57.0	72.0	72.0	72.0	72.0
Capital surplus	18.6	158.3	158.3	158.3	158.3
Other capital	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)
Accumulated other comprehensive income	12.9	16.3	16.3	16.3	16.3
Retained earnings	75.0	95.5	125.0	154.9	186.5
Controlling interest equity	158.4	337.0	366.5	396.5	428.0
Non-controlling interest equity	77.3	83.9	93.3	106.1	119.6
*Total debt	256.1	222.3	222.4	222.4	222.5
*Net debt (cash)	174.0	24.4	27.0	6.2	(23.1)

Statement of cash flow

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Cash flow from operations	(3.5)	24.8	114.1	120.3	131.0
Net profit	10.9	25.6	38.9	42.8	45.1
Depreciation expense	16.3	17.7	21.0	21.6	22.3
Amortization expense	9.6	24.6	62.0	64.9	67.1
FX translation loss (gain)	0.5	(0.2)	0.0	0.0	0.0
Asset disposal loss (gain)	3.3	1.8	1.8	1.8	1.8
Equity method loss (gain)	0.0	0.1	(0.1)	(0.1)	(0.1)
Change in working capital	(42.0)	(53.5)	(9.5)	(10.7)	(5.2)
(Payment of income tax)	(16.0)	(9.6)	(12.6)	(13.9)	(14.6)
Others	13.9	18.3	12.6	13.9	14.6
Cash flow from investments	(75.2)	(47.8)	(116.4)	(99.4)	(102.0)
Increase in tangible assets	(32.9)	(28.8)	(25.7)	(25.9)	(26.2)
Decrease in tangible assets	0.0	0.4	0.0	0.0	0.0
Change in intangible assets	(0.8)	1.2	(84.7)	(67.4)	(69.0)
Change in investment assets	(4.6)	(2.6)	(3.2)	(3.3)	(3.4)
Others	(36.9)	(18.0)	(2.8)	(2.8)	(3.4)
Free cash flow	10.0	28.3	85.1	87.5	98.2
Cash flow from financing	72.8	115.2	0.1	0.1	0.1
Change in borrowings	(47.6)	(35.8)	0.1	0.1	0.1
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	(1.3)	0.0	0.0	0.0
Others	120.4	152.3	0.0	0.0	0.0
Other cash flow	0.0	0.0	(3.0)	(3.0)	(3.0)
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	0.0	0.0	0.0	0.0	0.0
Change in total cash	(5.9)	92.2	(5.2)	18.0	26.0
Beginning cash	55.3	49.4	141.6	136.4	154.4
Ending cash	49.4	141.6	136.4	154.4	180.4

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Sales	420.3	511.3	575.6	619.3	653.4
Growth (%)	25.4	21.6	12.6	7.6	5.5
COGS	199.8	273.8	289.3	317.6	335.8
Gross profit	220.6	237.5	286.3	301.7	317.5
GPM (%)	52.5	46.4	49.7	48.7	48.6
SG&A	187.2	202.7	230.8	247.3	260.4
Operating profit	33.3	34.7	55.5	54.3	57.2
Growth (%)	15.2	4.2	59.7	(2.0)	5.2
OPM (%)	7.9	6.8	9.6	8.8	8.8
Non-operating profit	(9.0)	(1.2)	(4.0)	2.3	2.5
Financial profit	(5.0)	(3.5)	(6.0)	(4.6)	(2.8)
Other non-operating profit	(4.0)	2.4	2.0	7.0	5.4
Equity method gain (loss)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Pre-tax profit	24.4	33.6	51.5	56.6	59.7
Income tax	13.5	8.0	12.6	13.9	14.6
Continuing operations	10.9	25.6	38.9	42.8	45.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	10.9	25.6	38.9	42.8	45.1
Growth (%)	(51.4)	134.8	52.1	10.0	5.4
NPM (%)	2.6	5.0	6.8	6.9	6.9
Controlling interest	6.4	18.4	29.5	29.9	31.5
Non-controlling interest	4.4	7.1	9.3	12.8	13.5
Comprehensive income	9.2	29.9	38.9	42.8	45.1
Controlling interest	4.8	22.3	29.0	32.0	33.7
Non-controlling interest	4.4	7.6	9.8	10.8	11.4
EBITDA	59.2	77.0	138.4	140.8	146.5
Growth (%)	37.9	30.0	79.8	1.8	4.0
EBITDA margin (%)	14.1	15.1	24.0	22.7	22.4

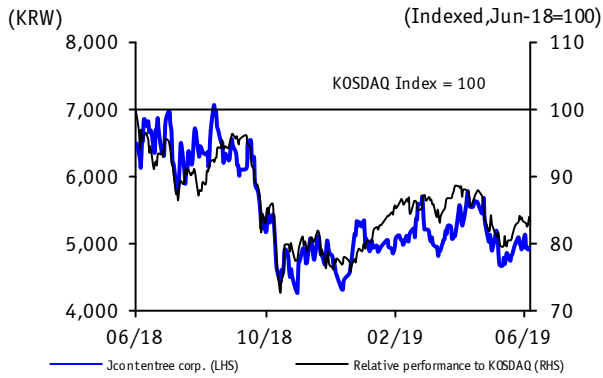
Key ratios

Year to December	2017	2018	2019F	2020F	2021F
EPS (KRW)	90	201	270	297	313
EPS of controlling interest (KRW)	53	145	205	208	219
BPS (KRW)	1,950	2,922	3,192	3,488	3,801
BPS of controlling interest (KRW)	1,311	2,339	2,544	2,752	2,971
DPS (KRW)	0	0	0	0	0
PER (x)	57.7	22.2	18.3	16.6	15.8
PER of controlling interest (x)	97.5	30.8	24.1	23.8	22.5
PBR (x)	2.7	1.5	1.5	1.4	1.3
PBR of controlling interest (x)	4.0	1.9	1.9	1.8	1.7
EV/EBITDA (x)	14.8	9.8	6.0	5.8	5.5
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Profitability					
EBITDA margin (%)	14.1	15.1	24.0	22.7	22.4
OPM (%)	7.9	6.8	9.6	8.8	8.8
NPM (%)	2.6	5.0	6.8	6.9	6.9
ROA (%)	1.8	3.4	4.6	4.8	4.8
ROE (%)	5.3	7.4	8.4	7.8	7.7
ROIC (%)	5.4	8.7	14.0	12.3	12.3
Stability					
Debt to equity ratio (%)	180.8	95.1	88.2	81.6	75.5
Net debt ratio (%)	73.8	5.8	5.9	1.2	(4.2)
Cash ratio (%)	17.1	52.2	49.9	56.1	65.2
Interest coverage ratio (x)	3.8	4.2	7.2	7.1	7.5
Activity (%)					
Working capital turnover (times)	(23.7)	(39.5)	(4,062.6)	44.5	26.1
Inventory turnover (days)	20.4	20.2	22.2	22.7	22.9
Receivable turnover (days)	40.4	49.5	52.1	54.8	56.6

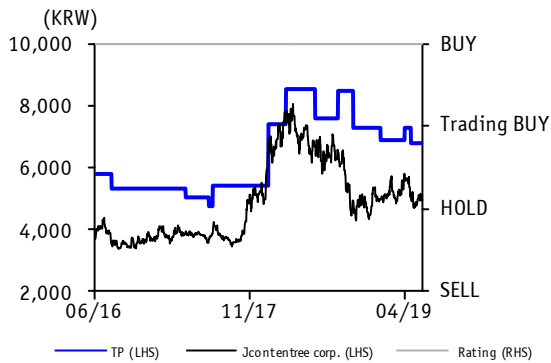
Source: Company data, Shinhan Investment Corp.

Jcontentree (036420 KS)

Share performance



Target price



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2016.03.16	BUY	5,801	(28.1)	(20.3)
2016.08.17	BUY	5,325	(31.9)	(23.2)
2017.02.18		6M later	(28.2)	(22.8)
2017.04.23	BUY	5,040	(24.7)	(22.3)
2017.07.10	BUY	4,755	(21.0)	(19.2)
2017.07.23	BUY	5,420	(20.3)	19.7
2018.01.24		6M later	20.4	20.7
2018.01.26	BUY	7,417	(6.4)	5.0
2018.03.26	BUY	8,558	(16.9)	(5.9)
2018.07.02	BUY	7,607	(15.2)	(7.1)
2018.09.17	BUY	8,500	(36.1)	(22.9)
2018.11.07	BUY	7,300	(33.5)	(26.7)
2019.02.07	BUY	6,900	(24.7)	(16.1)
2019.04.29	BUY	7,300	(26.9)	(22.1)
2019.05.20	BUY	6,800	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - SHIC Universe (as of 21 June 2019)

BUY (BUY)	96.7%	Trading BUY (HOLD)	0.94%	HOLD (HOLD)	2.36%	SELL (SELL)	0%
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Rating Distribution - SHIC Investment Banking Clients (as of 21 June 2019)

BUY (BUY)	91.30%	Trading BUY (HOLD)	4.35%	HOLD (HOLD)	4.35%	SELL (SELL)	0%
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SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> ◆ BUY: Expected 6-month gain of 10% or more ◆ Trading BUY: Expected 6-month gain of 10% to loss of 10% ◆ HOLD: Expected 6-month loss of 10% to 20% ◆ SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> ◆ OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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