

Cheil Worldwide (03000 KS)

Media

Strong global expansion efforts

Another overseas M&A deal announced

On August 13th, Cheil Worldwide announced that it would acquire Bravo Asia (an ad agency based in Shanghai and Hong Kong). Cheil Worldwide had announced its acquisition of US-based McKinney at end-July. Traditionally, global advertising agencies (e.g., WPP) have achieved structural growth via aggressive M&A deals and overseas expansion. We believe that Cheil Worldwide is following a similar path. We maintain our Buy call with a target price of W26,000.

We believe that Bravo Asia is capable of devising marketing strategies for global consumer goods and producing ads for a variety of media (it should be noted that Cheil's Chinese subsidiary OTGC specializes in digital marketing). We expect Bravo Asia to play a key role in Cheil's Chinese operations by devising marketing strategies, mostly for large local accounts.

Global advertising market moving toward consolidation

The consolidation of the global advertising market is quickly picking up pace. In July, Japan-based Dentsu and UK-based Aegis announced their plans for a merger. And, in August, rumors about a merger between the world's third- and fourth-largest ad agencies emerged. Indeed, the number of M&A deals between ad agencies has reached a whopping 240 thus far this year. The world's leading ad agency WPP has acquired 37 companies in 2012 alone.

In fact, the ten largest global agencies acquired more than one company this year. Top-tier players (e.g., WPP, Publicis) are aggressively taking over comprehensive ad service providers in emerging markets (e.g., China) and agencies with strong digital marketing capabilities. We attribute these movements to: 1) the growth potential of Chinese consumption, and 2) the rosy outlook for the digital marketing business (driven by the proliferation of smart devices and the internet).

Earnings momentum to rise in 3Q; Overseas revenues to grow in 2013

For 3Q, we project Cheil Worldwide's operating revenues and operating profit to surge 52.5% and 169.1% YoY, respectively, on the back of: 1) SEC's global marketing campaigns for smartphones (e.g., Galaxy S III) and 2) SEC's sponsorship of the London Olympics. Also, Cheil Worldwide's domestic marketing services (especially for telecom companies and food and beverage companies) should expand.

Despite a lack of major events in 2013, we expect Cheil to generate overseas revenue growth by adding overseas accounts (via overseas M&As and hires).

► Earnings & Valuation Metrics

FY	Revenues (Wbn)	OP (Wbn)	OP Margin (%)	NP (Wbn)	EPS (Won)	EBITDA (Wbn)	FCF (Wbn)	ROE (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
12/10	1,450	139	9.6	108	935	119	-6	17.5	14.8	2.5	8.8
12/11	1,758	109	6.2	93	811	119	101	13.7	23.4	3.2	13.2
12/12F	2,381	171	7.2	142	1,232	184	170	18.7	15.5	2.9	7.9
12/13F	2,738	207	7.6	168	1,462	220	190	18.9	13.1	2.4	5.8
12/14F	3,126	248	7.9	200	1,737	259	221	19.0	11.0	2.0	4.1

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, KDB Daewoo Securities Research estimates

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Buy (Maintain)

Target Price (12M, W)	26,000
Share Price (08/13/12, W)	19,100
Expected Return (%)	36.1
EPS Growth (12F, %)	51.8
Market EPS Growth (12F, %)	12.8
P/E (12F, x)	15.5
Market P/E (12F, x)	10.2
KOSPI	1,932.44
Market Cap (Wbn)	2,197
Shares Outstanding (mn)	115
Avg Trading Volume (60D, '000)	501
Avg Trading Value (60D, Wbn)	9
Dividend Yield (12F, %)	1.3
Free Float (%)	75.7
52-Week Low (W)	14,550
52-Week High (W)	21,700
Beta (12M, Daily Rate of Return)	0.20
Price Return Volatility (12M Daily, %, SD)	2.5
Foreign Ownership (%)	37.8

Major Shareholder(s)

Samsung C&T (18.36%)
KIM (12.27%)
NPS (7.21%)

Price Performance

(%)	1M	6M	12M
Absolute	6.1	-2.1	33.6
Relative	-0.5	1.6	25.8

Key Business

Korea's leading advertising company



Bravo Asia to act as the brain of Cheil's Chinese operations

Bravo Asia to act as the "brain" of Cheil's Chinese operations

We believe that Bravo Asia is capable of devising marketing strategies for global consumer goods and producing ads for a variety of media. (Cheil's other Chinese subsidiary OTGC specializes in digital marketing).

The takeover of Bravo Asia is expected to help Cheil's dispersed Chinese network become better integrated under the Cheil China Group, which will reportedly be headed by the current CEO of Bravo Asia Arron Lau. Going forward, Bravo Asia intends to maintain a separate identity and keep its current management intact. We expect the agency will play a leading role in Cheil's strategy and multi-marketing operations in China.

Table 1. Bravo Asia's CEO to lead Cheil Worldwide's Chinese network

Chinese subsidiaries and companies	Integrated Chinese network
Bravo Asia (newly acquired in 2012)	Cheil China Group (15 offices)
Cheil China	
- Beijing	
- Shanghai	
- Guangzhou	
OpenTide Greater China (acquired in 2009)	
Cheil Hong Kong Limited	
Cheil Taiwan	

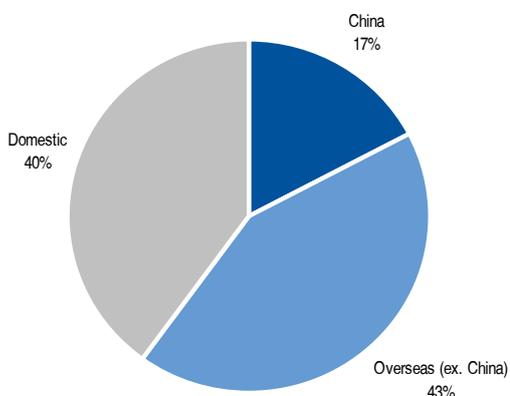
Source: Campaign Asia

Table 2. Bravo Asia's current major advertisers

Brand	Advertiser type	Location
Moet Hennessy Asia Pacific	Fashion	Paris, France
MGM Macau	Leisure	Macao, China
AIA	Insurance	Hong Kong, China
Hutchison Telecom (3HK)	Telecommunication	Hong Kong, China
New Balance Asia Pacific	Sports goods	US (Hong Kong branch)
Pepsi	Beverage	US
Minute Maid (Coca-Cola)	Beverage	US
Logitech	Electronics	Switzerland

Source: Cheil Worldwide, Media reports

Figure 1. Cheil Worldwide's revenues by region (2011)



Source: Cheil Worldwide, KDB Daewoo Securities Research

Key challenge is building competitive global network

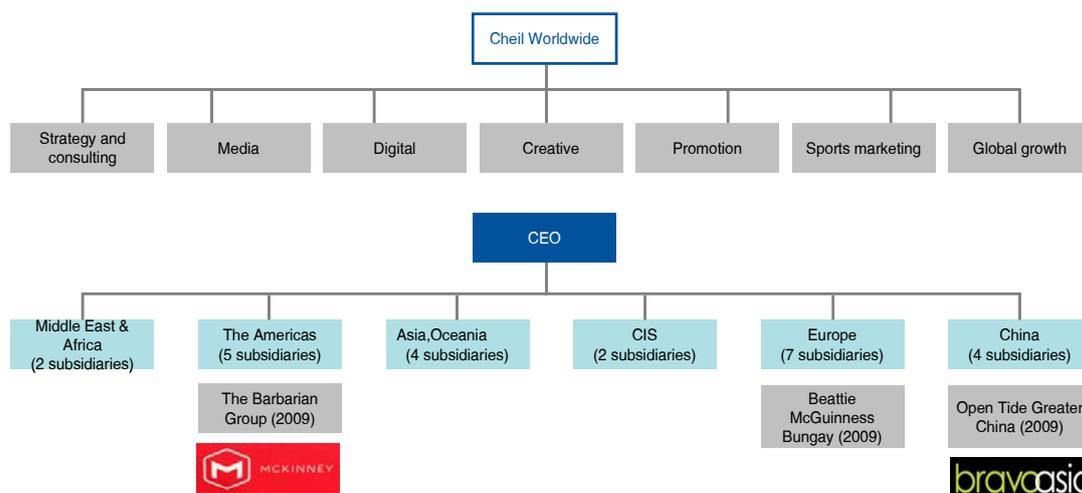
Building a more competitive global network is essential to transitioning into a global leader

Although Cheil Worldwide makes nearly 60% of its consolidated revenues from its overseas subsidiaries (The agency currently operates 53 offices in 28 countries), we think it is too early to talk about any meaningful global exposure, given that the agency’s overseas sales remain heavily reliant on SEC’s global mobile marketing. Since the agency has mainly operated on a standalone basis under the Cheil brand, we believe it needs to strengthen the individual identity and competitiveness of its overseas subsidiaries, which are not yet as profitable as their human capital and size of presence would suggest.

Overseas ad agencies with high global exposure are mostly holding companies (e.g. WPP, Omnicom, Publicis, Interpublic and Aegis) that own a large number of subsidiaries with their own distinct identities. These advertising giants have succeeded in increasing the overall profitability of their global networks by aggressively pursuing M&As and strengthening the identity of each of their ad agencies.

From a long-term view, we believe laying down a stable foundation for overseas top-line growth and improving underlying profitability remain the key challenge for Cheil Worldwide. Thus, we expect the firm to continue to 1) revamp its global network and 2) acquire competitive ad agencies.

Figure 2. Cheil Worldwide’s business units and company structure



Source: Cheil Worldwide, company data, KDB Daewoo Securities Research

Table 3. Earnings and valuation metrics of major global advertising companies

Company	Market Cap	OP Margin			P/E			P/B			EV/EBITDA			ROE		
		11	12F	13F	11	12F	13F	11	12F	13F	11	12F	13F	11	12F	13F
Cheil Worldwide (Kor)	2,197	6.2	7.2	7.6	23.4	15.5	13.1	3.2	2.9	2.4	13.2	7.9	5.8	13.7	18.7	18.9
Dentsu Inc. (Jap)	7,898	2.7	3.0	3.0	16.6	14.6	13.3	0.9	0.9	0.8	8.6	5.9	5.7	5.7	5.8	6.2
Hakuhodo Dy Holdings	2,900	2.0	2.3	2.5	22.8	15.7	14.1	1.0	0.9	0.9	4.7	4.0	3.7	4.3	5.9	6.6
Asatsu-Dk Inc	1,301	1.1	1.3	1.4	28.0	24.8	23.6	0.9	0.9	0.9	12.2	9.1	8.8	2.3	3.5	3.6
WPP PLC (UK)	19,107	11.9	14.0	14.3	12.6	11.4	10.4	1.6	1.5	1.4	7.1	7.7	7.2	12.8	12.8	12.9
Omnicom Group (US)	15,504	12.0	12.9	13.2	15.1	14.3	12.8	4.2	3.7	3.3	8.2	8.4	7.9	26.6	27.1	29.1
Publicis Groupe (Fra)	12,066	15.7	15.8	16.1	12.8	12.7	11.8	2.0	2.0	1.8	6.4	8.2	7.7	16.5	17.5	16.9
Interpublic Group (US)	5,251	9.8	10.3	10.9	12.4	13.4	11.0	2.4	1.8	1.7	6.5	5.6	5.1	22.9	15.3	17.2
Aegis Group Plc (UK)	4,930	12.8	17.1	17.4	35.3	19.3	17.6	5.7	5.6	4.9	8.2	11.4	10.6	27.8	27.5	28.2
Japan average		2.0	2.2	2.3	22.4	18.4	17.0	0.9	0.9	0.9	8.5	6.3	6.0	4.1	5.1	5.4
Global group average		12.5	14.0	14.4	17.6	14.2	12.7	3.2	2.9	2.6	7.3	8.3	7.7	21.3	20.1	20.9
Total		8.3	9.3	9.6	19.9	15.7	14.2	2.4	2.2	2.0	8.3	7.6	6.9	14.7	14.9	15.5

Note: Bloomberg consensus except Cheil Worldwide, Source: Bloomberg, KDB Daewoo Securities Research

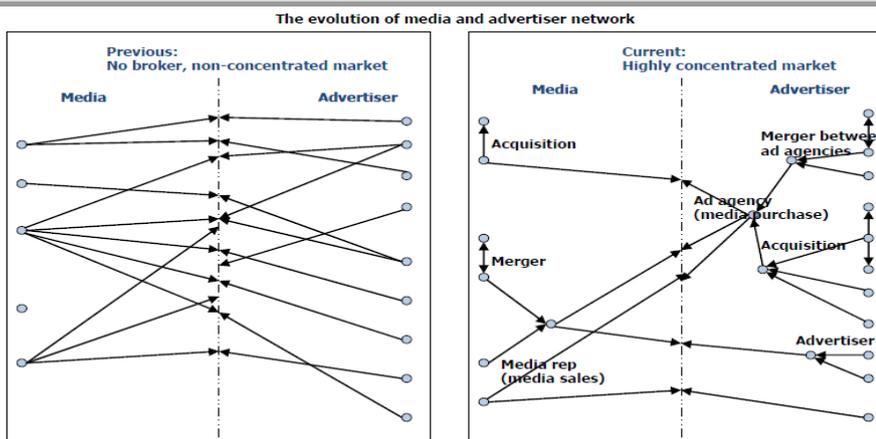
Growing need to expand global network

According to Advertising Age, Cheil Worldwide ranked 16th among the list of global advertising agencies in 2011. We believe this clearly demonstrates the progress Cheil has made in enhancing its global reputation, especially given that 1) Korea’s advertising market is not among the ten largest in the world; 2) top-ranking agencies are mostly holding companies that own a number of worldwide agencies; and 3) that consulting firms were also included in the ranking.

Changes in the business environment call for expansion of global network

In terms of business structure, advertising firms must effectively respond to two groups of players: media and advertisers. On the media front, a major industry trend has been the consolidation into big media groups. As for advertisers, firms that make significant contributions to agency earnings are large global consumer goods producers which are one of the biggest marketing spenders. Cheil Worldwide also faces a growing need to bolster its global network and brand in order to respond to this shift toward big media and secure large overseas accounts.

Figure 3. Need for larger advertising company



Source: Alan B. Albarran

Table 4. Global advertising agency rankings (2011)

Rank	YoY Chg.	Advertising agency	Location	Business type	Main business	Local revenue's proportion	Country's rank in global ad market
1	-	WPP	Ireland	Group	Media ad, marketing	12%	5
2	-	Omnicom Group	US	Group	Media ad, marketing	51%	1
3	-	Publicis Groupe	France	Group	Media ad, marketing	47%	7
4	-	Interpublic Group of Cos.	US	Group	Media ad, marketing	55%	1
5	-	Dentsu Inc.	Japan	Group	Media ad, marketing	87%	2
6	-	Havas	France	Group	Media ad, marketing	21%	7
7	-	Hakuhodo DY Holdings	Japan	Group	Media ad, marketing	97%	2
8	-	Aegis Group	UK	Group	Media ad, marketing	56%	5
9	+1	MDC Partners	US	Group	Media ad, marketing	80%	1
10	+1	Alliance Data System Corp's Epsilon	US	Independent	Marketing consulting	92%	1
11	-2	Acxiom Corp.	US	Independent	Marketing consulting	80%	1
12	+2	Sapient Corp.'s SapientNitro	US	Group	Media ad, marketing	66%	1
13	-	Daniel J.Edelman	US	Group	Marketing consulting	63%	1
14	+1	Asatsu-DK	Japan	Group	Media ad, marketing	91%	2
15	-3	Aimia	US	Group	Marketing consulting	n/a	10
16	+1	Cheil Worldwide	Korea	Independent	Media ad, marketing	41%	Outside top 10
17	-1	Media Consulta	Germany	Group	Marketing consulting	n/a	4

Source: Advertising Age, Bloomberg, PwC, company data, KDB Daewoo Securities Research

Global advertising market moving toward consolidation

Global ad industry undergoing intense consolidation

The consolidation of the global advertising market is quickly picking up pace. In July, Japan-based Dentsu (the largest agency in Japan and fifth largest globally) announced its acquisition of UK-based agency Aegis (eighth largest globally). In terms of value, the acquisition represents the fourth largest deal ever in the global advertising industry. In August, rumors about a potential merger between Publicis (the world's third largest agency) and Interpublic (fourth largest) emerged.

The number of M&A deals between ad agencies has reached a whopping 240 thus far this year and 58 since July. Cheil Worldwide has bought two multi-ad agencies (one in the US and the other in China) this year alone.

The world's leading ad agency WPP has acquired 37 companies in 2012. Omnicom bought two firms; Publicis 16; Interpublic seven; Dentsu four; Havas four; Aegis eight; and MDC Partners four. (Ad agencies are listed in the order of global market ranking.)

Table 5. M&As in the global advertising industry after July 2012

Date	Target company	Acquirer
2012-08-13	Bravo Asia	Cheil Worldwide Inc
2012-08-13	Manajans Thompson Reklam Isleri AS	WPP PLC
2012-08-09	Communicate 2	Aegis Group PLC
2012-08-07	Resultrix	Publicis Groupe SA
2012-08-02	Fortune Cookie UK Ltd	WPP PLC
2012-08-01	I Spy Marketing Ltd, 4Search Ltd	Aegis Group PLC
2012-08-01	Data2Decisions Ltd	Aegis Group PLC
2012-07-30	McKinney Ventures LLC	Cheil Worldwide Inc
2012-07-24	KKLD GmbH	WPP PLC
2012-07-23	Acceleration Holdings Ltd, Acceleration eMarketing Pty Ltd	WPP PLC
2012-07-20	Catch Stone Advertising Beijing Co Ltd	Aegis Group PLC
2012-07-20	Cadem Advertising SA	WPP PLC
2012-07-18	Visible Technologies LLC	WPP PLC, Investor Growth Capital Inc, Ignition Partners LLC
2012-07-12	Aegis Group PLC	Dentsu Inc
2012-07-11	Communications & Network Consulting AG	Publicis Groupe SA
2012-07-09	Boondoggle	Havas SA
2012-07-09	Activeark Oy	WPP PLC
2012-07-05	Triacom, Made in Moon	Publicis Groupe SA
2012-07-05	Bartle Bogle Hegarty Ltd	Publicis Groupe SA
2012-07-05	Neogama/BBH	Publicis Groupe SA
2012-07-05	Virgo HEALTH Ltd	Interpublic Group of Cos Inc/The
2012-07-04	W Garden	Aegis Group PLC
2012-07-04	Press Index	WPP PLC
2012-07-03	Foster Informatica Ltd	WPP PLC
2012-07-02	Alchemedia Inc	WPP PLC
2012-07-02	Jumtapt Inc	WPP PLC, Unnamed Buyer, Redpoint Ventures LLC, General Catalyst Partners, Valhalla Partners, Ke...

Note: Acquisitions only by top 10 global groups except Cheil Worldwide

Source: Bloomberg

Top-tier global ad agencies expand presence in emerging countries through M&As

China, an attractive M&A market for global ad agencies

Since the early 2000s, global ad groups have stepped up their efforts to acquire Chinese ad agencies, as: 1) consumption in China was growing in line with economic development, and 2) marketing competition was anticipated to intensify among Chinese advertisers.

WPP, the world's largest ad group, has been the most aggressive buyer so far, acquiring a total of 24 Chinese ad agencies since April 2002. Publicis, the world's third largest, has acquired 15 since 2006.

Table 6. WPP's acquisitions of Chinese local companies since 2000

Date	Target company
2012-01-17	CIC Data
2011-12-20	Nanjing Yindu Advertising and Commerce Co Ltd
2011-11-14	InGame Ad Interactive Ltd
2011-10-23	Moment Systems
2011-10-12	A4A Communications Ltd
2008-08-21	IGA Ltd
2008-04-28	Evision
2008-04-21	HDT Holdings Technologies Inc
2007-10-26	MeThinks
2007-10-01	Dawson Integrated Marketing Communications
2007-06-20	Star Echo
2006-12-01	Beijing Raynet Advertising Co Ltd
2006-11-06	Chengdu Apex Advertising Co Ltd
2006-10-19	Ray + Keshavan Design Associates Pvt Ltd, Beijing Century Harmony Advertising Co Ltd, SRP Co...
2006-09-11	Black Arc Advertising Co Ltd
2006-06-14	All China Strategic Research Co Ltd
2006-05-16	Hua Yang Lian Zhong Advertising Co
2006-03-10	Sapphire Bright Ltd
2004-09-21	Guangzhou Newsun Insight Advertising Co Ltd
2004-06-16	Fujian Southeast Broadcasting Network Co Ltd
2004-06-16	Fujian Southeast Shengshi Effort Advertising Co Ltd
2002-11-04	Shanghai Advertising Agency Co Ltd
2002-06-10	H-Line Worldwide Ltd
2002-04-25	BrandOne Advertising Co Ltd

Source: Bloomberg

Table 7. Publicis' acquisitions of Chinese local advertising companies since 2000

Date	Target Company
2012-05-14	Razorfish Longtuo China
2012-03-08	King Harvests, Luminous EMC Ltd
2012-02-22	U-Link Business Solution Co Ltd
2011-11-29	Gomye
2011-11-02	Wangfan
2011-06-20	Genedigi Group
2011-05-12	Dreams Communication
2010-11-17	Eastwei Relations
2010-07-12	G4 Advertising Co
2008-12-02	W&K Communications
2008-05-22	EmporioAsia
2007-07-31	Communication Central Group
2007-04-02	Yong Yang
2006-10-25	Emotion/China
2006-03-29	Betterway Marketing Solutions

Source: Bloomberg

China's consumption outlook brightens

China's strong consumption growth to outpace that of the US in 2013

China's consumption growth along with economic development appears to have spurred M&As between Chinese and global ad companies since the early 2000s.

In China, income growth has been faster in the middle and low income brackets than in the high income brackets since 2010. On the consumption side, however, growth was stronger among high and middle income earners. This suggests the persistent gap between the rich and the poor despite government policies to boost consumption. Going forward, the Chinese government is anticipated to focus on narrowing the gap between the rich and the poor, lowering distribution costs and cutting taxes as part of its efforts to promote consumption.

Consumption of basic necessities is on the rise (food, apparel, etc.), and the consumption of services (education, culture, etc.) and luxury goods also seems likely to pick up. From 2013, China's consumption growth is anticipated to outpace that of the US. Although this happened temporarily in 2008 amid the global financial crisis, China's strong consumption growth is likely to be more sustainable this time.

Cheil's Chinese operation likely to expand

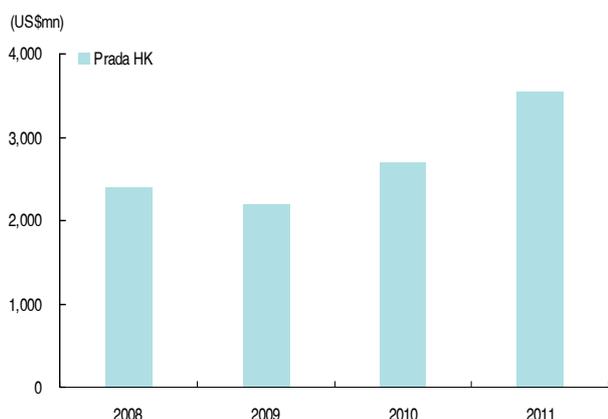
Cheil to cater to global brands operating in China

Bravo Asia has a diverse client base that includes global brands, positioning them well to advance into and establish their presence in the Chinese market. We expect a growing number of global advertisers to enter the market, given the rising consumption in China. Thanks to the acquisition of Bravo Asia, Cheil's Chinese unit should be able to broaden its client base to include global brands, in addition to Korean companies operating in China.

Amid the shift from an investment-oriented to a consumption-oriented economic model, China is transforming itself from the manufacturing hub to a consumption hub of the world. While some global companies are relocating their production bases back to their home countries due to rising labor costs in China, there is a notable rise in the number of consumer goods makers making inroads into or strengthening their sales in the country.

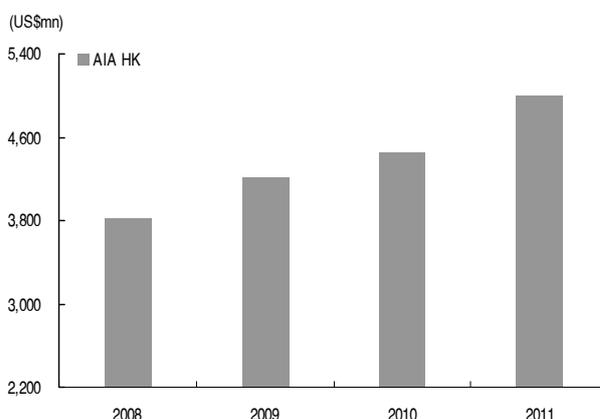
Indeed, Prada, a luxury goods brand listed on Hong Kong's stock exchange, saw their Chinese sales soar 31% in 2011. AIA, a client of Bravo Asia, enjoyed a 12% jump in such sales in the same year. Adidas shut down its production base in China, but beefed up its sales network. UNIQLO relocated its production facilities from China to Bangladesh, but plans to strengthen its sales network steadily.

Figure 4. Prada's (listed in Hong Kong) annual Chinese revenue trend



Source: Bloomberg

Figure 5. Bravo Asia's advertiser, AIA Life's annual Chinese revenue trend



Source: Bloomberg

Overseas operations to strengthen

Earnings momentum to rise in 3Q; Overseas revenues to grow in 2013

For 3Q, we project Cheil Worldwide's operating revenues and operating profit to surge 52.5% and 169.1%, respectively, on the back of: 1) SEC's global marketing campaigns for smartphones (e.g., Galaxy S III) and 2) SEC's sponsorship of the London Olympics. Also, Cheil Worldwide's domestic marketing services (especially for telecoms and F&Bs) should expand.

On a full-year basis, operating revenues and operating profit are projected to increase 35.4% and 60%, respectively, aided by marketing promotions and strong overseas revenues.

Despite a lack of major events in 2013, we expect Cheil to generate overseas revenue growth by adding overseas accounts (via overseas M&As and hires).

Table 8. Cheil Worldwide's quarterly and annual earnings trends and forecasts

(Wbn, %)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12P	3Q12F	4Q12F	2011	2012F	2013F
Revenue	309	426	453	571	421	615	690	655	1,758	2,381	2,738
Gross profit	84	113	113	148	102	147	185	149	458	583	736
Domestic	34	49	45	61	38	49	55	63	190	205	214
Traditional media	13	20	18	18	11	16	27	20	69	74	78
New media	7	9	11	20	9	12	17	13	47	51	54
Production	14	20	16	24	17	21	25	19	74	82	86
Overseas	49	64	68	87	65	97	130	86	268	378	522
Operating profit	13	31	23	42	9	40	61	64	109	174	207
OP margin	4.3	7.2	5.0	7.4	2.2	6.5	8.8	9.8	6.2	7.2	7.6
Net profit	13	26	22	35	10	31	50	51	96	142	169
NP margin	4.0	6.1	4.9	6.2	2.3	5.1	7.3	7.7	5.4	6.0	6.1
Gross profit breakdown											
Domestic	41.1	43.4	40.0	41.4	36.7	33.5	29.6	42.4	41.5	35.1	29.1
Traditional media	15.6	17.7	15.6	12.3	11.0	11.1	14.7	13.2	15.0	12.7	10.6
New media	8.5	8.2	9.9	13.3	8.9	8.5	9.1	8.7	10.3	8.8	7.3
Production	17.1	17.4	14.5	15.8	16.8	14.0	13.6	13.1	16.1	14.1	11.7
Overseas	58.9	56.7	60.0	58.6	63.3	66.5	70.4	57.6	58.5	64.9	70.9
YoY Growth											
Revenue	14.4	15.0	16.6	35.5	36.3	44.5	52.5	14.6	21.3	35.4	15.0
Gross profit	16.4	5.8	19.7	14.9	22.2	29.5	63.9	0.3	13.9	27.2	26.3
Domestic	5.8	21.9	24.5	18.3	9.0	0.2	21.2	2.8	18.1	7.6	4.7
Traditional media	-11.6	27.4	25.7	16.7	-13.8	-19.0	54.7	8.0	14.9	8.0	4.7
New media	31.5	27.4	51.4	36.8	28.2	33.3	51.1	-34.5	37.1	8.5	5.4
Production	15.3	14.5	10.1	7.3	20.3	4.1	53.4	-17.2	11.3	11.4	4.7
Overseas	25.2	-3.8	16.7	12.5	31.5	52.0	92.4	-1.5	11.1	41.1	38.1
Operating profit	9.9	-12.0	-3.8	-38.7	-29.3	28.9	169.1	52.6	-21.9	60.0	19.3
Net profit	5.0	-7.9	0.9	-25.1	-21.6	20.5	127.4	43.4	-12.1	48.5	18.6

Note: K-IFRS Consolidated basis / Source: Cheil Worldwide, KDB Daewoo Securities Research

Table 9. Cheil Worldwide's international brands

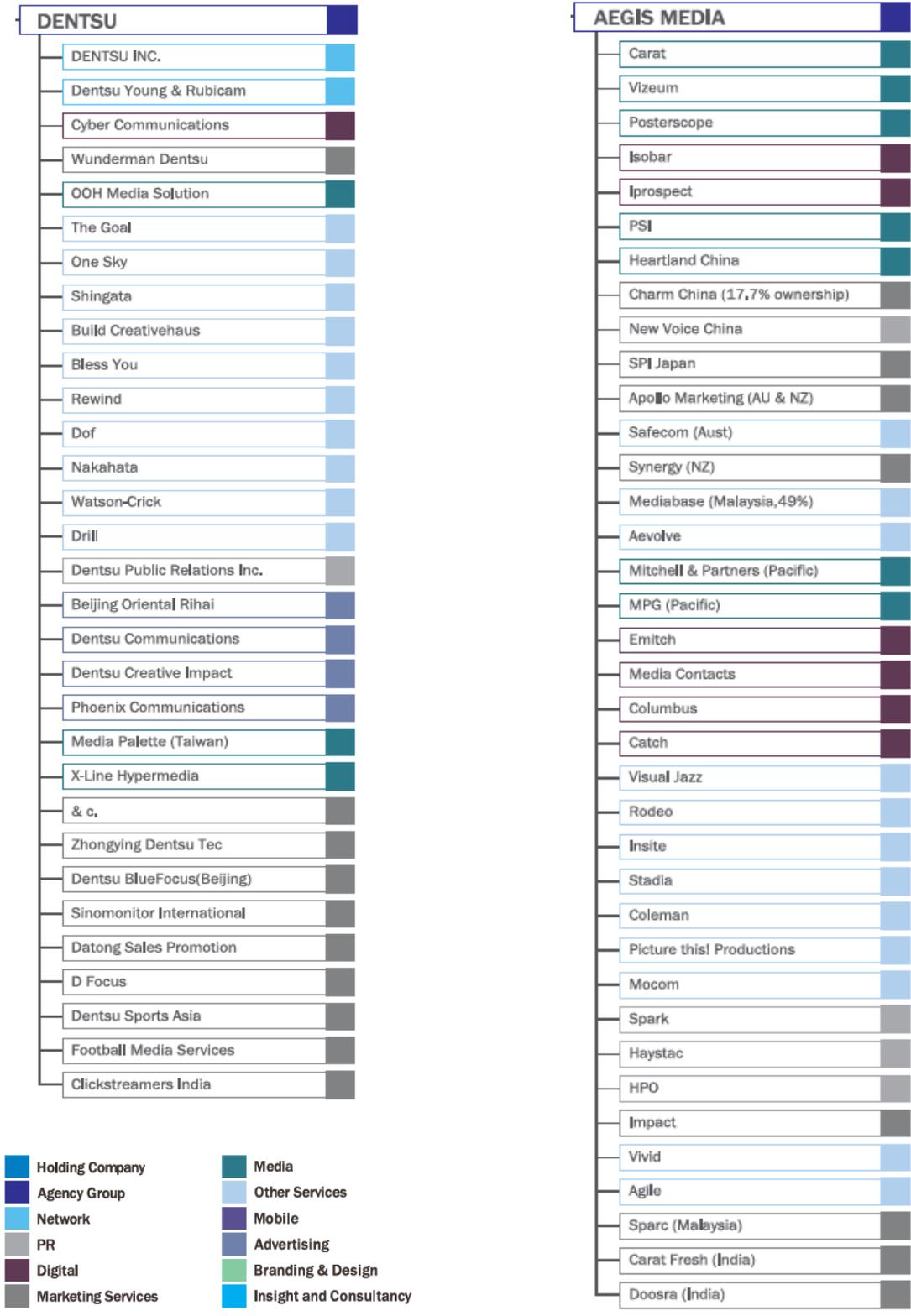
Company	Location	Founded in	Acquired in	Type	Revenue (US\$m)	(Wbn)	Major advertisers
Beattie McGuinness Bungay	London, UK	2005	2008	Ad production	16.0	18.0	Bill & Melinda Gates Foundation, Corona Extra, ING Direct, Yorkshire Tea
The Barbarian Group	New York, US	2001	2009	Digital	21.0	23.7	Pepsi, Elizabeth Arden, Intel, Nike
Open Tide Greater China	China	2000	2009	Digital	49.0	55.3	CMCC, Yanjing Beer, Commercial Bank of China, Hyundai Motor, Orion
BMB Media	London, UK	2011	2011	Targeting small and mid-sized clients	n/a	n/a	Pretty Polly hosiery, Pussy Drinks
McKinney	North Carolina, US	1969	2012	Comprehensive ads and strategy	37.4	42.0	Nationwide, Lenovo, Meijer
Bravo Asia	Shanghai, HongKong, China	2006	2012	Comprehensive ads and strategy	n/a	n/a	Hennessy, AIA, Hutchison Telecom, Pepsi, New Balance, Minute Maid (Coca-Cola)

Note: Revenues are based on media reports in 2011; Bravo Asia is believed to be of smaller scale than McKinney

Source: Cheil Worldwide, Company data, Korea Economic Daily, KDB Daewoo Securities Research

Figure 6. Dentsu's structure

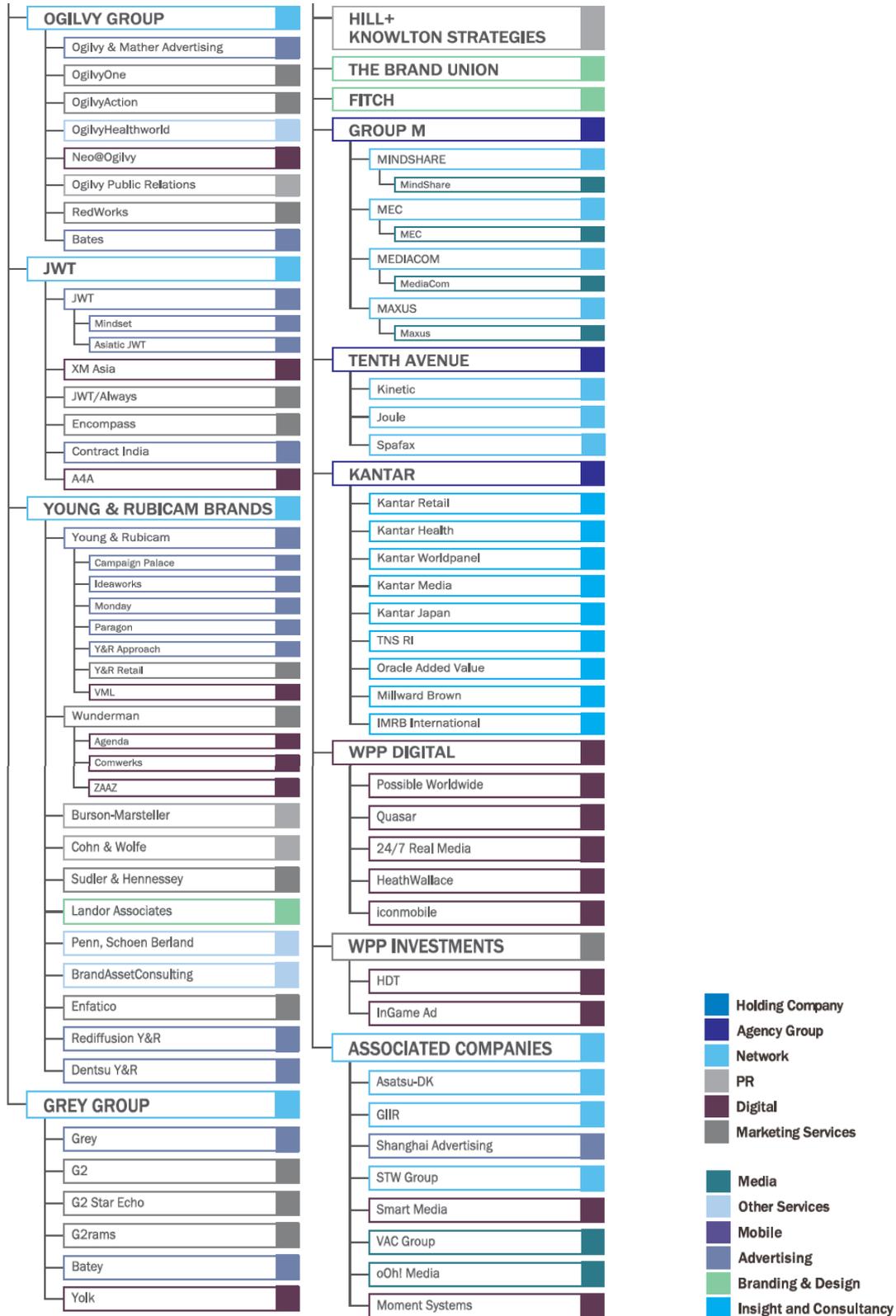
Figure 7. Aegis's (acquired by Dentsu) structure



Note: Based on 2011
Source: R3

Note: Based on 2011
Source: R3

Figure 8. WPP's structure (Largest global agency)



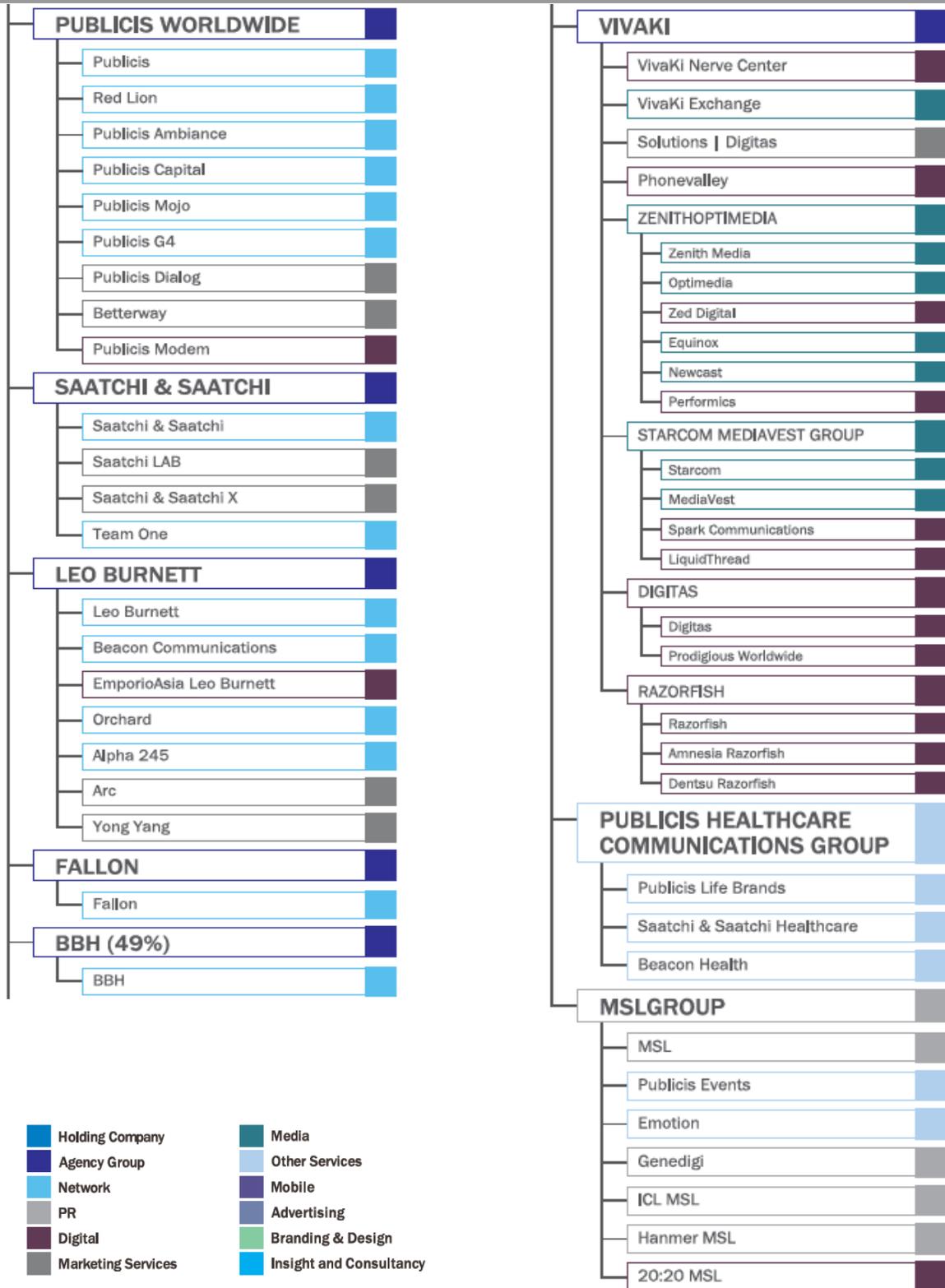
Note: Based on 2011
Source: R3

Figure 9. Omnicom's structure (2nd largest global agency)



Note: 2011 based
Source: R3

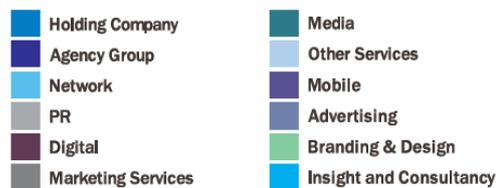
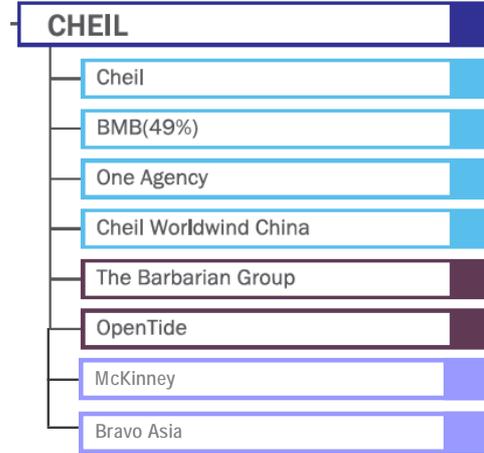
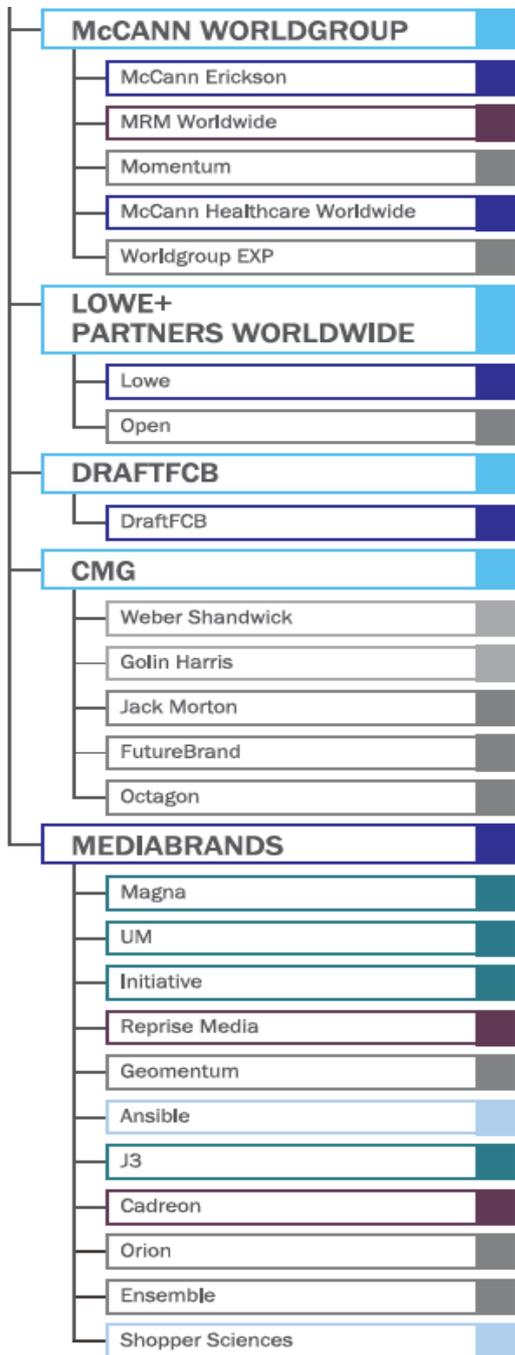
Figure 10. Publicis' structure (3rd largest global agency)



Note: Based on 2011
Source: R3

Figure 11. Interpublic's structure (4th largest global agency)

Figure 12. Cheil Worldwide's structure (16th largest global agency)



Note: Based on 2011
Source: R3

Note: Based on 2012
Source: R3, KDB Daewoo Securities Research

Cheil Worldwide (030000 KS/Buy/TP: W26,000)

Comprehensive Income Statement (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Revenues	1,758	2,381	2,738	3,126
Cost of Sales	1,300	1,728	1,987	2,269
Gross Profit	458	652	750	857
SG&A Expenses	352	479	543	609
Operating Profit (Adj)	107	174	207	248
Operating Profit	109	171	207	248
Non-Operating Profit	18	16	15	16
Net Financial Income	-17	-18	-19	-20
Net Gain from Inv in Associates	0	-4	-4	-4
Pretax Profit	127	187	222	264
Income Tax	31	45	54	64
Profit from Continuing Operations	96	142	169	200
Profit from Discontinued Operations	0	0	0	0
Net Profit	96	142	169	200
Controlling Interests	93	142	168	200
Non-Controlling Interests	2	0	0	0
Total Comprehensive Profit	83	151	178	210
Controlling Interests	80	151	178	209
Non-Controlling Interests	3	0	0	0
EBITDA	119	184	220	259
FCF (Free Cash Flow)	101	170	190	221
EBITDA Margin (%)	6.8	7.7	8.0	8.3
Operating Profit Margin (%)	6.2	7.2	7.6	7.9
Net Profit Margin (%)	5.3	6.0	6.1	6.4

Cash Flows (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Cash Flows from Op Activities	130	151	191	221
Net Profit	96	140	169	200
Non-Cash Income and Expense	32	47	51	59
Depreciation	11	8	11	10
Amortization	1	2	2	2
Others	-8	-5	0	0
Chg in Working Capital	43	15	25	26
Chg in AR & Other Receivables	-294	-308	-176	-192
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	294	279	160	174
Income Tax Paid	-42	-51	-54	-64
Cash Flows from Inv Activities	11	15	17	18
Chg in PP&E	-21	-7	0	0
Chg in Intangible Assets	-5	-5	-5	-5
Chg in Financial Assets	29	11	0	0
Others	7	15	21	22
Cash Flows from Fin Activities	-38	-22	-29	-34
Chg in Financial Liabilities	-2	0	0	0
Chg in Equity	1	-21	0	0
Dividends Paid	0	-18	-27	-33
Others	-38	0	-2	-2
Increase (Decrease) in Cash	104	144	179	205
Beginning Balance	138	242	386	564
Ending Balance	242	386	564	769

Source: Company data, KDB Daewoo Securities Research estimates

Statement of Financial Condition (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Current Assets	1,586	2,064	2,432	2,844
Cash and Cash Equivalents	242	386	564	769
AR & Other Receivables	868	1,176	1,352	1,543
Inventories	0	0	0	0
Other Current Assets	69	93	107	122
Non-Current Assets	225	253	250	251
Investments in Associates	30	25	21	17
Property, Plant and Equipment	85	84	73	63
Intangible Assets	38	41	44	47
Total Assets	1,811	2,316	2,682	3,095
Current Liabilities	1,062	1,455	1,670	1,904
AP & Other Payables	788	1,067	1,227	1,401
Short-Term Financial Liabilities	1	19	19	19
Other Current Liabilities	272	369	424	484
Non-Current Liabilities	31	33	34	35
Long-Term Financial Liabilities	1	1	1	1
Other Non-Current Liabilities	16	18	19	20
Total Liabilities	1,093	1,488	1,704	1,939
Controlling Interests	704	813	964	1,141
Capital Stock	23	23	23	23
Capital Surplus	116	116	116	116
Retained Earnings	588	710	851	1,018
Non-Controlling Interests	14	15	15	15
Stockholders' Equity	718	828	979	1,156

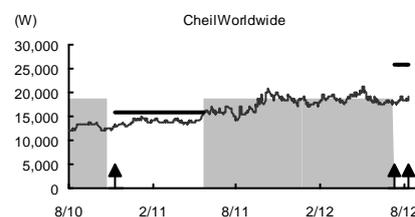
Forecasts/Valuations (Summarized)				
	12/11	12/12F	12/13F	12/14F
P/E (x)	23.4	15.5	13.1	11.0
P/CF (x)	20.6	14.5	12.1	10.4
P/B (x)	3.2	2.9	2.4	2.0
EV/EBITDA (x)	13.2	7.9	5.8	4.1
EPS (W)	811	1,232	1,462	1,737
CFPS (W)	918	1,317	1,573	1,837
BPS (W)	5,870	6,713	7,998	9,513
DPS (W)	160	250	300	360
Payout ratio (%)	18.8	19.1	19.3	19.5
Dividend Yield (%)	0.8	1.3	1.6	1.9
Revenue Growth (%)	21.3	35.4	15.0	14.2
EBITDA Growth (%)	0.0	54.6	19.8	17.9
Operating Profit Growth (%)	-21.8	57.8	20.9	19.7
EPS Growth (%)	-13.2	51.8	18.7	18.8
Accounts Receivable Turnover (x)	2.5	2.3	2.2	2.2
Inventory Turnover (x)				
Accounts Payable Turnover (x)	2.8	2.6	2.4	2.4
ROA (%)	5.9	6.9	6.8	6.9
ROE (%)	13.7	18.7	18.9	19.0
ROIC (%)				
Liability to Equity Ratio (%)	152.2	179.8	174.1	167.7
Current Ratio (%)	149.3	141.8	145.6	149.3
Net Debt to Equity Ratio (%)	-90.1	-93.7	-97.5	-100.2
Interest Coverage Ratio (x)	306.0	721.1	111.0	132.8

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	Trading Buy	Relative performance of 10% or greater, but with volatility
	Hold	Relative performance of -10% and 10%
	Sell	Relative performance of -10%
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	Neutral	Fundamentals are steady without any material changes
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