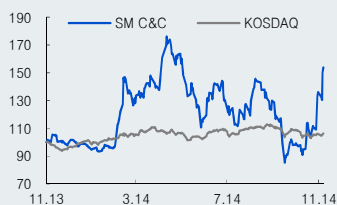


**Not Rated**

Target Price (12M, W)	-
Share Price (12/04/14, W)	4,370
Expected Return	-

OP (14F, Wbn)	-3
Consensus OP (14F, Wbn)	9
EPS Growth (14F, %)	-
Market EPS Growth (14F, %)	1.1
P/E (14F, x)	-
Market P/E (14F, x)	13.0
KOSDAQ	548.16
Market Cap (Wbn)	293
Shares Outstanding (mn)	68
Free Float (%)	58.3
Foreign Ownership (%)	0.3
Beta (12M)	2.23
52-Week Low	2,420
52-Week High	5,000

(%)	1M	6M	12M
Absolute	64.3	9.1	52.3
Relative	62.5	5.8	40.6



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# SM C&C

(048550 KQ)

## Favorably positioned in negotiations with Chinese firms

### Snapshot: Key business areas are production, management, record label, and tours

Established in 1980, SM Culture & Content (SM C&C) was formerly known as BT&I prior to its acquisition in 2012 by SM Entertainment. Since then, the company has broadened its business portfolio to other areas, including drama production.

SM C&C mainly engages in video content production, but also runs other businesses, including artist management, tour services, and a record label. The company focuses on creating synergy between its businesses, such as using its artists for promotional purposes or selling tour products tied to popular Korean stars.

### Catalysts: Co-productions with Chinese partners to expand

As a content producer, SM C&C boasts several advantages. Firstly, the company represents SM Entertainment artists (who are popular in China) in their entertainment program activities, which gives the company an upper hand in negotiations when co-producing content with Chinese partners. Secondly, entertainment programs tend to attract more sponsors than dramas in China. Thirdly, since production of entertainment programs is much more costly in China, the company is more likely to reach a fairer profit-sharing agreement. All in all, we believe SM C&C can negotiate favorable contract terms. We also expect the company's drama production capabilities to strengthen going forward.

2014 was a challenging year for the content production industry, mainly due to the impact of the Sewol ferry tragedy. Fortunately, we have been seeing signs of a recovery in 2H14. Looking ahead in 2015, we expect to see growth in both quantity and quality.

### Check point: Short-term growth to hinge on appeal of SM artists

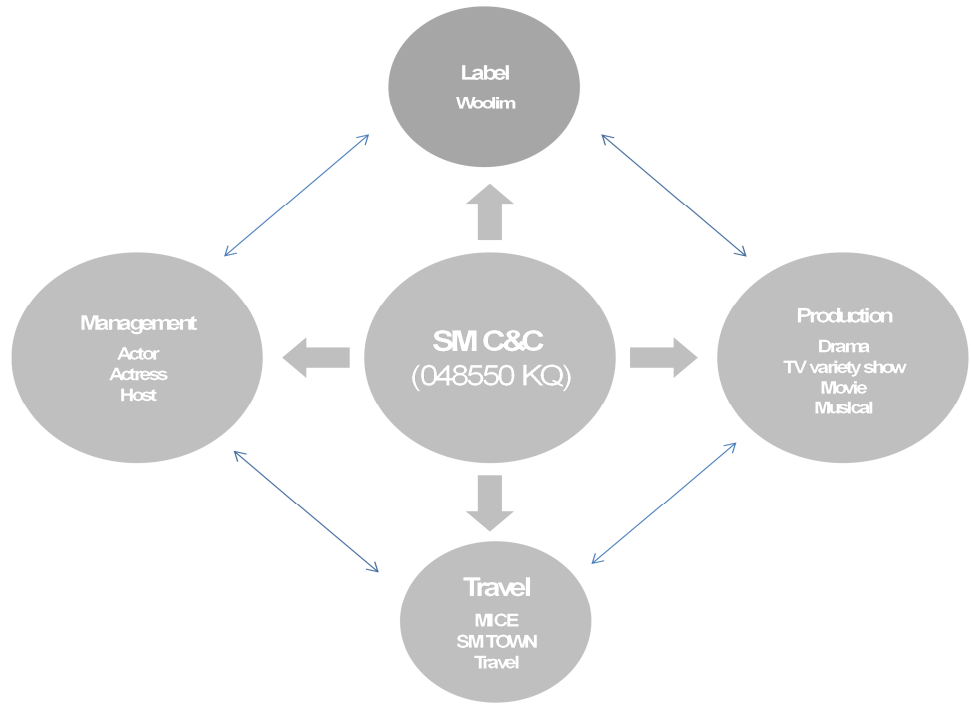
In our view, SM C&C could benefit from co-productions with Chinese firms in two areas: 1) product placement (endorsement) income; 2) advertising and syndication income, which is determined by ratings. Product placement (endorsement) income is determined during the production stage (prior to airing), and largely hinges on the starring artists. In the case of dramas, ratings are heavily influenced by the program's quality, but for entertainment shows, ratings are more affected by the celebrities appearing in the program. Therefore, as long as SM Entertainment artists remain popular in China, we believe SM C&C will continue to enjoy negotiating leverage with Chinese firms. And the company's success in China, in turn, will provide the foundation for stable earnings.

FY (12)	12/09	12/10	12/11	12/12	12/13	12/14F
Revenue (Wbn)	19	19	16	20	58	63
OP (Wbn)	2	2	1	-3	0	-3
OP Margin (%)	10.5	10.5	6.3	-15.0	0.0	-4.8
NP (Wbn)	-1	2	0	-13	-1	-5
EPS (W)	-17	60	14	-209	-13	-69
ROE (%)	-5.0	12.7	2.9	-46.1	-2.0	-9.3
P/E (x)	-	16.7	48.0	-	-	-
P/B (x)	1.0	1.5	1.0	5.2	3.4	5.7

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

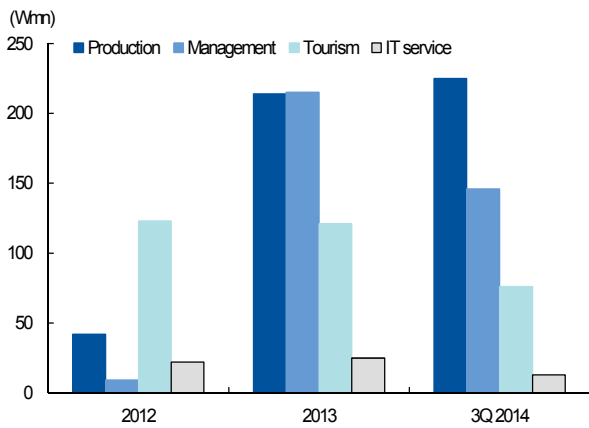
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Figure 1. SM C&C business structure



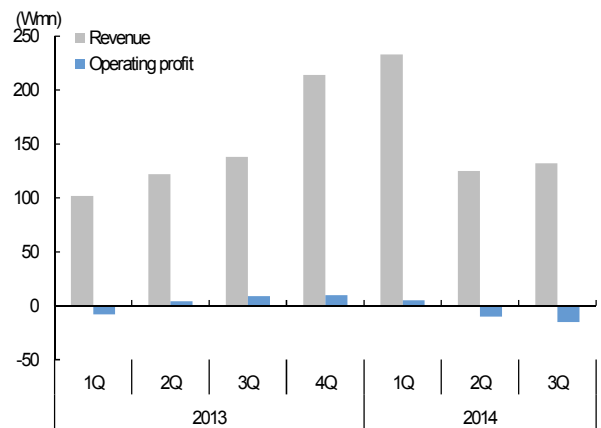
Source: SMC&C, KDB Daewoo Securities Research

Figure 2. Revenue breakdown by business unit



Source: SMC&C, KDB Daewoo Securities Research

Figure 3. Quarterly revenue



Source: SMC&C, KDB Daewoo Securities Research

## SM C&amp;C (048550 KQ/Not Rated)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/11	12/12	12/13	12/14F
<b>Revenue</b>	<b>16</b>	<b>20</b>	<b>58</b>	<b>63</b>
<b>Cost of Sales</b>	<b>0</b>	<b>8</b>	<b>44</b>	<b>52</b>
<b>Gross Profit</b>	<b>16</b>	<b>12</b>	<b>14</b>	<b>11</b>
<b>SG&amp;A Expenses</b>	<b>15</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Operating Profit (Adj)</b>	<b>1</b>	<b>-3</b>	<b>0</b>	<b>-3</b>
<b>Operating Profit</b>	<b>1</b>	<b>-3</b>	<b>0</b>	<b>-3</b>
<b>Non-Operating Profit</b>	<b>-1</b>	<b>-10</b>	<b>0</b>	<b>-2</b>
Net Financial Income	0	0	0	0
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	0	-13	0	-5
Income Tax	0	0	1	0
Profit from Continuing Operations	0	-13	-1	-5
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>0</b>	<b>-13</b>	<b>-1</b>	<b>-5</b>
Controlling Interests	0	-13	-1	-5
Non-Controlling Interests	0	0	0	0
<b>Total Comprehensive Profit</b>	<b>0</b>	<b>-13</b>	<b>-1</b>	<b>-5</b>
Controlling Interests	0	-13	-1	-5
Non-Controlling Interests	0	0	0	0
EBITDA	2	-1	3	3
FCF (Free Cash Flow)	4	-7	-3	-15
EBITDA Margin (%)	12.5	-5.0	5.2	4.8
Operating Profit Margin (%)	6.3	-15.0	0.0	-4.8
Net Profit Margin (%)	0.0	-65.0	-1.7	-7.9

## Statement of Financial Condition (Summarized)

(Wbn)	12/11	12/12	12/13	12/14F
<b>Current Assets</b>	<b>13</b>	<b>27</b>	<b>52</b>	<b>33</b>
Cash and Cash Equivalents	2	12	15	3
AR & Other Receivables	5	6	13	9
Inventories	0	0	0	0
Other Current Assets	6	9	24	21
<b>Non-Current Assets</b>	<b>15</b>	<b>24</b>	<b>32</b>	<b>38</b>
Investments in Associates	0	0	0	0
Property, Plant and Equipment	1	1	1	7
Intangible Assets	11	16	23	22
<b>Total Assets</b>	<b>29</b>	<b>50</b>	<b>84</b>	<b>71</b>
<b>Current Liabilities</b>	<b>11</b>	<b>11</b>	<b>25</b>	<b>9</b>
AP & Other Payables	5	4	8	7
Short-Term Financial Liabilities	2	0	0	2
Other Current Liabilities	4	7	17	0
<b>Non-Current Liabilities</b>	<b>0</b>	<b>2</b>	<b>8</b>	<b>13</b>
Long-Term Financial Liabilities	0	2	8	13
Other Non-Current Liabilities	0	0	0	0
<b>Total Liabilities</b>	<b>11</b>	<b>13</b>	<b>32</b>	<b>22</b>
<b>Controlling Interests</b>	<b>18</b>	<b>37</b>	<b>52</b>	<b>49</b>
Capital Stock	17	30	34	34
Capital Surplus	22	27	38	38
Retained Earnings	-15	-13	-14	-19
<b>Non-Controlling Interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Stockholders' Equity</b>	<b>18</b>	<b>37</b>	<b>52</b>	<b>49</b>

## Cash Flows (Summarized)

(Wbn)	12/11	12/12	12/13	12/14F
Cash Flows from Op Activities	4	-7	-3	-9
Net Profit	0	-13	-1	-5
Non-Cash Income and Expense	2	12	5	9
Depreciation	0	0	0	1
Amortization	1	1	3	6
Others	1	11	2	2
Chg in Working Capital	2	-6	-7	-13
Chg in AR & Other Receivables	2	0	-5	3
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	0	0	0	-1
<b>Income Tax Paid</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cash Flows from Inv Activities	1	-14	-3	-10
Chg in PP&E	0	0	0	-6
Chg in Intangible Assets	0	-12	-1	-4
Chg in Financial Assets	-2	2	-6	1
<b>Others</b>	<b>3</b>	<b>-4</b>	<b>4</b>	<b>-1</b>
Cash Flows from Fin Activities	-3	31	9	7
Chg in Financial Liabilities	-	-	-	-
Chg in Equity	2	19	14	0
Dividends Paid	0	0	0	0
<b>Others</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Increase (Decrease) in Cash	1	10	3	-12
Beginning Balance	1	2	12	15
<b>Ending Balance</b>	<b>2</b>	<b>12</b>	<b>15</b>	<b>3</b>

Source: Company data, KDB Daewoo Securities Research estimates

## Forecasts/Valuations (Summarized)

	12/11	12/12	12/13	12/14F
P/E (x)	48.0	-	-	-
P/CF (x)	10.2	-	49.9	72.6
P/B (x)	1.0	5.2	3.4	5.7
EV/EBITDA (x)	8.3	-	57.9	86.8
EPS (W)	14	-209	-13	-69
CFPS (W)	68	-8	58	60
BPS (W)	698	701	839	772
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	-15.8	25.0	190.0	8.6
EBITDA Growth (%)	-33.3	-	-	0.0
Operating Profit Growth (%)	-50.0	-	-	-
EPS Growth (%)	-76.7	-	-	-
Accounts Receivable Turnover (x)	3.2	4.3	7.0	6.3
Inventory Turnover (x)	0.0	0.0	0.0	0.0
Accounts Payable Turnover (x)	0.0	5.6	47.1	112.3
ROA (%)	1.2	-32.5	-1.4	-6.1
ROE (%)	2.9	-46.1	-2.0	-9.3
ROIC (%)	85.5	-15.4	-2.8	-6.1
Liability to Equity Ratio (%)	59.0	34.6	62.8	44.2
Current Ratio (%)	125.2	242.8	210.8	360.8
Net Debt to Equity Ratio (%)	-30.4	-38.0	-32.3	10.6
Interest Coverage Ratio (x)	3.1	-23.1	-1.4	-5.2

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