

Entertainment

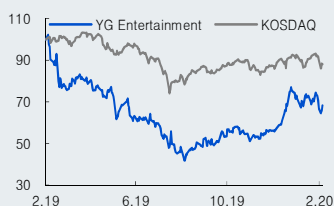
Company Report
February 27, 2020

(Upgrade)	Buy
Target Price (12M, W)	40,000
Share Price (02/26/20, W)	31,750
Expected Return	26%

OP (19P, Wbn)	1
Consensus OP (19F, Wbn)	-7
EPS Growth (19P, %)	-
Market EPS Growth (19F, %)	-35.0
P/E (19P, x)	-
Market P/E (19F, x)	14.8
KOSDAQ	654.63

Market Cap (Wbn)	578
Shares Outstanding (mn)	18
Free Float (%)	65.6
Foreign Ownership (%)	17.3
Beta (12M)	0.87
52-Week Low	19,450
52-Week High	45,400

(%)	1M	6M	12M
Absolute	-4.7	63.2	-30.1
Relative	-0.1	45.4	-20.2



Mirae Asset Daewoo Co., Ltd.

[Media]

Jeong-yeob Park
+822-3774-1652
jay.park@miraeasset.com

YG Entertainment

(122870 KQ)

Buying opportunity amid shifting perceptions

Shifting perceptions: 1) Normalized lineup and new artist momentum

Concerns over YG Entertainment's artist void are dissipating. The company's star group Big Bang is preparing to make a comeback, and at least one new act will debut this year. The company will have a total of five groups that can go on overseas arena tours, and we see potential for additional growth.

Big Bang will make its long-awaited comeback at the US Coachella festival in April. With their contract almost certain to be renewed, the group is likely to release a new album and embark on a world tour. We expect to see additional positive headlines soon. BLACKPINK is set to make its return with the release of a new album around April, which is likely to include major collaborations related to its partnership with Universal Music Group. The group is also planning to tour the US and Europe, and the minimum guarantee for the concerts is likely to be raised from last year, leading to a meaningful profit contribution. Meanwhile, iKON returned to the stage in early 2020 as a six-member group. For Treasure 12, whose debut was postponed for a year due to a scandal, the company is currently working on pre-marketing ahead of the group's official debut.

Shifting perceptions: 2) Discontinuation of loss-making operations to accelerate profit improvement

YG Entertainment is unloading its new businesses and instead focusing on its core businesses. In 4Q19, the company decided to discontinue its content production business (parent) and restaurant business (YG Foods), which collectively recorded losses of roughly W10bn in 2019. The company is also in the process of drastically scaling back its remaining new businesses (cosmetics, fashion, etc.). Looking ahead, YG Plus's operations will be narrowed down to areas related to its core businesses, such as digital music distribution. After much trial and error, we believe YG Entertainment will use its future profits on investments that are recoverable and can contribute to the revenue base of its core businesses—a change that investors have long called for.

Shifting perceptions: 3) Big Hit Entertainment's IPO to benefit entire sector

Big Hit Entertainment, which has gained significant influence on the global stage, looks likely to go public this year. We think the company could fetch a market value far above that of the three major entertainment stocks combined, given: 1) its operating profit growth trend (W64.1bn in 2018, W100bn in 2019F, and W150bn in 2020F; based on company data/guidance); 2) the scale of world tours that have already been confirmed; 3) and the potential for additional label acquisitions and business model expansion. In our view, Big Hit Entertainment's IPO could act as a catalyst for a re-rating of Korea's entertainment industry by promoting a better understanding among global investors of the industry's unique business model and its strong profit leverage. Furthermore, we think domestic entertainment companies could benefit from the geographical expansion of K-pop driven by BTS. Of note, Studio Dragon's (253450 KQ/Buy/TP: W112,000/CP: W78,000) IPO was followed by a re-rating across drama production peers.

Upgrade to Buy; Profits and valuation to both expand in 2020

We upgrade our rating on YG Entertainment to Buy and present a target price of W40,000, which is based on 24x our net profit attributable to controlling interests estimate for 2021, the year operating earnings are expected to fully normalize. We applied a 20% discount to our target sector P/E of 30x in light of our use of 2021 as the base year. As earnings show signs of improvement, we expect the stock's discount to narrow. The company's core businesses are normalizing, loss-making sources have been removed, and a major peer with global influence is set to go public. And with the recognition of Big Bang's activities, earnings risks should also be limited through 3Q20.

FY(Dec.)	12/16	12/17	12/18	12/19P	12/20F	12/21F
Revenue (Wbn)	322	350	286	264	337	402
OP (Wbn)	32	24	10	1	20	40
OP margin (%)	9.9	6.9	3.5	0.4	5.9	10.0
NP (Wbn)	19	18	18	-20	16	30
EPS (W)	1,094	931	911	-1,030	862	1,669
ROE (%)	7.7	5.7	5.1	-5.7	4.6	8.3
P/E (x)	25.9	31.0	52.2	-	36.8	19.0
P/B (x)	1.8	1.6	2.6	1.5	1.6	1.5
Dividend yield (%)	0.7	0.5	0.3	0.5	0.5	0.5

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

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the U.S.
PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES & DISCLAIMERS IN APPENDIX 1 AT THE END OF REPORT.

4Q19 review: Content/food operating losses reclassified as losses from discontinued operations

For 4Q, YG Entertainment delivered consolidated revenue of W58bn (-28.1% YoY) and operating profit of W7.1bn (+125.5% YoY). Revenue fell below both our estimate and the consensus by roughly 14%, but operating profit beat expectations following the reclassification of W10bn in full-year operating losses from the content production (W6.2bn) and restaurant (W3.8bn) businesses as losses from discontinued operations. Meanwhile, the company posted a full-year net loss due to a W6bn penalty for tax evasion.

Core businesses continued to struggle as expected, hurt by the postponement of major artists' activities. Core business results reflect album sales (including 110,000 for WINNER and 30,000 for BLACKPINK), digital music sales (AKMU), and royalties from Japanese tours (WINNER, iKON, and BLACKPINK). Quarterly revenue from YouTube is estimated at W2.7bn.

Table 1. YG Entertainment: Quarterly and annual earnings

(Wbn, %, mn tickets, %p)

	1Q19	2Q19	3Q19	4Q19P	1Q20F	2Q20F	3Q20F	4Q20F	2018	2019P	2020F
Revenue	65	78	64	58	58	91	94	94	286	264	337
Products	19	26	23	22	23	32	30	28	101	90	113
Management	43	50	38	43	36	58	64	66	185	175	224
Gross profit	17.3	22.5	18.1	21.8	19.4	25.2	31.1	31.4	85	80	107
Operating profit	-2.3	0.2	-3.0	7.1	1.3	2.9	6.5	9.0	10	2	20
OP margin (%)	-3.7	0.3	-4.8	12.2	2.3	3.2	6.9	9.6	3.4	0.8	5.9
Pretax profit	14.3	-9.3	-7.7	0.6	1.8	3.4	7.0	9.5	26	-2	22
Net profit	7.3	-6.4	-6.4	-19.2	1.4	2.6	5.3	7.2	16	-25	17
Net margin (%)	11.3	-8.1	-10.0	-33.2	2.4	2.8	5.7	7.7	5.6	-9.3	4.9
Net profit attributable to controlling interests	8.4	-6.1	-4.8	-17.3	1.3	2.4	5.1	6.9	17.8	-19.8	15.7
YoY											
Revenue	-16.3	24.5	-2.3	-28.1	-9.6	16.0	47.4	62.1	-18.3	-7.5	27.4
Products	-2.9	-0.9	-22.6	-14.4	21.0	25.9	27.3	27.5	-23.9	-11.2	25.6
Management	-26.1	36.0	9.1	-20.9	-16.6	16.5	67.3	51.9	-14.9	-5.5	28.4
Gross profit	-15.4	3.4	-16.1	2.3	11.7	12.2	72.1	44.3	-15.5	-6.3	34.4
Operating profit	TTR	-87.6	TTR	94.7	TTB	1,211.7	TTB	27.7	-60.3	-78.9	874.4
Net profit	837.0	TTR	TTR	TTR	-80.9	TTB	TTB	TTB	33.9	TTR	TTB
Major assumptions											
Japanese concert ticket sales volume	0.1	0.0	0.2	0.1	0.2	0.4	0.6	0.8	0.4	0.4	2.0

Source: Company data, Mirae Asset Daewoo Research

Table 2. YG Entertainment: Earnings forecast revisions

(Wbn, %)

	Previous		Revised		% chg.		Notes
	20F	21F	20F	21F	20F	21F	
Revenue	370	426	337	402	-8.9	-5.6	Reflected postponement of artist activities due to COVID-19
Operating profit	26	40	20	40	-24.1	0.2	
Net profit	18	29	16	30	-12.8	4.8	
OP margin (%)	7.0	9.4	5.9	10.0	-1.2	0.6	
Net margin (%)	4.9	6.8	4.7	7.6	-0.2	0.7	

Source: Mirae Asset Daewoo Research

Valuation

Upgrade to Buy and present a TP of W40,000

We upgrade our rating on YG Entertainment to Buy and present a target price of W40,000. Negatives that have plagued the firm's business over the past two years—a thin lineup of active artists, uncertainties surrounding contract renewals, scandals, etc.—are finally coming to an end. Moreover, we expect the K-pop platform and YG Entertainment artists to grow more influential on the global stage.

Our target price is based on 24x our net profit attributable to controlling interests estimate for 2021, the year operating earnings are expected to fully normalize. We applied a 20% discount to our target sector P/E of 30x in light of our use of 2021 as the base year for valuation. Operating profit will likely surge from a low of W2bn in 2019 to W19.7bn in 2020 (+874.4%), and to W40.1bn in 2021 (+103.1%). Going forward, we also expect valuation discounts to narrow gradually, as Big Bang, the firm's biggest earnings contributor, once again starts to drive the firm's growth (around 3Q20) and earnings visibility increases as a result.

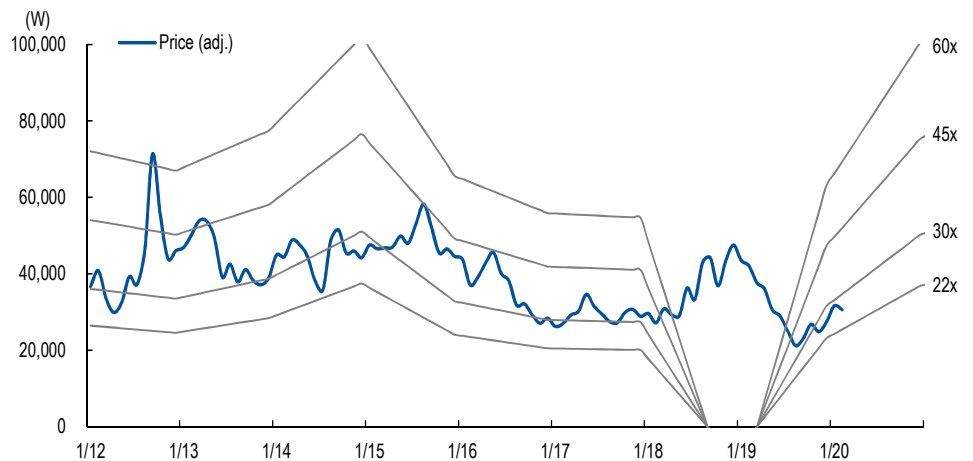
Table 3. YG Entertainment: Valuation

(Wbn)

Valuation - P/E	2020F	2021F	2020-21F avg.
Target market cap	729	729	729
Net profit (controlling)	16	30	23
Target P/E	46.5	24.0	31.7
TP (W)	40,095	40,095	40,095

Source: Mirae Asset Daewoo Research

Figure 1. YG Entertainment: 12-month forward P/E band



Source: WISEfn, Mirae Asset Daewoo Research

Artist lineup expansion → Higher earnings visibility and M/S gains → Multiple expansion

The valuations of labels such as YG Entertainment are largely based on projections for earnings potential and market expansion. More specifically, we believe the following variables are the key valuation determinants: 1) the number of active artists; 2) each artist/group’s ability to generate earnings; 3) planned activities (including mandatory military service); and 4) fan base growth (factoring in regional mix, etc.).

Based on the above criteria, we forecast YG Entertainment’s earnings to improve sharply starting this year. Indeed, Big Bang will make a comeback, BLACKPINK, iKON, and WINNER will return to the stage, and Treasure 12 will debut in 2020. After years of sluggishness caused by a thin artist lineup and scandals, the company is now anticipated to focus on fundamentals. We expect to see normalization around 2021 given that some activities will likely be pushed back (to end-1Q20) due to the COVID-19 outbreak.

Meanwhile, K-pop’s global reach is continuing to grow. We see visible and sustained growth in K-pop channel subscriptions and content consumption on major platforms. Specifically, K-pop is continuing to gain traction on Spotify (SPOT US/CP: 140.49) and YouTube, driving up the overseas profits of content producers (i.e., labels).

The relationship between platform providers and content producers has proven to be mutually beneficial in the drama market, where global integration driven by a handful of OTTs has allowed content producers to expand into new markets. Earnings are and will remain dependent on the popularity of new dramas, but market expansion should provide long-term benefits, as evidenced by the market cap expansion of domestic drama producers following Netflix’s (NFLX US/CP: US\$379.24) entry into the domestic market in April 2017.

Meanwhile, we view YG Entertainment’s 2019 YouTube-related revenue of W9.5bn (+23% YoY) as slightly disappointing, as we expected it to far surpass W10bn. However, we remain upbeat on new platform-driven growth this year, as: 1) last year’s performance was affected by temporary negatives; 2) BLACKPINK should continue to expand its influence on YouTube; and 3) Big Bang will likely add positive momentum.

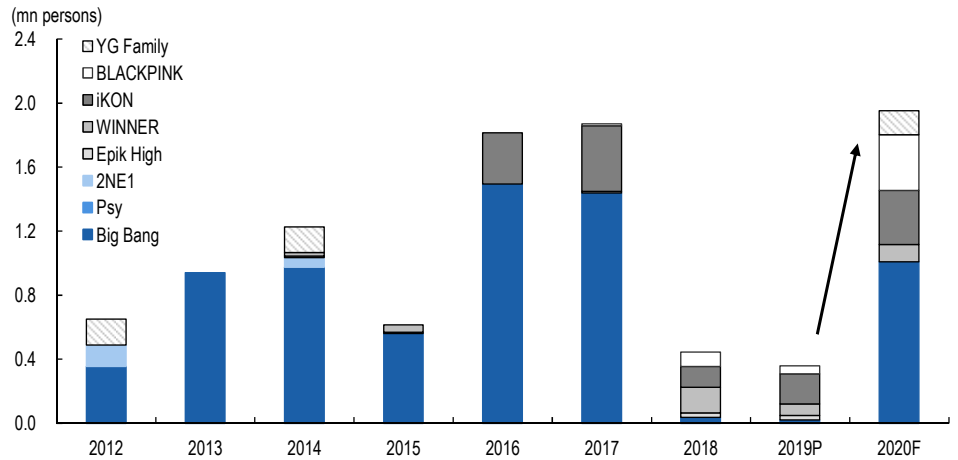
With Korean artists delivering global hits, the K-pop fan base is growing in size, and YouTube views within the first 24 hours of upload are climbing sharply <Table 4>. As such, deepening the loyalty of fans/viewers through frequent single releases and solo activities should help drive quantitative growth.

Table 4. Top 15 YouTube videos of 2019, based on no. of views in the first 24 hours (mn)

Rank	Title	Artist	Views	Date
1	“Boy with Luv”	BTS (ft. Halsey)	74.6	4/12/19
2	“Me!”	Taylor Swift (ft. Brendon Urie)	65.2	4/26/19
3	“Kill This Love”	BLACKPINK	56.7	4/5/19
4	“Thank U, Next”	Ariana Grande	55.4	11/30/18
5	“Idol”	BTS	45.9	8/24/18
6	“Look What You Made Me Do”	Taylor Swift	43.2	8/27/17
7	“Fancy”	Twice	42.1	4/22/19
8	“Killshot”	Eminem	38.1	9/14/18
9	“Slowly Slowly”	Guru Randhawa (ft. Pitbull)	38	4/19/19
10	“Ddu-Du Ddu-Du”	BLACKPINK	36.2	6/15/18
11	“Gentleman”	Psy	36	4/13/13
12	“Fake Love”	BTS	35.9	5/18/18
13	“Yes or Yes”	Twice	31.4	11/5/18
14	“X (EQUIS)”	Nicky Jam (ft. J Balvin)	29.7	3/2/18
15	“To Our Daughter”	Kylie Jenner	28.5	2/5/18

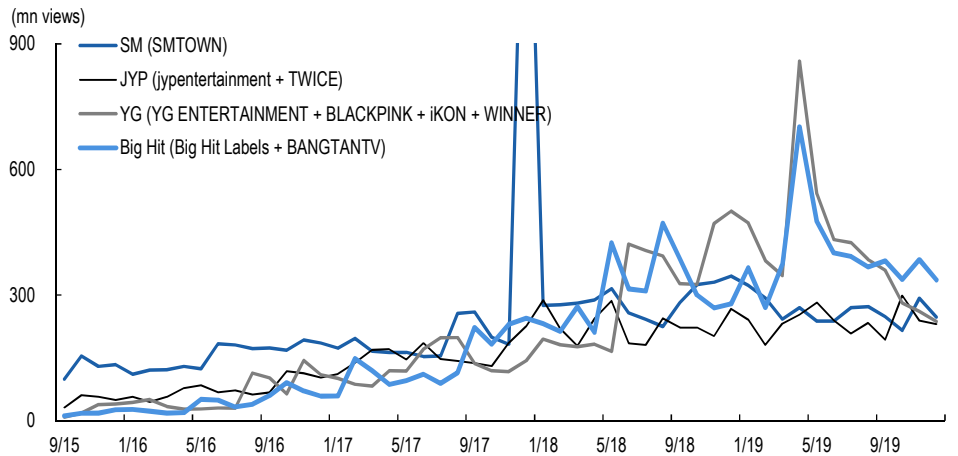
Source: YouTube, Mirae Asset Daewoo Research

Figure 2. YG Entertainment: Japanese concert attendance expected to recover to the levels seen before Big Bang's enlistment



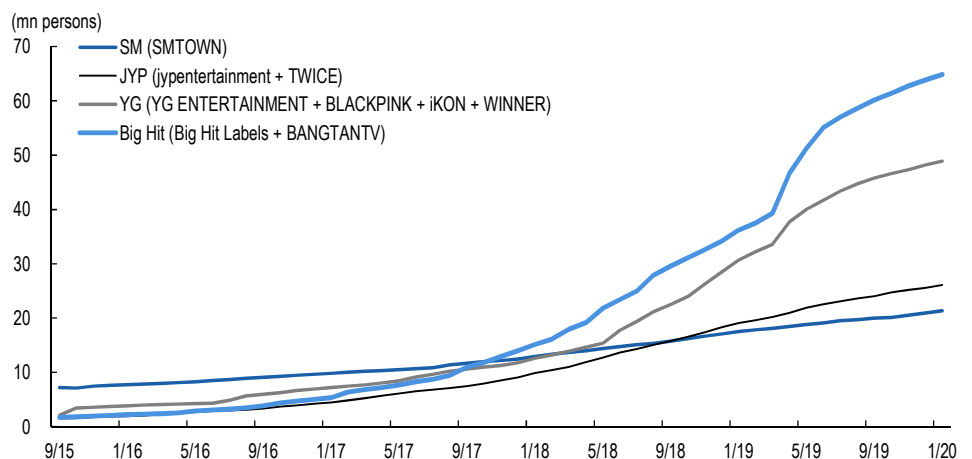
Source: YG Entertainment, Mirae Asset Daewoo Research

Figure 3. YouTube views by label: Continuous growth trend until 2H19 (when a decline in new releases dragged down views)



Source: Mirae Asset Daewoo Research

Figure 4. YouTube channel subscriptions by label: Global growth continues



Source: Mirae Asset Daewoo Research

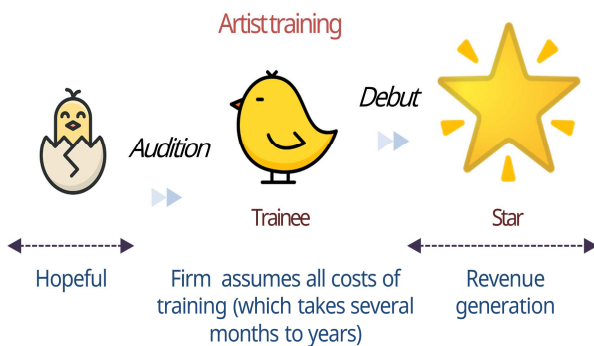
Big Hit's IPO could spark a re-rating of Korea's entertainment industry

Big Hit Entertainment, which has emerged as a new leader in Korea's entertainment industry, looks likely to go public this year. (Media sources reported on February 24th that the company had selected the lead managers for its IPO.) The company has been displaying superior operating profit growth (W64.1bn in 2018 and W104.9bn in 2019F), compared with domestic peers. In 2020, the company's operating profit will likely grow further to W150bn, given the scale of world tours that have already been confirmed (more than 2mn attendees), as well as surging merchandise/content revenue.

In our view, the IPO of Big Hit Entertainment, which has gained significant influence on the global stage, could benefit Korea's entertainment industry by promoting a better understanding among global investors of the industry's unique business model.

The Korean entertainment industry's profit model is unique in that entertainment firms assume the total costs of trainee incubation and share profits with artists after their debut. Under this profit structure, the success of artists sharply increases entertainment firms' profit leverage. This model is a far cry from those seen in the US (artists pay fees to labels) and Japan (artists receive salaries and incentives).

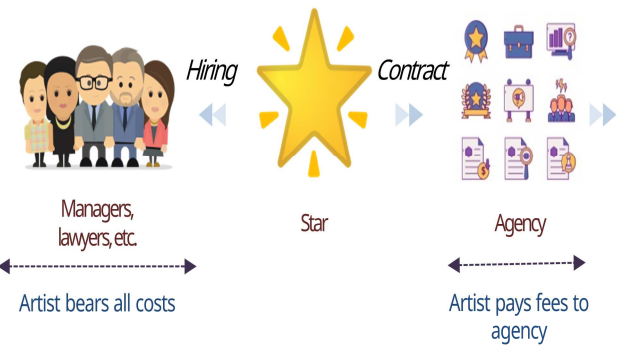
Figure 5. Korean entertainment industry: Investments by entertainment firms → Profit sharing after artist debut



As the entertainment firm plays a key role even before debut, it typically enjoys favorable conditions in an artist's first contract.

Source: Mirae Asset Daewoo Research

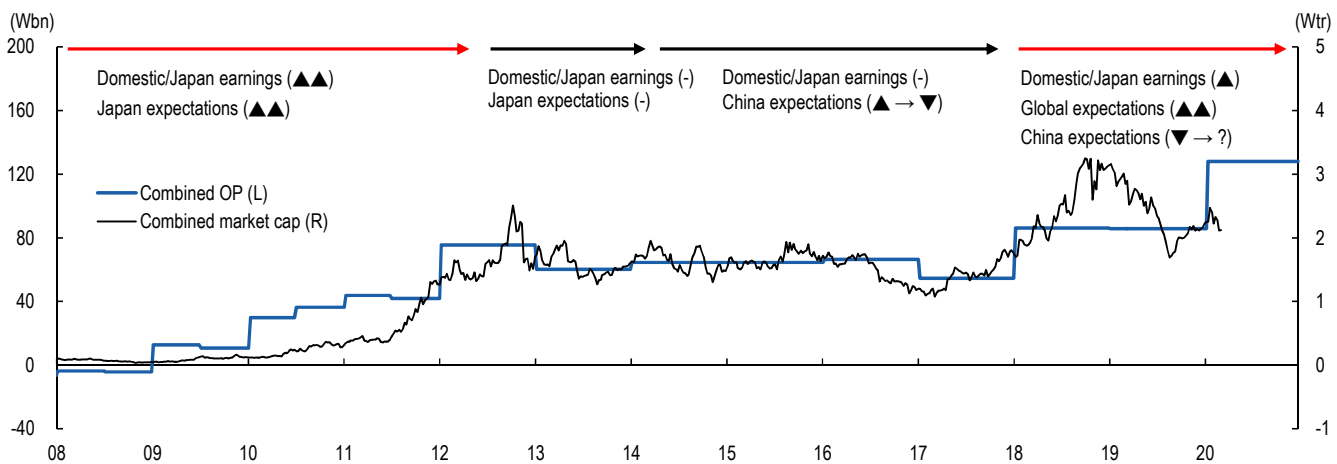
Figure 6. US entertainment industry: Artists are self-employed



Artist bears costs related to his/her activities and pays fees (around 10% of revenue) to the agency

Source: Mirae Asset Daewoo Research

Figure 7. Combined OP and market cap of the three major entertainment firms: YG Entertainment to see improvements in fundamentals as well as regional expansion in 2020



Note: 2020 earnings are based on our estimates
Source: WISEfn, Company data, Mirae Asset Daewoo Research

If K-pop’s reach expands significantly beyond the domestic and Japanese markets, we think Korean artists and entertainment firms can enjoy shared growth. Of note, music content markets around the world are currently facing global integration via platforms. We believe domestic entertainment players are not in competition to become the final winner; rather, we believe that they are collectively introducing K-pop as a new genre and expanding its presence on the global stage.

Indeed, BTS’s increasing global presence in developed markets over the past several years has paved the way for partnerships between other K-pop artists and US labels (Universal Music Group for BLACKPINK and Republic Records for TWICE) and broad-based global fan base expansion. For the time being, the comparison/analysis framework for entertainment firms should be focused on expansion in the W70tr global market, rather than market share competition within the W7tr Korea/Japan market.

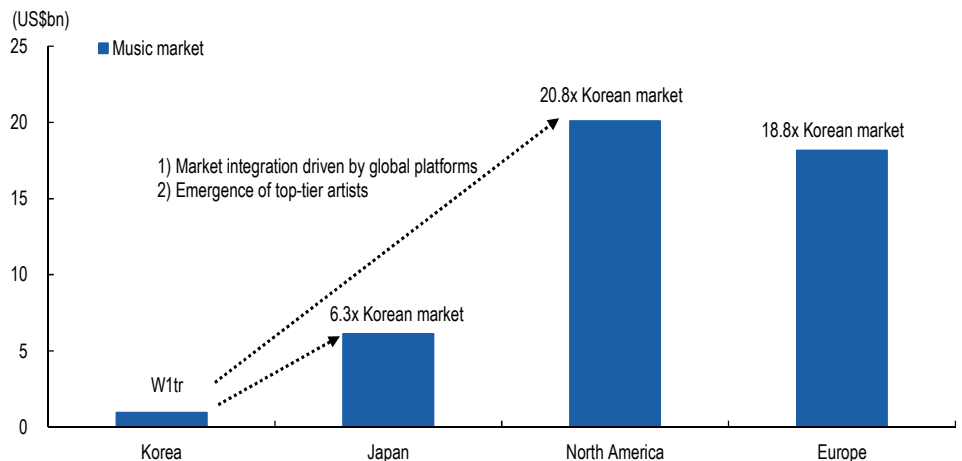
Historically, entertainment firms have seen their value climb sharply whenever earnings expectations have mounted. Indeed, shares of SM Entertainment advanced markedly thanks to TVXQ’s and Girls’ Generation’s increased activities in Japan in 2010-12. In addition, JYP Entertainment saw sharp share price gains in 2017-18, driven by the success of TWICE in Japan, while YG Entertainment was boosted by its artists’ increased influence in North America (Psy in 2012 and BLACKPINK in 2018). In 2020, we believe earnings expectations for YG Entertainment will rise again, as: 1) Big Bang is scheduled to make its long-awaited comeback at the Coachella Valley Music and Arts Festival; and 2) and BLACKPINK is likely to collaborate with global top artists.

Figure 8. Market cap growth of the three major entertainment firms arising from artists’ stellar overseas performances

	Overseas milestones	Market cap growth	
	1 TVXQ/Girls’ Generation: Increased activities in Japan (2010-12)	W74.5bn in Jan. 2010 → W1.1tr in Nov. 2012	+1,391%
	2 TVXQ: Full-fledged activities in Japan after military discharge	W537.1bn in Jan. 2017 → W1.2tr in Nov. 2018	+120%
	1 Psy: “Gangnam Style” music video hits 1bn views on YouTube (2012)	W501.2bn in Aug. 2012 → W842.6bn in Oct. 2012	+68%
	2 BLACKPINK: “Ddu-du Ddu-du” music video hits 500mn views on YouTube (2018)	W524bn in Jan. 2018 → W826.9bn in Dec. 2018	+58%
	1 Success of TWICE in Japan (2017-18)	W181.7bn in Mar. 2017 → W1.1tr in Nov. 2018	+518%

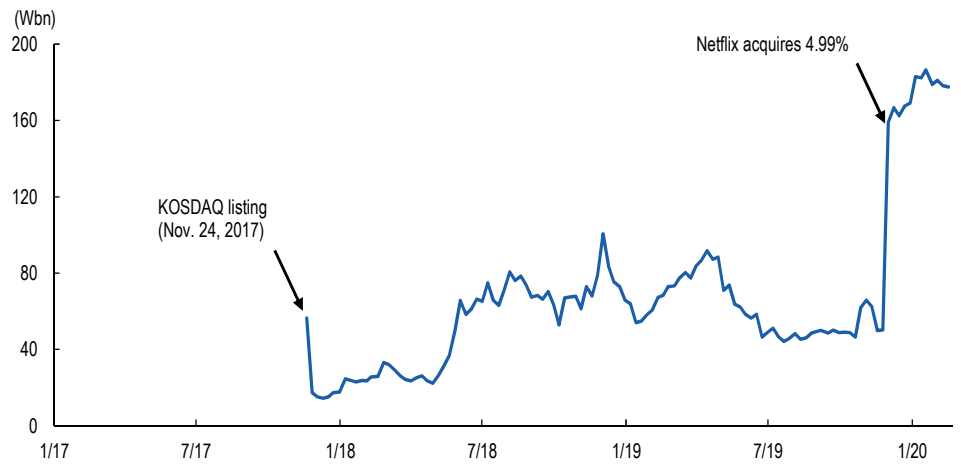
Source: WISEfn, Mirae Asset Daewoo Research

Figure 9. K-pop’s market expansion: Korea → Japan → Global



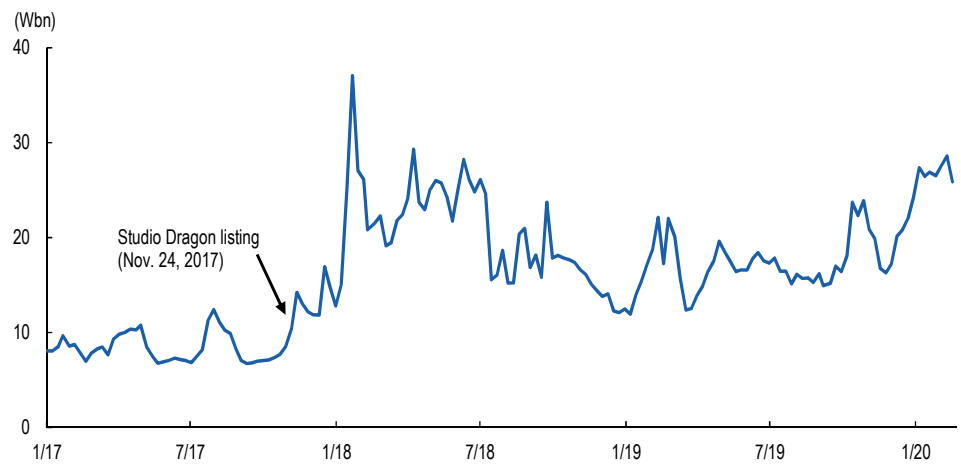
Source: PwC, Mirae Asset Daewoo Research

Figure 10. Foreign investment in Studio Dragon has expanded since its IPO



Source: WISEFn, Mirae Asset Daewoo Research

Figure 11. Foreign ownership of J Contentree has also expanded



Source: WISEFn, Mirae Asset Daewoo Research

Figure 12. BTS released a new album in February, and US activities are underway

This block features a central video player showing BTS performing 'ON' at Grand Central Terminal. To the right is a vertical stack of video thumbnails from YouTube. The thumbnails include:

- 'BTS Performs "ON" at Grand Central Terminal for The Tonight Show' (3:27)
- '[CHOREOGRAPHY] BTS (방탄소년단) "ON" Dance Practice' (4:52)
- 'BTS (방탄소년단) "ON" Kinetic Manifesto Film : Come Prima' (4:59)
- 'BTS on First Impressions, Secret Career Dreams and Map of the Soul: 7 Meanings' (7:30)
- 'BTS (방탄소년단) "Old Town Road" Live Performance with Lil Nas X and more @ GRAMMYS 2020' (6:12)

 The main video player shows 113 likes and 2 comments. The source is attributed to YouTube and Mirae Asset Daewoo Research.

Source: YouTube, Mirae Asset Daewoo Research

Earnings outlook

Earnings to normalize on a full-year basis in 2021

We forecast YG Entertainment's 2020 revenue and operating profit at W337bn (+27.4% YoY) and W19.7bn (+874.4% YoY), respectively. The firm's artist lineup is set to sharply expand from 2H20, supported by the comeback of Big Bang and the debut of Treasure 12; in total, four groups with the potential to attract arena-level attendance in Japan will be active. Also worth noting is the firm's decision to discontinue its loss-making businesses (which collectively recorded losses of nearly W10bn in 2019).

However, the ongoing COVID-19 outbreak could weigh on earnings through 1H20; concerts and tours planned for some artists (WINNER, AKMU) in Korea and Southeast Asia have recently been cancelled. With the artist lineup forecast to become fully active on a full-year basis starting in 2021, we expect the firm to post record-high earnings backed by lineup normalization and global advances. We project 2021 revenue at W402.1bn (+19.3% YoY) and operating profit at W40.1bn (+103.1% YoY).

Table 5. YG Entertainment: Quarterly and annual earnings

(Wbn, %, mn, %p)

	1Q19	2Q19	3Q19	4Q19P	1Q20F	2Q20F	3Q20F	4Q20F	2018	2019P	2020F
Revenue	65	78	64	58	58	91	94	94	286	264	337
Products	19	26	23	22	23	32	30	28	101	90	113
Management	43	50	38	43	36	58	64	66	185	175	224
Gross profit	17.3	22.5	18.1	21.8	19.4	25.2	31.1	31.4	85	80	107
Operating profit	-2.3	0.2	-3.0	7.1	1.3	2.9	6.5	9.0	10	2	20
OP margin (%)	-3.7	0.3	-4.8	12.2	2.3	3.2	6.9	9.6	3.4	0.8	5.9
Pretax profit	14.3	-9.3	-7.7	0.6	1.8	3.4	7.0	9.5	26	-2	22
Net profit	7.3	-6.4	-6.4	-19.2	1.4	2.6	5.3	7.2	16	-25	17
Net margin (%)	11.3	-8.1	-10.0	-33.2	2.4	2.8	5.7	7.7	5.6	-9.3	4.9
Net profit attributable to controlling interests	8.4	-6.1	-4.8	-17.3	1.3	2.4	5.1	6.9	17.8	-19.8	15.7
YoY											
Revenue	-16.3	24.5	-2.3	-28.1	-9.6	16.0	47.4	62.1	-18.3	-7.5	27.4
Products	-2.9	-0.9	-22.6	-14.4	21.0	25.9	27.3	27.5	-23.9	-11.2	25.6
Management	-26.1	36.0	9.1	-20.9	-16.6	16.5	67.3	51.9	-14.9	-5.5	28.4
Gross profit	-15.4	3.4	-16.1	2.3	11.7	12.2	72.1	44.3	-15.5	-6.3	34.4
Operating profit	TTR	-87.6	TTR	94.7	TTB	1,211.7	TTB	27.7	-60.3	-78.9	874.4
Net profit	837.0	TTR	TTR	TTR	-80.9	TTB	TTB	TTB	33.9	TTR	TTB
Major assumptions											
Japanese concert ticket sales volume	0.1	0.0	0.2	0.1	0.2	0.4	0.6	0.8	0.4	0.4	2.0

Source: Company data, Mirae Asset Daewoo Research

Table 6. YG Entertainment: Active lineup to significantly expand from 2020

	1	2	3	4	5	6	7	8	9	10
2011	Big Bang	2NE1								
2012	Big Bang	Epik High	2NE1							
2013	Big Bang	2NE1								
2014	Big Bang	WINNER	AKMU	Epik High	2NE1					
2015	Big Bang	iKON	WINNER	Epik High						
2016	Big Bang	BLACKPINK	iKON	WINNER	AKMU	Sechs Kies	Epik High	Zion.T		
2017	Big Bang	BLACKPINK	iKON	WINNER	AKMU	Sechs Kies	Epik High	2NE1	Zion.T	
2018	BLACKPINK	iKON	WINNER	Sechs Kies	Zion.T					
2019	BLACKPINK	iKON	WINNER	Sechs Kies	AKMU	Zion.T				
2020F	Big Bang	BLACKPINK	iKON	WINNER	Treasure 12	Sechs Kies	AKMU	Zion.T		

Source: Mirae Asset Daewoo Research

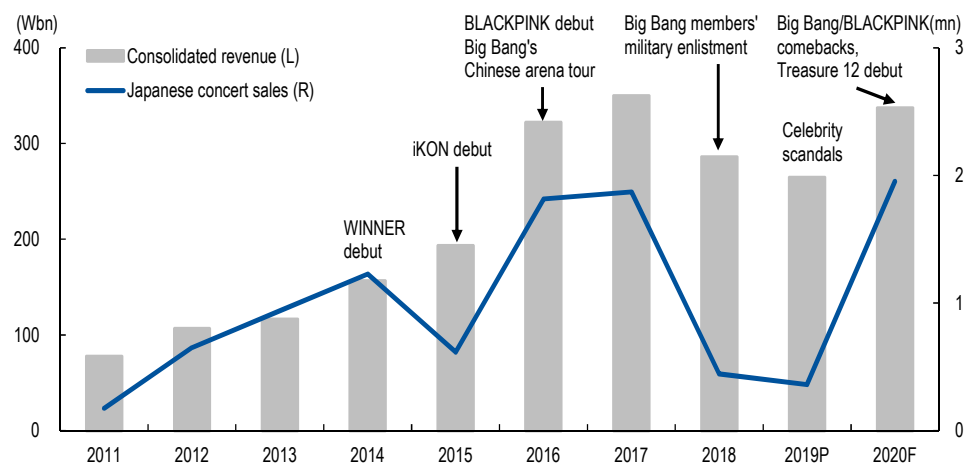
The now four-member Big Bang will make its long-awaited comeback at the Coachella festival in April. The group will also release a new album and embark on a world tour starting in 1H20. Big Bang’s contract renewal is believed to be nearing finalization, with the company and the group currently negotiating the details (e.g., term, profit-sharing ratios). We expect to see additional headlines regarding contract renewal within 1Q20.

After concluding its Japanese dome tour (four shows between December and February) last week, BLACKPINK is set to make its return with the release of a new album around April (an additional album release will also be possible within the year). The new album is highly likely to include global collaborations based on its partnership with Universal Music Group. The group is also planning to tour the US and Europe in 2020, and the minimum guarantee for the concerts is likely to be raised from last year, leading to a meaningful profit contribution.

The group Treasure 12, whose debut was postponed for a year due to a scandal, will make its official debut this year. The firm is currently working on pre-marketing (e.g., YouTube ads) to build a fan base ahead of an official album release. As Treasure 12 includes four Japanese members, the group has particularly strong revenue potential in Japan.

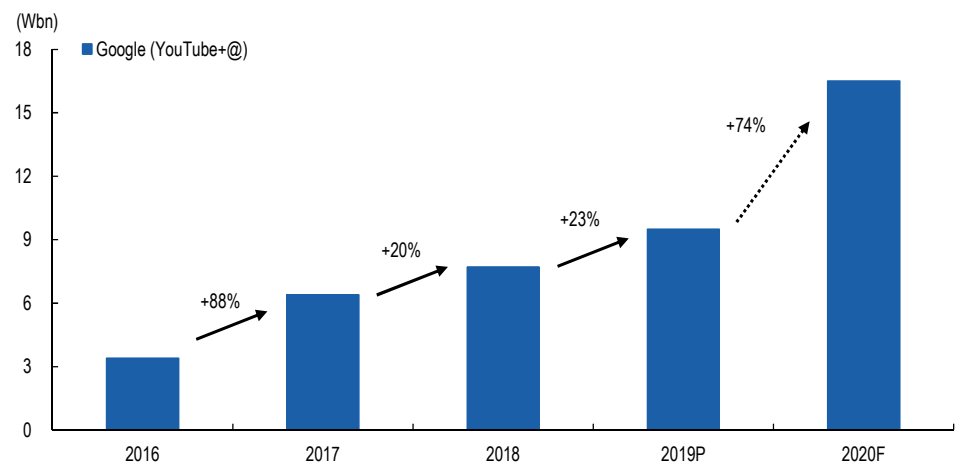
In early 2020, iKON returned to the stage as a six-member group with a much anticipated mini album. The boy band will go on a Japanese arena tour (nine shows) in April. For WINNER, the comeback schedule has been pushed back from February to 2Q20 due to the COVID-19 epidemic.

Figure 13. YG Entertainment: Lineup expansion to boost earnings to 2016-17 levels in 2020



Source: Company data, Mirae Asset Daewoo Research

Figure 14. YG Entertainment: New platform revenue to significantly expand in line with new album releases



Source: Mirae Asset Daewoo Research estimates

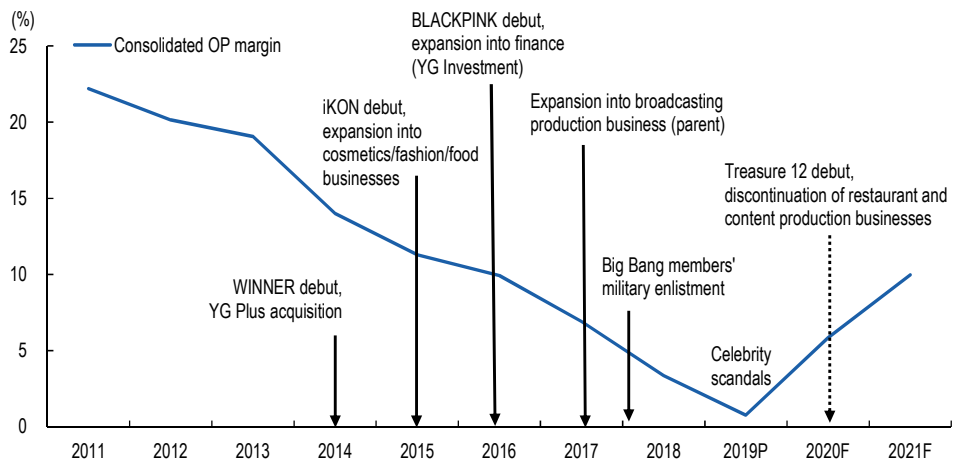
Discontinuation of loss-making operations to accelerate profit improvement

As the Korean entertainment industry's profit-sharing model tends to favor labels over artists, entertainment firms tend to see significant increases in operating profit leverage effects whenever their artist lineups enjoy rapid fan base expansion. As K-pop fan bases tend to remain intact for a prolonged period of time, revenue and operating profit streams from successful artists tend to display sustained growth. Accordingly, we think the strategies of expanding investments in content production and pursuing follow-up lineup development are steps in the right direction from a core business cycle perspective.

However, following a period of sharp profit expansion backed by successful Japanese activities, a number of firms, including YG Entertainment, attempted to expand into new businesses, which ended up dragging down bottom line. Following its acquisition of YG Plus at end-2014, YG Entertainment expanded into a variety of new businesses (e.g., cosmetics, fashion, restaurant, golf, financial), but failed to recoup investments in most areas, leading to a persistent downtrend in OP margin.

In 4Q19, the company finally decided to discontinue its content production (parent) and restaurant (YG Foods) businesses, which collectively recorded losses of roughly W10bn in 2019. After much trial and error, we believe YG Entertainment will focus on investments that are recoverable and can contribute to the revenue base of its core businesses going forward. We also think the firm's quick decision to shutter loss-making units should provide a strong boost to profit growth going forward.

Figure 15. YG Entertainment: OP margin to rebound after bottoming in 2019



Source: Company data, Mirae Asset Daewoo Research

YG Entertainment (122870 KQ/Buy/TP: W40,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/18	12/19P	12/20F	12/21F
Revenue	286	264	337	402
Cost of Sales	201	185	230	264
Gross Profit	85	79	107	138
SG&A Expenses	75	79	87	98
Operating Profit (Adj)	10	1	20	40
Operating Profit	10	1	20	40
Non-Operating Profit	16	-3	2	2
Net Financial Income	4	3	2	2
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	26	-2	22	42
Income Tax	9	22	5	10
Profit from Continuing Operations	17	-24	17	32
Profit from Discontinued Operations	-2	-1	0	0
Net Profit	16	-25	17	32
Controlling Interests	18	-20	16	30
Non-Controlling Interests	-2	-5	1	2
Total Comprehensive Profit	17	-23	17	32
Controlling Interests	19	-16	13	25
Non-Controlling Interests	-2	-7	4	7
EBITDA	19	20	33	50
FCF (Free Cash Flow)	-3	0	18	53
EBITDA Margin (%)	6.6	7.6	9.8	12.4
Operating Profit Margin (%)	3.5	0.4	5.9	10.0
Net Profit Margin (%)	6.3	-7.6	4.7	7.5

Cash Flows (Summarized)

(Wbn)	12/18	12/19P	12/20F	12/21F
Cash Flows from Op Activities	22	28	18	53
Net Profit	16	-25	17	32
Non-Cash Income and Expense	9	45	16	16
Depreciation	5	16	11	7
Amortization	4	4	2	2
Others	0	25	3	7
Chg in Working Capital	3	23	-13	11
Chg in AR & Other Receivables	7	9	-10	-1
Chg in Inventories	-7	5	-10	-1
Chg in AP & Other Payables	-16	-7	5	2
Income Tax Paid	-13	-23	-5	-10
Cash Flows from Inv Activities	-66	-35	-14	-6
Chg in PP&E	-26	-28	0	0
Chg in Intangible Assets	-2	1	0	0
Chg in Financial Assets	193	9	-14	-6
Others	-231	-17	0	0
Cash Flows from Fin Activities	1	-19	-3	-70
Chg in Financial Liabilities	7	13	0	-67
Chg in Equity	0	0	0	0
Dividends Paid	-3	-3	-3	-3
Others	-3	-29	0	0
Increase (Decrease) in Cash	-40	-18	-10	-28
Beginning Balance	99	59	40	30
Ending Balance	59	40	30	2

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/18	12/19P	12/20F	12/21F
Current Assets	233	202	236	210
Cash and Cash Equivalents	59	40	30	2
AR & Other Receivables	30	22	35	36
Inventories	23	17	27	28
Other Current Assets	121	123	144	144
Non-Current Assets	362	360	368	368
Investments in Associates	24	18	28	34
Property, Plant and Equipment	105	143	132	124
Intangible Assets	61	54	52	50
Total Assets	594	562	603	579
Current Liabilities	63	112	139	85
AP & Other Payables	32	23	37	44
Short-Term Financial Liabilities	3	70	70	2
Other Current Liabilities	28	19	32	39
Non-Current Liabilities	82	28	29	29
Long-Term Financial Liabilities	81	27	27	27
Other Non-Current Liabilities	1	1	2	2
Total Liabilities	145	141	168	114
Controlling Interests	359	338	351	379
Capital Stock	9	9	9	9
Capital Surplus	209	210	210	210
Retained Earnings	140	117	130	158
Non-Controlling Interests	90	84	84	86
Stockholders' Equity	449	422	435	465

Forecasts/Valuations (Summarized)

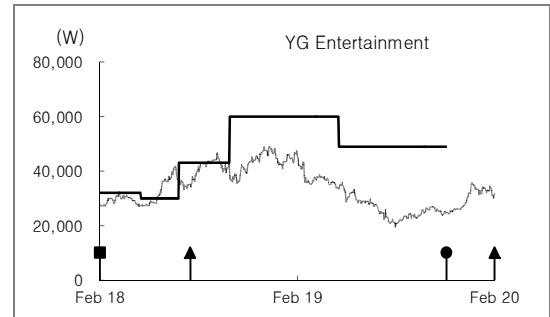
	12/18	12/19P	12/20F	12/21F
P/E (x)	52.2	-	36.8	19.0
P/CF (x)	37.2	25.5	18.0	12.0
P/B (x)	2.6	1.5	1.6	1.5
EV/EBITDA (x)	46.9	26.8	18.8	11.9
EPS (W)	911	-1,030	862	1,669
CFPS (W)	1,277	1,071	1,766	2,652
BPS (W)	18,407	18,577	19,284	20,804
DPS (W)	150	150	150	150
Payout ratio (%)	17.0	-11.0	16.4	8.5
Dividend Yield (%)	0.3	0.5	0.5	0.5
Revenue Growth (%)	-18.3	-7.7	27.7	19.3
EBITDA Growth (%)	-44.1	5.3	65.0	51.5
Operating Profit Growth (%)	-58.3	-90.0	1,900.0	100.0
EPS Growth (%)	-2.1	-	-	93.6
Accounts Receivable Turnover (x)	9.5	13.5	15.7	14.8
Inventory Turnover (x)	13.7	13.3	15.4	14.5
Accounts Payable Turnover (x)	18.3	21.0	23.9	20.2
ROA (%)	2.7	-4.3	2.8	5.4
ROE (%)	5.1	-5.7	4.6	8.3
ROIC (%)	3.5	5.7	7.0	14.7
Liability to Equity Ratio (%)	32.2	33.4	38.6	24.6
Current Ratio (%)	371.2	179.7	169.7	247.8
Net Debt to Equity Ratio (%)	-13.3	-9.8	-8.1	-16.1
Interest Coverage Ratio (x)	4.6	0.4	8.0	25.0

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
YG Entertainment (122870)	02/26/2020	Buy	40,000
	11/29/2019	Hold	-
	05/14/2019	Buy	49,000
	10/24/2018	Buy	60,000
	08/12/2018	Buy	43,000
	07/22/2018	Trading Buy	43,000
	05/13/2018	Trading Buy	30,000
	02/22/2018	Trading Buy	32,000



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (≡), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	84.05%	9.82%	6.13%	0.00%
Investment Banking Services	76.67%	13.33%	10.00%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2019)

Disclosures

As of the publication date, Mirae Asset Daewoo Co., Ltd. and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.

Analyst Certification

The research analysts who prepared this report (the "Analysts") are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws or regulations thereof. Each Analyst responsible for the preparation of this report certifies that (i) all views expressed in this report accurately reflect the personal views of the Analyst about any and all of the issuers and securities named in this report and (ii) no part of the compensation of the Analyst was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report. Mirae Asset Daewoo Co., Ltd. ("Mirae Asset Daewoo") policy prohibits its Analysts and members of their households from owning securities of any company in the Analyst's area of coverage, and the Analysts do not serve as an officer, director or advisory board member of the subject companies. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report. Like all employees of Mirae Asset Daewoo, the Analysts receive compensation that is determined by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading and private client division. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or Mirae Asset Daewoo except as otherwise stated herein.

Disclaimers

This report was prepared by Mirae Asset Daewoo, a broker-dealer registered in the Republic of Korea and a member of the Korea Exchange. Information and opinions contained herein have been compiled in good faith and from sources believed to be reliable, but such information has not been independently verified and Mirae Asset Daewoo makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained herein or of any translation into English from the Korean language. In case of an English translation of a report prepared in the Korean language, the original Korean language report may have been made available to investors in advance of this report.

The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws and accounting principles and no person whose receipt or use of this report would violate any laws or regulations or subject Mirae Asset Daewoo or any of its affiliates to registration or licensing requirements in any jurisdiction shall receive or make any use hereof.

This report is for general information purposes only and it is not and shall not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The report does not constitute investment advice to any person and such person shall not be treated as a client of Mirae Asset Daewoo by virtue of receiving this report. This report does not take into account the particular investment objectives, financial

situations, or needs of individual clients. The report is not to be relied upon in substitution for the exercise of independent judgment. Information and opinions contained herein are as of the date hereof and are subject to change without notice. The price and value of the investments referred to in this report and the income from them may depreciate or appreciate, and investors may incur losses on investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. Mirae Asset Daewoo, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising out of the use hereof.

Mirae Asset Daewoo may have issued other reports that are inconsistent with, and reach different conclusions from, the opinions presented in this report. The reports may reflect different assumptions, views and analytical methods of the analysts who prepared them. Mirae Asset Daewoo may make investment decisions that are inconsistent with the opinions and views expressed in this research report. Mirae Asset Daewoo, its affiliates and their directors, officers, employees and agents may have long or short positions in any of the subject securities at any time and may make a purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents. Mirae Asset Daewoo and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making or other financial services as are permitted under applicable laws and regulations. No part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Mirae Asset Daewoo.

Distribution

United Kingdom: This report is being distributed by Mirae Asset Securities (UK) Ltd. in the United Kingdom only to (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as "Relevant Persons"). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents.

United States: Mirae Asset Daewoo is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This report is distributed in the U.S. by Mirae Asset Securities (USA) Inc., a member of FINRA/SIPC, to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934, as amended. All U.S. persons that receive this document by their acceptance hereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Mirae Asset Daewoo or its affiliates. Any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Mirae Asset Securities (USA) Inc. Mirae Asset Securities (USA) Inc. accepts responsibility for the contents of this report in the U.S., subject to the terms hereof, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Mirae Asset Daewoo. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

Hong Kong: This report is distributed in Hong Kong by Mirae Asset Securities (HK) Limited, which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Mirae Asset Daewoo or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Mirae Asset Daewoo and its affiliates to any registration or licensing requirement within such jurisdiction.

Mirae Asset Daewoo International Network

Mirae Asset Daewoo Co., Ltd. (Seoul)

Global Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

PT. Mirae Asset Sekuritas Indonesia

Equity Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-53 Jakarta Selatan
12190
Indonesia
Tel: 62-21-515-3281

Mirae Asset Securities Mongolia UTsK LLC

#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area Shanghai
200120
China

Tel: 86-21-5013-6392

Mirae Asset Securities (HK) Ltd.

Suites 1109-1114, 11th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
China
Tel: 852-2845-6332

Mirae Asset Wealth Management (USA) Inc.

555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA

Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building Vila
Olimpia
Sao Paulo - SP
04551-060
Brasil
Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)
