MIRAE ASSET
Building on principles

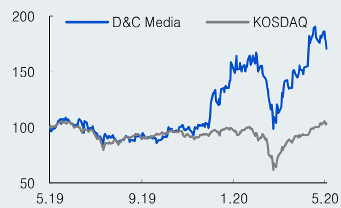
Entertainment

Company Report
June 2, 2020

(Maintain)	Buy
Target Price (12M, W)	**35,000**
Share Price (05/29/20, W)	25,550
Expected Return	37%

OP (20F, Wbn)	13
Consensus OP (20F, Wbn)	13
EPS Growth (20F, %)	126.6
Market EPS Growth (20F, %)	25.7
P/E (20F, x)	28.0
Market P/E (20F, x)	13.8
KOSDAQ	713.68
Market Cap (Wbn)	314
Shares Outstanding (mn)	12
Free Float (%)	46.6
Foreign Ownership (%)	3.8
Beta (12M)	0.87
52-Week Low	12,700
52-Week High	28,500

(%)	1M	6M	12M
Absolute	11.1	73.8	76.8
Relative	0.4	54.2	71.3



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D&C Media
(263720 KQ)

A leading content supplier in the growing webtoon market

Strategic pick for 2H20; Maintain Buy and TP of W35,000

We maintain our Buy rating and target price of W35,000 on D&C Media. We applied a P/E of 35x (unchanged) to our 12-month forward net profit attributable to controlling interests. Our Buy call is based on the company's standing as the no. 1 content provider in the rising webtoon channel, as well as captive demand from a top-tier platform (KakaoPage). We see upside risks to our earnings estimates and believe the stock will continue to receive a premium within the content sector.

Other content formats, such as dramas (programming), movies (struggling theaters), and entertainment (suspension of concerts), each face their own unique risks due to COVID-19. In contrast, the webtoon industry has been insulated from the impact of the pandemic and is displaying strong growth, as evidenced by the robust earnings results of webtoon platforms (NAVER Webtoon and KakaoPage) and traffic data.

An alternative way to play the growth of webtoons

We think investors can gain exposure to the webtoon market not only through platforms but also by investing in the right content provider. While platform providers like NAVER Webtoon and KakaoPage are the first to benefit from the growing global transaction volume of Korean webtoons, content providers can also capture opportunities to grow through profit sharing. The profit-sharing business model ensures that costs are limited if there is no revenue, while the current explosive rate of revenue growth can lead to meaningful leverage effects.

Key investment points for 2H20: 1) Global expansion in full swing

As a major content supplier for KakaoPage, D&C Media is seeing its earnings grow alongside the content platform provider. In the past four quarters (2Q19 to 1Q20), Kakao's global transaction value for webtoons/web novels grew by an estimated 46%, 41%, 49%, and 52% YoY, respectively—showing a similar trajectory to D&C Media's e-book revenue growth over that period (46%, 41%, 72%, and 49% YoY, respectively). We believe D&C Media's hit titles on KakaoPage (Korea) and Piccoma (Japan) are instrumental to both domestic and overseas growth.

This year, KakaoPage is reportedly getting ready to expand in Asia (China/Taiwan/Thailand) via KakaoPage Global and North America via local partnerships and M&As. We note that content popular in the domestic market has been well-received overseas. As evidenced by the success of *Solo Leveling* in Japan, we believe D&C Media's hit titles are well positioned to penetrate global markets, either through KakaoPage or through local partners (e.g., Kuaikan in China, Ookbee in Thailand, Tappytoon in the US, and Delitoon in France). We believe platform operators' global expansion should automatically lead to more opportunities for the company to expand its market reach in 2H20.

Key investment points for 2H20: 2) Growing income from webtoon IP licensing

Webtoon IP licensing is leveling up to encompass dramas, movies, gaming, and merchandise. Indeed, two NAVER Webtoon series, *Sweet Home* and *All of Us Are Dead*, are being adapted by Korean production studios into Netflix original dramas. The success of *Kingdom*—a Netflix drama adapted from the Korean webtoon series *The Kingdom of the Gods*—has raised expectations on Korean webtoon IPs. The two Netflix dramas mentioned above—scheduled to be released in 2H20—are big-budget series (W2bn production budget per episode) targeting global markets that will likely further highlight the value of original content.

FY (Dec.)	12/16	12/17	12/18	12/19	12/20F	12/21F
Revenue (Wbn)	0	27	32	42	59	79
OP (Wbn)	0	5	6	8	13	19
OP Margin (%)	-	18.5	18.8	19.0	22.0	24.1
NP (Wbn)	0	5	5	5	11	15
EPS (W)	0	442	408	403	912	1,254
ROE (%)	0.0	14.2	14.4	12.4	23.8	25.5
P/E (x)	-	16.0	34.6	48.3	28.0	20.4
P/B (x)	-	2.6	4.6	5.6	5.9	4.6
Dividend Yield (%)	-	0.0	0.0	0.0	0.0	0.0

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

Key investment points for 2H20

1. Global expansion in full swing

Korean content service platforms carving out a place in global markets

Webtoons are growing in popularity around the world. The format was essentially created in Korea, and domestic webtoon companies now provide high-quality content on some of the most advanced platforms in the world. As a result, Korean webtoon companies are rapidly expanding their market shares.

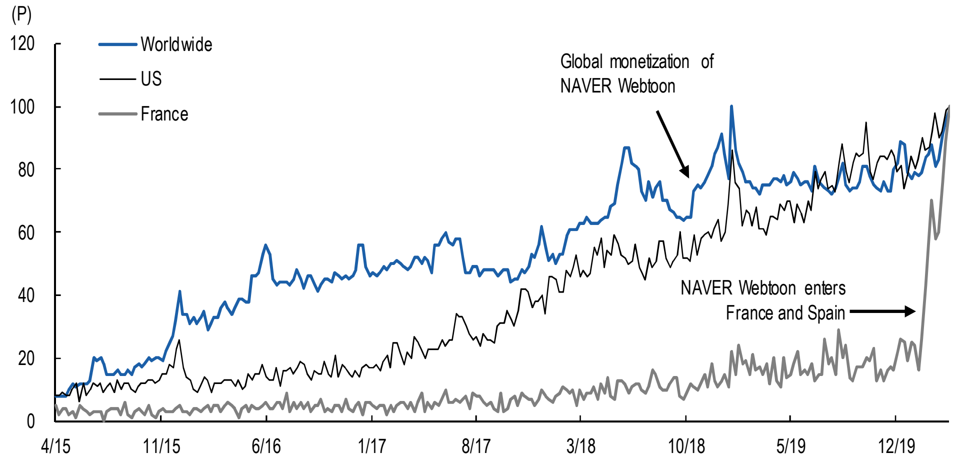
The webtoon business operates in overseas markets through a partial monetization model, which was established after trial and error. In 2019, the global webtoon transaction values of NAVER Webtoon (including LINE Manga) and KakaoPage (including Piccoma) reached W564bn (+52.8% YoY) and W430bn (+47% YoY), respectively. Overseas markets, which are growing at a faster rate than the domestic market, accounted for 42% and 32% of these figures, respectively. As Korean platform operators continue to penetrate global markets, we believe content providers also stand to benefit through profit sharing.

D&C Media growing alongside KakaoPage, leveraging strong IP holdings

We expect D&C Media to benefit from domestic platforms' global expansion in 2H20. KakaoPage—its second largest shareholder (18.1% stake)—is getting ready to expand in Asia (China/Taiwan/Thailand) and North America this year. To this end, KakaoPage rebranded Neobazar (an Indonesian webtoon platform operator that the company acquired in 2019) as KakaoPage Global in February 2020, and is also considering M&As and strategic partnerships.

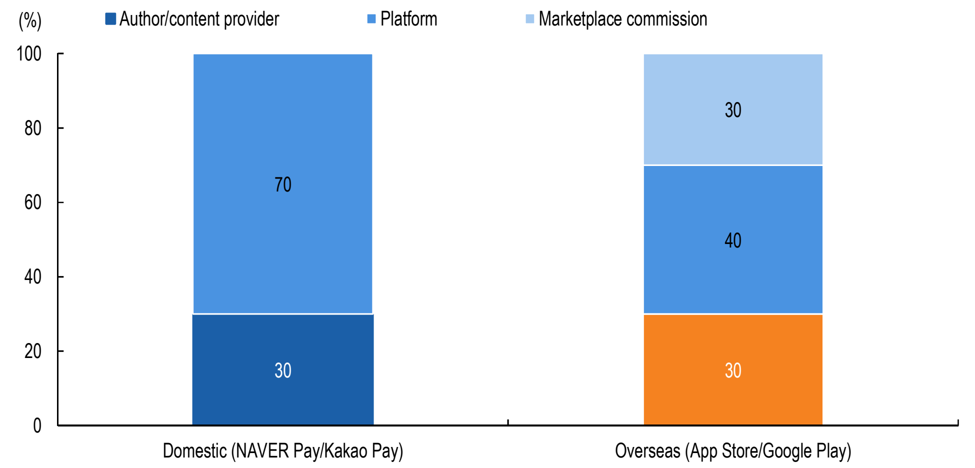
Hit titles from Kakao (*Solo Leveling*, *The Abandoned Empress*, and *Surgeon Elysee*) and NAVER (*True Beauty*, *Lookism*, and *Sweet Home*) provide strong evidence of the global appeal of content popular in the domestic market. In particular, *Solo Leveling*—released in Japan by Piccoma—has been a key contributor to D&C Media's overseas revenue growth (+165.0% YoY in 2019 and +200.8% YoY in 1Q20). With its hit titles featuring strong universe-building, we believe D&C Media is well positioned to expand its global reach in the burgeoning webtoon market, either through KakaoPage or through local partners such as Kuaikan (China), Ookbee (Thailand), Tappytoon (US), and Delitoon (France).

Figure 1. Google Trends data: Interest in webtoons hitting all-time highs in major regions



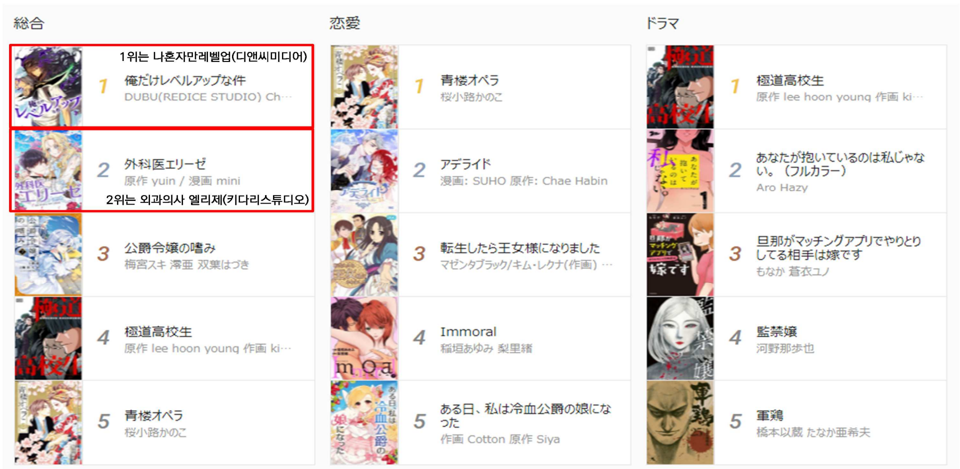
Source: Google, Mirae Asset Daewoo Research

Figure 2. Webtoon/web novel revenue sharing: Domestic vs. overseas



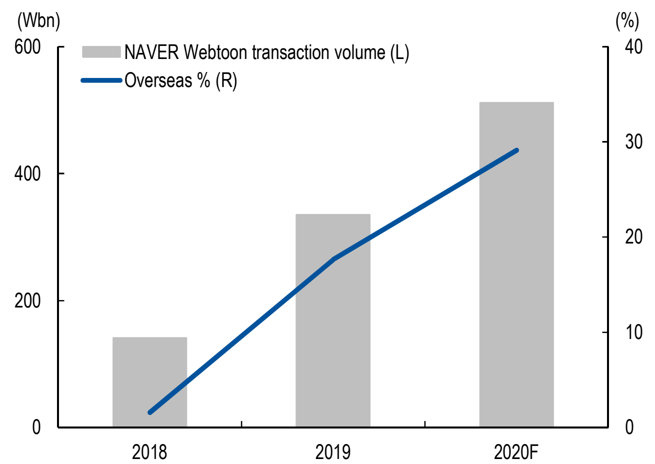
Source: Mirae Asset Daewoo Research

Figure 3. Domestic content providers' titles rank 1st and 2nd on Piccoma (in terms of views)



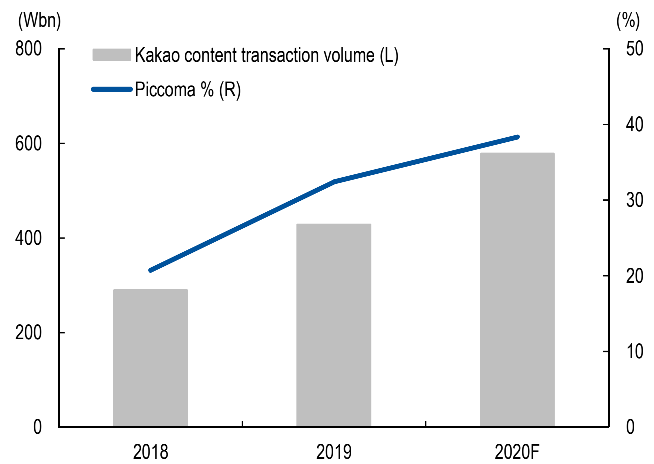
Source: Piccoma, Mirae Asset Daewoo Research

Figure 4. NAVER Webtoon's transaction value and overseas share both on the rise



Source: Mirae Asset Daewoo Research

Figure 5. Kakao's (Page and Piccoma) transaction value and overseas share both on the rise



Source: Mirae Asset Daewoo Research

2. Growing income from webtoon IP licensing

Webtoon IP licensing is leveling up to encompass dramas, movies, gaming, and merchandise. Indeed, two NAVER Webtoon series, *Sweet Home* and *All of Us Are Dead*, are being adapted by Korean production studios into Netflix original dramas. The success of *Kingdom*—a Netflix drama adapted from the Korean webtoon series *The Kingdom of the Gods*—has raised expectations on Korean webtoon IP. The two Netflix dramas mentioned above—scheduled to be released in 2H20—are big-budget series (W2bn production budget per episode) targeting global markets that will likely further highlight the value of original content.

With dramas and movies based on webtoons/web novels gaining traction, movie/TV licensing sales are growing rapidly. Generally speaking, movies and dramas based on webtoons/web novels have a leg up thanks to their name recognition and established fan bases, reducing the need for heavy marketing spending. Indeed, past examples prove that original content IPs retain their popularity across formats, especially in the case of dramas and movies.

Webtoon/web novel IPs are gaining in value, driven by growing demand from the drama and movie markets. Accordingly, licensing terms are becoming more favorable to IP rights holders. Before 2018, licensing sales were mostly one-time transactions with minimum guarantees of less than W100bn. Starting from 2019, however, a growing number of licensing agreements have added revenue-sharing clauses (contingent upon commercial success). In some recent cases, a certain percentage (5-10%) of production budgets has been allotted to IP licensing.

We expect the value of original content to grow, given: 1) the strengthening bargaining power of IP rights holders amid growing licensing demand; and 2) platform operators' (including NAVER and Kakao) ongoing efforts to vertically integrate content production. Against this backdrop, we expect D&C Media to be re-rated higher for its growing library of popular titles.

Figure 6. Virtuous cycle: Web novels → Webtoons → Dramas → Steady IP revenue

Source: Press materials, Mirae Asset Daewoo Research

Figure 7. Webtoon content diversifying into large-scale genres

Source: Press materials, Mirae Asset Daewoo Research

Table 1. Valuation of major global content platforms (Wbn, %, x)

Company	Mkt cap	Revenue			Operating profit			OP margin			P/E			ROE			EPS growth		
		19	20F	21F	19	20F	21F	19	20F	21F	19	20F	21F	19	20F	21F	19	20F	21F
Integrated platform (Korea)																			
NAVER	38,684	6,593	7,337	8,309	710	1,013	1,412	10.8	13.8	17.0	53.7	49.3	33.9	10.7	12.4	15.4	-8.4	35.0	45.4
Kakao	23,010	3,070	3,804	4,497	207	417	580	6.7	11.0	12.9	-	68.9	50.9	-4.7	5.9	7.6	-	207.7	35.5
Web literature platform/content																			
D&C Media	326	42	56	71	8	13	16	18.8	22.7	23.2	34.1	30.5	23.5	18.5	22.8	23.5	36.9	119.8	30.0
Kidari Studio	103	27	52	64	1	7	11	2.6	12.8	16.4	235.4	24.3	27.5	14.6	14.5	16.2	826.7	89.7	57.5
Mr. Blue	201	64	77	62	14	24	16	21.7	31.3	25.8	15.5	10.6	14.7	33.8	35.2	20.3	338.1	55.5	-31.2
China Literature	7,435	1,408	1,598	1,790	175	252	293	12.4	15.7	16.4	38.7	32.4	28.1	5.8	6.3	7.0	8.9	9.1	15.3
Music/video streaming																			
Netflix	226,702	23,496	30,542	36,104	3,036	4,967	6,714	12.9	16.3	18.6	85.0	59.7	43.9	31.6	29.5	27.9	53.2	45.3	35.8
Spotify	41,278	8,825	10,866	13,110	-95	-246	-71	-1.1	-2.3	-0.5	-	-	-	-3.6	-9.0	-2.0	-134.1	16.6	96.3
Integrated platform (global)																			
Alphabet	1,200,707	188,674	170,618	206,281	39,903	39,970	52,384	21.1	23.4	25.4	29.9	27.2	21.3	17.8	15.0	17.0	12.1	16.1	27.9
Facebook	787,573	82,410	95,384	118,949	27,960	30,684	41,337	33.9	32.2	34.8	27.3	27.0	20.8	21.9	19.2	20.5	-15.3	-15.2	29.8
Tencent	638,667	63,651	81,919	99,762	18,788	24,669	29,640	29.5	30.1	29.7	39.3	31.3	25.4	24.7	22.3	22.0	18.2	27.2	23.3
Avg.								14.2	16.5	17.9	38.7	36.3	30.2	12.6	-0.1	-0.3	46.9	28.8	30.9

Source: Bloomberg, Mirae Asset Daewoo Research

Earnings forecasts

Earnings to reset higher in 2H20

For 1Q20, D&C Media announced consolidated revenue of W12.6bn (+31.1% YoY) and operating profit of W2.7bn (+60.6% YoY). Domestic and overseas sales of major titles (webtoons, web novels, etc.) continued strong growth, in line with expectations. E-book revenue grew 48.8% YoY to W10.7bn. Of this, overseas revenue increased to W1.9bn (+200.8% YoY), accounting for a higher share of overall e-book revenue, while domestic revenue also continued to grow to W8.8bn (+34.1% YoY). There were no notable changes in print book or merchandise revenue.

Looking to 2Q20, we forecast D&C Media to post revenue of W13.4bn (+24.5% YoY) and operating profit of W2.9bn (+76.5% YoY). Despite the end-of-season break for key title *Solo Leveling*, we expect revenue growth to continue in 2Q20. Despite concerns about overreliance on a single IP, we estimate its revenue share at less than 10%. Moreover, the new title *Death Is the Only Ending for the Villainess* (released in May) is performing strongly, and Piccoma's new user inflow is also encouraging.

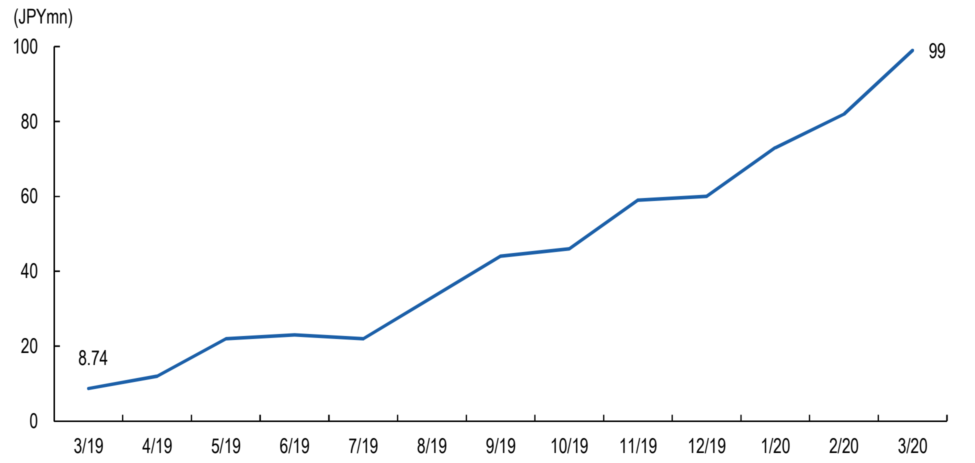
We look for strong earnings momentum in 2H20. We estimate operating profit will expand 35.7% HoH to W7.5bn in 2H20, in light of: 1) peak season effects; 3) the return of several titles from end-of-season breaks; and 3) planned new releases from 3Q20. We see upside risks to our estimates, depending on content platforms' progress in global expansion.

Table 2. Quarterly and annual earnings (Wbn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F	3Q20F	4Q20F	2018	2019	2020F
Revenue	10	11	13	9	13	13	16	17	32	42	59
E-books	7	8	9	10	11	12	14	16	23	35	52
Print books	2	2	2	2	2	2	2	2	9	7	7
Domestic	9	10	12	10	11	11	13	14	31	41	49
Overseas	1	1	1	2	2	2	3	4	2	5	11
SG&A	8	9	11	6	10	11	12	13	26	34	46
Operating profit	2	2	2	3	3	3	4	4	6	8	13
OP margin	17.4	15.0	15.7	29.7	21.3	21.3	22.0	23.0	20.0	18.8	22.0
Pretax profit	2	2	2	3	3	3	4	4	7	8	14
Net profit	1	1	2	1	2	2	3	3	5	5	11
Net margin	14.8	11.8	12.3	6.4	18.5	18.4	18.7	19.5	15.3	11.5	18.8
YoY											
Revenue	28.2	34.4	55.6	6.3	31.1	24.5	22.3	101.3	20.9	31.4	41.1
E-books	38.7	41.0	44.5	72.3	48.8	46.2	52.0	51.5	40.5	49.5	49.9
Print books	-15.8	-26.2	-3.7	-20.4	-5.5	-3.0	-3.0	-3.0	-12.1	-16.9	-3.7
Domestic	26.3	27.6	48.7	22.6	19.0	12.0	10.5	33.8	-	31.2	18.7
Overseas	62.3	195.7	153.2	239.3	200.8	150.0	120.0	110.0	-	165.0	133.6
Operating profit	20.7	-7.8	26.3	55.1	60.6	76.5	71.7	55.7	18.2	23.2	65.1
Net profit	18.7	-11.9	20.7	-41.5	63.9	94.2	86.7	518.4	8.4	-1.3	131.0
Key assumptions											
KakaoPage transactions	68	68	75	79	81	81	87	91	222	290	340
Piccoma transactions	25	33	37	45	58	59	63	72	60	140	252

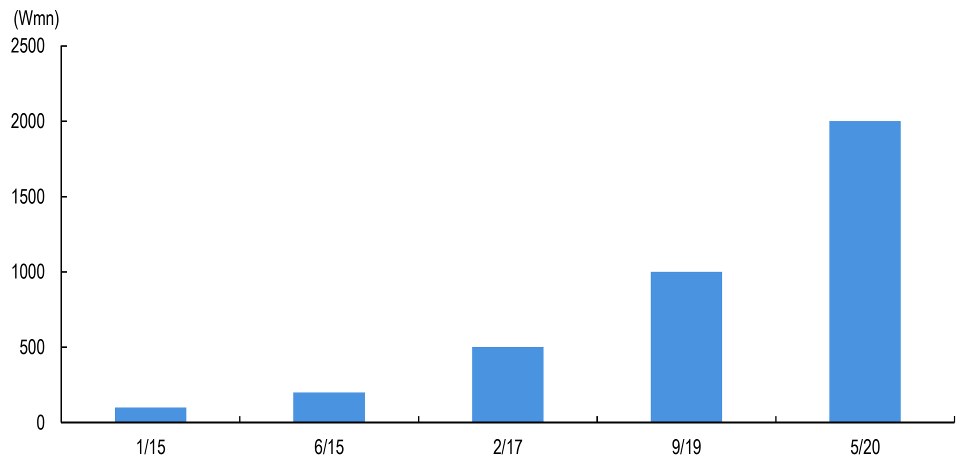
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 8. Piccoma transaction value for *Solo Leveling* is on the rise



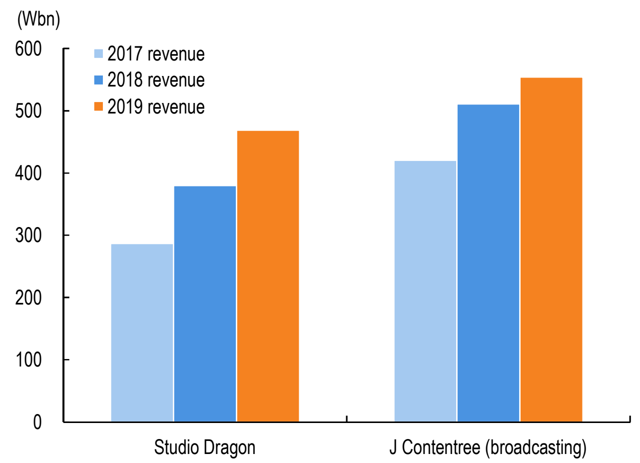
Source: Kakao ,Mirae Asset Daewoo Research

Figure 9. KakaoPage daily transaction value is on the rise



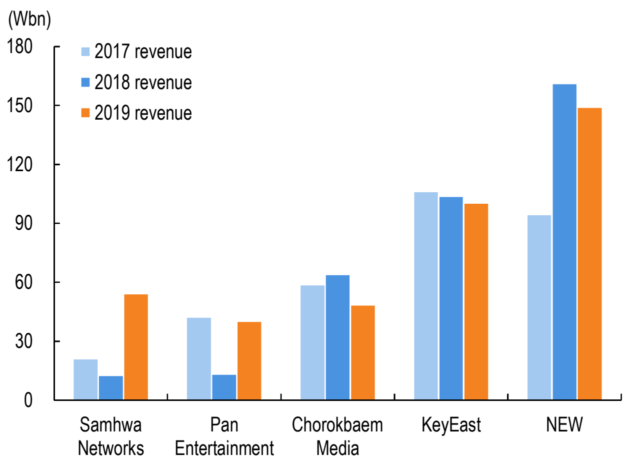
Source: Kakao Page ,Mirae Asset Daewoo Research

Figure 10. Drama market: Affiliated program providers → Captive demand → Benefits from market growth



Source: Mirae Asset Daewoo Research

Figure 11. Absence of captive market → Uncertainty over programming → Higher volatility



Source: Mirae Asset Daewoo Research

D&C Media (263720 KQ/Buy/TP: W35,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/18	12/19	12/20F	12/21F
Revenue	**32**	**42**	**59**	**79**
Cost of Sales	**0**	**0**	**0**	**0**
Gross Profit	**32**	**42**	**59**	**79**
SG&A Expenses	**26**	**34**	**46**	**60**
Operating Profit (Adj)	**6**	**8**	**13**	**19**
Operating Profit	**6**	**8**	**13**	**19**
Non-Operating Profit	**1**	**0**	**1**	**0**
Net Financial Income	0	0	1	1
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	7	8	14	19
Income Tax	1	2	3	4
Profit from Continuing Operations	6	7	11	15
Profit from Discontinued Operations	-1	-2	0	0
Net Profit	5	5	11	15
Controlling Interests	5	5	11	15
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	**5**	**5**	**11**	**15**
Controlling Interests	5	5	11	15
Non-Controlling Interests	0	0	0	0
EBITDA	6	8	13	19
FCF (Free Cash Flow)	4	4	9	14
EBITDA Margin (%)	18.8	19.0	22.0	24.1
Operating Profit Margin (%)	18.8	19.0	22.0	24.1
Net Profit Margin (%)	15.6	11.9	18.6	19.0

Statement of Financial Condition (Summarized)

(Wbn)	12/18	12/19	12/20F	12/21F
Current Assets	**40**	**49**	**69**	**90**
Cash and Cash Equivalents	9	9	17	30
AR & Other Receivables	3	6	12	16
Inventories	1	1	2	3
Other Current Assets	27	33	38	41
Non-Current Assets	**4**	**4**	**5**	**6**
Investments in Associates	1	1	2	3
Property, Plant and Equipment	2	3	3	2
Intangible Assets	0	0	0	0
Total Assets	**44**	**53**	**74**	**96**
Current Liabilities	**7**	**11**	**21**	**27**
AP & Other Payables	0	1	2	3
Short-Term Financial Liabilities	0	2	2	2
Other Current Liabilities	7	8	17	22
Non-Current Liabilities	**0**	**1**	**1**	**1**
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	0	1	1	1
Total Liabilities	**7**	**12**	**22**	**28**
Controlling Interests	**37**	**42**	**53**	**68**
Capital Stock	6	6	6	6
Capital Surplus	16	16	16	16
Retained Earnings	15	20	31	47
Non-Controlling Interests	**0**	**0**	**0**	**0**
Stockholders' Equity	**37**	**42**	**53**	**68**

Cash Flows (Summarized)

(Wbn)	12/18	12/19	12/20F	12/21F
Cash Flows from Op Activities	4	5	9	14
Net Profit	5	5	11	15
Non-Cash Income and Expense	1	2	2	3
Depreciation	0	0	0	0
Amortization	0	0	0	0
Others	1	2	2	3
Chg in Working Capital	0	-1	-2	-1
Chg in AR & Other Receivables	-1	-2	-6	-4
Chg in Inventories	0	0	-1	-1
Chg in AP & Other Payables	0	1	0	0
Income Tax Paid	**-1**	**-1**	**-3**	**-4**
Cash Flows from Inv Activities	-2	-7	0	0
Chg in PP&E	0	-1	0	0
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	22	0	0	0
Others	**-24**	**-6**	**0**	**0**
Cash Flows from Fin Activities	0	2	0	0
Chg in Financial Liabilities	0	2	0	0
Chg in Equity	0	1	0	0
Dividends Paid	0	0	0	0
Others	**0**	**-1**	**0**	**0**
Increase (Decrease) in Cash	3	0	8	13
Beginning Balance	6	9	9	17
Ending Balance	**9**	**9**	**17**	**30**

Forecasts/Valuations (Summarized)

	12/18	12/19	12/20F	12/21F
P/E (x)	34.6	48.3	28.0	20.4
P/CF (x)	30.7	36.1	23.4	16.8
P/B (x)	4.6	5.6	5.9	4.6
EV/EBITDA (x)	21.6	28.1	20.4	13.7
EPS (W)	408	403	912	1,254
CFPS (W)	461	539	1,090	1,525
BPS (W)	3,079	3,448	4,360	5,613
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 (%)	18.5	31.3	40.5	33.9
EBITDA Growth (%)	20.0	33.3	62.5	46.2
Operating Profit Growth (%)	20.0	33.3	62.5	46.2
EPS Growth (%)	-7.7	-1.2	126.3	37.5
Accounts Receivable Turnover (x)	10.4	9.2	6.9	5.9
Inventory Turnover (x)	63.9	48.4	38.9	33.2
Accounts Payable Turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	12.4	10.0	17.5	18.0
ROE (%)	14.4	12.4	23.8	25.5
ROIC (%)	110.8	119.9	148.3	159.6
Liability to Equity Ratio (%)	19.5	28.7	41.3	41.0
Current Ratio (%)	591.4	432.5	334.1	339.1
Net Debt to Equity Ratio (%)	-83.8	-15.8	-80.7	-82.1
Interest Coverage Ratio (x)	0.0	2,138.9	-188.3	-279.5

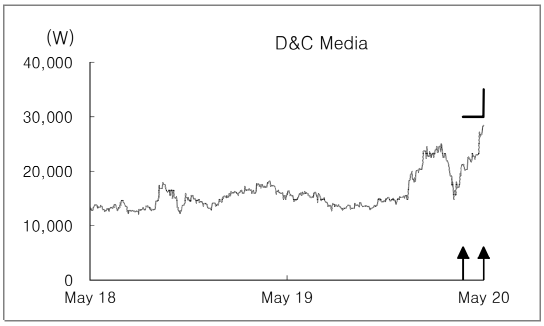
Source: Company data, Mirae Asset Daewoo Research estimates

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
D&C Media (263720)	05/14/2020	Buy	35,000
	04/06/2020	Buy	30,000



Stock Ratings		Industry Ratings	
Buy	: Relative performance of 20% or greater	Overweight	: Fundamentals are favorable or improving
Trading Buy	: Relative performance of 10% or greater, but with volatility	Neutral	: Fundamentals are steady without any material changes
Hold	: Relative performance of -10% and 10%	Underweight	: Fundamentals are unfavorable or worsening
Sell	: Relative performance of -10%		

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	82.04%	12.57%	5.39%	0.00%
Investment Banking Services	80.77%	11.54%	7.69%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2020)

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