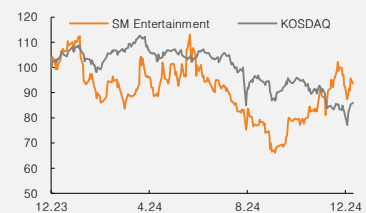


(Maintain)	Buy
Target price	▲ W104,000
Current price (12/13/24)	W81,000
Upside	28.4%

OP (24F, Wbn)	71
Consensus OP (24F, Wbn)	78
EPS growth (24F, %)	-57.4
Market EPS growth (24F, %)	74.0
P/E (24F, x)	51.9
Market P/E (24F, x)	10.1
KOSDAQ	693.73

Market cap (Wbn)	1,892
Shares (mn)	23
Free float (%)	57.0
Foreign ownership (%)	13.7
Beta (12M)	0.85
52-week low (W)	56,000
52-week high (W)	95,800

(%)	1M	6M	12M
Absolute	3.1	-0.8	-7.6
Relative	1.2	22.5	10.9



Mirae Asset Securities Co., Ltd.

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SM Entertainment

Proven artist development system to continue to stand out

Strong artist development track record

We maintain our Buy rating on SM Entertainment and raise our target price to W104,000 (from W94,000). The success of the Korean entertainment industry lies in its systematic approach to artist development (vs. mere artist management). Over the past 30 years, SM Entertainment has refined its ability to produce artist groups and build dedicated fan bases through carefully devised strategic initiatives. In other words, the firm's achievements are no accident but the result of deliberate planning and execution.

We believe these strengths will continue to help SM Entertainment stand out as advancements in generative AI drive the growth of the virtual artist market. The company has been an early mover in virtual artist development, introducing avatars of Aespa's members in 2020 (at the time of the group's debut). And this year, it became the first major Korean entertainment company to debut a virtual idol group (Nævis). We believe the firm's ability to anticipate market needs positions it to succeed in the virtual idol space.

New groups to fuel share momentum in 1H25

Expectations for SM Entertainment's rookie girl group will likely drive share momentum through 1H25. Notably, Aespa reached the million-seller milestone just 19 months after its Nov. 2020 debut and held arena-level concerts after 27 months. More recently, the boy bands Riize and NCT Wish each sold nearly 1.8mn album copies within a year of their debuts. Such early successes tend to lead to large profits, as profit-sharing terms are more favorable for the agency in the early years of an artist's career. If SM Entertainment extends its winning streak with new groups, the company's track record of producing successful artists is likely to be reflected in the stock's valuation.

Share momentum in 2H25 to hinge on visible earnings improvement

To sustain share momentum beyond 1H25, we believe the company will need to demonstrate improved profitability. Operating profit has fallen short of expectations for four straight quarters (since 4Q23) due to the weak performance of subsidiaries.

Notably, emerging artists are likely to account for a growing share of both album revenue (from 26% in 2023 to 43% in 2024F and 54% in 2025F) and concert revenue (from 23% in 2023 to 26% in 2024F to 46% in 2025F). At the same time, content production costs should stabilize, leading to improved margins on a standalone basis. However, for earnings growth to be fully realized, subsidiary earnings must also improve.

(Dec.)	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	851	961	956	1,106	1,267
OP (Wbn)	91	113	71	124	158
OP margin (%)	10.7	11.8	7.4	11.2	12.5
NP (Wbn)	80	87	37	92	121
EPS (W)	3,363	3,664	1,560	3,870	5,074
ROE (%)	12.2	12.3	5.1	12.1	14.4
P/E (x)	22.8	25.1	50.8	20.5	15.6
P/B (x)	2.6	2.9	2.5	2.3	2.1
Dividend yield (%)	1.6	1.3	1.5	1.5	1.5

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research estimates

Table 1. Quarterly and annual earnings (consolidated)

(Wbn)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24F	2023	2024F	2025F	2026F
Revenue	204	240	266	250	220	254	242	245	960	956	1,091	1,267
YoY	20%	30%	12%	-3%	8%	6%	-9%	-2%	13%	0%	17%	15%
SME	128	139	189	164	136	174	172	175	619	658	730	844
SM C&C	21	29	34	43	24	28	25	30	127	106	108	113
KeyEast	19	13	10	10	25	16	13	13	52	68	72	84
Dream Maker	22	35	18	20	13	8	10	9	94	40	88	88
SMC	27	20	24	12	27	19	22	18	83	86	108	138
OP	18	36	51	11	16	25	13.3	26	115	79	124	158
YoY	-5%	84%	70%	-52%	-15%	-31%	-74%	135%	27%	-31%	62%	27%
OP margin	9%	15%	19%	4%	7%	10%	6%	11%	12%	8%	11%	12%
NP (attr. to owners of the parent)	21	25	83	2	11	7	6	12	87	37	92	121
YoY	-23%	3%	225%	-18%	-49%	-71%	-93%	-127%	9%	-58%	126%	32%
Net margin	10%	11%	31%	1%	5%	3%	2%	5%	9%	4%	8%	9%
Standalone revenue												
Albums/digital music	60	54	113	91	55	72	73	80	318	280	310	377
Appearances	17	21	21	27	20	21	23	24	86	87	91	96
Concerts	20	20	24	12	25	37	38	26	77	126	144	143
Merch/licensing	30	42	29	34	36	44	38	45	135	162	181	224
Other	2	2	0	1	1	1	1	1	4	3	4	4
Standalone revenue breakdown												
Albums/digital music	47%	39%	60%	55%	40%	41%	42%	46%	51%	43%	42%	45%
Appearances	13%	15%	11%	16%	15%	12%	13%	13%	14%	13%	13%	11%
Concerts	16%	14%	13%	7%	18%	21%	22%	15%	12%	19%	20%	17%
Merch/licensing	23%	30%	15%	21%	26%	25%	22%	25%	22%	25%	25%	27%
Other	1%	1%	0%	0%	0%	0%	0%	0%	1%	0%	1%	0%

Source: Company data, Mirae Asset Securities Research

Table 2. Earnings forecast revisions

(Wbn)

	4Q24F		2024F		Notes
	Previous	Revised	Previous	Revised	
Revenue	220	245	931	958	Increase in the no. of concerts Reflected greater non-operating losses
OP	23	26	76	79	
NP (attr. to owners of the parent)	16	12	41	37	

Source: Mirae Asset Securities Research estimates

Table 3. Valuation table

	Value	Notes
2025F NP attr. to owners of the parent (Wbn)	91.5	10% premium to P/E in 2017-18 (24.3x), when major boy bands resumed activities in Japan; 10% premium reflects expectations for potential reopening of China (top three agencies' shares rose 10% in May following reports of China's potential approval of Korean indie band concerts)
Target P/E (x)	26.7	
Fair market cap (Wbn)	2,459	
No. of shares ('000)	23,589	
TP (₩)	104,000	
CP (₩)	80,700	
Upside	28.9%	

Source: Mirae Asset Securities Research

SM Entertainment (041510 KQ)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	961	956	1,106	1,267
Cost of revenue	620	659	709	791
GP	341	297	397	476
SG&A expenses	228	226	272	318
OP (adj.)	113	71	124	158
OP	113	71	124	158
Non-operating profit	6	2	4	10
Net financial income	8	5	9	11
Net income from associates	47	33	31	0
Pretax profit	119	73	128	168
Income tax	36	34	41	54
Profit from continuing operations	83	39	87	115
Profit from discontinued operations	0	0	0	0
NP	83	39	87	115
Attributable to owners	87	37	92	121
Attributable to minority interests	-5	2	-5	-6
Total comprehensive income	80	39	87	115
Attributable to owners	86	42	94	123
Attributable to minority interests	-6	-3	-7	-9
EBITDA	171	128	183	220
FCF	94	65	132	164
EBITDA margin (%)	17.8	13.4	16.5	17.4
OP margin (%)	11.8	7.4	11.2	12.5
Net margin (%)	9.1	3.9	8.3	9.6

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	858	833	877	1,000
Cash & equivalents	303	321	361	410
AR & other receivables	153	137	158	181
Inventory	26	19	22	25
Other current assets	376	356	336	384
Non-current assets	683	679	714	754
Investments in associates	168	167	193	221
PP&E	71	71	71	74
Intangible assets	204	201	204	207
Total assets	1,541	1,512	1,591	1,754
Current liabilities	519	480	494	565
AP & other payables	301	280	310	355
Short-term financial liabilities	70	49	26	28
Other current liabilities	148	151	158	182
Non-current liabilities	112	112	118	124
Long-term financial liabilities	76	76	76	76
Other non-current liabilities	36	36	42	48
Total liabilities	632	592	611	688
Equity attributable to owners	722	731	796	888
Capital stock	12	12	12	12
Capital surplus	362	362	362	362
Retained earnings	365	374	439	531
Minority interests	187	189	184	178
Shareholders' equity	909	920	980	1,066

Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Operating cash flow	113	95	162	199
NP	83	39	87	115
Non-cash income/expenses	94	79	86	105
Depreciation	30	30	30	32
Amortization	28	27	28	30
Other	36	22	28	43
Chg. in working capital	-34	3	20	22
Chg. in AR & other receivables	-1	17	-21	-23
Chg. in inventory	1	6	-3	-3
Chg. in AP & other payables	-27	-20	30	32
Income tax	-35	-34	-41	-54
Cash flow from investing activities	-83	-33	-44	-96
Chg. in PP&E	-19	-30	-30	-35
Chg. in intangible assets	-32	-24	-31	-33
Chg. in financial assets	27	21	12	-28
Other	-59	0	5	0
Cash flow from financing activities	-43	-49	-52	-25
Chg. in financial liabilities	33	-21	-23	3
Chg. in equity	-5	0	0	0
Dividends	-28	-28	-28	-28
Other	-43	0	-1	0
Chg. in cash	-14	18	40	49
Beginning balance	318	303	321	361
Ending balance	303	321	361	410

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

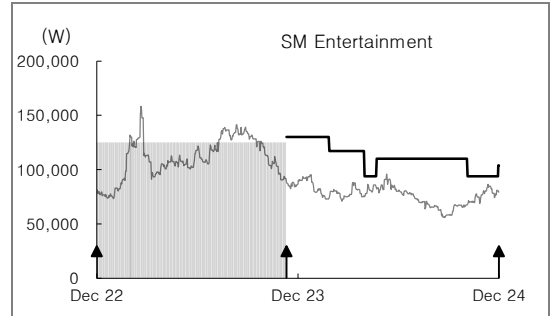
	2023	2024F	2025F	2026F
P/E (x)	25.1	50.8	20.5	15.6
P/CF (x)	12.4	16.0	10.9	8.6
P/B (x)	2.9	2.5	2.3	2.1
EV/EBITDA (x)	11.8	13.1	8.9	7.0
EPS (W)	3,664	1,560	3,870	5,074
CFPS (W)	7,427	4,964	7,286	9,225
BPS (W)	31,631	32,011	34,701	38,595
DPS (W)	1,200	1,200	1,200	1,200
Dividend payout ratio (%)	34.0	72.0	32.2	24.6
Dividend yield (%)	1.3	1.3	1.3	1.3
Revenue growth (%)	13.0	-0.6	15.7	14.6
EBITDA growth (%)	12.9	-25.5	43.0	20.4
OP growth (%)	24.7	-37.5	75.6	26.7
EPS growth (%)	8.9	-57.4	148.0	31.1
AR turnover (x)	6.2	6.6	7.5	7.5
Inventory turnover (x)	41.8	42.8	53.6	53.4
AP turnover (x)	2.9	3.3	3.4	3.3
ROA (%)	5.5	2.6	5.6	6.8
ROE (%)	12.3	5.1	12.1	14.4
ROIC (%)	32.1	12.9	31.0	40.7
Debt-to-equity ratio (%)	69.4	64.3	62.4	64.6
Current ratio (%)	165.3	173.7	177.7	177.1
Net debt-to-equity ratio (%)	-39.0	-40.4	-42.6	-45.5
Interest coverage ratio (x)	19.9	14.2	25.0	34.9

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
SM Entertainment (041510)	12/16/24	Buy	104,000
	10/21/24	Buy	94,000
	05/09/24	Buy	110,000
	04/17/24	Buy	94,000
	02/13/24	Buy	117,000
	11/27/23	Buy	130,000
	10/11/22	No Coverage	



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

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

* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

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

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	82.38%	10.23%	7.39%	0%
Investment banking services	84.21%	5.26%	10.53%	0%

* Based on recommendations in the last 12-months (as of September 30, 2024)

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