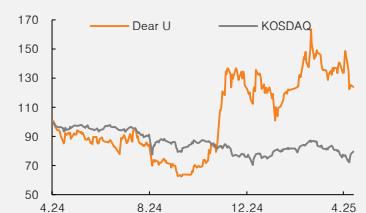


(Maintain)	<b>Buy</b>
Target price	<b>W52,000</b>
Current price (4/14/25)	W36,150
Upside	43.8%

OP (25F, Wbn)	45
Consensus OP (25F, Wbn)	43
EPS growth (25F, %)	106.8
Market EPS growth (25F, %)	25.3
P/E (25F, x)	20.3
Market P/E (25F, x)	8.9
KOSDAQ	708.98

Market cap (Wbn)	858
Shares (mn)	24
Free float (%)	49.1
Foreign ownership (%)	3.4
Beta (12M)	1.10
52-week low (W)	18,220
52-week high (W)	47,700

(%)	1M	6M	12M
Absolute	-6.3	68.5	36.9
Relative	-3.0	83.1	66.2



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# Dear U

## Attractive entry point

### 1Q25 preview

For 1Q25, we expect Dear U to report revenue of W19.4bn (+9% QoQ, -4% YoY) and operating profit of W6.2bn (+27% QoQ, -13% YoY). EXO's Kai resumed activities on the fan communication platform Bubble following his military discharge. However, the effect was largely offset by the withdrawal of Blackpink's Jisoo from the platform. In Japan, we estimate the subscriber count rose from 45,000 in 4Q24 to 60,000 in 1Q25. Meanwhile, labor expenses will likely reflect a pro rata allocation of executive bonuses (as was the case last year).

### 2025 outlook

We expect subscriber growth to continue in 2025, driven by the onboarding of new artists/groups. Now that it is a subsidiary of SM Entertainment, Dear U is likely to work closely with its parent company to accelerate the launch of services for new artists/groups.

Dear U also plans to introduce a payment gateway service in 2Q25. Currently, the largest component of SG&A expenses is transaction fees (mainly from in-app purchases), which were equivalent to 45% of revenue in 2024. We estimate the payment gateway service will lead to cost savings roughly equivalent to 10% of annual revenue. Meanwhile, to encourage users to switch to web-based payments, the firm also plans to raise in-app purchase prices; this strategy could help boost overall revenue even if the conversion rate remains low.

Going forward, merchandise sales and new services such as AI Pet Bubble and handwritten messages should also contribute to earnings. Notably, on Apr. 10, Dear U began a seven-day pop-up store event at The Hyundai Seoul featuring Daeng, the AI Pet Bubble character of SHINee member Taemin.

### Maintain Buy and TP of W52,000

We expect Dear U's entry into the Chinese market via Tencent Music Entertainment (TME) to proceed as planned in 2Q25. For 2025, we estimate the revenue contribution from the TME partnership at W2.8bn. Despite being newly consolidated into SM Entertainment, the stock has experienced a sharp correction (with P/E falling to 21x) amid news of a potential Kakao Entertainment sale coupled with a broader entertainment sector pullback. As there is still some time before the official launch of services on Tencent apps, share volatility may persist in the near term.

(Dec.)	2023	2024	2025F	2026F	2027F
Revenue (Wbn)	76	75	98	123	189
OP (Wbn)	29	25	45	74	113
OP margin (%)	38.2	33.3	45.9	60.2	59.8
NP (Wbn)	26	20	42	65	98
EPS (W)	1,104	859	1,777	2,734	4,149
ROE (%)	16.9	11.3	20.2	25.3	29.5
P/E (x)	29.1	42.0	20.3	13.2	8.7
P/B (x)	4.5	4.5	3.8	3.0	2.3
Dividend yield (%)	0.0	0.6	0.6	0.6	0.6

Notes: Under non-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)

	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2023	2024	2025F	2026F
Revenue	20.3	19.1	17.7	17.8	19.4	25.3	25.5	27.5	75.7	74.9	97.7	123.1
QoQ/YoY	-3%	-6%	-7%	0%	9%	30%	1%	8%	54%	-1%	31%	26%
Japan royalty revenue		0.01	0.04	0.05		0.06	0.06	0.06		0.10	0.23	0.33
China royalty revenue						0.6	1.1	1.1			2.8	4.4
SG&A	13.1	12.0	11.4	12.9	13.2	13.3	11.9	11.5	47.1	49.4	49.9	49.4
Wages	3.4	3.0	2.5	2.7	3.3	4.0	3.1	3.4	9.6	11.6	13.8	16.7
Commissions paid	8.7	8.2	8.1	8.4	9.1	8.3	7.8	7.1	34.6	33.4	32.4	27.9
OP	7.2	7.1	6.3	4.9	6.2	11.5	12.5	14.9	28.6	25.4	45.1	69.2
OP margin	35%	37%	36%	27%	32%	46%	51%	56%	38%	34%	47%	58%
QoQ/YoY	-19%	-1%	-10%	-23%	27%	86%	9%	19%	76%	-11%	77%	54%
Key data												
Monthly avg. subscribers (mn)	2.3	2.2	2.0	1.9	2.0	2.3	2.5	2.5	2.2	2.1	2.3	2.8
Monthly ARPU (W)	2,939	2,956	2,919	3,118	3,274	3,274	3,274	3,274	2,835	2,981	3,419	3,497
No. of artists/groups	607	613	622	627	627	633	639	639	482	610	633	646

Source: Mirae Asset Securities Research estimates

**Table 2. Valuation table**

	Value	
2025F NP attr. to owners of the parent (Wbn)	44.9	
Target P/E (x)	27.4	Avg. target P/E of SM Entertainment and JYP Entertainment
Target market cap (Wbn)	1,227	
No. of shares ('000)	23,738	
TP (W)	52,000	
CP (W)	36,150	
Upside	43.8%	

Source: Mirae Asset Securities Research estimates

## Dear U (376300 KQ)

## Income statement (summarized)

(Wbn)	2023	2024	2025F	2026F
<b>Revenue</b>	<b>76</b>	<b>75</b>	<b>98</b>	<b>123</b>
<b>Cost of revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>GP</b>	<b>76</b>	<b>75</b>	<b>98</b>	<b>123</b>
<b>SG&amp;A expenses</b>	<b>47</b>	<b>49</b>	<b>53</b>	<b>49</b>
<b>OP (adj.)</b>	<b>29</b>	<b>25</b>	<b>45</b>	<b>74</b>
<b>OP</b>	<b>29</b>	<b>25</b>	<b>45</b>	<b>74</b>
<b>Non-operating profit</b>	<b>4</b>	<b>1</b>	<b>8</b>	<b>8</b>
Net financial income	5	5	7	9
Net income from associates	0	0	0	0
Pretax profit	33	26	53	82
Income tax	6	6	11	17
Profit from continuing operations	26	20	42	65
Profit from discontinued operations	0	0	0	0
<b>NP</b>	<b>26</b>	<b>20</b>	<b>42</b>	<b>65</b>
Attributable to owners	26	20	42	65
Attributable to minority interests	0	0	0	0
<b>Total comprehensive income</b>	<b>26</b>	<b>20</b>	<b>42</b>	<b>65</b>
Attributable to owners	26	20	42	65
Attributable to minority interests	0	0	0	0
EBITDA	31	28	48	76
FCF	9	23	43	64
EBITDA margin (%)	40.8	37.3	49.0	61.8
OP margin (%)	38.2	33.3	45.9	60.2
Net margin (%)	34.2	26.7	42.9	52.8

## Balance sheet (summarized)

(Wbn)	2023	2024	2025F	2026F
<b>Current assets</b>	<b>147</b>	<b>167</b>	<b>208</b>	<b>271</b>
Cash & equivalents	57	107	132	177
AR & other receivables	12	11	12	13
Inventory	0	0	0	0
Other current assets	78	49	64	81
<b>Non-current assets</b>	<b>43</b>	<b>42</b>	<b>40</b>	<b>38</b>
Investments in associates	0	0	0	0
PP&E	3	3	2	1
Intangible assets	10	12	10	9
<b>Total assets</b>	<b>191</b>	<b>209</b>	<b>248</b>	<b>309</b>
<b>Current liabilities</b>	<b>17</b>	<b>16</b>	<b>18</b>	<b>19</b>
AP & other payables	10	11	12	14
Short-term financial liabilities	1	1	0	0
Other current liabilities	6	4	6	5
<b>Non-current liabilities</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>
Long-term financial liabilities	4	3	3	3
Other non-current liabilities	0	0	0	0
<b>Total liabilities</b>	<b>21</b>	<b>19</b>	<b>21</b>	<b>22</b>
<b>Equity attributable to owners</b>	<b>170</b>	<b>190</b>	<b>227</b>	<b>287</b>
Capital stock	12	12	12	12
Capital surplus	162	162	162	162
Retained earnings	-15	6	43	102
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>170</b>	<b>190</b>	<b>227</b>	<b>287</b>

## Cash flow statement (summarized)

(Wbn)	2023	2024	2025F	2026F
<b>Operating cash flow</b>	<b>13</b>	<b>23</b>	<b>43</b>	<b>64</b>
NP	26	20	42	65
Non-cash income/expenses	6	3	7	11
Depreciation	1	1	1	1
Amortization	1	1	1	1
Other	4	1	5	9
Chg. in working capital	-23	0	-1	-3
Chg. in AR & other receivables	-7	1	0	-1
Chg. in inventory	0	0	0	0
Chg. in AP & other payables	2	0	0	0
Income tax	0	-6	-11	-17
<b>Cash flow from investing activities</b>	<b>-41</b>	<b>28</b>	<b>-13</b>	<b>-14</b>
Chg. in PP&E	-3	0	0	-1
Chg. in intangible assets	-4	-3	0	0
Chg. in financial assets	-28	29	-13	-14
Other	-6	2	0	1
<b>Cash flow from financing activities</b>	<b>3</b>	<b>-1</b>	<b>-6</b>	<b>-5</b>
Chg. in financial liabilities	4	-1	0	0
Chg. in equity	3	0	0	0
Dividends	0	0	-5	-5
Other	-4	0	-1	0
<b>Chg. in cash</b>	<b>-27</b>	<b>51</b>	<b>25</b>	<b>45</b>
Beginning balance	84	57	107	132
Ending balance	57	107	132	177

Source: Company data, Mirae Asset Securities Research estimates

## Key valuation metrics/ratios

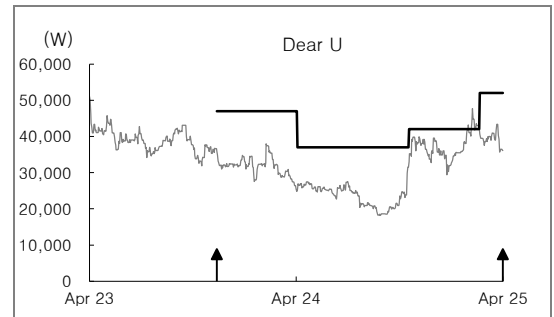
	2023	2024	2025F	2026F
P/E (x)	29.1	42.0	20.3	13.2
P/CF (x)	23.5	37.1	17.5	11.3
P/B (x)	4.5	4.5	3.8	3.0
EV/EBITDA (x)	21.0	25.5	14.2	8.1
EPS (W)	1,104	859	1,777	2,734
CFPS (W)	1,365	971	2,067	3,212
BPS (W)	7,141	8,000	9,562	12,081
DPS (W)	0	215	215	215
Dividend payout ratio (%)	0.0	25.0	12.1	7.9
Dividend yield (%)	0.0	0.6	0.5	0.5
Revenue growth (%)	53.9	-1.1	30.5	25.9
EBITDA growth (%)	81.4	-8.4	70.3	60.1
OP growth (%)	75.8	-11.2	77.1	63.6
EPS growth (%)	50.9	-22.2	106.8	53.9
AR turnover (x)	14.3	11.4	15.3	17.9
Inventory turnover (x)	0.0	0.0	0.0	0.0
AP turnover (x)	0.0	0.0	0.0	0.0
ROA (%)	15.3	10.2	18.5	23.3
ROE (%)	16.9	11.3	20.2	25.3
ROIC (%)	103.0	57.4	91.3	148.1
Debt-to-equity ratio (%)	12.4	10.1	9.3	7.7
Current ratio (%)	874.2	1,045.2	1,158.9	1,424.4
Net debt-to-equity ratio (%)	-71.8	-75.7	-79.9	-83.6
Interest coverage ratio (x)	447.3	227.6	464.6	808.1

# Appendix 1

## Important disclosures and disclaimers

### Two-year rating and TP history

Company	Date	Rating	TP (W)
Dear U (376300)	03/05/25	Buy	52,000
	10/31/24	Buy	42,000
	04/17/24	Buy	37,000
	11/27/23	Buy	47,000



### 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	83.98%	6.63%	8.84%	0.55%
Investment banking services	88.24%	0%	11.76%	0%

\* Based on recommendations in the last 12 months (as of March 31, 2025)

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