

J Contentree

(036420 KQ)

Theater franchise and TV content to drive growth following business restructuring

Media

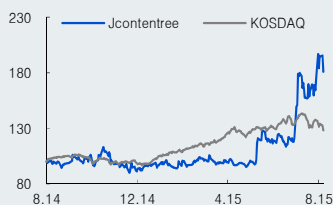
Results Comment

August 19, 2015

(Maintain)	Buy
Target Price (12M, W)	7,000
Share Price (08/18/15, W)	5,690
Expected Return	23%

OP (15F, Wbn)	36
Consensus OP (15F, Wbn)	39
EPS Growth (15F, %)	-
Market EPS Growth (15F, %)	25.6
P/E (15F, x)	31.8
Market P/E (15F, x)	11.0
KOSDAQ	699.80
Market Cap (Wbn)	649
Shares Outstanding (mn)	114
Free Float (%)	66.0
Foreign Ownership (%)	3.3
Beta (12M)	1.17
52-Week Low	2,833
52-Week High	6,190

(%)	1M	6M	12M
Absolute	0.5	86.7	79.4
Relative	11.1	62.5	43.8



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2Q15 review: Top line contracts, but profits grow by double digits

In 2Q, J Contentree's revenue declined YoY, but operating profit and net profit expanded 30% and 86% YoY, respectively, backed by restructuring effects and cost control.

The theater franchise business (Megabox) contributed 62% of 2Q consolidated revenue. Theater attendance fell in 2Q as a result of the MERS outbreak and the temporary closure of a theater site (due to construction). However, market conditions have been picking up in 3Q, with nationwide theater attendance increasing 18% YoY in July and two domestic films performing very well in the box office in August. Meanwhile, the Megabox site construction is expected to be completed in September.

The TV content business accounted for 29% of 2Q consolidated revenue. Drama production revenue contracted, mainly because of JTBC's recent programming overhaul. We believe a total of four dramas will be produced for JTBC this year, down from six in 2014. On the other hand, content distribution revenue should grow. Domestically, the distribution of JTBC content is steadily increasing, while on the overseas front, revenue from the entertainment show *Off to School*, which was co-produced with the Chinese firm iQiyi, should be booked from 3Q.

More authority over Megabox and restructuring-driven profitability gains

Looking forward, we believe investors should closely watch 1) the company's post-acquisition business plan for Megabox, and 2) business restructuring, which should lead to profitability improvements.

Megabox: On August 6th, J Contentree purchased a 96% stake in Korea Multiplex Investment Corporation (KMIC), the largest shareholder of Megabox, essentially raising its stake in the multiplex operator from 46% to 98%. The acquisition should boost J Contentree's net profit attributable to controlling interests and also give it more management authority over the theater chain. The company plans to upgrade Megabox's aging domestic sites and also add new sites (mostly small and mid-sized). In the long term, the multiplex operator is looking to move into overseas markets, such as China and Southeast Asia.

Business restructuring: J Contentree is taking steps to improve management efficiency for its loss-making magazine and other businesses. For the magazine business, the company has discontinued several publications and is downsizing the related workforce. For other businesses, the company plans to transfer them entirely to affiliates by the end of the year. The cable channel Qtv will be merged into affiliate JTBC Plus on August 25th and will subsequently be excluded from consolidated earnings.

Maintain Buy and Raise TP by 16% to W7,000

We keep our Buy rating on J Contentree. While revenue is temporarily declining in the process of the Megabox acquisition and business restructuring, we note that margins are improving. In 2016, we expect operations to stabilize and growth to resume in both the theater franchise and TV content businesses. We lift our target price to W7,000 (from W6,000), as we upped our net profit estimate and raised our target multiple in light of the company's greater management authority over the theater business.

FY (Dec.)	12/12	12/13	12/14	12/15F	12/16F	12/17F
Revenue (Wbn)	393	380	394	358	371	384
OP (Wbn)	43	38	35	36	40	43
OP margin (%)	10.9	10.0	8.9	10.1	10.8	11.2
NP (Wbn)	12	-10	0	20	25	26
EPS (W)	161	-139	-1	179	215	230
ROE (%)	13.2	-11.1	-0.1	20.4	20.0	17.7
P/E (x)	21.1	-	-	31.8	26.4	24.8
P/B (x)	2.5	2.8	2.3	5.6	4.6	3.9

Notes: 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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Earnings and forecasts

Table 1. Quarterly earnings trends

(Wbn, %)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Revenue	92	103	118	82	80	78
Film	56	50	67	59	53	48
Broadcast	18	34	24	21	18	22
Magazine	12	14	12	14	10	12
Other	3	4	15	2	0	1
Operating profit	4	8	14	10	2	10
OP margin	3.8	7.4	12.0	11.6	2.1	12.8
Net profit	2	4	16	-8	2	7
Net margin	2.4	3.7	13.7	-9.3	2.6	9.2

Notes: All figures are based on consolidated K-IFRS; Total revenue is internal transaction-adjusted; For other revenue, several discontinued operations should be taken into consideration

Source: Company data, KDB Daewoo Securities Research

Table 2. Annual earnings trends and forecasts

(Wbn, %)

	2012	2013	2014	2015F	2016F
Revenue	393	401	394	358	371
Film	203	219	232	234	245
Broadcast	80	104	98	80	83
Magazine	65	56	52	48	48
Other	60	40	24	7	7
Operating profit	43	37	35	36	40
Film	35	38	38	33	37
Broadcast	5	8	-3	2	2
Magazine	5.2	-0.1	0.3	0.5	0.5
Other	-1.3	-2.3	-1.5	-0.4	-0.1
OP margin	10.8	9.3	8.8	10.1	10.8
Net profit	24	4	15	26	27
Net margin	6.2	0.9	3.7	7.2	7.4
YoY					
Revenue		2.0	-1.7	-9.2	3.6
Film		7.7	6.0	1.0	4.5
Broadcast		30.8	-6.2	-18.0	3.5
Magazine		-14.6	-7.2	-7.4	0.0
Other		-33.5	-38.3	-70.0	-5.0
Operating profit		-12.1	-7.0	3.8	11.9
Film		7.0	0.6	-13.6	12.0
Broadcast		42.7	TTR	TTB	3.5
Magazine		TTR	TTB	89.1	0.0
Other		RR	RR	RR	RR
Net profit		-84.8	291.9	78.0	5.7

Notes: All figures are based on consolidated K-IFRS; Net profit is attributable to controlling and non-controlling interests; TTR, TTB, and RR refer to "turning to red," "turning to black," and "remaining in red," respectively

Source: Company data, KDB Daewoo Securities Research estimates

Table 3. Earnings forecast revisions

(Wbn, W, %)

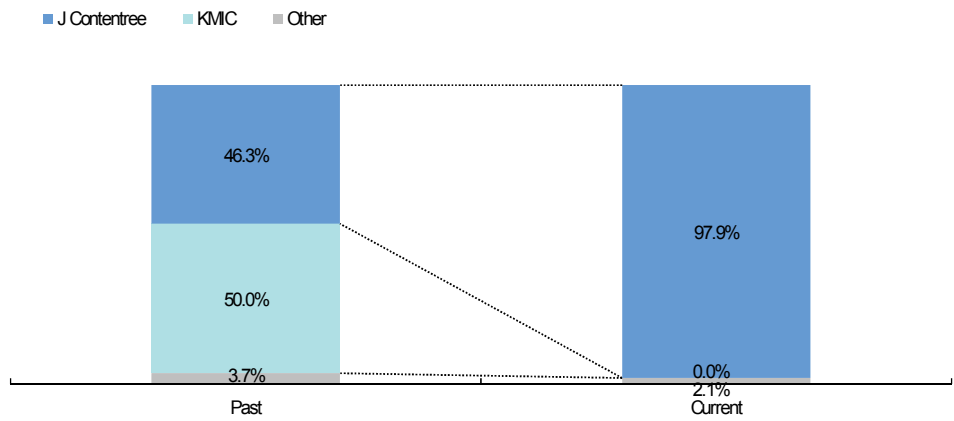
	Previous		Revised		% chg.		Notes
	2015F	2016F	2015F	2016F	2015F	2016F	
Revenue	398	411	358	371	-10.1	-9.7	- Reflects 2Q earnings and business restructuring
Operating profit	39	45	36	40	-7.7	-11.1	- Revised down film business estimates and revised up broadcasting business estimates
Net profit	12	13	20	25	66.7	92.3	- Reflects acquisition of Megabox; Revised down non-operating expense estimates
EPS	178	196	179	215	0.6	9.7	- Reflects rights offerings and conversion of convertible bonds
OP margin	9.8	10.9	10.1	10.8			
Net margin	3.0	3.2	5.6	6.7			

Notes: All figures are based on consolidated K-IFRS; Net profit and EPS are attributable to controlling interests

Source: KDB Daewoo Securities Research estimates

Key variables

Figure 1. Film: Stake in Megabox increased following purchase of KMIC stake on Aug. 6th



Notes: KMIC refers to Korea Multiplex Investment Corporation; Ownership percentage on a consolidated basis
 Source: Company data, KDB Daewoo Securities Research

Figure 2. Broadcasting: Drama *Last* is in production; One more JTBC drama to be produced in 4Q



Source: Company data, KDB Daewoo Securities Research

Figure 3. Revenue from Chinese co-production *Off to School* to be recognized from 3Q



Notes: Co-produced with Chinese partner iQiyi; Currently airing on Dragon Television
 Source: Company data, KDB Daewoo Securities Research

J Contentree (036420 KQ/Buy/TP: W7,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Revenue	394	358	371	384
Cost of Sales	206	188	194	201
Gross Profit	188	170	177	183
SG&A Expenses	153	134	137	140
Operating Profit (Adj)	35	36	40	43
Operating Profit	35	36	40	43
Non-Operating Profit	-12	-6	-4	-4
Net Financial Income	-4	0	0	0
Net Gain from Inv in Associates	2	0	0	0
Pretax Profit	23	30	36	39
Income Tax	8	5	9	10
Profit from Continuing Operations	15	26	27	29
Profit from Discontinued Operations	-1	0	0	0
Net Profit	15	26	27	29
Controlling Interests	0	20	25	26
Non-Controlling Interests	15	5	2	2
Total Comprehensive Profit	15	26	27	29
Controlling Interests	0	5	2	2
Non-Controlling Interests	15	20	25	26
EBITDA	57	58	62	65
FCF (Free Cash Flow)	30	43	44	45
EBITDA Margin (%)	14.5	16.2	16.7	16.9
Operating Profit Margin (%)	8.9	10.1	10.8	11.2
Net Profit Margin (%)	0.0	5.6	6.7	6.8

Cash Flows (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Cash Flows from Op Activities	55	48	49	50
Net Profit	15	26	27	29
Non-Cash Income and Expense	52	25	29	31
Depreciation	11	11	11	11
Amortization	11	11	11	11
Others	30	3	7	9
Chg in Working Capital	1	0	0	0
Chg in AR & Other Receivables	5	5	-2	-2
Chg in Inventories	-2	1	0	0
Chg in AP & Other Payables	-9	-2	1	1
Income Tax Paid	-8	-5	-9	-10
Cash Flows from Inv Activities	-27	-7	-18	-18
Chg in PP&E	-25	-5	-5	-5
Chg in Intangible Assets	-8	-10	-10	-10
Chg in Financial Assets	7	8	-3	-3
Others	-1	0	0	0
Cash Flows from Fin Activities	-34	0	0	0
Chg in Financial Liabilities	-	-	-	-
Chg in Equity	3	0	0	0
Dividends Paid	-5	0	0	0
Others	-	-	-	-
Increase (Decrease) in Cash	-6	39	31	33
Beginning Balance	56	51	90	122
Ending Balance	51	90	122	155

Source: Company data, KDB Daewoo Securities Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Current Assets	160	189	224	261
Cash and Cash Equivalents	51	90	121	155
AR & Other Receivables	55	50	52	53
Inventories	7	7	7	7
Other Current Assets	47	42	44	46
Non-Current Assets	321	306	302	298
Investments in Associates	11	10	10	11
Property, Plant and Equipment	120	114	108	101
Intangible Assets	82	81	81	80
Total Assets	481	495	526	559
Current Liabilities	217	208	211	215
AP & Other Payables	48	44	46	47
Short-Term Financial Liabilities	112	112	112	112
Other Current Liabilities	57	52	53	56
Non-Current Liabilities	98	97	97	98
Long-Term Financial Liabilities	78	78	78	78
Other Non-Current Liabilities	20	19	19	20
Total Liabilities	316	304	309	313
Controlling Interests	90	110	135	161
Capital Stock	33	33	33	33
Capital Surplus	48	48	48	48
Retained Earnings	14	34	59	85
Non-Controlling Interests	75	81	83	85
Stockholders' Equity	165	191	218	246

Forecasts/Valuations (Summarized)

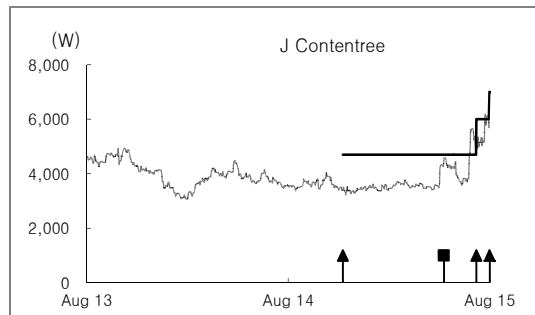
	12/14	12/15F	12/16F	12/17F
P/E (x)	-	31.8	26.4	24.8
P/CF (x)	3.3	12.8	11.6	11.0
P/B (x)	2.3	5.6	4.6	3.9
EV/EBITDA (x)	7.6	14.1	12.8	11.7
EPS (W)	-1	179	215	230
CFPS (W)	914	445	490	518
BPS (W)	1,312	1,012	1,228	1,457
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	3.7	-9.1	3.6	3.5
EBITDA Growth (%)	-6.6	1.8	6.9	4.8
Operating Profit Growth (%)	-7.9	2.9	11.1	7.5
EPS Growth (%)	-	-	20.1	7.0
Accounts Receivable Turnover (x)	6.9	7.3	7.8	7.8
Inventory Turnover (x)	60.3	50.8	54.3	54.3
Accounts Payable Turnover (x)	9.3	9.6	10.3	10.3
ROA (%)	2.9	5.3	5.2	5.3
ROE (%)	-0.1	20.4	20.0	17.7
ROIC (%)	10.0	13.8	13.7	15.0
Liability to Equity Ratio (%)	191.3	159.4	141.7	127.0
Current Ratio (%)	73.6	91.1	106.2	121.6
Net Debt to Equity Ratio (%)	78.7	47.9	27.5	10.7
Interest Coverage Ratio (x)	3.3	0.0	0.0	0.0

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
J Contentree(036420)	08/18/2015	Buy	7,000
	07/26/2015	Buy	6,000
	05/28/2015	Trading Buy	4,700
	11/26/2014	Buy	4,700



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 Daewoo Securities, 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

Buy	Trading Buy	Hold	Sell
72.36%	13.57%	14.07%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2015)

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