Mirae Asset
Building on principles

Media

Issue Comment
November 16, 2016

Mirae Asset Daewoo Co., Ltd.

[Telecom Service / Media]

Jee-hyun Moon
+822-768-3615
jeehyun.moon@miraeasset.com

Nu-ri Ha
+822-768-4130
nuri.ha@miraeasset.com

Cheil Worldwide

(030000 KS/Trading Buy)

Detailed growth strategy of China business deserves attention

- Cheil Worldwide unveiled details of China subsidiary Cheil PengTai's growth strategy
- Cheil PengTai plans to pursue growth based on M&A activities and the integration of digital marketing and e-commerce
- Strategy deserves attention, as China business contributes significantly to Cheil Worldwide's enterprise value

China business to drive earnings and stock price

On November 15th, Cheil Worldwide released details regarding the current status and growth strategy of its consolidated subsidiary in China, Cheil PengTai. The subsidiary, which employs roughly 1,000 people (similar to Cheil Worldwide HQ), specializes in digital marketing and is one of the top three digital advertising agencies in China.

Since being acquired in 2009, Cheil PengTai has grown continuously, and is worthy of special attention for three reasons: 1) scale (it is Cheil Worldwide's largest subsidiary); 2) growth potential (its presence in China and focus on the digital business offer great opportunities for growth); and 3) diversification of advertisers (the company attracts many non-Samsung orders).

Cheil PengTai's growth vision can be realized through aggressive investments such as M&A activities and talent recruitment. Going forward, the subsidiary should become increasingly important for Cheil Worldwide in terms of three factors: 1) enterprise value (the China business, including Cheil PengTai, already accounts for more than half of enterprise value); 2) growth strategy (the company will focus its resources on investing in further growth, including via M&A activities); and 3) corporate governance (Cheil Worldwide may emerge as an essential company for the Samsung Group if the China business's importance and competitiveness are reconfirmed after execution of the strategy).

We maintain our Trading Buy call on Cheil Worldwide with a target price of W19,000. We may revise our rating if plans for the China business are well-executed and yield additional results.

Figure 1. Note growth strategy of Cheil PengTai (subsidiary specializing in digital marketing)

Source: Company data, Cheil PengTai, Mirae Asset Daewoo Research

FY (Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	2,709	2,666	2,807	3,096	3,245	3,353
OP (Wbn)	130	127	127	135	149	155
OP margin (%)	4.8	4.8	4.5	4.4	4.6	4.6
NP (Wbn)	99	102	80	94	103	107
EPS (W)	857	883	691	819	899	932
ROE (%)	14.7	13.2	9.6	11.6	11.8	11.3
P/E (x)	32.1	19.5	29.9	19.9	18.1	17.5
P/B (x)	3.5	2.0	2.2	1.7	1.6	1.5

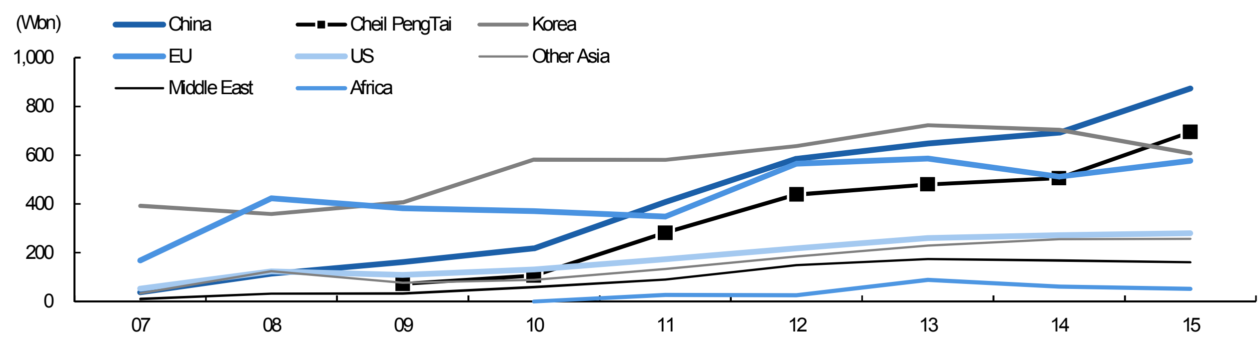
Note: All figures are based on consolidated K-IFRS; NP refers to profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

Why the China business is important to Cheil Worldwide

One need only look at the China business's revenue contribution, growth potential, and client base to understand why it is currently of such importance to Cheil Worldwide.
1) Revenue contribution: In 2015, the China business accounted for 31% of Cheil Worldwide's overall revenue. Cheil PengTai took up 80% of Chinese revenue and 25% of the company's overall revenue.
2) Growth potential: Over the past five years, Cheil Worldwide's Chinese revenue grew at a CAGR of 16% (vs. 14% for elsewhere in Asia, 11% for Europe, 10% for the US, and 1% for Korea).
3) Client base: On a consolidated basis, affiliated advertisers are estimated to account for around 65% of Cheil Worldwide's gross profit. By region, we think the China business displays the lowest reliance on affiliated advertisers, and therefore plays an important role in diversifying the company's client base.

Going forward, we anticipate the China business will take on even more importance in terms of corporate value, growth strategy, and corporate governance.
1) Corporate value: Our target price calculation for Cheil Worldwide fully reflects the China business's operating value in light of its rising revenue contribution, profitability, competitiveness, and growth potential.
2) Growth strategy: Cheil Worldwide has pursued inorganic growth via M&As since the late 2000s. Going forward, Cheil PengTai is likely to acquire local Chinese advertising agencies.
3) Corporate governance: If Cheil Worldwide bolsters the competitiveness of the Chinese digital marketing business via Cheil PengTai, then we can expect to see Cheil Worldwide's Chinese business, including Cheil PengTai, play a more important role in the Samsung Group, easing uncertainties over Cheil Worldwide's share performance.

Figure 2. Cheil Worldwide's annual revenue trend by region: China has contributed the lion's share of revenue since 2015



Note: Sum of regional subsidiaries; China's revenue includes Cheil PengTai; Korea's revenue is derived by subtracting overseas consolidated subsidiaries' revenue from total consolidated revenue. Source: Company data, Mirae Asset Daewoo Research

Table 1. 12-month forward TP calculation: China's operating value plays key role (Wbn, x, W)

Category				Notes
Operating value			**1,849**	
	2017F net profit	x		Regional contribution based on 2017F net profit
Korea	15	13.0	192	Publicis' 2017F P/E, lowest among peers
China	**53**	**20.0**	**1,054**	**Applied 2017F avg. P/E of Chinese ad peers recording revenue over W1tr**
US and Europe	11	13.0	137	Publicis' 2017F P/E, lowest among peers
Other	27	17.0	466	2017F avg. P/E of total global adv. peers
Investment assets value			**17**	
Listed stock			3	Fair price as of end-1H16
Unlisted stock			7	Book value as of end-1H16
Investments in affiliated firms			7	Book value as of end-1H16
Total asset value			**1,866**	
Net debt			-321	As of end-1H16
Net asset value			**2,187**	
Number of shares outstanding ('000 shares)			115,041	Number of shares issued
12-month target price (W)			**19,000**	Rounded

Notes: Chinese ad peer group is average of BlueFocus and Guangdong Advertising; Investment in affiliated firms based on consolidated earnings review
Source: Bloomberg, Korea Ratings, Mirae Asset Daewoo Research

Cheil PengTai, a digital marketing subsidiary in China

Cheil PengTai, Cheil Worldwide's consolidated subsidiary in China, has been on a steady growth trajectory since its acquisition in 2009. Currently, the company generates a quarter of Cheil Worldwide's revenue. Of note, the company became one of the top three digital marketing firms in China in 2014. As the largest and second-largest firms are local players, the company is the largest foreign-invested digital marketing company in the country.

Headquartered in Beijing, Cheil PengTai has established a business network encompassing Shanghai, Guangzhou, Hong Kong, Taiwan, and Seoul. The company originally focused on research and consulting, and has steadily expanded its business areas to digital media and e-commerce—now the two major pillars of the company's revenue. Digital media boasts robust profitability, while e-commerce displays strong upside potential.

Cheil PengTai has achieved growth based on strict localization. As the vast majority of staff at headquarters are Chinese (more than 90% out of 650 employees), the company has been able to acquire big name customers, including Industrial and Commercial Bank of China and China Mobile.

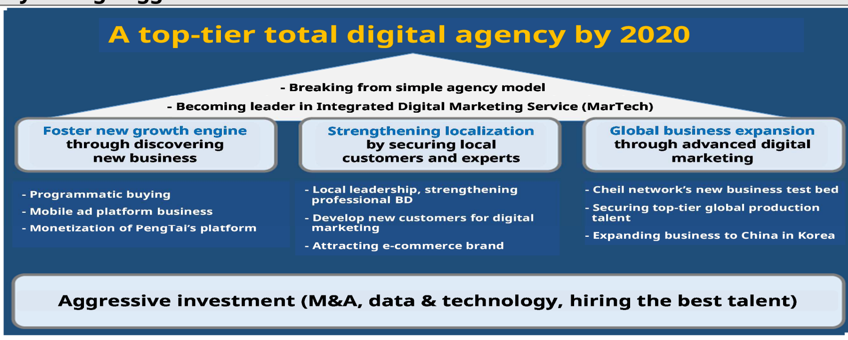
Cheil PengTai plans to become a top-tier digital marketing agency in China by 2020 through 1) the expansion of mobile ad platforms, including programmatic buying, and 2) stronger localization efforts. Ultimately, Cheil Peng Tai, as Cheil Worldwide's biggest contributor to overseas revenue, aims to become a foothold for Cheil's global expansion. To meet these goals, the company likely needs to increase investments to forge further M&A deals and attract talent. Indeed, the company's 1Q-3Q cumulative revenue expanded 16.8% this year, but net profit contracted 26.6%. As such, it is believed to be making investments in staff expansion and other areas to further accelerate top-line growth.

Table 2. Cheil PengTai status: Focused on "Interactive Advertising" and "e-Commerce" (Wbn, %)

	Cumulative 1Q15-3Q15			Cumulative 1Q16-3Q16			YoY	
	Revenue	Net profit	Net margin	Revenue	Net profit	Net margin	Revenue	Net profit
PengTai Greater China	23	8	32.8	38	2	5.1	64.7	-74.6
PengTai Interactive Advertising	**236**	**14**	**6.0**	**243**	**15**	**6.3**	**3.3**	**7.8**
PengTai Taiwan	9	0	4.2	8	0	2.9	-13.3	-40.1
PengTai China	8	0	6.0	5	-1	-25.1	-39.0	TTR
PengTai e-Commerce	**199**	**1**	**0.6**	**269**	**3**	**1.1**	**35.2**	**160.1**
PengTai Marketing Service	12	0	3.8	5	-1	-24.8	-55.2	TTR
PengTai cumulative	**487**	**24**	**4.9**	**569**	**18**	**3.1**	**16.8**	**-26.6**
Cheil Worldwide's total (consolidated)	2,002	70	3.5	2,260	69	3.0	12.9	-1.4
PengTai's proportion in Cheil Worldwide's total	24.3	34.7		25.2	25.8			

Source: Company data, FSS, Mirae Asset Daewoo Research

Figure 3. Cheil PengTai's growth vision: To become a top-tier, full-service digital advertising agency through aggressive investments



Source: Company data, Cheil PengTai, Mirae Asset Daewoo Research

Digital media business of Cheil PengTai

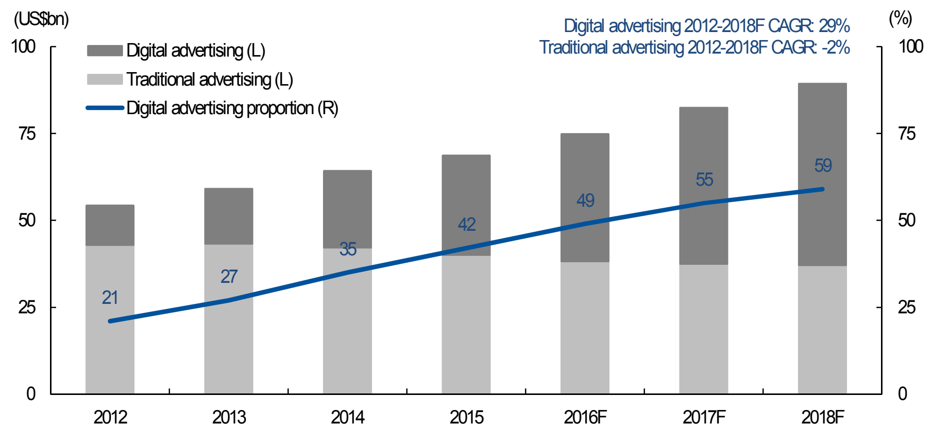
At Cheil PengTai, the digital media business—search engine marketing, social media services, media buying, promotions, and media campaigns—is the biggest revenue and profit contributor. The firm has a broad digital media value chain, including platforms, content, and digital consumer experiences.

Cheil PengTai is one of the leading firms in China's rapidly expanding digital media market. (Digital media already accounts for more than half of China's advertising market, and continues to drive advertising market growth.) The company has secured partnerships with over 180 online video steaming sites, internet portals, and shopping malls, including Tencent, Baidu, WeChat, Sina.com, Youku, iQiyi, and JD.com.

In the digital media space, the firm continues to seek new business opportunities such as programmatic media buying to expand its mobile ad platform operations (and M&As are also likely). The monetization of existing businesses is also continuing, including the "韩国ing" app, which is aimed at Chinese travelers in Korea.

The Chinese subsidiary also boasts in-house developed digital media products for use in advertising campaigns, such as Super T, a smart T-shirt embedded with a display and sensors (Yibao), Life Guard Badge, a smart badge (Hua Xia Bank), and Doctor on the Way, a smart bus handle (Yili).

Figure 4. Digital advertising is a growth driver in the Chinese advertising market



Source: Company data, Cheil PengTai, Mirae Asset Daewoo Research

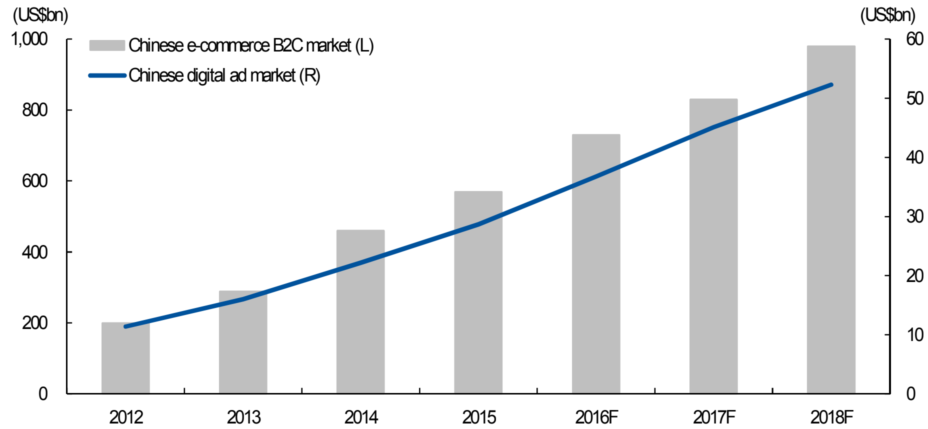
E-commerce in China

While the digital media business serves as a cash cow for Cheil PengTai, the e-commerce unit is a rising star. Despite late entry into the market, its revenue has outstripped digital media revenue.

Cheil PengTai provides eight e-commerce services, which support almost all processes necessary to sell products online in China. For example, for Korean firms entering the Chinese online shopping business, Cheil PengTai provides services such as: 1) translation, 2) website design, 3) warehousing in Korea, 4) warehousing in China, 5) operation of a return center in China, 6) a Chinese office, 7) operation of a call center, and 8) development and operation of IT services.

Online B2C transactions in China are expected to display a CAGR of 20% from 2015. Growth could even pick up speed once the e-commerce market converges with the digital advertising market. Among Cheil PengTai's business units, the e-commerce unit is expected to become more important going forward.

Figure 5. Growth of China's e-commerce market is also benefiting digital advertising market



Source: iResearch, Cheil PengTai, Mirae Asset Daewoo Research

Table 3. China's ad and e-commerce markets to converge as digital ads take center stage

	1st generation	2nd generation	3rd generation
Target	**Branding 100%**	**Branding 70% + e-commerce 30%**	**Branding 30% + e-commerce 70%**
Features	Late 1990s – mid-2000s	Mid-2000s – mid-2010s	Mid-2010s – future
	- Led by person in charge of corporate marketing -Based on banners on major platforms -Mainly push marketing	- Growing importance of word-of-mouth marketing due to increase in consumer-to-consumer communication - Stronger branding thanks to improved communication with consumers based on social platforms	- Growth of e-commerce platforms such as Alibaba, Jingdong - Growing importance of e-commerce for entry into and growth in China - Accelerating convergence of digital advertising and e-commerce (advent of Bluefocus, &C, Baozun)

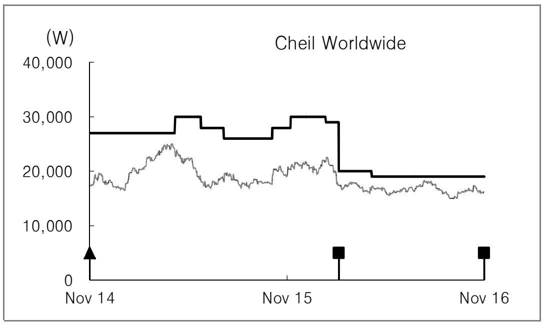
Source: PengTai, Mirae Asset Daewoo Research

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Cheil Worldwide(030000)	04/22/2016	Trading Buy	19,000
	02/21/2016	Trading Buy	20,000
	01/28/2016	Buy	29,000
	11/24/2015	Buy	30,000
	10/21/2015	Buy	28,000
	07/23/2015	Buy	26,000
	06/11/2015	Buy	28,000
	04/24/2015	Buy	30,000
	10/24/2014	Buy	27,000



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

Buy	Trading Buy	Hold	Sell
69.27%	17.07%	13.66%	0.00%

* Based on recommendations in the last 12-months (as of September 30, 2016)

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 and regulations thereof. Opinions expressed in this publication about the subject securities and companies accurately reflect the personal views of the Analysts primarily responsible for 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. No part of the compensation of the Analysts was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report but, like all employees of Mirae Asset Daewoo, the Analysts receive compensation that is impacted 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 is published 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 from sources believed to be reliable and in good faith, 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. If this report is 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. Mirae Asset Daewoo, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising from the use hereof. This report is for general information purposes only and it is not and should not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. 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 and regulations or subject Mirae Asset Daewoo and its affiliates to registration or licensing requirements in any jurisdiction should receive or make any use hereof. Information and opinions contained herein are subject to change without notice and 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. 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. The price and value of the investments referred to in this report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur.

Distribution

United Kingdom: This report is being distributed by Daewoo Securities (Europe) 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: This report is distributed in the U.S. by Daewoo Securities (America) Inc., a member of FINRA/SIPC, and is only intended for major institutional investors as defined in Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major 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 Daewoo Securities (America) Inc., which accepts responsibility for the contents of this report in the U.S. 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 document has been approved for distribution in Hong Kong by Daewoo Securities (Hong Kong) Ltd., 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)
Head Office
34-3 Yeouido-dong, Yeongdeungpo-gu
Seoul 150-716
Korea
Tel: 82-2-768-3026

Daewoo Securities (Hong Kong) Ltd.
Two International Finance Centre
Suites 2005-2012
8 Finance Street, Central
Hong Kong, China
Tel: 85-2-2845-6332

Daewoo Securities (America) Inc.
810 Seventh Avenue
37th Floor
New York, NY 10019
Tel: 1-212-407-1000

Daewoo Securities (Europe) Ltd.
41st Floor, Tower 42
25 Old Broad St.
London EC2N 1HQ
United Kingdom
Tel: 44-20-7982-8000

Daewoo Securities (Singapore) Pte., Ltd.
Six Battery Road #11-01
Singapore, 049909
Tel: 65-6671-9845

PT. Daewoo Securities Indonesia
Equity Tower Building Lt.50
Sudirman Central Business District Jl.
Jendral Sudirman Kav. 52-53, Jakarta Selatan
Indonesia 12190
Tel: 62-21-515-1140

Beijing Representative Office
2401A, 24th Floor, East Tower, Twin Towers
B-12 Jianguomenwai Avenue
Chaoyang District, Beijing 100022
China
Tel: 86-10-6567-9299

Shanghai Representative Office
Room 38T31, 38F SWFC
100 Century Avenue
Pudong New Area, Shanghai 200120
China
Tel: 86-21-5013-6392

Ho Chi Minh Representative Office
Suite 2103, Saigon Trade Center
37 Ton Duc Thang St,
Dist. 1, Ho Chi Minh City,
Vietnam
Tel: 84-8-3910-6000

Daewoo Investment Advisory (Beijing) Co., Ltd.
2401B, 24th Floor, East Tower, Twin Towers
B-12 Jianguomenwai Avenue,
Chaoyang District, Beijing 100022
China
Tel: 86-10-6567-9699

Daewoo Securities (Mongolia) LLC
#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia
Tel: 976-7011-0807