

Media

Overweight (Maintain)

CJ O Shopping-CJ E&M merger: Positive for value of combined entity

Merger to boost value of combined entity

Based on our view that “content utilization” will remain the key growth story of the merged entity, we believe the positives of the merger between CJ O Shopping and CJ E&M (stable production structure and new content business model) outweigh the negatives (investor outflow and potential growth dilution). We also see two safeguards (CJ E&M appraisal rights and value of subsidiary stakes) that should provide downside support to both stocks. Until the merger is finalized, the stock performance of the two companies will likely be tied to the merger ratio (one CJ O Shopping share for each 0.41 CJ E&M share). As such, there will be no differentiation between the two stocks. The only consideration should be the direction of the key variables of the merged entity.

Merger to improve stability of production structure by allowing more room for content investments

We believe one of the key benefits of the merger will be improved financial efficiency. The home shopping business generally makes limited investments, despite generating steady profits (i.e., positive cash flow). CJ O Shopping also owns assets of significant value, including a 53.9% stake in CJ HelloVision (which yesterday received a regulatory request for clarification on a potential sale). This should provide a financial buffer against CJ E&M's growing content/platform investments (including investments in Studio Dragon).

While digital ads are growing rapidly, the domestic ad market alone does not generate enough revenue to pay for the company's growing content investments. Under its current business structure, we estimate that around 63% of CJ E&M's overall revenue (media revenue excluding content sales) is closely tied to the ad market. Hence, the imbalance between surging content costs and the low-growth ad market has been a potential concern.

In this sense, we believe the merger will provide more financial room for content production aimed at global platforms. Based on our view that the key growth driver of the merged entity will continue to be global sales of video content, we see improved stability of CJ E&M's and Studio Dragon's production structure (which is critical to generate licensing leverage effects) as the biggest benefit of the deal.

New content/commerce business model is potential long-term positive

Another potential benefit is better utilization of media content through the adoption of a new business model. The TV content-based core business model has already been successfully executed (TV ads → content sales/digital ads). Against this backdrop, the merger could provide an additional source of growth for the mobile/web content business model (digital ads). While we acknowledge that the new content/commerce model has limited visibility in the near term, the rise of China's “Wang Hong” economy and influencer marketing suggests tying strong content with a consumer base has promising potential.

Growth dilution and investor outflow are potential negatives

On the other hand, the merger could be seen as diluting growth, causing investors to rotate out to seemingly more compelling alternatives, like Studio Dragon and J Contentree. For CJ E&M investors whose key investment rationale was digital platform/content right sales, the addition of commerce on top of the film and TV business could be unsettling.

However, downside to shares to be limited

We believe the exercise price of CJ E&M's appraisal rights and the value of its subsidiaries will limit downside to shares, as: 1) the planned exercise price is W93,153, only 4.9% below yesterday's closing price; and 2) the value of CJ E&M's stakes in listed subsidiaries alone accounts for more than its current market cap (W3.8tr). Based on yesterday's closing price, the company's stakes in Netmarble Games and Studio Dragon have a combined value of W4.64tr (W3.15tr for Netmarble Games and W1.49tr for Studio Dragon, based on ownership stakes and no discounts).

Overview of the merger

On January 17th, CJ O Shopping and CJ E&M decided to merge with each other, with CJ O Shopping being the surviving entity. According to their disclosures, a general shareholder meeting is scheduled to be held on June 29th, and the merged entity will be officially launched on August 1st, with new shares to be listed on August 22nd. The merger ratio is one CJ O Shopping share for each 0.41 CJ E&M share.

Effects and purpose of the merger

During a conference call held on January 17th, officials of CJ E&M and CJ O Shopping stated that the merger aims to create a global media/commerce business model. In addition, they presented their 2018 guidance of the merged entity, with revenue of W4.4tr and operating profit of W350bn, both of which differ by less than 10% from the two companies' combined consensus estimates. They expected revenue to grow at a CAGR of 15.1% between 2019 and 2021. Although they forecast new business revenue to reach W800bn in 2021, we believe it could take longer to reach this level, given their assumptions—1) steady digital business growth, and 2) success for intellectual-property-based offline businesses (including the K-Culture Valley project). In addition, they stated that the 2017 dividend payout would exceed the 2016 levels for both companies, and that the 2018 payout ratio would reach 15%.

In our view, expected benefits of the merger include: 1) an increase in customer contact points arising from the combination of media solution/content production capabilities (CJ E&M) and product planning ability/customer base (CJ O Shopping); 2) the development of new businesses in countries where the companies have presences, such as China, Vietnam, and Turkey (commerce based on K-content); and 3) the expansion of media-commerce convergence-based consumption.

Table 1. Merger schedule

Event	Date
Signing of merger agreement	Jan. 17
Date of record	May 23
General shareholding meeting	Jun. 29
Exercise of appraisal rights	Jun. 29-Jul. 19
Trading suspension	Jul. 30-Aug. 21
Merger	Aug. 1
Listing of new shares	Aug. 22

Source: FSS, Mirae Asset Daewoo Research

Figure 1. Shareholding structure of the combined entity

Ratio of merger		0.4104397				
Shareholders	CJ O Shopping		CJ E&M		New Co.	
	Shares	Portion	Shares	Portion	Shares	Portion
CJ	2,486,214	40.00	15,245,201	39.36	8,743,450	39.54
Lee Jae-hyun	19,691	0.32	922,309	2.38	398,243	1.80
Kang Chul-gu	600	0.01	0	0.00	600	0.00
Lee Sun ho	0	0.00	264,984	0.68	108,760	0.49
Lee Kyung hoo	0	0.00	105,107	0.27	43,140	0.20
Lee Mi kyung	0	0.00	57,429	0.15	23,571	0.11
Sohn Kyung shik	0	0.00	6,784	0.02	2,784	0.01
Controlling interests	2,506,505	40.33	16,601,814	42.86	9,320,548	42.15
Domestic institutions	1,300,170	20.92	4,424,889	11.42	3,116,320	14.09
Overseas	1,818,039	29.25	11,193,418	28.90	6,412,262	29.00
Minority shareholders	404,484	6.51	6,354,905	16.41	3,012,789	13.62
Treasury stock	186,320	3.00	157,063	0.41	250,785	1.13
Total	6,215,518	100.00	38,732,089	100.00	22,112,704	100.00

Source: Company data, Mirae Asset Daewoo Research

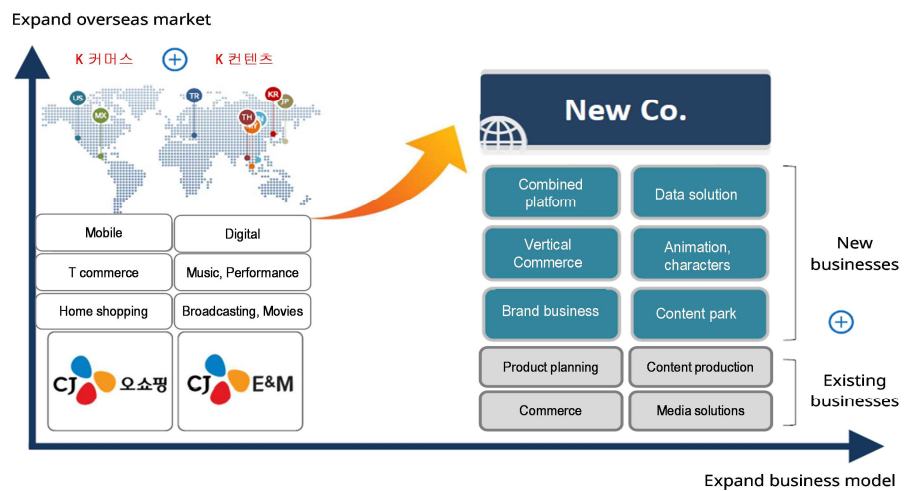
Table 2. CJ E&M's market cap vs. stake in listed subsidiaries

(Wmn, %)

	Without discount	30% discount to Netmarble Games
Netmarble Games	3.15	2.21
Studio Dragon	1.49	1.49
Combined value	4.64	3.70
Vs. CJ E&M market cap (%)	122	97
1/17 CJ E&M market cap	3.80	

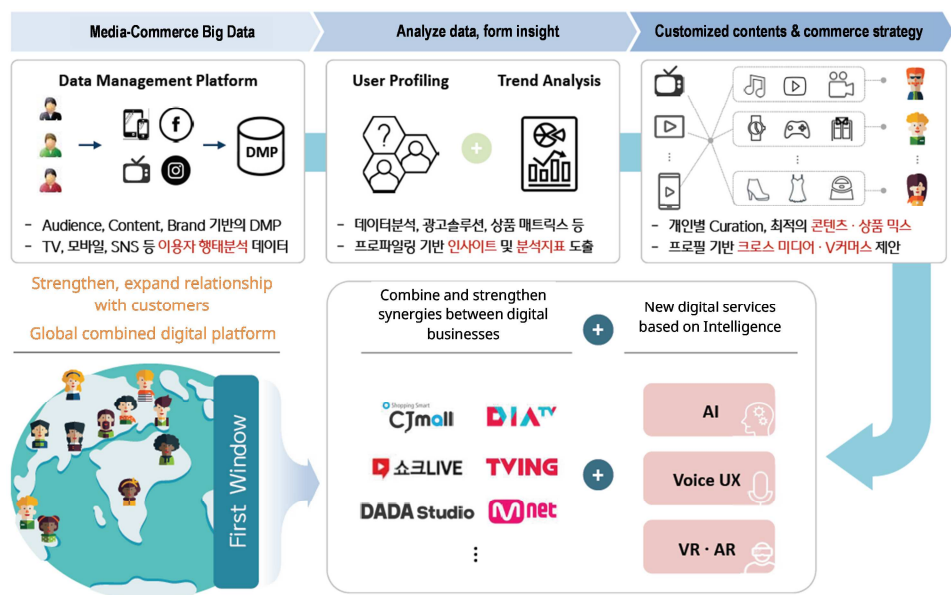
Source: Mirae Asset Daewoo Research

Figure 2. Post-merger business direction



Source: Company data, Mirae Asset Daewoo Research

Figure 3. Post-merger digital business model: Convergence of media and commerce



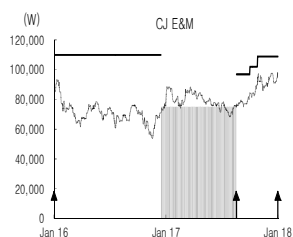
Source: Company data, Mirae Asset Daewoo Research

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price	Company (Code)	Date	Rating	Target Price
CJ E&M (130960)	11/13/2017	Buy	109,000		01/02/2017	No Coverage	
	10/19/2017	Buy	102,000		2016.08.11	AFTER 1YR	
	09/05/2017	Buy	97,000		08/11/2015	Buy	110,000



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 & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	75.50%	16.00%	8.50%	0.00%
Investment Banking Services	62.50%	33.33%	4.17%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2017)

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 or regulations thereof. Each Analyst responsible for the preparation of this report certifies that (i) all views expressed in this report accurately reflect the personal views of the Analyst about any and all of the issuers and securities named in this report and (ii) no part of the compensation of the Analyst was, is, or will be directly or indirectly related to the specific recommendations or views contained in 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. Like all employees of Mirae Asset Daewoo, the Analysts receive compensation that is determined 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 was prepared 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 in good faith and from sources believed to be reliable, 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. In case of 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.

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 or regulations or subject Mirae Asset Daewoo or any of its affiliates to registration or licensing requirements in any jurisdiction shall receive or make any use hereof.

This report is for general information purposes only and it is not and shall not be construed as an offer or a solicitation of an offer to effect transactions in

any securities or other financial instruments. The report does not constitute investment advice to any person and such person shall not be treated as a client of Mirae Asset Daewoo by virtue of receiving this report. This report does not take into account the particular investment objectives, financial situations, or needs of individual clients. The report is not to be relied upon in substitution for the exercise of independent judgment. Information and opinions contained herein are as of the date hereof and are subject to change without notice. The price and value of the investments referred to in this report and the income from them may depreciate or appreciate, and investors may incur losses on investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. Mirae Asset Daewoo, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising out of the use hereof.

Mirae Asset Daewoo may have issued other reports that are inconsistent with, and reach different conclusions from, the opinions presented in this report. The reports may reflect different assumptions, views and analytical methods of the analysts who prepared them. Mirae Asset Daewoo may make investment decisions that are inconsistent with the opinions and views expressed in this research report. 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. 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.

Distribution

United Kingdom: This report is being distributed by Mirae Asset Securities (UK) 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: Mirae Asset Daewoo is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This report is distributed in the U.S. by Mirae Asset Securities (USA) Inc., a member of FINRA/SIPC, to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934, as amended. All U.S. persons that receive this document by their acceptance hereof represent and warrant that they are a major U.S. 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 Mirae Asset Securities (USA) Inc. Mirae Asset Securities (USA) Inc. accepts responsibility for the contents of this report in the U.S., subject to the terms hereof, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Mirae Asset Daewoo. 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 Mirae Asset Securities (HK) 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)
Global Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.
810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

PT. Mirae Asset Sekuritas Indonesia
Equity Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-53 Jakarta Selatan
12190
Indonesia
Tel: 62-21-515-3281

Mirae Asset Securities Mongolia UTsk LLC
#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office
38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area Shanghai
200120
China

Tel: 86-21-5013-6392

Mirae Asset Securities (HK) Ltd.
Suites 1109-1114, 11th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
China
Tel: 852-2845-6332

Mirae Asset Wealth Management (USA) Inc.
555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA

Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.
6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd
2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office
7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (UK) Ltd.
41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

Mirae Asset Wealth Management (Brazil) CCTVM
Rua Funchal, 418, 18th Floor, E-Tower Building Vila
Olimpia
Sao Paulo - SP
04551-060
Brasil
Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC
7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office
2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)