

Entertainment

Company Report
September 10, 2019

(Maintain) **Buy**

Target Price (12M, W) **28,000**

Share Price (09/09/19, W) 19,950

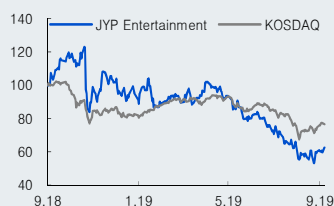
Expected Return 40%

OP (19F, Wbn) 39
Consensus OP (19F, Wbn) 37

EPS Growth (19F, %) 31.8
Market EPS Growth (19F, %) -27.9
P/E (19F, x) 22.1
Market P/E (19F, x) 12.7
KOSDAQ 625.77

Market Cap (Wbn) 708
Shares Outstanding (mn) 35
Free Float (%) 74.8
Foreign Ownership (%) 10.6
Beta (12M) 1.30
52-Week Low 16,950
52-Week High 39,150

(%)	1M	6M	12M
Absolute	7.3	-33.7	-41.7
Relative	1.1	-22.0	-23.7



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JYP Entertainment

(035900 KQ)

Foreign investor influx to begin

US NDR takeaways: Despite worries, overall view on K-pop still positive

We recently joined JYP Entertainment on a non-deal roadshow (NDR) in New York, Chicago, and Los Angeles during the first week of September. A wide range of topics were covered, from the Korean entertainment industry's unique profit model (trainee incubation and profit sharing) to potential risks. US investors generally maintained a positive view on K-pop. Noting that the growth of digital music is reviving the global music market and removing the physical barriers to content consumption, many investors said they believed K-pop could break further into the mainstream and expand its market size.

That said, investors appeared more wary than before of the various risks inherent in the entertainment industry, as a string of negative news since the beginning of the year has caused a sharp selloff that has lasted for more than six months.

Growth visibility and risk management capabilities stand out

We believe JYP Entertainment has strong earnings visibility. Its main artists, TWICE and GOT7, are seeing growing album sales and concert attendees, while newer artists like Stray Kids (debuted in 2018) and ITZY (debuted in 2019) are beginning to generate profits. Stray Kids' album sales have more than doubled (from 70,000 copies to 170,000 copies) in just 18 months, and the group is giving an increasing number of overseas concerts. ITZY's first mini album has sold more than 100,000 copies, which is considered a critical threshold of success for girl groups. Profit margins, which had contracted slightly when the two groups first debuted, should rapidly recover as monetization gains traction.

We believe JYP Entertainment is also better positioned from a risk management perspective: 1) The company has a profitable core business, while its exposure to non-core businesses is almost nonexistent. The company should continue to generate high margins from its main artists, GOT7 and TWICE, who are now five years into their careers. 2) JYP Entertainment also has a decision-making process that helps minimize risks. The company's organization is divided into artist-specific labels (rather than being structured around business functions), which limits its dependence on a single artist. In addition, the company maintains a content voting system that prevents any one person from exercising too much power and allows different opinions to be shared.

Best-suited to investor needs; Recommend as our top pick in entertainment

In our view, the Korean entertainment industry's competitiveness in the global music market remains intact. Nevertheless, investors are becoming increasingly hesitant to overweight entertainment stocks, as a series of negative news items have weighed on the sector (JYP Entertainment is now trading at a 12-month forward P/E of 19x). While the underlying view on entertainment stocks remains largely unchanged from the thesis that drove the 2018 rally (digital music sales to drive earnings; K-pop's increasing popularity to drive multiple expansion), investors have become more cautious, weighing "cheap share prices" against "unknown risks."

From this perspective, we believe JYP Entertainment is best-suited to investor needs, given: 1) its earnings growth visibility (growth of key artists and monetization of new artists); 2) high earnings predictability (due to concentration on core business and limited exposure to non-core businesses); and 3) risk-minimizing organizational structure (independent labels and internal voting system). In particular, we believe JYP Entertainment will be the most favored option for foreign investors focused on safety, and thus expect the stock's foreign ownership (currently 10.3%) to gradually increase. We maintain our Buy rating and target price of W28,000 on JYP Entertainment.

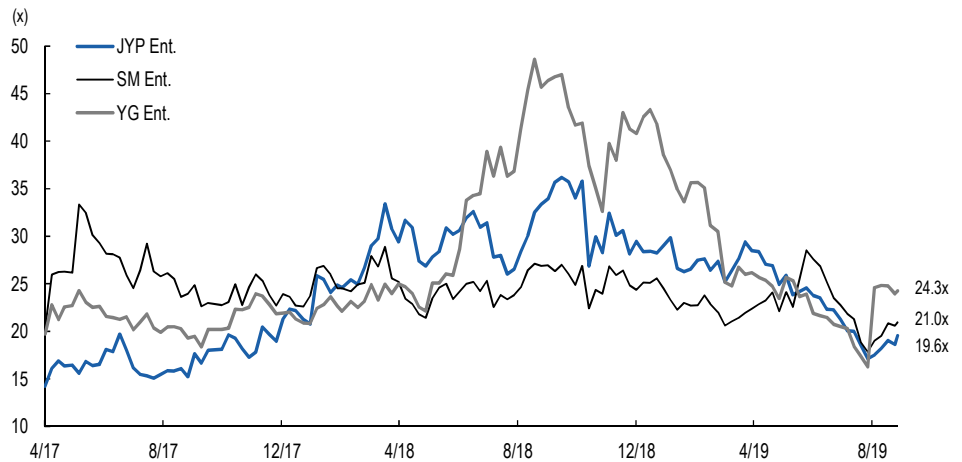
FY (Dec.)	12/15	12/16	12/17	12/18	12/19F	12/20F
Revenue (Wbn)	51	74	102	125	155	190
OP (Wbn)	4	14	19	29	39	51
OP margin (%)	7.8	18.9	18.6	23.2	25.2	26.8
NP (Wbn)	3	8	16	24	32	40
EPS (W)	94	246	471	685	902	1,134
ROE (%)	5.6	13.4	21.4	22.5	22.5	22.8
P/E (x)	48.9	20.0	29.2	44.2	22.1	17.6
P/B (x)	2.2	2.1	4.8	7.7	4.2	3.4
Dividend yield (%)	0.0	0.0	0.0	0.4	0.6	0.6

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

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Earnings outlook

Figure 1. 12-month forward P/E: Entertainment firms' valuations have fallen; valuation merits of JYP Entertainment have increased



Source: WISEfn, Mirae Asset Daewoo Research

Table 1. Quarterly and annual earnings

(Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19F	4Q19F	2018	2019F	2020F
Revenue	23	32	34	36	26	39	45	45	125	155	190
Album/digital content	9	11	14	16	10	15	14	14	49	52	57
Management	9	14	10	13	9	14	18	16	46	57	75
Concerts	1	7	4	4	2	5	9	8	16	24	39
Advertising	5	5	4	4	4	4	5	5	17	19	23
Appearance fees	3	3	2	5	3	4	3	3	13	14	13
Other	4	7	11	8	8	11	13	15	30	46	58
Operating profit	1	9	8	10	6	9	12	12	29	39	51
OP margin (%)	5.9	28.7	25.0	27.1	22.0	24.1	27.7	26.2	23.0	25.4	27.0
Pretax profit	2	10	8	10	7	9	12	11	30	40	51
Net profit	2	7	7	8	6	7	10	9	24	32	41
Net margin (%)	8.1	23.2	19.9	23.0	24.0	17.7	22.3	19.9	19.4	20.7	21.4
Net profit attributable to controlling interests	1.8	7.3	6.5	8.2	6.4	6.8	9.8	8.9	23.8	32.0	40.3
YoY											
Revenue	5.0	10.6	93.9	5.9	14.5	24.1	31.9	24.1	22.1	24.4	22.2
Album/digital content	9.5	41.2	163.5	21.4	1.3	39.6	4.5	-12.4	44.2	6.1	9.7
Management	-9.6	6.4	13.3	31.8	0.8	-5.2	85.8	27.1	9.9	24.1	32.2
Concerts	-48.8	52.2	582.2	47.9	97.0	-33.7	135.1	96.0	61.2	48.5	64.4
Advertising	4.9	17.6	-12.4	-13.4	-17.6	-4.2	38.9	51.6	-1.3	14.2	18.8
Appearance fees	-4.7	-46.0	-50.3	82.5	-4.3	69.7	76.2	-40.6	-12.0	6.7	-4.8
Other	38.2	-12.0	177.1	-32.2	70.2	61.7	18.5	90.5	12.8	55.2	24.0
Operating profit	-64.1	30.9	664.0	29.4	322.7	3.9	46.2	19.9	47.7	37.0	29.9
Net profit	-36.0	7.6	603.4	46.6	241.2	-5.2	47.7	7.5	48.3	32.7	26.0
Net profit attributable to controlling interests	-37.2	7.5	592.2	48.3	249.4	-5.9	51.1	8.2	47.4	34.2	25.8
Key assumptions											
Domestic album sales volume ('000)	454	565	769	947	130	890	790	790	2,736	2,600	2,792
Ticket sales volume in Japan ('000)	73	108	83	94	150	220	120	90	357	580	805

Notes: All figures are based on consolidated K-IFRS; concert ticket sales volume is based on actual timing of concert and includes our estimates

Source: Company data, Mirae Asset Daewoo Research estimates

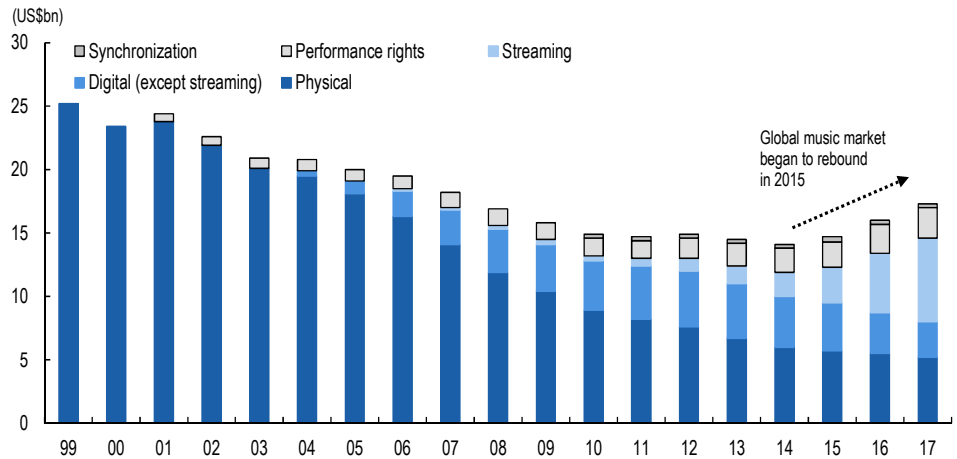
[NDR takeaways] Despite worries, overall view on K-pop is still positive

We recently joined JYP Entertainment on an NDR in New York, Chicago, and Los Angeles during the first week of September. Many investors in the US were well aware of the popularity of K-pop and showed strong interest in JYP Entertainment’s business, which seeks to monetize this trend. A wide range of topics were covered, from the characteristics and sustainability of K-pop’s unique profit model (trainee incubation and profit sharing) to potential risks.

US investors, who are quite familiar with paid streaming services, generally maintained a positive view on K-pop. Many investors noted that K-pop’s rising share and status in the global market has coincided with the end of the decline in the overall music market driven by the growth of digital music platforms (i.e., the growth in digital music sales outweighing the fall in album sales). The prevailing view was that as new platforms continue to lower the regional barriers to content consumption, a wider range of music genres will become mainstream and expand the market. All in all, the underlying view on entertainment stocks remained largely unchanged from the thesis that drove the 2018 rally (digital music sales to drive earnings; K-pop’s increasing popularity to drive multiple expansion).

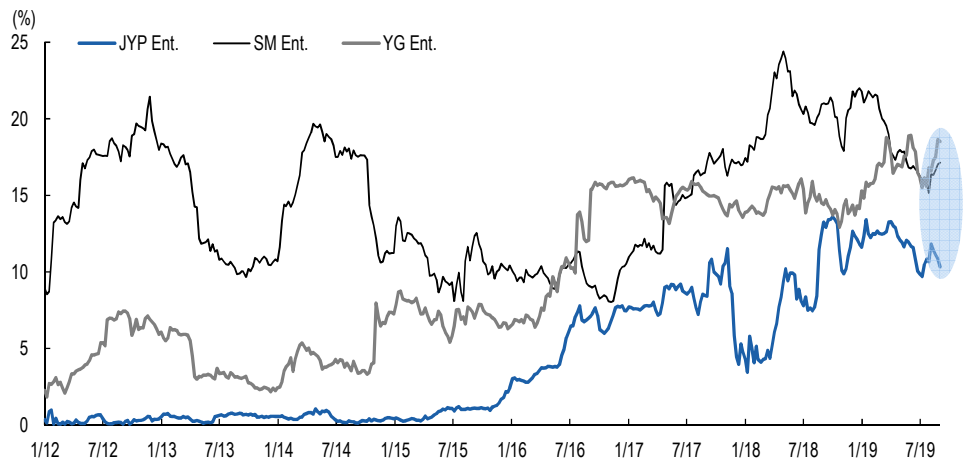
That said, investors appeared more wary than before of the various risks inherent in the entertainment industry, as a string of negative news since the beginning of the year (industry scandals, KOSDAQ pullback, and worsening Korea-Japan relations) has caused a sharp selloff that has lasted for more than six months.

Figure 2. Rebound in the global music market: Growth in digital music sales outweighs the fall in album sales



Source: IFPI, Mirae Asset Daewoo Research

Figure 3. Foreign ownership of the three major entertainment firms: JYP currently has the lowest foreign ownership, at 10.3%



Source: Mirae Asset Daewoo Research

To sum up, share prices have fallen to attractive levels (JYP Entertainment is now trading at a 12-month forward P/E of 19.6x), even though K-pop’s fundamental competitiveness remains intact. However, the possibility of unforeseen risks is also under greater scrutiny. As such, we believe investors’ decision-making around Korea’s three big entertainment stocks will be based on how they weigh “cheap share prices” against “unknown risks.”

From this perspective, we believe JYP Entertainment represents the most attractive stock in the sector. 1) The company has strong growth potential supported by its core business, along with high earnings visibility. As such, there is more clarity on whether valuation is actually cheap, which is the first factor investors will consider when making an investment decision. 2) The company is also less vulnerable to the numerous risks that have recently emerged in the industry. In addition to the company’s focus on its artists’ “integrity,” its decision-making process—which structurally prevents a small number of people from exercising too much power—has been well-received by investors.

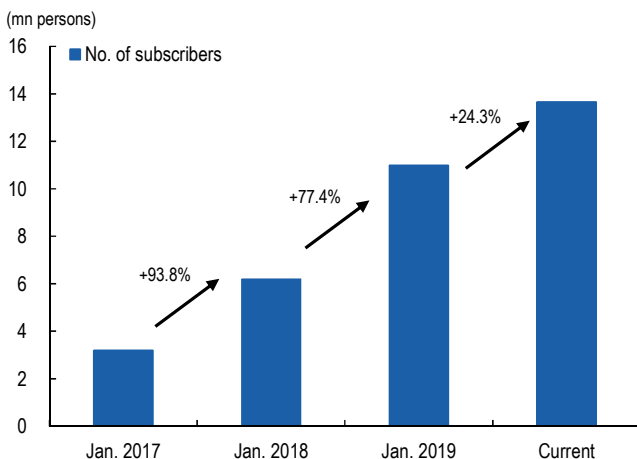
Foreign investors have developed a deeper understanding of Korea’s entertainment industry and its three biggest names over time. But the sector is still somewhat new to many investors. Indeed, foreigners currently own only 10.3% of JYP Entertainment (previous peak was in October 2018, at 13.6%). As investor interest in the opportunities and risks of the Korean entertainment sector grows, we think JYP Entertainment could become the most favored stock in the sector among foreign investors.

Figure 4. Market caps of the three major entertainment firms



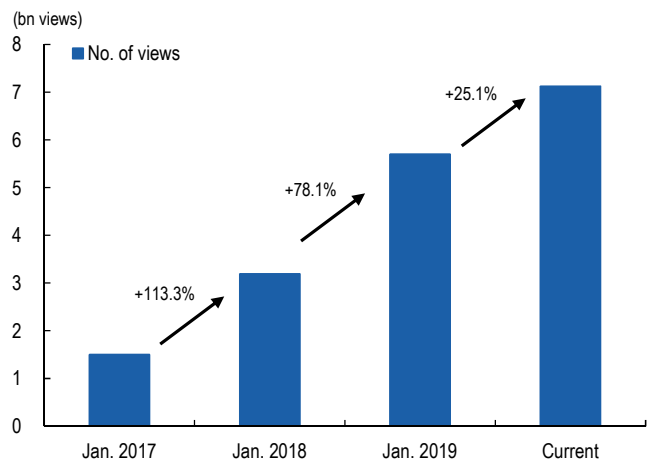
Source: Mirae Asset Daewoo Research

Figure 5. JYP Entertainment YouTube channel’s subscriber count



Source: YouTube, Mirae Asset Daewoo Research

Figure 6. JYP Entertainment YouTube channel’s view count



Source: YouTube, Mirae Asset Daewoo Research

Superior earnings: Steadily building new artist lineup

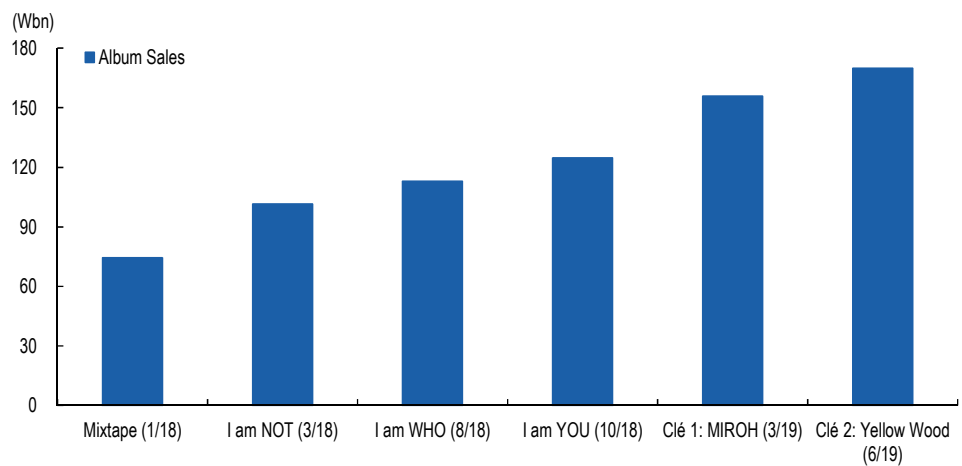
We believe JYP Entertainment has strong earnings visibility. Earnings growth, which started to take off in 2014, should structurally continue through 2020. The company’s main artists, TWICE and GOT7, are seeing growing album sales and concert attendees, while newer artists like Stray Kids (debuted in 2018) and ITZY (debuted in 2019) are beginning to generate profits.

We are more comfortable with JYP Entertainment’s profit growth prospects compared to those of its rivals, which either rely heavily on existing artists or face uncertainties surrounding artist activities in 2020. JYP Entertainment’s superior earnings prospects stem from its steady artist lineup expansion over the past couple of years. In the entertainment industry, continuous artist buildup is critical for long-term growth. JYP Entertainment is continuing to prepare for new artist debuts by maintaining its number of trainees at around 50.

The company’s investments in new artists look set to pay off. Profit margins on Stray Kids and ITZY so far remain in line with the low levels seen during their initial debuts. Such low margins were the main cause of the slight decline in overall margins in 2Q19. However, amid the growing overseas fan bases for Stray Kids and ITZY, there is visible improvement in key indicators such as album sales, global concerts, and overseas recognition (YouTube). Stray Kids’ album sales and number of concerts have steadily increased over the past two years, while ITZY’s first mini album, released in July, has sold more than 100,000 copies, an important feat for a girl group. We think margins could recover rapidly, depending on how well the monetization of these groups progresses.

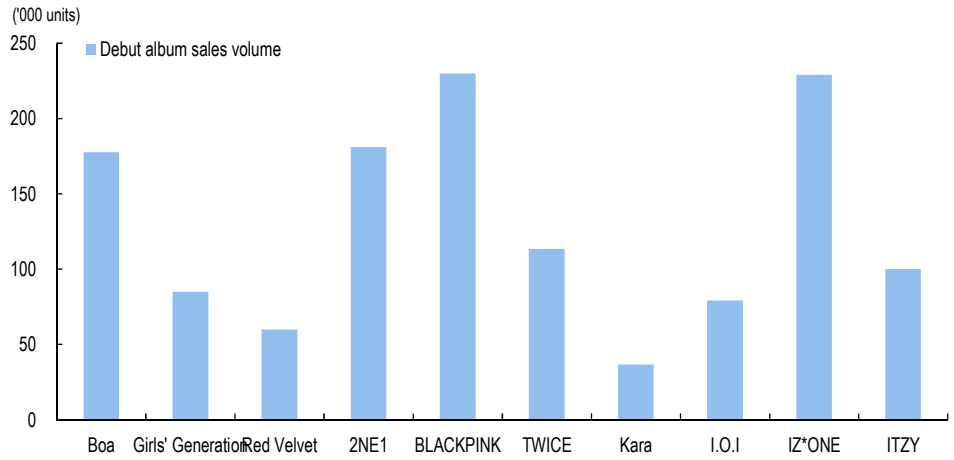
We are also bullish on the near-term earnings outlook. TWICE’s activities, the biggest factor affecting earnings, will be fully recognized in 2H19. In 3Q19, the recognition of TWICE’s Japanese dome tour and ITZY’s mini album should support a strong quarter. Sales of TWICE’s comeback album (expected to be released in late September) should also be booked in 3Q19 and 4Q19. Looking further ahead, a significant portion of TWICE’s 12 arena shows that were recently added will likely be recognized in 4Q19 and 1Q20.

Figure 7. Stray Kids’ album sales are on the rise



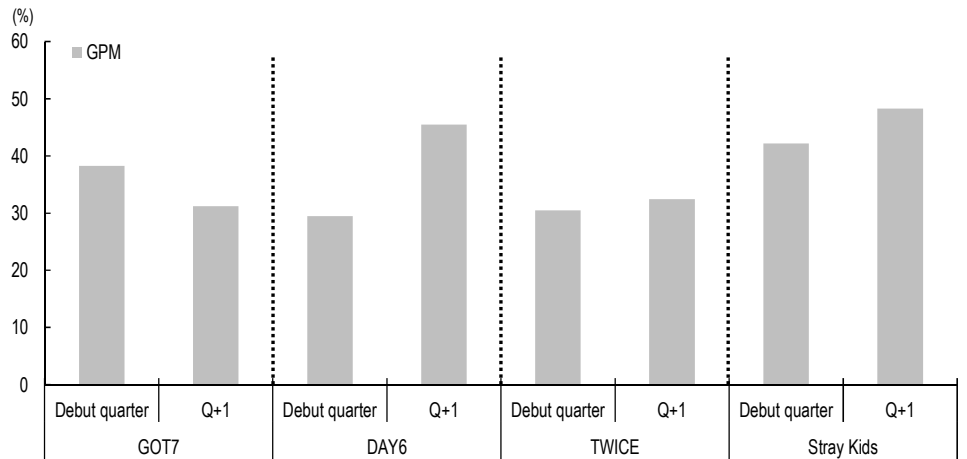
Source: Gaon Chart, Mirae Asset Daewoo Research

Figure 8. ITZY's first mini album, released in July, has sold more than 100,000 copies



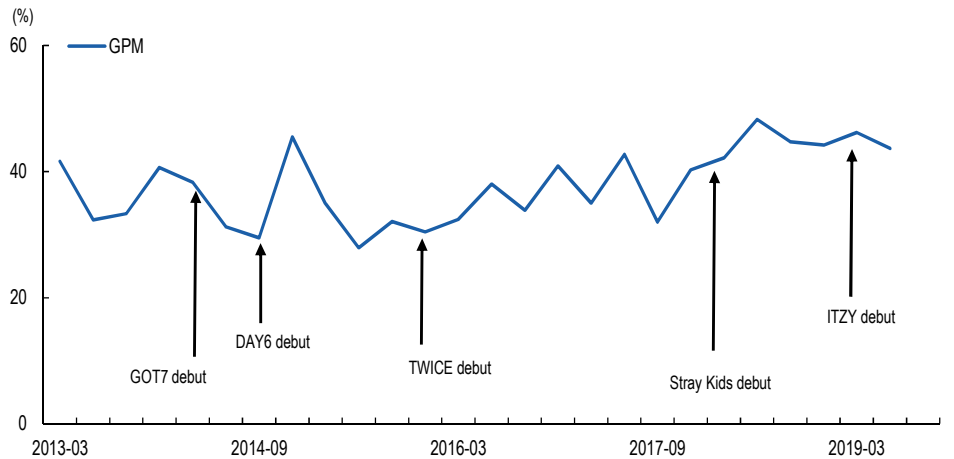
Source: Gaon Chart, Hanteo Chart, Mirae Asset Daewoo Research

Figure 9. Profit margins on artists were low during their initial debuts



Source: Company data, Mirae Asset Daewoo Research

Figure 10. Monetization of recently debuted artists to drive gross profit margin



Source: Company data, Mirae Asset Daewoo Research

Risk management

Given the negative headlines that have recently plagued the entertainment industry, investors have become more wary of such risks than before. Against this backdrop, JYP Entertainment’s competitiveness in risk management is highly likely to stand out. The firm’s strong risk management capabilities stem from several factors:

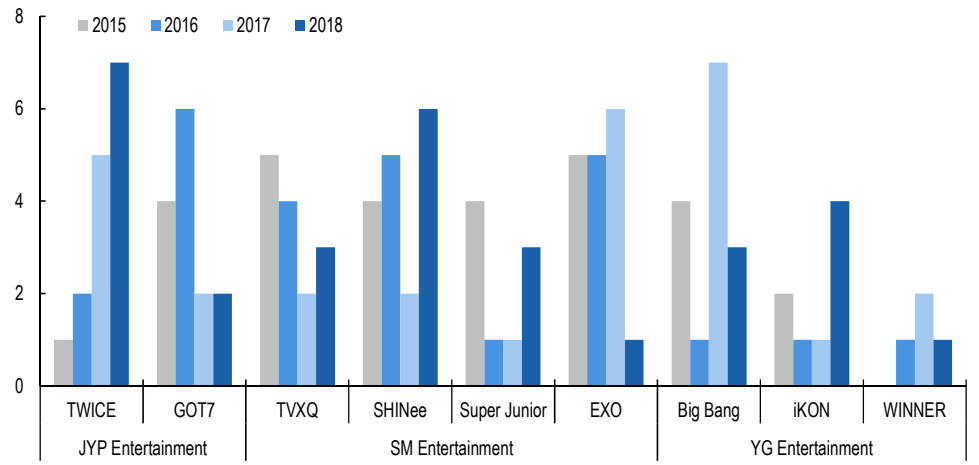
1) JYP Entertainment has a profitable core business, while its exposure to non-core businesses is limited. The firm’s margins from GOT7 and TWICE (which debuted in 2015 and 2014, respectively, and account for the lion’s share of total revenue) are highly likely to remain stable or improve through 2022, when their contracts are slated for renewal. In addition, the firm has almost zero exposure to non-core loss-making businesses.

2) The firm also has a decision-making process that helps minimize risks. The company’s organization is now divided into artist-specific labels, rather than being structured around business functions (it was previously divided into marketing, PR, management, and A&R functions). The current multi-label system, introduced in 2016, brings together all functions under each artist. Such a structure prevents resources (human resources and content) from being concentrated on a handful of top stars and ensures clear performance incentives for artists.

In addition, the company uses a 20-person content voting system. Having such a process for content-related decisions prevents any one person from exercising too much power and allows different opinions to be shared.

Over the past two decades, domestic entertainment companies achieved astonishing growth on the back of key individuals’ insight and leadership. But now that the music business has grown into a huge industry, it is too risky to allow success to ride on the capabilities of a single person or artist. As such, we are positive on JYP Entertainment’s risk-minimizing organizational structure.

Figure 11. No. of album releases by year: Artist-specific label system



Source: Mirae Asset Daewoo Research

JYP Entertainment (035900 KQ/Buy/TP: W28,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18	12/19F	12/20F
Revenue	102	125	155	190
Cost of Sales	63	69	86	104
Gross Profit	39	56	69	86
SG&A Expenses	20	27	30	35
Operating Profit (Adj)	19	29	39	51
Operating Profit	19	29	39	51
Non-Operating Profit	2	1	1	0
Net Financial Income	0	0	1	1
Net Gain from Inv in Associates	-1	0	0	0
Pretax Profit	21	30	40	51
Income Tax	5	6	7	10
Profit from Continuing Operations	16	24	32	41
Profit from Discontinued Operations	0	0	0	0
Net Profit	16	24	32	41
Controlling Interests	16	24	32	40
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	16	24	32	41
Controlling Interests	16	24	32	41
Non-Controlling Interests	0	0	0	0
EBITDA	22	30	41	53
FCF (Free Cash Flow)	2	10	30	44
EBITDA Margin (%)	21.6	24.0	26.5	27.9
Operating Profit Margin (%)	18.6	23.2	25.2	26.8
Net Profit Margin (%)	15.7	19.2	20.6	21.1

Cash Flows (Summarized)

(Wbn)	12/17	12/18	12/19F	12/20F
Cash Flows from Op Activities	27	22	31	44
Net Profit	16	24	32	41
Non-Cash Income and Expense	9	10	7	11
Depreciation	0	1	2	2
Amortization	3	0	0	0
Others	6	9	5	9
Chg in Working Capital	5	-4	-1	2
Chg in AR & Other Receivables	-3	-3	-3	-3
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	4	-2	1	1
Income Tax Paid	-4	-8	-8	-10
Cash Flows from Inv Activities	-29	-14	-4	-4
Chg in PP&E	-25	-13	-1	0
Chg in Intangible Assets	-1	0	0	0
Chg in Financial Assets	-7	1	-4	-4
Others	4	-2	1	0
Cash Flows from Fin Activities	2	11	6	-4
Chg in Financial Liabilities	0	0	0	0
Chg in Equity	2	16	4	0
Dividends Paid	0	0	0	-4
Others	0	-5	2	0
Increase (Decrease) in Cash	1	20	33	37
Beginning Balance	25	25	45	78
Ending Balance	25	45	78	115

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18	12/19F	12/20F
Current Assets	58	83	125	170
Cash and Cash Equivalents	25	45	78	115
AR & Other Receivables	11	13	17	20
Inventories	2	1	2	2
Other Current Assets	20	24	28	33
Non-Current Assets	66	77	76	74
Investments in Associates	0	0	0	0
Property, Plant and Equipment	25	37	35	34
Intangible Assets	29	29	29	29
Total Assets	124	159	201	244
Current Liabilities	35	31	38	45
AP & Other Payables	12	9	11	13
Short-Term Financial Liabilities	0	0	0	0
Other Current Liabilities	23	22	27	32
Non-Current Liabilities	4	1	1	1
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	4	1	1	1
Total Liabilities	39	31	39	46
Controlling Interests	85	127	158	194
Capital Stock	17	18	18	18
Capital Surplus	55	71	75	75
Retained Earnings	27	48	76	112
Non-Controlling Interests	1	1	4	4
Stockholders' Equity	86	128	162	198

Forecasts/Valuations (Summarized)

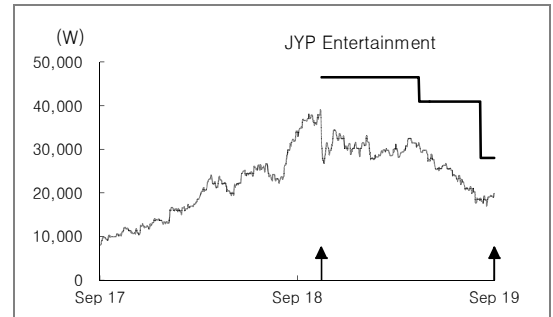
	12/17	12/18	12/19F	12/20F
P/E (x)	29.2	44.2	22.1	17.6
P/CF (x)	18.8	30.6	18.0	13.9
P/B (x)	4.8	7.7	4.2	3.4
EV/EBITDA (x)	19.6	33.8	14.9	10.9
EPS (W)	471	685	902	1,134
CFPS (W)	731	988	1,111	1,440
BPS (W)	2,859	3,930	4,801	5,821
DPS (W)	0	122	122	122
Payout ratio (%)	0.0	16.6	12.5	9.9
Dividend Yield (%)	0.0	0.4	0.6	0.6
Revenue Growth (%)	37.8	22.5	24.0	22.6
EBITDA Growth (%)	37.5	36.4	36.7	29.3
Operating Profit Growth (%)	35.7	52.6	34.5	30.8
EPS Growth (%)	91.5	45.4	31.7	25.7
Accounts Receivable Turnover (x)	13.1	10.6	10.8	10.9
Inventory Turnover (x)	67.6	79.6	93.6	94.5
Accounts Payable Turnover (x)	12.8	12.6	18.4	18.4
ROA (%)	15.5	17.1	17.9	18.2
ROE (%)	21.4	22.5	22.5	22.8
ROIC (%)	38.7	42.4	52.5	71.4
Liability to Equity Ratio (%)	45.1	24.5	24.0	23.2
Current Ratio (%)	167.7	267.9	326.1	375.2
Net Debt to Equity Ratio (%)	-46.1	-47.4	-60.3	-69.6
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
JYP Entertainment(035900)	08/15/2019	Buy	28,000
	04/23/2019	Buy	41,000
	10/24/2018	Buy	46,500



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	83.14%	8.72%	8.14%	0.00%
Investment Banking Services	77.78%	11.11%	11.11%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2019)

Disclosures

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