Regional Company Focus

JYP Entertainment

Bloomberg: 035900 KS, Reuters: 035900.KS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 May 018

BUY, KRW21,850 KOSDAQ: 869.5

(Closing price as of 18/5/18)

Price Target 12-mth: KRW30,000

Reason for Report: Initiating coverage

Potential catalyst: Debuts of new idol groups in Korea and China

Where we differ: We are slightly conservative in light of one-off stock compensation costs

Analyst

Regional Research Team

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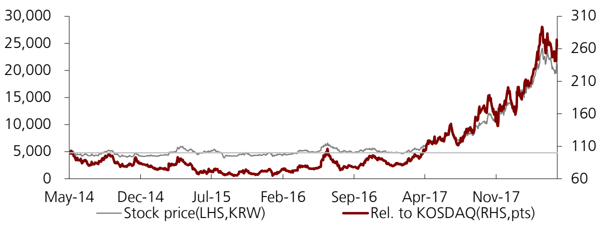
Price Relative



Forecasts and Valuation

FY Dec (KRW bn)	2017A	2018F	2019F	2020F
Revenue	102.2	119.6	133.6	147.4
EBITDA	22.3	29.5	40.1	46.1
Operating profit	19.5	26.1	36.4	42.0
Pre-tax Profit	21.1	28.8	42.0	50.2
Net Profit	16.4	22.3	32.6	39.0
Net Pft (Pre Ex.)	16.4	22.3	32.6	39.0
Net Pft Attributable to Controlling Interest	16.2	21.7	31.7	37.9
EPS (KRW)	471	626	916	1,095
EPS Pre Ex. (KRW)	477	644	942	1,127
EPS Gth (%)	91.4	32.8	46.4	19.6
EPS Gth Pre Ex (%)	90.4	35.0	46.4	19.6
Diluted EPS (KRW)	471	626	916	1,095
Net DPS (KRW)	0	0	0	0
BV Per Share (KRW)	1,611	2,306	3,286	4,440
PE (X)	29.2	34.0	23.2	19.4
PE Pre Ex. (X)	28.8	33.0	22.6	18.9
P/Cash Flow (X)	18.8	30.7	24.2	21.4
EV/EBITDA (X)	19.6	23.5	17.1	14.5
Net Div Yield (%)	n/a	n/a	n/a	n/a
P/Book Value (X)	8.5	9.2	6.5	4.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROE (%)	21.6	23.3	26.6	24.8
Earnings Rev (%):		0.0	0.0	0.0
Consensus EPS (KRW):		670	957	1,202
Other Broker Recs:		B : 2	S : 0	H : 0

ICB Industry: Recreation Facilities & Svcs

ICB Sector: Consumer Discretionary

Principal Business: JYP Entertainment plans, produces, promotes, and markets Korean singers both in Korean and overseas markets. The company's also engages in licensing, merchandising, and artist management business.

Source of all data on this page: Bloomberg Finance L.P., Company, DBS Bank

Textbook example of entertainment companies

- **Strongest-ever normalised OPM posted in 1Q18**
- **Margins improving on the back of focus on core business, while peers posting flagging margins**
- **EPS growth for 2019F to significantly exceed peers**
- **Initiating coverage with BUY, KRW30,000 TP**

Korean entertainment company with strongest growth momentum. We initiate our coverage on JYP, Korea's top 3 entertainment company, with a BUY call and KRW30,000 TP, applying a target PE of 33x to 2019F EPS (when JYP will start to reflect revenues from new artists). Accounting for the expansion in its artists' overseas activities, our target PE is the average PE of SM Entertainment (SM) and YG Entertainment (YG) in 2013-2015, when their global revenue started to fully fledge. Despite the recent surge, we believe there is an ample upside to JYP's stock price.

Higher profitability each quarter. Korean Entertainment companies' diversification efforts have so far caused poorer margins, due to the lack of synergies with their mainstay business. Moreover, doubts over entertainment giants' competitiveness in their mainstay business have grown, with their new idol groups generating disappointing revenues. In contrast, JYP Entertainment is delivering better profitability every quarter, focusing on its core business. It is also showing the strongest performance among listed peers in terms of new idol groups' activities. For 1Q18, JYP recorded revenue of KRW23bn (+5% y-o-y) and OP of KRW1.36bn (-64% y-o-y). Excluding the one-off cost from employee stock options, 1Q18 OP would be KRW5.56bn (+46% y-o-y), way above consensus estimate. While revenue growth was marginal with recognition of earnings from Japan (JYP focused on the Japanese market in 1Q18) deferred, its normalised OPM came in at 24%, a record high, thanks to structural margin improvements.

Earnings growth to stand out among peers. We expect JYP to see stronger-than-peers margin improvements going forward, on the back of i) growth of Japan and global revenue (high-margin markets), ii) the drop in the COGS-to-revenue ratio supported by increasing revenue from its new idol groups, and iii) rationalisation of SG&A expenses by focusing on its core business. For 2018, we estimate revenue of KRW119.6bn (+17% y-o-y) and OP of KRW26.1bn (+34% y-o-y). Excluding stock option cost, OP would be KRW31bn. Its EPS is projected to grow 46% in 2019, much higher compared to the 9% forecast for SM and 17% for YG.

At A Glance

Issued Capital (m shrs)	34.62
Mkt. Cap (KRWbn/US$m)	757/703
Major Shareholders	
Park Jin-young and 4 others (%)	16.7
Free Float (%)	75.2
Avg. Daily Vol.('000)	746

Earnings forecasts

Unit: KRW bn, %

	2016	2017	2018F	2019F	2020F	2021F	2022F
Revenue	74	102	120	134	147	163	173
OP	14	19	26	36	42	48	53
EBITDA	16	22	29	40	46	53	58
NP	9	16	22	33	39	47	52
Total assets	87	124	144	177	216	263	315
Total equity	67	86	107	139	177	223	273
Net debt	(31)	(40)	(42)	(52)	(66)	(94)	(126)
Revenue growth	45.7	38.8	17.0	11.7	10.3	10.3	6.7
OP margin	18.8	19.0	21.8	27.2	28.5	29.8	30.6
Net margin	11.6	16.0	18.6	24.4	26.5	28.9	29.9
EPS growth	162.7	91.4	32.8	46.4	19.6	20.3	10.5
ROE	13.7	21.6	23.3	26.6	24.8	23.6	21.0

Note: Based on consolidated K-IFRS
Source: DBS Bank

I. Need to focus on specialisation, rather than diversification

I-1. Business diversification does not necessarily increase enterprise value

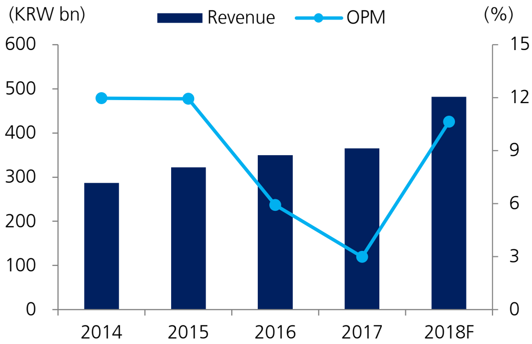
Here, we compare JYP's profitability with that of competitors to explain its enterprise value.

In terms of revenue, JYP underperforms its competitors with similar market cap. This raises doubts over the company's potential value among some investors. Entertainment companies have focused on top-line growth, setting a goal of annual revenue of KRW1tr or 2tr. The two major strategies for revenue growth are: i) vertical expansion of business portfolio; and ii) horizontal revenue expansion through the globalisation of K-pop idol music. Our analysis of entertainment companies' earnings shows that horizontal revenue expansion contributes to enterprise value growth. In contrast, vertical revenue expansion through business diversification contributes little to enterprise value growth. An artist's global revenue growth contributes to margin improvements with little fixed costs. However, business diversification (with a new business added to the articles of association) does not necessarily lead to margin improvements, due to required capex and new investments. As such, we think revenue comparison at current levels (secured through business diversification) is meaningless in terms of enterprise value evaluation. We recommend focusing on future profitability and the potential value of artists under management.

SM and YG Entertainment have vertically expanded their business portfolios since 2015. YG has expanded into cosmetics, sport management and restaurant businesses, while SM has entered broadcasting contents production/investments, cable broadcasting (programme provider), ad agency, travel agency, etc. Vertical business expansion requires initial investments and related personnel recruitment, leading to a sharp increase in SG&A expenses. However, such expansion has failed to create synergy with the mainstay business, and some businesses are even blamed for overall margin deterioration. SM saw its consolidated OPM decline from 12% in 2014 to 3% in 2017. YG's OPM also decreased from 14% to 7% over the same period.

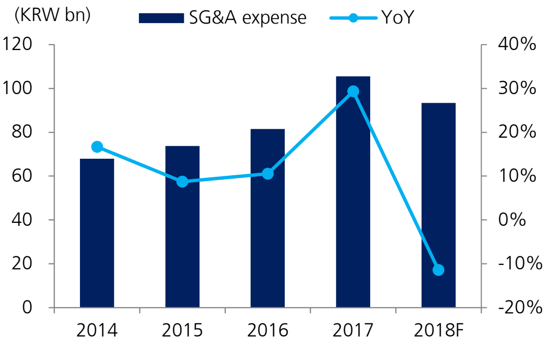
Meanwhile, JYP has focused on its mainstay business, music and concerts. It avoids excessive investments with its own equity for contents production. As a result, gross profit growth significantly outpaces SG&A growth. The company recorded a KRW12bn increase in consolidated gross profit in 2017. In comparison, SG&A growth (excluding one-off stock compensation costs) was only KRW2.9bn. As such, normalised OPM (excluding stock compensation costs) rose to 22% in 2017 from 18.8% in 2016. We expect SG&A growth to be limited at KRW1bn in 2018 when excluding one-off headquarters relocation and stock compensation costs. With gross profit growth estimated at KRW9bn, normalised OPM should increase to 26% for 2018.

SM Entertainment: Annual revenue and OPM



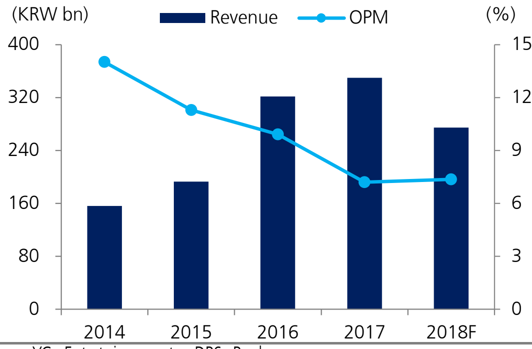
Source: SM Entertainment, DBS Bank

SM Entertainment: Annual SG&A expenses



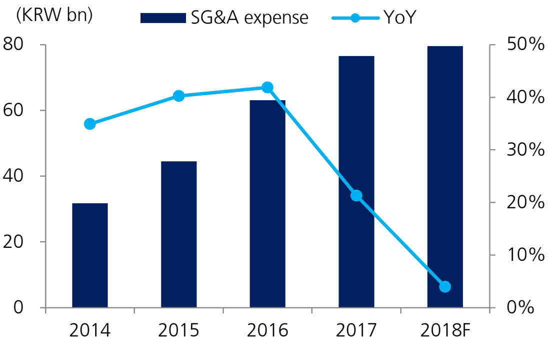
Source: SM Entertainment, DBS Bank

YG Entertainment: Annual revenue and OPM



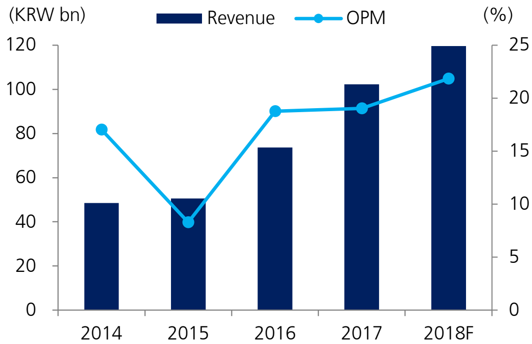
Source: YG Entertainment, DBS Bank

YG Entertainment: Annual SG&A expenses



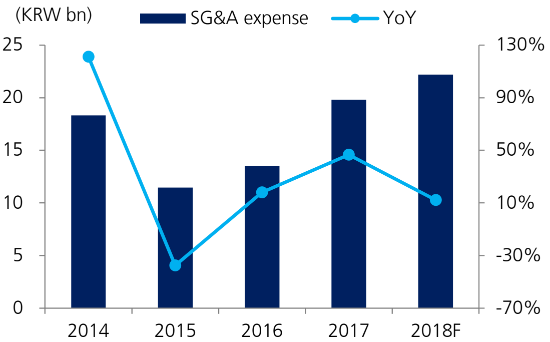
Source: YG Entertainment, DBS Bank

JYP Entertainment: Annual revenue and OPM



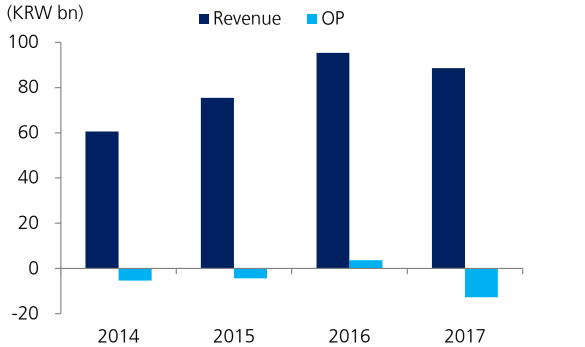
Source: JYP Entertainment, DBS Bank

JYP Entertainment: Annual SG&A expenses



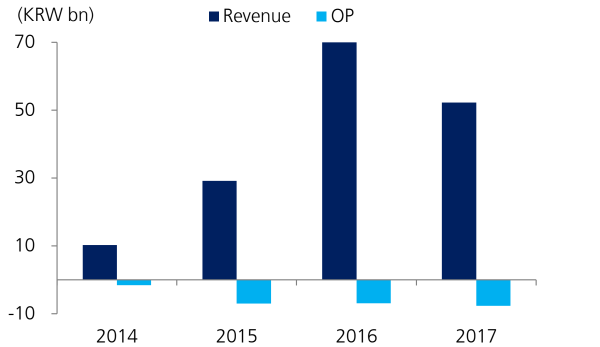
Source: JYP Entertainment, DBS Bank

SM C&C: Annual earnings



Source: SM Entertainment, DBS Bank

YG Plus: Annual earnings



Source: YG Entertainment, DBS Bank

JYP Entertainment: Business area

Source: JYP Entertainment, DBS Bank

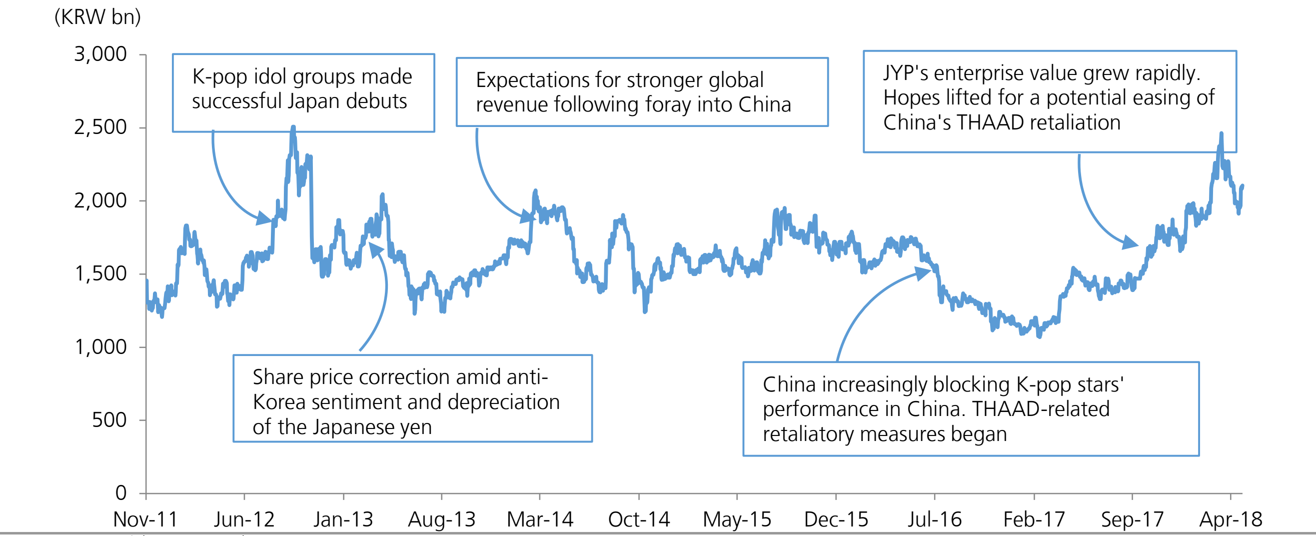
I-2. Artist's global success = Enterprise value enhancement

Entertainment companies saw the sharpest growth in their enterprise value, backed by increased revenue from their Japanese business. In the early 2000s, SM, YG and JYP aggressively advanced into Japan, the world's second largest music market, amid the Hallyu boom. Their stock performance was largely affected by their business results in Japan. TVXQ/EXO (SM), BIGBANG (YG) and 2PM (JYP) made their debut in Japan during 2012-2015 and delivered stronger-than-expected results. During this period, the companies' enterprise value was most highly valued.

Then, Korean entertainment companies expanded their business to China. However, China's concert market is less attractive than Japan's in terms of market size and margin, owing to profit-sharing with local promoters and high resource transport costs. Moreover, they have failed to plan a large concert since 2016, due to retaliation over the THAAD issue. Nevertheless, China-related expectations are still the biggest factor affecting entertainment companies' share prices. In 2013-2014, Korean singers were hit hard by the weak Japanese yen and anti-Korea sentiment, leading to correction in related companies' market cap. The companies later rebounded on the back of the launch of concerts in China. Korean artists, especially BIGBANG and EXO, increased their concerts in China, spreading the perception that Japan is a stable cash cow and China is a future growth engine (before the THAAD issue). The recent easing of China's restrictions on Korean content sparked renewed interest in related companies.

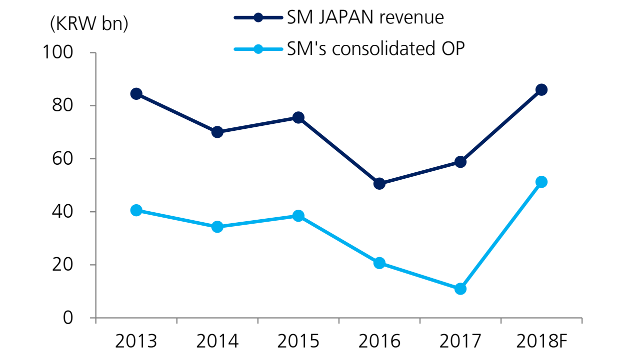
Overseas revenue growth leads to share price rally, as it is guaranteed profit growth. Artists' global expansion does not require advanced investments. They can go global with their albums and concerts already published/designed in Korea. With little fixed costs, global activities come with minimal risk. Big Hit Entertainment, which represents BTS with powerful fandom, recently received investments (worth KRW880bn) from Netmarble Games. The company's enterprise value is estimated at over KRW1tr in the market. Despite shorter history and smaller artist portfolio than the top 3 entertainment companies, Big Hit is highly valued for its success in the US. BTS created contents for Korean fans, not Americans, producing their albums and music videos for the Korean market. However, the idol group generated revenue in the US and other global markets, recording a much stronger-than-average margin in 2017.

Three entertainment giants' market cap and factors affecting stock performances



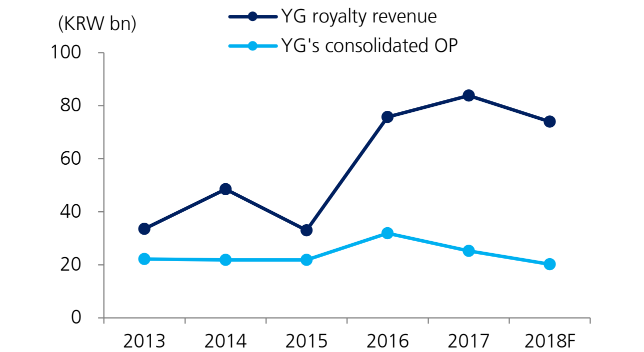
Source: Dataguide, DBS Bank

SM Entertainment: SM Japan's revenue and consolidated OP



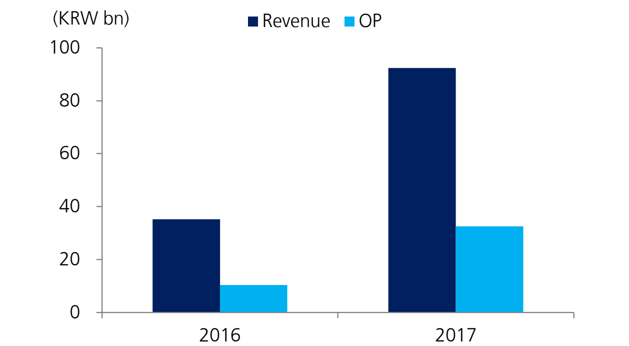
Source: SM Entertainment, DBS Bank

YG Entertainment: Royalty revenue and consolidated OP



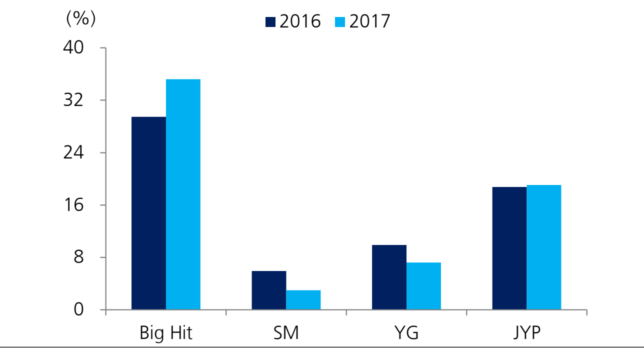
Source: YG Entertainment, DBS Bank

Big Hit Entertainment: Revenue and OP



Source: DART, DBS Bank

OPM of top 3 entertainment companies and Big Hit



Source: Respective companies, DBS Bank

I-3. JYP's global expansion in its initial phase

If global revenue guarantees high profitability, JYP's earnings outlook is bright.

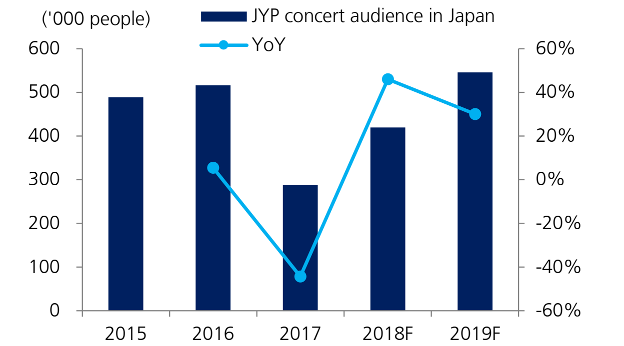
JYP sees the highest upside to global revenue among its peers, considering popularity of its artists. In 2018, the company expects to post revenue from GOT7 and TWICE concerts in Japan. Its Japanese concert audience stood at only 220,000 (70% or 140,000 from 2PM concerts and 90,000 from GOT7 concerts) in 2017. We expect the figure to increase 90% y-o-y to over 400,000 in 2018.

In 1Q18, TWICE made a successful debut with Candy Pop in Japan, with its concert audience estimated to be 180,000 for 2018. GOT7's concerts in 2H18 are expected to attract 120,000 fans. The total audience of JYP's Japanese concerts should exceed the level recorded for 2PM in their heyday, taking also into account 2PM concert and JYP Nation (group concert) scheduled for this year.

The 2019 outlook is even brighter. With the current artist portfolio, the company's revenue from the Japanese market should remain robust until 2020, considering that revenue from TWICE and GOT7, whose fandom is expected to increase with an arena tour in 2H18, as well as Stray Kids, will be recognised in 2019.

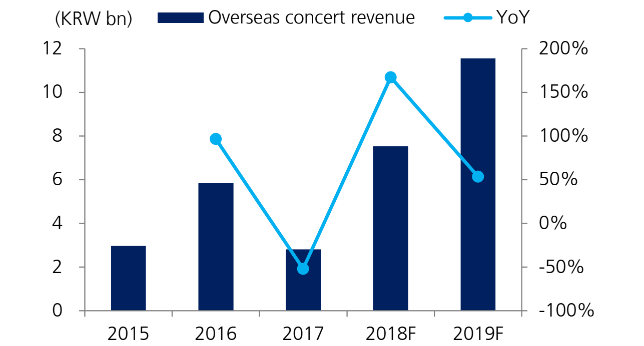
JYP artists' activities in China should also increase sharply from 2018. Even if existing artists cannot resume their activities, two new idol groups will make their debut in China in 2H18. JYP has established a local JV with Tencent to produce Chinese idol music. Boy Story is building their fandom in the current pre-debut period to prepare for their debut in Aug 2018, while Project C (Chinese boy group) will make their debut in 2H18. In particular, Boy Story has over 100,000 subscribers on their official YouTube channel with their music video netting 300,000-400,000 views. This indicates that the group has succeeded in attracting attention in the market. Considering this, JYP's equity-method gain is highly likely to increase from 2018, which should lead to EPS growth.

JYP Entertainment: No. of concert-goers for its Japan concerts



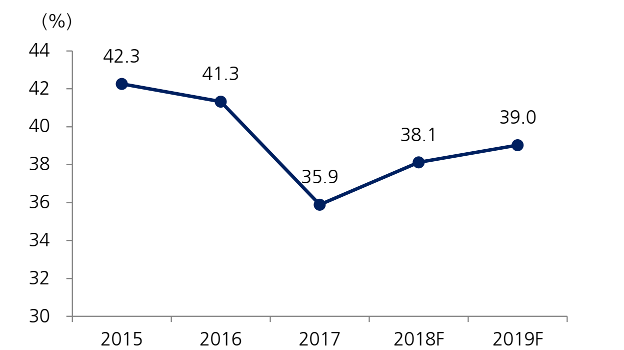
Source: JYP Entertainment, DBS Bank

JYP Entertainment: Revenue from overseas concerts



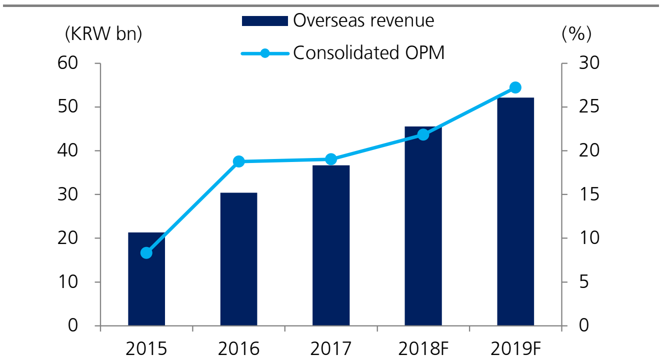
Source: JYP Entertainment, DBS Bank

JYP Entertainment: Share of overseas revenue



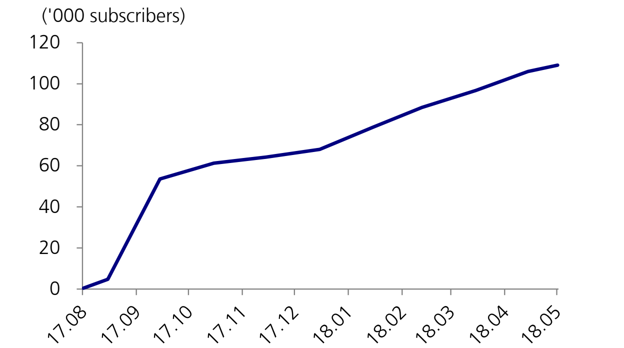
Source: JYP Entertainment, DBS Bank

JYP Entertainment: Overseas revenue and company-wide OPM



Source: JYP Entertainment, DBS Bank

JYP Entertainment: No. of subscribers on BOY Story's YouTube channel



Source: YouTube, DBS Bank

JYP Entertainment: BOY Story to make debut in August

Source: Google, DBS Bank

II. Cost structure improvement

Artist profit-sharing seen from shareholder's perspective

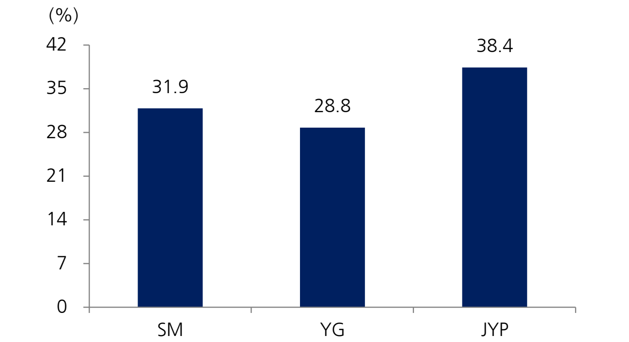
In an entertainment company's COGS, profit distribution to artists accounts for the largest share. As for YG, which discloses related figures, annual profit distribution to artists represents 50% of total COGS. Given that YG's COGS to revenue ratio stood at 71% in 2017, favourable profit-sharing is most important for an entertainment company's margin improvement.

Right after an artist's debut, profit-sharing ratio is usually set in favour of the company. Then, the deal becomes more favourable to artists upon renewal (usually after eight years). The profit-sharing ratio is favourable to BIGBANG (of YG) and TVXQ (of SM), who have renewed their contracts for several times. In comparison, JYP's main artists are GOT7 and TWICE. While their revenue contribution is estimated at 60%, the profit-sharing ratio is more favourable to the company. The two groups' contract renewal is expected in 2022 and 2023, respectively.

As mentioned before, a favourable profit-sharing ratio means an industry-high GPM. JYP's GPM reached 38% in 2017. It should increase further to 40% in 2018, which is 6ppts and 10ppts higher than that of SM and YG, respectively. Big Hit's high margin is also attributable to a favourable profit-sharing ratio. We think the ratio is still low for BTS with its contract renewal expected in 2020. Big Hit's GPM reached 45% in 2017. By division, GPM came in at 30% for concerts, 20% for appearance fees, 67% for commercials, and 54% for overseas royalties.

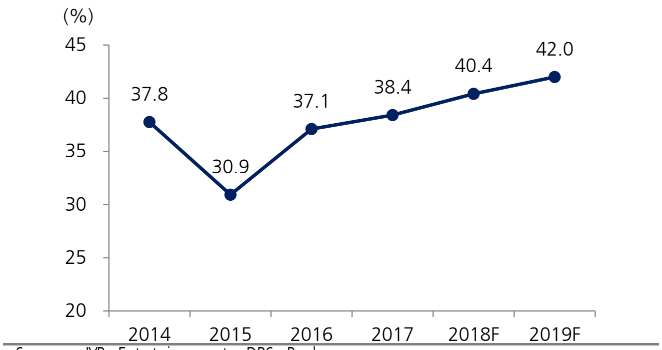
In 2018, JYP plans to launch two new idol groups, Stray Kids and a five-member girl group, in Korea. When including two idol groups to debut in China, the company will boast the youngest artist portfolio among its peers. As such, we think JYP has the lowest risk of margin deterioration from contract renewal.

Top 3 entertainment companies' GPM in 2017



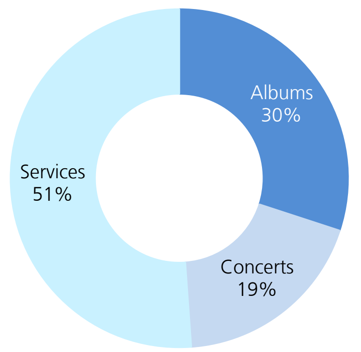
Source: Respective companies, DBS Bank

JYP Entertainment: GPM trend



Source: JYP Entertainment, DBS Bank

YG Entertainment: Breakdown of cost in 2017



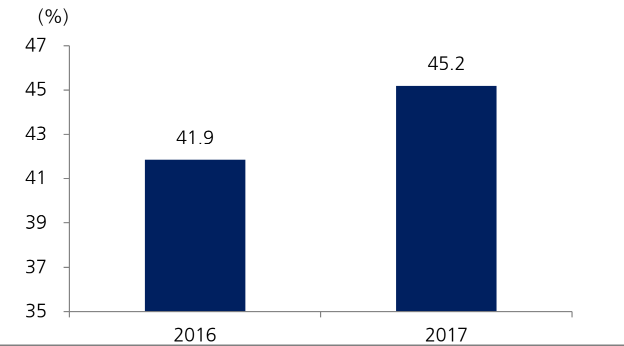
Source: YG Entertainment, DBS Bank

K-pop idol groups' debut calendar

Debut	Idol group's name	No. of members	Boy/girl group	Company
2003	TVXQ!	2 (5)	Boy group	SM Entertainment
2005	Super Junior	11 (13)	Boy group	SM Entertainment
2006	BIGBANG	5	Boy group	YG Entertainment
2007	Girls' Generation	8 (9)	Girl group	SM Entertainment
2008	SHINee	4 (5)	Boy group	SM Entertainment
2008	2PM	6 (7)	Boy group	JYP Entertainment
2009	f(x)	4 (5)	Girl group	SM Entertainment
2012	EXO	9 (12)	Boy group	SM Entertainment
	JJ Project	2	Boy group	JYP Entertainment
2013	BTS	7	Boy group	Big Hit Entertainment
2014	GOT7	7	Boy group	JYP Entertainment
	WINNER	4 (5)	Boy group	YG Entertainment
	Red Velvet	5 (4)	Girl group	SM Entertainment
2015	IKON	7	Boy group	YG Entertainment
	DAY6	5 (6)	Boy group	JYP Entertainment
	TWICE	9	Girl group	JYP Entertainment
2016	NCT	18 (15)	Boy group	SM Entertainment
	BLACKPINK	4	Girl group	YG Entertainment
2018	Stray Kids	9	Boy group	JYP Entertainment

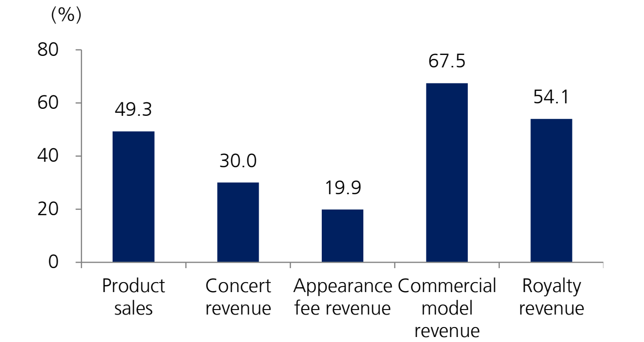
Source: DBS Bank

Big Hit Entertainment: GPM trend



Source: Big Hit Entertainment, DBS Bank

Big Hit Entertainment: GPM breakdown (2017)



Source: Big Hit Entertainment, DBS Bank
Note: GPM for 'other' revenue was excluded

III. Earnings outlook & valuation

III-1. 1Q18 Review: 5% revenue growth leading to 50% profit growth

JYP posted revenue of KRW23bn (+5% y-o-y) and OP of KRW1.36bn (-64% y-o-y) for 1Q18. Excluding one-off stock compensation costs (KRW4.21bn), normalised OP came in at KRW5.6bn, up 46% y-o-y. This shows that the 5% revenue growth had led to 50% profit growth.

Stock compensation costs began to increase in 2Q17. JYP's market cap rose sharply on TWICE's global success, along with increased stock compensation costs for employees' stock option exercise. Such costs came in at KRW3.3bn in 2017. The company's market cap has increased continuously, and its share price has risen 68.4% YTD (as of 31 Mar, end-1Q18). As such, stock compensation costs reached KRW4.2bn for 1Q18, with the additional compensation estimated at KRW900m, based on the remaining stock option grants. Among them, KRW600m will expire within 2018 and KRW300m will expire in 1H19. As such, stock compensation costs should decrease sharply from 2Q18 and dissipate after 1H19. This is why 1Q18 stock compensation costs can be deemed as one-off costs.

JYP's revenue decreased slightly q-o-q in 1Q18, owing to decreased concerts in Korea. Domestic concert revenue dropped 49% y-o-y. However, this is attributable to TWICE's focus on Japan for its activities. Like its peers, JYP's Japan revenue is reflected in its earnings with a 3-6-month lag. TWICE's Japanese concert in 1Q18 will be reflected in 2H18 earnings.

Excluding concerts, the company's domestic/overseas revenue seems solid. GOT7's new album, #Eyes On You, sold 310,000 copies, driving up the company's album/digital song sales by 10% y-o-y for 1Q18. Other revenue also increased 38.2% y-o-y, backed by increased YouTube ad revenue and TWICE's Japanese fan club membership fees. Album/digital song and digital contents sales, which are not generated from artist service, enjoy higher margins than concerts or commercial fees. As a result, JYP's GPM improved 7ppts y-o-y in 1Q18. Album/digital song sales and other revenue have recorded the strongest growth among JYP's business divisions over the past three years, indicating that structural growth is highly likely for the company's GPM.

We expect JYP to post revenue of KRW32.4bn (+14% y-o-y) and OP of KRW8.5bn (+23% y-o-y) for 2Q18, backed by the reflection of: i) domestic/overseas album/digital song sales of TWICE's What Is Love (estimated at over 400,000 copies); and ii) world tour concert revenue (GOT7 and TWICE). With stock compensation costs retreating to c.KRW200m, SG&A expenses should normalise in 2Q18.

JYP Entertainment: Earnings estimates

(KRW bn)	1Q17	2Q17	3Q17	4Q17	1Q18P	2Q18F	3Q18F	4Q18F	2017	2018F	2019F
Revenue	21.9	28.5	17.5	34.3	23.0	32.5	22.3	41.8	102.2	119.6	133.6
Albums	8.6	7.5	5.2	12.8	9.5	11.4	7.8	15.4	34.1	44.0	47.8
Management	10.0	13.4	8.4	9.7	9.6	13.1	10.4	14.0	41.6	47.1	55.5
Others	3.2	7.6	3.9	11.8	4.5	8.0	4.1	12.4	26.5	28.9	30.4
Gross profit	7.7	12.2	5.6	13.8	9.7	13.0	8.9	16.7	39.3	48.3	56.1
GPM	35.0	42.7	32.0	40.2	42.1	40.0	40.0	40.0	38.4	40.4	42.0
Operating profit	3.8	6.9	1.1	7.6	1.4	8.5	4.5	11.8	19.5	26.1	36.4
OPM	17.4	24.3	6.3	22.2	5.9	26.1	20.0	28.3	19.0	21.8	27.2
YOY growth (%)											
Revenue	99.6	59.0	-8.1	33.5	5.0	13.9	27.8	21.7	38.8	17.0	11.7
Albums	167.2	97.8	-7.5	76.4	9.5	51.4	52.1	20.0	71.7	29.1	8.4
Management	72.1	39.7	-14.2	-10.0	-4.6	-2.0	23.4	44.4	15.4	13.3	17.7
Others	69.0	67.5	7.7	54.0	38.1	5.0	5.0	5.0	49.7	9.0	5.0
Gross profit	115.5	78.9	-13.2	31.4	26.4	6.6	59.7	21.0	43.7	23.1	16.1
GPM (%pt)	2.6	4.7	-1.9	-0.6	7.1	-2.7	8.0	-0.2	1.3	2.0	1.6
Operating profit	459.0	81.5	-69.1	32.9	-64.2	22.5	304.3	55.0	40.9	34.3	39.3
OPM (%pt)	11.2	3.0	-12.5	-0.1	-11.5	1.8	13.7	6.1	0.3	2.8	5.4

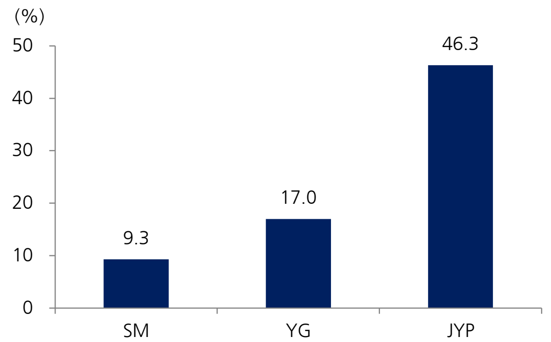
Source: DBS Bank

III-2. Target price of KRW30,000 (2019F PE of 33x)

We initiate our coverage on JYP Entertainment with a BUY rating and TP of KRW30,000. We derived our TP by applying SM and YG's 2013-2015 average PE of 33x to 2019F EPS of KRW916. During 2013-2015, SM and YG showed sharp overseas revenue growth. We think the performance of JYP's artist portfolio will be fully reflected in 2019 earnings, including: i) overseas revenue from activities of TWICE and GOT7; ii) a new girl group to debut in 2H18; and iii) two idol groups to debut in China.

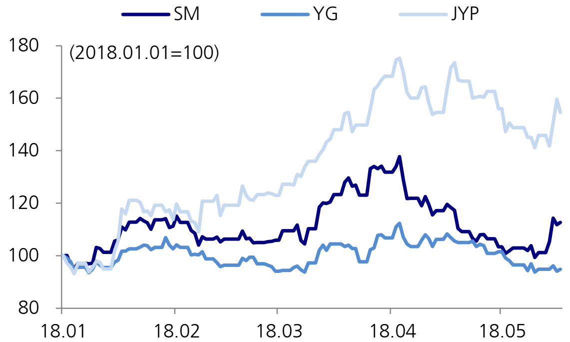
JYP is currently trading at a forward 12-month PE of 28.6x on similar levels with SM (29x) and YG (22.9x). Although the company may not look attractive from these numbers, we think a premium valuation can be justified for JYP for the following reasons. First of all, a total of four idol groups will make their debut in Korea or China in 2018, compared with only one team each for SM and YG. Depending on their performance, earnings estimates are likely to be revised upwards. We have not reflected new idol group's performance aggressively in our 2018 and 2019 earnings estimates. JYP's main artists, TWICE and GOT7, also show stronger growth potential than other companies' artists, in view of their relatively later debut. The company also boasts higher GPM and OPM than its peers. We estimate its EPS growth at 46% for 2019, much higher than SM's 9% and YG's 17%.

Top 3 entertainment companies' 2019F EPS growth



Source: DBS Bank' forecasts

Top 3 entertainment companies' YTD stock performances



Source: Dataguide, DBS Bank

Peers' valuations

Company	Stock code	Country	Mkt Cap. (US$ m)	Performance (%)					PE (X)		P/BV (X)		ROE (%)		EV/EBITDA (X)	
				1W	1M	3M	6M	YTD	2018F	2019F	2018F	2019F	2018F	2019F	2018F	2019F
SM ENTERTAINMENT	041510 KS	Korea	791	11.7	(3.8)	5.8	4.1	12.5	25.8	23.0	2.5	2.3	9.7	10.3	11.1	9.5
YG ENTERTAINMENT	122870 KS	Korea	462	0.4	(9.9)	(1.3)	(15.9)	(4.9)	27.8	21.2	1.5	1.4	5.4	6.9	11.5	9.5
JYP ENTERTAINMENT	035900 KS	Korea	694	8.0	(9.2)	32.0	100.5	57.5	31.9	22.2	6.5	5.1	24.3	27.1	18.4	15.3
KAKAO M	016170 KS	Korea	2,188	4.6	6.3	(12.5)	(16.6)	(17.0)	24.5	20.3	5.6	4.5	25.0	24.3	14.3	11.5
NHN BUGS	104200 KS	Korea	131	5.9	7.1	6.7	1.5	22.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
SORIBADA	053110 KS	Korea	104	(2.5)	(18.8)	(7.7)	(7.4)	4.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AVEX GROUP	7860 JP	Japan	636	7.2	3.1	(1.7)	5.1	(2.5)	15.6	11.8	1.3	1.3	8.8	n/a	n/a	n/a

Source: Bloomberg Finance L.P., DBS Bank

BALANCE SHEET

(Unit:KRWbn)	2016	2017	2018F	2019F	2020F
Current Assets	44.0	58.4	59.3	69.8	85.6
Cash & Short-term investment	30.8	39.6	41.9	51.9	66.3
Accounts Receivable	7.5	10.9	8.5	8.8	9.8
Inventories	1.4	1.7	2.6	2.7	3.0
Fixed assets	42.6	66.0	85.1	106.9	130.4
Investment Assets	11.4	12.2	12.7	13.2	13.7
Tangible Assets	0.3	24.7	45.7	69.2	94.2
Intangible Assets	31.0	29.1	26.7	24.5	22.5
Total Assets	**86.6**	**124.4**	**144.4**	**176.7**	**216.0**
Current Liabilities	18.5	34.8	33.0	33.4	34.6
Accounts Payable	7.2	11.6	9.8	10.1	11.4
Short-term Debts	0.0	0.0	0.0	0.0	0.0
Non-current Liabilities	1.0	3.8	4.0	4.2	4.3
Long-term Debts	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**19.5**	**38.7**	**37.0**	**37.5**	**38.9**
Capital Stock	17.0	17.3	17.3	17.3	17.3
Capital Surplus	52.8	55.0	55.0	55.0	55.0
Earned Surplus	10.6	26.8	48.5	80.2	118.1
Capital Adjustment	(14.0)	(14.2)	(14.2)	(14.2)	(14.2)
Treasury Stock	(14.1)	(14.1)	(14.1)	(14.1)	(14.1)
Total Equity	**67.0**	**85.8**	**107.4**	**139.1**	**177.1**
Invested capital	31.4	43.3	62.5	84.1	107.6
Net debt / (cash)	(30.8)	(39.6)	(41.9)	(51.9)	(66.3)
ROA	10.6	15.5	16.6	20.3	19.9
ROE	13.7	21.6	23.3	26.6	24.8
ROIC	26.5	40.5	38.3	38.6	34.1

INCOME STATEMENT

(Unit:KRWbn)	2016	2017	2018F	2019F	2020F
Revenue	**73.6**	**102.2**	**119.6**	**133.6**	**147.4**
Growth (%)	45.7	38.8	17.0	11.7	10.3
Operating Profit	**13.8**	**19.5**	**26.1**	**36.4**	**42.0**
Growth (%)	229.0	40.9	34.3	39.3	15.5
EBITDA	16.3	22.3	29.5	40.1	46.1
Non-operating Gains/Losses	**(0.7)**	**1.6**	**2.6**	**5.6**	**8.2**
Net Interest Income	0.3	0.4	1.4	0.4	0.4
Foreign Currency Gains	0.7	(0.6)	0.0	0.0	0.0
Equity Method Gains	(0.3)	(0.9)	1.2	5.2	7.8
Pre-tax Profit	**13.1**	**21.1**	**28.8**	**42.0**	**50.2**
Net Profit	**8.5**	**16.4**	**22.3**	**32.6**	**39.0**
Net profit attributable to controlling interest	8.4	16.2	21.7	31.7	37.9
Growth (%)	164.5	92.0	36.2	46.4	19.6
NOPLAT	**9.0**	**15.1**	**20.3**	**28.3**	**32.7**
(+) Dep	2.4	2.8	3.4	3.7	4.0
(-) Wc	(2.8)	(10.6)	0.4	0.1	0.2
(-) Capex	0.0	24.8	21.9	24.9	27.0
OpFCF	14.2	3.8	1.4	7.0	9.5
3 Yr CAGR & Margins					
Revenue growth(3Yr)	51.2	28.2	33.3	22.0	13.0
OP growth(3Yr)	n/a	33.1	84.0	38.1	29.3
EBITDA growth(3Yr)	n/a	36.7	64.1	35.1	27.4
NP growth(3Yr)	n/a	27.8	90.5	56.4	33.6
OP margin (%)	18.8	19.0	21.8	27.2	28.5
EBITDA margin (%)	22.1	21.8	24.7	30.0	31.3
NP margin (%)	11.6	16.0	18.6	24.4	26.5

CASH FLOW

(Unit:KRWbn)	2016	2017	2018F	2019F	2020F
Operating cash flow	**15.4**	**27.1**	**23.6**	**30.3**	**34.1**
Net Profit	8.5	16.4	22.3	32.6	39.0
Depr. & Amort.	2.4	2.8	3.4	3.7	4.0
Chg in Working Capital	0.4	5.3	(0.4)	(0.1)	(0.2)
Chg in Accounts Receivable	(1.9)	(3.3)	2.4	(0.3)	(1.0)
Chg in inventories	(0.4)	(0.3)	(1.0)	(0.1)	(0.3)
Chg in Accounts Payable	1.1	4.4	(1.8)	0.4	1.2
Investing cash flow	**(3.8)**	**(28.7)**	**(21.8)**	**(20.9)**	**(20.4)**
Chg in Short-term Investments	(2.0)	(7.0)	(0.6)	(0.6)	(0.6)
Chg in Long-term Investment Securities	0.0	5.3	1.1	5.0	7.6
Capex	(0.0)	(24.8)	(21.9)	(24.9)	(27.0)
Disposal of Tangible & Intangible Assets	(0.0)	(0.7)	(0.1)	(0.1)	(0.1)
Financing cash flow	**(0.0)**	**2.5**	**0.0**	**0.0**	**0.0**
Chg in debt	0.0	0.0	0.0	0.0	0.0
Chg in Equity	0.0	2.5	0.0	0.0	0.0
Dividend Payout	0.0	0.0	0.0	0.0	0.0
Chg in Cash	12.0	0.5	1.8	9.4	13.7
Gross cash flow	**17.0**	**25.1**	**24.0**	**30.4**	**34.4**
(-) Chg in WC	(2.8)	(10.6)	0.4	0.1	0.2
(-) Capex	0.0	24.8	21.9	24.9	27.0
(+) Disposal of Assets	(0.0)	(0.7)	(0.1)	(0.1)	(0.1)
Free Cash Flow	19.6	10.2	1.7	5.3	7.1
(-) Other Investments	0.0	(5.3)	(1.1)	(5.0)	(7.6)
Free Cash	19.6	15.5	2.7	10.4	14.8

KEY INDICATOR

(Unit:KRW,x,%)	2016	2017	2018F	2019F	2020F
Per share Data (w)					
EPS	246	471	626	916	1,095
BPS	1,042	1,611	2,306	3,286	4,440
DPS	0	0	0	0	0
Valuation (x,%)					
PER	20.0	29.2	34.0	23.2	19.4
PBR	4.7	8.5	9.2	6.5	4.8
EV/EBITDA	8.4	19.6	23.5	17.1	14.5
Dividend yield	0.0	0.0	n/a	n/a	n/a
PCR	9.9	18.8	30.7	24.2	21.4
PSR	2.3	4.6	6.2	5.5	5.0
Stabilities (%)					
Liabilities Ratio	29.1	45.1	34.4	27.0	22.0
Net debt/Equity	CASH	CASH	CASH	CASH	CASH
Net debt/EBITDA	CASH	CASH	CASH	CASH	CASH
Current ratio	237.1	167.7	179.8	209.2	247.5
Interest coverage ratio	n/a	n/a	n/a	n/a	n/a
Interest/revenue	n/a	n/a	0.7	0.6	0.5
Asset Structure					
IC	42.7	45.6	53.4	56.4	57.4
Cash + IC(%)	57.3	54.4	46.6	43.6	42.6
Capital Structure					
Debt/Asset	0.0	0.0	0.0	0.0	0.0
Equity/Asset	100.0	100.0	100.0	100.0	100.0

Source: DBS Bank
Note: Results are consolidated
*Asset = Equity + Debt, P/E is derived by using diluted EPS.

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BUY: Expected to produce a return between 15% and 50% from the closing price of the day the stock is recommended
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The investment opinion presented in this report is based on the industry's outperformance relative to the market, and may differ from that of an individual stock.
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Neutral: The industry's return is expected to be in line with the average total return of KOSPI, over the next 12 months.
Underweight: The industry's return is expected to underperform the average total return of KOSPI, over the next 12 months.

Notes) The industry's return is on a risk-adjusted basis

Recent 2yr. Rating and TP Change

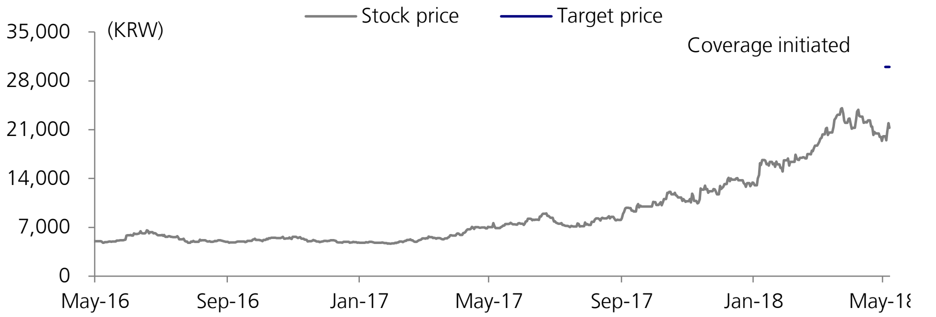
JYP Entertainment (035900 KS)

Date	2018.05.16
Rating	BUY
TP	30,000
Date	
Rating	
TP	

Source: DBS Bank
Analyst Name: Regional Research Team

Recent 2yr. TP Change

JYP Entertainment (035900 KS)



Source: DBS Bank
Analyst Name: Regional Research Team

Completed Date: 21 May 2018 11:42:30 (HKT)
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