

# YG Entertainment (122870)

Positive
Neutral
Negative

## Artist update

- Big Bang special album *STILL ALIVE*: domestic pre-order sales 130,000 albums
- Big Bang in Japan
  - ✓ Release of special album *STILL ALIVE* in June
  - ✓ Dome concerts in May-Jun and Nov-Dec (250,000 attendants expected)
- Big Bang updates
  - ✓ Southeast Asia tour in 2H12, Closing Show or YG Family Concert in Dec
- Big Bang member activities
  - ✓ GD: album release and concerts in Aug
  - ✓ TOP: on-going movie filming
- 2NE1: album release in Jun and concerts in Jul as part of world tour
- Se7en: promotional activities (albums, ads) in Japan, Hong Kong
- Gummy: album release in 2H12 in Japan
- Psy
  - ✓ Album release and concerts in 3Q12
  - ✓ Member of *Superstar K4* judging panel, higher possibility of bolstering artist line-up
- Tablo: participation in Epik High album release, low earnings contribution
- New artist line-up
  - ✓ Debut of new girl group in 2H12 (five members announced, total number of members undecided)
  - ✓ Five members from *K-Pop Star*, debut period undecided
- Trainees: currently 30 trainees, 25 trainees in progress for debut in groups

## 2Q12 earnings overview

- Earnings guidance: sales expected at W100-120bn in 2012, OPM to pass 20%
- YG Family concert in Japan, Big Bang special album, March album sales, 2NE1's album to be reflected in results

## Others

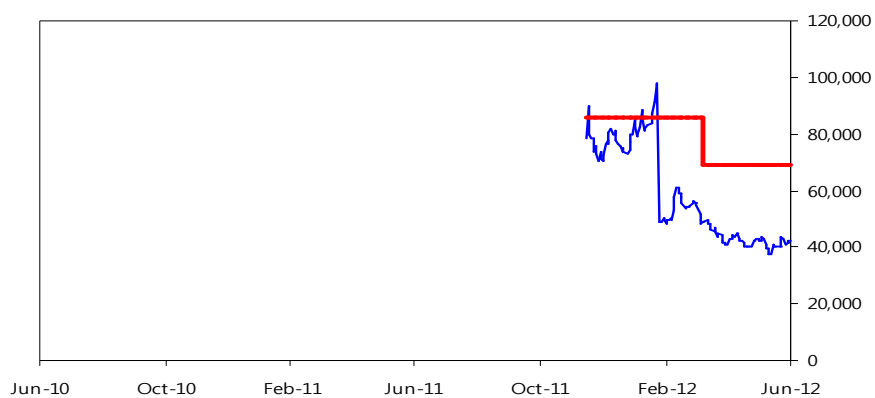
- Other business: start-up of other business using YG's strong brand power, opening of YG Shop on e-bay
- Changes to music usage fee: positive impact from higher music prices and introduction of pay-per-track or pay-per-download system, music market to grow
- *K-Pop Star Season 2*: YG participation likely, should lead to new artist recruitments

## Implication & Valuation

- OPM to jump from 22.2% in 2011 to 26.9% in 2012 due to higher royalty revenue from increased promotions of Big Bang, 2NE1, unit activities in Japan and start-up of other business using strong brand power
- 12MF PE at 12.0x
- Maintain BUY and TP of W69,000, derived by applying target 12MF PE of 19.4x

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
YG Entertainment Inc. (122870)	11-22-11	BUY	W85,600
	03-16-12	BUY	W69,000



■ **Guide to Korea Investment & Securities Co., Ltd. stock ratings based on absolute 12-month forward share price performance**

- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
- Underweight: Expected to give a return of +15% or less

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important Disclosures**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), Korea Investment & Securities Co., Ltd., or its affiliates does not own 1% or more of any class of common equity securities of YG Entertainment Inc..

There is no actual, material conflict of interest of the research analyst or Korea Investment & Securities Co., Ltd., or its affiliates known at the time of publication of the research report or at the time of the public appearance.

Korea Investment & Securities Co., Ltd., or its affiliates has not managed or co-managed a public offering of securities for YG Entertainment Inc. in the past 12 months;

Korea Investment & Securities Co., Ltd., or its affiliates has not received compensation for investment banking services from YG Entertainment Inc. in the past 12 months; Korea Investment & Securities Co., Ltd., or its affiliates does not expect to receive or intends to seek compensation for investment banking services from YG Entertainment Inc. in the next 3 months.

Korea Investment & Securities Co., Ltd., or its affiliates was not making a market in YG Entertainment Inc.'s securities at the time that the research report was published.

Korea Investment & Securities Co., Ltd. does not own over 1% of YG Entertainment Inc. shares as of June 8, 2012.

Korea Investment & Securities Co., Ltd. has not provided this report to various third parties.

Neither the analysts covering these companies nor their associates own any shares of as of June 8, 2012.

Prepared by: Shiwoo Kim

This report was written by Korea Investment & Securities Co., Ltd. to help its clients invest in securities. This material is copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of Korea Investment & Securities Co., Ltd. This report has been prepared by Korea Investment & Securities Co., Ltd. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. We make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. The final investment decision is based on the client's judgment, and this report cannot be used as evidence in any legal dispute related to investment decisions.