

# CJ Home Shopping (035760)

## Valuation should return to normal in 2009 on back of ROE recovery

16 March 2009

### ► Investment points

CJ Home Shopping's (CJHS) non-operating results are forecasted to turn around in 2009 just as its operating results did in 2008. Accordingly, its ROE is predicted to rise back to the two-digit level recorded three years ago. This means that its valuation should return to normal as well.

#### 1. ROE: 6.1% in 2008 → 13.1% in 2009E

CJHS' ROE has declined by a half during the past two year period due to sluggish non-operating results. But it is forecasted to rise back to the two digit level in 2009. This means that its 2009E P/B, currently standing at 1.1x, is likely to return to the previous high level as well.

#### 2. ROE to remain high even after this year thanks to selection and concentration

CJHS' ROE is predicted to remain high even after it rises back to the two-digit level this year, given that the company is employing the selection and concentration strategy. For instance, it is disposing of unviable subsidiaries, while strengthening overseas businesses.

#### 3. Risk factors: there exists an uncertainty related to stability of operating results

CJHS still doesn't have a fundamental solution that will improve its operating results. But its earnings will likely be somewhat protected by the recent solid insurance sales.

### ► Valuation

#### 1. Upgrade rating to BUY and raise TP to W62,000

Non-operating results are projected to significantly improve in 2009 thanks to the liquidation of unviable subsidiaries and the rapid earnings growth achieved by Dongfang CJ Home Shopping, a Chinese subsidiary. Based on the sum-of-the-parts method, we have arrived at the new target price of W62,000. We upgrade the investment rating as the new target price represents 24% upside potential from the current share price level.

### ► Earnings Forecasts

(Wbn, W, %, x)

	2006A	2007A	2008P	2009E	2010E	2011E	2012E
Sales	513	519	542	529	534	550	569
Chg (%)	13.6	1.2	4.6	(2.5)	0.9	3.0	3.5
OP	85	71	87	82	85	87	89
OP margin (%)	16.6	13.7	16.1	15.5	16.0	15.7	15.7
EBITDA	98	85	106	99	100	100	101
EBITDA margin (%)	19.1	16.3	19.5	18.7	18.8	18.2	17.8
NP	48	32	29	65	69	72	76
EPS (W)	4,881	2,877	2,629	5,934	6,249	6,539	6,901
DPS (W)	1,500	1,500	1,250	1,250	1,250	1,250	1,250
P/E (x)	15.8	18.2	19.0	8.4	8.0	7.6	7.2
EV/EBITDA (x)	10.2	8.9	7.4	7.2	6.7	6.3	5.8
P/B (x)	2.0	1.3	1.2	1.1	1.0	0.9	0.8
ROE (%)	12.3	6.8	6.1	13.1	12.4	11.8	11.3
Dividend yield (%)	1.9	2.9	2.5	2.5	2.5	2.5	2.5

Source: Eugene Investment & Securities

**BUY**(upgrade)

Change

**HOLD → BUY**

**W48,000 → W62,000**

#### Target Price & Expected Return

TP (12M)	W62,000
CP (Mar 13)	W50,000
Expected return	24.0%

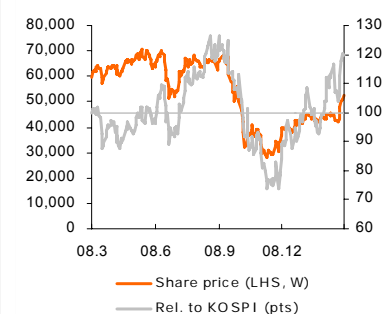
#### Trading Data

Market cap	W550.2bn
KOSPI portion	0.09%
# of outstanding shares ('000)	11,005
52w low/high	W28,200 / W70,500
3m daily avg trading val.	W4.2bn
Foreign ownership	25.0
Major shareholders (%)	
CJ Corp and three others	40.0
Sansar Capital Management, LLC	5.4
MacQuarie Bank Limited	5.1

#### Performance

	1M	6M	12M
Absolute (%)	11.9	(23.8)	(18.0)
Rel. to KOSPI (%)	17.4	0.0	12.3

#### Price Trend



## I. Valuation

Upgrade rating to BUY and raise TP to W62,000

We upgrade the investment rating to BUY from HOLD and increase the target price to W62,000 from W48,000. For the valuation, we used the sum-of-the-parts method as we did before. CJHS' total value is estimated to be W848.2bn, consisting of the operating value (W458.4bn or 54%) and the investment asset value (W389.8bn or 46%). This shows that the investment asset value is still greater than the operating value.

<Chart 1> SOTP valuation

(Wbn, W)

	Value	Remarks
<b>Operating value -----(A)</b>	<b>458.4</b>	
NOPAT	62.4	2009E NOPAT
Multiple	7.4	Market forward P/E of 10.5x discounted by 30%
<b>Investment securities value -----(B)</b>	<b>389.8</b>	Based on EV/EBITDA method
CJ Hellovision	107.7	(Implied subscriber value: W180,000)
Dreamcity	254.0	
Dongfang CJ	28.1	2008 net asset value x China's P/B of 2.43x
<b>Total corporate value -----(C)=(A)+(B)</b>	<b>848.2</b>	
<b>Net borrowings -----(D)</b>	<b>162.2</b>	2009E
<b>Equity value ---- (E) = (C) - (D)</b>	<b>686.0</b>	
No. of shares outstanding ('000)	11,004	
<b>Per share fair value</b>	<b>62,000</b>	

Source: Eugene Investment & Securities

Changes in valuation: 1. Value of a stake in Dongfang CJ Home Shopping was newly reflected; 2. System operation assets were valued based on EV/EBITDA method.

Investment assets remain the biggest variable determining CJHS' value. This is because their value is equal to, if not greater than, the operating value. This time, there were two changes in the way that we valued the investment assets. First, we reflected CJHS' stake in Dongfang CJ Home Shopping in the valuation for the first time. This is because we now view that the Chinese subsidiary's earnings growth is not temporary but sustainable considering the growth in its operating results. But we took a conservative approach given that there remains an uncertainty related to the possibility that CJHS will dispose of a part of its stake in the subsidiary. Second, we took a more conservative approach to the valuation of the system operation assets. Previously, we used the average of the two fair values derived from the EV/EBITDA valuation method and the per subscriber valuation method. But this time, we used the more conservative value of the two fair values (which happened to be the fair value derived from the EV/EBITDA method this time). This is because the system operation industry is exposed to an increasingly large risk due to the recent rapid changes of the media industry environment.

**<Table 1> SO valuation based on EV/EBITDA**

(Wbn)

	Ownership (%)	CJ CableNet	# of subscriber households	EBITDA	EV/EBITDA	EV	Net borrowings	Equity value	Stake value
	A	Ownership (%)	('000)	B	C	D = B x C	E	F = D - E	F x A
<b>Value of the stake in DreamCity</b>			<b>440</b>	<b>32.3</b>	<b>6</b>	<b>193.9</b>	<b>-72.1</b>	<b>266.0</b>	<b>254.0</b>
DreamCity Broadcasting	95.5		292	19.6	6.0		-72.0		
DreamCity Eunpyeong			148	12.7	6.0		-0.1		
<b>Value of a stake in CJ CableNet</b>			<b>1,614</b>	<b>65.8</b>	<b>4.7</b>	<b>306.9</b>	<b>97.8</b>	<b>209.2</b>	<b>107.7</b>
CJ CableNet Yangcheon			124	8.4	6.0		8.5		
CJ CableNet Kyungnam			509	11.0	4.0		8.1		
CJ CableNet Masan			248	10.4	4.0		9.9		
CJ CableNet North Incheon	51.5		260	15.8	6.0		20.2		
CJ CableNet Gaya			347	13.6	4.0		37.3		
CJ CableNet Chungbusan			126	6.5	4.0		13.8		
<b>Value of CJHS' stakes in SOs</b>									<b>361.7</b>

Source: Eugene Investment &amp; Securities

## II. Investment points

### II-1. Valuation should return to normal in 2009 on back of ROE recovery

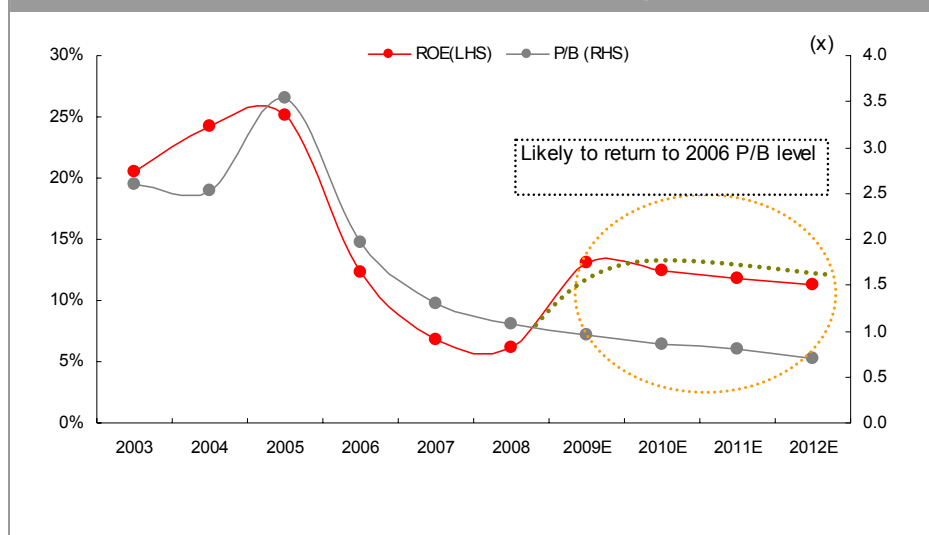
ROE: 6.1% in 2008 → 13.1% in 2009

During 2007~2008, CJHS' average ROE posted a 6% level, which is only about one third of the 20% recorded in 2004~2006 when home shopping companies were in their prime thanks to insurance policy sales. This ROE drop is attributed to that: 1) insurance policy sales have slowed down; 2) the company's profitability declined due to deteriorated operating conditions; and 3) its non-operating results also worsened as a result of reckless investments. But CJHS succeeded in turning around last year by enhancing the profitability through cost controls. It also restructured its loss-making subsidiaries and thus its net equity method gain is expected to rise from -W1.7bn in 2007 to +W18.0bn in 2009.

Valuation should return to normal in 2009 thanks to ROE recovery

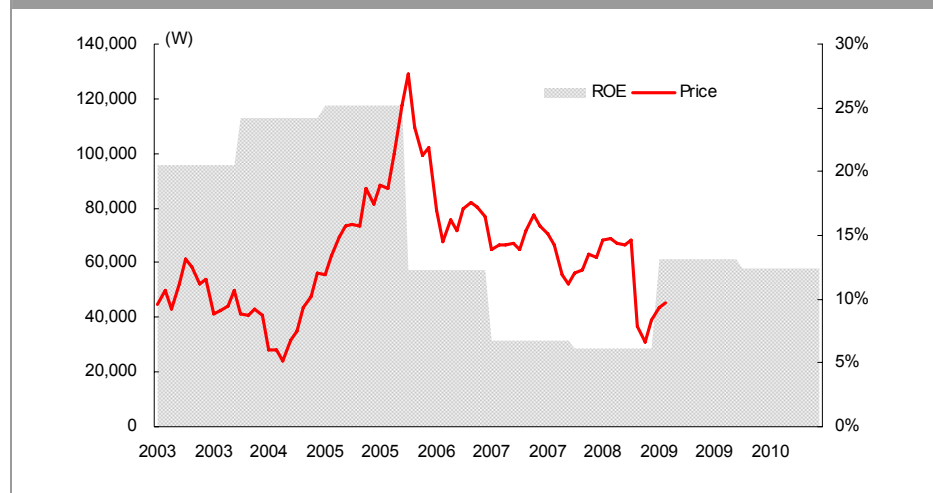
ROE is forecasted to rise back from the 6% level in 2007~2008 to a two-digit number in 2009 thanks to the aforesaid efforts to improve operating results as well as non-operating results. Accordingly, its valuation is likely to return to the previous years' level thanks to the ROE recovery. Of note, its 2009E P/B currently stands at 1.1x. If applying 2006 P/B of 2.0x to 2009E BPS, we arrive at a fair value of about W90,000/share. But it has to be discounted to some extent, given that 2006 was when home shopping companies were at the peak thanks to favorable insurance policy sales, but the current operating environment is not so favorable.

<Chart 2> Valuation should return to normal thanks to ROE recovery



Source: CJ Home Shopping, Eugene Investment & Securities estimates

<Chart 3> CJHS' ROE and share prices



Source: Eugene Investment & Securities estimates

## II-2. ROE to be sustainable considering selection & concentration strategy

### (1) Selection: liquidation of unhealthy subsidiaries

CJHS made new investments  
recklessly following insurance policy  
success

CJHS came to believe that the home shopping business had no limits after its introduction of insurance policy into home shopping ended in success. Following this, the company aggressively expanded its business, investing new businesses in a move to find new growth drivers. For instance, it made an investment in Mple Online (the second online shopping mall launched by a home shopping company, following GSeStore set up by GS Home Shopping) and entered the C2C market in Apr 2006. It also spent about W40bn in taking over stakes in DreamCity and Broadband Solutions Inc in a move to take the leadership in the system operation market in Jun 2006. The entry into the C2C market and the acquisition of stakes in system operators were somewhat inevitable because CJHS had to cope with the changing industry environment and boost the synergies among its businesses. Nevertheless, many concerns were voiced over the low profitability and efficiency of these investments.

Reckless investments, coupled with  
deteriorated environment of home  
shopping industry, result in profitability  
drop

These reckless investments led to a decrease in non-operating results. This, coupled with the OP drop caused by the deteriorated environment of the home shopping industry, led CJHS' profitability to decline in 2007. First, Mple Online incurred W20.8bn in net loss in its first year and thus had to conduct an additional right offering, but continued incurring net losses even after that. Second, CJHS incurred equity method loss of W9.4bn and W7.3bn, respectively, in 2007 and 2008, from Broadband Solutions Inc that it had taken over because it had to amortize goodwill of about W2bn each year. In the end, CJHS chose to dispose of its stake in Mple Online in late 2007 and disclosed in late 2008 that it had decided to transfer Broadband Solutions Inc to DCC (a Hyundai Department Store-affiliated system operator).

**<Table 2> CJHS' investments in major subsidiaries**

(Wmn)

Date	Subsidiary	Ownership after acquisition/disposal	Acquisition/disposal price	Investment or disposal objective	2008 equity method gain
<b>[Acquisition]</b>					
2002.04	MBC DramaNet	60.7%	12,229	Acquires a 60.7% stake in Dec 1996; has reduced the ownership to 28% in a move to strengthen competitiveness thru strategic alliance	1,515
2004.02	Shanghai SMG-CJ Home Shopping.co.ltd (Dongfang CJ Home Shopping)	49.0%	\$1,470	CJHS (49%) and SMG Group of China (51%) jointly invested to establish Dongfang CJ Home Shopping.	4,226
2004.06			\$4,900	→ Aims to predominate the Chinese home shopping market, taking advantage of SMG's media and entertainment infrastructure	
2006.02	Mple Online	100%	20,000	Launches the Internet market place business	
2006.06	DreamCity Broadcasting	95.5%	357,721	To produce synergy effects with the existing SOs and to reduce costs	(1,462)
2006.09	Broadband Solutions Inc	86.3%	43,850		
2008.04	Establishes CJ Worldis	60.0%	4,800	To lure core customers in their 20s~30s thru the ticketing site in a move to strengthen the online business	
2008.06	Establishes CMI Holdings Limited (Hong Kong)	100.0%	2,099	Increase the efficiency of the Chinese business	
<b>[Disposal]</b>					
2008.03	Mple Online	0.0%	(4,265)	Disposes of some of the remaining assets after the liquidation	(1,419)
2008.12	Broadband Solutions Inc	0.0%	(7,000)	Transfers less profitable digital media business division to DDC (Hyundai Department Store-affiliated system operator)	(7,309)
2009	MBC DramaNet			May be sold off	

Source: Eugene Investment &amp; Securities

Equity method gain should improve sharply in 2009 thanks to sales of unhealthy subsidiaries

Equity method gain is predicted to surge in 2009 thanks to the disposal of the two subsidiaries that accounted for the majority of CJHS' equity method loss. Specifically, its equity method gain is forecasted to turn positive, rising from -W1.7bn in 2008 to +W17.8bn in 2009. Accordingly, pretax NP and NP are also expected to turn around in 2009. In addition, CJHS is likely to sell MBC Dramanet, a 28% stake in which it currently owns. CJHS seems to have learned its lessons from the past two years' experience as to which to choose and which to lose, although it paid high costs.

**<Chart 4> Net equity method gain**

(Wbn)

	2006	2007	2008P	2009E	2010E	2011E	2012E
<b>Total</b>	<b>-8.3</b>	<b>-18.0</b>	<b>-1.7</b>	<b>17.8</b>	<b>18.1</b>	<b>20.0</b>	<b>22.0</b>
(YoY)		-117%	91%	1148.8%	1.7%	10.4%	10.1%
MBC Dramanet	6.0	3.8	1.5	1.4	1.6	1.5	1.6
<b>CJ Hellovision</b>	<b>8.1</b>	<b>1.7</b>	<b>5.0</b>	<b>12.9</b>	<b>8.8</b>	<b>10.0</b>	<b>10.7</b>
Broadband Solutions Inc	-3.3	-9.4	-7.3	0.0	0.0	0.0	0.0
Mple	-20.0	-17.3	-1.4	0.0	0.0	0.0	0.0
CJ Telenix	-0.8	0.4	0.9	0.9	0.8	0.8	0.7
<b>Dongfang CJ</b>	<b>0.0</b>	<b>1.3</b>	<b>4.2</b>	<b>6.6</b>	<b>10.2</b>	<b>13.2</b>	<b>14.4</b>
DreamCity	2.0	1.8	-1.5	-1.0	-1.3	-1.9	-2.6
CJ Venture Capital	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	-0.3	-3.2	-3.0	-2.0	-1.0	-1.0

Source: CJ Home Shopping, Eugene Investment &amp; Securities

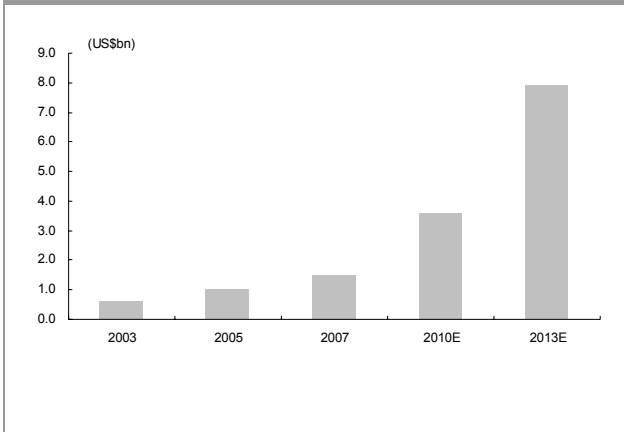
## (2) Concentration: strengthening of overseas businesses

Likely to focus resources on overseas businesses going forward

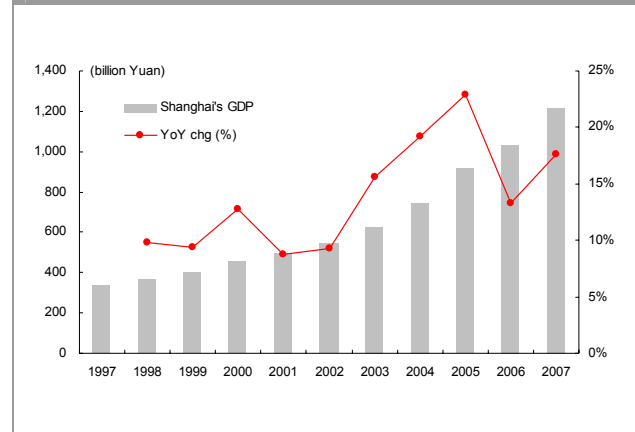
Since its loss-making subsidiaries have been disposed of, CJHS' non-operating business will center on system operators (eg, CJ Hellovision and DreamCity) and overseas businesses (eg, Dongfang CJ Home Shopping). In particular, Dongfang CJ Home Shopping, the Chinese subsidiary, is predicted to exhibit even more rapid growth as it was permitted to broadcast for 13 hours/day in Nov 2008 (or 5 hours/day more than before). Currently, there is a doubt as to whether Dongfang CJ Home Shopping will improve its earnings amid the current global economic slump. But after paying several visits to the subsidiary, we came to believe that its earnings are rising fast. Now, Dongfang CJ Home Shopping is expected to achieve consistent earnings growth on the back of strengthened marketing capabilities.

Dongfang CJ is projected to see 2009 sales and OP expand 90% and 85% yoy, respectively

In particular, Dongfang CJ Home Shopping broadcasts to 4.50mn subscriber households in Shanghai and 11mn subscriber households in China as a whole, as of end-2008. Its major customers are high income earners and Shanghai's annual average GDP growth has been 15% since 2000, a level higher than the other areas in China. Considering such high an income level, Dongfang CJ Home Shopping's earnings are forecasted to improve for the time being, although China's overall domestic demand is weak. Dongfang CJ Home Shopping generates gross sales of W40.7bn and OP of W3.3bn in Jan 2009 and gross sales of W30.5bn and OP of W1.6bn in Feb 2009. These figures are surprisingly high, given that its 2008 OP posted W9.6bn. For the whole year of 2009, Dongfang CJ Home Shopping's sales and OP are predicted to expand 90% and 85% yoy, respectively, to a little over W400.0bn and W13.5bn. Going forward, CJHS is expected to focus its resources on expanding its overseas business from Shanghai to other Chinese areas, India, and Vietnam.

**<Chart 5> China's home shopping market size**


Source: KOTRA

**<Chart 6> Shanghai's GDP growth**


Source: Bloomberg

**<Table 3> Dongfang CJ's income statement summary**

(W100mn)

	2004	2005	2006	2007	2008
<b>Handlings</b>	187.8	408.4	538.4	990.0	2,085.2
<b>Sales</b>	31.9	66.9	92.2	164.5	363.6
<b>GP</b>	44.7	38.7	56.2	107.3	253.1
	23.8%	9.5%	10.4%	10.8%	12.0%
<b>OP</b>	-27.5	-22.5	-1.1	25.3	95.8
	-14.6%	-5.5%	-0.2%	2.6%	4.5%
Non-operating profit	-	0.6	2.0	1.6	3.6
Non-operating expense	1.9	0.0	0.0	0.0	0.3
<b>RP</b>	-29.4	-21.9	0.9	26.8	9.0
Corporate tax	-	-	-	-	12.8
<b>NP</b>	-29.4	-21.9	0.9	26.8	99.0
	-15.6%	-5.4%	0.2%	2.7%	4.7%
Equity method gain or loss (49%)	-14.4	-10.8	0.4	13.1	42.3
Applied f/x rate (RMB/KRW)	137.9	125.1	119.8	122.1	159.1

Source: CJ Home Shopping

### III. Risk factors

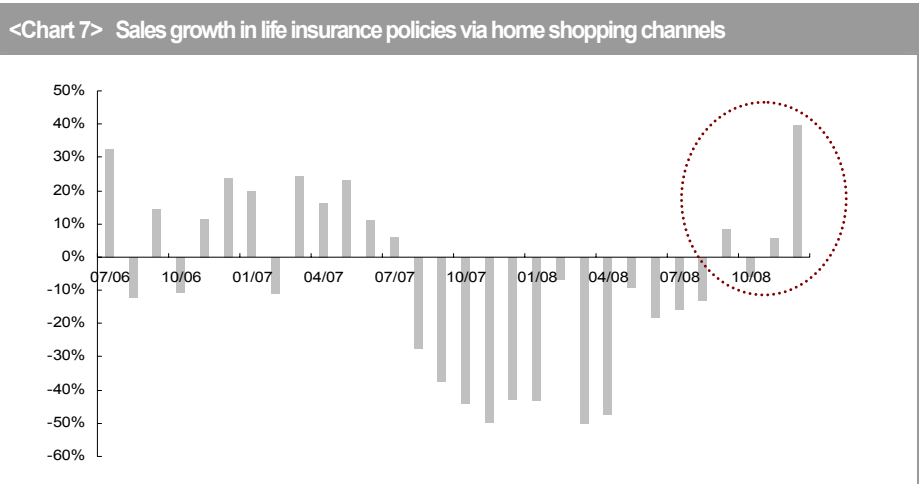
#### III-1. Uncertainty exists related to earnings of home shopping business

There exists an uncertainty associated with home shopping business

As mentioned above, CJHS' valuation is likely to return to normal thanks to the disposal of unhealthy subsidiaries and the successful Chinese business. But there remains a high uncertainty related to the earnings of the company's home shopping business. In 2008, its OP turned around thanks to cost reductions, but its handlings contracted 4% yoy. So its 2008 operating results fell a little short of a full-fledged turnaround. As its handlings are expected to contract yoy this year as well due to the economic downturn, the company needs to find fundamental solutions that will secure its earnings stability.

But recent solid sales of insurance will help CJHS protect its earnings

But it is a positive factor that its insurance policies are currently selling well. This is because an increasing number of policyholders are switching to less expensive insurance offered at home shopping channels amid the economic slump. Furthermore, as those insurance contracts are less expensive, policyholders are less burdened to continue paying premiums. Indeed, the 13th-month persistency rate of life insurance contracts sold at home shopping channels amount to an average of 84%, according to an industry data, which is not lower than the 82% persistency rate of insurance policies sold through insurance agents, and is much higher than the 68.5% persistency rate of insurance contracts sold via telemarketing or cybermarketing. So if the positive signal from insurance policy sales continues, the risk will be reduced to some extent.



Source: Korea Life Insurance Association

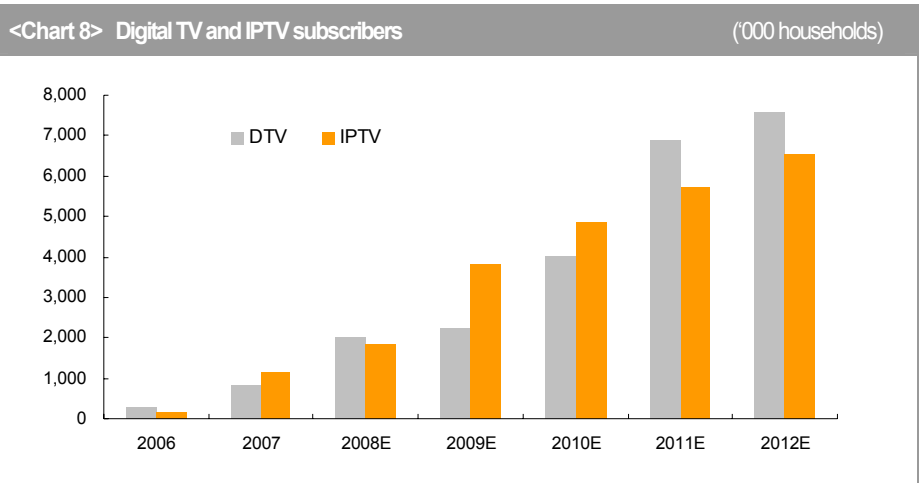
### III-2. Rapidly changing environment of broadcasting industry

IPTV introduction may intensify competition, thereby hurting profitability

CJHS produces and supplies television home shopping programs and thus is very sensitive to the ongoing changes in the broadcasting industry environment. As is already known, the introduction of IPTV may lead to an intense competition in the platform market, hurting the profitability. This is a risk for CJHS that owns large stakes in its system operator subsidiaries. To make a long story short, IPTV operators, which recently began offering real-time services, will also face intense competition and thus none of them are likely to dominate the market within a short period of time. On the part of system operators, they have earned some time to fight against the gigantic telecom service providers, by aggressively attracting digital service subscribers, but in doing so, their profitability is also likely to fall due to intense competition to predominate the market.

It is unreasonable to value CJHS based on the assumption that its system operators have as much subscriber value as “mergee” system operators

Possible M&As of system operators were raised as an issue again recently when Tbroad took over Qrix. Tbroad is estimated to have paid nearly W1mn/subscriber for Qrix, which shows that system operators’ subscriber base is considered to be valuable in the market. Furthermore, the Enforcement Ordinance of the Broadcasting Act was revised in Dec 2008, easing the regulations on system operators’ broadcasting coverage limit. Thus M&As are likely to increase going forward. But CJHS’ system operators are more likely to acquire other system operators than being taken over by them. Thus it is somewhat unreasonable to value CJHS based on the assumption that CJHS’ system operators have as much subscriber value as “mergee” system operators.



Source: Eugene Investment & Securities

## VI. Earnings forecast

2009 handlings and OP are predicted to decrease 3.5% and 5.9% yoy, respectively. But pretax NP and NP are likely to turn around on the back of the growth in equity method gains.

CJHS predicted its handlings and OP to increase 7.0% and 9.0% yoy, respectively, in 2009. But we forecast that its handlings will rather shrink 3.5% yoy due to reduced consumption and OP will also decline 5.9% yoy to W82.1bn. We believe that our estimates are comfortably achievable even if the company suffers from a decrease in insurance sales, contrary to our expectation, because the portion of the broadcasting time for which vendors are charged with a fixed amount of commissions (instead of a certain percentage of handlings) is on the rise. Above all, we expect pretax NP and NP to rise back to W85.9bn and W65.3bn, respectively, thanks to: 1) the disposal of unviable subsidiaries; and 2) the sharp growth in equity method gains from healthy subsidiaries such as Dongfang CJ Home Shopping.

	2005	2006	2007	2008P	2009E	2010E	2011E	2012E
<b>Earnings</b>								
<b>Gross Merchandise Sales(GMS)</b>	<b>1,313.7</b>	<b>1,545.7</b>	<b>1,523.5</b>	<b>1,463.0</b>	<b>1,412.1</b>	<b>1,426.2</b>	<b>1,469.0</b>	<b>1,521.9</b>
CATV	887.7	1,001.4	881.9	872.4	847.3	860.0	888.8	920.8
Catalog	97.6	134.2	155.6	161.3	161.0	164.0	166.0	173.5
Internet	300.3	395.8	458.2	388.7	353.0	356.6	367.3	380.5
Others	28.1	14.3	27.8	40.6	50.8	45.6	47.0	47.2
<b>Net Sales</b>	<b>451.6</b>	<b>512.8</b>	<b>518.8</b>	<b>542.5</b>	<b>528.9</b>	<b>533.6</b>	<b>549.8</b>	<b>569.0</b>
CATV	333.8	395.7	364.8	389.7	379.6	385.8	398.2	412.8
Catalog	38.0	42.7	60.4	63.8	63.2	64.3	66.0	68.4
Internet	54.1	66.5	71.1	62.9	55.6	56.2	57.4	59.4
Others	25.7	8.0	22.5	26.1	30.5	27.4	28.2	28.3
<b>Gross Profit</b>	<b>439.9</b>	<b>505.1</b>	<b>506.3</b>	<b>516.1</b>	<b>505.6</b>	<b>512.3</b>	<b>529.2</b>	<b>548.1</b>
% of GMS	33.5%	32.7%	33.2%	35.3%	35.8%	35.9%	36.0%	36.0%
% of Net Sales	97.4%	98.5%	97.6%	95.1%	95.6%	96.0%	96.3%	96.3%
<b>SG&amp;A</b>	<b>362.0</b>	<b>419.9</b>	<b>435.5</b>	<b>428.8</b>	<b>423.5</b>	<b>426.9</b>	<b>442.6</b>	<b>459.0</b>
(YoY)		16.0%	3.7%	-1.5%	-1.2%	0.8%	3.7%	3.7%
Personnel cost	65.6	71.5	69.3	73.1	76.3	79.0	81.5	84.1
Commissions paid	115.2	132.0	125.3	124.7	129.9	135.4	141.1	147.0
SO Commission	54.6	57.3	68.8	74.2	77.9	81.8	85.9	90.2
Others(including credit card fee)	60.6	74.7	56.5	50.5	52.0	53.6	55.2	56.8
Advertising cost	94.6	116.8	132.0	127.8	113.0	114.1	117.5	121.8
Transportation cost	28.4	32.5	37.9	37.2	39.9	39.9	41.1	42.6
Others	58.3	67.1	70.9	66.1	64.4	58.5	61.3	63.5
<b>Operating Profit</b>	<b>77.9</b>	<b>85.2</b>	<b>70.9</b>	<b>87.3</b>	<b>82.1</b>	<b>85.4</b>	<b>86.6</b>	<b>89.1</b>
(YoY)	52.3%	9.3%	-16.8%	23.1%	-5.9%	4.1%	1.4%	2.9%
(% of GMS)	5.9%	5.5%	4.7%	6.0%	5.8%	6.0%	5.9%	5.9%
<b>YoY Chg.</b>								
<b>Gross Merchandise Sales</b>	<b>6.1%</b>	<b>17.7%</b>	<b>-1.4%</b>	<b>-4.0%</b>	<b>-3.5%</b>	<b>1.0%</b>	<b>3.0%</b>	<b>3.6%</b>
CATV	7%	13%	-12%	-1%	-3%	2%	3%	4%
Catalog	-5%	37%	16%	4%	0%	2%	1%	5%
Internet	13%	32%	16%	-15%	-9%	1%	3%	4%
Others	-25%	-49%	94%	46%	25%	-10%	3%	0%
<b>Net Sales</b>	<b>9.7%</b>	<b>13.6%</b>	<b>1.2%</b>	<b>4.6%</b>	<b>-2.5%</b>	<b>0.9%</b>	<b>3.0%</b>	<b>3.5%</b>
CATV	11.9%	18.5%	-7.8%	6.8%	-2.6%	1.6%	3.2%	3.7%
Catalog	-5.4%	12.3%	41.6%	5.6%	-1.0%	1.8%	2.7%	3.7%
Internet	10.2%	23.1%	6.9%	-11.5%	-11.6%	1.0%	2.1%	3.6%
Others	6.5%	-69.1%	182.9%	16.0%	16.9%	-10.2%	3.0%	0.4%
<b>Channel Mix</b>								
<b>ToTal</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
CATV	67.6%	64.8%	57.9%	59.6%	60.0%	60.3%	60.5%	60.5%
Catalog	7.4%	8.7%	10.2%	11.0%	11.4%	11.5%	11.3%	11.4%
Internet	22.9%	25.6%	30.1%	26.6%	25.0%	25.0%	25.0%	25.0%
Others	2.1%	0.9%	1.8%	2.8%	3.6%	3.2%	3.2%	3.1%

Source: CJ Home Shopping, Eugene Investment & Securities

## Financial statements

### Balance Sheet

YE Dec (Wbn)	2006A	2007A	2008P	2009E	2010E
<b>Current assets</b>	91.3	98.1	121.6	98.8	110.6
Cash & short-term investment	45.6	24.6	44.7	22.2	33.7
Trade accounts receivable	20.8	33.3	35.0	34.4	34.2
Inventories	3.2	2.7	4.0	3.9	3.9
<b>Fixed assets</b>	764.9	790.4	841.4	828.8	845.3
Investment assets	685.4	679.4	722.2	724.6	754.0
Tangible assets	49.2	74.3	86.4	79.9	73.2
Intangible assets	30.2	36.8	32.8	24.4	18.2
<b>Total assets</b>	856.2	888.6	963.0	927.7	955.9
<b>Current liabilities</b>	178.6	190.5	193.1	194.9	196.8
Trade accounts payable	2.7	2.3	3.0	3.0	3.0
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Current portion of long-term debts	0.0	0.0	0.0	0.0	0.0
<b>Long-term liabilities</b>	218.4	220.0	296.2	207.0	178.0
Debentures and long-term borrowings	197.4	198.3	274.5	184.5	154.5
Others	21.0	21.7	21.7	22.6	23.5
<b>Total liabilities</b>	397.0	410.5	489.2	402.0	374.8
Paid-in capital	55.0	55.0	55.0	55.0	55.0
Capital surplus	175.1	178.2	200.0	200.0	200.0
Capital adjustment	22.5	23.3	(15.4)	(15.4)	(15.4)
Treasury stock	(11.6)	0.0	(20.5)	(20.5)	(20.5)
Eamed surplus	206.6	221.6	234.0	286.0	341.4
<b>Total equity</b>	459.2	478.1	473.7	525.7	581.1
Total borrowings	197.4	198.3	274.5	184.5	154.5
Net borrowings (net cash)	151.8	173.8	229.8	162.2	120.7
Invested capital	(52.8)	(14.9)	13.4	(3.2)	(17.4)

### Income Statement

YE Dec (Wbn)	2006A	2007A	2008P	2009E	2010E
<b>Sales</b>	512.8	518.8	542.5	528.9	533.6
Chg (%)	13.6	1.2	4.6	(2.5)	0.9
<b>GP</b>	505.1	506.3	516.1	505.6	512.3
GP margin (%)	98.5	97.6	95.1	95.6	96.0
<b>SG&amp;A expenses</b>	419.9	435.5	428.8	423.5	426.9
Chg (%)	16.0	3.7	(1.5)	(1.2)	0.8
<b>OP</b>	85.2	70.9	87.3	82.1	85.4
Chg (%)	9.3	(16.8)	23.1	(5.9)	4.1
<b>EBITDA</b>	98.0	84.6	105.7	98.9	100.2
Chg (%)	7.7	(13.7)	24.9	(6.4)	1.3
<b>Non-operating OP</b>	(14.5)	(33.4)	(52.7)	3.9	2.8
Interest income	5.0	3.4	2.6	3.2	3.2
Interest expense	6.8	10.1	10.9	11.6	10.1
Foreign currency related gain/loss	3.0	(0.9)	(26.1)	(15.0)	0.0
Equity method gains/losses	(8.3)	(17.8)	(1.5)	1.0	1.9
Other non-operating OP	(7.4)	(8.0)	(16.8)	26.3	7.7
<b>Pretax income from cont. operations</b>	70.7	37.4	34.5	85.9	88.2
Corporate tax	22.5	5.8	5.6	20.6	19.4
<b>Profit from discontinued operations</b>	0.0	0.0	0.0	0.0	0.0
<b>NP</b>	48.2	31.6	28.9	65.3	68.8
Chg (%)	(27.6)	(34.4)	(8.6)	125.7	5.3
NP margin (%)	9.4	6.1	5.3	12.3	12.9
<b>EPS</b>	4,881	2,877	2,629	5,934	6,249
Chg (%)	(35.4)	(41.0)	(8.6)	125.7	5.3
<b>Fully diluted EPS</b>			2,629	5,934	6,249
Chg (%)				125.7	5.3

### Cash Flow Statement

YE Dec (Wbn)	2006A	2007A	2008P	2009E	2010E
<b>Operating cash flow</b>	(6.5)	57.7	92.1	40.8	67.7
NP	48.2	31.6	28.9	65.3	68.8
Depr. & amort.	12.8	13.7	18.4	16.8	14.8
Other non-cash items	12.9	29.6	43.5	(43.5)	(17.5)
Chg in working capital	(80.4)	(17.3)	1.2	2.1	1.7
Dec (Inc) in receivable	(1.6)	(12.8)	(1.7)	0.6	0.1
Dec (Inc) in inventory	0.1	0.4	(1.3)	0.1	0.0
Inc (Dec) in payable	1.4	(0.4)	0.7	(0.1)	(0.0)
Others	(80.4)	(4.5)	3.4	1.5	1.5
<b>Investing cash flow</b>	(418.2)	(78.1)	(86.1)	40.1	(12.9)
Disposal (acquisition) of ST inv. assets	30.0	0.0	(0.0)	(0.0)	(0.0)
Disposal (acq.) of LT inv. securities	(421.9)	(36.6)	(61.7)	42.0	(11.0)
Facility investment	(12.5)	(31.4)	(29.0)	(1.5)	(1.5)
Disposal of tangible assets	3.3	0.0	2.7	0.0	0.0
Dec (Inc) in intangible assets	(20.7)	(18.6)	(0.3)	(0.4)	(0.4)
<b>Financing cash flow</b>	298.4	(0.7)	13.1	(103.3)	(43.3)
Inc (Dec) in borrowings	195.0	0.0	50.0	(90.0)	(30.0)
Inc (Dec) in equity	103.3	(0.7)	(36.9)	(13.3)	(13.3)
Dividend payout	19.7	16.1	16.5	13.3	13.3
<b>Inc (Dec) in cash</b>	(126.3)	(21.0)	19.1	(22.5)	11.5
Beginning cash	171.9	45.6	24.5	43.6	21.1
Ending cash	45.6	24.5	43.6	21.1	32.6
<b>Gross cash flow</b>	74.0	75.0	90.9	38.7	66.1
<b>Gross investment</b>	528.7	95.4	84.9	(42.2)	11.2
<b>Free cash flow</b>	(454.7)	(20.4)	6.0	80.9	54.8

### Financial Ratios

YE Dec	2006A	2007A	2008P	2009E	2010E
<b>Per share data (W)</b>					
EPS	4,881	2,877	2,629	5,934	6,249
BPS	39,026	40,108	40,064	45,555	51,155
DPS	1,500	1,500	1,250	1,250	1,250
<b>Valuation (x, %)</b>					
P/E	15.8	18.2	19.0	8.4	8.0
P/B	2.0	1.3	1.2	1.1	1.0
P/C	10.3	7.7	6.1	14.2	8.3
EV/EBITDA	10.2	8.9	7.4	7.2	6.7
Dividend yield	1.9	2.9	2.5	2.5	2.5
<b>Profitability (%)</b>					
OP margin	16.6	13.7	16.1	15.5	16.0
EBITDA margin	19.1	16.3	19.5	18.7	18.8
NP margin	9.4	6.1	5.3	12.3	12.9
ROE	12.3	6.8	6.1	13.1	12.4
ROIC	na	na	na	na	na
<b>Stability (%., x)</b>					
Net debt/equity ratio	33.1	36.3	48.5	30.9	20.8
Current ratio	51.1	51.5	63.0	50.7	56.2
Interest coverage ratio	48.2	10.5	10.6	9.7	12.4
<b>Activity (x)</b>					
Total asset turnover	0.7	0.6	0.6	0.6	0.6
Receivable turnover	25.5	19.2	15.9	15.3	15.6
Inventory turnover	158.6	175.2	160.9	133.2	135.8
Payable turnover	256.3	206.9	203.2	175.4	178.9

Source: Eugene Investment &amp; Securities

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Revised	Previous
<ul style="list-style-type: none"> <li>• STRONG BUY : The share price is expected to rise more than 50%</li> <li>• BUY: The share price is expected to rise 15%~less than 50%</li> <li>• HOLD: The share price is expected to rise 5%~less than 15%</li> <li>• REDUCE: The share price is expected to rise less than 5%</li> </ul>	<ul style="list-style-type: none"> <li>• BUY 1: The share price is expected to rise more than 25%</li> <li>• BUY 2: The share price is expected to rise 15%~less than 25%</li> <li>• HOLD: The share price is expected to rise 5%~less than 15%</li> <li>• REDUCE: The share price is expected to rise less than 5%</li> </ul>

**Investment ratings and target prices for the past two years**

Date	2006.08.21	2006.10.17	2008.03.25	2008.04.29	2008.06.16	2008.10.01
Rating	BUY	BUY	BUY2	BUY	HOLD	HOLD
TP	145,000	145,000	73,000	73,000	73,000	73,000
Date	2008.10.28	2009.01.05	2009.03.16			
Rating	HOLD	HOLD	BUY			
TP	48,000	48,000	62,000			

**Target price for the past two years**



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