

Studio Dragon (253450.KQ)

Ready to spread both wings

Helped by favorable distribution sales, Studio Dragon's 3Q18 results show clear margin improvement. The improving production quality of the firm's dramas is to be the foundation for further healthy earnings growth. Also important in spurring this growth momentum should be the company's planned entry into the Chinese market and expanded partnerships with major global entertainment players.

3Q18 review: Better quality of dramas driving earnings growth

Studio Dragon posted consolidated 3Q18 sales of W123.7bn (+59.7% y-y) and OP of W21.5bn (+223.0% y-y). Distribution sales proved favorable, led by tent-pole drama Mr. Sunshine and non-tent-pole dramas such as What's Wrong with Secretary Kim and Familiar Wife. Boasting improved production quality, Studio Dragon's dramas delivered an average 3Q18 viewership rating of 7.3%, a record high for the company. Moreover, the firm enjoyed both higher product placement demand and strong VOD sales.

Further evidence of greater production quality to be seen in 4Q18

Captaining Studio Dragon's 4Q18 offerings is to be Memories of the Alhambra (to air on tvN from Dec 1), with the tent-pole drama's overseas sales from both China and global OTT players anticipated to come in sound. Another of its tent-pole dramas on tap for 4Q18, Encounter, should register high overseas distribution sales thanks to its casting of popular stars Park Bo-Gum and Song Hye-Gyo. But, given that the programming dates for both dramas are to span into 1Q19, the booking of distribution sales is to be divided over 4Q18 and 1Q19.

Also likely to contribute towards robust distribution sales is the strengthening market presence of some of Studio Dragon's non-tent-pole dramas (including 100 Days My Prince and Tale of Fairy). Although a new drama slot added to Olive TV (a new captive channel) could sap viewership numbers due to Olive TV's relatively low market presence (versus the other channels on which Studio Dragon's dramas are featured), we positively view the fact that the company is diversifying its spectrum of drama genres.

3Q18 review (K-IFRS consolidated)

(Units: Wbn, %)

	3Q17	4Q17	1Q18	2Q18	3Q18P					4Q18E
					Actual	y-y	q-q	Estimate	Consen	
Sales	77.5	72.0	79.9	74.3	123.7	59.7	66.5	108.7	121.6	119.4
OP	6.7	3.5	10.7	7.3	21.5	223.0	193.3	24.0	24.1	19.3
OPM	8.6	4.8	13.3	9.9	17.4	-	-	22.1	19.8	16.2
Pre-tax profit	6.4	1.7	10.8	11.0	22.1	246.8	91.7	23.7	26.1	18.5
NP (excl minority interests)	5.7	2.0	7.9	8.9	17.3	206.3	84.4	19.0	21.3	15.0

Note: K-IFRS consolidated; Source: Studio Dragon, WISEfn, NH I&S Research Center estimates

Buy (maintain)

TP **W150,000 (maintain)**
CP (2018/11/07) **W97,500**

Sector	Entertainment
Kospi/Kosdaq	2,078.69 / 682.37
Market cap (common)	US\$2,443.3mn
Outstanding shares (common)	28.0mn
52W high ('18/07/12)	W119,800
low ('17/12/07)	W57,800
Average trading value (60D)	US\$16.0mn
Dividend yield (2018E)	0.00%
Foreign ownership	2.3%

Major shareholders	
CJ ENM & 3 others	75.7%

Share perf	3M	6M	12M
Absolute (%)	5.7	16.2	0.0
Relative (%)p	21.6	45.8	0.0

	2017	2018E	2019F	2020F
Sales	286.8	397.3	551.4	633.0
Chg	85.8	38.5	38.8	14.8
OP	33.0	58.8	108.4	140.8
OPM	11.5	14.8	19.7	22.2
NP	23.8	48.1	88.2	114.1
EPS	1,050	1,715	3,146	4,069
Chg	84.5	63.3	83.4	29.3
P/E	61.9	56.8	31.0	24.0
P/B	4.9	6.6	5.4	4.4
EV/EBITDA	22.1	19.6	12.4	9.7
ROE	9.5	12.3	19.1	20.3
Debt/equity	24.7	20.4	17.6	15.1
Net debt	-182.2	-197.1	-273.0	-384.2

Units: Wbn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, and ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates



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To enter Chinese market; global OTT player partnerships to expand

Going forward, we expect Studio Dragon to: 1) enter the Chinese market by way of cooperation for joint drama production and the export of its existing drama IPs to China; and 2) reinforce its partnerships with global OTT players, supported by the production of original series and higher exports of the firm's drama IPs.

We maintain Studio Dragon as our top pick for the content industry, believing that the firm is well-positioned to benefit from both improving China-Korea relations and ongoing global OTT industry expansion.

Earnings forecasts (IFRS-consolidated)

(Units: Wbn, won, x, %)

		2017	2018E	2019F	2020F
Sales	- Revised	286.8	397.3	551.4	633.0
	- Previous	286.8	375.2	545.1	643.6
	- Change		5.9	1.2	-1.6
OP	- Revised	33.0	58.8	108.4	140.8
	- Previous	33.0	63.0	112.3	145.6
	- Change		-6.7	-3.5	-3.3
OPM	- Revised	11.5	14.8	19.7	22.2
EBITDA		74.3	129.6	198.9	241.9
NP (excl minority interests)		23.8	48.1	88.2	114.1
EPS	- Revised	1,050	1,715	3,146	4,069
	- Previous		1,823	3,257	4,206
	- Change		-5.9	-3.4	-3.3
P/E		61.9	56.8	31.0	24.0
P/B		4.9	6.6	5.4	4.4
EV/EBITDA		22.1	19.6	12.4	9.7
ROE		9.5	12.3	19.1	20.3

Note: EPS, P/E, P/B and ROE based on NP (excluding minority interests)

Source: NH I&S Research Center estimates

Earnings forecasts, by division

(Units: episodes, Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18P	4Q18E	2017	2018E	2019F
Number of dramas	4	6	6	7	6	6	6	7	22	24	30
TV (domestic)	4	6	6	7	6	6	6	7	22	24	28
OTT	-	-	-	-	-	-	-	-	-	-	2
Sales	75.3	62.1	77.5	71.9	79.9	74.3	123.7	119.4	286.8	397.3	551.4
Broadcasting revenue	26.3	24.1	41.8	39.0	40.7	34.1	48.9	54.0	131.2	177.7	201.7
IP + VOD	36.5	26.3	23.3	25.7	32.1	28.8	63.4	53.6	111.8	177.9	298.7
Other (DVD, OST)	12.5	11.6	12.4	7.2	7.1	11.4	11.4	11.8	43.7	41.7	50.9
y-y (%)	-	-	-	-	6.0	19.6	59.7	66.2	46.7	38.5	38.8
COGS	58.6	49.9	66.8	64.4	66.2	63.7	98.9	96.8	239.7	325.6	427.7
Production costs	35.2	31.8	38.2	44.5	44.6	33.3	61.9	65.6	149.7	205.4	283.5
Amortization costs	9.9	9.8	10.3	10.9	12.7	13.1	23.8	21.0	41.0	70.6	90.3
Other	13.4	8.3	18.2	9.0	8.9	17.2	13.1	10.3	49.0	49.6	53.9
GP	16.8	12.2	10.7	7.4	13.6	10.6	24.8	22.6	47.1	71.7	123.7
GPM	22.2	19.6	13.9	10.4	17.1	14.3	20.1	19.0	16.4	18.0	22.4
OP	14.0	8.9	6.7	3.5	10.7	7.3	21.5	19.3	33.1	58.8	108.4
OPM	18.5	14.3	8.7	4.8	13.3	9.9	17.4	16.2	11.5	14.8	19.7
y-y (%)	-	-	-	-	-23.7	-17.6	218.5	459.0	-	77.8	84.4
NP	13.4	2.8	5.7	2.0	7.9	8.9	17.3	14.1	23.8	48.2	88.2
NPM	17.8	4.5	7.3	2.8	9.8	12.0	14.0	11.8	8.3	12.1	16.0

Note: Number of dramas based on those aired in each quarter (If a drama is aired for two consecutive quarters, 0.5 is reflected in each quarter)

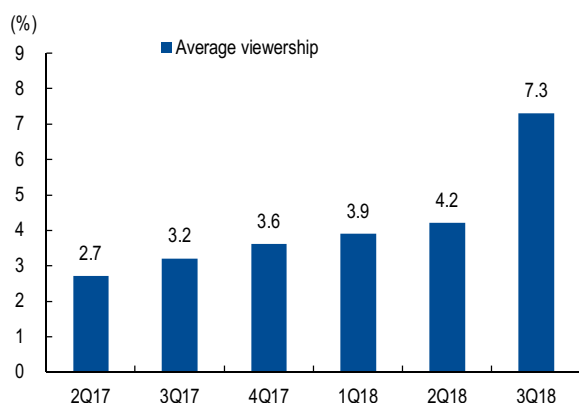
Source: NH I&S Research Center estimates

Studio Dragon's 2H18 drama line-up

Title	Airing date	Quarter	Channel	Type	Highest viewership	Remarks
What's Wrong with Secretary Kim	18.06.06~18.07.26	2Q, 3Q	tvN	16 episodes (Wednesday, Thursday)	8.4%	
Life on Mars	18.06.16~18.08.05	2Q, 3Q	OCN	16 episodes (Saturday, Sunday)	5.6%	Remade from BBC drama series
Mr. Sunshine	18.07.07~18.09.30	3Q	tvN	24 episodes (Saturday, Sunday)	17.5%	Tent-pole (featuring BH Lee and TR Kim)
Familiar Wife	18.08.01~18.09.20	3Q	tvN	16 episodes (Wednesday, Thursday)	7.9%	
Voice 2	18.08.11~18.09.16	3Q	OCN	12 episodes (Saturday, Sunday)	6.8%	Benefits from a prequel's popularity
The Guest	18.09.12~18.11.01	3Q, 4Q	OCN	16 episodes (Monday, Tuesday)	3.9%	
100 Days My Prince	18.09.10~18.10.30	3Q, 4Q	tvN	16 episodes (Wednesday, Thursday)	13.9%	Featuring EXO
Player	18.09.29~18.11.11	4Q	OCN	16 episodes (Wednesday, Thursday)	4.7%	Highest viewership for first episode among OCN drama series
Hundred Million Stars from the Sky	18.10.03~18.11.22	4Q	tvN	14 episodes (Saturday, Sunday)	3.9%	Remade from Japanese drama series
Room No. 9	18.10.06~18.11.25	4Q	tvN	16 episodes (Wednesday, Thursday)	5.9%	
Tale of Fairy	18.11.05~18.12.25	4Q	tvN	16 episodes (Monday, Tuesday)	5.4%	Webtoon original
God's Quiz: Reboot (Season 5)	18.11.14~18.12.27	4Q	tvN	16 episodes (Monday, Tuesday)	-	Prequel uploaded onto Netflix
Priest	18.11.28~19.01.17	4Q	OCN	16 episodes (Wednesday, Thursday)		
Eunjoo's Room	18.11.03~19.01.22	4Q, 1Q	Olive	12 episodes (Tuesday)	0.4%	O'live TV's first drama series
Encounter	18.11.28~19.01.17	4Q, 1Q	tvN	12 episodes (Wednesday, Thursday)		Tent-pole (featuring HG Song and BG Park)
Memories of the Alhambra	18.12.01~19.01.20	4Q, 1Q	tvN	16 episodes (Saturday, Sunday)		Tent-pole (featuring B Hyeon and SH Park)
The Man Who Became a King	19.1Q(E)	1Q(F)	tvN	16 episodes		Remade from movie Masquerade
Touch Your Heart	19.1Q(E)	1Q(F)	tvN	16 episodes		Featuring main actors from drama Goblin (DW Lee and IN Yu)
When the Devil Calls Your Name	19.1Q(E)	1Q(F)	tvN	16 episodes		To feature GH Jeon
Asadal Chronicle	19.2Q(E)	1Q(F)	tvN	16 episodes		Second season to come

Source: Studio Dragon, Media reports, NH I&S Research Center estimates

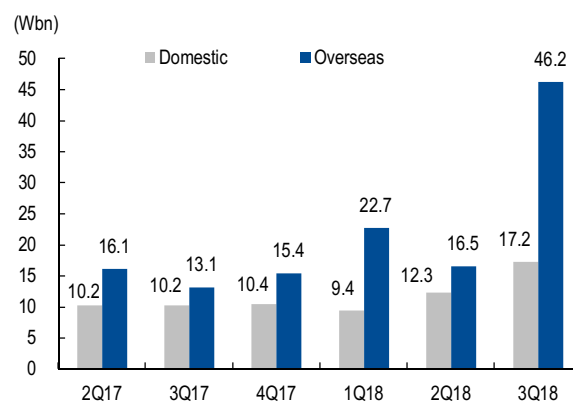
Average viewership for Studio Dragon drama series



Note: Based on captive channels; 3Q18 figure would have stood at a low 6% level if excluding Mr. Sunshine

Source: Studio Dragon, NH I&S Research Center

Studio Dragon's drama distribution sales



Source: Studio Dragon, NH I&S Research Center

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Sales	286.8	397.3	551.4	633.0
Growth (%)	85.8	38.5	38.8	14.8
COGS	239.7	325.6	427.7	476.1
Gross Profit	47.1	71.7	123.7	156.9
Gross margin (%)	16.4	18.0	22.4	24.8
SG&A	14.2	12.9	15.3	16.2
Operating Income	33.0	58.8	108.4	140.8
Growth (%)	98.8	78.2	84.4	29.9
Operating margin (%)	11.5	14.8	19.7	22.2
EBITDA	74.3	129.6	198.9	241.9
Non-Operating Profit	-2.7	2.7	1.8	1.9
Financial Income (Costs)	-2.5	0.6	1.3	1.9
Other Non-Operating Profit	-0.2	0.0	0.0	0.0
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	2.1	0.5	0.0
Pre-tax Profit from Cont. Op.	30.3	61.5	110.2	142.6
Income Taxes	6.4	13.4	22.0	28.5
Profit from Continuing Op.	23.8	48.1	88.2	114.1
Net Profit	23.8	48.1	88.2	114.1
Growth (%)	193.8	102.1	83.4	29.4
Net margin (%)	8.3	12.1	16.0	18.0
Net Profit of Parent	23.8	48.1	88.2	114.1
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0
Other Comprehensive Income	-0.1	0.0	0.0	0.0
Total Comprehensive Income	23.8	48.1	88.2	114.1

Valuation / Profitability / Stability				
	2017/12A	2018/12E	2019/12F	2020/12F
Price/Earnings (x)	61.9	56.8	31.0	24.0
Price/Book Value (x)	4.9	6.6	5.4	4.4
Price/Gross Cash Flow (x)	21.2	20.8	13.7	11.3
Price/Sales (x)	5.1	6.9	5.0	4.3
EV/EBITDA (x)	22.1	19.6	12.4	9.7
EV/EBIT (x)	49.7	43.1	22.7	16.7
Fully diluted EPS (won)	1,050	1,715	3,146	4,069
BVPS (won)	13,141	14,856	18,002	22,071
Sales PS (won)	12,628	14,170	19,665	22,578
ROE (%)	9.5	12.3	19.1	20.3
ROA (%)	6.8	10.0	16.1	17.5
ROIC (%)	14.2	22.8	39.5	49.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Total Cash Dividend (Wbn)	0.0	0.0	0.0	0.0
Cash DPS (won)	0	0	0	0
Net debt (cash)/equity (%)	-49.4	-47.3	-54.1	-62.1
Debt/equity (%)	24.7	20.4	17.6	15.1
Interest-Bearing Debts (Wbn)	10.0	0.0	0.0	0.0
Current Ratio (%)	319.6	353.9	427.7	530.8
Total shares (mn)	28	28	28	28
Par value (won)	500	500	500	500
Share price (won)	65,000	97,500	97,500	97,500
Market Cap (Wbn)	1,822	2,734	2,734	2,734

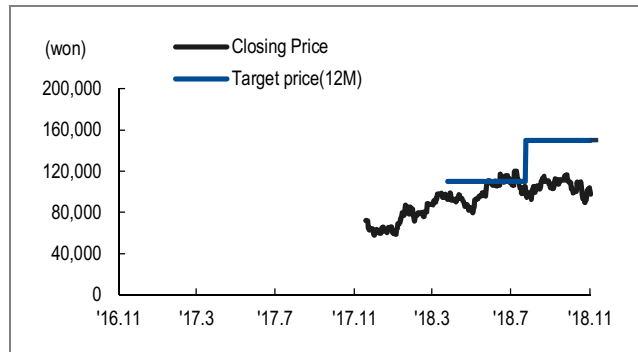
STATEMENT OF FINANCIAL POSITION				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Cash and Cash Equivalents	51.3	49.2	117.8	221.2
Accounts Receivables	54.9	57.7	60.0	61.8
Total Current Assets	289.8	298.8	378.4	492.8
Tangible Assets	1.1	0.8	0.6	0.5
Investment Assets	3.8	4.3	4.4	4.5
Non-Current Assets	169.6	202.6	215.4	219.6
Assets	459.5	501.4	593.8	712.4
Short-Term Debt	10.0	0.0	0.0	0.0
Account Payables	6.1	6.1	6.2	6.4
Current Liabilities	90.7	84.4	88.5	92.8
Long-Term Debt	0.0	0.0	0.0	0.0
Long-Term Allowance	0.3	0.4	0.6	0.7
Non-Current Liabilities	0.3	0.4	0.6	0.7
Liabilities	91.0	84.9	89.1	93.5
Capital Stock	14.0	14.0	14.0	14.0
Capital Surplus	319.6	319.6	319.6	319.6
Retained Earnings	32.1	80.2	168.4	282.5
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
Shareholders' Equity	368.4	416.5	504.7	618.8

CASH FLOW STATEMENT				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Operating Cash Flow	-7.2	118.1	177.9	214.6
Net Profit	23.8	48.1	88.2	114.1
Depreciation & Amortization	41.3	70.9	90.5	101.1
+ Loss (Gains) from Subs	0.0	0.0	0.0	0.0
+ FC translation loss (profit)	0.8	0.0	0.0	0.0
Gross Cash Flow	69.7	131.7	199.4	241.8
- Incr. (Decr.) in WC	-72.9	-0.2	0.6	1.3
Investing Cash Flow	-141.0	-109.8	-109.4	-111.2
+ Decr. In Tangible Assets	0.1	0.0	0.0	0.0
- Incr. In Tangible Assets (capex)	-0.1	0.0	0.0	0.0
+ Disp. (Acq.) of Inv. Assets	-1.5	-0.5	-0.1	-0.1
Free Cash Flow	-7.3	118.1	177.9	214.6
Net Cash Flow	-148.2	8.3	68.5	103.4
Financing Cash Flow	188.1	-10.4	0.0	0.0
Equity Financing	207.8	0.0	0.0	0.0
Debt Financing	-19.7	-10.4	0.0	0.0
Incr. (Decr.) in Cash	39.8	-2.1	68.5	103.4
Ending Cash and Cash Equivalents	51.3	49.2	117.8	221.2
Net Debt (Cash)	-182.2	-197.1	-273.0	-384.2

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2018.07.30	Buy	W150,000(12M)	-	-
Covering analyst changed				
2018.04.02	Buy	W120,000(12M)	-16.1%	-0.2%
2017.11.13	Buy	W40,000(12M)	91.0%	146.3%

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1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Nov 2, 2018).

● NH I&S' stock rating distribution

Buy	Hold	Sell
80.6%	19.4%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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