

Media

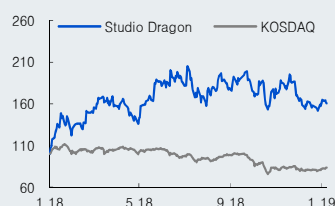
Earnings Preview
January 17, 2019

(Maintain)	Buy
Target Price (12M, W)	153,000
Share Price (01/16/19, W)	94,000
Expected Return	63%

OP (18F, Wbn)	54
Consensus OP (18F, Wbn)	56
EPS Growth (18F, %)	54.3
Market EPS Growth (18F, %)	6.2
P/E (18F, x)	57.0
Market P/E (18F, x)	8.7
KOSDAQ	693.38

Market Cap (Wbn)	2,637
Shares Outstanding (mn)	28
Free Float (%)	25.2
Foreign Ownership (%)	2.3
Beta (12M)	1.26
52-Week Low	71,400
52-Week High	119,800

(%)	1M	6M	12M
Absolute	1.4	-19.0	30.4
Relative	-2.6	-3.5	69.5



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Studio Dragon (253450 KQ)

Why the success of Kingdom matters

4Q18 preview: OP of W11.2bn

For 4Q18, we expect Studio Dragon to record consolidated revenue of W105.6bn (+46.9% YoY; all growth figures hereafter are YoY) and operating profit of W11.2bn (+224.2%). Programming/licensing revenue from the recent hits *Memories of the Alhambra* and *Encounter* will be recognized across 4Q18 and 1Q19. Both dramas have done better than expected, with *Memories of the Alhambra* becoming Studio Dragon's first title to be licensed to both Netflix (global) and China (OTT), and *Encounter* being sold to more than 100 countries (although margins are thinner, as the drama was developed externally).

That said, we expect operating profit to fall 30% short of the consensus, as: 1) *Memories of the Alhambra* was licensed as an old title in China (rather than being simultaneously aired); and 2) amortization expenses on content for which overseas exclusive rights have already been sold (*Mr. Sunshine*) could increase (in which case expenses in 2019 would decrease).

Netflix's first original K-drama is set to debut

On January 25th, Netflix will begin airing season one of *Kingdom*, its first original K-drama. Media and screening events for the series are scheduled to be held next week. We think the drama will remind the market once again of the widespread appeal of K-dramas. Since its entry into Korea in 2016, Netflix has secured content from different genres (variety, documentary, dramas, etc.) through various means (regional rights or holdbacks based on investment amount), but this is the first time the streaming company has invested on such a scale (the series is estimated to have cost W2bn per episode).

The success of *Kingdom* (produced by AStory) will have a significant impact on future investment decisions on K-dramas by Netflix and other global platforms. This is why we believe the drama is an important point to watch with regard to Studio Dragon (even though the company did not produce the series). The company is working on two originals for Netflix this year (including *Love Alarm*). How well these originals do will naturally set the tone for orders for originals (in terms of number of titles, budget, and genre) in 2020.

Emerging as a global player in 2019

We maintain our Buy rating and target price of W153,000 on Studio Dragon. In 2019, the company will for the first time produce originals for a non-captive platform. The competition among global platforms is likely to heat up in 2H19, creating a favorable environment for the company. Backed by strong production capabilities accumulated over the years, the company's profile and revenue base should expand geographically. In terms of share price, we see a number of potential catalysts, including long-term (season-based) contracts with Netflix, sales of new/old titles to multiple new platforms (Disney, AT&T, etc.), the resumption of licensing sales to China, and a potential stake investment by a non-captive platform.

We believe top-tier production companies will continue to see increasing opportunities. Of note, Netflix announced yesterday that it is raising prices in the US by 13-18%, its largest increase ever. The company has raised prices four times over the past 12 years, and the latest increase comes in just a little more than a year. We think the price increase highlights the company's growing confidence, following a series of successful original productions, like *Bird Box* and *Roma*. Netflix is likely to invest the additional income in content to better position itself against the upcoming launch of its biggest competitor, Disney+ (2H19).

FY (Dec.)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	-	196	287	384	570	845
OP (Wbn)	-	111	33	54	109	162
OP margin (%)	-	56.6	11.5	14.1	19.1	19.2
NP (Wbn)	-	-	24	45	86	132
EPS (W)	-	-	1,050	1,620	3,081	4,703
ROE (%)	-	-	9.5	11.6	18.9	23.3
P/E (x)	-	-	61.9	57.0	30.5	20.0
P/B (x)	-	-	4.9	6.3	5.3	4.2
Dividend yield (%)	-	-	-	-	-	-

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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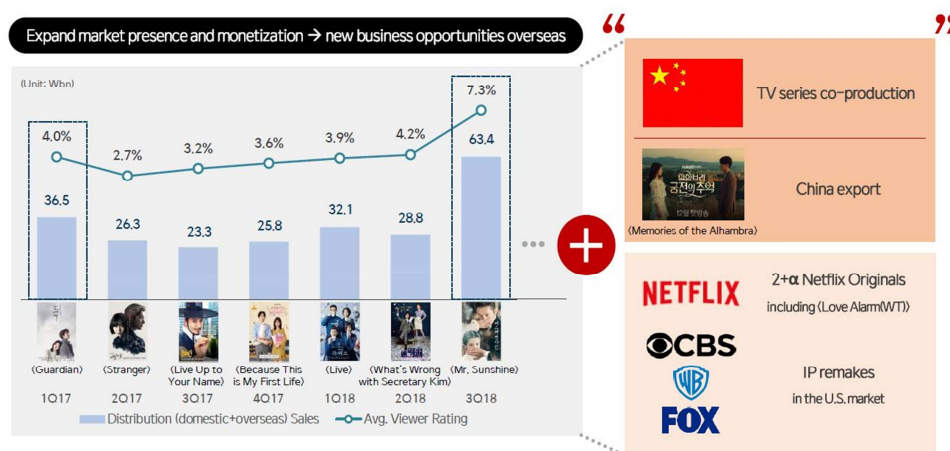
Table 1. Earnings and forecasts

(Wbn, %, no.)

	1Q18	2Q18	3Q18	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F	2017	2018F	2019F
Revenue	80	74	124	106	119	123	162	175	287	383	579
Programming	41	34	49	50	48	49	47	50	131	173	193
Licensing	32	29	63	41	60	63	57	58	112	166	238
Other	7	11	11	12	11	12	12	13	44	42	48
Original production (Netflix)	0	0	0	0	0	0	16	24	0	0	40
Original production (China)	0	0	0	0	0	0	30	30	0	0	60
Costs	66	64	99	89	94	95	130	142	240	318	461
Production costs (excl. originals)	45	33	48	50	48	49	47	50	127	175	193
Commission fees	6	6	13	8	12	13	11	12	22	33	48
Depreciation expenses on tangible/intangible assets	12	13	23	18	19	19	19	20	41	67	77
Other	3	12	15	13	15	15	15	15	49	42	60
Production costs for originals (Netflix)	0	0	0	0	0	0	13	19	0	0	32
Production costs for originals (China)	0	0	0	0	0	0	26	26	0	0	51
SG&A	3	3	3	5	4	4	4	7	14	15	19
EBITDA	23	21	45	30	41	42	47	46	74	118	177
Operating profit	11	7	22	11	21	24	28	26	33	51	100
OP margin	13.3	9.9	17.4	10.7	17.9	19.3	17.6	14.9	11.5	13.2	17.2
Pretax profit	11	11	22	12	22	24	29	26	30	56	101
Net profit	8	9	17	9	17	19	23	21	24	43	79
Net margin	9.8	12.0	14.0	8.6	14.2	15.3	13.9	11.9	8.3	11.3	13.7
YoY											
Revenue	6.0	19.6	59.7	46.9	49.3	65.7	31.0	65.4	46.7	33.7	51.0
Programming	54.5	41.1	17.1	27.0	17.4	42.5	-4.5	1.0	49.5	32.0	11.4
Licensing	-12.0	9.5	172.0	61.0	87.4	117.1	-9.3	39.8	48.3	48.2	43.7
Other	-43.4	-1.9	-8.3	70.0	60.0	5.0	5.0	5.0	35.3	-3.8	14.3
EBITDA	-3.4	4.6	186.0	99.1	76.8	106.5	5.5	56.1	-	59.2	49.6
Operating profit	-23.7	-17.6	224.0	224.2	100.2	223.7	32.2	132.1	56.1	53.5	96.2
Net profit	-41.3	217.3	205.8	355.1	116.1	112.0	30.4	128.0	83.8	80.9	83.4
Major assumptions											
No. of titles aired	7.0	5.0	6.3	6.8	7.0	7.0	7.0	7.5	22.3	25.0	28.5
No. of titles licensed to Netflix	2.0	0.5	1.0	1.0	1.5	1.5	1.5	1.5	3.1	4.5	6.0

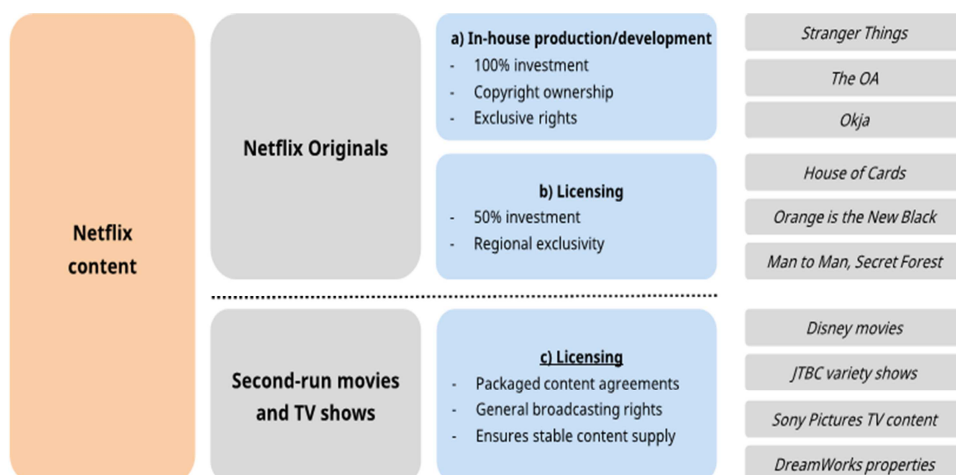
Source: Mirae Asset Daewoo Research estimates

Figure 1. 2019: Sale of dramas to both Netflix and China, plus the production of original content for both Netflix and China



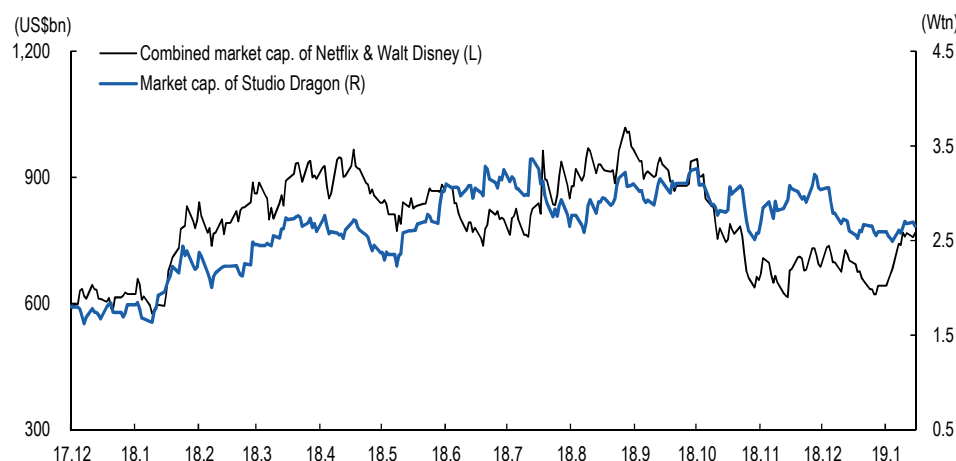
Source: Mirae Asset Daewoo Research estimates

Figure 2. Studio Dragon to expand original content production for global platforms



Source: Mirae Asset Daewoo Research

Figure 1. Encroachment of OTTs in the local traditional media market to be reflected in the combined market cap



Source: Mirae Asset Daewoo Research

Figure 2. Kingdom, Netflix's first original K-drama, to be aired Jan. 25th



Source: Company Data, Mirae Asset Daewoo Research

Studio Dragon (253450 KQ/Buy/TP: W153,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Revenue	287	384	570	845
Cost of Sales	240	316	442	656
Gross Profit	47	68	128	189
SG&A Expenses	14	15	19	27
Operating Profit (Adj)	33	54	109	162
Operating Profit	33	54	109	162
Non-Operating Profit	-3	5	1	7
Net Financial Income	-1	4	4	7
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	30	59	110	169
Income Tax	6	13	24	37
Profit from Continuing Operations	24	45	86	132
Profit from Discontinued Operations	0	0	0	0
Net Profit	24	45	86	132
Controlling Interests	24	45	86	132
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	24	45	86	132
Controlling Interests	24	45	86	132
Non-Controlling Interests	0	0	0	0
EBITDA	74	118	182	205
FCF (Free Cash Flow)	-7	63	145	156
EBITDA Margin (%)	25.8	30.7	31.9	24.3
Operating Profit Margin (%)	11.5	14.1	19.1	19.2
Net Profit Margin (%)	8.4	11.7	15.1	15.6

Cash Flows (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Cash Flows from Op Activities	-7	64	145	156
Net Profit	24	45	86	132
Non-Cash Income and Expense	46	73	93	73
Depreciation	0	0	0	0
Amortization	41	64	73	43
Others	5	9	20	30
Chg in Working Capital	-73	-42	-10	-13
Chg in AR & Other Receivables	-14	-1	-33	-43
Chg in Inventories	-2	0	-1	-1
Chg in AP & Other Payables	9	4	4	5
Income Tax Paid	-10	-13	-24	-37
Cash Flows from Inv Activities	-141	94	-88	4
Chg in PP&E	0	0	0	0
Chg in Intangible Assets	0	-51	-90	0
Chg in Financial Assets	-142	141	-2	-3
Others	1	4	4	7
Cash Flows from Fin Activities	188	-10	0	0
Chg in Financial Liabilities	-18	-10	0	0
Chg in Equity	208	0	0	0
Dividends Paid	0	0	0	0
Others	-2	0	0	0
Increase (Decrease) in Cash	40	148	58	159
Beginning Balance	12	51	199	257
Ending Balance	51	199	257	416

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Current Assets	290	297	414	671
Cash and Cash Equivalents	51	199	257	438
AR & Other Receivables	55	55	89	132
Inventories	1	1	2	3
Other Current Assets	183	42	66	98
Non-Current Assets	170	198	217	177
Investments in Associates	0	0	0	0
Property, Plant and Equipment	1	1	1	1
Intangible Assets	128	150	167	124
Total Assets	459	495	631	847
Current Liabilities	91	81	130	192
AP & Other Payables	32	32	51	76
Short-Term Financial Liabilities	10	0	0	0
Other Current Liabilities	49	49	79	116
Non-Current Liabilities	0	0	1	1
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	0	0	1	1
Total Liabilities	91	81	130	193
Controlling Interests	368	414	501	632
Capital Stock	14	14	14	14
Capital Surplus	320	320	320	320
Retained Earnings	32	77	164	296
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	368	414	501	632

Forecasts/Valuations (Summarized)

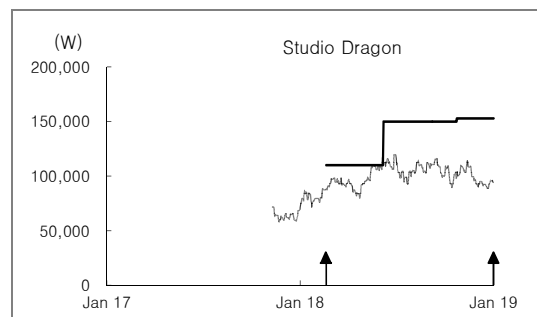
	12/17	12/18F	12/19F	12/20F
P/E (x)	61.9	57.0	30.5	20.0
P/CF (x)	21.2	22.0	14.7	12.8
P/B (x)	4.9	6.3	5.3	4.2
EV/EBITDA (x)	22.1	20.3	13.1	10.7
EPS (W)	1,050	1,620	3,081	4,703
CFPS (W)	3,068	4,207	6,397	7,319
BPS (W)	13,141	14,772	17,853	22,556
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	46.4	33.8	48.4	48.2
EBITDA Growth (%)	-44.4	59.5	54.2	12.6
Operating Profit Growth (%)	-70.3	63.6	101.9	48.6
EPS Growth (%)	-	54.3	90.2	52.6
Accounts Receivable Turnover (x)	6.2	7.0	8.0	7.7
Inventory Turnover (x)	443.0	296.7	337.6	327.2
Accounts Payable Turnover (x)	40.5	52.0	55.9	54.2
ROA (%)	6.8	9.5	15.3	17.8
ROE (%)	9.5	11.6	18.9	23.3
ROIC (%)	15.6	20.8	38.3	57.4
Liability to Equity Ratio (%)	24.7	19.6	26.0	30.5
Current Ratio (%)	319.6	368.1	319.0	348.7
Net Debt to Equity Ratio (%)	-49.4	-48.1	-51.3	-69.3
Interest Coverage Ratio (x)	19.0	1,181.1	0.0	0.0

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Studio Dragon (253450)	11/08/2018	Buy	153,000
	06/22/2018	Buy	150,000
	03/06/2018	Buy	110,000



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	81.28%	9.63%	9.09%	0.00%
Investment Banking Services	84.61%	3.85%	11.54%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2018)

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