

Studio Dragon (253450.KQ)

Shares offer significant long-term appeal

Company Comment | Jan 21, 2019

With four months remaining until the airing of tent-pole drama Asadal Chronicles (2Q19) following the conclusion of Memories of the Alhambra, Studio Dragon is unlikely to see significant share price momentum over the short term. However, anticipating: 1) robust earnings momentum following the release of Asadal Chronicles; and 2) an increasingly favorable business environment, we see the firm's current share price level as being attractive.

To benefit from favorable business environment

We expect Studio Dragon to benefit greatly from the ongoing expansion of global OTT players and an improving relationship between Korea and China.

Global OTT players: The firm is to enjoy a favorable business environment, thanks to: 1) Netflix's greater investment in the Asian market; and 2) intensifying competition (to secure content) between global OTT players, driven by the planned launch of OTT platforms by Disney and AT&T within 2H19. In detail, Studio Dragon is to benefit from: 1) steady overseas advance sales of its high-budget tent-pole dramas; and 2) the initial reflection of earnings from Netflix original series, including Love Alarm, within 2H19.

China: Although distribution to China resumed for the first time in two years with Memories of the Alhambra, related distribution sales failed to meet market expectations due to an exhaustion of quotas for Korean content. Believing that Chinese quotas for Korean content will again be put into effect (expected within 2Q19), we anticipate that distribution to China will rebound and that contract conditions will improve to meet the market projections.

Long-term appeal remains strong

While near-term share price momentum is to remain lackluster, the firm's current share price is appealing in light of its mid/long-term drama momentum. Adhering to a Buy rating, we continue to suggest Studio Dragon as our top pick.

Studio Dragon is to post consolidated post 4Q18 OP of W12.0bn (+246.4% y-y), falling well wide of consensus. While its 4Q18 tent-pole dramas Memories of the Alhambra and Encounter and non-tent-pole drama 100 Days My Prince generated favorable overseas distribution sales, the firm likely faced headwinds from: 1) disappointing China sales of Memories of the Alhambra; and 2) the divided booking (4Q18 and 1Q19) of overseas distribution sales due to the fact that programming dates for both of its tent-pole dramas spanned into 1Q19.

Over the short term, Studio Dragon's share price momentum is unlikely to prove significant as: 1) four months remain until the airing of the firm's big-budget tent-pole drama Asadal Chronicles (2Q19; expected to generate meaningful overseas distribution sales); and 2) uncertainty persists over the timing of China's reinstatement of quotas for Korean content. But, from a long-term perspective taking all of 2019 into account, the studio should enjoy the fruits of its robust internal capabilities in terms of drama production and distribution amidst an improving business environment. After the airing of Asadal Chronicles, many more positives await for the firm, including Netflix original dramas and cooperation with its Chinese partners.

Buy (maintain)

TP **W150,000 (maintain)**
CP (19/01/18) **W89,300**

Sector	Entertainment
Kospi/Kosdaq	2,124.28 / 696.34
Market cap (common)	US\$2,226.5mn
Outstanding shares (common)	28.1mn
52W high ('18/07/12)	W119,800
low ('18/02/07)	W71,400
Average trading value (60D)	US\$15.9mn
Dividend yield (2018E)	0.00%
Foreign ownership	2.2%
Major Shareholders	
CJENM & 3 others	74.4%

Share perf	3M	6M	12M	
Absolute (%)	-16.2	-19.9	17.3	
Relative (%p)	-12.0	-6.8	51.4	
	2017	2018E	2019F	2020F
Sales	286.8	390.0	542.9	622.6
Chg	85.8	36.0	39.2	14.7
OP	33.0	51.4	99.3	134.2
OPM	11.5	13.2	18.3	21.6
NP	23.8	42.0	78.9	106.1
EPS	1,050	1,499	2,814	3,785
Chg	84.5	42.8	87.7	34.5
P/E	61.9	61.6	31.7	23.6
P/B	4.9	6.3	5.1	4.2
EV/EBITDA	22.1	20.0	11.9	9.3
ROE	9.5	10.8	17.5	19.6
Debt/equity	24.7	20.7	18.2	15.7
Net debt	-182.2	-176.4	-246.4	-349.8

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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4Q18 preview (K-IFRS consolidated)

(Units: Wbn, %)

	4Q17	1Q18	2Q18	3Q18	4Q18E					1Q19F
					Estimate	y-y	q-q	Previous	Estimate	
Sales	-	79.9	74.3	123.7	112.1	-	-9.4	118.4	105.6	106.3
OP	-	10.7	7.3	21.5	12.0	-	-44.3	16.7	15.8	17.3
OPM		13.3	9.9	17.4	10.7			14.1	15.0	16.3
Pre-tax profit	-	10.8	11.0	22.1	10.2	-	-53.7	14.1	14.8	17.3
NP (excl minority interests)	-	7.9	8.9	17.3	8.0	-	-54.0	10.9	14.1	16.2

Source: FnGuide, NH I&S Research Center estimates

Earnings forecasts (IFRS-consolidated)

(Units: Wbn, won, x, %)

		2017	2018E	2019F	2020F
Sales	- Revised	286.8	390.0	542.9	622.6
	- Previous	286.8	396.3	557.0	632.4
	- Change		-1.6	-2.5	-1.5
OP	- Revised	33.0	51.4	99.3	134.2
	- Previous	33.0	56.2	105.7	143.7
	- Change		-8.5	-6.1	-6.6
OPM	- Revised	11.5	13.2	18.3	21.6
EBITDA		74.3	120.6	189.8	230.8
NP (excl minority interests)		23.8	42.0	78.9	106.1
EPS	- Revised	1,050	1,499	2,814	3,785
	- Previous		1,604	2,991	4,048
	- Change		-6.5	-5.9	-6.5
P/E		61.9	61.6	31.7	23.6
P/B		4.9	6.3	5.1	4.2
EV/EBITDA		22.1	20.0	11.9	9.3
ROE		9.5	10.8	17.5	19.6

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	1Q19F	2Q19F	3Q19F	4Q19F	2017	2018E	2019F
Number of dramas	4	6	6	7	6	6	6	8	7	7	8	8	22	25	30
TV (domestic)	4	6	6	7	6	6	6	8	7	7	7	7	22	25	28
OTT	-	-	-	-	-	-	-	-	-	-	1	1	-	-	2
Sales	75.3	62.1	77.5	71.9	79.9	74.3	123.7	112.2	106.3	137.9	141.5	157.2	286.8	390.0	542.9
Broadcasting revenue	26.3	24.1	41.8	39.0	40.7	34.1	48.9	53.7	42.1	51.7	50.7	48.8	131.2	177.3	193.4
IP + VOD	36.5	26.3	23.3	25.7	32.1	28.8	63.4	49.1	53.0	72.3	77.6	95.1	111.8	173.3	298.0
Other (DVD, OST)	12.5	11.6	12.4	7.2	7.1	11.4	11.4	9.5	11.2	13.9	13.1	13.2	43.7	39.3	51.5
y-y (%)	-	-	-	-	6.0	19.6	59.7	56.1	33.1	85.6	14.3	40.1	46.7	36.0	39.2
COGS	58.6	49.9	66.8	64.4	66.2	63.7	98.9	97.1	85.4	114.4	108.4	120.4	239.7	325.9	428.5
Production costs	35.2	31.8	38.2	44.5	44.6	33.3	47.7	61.7	49.7	67.6	72.6	81.6	149.7	187.3	271.5
Amortization costs	9.9	9.8	10.3	10.9	12.7	13.1	23.3	19.8	20.6	27.2	20.2	22.2	41.0	69.0	90.3
Other	13.4	8.3	18.2	9.0	8.9	17.2	27.9	15.5	15.0	19.6	15.5	16.6	49.0	69.6	66.8
GP	16.8	12.2	10.7	7.4	13.6	10.6	24.8	15.1	21.0	23.5	33.1	36.8	47.1	64.1	114.3
GPM	22.2	19.6	13.9	10.4	17.1	14.3	20.1	13.5	19.7	17.0	23.4	23.4	16.4	16.4	21.1
OP	14.0	8.9	6.7	3.5	10.7	7.3	21.5	12.0	17.3	20.1	28.9	33.0	33.1	51.4	99.3
OPM	18.5	14.3	8.7	4.8	13.3	9.9	17.4	10.7	16.3	14.5	20.4	21.0	11.5	13.2	18.3
y-y (%)	-	-	-	-	-23.7	-17.6	218.5	246.4	62.6	173.9	34.5	174.9	-	55.4	93.2
NP	13.4	2.8	5.7	2.0	7.9	8.9	17.3	8.0	13.7	18.5	22.3	24.4	23.8	42.1	78.9
NPM	17.8	4.5	7.3	2.8	9.8	12.0	14.0	7.1	12.8	13.4	15.8	15.5	8.3	10.8	14.5

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

Source: NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Sales	286.8	390.0	542.9	622.6
Growth (%)	85.8	36.0	39.2	14.7
COGS	239.7	325.9	428.5	472.6
Gross Profit	47.1	64.1	114.3	150.0
Gross margin (%)	16.4	16.4	21.1	24.1
SG&A	14.2	12.7	15.0	15.7
Operating Income	33.0	51.4	99.3	134.2
Growth (%)	98.8	55.8	93.2	35.1
Operating margin (%)	11.5	13.2	18.3	21.6
EBITDA	74.3	120.6	189.8	230.8
Non-Operating Profit	-2.7	1.8	1.8	1.8
Financial Income(Costs)	-2.5	0.6	1.2	1.7
Other Non-Operating Profit	-0.2	0.0	0.0	0.0
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	1.2	0.6	0.1
Pre-tax Profit from Cont. Op.	30.3	54.2	101.1	136.1
Income Taxes	6.4	12.2	22.2	29.9
Profit from Continuing Op.	23.8	42.0	78.9	106.1
Net Profit	23.8	42.0	78.9	106.1
Growth (%)	193.8	76.5	87.9	34.5
Net margin (%)	8.3	10.8	14.5	17.0
Net Profit of Parent	23.8	42.0	78.9	106.1
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	42.0	78.9	106.1

Valuation / Profitability / Stability				
	2017/12A	2018/12E	2019/12F	2020/12F
Price/Earnings (x)	61.9	61.6	31.7	23.6
Price/Book Value (x)	4.9	6.3	5.1	4.2
Price/Gross Cash Flow (x)	21.2	21.1	13.2	10.8
Price/Sales (x)	5.1	6.6	4.6	4.0
EV/EBITDA (x)	22.1	20.0	11.9	9.3
EV/EBIT (x)	49.7	47.0	22.7	16.1
Fully diluted EPS (won)	1,050	1,499	2,814	3,785
BVPS (won)	13,141	14,640	17,454	21,239
Sales PS (won)	12,628	13,911	19,363	22,206
ROE (%)	9.5	10.8	17.5	19.6
ROA (%)	6.8	8.8	14.7	16.7
ROIC (%)	14.2	18.9	33.4	44.0
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	-43.0	-50.3	-58.7
Debt/ equity (%)	24.7	20.7	18.2	15.7
Interest-Bearing Debts (Wbn)	10.0	0.0	0.0	0.0
Current Ratio (%)	319.6	329.4	397.6	493.7
Total shares (mn)	28	28	28	28
Par value (won)	500	500	500	500
Share price (won)	65,000	92,400	89,300	89,300
Market Cap (Wbn)	1,822	2,592	2,505	2,505

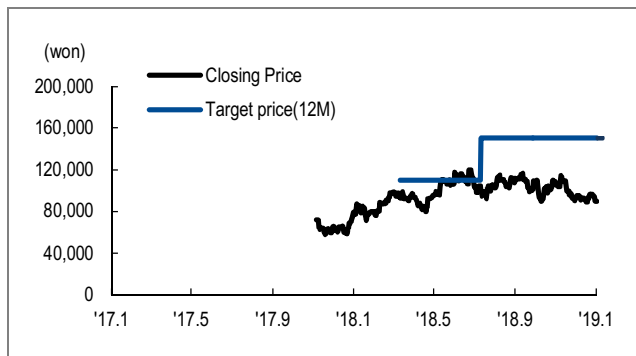
STATEMENT OF FINANCIAL POSITION				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Cash and Cash Equivalents	51.3	28.6	91.1	186.7
Accounts Receivables	54.9	57.7	60.0	61.8
Total Current Assets	289.8	278.2	351.8	458.4
Tangible Assets	1.1	0.8	0.6	0.5
Investment Assets	3.8	4.3	4.4	4.5
Non-Current Assets	169.6	217.2	226.7	230.6
Assets	459.5	495.3	578.4	689.0
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	74.1	153.0	259.1
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
Shareholders' Equity	368.4	410.5	489.4	595.5

CASH FLOW STATEMENT				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Operating Cash Flow	-7.2	110.4	168.7	202.2
Net Profit	23.8	42.0	78.9	106.1
Depreciation & Amortization	41.3	69.2	90.4	96.5
+ 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	122.8	190.4	230.9
- Incr. (Decr.) in WC	-72.9	-0.2	0.6	1.3
Investing Cash Flow	-141.0	-122.8	-106.1	-106.6
+ 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	110.4	168.7	202.2
Net Cash Flow	-148.2	-12.3	62.5	95.6
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	-22.8	62.5	95.6
Ending Cash and Cash Equivalents	51.3	28.6	91.1	186.7
Net Debt (Cash)	-182.2	-176.4	-246.4	-349.8

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2018.07.30	Buy	W150,000(12M)	-	-
2018.03.30	Buy	W110,000(12M)	-8.5%	8.9%

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NH Investment & Securities stock ratings

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 Jan 18, 2019).

- NH I&S' stock rating distribution

Buy	Hold	Sell
79.8%	20.2%	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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