

Studio Dragon (253450 KS)

Keeping an eye on the media content leader

BUY (Maintain)

CP (Mar. 6) KRW93,600
TP (6 months) KRW128,000
Upside 36.8%

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KOSPI	2,175.60p
KOSDAQ	746.70p
Market cap	KRW2,625.6bn/USD2,303.2mn
Par value	KRW500
Outstanding shares	28.1mn
Free float	7.1mn(25.2%)
52-week high/low	KRW119,800/KRW79,600
60-day avg. trading volume	183,093shrs
60-day avg. turnover	KRW17,224mn
Foreign ownership	2.68%
Major shareholders	
	CJ ENM and 3 others 74.35%
Absolute performance	3M -5.8%
	6M -9.6%
	12M 6.2%
Relative performance	3M -14.5%
to KOSDAQ	6M -1.3%
	12M 22.3%

- ◆ 1Q19 consolidated operating profit forecast at KRW14.6bn (+36.6% YoY)
- ◆ China issues are key in longer term; Recommend accumulating shares in Mar-Apr
- ◆ Maintain BUY for a target price of KRW128,000

1Q19 consolidated operating profit forecast at KRW14.6bn (+36.6% YoY)

Earnings forecasts are a major factor to consider for Studio Dragon with share valuations remaining high at a PER of 30-40x. Fortunately, we expect the company's earnings to meet or exceed market expectations for 1Q19. Our projections for 1Q19 earnings now stand at consolidated sales of KRW89.9bn (+12.6% YoY) and operating profit of KRW14.6bn (+36.6% YoY). Operating profit should easily exceed market consensus of KRW13.3bn, on: 1) distribution revenue from Netflix for Romance is a Bonus Book (starring Lee Jong-suk); and 2) revenue from major dramas such as Memories of the Alhambra, which booked most production costs in 4Q18 but have yet to record earnings from overseas distribution. All in all, we expect Studio Dragon to report mid-10% level operating margins for 1Q19.

China issues are key in longer term; Recommend accumulating shares in Mar-Apr

Waiting at the front line for China momentum to resume, Studio Dragon stands to see annual operating profit nearly double upon the export of original content to China at fair value. However, uncertainties remain over the Chinese government's restrictions on Korean content. Instead of making decisions based on hasty expectations or overblown concerns, investors should plan for Studio Dragon shares to move in a boxed-range until the removal of regulatory issues.

In March-April, we recommend accumulating shares in Studio Dragon with risks of sharp correction to remain low up to early May on forecasts for the release of strong 1Q19 results. Meanwhile, positive news flows expected to emerge in the near term are likely to add upside of 5-10%. Largest shareholder CJ ENM is expected to sell part of its stake in Studio Dragon within 1H19, and sale of the minority stake to a global platform should add a boost for the share price performance of both companies. In addition, Studio Dragon aims to complete an M&A deal within 1H19 for the expansion of its content production capacity.

Maintain BUY for a target price of KRW128,000

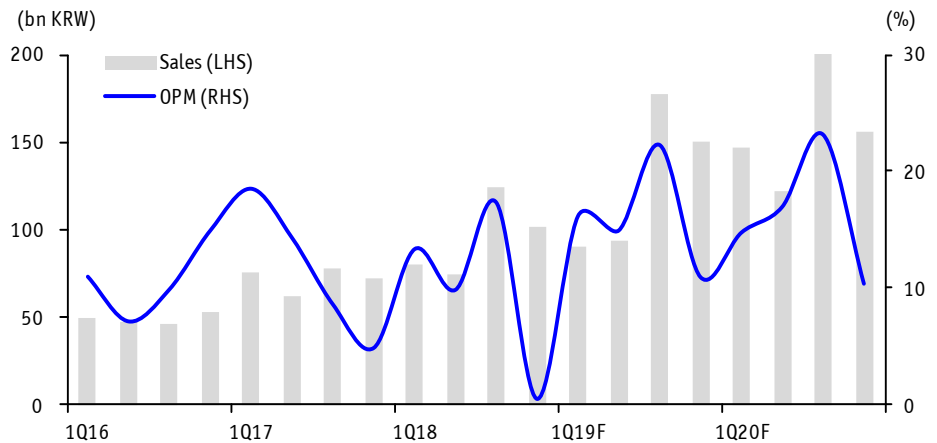
We maintain BUY for a target price of KRW128,000, on: 1) forecasts for sharp top-line growth (+34.8% YoY) in 2019; 2) expectations for the inflow of distribution revenue from China; and 3) bottoming-out of earnings. Expecting limited downside through April at the least, we believe Studio Dragon shares will trade in a boxed-range in the near term with a possible upside of 10-20%.

Year to December	Sales (bn KRW)	OP (bn KRW)	Pre-tax (bn KRW)	NP (bn KRW)	EPS (KRW)	Growth (%)	BPS (KRW)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net debt ratio (%)
2016	154.4	16.6	10.5	8.1	569	N/A	6,176	0.0	0.4	0.0	6.0	12.1
2017	286.8	33.0	30.3	23.8	1,050	84.5	13,141	61.9	22.1	4.9	9.5	(49.4)
2018F	379.5	39.9	45.6	35.8	1,277	21.7	14,419	75.1	21.3	6.7	9.3	(43.9)
2019F	511.5	84.7	92.1	70.9	2,528	97.9	16,947	38.0	14.6	5.7	16.1	(42.7)
2020F	630.1	106.1	114.1	86.7	3,094	22.4	20,041	31.0	12.3	4.8	16.7	(41.5)

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

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Sales and operating profit margin



Source: Bloomberg, Shinhan Investment Corp.

Earnings trend and outlook (K-IFRS consolidated)

(bn KRW)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18P	1Q19F	2Q19F	3Q19F	4Q19F	2017	2018P	2019F	2020F
<Assumptions for production>																
No. of dramas	5.0	6.0	7.0	4.0	7.0	7.0	6.0	7.0	6.0	7.0	7.0	7.0	23.0	26.0	27.0	28.0
<Earnings estimates>																
Total revenue	75.3	62.1	77.5	71.9	79.9	74.3	123.7	101.7	89.9	93.5	177.9	150.2	286.8	379.5	511.5	630.1
Production revenue	26.3	24.1	41.8	39.0	40.7	34.1	48.9	54.4	43.0	40.5	52.4	65.9	131.2	178.1	201.8	219.1
- Global platforms					0.0	0.0	0.0	0.0	0.0	0.0	4.5	4.5	0.0	0.0	9.0	20.1
Distribution revenue	36.5	26.3	23.3	25.7	32.1	28.8	63.4	37.8	39.3	41.5	82.2	44.0	111.8	162.1	207.0	233.8
Other (PPL) revenue	12.5	11.6	12.4	7.2	7.1	11.4	11.4	9.5	7.6	11.5	13.3	10.3	43.7	39.4	42.7	43.2
<Overseas operations>																
Overseas distribution revenue	22.6	16.1	13.1	15.4	22.7	16.5	46.2	24.8	25.0	27.5	61.2	29.6	67.2	110.2	143.3	164.6
- Share in distribution revenue (%)	30.0	25.9	16.9	21.4	70.8	57.2	72.9	65.7	63.6	66.3	74.5	67.2	60.1	68.0	69.2	70.4
Japan	7.1	4.9	3.2	3.5	3.5	4.5	3.4	4.2	3.7	4.9	3.7	4.3	18.7	15.6	16.6	18.0
Asia including China	12.2	9.0	8.5	10.2	8.9	10.5	10.4	13.9	12.5	16.2	24.1	15.0	39.9	43.8	67.7	79.0
China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	1.8	5.0	18.0	7.0	0.0	1.5	31.8	38.0
Americas	3.2	2.1	1.3	1.6	0.2	0.3	0.3	1.1	0.2	0.3	0.3	0.2	8.2	1.9	1.0	1.0
Others	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.4	0.4	0.5
COGS	58.6	49.9	66.8	64.4	66.2	63.7	98.9	95.2	72.5	76.2	134.2	127.2	239.8	324.0	410.1	505.5
SG&A	2.8	3.3	4.0	4.0	3.0	3.3	3.3	6.0	2.9	3.3	4.0	6.6	14.1	15.7	16.8	18.4
OP	14.0	8.9	6.6	3.5	10.7	7.3	21.5	0.4	14.6	14.0	39.7	16.4	33.0	39.9	84.7	106.1
Pre-tax profit	13.2	9.0	6.4	1.7	10.8	11.0	22.0	1.7	16.1	15.8	41.8	18.5	30.3	45.6	92.1	114.1
NP	13.4	2.8	5.7	2.0	7.9	8.9	17.3	1.7	12.4	12.1	32.2	14.2	23.8	35.8	70.9	86.7
<% YoY growth>																
Total revenue	52.2	32.1	66.7	36.9	6.0	19.6	59.6	41.5	12.6	25.9	43.8	47.7	46.7	32.3	34.8	23.2
OP	157.3	165.9	44.7	(55.8)	(23.7)	(17.8)	223.0	(87.3)	36.6	91.5	84.8	3,622.5	55.4	20.9	112.3	25.4
NP	306.9	57.3	96.3	(60.5)	(41.3)	216.8	206.3	(12.5)	57.5	36.8	85.4	713.3	83.3	50.2	97.9	22.4
<Profitability, %>																
OPM	18.5	14.3	8.6	4.8	13.3	9.8	17.4	0.4	16.2	15.0	22.3	10.9	11.5	10.5	16.5	16.8
NPM	17.8	4.5	7.3	2.8	9.8	11.9	14.0	1.7	13.8	13.0	18.1	9.5	8.3	9.4	13.9	13.8

Source: Company data, Shinhan Investment Corp.

Note: Distribution rights revenue from Netflix included in overseas distribution revenue

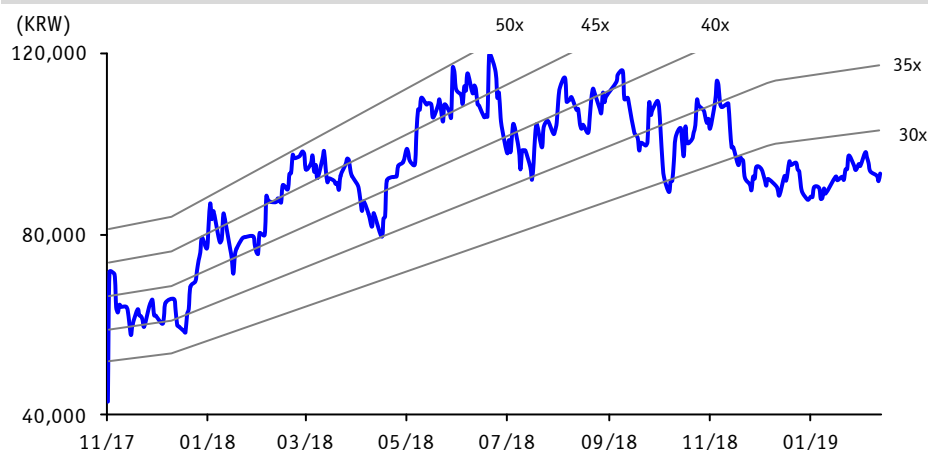
PER valuation: Target price of W146,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2019F NP	70.9	12MF NP	74.9	2020F NP	86.7
EPS (KRW)	2,595	EPS (KRW)	2,670	EPS (KRW)	3,173
Target price (KRW)	119,000	Target price (KRW)	128,000	Target price (KRW)	146,000
Target PER (x)	47	Target PER (x)	47	Target PER (x)	47
			Current price	93,600	
			Estimated PER	35.1	

Source: Shinhan Investment Corp.

Note: Target PER based on 15% premium to Jcontentree's past 3-year average PER (high) in view of Studio Dragon's dominant market share in content production and accelerating growth in distribution rights sales/profits secured from Netflix. Studio Dragon to book earnings from the production of original content for global platforms from 2H19.

12-month forward PBR band



Source: Bloomberg, Shinhan Investment Corp.

1Q19 forecast

(bn KRW)	1Q19F	4Q18P	% QoQ	1Q18	% YoY	Previous	Consensus
Sales	89.9	101.7	13.1	79.9	12.6	97.5	97.4
OP	14.6	0.4	3550.0	10.7	36.6	14.7	13.3
NP	12.4	1.7	629.4	7.9	57.5	12.3	13.0
OPM (%)	16.2	0.4		13.3		15.0	13.7
NPM (%)	13.8	1.7		9.8		12.6	13.3

Source: Company data, FnGuide, Shinhan Investment Corp.

Earnings forecast revision (K-IFRS consolidated)

(bn KRW)	2019F			2020F		
	Previous	Revised	Change (%)	Previous	Revised	Change (%)
Sales	520.1	511.5	(1.6)	633.9	630.1	(0.6)
OP	88.3	84.7	(4.1)	109.0	106.1	(2.7)
NP	72.7	70.9	(2.5)	89.0	86.7	(2.5)

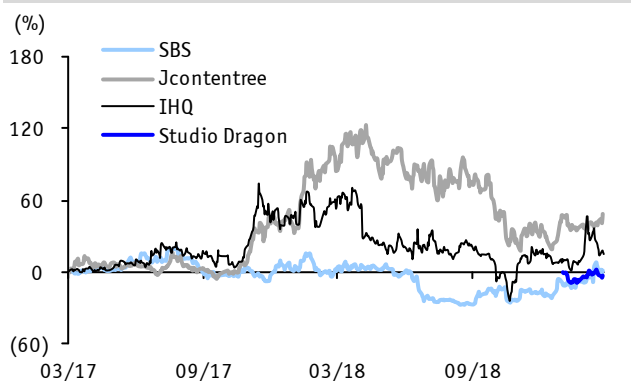
Source: Shinhan Investment Corp.

Peer group valuation

Ticker		253450 KS	036420 KS	003560 KS	160550 KS	DIS US	300027 CH	300133 CH
Company		Studio Dragon	Jcontentree	IHQ	NEW	Walt Disney	Huayi Brothers Media	Zhejiang Huace Film & TV
Market cap. (bn KRW)		2,625.6	775.1	291.0	148.5	193,206.6	2,716.2	2,513.4
Sales	2017	286.8	420.3	126.8	94.5	63,067.6	657.4	874.9
(bn KRW)	2018F	379.5	514.9	116.9	224.2	66,125.3	728.4	1,043.1
	2019F	511.5	594.0	160.7	259.0	68,189.4	865.8	1,219.8
OP	2017	33.0	33.3	15.3	(5.2)	15,868.4	87.2	128.6
(bn KRW)	2018F	39.9	41.3	7.8	6.7	16,622.7	100.7	126.4
	2019F	84.7	54.4	26.5	16.2	17,371.8	169.2	167.2
OPM	2017	11.5	7.9	12.1	(5.5)	25.2	13.3	14.7
(%)	2018F	10.5	8.0	6.6	3.0	25.1	13.8	12.1
	2019F	16.5	9.2	16.5	6.3	25.5	19.5	13.7
NP	2017	23.8	7.9	10.0	(6.8)	10,291.1	63.2	100.7
(bn KRW)	2018F	35.8	21.6	6.5	2.3	11,655.5	125.2	97.8
	2019F	70.9	30.1	14.8	12.9	11,954.1	138.8	138.0
Sales growth	2017	85.7	25.4	15.9	(7.2)	(2.3)	8.0	-
(% YoY)	2018F	32.3	22.5	(7.8)	1.0	4.8	10.8	19.2
	2019F	34.8	15.4	37.5	5.0	3.1	18.9	16.9
EPS growth	2017	84.5	(59.7)	37.0	TR	(1.7)	1,155.2	-
(% YoY)	2018F	21.7	130.7	(37.0)	TB	17.4	140.2	-
	2019F	97.9	23.5	126.4	459.5	2.1	9.6	-
PER	2017	61.9	95.8	141.1	N/A	17.3	29.1	30.1
(x)	2018F	75.1	33.2	44.6	81.4	16.7	17.8	23.3
	2019F	38.0	26.8	19.7	14.6	16.5	16.2	17.5
PBR	2017	4.9	3.9	1.6	2.0	3.6	2.5	2.6
(x)	2018F	6.7	2.9	1.3	1.4	3.7	1.6	2.0
	2019F	5.7	2.5	1.2	1.3	3.1	1.5	1.8
EV/EBITDA	2017	22.1	14.1	4.6	N/A	10.4	46.2	23.5
(x)	2018F	21.3	11.5	4.3	6.6	10.9	53.3	21.4
	2019F	14.6	9.9	3.9	5.5	11.2	15.5	17.9
ROE	2017	9.5	6.5	4.5	(5.2)	21.3	4.0	9.1
(%)	2018F	9.3	10.6	2.9	1.8	24.4	7.5	8.0
	2019F	16.1	11.5	6.4	9.4	20.1	8.5	10.5

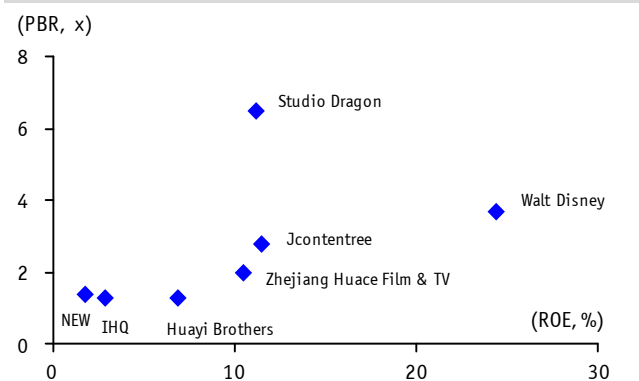
Source: Bloomberg, Shinhan Investment Corp.

Relative share performance vs. domestic peers



Source: Bloomberg, Shinhan Investment Corp.

2018F PBR and ROE vs. global peers



Source: Bloomberg, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2016	2017	2018F	2019F	2020F
Total assets	242.0	459.5	497.2	569.3	657.1
Current assets	81.4	289.8	314.7	376.7	455.3
Cash and equivalents	11.5	51.3	39.1	57.3	80.2
Accounts receivable	37.0	54.9	79.4	110.7	146.7
Inventories	0.0	1.3	1.7	2.3	2.8
Non-current assets	160.6	169.6	182.5	192.6	201.8
Tangible assets	1.2	1.1	1.0	1.0	1.0
Intangible assets	123.9	127.5	139.2	147.6	155.3
Investment assets	2.3	3.8	5.0	6.8	8.4
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	105.9	91.0	92.9	94.1	95.3
Current liabilities	84.5	90.7	92.5	93.6	94.6
Short-term borrowings	8.1	0.0	0.0	0.0	0.0
Accounts payable	5.8	6.1	6.4	6.7	7.0
Current portion of long-term debt	0.0	10.0	10.0	10.0	10.0
Non-current liabilities	21.4	0.3	0.4	0.6	0.7
Bonds	19.9	0.0	0.0	0.0	0.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	136.1	368.4	404.3	475.1	561.9
Capital stock	11.0	14.0	14.0	14.0	14.0
Capital surplus	114.7	319.6	319.6	319.6	319.6
Other capital	2.0	2.7	2.7	2.7	2.7
Accumulated other comprehensive income	0.0	0.0	0.0	0.0	0.0
Retained earnings	8.3	32.1	67.9	138.8	225.6
Controlling interest equity	136.1	368.4	404.3	475.1	561.9
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	28.1	10.0	10.0	10.0	10.0
*Net debt (cash)	16.4	(182.2)	(177.6)	(203.1)	(233.4)

Statement of cash flow

Year to December (bn KRW)	2016	2017	2018F	2019F	2020F
Cash flow from operations	(12.4)	(7.2)	86.0	121.6	133.2
Net profit	8.1	23.8	35.8	70.9	86.7
Depreciation expense	0.2	0.3	0.3	0.3	0.3
Amortization expense	22.0	41.0	77.6	86.0	93.7
FX translation loss (gain)	0.3	0.8	0.0	0.0	0.0
Asset disposal loss (gain)	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Equity method loss (gain)	0.0	0.0	0.0	0.0	0.0
Change in working capital	(46.1)	(72.9)	(27.5)	(35.3)	(47.1)
(Payment of income tax)	(1.7)	(10.4)	(9.8)	(21.2)	(27.4)
Others	4.8	10.2	9.6	20.9	27.0
Cash flow from investments	(69.5)	(141.0)	(97.4)	(102.5)	(109.4)
Increase in tangible assets	(1.1)	(0.1)	(0.4)	(0.3)	(0.4)
Decrease in tangible assets	0.0	0.1	0.1	0.1	0.1
Change in intangible assets	(0.1)	(0.2)	(89.3)	(94.4)	(101.4)
Change in investment assets	(0.3)	0.0	(1.2)	(1.8)	(1.6)
Others	(68.0)	(140.8)	(6.6)	(6.1)	(6.1)
Free cash flow	N/A	43.6	81.2	115.7	127.0
Cash flow from financing	93.5	188.1	(0.9)	(0.9)	(0.9)
Change in borrowings	27.2	(18.1)	0.0	0.0	0.0
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Others	66.3	206.2	(0.9)	(0.9)	(0.9)
Other cash flow	0.0	0.0	0.1	0.0	0.0
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.0)	(0.1)	0.0	0.0	0.0
Change in total cash	11.5	39.8	(12.2)	18.2	22.9
Beginning cash	0.0	11.5	51.3	39.1	57.3
Ending cash	11.5	51.3	39.1	57.3	80.2

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2016	2017	2018F	2019F	2020F
Sales	154.4	286.8	379.5	511.5	630.1
Growth (%)	N/A	85.7	32.3	34.8	23.2
COGS	132.8	239.7	324.0	410.1	505.5
Gross profit	21.6	47.1	55.5	101.5	124.5
GPM (%)	14.0	16.4	14.6	19.8	19.8
SG&A	5.0	14.2	15.7	16.8	18.4
Operating profit	16.6	33.0	39.9	84.7	106.1
Growth (%)	N/A	98.3	20.9	112.3	25.3
OPM (%)	10.8	11.5	10.5	16.5	16.8
Non-operating profit	(6.1)	(2.7)	5.7	7.4	8.0
Financial profit	(1.1)	(2.5)	4.6	5.6	5.8
Other non-operating profit	(5.0)	(0.2)	1.2	1.8	2.2
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	10.5	30.3	45.6	92.1	114.1
Income tax	2.4	6.4	9.8	21.2	27.4
Continuing operations	8.1	23.8	35.8	70.9	86.7
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	8.1	23.8	35.8	70.9	86.7
Growth (%)	N/A	192.9	50.2	97.9	22.4
NPM (%)	5.3	8.3	9.4	13.9	13.8
Controlling interest	8.1	23.8	35.8	70.9	86.7
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	8.3	23.8	35.8	70.9	86.7
Controlling interest	8.3	23.8	35.8	70.9	86.7
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	38.8	74.3	117.8	171.0	200.1
Growth (%)	N/A	91.4	58.6	45.1	17.1
EBITDA margin (%)	25.1	25.9	31.0	33.4	31.8

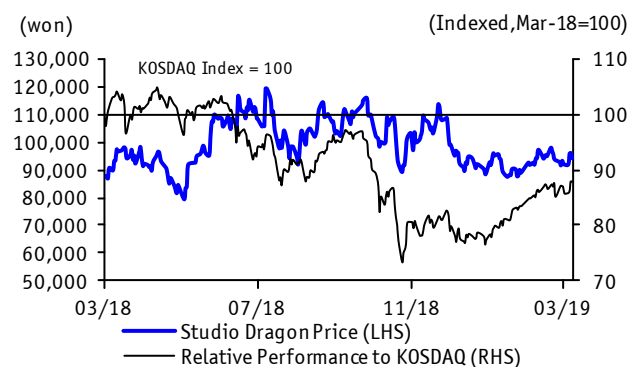
Key ratios

Year to December	2016	2017	2018F	2019F	2020F
EPS (KRW)	569	1,050	1,277	2,528	3,094
EPS of controlling interest (KRW)	569	1,050	1,277	2,528	3,094
BPS (KRW)	6,176	13,141	14,419	16,947	20,041
BPS of controlling interest (KRW)	6,176	13,141	14,419	16,947	20,041
DPS (KRW)	0	0	0	0	0
PER (x)	0.0	61.9	73.3	37.0	30.3
PER of controlling interest (x)	0.0	61.9	73.3	37.0	30.3
PBR (x)	0.0	4.9	6.5	5.5	4.7
PBR of controlling interest (x)	0.0	4.9	6.5	5.5	4.7
EV/EBITDA (x)	0.4	22.1	20.8	14.2	12.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	N/A	0.0	0.0	0.0	0.0
Profitability					
EBITDA margin (%)	25.1	25.9	31.0	33.4	31.8
OPM (%)	10.8	11.5	10.5	16.5	16.8
NPM (%)	5.3	8.3	9.4	13.9	13.8
ROA (%)	3.4	6.8	7.5	13.3	14.1
ROE (%)	6.0	9.5	9.3	16.1	16.7
ROIC (%)	N/A	17.9	18.9	31.5	31.5
Stability					
Debt to equity ratio (%)	77.8	24.7	23.0	19.8	17.0
Net debt ratio (%)	12.1	(49.4)	(43.9)	(42.7)	(41.5)
Cash ratio (%)	13.6	56.6	42.3	61.3	84.8
Interest coverage ratio (x)	19.5	19.0	43.7	92.8	116.3
Activity (%)					
Working capital turnover (times)	(23.5)	55.2	12.3	8.2	6.1
Inventory turnover (days)	-	0.8	1.4	1.4	1.5
Receivable turnover (days)	87.4	58.5	64.6	67.8	74.6

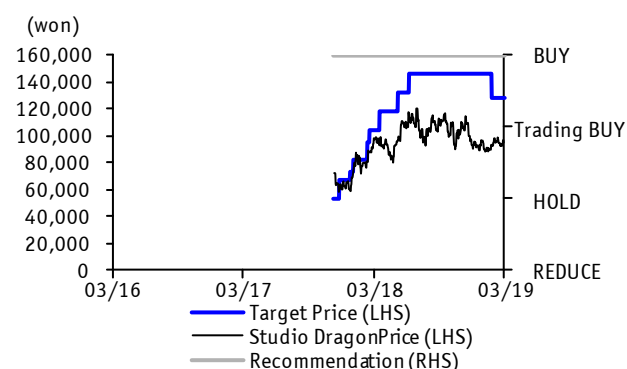
Source: Company data, Shinhan Investment Corp.

Studio Dragon (253450 KS)

Share performance



Target price



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2017.11.23	BUY	53,000	20.8	35.5
2017.12.10	BUY	67,000	(6.9)	(1.8)
2018.01.09	BUY	73,000	(6.2)	1.9
2018.01.18	BUY	82,000	(3.3)	6.1
2018.02.26	BUY	95,000	(7.5)	(6.7)
2018.03.04	BUY	104,000	(9.9)	(5.3)
2018.04.01	BUY	118,000	(23.0)	(16.4)
2018.05.22	BUY	132,000	(19.3)	(11.3)
2018.06.22	BUY	146,000	(28.3)	(17.9)
2018.12.23		6M later	(37.5)	(34.0)
2019.02.07	BUY	128,000	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - SHIC Universe (as of 4 March 2019)

BUY (BUY)	95.35%	Trading BUY (HOLD)	2.33%	HOLD (HOLD)	2.33%	SELL (SELL)	0%
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SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> ◆ BUY: Expected 6-month gain of 10% or more ◆ Trading BUY: Expected 6-month gain of 10% to loss of 10% ◆ HOLD: Expected 6-month loss of 10% to 20% ◆ SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> ◆ OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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