Studio Dragon (253450.KQ)

Entering new phase

Company Report | Jun 5, 2019

In our view, concerns over Arthdal Chronicles are overly reflected in Studio Dragon's current share price. While the accelerated amortization of intangible assets from dramas might slow down margins growth over the short term, it should result in mid/long-term earnings stability for the firm. Revising down our target EV/EBITDA in light of changes relating to downstream players, we lower our TP to W115,000.

View concerns over Arthdal Chronicles as being overblown

Season 1 of Studio Dragon's multi-season drama Arthdal Chronicles has finally started to be aired. Season 1 is set to be broadcast over 2Q19~3Q19. Given that Studio Dragon sold the IP rights for the drama to Netflix, allowing the OTT player to simultaneously release the drama around the world, production costs are to be recognized over the two quarters.

Revenue generated before the drama is aired (ie, broadcasting and product placement revenue) is to cover around 30~40% of production costs, and distribution revenue from Netflix should cover more than 70% of production costs. Studio Dragon is also to receive sales commissions. Given all of these revenue sources, BEP should be achievable for Arthdal Chronicles from Season 1. We expect margins to improve from Season 2, which is to be aired next year.

In our view, concerns over Arthdal Chronicles are overly reflected in Studio Dragon's share price, and it is premature at this juncture to decide if the drama is a success or a failure, given the nature of multi-season dramas and the characteristics of the genre. In addition, the drama's domestic viewership rating has remained solid at 6.7% for the first episode and 7.3% for the second episode. IMDb's overseas audience ratings for the drama have also uptrended.

Accelerated amortization to slow margins improvement over near term, but to ensure stable margins over mid/long term

With the number of dramas sold to a global OTT player having increased, Studio Dragon is expected to adopt a method of accelerated amortization of intangible assets for many more dramas, in turn blunting margins improvement over the short term. But, we believe the switching of amortization method is necessary for the firm in order to secure mid/long-term earnings stability.

With new players (Disney and Apple) set to enter the global OTT market, we view Studio Dragon (which boasts accumulated experience in multi-season tent-pole dramas) as being an attractive drama production partner for these new players. We note that: 1) the main revenue source for global OTT firms is subscription revenue; and 2) mutli-season dramas are better than mini-series in terms of attracting subscribers. While production of multi-season dramas could prove financially burdensome over the near term, we believe that over the long haul, the shifting focus to multi-season drama production will contribute towards both ensuring earnings stability and beefing up production capabilities.

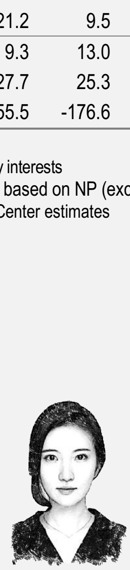
Buy (maintain)

TP	**W115,000 (lower)**
CP (19/06/04)	**W68,800**
Sector	**Entertainment**
Kospi/Kosdaq	2,066.97 / 702.53
Market cap (common)	US$1,590.88mn
Outstanding shares (common)	28.1mn
52W high ('18/07/12)	W119,800
low ('19/06/03)	W66,900
Average trading value (60D)	US$11.61mn
Dividend yield (2018E)	0.00%
Foreign ownership	3.0%
Major Shareholders	
CJ ENM & 3 others	74.4%

Share perf	3M	6M	12M
Absolute (%)	-26.1	-36.9	-36.8
Relative (%p)	-21.3	-36.4	-21.1

	2018	2019E	2020F	2021F
Sales	379.6	527.3	578.3	681.2
Chg	*32.4*	*38.9*	*9.7*	*17.8*
OP	39.9	65.2	91.8	145.8
Chg	*20.9*	*63.4*	*40.8*	*58.8*
OPM	*10.5*	*12.4*	*15.9*	*21.4*
NP	35.8	55.8	77.6	119.7
EPS	1,278	1,990	2,767	4,267
Chg	*21.7*	*55.7*	*39.0*	*54.2*
P/E	72.3	33.6	24.2	15.7
P/B	6.5	4.1	3.5	2.9
EV/EBITDA	21.2	9.5	8.3	5.6
ROE	9.3	13.0	15.7	20.1
Debt/equity	27.7	25.3	22.6	19.4
Net debt	-155.5	-176.6	-265.2	-404.1

Unit: Wbn, %, won, x
Note 1: NP excludes minority interests
Note 2: EPS, P/E, P/B, ROE based on NP (excl minority interests)
Source: NH I&S Research Center estimates



Hazell Lee, Analyst
822)768-7535, hzl.lee@nhqv.com

Maintain Buy rating, but lower TP to W 115,000

We lower our TP by 15% from W135,000 to W115,000. While our earnings forecasts remain unaltered, we revise down our target EV/EBITDA by 17.5% from 20x to 16.5x. When calculating our target EV/EBITDA, we reflected EV/EBITDA levels for global OTT players and Chinese production companies. While the EV/EBITDA average at Chinese production firms has hardly changed, that for global OTT players has shrunk on: 1) the appearance of an additional global OTT player (ie, Hulu, which is owned by Disney) in the market; and 2) the need to apply higher discount rates to Chinese OTT players' EV/EBITDAs. But, Studio Dragon's mid/long-term earnings momentum remains intact on anticipation towards a resumption in Chinese sales, further joint drama productions, and the disposal of CJ ENM's stake in Studio Dragon, (although it is taking longer than expected for the momentum to materialize). Momentum should pick up in earnest once the Chinese market opens again to Korean content. Against this backdrop, we reiterate our Buy rating for the company.

Maintain Buy rating, but lower TP to W115,000

Studio Dragon's shares have fared ill as of late on worries over: 1) delays in resumption of its Chinese sales; 2) a possible short-term slowdown in margins growth due to the airing of multi-season drama Arthdal Chronicles; and 3) uncertainties over whether Season 2 for the drama will actually come. Particularly, due to the second and third reasons, investor sentiment towards the company has worsened. However, we believe that these concerns are overly reflected in the firm's current share price.

Reiterate Buy rating…

While profitability growth might slow down over the short term due to multi-season drama Arthdal Chronicles, it is likely to climb from Season 2. As the drama is a new genre in Korea, initial response for Arthdal Chronicles has not been favorable. However, the domestic viewership rating has remained solid at 6.7% for the first episode and 7.3% for the second episode. Also, the second season has been confirmed to be aired, dispelling related concerns. In addition, Studio Dragon's mid/long-term earnings momentum remains solid on a possible resumption in Chinese sales, joint drama production, and the likely disposal of CJ ENM's stake in Studio Dragon. This momentum should pick up in earnest once the Chinese market opens again to Korean content. Against this backdrop, we stick to our Buy rating for the company.

…but lower TP to W115,000

That said, we lower our TP by 15% from W135,000 to W115,000. While our earnings forecasts remain unchanged, we revise down our target EV/EBITDA by 17.5% from 20x to 16.5x. When calculating our target EV/EBITDA, we looked at EV/EBITDA levels for global OTT players and Chinese production companies. While the EV/EBITDA average at Chinese production firms has hardly changed, that for global OTT players has shrunk on: 1) the appearance of an additional global OTT player (ie, Hulu, which is owned by Disney) in the market; and 2) the need to apply higher discount rates to Chinese OTT firms' EV/EBITDAs.

Target EV/EBITDA calculations

(Unit: x, %, Wbn, won, 1,000 shr)

	2019E	Multiple	(x)	Value	Note
Operating value (A)	178.6	EV/EBITDA	16.5	2,946.4	2019E; EV/EBITDA s for global OTT players and Chinese production companies reflected
Net debt (B)				-265.2	
Total value (A)-(B)				3,211.6	
Value/share				114,489	**67% upside**
Number of outstanding shrs				28,051,490	

Note: NH I&S Research Center

Margins for multi-season drama Arthdal Chronicles to improve over time

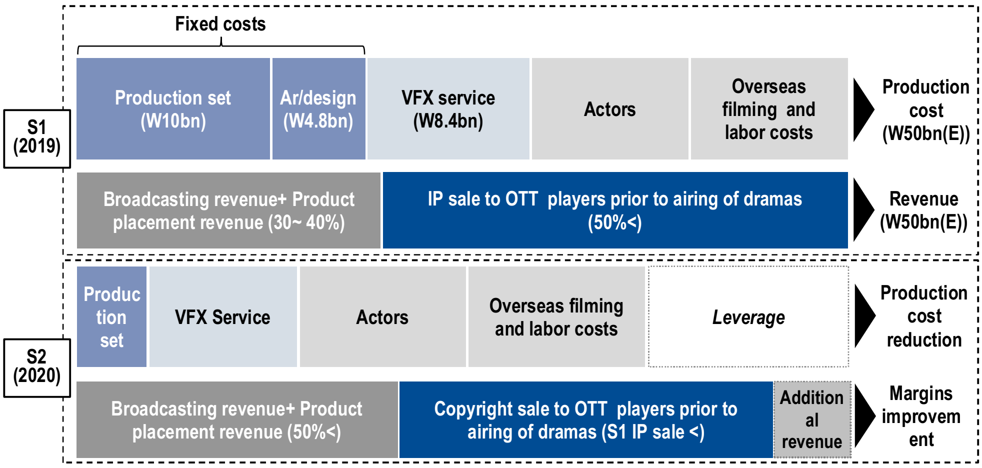
BEP should be achievable for drama from Season 1

If production costs for Arthdal Chronicles come to W3.0bn per episode (higher than our previous projection), investment returns will likely decrease to the 30~40% range. But, given that drama distribution prices paid by Netflix tend to move in sync with production costs, BEP should be achievable for Arthdal Chronicles from Season 1 onwards, even though fixed costs (such as set-up expenses) are to concentrate in Season 1.

Margins to improve from Season 2

From Season 2, profitability should strengthen in line with: 1) reduced fixed costs thanks to the reuse of production assets set up for Season 1; and 2) the start of other income flow sources thanks to IP utilization (including games). In addition, given that the first seasons of multi-season dramas tend to fetch the lowest prices, overseas distribution prices will likely increase for the follow-up seasons.

Arthdal Chronicles: Expenses and revenue breakdown for Season 1 and Season 2

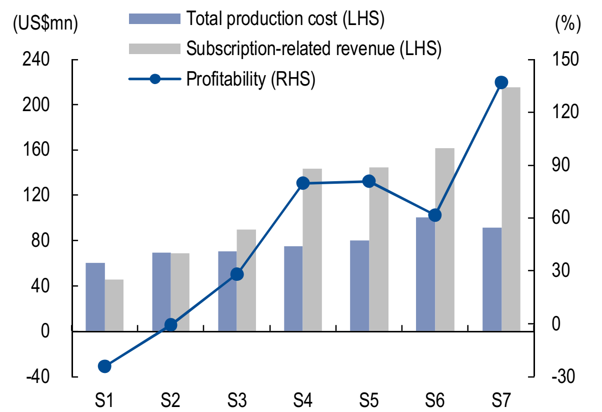


Source: Dart, NH I&S Research Center estimates

Poster for Arthdal Chronicles

Source: Nielson, NH I&S Research Center

When stripping out additional revenue, Game of Thrones reached BEP at Season 3



Note: Subscription revenue based on average viewers per season, 3-month subscription fees for HBO, and 40~50% discount considering contribution of other programs
Source: Media reports, NH I&S Research Center estimates

Margins growth to slow, but profit stability to strengthen over mid/long term

Accelerated amortization of intangible assets stems from copyright sale to global OTT player before drama was aired

We note that Studio Dragon's amortization costs of intangible assets have upped rapidly as of late in line with overseas distribution revenue growth. As accelerated amortization of intangible assets from dramas has been conducted, fears have been mounting over the firm's margins. But, we note that the accelerated amortization stems from copyright sale to global OTT player Netflix prior to the airing of dramas, and is aimed to ensure that remaining intangible assets (ie, to-be-amortized assets) stay stable on a quarterly basis.

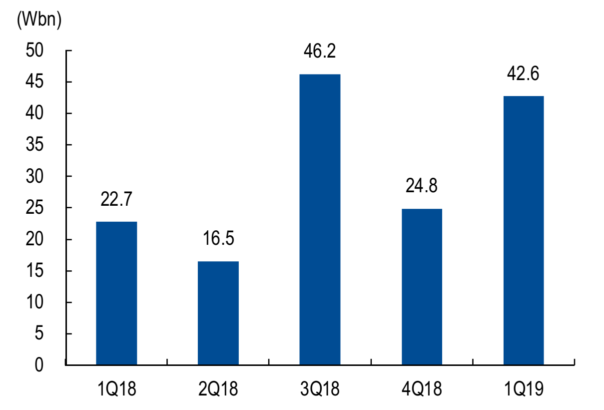
How to expense production costs

Production costs are covered by revenue generated before dramas are aired (eg, broadcasting/product placement revenue). And, the remaining production expenses are covered by other revenue (such as revenue relating to VOD, re-run, and domestic/overseas distribution). Generally, intangible assets are amortized over six quarters, as distribution revenue tends to be generated after dramas are aired.

More dramas sold to global OTT; adoption of different amortization method required

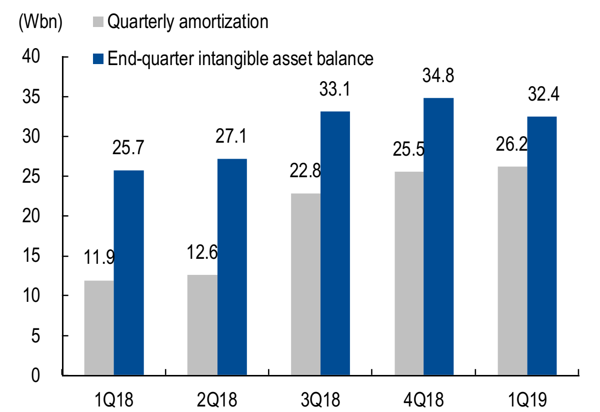
That said, as the number of Korean dramas that are sold to a global OTT (represented by Netflix) prior to the airing has increased, the conventional method of production cost expensing needs to change. We point out that once a drama is sold to a global OTT player, chances of the drama generating additional overseas sales in the coming quarters decline almost to zero. For instance, Netflix, the main global OTT client for Korean drama production firms, is operating in more than 190 countries (China not included). Given the fact that the sales generation period gets much shortened for a drama sold to a global OTT, it becomes necessary for Korean drama production firms to adopt a method of accelerated amortization for the drama-related intangible assets. In other words, with most of sales from a drama likely concentrating over the short term, it makes more sense to expense related production costs while the revenue flow lasts. That said, we note that accelerated amortization of intangible assets will translate into a greater cost burden during the quarter(s) the drama is aired, and subsequently blunt margins improvement over the short haul.

Studio Dragon's overseas drama sales



Source: Studio Dragon, NH I&S Research Center

Quarterly amortization of intangible assets and remaining intangible asset balance



Note: 4Q18 figures include about W9.0bn in accelerated amortization of intangible assets
Source: Studio Dragon, NH I&S Research Center

With more dramas sold to global OTT, Studio Dragon needs to adopt accelerated amortization method

Recently, Studio Dragon has been selling 2~3 dramas (including both tent-pole and non-tent-pole dramas) to Netflix every quarter. Against this backdrop, if the company keeps using the conventional expensing method for drama production cost, margins could improve strongly over the short term; however, over the mid/long-haul, a rising balance of intangible assets would likely significantly heighten quarterly amortization expenses, in turn pushing up the break-even sales level for the firm.

Accelerated amortization is essential for high-budget dramas

The figure below contains two scenarios for Studio Dragon's quarterly cost expensing structure, depending on which amortization method it adopts for Arthdal Chronicles-related intangible assets. In the first scenario, we assume that: 1) 30% of the drama Arthdal Chronicles's production costs will be left unexpensed as intangible assets; and 2) the intangible assets will be evenly amortized over the following six quarters. The scenario shows that even though the drama no longer generates sales, the firm has to record W2.5bn in related amortization expenses for the coming quarters. Moreover, given the fact that new tent-pole dramas will follow Arthdal Chronicles, the use of a conventional amortization method is to inevitably end up boosting the quarterly amortization expense burden to an excessive level.

Scenarios for Studio Dragon's Arthdal Chronicles-related cost expensing

Arthdal Chronicles
Production cost: W50bn
Related intangible assets: W15bn

		2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
Conventional amortization method	Amortization	-W2.5bn	-W2.5bn	-W2.5bn	-W2.5bn	-W2.5bn	-W2.5bn
	Production cost expensed	W37.5bn	W2.5bn	W2.5bn	W2.5bn	W2.5bn	W2.5bn
Accelerated amortization method	Amortization	-W15bn	No deferred cost				
	Production cost expensed	W50bn					

Note: Assuming that Arthdal Chronicles will be aired during 2Q19
Source: NH I&S Research Center estimates

Quarterly margins to be stable

In summary, though having to sacrifice its short-term margins, Studio Dragon needs to adopt a method of accelerated amortization of intangible assets in order to ensure earnings stability over the mid/long term. In other words, expensing a major portion of drama production costs during the period in which the drama generates distribution sales should help to: 1) prevent an excessive hike in the company's quarterly break-even sales (in response to mounting intangible assets); and 2) ensure stable margins over the mid/long-haul.

Studio Dragon taking forward-looking approach in preparation for expansion of global OTT market

In order to keep abreast with the ongoing changes in the drama production industry, we believe that Studio Dragon has: 1) shifted its focus towards multi-season drama production; and 2) adopted an accelerated amortization method for intangible assets. With new global OTT players (Apple, and Disney (Hulu)) aiming to enter the Asian market, we predict that demand for Korean dramas (especially multi-season dramas) will climb going forward. With this in mind, we believe that accumulating experience in multi-season drama production and adopting accelerated amortization of intangible assets (to ensure stable margins over the mid/long term) will be key elements for the firm to strengthen its market position ahead of the arrival of new OTT players.

Earnings forecasts (IFRS-consolidated) (Unit: Wbn, won, x, %)

		2018	2019E	2020F	2021F
Sales	- Revised	379.6	527.3	578.3	652.1
	- Previous	-	531.5	588.0	687.1
	- Change		-0.8	-1.6	-5.1
OP	- Revised	39.9	65.2	91.8	133.6
	- Previous	-	65.9	89.9	143.5
	- Change		-1.1	2.1	-6.9
OPM	- Revised	*10.5*	*12.4*	*15.9*	*20.5*
EBITDA		115.2	178.6	193.2	241.7
NP (excl minority interests)		35.8	55.8	77.6	110.2
EPS	- Revised	1,278	1,990	2,767	3,927
	- Previous		2,009	2,713	4,203
	- Change		-0.9	2.0	-6.6
P/E		72.3	37.1	26.7	18.8
P/B		6.5	4.5	3.9	3.2
EV/EBITDA		21.2	10.6	9.3	7.0
ROE		9.3	13.0	15.7	18.7

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 (Unit: episodes, Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19E	3Q19F	4Q19F	2017	2018	2019E
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**	**101.7**	**111.8**	**125.8**	**149.7**	**140.1**	**286.8**	**379.6**	**527.3**
Broadcasting revenue	26.3	24.1	41.8	39.0	40.7	34.1	48.9	54.4	44.1	49.2	49.4	48.1	131.2	178.1	190.9
IP + VOD	36.5	26.3	23.3	25.7	32.1	28.8	63.4	37.8	56.2	66.3	88.3	80.0	111.8	162.1	290.7
Other (DVD, OST)	12.5	11.6	12.4	7.2	7.1	11.4	11.4	9.5	11.5	10.3	11.9	12.0	43.7	39.4	45.7
y-y (%)	-	-	-	-	*6.0*	*19.6*	*59.7*	*41.5*	*40.0*	*69.3*	*21.0*	*37.7*	*46.7*	*32.4*	*38.9*
COGS	**58.6**	**49.9**	**66.8**	**64.4**	**66.2**	**63.7**	**98.9**	**95.2**	**96.8**	**108.9**	**122.0**	**115.9**	**239.7**	**324.0**	**443.6**
Production costs	35.2	31.8	38.2	44.5	44.6	33.3	47.7	60.0	52.0	56.6	69.1	75.0	149.7	185.6	252.7
Amortization costs	9.9	9.8	10.3	10.9	12.6	13.1	23.3	25.9	26.7	31.2	32.4	22.8	41.0	74.9	113.1
Other	13.4	8.3	18.2	9.0	9.1	17.2	27.9	9.3	18.1	21.1	20.5	18.1	49.0	63.5	77.8
GP	**16.8**	**12.2**	**10.7**	**7.4**	**13.6**	**10.6**	**24.8**	**6.5**	**15.0**	**16.9**	**27.7**	**24.2**	**47.1**	**55.6**	**83.7**
GPM	*22.2*	*19.6*	*13.9*	*10.4*	*17.1*	*14.3*	*20.1*	*6.4*	*13.4*	*13.4*	*18.5*	*17.3*	*16.4*	*14.6*	*15.9*
OP	**14.0**	**8.9**	**6.7**	**3.5**	**10.7**	**7.3**	**21.5**	**0.4**	**11.0**	**13.2**	**23.5**	**17.5**	**33.1**	**39.8**	**65.2**
OPM	*18.5*	*14.3*	*8.7*	*4.8*	*13.3*	*9.9*	*17.4*	*0.4*	*9.9*	*10.5*	*15.7*	*12.5*	*11.5*	*10.5*	*12.4*
y-y (%)	-	-	-	-	*-23.7*	*-17.6*	*218.5*	*-88.9*	*3.5*	*80.3*	*9.4*	*4,441.3*	-	*20.5*	*63.7*
NP	**13.4**	**2.8**	**5.7**	**2.0**	**7.9**	**8.9**	**17.3**	**1.7**	**9.2**	**13.2**	**18.8**	**14.6**	**23.8**	**35.8**	**55.8**
NPM	*17.8*	*4.5*	*7.3*	*2.8*	*9.8*	*12.0*	*14.0*	*1.7*	*8.2*	*10.5*	*12.5*	*10.4*	*8.3*	*9.4*	*10.6*

Note: Number of dramas based on those aired in each quarter (if a drama is aired through two consecutive quarters, 0.5 is reflected for each quarter)
Source: NH I&S Research Center estimates

Studio Dragon's 2019 drama line-up

Title	Airing date	Quarter	Channel	Type	Highest viewership	Remarks
God's Quiz: Reboot (Season 5)	18.11.14~19.01.10	4Q, 1Q	OCN	16 episodes	2.7%	All episodes supplied to Netflix
Priest	18.11.24~19.01.20	4Q, 1Q	OCN	16 episodes	2.5%	
Eunjoo's Room	18.11.06~19.01.22	4Q, 1Q	Olive	12 episodes	0.4%	Second season possible
Encounter	18.11.28~18.01.24	4Q, 1Q	tvN	16 episodes	10.3%	Export to more than 100 countries
Memories of the Alhambra	18.12.01~18.01.20	4Q, 1Q	tvN	16 episodes	10.0%	**[Tent-pole]** Supplied to Netflix Exported to China
The Man Who Became a King	19.01.07~19.03.04	1Q	tvN	16 episodes	10.9%	
Touch Your Heart	19.02.06~19.03.28	1Q	tvN	16 episodes	4.7%	
Romance is a Bonus Book	19.01.26~19.03.17	1Q	tvN	16 episodes	6.7%	Globally aired on Netflix
Possessed	19.03.06~19.4.25	1Q, 2Q	OCN	16 episodes	2.6%	Globally aired on Netflix
Kill it	19.03.23~19.4.28	1Q, 2Q	OCN	12 episodes	2.8%	
He Is Psychometric	19.03.11~19.04.30	1Q, 2Q	tvN	16 episodes	2.8%	
Confession	19.03.23~19.05.12	1Q, 2Q	tvN	16 episodes	6.3%	
Her Private Life	19.04.10~19.05.30	2Q	tvN	16 episodes	2.9%	
Abyss	19.05.06~19.06.25	2Q	tvN	16 episodes	2.3%	Globally aired on Netflix
Save Me 2	19.05.08~19.06.20	2Q	OCN	16 episodes	1.9%	
Voice 3	19.05.11~19.06.30	2Q	OCN	12 episodes	4.4%	
Spring Night	19.05.22~19.07.11	2Q, 3Q	MBC	16 episodes	6.4%	Globally aired on Netflix
Arthdal Chronicles S1	19.06.01~19.08.05	2Q, 3Q	tvN	18 episodes	7.3%	**[Tent-Pole] Multi-season drama**
Search: WWW	19.06.05~19.07.25	2Q ,3Q	tvN	16 episodes		
Watcher	19.07~	3Q	OCN	16 episodes		
Hotel del Luna	19.07~	3Q	tvN	16 episodes		**[Tent-pole]**
Doctor Room	19.07~	3Q	SBS	16 episodes		
Designated Survivor	19.07.01~	3Q	tvN	16 episodes		
When the Devil Calls Your Name		3Q	tvN	16 episodes		
Man Who Bakes Bread		3Q	tvN	16 episodes		
Great Show		4Q	tvN	16 episodes		
Love Alarm S1		3Q	Netflix	8 episodes		Netflix original, multi-season drama
I am Alone S1		4Q	Netflix	12~15 episodes		Netflix original, multi-season drama

Source: Studio Dragon, media report, NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME

(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Sales	**379.6**	**527.3**	**578.3**	**681.2**
Growth (%)	*32.4*	*38.9*	*9.7*	*17.8*
COGS	**324.0**	**443.6**	**459.3**	**499.5**
Gross Profit	**55.6**	**83.7**	**119.0**	**181.7**
Gross margin (%)	*14.6*	*15.9*	*20.6*	*26.7*
SG&A	15.7	18.5	27.2	35.9
Operating Income	**39.9**	**65.2**	**91.8**	**145.8**
Growth (%)	*20.9*	*63.4*	*40.8*	*58.8*
Operating margin (%)	*10.5*	*12.4*	*15.9*	*21.4*
EBITDA	**115.2**	**178.6**	**193.2**	**262.3**
Non-Operating Profit	**5.8**	**7.7**	**7.7**	**7.7**
Financial Income(Costs)	6.1	7.6	7.6	7.6
Other Non-Operating Profit	-0.3	0.1	0.1	0.1
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	0.0	0.0	0.0
Pre-tax Profit from Cont. Op.	**45.6**	**73.0**	**99.5**	**153.5**
Income Taxes	**9.8**	**17.2**	**21.9**	**33.8**
Profit from Continuing Op.	35.8	55.8	77.6	119.7
Net Profit	**35.8**	**55.8**	**77.6**	**119.7**
Growth (%)	*50.4*	*55.9*	*39.1*	*54.3*
Net margin (%)	*9.4*	*10.6*	*13.4*	*17.6*
Net Profit of Parent	35.8	55.8	77.6	119.7
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0
Other Comprehensive Income	-1.1	0.0	0.0	0.0
Total Comprehensive Income	34.7	55.8	77.6	119.7

Valuation / Profitability / Stability

	2018/12A	2019/12E	2020/12F	2021/12F
Price/Earnings (x)	72.3	33.6	24.2	15.7
Price/Book Value (x)	6.5	4.1	3.5	2.9
Price/Gross Cash Flow (x)	23.5	10.3	9.6	7.1
Price/Sales (x)	6.8	3.6	3.2	2.8
EV/EBITDA (x)	21.2	9.5	8.3	5.6
EV/EBIT (x)	61.1	26.1	17.6	10.1
Fully diluted EPS (won)	1,278	1,990	2,767	4,267
BVPS (won)	14,305	16,295	19,062	23,329
Sales PS (won)	13,539	18,799	20,614	24,282
ROE (%)	9.3	13.0	15.7	20.1
ROA (%)	7.4	10.3	12.6	16.7
ROIC (%)	11.5	20.7	28.5	45.7
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 (%)	-38.8	-38.6	-49.6	-61.8
Debt/ equity (%)	27.7	25.3	22.6	19.4
Interest-Bearing Debts (Wbn)	0.0	0.0	0.0	0.0
Current Ratio (%)	228.4	251.0	318.9	419.5
Total shares (mn)	28	28	28	28
Par value (won)	500	500	500	500
Share price (won)	92,400	66,900	66,900	66,900
Market Cap (Wbn)	2,592	1,877	1,877	1,877

STATEMENT OF FINANCIAL POSITION

(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Cash and Cash Equivalents	153.0	174.0	262.5	401.2
Accounts Receivables	68.8	82.5	85.8	88.4
Total Current Assets	**247.2**	**282.7**	**375.4**	**517.6**
Tangible Assets	1.0	0.7	0.5	0.4
Investment Assets	3.7	30.5	5.7	5.9
Non-Current Assets	**265.2**	**290.2**	**280.3**	**263.7**
Assets	**512.4**	**572.9**	**655.7**	**781.3**
Short-Term Debt	0.0	0.0	0.0	0.0
Account Payables	19.6	19.6	20.0	20.8
Current Liabilities	**108.2**	**112.6**	**117.7**	**123.4**
Long-Term Debt	2.1	2.1	2.1	2.1
Long-Term Allowance	0.7	1.0	1.1	1.3
Non-Current Liabilities	**2.9**	**3.2**	**3.3**	**3.5**
Liabilities	**111.1**	**115.8**	**120.9**	**126.8**
Capital Stock	14.0	14.0	14.0	14.0
Capital Surplus	320.1	320.1	320.1	320.1
Retained Earnings	67.6	123.5	201.1	320.8
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
Shareholders' Equity	**401.3**	**457.1**	**534.7**	**654.4**

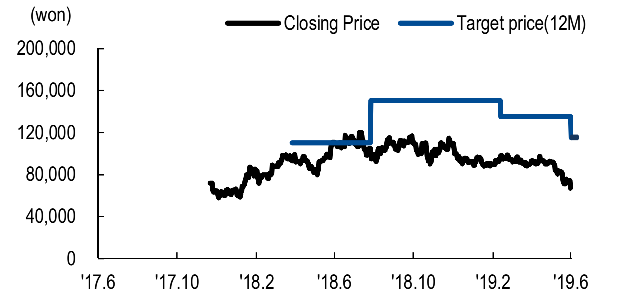
CASH FLOW STATEMENT

(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Operating Cash Flow	**-29.1**	**156.1**	**175.7**	**232.1**
Net Profit	35.8	55.8	77.6	119.7
Depreciation & Amortization	75.3	113.4	101.4	116.5
+ Loss(Gains) from Subs	0.0	0.0	0.0	0.0
+ FC translation loss(profit)	-0.5	0.0	0.0	0.0
Gross Cash Flow	110.2	183.0	196.4	263.3
- Incr. (Decr.) in WC	-139.4	-9.7	1.1	2.6
Investing Cash Flow	**140.6**	**-135.2**	**-87.2**	**-93.3**
+ Decr. In Tangible Assets	0.0	0.0	0.0	0.0
- Incr. In Tangible Assets (capex)	-0.2	0.0	0.0	0.0
+ Disp.(Acq.) of Inv. Assets	0.1	-26.8	24.8	-0.2
Free Cash Flow	-29.3	156.1	175.7	232.1
Net Cash Flow	111.5	20.9	88.5	138.8
Financing Cash Flow	**-9.7**	**0.0**	**0.0**	**0.0**
Equity Financing	0.5	0.0	0.0	0.0
Debt Financing	-10.2	0.0	0.0	0.0
Incr.(Decr.) in Cash	101.7	20.9	88.5	138.8
Ending Cash and Cash Equivalents	153.0	174.0	262.5	401.2
Net Debt (Cash)	-155.5	-176.6	-265.2	-404.1

Rating and TP update

Date	Rating	TP	Disparity ratio (%) Avg	Disparity ratio (%) Max/Min
2019.06.04	Buy	W115,000(12M)	-	-
2019.02.15	Buy	W135,000(12M)	-34.2%	-27.2%
2018.07.30	Buy	W150,000(12M)	-32.9%	-22.5%
2018.03.30	Buy	W110,000(12M)	-8.5%	8.9%

Studio Dragon (253450.KQ)



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 May 31, 2019).

- NH I&S' stock rating distribution

Buy	Hold	Sell
77.7%	22.3%	0.0%

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

Compliance notice

- NH I&S does not have a stake greater than or equal to 1% in companies mentioned in this material as of the preparation date.
- NH I&S has not provided this material to any institutional investor or other third party in advance.
- The analyst and his/her spouse do not own any securities of companies mentioned in this material as of the preparation date.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

Disclosures