

Studio Dragon (253450 KS)

Shares reach the first support level

BUY (Maintain)

CP (Jun. 5)	KRW69,700
TP (6 months)	KRW104,000
Upside	49.2%

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KOSPI	2,069.11p
KOSDAQ	707.75p
Market cap	KRW1,955.2bn/USD1,715.1mn
Par value	KRW500
Outstanding shares	28.1mn
Free float	7.1mn(25.2%)
52-week high/low	KRW119,800/KRW66,900
60-day avg. trading volume	167,102shrs
60-day avg. turnover	KRW14,072mn
Foreign ownership	2.84%
Major shareholders	
CJ E&M Corporation and 3 others	74.35%
Absolute performance	3M -24.2%
	6M -32.9%
	12M -36.2%
Relative performance	3M -19.8%
to KOSDAQ	6M -33.5%
	12M -20.9%

- ◆ 2Q19 consolidated operating profit forecast at KRW10.3bn (+40.3% YoY)
- ◆ Shares reach the first support level
- ◆ Retain BUY, while downgrading target price by 13% to KRW104,000

2Q19 consolidated operating profit forecast at KRW10.3bn (+40.3% YoY)

Studio Dragon is forecast to post consolidated sales of KRW106.6bn (+43.5% YoY) and operating profit of KRW10.3bn (+40.3% YoY) for 2Q19. Its new fantasy series Arthdal Chronicles is reported to have run up KRW54bn in production cost. When applying a conservative KRW55bn-60bn band, the drama is set to lose up to KRW5bn below the break-even point. We have included distribution revenue from Netflix, broadcasting revenue from CJ ENM, and VOD (video on demand) revenue in our estimate. The drama's low viewership should not be a cause of concern. There is little correlation between viewership and profitability, except for VOD revenue. Moreover, the success of Arthdal Chronicles is not a key determinant of the company's market cap. With a company-wide focus on profit growth, the production house is projected to generate more than KRW10bn in absolute profit through licensing deals with Netflix for at least three dramas (Abyss, etc.), sale of distribution rights to Southeast Asian countries, and efforts to improve cost efficiency.

Shares reach the first support level

Studio Dragon's market cap hinges on China earnings. Excluding China revenue, annual operating profit is estimated at KRW50bn (including two original dramas) and net profit at KRW40bn. Market cap of around KRW2tr can be seen as the first support level based on the lower end of 2017-2018 PER band at 50x. The final support level is KRW1.6tr. The stock is unlikely to fall below a PER of 40x, considering 30% sales growth and China-related leverage. We expect the market cap to reach KRW3.2tr-4tr if the Chinese government opens up the quota on Korean media contents, helping to boost China revenue to KRW50bn per year.

Retain BUY, while downgrading target price by 13% to KRW104,000

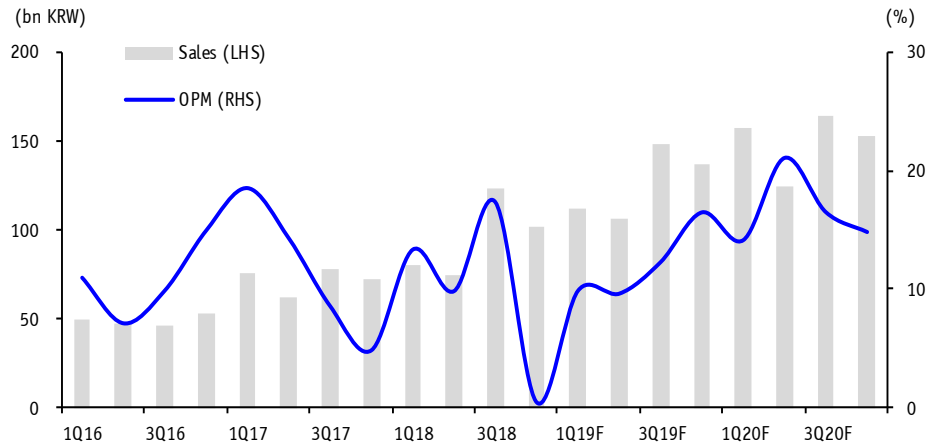
We downgrade our target price for Studio Dragon from KRW120,000 to KRW104,000. The target PER applied to 12-month forward EPS is lowered from 49x to 44x according to our target price policy. We retain our BUY rating in light of: 1) operating profit growth sustained even without China revenue; 2) highest leverage to profit once China eases quota restrictions; and 3) lower valuation burden after the recent correction. Now is the time to consider accumulating shares at the first bottom level.

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 (%)
2017	286.8	33.0	30.3	23.8	1,050	84.5	13,141	61.9	22.1	4.9	9.5	(49.5)
2018	379.6	39.9	45.6	35.8	1,278	21.7	14,305	72.3	21.2	6.5	9.3	(38.2)
2019F	504.2	62.2	71.6	54.2	1,932	51.1	16,237	36.1	11.4	4.3	12.6	(43.7)
2020F	599.0	98.4	108.8	82.7	2,948	52.6	19,185	23.6	8.6	3.6	16.6	(49.8)
2021F	658.3	111.6	118.6	90.1	3,213	9.0	22,398	21.7	7.5	3.1	15.5	(55.6)

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: Company data, Shinhan Investment Corp.

Earnings trend and outlook (K-IFRS consolidated)

(bn KRW)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19F	3Q19F	4Q19F	2017	2018	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	111.8	106.6	148.5	137.3	286.8	379.5	504.2	599.0
Production revenue	26.3	24.1	41.8	39.0	40.7	34.1	48.9	54.4	44.1	38.9	45.4	60.9	131.2	178.1	189.4	201.4
- Global platforms					0.0	0.0	0.0	0.0	0.0	0.0	2.3	2.3	0.0	0.0	4.5	9.3
Distribution revenue	36.5	26.3	23.3	25.7	32.1	28.8	63.4	37.8	56.2	56.6	76.4	51.7	111.8	162.1	240.9	288.4
Other (PPL) revenue	12.5	11.6	12.4	7.2	7.1	11.4	11.4	9.5	11.5	11.0	11.7	9.7	43.7	39.4	44.0	47.2
<Overseas operations>																
Overseas distribution revenue	22.6	16.1	13.1	15.4	22.7	16.5	46.2	24.8	42.6	42.7	56.6	37.1	67.2	110.2	179.0	221.6
- Share in distribution revenue (%)	30.0	25.9	16.9	21.4	70.8	57.2	72.9	65.7	75.9	75.4	74.1	71.8	60.1	68.0	74.3	76.8
Japan	7.1	4.9	3.2	3.5	3.5	4.5	3.4	4.2	10.3	6.2	5.9	5.1	18.7	15.6	27.5	30.4
Asia including China	12.2	9.0	8.5	10.2	8.9	10.5	10.4	13.9	21.3	14.8	19.1	19.4	39.9	43.8	74.6	102.2
China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	1.8	0.0	0.0	10.0	0.0	1.5	11.8	40.0
Americas	3.2	2.1	1.3	1.6	0.2	0.3	0.3	1.1	0.4	0.5	0.5	0.5	8.2	1.9	1.9	2.5
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	96.8	92.6	126.8	108.6	239.8	324.0	424.8	481.0
SG&A	2.8	3.3	4.0	4.0	3.0	3.3	3.3	6.0	4.0	3.7	3.4	6.1	14.1	15.7	17.2	19.6
OP	14.0	8.9	6.6	3.5	10.7	7.3	21.5	0.4	11.0	10.3	18.2	22.7	33.0	39.9	62.2	98.4
Pre-tax profit	13.2	9.0	6.4	1.7	10.8	11.0	22.0	1.7	13.2	12.2	20.9	25.3	30.3	45.6	71.6	108.8
NP	13.4	2.8	5.7	2.0	7.9	8.9	17.3	1.7	9.2	9.4	16.1	19.5	23.8	35.8	54.2	82.7
<% YoY growth>																
Total revenue	52.2	32.1	66.7	36.9	6.0	19.6	59.6	41.5	40.0	43.5	20.1	35.0	46.7	32.3	32.8	18.8
OP	157.3	165.9	44.7	(55.8)	(23.7)	(17.8)	223.0	(87.3)	3.5	40.3	(15.0)	5,036.5	55.4	20.9	55.9	58.2
NP	306.9	57.3	96.3	(60.5)	(41.3)	216.8	206.3	(12.5)	17.2	5.9	(7.0)	1,013.4	83.3	50.2	51.3	52.6
<Profitability, %>																
OPM	18.5	14.3	8.6	4.8	13.3	9.8	17.4	0.4	9.9	9.6	12.3	16.5	11.5	10.5	12.3	16.4
NPM	17.8	4.5	7.3	2.8	9.8	11.9	14.0	1.7	8.2	8.8	10.9	14.2	8.3	9.4	10.7	13.8

Source: Company data, Shinhan Investment Corp.

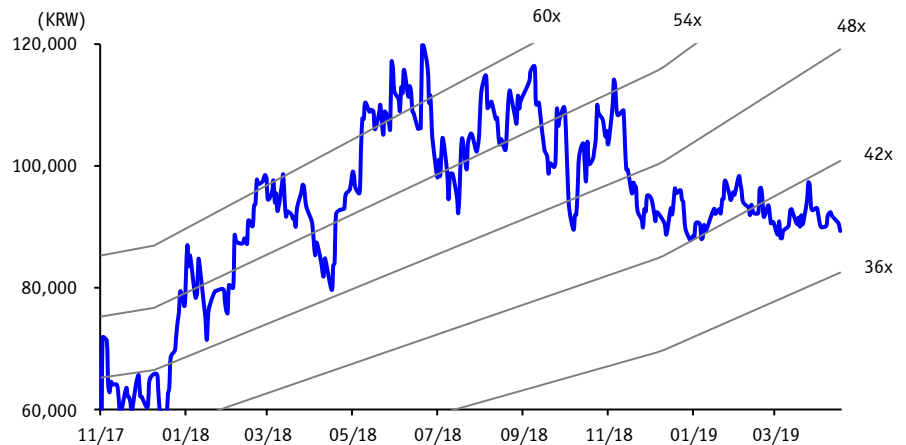
Note: Distribution rights revenue from Netflix included in overseas distribution revenue

PER valuation: Target price of KRW104,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2019F NP	54.2	12MF NP	65.6	2020F NP	82.7
EPS (KRW)	1,933	EPS (KRW)	2,339	EPS (KRW)	2,948
Target price (KRW)	85,000	Target price (KRW)	104,000	Target price (KRW)	130,000
Target PER (x)	44	Target PER (x)	44	Target PER (x)	44
		Current price	69,700		
		Estimated PER (x)	29.8		

Source: Shinhan Investment Corp.

Note: Target PER based on a 10% discount to past 2-year average PER (low) in view of uncertainty in China earnings and decline in profitability from increasing production costs. Studio Dragon continues to see steady distribution revenue growth from Netflix and should be able to deliver sharp profit growth once China eases restrictions on Korean media contents.

12-month forward PER band

Source: Bloomberg, Shinhan Investment Corp.

2Q19 forecast

(bn KRW)	2Q19F	1Q19	% QoQ	2Q18	% YoY	Previous	Consensus
Sales	106.6	111.8	(4.7)	74.3	43.5	99.7	112.9
OP	10.3	11.0	(6.4)	7.3	40.3	13.3	11.6
NP	9.4	9.2	2.2	8.9	5.9	11.7	10.5
OPM (%)	9.6	9.9		9.8		13.3	10.3
NPM (%)	8.8	8.2		11.9		11.8	9.3

Source: Company data, FnGuide, Shinhan Investment Corp.

Earnings forecast revision (K-IFRS consolidated)

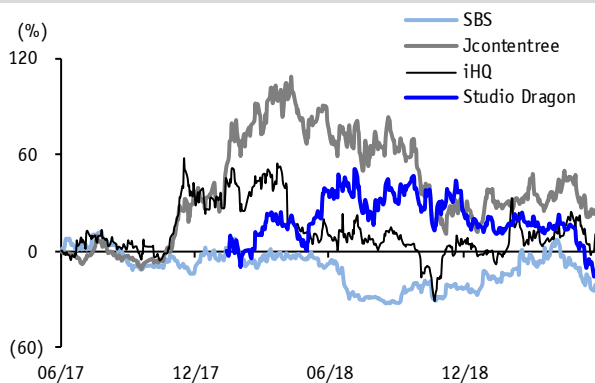
(bn KRW)	2019F			2020F		
	Previous	Revised	Change (%)	Previous	Revised	Change (%)
Sales	519.2	504.2	(2.9)	621.7	599.0	(3.6)
OP	66.5	62.2	(6.5)	102.9	98.4	(4.4)
NP	57.5	54.2	(5.8)	86.1	82.7	(4.0)

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)		1,955.2	698.0	308.6	157.4	291,313.7	2,414.5	1,874.0
Sales (bn KRW)	2018	286.8	511.3	109.4	94.5	65,093.4	644.7	959.5
	2019F	379.5	574.4	151.5	-	84,800.0	802.5	1,129.0
	2020F	511.5	650.7	163.6	-	99,193.5	922.3	1,299.0
OP (bn KRW)	2018	33.0	34.7	9.9	(5.2)	16,249.8	63.4	80.8
	2019F	39.9	53.6	24.7	-	18,105.5	124.3	125.8
	2020F	84.7	61.9	29.3	-	18,831.0	145.1	149.7
OPM (%)	2018	11.5	6.8	9.1	(5.5)	25.0	9.8	8.4
	2019F	10.5	9.3	16.3	-	21.4	15.5	11.1
	2020F	16.5	9.5	17.9	-	19.0	15.7	11.5
NP (bn KRW)	2018	23.8	23.1	8.4	(6.8)	11,477.9	(6.6)	39.0
	2019F	35.8	28.0	15.3	-	12,908.6	110.9	98.0
	2020F	70.9	32.5	18.3	-	13,087.9	131.4	118.1
Sales growth (% YoY)	2018	85.7	21.6	(13.7)	(24.8)	3.2	(1.9)	-
	2019F	32.3	12.4	38.4	-	30.3	24.5	17.7
	2020F	34.8	13.3	8.0	-	17.0	14.9	15.1
EPS growth (% YoY)	2018	84.5	170.9	(16.3)	(221.0)	16.7	(110.4)	-
	2019F	21.7	2.1	76.5	-	5.5	(2,038.3)	-
	2020F	97.9	16.0	19.8	-	(3.3)	19.5	-
PER (x)	2018	61.9	29.3	-	-	16.8	-	70.2
	2019F	75.1	24.9	20.2	-	20.1	18.9	16.0
	2020F	38.0	21.5	16.8	-	20.7	15.8	13.2
PBR (x)	2018	4.9	1.9	1.3	2.0	3.6	1.5	2.1
	2019F	6.7	1.9	1.4	-	2.8	1.3	1.4
	2020F	5.7	1.7	1.3	-	2.5	1.3	1.3
EV/EBITDA (x)	2018	22.1	9.7	4.7	-	11.1	37.1	30.4
	2019F	21.3	10.8	8.8	-	16.8	16.4	14.2
	2020F	14.6	10.0	8.0	-	15.7	14.5	12.2
ROE (%)	2018	9.5	9.3	4.0	(5.2)	23.3	(0.4)	3.4
	2019F	9.3	8.1	7.3	-	16.4	9.3	8.1
	2020F	16.1	9.1	8.1	-	12.3	10.6	8.8

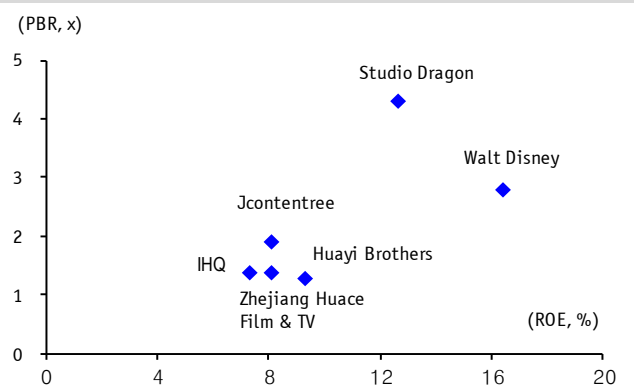
Source: Bloomberg, Shinhan Investment Corp.

Relative share performance vs. domestic peers



Source: Bloomberg, Shinhan Investment Corp.

2019F PBR and ROE vs. global peers



Source: Bloomberg, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Total assets	459.5	512.4	568.7	653.3	745.0
Current assets	289.8	247.2	322.4	427.4	524.1
Cash and equivalents	51.3	153.0	198.6	267.5	348.5
Accounts receivable	54.9	68.8	95.9	127.1	139.7
Inventories	1.3	0.6	0.8	0.9	1.0
Non-current assets	169.6	265.2	246.3	225.9	220.9
Tangible assets	1.1	1.0	0.8	0.8	0.6
Intangible assets	127.5	198.5	179.1	157.9	152.6
Investment assets	3.8	3.7	4.4	5.2	5.7
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	91.0	111.1	113.2	115.1	116.7
Current liabilities	90.7	108.2	110.0	111.8	113.3
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	6.1	19.6	20.5	21.5	22.5
Current portion of long-term debt	10.0	0.0	0.0	0.0	0.0
Non-current liabilities	0.3	2.9	3.1	3.3	3.4
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	0.0	2.1	2.1	2.1	2.1
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	368.4	401.3	455.5	538.2	628.3
Capital stock	14.0	14.0	14.0	14.0	14.0
Capital surplus	319.6	320.1	320.1	320.1	320.1
Other capital	2.7	0.3	0.3	0.3	0.3
Accumulated other comprehensive income	0.0	(0.8)	(0.8)	(0.8)	(0.8)
Retained earnings	32.1	67.6	121.8	204.5	294.7
Controlling interest equity	368.4	401.3	455.5	538.2	628.3
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	10.1	2.1	2.1	2.1	2.1
*Net debt (cash)	(182.5)	(153.4)	(199.0)	(268.0)	(349.2)

Statement of cash flow

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Cash flow from operations	(7.2)	(29.1)	112.9	140.1	170.1
Net profit	23.8	35.8	54.2	82.7	90.1
Depreciation expense	0.3	0.3	0.4	0.3	0.3
Amortization expense	41.0	75.0	92.1	98.5	102.6
FX translation loss (gain)	0.8	(0.5)	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	(72.9)	(139.4)	(30.2)	(36.6)	(16.6)
(Payment of income tax)	(10.4)	(9.7)	(17.5)	(26.1)	(28.5)
Others	10.2	9.4	13.9	21.3	22.2
Cash flow from investments	(141.0)	140.6	(70.0)	(73.7)	(91.6)
Increase in tangible assets	(0.1)	(0.2)	(0.3)	(0.4)	(0.1)
Decrease in tangible assets	0.1	0.0	0.1	0.1	0.1
Change in intangible assets	(0.2)	(0.1)	(72.7)	(77.3)	(97.3)
Change in investment assets	0.0	0.0	(0.7)	(0.8)	(0.5)
Others	(140.8)	140.9	3.6	4.7	6.2
Free cash flow	44.0	139.5	111.4	139.0	173.5
Cash flow from financing	188.1	(9.7)	(0.0)	(0.0)	(0.0)
Change in borrowings	(18.1)	(10.0)	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	206.2	0.3	0.0	0.0	0.0
Other cash flow	0.0	0.0	2.6	2.6	2.6
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.1)	(0.1)	0.0	0.0	0.0
Change in total cash	39.8	101.7	45.4	69.0	81.0
Beginning cash	11.5	51.3	153.0	198.5	267.5
Ending cash	51.3	153.0	198.5	267.5	348.5

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Sales	286.8	379.6	504.2	599.0	658.3
Growth (%)	85.7	32.4	32.8	18.8	9.9
COGS	239.7	324.0	424.8	481.0	525.7
Gross profit	47.1	55.6	79.4	118.0	132.7
GPM (%)	16.4	14.6	15.8	19.7	20.1
SG&A	14.2	15.7	17.2	19.6	21.1
Operating profit	33.0	39.9	62.2	98.4	111.6
Growth (%)	98.3	21.0	55.8	58.2	13.4
OPM (%)	11.5	10.5	12.3	16.4	16.9
Non-operating profit	(2.7)	5.7	9.5	10.4	7.0
Financial profit	(2.5)	6.1	8.7	9.9	10.4
Other non-operating profit	(0.2)	(0.3)	0.7	0.6	(3.4)
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	30.3	45.6	71.6	108.8	118.6
Income tax	6.4	9.8	17.5	26.1	28.5
Continuing operations	23.8	35.8	54.2	82.7	90.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	23.8	35.8	54.2	82.7	90.1
Growth (%)	192.9	50.3	51.2	52.6	9.0
NPM (%)	8.3	9.4	10.7	13.8	13.7
Controlling interest	23.8	35.8	54.2	82.7	90.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	23.8	34.7	54.2	82.7	90.1
Controlling interest	23.8	34.7	54.2	82.7	90.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	74.3	115.2	154.6	197.2	214.5
Growth (%)	91.4	55.1	34.3	27.5	8.8
EBITDA margin (%)	25.9	30.3	30.7	32.9	32.6

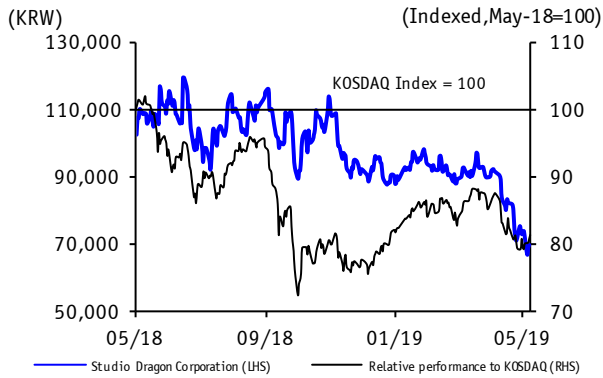
Key ratios

Year to December	2017	2018	2019F	2020F	2021F
EPS (KRW)	1,050	1,278	1,932	2,948	3,213
EPS of controlling interest (KRW)	1,050	1,278	1,932	2,948	3,213
BPS (KRW)	13,141	14,305	16,237	19,185	22,398
BPS of controlling interest (KRW)	13,141	14,305	16,237	19,185	22,398
DPS (KRW)	0	0	0	0	0
PER (x)	61.9	72.3	36.1	23.6	21.7
PER of controlling interest (x)	61.9	72.3	36.1	23.6	21.7
PBR (x)	4.9	6.5	4.3	3.6	3.1
PBR of controlling interest (x)	4.9	6.5	4.3	3.6	3.1
EV/EBITDA (x)	22.1	21.2	11.4	8.6	7.5
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Profitability					
EBITDA margin (%)	25.9	30.3	30.7	32.9	32.6
OPM (%)	11.5	10.5	12.3	16.4	16.9
NPM (%)	8.3	9.4	10.7	13.8	13.7
ROA (%)	6.8	7.4	10.0	13.5	12.9
ROE (%)	9.5	9.3	12.6	16.6	15.5
ROIC (%)	18.0	14.6	25.1	37.8	40.7
Stability					
Debt to equity ratio (%)	24.7	27.7	24.8	21.4	18.6
Net debt ratio (%)	(49.5)	(38.2)	(43.7)	(49.8)	(55.6)
Cash ratio (%)	56.6	141.4	180.5	239.2	307.6
Interest coverage ratio (x)	19.0	343.0	1,522.0	2,408.1	2,731.8
Activity (%)					
Working capital turnover (times)	57.1	8,177.6	(191.1)	21.2	12.6
Inventory turnover (days)	0.8	0.9	0.5	0.5	0.5
Receivable turnover (days)	58.5	59.5	59.6	68.0	74.0

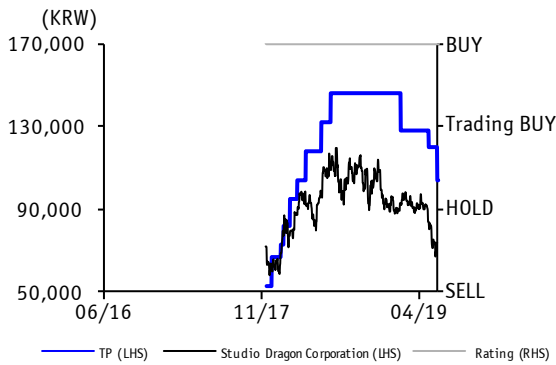
Source: Company data, Shinhan Investment Corp.

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	(2.2)	6.1
2018.02.08	BUY	95,000	(15.1)	(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	(27.6)	(23.2)
2019.05.10	BUY	120,000	-	-

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

Rating Distribution - SHIC Universe (as of 5 June 2019)

BUY (BUY)	96.7%	Trading BUY (HOLD)	0.94%	HOLD (HOLD)	2.36%	SELL (SELL)	0%
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Rating Distribution - SHIC Investment Banking Clients (as of 5 June 2019)

BUY (BUY)	90.48%	Trading BUY (HOLD)	4.76%	HOLD (HOLD)	4.76%	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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