

Studio Dragon (253450 KS)

Time to accumulate shares

BUY (MAINTAIN)

Price (Dec 8) W60,200
Target Price W67,000
% variance 11.3%

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KOSPI	2,464.00p
KOSDAQ	744.06p
Market Cap.	W1,687.8bn/ US1,480.6mn
Par Value	W500
Outstanding Shares	28.0mn
Free Floating Shares	6.7mn(23.9%)
52-Week High/Low	W71,800/W57,800
60-Day Avg. Trading Volume	1,707,112shrs
60-Day. Avg. Trading T/O	W115,952mn
Foreign Ownership	0.90%
Major Shareholders	
CJ E&M and 3 others	75.66%

Absolute Performance	3M	N/A
	6M	N/A
	12M	N/A
Relative performance	3M	N/A
to KOSDAQ	6M	N/A
	12M	N/A

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- ◆ 4Q17 consolidated operating profit estimated at W8.2bn (+4.9% YoY)
- ◆ Nearing the end of a short absence in growth momentum
- ◆ Retain BUY and raise target price by 26% to W67,000

4Q17 consolidated operating profit estimated at W8.2bn (+4.9% YoY)

Studio Dragon is expected to post 4Q17 consolidated revenue of W69.8bn (+33% YoY from our quarterly estimate for 4Q16) and operating profit of W8.2bn (+4.9% YoY). We believe earnings growth temporarily slowed in 4Q17 with revenue from a major drama series (A Korean Odyssey) scheduled to be booked from 1Q18. Rapid growth should soon resume across the board, including revenue from content production, distribution and others (PPL). Operating profit is forecast to jump 75.6% YoY in 2018 on the booking of revenue from China.

Nearing the end of a short absence in growth momentum

We believe Studio Dragon is nearing the end of a short absence in growth momentum. No distinct regulations barring Korean content were actually put into place by China's State Administration of Press, Publication, Radio, Film and Television (SAPPRFT), but platform operators have remained reluctant to take on Korean content. However, following the Korea-China summit on December 13, we expect to see an upturn in content exports to China by leading domestic companies. Upon confirmation of drama exports worth W5-10bn, content producers (Studio Dragon, Drama House, iHQ, etc.) are likely to see upward revisions to earnings consensus.

Meanwhile, entertainment programs and films should also start to contribute toward the re-rating of sector shares. SBS (034120) is expected to air the fifth season of Running Man in China from 1Q18 at the earliest. The show is the most popular entertainment program in China at the moment, and advertising fees reach up to several hundreds of billions of won. Finalization of the schedule for the show's next season will help to confirm the easing of China's restrictions on Korean content. Meanwhile, Showbox (086980) is waiting for SAPPRFT approval for its second film produced in China. Dexter Studios (206560) signed a visual effect production contract worth W3.8bn with a Chinese firm on December 8.

Retain BUY and raise target price by 26% to W67,000

We raise our target price for Studio Dragon by 26% to W67,000, with the target multiple revised up from previous 30x to 38x (AmorePacific's 2018F PER) in view of the company's successful IPO and expectations for Chinese earnings growth. We believe media companies deserve to trade at a premium over duty-free/cosmetics/casino peers, as the actual drivers of the Korean Wave. Media companies also stand to enjoy earnings leverage effect with growth driven mainly by intangible assets. We retain our BUY rating for Studio Dragon in view of: 1) forecasts for top-line growth over 30%; 2) sharp increase in profit expected from exports to China; and 3) added attractiveness from an ideal revenue structure, with earnings coming from both production and distribution of content. In all, we recommend accumulating Studio Dragon shares in stages going forward.

Year to Dec.	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (Won)	Growth (%)	BPS (Won)	PER (X)	EV/EBITDA (X)	PBR (X)	ROE (%)	Net Debt Ratio (%)
2015												
2016	154.4	16.6	10.5	8.1	289	N/A	208.3	10.8	25.1	3.4	6.0	12.1
2017F	284.1	37.7	36.4	27.1	967	234.5	62.3	13.3	30.5	10.3	18.1	(6.7)
2018F	379.9	66.3	65.8	49.7	1,772	83.3	34.0	17.5	32.0	16.0	26.4	(23.4)
2019F	450.2	88.7	86.0	64.9	2,316	30.7	26.0	19.7	33.1	17.5	26.5	(38.4)

Source: Company data, Shinhan Investment Corp.

Earnings trend and outlook (K-IFRS consolidated)																
(bn KRW)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17F	1Q18F	2Q18F	3Q18F	4Q18F	2015	2016	2017F	2018F
<Assumptions for production>																
No. of Dramas	5.0	4.0	5.0	5.0	5.0	5.0	6.0	6.0	7.0	7.0	6.0	6.0	16.0	19.0	22.0	26.0
<Earnings estimates>																
Total revenue	49.5	47.0	46.5	52.5	73.5	63.3	77.5	69.8	97.1	88.0	101.5	93.2	97.4	195.5	284.1	379.9
Production revenue	22.5	22.0	21.0	22.3	24.5	22.0	29.6	30.2	29.1	26.2	35.9	36.4	54.8	87.8	106.3	127.6
Distribution revenue	18.0	18.0	18.5	20.9	34.0	29.0	33.3	25.7	50.2	46.0	48.1	37.7	39.0	75.4	122.0	182.0
Other (PPL) revenue	9.0	7.0	7.0	9.3	15.0	12.3	14.6	14.0	17.8	15.8	17.6	19.2	3.6	32.3	55.9	70.3
<Assumptions for overseas operations>																
Overseas revenue	12.8	13.0	9.3	9.3	23.0	15.7	11.7	11.8	26.7	20.3	17.2	17.6	23.9	44.2	62.2	81.9
Overseas revenue share (%)	25.8	27.6	19.9	17.6	31.3	24.8	15.2	16.9	27.5	23.1	17.0	18.9	24.5	22.6	21.9	21.6
Japan	2.3	2.3	2.4	2.1	7.5	4.5	2.7	2.3	8.6	5.2	3.3	3.9	8.9	9.1	17.0	21.0
Asia including China	9.8	10.0	6.2	6.3	12.2	9.0	7.5	7.8	16.2	13.0	12.0	11.9	11.0	32.3	36.5	53.1
China	3.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	7.0	6.0	7.0	6.0	6.0	0.0	23.0
U.S.	0.6	0.6	0.6	0.8	3.2	2.1	1.5	1.6	1.8	2.0	1.8	1.8	3.6	2.6	8.4	7.5
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	0.2	0.3	0.3
COGS	41.3	40.4	38.8	41.3	57.6	50.2	66.5	57.1	72.5	64.1	82.3	74.6	85.7	161.8	231.3	293.5
SG&A costs	2.8	3.3	3.2	3.3	2.8	3.3	4.4	4.5	4.6	4.2	5.6	5.7	9.1	12.6	15.0	20.1
OP	5.4	3.3	4.6	7.8	13.1	9.8	6.6	8.2	20.1	19.7	13.6	13.0	2.6	21.2	37.7	66.3
Pre-tax profit	4.3	2.3	3.8	6.6	13.0	9.3	6.2	7.9	20.1	19.6	13.3	12.9	1.9	17.1	36.4	65.8
NP	3.3	1.8	2.9	5.1	9.6	6.7	4.8	6.1	15.1	14.8	10.0	9.7	1.4	13.0	27.1	49.7
<% YoY growth>																
Total revenue	100.8	98.3	96.2	107.1	48.5	34.7	66.6	33.0	32.2	39.0	31.0	33.5	(5.5)	100.7	45.3	33.7
OP	4,721.5	TP	325.5	266.9	142.0	193.4	42.9	4.9	52.6	100.5	107.2	57.7	(37.8)	717.1	77.9	75.6
NP	TP	TP	386.5	184.3	190.2	275.0	66.3	20.4	58.5	121.3	109.3	59.9	9.8	802.7	108.4	83.3
<OPM, %>																
OPM	11.0	7.1	9.9	15.0	17.9	15.5	8.5	11.8	20.6	22.4	13.4	13.9	2.7	10.8	13.3	17.5
NPM	6.6	3.8	6.2	9.6	13.0	10.5	6.2	8.7	15.6	16.8	9.9	10.4	1.5	6.6	9.5	13.1

Source: Company data, Shinhan Investment Corp.

Note: 1) Quarterly earnings are SHIC estimates based on annual figures (quarterly data not available)

2) Revenue details are SHIC estimates

3) Estimated earnings before spin-off from CJ E&M also included in 2016 figures

Earnings forecast revisions (K-IFRS consolidated)						
(bn KRW)	2017F			2018F		
	Before	After	Change (%)	Before	After	Change (%)
Revenue	283.2	284.1	0.3	377.9	379.9	0.5
OP	37.5	37.7	0.7	66.1	66.3	0.3
NP	26.9	27.1	0.8	49.6	49.7	0.2

Source: Shinhan Investment Corp.

PER valuation based on 2018F EPS: Target price W67,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2017F NP	27.1	2018F NP	49.7	2019F NP	64.9
EPS (KRW)	967	EPS (KRW)	1,772	EPS (KRW)	2,316
Target price (KRW)	37,000	Target price (KRW)	67,000	Target price (KRW)	88,000
Target PER (x)	38	Target PER (x)	38	Target PER (x)	38
		Current price	60,200		
		Estimated PER	34.0		

Source: Shinhan Investment Corp.

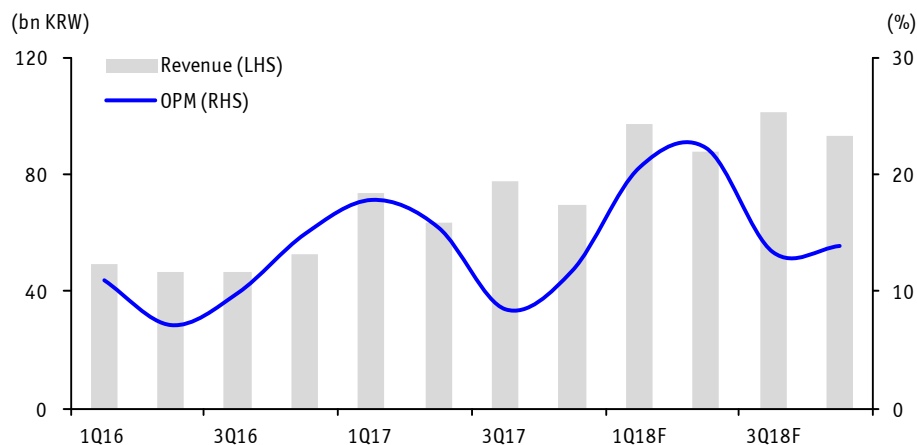
Note: Our target multiple (38x) is based on AmorePacifi's 2018F PER, but we believe shares should trade at a premium over cosmetics companies and duty-free/casino operators with Studio Dragon driving the Korean Wave in pop culture. We also expect significant earnings leverage effect, irrespective of Chinese inbound traffic, with growth driven by intangible assets.

Distribution rights of major drama series sold in China

Drama title	Selling price (100mn KRW)	Producer	Broadcast date
My Love from the Star	6	HB Entertainment	2H13
The Heirs	6	Hwa & Dam Pictures	2H13
Fated to Love You	24	Number Three Pictures, Page One Films	2H14
Pinocchio	62	iHQ	2H14
Descendants of the Sun	50+RS	Hwa & Dam Pictures	1H16
Moon Lovers: Scarlet Heart Ryeo	91	BaramiBunda	2H16
The Legend of the Blue Sea	Over W10bn	Culture Depot	2H16
The History of Saimdang	62	Group Eight	1H17

Source: Media reports, Shinhan Investment Corp.

Revenue and operating profit margin



Source: Company data, Shinhan Investment Corp.

4Q17 earnings forecasts

(bn KRW)	4Q17F	3Q17	% QoQ	4Q16	% YoY	Previous	Consensus
Revenue	69.8	77.5	(9.9)	52.5	33.0	68.9	73.1
OP	8.2	6.6	24.2	7.8	4.9	8.0	9.0
NP	6.1	4.8	27.1	5.1	20.4	5.9	6.6
OPM (%)	11.8	8.5		15.0		11.5	12.3
NPM (%)	8.7	6.2		9.6		8.5	9.1

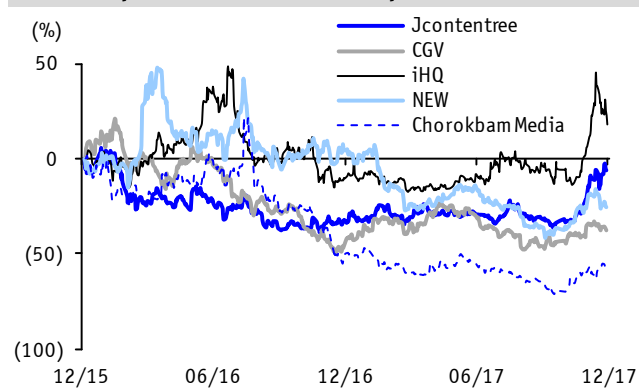
Source: Company data, FnGuide, Shinhan Investment Corp.

Note: Quarterly earnings are SHIC estimates

Global peer valuation									
Ticker		036420 KS	003560 KS	160550 KS	047820 KS	DIS US	TWX US	300027 CH	300133 CH
Company		Jcontenttree	iHQ	NEW	Chorokbaem Media	Walt Disney	Time Warner	Huayi Brothers	Zhejiang Huace Film & TV
Market cap. (bn KRW)		611.4	355.6	222.8	103.4	172,066.2	77,197.2	4,049.8	3,118.5
Revenue	2016	335.2	109.4	125.7	105.9	64,550.7	34,030.8	608.9	774.0
(bn KRW)	2017F	404.3	118.5	-	-	61,877.4	33,671.0	634.4	891.8
	2018F	473.9	134.0	-	-	64,282.6	35,252.2	783.2	1,072.1
OP	2016	28.9	11.3	6.6	7.7	16,424.3	8,958.7	59.2	87.0
(bn KRW)	2017F	36.5	14.5	-	-	16,196.5	8,806.6	164.1	117.7
	2018F	47.2	22.0	-	-	16,607.6	9,288.8	216.3	147.6
OP margin	2016	8.6	10.3	5.3	7.3	25.4	26.3	9.7	11.2
(%)	2017F	9.0	12.2	-	-	26.2	26.2	25.9	13.2
	2018F	10.0	16.4	-	-	25.8	26.3	27.6	13.8
NP	2016	19.2	4.4	4.4	4.9	10,879.1	5,336.5	5.0	79.6
(bn KRW)	2017F	17.7	11.5	-	-	10,110.5	5,365.0	146.3	103.2
	2018F	32.5	17.5	-	-	10,324.5	5,605.9	168.8	124.5
Revenue growth	2016	(4.2)	3.0	52.2	326.3	10.3	6.9	(12.2)	62.6
(% YoY)	2017F	20.6	8.3	-	-	(4.1)	(1.1)	4.2	15.2
	2018F	17.2	13.1	-	-	3.9	4.7	23.5	20.2
EPS Growth	2016	9.7	29.8	309.4	(298.2)	15.1	24.4	(95.3)	(15.8)
(% YoY)	2017F	(21.5)	55.7	-	-	(4.0)	(0.4)	2,697.8	30.9
	2018F	95.7	49.7	-	-	6.5	4.7	22.1	25.8
PER	2016	19.2	60.2	69.7	19.6	16.2	16.6	37.9	42.0
(x)	2017F	39.2	30.4	-	-	18.1	14.6	29.0	29.4
	2018F	20.0	20.3	-	-	16.7	13.9	23.8	23.4
PBR	2016	5.2	1.2	2.3	1.3	3.4	3.1	3.4	3.1
(x)	2017F	4.5	1.5	-	-	4.0	2.5	2.5	2.7
	2018F	3.6	1.4	-	-	3.8	2.2	2.3	2.4
EV/EBITDA	2016	16.2	4.4	32.1	9.8	10.1	11.6	80.8	40.8
(x)	2017F	15.5	5.9	-	-	10.6	10.3	24.6	26.8
	2018F	13.4	6.2	-	-	10.1	9.8	19.4	21.2
ROE	2016	26.3	2.0	3.3	7.2	21.4	19.2	0.3	7.4
(%)	2017F	14.4	5.2	-	-	21.6	18.8	8.3	9.0
	2018F	21.5	7.3	-	-	22.9	17.1	9.4	9.9

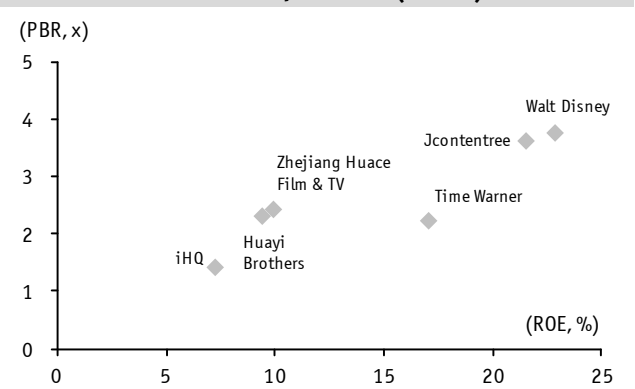
Source: Bloomberg, Shinhan Investment Corp.

Relative performance of content providers



Source: Bloomberg, Shinhan Investment Corp.

PBR and ROE of content providers (2018F)



Source: Bloomberg, Shinhan Investment Corp.

Balance Sheet

Year to Dec. (W bn)	2015	2016	2017F	2018F	2019F
Assets		242.0	283.3	336.6	405.3
Total Current Assets		81.4	120.6	163.6	224.2
Cash and Cash Equivalents		11.5	46.7	85.5	142.4
Accounts Receivables		37.0	38.9	40.8	42.8
Inventories		0.0	1.8	2.4	2.9
Non-Current Assets		160.6	162.7	173.0	181.1
Tangible Assets		1.2	1.4	1.9	2.2
Intangible Assets		123.9	125.5	135.1	142.7
Investment Assets		2.3	2.6	2.8	3.0
Other Financial Institutions Assets		0.0	0.0	0.0	0.0
Liabilities		105.9	120.1	123.8	127.4
Current Liabilities		84.5	107.4	110.2	113.1
ST Borrowings		8.1	6.1	6.1	6.1
Account Payables		5.8	4.3	5.2	6.3
Current Portion of LT Debt		0.0	20.0	20.0	20.0
Non-Current Liabilities		21.4	12.7	13.6	14.3
Bonds		19.9	9.9	9.9	9.9
LT Borrowings(incl. LT Fin. Liab.)		0.0	0.0	0.0	0.0
Other Financial Institutions Liab.		0.0	0.0	0.0	0.0
Shareholders' Equity		136.1	163.2	212.9	277.8
Capital Stock		11.0	11.0	11.0	11.0
Capital Surplus		114.7	114.7	114.7	114.7
Other Reserves		2.0	2.0	2.0	2.0
Accu. Other Comp. Income		0.0	0.0	0.0	0.0
Retained Earnings		8.3	35.4	85.1	150.1
Owners of Parent Equity		136.1	163.2	212.9	277.8
Non-Controlling Interests Equity		0.0	0.0	0.0	0.0
*Total Debt		28.1	36.0	36.0	36.0
*Net Debts(Cash)		16.4	(10.9)	(49.8)	(106.8)

Cash Flow

Year to Dec. (W bn)	2015	2016	2017F	2018F	2019F
Operating Cash Flow		(12.4)	80.0	106.1	126.1
Net Profit		8.1	27.1	49.7	64.9
Depreciation		0.2	0.0	0.0	0.0
Amortization		22.0	49.0	55.4	60.4
Losses(Gains) on F/X Translation		0.3	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets		0.0	0.0	0.0	0.0
Losses(Gains) in Asso., Subs., JVs		0.0	0.0	0.0	0.0
Chg. in A/L from Op. Activities		(46.1)	2.3	(0.4)	(0.0)
(Payments of Income Taxes)		(1.7)	(9.3)	(16.1)	(21.1)
Others		4.8	10.9	17.5	21.9
Investing Cash Flow		(69.5)	(50.8)	(65.0)	(67.1)
Incr. in Tangible Assets(CAPEX)		(1.1)	(0.2)	(0.5)	(0.3)
Decr. in Tangible Assets		0.0	0.0	0.0	0.0
Decr.(Incr.) in Intangible Assets		(0.1)	(50.6)	(65.0)	(68.0)
Decr.(Incr.) in Investment Assets		(0.3)	(0.3)	(0.2)	(0.2)
Others		(68.0)	0.3	0.7	1.4
Free Cash Flow		N/A	77.9	103.7	126.4
Financing Cash Flow		93.5	6.0	(2.2)	(2.2)
Incr.(Decr.) in Borrowing		27.2	8.0	0.0	0.0
Decr.(Incr.) of Treasury Stock		0.0	0.0	0.0	0.0
Dividend		0.0	0.0	0.0	0.0
Others		66.3	(2.0)	(2.2)	(2.2)
Other Cash Flows		0.0	0.0	0.0	0.0
Change of Consolidated Scope		0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates		(0.0)	0.0	0.0	0.0
Incr.(Decr.) in Cash		11.5	35.1	38.9	56.8
Beginning Cash		0.0	11.5	46.7	85.6
Ending Cash		11.5	46.7	85.6	142.4

Source: Company data, Shinhan Investment Corp.

Profit and Loss

Year to Dec. (W bn)	2015	2016	2017F	2018F	2019F
Sales		154.4	284.1	379.9	450.2
Growth (%)		N/A	84.0	33.7	18.5
COGS		132.8	231.3	293.5	337.6
Gross Profit		21.6	52.8	86.4	112.5
Gross margin (%)		14.0	18.6	22.7	25.0
SG&A		5.0	15.0	20.1	23.9
Operating Income		16.6	37.7	66.3	88.7
Growth (%)		N/A	127.0	75.6	33.8
Operating margin (%)		10.8	13.3	17.5	19.7
Other Net Non-Operating Profits		(6.1)	(1.3)	(0.5)	(2.7)
Financial Income(Expenses)		(1.1)	(2.5)	(1.1)	(0.6)
Net Other Non-Operating Profits		(5.0)	1.2	0.6	(2.0)
Net Gains in Asso., Subs., and JVs		0.0	0.0	0.0	0.0
Pre-tax Profit from Cont. Op.		10.5	36.4	65.8	86.0
Income Taxes		2.4	9.3	16.1	21.1
Profit from Continuing Op.		8.1	27.1	49.7	64.9
Profit from Discontinued Op.		0.0	0.0	0.0	0.0
Net Profit		8.1	27.1	49.7	64.9
Growth (%)		N/A	232.9	83.3	30.7
Net Profit margin (%)		5.3	9.5	13.1	14.4
Net Profit of Parent		8.1	27.1	49.7	64.9
Net Profit to Non-Controlling		0.0	0.0	0.0	0.0
Total Comprehensive Income		8.3	27.1	49.7	64.9
Total Comp. Income of Parent		8.3	27.1	49.7	64.9
Total Comp. Income to Non-Cont.		0.0	0.0	0.0	0.0
EBITDA		38.8	86.7	121.7	149.1
Growth (%)		N/A	123.5	40.3	22.5
EBITDA Margin (%)		25.1	30.5	32.0	33.1

Note: Operating profit is based on 2012 K-IFRS (gross profit - SG&A costs)

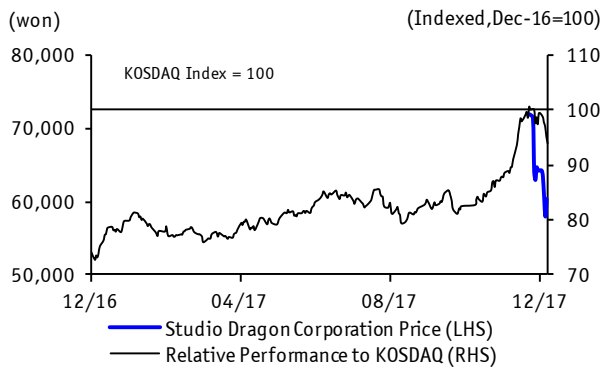
Key Ratios

Year to Dec.	2015	2016	2017F	2018F	2019F
EPS_C (won)		289	966	1,772	2,316
EPS_P (won)		289	966	1,772	2,316
BPS_C (won)		844	1,013	1,321	1,724
BPS_P (won)		844	1,013	1,321	1,724
DPS (won)					
PER_C (x)					
PER_P (x)					
PBR_C (x)					
PBR_P (x)					
EV/EBITDA (x)					
Payout Ratio (%)					
Dividend Yield (%)					
Profitability					
EBITDA Margin (%)		25.1	30.5	32.0	33.1
OP Margin (%)		10.8	13.3	17.5	19.7
NP Margin (%)		5.3	9.5	13.1	14.4
ROA (%)		3.4	10.3	16.0	17.5
ROE (%)		6.0	18.1	26.4	26.5
ROIC (%)		N/A	24.3	40.5	49.9
Stability					
D/E Ratio (%)		77.8	73.6	58.2	45.9
Net Debt to Equity (%)		12.1	(6.7)	(23.4)	(38.4)
Cash Ratio (%)		13.6	43.5	77.6	125.9
Interest Coverage (x)		19.5	19.4	30.3	40.5
Activity (%)					
Working Capital Turnover (t)			(40.1)	(54.6)	(75.6)
Inventory Turnover (d)			1.2	2.0	2.1
Receivable Turnover (d)			48.7	38.3	33.9

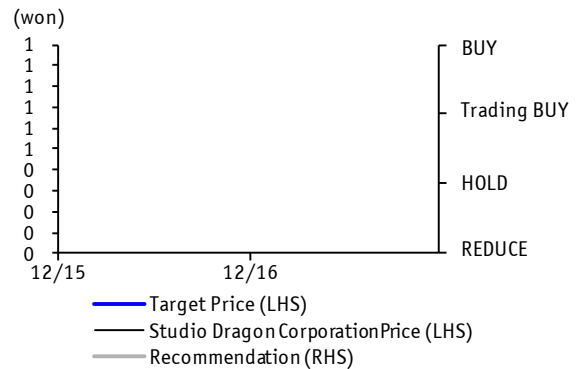
Source: Company data, Shinhan Investment Corp.

Studio Dragon Corporation (253450 KS)

Share Price Performance



Target Price



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Date	Recommendation	Target Price (won)	Target Price Gap (%)	
			Average	Max/Min

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

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Stock	Sector
<ul style="list-style-type: none"> ◆ BUY: Expected return of over +10% in the next 6 months ◆ Trading BUY: Expected return of -10% ~ +10% in the next 6 months ◆ HOLD: Expected return of -20% ~ -10% in the next 6 months ◆ REDUCE: Expected return of below -20% in the next 6 months 	<ul style="list-style-type: none"> ◆ OVERWEIGHT: Prevalence of BUY rating for stocks in our sector coverage universe based on market cap ◆ NEUTRAL: Prevalence of HOLD rating for stocks in our sector coverage universe based on market cap ◆ UNDERWEIGHT: Prevalence of REDUCE rating for stocks in our sector coverage universe based on market cap

SHIC Universe Rating Classification Ratio (as of Dec. 8, 2017)

BUY (BUY)	92.27%	Trading BUY (HOLD)	3.38%	HOLD (HOLD)	4.35%	REDUCE (SELL)	0%
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