

Studio Dragon (253450 KQ)

HJ Kim

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Rating **MARKETPERFORM**
maintain

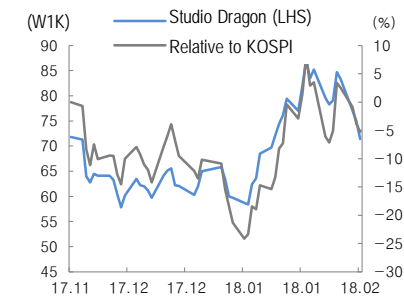
6M TP (W) **74,000**
maintain

CP (W)
(18.02.07) **71,400**

Media

KOSDAQ	829.96
Market cap (Wbn)	2,002
Market cap portion (%)	0.62
Paid-in capital (common; Wbn)	17
52w high/low (W)	87,000 / 57,800
120d avg. trading volume (Wbn)	45.1
Foreign ownership (%)	1.02
Major shareholders	CJ E&M+3: 75.66%

(%)	1M	3M	6M	12M
Abs. return	19.6	N/A	N/A	N/A
Rel. return	19.3	N/A	N/A	N/A



No. 1 Content Creator

MARKETPRFORM; TP reiterated at W74,000

- Our W74,000 target price for Studio Dragon is based on the residual income model which foresees 35% average annual growth through 2026. The estimated 58% growth through 2021 will be driven by drama productions (five per year; 25 in 2018 and 40 in 2021). The projected 15% growth from 2022 onward will be fueled by license income generated from the existing library programming.

4Q17 results match expectations

- For 4Q17, the media company reported OP of W3.5bn (down 48.8% qoq) on revenue of W71.9bn (down 7.3% qoq).
- In 2017, the company produced 22 dramas, up from 18 in 2016, pushing sales by 49.5% yoy and OP by 55.6% yoy.
- This year, the company is expected to produce at least 25 soap operas, driving up sales by 19% yoy (to W340bn) and OP by 21% (to W72.3bn). The earnings forecast factors in the export of two dramas to China worth W20bn in total.
- Dramas created by the leading content creator this year are fetching above-average viewer ratings, e.g. The Bad Guys 4.3%, Mother 3.5%, A Korean Odyssey 6.9%, Cross 3.9%, and My Golden Life 44.2%.
- Ratings, however, might deteriorate, along with ad sales, as viewer interest shift to the Winter Olympic games. In addition, current share prices reflect heightened hopes for China deals, which are yet to be secured. In all, we continue to rate Studio Dragon a MARKETPERFORM.

(Wbn, %)									
	3Q16	2Q17	Previous estimate	Result	3Q17			4Q17	
					YoY	QoQ	Consensus	Daishin estimate	YoY
Revenue	N/A	62	66	72	N/A	-7.3	67	77	2.4
OP	N/A	9	2	3	N/A	-48.8	9	10	-27.1
NP	N/A	3	2	2	N/A	-64.6	0	9	-33.5

	2015	2016	Previous estimate	Daishin estimate	2017(F)		Growth	
					Change	Consensus	2016	2017(F)
Revenue	0	154	281	287	2.2	275	N/A	85.7
OP	0	17	32	33	3.6	36	N/A	98.6
NP	0	8	22	24	6.7	25	N/A	193.0

Source: Studio Dragon, WSEfn, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, x, %)

	2015A	2016A	2017F	2018F	2019F
Revenue	-	154	287	341	370
OP	-	17	33	72	85
Pretax profit	-	10	30	81	93
NP	-	8	24	58	68
NP (controlling int.)	-	8	24	58	68
EPS	-	5,691	1,050	2,085	2,414
PER	-	0.0	68.0	34.2	29.6
BPS	-	61,763	13,302	15,388	17,202
PBR	-	0.0	5.4	4.6	4.2
ROE	-	12.0	9.4	14.5	14.8

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Studio Dragon, Daishin Securities Research Center

Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2017F	2018F	2017F	2018F	2017F	2018F
Revenue	281	341	287	341	2.2	0.0
S&A expense	9	9	14	9	53.1	0.0
OP	32	72	33	72	3.6	0.0
OP margin	11.4	21.2	11.5	21.2	0.2	0.0
Non-operating profit	-2	8	-3	8	CL	0.0
Pretax profit	30	81	30	81	-0.2	0.0
NP (controlling int.)	22	58	24	58	6.7	0.0
NP margin	8.0	17.1	8.3	17.1	0.4	0.0
EPS (controlling int.)	985	2,085	1,050	2,085	6.7	0.0

Source: Studio Dragon, Daishin Securities Research Center

Per share intrinsic value

Residual Income Model		(Wbn, W, %)									
		2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
I	NP (contr. int.) ^(Note 2)	24	58	68	73	81	93	107	123	141	162
II	Shareholders' equity (contr. int.) ^(Note 2)	373	431	482	482	533	595	664	739	824	916
	Estimated ROE	9.4	14.5	14.8	15.1	15.1	15.6	16.0	16.6	17.1	17.7
III	Required rate of return ^(Note 3)	5.3									
	Risk free rate of return ^(Note 4)	2.5									
	Market risk premium ^(Note 5)	4.0									
	Beta	0.70									
IV	Spread (estimated ROE – required rate of return)	4.1	9.2	9.5	9.8	9.8	10.3	10.7	11.3	11.8	12.4
V	Required income	7	20	23	26	26	28	32	35	39	44
VI	Residual income (I - V)	17	39	45	47	55	64	75	87	102	118
	Present value factor	1.00	0.95	0.90	0.86	0.81	0.77	0.73	0.70	0.66	0.63
	PV of residual income	17	37	40	41	45	50	55	61	67	74
VII	Sum of residual income	487									
VIII	PV of residual income following forecasting period	1,403									
	Terminal growth (g) ^(Note 6)	0.0%									
IX	Beginning shareholders' equity	136									
X	Fair market cap (VII+VIII+IX)	2,026									
	Total number of shares (thousands)	28,037									
XI	Per share value (W)	72,259									
	Current share price (W)	71,400									
	Potential (%)	1.2%									

Note 1: Under the residual income model (RIM), we add the current shareholders' equity to the residual income based on the earnings forecast for the next ten years before adding the result to the residual income after the forecasting period to derive the value of shareholders' stakes. The RIM is considered less subjective than similar valuation models such as DDM, DCF, and EVA.

Note 2: The RIM reflects consolidated subsidiaries' earnings not in their entirety but only for the stake controlled by the company.

Note 3: The required rate of return (i.e., cost of equity) is the rate of return expected by the shareholders who take risks. It is derived by the capital asset price model: Cost of equity = Risk-free interest rate + Beta * Market risk premium.

Note 4: The yield on five-year government bonds was used as the proxy for the risk-free interest rate.

Note 5: Market risk premium refers to the gap between the expected return on the market portfolio and the risk-free interest rate. It has been lowered from 6-8% to 3-5% in reflection of the current low-growth environment.

Note 6: The terminal growth was assumed to be zero.

Financial statements

Income statement					(Wbn)
	2015A	2016A	2017F	2018F	2019F
Revenue	0	154	287	341	370
Cost of goods sold	0	133	240	260	275
Gross profit	0	22	47	81	95
SG&A expenses	0	5	14	9	10
OP	0	17	33	72	85
OP margin	na	10.8	11.5	21.2	22.9
EBITDA	0	39	83	133	155
Non-OP	0	-6	-3	8	9
Income from affiliates	0	0	0	0	0
Financial revenue	0	1	1	8	8
FX related gains	0	0	0	0	0
Financial expense	0	-2	-3	-1	-1
FX related losses	0	1	0	0	0
Others	0	-5	0	1	1
Income before taxes	0	10	30	81	93
Income tax expense	0	-2	-6	-22	-26
Income from cont. op.	0	8	24	58	68
Income from discount. op.	0	0	0	0	0
NP	0	8	24	58	68
NP margin	na	5.3	8.3	17.1	18.3
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	0	8	24	58	68
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	0	8	24	59	68
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	0	8	24	59	68

Valuation metrics					(W, x, %)
	2015A	2016A	2017F	2018F	2019F
EPS	0	5,691	1,050	2,085	2,414
PER	#DIV/0!	0.0	68.0	34.2	29.6
BPS	0	61,763	13,302	15,388	17,202
PBR	0.0	0.0	5.4	4.6	4.2
EBITDAPS	#DIV/0!	27,127	3,648	4,737	5,511
EV/EBITDA	0.0	0.4	22.1	13.4	11.3
SPS	0	107,949	12,627	12,177	13,200
PSR	0.0	0.0	5.1	5.9	5.4
CFPS	0	24,684	3,596	4,827	5,609
DPS	0	0	0	600	800

Financial ratios					(W, x, %)
	2015A	2016A	2017F	2018F	2019F
Growth potential					
Sales growth	na	na	85.7	19.1	8.4
OP growth	na	na	98.6	118.9	17.3
NP growth	na	na	193.0	145.1	15.7
Profitability					
ROIC	0.0	19.7	17.0	28.7	31.1
ROA	0.0	13.7	8.9	14.2	15.6
ROE	0.0	12.0	9.4	14.5	14.8
Stability					
Debt ratio	0.0	77.8	35.1	19.7	17.8
Net borrowings ratio	0.0	12.1	-46.9	-51.2	-52.7
Interest coverage ratio	0.0	19.5	688.8	45,019.0	52,802.3

Source: Studio Dragon, Daishin Securities Research Center

Balance sheet					(Wbn)
	2015A	2016A	2017F	2018F	2019F
Current assets	0	81	324	335	376
Cash & cash equiv.	0	12	223	221	254
Trade & other receive.	0	39	71	84	91
Inventories	0	0	0	0	0
Other current assets	0	31	30	30	30
Long-term assets	0	161	179	181	192
Tangible assets	0	1	1	1	1
Investments in affiliates	0	0	0	0	0
Other long-term assets	0	159	178	180	192
Total assets	0	242	504	516	568
Current liabilities	0	84	109	83	84
Payables & other liab.	0	20	25	27	29
Borrowings	0	8	8	0	0
Current portion of LT debts	0	0	20	0	0
Other current liabilities	0	56	56	56	56
Long-term liabilities	0	21	21	2	2
Borrowings	0	20	20	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	0	2	2	2	2
Total liabilities	0	106	131	85	86
Controlling interest	0	136	373	431	482
Capital stock	0	11	17	17	17
Capital surplus	0	115	322	322	322
Retained earnings	0	8	32	91	142
Other capital changes	0	2	2	2	2
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	0	136	373	431	482
Net borrowings	0	16	-175	-221	-254

Cash flow statement					(Wbn)
	2015A	2016A	2017F	2018F	2019F
Operating cash flows	0	-12	18	79	103
NP	0	8	24	58	68
Non-cash items	0	27	58	77	90
Depreciation	0	22	50	61	70
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	0	5	8	16	20
Chg in assets & liab.	0	-46	-57	-41	-36
Other cash flows	0	-2	-6	-15	-18
Investing cash flow	0	-70	-136	-130	-149
Investment assets	0	0	0	0	0
Tangible assets	0	-1	0	0	0
Others	0	-68	-136	-130	-149
Financing cash flows	0	93	243	-38	-6
Short-term borrowings	0	7	0	-8	0
Bonds payable	0	20	0	-20	0
Long-term borrowings	0	0	0	0	0
Rights offering	0	56	213	0	0
Cash dividends	0	0	0	0	-17
Others	0	10	30	-10	10
Net chg in cash	0	12	223	-2	33
Beginning cash balance	0	0	0	223	221
Ending cash balance	0	12	223	221	254
NOPLAT	0	13	26	52	61
FCF	0	34	7	51	50

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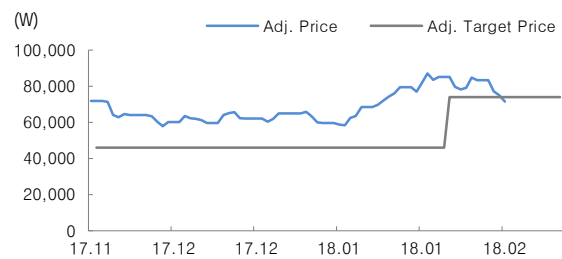
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	18.02.08	18.02.04	18.01.28	18.01.27	18.01.21	18.01.14
Rating	Marketperform	Marketperform	Marketperform	Buy	Buy	Buy
Target price	74,000	74,000	74,000	46,000	46,000	46,000
Diff. (avr. %)		6.17	9.46	44.64	44.64	39.82
Diff. (max/min, %)		(3.51)	5.81	25.65	25.65	25.65
Date	18.01.07	17.12.31	17.12.22	17.12.15	17.12.10	17.12.01
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	46,000	46,000	46,000	46,000	46,000	46,000
Diff. (avr. %)	36.41	36.59	36.81	36.98	36.39	37.50
Diff. (max/min, %)	25.65	25.65	25.65	25.65	25.65	25.65
Date	17.11.25					
Rating	Buy					
Target price	46,000					
Diff. (avr. %)	42.04					
Diff. (max/min, %)	36.52					
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						

Investment rating breakdown and framework (Feb.5, 2018)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	80.7%	18.8%	0.0%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.