Studio Dragon (253450)

Systematic Content Production Platforms Established

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Initiate coverage with Buy rating and target price of KRW115,000

We initiate our coverage of Studio Dragon with a Buy rating and a target price of KRW115,000. We computed the target price based on the DCF valuation method and arrived at a fair enterprise value of KRW3.2tr. The target price holds 18.8% upside potential from the current share price and corresponds to a 2020 implied EV/EBITDA multiple of 28.5x. Our investment points for Studio Dragon are: 1) a stable profit structure and 2) growth in revenues from copyright sales on the back of increasing content distribution channels.

Systematic content production platforms: Earnings growth based on stable production base

Studio Dragon is able to generate stable profits based on systematic content production platforms and is minimizing risks by producing a number of content programs. While about 70-80% of production costs are being covered in production/programming stages, Studio Dragon is also capable of creating additional profits through copyright sales, which enables the company to maintain stable margins per content. We expect both the top and bottom lines to increase ahead, as the number of contents produced is expected to rise from 22 in 2017 to 40 in 2020 on the back a stable of around 80 writers at the company.

Copyright sales growing robustly amid increasing contents distribution channels

Demand for quality contents is rising at a time when the contents distribution channels are expanding into terrestrial channels, general program providers (general PPs), cable TVs and over-the-top (OTT) platforms. Against this backdrop, Studio Dragon, Korea's biggest drama content producer and provider, is expected to benefit the most. Following expanding contents sales to terrestrial channels, sales to Netflix have been increasing sharply from 2017 as well. Anticipation over copyright revenues being booked in connection with improving Korea-China relations is spreading rapidly as well.

Buy initiation

Target Price (initiation)	KRW115,000
Upside/Downside	18.8%
Current price (Apr 2)	KRW96,800
Consensus Target Price	KRW107,333
Market cap	USD2.6bn

Trading Data

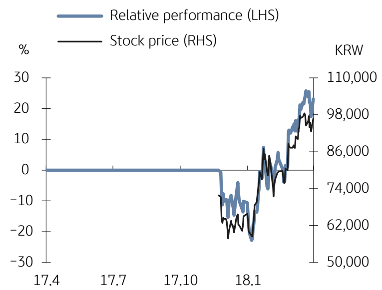
Free float	23.9%
Avg T/O Val (3M, KRWbn)	23.2
Foreign ownership	1.0%
Major shareholders	CJ E&M Corporation and 3 others 75.7%

Performance

(%)	1M	3M	6M	12M
Absolute	10.9	47.1	0.0	0.0
Relative	9.9	37.7	0.0	0.0

Forecast earnings & valuation

FY-end	2017A	2018E	2019E	2020E
OR (KRWbn)	287	376	463	529
OP (KRWbn)	33	67	94	112
NP to parent (KRWbn)	24	54	75	90
EPS (KRW)	1,050	1,912	2,657	3,197
EPS Growth (%)	84.5	82.1	39.0	20.3
PER (x)	61.9	50.6	36.4	30.3
EV/EBITDA (x)	22.1	37.7	26.2	21.1
PBR (x)	4.9	6.4	5.5	4.6
ROE (%)	9.5	13.6	16.2	16.6
Div. Yield (%)	NA	0.0	0.0	0.0



Source: Studio Dragon, KB Securities estimates

Risk factors: Delay of content sales to China and high valuation

The risk factors plaguing Studio Dragon are delays in content sales to China and a high valuation. Although it is difficult to pinpoint when China's unofficial boycott of Korean contents will be lifted, we believe that sales in China will resume within 2018 and begin full-year contributions in 2019. Studio Dragon's 2018 estimated PER of 50.6x and EV/EBITDA of 37.7x are higher than its peers. However, valuation pressure will decrease given the high visbility of long-term earnings growth once full-fledged recognition of overseas copyright sales begin in 2019.

Investment opinion and risks

Scenario	Price
Bull-case Scenario	KRW140,000 (PV of DCF KRW4.0tr)
Base-case Scenario (Target Price)	KRW115,000 (PV of DCF KRW3.2tr)
Current Price	KRW96,800
Bear-case Scenario	KRW85,000 (PV of DCF KRW2.4tr)

Base-case Scenario: Catalysts

1) Expand production to 40 dramas by 2020
2) Sales to China resume in 2018

Bull-case Scenario: Upside risks

1) Expansion of Netflix content sales
2) Increased collaboration with global companies

Bear-case Scenario: Downside risks

1) Delay in selling content to China
2) Demand for Korean Wave content declines

Adjusted earnings estimates

(KRWbn, %)	Previous		Adjusted		Change	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	375.5	463.0	-	-	-	-
OP	67.2	93.8	-	-	-	-
NP (to parent)	53.6	74.5	-	-	-	-

Source: KB Securities estimates

Difference vs. Consensus

(KRWbn, %)	KB estimate		Consensus		Contrast	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	375.5	463.0	387.1	490.6	-3.0	-5.6
OP	67.2	93.8	71.2	102.4	-5.7	-8.4
NP (to parent)	53.6	74.5	54.7	79.5	-2.1	-6.2

Source: Fnguide, KB Securities estimates

Valuation and target price calculation

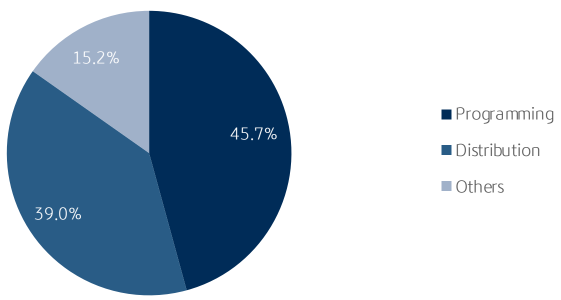
1) Valuation Method:
   DCF Valuation

2) Per-share value:
   COE = Rf + Rp*β = 8.4%
   Rf = 2.6%, β = 0.8
   WACC = 8.2%
   Permanent growth rate 1.3%

3) Upside ~ downside of target price:
   KRW140,000 ~ KRW85,000

4) Valuation upon arriving at target price:
   2020 Implied EV/EBITDA 28.5x

OR composition (%): 2017 basis



Source: Company data, KB Securities

Earnings sensitivity analysis

(%)	EPS change	
	2018E	2019E
1) 1%p rise in interest rate	+2.1	+2.2
2) 1% rise in exchange rate	+0.4	+0.4

Peer group comparison

(KRWbn, X, %)	Market cap	PER		PBR		EV/EBITDA		ROE		Dividend yield	
		2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
Jcontentree	923	27.4	22.0	5.2	4.2	15.2	12.9	22.2	21.7	n/a	1.9
Netflix	135,180	96.0	58.3	27.9	20.0	68.3	44.2	25.8	27.5	0.0	0.0
Zhejiang Huace Film&TV	3,607	27.3	21.4	2.8	2.5	23.3	18.2	10.7	12.6	0.4	0.4
Beijing Hualu Baina	1,588	20.4	14.6	1.4	1.3	22.2	19.7	5.3	5.9	0.8	0.9

Source: Bloomberg consensus, KB Securities

I. Investment Rating & Valuation

Present Buy with target price of KRW115,000

We initiate our coverage of Studio Dragon with a Buy rating and a target price of KRW115,000. We computed the target price based on the DCF valuation method and arrived at a fair enterprise value of KRW3.2tr. Major assumptions for shareholders' equity are as follows: a risk free rate of 2.6% (five-year KTB yield), a market risk premium of 7.3% (1/12M-forward PER of 11x-risk free rate), and beta of 0.8 (beta since listing on Nov 24, 2017).

Cash flow to ascend from 2018

Studio Dragon is the largest drama production company in Korea with a 20% domestic market share as of 2017. Since its split-off from CJ E&M in 2016, Studio Dragon has grown backed by captive demand from the parent company (tvN, OCN, etc.) and has also expanded content supply to terrestrial broadcasters and Netflix in recent years. Studio Dragon's cash flow is forecast to ascend precipitously from 2018, bolstered by: 1) the increasing supply of content programs to CJ E&M and terrestrial broadcasters and 2) growing content sales to Netflix and the Chinese market.

2020 implied EBITDA of 28.5x

The target price represents a 2020 implied EV/EBITDA of 28.5x, which is on a par with the 2017 multiple of its peer group. We present a Buy rating since the target price holds 18.8% upside potential from the current share price.

Table 1. Studio Dragon's DCF valuation

(KRWbn, '000, KRW)	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Free cash flow	**(7)**	**59**	**81**	**97**	**115**	**125**	**157**	**196**	**245**	**294**
WACC	8.2%									
Discount factor	-	0.94	0.87	0.80	0.74	0.69	0.63	0.59	0.54	0.50
PV of FCFF	**869**	**55**	**70**	**78**	**86**	**86**	**99**	**115**	**133**	**147**
Permanent growth rate	1.3%									
Permanent value										4,294
PV of permanent value	**2,147**									
Operating value	3,016									
Net cash	182									
Fair market cap	**3,199**									
Total shares	28,037									
Fair stock price	114,081									
Target stock price	**115,000**									
Current stock price	96,800									
Upside	18.8%									
Implied EV/EBITDA	28.5	(Based on 2020 earnings)								

Source: Company data, Bloomberg, KB Securities estimates

Note: COE(8.37%) = Rf(2.55%) + Risk premium(7.26%) x Beta(0.80), WACC (8.37%) = COE (8.37%) x Equity ratio (97.4%) + COC (3.23%) x Capital ratio (2.60%)

Rf is based on 5-year KTB (2.55%);

Permanent growth rate is Korea's 2060 economic growth rate (OECD)

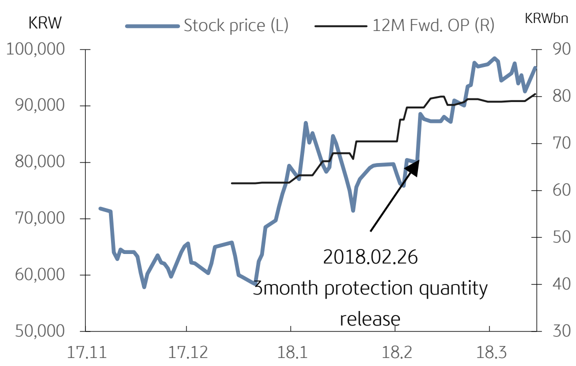
Share price trend of Studio Dragon mirrors that of Netflix

The shares of Studio Dragon delivered a high return of 176.6% compared to the IPO price following its listing. 1) As a key subsidiary of CJ E&M, the company has been recognized for its content competitiveness, 2) the company was anticipated to see marked earnings growth on enhanced visibility involving contents exports to Netflix, the world's largest OTT platform, and 3) anticipation over content sales resuming amid thawing relations between Korea and China contributed to a steep growth in share price. At a time when Netflix is increasing its footing in the global market on the back of competitive contents, domestic contents companies, Studio Dragon and Jcontentree, are seeing their share prices moving in sync with Netflix.

Upside factors for share price: 1) Korean companies resuming content sales to China 2) Alliances with overseas OTT platforms and increasing content sales

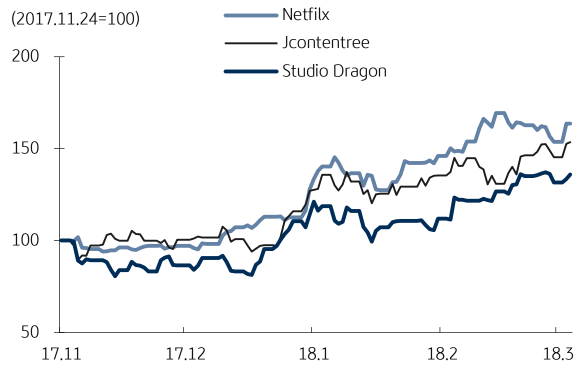
The shares of Studio Dragon are expected to trend up over the mid/long-term on the back of steep EPS growth. Short-term upside factors are: 1) Korean companies resuming contents sales to China and 2) partnerships with overseas OTT platforms including Netflix as well as increasing contents sales. As for the China market, there have been no content sales over the past year since Korea-China relations turned sour, but we expect to see contents sales resume as early as 1H18, considering that anticipation over improving Korea-China relations is growing according to recent media reports. News about Korean companies resuming exports to China will highly likely prompt share price growth across the contents industry as well as Studio Dragon.

Fig 1. Studio Dragon's stock price and 12M forward OP trend



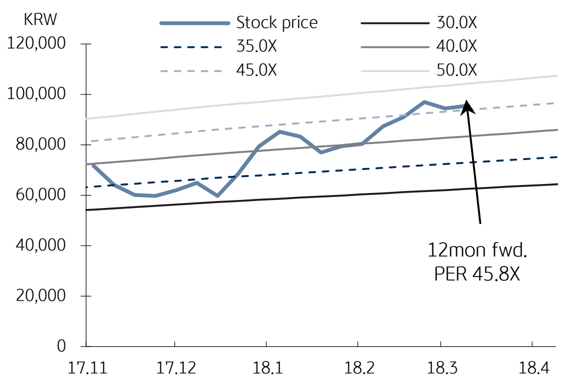
Source: Wisefn, KB Securities

Fig 2. Netflix, Jcontentree, Studio Dragon's stock price trend



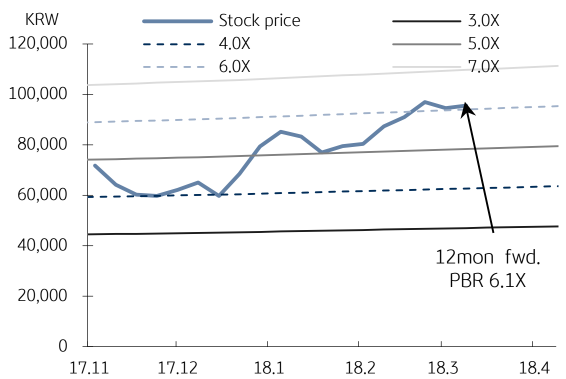
Source: Bloomberg, KB Securities

Fig 3. 12M fwd. PER band chart



Source: WiseFn, KB Securities estimates

Fig 4. 12M fwd. PBR band chart



Source: WiseFn, KB Securities estimates

Risk factor review

The risk factors for Studio Dragon are delays in contents exports to China and a burdensome valuation compared to peers.

1) Uncertainties concerning Chinese content sales

Since Korea agreed to deploy US Terminal High-Altitude Area Defense batteries in early 2017, Korean companies suffered a nose dive in contents sales to China, rendering exports to the region to come to a grinding halt. Amid rising hopes for improving Korea-China relations, Studio Dragon is being highlighted as one of the largest beneficiaries. Although it is difficult to determine when Korea's exports to China will resume, there is a strong possibility of it happening within 2018. As a result, Chinese exports are projected to begin full-year contributions from 2019. Of course, earnings estimates and share price will be adversely affected if the resumption of Chinese exports is delayed or if the Chinese government decides to strengthen its unofficial boycott of Korean contents.

2) Burdensome valuation

Studio Dragon is enjoying the highest valuation among its peers (2018F PER of 50.6x, EV/EBITDA of 37.7x) thanks to the massive growth potential of the contents industry and the clear visibility of the company's earnings growth until 2020. Although its share price has climbed consistently since its listing, Studio Dragon's valuation has remained at a high level due to unwavering anticipation over sales to China and Netflix. Valuation will remain at a high level only if hopes for sales to China and new growth momentum remain untarnished. The share price may also take a hit if negative news dampens investor sentiment. For instance, Studio Dragon share prices fell 3.7% on Mar 28 after Netflix shares dropped 5.0% amid the overall decline of US tech stocks.

II. Investment points

1. Systematic Content Production Platforms: Earnings to Grow on Stable Production Base

Stable production base and increasing number of content programs to hoist earnings ahead

Studio Dragon has production platforms that guarantee a certain portion of margins even at the production stage, while the company is able to disperse risks by producing a number of content programs. The number of produced content programs is forecast to pick up ahead, driven by demand growth at the captive client CJ E&M's affiliated channels.

Certain portion of margins guaranteed at production/programming stages

As Studio Dragon can cover most of its production costs at the production/programing stages, the company is capable of maintaining stable margins per content. Studio Dragon's earnings breakdown is as follows: 1) programming (50-70%), 2) endorsement (10-20%), and 3) secondary copyright sales (30%+α). Since about 70-80% of production costs are being covered on average by TV programming and endorsements, it would be easy for the company's content production to break even. The average GP margin (including revenues from copyright sales of 22 programs) stood at about 20% in 2017. One to two programs broke even, while "Goblin," the biggest hit drama in 2017, achieved a GP margin of more than 50%.

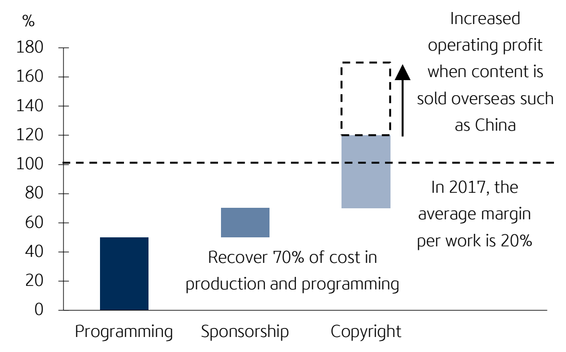
Number of content programs to increase on captive demand from CJ E&M

Studio Dragon is supplying content stably on the back of captive demand coming from CJ E&M (tvN, OCN, etc.). The number of produced content programs is projected to climb from 22 in 2017 to 40 in 2020, which heralds an earnings uptrend ahead. The number of writers stood at 77 as of end-2017. Given a writer's typical output cycle of two years, content supply will not experience any major problems. Studio Dragon's top and bottom lines are forecast to expand, bolstered by the growing number of produced programs.

Producing slew of contents helps minimize risks

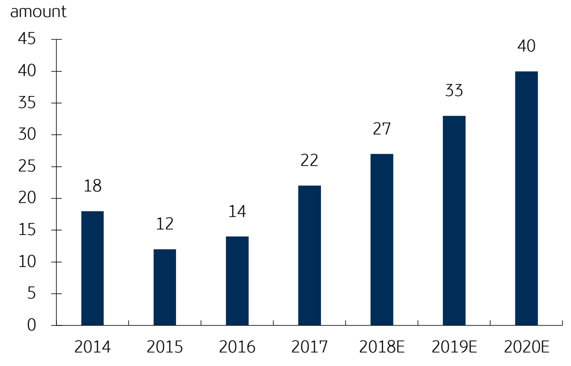
Studio Dragon has implemented systematic platforms for content production on the back of a large number of writers, producers and directors. The contents industry tends to see its earnings heavily affected by the success of dramas and experiences heavy earnings volatility, but Studio Dragon produces more than 20 dramas every year, leading to substantially lower risks compared to competitors.

Fig 5. Studio Dragon's profit structure



Source: Company data, KB Securities estimates

Fig 6. Studio Dragon's annual content production



Source: Company data, KB Securities estimates

2. Revenues from Copyright Sales Growing Robustly amid Expanding Contents Distribution Channels

Content sales expected to expand to terrestrial channels, Netflix and China

Demand for quality contents is rising, at a time when media contents distribution channels are diversifying into terrestrial channels, general program providers (general PPs), cable TVs and over-the-top (OTT) platforms in domestic and overseas markets. Against this backdrop, Studio Dragon, Korea's biggest drama content producer and provider, is expected to benefit the most. We expect profitability to surge ahead amid increasing content sales to terrestrial channels, Netflix and China in addition to captive demand from CJ E&M.

As aforementioned, Studio Dragon sees around 70% of its production costs per drama being compensated in the programming stage and therefore, profitability varies according to copyright revenues (content copyright sales, VOD revenues). The company saw its contents sales to terrestrial channels expanding over the past couple of years and recently began to supply contents to the global OTT platform, Netflix.

Partnership with Netflix to strengthen further ahead

Studio Dragon sold copyrights of "Secret Forest," "Argon," "Black" and "A Korean Odyssey" in 2017, with "Korean Odyssey" apparently being sold for KRW10bn. Beginning with the sales of the drama "Live," content sales to Netflix are expected to keep growing in 2018 as well.

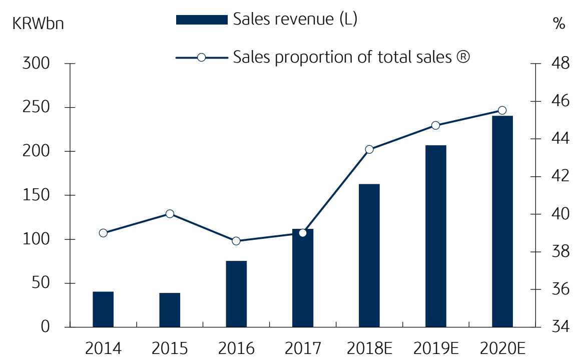
Earnings to receive boost upon resumption of content sales to China

Studio Dragon stands to benefit as anticipation is rising over the easing of the Chinese government's unofficial boycott of Korean contents. Studio Dragon's 2017 earnings were hampered by the absence of contents exports to China, which is Studio Dragon's largest export market. Considering this fact, the company's earnings will gain significant upside once exports resume. Once exports resume, the company will be able to sell TV dramas scheduled to air within 2018. It may also be able to export programs aired during the past year (although, at a cheaper price) to gain an extra earnings boost.

Contents sales to grow 45.9% YoY in 2018

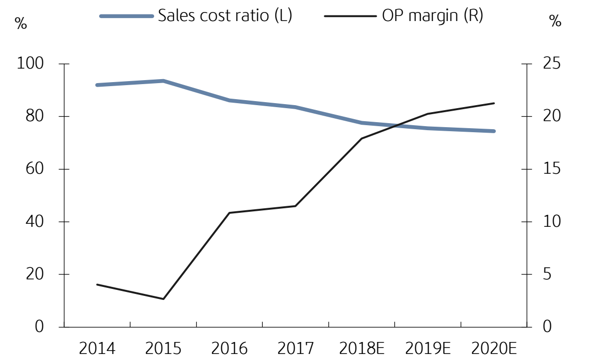
Studio Dragon's contents sales is projected at KRW163.1bn (up 45.9% YoY) in 2018 and KRW202.6bn (up 27.0% YoY) in 2019. As the market leader, Studio Dragon is likely to be the largest beneficiary of increasing global demand for Korean Wave contents.

Fig 7. Studio Dragon's content sales revenue trend



Source: Company data, KB Securities estimates

Fig 8. Correlation between COGS-to-OR ratio and OP margin



Source: Company data, KB Securities estimates

III. Earnings Trend & Forecast

2018 OR to grow 30.9% YoY, OP 103.7% YoY

We expect Studio Dragon to post OR of KRW375.5bn (up 30.9% YoY) and OP of KRW67.2bn (up 103.7% YoY) in 2018. Licensing revenues are forecast to rise 21.1% YoY thanks to the increase of TV series episodes sold to CJ E&M. Copyright sales are expected to rise 45.9% YoY due to increased licensed contents (ie: "A Korean Odyssey," "Live") and content price growth. There are looming uncertainties regarding the resumption of copyright sales to China, but we expect China sales to resume in 2018 and begin full-year contributions from 2019. With full-year recognition of contents sales in China, the company is forecast to achieve OR of KRW463.0bn (up 23.3% YoY) and OP of KRW93.8bn (up 39.5% YoY) in 2019.

OP margin to improve on declining burden of production costs and rising copyright sales

Studio Dragon's OP margin is expected to improve steadily from 11.5% in 2017 to 17.9% in 2019 and 20.2% in 2020 as copyright sales increase, while cost burden declines due to OR growth leading to leverage effects.

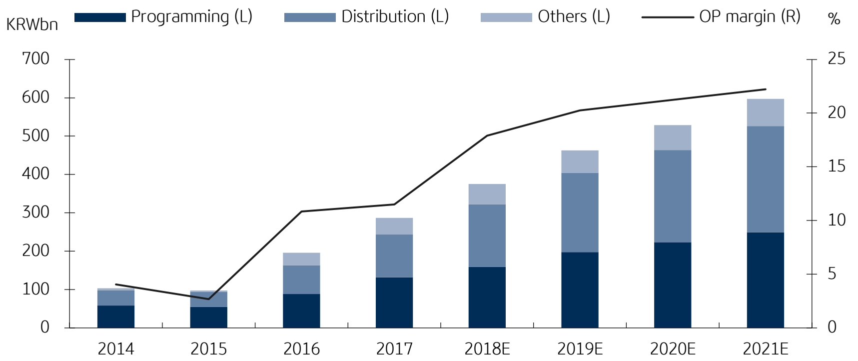
Table 2. Studio Dragons's consolidated earnings trend and estimates

(KRWbn)	1Q17	2Q17	3Q17	4Q17P	1Q18E	2Q18E	3Q18E	4Q18E	2017P	2018E	2019E
OR	75.3	62.1	77.5	71.9	90.7	86.2	98.3	100.4	286.8	375.5	463.0
(QoQ %)	0.0	(17.6)	24.8	(7.3)	26.2	(4.9)	14.0	2.1	-	-	-
(YoY %)	-	-	-	-	20.4	38.8	26.8	39.7	46.7	30.9	23.3
Programming	26.3	24.1	41.8	39.0	35.0	39.2	42.7	42.1	131.2	158.9	197.1
Distribution	36.5	26.3	23.3	25.7	41.9	34.2	41.9	45.0	111.8	163.1	207.1
Others	12.5	11.6	12.4	7.2	13.8	12.8	13.7	13.3	43.7	53.5	58.8
OP	14.0	8.9	6.7	3.5	16.3	12.9	19.1	18.8	33.0	67.2	93.8
(QoQ %)	-	(36.4)	(25.2)	(47.8)	369.1	(20.5)	47.8	(1.6)	-	-	-
(YoY %)	-	-	-	-	16.5	45.7	187.7	442.6	55.6	103.7	39.5
OP margin (%)	*18.5*	*14.3*	*8.6*	*4.8*	*18.0*	*15.0*	*19.5*	*18.8*	*11.5*	*17.9*	*20.2*
NP to parent	13.4	2.8	5.7	2.0	12.9	10.5	15.2	15.0	23.8	53.6	74.5
(QoQ %)	-	(79.1)	102.2	(64.7)	548.3	(19.0)	44.7	(1.2)	-	-	-
(YoY %)	-	-	-	-	(3.3)	274.4	168.0	651.1	-	124.8	39.0
NP margin (%)	*17.8*	*4.5*	*7.3*	*2.8*	*14.3*	*12.2*	*15.4*	*14.9*	*8.3*	*14.3*	*16.1*

Source: Company data, KB Securities estimates

Balanced growth between licensing revenue and copyright sales expected

Fig 9. Studio Dragon's sales revenue and OP margin trend



Source: Studiodragon, KB Securities estimates

Profit & Loss

(KRWbn)	2016A	2017A	2018E	2019E	2020E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	154	287	376	463	529
Cost of sales	133	240	292	349	394
Gross profit	22	47	84	114	135
SG&A expenses	5	14	17	20	23
Operating profit	17	33	67	94	112
EBITDA	39	74	67	94	112
Non-operating accounts	-6	-3	4	6	7
Interest income	0	1	3	5	6
Interest expenses	1	2	0	0	0
Profit on equity method	0	0	0	0	0
Net other non-operating income	-5	0	1	1	1
Profit before tax	11	30	71	99	120
Income tax expense	2	6	18	25	30
Net profit	8	24	54	75	90
NP to parent	8	24	54	75	90
Adj. net profit	8	24	54	75	90

Operating Statistics & Ratios

(%)	2016A	2017A	2018E	2019E	2020E
OR growth	NA	85.7	31.0	23.3	14.2
OP growth	NA	98.3	103.7	39.5	19.8
EBITDA growth	NA	91.4	-9.5	39.5	19.8
NP growth of parent	NA	193.0	124.8	39.0	20.3
GP margin	14.0	16.4	22.4	24.5	25.5
OP margin	10.8	11.5	17.9	20.3	21.2
EBITDA margin	25.1	25.9	17.9	20.3	21.2
EBT margin	6.8	10.6	19.0	21.5	22.6
NP margin	5.3	8.3	14.3	16.1	17.0

Cash Flow

(KRWbn)	2016A	2017A	2018E	2019E	2020E
Cash flow from operating activities	-12	-7	60	82	98
Net profit	8	24	54	75	90
Depreciation & amortization	22	41	0	0	0
Other non-cash adjustments	5	5	18	25	30
Investments in working capital	-46	-73	6	7	9
Decrease(Increase) in Receivables	0	-14	-2	-2	-2
Decrease(Increase) in Inventories	0	-2	0	0	0
Increase(Decrease) in Payables	11	9	1	1	1
Other operating cash flow	-2	20	-18	-25	-30
Cash flow from investing activities	-70	-141	-13	-14	-14
Capital expenditure	-1	0	-1	-1	-1
Investments in intangibles	0	0	-1	-1	-1
Changes in investment assets	0	-1	0	0	0
Other investment cash flow	-68	0	-5	-5	-6
Cash flow from financing activities	93	188	1	1	2
Proceeds from (repayments of) debt	27	-18	1	1	2
Changes in equity	56	208	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	10	-2	0	0	0
Other cash flow	0	0	0	0	0
Increase/decrease in cash	12	40	48	70	85
Cash and cash equivalents at FYE	12	51	48	118	203
Free cash flow	-14	-7	59	81	97
Net cash flow	0	199	1	74	90
Net cash (net debt)	-16	182	184	258	348

Statement of financial position

(KRWbn)	2016A	2017A	2018E	2019E	2020E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	242	459	473	560	664
Current assets	81	290	296	376	472
Cash and cash equivalents	12	51	48	118	203
Current financial assets	0	141	147	153	159
Trade receivables	37	55	57	59	62
Inventories	0	1	1	1	1
Other current assets	33	41	43	45	47
Non-current assets	161	170	177	184	193
Investment assets	2	4	4	4	4
Property, plant and equipment	1	1	2	3	5
Intangible assets	124	128	129	130	131
Other non-current assets	33	36	40	45	51
Total liabilities	106	91	102	115	130
Current liabilities	84	91	102	115	129
Trade payables	6	6	7	8	9
Short-term financial liabilities	8	10	11	13	14
Other current liabilities	71	75	84	95	106
Non-current liabilities	21	0	0	0	0
Non-current financial liabilities	20	0	0	0	0
Other non-current liabilities	0	0	0	0	0
Total equity	136	368	422	497	586
Issued capital	11	14	14	14	14
Share premium	115	320	320	320	320
Other equity interest	2	3	3	3	3
Accumulated other comprehensive income	0	0	0	0	0
Retained earnings	8	32	86	160	250
Equity attributable to owners of parent	136	368	422	497	586
Non-controlling Interests	0	0	0	0	0

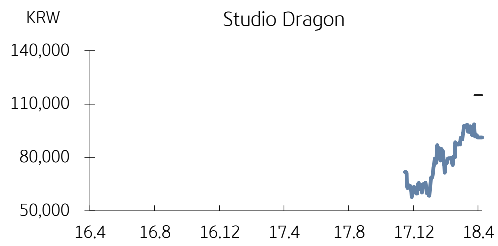
Main Ratio

(X, %, KRW)	2016A	2017A	2018E	2019E	2020E
Multiples					
PER	NA	61.9	50.6	36.4	30.3
PBR	NA	4.9	6.4	5.5	4.6
PSR	NA	5.1	7.2	5.9	5.1
EV/EBITDA	0.4	22.1	37.7	26.2	21.1
EV/EBIT	1.0	49.7	37.7	26.2	21.1
Dividend yield, ordinary (%)	NA	NA	0.0	0.0	0.0
EPS	569	1,050	1,912	2,657	3,197
BPS	6,176	13,141	15,053	17,710	20,907
SPS	10,795	12,628	13,394	16,515	18,856
DPS (Annual, Ordnry.)	0	0	0	0	0
Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
ROE	6.0	9.5	13.6	16.2	16.6
ROA	3.4	6.8	11.5	14.4	14.6
ROIC	16.9	15.6	27.7	38.6	46.3
Financial structure (%)					
Total liab./equity	77.8	24.7	24.3	23.2	22.1
Net debt/equity	12.1	Net Cash	Net Cash	Net Cash	Net Cash
Current Ratio	1.0	3.2	2.9	3.3	3.7
Interest coverage (x)	19.5	19.0	184.9	229.2	243.9
Activity ratios	0	0	0	0	0
Asset turnover (x)	0.0	0.8	0.8	0.9	0.9
Receivables turnover (x)	0.0	6.2	6.7	7.9	8.7
Inventory turnover (x)	0.0	0.0	290.1	357.7	408.3

Source: Studio Dragon, KB Securities estimates

Disclosures

Rating and Target Price Changes (Share price —, Target Price —)



Studio Dragon (253450)

Date	Rating	Target Price (KRW)	Differential (%) Avg.	Max/Min
18-04-03	Buy	115,000		

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Proportion of investment rating (as of March 31, 2018)

Buy	Hold	Sell
72.9	27.1	-

* Note: Based on reports presented with investment ratings over the past one year

Classification and Standards for Investment Rating

Investment Rating for Company
(based on estimation of six-month absolute returns)

Buy: +15% or beyond	Hold: Between 15% and -15%	Sell: -15% or beyond

Note: KB Securities's classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

Investment Rating for Industry
(based on estimation of six-month absolute returns)

Positive:	Neutral:	Negative:
To outperform market	To match market performance	To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017

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