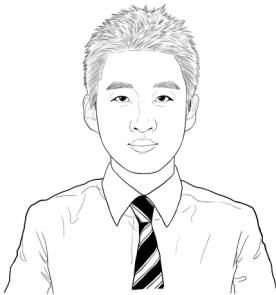


2018. 4. 30

Company Update



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AT A GLANCE

SELL HOLD **BUY**

Target price KRW100,000 (14.4%)

Current price	KRW87,400
Market cap	KRW2.5t/USD2.3b
Shares (float)	28,037,240 (23.9%)
52-week high/low	KRW98,600/KRW57,800
Avg daily trading value (60-day)	KRW16.5b/ USD15.3m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	-10.5	n/a	n/a
Vs Kosdaq (%pts)	-13.2	n/a	n/a

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	100,000	100,000	0.0%
2018E EPS	1,584	1,642	-3.5%
2019E EPS	2,412	2,453	-1.7%

SAMSUNG vs THE STREET

No of estimates	12
Target price	110,667
Recommendation	3.9

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

Studio Dragon (253450)

Better than it seems

- Studio Dragon on Apr 27 reported 1Q sales and operating profit of KRW79.9b and KRW10.7b, respectively, which missed consensus by 7.9% and 26.2% and likely owes to external issues hitting domestic VOD sales and overseas copyright sales.
- The company seems to be losing earnings momentum this quarter with just five to six full airings of dramas expected and since tent-pole productions will not debut before 2H. Resumption of China-bound content exports warrants monitoring.
- Our BUY rating and KRW100,000 target price are both unchanged.

WHAT'S THE STORY?

1Q disappointment.... Studio Dragon on Apr 27 reported that its sales rose 6% y-y to KRW79.9b in 1Q as its operating profit dropped 23.7% y-y KRW10.7b, with the figures missing consensus by 7.9% and 26.2%, respectively. Most forecasts had the company seeing solid y-y earnings growth—from an increasing number of dramas broadcast and contributions from Netflix-bound sales—but there was an unexpectedly large impact from external factors.

...unrelated with fundamentals: The company's broadcasting sales leapt 54.5% y-y to KRW40.7b last quarter as it broadcast eight TV dramas (vs five in 1Q17), with its overseas copyright sales also edging up 0.4% y-y to KRW22.7b, thanks to the sale of 'A Korean Odyssey' to Netflix. The results are fairly solid given high base from Goblin in 1Q17, with its overall drama lineup, including 'Mother', being well-received. Still, scandalous behavior by some actors saw domestic VOD sales plunge 32.3% y-y to KRW9.4b, with overseas copyright sales also possibly being affected.

Business direction: The firm lacks earnings momentum this quarter as it will air just five to six dramas, while tent-pole productions (eg, 'Mr. Sunshine' and 'Memories of the Alhambra') are not debuting until 2H. Still, China-bound content sales could eventually resume, while details regarding the production size and broadcast dates for its Netflix Original Series dramas should soon become known.

Still a BUY: Studio Dragon boasts solid growth potential, enabled by high-quality content and competitive production costs amid fierce competition among OTT providers like Netflix. The stock's valuation remains demanding, but we expect it to sell one or two TV dramas to China and produce a Netflix Original Series drama (at a cost of KRW30b).

SUMMARY OF 1Q RESULTS

(KRWb)	1Q18	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	80	6.1	11.2	(18.1)	(7.9)
Operating profit	11	(23.4)	208.4	(33.3)	(26.2)
Pre-tax profit	11	(18.4)	539.8	(29.8)	(29.4)
Net profit	8	(41.0)	295.6	(31.5)	(31.3)
Margins (%)					
Operating profit	13.4				
Pre-tax profit	13.5				
Net profit	9.9				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2017	2018E	2019E
Multiples (x)			
P/E	83.2	55.3	36.3
P/B	6.7	5.9	5.1
EV/EBITDA	30.5	19.2	13.2
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	84.5	50.6	52.1
ROE (%)	9.5	11.4	15.1
Per-share data (KRW)			
EPS	1,050	1,582	2,406
BVPS	13,141	14,723	17,128
DPS	0	0	0

Table 1. Summary of quarterly results

(KRWb)	1Q18			Diff (%)		1Q17	4Q17	Chg (%)	
	Actual	Samsung	Consensus	Samsung	Consensus			y-y	q-q
Sales	80	98	87	(18.1)	(7.9)	75	72	6.1	11.2
Broadcasting rights	41	39	n/a	n/a	n/a	26	39	54.5	4.4
Copyright sales	32	42	n/a	n/a	n/a	36	26	(12.0)	24.8
Other	7	17	n/a	n/a	n/a	13	7	(43.2)	(0.9)
Cost of goods sold	66	78	n/a	n/a	n/a	59	64	13.0	2.8
SG&A costs	3	3	n/a	n/a	n/a	3	4	7.8	(24.6)
Operating profit	11	16	15	(33.3)	(26.2)	14	3	(23.4)	208.4
Pre-tax profit	11	15	15	(29.8)	(29.4)	13	2	(18.4)	539.8
Net profit	8	12	12	(31.5)	(31.3)	13	2	(41.0)	295.6
Margins (%)									
Operating margin	13.4	16.5	16.7			18.5	4.8		
Pre-tax margin	13.5	15.8	17.6			17.6	2.3		
Net margin	9.9	11.8	13.2			17.8	2.8		






Source: Company data, FnGuide, Samsung Securities estimates

Table 2. Forecast revisions

(KRWb)	2018E					2019E				
	Old	New	Chh (%)	Consensus	Diff (%)	Old	New	Chh (%)	Consensus	Diff (%)
Sales	405	344	(14.9)	384	(10.2)	519	430	(17.2)	488	(12.0)
Cost of goods sold	324	269	(16.9)	297	(9.6)	404	320	(20.8)	364	(12.1)
SG&A costs	17	17	(2.0)	17	0.2	20	20	(2.0)	20	0.2
Operating profit	64	59	(7.8)	70	(15.5)	94	90	(4.9)	104	(13.9)
Pre-tax profit	61	59	(3.2)	71	(16.0)	92	90	(1.7)	106	(15.3)
Net profit	46	44	(3.6)	55	(18.5)	69	68	(1.7)	82	(17.5)
EBITDA	122	116	(4.7)	109	6.9	174	164	(5.4)	146	12.4
Adj. EPS (KRW)	1,642	1,584	(3.5)	1,885	(16.0)	2,453	2,412	(1.7)	2,923	(17.5)
Margins (%)										
Operating margin	15.8	17.2		18.2		18.2	20.9		21.4	
Pre-tax margin	15.2	17.3		18.5		17.7	21.0		21.8	
Net margin	11.4	12.9		14.2		13.3	15.7		16.8	
EBITDA margin	30.2	33.8		28.4		33.5	38.2		29.9	

Source: Samsung Securities estimates

Table 3. 1Q drama lineup

Title	A Korean Odyssey	Mother	Cross	Children of a Lesser God	Live
					
Premier	Dec 2017	Jan 2018	Jan 2018	Mar 2018	Mar 2018
Writer	Jung-eun Hong, Mi-ran Hong	Seo-kyung Jung	Min-seok Choi	Woo-ri Han	Hee-kyung Noh
Production	JS Pictures	THE UNICORN	Logos Film	Studio Dragon, KPJ	GT:st
Cast	Seung-ki Lee, Seung-won Cha, Yeon-seo Oh	Bo-young Lee, Hye-young Lee	Kyung-pyo Ko, Jae-hyun Cho, So-min Jeon	Ji-hwan Kang, Ok-bin Kim	Yu-mi Jeong, Gwang-soo Lee, Sung-woo Bae
Ratings*	Average 5.4%, Highest 6.9%	Average 3.5%, Highest 5.0%	Average 3.8%, Highest 4.7%	Average 3.1%, Highest 3.9%	Average 5.5%, Highest 7.1%

Note: * As of Apr 29

Source: Company data, AGB Nielson, Samsung Securities

Table 4. 2Q drama lineup

Title	Air dates	Channel
Children of a Lesser God	Feb 24-Apr 22	OCN
Live	Mar 3-May 6	tvN
My Mister	Mar 21-May 10	tvN
Mistress	Apr 28-Jun 10	OCN
Lawless Lawyer	May 12-Jul 1	tvN
About Time	May 21-Jul 10	tvN
Secretary Kim	Jun 6-26	tvN
Life on Mars	Jun 16-Aug 5	OCN

Source: Company data, Samsung Securities

Table 5. Scenario analysis

	Base case	Our assumption	Best case
Scenario	<ul style="list-style-type: none"> 1-2 tent-pole dramas Domestic and overseas copyright sales keep growing 	<ul style="list-style-type: none"> 2-3 tent-pole dramas Produce Netflix original series (KRW30b), China-bound exports start to grow 	<ul style="list-style-type: none"> Sales growth via popular overseas platform
Major assumptions	<ul style="list-style-type: none"> Produces 27 dramas in 2018 Sales growth of 25% at home, 30% overseas 	<ul style="list-style-type: none"> Production volume grows Overseas sales growth of 70% 	<ul style="list-style-type: none"> Production volume and content price both grow Overseas sales growth of 100%
2018E operating profit (KRWb)	45.0	59.1	71.2
2018E Net profit (KRWb)	35.0	44.4	56.5
Applied P/E	2018E 40x / 2019E 28x	2018E 60x / 2019E 40x	2018E 65x / 2019E 50x
Target price (KRW)	50,000	100,000	120,000
Upside (%)	(45.9)	8.1	29.7

Source: Samsung Securities

Table 6. Results and forecasts

(KRWb)	2017	2018E	2019E	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Sales	287	344	430	75	62	77	72	80	65	80	120	102	97	109	122
Broadcasting rights	131	138	173	26	24	42	39	41	28	33	36	43	43	43	43
Copyright sales	112	172	214	36	26	23	26	32	30	39	72	48	43	55	68
Other	44	34	43	13	12	12	7	7	7	8	12	11	11	11	11
Cost of goods sold	240	269	320	59	50	67	64	66	51	61	90	79	78	80	82
Production	223	243	288	53	46	63	61	61	47	55	80	72	72	72	72
Sales commission	17	26	32	5	4	3	4	5	4	6	11	7	6	8	10
Gross profit	47	76	110	17	12	11	7	14	13	19	29	23	18	28	40
SG&A costs	14	17	20	3	3	4	4	3	4	5	5	4	5	6	6
Operating profit	33	59	90	14	9	7	3	11	9	14	25	19	14	23	34
Pre-tax profit	30	59	90	13	9	6	2	11	10	14	25	20	14	23	34
Net profit	24	44	68	13	3	6	2	8	7	11	19	15	10	17	26
EBITDA	74	116	164	24	19	17	14	25	24	29	39	38	32	41	53
EPS (KRW)	851	1,584	2,412												
Margins (%)															
Operating margin	11.5	17.2	20.9	18.5	14.3	8.6	4.8	13.4	14.6	17.9	20.5	19.0	14.1	20.9	27.9
Pre-tax margin	10.6	17.3	21.0	17.6	14.5	8.2	2.3	13.5	14.8	18.0	20.6	19.1	14.2	21.0	28.0
Net margin	8.3	12.9	15.7	17.8	4.5	7.3	2.8	9.9	11.1	13.5	15.5	14.3	10.7	15.7	21.0
EBITDA margin	25.9	33.8	38.2	32.3	30.9	21.9	19.2	31.3	36.8	35.7	32.5	37.2	33.3	38.0	43.1

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Sales	154	287	344	430	568
Cost of goods sold	133	240	269	320	407
Gross profit	22	47	76	110	160
Gross margin (%)	14.0	16.4	22.0	25.5	28.3
SG&A expenses	5	14	17	20	24
Operating profit	17	33	59	90	137
Operating margin (%)	10.8	11.5	17.2	20.9	24.1
Non-operating gains (losses)	(6)	(3)	0	0	7
Financial profit	1	1	4	5	7
Financial costs	2	3	0	(1)	(1)
Equity-method gains (losses)	0	0	0	0	0
Other	(5)	(0)	(4)	(5)	(0)
Pre-tax profit	10	30	59	90	144
Taxes	2	6	15	22	36
Effective tax rate (%)	22.4	21.2	25.3	25.0	25.0
Profit from continuing operations	8	24	44	67	108
Profit from discontinued operations	0	0	0	0	0
Net profit	8	24	44	67	108
Net margin (%)	5.3	8.3	12.9	15.7	19.0
Net profit (controlling interests)	8	24	44	67	108
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	39	74	116	164	234
EBITDA margin (%)	25.1	25.9	33.8	38.2	41.3
EPS (parent-based) (KRW)	569	1,050	1,582	2,406	3,852
EPS (consolidated) (KRW)	569	1,050	1,582	2,406	3,852
Adjusted EPS (KRW)*	569	1,050	1,582	2,406	3,852

Cash flow statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	(12)	(7)	109	156	232
Net profit	8	24	44	67	108
Non-cash profit and expenses	27	46	69	92	126
Depreciation	0	0	0	0	0
Amortization	22	41	57	74	98
Other	5	5	11	17	29
Changes in A/L from operating activities	(46)	(73)	11	19	34
Cash flow from investments	(70)	(141)	(86)	(90)	(114)
Change in tangible assets	(1)	(0)	0	0	0
Change in financial assets	(2)	(142)	(8)	(9)	(10)
Other	(66)	1	(78)	(82)	(105)
Cash flow from financing	93	188	(17)	1	1
Change in debt	28	(18)	(16)	0	0
Change in equity	126	208	0	0	0
Dividends	0	0	0	0	0
Other	(60)	(2)	(0)	1	1
Change in cash	12	40	7	66	118
Cash at beginning of year	0	12	51	58	124
Cash at end of year	12	51	58	124	243
Gross cash flow	35	70	113	159	234
Free cash flow	(14)	(7)	36	69	120

Note: * Excluding one off items, ** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Current assets	81	290	309	387	519
Cash & equivalents	12	51	58	124	243
Accounts receivable	37	55	58	61	64
Inventories	0	1	1	1	1
Other current assets	33	182	191	201	211
Fixed assets	161	170	195	208	223
Investment assets	2	4	5	6	8
Tangible assets	1	1	1	1	1
Intangible assets	124	128	143	155	169
Other long-term assets	33	37	46	46	46
Total assets	242	459	504	595	742
Current liabilities	84	91	90	114	153
Accounts payable	6	6	7	9	12
Short-term debt	8	0	(7)	(7)	(7)
Other current liabilities	71	85	90	112	148
Long-term liabilities	21	0	0	0	1
Bonds & long-term debt	20	0	0	0	0
Other long-term liabilities	2	0	0	0	1
Total liabilities	106	91	91	115	154
Owners of parent equity	136	368	413	480	588
Capital stock	11	14	14	14	14
Capital surplus	115	320	320	320	320
Retained earnings	8	32	76	144	252
Other	2	3	3	3	3
Non-controlling interests' equity	0	0	0	0	0
Total equity	136	368	413	480	588
Net debt	16	(182)	(213)	(286)	(412)

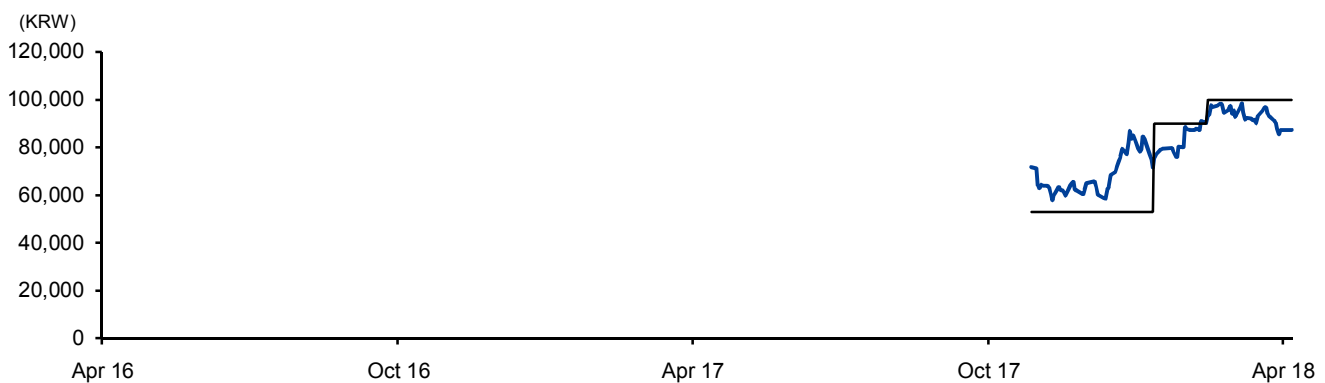
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	nm	85.7	20.1	24.8	32.1
Operating profit	nm	98.3	79.1	52.0	52.1
Net profit	nm	192.9	86.0	52.1	60.1
Adjusted EPS**	nm	84.5	50.6	52.1	60.1
Per-share data (KRW)					
EPS (parent-based)	569	1,050	1,582	2,406	3,852
EPS (consolidated)	569	1,050	1,582	2,406	3,852
Adjusted EPS**	569	1,050	1,582	2,406	3,852
BVPS	6,176	13,141	14,723	17,128	20,981
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	153.6	83.2	55.3	36.3	22.7
P/B***	14.2	6.7	5.9	5.1	4.2
EV/EBITDA	63.6	30.5	19.2	13.2	8.7
Ratios (%)					
ROE	6.0	9.5	11.4	15.1	20.2
ROA	3.4	6.8	9.2	12.3	16.2
ROIC	8.5	15.6	23.5	35.2	57.7
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	12.1	(49.4)	(51.5)	(59.6)	(70.1)
Interest coverage (x)	19.5	19.0	370.6	(151.3)	(230.1)

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2017/11/23	2018/2/8	3/13
Recommendation	BUY	BUY	BUY
Target price (KRW)	53,000	90,000	100,000
Gap* (average)	29.29	(7.62)	
(max or min)**	64.15	1.11	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Mar 31, 2018

BUY (86.6%) | HOLD (13.4%) | SELL (0%)

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