

Studio Dragon (253450 KS)

Media/entertainment

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Rating	BUY (M)
Target price	W114,000 (M)
Current price (Apr 27)	W87,400
Upside potential	30%

Market cap (Wbn)	2,451
Shares outstanding	28,037,240
Avg daily T/O (2M, Wbn)	17
Avg daily volume (2M, shrs)	187,505
52-week high (won)	98,600
52-week low (won)	57,800
Foreign ownership (%)	1.0
Major shareholders (%)	
	CJ E&M & others 75.7

Stock performance

(%)	1M	3M	12M
Absolute	(10.5)	2.6	0.0
Relative	(13.2)	5.7	0.0
Abs (US\$)	(11.0)	1.4	0.0

Domestic negatives bigger than expected

1Q18 review

- Studio Dragon reported consolidated sales of W79.9bn (+6% YoY), OP of W10.7bn (-24% YoY), and NP (controlling interest) of W7.9bn (-41% YoY), with OP missing consensus of W10.7bn. TV series distribution revenue, the key source of profit, fell 12% YoY to W32.1bn. Specifically, distribution revenue fell 32% YoY in Korea from W13.9bn in 1Q17 to W9.4bn in 1Q18, but remained flat (+0.4% YoY) overseas at W22.7bn in 1Q18 vs W22.6bn in 1Q17. Domestic distribution revenue fell YoY due to base effect from strong domestic VOD revenue from two mega-hit drama series and weak VOD revenue from "Cross," one of whose main actors stepped down amid sexual assault allegations. Meanwhile, overseas revenue remained flat, as strong TV series distribution revenue to Netflix overwhelmed base effect (YoY). **Barring the unexpected negatives in the domestic market, 1Q18 OP would have remained flat YoY or risen slightly.**
- We estimate 2Q18 OP at W8.9bn. While some "Live" distribution revenue from Netflix will be booked, it is unlikely to be enough to boost distribution revenue sharply YoY given base effect from "Stranger" in 2Q17. We conservatively estimate 2Q18 earnings, as there is no news that the company has sold any of its 2Q18 drama series lineup to Netflix. **We believe it is delaying overseas sales of new TV series because it wants to sell them for a high price in a package with "Mr. Sunshine," a blockbuster TV series to air in 3Q18.**
- There is a possibility that we may raise our 2Q18 earnings estimates if we hear news of the company selling its remaining TV series lineup overseas. Among the 2Q18 lineup, investors need to focus on "Lawless Lawyer," which will air on tvN on weekends in May, and "What is Wrong with Secretary Kim," an upcoming drama to air via tvN on Wednesday and Thursday in June. Yun Hyeon-ho, the writer of Lawless Lawyer, also wrote popular films such as "The Attorney" and "Confidential Assignment." What is Wrong with Secretary Kim is likely to attract attention, as the TV series is based on a popular webtoon of the same title and features stars Park Seo-jun and Park Min-yeong.

Quarterly earnings

(Wbn)	1Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	80	6.0	11.1	87	-7.9
OP	11	-23.7	205.7	14	-26.3
Pre-tax net profit	11	-18.2	535.3	16	-30.5
Net profit, CI	8	-41.3	295.0	12	-36.4
OPM (%)	13.4	-5.1p	+9.0p	16.7	-3.3 %pt
NPM (%)	9.9	-7.9p	+7.0p	14.3	-4.4 %pt

Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		154	287	381	481
OP		17	33	75	118
Net profit, CI		8	24	56	89
P/E (x)		-	60.3	43.6	27.4
P/B (x)		-	4.8	5.8	4.8
EV/EBITDA		-	21.4	16.0	11.2
ROE (%)		12.0	9.5	14.2	19.0

Source: Yuanta Securities

Share price growth driven by Netflix

- Since Studio Dragon's IPO in Nov 2017, the correlation between its share price and Netflix's is 0.92. With "A Korea Odyssey" and other TV series exclusively distributed to Netflix at high prices, **Studio Dragon has emerged as a major beneficiary. It can choose between Netflix's offering price for global exclusive distribution rights (excluding Korea, China, and some countries), or the combined price of distribution to platforms in each region.** Netflix is paying high prices for quality content across the globe to attract more paying subscribers, and we believe Studio Dragon's TV series are being used to target the Southeast Asian market, where Korean TV series are popular. **Investors also need to get ready for the potential resumption of the company's TV series distribution through Chinese over-the-top (OT) content providers,** as the THAAD issue is likely to be resolved if North Korea and the US establish diplomatic ties and a Korean peace treaty is signed.

Studio Dragon: earnings forecast

(Wbn)

	2017				2018				Full-year				
	1Q	2Q	3Q	4Q	1QP	2QE	3QE	4QE	2015	2016	2017	2018E	2019E
No of TV series produced	-	-	-	-	-	-	-	-	16	19	22	27	33
Revenue	75.3	62.1	77.5	71.9	79.9	73.3	114.2	113.2	97.4	195.5	286.8	380.6	480.6
- Programming	26.3	24.1	41.8	39.0	40.7	35.0	-	-	54.8	87.8	131.2	161.1	196.8
- Distribution	36.5	26.3	23.3	25.7	32.1	29.0	-	-	39.0	75.4	111.8	177.2	217.2
- Others	12.5	11.6	12.4	7.2	7.1	9.4	-	-	3.6	32.3	43.7	42.3	66.5
Growth (YoY)	-	-	-	-	6	18	-	-	-6	101	47	33	26
- Programming	-	-	-	-	54	45	-	-	-6	60	49	23	22
- Distribution	-	-	-	-	-12	10	-	-	-3	93	48	58	23
- Others	-	-	-	-	-43	-19	-	-	-25	797	35	-3	57
Domestic distribution revenue	13.9	10.2	10.2	10.3	9.4	11.7	-	-	15.1	31.2	44.6	-	-
Overseas distribution revenue	22.6	16.1	13.1	15.4	22.7	17.3	-	-	23.9	44.2	67.2	-	-
COGS	58.6	49.9	66.8	64.4	66.2	61.5	87.8	77.2	91.1	168.3	239.7	292.6	346.6
COGS-to-sales (%)	78	80	86	90	83	84	77	68	94	86	84	77	72
Gross profit	16.8	12.2	10.6	7.4	13.7	11.9	26.4	36.1	6.3	27.2	47.0	88.0	134.0
Gross margin	22	20	14	10	17	16	23	32	6	14	16	23	28
SG&A expense	2.8	3.3	4.0	4.0	3.0	3.0	3.0	4.5	3.7	6.0	14.1	13.5	16.2
SG&A-to-sales (%)	4	5	5	6	4	4	3	4	4	3	5	4	3
Operating profit	14.0	8.9	6.6	3.5	10.7	8.9	23.4	31.6	2.6	21.2	33.1	74.5	117.8
Operating margin	19	14	9	5	13	12	20	28	3	11	11	20	25
Pre-tax profit	13.2	9.0	6.4	1.7	10.8	8.9	23.4	31.6	-	-	30.3	74.7	117.8
Pre-tax margin	18	14	8	2	14	12	20	28	-	-	11	20	25
Net profit	13.4	2.8	5.7	2.0	7.9	6.7	17.7	23.9	-	-	23.8	56.2	89.3
Net margin (%)	18	5	7	3	14	12	16	18	-	-	8	15	19
Growth (% YoY)													
Revenue	-	-	-	-	12	16	47	52	-6	101	47	33	26
Operating profit	-	-	-	-	7	15	244	619	-38	715	56	126	58
Net profit	-	-	-	-	-11	200	222	890	-	-	-	136	59

Note: Studio Dragon was split off from CJ E&M in May 2016; figures for 2016 include CJ E&M's drama production division earnings for January~April; pre-split-off earnings were supervised by KPMG Korea, Source: Yuanta Securities

Peer comparison: earnings and valuations

	Ticker	Unit	Mkt cap	2017			2018E			2019E		
				Revenue	OP	NP	Revenue	OP	NP	Revenue	OP	NP
Studio Dragon	253450 KS	(Wbn)	2,450.5	286.8	33.0	23.8	380.6	74.5	56.2	480.6	117.8	89.3
Jcontentree	036420 KS	(Wbn)	856.7	420.3	33.3	6.4	586.8	58.4	27.2	708.5	85.4	46.2
CJ E&M	130960 KS	(Wbn)	3,582.7	1,750.1	63.2	428.6	2,015.6	138.7	149.5	2,295.0	189.9	207.7
Netflix	NFLX US	(\$mn)	135,520	11,693	839	559	16,050	1,789	1,459	19,964	2,861	2,280
Hauce	300133 CH	(\$mn)	3,030	774	121	94	1,044	142	124	1,250	187	162
Huayi Brothers	300027 CH	(\$mn)	3,848	582	91	123	730	169	163	865	206	192
HualuBaina	300291 CH	(\$mn)	1,338	331	13	16	-	-	-	-	-	-
Zhejiang Talent	300426 CH	(\$mn)	1,155	174	65	29	266	71	70	336	95	93
New Culture	300336 CH	(\$mn)	892	180	-	37	297	69	59	359	86	72
				2017			2018E			2019E		
				P/E	P/B	ROE	P/E	P/B	ROE	P/E	P/B	ROE
Studio Dragon		(x, %)		60.3	4.8	9.5	43.6	5.8	14.2	27.4	4.8	19.0
Jcontentree		(x, %)		73.8	3.0	5.3	33.7	5.1	16.1	19.8	4.1	23.3
CJ E&M		(x, %)		7.3	1.5	23.6	24.0	1.7	7.2	17.2	1.7	10.1
Netflix		(x, %)		143.8	23.2	17.9	95.2	28.4	26.2	61.6	20.3	28.4
Hauce		(x, %)		30.1	2.8	9.6	24.4	2.5	10.5	19.1	2.2	12.4
Huayi Brothers		(x, %)		29.1	2.5	8.9	23.6	2.2	9.7	20.8	2.0	10.4
HualuBaina		(x, %)		83.7	1.4	1.7	14.9	-	-	12.1	-	-
Zhejiang Talent		(x, %)		41.1	6.5	17.2	16.0	4.4	26.7	12.1	3.3	26.7
New Culture		(x, %)		24.8	-	-	14.3	1.7	11.4	12.0	1.5	12.7
Chinese peer avg		(x, %)		41.8	3.3	9.3	18.6	2.7	14.6	15.2	2.3	15.6

Note: Figures for Studio Dragon, Jcontentree, and CJ E&M are our estimates; those for Netflix and Chinese peers are consensus based.

Source: Bloomberg, Yuanta Securities

Studio Dragon (253450 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income					
FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Sales	154	287	381	481	575
Cost of sales	133	240	293	347	414
Gross profit	22	47	88	134	161
SG&A	5	14	14	16	19
Operating profit	17	33	75	118	141
EBITDA	39	74	135	185	223
Non-op profit/loss	-6	-3	0	0	0
Forex gain/loss	0	-1	0	0	0
Net interest income	-1	-1	0	0	0
Equity-meth gain/loss	0	0	0	0	0
Other	-5	0	0	0	0
Net prof before income tax	10	30	75	118	141
Income tax	2	6	18	29	34
Net profit from continuing ops	8	24	56	89	107
Net profit from discontinued ops	0	0	0	0	0
Net profit	8	24	56	89	107
NP for controlling interest	8	24	56	89	107
Total comprehensive income	8	24	56	89	107
Total comprehensive income, CI	8	24	11	18	22

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position					
FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Current assets	81	290	340	429	535
Cash & cash equivalents	12	51	157	246	353
Accts rec & other	39	55	0	0	0
Inventory	0	1	0	0	0
Non-current assets	161	170	170	170	171
Tangible assets	1	1	1	2	2
Investment in affiliates	0	0	0	0	0
Other non-current	2	4	4	4	4
Total assets	242	459	510	599	706
Current liabilities	84	91	85	85	85
Accts payable & other	20	34	28	28	28
ST financial liabilities	8	0	0	0	0
Liquid LT liabilities	0	10	10	10	10
Non-current liabilities	21	0	0	0	0
LT financial liabilities	0	0	0	0	0
Debentures	20	0	0	0	0
Total liabilities	106	91	85	85	85
Equity, controlling interest	136	368	425	514	621
Paid-in capital	11	14	14	14	14
Capital surplus	115	320	320	320	320
Retained earnings	8	32	88	178	285
Equity, non-controlling interest	0	0	0	0	0
Total equity	136	368	425	514	621
Net debt	16	-182	-288	-377	-484
Total debt	28	10	10	10	10

Cash flow statement					
FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Operating cash flow	-12	-7	167	156	189
Net profit	8	24	56	89	107
Depreciation & amortization	0	0	0	0	0
Forex gain/loss	0	1	0	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-46	-73	50	0	0
Other	25	41	61	67	81
Investing cash flow	-70	-141	-61	-68	-82
Investment	0	0	0	0	0
Inc in tangible assets	-1	0	0	0	0
Dec in tangible assets	0	0	0	0	0
Other	-68	-141	-61	-67	-81
Financing cash flow	93	188	0	0	0
Inc (dec) in ST fin liab	7	-8	0	0	0
Inc (dec) in LT fin liab	20	-10	0	0	0
Inc (dec) in equity	56	208	0	0	0
Cash dividend	0	0	0	0	0
Other	10	-2	0	0	0
Other cash flow	0	0	51	0	0
Inc (dec) in cash & equivalents	12	40	157	89	107
Beginning cash & equivalents	0	12	0	157	246
Ending cash & equivalents	12	51	157	246	353
NOPLAT	17	33	75	118	141
FCF	-12	-6	167	156	188

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

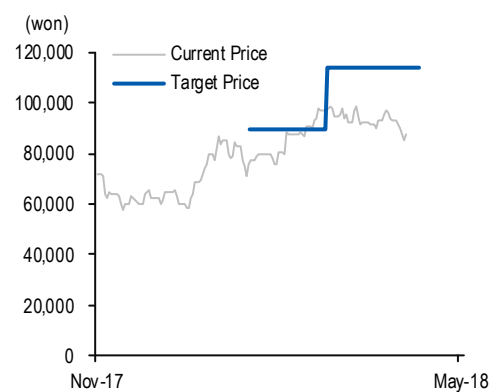
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yunta Securities

Valuation					
FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	5,691	1,050	2,006	3,185	3,822
BPS (won)	61,763	13,141	15,148	18,332	22,154
EBITDA/shr (won)	27,127	3,271	4,832	6,597	7,945
SPS (won)	107,949	12,628	13,574	17,141	20,493
DPS (won)	0	0	0	0	0
P/E (x)	-	60.3	43.6	27.4	22.9
P/B (x)	-	4.8	5.8	4.8	3.9
EV/EBITDA (x)	-	21.4	16.0	11.2	8.8
P/S (x)	-	5.0	6.4	5.1	4.3

Key financial data					
FY ends Dec	2016A	2017A	2018E	2019E	2020E
Sales (% YoY)	0.0	85.7	32.7	26.3	19.6
Operating profit (%YoY)	na	98.3	125.9	58.1	20.0
Net profit, CI (%YoY)	na	192.9	135.9	58.7	20.0
Gross margin (%)	14.0	16.4	23.1	27.9	28.0
Operating margin (%)	10.8	11.5	19.6	24.5	24.6
Net margin, CI (%)	5.3	8.3	14.8	18.6	18.6
EBITDA margin (%)	25.1	25.9	35.6	38.5	38.8
ROIC (%)	21.8	19.7	46.5	93.0	111.1
ROA (%)	6.7	6.8	11.6	16.1	16.4
ROE (%)	12.0	9.5	14.2	19.0	18.9
Debt-to-equity (%)	77.8	24.7	20.0	16.5	13.7
Net debt-to-equity (%)	12.1	-49.4	-67.9	-73.4	-77.9
OP/financing cost (x)	19.5	19.0	0.0	0.0	0.0

Studio Dragon (253450 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2018/04/30	BUY	114,000	1 yr		
2018/03/19	BUY	114,000	1 yr		
2018/02/08	BUY	90,000	1 yr	-5.24	8.56
2017/11/24	BUY	60,000	1 yr	14.10	45.00

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.6
BUY	86.5
HOLD	11.9
SELL	0.0
Total	100.0

Note: As of Apr 26

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I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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