

Studio Dragon (253450 KS)

Aiming for market cap. of W4tr

BUY (MAINTAIN)

Price (May 21) W96,200
Target Price W132,000
% variance 37.2%

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KOSPI	2,465.57p
KOSDAQ	872.96p
Market Cap.	W2,697.2bn/ US2,365.9mn
Par Value	W500
Outstanding Shares	28.0mn
Free Floating Shares	6.7mn(23.9%)
52-Week High/Low	W98,600/W57,800
60-Day Avg. Trading Volume	178,526shrs
60-Day. Avg. Trading T/O	W16,097mn
Foreign Ownership	1.21%
Major Shareholders	
CJ E&M and 3 others	75.66%

Absolute Performance	3M	26.2%
	6M	0.0%
	12M	0.0%
Relative performance to KOSDAQ	3M	26.6%
	6M	0.0%
	12M	0.0%

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- ◆ 2018 consolidated operating profit forecast at W66.1bn (+100.4% YoY)
- ◆ Looking forward to 4 momentum drivers in 2H
- ◆ Upgrade target price by 11.9% to W132,000; media sector top pick

2018 consolidated operating profit forecast at W66.1bn (+100.4% YoY)

Studio Dragon is expected to post 2018 consolidated sales of W366.7bn (+27.9% YoY) and operating profit of W66.1bn (+100.4% YoY). While we have lowered our 2Q earnings forecast, our projection for 2H has been revised up by more than 20%. Consolidated operating profit in 2Q is estimated at W10.2bn (+15.2% YoY). The revision was in exports to China. We may see revenue from China if the quota on Korean contents is approved within June. However, given uncertainties at home and abroad, we project revenue recognition to start in 3Q instead of 2Q expected previously. Operating profit in 2H is estimated to be W45.2bn (+346.5% YoY) with exports of major works beginning in earnest.

Looking forward to 4 momentum drivers in 2H

- 1) Overseas orders and production of Korean dramas will kick off in 2H. Potential clients are Netflix (contract signed for one title) and Chinese platform providers.
- 2) Distribution of existing titles via Netflix is expected to accelerate. A Korean Odyssey (Hwayugi) contributed to licensing revenue from Netflix in 1Q. New promising titles in 2H are Mr. Sunshine and Memories of the Alhambra. Annual licensing revenue from Netflix is estimated to reach W47bn.
- 3) China is expected to issue import quota on Korean contents in 2H. All exports will be recognized as profit. We anticipate quarterly profit of more than W7bn.
- 4) Studio Dragon will enter an unprecedented profit growth phase from 3Q. The 12-month forward operating profit from 2H is projected to soar 208% YoY to W95.5bn.

Upgrade target price by 11.9% to W132,000; media sector top pick

We upgrade our target price for Studio Dragon from W118,000 to W132,000, based on 2019F EPS and a PER of 44x (20% premium to Jcontentree's 2-year high). We keep Studio Dragon as our top pick in the media sector given: 1) annual sales growth of 30%; 2) operating profit growth of 100% driven by increasing distribution revenue; and 3) imminent recognition of revenue from China. The company has many positives on its side.

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 (%)
2016	154.4	16.6	10.5	8.1	569	N/A	6,176	0.0	0.4	0.0	6.0	12.1
2017	286.8	33.0	30.3	23.8	1,050	84.5	13,141	61.9	22.1	4.9	9.5	(49.4)
2018F	366.7	66.1	64.0	48.8	1,740	65.7	14,881	55.3	18.7	6.5	12.4	(48.2)
2019F	482.5	113.1	109.9	84.1	3,000	72.4	17,881	32.1	13.4	5.4	18.3	(49.0)
2020F	567.0	131.4	129.4	99.0	3,532	17.7	21,412	27.2	11.7	4.5	18.0	(49.4)

Source: Company data, Shinhan Investment Corp.

Overseas drama contracts guarantee 20-25% of production costs as profit

Contract signed for 1 title; 2 more anticipated in 2H

1. Overseas orders to grow in earnest

Studio Dragon has a pool of some 80 screenwriters, which is almost six times bigger than Korea's second-largest drama-production studio Drama House. Subsidiaries Hwa & Dam Pictures, Culture Depot and JS Pictures each specialize in creating the best contents in respective fields. Thus, it is highly likely that global platforms going after the Southeast Asian and Chinese markets will increase their orders.

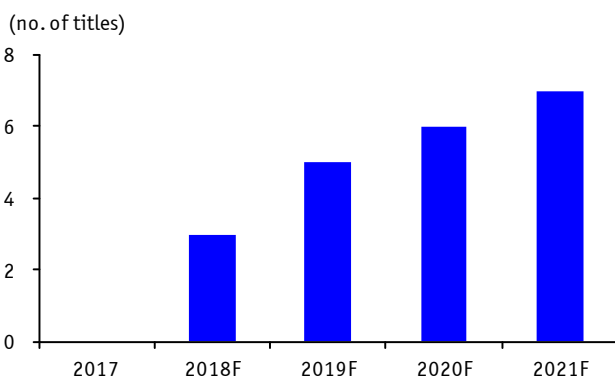
Studio Dragon has already signed a contract with Netflix for its first Netflix original series. This is good news for the industry, along with AStory's Netflix drama series Kingdom (written by Kim Eun-hee). Netflix will own the copyright, but the production studio will be guaranteed 20-25% of production costs as profit. Production costs of most overseas drama series exceed W20bn. Assuming W20bn per title, the studio will be able to recognize about W4bn-5bn in net sales and operating profit. Contracted works will go into production in 2H, which are highly likely to add to profit growth in 1H19.

Global orders are not limited to North American companies like Netflix and Amazon. China's BAT (Baidu's iQiyi, Alibaba's Youku, Tencent's Tencent Video) companies are also potential clients. China has recently started airing dramas with production costs of over W50bn. Production costs will likely be in the range of Korean hit drama series. Studio Dragon is anticipating orders for two more titles in 2H – one from a North American client and another from an Asian client. We project new orders to contribute to profit by W12bn on a conservative note and up to W20bn in 2019.

Sales by segment																
(bn KRW)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18F	3Q18F	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F	2016	2017	2018F	2019F
Total revenue	75.3	62.1	77.5	71.9	79.9	64.2	106.8	115.8	106.9	100.7	126.8	148.1	195.5	286.8	366.7	482.5
Production revenue	26.3	24.1	41.8	39.0	40.7	26.1	43.7	54.6	45.8	30.4	46.3	65.8	87.8	131.2	165.1	188.3
- Global platform					0.0	0.0	0.0	0.0	4.0	4.0	0.0	4.0	0.0	0.0	0.0	12.0
Distribution revenue	36.5	26.3	23.3	25.7	32.1	31.0	53.2	51.7	49.1	58.2	70.7	67.3	75.4	111.8	168.0	245.3
Other (PPL) revenue	12.5	11.6	12.4	7.2	7.1	7.1	9.9	9.5	8.0	8.1	9.8	11.1	32.3	43.7	33.6	37.0

Source: Company data, Shinhan Investment Corp.

Overseas order intake



Source: Company data, Shinhan Investment Corp.

Kim Eun-hee, screenwriter of Netflix original drama Kingdom (A Story)



Source: Media reports, Shinhan Investment Corp.

Licensing revenue from Netflix to reach W47bn in 2018; revenue concentrated in 2H

Licensing revenue from Netflix estimated at W60bn (+27.7% YoY) in 2019

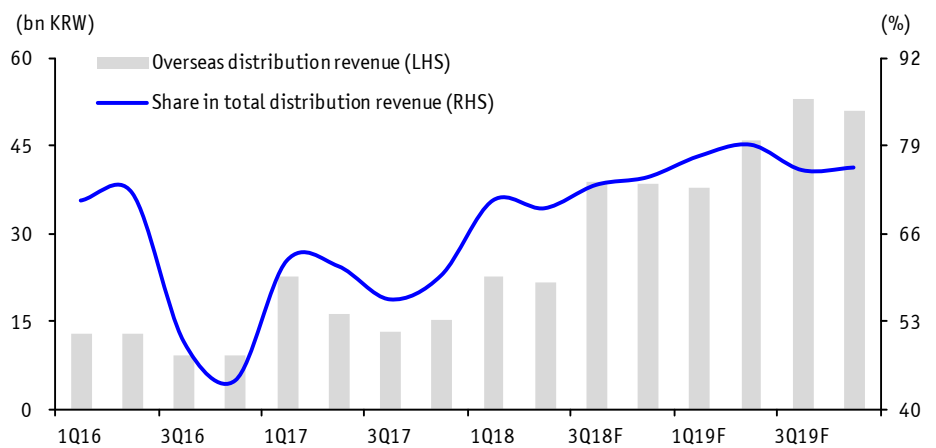
2. Licensing revenue from Netflix to pick up

We forecast licensing revenue from Netflix to exceed W10bn in 1Q, most of it coming from A Korean Odyssey (SHIC estimate based on media reports). The licensing revenue is not translated into profit in full because Netflix demands exclusive rights in most of the overseas markets. Excluding the portion of distribution via local companies, it would be realistic to deem that around 50% of revenue is translated into profit. Nevertheless, Studio Dragon recorded strong profit growth in 2017 considering the small portion of revenue from Netflix.

We project licensing revenue from Netflix at W47bn in 2018, assuming W10bn in 1Q, W2bn in 2Q, and W35bn in 2H (most of the highly-anticipated dramas concentrated in 2H).

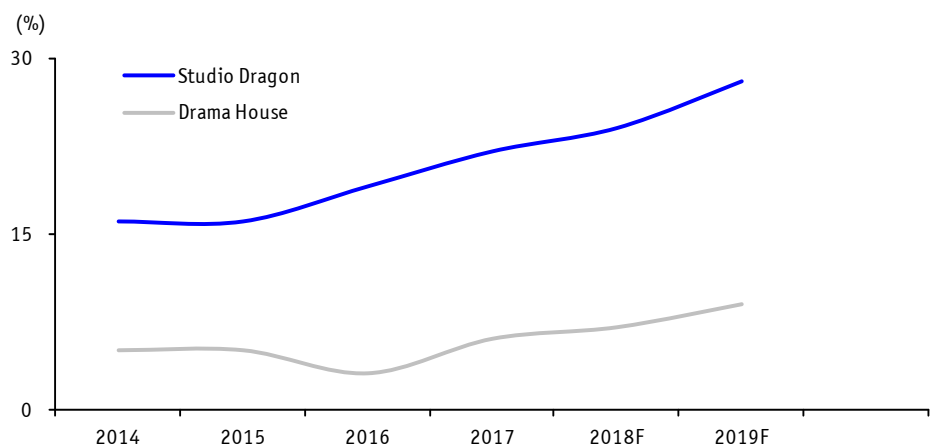
The amount should reach W60bn (+27.7% YoY) in 2019. Our projection is not aggressive considering the increase in drama production and production costs. We assumed production of 31 titles in 2019 (vs. 27 in 2018) and a 25% market share. Thanks to growing revenue from Netflix, the portion of overseas revenue in total distribution (licensing) revenue should rise up to 76.7% (+4.3%p) in 2019.

Overseas distribution revenue



Source: Company data, Shinhan Investment Corp.

Market share of 2 major Korean drama producers



Source: Company data, Shinhan Investment Corp.

Global platforms hold a minimal foothold in China; additional profit contribution to reach W40-50bn per year

Exports to China to resume within June at the earliest and 2H at the latest

3. China: Long wait nearing end

Studio Dragon shares corrected through April-May, with investors disappointed on continued delays in the Chinese government's decision on import quotas for Korean content. The company also posted relatively weaker earnings for 1Q compared with duty free operators and cosmetics companies. Media content are the source of the Korean Wave, and endorsement by celebrities appearing in popular dramas, entertainment shows and films helps to improve the brand competitiveness of Korean consumer goods. As such, the Chinese government's first retaliatory move in response to a rise in uncertainties in Korea-China relations usually centers on blocking the flow of Korean content into the country. Once uncertainties dissipate, media sector shares are typically the last to stage an upturn but tend to enjoy the strongest rally among China-focused stocks. We thus see the recent upturn in share prices of duty free operators and cosmetics companies as a positive sign for the media sector.

As global platforms hold a minimal foothold in China, the expansion of content exports to BAT (Baidu's iQiyi, Alibaba's Youku and Tencent's Tencent Video) is unlikely to eat into current exports to global platforms. With almost all of export revenue booked as operating profit, we expect to see additional profit contribution from exports to Chinese platforms reach W40-50bn per year going forward.

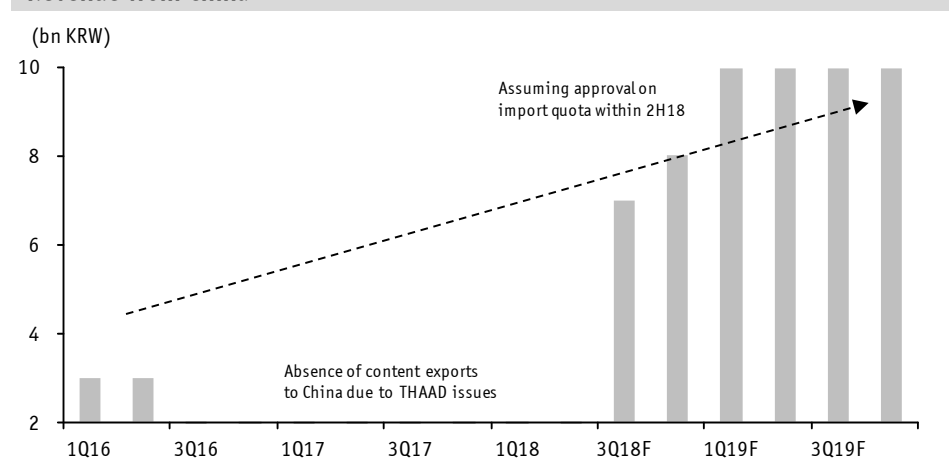
In China, demand for Korean content now exceeds levels seen before companies were hit by THAAD issues. Korean Wave leaders such as Studio Dragon (CJ E&M), JTBC Content Hub (JTBC), and SBS Contents Hub (SBS) are seeing increasing demand from Chinese platforms (BAT) for upcoming releases as well as previously-released content. The Chinese government's approval on import quota for Korean content, which remains the key to an upturn in earnings, is expected in June at the earliest and 2H18 at the latest. Approval of the quota should lead to an immediate increase in drama exports and profit.

Distribution rights of major drama series sold to 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
While You Were Sleeping	75	iHQ	1H18

Source: Media reports, Shinhan Investment Corp.

Revenue from China



Source: Company data, Shinhan Investment Corp.

Consolidated operating profit to come to W10.2bn (+15.2% YoY) in 2Q18, assuming no earnings from China

Operating profit to jump to W45.2bn (+346.5% YoY) in 2H

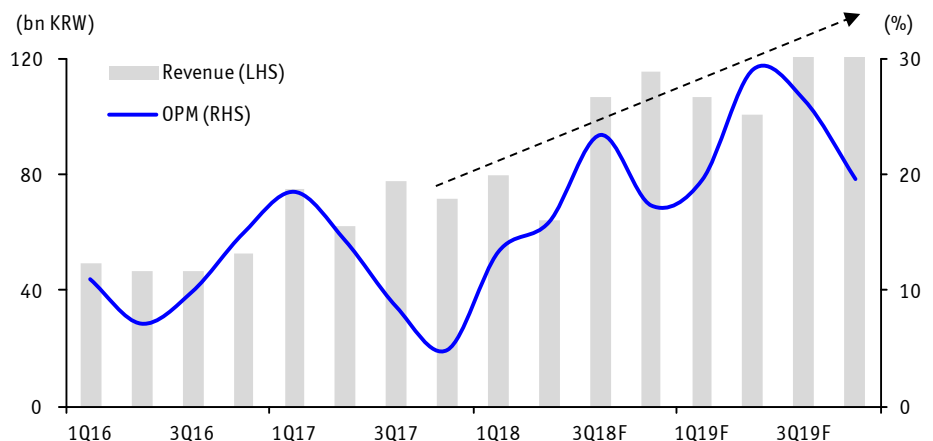
4. Upbeat forecasts for sharp growth in operating profit

We now expect consolidated operating profit to rise by 15.2% YoY to W10.2bn for 2Q. Chinese government approval on the import quota for Korean content within June could lead to a sharp rebound in earnings from China, but we adjusted our forecasts for the timing of the upturn from 2Q to 3Q in reflection of uncertainties at home and abroad. Revised earnings forecasts also take into account the dip in domestic market demand for VODs expected during the 2018 World Cup Russia. Seasonal demand for VODs is likely to pick up toward 2H.

From 3Q, we expect to see sharp improvement in earnings. Operating profit should come to W45.2bn (+346.5% YoY) for 2H on overseas distribution of major dramas. Mr. Sunshine, one of the most anticipated dramas of 2018 slated for release in July, has been drawing much interest from media platforms around the world including China. Written by one of the most influential screenwriters in Korea, Kim Eun-sook, the price tag for the distribution rights to the drama is expected to set new record highs. As such, consolidated operating profit is forecast to jump by 277.2% YoY to W25.1bn in 3Q.

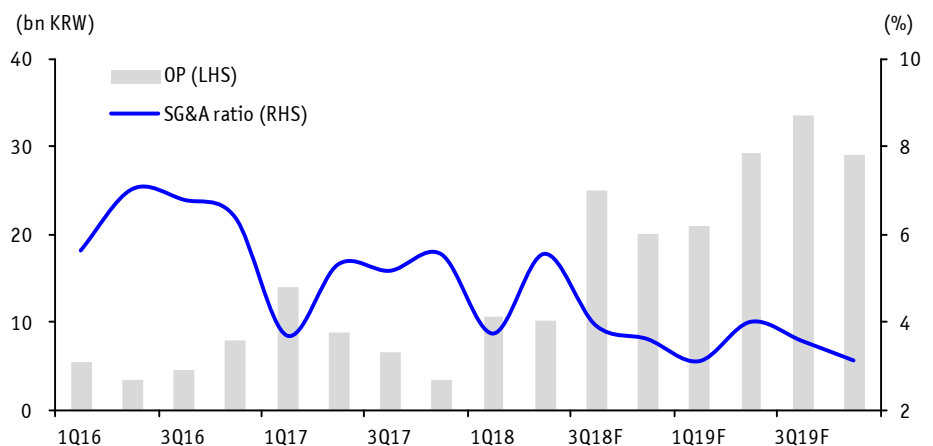
Memories of the Alhambra, the second most anticipated drama series for 2018, should provide an additional boost in 4Q. Base effect should strengthen as operating profit had dropped to W3.5bn (-55.8% YoY) in 4Q17 in the absence of a new drama lineup. In all, consolidated operating profit should surge by 479.2% YoY to W20.1bn in 4Q. Backed by the steady increase in distribution revenue, company-wide SG&A ratio should continue downwards to 4.1% (-0.8%p YoY) for full-year 2018.

Revenue and operating profit margin



Source: Company data, Shinhan Investment Corp.

Operating profit and SG&A ratio



Source: Company data, Shinhan Investment Corp.

Earnings trend and outlook (K-IFRS consolidated)

(bn KRW)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18F	3Q18F	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F	2016	2017	2018F	2019F
<Assumptions for production>																
No. of dramas	5.0	6.0	7.0	4.0	7.0	6.0	7.0	7.0	8.0	7.0	8.0	8.0	19.0	22.0	27.0	31.0
<Earnings estimates>																
Total revenue	75.3	62.1	77.5	71.9	79.9	64.2	106.8	115.8	106.9	100.7	126.8	148.1	195.5	286.8	366.7	482.5
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- Global platforms					0.0	0.0	0.0	0.0	4.0	4.0	0.0	4.0	0.0	0.0	0.0	12.0
Distribution revenue	36.5	26.3	23.3	25.7	32.1	31.0	53.2	51.7	49.1	58.2	70.7	67.3	75.4	111.8	168.0	245.3
Other (PPL) revenue	12.5	11.6	12.4	7.2	7.1	7.1	9.9	9.5	8.0	8.1	9.8	11.1	32.3	43.7	33.6	37.0
<Assumptions for overseas operations>																
Overseas revenue	22.6	16.1	13.1	15.4	22.7	21.6	38.9	38.4	38.0	46.0	53.2	50.9	44.2	67.2	121.7	188.2
Overseas revenue share (%)	30.0	25.9	16.9	21.4	70.8	69.7	73.1	74.3	77.4	79.1	75.3	75.7	58.6	60.1	72.4	76.7
Japan	7.1	4.9	3.2	3.5	3.5	3.6	2.4	3.8	3.7	3.7	2.3	4.4	9.1	18.7	13.4	14.1
Asia including China	12.2	9.0	8.5	10.2	8.9	15.6	16.1	19.3	21.0	34.0	28.5	29.2	32.3	39.9	59.9	112.7
China	0.0	0.0	0.0	0.0	0.0	0.0	7.0	8.0	10.0	10.0	10.0	10.0	6.0	0.0	15.0	40.0
U.S.	3.2	2.1	1.3	1.6	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.2	2.6	8.2	1.0	1.0
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	0.2	0.4	0.4	0.4
COGS	58.6	49.9	66.8	64.4	66.2	50.4	77.5	91.5	82.6	67.3	88.7	114.4	161.7	239.8	285.7	353.0
SG&A costs	2.8	3.3	4.0	4.0	3.0	3.6	4.2	4.2	3.3	4.0	4.5	4.6	12.6	14.1	14.9	16.5
OP	14.0	8.9	6.6	3.5	10.7	10.2	25.1	20.1	21.0	29.4	33.6	29.1	21.2	33.0	66.1	113.1
Pre-tax profit	13.2	9.0	6.4	1.7	10.8	9.7	24.3	19.2	20.2	28.6	32.8	28.3	17.1	30.3	64.0	109.9
NP	13.4	2.8	5.7	2.0	7.9	7.4	18.7	14.8	15.4	21.9	25.1	21.7	13.0	23.8	48.8	84.1
<% YoY growth>																
Total revenue	52.2	32.1	66.7	36.9	6.0	3.4	37.8	61.1	33.8	56.9	18.7	27.9	100.7	46.7	27.9	31.6
OP	157.3	165.9	44.7	(55.8)	(23.7)	15.2	277.2	479.2	96.7	187.1	34.0	44.8	716.2	55.4	100.4	71.1
NP	306.9	57.3	96.3	(60.5)	(41.3)	165.4	230.6	639.8	96.6	194.8	34.0	46.5	801.1	83.3	104.6	72.4
<Profitability, %>																
OPM	18.5	14.3	8.6	4.8	13.3	16.0	23.5	17.4	19.6	29.2	26.5	19.7	10.9	11.5	18.0	23.4
NPM	17.8	4.5	7.3	2.8	9.8	11.6	17.5	12.8	14.5	21.8	19.8	14.6	6.7	8.3	13.3	17.4

Source: Company data, Shinhan Investment Corp.

Note: 1) Quarterly earnings before 2016 are SHIC estimates based on annual figures (quarterly data not available)

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

3) Global production revenue forecasts for 2019 are in net terms

4) Distribution rights sales from Netflix included in overseas distribution revenue

Earnings forecast revision (K-IFRS consolidated)

(bn KRW)	2018F			2019F		
	Before	After	Change (%)	Before	After	Change (%)
Total revenue	364.6	366.7	0.6	478.8	482.5	0.8
OP	62.4	66.1	5.9	106.7	113.1	6.0
NP	46.4	48.8	5.1	79.8	84.1	5.4

Source: Shinhan Investment Corp.

Studio Dragon shares trading at a 2019F PER of 32x, near average levels recorded by China-focused consumer stocks despite forecasts for stronger top-line growth

Valuation: Studio Dragon deserves to trade at one of the highest valuation multiples among China-focused consumer stocks

Hotel Shilla and AmorePacific, two key stocks that rely on Chinese demand, are currently trading at an average 2018F PER of 39x and 2019F PER of 31x. Studio Dragon's share valuations seem expensive at a 2018F PER of 55x with earnings in China yet to recover, but 2019F PER stands at just 32x (similar to levels recorded by the duty free operator and cosmetics company) based on conservative forecasts for earnings in China.

For full-year 2018, we expect Studio Dragon to post 27.9% YoY growth in consolidated revenue and over-100% YoY growth in operating profit, despite relatively weak performance in 1H. In 2019, growth in revenue and operating profit should reach up to 31.6% and 71.1% YoY, respectively. The company's top-line growth should outpace that of Hotel Shilla (+7.2% YoY) and AmorePacific (+12.1% YoY). While uncertainties remain in quarterly earnings as a content provider, we expect Studio Dragon to enjoy stronger earnings leverage backed by its IP assets.

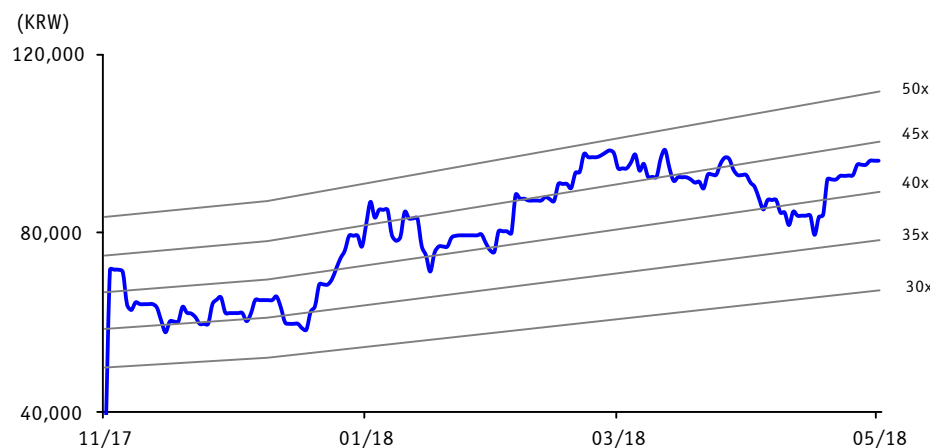
PER valuation based on 2019F EPS: Target price of W132,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2018F NP	48.8	2019F NP	84.1	2019F NP	99.0
EPS (KRW)	1,740	EPS (KRW)	3,000	EPS (KRW)	3,532
Target price (KRW)	77,000	Target price (KRW)	132,000	Target price (KRW)	156,000
Target PER (x)	44	Target PER (x)	44	Target PER (x)	44
		Current price	96,200		
		Estimated PER	32.1		

Source: Shinhan Investment Corp.

Note: Target multiple reflects 20% premium to the upper-end of Jcontentree's past 3-year average PER to reflect Studio Dragon's dominant market share in content production and accelerating growth in distribution rights sales/profits from Netflix. Studio Dragon share price could start to move in tandem with Netflix as the inflow of global production orders rises in earnest.

12-month forward PER



Source: Bloomberg, Shinhan Investment Corp.

2018 earnings estimates

(bn KRW)	2Q18F	1Q18	% QoQ	2Q17	% YoY	Previous	Consensus
Total revenue	64.2	79.9	(19.6)	62.1	3.4	75.7	77.5
OP	10.2	10.7	(4.7)	8.9	15.2	14.8	11.8
NP	7.4	7.9	(6.3)	2.8	165.4	11.1	9.3
OPM (%)	16.0	13.3		14.3		19.6	15.2
NPM (%)	11.6	9.8		4.5		14.6	12.0

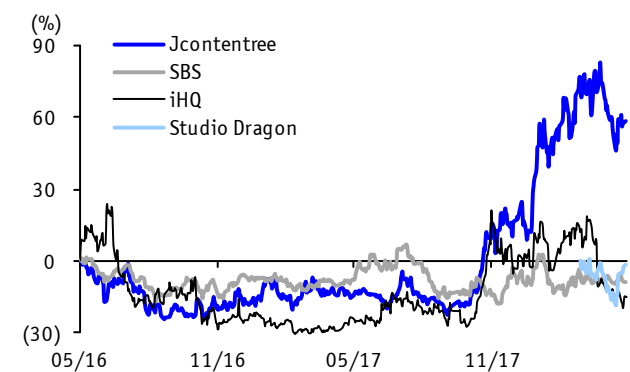
Source: Company data, FnGuide, Shinhan Investment Corp.



Global peers									
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)		837.3	307.8	245.8	113.1	167,112.5	79,586.4	4,205.4	3,415.9
Sales	2017	420.3	126.8	125.7	105.9	63,067.6	35,357.0	657.4	874.9
(bn KRW)	2018F	549.1	138.7	-	-	63,839.1	35,184.3	786.2	1,123.6
	2019F	624.8	160.7	-	-	66,365.0	36,615.0	932.3	1,344.8
OP	2016	33.3	15.3	6.6	7.7	15,756.3	8,954.9	56.4	137.2
(bn KRW)	2017F	57.7	17.8	-	-	16,402.6	9,217.6	185.5	152.6
	2018F	76.9	26.5	-	-	16,373.5	9,770.8	226.2	203.2
OPM	2016	7.9	12.1	5.3	7.3	25.0	25.3	8.6	15.7
(%)	2017F	10.5	12.8	-	-	25.7	26.2	23.6	13.6
	2018F	12.3	16.5	-	-	24.7	26.7	24.3	15.1
NP	2016	6.4	2.5	4.4	4.9	10,271.6	5,932.6	138.7	106.2
(bn KRW)	2017F	30.5	15.1	-	-	11,955.5	6,922.6	175.7	133.1
	2018F	40.0	18.0	-	-	11,943.5	7,008.0	207.7	172.8
Sales growth	2016	25.4	15.9	52.2	326.3	(2.3)	3.9	8.0	-
(% YoY)	2017F	30.6	9.4	-	-	1.2	(0.5)	19.6	28.4
	2018F	13.8	15.9	-	-	4.0	4.1	18.6	19.7
EPS growth	2016	(66.6)	(41.9)	309.4	(298.2)	(1.9)	30.8	(0.9)	-
(% YoY)	2017F	368.5	474.8	-	-	19.4	14.0	25.6	-
	2018F	31.2	19.0	-	-	6.8	2.1	13.7	-
PER	2016	95.8	141.1	69.7	19.6	17.3	12.2	29.1	30.1
(x)	2017F	27.5	20.3	-	-	14.4	11.8	24.0	25.6
	2018F	21.0	17.1	-	-	13.5	11.5	21.1	20.1
PBR	2016	3.9	1.6	2.3	1.3	3.6	2.5	2.5	2.8
(x)	2017F	4.5	1.3	-	-	3.4	2.1	2.3	2.6
	2018F	3.7	1.2	-	-	3.1	1.8	2.1	2.3
EV/EBITDA	2016	14.1	4.6	32.1	9.8	10.5	10.7	62.6	-
(x)	2017F	11.9	11.0	-	-	10.0	10.1	24.0	21.3
	2018F	10.0	8.2	-	-	10.1	9.6	20.5	16.2
ROE	2016	5.3	1.1	3.3	7.2	21.2	19.9	8.9	9.6
(%)	2017F	17.9	6.5	-	-	25.1	19.9	9.8	10.5
	2018F	20.1	7.2	-	-	23.0	17.8	10.6	12.4

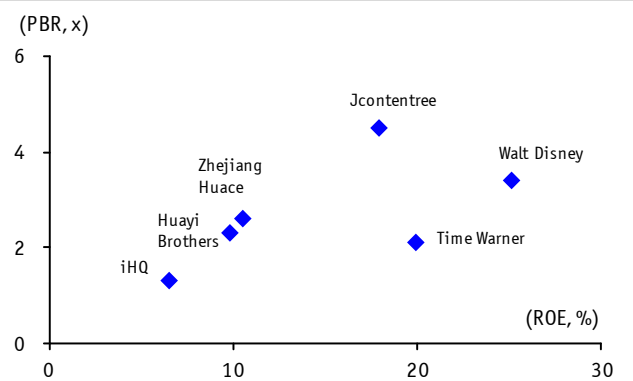
Source: Bloomberg, Shinhan Investment Corp.

Relative share performance vs. content provider peers



Source: Bloomberg, Shinhan Investment Corp.

2018F PBR and ROE vs. content provider peers



Source: Bloomberg, Shinhan Investment Corp.

Balance Sheet

Year to Dec. (W bn)	2016	2017	2018F	2019F	2020F
Assets	242.0	459.5	510.1	595.3	695.5
Total Current Assets	81.4	289.8	338.3	419.4	515.2
Cash and Cash Equivalents	11.5	51.3	62.8	100.2	143.2
Accounts Receivables	37.0	54.9	79.4	110.7	146.7
Inventories	0.0	1.3	1.7	2.2	2.6
Non-Current Assets	160.6	169.6	171.8	175.9	180.4
Tangible Assets	1.2	1.1	1.0	1.0	1.0
Intangible Assets	123.9	127.5	128.7	131.4	134.7
Investment Assets	2.3	3.8	4.9	6.4	7.5
Other Financial Institutions Assets	0.0	0.0	0.0	0.0	0.0
Liabilities	105.9	91.0	92.9	94.1	95.2
Current Liabilities	84.5	90.7	92.5	93.6	94.6
ST Borrowings	8.1	0.0	0.0	0.0	0.0
Account Payables	5.8	6.1	6.4	6.7	7.0
Current Portion of LT Debt	0.0	10.0	10.0	10.0	10.0
Non-Current Liabilities	21.4	0.3	0.4	0.5	0.6
Bonds	19.9	0.0	0.0	0.0	0.0
LT Borrowings(incl. LT Fin. Liab.)	0.0	0.0	0.0	0.0	0.0
Other Financial Institutions Liab.	0.0	0.0	0.0	0.0	0.0
Shareholders' Equity	136.1	368.4	417.2	501.3	600.3
Capital Stock	11.0	14.0	14.0	14.0	14.0
Capital Surplus	114.7	319.6	319.6	319.6	319.6
Other Reserves	2.0	2.7	2.7	2.7	2.7
Accu. Other Comp. Income	0.0	0.0	0.0	0.0	0.0
Retained Earnings	8.3	32.1	80.9	165.0	264.0
Owners of Parent Equity	136.1	368.4	417.2	501.3	600.3
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0	0.0
*Total Debt	28.1	10.0	10.0	10.0	10.0
*Net Debts(Cash)	16.4	(182.2)	(201.3)	(245.9)	(296.4)

Cash Flow

Year to Dec. (W bn)	2016	2017	2018F	2019F	2020F
Operating Cash Flow	(12.4)	(7.2)	88.5	118.4	127.5
Net Profit	8.1	23.8	48.8	84.1	99.0
Depreciation	0.2	0.3	0.3	0.3	0.3
Amortization	22.0	41.0	67.1	69.8	73.1
Losses(Gains) on F/X Translation	0.3	0.8	0.0	0.0	0.0
Losses(Gains) on Disp. of Assets	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Losses(Gains) in Asso., Subs., JVs	0.0	0.0	0.0	0.0	0.0
Chg. in A/L from Op. Activities	(46.1)	(72.9)	(27.5)	(35.3)	(44.1)
(Payments of Income Taxes)	(1.7)	(10.4)	(15.2)	(25.8)	(30.4)
Others	4.8	10.2	15.0	25.3	29.6
Investing Cash Flow	(69.5)	(141.0)	(76.1)	(80.1)	(83.7)
Incr. in Tangible Assets(CAPEX)	(1.1)	(0.1)	(0.4)	(0.3)	(0.4)
Decr. in Tangible Assets	0.0	0.1	0.1	0.1	0.1
Decr.(Incr.) in Intangible Assets	(0.1)	(0.2)	(68.3)	(72.4)	(76.4)
Decr.(Incr.) in Investment Assets	(0.3)	0.0	(1.1)	(1.5)	(1.1)
Others	(68.0)	(140.8)	(6.4)	(6.0)	(5.9)
Free Cash Flow	N/A	43.6	89.8	120.8	129.3
Financing Cash Flow	93.5	188.1	(0.9)	(0.9)	(0.9)
Incr.(Decr.) in Borrowing	27.2	(18.1)	0.0	0.0	0.0
Decr.(Incr.) of Treasury Stock	0.0	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0
Others	66.3	206.2	(0.9)	(0.9)	(0.9)
Other Cash Flows	0.0	0.0	0.1	(0.1)	0.1
Change of Consolidated Scope	0.0	0.0	0.0	0.0	0.0
Difference by Chg. in F/X Rates	(0.0)	(0.1)	0.0	0.0	0.0
Incr.(Decr.) in Cash	11.5	39.8	11.5	37.3	43.1
Beginning Cash	0.0	11.5	51.3	62.9	100.2
Ending Cash	11.5	51.3	62.9	100.2	143.2

Source: Company data, Shinhan Investment Corp.

Profit and Loss

Year to Dec. (W bn)	2016	2017	2018F	2019F	2020F
Sales	154.4	286.8	366.7	482.5	567.0
Growth (%)	N/A	85.7	27.9	31.6	17.5
COGS	132.8	239.7	285.7	353.0	416.2
Gross Profit	21.6	47.1	81.0	129.6	150.8
Gross margin (%)	14.0	16.4	22.1	26.9	26.6
SG&A	5.0	14.2	14.9	16.5	19.4
Operating Income	16.6	33.0	66.1	113.1	131.4
Growth (%)	N/A	98.3	100.4	71.1	16.2
Operating margin (%)	10.8	11.5	18.0	23.4	23.2
Other Net Non-Operating Profits	(6.1)	(2.7)	(2.1)	(3.1)	(2.0)
Financial Income(Expenses)	(1.1)	(2.5)	(0.8)	(0.2)	0.1
Net Other Non-Operating Profits	(5.0)	(0.2)	(1.2)	(3.0)	(2.1)
Net Gains in Asso., Subs., and JVs	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit from Cont. Op.	10.5	30.3	64.0	109.9	129.4
Income Taxes	2.4	6.4	15.2	25.8	30.4
Profit from Continuing Op.	8.1	23.8	48.8	84.1	99.0
Profit from Discontinued Op.	0.0	0.0	0.0	0.0	0.0
Net Profit	8.1	23.8	48.8	84.1	99.0
Growth (%)	N/A	192.9	104.6	72.4	17.7
Net Profit margin (%)	5.3	8.3	13.3	17.4	17.5
Net Profit of Parent	8.1	23.8	48.8	84.1	99.0
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0	0.0
Total Comprehensive Income	8.3	23.8	48.8	84.1	99.0
Total Comp. Income of Parent	8.3	23.8	48.8	84.1	99.0
Total Comp. Income to Non-Cont.	0.0	0.0	0.0	0.0	0.0
EBITDA	38.8	74.3	133.5	183.1	204.8
Growth (%)	N/A	91.4	79.7	37.2	11.8
EBITDA Margin (%)	25.1	25.9	36.4	37.9	36.1

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

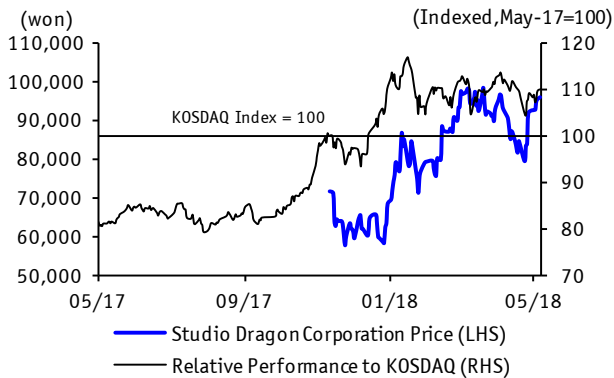
Key Ratios

Year to Dec.	2016	2017	2018F	2019F	2020F
EPS_C (won)	569	1,050	1,740	3,000	3,532
EPS_P (won)	569	1,050	1,740	3,000	3,532
BPS_C (won)	6,176	13,141	14,881	17,881	21,412
BPS_P (won)	6,176	13,141	14,881	17,881	21,412
DPS (won)	0	0	0	0	0
PER_C (x)	0.0	61.9	55.3	32.1	27.2
PER_P (x)	0.0	61.9	55.3	32.1	27.2
PBR_C (x)	0.0	4.9	6.5	5.4	4.5
PBR_P (x)	0.0	4.9	6.5	5.4	4.5
EV/EBITDA (x)	0.4	22.1	18.7	13.4	11.7
Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	N/A	0.0	0.0	0.0	0.0
Profitability					
EBITDA Margin (%)	25.1	25.9	36.4	37.9	36.1
OP Margin (%)	10.8	11.5	18.0	23.4	23.2
NP Margin (%)	5.3	8.3	13.3	17.4	17.5
ROA (%)	3.4	6.8	10.1	15.2	15.3
ROE (%)	6.0	9.5	12.4	18.3	18.0
ROIC (%)	N/A	17.9	31.5	44.7	42.6
Stability					
D/E Ratio (%)	77.8	24.7	22.3	18.8	15.9
Net Debt to Equity (%)	12.1	(49.4)	(48.2)	(49.0)	(49.4)
Cash Ratio (%)	13.6	56.6	67.9	107.1	151.5
Interest Coverage (x)	19.5	19.0	72.4	123.9	144.1
Activity (%)					
Working Capital Turnover (t)	(23.5)	55.2	11.9	7.8	5.6
Inventory Turnover (d)	-	0.8	1.5	1.4	1.5
Receivable Turnover (d)	87.4	58.5	66.8	71.9	82.9

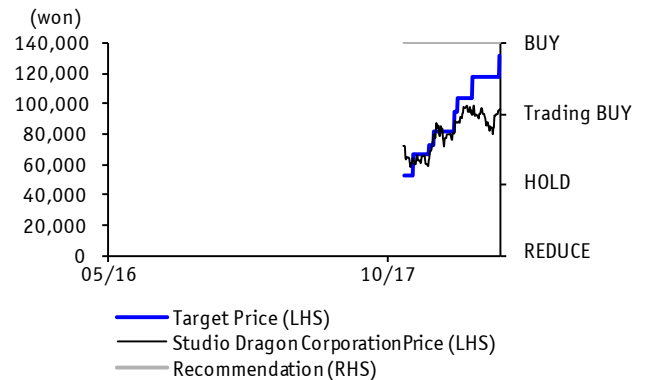
Source: Company data, Shinhan Investment Corp.

Studio Dragon (253450 KS)

Share Price Performance



Target Price



Compliance Notice

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Date	Recommendation	Target Price (won)	Target Price Gap (%)	
			Average	Max/Min
2017.11.23	BUY	53,000	20.8	35.5
2017.12.10	BUY	67,000	(6.9)	(1.8)
2018.01.09	BUY	73,000	(6.2)	1.9
2018.01.18	BUY	82,000	(3.3)	6.1
2018.02.26	BUY	95,000	(7.5)	(6.7)
2018.03.04	BUY	104,000	(9.9)	(5.3)
2018.04.01	BUY	118,000	(23.0)	(16.4)

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 May. 21, 2018)

BUY (BUY)	93.18%	Trading BUY (HOLD)	4.55%	HOLD (HOLD)	2.27%	REDUCE (SELL)	0%
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