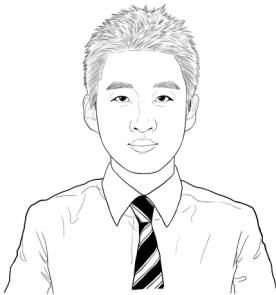


2018. 8. 9

Company Update



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AT A GLANCE

SELL HOLD **BUY**

Target price KRW140,000 (45.8%)

Current price KRW96,000
Market cap KRW2.7T/USD2.4b
Shares (float) 28,037,240 (23.9%)
52-week high/low KRW119,800/KRW57,800
Avg daily trading value (60-day) KRW22.9b/USD20.4m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	-11.6	27.0	n/a
Vs Kosdaq (%pts)	-8.8	39.6	n/a

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	140,000	140,000	0.0%
2018E EPS	1,491	1,441	3.5%
2019E EPS	2,398	2,391	0.3%

SAMSUNG vs THE STREET

No of estimates	12
Target price	133,500
Recommendation	3.9

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

Studio Dragon (253450)

Content quality improving

- Studio Dragon's 2Q operating profit fell 17.6% y-y to KRW7.3b—missed consensus by 22.1%—mainly due to a high base (from booking Goblin copyright sales in 2Q17) and absence of tent-pole dramas.
- Nonetheless, domestic copyright sales grew well thanks to stable performances from dramas. We believe the Studio Dragon prioritized quality over quantity in 2Q.
- We maintain our BUY rating and target price of KRW140,000 on the prospect of stronger earnings momentum in 2H based on several tent-pole dramas.

WHAT'S THE STORY?

2Q review: Studio Dragon's 2Q operating profit fell 17.6% y-y to KRW7.3b, missing consensus of KRW9.4b by 22.1%. The decline is attributable to a high base (from booking Goblin copyright sales in 2Q17) and an absence of tent-pole dramas. Sales jumped 19.6% y-y as drama numbers increased and productions grew in size, and operating margin fell 4.4%pts y-y to 9.9% as the lucrative overseas portion of copyright sales declined. Meanwhile, net profit shot up y-y on forex-valuation gains of around KRW3.5b.

Content quality improving: Operating leverage from the sale of copyrights overseas did not appear in 2Q, but there is no doubt that the quality of Studio Dragon's content improved. Domestic copyright sales leapt 21.1% y-y, and the firm's overall drama lineup (which includes *Lawless Lawyer* and *What's Wrong with Secretary Kim?*) enjoyed stable ratings. Content competitiveness is the most important barometer of long-term growth momentum, so it is no surprise that the company prioritized quality over quantity in 2Q.

Earnings momentum to pick up steam in 2H: We maintain our BUY rating on Studio Dragon and reiterate our target price of KRW140,000. Its content has been performing fairly well in 3Q, and we expect its overseas copyright sales to gain ground, backed by tent-pole dramas including *Mr. Sunshine* and *Memories of the Alhambra*. We see additional upside in 2H from: 1) the popularity of *Mr. Sunshine*; 2) the conclusion of a production contract for a Netflix Original Series drama; and 3) the signing of contracts with Chinese OTT operators.

SUMMARY OF 2Q RESULTS

(KRWb)	2Q18	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	74	19.6	(7.0)	16.3	6.4
Operating profit	7	(17.6)	(31.5)	(21.3)	(22.1)
Pre-tax profit	11	23.0	12.4	17.4	17.5
Net profit	9	217.4	29.4	25.9	9.7
Margins (%)					
Operating profit	9.9				
Pre-tax profit	14.9				
Net profit	12.0				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2017	2018E	2019E
Multiples (x)			
P/E	91.4	64.4	40.0
P/B	7.3	6.6	5.6
EV/EBITDA	33.8	21.0	13.3
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	84.5	42.0	60.8
ROE (%)	9.5	10.7	15.1
Per-share data (KRW)			
EPS	1,050	1,491	2,398
BVPS	13,141	14,633	17,030
DPS	0	0	0

Table 1. 2Q results

(KRWb)	2Q18			Diff (%)		2Q17	1Q18	Chg	
	Actual	Samsung	Consensus	Samsung	Consensus			(% y-y)	(% q-q)
Sales	74	64	70	16.3	6.4	62	80	19.6	(7.0)
Broadcasting rights	34	27	n/a	n/a	n/a	24	41	41.1	(16.3)
Copyright sales	29	29	n/a	n/a	n/a	26	32	9.5	(10.2)
Other	11	7	n/a	n/a	n/a	12	7	(1.9)	60.7
COGS	64	51	n/a	n/a	n/a	50	66	27.6	(3.9)
SG&A costs	3	4	n/a	n/a	n/a	3	3	0.2	10.7
Operating profit	7	9	9	(21.3)	(22.1)	9	11	(17.6)	(31.5)
Pre-tax profit	11	9	9	17.4	17.5	9	10	23.0	12.4
Net profit	9	7	8	25.9	9.7	3	7	217.4	29.4
Margins (%)									
Operating margin	9.9	14.6	13.5			14.3	13.4		
Pre-tax margin	14.9	14.7	13.5			14.5	12.3		
Net margin	12.0	11.0	11.6			4.5	8.6		






Source: Company data, FnGuide, Samsung Securities estimates

Table 2. Forecast revisions

(KRWb)	2018E					2019E				
	Old	New	Chg (%)	Consensus	Diff (%)	Old	New	Chg (%)	Consensus	Diff (%)
Sales	378	396	4.8	382	3.7	499	556	11.5	508	9.4
COGS	307	325	5.7	301	7.9	390	448	14.9	389	15.1
SG&A costs	17	16	(4.0)	14	10.9	20	19	(4.0)	14	38.0
Operating profit	54	55	2.4	67	(17.0)	89	89	0.2	106	(15.6)
Pre-tax profit	54	59	8.4	67	(12.6)	90	90	0.6	107	(15.8)
Net profit	40	44	10.0	51	(14.0)	67	68	0.6	82	(17.9)
EBITDA	114	118	3.3	115	2.0	173	181	4.6	159	13.8
Adj. EPS (KRW)	1,441	1,570	8.9	1,834	(14.4)	2,391	2,411	0.8	2,945	(18.1)
Margins (%)										
Operating margin	14.3	14.0		17.4		17.9	16.1		20.8	
Pre-tax margin	14.3	14.8		17.5		18.0	16.2		21.0	
Net margin	10.6	11.1		13.4		13.5	12.2		16.2	
EBITDA margin	30.2	29.7		30.2		34.6	32.5		31.2	

Source: Samsung Securities estimates

Table 3. 2Q drama lineup

Title	Live	My Mister	Lawless Lawyer	Secretary Kim	Life on Mars
					
Premier	Mar 2018	Mar 2018	May 2018	Jun 2018	Jun 2018
Writer	Hee-kyung Noh	Hae-young Park	Hyun-ho Yun	Seon-woo Baek, Bo-rim Choi	Dae-il Lee
Production	GT:st	Chorokbaem	Logos Film	Bon Factory	Production H
Cast	Yu-mi Jeong, Gwang-soo Lee, Sung-woo Bae	Seun-kyun Lee, Ji-eun Lee	Jun-ki Lee, Ye-ji Seo, Hye-young Lee	Seo-jun Park, Min-young Park	Kyung-ho Jeong, Sung-woong Park, Ah-sung Koh
Ratings	Average 5.5%; High 7.1%	Average 5%; High 7.4%	Average 6.1%; High 8.9%	Average 7.5%; High 8.7%	Average 4%; High 5.9%

Source: Company data, AGB Nielson, Samsung Securities

Table 4. 3Q drama lineup

Title	Air dates	Channel
Mr. Sunshine	Jul 7-Sep 30	tvN
Familiar Wife	Aug 1-Sep 20	tvN
Voice 2	Aug 11-Sep 16	OCN
Hundred Days' Husband	Sep 10-Oct 30	tvN
Hand: The Guest	Sep 12-Nov 1	OCN
Player	Sep 29-Nov 11	OCN

Source: Company data, Samsung Securities

2Q earnings conference call: Key takeaways

Q: Why the q-q surge in financial income?

Studio Dragon recorded financial income of KRW33.7b, a steep q-q rise from 1Q's KRW600m. This was primarily thanks to forex translation gains associated with overseas copyright sales.

Q: Drama lineup for 2H?

Promising dramas the firm has released/plans to release in 3Q include *Mr. Sunshine*, *Familiar Wife*, *Hundred Days' Husband*, and *Voice 2*. Releases scheduled for 4Q include *Boyfriend* and *Memories of the Alhambra*. Copyright sales negotiations with overseas OTT operators are proceeding smoothly.

Table 5. Results and forecasts

(KRWb)	2017	2018E	2019E	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Sales	287	396	556	75	62	77	72	80	74	124	118	132	143	131	149
Broadcasting	131	176	224	26	24	42	39	41	34	48	53	55	56	51	61
Copyright sales	112	178	280	36	26	23	26	32	29	64	53	64	74	67	74
Other	44	42	52	13	12	12	7	7	11	12	12	12	13	13	14
Cost of goods sold	240	325	448	59	50	67	64	66	64	97	99	104	115	104	124
Production	210	286	390	49	42	60	58	59	56	83	87	90	100	90	109
Commission	17	27	42	5	4	3	4	5	4	10	8	10	11	10	11
Other	13	13	16	4	3	4	2	2	3	4	4	4	4	4	4
Gross profit	47	71	108	17	12	11	7	14	11	27	20	28	28	27	25
SG&A	14	16	19	3	3	4	4	3	3	5	5	4	4	6	6
Operating profit	33	55	89	14	9	7	3	11	7	22	15	24	24	21	20
Pre-tax profit	30	59	90	13	9	6	2	10	11	22	15	25	24	21	20
Net profit	24	44	68	13	3	6	2	7	9	17	11	18	18	16	15
Adjusted EPS (KRW)	851	1,570	2,411												
Margins (%)															
Operating margin	11.5	14.0	16.1	18.5	14.3	8.6	4.8	13.4	9.9	18.0	12.7	18.5	16.8	16.1	13.2
Pre-tax margin	10.6	14.8	16.2	17.6	14.5	8.2	2.3	12.3	14.9	18.2	12.8	18.6	16.9	16.3	13.3
Net margin	8.3	11.1	12.2	17.8	4.5	7.3	2.8	8.6	12.0	13.6	9.6	14.0	12.7	12.2	10.0

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Sales	154	287	396	556	730
Cost of goods sold	133	240	325	448	597
Gross profit	22	47	71	108	133
Gross margin (%)	14.0	16.4	18.0	19.5	18.2
SG&A expenses	5	14	16	19	23
Operating profit	17	33	55	89	110
Operating margin (%)	10.8	11.5	14.0	16.1	15.1
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	56	90	117
Taxes	2	6	14	22	30
Effective tax rate (%)	22.4	21.2	24.8	25.0	25.9
Profit from continuing operations	8	24	42	67	87
Profit from discontinued operations	0	0	0	0	0
Net profit	8	24	42	67	87
Net margin (%)	5.3	8.3	10.6	12.1	11.9
Net profit (controlling interests)	8	24	42	67	87
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	39	74	118	181	239
EBITDA margin (%)	25.1	25.9	29.7	32.5	32.8
EPS (parent-based) (KRW)	569	1,050	1,491	2,398	3,102
EPS (consolidated) (KRW)	569	1,050	1,491	2,398	3,102
Adjusted EPS (KRW)*	569	1,050	1,491	2,398	3,102

Cash flow statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	(12)	(7)	127	193	253
Net profit	8	24	42	67	87
Non-cash profit and expenses	27	46	73	108	153
Depreciation	0	0	0	0	0
Amortization	22	41	63	91	129
Other	5	5	10	17	23
Changes in A/L from operating activities	(46)	(73)	26	40	44
Cash flow from investments	(70)	(141)	(99)	(122)	(160)
Change in tangible assets	(1)	(0)	0	0	0
Change in financial assets	(2)	(142)	(8)	(10)	(10)
Other	(66)	1	(91)	(112)	(150)
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	11	72	94
Cash at beginning of year	0	12	51	62	134
Cash at end of year	12	51	62	134	228
Gross cash flow	35	70	115	176	239
Free cash flow	(14)	(7)	41	76	96

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	313	397	504
Cash & equivalents	12	51	62	134	228
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	203	231	260
Investment assets	2	4	5	7	10
Tangible assets	1	1	1	1	1
Intangible assets	124	128	151	176	204
Other long-term assets	33	37	46	46	46
Total assets	242	459	516	628	764
Current liabilities	84	91	105	150	199
Accounts payable	6	6	8	12	15
Short-term debt	8	0	(7)	(7)	(7)
Other current liabilities	71	85	103	145	190
Long-term liabilities	21	0	0	1	1
Bonds & long-term debt	20	0	0	0	0
Other long-term liabilities	2	0	0	1	1
Total liabilities	106	91	105	151	200
Owners of parent equity	136	368	410	477	564
Capital stock	11	14	14	14	14
Capital surplus	115	320	320	320	320
Retained earnings	8	32	74	141	228
Other	2	3	3	3	3
Non-controlling interests' equity	0	0	0	0	0
Total equity	136	368	410	477	564
Net debt	16	(182)	(216)	(296)	(397)

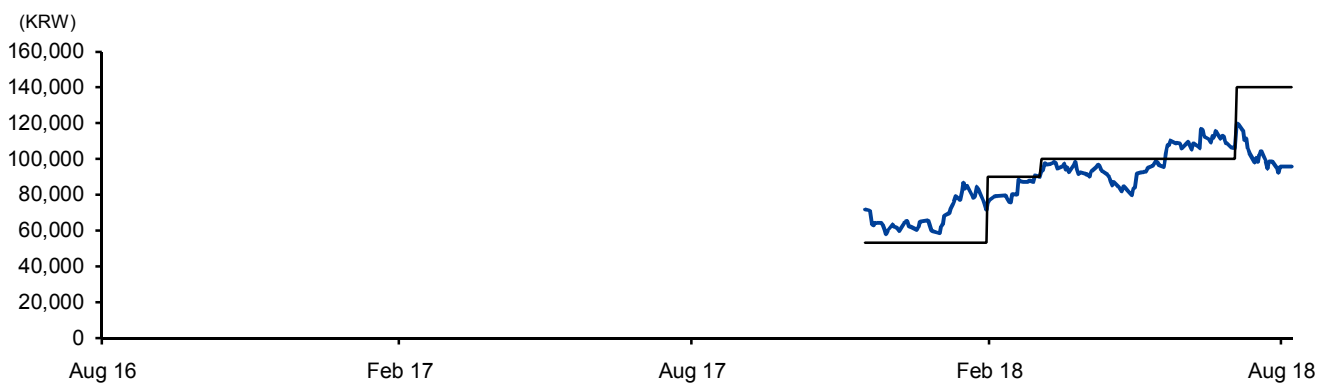
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	nm	85.7	38.1	40.3	31.2
Operating profit	nm	98.3	67.6	61.6	23.2
Net profit	nm	192.9	75.4	60.8	29.4
Adjusted EPS**	nm	84.5	42.0	60.8	29.4
Per-share data (KRW)					
EPS (parent-based)	569	1,050	1,491	2,398	3,102
EPS (consolidated)	569	1,050	1,491	2,398	3,102
Adjusted EPS**	569	1,050	1,491	2,398	3,102
BVPS	6,176	13,141	14,633	17,030	20,132
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	168.7	91.4	64.4	40.0	31.0
P/B***	15.5	7.3	6.6	5.6	4.8
EV/EBITDA	69.8	33.8	21.0	13.3	9.6
Ratios (%)					
ROE	6.0	9.5	10.7	15.1	16.7
ROA	3.4	6.8	8.6	11.8	12.5
ROIC	8.5	15.6	22.5	37.1	49.4
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)	(52.8)	(62.0)	(70.4)
Interest coverage (x)	19.5	19.0	346.8	(150.5)	(185.4)

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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	7/12
Recommendation	BUY	BUY	BUY	BUY
Target price (KRW)	53,000	90,000	100,000	140,000
Gap* (average)	29.29	(7.62)	(1.06)	
(max or min)**	64.15	1.11	17.10	

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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Industry

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