

# Studio Dragon (253450.KQ)

## Drama quality beginning to shine

Company Comment | Oct 5, 2018

Studio Dragon is beginning to evidence the improved quality of its dramas. Positives for the firm's distribution sales include: 1) the elevated status of its captive TV channels (tvN and OCN) as drama channels; and 2) global OTT players' likely greater demand for youth-oriented melodramas. We maintain Studio Dragon as our sector top pick.

### 3Q18 preview: Drama lineup showing improved quality

On a consolidated basis, we expect Studio Dragon to post 3Q18 sales of W108.7bn (+40.3% y-y) and OP of W24.0bn (+256.4% y-y). Thanks to the strong performance of its 3Q18 tent-pole drama Mr. Sunshine and increasing average viewership for its non-tent-pole dramas (eg, Familiar Wife and Dear Husband of 100 Days), the company is beginning to evidence the improved quality of its dramas.

The 3Q18 tent-pole drama Mr. Sunshine recorded a peak viewership rating of 18.1% (second for the firm only to Goblin (2017)). Thanks to its high average viewership rating, the series is likely to contribute around W10.0bn to the company's 3Q18 OP, enjoying high video-on-demand (VOD) and product placement (PPL) revenue. In terms of non-tent-pole dramas, although increasing average viewership should prove positive to overall distribution sales, the contribution to OPM is likely to be limited by rising average production costs.

### Two factors to drive quantity growth

Over the near term, we anticipate seeing a stronger influence being exerted by captive channels. Thanks to the growing quality of Studio Dragon's drama content, the company's captive channels are enjoying elevated status as drama channels—a shift evidenced by the success of new 4Q18 OCN drama Player. Now being aired on OCN (one of the firm's captive channels which previously suffered low viewership ratings), Player recorded a viewership rating of 4.9% for its second episode and 4.5% for its first, figures that far exceed those for previous OCN dramas. Also, we expect to see a sales volume increase from a new drama slot added to OliveTV (a new captive channel) from Nov 2018.

Looking at the mid/long term, global OTT players are to face a greater need to diversify their content. Netflix's recent announcement of two upcoming youth-oriented original melodramas (following its first Korean original series Kingdom) appears to signal a shift towards the demands of a target Asian demographic. Accordingly, we expect global OTT players to extend their drama lineups to include youth-oriented melodramas, a genre which has up until now been somewhat ignored by global OTT companies.

### To benefit greatly in OTT industry expansion era

With competition among global OTT players (eg, Netflix, Amazon, Youtube, and Disney) heating up, Studio Dragon's solid competitive edge in content that appeals to the Asian market is likely to position the firm as a major beneficiary in the current OTT expansion period. Accordingly, we maintain Studio Dragon as our top pick for the content industry.

## Buy (maintain)

<b>TP</b>	<b>W150,000 (maintain)</b>			
<b>CP (2018/10/04)</b>	<b>W110,400</b>			
<b>Sector</b>	<b>Entertainment</b>			
Kospi/Kosdaq	2,274.49 / 789.00			
Market cap (common)	US\$2,738.7mn			
Outstanding shares (common)	28.0mn			
52W high ('18/07/12)	W119,800			
low ('17/12/07)	W57,800			
Average trading value (60D)	US\$19.1mn			
Dividend yield (2018E)	0.00%			
Foreign ownership	2.1%			
<b>Major shareholders</b>				
CJ ENM & 3 others	75.7%			
<b>Share perf</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>	
Absolute (%)	-1.7	16.7	0.0	
Relative (%)	-0.4	27.6	0.0	
	<b>2017</b>	<b>2018E</b>	<b>2019F</b>	<b>2020F</b>
<b>Sales</b>	286.8	375.2	545.1	643.6
<b>Chg</b>	85.8	30.8	45.3	18.1
<b>OP</b>	33.0	63.0	112.3	145.6
<b>OPM</b>	11.5	16.8	20.6	22.6
<b>NP</b>	23.8	51.1	91.3	117.9
<b>EPS</b>	1,050	1,823	3,257	4,206
<b>Chg</b>	84.5	73.6	78.7	29.1
<b>P/E</b>	61.9	60.6	33.9	26.2
<b>P/B</b>	4.9	7.4	6.1	4.9
<b>EV/EBITDA</b>	22.1	23.9	14.5	11.1
<b>ROE</b>	9.5	13.0	19.6	20.7
<b>Debt/equity</b>	24.7	20.2	17.4	14.9
<b>Net debt</b>	-182.2	-196.9	-273.6	-388.8

Units: W/bn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates



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## 3Q18 preview

(Units: Wbn, %)

	3Q17	4Q17	1Q18	2Q18	3Q18E					4Q18F
					Estimate	y-y	q-q	Previous	Consen	
Sales	-	-	79.9	74.3	108.7	-	46.3	125.8	121.2	112.3
OP	-	-	10.7	7.3	24.0	-	228.2	29.0	24.0	21.0
OPM	-	-	13.3	9.9	22.1			23.0	19.8	18.7
Pre-tax profit	-	-	10.8	11.0	23.7	-	114.9	29.0	25.0	19.2
NP (excl minority interests)	-	-	7.9	8.9	19.0	-	113.7	27.4	21.3	15.4

Note: K-IFRS consolidated

Source: FnGuide, NH I&amp;S Research Center estimates

## Earnings forecasts (IFRS consolidated)

(Units: Wbn, won, x, %)

		2017	2018E	2019F	2020F
Sales	- Revised	286.8	375.2	545.1	643.6
	- Previous	286.8	396.4	550.3	684.9
	- Change		-5.3	-0.9	-6.0
OP	- Revised	33.0	63.0	112.3	145.6
	- Previous	33.0	69.9	98.3	139.9
	- Change		-9.9	14.2	4.1
OPM	- Revised	11.5	16.8	20.6	22.6
EBITDA		74.3	121.1	194.9	244.3
NP (excl minority interests)		23.8	51.1	91.3	117.9
EPS	- Revised	1,050	1,823	3,257	4,206
	- Previous		2,020	2,856	4,043
	- Change		-9.8	14.0	4.0
P/E		61.9	60.6	33.9	26.2
P/B		4.9	7.4	6.1	4.9
EV/EBITDA		22.1	23.9	14.5	11.1
ROE		9.5	13.0	19.6	20.7

Note: EPS, P/E, P/B, and ROE based on NP (excl minority interests)

Source: NH I&amp;S Research Center estimates

## Earnings forecasts

(Units: # of dramas, Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18E	4Q18F	2017	2018E	2019F
<b>Number of dramas</b>	<b>4</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>22</b>	<b>23</b>	<b>30</b>
TV (domestic)	4	6	6	7	6	6	6	7	22	23	28
OTT	-	-	-	-	-	-	-	-	-	-	2
<b>Sales</b>	<b>75.3</b>	<b>62.1</b>	<b>77.5</b>	<b>71.9</b>	<b>79.9</b>	<b>74.3</b>	<b>108.7</b>	<b>112.3</b>	<b>286.8</b>	<b>375.2</b>	<b>545.1</b>
Broadcasting revenue	26.3	24.1	41.8	39.0	40.7	34.1	37.9	46.5	131.2	159.1	191.6
IP + VOD	36.5	26.3	23.3	25.7	32.1	28.8	58.8	51.8	111.8	171.5	287.4
Other (DVD, OST)	12.5	11.6	12.4	7.2	7.1	11.4	12.1	14.1	43.7	44.6	66.0
y-y (%)	-	-	-	-	6.0	19.6	40.3	56.3	46.7	30.8	45.3
<b>COGS</b>	<b>58.6</b>	<b>49.9</b>	<b>66.8</b>	<b>64.4</b>	<b>66.2</b>	<b>63.7</b>	<b>80.2</b>	<b>86.7</b>	<b>239.7</b>	<b>296.8</b>	<b>413.8</b>
Production costs	35.2	31.8	38.2	44.5	44.6	33.3	48.7	55.8	149.7	182.3	268.7
Amortization costs	9.9	9.8	10.3	10.9	12.7	13.1	14.5	17.5	41.0	57.9	82.4
Other	13.4	8.3	18.2	9.0	8.9	17.2	17.0	13.4	49.0	56.6	62.7
<b>GP</b>	<b>16.8</b>	<b>12.2</b>	<b>10.7</b>	<b>7.4</b>	<b>13.6</b>	<b>10.6</b>	<b>28.5</b>	<b>25.6</b>	<b>47.1</b>	<b>78.4</b>	<b>131.3</b>
GPM	22.2	19.6	13.9	10.4	17.1	14.3	26.2	22.8	16.4	20.9	24.1
<b>OP</b>	<b>14.0</b>	<b>8.9</b>	<b>6.7</b>	<b>3.5</b>	<b>10.7</b>	<b>7.3</b>	<b>24.0</b>	<b>21.0</b>	<b>33.1</b>	<b>63.0</b>	<b>112.3</b>
OPM	18.5	14.3	8.7	4.8	13.3	9.9	22.1	18.7	11.5	16.8	20.6
y-y (%)	-	-	-	-	-23.7	-17.6	256.4	505.2	-	90.5	78.3
OPM	<b>13.4</b>	<b>2.8</b>	<b>5.7</b>	<b>2.0</b>	<b>7.9</b>	<b>8.9</b>	<b>19.0</b>	<b>15.4</b>	<b>23.8</b>	<b>51.1</b>	<b>91.3</b>
<b>NP</b>	<b>17.8</b>	<b>4.5</b>	<b>7.3</b>	<b>2.8</b>	<b>9.8</b>	<b>12.0</b>	<b>17.5</b>	<b>13.7</b>	<b>8.3</b>	<b>13.6</b>	<b>16.8</b>

Note 1: Number of dramas based on those aired in each quarter (If a drama is aired for two quarters, 0.5 is reflected in each quarter)

Note 2: Adjust the number of dramas from 6 to 5.5 for 3Q18, due to an absence of dramas for the non-captive market, and adjust the number of dramas for 4Q18 from 7 to 6.5, considering delays in airing of some dramas

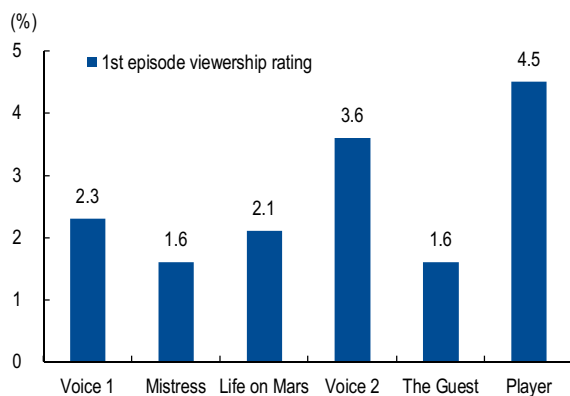
Source: NH I&amp;S Research Center estimates

## 2H18 drama series lineup (Studio Dragon)

Title	Airing date	Quarter	Channel	Type	Top viewership	Remarks
What's Wrong with Secretary Kim	18.06.06~18.07.26	2Q, 3Q	tvN	16 episodes (Wednesday, Thursday)	8.4%	
Life on Mars	18.06.16~18.08.05	2Q, 3Q	OCN	16 episodes (Saturday, Sunday)	5.6%	Remade from BBC drama series
Mr. Sunshine	18.07.07~18.09.30	3Q	tvN	24 episodes (Saturday, Sunday)	18.1%	Tent-pole (starring BH Lee and TR Kim)
Familiar Wife	18.08.01~18.09.20	3Q	tvN	16 episodes (Wednesday, Thursday)	8.2%	
Voice 2	18.08.11~18.09.16	3Q	OCN	12 episodes (Saturday, Sunday)	7.1%	Beloved, affected by popularity of previous series
The Guest	18.09.12~18.11.01	3Q, 4Q	OCN	16 episodes (Monday, Tuesday)	3.0%	
100 Days My Prince	18.09.10~18.10.30	3Q, 4Q	tvN	16 episodes (Wednesday, Thursday)	9.2%	Starring EXO
Player	18.09.29~18.11.11	4Q	OCN	16 episodes (Wednesday, Thursday)	5.0%	Highest viewership for first episode, among OCN drama series
Hundred Million Stars from the Sky	18.10.03~18.11.22	4Q	tvN	14 episodes (Saturday, Sunday)	8.4%	Remade from Japanese drama series
Priest	18.11.28~19.01.17	4Q	OCN	16 episodes (Wednesday, Thursday)		
Nine Room	18.10.06~11.25	4Q	tvN	16 episodes (Wednesday, Thursday)		
Eun-joo's Room	18.11.03~18.12(E)	4Q, 1Q	Olive	12 episodes (Saturday, Sunday)(E)		O'live TV's first drama series
Boyfriend	18.11.28~19.01.17	4Q, 1Q	tvN	12 episodes (Wednesday, Thursday)		Tent-pole (starring HG Song and BG Park)
Memories of the Alhambra	18.12.01~19.01.20	4Q, 1Q	tvN	16 episodes (Saturday, Sunday)		Tent-pole (starring Bin Hyun and SH Park)
The Man Who Became a King	19.1Q(E)	1Q(F)	tvN	16 episodes		Remade from movie Masquerade
Touch Your Heart	19.1Q(E)	1Q(F)	tvN	16 episodes		Starring main players of drama Goblin (DW Lee and IN Yu)
When the Devil Calls Your Name	19.1Q(E)	1Q(F)	tvN	16 episodes		To star GH Jeon
Asadal Chronicle	19.2Q(E)	1Q(F)	tvN	16 episodes		Second season to come

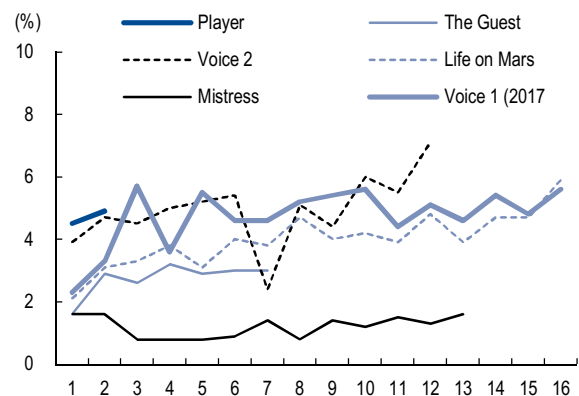
Source: Studio Dragon Media reports, NH I&amp;S Research Center estimates

## Viewership for first episodes of OCN drama series



Source: Nielsen, NH I&amp;S Research Center

## Average viewership for OCN dramas on the rise



Source: Nielsen, NH I&amp;S Research Center

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
<b>Sales</b>	<b>286.8</b>	<b>375.2</b>	<b>545.1</b>	<b>643.6</b>
Growth (%)	85.8	30.8	45.3	18.1
<b>COGS</b>	<b>239.7</b>	<b>296.8</b>	<b>413.8</b>	<b>475.2</b>
<b>Gross Profit</b>	<b>47.1</b>	<b>78.4</b>	<b>131.3</b>	<b>168.4</b>
Gross margin (%)	16.4	20.9	24.1	26.2
SG&A	14.2	15.4	19.0	22.8
<b>Operating Income</b>	<b>33.0</b>	<b>63.0</b>	<b>112.3</b>	<b>145.6</b>
Growth (%)	98.8	90.9	78.3	29.7
Operating margin (%)	11.5	16.8	20.6	22.6
<b>EBITDA</b>	<b>74.3</b>	<b>121.1</b>	<b>194.9</b>	<b>244.3</b>
<b>Non-Operating Profit</b>	<b>-2.7</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>
Financial Income (Costs)	-2.5	0.6	1.3	1.9
Other Non-Operating Profit	-0.2	0.0	0.0	0.0
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	1.2	0.5	-0.1
<b>Pre-tax Profit from Cont. Op.</b>	<b>30.3</b>	<b>64.8</b>	<b>114.1</b>	<b>147.4</b>
<b>Income Taxes</b>	<b>6.4</b>	<b>13.7</b>	<b>22.8</b>	<b>29.5</b>
Profit from Continuing Op.	23.8	51.1	91.3	117.9
<b>Net Profit</b>	<b>23.8</b>	<b>51.1</b>	<b>91.3</b>	<b>117.9</b>
Growth (%)	193.8	114.7	78.7	29.1
Net margin (%)	8.3	13.6	16.7	18.3
Net Profit of Parent	23.8	51.1	91.3	117.9
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0
Other Comprehensive Income	-0.1	0.0	0.0	0.0
Total Comprehensive Income	23.8	51.1	91.3	117.9

Valuation / Profitability / Stability				
	2017/12A	2018/12E	2019/12F	2020/12F
Price/Earnings (x)	61.9	60.6	33.9	26.2
Price/Book Value (x)	4.9	7.4	6.1	4.9
Price/Gross Cash Flow (x)	21.2	25.3	15.8	12.7
Price/Sales (x)	5.1	8.3	5.7	4.8
EV/EBITDA (x)	22.1	23.9	14.5	11.1
EV/EBIT (x)	49.7	46.0	25.1	18.6
Fully diluted EPS (won)	1,050	1,823	3,257	4,206
BVPS (won)	13,141	14,964	18,221	22,427
Sales PS (won)	12,628	13,381	19,442	22,955
ROE (%)	9.5	13.0	19.6	20.7
ROA (%)	6.8	10.6	16.5	17.8
ROIC (%)	14.2	24.4	40.2	50.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Total Cash Dividend (Wbn)	0.0	0.0	0.0	0.0
Cash DPS (won)	0	0	0	0
Net debt (cash)/equity (%)	-49.4	-46.9	-53.6	-61.8
Debt/equity (%)	24.7	20.2	17.4	14.9
Interest-Bearing Debts (Wbn)	10.0	0.0	0.0	0.0
Current Ratio (%)	319.6	353.7	428.3	535.7
Total shares (mn)	28	28	28	28
Par value (won)	500	500	500	500
Share price (won)	65,000	110,400	110,400	110,400
Market Cap (Wbn)	1,822	3,095	3,095	3,095

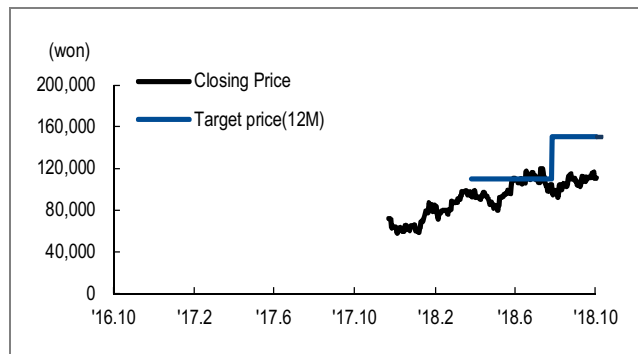
STATEMENT OF FINANCIAL POSITION				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Cash and Cash Equivalents	51.3	49.0	118.3	225.7
Accounts Receivables	54.9	57.7	60.0	61.8
<b>Total Current Assets</b>	<b>289.8</b>	<b>298.6</b>	<b>379.0</b>	<b>497.3</b>
Tangible Assets	1.1	0.8	0.6	0.5
Investment Assets	3.8	4.3	4.4	4.5
<b>Non-Current Assets</b>	<b>169.6</b>	<b>205.8</b>	<b>220.9</b>	<b>225.0</b>
<b>Assets</b>	<b>459.5</b>	<b>504.4</b>	<b>599.9</b>	<b>722.3</b>
Short-Term Debt	10.0	0.0	0.0	0.0
Account Payables	6.1	6.1	6.2	6.4
<b>Current Liabilities</b>	<b>90.7</b>	<b>84.4</b>	<b>88.5</b>	<b>92.8</b>
Long-Term Debt	0.0	0.0	0.0	0.0
Long-Term Allowance	0.3	0.4	0.6	0.7
<b>Non-Current Liabilities</b>	<b>0.3</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>
<b>Liabilities</b>	<b>91.0</b>	<b>84.8</b>	<b>89.1</b>	<b>93.5</b>
Capital Stock	14.0	14.0	14.0	14.0
Capital Surplus	319.6	319.6	319.6	319.6
Retained Earnings	32.1	83.2	174.5	292.5
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>368.4</b>	<b>419.6</b>	<b>510.9</b>	<b>628.8</b>

CASH FLOW STATEMENT				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
<b>Operating Cash Flow</b>	<b>-7.2</b>	<b>108.3</b>	<b>173.2</b>	<b>216.0</b>
Net Profit	23.8	51.1	91.3	117.9
Depreciation & Amortization	41.3	58.1	82.6	98.6
+ Loss (Gains) from Subs	0.0	0.0	0.0	0.0
+ FC translation loss (profit)	0.8	0.0	0.0	0.0
Gross Cash Flow	69.7	122.3	195.4	244.2
- Incr. (Decr.) in WC	-72.9	-0.2	0.6	1.3
<b>Investing Cash Flow</b>	<b>-141.0</b>	<b>-100.2</b>	<b>-103.9</b>	<b>-108.6</b>
+ Decr. In Tangible Assets	0.1	0.0	0.0	0.0
- Incr. In Tangible Assets (capex)	-0.1	0.0	0.0	0.0
+ Disp.(Acq.) of Inv. Assets	-1.5	-0.5	-0.1	-0.1
Free Cash Flow	-7.3	108.3	173.2	216.0
Net Cash Flow	-148.2	8.1	69.3	107.4
<b>Financing Cash Flow</b>	<b>188.1</b>	<b>-10.4</b>	<b>0.0</b>	<b>0.0</b>
Equity Financing	207.8	0.0	0.0	0.0
Debt Financing	-19.7	-10.4	0.0	0.0
Incr.(Decr.) in Cash	39.8	-2.3	69.3	107.4
Ending Cash and Cash Equivalents	51.3	49.0	118.3	225.7
Net Debt (Cash)	-182.2	-196.9	-273.6	-388.8

## Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2018.07.30	Buy	W150,000(12M)	-	-
Covering analyst changed				
2018.04.02	Buy	W120,000(12M)	-16.1%	-0.2%
2017.11.13	Buy	W40,000(12M)	91.0%	146.3%

## Studio Dragon (253450.KQ)



## NH Investment &amp; Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Sep 28, 2018).

● NH I&S' stock rating distribution

Buy	Hold	Sell
78.8%	21.2%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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