

November 7, 2018

Danny Lee Analyst  
Internet, Game, Media, Leisure  
82-2-6114-2960 drlee@kbf.com

Jeonghoon Son RA  
82-2-6114-2910  
jhson@kbf.com

### Maintain BUY and Target Price of KRW130,000

We maintain a BUY rating on Studio Dragon with a target price of KRW130,000. We maintain a positive view considering the fact that demand for premium content continues to be high both in Korea and overseas.

### 3Q18 OR +60% YoY, OP +223% YoY

3Q18 OR reached KRW123.7bn (+60% YoY) and OP stood at KRW21.5bn (+223% YoY). Programming sales grew 17% YoY, and distribution sales surged 172% YoY, contributing to high profit growth. The tent-pole program "Mr. Sunshine" was sold to Netflix for about KRW30bn. As a result, distribution revenues increased significantly. The gross profit margin of "Mr. Sunshine" is estimated at around 130% of the production cost.

### Expansion and sales of tent-pole lineup

Growth in the number of produced programs following a rise in content distributors is expected to drive earning growth. Studio Dragon is expanding its customer base from captive (CJ ENM) to terrestrial and OTT clients based on its production capability. In addition to "Mr. Sunshine" in 3Q18, tent-pole contents such as "Boyfriend" and "Memories of Alhambra Palace" will be broadcast in 4Q18. Therefore, both distribution and programming revenues are expected to increase sharply. 4Q18 OR is estimated at KRW111.3bn (+55% YoY) and OP at KRW17bn (+390% YoY).

### Likely to enter Chinese market in 2019

In 2019, the Chinese market is expected to be the biggest growth driver. Although there are no programs that have entered the Chinese market so far, expectations remain high over the resumption of exports, as Korean drama and movie rights are being sold to China. "Memories of Alhambra Palace" is being promoted for sale in China ahead of its broadcast in December. Studio Dragon is preparing to enter the Chinese market by preparing the co-production of TV dramas in China by using its IP in 1H19. In 2019, Studio Dragon is expected to enter the Chinese market in earnest.

## Buy maintain

<b>Target Price (maintain)</b>	<b>KRW130,000</b>
Upside/Downside	33.3%
Current price (Nov 7)	KRW97,500
Consensus Target Price	KRW135,688
Market cap	USD2.4bn

### Trading Data

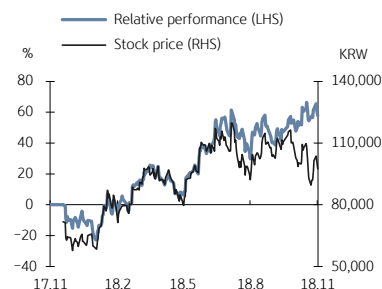
Free float	23.9%
Avg T/O Val (3M, KRWbn)	18.0
Foreign ownership	2.3%
Major shareholders	CJ E&M Corporation and 3 others
	75.7%

### Performance

(%)	1M	3M	6M	12M
Absolute	-10.2	5.7	16.2	0.0
Relative	1.8	21.6	45.8	0.0

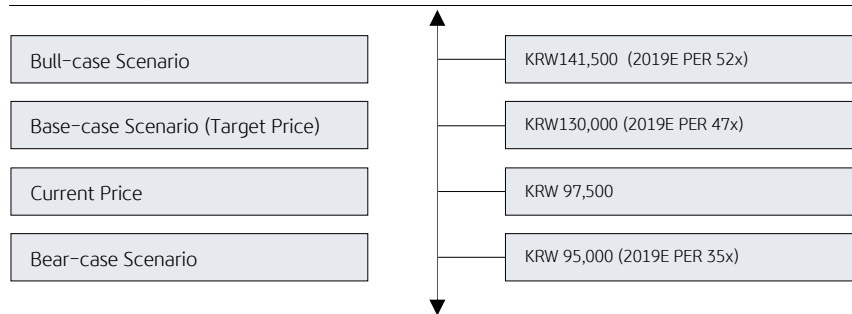
### Forecast earnings & valuation

FY-end	2017A	2018E	2019E	2020E
OR (KRWbn)	287	389	499	580
OP (KRWbn)	33	56	99	127
NP to parent (KRWbn)	24	48	80	104
EPS (KRW)	1,050	1,706	2,870	3,701
EPS Growth (%)	84.5	62.5	68.2	29.0
PER (x)	61.9	57.2	34.0	26.3
EV/EBITDA (x)	22.1	24.2	18.9	15.9
PBR (x)	4.9	6.6	5.5	4.6
ROE (%)	9.5	12.2	17.6	18.9
Div. Yield (%)	NA	0.0	0.0	0.0



Source: Studio Dragon, KB Securities estimates

## Investment opinion and risks



## Base-case Scenario: Catalysts

- 1) "Memories of Alhambra Palace" sold in China
- 2) Enter Chinese market in 2019

## Bull-case Scenario: Upside risks

- 1) "Memories of Alhambra Palace" sold in China in 2018
- 2) Enter Chinese market in 2018

## Bear-case Scenario: Downside risks

- 1) Delayed sale of "Memories of Alhambra Palace" to China
- 2) Delayed entry into Chinese market

## Revised earnings estimates

(KRWbn, %)	Previous		Revised		Change	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	376.6	474.4	389.1	499.0	3.3	5.2
OP	66.4	101.7	56.5	99.3	-14.9	-2.3
NP to parent	53.9	78.7	47.8	80.5	-11.3	2.2

Source: KB Securities estimates

## Difference vs. Consensus

(KRWbn, %)	KB estimate		Consensus		Difference	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	389.1	499.0	385.9	506.5	0.8	-1.5
OP	56.5	99.3	61.4	100.2	-8.0	-0.9
NP to parent	47.8	80.5	51.9	81.2	-7.9	-1.0

Source: Fnguide, KB Securities estimates

## Valuation and target price calculation

## 1) Valuation method:

PER Valuation

## 2) Target price calculation:

2020E EPS KRW 3,511 X multiple 37x

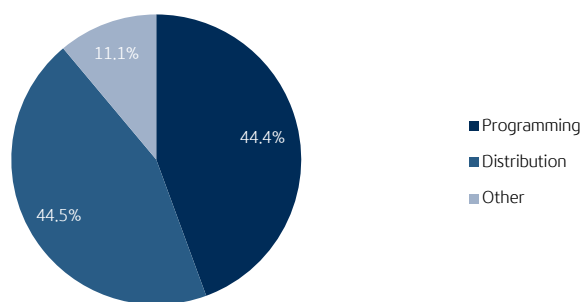
## 3) Target price range

KRW 141,500 ~ KRW 95,000

## 4) Target price valuation

2018E PER 47x

## OR composition (2018, %)



Source: Company data, KB Securities

## Earnings sensitivity analysis

(%)	EPS change	
	2018E	2019E
1) 1% rise in FX rate	+2.1	+2.1
2) 1%p rise in GDP	+0.4	+0.4

## Peer group comparison

(KRWbn, X, %)	Market Cap	PER		PBR		EV/EBITDA		ROE		Dividend Yield	
		2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
Jcontentree	649	25.6	20.4	2.6	2.3	11.2	9.2	11.5	12.3	n/a	2.1
Netflix	151,674	103.5	68.7	27.1	19.1	69.8	46.4	25.7	28.0	0.0	0.0
Zhejiang Huace Film&TV	3,067	24.3	19.0	2.5	2.2	20.2	16.0	10.5	12.2	0.4	0.5
Beijing HualuBaina Film&TV	659	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Bloomberg, KB Securities

Table 1. CJ E&amp;M's 4Q17 consolidated earnings preview

(KRWon, %, %p)	3Q18P	2Q18	QoQ	3Q17	YoY	KB estimates		Diff.	Consensus	Diff.
OR	123.7	74.3	66.5	77.5	59.6	113.8	8.7		121.9	1.5
OP	21.5	7.3	193.5	6.7	223.0	25.7	(16.5)		24.5	(12.3)
OP margin	17.4	9.9	7.5	8.6	8.8	22.6	(5.2)		20.1	(2.7)
NP to parent	17.3	8.9	94.2	5.7	204.6	19.7	(12.4)		20.3	(14.9)
NP margin	14.0	12.0	2.0	7.3	6.6	17.3	(3.4)		16.6	(2.7)

Source: FnGuide, KB Securities estimates

Table 2. Studio Dragon's consolidated earnings trend and estimates

(KRWbn)	1Q17	2Q17	3Q17	4Q17P	1Q18	2Q18	3Q18P	4Q18E	2017	2018E	2019E	2020E
<b>OR</b>	75.3	62.1	77.5	71.9	79.9	74.3	123.7	111.3	286.8	389.1	499.0	580.0
(QoQ %)	0.0	(17.6)	24.8	(7.3)	11.1	(7.0)	66.5	(10.0)	-	-	-	-
(YoY %)	-	-	-	-	6.0	19.6	59.6	54.8	46.7	35.7	28.2	16.2
Programming	26.3	24.1	41.8	39.0	40.7	34.1	48.9	49.1	131.2	172.8	204.1	242.7
Distribution	36.5	26.3	23.3	25.7	32.1	28.8	63.4	48.9	111.8	173.1	246.4	286.4
Others	12.5	11.6	12.4	7.2	7.1	11.4	11.4	13.3	43.7	43.1	48.5	50.9
<b>OP</b>	14.0	8.9	6.7	3.5	10.7	7.3	21.5	17.0	33.0	56.5	99.3	127.4
(QoQ %)	-	(36.4)	(25.2)	(47.8)	207.1	(31.3)	193.5	(20.9)	-	-	-	-
(YoY %)	-	-	-	-	(23.7)	(17.7)	223.0	389.8	55.6	71.2	75.9	28.4
OP margin (%)	18.5	14.3	8.6	4.8	13.3	9.9	17.4	15.3	11.5	14.5	19.9	22.0
<b>NP to parent</b>	13.4	2.8	5.7	2.0	7.9	8.9	17.3	13.8	23.8	47.8	80.5	103.8
(QoQ %)	-	(79.1)	102.2	(64.7)	293.5	13.0	94.2	(19.9)	-	-	-	-
(YoY %)	-	-	-	-	(41.3)	217.2	204.6	592.1	-	100.5	68.3	29.0
NP margin (%)	17.8	4.5	7.3	2.8	9.8	12.0	14.0	12.4	8.3	12.3	16.1	17.9

Source: Company data, KB Securities estimates

Table 3. Comparison of adjusted earnings estimates

(KRWbn, %, %p)	2018E					2019E				
	Changed	Previous	Diff.	Cons.	Diff.	Changed	Previous	Diff.	Cons.	Diff.
OR	389.1	376.6	3.3	385.9	0.8	499.0	474.4	5.2	506.5	(1.5)
OP	56.5	66.4	(14.9)	61.4	(8.0)	99.3	101.7	(2.3)	100.2	(0.9)
OP margin	14.5	17.6	(3.1)	15.9	(1.4)	19.9	21.4	(1.5)	19.8	0.1
NP to parent	47.8	53.9	(11.3)	51.9	(7.9)	80.5	78.7	2.2	81.2	(1.0)
NP margin	12.3	14.3	(2.0)	13.5	(1.2)	16.1	16.6	(0.5)	16.0	0.1

Source: FnGuide, KB Securities estimates

Profit & Loss					
(KRWbn)	2016A	2017A	2018E	2019E	2020E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	154	287	389	499	580
Cost of sales	133	240	320	385	435
Gross profit	22	47	69	114	145
SG&A expenses	5	14	13	15	17
Operating profit	17	33	56	99	127
EBITDA	39	74	103	126	143
Non-operating accounts	-6	-3	5	4	5
Interest income	0	1	4	5	6
Interest expenses	1	2	1	1	1
Profit on equity method	0	0	0	0	0
Net other non-operating income	-5	0	0	0	0
Profit before tax	11	30	62	103	133
Income tax expense	2	6	14	22	29
Net profit	8	24	48	80	104
NP to parent	8	24	48	80	104
Adj. net profit	8	24	48	80	104

Operating Statistics & Ratios					
(%)	2016A	2017A	2018E	2019E	2020E
OR growth	NA	85.7	55.7	28.2	16.2
OP growth	NA	98.3	71.2	75.9	28.4
EBITDA growth	NA	91.4	39.0	22.4	12.8
NP growth of parent	NA	193.0	100.5	68.3	29.0
GP margin	14.0	16.4	17.9	22.9	24.9
OP margin	10.8	11.5	14.5	19.9	22.0
EBITDA margin	25.1	25.9	26.5	25.3	24.6
EBT margin	6.8	10.6	15.8	20.6	22.9
NP margin	5.3	8.3	12.3	16.1	17.9

Cash Flow					
(KRWbn)	2016A	2017A	2018E	2019E	2020E
Cash flow from operating activities	-12	-7	57	115	128
Net profit	8	24	48	80	104
Depreciation & amortization	22	41	47	27	15
Other non-cash adjustments	5	5	11	22	29
Investments in working capital	-46	-73	-35	8	9
Decrease(Increase) in Receivables	0	-14	-1	-2	-2
Decrease(Increase) in Inventories	0	-2	0	0	0
Increase(Decrease) in Payables	11	9	7	1	1
Other operating cash flow	-2	20	-13	-22	-29
Cash flow from investing activities	-70	-141	-17	-14	-15
Capital expenditure	-1	0	-1	-1	-1
Investments in intangibles	0	0	-1	-1	-1
Changes in investment assets	0	-1	0	0	0
Other investment cash flow	-68	0	-1	-5	-6
Cash flow from financing activities	93	188	-10	0	0
Proceeds from (repayments of) debt	27	-18	-10	0	0
Changes in equity	56	208	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	10	-2	0	0	0
Other cash flow	0	0	0	0	0
Increase/decrease in cash	12	40	30	101	113
Cash and cash equivalents at FYE	12	51	81	182	295
Free cash flow	-14	-7	57	114	127
Net cash flow	0	199	55	107	119
Net cash (net debt)	-16	182	237	345	464

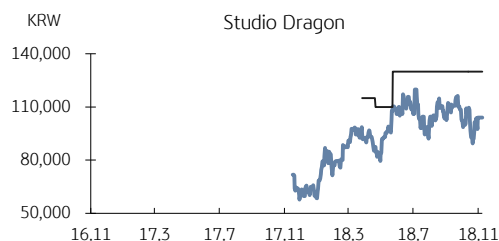
Source: Studio Dragon, KB Securities estimates

Statement of financial position					
(KRWbn)	2016A	2017A	2018E	2019E	2020E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	242	459	513	605	722
Current assets	81	290	343	455	578
Cash and cash equivalents	12	51	81	182	295
Current financial assets	0	141	156	163	169
Trade receivables	37	55	56	58	60
Inventories	0	1	2	2	2
Other current assets	33	41	48	50	52
Non-current assets	161	170	170	150	144
Investment assets	2	4	4	5	5
Property, plant and equipment	1	1	2	2	3
Intangible assets	124	128	118	92	79
Other non-current assets	33	36	43	49	55
Total liabilities	106	91	96	108	121
Current liabilities	84	91	95	107	121
Trade payables	6	6	9	10	12
Short-term financial liabilities	8	10	0	0	0
Other current liabilities	71	75	86	97	109
Non-current liabilities	21	0	1	1	1
Non-current financial liabilities	20	0	0	0	0
Other non-current liabilities	0	0	0	0	0
Total equity	136	368	417	497	601
Issued capital	11	14	14	14	14
Share premium	115	320	320	320	320
Other equity interest	2	3	3	3	3
Accumulated other comprehensive income	0	0	0	0	0
Retained earnings	8	32	80	160	264
Equity attributable to owners of parent	136	368	417	497	601
Non-controlling Interests	0	0	0	0	0

Key Ratio					
(X, %, KRW)	2016A	2017A	2018E	2019E	2020E
Multiples					
PER	NA	61.9	57.2	34.0	26.3
PBR	NA	4.9	6.6	5.5	4.6
PSR	NA	5.1	7.0	5.5	4.7
EV/EBITDA	0.4	22.1	24.2	18.9	15.9
EV/EBIT	1.0	49.7	44.2	24.1	17.8
Dividend yield, ordinary (%)	NA	NA	0.0	0.0	0.0
EPS	569	1,050	1,706	2,870	3,701
BPS	6,176	13,141	14,857	17,727	21,428
SPS	10,795	12,628	13,877	17,796	20,686
DPS (Annual, Ordnry.)	0	0	0	0	0
Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
ROE	6.0	9.5	12.2	17.6	18.9
ROA	3.4	6.8	9.8	14.4	15.6
ROIC	16.9	15.6	24.8	48.8	72.3
Financial structure (%)					
Total liab./equity	77.8	24.7	23.0	21.7	20.2
Net debt/equity	12.1	Net Cash	Net Cash	Net Cash	Net Cash
Current Ratio	1.0	3.2	3.6	4.2	4.8
Interest coverage (x)	19.5	19.0	86.3	82.7	106.2
Activity ratios	0	0	0	0	0
Asset turnover (x)	0.0	0.8	0.8	0.9	0.9
Receivables turnover (x)	0.0	6.2	7.0	8.8	9.8
Inventory turnover (x)	0.0	0.0	239.7	255.6	297.1

## Disclosures

## Rating and Target Price Changes (Share price —, Target Price —)



## Studio Dragon (253450)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
18-04-03	Buy	115,000	-20.05	-15.74
18-04-29	Buy	110,000	-15.81	-2.00
18-06-01	Buy	130,000		

KB Securities has not provided in advance the material contained in this report to any institutional investor or third party. The analyst(s), who wrote this report, does not have any financial interest in the company(ies) covered herein. The author(s) of this report confirms that the material contained herein correctly represents his/her/their opinion and that it has been prepared faithfully without any undue influence or intervention.

## Proportion of investment rating (as of September 30, 2018)

Buy	Hold	Sell
75.2	24.8	-

\* Note: Based on reports presented with investment ratings over the past one year

## Classification and Standards for Investment Rating

## Investment Rating for Company

(based on estimation of six-month absolute returns)

Buy: +15% or beyond	Hold: Between 15% and -15%	Sell: -15% or beyond
---------------------	----------------------------	----------------------

Note: KB Securities's classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

## Investment Rating for Industry

(based on estimation of six-month absolute returns)

Positive:	Neutral:	Negative:
To outperform market	To match market performance	To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017

All KB Securities Research is available via the following electronic databases: Bloomberg, Thomson Reuters, FactSet. Contact your KB Securities sales representative for access.

This report has been prepared for informational purposes only, and does not constitute an offer or solicitation of a contract for trading. Opinions in this report reflect professional judgment at this date based on information and data obtained from sources KB Securities considers reliable. However, KB Securities does not guarantee that the information and data are accurate or complete, and, therefore, this report is subject to change without prior notice. Individual investments should be made based on each client's own judgment and we expressly disclaim all liability for any investment decisions and any results thereof. This report is a copyrighted material of KB Securities and, thus, it may not be reproduced, distributed, or modified without the prior consent of KB Securities. This report is not prepared for academic purposes and any third party wishing to quote from it for academic publications should receive the prior consent of KB Securities.