

Studio Dragon (253450 KS)

Media/entertainment


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Rating	BUY (M)
Target price	W136,000 (M)
Current price (Nov 7)	W97,500
Upside potential	39%

Market cap (Wbn)	2,734
Shares outstanding	28,037,240
Avg daily T/O (2M, Wbn)	18
Avg daily volume (2M, shrs)	172,309
52-week high (won)	119,800
52-week low (won)	57,800
Foreign ownership (%)	2.3
Major shareholders (%)	
	CJ ENM & others 75.7

Stock performance

(%)	1M	3M	12M
Absolute	(10.2)	5.7	0.0
Relative	1.8	21.6	0.0
Abs (US\$)	(9.7)	5.7	0.0

Potential earnings growth

3Q18 review

- Studio Dragon reported consolidated sales of W123.7bn (+60% YoY), OP of W21.5bn (+223% YoY), and net profit attributable to controlling interest of W17.3bn (+206% YoY). OP was line with our estimate of W21.3bn.
- Programming revenue came to W48.9bn (+17% YoY), distribution revenue W63.4bn (+172% YoY), and other W11.4bn (-8% YoY). 1) **Overseas distribution revenue**, which contributes the most to the company's OP, **rose by W33.1bn YoY from W13.1bn in 3Q17 to W46.2bn in 3Q18**. Given that distribution revenue of "Mr. Sunshine" from Netflix is known to be W30.0bn, earnings met estimates. 2) **Domestic distribution revenue also surged from W10.2bn in 3Q17 to W17.2bn in 3Q18**, as record average viewer ratings for the company's dramas of 7.3% boosted VOD demand. 3) **Gross margin came to 20.1% in 3Q18**, coming in the 20% range for the first time since 1Q17, when the company enjoyed "Legend of the Blue Sea" and "The Goblin" effects.

Potential earnings growth

- The most anticipated dramas for 4Q18 are "Memories of the Alhambra" and "Boyfriend," starring Song Hye-kyo and Park Bo-gum. If the past is any guide, we expect margin for these two projects to exceed 30%. The project margin of "Legend of the Blue Sea" and "The Goblin," which aired before Netflix began to buy Korean drama series in earnest, was 33% and 61%, respectively. Assuming sales of dramas to Chinese OTTs resume soon, the project margin of Memories of the Alhambra and Boyfriend will likely be much higher than that of previous blockbuster dramas.
- The company is now in negotiations with Chinese OTTs over Memories of the Alhambra.** The drama is scheduled to air from Dec 1, more than three weeks from now. If the drama is approved by the Chinese authorities before then, it may air simultaneously in Korea and China. Even if the drama is sold after it is aired, the price will likely be high given recent sector conditions. Moreover, **the company wants to co-produce dramas with Chinese OTT service providers, maybe one-two dramas in 1H19, at the earliest.** Given the potential resumption of exports to China, and co-productions, the company's 2019E consensus earnings will likely be revised significantly.
- We maintain BUY and our target price of W136,000, and **suggest Studio Dragon as our media sector top pick for 4Q18**. When drama exports to China resume and details of co-productions are confirmed, we may consider revising up our target price.

Quarterly earnings

(Wbn)	3Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	124	59.7	66.5	122	1.8
OP	21	223.0	193.3	24	-11.0
Pre-tax net profit	22	246.8	100.1	26	-15.3
Net profit, CI	17	206.3	94.7	21	-18.8
OPM (%)	17.4	+8.8%pt	+7.5 %pt	19.8	-2.4 %pt
NPM (%)	14.0	+6.7%pt	+2.0 %pt	17.5	-3.5 %pt

Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		154	287	381	438
OP		17	33	54	105
Net profit, CI		8	24	45	83
P/E (x)		-	60.3	60.1	32.8
P/B (x)		-	4.8	6.6	5.5
EV/EBITDA		-	21.4	24.3	16.8
ROE (%)		12.0	9.5	11.6	18.3

Source: 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	438	563
Cost of sales	133	240	313	316	346
Gross profit	22	47	68	122	218
SG&A	5	14	14	17	22
Operating profit	17	33	54	105	196
EBITDA	39	74	105	146	245
Non-op profit/loss	-6	-3	6	5	6
Forex gain/loss	0	-1	3	0	0
Net interest income	-1	-1	4	5	7
Equity-meth gain/loss	0	0	0	0	0
Other	-5	0	-1	0	-2
Net prof before income tax	10	30	59	110	201
Income tax	2	6	14	27	49
Net profit from continuing ops	8	24	45	83	153
Net profit from discontinued ops	0	0	0	0	0
Net profit	8	24	45	83	153
NP for controlling interest	8	24	45	83	153
Total comprehensive income	8	24	45	83	152
Total comprehensive income, CI	8	24	32	60	109

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	320	402	563
Cash & cash equivalents	12	51	42	127	267
Accts rec & other	39	55	78	74	95
Inventory	0	1	3	3	3
Non-current assets	161	170	187	187	187
Tangible assets	1	1	1	1	1
Investment in affiliates	0	0	0	0	0
Other non-current	2	4	4	4	4
Total assets	242	459	507	589	750
Current liabilities	84	91	93	92	100
Accts payable & other	20	34	42	41	49
ST financial liabilities	8	0	0	0	0
Liquid LT liabilities	0	10	0	0	0
Non-current liabilities	21	0	1	1	1
LT financial liabilities	0	0	0	0	0
Debentures	20	0	0	0	0
Total liabilities	106	91	93	92	100
Equity, controlling interest	136	368	414	497	650
Paid-in capital	11	14	14	14	14
Capital surplus	115	320	320	320	320
Retained earnings	8	32	78	161	314
Equity, non-controlling interest	0	0	0	0	0
Total equity	136	368	414	497	650
Net debt	16	-182	-195	-280	-420
Total debt	28	10	0	0	0

Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Operating cash flow	-12	-7	12	61	123
Net profit	8	24	45	83	153
Depreciation & amortization	0	0	0	0	0
Forex gain/loss	0	1	-2	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-46	-73	-82	-65	-80
Other	25	41	51	42	50
Investing cash flow	-70	-141	-36	-42	-50
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	-36	-41	-50
Financing cash flow	93	188	-10	0	0
Inc (dec) in ST fin liab	7	-8	0	0	0
Inc (dec) in LT fin liab	20	-10	-10	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	25	66	67
Inc (dec) in cash & equivalents	12	40	-9	85	139
Beginning cash & equivalents	0	12	0	42	127
Ending cash & equivalents	12	51	42	127	267
NOPLAT	17	33	54	105	196
FCF	-12	-6	10	55	117

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

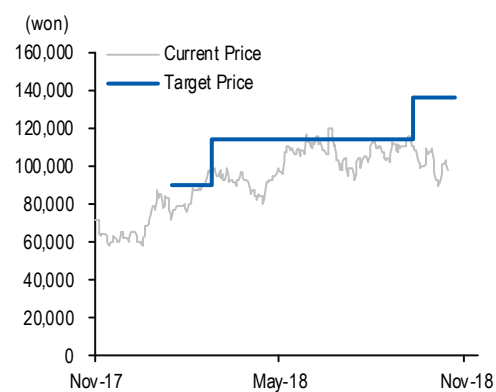
Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	569	1,050	1,622	2,974	5,447
BPS (won)	6,176	13,141	14,768	17,731	23,178
EBITDA/shr (won)	27,127	3,271	3,732	5,210	8,746
SPS (won)	10,795	12,628	13,592	15,633	20,092
DPS (won)	0	0	0	0	0
P/E (x)	-	60.3	60.1	32.8	17.9
P/B (x)	-	4.8	6.6	5.5	4.2
EV/EBITDA (x)	-	21.4	24.3	16.8	9.4
P/S (x)	-	5.0	7.2	6.2	4.9

Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
Sales (% YoY)	0.0	85.7	32.9	15.0	28.5
Operating profit (%YoY)	na	98.3	62.4	96.2	86.1
Net profit, CI (%YoY)	na	192.9	90.7	83.4	83.1
Gross margin (%)	14.0	16.4	17.8	27.8	38.6
Operating margin (%)	10.8	11.5	14.1	24.0	34.7
Net margin, CI (%)	5.3	8.3	11.9	19.0	27.1
EBITDA margin (%)	25.1	25.9	27.5	33.3	43.5
ROIC (%)	21.8	19.7	25.9	46.5	83.8
ROA (%)	6.7	6.8	9.4	15.2	22.8
ROE (%)	12.0	9.5	11.6	18.3	26.6
Debt-to-equity (%)	77.8	24.7	22.5	18.6	15.5
Net debt-to-equity (%)	12.1	-49.4	-47.1	-56.4	-64.6
OP/financing cost (x)	19.5	19.0	1,178.1	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)
2018/11/08	BUY	136,000	1 yr		
2018/10/04	BUY	136,000	1 yr		
2018/03/19	BUY	114,000	1 yr	-10.46	5.09
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	1.7
BUY	83.5
HOLD	14.2
SELL	0.6
Total	100.0

Note: As of Nov 5

Excluding reports written or published by overseas affiliates

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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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