

Studio Dragon (253450.KQ)

Two tent-pole dramas currently airing worldwide (excluding China)

Company Comment | Dec 3, 2018

Studio Dragon recorded 4Q18 overseas distribution sales for its major 4Q18 tent-pole dramas *Memories of the Alhambra* (Netflix; global excluding China) and *Encounter* (Netflix: the US, UK, Japan, and India; some Asian OTT players). We expect strong 4Q18 VOD sales thanks to high demand for the firm's non-tent-pole dramas. With *Memories of the Alhambra* now under discussion regarding export to China, we anticipate that future China business will proceed in stages.

Worldwide distribution (including China) close at hand

Memories of the Alhambra: Studio Dragon's main 4Q18 tent-pole drama is now airing worldwide (excluding China) on Netflix, with discussions about China distribution underway. As Netflix currently has no rights to air in China, the success of discussions regarding the distribution of the drama in China would make *Memories of the Alhambra* the company's first tent-pole drama to be aired worldwide. With no further regions in which to distribute its tent-pole drama, we have reflected the entire production cost to be booked within 4Q18 and 1Q19, given that the programming dates are to span into 1Q19.

Encounter: The firm's other 4Q18 tent-pole drama is now airing on various OTT players, including iQIYI (Taiwan) and VIU (Hong Kong). It is likely that the drama will be exported to China and other global markets in the future.

The company's next tent-pole drama is to be *Astard Chronicles* (16 episodes/season), whose production costs promise to be large—the VFX contract alone totaled W8.4bn. Recently, Studio Dragon has signed advance distribution contracts for its high-production-cost dramas prior to airing (advance sales), thereby easing profitability concerns. We anticipate that *Astard Chronicles* will enjoy similar success as the firm's previous tent-pole dramas.

Favorable VOD sales likely on increasing popularity of firm's non-tent-pole dramas

Backed by rising demand for its non-tent-pole dramas, Studio Dragon posted strong 3Q18 VOD sales despite concerns over cannibalization stemming from Netflix distribution. The firm's 4Q18 VOD sales should be favorable thanks to the increasing popularity and viewership ratings of its overall dramas as well as high VOD demand for 100 Days My Prince and The Guest.

Resumption of business in China: Focus on direction not speed

Discussion is now underway regarding the export to China of *Memories of the Alhambra*. With restrictions on airing Korean content in the country easing, we expect the pace of distribution in China to accelerate going forward. Considering the relatively long absence of any China business, the company is likely to focus on the direction, rather than the speed, of further China business.

Buy (maintain)

TP **W150,000 (maintain)**
CP (2018/11/30) **W108,300**

Sector	Entertainment
Kospi/Kosdaq	2,096.86 / 695.76
Market cap (common)	US\$2,719.3mn
Outstanding shares (common)	28.0mn
52W high ('18/07/12)	W119,800
low ('17/12/07)	W57,800
Average trading value (60D)	US\$14.32mn
Dividend yield (2018E)	0.00%
Foreign ownership	2.6%
Major Shareholders	
CJENM & 3 others	75.7%

Share perf	3M	6M	12M
Absolute (%)	-1.5	0.5	67.9
Relative (%)p	13.8	26.2	86.2

	2017	2018E	2019F	2020F
Sales	286.8	396.3	557.0	632.4
Chg	85.8	38.2	40.6	13.5
OP	33.0	56.2	105.7	143.7
OPM	11.5	14.2	19.0	22.7
NP	23.8	45.0	83.9	113.5
EPS	1,050	1,604	2,991	4,048
Chg	84.5	52.8	86.5	35.3
P/E	61.9	67.5	36.2	26.8
P/B	4.9	7.3	6.1	5.0
EV/EBITDA	22.1	22.8	14.2	11.2
ROE	9.5	11.5	18.4	20.5
Debt/equity	24.7	20.5	17.9	15.3
Net debt	-182.2	-179.2	-254.9	-365.5

Units: W/bn, %, won, x

Note 1: NP excludes minority interests

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

Source: NH I&S Research Center estimates



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Earnings forecasts (IFRS-consolidated)

(Units: Wbn, won, x, %)

		2017	2018E	2019F	2020F
Sales	- Revised	286.8	396.3	557.0	632.4
	- Previous	286.8	397.3	551.4	633.0
	- Change		-0.3	1.0	-0.1
OP	- Revised	33.0	56.2	105.7	143.7
	- Previous	33.0	58.8	108.4	140.8
	- Change		-4.4	-2.5	2.1
OPM	- Revised	11.5	14.2	19.0	22.7
EBITDA		74.3	125.4	195.9	239.3
NP (excl minority interests)		23.8	45.0	83.9	113.5
EPS	- Revised	1,050	1,604	2,991	4,048
	- Previous		1,715	3,146	4,069
	- Change		-6.5	-4.9	-0.5
P/E		61.9	67.5	36.2	26.8
P/B		4.9	7.3	6.1	5.0
EV/EBITDA		22.1	22.8	14.2	11.2
ROE		9.5	11.5	18.4	20.5

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

Source: NH I&S Research Center estimates

Earnings forecasts, by division

(Units: episodes, Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18P	4Q18E	1Q19F	2Q19F	3Q19F	4Q19F	2017	2018E	2019F
Number of dramas	4	6	6	7	6	6	6	8	7	7	8	8	22	25	30
TV (domestic)	4	6	6	7	6	6	6	8	7	7	7	7	22	25	28
OTT	-	-	-	-	-	-	-	-	-	-	1	1	-	-	2
Sales	75.3	62.1	77.5	71.9	79.9	74.3	123.7	118.5	109.1	142.3	143.2	162.5	286.8	396.3	557.0
Broadcasting revenue	26.3	24.1	41.8	39.0	40.7	34.1	48.9	53.7	42.1	50.7	50.5	48.5	131.2	177.3	191.8
IP + VOD	36.5	26.3	23.3	25.7	32.1	28.8	63.4	54.4	55.6	77.7	79.4	100.9	111.8	178.7	313.6
Other (DVD, OST)	12.5	11.6	12.4	7.2	7.1	11.4	11.4	10.4	11.4	13.9	13.3	13.0	43.7	40.3	51.6
y-y (%)	-	-	-	-	6.0	19.6	59.7	64.8	36.6	91.6	15.7	37.1	46.7	38.2	40.6
COGS	58.6	49.9	66.8	64.4	66.2	63.7	98.9	98.6	86.5	114.3	110.7	124.7	239.7	327.4	436.2
Production costs	35.2	31.8	38.2	44.5	44.6	33.3	47.7	62.3	49.7	66.3	73.1	84.0	149.7	187.9	273.1
Amortization costs	9.9	9.8	10.3	11.0	12.7	13.1	23.3	19.9	20.7	27.1	20.2	22.0	41.0	69.0	90.0
Other	13.4	8.3	18.2	9.0	8.9	17.2	27.9	16.4	16.1	20.8	17.4	18.7	49.0	70.5	73.0
GP	16.8	12.2	10.7	7.4	13.6	10.6	24.8	19.9	22.6	28.0	32.5	37.8	47.1	68.9	120.8
GPM	22.2	19.6	13.9	10.4	17.1	14.3	20.1	16.8	20.7	19.7	22.7	23.2	16.4	17.4	21.7
OP	14.0	8.9	6.7	3.5	10.7	7.3	21.5	16.8	18.9	24.6	28.3	34.0	33.1	56.2	105.7
OPM	18.5	14.3	8.7	4.8	13.3	9.9	17.4	14.2	17.3	17.3	19.8	20.9	11.5	14.2	19.0
y-y (%)	-	-	-	-	-23.7	-17.6	218.5	383.1	77.5	235.3	31.7	102.6	-	69.8	88.3
NP	13.4	2.8	5.7	2.0	7.9	8.9	17.3	11.7	14.9	22.1	21.8	25.1	23.8	45.8	83.9
NPM	17.8	4.5	7.3	2.8	9.8	12.0	14.0	9.9	13.6	15.5	15.3	15.4	8.3	11.6	15.1

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

Source: NH I&S Research Center estimates

Studio Dragon's drama line-up

Title	Airing date	Quarter	Channel	Type	Highest viewership	Remarks
The Guest	18.09.12~18.11.01	3Q, 4Q	OCN	16 episodes (Monday, Tuesday)	3.9%	
100 Days My Prince	18.09.10~18.10.30	3Q, 4Q	tvN	16 episodes (Wednesday, Thursday)	13.9%	
Player	18.09.29~18.11.11	4Q	OCN	16 episodes (Wednesday, Thursday)	5.8%	
Hundred Million Stars from the Sky	18.10.03~18.11.22	4Q	tvN	14 episodes (Saturday, Sunday)	4.0%	
Room No. 9	18.10.06~18.11.25	4Q	tvN	16 episodes (Wednesday, Thursday)	6.2%	
Tale of Fairy	18.11.05~18.12.25	4Q	tvN	16 episodes (Monday, Tuesday)	5.6%	
God's Quiz: Reboot (Season 5)	18.11.14~18.12.27	4Q	tvN	16 episodes (Monday, Tuesday)	2.6%	Prequel uploaded onto Netflix
Priest	18.11.28~19.01.17	4Q	OCN	16 episodes (Wednesday, Thursday)	2.5%	
Eunjoo's Room	18.11.03~19.01.22	4Q, 1Q	Olive	12 episodes (Tuesday)	0.4%	O'live TV's first drama series
Encounter	18.11.28~19.01.17	4Q, 1Q	tvN	12 episodes (Wednesday, Thursday)	10.3% (episode. 2)	Tent-pole (featuring HG Song and BG Park)
Memories of the Alhambra	18.12.01~19.01.20	4Q, 1Q	tvN	16 episodes (Saturday, Sunday)	7.5% (episode. 1)	Tent-pole (featuring B Hyeon and SH Park)
The Man Who Became a King	19.01.07~19.02.26	1Q	tvN	16 episodes (Monday, Tuesday)		Remade from movie Masquerade
Touch Your Heart	19.01.23~19.03.14	1Q	tvN	16 episodes (Wednesday, Thursday)		Featuring main actors from drama Goblin (DW Lee and IN Yu)
Romance is A Supplement	19.01.26~19.03.17	1Q	tvN	16 episodes (Saturday, Sunday)		To feature JS Lee
Possessed	19.1Q(E)	1Q	OCN	16 episodes		To feature JH Koh
Trap	19.1Q(E)	1Q	OCN	16 episodes		
When the Devil Calls Your Name	19.1H(E)	1Q, 2Q	tvN	16 episodes		To feature GH Jeong
Designated Survivor	19.1H(E)	1Q, 2Q	tvN	16 episodes		Remade from Netflix's drama
Asadal Chronicle	19.2Q(E)	2Q	tvN	16 episodes		Second season to come

Source: Studio Dragon, Nielsen Korea, NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Sales	286.8	396.3	557.0	632.4
Growth (%)	85.8	38.2	40.6	13.5
COGS	239.7	327.4	436.2	472.9
Gross Profit	47.1	68.9	120.8	159.5
Gross margin (%)	16.4	17.4	21.7	25.2
SG&A	14.2	12.8	15.1	15.8
Operating Income	33.0	56.2	105.7	143.7
Growth (%)	98.8	70.3	88.1	36.0
Operating margin (%)	11.5	14.2	19.0	22.7
EBITDA	74.3	125.4	195.9	239.3
Non-Operating Profit	-2.7	1.8	1.8	1.9
Financial Income (Costs)	-2.5	0.6	1.2	1.8
Other Non-Operating Profit	-0.2	0.0	0.0	0.0
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	1.2	0.6	0.1
Pre-tax Profit from Cont. Op.	30.3	58.0	107.5	145.5
Income Taxes	6.4	13.0	23.7	32.0
Profit from Continuing Op.	23.8	45.0	83.9	113.5
Net Profit	23.8	45.0	83.9	113.5
Growth (%)	193.8	89.1	86.4	35.3
Net margin (%)	8.3	11.4	15.1	17.9
Net Profit of Parent	23.8	45.0	83.9	113.5
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	45.0	83.9	113.5

Valuation / Profitability / Stability				
	2017/12A	2018/12E	2019/12F	2020/12F
Price/Earnings (x)	61.9	67.5	36.2	26.8
Price/Book Value (x)	4.9	7.3	6.1	5.0
Price/Gross Cash Flow (x)	21.2	24.0	15.5	12.7
Price/Sales (x)	5.1	7.7	5.5	4.8
EV/EBITDA (x)	22.1	22.8	14.2	11.2
EV/EBIT (x)	49.7	50.9	26.3	18.6
Fully diluted EPS (won)	1,050	1,604	2,991	4,048
BVPS (won)	13,141	14,745	17,737	21,784
Sales PS (won)	12,628	14,134	19,868	22,556
ROE (%)	9.5	11.5	18.4	20.5
ROA (%)	6.8	9.4	15.5	17.6
ROIC (%)	14.2	20.7	35.5	47.2
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	-43.3	-51.3	-59.8
Debt/equity (%)	24.7	20.5	17.9	15.3
Interest-Bearing Debts (Wbn)	10.0	0.0	0.0	0.0
Current Ratio (%)	319.6	332.7	407.2	510.6
Total shares (mn)	28	28	28	28
Par value (won)	500	500	500	500
Share price (won)	65,000	108,300	108,300	108,300
Market Cap (Wbn)	1,822	3,036	3,036	3,036

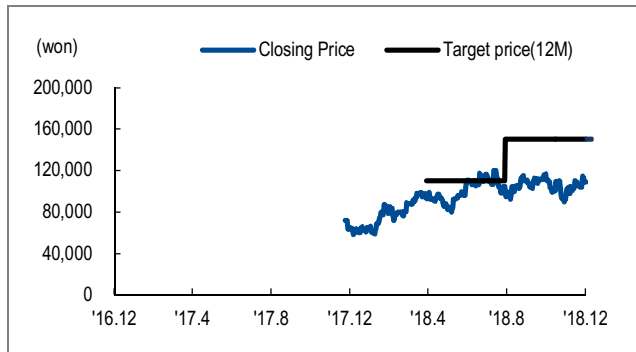
STATEMENT OF FINANCIAL POSITION				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Cash and Cash Equivalents	51.3	31.3	99.6	202.5
Accounts Receivables	54.9	57.7	60.0	61.8
Total Current Assets	289.8	280.9	360.3	474.1
Tangible Assets	1.1	0.8	0.6	0.5
Investment Assets	3.8	4.3	4.4	4.5
Non-Current Assets	169.6	217.4	226.1	230.2
Assets	459.5	498.3	586.4	704.2
Short-Term Debt	10.0	0.0	0.0	0.0
Account Payables	6.1	6.1	6.2	6.4
Current Liabilities	90.7	84.4	88.5	92.8
Long-Term Debt	0.0	0.0	0.0	0.0
Long-Term Allowance	0.3	0.4	0.6	0.7
Non-Current Liabilities	0.3	0.4	0.6	0.7
Liabilities	91.0	84.9	89.1	93.5
Capital Stock	14.0	14.0	14.0	14.0
Capital Surplus	319.6	319.6	319.6	319.6
Retained Earnings	32.1	77.1	160.9	274.4
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
Shareholders' Equity	368.4	413.4	497.3	610.8

CASH FLOW STATEMENT				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Operating Cash Flow	-7.2	113.4	173.4	208.6
Net Profit	23.8	45.0	83.9	113.5
Depreciation & Amortization	41.3	69.2	90.2	95.6
+ 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	126.6	196.5	239.4
- Incr. (Decr.) in WC	-72.9	-0.2	0.6	1.3
Investing Cash Flow	-141.0	-123.0	-105.1	-105.7
+ 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	113.4	173.4	208.6
Net Cash Flow	-148.2	-9.6	68.3	102.9
Financing Cash Flow	188.1	-10.4	0.0	0.0
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	-20.1	68.3	102.9
Ending Cash and Cash Equivalents	51.3	31.3	99.6	202.5
Net Debt (Cash)	-182.2	-179.2	-254.9	-365.5

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2018.07.30	Buy	W150,000(12M)	-	-
2018.03.30	Buy	W110,000(12M)	-8.5%	8.9%

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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 Nov 30, 2018).

● NH I&S' stock rating distribution

Buy	Hold	Sell
80.3%	19.7%	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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