

January 22, 2019

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

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

### 4Q18 OP to miss consensus by 27.6%

Studio Dragon is forecast to turn in OR of KRW102.5bn (-17.1% QoQ, +42.6% YoY) and OP of KRW11.2bn (-47.7% QoQ, +223.7% YoY) in 4Q18. OP will fall 27.6% short of market consensus (KRW15.5bn). The highlights of 4Q18 earnings are: 1) revenues from marquee contents in 4Q18, "Memories of the Alhambra" (aired from Dec 1 to Jan 20), and "Boyfriend" (aired from Nov 28 to Jan 20), are expected to be booked proportionally in 4Q18 and 1Q19. 2) Broadcast rights for "Memories of the Alhambra" were sold to China, but the program was categorized as aired content, because the drama did not appear on TV screens in China at the same time as it did in Korea. 3) Amortization expenses increased as "Mr. Sunshine" and other blockbuster contents received air time slots. 4) "Boyfriend" was released in 180 countries around the world. Despite being a commercial success, the drama will not offer any significant earnings contributions, because it was not produced in house (produced by Bon Factory).

### Expectations for business expansion in 2019 remain valid

The potential for Studio Dragon increasing content sales to its captive client (CJ E&M), Netflix and China, remains as the stock's key investment appeal. Studio Dragon is set to produce around 30 programs in 2019 (vs. 26 programs in 2018), including original Netflix productions and joint projects with Chinese production companies. Studio Dragon is scheduled to unveil three tentpole dramas on captive channels, including "Asadal Chronicles" and two other promising dramas by script writers with stellar viewership track records (Park Ji-eun, Hong sisters). Major global companies, such as Amazon, Disney, and AT&T, are expanding OTT-related investments, which should serve as a boon to content production companies such as Studio Dragon. Furthermore, there is still a chance that Studio Dragon will sign a deal with Chinese OTT companies in 1H19 to produce proprietary IP-based contents, because joint production with a local

## Buy maintain

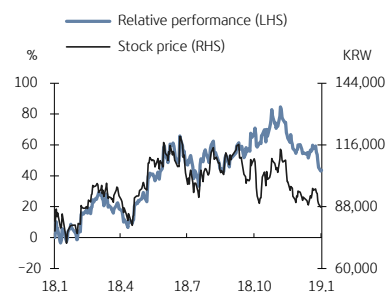
<b>Target Price (maintain)</b>	<b>KRW130,000</b>
Upside/Downside	47.7%
Current price (Jan 22)	KRW88,000
Consensus Target Price	KRW137,722
Market cap	USD2.2bn

<b>Trading Data</b>	
Free float	25.2%
Avg T/O Val (3M, KRWbn)	17.4
Foreign ownership	2.0%
Major shareholders	CJ E&M Corporation and 3 others
	74.4%

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	-7.5	-19.8	-14.8	14.3
Relative	-10.3	-14.1	-2.9	43.7

### Forecast earnings & valuation

FY-end	2017A	2018E	2019E	2020E
OR (KRWbn)	287	380	491	571
OP (KRWbn)	33	51	95	122
NP to parent (KRWbn)	24	43	77	100
EPS (KRW)	1,050	1,548	2,747	3,554
EPS Growth (%)	84.5	47.4	77.5	29.4
PER (x)	61.9	59.7	32.0	24.8
EV/EBITDA (x)	22.1	20.1	14.9	13.9
PBR (x)	4.9	6.3	5.1	4.2
ROE (%)	9.5	11.2	17.2	18.6
Div. Yield (%)	NA	0.0	0.0	0.0



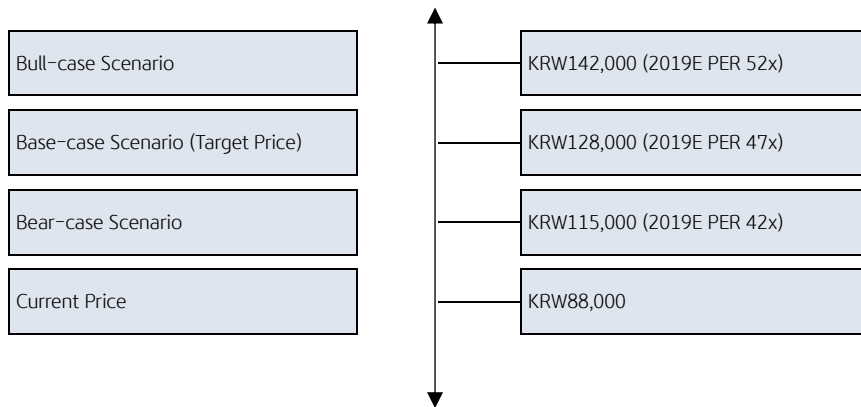
Source: Studio Dragon, KB Securities estimates

company will incite less backlash among Chinese viewers than foreign programs aired in China.

**Recent void in momentum and declining earnings provide buying opportunities**

We maintain BUY with a target price of KRW130,000. The target price is derived by applying the peer group's average PER of 36.5x for an EPS projection of KRW3,554 in 2020, when full-fledged business expansion is expected to take place in Korea and overseas. The share price plunged 22.8% from the Nov peak (KRW114,100) due to weak earnings in 4Q18 and the absence of short-term momentum, implying a 12-month forward PER of 31.4x (lowest level since listing). With main investment appeal factors remaining intact in 2019, we advise a buy approach to this stock.

## Investment opinion and risks



## Base-case Scenario: Catalysts

- 1) Netflix original drama production
- 2) Increase in sales to China in 2019

## Bull-case Scenario: Upside risks

- 1) Increased number of Netflix original drama production
- 2) Sales to China soars in 2019

## Bear-case Scenario: Downside risks

- 1) Decreased number of Netflix original drama production
- 2) Sales to China decreases in 2019

## Revised earnings estimates

(KRWbn, %)	Previous		Revised		Change	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	389.1	499.0	380.3	491.0	-2.3	-1.6
OP	56.5	99.3	50.7	94.9	-10.2	-4.4
NP to parent	47.8	80.5	43.3	77.1	-9.4	-4.2

Source: KB Securities estimates

## Difference vs. Consensus

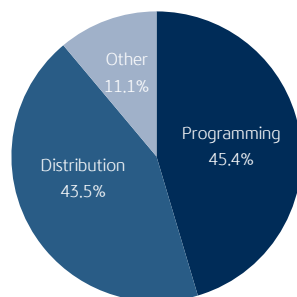
(KRWbn, %)	KB est.		Consensus		Contrast	
	2018E	2019E	2018E	2019E	2018E	2019E
OR	380.3	491.0	383.4	514.9	-0.8	-4.6
OP	50.7	94.9	55.4	95.4	-8.5	-0.6
NP to parent	43.3	77.1	46.4	76.8	-6.7	0.3

Source: FnGuide, KB Securities estimates

## Valuation and target price calculation

- 1) Valuation method:  
PER Valuation
- 2) Target price calculation:  
2020E EPS KRW 3,554 X PER of 36.5x
- 3) Target price range  
KRW142,000 ~ KRW115,000
- 4) Target price valuation  
2019E PER 47x

## OR composition (2019E, %)



Source: KB Securities estimates

## Earnings sensitivity analysis

(%)	EPS change	
	2018E	2019E
1) 1%p rise in interest rate	+2.1	+2.1
2) 1% rise in FX rate	+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	710	29.8	22.8	2.7	2.5	10.8	9.0	11.0	12.3	n/a	n/a
Netflix	167,211	105.5	73.2	29.6	20.5	77.1	49.4	25.7	27.9	0.0	0.0
Zhejiang Huace Film&TV	2,192	17.2	13.6	1.7	1.5	14.7	11.9	10.4	11.9	0.6	0.7
Beijing HualuBaina Film&TV	635	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. Studio Dragon's 4Q18 consolidated earnings preview

(KRWbn, %, %p)	4Q18E	3Q18	QoQ	4Q17	YoY	KB estimates	Diff.	Consensus	Diff.
OR	102.5	123.7	(17.1)	71.9	42.6	111.3	(7.9)	105.2	(2.6)
OP	11.2	21.5	(47.7)	3.5	223.7	17.0	(33.9)	15.5	(27.6)
OP margin	11.0	17.4	(6.4)	4.8	6.1	15.3	(4.3)	14.8	(3.8)
NP to parent	9.3	17.3	(46.0)	2.0	366.4	13.8	(32.6)	14.1	(34.2)
NP margin	9.1	14.0	(4.9)	2.8	6.3	12.4	(3.3)	13.5	(4.4)

Source: FnGuide, KB Securities estimates

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

(KRWbn)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18E	2017	2018E	2019E	2020E
<b>OR</b>	75.3	62.1	77.5	71.9	79.9	74.3	123.7	102.5	286.8	380.3	491.0	570.9
(QoQ %)	0.0	(17.6)	24.8	(7.3)	11.1	(7.0)	66.5	(17.1)	-	-	-	-
(YoY %)	-	-	-	-	6.0	19.6	59.6	42.6	46.7	32.6	29.1	16.3
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	41.2	111.8	165.4	239.5	278.5
Others	12.5	11.6	12.4	7.2	7.1	11.4	11.4	12.2	43.7	42.1	47.4	49.7
<b>OP</b>	14.0	8.9	6.7	3.5	10.7	7.3	21.5	11.2	33.0	50.7	94.9	122.2
(QoQ %)	-	(36.4)	(25.2)	(47.8)	207.1	(31.3)	193.5	(47.7)	-	-	-	-
(YoY %)	-	-	-	-	(23.7)	(17.7)	223.0	223.7	55.6	53.7	87.2	28.8
OP margin (%)	18.5	14.3	8.6	4.8	13.3	9.9	17.4	11.0	11.5	13.3	19.3	21.4
<b>NP to parent</b>	13.4	2.8	5.7	2.0	7.9	8.9	17.3	9.3	23.8	43.3	77.1	99.7
(QoQ %)	-	(79.1)	102.2	(64.7)	293.5	13.0	94.2	(46.0)	-	-	-	-
(YoY %)	-	-	-	-	(41.3)	217.2	204.6	366.4	-	81.6	77.9	29.4
NP margin (%)	17.8	4.5	7.3	2.8	9.8	12.0	14.0	9.1	8.3	11.4	15.7	17.5

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	380.3	389.1	(2.3)	383.4	(0.8)	491.0	499.0	(1.6)	514.9	(4.6)
OP	50.7	56.5	(10.2)	55.4	(8.5)	94.9	99.3	(4.4)	95.4	(0.6)
OP margin	13.3	14.5	(1.2)	14.4	(1.1)	19.3	19.9	(0.6)	18.5	0.8
NP to parent	43.3	47.8	(9.4)	46.4	(6.7)	77.1	80.5	(4.2)	76.8	0.3
NP margin	11.4	12.3	(0.9)	12.1	(0.7)	15.7	16.1	(0.4)	14.9	0.8

Source: FnGuide, KB Securities estimates

Profit & Loss					
(KRWbn)	2017A	2018E	2019E	2020E	2021E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	287	380	491	571	657
Cost of sales	240	317	381	432	490
Gross profit	47	64	110	139	167
SG&A expenses	14	13	15	17	19
Operating profit	33	51	95	122	148
EBITDA	74	119	145	146	160
Non-operating accounts	-3	5	4	5	7
Interest income	1	4	5	6	8
Interest expenses	2	0	1	1	1
Profit on equity method	0	0	0	0	0
Net other non-operating income	0	0	0	0	0
Profit before tax	30	56	98	127	155
Income tax expense	6	12	21	28	34
Net profit	24	43	77	100	121
NP to parent	24	43	77	100	121
Adj. net profit	24	43	77	100	121

Operating Statistics & Ratios					
(%)	2017A	2018E	2019E	2020E	2021E
OR growth	85.7	32.6	29.1	16.3	15.1
OP growth	98.3	53.7	87.3	28.8	20.8
EBITDA growth	91.4	60.5	21.3	1.0	9.2
NP growth of parent	193.0	82.0	77.5	29.4	21.5
GP margin	16.4	16.7	22.4	24.4	25.4
OP margin	11.5	13.3	19.3	21.4	22.5
EBITDA margin	25.9	31.4	29.5	25.6	24.3
EBT margin	10.6	14.7	20.1	22.3	23.6
NP margin	8.3	11.4	15.7	17.5	18.4

Cash Flow					
(KRWbn)	2017A	2018E	2019E	2020E	2021E
Cash flow from operating activities	-7	10	134	132	143
Net profit	24	43	77	100	121
Depreciation & amortization	41	69	50	24	12
Other non-cash adjustments	5	10	21	28	34
Investments in working capital	-73	-101	7	8	10
Decrease(Increase) in Receivables	-14	-38	-3	-3	-3
Decrease(Increase) in Inventories	-2	0	0	0	0
Increase(Decrease) in Payables	9	19	2	2	2
Other operating cash flow	20	-11	-21	-28	-34
Cash flow from investing activities	-141	1	-15	-16	-18
Capital expenditure	0	-1	-1	-1	-1
Investments in intangibles	0	0	-1	-1	-1
Changes in investment assets	-1	-1	0	0	0
Other investment cash flow	0	1	-7	-8	-9
Cash flow from financing activities	188	-10	0	0	0
Proceeds from (repayments of) debt	-18	-10	0	0	0
Changes in equity	208	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	-2	0	0	0	0
Other cash flow	0	0	0	0	0
Increase/decrease in cash	40	1	119	116	125
Cash and cash equivalents at FYE	51	52	171	287	412
Free cash flow	-7	9	133	131	142
Net cash flow	199	9	125	122	132
Net cash (net debt)	182	191	316	438	569

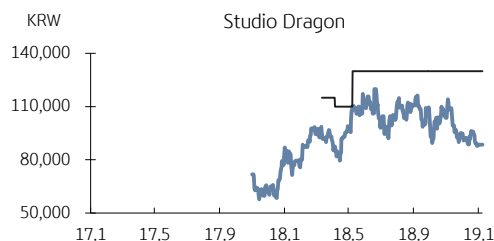
Statement of financial position					
(KRWbn)	2017A	2018E	2019E	2020E	2021E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	459	503	591	704	839
Current assets	290	286	414	540	675
Cash and cash equivalents	51	52	171	287	412
Current financial assets	141	139	145	151	157
Trade receivables	55	74	77	80	83
Inventories	1	2	2	2	2
Other current assets	41	19	19	20	21
Non-current assets	170	217	177	164	163
Investment assets	4	4	5	5	5
Property, plant and equipment	1	1	2	3	4
Intangible assets	128	153	105	82	72
Other non-current assets	36	56	63	71	80
Total liabilities	91	94	105	117	131
Current liabilities	91	87	98	111	124
Trade payables	6	14	15	17	20
Short-term financial liabilities	10	0	0	0	0
Other current liabilities	75	74	83	93	105
Non-current liabilities	0	6	7	7	7
Non-current financial liabilities	0	0	0	0	0
Other non-current liabilities	0	5	6	6	6
Total equity	368	410	487	586	707
Issued capital	14	14	14	14	14
Share premium	320	320	320	320	320
Other equity interest	3	0	0	0	0
Accumulated other comprehensive income	0	0	0	0	0
Retained earnings	32	75	152	252	373
Equity attributable to owners of parent	368	410	487	586	707
Non-controlling Interests	0	0	0	0	0

Key Ratio					
(X, %, KRW)	2017A	2018E	2019E	2020E	2021E
Multiples					
PER	61.9	59.7	32.0	24.8	20.4
PBR	4.9	6.3	5.1	4.2	3.5
PSR	5.1	6.8	5.0	4.3	3.8
EV/EBITDA	22.1	20.1	14.9	13.9	11.9
EV/EBIT	49.7	47.4	22.7	16.6	12.9
Dividend yield, ordinary (%)	NA	0.0	0.0	0.0	0.0
EPS	1,050	1,548	2,747	3,554	4,318
BPS	13,141	14,598	17,345	20,899	25,217
SPS	12,628	13,564	17,502	20,352	23,424
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	9.5	11.2	17.2	18.6	18.7
ROA	6.8	9.0	14.1	15.4	15.7
ROIC	15.6	20.1	39.5	62.4	84.4
Financial structure (%)					
Total liab./equity	24.7	22.9	21.5	20.0	18.6
Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Current Ratio	3.2	3.3	4.2	4.9	5.4
Interest coverage (x)	19.0	134.1	79.1	101.9	123.1
Activity ratios					
Asset turnover (x)	0.8	0.8	0.9	0.9	0.9
Receivables turnover (x)	6.2	5.9	6.5	7.3	8.0
Inventory turnover (x)	0.0	237.2	256.7	298.5	343.5

Source: Studio Dragon, KB Securities estimates

## 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 December 31, 2018)

Buy	Hold	Sell
70.6	29.4	-

\* 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.