

Studio Dragon

(253450 KQ)

HJ Kim
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Rating **BUY**
maintain

6M TP (₩) **115,000**
maintain

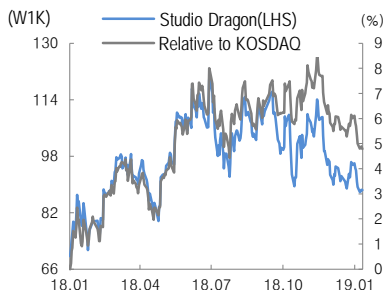
CP (₩)
(19.01.24) **88,400**

Media

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	704.41
Market cap (₩bn)	2,480
Market cap portion (%)	1.06
Paid-in capital (common; ₩bn)	14
52w high/low (₩)	119,800 / 71,400
120d avg. trading volume (₩bn)	18.2
Foreign ownership (%)	2.12
Major shareholders	CJ E&M+3: 74.35%

(%)	1M	3M	6M	12M
Abs. return	-6.6	-13.9	-12.5	1.6
Rel. return	-11.1	-14.5	-5.4	29.1



Deepening content reservoir to attract dollars

BUY; TP maintained at ₩115,000

- Based on our residual income model, we suggest a ₩115,000 target price for Studio Dragon.
- We see the drama production house deliver 36% NP CAGR for the next five years.
- We take a long term view on the company, which continues to boost its drama lineup with a goal of creating 40 titles a year, up from 25.

4Q18 results to fall short

- Studio Dragon is expected to report revenue of ₩96.5bn (down 22% qoq; up 34% yoy) and OP of ₩10bn (down 53% qoq, up 191% yoy) for the fourth quarter.
- We previously hiked our fourth-quarter revenue projection, as the company's latest tentpole drama series "Memories of the Alhambra" started to appear on the company's topline. However, we reduced our OP projection for that period by ₩10bn, given the year-end bonus payments and the lack of a China deal we had anticipated.
- The amortization of "Mr. Sunshine", last year's big hit series that cost the company an estimated ₩45bn to produce, also weighed on earnings. Typically, the company recognizes a 30% of a drama's production cost as an intangible asset, which is then written down over a year and a half.

Quality content drives viewer ratings

- Studio Dragon's success in the drama business came in part due to its strategic decision to air dramas in time slots that do not overlap with those of major broadcasters.
- Emboldened by a string of hit shows, the company started to move its dramas to primetime in 2017, a strategy that has proved to be a success. Its primetime dramas "Mr. Sunshine" (2018) and "Memories of the Alhambra" (2019) achieved a rating of 18.1% and 10%, at their respective peaks. Its Monday-Tuesday drama "The Crowned Clown", currently on air, is fetching a 5.9% rating, the second highest among the five dramas in the same time slot.

Key short-term stock catalysts: Viewership and Netflix share price

- Shares in Studio Dragon are sensitive to share price movements of Netflix, one of its biggest customers with 140 million paid subscribers. (Last June, Netflix forked out ₩30bn for Studio Dragon's drama in the most expensive content deal in Korea.) In 1H18, the company's shares rose 63%, mirroring a 119% surge in Netflix. Since reaching the year's peaks in July, Studio Dragon and Netflix lost 36% and 30%, respectively in 2H18.
- The streaming service provider's latest announcements of ₩8tn annual investment in content and a 13-18% rate hike bode well for Studio Dragon. During yesterday's press conference where it announced its plans for its Korean original series "Kingdom", Netflix said it will further boost investment in Korean content.

(Wbn, %)

	4Q17	3Q18	Previous estimate	Daishin estimate	4Q18(F)			1Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	72	124	91	97	34.2	-22.0	105	97	21.6	0.6
OP	3	21	20	10	191.1	-53.0	15	23	118.6	130.7
NP	2	17	16	9	326.3	-50.9	11	19	138.9	120.6

	2016	2017	Previous estimate	Daishin estimate	2018(F)		Growth	
					Change	Consensus	2017	2018(F)
Revenue	154	287	369	374	1.4	383	85.7	30.5
OP	17	33	59	50	-16.4	55	98.3	50.3
NP	8	24	50	43	-14.5	46	192.9	78.6

Source: Studio Dragon, FnGuide, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	154	287	374	440	464
OP	17	33	50	73	91
Pretax profit	10	30	56	81	100
NP	8	24	43	60	74
NP (controlling int.)	8	24	43	60	74
EPS	5,691	1,050	1,519	2,144	2,630
PER	0.0	61.9	58.2	41.2	33.6
BPS	61,763	13,141	14,653	16,348	18,328
PBR	0.0	4.9	6.0	5.4	4.8
ROE	12.0	9.5	10.9	13.8	15.2

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Studio Dragon, Daishin Securities Research Center

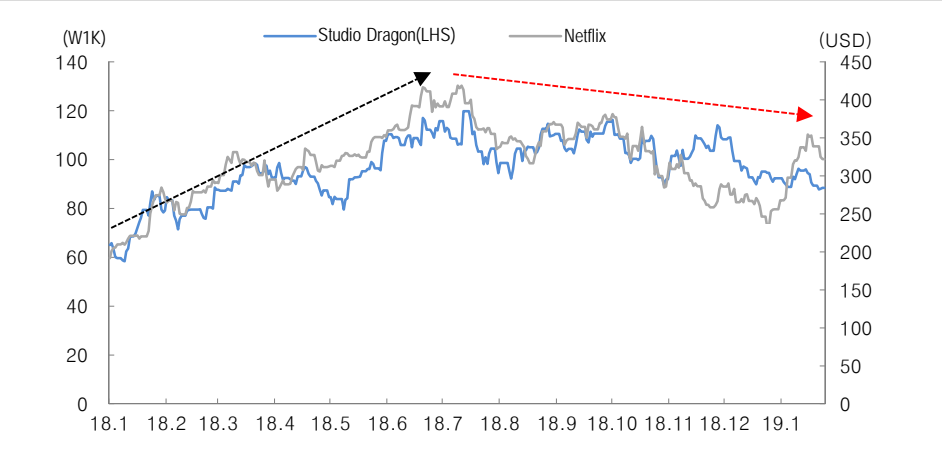
Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	369	435	374	440	1.4	1.2
G&A expense	14	13	14	13	0.2	0.0
OP	59	85	50	73	-16.4	-14.1
OP margin	16.1	19.6	13.2	16.6	-2.8	-3.0
Non-operating profit	6	8	6	8	0.0	0.0
Pretax profit	65	93	56	81	-14.9	-12.9
NP (controlling int.)	50	69	43	60	-14.5	-12.9
NP margin	13.5	15.9	11.4	13.7	-2.1	-2.2
EPS (controlling int.)	1,776	2,462	1,519	2,144	-14.5	-12.9

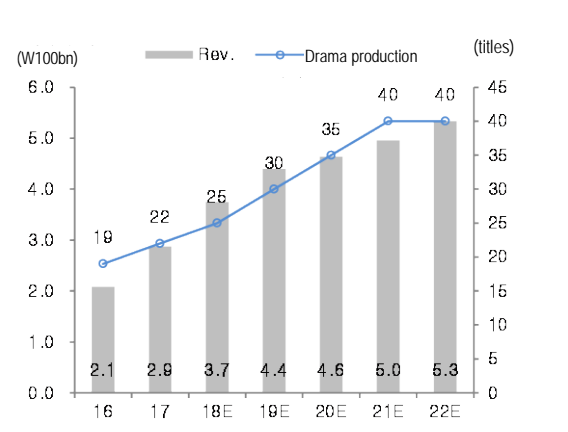
Source: Studio Dragon, Daishin Securities Research Center

Fig 1. Share price: Studio Dragon vs. Netflix



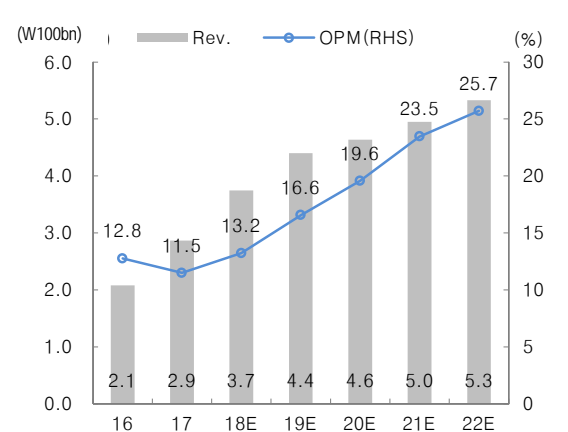
Source: Daishin Securities Research Center

Fig 2. Drama production and revenue



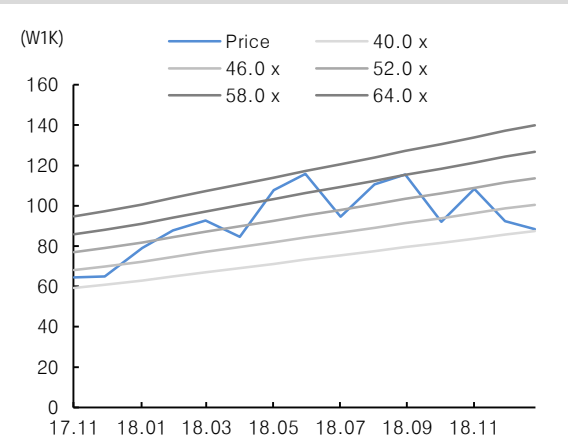
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 3. Content library and OP margin



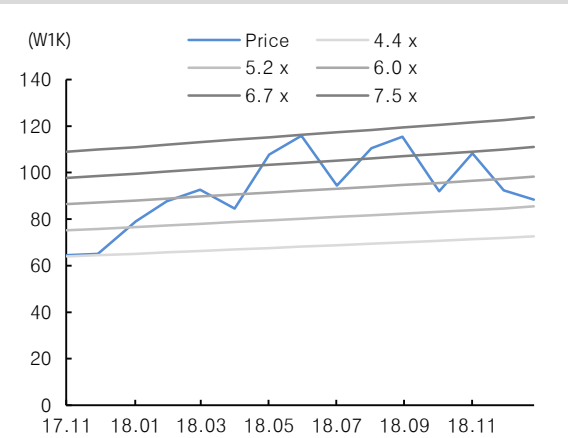
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 4. 12M FWD PER



Source: Wisefn, Daishin Securities Research Center

Fig 5. 12M FWD PBR



Source: Wisefn, Daishin Securities Research Center

Company profile

Overview

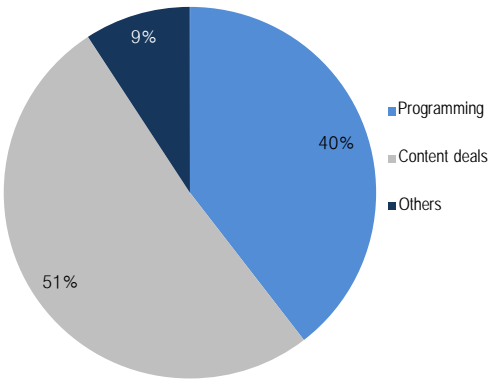
- Spun off from CJ E&M in May, 2016
- Listed on the KOSDAA in Nov. 2017
- 2017 results (W'00mn): Revenue 2,868, OP 330, NP 79
- 3Q18 revenue mix: Programming 40%, Content deals 51%, Others 9%
- Major shareholder: CJ E&M +6 (75.66%)

Stock catalysts

- Drama programming (tvN, OCN)
- Deals with Netflix and Chinese media firms

Source: Studio Dragon, Daishin Securities Research Center

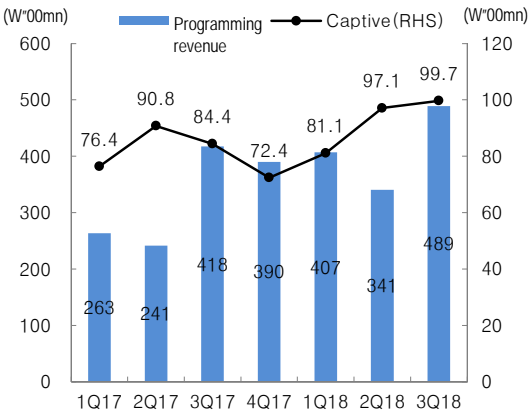
Revenue mix (3Q18)



Source: Studio Dragon, Daishin Securities Research Center

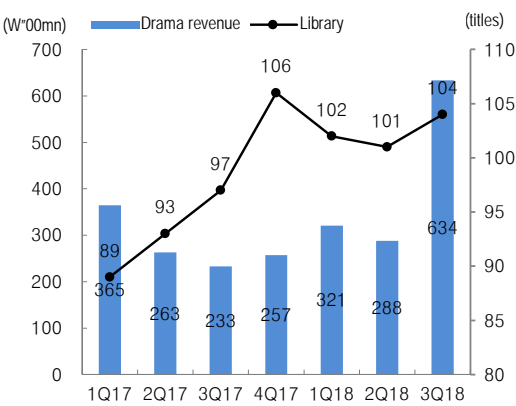
Earnings drivers

Fig 6. Programming revenue (3Q18)



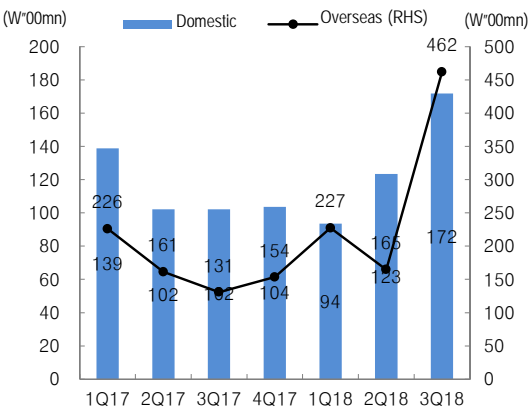
Source: Studio Dragon, Daishin Securities Research Center

Fig 7. Drama sales (3Q18)



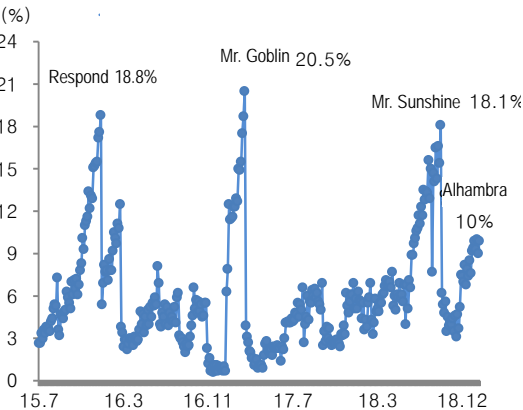
Source: Studio Dragon, Daishin Securities Research Center

Fig 8. Sales at home and abroad (3Q18)



Source: Studio Dragon, Daishin Securities Research Center

Fig 9. Viewer ratings



Source: AGB Nielson, Daishin Securities Research Center

Financial statements

Income statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Revenue	154	287	374	440	464
Cost of goods sold	133	240	311	354	359
Gross profit	22	47	64	86	105
SG&A expenses	5	14	14	13	14
OP	17	33	50	73	91
OP margin	10.8	11.5	13.2	16.6	19.6
EBITDA	39	74	107	172	188
Non-OP	-6	-3	6	8	9
Income from affiliates	0	0	0	0	0
Financial revenue	1	1	7	8	9
FX related gains	0	0	0	0	0
Financial expense	-2	-3	-1	-1	-1
FX related losses	1	1	0	0	0
Others	-5	0	0	1	1
Income before taxes	10	30	56	81	100
Income tax expense	-2	-6	-13	-21	-26
Income from cont. op.	8	24	43	60	74
Income from discount op.	0	0	0	0	0
NP	8	24	43	60	74
NP margin	5.3	8.3	11.4	13.7	15.9
NP for non-cont. interest	0	0	0	0	0
NP for contr. interest	8	24	43	60	74
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	8	24	43	60	74
Comp. income for non-cont. int.	0	0	0	0	0
Comp. income for contr. int.	8	24	43	60	74

Valuation metrics (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
EPS	5,691	1,050	1,519	2,144	2,630
PER	0.0	61.9	58.2	41.2	33.6
BPS	61,763	13,141	14,653	16,348	18,328
PBR	0.0	4.9	6.0	5.4	4.8
EBITDAPS	27,127	3,271	3,828	6,146	6,692
EV/EBITDA	0.4	22.1	21.2	13.0	11.7
SPS	107,949	12,628	13,353	15,682	16,537
PSR	0.0	5.1	6.9	5.6	5.3
CFPS	24,684	3,351	3,871	6,247	6,789
DPS	0	0	450	650	800

Financial ratios (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Sales growth	na	85.7	30.5	17.5	5.5
OP growth	na	98.3	50.3	47.3	24.4
NP growth	na	192.9	78.6	41.2	22.6
Profitability					
ROIC	19.4	17.0	20.5	26.3	30.7
ROA	13.7	9.4	10.4	14.1	15.9
ROE	12.0	9.5	10.9	13.8	15.2
Stability					
Debt ratio	77.8	24.7	20.2	18.4	16.5
Net borrowings ratio	12.1	-49.4	-48.8	-50.7	-53.7
Interest coverage ratio	19.5	19.0	0.0	0.0	0.0

Source: Studio Dragon, Daishin Securities Research Center

Balance sheet (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Current assets	81	290	316	360	409
Cash & cash equiv.	12	51	60	92	135
Trade & other receive.	39	55	72	85	89
Inventories	0	1	2	2	2
Other current assets	31	182	182	182	182
Long-term assets	161	170	178	183	190
Tangible assets	1	1	1	1	1
Investments in affiliates	0	0	0	0	0
Other long-term assets	159	169	177	182	190
Total assets	242	459	494	543	599
Current liabilities	84	91	83	84	84
Payables & other liab.	23	34	36	37	38
Borrowings	8	0	0	0	0
Current portion of LT debts	0	10	0	0	0
Other current liabilities	54	47	47	47	47
Long-term liabilities	21	0	0	0	0
Borrowings	20	0	0	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	2	0	0	0	0
Total liabilities	106	91	83	84	85
Controlling interest	136	368	411	459	514
Capital stock	11	14	14	14	14
Capital surplus	115	320	320	320	320
Retained earnings	8	32	75	122	178
Other capital changes	2	3	3	3	3
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	136	368	411	459	514
Net borrowings	16	-182	-201	-232	-276

Cash flow statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	-12	-7	22	85	103
NP	8	24	43	60	74
Non-cash items	27	52	66	115	117
Depreciation	22	41	58	99	97
FX gains	0	1	0	0	0
Equity method gain	0	0	0	0	0
Others	5	10	8	16	20
Chg in assets & liab.	-46	-73	-81	-78	-70
Other cash flows	-2	-10	-6	-13	-17
Investing cash flow	-70	-141	-66	-104	-104
Investment assets	0	-1	0	0	0
Tangible assets	-1	0	0	0	0
Others	-68	-140	-66	-104	-104
Financing cash flows	93	188	-12	-14	-20
Short-term borrowings	7	-8	0	0	0
Bonds payable	20	10	0	0	0
Long-term borrowings	0	0	0	0	0
Rights offering	56	208	0	0	0
Cash dividends	0	0	0	-13	-18
Others	10	-22	-12	-2	-2
Net chg in cash	12	40	9	32	44
Beginning cash balance	0	12	51	60	92
Ending cash balance	12	51	60	92	135
NOPLAT	13	26	38	54	67
FCF	34	67	29	50	59

[Daishin House View:1 Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)	Neutral Green (neutral)	Sky Blue (positive)
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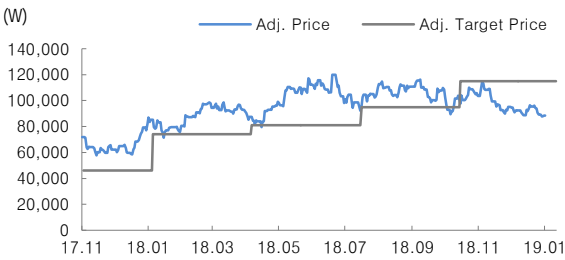
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	19.01.25	18.11.07	18.08.08	18.04.29	18.01.28	17.11.25
Rating	Buy	Buy	Marketperform	Marketperform	Marketperform	Buy
Target price	115,000	115,000	95,000	81,000	74,000	46,000
Diff. (avr. %)		(14.65)	10.81	26.80	19.40	44.64
Diff. (max/min., %)		(0.78)	22.42	(1.73)	(3.51)	25.65
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min., %)						
Date						
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Target price						
Diff. (avr. %)						
Diff. (max/min., %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min., %)						

Investment rating breakdown and framework (Jan 22, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	86.8%	12.1%	1.1%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.