

Studio Dragon (253450.KQ)

Remains on steady positive course

Company Comment | Feb 15, 2019

Excluding actual one-off costs (W10.0bn), Studio Dragon's OP would have been W10.4bn, indicating that its fundamentals remained robust. With the firm situated to benefit from ongoing favorable conditions for global OTT players, we stick to a Buy rating. But, we lower our TP from W150,000 to W135,000, reflecting: 1) more conservative estimates towards distribution sales for non-tent-pole dramas; and 2) a change in our target multiple.

Rather than one-off 4Q18 costs, focus on strong fundamentals

Studio Dragon posted consolidated 4Q18 sales of W101.7bn (+41.5%y-y) and OP of W0.4bn (-87.3% y-y). But, if excluding actual one-off costs (W10.0bn), OP would have been W10.4bn, missing consensus (W11.8bn) by 12%.

We estimate the firm's actual one-off expenses at W10bn, believing that among the 4Q18 accelerated amortization (W11.0bn) of intangible assets for 10 dramas (including Mr. Sunshine), the bulk (W9.0bn) of actual one-off cost items stemmed from delayed distribution woes in China. The remainder (W2.0bn), which resulted from changes in the distribution environment as in the case for Memories of the Alhambra in 4Q18, should rather be generated again upon other of the firm's tent-pole dramas being distributed globally. The other notable one-off cost item in 4Q18 was provisioning for bad debt expenses (lower than W1.0bn) for CJ Blue (Vietnam-based advertising player).

Environment for global OTT players remains favorable

Global OTT: In light of the positive response in Western markets to Kingdom (the first Netflix-exclusive Korean drama), we draw attention to the value of domestic tent-pole dramas with solid potential to be reconsidered as being global market-destined productions (as opposed to simply being Asian market-focused fare). The strengthening global positioning of Korea drama players is to translate into stable demand for their offerings from global OTT players and accompanying distribution price hikes.

China: Believing that Chinese quotas for Korean content will again be put into effect, some of Studio Dragon's dramas aired in 2018 are highly likely to be distributed in China. As accelerated amortization (reflecting the Chinese market distribution delays) has already been booked for these dramas, once actual distribution resumes, the firm's future China sales are to carry higher margins.

Several positives to unfold over mid/long term

Adhering to a Buy rating, we continue to suggest Studio Dragon as our sector top pick. Multiple positives are to unfold over the mid/long term, including the application of the firm's 20% stake at CJ ENM and planned global projects. However, we lower our TP by 10% from W150,000 to W135,000 in light of: 1) downward adjustments to our distribution sales estimates for some non-tent-pole dramas, as OCN's airing of dramas is its fledgling stages; and 2) a change in the base year used for our calculations to 2019 (2019E target EV/EBITDA of 20x).

Buy (maintain)

TP	W135,000 (lower)		
CP (19/02/14)	W94,600		
Sector	Entertainment		
Kospi/Kosdaq	2,225.85 / 742.27		
Market cap (common)	US\$2,356.75mn		
Outstanding shares (common)	28.1mn		
52W high ('18/07/12)	W119,800		
low ('18/02/22)	W75,800		
Average trading value (60D)	US\$14.74mn		
Dividend yield (2018E)	0.00%		
Foreign ownership	2.4%		
Major Shareholders			
CJENM & 3 others	74.4%		
Share perf	3M	6M	12M
Absolute (%)	-9.3	-8.8	19.0
Relative (%)	-17.9	-6.4	35.9
	2017	2018E	2019F
Sales	286.8	379.5	514.4
Chg	85.8	32.3	35.5
OP	33.0	39.8	88.4
OPM	11.5	10.5	17.2
NP	23.8	35.8	72.9
EPS	1,050	1,277	2,599
Chg	84.5	21.6	103.5
P/E	61.9	72.4	36.4
P/B	4.9	6.4	5.6
EV/EBITDA	22.1	21.3	13.6
ROE	9.5	9.3	16.5
Debt/equity	24.7	21.0	18.7
Net debt	-182.2	-174.1	-238.6

Unit: Wbn, %, 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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4Q18 review (K-IFRS consolidated)

(Unit: Wbn, %)

	4Q17	1Q18	2Q18	3Q18	4Q18P					1Q19E
					Actual	y-y	q-q	Estimate	Consen	
Sales	71.9	79.9	74.3	123.7	101.7	41.5	-17.8	112.1	103.2	104.8
OP	3.5	10.7	7.3	21.5	0.4	-87.3	-98.2	12.0	11.8	14.0
OPM	4.8	13.3	9.9	17.4	0.4			10.7	11.5	13.3
Pre-tax profit	1.7	10.8	11.0	22.0	1.7	1.9	-92.2	10.2	13.9	14.0
NP (excl minority interests)	2.0	7.9	8.9	17.3	1.7	-12.6	-89.9	8.0	10.9	13.1

Source: WISEfn, NH I&S Research Center estimates

Studio Dragon Target EV/EBITDA valuation

(Unit: x, %, Wbn, won, 1,000 shares)

	2019E	Multiple	(x)	Value	Note
Operating value (A)	178.2	EV/EBITDA	20.0	3,564.2	2019E, discount to China peers and global OTT players
Net debt (B)				-238.6	
Total Value(A)-(B)				3,802.8	
Value per share				135,565	Upside 44%
Outstanding shares				28,051,490	

Source: NH I&S Research Center estimates

Earnings forecasts (IFRS-consolidated)

(Unit: Wbn, won, x, %)

		2017	2018P	2019E	2020F
Sales	- Revised	286.8	379.5	514.4	606.3
	- Previous	286.8	390.0	542.9	622.6
	- Change		-2.7	-5.2	-2.6
OP	- Revised	33.0	39.8	88.4	121.7
	- Previous	33.0	51.4	99.3	134.2
	- Change		-22.6	-11.0	-9.3
OPM	- Revised	11.5	10.5	17.2	20.1
EBITDA		74.3	113.6	178.2	215.8
NP (excl minority interests)		23.8	35.8	72.9	98.9
EPS	- Revised	1,050	1,277	2,599	3,525
	- Previous		1,499	2,814	3,785
	- Change		-14.8	-7.6	-6.9
P/E		61.9	72.4	36.4	26.8
P/B		4.9	6.4	5.6	4.6
EV/EBITDA		22.1	21.3	13.6	10.8
ROE		9.5	9.3	16.5	18.8

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

(Unit: 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	101.7	104.8	135.3	134.3	140.0	286.8	379.5	514.4
Broadcasting revenue	26.3	24.1	41.8	39.0	40.7	34.1	48.9	54.4	44.6	52.4	48.9	49.2	131.2	178.1	195.1
IP + VOD	36.5	26.3	23.3	25.7	32.1	28.8	63.4	37.8	49.0	69.6	73.4	78.7	111.8	162.1	270.6
Other (DVD, OST)	12.5	11.6	12.4	7.2	7.1	11.4	11.4	9.5	11.2	13.3	12.0	12.2	43.7	39.4	48.7
y-y (%)	-	-	-	-	6.0	19.6	59.7	41.5	31.2	82.1	8.5	37.7	46.7	32.3	35.5
COGS	58.6	49.9	66.8	64.4	66.2	63.7	98.9	95.2	87.2	109.7	103.3	110.7	239.7	324.0	410.9
Production costs	35.2	31.8	38.2	44.5	44.6	33.3	47.7	63.1	52.6	61.8	70.5	76.0	149.7	188.7	261.0
Amortization costs	9.9	9.8	10.3	10.9	12.7	13.1	23.3	24.4	20.7	29.4	18.8	20.7	41.0	73.6	89.6
Other	13.4	8.3	18.2	9.0	8.9	17.2	27.9	7.7	13.8	18.5	14.0	13.9	49.0	61.8	60.3
GP	16.8	12.2	10.7	7.4	13.6	10.6	24.8	6.5	17.6	25.5	30.9	29.4	47.1	55.5	103.5
GPM	22.2	19.6	13.9	10.4	17.1	14.3	20.1	6.4	16.8	18.9	23.0	21.0	16.4	14.6	20.1
OP	14.0	8.9	6.7	3.5	10.7	7.3	21.5	0.4	14.0	22.1	26.7	25.6	33.1	39.8	88.4
OPM	18.5	14.3	8.7	4.8	13.3	9.9	17.4	0.4	13.3	16.3	19.9	18.3	11.5	10.5	17.2
y-y (%)	-	-	-	-	-23.7	-17.6	218.5	-87.3	30.9	201.5	24.6	5,711.5	-	20.4	121.9
NP	13.4	2.8	5.7	2.0	7.9	8.9	17.3	1.7	11.0	20.1	21.3	20.4	23.8	35.8	72.9
NPM	17.8	4.5	7.3	2.8	9.8	12.0	14.0	1.7	10.5	14.9	15.9	14.6	8.3	9.4	14.2

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 2019 drama line-up

Title	Airing date	Quarter	Channel	Type	Highest viewership	Remarks
God's Quiz: Reboot (Season 5)	18.11.14~19.01.10	4Q, 1Q	OCN	16 episodes	2.6%	All episodes supplied to Netflix
Priest	18.11.24~19.01.20	4Q, 1Q	OCN	16 episodes	2.4%	
Eunjoo's Room	18.11.06~19.01.22	4Q, 1Q	Olive	12 episodes	0.6%	Second season possible
Encounter	18.11.24~18.01.17	4Q, 1Q	tvN	16 episodes	10.0%	Export to more than 100 countries
Memories of the Alhambra	18.12.01~18.01.20	4Q, 1Q	tvN	16 episodes	9.7%	[Tent-pole] Supplied to Netflix Exported to China
The Man Who Became a King	19.01.07~19.02.26	1Q	tvN	16 episodes	9.1%	
Touch Your Heart	19.01.23~19.03.14	1Q	tvN	16 episodes	4.6%	
Romance is A Supplement	19.01.26~19.03.17	1Q	tvN	16 episodes	4.3%	To be globally aired on Netflix
Trap	19.02.09~19.03.02	1Q	OCN	7 episodes		
Possessed	19.03.06~19.04.25	1Q, 2Q	OCN	16 episodes		
Kill it	19.03.16~19.04.21	1Q, 2Q	OCN	12 episodes		
He Is Psychometric	19.03.11~19.04.30	1Q, 2Q	tvN	16 episodes		
Confession	19.03.23~19.05.12	1Q, 2Q	tvN	16 episodes		
Her Private Life		2Q	tvN	16 episodes		
Voice 3		2Q	OCN	16 episodes		
Watcher		2Q	OCN	16 episodes		
The Chronicles of Asdal		2Q	tvN	16 episodes		[Tent-pole] Second season to come
Spring Night		2Q, 3Q	MBC	16 episodes		
Abyss		2Q, 3Q	tvN	16 episodes		
Save Me 2		2Q, 3Q	OCN	16 episodes		
Man Who Bakes Bread		3Q	tvN	16 episodes		
Everyone's Privacy		3Q	tvN	16 episodes		
Doctor Room		3Q	SBS	16 episodes		
When the Devil Calls Your Name		3Q	tvN	16 episodes		
Hotel del Luna		3Q	tvN	16 episodes		[Tent-pole]

Source: Studio Dragon, media data, NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Sales	286.8	379.5	514.4	606.3
Growth (%)	85.8	32.3	35.5	17.9
COGS	239.7	324.0	410.9	468.9
Gross Profit	47.1	55.5	103.5	137.4
Gross margin (%)	16.4	14.6	20.1	22.7
SG&A	14.2	15.7	15.1	15.7
Operating Income	33.0	39.8	88.4	121.7
Growth (%)	98.8	20.6	122.1	37.7
Operating margin (%)	11.5	10.5	17.2	20.1
EBITDA	74.3	113.6	178.2	215.8
Non-Operating Profit	-2.7	5.1	5.1	5.0
Financial Income(Costs)	-2.5	0.6	1.2	1.6
Other Non-Operating Profit	-0.2	0.0	0.0	0.0
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	4.5	3.9	3.4
Pre-tax Profit from Cont. Op.	30.3	45.7	93.5	126.8
Income Taxes	6.4	9.9	20.6	27.9
Profit from Continuing Op.	23.8	35.8	72.9	98.9
Net Profit	23.8	35.8	72.9	98.9
Growth (%)	193.8	50.4	103.6	35.7
Net margin (%)	8.3	9.4	14.2	16.3
Net Profit of Parent	23.8	35.8	72.9	98.9
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	35.8	72.9	98.9

Valuation / Profitability / Stability				
	2017/12A	2018/12E	2019/12F	2020/12F
Price/Earnings (x)	61.9	72.4	36.4	26.8
Price/Book Value (x)	4.9	6.4	5.6	4.6
Price/Gross Cash Flow (x)	21.2	21.8	14.6	12.1
Price/Sales (x)	5.1	6.8	5.2	4.4
EV/EBITDA (x)	22.1	21.3	13.6	10.8
EV/EBIT (x)	49.7	60.7	27.3	19.1
Fully diluted EPS (won)	1,050	1,277	2,599	3,525
BVPS (won)	13,141	14,411	17,009	20,534
Sales PS (won)	12,628	13,537	18,337	21,614
ROE (%)	9.5	9.3	16.5	18.8
ROA (%)	6.8	7.5	13.8	16.0
ROIC (%)	14.2	14.8	30.2	40.4
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	-43.1	-50.0	-57.7
Debt/ equity (%)	24.7	21.0	18.7	16.2
Interest-Bearing Debts (Wbn)	10.0	0.0	0.0	0.0
Current Ratio (%)	319.6	326.7	388.7	474.7
Total shares (mn)	28	28	28	28
Par value (won)	500	500	500	500
Share price (won)	65,000	92,400	94,600	94,600
Market Cap (Wbn)	1,822	2,592	2,654	2,654

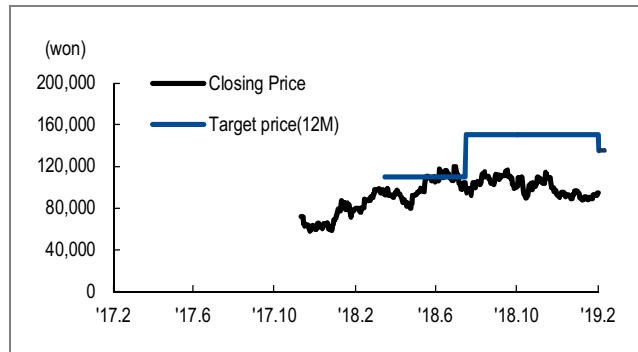
STATEMENT OF FINANCIAL POSITION				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Cash and Cash Equivalents	51.3	26.2	83.3	169.1
Accounts Receivables	54.9	57.7	60.0	61.8
Total Current Assets	289.8	275.8	344.0	440.8
Tangible Assets	1.1	0.8	0.6	0.5
Investment Assets	3.8	4.3	4.4	4.5
Non-Current Assets	169.6	213.3	222.2	228.8
Assets	459.5	489.1	566.2	669.5
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	89.0	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	67.9	140.8	239.7
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
Shareholders' Equity	368.4	404.2	477.1	576.0

CASH FLOW STATEMENT				
(Wbn)	2017/12A	2018/12E	2019/12F	2020/12F
Operating Cash Flow	-7.2	108.8	162.1	192.6
Net Profit	23.8	35.8	72.9	98.9
Depreciation & Amortization	41.3	73.8	89.8	94.1
+ 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	118.9	182.1	219.2
- Incr. (Decr.) in WC	-72.9	-0.2	0.5	1.3
Investing Cash Flow	-141.0	-123.5	-105.0	-106.7
+ 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	108.8	162.1	192.6
Net Cash Flow	-148.2	-14.7	57.1	85.8
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	-25.1	57.1	85.8
Ending Cash and Cash Equivalents	51.3	26.2	83.3	169.1
Net Debt (Cash)	-182.2	-174.1	-238.6	-332.2

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2019.02.14	Buy	W135,000(12M)	-	-
2018.07.30	Buy	W150,000(12M)	-32.9%	-22.5%
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%

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● NH I&S' stock rating distribution

Buy	Hold	Sell
78.3%	21.7%	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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- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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