

# Studio Dragon (253450.KQ)

## Writer pool to further stand out

Company Comment | Mar 26, 2019

The recent acquisition of Gtist should benefit Studio Dragon by: 1) improving its distribution sales stability (via the securing of star-status creator No-Hee Kyung); and 2) expanding its drama production capacity. We maintain a Buy rating on the play, drawing particular attention to its likely consensus-meeting 1Q19 results and abundant mid/long-term growth drivers.

### Securing of star creator to bolster sales stability

On Mar 25, Studio Dragon announced its intention to acquire a 100% stake in Gtist for W25bn in cash. We expect the acquisition to benefit Studio Dragon by: 1) improving its distribution sales stability (via the securing of top-tier creator No-Hee Kyung); and 2) expanding its drama production capacity by 3~4 dramas pa.

We expect Studio Dragon's securing of a new star creator, via the recent acquisition of drama producer Gtist, to help stabilize its distribution sales. Specifically, as dramas written by top-tier creators are more likely to be hits, they have a greater chance of selling for higher prices. Accordingly, the addition of a new star creator should lead to greater distribution sales stability going forward.

We also expect the acquisition of Gtist to result in cost savings. In detail, we note that Gtist already produces Live (distributed globally via Netflix) and it plans to release a new tentpole drama (Hotel Del Luna) later this year. For these recent/upcoming dramas, which were planned by Studio Dragon and produced by Gtist, Studio Dragon will likely book commission costs related to: 1) project outsourcing; and 2) distribution revenue sharing. However, once Gtist becomes Studio Dragon's consolidated subsidiary, Studio Dragon should be free of such costs for future projects.

### Focus on likely consensus-meeting 1Q19 results and abundant mid/long-term growth drivers

On a consolidated basis, we predict that Studio Dragon will post 1Q19 OP of W13.3bn (+24.6%/y-y), meeting consensus. In terms of sales, the firm should record strong distribution revenue on the booking of: 1) a portion of overseas distribution sales and full domestic VOD sales for Memories of the Alhambra and Encounter; and 2) global distribution sales to Netflix for Romance is a Bonus Book. Turning to costs, we predict that the majority of production costs for Memories of the Alhambra and Romance is a Bonus Book (the global distribution for both of which has been completed) will be booked in 1Q19.

Noting Studio Dragon's likely satisfactory 1Q19 results and the company's abundant mid/long-term growth potential (thanks to its collaboration with global players and CJ ENM's likely disposal of a stake in the firm), we maintain a Buy rating, continuing to recommend the play as our top pick for the content industry.

## Buy (maintain)

**TP** W135,000 (maintain)  
**CP ('19/03/25)** W88,700

Sector	Entertainment
Kospi/Kosdaq	2,144.86 / 727.21
Market cap (common)	US\$2,197.86mn
Outstanding shares (common)	28.1mn
52W high ('18/07/12)	W119,800
low ('18/05/08)	W79,600
Average trading value (60D)	US\$13.87mn
Dividend yield (2019E)	0.00%
Foreign ownership	3.1%
<b>Major Shareholders</b>	
CJ ENM & 3 others	74.4%

Share perf	3M	6M	12M
Absolute (%)	-6.2	-19.9	-6.1
Relative (%)	-13.6	-8.8	7.1

	2017	2018P	2019E	2020F
<b>Sales</b>	286.8	379.5	504.9	583.0
<b>Chg</b>	85.8	32.3	33.0	15.5
<b>OP</b>	33.0	39.8	76.3	107.0
<b>Chg</b>	98.8	20.6	91.7	40.2
<b>OPM</b>	11.5	10.5	15.1	18.4
<b>NP</b>	23.8	35.8	64.0	88.0
<b>EPS</b>	1,050	1,277	2,280	3,136
<b>Chg</b>	84.5	21.6	78.5	37.5
<b>P/E</b>	61.9	72.4	38.9	28.3
<b>P/B</b>	4.9	6.4	5.3	4.5
<b>EV/EBITDA</b>	22.1	21.0	13.0	11.2
<b>ROE</b>	9.5	9.3	14.7	17.2
<b>Debt/equity</b>	24.7	21.0	19.0	16.8
<b>Net debt</b>	-182.2	-175.9	-201.9	-303.3

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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## 1Q19 preview

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19E					2Q19F
					Estimate	y-y	q-q	Previous	Consen	
Sales	79.9	74.3	123.7	101.7	100.8	26.1	-0.9	104.8	96.1	125.7
OP	10.7	7.3	21.5	0.4	13.3	24.3	3225	14.0	13.1	16.7
OPM	13.3	9.9	17.4	0.4	13.2			13.3	13.6	13.3
Pre-tax profit	10.8	11.0	22.0	1.7	13.4	24.1	688.2	14.0	14.1	20.5
NP (excl minority interests)	7.9	8.9	17.3	1.7	10.5	32.9	517.6	13.1	12.6	16.0

Note: K-IFRS consolidated; Source: FnGuide, NH I&amp;S Research Center estimates

## Earnings forecasts (IFRS-consolidated)

(Unit: Wbn, won, x, %)

		2017	2018P	2019E	2020F
Sales	- Revised	286.8	379.5	504.9	583.0
	- Previous	286.8	379.5	515.0	599.6
	- Change		0.0	-2.0	-2.8
OP	- Revised	33.0	39.8	76.3	107.0
	- Previous	33.0	39.8	76.8	111.0
	- Change		0.0	-0.7	-3.6
OPM	- Revised	11.5	10.5	15.1	18.4
EBITDA		74.3	115.0	176.3	195.0
NP (excl minority interests)		23.8	35.8	64.0	88.0
EPS	- Revised	1,050	1,277	2,280	3,136
	- Previous		1,277	2,277	3,226
	- Change		0.0	0.1	-2.8
P/E		61.9	72.4	38.9	28.3
P/B		4.9	6.4	5.3	4.5
EV/EBITDA		22.1	21.0	13.0	11.2
ROE		9.5	9.3	14.7	17.2

Note: EPS, P/E, P/B, and ROE based on NP (excluding minority interests); Source: NH I&amp;S Research Center estimates

## Earnings forecasts, by division

(Unit: episodes, Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18P	1Q19E	2Q19F	3Q19F	4Q19F	2017	2018P	2019E
<b>Number of dramas</b>	<b>4</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>22</b>	<b>25</b>	<b>30</b>
TV (domestic)	4	6	6	7	6	6	6	8	7	7	7	7	22	25	28
OTT	-	-	-	-	-	-	-	-	-	-	1	1	-	-	2
<b>Sales</b>	<b>75.3</b>	<b>62.1</b>	<b>77.5</b>	<b>71.9</b>	<b>79.9</b>	<b>74.3</b>	<b>123.7</b>	<b>101.7</b>	<b>100.8</b>	<b>125.7</b>	<b>137.4</b>	<b>140.9</b>	<b>286.8</b>	<b>379.5</b>	<b>504.9</b>
Broadcasting revenue	26.3	24.1	41.8	39.0	40.7	34.1	48.9	54.4	42.1	52.7	50.4	47.0	131.2	178.1	192.2
IP + VOD	36.5	26.3	23.3	25.7	32.1	28.8	63.4	37.8	47.5	59.2	74.3	81.2	111.8	162.1	262.2
Other (DVD, OST)	12.5	11.6	12.4	7.2	7.1	11.4	11.4	9.5	11.2	13.8	12.8	12.8	43.7	39.4	50.5
y-y (%)	-	-	-	-	6.0	19.6	59.7	41.5	26.2	69.3	11.1	38.5	46.7	32.3	33.0
<b>COGS</b>	<b>58.6</b>	<b>49.9</b>	<b>66.8</b>	<b>64.4</b>	<b>66.2</b>	<b>63.7</b>	<b>98.9</b>	<b>95.2</b>	<b>83.9</b>	<b>105.6</b>	<b>109.0</b>	<b>113.4</b>	<b>239.7</b>	<b>324.0</b>	<b>411.9</b>
Production costs	35.2	31.8	38.2	44.5	44.6	33.3	47.7	60.0	49.7	61.4	70.7	74.1	149.7	185.6	255.8
Amortization costs	9.9	9.8	10.3	10.9	12.7	13.1	23.3	25.8	20.9	29.0	24.5	25.3	41.0	74.9	99.8
Other	13.4	8.3	18.2	9.0	8.9	17.2	27.9	9.4	13.2	15.2	13.8	14.0	49.0	63.5	56.2
<b>GP</b>	<b>16.8</b>	<b>12.2</b>	<b>10.7</b>	<b>7.4</b>	<b>13.6</b>	<b>10.6</b>	<b>24.8</b>	<b>6.5</b>	<b>16.9</b>	<b>20.2</b>	<b>28.4</b>	<b>27.5</b>	<b>47.1</b>	<b>55.5</b>	<b>93.1</b>
GPM	22.2	19.6	13.9	10.4	17.1	14.3	20.1	6.4	16.8	16.1	20.7	19.5	16.4	14.6	18.4
<b>OP</b>	<b>14.0</b>	<b>8.9</b>	<b>6.7</b>	<b>3.5</b>	<b>10.7</b>	<b>7.3</b>	<b>21.5</b>	<b>0.4</b>	<b>13.3</b>	<b>16.7</b>	<b>24.6</b>	<b>21.6</b>	<b>33.1</b>	<b>39.8</b>	<b>76.3</b>
OPM	18.5	14.3	8.7	4.8	13.3	9.9	17.4	0.4	13.2	13.3	17.9	15.4	11.5	10.5	15.1
y-y (%)	-	-	-	-	-23.7	-17.6	218.5	-87.3	24.6	128.7	14.6	4,806.7	-	20.4	91.5
<b>NP</b>	<b>13.4</b>	<b>2.8</b>	<b>5.7</b>	<b>2.0</b>	<b>7.9</b>	<b>8.9</b>	<b>17.3</b>	<b>1.7</b>	<b>10.5</b>	<b>16.0</b>	<b>19.6</b>	<b>17.9</b>	<b>23.8</b>	<b>35.8</b>	<b>64.0</b>
NPM	17.8	4.5	7.3	2.8	9.8	12.0	14.0	1.7	10.4	12.7	14.3	12.7	8.3	9.4	12.7

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&amp;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	2.7%	All episodes supplied to Netflix
Priest	18.11.24~19.01.20	4Q, 1Q	OCN	16 episodes	2.5%	
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	10.3%	Exported to more than 100 countries
Memories of the Alhambra	18.12.01~18.01.20	4Q, 1Q	tvN	16 episodes	10.0%	[Tent-pole] Supplied to Netflix, exported to China
The Man Who Became a King	19.01.07~19.02.26	1Q	tvN	16 episodes	10.9%	
Touch Your Heart	19.01.23~19.03.14	1Q	tvN	16 episodes	3.7%	
Romance is a Bonus Book	19.01.26~19.03.17	1Q	tvN	16 episodes	6.7%	Globally aired on Netflix
Trap	19.02.09~19.03.02	1Q	OCN	7 episodes	4.0%	
Possessed	19.03.06~19.04.25	1Q, 2Q	OCN	16 episodes	2.3%	
Kill it	19.03.16~19.04.21	1Q, 2Q	OCN	12 episodes	2.3%	
He Is Psychometric	19.03.11~19.04.30	1Q, 2Q	tvN	16 episodes	2.1%	
Confession	19.03.23~19.05.12	1Q, 2Q	tvN	16 episodes	5.4%	
Her Private Life	19.04.10~19.05.30	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 coming
Spring Night		2Q, 3Q	MBC	16 episodes		
Abyss		2Q, 3Q	tvN	16 episodes		
Save Me 2		2Q, 3Q	OCN	16 episodes		
The 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		[Tend-pole]
WWW		3Q	tvN	16 episodes		
Love Alarm S1		3Q	Netflix	8 episodes		Netflix Original, second season coming
I am Alone S1		4Q	Netflix	12~ 15 episodes		Netflix Original, second season coming

Note: Media reports, Studio Dragon, NH I&amp;S Research Center

## Star-status creators at Studio Dragon




**STUDIO DRAGON**

**작가**  
김은숙, 박지은,  
김영현, 박상연,  
홍자매, 노희경  
...

**연출**  
김원석, 이응복,  
김철규, 이윤정,  
이정호, 김규태,  
홍종찬 ...

**제작1CP**  
**제작2CP**  
**제작3CP**  
**제작4CP**  
**제작 5CP**  
기획팀






Note: Studio Dragon, NH I&amp;S Research Center

## No-Hee Kyung's dramas



Note: Glist, NH I&amp;S Research Center estimates

**STATEMENT OF COMPREHENSIVE INCOME**

(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
<b>Sales</b>	<b>286.8</b>	<b>379.5</b>	<b>504.9</b>	<b>583.0</b>
Growth (%)	85.8	32.3	33.0	15.5
<b>COGS</b>	<b>239.7</b>	<b>324.0</b>	<b>411.9</b>	<b>451.5</b>
<b>Gross Profit</b>	<b>47.1</b>	<b>55.5</b>	<b>93.1</b>	<b>131.4</b>
Gross margin (%)	16.4	14.6	18.4	22.5
SG&A	14.2	15.7	16.8	24.4
<b>Operating Income</b>	<b>33.0</b>	<b>39.8</b>	<b>76.3</b>	<b>107.0</b>
Growth (%)	98.8	20.6	91.7	40.2
Operating margin (%)	11.5	10.5	15.1	18.4
<b>EBITDA</b>	<b>74.3</b>	<b>115.0</b>	<b>176.3</b>	<b>195.0</b>
<b>Non-Operating Profit</b>	<b>-2.7</b>	<b>5.8</b>	<b>5.8</b>	<b>5.7</b>
Financial Income(Costs)	-2.5	0.6	1.1	1.4
Other Non-Operating Profit	-0.2	0.0	0.0	0.0
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	5.2	4.7	4.3
<b>Pre-tax Profit from Cont. Op.</b>	<b>30.3</b>	<b>45.7</b>	<b>82.0</b>	<b>112.8</b>
<b>Income Taxes</b>	<b>6.4</b>	<b>9.9</b>	<b>18.0</b>	<b>24.8</b>
Profit from Continuing Op.	23.8	35.8	64.0	88.0
<b>Net Profit</b>	<b>23.8</b>	<b>35.8</b>	<b>64.0</b>	<b>88.0</b>
Growth (%)	193.8	50.4	78.8	37.5
Net margin (%)	8.3	9.4	12.7	15.1
Net Profit of Parent	23.8	35.8	64.0	88.0
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	64.0	88.0

**Valuation / Profitability / Stability**

	2017/12A	2018/12P	2019/12E	2020/12F
Price/ Earnings (X)	61.9	72.4	38.9	28.3
Price/ Book Value (X)	4.9	6.4	5.3	4.5
Price/ Gross Cash Flow (X)	21.2	21.5	13.8	12.5
Price/ Sales (X)	5.1	6.8	4.9	4.3
EV/ EBITDA (X)	22.1	21.0	13.0	11.2
EV/ EBIT (X)	49.7	60.7	30.0	20.4
Fully diluted EPS (W)	1,050	1,277	2,280	3,136
BVPS (W)	13,141	14,411	16,691	19,827
Sales PS (W)	12,628	13,537	18,000	20,783
ROE (%)	9.5	9.3	14.7	17.2
ROA (%)	6.8	7.5	12.2	14.6
ROIC (%)	14.2	14.9	26.0	34.7
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 (W)	0	0	0	0
Net debt(cash)/ equity (%)	-49.4	-43.5	-43.1	-54.5
Debt/ equity (%)	24.7	21.0	19.0	16.8
Interest-Bearing Debts (Wbn)	10.0	0.0	0.0	0.0
Current Ratio (%)	319.6	328.7	347.3	443.7
Total shares (mn)	28	28	28	28
Par value (W)	500	500	500	500
Share price (W)	65,000	92,400	88,700	88,700
Market Cap (Wbn)	1,822	2,592	2,488	2,488

**STATEMENT OF FINANCIAL POSITION**

(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Cash and Cash Equivalents	51.3	28.0	46.6	140.3
Accounts Receivables	54.9	57.7	60.0	61.8
<b>Total Current Assets</b>	<b>289.8</b>	<b>277.6</b>	<b>307.3</b>	<b>411.9</b>
Tangible Assets	1.1	0.8	0.6	0.5
Investment Assets	3.8	4.3	29.4	4.5
<b>Non-Current Assets</b>	<b>169.6</b>	<b>211.5</b>	<b>249.9</b>	<b>237.7</b>
<b>Assets</b>	<b>459.5</b>	<b>489.1</b>	<b>557.1</b>	<b>649.6</b>
Short-Term Debt	10.0	0.0	0.0	0.0
Account Payables	6.1	6.1	6.2	6.4
<b>Current Liabilities</b>	<b>90.7</b>	<b>84.4</b>	<b>88.5</b>	<b>92.8</b>
Long-Term Debt	0.0	0.0	0.0	0.0
Long-Term Allowance	0.3	0.4	0.5	0.6
<b>Non-Current Liabilities</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>
<b>Liabilities</b>	<b>91.0</b>	<b>84.9</b>	<b>89.0</b>	<b>93.5</b>
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	131.9	219.8
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
<b>Shareholders' Equity</b>	<b>368.4</b>	<b>404.2</b>	<b>468.2</b>	<b>556.2</b>

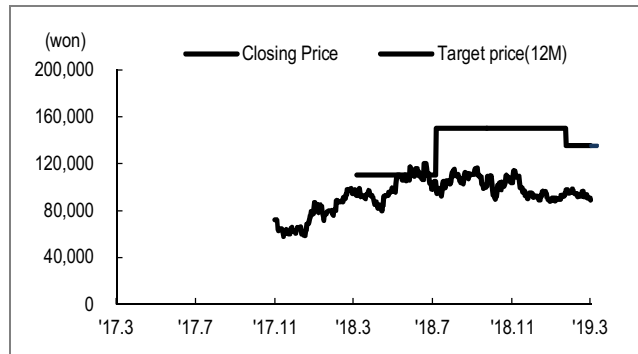
**CASH FLOW STATEMENT**

(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
<b>Operating Cash Flow</b>	<b>-7.2</b>	<b>110.1</b>	<b>163.4</b>	<b>175.7</b>
Net Profit	23.8	35.8	64.0	88.0
Depreciation&Amortization	41.3	75.2	100.0	87.9
+ 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	120.3	180.9	199.3
- Incr. (Decr.) in WC	-72.9	-0.2	0.5	1.3
<b>Investing Cash Flow</b>	<b>-141.0</b>	<b>-123.0</b>	<b>-144.7</b>	<b>-82.1</b>
+ 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	-25.1	24.9
Free Cash Flow	-7.3	110.1	163.4	175.7
Net Cash Flow	-148.2	-12.9	18.7	93.6
<b>Financing Cash Flow</b>	<b>188.1</b>	<b>-10.4</b>	<b>0.0</b>	<b>0.0</b>
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	-23.4	18.7	93.6
Ending Cash and Cash Equivalents	51.3	28.0	46.7	140.3
Net Debt (Cash)	-182.2	-175.9	-201.9	-303.3

## Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2019.02.15	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%

## Studio Dragon (253450.KQ)



## NH Investment &amp; Securities stock ratings

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 Mar 22, 2019).

● NH I&S' stock rating distribution

Buy	Hold	Sell
76.1%	23.9%	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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