

# Studio Dragon (253450 KS)

## Media/entertainment



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Rating	<b>BUY (M)</b>
Target price	<b>W111,000 (M)</b>
Current price (Apr 5)	<b>W92,200</b>
Upside potential	<b>20%</b>

Market cap (Wbn)	2,586
Shares outstanding	28,051,490
Avg daily T/O (2M, Wbn)	15
Avg daily volume (2M, shrs)	160,499
52-week high (won)	119,800
52-week low (won)	79,600
Foreign ownership (%)	3.2
Major shareholders (%)	
CJ E&M & others	74.4

### Stock performance

(%)	1M	3M	12M
Absolute	0.3	3.8	0.5
Relative	(0.2)	(8.2)	16.2
Abs (US\$)	(0.7)	2.7	(6.3)

### Quarterly earnings

(Wbn)	1Q19E	% YoY	% QoQ	Consens	vs consens (%)
Sales	94	17.3	-7.9	97	-3.2
OP	13	26.1	2,949.7	13	3.1
Pre-tax net profit	14	31.1	725.4	14	-1.3
Net profit, CI	11	36.9	516.5	13	-14.6
OPM (%)	14.3	+1.0 %pt	+13.9 %pt	13.5	+0.8 %pt
NPM (%)	11.5	+1.7 %pt	+9.8 %pt	13.0	-1.5 %pt

## Expectations for China OTT sales resuming

### 1Q19 preview

- We estimate consolidated gross profit at W16.7bn (+22% YoY), OP at W13.4bn (+26% YoY), and net profit at W10.8bn (+37% YoY). OP likely met consensus. In 1Q18, the firm booked distribution revenue from a package of its dramas including "A Korean Odyssey" from Netflix, but this did not result in a high base for 1Q19, as "Cross" failed after one of the drama's main actors stepped down amid sexual assault allegations. **In 1Q19, the company recognized 40% of "Memories of the Alhambra" distribution revenue and 50% of "Encounter" distribution revenue from tvN. It also recognized "Romance is a Bonus Book" distribution revenue from Netflix.** It is positive that the burden of amortization began to fall in 1Q19, after the firm booked amortization for 10 dramas early in 4Q18.

### Serial drama series to begin

- tvN will program its tentpole drama "Arthdal Chronicles" in May 2019. It is a serial drama, with season 2 to be produced in 2020. This drama is likely to become Studio Dragon's biggest drama, as "Game of Thrones" was for HBO. If season 1 is well received by viewers, production of season 3 may get the green light. The company is now building a drama studio in Osan, Gyeonggi-do. As the company signed an initial contract with Samhwa Networks for W10bn, the drama studio will cost about W10bn~15bn in total. Studio Dragon plans to recognize the total cost of building the studio for season 1. Therefore, while season 1 will likely generate minimal profit, season 2 should benefit from strong operating leverage.
- In addition, two Netflix original dramas will be produced this year. "Love Alarm" and "Me Alone and You" will likely be released in 2H19. These are also planned to be produced in multiple seasons. If they are produced as planned, their prices will likely increase as each season is released.

### Drama sales to China likely to resume, easing valuation pressure

- The firm's 2019 OP consensus is high at W79bn (+98% YoY). Consensus ranges from W45.6bn to W100.3bn, as there is a huge gap between houses in estimating drama sales to China. We revised down our 2019E OP by 32% from W78.5bn to W53.6bn, as we believe Arthdal Chronicles Season 1 will just break even. Revenue from two Korea-China joint production dramas will likely be reflected this year, and we expect W3bn in gross profit from each. Our valuation for the company is high at a 2019E P/E of 61.7x. However, there are signs that the Chinese ban on package tourists to Korea will be lifted in April, raising expectations for the end of the ban on transmitting Korean dramas to China's over-the-top (OTT) services. Once regulations ease, our valuation will likely be adjusted to a P/E of 20x.

### Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2017A	2018A	2019E	2020E
Sales		287	380	446	589
OP		33	40	54	160
Net profit, CI		24	36	43	124
P/E (x)		60.3	75.9	61.7	21.3
P/B (x)		4.8	6.8	6.0	4.7
EV/EBITDA		21.4	22.3	20.6	9.5
ROE (%)		9.5	9.3	10.2	24.8

Source: Yuanta Securities

## Studio Dragon (253450 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income					
FY ends Dec (Wbn)	2017A	2018A	2019E	2020E	2021E
Sales	287	380	446	589	666
Cost of sales	240	324	375	407	456
Gross profit	47	56	71	182	209
SG&A	14	16	17	22	27
<b>Operating profit</b>	<b>33</b>	<b>40</b>	<b>54</b>	<b>160</b>	<b>182</b>
EBITDA	74	115	117	242	273
Non-op profit/loss	-3	6	3	4	7
Forex gain/loss	-1	3	0	0	0
Net interest income	-1	3	3	4	7
Equity-meth gain/loss	0	0	0	0	0
Other	0	0	0	0	0
Net profit before income tax	30	46	57	164	189
Income tax	6	10	14	40	46
Net profit from continuing ops	24	36	43	124	143
Net profit from discontinued ops	0	0	0	0	0
Net profit	24	36	43	124	143
<b>NP for controlling interest</b>	<b>24</b>	<b>36</b>	<b>43</b>	<b>124</b>	<b>143</b>
Total comprehensive income	24	35	39	120	139
Total comprehensive income, CI	24	35	39	120	139

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position					
FY ends Dec (Wbn)	2017A	2018A	2019E	2020E	2021E
<b>Current assets</b>	<b>290</b>	<b>247</b>	<b>289</b>	<b>410</b>	<b>568</b>
Cash & cash equivalents	51	153	179	278	425
Accts rec & other	55	69	84	107	121
Inventory	1	1	1	1	1
Non-current assets	170	265	265	265	265
Tangible assets	1	1	1	1	1
Investment in affiliates	0	0	0	0	0
Other non-current	4	4	3	3	3
<b>Total assets</b>	<b>459</b>	<b>512</b>	<b>554</b>	<b>675</b>	<b>832</b>
Current liabilities	91	108	110	111	125
Accts payable & other	34	60	62	63	77
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	10	0	0	0	0
Non-current liabilities	0	3	3	3	3
LT financial liabilities	0	0	0	0	0
Debentures	0	0	0	0	0
<b>Total liabilities</b>	<b>91</b>	<b>111</b>	<b>113</b>	<b>114</b>	<b>128</b>
Equity, controlling interest	368	401	441	561	704
Paid-in capital	14	14	14	14	14
Capital surplus	320	320	320	320	320
Retained earnings	32	68	111	235	378
Equity, non-controlling interest	0	0	0	0	0
<b>Total equity</b>	<b>368</b>	<b>401</b>	<b>441</b>	<b>561</b>	<b>704</b>
<b>Net debt</b>	<b>-183</b>	<b>-153</b>	<b>-179</b>	<b>-278</b>	<b>-426</b>
Total debt	10	2	2	2	2

Cash flow statement					
FY ends Dec (Wbn)	2017A	2018A	2019E	2020E	2021E
<b>Operating cash flow</b>	<b>-7</b>	<b>-29</b>	<b>89</b>	<b>182</b>	<b>231</b>
Net profit	0	0	43	124	143
Depreciation & amortization	0	0	0	0	0
Forex gain/loss	1	-1	0	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-73	-139	-17	-25	-3
Other	65	111	63	82	90
<b>Investing cash flow</b>	<b>-141</b>	<b>141</b>	<b>-63</b>	<b>-82</b>	<b>-91</b>
Investment	0	0	0	0	0
Inc in tangible assets	0	0	0	0	0
Dec in tangible assets	0	0	0	0	0
Other	-141	141	-63	-82	-90
<b>Financing cash flow</b>	<b>188</b>	<b>-10</b>	<b>1</b>	<b>1</b>	<b>1</b>
Inc (dec) in ST fin liab	-8	0	0	0	0
Inc (dec) in LT fin liab	-10	-10	0	0	0
Inc (dec) in equity	208	0	0	0	0
Cash dividend	0	0	0	0	0
Other	-2	0	1	1	1
Other cash flow	0	0	0	-2	7
<b>Inc (dec) in cash &amp; equivalents</b>	<b>40</b>	<b>102</b>	<b>26</b>	<b>99</b>	<b>148</b>
Beginning cash & equivalents	12	51	0	0	278
Ending cash & equivalents	51	153	179	278	425
<b>NOPLAT</b>	<b>33</b>	<b>40</b>	<b>54</b>	<b>160</b>	<b>182</b>
<b>FCF</b>	<b>-6</b>	<b>-33</b>	<b>86</b>	<b>178</b>	<b>225</b>

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

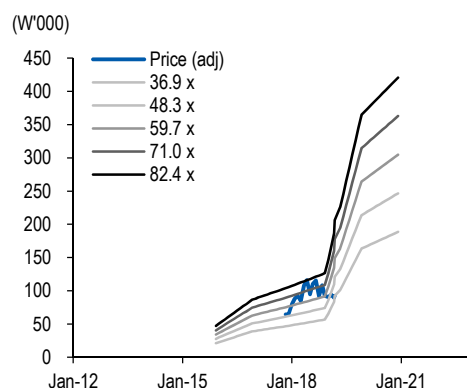
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

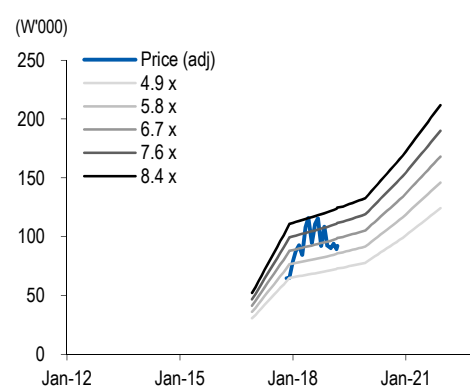
Valuation					
FY ends Dec	2017A	2018A	2019E	2020E	2021E
EPS (won)	1,050	1,278	1,533	4,429	5,107
BPS (won)	13,141	14,305	15,719	20,001	25,108
EBITDA/shr (won)	3,271	4,108	4,169	8,624	9,730
SPS (won)	12,628	13,539	15,901	21,007	23,736
DPS (won)	0	0	0	0	0
<b>P/E (x)</b>	<b>60.3</b>	<b>75.9</b>	<b>61.7</b>	<b>21.3</b>	<b>18.5</b>
<b>P/B (x)</b>	<b>4.8</b>	<b>6.8</b>	<b>6.0</b>	<b>4.7</b>	<b>3.8</b>
<b>EV/EBITDA (x)</b>	<b>21.4</b>	<b>22.3</b>	<b>20.6</b>	<b>9.5</b>	<b>7.9</b>
<b>P/S (x)</b>	<b>5.0</b>	<b>7.2</b>	<b>5.9</b>	<b>4.5</b>	<b>4.0</b>

Key financial data					
FY ends Dec	2017A	2018A	2019E	2020E	2021E
<b>Sales (% YoY)</b>	<b>85.7</b>	<b>32.4</b>	<b>17.5</b>	<b>32.1</b>	<b>13.0</b>
<b>Operating profit (%YoY)</b>	<b>98.3</b>	<b>21.0</b>	<b>34.3</b>	<b>197.9</b>	<b>14.3</b>
<b>Net profit, CI (%YoY)</b>	<b>192.9</b>	<b>50.3</b>	<b>20.0</b>	<b>189.0</b>	<b>15.3</b>
Gross margin (%)	16.4	14.6	15.9	30.9	31.4
<b>Operating margin (%)</b>	<b>11.5</b>	<b>10.5</b>	<b>12.0</b>	<b>27.1</b>	<b>27.4</b>
Net margin, CI (%)	8.3	9.4	9.6	21.1	21.5
EBITDA margin (%)	25.9	30.3	26.2	41.1	41.0
ROIC (%)	19.7	19.3	21.6	58.2	63.9
ROA (%)	6.8	7.4	8.1	20.2	19.0
<b>ROE (%)</b>	<b>9.5</b>	<b>9.3</b>	<b>10.2</b>	<b>24.8</b>	<b>22.6</b>
Debt-to-equity (%)	24.7	27.7	25.6	20.3	18.2
Net debt-to-equity (%)	-49.6	-38.2	-40.7	-49.5	-60.4
OP/financing cost (x)	19.0	343.0	0.0	0.0	0.0

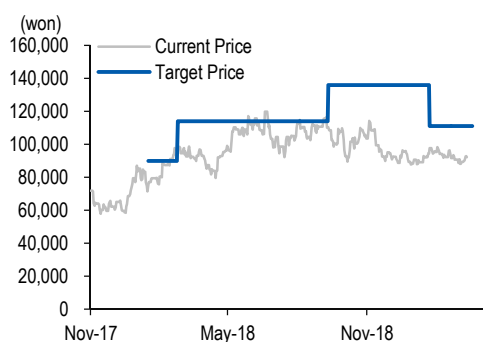
P/E band chart



P/B band chart



Studio Dragon (253450 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2019/04/08	BUY	111,000	1 yr		
2019/02/15	BUY	111,000	1 yr		
2018/10/04	BUY	136,000	1 yr	-28.00	-16.10
2018/03/19	BUY	114,000	1 yr	-10.46	5.09
2018/02/08	BUY	90,000	1 yr	-5.24	8.56
2017/11/24	BUY	60,000	1 yr	14.10	45.00

Note: Difference = (actual price\* - target price) / target price x 100

\* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	0.5
BUY	86.5
HOLD	13.0
SELL	0.0
Total	100.0

Note: As of Apr 5

Excluding reports written or published by overseas affiliates

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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