

Studio Dragon (253450.KQ)

Focus on overseas top-line growth

Company Comment | May 10, 2019

While Studio Dragon top line exceeded consensus in 1Q19 on solid overseas sales, OP fell short due to accelerated amortization stemming from exclusive drama distribution to a single global OTT player (Netflix). By supplying Netflix, Studio Dragon is gaining global exposure. In order to secure earnings visibility, the firm plans to accelerate amortization for its tent pole dramas.

Amortization rate increases amid remarkable overseas sales

Studio Dragon posted consolidated 1Q19 sales of W1,111.8bn (+40.0% y-y) and OP of W11.0bn (+3.5% y-y). Although sales exceeded consensus (W94.3bn), OP fell short of market expectations (W12bn) by 8%.

While broadcasting revenue expanded to W44.1bn (+8.3% y-y) on an increased number of dramas, leverage effects were insignificant as the firm's costs also increased.

Distribution sales, which have high leverage effects, reached W56.2bn (+75.1% y-y) in 1Q19 (overseas: W42.6bn (+87.4% y-y); domestic: W13.6bn (+45.0% y-y)). However, OP growth slowed due to the accelerated amortization of intangible assets from Memories of the Alhambra and Romance is Bonus Book, which were broadcasted globally. Looking ahead to 2Q19, we forecast robust overseas sales thanks to the distribution of Abyss, One Spring Night, and Chronicles of Asdal to Netflix. However, OP contributions will likely be limited by accelerated amortization.

Preparing to grow into global titan

As the tent-pole airing cycle becomes shorter, intangible asset amortization will inevitably accelerate due to a huge spike in overseas sales. As a result, q-q profitability growth may be limited in the near term. However, this short-term negative is unavoidable as the firm prepares for the next stage of its global expansion.

In addition, with new global OTT players (Apple, Disney, and Hulu) set to emerge in 2H19, demand to secure content will likely intensify. With this in mind, the global exposure of the company's dramas, driven by ongoing global OTT sales, will likely be key for the firm to strengthen its position ahead of the arrival of new OTT players.

Buy (maintain)

TP **W135,000 (maintain)**
CP (19/05/09) **W89,300**

Sector	Entertainment
Kospi/Kosdaq	2,102.01 / 724.22
Market cap (common)	US\$2,122.9mn
Outstanding shares (common)	28.1mn
52W high ('18/07/12)	W119,800
low ('18/05/09)	W83,600
Average trading value (60D)	US\$11.4mn
Dividend yield (2019E)	0.00%
Foreign ownership	3.2%

Major Shareholders
CJ ENM & 3 others 74.4%

Share perf	3M	6M	12M
Absolute (%)	-3.0	-11.1	6.8
Relative (%)	-2.4	-15.6	25.5

	2018	2019E	2020F	2021F
Sales	379.6	531.5	588.0	687.1
Chg	32.4	40.0	10.6	16.9
OP	39.9	65.9	89.9	143.5
Chg	20.9	65.2	36.4	59.6
OPM	10.5	12.4	15.3	20.9
NP	35.8	56.3	76.1	117.9
EPS	1,278	2,009	2,713	4,203
Chg	21.7	57.2	35.0	54.9
P/E	72.3	44.5	32.9	21.2
P/B	6.5	5.5	4.7	3.8
EV/EBITDA	21.2	13.3	11.7	7.9
ROE	9.3	13.1	15.4	19.9
Debt/equity	27.7	25.3	22.7	19.5
Net debt	-155.5	-168.7	-251.4	-390.1

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

1Q19 review (K-IFRS consolidated)

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19P					2Q19E
					Actual	y-y	q-q	Estimate	Consensus	
Sales	79.9	74.3	123.7	101.7	111.8	40.0	9.9	99.9	94.3	119.7
OP	10.7	7.3	21.5	0.4	11.0	3.5	2,403.3	12.2	12.0	12.9
OPM	13.3	9.9	17.4	0.4	9.9			12.2	14.4	10.8
Pre-tax profit	10.8	11.0	22.0	1.7	13.1	21.4	664.4	12.3	10.7	16.6
NP (excl minority interests)	7.9	8.9	17.3	1.7	9.1	16.1	423.0	9.6	10.6	13.0

Source: WISEFn, NH I&S Research Center estimates



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Earnings forecasts (IFRS-consolidated)

(Unit: Wbn, won, x, %)

		2018	2019E	2020F	2021F
Sales	- Revised	379.6	531.5	588.0	687.1
	- Previous		504.2	584.4	678.4
	- Change		5.4	0.6	1.3
OP	- Revised	39.9	65.9	89.9	143.5
	- Previous		75.8	102.8	165.9
	- Change		-13.1	-12.5	-13.5
OPM	- Revised	10.5	12.4	15.3	20.9
EBITDA		115.2	176.2	193.1	267.0
NP (excl minority interests)		35.8	56.3	76.1	117.9
EPS	- Revised	1,278	2,009	2,713	4,203
	- Previous		2,267	3,018	4,774
	- Change		-11.4	-10.1	-12.0
P/E		72.3	44.5	32.9	21.2
P/B		6.5	5.5	4.7	3.8
EV/EBITDA		21.2	13.3	11.7	7.9
ROE		9.3	13.1	15.4	19.9

Note 1: EPS, P/E, P/B, and ROE based on NP (excluding minority interests)

Note 2: Our TP remains unchanged, despite changes in EPS forecasts, as our valuation is based on EV/EBITDA

Source: NH I&S Research Center estimates

Earnings forecasts, by division

(Unit: episodes, Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19P	2Q19E	3Q19F	4Q19F	2017	2018P	2019E
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	111.8	119.7	157.2	142.8	286.8	379.6	531.5
Broadcasting revenue	26.3	24.1	41.8	39.0	40.7	34.1	48.9	54.4	44.1	50.4	55.0	49.4	131.2	178.1	198.9
IP + VOD	36.5	26.3	23.3	25.7	32.1	28.8	63.4	37.8	56.2	56.3	88.5	80.3	111.8	162.1	281.3
Other (DVD, OST)	12.5	11.6	12.4	7.2	7.1	11.4	11.4	9.5	11.5	13.0	13.7	13.0	43.7	39.4	51.3
y-y (%)	-	-	-	-	6.0	19.6	59.7	41.5	40.0	61.1	27.1	40.4	46.7	32.4	40.0
COGS	58.6	49.9	66.8	64.4	66.2	63.7	98.9	95.2	96.8	103.0	127.9	119.2	239.7	324.0	446.9
Production costs	35.2	31.8	38.2	44.5	44.6	33.3	47.7	60.0	52.0	58.4	76.1	77.0	149.7	185.6	263.5
Amortization costs	9.9	9.8	10.3	10.9	12.7	13.1	23.3	25.8	26.7	27.5	31.5	24.4	41.0	74.9	110.1
Other	13.4	8.3	18.2	9.0	8.9	17.2	27.9	9.4	18.1	17.1	20.3	17.8	49.0	63.5	73.3
GP	16.8	12.2	10.7	7.4	13.6	10.6	24.8	6.5	15.0	16.7	29.3	23.6	47.1	55.6	84.6
GPM	22.2	19.6	13.9	10.4	17.1	14.3	20.1	6.4	13.4	13.9	18.6	16.5	16.4	14.6	15.9
OP	14.0	8.9	6.7	3.5	10.7	7.3	21.5	0.4	11.0	12.9	25.1	16.9	33.1	39.8	65.9
OPM	18.5	14.3	8.7	4.8	13.3	9.9	17.4	0.4	9.9	10.8	16.0	11.8	11.5	10.5	12.4
y-y (%)	-	-	-	-	-23.7	-17.6	218.5	-88.9	3.5	76.1	16.8	4,286	-	20.5	65.4
NP	13.4	2.8	5.7	2.0	7.9	8.9	17.3	1.7	9.2	13.0	20.0	14.2	23.8	35.8	56.3
NPM	17.8	4.5	7.3	2.8	9.8	12.0	14.0	1.7	8.2	10.8	12.7	9.9	8.3	9.4	10.6

Note: Based on number of dramas aired each quarter (if a drama is aired for two consecutive quarters, 0.5 is reflected each quarter)

Source: NH I&S Research Center estimates

Changes in our key estimates (2019)

(Unit: Wbn, %)

	Previous	Revised	Chg	Chg (%)
Distribution (VOD+IP) sales	258.5	281.3	22.8	+8.8%
COGS	412.5	446.9	34.4	+8.3%
Production cost	259.9	263.5	3.6	+1.4%
Amortization of intangible assets	102.5	110.1	7.6	+7.4%
OP	75.8	65.9	-9.9	-13.1%

Source: NH I&S Research Center estimates

Studio Dragon's 2019 drama line-up

Title	Airing date	Quarter	Channel	Type	Peak 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	0.4%	Second season possible
Encounter	18.11.28~18.01.24	4Q, 1Q	tvN	16 episodes	10.0%	Exported 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	19.01.07~19.03.04	1Q	tvN	16 episodes	10.5%	
Touch Your Heart	19.02.06~19.03.28	1Q	tvN	16 episodes	4.6%	
Romance is a Bonus Book	19.01.26~19.03.17	1Q	tvN	16 episodes	6.4%	Aired globally on Netflix
Trap	19.03.06~19.4.25	1Q, 2Q	OCN	7 episodes	2.6%	
Possessed	19.03.23~19.4.28	1Q, 2Q	OCN	16 episodes	2.7%	
Kill it	19.03.11~19.04.30	1Q, 2Q	tvN	12 episodes	2.7%	
He Is Psychometric	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	3.0%	
Abyss	19.05.06~19.06.25	2Q	tvN	16 episodes	3.7%	Aired globally on Netflix
Save Me 2	19.05.08~19.06.20	2Q	OCN	16 episodes	1.4%	
Voice 3	19.05.11~19.06.30	2Q	OCN	12 episodes		
Spring Night	19.05.22~19.07.11	2Q, 3Q	MBC	16 episodes		Aired globally on Netflix, JS Pictures
The Chronicles of Asdal	19.06.01~19.08.05	2Q, 3Q	tvN	18 episodes		[Tent-pole] Multi-season drama
Search: WWW	19.06.05~19.07.25	2Q, 3Q	tvN	16 episodes		
Watcher		3Q	OCN	16 episodes		
Hotel del Luna		3Q	tvN	16 episodes		[Tent-pole]
Doctor Room		3Q	SBS	16 episodes		
Designated survivor		3Q	tvN	16 episodes		
When the Devil Calls Your Name		3Q	tvN	16 episodes		
The Man Who Bakes Bread		3Q	tvN	16 episodes		
Great Show		4Q	tvN	16 episodes		
Love Alarm S1		3Q	Netflix	8 episodes		Netflix Original, multi-season drama
I am Alone S1		4Q	Netflix	12~ 15 episodes		Netflix Original, multi-season drama

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

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Sales	379.6	531.5	588.0	687.1
Growth (%)	32.4	40.0	10.6	16.9
COGS	324.0	446.9	470.7	507.5
Gross Profit	55.6	84.6	117.3	179.6
Gross margin (%)	14.6	15.9	19.9	26.1
SG&A	15.7	18.7	27.4	36.1
Operating Income	39.9	65.9	89.9	143.5
Growth (%)	20.9	65.2	36.4	59.6
Operating margin (%)	10.5	12.4	15.3	20.9
EBITDA	115.2	176.2	193.1	267.0
Non-Operating Profits	5.8	7.7	7.7	7.7
Financial Income(Costs)	6.1	7.6	7.6	7.6
Other Non-Operating Profits	-0.3	0.1	0.1	0.1
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	0.0	0.0	0.0
Pre-tax Profit from Cont. Op.	45.6	73.7	97.6	151.2
Income Taxes	9.8	17.3	21.5	33.3
Profit from Continuing Op.	35.8	56.3	76.1	117.9
Net Profit	35.8	56.3	76.1	117.9
Growth (%)	50.4	57.3	35.2	54.9
Net margin (%)	9.4	10.6	12.9	17.2
Net Profit of Parent	35.8	56.3	76.1	117.9
Net Profit to Non-Controlling	0.0	0.0	0.0	0.0
Other Comprehensive Income	-1.1	0.0	0.0	0.0
Total Comprehensive Income	34.7	56.3	76.1	117.9

Valuation / Profitability / Stability				
	2018/12A	2019/12E	2020/12F	2021/12F
Price/ Earning (X)	72.3	44.5	32.9	21.2
Price/ Book Value (X)	6.5	5.5	4.7	3.8
Price/ Gross Cash Flow (X)	23.5	13.9	12.7	9.3
Price/ Sales (X)	6.8	4.7	4.3	3.6
EV/ EBITDA (X)	21.2	13.3	11.7	7.9
EV/ EBIT (X)	61.1	35.5	25.1	14.7
Fully diluted EPS (W)	1,278	2,009	2,713	4,203
BVPS (W)	14,305	16,314	19,028	23,231
Sales PS (W)	13,539	18,947	20,961	24,494
ROE (%)	9.3	13.1	15.4	19.9
ROA (%)	7.4	10.4	12.4	16.5
ROIC (%)	11.5	20.6	26.7	42.9
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 (%)	-38.8	-36.9	-47.1	-59.9
Debt/ equity (%)	27.7	25.3	22.7	19.5
Interest-Bearing Debts (Wbn)	0.0	0.0	0.0	0.0
Current Ratio (%)	228.4	244.0	307.2	408.2
Total shares (mn)	28	28	28	28
Par value (W)	500	500	500	500
Share price (W)	92,400	89,300	89,300	89,300
Market Cap (Wbn)	2,592	2,505	2,505	2,505

STATEMENT OF FINANCIAL POSITION				
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Cash and Cash Equivalents	153.0	166.1	248.7	387.3
Accounts Receivables	68.8	82.5	85.8	88.4
Total Current Assets	247.2	274.8	361.6	503.6
Tangible Assets	1.0	0.7	0.5	0.4
Investment Assets	3.7	30.5	5.7	5.9
Non-Current Assets	265.2	298.6	293.2	274.9
Assets	512.4	573.4	654.7	778.5
Short-Term Debt	0.0	0.0	0.0	0.0
Account Payables	19.6	19.6	20.0	20.8
Current Liabilities	108.2	112.6	117.7	123.4
Long-Term Debt	2.1	2.1	2.1	2.1
Long-Term Allowance	0.7	1.0	1.1	1.3
Non-Current Liabilities	2.9	3.2	3.3	3.5
Liabilities	111.1	115.8	121.0	126.8
Capital Stock	14.0	14.0	14.0	14.0
Capital Surplus	320.1	320.1	320.1	320.1
Retained Earnings	67.6	124.0	200.1	318.0
Non-Controlling Interests Equity	0.0	0.0	0.0	0.0
Shareholders' Equity	401.3	457.6	533.8	651.7

CASH FLOW STATEMENT				
(Wbn)	2018/12A	2019/12E	2020/12F	2021/12F
Operating Cash Flow	-29.1	153.7	176.2	237.5
Net Profit	35.8	56.3	76.1	117.9
Depreciation&Amortization	75.3	110.4	103.2	123.5
+ Loss(Gains) from Subs	0.0	0.0	0.0	0.0
+ FC translation loss(profit)	-0.5	0.0	0.0	0.0
Gross Cash Flow	110.2	180.8	196.5	268.2
- Incr. (Decr.) in WC	-139.4	-9.7	1.1	2.6
Investing Cash Flow	140.6	-140.7	-93.6	-98.9
+ Decr. In Tangible Assets	0.0	0.0	0.0	0.0
- Incr. In Tangible Assets(CAPEX)	-0.2	0.0	0.0	0.0
+ Disp.(Acq.) of Inv. Assets	0.1	-26.8	24.8	-0.2
Free Cash Flow	-29.3	153.7	176.2	237.5
Net Cash Flow	111.5	13.0	82.6	138.6
Financing Cash Flow	-9.7	0.0	0.0	0.0
Equity Financing	0.5	0.0	0.0	0.0
Debt Financing	-10.2	0.0	0.0	0.0
Incr.(Decr.) in Cash	101.7	13.0	82.6	138.6
Ending Cash and Cash Equivalents	153.0	166.1	248.7	387.3
Net Debt (Cash)	-155.5	-168.7	-251.4	-390.1

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%

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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%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of May 3, 2019).

● NH I&S' stock rating distribution

Buy	Hold	Sell
78.9%	21.1%	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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