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**Maintain BUY and target price of KRW127,000**

We maintain BUY and our TP of KRW127,000 (61.9x 12m fwd P/E) on Studio Dragon. There were no significant revisions to 2021-22 NP (attributable to controlling interests) estimates, but we changed our valuation methodology from the P/E-ROE model to the discounted cash flow model to better reflect the company's long-term growth potential.

**Strong profit margins in 1Q21**

Studio Dragon turned in 1Q21 revenue of KRW117.1bn (-2.7% YoY) and OP of KRW17.9bn (+53.6% YoY). Distribution revenue was brisk thanks to hit content such as *Vincenzo* and *Mr. Queen*. The company's top-line suffered because of a decrease in no. of episodes aired, but price hikes cut the COGS ratio to 79.8% (-6.4pp YoY). OPM came in at 15.3%, the highest level since 3Q18, which is when *Mr. Sunshine* was aired.

**2021 highlight: Global and digital businesses**

We believe 2021 will mark the kickoff of the company's global and digital businesses. The company is currently joint producing over 10 global projects, opening up the possibility of increases in production costs and greater access to new IPs. The no. of digital originals produced will increase from two in 2020 to at least nine in 2021, and Studio Dragon's Netflix-centric client base will be expanded to include iQIYI and Tving; the company will produce three series for each company (extra orders possible for Tving). The reduced reliance on TV programming and advances in global operations should have a positive impact on revenue and profit margins.

## Buy Maintain

<b>Target Price (Maintain)</b>	<b>KRW127,000</b>
Dividend yield*	0.0%
Total return	33.1%
Current price (May 12)	KRW95,400
Consensus target price	KRW129,150
Market capitalization	USD2.6bn
* 12-month forward	

### Earnings Forecast & Valuation

Fiscal year-end	2020A	2021E	2022E	2023E
Revenue (KRWbn)	526	561	667	708
OP (KRWbn)	49	71	94	98
NP to control, int. (KRWbn)	30	62	82	72
EPS (KRW)	1,044	2,053	2,735	2,386
EPS growth (%)	10.9	96.6	33.2	-12.8
P/E (x)	88.7	46.5	34.9	40.0
EV/EBITDA (x)	16.3	18.7	18.9	20.0
P/B (x)	4.6	4.3	3.8	3.5
ROE (%)	5.7	9.6	11.5	9.1
Div. yield (%)	N/A	0.0	0.0	0.0

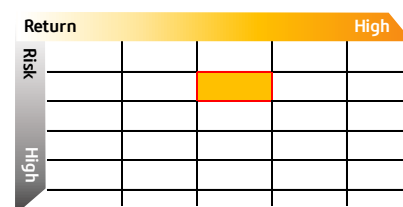
### Trading Data

Free float	44.1%
Avg. T/O val. (3m, KRWbn)	21.4
Foreign ownership	12.2%
Major shareholders	CJ ENM and 3 others 55.9%
	Naver 6.3%

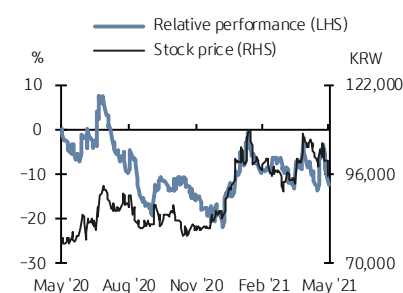
### Stock Price Performance

(%)	1M	3M	6M	12M
Absolute	-9.1	-3.3	18.1	24.1
Relative	-6.0	-3.6	2.6	-12.2

### Risk & Total Return (annualized over three years)



### Stock Price & Relative Performance

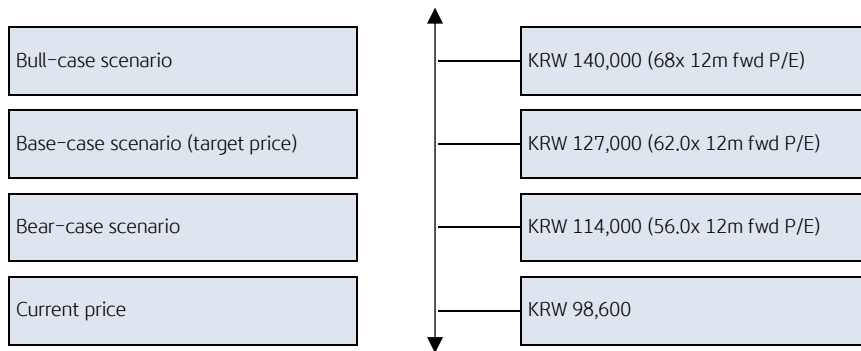


Source(s): Company data, KB Securities

**Sharper competitive edge in content to boost OPM**

Due to hikes in selling prices, expansion of client base and library accumulation, Distribution revenue is fueling earnings growth. Also, the company's sharper competitive edge in content is expected to boost OPM. Studio Dragon should fare better in 2H21 than in 1H21, turning in 2021 OP of KRW70.6bn (+43.7% YoY).

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) 2021E Distribution revenue +19.3% YoY
- 2) Global OTTs launch in Korea in 2021

### Bull-case scenario: Upside risks

- 1) 2021E Distribution revenue +25.0% YoY
- 2) Global OTTs launch in Korea and Asia in 2021

### Bear-case scenario: Downside risks

- 1) 2021E Distribution revenue +15.0% YoY
- 2) Global OTTs fail to launch in Korea in 2021

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	621.3	744.6	561.3	666.9	-9.7	-10.4
OP	77.2	94.0	70.6	94.0	-8.6	0.0
NP (to control. int.)	64.4	79.5	61.7	82.1	-4.3	3.3

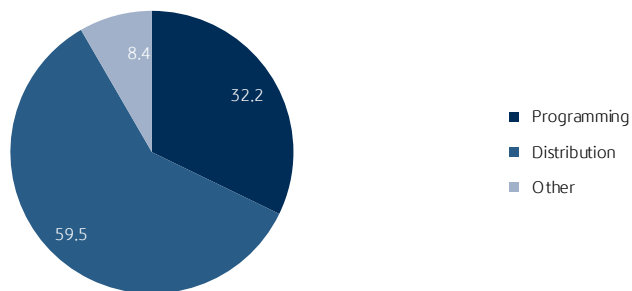
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue	561.3	666.9	569.1	659.6	-1.4	1.1
OP	70.6	94.0	68.2	87.3	3.5	7.8
NP (to control. int.)	61.7	82.1	53.8	69.1	14.5	18.9

Source(s): DataGuide, KB Securities estimates

## Revenue Composition (2021E)



Source(s): KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
Target market cap of KRW3.8tn
- 3) Target price range:  
KRW114,000 – KRW140,000
- 4) Valuation at target price:  
61.9x 12m fwd P/E

## Earnings Sensitivity Analysis

(%)	EPS Change	
	2021E	2022E
+1pp rise in interest rate	+2.1	+2.1
+1% in FX rate	+0.4	+0.4

## Peer Group Comparison

(KRWbn, x, %)	Market Cap	Fwd P/E	5y EPS CAGR	12m fwd P/B	12m fwd EV/EBITDA	5y EBITDA CAGR
Studio Dragon	2,862.4	45.2	N/A	4.4	14.8	N/A
Jcontentree	750.4	41.7	N/A	3.5	9.8	-0.8
Walt Disney	365,689.4	48.3	(5.7)	3.5	23.0	(8.4)
Netflix	243,579.6	41.9	95.2	13.3	26.9	68.7

Source(s): Bloomberg consensus, DataGuide, KB Securities estimates

**Table 1. 1Q21 Earnings Results (consolidated)**

(KRWbn, %, pp)	1Q21P	4Q20	QoQ	1Q20	YoY	KB Estimates	Diff.	Consensus	Diff.
Revenue	117.1	137.7	(15.0)	120.3	(2.7)	131.6	(11.0)	126.6	(7.5)
OP	17.9	4.6	287.6	11.6	53.6	16.2	10.3	14.4	23.8
<i>OPM</i>	<i>15.3</i>	<i>3.3</i>	<i>11.9</i>	<i>9.7</i>	<i>5.6</i>	<i>12.3</i>	<i>2.9</i>	<i>11.4</i>	<i>3.9</i>
NP (to control, int.)	15.6	(2.9)	TTR	8.5	82.2	13.8	12.8	11.4	36.0
<i>NPM</i>	<i>13.3</i>	<i>(2.1)</i>	<i>15.4</i>	<i>7.1</i>	<i>6.2</i>	<i>10.5</i>	<i>2.8</i>	<i>9.0</i>	<i>4.2</i>

Source(s): Quantiwise, KB Securities estimates

Note: TTB=turn to black, TTR=turn to red, RR=remain in red

**Table 2. Earnings Forecast (consolidated)**

(KRWbn)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2019	2020	2021E	2022E
<b>Revenue</b>	<b>120.3</b>	<b>161.4</b>	<b>106.3</b>	<b>137.7</b>	<b>117.1</b>	<b>136.7</b>	<b>144.0</b>	<b>163.5</b>	<b>468.7</b>	<b>525.7</b>	<b>561.3</b>	<b>666.9</b>
(% QoQ)	23.5	34.2	(34.2)	29.6	(15.0)	16.7	5.3	13.6	-	-	-	-
(% YoY)	7.6	25.9	(19.0)	41.3	(2.7)	(15.3)	35.5	18.8	23.5	12.2	6.8	18.8
Programming	45.2	65.4	45.7	40.7	43.8	46.5	45.4	45.1	208.7	197.0	180.7	207.1
Distribution	66.9	75.7	50.9	86.3	63.2	78.0	86.5	106.1	219.3	279.7	333.8	410.5
Other	8.2	20.4	9.7	10.8	10.1	12.2	12.1	12.4	40.7	49.0	46.9	49.2
<b>Operating expenses</b>	<b>108.7</b>	<b>144.6</b>	<b>90.3</b>	<b>133.1</b>	<b>99.2</b>	<b>122.1</b>	<b>125.5</b>	<b>144.0</b>	<b>440.0</b>	<b>476.6</b>	<b>490.8</b>	<b>572.9</b>
(% QoQ)	7.1	33.1	(37.6)	47.5	(25.4)	23.0	2.8	14.7	-	-	-	-
(% YoY)	7.8	23.1	(24.9)	31.2	(8.7)	(15.6)	39.0	8.2	29.5	8.3	3.0	16.7
<b>Operating profit</b>	<b>11.6</b>	<b>16.9</b>	<b>16.0</b>	<b>4.6</b>	<b>17.9</b>	<b>14.6</b>	<b>18.5</b>	<b>19.6</b>	<b>28.7</b>	<b>49.1</b>	<b>70.6</b>	<b>94.0</b>
(% QoQ)	TTR	44.9	(5.0)	(71.2)	287.6	(18.0)	26.3	5.7	-	-	-	-
(% YoY)	5.5	56.3	46.8	TTR	53.6	(13.1)	15.5	324.3	(28.1)	71.1	43.7	33.2
<i>OPM (%)</i>	<i>9.7</i>	<i>10.4</i>	<i>15.1</i>	<i>3.3</i>	<i>15.3</i>	<i>10.7</i>	<i>12.8</i>	<i>12.0</i>	<i>6.1</i>	<i>9.3</i>	<i>12.6</i>	<i>14.1</i>
<b>NP (to control, int.)</b>	<b>8.5</b>	<b>13.4</b>	<b>10.6</b>	<b>(2.9)</b>	<b>15.6</b>	<b>13.2</b>	<b>16.1</b>	<b>16.8</b>	<b>26.4</b>	<b>29.6</b>	<b>61.7</b>	<b>82.1</b>
(% QoQ)	TTR	56.5	(20.6)	RR	TTR	(15.2)	21.6	5.0	-	-	-	-
(% YoY)	(7.3)	82.1	(8.0)	RR	82.2	(1.2)	51.3	TTR	(26.3)	12.1	108.2	33.2
<i>NPM (%)</i>	<i>7.1</i>	<i>8.3</i>	<i>10.0</i>	<i>(2.1)</i>	<i>13.3</i>	<i>9.7</i>	<i>11.1</i>	<i>10.3</i>	<i>5.6</i>	<i>5.6</i>	<i>11.0</i>	<i>12.3</i>

Source(s): Company data, KB Securities estimates

Note: RR=remain in red, TTB=turn to black, TTR=turn to red

**Table 3. Revisions to Earnings Estimates**

(KRWbn, %, pp)	2021E					2022E				
	Revised	Previous	Chg.	Consensus	Diff.	Revised	Previous	Chg.	Consensus	Diff.
Revenue	561.3	621.3	(9.7)	569.1	(1.4)	666.9	744.6	(10.4)	659.6	1.1
OP	70.6	77.2	(8.6)	68.2	3.5	94.0	94.0	0.0	87.3	7.8
<i>OPM</i>	<i>12.6</i>	<i>12.4</i>	<i>0.1</i>	<i>12.0</i>	<i>0.6</i>	<i>14.1</i>	<i>12.6</i>	<i>1.5</i>	<i>13.2</i>	<i>0.9</i>
NP (to control, int.)	61.7	64.4	(4.3)	53.8	14.5	82.1	79.5	3.3	69.1	18.9
<i>NPM</i>	<i>11.0</i>	<i>10.4</i>	<i>0.6</i>	<i>9.5</i>	<i>1.5</i>	<i>12.3</i>	<i>10.7</i>	<i>1.6</i>	<i>10.5</i>	<i>1.8</i>

Source(s): Quantiwise, KB Securities estimates

Table 4. TP Calculation: Discounted Cash Flow Model

(KRWbn, %, '000 shares, KRW)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Cash flow projection											
Adj. FCF		110.3	100.8	113.6	113.5	131.7	155.5	178.4	202.5	222.4	241.3
FCFF	115.8	100.8	113.6	113.5	131.7	155.5	178.4	202.5	222.4	241.3	256.8
NOPLAT	51.3	68.1	71.7	79.8	91.7	107.3	122.3	138.1	149.3	158.4	164.9
(+) Depreciation & amortization	72.1	42.7	34.1	44.4	51.0	59.7	68.1	76.9	86.3	96.6	106.3
(-/+) Changes in working capital	-5.2	-7.6	10.4	-7.7	-7.9	-8.0	-8.1	-8.3	-8.4	-8.5	-8.7
(-) Capital expenditure	-1.2	-1.2	-1.3	-1.5	-1.6	-1.8	-2.0	-2.2	-2.4	-2.6	-2.9
(-) Others	-1.2	-1.2	-1.3	-1.5	-1.6	-1.8	-1.9	-2.1	-2.3	-2.6	-2.8
PV of cash flow											
WACC	7.29										
Discount		1.00	0.93	0.87	0.81	0.75	0.70	0.66	0.61	0.57	0.53
PV of cash flow		110.3	93.9	98.6	91.9	99.3	109.3	117.0	123.7	126.7	128.1
Terminal growth	2.1									-Average 30y KTB yield	
Terminal value	4,743.7									-2031E FCFF / (WACC - TGR)	
PV of terminal value	2,517.3						-7.29% WACC (0.67% risk-free rate; 7.37% market risk premium)				
Valuation											
EV	3,616.2										
(-) Net debt	(197.0)										-Net cash
Fair EV	3,813										
No. of shares	30,004										
Target price	127,000										
Current price	95,400										-May 12, 2021
Upside	33.1										

Source(s): KB Securities estimates

Table 5. TP Sensitivity to WACC and TGR

(KRW)		Terminal Growth (%)								
		1.3	1.5	1.7	1.9	2.1	2.3	2.5	2.7	2.9
WACC (%)	6.69	128,493	131,912	135,605	139,606	143,955	148,701	153,899	159,617	165,939
	6.89	123,782	126,910	130,278	133,916	137,858	142,142	146,817	151,938	157,572
	7.09	119,403	122,271	125,352	128,670	132,255	136,138	140,359	144,964	150,009
	7.29	115,321	117,958	120,784	123,820	127,089	130,620	134,445	138,604	143,141
	7.49	111,508	113,939	116,537	119,321	122,312	125,532	129,011	132,780	136,877
	7.69	107,939	110,184	112,578	115,138	117,881	120,828	124,001	127,428	131,142
	7.89	104,591	106,669	108,880	111,240	113,762	116,464	119,367	122,494	125,871

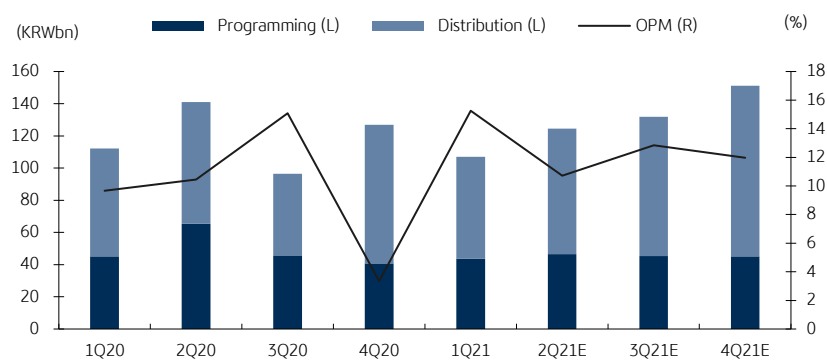
Source(s): Quantiwise, KB Securities estimates

Table 6. WACC Revision

(KRWbn, %)	Previous (Feb 23, 2021)	Revised (Mar 13, 2021)	Notes
COE (A) = a + b x c	7.29	7.29	
Risk-free rate (a)	0.67	0.67	-Avg. 1y MSB yield (last three months)
Adj. beta (b)	0.90	0.90	-Adj. beta
Risk premium (c = d - e)	7.36	7.36	
Market (d)	10.97	10.97	-2001-20 annual avg. WMI500 return
Risk-free rate (e)	3.61	3.61	-2001-20 avg. 1y MSB yield
COD (B)		1.45	-YTM of 1y KRW-based bonds
Fair EV		3,813	
Debt		-197.0	-Net debt
Weight of equity value (f)	100.00	100.00	
Weight of debt (g)	0.00	0.00	
(KRWbn, %)	7.29	7.29	

Source(s): KB Securities estimates

Fig 1. Revenue &amp; OPM



Source(s): Company data, KB Securities estimates

Income Statement					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	469	526	561	667	708
Cost of revenue	421	451	461	539	572
Gross profit	48	75	101	128	136
SG&A expenses	19	26	30	34	38
Operating profit	29	49	71	94	98
EBITDA	146	165	143	137	124
Non-operating accounts	4	-8	14	19	0
Interest income	3	2	22	27	0
Interest expenses	0	1	5	4	0
Profit on equity method	0	0	0	0	0
Net other non-operating income	1	-9	-4	-4	0
Profit before tax	33	42	84	113	98
Income tax expense	7	12	23	30	27
Net profit	26	30	62	82	72
NP attributable to controlling interests	26	30	62	82	72
Adj. net profit	26	30	62	82	72

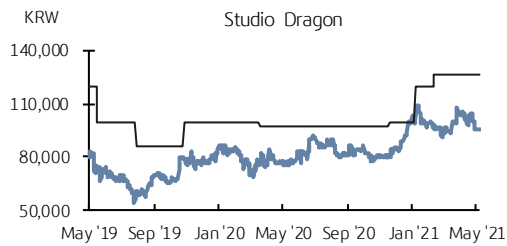
Operating Statistics & Ratios					
(%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	23.5	12.2	6.8	18.8	6.1
OP growth	-28.1	71.2	43.7	33.2	4.4
EBITDA growth	26.4	13.6	-13.7	-4.2	-9.3
NP growth of parent	-26.3	12.1	108.0	33.2	-12.8
GP margin	10.2	14.2	17.9	19.2	19.2
OP margin	6.1	9.3	12.6	14.1	13.9
EBITDA margin	31.1	31.5	25.4	20.5	17.5
EBT margin	7.1	7.9	15.0	16.9	13.9
NP margin of parent	5.6	5.6	11.0	12.3	10.1

Statement of Cash Flows					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
Cash flow from operating activities	-12	5	129	117	108
Net profit	26	30	62	82	72
Depreciation & amortization	117	116	72	43	26
Other non-cash adjustments	7	19	23	30	27
Investments in working capital	-143	-144	-5	-8	10
Decrease(Increase) in receivables	-22	-31	-24	-26	11
Decrease(Increase) in inventory	1	0	0	0	0
Increase(Decrease) in payables	9	-11	4	2	-1
Investments in other working capital	-130	-101	15	17	0
Other operating cash flow	-19	-15	-23	-30	-27
Cash flow from investing activities	-81	-16	-25	-26	-4
Capital expenditure	0	-7	-4	-4	-4
Investments in intangibles	0	-1	-1	-1	0
Changes in investment assets	-57	-9	-7	-8	0
Other investment cash flow	-23	1	-12	-14	0
Cash flow from financing activities	0	0	2	2	0
Proceeds from (repayment of) debt	-1	-1	2	2	0
Changes in equity	1	1	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	0	1	0	0	0
Other cash flow	0	0	0	0	0
Increase/decrease in cash	-93	-11	106	93	104
Cash and cash equivalents at FYE	60	49	155	248	352
Free cash flow	-13	-2	125	113	104
Net cash flow	-51	-16	104	91	104
Net cash (net debt)	107	90	195	286	390

Source(s): Company data, KB Securities estimates

Statement of Financial Position					
(KRWbn)	2019A	2020A	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	582	757	841	944	1,015
Current assets	245	228	359	479	572
Cash and cash equivalents	60	49	155	248	352
Current financial assets	57	52	52	52	52
Trade receivables	84	107	131	157	146
Inventory	0	0	0	0	0
Other current assets	44	21	21	22	22
Non-current assets	337	529	481	465	443
Investment assets	13	180	187	195	195
Property, plant and equipment	1	8	8	8	9
Intangible assets	233	230	163	125	103
Other non-current assets	89	111	123	137	137
Total liabilities	153	148	170	191	190
Current liabilities	145	132	152	172	171
Trade payables	18	6	10	12	11
Short-term financial liabilities	2	2	3	3	3
Other current liabilities	125	124	139	157	157
Non-current liabilities	8	16	17	19	19
Non-current financial liabilities	8	8	10	11	11
Other non-current liabilities	0	8	8	8	8
Total equity	428	609	671	753	825
Issued capital	14	15	15	15	15
Share premium	322	470	470	470	470
Other equity interest	0	0	0	0	0
Accumulated other comprehensive income	-1	2	2	2	2
Retained earnings	94	123	185	267	338
Controlling interests	428	609	671	753	825
Non-controlling interests	0	0	0	0	0

Key Ratios					
(x, %, KRW)	2019A	2020A	2021E	2022E	2023E
Multiples					
P/E	85.9	88.7	46.5	34.9	40.0
P/B	5.3	4.6	4.3	3.8	3.5
P/S	4.8	5.0	5.1	4.3	4.0
EV/EBITDA	14.9	16.3	18.7	18.9	20.0
EV/EBIT	75.5	54.7	37.8	27.4	25.2
Dividend yield, ordinary (%)	N/A	N/A	0.0	0.0	0.0
EPS	941	1,044	2,053	2,735	2,386
BVPS	15,242	20,309	22,362	25,097	27,482
SPS	16,698	18,532	18,708	22,227	23,585
DPS (annual, ordinary)	0	0	0	0	0
Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
ROE	6.4	5.7	9.6	11.5	9.1
ROA	4.8	4.4	7.7	9.2	7.3
ROIC	8.8	11.4	17.1	25.6	29.6
Financial structure (%)					
Total liab./equity	35.8	24.3	25.3	25.4	23.1
Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Current ratio	1.7	1.7	2.4	2.8	3.3
Interest coverage (x)	58.1	84.8	14.9	23.5	0.0
Activity ratios					
Asset turnover (x)	0.9	0.8	0.7	0.8	0.7
Receivables turnover (x)	6.2	5.5	4.7	4.6	4.7
Payables turnover (x)	24.7	43.2	70.4	60.4	60.9
Inventory turnover (x)	0.0	0.0	0.0	0.0	0.0

**Studio Dragon (253450)**

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
May-09-2019	Buy	120,000	-34.46	
May-29-2019	Buy	100,000	-32.68	-26.20
Aug-09-2019	Buy	86,000	-21.88	-6.86
Nov-08-2019	Buy	100,000	-20.81	-13.00
Mar-30-2020	Buy	97,000	-15.46	-4.64
Nov-30-2020	Buy	100,000	-9.63	3.70
Jan-18-2021	Buy	120,000	-15.59	-9.00
Feb-23-2021	Buy	127,000		

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**Classification and Standards for Investment Rating****Investment Rating for Company****(based on estimation of 12-month absolute returns)**

Buy: +15% or beyond      Hold: Between 15% and -15%      Sell: -15% or beyond

Note: KB Securities' classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

KB Securities' standards for stock rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

**Investment Rating for Industry****(based on estimation of 12-month absolute returns)**

Positive:                      Neutral:                      Negative:  
To outperform market      To match market performance      To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017.

KB Securities' standards for industry rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

**Proportion of investment rating (as of March 31, 2021)**

Buy	Hold	Sell
79.9	20.1	-

\* Note: Based on reports presented with investment ratings over the past one year

All research reports are available through electronic publication on Bloomberg, Thomson Reuters and FactSet. Please contact your KB Securities sales representative for access.

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