

Studio Dragon (253450 KQ)

HJ Kim
hoijae.kim@daishin.com

Rating **BUY**
maintain

6M TP (₩) **115,000**
maintain

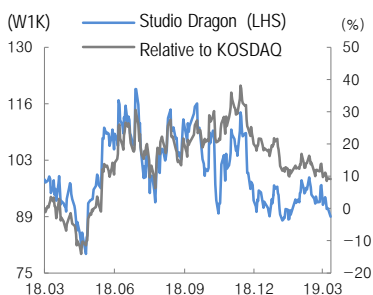
CP (₩)
(19.03.25) **88,700**

Media

Industry 4.0 safety rating ■ **Neutral Green**

KOSDAQ	727.21
Market cap (₩bn)	2,488
Market cap portion (%)	0.98
Paid-in capital (common; ₩bn)	14
52w high/low (₩)	119,800 / 79,600
120d avg. trading volume (₩bn)	16.5
Foreign ownership (%)	3.10
Major shareholders	CJ E&M+3: 74.35%

(%)	1M	3M	6M	12M
Abs. return	-9.8	-6.2	-19.9	-6.1
Rel. return	-6.9	-13.6	-8.8	7.1



US streaming war heats up

BUY; TP maintained at ₩115,000

- The ₩115,000 target price for Studio Dragon is based on our residual income model, which forecasts a 35% NP CAGR over the next five years for the TV-production house.

Studio Dragon to acquire another production studio

- Studio Dragon announced yesterday its plan to acquire the entire stake in GT:st for ₩25bn. The company hopes the tie-up with the local drama production house, which has a roster of star producers and writers, will help it further beef up its creative and production capability. Once the deal is completed, the company will have a total of four production units under its arm.
- The company plans to create 40 dramas a year by 2021, increasing production by 5 titles a year. (Last year, the company produced 26 dramas). Of those, more than 30 titles are likely to air on cable channels like tvN and OCN. The rest will be created for broadcast networks and online video platforms such as Netflix.

Netflix's woes a boon for Korean content creators

- Streaming giant Netflix is facing growing competition at home as US companies, from telecom carriers to tech firms, scramble to grab a share of the fast-growing online video market.
- Disney, the owner of Marvel Entertainment, recently acquired 21st Century Fox, adding to its list of assets the rights to mega-hit *X-Men* and *Star Wars* franchises. The company is threatening to yank its content from Netflix once it rolls out its very own streaming service, Disney+.
- In a similar move, the country's No. 2 wireless carrier AT&T recently closed the merger with Time Warner. It is planning to launch its own online streaming service and withdraw from Netflix hit shows made by its media arms such as *Game of Thrones* (HBO), *Batman* (DC Entertainment) and the *Harry Potter* franchise (Warner Bros).
- Apple, Amazon and YouTube are also preparing to launch their original content.
- In response, Netflix is turning its eye to Asia, creating original content for viewers in the region in partnership with local production houses. Korean content creators might also benefit as viewers flock to K-dramas as more and more big Hollywood shows get dropped from Netflix' lineup.

(₩bn, %)

	1Q18	4Q18	Previous estimate	Daishin estimate	1Q19(F)			2Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	80	102	86	86	8.0	-15.1	97	174	134.8	102.1
OP	11	0	14	14	29.5	3,350.0	14	22	201.8	60.1
NP	8	2	12	12	49.4	612.4	13	18	101.3	52.3

	2017	2018	Previous estimate	Daishin estimate	2019(F)		Growth	
					Change	Consensus	2018	2019(F)
Revenue	287	380	426	426	0.0	490	32.4	12.1
OP	33	40	73	73	0.0	81	20.8	82.2
NP	24	36	60	60	0.0	66	49.9	67.5

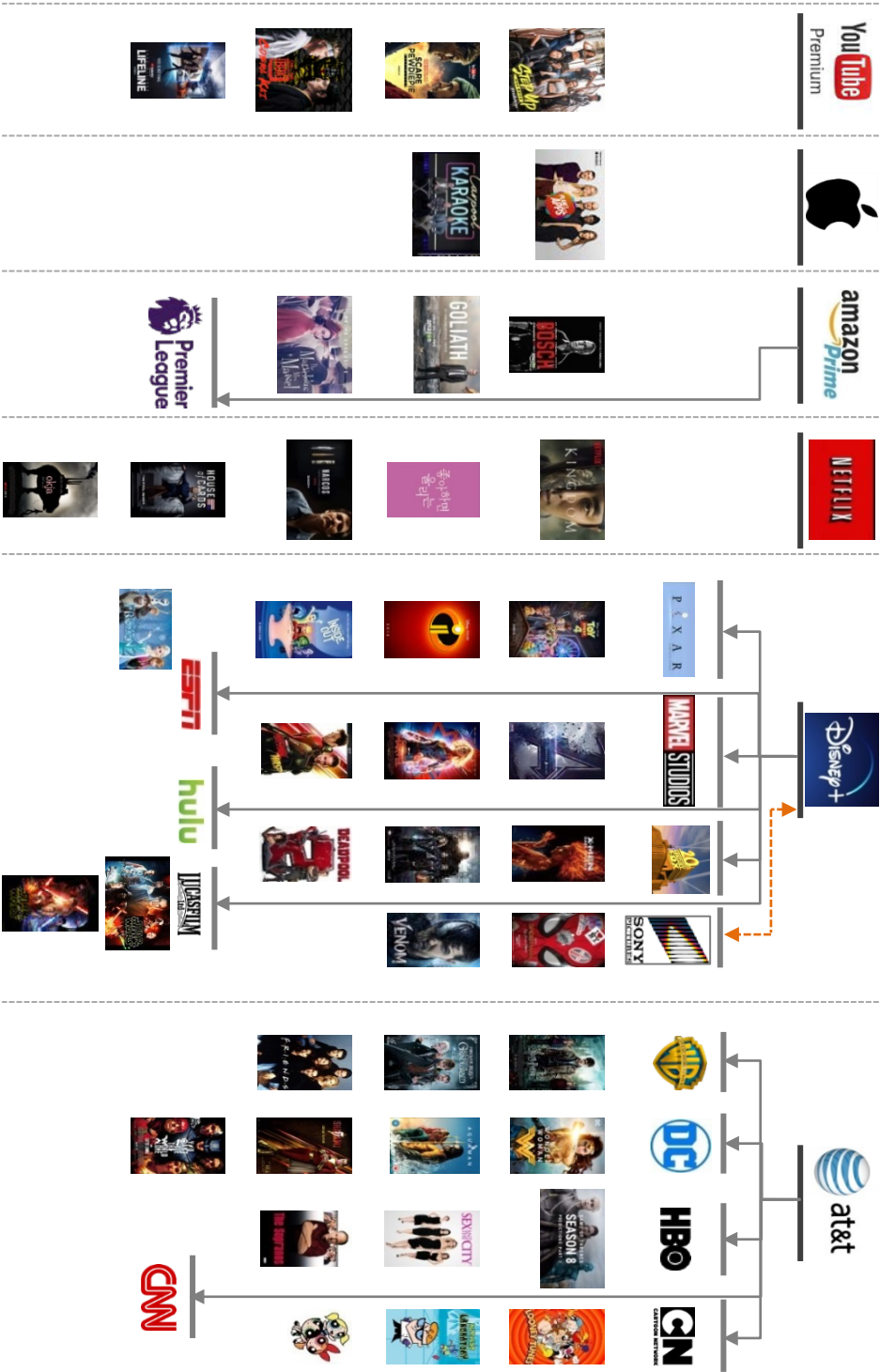
Source: Studio Dragon, FnGuide, Daishin Securities Research Center

Operating results and major financial data (Wbn, W, %)

	2017A	2018A	2019F	2020F	2021F
Revenue	287	380	426	464	496
OP	33	40	73	88	108
Pretax profit	30	46	81	97	117
NP	24	36	60	72	87
NP (controlling int.)	24	36	60	72	87
EPS	1,050	1,275	2,134	2,561	3,099
PER	61.9	72.5	41.6	34.6	28.6
BPS	13,141	14,409	16,543	18,454	20,753
PBR	4.9	6.4	5.4	4.8	4.3
ROE	9.5	9.3	13.8	14.6	15.8

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Studio Dragon, Daishin Securities Research Center

Fig 1. US streaming war heats up



Source: Daishin Securities Research Center

Company profile

Overview

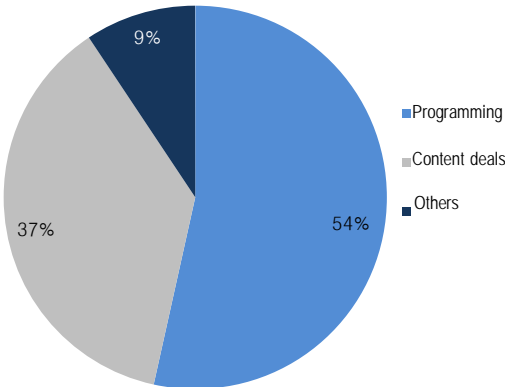
- Spun off from CJ E&M in May, 2016
- Listed on the KOSDAA in Nov. 2017
- 2018 results (W'00mn): Revenue 3,796, OP 399, NP 358
- Major shareholder: CJ E&M +6 (71.30%)

Stock catalysts

- Drama programming (tvN, OCN)
- Deals with Netflix and Chinese media firms

Source: Studio Dragon, Daishin Securities Research Center

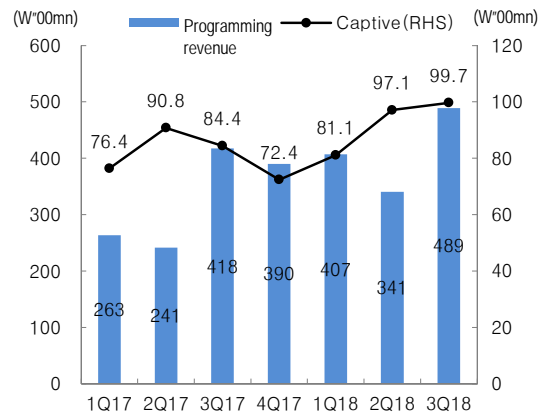
Revenue mix (4Q18)



Source: Studio Dragon, Daishin Securities Research Center

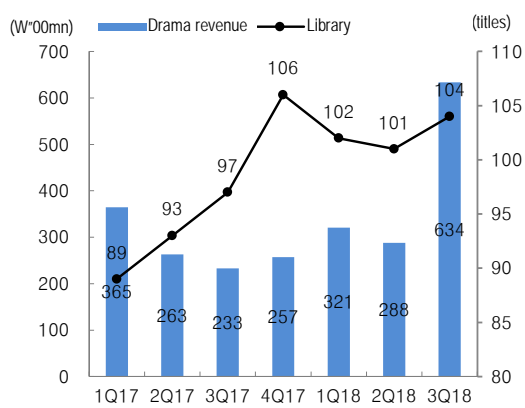
Earnings drivers

Fig 1. Programming revenue (3Q18)



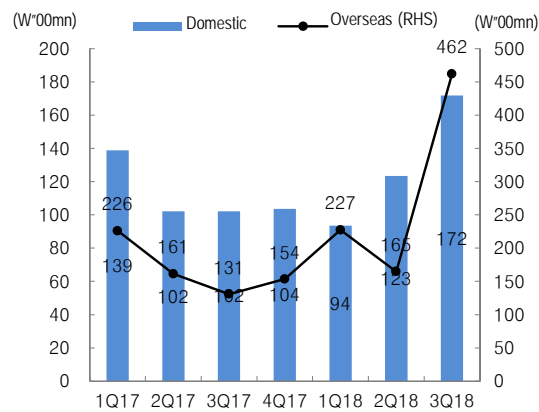
Source: Studio Dragon, Daishin Securities Research Center

Fig 2. Drama sales (3Q18)



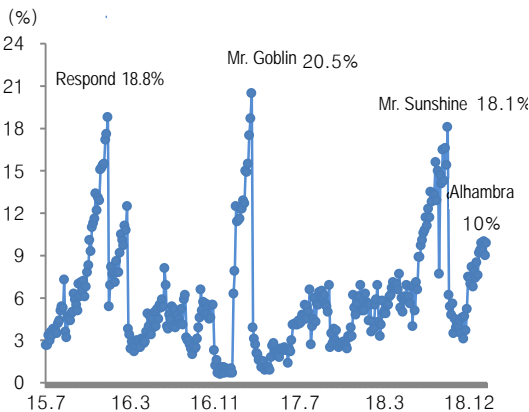
Source: Studio Dragon, Daishin Securities Research Center

Fig 3. Sales at home and abroad (3Q18)



Source: Studio Dragon, Daishin Securities Research Center

Fig 4. Viewer ratings



Source: AGB Nielson, Daishin Securities Research Center

Financial statements

Income statement (Wbn)					
	2017A	2018A	2019F	2020F	2021F
Revenue	287	380	426	464	496
Cost of goods sold	240	324	342	364	374
Gross profit	47	56	84	100	122
SG&A expenses	14	16	11	12	14
OP	33	40	73	88	108
OP margin	11.5	10.5	17.1	19.0	21.8
EBITDA	74	138	196	233	266
Non-OP	-3	6	8	9	10
Income from affiliates	0	0	0	0	0
Financial revenue	1	7	8	9	9
FX related gains	0	0	0	0	0
Financial expense	-3	-1	-1	-1	-1
FX related losses	1	1	0	0	0
Others	0	0	1	1	1
Income before taxes	30	46	81	97	117
Income tax expense	-6	-10	-21	-25	-31
Income from cont. op.	24	36	60	72	87
Income from discount op.	0	0	0	0	0
NP	24	36	60	72	87
NP margin	8.3	9.4	14.1	15.5	17.5
NP for non-cont. interest	0	0	0	0	0
NP for contr. interest	24	36	60	72	87
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	24	36	60	72	87
Comp. income for non-cont. int.	0	0	0	0	0
Comp. income for contr. int.	24	36	60	72	87

Valuation metrics (W, x, %)					
	2017A	2018A	2019F	2020F	2021F
EPS	1,050	1,275	2,134	2,561	3,099
PER	61.9	72.5	41.6	34.6	28.6
BPS	13,141	14,409	16,543	18,454	20,753
PBR	4.9	6.4	5.4	4.8	4.3
EBITDAPS	3,271	4,924	6,995	8,306	9,492
EV/EBITDA	22.1	17.6	11.8	9.8	8.5
SPS	12,628	13,538	15,169	16,537	17,664
PSR	5.1	6.8	5.8	5.4	5.0
CFPS	3,351	5,007	7,096	8,402	9,589
DPS	0	0	650	800	1,000

Financial ratios (W, x, %)					
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Revenue growth	85.7	32.4	12.1	9.0	6.8
OP growth	98.3	20.8	82.2	21.5	22.3
NP growth	192.9	49.9	67.5	20.0	21.0
Profitability					
ROIC	17.0	16.5	23.6	24.4	26.8
ROA	9.4	8.2	13.3	14.6	16.3
ROE	9.5	9.3	13.8	14.6	15.8
Stability					
Debt ratio	24.7	27.5	24.1	21.8	19.5
Net borrowings ratio	-49.4	-40.5	-38.8	-38.1	-40.7
Interest coverage ratio	19.0	0.0	0.0	0.0	0.0

Source: Studio Dragon, Daishin Securities Research Center

Balance sheet (Wbn)					
	2017A	2018A	2019F	2020F	2021F
Current assets	290	250	276	301	347
Cash & cash equiv.	51	23	39	56	96
Trade & other receive.	55	73	82	89	95
Inventories	1	2	2	2	2
Other current assets	182	153	153	153	153
Long-term assets	170	265	300	330	349
Tangible assets	1	1	1	1	1
Investments in affiliates	0	0	0	0	0
Other long-term assets	169	264	300	329	348
Total assets	459	515	576	631	696
Current liabilities	91	108	109	110	111
Payables & other liab.	34	36	37	38	38
Borrowings	0	0	0	0	0
Current portion of LT debts	10	0	0	0	0
Other current liabilities	47	72	72	72	72
Long-term liabilities	0	3	3	3	3
Borrowings	0	0	0	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	0	3	3	3	3
Total liabilities	91	111	112	113	114
Controlling interest	368	404	464	518	582
Capital stock	14	14	14	14	14
Capital surplus	320	320	320	320	320
Retained earnings	32	68	128	181	246
Other capital changes	3	3	3	3	3
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	368	404	464	518	582
Net borrowings	-182	-164	-180	-197	-237

Cash flow (Wbn)					
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	-7	52	112	146	176
NP	24	36	60	72	87
Non-cash items	52	105	139	164	182
Depreciation	41	98	124	145	158
FX gains	1	-3	0	0	0
Equity method gain	0	0	0	0	0
Others	10	9	16	19	24
Chg in assets & liab.	-73	-82	-74	-73	-72
Other cash flows	-10	-6	-13	-16	-21
Investing cash flow	-141	-169	-159	-174	-177
Investment assets	-1	0	0	0	0
Tangible assets	0	0	0	0	0
Others	-140	-169	-159	-174	-177
Financing cash flows	188	-12	-2	-20	-24
Short-term borrowings	-8	0	0	0	0
Bonds payable	10	0	0	0	0
Long-term borrowings	0	0	0	0	0
Rights offering	208	0	0	0	0
Cash dividends	0	0	0	-18	-22
Others	-22	-12	-2	-2	-2
Net chg in cash	40	-29	16	17	40
Beginning cash balance	12	51	23	39	56
Ending cash balance	51	23	39	56	96
NOPLAT	26	31	54	65	80
FCF	67	-40	18	36	61

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)	Neutral Green (neutral)	Sky Blue (positive)
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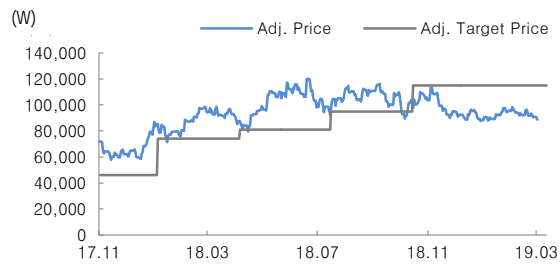
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	19.03.26	18.11.07	18.08.08	18.04.29	18.01.28	17.11.25
Rating	Buy	Buy	Marketperform	Marketperform	Marketperform	Buy
Target price	115,000	115,000	95,000	81,000	74,000	46,000
Diff. (avr. %)		(16.50)	10.95	26.80	19.40	44.64
Diff. (max/min., %)		(0.78)	22.42	(1.73)	(3.51)	25.65
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min., %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min., %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min., %)						

Investment rating breakdown and framework (Mar. 23, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	87.3%	11.6%	1.1%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.