

Studio Dragon

(253450 KQ)

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Rating **BUY**
maintain

6M TP (₩) **115,000**
maintain

CP (₩)
(19.05.17) **82,200**

Media

King of the hill

BUY; TP maintained at ₩115,000

- We derived our ₩115,000 target price for Studio Dragon from a residual income model, which assumes an average annual NP growth of 27% over the next five years.
- The assumption is based on the media company's long-term goal of boosting its drama production to 40 titles a year, up from 25.

Well-proven production capability

- Studio dragon, a production arm of medial titan CJ E&M, which has 17 cable channels (including flagship tvN and OCN), is set to create 30 dramas in 2019 and 40 in 2021, up from 25 in 2018. Most of them will be supplied to CJ E&M and the rest to broadcast networks and Netflix.
- * Following a string of successes in the drama space (the *Reply* series, *Misaeng*, and *The Signal*), CJ E&M spun off Studio Dragon as a separate drama unit.
- Emboldened by its 2016 mega hit *Goblin* (highest rating 20.5%), the company started to ramp up its drama production.
- To further boost its production capability, it has acquired a total of four studios, KPJ, CultureDepot, Hwa & Dam Pictures, and GTist.
- The company is trying to gain a further edge, introducing new slots that don't overlap with those of TV networks, season-based programming, web dramas, and so on.

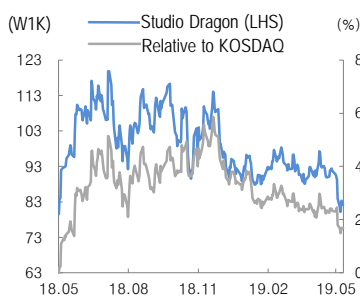
Expanding global presence

- Building on its well-proven production capability in the domestic market, the company is broadening its presence overseas. Last year, it received nearly ₩30bn in investment from Netflix to produce the ₩43bn epic drama *Mr. Sunshine*, the most expensive Korean drama ever made.
- The company aims to generate 50% of its revenue overseas by 2021 and more than 70% thereafter, up from the current 38%, which will help boost profits.
- It is gearing up to produce a Korean version of *Game of Thrones* called *Arthdal Chronicles*.
- As a leading K-drama production company, Studio Dragon will see its value further rise as Netflix diversifies into Asia in the face of intense competition in other parts of the world.
- Over the next five years, its revenue is set to grow at a CAGR of 12% and its OP at a CAGR of 30%.

Industry 4.0 safety rating ■ Neutral Green

KOSDAQ	714.13
Market cap (₩bn)	2,306
Market cap portion (%)	0.95
Paid-in capital (common; ₩bn)	14
52w high/low (₩)	119,800 / 80,200
120d avg. trading volume (₩bn)	15.2
Foreign ownership (%)	3.22%
Major shareholders	CJ E&M+3: 74.35%

(%)	1M	3M	6M	12M
Abs. return	-15.2	-15.8	-24.4	-11.6
Rel. return	-8.9	-12.9	-26.9	5.9



Operating results and major financial data

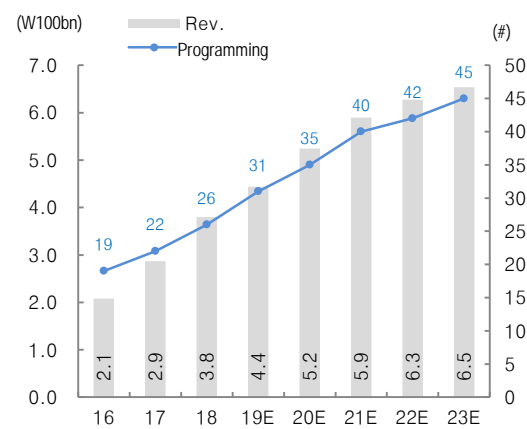
(₩bn, W, %)

	2017A	2018A	2019F	2020F	2021F
Revenue	287	380	444	524	590
OP	33	40	52	76	94
Pretax profit	30	46	63	89	108
NP	24	36	47	66	80
NP (controlling int.)	24	36	47	66	80
EPS	1,050	1,278	1,672	2,345	2,846
PER	61.9	72.3	49.2	35.1	28.9
BPS	16,223	14,312	15,978	17,673	19,719
PBR	4.0	6.5	5.1	4.7	4.2
ROE	9.5	9.3	11.0	13.9	15.2

Note: EPS, BPS, and ROE are based only on the controlling interest.

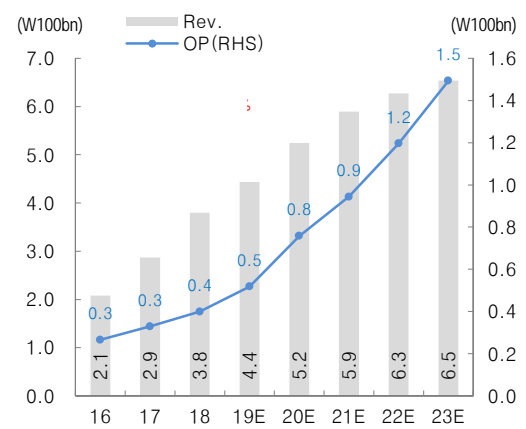
Source: Studio Dragon, Daishin Securities Research Center

Fig 1. Number of programming rev. revenue growth



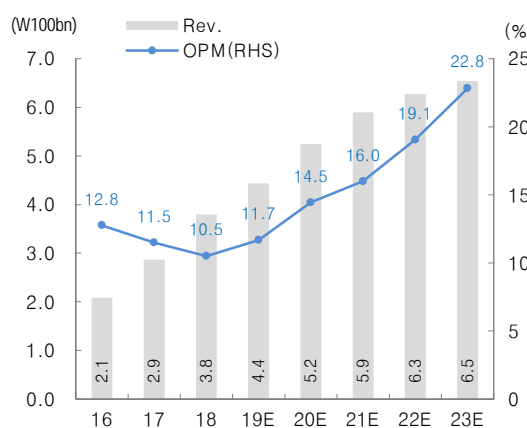
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 2. Revenue and OP outlook



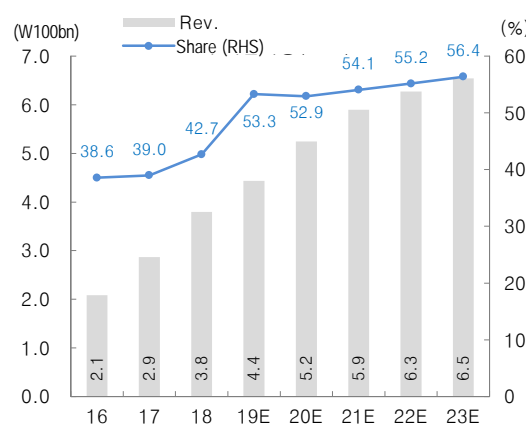
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 3. OP margin outlook



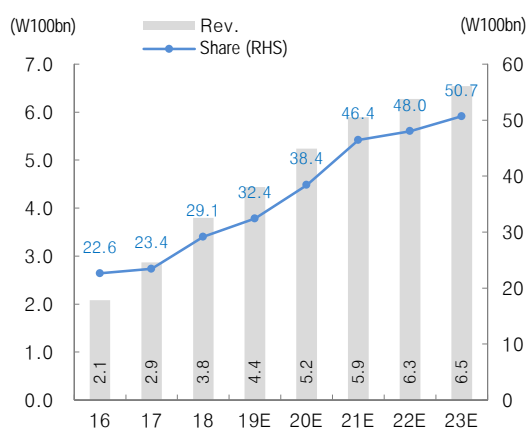
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 4. Licensing deals as % of revenue



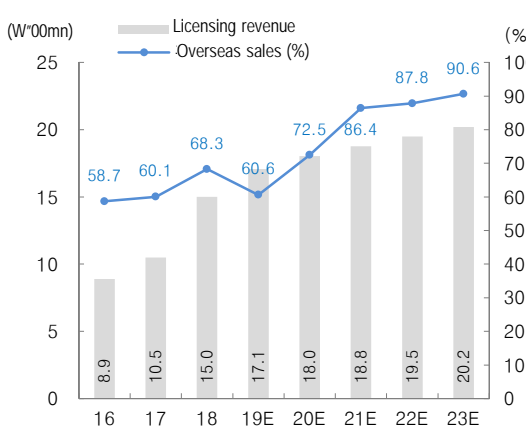
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 5. Overseas business as % of revenue



Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 6. Licensing revenue and overseas revenue



Source: Studio Dragon, Daishin Securities Research Center estimates

1. Company profile

Overview

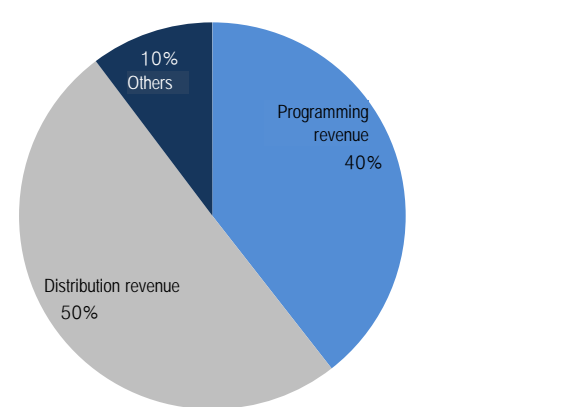
- Spun off from CJ E&M in May 2016
- Listed on the KOSDAQ in Nov 2017
- Revenue ₩379.6bn, OP ₩39.9bn, NP ₩35.8bn (2018)
- Revenue mix: programming 40%, distribution 50%, others 10%

Share price catalysts

- Drama programming (tvN, OCN)
- Deals with Netflix and Chinese media firms
- Re-opening of the Chinese market

Source: Studio Dragon, Daishin Securities Research Center

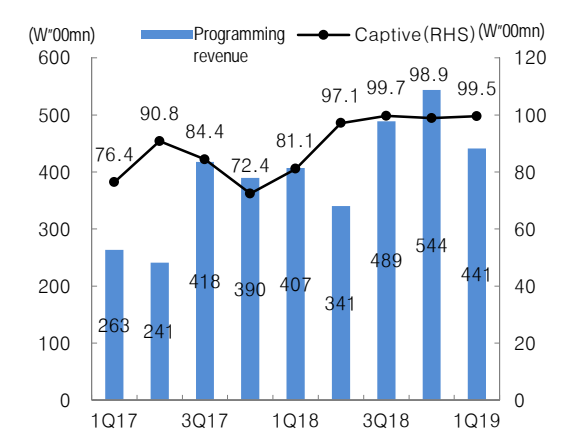
Revenue breakdown (1Q19)



Source: Studio Dragon, Daishin Securities Research Center

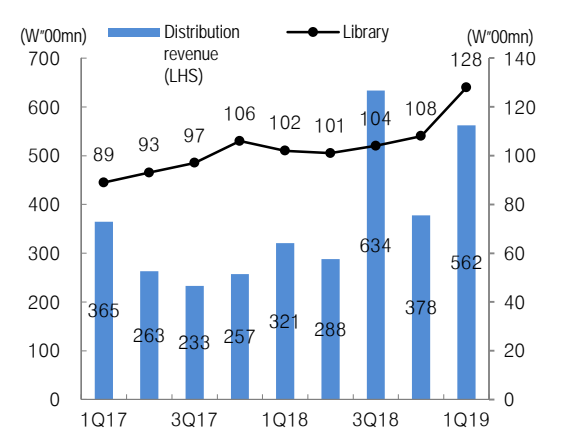
2. Earnings drivers

Programming revenue vs. revenue share of captive customers (1Q19)



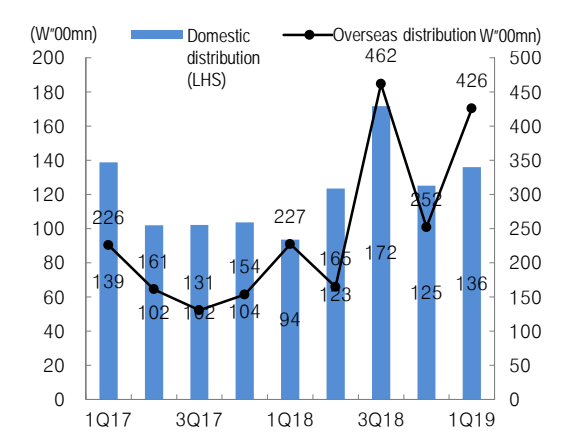
Source: Studio Dragon, Daishin Securities Research Center

Distribution revenue (1Q19)



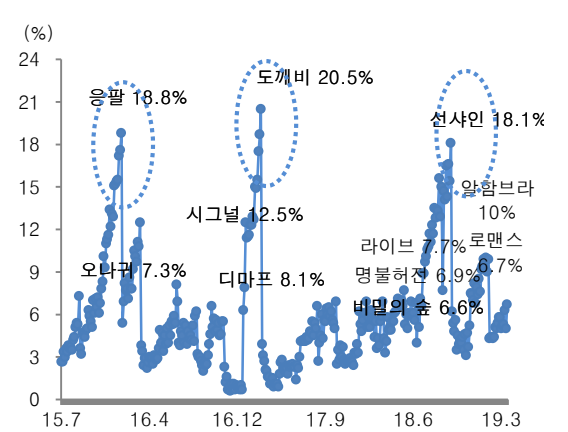
Source: Studio Dragon, Daishin Securities Research Center

Distribution: domestic vs. overseas (1Q19)



Source: Studio Dragon, Daishin Securities Research Center

Viewer ratings of tvN weekend dramas



Source: AGB Nielson, Daishin Securities Research Center

Per share intrinsic value

Residual Income Model		(Wbn, W, %)									
		2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
I	NP (contr. int.) ^(Note 2)	47	66	80	99	121	136	152	171	191	214
II	Shareholders' equity (contr. int.) ^(Note 2)	448	496	553	624	712	811	916	1,033	1,156	1,294
	Estimated ROE	11.0	13.9	15.2	15.8	17.1	16.8	16.6	16.5	16.5	16.5
III	Required rate of return ^(Note 3)	4.6									
	Risk free rate of return ^(Note 4)	1.8									
	Market risk premium ^(Note 5)	4.0									
	Beta	0.70									
IV	Spread (estimated ROE – required rate of return)	6.2	9.1	10.4	11.0	12.3	12.0	11.8	11.7	11.7	11.7
V	Required income	19	22	24	27	30	34	39	44	50	56
VI	Residual income (I - V)	28	44	56	72	92	102	113	127	142	159
	Present value factor	0.97	0.93	0.89	0.84	0.81	0.77	0.73	0.70	0.67	0.64
	PV of residual income	27	41	50	61	74	78	83	89	95	101
VII	Sum of residual income	698									
VIII	PV of residual income following forecasting period	2,106									
	Terminal growth (g) ^(Note 6)	0.0%									
IX	Beginning shareholders' equity	401									
X	Fair market cap (VII+VIII+IX)	3,206									
	Total number of shares (thousands)	28,051									
XI	Per share value (W)	114,280									
	Current share price (W)	82,200									
	Potential (%)	39.0%									

Note 1: Under the residual income model (RIM), we add the current shareholders' equity to the residual income based on the earnings forecast for the next ten years before adding the result to the residual income after the forecasting period to derive the value of shareholders' stakes. The RIM is considered less subjective than similar valuation models such as DDM, DCF, and EVA.

Note 2: The RIM reflects consolidated subsidiaries' earnings not in their entirety but only for the stake controlled by the company.

Note 3: The required rate of return (i.e., cost of equity) is the rate of return expected by the shareholders who take risks. It is derived by the capital asset price model: Cost of equity = Risk-free interest rate + Beta * Market risk premium.

Note 4: The yield on five-year government bonds was used as the proxy for the risk-free interest rate.

Note 5: Market risk premium refers to the gap between the expected return on the market portfolio and the risk-free interest rate. It has been lowered from 6-8% to 3-5% in reflection of the current low-growth environment.

Note 6: The terminal growth was assumed to be zero.

Financial statements

Income statement (Wbn)					
	2017A	2018A	2019F	2020F	2021F
Revenue	287	380	444	524	590
Cost of goods sold	240	324	379	436	482
Gross profit	47	56	64	88	108
SG&A expenses	14	16	13	12	14
OP	33	40	52	76	94
OP margin	11.5	10.5	11.7	14.5	16.0
EBITDA	74	115	175	221	253
Non-OP	-3	6	12	13	14
Income from affiliates	0	0	0	0	0
Financial revenue	1	7	13	13	14
FX related gains	0	0	0	0	0
Financial expense	-3	-1	-2	-1	-1
FX related losses	1	0	0	0	0
Others	0	0	1	1	1
Income before taxes	30	46	63	89	108
Income tax expense	-6	-10	-17	-23	-28
Income from cont. op.	24	36	47	66	80
Income from discount op.	0	0	0	0	0
NP	24	36	47	66	80
NP margin	8.3	9.4	10.6	12.5	13.5
NP for non-cont. interest	0	0	0	0	0
NP for contr. interest	24	36	47	66	80
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	-1	-1	-1	-1
Comprehensive income	24	35	46	65	79
Comp. income for non-cont. int.	0	0	0	0	0
Comp. income for contr. int.	24	35	46	65	79

Valuation metrics (W, x, %)					
	2017A	2018A	2019F	2020F	2021F
EPS	1,050	1,278	1,672	2,345	2,846
PER	61.9	72.3	49.2	35.1	28.9
BPS	16,223	14,312	15,978	17,673	19,719
PBR	4.0	6.5	5.1	4.7	4.2
EBITDAPS	3,271	4,108	6,249	7,865	9,010
EV/EBITDA	22.1	21.2	12.2	9.7	8.3
SPS	12,628	13,539	15,814	18,687	21,022
PSR	5.1	6.8	5.2	4.4	3.9
CFPS	3,068	3,930	6,317	7,975	9,121
DPS	0	0	650	800	1,000

Financial ratios (W, x, %)					
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Sales growth	85.7	32.4	16.9	18.2	12.5
OP growth	98.3	21.0	29.6	46.6	24.4
NP growth	192.9	50.3	30.9	40.2	21.4
Profitability					
ROIC	17.0	16.0	15.8	19.8	22.0
ROA	9.4	8.2	9.6	12.9	14.6
ROE	9.5	9.3	11.0	13.9	15.2
Stability					
Debt ratio	24.7	27.7	25.5	23.9	22.0
Net borrowings ratio	-49.6	-38.8	-36.4	-34.3	-36.1
Interest coverage ratio	19.0	343.0	0.0	0.0	0.0

Source: Studio Dragon, Daishin Securities Research Center

Balance sheet (Wbn)					
	2017A	2018A	2019F	2020F	2021F
Current assets	290	247	262	284	326
Cash & cash equiv.	51	153	160	168	197
Trade & other receive.	55	69	80	95	107
Inventories	1	1	1	1	1
Other current assets	182	25	21	21	21
Long-term assets	170	265	301	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	512	563	614	675
Current liabilities	91	108	112	116	119
Payables & other liab.	34	60	63	67	71
Borrowings	0	0	0	0	0
Current portion of LT debts	10	0	0	0	0
Other current liabilities	47	48	48	48	48
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	114	119	122
Controlling interest	368	401	448	496	553
Capital stock	14	14	14	14	14
Capital surplus	320	320	320	320	320
Retained earnings	32	68	115	162	220
Other capital changes	3	0	0	0	0
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	368	401	448	496	553
Net borrowings	-183	-156	-163	-170	-200

Cash flow statement (Wbn)					
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	-7	-29	27	65	94
NP	0	0	47	66	80
Non-cash items	46	74	130	158	176
Depreciation	41	75	124	145	158
FX gains	1	-1	0	0	0
Equity method gain	0	0	0	0	0
Others	4	0	7	13	18
Chg in assets & liab.	-73	-139	-147	-149	-147
Other cash flows	20	36	-4	-10	-15
Investing cash flow	-141	141	-156	-172	-175
Investment assets	-141	138	0	0	0
Tangible assets	0	0	0	0	0
Others	0	3	-156	-171	-174
Financing cash flows	188	-10	0	-18	-22
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	-10	0	0	0
Net chg in cash	40	102	7	7	30
Beginning cash balance	12	51	153	160	168
Ending cash balance	51	153	160	168	197
NOPLAT	26	31	38	56	70
FCF	67	106	2	26	51

[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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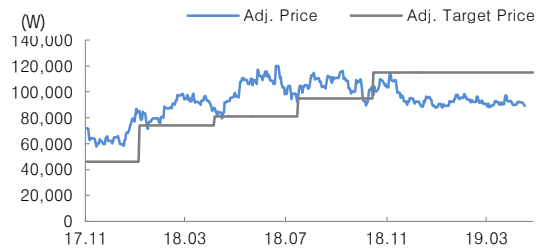
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	19.05.20	19.05.07	18.11.07	18.08.08	18.04.29	18.01.28
Rating	Buy	6M passed	Buy	Marketperform	Marketperform	Marketperform
Target price	115,000	115,000	115,000	95,000	81,000	74,000
Diff. (avr. %)		(26.82)	(17.43)	10.95	26.80	19.40
Diff. (max/min., %)		(21.39)	(0.78)	22.42	(1.73)	(351)
Date	17.11.25					
Rating	Buy					
Target price	46,000					
Diff. (avr. %)	44.64					
Diff. (max/min., %)	25.65					
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min., %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min., %)						

Investment rating breakdown and framework (May 15, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	89.1%	10.9%	0.0%

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.