

# Studio Dragon (253450 KS)

## Media/entertainment

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Rating	<b>BUY (M)</b>
Target price	<b>89,000 (M)</b>
Current price (Sep 24)	<b>W69,100</b>
Upside potential	<b>29%</b>

Market cap (Wbn)	1,941
Shares outstanding	28,095,260
Avg daily T/O (2M, Wbn)	7
Avg daily volume (2M, shrs)	110,075
52-week high (won)	116,300
52-week low (won)	54,000
Foreign ownership (%)	2.4
Major shareholders (%)	
	CJ ENM & others 74.3

### Stock performance

(%)	1M	3M	12M
Absolute	15.0	(0.1)	(37.6)
Relative	9.1	11.7	(19.5)
Abs (US\$)	16.4	(3.4)	(41.8)

## Rich in drama series IP

### Expanding into movie and art performance markets based on drama IP

- If a creative work of fiction is successful, it can develop into a multimedia franchise, a collection of related media in which several derivative works are produced from the original work. For example, Marvel's comic books are used in movies, TV series, video games, merchandise, and theme parks. Studio Dragon has also expanded the scope of its business area based on the intellectual properties of its popular dramas. A case in point is "The Bad Guys: Reign of Chaos," a movie based on the company's drama series "Bad Guys." The movie had sold more than 4mn tickets as of Sep 24, 2019 (14th day after opening). Studio Dragon has a stake in the movie's production after selling the rights to make the movie. **Although revenue from the movie was negligible in 3Q19, it was meaningful, as the production of the movie was risk-free but high-return.**
- A movie based on "The Guest," another Studio Dragon drama, is also set to be produced. We expect CJ ENM's movie division to continue making movies based on Studio Dragon's dramas after the success of The Bad Guys. Recently, Studio Dragon forged a partnership with movie production studio Movie Rock by acquiring a 20% stake in the company. It is seen as the first meaningful attempt to expand its movie production capacity.
- Meanwhile, Studio Dragon has sold the rights to make a musical of its drama series "Another Miss Oh" to Pop Music Entertainment and Tton Media. If other drama series are suitable candidates to be made into musicals, Studio Dragon may cooperate with the live entertainment division of parent CJ ENM.

### Drama IP-rich

- Drama production costs have been rising steadily due to the minimum wage hike in 2018~2019 and implementation of the 52-hour workweek. As such, we expect the company's GPM to decline from 16% in 2017 and 15% in 2018 to 14% in 2019.** GPM has fallen, as intangible assets were depreciated in 2018 and "Arthdal Chronicles Season 1" just broke even in 2019. However, the fact that only Netflix among global over-the-top service (OTT) operators bought content from Korea likely limited GPM growth, as it made it hard for the company to offset the increased production cost with higher selling prices. This also drove down the company's shares in 2019.

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### Quarterly earnings

(Wbn)	3Q19E	% YoY	% QoQ	Consens	vs consens (%)
Sales	111	-9.9	-13.1	131	-15.0
OP	11	-46.7	6.1	13	-14.3
Pre-tax net profit	13	-42.6	6.4	13	-5.6
Net profit, CI	10	-44.7	30.8	11	-14.4
OPM (%)	10.3	-7.1 %pt	+1.9 %pt	10.2	+0.1 %pt
NPM (%)	8.6	-5.4 %pt	+2.9 %pt	8.5	+0.1 %pt

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

	2017A	2018A	2019E	2020E
FY ends Dec				
Sales	287	380	475	558
OP	33	40	45	72
Net profit, CI	24	36	36	59
P/E (x)	60.3	75.9	55.8	33.9
P/B (x)	4.8	6.8	4.6	4.0
EV/EBITDA (x)	21.4	22.2	10.5	7.5
ROE (%)	9.5	9.3	8.5	12.6

Source: Yuanta Securities

**As of 2Q19, Studio Dragon owns 136 dramas.** Assuming that the number of dramas produced per year increases to 40 by 2021, the company will possess 226 dramas at end-2021. **Given this huge amount of drama IP, the company will be able to work with various global OTT/platform operators including Disney.** It can sign package deals including sales of rights to remake its drama IPs, co-productions of local dramas, and sales of old dramas.

On top of that, the company is seeing greater recognition in Western markets, as it has produced Netflix Original Drama series. Based on this, we expect the company to receive original drama orders from other global OTT/platform companies. This will enable the company to produce dramas for non-captive channels and raise the number of dramas produced per year.

The company's 12-month-forward P/E (based on consensus) dropped to 30x recently. Although consensus on the company's 2020 OP was revised down, there are catalysts that could drive up the company's earnings estimates, including Disney+'s entry into the Korean market and the resumption of sales to China. **We advise investors to accumulate at the current share price.**

## 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	475	558	662
Cost of sales	240	324	410	463	552
Gross profit	47	56	64	96	110
SG&A	14	16	20	24	28
Operating profit	33	40	45	72	82
EBITDA	74	115	171	234	269
Non-op profit/loss	-3	6	6	6	7
Forex gain/loss	-1	3	3	0	0
Net interest income	-1	3	4	6	7
Equity-meth gain/loss	0	0	0	0	0
Other	0	0	-2	0	0
Net prof before income tax	30	46	50	78	89
Income tax	6	10	15	19	22
Net profit from continuing ops	24	36	36	59	67
Net profit from discontinued ops	0	0	0	0	0
Net profit	24	36	36	59	67
NP for controlling interest	24	36	36	59	67
Total comprehensive income	24	35	36	59	67
Total comprehensive income, CI	24	35	36	59	67

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
Current assets	290	247	266	329	406
Cash & cash equivalents	51	153	98	140	197
Accts rec & other	55	69	93	113	133
Inventory	1	1	1	1	1
Non-current assets	170	265	319	319	319
Tangible assets	1	1	0	0	0
Investment in affiliates	0	0	0	0	0
Other non-current	4	4	4	4	4
Total assets	459	512	586	648	725
Current liabilities	91	108	142	146	156
Accts payable & other	34	60	21	25	35
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	10	0	0	0	0
Non-current liabilities	0	3	6	6	6
LT financial liabilities	0	0	0	0	0
Debentures	0	0	0	0	0
Total liabilities	91	111	148	152	162
Equity, controlling interest	368	401	437	496	563
Paid-in capital	14	14	14	14	14
Capital surplus	320	320	320	320	320
Retained earnings	32	68	103	162	230
Equity, non-controlling interest	0	0	0	0	0
Total equity	368	401	437	496	563
Net debt	-183	-158	-145	-187	-244
Total debt	10	2	5	5	5

Cash flow statement					
FY ends Dec (Wbn)	2017A	2018A	2019E	2020E	2021E
Operating cash flow	-7	-29	75	204	243
Net profit	0	0	36	59	67
Depreciation & amortization	0	0	3	2	2
Forex gain/loss	1	-1	-1	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-73	-139	-83	-17	-12
Other	65	111	121	160	186
Investing cash flow	-141	141	-130	-162	-188
Investment	0	0	0	0	0
Inc in tangible assets	0	0	-1	-2	-2
Dec in tangible assets	0	0	0	0	0
Other	-141	141	-129	-160	-186
Financing cash flow	188	-10	-1	0	0
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	0	0
Other cash flow	0	0	1	1	1
Inc (dec) in cash & equivalents	40	102	-55	42	56
Beginning cash & equivalents	12	51	153	98	140
Ending cash & equivalents	51	153	98	140	197
NOPLAT	33	40	45	72	82
FCF	-6	-33	73	197	236

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	1,272	2,094	2,400
BPS (won)	13,141	14,305	15,556	17,650	20,049
EBITDA/shr (won)	3,271	4,108	6,093	8,339	9,592
SPS (won)	12,628	13,539	16,896	19,872	23,566
DPS (won)	0	0	0	0	0
P/E (x)	60.3	75.9	55.8	33.9	29.6
P/B (x)	4.8	6.8	4.6	4.0	3.5
EV/EBITDA (x)	21.4	22.2	10.5	7.5	6.3
P/S (x)	5.0	7.2	4.2	3.6	3.0

Key financial data					
FY ends Dec	2017A	2018A	2019E	2020E	2021E
Sales (% YoY)	85.7	32.4	25.0	17.6	18.6
Operating profit (%YoY)	98.3	21.0	12.0	61.3	13.4
Net profit, CI (%YoY)	192.9	50.3	-0.3	64.7	14.6
Gross margin (%)	16.4	14.6	13.6	17.2	16.6
Operating margin (%)	11.5	10.5	9.4	12.9	12.3
Net margin, CI (%)	8.3	9.4	7.5	10.5	10.2
EBITDA margin (%)	25.9	30.3	36.1	42.0	40.7
ROIC (%)	19.7	19.3	14.6	20.7	22.3
ROA (%)	6.8	7.4	6.5	9.5	9.8
ROE (%)	9.5	9.3	8.5	12.6	12.7
Debt-to-equity (%)	24.7	27.7	34.0	30.7	28.8
Net debt-to-equity (%)	-49.6	-39.3	-33.2	-37.8	-43.3
OP/financing cost (x)	19.0	343.0	343.3	0.0	0.0

## Studio Dragon (253450 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2019/09/25	BUY	89,000	1 yr		
2019/08/09	BUY	89,000	1 yr		
2019/02/15	BUY	111,000	1 yr	-27.63	-11.44
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	0.6
BUY	88.0
HOLD	11.4
SELL	0.0
Total	100.0

Note: As of Sep 22

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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