

November 8, 2019

Danny Lee Analyst
Internet, Game, Media, Leisure
82-2-6114-2960 drlee@kbf.com

Keep BUY and raise target price by 16.3% to KRW100,000

We maintain BUY on Studio Dragon and raise the target price by 16.3% to KRW100,000 (2020 PER of 41x; 10% discount on Netflix's 2020 PER). The target multiple was raised from 36x to 41x to reflect: 1) a change to the 12-month forward period and 2) increasing contents demand in the OTT industry.

3Q19 results miss consensus, but not concern as shortcoming was caused by delayed receipt of "Hotel del Luna" revenues

Studio Dragon reported 3Q19 OR of KRW131.2bn (+6.1% YoY, +2.3% QoQ) and OP of KRW10.9bn (-49.2% YoY, +1.0% QoQ). OR beat market consensus by 2.5%, but OP fell 8.6% short. Earnings look sound, considering: 1) a high base created by "Mr. Sunshine," which aired in 3Q18, 2) increasing burden of cost write-offs while "Arthdal Chronicles" airs and 3) the receipt of some overseas revenues related to "Hotel del Luna" getting delayed to 4Q19.

Full-fledged profit leverage effects expected in 2020

Studio Dragon is forecast to turn in OR of KRW590.1bn (+20.4% YoY) and OP of KRW79.7bn (+63.8% YoY) in 2020. Earnings are expected to grow on the back of: 1) a jump in profit margins for the second season of "Arthdal Chronicles," 2) increase of original contents produced for Netflix and 3) client base expansion to include domestic and overseas OTTs. We excluded the Chinese market from our earnings estimates due to the large amount of uncertainties, but expectations for the market remain high.

Global OTT industry conditions remain favorable

Downstream market conditions and the company's situations all look encouraging. The global OTT industry's demand for Korean contents is forecast to grow as Disney, Apple, HBO, Amazon and other global majors attempt to expand their regional coverage. Studio Dragon is expected to enjoy growth of both library sales and original content

Buy maintain

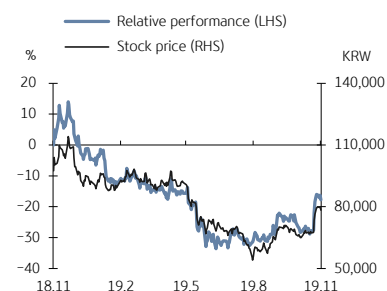
Target Price (raised)	KRW100,000
Upside/Downside	27.7%
Current price (Nov '7)	KRW78,300
Consensus Target Price	KRW91,000
Market cap	USD1.9bn

Trading Data	
Free float	25.3%
Avg T/O Val (3M, KRWbn)	7.0
Foreign ownership	2.9%
Major shareholders	CJ ENM and 5 others 74.3%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	19.0	40.1	-13.8	-19.7
Relative	12.0	18.7	-2.5	-17.7

Forecast earnings & valuation

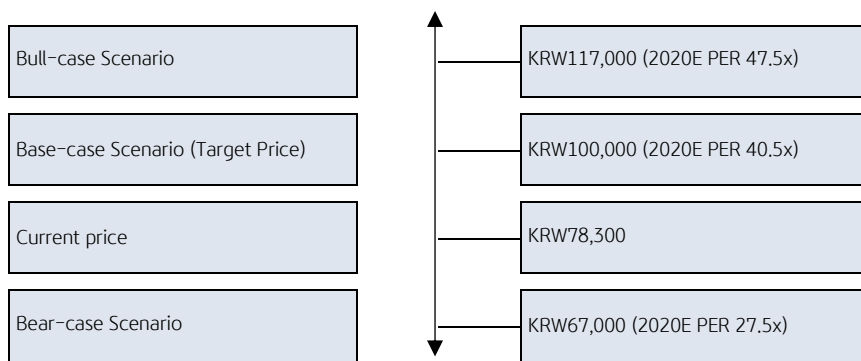
FY-end	2018A	2019E	2020E	2021E
OR (KRWbn)	380	490	590	694
OP (KRWbn)	40	44	80	95
NP to parent (KRWbn)	36	40	69	81
EPS (KRW)	1,278	1,413	2,469	2,890
EPS Growth (%)	21.7	10.6	74.7	17.1
PER (x)	72.3	55.4	31.7	27.1
EV/EBITDA (x)	21.2	13.4	13.9	14.7
PBR (x)	6.5	5.0	4.3	3.7
ROE (%)	9.3	9.4	14.6	14.7
Div. Yield (%)	NA	0.0	0.0	0.0



Source: Studio Dragon, KB Securities estimates

orders. Along with “Love Alarm (released in Aug)” and “Alone With You,” Studio Dragon is expected to release two to three original contents on Netflix each year. There is a strong chance Studio Dragon shares will react more sensitively to news flow than 4Q19 earnings (OP estimated at KRW11.2bn; +2.3% YoY).

Investment opinion and risks



Base-case Scenario: Catalysts

- 1) Rise in original series produced for Netflix
- 2) Increase of overseas OTT clients in 2H20

Bull-case Scenario: Upside risks

- 1) Surge in original series produced for Netflix
- 2) Increase of overseas OTT clients in 1H20

Bear-case Scenario: Downside risks

- 1) Surge in original series produced for Netflix
- 2) Increase of overseas OTT clients delayed

KB estimate vs. Consensus

(KRWbn, %)	Previous		Revised		Change	
	2019E	2020E	2019E	2020E	2019E	2020E
OR	485	574	490	590	1.2	2.9
OP	53	86	44	80	-17.1	-7.6
NP to parent	46	73	40	69	-13.0	-4.4

Source: KB Securities estimates

KB estimate vs. Consensus

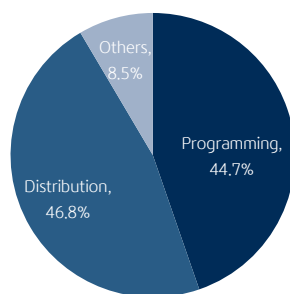
(KRWbn, %)	KB est.		Consensus		Difference	
	2019E	2020E	2019E	2020E	2019E	2020E
OR	490	590	492	588	-0.4	0.3
OP	44	80	47	75	-6.5	5.8
NP to parent	40	69	39	62	2.9	11.7

Source: Wiseftn, KB Securities estimates

Valuation and target price calculation

- 1) Valuation method:
PER Valuation
- 2) Target price calculation:
2020E EPS x multiple of 41.4x
- 3) Target price range:
KRW117,000 ~ KRW67,000
- 4) Valuation at target price:
2020E PER 40.5x

OR composition (2019E, %)



Source: Company data, KB Securities

Earnings sensitivity analysis

(%)	EPS change	
	2019E	2020E
1%p rise in interest rate	+2.0	+2.1
1% rise in FX rate	+0.3	+0.4

Peer group comparison

(KRWbn, X, %)	Market Cap	PER		PBR		EV/EBITDA		ROE		Dividend Yield	
		2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Jcontentree	537	19.4	16.6	1.5	1.4	8.4	7.7	8.1	8.7	0.0	0.3
Netflix	146,615	73.9	46.2	17.8	12.8	43.2	30.1	23.2	27.3	0.0	0.0
Zhejiang Huace Film&TV	1,805	29.0	19.2	1.5	1.5	24.2	17.4	4.3	6.4	0.3	0.5
Beijing HualuBaina Film&TV	740	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Bloomberg, KB Securities

Table 1. Studio Dragon's 3Q19 consolidated earnings review

(KRWon, %, %p)	3Q19P	2Q19	QoQ	3Q18	YoY	Prior	Diff.	Consensus	Diff.
OR	131.2	128.2	2.3	123.7	6.1	134.2	(2.2)	127.9	2.5
OP	10.9	10.8	1.0	21.5	(49.2)	16.8	(35.0)	11.9	(8.6)
OPM	8.3	8.4	(0.1)	17.4	(9.1)	12.5	(4.2)	9.3	(1.0)
NP to parent	11.5	7.3	58.0	17.3	(33.2)	15.6	(26.1)	9.4	22.3
NPM to parent	8.8	5.7	3.1	14.0	(5.2)	11.6	(2.8)	7.4	1.4

Source: FnGuide, KB Securities estimates

Table 2. Studio Dragon's consolidated earnings trend and estimates

(KRWbn)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19P	4Q19E	2017	2018	2019E	2020E
OR	79.9	74.3	123.7	101.7	111.8	128.2	131.2	119.1	286.8	379.5	490.3	590.1
(QoQ %)	11.1	(7.0)	66.5	(17.7)	9.9	14.6	2.3	(9.2)	-	-	-	-
(YoY %)	6.0	19.6	59.6	41.5	40.0	72.6	6.1	17.1	46.7	32.3	29.2	20.4
Programming	40.7	34.1	48.9	54.4	44.1	58.1	60.8	56.2	131.2	178.1	219.2	282.7
Distribution	32.1	28.8	63.4	37.8	56.2	60.3	60.0	52.9	111.8	162.1	229.3	263.6
Others	7.1	11.4	11.4	9.5	11.5	9.8	10.4	10.0	43.7	39.4	41.7	43.8
OC	69.2	67.0	102.2	101.3	100.8	117.4	120.2	107.9	253.8	339.6	446.4	510.4
(QoQ %)	1.2	(3.3)	52.6	(0.9)	(0.5)	16.5	2.4	(10.2)	-	-	-	-
(YoY %)	12.8	25.9	44.2	48.1	45.6	75.3	17.7	6.6	45.6	33.8	31.4	14.3
OP	10.7	7.3	21.5	0.4	11.0	10.8	10.9	11.2	33.0	39.9	43.9	79.7
(QoQ %)	207.1	(31.3)	193.5	(97.9)	2,400.7	(2.1)	1.0	2.3	-	-	-	-
(YoY %)	(23.7)	(17.7)	223.0	(87.3)	3.5	47.5	(49.2)	2,431.7	55.6	21.0	10.0	81.6
OPM (%)	13.3	9.9	17.4	0.4	9.9	8.4	8.3	9.4	11.5	10.5	9.0	13.5
NP to parent	7.9	8.9	17.3	1.7	9.1	7.3	11.5	11.6	23.8	35.7	39.6	69.4
(QoQ %)	293.5	13.0	94.2	(89.9)	422.6	(20.1)	58.0	0.8	-	-	-	-
(YoY %)	(41.3)	217.2	204.6	(12.5)	16.2	(17.9)	(33.2)	565.1	-	49.9	10.7	75.3
NPM (%)	9.8	12.0	14.0	1.7	8.2	5.7	8.8	9.8	8.3	9.4	8.1	11.8

Source: Company data, KB Securities estimates

Table 3. Comparison of revised earnings estimates

(KRWbn, %, %p)	2019E					2020E				
	Changed	Previous	Diff.	Cons.	Diff.	Changed	Previous	Diff.	Cons.	Diff.
OR	490.3	484.6	1.2	492.2	(0.4)	590.1	573.7	2.9	588.2	0.3
OP	43.9	52.9	(17.1)	46.9	(6.5)	79.7	86.3	(7.6)	75.4	5.8
OPM	9.0	10.9	(2.0)	9.5	(0.6)	13.5	15.0	(1.5)	12.8	0.7
NP to parent	39.6	45.6	(13.1)	38.6	2.6	69.4	72.5	(4.4)	62.1	11.7
NPM	8.1	9.4	(1.3)	7.8	0.2	11.8	12.6	(0.9)	10.6	1.2

Source: FnGuide, KB Securities estimates

Table 4. PER Valuation

(KRWbn, %, '000, KRW)	Note
12MF NP to parent	69.4
Target PER	41.4
Fair market cap.	2,872
No. of outstanding shares	28,037
Target price	100,000

Source: KB Securities estimates

Profit & Loss (KRWbn) (Reporting standard)	2017A (IFRS-C)	2018A (IFRS-C)	2019E (IFRS-C)	2020E (IFRS-C)	2021E (IFRS-C)
Operating revenue	287	380	490	590	694
Cost of sales	240	324	428	490	576
Gross profit	47	56	62	100	118
SG&A expenses	14	16	18	21	23
Operating profit	33	40	44	80	95
EBITDA	74	115	154	139	124
Non-operating accounts	-3	6	8	12	12
Interest income	1	4	10	15	16
Interest expenses	2	0	4	4	4
Profit on equity method	0	0	0	0	0
Net other non-operating income	0	0	0	0	0
Profit before tax	30	46	51	91	107
Income tax expense	6	10	12	22	26
Net profit	24	36	40	69	81
NP to parent	24	36	40	69	81
Adj. net profit	24	36	40	69	81

Operating Statistics & Ratios (%)	2017A	2018A	2019E	2020E	2021E
OR growth	85.7	32.4	29.2	20.4	17.5
OP growth	98.3	21.0	10.0	81.7	18.6
EBITDA growth	91.4	55.1	33.4	-9.4	-10.7
NP growth of parent	193.0	50.2	10.8	74.8	17.0
GP margin	16.4	14.6	12.7	17.0	17.0
OP margin	11.5	10.5	9.0	13.5	13.6
EBITDA margin	25.9	30.3	31.3	23.6	17.9
EBT margin	10.6	12.0	10.5	15.5	15.4
NP margin	8.3	9.4	8.1	11.8	11.7

Cash Flow (KRWbn)	2017A	2018A	2019E	2020E	2021E
Cash flow from operating activities	-7	-29	64	137	120
Net profit	24	36	40	69	81
Depreciation & amortization	41	75	110	59	30
Other non-cash adjustments	5	-1	11	22	26
Investments in working capital	-73	-139	-82	8	9
Decrease(Increase) in Receivables	-14	-27	-33	-4	-4
Decrease(Increase) in Inventories	-2	0	0	0	0
Increase(Decrease) in Payables	9	26	12	3	3
Other operating cash flow	20	36	-15	-22	-26
Cash flow from investing activities	-141	141	-71	-14	-15
Capital expenditure	0	0	-1	-1	-1
Investments in intangibles	0	0	-1	-1	-1
Changes in investment assets	-141	138	0	0	0
Other investment cash flow	0	3	-25	-9	-10
Cash flow from financing activities	188	-10	18	10	11
Proceeds from (repayments of) debt	-18	-10	18	10	11
Changes in equity	208	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	-2	0	0	0	0
Other cash flow	0	0	0	0	0
Increase/decrease in cash	40	102	10	133	116
Cash and cash equivalents at FYE	51	153	163	296	412
Free cash flow	-7	-29	63	136	119
Net cash flow	199	-29	-12	125	108
Net cash (net debt)	183	153	141	266	374

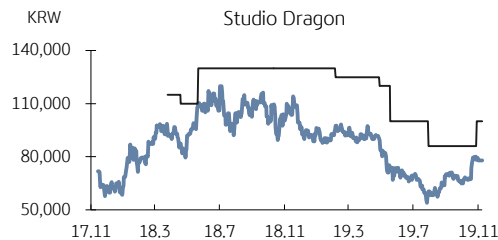
Source: Studio Dragon, KB Securities estimates

Statement of financial position (KRWbn) (Reporting standard)	2017A (IFRS-C)	2018A (IFRS-C)	2019E (IFRS-C)	2020E (IFRS-C)	2021E (IFRS-C)
Total assets	459	512	615	707	814
Current assets	290	247	339	479	603
Cash and cash equivalents	51	153	163	296	412
Current financial assets	141	2	47	49	51
Trade receivables	55	69	98	102	107
Inventories	1	1	1	1	1
Other current assets	41	22	30	31	32
Non-current assets	170	265	276	228	211
Investment assets	4	4	4	5	5
Property, plant and equipment	1	1	1	0	0
Intangible assets	128	199	187	130	104
Other non-current assets	36	53	72	81	91
Total liabilities	91	111	174	197	222
Current liabilities	91	108	153	172	193
Trade payables	6	20	23	25	29
Short-term financial liabilities	10	0	49	55	62
Other current liabilities	75	89	81	91	103
Non-current liabilities	0	3	21	25	29
Non-current financial liabilities	0	2	20	24	28
Other non-current liabilities	0	0	0	0	0
Total equity	368	401	441	510	592
Issued capital	14	14	14	14	14
Share premium	320	320	320	320	320
Other equity interest	3	0	0	0	0
Accumulated other comprehensive income	0	-1	-1	-1	-1
Retained earnings	32	68	107	177	258
Equity attributable to owners of parent	368	401	441	510	592
Non-controlling Interests	0	0	0	0	0

Key Ratio (X, %, KRW)	2017A	2018A	2019E	2020E	2021E
Multiples					
PER	61.9	72.3	55.4	31.7	27.1
PBR	4.9	6.5	5.0	4.3	3.7
PSR	5.1	6.8	4.5	3.7	3.2
EV/EBITDA	22.1	21.2	13.4	13.9	14.7
EV/EBIT	49.7	61.1	46.9	24.3	19.3
Dividend yield, ordinary (%)	NA	NA	0.0	0.0	0.0
EPS	1,050	1,278	1,413	2,469	2,890
BPS	13,141	14,305	15,696	18,165	21,055
SPS	12,628	13,539	17,452	21,004	24,688
DPS (Annual, Ordnry.)	0	0	0	0	0
Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
ROE	9.5	9.3	9.4	14.6	14.7
ROA	6.8	7.4	7.0	10.5	10.7
ROIC	15.6	15.1	13.1	23.6	33.3
Financial structure (%)					
Total liab./equity	24.7	27.7	39.5	38.5	37.6
Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Current Ratio	3.2	2.3	2.2	2.8	3.1
Interest coverage (x)	19.0	343.0	11.6	19.9	23.6
Activity ratios					
Asset turnover (x)	0.8	0.8	0.9	0.9	0.9
Receivables turnover (x)	6.2	6.1	5.9	5.9	6.6
Inventory turnover (x)	0.0	405.4	851.7	1,029.7	1,210.3

Disclosures

Rating and Target Price Changes (Share price —, Target Price —)



Studio Dragon (253450)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
18-04-03	Buy	115,000	-20.05	-15.74
18-04-29	Buy	110,000	-15.81	-2.00
18-06-01	Buy	130,000	-18.37	-7.85
18-12-01	6 month later	130,000	-28.13	-16.08
19-02-15	Buy	125,000	-25.98	-21.36
19-05-09	Buy	120,000	-34.46	-30.08
19-05-29	Buy	100,000	-32.68	-26.20
19-08-09	Buy	86,000	-21.88	-6.86
19-11-08	Buy	100,000		

KB Securities has not provided any material in this research to institutional investors or third parties in advance of publishing this report. The research analysts responsible for the preparation of this report do not have any beneficial interest in any security or issuer covered in this report and they certify that all the analysis was made in good faith and the views accurately reflect his or her personal opinion, without any undue influence or intervention.

Proportion of investment rating (as of September 30, 2019)

Buy	Hold	Sell
76.0	24.0	-

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

Classification and Standards for Investment Rating

Investment Rating for Company

(based on estimation of six-month absolute returns)

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

Note: KB Securities's 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.

Investment Rating for Industry

(based on estimation of six-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

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

This report is provided for information only and is not an offer or solicitation to trade in any security. Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KB Securities considers reliable. KB Securities makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KB Securities and may not be reproduced, redistributed or modified without the prior consent of KB Securities. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.