

# Company Update

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## AT A GLANCE

SELL	HOLD	BUY
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**Target price** KRW94,000 (12.7%)

**Current price** KRW83,400

Market cap	KRW2.3t/USD2.0b
Shares (float)	28,095,260 (25.3%)
52-week high/low	KRW114,100/KRW54,000
Avg daily trading value (60-day)	KRW8.4b/ USD7.1m

## ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	23.2	4.1	-20.4
Vs Kosdaq (%pts)	25.7	15.3	-12.9

## KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	94,000	94,000	0.0%
2019E EPS	1,438	1,438	0.0%
2020E EPS	2,676	2,676	0.0%

## SAMSUNG vs THE STREET

No of estimates	23
Target price	95,043
Recommendation	4.0

BUY★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★: 1

SAMSUNG SECURITIES

SAMSUNG

2019. 11. 22

## Studio Dragon (253450)

### Long-awaited good news

- Studio Dragon yesterday inked a three-years strategic deal with Netflix, in which the: 1) latter will purchase 4.99% of the Korean firm within a year; and 2) former will provide the US distributor with at least 21 productions starting from next year.
- The partnership should allow Studio Dragon to: 1) produce dramas stably before other global OTT platforms enter Korea or make inroads elsewhere in Asia; and 2) enjoy margin growth for its content production and distribution rights sale.
- We keep the stock as our sector top pick on expectations of its overseas expansion gathering pace.

### WHAT'S THE STORY?

**Deal with Netflix...:** CJ ENM, Studio Dragon, and Netflix yesterday announced that they had entered a multi-year strategic partnership, under which: 1) CJ ENM can sell up to 4.99% [roughly 1.4m shares] of Studio Dragon to Netflix within a year; 2) Studio Dragon will provide at least 21 original series productions to Netflix, along with their distribution rights sales, for three years starting in 2020. Per-show and distribution rights prices will be determined case by case, while titles are to be selected from a library of IP rights owned by Studio Dragon and distribution rights held by CJ ENM.

**... boasts several positives:** This deal will give Studio Dragon stability as it provides Netflix with drama productions for at least three years, while the US firm's massive budget should help those shows compete worldwide. We also expect this partnership to buy Studio Dragon time until other major OTT service providers (eg, Disney+, Apple TV+, and HBO Max) make inroads into Korea and elsewhere in Asia. The Korean firm has already supplied Netflix with one Original Series and seven dramas for distribution this year, with the figure likely to hit at least seven *pa* over the next three years, while production capacity hikes could see this rise even further. Having Netflix in addition to its captive channel clients is another positive for Studio Dragon, with their partnership forecast to strengthen further once the aforementioned stake purchase of 4.99% occurs. Despite its scale, we do not anticipate this deal restricting the Korean firm's drama sales to terrestrial broadcasters or other OTT platform operators.

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### SUMMARY FINANCIAL DATA

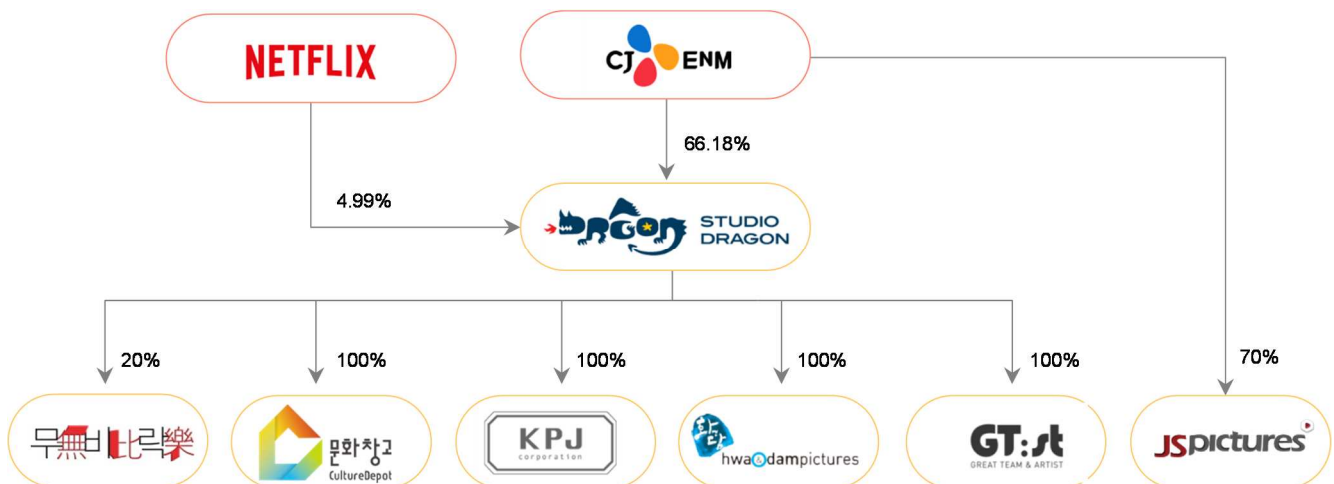
	2018	2019E	2020E	2021E
Revenue (KRWb)	380	496	598	663
Operating profit (KRWb)	40	45	71	86
Net profit (adj) (KRWb)	36	40	75	91
EPS (adj) (KRW)	1,278	1,438	2,676	3,247
EPS (adj) growth (% y-y)	21.7	12.5	86.1	21.3
EBITDA margin (%)	30.3	26.5	30.0	30.7
ROE (%)	9.3	9.6	15.7	16.2
P/E (adj) (x)	65.3	58.0	31.2	25.7
P/B (x)	5.8	5.3	4.5	3.9
EV/EBITDA (x)	19.0	16.3	11.6	9.9
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company data, Samsung Securities estimates

**Margin and earnings boosts both probable:** Studio Dragon will probably enjoy better margins from Netflix-bound content, with the former's margins also likely to rise for original content and allow it to raise prices for drama distribution (vs other local streamers), which ought to lift its gross margin and add to earnings momentum.

**Strengthened competitiveness:** Ever since Studio Dragon went public in Nov 2017, CJ ENM has repeatedly said that it might partner with a global content production player or OTT platform to boost the former's production prowess and market position. Teaming up with the world's largest OTT service provider as a long-term strategic partner should help Studio Dragon establish a foundation for growth, with the Netflix deal also expected to help its overseas expansion (including the setting up of a US subsidiary in 2020) as OTT platforms go global and quality content enjoys demand growth. We reiterate the stock at BUY and as our sector top pick with an unchanged 12-month target price of KRW94,000.

Chart 1. Corporate governance structure



Note: Netflix expected to acquire 4.99% of Studio Dragon from CJ ENM within a year (based on yesterday's announcement)

Source: Company data, Samsung Securities

**Table 1. Netflix: Drama line-up airing simultaneously on local channels**

Title	Broadcast dates	Channel	No. of episodes	Provider
Man to Man	21 Apr 17 to 10 Jun 17	JTBC	16	Mountain Movement Story, Drama House
Secret Forest	10 Jun 17 to 30 Jul 17	tvN	16	Studio Dragon, Signal Entertainment, IOK Media
Temporary Idols	27 Nov 17	SBS, Netflix	5	SBS, YG K Plus (Netflix early release)
A Korean Odyssey	Dec 17 to 4 Mar 18	tvN	20	Studio Dragon, JS Pictures
Live	10 Mar 18 to 6 Mar 18	tvN	18	Studio Dragon, GT:st
Pretty Sister Who Buys Me Food	30 Mar 18 to 19 May 18	JTBC	16	Drama House
Mr. Sunshine	7 Jul 18 to 30 Sep 18	tvN	24	Studio Dragon, Hwa&Dam Pictures
Sky Castle	28 Nov 18 to 1 Feb 19	JTBC	20	HB Entertainment, Drama House
Clean with Passion for Now	26 Nov 18 to 29 Jan 19	JTBC	16	Drama House, Five brothers
Hymn of Death	27 Nov 18 to 4 Dec 18	SBS	6	The Story Works
Memories of the Alhambra	1 Dec 18 to 20 Jan 19	tvN	16	Studio Dragon, Chorokbaem Media
Romance is a Bonus Book	26 Jan 19 to 17 Mar 19	tvN	16	Studio Dragon, Story&Picture Media
One Spring Night	22 May 19 to 11 Jul 19	MBC	32	Studio Dragon, JS Pictures
Abyss	6 May 19 to 25 Jun 19	tvN	16	Studio Dragon
Arthdal Chronicles	1 Jun 19 to 22 Sep 19	tvN	18	Studio Dragon, KPJ
The Aide (season 1)	14 Jun 19 to 13 Jul 19	JTBC	10	Studio&NEW
Designated Survivor: 60 Days	1 Jul 19 to 20 Aug 19	tvN	16	Studio Dragon
When the Camellia Blooms	18 Sep 19-	KBS	16	Pan Entertainment
Vagabond	20 Sep 19-	SBS	16	Celltrion Entertainment
The Lies Within	12 Oct 19-	OCN	16	Studio Dragon
My Country	14 Oct 19-	JTBC	16	Celltrion Entertainment
The Aide (season 2)	11 Nov 19-	JTBC	10	Studio&NEW
Crash Landing on You	14 Dec 19-	tvN	16	Studio Dragon, Culture Depot

Note: Highlights denote Studio Dragon production

Source: Company data, local media, Samsung Securities

**Table 2. Studio Dragon-Netflix contract**

Category	Note
Types	Drama content production and TV sales rights
Contract date	Nov 21, 2019
Details	CJ ENM can sell stake in Studio Dragon (max 1,404,818 shares, 4.99%) to Netflix
Period of exercise	One year from contract date
Firms	
1) Content production	Studio Dragon and Netflix
2) TV sales rights	Studio Dragon, CJ ENM, and Netflix
Period	Three years from Jan 1, 2020
Details	Business cooperation for three years with at least 21 programs (content production, TV sales rights, etc.)
1) Contents production	Studio Dragon will provide Netflix with original drama content
2) TV sales rights	Studio Dragon will retain IP rights for content produced, CJ ENM will sell content using distribution rights to Netflix as TV sales rights
Other	Content production costs and TV sales rights prices will differ by program












Source: Company data, Samsung Securities

**Table 3. Netflix: Korean original content**

Program	On-air	Provider	Contents type	Episodes
Okja	Jun 29, 2017	Plan B Entertainment	Movie	-
Ultimate Beastmaster: Season 1 Korean	Feb 24, 2017	25/7 Production	Variety	10
Yoo Byung Jae: Too Much Information	Mar 16, 2018	YG Entertainment	Stand-up comedy	-
Busted!	May 4, 2018	Company SangSang	Variety	10
Yoo Byung Jae: Discomfort Zone	Aug 17, 2018	YG Entertainment	Stand-up comedy	-
Ultimate Beastmaster: Season 3 Korean	Aug 31, 2018	25/7 Production	Variety	9
YG Electronics	Oct 5, 2018	YG Entertainment	Variety	8
Larva Island	Oct 19, 2018	Tuba Entertainment	Animation	13
Kingdom 1	Jan 25, 2019	A-Story	Drama	6
Larva Island 2	Mar 1, 2019	Tuba Entertainment	Animation	13
Persona	Apr 11, 2019	Mystic Story	Drama	4
My First First Love	Apr 18, 2019	A-Story	Drama	8
My First First Love 2	Jul 26, 2019	A-Story	Drama	8
Love Alarm	Aug 22, 2019	Studio Dragon	Drama	8
Park Na-rae: Glamour Warning	Oct 16, 2019	Company SangSang	Stand-up comedy	-
Busted! 2	Nov 8, 2019	Company SangSang	Variety	
I am Alone	2019 or 2020	Studio Dragon	Drama	
School Nurse Ahn Eun Young	2020	Oh!boy project	Drama	
Kingdom 2	2020	A-Story	Drama	
Round Six	2020	Siren Pictures	Drama	
Human class	2020	Studio 329	Drama	
Together	2020	Company SangSang	Variety	
Highway to Heaven	2020	-	Movie	
Love Alarm 2	2020	Studio Dragon	Drama	

Source: Company data, local media, Samsung Securities

Table 4. Global OTT platforms

Company	OTT Platform	Subscription plan	Subscription fee	Launch
Netflix		Premium	USD15.99	2007
		Standard	USD12.99	
		Basic	USD8.99	
Amazon		Amazon Prime	USD12.99 (USD119/year)	2006
		Prime Video	USD5.99	2016
Disney		Single	USD6.99	Nov 12, 2019
		Includes ads	USD5.99	2007
		Ad-free	USD11.99	
		Including Live TV	USD44.99	
Apple		Single	USD4.99	Nov 1, 2019
AT&T		HBO Max	USD14.99	May 2020
		Ultimate	USD84.99	Nov 2016
		Choice	USD69.99	
		Select	USD59.99	
Comcast		TBD	TBD	Apr 2020
Google		Single	USD49.99	Feb 2017
		Single	USD11.99	Oct 2017
CBS		Ad-free	USD9.99	Oct 2014
		Limited ads	USD5.99	

Source: Company data, local media, Samsung Securities

## Income statement

Year-end Dec 31 (KRWb)	2017	2018	2019E	2020E	2021E
<b>Sales</b>	<b>287</b>	<b>380</b>	<b>496</b>	<b>598</b>	<b>663</b>
Cost of goods sold	240	324	433	506	554
<b>Gross profit</b>	<b>47</b>	<b>56</b>	<b>63</b>	<b>92</b>	<b>109</b>
Gross margin (%)	16.4	14.6	12.8	15.4	16.4
SG&A expenses	14	16	19	21	22
<b>Operating profit</b>	<b>33</b>	<b>40</b>	<b>45</b>	<b>71</b>	<b>86</b>
Operating margin (%)	11.5	10.5	9.0	11.9	13.0
<b>Non-operating gains (losses)</b>	<b>(3)</b>	<b>6</b>	<b>7</b>	<b>10</b>	<b>12</b>
Financial profit	1	7	14	17	18
Financial costs	3	1	7	6	5
Equity-method gains (losses)	0	0	0	0	0
Other	(0)	(0)	(0)	(0)	(0)
<b>Pre-tax profit</b>	<b>30</b>	<b>46</b>	<b>51</b>	<b>81</b>	<b>99</b>
Taxes	6	10	11	6	8
Effective tax rate (%)	21.2	21.5	21.5	7.6	7.6
Profit from continuing operations	24	36	40	75	91
Profit from discontinued operations	0	0	0	0	0
<b>Net profit</b>	<b>24</b>	<b>36</b>	<b>40</b>	<b>75</b>	<b>91</b>
Net margin (%)	8.3	9.4	8.1	12.6	13.8
Net profit (controlling interests)	24	36	40	75	91
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	74	115	132	179	204
EBITDA margin (%)	25.9	30.3	26.5	30.0	30.7
EPS (parent-based) (KRW)	1,050	1,278	1,438	2,676	3,247
EPS (consolidated) (KRW)	1,050	1,278	1,438	2,676	3,247
Adjusted EPS (KRW)*	1,050	1,278	1,438	2,676	3,247

## Cash flow statement

Year-end Dec 31 (KRWb)	2017	2018	2019E	2020E	2021E
<b>Cash flow from operations</b>	<b>(7)</b>	<b>(29)</b>	<b>129</b>	<b>182</b>	<b>207</b>
Net profit	24	36	40	75	91
Non-cash profit and expenses	46	74	91	110	119
Depreciation	0	0	0	0	0
Amortization	41	75	87	108	117
Other	5	(1)	4	2	2
Changes in A/L from operating activities	(73)	(139)	9	3	4
<b>Cash flow from investments</b>	<b>(141)</b>	<b>141</b>	<b>(126)</b>	<b>(137)</b>	<b>(144)</b>
Change in tangible assets	(0)	(0)	0	0	0
Change in financial assets	(143)	139	(48)	(7)	(15)
Other	2	2	(78)	(130)	(129)
<b>Cash flow from financing</b>	<b>188</b>	<b>(10)</b>	<b>(0)</b>	<b>(0)</b>	<b>(1)</b>
Change in debt	(18)	(8)	0	0	(1)
Change in equity	208	1	0	0	0
Dividends	0	0	0	0	0
Other	(2)	(2)	(0)	(0)	(0)
Change in cash	40	102	4	45	62
Cash at beginning of year	12	51	153	157	202
Cash at end of year	51	153	157	202	264
<b>Gross cash flow</b>	<b>70</b>	<b>110</b>	<b>132</b>	<b>185</b>	<b>210</b>
<b>Free cash flow</b>	<b>(7)</b>	<b>(29)</b>	<b>129</b>	<b>182</b>	<b>207</b>

Note: \* Excluding one off items, \*\* Fully diluted, excluding one-off items

\*\*\* From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

## Balance sheet

Year-end Dec 31 (KRWb)	2017	2018	2019E	2020E	2021E
<b>Current assets</b>	<b>290</b>	<b>247</b>	<b>322</b>	<b>400</b>	<b>490</b>
Cash & equivalents	51	153	157	202	264
Accounts receivable	55	69	74	99	104
Inventories	1	1	1	1	1
Other current assets	182	25	90	97	120
<b>Fixed assets</b>	<b>170</b>	<b>265</b>	<b>263</b>	<b>290</b>	<b>308</b>
Investment assets	4	4	4	5	6
Tangible assets	1	1	1	1	0
Intangible assets	128	199	213	235	250
Other long-term assets	37	62	45	50	52
<b>Total assets</b>	<b>459</b>	<b>512</b>	<b>585</b>	<b>690</b>	<b>798</b>
<b>Current liabilities</b>	<b>91</b>	<b>108</b>	<b>140</b>	<b>170</b>	<b>188</b>
Accounts payable	6	20	18	26	27
Short-term debt	0	0	0	0	0
Other current liabilities	85	89	122	144	161
<b>Long-term liabilities</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	0	3	3	3	2
<b>Total liabilities</b>	<b>91</b>	<b>111</b>	<b>143</b>	<b>173</b>	<b>190</b>
<b>Owners of parent equity</b>	<b>368</b>	<b>401</b>	<b>442</b>	<b>517</b>	<b>608</b>
Capital stock	14	14	14	14	14
Capital surplus	320	320	320	320	320
Retained earnings	32	68	108	183	274
Other	3	(0)	(0)	(0)	(0)
<b>Non-controlling interests' equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total equity</b>	<b>368</b>	<b>401</b>	<b>442</b>	<b>517</b>	<b>608</b>
Net debt	(183)	(153)	(205)	(256)	(334)

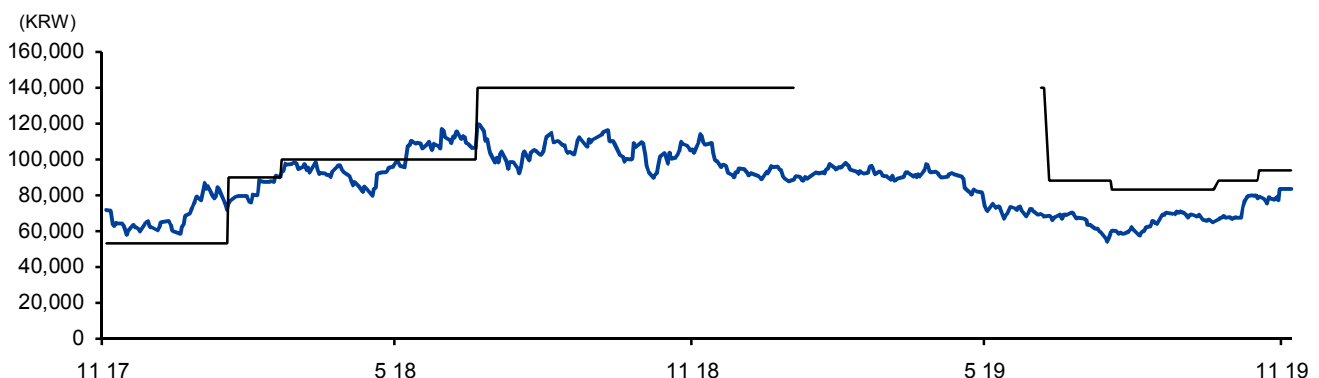
## Financial ratios

Year-end Dec 31	2017	2018	2019E	2020E	2021E
<b>Growth (%)</b>					
Sales	85.7	32.4	30.7	20.5	10.9
Operating profit	98.3	21.0	11.7	60.2	21.0
Net profit	192.9	50.3	12.6	86.3	21.3
Adjusted EPS**	84.5	21.7	12.5	86.1	21.3
<b>Per-share data (KRW)</b>					
EPS (parent-based)	1,050	1,278	1,438	2,676	3,247
EPS (consolidated)	1,050	1,278	1,438	2,676	3,247
Adjusted EPS**	1,050	1,278	1,438	2,676	3,247
BVPS	13,141	14,305	15,720	18,395	21,642
DPS (common)	0	0	0	0	0
<b>Valuations (x)</b>					
P/E***	79.4	65.3	58.0	31.2	25.7
P/B***	6.3	5.8	5.3	4.5	3.9
EV/EBITDA	29.1	19.0	16.3	11.6	9.9
<b>Ratios (%)</b>					
ROE	9.5	9.3	9.6	15.7	16.2
ROA	6.8	7.4	7.4	11.8	12.3
ROIC	15.6	15.0	17.3	27.3	30.9
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	(49.5)	(38.2)	(46.3)	(49.5)	(54.9)
Interest coverage (x)	19.0	343.0	1,090.9	1,747.1	2,818.6

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## Target price changes in past two years



## Rating changes over past two years (adjusted share prices)

Date	2017/11/23	2018/2/8	3/13	7/12	2019/7/1	8/9	10/14	11/8
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	53,000	90,000	100,000	140,000	88,000	83,000	88,000	94,000
Gap* (average)	29.29	(7.62)	(1.06)	(27.09)	(26.53)	(21.77)	(17.92)	
(max or min)**	64.15	1.11	17.10	(14.43)	(20.00)	(14.46)	(8.98)	

Note: \* [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

\*\* Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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### Industry

<b>OVERWEIGHT</b>	Expected to outperform market by 5% or more within 12 months
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<b>UNDERWEIGHT</b>	Expected to underperform market by 5% or more within 12 months

## Percentage of ratings in 12 months prior to Sep 30, 2019

BUY (76.6%) | HOLD (23.4%) | SELL (0%)

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