

Studio Dragon (253450 KS)

Media sector leader to emerge as KOSDAQ bellwether

BUY (Maintain)

CP (Nov. 21) KRW83,400
TP (6 months) KRW100,000
Upside 19.9%

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KOSPI	2,096.60p
KOSDAQ	635.99p
Market cap	KRW2,343.1bn/USD2,055.4mn
Par value	KRW500
Outstanding shares	28.1mn
Free float	7.1mn(25.3%)
52-week high/low	KRW114,100/KRW54,000
60-day avg. trading volume	116,366shrs
60-day avg. turnover	KRW8,418mn
Foreign ownership	2.60%
Major shareholders	
	CJ ENM and 5 others 74.33%
Absolute performance	3M 33.7%
	6M 4.1%
	12M -20.4%
Relative performance	3M 29.4%
to KOSDAQ	6M 15.3%
	12M -12.9%

◆ 4Q19 consolidated OP forecast at KRW5.5bn (+625.5% YoY)

◆ Stake sale and multi-year partnership deal sealed with Netflix

◆ Retain BUY and target price of KRW100,000 for media sector top pick

4Q19 consolidated OP forecast at KRW5.5bn (+625.5% YoY)

Studio Dragon is expected to post consolidated sales of KRW94bn (-7.9% YoY) and operating profit of KRW5.5bn (+625.5% YoY) for 4Q19. We believe market expectations for operating profit need to be revised down from current KRW11.8bn considering the following factors. First, most of the revenue from the highly-anticipated drama Crash Landing on You, scheduled to start on December 14 on Netflix, will likely be booked in 1Q20. Second, VOD (video on demand) revenue has been relatively weak as Melting Me Softly, another highly-anticipated drama series, fell short of expectations at a peak viewership of 3.2%. Third, revenue from a second Netflix original series is expected to be booked in 1H20.

For 2020, consolidated sales are forecast at KRW536.5bn (+15.3% YoY) and operating profit at KRW62bn (+62.3% YoY). We now believe the next season of Arthdal Chronicles will start in 1H21 vs. our original forecast of 3Q20, and expect related revenue to be booked in 2021 instead of 2020.

Stake sale and multi-year partnership deal sealed with Netflix

Netflix, faced with content shortages, has signed a three-year agreement beginning in 2020 with Studio Dragon for the supply of at least 21 dramas including original series production and Korean drama distribution rights. Studio Dragon sold a total of 8 drama series to Netflix in 2019. While the number of dramas supplied to Netflix per year will be similar under the new partnership deal, price levels are expected to significantly increase. The partnership will help Netflix secure contents in advance for competition in the Americas, and allow Studio Dragon to add a steady source of revenue. The agreement includes the sale of a 4.99% stake in Studio Dragon held by CJ ENM to Netflix. The limited stake sale should allow CJ ENM to seek other business opportunities with its remaining stake while helping to strengthen the partnership with Netflix.

Retain BUY and target price of KRW100,000 for media sector top pick

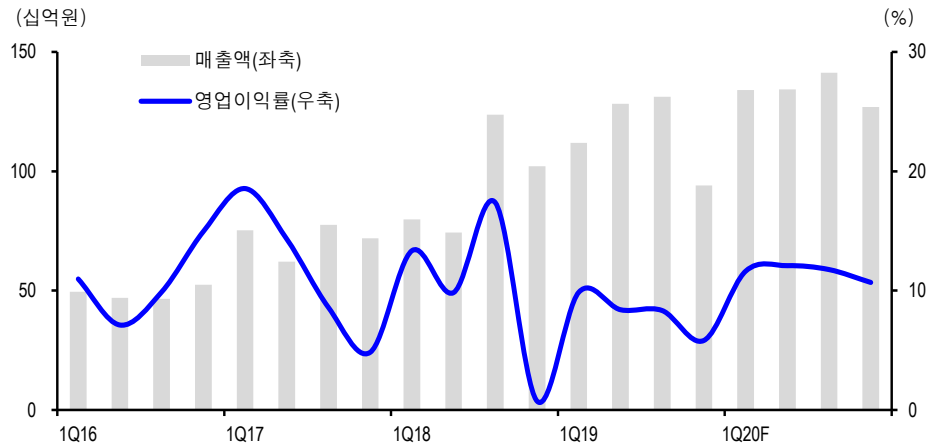
Our target price for Studio Dragon remains unchanged at KRW100,000, based on 2020F operating profit of KRW62bn excluding China earnings (net profit of KRW55.5bn) and a target PER of 50x. We retain BUY for our media sector top pick, alongside Jcontentree, on forecasts for: 1) revenue growth from overseas OTT platforms including Netflix; 2) over 60% YoY growth in operating profit in 2020; and 3) sharp rise in profitability once China eases restrictions on Korean media contents. We believe the media sector leader is set to emerge as a KOSDAQ bellwether.

Year to December	Sales (bn KRW)	OP (bn KRW)	Pre-tax (bn KRW)	NP (bn KRW)	EPS (KRW)	Growth (%)	BPS (KRW)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net debt ratio (%)
2017	286.8	33.0	30.3	23.8	1,050	84.5	13,141	61.9	22.1	4.9	9.5	(49.5)
2018	379.6	39.9	45.6	35.8	1,278	21.7	14,305	72.3	21.2	6.5	9.3	(38.2)
2019F	465.2	38.2	46.6	45.2	1,611	26.1	15,916	51.8	9.9	5.2	10.7	(44.0)
2020F	536.5	62.0	73.0	55.5	1,977	22.7	17,893	42.2	8.9	4.7	11.7	(46.7)
2021F	618.1	82.8	94.8	72.1	2,569	29.9	20,462	32.5	7.9	4.1	13.4	(50.5)

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

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Sales and operating profit margin



Source: Company data, Shinhan Investment Corp.

Earnings trend and outlook (K-IFRS consolidated)

(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19F	1Q20F	2Q20F	3Q20F	4Q20F	2017	2018	2019F	2020F
<Earnings forecasts>																
Total revenue	79.9	74.3	123.7	102.1	111.8	128.2	131.2	94.0	134.0	134.3	141.3	126.9	286.8	379.5	465.2	536.5
Production revenue	40.7	34.1	48.9	54.4	44.1	58.1	52.8	45.0	47.3	61.4	55.9	46.8	131.2	178.1	200.0	211.5
- Global platforms	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.0	1.5	0.0	1.5	2.3	0.0	0.0	0.8	5.3
Distribution revenue	32.1	28.8	63.4	38.1	56.2	60.3	60.0	40.9	64.9	62.1	64.4	56.7	111.8	162.1	217.4	248.0
Other (PPL) revenue	7.1	11.4	11.4	9.5	11.5	9.8	10.4	8.0	11.8	10.8	11.0	8.4	43.7	39.4	39.8	42.0
<Overseas operations>																
Overseas distribution revenue	22.7	16.5	46.2	25.2	42.6	42.2	43.9	28.8	50.2	42.3	44.4	42.1	67.2	110.2	157.5	178.9
Share in distribution revenue (%)	70.8	57.2	72.9	66.0	75.9	70.0	73.1	70.5	77.4	68.1	68.9	74.3	60.1	68.0	72.5	72.2
Japan	3.5	4.5	3.4	4.2	10.3	5.9	3.2	5.6	11.3	7.1	3.9	6.8	18.7	15.6	25.0	29.1
Asia including China	8.9	10.5	10.4	14.3	21.6	12.7	19.3	17.6	24.8	17.2	21.3	20.1	39.9	43.8	71.3	83.5
China	0.0	0.0	0.0	1.5	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	1.8	0.0
Americas	0.2	0.3	0.3	1.1	0.4	0.5	5.2	2.5	2.4	2.4	4.5	4.5	8.2	1.9	8.6	13.8
Others	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.4	0.4	0.4	0.5
COGS	66.2	63.7	98.9	95.3	96.8	112.8	115.9	84.0	114.0	112.7	119.6	108.4	239.8	324.0	409.6	454.7
SG&A	3.0	3.3	3.3	6.0	4.0	4.6	4.4	4.5	4.5	5.4	5.1	4.9	14.1	15.7	17.5	19.9
OP	10.7	7.3	21.5	0.8	11.0	10.8	10.9	5.5	15.6	16.2	16.6	13.6	33.0	39.9	38.2	62.0
Pre-tax profit	10.8	11.0	22.0	2.0	13.2	11.9	13.1	8.4	17.7	18.3	19.8	17.2	30.3	45.6	46.6	73.0
NP	7.9	8.9	17.3	2.1	9.2	7.3	11.5	6.9	13.4	13.9	15.0	13.1	23.8	35.8	34.9	55.5
<% YoY growth>																
Sales	6.0	19.6	59.6	42.0	40.0	72.6	6.1	(7.9)	19.8	4.7	7.7	35.0	46.7	32.3	22.5	15.3
OP	(23.7)	(17.8)	223.0	(78.3)	3.5	47.4	(49.1)	625.5	41.3	50.8	52.2	147.8	55.4	20.9	(5.0)	62.3
NP	(41.3)	216.8	206.3	3.1	17.2	(17.3)	(33.5)	233.3	45.9	89.6	30.5	90.3	83.3	50.2	(3.3)	58.7
<Margin, %>																
OPM	13.3	9.8	17.4	0.7	9.9	8.4	8.3	5.8	11.6	12.1	11.8	10.7	11.5	10.5	8.2	11.6
NPM	9.8	11.9	14.0	2.0	8.2	5.7	8.8	7.3	10.0	10.4	10.6	10.3	8.3	9.4	7.5	10.3

Source: Company data, Shinhan Investment Corp.

Note: Distribution rights revenue from Netflix included in overseas distribution revenue; China revenue assumed to be zero for 2020

PER valuation: Target price of KRW100,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2019F NP	45.2	2020F NP	55.5	2021F NP	72.1
EPS (KRW)	1,611	EPS (KRW)	1,977	EPS (KRW)	2,569
Target price (KRW)	81,000	Target price (KRW)	100,000	Target price (KRW)	128,000
Target PER (x)	50	Target PER (x)	50	Target PER (x)	50
			Current price	83,400	
			Current PER	42.2	

Source: Shinhan Investment Corp.

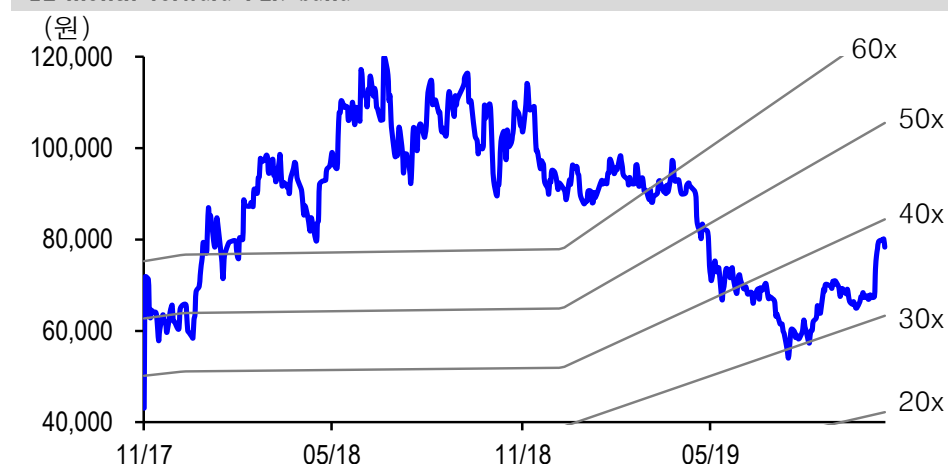
Note: Target PER based on past 2-year average PER (low) in view of uncertainty in China earnings and decline in profitability from increasing production costs. Studio Dragon continues to see steady distribution revenue growth from Netflix and should be able to deliver sharp profit growth in 2020 even without the addition of earnings from China.

PER trend

(x)	2017	2018	Past 2-year average
PER (high)	77.4	96.6	87.0
PER (low)	52.7	45.4	49.0
PER (average)	60.3	75.9	68.1

Source: Shinhan Investment Corp.

12-month forward PER band



Source: Bloomberg, Shinhan Investment Corp.

4Q19 forecast

(bn KRW)	4Q19F	3Q19	% QoQ	4Q18	% YoY	Previous	Consensus
Sales	94.0	131.2	(28.4)	101.7	(7.9)	95.3	122.2
OP	5.5	10.9	(49.5)	0.4	625.5	7.3	11.8
NP	6.9	11.5	(40.0)	1.7	233.3	8.3	10.4
OPM (%)	5.8	8.3		0.4		7.6	9.7
NPM (%)	7.3	8.8		1.7		8.7	8.5

Source: Company data, FnGuide, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Total assets	459.5	512.4	587.9	656.3	739.9
Current assets	289.8	247.2	309.3	376.5	452.1
Cash and equivalents	51.3	153.0	195.9	234.0	288.9
Accounts receivable	54.9	68.8	86.0	111.8	128.7
Inventories	1.3	0.6	0.7	0.8	0.9
Non-current assets	169.6	265.2	278.6	279.8	287.8
Tangible assets	1.1	1.0	0.8	0.8	0.6
Intangible assets	127.5	198.5	211.4	212.0	219.4
Investment assets	3.8	3.7	4.5	5.1	5.8
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	91.0	111.1	141.4	154.4	165.9
Current liabilities	90.7	108.2	138.4	151.2	162.6
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	6.1	19.6	20.5	21.5	22.5
Current portion of long-term debt	10.0	0.0	0.0	0.0	0.0
Non-current liabilities	0.3	2.9	3.0	3.2	3.3
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	0.0	2.1	2.1	2.1	2.1
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	368.4	401.3	446.5	501.9	574.0
Capital stock	14.0	14.0	14.0	14.0	14.0
Capital surplus	319.6	320.1	320.1	320.1	320.1
Other capital	2.7	0.3	0.3	0.3	0.3
Accumulated other comprehensive income	0.0	(0.8)	(0.8)	(0.8)	(0.8)
Retained earnings	32.1	67.6	112.8	168.3	240.4
Controlling interest equity	368.4	401.3	446.5	501.9	574.0
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	10.1	2.1	2.1	2.1	2.1
*Net debt (cash)	(182.5)	(153.4)	(196.3)	(234.6)	(289.6)

Statement of cash flow

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Cash flow from operations	(7.2)	(29.1)	228.2	208.4	233.0
Net profit	23.8	35.8	45.2	55.5	72.1
Depreciation expense	0.3	0.3	0.4	0.3	0.3
Amortization expense	41.0	75.0	177.7	175.7	177.8
FX translation loss (gain)	0.8	(0.5)	0.0	0.0	0.0
Asset disposal loss (gain)	(0.0)	0.0	0.0	0.0	0.0
Equity method loss (gain)	0.0	0.0	0.0	0.0	0.0
Change in working capital	(72.9)	(139.4)	8.6	(18.7)	(11.7)
(Payment of income tax)	(10.4)	(9.7)	(1.4)	(17.5)	(22.8)
Others	10.2	9.4	(2.3)	13.1	17.3
Cash flow from investments	(141.0)	140.6	(188.0)	(172.8)	(180.7)
Increase in tangible assets	(0.1)	(0.2)	(0.3)	(0.4)	(0.1)
Decrease in tangible assets	0.1	0.0	0.1	0.1	0.1
Change in intangible assets	(0.2)	(0.1)	(190.6)	(176.3)	(185.2)
Change in investment assets	0.0	0.0	(0.7)	(0.6)	(0.7)
Others	(140.8)	140.9	3.5	4.4	5.2
Free cash flow	44.0	143.7	225.9	206.6	231.6
Cash flow from financing	188.1	(9.7)	(0.0)	(0.0)	(0.0)
Change in borrowings	(18.1)	(10.0)	0.0	0.0	0.0
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Others	206.2	0.3	0.0	0.0	0.0
Other cash flow	0.0	0.0	2.6	2.6	2.6
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.1)	(0.1)	0.0	0.0	0.0
Change in total cash	39.8	101.7	42.8	38.1	54.9
Beginning cash	11.5	51.3	153.0	195.9	234.0
Ending cash	51.3	153.0	195.9	234.0	288.9

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Sales	286.8	379.6	465.2	536.5	618.1
Growth (%)	85.7	32.4	22.6	15.3	15.2
COGS	239.7	324.0	409.6	454.7	513.0
Gross profit	47.1	55.6	55.7	81.9	105.1
GPM (%)	16.4	14.6	12.0	15.3	17.0
SG&A	14.2	15.7	17.5	19.9	22.3
Operating profit	33.0	39.9	38.2	62.0	82.8
Growth (%)	98.3	21.0	(4.3)	62.3	33.6
OPM (%)	11.5	10.5	8.2	11.6	13.4
Non-operating profit	(2.7)	5.7	8.4	11.0	12.0
Financial profit	(2.5)	6.1	8.7	9.5	10.5
Other non-operating profit	(0.2)	(0.3)	(0.3)	1.5	1.5
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	30.3	45.6	46.6	73.0	94.8
Income tax	6.4	9.8	1.4	17.5	22.8
Continuing operations	23.8	35.8	45.2	55.5	72.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	23.8	35.8	45.2	55.5	72.1
Growth (%)	192.9	50.3	26.1	22.7	29.9
NPM (%)	8.3	9.4	9.7	10.3	11.7
Controlling interest	23.8	35.8	45.2	55.5	72.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	23.8	34.7	45.2	55.5	72.1
Controlling interest	23.8	34.7	45.2	55.5	72.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	74.3	115.2	216.3	238.0	260.8
Growth (%)	91.4	55.1	87.8	10.1	9.6
EBITDA margin (%)	25.9	30.3	46.5	44.4	42.2

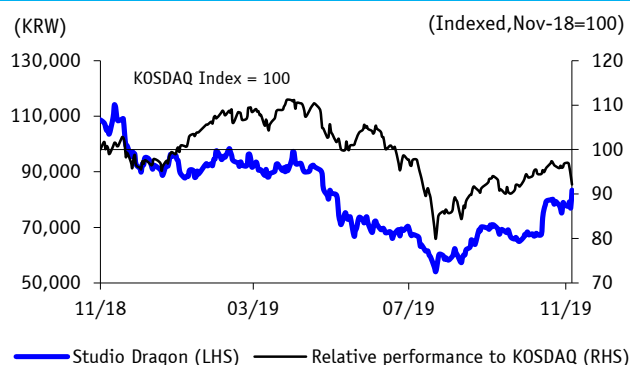
Key ratios

Year to December	2017	2018	2019F	2020F	2021F
EPS (KRW)	1,050	1,278	1,611	1,977	2,569
EPS of controlling interest (KRW)	1,050	1,278	1,611	1,977	2,569
BPS (KRW)	13,141	14,305	15,916	17,893	20,462
BPS of controlling interest (KRW)	13,141	14,305	15,916	17,893	20,462
DPS (KRW)	0	0	0	0	0
PER (x)	61.9	72.3	51.8	42.2	32.5
PER of controlling interest (x)	61.9	72.3	51.8	42.2	32.5
PBR (x)	4.9	6.5	5.2	4.7	4.1
PBR of controlling interest (x)	4.9	6.5	5.2	4.7	4.1
EV/EBITDA (x)	22.1	21.2	9.9	8.9	7.9
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Profitability					
EBITDA margin (%)	25.9	30.3	46.5	44.4	42.2
OPM (%)	11.5	10.5	8.2	11.6	13.4
NPM (%)	8.3	9.4	9.7	10.3	11.7
ROA (%)	6.8	7.4	8.2	8.9	10.3
ROE (%)	9.5	9.3	10.7	11.7	13.4
ROIC (%)	18.0	14.8	20.6	24.9	30.6
Stability					
Debt to equity ratio (%)	24.7	27.7	31.7	30.8	28.9
Net debt ratio (%)	(49.5)	(38.2)	(44.0)	(46.7)	(50.5)
Cash ratio (%)	56.6	141.4	141.5	154.8	177.7
Interest coverage ratio (x)	19.0	343.0	934.7	1,517.3	2,027.5
Activity (%)					
Working capital turnover (times)	57.1	(183.6)	(17.7)	(22.6)	(56.1)
Inventory turnover (days)	0.8	0.9	0.5	0.5	0.5
Receivable turnover (days)	58.5	59.5	60.7	67.3	71.0

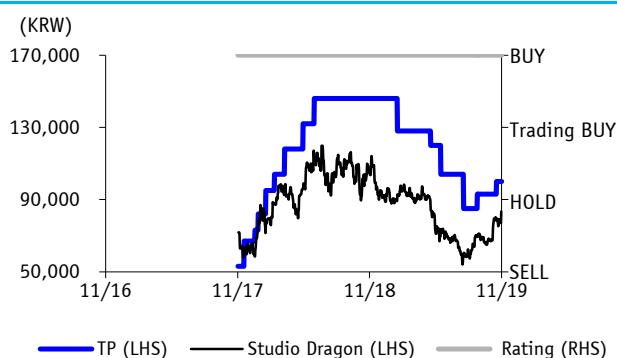
Source: Company data, Shinhan Investment Corp.

Studio Dragon (253450 KS)

Share performance



Target price



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2017.11.23	BUY	53,000	20.8	35.5
2017.12.10	BUY	67,000	(6.9)	(1.8)
2018.01.09	BUY	73,000	(6.2)	1.9
2018.01.18	BUY	82,000	(2.2)	6.1
2018.02.08	BUY	95,000	(15.1)	(6.7)
2018.03.04	BUY	104,000	(9.9)	(5.3)
2018.04.01	BUY	118,000	(23.0)	(16.4)
2018.05.22	BUY	132,000	(19.3)	(11.3)
2018.06.22	BUY	146,000	(28.3)	(17.9)
2018.12.23		6M later	(37.5)	(34.0)
2019.02.07	BUY	128,000	(27.6)	(23.2)
2019.05.10	BUY	120,000	(36.9)	(30.6)
2019.06.07	BUY	104,000	(35.8)	(29.0)
2019.08.09	BUY	85,000	(26.9)	(17.4)
2019.09.16	BUY	93,000	(24.5)	(13.9)
2019.11.08	BUY	100,000	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - SHIC Universe (as of 20 November 2019)

BUY (BUY)	96.1%	Trading BUY (HOLD)	0.98%	HOLD (HOLD)	2.93%	SELL (SELL)	0%
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Rating Distribution - SHIC Investment Banking Clients (as of 20 November 2019)

BUY (BUY)	100%	Trading BUY (HOLD)	0%	HOLD (HOLD)	0%	SELL (SELL)	0%
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SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> ◆ BUY: Expected 6-month gain of 10% or more ◆ Trading BUY: Expected 6-month gain of 10% to loss of 10% ◆ HOLD: Expected 6-month loss of 10% to 20% ◆ SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> ◆ OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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