

# COMPANY UPDATE

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### ▶ AT A GLANCE

Recommend	<b>BUY</b>
Target price	KRW108,000 (25.6%)
Current price	KRW86,000
Market cap	KRW2.4t/USD2.0b
Shares (float)	28,096,370 (30.3%)
52-week high/low	KRW98,300/KRW54,000
Avg daily trading value (60-day)	KRW13.8b/USD11.6m

### ▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	-1.1	47.0	-9.0
Vs Kosdaq (%pts)	-2.4	26.3	-2.1

### ▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	108,000	108,000	0.0%
2019 EPS	942	1,199	-21.4%
2020E EPS	1,938	1,990	-2.6%

### ▶ SAMSUNG vs THE STREET

No of estimates	22
Target price	102,045
Recommendation	4.0

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

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## Studio Dragon (253450)

Fundamental is still solid

- Studio Dragon yesterday reported an operating loss of KRW4b in 4Q. The disappointing results were attributable to: 1) the timing of sales recognition (just a few episodes of a tent-pole drama aired in 4Q); 2) a drop in number of dramas produced as drama slots fell temporarily; and 3) low viewership rating of the dramas broadcast in the quarter.
- Considering its dirama lineup and tent-pole drama broadcasting schedule, we expect earnings to start turning around from 2Q. Its global business has been expanding smoothly via partnership and collaboration with foreign counterparts. We keep the stock at BUY rating and with an unchanged KRW108,000 target price.

### WHAT'S THE STORY

Studio Dragon reported lackluster 4Q results showing sales of KRW9.7b (down 4.2% y-y) and operating loss of KRW4b. The y-y drop in sales came as no surprise given: 1) sluggish performances of the dramas aired in 4Q; 2) partial recognition of sales from a tent-pole drama; and 3) a drop in the number of dramas produced, as captive customer OCN did not air dramas on Wednesdays and Thursdays in the quarter. Because of low viewership ratings, lucrative VOD sales and sponsorship sales diminished around KRW4b y-y, weighing on the bottom line.

*(Continued on the next page)*

### Quarterly results

(KRWb)	4Q19	3Q19	(% q-q)	4Q18	(% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	97	131	(25.7)	102	(4.2)	104	(6.7)	97	0.9
Operating profit	(4)	11	(Turned neg)	0	(Turned neg)	7	nm	5	nm
Pre-tax profit	(5)	13	(Turned neg)	2	(Turned neg)	8	nm	6	nm
Net profit (controlling)	(2)	12	(Turned neg)	2	(Turned neg)	7	nm	6	nm
<b>Margins (%)</b>									
Operating profit	(4.1)	8.3		0.4		6.4		4.7	
Pre-tax profit	(5.2)	10.0		1.7		7.5		6.2	
Net profit (controlling)	(1.7)	8.8		1.7		6.4		5.8	

Source: Company data, Samsung Securities estimates

### Valuation

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit (controlling)	EPS (KRW)	EPS growth (% y-y)	P/E (x)	Net debt	EV/EBITDA (x)	P/B (x)	ROE (%)
2017*	287	33	30	24	1,050	84.5	61.9	(183)	22.1	4.9	9.5
2018*	380	40	46	36	1,278	21.7	72.3	(153)	21.2	6.5	9.3
2019	469	29	33	26	942	(26.3)	85.9	(189)	18.0	5.3	6.4
2020E	543	62	71	54	1,938	105.8	44.4	(219)	12.9	5.0	12.0
2021E	616	81	89	68	2,409	24.3	35.7	(273)	10.8	4.4	13.1

Source: Company data, Samsung Securities estimates

The company intends to produce five more dramas y-y to 33 this year, including two or three Netflix Original dramas (vs just one last year). Its efforts toward drama distribution channel diversification should result in greater sales contribution by unaffiliated customers. Earnings should receive a boost from a multi-year strategic partnership it signed with Netflix in November, under which it will provide at least 21 original series productions to the US giant for three years starting in 2020. The partnership should become effective in 2Q20. Studio Dragon has also been making steady headway in global business expansion-eg, recent equity investment in Skydance Media (US production company), negotiating to produce remakes with 20th century Fox and ShowTime, and drama co-production with HBO. We reiterate the stock at BUY with an unchanged 12-month target price of KRW108,000 (based on 16x forward EV/EBITDA; the average of 2017-2018 lows, and a 20% discount to the valuations at which global OTT service providers are trading).

## Income statement

Year-end Dec 31 (KRWb)	2017	2018	2019E	2020E	2021E
Sales	287	380	469	543	616
Cost of goods sold	240	324	421	459	511
Gross profit	47	56	48	84	105
Gross margin (%)	16.4	14.6	10.2	15.5	17.0
SG&A expenses	14	16	19	22	24
Operating profit	33	40	29	62	81
Operating margin (%)	11.5	10.5	6.1	11.5	13.1
Non-operating gains (losses)	(3)	6	4	9	8
Financial profit	1	7	11	13	11
Financial costs	3	1	6	4	4
Equity-method gains (losses)	0	0	0	0	0
Other	(0)	(0)	0	0	0
Pre-tax profit	30	46	33	71	89
Taxes	6	10	7	17	21
Effective tax rate (%)	21.2	21.5	20.0	23.8	23.8
Profit from continuing operations	24	36	26	54	68
Profit from discontinued operations	0	0	0	0	0
Net profit	24	36	26	54	68
Net margin (%)	8.3	9.4	5.6	10.0	11.0
Net profit (controlling interests)	24	36	26	54	68
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	74	115	116	170	198
EBITDA margin (%)	25.9	30.3	24.7	31.4	32.1
EPS (parent-based) (KRW)	1,050	1,278	942	1,938	2,409
EPS (consolidated) (KRW)	1,050	1,278	942	1,938	2,409
Adjusted EPS (KRW)*	1,050	1,278	942	1,938	2,409

## Cash flow statement

Year-end Dec 31 (KRWb)	2017	2018	2019E	2020E	2021E
Cash flow from operations	(7)	(29)	114	160	185
Net profit	24	36	26	54	68
Non-cash profit and expenses	46	74	87	121	133
Depreciation	0	0	0	0	0
Amortization	41	75	87	108	117
Other	5	(1)	0	13	16
Changes in A/L from operating activities	(73)	(139)	7	2	5
Cash flow from investments	(141)	141	(123)	(135)	(145)
Change in tangible assets	(0)	(0)	0	0	0
Change in financial assets	(143)	139	(45)	(4)	(15)
Other	2	2	(78)	(130)	(130)
Cash flow from financing	188	(10)	(0)	(0)	(1)
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	(8)	26	39
Cash at beginning of year	12	51	153	145	171
Cash at end of year	51	153	145	171	209
Gross cash flow	70	110	114	175	201
Free cash flow	(7)	(29)	114	160	185

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
Current assets	290	247	300	350	419
Cash & equivalents	51	153	145	171	209
Accounts receivable	55	69	70	90	97
Inventories	1	1	1	1	1
Other current assets	182	25	85	88	112
Fixed assets	170	265	263	290	308
Investment assets	4	4	4	5	5
Tangible assets	1	1	1	1	0
Intangible assets	128	199	213	235	250
Other long-term assets	37	62	45	50	52
Total assets	459	512	563	640	727
Current liabilities	91	108	133	154	175
Accounts payable	6	20	17	24	25
Short-term debt	0	0	0	0	0
Other current liabilities	85	89	116	130	150
Long-term liabilities	0	3	3	3	2
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	0	3	3	3	2
Total liabilities	91	111	136	157	177
Owners of parent equity	368	401	428	482	550
Capital stock	14	14	14	14	14
Capital surplus	320	320	320	320	320
Retained earnings	32	68	94	149	216
Other	3	(0)	(0)	(0)	(0)
Non-controlling interests' equity	0	0	0	0	0
Total equity	368	401	428	482	550
Net debt	(183)	(153)	(189)	(219)	(273)

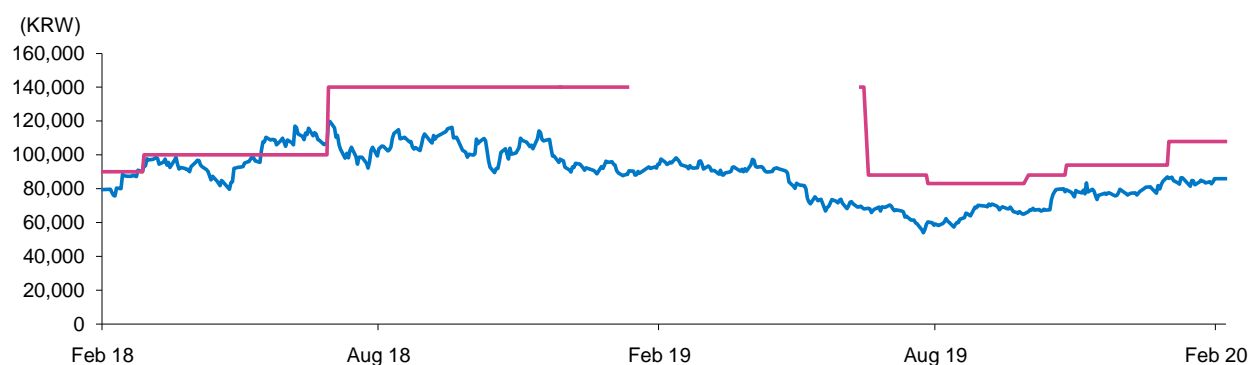
## Financial ratios

Year-end Dec 31	2017	2018	2019E	2020E	2021E
Growth (%)					
Sales	85.7	32.4	23.5	15.9	13.4
Operating profit	98.3	21.0	(28.1)	116.9	29.4
Net profit	192.9	50.3	(26.2)	106.0	24.3
Adjusted EPS**	84.5	21.7	(26.3)	105.8	24.3
Per-share data (KRW)					
EPS (parent-based)	1,050	1,278	942	1,938	2,409
EPS (consolidated)	1,050	1,278	942	1,938	2,409
Adjusted EPS**	1,050	1,278	942	1,938	2,409
BVPS	13,141	14,305	15,223	17,161	19,570
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	61.9	72.3	85.9	44.4	35.7
P/B***	4.9	6.5	5.3	5.0	4.4
EV/EBITDA	22.1	21.2	18.0	12.9	10.8
Ratios (%)					
ROE	9.5	9.3	6.4	12.0	13.1
ROA	6.8	7.4	4.9	9.1	9.9
ROIC	15.6	15.0	12.1	19.5	23.5
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)	(44.3)	(45.4)	(49.7)
Interest coverage (x)	19.0	343.0	702.7	1,524.2	2,630.1

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### Target price changes in past two years



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

Date	2018/2/8	3/13	7/12	2019/7/1	8/9	10/14	11/8	2020/1/14
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	90,000	100,000	140,000	88,000	83,000	88,000	94,000	108,000
Gap* (average)	(7.62)	(1.06)	(27.09)	(26.53)	(21.77)	(17.92)	(16.65)	
(max or min)**	1.11	17.10	(14.43)	(20.00)	(14.46)	(8.98)	(7.45)	

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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<b>BUY</b>	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
<b>HOLD</b>	Expected to increase/decrease in value by less than 10% within 12 months
<b>SELL</b>	Expected to decrease in value by 10% or more within 12 months

#### Industry

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

### Percentage of ratings in 12 months prior to Dec 31, 2019

BUY (77%) | HOLD (23%) | SELL (0%)

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