

Studio Dragon (253450 KS)

Media/entertainment

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Rating	HOLD (D)
Target price	W89,000 (M)
Current price (Feb 13)	W86,000
Upside potential	3%

Market cap (Wbn)	2,416
Shares outstanding	28,096,370
Avg daily T/O (2M, Wbn)	14
Avg daily volume (2M, shrs)	170,497
52-week high (won)	98,300
52-week low (won)	54,000
Foreign ownership (%)	7.7
Major shareholders (%)	
CJ ENM & others	69.3

Stock performance

(%)	1M	3M	12M
Absolute	(1.1)	14.4	(9.0)
Relative	(2.4)	10.1	(2.1)
Abs (US\$)	(3.4)	12.9	(13.7)

Earnings shock reported

4Q19 review

- Studio Dragon reported consolidated sales of W97.4bn (-4% YoY), operating loss of W4bn (turning to loss YoY), and net loss attributable to controlling interest of W1.6bn (turning to loss YoY). It was an earnings shock, with OP falling far below consensus of W6.4bn.
 - By business, programming revenue came to W45.7bn (-16% YoY), distribution W42.8bn (+13% YoY), and other W8.9bn (-7% YoY).** Programming revenue declined, as: 1) tvN aired no dramas on Saturdays and Sundays for three weeks before "Crash Landing On You" began to air; and 2) OCN also did not air any drama on both its Wednesday~Thursday slot and Saturday~Sunday slot from Nov to Dec 2019. Despite the decline in the number of dramas, distribution revenue grew YoY, as overseas distribution revenue rose from W24.8bn in 4Q18 to W31.7bn in 4Q19. **We attribute the sharp rise in overseas distribution revenue to higher selling prices to Netflix.**
 - Gross margin fell to 2.3% (-4.1%p YoY, -9.4%p QoQ).** Accelerated amortization of intangible assets, usually seen at drama studios, was not the reason for worse gross margin at the company in 4Q19. We estimate the company's 4Q19 amortization cost of intangible assets at W27.7bn (+6% YoY, -2% QoQ). The company attributed gross margin squeeze to a temporary decline in sales. We believe overseas distribution revenue, which has remained in the W40bn range since 1Q19, fell to the W30bn range in 4Q19, thus lowering average drama project margin in 4Q19. Another reason was the introduction of the 52-hour maximum workweek, which raised average drama production costs in 2019.
- ### Downgrade to HOLD
- We lower our rating on Studio Dragon from BUY to HOLD**, as the share price is just 3% below our target price of W89,000. We will review our rating and target price after assessing: 1) whether there are any factors that might cause us to revise up 2020 earnings estimates; and 2) how the company's global businesses are faring.
 - The number of drama productions is set to rise by 5 from 28 in 2019 to 33 in 2020 and only 2 of them will air on CJ ENM's channels. As CJ ENM plans to tightly control its broadcasting production budget in 2020, Studio Dragon's production cost recoup rate for CJ ENM dramas will likely decline in 2020. However, the company will likely raise the production cost recoup rate for Netflix original dramas by up to 20%p. If the increase in its recoup rate for Netflix original dramas is partially offset by a decline in that for CJ ENM dramas, Studio Dragon's 2020 gross margin growth may miss market consensus.

Quarterly earnings

(Wbn)	4Q19P	% YoY	% QoQ	Consens	vs consens (%)
Sales	97	-4.3	-25.8	103	-5.2
OP	-4	TTR	TTR	6	-162.1
Pre-tax net profit	-5	TTR	TTR	7	-169.3
Net profit, CI	-2	TTR	TTR	7	-124.0
OPM (%)	-4.1	TTR	TTR	6.3	-10.4 %pt
NPM (%)	-1.6	TTR	TTR	6.5	-8.1 %pt

Note: TTB = turn to black, TTR = turn to red, RR = remain red
Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2017A	2018A	2019P	2020E
Sales		287	380	469	584
OP		33	40	29	57
Net profit, CI		24	36	26	47
P/E (x)		60.3	75.9	85.8	48.8
P/B (x)		4.8	6.8	5.3	4.8
EV/EBITDA (x)		21.4	22.2	14.5	11.6
ROE (%)		9.5	9.3	6.4	10.3

Source: Yuanta Securities

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	469	584	701
Cost of sales	240	324	421	506	612
Gross profit	47	56	48	78	90
SG&A	14	16	19	21	25
Operating profit	33	40	29	57	65
EBITDA	74	115	148	182	212
Non-op profit/loss	-3	6	4	4	5
Forex gain/loss	-1	3	7	0	0
Net interest income	-1	3	3	3	4
Equity-meth gain/loss	0	0	0	0	0
Other	0	0	-6	1	1
Net profit before income tax	30	46	33	62	70
Income tax	6	10	7	15	17
Net profit from continuing ops	24	36	26	47	53
Net profit from discontinued ops	0	0	0	0	0
Net profit	24	36	26	47	53
NP for controlling interest	24	36	26	47	53
Total comprehensive income	24	35	26	47	53
Total comprehensive income, CI	24	35	26	47	53

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	256	305	365
Cash & cash equivalents	51	153	55	77	116
Accts rec & other	55	69	75	103	123
Inventory	1	1	0	1	1
Non-current assets	170	265	325	325	325
Tangible assets	1	1	0	0	0
Investment in affiliates	0	0	0	0	0
Other non-current	4	4	10	10	10
Total assets	459	512	581	630	690
Current liabilities	91	108	143	146	153
Accts payable & other	34	60	16	19	26
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	10	0	0	0	0
Non-current liabilities	0	3	9	9	9
LT financial liabilities	0	0	0	0	0
Debentures	0	0	0	0	0
Total liabilities	91	111	152	155	162
Equity, controlling interest	368	401	429	476	529
Paid-in capital	14	14	14	14	14
Capital surplus	320	320	322	322	322
Retained earnings	32	68	94	141	194
Equity, non-controlling interest	0	0	0	0	0
Total equity	368	401	429	476	529
Net debt	-183	-158	-127	-149	-188
Total debt	10	2	7	7	7

Cash flow statement					
FY ends Dec (Wbn)	2017A	2018A	2019E	2020E	2021E
Operating cash flow	-7	-29	-6	36	75
Net profit	0	0	26	47	53
Depreciation & amortization	0	0	3	2	2
Forex gain/loss	1	-1	-4	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-73	-139	-142	-136	-126
Other	65	111	111	123	145
Investing cash flow	-141	141	-128	-125	-147
Investment	0	0	-13	0	0
Inc in tangible assets	0	0	-1	-2	-2
Dec in tangible assets	0	0	0	0	0
Other	-141	141	-114	-123	-145
Financing cash flow	188	-10	0	-1	-1
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	1	0	0
Cash dividend	0	0	0	0	0
Other	-2	0	-1	-1	-1
Other cash flow	0	0	35	112	112
Inc (dec) in cash & equivalents	40	102	-98	22	39
Beginning cash & equivalents	12	51	153	55	77
Ending cash & equivalents	51	153	55	77	116
NOPLAT	33	40	29	57	65
FCF	-6	-33	-2	30	69

Valuation					
FY ends Dec	2017A	2018A	2019E	2020E	2021E
EPS (won)	1,050	1,278	943	1,659	1,887
BPS (won)	13,141	14,305	15,268	16,927	18,814
EBITDA/shr (won)	3,271	4,108	5,251	6,495	7,537
SPS (won)	12,628	13,539	16,678	20,775	24,961
DPS (won)	0	0	0	0	0
P/E (x)	60.3	75.9	85.8	48.8	45.6
P/B (x)	4.8	6.8	5.3	4.8	4.6
EV/EBITDA (x)	21.4	22.2	14.5	11.6	10.5
P/S (x)	5.0	7.2	4.9	3.9	3.4

Key financial data					
FY ends Dec	2017A	2018A	2019E	2020E	2021E
Sales (% YoY)	85.7	32.4	23.4	24.6	20.1
Operating profit (%YoY)	98.3	21.0	-28.0	98.7	13.2
Net profit, CI (%YoY)	192.9	50.3	-26.1	76.0	13.8
Gross margin (%)	16.4	14.6	10.2	13.4	12.8
Operating margin (%)	11.5	10.5	6.1	9.8	9.2
Net margin, CI (%)	8.3	9.4	5.7	8.0	7.6
EBITDA margin (%)	25.9	30.3	31.5	31.3	30.2
ROIC (%)	19.7	19.3	10.3	15.5	16.4
ROA (%)	6.8	7.4	4.8	7.7	8.0
ROE (%)	9.5	9.3	6.4	10.3	10.6
Debt-to-equity (%)	24.7	27.7	35.4	32.5	30.6
Net debt-to-equity (%)	-49.6	-39.3	-29.6	-31.3	-35.5
OP/financing cost (x)	19.0	343.0	94.6	0.0	0.0

Note: CI = controlling interest

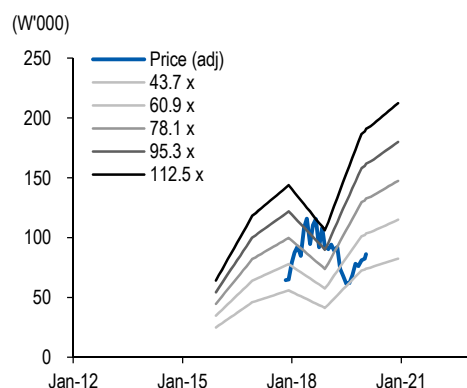
EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

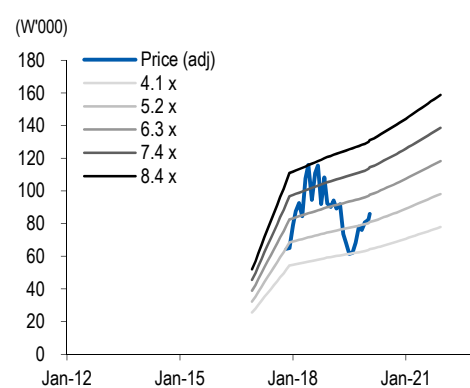
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

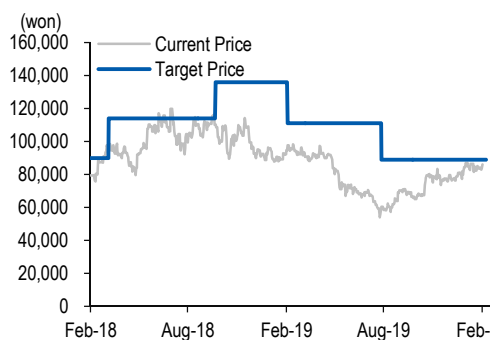
P/E band chart



P/B band chart



Studio Dragon (253450 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2020/02/14	HOLD	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

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	87.4
HOLD	12.0
SELL	0.0
Total	100.0

Note: As of Feb 11

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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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