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**Retain BUY; Target price cut 3.0% to KRW97,000**

We retain a BUY rating on Studio Dragon, but cut the target price 3% to KRW97,000 as 2020 OR and NP attributable to controlling interest estimates were each revised down to 4.0% and 7.2% to reflect delays in regional expansion of sales. The competitive edge of Studio Dragon's contents will be highlighted as content consumption increases amid the COVID-19 pandemic.

**1Q20E earnings to miss consensus**

Studio Dragon is forecast to see 1Q20 OR rise 20.7% QoQ to KRW117.5bn (+5.1% YoY) and OP turn black QoQ to KRW11.1bn (+0.5% YoY), stopping 3.4% and 3.3% short of market consensus, respectively. The number of dramas aired in 1Q20 declined YoY. However, the company was able to achieve sound earnings thanks to the solid viewer ratings of "Crash Landing on You" and other key contents, and increasing contents sales to Netflix.

**Airing of blockbuster series to begin in 2Q20 and sales to Netflix to continue growing**

Studio Dragon has a number of blockbuster series that are scheduled to air from 2Q20 and after. Upcoming blockbuster series in 2Q20 include "The King: Eternal Monarch" (to begin airing on SBS in Apr). The series is highly anticipated as its writer, Kim Eun-suk, has a number of tentpole series on her resume, such as "Guardian: The Lonely and Great God" and "Mr. Sunshine." Coupled with growing margins from sales to Netflix, Studio Dragon's earnings are expected to improve in 2Q20 with OP rising 72.0% QoQ to KRW19.1bn (+76.6% YoY). This seems achievable considering the company's OP came in at KRW21.5bn in 3Q18, when "Guardian: The Lonely and Great God" aired.

## Buy maintain

<b>Target Price (lowered)</b>	<b>KRW97,000</b>
Dividend Yield	0.0%
Total Return	28.1%
Current price (Mar 27)	KRW75,700
Consensus Target Price	KRW103,647
Market cap	USD1.7bn
* 12-month forward	

### Forecast earnings & valuation

FY-end	2019A	2020E	2021E	2022E
OR (KRWbn)	469	567	669	753
OP (KRWbn)	29	69	90	101
Adj. NP (KRWbn)	26	64	79	89
EPS (KRW)	940	2,291	2,824	3,156
EPS Growth (%)	-26.4	143.7	23.3	11.8
PER (x)	86.0	33.0	26.8	24.0
EV/EBITDA (x)	15.6	14.4	14.7	14.4
PBR (x)	5.3	4.3	3.7	3.2
ROE (%)	6.4	14.0	14.9	14.4
Div. Yield (%)	0.0	0.0	0.0	0.0

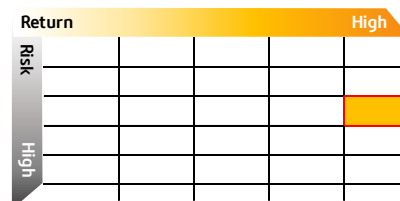
### Trading Data

Free float	30.3%
Avg T/O Val (3M, KRWbn)	11.5
Foreign ownership	8.4%
Major shareholders	CJ ENM and 5 others 69.3%

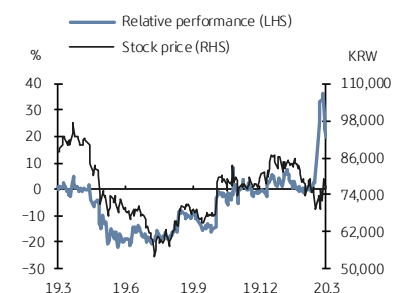
### Share price performance

(%)	1M	3M	6M	12M
Absolute	-2.2	-4.1	9.2	-14.2
Relative	19.4	21.3	31.0	19.6

### Risk & Total Return (Annualized over 3 Years)



### Price & Relative Performance

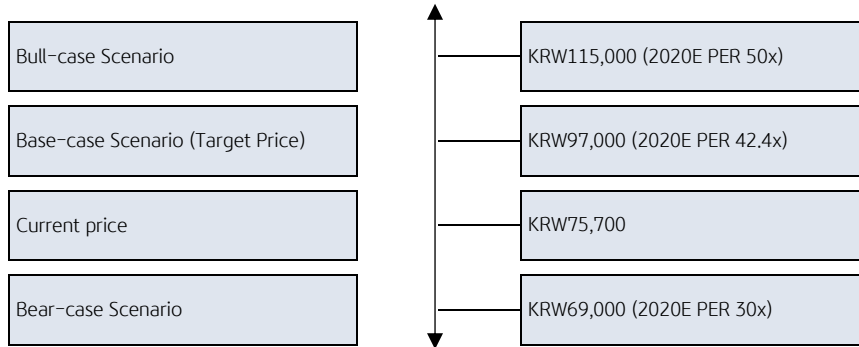


Source: Studio Dragon, KB Securities estimates

**Beneficiary of coronavirus  
pandemic-induced increase in  
content consumption**

The worldwide spread of COVID-19 is boosting content consumption, casting the spotlight on companies along OTT value chains. Netflix, which is Studio Dragon's main client and the world's leading OTT platform, is performing well on the stock market with its shares up 10% since the beginning of 2020. Studio Dragon shares are continuing to mirror Netflix shares. This indicates Studio Dragon continues to offer value as a beneficiary of content consumption.

## Investment opinion and risks



## Base-case Scenario: Catalysts

- 1) Sales to China resume in 2020
- 2) Increase in overseas OTT clients in 3H20

## Bull-case Scenario: Upside risks

- 1) Sales to China resume in 1H20
- 2) Increase in overseas OTT clients in 2H20

## Bear-case Scenario: Downside risks

- 1) Sales to China delayed
- 2) Increase in overseas OTT clients delayed

## KB estimate vs. Consensus

(KRWbn, %)	Previous		Revised		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
OR	590.1	693.6	566.5	668.5	-4.0	-3.6
OP	79.7	94.5	69.0	89.7	-13.4	-5.1
Adj. NP	69.4	81.2	64.4	79.4	-7.2	-2.2

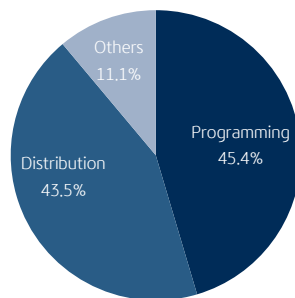
Source: KB Securities estimates

## KB estimate vs. Consensus

(KRWbn, %)	KB est.		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
OR	566.5	668.5	570.3	664.9	-0.7	0.5
OP	69.0	89.7	61.2	80.6	12.8	11.3
Adj. NP	64.4	79.4	50.6	65.7	27.2	20.8

Source: Dataguide, KB Securities estimates

## OR composition (2019, %)



Source: Company data, KB Securities

## Valuation and target price calculation

- 1) Valuation method:  
PER Valuation
- 2) Target price calculation:  
12mf EPS 2,296 x multiple 42.4x
- 3) Target price range:  
KRW 115,000 ~ KRW 69,000
- 4) Valuation at target price:  
2020E PER 42.4x

## Earnings sensitivity analysis

(%)	EPS change	
	2020E	2021E
1%p rise in interest rate	+2.1	+2.1
1% rise in FX rate	+0.4	+0.4

## Peer group comparison

(KRWbn, X, %)	Market Cap	PER		PBR		EV/EBITDA		ROE		Dividend Yield	
		2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
Jcontentree	411	14.3	10.9	1.0	0.9	9.1	8.1	7.3	8.9	0.0	4.8
Netflix	2,184	22.9	19.0	1.9	1.7	20.3	17.0	7.5	8.5	0.4	0.5
Zhejiang Huace Film&TV	192,866	53.7	38.6	15.4	11.3	37.5	27.7	29.1	29.0	0.0	0.0
Beijing HualuBaina Film&TV	230,327	24.0	18.2	2.1	2.0	15.4	12.9	7.6	10.6	1.8	1.9

Source: Bloomberg, KB Securities

Table 1. Studio Dragon's 1Q20 consolidated earnings review

(KRWon, %, %p)	1Q20E	4Q19	QoQ	1Q19	YoY	Prior	Diff.	Consensus	Diff.
OR	117.5	97.4	20.7	111.8	5.1	129.4	(9.2)	121.6	(3.4)
OP	11.1	(4.1)	TB	11.0	0.5	17.8	(37.6)	11.5	(3.3)
OPM	9.4	(4.2)	13.6	9.9	(0.4)	13.7	(4.3)	9.4	0.0
Adj. NP	11.4	(1.7)	TB	9.1	24.9	15.6	(27.1)	9.8	16.5
Adj. NPM	9.7	(1.7)	11.4	8.2	1.5	12.1	(2.4)	8.1	1.7

Source: FnGuide, KB Securities estimates

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

(KRWbn)	1Q19	2Q19	3Q19	4Q19P	1Q20E	2Q20E	3Q20E	4Q20E	2019P	2020E	2021E	2022E
OR	111.8	128.2	131.2	97.4	117.5	152.2	146.5	150.4	468.5	566.5	668.5	753.1
(QoQ %)	9.9	14.6	2.3	(25.8)	20.7	29.5	(3.8)	2.7	-	-	-	-
(YoY %)	40.0	72.6	6.1	(4.3)	5.1	18.7	11.7	54.5	23.4	20.9	18.0	12.6
Programming	44.1	58.1	60.8	45.7	46.3	69.5	69.6	68.3	208.7	253.7	326.5	378.9
Distribution	56.2	60.3	60.0	42.8	61.8	72.4	66.0	72.7	219.3	272.9	300.2	330.2
Others	11.5	9.8	10.4	8.9	9.4	10.3	10.9	9.3	40.6	39.9	41.9	44.0
OC	100.8	117.4	120.2	101.5	106.4	133.1	126.8	131.2	439.9	497.5	578.8	651.7
(QoQ %)	(0.5)	16.5	2.4	(15.6)	4.9	25.1	(4.8)	3.5	-	-	-	-
(YoY %)	45.6	75.3	17.7	0.2	5.6	13.4	5.4	29.3	29.5	13.1	16.3	12.6
OP	11.0	10.8	10.9	(4.1)	11.1	19.1	19.7	19.2	28.6	69.0	89.7	101.4
(QoQ %)	2,400.7	(2.1)	1.1	TR	TB	72.0	3.3	(2.6)	-	-	-	-
(YoY %)	3.5	47.5	(49.2)	TR	0.5	76.6	80.4	TB	(28.2)	141.0	29.9	13.1
OPM (%)	9.9	8.4	8.3	(4.2)	9.4	12.5	13.4	12.8	6.1	12.2	13.4	13.5
Adj. NP	9.1	7.3	11.6	(1.7)	11.4	17.4	17.9	17.6	26.4	64.4	79.4	88.8
(QoQ %)												
(YoY %)												
Adj. NPM (%)												

Source: Company data, KB Securities estimates

Table 3. Comparison of revised earnings estimates

(KRWbn, %, %p)	2020E					2021E				
	Changed	Previous	Diff.	Cons.	Diff.	Changed	Previous	Diff.	Cons.	Diff.
OR	566.5	590.1	(4.0)	570.3	(0.7)	668.5	693.6	(3.6)	664.9	0.5
OP	69.0	79.7	(13.4)	61.2	12.8	89.7	94.5	(5.1)	80.6	11.3
OPM	12.2	13.5	(1.3)	10.7	1.5	13.4	13.6	(0.2)	12.1	1.3
Adj. NP	64.4	69.4	(7.2)	50.6	27.2	79.4	81.2	(2.2)	65.7	20.8
Adj. NPM	11.4	11.8	(0.4)	8.9	2.5	11.9	11.7	0.2	9.9	2.0

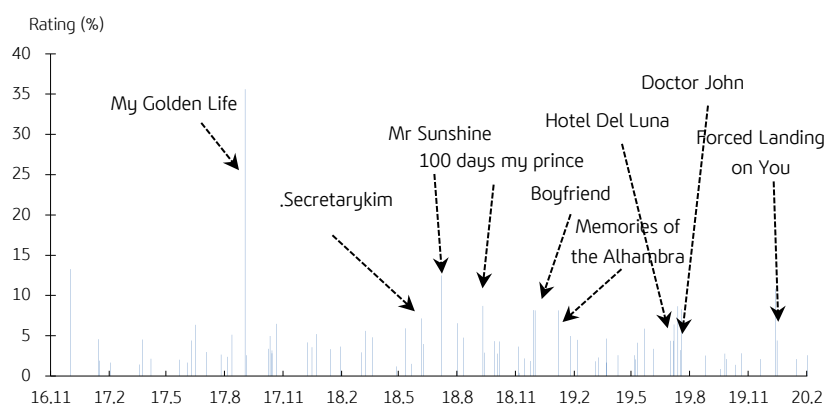
Source: FnGuide, KB Securities estimates

Table 4. PER Valuation

(KRWbn, %, '000, KRW)		Note
12MF NP to controlling interests	64.4	
No. of ('000)	28,037	Based on full dilution
EPS (KRW)	2,295	
Target PER (X)	42.4	20% discount to Netflix's 2020E PER
Target price (KRW)	97,000	
Current price (KRW)	75,700	3/27
Upside (%)	28.1%	

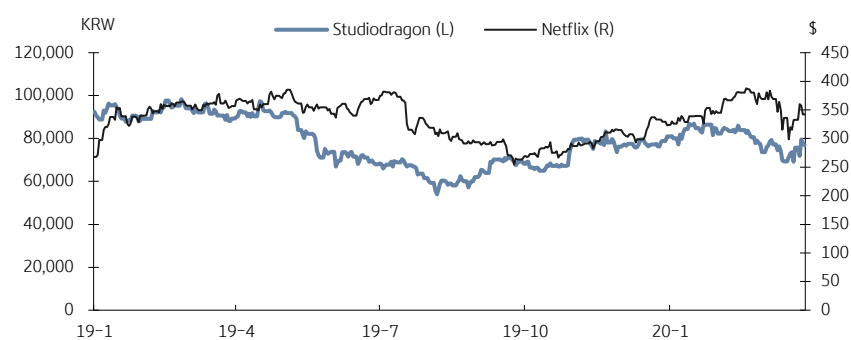
Source: KB Securities estimates

Fig 1. Studio Dragon content rating trend



Source : Studio Dragon, KB Securities

Fig 2. Studio Dragon and Netflix price trend



Source: Bloomberg, KB Securities

Profit & Loss					
(KRWbn)	2018A	2019A	2020E	2021E	2022E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Operating revenue	380	469	567	669	753
Cost of sales	324	421	476	555	625
Gross profit	56	48	90	114	128
SG&A expenses	16	19	21	24	27
Operating profit	40	29	69	90	101
EBITDA	115	142	155	125	121
Non-operating accounts	6	4	17	18	19
Interest income	4	2	19	20	21
Interest expenses	0	0	4	4	4
Profit on equity method	0	0	0	0	0
Net other non-operating income	0	0	1	1	1
Profit before tax	46	33	86	107	120
Income tax expense	10	7	21	28	31
Net profit	36	26	64	79	89
NP attributable to controlling interests	36	26	64	79	89
Revised net profit	36	26	64	79	89

Operating Statistics & Ratios					
(%)	2018A	2019A	2020E	2021E	2022E
OR growth	32.4	23.4	20.9	18.0	12.7
OP growth	21.0	-28.3	141.2	30.0	13.1
EBITDA growth	55.1	23.0	-4.7	-7.7	-3.2
NP growth of parent	50.2	-26.3	143.6	23.3	11.7
GP margin	14.6	10.2	15.9	17.0	17.0
OP margin	10.5	6.1	12.2	13.4	13.5
EBITDA margin	30.3	30.2	23.9	18.7	16.0
EBT margin	12.0	7.1	15.2	16.1	15.9
NP margin	9.4	5.6	11.4	11.9	11.8

Cash Flow					
(KRWbn)	2018A	2019A	2020E	2021E	2022E
Cash flow from operating activities	-29	9	136	121	116
Net profit	36	26	64	79	89
Depreciation & amortization	75	113	66	35	19
Other non-cash adjustments	-1	6	21	28	31
Investments in working capital	-139	-122	5	6	8
Decrease(Increase) in Receivables	-27	-35	-4	-4	-4
Decrease(Increase) in Inventories	0	0	0	0	0
Increase(Decrease) in Payables	26	16	2	3	3
Other operating cash flow	36	-15	-21	-28	-31
Cash flow from investing activities	141	-102	-15	-16	-17
Capital expenditure	0	-1	-1	-1	-1
Investments in intangibles	0	-1	-1	-1	-1
Changes in investment assets	138	-1	0	0	0
Other investment cash flow	3	-38	-9	-10	-12
Cash flow from financing activities	-10	9	10	11	13
Proceeds from (repayments of) debt	-10	8	10	11	13
Changes in equity	0	1	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	0	0	0	0	0
Other cash flow	0	0	0	0	0
Increase/decrease in cash	102	-84	131	116	111
Cash and cash equivalents at FYE	153	69	199	315	426
Free cash flow	-29	8	134	119	114
Net cash flow	-29	-93	123	107	101
Net cash (net debt)	153	60	184	291	392

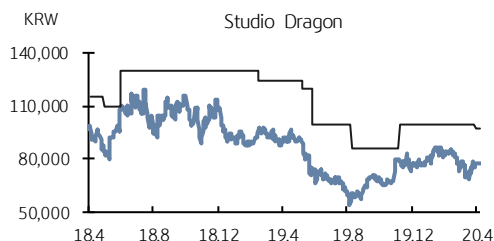
Source: Studio Dragon, KB Securities estimates

Statement of financial position					
(KRWbn)	2018A	2019A	2020E	2021E	2022E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	512	595	681	784	900
Current assets	247	290	430	555	676
Cash and cash equivalents	153	69	199	315	426
Current financial assets	2	66	69	71	74
Trade receivables	69	95	98	102	107
Inventories	1	1	1	1	1
Other current assets	22	61	63	66	68
Non-current assets	265	305	251	229	224
Investment assets	4	10	10	11	11
Property, plant and equipment	1	1	0	-1	-1
Intangible assets	199	206	144	112	96
Other non-current assets	53	74	83	94	105
Total liabilities	111	166	188	212	239
Current liabilities	108	151	170	191	215
Trade payables	20	18	20	23	26
Short-term financial liabilities	0	60	68	76	86
Other current liabilities	89	73	82	92	104
Non-current liabilities	3	16	18	21	24
Non-current financial liabilities	2	14	16	19	23
Other non-current liabilities	0	0	0	0	0
Total equity	401	429	493	573	661
Issued capital	14	14	14	14	14
Share premium	320	322	322	322	322
Other equity interest	0	0	0	0	0
Accumulated other comprehensive income	-1	-1	-1	-1	-1
Retained earnings	68	94	158	238	326
Equity attributable to owners of parent	401	429	493	573	661
Non-controlling Interests	0	0	0	0	0

Key Ratio					
(X, %, KRW)	2018A	2019A	2020E	2021E	2022E
Multiples					
PER	72.3	86.0	33.0	26.8	24.0
PBR	6.5	5.3	4.3	3.7	3.2
PSR	6.8	4.9	3.8	3.2	2.8
EV/EBITDA	21.2	15.6	14.4	14.7	14.4
EV/EBIT	61.1	77.3	28.1	20.5	17.1
Dividend yield, ordinary (%)	NA	0.0	0.0	0.0	0.0
EPS	1,278	940	2,291	2,824	3,156
BPS	14,305	15,266	17,557	20,381	23,536
SPS	13,539	16,678	20,164	23,794	26,803
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	9.3	6.4	14.0	14.9	14.4
ROA	7.4	4.8	10.1	10.8	10.5
ROIC	15.1	7.9	16.3	24.2	29.6
Financial structure (%)					
Total liab./equity	27.7	38.8	38.0	37.0	36.1
Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Current Ratio	2.3	1.9	2.5	2.9	3.2
Interest coverage (x)	343.0	73.3	17.3	22.4	25.4
Activity ratios					
Asset turnover (x)	0.8	0.9	0.9	0.9	0.9
Receivables turnover (x)	6.1	5.7	5.9	6.7	7.2
Inventory turnover (x)	405.4	815.6	992.7	1,171.4	1,319.5

## 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	-21.13	-7.85
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	-20.81	-13.00
20-03-30	Buy	97,000		

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## Proportion of investment rating (as of March 31, 2020)

Buy	Hold	Sell
76.4	23.6	-

\* 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 12-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.

KB Securities's standards for stock rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

## Investment Rating for Industry

(based on estimation of 12-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.

KB Securities's standards for industry rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

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