

Platform Business Team

Minha Choi

Analyst

minha22.choi@samsung.com

822 2020 7798

Kwak Hoin

Research Associate

hoin.kwak@samsung.com

822 2020 7763

▶ AT A GLANCE

Recommend	BUY	
Target price	KRW108,000	(38.5%)
Current price	KRW78,000	
Market cap	KRW2.2t/USD1.8b	
Shares (float)	28,096,370 (38.3%)	
52-week high/low	KRW90,800/KRW54,000	
Avg daily trading value (60-day)	KRW26.6b/USD21.8m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	3.4	-0.4	-14.1
Vs Kosdaq (%pts)	-6.0	-0.7	-3.1

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	108,000	108,000	0.0%
2020E EPS	1,785	1,834	-2.7%
2021E EPS	2,111	2,304	-8.4%

▶ SAMSUNG vs THE STREET

No of estimates	20
Target price	102,250
Recommendation	4.0

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

Studio Dragon (253450)

In process of diversifying distribution channels

- **Earnings vs consensus:** Studio Dragon's 1Q operating profit of KRW11.6b was in line with the upper end of market consensus. Its top- and bottom-line improved y-y based on copyright sales price hikes to Netflix (including Crash Landing on You) and production of Original Series.
- **Reiterating BUY:** Since the coronavirus pandemic has dented TV ad demand, some market watchers are worried about Studio Dragon's business environment. But the firm should be able to improve earnings stability via: 1) diversification of its customer base and distribution channels; and 2) growing overseas sales.

WHAT'S THE STORY

1Q review: Studio Dragon yesterday reported 1Q results showing sales of KRW120.3b (up 7.6% y-y) and operating profit of KRW11.6b (up 5.5% y-y), the latter in line with the upper end of market consensus. Its overseas sales leapt 23.9% y-y to an all-time high of KRW52.8b, backed by: 1) copyright sales price hikes to overseas OTT platforms (including Netflix); and 2) a rising portion of overseas sales (including original content production). Domestic and overseas sales received a boost from huge popularity of its tent-pole drama Crash Landing on You. The company booked huge amounts of non-operating financial income and expenses last quarter on the won depreciation against the US dollar, but most of the impacts from them were counterbalanced.

Set to enjoy stable earnings: Since the TV ad market (downstream sector) has been hit hard by high external uncertainties, market watchers are worried about the firm's business environment. However, we expect Studio Dragon to enjoy high earnings stability as: 1) its programming lineup is already fixed until the middle of this year; 2) there have been very few disruptions to content production and shooting in Korea despite the coronavirus pandemic; and 3) the firm's diversified customer base (toward terrestrial broadcasters and OTT service providers) and distribution channels should minimize the impacts from external environment on earnings. The company should maintain solid overseas sales growth thanks to price hikes to old and new titles.

Studio Dragon 1Q20 review

(KRWb)	1Q20	4Q19	(% q-q)	1Q19	(% y-y)	Consensus	Diff (%)	Samsung	Diff (%)
Sales	120.3	97.4	23.5	111.8	7.6	117.9	2.0	112.9	6.6
Operating profit	11.6	(4.0)	Turned pos	11.0	5.5	11.0	5.9	10.8	7.6
Pre-tax profit	12.0	(5.1)	Turned pos	13.2	(9.2)	12.2	(1.7)	12.8	(6.3)
Net profit	8.5	(1.6)	Turned pos	9.2	(7.3)	9.4	(9.5)	9.8	(12.5)
Margins (%)									
Operating profit	9.7	(4.1)		9.9		9.3		9.6	
Pre-tax profit	10.0	(5.2)		11.8		10.4		11.3	
Net profit	7.1	(1.7)		8.2		8.0		8.6	

Source: Company data, Samsung Securities estimates

Valuation

(KRWb)	Sales	Operating profit	Pre-tax profit	Net profit	EPS	EPS growth (% y-y)	P/E (x)	Net debt (KRWb)	EV/EBITDA (x)	P/B (x)	ROE (%)
2018	380	40	46	36	1,278	21.7	72.3	(153)	21.2	6.5	9.3
2019	469	29	33	26	941	(26.3)	85.9	(91)	15.0	5.3	6.4
2020E	543	56	65	50	1,785	89.6	43.7	(116)	11.0	4.6	11.1
2021E	609	67	76	59	2,111	18.2	37.0	(139)	9.9	4.1	11.7
2022E	652	73	86	67	2,382	12.8	32.8	(165)	9.1	3.6	11.7

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2018	2019	2020E	2021E	2022E
Sales	380	469	543	609	652
Cost of goods sold	324	421	465	519	554
Gross profit	56	48	78	91	98
Gross margin (%)	14.6	10.2	14.4	14.9	15.1
SG&A expenses	16	19	22	24	26
Operating profit	40	29	56	67	73
Operating margin (%)	10.5	6.1	10.3	10.9	11.2
Non-operating gains (losses)	6	4	9	9	13
Financial profit	7	10	23	20	21
Financial costs	1	6	14	11	8
Equity-method gains (losses)	0	0	0	0	0
Other	(0)	0	0	0	0
Pre-tax profit	46	33	65	76	86
Taxes	10	7	15	17	19
Effective tax rate (%)	21.5	20.1	23.3	22.0	22.0
Profit from continuing operations	36	26	50	59	67
Profit from discontinued operations	0	0	0	0	0
Net profit	36	26	50	59	67
Net margin (%)	9.4	5.6	9.2	9.7	10.3
Net profit (controlling interests)	36	26	50	59	67
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	115	146	188	207	223
EBITDA margin (%)	30.3	31.1	34.7	34.0	34.3
EPS (parent-based) (KRW)	1,278	941	1,785	2,111	2,382
EPS (consolidated) (KRW)	1,278	941	1,785	2,111	2,382
Adjusted EPS (KRW)*	1,278	941	1,785	2,111	2,382

Cash flow statement

Year-end Dec 31(KRWb)	2018	2019	2020E	2021E	2022E
Cash flow from operations	(29)	(12)	160	179	197
Net profit	36	26	50	59	67
Non-cash profit and expenses	84	124	145	154	166
Depreciation	0	2	1	0	0
Amortization	75	115	131	140	150
Other	9	7	13	14	15
Changes in A/L from operating activities	(139)	(143)	(20)	(18)	(17)
Cash flow from investments	141	(81)	(106)	(156)	(172)
Change in tangible assets	(0)	(0)	0	0	0
Change in financial assets	140	(42)	26	(3)	(4)
Other	1	(39)	(132)	(153)	(168)
Cash flow from financing	(10)	(0)	(3)	(4)	(0)
Change in debt	(8)	8	(2)	(4)	0
Change in equity	1	2	0	0	0
Dividends	0	0	0	0	0
Other	(2)	(9)	(1)	(0)	(0)
Change in cash	102	(93)	58	18	25
Cash at beginning of year	51	153	60	118	137
Cash at end of year	153	60	118	137	161
Gross cash flow	120	150	195	213	232
Free cash flow	(29)	(13)	160	179	197

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)	2018	2019	2020E	2021E	2022E
Current assets	247	244	305	362	417
Cash & equivalents	153	60	118	137	161
Accounts receivable	69	84	103	121	132
Inventories	1	0	1	1	1
Other current assets	25	101	83	103	123
Fixed assets	265	337	342	360	385
Investment assets	4	13	16	18	21
Tangible assets	1	1	0	0	0
Intangible assets	199	233	240	251	263
Other long-term assets	62	89	86	92	101
Total assets	512	582	647	722	802
Current liabilities	108	145	160	180	192
Accounts payable	20	18	25	28	30
Short-term debt	0	0	0	0	0
Other current liabilities	89	127	136	152	163
Long-term liabilities	3	8	9	5	5
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	3	8	9	5	5
Total liabilities	111	153	169	185	197
Owners of parent equity	401	428	478	538	605
Capital stock	14	14	14	14	14
Capital surplus	320	322	322	322	322
Retained earnings	68	94	144	203	270
Other	(0)	(1)	(1)	(1)	(1)
Non-controlling interests' equity	0	0	0	0	0
Total equity	401	428	478	538	605
Net debt	(153)	(91)	(116)	(139)	(165)

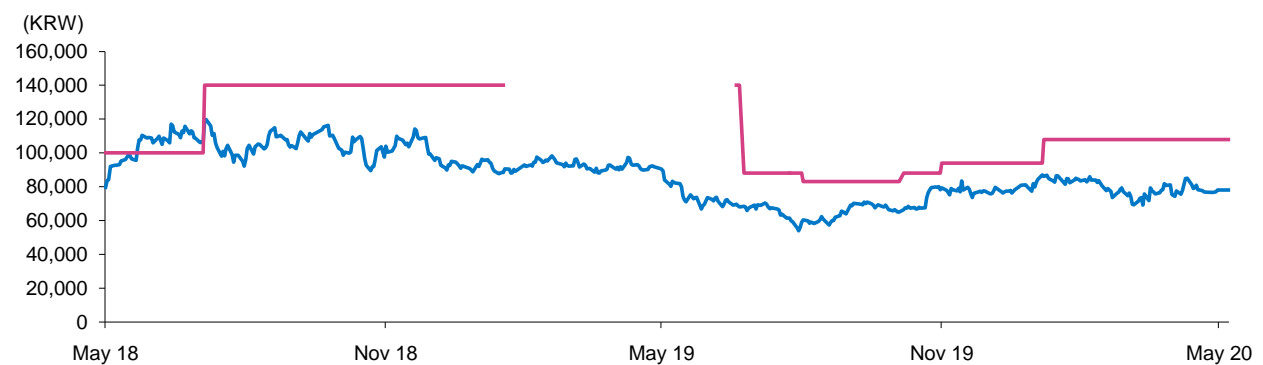
Financial ratios

Year-end Dec 31	2018	2019	2020E	2021E	2022E
Growth (%)					
Sales	32.4	23.5	15.8	12.2	7.0
Operating profit	21.0	(28.1)	95.1	18.9	9.3
Net profit	50.3	(26.3)	89.8	18.2	12.8
Adjusted EPS**	21.7	(26.3)	89.6	18.2	12.8
Per-share data (KRW)					
EPS (parent-based)	1,278	941	1,785	2,111	2,382
EPS (consolidated)	1,278	941	1,785	2,111	2,382
Adjusted EPS**	1,278	941	1,785	2,111	2,382
BVPS	14,305	15,242	17,027	19,138	21,520
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	72.3	85.9	43.7	37.0	32.8
P/B***	6.5	5.3	4.6	4.1	3.6
EV/EBITDA	21.2	15.0	11.0	9.9	9.1
Ratios (%)					
ROE	9.3	6.4	11.1	11.7	11.7
ROA	7.4	4.8	8.2	8.7	8.8
ROIC	15.0	8.4	13.3	14.6	14.6
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	(38.2)	(21.2)	(24.2)	(25.9)	(27.3)
Interest coverage (x)	343.0	58.1	76.6	136.7	224.2

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2018/3/13	7/12	2019/7/1	8/9	10/14	11/8	2020/1/14
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	100,000	140,000	88,000	83,000	88,000	94,000	108,000
Gap* (average)	(1.06)	(27.09)	(26.53)	(21.77)	(17.92)	(16.65)	
(max or min)**	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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Industry

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Percentage of ratings in 12 months prior to Mar 31, 2020

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Samsung Electronics Bldg., 11, 74-gil,
Seochoda-ro, Seocho-gu, Seoul, Korea 06620
Tel: 02 2020 8000 / www.samsungpop.com

Family Center: 1588 2323 / 1544 1544

Voice Of Customer: 080 911 0900

For more information,
please call our sales representatives:

LONDON

Samsung Securities Europe Limited

1st Floor, 30 Gresham Street, London EC2V 7PG UK
Tel. 44-207-776-4311
Fax. 44-203-837-9219

NEW YORK

Samsung Securities America Limited

1330 Avenue of the Americas, 10th Floor, New York,
NY 10019
Tel: 1-212-972-2454
Fax: 1-212-972-2704

HONG KONG

Samsung Securities Europe Limited

Suite 4511, Two International Finance Center,
8 Finance Street, Central, Hong Kong
Tel: 852-3411-3608
Fax: 852-2114-0290

BEIJING

Samsung Securities Beijing Representative Office

Rm. 910, The Exchange Building No 118 JianGuo Lu, Chao
Yang District, Beijing, China
Tel: 86-10-6522-1855 (extension 7891)
Fax: 86-10-6522-1855 (extension 7889)

TOKYO

Samsung Securities Tokyo Representative Office

#106-8532 19F, Roppongi T-Cube 3-1-1,
Roppongi Minato-ku Tokyo, Japan
Tel: 81-3-6333-2952
Fax: 81-3-6333-2953



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