

Studio Dragon (253450 KS)

Favorable conditions continue for content producers

BUY (Maintain)

CP (May 7) KRW78,000
TP (6 months) KRW100,000
Upside 28.2%

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KOSPI	1,928.61p
KOSDAQ	668.17p
Market cap	KRW2,191.5bn/USD1,922.4mn
Par value	KRW500
Outstanding shares	28.1mn
Free float	10.8mn(38.3%)
52-week high/low	KRW90,800/KRW54,000
60-day avg. trading volume	342,758shrs
60-day avg. turnover	KRW26,645mn
Foreign ownership	8.35%
Major shareholders	
	CJ ENM and 5 others 61.31%
Absolute performance	3M -6.6%
	6M -0.4%
	12M -14.1%
Relative performance	3M -6.0%
to KOSDAQ	6M -0.7%
	12M -3.1%

- ◆ 1Q20 consolidated OP reported at KRW11.6bn (+5.5% YoY)
- ◆ 2Q20 consolidated OP forecast at KRW17.7bn (+64.4% YoY)
- ◆ Retain BUY for a target price of KRW100,000

1Q20 consolidated OP reported at KRW11.6bn (+5.5% YoY)

Studio Dragon posted consolidated operating profit of KRW11.6bn (+5.5% YoY) on sales of KRW120.3bn (+7.5% YoY) for 1Q20, meeting the market consensus and our estimate of KRW11bn. Total distribution revenue, a key determinant of earnings, came in at KRW66.9bn (+19% YoY). As expected, revenue from Netflix increased sharply and likely exceeded KRW25bn when including earnings from the production of original series for the streaming service (estimated at KRW9bn-10bn). Domestic distribution revenue came in at KRW14.1bn, rising just 4% on a YoY basis despite expectations for steeper growth on increased content demand amid the COVID-19 pandemic.

2Q20 consolidated OP forecast at KRW17.7bn (+64.4% YoY)

For 2Q20, we forecast consolidated sales at KRW142.6bn (+11.2% YoY) and operating profit at KRW17.7bn (+64.4% YoY). Studio Dragon's profitability should improve to the highest level seen since 3Q18, with the new drama series The King: Eternal Monarch expected to drive up domestic and overseas distribution revenue. Revenue from Netflix will likely continue on a steep YoY growth track through 2Q20.

We recommend focusing on the following investment points. First, revenue from Netflix, even when excluding original production, is projected to jump 69.8% YoY in 2020 thanks to the increase in volume and ASP of content sold to the streaming service. With Netflix facing content shortages, Studio Dragon plans to expand its supply of content for the company to maximum levels in 2H20. Second, competition is heating up among domestic OTT platforms. Domestic content producers are enjoying a rapid rise in enterprise value, with telcos and internet platforms with IP assets pressing forward on investment into content to compete with YouTube and Netflix.

Retain BUY for a target price of KRW100,000

Our target price for Studio Dragon remains unchanged at KRW100,000, based on the 12-month forward EPS forecast and a target PER of 56x (10% premium to the past three-year average PER low). We retain our BUY rating with: 1) operating profit expected to nearly double on a YoY basis in 2020; 2) revenue from Netflix continuing on a steep growth track; and 3) domestic market conditions increasingly favorable for content producers amid stiffening competition among OTT platforms.

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 (%)
2018	379.6	39.9	45.6	35.8	1,278	21.7	14,305	72.3	21.1	6.5	9.3	(39.2)
2019	468.7	28.7	33.1	26.4	941	(26.3)	15,242	85.9	14.9	5.3	6.4	(24.9)
2020F	527.6	56.2	59.6	46.6	1,659	76.2	16,901	47.0	11.3	4.6	10.3	(14.3)
2021F	577.6	63.7	67.4	52.6	1,872	12.8	18,774	41.7	9.7	4.2	10.5	(12.5)
2022F	629.0	69.7	74.2	57.9	2,060	10.0	20,833	37.9	8.7	3.7	10.4	(12.5)

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

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Earnings & valuation

PER valuation based on 12MF EPS: Target price of KRW100,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2020F NP	46.6	12MF NP	49.6	2021F NP	52.6
EPS (KRW)	1,659	EPS (KRW)	1,766	EPS (KRW)	1,872
Target price (KRW)	93,000	Target price (KRW)	100,000	Target price (KRW)	105,000
Target PER (x)	56	Target PER (x)	56	Target PER (x)	56
		Current price (KRW)	78,000		
		Current PER (x)	44.2		

Source: Shinhan Investment Corp.

Note: Target PER reflects a 10% premium to the past 3-year average PER (low) in view of uncertainties in China earnings and delayed improvement in profitability from increasing production costs. Studio Dragon is seeing rapid growth in revenue from Netflix and should be able to deliver sharp profit growth in 2020 even without the addition of earnings from China.

Earnings trend and outlook (K-IFRS consolidated)

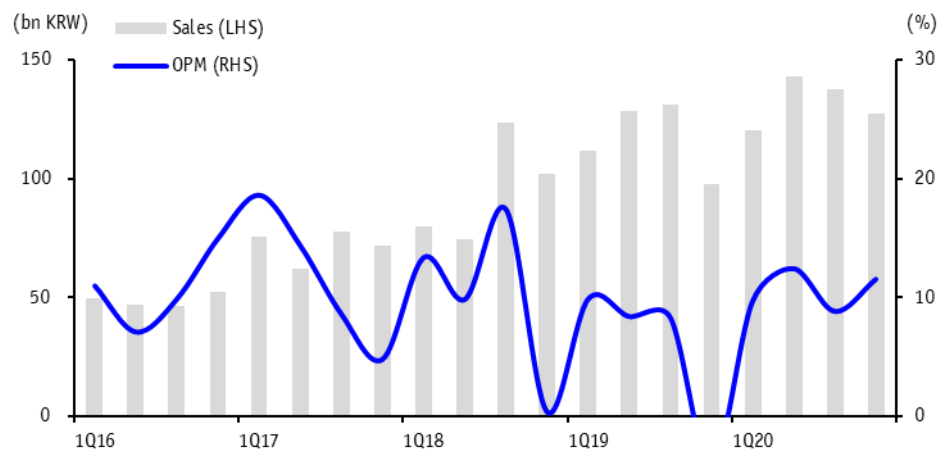
(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F	3Q20F	4Q20F	2018	2019	2020F	2021F
<Earnings forecasts>																
Total revenue	79.9	74.3	123.7	101.7	111.8	128.2	131.2	97.4	120.3	142.6	137.5	127.3	379.5	468.6	527.6	577.6
Production revenue	40.7	34.1	48.9	54.4	44.1	58.1	60.8	45.7	45.2	55.6	65.2	50.6	178.1	208.7	216.6	232.4
Distribution revenue	32.1	28.8	63.4	37.8	56.2	60.3	60.0	42.7	66.9	78.1	62.0	68.0	162.1	219.2	275.0	307.4
Other (PPL) revenue	7.1	11.4	11.4	9.5	11.5	9.8	10.4	8.9	8.2	8.9	10.3	8.7	39.4	40.7	36.0	37.8
<Overseas operations>																
Overseas distribution revenue	22.7	16.5	46.2	24.8	42.6	42.2	43.9	31.6	52.8	58.6	43.9	55.4	110.2	160.4	210.7	237.8
Share in distribution revenue (%)	70.8	57.2	72.9	65.7	75.9	70.0	73.1	74.1	78.9	75.1	70.8	81.5	68.0	73.2	76.6	77.4
Netflix	10.0	1.0	32.0	3.6	8.3	23.0	24.0	6.0	24.5	35.0	25.0	27.0	46.6	61.3	111.5	132.0
Japan	3.5	4.5	3.4	4.3	10.3	5.9	3.2	5.8	8.3	6.3	3.5	6.4	15.7	25.2	24.5	25.7
Asia including China	8.9	10.5	10.4	14.3	21.6	12.7	11.3	17.3	17.4	14.9	12.8	19.3	44.1	63.0	64.4	68.5
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	1.5	1.8	0.0	0.0
Americas	0.2	0.3	0.3	1.1	0.4	0.5	5.2	2.5	2.4	2.3	2.5	2.6	1.9	8.6	9.8	11.1
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	0.5	0.6
COGS	66.2	63.7	98.9	95.2	96.8	112.8	115.9	95.2	103.5	119.8	120.2	105.8	324.0	420.8	449.3	489.5
SG&A	3.0	3.3	3.3	6.0	4.0	4.6	4.4	6.2	5.1	5.1	5.2	6.8	15.7	19.2	22.2	24.4
OP	10.7	7.3	21.5	0.4	11.0	10.8	10.9	(4.0)	11.6	17.7	12.1	14.7	39.9	28.7	56.2	63.7
Pre-tax profit	10.8	11.0	22.0	1.7	13.2	11.9	13.1	(5.1)	12.0	17.5	13.7	16.4	45.6	33.1	59.6	67.4
NP	7.9	8.9	17.3	1.7	9.2	7.3	11.5	(1.7)	8.6	14.0	10.9	13.1	35.8	26.4	46.6	52.6
<% YoY growth>																
Sales	6.0	19.6	59.6	41.5	40.0	72.6	6.1	(4.2)	7.5	11.2	4.8	30.7	32.3	23.5	12.6	9.5
OP	(23.7)	(17.8)	223.0	(87.3)	3.5	47.5	(49.2)	TR	5.5	64.4	11.4	TB	20.9	(28.1)	95.7	13.5
NP	(41.3)	216.8	206.3	(12.5)	17.2	(17.2)	(33.6)	TR	(7.2)	90.7	(5.0)	TB	50.2	(26.3)	76.5	12.8
<Margin, %>																
OPM	13.3	9.8	17.4	0.4	9.9	8.4	8.3	(4.1)	9.7	12.4	8.8	11.5	10.5	6.1	10.6	11.0
NPM	9.8	11.9	14.0	1.7	8.2	5.7	8.8	(1.7)	7.1	9.8	8.0	10.3	9.4	5.6	8.8	9.1

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

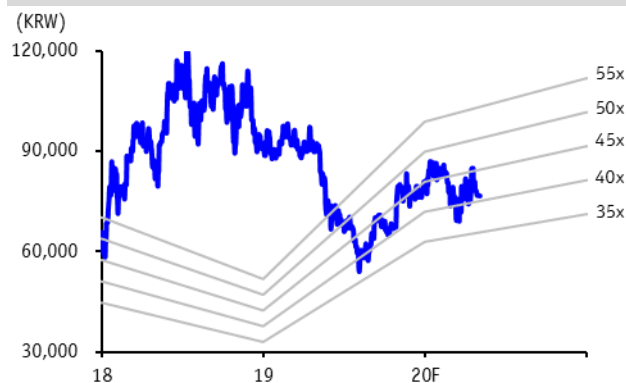
Key charts

Sales and operating profit margin (K-IFRS consolidated)



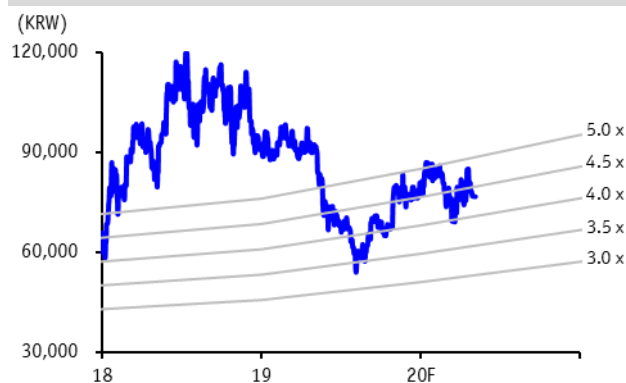
Source: Company data, Shinhan Investment Corp.

12-month forward consolidated PER band



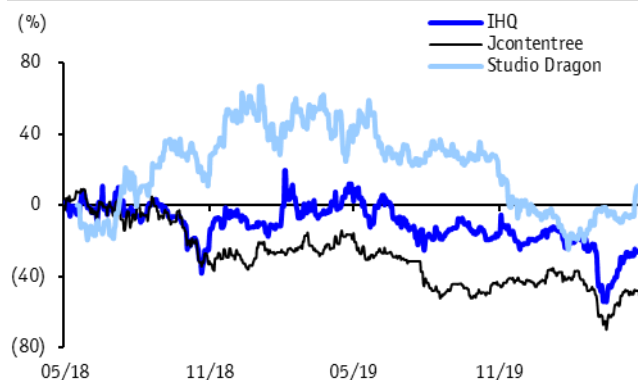
Source: QuantiWise, Shinhan Investment Corp.

12-month forward consolidated PBR band



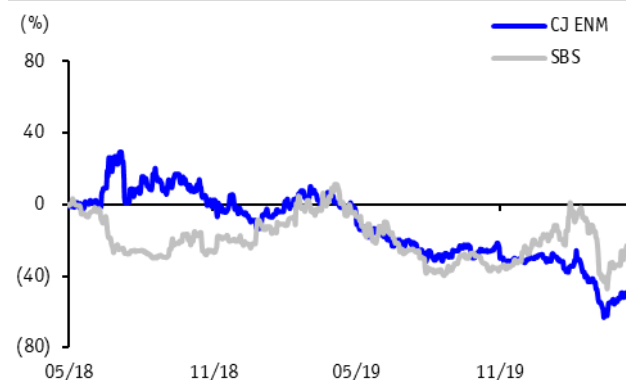
Source: QuantiWise, Shinhan Investment Corp.

Relative share performance of content producers



Source: Bloomberg, Shinhan Investment Corp.

Relative share performance of domestic broadcasters



Source: Bloomberg, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Total assets	512.4	581.6	641.8	706.5	768.1
Current assets	247.2	244.5	227.9	241.2	263.4
Cash and equivalents	153.0	59.8	19.6	15.7	21.2
Accounts receivable	68.8	83.6	99.6	110.1	119.9
Inventories	0.6	0.0	0.0	0.0	0.0
Non-current assets	265.2	337.1	413.9	465.4	504.8
Tangible assets	1.0	1.2	0.8	1.3	0.6
Intangible assets	198.5	233.1	309.7	359.9	399.4
Investment assets	3.7	13.4	14.2	14.8	15.5
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	111.1	153.3	166.9	179.1	182.7
Current liabilities	108.2	145.1	158.8	170.9	174.5
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	19.6	18.4	19.3	20.2	22.0
Current portion of long-term debt	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	2.9	8.2	8.2	8.2	8.2
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	2.1	7.9	7.9	7.9	7.9
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	401.3	428.3	474.9	527.5	585.3
Capital stock	14.0	14.0	14.0	14.0	14.0
Capital surplus	320.1	321.7	321.7	321.7	321.7
Other capital	0.3	(0.1)	(0.1)	(0.1)	(0.1)
Accumulated other comprehensive income	(0.8)	(1.0)	(1.0)	(1.0)	(1.0)
Retained earnings	67.6	93.5	140.2	192.8	250.6
Controlling interest equity	401.3	428.3	474.9	527.5	585.3
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	2.1	9.9	10.2	10.4	10.6
*Net debt (cash)	(157.3)	(106.4)	(68.0)	(65.8)	(73.1)

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	(29.1)	(12.2)	169.5	204.9	220.9
Net profit	35.8	26.4	46.6	52.6	57.9
Depreciation expense	0.3	1.8	(1.6)	(2.9)	(1.3)
Amortization expense	75.0	115.0	134.2	159.3	176.5
FX translation loss (gain)	(0.5)	0.6	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	(139.4)	(142.9)	(8.3)	(3.3)	(11.2)
(Payment of income tax)	(9.7)	(19.4)	(13.0)	(14.8)	(16.3)
Others	9.4	6.3	11.6	14.0	15.3
Cash flow from investments	140.6	(81.0)	(209.1)	(208.3)	(214.8)
Increase in tangible assets	(0.2)	(0.6)	(0.4)	(0.1)	(0.3)
Decrease in tangible assets	0.0	0.2	2.5	2.4	2.3
Change in intangible assets	(0.1)	(0.3)	(210.7)	(209.6)	(215.9)
Change in investment assets	(0.5)	(18.8)	(0.8)	(0.7)	(0.7)
Others	141.4	(61.5)	0.3	(0.3)	(0.2)
Free cash flow	143.5	133.7	167.8	202.8	218.0
Cash flow from financing	(9.7)	(0.0)	(0.6)	(0.6)	(0.6)
Change in borrowings	(10.0)	0.0	0.3	0.2	0.2
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	0.3	0.0	(0.9)	(0.8)	(0.8)
Other cash flow	0.0	0.0	(0.0)	0.1	0.0
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.1)	(0.0)	0.0	0.0	0.0
Change in total cash	101.7	(93.2)	(40.3)	(3.9)	5.5
Beginning cash	51.3	153.0	59.8	19.6	15.7
Ending cash	153.0	59.8	19.6	15.7	21.2

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Sales	379.6	468.7	527.6	577.6	629.0
Growth (%)	32.4	23.5	12.6	9.5	8.9
COGS	324.0	420.8	449.3	489.5	532.7
Gross profit	55.6	47.9	78.3	88.1	96.2
GPM (%)	14.6	10.2	14.8	15.3	15.3
SG&A	15.7	19.2	22.1	24.4	26.5
Operating profit	39.9	28.7	56.2	63.7	69.7
Growth (%)	21.0	(28.1)	95.7	13.5	9.3
OPM (%)	10.5	6.1	10.6	11.0	11.1
Non-operating profit	5.7	4.4	3.4	3.7	4.5
Financial profit	6.1	4.3	3.7	3.2	3.2
Other non-operating profit	(0.3)	0.1	(0.3)	0.5	1.3
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	45.6	33.1	59.6	67.4	74.2
Income tax	9.8	6.6	13.0	14.8	16.3
Continuing operations	35.8	26.4	46.6	52.6	57.9
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	35.8	26.4	46.6	52.6	57.9
Growth (%)	50.3	(26.3)	76.4	12.8	10.0
NPM (%)	9.4	5.6	8.8	9.1	9.2
Controlling interest	35.8	26.4	46.6	52.6	57.9
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	34.7	25.7	46.6	52.6	57.9
Controlling interest	34.7	25.7	46.6	52.6	57.9
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	115.2	145.5	188.7	220.2	244.9
Growth (%)	55.1	26.4	29.6	16.7	11.2
EBITDA margin (%)	30.3	31.1	35.8	38.1	38.9

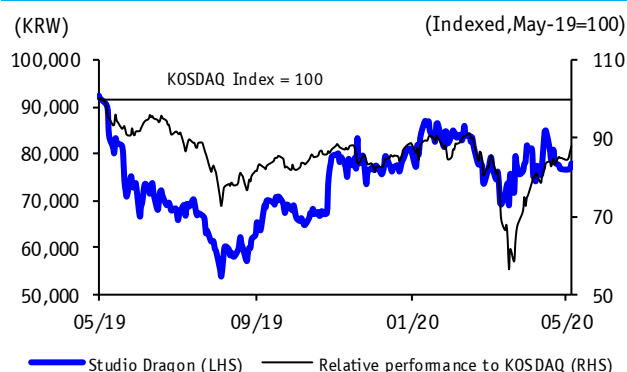
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	1,278	941	1,659	1,872	2,060
EPS of controlling interest (KRW)	1,278	941	1,659	1,872	2,060
BPS (KRW)	14,305	15,242	16,901	18,774	20,833
BPS of controlling interest (KRW)	14,305	15,242	16,901	18,774	20,833
DPS (KRW)	0	0	0	0	0
PER (x)	72.3	85.9	47.0	41.7	37.9
PER of controlling interest (x)	72.3	85.9	47.0	41.7	37.9
PBR (x)	6.5	5.3	4.6	4.2	3.7
PBR of controlling interest (x)	6.5	5.3	4.6	4.2	3.7
EV/EBITDA (x)	21.1	14.9	11.3	9.7	8.7
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 (%)	30.3	31.1	35.8	38.1	38.9
OPM (%)	10.5	6.1	10.6	11.0	11.1
NPM (%)	9.4	5.6	8.8	9.1	9.2
ROA (%)	7.4	4.8	7.6	7.8	7.8
ROE (%)	9.3	6.4	10.3	10.5	10.4
ROIC (%)	14.8	8.4	16.8	15.0	14.2
Stability					
Debt to equity ratio (%)	27.7	35.8	35.2	33.9	31.2
Net debt ratio (%)	(39.2)	(24.9)	(14.3)	(12.5)	(12.5)
Cash ratio (%)	141.4	41.2	12.4	9.2	12.2
Interest coverage ratio (x)	343.0	58.1	68.3	75.8	81.2
Activity (%)					
Working capital turnover (times)	(196.2)	(26.4)	(48.4)	(113.6)	285.5
Inventory turnover (days)	0.9	0.2	N/A	N/A	N/A
Receivable turnover (days)	59.5	59.3	63.4	66.3	66.7

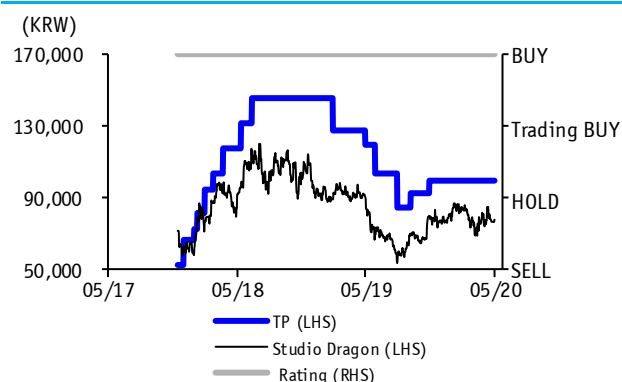
Source: Company data, Shinhan Investment Corp.

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 06 May 2020)

BUY (BUY)	93.45%	Trading BUY (HOLD)	2.38%	HOLD (HOLD)	4.17%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 06 May 2020)

BUY (BUY)	95.24%	Trading BUY (HOLD)	2.38%	HOLD (HOLD)	2.38%	SELL (SELL)	0.00%
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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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