

# Studio Dragon (253450 KS)

## Best time to buy

**BUY** (Maintain)

CP (Jun. 9) KRW83,800  
TP (6 months) KRW110,000  
Upside 31.3%

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KOSPI	2,188.92p
KOSDAQ	753.82p
Market cap	KRW2,354.5bn/USD2,065.3mn
Par value	KRW500
Outstanding shares	28.1mn
Free float	10.8mn(38.3%)
52-week high/low	KRW87,000/KRW54,000
60-day avg. trading volume	396,122shrs
60-day avg. turnover	KRW30,734mn
Foreign ownership	8.43%
Major shareholders	
	CJ ENM and 5 others 61.31%
Absolute performance	3M 12.3%
	6M 10.0%
	12M 13.9%
Relative performance	3M -8.4%
to KOSDAQ	6M -8.4%
	12M 8.2%

- ◆ 2Q20 consolidated OP forecast at KRW16.7bn (+54.8% YoY)
- ◆ Three reasons to buy Studio Dragon shares right now
- ◆ Target price raised to KRW110,000 for media sector top pick

### 2Q20 consolidated OP forecast at KRW16.7bn (+54.8% YoY)

Studio Dragon is expected to post solid earnings in line with market expectations for 2Q20 at consolidated sales of KRW141.4bn (+10.3% YoY) and operating profit of KRW16.7bn (+54.8% YoY). Overseas distribution revenue should rise to a peak thanks to the new drama series The King: Eternal Monarch. Despite weak video-on-demand sales, total distribution revenue is projected to jump 27.8% YoY to KRW77.1bn in 2Q20. We expect operating profit to reach a post-3Q18 high as a result.

### Three reasons to buy Studio Dragon shares right now

We recommend buying shares in Studio Dragon for the following reasons. First, COVID-19 impact in the US and Europe is driving further growth in demand for Korean content. Studio Dragon will highly likely supply seven or eight drama series to Netflix in 2H20. The supply of both old and new content to Netflix should lead to revenue of KRW93.5bn for full-year 2020, marking 75.4% YoY growth. Our forecast does not include earnings expected from the production of original series for the streaming service.

Second, expectations for China-bound exports are once again on the rise. During the period of Korea-China THAAD conflict, China's big three digital platforms (Baidu, Alibaba and Tencent) paid only KRW2bn-3bn for Korean dramas regardless of actual production costs. Now more eager to purchase Korean content, Chinese companies are becoming increasingly willing to pay higher prices that are linked to production costs. While still difficult to forecast China sales, recent changes are seen positive.

Third, competition is heating up among domestic OTT platforms. Domestic content producers are enjoying rapid improvement in enterprise value, with telcos and internet platforms including SK Telecom's OTT platform Wavve pressing forward on investment into content to compete with YouTube.

### Target price raised to KRW110,000 for media sector top pick

We raise our target price to KRW110,000, based on the 12-month forward EPS forecast and an upward-adjusted target PER of 65x. Studio Dragon is our media sector top pick alongside Incross (216050), 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) expectations once again rising for improvement in earnings from China.

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	530.3	56.4	59.8	46.8	1,665	76.9	16,908	50.3	12.1	5.0	10.4	(14.3)
2021F	584.3	63.2	66.9	52.2	1,858	11.6	18,766	45.1	10.4	4.5	10.4	(12.3)
2022F	636.1	70.5	74.8	58.3	2,076	11.7	20,842	40.4	9.3	4.0	10.5	(12.4)

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	46.8	12MF NP	48.2	2021F NP	52.2
EPS (KRW)	1,665	EPS (KRW)	1,713	EPS (KRW)	1,858
Target price (KRW)	108,000	Target price (KRW)	110,000	Target price (KRW)	120,000
Target PER (x)	65	Target PER (x)	65	Target PER (x)	65
		Current price (KRW)	83,800		
		Current PER (x)	48.9		

Source: Shinhan Investment Corp.

Note: Our target PER is based on the past 2-year average PER in view of 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 in the absence of earnings from China.

### Earnings trend and outlook (K-IFRS consolidated)

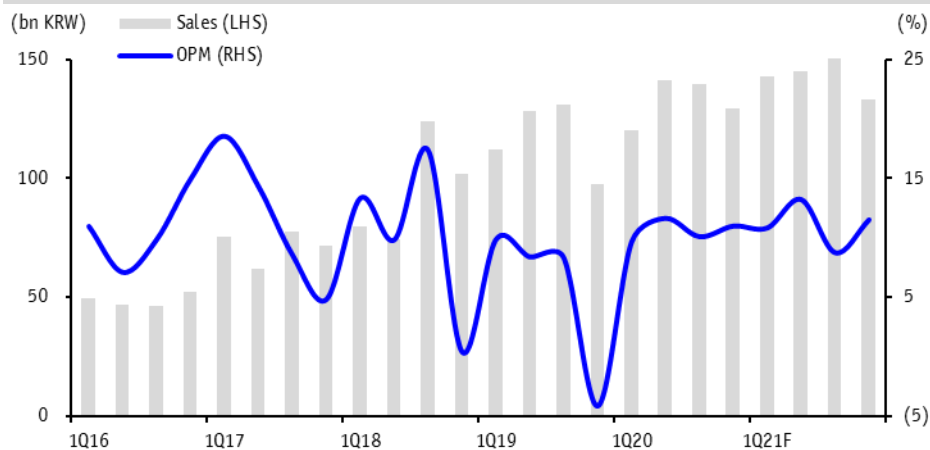
(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F	3Q20F	4Q20F	2018	2019	2020F	2021F
<b>&lt;Earnings forecasts&gt;</b>																
<b>Total revenue</b>	<b>79.9</b>	<b>74.3</b>	<b>123.7</b>	<b>101.7</b>	<b>111.8</b>	<b>128.2</b>	<b>131.2</b>	<b>97.4</b>	<b>120.3</b>	<b>141.4</b>	<b>139.4</b>	<b>129.2</b>	<b>379.5</b>	<b>468.6</b>	<b>530.3</b>	<b>584.3</b>
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	77.1	64.0	70.0	162.1	219.2	278.0	314.4
Other (PPL) revenue	7.1	11.4	11.4	9.5	11.5	9.8	10.4	8.9	8.2	8.7	10.2	8.6	39.4	40.7	35.7	37.5
<b>&lt;Overseas operations&gt;</b>																
Overseas distribution revenue	22.7	16.5	46.2	24.8	42.6	42.2	43.9	31.6	52.8	57.6	45.9	57.4	110.2	160.4	213.7	244.8
Share in distribution revenue (%)	70.8	57.2	72.9	65.7	75.9	70.0	73.1	74.1	78.9	74.8	71.7	82.0	68.0	73.2	76.9	77.9
Netflix	10.0	1.0	32.0	3.6	8.3	23.0	24.0	6.0	24.5	34.0	27.0	29.0	46.6	61.3	114.5	139.0
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	119.6	120.4	108.2	324.0	420.8	451.8	496.7
SG&A	3.0	3.3	3.3	6.0	4.0	4.6	4.4	6.2	5.1	5.1	5.1	6.8	15.7	19.2	22.1	24.3
<b>OP</b>	<b>10.7</b>	<b>7.3</b>	<b>21.5</b>	<b>0.4</b>	<b>11.0</b>	<b>10.8</b>	<b>10.9</b>	<b>(4.0)</b>	<b>11.6</b>	<b>16.7</b>	<b>13.9</b>	<b>14.2</b>	<b>39.9</b>	<b>28.7</b>	<b>56.4</b>	<b>63.2</b>
Pre-tax profit	10.8	11.0	22.0	1.7	13.2	11.9	13.1	(5.1)	12.0	16.5	15.4	15.9	45.6	33.1	59.8	66.9
<b>NP</b>	<b>7.9</b>	<b>8.9</b>	<b>17.3</b>	<b>1.7</b>	<b>9.2</b>	<b>7.3</b>	<b>11.5</b>	<b>(1.7)</b>	<b>8.6</b>	<b>13.2</b>	<b>12.4</b>	<b>12.7</b>	<b>35.8</b>	<b>26.4</b>	<b>46.8</b>	<b>52.2</b>
<b>&lt;% YoY growth&gt;</b>																
Sales	6.0	19.6	59.6	41.5	40.0	72.6	6.1	(4.2)	7.5	10.3	6.3	32.7	32.3	23.5	13.2	10.2
OP	(23.7)	(17.8)	223.0	(87.3)	3.5	47.5	(49.2)	TR	5.5	54.8	27.6	TB	20.9	(28.1)	96.5	12.2
NP	(41.3)	216.8	206.3	(12.5)	17.2	(17.2)	(33.6)	TR	(7.2)	79.5	7.3	TB	50.2	(26.3)	77.2	11.6
<b>&lt;Margin, %&gt;</b>																
OPM	13.3	9.8	17.4	0.4	9.9	8.4	8.3	(4.1)	9.7	11.8	10.0	11.0	10.5	6.1	10.6	10.8
NPM	9.8	11.9	14.0	1.7	8.2	5.7	8.8	(1.7)	7.1	9.3	8.9	9.8	9.4	5.6	8.8	8.9

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

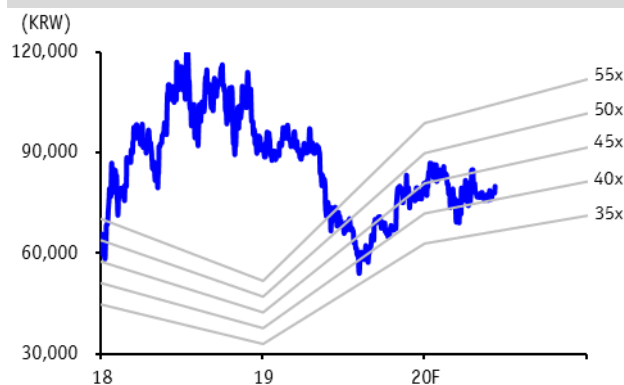
## Key charts

## Sales and operating profit margin (K-IFRS consolidated)



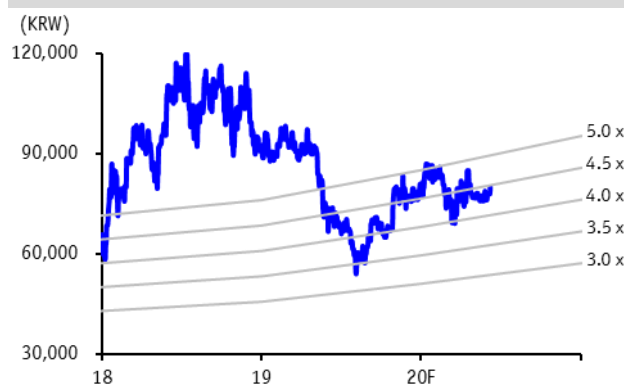
Source: Company data, Shinhan Investment Corp.

## 12-month forward consolidated PER band



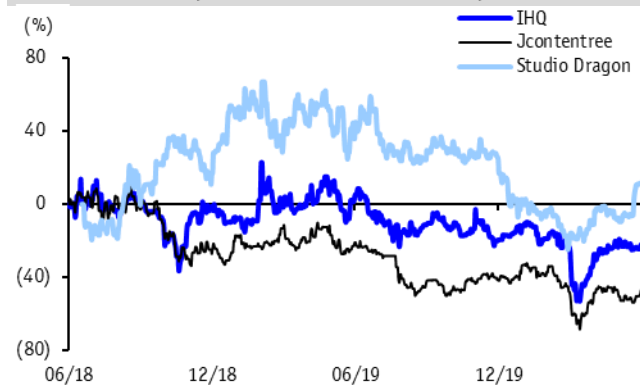
Source: QuantiWise, Shinhan Investment Corp.

## 12-month forward consolidated PBR band



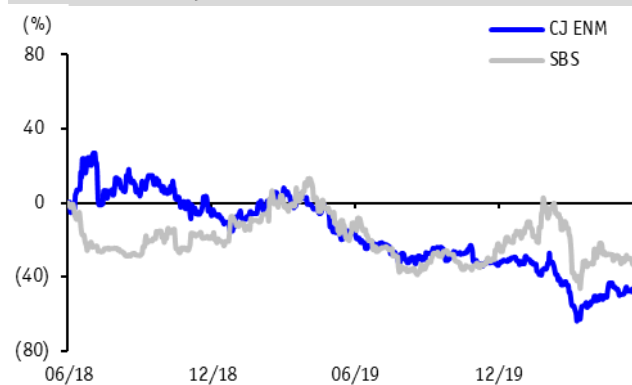
Source: QuantiWise, Shinhan Investment Corp.

## 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
<b>Total assets</b>	<b>512.4</b>	<b>581.6</b>	<b>642.0</b>	<b>706.3</b>	<b>768.3</b>
Current assets	247.2	244.5	228.1	240.9	263.5
Cash and equivalents	153.0	59.8	19.5	14.7	20.7
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	465.5	504.9
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	14.9	15.6
Other financial assets	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>111.1</b>	<b>153.3</b>	<b>167.0</b>	<b>179.1</b>	<b>182.8</b>
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
<b>Total shareholders' equity</b>	<b>401.3</b>	<b>428.3</b>	<b>475.0</b>	<b>527.3</b>	<b>585.6</b>
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	140.3	192.5	250.9
<b>Controlling interest equity</b>	<b>401.3</b>	<b>428.3</b>	<b>475.0</b>	<b>527.3</b>	<b>585.6</b>
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)	(67.8)	(64.8)	(72.5)

## Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
<b>Cash flow from operations</b>	<b>(29.1)</b>	<b>(12.2)</b>	<b>169.4</b>	<b>204.1</b>	<b>221.3</b>
Net profit	35.8	26.4	46.8	52.2	58.3
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)	(8.5)	(3.7)	(11.3)
(Payment of income tax)	(9.7)	(19.4)	(13.0)	(14.7)	(16.5)
Others	9.4	6.3	11.5	13.9	15.6
<b>Cash flow from investments</b>	<b>140.6</b>	<b>(81.0)</b>	<b>(209.2)</b>	<b>(208.4)</b>	<b>(214.8)</b>
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)	0.2	(0.4)	(0.2)
<b>Free cash flow</b>	<b>143.5</b>	<b>133.7</b>	<b>167.7</b>	<b>202.0</b>	<b>218.6</b>
<b>Cash flow from financing</b>	<b>(9.7)</b>	<b>(0.0)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(0.6)</b>
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
<b>Change in total cash</b>	<b>101.7</b>	<b>(93.2)</b>	<b>(40.4)</b>	<b>(4.7)</b>	<b>5.9</b>
Beginning cash	51.3	153.0	59.8	19.5	14.7
Ending cash	153.0	59.8	19.5	14.7	20.7

Source: Company data, Shinhan Investment Corp.

## Statement of comprehensive income

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
<b>Sales</b>	<b>379.6</b>	<b>468.7</b>	<b>530.3</b>	<b>584.3</b>	<b>636.1</b>
Growth (%)	32.4	23.5	13.2	10.2	8.9
<b>COGS</b>	<b>324.0</b>	<b>420.8</b>	<b>451.8</b>	<b>496.8</b>	<b>538.8</b>
<b>Gross profit</b>	<b>55.6</b>	<b>47.9</b>	<b>78.5</b>	<b>87.5</b>	<b>97.3</b>
GPM (%)	14.6	10.2	14.8	15.0	15.3
<b>SG&amp;A</b>	<b>15.7</b>	<b>19.2</b>	<b>22.1</b>	<b>24.3</b>	<b>26.8</b>
<b>Operating profit</b>	<b>39.9</b>	<b>28.7</b>	<b>56.4</b>	<b>63.2</b>	<b>70.5</b>
Growth (%)	21.0	(28.1)	96.5	12.2	11.5
OPM (%)	10.5	6.1	10.6	10.8	11.1
<b>Non-operating profit</b>	<b>5.7</b>	<b>4.4</b>	<b>3.4</b>	<b>3.7</b>	<b>4.3</b>
Financial profit	6.1	4.3	3.7	3.2	3.2
Other non-operating profit	(0.3)	0.1	(0.3)	0.5	1.1
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>45.6</b>	<b>33.1</b>	<b>59.8</b>	<b>66.9</b>	<b>74.8</b>
Income tax	9.8	6.6	13.0	14.7	16.5
Continuing operations	35.8	26.4	46.8	52.2	58.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>35.8</b>	<b>26.4</b>	<b>46.8</b>	<b>52.2</b>	<b>58.3</b>
Growth (%)	50.3	(26.3)	77.1	11.6	11.7
NPM (%)	9.4	5.6	8.8	8.9	9.2
Controlling interest	35.8	26.4	46.8	52.2	58.3
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
<b>Comprehensive income</b>	<b>34.7</b>	<b>25.7</b>	<b>46.8</b>	<b>52.2</b>	<b>58.3</b>
Controlling interest	34.7	25.7	46.8	52.2	58.3
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>115.2</b>	<b>145.5</b>	<b>188.9</b>	<b>219.7</b>	<b>245.7</b>
Growth (%)	55.1	26.4	29.8	16.3	11.8
EBITDA margin (%)	30.3	31.1	35.6	37.6	38.6

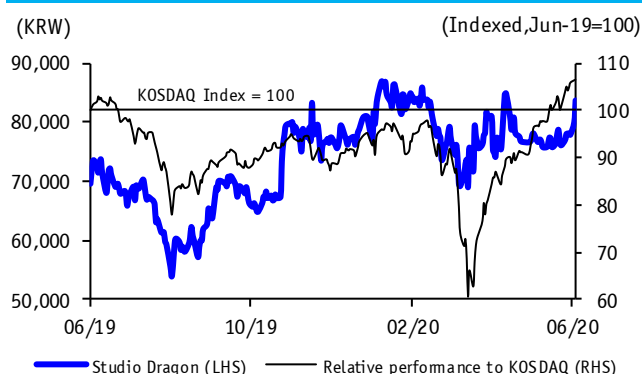
## Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	1,278	941	1,665	1,858	2,076
EPS of controlling interest (KRW)	1,278	941	1,665	1,858	2,076
BPS (KRW)	14,305	15,242	16,908	18,766	20,842
BPS of controlling interest (KRW)	14,305	15,242	16,908	18,766	20,842
DPS (KRW)	0	0	0	0	0
PER (x)	72.3	85.9	50.3	45.1	40.4
PER of controlling interest (x)	72.3	85.9	50.3	45.1	40.4
PBR (x)	6.5	5.3	5.0	4.5	4.0
PBR of controlling interest (x)	6.5	5.3	5.0	4.5	4.0
EV/EBITDA (x)	21.1	14.9	12.1	10.4	9.3
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
<b>Profitability</b>					
EBITDA margin (%)	30.3	31.1	35.6	37.6	38.6
OPM (%)	10.5	6.1	10.6	10.8	11.1
NPM (%)	9.4	5.6	8.8	8.9	9.2
ROA (%)	7.4	4.8	7.6	7.7	7.9
ROE (%)	9.3	6.4	10.4	10.4	10.5
ROIC (%)	14.8	8.4	16.9	14.9	14.3
<b>Stability</b>					
Debt to equity ratio (%)	27.7	35.8	35.1	34.0	31.2
Net debt ratio (%)	(39.2)	(24.9)	(14.3)	(12.3)	(12.4)
Cash ratio (%)	141.4	41.2	12.3	8.6	11.8
Interest coverage ratio (x)	343.0	58.1	68.5	75.0	81.8
<b>Activity (%)</b>					
Working capital turnover (times)	(196.2)	(26.4)	(49.3)	(126.0)	222.1
Inventory turnover (days)	0.9	0.2	N/A	N/A	N/A
Receivable turnover (days)	59.5	59.3	63.1	65.5	66.0

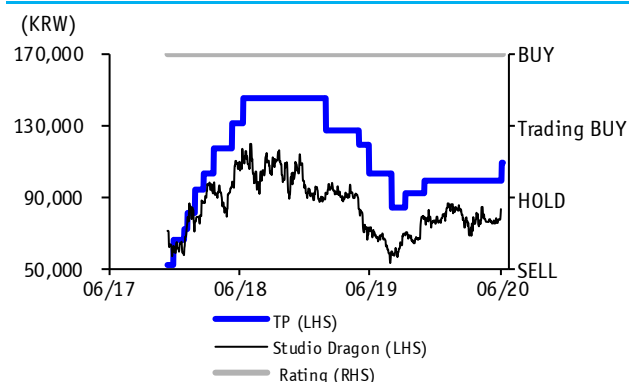
Source: Company data, Shinhan Investment Corp.

## 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	(21.0)	(13.0)
2020.05.09		6M later	(22.4)	(16.2)
2020.06.10	BUY	110,000	-	-

Note: Calculation of target price gap based on past 6 months

## Rating Distribution - SHIC Universe (as of 08 June 2020)

BUY (BUY)	91.76%	Trading BUY (HOLD)	2.20%	HOLD (HOLD)	6.04%	SELL (SELL)	0.00%
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## Rating Distribution - SHIC Investment Banking Clients (as of 08 June 2020)

BUY (BUY)	100.00%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	0.00%	SELL (SELL)	0.00%
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## SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> <li>◆ <b>BUY:</b> Expected 6-month gain of 10% or more</li> <li>◆ <b>Trading BUY:</b> Expected 6-month gain of 10% to loss of 10%</li> <li>◆ <b>HOLD:</b> Expected 6-month loss of 10% to 20%</li> <li>◆ <b>SELL:</b> Expected 6-month loss of 20% or more</li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>OVERWEIGHT:</b> Based on market cap, largest share of sector stocks under coverage is rated BUY</li> <li>◆ <b>NEUTRAL:</b> Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD</li> <li>◆ <b>UNDERWEIGHT:</b> Based on market cap, largest share of sector stocks under coverage is rated SELL</li> </ul>

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