

Studio Dragon

(253450 KQ)

Robust earnings and lineup, plus China potential

Buy
(Maintain)

TP: W107,000
Upside: 20.9%

Mirae Asset Daewoo Co., Ltd.

Jeong-yeob Park jay.park@miraeeasset.com

Robust earnings expected for 2Q20

2Q20 preview: Revenue of W122.5bn (-4.4% YoY) and OP of W16.8bn (+55.3% YoY)

- Our 2Q20 estimates remain unchanged. Our 2Q20 OP estimate is in line with the consensus (W15.9bn).
- Despite YoY declines in the number and scale of titles aired (vs. *Arthdal Chronicles*), we believe operating profit increased, driven by strong licensing sales.
- Strong licensing sales: 1) For titles sold simultaneously to domestic networks and global OTTs (*The King: Eternal Monarch*, *Hi Bye Mame*, *It's Okay to Not Be Okay*, and *Rugal*), the number of episodes aired was 60% higher than usual.
- Strong licensing sales: 2) Sales of profitable, older titles (*Guardian* and *My Mister*)—for which expense recognition has been completed—likely contributed to profits, helping to lift OP margin to 13.7% (+5.3%p YoY).

Popularity of K-dramas to continue to grow

Netflix content power: US no. 1, Korea no. 2

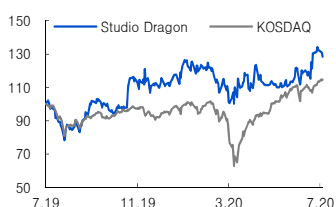
- K-dramas represent a high proportion of the most-viewed titles in many Asian countries.
- The popularity of K-dramas is spreading geographically, irrespective of the domestic TV ratings of individual titles.
- *It's Okay to Not Be Okay*, produced by Studio Dragon, is the no. 1 show in eight Asian countries and among the top-ranking shows in Australia, Brazil, Chile, and Mexico.
- Korea has the second highest share in Netflix's (NFLX US/CP: US\$523.26) top 50 titles (average no. of titles in the top 50: 21.7 for the US, 8.4 for Korea, 4.4 for Colombia, 2.5 for Spain, and 2.1 for Japan).
- Upcoming lineup: Upcoming titles targeting the global audience include *Stranger 2* (Aug.), *Record of Youth* (Aug.), and *Sweet Home* (Sep.).

Maintain Buy and TP of W107,000

Robust earnings and China exposure suggest more upside than downside potential

- Content supply/demand: The increasing popularity and power of K-dramas, combined with delays in foreign content production due to COVID-19, are continuing to create a favorable environment for domestic production companies.
- As Chinese and other global OTTs expand their geographical footprint, we believe top-tier production companies will gain stronger negotiating power in the medium and long term.
- 2018 multiple expansion driven by increased negotiating power should play out again in 2H20.

Key data



Current price (7/15/20, W)	88,500	Market cap (Wbn)	2,487
OP (20F, Wbn)	62	Shares outstanding (mn)	28
Consensus OP (20F, Wbn)	56	Free float (%)	38.3
EPS growth (20F, x)	88.9	Foreign ownership (%)	8.8
P/E (20F, x)	49.8	Beta (12M)	0.38
Market P/E (20F, x)	15.3	52-week low (W)	54,000
KOSDAQ	781.29	52-week high (W)	92,500

Share performance

(%)	1M	6M	12M
Absolute	14.9	2.4	25.7
Relative	2.0	-11.0	8.6

Earnings and valuation metrics

FY (Dec.)	12/16	12/17	12/18	12/19	12/20F	12/21F
Revenue (Wbn)	-	287	380	469	524	625
OP (Wbn)	-	33	40	29	62	84
OP Margin (%)	-	11.5	10.5	6.2	11.8	13.4
NP (Wbn)	-	24	36	26	50	60
EPS (W)	-	1,050	1,278	941	1,779	2,143
ROE (%)	-	12.9	9.3	6.4	11.0	11.9
P/E (x)	-	61.9	72.3	85.9	49.8	41.3
P/B (x)	-	4.9	6.5	5.3	5.2	4.6
Dividend Yield (%)	-	0.0	0.0	0.0	0.0	0.0

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Daewoo Research estimates

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Table 1. Earnings and forecasts

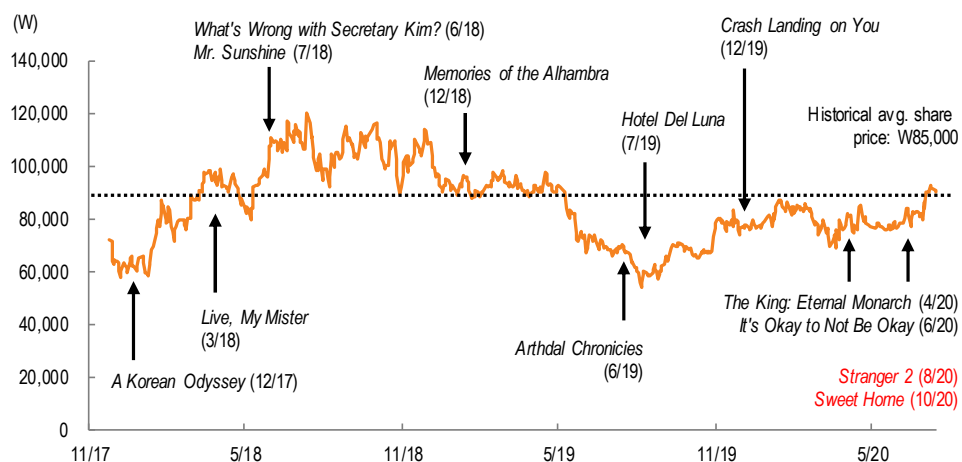
(Wbn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F	3Q20F	4Q20F	2018	2019	2020F
Revenue	112	128	131	97	120	123	120	162	380	469	524
Programming	44	58	61	46	45	54	54	56	178	209	209
Licensing	56	60	60	43	67	59	55	95	162	219	275
Other	12	10	10	9	8	9	11	11	39	41	40
Costs	97	113	116	95	104	101	99	138	324	421	442
Production costs (excl. originals)	49	65	71	49	62	58	57	85	186	233	263
Commission fees	15	10	10	11	11	12	11	19	37	47	53
Depreciation/amortization (estimates)	27	32	28	28	26	26	26	27	75	115	106
Other	6	6	6	7	4	5	5	6	27	25	20
SG&A	4	5	4	6	5	5	4	6	16	19	20
EBITDA	38	43	40	24	38	43	43	45	115	145	170
Operating profit	11	11	11	-4	11	17	16	18	40	29	62
OP margin	9.9	8.4	8.3	-4.2	9.5	13.7	13.5	11.1	10.5	6.1	11.9
Pretax profit	13	12	13	-5	12	17	17	19	46	33	65
Net profit	9	7	12	-2	8	14	13	15	36	26	50
Net margin	8.2	5.7	8.8	-1.7	7.0	11.1	11.0	9.1	9.4	5.6	9.5
YoY											
Revenue	40.0	72.5	6.0	-4.3	7.6	-4.4	-8.6	66.1	32.4	23.4	11.9
Programming	8.4	70.5	24.4	-16.1	2.5	-6.3	-11.8	22.8	35.7	17.2	0.3
Licensing	75.1	109.2	-5.4	13.3	19.1	-2.5	-8.5	120.9	44.9	35.3	25.5
Other	63.1	-14.1	-9.0	-6.7	-29.2	-5.0	10.0	25.0	-9.8	3.0	-1.5
EBITDA	34.7	182.5	-11.5	-8.5	0.1	-0.2	7.5	88.0	54.7	26.4	16.6
Operating profit	3.5	48.8	-49.3	TTR	4.1	55.3	48.4	TTB	20.3	-28.0	117.9
Net profit	16.1	-17.8	-33.1	TTR	-7.6	86.8	14.2	TTB	49.6	-26.1	89.6
Major assumptions											
No. of titles aired	6.5	7.5	7.0	6.5	6.5	6.5	7.5	7.5	25.5	27.5	28.0
No. of titles licensed to Netflix	1.5	2.5	1.5	0.4	1.5	2.0	2.0	2.0	4.5	5.9	7.5

Note: Under consolidated K-IFRS

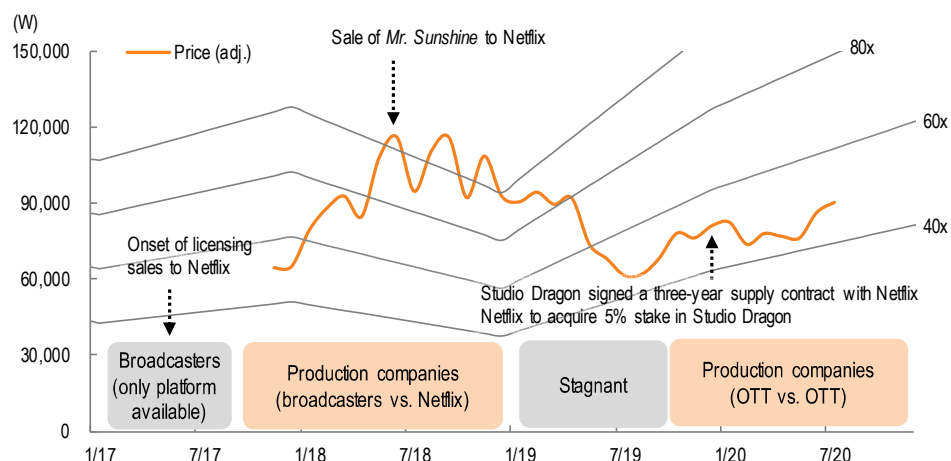
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 1. Major tentpoles and share performance: Shares are currently hovering around the historical avg. level



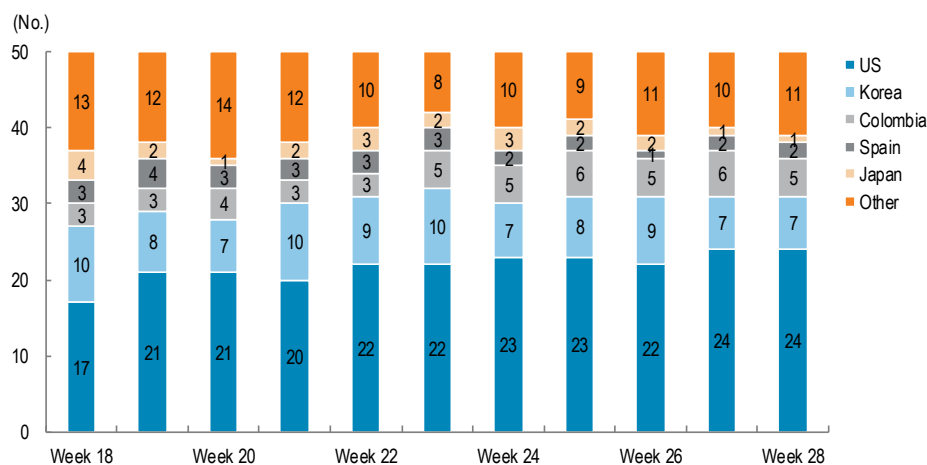
Source: WISEfn, Mirae Asset Daewoo Research

Figure 2. Studio Dragon: Licensing demand → P/E expansion



Source: WISEfn, Mirae Asset Daewoo Research

Figure 3. Korea boasts the second highest share of Netflix's top 50 titles



Source: Mirae Asset Daewoo Research

Table 2. Netflix's top 10 titles by country: Korean dramas are dominant in Asia

No.	Korea	Japan	Hong Kong	Taiwan	Singapore	Thailand	Philippines	Vietnam
1	<i>It's Okay to Not Be Okay</i>	<i>Japan Sinks: 2020</i>	<i>It's Okay to Not Be Okay</i>	<i>It's Okay to Not Be Okay</i>	<i>It's Okay to Not Be Okay</i>	<i>It's Okay to Not Be Okay</i>	<i>It's Okay to Not Be Okay</i>	<i>It's Okay to Not Be Okay</i>
2	<i>Heart Signal 3</i>	<i>Crash Landing on You</i>	<i>Japan sinks: 2020</i>	<i>Japan sinks 2020</i>	<i>Warrior Nun</i>	<i>Snowpiercer</i>	<i>Girl from Nowhere</i>	<i>Warrior Nun</i>
3	<i>The World of the Married</i>	<i>Itaewon Class</i>	<i>Warrior Nun</i>	<i>Warrior Nun</i>	<i>Unsolved Mysteries</i>	<i>Goblin</i>	<i>Warrior Nun</i>	<i>Was It Love?</i>
4	<i>Japan Sinks: 2020</i>	<i>It's Okay to Not Be Okay</i>	<i>Was It Love?</i>	<i>Mystic Pop-up Bar</i>	<i>Was It Love?</i>	<i>The King: Eternal Monarch</i>	<i>Japan Sinks: 2020</i>	<i>The King: Eternal Monarch</i>
5	<i>Hospital Playlist</i>	<i>Fire Force</i>	<i>Dark</i>	<i>Hospital Playlist</i>	<i>Mystic Pop-up Bar</i>	<i>Warrior Nun</i>	<i>The King: Eternal Monarch</i>	<i>Reply 1988</i>
6	<i>Warrior Nun</i>	<i>Demon Slayer</i>	<i>Unsolved Mysteries</i>	<i>Was It Love?</i>	<i>The King: Eternal Monarch</i>	<i>The Underclass</i>	<i>Unsolved Mysteries</i>	<i>Mystic Pop-up Bar</i>
7	<i>Was It Love?</i>	<i>The Misfit of Demon King Academy</i>	<i>Snowpiercer</i>	<i>Snowpiercer</i>	<i>Together</i>	<i>Japan Sinks: 2020</i>	<i>Yu Yu Hakusho</i>	<i>Hospital Playlist</i>
8	<i>Stranger</i>	<i>Ju-On: Origins</i>	<i>Mystic Pop-up Bar</i>	<i>Together</i>	<i>The Epic Tales...</i>	<i>Mystic Pop-up Bar</i>	<i>Squishy! Black Clover</i>	<i>Crash Landing on You</i>
9	<i>My Mister</i>	<i>Rent-a-Girlfriend</i>	<i>The King: Eternal Monarch</i>	<i>Demon Slayer</i>	<i>The Baby-Sitters Club</i>	<i>About Time</i>	<i>Haikyuu!!</i>	<i>Goblin</i>
10	<i>Mr. Sunshine</i>	<i>Mystic Pop-up Bar</i>	<i>Crash Landing on You</i>	<i>Cardcaptor Sakura</i>	<i>Snowpiercer</i>	<i>Squishy! Black Clover</i>	<i>ThirTEEN Terrors</i>	<i>Unsolved Mysteries</i>

Note: As of Jul. 13

Source: Netflix, Mirae Asset Daewoo Research

Table 3. Overview of major OTT services

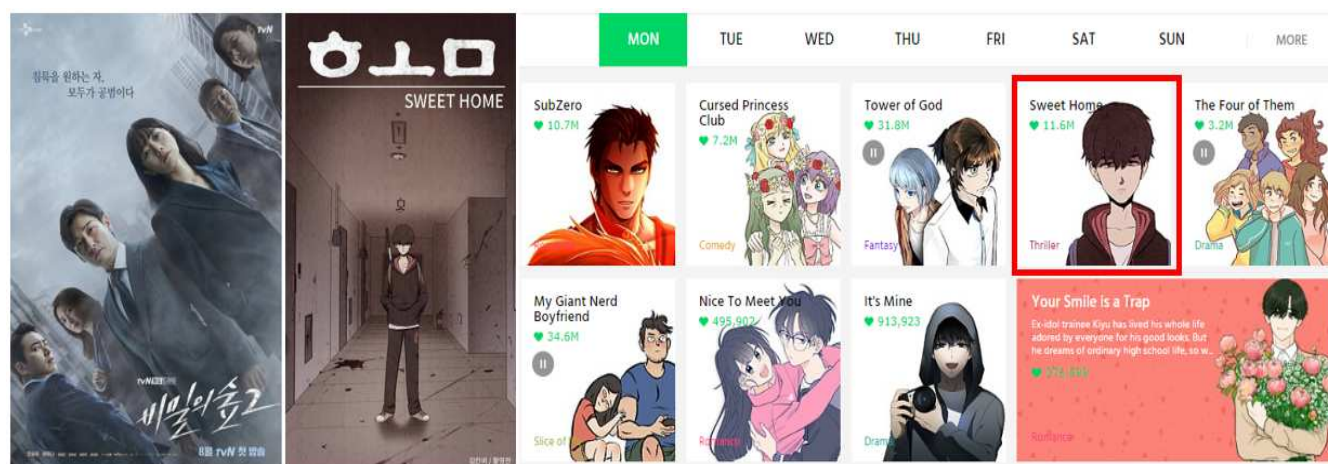
OTT	Launch date	Details by region	No. of subscribers (mn)
Netflix	2007	2007: US 9/10: Canada 2011: Latin America 1/12: UK, Ireland 10/12: Denmark, Finland, Norway, Sweden 2013: Netherlands 2014: Austria, Belgium, France, Germany, Luxembourg, Switzerland 2015: Australia, New Zealand, Japan, Italy, Portugal, Spain 2016: Korea and most countries (currently 190 countries)	182.8 (1Q20)
Amazon Prime	2006	2006: US (Amazon Unbox) 2014: UK, Germany, Austria 2015: Japan 2016: Other countries (currently 200 countries)	150 (1Q20)
Hulu	2008	2008: US 2011: Japan 11/19: US, Canada, Netherlands, Australia, New Zealand 3/20: UK, Germany, Italy, Spain, Ireland, Sweden, India	32 (5/20)
Disney+	11/19	4/20: France 6/20: Japan 9/20: Denmark, Norway, Portugal, Iceland (expected) 2021: Eastern Europe and Korea (expected)	54.5 (5/20)
Apple TV+	11/19	11/2019: More than 100 countries (excluding Korea)	33.6 (1/20; US)
HBO Max	5/27/20	5/20: US, Canada	-
Peacock	7/15/20		-

Source: Press reports, Mirae Asset Daewoo Research

Table 4. Many overseas film/drama productions have experienced delays

Issue/event	Date
Most Hollywood studios suspended film production starting in mid-March.	3/22/20
<i>Avatar 2</i> became the first Hollywood film to resume production since the shutdown began.	5/23/20
The <i>Spider-Man 3</i> release date has been delayed from July 2021 to November 2021.	
The <i>Doctor Strange 2</i> release date has been delayed from November 2021 to March 2022.	
60% of drama productions across the globe have been delayed due to the pandemic.	5/19/20
CW Network's original productions and <i>Snowfall</i> (season 4) have been delayed.	5/25/20
Season 7 of <i>Bosch</i> is unlikely to be released until 2021 due to production delays; production is expected to resume once the lockdown is lifted.	5/30/20

Source: Press reports, Mirae Asset Daewoo Research

Figure 4. Upcoming titles, including *Stranger 2* and *Sweet Home*, should attract global audiences (incl. US)

Source: Press materials, Mirae Asset Daewoo Research

Studio Dragon (253450 KQ)

Comprehensive Income Statement (Summarized)

(Wbn)	12/18	12/19	12/20F	12/21F
Revenue	380	469	524	625
Cost of Sales	324	421	442	520
Gross Profit	56	48	82	105
SG&A Expenses	16	19	20	21
Operating Profit (Adj)	40	29	62	84
Operating Profit	40	29	62	84
Non-Operating Profit	6	4	3	-7
Net Financial Income	3	3	3	6
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	46	33	65	77
Income Tax	10	7	15	17
Profit from Continuing Operations	36	26	50	60
Profit from Discontinued Operations	0	0	0	0
Net Profit	36	26	50	60
Controlling Interests	36	26	50	60
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	35	26	50	60
Controlling Interests	35	26	50	60
Non-Controlling Interests	0	0	0	0
EBITDA	115	146	142	123
FCF (Free Cash Flow)	-29	-13	136	98
EBITDA Margin (%)	30.3	31.1	27.1	19.7
Operating Profit Margin (%)	10.5	6.2	11.8	13.4
Net Profit Margin (%)	9.5	5.5	9.5	9.6

Statement of Financial Condition (Summarized)

(Wbn)	12/18	12/19	12/20F	12/21F
Current Assets	247	244	465	609
Cash and Cash Equivalents	153	60	237	339
AR & Other Receivables	69	84	139	166
Inventories	1	0	0	0
Other Current Assets	24	100	89	104
Non-Current Assets	265	337	262	225
Investments in Associates	0	0	0	0
Property, Plant and Equipment	1	1	0	0
Intangible Assets	199	233	155	116
Total Assets	512	582	726	833
Current Liabilities	108	145	241	287
AP & Other Payables	55	64	107	128
Short-Term Financial Liabilities	0	2	3	4
Other Current Liabilities	53	79	131	155
Non-Current Liabilities	3	8	8	8
Long-Term Financial Liabilities	2	8	8	8
Other Non-Current Liabilities	1	0	0	0
Total Liabilities	111	153	249	296
Controlling Interests	401	428	477	537
Capital Stock	14	14	14	14
Capital Surplus	320	322	322	322
Retained Earnings	68	94	144	204
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	401	428	477	537

Cash Flows (Summarized)

(Wbn)	12/18	12/19	12/20F	12/21F
Cash Flows from Op Activities	-29	-12	136	98
Net Profit	36	26	50	60
Non-Cash Income and Expense	84	124	92	50
Depreciation	0	2	1	0
Amortization	75	115	79	39
Others	9	7	12	11
Chg in Working Capital	-139	-143	10	5
Chg in AR & Other Receivables	-27	-22	-55	-27
Chg in Inventories	0	1	0	0
Chg in AP & Other Payables	26	9	12	6
Income Tax Paid	-10	-19	-15	-17
Cash Flows from Inv Activities	141	-81	41	4
Chg in PP&E	0	0	0	0
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	140	-42	37	-2
Others	1	-39	4	6
Cash Flows from Fin Activities	-10	0	1	0
Chg in Financial Liabilities	-8	8	1	1
Chg in Equity	1	2	0	0
Dividends Paid	0	0	0	0
Others	-3	-10	0	-1
Increase (Decrease) in Cash	102	-93	177	103
Beginning Balance	51	153	60	237
Ending Balance	153	60	237	339

Forecasts/Valuations (Summarized)

	12/18	12/19	12/20F	12/21F
P/E (x)	72.3	85.9	49.8	41.3
P/CF (x)	21.6	15.1	17.6	22.5
P/B (x)	6.5	5.3	5.2	4.6
EV/EBITDA (x)	21.1	15.0	15.8	17.4
EPS (W)	1,278	941	1,779	2,143
CFPS (W)	4,280	5,346	5,036	3,934
BPS (W)	14,305	15,242	16,986	19,129
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	32.4	23.4	11.7	19.3
EBITDA Growth (%)	55.4	27.0	-2.7	-13.4
Operating Profit Growth (%)	21.2	-27.5	113.8	35.5
EPS Growth (%)	21.7	-26.4	89.1	20.5
Accounts Receivable Turnover (x)	6.1	6.2	4.7	4.1
Inventory Turnover (x)	405.4	1,620.7	0.0	0.0
Accounts Payable Turnover (x)	25.3	22.1	18.0	15.5
ROA (%)	7.4	4.8	7.6	7.7
ROE (%)	9.3	6.4	11.0	11.9
ROIC (%)	15.2	8.7	19.2	36.0
Liability to Equity Ratio (%)	27.7	35.8	52.2	55.0
Current Ratio (%)	228.4	168.4	193.0	211.8
Net Debt to Equity Ratio (%)	-39.2	-21.2	-50.5	-63.9
Interest Coverage Ratio (x)	343.0	58.1	92.7	114.4

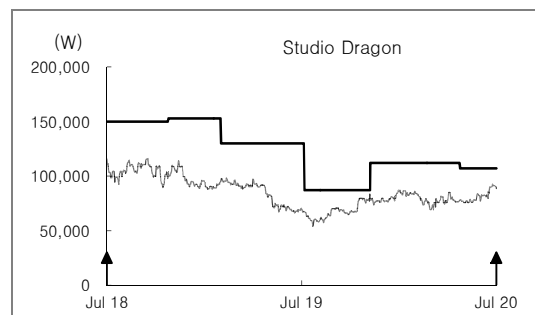
Source: Company data, Mirae Asset Daewoo Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
Studio Dragon (253450)	05/08/2020	Buy	107,000
	11/22/2019	Buy	112,000
	07/21/2019	Buy	87,000
	02/15/2019	Buy	130,000
	11/08/2018	Buy	153,000
	06/22/2018	Buy	150,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Daewoo Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	76.22%	11.59%	11.59%	0.60%
Investment banking services	75.00%	10.00%	15.00%	0%

* Based on recommendations in the last 12 months (as of June 30, 2020)

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Mirae Asset Securities Mongolia UTsK LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0806	Mirae Asset Investment Advisory (Beijing) Co., Ltd 2401B, 24th Floor, East Tower, Twin Towers B12 Jianguomenwai Avenue, Chaoyang District Beijing 100022 China Tel: 86-10-6567-9699	Beijing Representative Office 2401A, 24th Floor, East Tower, Twin Towers B12 Jianguomenwai Avenue, Chaoyang District Beijing 100022 China Tel: 86-10-6567-9699 (ext. 3300)
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