

Studio Dragon (253450 KS)

Dreaming of flying on two wings

BUY (Maintain)

CP (Aug. 6) KRW89,700
TP (6 months) KRW110,000
Upside 22.6%

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KOSPI	2,342.61p
KOSDAQ	854.12p
Market cap	KRW2,520.2bn/USD2,210.7mn
Par value	KRW500
Outstanding shares	28.1mn
Free float	10.8mn (38.3%)
52-week high/low	KRW92,500/KRW54,000
60-day avg. trading volume	327,327shrs
60-day avg. turnover	KRW27,652mn
Foreign ownership	8.67%
Major shareholders	
CJ ENM and 5 others	61.31%
Absolute performance	3M 16.5%
	6M 6.4%
	12M 66.1%
Relative performance	3M -10.2%
to KOSDAQ	6M -16.2%
	12M 7.3%

- ◆ 2Q20 consolidated OP reported at KRW16.9bn (+56.3% YoY)
- ◆ 3Q20 consolidated OP forecast at KRW10.1bn (-7.4% YoY)
- ◆ Retain BUY for a target price of KRW110,000

2Q20 consolidated OP reported at KRW16.9bn (+56.3% YoY)

Studio Dragon posted consolidated operating profit of KRW16.9bn (+56.3% YoY) on sales of KRW161.4bn (+25.9% YoY) for 2Q20, meeting our estimate of KRW16.7bn and the market consensus of KRW16.1bn. Strong growth was seen in distribution revenue, led by the new drama series The King: Eternal Monarch. Domestic distribution revenue fell 10.1% YoY due to weak video-on-demand (VOD) sales, but total distribution revenue increased 25.5% YoY to KRW75.7bn on 40.7% YoY growth in overseas revenue.

Production revenue also expanded 12.6% YoY to KRW65.4bn in 2Q20, backed by the relatively high recovery of production costs for The King: Eternal Monarch. Product placement (PPL) revenue soared 106.1% YoY to KRW20.3bn despite COVID-19 impact.

3Q20 consolidated OP forecast at KRW10.1bn (-7.4% YoY)

For 3Q20, we forecast consolidated sales at KRW144.3bn (+10.0% YoY) and operating profit at KRW10.1bn (-7.4% YoY). With Netflix facing a shortage of content, Studio Dragon's overseas distribution revenue is likely to rise 25.6% YoY (or 2.7% YoY when considering earnings booked in 3Q19 from original series production for the streaming service). Compared to five in 1H20, the number of drama series supplied to Netflix in 2H20 is expected to reach five or six on a conservative outlook and seven or eight on an aggressive projection.

Operating profit should slightly decline YoY in 3Q20 due to increased production costs amid the absence of high-margin content releases. From 2H20, we expect earnings to once again hinge on China. Company-wide operating profit could even exceed the KRW100bn mark if the country opens up the quota on Korean media content.

Retain BUY for a target price of KRW110,000

Our target price remains unchanged at KRW110,000. We retain our BUY rating, with: 1) company-wide operating profit projected to jump by more than 70% YoY in 2020; 2) revenue from Netflix continuing on a steep growth track; and 3) expectations remaining high for China momentum. Once China opens up the quota on Korean media content, we expect to see no limit to growth in Studio Dragon's market cap.

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	559.1	49.7	53.1	41.0	1,460	55.1	16,702	61.4	13.5	5.4	9.1	(15.1)
2021F	618.6	55.8	59.2	46.2	1,644	12.6	18,346	54.6	11.8	4.9	9.4	(13.1)
2022F	673.8	62.5	66.8	52.1	1,856	12.9	20,202	48.3	10.5	4.4	9.6	(13.2)

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 KRW110,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2020F NP	41.0	12MF NP	43.6	2021F NP	46.2
EPS (KRW)	1,460	EPS (KRW)	1,552	EPS (KRW)	1,644
Target price (KRW)	102,000	Target price (KRW)	110,000	Target price (KRW)	115,000
Target PER (x)	70	Target PER (x)	70	Target PER (x)	70
		Current price (KRW)	89,700		
		Current PER (x)	57.8		

Source: Shinhan Investment Corp.

Note: Our target PER is based on a 5% discount to the past 3-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)

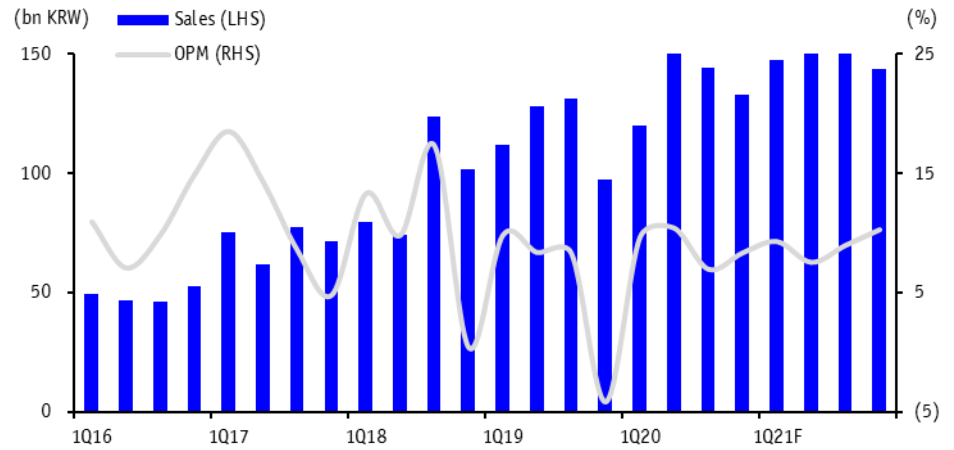
(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20F	4Q20F	2018	2019	2020F	2021F
<Earnings forecasts>																
Total revenue	79.9	74.3	123.7	101.7	111.8	128.2	131.2	97.4	120.3	161.4	144.3	133.3	379.5	468.6	559.1	618.6
Production revenue	40.7	34.1	48.9	54.4	44.1	58.1	60.8	45.7	45.2	65.4	69.5	51.1	178.1	208.7	231.1	262.0
Distribution revenue	32.1	28.8	63.4	37.8	56.2	60.3	60.0	42.7	66.9	75.7	62.7	72.7	162.1	219.2	278.0	308.0
Other (PPL) revenue	7.1	11.4	11.4	9.5	11.5	9.8	10.4	8.9	8.2	20.3	12.1	9.5	39.4	40.7	50.1	48.6
<Overseas operations>																
Overseas distribution revenue	22.7	16.5	46.2	24.8	42.6	42.2	43.9	31.6	52.8	59.4	45.0	60.4	110.2	160.4	217.6	244.7
Share in distribution revenue (%)	70.8	57.2	72.9	65.7	75.9	70.0	73.1	74.1	78.9	78.5	71.8	83.1	68.0	73.2	78.3	79.5
Netflix	10.0	1.0	32.0	3.6	8.3	23.0	24.0	6.0	24.5	36.0	26.0	32.0	46.6	61.3	118.5	139.0
Japan	3.5	4.5	3.4	4.3	10.3	5.9	3.2	5.8	8.3	6.1	3.6	6.4	15.7	25.2	24.4	25.6
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	139.6	129.2	114.8	324.0	420.8	487.1	538.9
SG&A	3.0	3.3	3.3	6.0	4.0	4.6	4.4	6.2	5.1	4.9	5.0	7.3	15.7	19.2	22.3	23.9
OP	10.7	7.3	21.5	0.4	11.0	10.8	10.9	(4.0)	11.6	16.9	10.1	11.2	39.9	28.7	49.7	55.8
Pre-tax profit	10.8	11.0	22.0	1.7	13.2	11.9	13.1	(5.1)	12.0	17.2	11.4	12.5	45.6	33.1	53.1	59.2
NP	7.9	8.9	17.3	1.7	9.2	7.3	11.5	(1.7)	8.6	13.4	9.1	10.0	35.8	26.4	41.0	46.2
<% YoY growth>																
Sales	6.0	19.6	59.6	41.5	40.0	72.6	6.1	(4.2)	7.5	25.9	10.0	36.8	32.3	23.5	19.3	10.6
OP	(23.7)	(17.8)	223.0	(87.3)	3.5	47.5	(49.2)	TR	5.5	56.3	(7.4)	TB	20.9	(28.1)	73.4	12.2
NP	(41.3)	216.8	206.3	(12.5)	17.2	(17.2)	(33.6)	TR	(7.2)	82.1	(20.8)	TB	50.2	(26.3)	55.3	12.6
<Margin, %>																
OPM	13.3	9.8	17.4	0.4	9.9	8.4	8.3	(4.1)	9.7	10.4	7.0	8.4	10.5	6.1	8.9	9.0
NPM	9.8	11.9	14.0	1.7	8.2	5.7	8.8	(1.7)	7.1	8.3	6.3	7.5	9.4	5.6	7.3	7.5

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

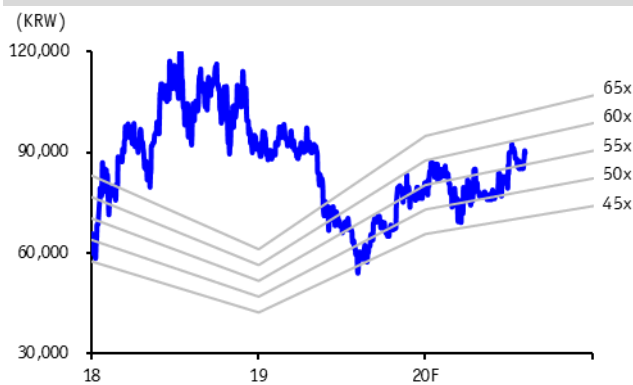
Key charts

Sales and operating profit margin (K-IFRS consolidated)



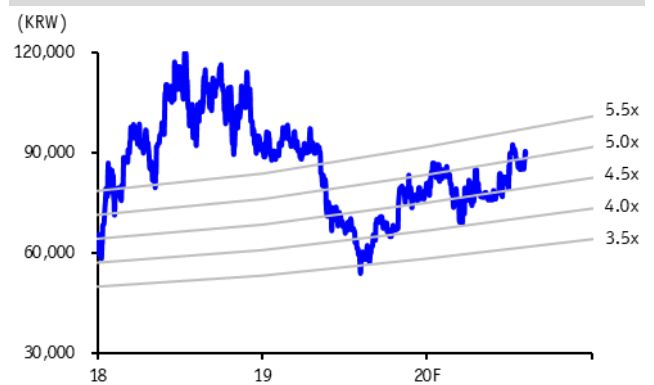
Source: Company data, Shinhan Investment Corp.

12-month forward consolidated PER band



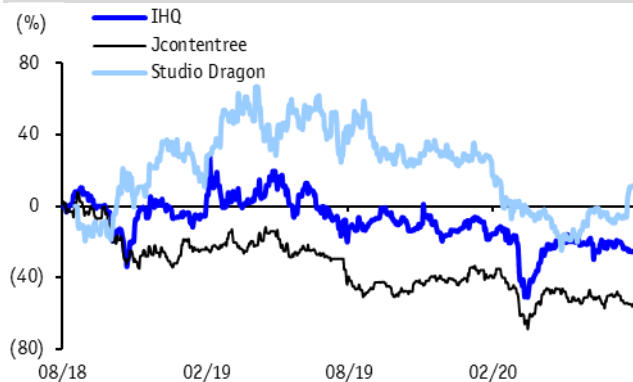
Source: QuantiWise, Shinhan Investment Corp.

12-month forward consolidated PBR band



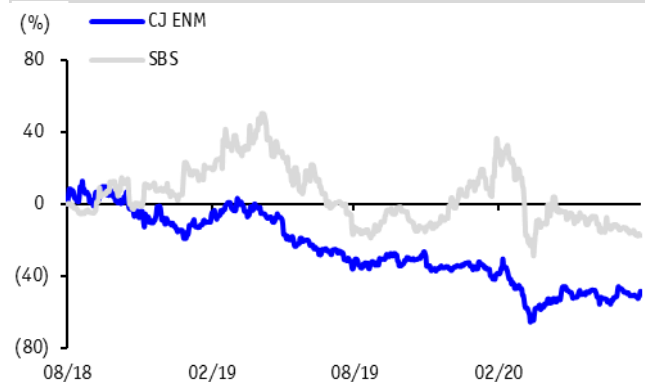
Source: QuantiWise, Shinhan Investment Corp.

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	636.4	694.7	750.5
Current assets	247.2	244.5	227.9	237.7	257.4
Cash and equivalents	153.0	59.8	22.8	17.8	23.4
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	408.5	457.0	493.2
Tangible assets	1.0	1.2	(0.2)	1.0	(0.2)
Intangible assets	198.5	233.1	304.7	351.4	387.9
Investment assets	3.7	13.4	14.6	15.4	16.1
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	111.1	153.3	167.1	179.3	182.9
Current liabilities	108.2	145.1	158.9	171.0	174.7
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	8.3
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	469.3	515.4	567.6
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	134.6	180.7	232.9
Controlling interest equity	401.3	428.3	469.3	515.4	567.6
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	2.1	9.9	10.3	10.6	10.8
*Net debt (cash)	(157.3)	(106.4)	(71.0)	(67.8)	(75.1)

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	(29.1)	(12.2)	166.0	196.2	212.2
Net profit	35.8	26.4	41.0	46.2	52.1
Depreciation expense	0.3	1.8	0.4	(2.2)	0.4
Amortization expense	75.0	115.0	131.1	154.0	169.3
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)	(5.1)	(0.8)	(8.7)
(Payment of income tax)	(9.7)	(19.4)	(12.1)	(13.0)	(14.7)
Others	9.4	6.3	10.7	12.0	13.8
Cash flow from investments	140.6	(81.0)	(202.6)	(200.6)	(206.0)
Increase in tangible assets	(0.2)	(0.6)	(0.5)	(0.4)	(0.5)
Decrease in tangible assets	0.0	0.2	1.5	1.4	1.3
Change in intangible assets	(0.1)	(0.3)	(202.7)	(200.6)	(205.9)
Change in investment assets	(0.5)	(18.8)	(1.2)	(0.8)	(0.7)
Others	141.4	(61.5)	0.3	(0.2)	(0.2)
Free cash flow	143.5	133.7	164.3	194.1	209.2
Cash flow from financing	(9.7)	(0.0)	(0.4)	(0.6)	(0.6)
Change in borrowings	(10.0)	0.0	0.4	0.3	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	(0.8)	(0.9)	(0.8)
Other cash flow	0.0	0.0	0.1	(0.0)	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)	(36.9)	(5.1)	5.5
Beginning cash	51.3	153.0	59.8	22.9	17.8
Ending cash	153.0	59.8	22.9	17.8	23.3

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	559.1	618.6	673.8
Growth (%)	32.4	23.5	19.3	10.6	8.9
COGS	324.0	420.8	487.1	538.9	585.5
Gross profit	55.6	47.9	72.0	79.7	88.3
GPM (%)	14.6	10.2	12.9	12.9	13.1
SG&A	15.7	19.2	22.3	23.9	25.8
Operating profit	39.9	28.7	49.7	55.8	62.5
Growth (%)	21.0	(28.1)	73.3	12.2	11.9
OPM (%)	10.5	6.1	8.9	9.0	9.3
Non-operating profit	5.7	4.4	3.3	3.4	4.4
Financial profit	6.1	4.3	3.7	3.2	3.3
Other non-operating profit	(0.3)	0.1	(0.4)	0.2	1.1
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	45.6	33.1	53.1	59.2	66.8
Income tax	9.8	6.6	12.1	13.0	14.7
Continuing operations	35.8	26.4	41.0	46.2	52.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	35.8	26.4	41.0	46.2	52.1
Growth (%)	50.3	(26.3)	55.2	12.6	12.9
NPM (%)	9.4	5.6	7.3	7.5	7.7
Controlling interest	35.8	26.4	41.0	46.2	52.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	34.7	25.7	41.0	46.2	52.1
Controlling interest	34.7	25.7	41.0	46.2	52.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	115.2	145.5	181.2	207.6	232.2
Growth (%)	55.1	26.4	24.5	14.6	11.8
EBITDA margin (%)	30.3	31.1	32.4	33.6	34.5

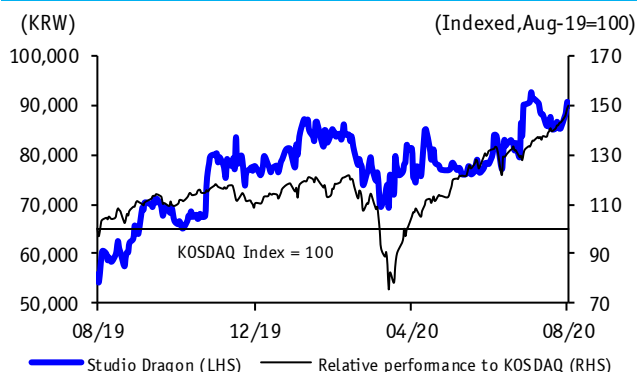
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	1,278	941	1,460	1,644	1,856
EPS of controlling interest (KRW)	1,278	941	1,460	1,644	1,856
BPS (KRW)	14,305	15,242	16,702	18,346	20,202
BPS of controlling interest (KRW)	14,305	15,242	16,702	18,346	20,202
DPS (KRW)	0	0	0	0	0
PER (x)	72.3	85.9	61.4	54.6	48.3
PER of controlling interest (x)	72.3	85.9	61.4	54.6	48.3
PBR (x)	6.5	5.3	5.4	4.9	4.4
PBR of controlling interest (x)	6.5	5.3	5.4	4.9	4.4
EV/EBITDA (x)	21.1	14.9	13.5	11.8	10.5
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	32.4	33.6	34.5
OPM (%)	10.5	6.1	8.9	9.0	9.3
NPM (%)	9.4	5.6	7.3	7.5	7.7
ROA (%)	7.4	4.8	6.7	6.9	7.2
ROE (%)	9.3	6.4	9.1	9.4	9.6
ROIC (%)	14.8	8.4	15.0	13.6	13.3
Stability					
Debt to equity ratio (%)	27.7	35.8	35.6	34.8	32.2
Net debt ratio (%)	(39.2)	(24.9)	(15.1)	(13.1)	(13.2)
Cash ratio (%)	141.4	41.2	14.4	10.4	13.4
Interest coverage ratio (x)	343.0	58.1	60.1	65.4	71.5
Activity (%)					
Working capital turnover (times)	(196.2)	(26.4)	(44.8)	(65.1)	(143.2)
Inventory turnover (days)	0.9	0.2	N/A	N/A	N/A
Receivable turnover (days)	59.5	59.3	59.8	61.9	62.3

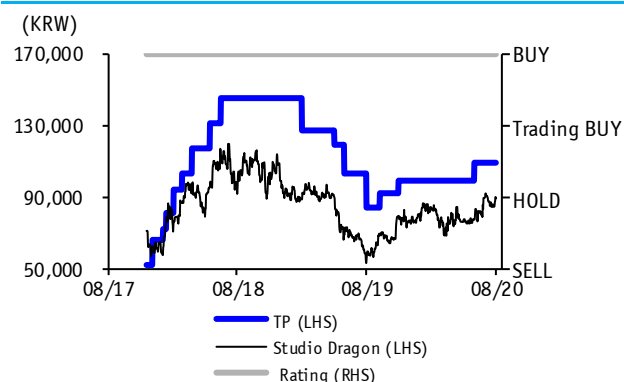
Source: Company data, Shinhan Investment Corp.

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 05 August 2020)

BUY (BUY)	91.49%	Trading BUY (HOLD)	2.13%	HOLD (HOLD)	6.38%	SELL (SELL)	0.0%
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Rating Distribution - SHIC Investment Banking Clients (as of 05 August 2020)

BUY (BUY)	100.0%	Trading BUY (HOLD)	0.0%	HOLD (HOLD)	0.0%	SELL (SELL)	0.0%
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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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