

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	(20.4%)
Current price	KRW89,700	
Market cap	KRW2.5t/USD2.1b	
Shares (float)	28,096,370 (38.3%)	
52-week high/low	KRW92,500/KRW54,000	
Avg daily trading value (60-day)	KRW27.7b/USD23.4m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	-0.7	6.4	66.1
Vs Kosdaq (%pts)	-11.6	-16.2	7.3

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	108,000	108,000	0.0%
2020E EPS	1,652	1,718	-3.8%
2021E EPS	2,084	2,133	-2.3%

▶ SAMSUNG vs THE STREET

No of estimates	24
Target price	103,708
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

Studio Dragon (253450)

Enterprise value to increase further

- **Earnings vs consensus:** Studio Dragon's 2Q operating profit of KRW16.9b (up 56% y-y) met market expectations, hitting an all-time high for quarterly results. We attribute the strength to robust growth in overseas sales.
- The firm's overseas sales have expanded based on high popularity of its content abroad, which led to: 1) hikes in sale prices and the number of drama sold; and 2) sale of old titles.
- Backed by diversification of its customer base & distribution channels and IP-based business expansion, Studio Dragon's enterprise value should keep increasing. Our BUY rating and KRW108,000 target price remains unchanged.

WHAT'S THE STORY?

2Q review: Studio Dragon yesterday reported 2Q results showing sales of KRW161.4b (up 25.9% y-y) and operating profit of KRW16.9b (up 56.3% y-y), the latter in line with market consensus. Its numbers of dramas sold and drama prices have been on the rise as the firm's content has increased its presence not only in Korea but also in overseas markets. In 2Q, four dramas (16 episodes of The King: Eternal Monarch; four episodes of Hi Bye Mama; four episodes of It's Okay Not to Be Okay; and 14 episodes of Rugal) aired simultaneously on global OTT platform Netflix. Its broadcasting rights sales to captive channels declined y-y last quarter but hit an all-time quarterly high thanks to its diversified customer base (toward terrestrial broadcasters and OTT service providers) and distribution channels.

K-content increasingly popular worldwide: Although TV ad market has been hit by high external uncertainties, Studio Dragon has been performing well on increasing popularity of K-content abroad. Indeed, some of its dramas (eg, The King: Eternal Monarch and It's Okay Not to Be Okay) rank highly in Netflix's top-10 list of most-watched content and some of the firm's old titles (broadcast two to three years ago) were also sold to Netflix. Selling dramas, for which amortization was over, is more profitable and positive to earnings.

Smother seas ahead: In 2H, several drams should be aired simultaneously on Netflix (eg, It's Okay Not to Be Okay, Stranger Season 2 (from Aug 15), and Record of Youth (from Sep 7) and Sweet Home will be broadcast as Netflix Original. The company said it is discussing sale of more dramas with a domestic non-captive channel and an overseas OTT service provider, although timing is not fixed yet. This should bode well for its customer base diversification and earnings momentum in 2H.

(Continued on the next page)

SUMMARY OF 2Q20 RESULTS

(KRWb)	2Q20	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	161.4	25.9	34.2	18.8	13.4
Operating profit	16.9	56.3	44.9	11.1	4.4
Pre-tax profit	17.3	44.5	43.1	4.2	1.9
Net profit(controlling)	13.4	82.1	56.5	3.9	1.8
Margins (%)					
Operating profit	10.5				
Pre-tax profit	10.7				
Net profit	8.3				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2019	2020E	2021E
Valuation (x)			
P/E	85.9	54.3	43.0
P/B	5.3	5.3	4.7
EV/EBITDA	15.0	13.5	11.8
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	-26.3	75.5	26.1
ROE (%)	6.4	10.3	11.6
Per-share data (KRW)			
EPS	941	1,652	2,084
BVPS	15,242	16,859	18,943
DPS	0	0	0

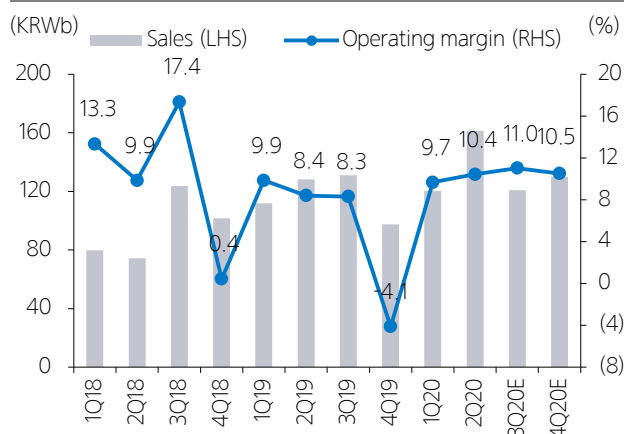
Enterprise value to keep rising: At the center of increasing K-content popularity stands Studio Dragon. We expect its enterprise value to trend up on content distribution platform diversification, sales price hikes, and IP-based business expansion. We keep the stock at BUY rating and reiterate our target price of KRW108,000 (based on 16x forward EV/EBITDA; the average of 2017-2018 lows).

Table 1. Results and forecasts

(KRWb)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20E	4Q20E	2018	2019	2020E	2021E
Sales	79.9	74.3	123.7	101.7	111.8	128.2	131.2	97.4	120.3	161.4	120.8	130.1	379.6	468.7	532.6	604.1
Programing	40.7	34.1	48.9	54.4	44.1	58.1	60.8	45.7	45.2	65.4	46.4	45.4	178.1	208.7	202.3	214.6
Distribution	32.1	28.8	63.4	37.8	56.2	60.3	60.0	42.8	66.9	75.7	62.5	71.4	162.1	219.3	276.5	332.1
Other	7.1	11.4	11.4	9.5	11.5	9.8	10.4	8.9	8.2	20.3	11.9	13.3	39.4	40.6	53.7	57.4
Gross profit	13.6	10.6	24.8	6.5	15.0	15.4	15.3	2.2	16.7	21.8	18.4	20.1	55.6	47.9	77.1	92.1
SG&A costs	3.0	3.3	3.3	6.0	4.0	4.6	4.4	6.2	5.1	4.9	5.1	6.5	15.7	19.2	21.6	23.9
Operating profit	10.7	7.3	21.5	0.4	11.0	10.8	10.9	-4.0	11.6	16.9	13.3	13.7	39.9	28.7	55.5	68.2
Non-operating profit	0.2	3.7	0.6	1.3	2.1	1.1	2.2	-1.1	0.4	0.3	0.9	2.2	5.7	4.3	3.8	6.6
Pre-tax profit	10.8	11.0	22.1	1.7	13.2	11.9	13.1	-5.1	12.0	17.2	14.2	15.8	45.7	33.1	59.2	74.8
Net profit (controlling)	7.9	8.9	17.3	1.7	9.2	7.3	11.5	-1.6	8.5	13.4	11.4	13.1	35.8	26.4	46.4	58.6
Gross margin	17.1	14.3	20.1	6.4	13.4	12.0	11.7	2.2	13.8	13.5	15.3	15.5	14.6	10.2	14.5	15.2
Operating margin	13.3	9.9	17.4	0.4	9.9	8.4	8.3	-4.1	9.7	10.4	11.0	10.5	10.5	6.1	10.4	11.3
Net margin (controlling)	9.8	12.0	14.0	1.7	8.2	5.7	8.8	-1.7	7.1	8.3	9.4	10.1	9.4	5.6	8.7	9.7
Chg (% y-y)																
Sales	6.0	19.6	59.7	41.5	40.0	72.6	6.0	-4.2	7.6	25.9	-7.9	33.5	32.4	23.5	13.6	13.4
Programing	54.5	41.1	17.1	39.5	8.4	70.5	24.4	-16.1	2.5	12.6	-23.8	-0.7	35.7	17.2	-3.0	6.1
Distribution	-12.0	9.5	172.0	46.9	75.1	109.2	-5.4	13.3	19.1	25.5	4.2	66.9	44.9	35.3	26.1	20.1
Other	-43.4	-1.9	-8.3	33.1	63.1	-14.1	-9.0	-6.7	-29.2	107.1	15.1	49.6	-9.8	3.0	32.3	6.8
Gross profit	-18.6	-12.8	131.0	-12.9	9.9	45.1	-38.4	-66.2	11.1	41.7	20.6	819.9	17.9	-13.8	61.0	19.5
SG&A costs	7.3	0.2	-16.6	51.9	33.1	40.2	31.0	2.7	28.4	5.8	17.0	4.4	11.5	22.4	12.6	10.7
Operating profit	-23.7	-17.6	223.0	-87.3	3.5	47.3	-49.2	Turned neg	5.5	56.3	22.1	To turn pos	21.0	-28.1	93.3	23.0
Non-operating profit	Turned pos	3948.9	Turned pos	Turned pos	1160.7	-71.7	290.9	Turned neg	-79.7	-69.4	-60.1	To turn pos	Turned pos	-24.3	-12.1	71.7
Pre-tax profit	-18.2	23.0	247.7	1.9	22.2	7.6	-40.8	Turned neg	-9.2	44.5	8.6	To turn pos	51.0	-27.5	78.9	26.2
Net profit (controlling)	-41.3	217.4	206.3	-12.6	17.2	-17.4	-33.5	Turned neg	-7.3	82.1	-1.4	To turn pos	50.3	-26.3	75.7	26.1
Gross margin	-5.2	-5.3	6.2	-4.0	-3.7	-2.3	-8.4	-4.1	0.4	1.5	3.6	13.2	-1.8	-4.4	4.3	0.8
Operating margin	-5.2	-4.5	8.8	-4.4	-3.5	-1.4	-9.0	-4.6	-0.2	2.0	2.7	14.6	-1.0	-4.4	4.3	0.9
Net margin (controlling)	-7.9	7.5	6.7	-1.1	-1.6	-6.2	-5.2	-3.4	-1.1	2.6	0.6	11.8	1.1	-3.8	3.1	1.0

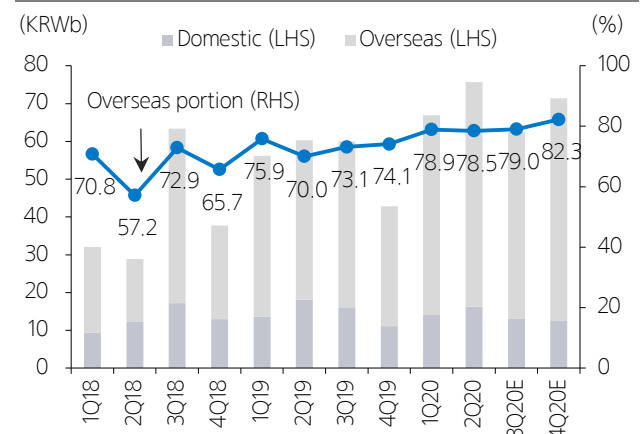
Source: Company data, Samsung Securities

Chart 1. Sales and operating margin



Source: Company data, Samsung Securities

Chart 2. Sales: Domestic and overseas



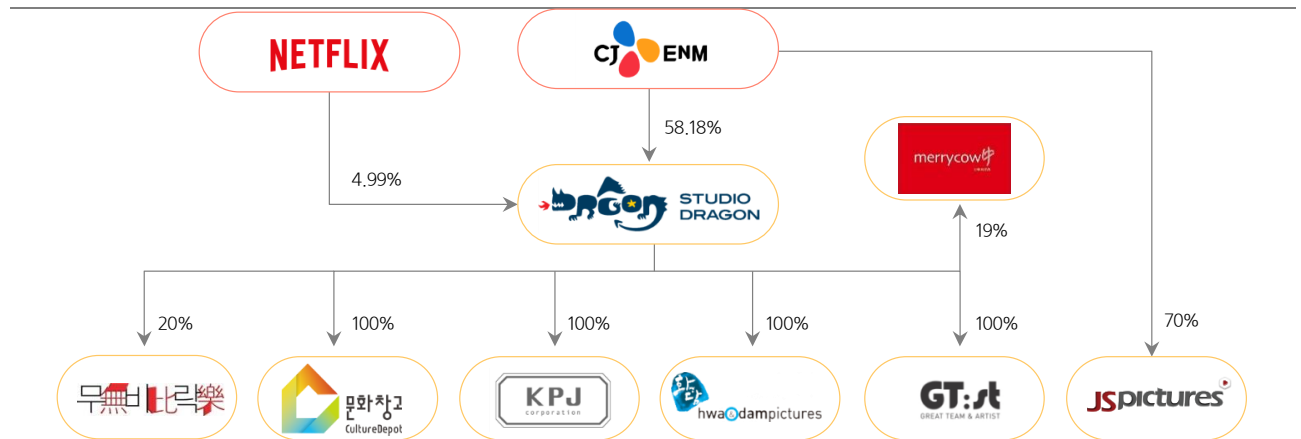
Source: Company data, Samsung Securities

Table 2. 2020 drama line-up

Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Leading actors	Days
2020	1		Black Dog	Dec 14, 2019- Feb 4, 2020	16	Park Ji-eun	Lee Jung-hyo	Hyeon Bin, Son Ye-jin, Seo Ji-hye	Mon, Tue
	2		Crash Landing on You	Dec 16, 2019- Feb 16, 2020	16	Park Ju Yeon	Hwang Jun Hyeok	Seo Hyeon Jin, Ra Mi Ran	Sat, Sun
	3		Money Game	Jan 5-Mar 5	16	Lee Young Mi	Kim Sang Ho	Ko Soo, Sim Eun Kyeong	Wed, Thu
	4		Method	Feb 10-Mar 17	12	Yeon Sang Ho	Kim Yong Wan	Um Ji Won, Sung Dong Il, Cho Min Soo	Mon, Tue
	5		Hi Bye Mama	Feb 22-Apr 12	16	Kwon Hye-joo	Yoo Je-won	Kim Tae-hee, Lee Kyu-hyung	Sat, Sun
	6		Memorist	Mar 11-Apr 30	16	Ahn Doha, Hwang Hana	Kim Hui, So Jae-hyun	Yoo Seung-ho, Lee Se-young	Wed, Thu
	7		A Piece of Your Mind	Mar 23-Apr 28	12	Lee Sook Yeon	Lee Sang Yeob	Jung Hae-in, Chae Soo-bin	Mon, Tue
	8		When My Love Blooms	Apr 25-Jun 14	16	Jeon Hui-yung	Son Jung-hyun	Yoo Ji-tae, Lee Bo-yung	Sat, Sun
	9	tVN	Mothers	May 4-5	2	Ryu Bori Jang	Jang Jeong-do	Han Hye Jin, Kim Mi Kyung, Jung Jung Yeon	Mon, Tue
	10		Oh My Baby	May 13-Jul 2	16	Roh Seon-jae	Nam Ki-hoon	Jang Nara, Ko Jun, Park Byung-eun	Wed, Thu
	11		My Unfamiliar Family	Jun 1-Jul 21	16	Kim Eun-jung	Kwon Yung-il	Han Ye Ri, Choo Jae Hyun, Hye Jung	Mon, Tue
	12		It's Okay to Not Be Okay	Jun 20 - Aug 9	16	Cho Yong	Park Shin-woo	Kim Soo-hyun, Seo Ye-ji	Sat, Sun
	13		The Flower of Evil	Jul 29-Sep 17	16	Yoo Jung-hui	Kim Chul-kyu	Lee Jun-ki, Moon Chae-won	Wed, Thu
	14		Secret Forest Season 2	Aug 15-Oct 4	16	Lee Soo-yeon	Park Hyun-seok	Cho Seung-woo, Yoon Se-ah, Lee Jun-hyuk	Sat, Sun
	15		A Record of Youth	Sep 7-Oct 27	16	Ha Myung-hee	Ahn Gil-ho	Park Bo-gum, Park So-dam	Mon, Tue
	16		The Tale of a Gumiho	Sep 23-Nov 26	16	Han Woo-ri	Kang Shin-hyo	Lee Dong Wook, Jo Bo-ah	Wed, Thu
	17		StartUp	Oct 10-Nov 29	16	Park Hye-ryun	Oh Chung-hwan	Nam Ju-hyuk, Suji, Kim Sun-ho	Sat, Sun
	18		LUCA	Oct	12	Cheon Sung-il	Kim Hong-seon	Kim Rae-won, Lee Da-hee	Mon, Tue
	19		Day and Night	Nov	16	Shin Yoo-dam	Jo Soo-won	Namgung-min, Lee Chung-a	Wed, Thu
	20		True Beauty	Nov	16	Lee Si-eun	Kim Sang-hyeop	Cha Eun-woo, Moon Ga-young	-
	21		Call It Like You See It	Feb 1 - Mar 22	16	Ko Young Jae	Lee Jun Hyeong	Jang Hyeok, Jin Su Yeon	Sat, Sun
	22		Rugal	Mar 28 - May 17	16	Do Hyeon	Kang Chul Woo	Park Sung Woong, Choi Jin Hyeok	Sat, Sun
	23		Train	Jul 11 - Aug 16	12	Park Ga-yeon	Ryu Seung-jin	Kim Jae-wook	Sat, Sun
	24	OCN	Missing	Aug 29-Oct 4	16	Ban Ki-ri, Jung So-young	Kim Sung-soo	Ko Soo, Ahn So-hee, Seo Eun-soo	Sat, Sun
	25		Wonderful Rumors	Nov 28-		Yeojina	Yoo Seon-dong	Cho Byung-gyu, Yoo Jun-sang, Kim Se-jung	Sat, Sun
	26		Search	TBD	10	Gumo, Goh Myeong-ju	Lim Dae-woong	Jang Dong-yoon	Sat, Sun
	27		My Holo Love	Feb 7	12	Ryu Yong-jae	Lee Sang-yeop	Yoon Hyun-min, Ko Sung-hee	-
	28	Netflix	Sweet Home	TBD		Hong So-ri, Kim Hyung-min	Lee Eung-bok	Song Kang, Lee Jin-wook, Lee Si-young	-
	29	KBS	I've Been There Once	Mar 28-Sep 13	50	Yang Hee-seung	Lee Jae-sang	Lee Min-jung, Lee Sang-yeop, Lee Jung-eun	Sat, Sun
	30	SBS	The King: The Eternal Monarch	Apr 17-Jun 12	16	Kim Eun Sook	Paik Sang Hoon	Lee Min Ho, Kim Ko Eun, Woo Do Hwan	Fri, Sat

자료: 스튜디오드래곤, 삼성증권

Chart 3. Ownership structure



Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Sales	380	469	533	604	652
Cost of goods sold	324	421	456	512	552
Gross profit	56	48	77	92	99
Gross margin (%)	14.6	10.2	14.5	15.2	15.2
SG&A expenses	16	19	22	24	26
Operating profit	40	29	55	68	74
Operating margin (%)	10.5	6.1	10.4	11.3	11.3
Non-operating gains (losses)	6	4	4	7	7
Financial profit	7	10	11	10	10
Financial costs	1	6	7	4	3
Equity-method gains (losses)	0	0	-0	0	0
Other	-0	0	-0	0	0
Pre-tax profit	46	33	59	75	81
Taxes	10	7	13	16	18
Effective tax rate (%)	21.5	20.1	21.6	21.7	21.7
Profit from continuing operations	36	26	46	59	63
Profit from discontinued operations	0	0	0	0	0
Net profit	36	26	46	59	63
Net margin (%)	9.4	5.6	8.7	9.7	9.7
Net profit (controlling interests)	36	26	46	59	63
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	115	146	180	204	221
EBITDA margin (%)	30.3	31.1	33.9	33.8	33.9
EPS (parent-based) (KRW)	1,278	941	1,652	2,084	2,251
EPS (consolidated) (KRW)	1,278	941	1,652	2,084	2,251
Adjusted EPS (KRW)*	1,278	941	1,652	2,084	2,251

Cash flow statement

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Cash flow from operations	-29	-12	142	176	193
Net profit	36	26	46	59	63
Non-cash profit and expenses	84	124	136	150	162
Depreciation	0	2	1	1	1
Amortization	75	115	124	135	146
Other	9	7	11	14	15
Changes in A/L from operating activities	-139	-143	-27	-16	-14
Cash flow from investments	141	-81	-134	-161	-175
Change in tangible assets	-0	-0	-1	-1	-1
Change in financial assets	140	-42	2	-7	-6
Other	1	-39	-135	-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	4	9	14
Cash at beginning of year	51	153	60	64	73
Cash at end of year	153	60	64	73	88
Gross cash flow	120	150	182	208	225
Free cash flow	-29	-13	141	175	192

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	279	330	377
Cash & equivalents	153	60	64	73	88
Accounts receivable	69	84	104	124	136
Inventories	1	0	1	1	1
Other current assets	25	101	110	132	152
Fixed assets	265	337	360	385	416
Investment assets	4	13	23	26	33
Tangible assets	1	1	1	1	1
Intangible assets	199	233	251	266	282
Other long-term assets	62	89	86	92	101
Total assets	512	582	640	715	793
Current liabilities	108	145	157	178	192
Accounts payable	20	18	24	27	30
Short-term debt	0	0	0	0	0
Other current liabilities	89	127	133	151	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	166	183	197
Owners of parent equity	401	428	474	532	595
Capital stock	14	14	14	14	14
Capital surplus	320	322	322	322	322
Retained earnings	68	94	140	199	262
Other	-0	-1	-2	-2	-2
Non-controlling interests' equity	0	0	0	0	0
Total equity	401	428	474	532	595
Net debt	-153	-91	-86	-104	-122

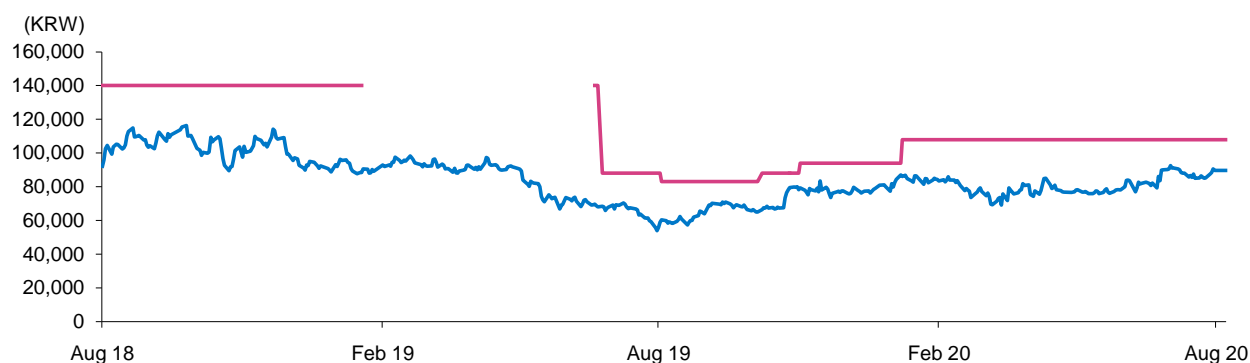
Financial ratios

Year-end Dec 31	2018	2019	2020E	2021E	2022E
Growth (%)					
Sales	32.4	23.5	13.6	13.4	7.9
Operating profit	21.0	-28.1	93.3	23.0	8.2
Net profit	50.3	-26.3	75.7	26.1	8.0
Adjusted EPS**	21.7	-26.3	75.5	26.1	8.0
Per-share data (KRW)					
EPS (parent-based)	1,278	941	1,652	2,084	2,251
EPS (consolidated)	1,278	941	1,652	2,084	2,251
Adjusted EPS**	1,278	941	1,652	2,084	2,251
BVPS	14,305	15,242	16,859	18,943	21,194
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	72.3	85.9	54.3	43.0	39.9
P/B***	6.5	5.3	5.3	4.7	4.2
EV/EBITDA	21.2	15.0	13.5	11.8	10.9
Ratios (%)					
ROE	9.3	6.4	10.3	11.6	11.2
ROA	7.4	4.8	7.6	8.6	8.4
ROIC	15.2	8.7	13.7	14.9	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	-18.2	-19.6	-20.5
Interest coverage (x)	343.0	58.1	75.9	140.1	227.4

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

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

Samsung Securities uses the following investment ratings.

Company

BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Jun 30, 2020

BUY (73.4%) | HOLD (26.6%) | SELL (0%)

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General

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SAMSUNG SECURITIES

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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