

# Studio Dragon

(253450 KQ)

## Key player in the multi-OTT era

**Buy**  
(Maintain)

TP: W107,000  
Upside: 19.3%

Mirae Asset Daewoo Co., Ltd.

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### 2Q20 review: Improved fundamentals

#### Revenue of W161.4bn (+25.9% YoY) and OP of W16.9bn (+56.3% YoY), in line with estimates

- Record-high revenue: Despite fewer programming slots on captive channels, Studio Dragon benefited from the strong performance of *The King: Eternal Monarch* (across programming, licensing, and other sales).
- Robust licensing sales (W75.7bn; +25.5%): Increase in selling prices of titles broadcast simultaneously; brisk sales of older titles (*Goblin* and *My Mister*)
- Other revenue expanded to W20.3bn (+107.1%), driven by sold-out product placements and strong original music sales for *The King: Eternal Monarch*.
- Despite conservative recognition of production costs, profitability improved thanks to revenue expansion and robust licensing sales.

### Key player in the multi-OTT era

#### Growing popularity of K-dramas and new entrants in the global OTT market

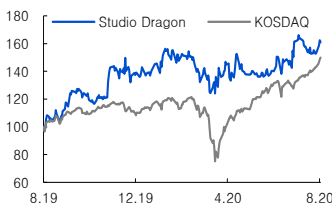
- K-dramas represent a high proportion of the most-viewed titles in many Asian countries.
- Korea has the second highest share in Netflix's (NFLX US/CP: US\$502.11) top 50 titles (average no. of titles in the top 50: 22 for the US, eight for Korea, four for Colombia, and two each for Spain/Japan).
- The popularity of K-dramas is spreading geographically, irrespective of the domestic TV ratings of individual titles.
- Meanwhile, Disney+ has secured 60.5mn subscribers, achieving its target (60-90mn subscribers by 2024) ahead of schedule.
- Studio Dragon's negotiating power in the expanding OTT market should strengthen, backed by its proven track record.

### Investment recommendation

#### Maintain Buy and TP of W107,000

- Quarterly operating profit leveling up to W15bn (from W10bn); stock's multiple expanding
- We think a target price adjustment will be justified once exports to China and licensing to new OTT platforms are confirmed. Notably, Studio Dragon is planning two original dramas for a Chinese OTT and plans to collaborate with Apple (AAPL US/CP: US\$440.25) and HBO within the year.
- Content supply: Favorable environment for both new and old titles (growing influence of K-dramas and delayed overseas production)
- Platform expansion: Improved negotiating power for content providers amid Chinese/global OTTs' geographical expansion
- Upcoming titles targeting the global audience: *Stranger 2* (Aug.) and webtoon-based *Sweet Home* (Oct.)

### Key data



Current price (8/6/20, W)	89,700	Market cap (Wbn)	2,520
OP (20F, Wbn)	63	Shares outstanding (mn)	28
Consensus OP (20F, Wbn)	56	Free float (%)	38.3
EPS growth (20F, %)	88.4	Foreign ownership (%)	8.6
P/E (20F, x)	50.6	Beta (12M)	0.35
Market P/E (20F, x)	16.3	52-week low (W)	54,000
KOSDAQ	854.12	52-week high (W)	92,500

### Share performance

(%)	1M	6M	12M
Absolute	-0.7	6.4	66.1
Relative	-11.6	-16.2	7.3

### Earnings and valuation metrics

(Dec.)	2016	2017	2018	2019	2020F	2021F
Revenue (Wbn)	0	287	380	469	558	642
OP (Wbn)	0	33	40	29	63	84
OP margin (%)	-	11.5	10.5	6.2	11.3	13.1
NP (Wbn)	0	24	36	26	50	61
EPS (W)	0	1,050	1,278	941	1,774	2,165
ROE (%)	0.0	12.9	9.3	6.4	11.0	11.9
P/E (x)	-	61.9	72.3	85.9	50.6	41.4
P/B (x)	-	4.9	6.5	5.3	5.3	4.7
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

Table 1. Earnings and forecasts

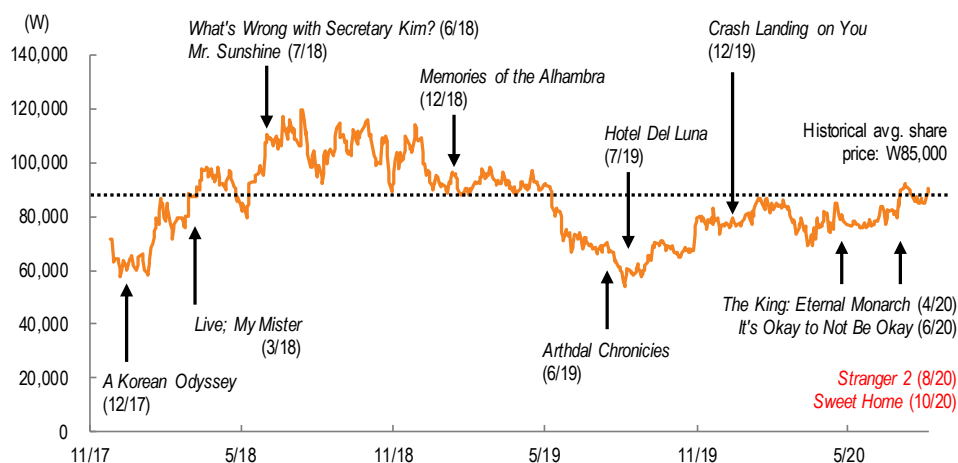
(Wbn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20P	3Q20F	4Q20F	2019	2020F	2021F
<b>Revenue</b>	<b>112</b>	<b>128</b>	<b>131</b>	<b>97</b>	<b>120</b>	<b>161</b>	<b>117</b>	<b>159</b>	<b>469</b>	<b>558</b>	<b>642</b>
Programming	44	58	61	46	45	65	46	52	209	209	231
Licensing	56	60	60	43	67	76	59	96	219	297	356
Other	12	10	10	9	8	20	11	11	41	51	55
<b>Costs</b>	<b>97</b>	<b>113</b>	<b>116</b>	<b>95</b>	<b>104</b>	<b>140</b>	<b>96</b>	<b>135</b>	<b>421</b>	<b>474</b>	<b>537</b>
Production costs (excl. originals)	49	65	71	49	62	75	50	80	233	267	254
Commission fees	15	10	10	11	11	14	12	19	47	56	72
Depreciation/amortization (estimates)	27	32	28	28	26	45	30	29	115	130	136
Other	6	6	6	7	4	5	5	6	25	21	26
<b>SG&amp;A</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>7</b>	<b>19</b>	<b>21</b>	<b>22</b>
<b>EBITDA</b>	<b>38</b>	<b>43</b>	<b>40</b>	<b>24</b>	<b>38</b>	<b>63</b>	<b>46</b>	<b>48</b>	<b>145</b>	<b>195</b>	<b>219</b>
<b>OP</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>-4</b>	<b>11</b>	<b>17</b>	<b>16</b>	<b>18</b>	<b>29</b>	<b>63</b>	<b>84</b>
OP margin	9.9	8.4	8.3	-4.2	9.5	10.5	13.7	11.5	6.2	11.3	13.1
Pretax profit	13	12	13	-5	12	17	17	19	33	65	78
NP	9	7	12	-2	8	13	13	15	26	50	61
Net margin	8.2	5.7	8.8	-1.7	7.0	8.3	11.1	9.3	5.6	8.9	9.5
<b>YoY</b>											
Revenue	40.0	72.5	6.0	-4.3	7.6	25.9	-10.9	63.6	23.4	19.1	15.2
Programming	8.4	70.5	24.4	-16.1	2.5	12.6	-23.6	14.6	17.2	0.3	10.2
Licensing	75.1	109.2	-5.4	13.3	19.1	25.5	-1.6	124.0	35.3	35.7	19.8
Other	63.1	-14.1	-9.0	-6.7	-29.2	107.1	10.0	25.0	3.0	25.6	8.0
EBITDA	34.7	182.5	-11.5	-8.5	0.1	44.4	15.7	98.1	26.4	33.9	12.7
OP	3.5	48.8	-49.3	TTR	4.1	56.3	46.6	TTB	-28.0	118.7	33.3
NP	16.1	-17.8	-33.1	TTR	-7.6	82.1	12.4	TTB	-26.1	88.7	22.3
<b>Major assumptions</b>											
No. of titles aired	6.5	7.5	7.0	6.5	6.5	6.5	6.5	7.0	27.5	26.5	28.0
No. of titles licensed to Netflix	1.5	2.5	1.5	0.4	1.5	2.0	2.0	2.0	5.9	7.5	8.5

Note: Under consolidated K-IFRS

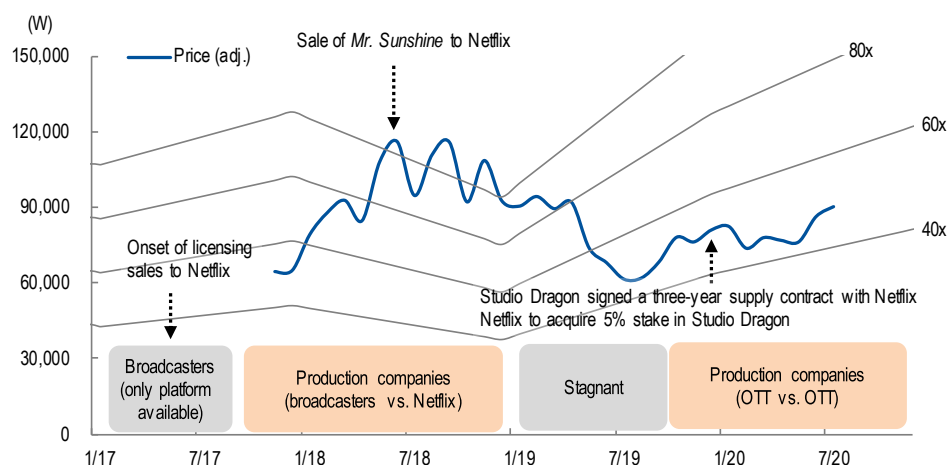
Source: Company data, Mirae Asset Daewoo Research estimates

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



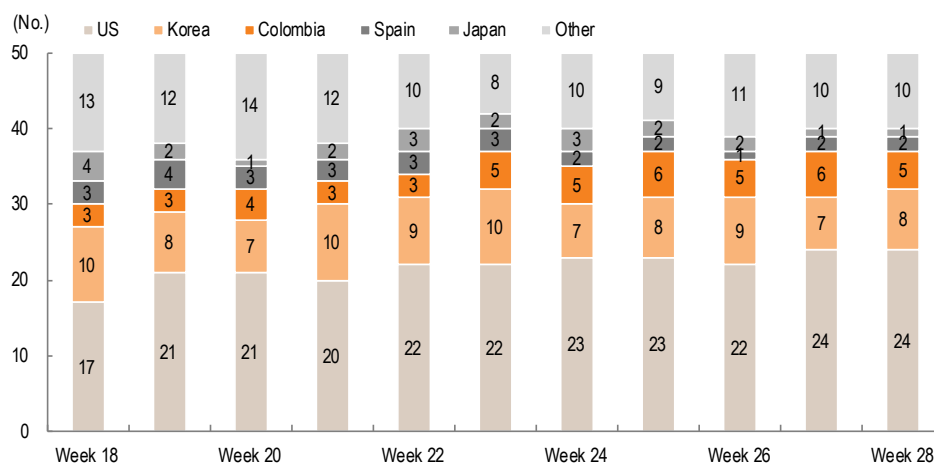
Source: WISEfn, Mirae Asset Daewoo Research

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
1	<i>It's Okay to Not Be Okay</i>	<i>Crash Landing on You</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>Three Kingdoms</i>	<i>It's Okay to Not Be Okay</i>	<i>The Umbrella Academy</i>	<i>The Umbrella Academy</i>	<i>The Umbrella Academy</i>	<i>The Umbrella Academy</i>	<i>The Umbrella Academy</i>
3	<i>The Stranger</i>	<i>Re:Zero</i>	<i>Was It Love?</i>	<i>Was It Love?</i>	<i>Was It Love?</i>	<i>The Underclass</i>	<i>Dark Desire</i>
4	<i>Hospital Playlist</i>	<i>Okuro Wiki</i>	<i>Connected</i>	<i>Hospital Playlist</i>	<i>Indian Matchmaking</i>	<i>2gether: The Series</i>	<i>Grey's Anatomy</i>
5	<i>The Umbrella Academy</i>	<i>Itaewon Class</i>	<i>Dark</i>	<i>Demon Slayer: Kimetsu no Yaiba</i>	<i>Transformers: War for Cybertron</i>	<i>Cursed</i>	<i>Girl from Nowhere</i>
6	<i>Was It Love?</i>	<i>Demon Slayer: Kimetsu no Yaiba</i>	<i>Crash Landing on You</i>	<i>Dark Desire</i>	<i>Dark Desire</i>	<i>Berserk</i>	<i>A Love to Last</i>
7	<i>Reply 1988</i>	<i>Fire Force</i>	<i>Dark Desire</i>	<i>Crash Landing on You</i>	<i>Good Girls</i>	<i>The King: Eternal Monarch</i>	<i>2gether: The Series</i>
8	<i>Mr. Sunshine</i>	<i>The Umbrella Academy</i>	<i>Grey's Anatomy</i>	<i>Mystic Pop-up Bar</i>	<i>Connected</i>	<i>Was It Love?</i>	<i>Cursed</i>
9	<i>My Mister</i>	<i>Deca-Dence</i>	<i>Cursed</i>	<i>Grey's Anatomy</i>	<i>New Girl</i>	<i>Unlucky Ploy</i>	<i>Crash Landing on You</i>
10	<i>Dark Desire</i>	<i>Major 2nd</i>	<i>Transformers: War for Cybertron</i>	<i>Berserk</i>	<i>Cursed</i>	<i>Goblin</i>	<i>Reply 1988</i>

Note: As of Aug.6

Source: Netflix, Mirae Asset Daewoo Research

Table 3. Overview of major OTT services

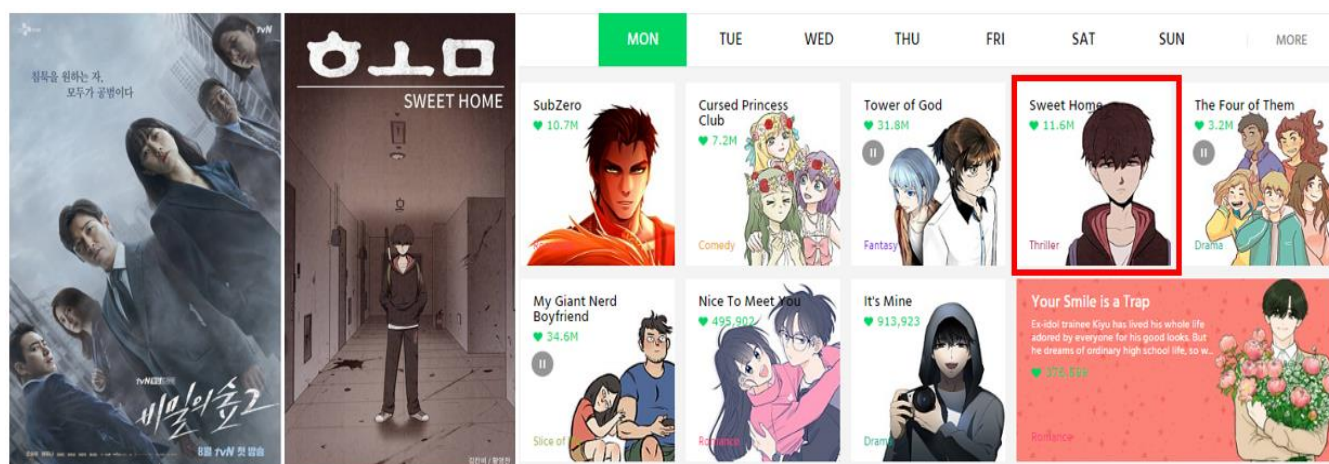
OTT	Launch date	Details by region	No. of subscribers (mn)
Netflix	2007	2007: US 9/10: Canada 2011: Latin America 1/12: UK, Ireland 10/12: Denmark, Finland, Norway, Sweden 2013: Netherlands 2014: Austria, Belgium, France, Germany, Luxembourg, Switzerland 2015: Australia, New Zealand, Japan, Italy, Portugal, 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	32 (5/20)
Disney+	11/19	11/19: US, Canada, Netherlands, Australia, New Zealand 3/20: UK, Germany, Italy, Spain, Ireland, Sweden, India 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 (excl. 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)

## Income statement (summarized)

(Wbn)	2018	2019	2020F	2021F
<b>Revenue</b>	<b>380</b>	<b>469</b>	<b>558</b>	<b>642</b>
<b>Cost of revenue</b>	<b>324</b>	<b>421</b>	<b>474</b>	<b>537</b>
<b>Gross profit</b>	<b>56</b>	<b>48</b>	<b>84</b>	<b>105</b>
<b>SG&amp;A expenses</b>	<b>16</b>	<b>19</b>	<b>21</b>	<b>22</b>
<b>OP (adj.)</b>	<b>40</b>	<b>29</b>	<b>63</b>	<b>84</b>
<b>OP</b>	<b>40</b>	<b>29</b>	<b>63</b>	<b>84</b>
<b>Non-operating profit</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>-6</b>
Net financial income	3	3	2	4
Net income from associates	0	0	0	0
Pretax profit	46	33	65	78
Income tax	10	7	15	17
Profit from continuing operations	36	26	50	61
Profit from discontinued operations	0	0	0	0
<b>NP</b>	<b>36</b>	<b>26</b>	<b>50</b>	<b>61</b>
Attributable to owners	36	26	50	61
Attributable to minority interests	0	0	0	0
<b>Total comprehensive income</b>	<b>35</b>	<b>26</b>	<b>50</b>	<b>61</b>
Attributable to owners	35	26	50	61
Attributable to minority interests	0	0	0	0
EBITDA	115	146	150	131
FCF	-29	-13	110	108
EBITDA margin (%)	30.3	31.1	26.9	20.4
OP margin (%)	10.5	6.2	11.3	13.1
Net margin (%)	9.5	5.5	9.0	9.5

## Balance sheet (summarized)

(Wbn)	2018	2019	2020F	2021F
<b>Current assets</b>	<b>247</b>	<b>244</b>	<b>418</b>	<b>561</b>
Cash & equivalents	153	60	191	303
AR & other receivables	69	84	137	158
Inventory	1	0	0	0
Other current assets	24	100	90	100
<b>Non-current assets</b>	<b>265</b>	<b>337</b>	<b>307</b>	<b>260</b>
Investments in associates	0	0	0	0
PP&E	1	1	0	0
Intangible assets	199	233	185	138
<b>Total assets</b>	<b>512</b>	<b>582</b>	<b>724</b>	<b>821</b>
<b>Current liabilities</b>	<b>108</b>	<b>145</b>	<b>237</b>	<b>273</b>
AP & other payables	55	64	105	121
Short-term financial liabilities	0	2	3	4
Other current liabilities	53	79	129	148
<b>Non-current liabilities</b>	<b>3</b>	<b>8</b>	<b>8</b>	<b>8</b>
Long-term financial liabilities	2	8	8	8
Other non-current liabilities	1	0	0	0
<b>Total liabilities</b>	<b>111</b>	<b>153</b>	<b>246</b>	<b>282</b>
<b>Equity attributable to owners</b>	<b>401</b>	<b>428</b>	<b>479</b>	<b>539</b>
Capital stock	14	14	14	14
Capital surplus	320	322	322	322
Retained earnings	68	94	143	204
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>401</b>	<b>428</b>	<b>479</b>	<b>539</b>

## Cash flow statement (summarized)

(Wbn)	2018	2019	2020F	2021F
<b>Operating cash flow</b>	<b>-29</b>	<b>-12</b>	<b>110</b>	<b>108</b>
NP	36	26	50	61
Non-cash income/expenses	84	124	102	61
Depreciation	0	2	1	0
Amortization	75	115	85	48
Other	9	7	16	13
Chg. in working capital	-139	-143	-27	4
Chg. in AR & other receivables	-27	-22	-46	-21
Chg. in inventory	0	1	0	0
Chg. in AP & other payables	26	9	11	5
Income tax	-10	-19	-14	-17
<b>Cash flow from investing activities</b>	<b>141</b>	<b>-81</b>	<b>27</b>	<b>5</b>
Chg. in PP&E	0	0	0	0
Chg. in intangible assets	0	0	0	0
Chg. in financial assets	140	-42	37	-2
Other	1	-39	-10	7
<b>Cash flow from financing activities</b>	<b>-10</b>	<b>0</b>	<b>-6</b>	<b>-1</b>
Chg. in financial liabilities	-8	8	1	0
Chg. in equity	1	2	0	0
Dividends	0	0	0	0
Other	-3	-10	-7	-1
<b>Chg. in cash</b>	<b>102</b>	<b>-93</b>	<b>132</b>	<b>112</b>
Beginning balance	51	153	60	191
Ending balance	153	60	191	303

## Key valuation metrics/ratios

	2018	2019	2020F	2021F
P/E (x)	72.3	85.9	50.6	41.4
P/CF (x)	21.6	15.1	16.7	20.7
P/B (x)	6.5	5.3	5.3	4.7
EV/EBITDA (x)	21.1	15.0	15.5	16.8
EPS (W)	1,278	941	1,774	2,165
CFPS (W)	4,280	5,346	5,387	4,331
BPS (W)	14,305	15,242	17,036	19,201
DPS (W)	0	0	0	0
Dividend 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	19.0	15.1
EBITDA growth (%)	55.4	27.0	2.7	-12.7
OP growth (%)	21.2	-27.5	117.2	33.3
EPS growth (%)	21.7	-26.4	88.5	22.0
AR turnover (x)	6.1	6.2	5.1	4.4
Inventory turnover (x)	405.4	1,620.7	0.0	0.0
AP turnover (x)	25.3	22.1	19.5	16.6
ROA (%)	7.4	4.8	7.6	7.9
ROE (%)	9.3	6.4	11.0	11.9
ROIC (%)	15.2	8.7	18.2	30.7
Debt-to-equity ratio (%)	27.7	35.8	51.3	52.2
Current ratio (x)	228.4	168.4	176.1	205.3
Net debt-to-equity ratio (%)	-39.2	-21.2	-41.2	-57.1
Interest coverage ratio (x)	343.0	58.1	36.4	44.6

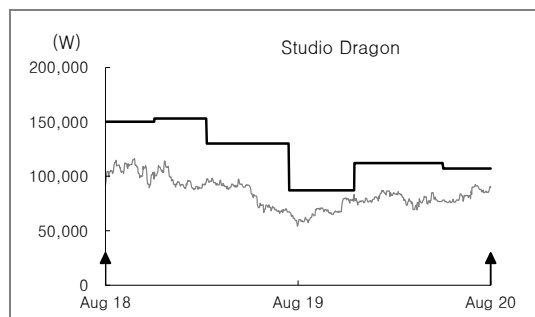
Source: Company data, Mirae Asset Daewoo Research estimates

# Appendix 1

## Important disclosures and disclaimers

### Two-year rating and TP history

Company	Date	Rating	TP (₩)
Studio Dragon (253450)	05/08/20	Buy	107,000
	11/22/19	Buy	112,000
	07/21/19	Buy	87,000
	02/15/19	Buy	130,000
	11/08/18	Buy	153,000
	06/22/18	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)

### Disclosures

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