



Studio Dragon

| Bloomberg Code (253450 KS) | Reuters Code (253450.KQ)

6 October 2020

All roads lead to Studio Dragon

[Media/ad]

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BUY
(Maintain)



CP (Oct. 5)
KRW84,300



TP (6 months)
KRW120,000



Upside
42.3%

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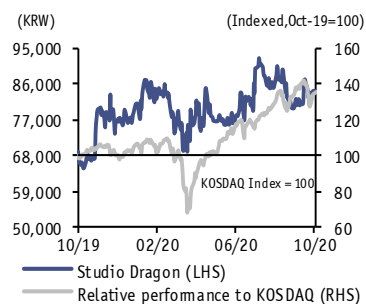
Shinhan Investment Corp.

Rating	BUY (Maintain)
TP (6 months)	KRW120,000
Upside	42.3%

KOSPI	2,358.00p
KOSDAQ	858.39p
Market cap	KRW2,371.1bn/USD2,079.9mn
Par value	KRW500
Outstanding shares	28.1mn
Free float	10.8mn (38.3%)
52-week high/low	KRW92,500/KRW65,000
60-day avg. trading volume	259,709shrs
60-day avg. turnover	KRW22,371mn
Foreign ownership	9.11%
Major shareholders	
CJ ENM and 5 others	61.32%

Absolute performance	
3M	-6.3%
6M	4.3%
12M	26.8%
Relative performance to KOSDAQ	
3M	-17.9%
6M	-30.4%
12M	-8.2%

Share performance



3Q20 operating profit forecast at KRW10.1bn (-7.4% YoY)

We expect Studio Dragon to have posted consolidated operating profit of KRW10.1bn (-7.4% YoY) on sales of KRW144.3bn (+10.0% YoY) for 3Q20. With most hit drama series sold to Netflix in 1H20, earnings are likely to decline in 3Q compared to the previous quarter. But earnings are not a key share price indicator at this point. Studio Dragon has recently released a disclosure announcing that it signed two licensing deals with CJ ENM and iQIYI for Mount Jiri co-produced with Astory, which prove the strong demand for Korean drama contents in Southeast Asia.

A leading production house in high demand

Studio Dragon is in high demand in the global contents market. The company has achieved economies of scale in content production based on: 1) a creative workforce of 226 artists including 114 writers; 2) production of about 30 dramas a year; and 3) a solid captive market (CJ ENM). Its low dependence on specific artists and capability to turn all genres of intellectual properties into video content have made Studio Dragon the best production house to partner with for both domestic and overseas platform providers.

We focus on the following three momentums going forward. First, Studio Dragon seeks original drama production deals with US-based platforms like HBO, Apple, and Amazon that spend trillions of won in content production every year. Second, collaboration is expected with domestic OTT platforms. Telcos and internet platforms are focusing on developing original contents to compete with Netflix and YouTube, and need to partner with a production house that can turn hundreds of IPs into video content. Third, expectations for China-bound exports are once again on the rise. Chinese President Xi Jinping's visit to Korea may lead to the removal of China's ban on Korean media contents. Studio Dragon is also free of COVID-19 impact. Exports of dramas that are already produced mean no additional cost for the company.

Target price raised to KRW120,000 for media sector top pick

We raise our target price for Studio Dragon to KRW120,000. The leading content provider driving the Korean Wave in pop culture is our media sector top pick in view of: 1) fast-paced growth of overseas distribution revenue; 2) strong demand for video contents in the domestic market; and 3) recent share price correction. We expect Studio Dragon shares to enjoy a rally in 4Q.

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	57.7	12.7	5.0	9.1	(15.1)
2021F	618.6	55.8	59.2	46.2	1,644	12.6	18,346	51.2	11.1	4.6	9.4	(13.1)
2022F	673.8	62.5	66.8	52.1	1,856	12.9	20,202	45.4	9.9	4.2	9.6	(13.2)

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

Earnings & valuation

PER valuation based on 2021F EPS: Target price of KRW120,000

	Value		Value		Value
2020F EPS (KRW)	1,460	2021F EPS (KRW)	1,644	2022F EPS (KRW)	1,856
Target price (KRW)	110,000	Target price (KRW)	120,000	Target price (KRW)	140,000
Target PER (x)	73	Target PER (x)	73	Target PER (x)	73

Source: Shinhan Investment Corp.

Note: Target PER is the past 3-year average PER. The company's PER may drop sharply depending on the removal of China's ban on Korean media contents. Original drama production deals other than Netflix may provide strong momentum.

Earnings trend and outlook (K-IFRS consolidated)

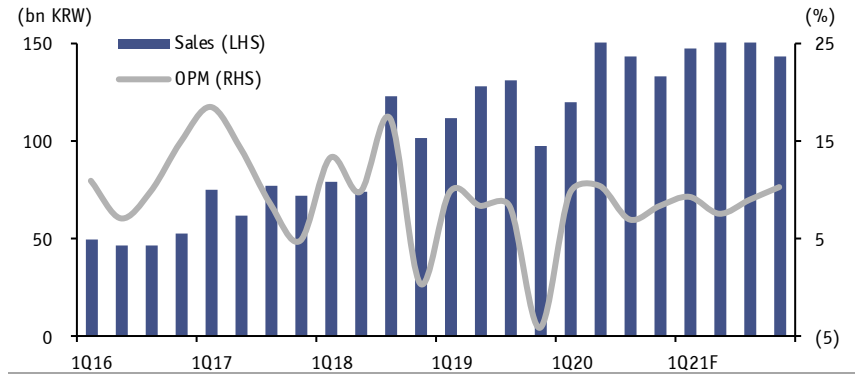
(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20F	4Q20F	2018	2019	2020F	2021F
<Earnings forecasts>																
Total revenue	79.9	74.3	123.7	101.7	111.8	128.2	131.2	97.4	120.3	161.4	144.3	133.3	379.5	468.6	559.1	618.6
Production revenue	40.7	34.1	48.9	54.4	44.1	58.1	60.8	45.7	45.2	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

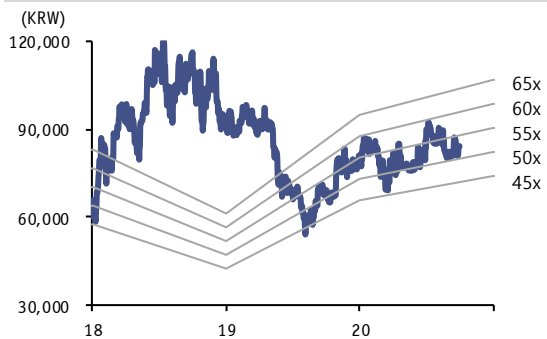
Key charts

Sales and operating profit margin (K-IFRS consolidated)



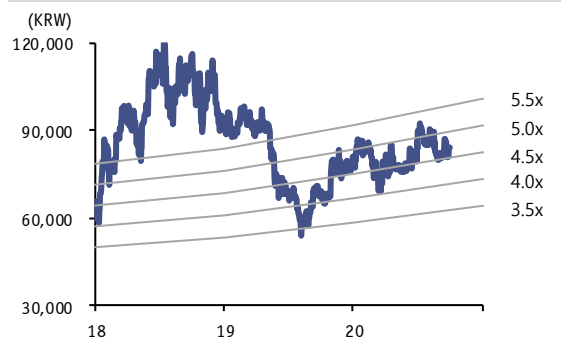
Source: Company data, Shinhan Investment Corp.

12-month forward consolidated PER band



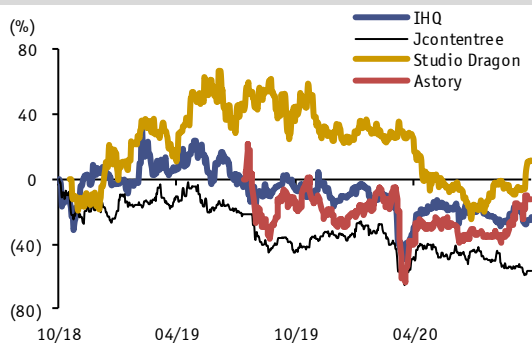
Source: QuantiWise, Shinhan Investment Corp.

12-month forward consolidated PBR band



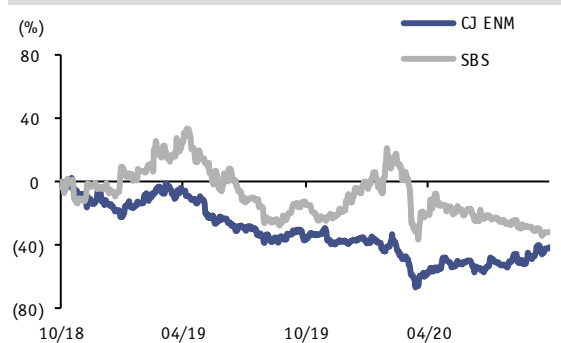
Source: QuantiWise, Shinhan Investment Corp.

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

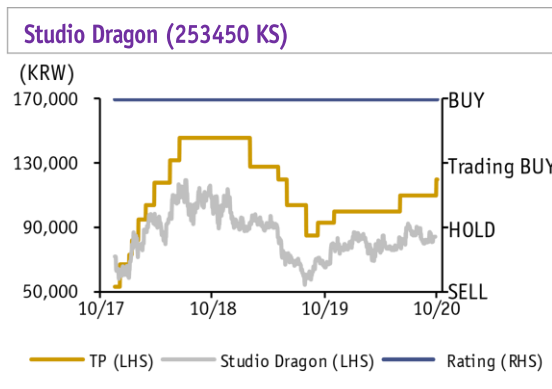
Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Sales	379.6	468.7	559.1	618.6	673.8
Growth (%)	32.4	23.5	19.3	10.6	8.9
COGS	324.0	420.8	487.1	538.9	585.5
Gross profit	55.6	47.9	72.0	79.7	88.3
GPM (%)	14.6	10.2	12.9	12.9	13.1
SG&A	15.7	19.2	22.3	23.9	25.8
Operating profit	39.9	28.7	49.7	55.8	62.5
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	57.7	51.2	45.4
PER of controlling interest (x)	72.3	85.9	57.7	51.2	45.4
PBR (x)	6.5	5.3	5.0	4.6	4.2
PBR of controlling interest (x)	6.5	5.3	5.0	4.6	4.2
EV/EBITDA (x)	21.1	14.9	12.7	11.1	9.9
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.

Target price & rating history



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	(23.0)	(15.9)
2020.10.06	BUY	120,000	-	-

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

Rating Distribution - SHIC Universe (as of 29 September 2020)

BUY (BUY)	90.91%	Trading BUY (HOLD)	2.53%	HOLD (HOLD)	6.57%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 29 September 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"> 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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