

Studio Dragon

(253450 KQ)

A buying opportunity

Buy
(Maintain)

TP: W107,000
Upside: 27.8%

Mirae Asset Daewoo Co., Ltd.

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3Q20 preview

Revenue of W114.6bn (-12.7% YoY) and OP of W11bn (+1.0% YoY), in line with consensus

- Despite a decline in programming due to end-market weakness, we believe Studio Dragon's 3Q20 OP margin improved 1.3%p YoY to 9.6%, thanks to licensing sales.
- Programming: We estimate revenue contracted 28.9% YoY to W43.2bn, hurt by a drop in the number of episodes aired and smaller budgets per title.
- Licensing: We believe revenue (flat YoY) was supported by the simultaneous airing of *It's Okay to Not Be Okay*, *Stranger 2*, and *Record of Youth* on Netflix (NFLX US/CP: US\$541.45).
- Costs: Amortization expenses likely fell compared to 2Q20, when the entire production cost of *The King: Eternal Monarch* was written off.
- The company's impressive content performance indicators (Netflix ranking) should spur further demand for its content.

Market conditions improving both domestically and globally

Global OTTs competing for content; worst is over for domestic networks

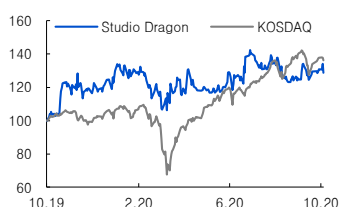
- Content production has faced delays due to the pandemic, resulting in lower-than-expected gross licensing purchases by existing OTTs.
- On the other hand, such unique circumstances have made it easier for OTTs to expand their presence. As a result, Netflix reported positive free cash flow for two consecutive quarters.
- OTT latecomers like Disney+, HBO, and Peacock are looking to catch up by expanding their content and geographical coverage. The increased spending capability of Netflix (no. 1 player) and the eagerness of latecomers should fuel competition for access to quality content.
- Meanwhile, broadcast/cable channels' ad sales have been picking up in 2H20, easing uncertainties over domestic programming.

Investment recommendation and valuation

Maintain Buy and TP of W107,000

- We see a number of positive catalysts in the coming months, including a modest recovery in domestic programming, OTT competition for licensing, and exports to China. In addition, the upcoming release of the highly anticipated original drama *Sweet Home* should raise the company's content profile.
- If recent news of a strategic stock swap with NAVER (035420 KS/Buy/TP: W430,000/CP: W298,500) is confirmed, we see potential for an IP/platform/content partnership, which would lead to a sharp increase in production capacity.
- We thus see ample upside potential to the 2021 operating profit consensus estimate (W67.7bn), which has seen continuous downward revisions.
- Amid rising multiples for content producers (due to their strengthened negotiating power) and the imminent release of a major title, we see a clear buying opportunity in Studio Dragon.

Key data



Current price (10/14/20, W)	83,700	Market cap (Wbn)	2,354
OP (20F, Wbn)	55	Shares outstanding (mn)	28
Consensus OP (20F, Wbn)	54	Free float (%)	38.3
EPS growth (20F, %)	65.2	Foreign ownership (%)	9.3
P/E (20F, x)	53.8	Beta (12M)	0.36
Market P/E (20F, x)	16.3	52-week low (W)	66,400
KOSDAQ	861.48	52-week high (W)	92,500

Share performance

(%)	1M	6M	12M
Absolute	3.2	7.6	26.1
Relative	7.1	-23.8	-6.1

Earnings and valuation metrics

(Dec.)	2016	2017	2018	2019	2020F	2021F
Revenue (Wbn)	-	287	380	469	545	606
OP (Wbn)	-	33	40	29	55	83
OP margin (%)	-	11.5	10.5	6.2	10.1	13.7
NP (Wbn)	-	24	36	26	44	60
EPS (W)	-	1,050	1,278	941	1,555	2,138
ROE (%)	-	12.9	9.3	6.4	9.7	12.0
P/E (x)	-	61.9	72.3	85.9	53.8	39.1
P/B (x)	-	4.9	6.5	5.3	5.0	4.4
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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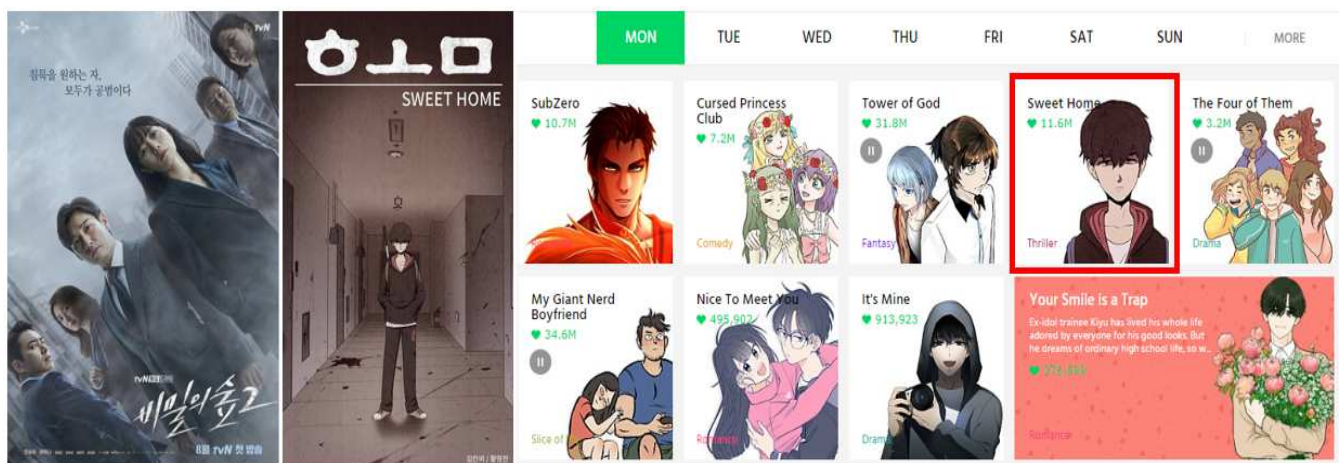
Table 1. Earnings and forecasts

(Wbn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20F	4Q20F	2019	2020F	2021F
Revenue	112	128	131	97	120	161	115	148	469	545	606
Programming	44	58	61	46	45	65	43	42	209	196	197
Licensing	56	60	60	43	67	76	60	95	219	297	355
Other	12	10	10	9	8	20	11	12	41	51	54
Costs	97	113	116	95	104	140	99	126	421	469	502
Production costs	49	65	71	49	62	75	51	73	233	260	284
Commission fees	15	10	10	11	11	14	12	19	47	56	71
Depreciation/amortization	27	32	28	28	26	45	31	29	115	132	124
Other	6	6	6	7	4	5	5	6	25	20	23
SG&A	4	5	4	6	5	5	5	7	19	21	22
EBITDA	38	43	40	24	38	63	43	45	145	189	207
OP	11	11	11	-4	11	17	11	15	29	55	83
OP margin	9.9	8.4	8.3	-4.2	9.5	10.5	9.6	10.4	6.1	10.1	13.6
Pretax profit	13	12	13	-5	12	17	12	16	33	57	77
NP	9	7	12	-2	8	13	9	13	26	44	60
Net margin	8.2	5.7	8.8	-1.7	7.0	8.3	8.0	8.5	5.6	8.0	9.9
YoY											
Revenue	40.0	72.5	6.0	-4.3	7.6	25.9	-12.7	52.4	23.4	16.2	11.3
Programming	8.4	70.5	24.4	-16.1	2.5	12.6	-28.9	-7.5	17.2	-6.0	0.4
Licensing	75.1	109.2	-5.4	13.3	19.1	25.5	-0.1	121.1	35.3	35.5	19.5
Other	63.1	-14.1	-9.0	-6.7	-29.2	107.1	10.0	30.0	3.0	26.7	5.0
EBITDA	34.7	182.5	-11.5	-8.5	0.0	44.3	7.6	86.3	26.4	29.7	9.9
OP	3.5	48.8	-49.3	TTR	4.1	56.8	1.0	TTB	-28.0	91.5	50.6
NP	16.1	-17.8	-33.1	TTR	-7.6	84.0	-21.0	TTB	-26.1	65.7	37.7
Major assumptions											
No. of titles aired	6.5	7.5	7.0	6.5	6.5	6.5	7.0	6.5	27.5	26.5	27.0
No. of titles licensed to Netflix	1.5	2.5	1.5	0.4	1.5	2.0	2.5	2.0	5.9	8.0	8.0

Note: Under consolidated K-IFRS

Source: Company data, Mirae Asset Daewoo Research estimates

Figure 1. Upcoming titles such as *Sweet Home* should attract a global audience (incl. US viewership)

Source: Press materials, Mirae Asset Daewoo Research

Studio Dragon (253450 KQ)

Income statement (summarized)

(Wbn)	2018	2019	2020F	2021F
Revenue	380	469	545	606
Cost of revenue	324	421	469	502
Gross profit	56	48	76	104
SG&A expenses	16	19	21	22
OP (adj.)	40	29	55	83
OP	40	29	55	83
Non-operating profit	6	4	2	-6
Net financial income	3	3	2	4
Net income from associates	0	0	0	0
Pretax profit	46	33	57	77
Income tax	10	7	13	17
Profit from continuing operations	36	26	44	60
Profit from discontinued operations	0	0	0	0
NP	36	26	44	60
Attributable to owners	36	26	44	60
Attributable to minority interests	0	0	0	0
Total comprehensive income	35	26	44	60
Attributable to owners	35	26	44	60
Attributable to minority interests	0	0	0	0
EBITDA	115	146	189	208
FCF	-29	-13	102	184
EBITDA margin (%)	30.3	31.1	34.7	34.3
OP margin (%)	10.5	6.2	10.1	13.7
Net margin (%)	9.5	5.5	8.1	9.9

Balance sheet (summarized)

(Wbn)	2018	2019	2020F	2021F
Current assets	247	244	398	607
Cash & equivalents	153	60	181	369
AR & other receivables	69	84	128	142
Inventory	1	0	0	0
Other current assets	24	100	89	96
Non-current assets	265	337	302	178
Investments in associates	0	0	0	0
PP&E	1	1	4	3
Intangible assets	199	233	159	35
Total assets	512	582	700	785
Current liabilities	108	145	221	246
AP & other payables	55	64	98	109
Short-term financial liabilities	0	2	3	3
Other current liabilities	53	79	120	134
Non-current liabilities	3	8	8	8
Long-term financial liabilities	2	8	7	7
Other non-current liabilities	1	0	1	1
Total liabilities	111	153	229	254
Equity attributable to owners	401	428	471	531
Capital stock	14	14	14	14
Capital surplus	320	322	322	322
Retained earnings	68	94	137	197
Minority interests	0	0	0	0
Shareholders' equity	401	428	471	531

Cash flow statement (summarized)

(Wbn)	2018	2019	2020F	2021F
Operating cash flow	-29	-12	106	184
NP	36	26	44	60
Non-cash income/expenses	84	124	147	138
Depreciation	0	2	2	1
Amortization	75	115	132	125
Other	9	7	13	12
Chg. in working capital	-139	-143	-71	3
Chg. in AR & other receivables	-27	-22	-48	-14
Chg. in inventory	0	1	0	0
Chg. in AP & other payables	26	9	13	3
Income tax	-10	-19	-13	-17
Cash flow from investing activities	141	-81	19	4
Chg. in PP&E	0	0	-4	0
Chg. in intangible assets	0	0	0	0
Chg. in financial assets	140	-42	38	-1
Other	1	-39	-15	5
Cash flow from financing activities	-10	0	-3	-1
Chg. in financial liabilities	-8	8	0	0
Chg. in equity	1	2	0	0
Dividends	0	0	0	0
Other	-3	-10	-3	-1
Chg. in cash	102	-93	122	187
Beginning balance	51	153	60	181
Ending balance	153	60	181	369

Key valuation metrics/ratios

	2018	2019	2020F	2021F
P/E (x)	72.3	85.9	53.8	39.1
P/CF (x)	21.6	15.1	12.4	11.9
P/B (x)	6.5	5.3	5.0	4.4
EV/EBITDA (x)	21.1	15.0	11.5	9.5
EPS (W)	1,278	941	1,555	2,138
CFPS (W)	4,280	5,346	6,767	7,047
BPS (W)	14,305	15,242	16,756	18,894
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	16.2	11.2
EBITDA growth (%)	55.4	27.0	29.5	10.1
OP growth (%)	21.2	-27.5	89.7	50.9
EPS growth (%)	21.7	-26.4	65.2	37.5
AR turnover (x)	6.1	6.2	5.2	4.5
Inventory turnover (x)	405.4	1,620.7	0.0	0.0
AP turnover (x)	25.3	22.1	20.2	16.9
ROA (%)	7.4	4.8	6.8	8.1
ROE (%)	9.3	6.4	9.7	12.0
ROIC (%)	15.2	8.7	14.5	38.4
Debt-to-equity ratio (%)	27.7	35.8	48.5	47.7
Current ratio (%)	228.4	168.4	180.0	247.0
Net debt-to-equity ratio (%)	-39.2	-21.2	-40.9	-71.4
Interest coverage ratio (x)	343.0	58.1	53.6	77.8

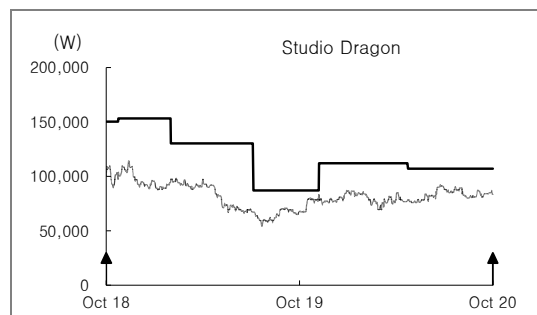
Source: Company data, Mirae Asset Daewoo Research estimates

Appendix 1

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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	73.62%	14.11%	11.04%	1.23%
Investment banking services	72.22%	11.11%	16.67%	0.00%

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

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