

Studio Dragon (253450 KQ)

HJ Kim
hojae.kim@daishin.com

Rating **BUY**
maintain

6M TP (W) **115,000**
maintain

CP (W)
(20.10.26) **78,100**

Media

Teaming up with potential foe

BUY; 6M TP maintained at W115,000

- While a planned rights offer is expected to water down Studio Dragon's EPS by 6.3%, we see an upside for the metric down the road given the production studio's partnership with local internet giant Naver. Taking this, as well as the valuation method we use to value the company's stock (residual income for the next 10 years) into account, we keep our target price unchanged at W115,000.

CJ-Naver deal to help boost creative power

- CJ on Monday struck a share swap deal with Naver, a step toward a strategic tie-up that raises the outlook for its media affiliates Studio Dragon and CJ ENM.
- Under the partnership, Studio Dragon will have access to not only Naver's rich library of webtoons, a type of digital comic, which has proven quite successful when adapted to the screen (both small and big), but also its online streaming services such as Naver TV to which it can provide content.
- If not for the deal, Naver might have emerged as another rival in the media space like Kakao, which began creating shows based on its content catalog.

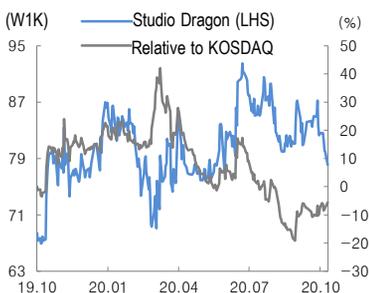
Studio Dragon to issue new shares to fund swap deal

- Studio Dragon will issue W150bn-worth new shares (1,877,345; W79,900 apiece) in exchange for Naver's 523,560 shares, giving it a 0.32% stake in the country's leading portal operator. The production company's parent CJ ENM will swap W150bn worth of its treasury shares (1,095,690; W136,900 apiece) for the same size of a stake in Naver. (The swap between Studio Dragon shares owned by CJ ENM and Naver shares won't give Studio Dragon a stake in Naver, hence the decision for the rights issue.)
- The 0.32% stake may not seem like much, but having the equity tie itself will help cement their business relationship.
- Once the deal is completed, Naver will own 6.3% of Studio Dragon shares (and 3.9% of CJ ENM shares), which will be locked up for a year.

Industry 4.0 safety rating ■ Sky Blue

| | |
|--------------------------------|------------------|
| KOSDAQ | 778.02 |
| Market cap (Wbn) | 2,197 |
| Market cap portion (%) | 0.86 |
| Paid-in capital (common; Wbn) | 14 |
| 52w high/low (W) | 92,500 / 67,300 |
| 120d avg. trading volume (Wbn) | 24.4 |
| Foreign ownership (%) | 9.31 |
| Major shareholders | CJ ENM+5: 61.32% |

| (%) | 1M | 3M | 6M | 12M |
|-------------|------|------|-------|------|
| Abs. return | -3.7 | -8.2 | -0.3 | 16.0 |
| Rel. return | 0.0 | -6.2 | -18.9 | -2.7 |



Operating results and major financial data

(Wbn, W, x, %)

| | 2018A | 2019A | 2020F | 2021F | 2022F |
|-----------------------|--------|--------|--------|--------|--------|
| Revenue | 380 | 469 | 532 | 518 | 578 |
| OP | 40 | 29 | 56 | 78 | 107 |
| Pretax profit | 46 | 33 | 59 | 83 | 112 |
| NP | 36 | 26 | 44 | 62 | 83 |
| NP (controlling int.) | 36 | 26 | 44 | 62 | 83 |
| EPS | 1,278 | 941 | 1,559 | 2,193 | 2,937 |
| PER | 72.3 | 85.9 | 50.1 | 35.6 | 26.6 |
| BPS | 14,312 | 15,258 | 16,796 | 18,977 | 21,914 |
| PBR | 6.5 | 5.3 | 4.6 | 4.1 | 3.6 |
| ROE | 9.3 | 6.4 | 9.7 | 12.3 | 14.4 |

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Studio Dragon, Daishin Securities Research Center

Per share intrinsic value

| Residual Income Model | | (Wbn, W, %) | | | | | | | | | |
|-----------------------|---|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | 2020F | 2021F | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F |
| I | NP (contr. int.) ^(Note 2) | 44 | 62 | 83 | 95 | 113 | 122 | 132 | 142 | 154 | 166 |
| II | Shareholders' equity (contr. int.) ^(Note 2) | 472 | 534 | 616 | 686 | 771 | 860 | 955 | 1,058 | 1,169 | 1,289 |
| | Estimated ROE | 9.7 | 12.3 | 14.4 | 13.9 | 14.7 | 14.2 | 13.8 | 13.5 | 13.2 | 12.9 |
| III | Required rate of return ^(Note 3) | 4.0 | | | | | | | | | |
| | Risk free rate of return ^(Note 4) | 1.2 | | | | | | | | | |
| | Market risk premium ^(Note 5) | 4.0 | | | | | | | | | |
| | Beta | 0.70 | | | | | | | | | |
| IV | Spread (estimated ROE – required rate of return) | 5.7 | 8.3 | 10.4 | 9.9 | 10.7 | 10.2 | 9.8 | 9.5 | 9.2 | 8.9 |
| V | Required income | 17 | 19 | 21 | 25 | 28 | 31 | 34 | 38 | 42 | 47 |
| VI | Residual income (I - V) | 27 | 43 | 61 | 71 | 86 | 91 | 98 | 104 | 112 | 119 |
| | Present value factor | 0.99 | 0.96 | 0.92 | 0.88 | 0.85 | 0.82 | 0.79 | 0.75 | 0.73 | 0.70 |
| | PV of residual income | 27 | 41 | 56 | 62 | 73 | 75 | 77 | 79 | 81 | 83 |
| VII | Sum of residual income | 653 | | | | | | | | | |
| VIII | PV of residual income following forecasting period | 2,083 | | | | | | | | | |
| | Terminal growth (g) ^(Note 6) | 0.0% | | | | | | | | | |
| IX | Beginning shareholders' equity | 428 | | | | | | | | | |
| X | Fair market cap (VII+VIII+IX) | 3,164 | | | | | | | | | |
| | Total number of shares (thousands) | 28,127 | | | | | | | | | |
| XI | Per share value (W) | 112,506 | | | | | | | | | |
| | Current share price (W) | 78,100 | | | | | | | | | |
| | Potential (%) | 44.% | | | | | | | | | |

Note 1: Under the residual income model (RIM), we add the current shareholders' equity to the residual income based on the earnings forecast for the next ten years before adding the result to the residual income after the forecasting period to derive the value of shareholders' stakes. The RIM is considered less subjective than similar valuation models such as DDM, DCF, and EVA.

Note 2: The RIM reflects consolidated subsidiaries' earnings not in their entirety but only for the stake controlled by the company.

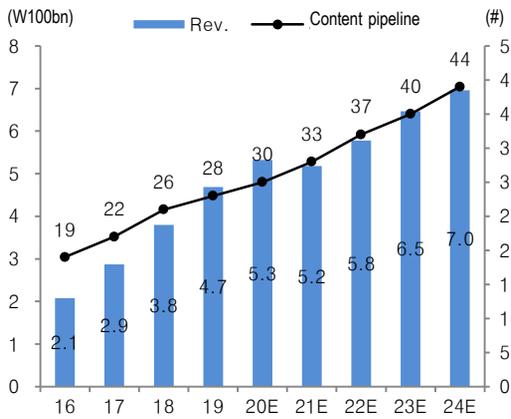
Note 3: The required rate of return (i.e., cost of equity) is the rate of return expected by the shareholders who take risks. It is derived by the capital asset price model: Cost of equity = Risk-free interest rate + Beta * Market risk premium.

Note 4: The yield on five-year government bonds was used as the proxy for the risk-free interest rate.

Note 5: Market risk premium refers to the gap between the expected return on the market portfolio and the risk-free interest rate. It has been lowered from 6-8% to 3-5% in reflection of the current low-growth environment.

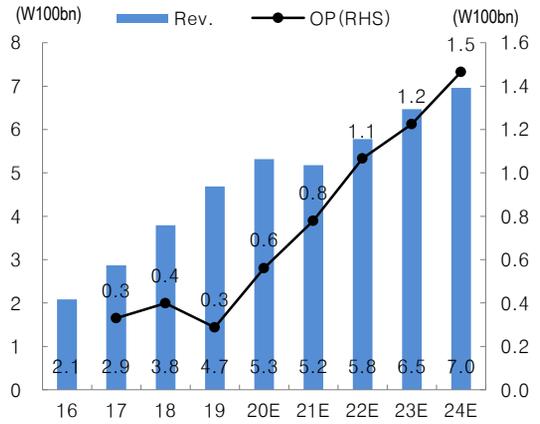
Note 6: The terminal growth was assumed to be zero

Fig. 1. Production slate expanding



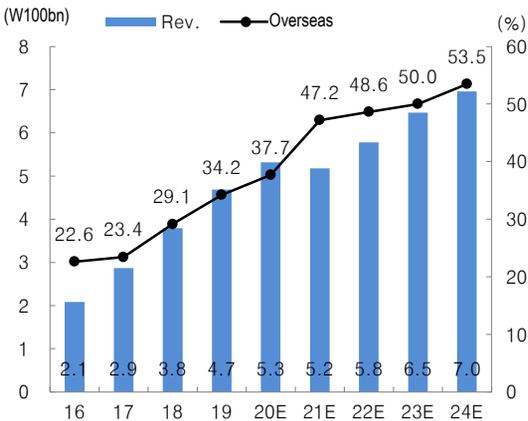
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig. 2. Earnings outlook bright



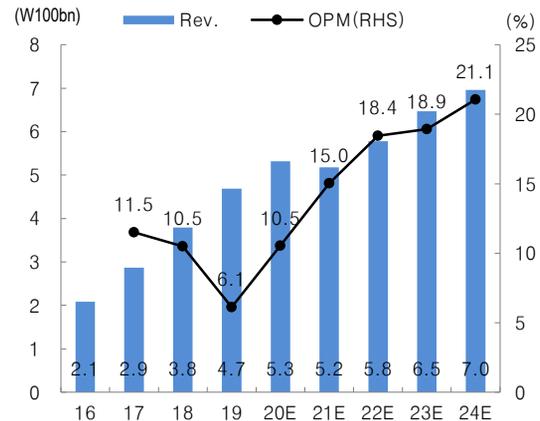
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig. 3. Overseas biz charges growth



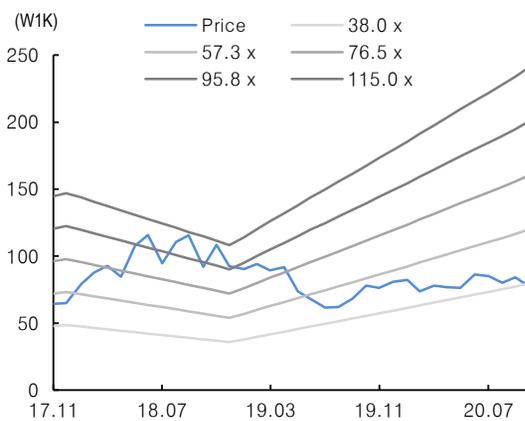
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig. 4. Margins normalizing



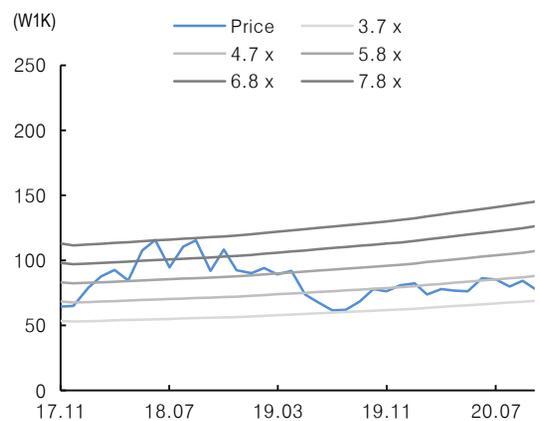
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig. 5. 12M FWD P/E band



Source: FnGuide, Studio Dragon, Daishin Securities Research Center

Fig. 6. 12M FWD P/B band



Source: FnGuide, Studio Dragon, Daishin Securities Research Center

Company profile

Overview

- Spun off from CJ E&M in May 2016
- Listed on the KOSDAQ in Nov 2017
- Revenue W468.6bn, OP W28.7bn, NP W26.5bn (2019)

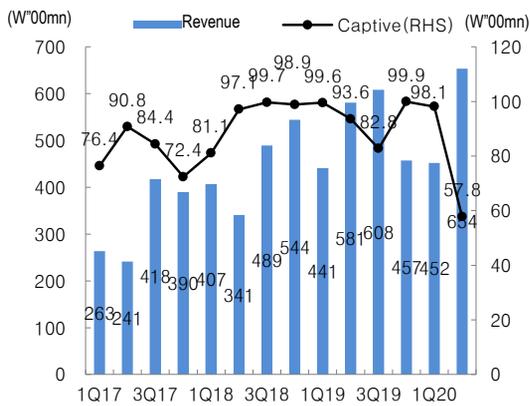
Share price catalysts

- Earnings are rising steadily on increased drama supply to CJ ENM's channels tvN and OCN as well as Netflix.
- The stock price is sensitive to viewer ratings of major dramas, but the stock price volatility has sharply decreased as earnings stabilized thanks to drama sales.

Source: Studio Dragon, Daishin Securities Research Center

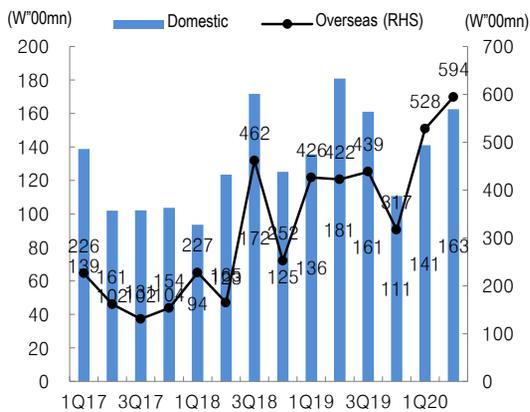
Earnings drivers

Fig. 1. Programing revenue; captive customers



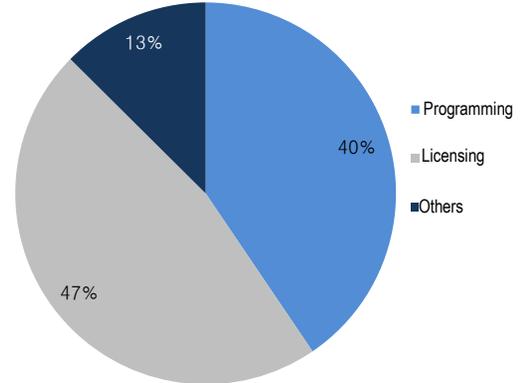
Source: Studio Dragon, Daishin Securities Research Center

Fig. 3. Revenue from content (drama) deals



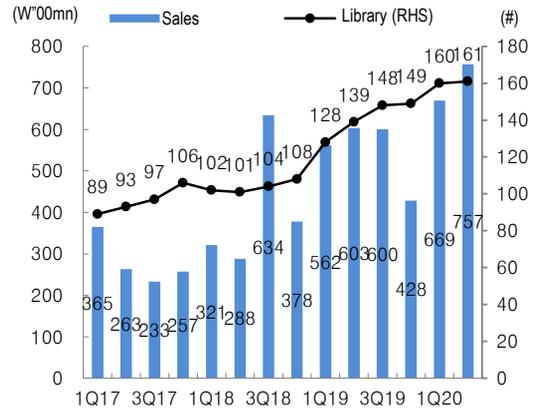
Source: Studio Dragon, Daishin Securities Research Center

Revenue breakdown (2Q20)



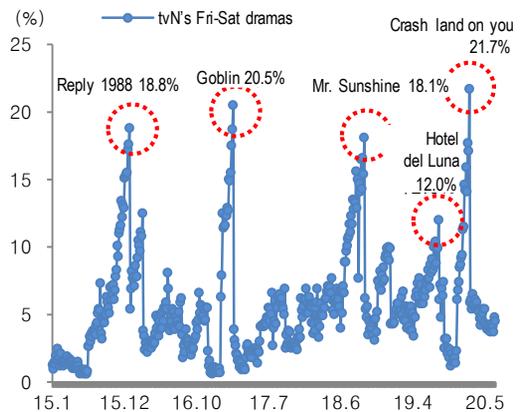
Source: Studio Dragon, Daishin Securities Research Center

Fig. 2. Drama deals



Source: Studio Dragon, Daishin Securities Research Center

Fig. 4. Viewer ratings of tvN's Fri-Sat dramas



Source: AGB Nielson, Daishin Securities Research Center

Financial statements

| Income statement | (Wbn) | | | | |
|----------------------------------|-------|-------|-------|-------|-------|
| | 2018A | 2019A | 2020F | 2021F | 2022F |
| Revenue | 380 | 469 | 532 | 518 | 578 |
| Cost of goods sold | 324 | 421 | 455 | 417 | 447 |
| Gross profit | 56 | 48 | 77 | 101 | 131 |
| SG&A expenses | 16 | 19 | 21 | 23 | 24 |
| OP | 40 | 29 | 56 | 78 | 107 |
| OP margin | 10.5 | 6.1 | 10.6 | 15.1 | 18.4 |
| EBITDA | 115 | 146 | 181 | 216 | 265 |
| Non-OP | 6 | 4 | 3 | 5 | 5 |
| Income from affiliates | 0 | 0 | 0 | 0 | 0 |
| Financial revenue | 7 | 10 | 14 | 13 | 13 |
| FX related gains | 0 | 0 | 0 | 0 | 0 |
| Financial expense | -1 | -6 | -11 | -9 | -9 |
| FX related losses | 0 | 4 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 1 | 1 |
| Income before taxes | 46 | 33 | 59 | 83 | 112 |
| Income tax expense | -10 | -7 | -15 | -22 | -29 |
| Income from cont. op. | 36 | 26 | 44 | 62 | 83 |
| Income from discount op. | 0 | 0 | 0 | 0 | 0 |
| NP | 36 | 26 | 44 | 62 | 83 |
| NP margin | 9.4 | 5.6 | 8.2 | 11.9 | 14.3 |
| NP for non-contr. interest | 0 | 0 | 0 | 0 | 0 |
| NP for contr. interest | 36 | 26 | 44 | 62 | 83 |
| Valuation of AFS fin. assets | 0 | 0 | 0 | 0 | 0 |
| Other compreh. income | -1 | -1 | -1 | -1 | -1 |
| Comprehensive income | 35 | 26 | 43 | 61 | 82 |
| Comp. income for non-contr. int. | 0 | 0 | 0 | 0 | 0 |
| Comp. income for contr. int. | 35 | 26 | 43 | 61 | 82 |

| Valuation metrics | (W, x, %) | | | | |
|-------------------|-----------|--------|--------|--------|--------|
| | 2018A | 2019A | 2020F | 2021F | 2022F |
| EPS | 1,278 | 941 | 1,559 | 2,193 | 2,937 |
| PER | 72.3 | 85.9 | 50.1 | 35.6 | 26.6 |
| BPS | 14,312 | 15,258 | 16,796 | 18,977 | 21,914 |
| PBR | 6.5 | 5.3 | 4.6 | 4.1 | 3.6 |
| EBITDAPS | 4,108 | 5,185 | 6,426 | 7,688 | 9,422 |
| EV/EBITDA | 21.1 | 14.9 | 11.3 | 9.1 | 7.0 |
| SPS | 13,539 | 16,698 | 18,929 | 18,420 | 20,557 |
| PSR | 6.8 | 4.8 | 4.1 | 4.2 | 3.8 |
| CFPS | 4,280 | 5,346 | 6,183 | 7,510 | 9,229 |
| DPS | 0 | 0 | 0 | 0 | 900 |

| Financial ratios | (W, x, %) | | | | |
|-------------------------|-----------|-------|-------|-------|-------|
| | 2018A | 2019A | 2020F | 2021F | 2022F |
| Growth potential | | | | | |
| Sales growth | 32.4 | 23.5 | 13.5 | -2.6 | 11.6 |
| OP growth | 21.0 | -28.1 | 95.8 | 38.8 | 36.7 |
| NP growth | 50.3 | -26.3 | 65.8 | 40.8 | 33.9 |
| Profitability | | | | | |
| ROIC | 16.0 | 9.4 | 15.9 | 22.9 | 33.3 |
| ROA | 8.2 | 5.2 | 9.3 | 11.8 | 14.6 |
| ROE | 9.3 | 6.4 | 9.7 | 12.3 | 14.4 |
| Stability | | | | | |
| Debt ratio | 27.7 | 35.8 | 33.0 | 29.1 | 25.6 |
| Net borrowings ratio | -39.2 | -24.9 | -34.1 | -43.1 | -54.5 |
| Interest coverage ratio | 343.0 | 58.1 | 0.0 | 0.0 | 0.0 |

Source: Studio Dragon, Daishin Securities Research Center

| Balance sheet | (Wbn) | | | | |
|-----------------------------|-------|-------|-------|-------|-------|
| | 2018A | 2019A | 2020F | 2021F | 2022F |
| Current assets | 247 | 244 | 310 | 377 | 493 |
| Cash & cash equiv. | 153 | 60 | 115 | 184 | 289 |
| Trade & other receive. | 69 | 84 | 95 | 93 | 103 |
| Inventories | 1 | 0 | 0 | 0 | 0 |
| Other current assets | 25 | 101 | 101 | 101 | 101 |
| Long-term assets | 265 | 337 | 317 | 312 | 281 |
| Tangible assets | 1 | 1 | 1 | 1 | 1 |
| Investments in affiliates | 0 | 0 | 0 | 0 | 0 |
| Other long-term assets | 264 | 336 | 317 | 311 | 280 |
| Total assets | 512 | 582 | 628 | 689 | 774 |
| Current liabilities | 108 | 145 | 148 | 147 | 149 |
| Payables & other liab. | 60 | 66 | 69 | 68 | 71 |
| Borrowings | 0 | 0 | 0 | 0 | 0 |
| Current portion of LT debts | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 48 | 79 | 79 | 79 | 79 |
| Long-term liabilities | 3 | 8 | 8 | 8 | 8 |
| Borrowings | 0 | 0 | 0 | 0 | 0 |
| Convertible securities | 0 | 0 | 0 | 0 | 0 |
| Other long-term liab. | 3 | 8 | 8 | 8 | 8 |
| Total liabilities | 111 | 153 | 156 | 155 | 158 |
| Controlling interest | 401 | 428 | 472 | 534 | 616 |
| Capital stock | 14 | 14 | 14 | 14 | 14 |
| Capital surplus | 320 | 322 | 322 | 322 | 322 |
| Retained earnings | 68 | 94 | 137 | 199 | 282 |
| Other capital changes | 0 | -1 | -1 | -1 | -1 |
| Non-controlling interest | 0 | 0 | 0 | 0 | 0 |
| Total shareholder's equity | 401 | 428 | 472 | 534 | 616 |
| Net borrowings | -157 | -106 | -161 | -230 | -336 |

| Cash flow statement | (Wbn) | | | | |
|------------------------|-------|-------|-------|-------|-------|
| | 2018A | 2019A | 2020F | 2021F | 2022F |
| Operating cash flows | -29 | -12 | 32 | 74 | 105 |
| NP | 36 | 26 | 44 | 62 | 83 |
| Non-cash items | 84 | 124 | 130 | 150 | 177 |
| Depreciation | 75 | 117 | 124 | 138 | 158 |
| FX gains | -1 | 1 | 0 | 0 | 0 |
| Equity method gain | 0 | 0 | 0 | 0 | 0 |
| Others | 9 | 6 | 6 | 11 | 19 |
| Chg in assets & liab. | -139 | -143 | -139 | -128 | -139 |
| Other cash flows | -10 | -19 | -3 | -9 | -16 |
| Investing cash flow | 141 | -81 | -128 | -156 | -150 |
| Investment assets | 138 | -57 | 0 | 0 | 0 |
| Tangible assets | 0 | 0 | 0 | 0 | 0 |
| Others | 3 | -23 | -127 | -155 | -150 |
| Financing cash flows | -10 | 0 | -2 | -2 | -2 |
| Short-term borrowings | 0 | 0 | 0 | 0 | 0 |
| Bonds payable | 0 | 0 | 0 | 0 | 0 |
| Long-term borrowings | 0 | 0 | 0 | 0 | 0 |
| Rights offering | 0 | 2 | 0 | 0 | 0 |
| Cash dividends | 0 | 0 | 0 | 0 | 0 |
| Others | -10 | -2 | -2 | -2 | -2 |
| Net chg in cash | 102 | -93 | 55 | 69 | 106 |
| Beginning cash balance | 51 | 153 | 60 | 115 | 184 |
| Ending cash balance | 153 | 60 | 115 | 184 | 289 |
| NOPLAT | 31 | 23 | 42 | 58 | 79 |
| FCF | 106 | 139 | 61 | 63 | 110 |

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)

Neutral Green (neutral)

Sky Blue (positive)

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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



| Date | 20.10.27 | 20.05.07 | 19.11.07 | 19.05.07 | 18.11.07 | 18.10.28 |
|----------------------|----------|-----------|-----------|-----------|----------|---------------|
| Rating | Buy | 6M passed | 6M passed | 6M passed | Buy | Marketperform |
| Target price | 115,000 | 115,000 | 115,000 | 115,000 | 115,000 | 95,000 |
| Diff. (avr. %) | | (27.74) | (31.25) | (40.20) | (17.43) | 1.58 |
| Diff. (max./min., %) | | (19.57) | (24.35) | (21.39) | (0.78) | 9.16 |
| Date | | | | | | |
| Rating | | | | | | |
| Target price | | | | | | |
| Diff. (avr. %) | | | | | | |
| Diff. (max./min., %) | | | | | | |
| Date | | | | | | |
| Rating | | | | | | |
| Target price | | | | | | |
| Diff. (avr. %) | | | | | | |
| Diff. (max./min., %) | | | | | | |
| Date | | | | | | |
| Rating | | | | | | |
| Target price | | | | | | |
| Diff. (avr. %) | | | | | | |
| Diff. (max./min., %) | | | | | | |

Investment rating breakdown and framework (Oct. 24, 2020)

| | BUY | MARKETPERFORM | UNDERPERFORM |
|-------|-------|---------------|--------------|
| Ratio | 87.3% | 11.8% | 1.0% |

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.