

# Studio Dragon (253450 KQ)

HJ Kim  
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Rating **BUY**  
maintain

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

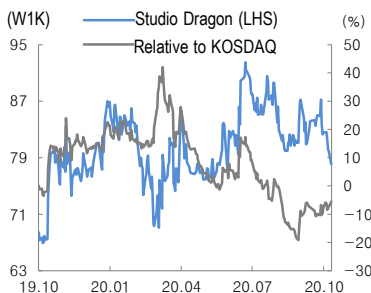
CP (W)  
(20.10.26) **78,100**

Media

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



## 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.

### 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.) <sup>(Note 2)</sup>	44	62	83	95	113	122	132	142	154	166
II	Shareholders' equity (contr. int.) <sup>(Note 2)</sup>	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 <sup>(Note 3)</sup>	4.0									
	Risk free rate of return <sup>(Note 4)</sup>	1.2									
	Market risk premium <sup>(Note 5)</sup>	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) <sup>(Note 6)</sup>	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.

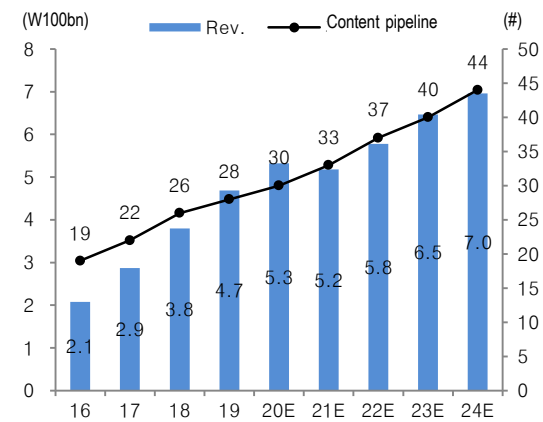
Note 3: The required rate of return (i.e., cost of equity) is the rate of return expected by the shareholders who take risks. It is derived by the capital asset price model: Cost of equity = Risk-free interest rate + Beta \* Market risk premium.

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.

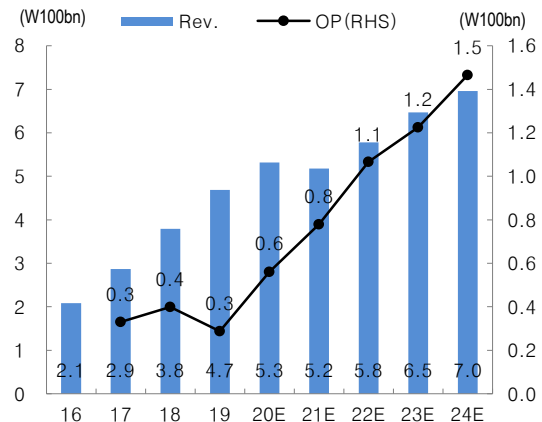
Note 6: The terminal growth was assumed to be zero

Fig. 1. Production slate expanding



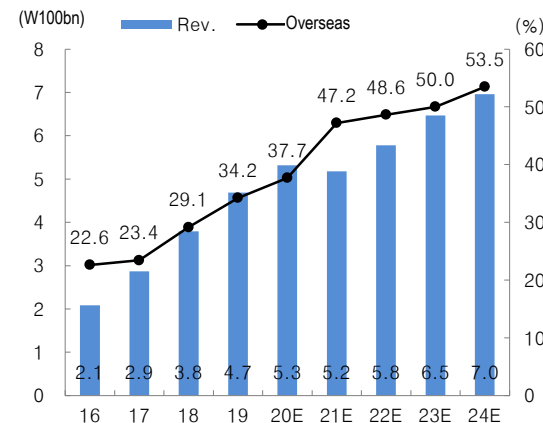
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig. 2. Earnings outlook bright



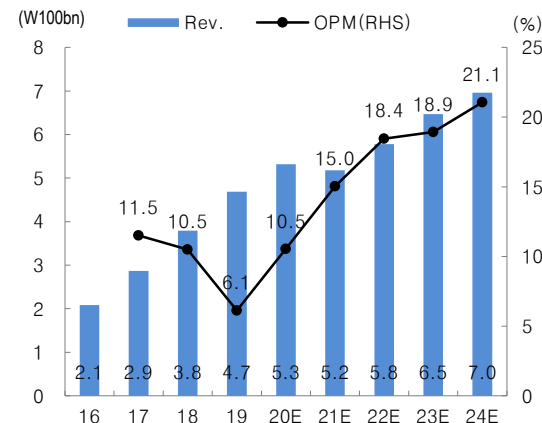
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig. 3. Overseas biz charges growth



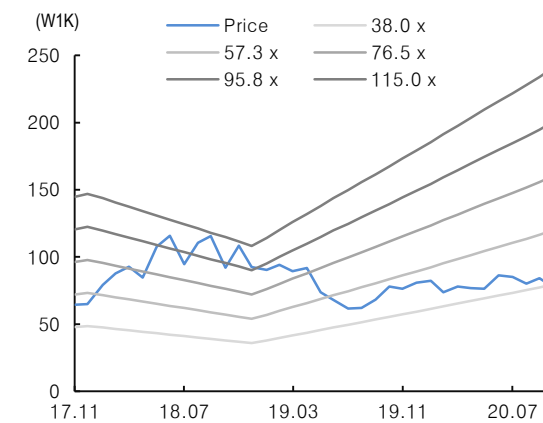
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig. 4. Margins normalizing



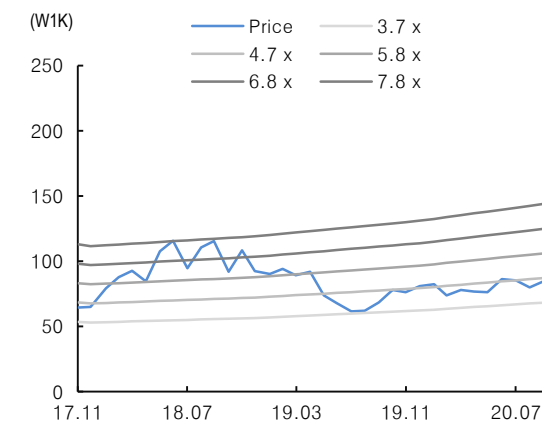
Source: Studio Dragon, Daishin Securities Research Center estimates

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)

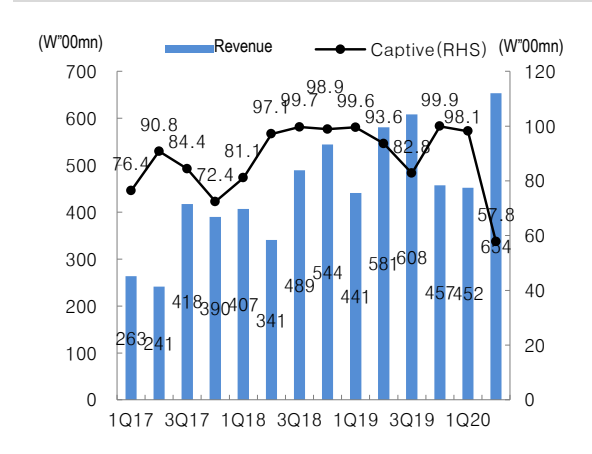
Share price catalysts

- 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

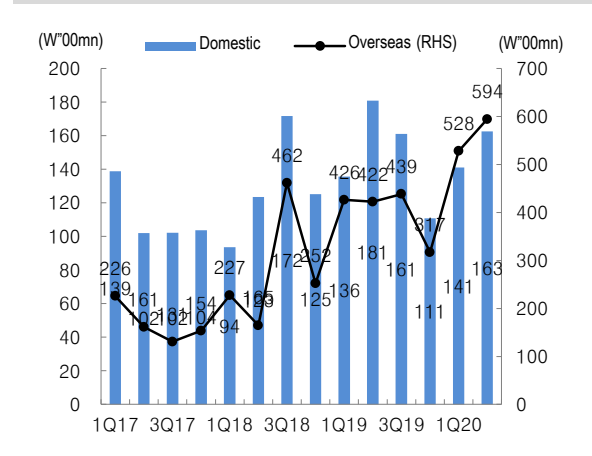
Earnings drivers

Fig. 1. Programing revenue; captive customers

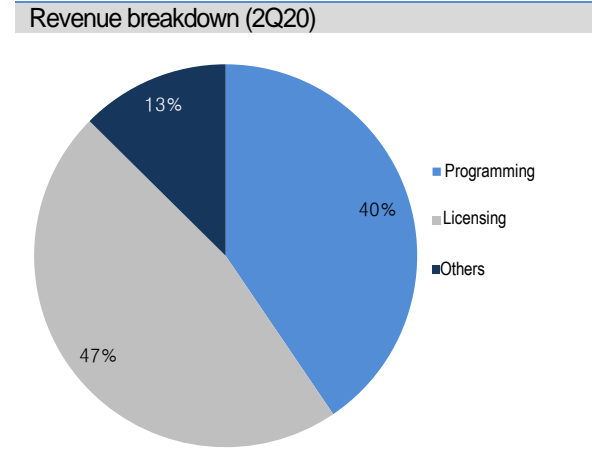


Source: Studio Dragon, Daishin Securities Research Center

Fig. 3. Revenue from content (drama) deals

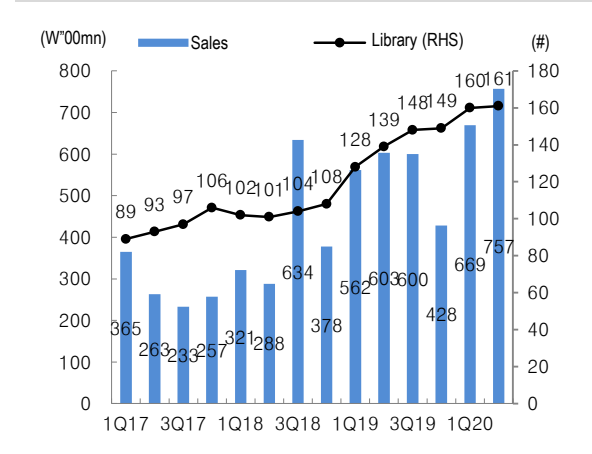


Source: Studio Dragon, Daishin Securities Research Center



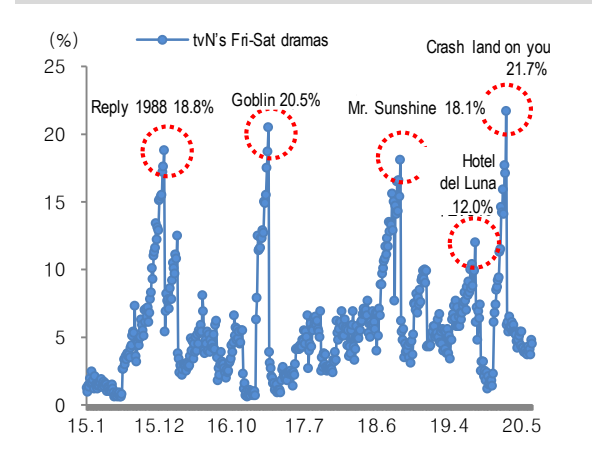
Source: Studio Dragon, Daishin Securities Research Center

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
<b>Growth potential</b>					
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
<b>Profitability</b>					
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
<b>Stability</b>					
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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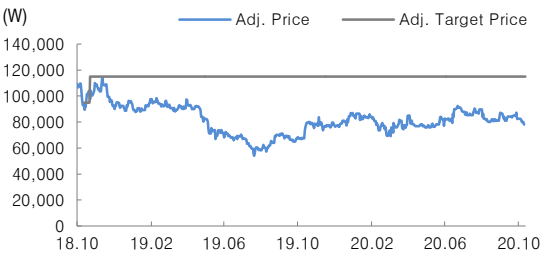
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[Investment rating & Target price history]

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., %)						
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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.