

Studio Dragon (253450 KS)

Media/entertainment

Sung-ho Park



+822 3770 5657
sungho.park@yuantakorea.com

RA Hye-in Lee

+822 3770 5580
hyein.lee@yuantakorea.com

Rating	BUY (M)
Target price	W115,000 (M)
Current price (Nov 5)	W80,300
Upside potential	43%

Market cap (Wbn)	2,259
Shares outstanding	30,004,345
Avg daily T/O (2M, Wbn)	20
Avg daily volume (2M, shrs)	236,802
52-week high (won)	92,500
52-week low (won)	69,100
Foreign ownership (%)	9.5
Major shareholders (%)	
	CJ ENM & others 61.3

Stock performance

(%)	1M	3M	12M
Absolute	(4.7)	(11.3)	0.8
Relative	(3.2)	(11.0)	(19.8)
Abs (US\$)	(1.8)	(6.5)	3.4

To fly high in 2021

3Q20 review

- Studio Dragon reported consolidated sales of W106.3bn (-19% YoY), OP of W16bn (+46% YoY), and net profit attributable to controlling interest of W10.6bn (-8% YoY). It was an earnings surprise with OP beating consensus by about 50% thanks to sales of its TV drama library to Chinese OTTs. Programming sales came to W45.7bn (-25% YoY), distribution W50.9bn (-15% YoY), and "other" W9.7bn (-6% YoY). 1) Programming: Sales fell YoY due to fewer dramas productions (OCN stopped programming dramas on Wednesdays and Thursdays and tvN did so for some time on Monday/Tuesday and Wednesday/Thursday sessions) and YoY base effect ("Arthdal Chronicles" and "Hotel Deluna" in 3Q19). 2) Distribution: Despite base effect from blockbuster dramas in 3Q19, overseas sales remained solid at W42.1bn (-4% YoY) in 3Q20 vs W43.9bn in 3Q19, as the firm booked minimum guarantees for two dramas distributed to Chinese OTTs. Minimum guarantees are a kind of upfront payment. When Chinese OTTs are able to air Korean dramas again, the company may book the remaining amount when they are released. 3) Cost of sales: Production cost fell 34% YoY from W70.8bn in 3Q19 to W46.8bn in 3Q20 on base effect (blockbuster dramas in 3Q19) and fewer dramas produced. Amortization expense also dropped 33% YoY from W28.4bn in 3Q19 to W18.9bn in 3Q20, as expense for "The King" was fully booked in 2Q20. For reference, the remaining value of the company's copyrights fell from W42.5bn in 1Q20 to W38.1bn in 2Q20 and W33.9bn in 3Q20.

Likely to fly high

- We maintain BUY and our target price of W115,000 and retain the firm as our media/entertainment/leisure sector top pick.** Investment points are as follows: 1) Assuming China lifts its ban on Korean culture at end-2020 or early-2021, annual OP will likely surge from W50bn~60bn in 2020E to more than W100bn in 2021E. 2) Thanks to iQiyi's entry into the global OTT business, the number of dramas likely to be sold at as high prices as those sold to Netflix will likely rise in 2021. The company provides 30~32 dramas per year to captive channels (for 5 drama slots). Among them, it offers 7~8 dramas to Netflix at the highest prices for exclusive global distribution rights (excluding Korea) and simultaneous airing with Korean broadcasters. Thanks to the iQiyi effect, the company may be able to sell more than 10 dramas for the highest prices. 3) The number of OTT original dramas will likely increase. In addition to Netflix originals, it is preparing 1~3 original dramas for Chinese OTTs to air in 2021. 4) The firm's acquisition of IP rights for webtoons or web novels and the addition of a new drama distribution channel through cooperation with Naver is positive. Of note, the top-two global hits among Netflix dramas were based on US comic IP. Producing dramas based on proven IP should boost the firm's hit ratio.

Quarterly earnings

(Wbn)	3Q20P	% YoY	% QoQ	Consens	vs consens (%)
Sales	106	-19.0	-34.2	121	-12.1
OP	16	46.3	-5.3	11	50.1
EBT, continuing ops	15	16.2	-11.4	11	35.0
Net profit, CI	11	-8.0	-20.6	9	21.8
OPM (%)	15.0	+6.7 %pt	+4.6 %pt	8.8	+6.2 %pt
NPM (%)	10.0	+1.2 %pt	+1.7 %pt	7.2	+2.8 %pt

Note: CI = controlling interest, Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2018A	2019A	2020E	2021E
Sales		380	469	529	740
OP		40	29	59	74
Net profit, CI		36	26	44	57
P/E (x)		75.9	82.9	53.2	42.4
P/B (x)		6.8	5.1	3.9	3.7
EV/EBITDA (x)		22.2	14.3	11.8	8.9
ROE (%)		9.3	6.4	8.4	9.0

Source: Yuanta Securities

Studio Dragon (253450 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Sales	380	469	529	740	843
Cost of sales	324	421	448	643	714
Gross profit	56	48	81	97	129
SG&A	16	19	22	23	24
Operating profit	40	29	59	74	105
EBITDA	115	146	168	222	274
Non-op profit/loss	6	4	1	1	2
Forex gain/loss	3	3	3	0	0
Net interest income	3	3	2	2	3
Equity-meth gain/loss	0	0	0	0	0
Other	0	-1	-4	-1	-1
Net prof before income tax	46	33	60	75	106
Income tax	10	7	16	18	26
Net profit from continuing ops	36	26	44	57	81
Net profit from discontinued ops	0	0	0	0	0
Net profit	36	26	44	57	81
NP for controlling interest	36	26	44	57	81
Total comprehensive income	35	26	44	56	79
Total comprehensive income, CI	35	26	44	56	79

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Current assets	247	244	438	465	551
Cash & cash equivalents	153	60	263	278	348
Accts rec & other	69	84	100	112	127
Inventory	1	0	0	0	0
Non-current assets	265	337	366	366	366
Tangible assets	1	1	5	5	5
Investment in affiliates	0	0	0	0	0
Other non-current	4	13	30	30	30
Total assets	512	582	804	830	916
Current liabilities	108	145	174	176	182
Accts payable & other	60	66	67	69	75
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	0	0	0	0	0
Non-current liabilities	3	8	8	8	8
LT financial liabilities	0	0	0	0	0
Debentures	0	0	0	0	0
Total liabilities	111	153	182	184	189
Equity, controlling interest	401	428	622	646	727
Paid-in capital	14	14	15	15	15
Capital surplus	320	322	471	471	471
Retained earnings	68	94	138	163	244
Equity, non-controlling interest	0	0	0	0	0
Total equity	401	428	622	646	727
Net debt	-157	-108	-279	-294	-365
Total debt	2	8	7	7	7

Cash flow statement

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Operating cash flow	-29	-12	78	162	207
Net profit	36	26	44	57	81
Depreciation & amortization	0	2	2	2	2
Forex gain/loss	-1	1	-1	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-139	-143	-76	-43	-44
Other	75	102	109	146	167
Investing cash flow	141	-81	-24	-152	-174
Investment	-1	-19	-18	0	0
Inc in tangible assets	0	-1	-5	-2	-2
Dec in tangible assets	0	0	0	0	0
Other	141	-62	-1	-150	-171
Financing cash flow	-10	0	149	0	0
Inc (dec) in ST fin liab	0	0	0	0	0
Inc (dec) in LT fin liab	-10	0	0	0	0
Inc (dec) in equity	0	0	150	0	0
Cash dividend	0	0	0	0	0
Other	0	0	-1	0	0
Other cash flow	0	0	0	5	38
Inc (dec) in cash & equivalents	102	-93	203	15	70
Beginning cash & equivalents	51	153	60	263	278
Ending cash & equivalents	153	60	263	278	348
NOPLAT	40	29	59	74	105
FCF	-33	-4	72	159	203

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

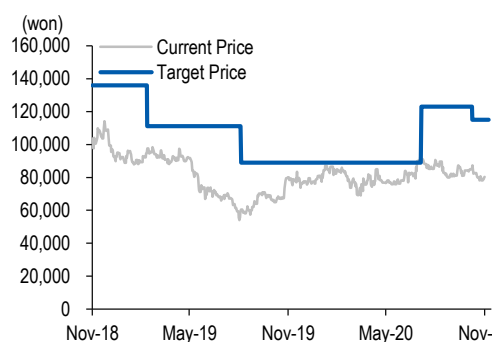
Source: Yuanta Securities

Valuation

FY ends Dec	2018A	2019A	2020E	2021E	2022E
EPS (won)	1,278	941	1,510	1,893	2,683
BPS (won)	14,305	15,242	20,734	21,546	24,229
EBITDA/shr (won)	4,108	5,185	5,764	7,392	9,130
SPS (won)	13,539	16,698	18,121	24,678	28,106
DPS (won)	0	0	0	0	0
P/E (x)	75.9	82.9	53.2	42.4	29.9
P/B (x)	6.8	5.1	3.9	3.7	3.3
EV/EBITDA (x)	22.2	14.3	11.8	8.9	6.9
P/S (x)	7.2	4.7	4.4	3.3	2.9

Key financial data

FY ends Dec	2018A	2019A	2020E	2021E	2022E
Sales (% YoY)	32.4	23.5	12.8	40.1	13.9
Operating profit (%YoY)	21.0	-28.1	104.4	25.7	41.7
Net profit, CI (%YoY)	50.3	-26.3	66.7	28.9	41.7
Gross margin (%)	14.6	10.2	15.3	13.1	15.3
Operating margin (%)	10.5	6.1	11.1	10.0	12.4
Net margin, CI (%)	9.4	5.6	8.3	7.7	9.5
EBITDA margin (%)	30.3	31.1	31.8	30.0	32.5
ROIC (%)	19.3	11.5	20.3	26.4	35.7
ROA (%)	7.4	4.8	6.4	7.0	9.2
ROE (%)	9.3	6.4	8.4	9.0	11.7
Debt-to-equity (%)	27.7	35.8	29.2	28.4	26.0
Net debt-to-equity (%)	-39.2	-25.3	-44.9	-45.5	-50.2
OP/financing cost (x)	343.0	58.1	202.8	0.0	0.0

Studio Dragon (253450 KS) ratings and target price history


Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2020/11/06	BUY	115,000	1 yr		
2020/10/13	BUY	115,000	1 yr		
2020/07/10	BUY	123,000	1 yr	-31.11	-26.42
2020/02/14	HOLD	89,000	1 yr	-14.25	-
2019/08/09	BUY	89,000	1 yr	-16.75	-2.25
2019/02/15	BUY	111,000	1 yr	-27.63	-11.44
2018/10/04	BUY	136,000	1 yr	-28.00	-16.10

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	0.6
BUY	88.5
HOLD	10.9
SELL	0.0
Total	100.0

Note: As of Nov 3

xcluding reports written or published by overseas affiliates

Disclosures & disclaimers

This research report has been prepared for informational purposes only; it does not constitute an offer or a solicitation of an offer to buy or sell any securities or other financial instruments. The information and data contained in this report have been obtained from sources we consider reliable; however, we make no representation that the information provided in this report is accurate or complete, and it should not be relied on as such. The recipient of this report should use his/her independent judgment regarding the sale or purchase of any securities or financial instruments mentioned herein. We disclaim any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for our clients only. It is copyrighted material and may not be reproduced, transmitted, quoted, or distributed in any manner without the prior written consent of Yuanta Securities Korea Co., Ltd.

As of the publication date of this report, Yuanta Securities Korea Co., Ltd. does not own a stake in excess of 1%, nor does it have any interest whatsoever, in the subject company (ies). The material contained herein was not disclosed by Yuanta Securities Korea Co., Ltd. to any institutional investors or third parties prior to its publication. The analyst (s) of this report or the analyst (s)' spouse does not have any financial interest in the securities of the subject company (ies) mentioned herein, nor financial interest of any nature related to the subject company (ies) (including without limitation, whether it consists of any option, right, warrant, future, long or short position), as of the publication date of this report.

Analyst certification

I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

Stock and sector ratings

- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

Yuanta Securities (Korea) International Network

Seoul

Head Office

Yuanta Securities Korea Bldg.
76 Uljiro, Jung-gu, Seoul (Euljiro 2)
Tel: +822 3770 2000

Research Center

Yuanta Securities Korea Bldg.
76 Uljiro, Jung-gu, Seoul (Euljiro 2)
Tel: +822 3770 2000

Hong Kong

Yuanta Financial (Hong Kong) Limited
Suite 22D, 24/F Block D, Mai Luen Industrial Bldg,
23-31 Kung Yip Street, Kwai Chung, N.T. Hong Kong
Tel: +852 6388 1870

Cambodia

Yuanta Securities (Cambodia) Plc.
#138, 2nd Floor, Paragon Bldg, Norodom Blvd,
Phnom Penh, Cambodia
Tel: +855 23 860 800



Yuanta Securities (Korea)