

Studio Dragon

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

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[Media/ad]

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Time for shares to take off



BUY
(Maintain)



CP (Dec. 2)
KRW80,300



TP (6 months)
KRW120,000



Upside
49.4%

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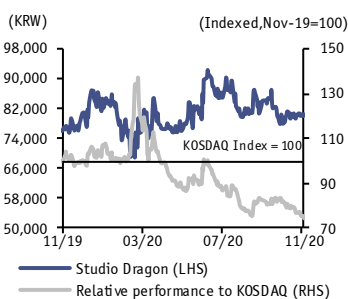


Shinhan Investment Corp.

Rating	BUY (Maintain)
TP (6 months)	KRW120,000
Upside	49.4%

KOSPI	2,675.90p
KOSDAQ	899.34p
Market cap	KRW2,409.3bn/USD2,113.5mn
Par value	KRW500
Outstanding shares	30.0mn
Free float	12.9mn(43.1%)
52-week high/low	KRW92,500/KRW69,100
60-day avg. trading volume	191,289shrs
60-day avg. turnover	KRW15,845mn
Foreign ownership	8.60%
Major shareholders	
CJ ENM and 4 others	56.94%
NAVER	6.26%
Absolute performance	
3M	-1.4%
6M	2.8%
12M	4.3%
Relative performance to KOSDAQ	
3M	-4.9%
6M	-15.0%
12M	-26.4%

Share performance



4Q20 consolidated OP forecast at KRW10.9bn (TB YoY)

Studio Dragon is forecast to report consolidated sales of KRW134.5bn (+38.0% YoY) and operating profit of KRW10.9bn (positive swing YoY) for 4Q20. Sales booked for the new Netflix original series Sweet Home are seen as the main driver of steep top-line growth. Assuming no one-off expenses, we expect domestic production revenue to decline YoY but believe overseas distribution revenue will grow nearly 30% YoY even before accounting for earnings from original dramas.

Focus on China momentum and partnership with NAVER

China momentum is on the rise. Studio Dragon booked minimum guarantee revenue from the sale of two old dramas to China in 3Q20, and stands to secure additional revenue once the dramas are approved for broadcast in the country. Korea's major content producers are expected to see revenue from China-bound exports continue to flow in through 4Q20. Even in the absence of further easing of restrictions on Korean media contents, China revenue is likely to reach KRW15bn-20bn per year going forward.

We also point out that China momentum tends to visibly grow in January on upbeat expectations for Lunar New Year holiday demand as well as renewed hopes for the removal of China's ban on Korean media contents. If approved for streaming on Chinese OTT platforms in 2021, old Korean dramas are expected to generate enough revenue to cover over 60% of production costs.

Meanwhile, we believe the market is underestimating the impact of Studio Dragon's strategic partnership with NAVER. The alliance with Korea's largest internet platform will likely lead to a steady inflow of drama production orders from next year onwards. NAVER is expected to place massive orders for original content production each year to compete with YouTube. Furthermore, Studio Dragon will have easier access to quality webtoon and web novel IP assets held by NAVER, and is thus expected to evolve its focus from economies of scale based on a large workforce of writers to a systematic business model leveraging on well-established IP assets. This shift in business structure should enable the production of various genre dramas and drive sharp margin improvement going forward.

Target price unchanged at KRW120,000 for media sector top pick

We maintain our BUY rating and target price of KRW120,000 for Studio Dragon. Earnings forecasts have been revised slightly upward for the leading content provider driving the Korean Wave. Alongside Seoul Broadcasting System (034120) and Incross (216050), Studio Dragon remains our sector top pick in view of: 1) rapid growth of overseas distribution revenue; 2) strong video demand in the domestic market; and 3) valuation merit (weak relative performance to KOSDAQ). We believe a rally is in store for the stock.

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	522.3	55.5	56.1	41.9	1,491	58.4	16,733	53.9	14.8	4.8	9.3	(27.9)
2021F	586.0	63.4	63.7	49.7	1,768	18.6	18,501	45.4	14.0	4.3	10.0	(32.0)
2022F	639.6	70.4	71.5	55.8	1,984	12.2	20,486	40.5	12.9	3.9	10.2	(34.8)

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)	1,491	2021F EPS (KRW)	1,768	2022F EPS (KRW)	1,984
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
		Current price (KRW)	80,300		
		Current PER (x)	45.4		

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)

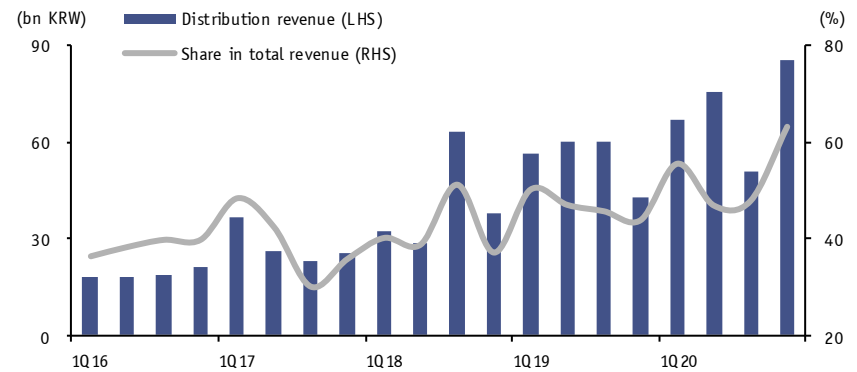
(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20F	4Q20F	2018	2019	2020F	2021F
<Earnings forecasts>																
Total revenue	79.9	74.3	123.7	101.7	111.8	128.2	131.2	97.4	120.3	161.4	106.3	134.5	379.6	468.7	522.3	586.0
Production revenue	40.7	34.1	48.9	54.4	44.1	58.1	60.8	45.7	45.2	65.4	45.7	41.2	178.1	208.7	197.4	209.7
Distribution revenue	32.1	28.8	63.4	37.8	56.2	60.3	60.0	42.7	66.9	75.7	50.9	85.1	162.1	219.2	278.5	331.4
Other (PPL) revenue	7.1	11.4	11.4	9.5	11.5	9.8	10.4	8.9	8.2	20.3	9.7	8.2	39.4	40.7	46.4	44.9
<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	42.1	74.8	110.2	160.4	229.1	277.1
Share in distribution revenue (%)	70.8	57.2	72.9	65.7	75.9	70.0	73.1	74.1	78.9	78.5	47.9	87.9	68.0	73.2	82.2	83.6
Netflix	10.0	1.0	32.0	3.6	8.3	23.0	24.0	6.0	24.5	36.0	12.0	46.0	46.6	61.3	118.5	138.0
Japan	3.5	4.5	3.4	4.3	10.3	5.9	3.2	5.8	8.3	6.1	1.4	6.2	15.7	25.2	22.1	21.1
Asia including China	8.9	10.5	10.4	14.3	21.6	12.7	11.3	17.3	17.4	14.9	18.4	19.8	44.1	63.0	70.4	87.3
China	0.0	0.0	0.0	1.5	1.8	0.0	0.0	0.0	0.0	0.0	8.0	0.0	1.5	1.8	8.0	19.0
Americas	0.2	0.3	0.3	1.1	0.4	0.5	5.2	2.5	2.4	2.3	2.2	2.6	1.9	8.6	9.5	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	0.6	0.7
COGS	66.2	63.7	98.9	95.2	96.8	112.8	115.9	95.2	103.5	139.6	85.0	117.5	324.0	420.8	445.6	499.9
SG&A	3.0	3.3	3.3	6.0	4.0	4.6	4.4	6.2	5.1	4.9	5.3	6.0	15.7	19.2	21.3	22.7
OP	10.7	7.3	21.5	0.4	11.0	10.8	10.9	(4.0)	11.6	16.9	16.0	10.9	39.9	28.7	55.5	63.4
Pre-tax profit	10.8	11.0	22.0	1.7	13.2	11.9	13.1	(5.1)	12.0	17.2	15.2	11.7	45.6	33.1	56.1	63.7
NP	7.9	8.9	17.3	1.7	9.2	7.3	11.5	(1.7)	8.6	13.4	10.6	9.4	35.8	26.4	41.9	49.7
<% YoY growth>																
Sales	6.0	19.6	59.6	41.5	40.0	72.6	6.1	(4.2)	7.5	25.9	(19.0)	38.0	32.4	23.5	11.5	12.2
OP	(23.7)	(17.8)	223.0	(87.3)	3.5	47.5	(49.2)	TR	5.5	56.3	46.8	TB	20.9	(28.1)	93.3	14.4
NP	(41.3)	216.8	206.3	(12.5)	17.2	(17.2)	(33.6)	TR	(7.2)	82.1	(7.9)	TB	50.2	(26.3)	58.6	18.6
<Margin, %>																
OPM	13.3	9.8	17.4	0.4	9.9	8.4	8.3	(4.1)	9.7	10.4	15.1	8.1	10.5	6.1	10.6	10.8
NPM	9.8	11.9	14.0	1.7	8.2	5.7	8.8	(1.7)	7.1	8.3	10.0	7.0	9.4	5.6	8.0	8.5

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

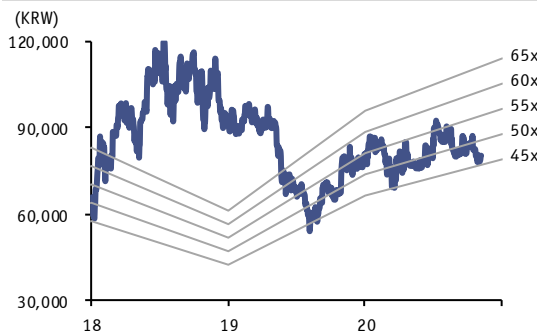
Key charts

Distribution revenue and share in total revenue (K-IFRS consolidated)



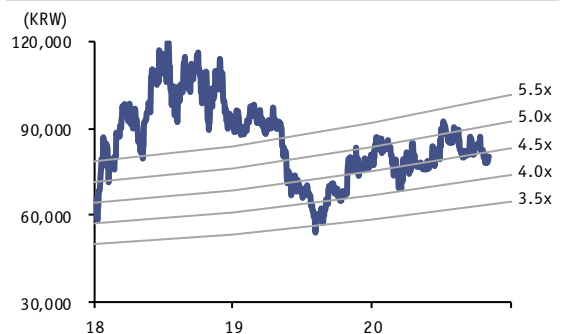
Source: Company data, Shinhan Investment Corp.

12-month forward consolidated PER band



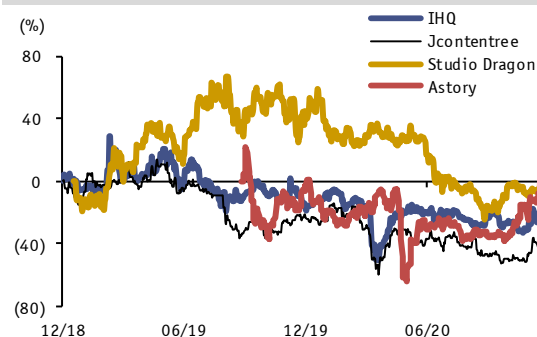
Source: QuantiWise, Shinhan Investment Corp.

12-month forward consolidated PBR band



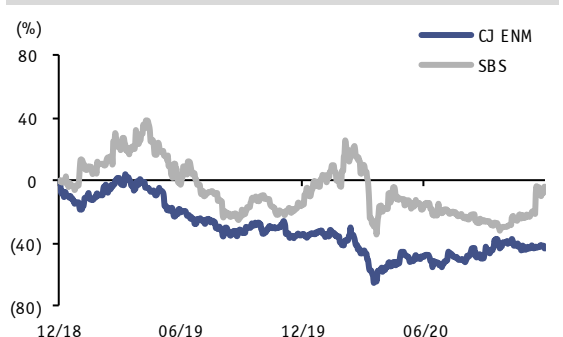
Source: QuantiWise, Shinhan Investment Corp.

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	645.8	708.3	767.9
Current assets	247.2	244.5	291.7	340.5	387.3
Cash and equivalents	153.0	59.8	82.9	116.4	148.7
Accounts receivable	68.8	83.6	104.6	115.6	125.9
Inventories	0.6	0.0	0.0	0.0	0.0
Non-current assets	265.2	337.1	354.0	367.9	380.6
Tangible assets	1.0	1.2	(0.2)	1.0	(0.2)
Intangible assets	198.5	233.1	241.2	248.0	256.2
Investment assets	3.7	13.4	14.1	15.0	15.7
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	111.1	153.3	175.6	188.5	192.4
Current liabilities	108.2	145.1	167.5	180.3	184.1
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	19.6	18.4	19.3	20.2	22.1
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	8.2
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	470.1	519.8	575.6
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	135.4	185.1	240.9
Controlling interest equity	401.3	428.3	470.1	519.8	575.6
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	2.1	9.9	10.2	10.4	10.7
*Net debt (cash)	(157.3)	(106.4)	(131.3)	(166.5)	(200.6)

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	(29.1)	(12.2)	137.6	142.7	144.1
Net profit	35.8	26.4	41.9	49.7	55.8
Depreciation expense	0.3	1.8	0.4	(2.2)	0.4
Amortization expense	75.0	115.0	97.6	98.8	100.7
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)	(0.1)	(0.6)	(9.0)
(Payment of income tax)	(9.7)	(19.4)	(14.2)	(14.0)	(15.7)
Others	9.4	6.3	12.0	11.0	11.9
Cash flow from investments	140.6	(81.0)	(114.0)	(108.7)	(111.2)
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)	(105.7)	(105.6)	(108.9)
Change in investment assets	(0.5)	(18.8)	(0.7)	(0.8)	(0.7)
Others	141.4	(61.5)	(8.6)	(3.3)	(2.4)
Free cash flow	143.5	133.7	138.8	145.0	146.5
Cash flow from financing	(9.7)	(0.0)	(0.6)	(0.6)	(0.6)
Change in borrowings	(10.0)	0.0	0.2	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	0.0	0.1	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)	23.1	33.5	32.3
Beginning cash	51.3	153.0	59.8	82.9	116.4
Ending cash	153.0	59.8	82.9	116.4	148.8

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	522.3	586.0	639.6
Growth (%)	32.4	23.5	11.5	12.2	9.1
COGS	324.0	420.8	445.6	499.9	545.0
Gross profit	55.6	47.9	76.7	86.1	94.7
GPM (%)	14.6	10.2	14.7	14.7	14.8
SG&A	15.7	19.2	21.3	22.7	24.3
Operating profit	39.9	28.7	55.5	63.4	70.4
Growth (%)	21.0	(28.1)	93.2	14.4	10.9
OPM (%)	10.5	6.1	10.6	10.8	11.0
Non-operating profit	5.7	4.4	0.7	0.3	1.1
Financial profit	6.1	4.3	0.9	1.7	2.5
Other non-operating profit	(0.3)	0.1	(0.3)	(1.4)	(1.4)
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	45.6	33.1	56.1	63.7	71.5
Income tax	9.8	6.6	14.2	14.0	15.7
Continuing operations	35.8	26.4	41.9	49.7	55.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	35.8	26.4	41.9	49.7	55.8
Growth (%)	50.3	(26.3)	58.5	18.6	12.2
NPM (%)	9.4	5.6	8.0	8.5	8.7
Controlling interest	35.8	26.4	41.9	49.7	55.8
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	34.7	25.7	41.9	49.7	55.8
Controlling interest	34.7	25.7	41.9	49.7	55.8
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	115.2	145.5	153.5	160.0	171.5
Growth (%)	55.1	26.4	5.4	4.3	7.2
EBITDA margin (%)	30.3	31.1	29.4	27.3	26.8

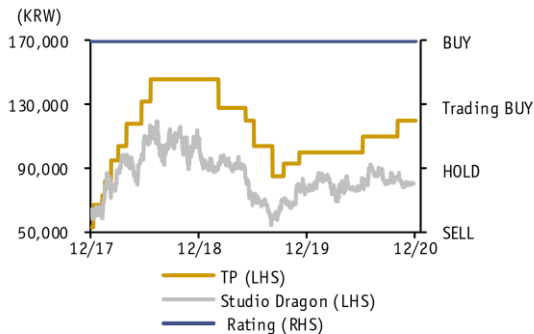
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	1,278	941	1,491	1,768	1,984
EPS of controlling interest (KRW)	1,278	941	1,491	1,768	1,984
BPS (KRW)	14,305	15,242	16,733	18,501	20,486
BPS of controlling interest (KRW)	14,305	15,242	16,733	18,501	20,486
DPS (KRW)	0	0	0	0	0
PER (x)	72.3	85.9	53.9	45.4	40.5
PER of controlling interest (x)	72.3	85.9	53.9	45.4	40.5
PBR (x)	6.5	5.3	4.8	4.3	3.9
PBR of controlling interest (x)	6.5	5.3	4.8	4.3	3.9
EV/EBITDA (x)	21.1	14.9	14.8	14.0	12.9
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	29.4	27.3	26.8
OPM (%)	10.5	6.1	10.6	10.8	11.0
NPM (%)	9.4	5.6	8.0	8.5	8.7
ROA (%)	7.4	4.8	6.8	7.3	7.6
ROE (%)	9.3	6.4	9.3	10.0	10.2
ROIC (%)	14.8	8.4	18.6	21.5	22.6
Stability					
Debt to equity ratio (%)	27.7	35.8	37.4	36.3	33.4
Net debt ratio (%)	(39.2)	(24.9)	(27.9)	(32.0)	(34.8)
Cash ratio (%)	141.4	41.2	49.5	64.6	80.8
Interest coverage ratio (x)	343.0	58.1	67.5	75.4	81.6
Activity (%)					
Working capital turnover (times)	(196.2)	(26.4)	(34.8)	(40.0)	(65.2)
Inventory turnover (days)	0.9	0.2	N/A	N/A	N/A
Receivable turnover (days)	59.5	59.3	65.8	68.6	68.9

Source: Company data, Shinhan Investment Corp.

Target price & rating history

Studio Dragon (253450 KS)



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 01 December 2020)

BUY (BUY)	90.95%	Trading BUY (HOLD)	3.81%	HOLD (HOLD)	5.24%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 01 December 2020)

BUY (BUY)	100.0%	Trading BUY (HOLD)	0.0%	HOLD (HOLD)	0.0%	SELL (SELL)	0.0%
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SHIC Ratings (as of 1 April 2017)

Stock

- ◆ 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

Sector

- ◆ 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
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