

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 (Jan 4) | W94,500 |
| Upside potential | 22% |

| | |
|-----------------------------|----------------------|
| Market cap (Wbn) | 2,835 |
| Shares outstanding | 30,004,345 |
| Avg daily T/O (2M, Wbn) | 21 |
| Avg daily volume (2M, shrs) | 248,914 |
| 52-week high (won) | 94,500 |
| 52-week low (won) | 69,100 |
| Foreign ownership (%) | 9.7 |
| Major shareholders (%) | |
| | CJ ENM & others 56.9 |

Stock performance

| (%) | 1M | 3M | 12M |
|------------|------|-------|--------|
| Absolute | 14.4 | 12.2 | 18.1 |
| Relative | 6.9 | (2.6) | (19.1) |
| Abs (US\$) | 14.4 | 21.3 | 27.4 |

To continue focusing on webtoon IP in 2021

Webtoon adaptation "Sweet Home" enjoys huge global success

- In 2020, Studio Dragon produced a total of 28 dramas (captive 24, terrestrial TV 2, Netflix Originals 2). Among these, five dramas were based on webtoon IP ("Memorist," "Rugal," "The Uncanny Counter," "True Beauty," and "Sweet Home").
- Netflix original series "Sweet Home" was co-produced by Naver Webtoon's subsidiary, Studio N, with Studio Dragon's Lee Eung-bok as director. It is a blockbuster drama that cost W30bn (W3bn per episode) to make. Sweet Home was launched on Netflix on Dec 18, 2020, and was the third-ranked show on Netflix in the 52nd week of 2020. This is the best ever performance by a Korean drama on Netflix, which we attribute to the overseas popularity of the original webtoon on Naver Webtoon, coupled with unique elements and an engaging story. Production of Sweet Home season 2 has yet to be decided, but expectations for additional seasons are high given the huge popularity of the first season.

Enhanced cooperation with Naver

- Naver acquired a 6.3% stake in Studio Dragon through a share swap deal with CJ Corp affiliates in Oct~Nov 2020, while Studio Dragon acquired a 0.3% stake in Naver. The share swap between two will likely lead to: 1) increased premium content production of Naver Webtoon's IP; 2) digital content production; and 3) cooperation in production and distribution of global dramas. With cooperation increasing between two companies in the production of dramas aimed at the global market, if Studio Dragon produces digital content optimized for over-the-top service Tving and Naver's platform, it will likely consider utilizing webtoon IP.
- Meanwhile, based on media reports, Studio Dragon plans to produce at least four dramas based on webtoon IP in 2021 ("Navillera," "Love Alarm" Season 2, "Island," and "Frightening Cohabitation"). Among these, Island and Frightening Cohabitation are based on Naver Webtoon IP (Island's content provider is YLAB). Island is a blockbuster drama to be released in 2H21, while Frightening Cohabitation will be produced as an original series for iQIYI, the Chinese OTT now expanding overseas. These two dramas will likely contribute significantly to Studio Dragon's earnings in 2021.

Quarterly earnings

| (Wbn) | 4Q20E | % YoY | % QoQ | Consens | vs consens (%) |
|---------------------|-------|-------|----------|---------|----------------|
| Sales | 113 | 16.2 | 6.5 | 132 | -14.1 |
| OP | 11 | TTB | -30.1 | 14 | -18.4 |
| EBT, continuing ops | 12 | TTB | -20.1 | 12 | 3.1 |
| Net profit, CI | 9 | TTB | -13.2 | 11 | -15.9 |
| OPM (%) | 9.9 | TTB | -5.2 %pt | 10.4 | -0.5 %pt |
| NPM (%) | 8.1 | TTB | -1.9 %pt | 8.3 | -0.2 %pt |

Note: CI = controlling interest, Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

| | 2018A | 2019A | 2020E | 2021E |
|----------------|-------|-------|-------|-------|
| FY ends Dec | | | | |
| Sales | 380 | 469 | 501 | 531 |
| OP | 40 | 29 | 56 | 74 |
| Net profit, CI | 36 | 26 | 42 | 57 |
| P/E (x) | 75.9 | 82.9 | 61.6 | 50.0 |
| P/B (x) | 6.8 | 5.1 | 5.6 | 5.7 |
| EV/EBITDA (x) | 22.2 | 14.3 | 15.4 | 14.7 |
| ROE (%) | 9.3 | 6.4 | 9.3 | 11.7 |

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 | 501 | 531 | 596 |
| Cost of sales | 324 | 421 | 423 | 434 | 472 |
| Gross profit | 56 | 48 | 78 | 97 | 124 |
| SG&A | 16 | 19 | 22 | 23 | 24 |
| Operating profit | 40 | 29 | 56 | 74 | 99 |
| EBITDA | 115 | 146 | 166 | 184 | 277 |
| Non-op profit/loss | 6 | 4 | 1 | 1 | 2 |
| Forex gain/loss | 3 | 3 | 1 | 0 | 0 |
| Net interest income | 3 | 3 | 2 | 2 | 3 |
| Equity-meth gain/loss | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | -1 | -2 | -1 | -1 |
| Net prof before income tax | 46 | 33 | 57 | 75 | 102 |
| Income tax | 10 | 7 | 15 | 18 | 25 |
| Net profit from continuing ops | 36 | 26 | 42 | 57 | 77 |
| Net profit from discontinued ops | 0 | 0 | 0 | 0 | 0 |
| Net profit | 36 | 26 | 42 | 57 | 77 |
| NP for controlling interest | 36 | 26 | 42 | 57 | 77 |
| Total comprehensive income | 35 | 26 | 41 | 55 | 76 |
| Total comprehensive income, CI | 35 | 26 | 41 | 55 | 76 |

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 | 277 | 301 | 382 |
| Cash & cash equivalents | 153 | 60 | 73 | 111 | 179 |
| Accts rec & other | 69 | 84 | 121 | 106 | 119 |
| Inventory | 1 | 0 | 0 | 0 | 0 |
| Non-current assets | 265 | 337 | 371 | 371 | 371 |
| Tangible assets | 1 | 1 | 8 | 8 | 8 |
| Investment in affiliates | 0 | 0 | 0 | 0 | 0 |
| Other non-current | 4 | 13 | 28 | 28 | 28 |
| Total assets | 512 | 582 | 648 | 672 | 753 |
| Current liabilities | 108 | 145 | 167 | 166 | 170 |
| Accts payable & other | 60 | 66 | 63 | 62 | 67 |
| ST financial liabilities | 0 | 0 | 0 | 0 | 0 |
| Liquid LT liabilities | 0 | 0 | 0 | 0 | 0 |
| Non-current liabilities | 3 | 8 | 10 | 10 | 10 |
| LT financial liabilities | 0 | 0 | 0 | 0 | 0 |
| Debentures | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 111 | 153 | 177 | 176 | 180 |
| Equity, controlling interest | 401 | 428 | 471 | 495 | 572 |
| Paid-in capital | 14 | 14 | 15 | 15 | 15 |
| Capital surplus | 320 | 322 | 323 | 323 | 323 |
| Retained earnings | 68 | 94 | 135 | 161 | 238 |
| Equity, non-controlling interest | 0 | 0 | 0 | 0 | 0 |
| Total equity | 401 | 428 | 471 | 495 | 572 |
| Net debt | -157 | -108 | -85 | -123 | -192 |
| Total debt | 2 | 8 | 8 | 8 | 8 |

Cash flow statement

| FY ends Dec (Wbn) | 2018A | 2019A | 2020E | 2021E | 2022E |
|--|------------|------------|-----------|-------------|-------------|
| Operating cash flow | -29 | -12 | 17 | 101 | 165 |
| Net profit | 36 | 26 | 42 | 57 | 77 |
| Depreciation & amortization | 0 | 2 | 3 | 3 | 3 |
| Forex gain/loss | -1 | 1 | 0 | 0 | 0 |
| Affiliate invest gain/loss | 0 | 0 | 0 | 0 | 0 |
| Inc (dec) in net working cap | -139 | -143 | -134 | -65 | -88 |
| Other | 75 | 102 | 106 | 106 | 173 |
| Investing cash flow | 141 | -81 | -5 | -115 | -182 |
| Investment | -1 | -19 | -12 | 0 | 0 |
| Inc in tangible assets | 0 | -1 | -8 | -3 | -3 |
| Dec in tangible assets | 0 | 0 | 0 | 0 | 0 |
| Other | 141 | -62 | 15 | -111 | -178 |
| Financing cash flow | -10 | 0 | 1 | 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 | 1 | 0 | 0 |
| Cash dividend | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Other cash flow | 0 | 0 | 0 | 52 | 84 |
| Inc (dec) in cash & equivalents | 102 | -93 | 13 | 38 | 68 |
| Beginning cash & equivalents | 51 | 153 | 60 | 73 | 111 |
| Ending cash & equivalents | 153 | 60 | 73 | 111 | 179 |
| NOPLAT | 40 | 29 | 56 | 74 | 99 |
| FCF | -33 | -4 | 9 | 98 | 161 |

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

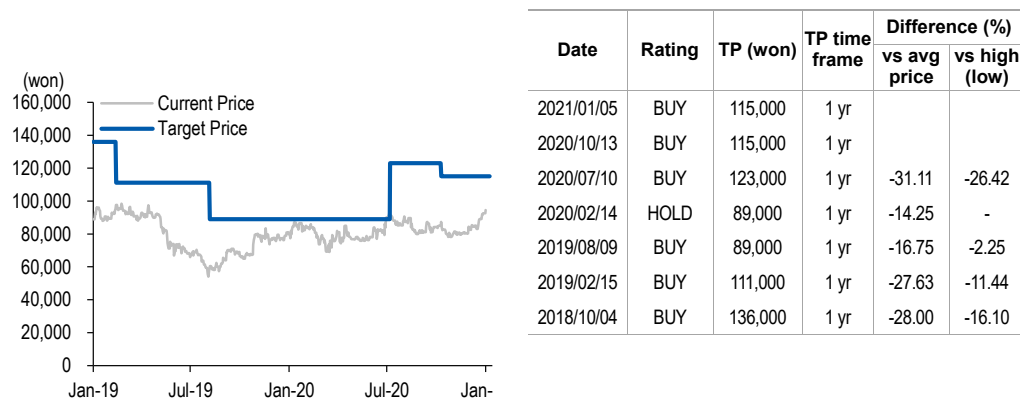
Source: Yuanta Securities

Valuation

| FY ends Dec | 2018A | 2019A | 2020E | 2021E | 2022E |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| EPS (won) | 1,278 | 941 | 1,430 | 1,889 | 2,567 |
| BPS (won) | 14,305 | 15,242 | 15,712 | 16,513 | 19,080 |
| EBITDA/shr (won) | 4,108 | 5,185 | 5,682 | 6,139 | 9,228 |
| SPS (won) | 13,539 | 16,698 | 17,184 | 17,700 | 19,868 |
| DPS (won) | 0 | 0 | 0 | 0 | 0 |
| P/E (x) | 75.9 | 82.9 | 61.6 | 50.0 | 36.8 |
| P/B (x) | 6.8 | 5.1 | 5.6 | 5.7 | 5.0 |
| EV/EBITDA (x) | 22.2 | 14.3 | 15.4 | 14.7 | 9.5 |
| P/S (x) | 7.2 | 4.7 | 5.1 | 5.3 | 4.8 |

Key financial data

| FY ends Dec | 2018A | 2019A | 2020E | 2021E | 2022E |
|--------------------------------|-------------|--------------|-------------|-------------|-------------|
| Sales (% YoY) | 32.4 | 23.5 | 6.9 | 6.0 | 12.3 |
| Operating profit (%YoY) | 21.0 | -28.1 | 94.1 | 32.2 | 34.9 |
| Net profit, CI (%YoY) | 50.3 | -26.3 | 57.9 | 35.9 | 35.8 |
| Gross margin (%) | 14.6 | 10.2 | 15.5 | 18.2 | 20.8 |
| Operating margin (%) | 10.5 | 6.1 | 11.1 | 13.9 | 16.7 |
| Net margin, CI (%) | 9.4 | 5.6 | 8.3 | 10.7 | 12.9 |
| EBITDA margin (%) | 30.3 | 31.1 | 33.1 | 34.7 | 46.4 |
| ROIC (%) | 19.3 | 11.5 | 17.3 | 22.5 | 30.7 |
| ROA (%) | 7.4 | 4.8 | 6.8 | 8.6 | 10.8 |
| ROE (%) | 9.3 | 6.4 | 9.3 | 11.7 | 14.4 |
| Debt-to-equity (%) | 27.7 | 35.8 | 37.5 | 35.5 | 31.5 |
| Net debt-to-equity (%) | -39.2 | -25.3 | -18.1 | -24.9 | -33.5 |
| OP/financing cost (x) | 343.0 | 58.1 | 129.0 | 0.0 | 0.0 |

Studio Dragon (253450 KS) ratings and target price history


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 | 1.2 |
| BUY | 93.4 |
| HOLD | 5.4 |
| SELL | 0.0 |
| Total | 100.0 |

Note: As of Jan 2

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)