

January 18, 2021

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**Maintain BUY; Raise TP to KRW120,000**

We maintain BUY on Studio Dragon as we raise our TP 20% to KRW120,000. Our TP is based on a 10% premium to Netflix's 12m fwd P/E of 51.4x and Studio Dragon's 2021E EPS of KRW2,147. We lift our TP to reflect: (1) expectations for higher licensing revenue amid intensifying competition in the OTT space; and (2) growing opportunities for overseas expansion given the company's competitive content.

**4Q20 revenue to miss consensus**

For 4Q20, we estimate revenue of KRW120.5bn (+13.4% QoQ, +23.7% YoY) and OP of KRW10.9bn (-31.9% QoQ, turning to profit YoY), both below consensus. Despite the release of the Netflix original *Sweet Home*, Studio Dragon is expected to report modest margins due to the high production costs required to create content that satisfies global standards. In addition, programming revenue is expected to decline YoY since the number of produced titles has decreased from six to five.

**Expectations for China-bound licensing revenue ramping up**

Meanwhile, expectations for licensing revenue are ramping up (i.e., licensing of two older titles to China in 3Q20). Furthermore, we believe Studio Dragon will secure more bargaining power going forward with the launch of overseas OTTs in Korea and intensifying competition in the global OTT market. While China's media market is still protected by high entry barriers, demand for Korean content among Chinese OTT platforms tapping into broader Asian markets should remain robust.

### Buy Maintain

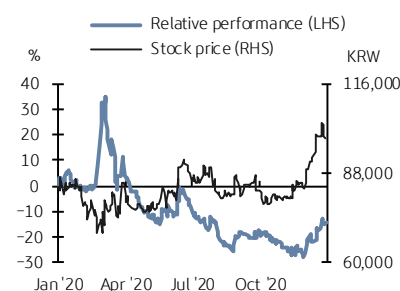
<b>Target Price (Raised)</b>	<b>KRW120,000</b>
Dividend yield*	0.0%
Total return	21.7%
Current price (Jan 18)	KRW98,600
Consensus target price	KRW111,050
Market capitalization	USD2.7bn
* 12-month forward	

Trading Data				
Free float	43.1%			
Avg. T/O val. (3m, KRWbn)	26.6			
Foreign ownership	11.9%			
Major shareholders	CJ ENM and 4 others 56.9%			
	NAVER 6.3%			
Stock Price Performance				
(%)	1M	3M	6M	12M
Absolute	17.4	21.1	12.7	15.4
Relative	13.4	6.1	-8.7	-18.7

**Risk & Total Return (annualized over three years)**



**Stock Price & Relative Performance**



Source(s): Company data, KB Securities

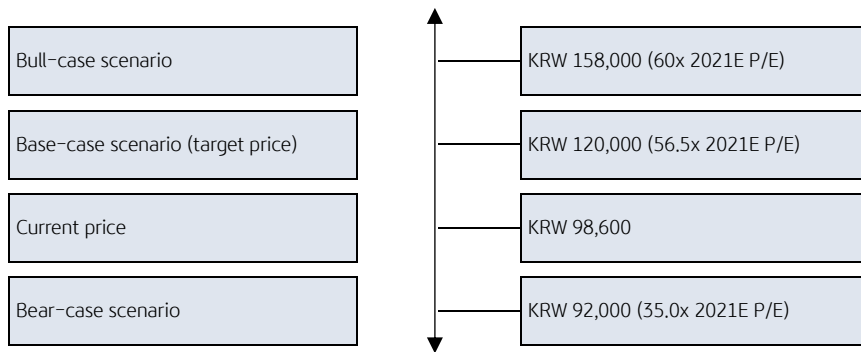
**Earnings Forecast & Valuation**

Fiscal year-end	2020E	2021E	2022E	2023E
Revenue (KRWbn)	509	601	720	753
OP (KRWbn)	55	79	96	79
NP to control, int. (KRWbn)	40	64	79	62
EPS (KRW)	1,388	2,147	2,632	2,069
EPS growth (%)	47.5	54.7	22.6	-21.4
P/E (x)	66.7	45.9	37.5	47.7
EV/EBITDA (x)	13.9	19.5	21.8	28.4
P/B (x)	5.9	5.5	4.8	4.4
ROE (%)	9.0	12.9	13.8	9.7
Div. yield (%)	0.0	0.0	0.0	0.0

## **Webtoon IP to further bolster content quality**

In 2021, we expect to see a growing number of webtoon IP-based content thanks to the success of *Sweet Home*, which was released in December last year. This trend should help the company secure a more stable supply of quality content, which would help Studio Dragon wean its heavy dependence on a small number of renowned creators and improve the global appeal of its content by diversifying themes and genres. Of note, webtoon IP-based content creation also bears lower margin risks as revenue sharing for webtoon IP does not account for a high proportion of total production costs.

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) Sales to China resume in 2021
- 2) Increase in overseas OTT clients

### Bull-case scenario: Upside risks

- 1) Sales to China resume in 1H21
- 2) Increase in overseas OTT clients

### Bear-case scenario: Downside risks

- 1) Sales to China delayed
- 2) Increase in overseas OTT clients delayed

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	522.8	581.8	508.5	600.6	-2.7	3.2
OP	61.3	69.9	55.4	78.7	-9.5	12.6
NP (to control. int.)	44.6	57.5	40.5	64.5	-9.1	12.1

Source(s): KB Securities estimates

## KB Estimates vs. Consensus

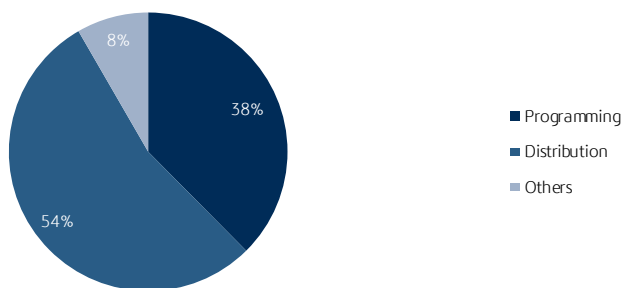
(KRWbn, %)	KB Estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	508.5	600.6	516.3	577.5	-1.5	4.0
OP	55.4	78.7	56.2	70.1	-1.4	12.2
NP (to control. int.)	40.5	64.5	42.3	55.8	-4.2	15.6

Source(s): DataGuide, KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method :  
P/E valuation
- 2) Target price calculation:  
56.5x 2021E EPS (KRW2,147)
- 3) Target price range:  
KRW92,000 – KRW158,000
- 4) Valuation at target price:  
56.5x 2021E P/E

## Revenue Composition (2021E)



Source(s): KB Securities estimates

## Earnings Sensitivity Analysis

(%)	EPS Change	
	2020E	2021E
+1pp rise in interest rate	+2.1	+2.1
+1% in FX rate	+0.4	+0.4

## Peer Group Comparison

(KRWbn, x, %)	Market Cap	Fwd P/E	5y EPS CAGR	12m fwd P/B	12m fwd EV/EBITDA	5y EBITDA CAGR
Jcontentree	637.4	38.7	5.1	2.1	11.7	16.1
Zhejiang Huace Film & TV	1,811.2	17.9	N/A	1.7	14.0	N/A
Studio Dragon	2958.4	47.6	N/A	5.4	15.8	N/A
Netflix	242,865.8	51.4	115.6	14.5	36.3	45.0

Source(s): Bloomberg consensus, KB Securities estimates

Table 1. 4Q20 Earnings Preview (consolidated)

(KRWbn, %, pp)	4Q20E	3Q20	QoQ	4Q19	YoY	Previous	Diff.	Consensus	Diff.
Revenue	120.5	106.3	13.4	97.4	23.7	134.8	(10.6)	130.2	(7.4)
OP	10.9	16.0	(31.9)	(4.0)	TB	16.8	(34.9)	13.4	(18.7)
OPM	9.1	15.1	(6.0)	(4.1)	13.2	12.4	(3.4)	10.3	(1.2)
NP (to control. int.)	8.0	10.6	(24.8)	(1.6)	TB	12.1	(33.8)	10.7	(25.1)
NPM	6.6	10.0	(3.4)	(1.6)	8.3	8.9	(2.3)	8.2	(1.6)

Source(s): FnGuide, KB Securities estimates

Table 2. Earnings Trends &amp; Estimates (consolidated)

(KRWbn)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20E	2019	2020E	2021E	2022E
<b>Revenue</b>	111.8	128.2	131.2	97.4	120.3	161.4	106.3	120.5	468.7	508.5	600.6	719.6
(% QoQ)	9.9	14.7	2.3	(25.7)	23.5	34.2	(34.2)	13.4	-	-	-	-
(% YoY)	40.0	72.6	6.0	(4.2)	7.6	25.9	(19.0)	23.7	23.5	8.5	18.1	19.8
Programming	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.5	208.7	196.8	225.7	267.5
Distribution	56.2	60.3	60.0	42.8	66.9	75.7	50.9	70.6	219.3	264.1	324.8	399.5
Others	11.5	9.9	10.4	9.0	8.2	20.4	9.7	9.4	40.7	47.7	50.1	52.6
<b>Operating expenses</b>	100.8	117.5	120.2	101.5	108.7	144.6	90.3	109.6	440.0	453.1	522.0	624.0
(% QoQ)	(0.5)	16.5	2.4	(15.6)	7.1	33.1	(37.6)	21.5	-	-	-	-
(% YoY)	45.6	75.4	17.6	0.2	7.8	23.1	(24.9)	8.0	29.5	3.0	15.2	19.6
<b>Operating profit</b>	11.0	10.8	10.9	(4.0)	11.6	16.9	16.0	10.9	28.7	55.4	78.7	95.6
(% QoQ)	2,405.9	(2.2)	1.2	TR	TB	44.9	(5.0)	(31.9)	-	-	-	-
(% YoY)	3.5	47.3	(49.2)	TR	5.5	56.3	46.8	TB	(28.1)	93.1	42.0	21.6
OPM (%)	9.9	8.4	8.3	(4.1)	9.7	10.4	15.1	9.1	6.1	10.9	13.1	13.3
<b>NP (to control. int.)</b>	9.2	7.3	11.5	(1.6)	8.5	13.4	10.6	8.0	26.4	40.5	64.5	79.1
(% QoQ)	427.9	(20.4)	57.1	TR	TB	56.5	(20.6)	(24.8)	-	-	-	-
(% YoY)	17.2	(17.4)	(33.5)	TR	(7.3)	82.1	(8.0)	TB	(26.3)	53.2	59.2	22.6
NPM (%)	8.2	5.7	8.8	(1.7)	7.1	8.3	10.0	6.6	5.6	8.0	10.7	11.0

Source(s): Company data, KB Securities estimates

Table 3. Revisions to Earnings Estimates

(KRWbn, %, %p)	2020E					2021E				
	Revised	Previous	Diff.	Consensus	Diff.	Revised	Previous	Diff.	Consensus	Diff.
Revenue	508.5	522.8	(2.7)	516.3	(1.5)	600.6	581.8	3.2	577.5	4.0
OP	55.4	61.3	(9.5)	56.2	(1.4)	78.7	69.9	12.6	70.1	12.2
OPM	10.9	11.7	(0.8)	10.9	0.0	13.1	12.0	1.1	12.1	1.0
NP (to control. int.)	40.5	44.6	(9.1)	42.3	(4.2)	64.5	57.5	12.1	55.8	15.6
NPM	8.0	8.5	(0.6)	8.2	(0.2)	10.7	9.9	0.8	9.7	1.1

Source(s): FnGuide, KB Securities estimates

Table 4. P/E valuation

(KRWbn)	Value	Note
12m fwd NP (to control. int.)	64.5	
Target P/E (x)	56.5	10% premium to Netflix's 2021E P/E
<b>Fair value</b>	<b>3,646</b>	
No. of shares ('000)	30,004	NAVER rights issue
<b>Target price (KRW)</b>	<b>120,000</b>	
Current price (KRW)	98,600	Jan 18, 2021
Upside (%)	21.7	

Source(s): KB Securities estimates

Income Statement					
(KRWbn)	2019A	2020E	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	469	509	601	720	753
Cost of revenue	421	432	499	597	652
Gross profit	48	77	102	122	102
SG&A expenses	19	21	23	27	23
Operating profit	29	55	79	96	79
EBITDA	146	188	137	118	88
Non-operating accounts	4	0	3	4	0
Interest income	3	3	7	8	0
Interest expenses	0	2	4	4	0
Profit on equity method	0	0	0	0	0
Net other non-operating income	1	0	0	0	0
Profit before tax	33	56	82	100	79
Income tax expense	7	15	17	21	17
Net profit	26	40	64	79	62
NP attributable to controlling interests	26	40	64	79	62
Adj. net profit	26	40	64	79	62

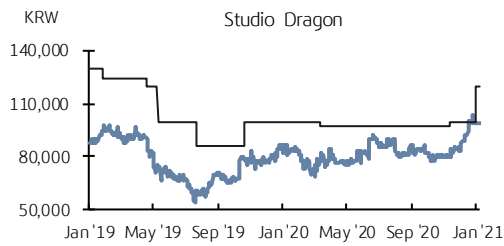
Operating Statistics & Ratios					
(%)	2019A	2020E	2021E	2022E	2023E
Revenue growth	23.5	8.5	18.1	19.8	4.7
OP growth	-28.1	93.1	41.9	21.6	-17.7
EBITDA growth	26.4	29.3	-27.3	-14.1	-25.3
NP growth of parent	-26.3	53.3	59.1	22.6	-21.4
GP margin	10.2	15.1	17.0	17.0	13.5
OP margin	6.1	10.9	13.1	13.3	10.4
EBITDA margin	31.1	37.0	22.8	16.3	11.7
EBT margin	7.1	11.0	13.6	13.9	10.4
NP margin of parent	5.6	8.0	10.7	11.0	8.2

Statement of Cash Flows					
(KRWbn)	2019A	2020E	2021E	2022E	2023E
Cash flow from operating activities	-12	93	139	120	71
Net profit	26	40	64	79	62
Depreciation & amortization	117	133	58	22	9
Other non-cash adjustments	7	16	17	21	17
Investments in working capital	-143	-81	16	19	0
Decrease(Increase) in receivables	-22	-39	-5	-5	0
Decrease(Increase) in inventory	1	0	0	0	0
Increase(Decrease) in payables	9	4	2	3	0
Investments in other working capital	-130	-47	18	21	0
Other operating cash flow	-19	-15	-17	-21	-17
Cash flow from investing activities	-81	6	-16	-17	0
Capital expenditure	0	-4	-1	-1	0
Investments in intangibles	0	-1	-1	-1	0
Changes in investment assets	-57	-24	-1	-1	0
Other investment cash flow	-23	35	-12	-14	0
Cash flow from financing activities	0	0	2	2	0
Proceeds from (repayment of) debt	0	0	2	2	0
Changes in equity	1	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	-1	0	0	0	0
Other cash flow	0	1	0	0	0
Increase/decrease in cash	-93	100	125	105	71
Cash and cash equivalents at FYE	60	160	284	389	460
Free cash flow	-13	89	138	119	71
Net cash flow	-51	65	123	102	71
Net cash (net debt)	106	171	294	396	468

Source(s): Company data, KB Securities estimates

Statement of Financial Position					
(KRWbn)	2019A	2020E	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	582	665	754	861	924
Current assets	245	353	485	597	668
Cash and cash equivalents	60	160	284	389	460
Current financial assets	57	24	24	24	24
Trade receivables	84	118	122	127	127
Inventory	0	0	0	0	0
Other current assets	45	53	55	57	57
Non-current assets	337	312	269	265	255
Investment assets	13	31	32	33	33
Property, plant and equipment	1	4	3	2	-1
Intangible assets	233	161	107	88	81
Other non-current assets	89	116	128	141	141
Total liabilities	153	196	221	249	249
Current liabilities	145	188	211	238	238
Trade payables	18	20	22	25	25
Short-term financial liabilities	2	4	5	6	6
Other current liabilities	125	164	184	207	207
Non-current liabilities	8	8	10	11	11
Non-current financial liabilities	8	8	9	11	11
Other non-current liabilities	0	0	0	0	0
Total equity	428	469	534	613	675
Issued capital	14	14	14	14	14
Share premium	322	322	322	322	322
Other equity interest	0	0	0	0	0
Accumulated other comprehensive income	-1	-1	-1	-1	-1
Retained earnings	94	134	198	277	340
Controlling interests	428	469	533	612	675
Non-controlling interests	0	0	0	0	0

Key Ratios					
(x, %, KRW)	2019A	2020E	2021E	2022E	2023E
Multiples					
P/E	85.9	66.7	45.9	37.5	47.7
P/B	5.3	5.9	5.5	4.8	4.4
P/S	4.8	5.3	4.9	4.1	3.9
EV/EBITDA	14.9	13.9	19.5	21.8	28.4
EV/EBIT	75.5	47.0	33.9	26.8	31.7
Dividend yield, ordinary (%)	N/A	0.0	0.0	0.0	0.0
EPS	941	1,388	2,147	2,632	2,069
BVPS	15,242	15,633	17,780	20,412	22,482
SPS	16,698	17,435	20,018	23,985	25,112
DPS (annual, ordinary)	0	0	0	0	0
Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
ROE	6.4	9.0	12.9	13.8	9.7
ROA	4.8	6.5	9.1	9.8	7.0
ROIC	8.8	14.8	28.4	42.8	38.8
Financial structure (%)					
Total liab./equity	35.8	41.8	41.4	40.6	36.9
Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Current ratio	1.7	1.9	2.3	2.5	2.8
Interest coverage (x)	58.1	27.4	19.7	23.9	0.0
Activity ratios					
Asset turnover (x)	0.9	0.8	0.9	0.9	0.8
Receivables turnover (x)	6.2	5.1	5.0	5.8	5.9
Payables turnover (x)	24.7	26.7	28.8	30.7	30.3
Inventory turnover (x)	0.0	0.0	0.0	0.0	0.0



## Studio Dragon (253450)

Date	Rating	Target Price (KRW)	Differential (%)	
			Avg.	Max/Min
Dec-31-2018	Buy	130,000	-29.62	
Feb-15-2019	Buy	125,000	-25.98	-21.36
May-09-2019	Buy	120,000	-34.46	-30.08
May-29-2019	Buy	100,000	-32.68	-26.20
Aug-09-2019	Buy	86,000	-21.88	-6.86
Nov-08-2019	Buy	100,000	-20.81	-13.00
Mar-30-2020	Buy	97,000	-15.46	-4.64
Nov-30-2020	Buy	100,000	-9.63	3.70
Jan-18-2021	Buy	120,000		

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## Proportion of investment rating (as of December 31, 2020)

Buy	Hold	Sell
77.9	22.1	-

\* Note: Based on reports presented with investment ratings over the past one year

## Classification and Standards for Investment Rating

## Investment Rating for Company

(based on estimation of 12-month absolute returns)

Buy: +15% or beyond	Hold: Between 15% and -15%	Sell: -15% or beyond
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Note: KB Securities' classification of investment ratings has shifted from four stages (Strong BUY, BUY, Marketperform, Underperform) to three stages (Buy, Hold, Sell) based on Korean reports since February 23, 2017.

KB Securities' standards for stock rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

## Investment Rating for Industry

(based on estimation of 12-month absolute returns)

Positive:	Neutral:	Negative:
To outperform market	To match market performance	To underperform market

Notes: The industry rating system of KB Securities has shifted from (Overweight, Neutral, Underweight) to (Positive, Neutral, Negative) as of Jun 28, 2017.

KB Securities' standards for industry rating shifted starting on Feb 10, 2020 from an estimation of six-month absolute returns to an estimation of 12-month absolute returns.

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