

Studio Dragon

(253450 KQ)

Transition almost complete

Buy
(Maintain)

TP: W120,000
Upside: 19.9%

Mirae Asset Daewoo Co., Ltd.

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4Q20 review

Revenue of W137.7bn (+41.3% YoY), OP of W4.6bn (turning to profit YoY); weaker than expected

- Despite the strong showing of its titles, Studio Dragon reported disappointing 4Q20 earnings, hurt by fewer dramas being aired and higher expenses.
- OP margin contracted 11.7%p QoQ to 3.3%, affected by: 1) the absence of recognition of licensing sales to China; and 2) low margins on *Sweet Home*.
- Programming: Revenue fell 10.9% YoY to W40.7bn as a result of: 1) the absence of non-captive titles; and 2) continued declines in the number of captive titles aired and budget size.
- Licensing: Revenue expanded 101.6% to W86.3bn, aided by the distribution of *Sweet Home*, increased library sales, and the normalization of domestic VOD revenue.
- Costs: Labor costs rose on bonus payouts (W3bn), and costs related to content quality (*Sweet Home*) also increased (W4bn).
- Content performance indicators (e.g., Netflix ranking) were impressive. We believe this will help spur further demand for the company's content.

A digital player

Distribution channel diversification

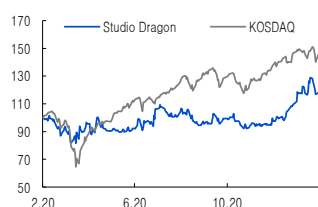
- For Studio Dragon, we expect the number of digital original titles to increase to at least nine in 2021, up from two (*My Holy Love* and *Sweet Home*) in 2020. So far, three for Netflix, three for iQIYI, and (at least) three for Tving have been confirmed. As such, the company will likely become less reliant on TV programming.
- In 2021, the company is likely to see more contracts from global/local OTTs and diversify its offerings to include short/mid-form content.
- We continue to believe margins will improve on the back of: 1) top-line growth from the supply of original content; and 2) library sales to China.

Investment strategy

Platform diversification and capacity increase point to earnings improvement

- We reaffirm our Buy call and target price of W120,000, which is based on 40x our 2022F net profit attributable to owners of the parent.
- In our view, Studio Dragon is best-positioned to take advantage of NAVER Webtoon's intellectual property (IP) and global OTTs' demand for big-budget titles.
- While we could see a temporary earnings void in 1H21, we think the company's transition to the digital channel is almost complete.
- Looking ahead, we see potential for OTT contracts for big-budget titles, production capacity expansion via webtoon IP, and licensing sales to China.

Key data



Current price (2/4/21, W)	100,100	Market cap (Wbn)	3,003
OP (20P, Wbn)	49	Shares outstanding (mn)	30
Consensus OP (20F, Wbn)	55	Free float (%)	37.8
EPS growth (20P, %)	10.9	Foreign ownership (%)	12.4
P/E (20P, x)	88.7	Beta (12M)	0.40
Market P/E (20F, x)	21.4	52-week low (W)	69,100
KOSDAQ	964.58	52-week high (W)	109,200

Share performance

(%)	1M	6M	12M
Absolute	5.9	13.2	17.8
Relative	7.4	-1.9	-19.3

Earnings and valuation metrics

(Dec.)	2017	2018	2019	2020P	2021F	2022F
Revenue (Wbn)	287	380	469	526	593	719
OP (Wbn)	33	40	29	49	68	115
OP margin (%)	11.5	10.5	6.2	9.3	11.5	16.0
NP (Wbn)	24	36	26	30	52	87
EPS (W)	1,050	1,278	941	1,044	1,721	2,893
ROE (%)	12.9	9.3	6.4	6.7	10.7	15.7
P/E (x)	61.9	72.3	85.9	88.7	58.2	34.6
P/B (x)	4.9	6.5	5.3	6.1	5.9	5.0
Div. yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Daewoo Research estimates

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Table 1. Studio Dragon: Consolidated earnings and forecasts

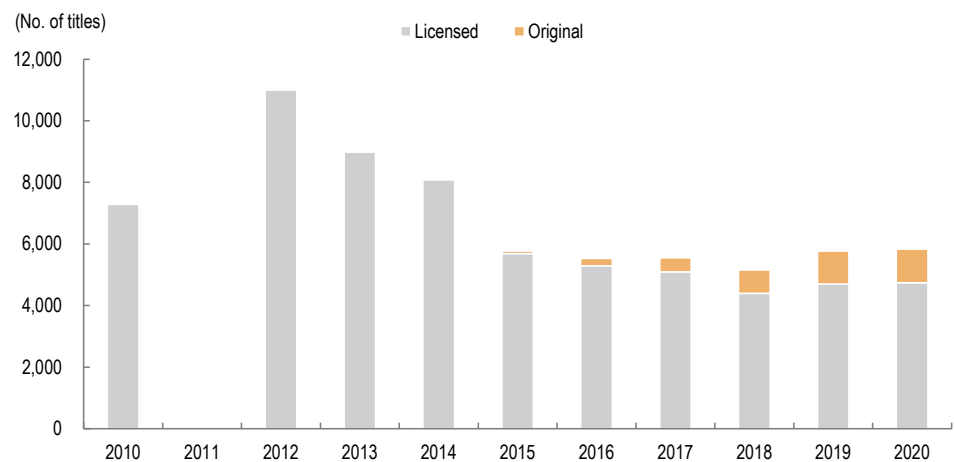
(Wbn, %)

	1Q20	2Q20	3Q20	4Q20P	1Q21F	2Q21F	3Q21F	4Q21F	2019	2020P	2021F
Revenue	120	161	106	138	116	136	170	171	469	526	593
Programming	45	65	46	41	49	47	49	49	209	197	195
Licensing	67	76	51	86	55	75	106	107	219	280	342
Other	8	20	10	11	12	14	15	15	41	49	56
Costs	104	140	85	123	98	115	145	141	421	451	499
Production costs	62	75	47	76	57	69	92	87	233	260	304
Commission fees	11	14	11	16	11	14	19	20	47	52	64
Depreciation/amortization	26	45	19	25	24	24	25	24	115	115	97
Other	4	5	8	6	6	8	9	9	25	24	33
SG&A	5	5	5	10	5	5	6	10	19	26	27
EBITDA	38	63	35	30	37	41	45	45	145	166	165
OP	11	17	16	5	13	16	19	20	29	49	68
OP margin	9.5	10.5	15.1	3.4	10.9	11.6	11.4	11.7	6.1	9.3	11.4
Pretax profit	12	17	15	-3	13	16	19	20	33	41	68
NP	8	13	11	-3	10	12	15	15	26	30	52
Net margin	7.0	8.3	10.0	-2.1	8.4	8.9	8.6	8.8	5.6	5.6	8.7
YoY											
Revenue	7.6	25.9	-19.0	41.4	-3.3	-15.5	59.7	24.1	23.4	12.2	12.9
Programming	2.5	12.6	-24.9	-10.9	9.1	-27.8	8.0	21.2	17.2	-5.6	-0.9
Licensing	19.1	25.5	-15.2	101.6	-18.2	-0.9	108.0	23.5	35.3	27.6	22.3
Other	-29.2	107.1	-6.4	20.2	50.0	-30.0	50.0	40.0	3.0	20.4	14.6
EBITDA	0.0	44.3	-10.8	24.4	-2.4	-35.1	25.9	48.4	26.4	14.4	-0.6
OP	4.1	56.8	46.7	TTB	10.3	-6.5	20.8	328.9	-28.0	71.3	38.1
NP	-7.6	84.0	-8.5	RR	15.9	-9.3	38.0	TTB	-26.1	12.2	74.5
Major assumptions											
No. of titles aired	6.5	6.5	6.5	5.5	6.5	6.5	6.5	6.5	27.5	25.0	26.0
No. of titles licensed to Netflix	1.5	2.0	2.5	2.0	2.0	2.0	2.0	2.0	5.9	8.0	8.0

Note: Under consolidated K-IFRS

Source: Company data, Mirae Asset Daewoo Research estimates

Figure 1. Original content budgets of global OTT services expanding



Note: Based on Netflix titles

Source: Reelgood, Mirae Asset Daewoo Research

Studio Dragon (253450 KQ)

Income statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
Revenue	469	526	593	719
Cost of revenue	421	451	499	575
Gross profit	48	75	94	144
SG&A expenses	19	26	27	29
OP (adj.)	29	49	68	115
OP	29	49	68	115
Non-operating profit	4	-8	0	-1
Net financial income	3	2	2	4
Net income from associates	0	0	0	0
Pretax profit	33	41	68	114
Income tax	7	12	16	27
Profit from continuing operations	26	30	52	87
Profit from discontinued operations	0	0	0	0
NP	26	30	52	87
Attributable to owners	26	30	52	87
Attributable to minority interests	0	0	0	0
Total comprehensive income	26	30	52	87
Attributable to owners	26	30	52	87
Attributable to minority interests	0	0	0	0
EBITDA	146	167	111	158
FCF	-13	44	95	131
EBITDA margin (%)	31.1	31.7	18.7	22.0
OP margin (%)	6.2	9.3	11.5	16.0
Net margin (%)	5.5	5.7	8.8	12.1

Balance sheet (summarized)

(Wbn)	2019	2020F	2021F	2022F
Current assets	244	324	414	540
Cash & equivalents	60	129	195	279
AR & other receivables	84	118	133	162
Inventory	0	0	0	0
Other current assets	100	77	86	99
Non-current assets	337	347	335	344
Investments in associates	0	0	0	0
PP&E	1	7	5	4
Intangible assets	233	201	190	199
Total assets	582	671	749	885
Current liabilities	145	205	231	280
AP & other payables	64	91	103	124
Short-term financial liabilities	2	3	3	4
Other current liabilities	79	111	125	152
Non-current liabilities	8	8	8	8
Long-term financial liabilities	8	8	8	8
Other non-current liabilities	0	0	0	0
Total liabilities	153	213	239	288
Equity attributable to owners	428	458	509	596
Capital stock	14	14	14	14
Capital surplus	322	323	323	323
Retained earnings	94	123	175	262
Minority interests	0	0	0	0
Shareholders' equity	428	458	509	596

Cash flow statement (summarized)

(Wbn)	2019	2020F	2021F	2022F
Operating cash flow	-12	51	95	131
NP	26	30	52	87
Non-cash income/expenses	124	129	57	66
Depreciation	2	3	2	1
Amortization	115	115	41	41
Other	7	11	14	24
Chg. in working capital	-143	-95	3	5
Chg. in AR & other receivables	-22	-37	-15	-28
Chg. in inventory	1	0	0	0
Chg. in AP & other payables	9	12	3	6
Income tax	-19	-13	-16	-27
Cash flow from investing activities	-81	18	-28	-48
Chg. in PP&E	0	-7	0	0
Chg. in intangible assets	0	0	-30	-50
Chg. in financial assets	-42	38	-1	-2
Other	-39	-13	3	4
Cash flow from financing activities	0	0	0	0
Chg. in financial liabilities	8	1	0	1
Chg. in equity	2	1	0	0
Dividends	0	0	0	0
Other	-10	-2	0	-1
Chg. in cash	-93	69	67	83
Beginning balance	153	60	129	195
Ending balance	60	129	195	279

Source: Company data, Mirae Asset Daewoo Research estimates

Key valuation metrics/ratios

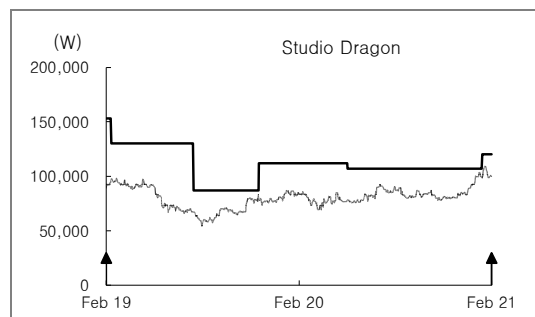
	2019	2020F	2021F	2022F
P/E (x)	85.9	88.7	58.2	34.6
P/CF (x)	15.1	16.5	27.6	19.6
P/B (x)	5.3	6.1	5.9	5.0
EV/EBITDA (x)	15.0	15.9	25.3	17.3
EPS (W)	941	1,044	1,721	2,893
CFPS (W)	5,346	5,607	3,622	5,102
BPS (W)	15,242	15,255	16,976	19,869
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	23.4	12.2	12.7	21.2
EBITDA growth (%)	27.0	14.4	-33.5	42.3
OP growth (%)	-27.5	69.0	38.8	69.1
EPS growth (%)	-26.4	10.9	64.8	68.1
AR turnover (x)	6.2	5.2	4.7	4.9
Inventory turnover (x)	1,620.7	0.0	0.0	0.0
AP turnover (x)	22.1	20.3	18.0	17.7
ROA (%)	4.8	4.7	7.3	10.6
ROE (%)	6.4	6.7	10.7	15.7
ROIC (%)	8.7	11.7	19.0	33.1
Debt-to-equity ratio (%)	35.8	46.5	47.0	48.4
Current ratio (x)	168.4	158.0	178.9	192.7
Net debt-to-equity ratio (%)	-21.2	-29.0	-39.1	-47.2
Interest coverage ratio (x)	58.1	86.6	114.5	185.6

Appendix 1

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Two-year rating and TP history

Company	Date	Rating	TP (₩)
Studio Dragon (253450)	01/18/21	Buy	120,000
	05/08/20	Buy	107,000
	11/22/19	Buy	112,000
	07/21/19	Buy	87,000
	02/15/19	Buy	130,000
	11/08/18	Buy	153,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Daewoo Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	78.43%	11.76%	8.50%	1.31%
Investment banking services	66.67%	22.22%	11.11%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2020)

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