

Studio Dragon (253450 KS)

Media/entertainment

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Rating	BUY (M)
Target price	W121,000 (M)
Current price (Feb 4)	W100,100
Upside potential	21%

Market cap (Wbn)	3,003
Shares outstanding	30,004,345
Avg daily T/O (2M, Wbn)	31
Avg daily volume (2M, shrs)	334,467
52-week high (won)	109,200
52-week low (won)	69,100
Foreign ownership (%)	12.4
Major shareholders (%)	
	CJ ENM & others 55.9

Stock performance

(%)	1M	3M	12M
Absolute	5.9	25.0	17.8
Relative	7.4	7.1	(19.3)
Abs (US\$)	2.5	27.1	25.0

Many drama series to sell

4Q20 review

- Studio Dragon reported consolidated sales of W137.7bn (+41% YoY), OP of W4.5bn (turning to profit YoY), and net profit attributable to controlling interest of -W2.8bn (remaining in red YoY). OP missed consensus by about 60%. Additional production costs for Netflix original series "Sweet Home" and year-end bonus payments were the reasons earnings missed consensus.
- In 4Q20, programming sales came to W40.7bn (-11% YoY), distribution W86.3bn (+102% YoY), and "other" W10.7bn (+20% YoY). **1) Programming:** After OCN stopped programming dramas on Wednesdays and Thursdays from Nov 2020, Studio Dragon's programming sales declined. In addition, some drama slots on captive channels went to other production companies. **2) Distribution:** Domestic sales came to W14bn, the average for seven quarters since 1Q19. Overseas sales hit a record-high of W72.3bn. In addition to Netflix original series Sweet Home, the firm recognized distribution sales for "Record of Youth," "Startup," and "Amazing Rumor." **3) Gross profit:** Gross profit came to W14.9bn and gross margin 11%, the lowest in 2020. Project return for Sweet Home was just half the level originally expected. The final price was fixed before shooting began, but the participation of three foreign visual effects companies in production entailed additional production costs. Given the huge global success of Sweet Home, the short-term margin decline should be regarded as an investment to solidify the firm's position as a global player. **4) SG&A expense:** SG&A expense came to W10.4bn, double the 1Q20~3Q20 average of W5.1bn, due to year-end bonus payments of W3.0bn.

Many drama series to sell

- The number of dramas that the company produces is set to rise from 27 in 2020 to more than 30 in 2021. Dramas for TV channels will decline from 25 in 2020 to 21 in 2021, while those for OTTs will rise from 2 to more than 9. Dramas for OTTs consist of three Netflix original series, three original series for other OTTs including iQiyi, and more than three for CJ ENM's own OTT tving. **As the focus of parent company CJ ENM's investment moves from TV content to tving, dramas for the captive market will be mainly supplied to tving. Most of the growth in Studio Dragon's drama productions will be driven by supply to Netflix and other global OTTs.** In 2021, the growth in the number of dramas will be rather weak, but the company has about 10 drama series to sell to OTTs other than Netflix in 2021, which allows us to be optimistic about earnings improvement.

Quarterly earnings

(Wbn)	4Q20P	% YoY	% QoQ	Consens	vs consens (%)
Sales	138	41.3	29.5	122	12.8
OP	5	TTB	-71.6	11	-59.4
EBT, continuing ops	-3	RR	TTR	10	-129.8
Net profit, CI	-3	RR	TTR	8	-134.6
OPM (%)	3.3	TTB	-11.8 %pt	9.2	-5.9 %pt
NPM (%)	-2.1	RR	TTR	6.7	-8.8 %pt

Note: CI = controlling interest, Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated)

	2018A	2019A	2020E	2021E
FY ends Dec				
Sales	380	469	526	539
OP	40	29	49	78
Net profit, CI	36	26	30	60
P/E (x)	75.9	82.9	91.1	49.7
P/B (x)	6.8	5.1	6.0	6.2
EV/EBITDA (x)	22.2	14.3	17.1	16.7
ROE (%)	9.3	6.4	6.7	12.8

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	526	539	602
Cost of sales	324	421	451	436	471
Gross profit	56	48	75	104	131
SG&A	16	19	26	26	27
Operating profit	40	29	49	78	104
EBITDA	115	146	159	175	263
Non-op profit/loss	6	4	-8	2	4
Forex gain/loss	3	3	1	0	0
Net interest income	3	3	2	2	4
Equity-meth gain/loss	0	0	0	0	0
Other	0	-1	-10	0	0
Net prof before income tax	46	33	42	80	107
Income tax	10	7	12	19	26
Net profit from continuing ops	36	26	30	60	81
Net profit from discontinued ops	0	0	0	0	0
Net profit	36	26	30	60	81
NP for controlling interest	36	26	30	60	81
Total comprehensive income	35	26	29	59	80
Total comprehensive income, CI	35	26	29	59	80

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	269	295	383
Cash & cash equivalents	153	60	38	66	137
Accts rec & other	69	84	147	145	162
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	640	666	753
Current liabilities	108	145	170	170	176
Accts payable & other	60	66	66	66	72
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	180	180	186
Equity, controlling interest	401	428	459	486	568
Paid-in capital	14	14	15	15	15
Capital surplus	320	322	323	323	323
Retained earnings	68	94	123	151	233
Equity, non-controlling interest	0	0	0	0	0
Total equity	401	428	459	486	568
Net debt	-157	-108	-51	-79	-149
Total debt	2	8	8	8	8

Cash flow statement

FY ends Dec (Wbn)	2018A	2019A	2020E	2021E	2022E
Operating cash flow	-29	-12	-18	78	149
Net profit	36	26	30	60	81
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	-157	-78	-91
Other	75	102	106	93	155
Investing cash flow	141	-81	-5	-101	-164
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	-98	-160
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	51	84
Inc (dec) in cash & equivalents	102	-93	-22	28	70
Beginning cash & equivalents	51	153	60	38	66
Ending cash & equivalents	153	60	38	66	137
NOPLAT	40	29	49	78	104
FCF	-33	-4	-20	75	144

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

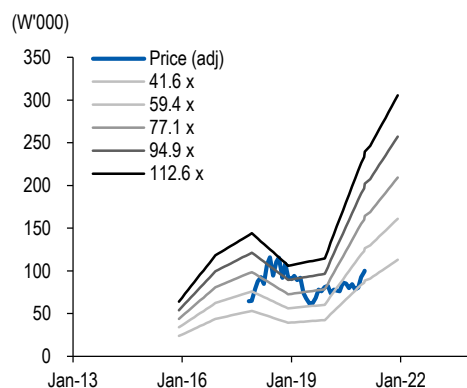
Valuation

FY ends Dec	2018A	2019A	2020E	2021E	2022E
EPS (won)	1,278	941	1,017	2,013	2,712
BPS (won)	14,305	15,242	15,310	16,207	18,919
EBITDA/shr (won)	4,108	5,185	5,454	5,832	8,775
SPS (won)	13,539	16,698	18,022	17,978	20,072
DPS (won)	0	0	0	0	0
P/E (x)	75.9	82.9	91.1	49.7	36.9
P/B (x)	6.8	5.1	6.0	6.2	5.3
EV/EBITDA (x)	22.2	14.3	17.1	16.7	10.8
P/S (x)	7.2	4.7	5.1	5.6	5.0

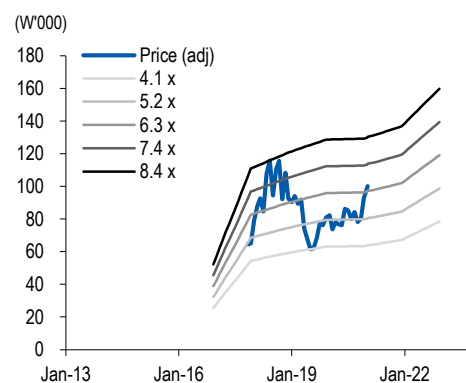
Key financial data

FY ends Dec	2018A	2019A	2020E	2021E	2022E
Sales (% YoY)	32.4	23.5	12.2	2.6	11.6
Operating profit (%YoY)	21.0	-28.1	70.9	58.7	33.1
Net profit, CI (%YoY)	50.3	-26.3	12.3	103.6	34.7
Gross margin (%)	14.6	10.2	14.2	19.3	21.7
Operating margin (%)	10.5	6.1	9.3	14.4	17.2
Net margin, CI (%)	9.4	5.6	5.6	11.2	13.5
EBITDA margin (%)	30.3	31.1	30.3	32.4	43.7
ROIC (%)	19.3	11.5	14.1	21.3	27.9
ROA (%)	7.4	4.8	4.9	9.2	11.5
ROE (%)	9.3	6.4	6.7	12.8	15.4
Debt-to-equity (%)	27.7	35.8	39.3	37.0	32.7
Net debt-to-equity (%)	-39.2	-25.3	-11.0	-16.2	-26.3
OP/financing cost (x)	343.0	58.1	113.6	0.0	0.0

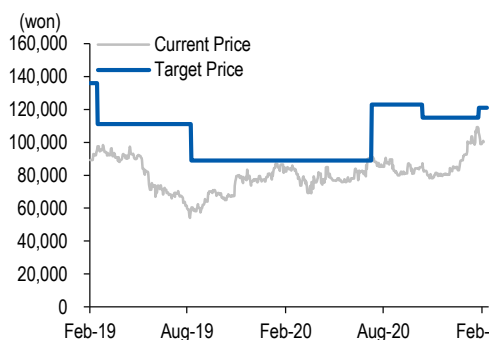
P/E band chart



P/B band chart



Studio Dragon (253450 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2021/02/05	BUY	121,000	1 yr		
2021/01/26	BUY	121,000	1 yr		
2020/10/13	BUY	115,000	1 yr	-24.48	-5.04
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	1.1
BUY	93.1
HOLD	5.7
SELL	0.0
Total	100.0

Note: As of Feb 2

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- **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

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