

Studio Dragon

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

08 March 2021

Entering a new chapter of growth

[Media/ads]

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BUY
(Maintain)



CP (Mar. 5)
KRW96,400



TP (6 months)
KRW127,000



Upside
31.7%

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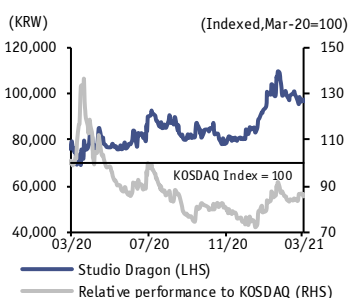


Shinhan Investment Corp.

Rating	BUY (Maintain)
TP (6 months)	KRW127,000
Upside	31.7%

KOSPI	3,026.26p
KOSDAQ	923.48p
Market cap	KRW2,892.4bn/USD2,537.2mn
Par value	KRW500
Outstanding shares	30.0mn
Free float	11.3mn(37.8%)
52-week high/low	KRW109,200/KRW69,100
60-day avg. trading volume	336,785shrs
60-day avg. turnover	KRW32,431mn
Foreign ownership	11.71%
Major shareholders	
CJ ENM and 3 others	55.94%
NAVER	6.26%
Absolute performance	
3M	16.7%
6M	19.5%
12M	21.6%
Relative performance to KOSDAQ	
3M	15.5%
6M	12.0%
12M	-14.4%

Share performance



Competitors seeking to dethrone the domestic market leader

Studio Dragon, a subsidiary of CJ Group's media business unit CJ ENM, has been the undisputed leader of the domestic content industry with massive human and material resources invested over the past ten plus years driving economies of scale in an industry where success is measured by popularity. Before the COVID-19 pandemic, the gap between Studio Dragon and its competitors was seen "uncrossable."

Recently, however, Studio Dragon has been facing growing competition from long-time major rivals Jcontentree and Seoul Broadcasting System, as well as small/mid-size production houses and internet/telecom service providers that are newly expanding their footing in the market. With the pandemic causing disruptions to mainstream content production carried out in the US and Europe, small/mid-size production houses are tapping OTT platforms to secure multi-year content supply and original production contracts that were only granted to top-tier producers in the past. Meanwhile, internet and telecom service providers are focusing on strengthening in-house content studios by leveraging on already-established digital IP assets and platforms. Stiffening market competition has been one of the main investor concerns weighing on shares of Studio Dragon compared to peers in recent trading.

Shift in directionality & market conditions to widen gap even further

Contrary to investor concerns, we highly expect Studio Dragon to widen the gap with certain latecomers over the next 1-2 years for two reasons. First, the company is set to shift gears from quantitative to qualitative growth. Backed by the steady supply of high quality IP assets through its partnership with NAVER, Studio Dragon is expected to emerge as the first content provider to report visible improvement in margins. Expectations are high for a shift in mid/long-term directionality with the company to focus on lowering its reliance on the handful of popular writers in the domestic market and improving production cost efficiency. Competitors without access to quality webtoon/webnovel IP assets and a large pool of artists are set to see the gap with Studio Dragon continue to widen going forward.

Second, we strongly expect that initial benefits from the easing of China's ban on Korean media contents will be concentrated on one or two market leaders, including Studio Dragon. If China chooses to remove its ban on Korean content in gradual steps, it should take longer for latecomers to see trickle-down benefits. In the process, the profit gap between market leaders and latecomers should increase even further.

Content top pick; Recommend concentrating on industry leaders

We believe Studio Dragon will remain the domestic content industry leader of the past, present and future. Reducing the portfolio weight of the stock in light of its lower beta vs. small/mid-size peers could be a very risky strategy. Studio Dragon is our content sector top pick as we recommend concentrating on industry leaders in media/ads. For the ad sector, focus should be placed on the leaders as well, with ample upside seen for Incross and Wider Planet given strong growth in digital ad and big data businesses.

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	525.5	49.1	49.1	35.1	1,249	32.6	21,687	74.2	19.2	4.3	6.8	(14.1)
2021F	622.1	57.2	57.2	44.6	1,589	27.3	23,276	60.7	18.5	4.1	7.1	(17.6)
2022F	677.2	71.8	71.8	56.0	1,993	25.4	25,269	48.4	16.1	3.8	8.2	(21.5)

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 KRW127,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2020 EPS (KRW)	1,249	2021F EPS (KRW)	1,589	2022F EPS (KRW)	1,993
Target price (KRW)	100,000	Target price (KRW)	127,000	Target price (KRW)	160,000
Target PER (x)	80	Target PER (x)	80	Target PER (x)	80

Source: Shinhan Investment Corp.

Note: 10% premium applied to past 3-year average PER. The stock's PER should sharply drop on removal of China's ban on Korean media contents. Original drama deals secured outside of Netflix will likely add strong momentum.

Earnings trend and outlook (K-IFRS consolidated)

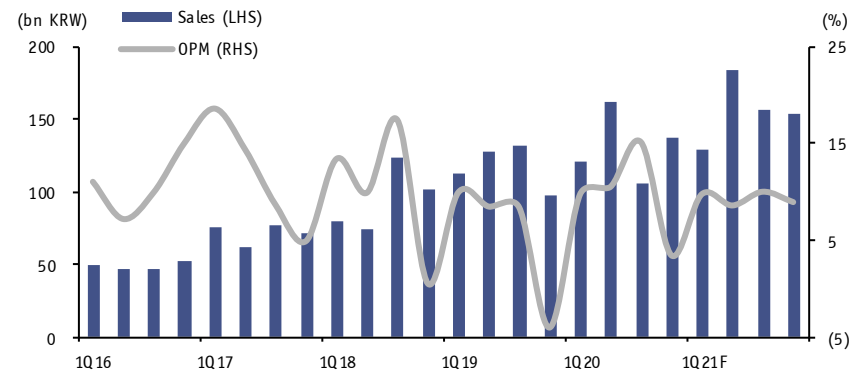
(bn KRW)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21F	2Q21F	3Q21F	4Q21F	2018	2019	2020	2021F
<Earnings forecasts>																
Total revenue	111.8	128.2	131.2	97.4	120.3	161.4	106.3	137.6	128.3	184.4	156.4	153.0	379.6	468.7	525.5	622.1
Production revenue	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.7	43.3	63.0	57.1	46.7	178.1	208.7	197.0	210.2
Distribution revenue	56.2	60.3	60.0	42.7	66.9	75.7	50.9	86.3	76.4	106.9	85.4	94.6	162.1	219.2	279.7	363.4
Other (PPL) revenue	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	8.6	14.4	13.8	11.7	39.4	40.7	48.9	48.5
<Overseas operations>																
Overseas distribution revenue	42.6	42.2	43.9	31.6	52.8	59.4	42.1	72.3	62.3	89.6	76.2	80.0	110.2	160.4	226.6	308.0
Share in distribution revenue (%)	75.9	70.0	73.1	74.1	78.9	78.5	47.9	83.8	81.5	83.8	89.1	84.5	68.0	73.2	81.0	84.8
Netflix	8.3	23.0	24.0	6.0	24.5	36.0	12.0	45.0	27.0	54.0	51.0	40.0	46.6	61.3	117.5	172.0
Japan	10.3	5.9	3.2	5.8	8.3	6.1	1.4	6.2	8.3	5.9	1.4	5.6	15.7	25.2	22.1	21.1
Asia including China	21.6	12.7	11.3	17.3	17.4	14.9	18.4	18.3	21.2	18.8	20.8	23.3	44.1	63.0	69.0	84.2
China	1.8	0.0	0.0	0.0	0.0	0.0	8.0	0.0	3.0	8.0	0.0	8.0	1.5	1.8	8.0	19.0
Americas	0.4	0.5	5.2	2.5	2.4	2.3	2.2	2.6	2.7	2.7	2.8	2.9	1.9	8.6	9.5	11.1
Others	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.4	0.4	0.6	0.7
COGS	96.8	112.8	115.9	95.2	103.5	139.6	85.0	122.6	110.5	163.5	135.1	128.1	324.0	420.8	450.7	537.2
SG&A	4.0	4.6	4.4	6.2	5.1	4.9	5.3	10.4	5.4	5.2	5.8	11.3	15.7	19.2	25.7	27.7
OP	11.0	10.8	10.9	(4.0)	11.6	16.9	16.0	4.6	12.4	15.7	15.5	13.6	39.9	28.7	49.1	57.2
Pre-tax profit	13.2	11.9	13.1	(5.1)	12.0	17.2	15.2	(2.9)	11.0	14.0	14.7	13.2	45.6	33.1	41.5	52.9
NP	9.2	7.3	11.5	(1.7)	8.6	13.4	10.6	(2.8)	8.6	11.0	11.5	10.3	35.8	26.4	29.7	41.2
<% YoY growth>																
Sales	40.0	72.6	6.1	(4.2)	7.5	25.9	(19.0)	41.3	6.7	14.3	47.2	11.2	32.4	23.5	12.1	18.4
OP	3.5	47.5	(49.2)	TR	5.5	56.3	46.8	TB	6.9	(6.8)	(2.9)	194.2	20.9	(28.1)	71.2	16.5
NP	17.2	(17.2)	(33.6)	TR	(7.2)	82.1	(7.9)	RR	0.2	(18.0)	8.0	TB	50.2	(26.3)	12.4	39.0
<Margin, %>																
OPM	9.9	8.4	8.3	(4.1)	9.7	10.4	15.1	3.3	9.7	8.5	9.9	8.9	10.5	6.1	9.3	9.2
NPM	8.2	5.7	8.8	(1.7)	7.1	8.3	10.0	(2.1)	6.7	5.9	7.3	6.7	9.4	5.6	5.6	6.6

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

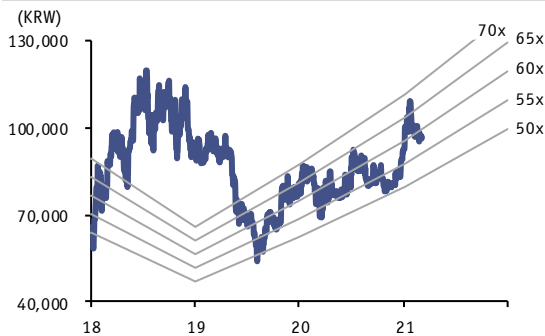
Key charts

Sales and operating profit margin (K-IFRS consolidated)



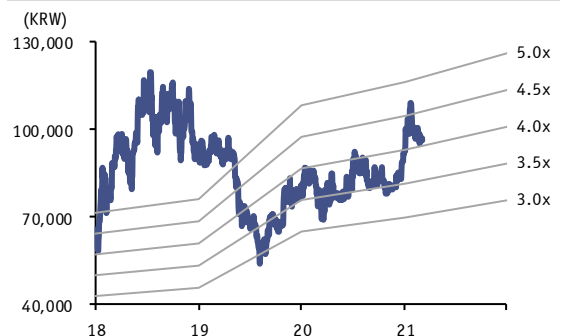
Source: Company data, Shinhan Investment Corp.

12-month forward consolidated PER band



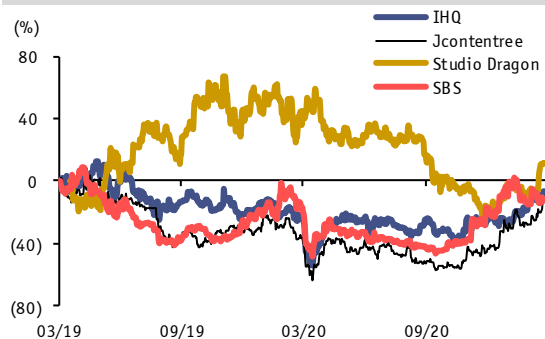
Source: QuantiWise, Shinhan Investment Corp.

12-month forward consolidated PBR band



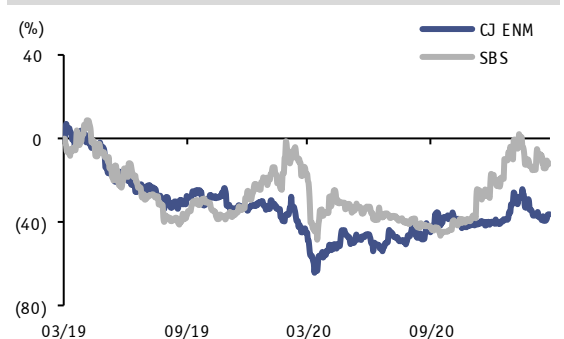
Source: QuantiWise, Shinhan Investment Corp.

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	748.8	803.6	863.0
Current assets	247.2	244.5	224.2	264.7	312.9
Cash and equivalents	153.0	59.8	37.5	65.2	101.2
Accounts receivable	68.8	83.6	79.0	87.3	95.0
Inventories	0.6	0.0	0.0	0.0	0.0
Non-current assets	265.2	337.1	524.6	538.9	550.1
Tangible assets	1.0	1.2	(0.2)	1.0	(0.2)
Intangible assets	198.5	233.1	230.7	241.6	252.2
Investment assets	3.7	13.4	14.2	15.4	16.2
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	111.1	153.3	139.5	149.6	153.0
Current liabilities	108.2	145.1	131.3	141.4	144.7
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	19.6	18.4	19.3	20.2	22.0
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	8.3
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	609.3	654.0	710.0
Capital stock	14.0	14.0	14.0	14.0	14.0
Capital surplus	320.1	321.7	467.7	467.7	467.7
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	128.6	173.3	229.3
Controlling interest equity	401.3	428.3	609.3	654.0	710.0
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	2.1	9.9	10.2	10.6	10.8
*Net debt (cash)	(157.3)	(106.4)	(85.8)	(115.2)	(152.9)

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	(29.1)	(12.2)	110.8	134.5	144.9
Net profit	35.8	26.4	35.1	44.6	56.0
Depreciation expense	0.3	1.8	0.4	(2.2)	0.4
Amortization expense	75.0	115.0	91.1	94.7	98.3
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)	(14.1)	(1.0)	(7.1)
(Payment of income tax)	(9.7)	(19.4)	(14.0)	(12.6)	(15.8)
Others	9.4	6.3	12.3	11.0	13.1
Cash flow from investments	140.6	(81.0)	(278.6)	(106.4)	(108.4)
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)	(88.7)	(105.6)	(108.9)
Change in investment assets	(0.5)	(18.8)	(0.7)	(1.3)	(0.7)
Others	141.4	(61.5)	(190.2)	(0.5)	0.4
Free cash flow	143.5	133.7	111.9	135.8	147.0
Cash flow from financing	(9.7)	(0.0)	145.4	(0.4)	(0.6)
Change in borrowings	(10.0)	0.0	0.2	0.4	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	145.2	(0.8)	(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)	(22.4)	27.8	35.9
Beginning cash	51.3	153.0	59.8	37.5	65.3
Ending cash	153.0	59.8	37.5	65.3	101.2

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	525.5	622.1	677.2
Growth (%)	32.4	23.5	12.1	18.4	8.8
COGS	324.0	420.8	450.7	537.2	576.3
Gross profit	55.6	47.9	74.8	84.9	100.9
GPM (%)	14.6	10.2	14.2	13.6	14.9
SG&A	15.7	19.2	25.7	27.7	29.1
Operating profit	39.9	28.7	49.1	57.2	71.8
Growth (%)	21.0	(28.1)	71.1	16.5	25.4
OPM (%)	10.5	6.1	9.3	9.2	10.6
Non-operating profit	5.7	4.4	(0.0)	(0.0)	(0.0)
Financial profit	6.1	4.3	0.4	0.5	(0.7)
Other non-operating profit	(0.3)	0.1	(0.4)	(0.5)	0.7
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	45.6	33.1	49.1	57.2	71.8
Income tax	9.8	6.6	14.0	12.6	15.8
Continuing operations	35.8	26.4	35.1	44.6	56.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	35.8	26.4	35.1	44.6	56.0
Growth (%)	50.3	(26.3)	32.8	27.3	25.4
NPM (%)	9.4	5.6	6.7	7.2	8.3
Controlling interest	35.8	26.4	35.1	44.6	56.0
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	34.7	25.7	35.1	44.6	56.0
Controlling interest	34.7	25.7	35.1	44.6	56.0
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	115.2	145.5	140.6	149.8	170.4
Growth (%)	55.1	26.4	(3.4)	6.6	13.7
EBITDA margin (%)	30.3	31.1	26.8	24.1	25.2

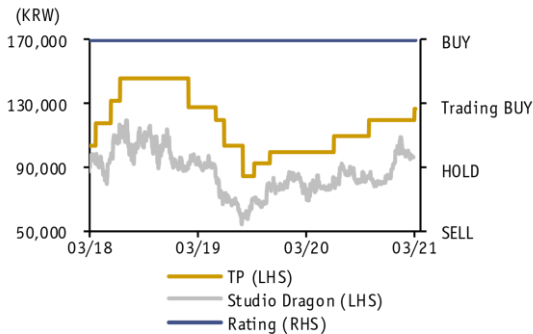
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	1,278	941	1,249	1,589	1,993
EPS of controlling interest (KRW)	1,278	941	1,249	1,589	1,993
BPS (KRW)	14,305	15,242	21,687	23,276	25,269
BPS of controlling interest (KRW)	14,305	15,242	21,687	23,276	25,269
DPS (KRW)	0	0	0	0	0
PER (x)	72.3	85.9	74.2	60.7	48.4
PER of controlling interest (x)	72.3	85.9	74.2	60.7	48.4
PBR (x)	6.5	5.3	4.3	4.1	3.8
PBR of controlling interest (x)	6.5	5.3	4.3	4.1	3.8
EV/EBITDA (x)	21.1	14.9	19.2	18.5	16.1
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	26.8	24.1	25.2
OPM (%)	10.5	6.1	9.3	9.2	10.6
NPM (%)	9.4	5.6	6.7	7.2	8.3
ROA (%)	7.4	4.8	5.3	5.8	6.7
ROE (%)	9.3	6.4	6.8	7.1	8.2
ROIC (%)	14.8	8.4	15.6	18.9	22.3
Stability					
Debt to equity ratio (%)	27.7	35.8	22.9	22.9	21.5
Net debt ratio (%)	(39.2)	(24.9)	(14.1)	(17.6)	(21.5)
Cash ratio (%)	141.4	41.2	28.6	46.1	69.9
Interest coverage ratio (x)	343.0	58.1	59.8	67.5	82.1
Activity (%)					
Working capital turnover (times)	(196.2)	(26.4)	(66.0)	(1,681.9)	182.3
Inventory turnover (days)	0.9	0.2	N/A	N/A	N/A
Receivable turnover (days)	59.5	59.3	56.5	48.8	49.1

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
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	(25.1)	(9.0)
2021.03.08	BUY	127,000	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - SHIC Universe (as of 04 March 2021)

BUY (BUY)	94.14%	Trading BUY (HOLD)	2.25%	HOLD (HOLD)	3.60%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 04 March 2021)

BUY (BUY)	100.00%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	0.00%	SELL (SELL)	0.00%
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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
- ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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