

Studio Dragon (253450 KQ)

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Rating **BUY**
maintain

6M TP (W) **130,000**
maintain

CP (W)
(21.03.12) **94,000**

Media

Viewership high, sales solid

BUY; 6M TP kept at W130,000; top media (content) pick

- Our target price for the production house is based on a residual income model.

1Q21 earnings to come in solid

- Studio Dragon is forecast to report OP of W13.7bn (up 200% qoq; up 18% yoy) on revenue of W130bn (up 6% yoy) for 1Q21, likely getting a significant boost from the sales of Mr. Queen (aired from December 2020 and February 2021), the fourth most-watched drama series (17.4%) behind Crash Landing on You (21.7%), Goblin (20.5%), and Mr. Sunshine (18.1%). Hit drama series with high viewership tend to sell well after its initial run.

- There is also Vincenzo, the production house's first drama series to air this year. We expect the popular series (sixth episode's viewership at 11.1%), which has a high recoup ratio relative to other similar Netflix deals, to deliver 30%-plus profit margin from the broadcasting rights (from tvN, the cable channel also airing the series) and pre-sales to Netflix alone.

- We are also paying close attention to its China business. Studio Dragon is producing three original dramas for Chinese OTT operators this year (first one to air in 2Q21), which should generate over 50% in profit margin (including margins from the production itself and the distribution of them in Korea). It is also poised to benefit big once the Chinese market opens again given the many Chinese products appearing in recent dramas such as True Beauty and Vincenzo in the form of product placements and its track record of selling dramas to iQIYI in 3Q20. On a similar note, investors should also keep in mind J Contentree as Tencent is a shareholder of its production arm JTBC Studio.

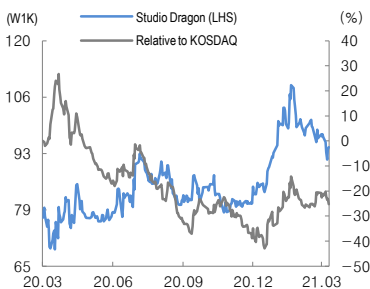
- It is ramping up production as well, up five from last year to a total of 32 dramas this year: 23 for CJ ENM, three Netflix originals, three for other platforms, and three for Chinese OTTs. That, coupled with a guaranteed basic production margin of about 20% for nine non-CJ ENM productions, should mean higher margins in 2021. The three dramas for Chinese OTTs, in particular, will bring in additional profits as Studio Dragon will be also distributing them in Korea.

- Furthermore, Studio Dragon, alongside crosstown rival J Contentree, is producing more and more dramas for Netflix, which has ramped up investments in Korean content. In 2020, the two production houses created 24 series for Netflix (58%; Studio Dragon 28% and J Contentree 21%), up from three (33%) in 2017. The streaming giant teamed up with various production companies in the early days of its push into Korea, but signed three-year deals with Studio Dragon and J Contentree last year seeing their proven production capabilities and sufficient capacity. That bias should be become more apparent down the road, in our view.

ESG rating S A+ A **B+** B C D

| | |
|--------------------------------|----------------------------------|
| KOSDAQ | 925.49 |
| Market cap (Wbn) | 2,820 |
| Market cap portion (%) | 0.74 |
| Paid-in capital (common; Wbn) | 16 |
| 52w high/low (W) | 109,200 / 69,100 |
| 120d avg. trading volume (Wbn) | 24.4 |
| Foreign ownership (%) | 11.64 |
| Major shareholders | CJ ENM+3: 55.94% Naver: 6.26% |

| (%) | 1M | 3M | 6M | 12M |
|-------------|------|------|------|-------|
| Abs. return | -4.8 | 11.5 | 15.9 | 34.9 |
| Rel. return | -0.8 | 11.9 | 11.3 | -17.9 |



| | 1Q21(F) | | | | | | | 2Q21 | | |
|---------|---------|------|-------------------|------------------|------|-------|-----------|------------------|-------|------|
| | 1Q20 | 4Q20 | Previous estimate | Daishin estimate | YoY | QoQ | Consensus | Daishin estimate | YoY | QoQ |
| Revenue | 120 | 138 | 126 | 128 | 6.4 | -7.0 | 124 | 137 | -15.4 | 6.7 |
| OP | 12 | 5 | 12 | 14 | 17.8 | 197.8 | 14 | 17 | -0.3 | 22.6 |
| NP | 9 | -3 | 10 | 11 | 30.3 | TTB | 11 | 13 | 0.5 | 20.6 |

Source: Studio Dragon, FnGuide, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, x, %)

| | 2019A | 2020A | 2021F | 2022F | 2023F |
|-----------------------|--------|--------|--------|--------|--------|
| Revenue | 469 | 526 | 542 | 573 | 630 |
| OP | 29 | 49 | 72 | 100 | 121 |
| Pretax profit | 33 | 41 | 77 | 105 | 127 |
| NP | 26 | 30 | 57 | 77 | 94 |
| NP (controlling int.) | 26 | 30 | 57 | 77 | 94 |
| EPS | 941 | 1,043 | 1,905 | 2,579 | 3,125 |
| PER | 85.9 | 88.7 | 49.3 | 36.5 | 30.1 |
| BPS | 15,258 | 21,461 | 22,196 | 24,775 | 27,000 |
| PBR | 5.3 | 4.3 | 4.2 | 3.8 | 3.5 |
| ROE | 6.4 | 5.7 | 9.0 | 11.0 | 12.1 |

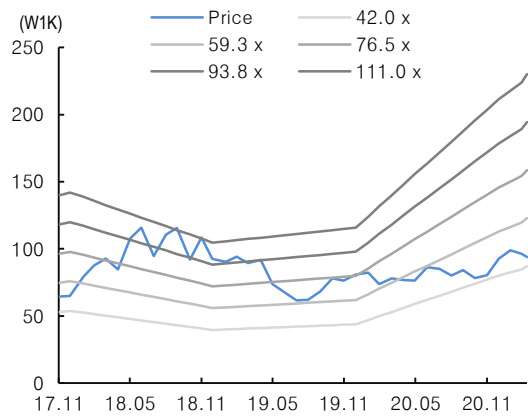
Note: EPS, BPS, and ROE are based only on the controlling interest. Source: Studio Dragon, Daishin Securities.

Yearly earnings forecast revision (Wbn, W, %, %p)

| | Previous | | Revised | | Chg | |
|------------------------|----------|-------|---------|-------|-------|-------|
| | 2021F | 2022F | 2021F | 2022F | 2021F | 2022F |
| Revenue | 542 | 573 | 542 | 573 | 0.0 | 0.0 |
| SG&A expense | 23 | 25 | 23 | 25 | -0.1 | 0.0 |
| OP | 72 | 100 | 72 | 100 | 0.0 | -0.1 |
| OP margin | 13.3 | 17.4 | 13.3 | 17.4 | 0.0 | 0.0 |
| Non-operating profit | 5 | 5 | 5 | 5 | 0.0 | 0.0 |
| Pretax profit | 77 | 105 | 77 | 105 | 0.0 | -0.1 |
| NP (controlling int.) | 57 | 77 | 57 | 77 | 0.0 | -0.1 |
| NP margin | 10.5 | 13.5 | 10.5 | 13.5 | 0.0 | 0.0 |
| EPS (controlling int.) | 1,905 | 2,582 | 1,905 | 2,579 | 0.0 | -0.1 |

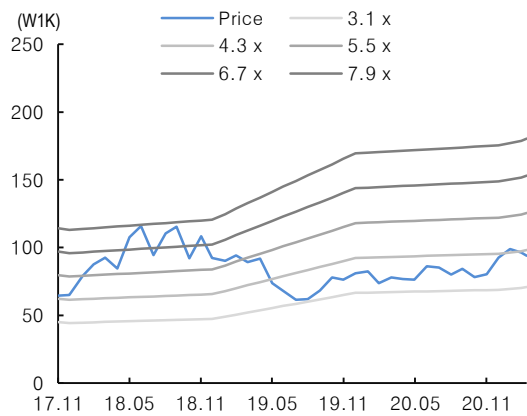
Source: Studio Dragon, Daishin Securities Research Center

12MF P/E band



Source: FnGuide, Daishin Securities Research Center

12MF P/B band



Source: FnGuide, Daishin Securities Research Center

Per share intrinsic value

| Residual Income Model | | | | | | | | | | (Wbn, W, %) |
|---|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------------|
| | 2020F | 2021F | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F |
| I NP (contr. int.) ^(Note 2) | 30 | 57 | 77 | 94 | 115 | 130 | 146 | 165 | 187 | 211 |
| II Shareholders' equity (contr. int.) ^(Note 2) | 609 | 666 | 743 | 810 | 895 | 988 | 1,096 | 1,218 | 1,355 | 1,510 |
| Estimated ROE | 5.7 | 9.0 | 11.0 | 11.6 | 12.8 | 13.1 | 13.4 | 13.6 | 13.8 | 14.0 |
| III Required rate of return ^(Note 3) | 4.0 | | | | | | | | | |
| Risk free rate of return ^(Note 4) | 1.3 | | | | | | | | | |
| Market risk premium ^(Note 5) | 4.0 | | | | | | | | | |
| Beta | 0.70 | | | | | | | | | |
| IV Spread (estimated ROE – required rate of return) | 1.6 | 4.9 | 6.9 | 7.5 | 8.7 | 9.0 | 9.3 | 9.5 | 9.7 | 9.9 |
| V Required income | 18 | 25 | 27 | 30 | 33 | 37 | 41 | 45 | 50 | 56 |
| VI Residual income (I - V) | 12 | 32 | 50 | 63 | 82 | 93 | 106 | 121 | 137 | 156 |
| Present value factor | 1.00 | 0.96 | 0.92 | 0.89 | 0.85 | 0.82 | 0.79 | 0.76 | 0.73 | 0.70 |
| PV of residual income | 12 | 31 | 46 | 56 | 69 | 76 | 83 | 91 | 99 | 109 |
| VII Sum of residual income | 673 | | | | | | | | | |
| VIII PV of residual income following forecasting period | 2,647 | | | | | | | | | |
| Terminal growth (g) ^(Note 6) | 0.0% | | | | | | | | | |
| IX Beginning shareholders' equity | 428 | | | | | | | | | |
| X Fair market cap (VII+VIII+IX) | 3,748 | | | | | | | | | |
| Total number of shares (thousands) | 31,450 | | | | | | | | | |
| XI Per share value (W) | 124,916 | | | | | | | | | |
| Current share price (W) | 94,000 | | | | | | | | | |
| Potential (%) | 32.9% | | | | | | | | | |

Note 1: Under the residual income model (RIM), we add the current shareholders' equity to the residual income based on the earnings forecast for the next ten years before adding the result to the residual income after the forecasting period to derive the value of shareholders' stakes. The RIM is considered less subjective than similar valuation models such as DDM, DCF, and EVA.

Note 2: The RIM reflects consolidated subsidiaries' earnings not in their entirety but only for the stake controlled by the company.

Note 3: The required rate of return (i.e., cost of equity) is the rate of return expected by the shareholders who take risks. It is derived by the capital asset price model: Cost of equity = Risk-free interest rate + Beta * Market risk premium.

Note 4: The yield on five-year government bonds was used as the proxy for the risk-free interest rate.

Note 5: Market risk premium refers to the gap between the expected return on the market portfolio and the risk-free interest rate. It has been lowered from 6-8% to 3-5% in reflection of the current low-growth environment.

Note 6: The terminal growth was assumed to be zero.

Financial statements

| Income statement | | (W/bn) | | | | |
|----------------------------------|-------|--------|-------|-------|-------|--|
| | 2019A | 2020A | 2021F | 2022F | 2023F | |
| Revenue | 469 | 526 | 542 | 573 | 630 | |
| Cost of goods sold | 421 | 451 | 448 | 449 | 484 | |
| Gross profit | 48 | 75 | 95 | 124 | 147 | |
| SG&A expenses | 19 | 26 | 23 | 25 | 26 | |
| OP | 29 | 49 | 72 | 100 | 121 | |
| OP margin | 6.1 | 9.3 | 13.3 | 17.4 | 19.1 | |
| EBITDA | 146 | 174 | 210 | 258 | 289 | |
| Non-OP | 4 | -8 | 5 | 5 | 6 | |
| Income from affiliates | 0 | 0 | 0 | 0 | 0 | |
| Financial revenue | 10 | 10 | 13 | 13 | 14 | |
| FX related gains | 0 | 0 | 0 | 0 | 0 | |
| Financial expense | -6 | -14 | -9 | -9 | -9 | |
| FX related losses | 4 | 0 | 0 | 0 | 0 | |
| Others | 0 | -4 | 1 | 1 | 1 | |
| Income before taxes | 33 | 41 | 77 | 105 | 127 | |
| Income tax expense | -7 | -12 | -20 | -27 | -33 | |
| Income from cont. op. | 26 | 30 | 57 | 77 | 94 | |
| Income from discount. op. | 0 | 0 | 0 | 0 | 0 | |
| NP | 26 | 30 | 57 | 77 | 94 | |
| NP margin | 5.6 | 5.6 | 10.5 | 13.5 | 14.9 | |
| NP for non-contr. interest | 0 | 0 | 0 | 0 | 0 | |
| NP for contr. interest | 26 | 30 | 57 | 77 | 94 | |
| Valuation of AFS fin. assets | 0 | 0 | 0 | 0 | 0 | |
| Other compreh. income | -1 | -1 | -1 | -1 | -1 | |
| Comprehensive income | 26 | 29 | 56 | 77 | 93 | |
| Comp. income for non-contr. Int. | 0 | 0 | 0 | 0 | 0 | |
| Comp. income for contr. int. | 26 | 29 | 56 | 77 | 93 | |

| Valuation metrics | | (W, x, %) | | | | |
|-------------------|--------|-----------|--------|--------|--------|--|
| | 2019A | 2020A | 2021F | 2022F | 2023F | |
| EPS | 941 | 1,043 | 1,905 | 2,579 | 3,125 | |
| PER | 85.9 | 88.7 | 49.3 | 36.5 | 30.1 | |
| BPS | 15,258 | 21,461 | 22,196 | 24,775 | 27,000 | |
| PBR | 5.3 | 4.3 | 4.2 | 3.8 | 3.5 | |
| EBITDAPS | 5,185 | 6,117 | 7,004 | 8,595 | 9,617 | |
| EV/EBITDA | 14.9 | 15.2 | 12.4 | 9.7 | 8.3 | |
| SPS | 16,698 | 18,532 | 18,074 | 19,097 | 21,010 | |
| PSR | 4.8 | 5.0 | 5.2 | 4.9 | 4.5 | |
| CFPS | 5,346 | 5,577 | 6,837 | 8,415 | 9,443 | |
| DPS | 0 | 0 | 0 | 900 | 1,000 | |

| Financial ratios | | (W, x, %) | | | | |
|-------------------------|-------|-----------|-------|-------|-------|--|
| | 2019A | 2020A | 2021F | 2022F | 2023F | |
| Growth potential | | | | | | |
| Revenue growth | 23.5 | 12.2 | 3.2 | 5.7 | 10.0 | |
| OP growth | -28.1 | 71.1 | 46.4 | 38.4 | 21.2 | |
| NP growth | -26.3 | 12.0 | 93.1 | 35.3 | 21.2 | |
| Profitability | | | | | | |
| ROIC | 9.4 | 13.4 | 21.0 | 30.9 | 43.5 | |
| ROA | 5.2 | 7.3 | 9.1 | 11.6 | 12.9 | |
| ROE | 6.4 | 5.7 | 9.0 | 11.0 | 12.1 | |
| Stability | | | | | | |
| Debt ratio | 35.8 | 25.6 | 23.5 | 21.2 | 19.7 | |
| Net borrowings ratio | -24.9 | -24.4 | -31.4 | -42.2 | -51.8 | |
| Interest coverage ratio | 58.1 | 0.0 | 0.0 | 0.0 | 0.0 | |

Source: Studio Dragon, Daishin Securities Research Center

| Balance sheet | | (W/bn) | | | | |
|-----------------------------|-------|--------|-------|-------|-------|--|
| | 2019A | 2020A | 2021F | 2022F | 2023F | |
| Current assets | 244 | 297 | 360 | 470 | 587 | |
| Cash & cash equiv. | 60 | 102 | 162 | 267 | 373 | |
| Trade & other receive. | 84 | 94 | 97 | 102 | 113 | |
| Inventories | 0 | 0 | 0 | 0 | 0 | |
| Other current assets | 101 | 101 | 101 | 101 | 101 | |
| Long-term assets | 337 | 467 | 462 | 431 | 383 | |
| Tangible assets | 1 | 1 | 1 | 1 | 1 | |
| Investments in affiliates | 0 | 0 | 0 | 0 | 0 | |
| Other long-term assets | 336 | 467 | 461 | 430 | 383 | |
| Total assets | 582 | 764 | 822 | 901 | 970 | |
| Current liabilities | 145 | 147 | 148 | 149 | 152 | |
| Payables & other liab. | 66 | 68 | 69 | 70 | 73 | |
| Borrowings | 0 | 0 | 0 | 0 | 0 | |
| Current portion of LT debts | 0 | 0 | 0 | 0 | 0 | |
| Other current liabilities | 79 | 79 | 79 | 79 | 79 | |
| Long-term liabilities | 8 | 8 | 8 | 8 | 8 | |
| Borrowings | 0 | 0 | 0 | 0 | 0 | |
| Convertible securities | 0 | 0 | 0 | 0 | 0 | |
| Other long-term liab. | 8 | 8 | 8 | 8 | 8 | |
| Total liabilities | 153 | 156 | 156 | 157 | 160 | |
| Controlling interest | 428 | 609 | 666 | 743 | 810 | |
| Capital stock | 14 | 16 | 16 | 16 | 16 | |
| Capital surplus | 322 | 471 | 471 | 471 | 471 | |
| Retained earnings | 94 | 123 | 180 | 258 | 324 | |
| Other capital changes | -1 | -1 | -1 | -1 | -1 | |
| Non-controlling interest | 0 | 0 | 0 | 0 | 0 | |
| Total shareholder's equity | 428 | 609 | 666 | 743 | 810 | |
| Net borrowings | -106 | -149 | -209 | -313 | -420 | |

| Cash flow statement | | (W/bn) | | | | |
|------------------------|-------|--------|-------|-------|-------|--|
| | 2019A | 2020A | 2021F | 2022F | 2023F | |
| Operating cash flows | -12 | 18 | 65 | 104 | 126 | |
| NP | 26 | 30 | 57 | 77 | 94 | |
| Non-cash items | 124 | 129 | 148 | 175 | 190 | |
| Depreciation | 117 | 124 | 138 | 158 | 168 | |
| FX gains | 1 | 0 | 0 | 0 | 0 | |
| Equity method gain | 0 | 0 | 0 | 0 | 0 | |
| Others | 6 | 4 | 10 | 17 | 22 | |
| Chg in assets & liab. | -143 | -138 | -132 | -134 | -138 | |
| Other cash flows | -19 | -2 | -7 | -14 | -19 | |
| Investing cash flow | -81 | -278 | -156 | -150 | -143 | |
| Investment assets | -57 | -150 | 0 | 0 | 0 | |
| Tangible assets | 0 | 0 | 0 | 0 | 0 | |
| Others | -23 | -127 | -155 | -150 | -143 | |
| Financing cash flows | 0 | 149 | -2 | -2 | -29 | |
| Short-term borrowings | 0 | 0 | 0 | 0 | 0 | |
| Bonds payable | 0 | 0 | 0 | 0 | 0 | |
| Long-term borrowings | 0 | 0 | 0 | 0 | 0 | |
| Rights offering | 2 | 151 | 0 | 0 | 0 | |
| Cash dividends | 0 | 0 | 0 | 0 | -27 | |
| Others | -2 | -2 | -2 | -2 | -2 | |
| Net chg in cash | -93 | 42 | 60 | 104 | 106 | |
| Beginning cash balance | 153 | 60 | 102 | 162 | 267 | |
| Ending cash balance | 60 | 102 | 162 | 267 | 373 | |
| NOPLAT | 23 | 35 | 53 | 74 | 89 | |
| FCF | 139 | 55 | 58 | 105 | 137 | |

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

| | | |
|----------------------|-------------------------|---------------------|
| Dark Gray (negative) | Neutral Green (neutral) | Sky Blue (positive) |
|----------------------|-------------------------|---------------------|

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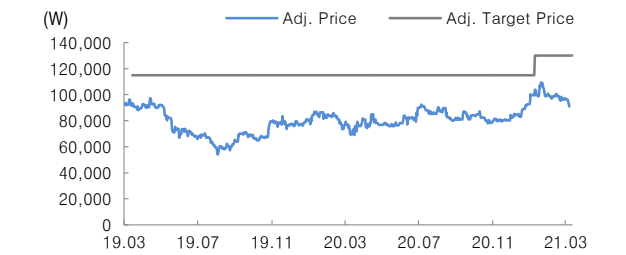
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



| Date | 21.03.15 | 21.01.12 | 20.09.17 | 20.03.17 | 19.09.17 | 19.03.17 |
|---------------------|----------|----------|-----------|-----------|-----------|----------|
| Rating | Buy | Buy | 6M passed | 6M passed | 6M passed | Buy |
| Target price | 130,000 | 130,000 | 115,000 | 115,000 | 115,000 | 115,000 |
| Diff. (avr. %) | | (23.34) | (26.69) | (28.96) | (33.12) | (35.05) |
| Diff. (max/min., %) | | (16.00) | (9.83) | (19.57) | (24.35) | (15.39) |
| Date | | | | | | |
| Rating | | | | | | |
| Target price | | | | | | |
| Diff. (avr. %) | | | | | | |
| Diff. (max/min., %) | | | | | | |
| Date | | | | | | |
| Rating | | | | | | |
| Target price | | | | | | |
| Diff. (avr. %) | | | | | | |
| Diff. (max/min., %) | | | | | | |
| Date | | | | | | |
| Rating | | | | | | |
| Target price | | | | | | |
| Diff. (avr. %) | | | | | | |
| Diff. (max/min., %) | | | | | | |

Investment rating breakdown and framework (Mar 10, 2021)

| | BUY | MARKETPERFORM | UNDERPERFORM |
|-------|-------|---------------|--------------|
| Ratio | 90.3% | 8.7% | 1.0% |

- Sector ratings breakdown
- Overweight: industry indicators are expected to outperform the market over the next six months.
 - Neutral: industry indicators are expected to be in line with the market over the next six months.
 - Underweight: industry indicators are expected to underperform the market over the next six months.

- Company ratings breakdown
- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
 - Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
 - Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.