



Studio Dragon

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

29 March 2021

[Media/ads]

Ready to fly with outlook upbeat on all fronts

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BUY
(Maintain)



CP (Mar. 26)
KRW93,400



TP (6 months)
KRW138,000



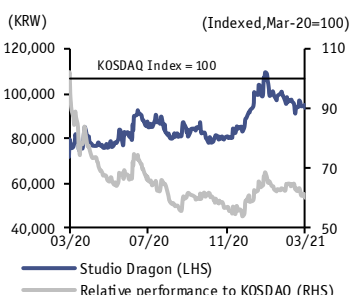
Upside
47.8%

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Rating	BUY (Maintain)
TP (6 months)	KRW138,000
Upside	47.8%

KOSPI	3,041.01p
KOSDAQ	956.70p
Market cap	KRW2,802.4bn/USD2,458.3mn
Par value	KRW500
Outstanding shares	30.0mn
Free float	11.3mn (37.8%)
52-week high/low	KRW109,200/KRW74,300
60-day avg. trading volume	284,994shrs
60-day avg. turnover	KRW28,156mn
Foreign ownership	11.60%
Major shareholders	
CJ ENM and 3 others	55.94%
NAVER	6.26%
Absolute performance	
3M	4.8%
6M	15.2%
12M	21.6%
Relative performance to KOSDAQ	
3M	1.8%
6M	-2.7%
12M	-34.3%

Share performance



1Q21 consolidated OP estimated at KRW14.6bn (+25.2% YoY)

We now expect Studio Dragon to post consolidated operating profit of KRW14.6bn (+25.2% YoY) on sales of KRW128.8bn (+7.1% YoY) for 1Q21. Our revised earnings estimates are fairly conservative, given that indicators are upbeat across the board. Domestic distribution revenue will likely reach KRW16.5bn (+16.8% YoY) with the hit drama series Vincenzo recording viewership ratings above 11%. Overseas distribution revenue should record 13.2% YoY growth to KRW59.7bn, driven by the rapid increase in distribution rights revenue from Netflix as well as other global OTT platforms. Other (PPL) revenue has also been rising on the upturn in domestic ad market conditions and increase in killer content. Operating margin likely jumped on efficient management of IP assets backed by new artists.

Market leader to widen gap with competitors even further

We note a rapid shift in gears at Studio Dragon from quantitative to qualitative growth. Thanks to a steadfast focus maintained on quantitative growth over the past few years, the company now holds a commanding share of the market and is largely unaffected by soaring artist fees that are becoming a burden for rivals. Meanwhile, the company's recent shift in focus to qualitative growth has already started to bear fruit, with a wide variety of video content produced at a rapid pace on steady supply of high quality IP assets from its partnership with NAVER. Leveraging on its strengthening market power, Studio Dragon continues to secure and develop new artists while generating increasingly larger margins.

For 2021, we conservatively forecast consolidated operating profit at KRW63.7bn (+29.6% YoY), with overseas distribution revenue expected to increase by 34.9% YoY. Studio Dragon is the only drama studio in Korea reporting operating margins above 10% at the moment. With Chinese clients all seeking to seal deals with Studio Dragon to secure an upper hand in local market competition, even a fraction of sales added from China could drive up annual operating profit to KRW70bn-80bn levels.

Studio Dragon is currently in talks with more than 10 global top-tier OTT platforms on licensing agreements for Korean drama series, as well as production deals for original drama content. The company, which has a production capacity of around 50 drama series per year in theory, is finding it difficult to pick and choose from the vast opportunities coming its way with all of the top OTTs clamoring to secure deals with Studio Dragon.

Target price raised to KRW138,000 for content sector top pick

Studio Dragon remains our content sector top pick as we raise our target price from KRW127,000 to KRW138,000 in reflection of upward-adjusted earnings forecasts. Expectations are high for the upcoming earnings season, with overseas momentum seen stronger than ever. The gap between Studio Dragon and its competitors should increase even further going forward.

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	525.6	49.1	49.1	35.1	1,248	32.5	21,686	74.2	18.9	4.3	6.8	(13.5)
2021F	626.5	63.7	63.7	49.7	1,768	41.7	23,454	52.8	17.0	4.0	7.8	(17.9)
2022F	685.7	74.1	74.1	57.8	2,058	16.4	25,512	45.4	15.2	3.7	8.4	(22.1)

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 KRW138,000

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2020 EPS (KRW)	1,249	2021F EPS (KRW)	1,768	2022F EPS (KRW)	2,058
Target price (KRW)	97,000	Target price (KRW)	138,000	Target price (KRW)	161,000
Target PER (x)	78	Target PER (x)	78	Target PER (x)	78

Source: Shinhan Investment Corp.

Note: 10% premium applied to past 4-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)

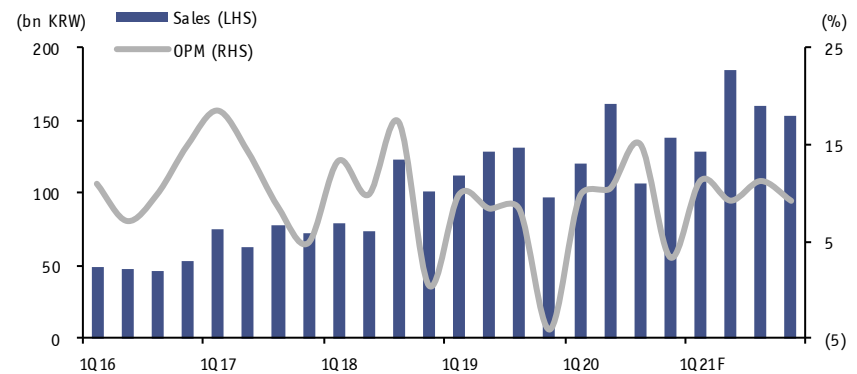
(bn KRW)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21F	2Q21F	3Q21F	4Q21F	2018	2019	2020	2021F
<Earnings forecasts>																
Total revenue	111.8	128.2	131.2	97.4	120.3	161.4	106.3	137.7	128.8	184.9	159.9	152.9	379.6	468.7	525.6	626.5
Production revenue	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.7	43.9	63.2	56.8	45.5	178.1	208.7	197.0	209.4
Distribution revenue	56.2	60.3	60.0	42.7	66.9	75.7	50.9	86.3	76.2	107.2	89.4	95.9	162.1	219.2	279.7	368.7
Other (PPL) revenue	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	8.7	14.5	13.8	11.5	39.4	40.7	49.0	48.4
<Overseas operations>																
Overseas distribution revenue	42.6	42.2	43.9	31.6	52.8	59.4	42.1	72.3	59.7	89.6	76.2	80.0	110.2	160.4	226.6	305.6
Share in distribution revenue (%)	75.9	70.0	73.1	74.1	78.9	78.5	47.9	83.8	78.4	83.6	85.2	83.4	68.0	73.2	81.0	82.9
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	0.0	8.0	0.0	8.0	1.5	1.8	8.0	16.0
Americas	0.4	0.5	5.2	2.5	2.4	2.3	2.2	2.6	3.0	2.7	2.8	2.9	1.9	8.6	9.5	11.4
Others	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.3	0.2	0.2	0.2	0.4	0.4	0.6	0.9
COGS	96.8	112.8	115.9	95.2	103.5	139.6	85.0	122.7	108.8	162.6	136.2	127.8	324.0	420.8	450.8	535.4
SG&A	4.0	4.6	4.4	6.2	5.1	4.9	5.3	10.4	5.4	5.2	5.7	11.0	15.7	19.2	25.7	27.4
OP	11.0	10.8	10.9	(4.0)	11.6	16.9	16.0	4.6	14.6	17.0	18.0	14.1	39.9	28.7	49.1	63.7
Pre-tax profit	13.2	11.9	13.1	(5.1)	12.0	17.2	15.2	(2.9)	13.1	15.4	17.1	13.7	45.6	33.1	41.6	59.3
NP	9.2	7.3	11.5	(1.7)	8.6	13.4	10.6	(2.9)	10.2	12.0	13.4	10.7	35.8	26.4	29.6	46.3
<% YoY growth>																
Sales	40.0	72.6	6.1	(4.2)	7.5	25.9	(19.0)	41.4	7.1	14.5	50.5	11.1	32.4	23.5	12.2	19.2
OP	3.5	47.5	(49.2)	TR	5.5	56.3	46.8	TB	25.2	0.9	12.4	206.3	20.9	(28.1)	71.3	29.6
NP	17.2	(17.2)	(33.6)	TR	(7.2)	82.1	(7.9)	RR	19.6	(10.5)	26.0	TB	50.2	(26.3)	12.3	56.0
<Margin, %>																
OPM	9.9	8.4	8.3	(4.1)	9.7	10.4	15.1	3.3	11.3	9.2	11.3	9.2	10.5	6.1	9.3	10.2
NPM	8.2	5.7	8.8	(1.7)	7.1	8.3	10.0	(2.1)	7.9	6.5	8.4	7.0	9.4	5.6	5.6	7.4

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

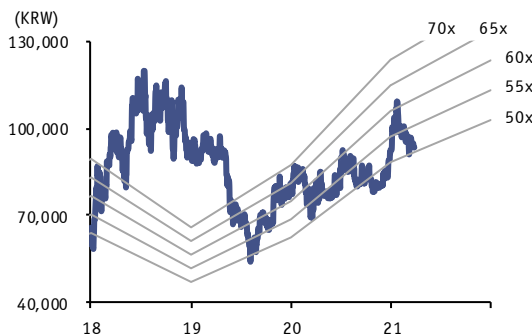
Key charts

Sales and operating profit margin (K-IFRS consolidated)



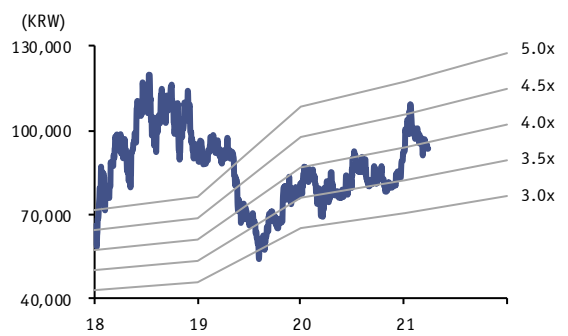
Source: Company data, Shinhan Investment Corp.

12-month forward consolidated PER band



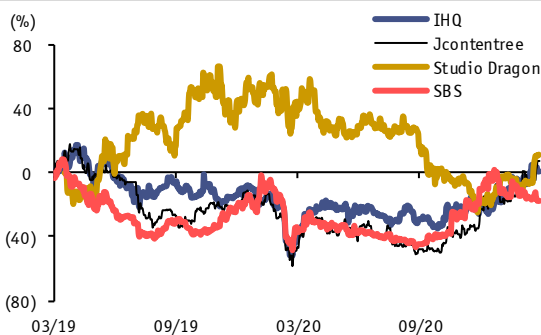
Source: QuantiWise, Shinhan Investment Corp.

12-month forward consolidated PBR band



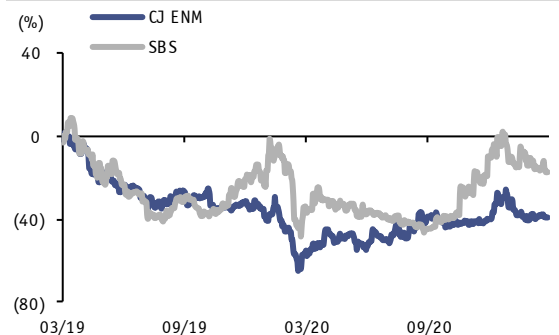
Source: QuantiWise, Shinhan Investment Corp.

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	756.9	816.7	878.0
Current assets	247.2	244.5	228.5	275.4	326.4
Cash and equivalents	153.0	59.8	41.8	76.0	114.7
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	528.3	541.2	551.6
Tangible assets	1.0	1.2	(0.2)	1.0	(0.2)
Intangible assets	198.5	233.1	234.4	243.9	253.6
Investment assets	3.7	13.4	14.2	15.5	16.3
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	111.1	153.3	147.6	157.7	161.2
Current liabilities	108.2	145.1	131.3	141.4	144.9
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	19.6	18.4	19.3	20.2	22.1
Current portion of long-term debt	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	2.9	8.2	16.2	16.3	16.3
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	2.1	7.9	16.0	16.0	16.0
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	401.3	428.3	609.3	659.0	716.8
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	178.3	236.1
Controlling interest equity	401.3	428.3	609.3	659.0	716.8
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	2.1	9.9	18.2	18.7	18.9
*Net debt (cash)	(157.3)	(106.4)	(82.1)	(117.9)	(158.3)

Statement of cash flow

Year to December (bn KRW)	2018	2019	2020F	2021F	2022F
Cash flow from operations	(29.1)	(12.2)	113.3	141.4	148.1
Net profit	35.8	26.4	35.1	49.7	57.8
Depreciation expense	0.3	1.8	0.4	(2.2)	0.4
Amortization expense	75.0	115.0	93.4	96.2	99.1
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)	(7.0)
(Payment of income tax)	(9.7)	(19.4)	(14.1)	(14.0)	(16.3)
Others	9.4	6.3	12.6	12.7	14.1
Cash flow from investments	140.6	(81.0)	(284.5)	(106.2)	(108.2)
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)	(94.7)	(105.6)	(108.9)
Change in investment assets	(0.5)	(18.8)	(0.7)	(1.3)	(0.8)
Others	141.4	(61.5)	(190.1)	(0.3)	0.7
Free cash flow	143.5	133.7	114.2	142.2	149.8
Cash flow from financing	(9.7)	(0.0)	153.2	(1.1)	(1.3)
Change in borrowings	(10.0)	0.0	8.3	0.4	0.3
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	144.9	(1.5)	(1.6)
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)	(18.0)	34.2	38.7
Beginning cash	51.3	153.0	59.8	41.8	76.0
Ending cash	153.0	59.8	41.8	76.0	114.7

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	525.6	626.5	685.7
Growth (%)	32.4	23.5	12.2	19.2	9.4
COGS	324.0	420.8	450.8	535.4	582.8
Gross profit	55.6	47.9	74.8	91.1	102.9
GPM (%)	14.6	10.2	14.2	14.5	15.0
SG&A	15.7	19.2	25.7	27.4	28.7
Operating profit	39.9	28.7	49.1	63.7	74.1
Growth (%)	21.0	(28.1)	71.2	29.6	16.4
OPM (%)	10.5	6.1	9.3	10.2	10.8
Non-operating profit	5.7	4.4	0.0	(0.0)	0.0
Financial profit	6.1	4.3	0.1	(0.0)	(1.1)
Other non-operating profit	(0.3)	0.1	(0.1)	(0.0)	1.1
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	45.6	33.1	49.1	63.7	74.1
Income tax	9.8	6.6	14.1	14.0	16.3
Continuing operations	35.8	26.4	35.1	49.7	57.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	35.8	26.4	35.1	49.7	57.8
Growth (%)	50.3	(26.3)	32.6	41.7	16.4
NPM (%)	9.4	5.6	6.7	7.9	8.4
Controlling interest	35.8	26.4	35.1	49.7	57.8
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	34.7	25.7	35.1	49.7	57.8
Controlling interest	34.7	25.7	35.1	49.7	57.8
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	115.2	145.5	142.9	157.7	173.6
Growth (%)	55.1	26.4	(1.8)	10.3	10.1
EBITDA margin (%)	30.3	31.1	27.2	25.2	25.3

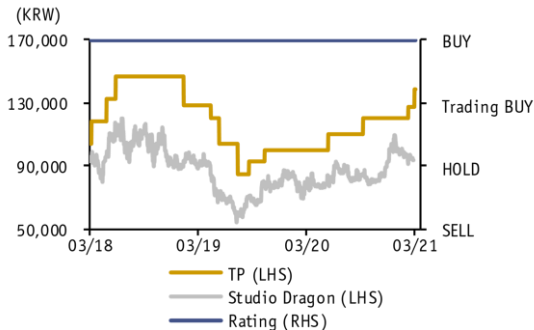
Key ratios

Year to December	2018	2019	2020F	2021F	2022F
EPS (KRW)	1,278	941	1,248	1,768	2,058
EPS of controlling interest (KRW)	1,278	941	1,248	1,768	2,058
BPS (KRW)	14,305	15,242	21,686	23,454	25,512
BPS of controlling interest (KRW)	14,305	15,242	21,686	23,454	25,512
DPS (KRW)	0	0	0	0	0
PER (x)	72.3	85.9	74.2	52.8	45.4
PER of controlling interest (x)	72.3	85.9	74.2	52.8	45.4
PBR (x)	6.5	5.3	4.3	4.0	3.7
PBR of controlling interest (x)	6.5	5.3	4.3	4.0	3.7
EV/EBITDA (x)	21.1	14.9	18.9	17.0	15.2
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	27.2	25.2	25.3
OPM (%)	10.5	6.1	9.3	10.2	10.8
NPM (%)	9.4	5.6	6.7	7.9	8.4
ROA (%)	7.4	4.8	5.2	6.3	6.8
ROE (%)	9.3	6.4	6.8	7.8	8.4
ROIC (%)	14.8	8.4	15.5	20.8	22.9
Stability					
Debt to equity ratio (%)	27.7	35.8	24.2	23.9	22.5
Net debt ratio (%)	(39.2)	(24.9)	(13.5)	(17.9)	(22.1)
Cash ratio (%)	141.4	41.2	31.9	53.8	79.2
Interest coverage ratio (x)	343.0	58.1	42.7	42.2	48.3
Activity (%)					
Working capital turnover (times)	(196.2)	(26.4)	(66.0)	(1,693.7)	187.7
Inventory turnover (days)	0.9	0.2	N/A	N/A	N/A
Receivable turnover (days)	59.5	59.3	56.4	48.4	48.5

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	(25.8)	(23.8)
2021.03.29	BUY	138,000	-	-

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

Rating Distribution - SHIC Universe (as of 25 March 2021)

BUY (BUY)	95.05%	Trading BUY (HOLD)	1.80%	HOLD (HOLD)	3.15%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 25 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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