

Studio Dragon

(253450 KQ)

Higher pricing and stable costs

Buy
(Maintain)

TP: W127,000 ▲
Upside: 23.1%

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1Q21 review

Revenue of W117.1bn (-2.7% YoY) and OP of W17.9bn (+53.6%); above the consensus and our estimates

- Despite a decline in programming, Studio Dragon reported above-consensus 1Q21 earnings thanks to improved margins arising from higher pricing and cost cuts.
- Programming: Despite a smaller drama lineup, revenue held up relatively well, at W43.8bn (-3.2% YoY), supported by the strong appeal of *Vincenzo* and *True Beauty*.
- Licensing: Revenue contracted 5.5% YoY to W63.2bn. The continuous uptrend in pricing (resulting from increased bargaining power) and strong performances of digital platforms (VOD/TVING) helped limit the extent of contraction.
- Costs: Total costs fell 8.7% YoY to W99.2bn; production cost cuts and preemptive amortization drove down the cost ratio.

A digital player

Distribution channel diversification

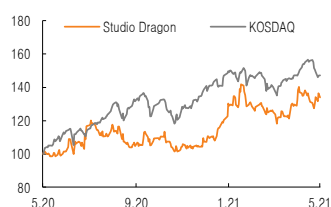
- Studio Dragon has been pursuing global collaborations with Skydance Media and Blumhouse Productions. In addition, the company has recently forged a partnership with webtoon studio YLAB to produce content in-house based on webtoon intellectual property (IP).
- For Studio Dragon, we expect the number of digital originals to increase to at least nine in 2021, up from two (*My Holo 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 traditional TV programming.
- In 2021, the company is likely to: 1) strike more deals with global/local OTTs based on its track record of producing hit dramas; and 2) diversify its offerings to include short/mid-form content.
- We continue to believe margins will improve on the back of top-line growth from the supply of original content and library sales to China.

Investment strategy

Platform diversification and capacity increase point to earnings improvement

- We raise our target price to W127,000 (from W120,000), which is based on 50x our 2022F net profit attributable to owners of the parent, and reaffirm our Buy call.
- In our view, Studio Dragon is well positioned to take advantage of NAVER Webtoon's IP and global OTTs' demand for big-budget titles.
- Looking ahead, we believe potential OTT deals for big-budget titles, production expansion via webtoon IP, and licensing sales to China will be key to share performance.

Key data



Current price (5/6/21, W)	103,200	Market cap (Wbn)	3,096
OP (21F, Wbn)	67	Shares outstanding (mn)	30
Consensus OP (21F, Wbn)	68	Free float (%)	37.8
EPS growth (21F, %)	69.9	Foreign ownership (%)	12.5
P/E (21F, x)	58.2	Beta (12M)	0.51
Market P/E (21F, x)	12.2	52-week low (W)	75,900
KOSDAQ	969.99	52-week high (W)	109,200

Share performance

(%)	1M	6M	12M
Absolute	1.3	26.8	34.0
Relative	1.1	9.4	-9.0

Earnings and valuation metrics

(Dec.)	2017	2018	2019	2020	2021F	2022F
Revenue (Wbn)	287	380	469	526	553	713
OP (Wbn)	33	40	29	49	67	100
OP margin (%)	11.5	10.5	6.2	9.3	12.1	14.0
NP (Wbn)	24	36	26	30	53	76
EPS (W)	1,050	1,278	941	1,044	1,774	2,548
ROE (%)	12.9	9.3	6.4	5.7	8.4	10.9
P/E (x)	61.9	72.3	85.9	88.7	58.2	40.5
P/B (x)	4.9	6.5	5.3	4.6	4.7	4.2
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 Securities Research estimates

Table 1. Studio Dragon: TP calculation

(Wbn, x, %)

P/E	19	20	21F	22F
Current P/E	117.5	104.6	58.2	40.5
Fair market cap	3,823	3,823	3,823	3,823
NP	26	30	53	76
Target P/E	145.0	129.2	71.8	50.0
Fair price (W)	127,422	127,422	127,422	127,422
Upside (%)				23.5

Source: Mirae Asset Securities Research

Table 2. Studio Dragon: Consolidated earnings and forecasts

(Wbn, %)

	1Q20	2Q20	3Q20	4Q20	1Q21P	2Q21F	3Q21F	4Q21F	2020	2021F	2022F
Revenue	120	161	106	138	117	129	144	163	526	553	713
Programming	45	65	46	41	44	41	42	42	197	169	188
Licensing	67	76	51	86	63	76	88	106	280	333	467
Other	8	20	10	11	10	12	14	15	49	51	59
Costs	104	140	85	123	93	109	121	135	451	458	582
Production costs	62	75	47	76	52	63	69	79	260	262	344
Commission fees	11	14	11	16	9	13	17	20	52	58	83
Depreciation/amortization	26	45	19	25	25	25	26	25	115	101	107
Other	4	5	8	6	8	8	9	11	24	36	49
SG&A	5	5	5	10	6	5	6	11	26	28	31
EBITDA	38	63	35	30	43	40	44	43	166	168	207
OP	11	17	16	5	18	14	17	17	49	67	100
OP margin	9.5	10.5	15.1	3.4	15.3	11.0	11.9	10.7	9.3	12.0	14.1
Pretax profit	12	17	15	-3	21	15	17	18	41	71	101
NP	8	13	11	-3	16	11	13	13	30	53	76
Net margin	7.0	8.3	10.0	-2.1	13.3	8.6	9.2	8.2	5.6	9.6	10.7
YoY											
Revenue	7.6	25.9	-19.0	41.4	-2.7	-20.2	35.1	18.7	12.2	5.2	29.0
Programming	2.5	12.6	-24.9	-10.9	-3.2	-37.8	-7.0	4.4	-5.6	-14.0	10.7
Licensing	19.1	25.5	-15.2	101.6	-5.5	0.3	72.1	22.8	27.6	18.9	40.3
Other	-29.2	107.1	-6.4	20.2	24.0	-40.0	40.0	40.0	20.4	4.1	16.0
EBITDA	0.0	44.3	-10.8	24.4	14.0	-36.3	23.0	42.7	14.4	1.0	23.4
OP	4.1	56.8	46.7	TTB	53.6	-16.4	6.9	276.4	71.3	35.8	50.7
NP	-7.6	84.0	-8.5	TTR	84.4	-17.3	24.0	TTB	12.2	79.9	43.7
Major assumptions											
No. of titles aired	6.5	6.5	6.5	5.5	5.5	5.5	5.5	5.5	25.0	22.0	24.0
No. of titles licensed to Netflix	1.5	2.0	2.5	2.0	2.0	2.0	2.0	2.0	8.0	8.0	10.0

Note: Under consolidated K-IFRS

Source: Company data, Mirae Asset Securities Research estimates

Studio Dragon (253450 KQ)

Income statement (summarized)

(Wbn)	2019	2020	2021F	2022F
Revenue	469	526	553	713
Cost of revenue	421	451	458	582
GP	48	75	95	131
SG&A expenses	19	26	28	31
OP (adj.)	29	49	67	100
OP	29	49	67	100
Non-operating profit	4	-7	4	1
Net financial income	3	2	2	4
Net income from associates	0	0	0	0
Pretax profit	33	42	71	101
Income tax	7	12	17	24
Profit from continuing operations	26	30	53	76
Profit from discontinued operations	0	0	0	0
NP	26	30	53	76
Attributable to owners	26	30	53	76
Attributable to minority interests	0	0	0	0
Total comprehensive income	26	32	53	76
Attributable to owners	26	32	53	76
Attributable to minority interests	0	0	0	0
EBITDA	146	165	166	202
FCF	-13	-2	150	159
EBITDA margin (%)	31.1	31.4	30.0	28.3
OP margin (%)	6.2	9.3	12.1	14.0
Net margin (%)	5.5	5.7	9.6	10.7

Balance sheet (summarized)

(Wbn)	2019	2020	2021F	2022F
Current assets	244	228	339	500
Cash & equivalents	60	49	141	258
AR & other receivables	84	107	128	165
Inventory	0	0	0	0
Other current assets	100	72	70	77
Non-current assets	337	529	501	447
Investments in associates	0	0	0	0
PP&E	1	8	5	4
Intangible assets	233	230	203	148
Total assets	582	757	839	947
Current liabilities	145	132	157	185
AP & other payables	64	53	63	82
Short-term financial liabilities	2	2	3	4
Other current liabilities	79	77	91	99
Non-current liabilities	8	16	17	20
Long-term financial liabilities	8	8	8	8
Other non-current liabilities	0	8	9	12
Total liabilities	153	148	174	205
Equity attributable to owners	428	609	665	742
Capital stock	14	15	15	15
Capital surplus	322	470	470	470
Retained earnings	94	123	176	253
Minority interests	0	0	0	0
Shareholders' equity	428	609	665	742

Cash flow statement (summarized)

(Wbn)	2019	2020	2021F	2022F
Operating cash flow	-12	5	150	159
NP	26	30	53	76
Non-cash income/expenses	124	135	114	121
Depreciation	2	3	3	2
Amortization	115	113	96	100
Other	7	19	15	19
Chg. in working capital	-143	-144	0	-14
Chg. in AR & other receivables	-22	-31	-21	-37
Chg. in inventory	1	0	0	0
Chg. in AP & other payables	9	-11	1	2
Income tax	-19	-15	-17	-24
Cash flow from investing activities	-81	-16	-61	-43
Chg. in PP&E	0	-7	0	0
Chg. in intangible assets	0	-1	-69	-45
Chg. in financial assets	-42	31	5	-3
Other	-39	-39	3	5
Cash flow from financing activities	0	0	0	0
Chg. in financial liabilities	8	1	0	1
Chg. in equity	2	149	0	0
Dividends	0	0	0	0
Other	-10	-150	0	-1
Chg. in cash	-93	-11	92	117
Beginning balance	153	60	49	141
Ending balance	60	49	141	258

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

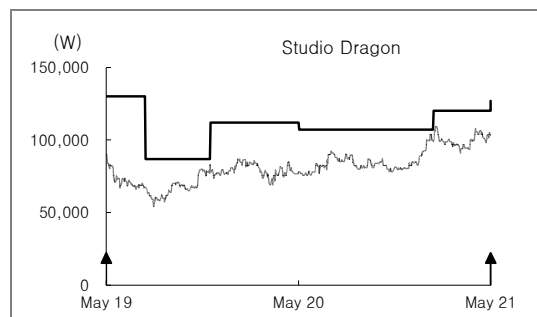
	2019	2020	2021F	2022F
P/E (x)	85.9	88.7	58.2	40.5
P/CF (x)	15.1	16.0	18.5	15.7
P/B (x)	5.3	4.6	4.7	4.2
EV/EBITDA (x)	15.0	16.5	17.6	13.9
EPS (W)	941	1,044	1,774	2,548
CFPS (W)	5,346	5,803	5,573	6,587
BPS (W)	15,242	20,309	22,175	24,724
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	23.4	12.2	5.1	28.9
EBITDA growth (%)	27.0	13.0	0.6	21.7
OP growth (%)	-27.5	69.0	36.7	49.3
EPS growth (%)	-26.4	10.9	69.9	43.6
AR turnover (x)	6.2	5.5	4.7	4.9
Inventory turnover (x)	1,620.7	0.0	0.0	0.0
AP turnover (x)	22.1	37.1	70.8	72.4
ROA (%)	4.8	4.4	6.7	8.6
ROE (%)	6.4	5.7	8.4	10.9
ROIC (%)	8.7	11.2	15.8	26.9
Debt-to-equity ratio (%)	35.8	24.3	26.2	27.6
Current ratio (%)	168.4	172.8	216.0	269.9
Net debt-to-equity ratio (%)	-21.2	-7.5	-26.3	-39.2
Interest coverage ratio (x)	58.1	84.8	94.6	134.6

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
Studio Dragon (253450)	05/07/21	Buy	127,000
	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



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 Securities 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	79.00%	13.00%	7.00%	1.00%
Investment banking services	63.16%	31.58%	5.26%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2021)

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