



Studio Dragon

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

7 May 2021

[Media/ads]

Beyond comparison

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BUY
(Maintain)



CP (May. 6)
KRW103,200



TP (6 months)
KRW144,000



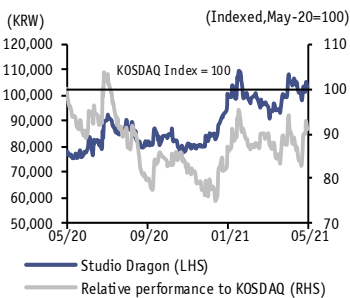
Upside
39.5%

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Rating	BUY (Maintain)
TP (6 months)	KRW144,000
Upside	39.5%

KOSPI	3,178.74p
KOSDAQ	969.99p
Market cap	KRW3,096.4bn/USD2,716.2mn
Par value	KRW500
Outstanding shares	30.0mn
Free float	11.3mn(37.8%)
52-week high/low	KRW109,200/KRW75,900
60-day avg. trading volume	205,667shrs
60-day avg. turnover	KRW20,629mn
Foreign ownership	12.46%
Major shareholders	
CJ ENM and 3 others	55.94%
NAVER	6.26%
Absolute performance	
3M	4.3%
6M	26.8%
12M	34.0%
Relative performance to KOSDAQ	
3M	4.1%
6M	9.4%
12M	-9.0%

Share performance



1Q21 review: Consolidated OP of KRW17.9bn (+53.6% YoY)

Studio Dragon delivered an earnings surprise for 1Q21. Consolidated operating profit came in at KRW17.9bn (+53.6% YoY) on sales of KRW117.1bn (-2.6% YoY), exceeding the consensus estimate of KRW14.4bn by a wide margin. The company has just entered a structural margin growth phase driven by efficient management of IP assets and addition of new artists. Such margin improvement is only possible for Studio Dragon, which has achieved economies of scale and secured access to high quality IP assets through its partnership with NAVER. While sales remained flat YoY, operating margin increased by 5.6%p YoY in 1Q21.

Dominant leader in domestic content market

For 2Q21, we conservatively forecast consolidated sales at KRW170.9bn (+5.9% YoY) and operating profit at KRW17bn (+0.5% YoY), excluding China-related earnings. Even a fraction of revenue added from China could drive company-wide operating profit above KRW20bn. The profit growth expected in 2Q21 is impressive considering the high YoY base created by strong revenue from The King: Eternal Monarch booked in 2Q20.

Annual operating profit is now estimated to exceed KRW60bn even without China revenue. Adding a fraction of sales from China, the figure could increase to KRW70bn-80bn levels. Studio Dragon is highly sought after by China's video platforms (Baidu, Alibaba, Tencent, etc.) who want to seal deals for killer contents for the mainland market where competition for market share is intense, unlike in the Southeast Asian markets.

Studio Dragon is currently in talks with more than ten global top-tier OTT platforms (including China-based ones) on licensing agreements for Korean drama series, as well as production deals for original drama contents. The company beats competitors by a wide margin in terms of sales from original series production, which should reach KRW77bn (+75.0% YoY) in 2021 and KRW102bn (+32.5% YoY) in 2022 even on conservative projections.

Target price raised to KRW144,000 for content sector top pick

We raise our target price for Studio Dragon to KRW144,000 on upward revision of earnings forecasts. Expectations are high for upcoming earnings seasons, with the company leading efforts to improve efficiency in IP management and profit margins along with Seoul Broadcasting System. A PER of 50-60x may seem demanding, but we note that China revenue is mostly excluded from earnings estimates. Initial benefits from the easing of China's ban on Korean contents should be concentrated on market leaders. We still see ample upside for the shares. Studio Dragon remains our top pick in the content sector alongside Seoul Broadcasting System.

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 (%)
2019	468.7	28.7	33.1	26.4	941	(26.3)	15,242	85.9	14.9	5.3	6.4	(24.9)
2020	525.7	49.1	41.5	29.6	1,044	10.9	20,309	88.7	16.3	4.6	5.7	(14.8)
2021F	601.8	68.9	67.5	51.8	1,727	65.4	22,036	59.7	17.1	4.7	8.2	(15.5)
2022F	687.3	81.6	82.8	63.4	2,112	22.3	24,148	48.9	15.4	4.3	9.1	(19.0)
2023F	752.3	94.0	94.5	72.3	2,410	14.1	26,558	42.8	13.7	3.9	9.5	(21.7)

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 KRW144,000

	Value		Value		Value
2021 EPS (KRW)	1,727	12MF EPS (KRW)	1,840	2022F EPS (KRW)	2,112
Target price (KRW)	135,000	Target price (KRW)	144,000	Target price (KRW)	165,000
Target PER (x)	78	Target PER (x)	78	Target PER (x)	78
		Current price (KRW)	103,200		
		Current PER (x)	59.7		

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)

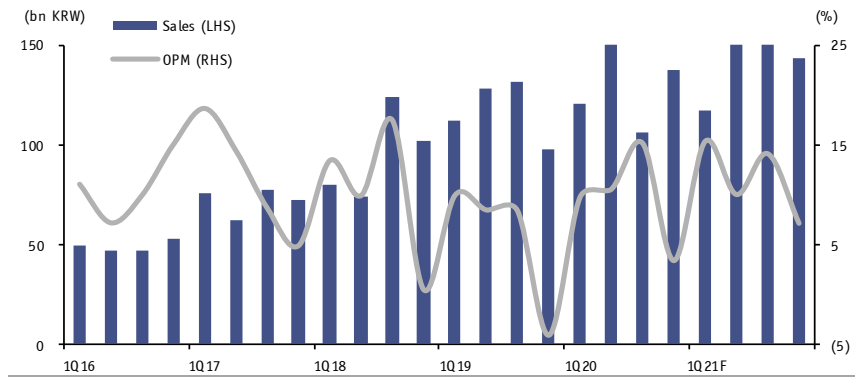
(bn KRW)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21F	3Q21F	4Q21F	2019	2020	2021F	2022F
<Earnings forecasts>																
Total revenue	111.8	128.2	131.2	97.4	120.3	161.4	106.3	137.7	117.1	170.9	170.5	143.3	468.7	525.6	601.8	687.3
Production revenue	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.7	43.8	63.2	56.9	46.7	208.7	197.0	210.5	226.1
Distribution revenue	56.2	60.3	60.0	42.7	66.9	75.7	50.9	86.3	63.2	92.8	100.8	84.1	219.2	279.7	340.9	409.0
Other (PPL) revenue	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	10.1	14.9	12.8	12.6	40.7	49.0	50.4	52.1
<Overseas operations>																
Overseas distribution revenue	42.6	42.2	43.9	31.6	52.8	59.4	42.1	72.3	47.8	74.7	87.3	69.0	160.4	226.6	278.8	339.9
Share in distribution revenue (%)	75.9	70.0	73.1	74.1	78.9	78.5	47.9	83.8	75.5	80.5	86.6	82.0	73.2	81.0	81.8	83.1
Netflix	8.3	23.0	24.0	6.0	24.5	36.0	12.0	45.0	20.0	49.0	47.0	40.0	61.3	117.5	156.0	192.5
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	25.2	22.1	21.1	19.9
Asia including China	21.6	12.7	11.3	17.3	17.4	14.9	18.4	18.3	16.2	17.0	28.0	20.2	63.0	69.0	81.4	98.9
China	1.8	0.0	0.0	0.0	0.0	0.0	8.0	0.0	0.0	0.0	8.0	0.0	1.8	8.0	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	8.6	9.5	11.4	11.2
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	0.6	0.9	1.3
COGS	96.8	112.8	115.9	95.2	103.5	139.6	85.0	122.7	93.4	148.7	140.9	121.9	420.8	450.8	504.9	576.0
SG&A	4.0	4.6	4.4	6.2	5.1	4.9	5.3	10.4	5.8	5.2	5.7	11.3	19.2	25.7	28.0	29.7
OP	11.0	10.8	10.9	(4.0)	11.6	16.9	16.0	4.6	17.9	17.0	23.9	10.1	28.7	49.1	68.9	81.6
Pre-tax profit	13.2	11.9	13.1	(5.1)	12.0	17.2	15.2	(2.9)	21.1	15.6	21.4	9.5	33.1	41.6	67.5	82.8
NP	9.2	7.3	11.5	(1.7)	8.6	13.4	10.6	(2.9)	15.6	12.2	16.7	7.4	26.4	29.6	51.8	63.4
<% YoY growth>																
Sales	40.0	72.6	6.1	(4.2)	7.5	25.9	(19.0)	41.4	(2.6)	5.9	60.5	4.1	23.5	12.2	14.5	14.2
OP	3.5	47.5	(49.2)	TR	5.5	56.3	46.8	TB	53.6	0.5	49.3	120.5	(28.1)	71.3	40.2	18.4
NP	17.2	(17.2)	(33.6)	TR	(7.2)	82.1	(7.9)	RR	81.9	(9.3)	57.5	TB	(26.3)	12.3	74.8	22.3
<Margin, %>																
OPM	9.9	8.4	8.3	(4.1)	9.7	10.4	15.1	3.3	15.3	9.9	14.0	7.1	6.1	9.3	11.4	11.9
NPM	8.2	5.7	8.8	(1.7)	7.1	8.3	10.0	(2.1)	13.3	7.1	9.8	5.2	5.6	5.6	8.6	9.2

Source: Company data, Shinhan Investment Corp.

Note: Distribution rights revenue from Netflix included in overseas distribution revenue

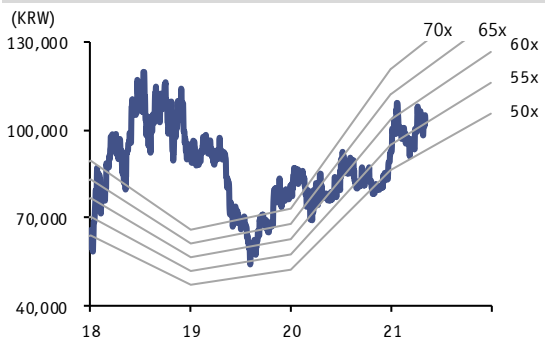
Key charts

Sales and operating profit margin (K-IFRS consolidated)



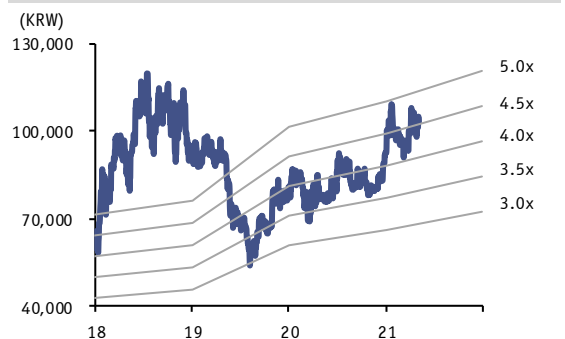
Source: Company data, Shinhan Investment Corp.

12-month forward consolidated PER band



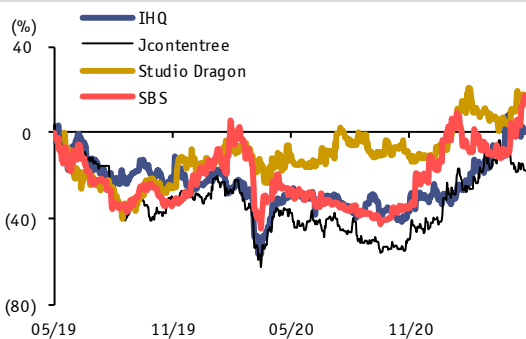
Source: QuantiWise, Shinhan Investment Corp.

12-month forward consolidated PBR band



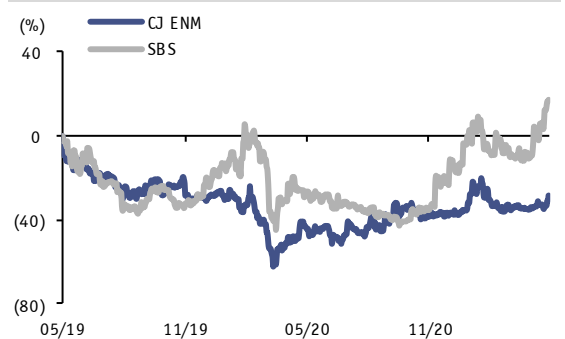
Source: QuantiWise, Shinhan Investment Corp.

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)	2019	2020	2021F	2022F	2023F
Total assets	581.6	757.3	820.8	897.2	982.5
Current assets	244.5	228.3	257.5	309.5	361.2
Cash and equivalents	59.8	49.1	61.5	96.3	131.3
Accounts receivable	83.6	106.7	122.1	137.9	152.9
Inventories	0.0	0.0	0.0	0.0	0.0
Non-current assets	337.1	529.0	563.3	587.7	621.3
Tangible assets	1.2	7.6	5.8	4.9	5.1
Intangible assets	233.1	230.4	241.4	249.3	262.6
Investment assets	13.4	180.1	181.3	182.8	183.8
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	153.3	148.0	159.6	172.7	185.7
Current liabilities	145.1	132.1	142.7	154.5	166.6
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	18.4	5.9	6.2	7.1	7.7
Current portion of long-term debt	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	8.2	15.8	16.9	18.1	19.1
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	7.9	8.2	8.2	8.2	8.2
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	428.3	609.3	661.2	724.5	796.9
Capital stock	14.0	15.0	15.0	15.0	15.0
Capital surplus	321.7	470.0	470.0	470.0	470.0
Other capital	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)
Accumulated other comprehensive income	(1.0)	1.8	1.8	1.8	1.8
Retained earnings	93.5	122.9	174.7	238.1	310.4
Controlling interest equity	428.3	609.3	661.2	724.5	796.9
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	9.9	10.6	11.0	11.4	11.7
*Net debt (cash)	(106.6)	(90.4)	(102.8)	(137.5)	(172.9)

Statement of cash flow

Year to December (bn KRW)	2019	2020	2021F	2022F	2023F
Cash flow from operations	(12.2)	5.2	152.1	168.9	186.2
Net profit	26.4	29.6	51.8	63.4	72.3
Depreciation expense	1.8	2.9	1.9	1.5	1.6
Amortization expense	115.0	113.3	104.0	109.0	117.2
FX translation loss (gain)	0.6	3.4	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	(142.9)	(144.1)	(5.2)	(4.1)	(3.4)
(Payment of income tax)	(19.4)	(15.4)	(15.7)	(19.5)	(22.2)
Others	6.3	15.5	15.3	18.6	20.7
Cash flow from investments	(81.0)	(16.3)	(139.5)	(133.8)	(150.9)
Increase in tangible assets	(0.6)	(7.2)	(1.5)	(1.9)	(2.1)
Decrease in tangible assets	0.2	0.0	1.4	1.3	0.3
Change in intangible assets	(0.3)	(1.2)	(114.9)	(116.9)	(130.5)
Change in investment assets	(18.8)	(48.7)	(1.3)	(1.4)	(1.1)
Others	(61.5)	40.8	(23.2)	(14.9)	(17.5)
Free cash flow	133.9	131.3	151.0	165.6	184.4
Cash flow from financing	(0.0)	0.0	(0.3)	(0.2)	(0.4)
Change in borrowings	0.0	0.0	0.4	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	0.0	0.0	(0.7)	(0.6)	(0.7)
Other cash flow	0.0	0.0	0.0	0.0	0.0
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.0)	0.4	0.0	0.0	0.0
Change in total cash	(93.2)	(10.7)	12.4	34.9	35.0
Beginning cash	153.0	59.8	49.1	61.5	96.3
Ending cash	59.8	49.1	61.5	96.3	131.3

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2019	2020	2021F	2022F	2023F
Sales	468.7	525.7	601.8	687.3	752.3
Growth (%)	23.5	12.2	14.5	14.2	9.5
COGS	420.8	451.0	504.9	576.0	625.9
Gross profit	47.9	74.8	96.9	111.3	126.4
GPM (%)	10.2	14.2	16.1	16.2	16.8
SG&A	19.2	25.7	28.1	29.7	32.3
Operating profit	28.7	49.1	68.9	81.6	94.0
Growth (%)	(28.1)	71.1	40.3	18.4	15.2
OPM (%)	6.1	9.3	11.4	11.9	12.5
Non-operating profit	4.4	(7.6)	(1.3)	1.2	0.5
Financial profit	4.3	(3.7)	(0.7)	2.8	2.5
Other non-operating profit	0.1	(3.8)	(0.7)	(1.6)	(2.0)
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	33.1	41.5	67.5	82.8	94.5
Income tax	6.6	11.9	15.7	19.5	22.2
Continuing operations	26.4	29.6	51.8	63.4	72.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	26.4	29.6	51.8	63.4	72.3
Growth (%)	(26.3)	12.1	75.0	22.3	14.1
NPM (%)	5.6	5.6	8.6	9.2	9.6
Controlling interest	26.4	29.6	51.8	63.4	72.3
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	25.7	32.2	51.8	63.4	72.3
Controlling interest	25.7	32.2	51.8	63.4	72.3
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	145.5	165.3	174.8	192.1	212.9
Growth (%)	26.4	13.6	5.7	9.9	10.8
EBITDA margin (%)	31.1	31.4	29.0	27.9	28.3

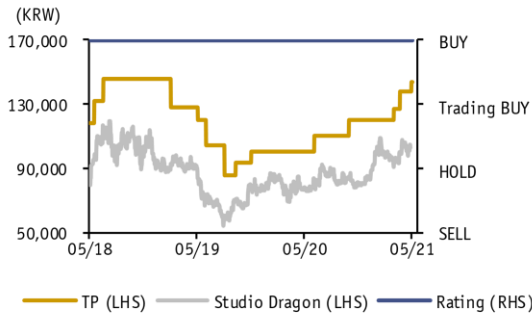
Key ratios

Year to December	2019	2020	2021F	2022F	2023F
EPS (KRW)	941	1,044	1,727	2,112	2,410
EPS of controlling interest (KRW)	941	1,044	1,727	2,112	2,410
BPS (KRW)	15,242	20,309	22,036	24,148	26,558
BPS of controlling interest (KRW)	15,242	20,309	22,036	24,148	26,558
DPS (KRW)	0	0	0	0	0
PER (x)	85.9	88.7	59.7	48.9	42.8
PER of controlling interest (x)	85.9	88.7	59.7	48.9	42.8
PBR (x)	5.3	4.6	4.7	4.3	3.9
PBR of controlling interest (x)	5.3	4.6	4.7	4.3	3.9
EV/EBITDA (x)	14.9	16.3	17.1	15.4	13.7
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 (%)	31.1	31.4	29.0	27.9	28.3
OPM (%)	6.1	9.3	11.4	11.9	12.5
NPM (%)	5.6	5.6	8.6	9.2	9.6
ROA (%)	4.8	4.4	6.6	7.4	7.7
ROE (%)	6.4	5.7	8.2	9.1	9.5
ROIC (%)	8.4	15.5	21.7	24.3	26.4
Stability					
Debt to equity ratio (%)	35.8	24.3	24.1	23.8	23.3
Net debt ratio (%)	(24.9)	(14.8)	(15.5)	(19.0)	(21.7)
Cash ratio (%)	41.2	37.2	43.1	62.3	78.8
Interest coverage ratio (x)	58.1	84.8	113.1	129.6	144.8
Activity (%)					
Working capital turnover (times)	(26.3)	(59.5)	850.7	105.3	66.2
Inventory turnover (days)	0.2	N/A	N/A	N/A	N/A
Receivable turnover (days)	59.3	66.0	69.4	69.0	70.5

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
2018.04.01	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	(25.6)	(21.7)
2021.05.07	BUY	144,000	-	-

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

Rating Distribution - SHIC Universe (as of 4 May 2021)

BUY (BUY)	94.09%	Trading BUY (HOLD)	1.82%	HOLD (HOLD)	4.09%	SELL (SELL)	0.00%
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Rating Distribution - SHIC Investment Banking Clients (as of 4 May 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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