

Studio Dragon (253450 KQ)

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Rating **BUY**
maintain
6M TP (₩) **130,000**
maintain
CP (₩)
(21.05.31) **98,100**

Media

Global journey has just begun

BUY; 6M TP maintained at ₩130,000

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

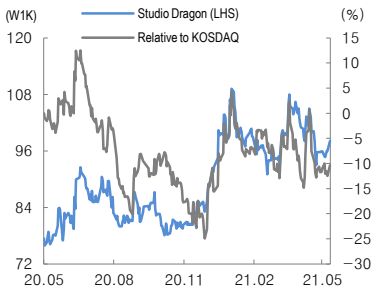
Latest series order from Apple to help to set foot in US market

- Studio Dragon has won a 10-episode straight-to-series order from Apple. Its US subsidiary and US-based production house Skydance Media will be producing *The Big Door Prize*, a 30-minute comedy based on best-selling author M. O. Walsh's novel of the same name. Emmy-winning *Schitt's Creek* writer and producer David West Read, who is writing the adaptation, is set to serve as the showrunner and executive producer of the new Apple TV+ series.
- Unlike Korean drama series that typically ends in a single season after 16 hour-long episodes, a US drama series usually spans multiple seasons (10-20 episodes a season that last 30-60 minutes) depending on how the pilot (first) season performs. While it's hard to get a foot in the door initially, once the pilot is launched, production houses tend to receive orders for one or two more seasons, which could be the case for Studio Dragon if the first season proves to be successful.
- Our attention is drawn to the company's push into the US market largely because of the scale of US productions i.e. the budget for a single episode is as big as that for an entire Korea drama series. That means if Studio Dragon produces five US drama series a year (ten ₩10bn episodes per series), it could rake in as much as it earned last year.
- We have yet to reflect the latest order and potential orders that could follow in our earnings forecast for the company, and will do so in 2H22, when the pilot is set to be released.
- At its 1Q21 earnings call, Studio Dragon said the pilot is one of 18 projects it is working on in the US, including those in collaboration with partners. It is expected to reveal more information about one to two projects this year.

ESG rating	S	A+	A	B+	B	C	D
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KOSDAQ	981.78
Market cap (₩bn)	2,943
Market cap portion (%)	0.73
Paid-in capital (common; ₩bn)	15
52w high/low (₩)	109,200 / 76,200
120d avg. trading volume (₩bn)	26.8
Foreign ownership (%)	12.27
Major shareholders	CJ ENM+3: 55.94% Naver: 6.26%

(%)	1M	3M	6M	12M
Abs. return	-5.0	2.0	22.2	28.7
Rel. return	-4.9	-5.1	10.3	-6.4



Operating results and major financial data

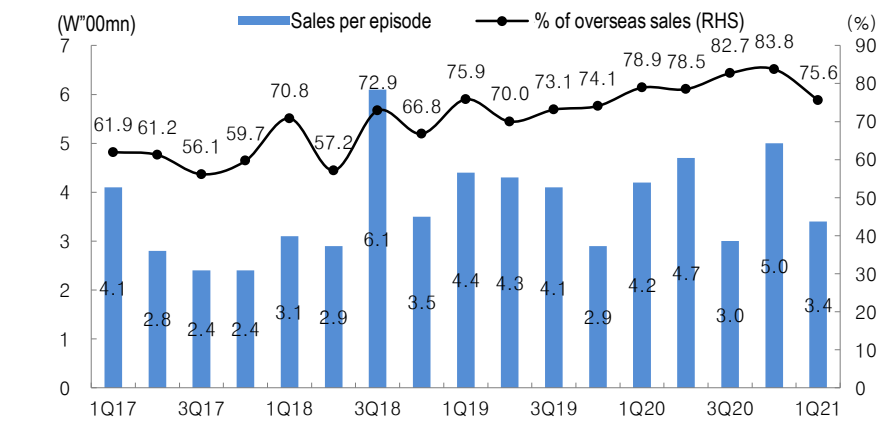
(₩bn, ₩, x, %)

	2019A	2020A	2021F	2022F	2023F
Revenue	469	526	591	641	708
OP	29	49	72	85	98
Pretax profit	33	42	79	90	104
NP	26	30	59	67	77
NP (controlling int.)	26	30	59	67	77
EPS	941	1,044	1,960	2,218	2,564
PER	85.9	88.7	50.1	44.2	38.3
BPS	15,258	21,480	22,268	24,487	26,201
PBR	5.3	4.3	4.4	4.0	3.7
ROE	6.4	5.7	9.2	9.5	10.1

Note: EPS, BPS, and ROE are based only on the controlling interest.

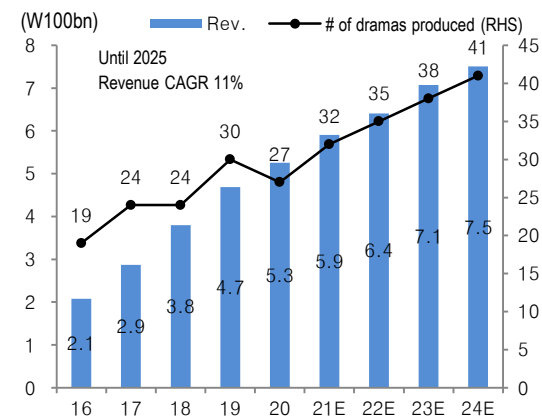
Source: Studio Dragon, Daishin Securities Research Center

Fig 1. Per-episode sales and overseas revenue share



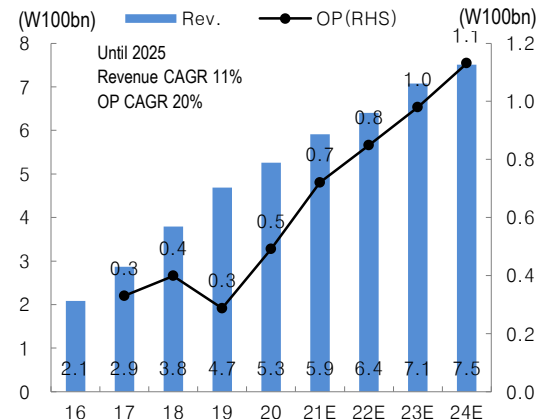
Source: Studio Dragon, Daishin Securities Research Center

Fig 2. Steady rise in number of dramas produced



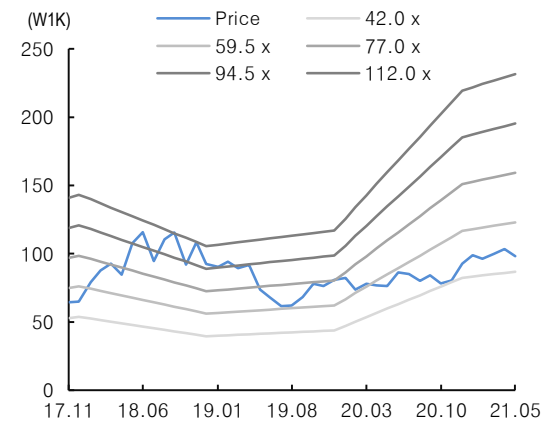
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 3. Rosy outlook for revenue and earnings



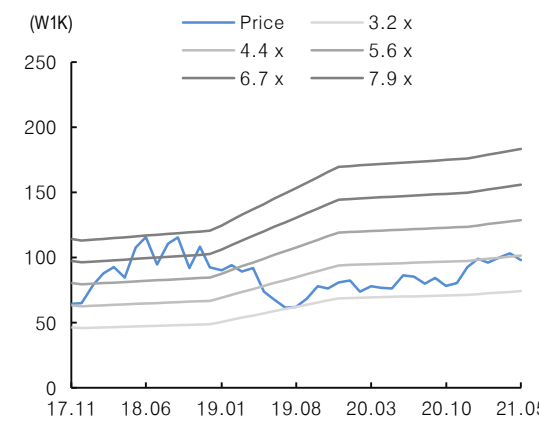
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 4. 12MF P/E ratio band



Source: FnGuide, Daishin Securities Research Center

Fig 5. 12MF P/B ratio band



Source: FnGuide, Daishin Securities Research Center

Per share intrinsic value

Residual Income Model		(Wbn, W, %)									
		2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
I	NP (contr. int.) ^(Note 2)	59	67	77	88	105	120	138	159	183	210
II	Shareholders' equity (contr. int.) ^(Note 2)	668	735	786	844	914	994	1,084	1,188	1,307	1,444
	Estimated ROE	9.2	9.5	10.1	10.4	11.4	12.1	12.7	13.4	14.0	14.6
III	Required rate of return ^(Note 3)	4.1									
	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)	5.1	5.4	6.0	6.3	7.3	8.0	8.6	9.3	9.9	10.5
V	Required income	25	27	30	32	35	37	41	44	49	54
VI	Residual income (I - V)	34	39	47	56	70	83	97	114	134	157
	Present value factor	0.98	0.94	0.90	0.87	0.83	0.80	0.77	0.74	0.71	0.68
	PV of residual income	33	37	42	48	58	66	75	84	95	106
VII	Sum of residual income	645									
VIII	PV of residual income following forecasting period	2,597									
	Terminal growth (g) ^(Note 6)	0.0%									
IX	Beginning shareholders' equity	609									
X	Fair market cap (VII+VIII+IX)	3,851									
	Total number of shares (thousands)	30,004									
XI	Per share value (W)	128,348									
	Current share price (W)	96,000									
	Potential (%)	33.7%									

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	591	641	708
Cost of goods sold	421	451	491	526	577
Gross profit	48	75	100	115	130
SG&A expenses	19	26	28	30	32
OP	29	49	72	85	98
OP margin	6.1	9.3	12.2	13.3	13.8
EBITDA	146	165	228	278	317
Non-OP	4	-8	7	5	6
Income from affiliates	0	0	0	0	0
Financial revenue	10	10	15	13	14
FX related gains	0	0	0	0	0
Financial expense	-6	-14	-8	-9	-9
FX related losses	4	10	0	0	0
Others	0	-4	1	1	1
Income before taxes	33	42	79	90	104
Income tax expense	-7	-12	-21	-23	-27
Income from cont. op.	26	30	59	67	77
Income from discount. op.	0	0	0	0	0
NP	26	30	59	67	77
NP margin	5.6	5.6	10.0	10.4	10.9
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	26	30	59	67	77
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-1	3	3	3	3
Comprehensive income	26	32	61	69	79
Comp. income for non-contr. Int.	0	0	0	0	0
Comp. income for contr. int.	26	32	61	69	79

Valuation metrics					(W,x,%)
	2019A	2020A	2021F	2022F	2023F
EPS	941	1,044	1,960	2,218	2,564
PER	85.9	88.7	50.1	44.2	38.3
BPS	15,258	21,480	22,268	24,487	26,201
PBR	5.3	4.3	4.4	4.0	3.7
EBITDAPS	5,185	5,828	7,611	9,270	10,563
EV/EBITDA	14.9	16.3	12.3	9.8	8.3
SPS	16,698	18,532	19,694	21,350	23,583
PSR	4.8	5.0	5.0	4.6	4.2
CFPS	5,346	5,803	7,592	9,175	10,475
DPS	0	0	0	850	1,000

Financial ratios					(W,x,%)
	2019A	2020A	2021F	2022F	2023F
Growth potential					
Revenue growth	23.5	12.2	12.4	8.4	10.5
OP growth	-28.1	71.1	47.0	17.6	15.4
NP growth	-26.3	12.1	98.5	13.2	15.6
Profitability					
ROIC	9.4	12.7	18.5	22.0	27.9
ROA	5.2	7.3	9.2	10.0	10.8
ROE	6.4	5.7	9.2	9.5	10.1
Stability					
Debt ratio	35.8	24.3	22.3	20.3	19.1
Net borrowings ratio	-24.9	-14.8	-21.5	-30.5	-39.8
Interest coverage ratio	58.1	84.8	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	228	295	385	488
Cash & cash equiv.	60	49	102	182	272
Trade & other receive.	84	107	120	130	144
Inventories	0	0	0	0	0
Other current assets	101	73	73	73	73
Long-term assets	337	529	522	499	448
Tangible assets	1	8	11	14	16
Investments in affiliates	0	0	0	0	0
Other long-term assets	336	521	511	485	432
Total assets	582	757	817	884	936
Current liabilities	145	132	133	133	134
Payables & other liab.	66	57	58	58	59
Borrowings	0	0	0	0	0
Current portion of LT debts	0	0	0	0	0
Other current liabilities	79	75	75	75	75
Long-term liabilities	8	16	16	16	16
Borrowings	0	0	0	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	8	16	16	16	16
Total liabilities	153	148	149	149	150
Controlling interest	428	609	668	735	786
Capital stock	14	15	15	15	15
Capital surplus	322	470	470	470	470
Retained earnings	94	123	182	248	300
Other capital changes	-1	1	1	1	1
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	428	609	668	735	786
Net borrowings	-107	-90	-143	-224	-313

Cash flow statement					(W/bn)
	2019A	2020A	2021F	2022F	2023F
Operating cash flows	-12	5	106	154	187
NP	26	30	59	67	77
Non-cash items	124	135	169	209	237
Depreciation	117	116	156	193	219
FX gains	1	3	0	0	0
Equity method gain	0	0	0	0	0
Others	6	15	13	15	18
Chg in assets & liab.	-143	-144	-114	-111	-114
Other cash flows	-19	-15	-8	-10	-13
Investing cash flow	-81	-16	-149	-169	-168
Investment assets	-57	-9	0	0	0
Tangible assets	0	-7	-7	-7	-7
Others	-23	0	-141	-162	-160
Financing cash flows	0	0	-149	-149	-175
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	149	0	0	0
Cash dividends	0	0	0	0	-26
Others	-2	-149	-149	-149	-149
Net chg in cash	-93	-11	53	80	89
Beginning cash balance	153	60	49	102	182
Ending cash balance	60	49	102	182	272
NOPLAT	23	35	53	63	73
FCF	139	143	60	86	123

[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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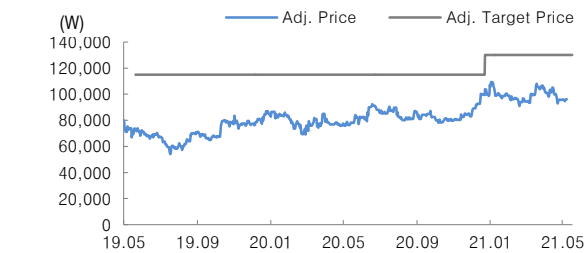
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	21.06.01	21.01.12	20.12.09	20.06.09	19.12.09	19.06.09
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. %)		(23.60)	(20.69)	(27.40)	(31.27)	(40.15)
Diff. (max./min., %)		(16.00)	(9.83)	(19.57)	(24.35)	(27.48)
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 (May 29, 2021)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	90.1%	9.0%	0.9%

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.