

Studio Dragon

(253450 KQ)

In need of big-budget titles

Buy
(Maintain)

TP: W116,000 ▼
Upside: 25.3%

Mirae Asset Securities Co., Ltd.

Jeong-yeob Park jay.park@miraesec.com

2Q21 review

Revenue of W106bn (-34.3% YoY) and OP of W13.8bn (-18.2% YoY); in line with expectations

- Despite a decline in programming, margins held steady in 2Q21, supported by: 1) higher pricing (which cushioned revenue); 2) the positive effects of older titles; and 3) cost efficiency.
- Programming: Revenue plunged 56.9% YoY to W28.2bn due to fewer titles being aired. Content appeal was also somewhat disappointing.
- Licensing: Revenue dipped 10.8% YoY to W67.5bn. The pricing of older titles continued to rise thanks to increased bargaining power. The drama *My Roommate is a Gumiho* aired on iQIYI.
- Costs: Despite an increase in costs related to originals, total costs fell 36.2% YoY to W92.2bn on the back of lower COGS driven by old titles.

Transforming into a digital player

Path toward distribution channel diversification remains clear; in need of big-budget titles

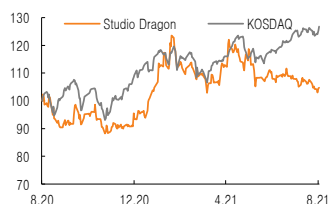
- We find it encouraging that the company is able to defend margins even under extremely unfavorable conditions (sharp decline in programming).
- We expect a more favorable environment in 3Q21. We look for 3Q21 revenue of W141.9bn (+33.6% YoY) and operating profit of W16.3bn (+1.6% YoY).
- Studio Dragon is working on joint projects with Skydance Media and Blumhouse Productions and is producing an in-house content series based on webtoon intellectual property (IP) from YLAB. Such moves are likely to help the company expand its target market and scale up production costs.
- We believe the long-term path toward distribution channel diversification remains intact. That said, the company needs to land big-budget deals that meet market expectations.

Valuation and recommendation

Becoming a global studio

- We maintain our Buy rating on Studio Dragon but lower our target price by 9% to W116,000, which is based on 45x our 2022F net profit.
- The age of digital transformation opens up opportunities for more diverse genres, such as short/mid-form and metaverse content.
- Looking ahead, we believe potential OTT deals for big-budget titles, the production of webtoon IP-based series, and licensing sales to China will be key factors influencing share performance.
- It should be noted that the company's licensing sales (exclusive rights in overseas markets) could be affected by TVING's overseas expansion strategy.

Key data



Current price (8/5/21, W)	92,600	Market cap (Wbn)	2,778
OP (21F, Wbn)	66	Shares outstanding (mn)	30
Consensus OP (21F, Wbn)	68	Free float (%)	37.8
EPS growth (21F, %)	64.2	Foreign ownership (%)	12.1
P/E (21F, x)	54.0	Beta (12M)	0.61
Market P/E (21F, x)	11.3	52-week low (W)	78,100
KOSDAQ	1,059.54	52-week high (W)	109,200

Share performance

(%)	1M	6M	12M
Absolute	-2.9	-6.4	2.3
Relative	-4.1	-14.5	-18.2

Earnings and valuation metrics

(Dec.)	2017	2018	2019	2020	2021F	2022F
Revenue (Wbn)	287	380	469	526	518	724
OP (Wbn)	33	40	29	49	66	103
OP margin (%)	11.5	10.5	6.2	9.3	12.7	14.2
NP (Wbn)	24	36	26	30	51	77
EPS (W)	1,050	1,278	941	1,044	1,714	2,579
ROE (%)	12.9	9.3	6.4	5.7	7.7	10.1
P/E (x)	61.9	72.3	85.9	88.7	54.0	35.9
P/B (x)	4.9	6.5	5.3	4.6	3.8	3.4
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, %)

Valuation (P/E)	20	21F	22F	12MF
Current P/E	93.9	54.0	35.9	43.7
Fair market cap	3,482	3,482	3,482	3,482
NP	30	51	77	64
Target P/E	117.7	67.7	45.0	54.8
Fair price (W)	116,057	116,057	116,057	116,057
Upside (%)		25.3	25.3	25.3

Source: Mirae Asset Securities Research estimates

Table 2. Studio Dragon: Consolidated earnings and forecasts

(Wbn, %)

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	3Q21F	4Q21F	2020	2021F	2022F
Revenue	120	161	106	138	117	106	142	153	526	518	724
Programming	45	65	46	41	44	28	40	40	197	152	187
Licensing	67	76	51	86	63	68	90	100	280	321	484
Other	8	20	10	11	10	10	12	13	451	423	588
Costs	104	140	85	123	93	86	120	124	260	244	344
Production costs	62	75	47	76	52	44	74	74	52	50	89
Commission fees	11	14	11	16	9	11	13	17	115	97	104
Depreciation/amortization	26	45	19	25	25	25	24	23	24	32	51
Other	4	5	8	6	8	6	9	9	52	50	89
SG&A	5	5	5	10	6	7	6	11	26	29	32
EBITDA	38	63	35	30	43	39	41	42	166	164	208
OP	11	17	16	5	18	14	16	18	49	66	103
OP margin	9.5	10.5	15.1	3.4	15.3	13.0	11.5	11.8	9.3	12.8	14.2
Pretax profit	12	17	15	-3	21	14	16	18	41	70	103
NP	8	13	11	-3	16	9	13	14	30	51	77
Net margin	7.0	8.3	10.0	-2.1	13.3	8.9	8.8	9.1	5.6	9.9	10.7
YoY											
Revenue	7.6	25.9	-19.0	41.4	-2.7	-34.3	33.6	11.4	12.2	-1.4	39.6
Programming	2.5	12.6	-24.9	-10.9	-3.2	-56.9	-11.9	-1.1	-5.6	-22.6	22.9
Licensing	19.1	25.5	-15.2	101.6	-5.5	-10.8	77.0	16.2	27.6	14.8	50.9
Other	-29.2	107.1	-6.4	20.2	24.0	-49.3	20.0	20.0	20.4	-8.1	15.0
EBITDA	0.0	44.3	-10.8	24.4	14.0	-37.7	16.8	39.3	14.4	-1.5	26.7
OP	4.1	56.8	46.7	TTB	55.7	-18.5	1.6	290.9	71.3	34.7	55.9
NP	-7.6	84.0	-8.5	TTR	84.4	-29.5	17.8	TTB	12.2	73.8	52.5
Major assumptions											
No. of titles aired	6.5	6.5	6.5	5.5	5.5	3.5	5.0	5.0	25.0	19.0	23.0
No. of titles licensed to Netflix	1.5	2.0	2.5	2.0	2.0	2.0	1.5	1.5	8.0	7.0	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	518	724
Cost of revenue	421	451	423	588
GP	48	75	95	136
SG&A expenses	19	26	29	32
OP (adj.)	29	49	66	103
OP	29	49	66	103
Non-operating profit	4	-7	4	0
Net financial income	3	2	0	0
Net income from associates	0	0	0	0
Pretax profit	33	42	70	103
Income tax	7	12	18	26
Profit from continuing operations	26	30	51	77
Profit from discontinued operations	0	0	0	0
NP	26	30	51	77
Attributable to owners	26	30	51	77
Attributable to minority interests	0	0	0	0
Total comprehensive income	26	32	85	77
Attributable to owners	26	32	85	77
Attributable to minority interests	0	0	0	0
EBITDA	146	165	166	205
FCF	-13	-2	117	154
EBITDA margin (%)	31.1	31.4	32.0	28.3
OP margin (%)	6.2	9.3	12.7	14.2
Net margin (%)	5.5	5.7	9.8	10.6

Balance sheet (summarized)

(Wbn)	2019	2020	2021F	2022F
Current assets	244	228	333	500
Cash & equivalents	60	49	148	254
AR & other receivables	84	107	128	179
Inventory	0	0	0	0
Other current assets	100	72	57	67
Non-current assets	337	529	561	508
Investments in associates	0	0	0	0
PP&E	1	8	6	4
Intangible assets	233	230	241	186
Total assets	582	757	894	1,008
Current liabilities	145	132	147	180
AP & other payables	64	53	59	83
Short-term financial liabilities	2	2	3	4
Other current liabilities	79	77	85	93
Non-current liabilities	8	16	16	19
Long-term financial liabilities	8	8	7	7
Other non-current liabilities	0	8	9	12
Total liabilities	153	148	163	199
Equity attributable to owners	428	609	731	809
Capital stock	14	15	15	15
Capital surplus	322	470	470	470
Retained earnings	94	123	174	252
Minority interests	0	0	0	0
Shareholders' equity	428	609	731	809

Cash flow statement (summarized)

(Wbn)	2019	2020	2021F	2022F
Operating cash flow	-12	5	117	154
NP	26	30	51	77
Non-cash income/expenses	124	135	117	128
Depreciation	2	3	3	2
Amortization	115	113	97	100
Other	7	19	17	26
Chg. in working capital	-143	-144	-34	-25
Chg. in AR & other receivables	-22	-31	-9	-51
Chg. in inventory	1	0	0	0
Chg. in AP & other payables	9	-11	1	3
Income tax	-19	-15	-17	-26
Cash flow from investing activities	-81	-16	-53	-49
Chg. in PP&E	0	-7	0	0
Chg. in intangible assets	0	-1	-69	-45
Chg. in financial assets	-42	31	6	-4
Other	-39	-39	10	0
Cash flow from financing activities	0	0	-2	1
Chg. in financial liabilities	8	1	-1	1
Chg. in equity	2	149	0	0
Dividends	0	0	0	0
Other	-10	-150	-1	0
Chg. in cash	-93	-11	99	106
Beginning balance	153	60	49	148
Ending balance	60	49	148	254

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

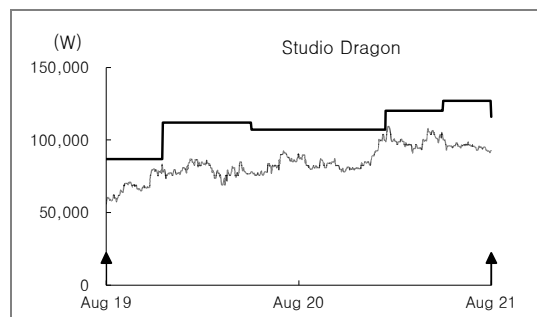
	2019	2020	2021F	2022F
P/E (x)	85.9	88.7	54.0	35.9
P/CF (x)	15.1	16.0	16.5	13.6
P/B (x)	5.3	4.6	3.8	3.4
EV/EBITDA (x)	15.0	16.5	15.7	12.2
EPS (W)	941	1,044	1,714	2,579
CFPS (W)	5,346	5,803	5,600	6,829
BPS (W)	15,242	20,309	24,368	26,947
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	23.4	12.2	-1.5	39.8
EBITDA growth (%)	27.0	13.0	0.6	23.5
OP growth (%)	-27.5	69.0	34.7	56.1
EPS growth (%)	-26.4	10.9	64.2	50.5
AR turnover (x)	6.2	5.5	4.4	4.7
Inventory turnover (x)	1,620.7	0.0	0.0	0.0
AP turnover (x)	22.1	37.1	67.6	74.6
ROA (%)	4.8	4.4	6.2	8.1
ROE (%)	6.4	5.7	7.7	10.1
ROIC (%)	8.7	11.2	18.1	23.8
Debt-to-equity ratio (%)	35.8	24.3	22.3	24.7
Current ratio (%)	168.4	172.8	226.4	277.4
Net debt-to-equity ratio (%)	-21.2	-7.5	-23.3	-34.0
Interest coverage ratio (x)	58.1	84.8	0.0	0.0

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
Studio Dragon (253450)	08/06/21	Buy	116,000
	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



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	80.00%	10.67%	8.00%	1.33%
Investment banking services	83.33%	16.67%	0.00%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2021)

Disclosures

As of the publication date, Mirae Asset Securities Co., Ltd. and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.

Analyst certification

The research analysts who prepared this report (the "Analysts") are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws or regulations thereof. Each Analyst responsible for the preparation of this report certifies that (i) all views expressed in this report accurately reflect the personal views of the Analyst about any and all of the issuers and securities named in this report and (ii) no part of the compensation of the Analyst was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report. Mirae Asset Securities Co., Ltd. ("Mirae Asset Securities") policy prohibits its Analysts and members of their households from owning securities of any company in the Analyst's area of coverage, and the Analysts do not serve as an officer, director, or advisory board member of the subject companies. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report. Like all employees of Mirae Asset Securities, the Analysts receive compensation that is determined by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading, and private client divisions. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or Mirae Asset Securities except as otherwise stated herein.

Disclaimers

This report was prepared by Mirae Asset Securities, a broker-dealer registered in the Republic of Korea and a member of the Korea Exchange. Information and opinions contained herein have been compiled in good faith and from sources believed to be reliable, but such information has not been independently verified and Mirae Asset Securities makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness, or correctness of the information and opinions contained herein or of any translation into English from the Korean language. In case of an English translation of a report prepared in the Korean language, the original Korean language report may have been made available to investors in advance of this report. The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws, and accounting principles, and no person whose receipt or use of this report would violate any laws or regulations or subject Mirae Asset Securities or any of its affiliates to registration or licensing requirements in any jurisdiction shall receive or make any use hereof.

This report is for general information purposes only and is not and shall not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The report does not constitute investment advice to any person, and such person shall not be treated as a client of Mirae Asset Securities by virtue of receiving this report. This report does not take into account the particular investment objectives, financial situations, or needs of individual clients. The report is not to be relied upon in substitution for the exercise of independent judgment. Information and opinions contained herein are as of the date hereof and are subject to change without notice. The price and value of the investments referred to in this report and the income from them may depreciate or appreciate, and investors may incur losses on investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. Mirae Asset Securities, its affiliates, and their directors, officers, employees, and agents

do not accept any liability for any loss arising out of the use hereof.

Mirae Asset Securities may have issued other reports that are inconsistent with, and reach different conclusions from, the opinions presented in this report. The reports may reflect different assumptions, views, and analytical methods of the analysts who prepared them. Mirae Asset Securities may make investment decisions that are inconsistent with the opinions and views expressed in this research report. Mirae Asset Securities, its affiliates, and their directors, officers, employees, and agents may have long or short positions in any of the subject securities at any time and may make a purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents. Mirae Asset Securities and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making, or other financial services as are permitted under applicable laws and regulations.

No part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Mirae Asset Securities. For further information regarding company-specific information as it pertains to the representations and disclosures in this Appendix 1, please contact compliance@miraeasset.us.com or +1 (212) 407-1000.

Distribution

United Kingdom: This report is being distributed by Mirae Asset Securities (UK) Ltd. in the United Kingdom only to (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as "Relevant Persons"). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents.

United States: Mirae Asset Securities is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This report is distributed in the U.S. by Mirae Asset Securities (USA) Inc., a member of FINRA/SIPC, to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934, as amended. All U.S. persons that receive this document by their acceptance hereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Mirae Asset Securities or its affiliates. Any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Mirae Asset Securities (USA) Inc. Mirae Asset Securities (USA) Inc. accepts responsibility for the contents of this report in the U.S., subject to the terms hereof, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Mirae Asset Securities. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

Hong Kong: This report is distributed in Hong Kong by Mirae Asset Securities (HK) Limited, which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

India: This report is being distributed by Mirae Asset Capital Markets (India) Private Limited ("MACM") in India to the customers based in India and is personal information only for those authorised recipient(s). MACM is inter alia a Securities and Exchange Board of India ("SEBI") registered Research Analyst in India and is not registered outside India. MACM and Mirae Asset, Korea are group entities. MACM makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained herein. The user assumes the entire risk of any use made of this information. This report has been provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipient must read the entire Appendix 1 to the report carefully for Important Disclosures & Disclaimers.

All other jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Mirae Asset Securities or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Mirae Asset Securities and its affiliates to any registration or licensing requirement within such jurisdiction.

Mirae Asset Securities International Network

Mirae Asset Securities Co., Ltd. (Seoul) One-Asia Equity Sales Team Mirae Asset Center 1 Building 26 Eulji-ro 5-gil, Jung-gu, Seoul 04539 Korea Tel: 82-2-3774-2124	Mirae Asset Securities (HK) Ltd. Units 8501, 8507-8508, 85/F International Commerce Centre 1 Austin Road West Kowloon Hong Kong Tel: 852-2845-6332	Mirae Asset Securities (UK) Ltd. 41st Floor, Tower 42 25 Old Broad Street, London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000
Mirae Asset Securities (USA) Inc. 810 Seventh Avenue, 37th Floor New York, NY 10019 USA Tel: 1-212-407-1000	Mirae Asset Wealth Management (USA) Inc. 555 S. Flower Street, Suite 4410, Los Angeles, California 90071 USA Tel: 1-213-262-3807	Mirae Asset Wealth Management (Brazil) CCTVM Rua Funchal, 418, 18th Floor, E-Tower Building Vila Olimpia Sao Paulo - SP 04551-060 Brazil Tel: 55-11-2789-2100
PT. Mirae Asset Sekuritas Indonesia Equity Tower Building Lt. 50 Sudirman Central Business District Jl. Jend. Sudirman, Kav. 52-53 Jakarta Selatan 12190 Indonesia Tel: 62-21-515-3281	Mirae Asset Securities (Singapore) Pte. Ltd. 6 Battery Road, #11-01 Singapore 049909 Republic of Singapore Tel: 65-6671-9845	Mirae Asset Securities (Vietnam) LLC 7F, Saigon Royal Building 91 Pasteur St. District 1, Ben Nghe Ward, Ho Chi Minh City Vietnam Tel: 84-8-3911-0633 (ext.110)
Mirae Asset Securities Mongolia UTsK LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0806	Mirae Asset Investment Advisory (Beijing) Co., Ltd 2401B, 24th Floor, East Tower, Twin Towers B12 Jianguomenwai Avenue, Chaoyang District Beijing 100022 China Tel: 86-10-6567-9699	Beijing Representative Office 2401A, 24th Floor, East Tower, Twin Towers B12 Jianguomenwai Avenue, Chaoyang District Beijing 100022 China Tel: 86-10-6567-9699 (ext. 3300)
Shanghai Representative Office 38T31, 38F, Shanghai World Financial Center 100 Century Avenue, Pudong New Area Shanghai 200120 China Tel: 86-21-5013-6392	Ho Chi Minh Representative Office 7F, Saigon Royal Building 91 Pasteur St. District 1, Ben Nghe Ward, Ho Chi Minh City Vietnam Tel: 84-8-3910-7715	Mirae Asset Capital Markets (India) Private Limited Unit No. 506, 5th Floor, Windsor Bldg., Off CST Road, Kalina, Santacruz (East), Mumbai – 400098 India Tel: 91-22-62661336