

# Studio Dragon

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

06 August 2021

## Solid profitability confirmed in 2Q21

[Media/ads]

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**BUY**

(Maintain)



CP (Aug. 5)

**KRW92,600**



TP (6 months)

**KRW144,000**



Upside

**55.5%**

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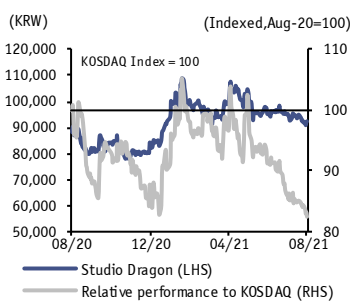


**Shinhan Investment Corp.**

Rating	BUY (Maintain)
TP (6 months)	KRW144,000
Upside	55.5%

KOSPI	3,276.13p
KOSDAQ	1,059.54p
Market cap	KRW2,778.4bn/USD2,437.2mn
Par value	KRW500
Outstanding shares	30.0mn
Free float	11.3mn(37.8%)
52-week high/low	KRW109,200/KRW78,100
60-day avg. trading volume	118,209shrs
60-day avg. turnover	KRW11,294mn
Foreign ownership	12.13%
Major shareholders	
CJ ENM and 3 others	55.94%
NAVER	6.26%
Absolute performance	
3M	-11.8%
6M	-6.4%
12M	2.3%
Relative performance to KOSDAQ	
3M	-19.5%
6M	-14.5%
12M	-18.2%

### Share performance



### 2Q21 consolidated OP reported at KRW13.8bn (-18.4% YoY)

Studio Dragon posted consolidated operating profit of KRW13.8bn (-18.4% YoY) on sales of KRW106bn (-34.3% YoY) for 2Q21. Although short of market consensus, earnings were mostly decent when considering the high YoY base of 2Q20 from large revenue booked for a hit drama series as well as the drop in production revenue from affiliates to YTD lows. The number of dramas that secured revenue in 2Q21 declined by a total of four, including two for tvN, one for OCN and another for a terrestrial broadcasting company. Nevertheless, efficient management of IP assets helped to push up operating margin by 2.6%p YoY in 2Q21.

### 3Q21 consolidated OP forecast at KRW15bn (-6.2% YoY)

For 3Q21, we forecast consolidated sales at KRW137.4bn (+29.3% YoY) and operating profit at KRW15bn (-6.2% YoY), assuming that revenue from China (from the hit drama series Vincenzo, etc.) is booked in 4Q21 instead of 3Q21. The company's reinforced drama line-up for 3Q21 compared with the previous quarter is raising expectations, with recently launched Dear My Spring and The Devil Judge already recording high viewership ratings. In August, more highly-anticipated drama series including The Road: The Tragedy of One and Hometown Cha-Cha-Cha are scheduled to start. Adding the supply of two original drama series to TVING, company-wide sales are likely to record double-digit YoY growth in 3Q21.

Expectations are also rising for China momentum. Studio Dragon continues to work in collaboration with all three of the BAT video streaming platforms (Baidu-backed iQiyi, Alibaba's Youku and Tencent Video) and has the largest number of dramas that are in high demand in China. The company's profit will likely surge once China's ban on Korean media content is removed. Assuming the inflow of revenue from China, operating profit will likely jump above KRW20bn in 4Q21.

Meanwhile, we remain upbeat on negotiations currently underway with overseas OTT platforms. Leveraging on its strong competitiveness in content, Studio Dragon is in talks over mid/long-term contract terms with ten global top-tier OTT platforms, including Netflix and iQiyi. Favorable terms should lead to faster recovery of production costs for existing and original dramas going forward.

### Retain BUY for a target price of KRW144,000

Our target price for Studio Dragon remains unchanged at KRW144,000 with limited adjustments made to earnings forecasts. We believe shares deserve to trade at high valuations considering the company's large overseas sales share, access to NAVER's IP assets, and economies of scale. Once momentum kicks in, Studio Dragon's share price will likely snap back to an uptrend.

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	521.8	68.7	69.7	52.0	1,733	66.0	22,041	53.4	14.8	4.2	8.2	(15.6)
2022F	637.1	81.0	84.2	64.0	2,132	23.0	24,173	43.4	13.1	3.8	9.2	(18.3)
2023F	727.5	93.1	96.1	73.0	2,433	14.1	26,606	38.1	11.8	3.5	9.6	(21.6)

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

## Earnings & valuation

### PER valuation based on 12MF EPS: Target price of KRW144,000

	Value		Value		Value
2021 EPS (KRW)	1,733	12MF EPS (KRW)	1,933	2022F EPS (KRW)	2,132
Target price (KRW)	130,000	Target price (KRW)	144,000	Target price (KRW)	160,000
Target PER (x)	75	Target PER (x)	75	Target PER (x)	75
		Current price (KRW)	103,200		
		Current PER (x)	47.9		

Source: Shinhan Investment Corp.

Note: Target valuation based on past 3-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)

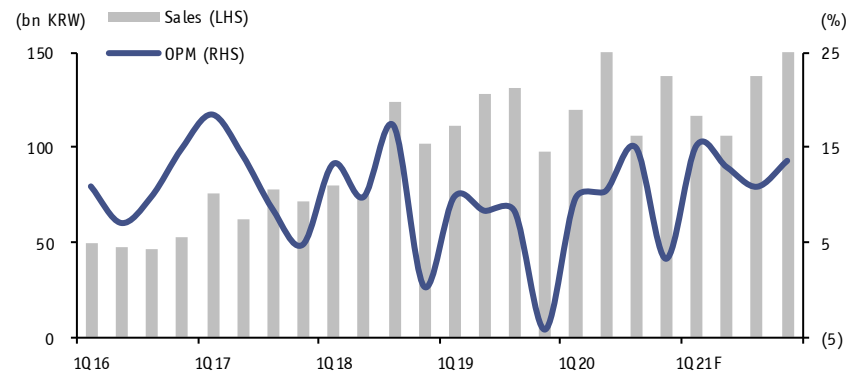
(bn KRW)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21F	4Q21F	2019	2020	2021F	2022F
<b>&lt;Earnings forecasts&gt;</b>																
<b>Total revenue</b>	<b>111.8</b>	<b>128.2</b>	<b>131.2</b>	<b>97.4</b>	<b>120.3</b>	<b>161.4</b>	<b>106.3</b>	<b>137.7</b>	<b>117.1</b>	<b>106.0</b>	<b>137.4</b>	<b>161.2</b>	<b>468.7</b>	<b>525.6</b>	<b>521.8</b>	<b>637.1</b>
Production revenue	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.7	43.8	28.2	47.6	43.8	208.7	197.0	163.3	183.9
Distribution revenue	56.2	60.3	60.0	42.7	66.9	75.7	50.9	86.3	63.2	67.5	78.6	105.3	219.2	279.7	314.7	404.6
Other (PPL) revenue	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	10.1	10.3	11.2	12.0	40.7	49.0	43.7	48.6
<b>&lt;Overseas operations&gt;</b>																
Overseas distribution revenue	42.6	42.2	43.9	31.6	52.8	59.4	42.1	72.3	47.8	56.8	64.8	90.3	160.4	226.6	259.7	345.9
Share in distribution revenue (%)	75.9	70.0	73.1	74.1	78.9	78.5	47.9	83.8	75.5	84.1	82.4	85.8	73.2	81.0	82.5	85.5
Netflix	8.3	23.0	24.0	6.0	24.5	36.0	12.0	45.0	20.0	31.1	42.0	42.0	61.3	117.5	135.1	194.5
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	18.5	29.6	63.0	69.0	81.3	98.9
China	1.8	0.0	0.0	0.0	0.0	0.0	8.0	0.0	0.0	0.0	0.0	10.0	1.8	8.0	10.0	20.0
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	85.7	116.8	128.6	420.8	450.8	424.5	524.9
SG&A	4.0	4.6	4.4	6.2	5.1	4.9	5.3	10.4	5.8	6.5	5.6	10.6	19.2	25.7	28.6	31.2
<b>OP</b>	<b>11.0</b>	<b>10.8</b>	<b>10.9</b>	<b>(4.0)</b>	<b>11.6</b>	<b>16.9</b>	<b>16.0</b>	<b>4.6</b>	<b>17.9</b>	<b>13.8</b>	<b>15.0</b>	<b>22.0</b>	<b>28.7</b>	<b>49.1</b>	<b>68.7</b>	<b>81.0</b>
Pre-tax profit	13.2	11.9	13.1	(5.1)	12.0	17.2	15.2	(2.9)	21.1	14.1	12.9	21.7	33.1	41.6	69.7	84.2
NP	<b>9.2</b>	<b>7.3</b>	<b>11.5</b>	<b>(1.7)</b>	<b>8.6</b>	<b>13.4</b>	<b>10.6</b>	<b>(2.9)</b>	<b>15.6</b>	<b>9.5</b>	<b>10.0</b>	<b>16.9</b>	<b>26.4</b>	<b>29.6</b>	<b>52.0</b>	<b>64.0</b>
<b>&lt;% YoY growth&gt;</b>																
Sales	40.0	72.6	6.1	(4.2)	7.5	25.9	(19.0)	41.4	(2.6)	(34.3)	29.3	17.1	23.5	12.2	(0.7)	22.1
OP	3.5	47.5	(49.2)	TR	5.5	56.3	46.8	TB	53.6	(18.4)	(6.2)	379.6	(28.1)	71.3	39.8	17.9
NP	17.2	(17.2)	(33.6)	TR	(7.2)	82.1	(7.9)	RR	81.9	(29.4)	(5.5)	TB	(26.3)	12.3	75.4	23.0
<b>&lt;Margin, %&gt;</b>																
OPM	9.9	8.4	8.3	(4.1)	9.7	10.4	15.1	3.3	15.3	13.0	10.9	13.7	6.1	9.3	13.2	12.7
NPM	8.2	5.7	8.8	(1.7)	7.1	8.3	10.0	(2.1)	13.3	8.9	7.3	10.5	5.6	5.6	10.0	10.0

Source: Company data, Shinhan Investment Corp.

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

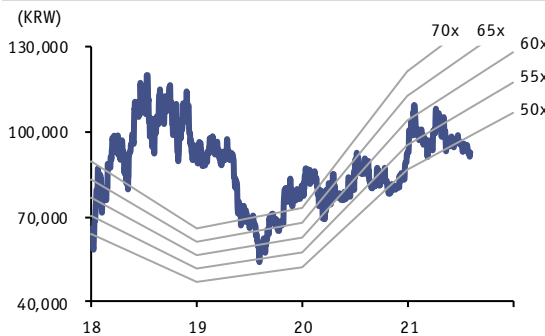
## Key charts

### Sales and operating profit margin (K-IFRS consolidated)



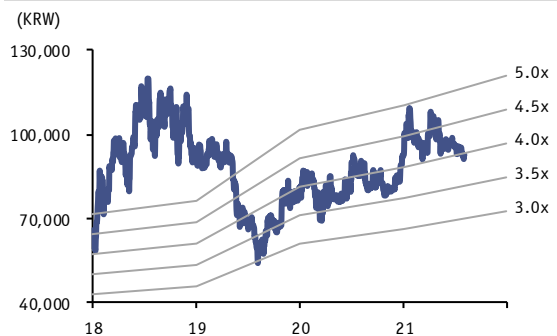
Source: Company data, Shinhan Investment Corp.

### 12-month forward consolidated PER band



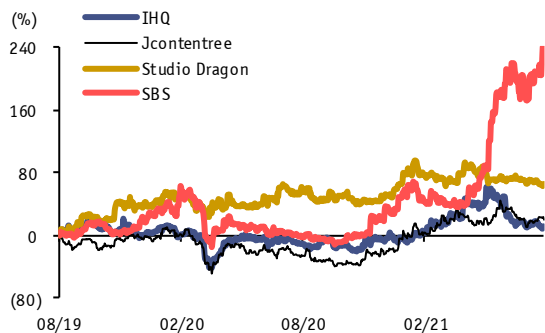
Source: QuantiWise, Shinhan Investment Corp.

### 12-month forward consolidated PBR band



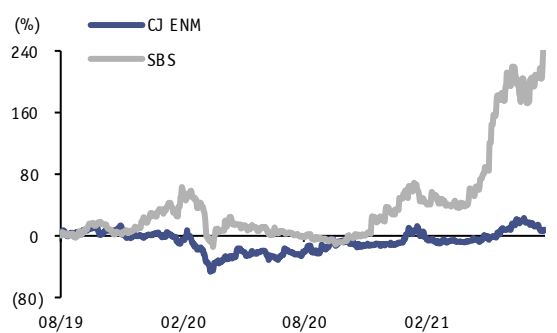
Source: QuantiWise, Shinhan Investment Corp.

### 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
<b>Total assets</b>	<b>581.6</b>	<b>757.3</b>	<b>829.4</b>	<b>908.2</b>	<b>995.9</b>
Current assets	244.5	228.3	257.5	304.4	360.5
Cash and equivalents	59.8	49.1	61.5	91.2	130.2
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	571.9	603.8	635.4
Tangible assets	1.2	7.6	5.8	4.9	5.1
Intangible assets	233.1	230.4	251.3	266.2	277.1
Investment assets	13.4	180.1	180.0	181.9	183.4
Other financial assets	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>153.3</b>	<b>148.0</b>	<b>168.0</b>	<b>182.9</b>	<b>197.6</b>
Current liabilities	145.1	132.1	152.2	165.5	178.9
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	18.4	5.9	6.2	7.6	8.6
Current portion of long-term debt	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	8.2	15.8	15.8	17.4	18.7
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
<b>Total shareholders' equity</b>	<b>428.3</b>	<b>609.3</b>	<b>661.3</b>	<b>725.3</b>	<b>798.3</b>
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	174.9	238.9	311.9
<b>Controlling interest equity</b>	<b>428.3</b>	<b>609.3</b>	<b>661.3</b>	<b>725.3</b>	<b>798.3</b>
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	9.9	10.6	10.6	11.1	11.6
*Net debt (cash)	(106.6)	(90.4)	(103.1)	(132.7)	(172.3)

### Statement of cash flow

Year to December (bn KRW)	2019	2020	2021F	2022F	2023F
<b>Cash flow from operations</b>	<b>(12.2)</b>	<b>5.2</b>	<b>167.3</b>	<b>181.8</b>	<b>197.7</b>
Net profit	26.4	29.6	52.0	64.0	73.0
Depreciation expense	1.8	2.9	1.9	1.5	1.6
Amortization expense	115.0	113.3	110.2	119.5	126.3
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)	3.6	(2.4)	(1.8)
(Payment of income tax)	(19.4)	(15.4)	(17.7)	(20.2)	(23.1)
Others	6.3	15.5	17.3	19.4	21.7
<b>Cash flow from investments</b>	<b>(81.0)</b>	<b>(16.3)</b>	<b>(154.4)</b>	<b>(151.8)</b>	<b>(158.5)</b>
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)	(131.1)	(134.4)	(137.2)
Change in investment assets	(18.8)	(48.7)	0.1	(1.9)	(1.5)
Others	(61.5)	40.8	(23.3)	(14.9)	(18.0)
<b>Free cash flow</b>	<b>133.9</b>	<b>131.3</b>	<b>165.5</b>	<b>176.6</b>	<b>193.5</b>
<b>Cash flow from financing</b>	<b>(0.0)</b>	<b>0.0</b>	<b>(0.6)</b>	<b>(0.1)</b>	<b>(0.2)</b>
Change in borrowings	0.0	0.0	(0.0)	0.5	0.4
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	(0.6)	(0.6)	(0.6)
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
<b>Change in total cash</b>	<b>(93.2)</b>	<b>(10.7)</b>	<b>12.3</b>	<b>29.9</b>	<b>39.0</b>
Beginning cash	153.0	59.8	49.1	61.4	91.2
Ending cash	59.8	49.1	61.4	91.2	130.2

Source: Company data, Shinhan Investment Corp.

### Statement of comprehensive income

Year to December (bn KRW)	2019	2020	2021F	2022F	2023F
<b>Sales</b>	<b>468.7</b>	<b>525.7</b>	<b>521.8</b>	<b>637.1</b>	<b>727.5</b>
Growth (%)	23.5	12.2	(0.8)	22.1	14.2
<b>COGS</b>	<b>420.8</b>	<b>451.0</b>	<b>424.5</b>	<b>524.9</b>	<b>598.8</b>
<b>Gross profit</b>	<b>47.9</b>	<b>74.8</b>	<b>97.3</b>	<b>112.2</b>	<b>128.8</b>
GPM (%)	10.2	14.2	18.6	17.6	17.7
<b>SG&amp;A</b>	<b>19.2</b>	<b>25.7</b>	<b>28.6</b>	<b>31.2</b>	<b>35.6</b>
<b>Operating profit</b>	<b>28.7</b>	<b>49.1</b>	<b>68.7</b>	<b>81.0</b>	<b>93.1</b>
Growth (%)	(28.1)	71.1	39.9	17.9	15.0
OPM (%)	6.1	9.3	13.2	12.7	12.8
Non-operating profit	4.4	(7.6)	1.0	3.1	3.0
Financial profit	4.3	(3.7)	1.3	2.8	3.5
Other non-operating profit	0.1	(3.8)	(0.4)	0.4	(0.5)
Equity method gain (loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>33.1</b>	<b>41.5</b>	<b>69.7</b>	<b>84.2</b>	<b>96.1</b>
Income tax	6.6	11.9	17.7	20.2	23.1
Continuing operations	26.4	29.6	52.0	64.0	73.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>26.4</b>	<b>29.6</b>	<b>52.0</b>	<b>64.0</b>	<b>73.0</b>
Growth (%)	(26.3)	12.1	75.5	23.0	14.1
NPM (%)	5.6	5.6	10.0	10.0	10.0
Controlling interest	26.4	29.6	52.0	64.0	73.0
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	25.7	32.2	52.0	64.0	73.0
Controlling interest	25.7	32.2	52.0	64.0	73.0
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>145.5</b>	<b>165.3</b>	<b>180.8</b>	<b>202.0</b>	<b>221.0</b>
Growth (%)	26.4	13.6	9.4	11.7	9.4
EBITDA margin (%)	31.1	31.4	34.7	31.7	30.4

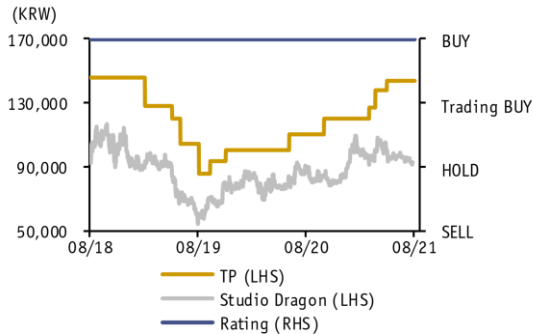
### Key ratios

Year to December	2019	2020	2021F	2022F	2023F
EPS (KRW)	941	1,044	1,733	2,132	2,433
EPS of controlling interest (KRW)	941	1,044	1,733	2,132	2,433
BPS (KRW)	15,242	20,309	22,041	24,173	26,606
BPS of controlling interest (KRW)	15,242	20,309	22,041	24,173	26,606
DPS (KRW)	0	0	0	0	0
PER (x)	85.9	88.7	53.4	43.4	38.1
PER of controlling interest (x)	85.9	88.7	53.4	43.4	38.1
PBR (x)	5.3	4.6	4.2	3.8	3.5
PBR of controlling interest (x)	5.3	4.6	4.2	3.8	3.5
EV/EBITDA (x)	14.9	16.3	14.8	13.1	11.8
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
<b>Profitability</b>					
EBITDA margin (%)	31.1	31.4	34.7	31.7	30.4
OPM (%)	6.1	9.3	13.2	12.7	12.8
NPM (%)	5.6	5.6	10.0	10.0	10.0
ROA (%)	4.8	4.4	6.6	7.4	7.7
ROE (%)	6.4	5.7	8.2	9.2	9.6
ROIC (%)	8.4	15.5	21.1	23.7	25.6
<b>Stability</b>					
Debt to equity ratio (%)	35.8	24.3	25.4	25.2	24.8
Net debt ratio (%)	(24.9)	(14.8)	(15.6)	(18.3)	(21.6)
Cash ratio (%)	41.2	37.2	40.4	55.1	72.8
Interest coverage ratio (x)	58.1	84.8	114.8	132.2	145.6
<b>Activity (%)</b>					
Working capital turnover (times)	(26.3)	(59.5)	(122.9)	(158.8)	(1,678.6)
Inventory turnover (days)	0.2	N/A	N/A	N/A	N/A
Receivable turnover (days)	59.3	66.0	80.0	74.5	72.9

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
2018.06.22	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 04 August 2021)

BUY (BUY)	94.81%	Trading BUY (HOLD)	1.42%	HOLD (HOLD)	3.77%	SELL (SELL)	0.00%
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### Rating Distribution - SHIC Investment Banking Clients (as of 04 August 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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