

Video On Demand

# Studio Dragon

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

31 March 2022

[Media/ads]

## Unlocking hidden profits

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**BUY**  
(Initiate)



CP (Mar. 30)  
**KRW91,800**



TP (6 months)  
**KRW120,000**



Upside  
**30.7%**

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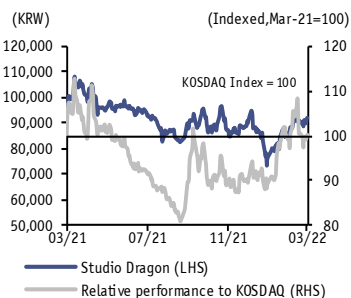


Shinhan Investment Corp.

Rating	BUY (Initiate)
TP (6 months)	KRW120,000
Upside	30.7%

KOSPI	2,746.74p
KOSDAQ	939.07p
Market cap	KRW2,755.3bn/USD2,416.9mn
Par value	KRW500
Outstanding shares	30.0mn
Free float	13.5mn(45.1%)
52-week high/low	KRW108,000/KRW73,100
60-day avg. trading volume	122,970shrs
60-day avg. turnover	KRW10,632mn
Foreign ownership	10.91%
Major shareholders	
CJ ENM and 3 others	54.87%
NAVER	6.25%
Absolute performance	
3M	0.9%
6M	3.6%
12M	-8.6%
Relative performance to KOSDAQ	
3M	11.1%
6M	10.7%
12M	-6.7%

### Share performance



### Hidden profit: 1) Revenue settlement for Mount Jiri

Studio Dragon's lackluster 4Q21 earnings were partly due to a delay in revenue settlement for Mount Jiri, co-produced with Astory and Baram Pictures.

Other costs increased sharply to KRW11.3bn, about KRW6bn higher than average levels, as the series was already aired and payments were made to the creators who belong to the company's subsidiary (lead actress Jun Ji-hyun, director Lee Eung-bok). About KRW4bn is estimated to be recognized as profit in one of the four quarters of this year upon the settlement of production revenues.

### Hidden profit: 2) Lump sale of old productions

Studio Dragon has relied heavily on its captive client CJ ENM and Netflix in the past. This year will be different with the addition of new over-the-counter (OTT) platforms.

The company is slated to produce 32 drama series (19 for TV stations, 13 for digital platforms) this year, the largest number since its foundation. Productions for digital platforms are significant in light of growth potential and leverage effect. It will supply six original dramas to Tving, two to Netflix, one to iQiyi, and four to new OTT platforms including one to Apple TV Plus.

With the addition of new OTT platforms comes an opportunity to sell old productions in the company's intellectual property (IP) library. IP holders can profit from such deals as production costs have been fully recognized, unlocking hidden enterprise value and operating profit. Studio Dragon is known to be under negotiations with new OTT platforms over the profit-sharing model: 1) guarantee of gross margins for original dramas; 2) lump sale of old dramas in the IP library; and 3) recoup rate for new dramas released simultaneously on air and streaming.

### One who wants to wear the crown, bears the crown

Studio Dragon is expected to enjoy strong leverage effect this year from 32 new productions, steady uptrend in prices, and hidden profits. With global OTT platforms making aggressive investments in Korean dramas more than ever before, the market will focus more on the bellwether company and its earnings. We could go as far to say that revaluation of the media sector as a whole hinges on Studio Dragon.

Being a market leader is always challenging, but can be rewarding in terms of high share valuations. We initiate our coverage of Studio Dragon with a BUY rating for a target price of KRW120,000, based on 2022F EPS and a target PER of 50x.

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)
2021	487.1	52.6	52.0	39.0	1,301	24.6	22,785	69.9	17.6	4.0	6.0	(8.6)
2022F	687.2	86.1	90.6	68.7	2,289	75.9	25,074	40.1	12.1	3.7	9.6	(18.6)
2023F	771.4	97.4	100.4	76.1	2,535	10.7	27,609	36.2	12.8	3.3	9.6	(25.9)

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

## Target price calculation

(KRW, x)	2019	2020	2021	2022F	2023F	Remarks
EPS	941	1,044	1,301	2,289	2,535	
Applied PER	50.0					Applied valuation of HYBE, the leading entertainment company, which is also the lower end of Studio Dragon's PER band
TP based on PER valuation	114,450					2022F EPS * PER of 50x
Final TP	120,000					
Current price	91,800					
Upside (%)	30.7%					

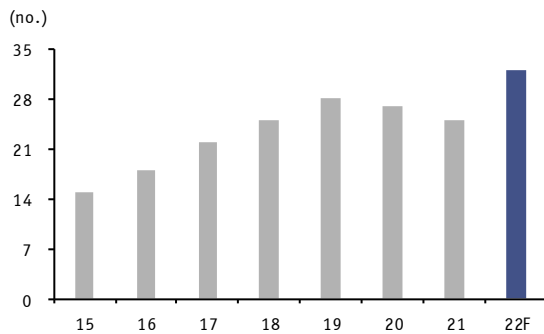
Source: Shinhan Investment Corp.

## Earnings trend and outlook

(bn KRW)	2017	2018	2019	2020	2021	2022F	2023F
<b>Sales</b>	<b>286.8</b>	<b>379.6</b>	<b>468.5</b>	<b>525.6</b>	<b>487.1</b>	<b>687.2</b>	<b>771.4</b>
Growth (% YoY)	46.7	32.4	23.4	12.2	(7.3)	41.1	12.3
Production	131.2	178.1	208.7	197.0	161.3	195.9	223.1
Growth (% YoY)	49.5	35.7	17.2	(5.6)	(18.1)	21.5	13.9
Sales share (%)	45.8	46.9	44.5	37.5	33.1	28.5	28.9
Distribution	111.8	162.1	219.2	279.7	275.5	431.6	478.1
Growth (% YoY)	48.3	44.9	35.3	27.6	(1.5)	56.6	10.8
Sales share (%)	39.0	42.7	46.8	53.2	56.6	62.8	62.0
Others	43.7	39.4	40.6	48.9	50.3	59.6	70.1
Growth (% YoY)	35.3	(9.8)	3.0	20.4	2.9	18.6	17.6
Sales share (%)	15.2	10.4	8.7	9.3	10.3	8.7	9.1
<b>OP</b>	<b>33.1</b>	<b>39.9</b>	<b>28.6</b>	<b>49.2</b>	<b>52.6</b>	<b>86.1</b>	<b>97.4</b>
Growth (% YoY)	56.1	20.6	(28.2)	71.8	6.8	63.7	13.1
OPM (%)	11.5	10.5	6.1	9.4	10.8	12.5	12.6
Recoup rate (%)							
Production	54.8	55.0	49.6	43.7	39.6	34.5	35.0
Distribution	46.7	50.0	52.1	62.0	67.6	76.0	75.0
Others	18.2	12.2	9.7	10.8	12.3	10.5	11.0

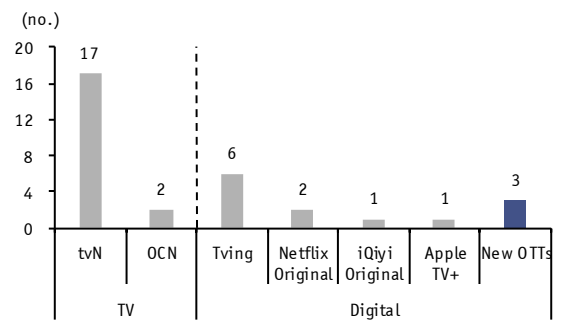
Source: Shinhan Investment Corp.

## Number of productions



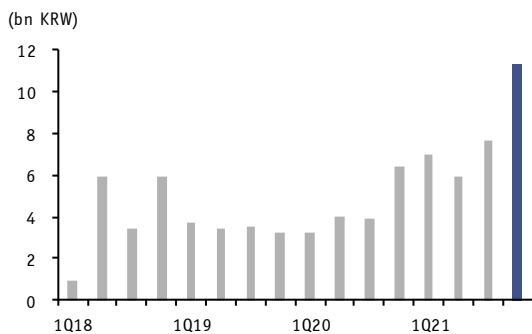
Source: Company data, Shinhan Investment Corp.

## Number of productions planned for 2022



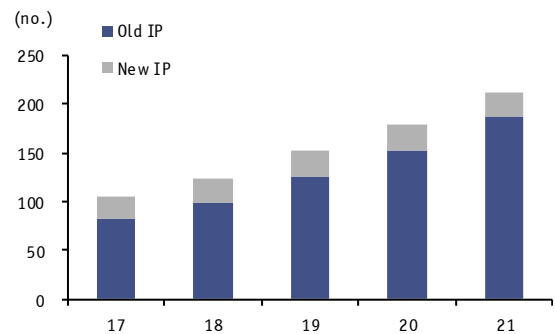
Source: Company data, Shinhan Investment Corp.

## Quarterly other costs



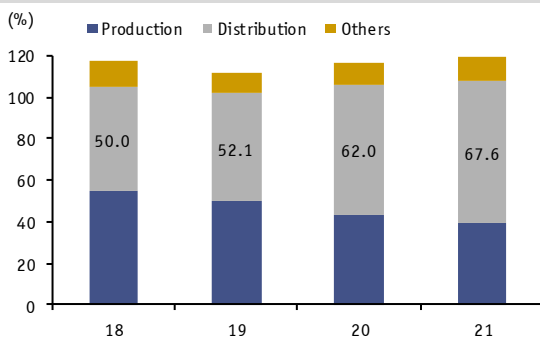
Source: Company data, Shinhan Investment Corp.

## IP library



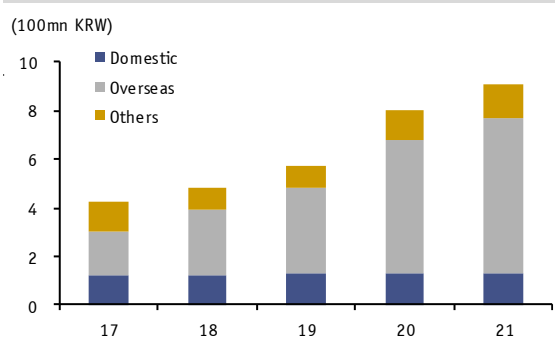
Source: Company data, Shinhan Investment Corp.

## Recoup rate by division



Source: Company data, Shinhan Investment Corp.

## Distribution and other sales per episode



Source: Company data, Shinhan Investment Corp.

### Statement of financial position

Year to December (bn KRW)	2019	2020	2021	2022F	2023F
<b>Total assets</b>	<b>581.6</b>	<b>757.3</b>	<b>884.0</b>	<b>973.6</b>	<b>1,073.8</b>
Current assets	244.5	228.3	232.5	384.6	501.1
Cash and equivalents	59.8	49.1	64.6	147.5	222.9
Accounts receivable	83.6	106.7	123.6	171.8	192.8
Inventories	0.0	0.0	0.0	0.0	0.0
Non-current assets	337.1	529.0	651.5	589.0	572.7
Tangible assets	1.2	7.6	7.7	8.5	10.0
Intangible assets	233.1	230.4	298.0	213.8	176.1
Investment assets	13.4	180.1	240.8	261.7	281.7
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>200.2</b>	<b>221.0</b>	<b>245.2</b>
Current liabilities	145.1	132.1	183.6	201.7	224.4
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Accounts payable	18.4	5.9	17.0	16.1	18.1
Current portion of long-term debt	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	8.2	15.8	16.5	19.3	20.8
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	7.9	8.2	7.1	7.1	7.1
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>683.9</b>	<b>752.6</b>	<b>828.6</b>
Capital stock	14.0	15.0	15.0	15.0	15.0
Capital surplus	321.7	470.0	470.4	470.4	470.4
Other capital	(0.1)	(0.4)	(0.5)	(0.5)	(0.5)
Accumulated other comprehensive income	(1.0)	1.8	37.2	37.2	37.2
Retained earnings	93.5	122.9	161.7	230.4	306.5
<b>Controlling interest equity</b>	<b>428.3</b>	<b>609.3</b>	<b>683.9</b>	<b>752.6</b>	<b>828.6</b>
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	9.9	10.6	11.1	12.7	13.4
*Net debt (cash)	(106.6)	(90.4)	(58.9)	(140.1)	(214.9)

### Statement of cash flow

Year to December (bn KRW)	2019	2020	2021	2022F	2023F
<b>Cash flow from operations</b>	<b>(12.2)</b>	<b>5.2</b>	<b>(8.4)</b>	<b>150.1</b>	<b>159.5</b>
Net profit	26.4	29.6	39.0	68.7	76.1
Depreciation expense	1.8	2.9	3.8	11.2	13.5
Amortization expense	115.0	113.3	95.3	119.2	87.8
FX translation loss (gain)	0.6	3.4	(1.5)	0.0	0.0
Asset disposal loss (gain)	(0.0)	(0.0)	0.7	0.7	0.7
Equity method loss (gain)	0.0	0.0	0.0	0.0	0.0
Change in working capital	(142.9)	(144.1)	(154.9)	(50.0)	(17.6)
(Payment of income tax)	(19.4)	(15.4)	(11.1)	(21.9)	(24.3)
Others	6.3	15.5	20.3	22.2	23.3
<b>Cash flow from investments</b>	<b>(81.0)</b>	<b>(16.3)</b>	<b>26.5</b>	<b>(67.3)</b>	<b>(83.2)</b>
Increase in tangible assets	(0.6)	(7.2)	(2.3)	(12.0)	(15.0)
Decrease in tangible assets	0.2	0.0	0.5	0.0	0.0
Change in intangible assets	(0.3)	(1.2)	(0.8)	(35.0)	(50.0)
Change in investment assets	(18.8)	(48.7)	28.3	(20.9)	(20.0)
Others	(61.5)	40.8	0.8	0.6	1.8
<b>Free cash flow</b>	<b>133.9</b>	<b>131.3</b>	<b>150.9</b>	<b>130.9</b>	<b>141.0</b>
<b>Cash flow from financing</b>	<b>(0.0)</b>	<b>0.0</b>	<b>(3.0)</b>	<b>0.8</b>	<b>(0.3)</b>
Change in borrowings	0.0	0.0	0.0	1.6	0.7
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	(3.0)	(0.8)	(1.0)
Other cash flow	0.0	0.0	0.0	(0.7)	(0.7)
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.0)	0.4	0.3	0.0	0.0
<b>Change in total cash</b>	<b>(93.2)</b>	<b>(10.7)</b>	<b>15.5</b>	<b>82.9</b>	<b>75.5</b>
Beginning cash	153.0	59.8	49.1	64.6	147.5
Ending cash	59.8	49.1	64.6	147.5	222.9

Source: Company data, Shinhan Investment Corp.

### Statement of comprehensive income

Year to December (bn KRW)	2019	2020	2021	2022F	2023F
<b>Sales</b>	<b>468.7</b>	<b>525.7</b>	<b>487.1</b>	<b>687.2</b>	<b>771.4</b>
Growth (%)	23.5	12.2	(7.3)	41.1	12.3
<b>COGS</b>	<b>420.8</b>	<b>451.0</b>	<b>407.3</b>	<b>567.9</b>	<b>637.5</b>
<b>Gross profit</b>	<b>47.9</b>	<b>74.8</b>	<b>79.8</b>	<b>119.3</b>	<b>133.9</b>
GPM (%)	10.2	14.2	16.4	17.4	17.4
<b>SG&amp;A</b>	<b>19.2</b>	<b>25.7</b>	<b>27.2</b>	<b>33.2</b>	<b>36.5</b>
<b>Operating profit</b>	<b>28.7</b>	<b>49.1</b>	<b>52.6</b>	<b>86.1</b>	<b>97.4</b>
Growth (%)	(28.1)	71.1	7.0	63.7	13.1
OPM (%)	6.1	9.3	10.8	12.5	12.6
Non-operating profit	4.4	(7.6)	(0.6)	4.6	3.0
Financial profit	4.3	(3.7)	4.3	7.4	6.0
Other non-operating profit	0.1	(3.8)	(4.8)	(2.8)	(3.0)
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>52.0</b>	<b>90.6</b>	<b>100.4</b>
Income tax	6.6	11.9	13.0	21.9	24.3
Continuing operations	26.4	29.6	39.0	68.7	76.1
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>39.0</b>	<b>68.7</b>	<b>76.1</b>
Growth (%)	(26.3)	12.1	31.8	75.9	10.7
NPM (%)	5.6	5.6	8.0	10.0	9.9
Controlling interest	26.4	29.6	39.0	68.7	76.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	25.7	32.2	74.2	68.7	76.1
Controlling interest	25.7	32.2	74.2	68.7	76.1
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>151.6</b>	<b>216.5</b>	<b>198.7</b>
Growth (%)	26.4	13.6	(8.3)	42.8	(8.2)
EBITDA margin (%)	31.1	31.4	31.1	31.5	25.8

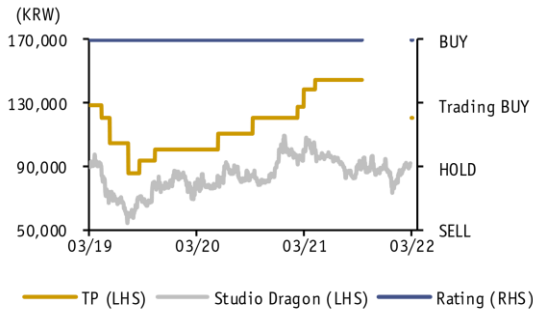
### Key ratios

Year to December	2019	2020	2021	2022F	2023F
EPS (KRW)	941	1,044	1,301	2,289	2,535
EPS of controlling interest (KRW)	941	1,044	1,301	2,289	2,535
BPS (KRW)	15,242	20,309	22,785	25,074	27,609
BPS of controlling interest (KRW)	15,242	20,309	22,785	25,074	27,609
DPS (KRW)	0	0	0	0	0
PER (x)	85.9	88.7	69.9	40.1	36.2
PER of controlling interest (x)	85.9	88.7	69.9	40.1	36.2
PBR (x)	5.3	4.6	4.0	3.7	3.3
PBR of controlling interest (x)	5.3	4.6	4.0	3.7	3.3
EV/EBITDA (x)	14.9	16.3	17.6	12.1	12.8
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	31.1	31.5	25.8
OPM (%)	6.1	9.3	10.8	12.5	12.6
NPM (%)	5.6	5.6	8.0	10.0	9.9
ROA (%)	4.8	4.4	4.8	7.4	7.4
ROE (%)	6.4	5.7	6.0	9.6	9.6
ROIC (%)	8.4	15.5	20.1	23.9	29.6
<b>Stability</b>					
Debt to equity ratio (%)	35.8	24.3	29.3	29.4	29.6
Net debt ratio (%)	(24.9)	(14.8)	(8.6)	(18.6)	(25.9)
Cash ratio (%)	41.2	37.2	35.2	73.1	99.4
Interest coverage ratio (x)	58.1	84.8	67.6	101.0	104.2
<b>Activity (%)</b>					
Working capital turnover (times)	(26.3)	(59.5)	(49.8)	74.2	17.1
Inventory turnover (days)	0.2	N/A	N/A	N/A	N/A
Receivable turnover (days)	59.3	66.0	86.3	78.5	86.3

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
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	(36.1)	(30.4)
2021.10.14	No Coverage		-	-
2022.03.31	BUY	120,000	-	-

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

### Rating Distribution - SHIC Universe (as of 29 March 2022)

BUY (BUY)	96.51%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	3.49%	SELL (SELL)	0.00%
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### Rating Distribution - SHIC Investment Banking Clients (as of 29 March 2022)

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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