

# Studio Dragon (253450 KQ)

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Rating **BUY**  
maintain

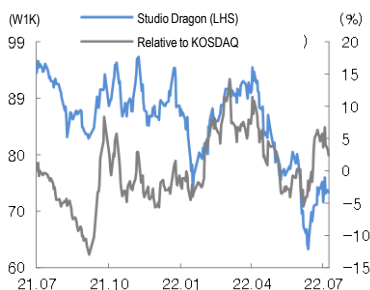
6M TP (₩) **120,000**  
maintain

CP (₩)  
(22.07.19) **73,000**

Media

KOSDAQ	782.33
Market cap (Wbn)	2,191
Market cap portion (%)	0.65
Paid-in capital (common; Wbn)	15
52w high/low (₩)	96,400 / 63,200
120d avg. trading volume (Wbn)	10.0
Foreign ownership (%)	10.30
Major shareholders	CJ ENM+3: 54.87% NAVER: 6.25%

(%)	1M	3M	6M	12M
Abs. return	8.8	-20.9	-13.5	-22.8
Rel. return	11.1	-5.8	3.3	3.7



# Netflix important, but not everything

## BUY; 6M TP kept at ₩120,000

- Our target price of ₩120,000 for the production house is derived from the residual income model.
- Shares in Studio Dragon followed those of Netflix lower over the past three months. While the streaming giant is the production house's key partner, Netflix represents only about 20% of its earnings, a fairly small share that can't explain the close relationship between the two stocks, in our view, necessitating a decoupling. We see the stock staging rebound on the back of a strong 2Q22 (OP up an estimated 97% yoy to ₩27.1bn, a post-IPO high), regardless of the earnings performance and outlook delivered by Netflix. (It has unveiled a favorable guidance for 2H22 subscriber count.)

## Stock bearish since April as Netflix weakness outweighs rosy earnings picture

- Shares in Studio Dragon lost 32% in two months since Netflix announced earnings for 1Q22 on April 19 (Fig. 1). Shares in the streaming giant fell 35% since the earnings release (down 52% over four weeks) as it guided for a sequential net loss of two million subscribers in 2Q22, after having lost 200,000 paid subscribers in 1Q22.
- Since its IPO in late 2017, the production house has moved in tandem with Netflix in terms of stock price performance (Fig. 2), a natural phenomenon given the streaming giant's huge content investment and role in taking Studio Dragon's content global.

## Netflix important, but not everything

- The streaming giant is expected to continue investing in content at the current rate. Even as its subscriber growth dipped amid intense global competition, revenue and earnings reached all-time highs. And considering its efforts to address the password-sharing problem and to bring ads to its service, its top and bottom lines may grow further even without a rapid uptick in net subscribers.
- Netflix remains important to Studio Dragon, but not as much as in the past – share of revenue up from 20% in 2018-2021 (15% in 2018, 19% in 2019, 31% in 2020, and 14% in 2021) to 21% in 1Q22 – suggesting a decoupling is in order.
- Studio Dragon might demand a higher recoup rate when renewing its Jan 2020-Dec 2022 deal with Netflix (or in 2H22 prior to the renewal).
- Streaming service is still a growing market that is attracting subscribers around the world – total global subscribers up a net 22 million in 1Q22 – Netflix down 200,000, Disney+ up 7.9 million, Paramount+ up 6.30 million, Apple TV+ up 4.7 million, and HBO/HBO Max up 3.0 million.
- Studio Dragon is partnering with more platforms – recently added Disney+, Apple TV+, and other global players to its existing portfolio that includes Netflix, tving, and iQIYI. It also plans to build out its production slate from 25 titles in 2021 to 32-34 in 2022.

## Netflix's 2Q22 earnings results

- The subscriber count net-decreased 970,000 qoq, less than half the guidance (two million net loss) as *Stranger Things 4* and other shows did well. Netflix projects a net-increase by one million in 3Q22.
- Netflix has completed negotiations with Microsoft to introduce cheaper, ads-supported plans, which could be made available in early 2023.
- Its share price ended up 5.6% the previous day and rose 8.1% in after-hours trading following the release of the quarterly earnings results.

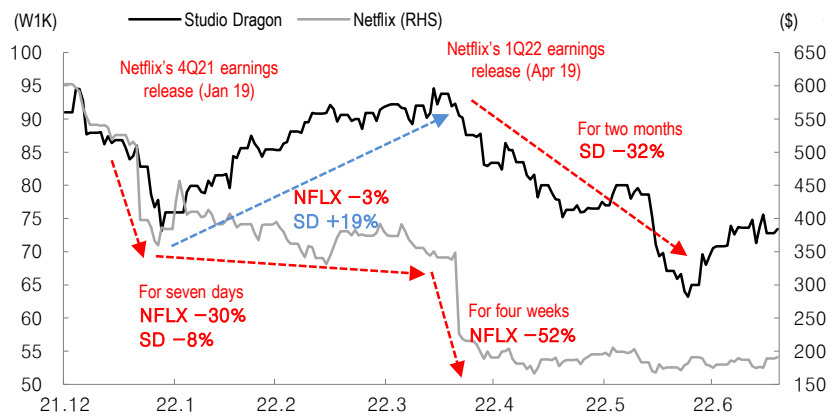
Operating results and major financial data

(Wbn, W, x, %)

	2020A	2021A	2022F	2023F	2024F
Revenue	526	487	594	621	673
OP	49	53	94	110	130
Pretax profit	42	52	101	117	138
NP	30	39	76	87	102
NP (controlling int.)	30	39	76	87	102
EPS	1,044	1,301	2,517	2,886	3,407
PER	88.7	69.9	25.4	22.2	18.8
BPS	21,480	22,790	25,302	28,188	31,595
PBR	4.3	4.0	2.9	2.6	2.3
ROE	5.7	6.0	10.5	10.8	11.4

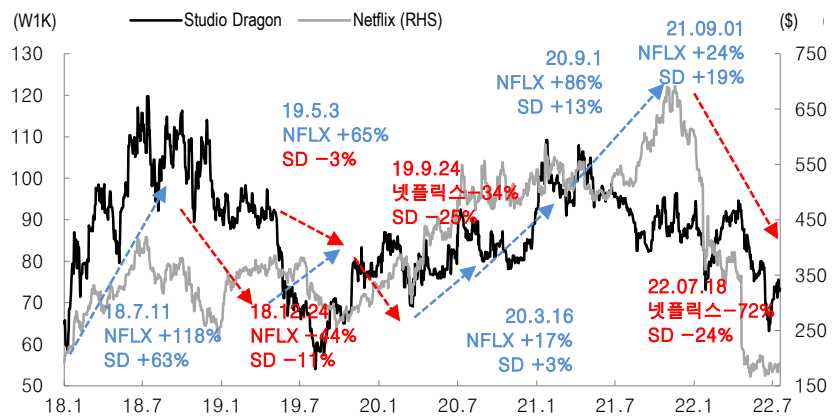
Note: EPS, BPS, and ROE are based only on the controlling interest.  
Source: Studio Dragon, Daishin Securities Research Center

Fig 1. Studio Dragon vs. Netflix following the latter's earnings release



Source: FnGuide, Daishin Securities Research Center

Fig 2. Studio Dragon vs. Netflix



Source: FnGuide, Daishin Securities Research Center

## Intrinsic value

Residual Income Model		(Wbn, W, %)									
		2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
I	NP (contr. int.) <sup>(Note 2)</sup>	76	86	102	118	135	155	179	205	236	272
II	Shareholders' equity (contr. int.) <sup>(Note 2)</sup>	759	846	948	1,037	1,137	1,253	1,385	1,537	1,701	1,890
	Estimated ROE	10.5	10.8	11.4	11.4	11.9	12.4	12.9	13.4	13.9	14.4
III	Required rate of return <sup>(Note 3)</sup>	5.3									
	Risk free rate of return <sup>(Note 4)</sup>	2.2									
	Market risk premium <sup>(Note 5)</sup>	4.0									
	Beta	0.8									
IV	Spread (estimated ROE – required rate of return)	5.2	5.5	6.1	6.1	6.6	7.1	7.6	8.1	8.6	9.1
V	Required income	36	40	45	50	55	60	66	73	81	90
VI	Residual income (I - V)	39	47	58	68	80	95	112	132	155	182
	Present value factor	0.97	0.93	0.88	0.83	0.79	0.75	0.71	0.68	0.64	0.61
	PV of residual income	38	43	51	57	64	72	80	90	100	111
VII	Sum of residual income	704									
VIII	PV of residual income following forecasting period	2,100									
	Terminal growth (g) <sup>(Note 6)</sup>	0.0%									
IX	Beginning shareholders' equity	684									
X	Fair market cap (VII+VIII+IX)	3,489									
	Total number of shares (thousands)	30,014									
XI	<b>Per share value (W)</b>	116,227									
	Current share price (W)	63,200									
	Potential (%)	83.9%									

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	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Revenue	526	487	594	621	673
Cost of goods sold	451	407	471	480	509
Gross profit	75	80	123	141	163
SG&A expenses	26	27	29	31	33
OP	49	53	94	110	130
OP margin	9.3	10.8	15.8	17.6	19.4
EBITDA	165	152	277	326	378
Non-OP	-8	-1	7	8	8
Income from affiliates	0	0	0	0	0
Financial revenue	10	14	15	15	16
FX related gains	0	0	0	0	0
Financial expense	-14	-10	-9	-9	-9
FX related losses	10	5	0	0	0
Others	-4	-5	1	1	1
Income before taxes	42	52	101	117	138
Income tax expense	-12	-13	-26	-30	-36
Income from cont. op.	30	39	76	87	102
Income from discount. op.	0	0	0	0	0
NP	30	39	76	87	102
NP margin	5.6	8.0	12.7	14.0	15.2
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	30	39	76	87	102
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	3	35	35	35	35
Comprehensive income	32	74	111	122	137
Comp. income for non-contr. Int.	0	0	0	0	0
Comp. income for contr. int.	32	74	111	122	137

Valuation metrics	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
EPS	1,044	1,301	2,517	2,886	3,407
PER	88.7	69.9	25.4	22.2	18.8
BPS	21,480	22,790	25,302	28,188	31,595
PBR	4.3	4.0	2.9	2.6	2.3
EBITDAPS	5,828	5,054	9,229	10,877	12,598
EV/EBITDA	16.3	17.6	7.8	6.5	5.4
SPS	18,532	16,233	19,776	20,686	22,422
PSR	5.0	5.6	3.7	3.5	3.3
CFPS	5,803	5,254	9,246	10,883	12,605
DPS	0	0	0	0	1,000

Financial ratios	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
Growth potential					
Revenue growth	-9.8	-2.7	0.3	10.9	8.9
OP growth	-32.0	5.5	5.0	36.9	9.1
NP growth	-23.2	-18.5	8.9	37.6	8.9
Profitability					
ROIC	18.3	16.0	16.5	22.2	23.2
ROA	11.3	11.2	11.4	15.1	15.1
ROE	15.1	11.2	11.7	15.6	15.3
Stability					
Debt ratio	37.1	35.3	36.5	35.6	32.5
Net borrowings ratio	-30.1	-32.8	-33.6	-29.0	-30.6
Interest coverage ratio	42.2	34.0	35.3	47.5	51.7

Source: Studio Dragon, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Current assets	228	233	242	293	396
Cash & cash equiv.	49	65	47	91	181
Trade & other receive.	107	124	151	158	171
Inventories	0	0	0	0	0
Other current assets	73	44	44	44	44
Long-term assets	529	652	722	758	759
Tangible assets	8	8	7	6	6
Investments in affiliates	0	0	0	0	0
Other long-term assets	521	644	715	751	753
Total assets	757	884	963	1,051	1,155
Current liabilities	132	184	187	188	190
Payables & other liab.	57	78	81	82	84
Borrowings	0	0	0	0	0
Current portion of LT debts	0	0	0	0	0
Other current liabilities	75	106	106	106	106
Long-term liabilities	16	17	17	17	17
Borrowings	0	0	0	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	16	17	17	17	17
Total liabilities	148	200	204	205	207
Controlling interest	609	684	759	846	948
Capital stock	15	15	15	15	15
Capital surplus	470	470	470	470	470
Retained earnings	123	162	237	324	426
Other capital changes	1	37	37	37	37
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	609	684	759	846	948
Net borrowings	-90	-59	-41	-86	-175

Cash flow statement	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Operating cash flows	5	-8	68	130	171
NP	30	39	76	87	102
Non-cash items	135	119	202	240	276
Depreciation	116	99	183	217	248
FX gains	3	-1	0	0	0
Equity method gain	0	0	0	0	0
Others	15	21	19	23	28
Chg in assets & liab.	-144	-155	-199	-182	-187
Other cash flows	-15	-11	-10	-15	-20
Investing cash flow	-16	27	-252	-252	-248
Investment assets	-9	28	0	0	0
Tangible assets	-7	-2	-2	-2	-2
Others	0	0	-250	-250	-246
Financing cash flows	0	-3	-3	-3	-3
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	149	0	0	0	0
Cash dividends	0	0	0	0	0
Others	-149	-3	-3	-3	-3
Net chg in cash	-11	16	-18	45	90
Beginning cash balance	60	49	65	47	91
Ending cash balance	49	65	47	91	181
NOPLAT	35	39	70	81	96
FCF	143	135	-1	44	95

## [Compliance Notice]

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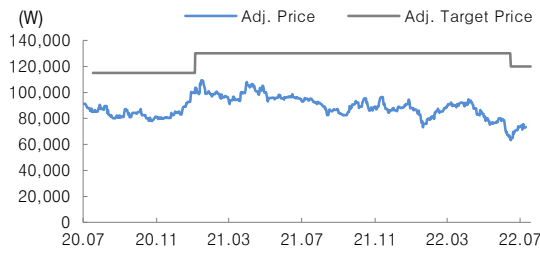
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	22.07.20	22.06.23	22.01.12	21.07.12	21.01.12	20.07.25
Rating	Buy	Buy	6M passed.	6M passed.	Buy	Buy
Target price	120,000	120,000	130,000	130,000	130,000	115,000
Diff. (avr. %)		(40.22)	(35.98)	(31.37)	(24.22)	(26.83)
Diff. (max/min, %)		(37.00)	(27.23)	(25.85)	(16.00)	(12.70)
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 (Jul 16, 2022)

	Buy	Marketperform	Underperform
Ratio	92.5%	7.5%	0.0%

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.