

COMPANY UPDATE

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW124,000	(17.2%)
Current price	KRW105,800	
Market cap	KRW3.2t/USD2.9b	
Shares (float)	30,004,345 (43.1%)	
52-week high/low	KRW106,900/KRW69,100	
Avg daily trading value (60-day)	KRW28.8b/USD26.2m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	24.2	22.0	27.9
Vs Kosdaq (%pts)	20.7	-1.7	-11.8

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	124,000	108,000	14.8%
2020E EPS	1,413	1,468	-3.7%
2021E EPS	1,949	1,758	10.9%

▶ SAMSUNG vs THE STREET

No of estimates	20
Target price	111,050
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

SAMSUNG SECURITIES

SAMSUNG

Studio Dragon (253450)

Gaining international renown in content production

- Studio Dragon is likely to build on its growing global presence to sell more dramas at higher prices and earn greater profits.
- Despite the firm having produced fewer dramas y-y in 4Q20, we believe operating profit rose significantly y-y to KRW9.5b for the quarter thanks to profitability gains.
- Our target price rises 15% to KRW124,000 as we lift our 2021-2022 earnings forecasts to reflect Studio Dragon's growing bargaining power and sales channel diversification.

WHAT'S THE STORY?

Carrying greater weight on global stage: Studio Dragon is gaining a global presence thanks to: 1) favorable developments in the domestic and international market environment; and 2) its proven content-production capabilities. *Sweet Home*, released late last year as a Netflix Original, has been received both in Korea and in Western countries and the Middle East. This year, Studio Dragon plans to produce *My Roommate is a Gumiho*, the first original Korean series for iQiyi. Not only has it secured a new client for its original content, but it is likely to enjoy favorable contract terms given its growing bargaining power. We estimate that its operating margin will rise 1.2%pts to 12% this year.

4Q20 preview—profits to have improved greatly y-y: We believe Studio Dragon saw 4Q sales rise 15.7% y-y to KRW112.8b and a turn to an operating profit of KRW9.5b (from a loss of KRW4b in 4Q19), missing consensus on both counts. The company produced fewer titles y-y but likely generated far greater profits y-y, as: 1) the airing of *The Uncanny Counter*, *Queen Cheorin*, and *Record of Youth* was met with intense interest; and 2) profits were recognized on Netflix Original *Sweet Home* (10 episodes).

Diversifying sales channels: We maintain BUY on Studio Dragon and raise our target price by 15% to KRW124,000 (based on 16x forward EV/EBITDA), as we: 1) revise up our 2021 and 2022 operating margin forecasts to reflect increases in demand and bargaining power; and 2) roll forward our valuation basis. Studio Dragon is gaining international renown in content production. With the battle for content heating up among global OTT players entering the Korean market and domestic OTT players seeking to offer original content, Studio Dragon should be able to sell more content to a multitude of channels. The number of titles it is supposed to produce for its captive channels this year is similar y-y, but, thanks to sales-channel diversification, it should be able to sell more titles in total—and at higher prices, to boot. Producing more tent-pole dramas for global OTT platforms should boost the firm's top and bottom line.

SUMMARY FINANCIAL DATA

	2019	2020E	2021E	2022E
Revenue (KRWb)	469	501	596	654
Operating profit (KRWb)	29	54	72	87
Net profit (adj) (KRWb)	26	40	58	71
EPS (adj) (KRW)	941	1,413	1,949	2,367
EPS (adj) growth (% y-y)	-26.3	50.1	37.9	21.5
EBITDA margin (%)	31.1	35.0	34.5	35.5
ROE (%)	6.4	9.0	11.8	12.7
P/E (adj) (x)	85.9	65.5	54.3	44.7
P/B (x)	5.3	5.9	6.0	5.3
EV/EBITDA (x)	15.0	15.2	14.8	13.0
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company data, Samsung Securities estimates

Table 1. Quarterly results and forecasts

(KRWb)	4Q19	3Q20	4Q20E	Chg (% q-q)	Chg (% y-y)	Consensus	Diff (%)
Sales	97.4	106.3	112.8	6.1	15.7	122.8	-8.2
Operating profit	-4.0	16.0	9.5	-40.6	To turn pos	11.3	-15.7
Operating margin (%)	-4.1	15.1	8.4	-6.6	12.6	9.2	-0.8
Pre-tax profit	-5.1	15.2	10.1	-33.9	To turn pos	9.9	1.6
Net profit (controlling)	-1.6	10.6	7.6	-28.2	To turn pos	8.4	-8.9

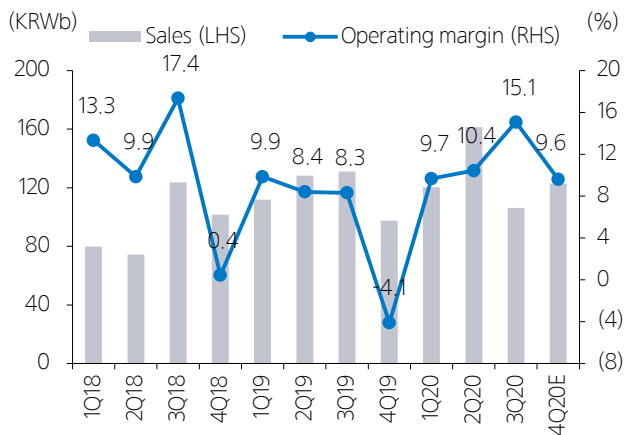
Source: Company data, WiseFn, Samsung Securities

Table 2. Results and forecasts

(KRWb)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20E	2018	2019	2020E	2021E
Sales	79.9	74.3	123.7	101.7	111.8	128.2	131.2	97.4	120.3	161.4	106.3	122.8	379.6	468.7	510.8	593.4
Programing	40.7	34.1	48.9	54.4	44.1	58.1	60.8	45.7	45.2	65.4	45.7	43.6	178.1	208.7	199.9	215.7
Distribution	32.1	28.8	63.4	37.8	56.2	60.3	60.0	42.8	66.9	75.7	50.9	66.4	162.1	219.3	259.9	322.4
Other	7.1	11.4	11.4	9.5	11.5	9.8	10.4	8.9	8.2	20.3	9.7	12.7	39.4	40.6	50.9	55.3
Gross profit	13.6	10.6	24.8	6.5	15.0	15.4	15.3	2.2	16.7	21.8	21.3	18.2	55.6	47.9	77.9	88.1
SG&A costs	3.0	3.3	3.3	6.0	4.0	4.6	4.4	6.2	5.1	4.9	5.3	6.4	15.7	19.2	21.7	23.4
Operating profit	10.7	7.3	21.5	0.4	11.0	10.8	10.9	-4.0	11.6	16.9	16.0	11.8	39.9	28.7	56.3	64.6
Non-operating profit	0.2	3.7	0.6	1.3	2.1	1.1	2.2	-1.1	0.4	0.3	-0.8	0.6	5.7	4.3	0.5	2.2
Pre-tax profit	10.8	11.0	22.1	1.7	13.2	11.9	13.1	-5.1	12.0	17.2	15.2	12.4	45.7	33.1	56.8	66.8
Net profit (controlling)	7.9	8.9	17.3	1.7	9.2	7.3	11.5	-1.6	8.5	13.4	10.6	9.2	35.8	26.4	41.7	52.8
Gross margin	17.1	14.3	20.1	6.4	13.4	12.0	11.7	2.2	13.8	13.5	20.0	14.8	14.6	10.2	15.3	14.8
Operating margin	13.3	9.9	17.4	0.4	9.9	8.4	8.3	-4.1	9.7	10.4	15.1	9.6	10.5	6.1	11.0	10.9
Net margin (controlling)	9.8	12.0	14.0	1.7	8.2	5.7	8.8	-1.7	7.1	8.3	10.0	7.5	9.4	5.6	8.2	8.9
Chg (% y-y)																
Sales	6.0	19.6	59.7	41.5	40.0	72.6	6.0	-4.2	7.6	25.9	-19.0	26.0	32.4	23.5	9.0	16.2
Programing	54.5	41.1	17.1	39.5	8.4	70.5	24.4	-16.1	2.5	12.6	-24.9	-4.4	35.7	17.2	-4.2	7.9
Distribution	-12.0	9.5	172.0	46.9	75.1	109.2	-5.4	13.3	19.1	25.5	-15.2	55.3	44.9	35.3	18.5	24.1
Other	-43.4	-1.9	-8.3	33.1	63.1	-14.1	-9.0	-6.7	-29.2	107.1	-6.4	42.8	-9.8	3.0	25.3	8.7
Gross profit	-18.6	-12.8	131.0	-12.9	9.9	45.1	-38.4	-66.2	11.1	41.7	39.2	730.4	17.9	-13.8	62.8	13.0
SG&A costs	7.3	0.2	-16.6	51.9	33.1	40.2	31.0	2.7	28.4	5.8	21.3	3.1	11.5	22.4	13.1	8.1
Operating profit	-23.7	-17.6	223.0	-87.3	3.5	47.3	-49.2	Turned neg	5.5	56.3	46.8	To turn pos	21.0	-28.1	96.1	14.8
Non-operating profit	Turned pos	3948.9	Turned pos	Turned pos	1160.7	-71.7	290.9	Turned neg	-79.7	-69.4	Turned neg	To turn pos	Turned pos	-24.3	-87.7	303.4
Pre-tax profit	-18.2	23.0	247.7	1.9	22.2	7.6	-40.8	Turned neg	-9.2	44.5	16.2	To turn pos	51.0	-27.5	71.5	17.6
Net profit (controlling)	-41.3	217.4	206.3	-12.6	17.2	-17.4	-33.5	Turned neg	-7.3	82.1	-8.0	To turn pos	50.3	-26.3	57.8	26.5
Gross margin	-5.2	-5.3	6.2	-4.0	-3.7	-2.3	-8.4	-4.1	0.4	1.5	8.4	12.6	-1.8	-4.4	5.0	-0.4
Operating margin	-5.2	-4.5	8.8	-4.4	-3.5	-1.4	-9.0	-4.6	-0.2	2.0	6.8	13.7	-1.0	-4.4	4.9	-0.1
Net margin (controlling)	-7.9	7.5	6.7	-1.1	-1.6	-6.2	-5.2	-3.4	-1.1	2.6	1.2	9.2	1.1	-3.8	2.5	0.7

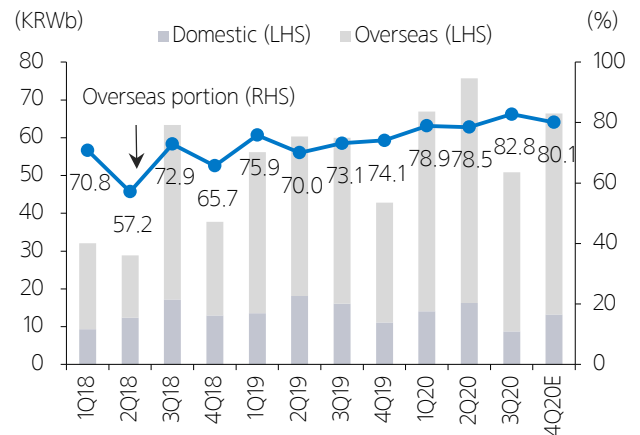
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin



Source: Company data, Samsung Securities

Chart 2. Sales: Domestic and overseas



Source: Company data, Samsung Securities

Chart 3. Netflix Original dramas



Source: Company image, Samsung Securities

Chart 4. iQiyi original drama *Raw*

Source: Company image, Samsung Securities

Table 3. 4Q20-2021 drama lineup

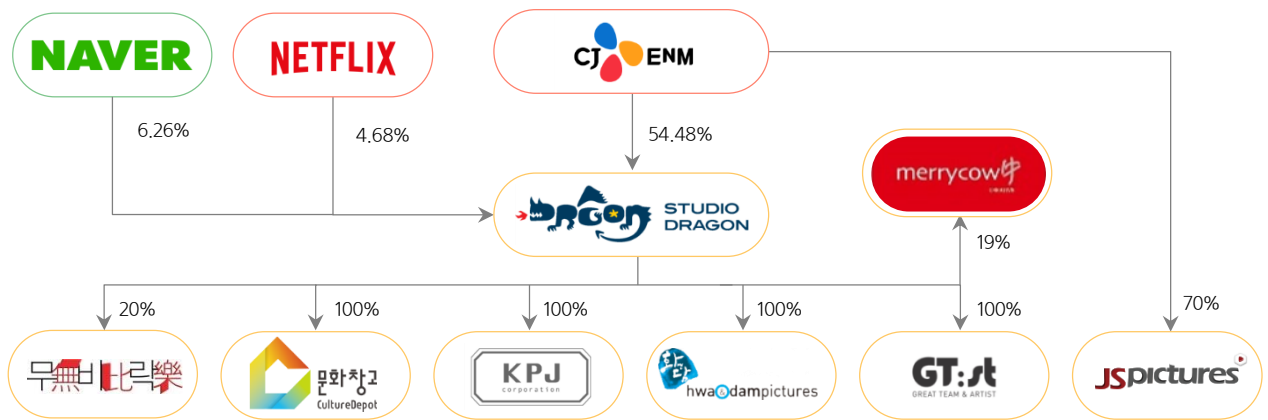
Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Leading actors	Days
2020	1	tvN	Secret Forest Season 2	Aug 15-Oct 4	16	Lee Soo-yeon	Park Hyun-seok	Cho Seung-woo, Yoon Se-ah, Lee Jun-hyuk	Sat, Sun
	2		A Record of Youth	Sep 7-Oct 27	16	Ha Myung-hee	Ahn Gil-ho	Park Bo-gum, Park So-dam	Mon, Tue
	3		The Tale of a Gumiho	Oct 7-Nov 26	16	Han Woo-ri	Kang Shin-hyo	Lee Dong Wook, Jo Bo-ah	Wed, Thu
	4		StartUp	Oct 17-Dec 6	16	Park Hye-ryun	Oh Chung-hwan	Nam Ju-hyuk, Suji, Kim Sun-ho	Sat, Sun
	5		Day and Night	Nov 30-Jan 19, 2021	16	Shin Yoo-dam	Jo Soo-won	Namgung-min, Lee Chung-a	Mon, Tue
	6		True Beauty	Dec 9-Jan 28, 2021	16	Lee Si-eun	Kim Sang-hyeop	Cha Eun-woo, Moon Ga-young	Wed, Thu
	7		Queen Cheorin	Dec 12-Feb 14, 2021	20	Park Gye-ok, Choi Jin-young	Yoon Sung-sik	Shin Hye-seon, Kim Jung-hyun	Mon, Tue
	8	OCN	Missing	Aug 29-Oct 11	12	Ban Ki-ri, Jung So-young	Kim Sung-soo	Ko Soo, Ahn So-hee, Seo Eun-soo	Sat, Sun
	9		Wonderful Rumors	Nov 28-Jan 28, 2021	16	Yeojina	Yoo Seon-dong	Cho Byung-gyu, Yoo Jun-sang, Kim Se-jung	Sat, Sun
	10	Netflix	<i>Sweet Home</i>	Dec 18	10	Hong So-ri, Kim Hyung-min	Lee Eung-bok	Song Kang, Lee Jin-wook, Lee Si-young	-
2021	1	tvN	L. U. C. A. : The Beginning	2.1~3.23	16	Chun Sung Il	Kim Hong Sun	Kim Rae Won, Lee Dae Hee	Mon, Tue
	2		Vincenzo	2.20~4.25	20	Park Jae-bum	Kim Hee-won	Song Joong-ki, Jeon Yeo-bin	Sat, Sun
	3		Navillera	May	12	Lee Eun-mi	Han Dong-hwa	Park In-hwan, Song Kang, Na Mun-hee	
	4		Doom at Your Service	Jun		Immeari	Kwon Young-il	Seo In-guk, Park Bo-young	
	5		Raw*	1H	16	Baek Sunwoo, Choi Bo-rim	Nam Sung-woo	Jang Ki-yong, Lee Hye-ri	
	6		Devilish Judge	Jul		Moon Yoo Suk	Choi Jung Kyu	Ji Sung, Park Jin Young	Sat, Sun
	7		Jirisan	Aug		Kim Eun-hee	Lee Eung-bok	Jeon Ji-hyun, Joo Ji-hoon	
	8		You Are My Spring	2H				Kim Dong-wook, Seo Hyun-jin	
	9		MINE	TBD		Baek Mi-kyung	Lee Na-jung	Kim Seo-hyung, Lee Bo-young	
	10		Mr. Handy	TBD				Shin Min Ah, Kim Sun Ho	
	11		The Birth of Tragedy	TBD				Jin Jin-hee	
	12	OCN	Times	Feb 20-Mar 28	12	Lee Sae-bom	Yoon Jong-ho	Lee Seo-jin, Lee Joo-young	Sat, Sun
	13		Voice 4	Jun	-	Ma Jin-won	Shin Yong-hw	Song Seung-heon	
	14		Island	Jun	20	Jang Yoon-mi	Park Bae-jong	Kim Nam-gil	
	15	Netflix	Love Alarm 2	TBD		Lee Jae-yeon, Seo Bo-ra	In-jung	Kim So-hyun, Jung Ga-ram, Song Kang	

Note: Titles highlighted in green are streaming through Netflix

*Raw is an iQiyi original

Source: Company data, Samsung Securities

Chart 5. Ownership structure



Source: Company data, Samsung Securities

Table 4. Netflix: Studio Dragon's drama in 2020 TV Show Top 100

Rank	Title	English title	Released countries	Release date	Days of service	Points
19	사이코지만 괜찮아	It's Okay to Not Be Okay	43	Jun 20, 2020	146	11,758
36	더 킹: 영원의 군주	The King: Eternal Monarch	28	Apr 17, 2020	124	7,109
48	청춘기록	Record of Youth	26	Sep 7, 2020	79	5,966
59	사랑의 불시착	Crash Landing on You	10	Dec 14, 2019	200	4,210
73	스위트홈	Sweet Home	76	Dec 18, 2020	13	3,716

Note: Top 1 TV show was *365 Days* with 42,329 pts

Source: Flixpatrol, Samsung Securities

Chart 6. *Sweet Home* on Netflix's 4Q20 earnings call

We continue to ramp up our local original content slate. Our top local titles this quarter include *Barbarians* (a historical action series from Germany that 37m member households globally chose to watch in the first four weeks), *Sweet Home*, our Korean language horror show (22m member households), *Selena: The Series*, which particularly resonated with members throughout Mexico and the US (25m member households globally), and *Alice in Borderland*, a sci-fi thriller from Japan (18m member households). While designed to be very impactful in the home country, we see many cases of our local originals traveling more broadly. For example, *Lupin*, an adrenalin-filled French language heist series released in early January, has hit #2 in our US Top 10 list and ranked #1 in dozens of other countries including Brazil, Argentina, Germany, Italy, Spain, Poland, Vietnam, the Philippines and many more. We project 70m member households will choose to watch *Lupin* in its first 28 days of release.

Source: Company image, Samsung Securities

Table 5. Earnings revision

(KRWb)	2020E			2021E		
	Old	New	Chg %	Old	New	Chg %
Sales	510.8	500.8	-2.0	593.4	596.2	0.5
Operating profit	56.3	54.0	-4.0	64.6	71.7	11.0
Operating margin (% , %pts)	11.0	10.8	-0.2	10.9	12.0	1.1
Pre-tax profit	56.8	54.5	-4.1	66.8	74.0	10.8
Net profit (controlling)	41.7	40.1	-3.8	52.8	58.5	10.8

Source: Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Sales	380	469	501	596	654
Cost of goods sold	324	421	425	501	541
Gross profit	56	48	76	96	112
Gross margin (%)	14.6	10.2	15.1	16.0	17.2
SG&A expenses	16	19	22	24	26
Operating profit	40	29	54	72	87
Operating margin (%)	10.5	6.1	10.8	12.0	13.3
Non-operating gains (losses)	6	4	0	2	3
Financial profit	7	10	8	5	5
Financial costs	1	6	7	2	2
Equity-method gains (losses)	0	0	-0	0	0
Other	-0	0	-0	-0	-0
Pre-tax profit	46	33	54	74	90
Taxes	10	7	14	16	19
Effective tax rate (%)	21.5	20.1	26.3	21.0	21.0
Profit from continuing operations	36	26	40	58	71
Profit from discontinued operations	0	0	0	0	0
Net profit	36	26	40	58	71
Net margin (%)	9.4	5.6	8.0	9.8	10.9
Net profit (controlling interests)	36	26	40	58	71
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	115	146	175	206	232
EBITDA margin (%)	30.3	31.1	35.0	34.5	35.5
EPS (parent-based) (KRW)	1,278	941	1,413	1,949	2,367
EPS (consolidated) (KRW)	1,278	941	1,413	1,949	2,367
Adjusted EPS (KRW)*	1,278	941	1,413	1,949	2,367

Cash flow statement

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Cash flow from operations	-29	-12	133	173	198
Net profit	36	26	40	58	71
Non-cash profit and expenses	84	124	133	146	161
Depreciation	0	2	1	1	1
Amortization	75	115	120	133	144
Other	9	7	12	13	15
Changes in A/L from operating activities	-139	-143	-26	-16	-15
Cash flow from investments	141	-81	-103	-153	-171
Change in tangible assets	-0	-0	-1	-1	-1
Change in financial assets	140	-42	5	-9	-7
Other	1	-39	-107	-143	-163
Cash flow from financing	-10	-0	-3	-4	-0
Change in debt	-8	8	-2	-4	0
Change in equity	1	2	0	0	0
Dividends	0	0	0	0	0
Other	-2	-9	-1	-0	-0
Change in cash	102	-93	26	14	23
Cash at beginning of year	51	153	60	86	100
Cash at end of year	153	60	86	100	123
Gross cash flow	120	150	174	205	232
Free cash flow	-29	-13	132	172	197

Note: * Excluding one off items

** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Current assets	247	244	289	354	413
Cash & equivalents	153	60	86	100	123
Accounts receivable	69	84	98	122	136
Inventories	1	0	1	1	1
Other current assets	25	101	104	131	152
Fixed assets	265	337	335	353	382
Investment assets	4	13	22	26	33
Tangible assets	1	1	1	1	1
Intangible assets	199	233	226	234	248
Other long-term assets	62	89	86	92	101
Total assets	512	582	624	706	795
Current liabilities	108	145	148	176	193
Accounts payable	20	18	23	27	30
Short-term debt	0	0	0	0	0
Other current liabilities	89	127	125	149	163
Long-term liabilities	3	8	9	5	5
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	3	8	9	5	5
Total liabilities	111	153	156	181	198
Owners of parent equity	401	428	467	526	597
Capital stock	14	14	14	14	14
Capital surplus	320	322	322	322	322
Retained earnings	68	94	134	192	263
Other	-0	-1	-2	-2	-2
Non-controlling interests' equity	0	0	0	0	0
Total equity	401	428	467	526	597
Net debt	-153	-91	-106	-130	-157

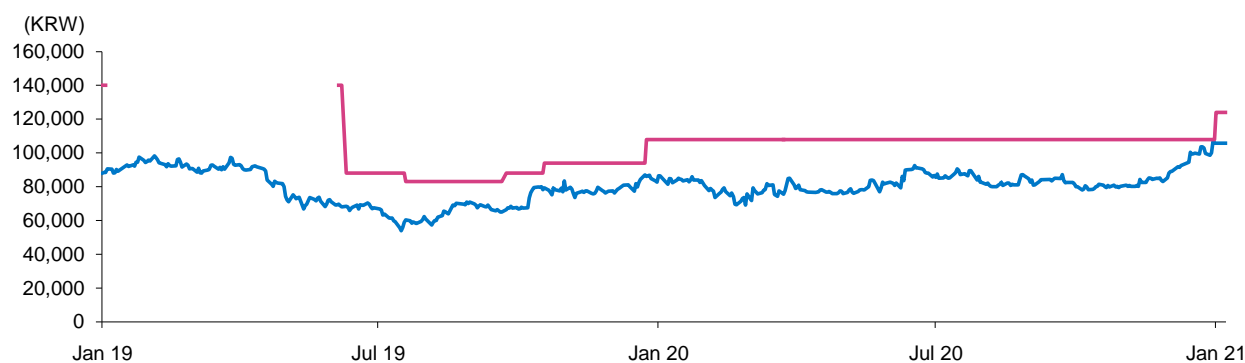
Financial ratios

Year-end Dec 31	2018	2019	2020E	2021E	2022E
Growth (%)					
Sales	32.4	23.5	6.9	19.0	9.7
Operating profit	21.0	-28.1	88.1	32.9	21.3
Net profit	50.3	-26.3	51.7	45.9	21.5
Adjusted EPS**	21.7	-26.3	50.1	37.9	21.5
Per-share data (KRW)					
EPS (parent-based)	1,278	941	1,413	1,949	2,367
EPS (consolidated)	1,278	941	1,413	1,949	2,367
Adjusted EPS**	1,278	941	1,413	1,949	2,367
BVPS	14,305	15,242	15,576	17,525	19,892
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	72.3	85.9	65.5	54.3	44.7
P/B***	6.5	5.3	5.9	6.0	5.3
EV/EBITDA	21.2	15.0	15.2	14.8	13.0
Ratios (%)					
ROE	9.3	6.4	9.0	11.8	12.7
ROA	7.4	4.8	6.7	8.8	9.5
ROIC	15.2	8.7	13.0	17.2	19.0
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	-38.2	-21.2	-22.7	-24.8	-26.4
Interest coverage (x)	343.0	58.1	73.9	147.3	268.0

Compliance notice

- As of Jan 21, 2021, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
- As of Jan 21, 2021, Samsung Securities' holdings of shares and debt instruments convertible into shares of each company covered in this report would not, if such debt instruments were converted, exceed 1% of each company's outstanding shares.
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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2018/7/12	2019/7/1	8/9	10/14	11/8	2020/1/14	2021/1/14	1/22
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	140,000	88,000	83,000	88,000	94,000	108,000	108,000	124,000
Gap* (average)	-27.09	-26.53	-21.77	-17.92	-16.65	-23.70	-5.37	
(max or min)**	-14.43	-20.00	-14.46	-8.98	-7.45	-3.98	-1.02	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Company

BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Dec 31, 2020

BUY (86.1%) | HOLD (13.9%) | SELL (0%)

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