

Platform Business Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW124,000	(23.9%)
Current price	KRW100,100	
Market cap	KRW3.0t/USD2.7b	
Shares (float)	30,004,345 (44.1%)	
52-week high/low	KRW109,200/KRW69,100	
Avg daily trading value (60-day)	KRW31.3b/USD28.0m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	5.9	13.2	17.8
Vs Kosdaq (%pts)	7.4	-1.9	-19.3

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	124,000	124,000	0.0%
2021E EPS	1,899	1,949	-2.5%
2022E EPS	2,402	2,367	1.5%

▶ SAMSUNG vs THE STREET

No of estimates	19
Target price	117,947
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

Studio Dragon (253450)

Growth momentum remains intact

- Studio Dragon reported 4Q operating profit of KRW4.6b, turning to profit y-y but missing consensus due to: 1) additional production cost to Sweet Home; and 2) the year-end bonus payment. Sales topped consensus.
- The firm should produce 30 dramas this year, at least nine of which should be provided to domestic and global OTT platforms.
- Its growth momentum should gain ground, supported by its: 1) diversification of sales channels, formats and genres; and 2) collaboration with multinational players.

WHAT'S THE STORY?

4Q review: Studio Dragon reported 4Q sales of KRW137.7b (up 41.3% y-y) and operating profit of KRW4.6b (a y-y turn from an operating loss of KRW4b in 4Q19), the former topping and the latter missing consensus. Programming sales contracted y-y as the number of dramas produced was 1.5 less than its average, but distribution sales hit a record based on sales of The Uncanny Counter (that received good feedback), Netflix original Sweet Home, and old title sales. Nonetheless, operating profit was a bit disappointing due to: 1) additional investment during the post-production stage of Sweet Home to improve content quality; and 2) the year-end bonus payment.

Global conference adds to bargaining power: The company should produce 30 dramas this year (up three y-y), at least nine of which should be provided to OTT platforms-three, each, to Tving (Korea; including Yumi's Cells), Netflix (US; g Juvenile Judgment and Love Alarm Season II), and iQIYI (China: A Falling Cohabitation). With more and more digital platforms in operation, Studio Dragon should supply more dramas to OTT platforms and diversify genres and formats. Its margin from Sweet Home turned out lower than expected as it spent more during the post-production stage of Sweet Home to improve quality. However, the margin of this drama should not be a benchmark for the dramas it will produce. Rather, thanks to the good reference from global audiences to its quality content, Studio Dragon is likely to enjoy favorable contract terms given its growing bargaining power.

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SUMMARY OF 4Q RESULTS

(KRWb)	4Q20	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	137.7	41.3	29.6	28.5	12.8
Operating profit	4.6	Turned pos	-71.2	-52.8	-58.8
Pre-tax profit	-3.0	Remained neg	Turned neg	nm	nm
Net profit	-2.9	Remained neg	Turned neg	nm	nm
Margins (%)					
Operating profit	3.3				
Pre-tax profit	-2.2				
Net profit	-2.1				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2019	2020E	2021E
Valuation (x)			
P/E	85.9	88.8	52.7
P/B	5.3	6.1	5.8
EV/EBITDA	15.0	15.7	14.2
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	-26.3	10.7	82.2
ROE (%)	6.4	6.7	11.7
Per-share data (KRW)			
EPS	941	1,042	1,899
BVPS	15,242	15,226	17,125
DPS	0	0	0

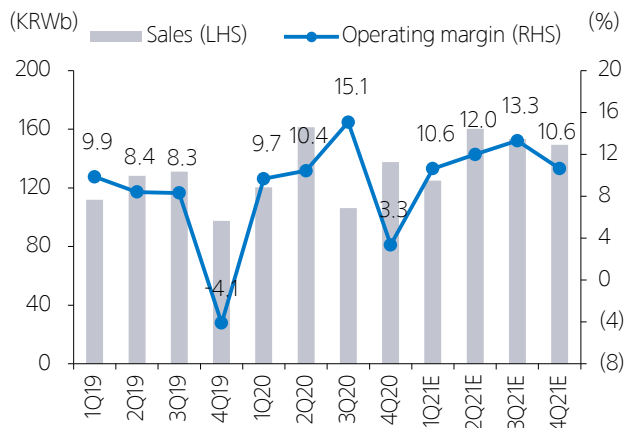
Maintaining BUY: The firm's earnings moved up a level last year and we believe its growth story will be endless. With the battle for content heating up among global OTT players, it is diversifying sales channels, content formats (from long- to mid-form content), and genres. Its international renown should pave the way for ASP hikes. The company is in talks with global production firms (eg, Skydance) to make ten dramas for now. The new growth opportunity should enable the firm to gain more global presence. We maintain our KRW124,000 target price (based on 16x forward EV/EBITDA).

Table 1. Results and forecasts

(KRWb)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21E	2Q21E	3Q21E	4Q21E	2019	2020	2021E	2022E
Sales	111.8	128.2	131.2	97.4	120.3	161.4	106.3	137.7	125.0	160.3	153.2	149.3	468.7	525.7	587.8	649.4
Programing	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.7	45.6	53.0	50.1	46.9	208.7	197.0	195.5	204.6
Distribution	56.2	60.3	60.0	42.8	66.9	75.7	50.9	86.3	70.4	90.0	88.9	87.7	219.3	279.7	337.0	386.0
Other	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	9.0	17.3	14.2	14.7	40.6	48.9	55.3	58.9
Gross profit	15.0	15.4	15.3	2.2	16.7	21.8	21.3	15.0	18.7	24.8	26.3	27.0	47.9	74.8	96.9	117.2
SG&A costs	4.0	4.6	4.4	6.2	5.1	4.9	5.3	10.4	5.5	5.6	5.9	11.2	19.2	25.7	28.1	30.3
Operating profit	11.0	10.8	10.9	-4.0	11.6	16.9	16.0	4.6	13.3	19.2	20.4	15.9	28.7	49.1	68.8	86.9
Non-operating profit	2.1	1.1	2.2	-1.1	0.4	0.3	-0.8	-7.5	1.1	0.5	1.0	0.7	4.3	-7.6	3.4	4.4
Pre-tax profit	13.2	11.9	13.1	-5.1	12.0	17.2	15.2	-2.9	14.4	19.7	21.4	16.6	33.1	41.5	72.1	91.2
Net profit (controlling)	9.2	7.3	11.5	-1.6	8.5	13.4	10.6	-2.8	11.4	15.6	16.9	13.1	26.4	29.7	57.0	72.1
Gross margin	13.4	12.0	11.7	2.2	13.8	13.5	20.0	10.9	15.0	15.5	17.2	18.1	10.2	14.2	16.5	18.0
Operating margin	9.9	8.4	8.3	-4.1	9.7	10.4	15.1	3.3	10.6	12.0	13.3	10.6	6.1	9.3	11.7	13.4
Net margin (controlling)	8.2	5.7	8.8	-1.7	7.1	8.3	10.0	-2.1	9.1	9.7	11.0	8.8	5.6	5.6	9.7	11.1
Chg (% y-y)																
Sales	40.0	72.6	6.0	-4.2	7.6	25.9	-19.0	41.3	3.9	-0.7	44.2	8.4	23.5	12.2	11.8	10.5
Programing	8.4	70.5	24.4	-16.1	2.5	12.6	-24.9	-10.9	0.8	-18.9	9.7	15.1	17.2	-5.6	-0.7	4.7
Distribution	75.1	109.2	-5.4	13.3	19.1	25.5	-15.2	101.6	5.2	19.0	74.7	1.7	35.3	27.6	20.5	14.5
Other	63.1	-14.1	-9.0	-6.7	-29.2	107.1	-6.4	20.2	10.6	-15.0	46.7	37.7	3.0	20.4	13.1	6.5
Gross profit	9.9	45.1	-38.4	-66.2	11.1	41.7	39.2	585.3	12.5	13.7	23.7	80.2	-13.8	56.2	29.6	20.9
SG&A costs	33.1	40.2	31.0	2.7	28.4	5.8	21.3	67.6	6.9	14.6	11.5	7.4	22.4	34.0	9.5	7.8
Operating profit	3.5	47.3	-49.2	Turned neg	5.5	56.3	46.8	Turned pos	14.2	14.0	27.3	244.4	-28.1	71.1	40.0	26.3
Non-operating profit	1,160.7	-71.7	290.9	Turned neg	-79.7	-69.4	Turned neg	Remained neg	157.8	50.2	To turn pos	To turn pos	-24.3	Turned neg	To turn pos	30.3
Pre-tax profit	22.2	7.6	-40.8	Turned neg	-9.2	44.5	16.2	Remained neg	19.9	14.7	40.8	To turn pos	-27.5	25.4	73.6	26.5
Net profit (controlling)	17.2	-17.4	-33.5	Turned neg	-7.3	82.1	-8.0	Remained neg	33.1	16.5	59.5	To turn pos	-26.3	12.3	92.1	26.5
Gross margin	-3.7	-2.3	-8.4	-4.1	0.4	1.5	8.4	8.7	1.1	2.0	-2.8	7.2	-4.4	4.0	2.3	1.6
Operating margin	-3.5	-1.4	-9.0	-4.6	-0.2	2.0	6.8	7.5	1.0	1.5	-1.8	7.3	-4.4	3.2	2.4	1.7
Net margin (controlling)	-1.6	-6.2	-5.2	-3.4	-1.1	2.6	1.2	-0.4	2.0	1.4	1.1	10.9	-3.8	0.0	4.1	1.4

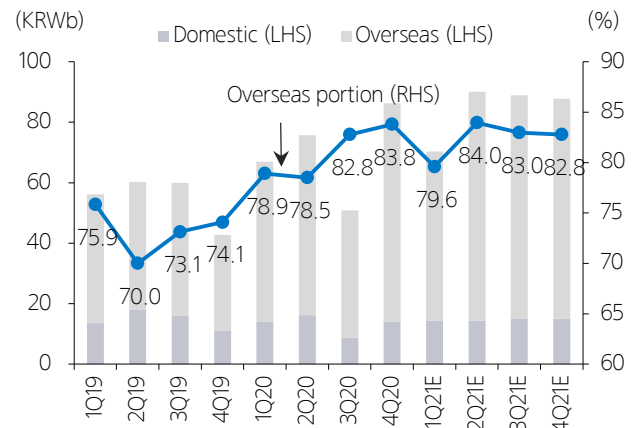
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin



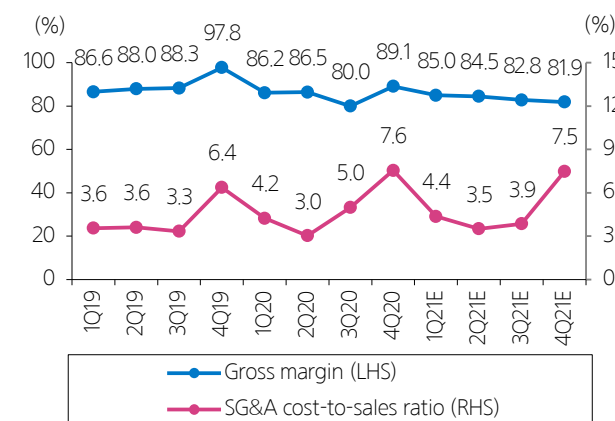
Source: Company data, Samsung Securities

Chart 2. Sales: Domestic and overseas



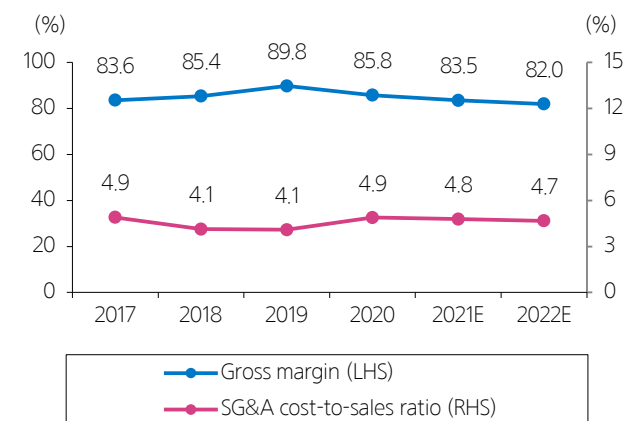
Source: Company data, Samsung Securities

Chart 3. Quarterly gross margin and SG&A costs-to-sales ratio



Source: Company data, Samsung Securities

Chart 4. Annual gross margin and SG&A costs-to-sales ratio



Source: Company data, Samsung Securities

Table 2. 4Q20-2021 drama lineup

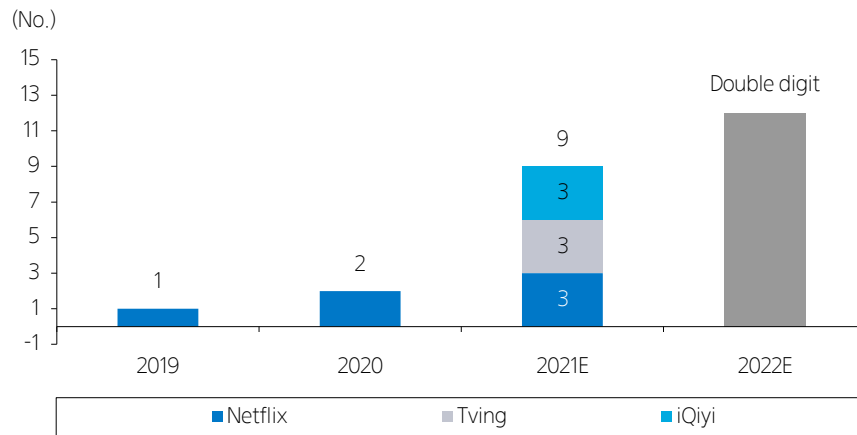
Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Leading actors	Days
2020	1	tvN	<i>Secret Forest Season 2</i>	Aug 15-Oct 4	16	Lee Soo-yeon	Park Hyun-seok	Cho Seung-woo, Yoon Se-ah, Lee Jun-hyuk	Sat, Sun
	2		<i>A Record of Youth</i>	Sep 7-Oct 27	16	Ha Myung-hee	Ahn Gil-ho	Park Bo-gum, Park So-dam	Mon, Tue
	3		<i>The Tale of a Gumiho</i>	Oct 7-Nov 26	16	Han Woo-ri	Kang Shin-hyo	Lee Dong Wook, Jo Bo-ah	Wed, Thu
	4		<i>StartUp</i>	Oct 17-Dec 6	16	Park Hye-ryun	Oh Chung-hwan	Nam Ju-hyuk, Suji, Kim Sun-ho	Sat, Sun
	5		<i>Day and Night</i>	Nov 30-Jan 19, 2021	16	Shin Yoo-dam	Jo Soo-won	Namgung-min, Lee Chung-a	Mon, Tue
	6		<i>True Beauty</i>	Dec 9-Jan 28, 2021	16	Lee Si-eun	Kim Sang-hyeop	Cha Eun-woo, Moon Ga-young	Wed, Thu
	7		<i>Queen Cheorin</i>	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	<i>Missing</i>	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		<i>Wonderful Rumors</i>	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	<i>L. U. C. A. : The Beginning</i>	Feb 01-Mar 09	16	Chun Sung Il	Kim Hong Sun	Kim Rae Won, Lee Dae Hee	Mon, Tue
	2		<i>Vincenzo</i>	Feb 20-Apr 25	20	Park Jae-bum	Kim Hee-won	Song Joong-ki, Jeon Yeo-bin	Sat, Sun
	3		<i>Navillera</i>	Mar 22-Apr 27	12	Lee Eun-mi	Han Dong-hwa	Park In-hwan, Song Kang, Na Mun-hee	
	4		<i>Doom at Your Service</i>	Jun		Immeari	Kwon Young-il	Seo In-guk, Park Bo-young	
	5		<i>MINE</i>	Jun		Baek Mi-kyung	Lee Na-jung	Kim Seo-hyung, Lee Bo-young	
	6		<i>Raw*</i>	1H	16	Baek Sunwoo, Choi Bo-rim	Nam Sung-woo	Jang Ki-yong, Lee Hye-ri	
	7		<i>Devilish Judge</i>	Jul		Moon Yoo Suk	Choi Jung Kyu	Ji Sung, Park Jin Young	Sat, Sun
	8		<i>Jirisan</i>	Aug		Kim Eun-hee	Lee Eung-bok	Jeon Ji-hyun, Joo Ji-hoon	
	9		<i>You Are My Spring</i>	2H				Kim Dong-wook, Seo Hyun-jin	
	10		<i>Mr. Handy</i>	TBD				Shin Min Ah, Kim Sun Ho	
	11		<i>The Birth of Tragedy</i>	TBD				Jin Jin-hee	
	12		<i>Soul Marriage</i>	TBD				Hong Jeong-eun, Hong Mi-ran	
	13	OCN	<i>Times</i>	Feb 20-Mar 28	12	Lee Sae-bom	Yoon Jong-ho	Lee Seo-jin, Lee Joo-young	Sat, Sun
	14		<i>Voice 4</i>	Jun	-	Ma Jin-won	Shin Yong-hw	Song Seung-heon	
	15		<i>Island</i>	Jun	20	Jang Yoon-mi	Park Bae-jong	Kim Nam-gil	
	16	Netflix	<i>Love Alarm 2</i>	1Q		Yoo Bo-rah, Cha Yeon-soo	Kim Jin-woo	Kim So-hyun, Song Gang	-
	17		<i>Juvenile Judgment</i>	TBD		Kim Min-seok	Hong Jong-chan	Kim Hye-soo, Kim Moo-yeol	

Note: Titles highlighted in green are streaming through Netflix

*Raw is an iQiyi original

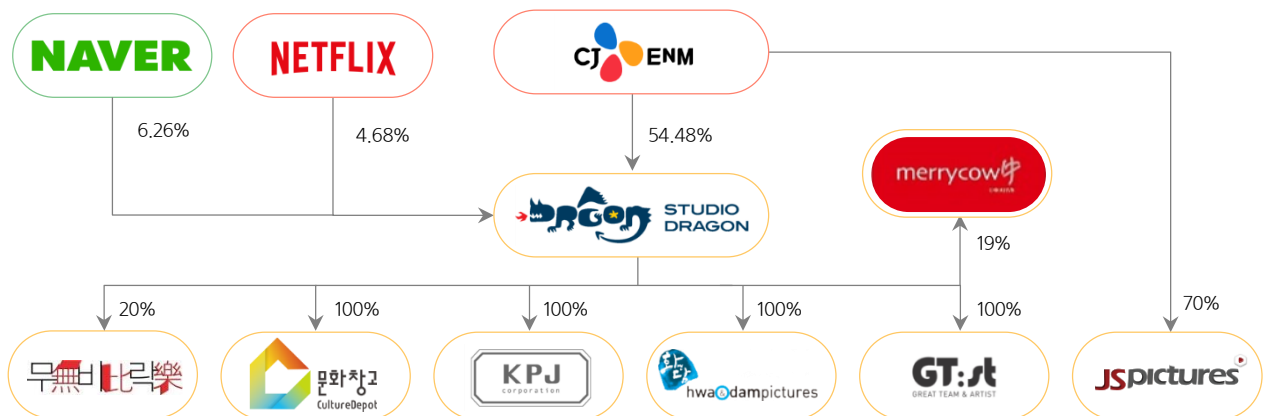
Source: Company data, Samsung Securities

Chart 5. Number of digital content in lineup



Source: Company data, Samsung Securities

Chart 6. Ownership structure



Source: Company data, Samsung Securities

Table 3. Earnings revisions

(KRWb)	2021E			2022E		
	Old	New	Chg %	Old	New	Chg %
Sales	596.2	587.8	-1.4	653.9	649.4	-0.7
Operating profit	71.7	68.8	-4.1	87.0	86.9	-0.1
Operating margin (% , %pts)	12.0	11.7	-0.3	13.3	13.4	0.1
Pre-tax profit	74.0	72.1	-2.5	89.9	91.2	1.5
Net profit (controlling)	58.5	57.0	-2.5	71.0	72.1	1.5

Source: Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Sales	380	469	526	588	649
Cost of goods sold	324	421	451	491	532
Gross profit	56	48	75	97	117
Gross margin (%)	14.6	10.2	14.2	16.5	18.0
SG&A expenses	16	19	26	28	30
Operating profit	40	29	49	69	87
Operating margin (%)	10.5	6.1	9.3	11.7	13.4
Non-operating gains (losses)	6	4	-8	3	4
Financial profit	7	10	10	8	9
Financial costs	1	6	14	4	4
Equity-method gains (losses)	0	0	-0	0	0
Other	-0	0	-4	-1	-1
Pre-tax profit	46	33	41	72	91
Taxes	10	7	12	15	19
Effective tax rate (%)	21.5	20.1	28.6	21.0	21.0
Profit from continuing operations	36	26	30	57	72
Profit from discontinued operations	0	0	0	0	0
Net profit	36	26	30	57	72
Net margin (%)	9.4	5.6	5.6	9.7	11.1
Net profit (controlling interests)	36	26	30	57	72
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	115	146	171	203	232
EBITDA margin (%)	30.3	31.1	32.4	34.5	35.8
EPS (parent-based) (KRW)	1,278	941	1,042	1,899	2,402
EPS (consolidated) (KRW)	1,278	941	1,042	1,899	2,402
Adjusted EPS (KRW)*	1,278	941	1,042	1,899	2,402

Cash flow statement

Year-end Dec 31 (KRWb)	2018	2019	2020E	2021E	2022E
Cash flow from operations	-29	-12	122	173	199
Net profit	36	26	30	57	72
Non-cash profit and expenses	84	124	131	146	161
Depreciation	0	2	1	1	1
Amortization	75	115	120	133	144
Other	9	7	10	12	16
Changes in A/L from operating activities	-139	-143	-27	-15	-15
Cash flow from investments	141	-81	-106	-151	-172
Change in tangible assets	-0	-0	-1	-1	-1
Change in financial assets	140	-42	3	-7	-8
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	13	16	24
Cash at beginning of year	51	153	60	73	89
Cash at end of year	153	60	73	89	113
Gross cash flow	120	150	161	203	233
Free cash flow	-29	-13	121	172	198

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	285	339	401
Cash & equivalents	153	60	73	89	113
Accounts receivable	69	84	103	121	135
Inventories	1	0	1	1	1
Other current assets	25	101	109	129	152
Fixed assets	265	337	336	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	621	692	782
Current liabilities	108	145	155	174	192
Accounts payable	20	18	24	27	30
Short-term debt	0	0	0	0	0
Other current liabilities	89	127	131	147	162
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	164	178	197
Owners of parent equity	401	428	457	514	586
Capital stock	14	14	14	14	14
Capital surplus	320	322	322	322	322
Retained earnings	68	94	123	180	252
Other	-0	-1	-2	-2	-2
Non-controlling interests' equity	0	0	0	0	0
Total equity	401	428	457	514	586
Net debt	-153	-91	-94	-119	-147

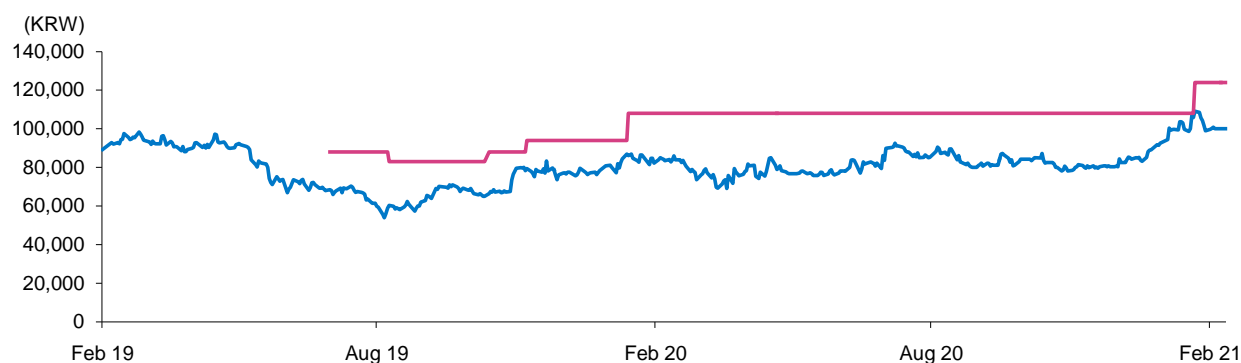
Financial ratios

Year-end Dec 31	2018	2019	2020E	2021E	2022E
Growth (%)					
Sales	32.4	23.5	12.2	11.8	10.5
Operating profit	21.0	-28.1	71.0	40.1	26.3
Net profit	50.3	-26.3	11.9	92.7	26.5
Adjusted EPS**	21.7	-26.3	10.7	82.2	26.5
Per-share data (KRW)					
EPS (parent-based)	1,278	941	1,042	1,899	2,402
EPS (consolidated)	1,278	941	1,042	1,899	2,402
Adjusted EPS**	1,278	941	1,042	1,899	2,402
BVPS	14,305	15,242	15,226	17,125	19,527
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	72.3	85.9	88.8	52.7	41.7
P/B***	6.5	5.3	6.1	5.8	5.1
EV/EBITDA	21.2	15.0	15.7	14.2	12.3
Ratios (%)					
ROE	9.3	6.4	6.7	11.7	13.1
ROA	7.4	4.8	4.9	8.7	9.8
ROIC	15.2	8.7	11.5	16.5	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	-20.6	-23.2	-25.1
Interest coverage (x)	343.0	58.1	67.2	141.2	267.6

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	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
Target price (KRW)	88,000	83,000	88,000	94,000	108,000	108,000	124,000
Gap* (average)	-26.53	-21.77	-17.92	-16.65	-23.70	-5.37	
(max or min)**	-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

Samsung Securities uses the following investment ratings.

Company

BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
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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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General

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