

Platform Business Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW135,000	30.8%
Current price	KRW103,200	
Market cap	KRW3.1t/USD2.8b	
Shares (float)	30,004,345 (44.1%)	
52-week high/low	KRW109,200/KRW75,900	
Avg daily trading value (60-day)	KRW20.6b/ USD18.3m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	1.3	26.8	34.0
Vs Kosdaq (%pts)	1.1	9.4	-9.0

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	135,000	124,000	8.9%
2021E EPS	1,976	1,899	4.1%
2022E EPS	2,544	2,402	5.9%

▶ SAMSUNG vs THE STREET

No of estimates	20
Target price	126,100
Recommendation	4.0

BUY ★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL ★★★: 1

Studio Dragon (253450)

Profitability improving

- Studio Dragon's 1Q operating profit of KRW17.9b (up 53.6% y-y) exceeded consensus by 24% despite a y-y drop in the number of drama episodes produced. High viewership ratings of its dramas and improvement in its bargaining power points to its strong earnings generating capability.
- The company is in talks with global production firms to make more than 18 dramas drama. It is also providing original dramas to more OTT service providers (ie, Tving and iQIYI this year).
- Reflecting our revised earnings estimates, we raise our 12-month target price by 9% to KRW135,000. The stock remains at BUY rating.

WHAT'S THE STORY?

1Q review: Studio Dragon reported 1Q sales of KRW117.7b (down 2.7% y-y) and operating profit of KRW17.9b (up 53.6% y-y), the latter topping consensus (KRW14.4b) by 24%. Sales contracted y-y since the number of drama episodes produced was four less than its average. However, earnings leapt y-y on strong popularity of its content and its improving bargaining power. Operating margin jumped 5.6%pts y-y to 15.3%. Backed by high viewership ratings of Vincenzo, Mr. Queen, and True Beauty, the company saw its new titles' ASP climb 34% y-y. In programing sales, VOD sales rose around 10% y-y to KRW15.5b. Thanks to its production cost reduction, operating expenses diminished 8.7% y-y last quarter, driving down the COGS ratio by 6.4%pts y-y to 79.8%. The company provided Tving Original drama Scripting Your Destiny, on top of its TV dramas and Netflix Original drama Love Alarm Season II.

Preparing for next step: Studio Dragon is in talks with global production firms to make more than 18 dramas drama. The company says that a series order usually takes two to four years and it is about to take one or two series orders, an achievement that should prove its global projects beginning to bear fruit. Meantime, the firm is expanding its drama production for OTT platforms-nine dramas in 2021 (vs two in 2020). It supplied original dramas to Tving (Scripting Your Destiny) in 1Q, in addition to Netflix, and should do so for iQIYI (China; A Falling Cohabitation) in 2Q. Its outstanding production capability (proven with strong popularity of its dramas domestically and internationally) in combination with favorable market environment should boost its bargaining power.

(Continued on the next page)

SUMMARY OF 1Q RESULTS

(KRWb)	1Q21	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	117.1	-2.7	-15.0	-6.3	-7.4
Operating profit	17.9	53.6	287.6	34.7	24.1
Pre-tax profit	21.1	75.3	nm	46.6	44.1
Net profit	15.6	82.2	nm	37.2	35.9
Margins (%)					
Operating profit	15.3				
Pre-tax profit	18.0				
Net profit	13.3				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

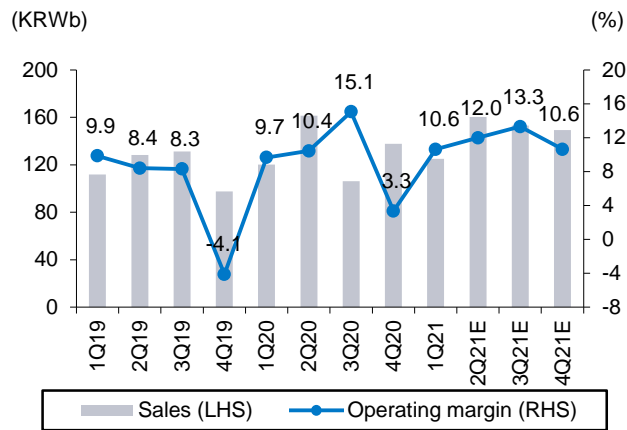
	2020	2021E	2022E
Valuation (x)			
P/E	88.7	52.2	40.6
P/B	4.6	4.6	4.1
EV/EBITDA	16.5	14.4	12.3
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	10.9	89.2	28.8
ROE (%)	5.7	9.3	10.8
Per-share data (KRW)			
EPS	1,044	1,976	2,544
BVPS	20,309	22,377	24,921
DPS	0	0	0

Raising target to KRW135,000: Studio Dragon's higher new title ASP and margin has testified to its reinforced fundamentals. The firm has been working to diversify the IP-based businesses, which are still making small contribution to earnings. Its growth momentum should gain ground, supported by its: 1) diversification of sales channels and formats (from long- to mid-form content); and 2) collaboration with multinational players. We revise up our earnings estimates and raise 12-month target price from KRW124,000 to KRW135,000 (based on 16x forward EV/EBITDA). We maintain BUY rating.

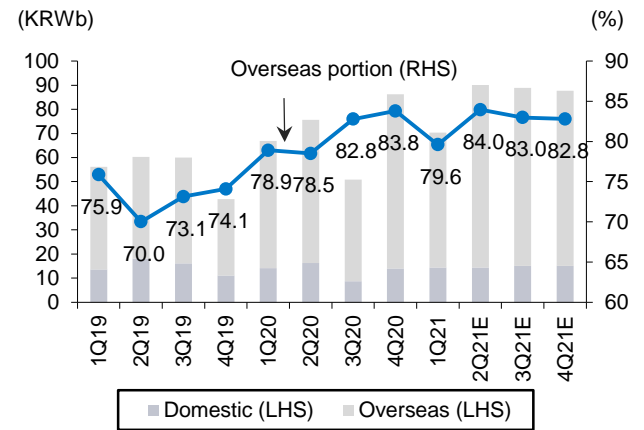
Table 1. Results and forecasts

(KRWb)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2019	2020	2021E	2022E
Sales	111.8	128.2	131.2	97.4	120.3	161.4	106.3	137.7	117.1	120.3	150.3	160.2	468.7	525.7	548.0	640.8
Programing	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.7	43.8	39.4	49.9	50.7	208.7	197.0	183.7	204.1
Distribution	56.2	60.3	60.0	42.8	66.9	75.7	50.9	86.3	63.2	63.7	86.0	93.9	219.3	279.7	306.9	376.0
Other	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	10.1	17.3	14.3	15.6	40.6	48.9	57.3	60.8
Gross profit	15.0	15.4	15.3	2.2	16.7	21.8	21.3	15.0	23.7	20.9	23.9	30.7	47.9	74.8	99.2	121.4
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	28.2	30.3
Operating profit	11.0	10.8	10.9	-4.0	11.6	16.9	16.0	4.6	17.9	15.3	18.0	19.5	28.7	49.1	70.7	91.1
Non-operating profit	2.1	1.1	2.2	-1.1	0.4	0.3	-0.8	-7.5	3.2	1.2	2.4	2.8	4.3	-7.6	9.5	12.2
Pre-tax profit	13.2	11.9	13.1	-5.1	12.0	17.2	15.2	-2.9	21.1	16.5	20.4	22.3	33.1	41.5	80.2	103.3
Net profit (controlling)	9.2	7.3	11.5	-1.6	8.5	13.4	10.6	-2.8	15.6	12.2	15.0	16.5	26.4	29.7	59.3	76.3
Gross margin	13.4	12.0	11.7	2.2	13.8	13.5	20.0	10.9	20.2	17.4	15.9	19.2	10.2	14.2	18.1	18.9
Operating margin	9.9	8.4	8.3	-4.1	9.7	10.4	15.1	3.3	15.3	12.7	12.0	12.2	6.1	9.3	12.9	14.2
Net margin (controlling)	8.2	5.7	8.8	-1.7	7.1	8.3	10.0	-2.1	13.3	10.1	10.0	10.3	5.6	5.6	10.8	11.9
Chg (% y-y)																
Sales	40.0	72.6	6.0	-4.2	7.6	25.9	-19.0	41.3	-2.7	-25.5	41.4	16.4	23.5	12.2	4.2	17.0
Programing	8.4	70.5	24.4	-16.1	2.5	12.6	-24.9	-10.9	-3.2	-39.7	9.2	24.6	17.2	-5.6	-6.7	11.1
Distribution	75.1	109.2	-5.4	13.3	19.1	25.5	-15.2	101.6	-5.5	-15.8	69.1	8.9	35.3	27.6	9.7	22.5
Other	63.1	-14.1	-9.0	-6.7	-29.2	107.1	-6.4	20.2	24.0	-15.0	47.7	45.8	3.0	20.4	17.3	6.0
Gross profit	9.9	45.1	-38.4	-66.2	11.1	41.7	39.2	585.3	42.2	-4.2	12.2	104.6	-13.8	56.2	32.6	22.4
SG&A costs	33.1	40.2	31.0	2.7	28.4	5.8	21.3	67.6	7.5	14.1	11.0	7.7	22.4	34.0	9.6	7.7
Operating profit	3.5	47.3	-49.2	Turned neg	5.5	56.3	46.8	Turned pos	53.6	-9.0	12.2	323.2	-28.1	71.1	43.9	28.9
Non-operating profit	1,160.7	-71.7	290.9	Turned neg	-79.7	-69.4	Turned neg	Remained neg	642.7	264.3	To turn pos	To turn pos	-24.3	Turned neg	To turn pos	27.9
Pre-tax profit	22.2	7.6	-40.8	Turned neg	-9.2	44.5	16.2	Remained neg	75.3	-3.9	33.8	To turn pos	-27.5	25.4	93.1	28.8
Net profit (controlling)	17.2	-17.4	-33.5	Turned neg	-7.3	82.1	-8.0	Remained neg	82.2	-8.7	41.8	To turn pos	-26.3	12.3	99.9	28.8
Gross margin	-3.7	-2.3	-8.4	-4.1	0.4	1.5	8.4	8.7	6.4	3.9	-4.1	8.3	-4.4	4.0	3.9	0.8
Operating margin	-3.5	-1.4	-9.0	-4.6	-0.2	2.0	6.8	7.5	5.6	2.3	-3.1	8.8	-4.4	3.2	3.6	1.3
Net margin (controlling)	-1.6	-6.2	-5.2	-3.4	-1.1	2.6	1.2	-0.4	6.2	1.9	0.0	12.3	-3.8	0.0	5.2	1.1

Source: Company data, Samsung Securities

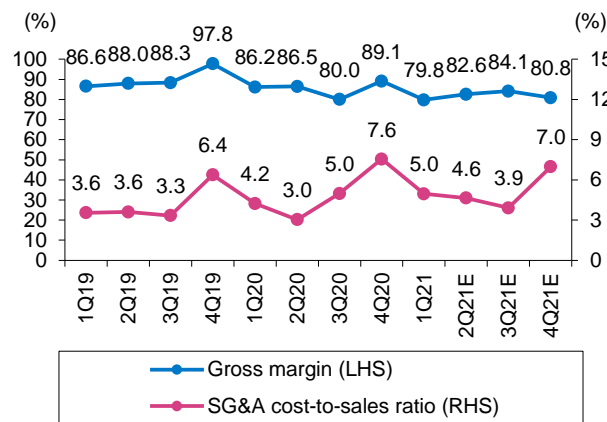
Chart 1. Quarterly sales and operating margin

Source: Company data, Samsung Securities

Chart 2. Sales: Domestic and overseas

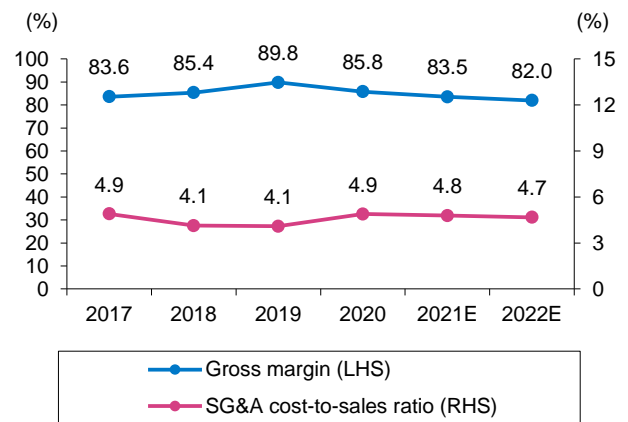
Source: Company data, Samsung Securities

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. 2021 drama lineup

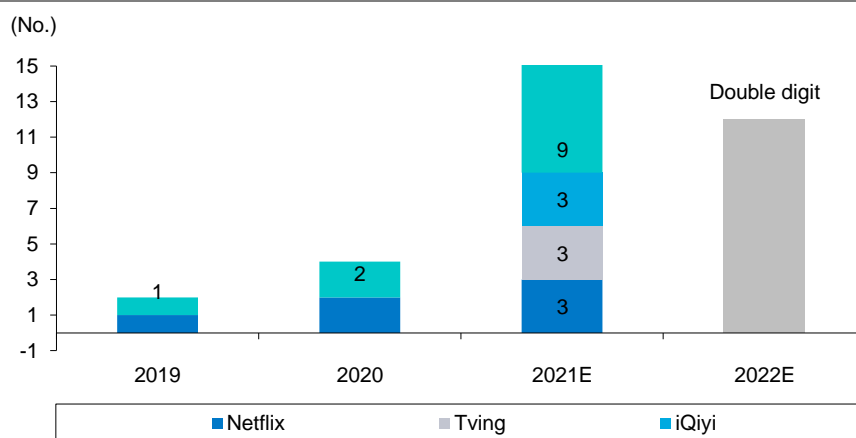
Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Starring	Days
2021	1	tvN	L. U. C. A. : The Beginning	Feb 1-Mar 9	16	Chun Sung Il	Kim Hong Sun	Kim Rae Won, Lee Dae Hee	Mon, Tue
	2		Vincenzo	Feb 20-Apr 25	20	Park Jae-bum	Kim Hee-won	Song Joong-ki, Jeon Yeo-bin	Sat, Sun
	3		Navillera	Mar 22-Apr 27	12	Lee Eun-mi	Han Dong-hwa	Park In-hwan, Song Kang, Na Mun-hee	
	4		Mine	May 8-Jun 27	16	Baek Mi-kyeong	Lee Na-jeong	Kim Seo-hyung, Lee Bo-young	Sat, Sun
	5		Doom at Your Service	May 10-Jun 29	16	Immeari	Kwon Young-il	Seo In-guk, Park Bo-young	Mon, Tue
	6		My roommate is Gumiho (iQiyi)*	5.26-7.15	16	Baek Sunwoo, Choi Bo-rim	Nam Sung-woo	Jang Ki-yong, Lee Hye-ri	Wed, Thu
	7		Devilish Judge	Jul 3-Aug 22		Moon Yoo Suk	Choi Jung Kyu	Ji Sung, Park Jin Young	Sat, Sun
	8		Jirisan	Aug	16	Kim Eun-hee	Lee Eung-bok	Jeon Ji-hyun, Joo Ji-hoon	Sat, Sun
	9		You Are My Spring	2H				Kim Dong-wook, Seo Hyun-jin	
	10		Tale of the Secret Royal Inspector and Jo Yi	2H	16	Lee Jae-yoon	Yoo Jong-seon	Jeong So-min, Ok Taek-yeon	
	11		Seashore Village Chachacha	TBD	16	Shin Ha-eun	Yoo Je-won	Sin Min-ah, Kim Seon-wook	-
	12		Soul Marriage	TBD		Hong Jeong-eun, Hong Mi-ran	Park, Joon-hwa	Lee Jae-wook, Park Hye-Eun	
	13		Yumi's Cells	TBD		Song Jae-jung, Kim Yoon-joo, Kim Kyung-ran	Lee Sang-yeop	Kim Go-eun, Ahn Byung-hyun	
	14		Bulgasal	TBD		Kwon So-ra, Seo Jae-won	Jang Yong-woo	Lee Jin-wook, Kwon Nara, Lee Jun	
	15		The Road: Tragedy of One	TBD		Yoon Hui-jung	Kim No-won	Jin Jin-hee, Yoon Se-a, Kim Hye-eun	
	16	OCN	Times	Feb 20-Mar 28	12	Lee Sae-bom	Yoon Jong-ho	Lee Seo-jin, Lee Joo-young	Sat, Sun
	17		Hometown	2H	6	Joo Jin	Park Hyeon-seok	Um Tae-goo, Han Ye-ri	Sat, Sun
	18		Island	Jun	20	Jang Yoon-mi	Park Bae-jong	Kim Nam-gil	
	19		So You	TBD	16		Bang Eun-jin		
	20		The Fifth Column	TBD	16	Nam Sang Wook, Hwang In Ho, Lee Seung Young	Lee Seoung-young		
	21	Netflix	Love Alarm 2	Mar 12	6	Yoo Bo-rah, Cha Yeon-soo	Kim Jin-woo	Kim So-hyun, Song Gang	-
	22		Juvenile Judgment	TBD		Kim Min-seok	Hong Jong-chan	Kim Hye-soo, Kim Moo-yeol	-
	23	TVING	Scripting Your Destiny	Mar 26	10	Kim Byeong-soo	Eun Sun-woo	Jeon So-nee, Ki Do-hoon	-
	25		The Witcher's Diner	2H	8	Lee Young-sook	So Jae-hyun, Lee Young-sook	Song Ji-hyo, Nam Ji-hyun	-

Note: Titles highlighted are streaming through Netflix (in green) and TVING (in skyblue)

*My Roommate is Gumiho is an iQiyi original

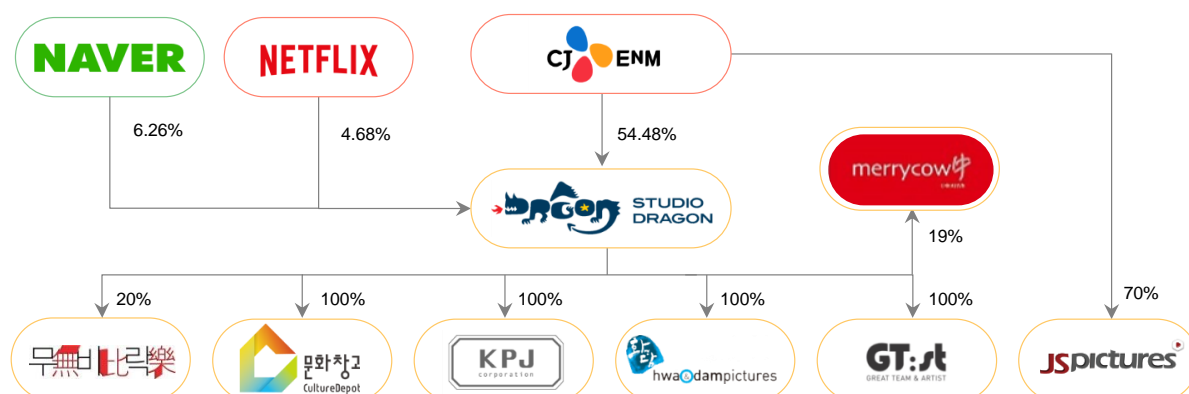
Source: Company data, Samsung Securities

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	587.8	548.0	-6.8	649.4	640.8	-1.3
Operating profit	68.8	70.7	2.8	86.9	91.1	4.9
Operating margin (% , %pts)	11.7	12.9	1.2	13.4	14.2	0.8
Pre-tax profit	72.1	80.2	11.2	91.2	103.3	13.2
Net profit (controlling)	57.0	59.3	4.0	72.1	76.3	5.9

Source: Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Sales	469	526	548	641	696
Cost of goods sold	421	451	449	519	557
Gross profit	48	75	99	121	139
Gross margin (%)	10.2	14.2	18.1	18.9	20.0
SG&A expenses	19	26	28	30	33
Operating profit	29	49	71	91	106
Operating margin (%)	6.1	9.3	12.9	14.2	15.3
Non-operating gains (losses)	4	-8	10	12	14
Financial profit	10	10	15	18	19
Financial costs	6	14	5	5	3
Equity-method gains (losses)	0	0	0	0	0
Other	0	-4	-1	-1	-1
Pre-tax profit	33	42	80	103	120
Taxes	7	12	21	27	31
Effective tax rate (%)	20.1	28.7	26.1	26.1	26.1
Profit from continuing operations	26	30	59	76	89
Profit from discontinued operations	0	0	0	0	0
Net profit	26	30	59	76	89
Net margin (%)	5.6	5.6	10.8	11.9	12.8
Net profit (controlling interests)	26	30	59	76	89
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	146	165	201	234	262
EBITDA margin (%)	31.1	31.4	36.7	36.5	37.6
EPS (parent-based) (KRW)	941	1,044	1,976	2,544	2,961
EPS (consolidated) (KRW)	941	1,044	1,976	2,544	2,961
Adjusted EPS (KRW)*	941	1,044	1,976	2,544	2,961

Cash flow statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Cash flow from operations	-12	5	122	193	229
Net profit	26	30	59	76	89
Non-cash profit and expenses	124	135	148	165	181
Depreciation	2	3	2	2	2
Amortization	115	113	128	141	154
Other	7	19	18	22	25
Changes in A/L from operating activities	-143	-144	-64	-21	-9
Cash flow from investments	-81	-16	-145	-164	-176
Change in tangible assets	-0	-7	-1	-1	-1
Change in financial assets	-42	31	-13	2	-9
Other	-39	-41	-131	-164	-166
Cash flow from financing	-0	0	-7	-0	-0
Change in debt	8	1	-7	0	0
Change in equity	2	149	0	0	0
Dividends	0	0	0	0	0
Other	-9	-150	-0	-0	-0
Change in cash	-93	-11	135	27	52
Cash at beginning of year	153	60	49	184	211
Cash at end of year	60	49	184	211	263
Gross cash flow	150	165	208	241	270
Free cash flow	-13	-2	121	192	228

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

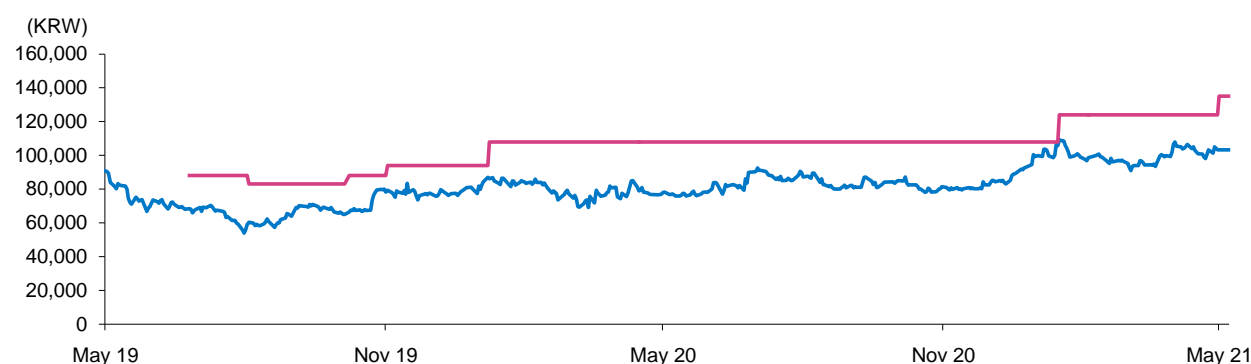
Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Current assets	244	228	367	423	505
Cash & equivalents	60	49	184	211	263
Accounts receivable	84	107	85	119	131
Inventories	0	0	0	0	0
Other current assets	101	73	97	94	111
Fixed assets	337	529	370	403	422
Investment assets	13	180	16	22	22
Tangible assets	1	8	6	5	5
Intangible assets	233	230	243	260	277
Other long-term assets	89	111	104	116	118
Total assets	582	757	736	827	927
Current liabilities	145	132	53	66	77
Accounts payable	18	6	11	11	14
Short-term debt	0	0	0	0	0
Other current liabilities	127	126	42	55	63
Long-term liabilities	8	16	12	13	14
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	8	16	12	13	14
Total liabilities	153	148	65	79	91
Owners of parent equity	428	609	671	748	837
Capital stock	14	15	15	15	15
Capital surplus	322	470	470	470	470
Retained earnings	94	123	182	259	347
Other	-1	1	4	4	4
Non-controlling interests' equity	0	0	0	0	0
Total equity	428	609	671	748	837
Net debt	-91	-45	-203	-225	-286

Financial ratios

Year-end Dec 31	2019	2020	2021E	2022E	2023E
Growth (%)					
Sales	23.5	12.2	4.2	17.0	8.6
Operating profit	-28.1	71.1	43.9	28.9	16.5
Net profit	-26.3	12.1	100.2	28.8	16.4
Adjusted EPS**	-26.3	10.9	89.2	28.8	16.4
Per-share data (KRW)					
EPS (parent-based)	941	1,044	1,976	2,544	2,961
EPS (consolidated)	941	1,044	1,976	2,544	2,961
Adjusted EPS**	941	1,044	1,976	2,544	2,961
BVPS	15,242	20,309	22,377	24,921	27,883
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	85.9	88.7	52.2	40.6	34.9
P/B***	5.3	4.6	4.6	4.1	3.7
EV/EBITDA	15.0	16.5	14.4	12.3	10.7
Ratios (%)					
ROE	6.4	5.7	9.3	10.8	11.2
ROA	4.8	4.4	7.9	9.8	10.1
ROIC	8.7	11.2	14.2	15.8	16.9
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	-21.2	-7.5	-30.2	-30.1	-34.2
Interest coverage (x)	58.1	84.8	170.2	393.8	458.9

Compliance notice

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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	5/7
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	88,000	83,000	88,000	94,000	108,000	108,000	124,000	135,000
Gap* (average)	-26.53	-21.77	-17.92	-16.65	-23.70	-5.37	-19.74	
(max or min)**	-20.00	-14.46	-8.98	-7.45	-3.98	-1.02	-12.50	

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 Mar 31, 2021

BUY (87.9%) | HOLD (12.1%) | SELL (0%)

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General

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