

Platform Business Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW135,000	41.4%
Current price	KRW95,500	
Market cap	KRW2.9/USD2.6b	
Shares (float)	30,004,345 (44.1%)	
52-week high/low	KRW109,200/KRW78,100	
Avg daily trading value (60-day)	KRW18.4b/USD16.3m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	-2.1	3.1	6.2
Vs Kosdaq (%pts)	-7.4	-3.8	-24.0

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	135,000	135,000	0.0%
2021E EPS	1,895	1,976	-4.1%
2022E EPS	2,465	2,544	-3.1%

▶ SAMSUNG vs THE STREET

No of estimates	20
Target price	128,750
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

Studio Dragon (253450)

Next step for growth

- Our estimates have Studio Dragon's 2Q operating profit falling 23% y-y to KRW12.9b as the firm produced fewer titles y-y.
- The company is set to co-produce a drama series with US company Skydance Television for Apple TV+ original content, which will mark the start of it producing content based on foreign intellectual property.
- The company should maintain robust earnings growth on the back of sales diversification and business expansion. Our BUY rating remains unchanged.

WHAT'S THE STORY?

2Q preview—profit miss consensus: We believe Studio Dragon's sales and operating profit in 2Q dropped 39% and 23.2% y-y, respectively, to KRW98.4b and KRW12.9b, the latter missing consensus of KRW15.9b. The broadcasting schedule for The Witch's Diner (a Tving original drama) has been pushed back from June to Jul 16. Despite its growing bargaining power and content price hikes, the company produced fewer titles y-y in 2Q and a high base was in effect as: 1) The King: Eternal Monarch was aired over Apr 17-Jun 12, 2020 and it supplied dramas to non-captive channels (terrestrial broadcasters) in 2Q20; and 2) it supplied original dramas to Netflix and Tving in 2Q20. Yet, My Roommate Is a Gumiho (the drama hit the airwaves on May 26) marks the first original Korean series broadcast by iQiyi. Its broadcast has resulted in channel diversification and contributed to Studio Dragon's operating margin. Three dramas—Vincenzo (8 episodes), Navillera (8 episodes), and Mine (16)—were broadcast both on tvN and Netflix in 2Q. Despite the likely soft 2Q sales, the firm's operating margin likely rose 2.7%pts y-y to 13.1%.

To enter US market: On May 31, Studio Dragon agreed to co-produce a drama series with US company Skydance Television for Apple TV+. The project will involve the production of 10 half-hour comedies (The Big Door Prize; to be based on a bestselling novel). Armed with its growing global presence, Studio Dragon should scale up its production capacity via co-production with a global player, raising its chance of success.

(Continued on the next page)

SUMMARY OF FINANCIAL DATA

	2020	2021E	2022E	2023E
Revenue (KRWb)	526	525	614	665
Operating profit (KRWb)	49	68	88	103
Net profit (adj) (KRWb)	30	57	74	86
EPS (adj) (KRW)	1,044	1,895	2,465	2,856
EPS (adj) growth (% y-y)	10.9	81.5	30.1	15.9
EBITDA margin (%)	31.4	37.8	37.7	38.8
ROE (%)	5.7	8.9	10.5	10.9
P/E (adj) (x)	88.7	50.4	38.7	33.4
P/B (x)	4.6	4.3	3.9	3.5
EV/EBITDA (x)	16.5	13.4	11.4	10.0
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company data, Samsung Securities estimates

Reiterating BUY: We maintain BUY and our KRW135,000 target price (based on 16x 12-month forward EV/EBITDA). Studio Dragon's content has helped expand its presence not only in Korea but also overseas. Competition among broadcasters to obtain Korean-produced content should intensify—and thus the firm's content sales volume should grow—as more global OTT service providers are entering Korea and further as domestic OTTs are expanding on the peninsula. In 2021, sales channel diversification and content ASP hikes should drive up the firm's earnings growth, laying the foundations for the next step (*ie*, content production using foreign intellectual property).

Table 1. Quarterly results and forecasts

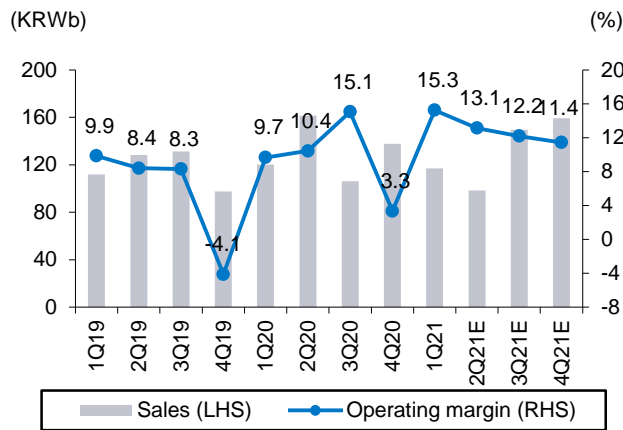
(KRWb)	2Q20	1Q21	2Q21E Chg (% q-q)	Chg (% y-y)	Consensus	Diff (%)	
Sales	161.4	117.1	98.4	-15.9	-39.0	126.2	-22.0
Operating profit	16.9	17.9	12.9	-27.6	-23.2	15.9	-18.5
Operating margin (%)	10.4	15.3	13.1	-2.1	2.7	12.6	0.6
Pre-tax profit	17.2	21.1	13.9	-34.0	-19.1	16.9	-17.7
Net profit (controlling)	13.4	15.6	10.3	-34.0	-23.1	12.7	-19.0

Source: Company data, WiseFn, Samsung Securities

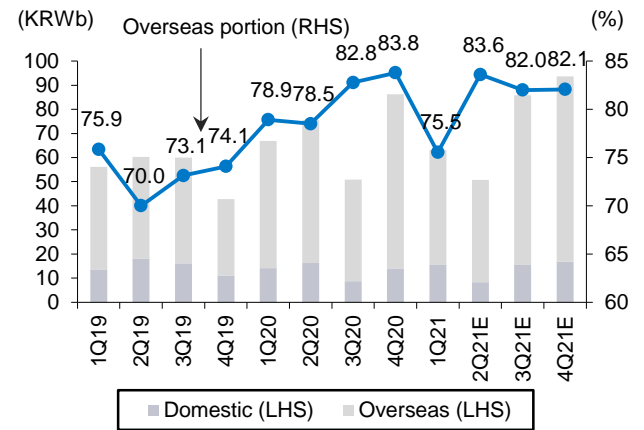
Table 2. Results and forecasts

(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	98.4	149.6	159.4	468.7	525.7	524.6	613.7
Programing	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.7	43.8	31.4	49.8	50.6	208.7	197.0	175.5	195.0
Distribution	56.2	60.3	60.0	42.8	66.9	75.7	50.9	86.3	63.2	50.8	85.8	93.7	219.3	279.7	293.5	359.7
Other	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	10.1	16.2	14.0	15.2	40.6	48.9	55.6	58.9
Gross profit	15.0	15.4	15.3	2.2	16.7	21.8	21.3	15.0	23.7	18.5	24.1	29.4	47.9	74.8	95.8	118.7
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	12.9	18.3	18.2	28.7	49.1	67.3	88.4
Non-operating profit	2.1	1.1	2.2	-1.1	0.4	0.3	-0.8	-7.5	3.2	1.0	2.4	2.8	4.3	-7.6	9.3	11.7
Pre-tax profit	13.2	11.9	13.1	-5.1	12.0	17.2	15.2	-2.9	21.1	13.9	20.6	21.0	33.1	41.5	76.6	100.1
Net profit (controlling)	9.2	7.3	11.5	-1.6	8.5	13.4	10.6	-2.8	15.6	10.3	15.2	15.5	26.4	29.7	56.6	74.0
Gross margin	13.4	12.0	11.7	2.2	13.8	13.5	20.0	10.9	20.2	18.8	16.1	18.5	10.2	14.2	18.3	19.3
Operating margin	9.9	8.4	8.3	-4.1	9.7	10.4	15.1	3.3	15.3	13.1	12.2	11.4	6.1	9.3	12.8	14.4
Net margin (controlling)	8.2	5.7	8.8	-1.7	7.1	8.3	10.0	-2.1	13.3	10.4	10.2	9.7	5.6	5.6	10.8	12.1
Chg (% y-y)																
Sales	40.0	72.6	6.0	-4.2	7.6	25.9	-19.0	41.3	-2.7	-39.0	40.8	15.8	23.5	12.2	-0.2	17.0
Programing	8.4	70.5	24.4	-16.1	2.5	12.6	-24.9	-10.9	-3.2	-51.9	9.0	24.2	17.2	-5.6	-10.9	11.1
Distribution	75.1	109.2	-5.4	13.3	19.1	25.5	-15.2	101.6	-5.5	-32.9	68.7	8.6	35.3	27.6	4.9	22.6
Other	63.1	-14.1	-9.0	-6.7	-29.2	107.1	-6.4	20.2	24.0	-20.0	44.5	42.1	3.0	20.4	13.8	5.9
Gross profit	9.9	45.1	-38.4	-66.2	11.1	41.7	39.2	585.3	42.2	-15.1	13.5	96.1	-13.8	56.2	28.1	23.9
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	-23.2	13.9	295.6	-28.1	71.1	37.0	31.3
Non-operating profit	1,160.7	-71.7	290.9	Turned neg	-79.7	-69.4	Turned neg	Remained neg	642.7	197.9	To turn pos	To turn pos	-24.3	Turned neg	To turn pos	26.0
Pre-tax profit	22.2	7.6	-40.8	Turned neg	-9.2	44.5	16.2	Remained neg	75.3	-19.1	35.6	To turn pos	-27.5	25.4	84.4	30.7
Net profit (controlling)	17.2	-17.4	-33.5	Turned neg	-7.3	82.1	-8.0	Remained neg	82.2	-23.1	43.7	To turn pos	-26.3	12.3	90.8	30.7
Gross margin	-3.7	-2.3	-8.4	-4.1	0.4	1.5	8.4	8.7	6.4	5.3	-3.9	7.6	-4.4	4.0	4.0	1.1
Operating margin	-3.5	-1.4	-9.0	-4.6	-0.2	2.0	6.8	7.5	5.6	2.7	-2.9	8.1	-4.4	3.2	3.5	1.6
Net margin (controlling)	-1.6	-6.2	-5.2	-3.4	-1.1	2.6	1.2	-0.4	6.2	2.2	0.2	11.8	-3.8	0.0	5.1	1.3

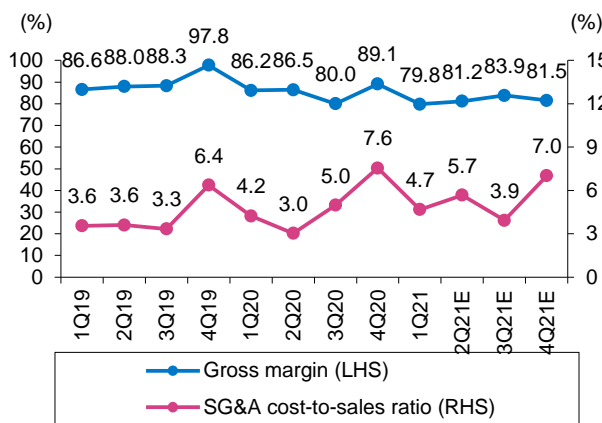
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin

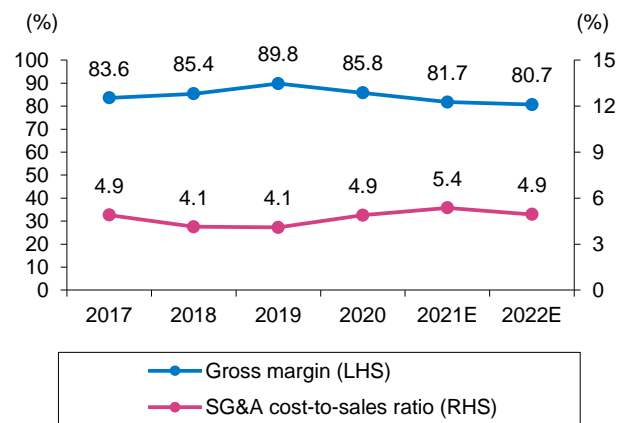
Source: Company data, Samsung Securities

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 3. 2021 drama lineup

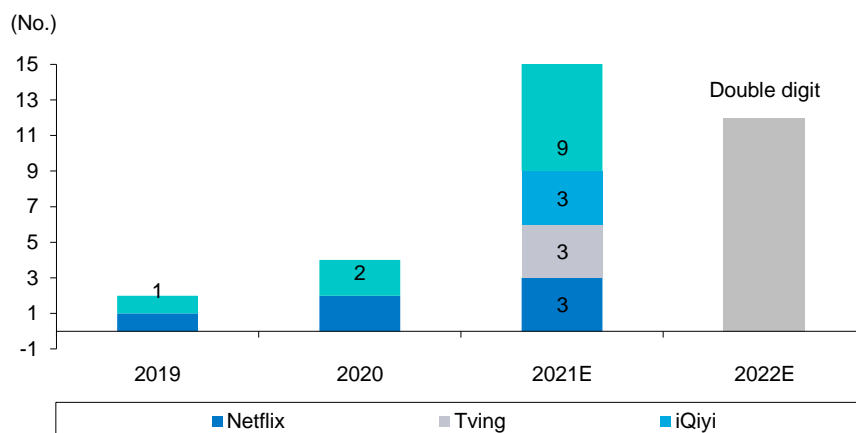
Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Starring	Days
2021	1	tvN	L. U. C. A.: The Beginning	Feb 1-Mar 9	16	Chun Sung-ill	Kim Hong-Sun	Kim Rae-won, Lee Dae-hee	Mon, Tue
	2		Vincenzo	Feb 20-Apr 25	20	Park Jae-bum	Kim Hee-won	Song Joong-ki, Jeon Yeo-bin	Sat, Sun
	3		Navillera	Mar 22-Apr 27	12	Lee Eun-mi	Han Dong-hwa	Park In-hwan, Song Kang-na, Mun-hee	Mon, Tue
	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*	May 26-Jul 15	16	Baek Sunwoo, Choi Bo-rim	Nam Sung-woo	Jang Ki-yong, Lee Hye-ri	Wed, Thu
			Voice 4	Jun 18-Jul 31	14	Ma Jinwon, Kim Jung-hyun	Sin Yong-hui, Yoon Ra-young	Lee Hana, Song Seung-hun	Fri, Sat
	7		Devilish Judge	Jul 3-Aug 22	16	Moon Yoo Suk	Choi Jung Kyu	Ji Sung, Park Jin Young	Sat, Sun
			You Are My Spring	Jul 5-Aug 24	16	Lee Mina	Jung Ji-hyun	Kim Dong-wook, Seo Hyun-jin	Mon, Tue
			High Class	Aug 30-Oct 19	16	Hyun Jung	Choi Byung-gil	Cho Yeo-jung, Kim Ji-soo	Mon, Tue
	8		Jirisan	Oct 23-Dec 12	16	Kim Eun-hee	Lee Eung-bok	Jeon Ji-hyun, Joo Ji-hoon	Sat, Sun
	10		Tale of the Secret Royal Inspector and Jo Yi	Oct 25-Dec 14	16	Lee Jae-yoon	Yoo Jong-seon	Jeong So-min, Ok Taek-yeon	Mon, Tue
			Soul Marriage	Dec 18, 2021-Feb 6, 2022	16	Hong Jeong-eun, Hong Mi-ran	Park, Joon-hwa	Lee Jae-wook, Park Hye-eun	Sat, Sun
	12		Seashore Village Chachacha	2H		Shin Ha-eun	Yoo Je-won	Sin Min-ah, Kim Seon-wook	
	13		Yumi's Cells	2H		Song Jae-jung, Kim Yoon-joo, Kim Kyung-ran	Lee Sang-yeop	Kim Go-eun, Ahn Byung-hyun	Wed, Thu
	15		The Road: Tragedy of One	2H		Yoon Hui-jung	Kim No-won	Jin Jin-hee, Yoon Se-a, Kim Hye-eun	Wed, Thu
	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	-
			Kingdom: Asin saga	Jul 23	1	Kim Eun-hee	Kim Sung-hoon	Jeon Ji-hyun, Park Pyung-eun	-
	22		Juvenile Judgment	TBD		Kim Min-seok	Hong Jong-chan	Kim Hye-soo, Kim Moo-yeol	-
	23	TVING	Scripting Your Destiny	Mar 26	10 (5)	Kim Byeong-soo	Eun Sun-woo	Jeon So-nee, Ki Do-hoon	-
	25		The Witcher's Diner	Jul 16	8 (4)	Lee Young-sook	So Jae-hyun, Lee Young-sook	Song Ji-hyo, Nam Ji-hyun	-

Note: Titles highlighted are streaming through Netflix (in green), IQiyi Global (in grey), and TVING (in skyblue)

*My Roommate is Gumiho is an IQiyi original

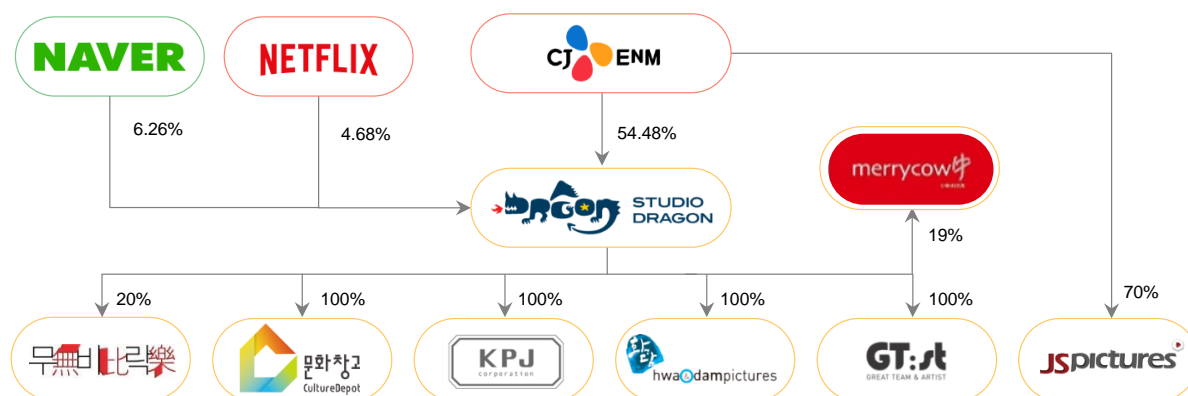
Source: Company data, Samsung Securities

Chart 5. Number of pieces of digital content in lineup



Source: Company data, Samsung Securities

Chart 6. Ownership structure



Source: Company data, Samsung Securities

Table 4. Earnings revisions

(KRWb)	2021E			2022E		
	Old	New	Chg %	Old	New	Chg %
Sales	548.0	524.6	-4.3	640.8	613.7	-4.2
Operating profit	70.7	67.3	-4.8	91.1	88.4	-3.0
Operating margin (% , %pts)	12.9	12.8	-0.1	14.2	14.4	0.2
Pre-tax profit	80.2	76.6	-4.5	103.3	100.1	-3.1
Net profit (controlling)	59.3	56.6	-4.6	76.3	74.0	-3.1

Source: Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Sales	469	526	525	614	665
Cost of goods sold	421	451	429	495	530
Gross profit	48	75	96	119	135
Gross margin (%)	10.2	14.2	18.3	19.3	20.3
SG&A expenses	19	26	28	30	33
Operating profit	29	49	68	88	103
Operating margin (%)	6.1	9.3	12.9	14.4	15.4
Non-operating gains (losses)	4	-8	9	12	13
Financial profit	10	10	15	17	18
Financial costs	6	14	5	4	3
Equity-method gains (losses)	0	0	0	0	0
Other	0	-4	-1	-1	-1
Pre-tax profit	33	42	77	100	116
Taxes	7	12	20	26	30
Effective tax rate (%)	20.1	28.7	26.1	26.1	26.1
Profit from continuing operations	26	30	57	74	86
Profit from discontinued operations	0	0	0	0	0
Net profit	26	30	57	74	86
Net margin (%)	5.6	5.6	10.8	12.1	12.9
Net profit (controlling interests)	26	30	57	74	86
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	146	165	198	231	258
EBITDA margin (%)	31.1	31.4	37.8	37.7	38.8
EPS (parent-based) (KRW)	941	1,044	1,895	2,465	2,856
EPS (consolidated) (KRW)	941	1,044	1,895	2,465	2,856
Adjusted EPS (KRW)*	941	1,044	1,895	2,465	2,856

Cash flow statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Cash flow from operations	-12	5	122	192	227
Net profit	26	30	57	74	86
Non-cash profit and expenses	124	135	147	164	180
Depreciation	2	3	2	2	2
Amortization	115	113	128	141	154
Other	7	19	17	21	24
Changes in A/L from operating activities	-143	-144	-62	-20	-9
Cash flow from investments	-81	-16	-144	-164	-176
Change in tangible assets	-0	-7	-1	-1	-1
Change in financial assets	-42	31	-12	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	136	25	50
Cash at beginning of year	153	60	49	186	210
Cash at end of year	60	49	186	210	261
Gross cash flow	150	165	204	238	265
Free cash flow	-13	-2	121	191	226

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

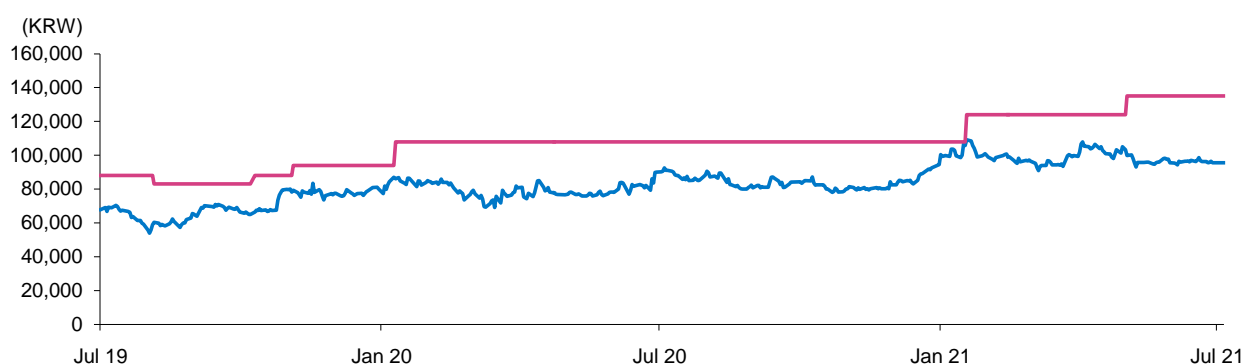
Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Current assets	244	228	362	416	494
Cash & equivalents	60	49	186	210	261
Accounts receivable	84	107	81	113	125
Inventories	0	0	0	0	0
Other current assets	101	73	95	92	108
Fixed assets	337	529	369	403	421
Investment assets	13	180	15	21	22
Tangible assets	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	731	819	915
Current liabilities	145	132	51	63	73
Accounts payable	18	6	11	10	14
Short-term debt	0	0	0	0	0
Other current liabilities	127	126	40	53	60
Long-term liabilities	8	16	11	13	13
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	8	16	11	13	13
Total liabilities	153	148	62	76	87
Owners of parent equity	428	609	669	743	829
Capital stock	14	15	15	15	15
Capital surplus	322	470	470	470	470
Retained earnings	94	123	180	254	339
Other	-1	1	4	4	4
Non-controlling interests' equity	0	0	0	0	0
Total equity	428	609	669	743	829
Net debt	-91	-45	-203	-224	-282

Financial ratios

Year-end Dec 31	2019	2020	2021E	2022E	2023E
Growth (%)					
Sales	23.5	12.2	-0.2	17.0	8.4
Operating profit	-28.1	71.1	37.7	30.7	16.1
Net profit	-26.3	12.1	91.9	30.1	15.9
Adjusted EPS**	-26.3	10.9	81.5	30.1	15.9
Per-share data (KRW)					
EPS (parent-based)	941	1,044	1,895	2,465	2,856
EPS (consolidated)	941	1,044	1,895	2,465	2,856
Adjusted EPS**	941	1,044	1,895	2,465	2,856
BVPS	15,242	20,309	22,296	24,761	27,618
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	85.9	88.7	50.4	38.7	33.4
P/B***	5.3	4.6	4.3	3.9	3.5
EV/EBITDA	15.0	16.5	13.4	11.4	10.0
Ratios (%)					
ROE	6.4	5.7	8.9	10.5	10.9
ROA	4.8	4.4	7.6	9.5	9.9
ROIC	8.7	11.2	13.7	15.4	16.4
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	-30.3	-30.1	-34.0
Interest coverage (x)	58.1	84.8	162.9	382.0	443.4

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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
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
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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 Jun 30, 2021

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

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General

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