

# Studio Dragon (253450 KQ)

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Rating **BUY**  
maintain

6M TP (₩) **130,000**  
maintain

CP (₩)  
(21.08.17) **87,100**

Media

## Captive sales solid; global push in full swing

**BUY; 6M TP maintained at ₩130,000**

- Our target price for the production house is based on a residual income model.

### Blip in programming dents 2Q21 results

- For 2Q21, Studio Dragon reported revenue of ₩110bn (down 10% qoq; down 34% yoy) and OP of ₩13.8bn (down 23% qoq; down 18% yoy), in line with our estimates. Reduced programming (63 episodes aired, down by 35 qoq and 61 yoy) resulting from temporary schedule changes weighed on the top line, but continued strong momentum in content sales and licensing (overseas revenue as share of total revenue at record 84%) helped drive the OP margin performance in that quarter (up 2.6%p yoy to 13%).
- Its OP is forecast to reach ₩20.7bn (up 50% qoq; up 29% yoy) in 3Q21 as more of its produced content gets on the programming slate (127 episodes to air, up by 64 qoq and 27 yoy, owing to about three new original dramas for tvING and Netflix) and some of the popular dramas that ended in 1H21 produce overseas licensing revenue.

### Sales to captive customers solid; global push in full swing

- Concerns about the impact of CJ ENM's recent decision to ramp up investments in its over-the-top (OTT) platform tvING have proven to be groundless. Rather, we believe the move shed light on Studio Dragon's role in tvING's expansion: The production house revised up its drama series production guidance for tvING from three early this year to five or six, with five of which already finalized.
- 2022 will see Studio Dragon make a leap forward as it collects revenue for *The Big Door Prize*, a ten-episode 30-minute comedy show currently in production for Apple TV+'s 2H22 slate. Not only does the show generate ten times more revenue than Korean drama series of the same size, but there is also a chance of an incentive payment should it get picked up for another season, a boon for the company's US subsidiary Skydance, which is producing the show and co-owns the rights to the title along with Apple TV, and Studio Dragon.
- The production house is currently planning and developing a total of 18 dramas for the global audience. It is negotiating licensing deals for eight dramas with OTT platforms, with two of them already in pre-production. There's a good chance that another drama series will be unveiled this year in addition to *The Big Door Prize*.
- The negotiations with global OTT platforms are in train, with the terms and conditions largely in Studio Dragon's favor. Netflix, for one, has requested a contract extension way ahead of its expiry, a move triggered by the Korea push by the other leading global OTT platforms. Studio Dragon also owns the rights to dramas it supplies for iQiyi, the leading online platform in China.

### Operating results and major financial data

(₩bn, ₩, x, %)

	2019A	2020A	2021F	2022F	2023F
Revenue	469	526	515	583	639
OP	29	49	70	82	93
Pretax profit	33	42	77	87	99
NP	26	30	56	64	73
NP (controlling int.)	26	30	56	64	73
EPS	941	1,044	1,859	2,137	2,441
PER	85.9	88.7	46.8	40.8	35.7
BPS	15,258	21,480	22,168	24,305	25,896
PBR	5.3	4.3	3.9	3.6	3.4
ROE	6.4	5.7	8.8	9.2	9.7

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

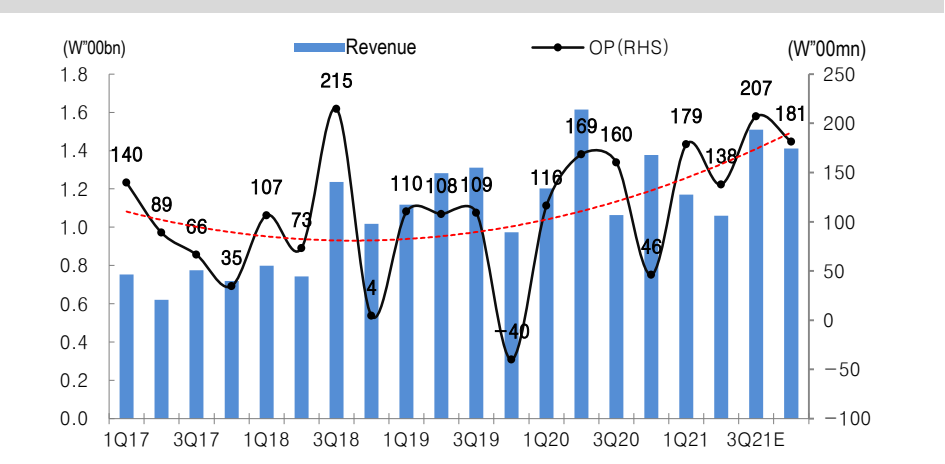
ESG rating	S	A+	A	B+	B	C	D
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KOSDAQ	1011.05
Market cap (Wbn)	2,613
Market cap portion (%)	0.60
Paid-in capital (common; Wbn)	15
52w high/low (W)	109,200 / 78,100
120d avg. trading volume (Wbn)	15.7
Foreign ownership (%)	12.07
Major shareholders	CJ ENM+3: 55.94% NAVER: 6.26%

(%)	1M	3M	6M	12M
Abs. return	-8.5	-9.1	-13.5	-2.8
Rel. return	-4.8	-13.4	-16.2	-19.7

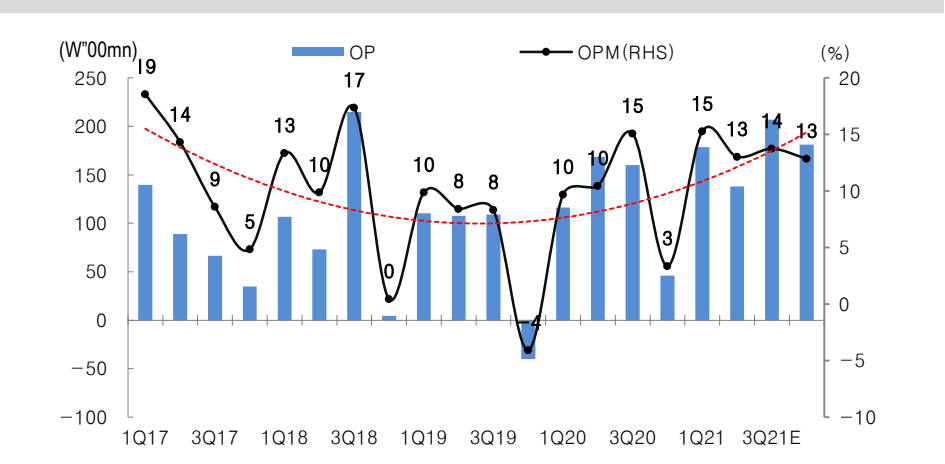


Fig 1. Revenue and OP improving



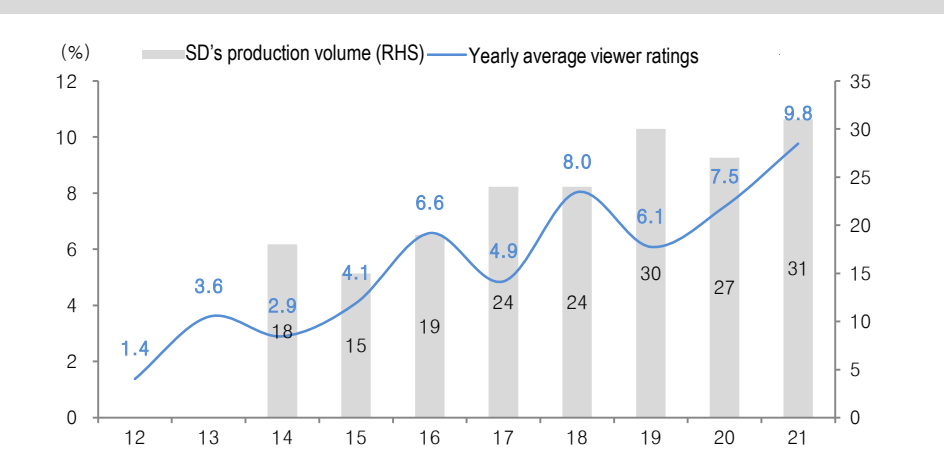
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 2. OP and OP margin improving



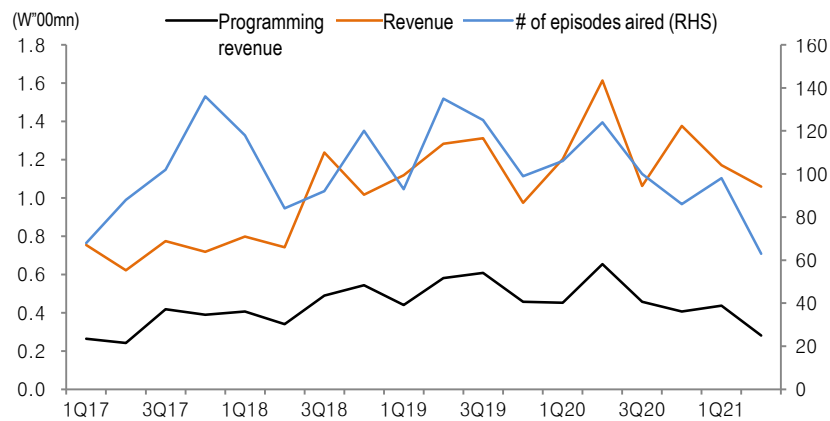
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 3. Drama production volume and viewer rating



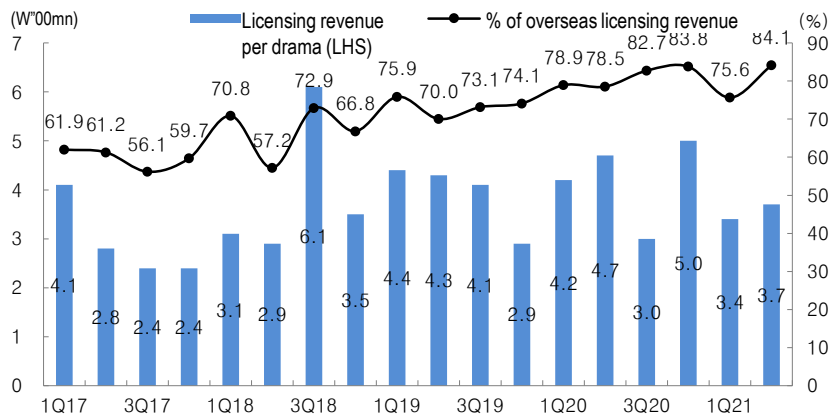
Source: AGB Nielson, Daishin Securities Research Center

Fig 4.2Q21 programming revenue contracts due to some delays



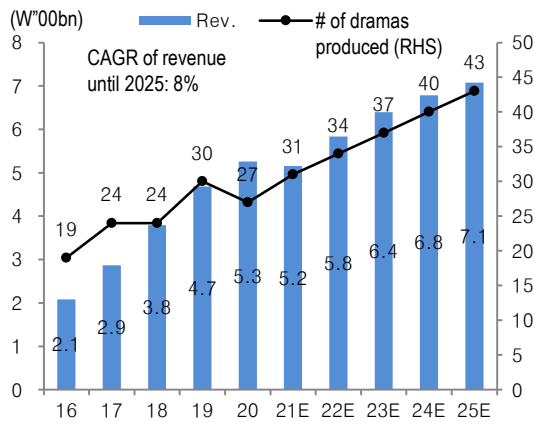
Source: Studio Dragon, Daishin Securities Research Center

Fig 5. Steady growth in overseas licensing revenue leads to wider margins



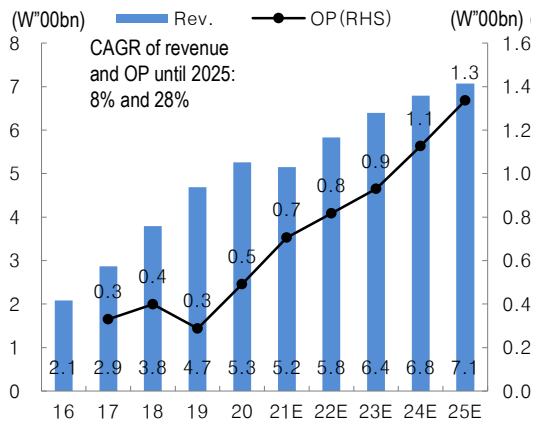
Source: Studio Dragon, Daishin Securities Research Center

Fig 6. Production volume on a steady increase



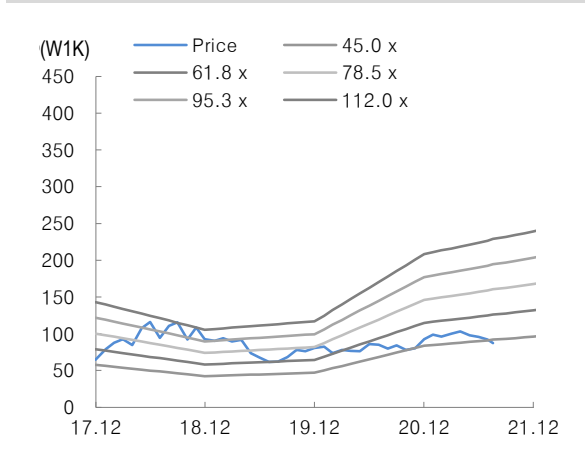
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 7. Positive revenue and OP outlook



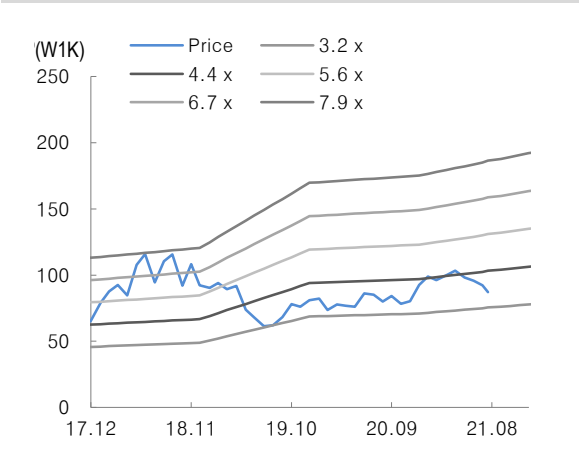
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 8. 12MF P/E ratio band



Source: FnGuide, Daishin Securities Research Center

Fig 9. 12MF P/E ratio band



Source: FnGuide, Daishin Securities Research Center

Per share intrinsic value

Residual Income Model		(Wbn, W, %)									
		2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
I	NP (contr. int.) <sup>(Note 2)</sup>	56	64	73	88	103	119	137	157	181	208
II	Shareholders' equity (contr. int.) <sup>(Note 2)</sup>	665	729	777	835	904	982	1,071	1,174	1,291	1,427
	Estimated ROE	8.8	9.2	9.7	10.5	11.4	12.1	12.8	13.4	14.0	14.6
III	Required rate of return <sup>(Note 3)</sup>	4.1									
	Risk free rate of return <sup>(Note 4)</sup>	1.3									
	Market risk premium <sup>(Note 5)</sup>	4.0									
	Beta	0.70									
IV	Spread (estimated ROE – required rate of return)	4.7	5.1	5.6	6.4	7.3	8.0	8.7	9.3	9.9	10.5
V	Required income	25	27	30	32	34	37	40	44	48	53
VI	Residual income ( I - V )	31	37	43	56	69	82	96	113	133	155
	Present value factor	0.99	0.95	0.91	0.87	0.84	0.81	0.78	0.74	0.72	0.69
	PV of residual income	30	35	40	49	58	66	75	84	95	106
VII	Sum of residual income	638									
VIII	PV of residual income following forecasting period	2,594									
	Terminal growth (g) <sup>(Note 6)</sup>	0.0%									
IX	Beginning shareholders' equity	609									
X	Fair market cap (VII+VIII+IX)	3,841									
	Total number of shares (thousands)	30,004									
XI	Per share value (W)	128,028									
	Current share price (W)	87,100									
	Potential (%)	47.0%									

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)						Balance sheet (Wbn)					
	2019A	2020A	2021F	2022F	2023F		2019A	2020A	2021F	2022F	2023F
Revenue	469	526	515	583	639	Current assets	244	228	291	379	478
Cost of goods sold	421	451	416	470	513	Cash & cash equiv.	60	49	114	188	276
Gross profit	48	75	99	113	126	Trade & other receive.	84	107	105	118	130
SG&A expenses	19	26	29	31	33	Inventories	0	0	0	0	0
OP	29	49	70	82	93	Other current assets	101	73	73	73	73
OP margin	6.1	9.3	13.7	14.0	14.5	Long-term assets	337	529	522	499	448
EBITDA	146	165	227	275	312	Tangible assets	1	8	11	14	16
Non-OP	4	-8	6	5	6	Investments in affiliates	0	0	0	0	0
Income from affiliates	0	0	0	0	0	Other long-term assets	336	521	511	485	432
Financial revenue	10	10	13	13	14	Total assets	582	757	813	878	926
FX related gains	0	0	0	0	0	Current liabilities	145	132	132	133	133
Financial expense	-6	-14	-7	-9	-9	Payables & other liab.	66	57	57	57	58
FX related losses	4	10	0	0	0	Borrowings	0	0	0	0	0
Others	0	-4	0	1	1	Current portion of LT debts	0	0	0	0	0
Income before taxes	33	42	77	87	99	Other current liabilities	79	75	75	75	75
Income tax expense	-7	-12	-21	-23	-26	Long-term liabilities	8	16	16	16	16
Income from contr. op.	26	30	56	64	73	Borrowings	0	0	0	0	0
Income from discount op.	0	0	0	0	0	Convertible securities	0	0	0	0	0
NP	26	30	56	64	73	Other long-term liab.	8	16	16	16	16
NP margin	5.6	5.6	10.8	11.0	11.5	Total liabilities	153	148	148	149	149
NP for non-contr. interest	0	0	0	0	0	Controlling interest	428	609	665	729	777
NP for contr. interest	26	30	56	64	73	Capital stock	14	15	15	15	15
Valuation of AFS fin. assets	0	0	0	0	0	Capital surplus	322	470	470	470	470
Other compreh. income	-1	3	3	3	3	Retained earnings	94	123	179	243	291
Comprehensive income	26	32	58	67	76	Other capital changes	-1	1	1	1	1
Comp. income for non-contr. Int.	0	0	0	0	0	Non-controlling interest	0	0	0	0	0
Comp. income for contr. int.	26	32	58	67	76	Total shareholder's equity	428	609	665	729	777
						Net borrowings	-107	-90	-155	-229	-317

Valuation metrics (W, x, %)						Cash flow statement (Wbn)					
	2019A	2020A	2021F	2022F	2023F		2019A	2020A	2021F	2022F	2023F
EPS	941	1,044	1,859	2,137	2,441	Operating cash flows	-12	5	118	148	185
PER	85.9	88.7	46.8	40.8	35.7	NP	26	30	56	64	73
BPS	15,258	21,480	22,168	24,305	25,896	Non-cash items	124	135	169	208	236
PBR	5.3	4.3	3.9	3.6	3.4	Depreciation	117	116	156	193	219
EBITDAPS	5,185	5,828	7,553	9,160	10,396	FX gains	1	3	0	0	0
EV/EBITDA	14.9	16.3	10.8	8.7	7.4	Equity method gain	0	0	0	0	0
SPS	16,698	18,532	17,168	19,437	21,310	Others	6	15	13	15	17
PSR	4.8	5.0	5.1	4.5	4.1	Chg in assets & liab.	-143	-144	-99	-114	-112
CFPS	5,346	5,803	7,498	9,065	10,308	Other cash flows	-19	-15	-8	-9	-12
DPS	0	0	0	850	1,000	Investing cash flow	-81	-16	-149	-169	-168
						Investment assets	-57	-9	0	0	0
						Tangible assets	0	-7	-7	-7	-7
						Others	-23	0	-141	-162	-160
						Financing cash flows	0	0	-149	-149	-175
						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	2	149	0	0	0
						Cash dividends	0	0	0	0	-26
						Others	-2	-149	-149	-149	-149
						Net chg in cash	-93	-11	65	74	88
						Beginning cash balance	153	60	49	114	188
						Ending cash balance	60	49	114	188	276
						NOPLAT	23	35	51	60	69
						FCF	139	143	58	84	119

Source: Studio Dragon, Daishin Securities Research Center

[Daishin House View: Industry 4.0 safety rating]

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- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)	Neutral Green (neutral)	Sky Blue (positive)
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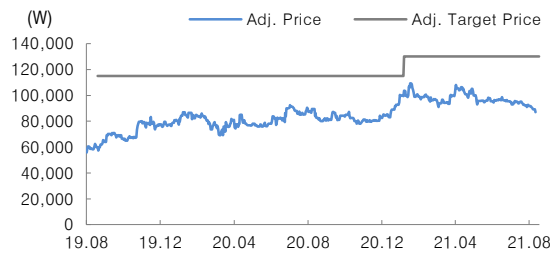
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	21.08.18	21.07.12	21.01.12	20.08.25	20.02.25	19.08.25
Rating	Buy	6M passed.	Buy	6M passed.	6M passed.	Buy
Target price	130,000	130,000	130,000	115,000	115,000	115,000
Diff. (avr. %)		(28.68)	(24.22)	(27.06)	(29.69)	(34.24)
Diff. (max./min., %)		(26.38)	(16.00)	(9.83)	(19.57)	(24.35)
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 (Aug 15, 2021)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	92.1%	7.0%	0.9%

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.