

Platform Business Team

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Analyst

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW135,000	53.6%
Current price	KRW87,900	
Market cap	KRW2.6/USD2.2b	
Shares (float)	30,014,185 (44.1%)	
52-week high/low	KRW109,200/KRW78,100	
Avg daily trading value (60-day)	KRW11.7b/USD9.7m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	4.9	-16.3	3.5
Vs Kosdaq (%pts)	15.8	-10.9	-3.8

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	135,000	135,000	0.0%
2021E EPS	1,711	1,818	-5.9%
2022E EPS	2,376	2,471	-3.8%

▶ SAMSUNG vs THE STREET

No of estimates	18
Target price	126,722
Recommendation	3.9
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

Studio Dragon (253450)

Business fundamentals confirmed

- We estimate that Studio Dragon's operating profit slipped 6% y-y to KRW15.1b in 3Q, missing consensus of KRW16.4b.
- The company has prioritized boosting its bottom line this year via content distribution channel expansions. It should enjoy both top- and bottom-line growth next year.
- Studio Dragon should leverage its growing global presence to co-produce new content with global players. We reiterate our BUY rating.

WHAT'S THE STORY?

Time to temper expectations slightly: We believe Studio Dragon saw 3Q sales of KRW119.6b (up 12.5% y-y) and operating profit of KRW15.1b (down 6% y-y), the latter missing consensus of KRW16.4b. The number of dramas broadcast in 1H declined y-y since many broadcasters adjusted their drama slots in response to unfavorable external conditions. But the y-y drop in broadcasts likely decelerated in 3Q, when: 1) *You Are My Spring* and *Hometown Cha-Cha-Cha* aired both on Netflix and tvN; 2) digital original content included *Kingdom: Ashin of the North* (co-produced with Baram Pictures for Netflix) and *The Witch's Diner* (Tving); and 3) *The Devil Judge* copyright was sold to a spate of channels—though it was not broadcast simultaneously on a global streaming platform.

Market environment to improve in 2022: Because of adverse business conditions and Studio Dragon's focus on fundamentals (eg, expanding its content distribution channels), the firm has only managed to produce as many episodes this year as it did last year. Moreover, its production costs for tent-pole dramas has declined this year. In 2022, however, we expect the firm to: 1) produce more titles for both captive and non-captive customers, as the production environment improves; and 2) provide content to multiple OTT platforms such as Tving and iQiyi—in addition to Netflix. The Korean drama company is producing original content for iQiyi (eg, *Bad and Crazy* and *Shooting Stars*; to air at end-2021 or in early 2022) and tent-poles for next year (eg, *Our Blues*, *Island*, and *Return*), which should contribute heavily to earnings.

(Continued on the next page)

SUMMARY OF FINANCIAL DATA

	2020	2021E	2022E	2023E
Revenue (KRWb)	526	496	614	660
Operating profit (KRWb)	49	63	86	100
Net profit (adj) (KRWb)	30	51	71	83
EPS (adj) (KRW)	1,044	1,711	2,376	2,752
EPS (adj) growth (% y-y)	10.9	63.8	38.9	15.9
EBITDA margin (%)	31.4	38.9	37.3	38.7
ROE (%)	5.7	8.1	10.2	10.6
P/E (adj) (x)	88.7	51.4	37.0	31.9
P/B (x)	4.6	4.0	3.6	3.2
EV/EBITDA (x)	16.5	12.6	10.6	9.3
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company data, Samsung Securities estimates

Maintaining BUY: With its content gaining international fame, Studio Dragon has enjoyed ASP hikes, healthier fundamentals, and stronger earnings. We expect it to achieve top- and bottom-line growth next year as the business environment improves, its content supply to a variety of OTT channels increases, and it produces more dramas. Thanks to its growing global presence, Studio Dragon should co-plan and co-produce new shows with major overseas studios, moving up a level. We maintain BUY on the stock and reiterate our BUY rating of KRW135,000 (based on 16x forward EV/EBITDA).

Table 1. Quarterly results and forecasts

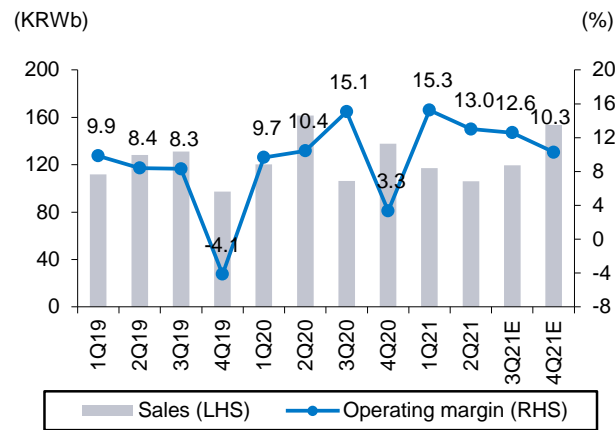
(KRWb)	3Q20	2Q21	3Q21E	Chg (% q-q)	Chg (% y-y)	Consensus	Diff (%)
Sales	106.3	106.0	119.6	12.8	12.5	133.5	-10.4
Operating profit	16.0	13.8	15.1	9.1	-6.0	16.4	-8.2
Operating margin (%)	15.1	13.0	12.6	-0.4	-2.5	12.3	0.3
Pre-tax profit	15.2	14.0	17.4	23.9	14.4	17.6	-0.9
Net profit (controlling)	10.6	9.5	12.5	32.3	18.1	12.9	-3.1

Source: Company data, WiseFn, Samsung Securities

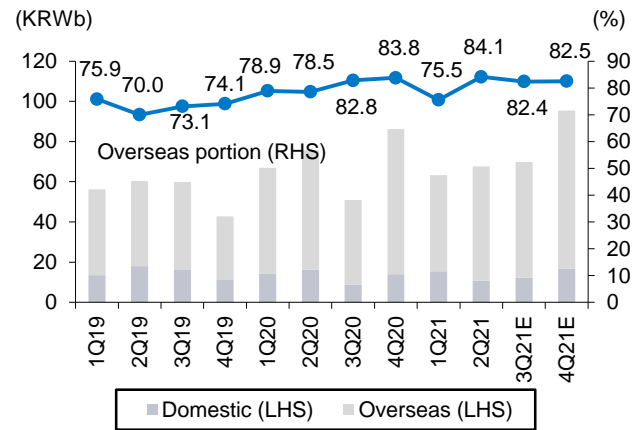
Table 2. Results and forecasts

(KRWb)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	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	106.0	119.6	153.6	468.7	525.7	496.3	614.1
Programing	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.7	43.8	28.2	37.4	45.4	208.7	197.0	154.7	182.1
Distribution	56.2	60.3	60.0	42.8	66.9	75.7	50.9	86.3	63.2	67.5	69.9	95.3	219.3	279.7	296.0	383.9
Other	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	10.1	10.3	12.3	12.9	40.6	48.9	45.6	48.0
Gross profit	15.0	15.4	15.3	2.2	16.7	21.8	21.3	15.0	23.7	20.3	21.2	27.6	47.9	74.8	92.8	118.6
SG&A costs	4.0	4.6	4.4	6.2	5.1	4.9	5.3	10.4	5.8	6.5	6.2	11.8	19.2	25.7	30.3	32.4
Operating profit	11.0	10.8	10.9	-4.0	11.6	16.9	16.0	4.6	17.9	13.8	15.1	15.8	28.7	49.1	62.5	86.2
Non-operating profit	2.1	1.1	2.2	-1.1	0.4	0.3	-0.8	-7.5	3.2	0.3	2.4	3.4	4.3	-7.6	9.2	12.9
Pre-tax profit	13.2	11.9	13.1	-5.1	12.0	17.2	15.2	-2.9	21.1	14.0	17.4	19.2	33.1	41.5	71.7	99.1
Net profit (controlling)	9.2	7.3	11.5	-1.6	8.5	13.4	10.6	-2.8	15.6	9.5	12.5	13.8	26.4	29.7	51.3	71.3
Gross margin	13.4	12.0	11.7	2.2	13.8	13.5	20.0	10.9	20.2	19.2	17.8	18.0	10.2	14.2	18.7	19.3
Operating margin	9.9	8.4	8.3	-4.1	9.7	10.4	15.1	3.3	15.3	13.0	12.6	10.3	6.1	9.3	12.6	14.0
Net margin (controlling)	8.2	5.7	8.8	-1.7	7.1	8.3	10.0	-2.1	13.3	8.9	10.5	9.0	5.6	5.6	10.3	11.6
Chg (% y-y)																
Sales	40.0	72.6	6.0	-4.2	7.6	25.9	-19.0	41.3	-2.7	-34.3	12.5	11.5	23.5	12.2	-5.6	23.7
Programing	8.4	70.5	24.4	-16.1	2.5	12.6	-24.9	-10.9	-3.2	-56.9	-18.0	11.4	17.2	-5.6	-21.4	17.7
Distribution	75.1	109.2	-5.4	13.3	19.1	25.5	-15.2	101.6	-5.5	-10.8	37.4	10.5	35.3	27.6	5.8	29.7
Other	63.1	-14.1	-9.0	-6.7	-29.2	107.1	-6.4	20.2	24.0	-49.3	26.2	20.6	3.0	20.4	-6.7	5.4
Gross profit	9.9	45.1	-38.4	-66.2	11.1	41.7	39.2	585.3	42.2	-6.9	-0.2	83.7	-13.8	56.2	24.1	27.8
SG&A costs	33.1	40.2	31.0	2.7	28.4	5.8	21.3	67.6	14.0	33.6	16.6	13.3	22.4	34.0	18.0	6.9
Operating profit	3.5	47.3	-49.2	nm	5.5	56.3	46.8	nm	53.6	-18.2	-6.0	242.6	-28.1	71.1	27.3	37.9
Non-operating profit	1,160.7	-71.7	290.9	nm	-79.7	-69.4	nm	nm	642.7	-20.7	nm	nm	-24.3	nm	nm	40.6
Pre-tax profit	22.2	7.6	-40.8	nm	-9.2	44.5	16.2	nm	75.3	-18.2	14.4	nm	-27.5	25.4	72.5	38.3
Net profit (controlling)	17.2	-17.4	-33.5	nm	-7.3	82.1	-8.0	nm	82.2	-29.1	18.1	nm	-26.3	12.3	73.1	38.9
Gross margin	-3.7	-2.3	-8.4	-4.1	0.4	1.5	8.4	8.7	6.4	5.7	-2.3	7.1	-4.4	4.0	4.5	0.6
Operating margin	-3.5	-1.4	-9.0	-4.6	-0.2	2.0	6.8	7.5	5.6	2.6	-2.5	6.9	-4.4	3.2	3.3	1.4
Net margin (controlling)	-1.6	-6.2	-5.2	-3.4	-1.1	2.6	1.2	-0.4	6.2	0.7	0.5	11.0	-3.8	0.0	4.7	1.3

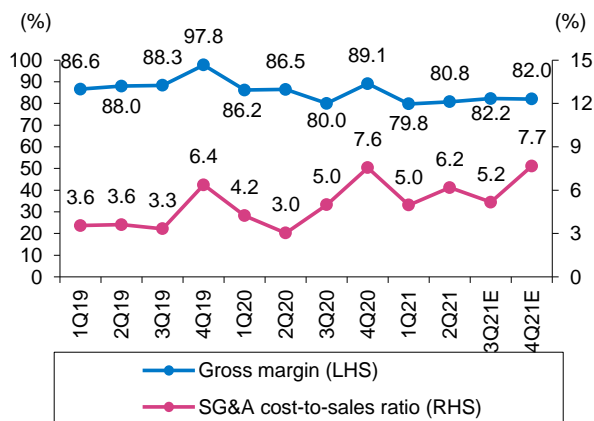
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin

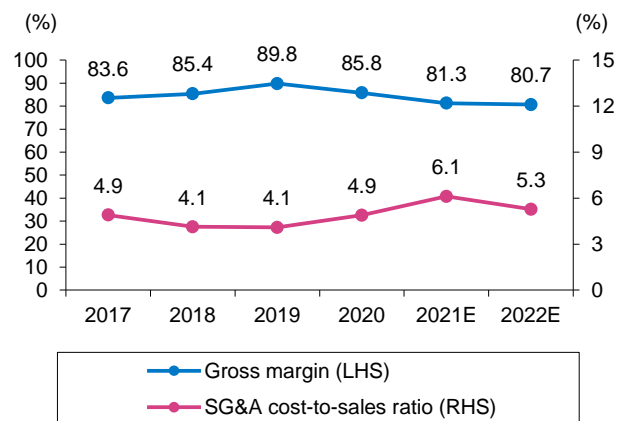
Source: Company data, Samsung Securities

Chart 2. Sales: Domestic and overseas

Source: Company data, Samsung Securities

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

Source: Company data, Samsung Securities

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

Source: Company data, Samsung Securities

Table 3. 2021 Drama line-up

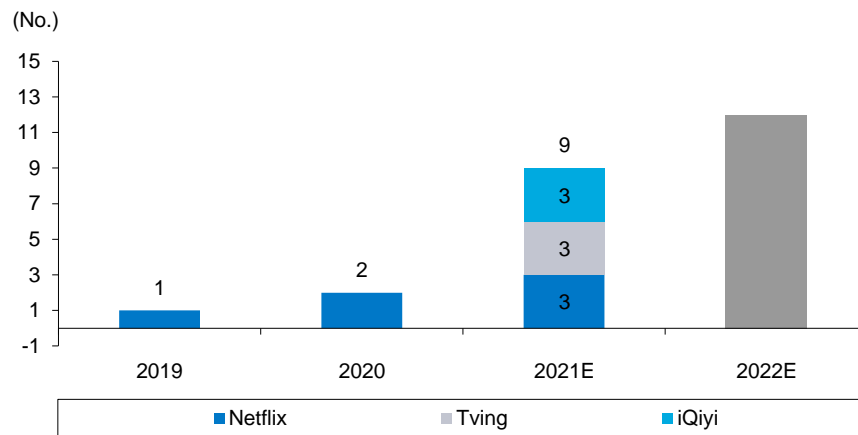
Year	No.	Channel	Title	Dates to be aired	Episodes	Writers	Director	Starring	Days
2021	1	tvN	L. U. C. A.: The Beginning	Feb 1-Mar 09	16	Chun Sung Il	Kim Hong Sun	Kim Rae Won, Lee Dae Hee	Mon, Tue
	2		Vincenzo	Feb 20-Apr 25	20	Park Jae-bum	Kim Hee-won	Song Joong-ki, Jeon Yeo-bin	Sat, Sun
	3		Navillera	Mar 22-Apr 27	12	Lee Eun-mi	Han Dong-hwa	Park In-hwan, Song Kang, Na Mun-hee	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
	7		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
	8		Devilish Judge	Jul 3-Aug 22	16	Moon Yoo Suk	Choi Jung Kyu	Ji Sung, Park Jin Young	Sat, Sun
	9		You Are My Spring	Jul 5-Aug 24	16	Lee Mi-na	Jung Ji-hyun	Kim Dong-wook, Seo Hyun-jin	Mon, Tue
	10		The Road: Tragedy of One	Aug 4-Sep 9	12	Yoon Hee-jung	Kim No-won	Ji Jin-hee, Yoon Se-ah	Wed, Thu
	11		Hometown Cha-Cha-Cha	Aug 28-Oct 17	16	Shin Ha-eun	Yoo Je-won	Shin Min-ah, Kim Seon-ho	Sat, Sun
	12		High Class	Sep 6-Oct 26	16	Hyun Jung	Choi Byung-gil	Cho Yeo-jeong, Kim Ji-soo	Mon, Tue
	13		Yumi's Cells	Sep 17-Oct 30	14	Song Jae-jung, Kim Yoon-joo	Lee Sang-yeop	Kim Go-eun, Ahn Bo-hyun	Fri, Sat
	14		Hometown	Sep 22-Oct 28	12	Joo Jin	Park Hyun-seok	Uhm Tae-goo, Yu Jae-myung	Wed, Thu
	15		Jirisan	Oct 23-Dec 12	16	Kim Eun-hee	Lee Eung-bok	Jeon Ji-hyun, Joo Ji-hoon	Sat, Sun
	16		Melancholia	Nov 3-Dec 23	16	Kim Ji-woon	Kim sang-hyub	Lim Soo-jeong, Lee Do-hyun	Wed, Thu
	17		Happiness	Nov 5-Dec 11	12	Han Sang-woon	Ahn Gil-ho	Han Hyo-joo, Park Hyung-sik	Fri, Sat
	18		Tale of the Secret Royal Inspector and Jo Yi	Nov 8-Dec 28	16	Lee Jae-yoon	Yoo Jong-seon	Kim Hye-yoon, Ok Taec-yeon	Mon, Tue
	19		Bad and Crazy	Dec, 2021	-	Kim Sae-bom	Yoo Seon-dong	Lee Dong-wook, Wi Ha-joon	-
	20		Island	TBD	20	Jang Yoon-mi	Park Bae-jong	Kim Nam-gil, Lee Da-hee	-
2021	21	OCN	Times	Feb 20-Mar 28	12	Lee Sae-bom	Yoon Jong-ho	Lee Seo-jin, Lee Joo-young	Sat, Sun
	23		So You	TBD	16		Bang Eun-jin	-	-
	24		The Fifth Column	TBD	16	Nam Sang-wook, Hwang In-ho	Lee Seung-young	-	-
	25	Netflix	Love Alarm 2	Mar 12	6	You Bo-ra, Cha Yeon-su	Kim Jin-woo	Kim So-hyun, Song Kang	-
	26		Kingdom: Ashin of the North	Jul 23	1	Kim Eun-hee	Kim Seong-hoon	Jeon Ji-Hyun, Park Byung-eun	-
	27		Juvenile Judgment	Jan, 2022	-	Kim Min-seok	Hong Jong-chan	Kim Hye-soo, Kim Moo-yeol	-
	28	Tving	Script Your Destiny	Mar 26	10 (5)	Kim Byung-soo	Eun Seon-woo	Jeon So-nee, Ki Do-hoon	-
	29		The Witch's Diner	Jul 16	8 (4)	Lee Young-sook	So Jae-hyun, Lee Su-hyun	Song Ji-hyo, Nam Ji-hyeon	-
2022		North America	The Big Door Prize	TBD	10	-	-	-	-

Note: Titles highlighted are streaming through Netflix (in green), iQiyi Global (in grey), and Tving (in light blue)

*My Roommate is Gumiho is an iQiyi original

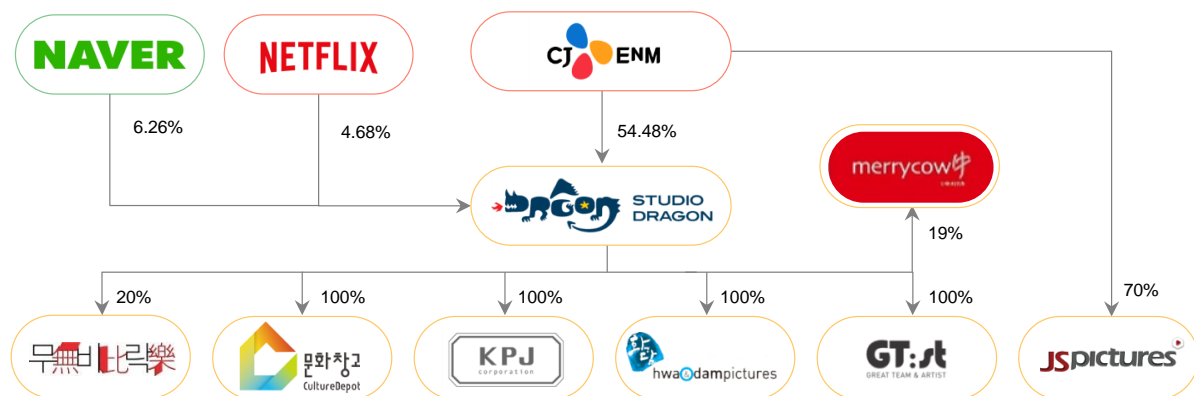
Source: Company data, Samsung Securities

Chart 5. Number of pieces of new digital content in line-up



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	522.4	496.3	-5.0	620.1	614.1	-1.0
Operating profit	66.4	62.5	-5.9	90.0	86.2	-4.2
Operating margin (% , %pts)	12.7	12.6	-0.1	14.5	14.0	-0.5
Pre-tax profit	76.1	71.7	-5.9	103.1	99.1	-3.8
Net profit (controlling)	54.5	51.3	-5.9	74.1	71.3	-3.8

Source: Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Sales	469	526	496	614	660
Cost of goods sold	421	451	403	495	525
Gross profit	48	75	93	119	135
Gross margin (%)	10.2	14.2	18.7	19.3	20.5
SG&A expenses	19	26	30	32	35
Operating profit	29	49	63	86	100
Operating margin (%)	6.1	9.3	12.6	14.0	15.2
Non-operating gains (losses)	4	-8	9	13	15
Financial profit	10	10	15	18	19
Financial costs	6	14	4	4	3
Equity-method gains (losses)	0	0	0	0	0
Other	0	-4	-1	-1	-2
Pre-tax profit	33	42	72	99	115
Taxes	7	12	20	28	32
Effective tax rate (%)	20.1	28.7	28.4	28.1	28.1
Profit from continuing operations	26	30	51	71	83
Profit from discontinued operations	0	0	0	0	0
Net profit	26	30	51	71	83
Net margin (%)	5.6	5.6	10.3	11.6	12.5
Net profit (controlling interests)	26	30	51	71	83
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	146	165	193	229	255
EBITDA margin (%)	31.1	31.4	38.9	37.3	38.7
EPS (parent-based) (KRW)	941	1,044	1,711	2,376	2,752
EPS (consolidated) (KRW)	941	1,044	1,711	2,376	2,752
Adjusted EPS (KRW)*	941	1,044	1,711	2,376	2,752

Cash flow statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Cash flow from operations	-12	5	120	187	224
Net profit	26	30	51	71	83
Non-cash profit and expenses	124	135	148	166	182
Depreciation	2	3	2	2	2
Amortization	115	113	128	141	154
Other	7	19	17	23	27
Changes in A/L from operating activities	-143	-144	-59	-23	-8
Cash flow from investments	-81	-16	-142	-165	-176
Change in tangible assets	-0	-7	-1	-1	-1
Change in financial assets	-42	31	-11	0	-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	18	48
Cash at beginning of year	153	60	49	184	202
Cash at end of year	60	49	184	202	250
Gross cash flow	150	165	199	237	264
Free cash flow	-13	-2	119	186	223

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

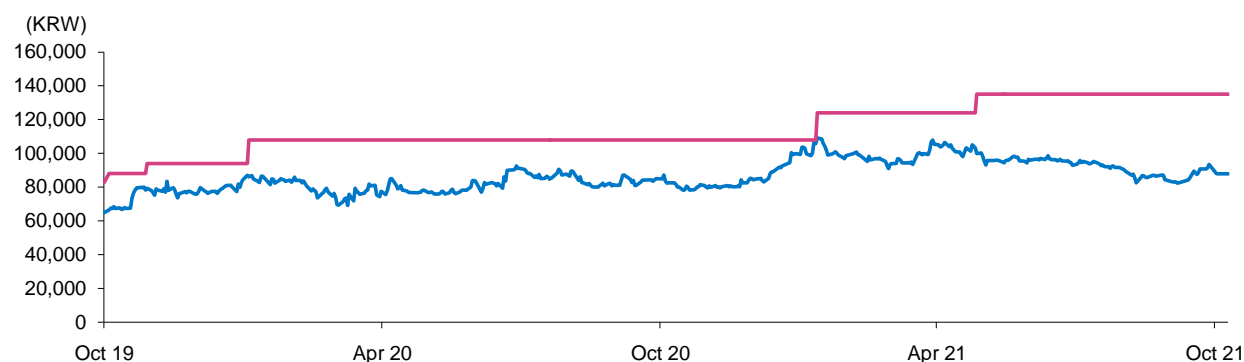
Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Current assets	244	228	354	408	482
Cash & equivalents	60	49	184	202	250
Accounts receivable	84	107	77	114	124
Inventories	0	0	0	0	0
Other current assets	101	73	92	92	108
Fixed assets	337	529	369	403	421
Investment assets	13	180	15	21	22
Tangible assets	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	722	810	904
Current liabilities	145	132	48	63	73
Accounts payable	18	6	10	10	14
Short-term debt	0	0	0	0	0
Other current liabilities	127	126	38	53	59
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	59	76	86
Owners of parent equity	428	609	663	735	817
Capital stock	14	15	15	15	15
Capital surplus	322	470	470	470	470
Retained earnings	94	123	174	246	328
Other	-1	1	4	4	4
Non-controlling interests' equity	0	0	0	0	0
Total equity	428	609	663	735	817
Net debt	-91	-45	-201	-215	-271

Financial ratios

Year-end Dec 31	2019	2020	2021E	2022E	2023E
Growth (%)					
Sales	23.5	12.2	-5.6	23.7	7.5
Operating profit	-28.1	71.1	27.3	37.9	16.1
Net profit	-26.3	12.1	73.3	38.9	15.9
Adjusted EPS**	-26.3	10.9	63.8	38.9	15.9
Per-share data (KRW)					
EPS (parent-based)	941	1,044	1,711	2,376	2,752
EPS (consolidated)	941	1,044	1,711	2,376	2,752
Adjusted EPS**	941	1,044	1,711	2,376	2,752
BVPS	15,242	20,309	22,105	24,481	27,233
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	85.9	88.7	51.4	37.0	31.9
P/B***	5.3	4.6	4.0	3.6	3.2
EV/EBITDA	15.0	16.5	12.6	10.6	9.3
Ratios (%)					
ROE	6.4	5.7	8.1	10.2	10.6
ROA	4.8	4.4	6.9	9.3	9.6
ROIC	8.7	11.2	12.3	14.7	15.6
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	-29.3	-33.2
Interest coverage (x)	58.1	84.8	150.5	372.7	432.8

Compliance notice

- As of Oct 12, 2021, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
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Target price changes in past two years**Rating changes over past two years (adjusted share prices)**

Date	2019/8/9	10/14	11/8	2020/1/14	2021/1/14	1/22	5/7
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	83,000	88,000	94,000	108,000	108,000	124,000	135,000
Gap* (average)	-21.77	-17.92	-16.65	-23.70	-5.37	-19.74	
(max or min)**	-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

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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 Sep 30, 2021

BUY (87.1%) | HOLD (12.9%) | SELL (0%)

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