

Platform Business Team

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Analyst

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW135,000	56.8%
Current price	KRW86,100	
Market cap	KRW2.6t/USD2.2b	
Shares (float)	30,014,185 (44.1%)	
52-week high/low	KRW109,200/KRW79,500	
Avg daily trading value (60-day)	KRW15.3b/USD13.0m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	-5.2	-18.0	7.5
Vs Kosdaq (%pts)	-6.9	-20.8	-11.2

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	135,000	135,000	0.0%
2021E EPS	1,699	1,711	-0.7%
2022E EPS	2,200	2,376	-7.4%

▶ SAMSUNG vs THE STREET

No of estimates	17
Target price	126,471
Recommendation	3.9

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

Studio Dragon (253450)

Gradually regaining vitality

- Studio Dragon's 3Q operating profit of KRW14.6b was slightly short of consensus. But we find it solid, allowing for: 1) a y-y drop in the number of its dramas produced; and 2) a high base from it selling two old titles to a Chinese OTT platform in 3Q20.
- Earnings momentum should accelerate on increasing content production not only for TV channels but also digital platforms.
- We maintain BUY rating and KRW135,000 target price.

WHAT'S THE STORY?

3Q review: Studio Dragon reported 3Q sales of KRW116.1b (up 9.2% y-y) and operating profit of KRW14.6b (down 9% y-y), the latter slightly missing the recently-lowered consensus of KRW15.8b but meeting our estimate. Although the number of its dramas broadcast on TV channels in 3Q slipped 1.5 y-y, the firm's sales expanded y-y thanks to strong popularity of its content and its improving bargaining power. But operating profit contracted y-y on a high base (from it selling two old titles to a Chinese OTT platform in 3Q20). Two dramas—You Are My Spring (16 episodes) and Hometown Cha-Cha-Cha (10 episodes)—were broadcast both on tvN and Netflix last quarter. Original content broadcast last quarter included The Witch's Diner (Tving original drama; 8 episodes), Yumi's Cells (4 episodes broadcast), and Kingdom: Ashin of the North (Netflix Original drama, co-produced with Baram Pictures).

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SUMMARY OF 3Q RESULTS

(KRWb)	3Q21	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	116.1	9.2	9.5	(2.9)	(8.9)
Operating profit	14.6	(9.0)	5.6	(3.2)	(7.6)
Pre-tax profit	18.5	21.3	31.4	6.0	14.1
Net profit	14.8	39.6	56.4	18.2	34.0
Margins (%)					
Operating profit	12.6				
Pre-tax profit	15.9				
Net profit	12.8				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2020	2021E	2022E
Valuation (x)			
P/E	88.7	50.7	39.1
P/B	4.6	3.9	3.5
EV/EBITDA	16.5	12.5	10.7
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	10.9	62.7	29.5
ROE (%)	5.7	8.0	9.5
Per-share data (KRW)			
EPS	1,044	1,699	2,200
BVPS	20,309	22,093	24,293
DPS	0	0	0

4Q and 2022 outlook: In 4Q, the company should diversify its content genres, see a y-y rise in the number of its drama broadcast, and reinforce its digital content lineup. Tving original content should include Yumi's Cells (10 episodes) and Happiness (12 episodes)—both are being aired on TvN—and Bad and Crazy (the second original Korean series broadcast by iQiyi) should start broadcasting in December. The Immortal (to be aired from mid-December) is a tent-pole drama and should make contribution to earnings from end-2021 to early 2022. We forecast the number of its dramas aired will increase by 0.9 y-y in 4Q. As of end-Sep, construction in progress amounted to KRW138.6b (up 47.9% y-y), of which 22 dramas will be aired on TV channels, six on Tving, and eight on global OTT platforms. The company will supply five original dramas to Netflix (eg, Sweet Home Season 2) and three original dramas to iQiyi. Furthermore, the Big Door Prize (a drama series co-produced with US company Skydance Television for Apple TV+) will crank in early next year and be broadcast in 2H22. It is also in talks with the US OTT giant to produce a remake of Crash Landing on You. In 2022, its earnings momentum should accelerate on increasing content production not only for TV channels but also for digital platforms.

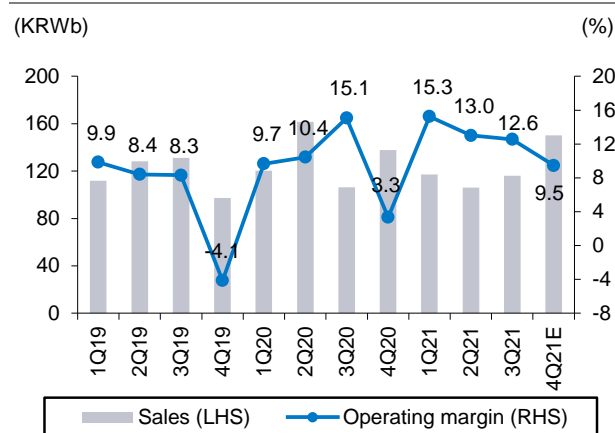
Maintaining BUY: We expect Studio Dragon to produce more content in 2022 (as the market environment improves), supply the content it has produced to more diverse channels, and enjoy growing bargaining power and content price hikes. When its sales growth picks up steam in earnest, the stock should rerate. We keep our KRW135,000 target (based on 16x 12-month fwd EV/EBITDA).

Table 1. Results and forecasts

(KRWb)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	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	116.1	150.2	468.7	525.7	489.4	615.0
Programing	44.1	58.1	60.8	45.7	45.2	65.4	45.7	40.7	43.8	28.2	36.2	44.0	208.7	197.0	152.1	182.1
Distribution	56.2	60.3	60.0	42.8	66.9	75.7	50.9	86.3	63.2	67.5	64.9	91.7	219.3	279.7	287.4	379.3
Other	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	10.1	10.3	15.0	14.5	40.6	48.9	49.9	53.7
Gross profit	15.0	15.4	15.3	2.2	16.7	21.8	21.3	15.0	23.7	20.3	21.0	26.3	47.9	74.8	91.3	113.0
SG&A costs	4.0	4.6	4.4	6.2	5.1	4.9	5.3	10.4	5.8	6.5	6.4	12.1	19.2	25.7	30.9	33.1
Operating profit	11.0	10.8	10.9	-4.0	11.6	16.9	16.0	4.6	17.9	13.8	14.6	14.2	28.7	49.1	60.4	79.9
Non-operating profit	2.1	1.1	2.2	-1.1	0.4	0.3	-0.8	-7.5	3.2	0.3	3.9	0.3	4.3	-7.6	7.6	7.5
Pre-tax profit	13.2	11.9	13.1	-5.1	12.0	17.2	15.2	-2.9	21.1	14.0	18.5	14.5	33.1	41.5	68.1	87.3
Net profit (controlling)	9.2	7.3	11.5	-1.6	8.5	13.4	10.6	-2.8	15.6	9.5	14.8	11.1	26.4	29.7	51.0	66.0
Gross margin	13.4	12.0	11.7	2.2	13.8	13.5	20.0	10.9	20.2	19.2	18.1	17.5	10.2	14.2	18.7	18.4
Operating margin	9.9	8.4	8.3	-4.1	9.7	10.4	15.1	3.3	15.3	13.0	12.6	9.5	6.1	9.3	12.4	13.0
Net margin (controlling)	8.2	5.7	8.8	-1.7	7.1	8.3	10.0	-2.1	13.3	8.9	12.8	7.4	5.6	5.6	10.4	10.7
Chg (% y-y)																
Sales	40.0	72.6	6.0	-4.2	7.6	25.9	-19.0	41.3	-2.7	-34.3	9.2	9.1	23.5	12.2	-6.9	25.7
Programing	8.4	70.5	24.4	-16.1	2.5	12.6	-24.9	-10.9	-3.2	-56.9	-20.8	8.2	17.2	-5.6	-22.8	19.7
Distribution	75.1	109.2	-5.4	13.3	19.1	25.5	-15.2	101.6	-5.5	-10.8	27.7	6.3	35.3	27.6	2.7	32.0
Other	63.1	-14.1	-9.0	-6.7	-29.2	107.1	-6.4	20.2	24.0	-49.3	54.0	35.7	3.0	20.4	2.1	7.5
Gross profit	9.9	45.1	-38.4	-66.2	11.1	41.7	39.2	585.3	42.2	-6.9	-1.3	75.4	-13.8	56.2	22.2	23.7
SG&A costs	33.1	40.2	31.0	2.7	28.4	5.8	21.3	67.6	14.0	33.6	21.0	16.5	22.4	34.0	20.2	7.2
Operating profit	3.5	47.3	-49.2	nm	5.5	56.3	46.8	nm	53.6	-18.2	-9.0	208.3	-28.1	71.1	23.1	32.1
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	-2.0
Pre-tax profit	22.2	7.6	-40.8	nm	-9.2	44.5	16.2	nm	75.3	-18.2	21.3	nm	-27.5	25.4	63.9	28.3
Net profit (controlling)	17.2	-17.4	-33.5	nm	-7.3	82.1	-8.0	nm	82.2	-29.1	39.6	nm	-26.3	12.3	71.8	29.5
Gross margin	-3.7	-2.3	-8.4	-4.1	0.4	1.5	8.4	8.7	6.4	5.7	-1.9	6.6	-4.4	4.0	4.4	-0.3
Operating margin	-3.5	-1.4	-9.0	-4.6	-0.2	2.0	6.8	7.5	5.6	2.6	-2.5	6.1	-4.4	3.2	3.0	0.6
Net margin (controlling)	-1.6	-6.2	-5.2	-3.4	-1.1	2.6	1.2	-0.4	6.2	0.7	2.8	9.5	-3.8	0.0	4.8	0.3

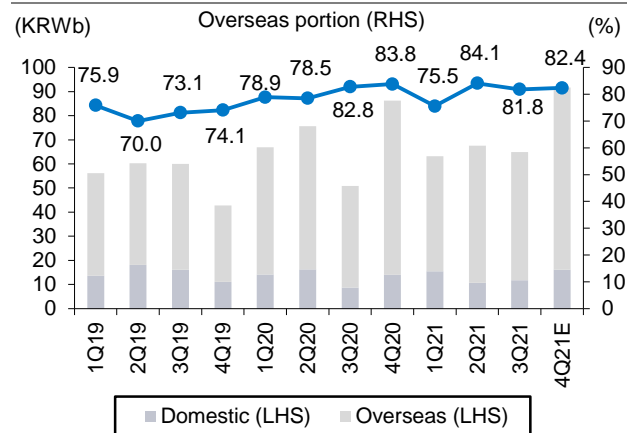
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin



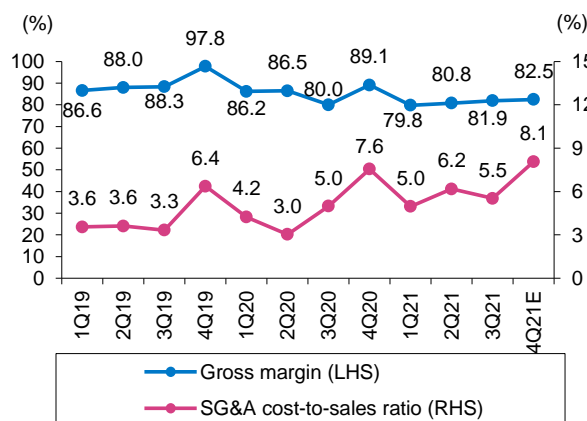
Source: Company data, Samsung Securities

Chart 2. Sales: Domestic and overseas



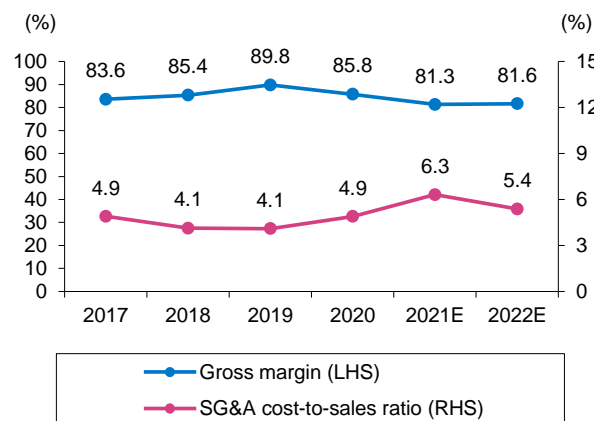
Source: Company data, Samsung Securities

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

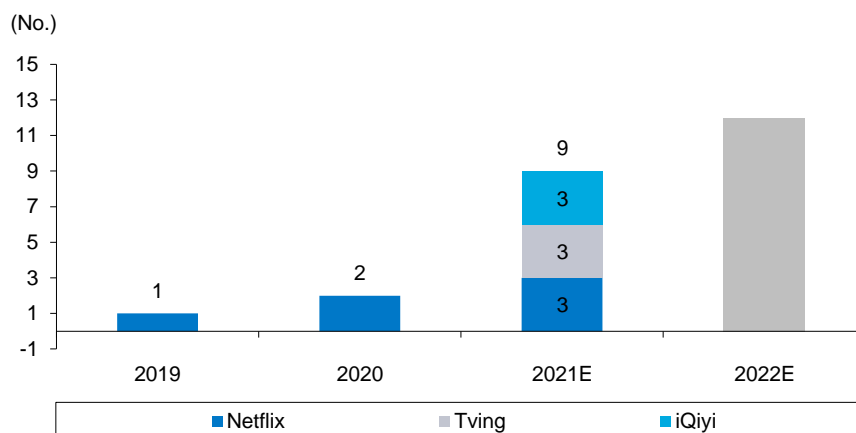
Table 2. 2021 Drama line-up

Year	No.	Channel	Title	Dates to be aired	Episodes	Writers	Director	Starring	Days
2021	1		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	tvN	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 17-Jan 29, 2022	12	Kim Sae-bom	Yoo Seon-dong	Lee Dong-wook, Wi Ha-joon	-
	20		The Immortal	Dec 18-Feb 6, 2022	16	Jang Yoon-mi	Park Bae-jong	Kim Nam-gil, Lee Da-hee	-
	21	OCN	Times	Feb 20-Mar 28	12	Lee Sae-bom	Yoon Jong-ho	Lee Seo-jin, Lee Joo-young	Sat, Sun
	22	Netflix	Love Alarm 2	Mar 12	6	You Bo-ra, Cha Yeon-su	Kim Jin-woo	Kim So-hyun, Song Kang	-
	23		Kingdom: Ashin of the North	Jul 23	1	Kim Eun-hee	Kim Seong-hoon	Jeon Ji-Hyun, Park Byung-eun	-
	24	Tving	Script Your Destiny	Mar 26	10 (5)	Kim Byung-soo	Eun Seon-woo	Jeon So-nee, Ki Do-hoon	-
	25		The Witch's Diner	Jul 16	8 (4)	Lee Young-sook	So Jae-hyun, Lee Su-hyun	Song Ji-hyo, Nam Ji-hyeon	-
2022	1		Soul Marriage	TBD	16	Hong Jeong-eun, Hong Mi-ran	Park Joon-hwa	Lee Jae-wook, Yu Jun-sang	-
	2	tvN	Shooting Stars	TBD	-	Choi Young-woo	Lee Soo-hyun	Lee Sung-kyung, Kim Yoon-dae	-
	3		Island	TBD	20	Jang Yoon-mi	Park Bae-jong	Kim Nam-gil, Lee Da-hee	-
	4	Netflix	Juvenile Judgment	Jan 2022	-	Kim Min-seok	Hong Jong-chan	Kim Hye-soo, Kim Moo-yeol	-

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

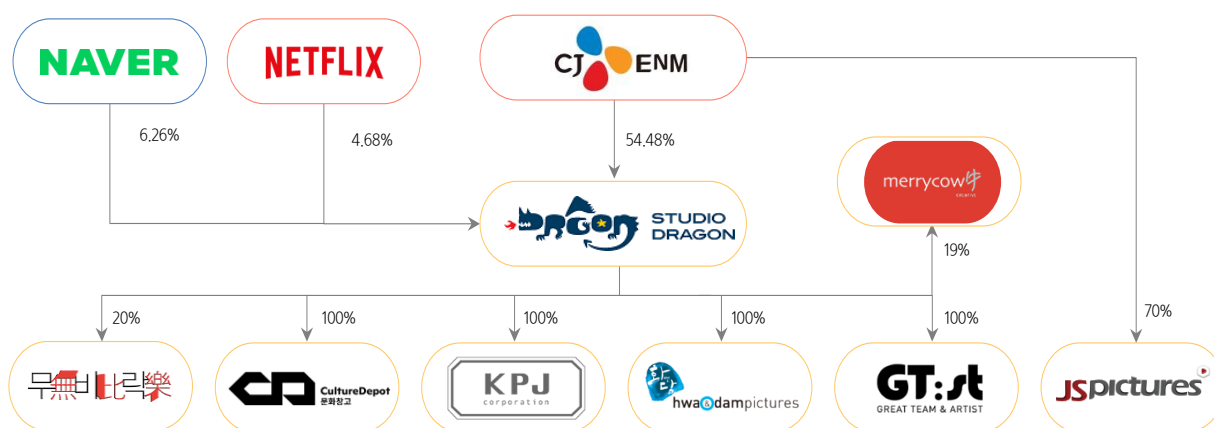
Source: Company data, Samsung Securities

Chart 5. Number of digital contents 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	496.3	489.4	-1.4	614.1	615.0	0.1
Operating profit	62.5	60.4	-3.3	86.2	79.9	-7.4
Operating margin (% , %pts)	12.6	12.4	-0.2	14.0	13.0	-1.1
Pre-tax profit	71.7	68.1	-5.0	99.1	87.3	-11.9
Net profit (controlling)	51.3	51.0	-0.7	71.3	66.0	-7.4

Source: Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Sales	469	526	489	615	673
Cost of goods sold	421	451	398	502	537
Gross profit	48	75	91	113	136
Gross margin (%)	10.2	14.2	18.7	18.4	20.2
SG&A expenses	19	26	31	33	36
Operating profit	29	49	60	80	101
Operating margin (%)	6.1	9.3	12.4	13.0	14.9
Non-operating gains (losses)	4	-8	8	7	9
Financial profit	10	10	13	13	13
Financial costs	6	14	4	4	3
Equity-method gains (losses)	0	0	0	0	0
Other	0	-4	-1	-2	-2
Pre-tax profit	33	42	68	87	109
Taxes	7	12	17	21	27
Effective tax rate (%)	20.1	28.7	25.1	24.4	24.4
Profit from continuing operations	26	30	51	66	83
Profit from discontinued operations	0	0	0	0	0
Net profit	26	30	51	66	83
Net margin (%)	5.6	5.6	10.4	10.7	12.3
Net profit (controlling interests)	26	30	51	66	83
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	146	165	191	223	256
EBITDA margin (%)	31.1	31.4	39.0	36.2	38.0
EPS (parent-based) (KRW)	941	1,044	1,699	2,200	2,753
EPS (consolidated) (KRW)	941	1,044	1,699	2,200	2,753
Adjusted EPS (KRW)*	941	1,044	1,699	2,200	2,753

Cash flow statement

Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Cash flow from operations	-12	5	120	181	223
Net profit	26	30	51	66	83
Non-cash profit and expenses	124	135	144	159	176
Depreciation	2	3	2	2	2
Amortization	115	113	128	141	154
Other	7	19	14	16	21
Changes in A/L from operating activities	-143	-144	-58	-23	-9
Cash flow from investments	-81	-16	-142	-166	-177
Change in tangible assets	-0	-7	-1	-1	-1
Change in financial assets	-42	31	-10	-0	-9
Other	-39	-41	-131	-165	-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	11	46
Cash at beginning of year	153	60	49	185	196
Cash at end of year	60	49	185	196	242
Gross cash flow	150	165	195	225	259
Free cash flow	-13	-2	119	180	222

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

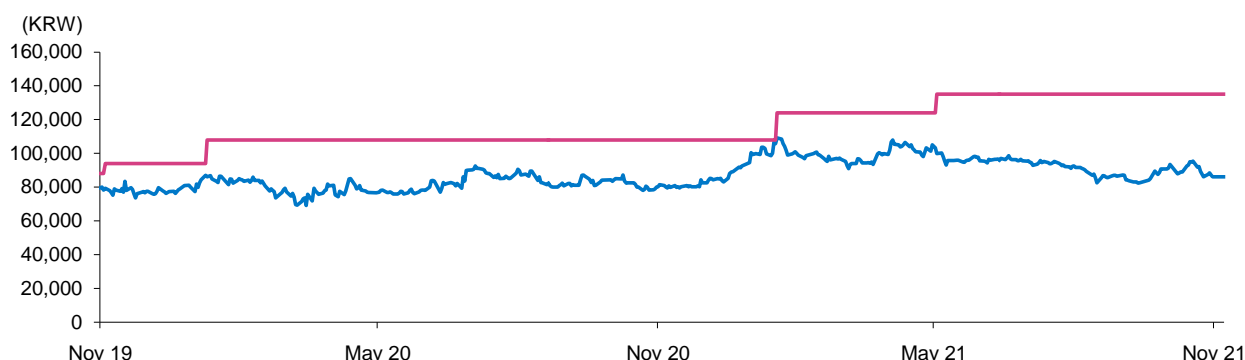
Year-end Dec 31 (KRWb)	2019	2020	2021E	2022E	2023E
Current assets	244	228	353	402	478
Cash & equivalents	60	49	185	196	242
Accounts receivable	84	107	76	114	127
Inventories	0	0	0	0	0
Other current assets	101	73	92	92	109
Fixed assets	337	529	369	403	421
Investment assets	13	180	15	21	22
Tangible assets	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	721	805	900
Current liabilities	145	132	48	63	74
Accounts payable	18	6	10	10	14
Short-term debt	0	0	0	0	0
Other current liabilities	127	126	37	53	61
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	58	76	88
Owners of parent equity	428	609	663	729	812
Capital stock	14	15	15	15	15
Capital surplus	322	470	470	470	470
Retained earnings	94	123	174	240	323
Other	-1	1	4	4	4
Non-controlling interests' equity	0	0	0	0	0
Total equity	428	609	663	729	812
Net debt	-91	-45	-201	-210	-264

Financial ratios

Year-end Dec 31	2019	2020	2021E	2022E	2023E
Growth (%)					
Sales	23.5	12.2	-6.9	25.7	9.4
Operating profit	-28.1	71.1	23.1	32.1	25.9
Net profit	-26.3	12.1	72.1	29.5	25.1
Adjusted EPS**	-26.3	10.9	62.7	29.5	25.1
Per-share data (KRW)					
EPS (parent-based)	941	1,044	1,699	2,200	2,753
EPS (consolidated)	941	1,044	1,699	2,200	2,753
Adjusted EPS**	941	1,044	1,699	2,200	2,753
BVPS	15,242	20,309	22,093	24,293	27,046
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	85.9	88.7	50.7	39.1	31.3
P/B***	5.3	4.6	3.9	3.5	3.2
EV/EBITDA	15.0	16.5	12.5	10.7	9.1
Ratios (%)					
ROE	6.4	5.7	8.0	9.5	10.7
ROA	4.8	4.4	6.9	8.7	9.7
ROIC	8.7	11.2	12.4	14.3	16.5
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	-28.7	-32.5
Interest coverage (x)	58.1	84.8	145.6	345.2	434.6

Compliance notice

- As of Nov 4, 2021, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
- As of Nov 4, 2021, Samsung Securities' holdings of shares and debt instruments convertible into shares of each company covered in this report would not, if such debt instruments were converted, exceed 1% of each company's outstanding shares.
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Target price changes in past two years**Rating changes over past two years** (adjusted share prices)

Date	2019/10/14	11/8	2020/1/14	2021/1/14	1/22	5/7
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	88,000	94,000	108,000	108,000	124,000	135,000
Gap* (average)	-17.92	-16.65	-23.70	-5.37	-19.74	
(max or min)**	-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
SELL	Expected to decrease in value by 10% or more within 12 months

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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General

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