



Korea Equity Research Entertainment/Media

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Buy (maintain)

Target price	KRW 135,000
Current price	KRW 86,100

Relative to consensus

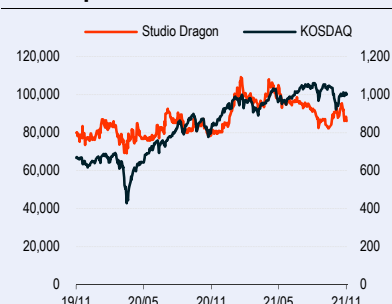
Beat	Match	Miss
		●

Stock data

KOSDAQ (Nov 4)	1,001.43
Market cap (KRW bn)	2,584
Shares outstanding ('000)	30,014
52-week high/low (KRW)	109,200 / 79,500
90-day avg daily T/O (KRW bn)	15.2
Foreign ownership	11.8%
Dividend yield (21.12E)	0.0%
BPS (21.12E) (KRW)	17,814
Price relative to KOSDAQ	1M -7.0%
	6M -21.5%
	12M -10.4%

Shareholders	CJ ENM (& 4 others)	55.9%
	NAVER (& 1 other)	6.3%
	Kim Young-gyu (& 1 other)	0.0%

Stock price



Studio Dragon (253450.KS)

Recovery slower than expected

Aired programs and overseas sales in 2H21 raise hope for 1H22

Studio Dragon (SD) reported 3Q21 revenue of KRW116.1bn (+9.2% YoY) and lower-than-expected operating profit of KRW14.6bn (-9% YoY). Programming revenue fell 21% YoY to KRW36.2bn as the number of shows aired on TV declined but genre dramas such as *Royal Secret Inspector Joy* (fusion historical drama), *Happiness* (thriller), and *Immortality* (fantasy) are scheduled to air in 4Q21. Distribution revenue picked up 28% YoY to KRW64.9bn helped by *Hometown Cha-Cha-Cha*'s high viewership and other original series steamed via OTT players. A total of 170 old drama titles were sold in the quarter (+15% YoY) vs. 17 new titles (-11% YoY). In 4Q21, a number of new digital dramas are scheduled to air via TVING (*Yumi's Cells* and *Happiness*) and IQIYI (*Bad & Crazy*). Despite a decline in drama productions, production cost increased. However, operating profit kept up thanks to higher ASP and increased sales of new/old dramas amid intensifying competition among OTTs. We expect SD to continue to lead the K-drama scene as the number of aired shows increases and its library of original content expands.

Maintain Buy and KRW135,000 price target

While the pace is slower than expected, the number of aired shows is increasing and SD's popular IPs are expected to boost programming and distribution revenues. Global OTT players such as Disney+ and Apple TV are slated to enter the Korean market from November and SD is in talks with these streamers, including Netflix, for potential production deals (eight shows). SD is preparing to air six dramas through a Korean streamer TVING as well. We expect some 30 dramas produced by SD to air in 2022 (vs. 26 titles in 2021) including the remakes of popular, quality dramas and 40 original series. Helped by the rising global popularity of K-dramas, SD is considering producing local dramas in the US and Japan. In all, we believe the company's earnings and shares are undervalued given its ability to produce quality content and favorable industry conditions.

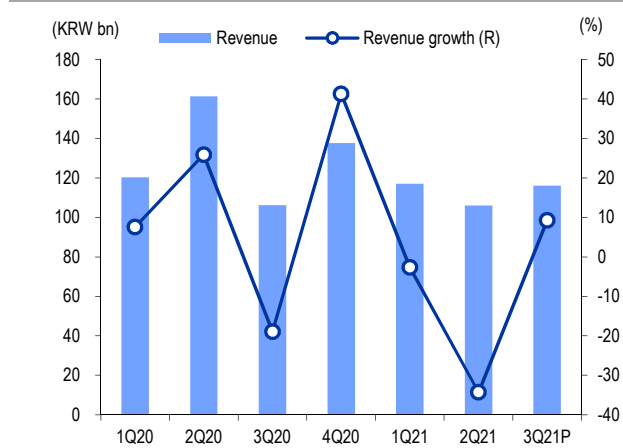
Financial data

(KRW bn)	2019	2020	2021E	2022E	2023E
Sales	469	526	620	713	806
Operating profit	29	49	55	67	73
Pretax income from cont ops	33	41	56	68	73
Net profit	26	30	43	52	57
EPS (KRW)	942	1,053	1,519	1,858	2,025
Change (%)	-26.3	11.9	44.2	22.3	9.0
P/E (x)	85.9	77.3	68.0	55.5	51.0
P/B (x)	5.3	5.0	5.8	5.2	4.8
EV/EBITDA (x)	14.9	12.2	22.5	25.3	27.6
Operating margin (%)	6.1	9.3	8.8	9.4	9.0
EBITDA margin (%)	31.1	33.3	20.3	15.3	12.1
ROE (%)	6.4	6.7	8.9	9.9	9.8
Debt to equity (%)	35.8	37.8	38.9	40.3	40.5

Note: K-IFRS consolidated earnings basis

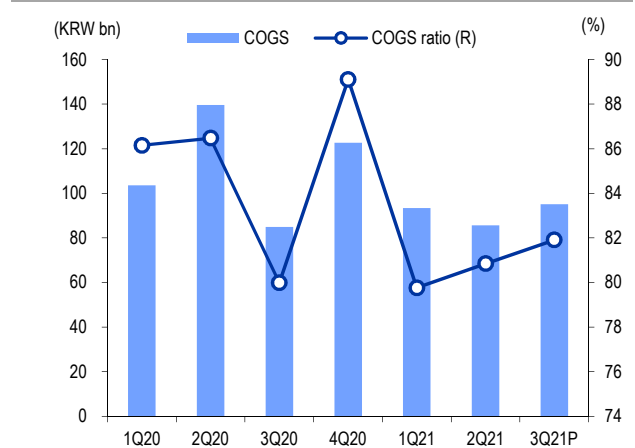
Source: Company data, eBEST Investment & Securities Research

Fig 1 Revenue and revenue growth



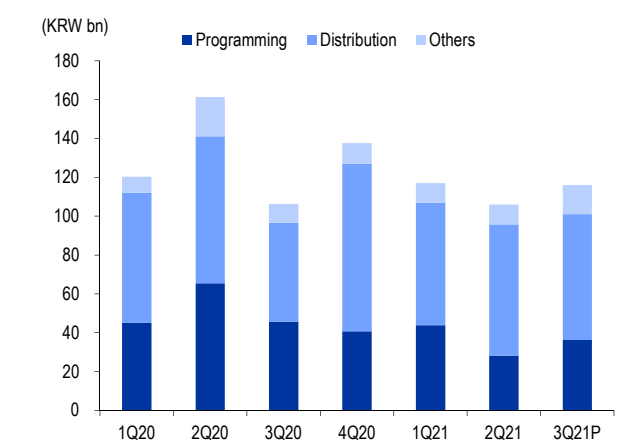
Source: Company data, eBEST Investment & Securities Research

Fig 2 COGS rises due to production cost hikes



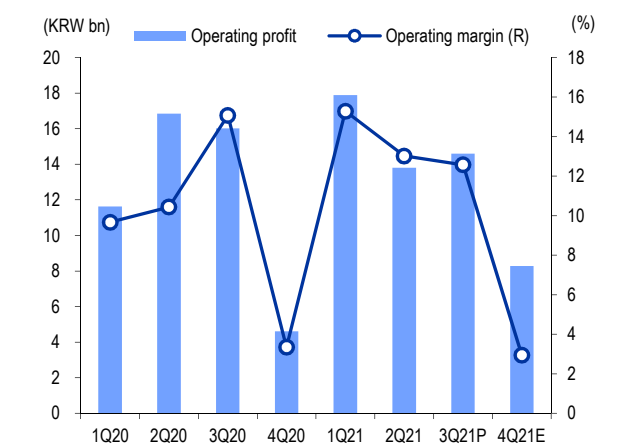
Source: Company data, eBEST Investment & Securities Research

Fig 3 Programming and distribution revenue slowly picking up



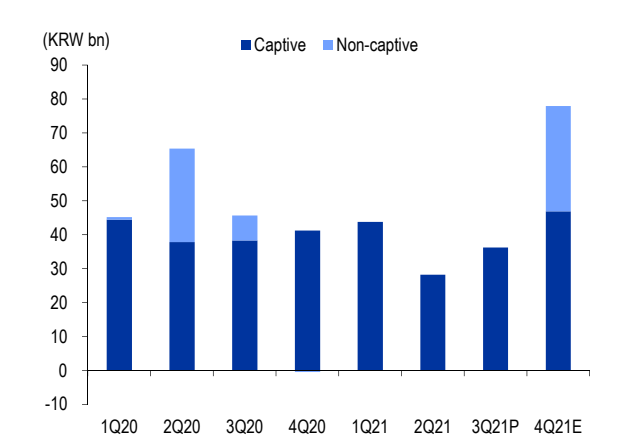
Source: Company data, eBEST Investment & Securities Research

Fig 4 Operating profit trend



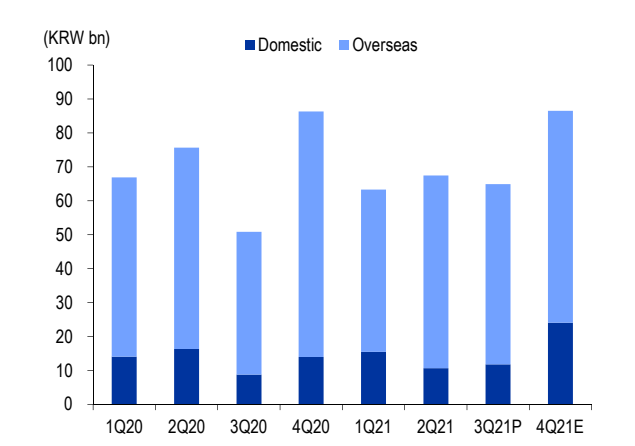
Source: Company data, eBEST Investment & Securities Research

Fig 5 Programming revenue to recover in 4Q21



Source: Company data, eBEST Investment & Securities Research

Fig 6 Distribution revenue



Source: Company data, eBEST Investment & Securities Research

Fig 7 Earnings trend and forecasts

(KRW bn,%)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21P	4Q21E	2019	2020	2021E
Revenue	120	161	106	138	117	106	162	236	469	526	620
YoY (%)	7.6	25.9	-19	41.3	15	7.8	52	71.2	23.5	12.2	18
QoQ (%)	23.5	34.2	-34.2	29.6	-15	-9.5	52.4	45.9			
Programming	45.2	65.4	45.7	40.7	43.8	28.2	77.5	87.4	209	197	237
Distribution	66.9	75.7	50.9	86.3	63.2	67.5	96.9	135	219	280	363
Others	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	40.6	48.9	20.5
COGS	104	140	85	123	93.4	85.7	142	219	421	451	540
COGS (%)	86.2	86.5	80	89.1	79.8	80.8	88	92.7	89.8	85.8	87
Operating profit	11.6	16.9	16	4.6	17.9	13.8	13.5	9.4	28.7	49.1	54.6
Operating margin (%)	9.7	10.4	15.1	3.3	15.3	13	8.3	4	6.1	9.3	6.9
YoY (%)	5.5	56.3	46.8	TB	53.9	-18.1	-15.9	104.2	-28.1	71.1	11.1
QoQ (%)	TB	44.9	-5	-71.2	288.3	-22.9	-2.3	-30.2			
Net profit	8.5	13.4	10.6	-2.9	15.6	9.5	11.3	6.2	26.4	29.6	42.7
Net margin (%)	7.1	8.3	10.0	-2.1	13.3	9.0	7.0	2.6	5.6	5.6	6.9

Source: Company data, eBEST Investment & Securities Research

Studio Dragon (253450.KS) financial statements

Balance sheet

(KRW bn)	2019	2020	2021E	2022E	2023E
Current assets	244	316	446	561	660
Cash & cash equivalents	60	146	242	313	375
Accounts receivable	84	94	124	165	198
Inventory assets	0	0	0	0	0
Other current assets	101	77	80	83	87
Non-current assets	337	314	249	214	196
Investments in affiliates	7	20	20	21	22
Tangible assets	1	2	0	0	0
Intangible assets	233	170	100	59	35
Total assets	582	631	695	775	856
Current liabilities	145	165	187	215	239
Accounts payable	64	54	71	95	114
Short-term financial liabilities	2	4	4	4	4
Other current liabilities	79	107	112	116	121
Non-current liabilities	8	8	8	8	8
Long-term financial liabilities	8	7	7	7	7
Other non-current liabilities	0	0	0	0	1
Total liabilities	153	173	195	223	247
Owners of parent equity	428	458	501	553	610
Paid-in capital	14	14	14	14	14
Capital surplus	322	322	322	322	322
Retained earnings	94	123	166	218	275
Non-controlling interest	0	0	0	0	0
Total equity	428	458	501	553	610

Cash flow

(KRW bn)	2019	2020	2021E	2022E	2023E
Operating cash flow	-12	76	104	79	71
Net profit	26	30	43	52	57
Non-cash income and expenses	124	133	72	42	25
Depreciation of tangible assets	2	4	2	1	1
Amortization of intangible assets	115	121	70	41	24
Others	1	7	0	0	0
Changes in assets/liab from operating	-143	-79	-11	-15	-12
Changes in accounts receivable	-22	-15	-30	-41	-33
Changes in inventory assets	1	0	0	0	0
Changes in accounts payable	9	-11	17	23	19
Changes in other assets/liabilities	-130	-54	2	2	2
Investing cash flow	-81	10	-8	-8	-8
Disposal/acquisition of tangible assets	0	-4	-1	-1	-1
Changes in intangible assets	0	0	0	0	0
Changes in investment assets	-19	21	-2	-2	-2
Other investments	-61	-7	-5	-5	-5
Financing cash flow	0	-1	0	0	0
Changes in financial liabilities	0	-1	0	0	0
Changes in equity	0	0	0	0	0
Dividends paid	0	0	0	0	0
Others	0	0	0	0	0
Increase in cash	-93	86	96	71	62
Beginning cash	153	60	146	242	313
Ending cash	60	146	242	313	375

Income statement

(KRW bn)	2019	2020	2021E	2022E	2023E
Sales	469	526	620	713	806
Cost of goods sold	421	451	540	616	699
Gross profit	48	75	81	97	107
SG&A expenses	19	26	26	30	35
Operating profit	29	49	55	67	73
EBITDA	146	175	126	109	98
Financial income	6	6	4	4	5
Interest expenses	0	1	0	0	0
Gain/loss on equity	0	0	0	0	0
Other non-operating profit	-1	-14	-3	-4	-4
Pretax profit from continuing ops	33	41	56	68	73
Income tax	7	12	13	16	17
Profit from continuing ops	26	30	43	52	57
Profit from discontinuing ops	0	0	0	0	0
Net profit	26	30	43	52	57
Controlling interest	26	30	43	52	57
Total comprehensive profit	26	30	43	52	57
Gross margin (%)	10.2	14.2	13.0	13.6	13.3
Operating margin (%)	6.1	9.3	8.8	9.4	9.0
EBITDA margin (%)	31.1	33.3	20.3	15.3	12.1
Net margin (%)	5.6	5.6	6.9	7.3	7.1
ROA (%)	4.8	4.9	6.4	7.1	7.0
ROE (%)	6.4	6.7	8.9	9.9	9.8
ROIC (%)	8.2	11.8	16.7	24.1	28.2

Key financial data

	2019	2020	2021E	2022E	2023E
Valuation (x)					
P/E	85.9	77.3	56.7	46.3	42.5
P/B	5.3	5.0	4.8	4.4	4.0
EV/EBITDA	14.9	12.2	18.4	20.6	22.4
P/CF	15.1	14.1	21.2	25.6	29.4
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Growth (%)					
Sales	23.5	12.2	18.0	15.0	13.0
Operating profit	-28.1	71.1	11.2	23.0	8.1
Pretax profit	-27.6	25.5	33.8	22.4	8.1
Net profit	-26.3	12.0	44.2	22.3	9.0
EPS	-26.3	11.9	44.2	22.3	9.0
Stability (%)					
Total liabilities to equity	35.8	37.8	38.9	40.3	40.5
Current ratio	168.4	191.5	238.4	261.0	276.2
Net debt to equity (x)	-24.6	-34.7	-51.1	-59.4	-64.2
OP/financial expenses (x)	58.1	92.2	112.1	137.8	149.0
Total debt (KRW bn)	10	11	11	11	11
Net debt (KRW bn)	-106	-159	-256	-328	-391
Per share data (KRW)					
EPS	942	1,053	1,519	1,858	2,025
BPS	15,242	16,295	17,814	19,672	21,698
CFPS	5,346	5,787	4,068	3,358	2,927
DPS	n/a	n/a	n/a	n/a	n/a

Note: K-IFRS consolidated basis; TB=turn to black, TR=turn to red, RR=remain in red

Source: Company data, eBEST Investment & Securities Research



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Industry: Three industry investment ratings based on 12-month investment weighting of a given industry compared to its market capitalization weighting

Overweight: Investment weighting is higher than the market capitalization weighting

Neutral: Underweight: Investment weighting is equal to the market capitalization weighting

Underweight: Investment weighting is lower than the market capitalization weighting

Company: Three company investment ratings based on the absolute return expected in the following 12 months (total return potential revised from $\pm 20\%$ to $\pm 15\%$ on Oct 25, 2018)

BUY: A stock is expected to return 15% or more

Hold: A stock is expected to return between -15% and +15%

Sell: A stock is expected to decline by 15% or more

Stock ratings distribution

Investment rating	% of ratings category	Note
Buy	93.6%	Based on the investment ratings of the companies within our coverage from Oct 1, 2020 to Sep 30, 2021 (renewed every quarter)
Hold	6.4%	
Sell	-	
Total	100.0%	