

Studio Dragon (253450 KQ)

HJ Kim

Lee Jee-eun

hojae.kim@daishin.com

jeeeun.lee@daishin.com

Rating

BUY

maintain

6M TP (W)

130,000

maintain

CP (W)
(22.01.12)**87,400**

Media

2022 slate strong

BUY; 6M TP maintained at W130,000

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

4Q21 results decent despite thin slate

- Studio Dragon is projected to report revenue of W98bn (down 16% qoq; down 29% yoy) and OP of W8bn (down 43% qoq; up 80% yoy) for 4Q21, a respectable performance considering the thin slate of dramas in that quarter – a total of 72 episodes were released, down by 21 qoq (due to fewer shows for local streaming platform tving) and by 14 yoy (due to fewer works for cable TV channel OCN).
- It produced 25 drama series last year (vs. 27 in 2020) including the latest tentpole *Bulgasal: Immortal Souls* available on both local cable channel tvN and Netflix. But only four episodes of the lucrative title went on the air in 4Q21, which is one of the reasons behind our tamed profit forecast for the quarter. A delayed accounting settlement for TV thriller *Jirisan* (a coproduction with local studio AStory) and special bonus pay also contributed to our reduced expectations.
- That said, 4Q21 is set to be the most profitable year-end quarter for the company as the seasonal accounting hit stemming from accelerated content amortization has disappeared thanks to its enhanced money management skills acquired via experience in carrying out big budget projects.
- It also appears to be on pace to have its best first quarter this year (OP estimated at W18.3bn, up 119% qoq and 2% yoy) given its jam-packed programming for tvN and OCN and unrealized revenue from *Jirisan* to be booked in the current quarter.

A bountiful year filled with big budget shows and streaming originals

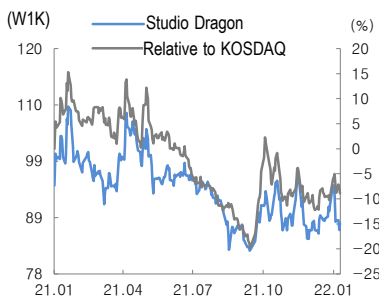
- The company is currently working on a total of 100 shows (worth W138.6bn as of 3Q21), the biggest-ever number. (And that doesn't include 20 still on the drawing board.) Of them, 34 (vs. 25 last year) are expected to reach audiences across many platforms – 14 or more on TV channels (tvN, OCN), two or three on Netflix (which should help rejuvenate the company's sagging share price), six or more on tving, and one on Disney+, iQIYI, and Apple TV+ each.
- Its first Apple TV+ original *The Big Door Prize* (a W50bn project comprised of ten 30-minute episodes) is slated to air in 2H22. If the series turns out to be a success, the company could go on to produce more seasons, while pocketing incentives and some of the rights to the show.
- It might appear the company is earning less for the amount of money it spends on producing a show, but that's due to its push into big budget projects and greater exposure to overseas sales.
- We don't see the decision of its parent CJ ENM to set up another production house as a threat, given that Studio Dragon is responsible for creating more than half of originals shows for affiliate tving (likely more than six out of a 10-plus slate this year, up from three out of five last year).

ESG rating	S	A+	A	B+	B	C	D
------------	---	----	---	----	---	---	---

KOSDAQ	991.33
Market cap (Wbn)	2,623
Market cap portion (%)	0.59
Paid-in capital (common; Wbn)	15
52w high/low (W)	109,200/ 82,300
120d avg. trading volume (Wbn)	13.9
Foreign ownership (%)	11.37

Major shareholders	CJ ENM+3: 55.92% NAVER: 6.25%
--------------------	----------------------------------

(%)	1M	3M	6M	12M
Abs. return	1.4	-0.6	-6.6	-15.7
Rel. return	3.5	-5.7	-2.5	-17.2



	4Q20	3Q21	Previous estimate	Daishin estimate	4Q21(F)			1Q22		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	138	116	136	98	-28.8	-15.6	144	151	29.0	54.2
OP	5	15	17	8	80.1	-43.0	13	18	1.3	118.1
NP	-3	15	13	7	TTB	-52.4	10	14	-7.9	103.1

Source: Studio Dragon, FnGuide, Daishin Securities Research Center

Operating results and major financial data (Wbn, W, x, %)

	2019A	2020A	2021F	2022F	2023F
Revenue	469	526	437	566	637
OP	29	49	55	80	101
Pretax profit	33	42	63	85	107
NP	26	30	47	63	79
NP (controlling int.)	26	30	47	63	79
EPS	941	1,044	1,563	2,099	2,635
PER	85.9	88.7	58.2	41.1	32.7
BPS	15,258	21,480	21,869	23,964	25,749
PBR	5.3	4.3	4.0	3.6	3.4
ROE	6.4	5.7	7.4	9.2	10.6

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

Earnings forecast revision (Wbn, W, %, %p)

	Previous		Revised		Change	
	2021F	2022F	2021F	2022F	2021F	2022F
Revenue	495	582	437	566	-11.7	-2.8
SG&A expense	29	31	31	31	5.8	0.5
OP	62	80	55	80	-12.5	-0.1
OP margin	12.6	13.8	12.5	14.2	-0.1	0.4
Non-operating OP	6	5	9	5	37.5	-1.0
Pretax profit	69	85	63	85	-8.0	-0.2
NP (contr. int.)	50	63	47	63	-5.8	-0.2
NP margin	10.1	10.8	10.7	11.1	0.7	0.3
EPS (contr. int.)	1,660	2,103	1,563	2,099	-5.8	-0.2

Source: Studio Dragon, Daishin Securities Research Center

Intrinsic value

Residual Income Model		(Wbn, W, %)									
		2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
I	NP (contr. int.) ^(Note 2)	47	63	79	87	104	121	142	166	194	227
II	Shareholders' equity (contr. int.) ^(Note 2)	656	719	773	830	899	978	1,073	1,182	1,310	1,459
	Estimated ROE	7.4	9.2	10.6	10.5	11.5	12.4	13.2	14.0	14.8	15.6
III	Required rate of return ^(Note 3)	4.4									
	Risk free rate of return ^(Note 4)	1.7									
	Market risk premium ^(Note 5)	4.0									
	Beta	0.68									
IV	Spread (estimated ROE – required rate of return)	3.0	4.7	6.2	6.1	7.1	7.9	8.8	9.6	10.4	11.1
V	Required income	27	29	32	34	37	40	43	48	52	58
VI	Residual income (I - V)	20	34	47	53	67	81	98	118	142	169
	Present value factor	1.00	0.96	0.92	0.88	0.84	0.81	0.77	0.74	0.71	0.68
	PV of residual income	20	33	43	47	56	65	76	87	100	114
VII	Sum of residual income	6,416									
VIII	PV of residual income following forecasting period	2,583									
	Terminal growth (g) ^(Note 6)	0.0%									
IX	Beginning shareholders' equity	609									
X	Fair market cap (VII+VIII+IX)	3,834									
	Total number of shares (thousands)	30,014									
XI	Per share value (W)	127,725									
	Current share price (W)	87,400									
	Potential (%)	46.1%									

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)
	2019A	2020A	2021F	2022F	2023F
Revenue	469	526	437	566	637
Cost of goods sold	421	451	352	454	502
Gross profit	48	75	85	111	135
SG&A expenses	19	26	31	31	34
OP	29	49	55	80	101
OP margin	6.1	9.3	12.5	14.2	15.8
EBITDA	146	165	211	273	320
Non-OP	4	-8	9	5	6
Income from affiliates	0	0	0	0	0
Financial revenue	10	10	15	13	14
FX related gains	0	0	0	0	0
Financial expense	-6	-14	-5	-9	-9
FX related losses	4	10	0	0	0
Others	0	-4	-1	1	1
Income before taxes	33	42	63	85	107
Income tax expense	-7	-12	-16	-22	-28
Income from cont. op.	26	30	47	63	79
Income from discount. op.	0	0	0	0	0
NP	26	30	47	63	79
NP margin	5.6	5.6	10.7	11.1	12.4
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	26	30	47	63	79
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-1	3	3	3	3
Comprehensive income	26	32	49	66	82
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	26	32	49	66	82

Valuation metrics					(W,x, %)
	2019A	2020A	2021F	2022F	2023F
EPS	941	1,044	1,563	2,099	2,635
PER	85.9	88.7	58.2	41.1	32.7
BPS	15,258	21,480	21,869	23,964	25,749
PBR	5.3	4.3	4.0	3.6	3.4
EBITDAPS	5,185	5,828	7,021	9,107	10,656
EV/EBITDA	14.9	16.3	11.7	8.8	7.2
SPS	16,698	18,532	14,570	18,851	21,217
PSR	4.8	5.0	6.0	4.6	4.1
CFPS	5,346	5,803	6,993	9,012	10,568
DPS	0	0	0	850	1,000

Financial ratios					(W,x, %)
	2019A	2020A	2021F	2022F	2023F
Growth potential					
Revenue growth	23.5	12.2	-16.8	29.4	12.5
OP growth	-28.1	71.1	11.0	46.9	26.0
NP growth	-26.3	12.1	58.3	34.4	25.5
Profitability					
ROIC	9.4	12.7	14.8	22.5	30.4
ROA	5.2	7.3	7.0	9.6	11.3
ROE	6.4	5.7	7.4	9.2	10.6
Stability					
Debt ratio	35.8	24.3	22.4	20.6	19.3
Net borrowings ratio	-24.9	-14.8	-24.5	-31.0	-40.5
Interest coverage ratio	58.1	84.8	0.0	0.0	0.0

Source: Studio Dragon, Daishin Securities Research Center

Balance sheet					(Wbn)
	2019A	2020A	2021F	2022F	2023F
Current assets	244	228	281	369	474
Cash & cash equiv.	60	49	120	181	272
Trade & other receive.	84	107	89	115	129
Inventories	0	0	0	0	0
Other current assets	101	73	73	73	73
Long-term assets	337	529	522	499	448
Tangible assets	1	8	11	14	16
Investments in affiliates	0	0	0	0	0
Other long-term assets	336	521	511	485	432
Total assets	582	757	803	868	922
Current liabilities	145	132	131	133	133
Payables & other liab.	66	57	56	57	58
Borrowings	0	0	0	0	0
Current portion of LT debts	0	0	0	0	0
Other current liabilities	79	75	75	75	75
Long-term liabilities	8	16	16	16	16
Borrowings	0	0	0	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	8	16	16	16	16
Total liabilities	153	148	147	148	149
Controlling interest	428	609	656	719	773
Capital stock	14	15	15	15	15
Capital surplus	322	470	470	470	470
Retained earnings	94	123	170	233	286
Other capital changes	-1	1	1	1	1
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	428	609	656	719	773
Net borrowings	-107	-90	-161	-223	-313

Cash flow statement					(Wbn)
	2019A	2020A	2021F	2022F	2023F
Operating cash flows	-12	5	124	136	188
NP	26	30	47	63	79
Non-cash items	124	135	163	207	238
Depreciation	117	116	156	193	219
FX gains	1	3	0	0	0
Equity method gain	0	0	0	0	0
Others	6	15	7	14	19
Chg in assets & liab.	-143	-144	-84	-126	-115
Other cash flows	-19	-15	-2	-9	-14
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	71	62	91
Beginning cash balance	153	60	49	120	181
Ending cash balance	60	49	120	181	272
NOPLAT	23	35	41	59	75
FCF	139	143	47	83	125

[Compliance Notice]

In accordance with Subparagraph 5 of Paragraph 1 of Article 4-20 of the supervisory regulations for the financial investment industry, we confirm that no information or content has been shared prior to its release on Daishin's website, and that the analyst has not received nor will receive direct or indirect compensation in exchange for expressing specific opinions. Daishin is not affiliated with the company presented in this report. This report has been presented without any undue external influence or interference, and accurately reflects the personal views of the analyst who is responsible for its content.

This report is distributed for the purpose of helping investors make informed decisions. This report has been prepared from the data and information believed to be correct and reliable, but Daishin Securities does not make any guarantee as to the accuracy thereof. Investors reading this report should make final decisions based on their own judgment.

For U.S. persons only: For U.S. persons only: This independent third party research report is a product of Daishin Securities, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This independent third-party research report is distributed in the United States ("US") to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities and Exchange Act of 1934, as amended) by Maybank Kim Eng Securities USA Inc. ("Maybank KESUSA") and Auerbach Grayson and Company LLC, broker-dealers registered in the US (registered under Section 15 of the Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Maybank KESUSA in the US shall be borne by Maybank KESUSA. All responsibility for the distribution of this report by Auerbach Grayson and Company LLC shall be borne by Auerbach Grayson and Company LLC.

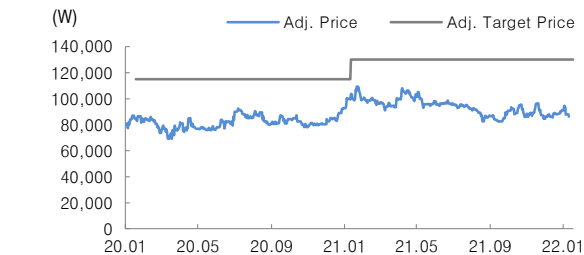
If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Daishin Securities has entered into an agreement with two U.S. registered broker-dealers, Maybank Kim Eng Securities USA Inc and Auerbach Grayson and Company LLC. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security mentioned within must do so with: Maybank Kim Eng Securities USA Inc. 400 Park Avenue 11th Floor New York, New York 1- (212) 688-8886 or Auerbach Grayson and Company LLC 25 West 45th Street, New York, NY 10036 and not with the issuer of this report.

Analyst Certification of Independence

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	22.01.13	21.07.12	21.01.12	20.07.19	20.01.19
Rating	Buy	6M passed	Buy	6M passed	Buy
Target price	130,000	130,000	130,000	115,000	115,000
Diff. (avr. %)		(31.36)	(24.22)	(26.62)	(30.22)
Diff. (max./min., %)		(25.85)	(16.00)	(9.83)	(19.57)

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 (Jan 9, 2022)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	92.9%	7.1%	0.0%

- 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.