

Korea Equity Research
Entertainment/Media

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Buy (maintain)

Target price	KRW 135,000
Current price	KRW 79,900

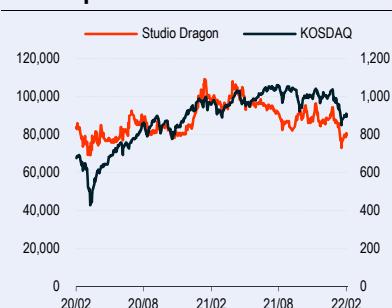
Relative to consensus

Beat	Match	Miss
		●

Stock data

KOSDAQ (Feb 10)	895.68
Market cap (KRW bn)	2,398
Shares outstanding ('000)	30,014
52-week high/low (KRW)	108,000 / 73,100
90-day avg daily T/O (KRW bn)	12.4
Foreign ownership	10.8%
Dividend yield (21.12E)	0.0%
BPS (21.12E) (KRW)	17,814
Price relative to KOSDAQ	1M -0.6%
	6M 2.6%
	12M 1.2%

Shareholders	CJ ENM (& 4 others)	54.9%
	NAVER (& 1 other)	6.3%
	Kim Young-gyu (& 1 other)	0.0%

Stock price


Studio Dragon (253450.KS)

Hoping for a turnaround in 2022

More than 13 out of 32 dramas in 2022 to air on OTTs

Studio Dragon reported lower-than-expected revenue of KRW147.9bn (+7.4% YoY) and operating profit of KRW6.3bn (+38% YoY) for 4Q21. Top line expanded on the back of a favorable YoY base and programming of diverse genre dramas. Programming revenue jumped 31% YoY to KRW53.2bn led by *Jirisan* and a fantasy drama *Bulgasal: The Immortal*. Distribution revenue dipped 7.5% YoY to KRW79.8bn, with three original series helping to offset fewer OTT pre-buys. Total cost rose 6.3% YoY to KRW141.6bn on increased cost of production for *Jirisan* and OTT originals. With more OTTs vying for Korean content in 2022, we expect Studio Dragon to bolster top and bottom lines with: 1) an increase in drama lineup to 32 series (+7); 2) higher distribution prices; and 3) growing global sales.

Maintain Buy and KRW135,000 price target

In 2021, Korean production companies' competitiveness improved up a notch as the appeal of Korean media content was more widely recognized globally. Studio Dragon is the owner of the biggest content library among Korean producers but its OTT-bound sales have fallen somewhat short of its reputation. This year will likely be different, however, as the company moves to: 1) increase the number of dramas to 32 titles; 2) export its drama IP to Hollywood (for remakes and local productions); and 3) produce original series in collaborations with global OTTs such as Apple TV (to be launched in Korea in 2Q22), Netflix and Disney+. It also plans to provide original content to TVING, a Korean OTT. Its plan is to cement market leadership by building a rich lineup of original content. In our view, Studio Dragon is the only Korean production firm with the financial capability to produce a number of popular and quality dramas. More aggressive programming and productions this year when the industry cycle turns upward should provide a strong stock catalyst, in our view.

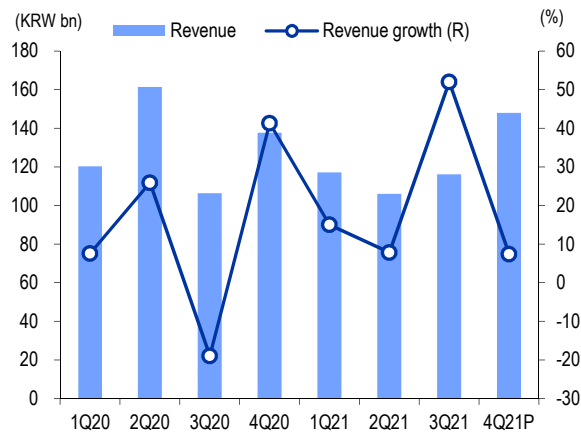
Financial data

(KRW bn)	2019	2020	2021P	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	52.6	43.0	39.5
P/B (x)	5.3	5.0	4.5	4.1	3.7
EV/EBITDA (x)	14.9	12.2	17.0	18.9	20.5
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

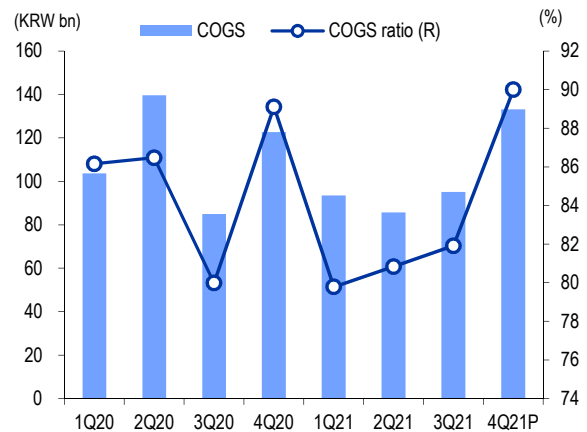
Source: Company data, eBEST Investment & Securities Research

Fig 1 Revenue and revenue growth



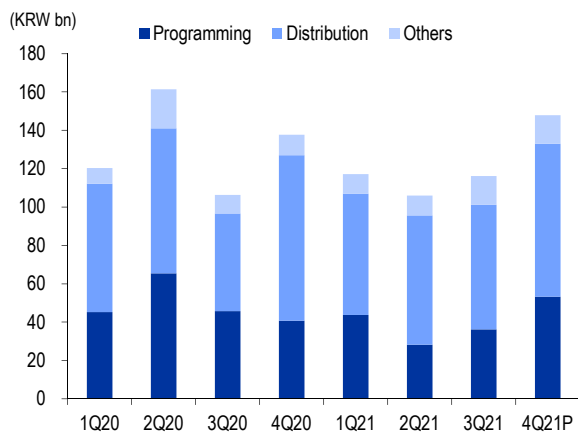
Source: Company data, eBEST Investment & Securities Research

Fig 2 COGS rises due to production cost hikes



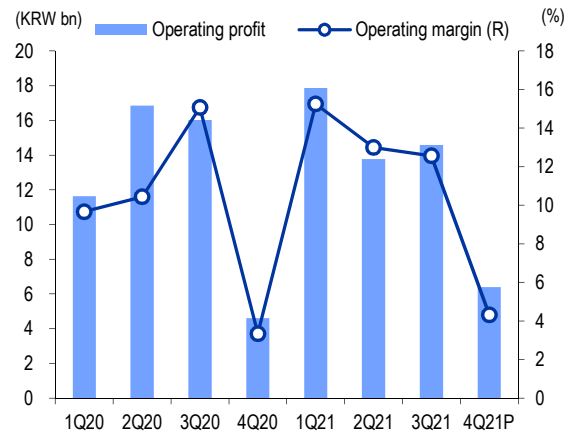
Source: Company data, eBEST Investment & Securities Research

Fig 3 Programming and distribution revenue rebounds in 4Q21



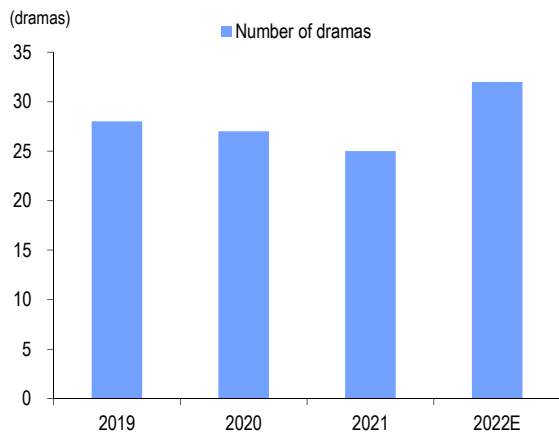
Source: Company data, eBEST Investment & Securities Research

Fig 4 Higher production cost weighs on margin



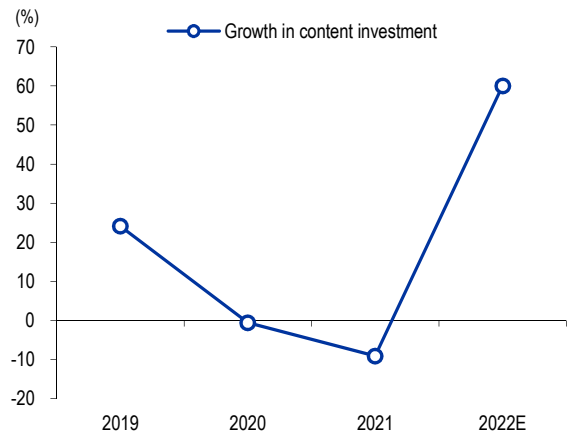
Source: Company data, eBEST Investment & Securities Research

Fig 5 Number of dramas in 2022 to increase to 32 (+7)



Source: Company data, eBEST Investment & Securities Research

Fig 6 Investment in content go surge 60% YoY in 2022E











Source: Company data, eBEST Investment & Securities Research

Fig 7 Earnings trend and forecasts

(KRW bn,%)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21P	2020	2021P	2022E
Revenue	120	161	106	138	117	106	116	148	526	487	560
YoY (%)	7.6	25.9	-19	41.3	15	7.8	52	7.4	12.2	-7.3	15
QoQ (%)	23.5	34.2	-34.2	29.6	-15	-9.5	9.5	27.4			
Programming	45.2	65.4	45.7	40.7	43.8	28.2	36.2	53.2	197	161	249
Distribution	66.9	75.7	50.9	86.3	63.2	67.5	64.9	79.8	280	276	269
Others	11.5	9.8	10.4	8.9	8.2	20.3	9.7	10.7	48.9	50.2	42.8
COGS	104	140	85	123	93.4	85.7	95.1	133	451	407	475
COGS (%)	86.2	86.5	80	89.1	79.8	80.8	81.9	90	85.8	83.6	84.7
Operating profit	11.6	16.9	16	4.6	17.9	13.8	14.6	6.4	49.1	52.6	62.2
Operating margin (%)	0.97	1.04	1.51	0.33	1.53	1.3	1.26	0.43	0.93	1.08	0.72
YoY (%)	5.5	56.3	46.8	TB	53.5	-18.3	-8.9	38.8	71.1	7.1	18.2
QoQ (%)	TB	44.9	-5	-71.2	287.5	-22.9	5.9	-56.1			
Net profit	8.5	13.4	10.6	-2.9	15.6	9.5	14.8	-0.8	29.6	39	45.3
Net margin (%)	7.1	8.3	10.0	-2.1	13.3	8.9	12.8	-0.5	5.6	8.0	8.1

Source: Company data, eBEST Investment & Securities Research

Fig 8 1Q22 drama lineup

 <p>〈Bulgasal: The Immortal〉</p> <p>Distributor: tvN, Netflix Date (#, of episodes): Dec. 18~Feb. 6 (16) Writer / Director: Kwon Sora, Seo Jae-Won/Jang Yeong-Woo Main Cast: Lee Jin-Wook, Kwon Nara</p>	 <p>〈Bad and Crazy〉</p> <p>Distributor: iQIYI, tvN Date (#, of episodes): Dec. 17~Jan. 28 (12) Writer / Director: Kim Sae-Born/ You Seon-Dong Main Cast: Lee Dong-Wook, Wi Ha-Joon</p>	 <p>〈Ghost Doctor〉</p> <p>Distributor: tvN Date (#, of episodes): Jan. 3~Feb. 22 (16) Writer / Director: Kim Eun-Hee/ Boo Seong-Cheol Main Cast: Jeong Ji-Hoon, Uee</p>	 <p>〈Twenty Five Twenty One〉</p> <p>Distributor: tvN, Netflix Date (#, of episodes): Feb. 12~April. 3 (16) Writer / Director: Kwon Do-Eun/Jeong Ji-Hyeon Main Cast: Kim Tae-Ri, Nam Joo-Hyuk</p>
 <p>〈Military Prosecutor Doberman〉</p> <p>Distributor: tvN Date (#, of episodes): Feb. 28~ Apr. 26 (16) Writer / Director: Yoon Hyun-Ho/ Jin Chang-Gyu Main Cast: Ahn Bo-Hyun, Jo Bo-Ah</p>	 <p>〈King of Pigs〉</p> <p>Distributor: TVing Date (#, of episodes): Mar. 18~Apr. 22 (12) Writer / Director: Tak Jae-Young/ Kim Dae-Jin Main Cast: Kim Dong-Wook, Kim Sung-Kyu</p>	 <p>〈Superior Day〉</p> <p>Distributor: OCN Date (#, of episodes): Mar. 13~ May. 1 (8) Writer / Director: Lee Ji-Hyeon/ Jo Nam-Hyeong Main Cast: Jin Goo, Ha Do-Kwon</p>	 <p>〈Juvenile Justice〉</p> <p>Distributor: Netflix Date (#, of episodes): Feb.25 (10) Writer / Director: Kim Min-Seok/ Hong Jong-Chan Main Cast: Kim Hye-Soo, Kim Mu-Yeol</p>

Source: Company data, eBEST Investment & Securities Research

Studio Dragon (253450.KS) financial statements

Balance sheet

(KRW bn)	2019	2020	2021P	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	2021P	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	2021P	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	2021P	2022E	2023E
Valuation (x)					
P/E	85.9	77.3	52.6	43.0	39.5
P/B	5.3	5.0	4.5	4.1	3.7
EV/EBITDA	14.9	12.2	17.0	18.9	20.5
P/CF	15.1	14.1	19.6	23.8	27.3
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	-	-	-	-	-

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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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	93.1%	Based on the investment ratings of the companies within our coverage from Jan 1 to Dec 31, 2021 (renewed every quarter)
Hold	6.9%	
Sell	-	
Total	100.0%	