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**Maintain BUY but lower TP by 5.5% to KRW120,000**

We maintain BUY on Studio Dragon but lower our TP by 5.5% to KRW120,000. Our TP was derived using the DCF model (7.74% COE; 7.74% WACC; 2.0% TGR) and represents 15.2x 12m fwd implied EV/EBITDA.

**Positive revenue growth despite delayed Distribution revenue recognition**

Studio Dragon posted 4Q21 revenue of KRW147.9bn (+7.4% YoY, +27.4% QoQ) and OP of KRW6.3bn (+37.6% YoY, -56.5% QoQ). While revenue exceeded the market consensus by 16.7%, OP missed by 33.6%. Massive growth in Programming revenue (+30.7% YoY) was attributable to scaling up to blockbuster series such as *Jirisan* (2021) and *Bulgasal: Immortal Souls* (2021). Meanwhile, Distribution revenue declined 7.5% YoY on delayed revenue recognition for some programs (incl. *Jirisan*), resulting in disappointing OP.

**Biggest blockbuster planned for this year; shrinkage in captive demand no longer serious concern**

This year's growth potential is high. Studio Dragon plans to broadcast 32 programs, which is seven more than last year. This will greatly expand OTT service, as 13 out of 32 planned are for OTT (19 for TV). In 2021, despite the thriving OTT market amid the pandemic, the no. of programs produced was below expectations. This year, however, is encouraging, as the company is set to expand services to Tving, Netflix, iQiyi and Apple TV. Additional contracts may be won from Japan and the U.S. this year. While CJ ENM's multi-studio strategy posed a potential risk, shrinkage in captive demand is no longer a serious concern, as Tving announced plans for aggressive investments.

**High sales growth to bolster earnings**

We forecast 2022 revenue of KRW651.1bn (+33.7% YoY) and OP of KRW90.0bn (+71.2%

### Buy Maintain

<b>Target Price (Lowered)</b>	<b>KRW120,000</b>
Dividend yield*	0.0%
Total return	50.2%
Current price (Feb 10)	KRW79,900
Consensus target price	KRW127,667
Market capitalization	USD2.0bn
* 12-month forward	

#### Earnings Forecast & Valuation

Fiscal year-end	2020A	2021E	2022E	2023E
Revenue (KRWbn)	526	590	651	755
OP (KRWbn)	49	55	90	110
NP to control. int. (KRWbn)	30	39	65	81
EPS (KRW)	1,044	1,294	2,169	2,707
EPS growth (%)	10.9	23.9	67.6	24.8
P/E (x)	88.7	70.3	36.8	29.5
EV/EBITDA (x)	16.3	15.2	10.2	9.6
P/B (x)	4.6	4.2	3.2	2.9
ROE (%)	5.7	6.2	9.3	10.2
Div. yield (%)	N/A	0.0	0.0	0.0

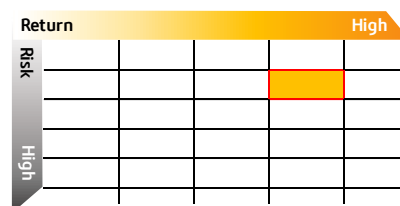
#### Trading Data

Free float	45.1%
Avg. T/O val. (3m, KRWbn)	12.5
Foreign ownership	10.8%
Major shareholders	CJ ENM and 3 others 54.9%
	Naver 6.3%

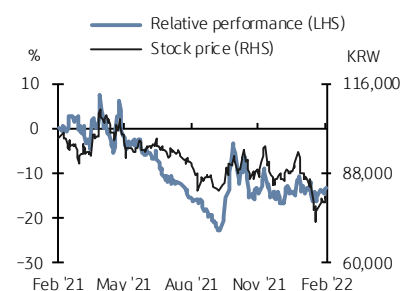
#### Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	-9.2	-8.2	-12.3	-19.1
Relative	-0.6	0.9	2.6	-13.3

#### Risk & Total Return (annualized over three years)



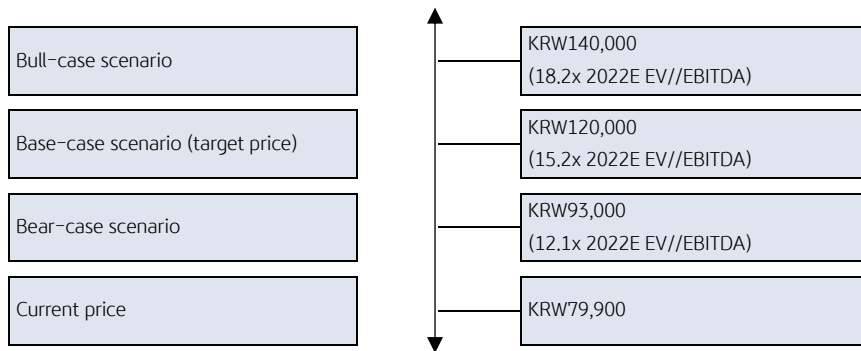
#### Stock Price & Relative Performance



Source(s): Company data, KB Securities

YoY). An increase in no. of productions and growing overseas demand should bolster total no. of programs and sales by 20.0% and 43.6%, respectively. High expectations for the company's content relative to peers bodes well for sales growth/profitability.

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) 2022E Distribution revenue +43.6% YoY
- 2) 2022E Programming with 32 works

### Bull-case scenario: Upside risks

- 1) 2022E Distribution revenue over +50% YoY
- 2) 2022E Programming with over 35 works

### Bear-case scenario: Downside risks

- 1) 2022E Distribution revenue under 30% YoY
- 2) 2022E Programming with under 27 works

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2022E	2023E	2022E	2023E	2022E	2023E
Revenue	630.3	657.0	651.1	755.1	3.3	14.9
OP	91.1	109.0	90.0	109.7	-1.2	0.6
NP (to control. int.)	70.4	83.0	65.0	81.2	-7.6	-2.2

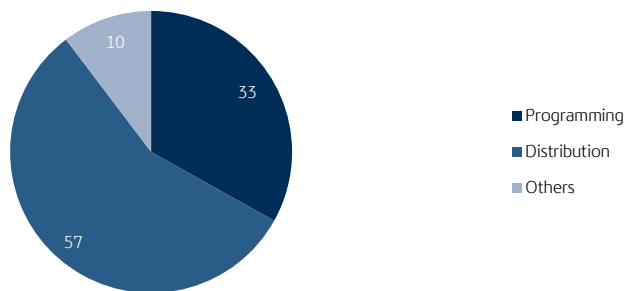
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2022E	2023E	2022E	2023E	2022E	2023E
Revenue	651.1	755.1	597.2	679.1	9.0	11.2
OP	90.0	109.7	80.4	96.8	12.0	13.3
NP (to control. int.)	65.0	81.2	67.0	80.2	-2.9	1.3

Source(s): FnGuide, KB Securities estimates

## Revenue Composition (2022E)



Source(s): KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
Target market cap of KRW3.5tn
- 3) Target price range:  
KRW93,000 – KRW140,000
- 4) Valuation at target price:  
15.2x 2022E EV/EBITDAE

## Earnings Sensitivity Analysis

(%)	EPS Change	
	2022E	2023E
+1pp in interest rate	+2.1	+2.1
+1% in FX rate	+0.4	+0.4

## Peer Group Comparison

(KRWbn, x, %)	Market Cap	Fwd P/E	5y EPS CAGR	12m fwd P/B	12m fwd EV/EBITDA	5y EBITDA CAGR
Studio Dragon	2,398.1	34.7	N/A	3.2	9.9	N/A
Jcontentree	980.7	41.5	N/A	4.7	14.0	-0.8
CJ ENM	2,901.2	11.8	(11.8)	0.7	3.9	9.0
Netflix	219,032.8	33.6	90.4	8.9	21.3	73.1

Source(s): Bloomberg consensus, FnGuide, KB Securities estimates

Table 1. 4Q21 Earnings (consolidated)

(KRWbn, %, pp)	4Q21P	3Q21	QoQ	4Q20	YoY	KB Estimates	Diff.	Consensus	Diff.
Revenue	147.9	116.1	27.4	137.7	7.4	150.2	(1.5)	126.7	16.7
OP	6.3	14.6	(56.5)	4.6	37.6	12.6	(49.5)	9.6	(33.6)
OPM	4.3	12.6	(8.3)	3.3	0.9	8.4	(4.1)	7.5	(3.3)
NP (to control, int.)	(0.8)	14.8	TTR	(2.9)	RR	12.8	TTR	7.8	TTR
NPM	(0.5)	12.8	(13.3)	(2.1)	1.6	8.5	(9.0)	6.1	(6.7)

Source(s): Quantiwise, KB Securities estimates

Note: RR=remain in red, TTR=turn to red

Table 2. Earnings Forecast (consolidated)

(KRWbn)	1Q21	2Q21	3Q21	4Q21P	1Q22E	2Q22E	3Q22E	4Q22E	2020	2021P	2022E	2023E
Revenue	117.1	106.0	116.1	147.9	149.2	142.2	157.7	201.9	525.7	487.1	651.1	755.1
(% QoQ)	(15.0)	(9.5)	9.5	27.4	0.9	(4.7)	10.9	28.0	-	-	-	-
(% YoY)	(2.7)	(34.3)	9.2	7.5	27.4	34.1	35.9	36.5	12.2	(7.3)	33.7	16.0
Programming	43.8	28.2	36.2	53.2	52.5	33.2	41.7	66.2	197.0	161.3	193.6	228.6
Distribution	63.2	67.5	64.9	79.8	82.8	94.6	99.2	119.0	279.7	275.5	395.7	463.0
Other	10.1	10.3	15.0	14.9	13.9	14.4	16.8	16.7	49.0	50.3	61.7	63.6
Operating expenses	99.2	92.2	101.5	141.6	125.4	121.8	136.2	177.6	476.6	434.5	561.1	645.5
(% QoQ)	(25.4)	(7.1)	10.1	39.4	(11.4)	(2.9)	11.9	30.4	-	-	-	-
(% YoY)	(8.7)	(36.2)	12.5	6.4	26.4	32.0	34.2	25.5	8.3	(8.8)	29.1	15.0
Operating profit	17.9	13.8	14.6	6.3	23.7	20.4	21.5	24.3	49.1	52.6	90.0	109.7
(% QoQ)	287.6	(22.8)	5.6	(56.5)	274.3	(13.9)	5.3	12.8	-	-	-	-
(% YoY)	53.6	(18.2)	(9.0)	37.6	32.9	48.2	47.8	282.8	71.1	7.0	71.2	21.8
OPM (%)	15.3	13.0	12.6	4.3	15.9	14.4	13.6	12.0	9.3	10.8	13.8	14.5
NP (to control, int.)	15.6	9.5	14.8	(0.8)	18.4	16.3	18.0	12.3	29.6	39.0	65.0	81.2
(% QoQ)	TTB	(39.2)	56.4	TTR	TTB	(11.5)	10.3	(31.3)	-	-	-	-
(% YoY)	82.2	(29.1)	39.6	RR	18.4	72.1	21.3	TTB	12.1	31.8	66.5	24.8
NPM (%)	13.3	8.9	12.8	(0.5)	12.3	11.5	11.4	6.1	5.6	8.0	10.0	10.7

Source(s): Company data, KB Securities estimates

Note: RR=remain in red, TTB=turn to black, TTR=turn to red

Table 3. Earnings Estimate Revisions

(KRWbn, %, pp)	2022E					2023E				
	Revised	Previous	Change	Consensus	Diff.	Revised	Previous	Change	Consensus	Diff.
Revenue	651.1	630.3	3.3	597.2	9.0	755.1	657.0	14.9	679.1	11.2
OP	90.0	91.1	(1.2)	80.4	12.0	109.7	109.0	0.6	96.8	13.3
OPM	13.8	14.5	(0.6)	13.5	0.4	14.5	16.6	(2.1)	14.3	0.3
NP (to control, int.)	65.0	70.4	(7.6)	67.0	(2.9)	81.2	83.0	(2.2)	80.2	1.3
NPM	10.0	11.2	(1.2)	11.2	(1.2)	10.7	12.6	(1.9)	11.8	(1.1)

Source(s): Quantiwise, KB Securities estimates

**Table 4. Target Price Calculation: Discounted Cash Flow Model**

(KRWbn, %, '000 shares, KRW)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
<b>Cash flow projection</b>										
Adj. FCF	153.4	169.5	219.1	211.4	220.2	228.0	233.9	237.2	241.0	218.3
FCFF	152.1	162.9	220.3	210.4	219.3	227.3	233.5	236.9	240.2	246.6
NOPLAT	67.5	82.3	91.9	99.7	106.7	112.2	115.4	118.9	122.5	126.1
(+) Depreciation & amortization	136.3	125.3	125.0	124.9	124.8	124.7	124.7	124.7	124.7	123.0
(-/+ ) Changes in working capital	110.1	147.8	143.1	156.0	166.9	175.2	180.4	185.8	191.3	197.0
(-) Capital expenditure	-6.0	-6.0	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-5.0
(-) Others	-155.8	-186.4	-135.3	-165.7	-174.6	-180.3	-182.5	-188.0	-193.7	-213.1
<b>PV of cash flow</b>										
WACC	7.74									
Discount	1.00	0.93	0.86	0.80	0.74	0.69	0.64	0.59	0.55	0.51
<b>PV of cash flow</b>	<b>153.4</b>	<b>157.4</b>	<b>188.8</b>	<b>169.0</b>	<b>163.4</b>	<b>157.0</b>	<b>149.5</b>	<b>140.8</b>	<b>132.7</b>	<b>111.6</b>
Terminal growth	2.0									
Terminal value	3,876.7									2031E FCFF / (WACC - TGR)
<b>PV of terminal value</b>	<b>1,981.5</b>									7.74% WACC (1.37% risk-free rate; 7.16% market risk premium)
<b>Valuation</b>										
EV	3,505.0									
(-) Net debt	(64.6)									Net cash
<b>Fair EV</b>	<b>3,570</b>									
No. of shares	30,004									
<b>Target price</b>	<b>120,000</b>									
Current price	79,900									Feb 10, 2022
Upside	50.2									

Source(s): KB Securities estimates

**Table 5. Target Price Sensitivity to WACC & TGR**

(KRW)		TGR (%)								
		1.2	1.4	1.6	1.8	2.0	2.2	2.4	2.6	2.8
WACC (%)	7.14	120,727	123,182	125,814	128,644	131,693	134,989	138,563	142,452	146,700
	7.34	117,076	119,337	121,756	124,349	127,137	130,141	133,388	136,910	140,741
	7.54	113,654	115,741	117,969	120,352	122,907	125,653	128,613	131,812	135,282
	7.74	110,440	112,370	114,427	116,622	118,970	121,487	124,193	127,109	130,261
	7.94	107,415	109,204	111,107	113,133	115,295	117,609	120,089	122,755	125,628
	8.14	104,563	106,225	107,988	109,862	111,859	113,989	116,269	118,712	121,339
	8.34	101,870	103,416	105,053	106,790	108,637	110,604	112,704	114,949	117,357

Source(s): Quantwise, KB Securities estimates

Table 6. WACC Revision

(KRWbn, %)	Previous (Aug 5, 2021)	Revised Feb 10, 2022)	Notes
COE (A) = a + b x c	7.41	7.74	
Risk-free rate (a)	0.79	1.37	Avg. 1y MSB yield (last three months)
Adj. beta (b)	0.90	0.89	Adj. beta
Risk premium (c = d - e)	7.36	7.16	
Market (d)	10.97	10.61	2001-21 annual avg. WMI500 total return
Risk-free rate (e)	3.61	3.45	2001-21 avg. 1y MSB total return
COD (B)	1.45	2.00	
Fair EV	Fair EV	3,570	Value of shares outstanding implied by TP
Debt	-90.0	-90.0	Net debt
Weight of equity (f)	100.00	100.00	As of 2021
Weight of debt (g)	0.00	0.00	
(KRWbn, %)	7.41	7.74	

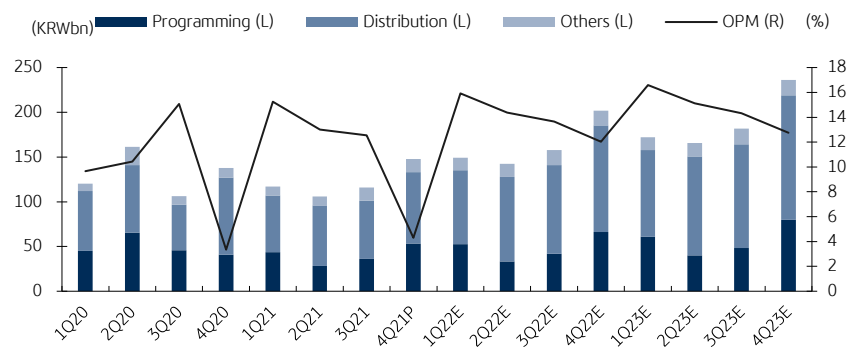
Source(s): KB Securities estimates

Table 7. EV/EBITDA Valuation (Reference)

(KRWbn, %, '000 shares, KRW)	Value	Notes
2022E EBITDA	226.3	
Target EV/EBITDA (X)	15.2	A 20% discount to 2022E avg. EV/EBITDA of Netflix and Disney
EV	3,431	
(-) Net Cash	-64.60	Net Cash
Fair EV	3,495.3	
No. of shares	30,004	Fully diluted
Target price	120,000	
Current price	79,900	
Upside	50.2%	

Source(s): KB Securities estimates

Fig 1. Revenue &amp; OPM



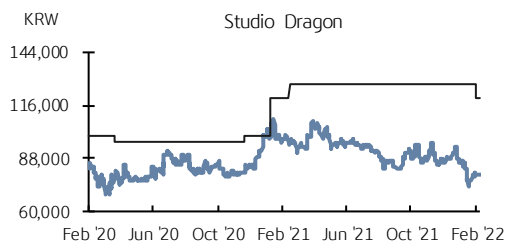
Source(s): Company data, KB Securities estimates

Income Statement						Statement of Financial Position					
(KRWbn)	2019A	2020A	2021E	2022E	2023E	(KRWbn)	2019A	2020A	2021E	2022E	2023E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	469	526	590	651	755	Total assets	582	757	813	935	1,016
Cost of revenue	421	451	506	529	609	Current assets	245	228	275	310	402
Gross profit	48	75	84	123	146	Cash and cash equivalents	60	49	87	81	146
SG&A expenses	19	26	29	32	36	Current financial assets	57	52	58	16	16
Operating profit	29	49	55	90	110	Trade receivables	84	107	107	161	189
EBITDA	146	165	170	226	235	Inventory	0	0	0	0	0
Non-operating accounts	4	-8	-4	-3	-1	Other current assets	44	21	23	51	51
Interest income	3	2	2	12	15	Non-current assets	337	529	538	625	614
Interest expenses	0	1	1	11	11	Investment assets	13	180	180	258	258
Profit on equity method	0	0	0	0	0	Property, plant and equipment	1	8	6	10	11
Net other non-operating income	1	-9	-6	-5	-5	Intangible assets	233	230	242	247	235
Profit before tax	33	42	51	87	108	Other non-current assets	89	111	111	109	109
Income tax expense	7	12	12	22	27	Total liabilities	153	148	165	182	182
Net profit	26	30	39	65	81	Current liabilities	145	132	148	169	169
NP attributable to controlling interests	26	30	39	65	81	Trade payables	18	6	7	8	8
Adj. net profit	26	30	39	65	81	Short-term financial liabilities	2	2	3	5	5
						Other current liabilities	125	124	139	156	156
						Non-current liabilities	8	16	17	13	13
						Non-current financial liabilities	8	8	8	10	10
						Other non-current liabilities	0	8	9	3	3
						Total equity	428	609	648	753	834
						Issued capital	14	15	15	15	15
						Share premium	322	470	470	470	470
						Other equity interest	0	0	0	0	0
						Accumulated other comprehensive income	-1	2	2	41	41
						Retained earnings	94	123	162	227	308
						Controlling interests	428	609	648	753	834
						Non-controlling interests	0	0	0	0	0
Operating Statistics & Ratios						Key Ratios					
(%)	2019A	2020A	2021E	2022E	2023E	(x, %, KRW)	2019A	2020A	2021E	2022E	2023E
Revenue growth	23.5	12.2	12.2	10.4	16.0	Multiples					
OP growth	-28.1	71.2	12.2	63.4	21.8	P/E	85.9	88.7	70.3	36.8	29.5
EBITDA growth	26.4	13.6	3.1	32.8	3.8	P/B	5.3	4.6	4.2	3.2	2.9
NP growth of parent	-26.3	12.1	31.1	67.6	24.8	P/S	4.8	5.0	4.6	3.7	3.2
GP margin	10.2	14.2	14.2	18.8	19.3	EV/EBITDA	14.9	16.3	15.2	10.2	9.6
OP margin	6.1	9.3	9.3	13.8	14.5	EV/EBIT	75.5	54.7	47.1	25.7	20.5
EBITDA margin	31.1	31.5	28.9	34.8	31.1	Dividend yield, ordinary (%)	N/A	N/A	0.0	0.0	0.0
EBT margin	7.1	7.9	8.6	13.3	14.4	EPS	941	1,044	1,294	2,169	2,707
NP margin of parent	5.6	5.6	6.6	10.0	10.8	BVPS	15,242	20,309	21,596	25,087	27,793
						SPS	16,698	18,532	19,653	21,692	25,159
						DPS (annual, ordinary)	0	0	0	0	0
						Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
						Operating performance					
						ROE	6.4	5.7	6.2	9.3	10.2
						ROA	4.8	4.4	4.9	7.5	8.3
						ROIC	5.7	6.9	6.7	9.6	10.2
						Financial structure (%)					
						Total liab./equity	35.8	24.3	25.5	24.1	21.8
						Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
						Current ratio	1.7	1.7	1.9	1.8	2.4
						Interest coverage (x)	58.1	84.8	95.1	8.5	9.9
						Activity ratios					
						Asset turnover (x)	0.9	0.8	0.8	0.8	0.8
						Receivables turnover (x)	6.2	5.5	5.5	4.9	4.3
						Payables turnover (x)	24.7	43.2	94.0	91.1	98.5
						Inventory turnover (x)	0.0	0.0	0.0	0.0	0.0

Source(s): Company data, KB Securities estimates

## Disclosures

### Rating & Target Price Changes (Share price —, Target Price —)



#### Studio Dragon (253450)

Date	Rating	Analyst	TP Differential (%)		
			(KRW)	Avg.	Max/Min
Jan-03-2020	Buy	Danny Lee	100,000	-16.00	
Feb-14-2020	Buy	Danny Lee	100,000	-23.50	-16.10
Mar-30-2020	Buy	Danny Lee	97,000	-15.46	-4.64
Nov-30-2020	Buy	Danny Lee	100,000	-9.63	3.70
Jan-18-2021	Buy	Danny Lee	120,000	-15.59	-9.00
Feb-23-2021	Buy	Danny Lee	127,000	-27.54	-14.96
Feb-11-2022	Buy	Danny Lee	120,000		

### Classification of Investment Ratings

#### Stock Ratings (based on expected 12m performance)

Buy: +15% or beyond    Hold: Between 15% and -15%    Sell: -15% or beyond

Note: Classification revised from four ratings (Strong BUY, BUY, Marketperform, Underperform) to three (Buy, Hold, Sell) as of Feb 23, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

#### Ratings Distribution (as of December 31, 2021)

Buy	Hold	Sell
82.2	17.8	-

Note: Based on recommendations in the last 12 months

#### Sector Ratings (based on expected 12m performance)

Positive:	Neutral:	Negative:
To outperform market	To perform in line with market	To underperform market

Note: Classification revised from Overweight/Neutral/Underweight to Positive/Neutral/Negative as of Jun 28, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

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