

# A bountiful year ahead

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

- Studio Dragon is forecast to display revenue of W120bn (down 18% qoq; up 4% yoy) and OP of W18.1bn (up 185% qoq; up 1% yoy) for the most recent quarter.
- In 1Q22, it provided five dramas to local cable channels and two original shows for streaming platforms - one for affiliate tvng (*The king of Pigs*) and the other for Netflix (*Juvenile Justice*).
- The number of episodes that went on the air dwindled to 77 in that quarter (down by 16 qoq and by 17 yoy), but that was offset by a boost from lucrative Netflix titles and payment for TV thriller *Jirisan* aired last year.
- OP is projected to average W17bn-W18bn per quarter this year, up from W15bn in 2020-2021 and W11bn in 2019. The figure might top W20bn should the company clinches more deals for big-budget dramas or original shows.
- 1Q22 OP margin is forecast at 14.6% vs. 4.3% in 4Q21 and 15.3% in 1Q21. Full-year figure is forecast at 15.4%, up from 10.8% last year.

- Studio Dragon has secured deals to produce a total of 32 shows this year (nine more than last year) – 19 for cable affiliates tvN and OCN, and 13 for streaming services including tvNing (six), Netflix (three), Disney (two), iQiyi (one), and Apple TV+ (one). With negotiations for this year's lineup still underway, more streaming businesses (two or more) may be on the way.
- Chances are high that the company will renew contract with Netflix on more favorable terms (e.g. higher premiums, ad revenue-sharing agreement). Under the current contract lasting from January 2020 to December 2022, Studio Dragon provides seven shows and a couple of shows exclusively for the streaming giant.
- The company will also likely work more closely with Disney+, arrived in Korea in November last year, providing for both original (2-3) and non-original shows as well as reruns.
- Concerns over a potential threat from CJ ENM Studios, another production house under the CJ media group, are gone now as it largely focuses on non-captive businesses and IP developments. Studio Dragon is responsible for creating more than half of originals shows for affiliate tvN (likely more than six out of a 10-plus slate this year, up from three out of five last year).
- Its first Apple TV+ original *The Big Door Prize* is slated to reach audience in 2H22. If the W50bn project 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

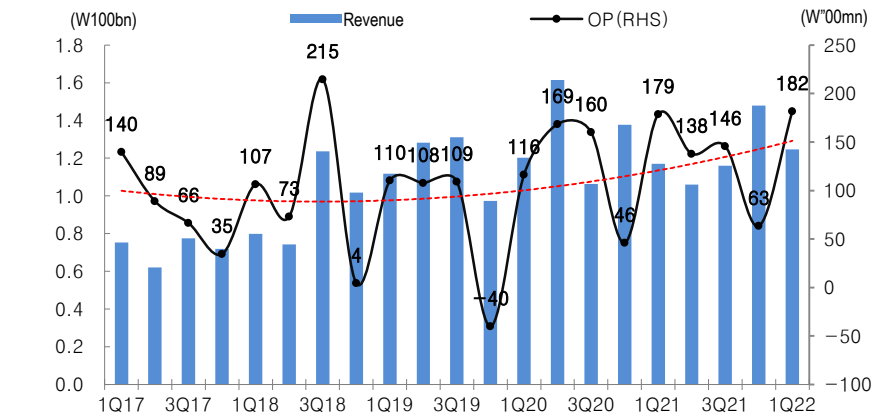
|         | (W/bn, %) |      |                   |                  |      |       |           |                  |      |      |
|---------|-----------|------|-------------------|------------------|------|-------|-----------|------------------|------|------|
|         |           |      | 1Q22(F)           |                  |      |       |           | 2Q22             |      |      |
|         | 1Q21      | 4Q21 | Previous estimate | Daishin estimate | YoY  | QoQ   | Consensus | Daishin estimate | YoY  | QoQ  |
| Revenue | 117       | 148  | 125               | 125              | 6.4  | -15.8 | 135       | 200              | 88.8 | 60.7 |
| OP      | 18        | 6    | 12                | 18               | 1.9  | 186.9 | 19        | 20               | 43.5 | 8.8  |
| NP      | 16        | -1   | 10                | 15               | -5.0 | TTB   | 16        | 16               | 68.6 | 8.0  |

Source: Studio Dragon, FnGuide, Daishin Securities Research Center

| Operating results and major financial data                          |        |        |        |        | (Wbn, W, x, %) |
|---|--------|--------|--------|--------|----------------|
|   | 2020A  | 2021A  | 2022F  | 2023F  | 2024F          |
| Revenue   | 526    | 487    | 591    | 637    | 679            |
| OP  | 49     | 53     | 91     | 112    | 131            |
| Pretax profit   | 42     | 52     | 98     | 120    | 138            |
| NP  | 30     | 39     | 73     | 89     | 102            |
| NP (controlling int.)   | 30     | 39     | 73     | 89     | 102            |
| EPS   | 1,044  | 1,301  | 2,416  | 2,953  | 3,414          |
| PER   | 88.7   | 69.9   | 37.9   | 31.0   | 26.8           |
| BPS   | 21,480 | 22,790 | 25,200 | 28,153 | 31,567         |
| PBR   | 4.3    | 4.0    | 3.6    | 3.2    | 2.9            |
| ROE   | 5.7    | 6.0    | 10.1   | 11.1   | 11.4           |
| Note: EPS, BPS, and ROE are based only on the controlling interest. |        |        |        |        |                |
| Source: Studio Dragon, Daishin Securities Research Center           |        |        |        |        |                |

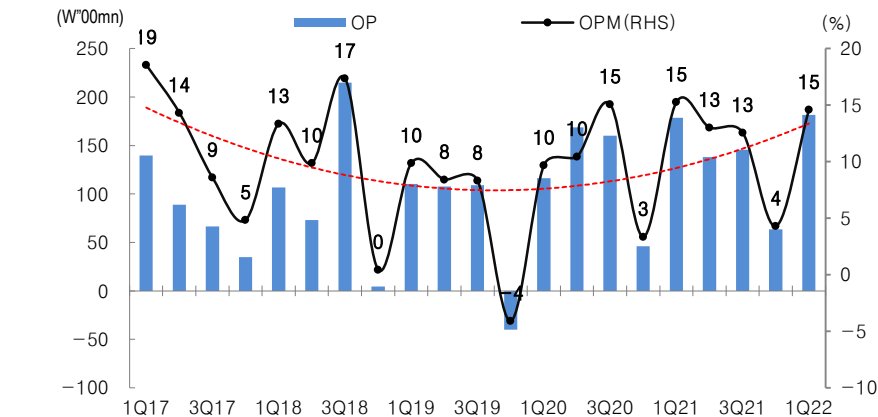
| Yearly earnings forecast revision                         |          |       |         |       | (Wbn, W, %, %p) |       |
|---|----------|-------|---------|-------|-----------------|-------|
|   | Previous |       | Revised |       | Chg             |       |
|   | 2022F    | 2023F | 2022F   | 2023F | 2022F           | 2023F |
| Revenue   | 570      | 638   | 591     | 637   | 3.7             | -0.2  |
| SG&A expense  | 33       | 35    | 29      | 31    | -10.4           | -10.6 |
| OP  | 88       | 116   | 91      | 112   | 3.1             | -2.9  |
| OP margin   | 15.5     | 18.1  | 15.4    | 17.6  | -0.1            | -0.5  |
| Non-operating profit                                      | 7        | 8     | 7       | 8     | 0.0             | 0.0   |
| Pretax profit   | 95       | 123   | 98      | 120   | 2.8             | -2.7  |
| NP (controlling int.)                                     | 71       | 91    | 73      | 89    | 2.8             | -2.7  |
| NP margin   | 12.4     | 14.3  | 12.3    | 13.9  | -0.1            | -0.4  |
| EPS (controlling int.)                                    | 2,349    | 3,034 | 2,416   | 2,953 | 2.8             | -2.7  |
| Source: Studio Dragon, Daishin Securities Research Center |          |       |         |       |                 |       |

Fig 1. Revenue and OP on the rise



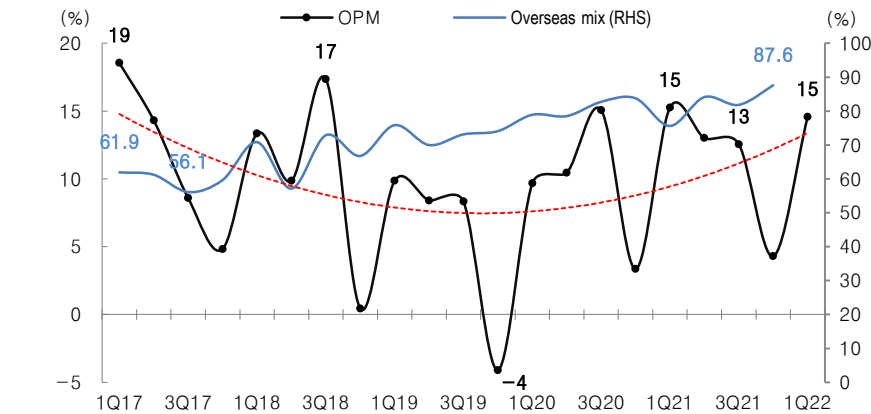
Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 2. OP and OP margin



Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 3. Overseas revenue



Source: Studio Dragon, Daishin Securities Research Center

Intrinsic value

| Residual Income Model |  | (Wbn, W, %) |       |       |       |       |       |       |       |       |       |
|-----------------------|--|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                       |  | 2022F       | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
| I                     | NP (contr. int.) <sup>(Note 2)</sup>                   | 73          | 89    | 103   | 117   | 134   | 147   | 162   | 178   | 196   | 215   |
| II                    | Shareholders' equity (contr. int.) <sup>(Note 2)</sup> | 756         | 845   | 948   | 1,034 | 1,133 | 1,241 | 1,359 | 1,488 | 1,621 | 1,768 |
|                       | Estimated ROE  | 10.1        | 11.1  | 11.4  | 11.3  | 11.8  | 11.9  | 11.9  | 11.9  | 12.1  | 12.2  |
| III                   | Required rate of return <sup>(Note 3)</sup>            | 4.3         |       |       |       |       |       |       |       |       |       |
|                       | Risk free rate of return <sup>(Note 4)</sup>           | 1.9         |       |       |       |       |       |       |       |       |       |
|                       | Market risk premium <sup>(Note 5)</sup>                | 2.4         |       |       |       |       |       |       |       |       |       |
|                       | Beta   | 0.6         |       |       |       |       |       |       |       |       |       |
| IV                    | Spread (estimated ROE – required rate of return)       | 5.8         | 6.8   | 7.1   | 7.0   | 7.5   | 7.5   | 7.6   | 7.6   | 7.8   | 7.9   |
| V                     | Required income  | 29          | 33    | 36    | 41    | 45    | 49    | 53    | 58    | 64    | 70    |
| VI                    | Residual income (I - V)                                | 43          | 56    | 66    | 76    | 89    | 98    | 108   | 119   | 132   | 145   |
|                       | Present value factor                                   | 0.97        | 0.93  | 0.89  | 0.86  | 0.82  | 0.79  | 0.75  | 0.72  | 0.69  | 0.67  |
|                       | PV of residual income                                  | 42          | 52    | 59    | 65    | 73    | 77    | 82    | 86    | 91    | 97    |
| VII                   | Sum of residual income                                 | 725         |       |       |       |       |       |       |       |       |       |
| VIII                  | PV of residual income following forecasting period     | 2,249       |       |       |       |       |       |       |       |       |       |
|                       | Terminal growth (g) <sup>(Note 6)</sup>                | 0.0%        |       |       |       |       |       |       |       |       |       |
| IX                    | Beginning shareholders' equity                         | 684         |       |       |       |       |       |       |       |       |       |
| X                     | Fair market cap (VII+VIII+IX)                          | 3,678       |       |       |       |       |       |       |       |       |       |
|                       | Total number of shares (thousands)                     | 30,014      |       |       |       |       |       |       |       |       |       |
| XI                    | Per share value (W)                                    | 121,867     |       |       |       |       |       |       |       |       |       |
|                       | Current share price (W)                                | 90,000      |       |       |       |       |       |       |       |       |       |
|                       | Potential (%)  | 35.4%       |       |       |       |       |       |       |       |       |       |

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)           |       |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|-------|
|                                  | 2020A | 2021A | 2022F | 2023F | 2024F |
| Revenue                          | 526   | 487   | 591   | 637   | 679   |
| Cost of goods sold               | 451   | 407   | 471   | 493   | 515   |
| Gross profit                     | 75    | 80    | 120   | 143   | 164   |
| SG&A expenses                    | 26    | 27    | 29    | 31    | 33    |
| OP                               | 49    | 53    | 91    | 112   | 131   |
| OP margin                        | 9.3   | 10.8  | 15.4  | 17.6  | 19.2  |
| EBITDA                           | 165   | 152   | 274   | 329   | 378   |
| Non-OP                           | -8    | -1    | 7     | 8     | 8     |
| Income from affiliates           | 0     | 0     | 0     | 0     | 0     |
| Financial revenue                | 10    | 14    | 15    | 15    | 16    |
| FX related gains                 | 0     | 0     | 0     | 0     | 0     |
| Financial expense                | -14   | -10   | -9    | -9    | -9    |
| FX related losses                | 10    | 5     | 0     | 0     | 0     |
| Others                           | -4    | -5    | 1     | 1     | 1     |
| Income before taxes              | 42    | 52    | 98    | 120   | 138   |
| Income tax expense               | -12   | -13   | -25   | -31   | -36   |
| Income from cont. op.            | 30    | 39    | 73    | 89    | 102   |
| Income from discount op.         | 0     | 0     | 0     | 0     | 0     |
| NP                               | 30    | 39    | 73    | 89    | 102   |
| NP margin                        | 5.6   | 8.0   | 12.3  | 13.9  | 15.1  |
| NP for non-contr. interest       | 0     | 0     | 0     | 0     | 0     |
| NP for contr. interest           | 30    | 39    | 73    | 89    | 102   |
| Valuation of AFS fin. assets     | 0     | 0     | 0     | 0     | 0     |
| Other compreh. income            | 3     | 35    | 35    | 35    | 35    |
| Comprehensive income             | 32    | 74    | 108   | 124   | 138   |
| Comp. income for non-contr. int. | 0     | 0     | 0     | 0     | 0     |
| Comp. income for contr. int.     | 32    | 74    | 108   | 124   | 138   |

| Valuation metrics (W, x, %) |        |        |        |        |        |
|-----------------------------|--------|--------|--------|--------|--------|
|                             | 2020A  | 2021A  | 2022F  | 2023F  | 2024F  |
| EPS                         | 1,044  | 1,301  | 2,416  | 2,953  | 3,414  |
| PER                         | 88.7   | 69.9   | 37.9   | 31.0   | 26.8   |
| BPS                         | 21,480 | 22,790 | 25,200 | 28,153 | 31,567 |
| PBR                         | 4.3    | 4.0    | 3.6    | 3.2    | 2.9    |
| EBITDAPS                    | 5,828  | 5,054  | 9,136  | 10,966 | 12,607 |
| EVEBITDA                    | 16.3   | 17.6   | 9.7    | 8.0    | 6.7    |
| SPS                         | 18,532 | 16,233 | 19,691 | 21,217 | 22,613 |
| PSR                         | 5.0    | 5.6    | 4.6    | 4.2    | 4.0    |
| CFPS                        | 5,803  | 5,254  | 9,136  | 10,973 | 12,613 |
| DPS                         | 0      | 0      | 0      | 0      | 1,000  |

| Financial ratios (W, x, %) |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|
|                            | 2020A | 2021A | 2022F | 2023F | 2024F |
| Growth potential           |       |       |       |       |       |
| Revenue growth             | 12.2  | -7.3  | 21.3  | 7.7   | 6.6   |
| OP growth                  | 71.1  | 7.0   | 72.9  | 23.4  | 16.4  |
| NP growth                  | 12.1  | 31.8  | 85.7  | 22.2  | 15.6  |
| Profitability              |       |       |       |       |       |
| ROIC                       | 12.7  | 12.4  | 17.0  | 17.8  | 19.6  |
| ROA                        | 7.3   | 6.4   | 9.9   | 11.2  | 11.8  |
| ROE                        | 5.7   | 6.0   | 10.1  | 11.1  | 11.4  |
| Stability                  |       |       |       |       |       |
| Debt ratio                 | 24.3  | 29.3  | 26.9  | 24.3  | 21.8  |
| Net borrowings ratio       | -14.8 | -8.6  | -5.1  | -9.6  | -18.3 |
| Interest coverage ratio    | 84.8  | 67.6  | 0.0   | 0.0   | 0.0   |

Source: Studio Dragon, Daishin Securities Research Center

| Balance sheet (Wbn)         |       |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|-------|
|                             | 2020A | 2021A | 2022F | 2023F | 2024F |
| Current assets              | 228   | 233   | 239   | 293   | 395   |
| Cash & cash equiv.          | 49    | 65    | 44    | 87    | 179   |
| Trade & other receive.      | 107   | 124   | 150   | 162   | 172   |
| Inventories                 | 0     | 0     | 0     | 0     | 0     |
| Other current assets        | 73    | 44    | 44    | 44    | 44    |
| Long-term assets            | 529   | 652   | 722   | 758   | 759   |
| Tangible assets             | 8     | 8     | 7     | 6     | 6     |
| Investments in affiliates   | 0     | 0     | 0     | 0     | 0     |
| Other long-term assets      | 521   | 644   | 715   | 751   | 753   |
| Total assets                | 757   | 884   | 960   | 1,050 | 1,154 |
| Current liabilities         | 132   | 184   | 187   | 189   | 190   |
| Payables & other liab.      | 57    | 78    | 81    | 83    | 84    |
| Borrowings                  | 0     | 0     | 0     | 0     | 0     |
| Current portion of LT debts | 0     | 0     | 0     | 0     | 0     |
| Other current liabilities   | 75    | 106   | 106   | 106   | 106   |
| Long-term liabilities       | 16    | 17    | 17    | 17    | 17    |
| Borrowings                  | 0     | 0     | 0     | 0     | 0     |
| Convertible securities      | 0     | 0     | 0     | 0     | 0     |
| Other long-term liab.       | 16    | 17    | 17    | 17    | 17    |
| Total liabilities           | 148   | 200   | 204   | 205   | 207   |
| Controlling interest        | 609   | 684   | 756   | 845   | 947   |
| Capital stock               | 15    | 15    | 15    | 15    | 15    |
| Capital surplus             | 470   | 470   | 470   | 470   | 470   |
| Retained earnings           | 123   | 162   | 234   | 323   | 425   |
| Other capital changes       | 1     | 37    | 37    | 37    | 37    |
| Non-controlling interest    | 0     | 0     | 0     | 0     | 0     |
| Total shareholder's equity  | 609   | 684   | 756   | 845   | 947   |
| Net borrowings              | -90   | -59   | -39   | -81   | -173  |

| Cash flow statement (Wbn) |       |       |       |       |       |
|---------------------------|-------|-------|-------|-------|-------|
|                           | 2020A | 2021A | 2022F | 2023F | 2024F |
| Operating cash flows      | 5     | -8    | 65    | 128   | 173   |
| NP                        | 30    | 39    | 73    | 89    | 102   |
| Non-cash items            | 135   | 119   | 202   | 241   | 276   |
| Depreciation              | 116   | 99    | 183   | 217   | 248   |
| FX gains                  | 3     | -1    | 0     | 0     | 0     |
| Equity method gain        | 0     | 0     | 0     | 0     | 0     |
| Others                    | 15    | 21    | 18    | 24    | 28    |
| Chg in assets & liab.     | -144  | -155  | -199  | -186  | -185  |
| Other cash flows          | -15   | -11   | -10   | -16   | -20   |
| Investing cash flow       | -16   | 27    | -252  | -252  | -248  |
| Investment assets         | -9    | 28    | 0     | 0     | 0     |
| Tangible assets           | -7    | -2    | -2    | -2    | -2    |
| Others                    | 0     | 0     | -250  | -250  | -246  |
| Financing cash flows      | 0     | -3    | -3    | -3    | -3    |
| 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           | 149   | 0     | 0     | 0     | 0     |
| Cash dividends            | 0     | 0     | 0     | 0     | 0     |
| Others                    | -149  | -3    | -3    | -3    | -3    |
| Net chg in cash           | -11   | 16    | -20   | 43    | 92    |
| Beginning cash balance    | 60    | 49    | 65    | 44    | 87    |
| Ending cash balance       | 49    | 65    | 44    | 87    | 179   |
| NOPLAT                    | 35    | 39    | 67    | 83    | 97    |
| FCF                       | 143   | 135   | -3    | 46    | 95    |

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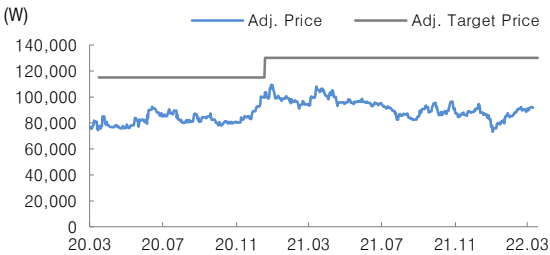
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



| Date                 | 22.04.07 | 22.01.12  | 21.07.12  | 21.01.12 | 20.10.10  | 20.04.10 |
|----------------------|----------|-----------|-----------|----------|-----------|----------|
| Rating               | Buy      | 6M passed | 6M passed | Buy      | 6M passed | Buy      |
| Target price         | 130,000  | 130,000   | 130,000   | 130,000  | 115,000   | 115,000  |
| Diff. (avr. %)       |          | (33.98)   | (31.37)   | (24.22)  | (26.59)   | (28.12)  |
| Diff. (max./min., %) |          | (29.08)   | (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 (Apr 4, 2022)

|       | BUY   | MARKETPERFORM | UNDERPERFORM |
|-------|-------|---------------|--------------|
| Ratio | 92.4% | 7.6%          | 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.