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Buy (maintain)

Target price	KRW 111,000
Current price	KRW 81,600

Relative to consensus

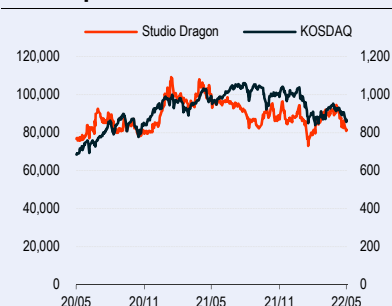
Beat	Match	Miss
		●

Stock data

KOSDAQ (May 11)	866.34
Market cap (KRW bn)	2,449
Shares outstanding ('000)	30,014
52-week high/low (KRW)	100,200 / 73,100
90-day avg daily T/O (KRW bn)	10.8
Foreign ownership	11.1%
Dividend yield (22.12E)	0.0%
BPS (22.12E) (KRW)	23,149
Price relative to KOSDAQ	1M -3.5%
	6M 6.5%
	12M 5.9%

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)

Taking cautious steps

Drama lineup to expand further toward 2H22

Studio Dragon reported KRW121.1bn in revenue (+3.4% YoY) and KRW18.1bn in operating profit (+1.4% YoY) for 1Q22 which was slightly below our estimates. Programming revenue fell 19% YoY to KRW35.4bn. Despite a fewer number of dramas, decent performance of *Twenty-Five Twenty-One* and *Military Prosecutor Doberman* combined with the increased programming of original titles helped shore up overall revenue. The drama lineup should strengthen further in 2Q22 with the addition of *Our Blues* and *Alchemy of Souls*. Distribution revenue advanced 23% YoY to KRW77.7bn on sales of old and new titles overseas. In 2Q22, channel diversification and new OTT platform penetration should bolster margin per title. Operating cost edged up only 3.8% YoY to KRW103bn as production cost increases were limited despite the programming of original content for various OTTs. We expect costs to remain under control backed by an increased number of drama programming in 2H and higher ASP.

Maintain Buy, cut target price to KRW110,000

Studio Dragon is set to produce 32 dramas in 2022, up 7 from the previous year. It plans to: 1) diversify business portfolio to include webtoon and games based on the IP of popular content; 2) export its drama IP to Hollywood (for remakes and local productions); and 3) produce (eight) original series in collaborations with major OTTs such as Apple TV, Netflix and Disney+. Despite booming demand for Korean dramas, the sector's valuation was hit by deteriorating sentiment and structural corrections amid Netflix's earnings weakness and reopening. As such, we revise down our target price from KRW135,000 to KRW111,000 applying a 20% discount to our previous target P/E. Intensifying competition among global OTTs bode well for content producers like SD. Even with Netflix's efforts to cut costs recently, Korean production firms' quality dramas can still sell high given their popularity. We expect shares to stage a strong rebound when the industry regains momentum and sentiment recovers in earnest.

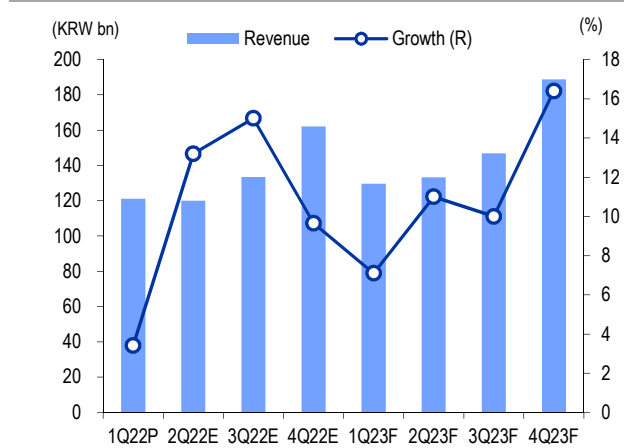
Financial data

(KRW bn)	2020	2021	2022E	2023E	2024E
Sales	526	487	537	599	670
Operating profit	49	53	58	67	74
Pretax income from cont ops	42	52	64	68	75
Net profit	30	39	46	49	55
EPS (KRW)	987	1,301	1,545	1,648	1,824
Change (%)	5.0	31.8	18.7	6.7	10.7
P/E (x)	93.8	69.9	52.8	49.5	44.7
P/B (x)	4.6	4.0	3.5	3.3	3.1
EV/EBITDA (x)	16.6	17.7	12.3	15.0	17.0
Operating margin (%)	9.3	10.8	10.8	11.1	11.0
EBITDA margin (%)	31.4	31.1	34.7	24.4	18.5
ROE (%)	5.7	6.0	6.7	6.9	7.1
Debt to equity (%)	24.3	29.3	29.8	30.3	30.9

Note: K-IFRS consolidated earnings basis

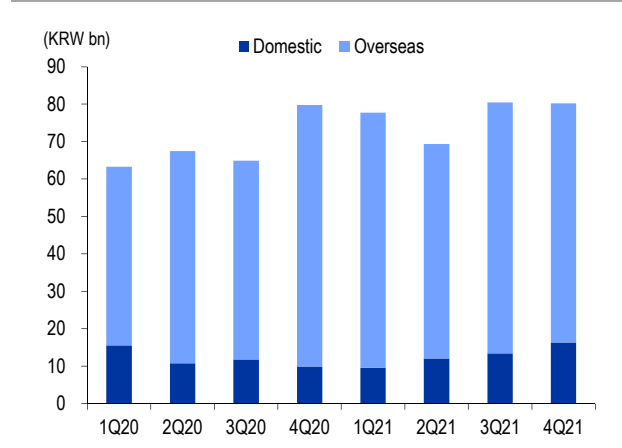
Source: Company data, eBEST Investment & Securities Research

Fig 1 Revenue trend and forecasts



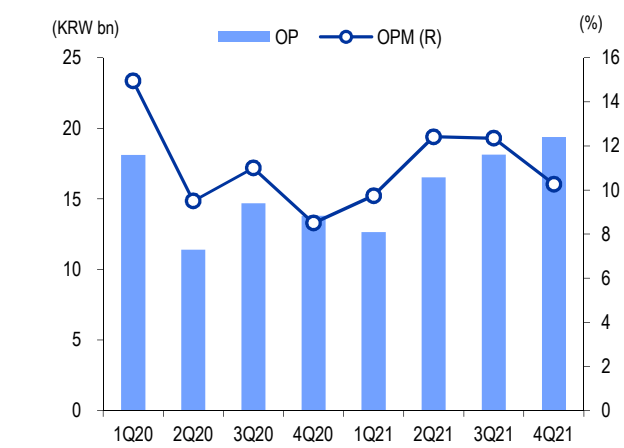
Source: Company data, eBEST Investment & Securities Research

Fig 2 Overseas-driven distribution revenue growth to continue



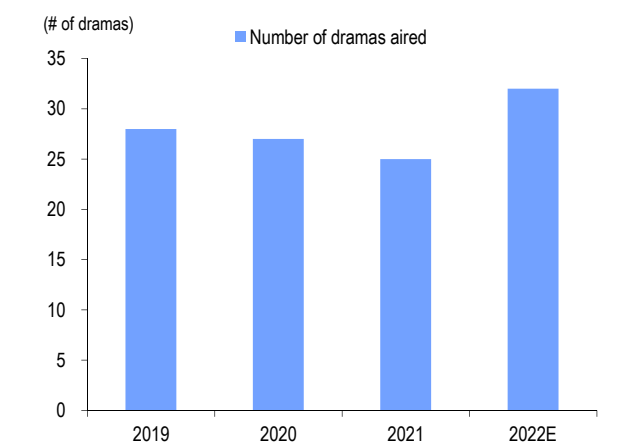
Source: Company data, eBEST Investment & Securities Research

Fig 3 Margin growth limited



Source: Company data, eBEST Investment & Securities Research

Fig 4 32 dramas to air in 2022 (+7)



Source: Company data, eBEST Investment & Securities Research

Fig 5 1Q22 highlights









Source: Company data, eBEST Investment & Securities Research

Fig 6 Earnings trend and forecasts

(KRW bn,%)	1Q21	2Q21	3Q21	4Q21	1Q22P	2Q22E	3Q22E	4Q22E	2020	2021	2022E
Revenue	117	106	116	148	121	120	134	162	526	487	537
YoY (%)	15	7.8	52	7.4	3.4	13.2	15	9.7	12.2	-7.3	10.2
QoQ (%)	-15	-9.5	9.5	27.4	-18.1	-0.9	11.3	21.5			
Programming	43.8	28.2	36.2	53.2	35.4	44.4	52.2	61.2	197	161	193
Distribution	63.2	67.5	64.9	79.8	77.7	69.4	80.4	80.2	280	276	308
Others	8.2	20.3	9.7	10.7	8	6.2	0.9	20.7	48.9	50.2	35.8
COGS	93.4	85.7	95.1	133	95.6	103	112	144	451	407	455
COGS (%)	79.8	80.8	81.9	90	78.9	86	84	88.6	85.8	83.6	84.7
Operating profit	17.9	13.8	14.6	6.4	18.1	11.4	14.7	13.8	49.1	52.5	58
Operating margin (%)	15.3	13	12.6	4.3	14.9	9.5	11	8.5	9.3	10.8	10.8
YoY (%)	53.5	-18.3	-8.9	36.7	1.3	-17.2	0.7	118.9	71.1	6.9	10.4
QoQ (%)	287.5	-22.9	5.9	-56.1	187.3	-37	28.8	-6.1			
Net profit	15.6	9.5	14.8	-0.8	15.5	10.7	12.1	7	29.6	39	45.3
Net margin (%)	13.3	8.9	12.8	-0.5	12.8	8.9	9.1	4.3	5.6	8.0	8.4

Source: Company data, eBEST Investment & Securities Research

Fig 7 2Q22 drama lineup

					
OUR BLUES 20 episodes	SH**TING STARS 16 episodes	THE KILLER'S SHOPPING LIST 8 episodes	MONSTROUS 6 episodes	LINK 16 episodes	EVE 16 episodes
TVN NETFLIX	TVN	TVN	TVING	TVN DISNEY+	TVN
Written by NOH HEE-KYUNG (It's Okay, That's Love) (Worlds Within)	Written by CHOI YEON-SOO	Written by HAN JI-WAN (The Ghost Detective), (Somebody)	Written by RYU YONG-JAE YEON SANG-HO (Train to Busan), (Hellbound)	Written by KWON DO-HWAN KWON KI-YOUNG (Suspicious Partner), (Hello Monster)	Written by YOON YOUNG-MI
Directed by KIM KYU-TAE (It's Okay, That's Love) (Moon Lovers: Scarlet Heart Ryo)	Directed by LEE SOO-HYEON (Awaken) (The Witch's Diner)	Directed by LEE EON-HEE (Missing) (The Accidental Detective2: In Action)	Directed by JANG GEON-JAE (On You) (Mom's Song)	Directed by HONG JONG-CHAN (Her Private Life) (Juvenile Justice)	Directed by PARK BONG-SEOB (The Uncanny Counter)
Casting LEE BYUNG-HUN CHA SEUNG-WON KIM WOO-BIN	Casting LEE SUNG-KYUNG KIM YOUNG-DAE YOON JONG-HOON	Casting LEE KWANG-SOO KIM SEOLHYUN	Casting KOO KYO-HWAN SHIN HYUN-BEEN	Casting YEO JIN-GOO MOON GA-YOUNG	Casting SEO YEA-JI LEE SANG-YEOB

Source: Company data, eBEST Investment & Securities Research

Studio Dragon (253450.KS) financial statements

Balance sheet

(KRW bn)	2020	2021	2022E	2023E	2024E
Current assets	228	233	357	481	583
Cash & cash equivalents	49	65	174	273	345
Accounts receivable	107	124	138	160	188
Inventory assets	0	0	0	0	0
Other current assets	73	44	46	48	50
Non-current assets	529	652	545	489	463
Investments in affiliates	180	241	251	261	271
Tangible assets	8	8	9	10	11
Intangible assets	230	298	177	105	62
Total assets	757	884	902	969	1,046
Current liabilities	132	184	190	208	229
Accounts payable	57	78	80	93	110
Short-term financial liabilities	2	4	4	4	4
Other current liabilities	73	102	106	110	115
Non-current liabilities	16	17	17	17	18
Long-term financial liabilities	8	7	7	7	7
Other non-current liabilities	8	9	10	10	11
Total liabilities	148	200	207	225	247
Owners of parent equity	609	684	695	744	799
Paid-in capital	15	15	15	15	15
Capital surplus	470	470	470	470	470
Retained earnings	123	162	208	258	312
Non-controlling interest	0	0	0	0	0
Total equity	609	684	695	744	799

Cash flow

(KRW bn)	2020	2021	2022E	2023E	2024E
Operating cash flow	5	-8	131	122	97
Net profit	30	39	46	49	55
Non-cash income and expenses	135	119	93	80	51
Depreciation of tangible assets	3	4	6	7	8
Amortization of intangible assets	113	95	122	72	43
Others	19	16	-35	0	0
Changes in assets/liab from operating	-144	-155	-9	-7	-9
Changes in accounts receivable	-31	2	-14	-23	-28
Changes in inventory assets	0	0	0	0	0
Changes in accounts payable	-11	19	3	13	16
Changes in other assets/liabilities	-101	-176	2	2	3
Investing cash flow	-16	27	-22	-23	-25
Disposal/acquisition of tangible assets	-7	-2	-7	-8	-9
Changes in intangible assets	-1	-1	0	0	0
Changes in investment assets	87	28	-10	-10	-11
Other investments	-95	1	-4	-4	-5
Financing cash flow	0	-3	0	0	0
Changes in financial liabilities	-1	-2	0	0	0
Changes in equity	1	0	0	0	0
Dividends paid	0	0	0	0	0
Others	1	-1	0	0	0
Increase in cash	-11	16	109	99	72
Beginning cash	60	49	65	174	273
Ending cash	49	65	174	273	345

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

Source: Company data, eBEST Investment & Securities Research

Income statement

(KRW bn)	2020	2021	2022E	2023E	2024E
Sales	526	487	537	599	670
Cost of goods sold	451	407	455	504	566
Gross profit	75	80	82	95	104
SG&A expenses	26	27	24	28	31
Operating profit	49	53	58	67	74
EBITDA	165	152	186	146	124
Financial income	-4	7	-1	-1	-1
Interest expenses	1	1	3	3	3
Gain/loss on equity	0	0	0	0	0
Other non-operating profit	-4	-8	7	2	2
Pretax profit from continuing ops	42	52	64	68	75
Income tax	12	13	18	18	20
Profit from continuing ops	30	39	46	49	55
Profit from discontinuing ops	0	0	0	0	0
Net profit	30	39	46	49	55
Controlling interest	30	39	46	49	55
Total comprehensive profit	32	39	46	49	55
Gross margin (%)	14.2	16.4	15.3	15.8	15.6
Operating margin (%)	9.3	10.8	10.8	11.1	11.0
EBITDA margin (%)	31.4	31.1	34.7	24.4	18.5
Net margin (%)	5.6	8.0	8.4	8.3	8.2
ROA (%)	4.4	4.8	5.2	5.3	5.4
ROE (%)	5.7	6.0	6.7	6.9	7.1
ROIC (%)	9.8	10.1	12.5	19.3	25.9

Key financial data

	2020	2021	2022E	2023E	2024E
Valuation (x)					
P/E	93.8	69.9	52.8	49.5	44.7
P/B	4.6	4.0	3.5	3.3	3.1
EV/EBITDA	16.6	17.7	12.3	15.0	17.0
P/CF	16.9	17.3	17.6	19.0	23.1
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Growth (%)					
Sales	12.2	-7.3	10.2	11.5	12.0
Operating profit	71.1	7.0	10.3	15.0	10.3
Pretax profit	25.7	25.2	23.0	5.8	10.6
Net profit	12.1	31.8	18.7	6.7	10.7
EPS	5.0	31.8	18.7	6.7	10.7
Stability (%)					
Total liabilities to equity	24.3	29.3	29.8	30.3	30.9
Current ratio	172.8	126.6	187.6	231.2	254.7
Net debt to equity (x)	-6.3	-7.8	-23.4	-35.1	-41.8
OP/financial expenses (x)	84.8	67.6	20.0	23.0	25.4
Total debt (KRW bn)	11	11	11	11	11
Net debt (KRW bn)	-38	-54	-162	-262	-334
Per share data (KRW)					
EPS	987	1,301	1,545	1,648	1,824
BPS	20,309	22,785	23,149	24,797	26,621
CFPS	5,487	5,252	4,646	4,301	3,528
DPS	n/a	n/a	n/a	n/a	n/a



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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	90.8%	Based on the investment ratings of the companies within our coverage from Apr 1, 2021 to Mar 31, 2022 (renewed every quarter)
Hold	9.2%	
Sell	-	
Total	100.0%	