

Studio Dragon (253450 KQ)

HJ Kim
hoijae.kim@daishin.com

Rating **BUY**
maintain

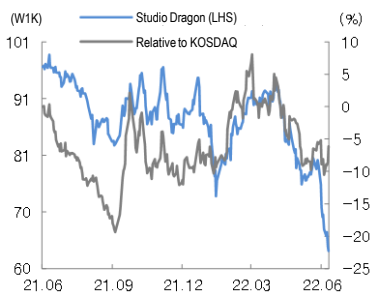
6M TP (W) **120,000**
reduce

CP (W)
(22.06.23) **63,200**

Media

KOSDAQ	714.38
Market cap (Wbn)	1,897
Market cap portion (%)	0.54
Paid-in capital (common; Wbn)	15
52w high/low (W)	98,700 / 63,200
120d avg. trading volume (Wbn)	10.4
Foreign ownership (%)	10.22
Major shareholders	CJ ENM+3: 54.87% NAVER: 6.25%

(%)	1M	3M	6M	12M
Abs. return	-17.9	-29.8	-28.1	-36.0
Rel. return	1.5	-8.5	1.0	-8.9



Slate gradually growing

BUY; 6M TP trimmed 8% to W120,000

- We lower our residual income model-based target price for the production house by 8% in view of higher interest rates. But taking into account its revenue and margin growth potential, we revise up our outlook for the company's 2Q22 earnings and 2022E EPS (up by 5%). Studio Dragon remains our top pick in the media sector for 2H22.

2Q22 earnings likely best since IPO

- We now expect the company to report OP of W27.1bn (up 50% qoq; up 97% yoy) on revenue of W170bn (up 40% qoq; up 59% yoy) for 2Q22 thanks to a bigger production slate (13 shows and 103 episodes, up by 7 and 40, respectively, from a year ago). Our new OP estimate reflects a boost from the sale of ten previously-aired drama series to Disney+, which the company will book in 2Q22 upon release. Given that the exact amount is unknown and some of the titles may have not yet been fully amortized, we assume the OP bump to be about W5bn.

All eyes on growing production slate

- Studio Dragon is expected to create 34 shows this year (up by nine shows from a year ago), increasing its slate by 2-3 a year starting in 2023. Of the 34 in its 2022 slate, 19 are for tvN/OCN (including 6-7 to be simultaneously released on OTT platforms such as Netflix). The rest (13-14 titles) are originals for OTT platforms such as Coupang Play (1), Netflix (2-3), Disney+ (2), tving (6), Apple TV+ (1), and a global platform (1).

More big-budget drama series in focus

- Its slate and pipeline of projects are bigger than ever – W220bn worth of projects in production (up 130% yoy) and 180 shows on the drawing board as of 1Q22. The uptrend in the number of shows produced as well as their budget size is a positive.

- *Alchemy of Souls* (on air since June 18) cost an estimated W40bn (W2bn per episode) to make, the third biggest project for Studio Dragon. Thanks to its simultaneous debut (on TV and Netflix), its margins are poised to easily exceed 20%.

- *The Big Door Prize* (to air on Apple TV+ in 2H22) is a W50bn (W5bn per episode) project co-produced with Skydance Media that is forecast to bring in about W5.0bn in profit. Additional incentives are in store (for its sequels i.e. seasons 2 and 3).

Proven capabilities to translate into margin growth

- *Link: Eat, Love, Kill* (released on June 6) is Studio Dragon's first TV/Disney+ series that is likely to be more lucrative than traditional simultaneous releases (margins typically about 20%).

- The company is believed to have signed a deal to supply another Netflix original (for release in 2H22). The seemingly good deal is expected to be much more profitable than the usual projects (margins typically about 20%).

(Wbn, %)

	2Q21	1Q22	Previous estimate	Daishin estimate	2Q22(F)			3Q22		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	106	121	165	169	59.3	39.5	151	152	30.8	-10.1
OP	14	18	23	27	96.8	49.9	22	21	47.0	-21.1
NP	9	16	18	21	125.1	36.5	18	17	16.2	-19.3

Source: Studio Dragon, FnGuide, Daishin Securities Research Center

Operating results and major financial data

(Wbn, 원, %)

	2020A	2021A	2022F	2023F	2024F
Revenue	526	487	594	621	673
OP	49	53	94	110	130
Pretax profit	42	52	101	117	138
NP	30	39	76	87	102
NP (controlling int.)	30	39	76	87	102
EPS	1,044	1,301	2,517	2,886	3,407
PER	88.7	69.9	25.4	22.2	18.8
BPS	21,480	22,790	25,302	28,188	31,595
PBR	4.3	4.0	2.5	2.3	2.0
ROE	5.7	6.0	10.5	10.8	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	593	637	594	621	0.1	-2.5
SG&A expense	29	31	29	31	0.1	0.0
OP	89	111	94	110	4.8	-1.1
OP margin	15.1	17.4	15.8	17.6	0.7	0.3
Non-operating profit	7	8	7	8	2.0	0.0
Pretax profit	97	118	101	117	4.6	-1.0
NP (controlling int.)	72	88	76	87	4.5	-1.0
NP margin	12.2	13.7	12.7	14.0	0.5	0.2
EPS (controlling int.)	2,410	2,916	2,517	2,886	4.5	-1.0

Source: Studio Dragon, Daishin Securities Research Center

Intrinsic valuec

Residual Income Model		(Wbn, W, %)									
		2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
I	NP (contr. int.) ^(Note 2)	76	86	102	118	135	155	179	205	236	272
II	Shareholders' equity (contr. int.) ^(Note 2)	759	846	948	1,037	1,137	1,253	1,385	1,537	1,701	1,890
	Estimated ROE	10.5	10.8	11.4	11.4	11.9	12.4	12.9	13.4	13.9	14.4
III	Required rate of return ^(Note 3)	5.3									
	Risk free rate of return ^(Note 4)	2.2									
	Market risk premium ^(Note 5)	4.0									
	Beta	0.8									
IV	Spread (estimated ROE – required rate of return)	5.2	5.5	6.1	6.1	6.6	7.1	7.6	8.1	8.6	9.1
V	Required income	36	40	45	50	55	60	66	73	81	90
VI	Residual income (I - V)	39	47	58	68	80	95	112	132	155	182
	Present value factor	0.97	0.93	0.88	0.83	0.79	0.75	0.71	0.68	0.64	0.61
	PV of residual income	38	43	51	57	64	72	80	90	100	111
VII	Sum of residual income	704									
VIII	PV of residual income following forecasting period	2,100									
	Terminal growth (g) ^(Note 6)	0.0%									
IX	Beginning shareholders' equity	684									
X	Fair market cap (VII+VIII+IX)	3,489									
	Total number of shares (thousands)	30,014									
XI	Per share value (W)	116,227									
	Current share price (W)	63,200									
	Potential (%)	83.9%									

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	594	621	673
Cost of goods sold	451	407	471	480	509
Gross profit	75	80	123	141	163
SG&A expenses	26	27	29	31	33
OP	49	53	94	110	130
OP margin	9.3	10.8	15.8	17.6	19.4
EBITDA	165	152	277	326	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	101	117	138
Income tax expense	-12	-13	-26	-30	-36
Income from cont. op.	30	39	76	87	102
Income from discount. op.	0	0	0	0	0
NP	30	39	76	87	102
NP margin	5.6	8.0	12.7	14.0	15.2
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	30	39	76	87	102
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	3	35	35	35	35
Comprehensive income	32	74	111	122	137
Comp. income for non-contr. Int.	0	0	0	0	0
Comp. income for contr. int.	32	74	111	122	137

Valuation metrics	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
EPS	1,044	1,301	2,517	2,886	3,407
PER	88.7	69.9	25.4	22.2	18.8
BPS	21,480	22,790	25,302	28,188	31,595
PBR	4.3	4.0	2.5	2.3	2.0
EBITDAPS	5,828	5,054	9,229	10,877	12,598
EV/EBITDA	16.3	17.6	6.8	5.6	4.6
SPS	18,532	16,233	19,776	20,686	22,422
PSR	5.0	5.6	3.2	3.1	2.9
CFPS	5,803	5,254	9,246	10,883	12,605
DPS	0	0	0	0	1,000

Financial ratios	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
Growth potential					
Revenue growth	12.2	-7.3	21.9	4.6	8.4
OP growth	71.1	7.0	78.2	16.9	19.0
NP growth	12.1	31.8	93.5	14.7	18.0
Profitability					
ROIC	12.7	12.4	17.7	17.5	19.6
ROA	7.3	6.4	10.1	10.9	11.8
ROE	5.7	6.0	10.5	10.8	11.4
Stability					
Debt ratio	24.3	29.3	26.8	24.2	21.8
Net borrowings ratio	-14.8	-8.6	-5.4	-10.1	-18.5
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	242	293	396
Cash & cash equiv.	49	65	47	91	181
Trade & other receive.	107	124	151	158	171
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	963	1,051	1,155
Current liabilities	132	184	187	188	190
Payables & other liab.	57	78	81	82	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	759	846	948
Capital stock	15	15	15	15	15
Capital surplus	470	470	470	470	470
Retained earnings	123	162	237	324	426
Other capital changes	1	37	37	37	37
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	609	684	759	846	948
Net borrowings	-90	-59	-41	-86	-175

Cash flow statement	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Operating cash flows	5	-8	68	130	171
NP	30	39	76	87	102
Non-cash items	135	119	202	240	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	19	23	28
Chg in assets & liab.	-144	-155	-199	-182	-187
Other cash flows	-15	-11	-10	-15	-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	-18	45	90
Beginning cash balance	60	49	65	47	91
Ending cash balance	49	65	47	91	181
NOPLAT	35	39	70	81	96
FCF	143	135	-1	44	95

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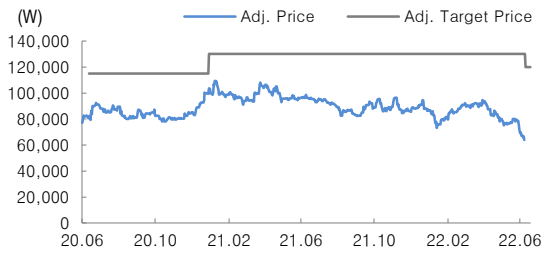
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[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	22.06.24	22.01.12	21.07.12	21.01.12	20.12.26	20.06.26
Rating	Buy	GM passed.	GM passed.	Buy	GM passed.	Buy
Target price	120,000	130,000	130,000	130,000	115,000	115,000
Diff. (avr. %)		(35.83)	(31.37)	(24.22)	(15.43)	(27.07)
Diff. (max/min, %)		(27.23)	(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 (Jun 21, 2022)

	Buy	Marketperform	Underperform
Ratio	92.7%	7.3%	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.