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Platform Business Team

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Senior Analyst

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▶ AT A GLANCE

Recommend	BUY
Target price	KRW103,000 48.6%
Current price	KRW69,300
Market cap	KRW2.1t/USD1.6b
Shares (float)	30,014,185 (45.1%)
52-week high/low	KRW96,500/KRW63,200
Avg daily trading value (60-day)	KRW10.2b/ USD7.8m

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	-9.4	-22.7	-27.4
Vs Kosdaq (%pts)	3.9	4.2	-2.7

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	103,000	103,000	0.0%
2022E EPS	2,227	2,227	0.0%
2023E EPS	2,743	2,743	0.0%

▶ SAMSUNG vs THE STREET

No of estimates	14
Target price	122,786
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

Studio Dragon (253450)

Boosting profitability

- We believe Studio Dragon will report a 2Q operating profit of KRW27.3b (beating consensus) for a margin of 18.3%, led by the sale of 12 old titles to Disney Plus.
- The firm should be able to meet its target of producing 32 dramas this year, leveraging its competitive content production capabilities and diversified distribution channels.
- Reflecting a drop in its peers' shares, we cut our target EV/EBITDA multiple to 12.2x and our target price by 15% to KRW103,000. Given the firm's still-solid growth prospects, however, we maintain our BUY rating on the stock.

WHAT'S THE STORY?

2Q preview: We now believe Studio Dragon will post 2Q results showing sales and operating profit up 41% and 97.9% y-y, respectively, to KRW149.5b and KRW27.3b, the latter topping consensus (KRW22.5b). Assuming 16 episodes per drama, 6.7 of the firm's shows aired in 1Q, which is less than we had forecast—this is because several dramas (eg, *Eve* and *Link: Eat, Love, Kill*) started airing later than expected. Yet, profitability likely rose thanks to the sale of old titles (including *Search: WWW*, *Stranger*, *Another Miss Oh*, and *Signal*) to Disney Plus. Several dramas aired simultaneously—namely: 1) *Twenty-Five Twenty-One* (2 episodes), *Our Blues* (20 episodes), and *Alchemy of Souls* (4 episodes) on Netflix; and 2) *Link: Eat, Love, Kill* (8 episodes) on Disney Plus. Studio Dragon also supplied *The King of Pigs* (8 episodes), *Monstrous* (6 episodes), and *Yumi's Cells: Season 2* (6 episodes) to Tving as original content. It added Disney Plus as a distribution channel in 2Q. Because the depreciation of the old titles was already complete, their sale translated into earnings. We estimate 2Q operating margin at 18.3%, up 5.3%pts y-y.

(Continued on the next page)

SUMMARY OF FINANCIAL DATA

	2021	2022E	2023E	2024E
Revenue (KRWb)	487	617	716	819
Operating profit (KRWb)	53	83	103	129
Net profit (adj) (KRWb)	39	67	82	103
EPS (adj) (KRW)	1,301	2,227	2,743	3,429
EPS (adj) growth (% y-y)	24.6	71.1	23.2	25.0
EBITDA margin (%)	31.1	32.2	33.6	33.5
ROE (%)	6.0	9.1	9.9	11.2
P/E (adj) (x)	69.9	31.1	25.3	20.2
P/B (x)	4.0	2.6	2.4	2.1
EV/EBITDA (x)	17.7	9.7	7.7	6.5
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company data, Samsung Securities estimates

Distribution channel diversification to boost earnings: Amid dramatic changes in the business environment for the media and content industries, Studio Dragon shares have performed sluggishly in 1H. But earnings momentum should remain solid, backed by the addition of Disney Plus as a distribution channel in 2Q, and Coupang Play and Apple TV+ in 2H. Netflix also said it will continue to beef up its investments in Asia despite its policy of cutting costs across the board. Judging from Studio Dragon's programming lineup, we believe company guidance of producing 32 dramas in 2022 is easily achievable.

Maintaining BUY: Reflecting pullbacks of industry peers' shares, we cut our target EV/EBITDA multiple from 14.4x to 12.2x (a 15% discount to the peer average) and reduce our target price by 15% to KRW103,000 (based on 12.2x forward EV/EBITDA). We reiterate BUY on Studio Dragon, however, believing its growth momentum remains solid on the expansion of its content distribution channels, growing drama production, and ASP hikes for titles new and old.

Table 1. Quarterly results and forecasts

(KRWb)	2Q21	1Q22	2Q22E	Chg (% q-q)	Chg (% y-y)	Consensus	Diff (%)
Sales	106.0	121.1	149.5	23.4	41.0	151.4	-1.3
Operating profit	13.8	18.1	27.3	50.7	97.9	22.5	21.1
Operating margin (%)	13.0	15.0	18.3	3.3	5.3	14.9	3.4
Pre-tax profit	14.0	20.1	28.1	39.8	100.0	23.3	20.7
Net profit (controlling)	9.5	15.6	21.2	36.0	124.4	18.4	15.2

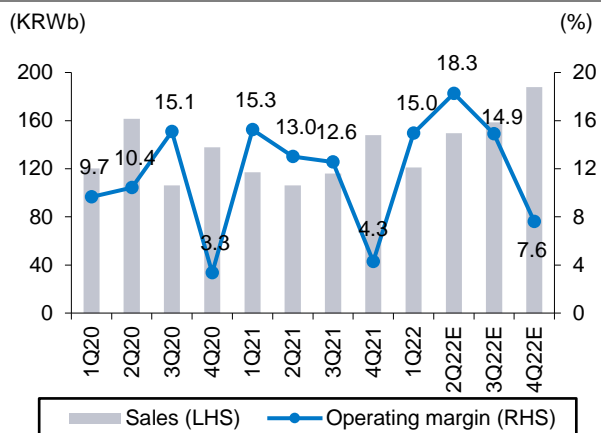
Source: Company data, WiseFn, Samsung Securities

Table 2. Results and forecasts

(KRWb)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	3Q22E	4Q22E	2020	2021	2022E	2023E
Sales	120.3	161.4	106.3	137.7	117.1	106.0	116.1	147.9	121.1	149.5	158.7	187.9	525.7	487.1	617.1	716.1
Programing	45.2	65.4	45.7	40.7	43.8	28.2	36.2	53.2	35.4	49.2	59.0	64.5	197.0	161.3	208.2	233.2
Distribution	66.9	75.7	50.9	86.3	63.2	67.5	64.9	79.8	77.7	87.8	86.1	110.6	279.7	275.5	362.2	430.4
Other	8.2	20.3	9.7	10.7	10.1	10.3	15.0	14.9	8.0	12.4	13.6	12.7	48.9	50.3	46.8	52.6
Gross profit	16.7	21.8	21.3	15.0	23.7	20.3	21.0	14.8	25.5	35.1	31.6	23.0	74.8	79.8	115.2	137.3
SG&A costs	5.1	4.9	5.3	10.4	5.8	6.5	6.4	8.4	7.4	7.8	7.9	8.7	25.7	27.2	31.8	34.4
Operating profit	11.6	16.9	16.0	4.6	17.9	13.8	14.6	6.3	18.1	27.3	23.6	14.3	49.1	52.6	83.3	102.9
Non-operating profit	0.4	0.3	-0.8	-7.5	3.2	0.3	3.9	-7.9	2.0	0.8	1.3	0.4	-7.6	-0.6	4.5	6.0
Pre-tax profit	12.0	17.2	15.2	-2.9	21.1	14.0	18.5	-1.6	20.1	28.1	25.0	14.7	41.5	52.0	87.8	108.9
Net profit (controlling)	8.5	13.4	10.6	-2.9	15.6	9.5	14.8	-0.8	15.6	21.2	18.9	11.1	29.6	39.0	66.8	82.3
Gross margin	13.8	13.5	20.0	10.9	20.2	19.2	18.1	10.0	21.1	23.5	19.9	12.2	14.2	16.4	18.7	19.2
Operating margin	9.7	10.4	15.1	3.3	15.3	13.0	12.6	4.3	15.0	18.3	14.9	7.6	9.3	10.8	13.5	14.4
Net margin (controlling)	7.1	8.3	10.0	-2.1	13.3	8.9	12.8	-0.5	12.9	14.2	11.9	5.9	5.6	8.0	10.8	11.5
Chg (% y-y)																
Sales	7.6	25.9	-19.0	41.3	-2.7	-34.3	9.2	7.4	3.4	41.0	36.7	27.0	12.2	-7.3	26.7	16.0
Programing	2.5	12.6	-24.9	-10.9	-3.2	-56.9	-20.8	30.7	-19.1	74.8	63.0	21.3	-5.6	-18.1	29.1	12.0
Distribution	19.1	25.5	-15.2	101.6	-5.5	-10.8	27.7	-7.5	23.0	29.9	32.5	38.6	27.6	-1.5	31.4	18.8
Other	-29.2	107.1	-6.4	20.2	24.0	-49.3	54.0	39.3	-21.5	20.9	-8.8	-14.6	20.4	2.9	-7.0	12.4
Gross profit	11.1	41.7	39.2	585.3	42.2	-6.9	-1.3	-1.7	7.8	72.4	50.5	55.8	56.2	6.7	44.4	19.2
SG&A costs	28.4	5.8	21.3	67.6	14.0	33.6	21.0	-19.1	27.7	18.9	23.6	3.4	34.0	5.8	17.1	7.9
Operating profit	5.5	56.3	46.8	nm	53.6	-18.2	-9.0	37.6	1.4	97.9	62.3	125.3	71.1	7.0	58.5	23.5
Non-operating profit	-79.7	-69.4	nm	nm	642.7	-20.8	nm	nm	-37.8	213.5	-66.2	nm	nm	nm	nm	33.0
Pre-tax profit	-9.2	44.5	16.2	nm	75.3	-18.2	21.3	nm	-4.6	100.0	35.3	nm	25.4	25.2	68.9	24.0
Net profit (controlling)	-7.3	82.1	-8.0	nm	82.2	-29.1	39.6	nm	0.4	124.4	27.4	nm	12.1	31.8	71.1	23.2
Gross margin	0.4	1.5	8.4	8.7	6.4	5.7	-1.9	-0.9	0.9	4.3	1.8	2.3	4.0	2.2	2.3	0.5
Operating margin	-0.2	2.0	6.8	7.5	5.6	2.6	-2.5	0.9	-0.3	5.3	2.4	3.3	3.2	1.5	2.7	0.9
Net margin (controlling)	-1.1	2.6	1.2	-0.4	6.2	0.7	2.8	1.6	-0.4	5.3	-0.9	6.4	-0.0	2.4	2.8	0.7

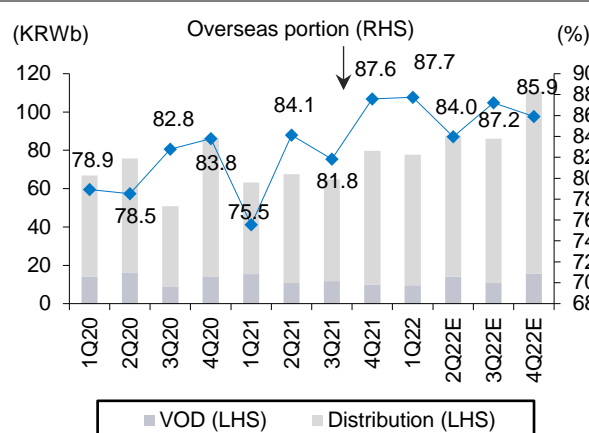
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin



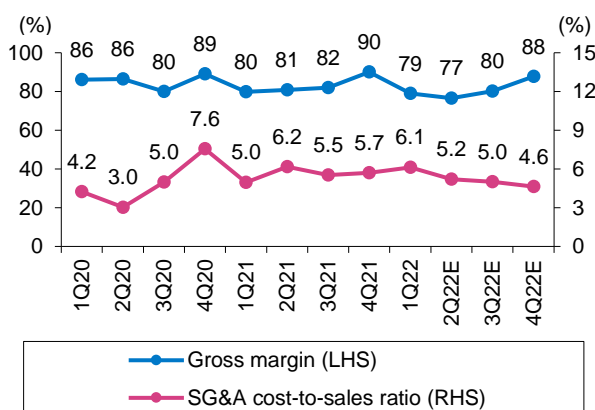
Source: Company data, Samsung Securities

Chart 2. VOD sales and distribution sales



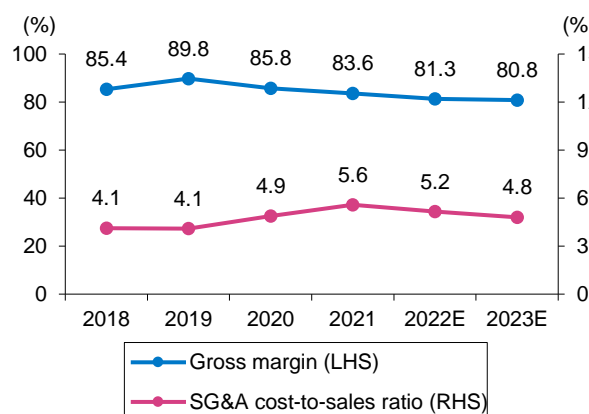
Source: Company data, Samsung Securities

Chart 3. Quarterly gross margin vs SG&A cost-to-sales ratio



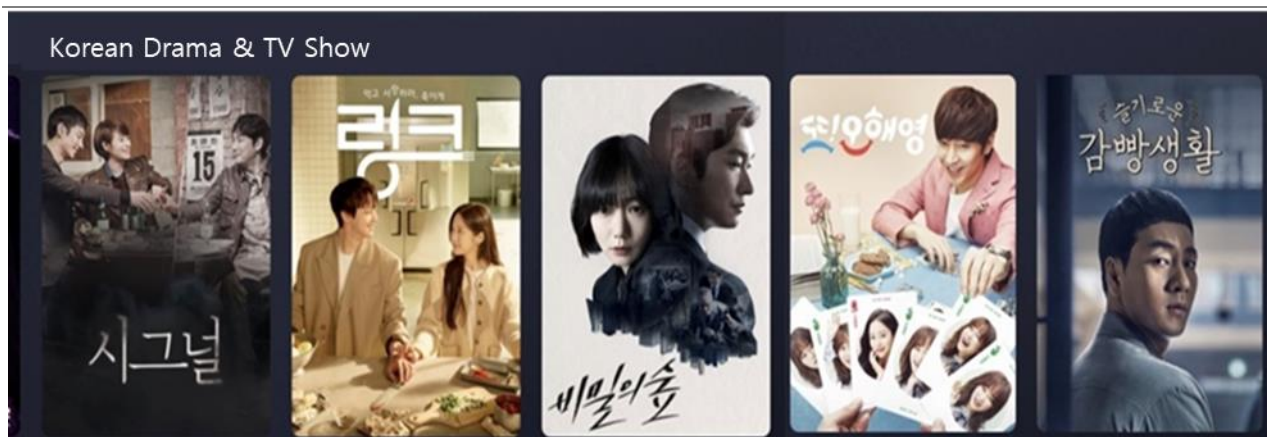
Source: Company data, Samsung Securities

Chart 4. Annual gross margin vs SG&A cost-to-sales ratio



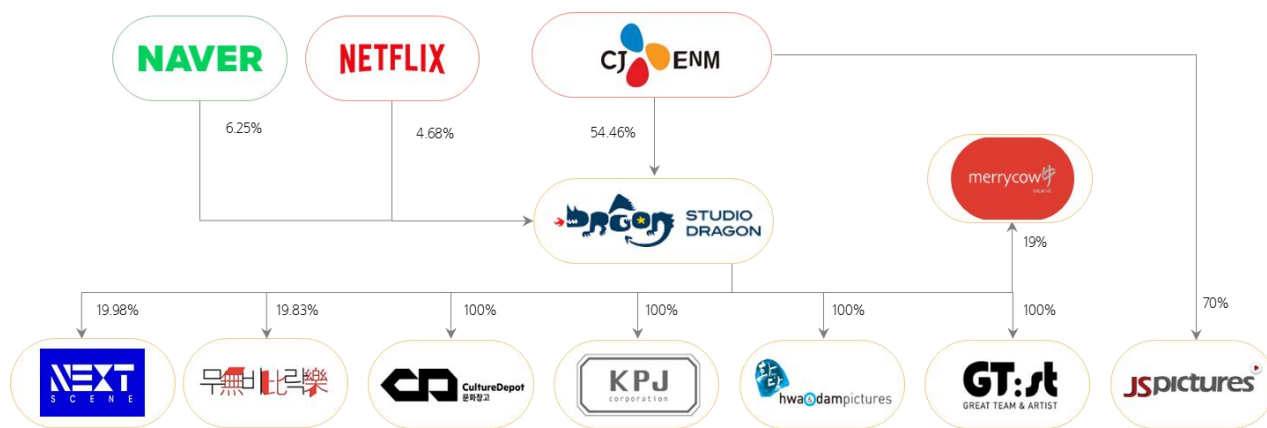
Source: Company data, Samsung Securities

Chart 5. Content produced by Studio Dragon updated on Disney Plus (new & old)



Source: Disney Plus, Samsung Securities

Chart 6. Ownership structure



Note: As of 1Q22

Source: Company data, Samsung Securities

Table 3. Revisions to annual forecasts

(KRWb)	2022E			2023E		
	Old	New	Chg (%)	Old	New	Chg (%)
Sales	638.3	617.1	-3.3	739.4	716.1	-3.2
Operating profit	82.2	83.3	1.4	104.5	102.9	-1.5
Operating margin (% , %pts)	12.9	13.5	0.6	14.1	14.4	0.2
Pre-tax profit	86.8	87.8	1.2	110.7	108.9	-1.6
Net profit (controlling)	66.0	66.8	1.2	83.7	82.3	-1.6

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Sales	526	487	617	716	819
Cost of goods sold	451	407	502	579	653
Gross profit	75	80	115	137	166
Gross margin (%)	14.2	16.4	18.7	19.2	20.2
SG&A expenses	26	27	32	34	37
Operating profit	49	53	83	103	129
Operating margin (%)	9.3	10.8	13.5	14.4	15.7
Non-operating gains (losses)	-8	-1	4	6	8
Financial profit	10	14	13	14	15
Financial costs	14	10	6	5	4
Equity-method gains (losses)	0	0	0	0	0
Other	-4	-5	-3	-3	-4
Pre-tax profit	42	52	88	109	136
Taxes	12	13	21	27	33
Effective tax rate (%)	28.7	24.9	23.9	24.4	24.4
Profit from continuing operations	30	39	67	82	103
Profit from discontinued operations	0	0	0	0	0
Net profit	30	39	67	82	103
Net margin (%)	5.6	8.0	10.8	11.5	12.6
Net profit (controlling interests)	30	39	67	82	103
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	165	152	199	241	274
EBITDA margin (%)	31.4	31.1	32.2	33.6	33.5
EPS (parent-based) (KRW)	1,044	1,301	2,227	2,743	3,429
EPS (consolidated) (KRW)	1,044	1,301	2,227	2,743	3,429
Adjusted EPS (KRW)*	1,044	1,301	2,227	2,743	3,429

Cash flow statement

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Cash flow from operations	5	-8	162	234	236
Net profit	30	39	67	82	103
Non-cash profit and expenses	135	119	135	161	175
Depreciation	3	4	2	1	1
Amortization	113	95	113	136	145
Other	19	20	20	24	29
Changes in A/L from operating activities	-144	-155	-19	17	-9
Cash flow from investments	-16	27	-128	-142	-161
Change in tangible assets	-7	-2	0	0	0
Change in financial assets	47	0	0	0	0
Other	-56	28	-128	-142	-161
Cash flow from financing	0	-3	-5	-1	-1
Change in debt	1	0	-4	0	0
Change in equity	149	0	0	0	0
Dividends	0	0	0	0	0
Other	-150	-4	-1	-1	-1
Change in cash	-11	16	89	83	66
Cash at beginning of year	60	49	65	153	236
Cash at end of year	49	65	153	236	302
Gross cash flow	165	158	202	244	278
Free cash flow	-2	-11	162	234	236

Note: * Excluding one-off items

** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Current assets	228	233	317	415	482
Cash & equivalents	49	65	153	236	302
Accounts receivable	107	124	132	139	145
Inventories	0	0	0	0	0
Other current assets	73	44	32	39	36
Fixed assets	529	652	647	663	692
Investment assets	180	241	221	230	239
Tangible assets	8	8	5	4	3
Intangible assets	230	298	310	316	332
Other long-term assets	111	105	110	113	118
Total assets	757	884	964	1,078	1,174
Current liabilities	132	184	158	188	179
Accounts payable	6	17	15	23	25
Short-term debt	0	0	0	0	0
Other current liabilities	126	167	143	165	154
Long-term liabilities	16	17	18	20	22
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	16	17	18	20	22
Total liabilities	148	200	176	208	201
Owners of parent equity	609	684	788	870	973
Capital stock	15	15	15	15	15
Capital surplus	470	470	470	470	470
Retained earnings	123	162	229	311	414
Other	1	37	74	74	74
Non-controlling interests' equity	0	0	0	0	0
Total equity	609	684	788	870	973
Net debt	-38	-54	-146	-229	-295

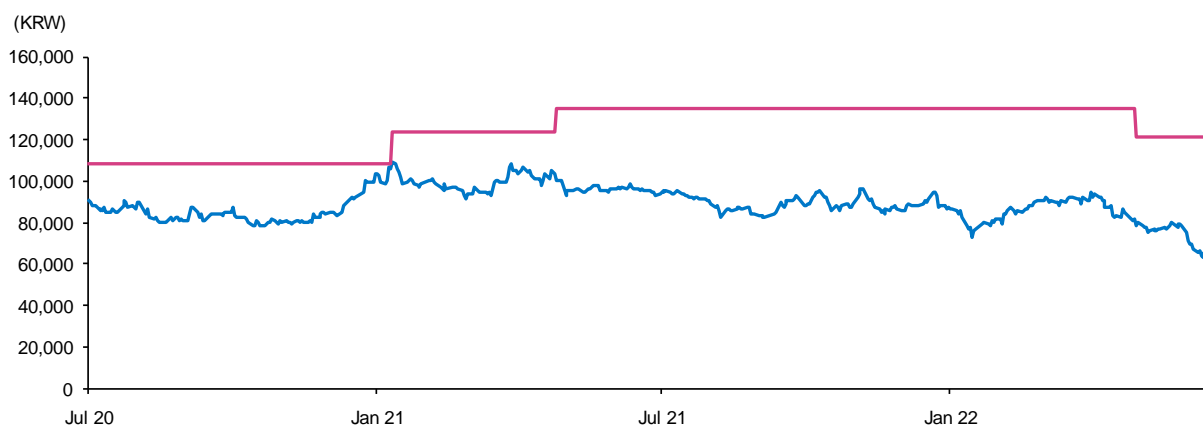
Financial ratios

Year-end Dec 31	2020	2021	2022E	2023E	2024E
Growth (%)					
Sales	12.2	-7.3	26.7	16.0	14.3
Operating profit	71.1	7.0	58.5	23.5	24.9
Net profit	12.1	31.8	71.1	23.2	25.0
Adjusted EPS**	10.9	24.6	71.1	23.2	25.0
Per-share data (KRW)					
EPS (parent-based)	1,044	1,301	2,227	2,743	3,429
EPS (consolidated)	1,044	1,301	2,227	2,743	3,429
Adjusted EPS**	1,044	1,301	2,227	2,743	3,429
BVPS	20,309	22,785	26,241	28,984	32,413
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	88.7	69.9	31.1	25.3	20.2
P/B***	4.6	4.0	2.6	2.4	2.1
EV/EBITDA	16.6	17.7	9.7	7.7	6.5
Ratios (%)					
ROE	5.7	6.0	9.1	9.9	11.2
ROA	4.4	4.8	7.2	8.1	9.1
ROIC	11.2	10.9	15.6	18.7	22.6
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	-6.3	-7.8	-18.6	-26.3	-30.3
Interest coverage (x)	84.8	67.6	127.8	201.6	251.7

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2020/1/14	2021/1/14	2021/1/22	5/7	2022/5/12	6/30
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	108000	108000	124000	135000	121000	103000
Gap* (average)	-23.70	-5.37	-19.74	-33.60	-39.04	
(max or min)**	-3.98	-1.02	-12.50	-25.78	-33.88	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
 ** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to 2022.03.31

BUY(85.4%)·HOLD(14.6%)·SELL(0%)

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