

Studio Dragon (253450 KQ)

HJ Kim
hoijae.kim@daishin.com

Rating **BUY**
maintain

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

CP (W)
(22.10.06) **67,400**

Media

On another level

BUY; 6M TP kept at W120,000

- Our target price of W120,000 for the production house is derived from a residual income model.

Both earnings and margins likely on uptrend in 3Q22

- We believe Studio Dragon earned OP of W19.1bn (down 29% qoq; up 31% yoy) on revenue of W120bn (down 21% qoq; up 7% yoy) in 3Q22. OP is largely unchanged from 2Q22 (W27.0bn), however, if excluding a W5.0-7.0bn bump it received from Disney+ (W5-7bn in sales of 10+ previously-aired drama series) in that quarter.

- It has been enjoying a gradual rise in quarterly earnings – W11bn in 2019, W15bn in 2020-2021, and an estimated W20bn this year – and margin improvement over the years. With the production house delivering more titles to various platforms (simultaneous releases and originals), its OP margin widened from 6.1% in 2019 to 9.3% in 2020 and reached 10.8% in 2021. This year, it's expected to hit about 15%.

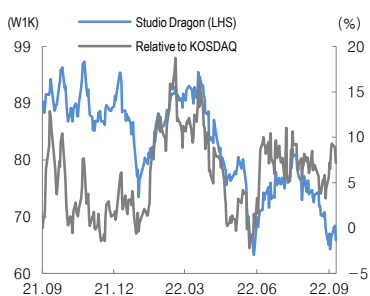
More projects, more streaming platforms secured

- Studio Dragon is predicted to extend, in November at the latest, its three-year contract (2020-2022) with Netflix, in which it supplied seven simultaneous debut titles and 2-3 originals to the streaming giant annually. It's likely to renew the deal at more favorable terms this time around i.e. wider than the 15-20% margin it is thought to have generated from previous projects.

- Its slate is getting bigger as well. The production house will not only offer more dramas to Disney+ in 4Q22, but also start delivering titles to new customers added this year, Amazon Prime and Apple TV+. Thanks to an expanded customer base (also added this year is Coupang Play), it's expected to end the year with 34 titles on its production slate (vs. 25 in 2021), with an eye of growing that to 37 in 2023. Until 2021, it delivered projects for tvN/OCN, tving, and Netflix.

- Its US push, which started with *The Big Door Prize* in 2022, will kick into high gear with *Plotters* in 2023. With about 15 dramas (including local dramas and remakes of Korean dramas) currently in production, Studio Dragon looks set to make great strides once the projects are on a stable footing in two to three years' time, given they cost about 10 times more to make and can lead to incentive payments (in the case of multi-season series).

KOSDAQ	705.99
Market cap (Wbn)	2,023
Market cap portion (%)	0.59
Paid-in capital (common; Wbn)	15
52w high/low (W)	96,400 / 63,200
120d avg. trading volume (Wbn)	9.0
Foreign ownership (%)	10.75
Major shareholders	CJ ENM+3: 54.87% NAVER: 6.25%
(%)	1M 3M 6M 12M
Abs. return	-11.6 -11.1 -28.3 -27.6
Rel. return	-0.5 -2.6 -0.3 1.0



	3Q21	2Q22	Previous estimate	3Q22(F)			4Q22			
				Daishin estimate	YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	116	157	165	124	6.7	-21.3	157	192	29.7	54.8
OP	15	27	20	19	31.1	-29.2	21	21	231.0	9.9
NP	15	26	16	15	2.0	-40.9	17	14	TTB	-7.4

Source: Studio Dragon, FnGuide, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, %)

	2020A	2021A	2022F	2023F	2024F
Revenue	526	487	594	692	696
OP	49	53	85	111	128
Pretax profit	42	52	92	122	141
NP	30	39	70	91	105
NP for contr. interest	30	39	70	91	105
EPS	1,044	1,301	2,342	3,048	3,512
PER	88.7	69.9	28.1	21.6	18.7
BPS	21,480	22,790	25,127	28,175	31,687
PBR	4.3	4.0	2.6	2.3	2.1
ROE	5.7	6.0	9.8	11.4	11.7

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Studio Dragon, Daishin Securities Research Center

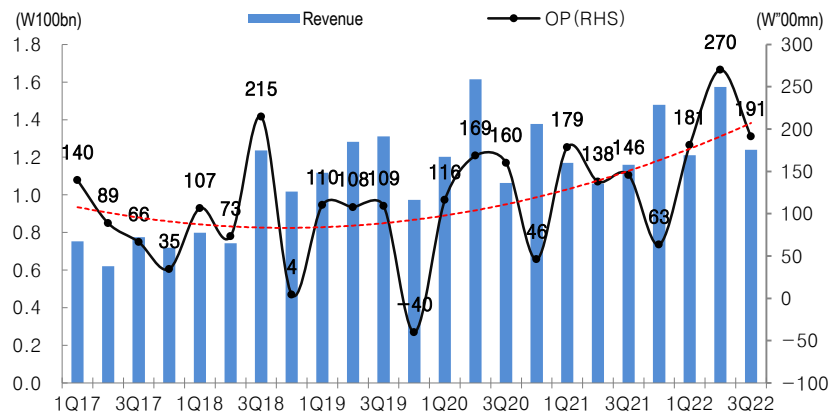
Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2022F	2023F	2022F	2023F	2022F	2023F
Revenue	606	621	594	692	-1.9	11.4
SG&A expense	31	33	31	33	0.0	0.0
OP	93	111	85	111	-8.7	-0.2
OP margin	15.4	17.8	14.3	16.0	-1.1	-1.9
Non-operating profit	9	8	7	11	-21.7	50.3
Pretax profit	102	118	92	122	-9.8	3.0
NP (controlling int.)	79	88	70	91	-10.6	4.4
NP margin	13.0	14.1	11.8	13.2	-1.2	-0.9
EPS (controlling int.)	2,620	2,918	2,342	3,048	-10.6	4.4

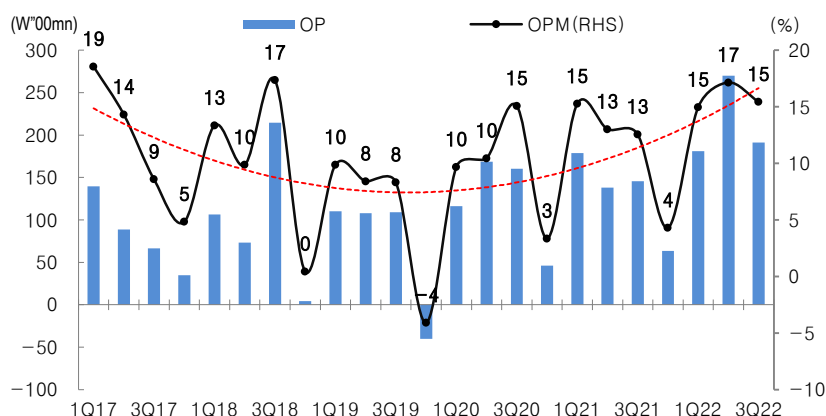
Source: Studio Dragon, Daishin Securities Research Center

Fig 1. 3Q22 OP forecast at W19.1bn (up 31% yoy); earnings and margins on gradual uptrend



Source: Studio Dragon, Daishin Securities Research Center estimates

Fig 2. 3Q22 OP margin estimated at 15%



Source: Studio Dragon, Daishin Securities Research Center estimates

Per share intrinsic value

Residual Income Model

(Wbn, W, %)

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
I NP (contr. int.) ^(Note 2)	70	92	105	121	138	158	182	209	241	277
II Shareholders' equity (contr. int.) ^(Note 2)	754	846	951	1,042	1,145	1,264	1,399	1,553	1,721	1,913
Estimated ROE	9.8	11.4	11.7	11.6	12.0	12.5	13.0	13.5		
III Required rate of return ^(Note 3)	5.8									
Risk free rate of return ^(Note 4)	2.7									
Market risk premium ^(Note 5)	4.0									
Beta	0.8									
IV Spread (estimated ROE – required rate of return)	5.5	5.5	5.9	5.9	6.4	6.9	7.4	7.9	8.4	8.9
V Required income	40	44	49	55	60	66	73	81	90	99
VI Residual income (I - V)	31	48	57	66	78	92	109	129	151	178
Present value factor	0.99	0.94	0.86	0.84	0.79	0.75	0.71	0.67	0.63	0.60
PV of residual income	31	45	50	55	61	69	77	86	96	106
VII Sum of residual income	675									
VIII PV of residual income following forecasting period	1,837									
Terminal growth (g) ^(Note 6)	0.0%									
IX Beginning shareholders' equity	684									
X Fair market cap (VII+VIII+IX)	3,196									
Total number of shares (thousands)	30,014									
XI Per share value (W)	106,484									
Current share price (W)	67,400									
Potential (%)	58.0%									

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	692	696
Cost of goods sold	451	407	478	549	534
Gross profit	75	80	117	143	162
SG&A expenses	26	27	31	33	35
OP	49	53	85	111	128
OP margin	9.3	10.8	14.3	16.0	18.4
EBITDA	165	152	269	328	376
Non-OP	-8	-1	7	11	13
Income from affiliates	0	0	0	0	0
Financial revenue	10	14	20	21	22
FX related gains	0	0	0	0	0
Financial expense	-14	-10	-13	-11	-11
FX related losses	10	5	0	0	0
Others	-4	-5	0	1	1
Income before taxes	42	52	92	122	141
Income tax expense	-12	-13	-22	-30	-35
Income from cont. op.	30	39	70	91	105
Income from discount. op.	0	0	0	0	0
NP	30	39	70	91	105
NP margin	5.6	8.0	11.8	13.2	15.1
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	30	39	70	91	105
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	3	35	35	35	35
Comprehensive income	32	74	105	127	141
Comp. income for non-contr. Int.	0	0	0	0	0
Comp. income for contr. int.	32	74	105	127	141

Valuation metrics	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
EPS	1,044	1,301	2,342	3,048	3,512
PER	88.7	69.9	28.1	21.6	18.7
BPS	21,480	22,790	25,127	28,175	31,687
PBR	4.3	4.0	2.6	2.3	2.1
EBITDAPS	5,828	5,054	8,946	10,913	12,517
EV/EBITDA	16.3	17.6	7.2	5.8	4.8
SPS	18,532	16,233	19,800	23,046	23,196
PSR	5.0	5.6	3.3	2.9	2.8
CFPS	5,803	5,254	8,786	10,856	12,457
DPS	0	0	0	0	1,000

Financial ratios	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
Growth potential					
Revenue growth	12.2	-7.3	22.0	16.4	0.7
OP growth	71.1	7.0	62.1	29.8	15.6
NP growth	12.1	31.8	80.0	30.2	15.2
Profitability					
ROIC	12.7	12.4	16.4	17.6	19.1
ROA	7.3	6.4	9.3	11.0	11.6
ROE	5.7	6.0	9.8	11.4	11.7
Stability					
Debt ratio	24.3	29.3	27.0	24.5	21.8
Net borrowings ratio	-14.8	-8.6	-4.7	-8.2	-18.2
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	237	295	399
Cash & cash equiv.	49	65	41	75	179
Trade & other receive.	107	124	151	176	177
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	958	1,053	1,158
Current liabilities	132	184	187	191	191
Payables & other liab.	57	78	81	85	85
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	207	207
Controlling interest	609	684	754	846	951
Capital stock	15	15	15	15	15
Capital surplus	470	470	470	470	470
Retained earnings	123	162	232	324	429
Other capital changes	1	37	37	37	37
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	609	684	754	846	951
Net borrowings	-90	-59	-36	-70	-173

Cash flow statement	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Operating cash flows	5	-8	63	119	185
NP	30	39	70	91	105
Non-cash items	135	119	193	234	268
Depreciation	116	99	183	217	248
FX gains	3	-1	0	0	0
Equity method gain	0	0	0	0	0
Others	15	21	10	17	21
Chg in assets & liab.	-144	-155	-199	-197	-177
Other cash flows	-15	-11	-2	-9	-12
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	-23	34	103
Beginning cash balance	60	49	65	41	75
Ending cash balance	49	65	41	75	179
NOPLAT	35	39	65	83	96
FCF	143	135	-6	46	94

[Compliance Notice]

In accordance with Subparagraph 5 of Paragraph 1 of Article 4-20 of the supervisory regulations for the financial investment industry, we confirm that no information or content has been shared prior to its release on Daishin's website, and that the analyst has not received nor will receive direct or indirect compensation in exchange for expressing specific opinions. Daishin is not affiliated with the company presented in this report. This report has been presented without any undue external influence or interference, and accurately reflects the personal views of the analyst who is responsible for its content.

This report is distributed for the purpose of helping investors make informed decisions. This report has been prepared from the data and information believed to be correct and reliable, but Daishin Securities does not make any guarantee as to the accuracy thereof. Investors reading this report should make final decisions based on their own judgment.

For U.S. persons only: For U.S. persons only: This independent third party research report is a product of Daishin Securities, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This independent third-party research report is distributed in the United States ("US") to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities and Exchange Act of 1934, as amended) by Maybank Kim Eng Securities USA Inc. ("Maybank KESUSA") and Auerbach Grayson and Company LLC, broker-dealers registered in the US (registered under Section 15 of the Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Maybank KESUSA in the US shall be borne by Maybank KESUSA. All responsibility for the distribution of this report by Auerbach Grayson and Company LLC shall be borne by Auerbach Grayson and Company LLC.

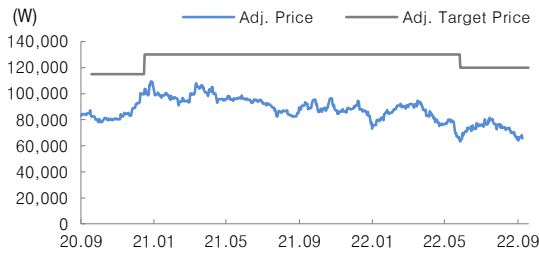
If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Daishin Securities has entered into an agreement with two U.S. registered broker-dealers, Maybank Kim Eng Securities USA Inc and Auerbach Grayson and Company LLC. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security mentioned within must do so with: Maybank Kim Eng Securities USA Inc. 400 Park Avenue 11th Floor New York, New York 1- (212) 688-8886 or Auerbach Grayson and Company LLC 25 West 45th Street, New York, NY 10036 and not with the issuer of this report.

Analyst Certification of Independence

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

[Investment rating & Target price history]

Studio Dragon (253450 KQ)



Date	22.10.07	22.06.23	22.01.12	21.07.12	21.01.12	20.10.15
Rating	Buy	Buy	6M passed.	6M passed.	Buy	Buy
Target price	120,000	120,000	130,000	130,000	130,000	115,000
Diff. (avr. %)		(38.91)	(35.98)	(31.37)	(24.22)	(26.88)
Diff. (max/min, %)		(32.08)	(27.23)	(25.85)	(16.00)	(12.70)
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						

Investment rating breakdown and framework (Oct 4, 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.