

Studio Dragon (253450 KQ)

HJ Kim
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Rating **BUY**
maintain

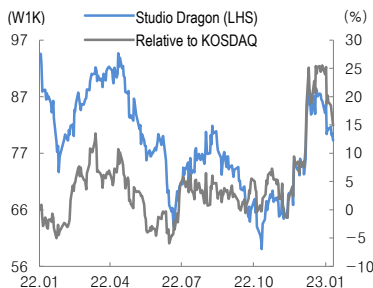
6M TP (W) **120,000**
maintain

CP (W)
(23.01.12) **78,800**

Media

KOSDAQ	710.82
Market cap (Wbn)	2,369
Market cap portion (%)	0.71%
Paid-in capital (common; Wbn)	15
52w high/low (W)	94,600 / 59,100
120d avg. trading volume (Wbn)	11.2
Foreign ownership (%)	11.01
Major shareholders	CJ ENM+3: 54.79% Naver: 6.25%

(%)	1M	3M	6M	12M
Abs. return	-11.4	29.4	10.5	-9.8
Rel. return	-10.8	22.3	16.7	25.7



Series renewals in focus in 2023

BUY; 6M TP maintained at W120,000

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

4Q22 results to reflect top-line growth, disappointing profitability

- We believe Studio Dragon earned OP of W7.4bn (down 61% qoq; up 17% yoy) on revenue of W170.0bn (down 25% qoq; up 17% yoy) in 4Q22, falling short of expectations, as it likely recognized limited revenue from the new series *Island* (only for two episodes) and was affected by depreciation and amortization – i.e. PPA amortization from its recently acquired Gill Pictures, the production house behind the drama series *One the Woman*, *Juvenile Justice*, and *The Fabulous*, and expenses related to a number of titles that ended in 3Q22, which were amplified by a smaller programming slate in 4Q22. Such costs tend to weigh on year-end earnings, but its profits could come in higher this year given its quarterly OP averaged W21.3bn over the first three quarters of 2022 (vs. W15.4bn in 2021, W15.0bn in 2020, and W10.9bn in 2019.)
- That put full-year 2022 OP and revenue at W71.5bn (up 36% yoy) and W680.0bn (up 40% yoy), respectively. For 2023, they are forecast to reach W91.0bn (up 27%) and W770.0bn (up 14%), respectively.

2023 to see series renewals, bigger slate (& projects), improved margins

- Studio Dragon has 37 productions on its slate this year (three more than in 2022, which saw an uptick of nine from the previous year), including *The Glory Part 2*, *Island Part 2*, *Duty After School*, and *Song of the Bandits*, which will bring in much more revenue per episode (estimated at W1.8bn, up from W0.7bn in 2017).
- It is also projected to supply more titles for simultaneous release on streaming platforms (i.e. Netflix and Disney+) and cable TV (ten such titles in 2020 vs. one in 2017). There's also a shift toward series renewals (i.e. successful series picked up for another season), which tend to sell well and offer an additional incentive. *Poong*, *the Joseon Psychiatrist 2*, *Tale of the Nine Tailed 1938*, *Arthdal Chronicles 2*, *The Uncanny Counter 2*, *Sweet Home 2*, *Shadow Detective 2* and *Juvenile Justice 2* are some sequels (or prequels) in the works.
- It is expected to renew its contract with Netflix and secure more long-term deals with other global platforms, which should lead to better margins. Its three-year partnership with Netflix (2020-2022) has thrust Studio Dragon into new areas i.e. simultaneously-released titles and Netflix originals (about six and two projects, respectively, a year). Margins from simultaneous releases (i.e. titles that aired on tvN and Netflix at the same time), in particular, are predicted to be over 20%.

(continued on next page)

(Wbn, %)

	4Q21	3Q22	Previous estimate	Daishin estimate	4Q22(F)			1Q23		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	148	229	200	173	16.9	-24.5	167	206	70.2	19.2
OP	6	19	18	7	16.6	-60.9	15	22	21.5	197.3
NP	-1	18	14	7	TTB	-61.4	8	20	26.0	186.1

* TTB = turn to black

Source: Studio Dragon, FnGuide, Daishin Securities Research Center

- Shares in Studio Dragon soared in November as Netflix saw an uptick in its shares after announcing a return to net subscriber growth (effectively bringing its stock closer to a fair price range). The release of highly-anticipated series in November and December and expectations around a potential reentry into China also offered a boost. In 2022, 15 Korean drama series were available on Chinese platforms, including nine from the CJ ENM-Studio Dragon tie-up.
- With 2023 titles yet to be released and China's reopening still uncertain, the stock now seems to be in correction mode. But the uptrend should resume as new titles air, following the company's 2023 strategy reveal in early February.

Operating results and major financial data

(Wbn, W, x, %)

	2020A	2021A	2022F	2023F	2024F
Revenue	526	487	680	774	881
OP	49	53	71	91	117
Pretax profit	42	52	85	106	133
NP	30	39	66	81	101
NP for contr. interest	30	39	66	81	101
EPS	1,044	1,301	2,196	2,689	3,364
PER	88.7	69.9	39.2	29.8	23.8
BPS	21,480	22,790	24,977	27,634	30,998
PBR	4.3	4.0	3.2	2.9	2.5
ROE	5.7	6.0	9.2	10.2	11.5

* EPS, BPS, and ROE based on the controlling interest
 Source: Studio Dragon, Daishin Securities Research Center

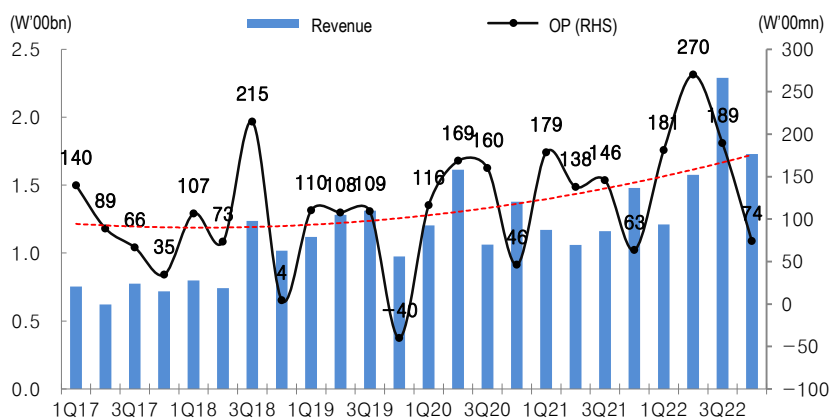
Full-year earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Change	
	2022F	2023F	2022F	2023F	2022F	2023F
Revenue	708	755	680	774	-3.8	2.5
SG&A expense	32	34	37	39	15.8	14.7
OP	82	105	71	91	-12.9	-13.1
OP margin	11.6	13.8	10.5	11.7	-1.1	-2.1
Non-operating profit	14	17	14	16	0.0	-8.8
Pretax profit	96	122	85	106	-11.0	-12.5
NP (controlling int.)	73	92	66	81	-9.8	-12.5
NP margin	10.3	12.2	9.7	10.4	-0.6	-1.8
EPS (controlling int.)	2,435	3,074	2,196	2,689	-9.8	-12.5

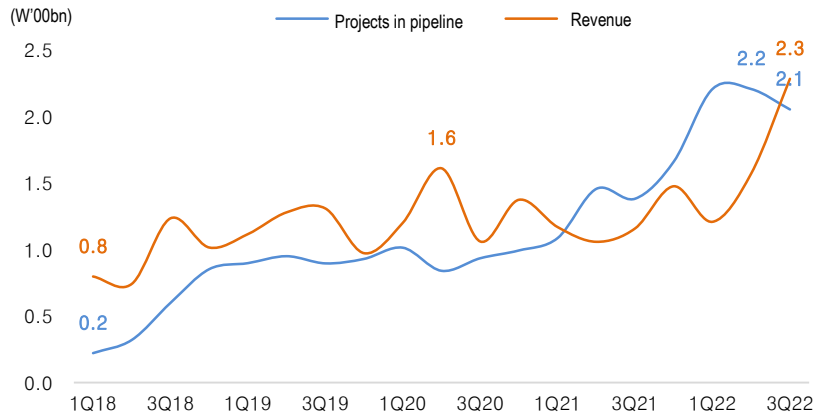
Source: Studio Dragon, Daishin Securities Research Center

Fig 1. Earnings on gradual upward trajectory



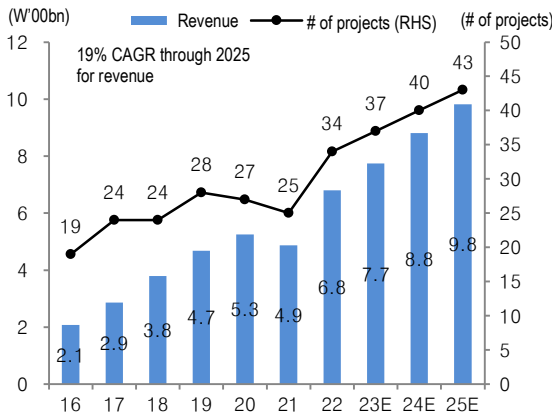
Source: Studio Dragon, Daishin Securities Research Center

Fig 2. Plenty of projects in pipeline



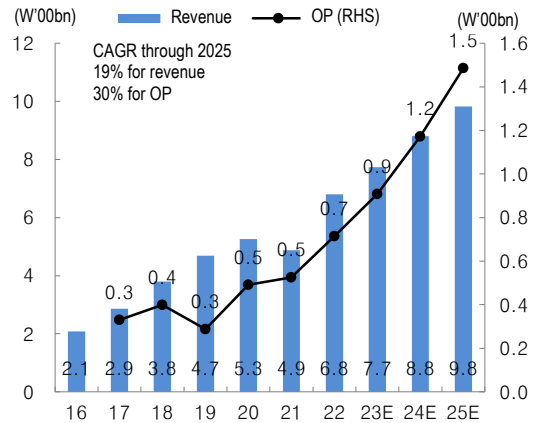
Source: Studio Dragon, Daishin Securities Research Center

Fig 3. More projects, more revenue



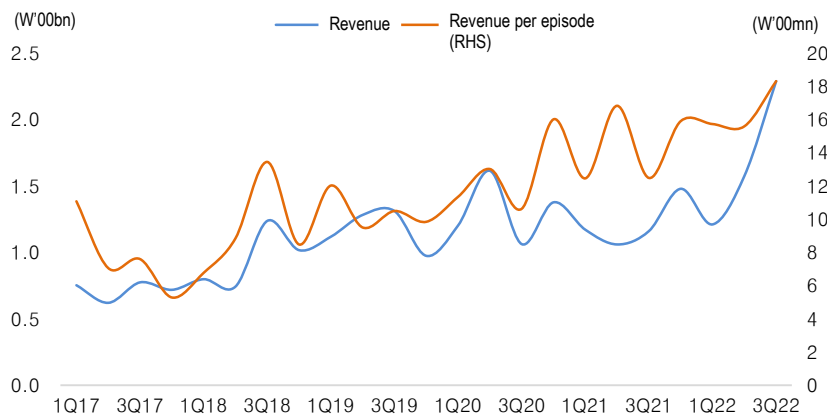
Source: Studio Dragon, Daishin Securities Research Center

Fig 4. OP growth to outpace revenue



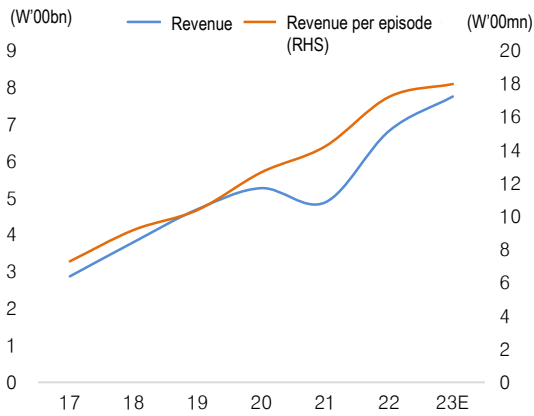
Source: Studio Dragon, Daishin Securities Research Center

Fig 5. More projects, more revenue per episode



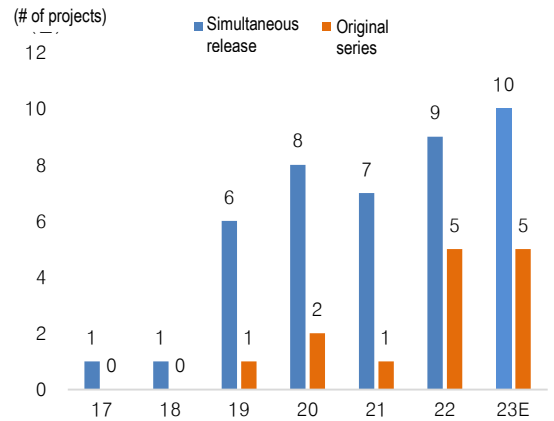
Source: Studio Dragon, Daishin Securities Research Center

Fig 6. Revenue per episode



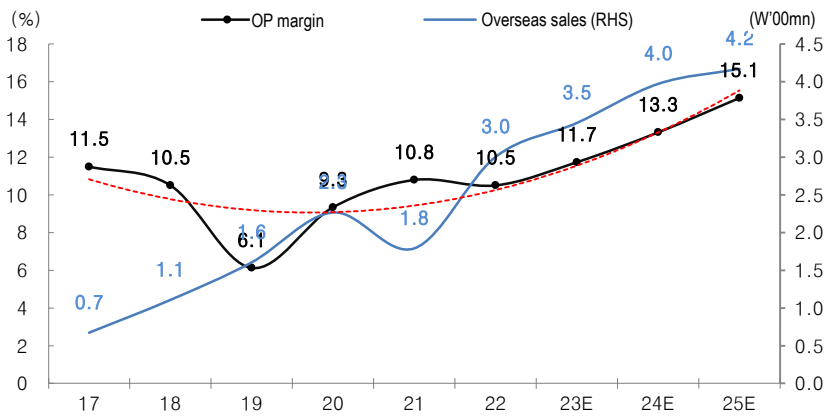
Source: Studio Dragon, Daishin Securities Research Center

Fig 7. Growing slate of projects (Netflix, Disney+)



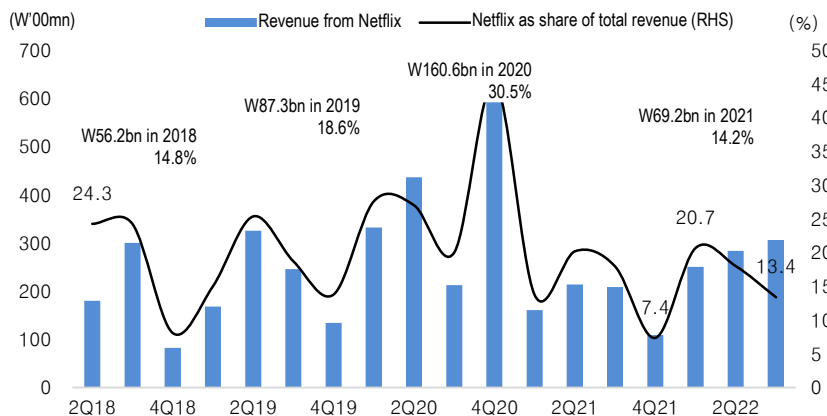
Source: Studio Dragon, Daishin Securities Research Center

Fig 8. Margin improving on overseas sales growth



Source: Studio Dragon, Daishin Securities Research Center

Fig 9. About 15% of revenue from all-important Netflix



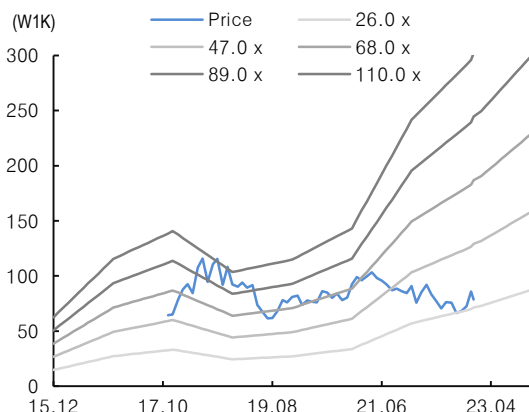
Source: Studio Dragon, Daishin Securities Research Center

Tab 1. Korean drama series available on Chinese OTT in 2022

	China release	Title	Distribution in China	Distribution in Korea	Korea release	Production
1	1/4	Saimdang, Memoir of Colors	Mango TV	SBS	1Q17	Group Eight, Emperor Entertainment Korea
2	3/3	Something in the Rain	iQIYI	JTBC	1Q18	JTBC Studios, Content K
3	3/3	Another Miss Oh	Bilibili	tvN	2Q16	Studio Dragon, Chorokbaem Media
4	3/3	Queen and I	Bilibili	tvN	2Q12	Chorokbaem Media
5	3/6	Prison Playbook	Bilibili	tvN	4Q17	CJ ENM
6	3/8	Now, We Are Breaking Up	Youku	SBS	4Q21	Samhwa Networks, UAA
7	3/26	What's Wrong with Secretary Kim	iQIYI	tvN	2Q18	Studio Dragon, Bon Factory
8	4/11	Hospital Playlist 2	Bilibili	tvN	2Q21	Egg is coming
9	4/22	While You Were Sleeping	Tencent Video	SBS	3Q17	iHQ
10	5/16	Itaewon Class	Youku	JTBC	1Q20	JTBC Studios, Showbox, Zium Content
11	5/-	Nin		tvN	1Q13	Chorokbaem Media, JS Pictures
12	5/25	Bad and Crazy	iQIYI	tvN	4Q21	Studio Dragon, Mink Entertainment
13	12/8	Hospital Playlist 1	Bilibili	tvN	1Q20	Egg is coming
14	12/12	Twenty-Five Twenty-One	Youku	tvN	1Q22	Studio Dragon, Hwa&Dam Pictures
15	N/A	Inspector Koo	Youku	JTBC	4Q21	JTBC Studios, KeyEast, Group Eight

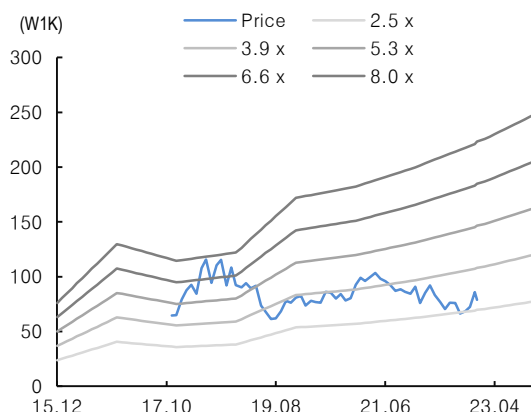
Source: media reports, Daishin Securities Research Center

Fig 10. 12MF P/E band



Source: FnGuide, Daishin Securities Research Center

Fig 11. 12MF P/B band



Source: FnGuide, Daishin Securities Research Center

Intrinsic value of Studio Dragon stock

Residual income model ¹		(Wbn, W, %)									
		2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
I	NP (contr. int.) ²	81	101	125	154	177	203	234	269	309	355
II	Shareholders' equity (contr. int.) ²	831	932	1,026	1,146	1,283	1,433	1,606	1,793	2,008	2,255
	Estimated ROE	10.2	11.5	12.2	13.4	13.8	14.2	14.5	15.0	15.4	15.8
III	Required rate of return ³	6.6									
	Risk free rate of return ⁴	3.2									
	Market risk premium ⁵	4.0									
	Beta	0.8									
IV	Spread (estimated ROE–required rate of return)	3.7	4.9	5.6	6.8	7.2	7.6	8.0	8.4	8.8	9.2
V	Required income	49	55	61	68	75	84	94	106	118	132
VI	Residual income (I-V)	32	47	64	86	101	119	139	163	191	223
	Present value factor	0.94	0.88	0.83	0.78	0.72	0.68	0.64	0.60	0.56	0.53
	PV of residual income	30	41	53	67	74	81	89	98	108	118
VII	Sum of residual income	758									
VIII	PV of residual income following forecasting period	1,797									
	Terminal growth (g) ⁶	0.0%									
IX	Beginning shareholders' equity	750									
X	Fair market cap (VII+VIII+IX)	3,305									
	Total number of shares (thousands)	30,058									
XI	Per share value (W)	109,957									
	Current share price (W)	78,800									
	Potential (%)	39.5%									

¹ Under the residual income model (RIM), the value of shareholders' stakes is derived via the current shareholders' equity to the residual income based on estimated earnings for the next ten years and the residual income after the forecast period. This is considered less subjective than similar valuation models such as DDM, DCF, and EVA.

² Only earnings from consolidated subsidiaries based on the stake controlled by the company are reflected.

³ The rate of return expected by shareholders who take risk (i.e. cost of equity), which is derived by a capital asset price model: risk-free interest rate+beta*market risk premium.

⁴ The yield on five-year government bonds was used as the proxy for the risk-free interest rate.

⁵ The gap between the expected return on the market portfolio and the risk-free interest rate, which has been lowered to 3-5% from 6-8% in reflection of the current low-growth environment.

⁶ No growth (zero terminal growth rate) is applied.

Financial statements

Income statement	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Revenue	526	487	680	774	881
Cost of goods sold	451	407	572	644	722
Gross profit	75	80	108	130	158
SG&A expenses	26	27	37	39	41
OP	49	53	71	91	117
OP margin	9.3	10.8	10.5	11.7	13.3
EBITDA	165	152	255	308	365
Non-OP	-8	-1	14	16	16
Income from affiliates	0	0	0	0	0
Financial revenue	10	14	37	36	37
FX related gains	0	0	0	0	0
Financial expense	-14	-10	-23	-22	-22
FX related losses	10	5	0	0	0
Others	-4	-5	0	1	1
Income before taxes	42	52	85	106	133
Income tax expense	-12	-13	-19	-26	-32
Income from cont. op.	30	39	66	81	101
Income from discount. op.	0	0	0	0	0
NP	30	39	66	81	101
NP margin	5.6	8.0	9.7	10.4	11.5
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	30	39	66	81	101
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	3	35	35	35	35
Comprehensive income	32	74	101	116	136
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	32	74	101	116	136

Valuation metrics	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
EPS	1,044	1,301	2,196	2,689	3,364
PER	88.7	69.9	39.2	29.8	23.8
BPS	21,480	22,790	24,977	27,634	30,998
PBR	4.3	4.0	3.2	2.9	2.5
EBITDAPS	5,828	5,054	8,486	10,238	12,142
EV/EBITDA	16.3	17.6	9.2	7.6	6.2
SPS	18,532	16,233	22,664	25,746	29,293
PSR	5.0	5.6	3.5	3.1	2.7
CFPS	5,803	5,254	8,719	10,511	12,415
DPS	0	0	0	0	1,000

Financial ratios	(W, x, %)				
	2020A	2021A	2022F	2023F	2024F
Growth potential					
Revenue growth	12.2	-7.3	39.7	13.7	13.8
OP growth	71.1	7.0	35.9	27.1	29.1
NP growth	12.1	31.8	68.8	22.7	25.1
Profitability					
ROIC	12.7	12.4	13.6	14.1	16.8
ROA	7.3	6.4	7.8	9.1	10.7
ROE	5.7	6.0	9.2	10.2	11.5
Stability					
Debt ratio	24.3	29.3	27.6	25.3	23.0
Net borrowings ratio	-14.8	-8.6	-1.7	-4.4	-12.1
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	235	283	387
Cash & cash equiv.	49	65	18	42	119
Trade & other receive.	107	124	173	196	223
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	957	1,041	1,146
Current liabilities	132	184	190	194	197
Payables & other liab.	57	78	84	88	91
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	207	210	214
Controlling interest	609	684	750	831	932
Capital stock	15	15	15	15	15
Capital surplus	470	470	470	470	470
Retained earnings	123	162	228	308	410
Other capital changes	1	37	37	37	37
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	609	684	750	831	932
Net borrowings	-90	-59	-12	-37	-113

Cash flow statement	(Wbn)				
	2020A	2021A	2022F	2023F	2024F
Operating cash flows	5	-8	39	110	158
NP	30	39	66	81	101
Non-cash items	135	119	196	235	272
Depreciation	116	99	183	217	248
FX gains	3	-1	0	0	0
Equity method gain	0	0	0	0	0
Others	15	21	13	18	24
Chg in assets & liab.	-144	-155	-218	-196	-199
Other cash flows	-15	-11	-4	-10	-16
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	-46	24	76
Beginning cash balance	60	49	65	18	42
Ending cash balance	49	65	18	42	119
NOPLAT	35	39	55	69	89
FCF	143	135	-15	32	87

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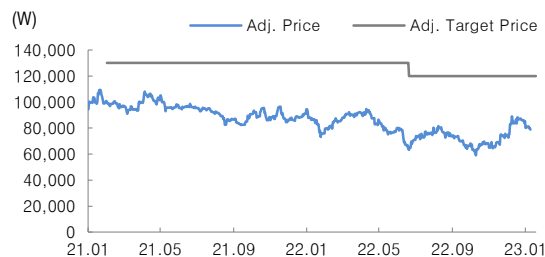
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Target price history & investment rating

Studio Dragon (253450 KQ)



Date	23.01.13	22.12.23	22.06.23	22.02.04	21.08.04	21.02.04
Rating	Buy	6M passed	Buy	6M passed	6M passed	Buy
Target price	120,000	120,000	120,000	130,000	130,000	130,000
Diff. (avg %)		(30.92)	(39.41)	(35.74)	(32.56)	(25.17)
Diff. (max/min, %)		(27.25)	(25.92)	(27.23)	(25.85)	(16.92)
Date						
Rating						
Target price						
Diff. (avg %)						
Diff. (max/min, %)						
Date						
Rating						
Target price						
Diff. (avg %)						
Diff. (max/min, %)						

Investment rating (Jan 10, 2023)

	Buy	Marketperform	Underperform
Ratio	91.9%	8.1%	0.0%

Sector ratings

- Overweight rating denotes industry indicators are expected to outperform the market over the next six months.
- Neutral rating denotes industry indicators are expected to be in line with the market over the next six months.
- Underweight rating denotes industry indicators are expected to underperform the market over the next six months.

Company ratings

- Buy rating denotes the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform rating denotes the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform rating denotes the stock is expected to underperform the market by at least 10%p over the next six months