

Studio Dragon

(253450 KQ)

Our top pick in the media sector

Buy
(Initiate)

TP: W88,000
Upside: 26.8%

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Valuation

Initiate with Buy rating and TP of W88,000

- We derived our target price for Studio Dragon by applying a target P/E of 46x to our 2023F EPS of W1,912.
- Apple TV+'s *The Big Door Prize*, Studio Dragon's biggest-budget production ever, has been officially renewed for a second season. And in 2023, we expect to see increases in both the number and scale of productions, margin improvement, and further OTT customer base diversification. We present the stock as our top pick in the media sector.

1Q23 preview

Growth to accelerate toward 2H23

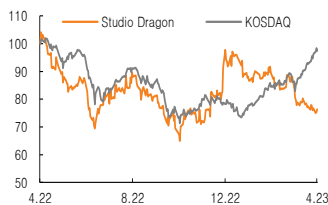
- At end-2022, Studio Dragon renewed its contract with Netflix under more favorable terms, which should support margin improvements through higher recoup rates. We believe this began to translate into earnings in 1Q23 (when *Crash Course in Romance* was released).
- We estimate IP licensing revenue grew to W107.7bn in 1Q23. Despite a tough comparison caused by one-off gains in 1Q22 (from increased deals in overseas markets), we believe revenue from IP sales climbed YoY due to a rise in the number of episodes aired (from 74 in 1Q22 to 108 in 1Q23).
- In 2Q23, we see stable earnings growth continuing on the back of the simultaneous airing of *Pandora: Beneath the Paradise* and *Family* on TVING and Disney+.

2023 outlook

2023F revenue of W873.1bn (+25% YoY) and OP of W83.6bn (+28% YoY)

- The number of Studio Dragon productions airing this year should increase to 35 (+2 YoY), including 10 simultaneous releases and nine multi-season series (categories that should drive faster margin improvements).
- The renewal of the Netflix contract under more favorable terms should support margin improvements. In 2020, after the company initially entered into its contract with Netflix, OP margin jumped 3%p YoY and operating profit surged 70% YoY.
- Compared to 2020, profit growth is likely to be somewhat limited given the high proportion of original programming in the firm's productions supplied to Netflix.

Key data



Current price (4/12/23, W)	69,400	Market cap (Wbn)	2,086
OP (23F, Wbn)	84	Shares outstanding (mn)	30
Consensus OP (23F, Wbn)	88	Free float (%)	45.2
EPS growth (23F, %)	12.8	Foreign ownership (%)	9.6
P/E (23F, x)	36.5	Beta (12M)	0.31
Market P/E (23F, x)	15.4	52-week low (W)	59,100
KOSDAQ	890.62	52-week high (W)	94,600

Share performance

(%)	1M	6M	12M
Absolute	-13.4	14.0	-23.7
Relative	-23.3	-14.1	-21.7

Earnings and valuation metrics

(Dec.)	2020	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	526	487	698	873	982	1,105
OP (Wbn)	49	53	65	84	103	116
OP margin (%)	9.3	10.9	9.3	9.6	10.5	10.5
NP (Wbn)	30	39	51	57	64	114
EPS (W)	1,044	1,301	1,684	1,912	2,129	3,785
ROE (%)	5.7	6.0	7.5	8.6	9.1	14.3
P/E (x)	88.7	69.9	51.1	36.5	32.6	18.3
P/B (x)	4.6	4.0	3.9	3.1	2.8	2.4
Div. yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Securities Research estimates

I. 2023 outlook

2023 outlook and valuation

We initiate our coverage on Studio Dragon with a Buy call and target price of W88,000. In deriving our target price, we applied a target P/E of 46x to our 2023F EPS of W1,912.

We present Studio Dragon as our top pick in the sector. We believe the company is well-positioned for both top-line growth and margin expansion, driven by: 1) a YoY increase in the number of productions; 2) higher recoup rates following the renewal of its Netflix contract under more favorable terms at end-2022; and 3) customer base diversification (overseas OTT platforms). Heading into 2H23, a higher mix of tentpole and original programming should support stable growth QoQ.

Table 1. Studio Dragon: TP calculation

	Value	Notes
2023F NP attr. to owners of the parent (Wbn)	57	
No. of shares ('000)	30,058	
EPS (W)	1,912	
Target P/E (x)	46	2022 avg. P/E
TP (W)	88,000	
CP (W)	69,400	
Upside (%)	26.8	

Note: As of Apr. 12 close

Source: Mirae Asset Securities Research

Table 2. Studio Dragon: Quarterly and annual earnings

(Wbn)

	1Q22	2Q22	3Q22	4Q22	1Q23F	2Q23F	3Q23F	4Q23F	2022	2023F	2024F
Revenue	121	157	229	191	170	202	224	277	698	873	982
Programming	35	44	59	54	54	39	57	58	193	208	229
Licensing	78	104	166	133	108	149	158	209	480	624	714
Other	8	10	4	4	9	13	9	10	25	41	39
OP	18.1	27.0	18.9	1.2	18.7	27.3	26.7	10.9	65	84	102
OP margin	15%	17%	8%	1%	11%	14%	12%	4%	9%	10%	10%
NP	16	26	18	-8	13	28	23	12	51	57	64
YoY											
Revenue	3%	49%	97%	29%	41%	28%	-2%	45%	43%	25%	12%
Programming	-19%	55%	64%	2%	52%	-11%	-4%	7%	19%	8%	11%
Licensing	23%	54%	155%	66%	39%	44%	-5%	57%	74%	30%	14%
Other	-22%	-5%	-75%	-75%	10%	38%	151%	164%	-50%	65%	-6%
OP	1%	96%	30%	-81%	3%	1%	41%	826%	24%	28%	23%

Source: Company data, Mirae Asset Securities Research

II. Investment points

1. Bigger-budget titles to boost top-line growth

1) Revenue to expand on larger-scale productions

In 2023, we forecast Studio Dragon's revenue to jump 25% YoY to W873.1bn, continuing robust growth, thanks to growth in both the number and scale of productions. The number of Studio Dragon titles airing this year should increase to 35 (+2 YoY), including 19 for TV channels and 16 for OTT platforms. Furthermore, an increase in multi-season shows (nine titles) and a more diversified customer base (Apple TV+ in addition to Netflix and Disney+) should drive qualitative growth this year.

Table 3. Studio Dragon: 2023 pipeline

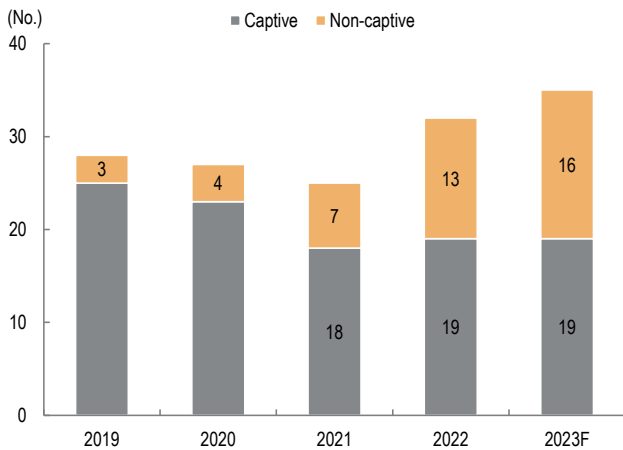
	Channel/platform	Title	Air dates	No. of episodes	Notes
1	tvN	<i>Alchemy of Souls</i> (part 2)	12/10/22-1/8/23	10	Simultaneous (Netflix)
2		<i>Missing: The Other Side</i> (season 2)	12/19/22-1/31/23	14	
3		<i>Poong, the Joseon Psychiatrist</i> (season 2)	1/11/23-2/9/23	10	
4		<i>Crash Course in Romance</i>	1/14/23-5/23	16	Simultaneous (Netflix)
5		<i>Our Blooming Youth</i>	2/6/23-4/11/23	20	
6		<i>The Heavenly Idol</i>	2/15/23-3/23/23	12	
7		<i>Pandora: Beneath the Paradise</i>	3/11/23-4/30/23	16	Simultaneous (Disney+)
8		<i>Stealer: The Treasure Keeper</i>	4/12/23-5/18/23	12	
9		<i>Family</i>	4/17/23-5/23/23	12	Simultaneous (Disney+)
10		<i>Tale of the Nine Tailed 1938</i>	5/6/23-6/11/23	12	
11	TVING	<i>Delightfully Deceitful</i>	5/29/23-7/18/23	16	
12		<i>See You in My 19th Life</i>	6/23	12	Simultaneous (Netflix)
13		<i>Truth</i>	6/23	16	
14		<i>The Uncanny Counter</i> (season 2)	7/23		
15		<i>Arthdal Chronicles: The Sword of Aramoon</i>	2023	12	
16		<i>Queen of Tears</i>	2023		
17		<i>Island</i> (part 1)	12/30/22-1/13/23	6	Original
18		<i>Island</i> (part 2)	2/24/23-3/10/23	6	Original
19		<i>Duty After School</i> (part 1)	3/31/23	6	Original
20		<i>Duty After School</i> (part 2)	4/1/23	4	Original
21	Netflix	<i>The Glory</i> (part 2)	3/10/23	8	Original
22		<i>Celebrity</i>	2023	12	Original
23		<i>Song of the Bandits</i>	2023		Original
24		<i>Gyeongseong Creature</i> (season 1)	2023	10	Original
25		<i>Doona!</i>	2023	8	Original
26		<i>Sweet Home</i> (season 2)	2023		Original
27	Disney+	<i>Shadow Detective</i> (season 2)	7/23		Original
28	Apple TV+	<i>The Big Door Prize</i> (season 1)	3/31/23-5/17/23	10	2H22
29		<i>The Big Door Prize</i> (season 2)	2023		
30	Coupang Play	<i>Decoy</i> (part 1)	1/27/23-2/10/23	6	
31		<i>Decoy</i> (part 2)	4/7/23-4/21/23	6	1Q23

Source: Mirae Asset Securities Research

2) Production capacity to remain robust amid growing content demand

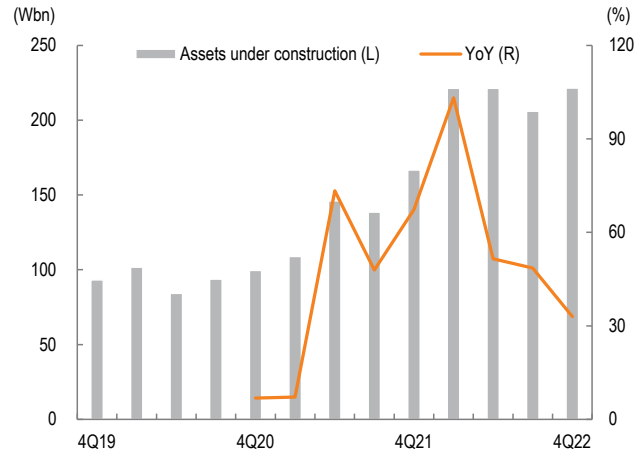
During the production of a show, Studio Dragon recognizes production costs as intangible assets under construction. Once production is complete and the show is aired, a portion of these assets are booked as production costs, with the remainder recognized through licensing rights. With the proliferation of platforms/channels, demand for content is increasing. In 4Q22, Studio Dragon's intangible assets under construction grew 33% YoY to W221.5bn, underpinned by the company's robust production capacity (especially for large-scale titles). Going forward, intangible assets under construction should continue to expand on the back of increasing content production.

Figure 1. Studio Dragon: Annual no. of titles produced



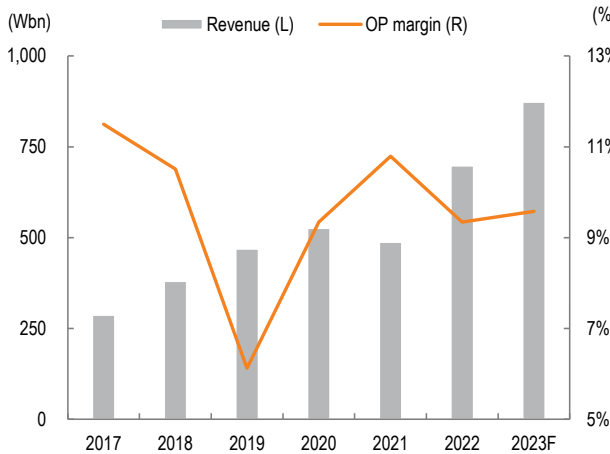
Source: Company data, Mirae Asset Securities Research

Figure 2. Studio Dragon: Intangible assets under construction



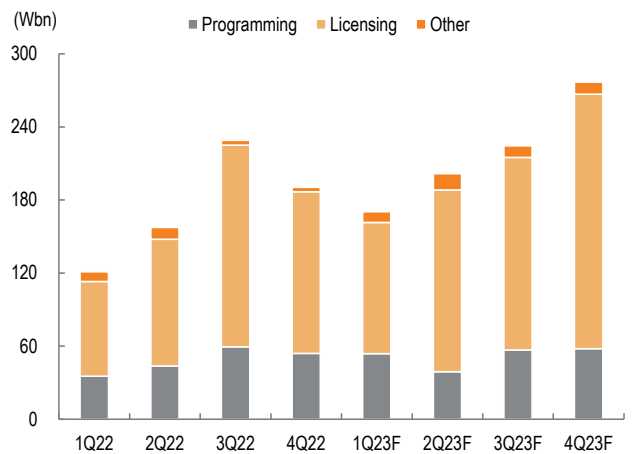
Source: Company data, Mirae Asset Securities Research

Figure 3. Studio Dragon: Revenue and OP margin



Source: Company data, Mirae Asset Securities Research

Figure 4. Studio Dragon: Revenue by business



Source: Company data, Mirae Asset Securities Research

2. Contract with Netflix renewed on more favorable terms

1) Increase in simultaneously aired titles

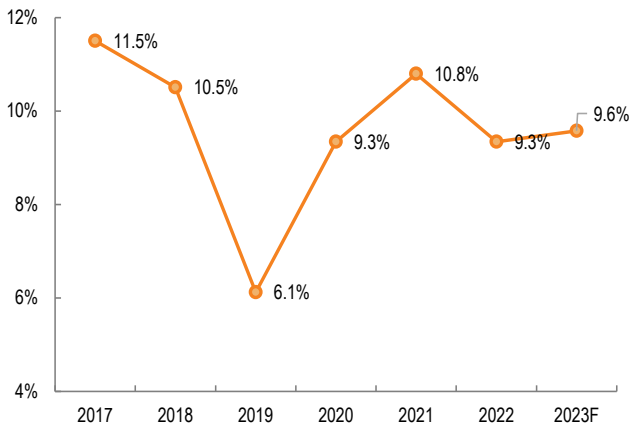
The content supply arrangement most favorable to Studio Dragon’s margins is simultaneous airing. In 2023, we expect margins to improve YoY on an increased number of simultaneously aired titles and the effects of more favorable contract terms. Because production costs are largely fixed in nature, supplying a single title to multiple outlets is positive to margins. The average recoup rate of simultaneously aired shows is 90-110% (50-60% from a TV channel and 40-50% from an OTT platform). When adding another 10-20% from other sources such as sponsorships, ads, and soundtracks, the total recoup rate could reach 120-130%. We believe Studio Dragon’s recoup rate could rise sharply, driven by the effects of simultaneous airing on OTT platforms. The company has 10 shows that will be simultaneously aired on global OTT platforms in 2023.

2) In 2020, OP grew 70% YoY following Netflix deal

In late 2019, Studio Dragon signed a three-year deal with Netflix. Following this, new title ASP rose 19% YoY in 2020 and continued to exhibit strong gains in subsequent years. The company also saw an increase in the number of titles produced and a higher recoup rate. As a result, operating profit surged more than 70% YoY from W28.7bn (OP margin of 6%) in 2019 to W49.1bn (OP margin of 9%) in 2020.

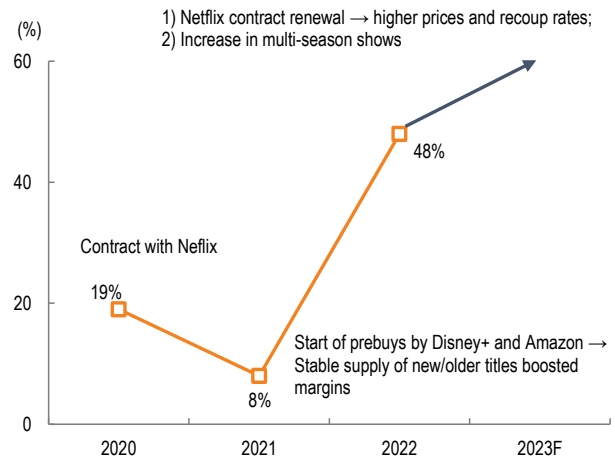
In late 2022, Studio Dragon renegotiated its contract with Netflix on more favorable terms. In our view, this suggests the company is being recognized for its strong content production capabilities. Under the new deal, which applies to simultaneously aired titles, the company should benefit from higher recoup rates this year. (It does not apply to original and multi-season shows, for which contracts are negotiated individually.)

Figure 5. Studio Dragon: OP margin trend and outlook



Source: Company data, Mirae Asset Securities Research

Figure 6. Studio Dragon: New title ASP growth



Source: Company data, Mirae Asset Securities Research

Studio Dragon (253450 KQ)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	698	873	982	1,105
Cost of revenue	598	746	831	935
GP	100	127	151	170
SG&A expenses	35	43	48	54
OP (adj.)	65	84	103	116
OP	65	84	103	116
Non-operating profit	-6	-12	-22	24
Net financial income	-3	-3	9	21
Net income from associates	0	0	0	0
Pretax profit	59	72	81	140
Income tax	8	15	17	26
Profit from continuing operations	51	57	64	114
Profit from discontinued operations	0	0	0	0
NP	51	57	64	114
Attributable to owners	51	57	64	114
Attributable to minority interests	0	0	0	0
Total comprehensive income	-26	57	64	114
Attributable to owners	-26	57	64	114
Attributable to minority interests	0	0	0	0
EBITDA	219	226	179	158
FCF	-67	186	128	125
EBITDA margin (%)	31.4	25.9	18.2	14.3
OP margin (%)	9.3	9.6	10.5	10.5
Net margin (%)	7.3	6.5	6.5	10.3

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	400	658	774	964
Cash & equivalents	124	258	395	538
AR & other receivables	142	206	195	220
Inventory	0	0	0	0
Other current assets	134	194	184	206
Non-current assets	691	561	490	457
Investments in associates	13	18	17	20
PP&E	11	13	15	18
Intangible assets	378	240	168	130
Total assets	1,091	1,218	1,264	1,421
Current liabilities	416	528	510	552
AP & other payables	84	122	116	131
Short-term financial liabilities	173	175	175	175
Other current liabilities	159	231	219	246
Non-current liabilities	14	16	15	16
Long-term financial liabilities	9	9	9	9
Other non-current liabilities	5	7	6	7
Total liabilities	430	543	525	568
Equity attributable to owners	661	675	739	853
Capital stock	15	15	15	15
Capital surplus	473	473	473	473
Retained earnings	213	270	334	447
Minority interests	0	0	0	0
Shareholders' equity	661	675	739	853

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	-63	190	132	129
NP	51	57	64	114
Non-cash income/expenses	176	160	83	45
Depreciation	3	2	1	1
Amortization	150	140	75	41
Other	23	18	7	3
Chg. in working capital	-280	-11	2	-4
Chg. in AR & other receivables	-35	-64	10	-24
Chg. in inventory	0	0	0	0
Chg. in AP & other payables	12	7	-1	3
Income tax	-10	-15	-17	-26
Cash flow from investing activities	-43	11	24	36
Chg. in PP&E	-4	-4	-4	-4
Chg. in intangible assets	-3	-3	-3	-3
Chg. in financial assets	0	0	0	0
Other	-36	18	31	43
Cash flow from financing activities	165	-18	-20	-19
Chg. in financial liabilities	172	2	0	1
Chg. in equity	3	0	0	0
Dividends	0	0	0	0
Other	-10	-20	-20	-20
Chg. in cash	59	135	136	143
Beginning balance	65	124	258	395
Ending balance	124	258	395	538

Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	51.1	36.5	32.6	18.3
P/CF (x)	11.4	9.6	14.2	13.1
P/B (x)	3.9	3.1	2.8	2.4
EV/EBITDA (x)	12.1	8.9	10.4	10.9
EPS (W)	1,684	1,900	2,129	3,785
CFPS (W)	7,544	7,206	4,889	5,296
BPS (W)	21,982	22,457	24,586	28,371
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	43.3	25.1	12.5	12.5
EBITDA growth (%)	44.1	3.5	-20.8	-11.7
OP growth (%)	24.0	28.2	22.6	12.9
EPS growth (%)	29.4	12.8	12.1	77.7
AR turnover (x)	5.3	5.0	4.9	5.3
Inventory turnover (x)	0.0	0.0	0.0	0.0
AP turnover (x)	36.1	37.6	36.3	39.4
ROA (%)	5.1	4.9	5.2	8.5
ROE (%)	7.5	8.6	9.1	14.3
ROIC (%)	12.1	13.9	21.3	28.7
Debt-to-equity ratio (%)	65.1	80.5	71.0	66.6
Current ratio (%)	96.1	124.6	151.9	174.6
Net debt-to-equity ratio (%)	8.9	-11.7	-29.2	-42.0
Interest coverage ratio (x)	13.2	4.2	5.1	5.8

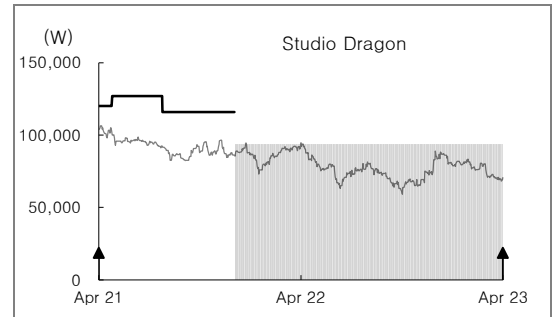
Source: Company Data, Mirae Asset Securities Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Studio Dragon (253450)	04/13/23	Buy	88,000
	12/15/21	No Coverage	
	08/06/21	Buy	116,000
	05/07/21	Buy	127,000
	01/18/21	Buy	120,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	85.7%	10.7%	2.9%	0.7%
Investment banking services	87.5%	12.5%	0%	0%

* Based on recommendations in the last 12 months (as of March 31, 2023)

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