

Studio Dragon (253450 KQ)

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Rating

BUY

maintain

6M TP (W)

110,000

maintain

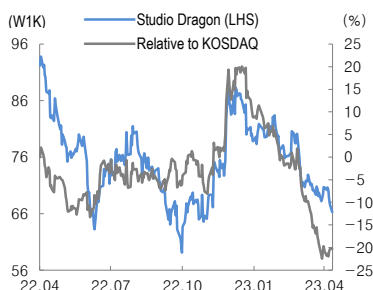
CP (W)
(23.04.24)

66,300

Media

KOSDAQ	855.23
Market cap (Wbn)	1,993
Market cap portion (%)	0.47
Paid-in capital (common; Wbn)	15
52w high/low (W)	88,900 / 59,100
120d avg. trading volume (Wbn)	15.0
Foreign ownership (%)	8.85
Major shareholders	CJ ENM+3: 54.79% Naver: 6.25%

(%)	1M	3M	6M	12M
Abs. return	-9.1	-19.0	-3.9	-24.3
Rel. return	-12.4	-32.0	-22.6	-18.3



Scaling output with Disney+ addition

- Content partners include Netflix, Amazon Prime and newly added Disney+
- More than 11 titles for multi-platform airing this year, up from 8 in 2020-22
- Success of *The Big Door Prize* clears way for season 2, incentive pay

BUY; RIM-based 6M TP maintained at W110,000

Our eyes are on margin improvement, which looks achievable given 1) the production house's growing slate (up by two to 36 titles this year) and pipeline of big-budget projects and titles for multi-platform airing; 2) its deals with global streaming services (renewed in the case of Netflix and newly signed in the case of Disney+); and 3) the country's pivot to the season-based format.

2023 production pipeline gets boost from partnership with Disney+

Studio Dragon has announced it is officially working with global streaming service Disney+, a move that broadens its content collaboration profile largely centered on a yearslong relationship with Netflix. (Under the renewed contract with Netflix, which began in 2020, it will create content that offers more value.) While the details of the deal are yet to be disclosed, the terms and conditions are likely to be similar to the Netflix agreement. Of note, in 2022, it delivered a number of titles to Disney+, some that were also aired on TV such as *Link: Eat, Love, Kill* (tvN), *Adamas* (tvN) and *Big Mouth* (MBC) and some that were exclusively available on the platform like *Shadow Detective* and *Connect*.

The production house is anticipated to push out at least 11 titles for multi-platform airing (TV+OTT) this year, up from an average of eight in the last three years (2020-2022). Five have premiered thus far – *Crash Course in Romance* (Netflix), *Pandora: Beneath the Paradise* (Disney+), *Family: The Unbreakable Bond* (Disney+), *Our Blooming Youth* (Amazon Prime) and *Stealer: The Treasure Keeper* (Amazon Prime) – and six to seven are awaiting release – including *See you in My 19th Life*, *Arthdal Chronicles 2*, *Queen of Tears*, *The Uncanny Counter 2* and *Tale of the Nine Tailed 1938*.

Not only is it making strides in the home market, it's doing great in the US as well. *The Big Door Prize*, its first US production, debuted to much positive reception (for which it will get incentive pay) and earned a season two renewal (currently in production for delivery by the end of this year). There's also a good chance it will get started on the production of *The Plotters* this year.

Operating results and major financial data

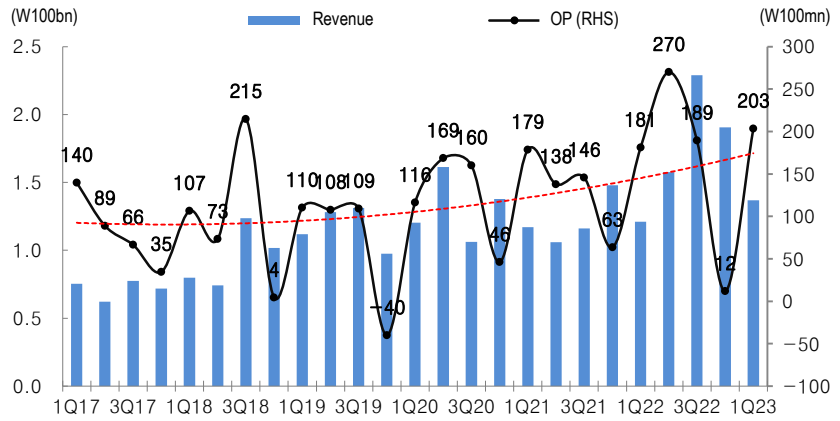
(Wbn, W, x, %)

	2021A	2022A	2023F	2024F	2025F
Revenue	487	698	909	1,002	1,177
OP	53	65	89	101	121
Pretax profit	52	59	92	103	122
NP	39	51	70	78	93
NP for contr. interest	39	51	70	78	93
EPS	1,301	1,684	2,320	2,602	3,096
PER	69.9	51.1	30.3	27.0	22.7
BPS	22,790	22,010	26,863	29,466	32,562
PBR	4.0	3.9	2.5	2.3	2.0
ROE	6.0	7.5	9.5	9.2	10.0

* EPS, BPS, and ROE based on the controlling interest

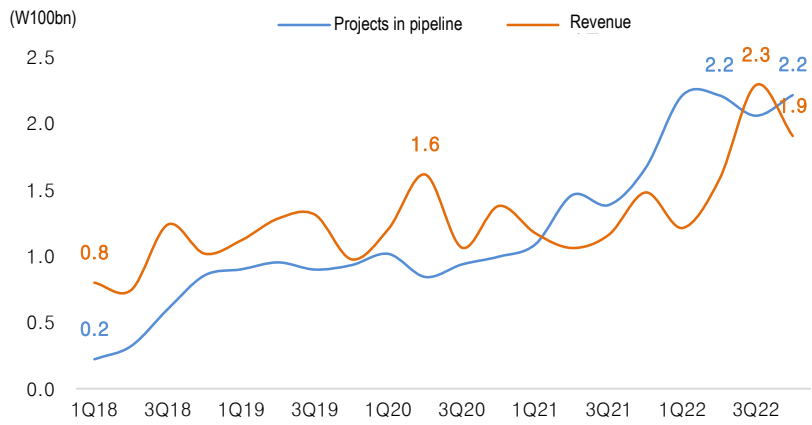
Source: Studio Dragon, Daishin Securities Research Center

Fig 1. Earnings on gradual upward trajectory



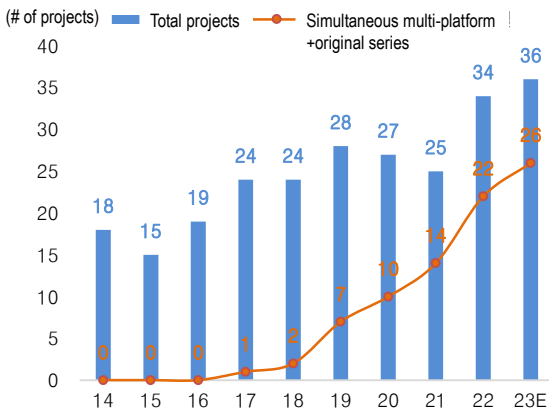
Source: Studio Dragon, Daishin Securities Research Center

Fig 2. Plenty of projects in pipeline



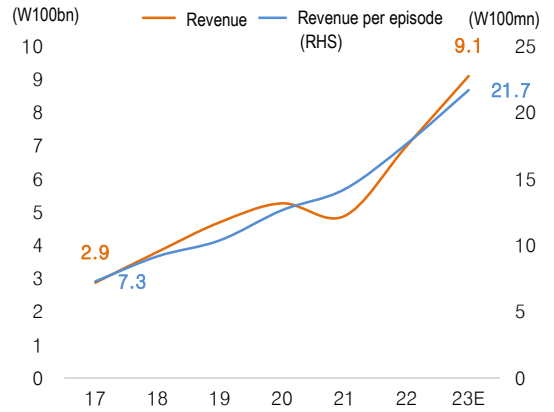
Source: Studio Dragon, Daishin Securities Research Center

Fig 3. Growing slate of projects



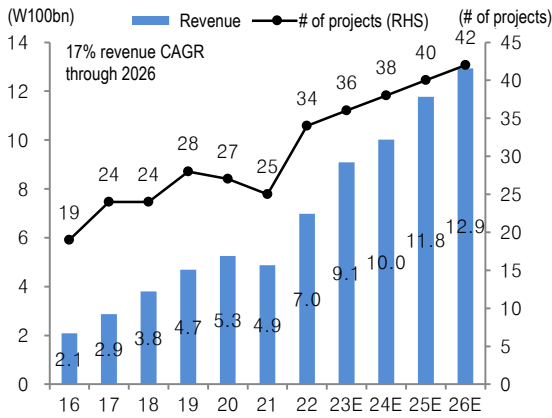
Source: Studio Dragon, Daishin Securities Research Center

Fig 4. Increasing revenue per episode



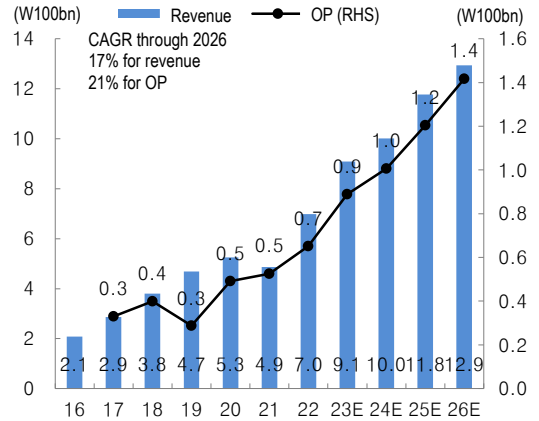
Source: Studio Dragon, Daishin Securities Research Center

Fig 5. More projects, more revenue



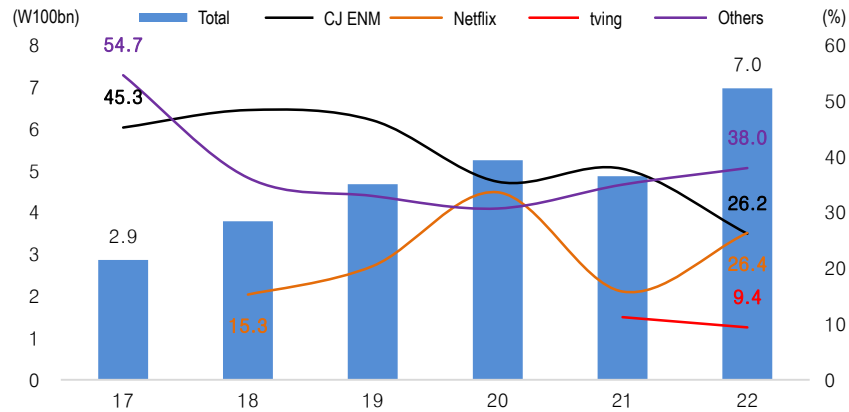
Source: Studio Dragon, Daishin Securities Research Center

Fig 6. OP growth to outpace revenue



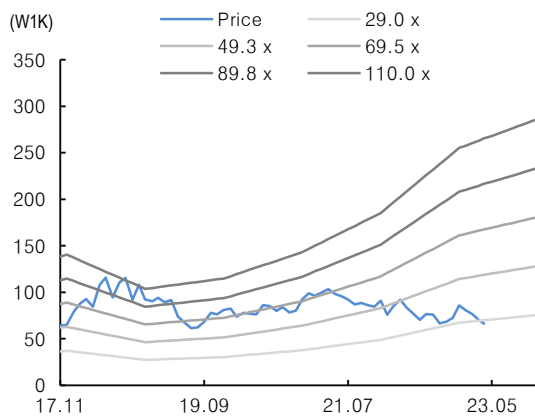
Source: Studio Dragon, Daishin Securities Research Center

Fig 7. Diversified revenue streams



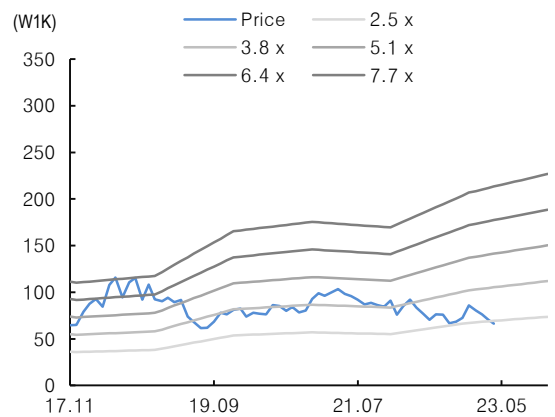
Source: Studio Dragon, Daishin Securities Research Center

Fig 8. 12M FWD P/E



Source: FnGuide, Daishin Securities Research Center

Fig 9. 12M FWD P/B



Source: FnGuide, 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	1/4/2022	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	4/-	Beating Again	Bilibili	JTBC	2Q15	Kim Jong-hak Production, Doremi Entertainment
11	5/16	Itaewon Class	Youku	JTBC	1Q20	JTBC Studios, Showbox, Zium Content
12	5/-	Nine		tvN	1Q13	Chorokbaem Media, JS Pictures
13	5/25	Bad and Crazy	iQIYI	tvN	4Q21	Studio Dragon, Mink Entertainment
14	12/8	Hospital Playlist 1	Bilibili	tvN	1Q20	Egg is coming
15	12/12	Twenty-Five Twenty-One	Youku	tvN	1Q22	Studio Dragon, Hwa&Dam Pictures
16	TBD	Inspector Koo	Youku	JTBC	4Q21	JTBC Studios, KeyEast, Group Eight
1	1/13/2023	Hometown Cha-Cha-Cha	Bilibili	tvN	3Q21	Studio Dragon, GTist
2	2/14/2023	My Liberation Notes	Youku	JTBC	2Q22	SLL, Phoenix Studio, Chorokbaem Media

Source: media reports, Daishin Securities Research Center

Intrinsic value of Studio Dragon stock (Residual income model¹)

(Wbn, W, %)

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
I NP (contr. int.) ²	70	78	93	108	129	142	156	171	189	207
II Shareholders' equity (contr. int.) ²	807	896	979	1,059	1,153	1,256	1,369	1,494	1,631	1,782
Estimated ROE	9.5	9.2	10.0	10.2	11.2	11.3	11.4	11.5	11.6	11.6
III Required rate of return ³	4.7									
Risk free rate of return ⁴	3.4									
Market risk premium ⁵	4.0									
Beta	0.33									
IV Spread (estimated ROE–required rate of return)	4.8	4.5	5.3	5.5	6.5	6.6	6.7	6.8	6.9	6.9
V Required income	31	38	42	46	50	54	59	64	70	77
VI Residual income (I-V)	39	40	51	62	79	87	97	107	118	131
Present value factor	0.97	0.93	0.88	0.84	0.81	0.77	0.74	0.70	0.67	0.64
PV of residual income	37	37	45	53	64	67	71	75	79	84
VII Sum of residual income	614									
VIII PV of residual income following forecasting period	1,784									
Terminal growth (g) ⁶	0.0%									
IX Beginning shareholders' equity	661									
X Fair market cap (VII+VIII+IX)	3,058									
Total number of shares (thousands)	30,058									
XI Per share value (W)	107,746									
Current share price (W)	66,300									
Potential (%)	53.5%									

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)				
	2021A	2022A	2023F	2024F	2025F
Revenue	487	698	909	1,002	1,177
Cost of goods sold	407	598	778	856	1,009
Gross profit	80	100	131	145	168
SG&A expenses	27	35	42	45	47
OP	53	65	89	101	121
OP margin	10.8	9.3	9.8	10.0	10.2
EBITDA	152	219	307	370	454
Non-OP	-1	-7	3	2	2
Income from affiliates	0	0	0	0	0
Financial revenue	14	21	21	21	21
FX related gains	0	0	0	0	0
Financial expense	-10	-19	-19	-20	-20
FX related losses	5	8	0	0	0
Others	-5	-9	1	1	1
Income before taxes	52	59	92	103	122
Income tax expense	-13	-8	-22	-25	-29
Income from cont. op.	39	51	70	78	93
Income from discount. op.	0	0	0	0	0
NP	39	51	70	78	93
NP margin	8.0	7.2	7.7	7.8	7.9
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	39	51	70	78	93
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	35	-77	-77	-77	-77
Comprehensive income	74	-26	-7	1	16
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	74	-26	-7	1	16

Valuation metrics	(W, x, %)				
	2021A	2022A	2023F	2024F	2025F
EPS	1,301	1,684	2,320	2,602	3,096
PER	69.9	51.1	30.3	27.0	22.7
BPS	22,790	22,010	26,863	29,466	32,562
PBR	4.0	3.9	2.5	2.3	2.0
EBITDAPS	5,054	7,279	10,225	12,319	15,108
EV/EBITDA	17.6	12.1	7.3	5.9	4.6
SPS	16,233	23,250	30,248	33,318	39,154
PSR	5.6	3.7	2.2	2.0	1.7
CFPS	5,254	7,544	9,900	11,962	14,754
DPS	0	0	0	0	950

Financial ratios	(W, x, %)				
	2021A	2022A	2023F	2024F	2025F
Growth potential					
Revenue growth	-7.3	43.3	30.3	10.2	17.5
OP growth	7.0	24.0	36.3	13.0	19.9
NP growth	31.8	29.5	37.9	12.2	19.0
Profitability					
ROIC	12.4	13.4	10.3	9.3	11.2
ROA	6.4	6.6	7.9	8.0	8.2
ROE	6.0	7.5	9.5	9.2	10.0
Stability					
Debt ratio	29.3	65.1	43.2	53.1	60.6
Net borrowings ratio	-8.6	8.2	31.6	21.4	9.5
Interest coverage ratio	67.6	13.2	0.0	0.0	0.0

Source: Studio Dragon, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2021A	2022A	2023F	2024F	2025F
Current assets	233	400	412	666	967
Cash & cash equiv.	65	124	93	328	593
Trade & other receive.	124	142	185	203	239
Inventories	0	0	0	0	0
Other current assets	44	135	135	135	135
Long-term assets	652	691	744	690	605
Tangible assets	8	11	12	13	14
Investments in affiliates	0	13	25	38	51
Other long-term assets	644	667	707	639	541
Total assets	884	1,091	1,156	1,356	1,572
Current liabilities	184	416	336	458	582
Payables & other liab.	78	87	92	94	98
Borrowings	0	170	340	510	680
Current portion of LT debts	0	0	1	1	1
Other current liabilities	106	159	-97	-147	-197
Long-term liabilities	17	14	13	12	11
Borrowings	0	0	-1	-2	-2
Convertible securities	0	0	0	0	0
Other long-term liab.	17	14	14	14	14
Total liabilities	200	430	349	470	594
Controlling interest	684	661	807	886	979
Capital stock	15	15	15	15	15
Capital surplus	470	473	473	473	473
Retained earnings	162	213	282	361	454
Other capital changes	37	-40	37	37	37
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	684	661	807	886	979
Net borrowings	-59	54	255	189	93

Cash flow statement	(Wbn)				
	2021A	2022A	2023F	2024F	2025F
Operating cash flows	-8	-63	3	84	148
NP	39	51	70	78	93
Non-cash items	119	176	228	281	350
Depreciation	99	153	218	270	334
FX gains	-1	4	0	0	0
Equity method gain	0	0	0	0	0
Others	21	19	9	12	17
Chg in assets & liab.	-155	-280	-294	-273	-288
Other cash flows	-11	-10	-1	-3	-8
Investing cash flow	27	-43	-297	-241	-274
Investment assets	28	-12	-13	-13	-13
Tangible assets	-2	-4	-4	-4	-4
Others	0	-28	-281	-225	-257
Financing cash flows	-3	165	163	162	162
Short-term borrowings	0	170	170	170	170
Bonds payable	0	0	0	0	0
Long-term borrowings	0	-1	-1	-1	-1
Rights offering	0	3	0	0	0
Cash dividends	0	0	0	0	0
Others	-3	-7	-6	-7	-7
Net chg in cash	16	59	-31	235	266
Beginning cash balance	49	65	124	93	328
Ending cash balance	65	124	93	328	593
NOPLAT	39	56	68	76	92
FCF	135	203	26	142	189

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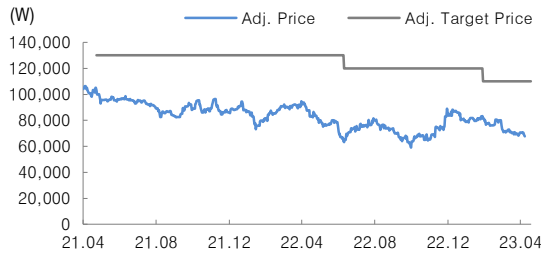
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Target price history & investment rating

Studio Dragon (253450 KQ)



Date	23.04.25	23.02.10	22.12.23	22.06.23	22.05.06	21.11.06
Rating	Buy	Buy	6개월 경고과	Buy	6M passed	6M passed
Target price	110,000	110,000	120,000	120,000	130,000	130,000
Diff. (avg %)		(33.18)	(31.97)	(39.41)	(42.05)	(32.70)
Diff. (max/min, %)		(26.73)	(27.25)	(25.92)	(37.23)	(25.85)
Date	21.05.06					
Rating	Buy					
Target price	130,000					
Diff. (avg %)	(29.33)					
Diff. (max/min, %)	(22.92)					
Date						
Rating						
Target price						
Diff. (avg %)						
Diff. (max/min, %)						

Investment rating (Apr 22, 2023)

	Buy	Marketperform	Underperform
Ratio	92.6%	6.9%	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.