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**Maintain BUY; Revise down TP to KRW82,000; Growth remains intact; Profitability to improve in earnest from 2024**

We maintain BUY and lower our DCF-based TP to KRW82,000 for Studio Dragon as we revise down 2023E OP by 3.2% to reflect a decrease in captive channel slots (315 in 2022 → 303 in 2023E). There are concerns over Studio Dragon's growth outlook, since major client Netflix (accounting for 25% of total revenue in 2022) announced plans for investment on par with that of last year. However, Studio Dragon should sustain growth via: (1) increasing global production; (2) expansion of sales to other OTT companies; and (3) gains in market share among domestic production companies. Revenue should continue to increase (17.4% YoY in 2023E, 19.9% YoY in 2024E), given increasing global pipeline (20+ titles planned; delivery of 2 titles per year, according to forecast), increasing pre-buy contracts with Amazon and Disney (2 titles for Amazon and 4 titles for Disney in 2023E, according to our estimates), and capital power for securing IP (Korea's top production company). Without China's opening, profitability appears unlikely to improve in the near term, but should improve from 2024 as the renegotiation of contracts for original titles is reflected (OPM of 9.8% in 2023E, 11.5% in 2024E).

**1Q23P: Growth potential secured via greater proportion of original content**

Studio Dragon posted 1Q23 revenue of KRW211.1bn (74.4% YoY) and OP of KRW21.6bn (19.3% YoY), driven by increasing production scale. Given that the number of episodes delivered increased 50% YoY (+20 YoY to 73 for TV, +18 YoY to 39 for OTT), the 74.4% YoY growth in revenue indicates an increase in production scale. OPM, meanwhile, remained at the 10.2% level due to the large proportion of original content and only 25 pre-buy episodes (-1 YoY).

**2Q23E: Profitability improvement via greater proportion of pre-buy works**

We forecast 2Q23E revenue of KRW152.6bn (-3.1% YoY) and OP of KRW18.5bn (OPM 12.1%). Revenue should slump on a decrease in the number of episodes delivered (-23

### Buy Maintain

<b>Target Price (Lowered)</b>	<b>KRW82,000</b>
Dividend yield*	0.0%
Total return	20.6%
Current price (May 4)	KRW68,000
Consensus target price	KRW101,143
Market capitalization	USD1.5bn

\* 12-month forward

#### Earnings Forecast & Valuation

Fiscal year-end	2022A	2023E	2024E	2025E
Revenue (KRWbn)	698	819	983	1,208
OP (KRWbn)	65	80	113	159
NP to control. int. (KRWbn)	51	65	88	139
EPS (KRW)	1,684	2,109	2,913	4,631
EPS growth (%)	29.4	25.2	38.1	59.0
P/E (x)	51.1	32.2	23.3	14.7
EV/EBITDA (x)	12.1	7.5	5.7	4.5
P/B (x)	3.9	2.8	2.5	2.1
ROE (%)	7.5	9.2	11.4	15.8
Div. yield (%)	0.0	0.0	0.0	0.0

#### Trading Data

Free float	45.2%
Avg. T/O val. (3m, KRWbn)	14.0
Foreign ownership	8.8%
Major shareholders	CJ ENM and 3 others 54.8%
	Naver 6.3%

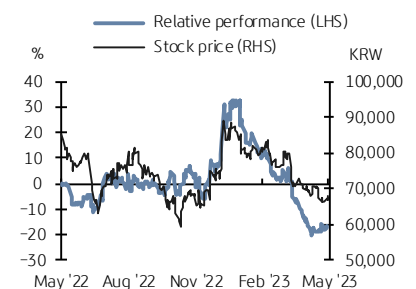
#### Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	-4.0	-16.6	4.6	-20.3
Relative	-2.6	-24.3	-14.7	-15.7

#### Risk & Total Return (annualized over three years)

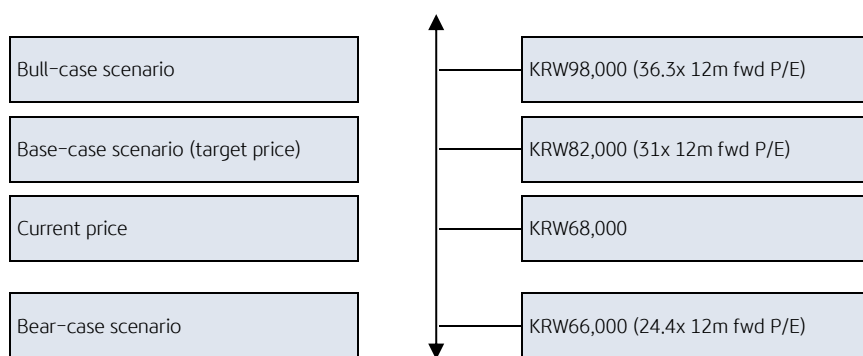


#### Stock Price & Relative Performance



YoY to 64 for TV, -7 YoY to 13 for OTT). Profitability, however, should improve on an increase in pre-buy episodes (+4 YoY to 38), thanks to an increase in those bound for new OTT clients (i.e., *Family: The Unbreakable Bond*, *Tale of the Nine Tailed 1938*).

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) 2023E TV content at 303 episodes
- 2) 2023E OTT-bound original content at 124 episodes

### Bull-case scenario: Upside risks

- 1) 2023E TV content at over 320 episodes
- 2) 2023E OTT-bound original content at over 130 episodes

### Bear-case scenario: Downside risks

- 1) 2023E TV content at under 280 episodes
- 2) 2023E OTT-bound original content at under 110 episodes

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	866.9	1,045.5	819.5	982.6	-5.5	-6.0
OP	83.1	116.4	80.4	113.1	-3.2	-2.9
NP (to control. int.)	69.1	95.3	63.4	87.6	-8.2	-8.1

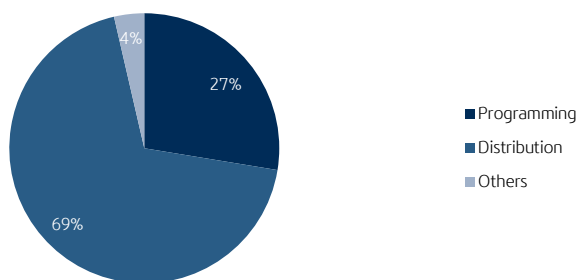
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2023E	2024E	2023E	2024E	2023E	2024E
Revenue	819.5	982.6	828.5	951.5	-1.1	3.3
OP	80.4	113.1	88.3	108.0	-9.0	4.7
NP (to control. int.)	63.4	87.6	68.6	81.9	-7.6	6.9

Source(s): Quantwise, KB Securities estimates

## Revenue Composition (2023E)



Source(s): Company data, KB Securities estimates

## Peer Group Comparison

(KRWtn, x, %)	Market Cap	P/E		P/B		EV/EBITDA		ROE		Dividend Yield	
		2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Studio Dragon	2.0	30.0	24.9	2.70	2.43	8.8	8.6	9.3	10.0	0.0	0.0
CJ ENM	1.7	34.7	13.0	0.47	0.46	3.5	3.5	1.3	3.6	2.0	2.2
Netflix	189.1	28.7	22.1	5.95	4.97	20.7	16.7	21.6	22.0	0.0	0.0
Walt Disney	242.1	24.4	18.5	1.84	1.70	15.2	12.7	7.3	9.0	0.6	1.1

Source(s): Bloomberg consensus, KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
Discounted cash flow model
- 2) Target price calculation:  
8.63% WACC, 1% TGR
- 3) Target price range:  
KRW66,000 – KRW98,000
- 4) Valuation at target price:  
31x 12m fwd P/E

## Earnings Sensitivity Analysis

(%)	EPS Change	
	2023E	2024E
+1% in FX rate	+1.1	+1.1
+1pp in interest rate	-0.6	0.1

**Table 1. Earnings Forecast**

(KRWbn, %)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q23E	2021	2022	2023E	2024E
TV content (no. episodes)	53	87	99	76	73	64	83	83	-	315	303	304
OTT content (no. episodes)	21	20	61	25	39	13	36	36	-	127	124	120
<b>Revenue</b>	<b>121.1</b>	<b>157.5</b>	<b>228.9</b>	<b>190.5</b>	<b>211.1</b>	<b>152.6</b>	<b>226.4</b>	<b>229.3</b>	<b>487.1</b>	<b>697.9</b>	<b>819.5</b>	<b>982.6</b>
Programming	35.4	43.8	59.4	54.0	43.2	41.6	56.7	59.5	161.3	192.5	201.1	200.8
Distribution	77.7	103.9	165.8	132.8	165.7	108.6	167.1	167.1	275.5	480.2	608.5	769.7
Others	8.0	9.8	3.8	3.7	2.3	2.4	2.5	2.7	50.3	25.2	10.0	12.1
<b>% YoY</b>	<b>3.4</b>	<b>48.5</b>	<b>97.2</b>	<b>28.8</b>	<b>74.4</b>	<b>-3.1</b>	<b>-1.1</b>	<b>20.4</b>	<b>-7.3</b>	<b>43.3</b>	<b>17.4</b>	<b>19.9</b>
Programming	-19.1	55.4	64.0	1.5	21.9	-4.9	-4.5	10.3	-18.1	19.4	4.4	-0.1
Distribution	23.0	53.8	155.2	66.4	113.1	4.5	0.8	25.8	-1.5	74.3	26.7	26.5
Others	-21.5	-5.1	-74.8	-75.3	-71.0	-75.2	-32.4	-27.3	2.6	-49.9	-60.4	21.6
<b>% QoQ</b>	<b>-18.1</b>	<b>30.0</b>	<b>45.3</b>	<b>-16.8</b>	<b>10.8</b>	<b>-27.7</b>	<b>48.3</b>	<b>1.3</b>				
Programming	-33.4	23.7	35.5	-9.1	-20.0	-3.6	36.2	5.0				
Distribution	-2.6	33.7	59.5	-19.9	24.7	-34.5	54.0	0.0				
Others	-46.6	22.8	-61.4	-2.4	-37.2	5.0	5.0	5.0				
<b>OP</b>	<b>18.1</b>	<b>27.0</b>	<b>18.9</b>	<b>1.2</b>	<b>21.6</b>	<b>18.5</b>	<b>23.6</b>	<b>16.6</b>	<b>52.6</b>	<b>65.2</b>	<b>80.4</b>	<b>113.1</b>
(% YoY)	1.4	95.7	29.9	-81.4	19.3	-31.4	24.7	1310.7	7.0	24.0	23.3	40.6
(% QoQ)	185.4	49.1	-29.9	-93.8	1732.1	-14.3	27.5	-29.5				
OPM (%)	15.0	17.1	8.3	0.6	10.2	12.1	10.4	7.3	10.8	9.3	9.8	11.5
<b>NP to control. int.</b>	<b>15.6</b>	<b>25.6</b>	<b>17.8</b>	<b>-8.5</b>	<b>18.4</b>	<b>15.6</b>	<b>21.7</b>	<b>7.7</b>	<b>39.0</b>	<b>50.6</b>	<b>63.4</b>	<b>87.6</b>
(% YoY)	0.4	170.2	20.5	RR	17.8	-39.1	21.8	TTB	31.8	29.5	25.4	38.1
(% QoQ)	TTB	63.8	-30.3	TTR	TTB	-15.3	39.5	-64.5				
NPM (%)	12.9	16.2	7.8	-4.4	8.7	10.2	9.6	3.4	8.0	7.2	7.7	8.9

Source(s): Company data, KB Securities estimates

Note: RR=remain in red, TTB=turn to black, TTR=turn to red

**Table 2. Key Valuation Measures**

(KRWbn, x, '000 shares, KRW)	2018	2019	2020	2021	2022	2023E	2024E
<b>EV/Sales</b>	<b>5.7x</b>	<b>6.4x</b>	<b>4.6x</b>	<b>5.1x</b>	<b>5.5x</b>	<b>3.8x</b>	<b>2.6x</b>
Revenue	287	380	469	526	487	698	819
% YoY	85.7	32.4	23.5	12.2	(7.3)	43.3	17.4
<b>EV/EBITDA</b>	<b>22.1x</b>	<b>21.1x</b>	<b>14.9x</b>	<b>16.2x</b>	<b>17.6x</b>	<b>12.1x</b>	<b>7.3x</b>
EBITDA	74	115	146	165	152	219	291
% YoY	91.4	55.1	26.4	13.6	(8.3)	44.1	33.4
<b>P/E</b>	<b>61.9x</b>	<b>72.3x</b>	<b>85.9x</b>	<b>88.7x</b>	<b>69.9x</b>	<b>51.1x</b>	<b>32.2x</b>
EPS	1,050	1,278	941	1,044	1,301	1,684	2,109
% YoY	84.5	21.7	(26.3)	10.9	24.6	29.4	25.2
<b>P/B</b>	<b>4.95x</b>	<b>6.46x</b>	<b>5.31x</b>	<b>4.56x</b>	<b>3.99x</b>	<b>3.91x</b>	<b>2.82x</b>
BVPS	13,141	14,305	15,242	20,309	22,785	21,982	24,091
% YoY	112.8	8.9	6.5	33.2	12.2	(3.5)	9.6
Share price	65,000	92,400	80,900	92,600	91,000	86,000	68,000
No. of shares	22,711	28,038	28,068	28,369	30,008	30,020	30,058
Market cap	1,822	2,592	2,273	2,778	2,731	2,585	2,044

Source(s): Company data, KB Securities estimates

**Table 3. Valuation: Discounted Cash Flow Model**

(KRWbn, %, k shares, KRW)	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	Terminal
<b>NOPLAT</b>	<b>26.6</b>	<b>30.1</b>	<b>22.1</b>	<b>37.2</b>	<b>39.6</b>	<b>57.2</b>	<b>58.1</b>	<b>82.2</b>	<b>120.2</b>	<b>171.5</b>	<b>241.5</b>	<b>335.8</b>	
Operating profit	33.0	39.9	28.7	49.1	52.6	65.2	80.4	113.1	159.5	226.6	317.9	441.2	
Taxes	(6.4)	(9.8)	(6.6)	(11.9)	(13.0)	(8.1)	(22.3)	(30.8)	(39.3)	(55.1)	(76.6)	(105.4)	
<b>D&amp;A</b>	<b>41.3</b>	<b>75.3</b>	<b>116.8</b>	<b>116.2</b>	<b>99.1</b>	<b>153.3</b>	<b>211.1</b>	<b>259.6</b>	<b>298.3</b>	<b>332.2</b>	<b>363.7</b>	<b>394.3</b>	
Depreciation	0.3	0.3	1.8	2.9	3.8	3.3	3.8	3.9	3.9	3.9	4.0	4.0	
Amortization	41.0	75.0	115.0	113.3	95.3	150.0	207.3	255.7	294.4	328.2	359.7	390.3	
<b>(-)Change in working capital</b>	<b>(72.9)</b>	<b>(139.4)</b>	<b>(142.9)</b>	<b>(144.1)</b>	<b>(154.9)</b>	<b>(279.6)</b>	<b>(16.7)</b>	<b>15.3</b>	<b>(30.4)</b>	<b>(40.8)</b>	<b>(51.3)</b>	<b>(64.6)</b>	
Decrease/increase in accounts receivable	(13.7)	(27.2)	(21.8)	(31.4)	2.2	(35.2)	(18.4)	14.0	(34.0)	(46.7)	(58.8)	(74.0)	
Decrease/increase in inventories	(2.1)	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Decrease/increase in account payables	9.0	25.9	8.6	(11.5)	18.7	11.7	1.7	1.3	3.6	5.9	7.4	9.4	
Other	(66.1)	(138.4)	(130.2)	(101.2)	(175.8)	(256.0)	0.0	0.0	0.0	0.0	0.0	0.0	
<b>(-) Tangible capital expenditures</b>	<b>(0.0)</b>	<b>(0.2)</b>	<b>(0.5)</b>	<b>(7.2)</b>	<b>(1.8)</b>	<b>(3.9)</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(4.0)</b>	
<b>(-) Intangible capital expenditures</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.3)</b>	<b>(1.2)</b>	<b>(0.8)</b>	<b>(2.5)</b>	<b>(282.6)</b>	<b>(339.2)</b>	<b>(362.9)</b>	<b>(388.3)</b>	<b>(415.5)</b>	<b>(444.6)</b>	
<b>(-) Other</b>	<b>(2.1)</b>	<b>5.0</b>	<b>(8.2)</b>	<b>(4.1)</b>	<b>7.9</b>	<b>6.2</b>	<b>5.3</b>	<b>5.3</b>	<b>19.0</b>	<b>23.9</b>	<b>30.1</b>	<b>37.9</b>	
<b>Free cash flow</b>	<b>(7.5)</b>	<b>(29.4)</b>	<b>(13.0)</b>	<b>(3.1)</b>	<b>(11.0)</b>	<b>(69.3)</b>	<b>(28.8)</b>	<b>19.3</b>	<b>40.1</b>	<b>94.5</b>	<b>164.2</b>	<b>254.7</b>	<b>3,373.6</b>

(KRWbn, %, k shares, KRW)	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	Terminal
Operating cash flow	(7.2)	(29.1)	(12.2)	5.2	(8.4)	(62.9)	257.8	362.4	407.0	486.8	583.7	703.3	
(-) Tangible capital expenditures	(0.0)	(0.2)	(0.5)	(7.2)	(1.8)	(3.9)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	
(-) Intangible capital expenditures	(0.2)	(0.1)	(0.3)	(1.2)	(0.8)	(2.5)	(282.6)	(339.2)	(362.9)	(388.3)	(415.5)	(444.6)	
<b>Free cash flow</b>	<b>(7.5)</b>	<b>(29.4)</b>	<b>(13.0)</b>	<b>(3.1)</b>	<b>(11.0)</b>	<b>(69.3)</b>	<b>(28.8)</b>	<b>19.3</b>	<b>40.1</b>	<b>94.5</b>	<b>164.2</b>	<b>254.7</b>	<b>3,373.6</b>

Source(s): Company data, KB Securities estimates

Note: Studio Dragon's content investments reflected as intangible capital expenditures (cash flow from investing activities)

**Table 4. Valuation: Discounted Cash Flow Model**

(KRWbn, %, k shares, KRW)	Valuation
Total PV of 2023-2028 cash flow	398.6
PV of terminal value (1% TGR)	2,139.0
<b>Enterprise value</b>	<b>2,537.6</b>
(-) Net debt	87.8
(-) Non-controlling interests	0.0
(+) Investments in non-consolidated affiliates	12.6
<b>Equity value</b>	<b>2,462.4</b>
(÷) No. of shares	30,058.5
<b>Target price</b>	<b>82,000</b>
Current price	68,000
<b>Upside</b>	<b>20.6</b>

Source(s): KB Securities estimates

**Table 5. WACC Calculation**

(KRWbn, %)	Revised	Notes
<b>COE (A) = a + b x c</b>	<b>8.91</b>	
Risk-free rate (a)	3.61	Avg. 1y MSB yield (last three months)
Adj. beta (b)	0.98	Adj. beta
Risk premium (c = d - e)	5.41	
Market (d)	8.72	2001-2021 annual avg. WMI500 total return
Risk-free rate (e)	3.32	2001-2021 annual avg. 1y MSB total return
<b>COD (B)</b>	<b>4.27</b>	Avg. yield of Studio Dragon's short-term debt
Fair equity value	2,797	Value of outstanding shares implied by TP
Debt	183	
Weight of equity value (f)	0.94	
Weight of debt (g)	0.06	
<b>WACC (C) = (A x f) + (B x g)</b>	<b>8.63</b>	

Source(s): KB Securities estimates

Note: Previous data issued as of Oct 17, 2022



