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Tech Team

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Studio Dragon (253450)

Benefiting from diverse distribution channels

- Studio Dragon reported 1Q operating profit of KRW21.6b (up 19.3%; topping consensus by 7%) on its well-diversified content distribution channels.
- The Korean drama production firm has been striving to add more distribution channels and recently added Amazon Prime to broadcast its content simultaneously for global audiences. Leveraging its strong bargaining power, the company renewed a contract with Netflix on better terms and conditions and also recently inked a volume deal with Disney Plus.
- Considering its content lineup for this year, we expect earnings to contract y-y in 2Q but rebound in full swing from 2H.

▶ **AT A GLANCE**

Recommend	BUY	
Target price	KRW96,000	47.9%
Current price	KRW64,900	
Market cap	KRW2.0t/USD1.5b	
Shares (float)	30,058,498 (45.2%)	
52-week high/low	KRW88,900/KRW59,100	
Avg daily trading value (60-day)	KRW14.3b/ USD10.8m	

▶ **ONE-YEAR PERFORMANCE**

	1M	6M	12M
Studio Dragon (%)	-6.9	-6.3	-22.3
Vs Kosdaq (%pts)	-2.7	-20.7	-18.4

▶ **KEY CHANGES**

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	96,000	96,000	0.0%
2023E EPS	2,201	2,322	-5.2%
2024E EPS	2,849	2,930	-2.8%

▶ **SAMSUNG vs THE STREET**

No of estimates	14
Target price	101,143
Recommendation	4.0

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

WHAT'S THE STORY?

1Q review: Studio Dragon reported 1Q sales of KRW211.1b (up 74.4% y-y) and operating profit of KRW21.6b (up 19.3% y-y), the latter beating consensus by 7%. We attribute the healthy results to: 1) more supply of OTT original content on a y-y and q-q basis; and 2) its well-diversified distribution channels. Original content for OTT service providers included: 1) The Glory Part 2 (Netflix); 2) Island Part 1 and 2 and Duty After School Part 1 (Tving and Amazon Prime); 3) Decoy Part 1 and 2 (Coupang Play); and 4) Pandora: Beneath the Paradise (Disney Plus)—and also three episodes of Shadow Detective Part 2 (scheduled to be broadcast on the US giant from July) were recognized in 1Q results. Under a recent volume deal with Disney Plus, the Korean drama production firm began to supply content, starting from Pandora: Beneath the Paradise.

Efforts to diversify distribution channels paying off: Studio Dragon has kept adding distribution channels. Tale of the Nine Tailed 1938 (aired from May6) is simultaneously available on Amazon Prime—in addition to Tving, Netflix, and Disney Plus. Its contract renewal with Netflix and new deal with Disney Plus should lift profitability of the dramas gradually that will be aired simultaneously. In the meantime, its co-production with foreign partners should expand in earnest from this year. The first season of The Big Door Prize (co-produced with US firm Skydance for Apple TV+) was released last quarter, and the second season is reportedly in production. The Korean firm is planning a lot of co-production projects and likely to supply two pieces of content from next year and more down the road.

Reiterating BUY: Our BUY rating and KRW96,000 target price (based on 12.2x 12-month forward EV/EBITDA) remains unchanged. Although its captive channel decided to operate the Wednesday/Thursday drama slots flexibly (ie, broadcasting not just dramas but also other content like entertainment show or documentaries), Studio Dragon should be able to enjoy stable earnings improvement on its attractive track record and diversified distribution channels. Its earnings should diminish q-q in 2Q on a high base (from having booked copyright sales from high-margin old titles to overseas OTT platform operators in 1Q22). But, considering its content lineup, we forecast earnings momentum will gain traction from 2H.

SUMMARY 1Q RESULTS

(KRWb)	1Q23	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	211.1	74.4	10.9	20.1	26.7
Operating profit	21.6	19.3	1,732.1	10.1	7.1
Pre-tax profit	22.1	10.0	nm	2.7	-1.4
Net profit	18.4	17.8	nm	13.1	13.6
Margins (%)					
Operating profit	10.2				
Pre-tax profit	10.5				
Net profit	8.7				

Source: Company data, FnGuide, Samsung Securities estimates

VALUATION SUMMARY

	2022	2023E	2024E
Valuation (x)			
P/E	51.1	29.5	22.8
P/B	3.9	2.9	2.5
EV/EBITDA	12.1	8.6	7.5
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	29.4	30.7	29.4
ROE (%)	7.5	9.8	11.8
Per-share data (KRW)			
EPS	1,684	2,201	2,849
BVPS	21,982	22,758	25,607
DPS	0	0	0

Table 1. Results and forecasts

(KRWb)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q23E	2021	2022	2023E	2024E
Sales	117.1	106.0	116.1	147.9	121.1	157.5	228.9	190.5	211.1	139.1	199.4	251.0	487.1	697.9	800.6	940.3
Programing	43.8	28.2	36.2	53.2	35.4	43.8	59.4	54.0	43.2	38.0	60.9	52.1	161.3	192.5	194.1	203.3
Distribution	63.2	67.5	64.9	79.8	77.7	103.9	165.8	132.8	211.1	139.1	199.4	251.0	275.5	480.2	591.1	720.1
Others	10.1	10.3	15.0	14.9	8.0	9.8	3.8	3.7	180.3	113.1	165.7	220.0	50.3	25.2	15.3	16.8
Gross profit	23.7	20.3	21.0	14.8	25.5	35.4	27.4	11.7	30.8	26.0	33.7	31.0	79.8	100.0	121.5	148.1
SG&A	5.8	6.5	6.4	8.4	7.4	8.4	8.4	10.5	9.2	8.5	9.3	11.2	27.2	34.8	38.2	41.0
Operating profit	17.9	13.8	14.6	6.3	18.1	27.0	18.9	1.2	21.6	17.5	24.4	19.8	52.6	65.2	83.3	107.0
Non-operating profit	3.2	0.3	3.9	(7.9)	2.0	3.0	6.5	(18.1)	0.5	0.2	0.4	(0.7)	-0.6	-6.6	0.3	3.3
Pre-tax profit	21.1	14.0	18.5	(1.6)	20.1	30.0	25.5	(17.0)	22.1	17.7	24.8	19.0	52.0	58.6	83.7	110.4
Net profit (controlling)	15.6	9.5	14.8	(0.8)	15.6	25.6	17.8	(8.5)	18.4	13.7	19.3	14.8	39.0	50.6	66.2	85.6
Gross margin	20.2	19.2	18.1	10.0	21.1	22.5	12.0	6.1	14.6	18.7	16.9	12.3	16.4	14.3	15.2	15.7
Operating margin	15.3	13.0	12.6	4.3	15.0	17.1	8.3	0.6	10.2	12.6	12.2	7.9	10.8	9.3	10.4	11.4
Net margin (controlling)	13.3	8.9	12.8	(0.5)	12.9	16.2	7.8	(4.4)	8.7	9.9	9.7	5.9	8.0	7.2	8.3	9.1
Chg (% y-y)																
Sales	-2.7	-34.3	9.2	7.4	3.4	48.5	97.2	28.8	74.4	-11.7	-12.9	31.8	-7.3	43.3	14.7	17.5
Programing	-3.2	-56.9	-20.8	30.7	-19.1	55.4	64.0	1.5	21.9	-13.2	2.6	-3.5	-18.1	19.4	0.8	4.7
Distribution	-5.5	-10.8	27.7	-7.5	23.0	53.8	155.2	66.4	171.6	33.8	20.3	88.9	-1.5	74.3	23.1	21.8
Other	24.0	-49.3	54.0	39.3	-21.5	-5.1	-74.8	-75.3	2,166	1,057	4,293	5,880	2.9	-49.9	-39.3	9.8
Gross profit	42.2	-6.9	-1.3	-1.7	7.8	74.0	30.5	-20.7	20.8	-26.5	23.1	164.7	6.7	25.4	21.5	21.8
SG&A	14.0	33.6	21.0	-19.1	27.7	28.1	31.7	25.1	24.3	1.1	10.0	6.7	5.8	27.9	9.9	7.3
Operating profit	53.6	-18.2	-9.0	37.6	1.4	95.7	29.9	-81.4	19.3	-35.0	28.9	1,574	7.0	24.0	27.7	28.5
Non-operating profit	642.7	-20.8	nm	nm	-37.8	1,085	67.8	nm	-75.6	-94.5	-93.4	nm	nm	nm	nm	871.4
Pre-tax profit	75.3	-18.2	21.3	nm	-4.6	113.7	37.9	nm	10.0	-41.0	-2.4	nm	25.2	12.7	42.7	31.9
Net profit (controlling)	82.2	-29.1	39.6	nm	0.4	170.2	20.5	nm	17.8	-46.3	8.1	nm	31.8	29.5	30.9	29.4
Gross margin	6.4	5.7	-1.9	-0.9	0.9	3.3	-6.1	-3.8	-6.5	-3.8	4.9	6.2	2.2	-2.0	0.9	0.6
Operating margin	5.6	2.6	-2.5	0.9	-0.3	4.1	-4.3	-3.7	-4.7	-4.5	4.0	7.3	1.5	-1.4	1.1	1.0
Net margin (controlling)	6.2	0.7	2.8	1.6	-0.4	7.3	-5.0	-3.9	-4.2	-6.4	1.9	10.3	2.4	-0.8	1.0	0.8

Source: Company data, Samsung Securities

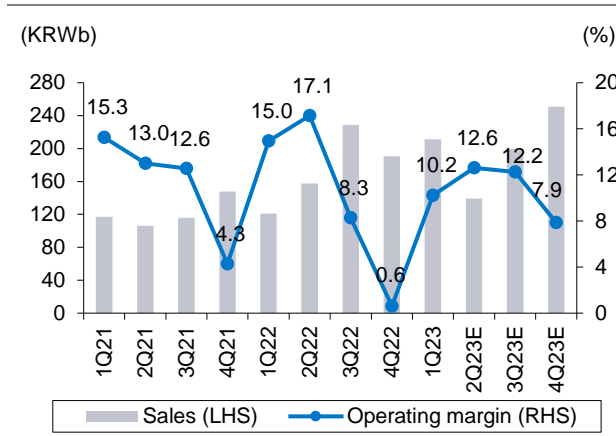
Table 2. Drama lineup (from 2023)

Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Days
2023	1	tvN	Alchemy of Souls (Part 2)	Dec 10, 2022-Jan 8, 2023	10	Hong sisters	Park Joonhwa	Sat, Sun
	2		Missing: The Other Side 2	Dec 19, 2022-Jan 31, 2023	14	Ban Giri, Jeong Soyeong	Min Yeonhong, Lee Yerim	Mon, Tue
	3		Poong, the Joseon Psychiatrist S2	Jan 1-Feb 9	10	Park Seulki	Park Wongook	Wed, Thu
	4		Crash Course in Romance	Jan 14-Mar 5	16	Yang Heeseung	Yoo Jewon	Sat, Sun
	5		Our Blooming Youth	Feb 6-Apr 11	20	Jung Hyunjung	Lee Jongjae	Wed, Thu
	6		The Heavenly Idol	Feb 15-Mar 23	12	Lee Chunggeum	Park Soyeon	Wed, Thu
	7		Pandora: Beneath the Paradise	Mar 11-Apr 30	16	Hyun Jimin	Choi Younghoon	Sat, Sun
	8		Stealer: The Treasure Keeper	Apr 12-May 18	12	Shin Kyungil	Choi Joonbae	Wed, Thu
	9		Family: The Unbreakable Bond	Apr 17-May 23	12	Jung yoosun	Jang Jungdo	Mon, Tue
	10		Tale of the Nine Tailed 1938 (Amazon Prime)	May 6-Jun 11	12	Han Woori	Kang Shinhyo	Sat, Sun
	11		Delightfully Deceitful	May 29-July 18	16	Han Wooju	Lee Suhyeon	Mon, Tue
	12		See you in My 19th Life	Jun 17-July 23	12	Choi Yeonglim	Lee Najung	Sat, Sun
	13		Useless Lie	July, 2023	16	Seo Jeongeun	Nam Sungwoo	Wed, Thu
	14		The Uncaany Cunter S2	July 29-Sep 3	12	Kim Saebom	Yoo Sundong	Sat, Sun
	15		Athdal Chronicles 2	September, 2023	12	Kim Yeonghyeon	Kim Kwangsik	Sat, Sun
	16		Wedding Impossible	2023	12	Park Seulki	Kwon Yeongil	Mon, Tue
	17		Queen of Tears	2023		Park Jieun	Kin Heewon	Sat, Sun
2023	18	Tving	Island Part1 (Amazon Prime)	Dec 30, 2022-Jan 13,	6	Oh Bohyeon	Bae Jong	
	18-(2)		Island Part2 (Amazon Prime)	Feb 24-Mar 10	6	Oh Bohyeon	Bae Jong	
2023	19		Duty After School Part1	Mar 3	6	Lee Namkyu	Sung Yongil	
2023	19-(2)		Duty After School Part2	Apr 21	4	Lee Namkyu	Sung Yongil	
2023	20	Netflix	The Glory Part 2	Mar 10	8	Kim Eunsook	Ahn Gilho	
	21		Celebrity (supplied in 4Q22)	2023	12	Kim Yiyoung	Kim Chulkyu	
	22		Thief: Sound of the Sword	2023		Han Junghoon	Hwang Joonhyuk	
	23		Gyeongseong Creature	2023	10	Kang Eungyeong	Jeong Dongyun	
	24		The Girl Downstairs	2023	8	Jang Yuha	Lee Jeonghyo	
	25		Sweet Home 2	2023			Lee Eungbok	
	26		Disney+	Shadow Detective 2 (supplied in 1H23)	July, 2023		Im Changse	Han Donghwa
2023	27	AppleTV+	The Big Door Prize (supplied in 3Q22-4Q22)	Mar 31-May 17	10	David West Read	Anu Valia	
	28		The Big Door Prize 2	2023				
2023	29	Coupang Play	Decoy Part 1	Jan 27-Feb 10	6	Kim Jinwook	Kim Hongseon	Fri
	29-(2)		Decoy Part 2 (supplied in 1Q23)	Apr 7-Apr 21	6	Kim Jinwook	Kim Hongseon	Fri
TBD	1	tvN	Maestra	TBD		Choi Yiyun, Hong Jeonghee	Kim Jeongkwon	
	2	TBD	When the Stars Gossip	TBD		Seo Sookhyang	Park Shinwoo	
	3		The Price of Confession	TBD		Kwon Jongkwan	Sim Nayeon	
	4		Diva of the Deserted Island	TBD		Park Hyeryeon	Oh Choonghwan	
	5		Hierachy	TBD				
	6		The Plotters	TBD				
	7		Mastermind	TBD				
TBD	8	Netflix	Sweet Home 3	2024			Lee Eungbok	
	9		Gyeongseong Creature 2	TBD		Kang Eungyeong	Jeong Dongyun	
	10		Whielwind	TBD		Park Kyeongssoo	Kim Yongwan	
	11		Crash Landing on you (US)	TBD				

Note: Titles highlighted in green are streamed through Netflix, light blue Tving, and orange Disney+, purple Amazon Prime

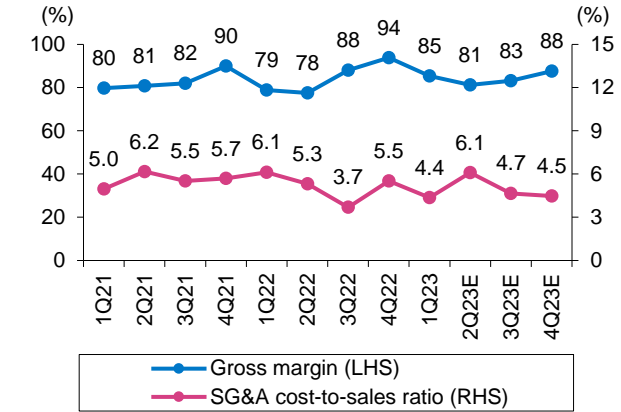
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin



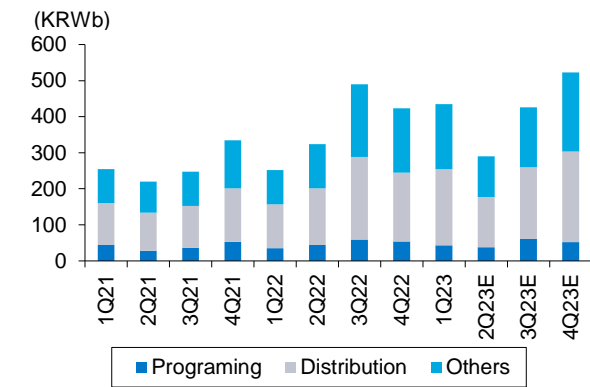
Source: Company data, Samsung Securities

Chart 2. Quarterly gross margin vs SG&A cost-to-sales ratio



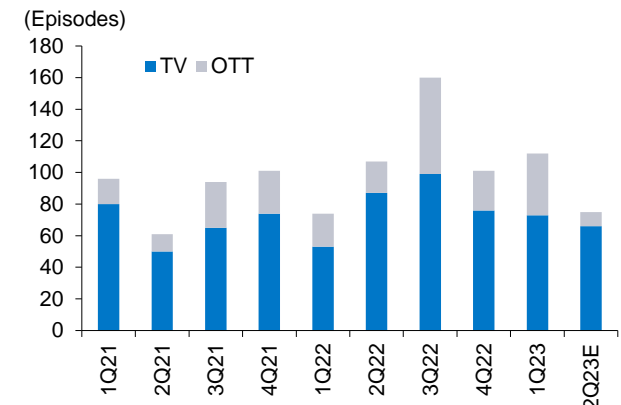
Source: Company data, Samsung Securities

Chart 3. Quarterly sales, by department



Source: Company data, Samsung Securities

Chart 4. Number of episodes supplied, by channel



Source: Company data, Samsung Securities

Chart 5. Duty After School: Part 2 (Tving; Apr 21)



Source: Company data, Samsung Securities

Chart 6. Tale of the Nine Tailed 1938 (tvN; May 6)



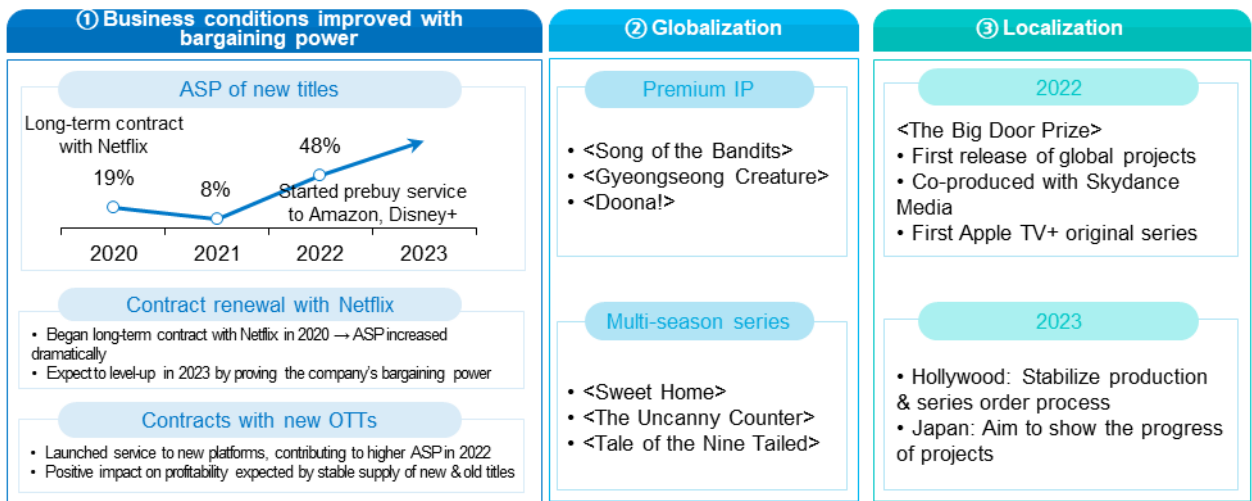
Note: Simultaneously available on Amazon prime
Source: Company data, Samsung Securities

Chart 7. See you in My 19th Life (tvN; Jun 17)



Note: Simultaneously available on Netflix
Source: Company data, Samsung Securities

Chart 8. Strategies for 2023



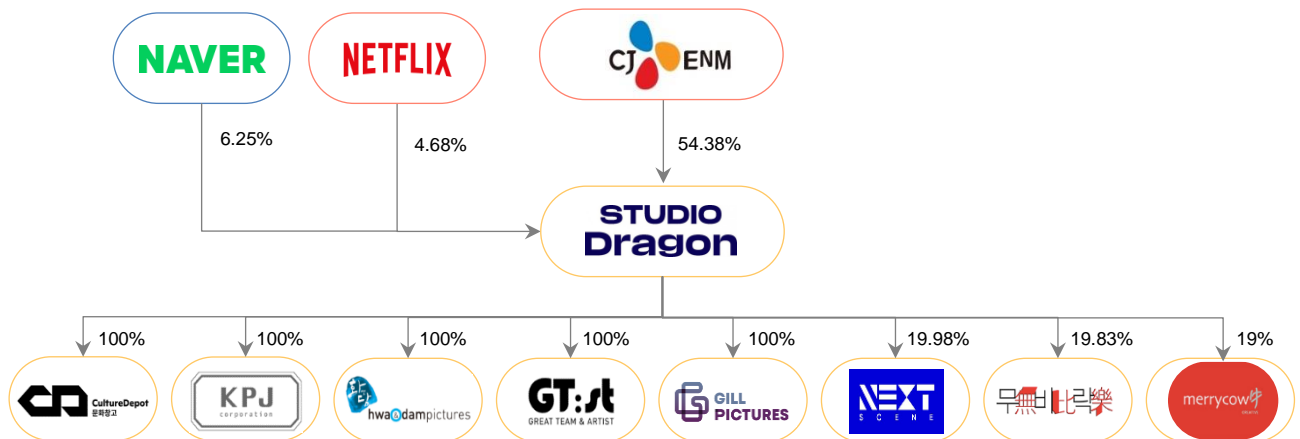
Source: Company data, Samsung Securities

Chart 9. Ambitious 2023 targets



Source: Company data, Samsung Securities

Chart 10. Ownership structure



Note: As of 4Q22

Source: Company data, Samsung Securities

Table 3. Changes to full-year forecasts

(KRWb)	2023E			2024E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Sales	805.7	800.6	-0.6	959.1	940.3	-2.0
Operating profit	89.4	83.3	-6.8	110.8	107.0	-3.3
OPM (% , %pts)	11.1	10.4	-0.7	11.5	11.4	-0.2
Pre-tax profit	92.3	83.7	-9.4	116.5	110.4	-5.3
NP (controlling)	69.8	66.2	-5.2	88.1	85.6	-2.8

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Sales	487	698	801	940	1,075
Cost of goods sold	407	598	679	792	900
Gross profit	80	100	122	148	175
Gross margin (%)	16.4	14.3	15.2	15.7	16.3
SG&A expenses	27	35	38	41	44
Operating profit	53	65	83	107	131
Operating margin (%)	10.8	9.3	10.4	11.4	12.2
Non-operating gains (losses)	-1	-7	0	3	5
Financial profit	14	21	20	22	23
Financial costs	10	19	15	12	9
Equity-method gains (losses)	0	0	0	0	0
Other	-5	-9	-5	-6	-8
Pre-tax profit	52	59	84	110	136
Taxes	13	8	17	25	30
Effective tax rate (%)	24.9	13.7	20.9	22.4	22.4
Profit from continuing operations	39	51	66	86	106
Profit from discontinued operations	0	0	0	0	0
Net profit	39	51	66	86	106
Net margin (%)	8.0	7.2	8.3	9.1	9.8
Net profit (controlling interests)	39	51	66	86	106
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	152	219	234	262	296
EBITDA margin (%)	31.1	31.3	29.2	27.9	27.5
EPS (parent-based) (KRW)	1,301	1,684	2,201	2,849	3,512
EPS (consolidated) (KRW)	1,301	1,684	2,201	2,849	3,512
Adjusted EPS (KRW)*	1,301	1,684	2,201	2,849	3,512

Cash flow statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Cash flow from operations	-8	-63	226	241	287
Net profit	39	51	66	86	106
Non-cash profit and expenses	119	176	173	185	199
Depreciation	4	3	2	2	1
Amortization	95	150	148	154	164
Other	20	23	23	30	34
Changes in A/L from operating activities	-155	-280	4	-5	13
Cash flow from investments	27	-43	-167	-189	-203
Change in tangible assets	-2	-4	0	0	0
Change in financial assets	0	0	0	0	0
Other	28	-39	-167	-189	-203
Cash flow from financing	-3	165	-13	-9	-9
Change in debt	0	172	-3	0	0
Change in equity	0	3	0	0	0
Dividends	0	0	0	0	0
Other	-4	-9	-9	-9	-9
Change in cash	16	59	6	39	72
Cash at beginning of year	49	65	124	130	169
Cash at end of year	65	124	130	169	241
Gross cash flow	158	226	240	270	305
Free cash flow	-11	-67	226	241	287

Note: * Excluding one-off items

** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Current assets	233	400	395	454	518
Cash & equivalents	65	124	130	169	241
Accounts receivable	124	142	158	163	163
Inventories	0	0	0	0	0
Other current assets	44	135	106	122	115
Fixed assets	652	691	713	755	801
Investment assets	241	150	153	156	159
Tangible assets	8	11	9	7	6
Intangible assets	298	378	410	441	477
Other long-term assets	105	152	142	150	159
Total assets	884	1,091	1,108	1,209	1,319
Current liabilities	184	416	410	425	430
Accounts payable	17	16	26	29	37
Short-term debt	0	170	170	170	170
Other current liabilities	167	230	214	227	223
Long-term liabilities	17	14	13	14	14
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	17	14	13	14	14
Total liabilities	200	430	424	439	444
Owners of parent equity	684	661	684	770	875
Capital stock	15	15	15	15	15
Capital surplus	470	473	473	473	473
Retained earnings	162	213	279	364	470
Other	37	-40	-83	-83	-83
Non-controlling interests' equity	0	0	0	0	0
Total equity	684	661	684	770	875
Net debt	-54	59	50	10	-62

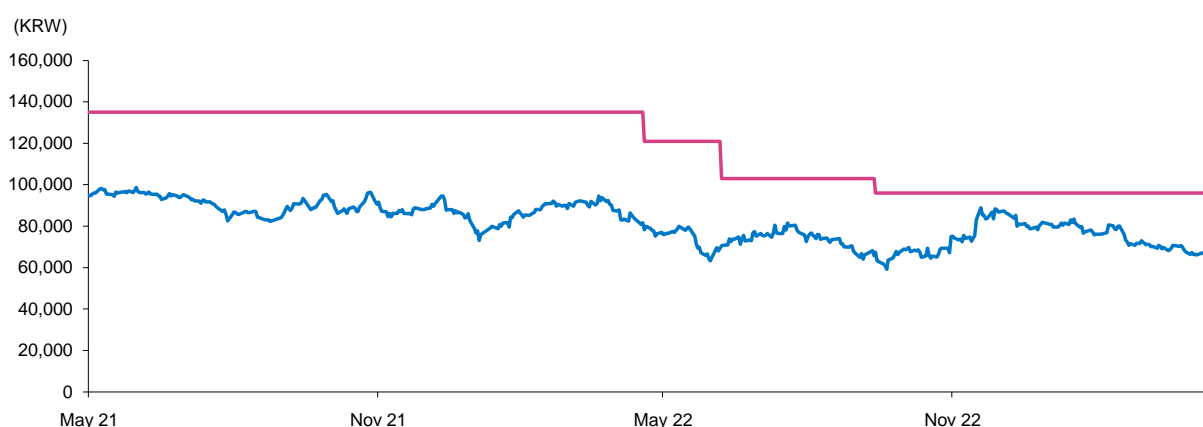
Financial ratios

Year-end Dec 31	2021	2022	2023E	2024E	2025E
Growth (%)					
Sales	-7.3	43.3	14.7	17.5	14.4
Operating profit	7.0	24.0	27.7	28.5	22.2
Net profit	31.8	29.5	30.9	29.4	23.3
Adjusted EPS**	24.6	29.4	30.7	29.4	23.3
Per-share data (KRW)					
EPS (parent-based)	1,301	1,684	2,201	2,849	3,512
EPS (consolidated)	1,301	1,684	2,201	2,849	3,512
Adjusted EPS**	1,301	1,684	2,201	2,849	3,512
BVPS	22,785	21,982	22,758	25,607	29,119
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	69.9	51.1	29.5	22.8	18.5
P/B***	4.0	3.9	2.9	2.5	2.2
EV/EBITDA	17.7	12.1	8.6	7.5	6.4
Ratios (%)					
ROE	6.0	7.5	9.8	11.8	12.8
ROA	4.8	5.1	6.0	7.4	8.3
ROIC	10.9	12.1	11.9	14.1	16.2
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	-7.8	8.9	7.3	1.3	-7.0
Interest coverage (x)	67.6	13.2	9.0	11.7	14.3

Compliance notice

- As of 5/8 2023, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2021/5/7	2022/5/7	2022/5/12	6/30	10/6
Recommendation	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	135000	135000	121000	103000	96000
Gap* (average)	-33.60	-39.75	-39.04	-28.47	
(max or min)**	-25.78	-39.56	-33.88	-20.87	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
 ** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

Samsung Securities uses the following investment ratings.

Company

BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to 2023.03.31

BUY(78.1%)-HOLD(21.9%)-SELL(0%)

Global Disclosures & Disclaimers

General

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