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Tech Team

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▶ **AT A GLANCE**

Recommend	BUY	
Target price	KRW74,000	37.8%
Current price	KRW53,700	
Market cap	KRW1.6/USD1.2b	
Shares (float)	30,058,498 (45.2%)	
52-week high/low	KRW88,900/KRW48,100	
Avg daily trading value (60-day)	KRW9.7b/ USD7.3m	

▶ **ONE-YEAR PERFORMANCE**

	1M	6M	12M
Studio Dragon (%)	9.6	-34.0	-31.2
Vs Kosdaq (%pts)	3.5	-44.1	-38.1

▶ **KEY CHANGES**

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	74,000	83,000	-13.5%
2023E EPS	1,584	1,859	-14.8%
2024E EPS	2,093	2,424	-13.6%

▶ **SAMSUNG vs THE STREET**

No of estimates	17
Target price	82,882
Recommendation	4.0

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

Studio Dragon (253450)

Staying competitive despite unfavorable environment

- Studio Dragon reported 2Q consolidated operating profit of KRW16.3b (down 39.8% y-y), which topped consensus on: 1) recognition of sales from more episodes—six more than we had previously forecast; and 2) robust growth in overseas sales.
- Considering its content programming lineup, we believe fewer episodes will be aired in 3Q than in 2Q. Yet, the impact should be partially cushioned by the broadcasting of Netflix Original content and the second season of popular dramas.
- The drama production company should deliver stable results on its attractive track record and solid overseas sales, but should not be free from adverse business environment. We cut our target price to KRW74,000.

WHAT'S THE STORY?

2Q review: Studio Dragon reported 2Q consolidated sales of KRW163.5b (up 3.8% y-y) and operating profit of KRW16.3b (down 39.8% y-y; beating consensus by 20%). The company recognized sales on 83 episodes in 2Q23 (down 22.4% y-y; 64 episodes on TV channels and 19 on OTT platforms)—six more episodes than we had previously anticipated (ie, four episodes of Genie TV Original ‘Lies Hidden in My garden’ and two of Netflix Original ‘Dona!’). Incentive payment likely decreased y-y due to the sluggish ad market and the low viewership ratings of the dramas broadcast. Even though the number of broadcast episodes fell y-y amid poor industry conditions, overseas sales from global OTT platforms leapt 33.6% y-y, extending robust growth momentum. Nevertheless, operating profit slumped y-y on a high base from the Korean drama producer having supplied Disney Plus with a bunch of old titles in 2Q22.

Reinforcing long-term content strategy despite unfavorable environment: Judging from its content programming lineup, we believe the number of episodes aired in 3Q will decline on a q-q basis. Studio Dragon this quarter should provide two Netflix Original ‘Song of the Bandits’ (9 episodes) and ‘Dona!’ (7 episodes) and the second season dramas to TV channels including ‘Arthdal Chronicles: The Sword of Aramoon’ and ‘The Uncanny Counter: Season 2’. To improve content quality and diversify its portfolio, the firm is planning to establish a sustainable content production system and take care of every step related to drama production. It is also nurturing creators and building a production-related database while planning a long-term content lineup preemptively based on its IPs. It also decides the genres and production budgets after factoring in the characteristics of distribution channels.

(Continued on the next page)

SUMMARY 2Q RESULTS

(KRWb)	2Q23	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	163.5	3.8	-22.6	16.3	6.5
Operating profit	16.3	-39.8	-24.8	-3.8	15.4
Pre-tax profit	15.8	-47.3	-26.4	-7.6	-4.1
Net profit	10.2	-60.1	-44.6	-23.2	-15.4
Margins (%)					
Operating profit	10.0				
Pre-tax profit	9.7				
Net profit	6.2				

Source: Company data, Fnguide, Samsung Securities estimates

VALUATION SUMMARY

	2022	2023E	2024E
Valuation (x)			
P/E	51.1	33.9	25.7
P/B	3.9	2.4	2.2
EV/EBITDA	12.1	8.4	7.8
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	29.4	-5.9	32.1
ROE (%)	7.5	7.2	9.0
Per-share data (KRW)			
EPS	1,684	1,584	2,093
BVPS	21,982	22,141	24,234
DPS	0	0	0

Staying competitive: Undaunted by adverse business environment, Studio Dragon has been performing fairly well and scaling up overseas sales. We believe investor sentiment should improve gradually from 4Q on resumption of tentpole dramas, improvement in ad industry conditions, and an earnings turnaround. With broadcasters scaling down on drama programming, we revise down our earnings estimates and cut our target price to KRW74,000 (based on 11.4x EV/EBITDA; a 20% discount to the 2020-2022 average).

Table 1. Results and forecasts

(KRWb)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	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	163.5	169.4	185.2	487.1	697.9	729.2	871.9
Programing	43.8	28.2	36.2	53.2	35.4	43.8	59.4	54.0	43.2	42.5	35.4	28.2	161.3	192.5	149.2	149.5
Distribution	63.2	67.5	64.9	79.8	77.7	103.9	165.8	132.8	211.1	163.5	169.4	185.2	275.5	480.2	569.5	710.8
Others	10.1	10.3	15.0	14.9	8.0	9.8	3.8	3.7	2.3	2.1	3.2	2.9	50.3	25.2	10.6	11.6
Gross profit	23.7	20.3	21.0	14.8	25.5	35.4	27.4	11.7	30.8	23.9	24.8	26.2	79.8	100.0	105.8	122.2
SG&A	5.8	6.5	6.4	8.4	7.4	8.4	8.4	10.5	9.2	7.7	9.2	11.2	27.2	34.8	37.2	40.4
Operating profit	17.9	13.8	14.6	6.3	18.1	27.0	18.9	1.2	21.6	16.3	15.7	15.0	52.6	65.2	68.5	81.9
Non-operating profit	3.2	0.3	3.9	-7.9)	2.0	3.0	6.5	-18.1	0.5	-0.4	-0.5	-0.6	-0.6	-6.6	-1.1	-0.8
Pre-tax profit	21.1	14.0	18.5	-1.6	20.1	30.0	25.5	-17.0	22.1	15.8	15.2	14.4	52.0	58.6	67.4	81.1
Net profit (controlling)	15.6	9.5	14.8	-0.8	15.6	25.6	17.8	-8.5	18.4	10.2	9.8	9.3	39.0	50.6	47.6	62.9
Gross margin	20.2	19.2	18.1	10.0	21.1	22.5	12.0	6.1	14.6	14.6	14.7	14.1	16.4	14.3	14.5	14.0
Operating margin	15.3	13.0	12.6	4.3	15.0	17.1	8.3	0.6	10.2	9.9	9.2	8.1	10.8	9.3	9.4	9.4
Net margin (controlling)	13.3	8.9	12.8	-0.5	12.9	16.2	7.8	-4.4	8.7	6.2	5.8	5.0	8.0	7.2	6.5	7.2
Chg (% y-y)																
Sales	-2.7	-34.3	9.2	7.4	3.4	48.5	97.2	28.8	74.4	3.8	-26.0	-2.8	-7.3	43.3	4.5	19.6
Programing	-3.2	-56.9	-20.8	30.7	-19.1	55.4	64.0	1.5	21.9	-3.1	-40.4	-47.8	-18.1	19.4	-22.5	0.2
Distribution	-5.5	-10.8	27.7	-7.5	23.0	53.8	155.2	66.4	171.6	57.3	2.2	39.4	-1.5	74.3	18.6	24.8
Other	24.0	-49.3	54.0	39.3	-21.5	-5.1	-74.8	-75.3	-71.0	-78.4	-14.8	-20.7	2.9	-49.9	-58.1	9.7
Gross profit	42.2	-6.9	-1.3	-1.7	7.8	74.0	30.5	-20.7	20.8	-32.4	-9.2	123.6	6.7	25.4	5.8	15.6
SG&A	14.0	33.6	21.0	-19.1	27.7	28.1	31.7	25.1	24.3	-8.7	8.8	6.1	5.8	27.9	7.1	8.4
Operating profit	53.6	-18.2	-9.0	37.6	1.4	95.7	29.9	-81.4	19.3	-39.8	-17.3	1,172.3	7.0	24.0	5.1	19.5
Non-operating profit	642.7	-20.8	nm	nm	-37.8	1,085.2	67.8	nm	-75.6	nm	nm	nm	nm	nm	nm	nm
Pre-tax profit	75.3	-18.2	21.3	nm	-4.6	113.7	37.9	nm	10.0	-47.3	-40.4	nm	25.2	12.7	15.0	20.2
Net profit (controlling)	82.2	-29.1	39.6	nm	0.4	170.2	20.5	nm	17.8	-60.1	-45.2	nm	31.8	29.5	-5.8	32.1
Gross margin	6.4	5.7	-1.9	-0.9	0.9	3.3	-6.1	-3.8	-6.5	-7.8	2.7	8.0	2.2	-2.0	0.2	-0.5
Operating margin	5.6	2.6	-2.5	0.9	-0.3	4.1	-4.3	-3.7	-4.7	-7.2	1.0	7.5	1.5	-1.4	0.1	-0.0
Net margin (controlling)	6.2	0.7	2.8	1.6	-0.4	7.3	-5.0	-3.9	-4.2	-10.0	-2.0	9.4	2.4	-0.8	-0.7	0.7

Source: Company data, Samsung Securities

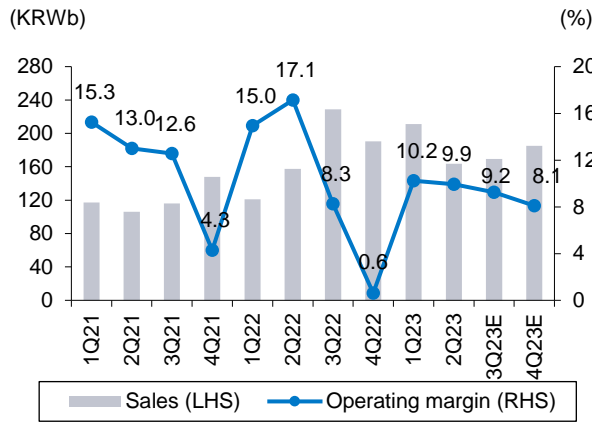
Table 2. Drama lineup (from 2023)

Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Days	
2023	1	tvN	Alchemy of Souls 2 : Light and Shadow	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 11-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 Chungum	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		The Uncaany Cunter S2	July 29-Sep 3	12	Kim Saebom	Yoo Sundong	Sat, Sun	
	14		Useless Lie	July 31- Sep 12	16	Seo Jeongeun	Nam Sungwoo	Wed, Thu	
	15		Athdal Chronicles: The Sword of Aramoon	Sep 9-Oct 15	12	Kim Yeonghyeon	Kim Kwangsik	Sat, Sun	
	16		Twinkling Watermelon	Sep 25- Nov 14	16	Jin Soowan	Son Junghyeon	Mon, Tue	
	17		Diva of the Deserted Island	Oct 21~Nov 26	12	Park Hyeryeon	Oh Choonghwan	Sat, Sun	
	18		Maestra	Dec, 2023	12	Choi Yiyun	Kim Jeongkwon	Sat, Sun	
	2023		19	Tving	Island Part1 (Amazon Prime)	Dec 30, 2022-Jan 13,	6	Oh Bohyeon	Bae Jong
19-(2)		Island Part2 (Amazon Prime)	Feb 24-Mar 10		6	Oh Bohyeon	Bae Jong		
20		Duty After School Part1	Mar 3		6	Lee Namkyu	Sung Yongil		
20-(2)		Duty After School Part2	Apr 21		4	Lee Namkyu	Sung Yongil		
21		A Very Lucky Day	2H23		12	Kim Minseok Song Hanna	Pill Gamsung		
22		Netflix	The Glory Part 2		Mar 10	8	Kim Eunsook	Ahn Gilho	
23			Celebrity (supplied in 4Q22)		Jun 30	12	Kim Yiyoun	Kim Chulkyu	
24			Thief: Sound of the Sword		Sep 22	9	Han Junghoon	Hwang Joonhyuk	
25			The Girl Downstairs		Oct 29	8	Jang Yuha	Lee Jeonghyo	
26			Sweet Home 2		Dec, 2023			Lee Eungbok	
27	Gyeongseong Creature		4Q23	10	Kang Eungyeong	Jeong Dongyun			
28	Disney+		Shadow Detective 2 (supplied in 1H23)	Jul 5	8	Im Changse	Han Donghwa		
29	AppleTV+	The Big Door Prize (supplied in 3Q22-4Q22)	Mar 31-May 17	10	David West Read	Anu Valia			
2023	30	Coupang Play	Decoy Part 1	Jan 27-Feb 10	6	Kim Jinwook	Kim Hongseon	Fri	
	30-(2)		Decoy Part 2 (supplied in 1Q23)	Apr 7-Apr 21	6	Kim Jinwook	Kim Hongseon	Fri	
TBD	31	ENA	Lies Hidden in My Garden	Jun 19-Jul 11	8	Ji Anni	Jung Jihyeon	Mon, Tue	
	1	TvN	Queen of Tears	2024	16	Park Jieun	Kin Heewon	Sat, Sun	
	2		Wedding Impossible	2024	12	Park Seulki	Kwon Yeongil		
	3		When the Stars Gossip	2024		Seo Sookhyang	Park Shinwoo		
	4	TBD	The Plotters	TBD			*Cowork with Universal Studio		
	5		Mastermind	TBD			*Cowork with CBS Studio		
	6	Tving	Study Group	2024		Um Seonho	Lee Janghoon		
	7	Netflix	Sweet Home 3	2024			Lee Eungbok		
	8		Gyeongseong Creature 2	TBD		Kang Eungyeong	Jeong Dongyun		
	9		Whielwind	TBD		Park Kyeongsu	Kim Yongwan		
	10		Hierarchy	TBD					
	11		Trunk (made by Gtist)	TBD		Park Eunyoung	Kim Kyutae		
	12		Crash Landing on you (US)	TBD					
13			The Big Door Prize 2 (supply in 4Q23)	2024	10				

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

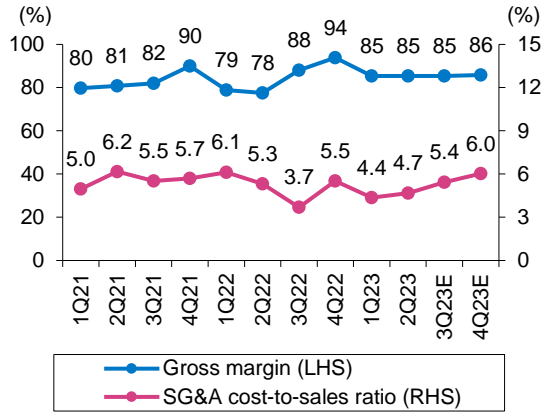
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin



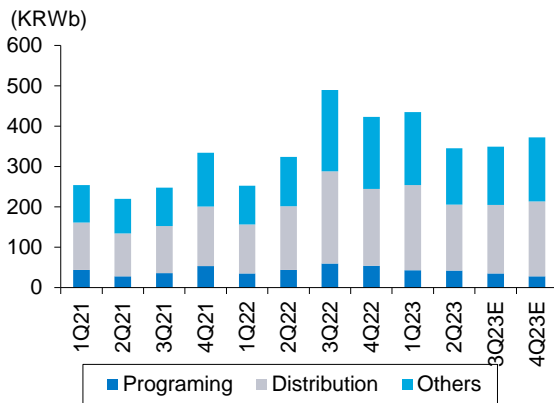
Source: Company data, Samsung Securities

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



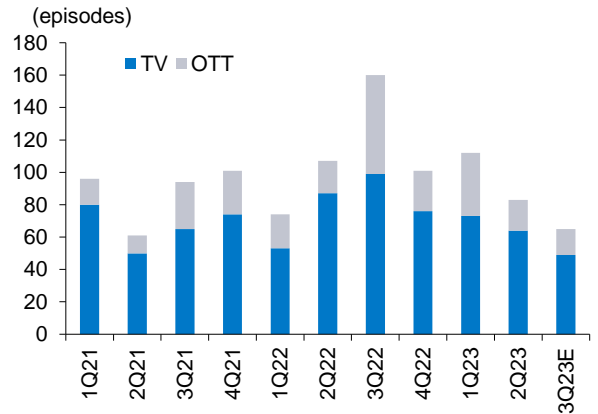
Source: Company data, Samsung Securities

Chart 3. Quarterly sales, by division



Source: Company data, Samsung Securities

Chart 4. Number of episodes supplied, by channel



Source: Company data, Samsung Securities

Chart 5. The Uncaany Cunter S2 (tvN; Jul 29)



Source: Company data, Samsung Securities

Chart 6. Athdal Chronicles: The Sword of Aramoon (tvN; Sep 9)



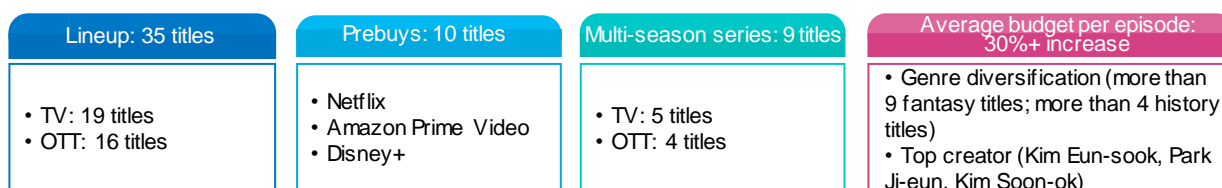
Source: Company data, Samsung Securities

Chart 7. Thief: Sound of the Sword (Netflix; Sep 22)



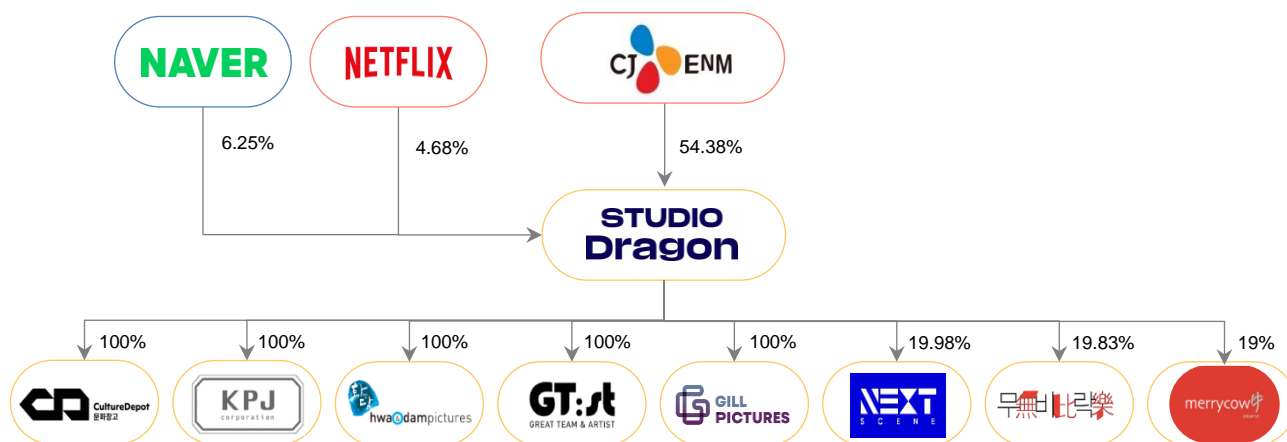
Source: Company data, Samsung Securities

Chart 8. Ambitious 2023 targets



Source: Company data, Samsung Securities

Chart 9. Ownership structure



Note: As of 1Q23

Source: Company data, Samsung Securities

Table 3. Changes to full-year forecasts

(KRWb)	2023E			2024E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Sales	727.8	729.2	0.2	873.3	871.9	-0.2
Operating profit	70.1	68.5	-2.2	93.0	81.9	-12.0
OPM (% , %pts)	9.6	9.4	-0.2	10.7	9.4	-1.3
Pre-tax profit	70.4	67.4	-4.2	93.9	81.1	-13.6
NP (controlling)	55.9	47.6	-14.8	72.9	62.9	-13.6

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Sales	487	698	729	872	996
Cost of goods sold	407	598	623	750	859
Gross profit	80	100	106	122	137
Gross margin (%)	16.4	14.3	14.5	14.0	13.7
SG&A expenses	27	35	37	40	44
Operating profit	53	65	69	82	93
Operating margin (%)	10.8	9.3	9.4	9.4	9.4
Non-operating gains (losses)	-1	-7	-1	-1	1
Financial profit	14	21	17	16	17
Financial costs	10	19	14	12	9
Equity-method gains (losses)	0	0	0	0	0
Other	-5	-9	-4	-5	-6
Pre-tax profit	52	59	67	81	95
Taxes	13	8	20	18	21
Effective tax rate (%)	24.9	13.7	29.4	22.4	22.4
Profit from continuing operations	39	51	48	63	73
Profit from discontinued operations	0	0	0	0	0
Net profit	39	51	48	63	73
Net margin (%)	8.0	7.2	6.5	7.2	7.4
Net profit (controlling interests)	39	51	48	63	73
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	152	219	203	217	237
EBITDA margin (%)	31.1	31.3	27.8	24.9	23.8
EPS (parent-based) (KRW)	1,301	1,684	1,584	2,093	2,440
EPS (consolidated) (KRW)	1,301	1,684	1,584	2,093	2,440
Adjusted EPS (KRW)*	1,301	1,684	1,584	2,093	2,440

Cash flow statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Cash flow from operations	-8	-63	193	200	234
Net profit	39	51	48	63	73
Non-cash profit and expenses	119	176	160	160	170
Depreciation	4	3	2	2	1
Amortization	95	150	132	134	142
Other	20	23	26	24	27
Changes in A/L from operating activities	-155	-280	6	-5	12
Cash flow from investments	27	-43	-167	-190	-205
Change in tangible assets	-2	-4	0	0	0
Change in financial assets	0	0	0	0	0
Other	28	-39	-167	-190	-205
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	-26	-3	16
Cash at beginning of year	49	65	124	97	94
Cash at end of year	65	124	97	94	110
Gross cash flow	158	226	207	223	244
Free cash flow	-11	-67	193	200	234

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	339	359	367
Cash & equivalents	65	124	97	94	110
Accounts receivable	124	142	144	152	151
Inventories	0	0	0	0	0
Other current assets	44	135	97	113	106
Fixed assets	652	691	729	790	859
Investment assets	241	150	152	155	159
Tangible assets	8	11	9	7	6
Intangible assets	298	378	426	478	536
Other long-term assets	105	152	142	150	159
Total assets	884	1,091	1,067	1,149	1,226
Current liabilities	184	416	389	407	411
Accounts payable	17	16	23	27	35
Short-term debt	0	170	170	170	170
Other current liabilities	167	230	195	210	206
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	402	421	425
Owners of parent equity	684	661	666	728	802
Capital stock	15	15	15	15	15
Capital surplus	470	473	473	473	473
Retained earnings	162	213	260	323	396
Other	37	-40	-83	-83	-83
Non-controlling interests' equity	0	0	0	0	0
Total equity	684	661	666	728	802
Net debt	-54	59	82	85	69

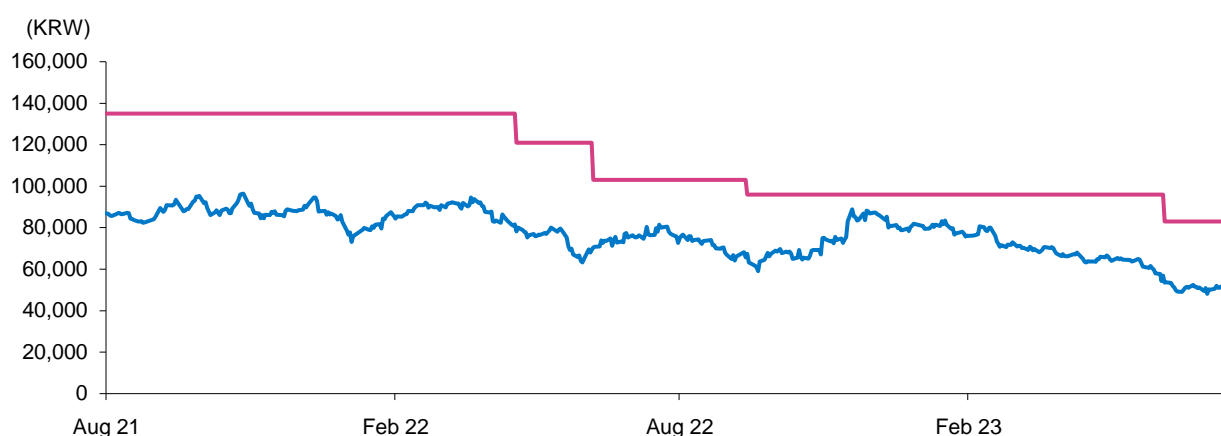
Financial ratios

Year-end Dec 31	2021	2022	2023E	2024E	2025E
Growth (%)					
Sales	-7.3	43.3	4.5	19.6	14.2
Operating profit	7.0	24.0	5.1	19.5	14.0
Net profit	31.8	29.5	-5.8	32.1	16.6
Adjusted EPS**	24.6	29.4	-5.9	32.1	16.6
Per-share data (KRW)					
EPS (parent-based)	1,301	1,684	1,584	2,093	2,440
EPS (consolidated)	1,301	1,684	1,584	2,093	2,440
Adjusted EPS**	1,301	1,684	1,584	2,093	2,440
BVPS	22,785	21,982	22,141	24,234	26,674
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	69.9	51.1	33.9	25.7	22.0
P/B***	4.0	3.9	2.4	2.2	2.0
EV/EBITDA	17.7	12.1	8.4	7.8	7.1
Ratios (%)					
ROE	6.0	7.5	7.2	9.0	9.6
ROA	4.8	5.1	4.4	5.7	6.2
ROIC	10.9	12.1	8.6	10.3	10.8
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	12.3	11.7	8.6
Interest coverage (x)	67.6	13.2	7.4	9.0	10.2

Compliance notice

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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	2023/6/29	8/11
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	135000	135000	121000	103000	96000	83000	74000
Gap* (average)	-33.60	-39.75	-39.04	-28.47	-24.88	-38.39	
(max or min)**	-25.78	-39.56	-33.88	-20.87	-7.40	-35.30	

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

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Company	Industry
BUY Expected to increase in value by 15% or more within 12 months and is highly attractive within sector	OVERWEIGHT Expected to outperform market by 5% or more within 12 months
HOLD Expected to increase/decrease in value by less than 15% within 12 months	NEUTRAL Expected to outperform/underperform market by less than 5% within 12 months
SELL Expected to decrease in value by 15% or more within 12 months	UNDERWEIGHT Expected to underperform market by 5% or more within 12 months

* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

Percentage of ratings in 12 months prior to 2023.06.30

BUY(79.9%)·HOLD(20.1%)·SELL(0%)

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General

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