

Studio Dragon (253450 KS)

Whoever survives is the winner

2023 review: sales +7.9% YoY, -14.3% YoY

Studio Dragon reported 2023 consolidated sales of W753.1bn (+7.9% YoY) and OP of W55.9bn (-14.3% YoY), missing market consensus (sales: W766bn; OP: W65.9bn). TV programming sales were weak due to the contraction of the domestic ad market, and sales of old content, which are high-margin, were also sluggish. In total, 341 episodes were aired, falling sharply YoY by 101. Programming sales dropped 20.0% YoY to W154.1bn, while distribution sales continued to grow to W588.9bn (+22.6% YoY). By region, domestic sales declined 8.9% YoY, while overseas sales rose 22.9% YoY, offsetting the decline in domestic sales.

2024 preview: sales -1.7% YoY, OP +22.3% YoY

We estimate 2024 consolidated sales at W740bn (-1.7% YoY) and OP at W68.3bn (+22.3% YoY). Top line will likely fall, as the firm's drama lineup is set to decline from 30 titles in 2023 to 24 (2024), while OP will likely stabilize through pre-sale/post-production and distribution pipeline diversification. In addition to global leader Netflix, licensing by region via each country's leading OTT should improve company-wide profitability. In addition, global multi-studios (to secure content supply channels mainly in the US and Japan) are being established, which should boost non-captive sales in 2025.

Initiate coverage at BUY and target price of W55,000

We initiate coverage at BUY and a target price of W55,000, derived by applying a target P/E of 32.8x to 2024E EPS W1,670. The target multiple is a 10% discount to the company's recent six-year average. The market is not easy, but Studio Dragon is one of the few Korean productions that can build an extensive content portfolio.

Hwan-wook Lee
Media/entertainment
hwanwook.lee@yuantakorea.com

BUY (I)

Target price **W55,000 (I)**
Current price (Mar 28) **W45,950**
Upside potential **20%**

Market cap (Wbn)	1,381
Shares outstanding	30,058,498
Avg daily T/O (2M, Wbn)	3
Avg daily volume (2M, shrs)	71,018
52-week high/low (won)	71,300 / 42,050
Foreign ownership (%)	7.90%
Dividend yield	0.00%
Major shareholders (%)	CJ ENM & others

Stock performance

(%)	1M	3M	12M
Absolute	1.0 (10.8)	(35.6)	
Relative	(4.2)	(15.0)	(41.0)
Abs (US\$)	0.0 (14.6)	(37.8)	

Quarterly earnings

(Wbn)	1Q24E	% YoY	% QoQ	Consens	vs consens (%)
Sales	178	-15.7	10.5	167	6.3
OP	26	20.3	TTB	17	56.5
Pre-tax net profit	31	38.1	TTB	17	80.5
Net profit, CI	22	18.1	TTB	14	59.2
OPM (%)	14.6	+4.4 %pt	TTB	9.9	+4.7 %pt
NPM (%)	12.2	+3.5 %pt	TTB	8.1	+4.1 %pt

Note: CI = controlling interest

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2022A	2023A	2024F	2025F
Sales		698	753	741	822
OP		65	56	69	85
Net profit, CI		51	30	50	64
P/E (x)		46.4	61.5	27.5	21.6
P/B (x)		3.6	2.6	1.8	1.7
EV/EBITDA (x)		11.0	7.7	6.0	6.7
ROE (%)		7.5	4.4	6.9	8.1

Source: Yuanta Securities

Studio Dragon (253450 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income					
FY ends Dec (Wbn)	2022A	2023A	2024F	2025F	2026F
Sales	698	753	741	822	900
Cost of sales	598	665	639	702	763
Gross profit	100	88	102	120	137
SG&A	35	32	33	35	35
Operating profit	65	56	69	85	102
EBITDA	219	242	208	163	155
Non-operating profit	-7	-19	3	8	12
Forex gains	8	2	0	0	0
Net interest income	-3	-4	1	6	11
Equity-method gains	0	0	0	0	0
Other	-12	-16	2	2	2
Net prof before income tax	59	37	72	93	114
Income tax	8	7	22	29	31
Net profit from continuing ops	51	30	50	64	84
Net profit from discontinued ops	0	0	0	0	0
Net profit	51	30	50	64	84
NP for controlling interest	51	30	50	64	84
Total comprehensive income	-26	47	66	80	100
Total comprehensive income, CI	-26	47	66	80	100

Statement of financial position					
FY ends Dec (Wbn)	2022A	2023A	2024F	2025F	2026F
Current assets	400	405	641	754	905
Cash & cash equivalents	124	158	309	468	592
Accounts receivables & other	142	149	202	174	190
Inventory	0	0	0	0	0
Non-current assets	691	688	563	492	463
Tangible assets	11	12	13	14	13
Investment in affiliates	13	12	17	14	16
Other investment assets	137	163	164	163	164
Total assets	1,091	1,092	1,205	1,246	1,369
Current liabilities	416	368	438	401	423
Accounts payable & other	87	71	96	83	91
ST financial liabilities	170	170	170	170	170
Liquid LT liabilities	0	0	0	0	0
Non-current liabilities	14	16	19	18	18
LT financial liabilities	0	0	0	0	0
Debentures	0	0	0	0	0
Total liabilities	430	384	457	419	441
Equity, controlling interest	661	708	748	828	927
Paid-in capital	15	15	15	15	15
Capital surplus	473	473	473	473	473
Retained earnings	213	242	292	356	440
Equity, non-controlling interest	0	0	0	0	0
Total equity	661	708	748	828	927
Net debt	54	20	-130	-289	-412
Total debt	183	182	182	182	182

Cash flow statement					
FY ends Dec (Wbn)	2022A	2023A	2024F	2025F	2026F
Operating cash flow	-63	45	59	70	19
Net profit	51	30	50	64	84
Depreciation & amortization	3	3	4	4	4
Forex gains	4	2	0	0	0
Affiliate investment gains	0	0	0	0	0
Increase in net working cap	-280	-179	-158	-103	-144
Other	159	189	163	104	75
Investing cash flow	-43	-1	-14	-3	-16
Investment	-12	3	-6	3	-2
Increase in tangible assets	-5	-3	-4	-5	-3
Decrease in tangible assets	1	0	0	0	0
Other	-28	-1	-5	-1	-11
Financing cash flow	165	-15	-7	-7	-6
ST financial liabilities	169	-1	1	0	0
Debenture/LT financial liabilities	2	0	0	0	0
Equity	3	0	0	0	0
Cash dividend	0	0	0	0	0
Other cash flow	-9	-14	-8	-6	-6
Consolidation adj and other	0	0	114	99	128
Increase in cash & equivalents	59	29	151	158	124
Beginning cash & equivalents	65	124	158	309	468
Ending cash & equivalents	124	153	309	468	592
NOPLAT	65	56	69	85	102
FCF	-67	42	55	65	16

Valuation					
FY ends Dec	2022A	2023A	2024F	2025F	2026F
EPS (won)	1,684	1,001	1,669	2,124	2,781
BPS (won)	21,982	23,546	24,884	27,539	30,853
EBITDA/shr (won)	7,279	8,050	6,917	5,437	5,167
SPS (won)	23,250	25,056	24,652	27,347	29,942
DPS (won)	0	0	0	0	0
P/E (x)	46.4	61.5	27.5	21.6	16.5
P/B (x)	3.6	2.6	1.8	1.7	1.5
EV/EBITDA (x)	11.0	7.7	6.0	6.7	6.2
P/S (x)	3.4	2.5	1.9	1.7	1.5

Key financial data					
FY ends Dec	2022	2023	2024E	2025E	2026E
Sales (% YoY)	43.3	7.9	-1.6	10.9	9.5
Operating profit (%YoY)	24.0	-14.3	23.5	23.2	20.0
Net profit, CI (%YoY)	29.5	-40.5	66.7	27.3	31.0
Gross margin (%)	14.3	11.7	13.8	14.6	15.2
Operating margin (%)	9.3	7.4	9.3	10.3	11.3
Net margin, CI (%)	7.2	4.0	6.8	7.8	9.3
EBITDA margin (%)	31.3	32.1	28.1	19.9	17.3
ROIC (%)	15.9	10.8	13.3	21.9	34.6
ROA (%)	5.1	2.8	4.4	5.2	6.4
ROE (%)	7.5	4.4	6.9	8.1	9.5
Debt-to-equity (%)	65.1	54.3	61.1	50.6	47.6
Net debt-to-equity (%)	8.2	2.9	-17.4	-34.9	-44.5
OP/financing cost (x)	13.2	6.4	8.4	13.3	16.0

Note: CI = controlling interest

Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

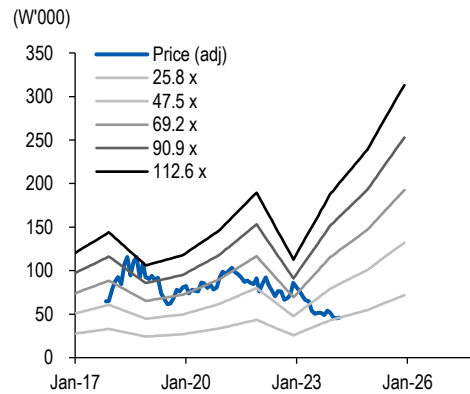
EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

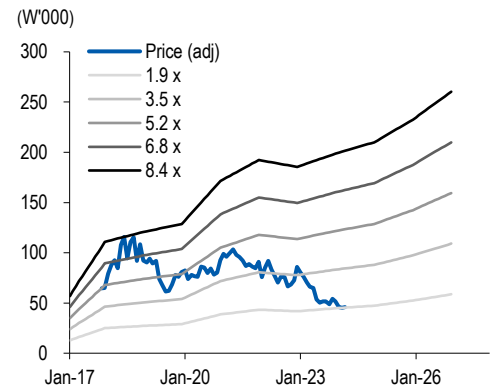
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuanta Securities

P/E band chart



P/B band chart



Studio Dragon (253450 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2024/03/29	BUY	55,000	1 yr		
	Analyst changed				
2021/04/16	BUY	121,000	1 yr	-19.62	-13.22

Note: Difference = (actual price* - target price) / target price x 100
 * 1) The average price until the day target price was suggested
 2) The highest (lowest) price until the day target price was suggested
 Source: Yuanta Securities

Rating	Share (%)
STRONG BUY	0
BUY	84.1
HOLD	15.9
SELL	0
Total	100.0

Note: As of Mar 29, 2024

Excluding reports written or published by overseas affiliates

Disclosures & disclaimers

This research report has been prepared for informational purposes only; it does not constitute an offer or a solicitation of an offer to buy or sell any securities or other financial instruments. The information and data contained in this report have been obtained from sources we consider reliable; however, we make no representation that the information provided in this report is accurate or complete, and it should not be relied on as such. The recipient of this report should use his/her independent judgment regarding the sale or purchase of any securities or financial instruments mentioned herein. We disclaim any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for our clients only. It is copyrighted material and may not be reproduced, transmitted, quoted, or distributed in any manner without the prior written consent of Yuanta Securities Korea Co., Ltd.

As of the date of publication of this report, Yuanta Securities Korea Co., Ltd. does not own 1% or more of the subject company's shares outstanding. As of the date of publication of this report, Yuanta Securities Korea Co., Ltd. does not have any special interests in the subject company. The material contained herein was not disclosed by Yuanta Securities Korea Co., Ltd. to any institutional investors or third parties prior to its publication. The analyst (s) of this report or the analyst (s)' spouse does not have any financial interest in the securities of the subject company (ies) mentioned herein, nor financial interest of any nature related to the subject company (ies) (including without limitation, whether it consists of any option, right, warrant, future, long or short position), as of the publication date of this report.

Analyst certification

I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

Stock and sector ratings

- **Stock ratings** include an Investment Rating (STRONG BUY, BUY, HOLD, SELL) based on the expected absolute return of a stock over the next 6 -12 months.
 - STRONG BUY: Expected to return 30% or more
 - BUY: Expected to return between 10% and 30%
 - HOLD: Expected to return between -10 and +10%
 - SELL: Expected to return -10% or less
- **Sector ratings** suggest 6- to 12-month forward investment weighting of a given sector compared to its market capitalization weighting.
 - OVERWEIGHT: Investment weighting is higher than the market capitalization weighting
 - NEUTRAL: Investment weighting is equal to the market capitalization weighting
 - UNDERWEIGHT: Investment weighting is lower than the market capitalization weighting

Yuanta Securities (Korea) International Network

Seoul

Head Office

Yuanta Securities Korea Bldg.
76 Uljiro, Jung-gu, Seoul (Euljiro 2)
Tel: +822 3770 2000

Research Center

Yuanta Securities Korea Bldg.
76 Uljiro, Jung-gu, Seoul (Euljiro 2)
Tel: +822 3770 2000

Hong Kong

Yuanta Financial (Hong Kong) Limited
Suite 22D, 24/F Block D, Mai Luen Industrial Bldg,
23-31 Kung Yip Street, Kwai Chung, N.T. Hong Kong
Tel: +852 6388 1870

Cambodia

Yuanta Securities (Cambodia) Plc.
4th Floor, Emerald Building, No.64 (corner St. 178),
Preah Norodom Blvd, Sangkat Chey Chumneah, Khan
Daun Penh, Phnom Penh, Cambodia
Tel: +855 23 860 800