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Yonghyun Choi
Media / Advertisers
+82-2-6114-2915
yonghyun.choi@kbf.com

Maintain BUY; Revise down TP from KRW59,000 to KRW52,000

We maintain BUY on Studio Dragon, while cutting TP by 11.9% to KRW52,000 to accommodate 26.6%/30.7% downward revisions to 2024/2025E OP, around 20% below the market consensus; our estimate assumes 264 episodes aired (revised from 280) and profit margins of OTT content remaining flat YoY in 2024E. We expect share price uplift to stem from: (1) announcement of content production for overseas clients (U.S., Japan); (2) increase in the number of aired episodes at captive channels (2 per week → 3 per week); and (3) resumption of content sales to China. Earnings improvement should be limited in 1H24, but may be anticipated in 2H24 as content picks up.

Valuation method changed from DCF to EV/EBITDA; Cash flow to improve in long term

We have changed our valuation method from DCF to EV/EBITDA as: (1) visibility over EBITDA has increased with Studio Dragon having generated free cash for the first time in 2023 (FCF: KRW42.0bn); and (2) EBITDA seems to be the quickest in reflecting current position in a business that assetizes content. Our TP has been derived by applying a target multiple of 6.4x (average of global peers) to 2024E EBITDA of KRW243.0bn. That said, the company needs to continue to close the gap between EBITDA and FCF. To do so, the company needs to increase the proportion of revenue that does not entail capex; in the long run, sales of past content should help boost cash generation capabilities.

1Q24E OP of KRW17.2bn vs. KRW17.6bn consensus

We forecast 1Q24E OP of KRW17.2bn, which is in line with the consensus. The number of aired episodes is estimated at 64 (54 TV + 10 OTT), down 48 episodes YoY from 112 (73 TV + 39 OTT). Programming/Distribution revenue should retreat 10.1% YoY/35.3% due to a decrease in the number of TV/OTT episodes. However, the decline in OP (-20.2% YoY; 11.5% OPM) should not be as steep as that of revenue (-29.2% YoY) as TV episodes are comprised of pre-buy deals, which entail relatively higher margins.

Buy Maintain

Target Price (Lowered)	KRW52,000
Dividend yield*	0.0%
Total return	15.2%
Current price (Apr 3)	KRW45,150
Consensus target price	KRW63,538
Market capitalization	USD1.0bn

* 12-month forward

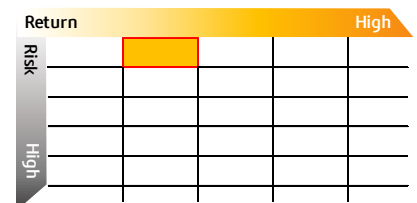
Trading Data

Free float	45.2%
Avg. T/O val. (3m, KRWbn)	3.3
Foreign ownership	8.0%
Major shareholders	CJ ENM and 3 others 54.8%
	NAVER 6.3%

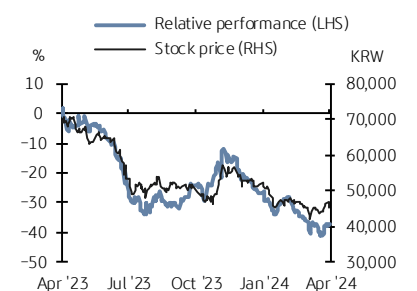
Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	-0.1	-13.8	-12.3	-34.8
Relative	-2.0	-14.7	-16.6	-37.0

Risk & Total Return (annualized over three years)



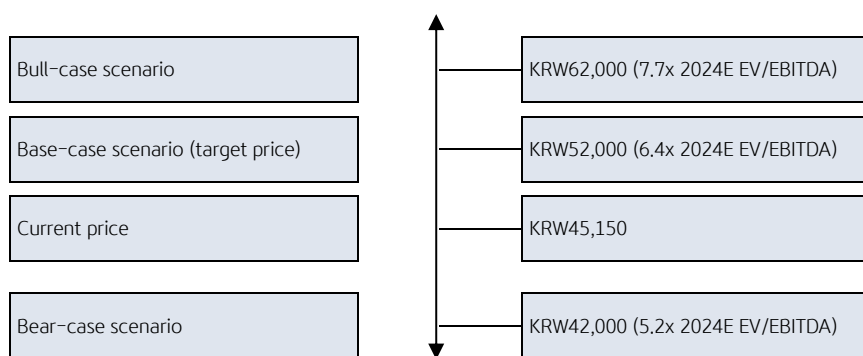
Stock Price & Relative Performance



Earnings Forecast & Valuation

Fiscal year-end	2023A	2024E	2025E	2026E
Revenue (KRWbn)	753	691	762	800
OP (KRWbn)	56	53	64	77
NP to control. int. (KRWbn)	30	36	50	64
EPS (KRW)	1,001	1,212	1,664	2,131
EPS growth (%)	-40.6	21.1	37.3	28.1
P/E (x)	51.5	37.2	27.1	21.2
EV/EBITDA (x)	6.5	5.6	5.2	4.8
P/B (x)	2.2	1.8	1.7	1.6
ROE (%)	4.4	5.0	6.5	7.8
Div. yield (%)	0.0	0.0	0.0	0.0

Investment Opinion & Risks



Base-case scenario: Catalysts

- 1) 2024E TV content at 174 episodes
- 2) 2024E OTT-bound original content at 90 episodes

Bull-case scenario: Upside risks

- 1) 2024E TV content at over 200 episodes
- 2) 2024E OTT-bound original content at over 120 episodes

Bear-case scenario: Downside risks

- 1) 2024E TV content at under 160 episodes
- 2) 2024E OTT-bound original content at under 70 episodes

Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	748.0	822.0	690.6	761.6	-7.7	-7.3
OP	72.0	93.0	52.9	64.5	-26.6	-30.7
NP (to control. int.)	52.0	70.0	36.4	50.0	-29.9	-28.6

Source(s): KB Securities estimates

KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	690.6	761.6	745.8	814.5	-7.4	-6.5
OP	52.9	64.5	69.7	83.1	-24.1	-22.4
NP (to control. int.)	36.4	50.0	51.9	61.3	-29.8	-18.4

Source(s): Quantwise, KB Securities estimates

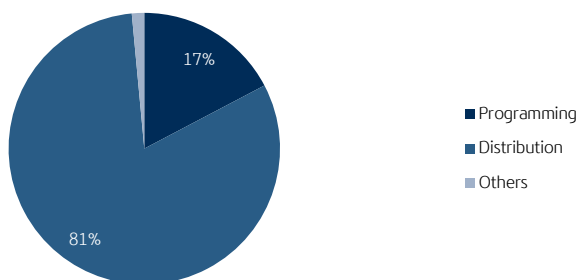
Valuation & Target Price Calculation

- 1) Valuation method:
EV/EBITDA Valuation
- 2) Target price calculation:
EV/EBITDA 6.4x * EBITDA KRW 243bn
- 3) Target price range:
KRW42,000 - KRW62,000
- 4) Valuation at target price:
2024E EV/EBITDA 6.4x

Earnings Sensitivity Analysis

(%)	EPS Change	
	2024E	2025E
+1% in KRW/USD	+1.1	+1.1
	+0.5	4.9

Revenue Composition (2024E)



Source(s): Company data, KB Securities estimates

Peer Group Comparison

(KRWbn, x, %)	Market Cap	P/E		P/B		EV/EBITDA		ROE		Dividend Yield	
		2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Studio Dragon	1.4	24.5	20.6	1.80	1.66	5.8	5.4	7.5	8.2	0.0	0.0
Paramount	12.3	12.3	10.1	0.39	0.38	7.9	7.5	3.0	3.3	1.5	1.5
Warner Bros.	28.7	N/A	109.1	0.47	0.46	6.3	6.0	1.8	4.1	0.0	0.0
Comcast	221.9	9.8	9.1	1.88	1.70	6.6	6.5	19.4	19.6	3.0	3.2

Source(s): Bloomberg consensus, KB Securities estimates

Table 1. 1Q24E Earnings Preview (consolidated)

(KRWbn, %, pp)	1Q24E	4Q23	QoQ	1Q23	YoY	Previous Estimate	Diff.	Consensus	Diff.
Revenue	149.5	161.1	(7.2)	211.1	(29.2)	149.5	0.0	168.5	(11.3)
OP	17.2	(3.8)	TTB	21.6	(20.2)	17.2	0.5	17.6	(1.8)
<i>OPM</i>	11.5	(2.4)	13.9	10.2	1.3	11.5	0.1	10.4	1.1
NP (to control. int.)	14.6	(16.7)	TTB	18.4	(20.6)	14.5	0.5	15.0	(2.8)
<i>NPM</i>	9.8	(10.4)	20.1	22.0	(12.3)	9.7	0.0	8.9	0.9

Source(s): Quantiwise, KB Securities estimates

Note: TTB=turn to black

Table 2. Earnings Estimate Revisions

(KRWbn, %, pp)	2023E					2024E				
	Revised	Previous	Change	Consensus	Diff.	Revised	Previous	Change	Consensus	Diff.
Revenue	690.6	748.0	(7.7)	745.8	(7.4)	761.6	822.0	(7.3)	814.5	(6.5)
OP	52.9	72.0	(26.6)	69.7	(24.1)	64.5	93.0	(30.7)	83.1	(22.4)
<i>OPM</i>	7.7	9.6	(2.0)	9.3	(1.7)	8.5	11.3	(2.9)	10.2	(1.7)
NP (to control. int.)	36.4	52.0	(29.9)	51.9	(29.8)	50.0	70.0	(28.6)	61.3	(18.4)
<i>NPM</i>	5.3	7.0	(1.7)	7.0	(1.7)	6.6	8.5	(1.9)	7.5	(1.0)

Source(s): Quantiwise, KB Securities estimates

Table 3. Earnings Forecast

(KRWbn, %)	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E	2022	2023	2024E	2025E
TV episodes	73	64	50	40	54	34	30	56	315	227	174	180
OTT episodes	39	19	25	31	10	15	26	39	127	114	90	102
Revenue	211.1	163.5	217.4	161.1	149.5	140.7	173.6	226.7	697.9	753.1	690.6	761.6
Programming	43.2	42.5	35.0	33.4	38.8	25.5	23.2	44.4	192.5	154.1	131.9	144.4
Distribution	165.7	118.9	180.0	124.3	107.2	111.7	146.8	178.7	480.2	588.9	544.4	601.8
Others	2.3	2.1	2.3	3.4	3.5	3.5	3.6	3.7	25.2	10.1	14.3	15.4
% YoY	74.4	3.8	-5.0	-15.4	-29.2	-13.9	-20.1	40.7	43.3	7.9	-8.3	10.3
Programming	21.9	-3.1	-41.0	-38.1	-10.1	-39.9	-33.8	33.0	19.4	-20.0	-14.4	9.5
Distribution	113.1	14.4	8.6	-6.4	-35.3	-6.1	-18.5	43.7	74.3	22.6	-7.6	10.5
Others	-71.0	-78.4	-38.3	-7.8	49.8	67.0	54.8	8.2	-49.9	-59.7	40.6	8.2
% QoQ	10.8	-22.6	33.0	-25.9	-7.2	-5.8	23.4	30.6				
Programming	-20.0	-1.7	-17.5	-4.8	16.2	-34.2	-9.1	91.2				
Distribution	24.7	-28.2	51.4	-30.9	-13.8	4.1	31.5	21.7				
Others	-37.2	-8.5	10.0	45.9	2.0	2.0	2.0	2.0				
OP	21.6	16.3	21.9	-3.8	17.2	14.0	21.4	0.2	65.2	55.9	52.9	64.5
(% YoY)	19.3	-39.8	15.4	TTR	-20.2	-13.7	-2.3	TTB	24.0	-14.3	-5.4	21.9
(% QoQ)	1732.1	-24.8	34.4	TTR	TTB	-18.6	52.2	-99.0				
OPM (%)	10.2	9.9	10.1	-2.4	11.5	10.0	12.3	0.1	9.3	7.4	7.7	8.5
NP to control. int.	18.4	10.2	18.2	-16.7	14.6	10.9	20.3	-9.4	50.6	30.1	36.4	50.0
(% YoY)	17.8	-60.1	1.9	RR	-20.6	7.1	11.7	RR	29.5	-40.5	21.1	37.2
(% QoQ)	TTB	-44.6	78.3	TTR	TTB	-25.3	85.9	TTR				
NPM (%)	8.7	6.2	8.4	-10.4	9.8	7.8	11.7	-4.1	7.2	4.0	5.3	6.6

Source(s): Company data, KB Securities estimates

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

Table 4. Key Valuation Measures

(KRWbn, x, '000 shares, KRW)	2018	2019	2020	2021	2022	2023E	2024E	2025E
EV/Sales	6.4x	4.6x	5.1x	5.5x	3.8x	2.1x	2.0x	1.7x
Revenue	380	469	526	487	698	753	691	762
% YoY	32.4	23.5	12.2	(7.3)	43.3	7.9	(8.3)	10.3
EV/EBITDA	21.1x	14.9x	16.2x	17.6x	12.1x	6.5x	5.6x	5.2x
EBITDA	115	146	165	152	219	242	243	250
% YoY	55.1	26.4	13.6	(8.3)	44.1	10.7	0.4	2.9
EV/FCF	-	-	-	-	-	37.2x	63.0x	24.5x
FCF	(29)	(13)	(3)	(11)	(69)	42	22	54
YoY %	294.0	(55.7)	(75.9)	249.7	531.6	(160.7)	(48.6)	147.7
P/E	72.3x	85.9x	88.7x	69.9x	51.1x	51.5x	37.2x	27.1x
EPS	1,278	941	1,044	1,301	1,684	1,001	1,212	1,664
YoY %	21.7	(26.3)	10.9	24.6	29.4	(40.6)	21.1	37.2
P/B	6.46x	5.31x	4.56x	3.99x	3.91x	2.19x	1.82x	1.71x
BPS	14,305	15,242	20,309	22,785	21,982	23,546	24,759	26,423
YoY %	8.9	6.5	33.2	12.2	(3.5)	7.1	5.1	6.7
Share price	92,400	80,900	92,600	91,000	86,000	51,500	45,150	45,150
No. of shares	28,038	28,068	28,369	30,008	30,020	30,058	30,058	30,058
Market cap	2,592	2,273	2,778	2,731	2,585	1,548	1,357	1,357

Source(s): Company data, KB Securities estimates

Table 5. Valuation

(KRWbn, %, k shares, KRW)	Value	Notes
2024E EBITDA	243.0	
Multiple (x)	6.4	Average of global peers
Enterprise value	1,555.4	
(+) Investments in non-consolidated affiliates	12.3	2023
(-) Net debt	2.9	2024E
(-) Non-controlling interests	0.0	2024E
Equity value	1,564.8	
(÷) No. of shares	30,058	
Target price	52,000	
Current price	45,150	April 3
Upside	15.2	

Source(s): Company data, KB Securities estimates

Income Statement					
(KRWbn)	2022A	2023A	2024E	2025E	2026E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	698	755	691	762	800
Cost of revenue	598	665	525	574	595
Gross profit	100	88	166	187	205
SG&A expenses	35	52	115	125	127
Operating profit	65	56	53	64	77
EBITDA	219	242	243	250	262
Non-operating accounts	-7	-19	-9	-5	-1
Interest income	2	5	5	5	6
Interest expenses	5	9	9	9	9
Profit on equity method	0	0	0	0	0
Net other non-operating income	-4	-15	-5	-1	2
Profit before tax	59	37	44	60	76
Income tax expense	8	7	8	10	12
Net profit	51	30	36	50	64
NP attributable to controlling interests	51	30	36	50	64
Adj. net profit	51	30	36	50	64

Operating Statistics & Ratios					
(%)	2022A	2023A	2024E	2025E	2026E
Revenue growth	43.3	7.9	-8.3	10.3	5.0
OP growth	24.0	-14.3	-5.4	21.9	19.9
EBITDA growth	44.1	10.7	0.4	2.9	4.9
NP growth of parent	29.5	-40.5	21.1	37.2	28.1
GP margin	14.3	11.7	24.0	24.6	25.6
OP margin	9.3	7.4	7.7	8.5	9.7
EBITDA margin	31.3	32.1	35.2	32.8	32.8
EBT margin	8.4	4.9	6.4	7.8	9.6
NP margin of parent	7.3	4.0	5.3	6.6	8.0

Statement of Cash Flows					
(KRWbn)	2022A	2023A	2024E	2025E	2026E
Cash flow from operating activities	-63	45	202	234	242
Net profit	51	30	36	50	64
Depreciation & amortization	153	186	190	186	185
Other non-cash adjustments	23	30	8	10	12
Investments in working capital	-280	-179	-25	-2	-7
Decrease(Increase) in receivables	-35	15	-26	-2	-8
Decrease(Increase) in inventory	0	0	0	0	0
Increase(Decrease) in payables	12	-18	1	0	1
Investments in other working capital	-256	-175	0	0	0
Other operating cash flow	-10	-22	-8	-10	-12
Cash flow from investing activities	-43	-1	-185	-185	-182
Capital expenditure	-4	-3	-3	-3	-3
Investments in intangibles	-3	0	-177	-177	-179
Changes in investment assets	-12	-1	0	0	0
Other investment cash flow	-25	2	-4	-4	0
Cash flow from financing activities	165	-9	0	0	0
Proceeds from (repayment of) debt	168	-1	0	0	0
Changes in equity	3	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	-5	-8	0	0	0
Other cash flow	0	0	0	0	0
Increase/decrease in cash	59	35	17	49	60
Cash and cash equivalents at FYE	124	158	176	225	285
Free cash flow	-69	42	22	54	60
Net cash flow	-114	32	15	49	60
Net cash (net debt)	-51	-18	-3	46	106

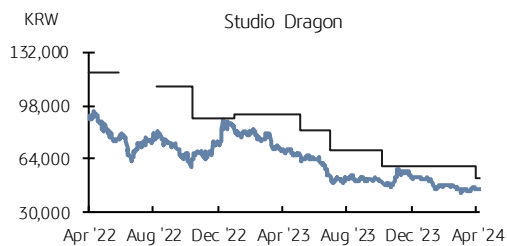
Source(s): Company data, KB Securities estimates

Statement of Financial Position					
(KRWbn)	2022A	2023A	2024E	2025E	2026E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	1,091	1,092	1,130	1,180	1,244
Current assets	400	405	448	499	566
Cash and cash equivalents	124	158	176	225	285
Current financial assets	5	3	3	3	3
Trade receivables	142	149	175	177	185
Inventory	0	0	0	0	0
Other current assets	130	94	94	94	94
Non-current assets	691	688	682	681	678
Investment assets	150	175	175	175	175
Property, plant and equipment	11	12	12	12	12
Intangible assets	378	359	349	344	341
Other non-current assets	152	141	146	150	150
Total liabilities	430	384	385	386	386
Current liabilities	416	368	369	369	370
Trade payables	16	11	12	12	13
Short-term financial liabilities	170	170	172	172	172
Other current liabilities	230	187	185	185	185
Non-current liabilities	14	16	16	16	17
Non-current financial liabilities	9	10	10	10	10
Other non-current liabilities	4	7	7	7	7
Total equity	661	708	744	794	858
Issued capital	15	15	15	15	15
Share premium	473	473	473	473	473
Other equity interest	0	0	0	0	0
Accumulated other comprehensive income	-40	-22	-22	-22	-22
Retained earnings	213	242	278	328	393
Controlling interests	661	708	744	794	858
Non-controlling interests	0	0	0	0	0

Key Ratios					
(x, %, KRW)	2022A	2023A	2024E	2025E	2026E
Multiples					
P/E	51.1	51.5	37.2	27.1	21.2
P/B	3.9	2.2	1.8	1.7	1.6
P/S	3.7	2.1	2.0	1.8	1.7
EV/EBITDA	12.1	6.5	5.6	5.2	4.8
EV/EBIT	40.4	28.0	25.7	20.3	16.2
Dividend yield, ordinary (%)	0.0	0.0	0.0	0.0	0.0
EPS	1,684	1,001	1,212	1,664	2,131
BVPS	21,982	23,546	24,759	26,423	28,554
SPS	23,250	25,056	22,974	25,339	26,606
DPS (annual, ordinary)	0	0	0	0	0
Cash dividends payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Operating performance					
ROE	7.5	4.4	5.0	6.5	7.8
ROA	5.1	2.8	3.3	4.3	5.3
ROIC	7.3	4.5	5.0	6.2	7.2
Financial structure (%)					
Total liab./equity	65.1	54.3	51.8	48.5	45.0
Net debt/equity	7.7	2.6	0.4	Net Cash	Net Cash
Current ratio	1.0	1.1	1.2	1.4	1.5
Interest coverage (x)	13.2	6.4	6.0	7.3	8.8
Activity ratios					
Asset turnover (x)	0.7	0.7	0.6	0.7	0.7
Receivables turnover (x)	5.3	5.2	4.3	4.3	4.4
Payables turnover (x)	42.1	55.2	59.6	62.9	64.2
Inventory turnover (x)	0.0	0.0	0.0	0.0	0.0

Disclosures

Rating & Target Price Changes (Share price —, Target price —)



Studio Dragon (253450)

Date	Rating	Analyst	TP (KRW)	TP Differential (%)	
				Avg.	Max/Min
Apr-01-2022	Buy	Danny Lee	120,000	-34.58	
Aug-05-2022	Analyst Changed	Yonghyun Choi		-	
Aug-08-2022	Buy	Yonghyun Choi	110,000	-35.02	-25.91
Oct-17-2022	Buy	Yonghyun Choi	90,000	-17.07	-1.22
Jan-04-2023	Buy	Yonghyun Choi	93,000	-19.32	-10.32
May-08-2023	Buy	Yonghyun Choi	82,000	-23.81	-18.78
Jul-05-2023	Buy	Yonghyun Choi	70,000	-27.11	-23.00
Oct-10-2023	Buy	Yonghyun Choi	60,000	-13.15	-4.50
Jan-10-2024	Buy	Yonghyun Choi	59,000	-22.16	-14.92
Apr-04-2024	Buy	Yonghyun Choi	52,000		

Classification of Investment Ratings

Stock Ratings (based on expected 12m performance)

Buy: +15% or beyond Hold: Between 15% and -15% Sell: -15% or beyond

Note: Classification revised from four ratings (Strong BUY, BUY, Marketperform, Underperform) to three (Buy, Hold, Sell) as of Feb 25, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

Ratings Distribution (as of March 31, 2024)

Buy	Hold	Sell
87.6	12.4	-

Note: Based on recommendations in the last 12 months

Sector Ratings (based on expected 12m performance)

Positive: Neutral: Negative:

To outperform market To perform in line with market To underperform market

Note: Classification revised from Overweight/Neutral/Underweight to Positive/Neutral/Negative as of Jun 28, 2017; Basis for ratings revised from expected 6m return to expected 12m return as of Feb 10, 2020

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