

Studio Dragon

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[Media/ads]

InHae Ji

☎ (82-2) 3772-1562

✉ inhae.ji@shinhan.com

Efforts to improve profit quality of productions



BUY
(Maintain)



CP (Apr. 23)
KRW41,200



TP (6 months)
KRW58,000

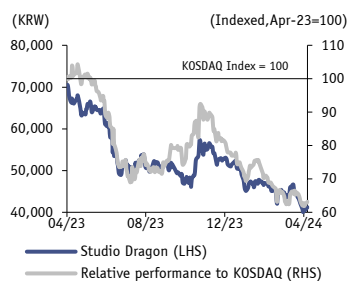


Upside
40.8%

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Market cap	KRW1,238.4bn/USD1,086.3mn
Outstanding shares	30.1mn
Free float	13.6mn(45.2%)
52-week high/low	KRW68,000/KRW40,050
60-day avg. trading volume	68,503shrs
60-day avg. turnover	KRW3,067mn
Foreign ownership	7.80%
Major shareholders	
CJ ENM and 3 others	54.79%
NAVER	6.25%
Absolute performance	
3M	-11.8%
6M	-12.3%
12M	-39.1%
Relative performance to KOSDAQ	
3M	-12.3%
6M	-20.8%
12M	-37.4%

Share performance



1Q24 earnings to meet expectations on efforts to defend margins

Studio Dragon is expected to have registered sales of KRW161.1bn (-23.7% YoY) and operating profit of KRW17bn (-21.3% YoY, operating margin of 10.6%) in 1Q24, coming in line with market expectations. The sharp drop in the top line is attributable to the number of episodes aired in 1Q24, which decreased by 43% to 64 episodes (54 on TV, 10 on OTT platforms) from 112 in 1Q23.

It is noteworthy that the company saw a relatively smaller decline in earnings vs. the steep drop in productions due to the following reasons. First, the simultaneous release of drama series on TV and OTT platforms in 1Q24 helped improve profitability. The titles aired in 1Q24 are expected to turn in profits, and should have done well in terms of overseas distribution sales as well. Second, a high hit ratio per title led to an increase in viewership, which likely helped slightly improve ad incentives and recoup rate for domestic productions that had remained weak throughout last year. Despite the decline in overall productions, the company will be able to once again prove its solid earnings fundamentals through production cost efficiency and simultaneous release on TV and OTT platforms.

Earnings to rebound from 2H24

Studio Dragon is unlikely to see an increased number of episodes produced in 2Q24, given that there is a high probability that the number of episodes aired will be reduced further to about 49 episodes. The captive channel's Wednesday-Thursday time slot for drama has not been reinstated and the Monday-Tuesday slot is currently filled with *Lovely Runner* produced by CJ ENM Studios. In addition, the supply of new and old productions to OTT platforms has yet to be confirmed. With weaker sales forecast for 2Q24, amortization costs may weigh heavily on the company in the quarter.

Earnings are expected to turn upward from 2H24. Albeit subject to change, the number of aired episodes is projected to increase gradually from 77 in 3Q24 to 96 in 4Q24.

Retain BUY and downgrade target price of KRW58,000

We retain our BUY rating on Studio Dragon, but downgrade our target price to KRW58,000 based on earnings forecast revision to reflect the sharper-than-expected drop in the number of aired episodes. However, we note that: 1) effects of the company's year-long efforts to improve profitability through hit ratio and viewership recovery have been felt from 1Q24; 2) recoup rate for Netflix original shows will increase from 2024; 3) recoup rate for domestic productions is unlikely to decline further given ad incentives and circumstances at the parent company; and 4) the company stands to emerge as the biggest beneficiary of the government's strong policy push for the media sector. All in all, we believe Studio Dragon shares should bottom out in 2Q24 from a long-term perspective.

Year to	Sales	OP	NP	EPS	BPS	PER	EV/EBITDA	PBR	ROE	Net debt
December	(bn KRW)	(bn KRW)	(bn KRW)	(KRW)	(KRW)	(x)	(x)	(x)	(%)	ratio (%)
2021	487.1	52.6	39.0	1,301	22,785	69.9	17.6	4.0	6.0	(8.6)
2022	697.9	65.2	50.6	1,684	21,982	51.1	12.1	3.9	7.5	8.2
2023F	753.1	55.9	30.1	1,001	23,546	51.5	6.5	2.2	4.4	2.9
2024F	693.5	65.3	51.1	1,701	25,247	24.2	4.3	1.6	7.0	(19.0)
2025F	790.3	80.9	63.9	2,127	27,374	19.4	4.7	1.5	8.1	(25.6)

Source: Company data, Shinhan Securities / Note: TB = turn black, TR = turn red, RR = remain red

1Q24 preview

(bn KRW, %, %p)	1Q23	2Q23	3Q23	4Q23	1Q24F	QoQ	YoY	Consensus	Gap
Sales	211.1	163.5	217.4	161.1	161.1	0.0	(23.7)	161.6	(0.3)
OP	21.6	16.2	21.9	(3.8)	17.0	TB	(21.3)	16.7	1.8
NP	18.4	10.2	18.2	(16.7)	12.5	TB	(32.0)	13.7	(8.7)
OPM	10.2	9.9	10.1	(2.4)	10.6			10.3	0.2
NPM	8.7	6.2	8.4	(10.4)	7.8			8.5	(0.7)

Source: QuantiWise, Shinhan Securities

Earnings trend and outlook

(bn KRW)	2018	2019	2020	2021	2022	2023	2024F
Sales	379.6	468.5	525.6	487.1	697.9	753.2	693.5
Growth (%YoY)	32.4	23.4	12.2	(7.3)	43.3	7.9	(7.9)
Production	178.1	208.7	197.0	161.3	192.5	154.1	136.7
Growth (%YoY)	35.7	17.2	(5.6)	(18.1)	19.4	(20.0)	(11.3)
Sales share (%)	46.9	44.5	37.5	33.1	27.6	20.5	19.7
Distribution	162.1	219.2	279.7	275.5	480.2	588.9	546.7
Growth (%YoY)	44.9	35.3	27.6	(1.5)	74.3	22.6	(7.2)
Sales share (%)	42.7	46.8	53.2	56.6	68.8	78.2	78.8
Other	39.4	40.6	48.9	50.3	25.2	10.1	10.1
Growth (%YoY)	(9.8)	3.0	20.4	2.9	(49.9)	(59.8)	(0.3)
Sales share (%)	10.4	8.7	9.3	10.3	3.6	1.3	1.5
OP	39.9	28.6	49.2	52.6	65.2	55.9	65.3
Growth (%YoY)	20.6	(28.2)	71.8	6.8	24.0	(14.3)	16.9
OPM (%)	10.5	6.1	9.4	10.8	9.3	7.4	9.4
NP	35.8	26.4	29.7	39.0	50.6	30.1	51.0
Growth (%YoY)	50.1	(26.3)	12.8	31.3	29.5	(40.4)	69.5
NPM (%)	9.4	5.6	5.7	8.0	7.2	4.0	7.4

Source: QuantiWise, Shinhan Securities

Target price calculation

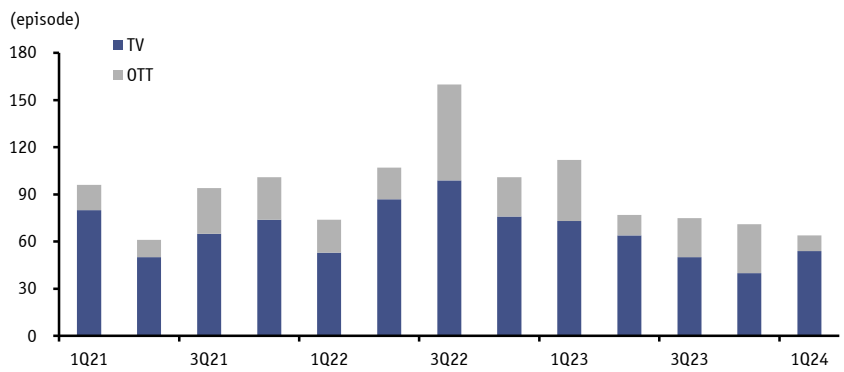
(bn KRW)	2019	2020	2021	2022	2023F	2024F	2025F
NP	26.4	29.7	39.0	50.6	30.1	51.0	63.8
Applied PER (x)	30	Target PER unchanged, which is the upper-end PER of the leading production company 12-month forward NP * PER of 30x					
Target market cap	1,724.1						
Target price (KRW)	58,000						
Current price (KRW)	41,200						
Upside (%)	40.8						

Source: Shinhan Securities

Earnings forecast revision for 2024

(bn KRW, %, %p)	Previous	Revised	Change
Sales	850.3	693.5	(18.4)
OP	78.9	65.3	(17.2)
NP	62.0	51.1	(17.6)
OPM	9.3	9.4	0.1
NPM	7.3	7.4	0.1

Source: Shinhan Securities

Quarterly number of episodes produced by Studio Dragon

Source: Company data, Shinhan Securities

Statement of financial position

Year to December (bn KRW)	2021	2022	2023F	2024F	2025F
Total assets	884.0	1,090.7	1,092.2	1,106.0	1,167.5
Current assets	232.5	400.1	404.5	516.3	583.9
Cash and equivalents	64.6	123.7	158.4	292.8	329.6
Accounts receivable	123.6	141.7	149.1	133.9	152.6
Inventories	0.0	0.0	0.0	0.0	0.0
Non-current assets	651.5	690.5	687.7	589.7	583.6
Tangible assets	7.7	10.9	12.4	14.4	15.6
Intangible assets	298.0	377.8	358.9	260.1	250.8
Investment assets	240.8	150.1	175.0	173.8	175.8
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	200.2	429.9	384.5	347.1	344.7
Current liabilities	183.6	416.3	368.0	324.6	320.4
Short-term borrowings	0.0	170.0	170.0	140.0	110.0
Accounts payable	17.0	16.2	11.1	12.6	14.3
Current portion of long-term debt	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	16.5	13.7	16.5	22.5	24.2
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	7.1	9.3	9.7	9.7	9.7
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	683.9	660.7	707.8	758.9	822.8
Capital stock	15.0	15.0	15.0	15.0	15.0
Capital surplus	470.4	473.4	473.4	473.4	473.4
Other capital	(0.5)	(0.4)	(0.3)	(0.3)	(0.3)
Accumulated other comprehensive income	37.2	(39.8)	(22.3)	(22.3)	(22.3)
Retained earnings	161.7	212.6	242.0	293.2	357.1
Controlling interest equity	683.9	660.7	707.8	758.9	822.8
Non-controlling interest equity	0.0	0.0	0.0	0.0	0.0
*Total debt	11.1	182.7	181.7	151.5	121.8
*Net debt (cash)	(58.9)	54.1	20.3	(144.3)	(210.8)

Statement of cash flow

Year to December (bn KRW)	2021	2022	2023F	2024F	2025F
Cash flow from operations	(8.4)	(62.9)	44.7	254.8	195.8
Net profit	39.0	50.6	30.1	51.1	63.9
Depreciation expense	3.8	3.3	3.0	8.0	8.8
Amortization expense	95.3	150.0	183.1	178.8	129.3
FX translation loss (gain)	(1.5)	4.0	1.7	0.0	0.0
Asset disposal loss (gain)	0.7	(0.1)	0.0	0.0	0.0
Equity method loss (gain)	0.0	(0.1)	(0.1)	0.0	0.0
Change in working capital	(154.9)	(279.6)	(179.0)	15.4	(3.5)
(Payment of income tax)	(11.1)	(9.8)	(22.3)	(12.1)	(15.1)
Others	20.3	18.8	28.2	13.6	12.4
Cash flow from investments	26.5	(43.4)	(0.7)	(82.1)	(122.7)
Increase in tangible assets	(2.3)	(4.5)	(2.9)	(10.0)	(10.0)
Decrease in tangible assets	0.5	0.6	0.0	0.0	0.0
Change in intangible assets	(0.8)	(2.5)	0.2	(80.0)	(120.0)
Change in investment assets	28.3	(11.9)	3.0	1.3	(2.0)
Others	0.8	(25.1)	(1.0)	6.6	9.3
Free cash flow	150.9	159.2	209.9	239.1	188.2
Cash flow from financing	(3.0)	165.3	(8.9)	(38.2)	(36.3)
Change in borrowings	0.0	169.2	0.0	(30.2)	(29.7)
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Others	(3.0)	(3.9)	(8.9)	(8.0)	(6.6)
Other cash flow	0.0	0.0	0.0	(0.0)	0.0
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	0.3	(0.0)	(0.4)	0.0	0.0
Change in total cash	15.5	59.1	34.7	134.4	36.8
Beginning cash	49.1	64.6	123.7	158.4	292.8
Ending cash	64.6	123.7	158.4	292.8	329.6

Source: Company data, Shinhan Securities

Statement of comprehensive income

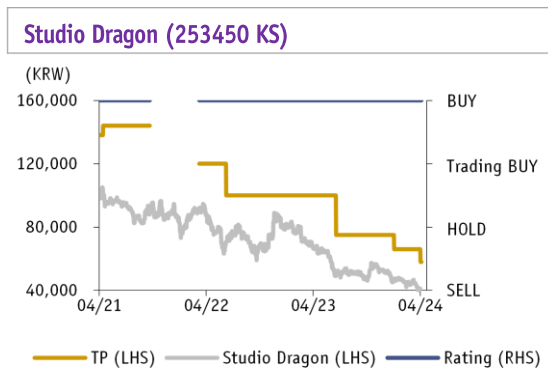
Year to December (bn KRW)	2021	2022	2023F	2024F	2025F
Sales	487.1	697.9	753.1	693.5	790.3
Growth (%)	(7.3)	43.3	7.9	(7.9)	14.0
COGS	407.3	597.9	665.3	594.2	671.5
Gross profit	79.8	100.0	87.9	99.2	118.9
GPM (%)	16.4	14.3	11.7	14.3	15.0
SG&A	27.2	34.8	32.0	33.9	38.0
Operating profit	52.6	65.2	55.9	65.3	80.9
Growth (%)	7.0	24.0	(14.3)	16.9	23.8
OPM (%)	10.8	9.3	7.4	9.4	10.2
Non-operating profit	(0.6)	(6.6)	(18.7)	(2.1)	(1.8)
Financial profit	4.3	2.2	(2.6)	(2.2)	(1.9)
Other non-operating profit	(4.8)	(8.9)	(16.1)	0.0	0.0
Equity method gain (loss)	0.0	0.1	0.1	0.1	0.1
Pre-tax profit	52.0	58.6	37.2	63.2	79.0
Income tax	13.0	8.1	7.1	12.1	15.1
Continuing operations	39.0	50.6	30.1	51.1	63.9
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	39.0	50.6	30.1	51.1	63.9
Growth (%)	31.8	29.5	(40.5)	70.0	25.0
NPM (%)	8.0	7.2	4.0	7.4	8.1
Controlling interest	39.0	50.6	30.1	51.1	63.9
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Comprehensive income	74.2	(26.2)	46.9	51.1	63.9
Controlling interest	74.2	(26.2)	46.9	51.1	63.9
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EBITDA	151.6	218.5	242.0	252.1	219.0
Growth (%)	(8.3)	44.1	10.7	4.2	(13.1)
EBITDA margin (%)	31.1	31.3	32.1	36.4	27.7

Key ratios

Year to December	2021	2022	2023F	2024F	2025F
EPS (KRW)	1,301	1,684	1,001	1,701	2,127
EPS of controlling interest (KRW)	1,301	1,684	1,001	1,701	2,127
BPS (KRW)	22,785	21,982	23,546	25,247	27,374
BPS of controlling interest (KRW)	22,785	21,982	23,546	25,247	27,374
DPS (KRW)	0	0	0	0	0
PER (x)	69.9	51.1	51.5	24.2	19.4
PER of controlling interest (x)	69.9	51.1	51.5	24.2	19.4
PBR (x)	4.0	3.9	2.2	1.6	1.5
PBR of controlling interest (x)	4.0	3.9	2.2	1.6	1.5
EV/EBITDA (x)	17.6	12.1	6.5	4.3	4.7
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Profitability					
EBITDA margin (%)	31.1	31.3	32.1	36.4	27.7
OPM (%)	10.8	9.3	7.4	9.4	10.2
NPM (%)	8.0	7.2	4.0	7.4	8.1
ROA (%)	4.8	5.1	2.8	4.7	5.6
ROE (%)	6.0	7.5	4.4	7.0	8.1
ROIC (%)	20.1	7.3	9.7	14.5	21.0
Stability					
Debt to equity ratio (%)	29.3	65.1	54.3	45.7	41.9
Net debt ratio (%)	(8.6)	8.2	2.9	(19.0)	(25.6)
Cash ratio (%)	35.2	29.7	43.0	90.2	102.9
Interest coverage ratio (x)	67.6	13.2	6.4	8.2	12.3
Activity (%)					
Working capital turnover (times)	(49.8)	120.8	19.9	16.3	19.6
Inventory turnover (days)	N/A	N/A	N/A	N/A	N/A
Receivable turnover (days)	86.3	69.4	70.5	74.5	66.2

Source: Company data, Shinhan Securities

Target price & rating history



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2021.03.29	BUY	138,000	(25.6)	(21.7)
2021.05.07	BUY	144,000	(36.1)	(30.4)
2021.10.14		No Coverage	-	-
2022.03.31	BUY	120,000	(33.1)	(21.2)
2022.07.01	BUY	100,000	(26.7)	(11.1)
2023.01.02		6M later	(28.6)	(14.7)
2023.07.03		6M later	(49.2)	(46.6)
2023.07.11	BUY	75,000	(31.2)	(23.6)
2024.01.12		6M later	(37.9)	(34.6)
2024.01.25	BUY	66,000	(32.0)	(27.6)
2024.04.24	BUY	58,000	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - Shinhan Securities Universe (as of 22 April 2024)

BUY (BUY)	92.44%	Trading BUY (HOLD)	5.46%	HOLD (HOLD)	2.10%	SELL (SELL)	0.00%
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Rating Distribution - Shinhan Securities Investment Banking Clients (as of 22 April 2024)

BUY (BUY)	100.00%	Trading BUY (HOLD)	0.00%	HOLD (HOLD)	0.00%	SELL (SELL)	0.00%
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