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Tech Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW55,000	18.5%
Current price	KRW46,400	
Market cap	KRW1.4t/USD1.0b	
Shares (float)	30,058,498 (45.2%)	
52-week high/low	KRW66,600/KRW40,050	
Avg daily trading value (60-day)	KRW3.2b/USD2.3m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
Studio Dragon (%)	7.0	-19.0	-26.9
Vs Kosdaq (%pts)	5.7	-25.3	-29.8

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	55,000	55,000	0.0%
2024E EPS	1,336	1,301	2.7%
2025E EPS	1,575	1,549	1.7%

▶ SAMSUNG vs THE STREET

No of estimates	14
Target price	59,857
Recommendation	3.9

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

Studio Dragon (253450)

Strong 1Q results to reveal health of fundamentals

- Studio Dragon enjoyed an earnings surprise in 1Q, with operating profit down only 0.4% y-y to KRW21.5b (down only 0.4%) despite a high base.
- Its content release schedule suggests that the firm will see few of its episodes air on TV channels in 2Q, and it should also recognize depreciation cost for the dramas broadcast last quarter.
- When the industry conditions pick up, earnings momentum should expand on healthy fundamentals. Close monitoring is advised on global projects, which have been proceeding smoothly.

WHAT'S THE STORY?

1Q review: Studio Dragon reported 1Q consolidated sales of KRW192.1b (down 9% y-y) and operating profit of KRW21.5b (down 0.4% y-y; beating consensus by a huge margin). It minimized a y-y contraction in operating results although just 71 episodes (ie, 54 episodes on TV channels and 17 on OTT platforms) were broadcast last quarter, fewer than 112 episodes in 1Q23 (73 on TV channels and 39 on OTT platforms). It booked: 1) sales from Netflix original *Hierarchy* (7 episodes), which was thought to be delivered to Netflix in 2Q; 2) the incentives tied to the viewership ratings of top-rated shows such as *Queen of Tears* and *Marry My Husband* broadcast last quarter; and 3) sales from production of tentpole dramas—eg, *Queen of Tears* and *Captivating the King*. All of its TV dramas aired simultaneously on global OTT platforms. Thanks to its quality content, overseas ASP of the new dramas more than doubled y-y, boosting profitability. Margin from TV dramas rose 6%pts y-y to 17%. The firm's 1Q operating margin came to 11.2% (up 1%pts y-y), with the overseas portion in sales reaching 65% (up 15%pts y-y).

Content delivery to increase h-h in 2H: The timing of content delivery may change, but according to the firm's content release schedule available now, we believe 42 episodes (34 on TV channels and 8 on OTT platforms; down from 83 in 2Q23) will be aired in 2Q. The drama currently aired on tvN's Monday/Tuesday slots was produced by CJ ENM Studios (Bon Factory). In 2Q, Studio Dragon should see few of its episodes air on TV channels, and it should also recognize depreciation cost for the dramas broadcast last quarter. In 2H, the company should deliver more dramas h-h and step up efforts to bolster overseas sales and lift profitability by signing more pre-buy contracts and volume deals. It should step up efforts on co-production projects in the US and Japan, with a target to release two pieces of content abroad this year.

Maintaining BUY: Even though the number of dramas produced was low amid unfavorable industry conditions, the firm's fundamentals proved healthy with attractive content and ASP hikes. When the market conditions improve, earnings momentum should gain more steam based on its solid fundamentals. We maintain BUY and KRW55,000 target price (based on 8.6x forward EV/EBITDA).

SUMMARY 1Q RESULTS

(KRWb)	1Q24	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	192.1	-9.0	19.2	22.1	20.6
Operating profit	21.5	-0.4	nm	52.8	25.9
Pre-tax profit	27.2	23.2	nm	42.4	40.3
Net profit	20.2	9.8	nm	36.1	47.3
Margins (%)					
Operating profit	11.2				
Pre-tax profit	14.2				
Net profit	10.5				

Source: Company data, FnGuide, Samsung Securities estimates

VALUATION SUMMARY

	2023	2024E	2025E
Valuations (x)			
P/E	51.5	34.7	29.5
P/B	2.2	1.9	1.8
EV/EBITDA	6.5	7.0	6.9
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	-40.6	33.5	17.9
ROE (%)	4.4	5.6	6.3
Per-share data (KRW)			
EPS	1,001	1,336	1,575
BVPS	23,546	24,019	25,594
DPS	0	0	0

Table 1. Results and forecasts

(KRWb)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	3Q24E	4Q24E	2022	2023	2024E	2025E
Sales	121.1	157.5	228.9	190.5	211.1	163.5	217.4	161.1	192.1	120.7	197.4	189.8	697.9	753.1	700.0	803.4
Programing	35.4	43.8	59.4	54.0	43.2	42.5	35.0	33.4	47.3	26.4	29.6	30.3	192.5	154.1	133.7	143.1
Distribution	77.7	103.9	165.8	132.8	211.1	163.5	217.4	161.1	192.1	120.7	197.4	189.8	480.2	588.9	550.9	643.7
Other	8.0	9.8	3.8	3.7	2.3	2.1	2.3	3.4	3.5	3.7	4.4	3.9	25.2	10.1	15.5	16.7
Gross profit	25.5	35.4	27.4	11.7	30.8	23.9	28.8	4.3	28.7	15.2	26.9	17.6	100.0	87.9	88.4	101.5
SG&A	7.4	8.4	8.4	10.5	9.2	7.7	6.9	8.2	7.2	7.9	7.5	8.7	34.8	32.0	31.3	34.8
Operating profit	18.1	27.0	18.9	1.2	21.6	16.3	21.9	-3.8	21.5	7.3	19.4	8.9	65.2	55.9	57.1	66.7
Non-operating profit	2.0	3.0	6.5	-18.1	0.5	-0.4	3.3	-22.0	5.7	1.2	-4.2	-6.7	-6.6	-18.7	-3.9	-6.0
Pre-tax profit	20.1	30.0	25.5	-17.0	22.1	15.8	25.1	-25.8	27.2	8.6	15.2	2.2	58.6	37.2	53.2	60.7
Net profit (controlling)	15.6	25.6	17.8	-8.5	18.4	10.2	18.2	-16.7	20.2	6.4	11.9	1.8	50.6	30.1	40.2	47.3
Gross margin	21.1	22.5	12.0	6.1	14.6	14.6	13.2	2.7	14.9	12.6	13.6	9.3	14.3	11.7	12.6	12.6
Operating margin	15.0	17.1	8.3	0.6	10.2	9.9	10.1	-2.4	11.2	6.1	9.8	4.7	9.3	7.4	8.2	8.3
Net margin (controlling)	12.9	16.2	7.8	-4.4	8.7	6.2	8.4	-10.4	10.5	5.3	6.0	0.9	7.2	4.0	5.7	5.9
Chg (% y-y)																
Sales	3.4	48.5	97.2	28.8	74.4	3.8	-5.0	-15.4	-9.0	-26.2	-9.2	17.8	43.3	7.9	-7.1	14.8
Programing	-19.1	55.4	64.0	1.5	21.9	-3.1	-41.0	-38.1	9.5	-37.8	-15.4	-9.1	19.4	-20.0	-13.2	7.0
Distribution	23.0	53.8	155.2	66.4	171.6	57.3	31.2	21.3	-9.0	-26.2	-9.2	17.8	74.3	22.6	-6.5	16.9
Other	-21.5	-5.1	-74.8	-75.3	-71.0	-78.4	-38.3	-7.8	50.7	75.3	90.8	14.5	-49.9	-59.7	52.9	7.4
Gross profit	7.8	74.0	30.5	-20.7	20.8	-32.4	5.2	-63.1	-7.0	-36.2	-6.7	306.8	25.4	-12.1	0.6	14.9
SG&A	27.7	28.1	31.7	25.1	24.3	-8.7	-17.8	-22.4	-22.5	3.7	8.1	6.0	27.9	-8.0	-2.3	11.3
Operating profit	1.4	95.7	29.9	-81.4	19.3	-39.8	15.4	nm	-0.4	-55.0	-11.4	nm	24.0	-14.3	2.2	16.9
Non-operating profit	-37.8	1,085.2	67.8	nm	-75.6	nm	-49.9	nm	1,078.1	nm	nm	nm	nm	nm	nm	nm
Pre-tax profit	-4.6	113.7	37.9	nm	10.0	-47.3	-1.3	nm	23.2	-45.9	-39.5	nm	12.7	-36.5	43.0	14.0
Net profit (controlling)	0.4	170.2	20.5	nm	17.8	-60.1	1.9	nm	9.8	-37.7	-34.7	nm	29.5	-40.5	33.5	17.9
Gross margin	0.9	3.3	-6.1	-3.8	-6.5	-7.8	1.3	-3.5	0.3	-2.0	0.4	6.6	-2.0	-2.7	1.0	0.0
Operating margin	-0.3	4.1	-4.3	-3.7	-4.7	-7.2	1.8	-3.0	1.0	-3.9	-0.2	7.1	-1.4	-1.9	0.7	0.1
Net margin (controlling)	-0.4	7.3	-5.0	-3.9	-4.2	-10.0	0.6	-5.9	1.8	-1.0	-2.4	11.3	-0.8	-3.3	1.7	0.2

Source: Company data, Samsung Securities

Table 2. Drama lineup (from 2024)

Year	No.	Channel	Title	Air dates	Episodes	Writers	Director	Days
2024	1	tvN	Maestra: Strings of Truth	Dec 9 - Jan 14, 2024	12	Choi Yiyun	Kim Jeongkwon	Sat, Sun
	2		Marry My Husband	Jan 1-Feb 20	16	Sin Yudam	Park Wonkook	Mon, Tue
	3		Captivating the King	Jan 21-Mar 3	16	Kim Seonduk	Cho Namkook	Sat, Sun
	4		Wedding Impossible	Feb 26-Apr 2	12	Park Seulki	Kwon Yeongil	Mon, Tue
	5		Queen of Tears	Mar 9-Apr 28	16	Park Jieun	Kim Heewon	Sat, Sun
	6		Graduation (tvN X Tving)	May 11-Jun 30	16	Park Kyeonghwa	Ahn Panseok	Sat, Sun
	7		Player S2: Master of Swindlers	Jun 3-Jul 9	12	Park Sangmoon	So Jaehyun	Mon, Tue
	8		Mom's Friend's Son	Aug 31-Oct 20	16	Shin Haeun	Yu Jewon	Sat, Sun
	9		The Auditors	Jul 15-Sep 3	16	Choi Minho	Kwon Youngil	Mon, Tue
	10		Jeong Nyeon	Aug 31- Oct 20	16	Choi Hyobi	Jung Jiin	Sat, Sun
	11		Won Kyung (tvN X Tving)	Dec, 2024	13	Lee Youngmi	Kim Sangho	Mon, Tue
	12		Love on a Single Log Bridge	Dec, 2024	12	Lim Yejin	Park Joonhwa	
	13	Tving	Study Group	2H24	10	Um Seonho	Lee Janghoon	
	14		Good or Bad Dong Jae	2024		Hwang Hajeong	Park Gunho	
	15	Netflix	Gyeongseong Creature S1 Part 1 (Supply in 4Q23)	Jan 5	3	Kang Eungyeong	Jeong Dongyun	
	16		Hierarchy	Jun, 2024	7	Cho Hyemi	Bae Hyunjin	
	17		Sweet Home 3	Jun 2024	8		Lee Eungbok	
	18		Gyeongseong Creature S2	3Q24	7	Kang Eungyeong	Jeong Dongyun	
	19		Whirlwind (supply over 1Q24-2Q24)	4Q24	12	Park Kyeonsoo	Kim Yongwan	
	20		Trunk (made by Gtist)	4Q24	8	Park Eunyoung	Kim Kyutae	
	21		Hong Rang	TBD	12	Kim Jin-a	Kim Hongsun	
	22	AppleTV+	The Big Door Prize 2 (supply over 3Q23-4Q23)	Apr 24-Jun 12	10	David West Read	Anu Valia	
	23	Japan	(Japan) Like Asura	TBD			Koreeda Hirokazu	
	1	tvN	When the Stars Gossip	TBD	20	Seo Sookhyang	Park Shinwoo	
	2	TBD	Everything Will Come True	TBD	12	Kim Eunsook	Lee Byeonghun	
	3		The Price of Confession	TBD		Kwon Jongkwan	Lee Junghyo	
	4		Black Salt Dragon	TBD			Lee Suhyeon	
	5		I'm Against My Romance	TBD		Kim Eun	Lee Eungbok	
	6		The Plotters*	TBD				
	7		Mastermind**	TBD				
	8	Netflix	Crash Landing on you (US)	TBD				

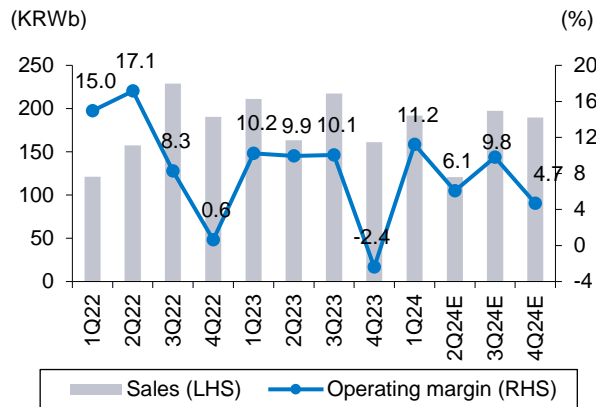
Note: Titles highlighted in green are streamed through Netflix, light blue Tving, and orange Disney+, purple Amazon Prime

*Co-produced with Universal Studios

**Co-produced with CBS Studio

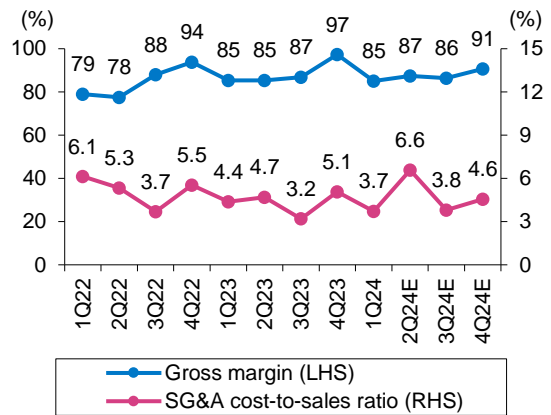
Source: Company data, Samsung Securities

Chart 1. Quarterly sales and operating margin



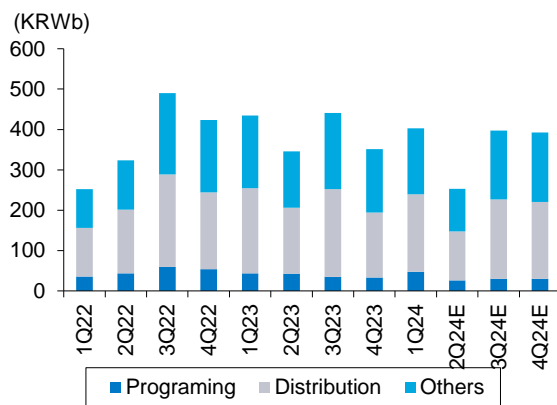
Source: Company data, Samsung Securities

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



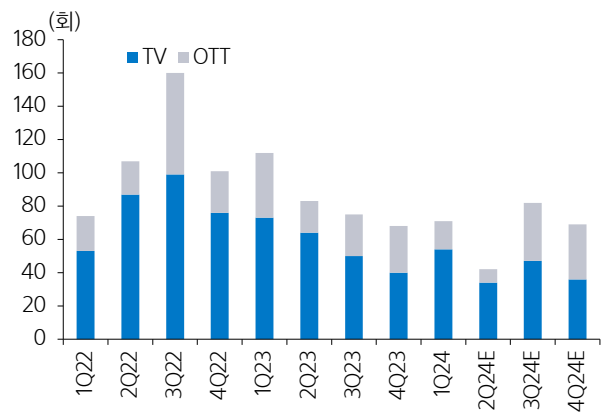
Source: Company data, Samsung Securities

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. Marry My Husband
(tvN; Jan 1, 2024)

Source: Company data, Samsung Securities

Chart 6. Captivating the King
(tvN; Jan 21, 2024)

Source: Company data, Samsung Securities

Chart 7. Wedding Impossible
(tvN; Feb 26, 2024)

Source: Company data, Samsung Securities

Chart 8. Queen of Tears
(tvN; Mar 9, 2024)

Source: Company data, Samsung Securities

Chart 9. Graduation
(tvN; May 11, 2024)

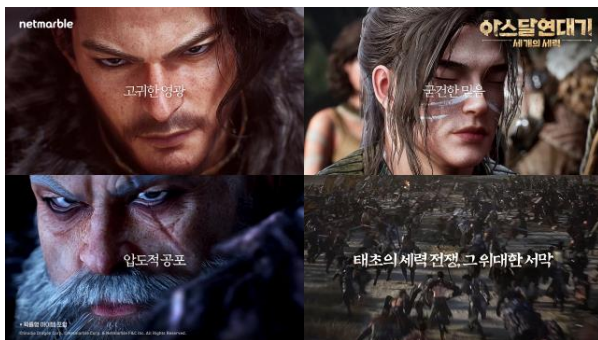
Source: Company data, Samsung Securities

Chart 10. Player S2: Master of Swindlers (tvN; Jun 3, 2024)



Source: Company data, Samsung Securities

Chart 11. Game 'Athdal Chronicles: Three Factions' (Apr 24)



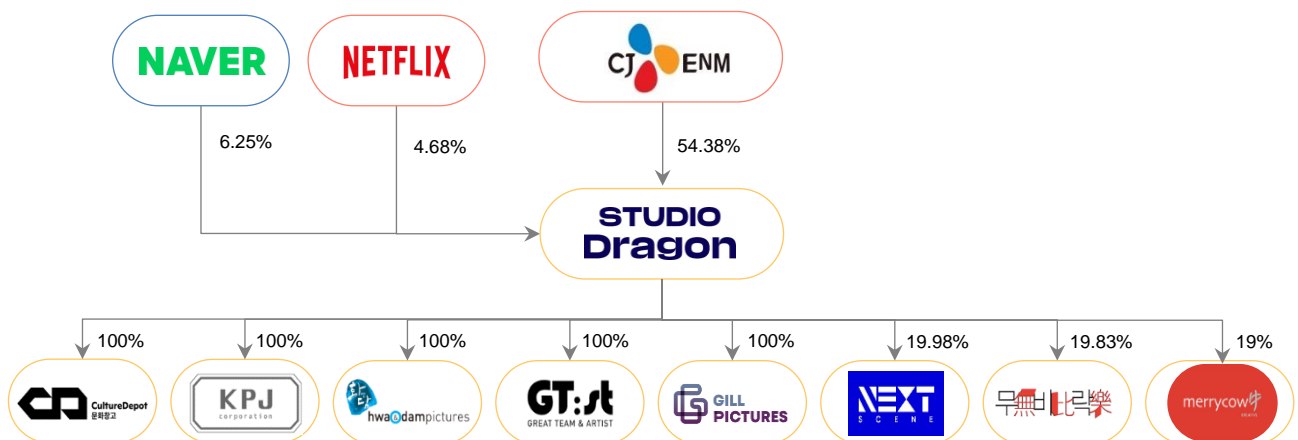
Source: Company data, Samsung Securities

Chart 12. Japanese local drama 'Like Asura'



Source: Company data, Samsung Securities

Chart 13. Ownership structure



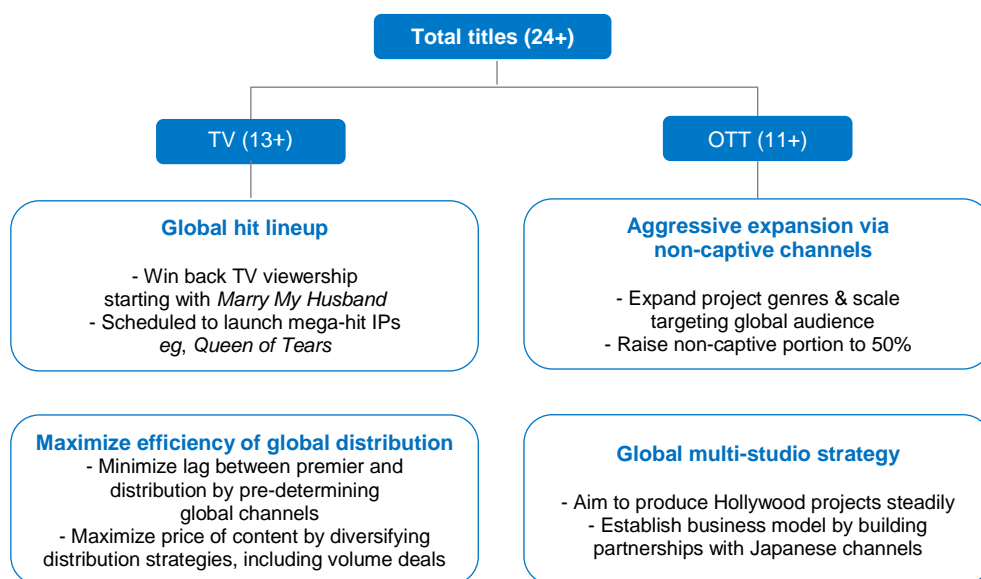
Note: As of 4Q23

Source: Company data, Samsung Securities

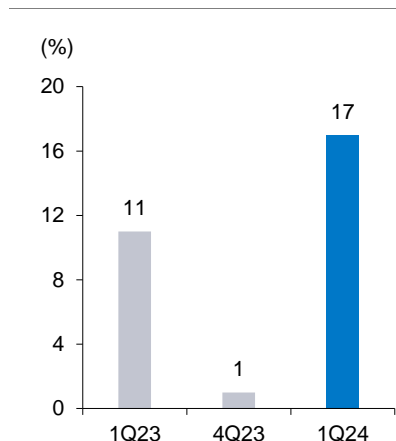
Table 3. 2024 strategies to facilitate transition to major global studio

	2017-2023	2024-
Non-captive portion of projects	13%	50%-
In-house portion of production	26%	50%-
Major strategies for platforms	Volume deals	More volume deals
Programming strategies	Mainly programming/distribution; a smaller portion of IP development	Equal parts programming/distribution and IP development

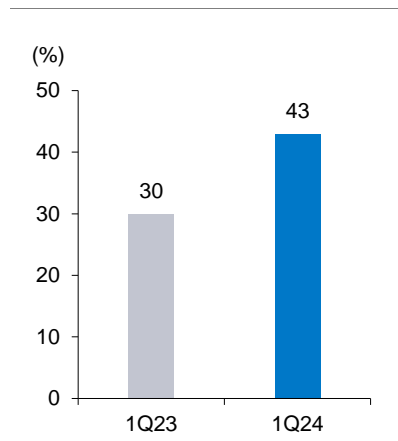
Source: Company data, Samsung Securities

Chart 14. 2024 strategies: Strategic turning point

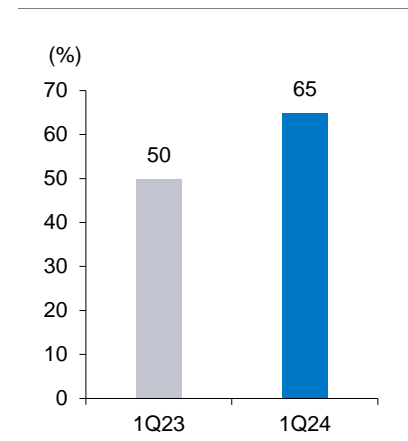
Source: Company data, Samsung Securities

Chart 15. Profitability of TV series

Source: Company data, Samsung Securities

Chart 16. In-house portion of production

Source: Company data, Samsung Securities

Chart 17. Overseas portion of revenue

Source: Company data, Samsung Securities

Table 4. Changes to full-year forecasts

(KRWb)	2024E			2025E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Sales	663.4	700.0	5.5	778.2	803.4	3.2
Operating profit	53.2	57.1	7.4	64.5	66.7	3.4
OPM (% , %pts)	8.0	8.2	0.1	8.3	8.3	0.0
Pre-tax profit	50.1	53.2	6.2	59.7	60.7	1.7
NP (controlling)	39.1	40.2	2.7	46.6	47.3	1.7

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2022	2023	2024E	2025E	2026E
Sales	698	753	700	803	918
Cost of goods sold	598	665	612	702	800
Gross profit	100	88	88	102	118
Gross margin (%)	14.3	11.7	12.6	12.6	12.9
SG&A expenses	35	32	31	35	37
Operating profit	65	56	57	67	81
Operating margin (%)	9.3	7.4	8.2	8.3	8.8
Non-operating gains (losses)	-7	-19	-4	-6	-9
Financial profit	21	15	19	12	13
Financial costs	19	18	13	12	12
Equity-method gains (losses)	0	0	0	0	0
Other	-9	-16	-10	-6	-11
Pre-tax profit	59	37	53	61	72
Taxes	8	7	13	13	16
Effective tax rate (%)	13.7	19.2	24.5	22.0	22.0
Profit from continuing operations	51	30	40	47	56
Profit from discontinued operations	0	0	0	0	0
Net profit	51	30	40	47	56
Net margin (%)	7.2	4.0	5.7	5.9	6.1
Net profit (controlling interests)	51	30	40	47	56
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	219	242	191	191	213
EBITDA margin (%)	31.3	32.1	27.3	23.8	23.2
EPS (parent-based) (KRW)	1,684	1,001	1,336	1,575	1,856
EPS (consolidated) (KRW)	1,684	1,001	1,336	1,575	1,856
Adjusted EPS (KRW)*	1,684	1,001	1,336	1,575	1,856

Cash flow statement

Year-end Dec 31 (KRWb)	2022	2023	2024E	2025E	2026E
Cash flow from operations	-63	45	189	173	209
Net profit	51	30	40	47	56
Non-cash profit and expenses	176	216	148	137	146
Depreciation	3	3	2	2	1
Amortization	150	183	132	123	131
Other	23	30	14	13	14
Changes in A/L from operating activities	-280	-179	14	2	22
Cash flow from investments	-43	-1	-75	-144	-143
Change in tangible assets	-4	-3	0	0	0
Change in financial assets	0	-4	2	-1	0
Other	-39	6	-77	-143	-144
Cash flow from financing	165	-9	-11	-9	-9
Change in debt	172	-1	-2	0	0
Change in equity	3	0	0	0	0
Dividends	0	0	0	0	0
Other	-9	-8	-9	-9	-9
Change in cash	59	35	79	17	52
Cash at beginning of year	65	124	158	237	254
Cash at end of year	124	158	237	254	306
Gross cash flow	226	246	188	185	202
Free cash flow	-67	42	189	173	209

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

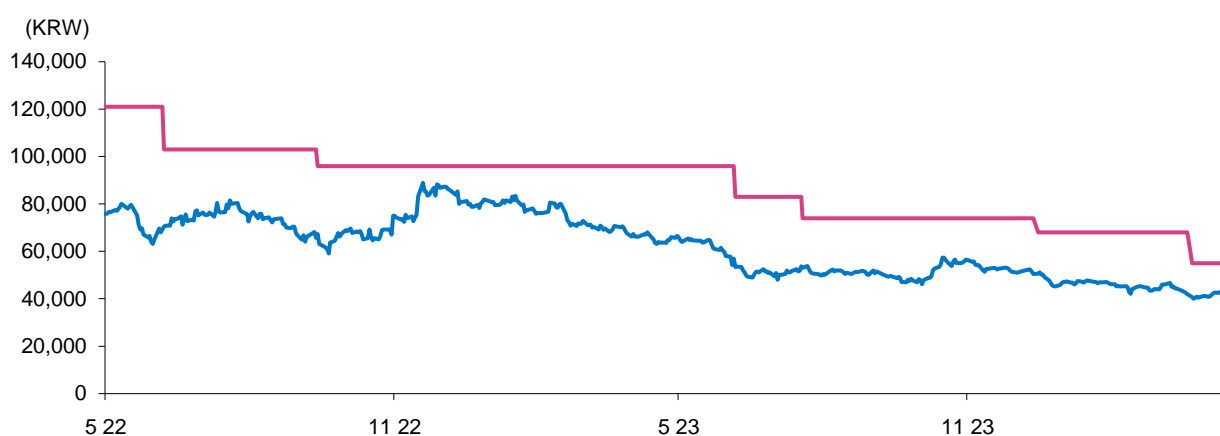
Year-end Dec 31 (KRWb)	2022	2023	2024E	2025E	2026E
Current assets	400	405	447	458	513
Cash & equivalents	124	158	237	254	306
Accounts receivable	142	149	122	121	121
Inventories	0	0	0	0	0
Other current assets	135	97	89	82	85
Fixed assets	691	688	638	670	696
Investment assets	150	175	174	179	184
Tangible assets	11	12	10	9	7
Intangible assets	378	359	318	337	359
Other long-term assets	152	141	135	146	146
Total assets	1,091	1,092	1,085	1,128	1,209
Current liabilities	416	368	347	342	366
Accounts payable	16	11	15	16	18
Short-term debt	170	170	170	170	170
Other current liabilities	230	187	162	156	178
Long-term liabilities	14	16	16	17	18
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	14	16	16	17	18
Total liabilities	430	384	363	358	384
Owners of parent equity	661	708	722	769	825
Capital stock	15	15	15	15	15
Capital surplus	473	473	473	473	473
Retained earnings	213	242	282	330	385
Other	-40	-23	-49	-49	-49
Non-controlling interests' equity	0	0	0	0	0
Total equity	661	708	722	769	825
Net debt	59	23	-57	-74	-127

Financial ratios

Year-end Dec 31	2022	2023	2024E	2025E	2026E
Growth (%)					
Sales	43.3	7.9	-7.1	14.8	14.3
Operating profit	24.0	-14.3	2.2	16.9	21.2
Net profit	29.5	-40.5	33.5	17.9	17.8
Adjusted EPS**	29.4	-40.6	33.5	17.9	17.8
Per-share data (KRW)					
EPS (parent-based)	1,684	1,001	1,336	1,575	1,856
EPS (consolidated)	1,684	1,001	1,336	1,575	1,856
Adjusted EPS**	1,684	1,001	1,336	1,575	1,856
BVPS	21,982	23,546	24,019	25,594	27,450
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	51.1	51.5	34.7	29.5	25.0
P/B***	3.9	2.2	1.9	1.8	1.7
EV/EBITDA	12.1	6.5	7.0	6.9	6.0
Ratios (%)					
ROE	7.5	4.4	5.6	6.3	7.0
ROA	5.1	2.8	3.7	4.3	4.8
ROIC	12.1	8.5	8.6	10.8	12.8
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	8.9	3.3	-8.0	-9.7	-15.3
Interest coverage (x)	13.2	6.4	6.6	7.7	9.4

Compliance notice

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Target price changes in past two years**Rating changes over past two years** (adjusted share prices)

Date	2022/5/10	5/12	6/30	10/6	2023/6/29	8/11	2024/1/8	4/15
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	135000	121000	103000	96000	83000	74000	68000	55000
Gap* (average)	-39.56	-39.04	-28.47	-24.88	-38.39	-30.14	-33.82	
(max or min)**	-39.56	-33.88	-20.87	-7.40	-35.30	-22.57	-24.71	

Note: * $\frac{[(\text{average, maximum, or minimum share price over duration of target price} - \text{target price}) / \text{target price}] \times 100\%}{}$

** 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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BUY	Expected to increase in value by 15% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 15% within 12 months
SELL	Expected to decrease in value by 15% 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

* 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 2024.03.31

BUY(77.6%)·HOLD(22.4%)·SELL(0%)

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General

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