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Maintain BUY and TP of KRW52,000

We maintain BUY and TP of KRW52,000 for Studio Dragon. While we expect increases in global programming to drive top-line growth in 2025E, we remain conservative toward growth in 2024E given the low number of aired episodes (2024E/2025E revenue growth: -3.9%/+12.8% YoY); 2Q24E should mark the low point for the number of aired episodes and, consequently, share price as well. Share price momentum should stem from: (1) resumption of sales to China; and (2) announcement of content production for overseas markets (i.e., U.S., Japan). Shares in Studio Dragon are currently trading at somewhat lofty valuations (i.e., 2024E/2025E P/E of 35.5x/25.5x), but this may change entirely in the event of aforementioned momentum.

2Q24E: Low number of aired episodes

We forecast 2Q24E revenue of KRW130.1bn (-20.4% YoY) and OP of KRW12.3bn (-24.1% YoY). Figures are highly likely to come in below market consensus, considering the low number of aired episodes. The number of aired episodes for 2Q24E is expected at 42 (34 TV, 8 OTT), down by 41 from 83 in 2Q23 (64 TV, 19 OTT). The decrease should cut Programming/Distribution revenue by 37.8%/15.7% YoY. OPM, meanwhile, should slide 0.4pp YoY to 9.5% on: (1) the sale of *The Midnight Romance in Hagwon* and *Player 2: Master of Swindlers* in each individual region rather than to a global OTT service provider; and (2) copyright amortization for *Queen of Tears*.

Mounting hopes for global expansion

Hopes for earnings improvement are increasing amid talks of Korea-China summit discussions regarding measures for culture/tourism/legal opening. In 2023, Studio Dragon generated 60% of its revenue from overseas sales. If China eases its regulations, the company's vast content library would allow for improvement in both growth and

Buy Maintain

Target Price (Maintain)	KRW52,000
Dividend yield*	0.0%
Total return	15.0%
Current price (May 28)	KRW45,200
Consensus target price	KRW60,357
Market capitalization	USD1.0bn
* 12-month forward	

Earnings Forecast & Valuation

Fiscal year-end	2023A	2024E	2025E	2026E
Revenue (KRWbn)	753	724	817	858
OP (KRWbn)	56	55	71	84
NP to control. int. (KRWbn)	30	38	53	66
EPS (KRW)	1,001	1,275	1,773	2,208
EPS growth (%)	-40.6	27.4	39.1	24.5
P/E (x)	51.5	35.5	25.5	20.5
EV/EBITDA (x)	6.5	5.3	5.3	4.9
P/B (x)	2.2	1.9	1.7	1.6
ROE (%)	4.4	5.3	7.0	8.1
Div. yield (%)	0.0	0.0	0.0	0.0

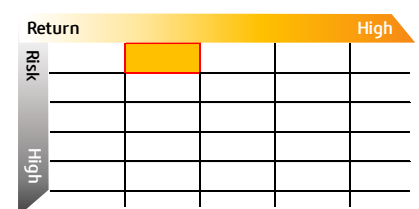
Trading Data

Free float	45.2%
Avg. T/O val. (3m, KRWbn)	3.4
Foreign ownership	8.2%
Major shareholders	CJ ENM and 3 others 54.8%
	Naver 6.3%

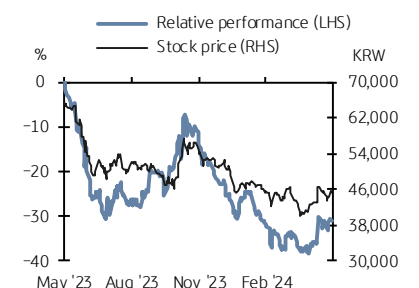
Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	10.6	-0.7	-18.9	-29.4
Relative	11.4	0.8	-22.5	-30.4

Risk & Total Return (annualized over three years)

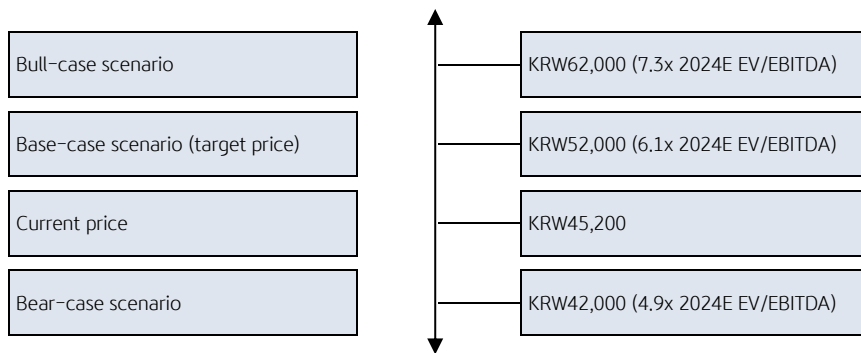


Stock Price & Relative Performance



profitability; detailed discussions and plans have yet to materialize, however. Studio Dragon has continued its efforts for global expansion in other markets as well. In the company's 1Q24 earnings release, management stated that they intend to make progress on two global projects within 2024. If successful, the projects should bring about significant contributions to earnings in 2025E.

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	690.6	761.6	723.9	816.7	4.8	7.2
OP	52.9	64.5	54.8	70.5	3.7	9.3
NP (to control. int.)	36.4	50.0	38.3	53.3	5.3	6.6

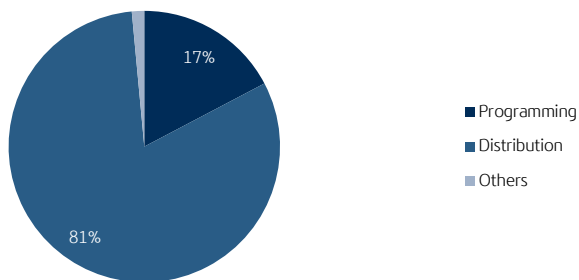
Source(s): KB Securities estimates

KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	723.9	816.7	745.8	814.5	-2.9	0.3
OP	54.8	70.5	69.7	83.1	-21.3	-15.1
NP (to control. int.)	38.3	53.3	51.9	61.3	-26.1	-13.1

Source(s): Quantiwise, KB Securities estimates

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	1.3	26.3	22.4	1.78	1.64	5.5	5.2	6.9	7.5	0.0	0.0
Paramount	11.4	9.4	8.5	0.35	0.34	7.2	7.1	2.7	3.7	1.7	1.7
Warner Bros.	26.3	N/A	35.6	0.43	0.43	6.2	5.9	1.2	2.6	0.0	0.0
Comcast	206.4	9.2	8.6	1.7	1.6	6.3	6.2	19.4	19.3	3.2	3.4

Source(s): Bloomberg consensus, KB Securities estimates

Valuation & Target Price Calculation

- 1) Valuation method:
EV/EBITDA Valuation
- 2) Target price calculation:
EV/EBITDA 6.0x * EBITDA KRW256bn
- 3) Target price range:
KRW42,000 – KRW62,000
- 4) Valuation at target price:
2024E EV/EBITDA 6.1x

Earnings Sensitivity Analysis

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

Table 1. 2Q24E Earnings Preview (consolidated)

(KRWbn, %, pp)	2Q24E	4Q23	QoQ	1Q23	YoY	Previous Estimate	Diff.	Consensus	Diff.
Revenue	130.1	192.1	(32.2)	163.5	(20.4)	140.7	(7.5)	177.7	(26.8)
OP	12.3	21.5	(42.6)	16.3	(24.1)	14.0	(11.8)	17.4	(29.0)
OPM	9.5	11.2	(1.7)	9.9	(0.5)	10.0	(0.5)	9.8	(0.3)
NP (to control. int.)	8.6	20.2	(57.3)	10.2	(15.5)	10.9	(21.0)	12.4	(30.4)
NPM	6.6	10.5	(3.9)	22.0	(15.4)	7.7	(1.1)	7.0	(0.3)

Source(s): Quantiwise, KB Securities estimates

Table 2. Earnings Estimate Revisions

(KRWbn, %, pp)	2024E					2025E				
	Revised	Previous	Change	Consensus	Diff.	Revised	Previous	Change	Consensus	Diff.
Revenue	723.9	690.6	4.8	745.8	(2.9)	816.7	761.6	7.2	814.5	0.3
OP	54.8	52.9	3.7	69.7	(21.3)	70.5	64.5	9.3	83.1	(15.1)
OPM	7.6	7.7	(0.1)	9.3	(1.8)	8.6	8.5	0.2	10.2	(1.6)
NP (to control. int.)	38.3	36.4	5.3	51.9	(26.1)	53.3	50.0	6.6	61.3	(13.1)
NPM	5.3	5.3	0.0	7.0	(1.7)	6.5	6.6	(0.0)	7.5	(1.0)

Source(s): Quantiwise, KB Securities estimates

Table 3. Earnings Forecast

(KRWbn, %)	1Q23	2Q23	3Q23	4Q23	1Q24	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	17	8	26	39	127	114	90	98
Revenue	211.1	163.5	217.4	161.1	192.1	130.1	168.5	233.1	697.9	753.1	723.9	816.7
Programming	43.2	42.5	35.0	33.4	47.3	26.4	22.2	38.4	192.5	154.1	134.3	130.8
Distribution	165.7	118.9	180.0	124.3	141.3	100.2	142.7	191.1	480.2	588.9	575.3	671.0
Others	2.3	2.1	2.3	3.4	3.5	3.5	3.6	3.6	25.2	10.1	14.2	14.9
% YoY	74.4	3.8	-5.0	-15.4	-9.0	-20.4	-22.5	44.7	43.3	7.9	-3.9	12.8
Programming	21.9	-3.1	-41.0	-38.1	9.5	-37.8	-36.6	15.1	19.4	-20.0	-12.8	-2.6
Distribution	113.1	14.4	8.6	-6.4	-14.7	-15.7	-20.7	53.7	74.3	22.6	-2.3	16.6
Others	-71.0	-78.4	-38.3	-7.8	50.7	67.1	54.1	7.2	-49.9	-59.7	40.3	4.8
% QoQ	10.8	-22.6	33.0	-25.9	19.2	-32.2	29.5	38.3				
Programming	-20.0	-1.7	-17.5	-4.8	41.7	-44.2	-15.8	72.8				
Distribution	24.7	-28.2	51.4	-30.9	13.7	-29.1	42.4	33.9				
Others	-37.2	-8.5	10.0	45.9	2.6	1.5	1.5	1.5				
OP	21.6	16.3	21.9	-3.8	21.5	12.3	14.6	6.4	65.2	55.9	54.8	70.5
(% YoY)	19.3	-39.8	15.4	TTR	-0.4	-24.1	-33.1	TTB	24.0	-14.3	-1.8	28.6
(% QoQ)	1732.1	-24.8	34.4	TTR	TTB	-42.6	18.4	-56.5				
OPM (%)	10.2	9.9	10.1	-2.4	11.2	9.5	8.7	2.7	9.3	7.4	7.6	8.6
NP to control. int.	18.4	10.2	18.2	-16.7	20.2	8.6	13.3	-3.8	50.6	30.1	38.3	53.3
(% YoY)	17.8	-60.1	1.9	RR	9.8	-15.5	-27.0	RR	29.5	-40.5	27.4	39.1
(% QoQ)	TTB	-44.6	78.3	TTR	TTB	-57.3	54.1	TTR				
NPM (%)	8.7	6.2	8.4	-10.4	10.5	6.6	7.9	-1.6	7.2	4.0	5.3	6.5

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	2023	2024E	2025E
EV/Sales	6.4x	4.6x	5.1x	5.5x	3.8x	2.1x	1.9x	1.6x
Revenue	380	469	526	487	698	753	724	817
% YoY	32.4	23.5	12.2	(7.3)	43.3	7.9	(3.9)	12.8
EV/EBITDA	21.1x	14.9x	16.2x	17.6x	12.1x	6.5x	5.3x	5.3x
EBITDA	115	146	165	152	219	242	256	244
% YoY	55.1	26.4	13.6	(8.3)	44.1	10.7	5.9	(4.8)
EV/FCF	-	-	-	-	-	37.2x	53.6x	22.3x
FCF	(29)	(13)	(3)	(11)	(69)	42	25	58
YoY %	294.0	(55.7)	(75.9)	249.7	531.6	(160.7)	(39.8)	131.1
P/E	72.3x	85.9x	88.7x	69.9x	51.1x	51.5x	35.5x	25.5x
EPS	1,278	941	1,044	1,301	1,684	1,001	1,275	1,773
YoY %	21.7	(26.3)	10.9	24.6	29.4	(40.6)	27.4	39.1
P/B	6.46x	5.31x	4.56x	3.99x	3.91x	2.19x	1.85x	1.73x
BPS	14,305	15,242	20,309	22,785	21,982	23,546	24,417	26,190
YoY %	8.9	6.5	33.2	12.2	(3.5)	7.1	3.7	7.3
Share price	92,400	80,900	92,600	91,000	86,000	51,500	45,200	45,200
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	1,359	1,359

Source(s): Company data, KB Securities estimates

Table 5. Valuation

(KRWbn, %, k shares, KRW)	Value	Notes
2024E EBITDA	256.3	
Multiple (x)	6.0	Average of global peers
Enterprise value	1,538.0	
(+) Investments in non-consolidated affiliates	12.3	2023
(-) Net debt	(1.8)	2024E
(-) Non-controlling interests	0.0	2024E
Equity value	1,552.0	
(÷) No. of shares	30,058	
Target price	52,000	
Current price	45,200	May 28
Upside	15.0	

Source(s): Company data, KB Securities estimates

Table 6. Number of Titles & Viewership on Netflix (2H23)

	Netflix Total	Korean Content	% of Total	Studio Dragon Content	% of Total
Number of titles	15,994	928	5.8%	108	0.7%
Viewership (hours)	90,023,100,000	8,000,800,000	8.9%	2,741,600,000	3.0%

Source(s): Netflix, KB Securities

Income Statement					
(KRWbn)	2022A	2023A	2024E	2025E	2026E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	698	753	724	817	858
Cost of revenue	598	665	580	627	649
Gross profit	100	88	144	190	208
SG&A expenses	35	32	89	120	124
Operating profit	65	56	55	71	84
EBITDA	219	242	256	244	248
Non-operating accounts	-7	-19	-3	0	4
Interest income	2	5	3	6	7
Interest expenses	5	9	7	9	9
Profit on equity method	0	0	0	0	0
Net other non-operating income	-4	-15	0	4	6
Profit before tax	59	37	52	71	88
Income tax expense	8	7	13	18	22
Net profit	51	30	38	53	66
NP attributable to controlling interests	51	30	38	53	66
Adj. net profit	51	30	38	53	66

Operating Statistics & Ratios					
(%)	2022A	2023A	2024E	2025E	2026E
Revenue growth	43.3	7.9	-3.9	12.8	5.0
OP growth	24.0	-14.3	-1.8	28.6	19.6
EBITDA growth	44.1	10.7	5.9	-4.8	1.6
NP growth of parent	29.5	-40.5	27.4	39.1	24.6
GP margin	14.3	11.7	19.8	23.3	24.3
OP margin	9.3	7.4	7.6	8.6	9.8
EBITDA margin	31.3	32.1	35.4	29.9	28.9
EBT margin	8.4	4.9	7.1	8.7	10.3
NP margin of parent	7.3	4.0	5.3	6.5	7.7

Statement of Cash Flows					
(KRWbn)	2022A	2023A	2024E	2025E	2026E
Cash flow from operating activities	-63	45	173	206	232
Net profit	51	30	38	53	66
Depreciation & amortization	153	186	201	174	164
Other non-cash adjustments	23	30	12	18	22
Investments in working capital	-280	-179	-69	-21	1
Decrease(Increase) in receivables	-35	15	-31	-22	2
Decrease(Increase) in inventory	0	0	0	0	0
Increase(Decrease) in payables	12	-18	3	1	0
Investments in other working capital	-256	-175	-41	0	0
Other operating cash flow	-10	-22	-9	-18	-22
Cash flow from investing activities	-43	-1	-151	-153	-149
Capital expenditure	-4	-3	-3	-3	-3
Investments in intangibles	-3	0	-145	-145	-146
Changes in investment assets	-12	-1	0	0	0
Other investment cash flow	-25	2	-3	-5	0
Cash flow from financing activities	165	-9	-1	0	0
Proceeds from (repayment of) debt	168	-1	1	0	0
Changes in equity	3	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flow	-5	-8	-2	0	0
Other cash flow	0	0	2	0	0
Increase/decrease in cash	59	35	23	53	83
Cash and cash equivalents at FYE	124	158	182	235	318
Free cash flow	-69	42	25	58	83
Net cash flow	-114	32	20	53	83
Net cash (net debt)	-51	-18	2	55	138

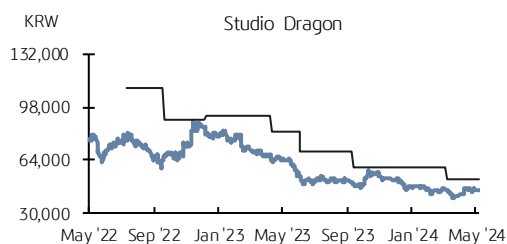
Statement of Financial Position					
(KRWbn)	2022A	2023A	2024E	2025E	2026E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	1,091	1,092	1,088	1,143	1,209
Current assets	400	405	433	509	590
Cash and cash equivalents	124	158	182	235	318
Current financial assets	5	3	3	3	3
Trade receivables	142	149	180	202	200
Inventory	0	0	0	0	0
Other current assets	130	94	69	69	69
Non-current assets	691	688	654	633	619
Investment assets	150	175	157	157	157
Property, plant and equipment	11	12	12	12	11
Intangible assets	378	359	317	291	277
Other non-current assets	152	141	169	174	174
Total liabilities	430	384	354	355	355
Current liabilities	416	368	337	339	339
Trade payables	16	11	11	13	13
Short-term financial liabilities	170	170	174	174	174
Other current liabilities	230	187	152	152	152
Non-current liabilities	14	16	17	17	17
Non-current financial liabilities	9	10	10	10	10
Other non-current liabilities	4	7	7	7	7
Total equity	661	708	734	787	854
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	-35	-35	-35
Retained earnings	213	242	280	334	400
Controlling interests	661	708	734	787	854
Non-controlling interests	0	0	0	0	0

Key Ratios					
(x, %, KRW)	2022A	2023A	2024E	2025E	2026E
Multiples					
P/E	51.1	51.5	35.5	25.5	20.5
P/B	3.9	2.2	1.9	1.7	1.6
P/S	3.7	2.1	1.9	1.7	1.6
EV/EBITDA	12.1	6.5	5.3	5.3	4.9
EV/EBIT	40.4	28.0	24.7	18.5	14.5
Dividend yield, ordinary (%)	0.0	0.0	0.0	0.0	0.0
EPS	1,684	1,001	1,275	1,773	2,208
BVPS	21,982	23,546	24,417	26,190	28,398
SPS	23,250	25,056	24,082	27,171	28,529
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	5.3	7.0	8.1
ROA	5.1	2.8	3.5	4.8	5.7
ROIC	7.3	4.5	5.0	6.6	7.5
Financial structure (%)					
Total liab./equity	65.1	54.3	48.2	45.1	41.6
Net debt/equity	7.7	2.6	Net Cash	Net Cash	Net Cash
Current ratio	1.0	1.1	1.3	1.5	1.7
Interest coverage (x)	13.2	6.4	8.2	7.9	9.4
Activity ratios					
Asset turnover (x)	0.7	0.7	0.7	0.7	0.7
Receivables turnover (x)	5.3	5.2	4.4	4.3	4.3
Payables turnover (x)	42.1	55.2	64.1	67.1	66.8
Inventory turnover (x)	0.0	0.0	0.0	0.0	0.0

Source(s): Company data, KB Securities estimates

Disclosures

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



Studio Dragon (253450)

Date	Rating	Analyst	TP Differential (%)		
			(KRW)	Avg.	Max/Min
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-03-2023	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 23, 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: To outperform market Neutral: To perform in line with market Negative: 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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