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Media / Advertisers

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**Maintain BUY but lower target price to KRW49,000**

We maintain BUY but lower our TP by 5% to KRW49,000 on Studio Dragon. We revise down 2024E OP by 6%, as our expected no. of aired episodes was reduced by 30. In an unprecedented move, the company appointed a new CEO from outside the company, hinting at a major strategy shift. With TV series suffering from slowing investment growth for downstream (OTT, TV) and growing salaries for actors, it is planning a new business model. As the domestic industry leader, the strategy will be crucial to Korean content.

**Growth driven by non-captive clients; need for more favorable terms with Netflix**

Studio Dragon's revenue share of captive clients has been falling (43% in 2019→24% in 1H24). While reducing dependency on such clients is a move in the right direction, the top-line growth from non-captive clients is sluggish. In order to jump-start non-captive business, the company needs to strengthen its negotiating power with Netflix and raise weightings of new channels. It currently supplies 3% of Netflix content but receives only 1% of Netflix annual investment. With its Netflix contract expiring, Studio Dragon needs to negotiate more favorable terms. It is diversifying its client base (Netflix, Disney) to include U-Next and PCCW, which should boost non-captive growth.

**Plans for profit-based selection of content, cost controls**

We anticipate cost controls and profit-based selection of content. For content producers, cost control has become more difficult with the rise of OTTs. Any success for a global OTT triggers a surge in salaries for actors—the lion's share of production costs—raising future costs. Studio Dragon is considering containing costs by signing new actors to multi-content deals, and in this regard, the current decline in content supply should help. Before, some content was produced habitually despite their low prospects for overseas licensing. Now, there are plans to be more selective and produce only profitable content.

### Buy Maintain

<b>Target Price (Lowered)</b>	<b>KRW49,000</b>
Dividend yield*	0.0%
Total return	33.2%
Current price (Aug 21)	KRW36,800
Consensus target price	KRW54,500
Market capitalization	USD0.8bn
* 12-month forward	

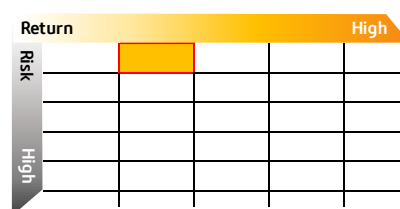
#### Trading Data

Free float	45.2%
Avg. T/O val. (3m, KRWbn)	2.2
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	-8.2	-16.7	-21.6	-27.1
Relative	-2.5	-9.6	-13.2	-17.4

#### Risk & Total Return (annualized over three years)



#### Stock Price & Relative Performance



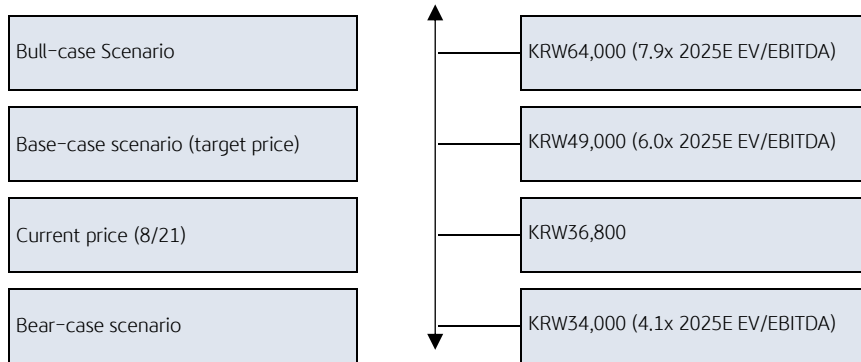
#### Earnings Forecast & Valuation

Fiscal year-end	2023A	2024E	2025E	2026E
Revenue (KRWbn)	753	640	725	762
OP (KRWbn)	56	51	64	77
NP to control. int. (KRWbn)	30	35	43	53
EPS (KRW)	1,001	1,171	1,425	1,766
EPS growth (%)	-40.6	17.0	21.7	23.9
P/E (x)	51.5	31.4	25.8	20.8
EV/EBITDA (x)	6.5	4.2	4.2	3.9
P/B (x)	2.2	1.5	1.4	1.3
ROE (%)	4.4	4.9	5.7	6.6
Div. yield (%)	0.0	0.0	0.0	0.0

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Source(s): Company data, KB Securities

## Investment Opinion & Risks



### Base-case scenario: Catalysts

- 1) +5% recoup rate after contract with Netflix
- 2) No. of episode in 2025 at 259

### Bull-case scenario: Upside risks

- 1) +10% recoup rate after contract with Netflix
- 2) No. of episode in 2025 over 300

### Bear-case scenario: Downside risks

- 1) +0% recoup rate after contract with Netflix
- 2) No. of episode in 2025 under 200

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	723.9	816.7	640.3	725.3	-11.6	-11.2
OP	54.8	70.5	51.2	64.3	-6.6	-8.8
NP (to control. int.)	38.3	53.3	35.2	42.8	-8.1	-19.6

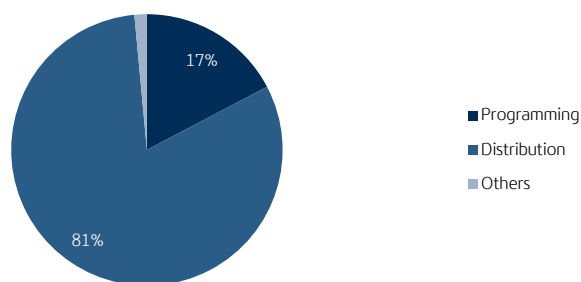
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	640.3	725.3	654.6	728.3	-2.2	-0.4
OP	51.2	64.3	55.9	67.6	-8.4	-4.9
NP (to control. int.)	35.2	42.8	43.1	52.5	-18.4	-18.3

Source(s): Quantiwise, KB Securities estimates

## Revenue Composition (2024E)



Source(s): Company data, KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:  
EV/EBITDA
- 2) Target price calculation:  
6.0x EV/EBITDA x KRW238bn EBITDA
- 3) Target price range:  
KRW34,000 – KRW64,000
- 4) Valuation at target price:  
6.0x 2025E EV/EBITDA

## Earnings Sensitivity Analysis

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

## 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	1.1	23.3	19.4	1.50	1.40	4.3	4.1	6.6	7.4	0.0	0.0
Paramount	10.5	7.3	7.2	0.41	0.40	6.8	6.7	4.5	4.4	1.8	1.8
Warner Bros.	25.2	-	960.0	0.54	0.54	6.3	6.0	-22.8	1.1	0.0	0.0
Comcast	206.7	9.6	9.3	1.81	1.66	6.6	6.4	19.0	19.0	3.0	3.2

Source(s): Bloomberg consensus, KB Securities estimates

Table 1. 3Q24E Earnings Preview (consolidated)

(KRWbn, %, pp)	3Q24E	2Q24	QoQ	3Q23	YoY	Previous Estimate	Diff.	Consensus	Diff.
Revenue	148.9	137.1	8.6	217.4	(31.5)	168.5	(11.7)	146.2	1.9
OP	9.1	10.4	(13.2)	21.9	(58.6)	14.6	(38.1)	13.3	(31.7)
OPM	6.1	7.6	(1.5)	10.1	(4.0)	8.7	(2.6)	9.1	(3.0)
NP (to control. int.)	7.6	8.1	(6.2)	18.2	(58.0)	13.3	(42.6)	11.7	(34.9)
NPM	5.1	5.9	(0.8)	22.0	(16.9)	7.9	(2.8)	8.0	(2.9)

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	640.3	723.9	(11.6)	654.6	(2.2)	725.3	816.7	(11.2)	728.3	(0.4)
OP	51.2	54.8	(6.6)	55.9	(8.4)	64.3	70.5	(8.8)	67.6	(4.9)
OPM	8.0	7.6	0.4	8.5	(0.5)	8.9	8.6	0.2	9.3	(0.4)
NP (to control. int.)	35.2	38.3	(8.1)	43.1	(18.4)	42.8	53.3	(19.6)	52.5	(18.3)
NPM	5.5	5.3	0.2	6.6	(1.1)	5.9	6.5	(0.6)	7.2	(1.3)

Source(s): Quantiwise, KB Securities estimates

Note: Previous refers to May 29 figures

Table 3. Earnings Forecast

(KRWbn, %)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E	2022	2023	2024E	2025E
TV episodes	73	64	50	40	54	34	38	38	315	227	164	180
OTT episodes	39	19	25	31	17	8	27	19	127	114	71	79
Revenue	211.1	163.5	217.4	161.1	192.1	137.1	148.9	162.2	697.9	753.1	640.3	725.3
Programming	43.2	42.5	35.0	33.4	47.3	30.7	31.5	34.6	192.5	154.1	144.1	158.3
Distribution	165.7	118.9	180.0	124.3	141.3	102.5	113.5	123.7	480.2	588.9	481.0	551.0
Others	2.3	2.1	2.3	3.4	3.5	3.9	3.9	3.9	25.2	10.1	15.2	16.0
% YoY	74.4	3.8	-5.0	-15.4	-9.0	-16.1	-31.5	0.7	43.3	7.9	-15.0	13.3
Programming	21.9	-3.1	-41.0	-38.1	9.5	-27.7	-10.2	3.8	19.4	-20.0	-6.5	9.9
Distribution	113.1	14.4	8.6	-6.4	-14.7	-13.8	-37.0	-0.5	74.3	22.6	-18.3	14.6
Others	-71.0	-78.4	-38.3	-7.8	50.7	84.5	67.6	14.9	-49.9	-59.7	49.6	5.4
% QoQ	10.8	-22.6	33.0	-25.9	19.2	-28.6	8.6	9.0				
Programming	-20.0	-1.7	-17.5	-4.8	41.7	-35.1	2.5	10.0				
Distribution	24.7	-28.2	51.4	-30.9	13.7	-27.5	10.7	9.0				
Others	-37.2	-8.5	10.0	45.9	2.6	12.1	0.0	0.0				
OP	21.6	16.3	21.9	-3.8	21.5	10.4	9.1	10.2	65.2	55.9	51.2	64.3
(% YoY)	19.3	-39.8	15.4	TTR	-0.4	-35.8	-58.6	TTB	24.0	-14.3	-8.3	25.6
(% QoQ)	1732.1	-24.8	34.4	TTR	TTB	-51.5	-13.2	12.8				
OPM (%)	10.2	9.9	10.1	-2.4	11.2	7.6	6.1	6.3	9.3	7.4	8.0	8.9
NP to control. int.	18.4	10.2	18.2	-16.7	20.2	8.1	7.6	-0.8	50.6	30.1	35.2	42.8
(% YoY)	17.8	-60.1	1.9	RR	9.8	-20.2	-58.0	RR	29.5	-40.5	17.0	21.7
(% QoQ)	TTB	-44.6	78.3	TTR	TTB	-59.7	-6.2	TTR				
NPM (%)	8.7	6.2	8.4	-10.4	10.5	5.9	5.1	-0.5	7.2	4.0	5.5	5.9

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
<b>EV/Sales</b>	<b>6.4x</b>	<b>4.6x</b>	<b>5.1x</b>	<b>5.5x</b>	<b>3.8x</b>	<b>2.1x</b>	<b>1.6x</b>	<b>1.4x</b>
Revenue	380	469	526	487	698	753	640	725
% YoY	32.4	23.5	12.2	(7.3)	43.3	7.9	(15.0)	13.3
<b>EV/EBITDA</b>	<b>21.1x</b>	<b>14.9x</b>	<b>16.2x</b>	<b>17.6x</b>	<b>12.1x</b>	<b>6.5x</b>	<b>4.2x</b>	<b>4.2x</b>
EBITDA	115	146	165	152	219	242	253	238
% YoY	55.1	26.4	13.6	(8.3)	44.1	10.7	4.4	(5.8)
<b>EV/FCF</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37.2x</b>	<b>14.4x</b>	<b>19.1x</b>
FCF	(29)	(13)	(3)	(11)	(69)	42	73	53
YoY %	294.0	(55.7)	(75.9)	249.7	531.6	(160.7)	74.3	(28.0)
<b>P/E</b>	<b>72.3x</b>	<b>85.9x</b>	<b>88.7x</b>	<b>69.9x</b>	<b>51.1x</b>	<b>51.5x</b>	<b>31.4x</b>	<b>25.8x</b>
EPS	1,278	941	1,044	1,301	1,684	1,001	1,171	1,425
YoY %	21.7	(26.3)	10.9	24.6	29.4	(40.6)	17.0	21.7
<b>P/B</b>	<b>6.46x</b>	<b>5.31x</b>	<b>4.56x</b>	<b>3.99x</b>	<b>3.91x</b>	<b>2.19x</b>	<b>1.51x</b>	<b>1.43x</b>
BVPS	14,305	15,242	20,309	22,785	21,982	23,546	24,313	25,738
YoY %	8.9	6.5	33.2	12.2	(3.5)	7.1	3.3	5.9
Share price	92,400	80,900	92,600	91,000	86,000	51,500	36,800	36,800
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	1,106	1,106

Source(s): Company data, KB Securities estimates

Table 5. Valuation

(KRWbn, %, k shares, KRW)	Value	Notes
2025E EBITDA	238.0	
Multiple (x)	6.0	- Average of global peers (Paramount/Warner Brothers/Comcast)
<b>Enterprise value</b>	<b>1,427.7</b>	
(+) Investments in non-consolidated affiliates	(49.8)	
(-) Net debt	0.0	
<b>Equity value</b>	<b>1,477.5</b>	
(÷) No. of shares	30,058	
<b>Target price</b>	<b>49,000</b>	
Current price	36,800	- Aug 21 close
<b>Upside</b>	<b>33.2</b>	

Source(s): KB Securities estimates

Table 6. No. of Titles &amp; Viewership on Netflix (2H23)

	Netflix total	Korean content	% of total	Studio Dragon content	% of total
No. 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	640	725	762
Cost of revenue	598	665	525	546	566
Gross profit	100	88	115	179	196
SG&A expenses	35	32	64	115	119
Operating profit	65	56	51	64	77
EBITDA	219	242	253	238	240
Non-operating accounts	-7	-19	0	4	8
Interest income	2	5	4	6	8
Interest expenses	5	9	7	9	9
Profit on equity method	0	0	0	0	0
Net other non-operating income	-4	-15	3	7	9
Profit before tax	59	37	51	68	84
Income tax expense	8	7	16	25	31
Net profit	51	30	35	43	53
NP attributable to controlling interests	51	30	35	43	53
Adj. net profit	51	30	35	43	53

Operating Statistics & Ratios					
(%)	2022A	2023A	2024E	2025E	2026E
Revenue growth	43.3	7.9	-15.0	13.3	5.0
OP growth	24.0	-14.3	-8.3	25.6	19.2
EBITDA growth	44.1	10.7	4.4	-5.8	1.0
NP growth of parent	29.5	-40.5	17.0	21.7	23.9
GP margin	14.3	11.7	17.9	24.7	25.7
OP margin	9.3	7.4	8.0	8.9	10.1
EBITDA margin	31.3	32.1	39.5	32.8	31.6
EBT margin	8.4	4.9	8.0	9.4	11.1
NP margin of parent	7.3	4.0	5.5	5.9	7.0

Statement of Cash Flows					
(KRWbn)	2022A	2023A	2024E	2025E	2026E
Cash flow from operating activities	-63	45	221	200	219
Net profit	51	30	35	43	53
Depreciation & amortization	153	186	201	174	164
Other non-cash adjustments	23	30	15	25	31
Investments in working capital	-280	-179	-18	-16	2
Decrease(Increase) in receivables	-35	15	24	-17	2
Decrease(Increase) in inventory	0	0	0	0	0
Increase(Decrease) in payables	12	-18	-1	1	0
Investments in other working capital	-256	-175	-41	0	0
Other operating cash flow	-10	-22	-12	-25	-31
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	71	48	70
Cash and cash equivalents at FYE	124	158	230	278	347
Free cash flow	-69	42	73	53	70
Net cash flow	-114	32	68	48	70
Net cash (net debt)	-51	-18	50	97	167

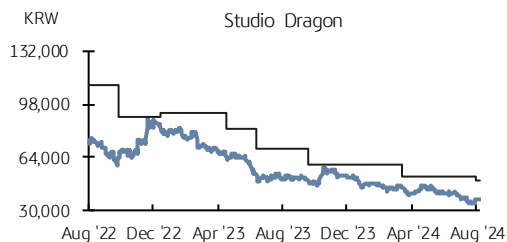
Statement of Financial Position					
(KRWbn)	2022A	2023A	2024E	2025E	2026E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Total assets	1,091	1,092	1,081	1,125	1,178
Current assets	400	405	427	492	559
Cash and cash equivalents	124	158	230	278	347
Current financial assets	5	3	3	3	3
Trade receivables	142	149	125	142	140
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	350	352	351
Current liabilities	416	368	334	335	335
Trade payables	16	11	8	9	9
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	731	774	827
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	277	320	373
Controlling interests	661	708	731	774	827
Non-controlling interests	0	0	0	0	0

Key Ratios (x, %, KRW)	2022A	2023A	2024E	2025E	2026E
Multiples					
P/E	51.1	51.5	31.4	25.8	20.8
P/B	3.9	2.2	1.5	1.4	1.3
P/S	3.7	2.1	1.7	1.5	1.5
EV/EBITDA	12.1	6.5	4.2	4.2	3.9
EV/EBIT	40.4	28.0	20.6	15.7	12.2
Dividend yield, ordinary (%)	0.0	0.0	0.0	0.0	0.0
EPS	1,684	1,001	1,171	1,425	1,766
BVPS	21,982	23,546	24,313	25,738	27,504
SPS	23,250	25,056	21,300	24,129	25,336
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	4.9	5.7	6.6
ROA	5.1	2.8	3.2	3.9	4.6
ROIC	7.3	4.5	4.7	5.6	6.3
Financial structure (%)					
Total liab./equity	65.1	54.3	48.0	45.4	42.5
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	7.4	7.0	8.4
Activity ratios					
Asset turnover (x)	0.7	0.7	0.6	0.7	0.7
Receivables turnover (x)	5.3	5.2	4.7	5.4	5.4
Payables turnover (x)	42.1	55.2	67.1	85.1	84.5
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 (KRW)	TP Differential (%)	
				Avg.	Max/Min
Aug-11-2022	Buy	Yonghyun Choi	110,000	-35.57	
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	-21.14	-10.67
Aug-22-2024	Buy	Yonghyun Choi	49,000		

## 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 June 30, 2024)

Buy	Hold	Sell
88.7	11.3	-

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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