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### Maintain BUY but lower target price to KRW48,000

We maintain BUY but lower our TP by 2% to KRW48,000 (6.0x EV/EBITDA) on Studio Dragon. We lower 2024E/2025E OP by 23%/18%, as: 1) no. of 2024E/2025E episodes aired fell 25/2 and 2) projections for Netflix contracts' recoup rate were revised. Growing domestic production costs are burdensome for both production firms and OTTs, making it challenging for the former to gain an advantage in negotiations with the latter.

### Burdened by amortization

Studio Dragon posted 3Q24 revenue of KRW90.3bn (-58.5% YoY) and operating loss of KRW0.9bn (turn to red YoY), which missed the market consensus. Revenue took a hit from a decrease in total episodes aired, and profit margins were undermined by an increase in amortization for episodes aired in 2Q24. Total no. of episodes aired in 3Q24 came in at 59 episodes (TV/OTT at 38/21; -16 QoQ).

### 4Q24 unlikely to be better than 3Q24

For 4Q24, we see no. of aired episodes dropping QoQ to 43 (TV/OTT at 26/17). However, both revenue and OP have potential for QoQ growth given higher production scale (e.g., *Jeongnyeon: The Star is Born*) and no. of pre-sold episodes (e.g., *Love Your Enemy* sold to Disney). That said, potential for further amortization (every 4Q) has lowered visibility.

### Looking to success like *Lovely Runner* in long term

For the long term, channeling IPs into new business should be key, not gaining the upper hand in negotiations with OTTs. There are plans to forge partnerships with talent agencies (starting in 2H25) to contain production costs and utilize IP (e.g., fan meetings). Although this plan depends on popularity of content, success should have a significant earnings impact; following the success of *Lovely Runner*, all of actor Woo-seok Byeon's Asia fan meetings were sold out. The new business model should help boost profitability.

## Buy Maintain

<b>Target Price (Lowered)</b>	<b>KRW48,000</b>
Dividend yield*	0.0%
Total return	19.0%
Current price (Nov '7)	KRW40,350
Consensus target price	KRW53,357
Market capitalization	USD0.9bn
* 12-month forward	

#### Trading Data

Free float	45.2%
Avg. T/O val. (3m, KRWbn)	2.2
Foreign ownership	8.6%
Major shareholders	CJ ENM and 3 others 54.8%
	Naver 6.3%

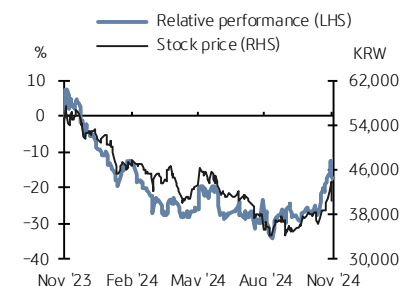
#### Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	6.6	14.5	-6.3	-26.2
Relative	13.5	16.8	11.3	-17.5

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



#### Stock Price & Relative Performance



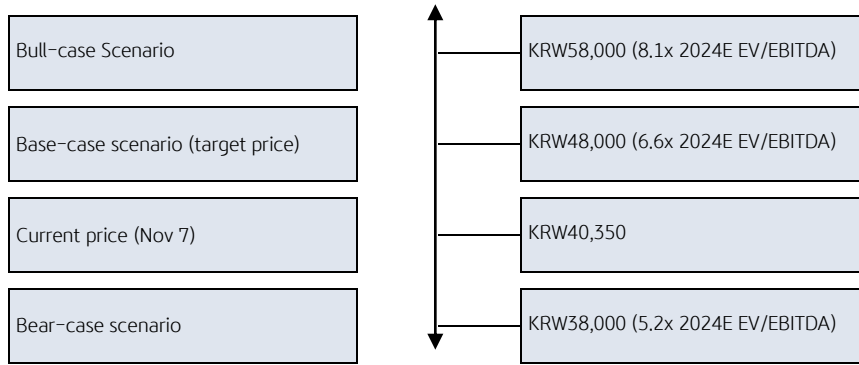
#### Earnings Forecast & Valuation

Fiscal year-end	2023A	2024E	2025E	2026E
Revenue (KRWbn)	753	555	692	726
OP (KRWbn)	56	40	53	64
NP to control. int. (KRWbn)	30	25	35	44
EPS (KRW)	1,001	830	1,158	1,461
EPS growth (%)	-40.6	-17.1	39.5	26.2
P/E (x)	51.5	48.6	34.8	27.6
EV/EBITDA (x)	6.5	5.3	5.6	5.1
P/B (x)	2.2	1.7	1.6	1.5
ROE (%)	4.4	3.5	4.8	5.7
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) Netflix contract renewed w/ +2% recoup rate
- 2) No. of episodes in 2025 at 261

### Bull-case scenario: Upside risks

- 1) Netflix contract renewed w/ +5% recoup rate
- 2) No. of episodes in 2025 over 300

### Bear-case scenario: Downside risks

- 1) Netflix contract renewed; same recoup rate
- 2) No. of episodes in 2025 under 200

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	640.3	725.3	555.0	691.5	-13.3	-4.7
OP	51.2	64.3	39.5	52.9	-22.8	-17.8
NP (to control. int.)	35.2	42.8	24.9	34.8	-29.2	-18.7

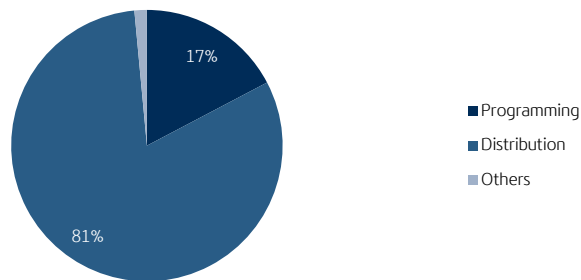
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	555.0	691.5	596.8	683.6	-7.0	1.2
OP	39.5	52.9	47.9	65.0	-17.4	-18.7
NP (to control. int.)	24.9	34.8	38.3	50.7	-34.9	-31.4

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	1.2	29.7	24.2	1.65	1.55	5.3	5.3	5.4	6.6	0.0	0.0
Paramount	11.2	7.3	7.7	0.45	0.43	6.8	6.9	4.8	5.1	1.8	1.8
Warner Bros.	28.6	-	-	0.59	0.59	6.6	6.3	-20.2	1.8	0.0	0.0
Comcast	240.9	10.8	10.3	2.02	1.86	7.0	6.9	19.2	18.8	2.7	2.9

Source(s): Bloomberg consensus, KB Securities estimates

## Valuation & Target Price Calculation

### 1) Valuation method:

EV/EBITDA valuation

### 2) Target price calculation:

6.6x EV/EBITDA \* KRW210.6bn EBITDA

### 3) Target price range:

KRW38,000-58,000

### 4) Valuation at target price:

6.6x 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

Table 1. 3Q24 Earnings review (consolidated)

(KRWbn, %, pp)	3Q24	2Q24	QoQ	3Q23	YoY	Previous Estimate	Diff.	Consensus	Diff.
Revenue	90.3	137.1	(34.1)	217.4	(58.5)	148.9	(39.3)	129.3	(30.2)
OP	(0.9)	10.4	TTR	21.9	TTR	9.1	(110.3)	6.0	(115.6)
OPM	(1.0)	7.6	(8.6)	10.1	(11.1)	6.1	(7.1)	4.6	(5.7)
NP (to control. int.)	(6.1)	8.1	TTR	18.2	TTR	7.6	(180.6)	5.8	(206.0)
NPM	(6.8)	5.9	(12.7)	22.0	(28.8)	5.1	(11.9)	4.5	(11.3)

Source(s): Quantiwise, KB Securities estimates

Note: TTR=turn to red

Table 2. Earnings Estimate Revisions

(KRWbn, %, pp)	2024E					2025E				
	Revised	Previous	Change	Consensus	Diff.	Revised	Previous	Change	Consensus	Diff.
(KRWbn, %, pp)	555.0	640.3	(13.3)	596.8	(7.0)	691.5	725.3	(4.7)	683.6	1.2
	39.5	51.2	(22.8)	47.9	(17.4)	52.9	64.3	(17.8)	65.0	(18.7)
Revenue	7.1	8.0	(0.9)	8.0	(0.9)	7.6	8.9	(1.2)	9.5	(1.9)
OP	24.9	35.2	(29.2)	38.3	(34.9)	34.8	42.8	(18.7)	50.7	(31.4)
OPM	4.5	5.5	(1.0)	6.4	(1.9)	5.0	5.9	(0.9)	7.4	(2.4)

Source(s): Quantiwise, KB Securities estimates

Note: "Previous" data from Aug 22

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	26	315	227	152	190
OTT episodes	39	19	25	31	17	8	21	17	127	114	63	71
Revenue	211.1	163.5	217.4	161.1	192.1	137.1	90.3	135.5	697.9	753.1	555.0	691.5
Programming	43.2	42.5	35.0	33.4	47.3	30.7	21.6	23.5	192.5	154.1	123.0	132.0
Distribution	165.7	118.9	180.0	124.3	141.3	102.5	64.4	107.2	480.2	588.9	415.4	539.9
Others	2.3	2.1	2.3	3.4	3.5	3.9	4.3	4.8	25.2	10.1	16.5	19.7
% YoY	74.4	3.8	-5.0	-15.4	-9.0	-16.1	-58.5	-15.9	43.3	7.9	-26.3	24.6
Programming	21.9	-3.1	-41.0	-38.1	9.5	-27.7	-38.4	-29.7	19.4	-20.0	-20.1	7.3
Distribution	113.1	14.4	8.6	-6.4	-14.7	-13.8	-64.2	-13.8	74.3	22.6	-29.5	30.0
Others	-71.0	-78.4	-38.3	-7.8	50.7	84.5	85.8	41.2	-49.9	-59.7	62.6	19.1
% QoQ	10.8	-22.6	33.0	-25.9	19.2	-28.6	-34.1	50.0				
Programming	-20.0	-1.7	-17.5	-4.8	41.7	-35.1	-29.7	8.8				
Distribution	24.7	-28.2	51.4	-30.9	13.7	-27.5	-37.1	66.4				
Others	-37.2	-8.5	10.0	45.9	2.6	12.1	10.8	10.8				
OP	21.6	16.3	21.9	-3.8	21.5	10.4	-0.9	8.5	65.2	55.9	39.5	52.9
(% YoY)	19.3	-39.8	15.4	TTR	-0.4	-35.8	TTR	TTB	24.0	-14.3	-29.2	33.7
(% QoQ)	1732.1	-24.8	34.4	TTR	TTB	-51.5	TTR	TTB				
OPM (%)	10.2	9.9	10.1	-2.4	11.2	7.6	-1.0	6.3	9.3	7.4	7.1	7.6
NP to control. int.	18.4	10.2	18.2	-16.7	20.2	8.1	-6.1	2.7	50.6	30.1	24.9	34.8
(% YoY)	17.8	-60.1	1.9	RR	9.8	-20.2	TTR	TTB	29.5	-40.5	-17.2	39.7
(% QoQ)	TTB	-44.6	78.3	TTR	TTB	-59.7	TTR	TTB				
NPM (%)	8.7	6.2	8.4	-10.4	10.5	5.9	-6.8	2.0	7.2	4.0	4.5	5.0

Source(s): Company data, KB Securities estimates

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>2.1x</b>	<b>1.7x</b>
Revenue	380	469	526	487	698	753	555	692
% YoY	32.4	23.5	12.2	(7.3)	43.3	7.9	(26.3)	24.6
<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>5.3x</b>	<b>5.6x</b>
EBITDA	115	146	165	152	219	242	221	211
% YoY	55.1	26.4	13.6	(8.3)	44.1	10.7	(8.6)	(4.7)
<b>EV/FCF</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37.2x</b>	<b>18.1x</b>	<b>-</b>
FCF	(29)	(13)	(3)	(11)	(69)	42	64	(17)
YoY %	294.0	(55.7)	(75.9)	249.7	531.6	(160.7)	53.1	(126.0)
<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>48.6x</b>	<b>34.8x</b>
EPS	1,278	941	1,044	1,301	1,684	1,001	830	1,158
YoY %	21.7	(26.3)	10.9	24.6	29.4	(40.6)	(17.1)	39.6
<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>1.70x</b>	<b>1.62x</b>
BVPS	14,305	15,242	20,309	22,785	21,982	23,546	23,758	24,916
YoY %	8.9	6.5	33.2	12.2	(3.5)	7.1	0.9	4.9
Share price	92,400	80,900	92,600	91,000	86,000	51,500	40,350	40,350
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	1,213	1,213

Source(s): Company data, KB Securities estimates

Table 5. Valuation

(KRWbn, k shares, KRW, %)	Value	Notes
2025E EBITDA	210.6	
Multiple (x)	6.6	-Avg. of global peers (Paramount/Warner Brothers/Comcast)
(+) Investments in non-consolidated affiliates	<b>1,390.2</b>	
(-) Net debt	12.3	
(-) Non-controlling interests	(28.3)	
<b>Equity value</b>	<b>1,430.8</b>	
(÷) No. of shares	30,058	
<b>Target price</b>	<b>48,000</b>	
Current price	40,350	- Nov 7
<b>Upside</b>	<b>19.0</b>	

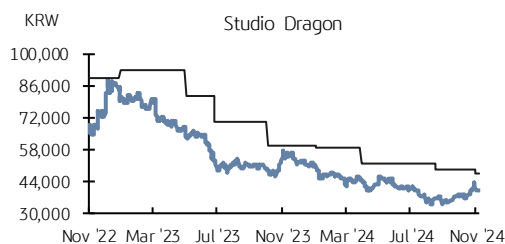
Source(s): KB Securities estimates

Income Statement						Statement of Financial Position					
(KRWbn)	2022A	2023A	2024E	2025E	2026E	(KRWbn)	2022A	2023A	2024E	2025E	2026E
(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(Reporting standard)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)	(IFRS-C)
Revenue	698	753	555	692	726	Total assets	1,091	1,092	1,018	1,057	1,100
Cost of revenue	598	665	470	510	528	Current assets	400	405	398	457	511
Gross profit	100	88	85	181	198	Cash and cash equivalents	124	158	176	159	242
SG&A expenses	35	32	45	129	134	Current financial assets	5	3	2	2	2
Operating profit	65	56	40	53	64	Trade receivables	142	149	136	212	183
EBITDA	219	242	221	211	215	Inventory	0	0	0	0	0
Non-operating accounts	-7	-19	0	3	6	Other current assets	130	94	85	85	85
Interest income	2	5	3	7	9	Non-current assets	691	688	620	600	589
Interest expenses	5	9	4	8	8	Investment assets	150	175	147	147	147
Profit on equity method	0	0	0	0	0	Property, plant and equipment	11	12	13	12	12
Net other non-operating income	-4	-15	1	4	5	Intangible assets	378	359	316	296	285
Profit before tax	59	37	40	55	70	Other non-current assets	152	141	144	144	144
Income tax expense	8	7	15	21	26	Total liabilities	430	384	304	308	307
Net profit	51	30	25	35	44	Current liabilities	416	368	288	293	291
NP attributable to controlling interests	51	30	25	35	44	Trade payables	16	11	8	12	11
Adj. net profit	51	30	25	35	44	Short-term financial liabilities	170	170	124	124	124
						Other current liabilities	230	187	156	156	156
						Non-current liabilities	14	16	16	16	16
						Non-current financial liabilities	9	10	8	8	8
						Other non-current liabilities	4	7	8	8	8
						Total equity	661	708	714	749	793
						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	-41	-41	-41
						Retained earnings	213	242	267	302	346
						Controlling interests	661	708	714	749	793
						Non-controlling interests	0	0	0	0	0
Operating Statistics & Ratios						Key Ratios					
(%)	2022A	2023A	2024E	2025E	2026E	(x, %, KRW)	2022A	2023A	2024E	2025E	2026E
Revenue growth	43.3	7.9	-26.3	24.6	5.0	Multiples					
OP growth	24.0	-14.3	-29.2	33.6	21.5	P/E	51.1	51.5	48.6	34.8	27.6
EBITDA growth	44.1	10.7	-8.6	-4.7	2.2	P/B	3.9	2.2	1.7	1.6	1.5
NP growth of parent	29.5	-40.5	-17.1	39.6	26.1	P/S	3.7	2.1	2.2	1.8	1.7
GP margin	14.3	11.7	15.3	26.2	27.2	EV/EBITDA	12.1	6.5	5.3	5.6	5.1
OP margin	9.3	7.4	7.1	7.6	8.8	EV/EBIT	40.4	28.0	29.5	22.4	17.2
EBITDA margin	31.3	32.1	39.8	30.5	29.7	Dividend yield, ordinary (%)	0.0	0.0	0.0	0.0	0.0
EBT margin	8.4	4.9	7.1	8.0	9.6	EPS	1,684	1,001	830	1,158	1,461
NP margin of parent	7.3	4.0	4.5	5.0	6.1	BVPS	21,982	23,546	23,758	24,916	26,377
						SPS	23,250	25,056	18,464	23,007	24,157
						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	3.5	4.8	5.7
						ROA	5.1	2.8	2.4	3.4	4.1
						ROIC	7.3	4.5	3.3	5.0	5.7
						Financial structure (%)					
						Total liab./equity	65.1	54.3	42.6	41.2	38.7
						Net debt/equity	7.7	2.6	Net Cash	Net Cash	Net Cash
						Current ratio	1.0	1.1	1.4	1.6	1.8
						Interest coverage (x)	13.2	6.4	9.9	6.7	8.1
						Activity ratios					
						Asset turnover (x)	0.7	0.7	0.5	0.7	0.7
						Receivables turnover (x)	5.3	5.2	3.9	4.0	3.7
						Payables turnover (x)	42.1	55.2	58.0	67.4	62.4
						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
Nov-02-2022	Buy	Yonghyun Choi	90,000	-15.02	
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	-21.14	-10.67
Aug-22-2024	Buy	Yonghyun Choi	49,000	-23.42	-10.61
Nov-07-2024	Buy	Yonghyun Choi	48,000		

### 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 September 30, 2024)

Buy	Hold	Sell
90.8	9.2	-

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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