

January 23, 2025

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Media / Advertisers

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**Maintain BUY, target price of KRW48,000**

We maintain BUY and TP of KRW48,000 on Studio Dragon. We lower 4Q24E earnings but left 2025E earnings unchanged. The stock is trading at a burdensome 38.0x 2025E P/E, but investors should note the diff. btw. earnings and cash flows. For 1Q-3Q24, cumulative FCF stood at KRW139bn vs. NP (to control. int.) at KRW26.6bn; 2024 cash flows were helped by decreases in content investment and amortization of production costs. We see stable cash flows this year as revenue contribution from existing content increases.

**4Q24 preview: Increase in no. of pre-buy episodes**

We forecast 4Q24 revenue at KRW114.6bn (-28.9% YoY) and OP at KRW3.8bn (turn to black YoY), which is below the market consensus. Total no. of aired episodes should fall 15 QoQ, but all TV content was sold to global OTTs. The rise in pre-buy episodes should positively impact earnings but will likely be amortized, which is done every four quarters. Studio Dragon should also book goodwill impairment losses (non-operating).

**1Q25 forecast: OP of KRW11.5bn**

We see 1Q25 OP improving QoQ to KRW11.5bn given a pre-buy deal signed for *When the Stars Gossip* and low deferred amortization costs.

**Expecting plenty of momentum this year**

We see 2025 OP improving YoY to KRW52.6bn based on the following:

- 1) No. of aired episodes should rise 100 YoY to 314 episodes with the securing of Wed-Thur evening slots and terrestrial broadcast slots.
- 2) Profitability from new IP business should improve (i.e., pioneering new talent).
- 3) No. of simultaneously aired episodes (Netflix) per year should rise from 4 to 5.

We note that when deals with Netflix and terrestrial broadcasters were signed, the market worried over falling revenue from Netflix. This seems unlikely given the past hit rate.

## Buy Maintain

<b>Target Price (Maintain)</b>	<b>KRW48,000</b>
Dividend yield*	0.0%
Total return	26.3%
Current price (Jan 22)	KRW38,000
Consensus target price	KRW56,214
Market capitalization	USD0.8bn
* 12-month forward	

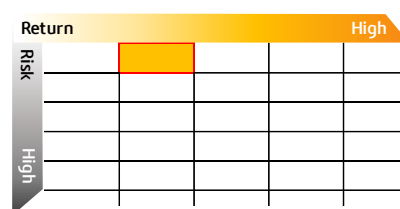
### Trading Data

Free float	45.2%
Avg. T/O val. (3m, KRWbn)	5.4
Foreign ownership	10.1%
Major shareholders	CJ ENM and 3 others
	Naver
	6.3%

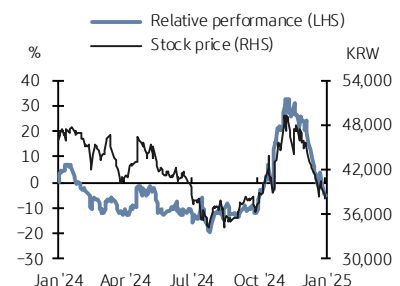
### Stock Price Performance (total return)

(%)	1M	3M	6M	12M
Absolute	-16.8	1.5	-3.9	-17.1
Relative	-24.5	1.7	5.7	-5.5

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



### Stock Price & Relative Performance



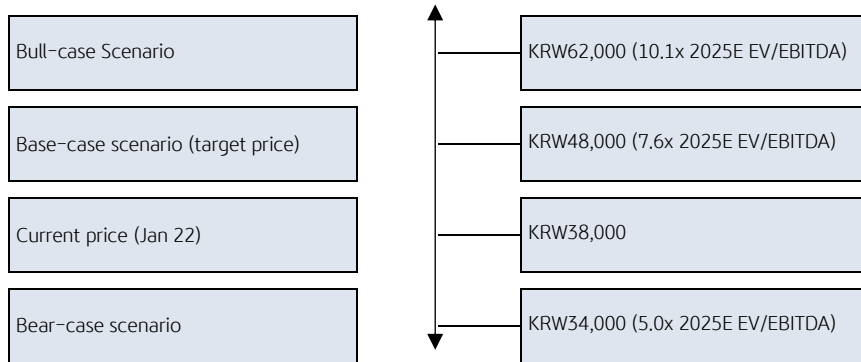
### Earnings Forecast & Valuation

Fiscal year-end	2024E	2025E	2026E	2027E
Revenue (KRWbn)	534	612	643	668
OP (KRWbn)	35	53	63	73
NP to control. int. (KRWbn)	18	42	53	63
EPS (KRW)	602	1,395	1,773	2,112
EPS growth (%)	-39.9	131.7	27.1	19.1
P/E (x)	71.5	27.2	21.4	18.0
EV/EBITDA (x)	6.3	5.8	4.8	3.0
P/B (x)	1.8	1.5	1.4	1.3
ROE (%)	2.6	5.8	6.9	7.6
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) No. of Netflix pre-buy this year at 4
- 2) No. of episodes this year at 314

### Bull-case scenario: Upside risks

- 1) No. of Netflix pre-buy this year over 6
- 2) No. of episodes this year over 350

### Bear-case scenario: Downside risks

- 1) No. of Netflix pre-buy this year under 6
- 2) No. of episodes this year under 250

## Revised Earnings Estimates

(KRWbn, %)	Previous		Revised		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	555.0	691.5	534.1	611.9	-3.8	-11.5
OP	39.5	52.9	34.8	52.6	-11.9	-0.5
NP (to control. int.)	24.9	34.8	18.1	41.9	-27.4	20.5

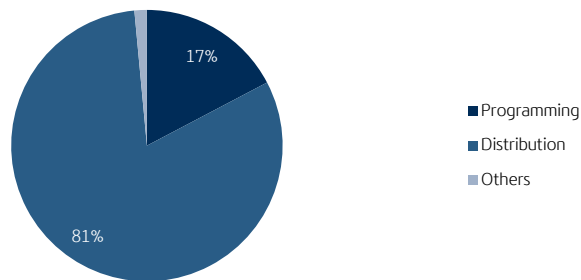
Source(s): KB Securities estimates

## KB Estimates vs. Consensus

(KRWbn, %)	KB Estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	534.1	611.9	532.0	670.4	0.4	-8.7
OP	34.8	52.6	35.9	57.4	-2.9	-8.3
NP (to control. int.)	18.1	41.9	25.5	45.5	-29.0	-7.7

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	1.1	45.3	24.2	1.57	1.47	5.2	4.9	3.7	6.3	0.0	0.0
Paramount	10.7	5.8	7.1	0.41	0.39	6.2	6.7	5.7	5.8	1.9	1.9
Warner Bros.	34.4	-	-	0.67	0.67	6.9	6.6	-16.9	0.8	0.0	0.0
Netflix	533.8	36.7	30.2	12.87	10.32	29.1	24.5	38.6	38.7	0.0	0.0

Source(s): Bloomberg consensus, KB Securities estimates

## Valuation & Target Price Calculation

- 1) Valuation method:

EV/EBITDA

- 2) Target price calculation:

7.6x EV/EBITDA x KRW165.2bn EBITDA

- 3) Target price range:

KRW34,000 – KRW62,000

- 4) Valuation at target price:

7.9x 2025E EV/EBITDA

## Earnings Sensitivity Analysis

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

Table 1. 4Q24 Preview (consolidated)

(KRWbn, %, pp)	4Q24E	3Q24	QoQ	4Q23	YoY	Previous Estimate	Diff.	Consensus	Diff.
Revenue	114.6	90.3	26.8	161.1	(28.9)	135.5	(15.5)	108.4	5.7
OP	3.8	(0.9)	TTB	(3.8)	TTB	8.5	(55.4)	4.4	(13.9)
OPM	3.3	(1.0)	4.3	(2.4)	5.7	6.3	(3.0)	4.1	(0.8)
NP to control. int.	(4.1)	(6.1)	RR	(16.7)	RR	2.7	(252.5)	0.4	TTR
NPM	(3.6)	(6.8)	3.2	22.0	(25.6)	2.0	(5.6)	0.4	(4.0)

Source(s): Quantiwise, KB Securities estimates

Note: RR=remain in red, TTB=turn to black, TTR=turn to red

Table 2. Earnings Estimate Revisions

(KRWbn, %, pp)	2024E					2025E				
	Revised	Previous	Change	Consensus	Diff.	Revised	Previous	Change	Consensus	Diff.
Revenue	534.1	555.0	(3.8)	532.0	0.4	611.9	691.5	(11.5)	670.4	(8.7)
OP	34.8	39.5	(11.9)	35.9	(2.9)	52.6	52.9	(0.5)	57.4	(8.3)
OPM	6.5	7.1	(0.6)	6.7	(0.2)	8.6	7.7	0.9	8.6	0.0
NP to control. int.	18.1	24.9	(27.4)	25.5	(29.0)	41.9	34.8	20.5	45.5	(7.7)
NPM	3.4	4.5	(1.1)	4.8	(1.4)	6.9	5.0	1.8	6.8	0.1

Source(s): Quantiwise, KB Securities estimates

Note: "Previous" data from Nov 7

Table 3. Earnings Forecast

(KRWbn, %)	1Q24	2Q24	3Q24	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	2022	2023	2024E	2025E
TV episodes	54	34	38	26	40	34	80	80	315	227	152	234
OTT episodes	17	8	21	17	12	20	26	22	127	114	63	80
Revenue	192.1	137.1	90.3	114.6	127.2	140.6	174.5	169.7	697.9	753.1	534.1	611.9
Programming	47.3	30.7	21.6	20.7	28.3	24.0	38.9	38.9	192.5	154.1	120.2	130.0
Distribution	141.3	102.5	64.4	89.1	94.1	111.7	129.7	123.8	480.2	588.9	397.3	459.3
Others	3.5	3.9	4.3	4.8	4.8	4.9	5.9	7.0	25.2	10.1	16.5	22.6
% YoY	-9.0	-16.1	-58.5	-28.9	-33.8	2.5	93.2	48.2	43.3	7.9	-29.1	14.6
Programming	9.5	-27.7	-38.4	-38.1	-40.2	-21.8	80.1	88.0	19.4	-20.0	-22.0	8.1
Distribution	-14.7	-13.8	-64.2	-28.3	-33.4	8.9	101.4	39.0	74.3	22.6	-32.5	15.6
Others	50.7	84.5	85.8	41.2	39.1	25.3	35.7	46.9	-49.9	-59.7	62.6	37.2
% QoQ	19.2	-28.6	-34.1	26.8	11.0	10.5	24.1	-2.7				
Programming	41.7	-35.1	-29.7	-4.2	36.8	-15.1	61.9	0.0				
Distribution	13.7	-27.5	-37.1	38.3	5.6	18.7	16.2	-4.5				
Others	2.6	12.1	10.8	10.8	1.0	1.0	20.0	20.0				
OP	21.5	10.4	-0.9	3.8	11.5	12.7	16.6	11.8	65.2	55.9	34.8	52.6
(% YoY)	-0.4	-35.8	TTR	TTB	-46.8	22.1	TTB	211.9	24.0	-14.3	-37.7	51.1
(% QoQ)	TTB	-51.5	TTR	TTB	202.3	11.2	30.1	-28.7				
OPM (%)	11.2	7.6	-1.0	3.3	9.0	9.1	9.5	7.0	9.3	7.4	6.5	8.6
NP to control. int.	20.2	8.1	-6.1	-4.1	13.5	12.4	10.7	5.4	50.6	30.1	18.1	41.9
(% YoY)	9.8	-20.2	TTR	RR	-33.2	52.0	TTB	TTB	29.5	-40.5	-39.9	132.0
(% QoQ)	TTB	-59.7	TTR	RR	TTB	-8.3	-13.1	-50.2				
NPM (%)	10.5	5.9	-6.8	-3.6	10.6	8.8	6.2	3.2	7.2	4.0	3.4	6.9

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	2023	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>2.2x</b>	<b>1.6x</b>
Revenue	380	469	526	487	698	753	534	612
% YoY	32.4	23.5	12.2	(7.3)	43.3	7.9	(29.1)	14.6
<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>6.3x</b>	<b>5.8x</b>
EBITDA	115	146	165	152	219	242	188	165
% YoY	55.1	26.4	13.6	(8.3)	44.1	10.7	(22.4)	(12.0)
<b>EV/FCF</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37.2x</b>	<b>12.6x</b>	<b>22.3x</b>
FCF	(29)	(13)	(3)	(11)	(69)	42	94	43
YoY %	294.0	(55.7)	(75.9)	249.7	531.6	(160.7)	124.1	(54.6)
<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>71.5x</b>	<b>27.2x</b>
EPS	1,278	941	1,044	1,301	1,684	1,001	602	1,395
YoY %	21.7	(26.3)	10.9	24.6	29.4	(40.6)	(39.8)	131.7
<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>1.83x</b>	<b>1.53x</b>
BVPS	14,305	15,242	20,309	22,785	21,982	23,546	23,486	24,881
YoY %	8.9	6.5	33.2	12.2	(3.5)	7.1	(0.3)	5.9
Share price	92,400	80,900	92,600	91,000	86,000	51,500	43,050	38,000
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	1,294	1,142

Source(s): Company data, KB Securities estimates

Table 5. Valuation

(KRWbn, k shares, KRW, %)	Value	Notes
2025E EBITDA	165.2	
Multiple (x)	7.6	-Avg. of global peers
(+) Investments in non-consolidated affiliates	<b>1,255.3</b>	
(-) Net debt	12.3	
(-) Non-controlling interests	(188.9)	
<b>Equity value</b>	<b>1,456.5</b>	
(÷) No. of shares	30,058	
<b>Target price</b>	<b>48,000</b>	
Current price	38,000	- Jan 22
<b>Upside</b>	<b>26.3</b>	

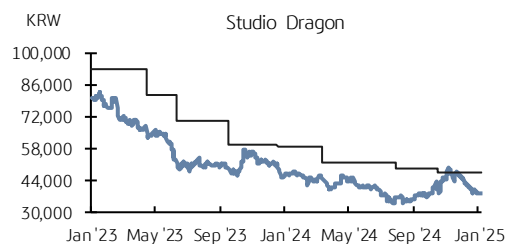
Source(s): KB Securities estimates

Income Statement						Statement of Financial Position					
(KRWbn)	2023A	2024E	2025E	2026E	2027E	(KRWbn)	2023A	2024E	2025E	2026E	2027E
(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	753	534	612	643	668	Total assets	1,092	908	1,001	1,137	1,393
Cost of revenue	665	456	449	465	477	Current assets	405	354	519	704	994
Gross profit	88	78	163	178	191	Cash and cash equivalents	158	99	186	392	669
SG&A expenses	32	43	111	115	118	Current financial assets	3	13	13	13	13
Operating profit	56	35	53	63	73	Trade receivables	149	154	228	200	208
EBITDA	242	188	165	157	156	Inventory	0	0	0	0	0
Non-operating accounts	-19	-4	1	5	8	Other current assets	94	87	92	98	104
Interest income	5	1	6	8	10	Non-current assets	688	554	482	433	400
Interest expenses	9	2	7	7	7	Investment assets	175	132	107	87	70
Profit on equity method	0	0	0	0	0	Property, plant and equipment	12	11	10	9	8
Net other non-operating income	-15	-2	2	4	5	Intangible assets	359	273	227	200	184
Profit before tax	37	31	54	68	81	Other non-current assets	141	138	138	138	138
Income tax expense	7	13	12	15	18	Total liabilities	384	202	253	335	529
Net profit	30	18	42	53	63	Current liabilities	368	183	216	244	281
NP attributable to controlling interests	30	18	42	53	63	Trade payables	11	12	17	15	16
Adj. net profit	30	18	42	53	63	Short-term financial liabilities	170	3	3	3	3
						Other current liabilities	187	168	195	226	262
						Non-current liabilities	16	19	37	91	248
						Non-current financial liabilities	10	7	7	7	7
						Other non-current liabilities	7	12	30	84	240
						Total equity	708	706	748	801	865
						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	-22	-42	-42	-42	-42
						Retained earnings	242	260	302	355	419
						Controlling interests	708	706	748	801	865
						Non-controlling interests	0	0	0	0	0
Operating Statistics & Ratios						Key Ratios					
(%)	2023A	2024E	2025E	2026E	2027E	(x, %, KRW)	2023A	2024E	2025E	2026E	2027E
Revenue growth	7.9	-29.1	14.6	5.0	4.0	Multiples					
OP growth	-14.3	-37.7	51.1	19.7	16.7	P/E	51.5	71.5	27.2	21.4	18.0
EBITDA growth	10.7	-22.4	-12.0	-5.1	-0.2	P/B	2.2	1.8	1.5	1.4	1.3
NP growth of parent	-40.5	-39.8	131.8	27.1	19.1	P/S	2.1	2.4	1.9	1.8	1.7
GP margin	11.7	14.6	26.7	27.7	28.7	EV/EBITDA	6.5	6.3	5.8	4.8	3.0
OP margin	7.4	6.5	8.6	9.8	11.0	EV/EBIT	28.0	34.2	18.1	11.9	6.4
EBITDA margin	32.1	35.2	27.0	24.4	23.4	Dividend yield, ordinary (%)	0.0	0.0	0.0	0.0	0.0
EBT margin	4.9	5.8	8.8	10.6	12.2	EPS	1,001	602	1,395	1,773	2,112
NP margin of parent	4.0	3.4	6.9	8.3	9.5	BVPS	23,546	23,486	24,881	26,654	28,767
						SPS	25,056	17,768	20,359	21,376	22,232
						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	4.4	2.6	5.8	6.9	7.6
						ROA	2.8	1.8	4.4	5.0	5.0
						ROIC	4.5	2.6	6.6	7.7	8.3
						Financial structure (%)					
						Total liab./equity	54.3	28.6	33.8	41.9	61.1
						Net debt/equity	2.6	Net Cash	Net Cash	Net Cash	Net Cash
						Current ratio	1.1	1.9	2.4	2.9	3.5
						Interest coverage (x)	6.4	15.0	7.7	9.2	10.8
						Activity ratios					
						Asset turnover (x)	0.7	0.5	0.6	0.6	0.5
						Receivables turnover (x)	5.2	3.5	3.2	3.0	3.3
						Payables turnover (x)	55.2	46.8	42.1	39.4	42.9
						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
Jan-04-2023	Buy	Yonghyun Choi	93,000	-19.32	
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

#### Sector Ratings (based on expected 12m performance)

Positive:      Neutral:      Negative:

To outperform market      To perform in line with market      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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#### Ratings Distribution (as of December 31, 2024)

Buy	Hold	Sell
87.9	12.1	-

Note: Based on recommendations in the last 12 months

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