

Semiconductor/equip



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Rating	BUY (M)
Target price	W220,000 (M)
Current price (Oct 8)	W180,800
Upside potential	22%

Market cap (Wbn)	1,907
Shares outstanding	10,547,673
Avg daily T/O (2M, Wbn)	7
Avg daily volume (2M, shrs)	40,846
52-week high (won)	208,700
52-week low (won)	137,100
Foreign ownership (%)	10.9
Major shareholders (%)	
SK Holdings & other	49.1

Stock performance

(%)	1M	3M	12M
Absolute	2.1	1.0	2.4
Relative	9.0	6.5	(12.9)
Abs (US\$)	1.3	(0.5)	3.5

Quarterly earnings

(Wbn)	3Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	171	30.0	8.6	175	-2.4
OP	50	25.0	23.2	48	5.1
Pre-tax net profit	48	26.2	31.9	43	11.0
Net profit, CI	35	26.1	45.6	31	11.3
OPM (%)	29.4	-1.2 %pt	+3.5 %pt	27.3	+2.1 %pt
NPM (%)	20.4	-0.6 %pt	+5.2 %pt	17.9	+2.5 %pt

Source: Yuanta Securities

Leading materials play

3Q18E OP likely beats consensus at W50.2bn

- SK Materials likely posted record earnings for 3Q18, with sales of W171.0bn (30% YoY, 9% QoQ) and OP of W50.2bn (6% YoY, 1% QoQ, OPM 29%) thanks to stable NF3 prices and the stabilization of its new business, precursors.

OP to grow to W55.0bn in 4Q18 on stronger momentum

- We expect earnings momentum to strengthen in 4Q18E, and estimate sales at W183.0bn (31% YoY, 7% QoQ) and OP at W55.0bn (51% YoY, 10% QoQ, OPM 25%). SK Tri Chem, whose main business is precursor manufacturing, will likely lead the earnings growth with OP of at least W9.0bn.

OP to grow 23% YoY in 2019 to W221.2bn

- We expect rapid earnings growth to continue in 2019, and estimate sales at W731.4bn (12% YoY) and OP at W221.2bn (23% YoY, OPM 30%).

- The main driver of 2019 earnings growth will likely be new businesses.

SK Tri Chem will likely post 2018 sales of W52.0bn, which should grow further to W81.0bn in 2019. OPM is also likely to be far above the company average.

In addition, SK Showa Denko's operations have normalized now. We estimate its 2018 and 2019 sales at W14.5bn and W31.5bn, respectively.

- NF3 earnings will also likely rebound in 2019.

Although sales volume is forecast to grow by more than 10% YoY in 2018, profit growth will likely slow YoY due to higher costs. Still, as market conditions should be relatively favorable in 2019 in terms of product price, NF3 profit will likely grow, albeit marginally.

- Most of all, as the semiconductor market will likely be driven by demand, the growth potential of materials and parts businesses such as SK Materials should attract investor attention. The rising contribution from new businesses is also a positive which should boost earnings momentum.

- We reiterate BUY and maintain our target price of W220,000, implying a 2019E P/E of 16x.

Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		461	512	654	731
OP		154	148	180	221
Net profit, CI		109	102	119	150
P/E (x)		12.9	18.9	16.0	12.7
P/B (x)		3.3	4.7	3.8	3.0
EV/EBITDA		7.6	11.1	9.6	8.3
ROE (%)		27.2	25.3	28.3	29.2

Source: Yuanta Securities

SK Materials (036490 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Sales	461	512	654	731	841
Cost of sales	269	315	415	461	530
Gross profit	193	198	239	271	311
SG&A	39	50	59	49	52
Operating profit	154	148	180	221	259
EBITDA	222	223	272	319	357
Non-op profit/loss	-14	-13	-12	-10	-10
Forex gain/loss	-2	2	5	7	7
Net interest income	-8	-12	-17	-19	-18
Equity-meth gain/loss	0	0	0	0	0
Other	-3	-3	1	1	1
Net profit before income tax	140	135	168	211	250
Income tax	30	30	41	51	61
Net profit from continuing ops	110	104	126	159	189
Net profit from discontinued ops	0	0	0	0	0
Net profit	110	104	126	159	189
NP for controlling interest	109	102	119	150	178
Total comprehensive income	109	99	154	159	188
Total comprehensive income, CI	107	97	146	151	178

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Current assets	217	202	294	281	809
Cash & cash equivalents	60	19	71	52	549
Accts rec & other	77	91	97	100	115
Inventory	74	86	108	110	127
Non-current assets	686	916	1,107	1,250	1,392
Tangible assets	661	885	1,088	1,232	1,376
Investment in affiliates	0	11	0	0	0
Other non-current	1	1	3	3	3
Total assets	903	1,118	1,402	1,531	2,201
Current liabilities	284	337	381	386	709
Accts payable & other	96	140	35	41	74
ST financial liabilities	51	149	169	169	458
Liquid LT liabilities	116	30	59	59	59
Non-current liabilities	182	373	536	536	731
LT financial liabilities	100	153	171	171	366
Debentures	50	199	339	339	340
Total liabilities	466	710	917	922	1,440
Equity, controlling interest	421	386	456	572	716
Paid-in capital	5	5	5	5	5
Capital surplus	34	34	19	19	19
Retained earnings	383	446	530	646	790
Equity, non-controlling interest	16	22	29	36	46
Total equity	437	408	485	609	761
Net debt	256	512	683	702	690
Total debt	317	531	759	759	1,243

Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Operating cash flow	208	137	217	280	311
Net profit	110	104	126	159	189
Depreciation & amortization	67	74	91	96	96
Forex gain/loss	3	-2	-3	-7	-7
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	17	-46	-1	24	27
Other	10	6	3	7	7
Investing cash flow	-209	-268	-268	-231	-231
Investment	-5	-11	-1	0	0
Inc in tangible assets	-125	-261	-279	-240	-240
Dec in tangible assets	1	0	2	0	0
Other	-79	3	10	9	9
Financing cash flow	19	92	94	-86	399
Inc (dec) in ST fin liab	-45	88	19	0	289
Inc (dec) in LT fin liab	92	132	185	0	196
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-30	-37	-36	-35	-35
Other	2	-90	-74	-51	-51
Other cash flow	1	-1	10	17	17
Inc (dec) in cash & equivalents	19	-42	53	-19	496
Beginning cash & equivalents	41	60	19	71	52
Ending cash & equivalents	60	19	71	52	549
NOPLAT	154	148	180	221	259
FCF	80	-117	-53	49	80

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

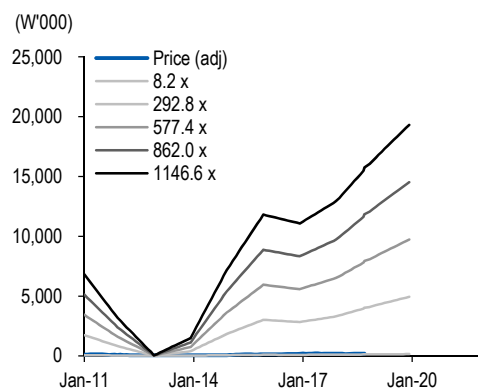
Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	10,299	9,660	11,277	14,231	16,847
BPS (won)	39,996	38,502	48,030	60,301	75,428
EBITDA/shr (won)	21,003	21,124	25,807	30,216	33,802
SPS (won)	43,748	48,569	62,026	69,344	79,746
DPS (won)	3,550	3,550	3,550	3,550	3,550
P/E (x)	12.9	18.9	16.0	12.7	10.7
P/B (x)	3.3	4.7	3.8	3.0	2.4
EV/EBITDA (x)	7.6	11.1	9.6	8.3	7.4
P/S (x)	3.0	3.8	2.9	2.6	2.3

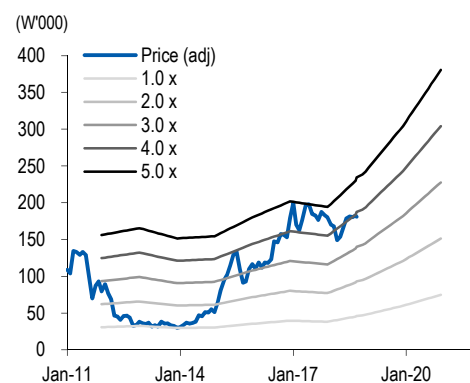
Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
Sales (% YoY)	36.5	11.0	27.7	11.8	15.0
Operating profit (%YoY)	36.6	-4.2	21.8	23.0	17.2
Net profit, CI (%YoY)	64.3	-6.2	16.7	26.2	18.4
Gross margin (%)	41.8	38.6	36.6	37.0	37.0
Operating margin (%)	33.4	28.8	27.5	30.2	30.8
Net margin, CI (%)	23.5	19.9	18.2	20.5	21.1
EBITDA margin (%)	48.0	43.5	41.6	43.6	42.4
ROIC (%)	19.5	14.1	12.4	12.5	13.3
ROA (%)	13.9	10.1	9.4	10.2	9.5
ROE (%)	27.2	25.3	28.3	29.2	27.6
Debt-to-equity (%)	106.6	173.9	189.0	151.5	189.2
Net debt-to-equity (%)	60.7	132.8	149.9	122.8	96.5
OP/financing cost (x)	15.4	11.4	9.6	10.9	7.7

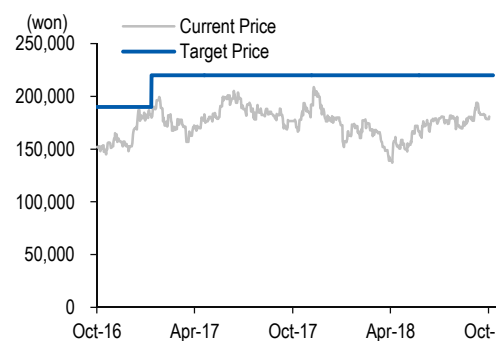
P/E band chart



P/B band chart



SK Materials (036490 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2018/10/10	BUY	220,000	1 yr		
2018/01/17	After 1yr		1 yr	-23.25	-11.91
2017/01/17	BUY	220,000	1 yr	-19.79	-5.14
2016/10/19	BUY	190,000	1 yr	-6.73	7.89
2016/06/01	BUY	147,000	1 yr	-4.66	8.84

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.1
BUY	85.8
HOLD	12.5
SELL	0.6
Total	100.0

Note: As of Oct 7

Excluding reports written or published by overseas affiliates

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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