

## Company analysis

# Optrontec

## (082210 KQ)

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Rating **BUY**  
upgrade

6M TP (W) **5,700**  
maintain

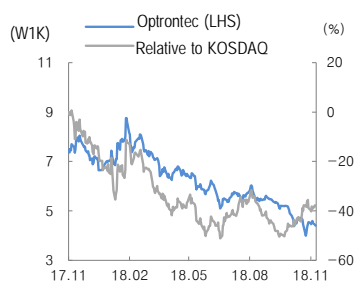
CP (W)  
(18.11.16) **4,270**

Home appliances &amp; Electronic components

Industry 4.0 safety rating ■ Neutral Green

KOSDAQ	690.18
Market cap (Wbn)	96
Market cap portion (%)	0.04
Paid-in capital (common; Wbn)	11
52w high/low (W)	8,460 / 3,700
120d avg. trading volume (Wbn)	0.5
Foreign ownership (%)	4.64
Major shareholders	Lim Ji-yoon+3: 20.79%

(%)	1M	3M	6M	12M
Abs. return	-2.4	-16.6	-27.6	-40.5
Rel. return	3.4	-8.0	-10.8	-32.8



## In bona-fide recovery mode

Upgraded to BUY; TP maintained at W5,700

- Optrontec reported revenue of W35.8bn and OP of W3.3bn for 3Q18. The better-than-anticipated performance was driven by stronger shipments to China that helped offset sluggish domestic sales and the wider adoption of optical lenses amid a rise of smartphones with multiple cameras.
- For the current quarter, the handset parts supplier is expected to log a 9.1% increase in revenue and an 18.1% rise in OP qoq.
- The company will likely sustain its healthy growth streak into next year as more smartphone makers, both domestic companies and low-cost Chinese players, adopt multiple-lens camera technology, which will push up demand for the company's optical lenses used to filter out light noise.
- For all of 2019, revenue is expected to grow 10.6% yoy to W155bn, while OP is forecast to jump 27.7% yoy to W15.4bn. Accordingly, we raise our EPS projection for 2019 by 27.8% from our previous estimate.
- Our residual income model suggests the stock's fair value at W5,604.

### Operating results and major financial data

(Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	138	155	141	155	160
OP	17	17	12	15	16
Pretax profit	6	9	9	12	15
NP	2	7	7	9	11
NP (controlling int.)	6	5	6	10	12
EPS	273	213	253	459	539
PER	22.5	30.5	16.3	9.0	7.6
BPS	4,004	4,199	4,453	4,912	5,451
PBR	1.5	1.5	0.9	0.8	0.8
ROE	7.0	5.3	5.9	9.8	10.4
Sensitivity to F/X rates				2019F	2020F
EPS growth for every W100 increase in W/\$ rates				1.2%(↑)	1.3%(↑)

Note: EPS, BPS, and ROE are based only on the controlling interest

Source: Optrontec, Daishin Securities Research Center

Earnings forecast by business (revised)										(Wbn)	
	1Q18	2Q	3Q	4QF	1Q19F	2QF	3QF	4QF	2017	2018F	2019F
<b>Sales</b>	<b>35.7</b>	<b>30.4</b>	<b>35.8</b>	<b>39.0</b>	<b>39.9</b>	<b>37.3</b>	<b>38.9</b>	<b>38.8</b>	<b>154.6</b>	<b>140.9</b>	<b>155.0</b>
Image sensor filters	29.8	25.3	29.5	32.4	34.1	31.4	32.5	31.9	129.2	117.0	129.9
Optic lens & module	4.8	4.0	5.6	5.9	5.2	5.3	5.8	6.2	11.8	20.4	22.6
Optic pickup filter/etc.	1.1	1.1	0.7	0.7	0.6	0.6	0.6	0.7	13.6	3.5	2.5
<b>Sales share</b>											
Image sensor filters	83.6%	83.0%	82.4%	83.1%	85.4%	84.1%	83.4%	82.3%	83.6%	83.0%	83.8%
Optic lens & module	13.3%	13.3%	15.8%	15.2%	13.1%	14.3%	15.0%	16.0%	7.6%	14.5%	14.6%
Optic pickup filter/etc.	3.0%	3.7%	1.8%	1.7%	1.5%	1.6%	1.6%	1.7%	8.8%	2.5%	1.6%
<b>OP</b>	<b>3.5</b>	<b>1.3</b>	<b>3.3</b>	<b>3.9</b>	<b>4.0</b>	<b>3.7</b>	<b>3.9</b>	<b>3.9</b>	<b>17.1</b>	<b>12.1</b>	<b>15.4</b>
margin	9.9%	4.2%	9.3%	10.1%	9.9%	10.0%	10.0%	10.0%	11.1%	8.6%	10.0%
<b>Pretax profit</b>	<b>2.2</b>	<b>3.5</b>	<b>0.7</b>	<b>3.0</b>	<b>3.2</b>	<b>3.0</b>	<b>3.2</b>	<b>3.1</b>	<b>9.1</b>	<b>9.4</b>	<b>12.5</b>
margin	6.2%	11.4%	2.0%	7.6%	8.0%	8.1%	8.1%	8.1%	5.9%	6.7%	8.1%
<b>NP</b>	<b>2.1</b>	<b>2.6</b>	<b>0.8</b>	<b>1.5</b>	<b>3.2</b>	<b>1.5</b>	<b>3.2</b>	<b>1.6</b>	<b>6.9</b>	<b>7.1</b>	<b>9.4</b>
margin	6.0%	8.5%	2.3%	3.8%	8.0%	4.0%	8.1%	4.0%	4.5%	5.0%	6.1%

Source: Optrontec, Daishin Securities Research Center

Earnings forecast by business (previous)										(Wbn)	
	1Q18	2Q	3Q	4QF	1Q19F	2QF	3QF	4QF	2017	2018F	2019F
<b>Sales</b>	<b>35.7</b>	<b>30.4</b>	<b>32.7</b>	<b>30.2</b>	<b>36.2</b>	<b>34.8</b>	<b>35.8</b>	<b>35.7</b>	<b>154.6</b>	<b>129.0</b>	<b>142.5</b>
Image sensor filters	29.8	25.3	27.3	24.7	30.2	28.7	29.2	28.7	129.2	107.1	116.9
Optic lens & module	4.8	4.0	4.2	4.4	4.8	4.9	5.4	5.8	11.8	17.4	20.9
Optic pickup filter/etc.	1.1	1.1	1.1	1.2	1.1	1.1	1.2	1.2	13.6	4.5	4.6
<b>Sales share</b>											
Image sensor filters	83.6%	83.0%	83.7%	81.6%	83.6%	82.5%	81.6%	80.5%	83.6%	83.0%	82.0%
Optic lens & module	13.3%	13.3%	12.8%	14.5%	13.4%	14.2%	15.1%	16.1%	7.6%	13.5%	14.7%
Optic pickup filter/etc.	3.0%	3.7%	3.5%	3.9%	3.0%	3.3%	3.3%	3.4%	8.8%	3.5%	3.3%
<b>OP</b>	<b>3.5</b>	<b>1.3</b>	<b>3.2</b>	<b>3.0</b>	<b>3.6</b>	<b>3.5</b>	<b>3.6</b>	<b>3.5</b>	<b>17.1</b>	<b>11.0</b>	<b>14.2</b>
margin	9.9%	4.2%	9.9%	9.8%	9.9%	10.0%	10.0%	9.9%	11.1%	8.6%	9.9%
<b>Pretax profit</b>	<b>2.2</b>	<b>3.5</b>	<b>2.3</b>	<b>2.0</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>	<b>9.1</b>	<b>10.0</b>	<b>9.8</b>
margin	6.2%	11.4%	7.0%	6.6%	6.8%	6.9%	6.9%	6.8%	5.9%	7.7%	6.9%
<b>NP</b>	<b>2.1</b>	<b>2.6</b>	<b>2.3</b>	<b>1.0</b>	<b>2.5</b>	<b>1.2</b>	<b>2.5</b>	<b>1.2</b>	<b>6.9</b>	<b>8.0</b>	<b>7.4</b>
margin	6.0%	8.5%	7.0%	3.3%	6.8%	3.5%	6.9%	3.4%	4.5%	6.2%	5.2%

Source: Optrontec, Daishin Securities Research Center

Per share intrinsic value

Residual Income Model		(Wbn, W, %)									
		2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
I	NP (contr. int.) <sup>(Note 2)</sup>	6	10	12	13	12	13	13	13	14	14
II	Shareholders' equity (contr. int.) <sup>(Note 2)</sup>	100	111	123	136	148	162	177	193	212	233
	Estimated ROE	5.9	9.8	10.4	10.1	8.8	8.2	7.7	7.2	6.7	6.2
III	Required rate of return <sup>(Note 3)</sup>	6.1									
	Risk free rate of return <sup>(Note 4)</sup>	2.1									
	Market risk premium <sup>(Note 5)</sup>	4.0									
	Beta	1.00									
IV	Spread (estimated ROE – required rate of return)	-0.2	3.7	4.3	4.0	2.7	2.1	1.6	1.1	0.6	0.0
V	Required income	6	6	7	8	8	9	10	11	12	13
VI	Residual income ( I - V )	0	4	5	6	4	4	3	2	2	1
	Present value factor	0.99	0.94	0.88	0.83	0.78	0.74	0.70	0.66	0.62	0.58
	PV of residual income	0	4	5	5	3	3	2	2	1	0
VII	Sum of residual income	25									
VIII	PV of residual income following forecasting period	7									
	Terminal growth (g) <sup>(Note 6)</sup>	0.0%									
IX	Beginning shareholders' equity	95									
X	Fair market cap (VII+VIII+IX)	126									
	Total number of shares (1K)	22,561									
XI	Per share value (W)	5,604									
	Current share price (W)	4,120									
	Upside potential (%)	36.0%									

Note 1: Under the residual income model (RIM), we add the current shareholders' equity to the residual income based on the earnings forecast for the next ten years before adding the result to the residual income after the forecasting period to derive the value of shareholders' stakes. The RIM is considered less subjective than similar valuation models such as DDM, DCF, and EVA.

Note 2: The RIM reflects consolidated subsidiaries' earnings not in their entirety but only for the stake controlled by the company.

Note 3: The required rate of return (i.e., cost of equity) is the rate of return expected by the shareholders who take risks. It is derived by the capital asset price model: Cost of equity = Risk-free interest rate + Beta \* Market risk premium.

Note 4: The yield on five-year government bonds was used as the proxy for the risk-free interest rate.

Note 5: Market risk premium refers to the gap between the expected return on the market portfolio and the risk-free interest rate. It has been lowered from 6-8% to 3-5% in reflection of the current low-growth environment.

Note 6: The terminal growth was assumed to be zero.

Company profile

Overview

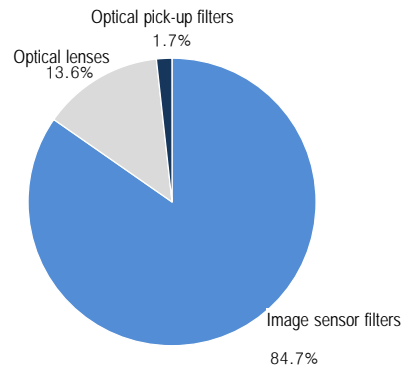
- A maker of optical lenses and filters used in smartphones
- A beneficiary of the multiple-camera trend
- Assets W236.6bn, liabilities W141.5bn, equities W95bn (as of Sept, 2018)  
(Outstanding shares: 22,560,627 / treasury shares: 657,239)

Stock catalysts

- Customer diversification, smartphone sales, dual-camera adoption, etc.
- Rise of autonomous vehicles

Source: Optrontec, Daishin Securities Research Center

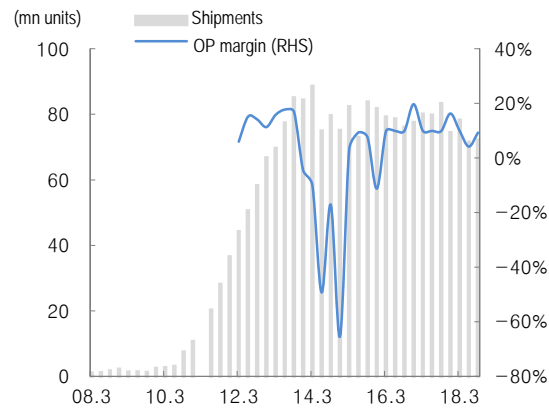
Revenue mix (as of 2Q18)



Source: Optrontec, Daishin Securities Research Center

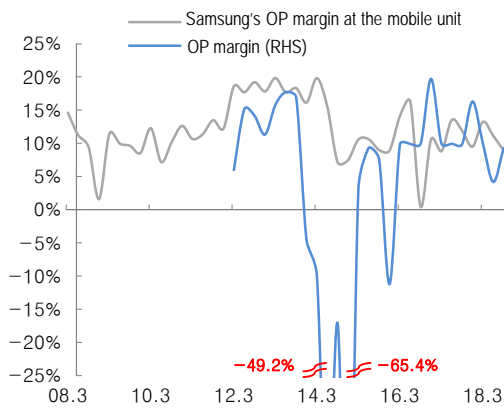
Earnings drivers

Samsung smartphone shipments vs. OP margin



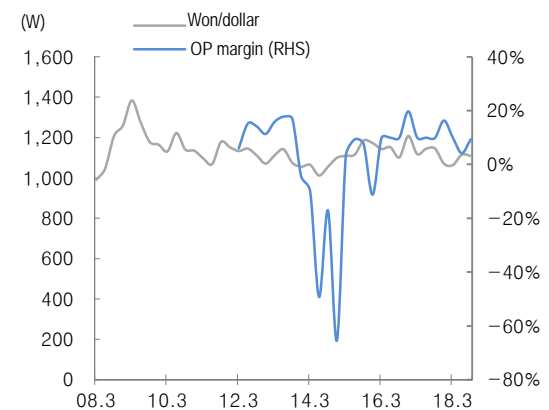
Source: Optrontec, IDC, Daishin Securities Research Center

Samsung's profit margin v. OP margin



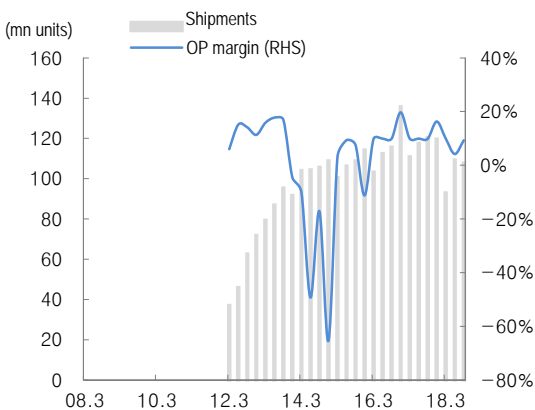
Source: Optrontec, Samsung Electronics, Daishin Securities Research Center

W/\$ vs. OP margin



Source: Optrontec, Daishin Securities Research Center

Smartphone shipments in China vs. OP margin



Source: Optrontec, Daishin Securities Research Center

## Financial statements

Income statement					(Wbn)
	2016A	2017A	2018F	2019F	2020F
Revenue	138	155	141	155	160
Cost of goods sold	94	105	103	108	111
Gross profit	44	50	38	47	49
SG&A expenses	27	33	26	32	33
OP	17	17	12	15	16
OP margin	12.2	11.1	8.6	10.0	10.1
EBITDA	32	32	26	29	31
Non-OP	-11	-8	-3	-3	-1
Income from affiliates	-4	-1	-1	1	1
Financial revenue	9	6	4	4	4
FX related gains	0	0	0	0	0
Financial expense	-14	-13	-11	-10	-10
FX related losses	8	8	6	6	6
Others	-2	-1	5	3	4
Income before taxes	6	9	9	12	15
Income tax expense	-3	-2	-2	-3	-4
Income from cont. op.	2	7	7	9	11
Income from discount. op.	0	0	0	0	0
NP	2	7	7	9	11
NP margin	1.6	4.5	5.0	6.1	6.9
NP for non-contr. interest	-3	2	1	-1	-1
NP for contr. interest	6	5	6	10	12
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	2	4	4	6	8
Comp. income for non-contr. Int.	-3	2	1	-1	-1
Comp. income for contr. int.	5	1	3	7	9

Valuation metrics					(W, x, %)
	2016A	2017A	2018F	2019F	2020F
EPS	273	213	253	459	539
PER	22.5	30.5	16.3	9.0	7.6
BPS	4,004	4,199	4,453	4,912	5,451
PBR	1.5	1.5	0.9	0.8	0.8
EBITDAPS	1,567	1,446	1,153	1,287	1,384
EV/EBITDA	7.3	7.3	6.9	5.9	5.1
SPS	6,798	7,073	6,245	6,869	7,104
PSR	0.9	0.9	0.7	0.6	0.6
CFPS	1,904	1,625	1,728	1,760	1,923
DPS	0	0	0	0	0

Financial ratios					(W, x, %)
	2016A	2017A	2018F	2019F	2020F
<b>Growth potential</b>					
Revenue growth	1.9	12.0	-8.9	10.0	3.4
OP growth	670.7	1.4	-29.4	27.7	4.4
NP growth	TTB	215.2	2.0	33.1	17.5
<b>Profitability</b>					
ROIC	4.3	8.9	6.2	7.7	7.9
ROA	7.3	7.7	5.4	6.6	6.5
ROE	7.0	5.3	5.9	9.8	10.4
<b>Stability</b>					
Debt ratio	189.6	140.3	133.8	124.1	110.5
Net borrowings ratio	142.7	96.0	90.5	75.0	59.8
Interest coverage ratio	2.7	3.9	2.4	3.8	4.1

Source: Optrontec, Daishin Securities Research Center

Balance sheet					(Wbn)
	2016A	2017A	2018F	2019F	2020F
Current assets	82	69	72	84	93
Cash & cash equiv.	3	2	3	13	20
Trade & other receive.	36	28	32	32	33
Inventories	35	30	28	31	32
Other current assets	8	8	8	8	8
Long-term assets	143	152	156	157	158
Tangible assets	84	95	102	103	105
Investments in affiliates	10	4	3	4	5
Other long-term assets	49	54	51	49	48
Total assets	225	221	228	241	251
Current liabilities	133	109	113	116	116
Payables & other liab.	23	23	23	25	25
Borrowings	84	76	79	80	79
Current portion of LT debts	14	7	7	8	9
Other current liabilities	11	3	3	3	3
Long-term liabilities	14	20	17	17	16
Borrowings	11	16	13	13	12
Convertible securities	0	0	0	0	0
Other long-term liab.	3	4	5	4	5
Total liabilities	147	129	130	133	132
Controlling interest	83	95	100	111	123
Capital stock	10	11	11	11	11
Capital surplus	49	58	58	58	58
Retained earnings	34	38	44	54	66
Other capital changes	-10	-12	-12	-12	-12
Non-controlling interest	-5	-3	-3	-3	-4
Total shareholder's equity	78	92	98	108	119
Net borrowings	111	88	88	81	71

Cash flow statement					(Wbn)
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	23	38	31	32	35
NP	2	7	7	9	11
Non-cash items	36	29	32	30	32
Depreciation	15	15	14	14	15
FX gains	-1	-1	3	3	3
Equity method gain	4	1	1	-1	-1
Others	19	14	15	15	15
Chg in assets & liab.	-11	7	-1	-1	-1
Other cash flows	-4	-4	-7	-7	-7
Investing cash flow	-11	-29	-18	-14	-16
Investment assets	-5	-4	0	-1	-1
Tangible assets	-3	-22	-18	-13	-15
Others	-3	-3	0	0	0
Financing cash flows	-13	-10	1	2	-2
Short-term borrowings	-1	-6	4	1	-2
Bonds payable	0	-7	0	0	0
Long-term borrowings	0	8	-3	0	-1
Rights offering	0	0	0	0	0
Cash dividends	0	0	0	0	0
Others	-12	-5	1	1	1
Net chg in cash	-1	0	1	9	7
Beginning cash balance	4	3	2	3	13
Ending cash balance	3	2	3	13	20
NOPLAT	7	13	9	12	12
FCF	11	3	3	10	10

[Daishin House View: Industry 4.0 safety rating]

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- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)	Neutral Green (neutral)	Sky Blue (positive)
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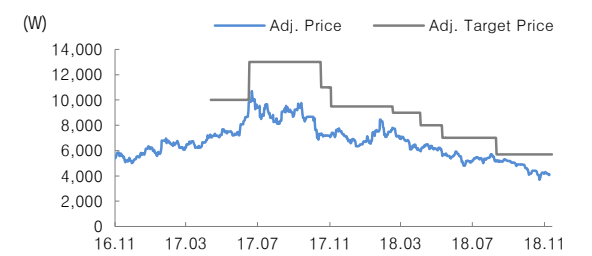
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[Investment rating & Target price history]

Optrontec (082210 KQ)



Date	18.11.19	18.08.17	18.05.17	18.04.10	18.02.22	18.01.02
Rating	Buy	Makeplatform	Makeplatform	Buy	Buy	Buy
Target price	5,700	5,700	7,000	8,000	9,000	9,500
Diff. (avr. %)		(18.45)	(23.17)	(22.27)	(25.72)	(24.38)
Diff. (max/min, %)		(6.67)	(15.29)	(18.75)	(14.11)	(10.95)

Date	17.11.09	17.10.23	17.08.24	17.08.16	17.08.02	17.07.07
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	9,500	11,000	13,000	13,000	13,000	13,000
Diff. (avr. %)	(25.89)	(34.67)	(31.69)	(30.45)	(30.39)	(28.61)
Diff. (max/min, %)	(18.42)	(33.45)	(17.69)	(17.69)	(17.69)	(17.69)

Date	17.07.04	17.06.23	17.06.21	17.06.02	17.05.29	17.05.12
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	13,000	13,000	10,000	10,000	10,000	10,000
Diff. (avr. %)	(24.43)	(23.01)	(23.35)	(24.26)	(26.65)	(26.55)
Diff. (max/min, %)	(17.69)	(17.69)	(2.00)	(13.30)	(23.20)	(23.20)

Date	17.05.02	17.04.30	17.04.18
Rating	Buy	Buy	Buy
Target price	10,000	10,000	10,000
Diff. (avr. %)	(27.20)	(28.29)	(28.29)
Diff. (max/min, %)	(23.20)	(26.70)	(26.70)