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Company Update

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AT A GLANCE

NOT RATED

Target price n/a

Current price KRW13,650

Market cap KRW361.73b/USD320.54m
Shares (float) 26,500,000 (53.0%)
52-week high/low KRW15,200/KRW10,150
Avg daily trading value (60-day) KRW1.9b/
USD1.7m

ONE-YEAR PERFORMANCE

	1M	6M	12M
TK Corporation (%)	15.2	5.8	29.4
Vs Kosdaq (%pts)	14.2	36.9	45.4

SAMSUNG vs THE STREET

No of estimates	7
Target price	16,083
Recommendation	3.6

BUY★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★: 1

TK Corporation (023160)

Growth to materialize on demand recovery

- TK Corporation held an overseas non-deal roadshow last week. Overseas investors showed strong interest in when a recovery in petrochemical/chemical and commercial vessel-related demand would be reflected in its orders and sales. The firm expects orders to start rising from 1Q19 and to translate to sales in 2019 (given the short lead time). TK Corp expects to book sales growth in 2019.
- Meanwhile, investors also showed concerns over the recent slide in oil prices as it may crimp a burgeoning recovery in shipbuilding/offshore and power plant orders. If orders secured by TK Corp do not recover as much as expected, the firm's sales growth would inevitably be affected. That said, given the small sales contributions from the two sectors, the chances appear low that recent oil price declines will significantly weigh on TK Corp's earnings.
- TK Corp trades at a 2019 P/B of 0.8x (consensus basis), on par with its rival's P/B. Its net income has already turned positive, whilst its rival's remains in the red.

WHAT'S THE STORY?

Timing of earnings improvement driven by demand recovery: At a non-deal roadshow (NDR) held by TK Corporation, investors showed confidence in pipe-fitting demand growth given robust capacity expansion plans by petrochemical players and a recovery in commercial vessel orders. Their interest focused on the timing of such demand translating to new orders and sales at TK Corp. It generally takes about 9-12 months from a downstream project's launch to the placing of pipe-fitting orders, according to the firm. TK Corp expects its quarterly orders to rise from around KRW40b to over KRW50b from 1Q19. The global pipe-fitting market is dominated by only a few players given the high entry barriers, and TK Corp and SK Bend enjoy an oligopoly in the domestic market. Thus a recovery in downstream demand should translate to stable order growth at TK Corp. In addition, as pipe fitting requires a short lead time (4-6 months), new orders (which are to start growing in earnest from 1Q19) should be reflected in its 2019 sales. The firm should enjoy sales growth and profitability improvements next year.

(Continued on next page)

SUMMARY FINANCIAL DATA

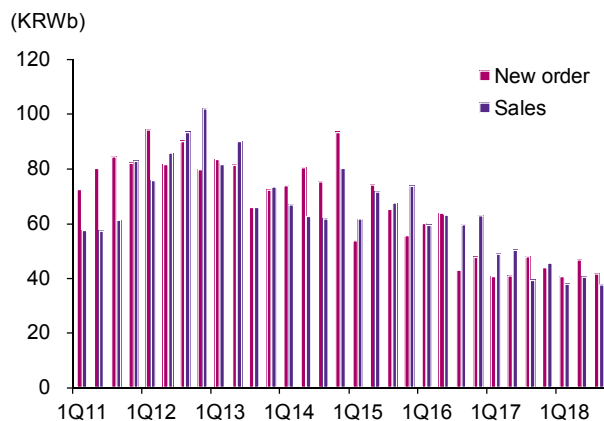
	2014	2015	2016	2017
Revenue (KRWb)	272	274	245	184
Net profit (adj) (KRWb)	9	16	8	(16)
EPS (adj) (KRW)	334	599	299	(612)
EPS (adj) growth (% y-y)	(69.0)	79.4	(50.1)	nm
EBITDA margin (%)	6.6	8.6	3.8	5.3
ROE (%)	2.1	3.8	1.8	(3.8)
P/E (adj) (x)	40.2	22.4	44.8	(21.9)
P/B (x)	0.8	0.8	0.8	0.8
EV/EBITDA (x)	17.7	12.7	29.2	28.3
Dividend yield (%)	0.0	0.7	0.4	0.4

Source: Company data

Concerns over oil price plunge overblown: Some investors expressed concerns that the recent oil price plunge could hurt a recovery in demand from shipbuilding/offshore and power plant sectors (both are sensitive to oil prices), which could delay related fitting orders. If orders won by TK Corp do not expand as much as expected, its sales growth would be impacted. The firm, however, pointed out that the shipbuilding/offshore and power plant sectors contributed little to its earnings even when they were booming. Over the last five years: 1) the shipbuilding sector contributed a maximum of 20% of TK Corp's sales [2015]; and 2) the offshore and power plant sector generated a maximum of 16% of its sales [2013]. Thus, even if the recent oil price slide hurts shipbuilding/offshore and power plant orders—and thus pipe fitting orders to TK Corp—it would not severely damage the company's earnings.

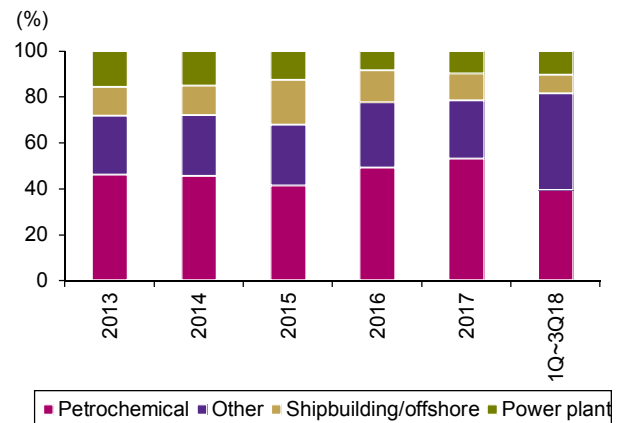
Valuation: TK Corp is trading at a 2019 P/B of 0.8x (consensus basis), the same as SK Bend's P/B. We, however, find the former more attractive since it has turned around in terms of net income (while the latter's remains in the red). TK Corp has stayed in the black since 1Q18 in the face of falling sales, thanks to labor restructuring and selective order-taking.

New orders vs sales



Source: Company data

Sales portion trends



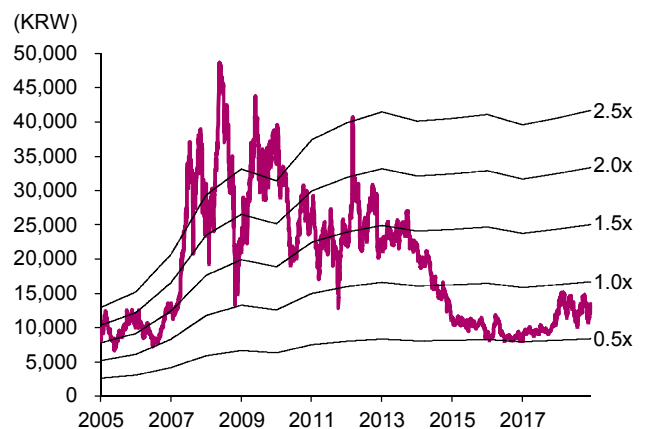
Source: Company data

Domestic capacity expansion plans

('000 tonnes)	Ethylene	PE	Investment (KRWb)	Startup
LG Chem	800	800	2,800	2H21
GS Caltex	700	500	2,600	2022
Hyundai Chemical	750	750	2,700	2022
S-Oil	1,500	1,500	5,000	2023
Total	3,750	3,550	13,100	

Source: Company data, Samsung Securities

1 year forward P/B



Source: QuantiWise, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2013	2014	2015	2016	2017
Sales	311	272	274	245	184
Cost of goods sold	251	237	235	220	160
Gross profit	60	34	40	25	25
Gross margin (%)	19.3	12.6	14.6	10.2	13.3
SG&A expenses	25	22	22	21	20
Operating profit	35	12	18	4	4
Operating margin (%)	11.2	4.5	6.5	1.5	2.4
Non-operating gains (losses)	2	(1)	3	7	(26)
Financial profit	6	5	7	11	4
Financial costs	4	4	3	4	13
Equity-method gains (losses)	0	0	0	0	0
Other	(0)	(2)	(1)	0	(18)
Pre-tax profit	37	11	21	10	(22)
Taxes	8	2	5	2	(5)
Effective tax rate (%)	22.4	21.2	25.7	23.0	24.9
Profit from continuing operations	29	9	16	8	(16)
Profit from discontinued operations	0	0	0	0	0
Net profit	29	9	16	8	(16)
Net margin (%)	9.2	3.3	5.8	3.2	(8.8)
Net profit (controlling interests)	29	9	16	8	(16)
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	41	18	24	9	10
EBITDA margin (%)	13.0	6.6	8.6	3.8	5.3
EPS (parent-based) (KRW)	1,077	334	599	299	(612)
EPS (consolidated) (KRW)	1,077	334	599	299	(612)
Adjusted EPS (KRW)*	1,077	334	599	299	(612)

Cash flow statement

Year-end Dec 31 (KRWb)	2013	2014	2015	2016	2017
Cash flow from operations	51	(18)	19	42	17
Net profit	29	9	16	8	(16)
Non-cash profit and expenses	6	7	5	2	11
Depreciation	6	6	6	5	5
Amortization	0	0	0	0	0
Other	1	1	(0)	(3)	5
Changes in A/L from operating activities	16	(32)	(6)	35	27
Cash flow from investments	(43)	13	(5)	(14)	(29)
Change in tangible assets	(23)	(3)	(5)	(2)	(4)
Change in financial assets	(20)	18	(2)	(11)	(26)
Other	(1)	(2)	1	(1)	1
Cash flow from financing	(0)	(6)	(0)	(3)	(1)
Change in debt	(0)	0	(0)	0	0
Change in equity	(0)	(0)	(0)	0	0
Dividends	0	0	0	(3)	(1)
Other	(0)	(7)	0	0	1
Change in cash	7	(12)	14	27	(14)
Cash at beginning of year	26	34	22	36	63
Cash at end of year	34	22	36	63	49
Gross cash flow	35	15	21	10	(6)
Free cash flow	28	(21)	15	41	12

Note: * Excluding one-off items, ** Fully diluted, excluding one-off items

*** From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2013	2014	2015	2016	2017
Current assets	302	305	320	310	275
Cash & equivalents	34	22	36	63	49
Accounts receivable	88	102	111	95	75
Inventories	143	159	150	125	118
Other current assets	37	22	24	27	34
Fixed assets	167	162	160	165	179
Investment assets	18	15	14	22	39
Tangible assets	146	144	143	139	138
Intangible assets	1	1	1	1	1
Other long-term assets	2	2	1	2	1
Total assets	469	467	480	475	454
Current liabilities	42	40	37	28	29
Accounts payable	17	17	13	12	9
Short-term debt	0	0	0	0	0
Other current liabilities	25	23	25	15	20
Long-term liabilities	12	14	13	12	6
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	12	14	13	12	6
Total liabilities	54	54	51	39	35
Owners of parent equity	414	413	429	435	419
Capital stock	13	13	13	13	13
Capital surplus	34	34	34	34	34
Retained earnings	372	379	395	401	385
Other	(5)	(13)	(13)	(13)	(13)
Non-controlling interests' equity	0	0	0	0	0
Total equity	414	413	429	435	419
Net debt	(67)	(39)	(56)	(86)	(81)

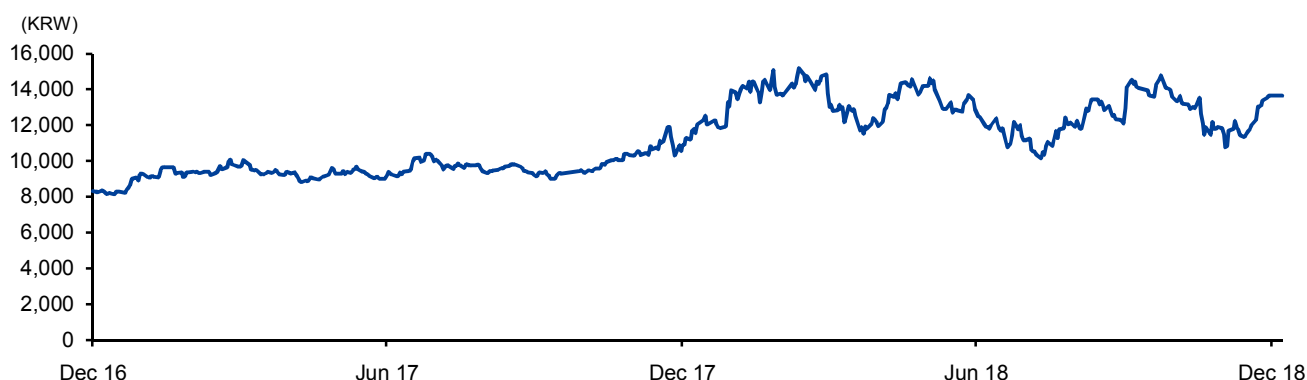
Financial ratios

Year-end Dec 31	2013	2014	2015	2016	2017
Growth (%)					
Sales	(12.9)	(12.6)	1.1	(10.8)	(24.8)
Operating profit	(25.8)	(65.3)	47.8	(79.5)	22.7
Net profit	(15.7)	(69.0)	79.4	(50.1)	nm
Adjusted EPS**	(15.7)	(69.0)	79.4	(50.1)	nm
Per-share data (KRW)					
EPS (parent-based)	1,077	334	599	299	(612)
EPS (consolidated)	1,077	334	599	299	(612)
Adjusted EPS**	1,077	334	599	299	(612)
BVPS	15,773	15,975	16,592	16,828	16,205
DPS (common)	0	0	100	50	50
Valuations (x)					
P/E***	12.7	40.9	22.8	45.7	n/a
P/B***	0.9	0.9	0.8	0.8	0.8
EV/EBITDA	7.3	18.1	13.0	29.9	29.0
Ratios (%)					
ROE	7.1	2.1	3.8	1.8	(3.8)
ROA	6.2	1.9	3.4	1.7	(3.5)
ROIC	7.9	2.7	3.6	0.8	1.0
Payout ratio	0.0	0.0	16.3	16.3	(8.0)
Dividend yield (common)	0.0	0.0	0.7	0.4	0.4
Net debt to equity	(16.1)	(9.5)	(13.1)	(19.8)	(19.2)
Interest coverage (x)	828.5	269.1	406.9	69.0	80.3

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date 2018/12/13

Recommendation Not Rated

Target price (KRW) n/a

Gap* (average)
(max or min)**

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%

** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
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Percentage of ratings in 12 months prior to Sep 30, 2018

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