

Interojo (119610 KQ)

Lee Min-young

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Rating

BUY

maintain

6MTP (W)

30,000

raise

CP (W)
(18.12.28)**24,650**

Small caps

Regaining strength

BUY maintained; TP bumped up to W30,000

- We increase our target price for Interojo by 25% from W24,000 to W30,000. The new price for the contact lens manufacturer implies a 2019F target P/E of 16.2x, the same average multiple assigned to its global competitors. (See Tab 3.)

4Q18 results to show notable earnings improvement

- For its most recent quarter, Interojo is poised to report a 5.2% increase in revenue to W22.2bn (up 20% qoq) and a 6.8% rise in OP to W5.4bn (up 50.1% qoq), climbing out of the trough it had hit in the previous quarter. In 3Q18, the company logged yoy declines in both revenue (down 18%) and OP (down 51%) amid intensifying competition in the domestic market.
- The domestic business is recovering, with fourth-quarter sales estimated at W9.1bn (up 54.1% qoq, down 2.6% yoy), thanks to growing sales of new products (rolled out in October) and a foray into the ODM business.
- Overseas sales likely expanded both qoq (up 3.9%) and yoy (up 11.5%), supported by robust sales during China's Singles' Day in November and stronger orders from key customer Hoya, a Japanese optical glass giant.

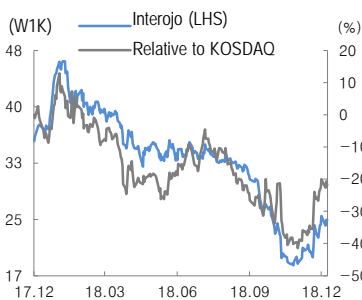
Strategic moves to boost 2019 performance

- In 2019, the company is forecast to record stronger earnings compared to 2018, with revenue likely rising 16% to W92.2bn and OP 24.1% to W24.2bn, as it pushes deeper into the ODM market both at home and overseas and aggressively promotes its new offerings.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	675.65
Market cap (Wbn)	272
Market cap portion (%)	0.12
Paid-in capital (common; Wbn)	6
52w high/low (W)	46,488 / 18,411
120d avg. trading volume (Wbn)	1.2
Foreign ownership (%)	12.29
Major shareholders	Rho Si-chul+4: 34.90%

(%)	1M	3M	6M	12M
Abs. return	18.6	-18.8	-26.0	-34.7
Rel. return	22.9	-1.2	-11.3	-22.8



(Wbn, %)										
	4Q17	3Q18	Previous estimate	Daishin estimate	4Q18(F)			1Q19F		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	21	19	22	22	5.2	20.0	23	22	25.8	-2.0
OP	5	4	5	5	6.8	50.1	5	6	35.7	10.1
NP	4	3	4	4	7.7	44.3	4	5	29.4	13.2

	2016	2017	Previous estimate	Daishin estimate	2018(F)		Growth	
					Change	Consensus	2017	2018(F)
Revenue	74	81	79	80	0.1	80	9.4	-1.4
OP	23	24	19	19	0.1	19	4.0	-19.6
NP	19	19	17	16	-0.4	16	-0.4	-14.5

Source: Interojo, FnGuide, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	74	81	80	92	109
OP	23	24	19	24	31
Pretax profit	24	24	20	24	31
NP	19	19	16	20	25
NP (controlling int.)	19	19	16	20	25
EPS	1,807	1,829	1,512	1,841	2,282
PER	21.0	21.2	16.3	13.4	10.8
BPS	8,412	9,500	10,501	12,015	13,963
PBR	4.5	4.1	2.3	2.1	1.8
ROE	23.5	20.0	15.1	16.2	17.4

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Interojo, Daishin Securities Research Center

Earnings forecast revision (Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	79	87	80	92	0.1	5.6
Selling & adm. expense	24	26	24	27	0.1	5.6
OP	19	23	19	24	0.1	5.5
OP margin	24.5	26.2	24.5	26.2	0.0	0.0
Non-operating profit	1	1	1	0	-10.4	-69.9
Pretax profit	20	24	20	24	-0.4	2.0
NP (controlling int.)	17	19	16	20	-0.4	4.7
NP margin	20.8	22.0	20.7	21.8	-0.1	-0.2
GP	1,517	1,759	1,512	1,841	-0.4	4.7

Source: Interjojo, Daishin Securities Research Center

Tab 1. Earnings projections (revised) (Wbn, %)

	2017				2018				2016	2017	2018F	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF				
Revenue	17.6	19.3	22.6	21.1	17.3	21.4	18.5	22.2	73.7	80.6	79.5	92.2
Growth (%YoY)	11.0	9.2	18.1	0.3	-1.6	10.9	-17.9	5.2	23.8	9.4	-1.4	16.0
Disposable lens	10.1	10.0	12.1	13.0	9.1	11.6	10.7	14.1	41.4	45.2	45.5	60.2
Clear (transparent)	2.1	3.4	3.4	2.2	1.6	1.6	1.9	2.3	11.0	11.0	7.4	8.1
Beauty (colored)	8.0	6.7	8.6	10.8	7.5	10.0	8.8	11.8	30.5	34.1	38.0	52.1
FRP	6.6	8.6	9.5	7.5	7.3	9.2	7.2	7.6	28.6	32.4	31.3	29.7
Conventional	0.9	0.6	0.9	0.6	1.0	0.6	0.6	0.6	3.5	3.0	2.7	2.2
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1
OP	5.8	6.0	7.3	5.0	4.4	6.1	3.6	5.4	23.3	24.2	19.5	24.2
Margin (%)	33.0	31.3	32.5	23.9	25.3	28.5	19.4	24.3	31.6	30.1	24.5	26.2
Growth (%YoY)	8.7	11.8	14.2	-17.7	-24.6	1.0	-51.0	6.8	43.1	4.0	-19.6	24.1
NP (contr. int.)	4.6	5.0	5.6	4.1	3.8	5.3	3.0	4.4	19.3	19.3	16.5	20.1
Margin (%)	26.3	26.0	24.7	19.2	22.1	24.6	16.3	19.7	26.2	23.9	20.7	21.8
Growth (%YoY)	6.2	11.8	-3.5	-14.1	-17.6	4.8	-45.6	7.7	53.6	-0.4	-14.5	22.0

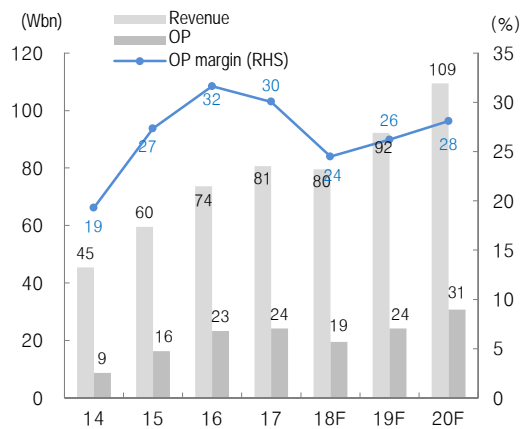
Source: Interjojo, Daishin Securities Research Center

Tab 2. Earnings projections (previous) (Wbn, %)

	2017				2018				2016	2017	2018F	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF				
Revenue	17.6	19.3	22.6	21.1	17.3	21.4	18.5	22.2	73.7	80.6	79.5	87.3
Growth (%YoY)		9.2	18.1	0.3	-1.6	10.9	-17.9	5.0	23.8	9.4	-1.4	9.9
Disposable lens		10.0	12.1	13.0	9.1	11.6	10.7	13.3	41.4	45.2	44.6	51.1
Clear (transparent)		3.4	3.4	2.2	1.6	1.6	1.9	2.3	11.0	11.0	7.4	8.7
Beauty (colored)		6.7	8.6	10.8	7.5	10.0	8.8	11.0	30.5	34.1	37.2	42.4
FRP		8.6	9.5	7.5	7.3	9.2	7.2	8.3	28.6	32.4	32.0	33.8
Conventional		0.6	0.9	0.6	1.0	0.6	0.6	0.6	3.5	3.0	2.7	2.3
Others		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1
OP	5.8	6.0	7.3	5.0	4.4	6.1	3.6	5.4	23.3	24.2	19.5	22.9
Margin (%)		31.3	32.5	23.9	25.3	28.5	19.4	24.3	31.6	30.1	24.5	26.2
Growth (%YoY)		11.8	14.2	-17.7	-24.6	1.0	-51.0	6.6	43.1	4.0	-19.7	17.7
NP (contr. int.)	4.6	5.0	5.6	4.1	3.8	5.3	3.0	4.4	19.3	19.3	16.5	19.2
Margin (%)		26.0	24.7	19.2	22.1	24.6	16.3	20.0	26.2	23.9	20.8	22.0
Growth (%YoY)		11.8	-3.5	-14.1	-17.6	4.8	-45.6	9.2	53.6	-0.4	-14.2	16.2

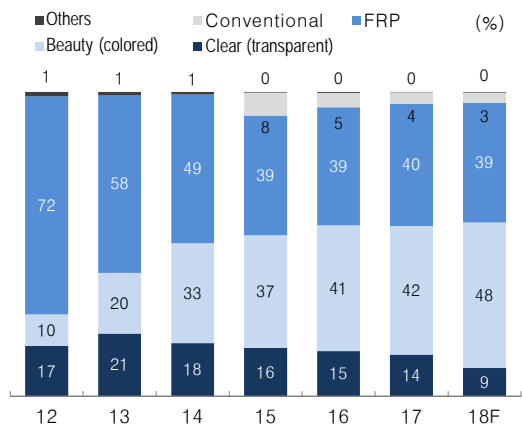
Source: Interjojo, Daishin Securities Research Center

Fig 1. Annual earnings



Source: Interjo, Daishin Securities Research Center

Fig 2. Earnings breakdown



Source: Interjo, Daishin Securities Research Center

Tab 3. Global peers

Company		St. Shine Optical	Ginko International	Johnson&Johnson	The Cooper Companies
Country		Taiwan	Taiwan	US	US
Share price (18.12. 28)	(USD)	18	7	127	252
Market cap.	(USDmn)	883	637	341,711	12,415
Sales (USDmn)	2017A	211	196	76,450	2,139
	2018F	217	237	81,394	2,645
	2019F	230	262	82,793	2,821
OP (USDmn)	2017A	68	38	18,714	429
	2018F	65	47	25,925	745
	2019F	70	55	27,077	825
OPM (%)	2017A	32.3	19.2	24.5	20.1
	2018F	30.1	19.7	31.9	28.2
	2019F	30.3	21.1	32.7	29.2
NP (USDmn)	2017A	52	32	1,300	373
	2018F	54	31	22,257	578
	2019F	56	41	23,379	659
NPM (%)	2017A	24.8	16.3	1.7	17.4
	2018F	25.0	13.0	27.3	21.9
	2019F	24.6	15.6	28.2	23.4
PER (x)	2017A	30.9	20.7	21.9	29.1
	2018F	16.0	20.7	15.6	21.8
	2019F	15.4	15.4	14.8	19.3
PBR (x)	2017A	9.1	2.0	6.2	3.7
	2018F	4.8	1.8	4.9	N/A
	2019F	4.4	1.7	5.2	N/A
EV/EBITDA (x)	2017A	20.7	13.9	14.4	16.3
	2018F	11.4	13.5	12.0	15.5
	2019F	10.6	11.9	11.7	14.3
ROE (%)	2017A	30.1	9.5	2.0	12.7
	2018F	30.0	9.1	32.7	13.9
	2019F	29.6	11.4	29.3	13.0
EPS (USD)	2017A	1.0	0.4	6.4	8.2
	2018F	1.1	0.3	8.2	11.6
	2019F	1.1	0.4	8.6	13.1
FY.M		12	12	12	10

Source: Bloomberg, Daishin Securities Research Center

Company profile

Overview

- Listed on the KOSDAQ in 2010
- NO.2 contact lens provider in the W250bn domestic market, followed by Johnson & Johnson of the US
- Assets W145.9bn/Liabilities W25.3bn/Equity capital W120.6bn (as of 3Q18)
- Outstanding shares: 10,986,749 / Treasury shares: 1,659 (as of 3Q18)

Share price catalysts

- Recovery in the domestic business
- New ODM business
- Sales performance in China and Japan
- Won/dollar rates

Source: Interjojo, Daishin Securities Research Center

Revenue breakdown (2018E)

Category	Percentage
Beauty (colored)	48%
FRP	39%
Clear (transparent)	9%
Conventional	4%
Others	0%

Source: Interjojo, Daishin Securities Research Center

Earnings drivers

Fig 3. W/\$ vs. OP margin

Year	Won/dollar (W)	OP margin (RHS) (%)
10	1,155	34
11	1,110	35
12	1,128	33
13	1,095	28
14	1,050	20
15	1,130	30
16	1,160	32
17	1,130	30
18F	1,105	25

Source: Interjojo, Daishin Securities Research Center

Fig 4. Disposable one-day lenses drive sales growth

Year	Sales (Wbn)	Disposable lenses as % of total sales (RHS) (%)
10	18	10
11	25	18
12	30	28
13	40	40
14	45	50
15	60	55
16	72	58
17	80	58
18F	80	58

Source: Interjojo, Daishin Securities Research Center

Fig 5. Exports drive top-line growth

Year	Korea's soft contact lens exports (Wbn)	Interjojo's exports (RHS) (%)
10	75	18
11	100	22
12	115	22
13	130	28
14	115	25
15	140	30
16	175	42
17	175	45

Source: Interjojo, Daishin Securities Research Center

Fig 6. Interjojo as share of Korea's soft contact-lens exports

Year	Korea's soft contact lens exports (Wbn)	Interjojo's exports (% of total exports) (RHS) (%)
10	75	18
11	100	22
12	115	22
13	130	28
14	115	25
15	140	25
16	175	22
17	175	25

Source: Interjojo, Daishin Securities Research Center

Financial statements

Income statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Revenue	74	81	80	92	109
Cost of goods sold	31	34	36	41	47
Gross profit	43	46	44	51	62
S&A expenses	20	22	24	27	31
OP	23	24	19	24	31
OP margin	31.6	30.1	24.5	26.2	28.1
EBITDA	28	29	25	30	37
Non-OP	1	0	1	0	0
Income from affiliates	0	0	0	0	0
Financial revenue	1	2	1	1	1
FX related gains	1	0	0	0	0
Financial expense	-1	0	0	0	0
FX related losses	0	0	0	0	0
Others	1	-2	0	0	0
Income before taxes	24	24	20	24	31
Income tax expense	-5	-5	-4	-4	-6
Income from cont. op.	19	19	16	20	25
Income from discount. op.	0	0	0	0	0
NP	19	19	16	20	25
NP margin	26.2	23.9	20.7	21.8	22.8
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	19	19	16	20	25
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	19	19	16	20	25
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	19	19	16	20	25

Valuation metrics (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
EPS	1,807	1,829	1,512	1,841	2,282
PER	21.0	21.2	16.3	13.4	10.8
BPS	8,412	9,500	10,501	12,015	13,963
PBR	4.5	4.1	2.3	2.1	1.8
EBITDAPS	2,553	2,666	2,297	2,738	3,353
EV/EBITDA	14.4	14.1	10.5	8.3	6.5
SPS	6,841	7,481	7,233	8,369	9,934
PSR	5.6	5.2	3.4	2.9	2.5
CFPS	2,622	2,808	2,495	2,862	3,490
DPS	180	300	300	300	300

Financial ratios (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Sales growth	23.8	9.4	-1.4	16.0	18.7
OP growth	43.1	4.0	-19.6	24.1	27.2
NP growth	53.6	-0.4	-14.5	22.0	24.0
Profitability					
ROIC	26.0	23.1	15.9	17.9	20.9
ROA	23.3	21.5	15.0	16.2	18.2
ROE	23.5	20.0	15.1	16.2	17.4
Stability					
Debt ratio	18.0	15.6	21.9	19.2	16.5
Net borrowings ratio	-15.6	-12.2	-6.4	-15.7	-20.8
Interest coverage ratio	154.2	340.3	79.5	134.5	108.5

Source: Interqo, Daishin Securities Research Center

Balance sheet (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Current assets	62	72	84	100	120
Cash & cash equiv.	6	5	3	16	27
Trade & other receive.	31	41	49	54	59
Inventories	14	17	22	19	23
Other current assets	12	10	11	11	11
Long-term assets	45	46	57	58	59
Tangible assets	40	41	49	50	51
Investments in affiliates	0	0	0	0	0
Other long-term assets	5	6	8	8	8
Total assets	107	118	141	158	179
Current liabilities	16	16	21	21	21
Payables & other liab.	5	7	10	10	10
Borrowings	0	0	1	1	1
Current portion of LT debts	4	2	1	1	1
Other current liabilities	7	7	9	9	9
Long-term liabilities	0	0	4	4	4
Borrowings	0	0	4	4	4
Convertible securities	0	0	0	0	0
Other long-term liab.	0	0	0	0	0
Total liabilities	16	16	25	25	25
Controlling interest	91	102	116	132	154
Capital stock	5	5	6	6	6
Capital surplus	12	12	12	12	12
Retained earnings	76	93	106	123	144
Other capital changes	-2	-8	-8	-8	-8
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	91	102	116	132	154
Net borrowings	-14	-12	-7	-21	-32

Cash flow statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	15	11	14	27	25
NP	19	19	16	20	25
Non-cash items	9	11	11	11	14
Depreciation	4	4	6	6	6
FX gains	-1	1	1	1	1
Equity method gain	0	0	0	0	0
Others	5	6	4	5	7
Chg in assets & liab.	-9	-14	-10	-1	-8
Other cash flows	-4	-5	-3	-4	-6
Investing cash flow	-11	-3	-16	-7	-7
Investment assets	-2	-2	-2	0	0
Tangible assets	-5	-5	-14	-7	-7
Others	-5	4	-1	0	0
Financing cash flows	-6	-10	1	-3	-3
Short-term borrowings	-1	0	1	0	0
Bonds payable	0	0	0	0	0
Long-term borrowings	0	0	4	0	0
Rights offering	0	0	0	0	0
Cash dividends	-1	-2	-3	-3	-3
Others	-4	-8	-1	0	0
Net chg in cash	-2	-1	-2	13	11
Beginning cash balance	8	6	5	3	16
Ending cash balance	6	5	3	16	27
NOPLAT	19	19	16	20	25
FCF	17	18	8	18	23

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- 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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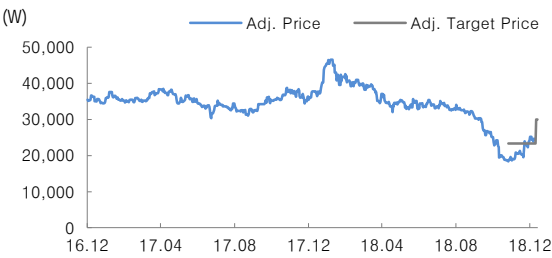
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[Investment rating & Target price history]

Interjo (119610 KQ)



Date	18.12.31	18.11.15
Rating	Buy	Buy
Target price	30,000	24,000
Diff. (avr. %)		(7.26)
Diff. (max/min., %)		8.13

Date
Rating
Target price
Diff. (avr. %)
Diff. (max/min., %)

Date
Rating
Target price
Diff. (avr. %)
Diff. (max/min., %)

Date
Rating
Target price
Diff. (avr. %)
Diff. (max/min., %)

Investment rating breakdown and framework (Dec. 28, 2018)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	85.4%	13.5%	1.0%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.