

# RFHIC (218410.KQ)

## Huawei boycotts not a concern

Company Comment | Jan 2, 2019

While RFHIC's share price has fallen in 2H18 due to concerns over the security of products manufactured by Huawei, the firm's largest customer, we believe that RFHIC's sales to Huawei will remain intact. Backed by full-fledged domestic and overseas investment in 5G networks, as well as increasing orders at the defense division, the company is to continue enjoying robust sales growth.

### Share price falls on Huawei security concerns

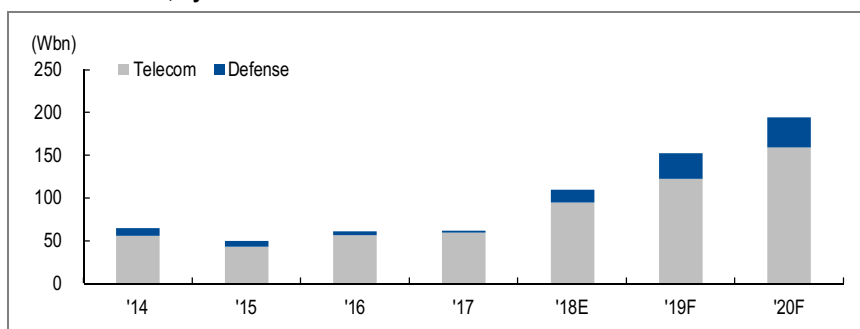
Affected by boycotts of Huawei products in the US and other countries due to security concerns, RFHIC's share price has dropped 23% from its previous peak. As the world's largest communications equipment company, Huawei stands as RFHIC's largest customer (annual GaN transistor equipment orders of more than W50bn).

In 1H18, Huawei's global communications equipment market share climbed 2.7%p y-y to 30.7%, buoyed by expanding 4G/5G investment in China, Asia, Europe, the Middle East, and Africa. Meanwhile, the regions affected by boycotts (North America, Japan, and Australia) currently account for just 11.7% of Huawei's total sales. Moreover, boycotts in Canada (TELUS/BCE), a key North American customer, present a significant challenge due to the country's high reliance on Huawei's 4G equipment—as compatibility with existing 4G technology is important in establishing 5G networks, relying on a new supply source for 5G equipment would require replacing 4G base stations and antenna equipment, a costly undertaking. As a major customer of Huawei, the UK's largest telecom operator (BT) is in a similar situation. Supported by this competitive advantage, Huawei has secured a total of 26 5G contracts despite the threat of boycotts. In addition, the firm is expected to benefit from full-scale 5G investment in China in 2019.

### Sales to climb, backed by global 5G investment and defense division

RFHIC stands as the world's second-largest maker of GaN transistors, a market that is anticipated to expand at a 2017~2022 CAGR of 26.7% on rising 5G adoption. Having started capacity expansion efforts from 2H18, the company is expected to reach an annual capacity of W200bn (sales basis) once expansion is complete. Helped by major clients Huawei (China and Europe) and Samsung Electronics (Korea, the US, and India), RFHIC is likely to continue enjoying robust sales growth. In addition, strong sales growth at the defense division (high margins) should further boost overall OPM going forward.

### Sales forecasts, by business



Source: RFHIC, NH I&S Research Center estimates

## Not Rated

CP (2018/12/28) **W24,600**

<b>Sector</b>	<b>Electronics</b>
Kospi/Kosdaq	2,041.04 / 675.65
Market cap (common)	US\$495.9mn
Outstanding shares (common)	22.4mn
52W high ('18/09/11)	W29,050
low ('18/01/03)	W16,050
Average trading value (60D)	US\$6.8mn
Dividend yield (2018E)	0.20%
Foreign ownership	9.8%

<b>Major shareholders</b>	
DS Cho & 9 others	41.5%

Share perf	3M	6M	12M
Absolute (%)	-11.7	8.4	46.4
Relative (%)	7.5	30.0	73.0

	2017	2018E	2019F	2020F
<b>Sales</b>	62.1	109.7	152.4	193.6
<b>Chg</b>	1.3	76.7	38.9	27.0
<b>OP</b>	8.1	26.9	36.7	46.1
<b>OPM</b>	13.0	24.5	24.1	23.8
<b>NP</b>	6.1	22.4	31.3	39.5
<b>EPS</b>	280	1,006	1,395	1,758
<b>Chg</b>	9.8	259.4	38.6	26.0
<b>P/E</b>	60.0	24.5	17.6	14.0
<b>P/B</b>	3.0	3.8	3.2	2.6
<b>EV/EBITDA</b>	32.0	16.9	12.4	9.5
<b>ROE</b>	5.4	16.8	19.6	20.4
<b>Debt/equity</b>	21.7	23.5	23.1	21.9
<b>Net debt</b>	-20.6	-32.0	-53.6	-83.1

Units: Wbn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, and ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates



**Hyundong Lee, Analyst**

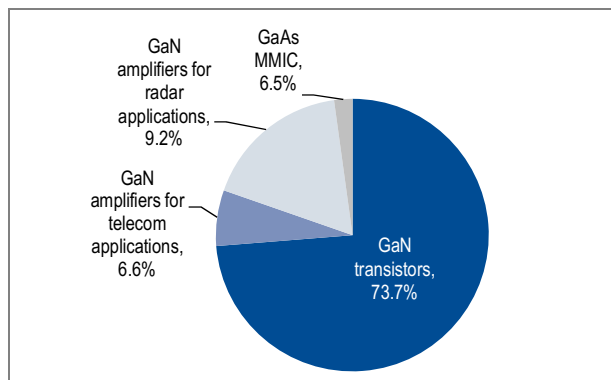
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## Company overview

- Since its establishment in 1999, RFHIC has specialized in the production/sale of GaN transistors and amplifiers for use in wireless communications and defense.
- On Sep 1, 2017, the firm was listed on the Kosdaq via a merger with NH SPAC No. 8.
- As RFHIC's largest shareholders, CEO DS Cho & related parties together hold a 44.0% stake. Meanwhile, we note that with STIC PEF III L.P.'s stake falling below the 5.0%-level, overhang issues have been easing rapidly.

### Sales breakdown

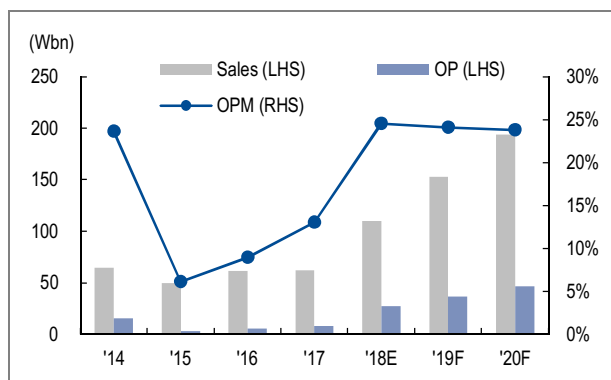
- By product, RFHIC's 3Q18 sales broke down as: GaN transistors (73.7%), GaN amplifiers for telecom applications (6.6%), GaN amplifiers for radar applications (9.2%), and GaAs MMICs (6.5%)
- Supplied to domestic and overseas telecom equipment and defense players, RFHIC's GaN-based products represent more than 90% of the firm's overall sales
- 3Q18 sales broke down by region as: 1) domestic 20.7%; and 2) exports 79.3%, with most of the firm's exports bound for Huawei, a leading global telecom solutions provider



Note: As of 3Q18; Source: RFHIC

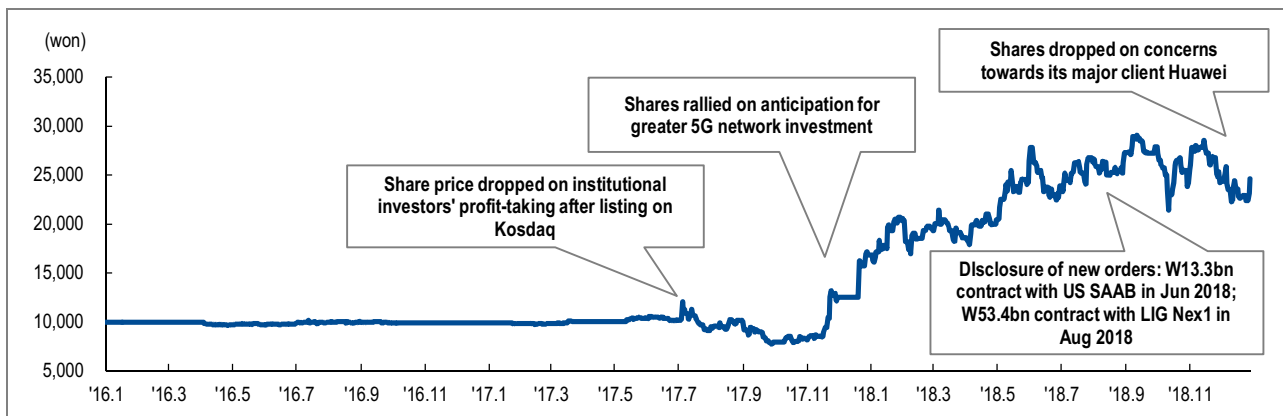
### Earnings estimates

- On a consolidated basis, RFHIC posted 3Q18 sales of W28.7bn (+98.8% y-y) and OP of W7.5bn (+402.8% y-y; OPM of 26.2%)
- The firm's sound OPM trend should sustain thanks to both greater GaN transistor orders from SEC and expanding sales at the high-margin defense business
- Increasing 5G-related sales to global players should justify not only upward earnings forecast revisions but also a valuation premium relative to peers



Source: RFHIC, NH I&S Research Center estimates

### Share performance and major events



Source: DataGuide, NH I&S Research Center

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#### NH Investment & Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of Dec 28, 2018).

- NH I&S' stock rating distribution

Buy	Hold	Sell
81.8%	18.2%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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