

Partron (091700 KQ)

John Park
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Rating

BUY
maintain

6M TP (W)

11,000
raise

CP (W)
(19.01.09)

8,650

Home appliances & Electronic components

Q4 results to be better than anticipated; 2019 looking even better

BUY; TP bumped up by 10% to W11,000

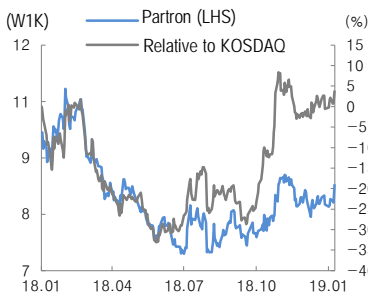
- Partron is poised to report better-than-expected results for its latest quarter, with revenue estimated at W213.2bn (up 15.2% qoq; up 18.9% yoy) and OP at W13.2bn (up 37.3% qoq; up 261.9% yoy).
- The handset parts maker saw increases in both shipment volume and prices in that quarter as its key customer adopted dual-lens cameras and other latest camera technologies to a wider range of mass-market smartphones. Camera module sales likely expanded 17.7% qoq to W149.3bn.
- Profitability also improved as the company ramped up operations at its plants to meet the growing demand.
- In 2018, OP is estimated to have soared 159.2% yoy (to W28.6bn) on a mere 0.9% increase in revenue (to W798.1bn), reflecting the growing share of lucrative camera modules in the company's product portfolio.
- For the current period, the company is expected to report a 52% jump in OP (to W14.5bn) and a 9.6% rise in revenue (to W243bn).
- In all, we revise up our EPS projections for 2018 (by 12.2%) and 2019 (by 4.6%), hence the 10% increase our target price to W11,000. Partron is still a BUY.

2019 OP to expand 75.3%

- The race for camera upgrades among smartphone makers will continue to provide tailwinds to Partron and other camera makers in 2019.
- The company's full-year sales this year will likely top W800bn for the first time in four years at W894.3bn, up 12% yoy. OP is expected to jump 75.3% yoy to W50.2bn this year.

Industry 4.0 safety rating ■ Dark Gray

KOSDAQ	679.74
Market cap (Wbn)	468
Market cap portion (%)	0.21
Paid-in capital (common; Wbn)	27
52w high/low (W)	10,950 / 7,000
120d avg. trading volume (Wbn)	2.7
Foreign ownership (%)	23.65
Major shareholders	Kim Jong-gu+10: 25.81% Lazard Asset Management LLC+11: 7.15%
(%)	1M 3M 6M 12M
Abs. return	6.3 14.0 7.7 -6.0
Rel. return	7.1 28.6 28.1 14.8



(Wbn, %)										
	4Q17	3Q18	Previous estimate	Daishin estimate	4Q18(F)			1Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	179	185	201	213	18.9	15.2	193	243	5.8	14.0
OP	4	10	10	13	262.0	37.3	9	14	52.0	9.6
NP	0	7	7	9	20,121.0	25.5	9	8	20.1	-14.9

	2016	2017	Previous estimate	Daishin estimate	2018(F)		Growth	
					Chg	Consensus	2017	2018(F)
Revenue	791	791	786	798	1.5	783	0.0	0.9
OP	38	11	26	29	11.5	26	-71.1	159.2
NP	22	1	16	18	12.2	17	-94.3	1,339.8

Source: Partron, WISEfn, Daishin Securities Research Center

	2016A	2017A	2018F	2019F	2020F
Revenue	791	791	798	894	918
OP	38	11	29	50	51
Pretax profit	38	9	31	51	52
NP	28	4	20	36	37
NP (cont. int.)	22	1	18	27	28
EPS	402	23	328	497	515
PER	25.7	413.9	26.3	17.4	16.8
BPS	6,250	5,707	5,866	6,197	6,546
PBR	1.7	1.7	1.5	1.4	1.3
ROE	6.6	0.4	5.7	8.2	8.1

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

Source: Partron, Daishin Securities Research Center

Earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	786	890	798	894	1.5	0.5
OP	26	46	29	50	11.5	9.2
NP (contr. int.)	16	26	18	27	12.2	4.6
EPS (contr. int.)	293	475	328	497	12.2	4.6

Source: Partron, Daishin Securities Research Center

Tab 1. Earnings forecast by business unit (revised)

(Wbn)

	1Q18	2Q	3Q	4QF	1Q19F	2QF	3QF	4QF	2017	2018F	2019F
RF	26.5	21.2	22.6	23.5	26.8	25.8	26.0	24.8	109.9	93.7	103.4
Semiconductors	166.9	113.1	128.8	151.4	178.2	144.7	151.5	140.9	568.1	560.2	615.3
Others	36.4	35.8	33.7	38.4	38.1	42.0	46.8	48.7	113.4	144.3	175.6
Sales	229.8	170.0	185.1	213.2	243.0	212.5	224.3	214.4	791.3	798.1	894.3
YoY	27.5%	-22.6%	-12.7%	18.9%	5.8%	25.0%	21.2%	0.6%	0.0%	0.9%	12.0%
QoQ	28.1%	-26.0%	8.8%	15.2%	14.0%	-12.6%	5.6%	-4.4%			
Sales share											
RF	11.5%	12.4%	12.2%	11.0%	11.0%	12.1%	11.6%	11.6%	13.9%	11.7%	11.6%
Semiconductors	72.6%	66.5%	69.6%	71.0%	73.3%	68.1%	67.5%	65.7%	71.8%	70.2%	68.8%
Others	15.9%	21.0%	18.2%	18.0%	15.7%	19.8%	20.9%	22.7%	14.3%	18.1%	19.6%
OP	9.5	-3.7	9.6	13.2	14.5	11.8	12.5	11.4	11.0	28.6	50.2
OP margin	4.1%	-2.2%	5.2%	6.2%	6.0%	5.5%	5.6%	5.3%	1.4%	3.6%	5.6%
YoY	TTB	TTR	72.2%	261.9%	52.0%	TTB	30.3%	-13.5%	-71.1%	159.2%	75.3%
QoQ	161.1%	TTR	TTB	37.3%	9.6%	-18.6%	6.4%	-8.8%			
Pretax profit	11.8	-2.4	9.6	12.5	14.6	11.6	12.9	11.5	8.9	31.5	50.6
Pretax margin	5.1%	-1.4%	5.2%	5.9%	6.0%	5.4%	5.8%	5.3%	1.1%	3.9%	5.7%
NP	8.0	-5.2	7.6	9.9	10.4	8.2	9.2	8.1	4.5	20.3	35.9
NP margin	3.5%	-3.1%	4.1%	4.7%	4.3%	3.9%	4.1%	3.8%	0.6%	2.5%	4.0%

Tab 2. Earnings forecast by business unit (previous)

(Wbn)

	1Q18	2Q	3Q	4QF	1Q19F	2QF	3QF	4QF	2017	2018F	2019F
RF	26.5	21.2	22.6	22.7	25.9	24.9	25.2	24.0	109.9	92.9	99.9
Semiconductors	166.9	113.1	128.8	140.8	178.2	147.2	154.5	136.9	568.1	549.6	616.7
Others	36.4	35.8	33.7	37.8	37.5	41.5	46.1	48.0	78.9	91.0	113.1
Sales	229.8	170.0	185.1	201.3	241.6	213.6	225.8	208.9	791.3	786.2	889.8
YoY	27.5%	-22.6%	-12.7%	12.2%	5.1%	25.6%	22.0%	3.8%	0.0%	-0.7%	13.2%
QoQ	28.1%	-26.0%	8.8%	8.7%	20.0%	-11.6%	5.7%	-7.5%			
Sales share											
RF	11.5%	12.4%	12.2%	11.3%	10.7%	11.7%	11.1%	11.5%	13.9%	11.8%	11.2%
Semiconductors	72.6%	66.5%	69.6%	69.9%	73.8%	68.9%	68.4%	65.5%	71.8%	69.9%	69.3%
Others	15.9%	21.0%	18.2%	18.8%	15.5%	19.4%	20.4%	23.0%	10.0%	11.6%	12.7%
OP	9.5	-3.7	9.6	10.2	14.0	9.0	12.1	10.8	11.0	25.7	46.0
OP margin	4.1%	-2.2%	5.2%	5.1%	5.8%	4.2%	5.3%	5.2%	1.4%	3.3%	5.2%
YoY	TTB	TTR	72.2%	180.7%	47.3%	TTB	25.4%	5.8%	-71.1%	132.4%	79.0%
QoQ	161.1%	TTR	TTB	6.5%	37.0%	-35.5%	33.2%	-10.2%			
Pretax profit	11.8	-2.4	9.6	9.9	14.7	9.2	13.1	11.4	8.9	28.8	48.3
Pretax margin	5.1%	-1.4%	5.2%	4.9%	6.1%	4.3%	5.8%	5.4%	1.1%	3.7%	5.4%
NP	8.0	-5.2	7.6	7.8	10.4	6.5	9.3	8.1	4.5	18.2	34.3
NP margin	3.5%	-3.1%	4.1%	3.9%	4.3%	3.1%	4.1%	3.9%	0.6%	2.3%	3.9%

Source: Partron, Daishin Securities Research Center

Company profile

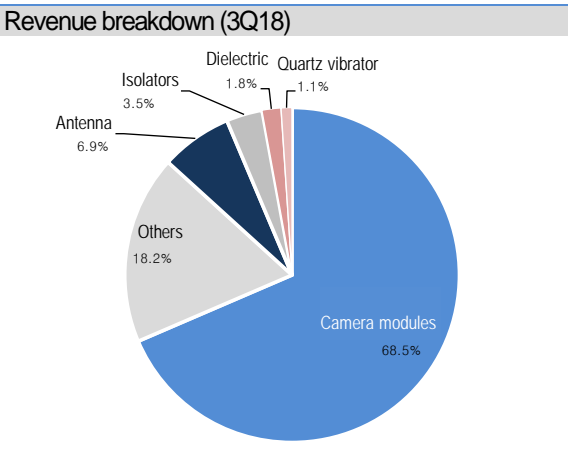
Overview

- Supplies camera modules and fingerprint sensors for premium and mass-market smartphones
- CEO: Kim Jong-gu
- Finances (W00mn): Assets 4,842, liabilities 1,314, equities 3,527 (as of Jun. 2018)
- Outstanding shares: 54,156,410 / treasury shares: 1,750,000 (as of Sept. 2018)

Share price catalysts

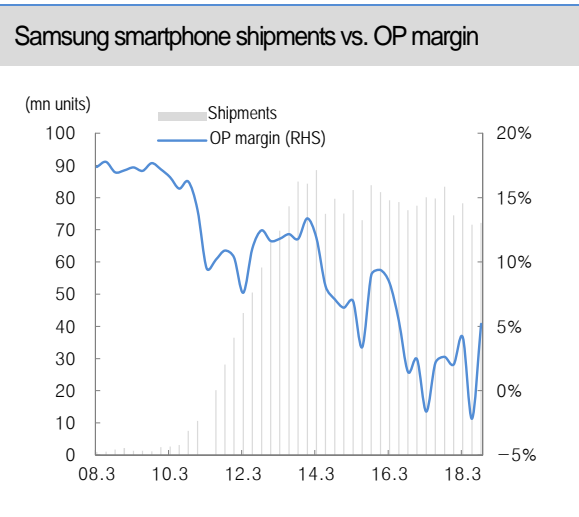
- Samsung Electronics' smartphone sales
- Business diversification (ADAS, wearables, medical devices, etc.)

Source: Partron, Daishin Securities Research Center

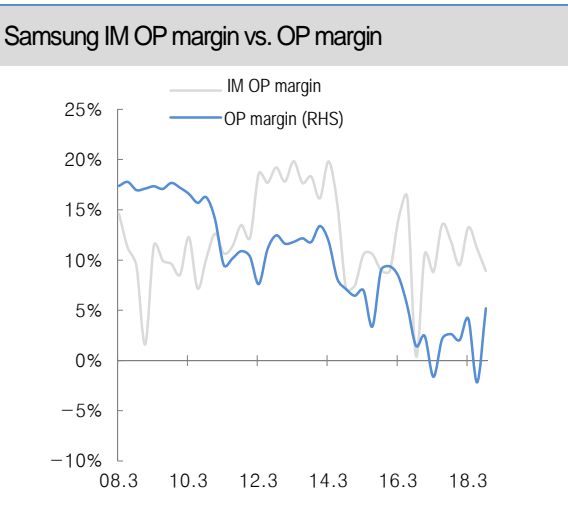


Source: Partron, Daishin Securities Research Center

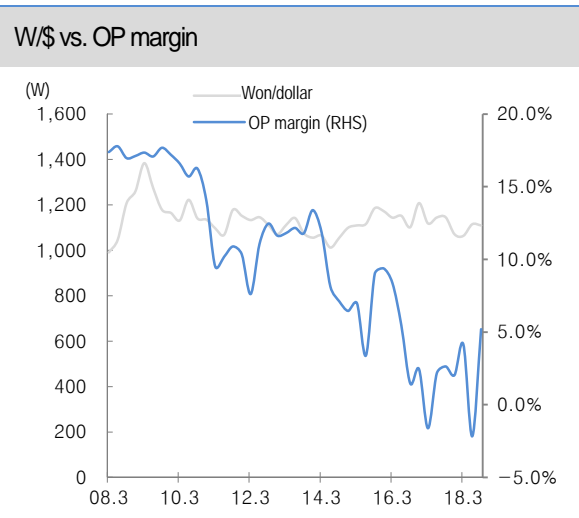
Earnings drivers



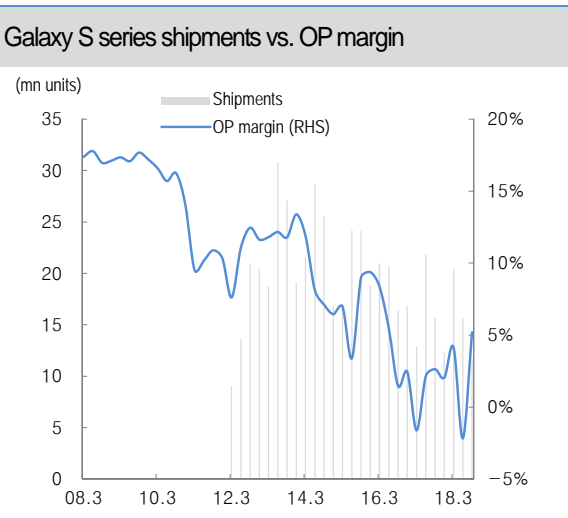
Source: Partron, IDC, Daishin Securities Research Center



Source: Partron, Samsung Electronics, Daishin Securities Research Center



Source: Partron, Daishin Securities Research Center



Source: Partron, Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Revenue	791	791	798	894	918
Cost of goods sold	685	712	701	776	797
Gross profit	106	79	97	118	121
SG&A expenses	68	68	68	68	70
OP	38	11	29	50	51
OP margin	4.8	1.4	3.6	5.6	5.6
EBITDA	91	62	72	92	93
Non-OP	-1	-2	3	0	1
Income from affiliates	0	0	0	0	0
Financial revenue	1	0	0	0	0
FX related gains	34	24	21	21	21
Financial expense	-1	-1	-1	-1	-1
FX related losses	0	0	0	0	0
Others	0	-1	4	1	2
Income before taxes	38	9	31	51	52
Income tax expense	-9	-4	-11	-15	-15
Income from cont. op.	28	4	20	36	37
Income from discount. op.	0	0	0	0	0
NP	28	4	20	36	37
NP margin	3.6	0.6	2.5	4.0	4.0
NP for non-contr. interest	6	3	3	9	9
NP for contr. interest	22	1	18	27	28
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-3	-21	5	6	6
Comprehensive income	25	-17	25	41	43
Comp. income for non-contr. Int.	6	2	3	10	11
Comp. income for contr. int.	19	-19	22	31	32

Valuation metrics	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
EPS	402	23	328	497	515
PER	25.7	413.9	26.3	17.4	16.8
BPS	6,250	5,707	5,866	6,197	6,546
PBR	1.7	1.7	1.5	1.4	1.3
EBITDAPS	1,676	1,148	1,325	1,706	1,721
EV/EBITDA	6.7	9.7	7.6	5.8	5.6
SPS	14,614	14,612	14,737	16,513	16,958
PSR	0.7	0.6	0.6	0.5	0.5
CFPS	1,729	1,239	1,462	1,796	1,822
DPS	200	175	175	175	175

Financial ratios	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Sales growth	-1.8	0.0	0.9	120	2.7
OP growth	-35.0	-71.1	159.2	75.3	2.4
NP growth	-38.1	-84.2	355.2	76.6	3.6
Profitability					
ROIC	7.3	1.4	4.8	9.2	9.3
ROA	7.5	2.2	5.6	9.5	9.4
ROE	6.6	0.4	5.7	8.2	8.1
Stability					
Debt ratio	31.4	42.4	39.3	38.1	36.1
Net borrowings ratio	0.2	11.9	7.6	4.2	-1.0
Interest coverage ratio	32.7	8.9	24.1	44.9	47.6

Source: Partron, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Current assets	192	202	212	242	267
Cash & cash equiv.	30	20	28	36	54
Trade & other receive.	82	91	91	102	105
Inventories	64	80	81	91	94
Other current assets	16	11	12	13	14
Long-term assets	314	309	301	296	294
Tangible assets	278	257	250	246	244
Investments in affiliates	1	1	1	1	1
Other long-term assets	36	51	51	50	49
Total assets	506	511	514	538	560
Current liabilities	116	145	136	141	141
Payables & other liab.	73	73	73	80	82
Borrowings	38	62	52	50	47
Current portion of LT debts	0	0	1	1	1
Other current liabilities	5	10	10	10	11
Long-term liabilities	5	7	8	7	8
Borrowings	1	5	6	5	6
Convertible securities	0	0	0	0	0
Other long-term liab.	4	2	2	2	2
Total liabilities	121	152	145	149	149
Controlling interest	338	309	318	336	354
Capital stock	27	27	27	27	27
Capital surplus	3	3	3	3	3
Retained earnings	327	318	326	344	363
Other capital changes	-18	-39	-39	-39	-39
Non-controlling interest	47	50	51	54	57
Total shareholder's equity	385	359	369	390	412
Net borrowings	1	43	28	16	-4

Cash flow statement	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	78	23	62	65	75
NP	28	4	20	36	37
Non-cash items	65	63	59	61	61
Depreciation	53	51	43	42	42
FX gains	-2	0	-1	-1	-1
Equity method gain	0	0	0	0	0
Others	14	11	16	20	20
Chg in assets & liab.	2	-33	-5	-17	-7
Other cash flows	-18	-11	-12	-15	-16
Investing cash flow	-47	-51	-29	-31	-33
Investment assets	0	-5	0	0	0
Tangible assets	-43	-50	-35	-37	-39
Others	-4	4	6	6	6
Financing cash flows	-21	20	-13	-9	-7
Short-term borrowings	-17	25	-9	-3	-2
Bonds payable	0	0	0	0	0
Long-term borrowings	-2	4	1	-1	0
Rights offering	0	0	0	0	0
Cash dividends	-14	-13	-9	-9	-9
Others	12	3	5	4	4
Net chg in cash	9	-10	8	8	18
Beginning cash balance	21	30	20	28	36
Ending cash balance	30	20	28	36	54
NOPLAT	29	6	18	36	36
FCF	32	1	24	38	37

[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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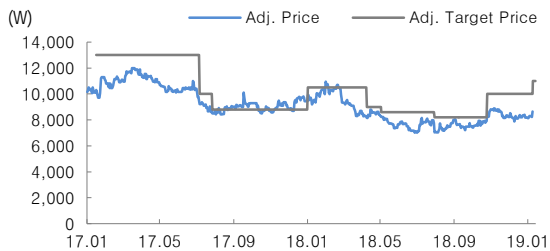
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[Investment rating & Target price history]

Partron (091700 KQ)



Date	19.01.10	18.11.19	18.11.18	18.11.09	18.10.26	18.08.17
Rating	Buy	Buy	Buy	Buy	Buy	Marketperform
Target price	11,000	10,000	10,000	10,000	10,000	8,200
Diff. (avr. %)		(15.92)	(12.84)	(12.74)	(12.70)	(7.72)
Diff.		(11.10)	(11.10)	(11.10)	(11.10)	2.56
Date	18.07.31	18.05.17	18.05.04	18.04.10	18.02.20	18.01.02
Rating	Marketperform	Marketperform	Marketperform	Marketperform	Marketperform	Marketperform
Target price	8,200	8,600	8,600	9,000	10,500	10,500
Diff. (avr. %)	(11.86)	(11.36)	(7.33)	(5.67)	(9.09)	(4.59)
Diff.	(5.85)	(5.12)	(5.47)	(2.33)	(21.33)	4.29
Date	17.10.31	17.07.28	17.07.07	17.05.04	17.03.30	17.03.20
Rating	Underperform	Underperform	Marketperform	Buy	Buy	Buy
Target price	8,800	8,800	10,000	13,000	13,000	13,000
Diff. (avr. %)	2.48	1.29	(10.02)	(16.55)	(14.07)	(14.27)
Diff.	14.77	14.77	(6.40)	(7.69)	(7.69)	(7.69)
Date	17.02.21	17.02.14	17.02.06	17.01.24	17.01.17	
Rating	Buy	Buy	Buy	Buy	Buy	
Target price	13,000	13,000	13,000	13,000	13,000	
Diff. (avr. %)	(15.26)	(17.63)	(18.38)	(18.30)	(23.50)	
Diff.	(7.69)	(12.69)	(13.08)	(13.08)	(22.31)	

Investment rating breakdown and framework (Jan 7, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	85.8%	13.2%	1.1%

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.