

JVM

(054950 KQ)

Lee Min-young
minyong.lee01@daishin.com

Rating **BUY**
maintain

6MTP (W) **44,000**
maintain

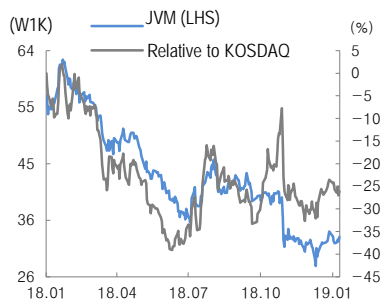
CP (W)
(19.01.10) **32,700**

Small caps

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	683.34
Market cap (Wbn)	207
Market cap portion (%)	0.09
Paid-in capital (common; Wbn)	3
52w high/low (W)	62,500 / 27,800
120d avg. trading volume (Wbn)	0.5
Foreign ownership (%)	3.16
Major shareholders	Hami Science+3: 42.58% Hanwha Asset Management+2: 9.41%

(%)	1M	3M	6M	12M
Abs. return	12.4	-17.9	-20.3	-40.3
Rel. return	10.2	-10.2	-5.2	-27.1



Q4 receives a lift from seasonal tailwinds

BUY; TP reiterated at W44,000

- Our W44,000 target price for JVM is based on the estimated EPS for fiscal 2019 and a target P/E of 21x, the average multiple for the same year applied to the company's global peers, Panasonic, Tosho and Omnicell.
- The company, which provides automation system solutions for hospitals and pharmacies, is expected to report declines in 2018 earnings due to weaker exports in that year. We believe the company will bounce back, given the seasonal uplift in 4Q18 and its aggressive push into markets overseas. We continue to rate JVM a BUY.

Q4 earnings bounce off of Q3 low amid robust seasonal demand

- JVM saw its sales and OP slide (by 11% and 39%, respectively) in 3Q18, weighed down by a 36% fall in North American exports. We project the company to log healthier earnings for its latest quarter thanks to favorable seasonality and some orders rolled over from the previous quarter that had been held back as JVM and its US retailing partner negotiated amendments to their contract.
- For 4Q18, the company is forecast to post revenue of W27.9bn (up 10.8% qoq; up 5.2% yoy) and OP of W3.5bn (down 6% qoq; up 8.1% yoy).
- Estimated fourth-quarter sales by division are as follows: automated drug dispensing systems W15.2bn (up 5.2% yoy), MRO W9.6bn (up 4.8% yoy), and other products (down 22.1% yoy).
- We are closely watching the exports of automated dispensers, which bring in higher margins than domestic sales and MROs.

Earnings to remain on stable footing in 2019

- In 2019, JVM is expected to post a 5.7% yoy rise in revenue to W106.5bn and a 15.5% yoy increase in OP to W14.6bn.

(Wbn, %)

	4Q17	3Q18	Previous estimate	Daishin estimate	4Q18(F)			1Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	26	25	28	28	5.2	10.8	28	26	13.9	-8.3
OP	3	4	3	3	8.1	-6.0	4	4	43.8	2.2
NP	1	3	3	3	257.0	-5.2	0	3	13.8	-2.5

	2016	2017	Previous estimate	Daishin estimate	2018(F)		Growth	
					Chg	Consensus	2017	2018(F)
Revenue	98	106	101	101	0.0	101	8.2	-5.1
OP	15	19	13	13	0.0	13	26.7	-32.5
NP	11	11	11	11	0.0	11	3.3	-0.8

Source: JVM, FnGuide, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	98	106	101	106	113
OP	15	19	13	15	17
Pretax profit	12	15	14	16	18
NP	11	11	11	13	14
NP (cont. int.)	11	11	11	13	14
EPS	1,826	1,895	1,923	2,146	2,448
PER	23.5	30.3	17.0	15.2	13.4
BPS	17,717	19,135	20,645	22,354	24,345
PBR	2.4	3.0	1.6	1.5	1.3
ROE	10.2	9.8	9.0	9.3	9.7

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

Source: JVM, Daishin Securities Research Center

Earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	101	106	101	106	0.0	0.0
SG&A expenses	27	28	27	28	0.0	0.0
OP	13	15	13	15	0.0	0.0
Margin	12.6	13.7	12.6	13.7	0.0	0.0
Non-operating OP	2	1	2	1	0.0	0.0
Pretax profit	14	16	14	16	0.0	0.0
NP (cont. int.)	11	13	11	13	0.0	0.0
Margin	11.3	11.8	11.3	11.8	0.0	0.0
EPS (cont. int.)	1,892	2,096	1,923	2,146	1.7	2.4

Source: JVM, Daishin Securities Research Center

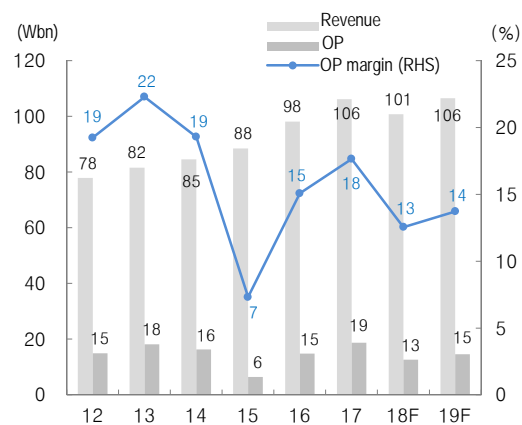
Tab 1. Earnings forecast

(Wbn, %)

	2017				2018				2016	2017	2018F	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF				
Sales	22.9	28.7	28.1	26.5	22.4	25.3	25.2	27.9	98.1	106.2	100.8	106.5
Automated dispensing systems	11.2	15.0	15.4	13.4	10.6	12.5	12.2	15.2	48.2	55.0	50.6	55.9
MRO	9.0	10.4	9.4	9.2	9.4	9.8	10.1	9.6	38.1	37.9	38.8	39.0
Other products	2.7	3.3	3.3	3.9	2.4	3.0	2.8	3.0	12.3	13.2	11.3	11.6
Growth (%YoY)												
Sales	9.4	6.3	25.9	-5.1	-1.9	-11.9	-10.5	5.2	11.0	8.2	-5.1	5.7
Automated dispensing systems	25.4	10.0	58.2	-12.8	-4.9	-16.4	-20.7	13.4	8.7	15.3	-8.0	10.3
MRO	0.1	1.8	-1.7	-2.1	4.4	-6.0	7.1	4.8	14.2	-0.5	2.3	0.5
Other products	-10.2	5.3	9.7	23.5	-10.7	-9.8	-13.5	-22.1	9.8	7.2	-14.5	2.5
OP	2.7	6.8	6.1	3.2	2.5	3.0	3.7	3.5	14.8	18.7	12.6	14.6
Margin(%)	11.7	23.6	21.6	12.1	11.0	12.0	14.6	12.4	15.1	17.7	12.6	13.7
Growth (%YoY)	1,431.4	7.5	253.6	-51.4	-8.3	-55.2	-39.3	8.1	128.6	26.7	-32.5	15.5
NP (cont. int.)	1.9	4.6	4.0	0.9	2.7	2.6	3.3	2.7	11.1	11.5	11.4	12.6
Margin (%)	8.4	16.2	14.3	3.3	12.0	10.4	13.2	9.8	11.3	10.8	11.3	11.8
Growth (%YoY)	232.1	8.7	58.7	-76.3	39.6	-43.1	-17.3	209.6	112.8	3.3	-0.8	10.8

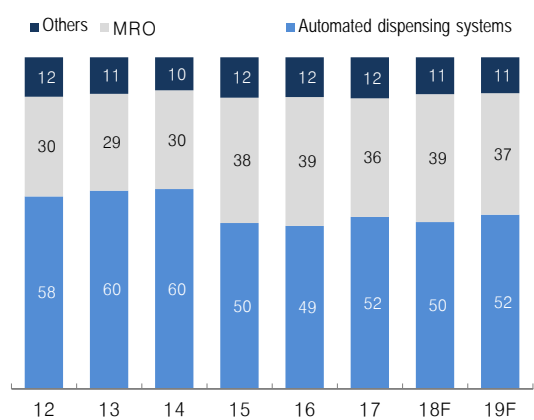
Source: JVM, Daishin Securities Research Center

Fig 1. Earnings trend



Source: JVM, Daishin Securities Research Center

Fig 2. Sales breakdown (%)



Source: JVM, Daishin Securities Research Center

Fig 3. Automated dispensing and packaging systems (ATDPS)



Source: JVM, Daishin Securities Research Center

Fig 4. Automated dispensing cabinet (ADC)



Source: JVM, Daishin Securities Research Center

Tab 2. Demand for ATDPS on the rise

	Korea	Europe	North America	China
ATDPS penetration rate	About 85%	Less than 10%	Less than 10%	Less than 1%
Packaging	Pouch 	Blister (Bingo card) 	Bottle(vial) 	Box 

Source: JVM, Daishin Securities Research Center

Tab 3. Global peers

Company		Panasonic	Tosho	OmniceII
Country		Japan	Japan	US
Share price (19.01.10)	(USD)	10	30	65
Market cap.	(USDmn)	23,633	1,138	2,561
Revenue (USDmn)	2017A	67,933	197	716
	2018F	72,046	218	791
	2019F	76,644	247	877
OP (USDmn)	2017A	2,483	55	6
	2018F	3,344	59	102
	2019F	3,880	66	132
OPM (%)	2017A	3.7	28.0	0.8
	2018F	4.6	27.2	12.9
	2019F	5.1	26.9	15.1
NP (USDmn)	2017A	1,382	34	21
	2018F	2,130	34	83
	2019F	2,319	40	100
NPM (%)	2017A	2.0	17.5	2.9
	2018F	3.0	15.6	10.4
	2019F	3.0	16.3	11.4
PER (x)	2017A	19.6	24.3	143.6
	2018F	15.0	41.9	31.7
	2019F	9.7	26.9	26.7
PBR (x)	2017A	1.9	4.1	3.6
	2018F	2.1	6.1	4.2
	2019F	1.3	4.1	3.7
EV/EBITDA (x)	2017A	5.7	20.4	31.3
	2018F	5.7	20.4	22.0
	2019F	4.0	14.0	17.7
ROE (%)	2017A	9.9	18.0	4.3
	2018F	14.4	15.6	3.6
	2019F	13.9	15.8	8.3
EPS (USD)	2017A	0.7	0.9	0.3
	2018F	1.0	0.9	2.0
	2019F	1.0	1.1	2.4
FY.M		3	3	12

Source: Bloomberg, Daishin Securities Research Center

Company profile

Overview

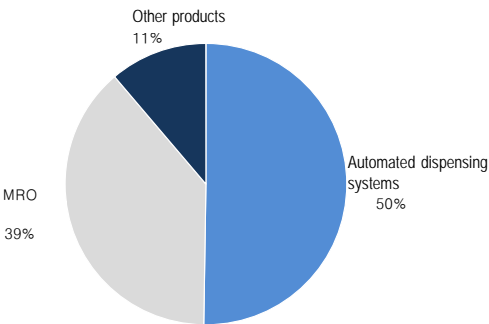
- Established in 1977 and listed on the KOSDAQ in 2006
- Became a subsidiary of Hanmi Science in 2016
- Develops and manufactures automation systems, for which Hanmi does the marketing
- 2018E sales breakdown: Automated systems 50%, MRO 39%, and other products 11%
- Finances: assets W174.5bn, liabilities W48.7bn, equity capital W125.8bn (as of 3Q18)
- Outstanding shares: 6,330,908 / Treasury shares : 320,900 (as of 3Q18)

Stock catalysts

- Won/dollar
- Won/euro
- North American exports
- Performance of new products
- Issues at Hanmi Pharmaceuticals

Source: JVM, Daishin Securities Research Center

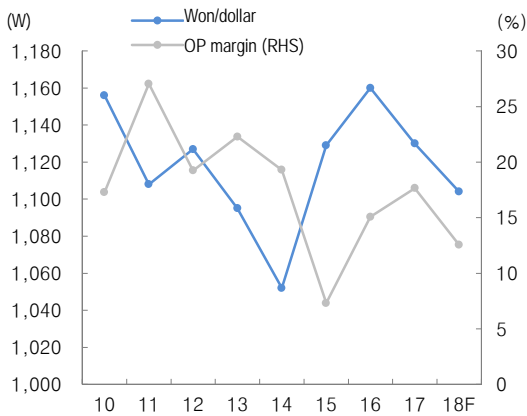
2018E sales breakdown



Source: JVM, Daishin Securities Research Center

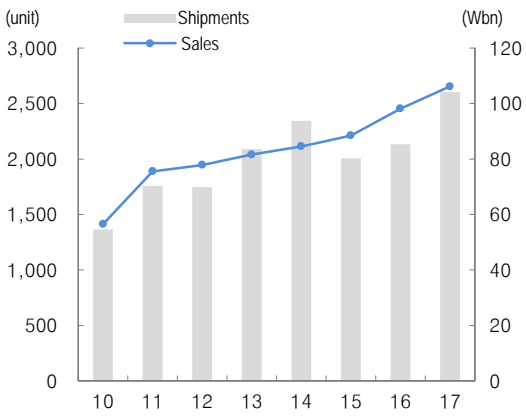
Earnings drivers

Fig 5. W/\$ vs. OP margin



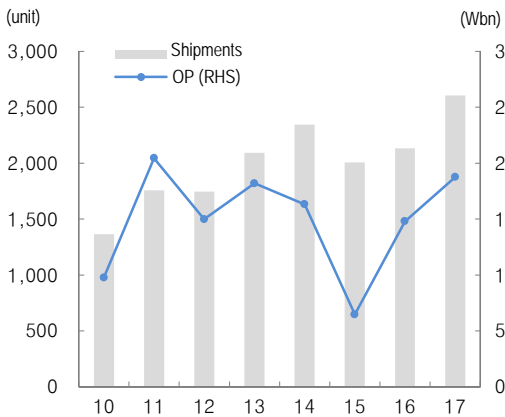
Source: JVM, Daishin Securities Research Center

Fig 6. Automated dispensing system shipments vs. sales



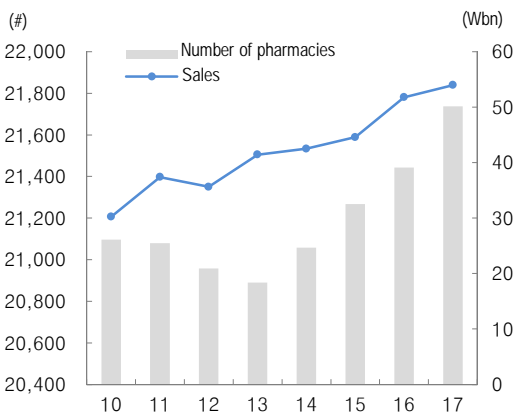
Source: JVM, Daishin Securities Research Center

Fig 7. Automated dispensing system shipments vs. OP



Source: JVM, Daishin Securities Research Center

Fig 8. Number of pharmacies in Korea vs. domestic sales



Source: JVM, Daishin Securities Research Center

Financial statements

Income statement					(Wbn)
	2016A	2017A	2018F	2019F	2020F
Revenue	98	106	101	106	113
Cost of goods sold	56	61	61	64	67
Gross profit	43	45	40	43	46
SG&A expenses	28	26	27	28	30
OP	15	19	13	15	17
OP margin	15.1	17.7	12.6	13.7	14.6
EBITDA	21	25	19	21	23
Non-OP	-3	-4	2	1	1
Income from affiliates	0	0	0	0	0
Financial revenue	2	1	2	2	2
FX related gains	1	1	0	0	0
Financial expense	-1	-2	0	0	0
FX related losses	1	1	0	0	0
Others	-3	-3	0	0	0
Income before taxes	12	15	14	16	18
Income tax expense	-1	-3	-3	-3	-4
Income from cont. op.	11	11	11	13	14
Income from discount. op.	0	0	0	0	0
NP	11	11	11	13	14
NP margin	11.3	10.8	11.3	11.8	12.7
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	11	11	11	13	14
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	11	11	11	13	14
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	11	11	11	13	14

Valuation metrics					(W, x, %)
	2016A	2017A	2018F	2019F	2020F
EPS	1,826	1,895	1,923	2,146	2,448
PER	23.5	30.3	17.0	15.2	13.4
BPS	17,717	19,135	20,645	22,354	24,345
PBR	2.4	3.0	1.6	1.5	1.3
EBITDAPS	3,378	3,954	2,970	3,277	3,608
EV/EBITDA	13.3	14.8	10.8	9.4	8.1
SPS	15,503	16,771	15,915	16,818	17,900
PSR	2.8	3.4	2.1	1.9	1.8
CFPS	3,646	4,709	4,381	4,590	4,970
DPS	320	300	300	300	300

Financial ratios					(W, x, %)
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Sales growth	11.0	8.2	-5.1	5.7	6.4
OP growth	128.6	26.7	-32.5	15.5	13.6
NP growth	112.8	3.3	-0.8	10.8	14.0
Profitability					
ROIC	13.5	13.8	9.5	11.1	12.3
ROA	8.7	10.7	7.2	7.9	8.4
ROE	10.2	9.8	9.0	9.3	9.7
Stability					
Debt ratio	57.5	42.3	37.7	35.2	32.7
Net borrowings ratio	12.1	6.7	-2.7	-8.8	-14.2
Interest coverage ratio	29.4	41.5	27.4	337.7	65.7

Source: JVM, Daishin Securities Research Center

Balance sheet					(Wbn)
	2016A	2017A	2018F	2019F	2020F
Current assets	69	68	75	86	99
Cash & cash equiv.	9	3	5	14	24
Trade & other receive.	23	29	22	23	25
Inventories	18	20	25	27	28
Other current assets	20	15	22	22	22
Long-term assets	107	105	105	105	106
Tangible assets	55	57	57	57	57
Investments in affiliates	0	0	0	0	0
Other long-term assets	52	48	48	48	48
Total assets	177	172	180	191	205
Current liabilities	56	47	45	46	47
Payables & other liab.	13	18	17	18	19
Borrowings	38	25	22	22	22
Current portion of LT debts	0	0	0	0	0
Other current liabilities	5	4	6	6	6
Long-term liabilities	9	4	4	4	4
Borrowings	2	0	0	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	7	4	4	4	4
Total liabilities	64	51	49	50	50
Controlling interest	112	121	131	142	154
Capital stock	3	3	3	3	3
Capital surplus	48	48	48	48	48
Retained earnings	67	78	87	98	111
Other capital changes	-6	-8	-8	-8	-8
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	112	121	131	142	154
Net borrowings	14	8	-4	-13	-22

Cash flow statement					(Wbn)
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	15	18	24	22	23
NP	11	11	11	13	14
Non-cash items	12	18	16	16	17
Depreciation	7	6	6	6	6
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	5	12	10	10	11
Chg in assets & liab.	-6	-8	-3	-6	-6
Other cash flows	-2	-4	-1	-2	-2
Investing cash flow	-10	-7	-14	-6	-7
Investment assets	0	0	-1	0	0
Tangible assets	-3	-5	-4	-3	-4
Others	-8	-2	-9	-3	-3
Financing cash flows	1	-17	-3	-1	-1
Short-term borrowings	6	-14	-2	0	0
Bonds payable	0	0	0	0	0
Long-term borrowings	0	-2	0	0	0
Rights offering	0	0	0	0	0
Cash dividends	-1	-1	-2	-2	-2
Others	-3	-1	1	1	1
Net chg in cash	7	-6	2	9	9
Beginning cash balance	3	9	3	5	14
Ending cash balance	9	3	5	14	24
NOPLAT	14	15	10	12	13
FCF	12	9	7	12	13

[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)
----------------------	-------------------------	---------------------

[Compliance Notice]

In accordance with Subparagraph 5 of Paragraph 1 of Article 4-20 of the supervisory regulations for the financial investment industry, we confirm that no information or content has been shared prior to its release on Daishin's website, and that the analyst has not received nor will receive direct or indirect compensation in exchange for expressing specific opinions. Daishin is not affiliated with the company presented in this report. This report has been presented without any undue external influence or interference, and accurately reflects the personal views of the analyst who is responsible for its content.

This report is distributed for the purpose of helping investors make informed decisions. This report has been prepared from the data and information believed to be correct and reliable, but Daishin Securities does not make any guarantee as to the accuracy thereof. Investors reading this report should make final decisions based on their own judgment.

For U.S. persons only: For U.S. persons only: This independent third party research report is a product of Daishin Securities, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This independent third-party research report is distributed in the United States ("US") to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities and Exchange Act of 1934, as amended) by Maybank Kim Eng Securities USA Inc. ("Maybank KESUSA") and Auerbach Grayson and Company LLC, broker-dealers registered in the US (registered under Section 15 of the Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Maybank KESUSA in the US shall be borne by Maybank KESUSA. All responsibility for the distribution of this report by Auerbach Grayson and Company LLC shall be borne by Auerbach Grayson and Company LLC.

If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Daishin Securities has entered into an agreement with two U.S. registered broker-dealers, Maybank Kim Eng Securities USA Inc and Auerbach Grayson and Company LLC. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security mentioned within must do so with: Maybank Kim Eng Securities USA Inc. 777 Third Avenue 21st Floor New York, New York 1- (212) 688-8886 or Auerbach Grayson and Company LLC 25 West 45th Street, New York, NY 10036 and not with the issuer of this report.

Analyst Certification of Independence

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

[Investment rating & Target price history]

JVM (054950 KQ)

(W)

Adj. Price

Adj. Target Price

70,000

60,000

50,000

40,000

30,000

20,000

10,000

0

17.01

17.05

17.09

18.01

18.05

18.09

19.01

Date	19.01.11	18.11.15
Rating	Buy	Buy
Target price	44,000	44,000
Diff. (avr. %)		(28.47)
Diff. (max/min., %)		(23.64)

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 (Jan 8, 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.