

2019. 1. 22

Company Update



JungHoon Chang

Analyst

jhooni.chang@samsung.com

822 2020 7752

Ecopro (086520)

Profit up over 100% for second year running

WHAT'S THE STORY?

4Q preliminary results: In a preliminary earnings release on Jan 21 after market close, Ecopro reported consolidated sales of KRW224.5b and operating profit of KRW21.7b, the latter beating our forecast and consensus by 21% and 13%, respectively. Sales at rechargeable battery material subsidiary Ecopro BM came in at KRW184b, slightly below our forecast, while sales at the environmental system division hit KRW42b, more than double our forecast. Profitability improvement is all the more impressive considering the firm paid performance bonuses in 4Q. For the full year, operating profit surged 176% to KRW60.2b.

Raising 2019 forecasts: The impending Kosdaq listing of subsidiary Ecopro BM does not complicate our estimation of Ecopro's 2019 consolidated earnings. Under massive capacity expansion plans announced last year, Ecopro BM's new facilities being built in Pohang should contribute to sales from 2020. At the Ochang plant, gradual capacity expansions conducted throughout last year will convert to sales from 1Q19, while the planned phase-in of 300 tonnes of additional capacity this year should also gradually lift sales. Even considering possible ASP cuts following 2H18 raw material price declines, we now expect Ecopro BM's sales to rise 53% to KRW882.3b in 2019. As we expect Ecopro's environmental system division to enjoy orders from semiconductor clients and a variety of plants, we raise our 2019 consolidated sales and operating profit forecasts by 13% and 11%, respectively, to KRW1t and KRW95.1b.

Bringing target price back in line; still a BUY and our top pick: Rising NCA demand implies a clear growth trajectory for Ecopro—hence our raising our earnings forecasts. However, we trim our target price by 9% to KRW50,000 to bring our target price back in line with the actual share price since the gap between the two has widened considerably due to the market applying a discount to the parent company ahead of the battery material subsidiary's impending IPO. Our new target price reflects the elimination of the premium to the material peer average 2019 P/E we previously applied. Once listed, Ecopro BM will be seen in a new light for being part of the NCA oligopoly. The profitability of Ecopro's environmental system business should also be re-evaluated. We therefore keep Ecopro as our battery value chain top pick, with a BUY rating. Meanwhile, redeemable convertible preferred shares in Ecopro GEM may cause volatility in accounting profits. Even so, Ecopro's current valuation of 13.6x consolidated 2019 P/E seems rather undemanding.

AT A GLANCE

SELL HOLD **BUY**

Target price KRW50,000 (61.8%)

Current price KRW30,900

Market cap KRW682.59b/USD605.08m

Shares (float) 22,090,191 (81.9%)

52-week high/low KRW45,700/KRW29,900

Avg daily trading value (60-day) KRW23.1b/USD20.5m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Ecopro (%)	-9.0	-18.4	-25.8
Vs Kosdaq (%pts)	-11.9	-7.1	-6.1

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	50,000	55,000	-9.1%
2018E EPS	1,662	1,527	8.8%
2019E EPS	2,277	2,006	13.5%

SAMSUNG vs THE STREET

No of estimates	4
Target price	49,250
Recommendation	4.0

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

SUMMARY OF 4Q RESULTS

(KRWb)	4Q18	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	218.1	110.9	22.3	12.1	8.3
Operating profit	21.7	493.2	26.8	21.7	13.3
Pre-tax profit	n/a	nm	(34.3)	n/a	n/a
Net profit	n/a	nm	(39.6)	n/a	n/a
Margins (%)					
Operating profit	9.9				
Pre-tax profit	n/a				
Net profit	n/a				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2017	2018E	2019E
Multiples (x)			
P/E	n/a	18.6	13.6
P/B	4.7	3.7	2.9
EV/EBITDA	19.9	10.4	7.6
Div yield (%)	0.0	0.0	0.0
EPS growth (% y-y)	nm	nm	37.0
ROE (%)	(4.7)	22.3	24.1
Per-share data (KRW)			
EPS	(313)	1,662	2,277
BVPS	6,636	8,298	10,575
DPS	0	0	0

4Q review

(KRWb)	4Q18	4Q17	3Q18	Chg (%)	
				(% y-y)	(% q-q)
Sales	218.1	103.4	178.4	110.9	22.3
Operating profit	21.7	3.7	17.1	493.8	26.9
Pre-tax profit	n/a	(7.8)	14.8	n/a	n/a
Net profit	n/a	(8.4)	13.4	n/a	n/a
Margins (%)					
Operating profit	10.0	3.5	9.6		
Pre-tax profit	n/a	(7.5)	8.3		
Net profit	n/a	(8.2)	7.5		

Source: Company data

Full-year forecast revisions

(KRWb)	2018E			2019E		
	Old	New	Diff (%)	Old	New	Diff (%)
Sales	637.1	660.6	3.7	893.8	1,009.2	12.9
Operating profit	56.3	60.2	6.9	85.5	95.1	11.2
Pre-tax profit	44.1	48.0	8.8	70.3	79.8	13.5
Net profit	37.5	40.8	8.8	63.3	71.9	13.5

Source: Samsung Securities estimates

Target-price calculation

(KRW)	Note
EPS	2,277 2019E
Target P/E (x)	21.8 2019E battery peer average
Fair value per share	49,743
Target price	50,000
Current price	30,900 As of Jan 21 close
Upside (%)	61.8

Source: Samsung Securities estimates

Results and forecasts

(KRWb)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19E	2Q19E	3Q19E	4Q19E	2017	2018E	2019E
Sales	71.6	72.6	81.3	103.4	128.0	136.2	178.4	224.6	237.8	247.9	259.8	263.8	329.0	660.6	1,009.2
Battery materials	61.8	61.8	72.0	94.3	113.5	129.3	163.2	184.0	207.3	216.2	226.8	232.0	289.9	576.7	882.3
Environmental systems	9.7	10.6	9.6	10.7	15.1	7.7	16.0	42.0	30.5	31.7	33.0	31.7	40.6	87.5	126.9
Operating profit	7.9	6.9	3.3	3.7	10.2	11.1	17.1	21.7	21.0	24.6	26.5	22.9	21.8	60.2	95.1
Operating margin (%)	11.0	9.5	4.1	3.5	8.0	8.2	9.6	9.7	8.8	9.9	10.2	8.7	6.6	9.1	9.4

Source: Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Sales	170	329	661	1,009	1,508
Cost of goods sold	142	274	534	814	1,212
Gross profit	29	55	126	195	296
Gross margin (%)	16.9	16.8	19.1	19.4	19.6
SG&A expenses	19	33	66	100	149
Operating profit	10	22	60	95	147
Operating margin (%)	5.9	6.6	9.1	9.4	9.7
Non-operating gains (losses)	(17)	(23)	(12)	(15)	(15)
Financial profit	1	0	1	2	3
Financial costs	6	7	11	15	18
Equity-method gains (losses)	(4)	(6)	2	0	0
Other	(8)	(10)	(4)	(2)	(0)
Pre-tax profit	(7)	(1)	48	80	131
Taxes	1	2	7	8	13
Effective tax rate (%)	(11.0)	(125.3)	15.0	10.0	10.0
Profit from continuing operations	(7)	(3)	41	72	118
Profit from discontinued operations	0	0	0	0	0
Net profit	(7)	(3)	41	72	118
Net margin (%)	(4.2)	(1.0)	6.2	7.1	7.8
Net profit (controlling interests)	(9)	(7)	37	50	83
Net profit (non-controlling interests)	2	4	4	22	35
EBITDA	29	45	88	128	180
EBITDA margin (%)	16.8	13.6	13.4	12.7	12.0
EPS (parent-based) (KRW)	(465)	(313)	1,662	2,277	3,744
EPS (consolidated) (KRW)	(382)	(150)	1,847	3,253	5,349
Adjusted EPS (KRW)*	(465)	(313)	1,662	2,277	3,744

Cash flow statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	4	24	67	72	101
Net profit	(7)	(3)	41	72	118
Non-cash profit and expenses	39	51	46	54	62
Depreciation	16	20	26	31	32
Amortization	3	3	2	2	2
Other	20	28	17	21	28
Changes in A/L from operating activities	(27)	(23)	(12)	(46)	(66)
Cash flow from investments	(99)	(103)	(73)	(73)	(44)
Change in tangible assets	(60)	(84)	(70)	(70)	(40)
Change in financial assets	(5)	(6)	(4)	(5)	(7)
Other	(33)	(13)	1	2	3
Cash flow from financing	112	80	99	55	52
Change in debt	37	72	110	70	70
Change in equity	52	10	0	0	0
Dividends	0	0	0	0	0
Other	23	(1)	(11)	(15)	(18)
Change in cash	17	1	84	38	87
Cash at beginning of year	5	22	23	106	145
Cash at end of year	22	23	106	145	232
Gross cash flow	31	48	86	126	180
Free cash flow	(57)	(61)	(3)	2	61

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)	2016	2017	2018E	2019E	2020E
Current assets	126	165	337	490	742
Cash & equivalents	22	23	106	145	232
Accounts receivable	32	42	73	112	168
Inventories	61	76	120	183	274
Other current assets	12	25	37	50	68
Fixed assets	220	283	335	389	419
Investment assets	27	21	31	48	72
Tangible assets	164	233	277	316	324
Intangible assets	20	20	17	15	14
Other long-term assets	9	10	10	10	10
Total assets	346	448	672	879	1,161
Current liabilities	109	179	300	382	500
Accounts payable	12	16	55	84	126
Short-term debt	65	85	135	155	185
Other current liabilities	32	78	110	143	190
Long-term liabilities	64	84	147	201	245
Bonds & long-term debt	59	74	134	184	224
Other long-term liabilities	5	10	13	16	21
Total liabilities	173	264	447	582	746
Owners of parent equity	144	147	183	234	316
Capital stock	11	11	11	11	11
Capital surplus	137	147	147	147	147
Retained earnings	(4)	(11)	26	76	159
Other	0	0	0	(0)	0
Non-controlling interests' equity	29	38	42	63	99
Total equity	174	184	225	297	415
Net debt	109	170	193	221	199

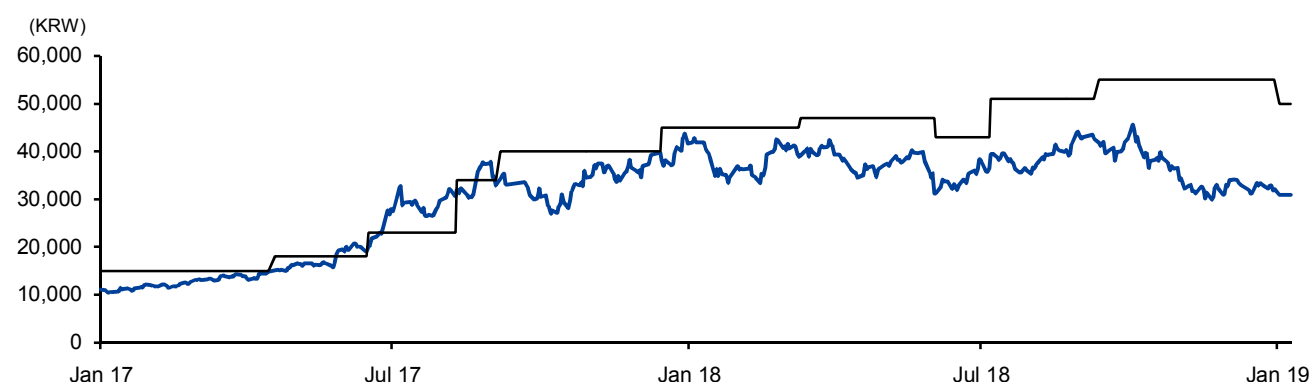
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	58.9	93.0	100.8	52.8	49.4
Operating profit	73.8	115.6	176.3	57.9	54.3
Net profit	nm	nm	nm	76.2	64.4
Adjusted EPS**	nm	nm	nm	37.0	64.4
Per-share data (KRW)					
EPS (parent-based)	(465)	(313)	1,662	2,277	3,744
EPS (consolidated)	(382)	(150)	1,847	3,253	5,349
Adjusted EPS**	(465)	(313)	1,662	2,277	3,744
BVPS	6,757	6,636	8,298	10,575	14,319
DPS (common)	0	0	0	0	0
Valuations (x)					
P/E***	n/a	n/a	18.6	13.6	8.3
P/B***	4.6	4.7	3.7	2.9	2.2
EV/EBITDA	28.6	19.9	10.4	7.6	5.4
Ratios (%)					
ROE	(7.2)	(4.7)	22.3	24.1	30.1
ROA	(2.6)	(0.8)	7.3	9.3	11.6
ROIC	5.2	16.9	14.6	20.2	25.7
Payout ratio	0.0	0.0	0.0	0.0	0.0
Dividend yield (common)	0.0	0.0	0.0	0.0	0.0
Net debt to equity	62.6	92.1	85.7	74.4	47.9
Interest coverage (x)	1.7	3.0	5.4	6.3	8.1

Compliance notice

- As of Jan 21, 2019, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
- As of Jan 21, 2019, Samsung Securities' holdings of shares and debt instruments convertible into shares of each company covered in this report would not, if such debt instruments were converted, exceed 1% of each company's outstanding shares.
- This report has been prepared without any undue external influence or interference, and accurately reflects the views of the analyst(s) covering the company or companies herein.
- All material presented in this report, unless specifically indicated otherwise, is under copyright to Samsung Securities.
- Neither the material nor its content (including copies) may be altered in any form, or by any means transmitted, copied, or distributed to another party, without prior express written permission from Samsung Securities.
- This memorandum is based upon information available to the public. While we have taken all reasonable care to ensure its reliability, we do not guarantee its accuracy or completeness. This memorandum is not intended to be an offer, or a solicitation of any offer, to buy or sell the securities mentioned herein. Samsung Securities shall not be liable whatsoever for any loss, direct or consequential, arising from the use of this memorandum or its contents. Statements made regarding affiliates of Samsung Securities are also based upon publicly available information and do not necessarily represent the views of management at such affiliates.
- This material has not been distributed to institutional investors or other third parties prior to its publication.

Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2016/7/6	2017/5/7	7/5	8/29	9/24	2018/1/3	3/30	6/22	7/26	10/1	2019/1/21
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	14,664	18,000	23,000	34,000	40,000	45,000	47,000	43,000	51,000	55,000	50,000
Gap* (average)	(16.38)	(3.68)	20.73	(0.16)	(15.87)	(13.96)	(18.91)	(19.67)	(22.97)	(35.07)	
(max or min)**	1.27	15.56	42.61	11.32	(0.75)	(2.78)	(9.57)	(10.70)	(13.33)	(16.91)	

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

Samsung Securities uses the following investment ratings.

Company

BUY	Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Dec 31, 2018

BUY (83.3%) | HOLD (16.7%) | SELL (0%)

Global Disclosures & Disclaimers

General

This research report is for information purposes only. It is not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This report does not provide individually tailored investment advice. This report does not take into account individual client circumstances, objectives, or needs and is not intended as recommendations of particular securities, financial instruments or strategies to any particular client. The securities and other financial instruments discussed in this report may not be suitable for all investors. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser.

This report may not be altered, reproduced, distributed, transmitted or published in whole or in part for any purpose. References to "Samsung Securities" are references to any company in the Samsung Securities, Co., Ltd. group of companies.

Samsung Securities and/or other affiliated companies, its and their directors, officers, representatives, or employees may have long or short positions in any of the securities or other financial instruments mentioned in this report or of issuers described herein and may purchase and/or sell, or offer to purchase and/or sell, at any time, such securities or other financial instruments in the open market or otherwise, as either a principal or agent. Any pricing of securities or other financial instrument contained herein is as of the close of market for such day, unless otherwise stated. Opinions and estimates contained herein constitute our judgment as of the date of this report and are subject to change without notice.

The information provided in this report is provided "AS IS". Although the information contained herein has been obtained from sources believed to be reliable, no representation or warranty, either expressed or implied, is provided by Samsung Securities in relation to the accuracy, completeness or reliability of such information or that such information was provided for any particular purpose and Samsung Securities expressly disclaims any warranties of merchantability or fitness for a particular purpose. Furthermore, this report is not intended to be a complete statement or summary of the securities, markets or developments referred to herein.

Samsung Securities does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. Samsung Securities, its affiliates, or any of its and their affiliates, directors, officers, employees or agents disclaim any and all responsibility or liability whatsoever for any loss (direct or consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice. Past performance is not indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Samsung Securities. Any analysis contained herein is based on numerous assumptions. Different assumptions may result in materially different results. Samsung Securities is under no obligation to update or keep current the information contained herein. Samsung Securities relies on information barriers to control the flow of information contained in one or more areas or groups within Samsung Securities into other areas or groups of Samsung Securities. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other financial instruments. Samsung Securities makes no representation that any transaction can or could have been effected at those prices and any prices contained herein may not reflect Samsung Securities' internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by Samsung Securities or any other source may yield substantially different results. Additional information is available upon request.

For reports to be distributed to US:

Securities research is prepared, issued and exclusively distributed by Samsung Securities Co., Ltd., an organization licensed with the Financial Supervisory Service of South Korea. This research may be distributed in the United States only to major institutional investors as defined in Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended, and may not be circulated to any other person otherwise. All transactions by U.S. investors involving securities discussed in this report must be effected through Samsung Securities (America) Inc., a broker-dealer registered with the U.S. Securities & Exchange Commission and a member of the Financial Industry Regulatory Authority/SIPC, and not through any non-U.S. affiliate thereof. The analysts listed [on the front of this report] are employees of Samsung Securities Co., Ltd., or a non-U.S. affiliate thereof, and are not registered/qualified as research analysts under applicable U.S. rules and regulations and may not be subject to U.S. restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

For reports to be distributed to UK:

This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons").

Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

For reports to be distributed to Korea:

This report is for private circulation only, not for sale, and is issued and distributed only to persons permitted under the laws and regulations of Korea.

For reports to be distributed to Singapore:

This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Samsung Securities has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person.

Analyst certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of such analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research report. The analyst(s) principally responsible for the preparation of this research report receives compensation based on determination by research management and senior management (not including investment banking), based on the overall revenues, including investment banking revenues of Samsung Securities Co., Ltd. and its related entities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Copyright © 2010 Samsung Securities Co., Ltd.. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the prior written consent of Samsung Securities America Inc.