MS TNS (257370.KQ)

Notable maker of rechargeable battery separator equipment

MS TNS manufactures stretching and coating equipment used in the production of separators for rechargeable batteries. Going forward, we expect the firm's sales to show continued growth led by capacity expansions at existing clients (including Chinese separator makers) and the addition of new clients. In particular, greater separator coating equipment orders should drive the company's earnings uptrend in 2019.

Not Rated

CP (2019/01/22)			W18,050
Sector			IT components
Kospi/Kosdaq			2,117.77 / 694.55
Market cap (common)			US$101.8mn
Outstanding shares (common)			6.4mn
52W high ('18/09/14)			W37,150
low ('18/12/18)			W14,200
Average trading value (60D)			US$3.7mn
Dividend yield (2018E)			0.00%
Foreign ownership			0.3%

Major shareholders

TW Kwon and 2 others			61.6%

Share perf	3M	6M	12M
Absolute (%)	-24.8	0.0	0.0
Relative (%p)	-19.4	0.0	0.0

	2017	2018E	2019F	2020F
Sales	64.6	66.0	93.5	105.0
Chg	148.3	2.2	41.6	12.3
OP	7.3	7.8	11.5	12.8
OPM	11.3	11.8	12.3	12.2
NP	5.9	6.1	9.2	10.3
EPS	1,185	1,113	1,441	1,611
Chg	24.7	-6.1	29.5	11.8
P/E	0.0	15.8	12.5	11.2
P/B	0.0	5.6	3.9	2.9
EV/EBITDA	2.2	14.8	9.7	7.9
ROE	59.7	35.6	37.3	29.9
Debt/equity	223.1	167.7	126.4	103.5
Net debt	16.6	9.7	-0.1	-10.8

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

To benefit from capacity expansions at Chinese clients

MS TNS manufactures stretching, extracting, and coating equipment used in the production of rechargeable battery separators. Competing in the global arena with Japan's JSW, MS TNS is the only domestic player capable of manufacturing all of the equipment needed to establish a separator production line. Spurred by coating equipment orders from SEMCORP and HongTu Separator, MS TNS recorded rapid coating equipment sales growth last year (W3mn in 2016 → W3.4bn in 2017 → W8.8bn over 1Q18~3Q18).
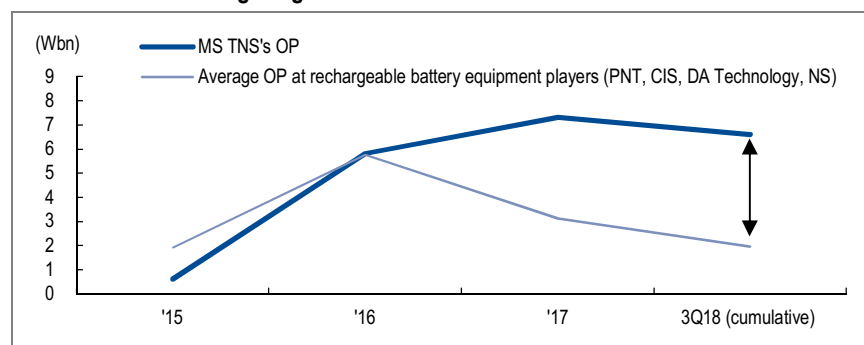
In China, the market share of top-tier rechargeable battery makers (eg, CATL and BYD) is climbing. Also noteworthy is the fact that suppliers of separators (eg, SEMCORP) to these leading rechargeable battery makers are growing through M&As. Despite price declines, China's major separator producers have continued to register strong growth thanks to shipment hikes. Given that MS TNS's major clients include major separator players such as SEMCORP and Senior, we expect the firm to benefit from their investment and expansion efforts. Moreover, MS TNS should enjoy rapid sales growth of stretching and coating equipment this year backed by new client addition.

Earnings to level up again in 2019

We forecast MS TNS's 2019 sales at W93.5bn (+41.6% y-y) and OP at W11.5bn (+47.4% y-y). In particular, stretching equipment sales should climb to W42.8bn (+14.7% y-y) and coating equipment sales to W24.2bn (+106.0% y-y).

The firm is currently trading at a 2019E P/E of only 12.5x—undervalued relative to the average P/E for rechargeable battery equipment makers. Noting that its clients (eg, SEMCORP Shanghai and SEMCORP Zhuhai) already supply global top-tier rechargeable battery makers, we predict that the company's valuations will converge with those of its peers this year thanks to sustained strong earnings growth.

MS TNS to book strong OP growth in 2019

Source: Company data, NH I&S Research Center

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Company overview

— MS TNS is a manufacturer of: 1) production and coating equipment for rechargeable battery separators; and 2) stretching equipment for display film.

— Standing as the only domestic player capable of manufacturing all of the equipment needed to establish a separator production line, MS TNS boasts major Chinese separator makers (including SEMCORP and HongTu Separator) as clients.

— In line with the rising importance of coating technology for separator production, sales of the firm's coating equipment are expanding.

— CEO TW Kwon (largest shareholder) and related parties own a combined 62% stake.

Products and sales breakdown

— MS TNS's main products are: 1) stretching and coating equipment for rechargeable battery separators; and 2) stretching equipment for display film

— Noting that a majority of its sales derive from Chinese firms, we expect MS TNS to benefit from ongoing expansions via M&As at its major clients
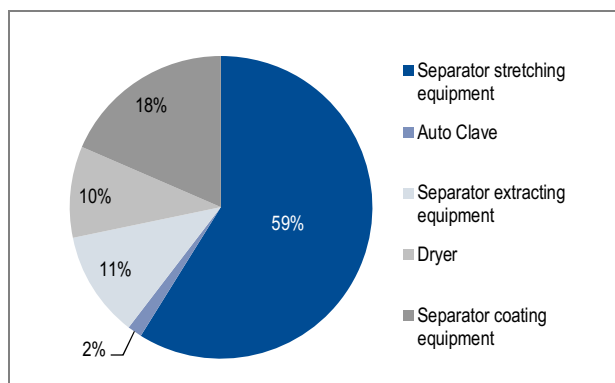
Note: As of 3Q18
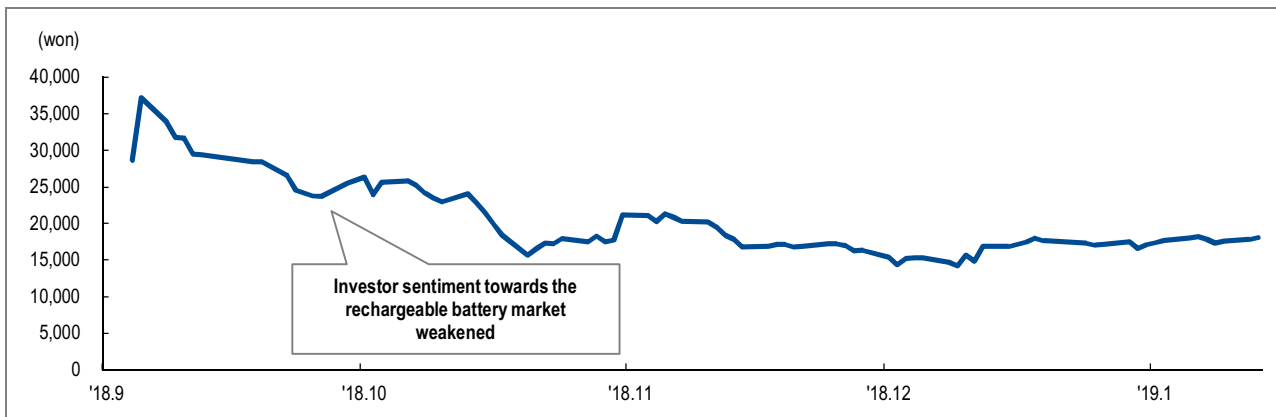Source: MS TNS, NH I&S Research Center

Earnings

— We expect MS TNS to post 2018 OP of W7.8bn (+7.4% y-y) and 2019 OP of W11.5bn (+47.4% y-y)

— Earnings at each of its divisions should come in solid this year

— In addition, the firm is anticipated to be a major beneficiary of capacity expansions at its Chinese clients for rechargeable battery separators, a market that is rapidly growing in China
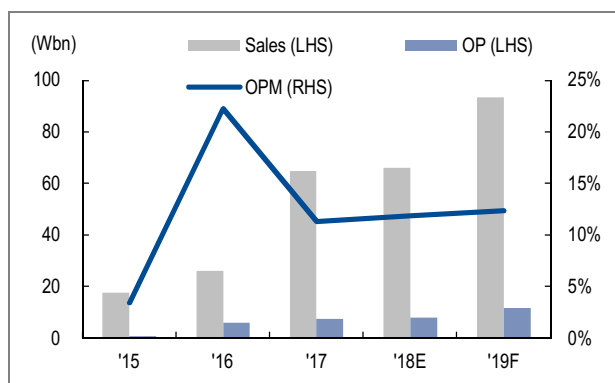
Source: MS TNS, NH I&S Research Center estimates

Major events and share performance

Source: DataGuide, NH I&S Research Center

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 Jan 18, 2019).

- NH I&S' stock rating distribution

Buy	Hold	Sell
79.8%	20.2%	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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- The analyst and his/her spouse do not own any securities of MS TNS as of the preparation date.
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