

Technology

Results Comment
January 31, 2019

(Maintain) **Buy**

Target Price (12M, W) **72,500**

Share Price (01/30/19, W) **48,400**

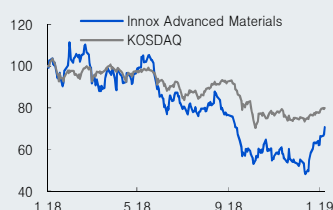
Expected Return **50%**

OP (18F, Wbn) 37
Consensus OP (18F, Wbn) 39

EPS Growth (18F, %) 3.6
Market EPS Growth (18F, %) 5.3
P/E (18F, x) 11.3
Market P/E (18F, x) 9.1
KOSDAQ 715.30

Market Cap (Wbn) 434
Shares Outstanding (mn) 9
Free Float (%) 63.8
Foreign Ownership (%) 10.6
Beta (12M) 1.65
52-Week Low 33,000
52-Week High 76,264

(%) **1M 6M 12M**
Absolute 28.4 -8.0 -30.1
Relative 21.3 -1.0 -10.0



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[Display/Batteries]

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Innox Advanced Materials

(272290 KQ)

Return of the OLED super-cycle

4Q18 review: Solid profitability

For 4Q18, Innox Advanced Materials posted revenue of W75.2bn (+2.7% QoQ) and operating profit of W10.7bn (+5.8% QoQ). Despite a slowdown in downstream industries, profits were solid.

FPCB revenue fell 20.6% QoQ, due to customers' inventory adjustments, while semiconductor materials revenue also dropped 23.5% QoQ, due to intensifying competition in semiconductor QFN. Meanwhile, revenue from the SmartFlex division (thermal conductive composite sheets and digitizers) expanded 73% QoQ, driven by increasing shipments for the Galaxy S10 since November 2018.

Notably, the OLED materials business continued to expand in 2018, with annual revenue of W97.5bn (+60% YoY). Revenue from small/mid-sized OLED materials for Korean customers' flagship models has been growing steadily. We expect the OLED materials business to continue its solid growth through 1Q19, when customers are scheduled to roll out new models.

OLED materials likely to have a positive impact on margins

The revenue contribution of OLED materials increased from 19.8% in 2017 to 33.4% in 2018, and we project its share to rise to 40.6% in 2019. For small/mid-sized OLED materials, we expect the company to continue to grab market share from Japanese rivals. For large-sized OLED materials, we look for accelerating shipment growth in 2H19, when a key customer's Guangzhou plant (monthly production capacity of 60,000 units) will start operating.

Notably, unlike other business divisions (FPCB, etc.), OLED materials do not use PI films as a raw material, and therefore should have better margins. As OLED line utilization rates increase, we expect to see OLED materials margins improve.

For 2019, we estimate revenue of W351.6bn (+20.6% YoY) and operating profit of W52.7bn (+41% YoY).

Maintain TP of W72,500; return of the OLED super-cycle

We maintain our Buy call and target price of W72,500 on Innox Advanced Materials. Our target price equals 15x (average P/E of global OLED materials suppliers) our 2019F EPS.

We believe the OLED market is entering another super-cycle. Samsung Display is planning investments in QD-OLED, and the imminent launch of foldable smartphones is raising expectations on medium/long-term demand growth. Despite lackluster market conditions, OLED materials vendors have performed well over the past two years. In our view, Innox Advanced Materials' high multiple is justified in light of the current OLED cycle.

FY (Dec.)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	0	0	193	292	352	453
OP (Wbn)	0	0	22	37	53	72
OP margin (%)	-	-	11.4	12.7	15.1	15.9
NP (Wbn)	0	0	17	31	45	60
EPS (W)	0	0	3,226	3,340	4,830	6,502
ROE (%)	0.0	0.0	13.8	22.3	25.7	26.6
P/E (x)	-	-	25.8	11.3	10.0	7.4
P/B (x)	-	-	6.1	2.2	2.2	1.7
Dividend yield (%)	-	-	0.0	0.0	0.0	0.0

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

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Table 1. 4Q18 review

(Wbn, %, %p)

	2Q17	1Q18	2Q18P			Growth	
			Preliminary	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	80.4	73.2	75.2	89.5	80.0	-6.5	2.7
Operating profit	7.0	10.0	10.6	12.5	10.4	50.9	5.8
OP margin	8.7	13.7	14.1	14.0	13.0	5.4	0.4
Pretax profit	5.6	10.4	11.9	13.3	10.5	111.4	15.2
Net profit	5.1	8.7	8.4	10.5	7.9	65.4	-3.7

Source: Company data, WISEfn, Mirae Asset Daewoo Research estimates

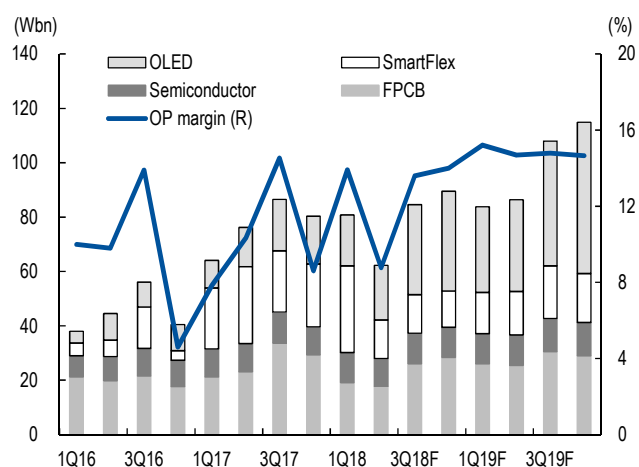
Table 2. Quarterly and annual earnings

(Wbn, %)

	1Q18	2Q18P	3Q18F	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F	17	18F	19F
Revenue	80.8	62.3	73.3	75.2	76.8	79.1	94.7	101.0	307.1	291.6	351.6
FPCB	19.1	17.8	23.3	18.5	20.1	19.7	23.5	22.4	107.3	78.6	85.7
Semiconductor	11.0	10.3	10.7	8.2	9.0	9.0	9.9	9.9	42.5	40.2	37.8
SmartFlex	31.9	14.2	10.7	18.5	19.0	19.9	24.1	22.4	96.4	75.3	85.5
OLED	18.7	20.0	28.6	30.1	28.7	30.4	37.2	46.4	60.9	97.5	142.6
Proportion (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
FPCB	23.7	28.5	31.7	24.6	26.2	25.0	24.8	22.1	35.0	27.0	24.4
Semiconductor	13.6	16.5	14.6	10.9	11.7	11.4	10.4	9.8	13.8	13.8	10.8
SmartFlex	39.5	22.8	14.6	24.6	24.7	25.2	25.5	22.2	31.4	25.8	24.3
OLED	23.2	32.2	39.1	40.0	37.4	38.4	39.3	45.9	19.8	33.4	40.6
Operating profit	11.2	5.5	10.0	10.7	10.4	10.7	15.4	16.3	32.4	37.4	52.7
Pretax profit	10.4	6.2	10.4	11.9	11.2	11.4	16.1	17.1	24.5	39.0	55.7
Net profit	8.5	5.5	8.7	8.4	8.9	9.1	12.9	13.6	19.9	31.2	44.6
OP margin	13.9	8.8	13.7	14.2	13.6	13.5	16.2	16.1	10.5	12.8	15.0
Pretax margin	12.9	10.0	14.1	15.9	14.5	14.4	17.0	16.9	8.0	13.4	15.9
Net margin	10.5	8.9	11.9	11.2	11.6	11.6	13.6	13.5	6.5	10.7	12.7
Growth (QoQ/YoY)											
Revenue	0.6	-22.9	17.7	2.6	2.1	3.0	19.8	6.7	71.3	-5.1	20.6
FPCB	-34.9	-7.1	30.8	-20.6	8.9	-1.9	18.9	-4.8	33.7	-26.8	9.0
Semiconductor	6.9	-6.9	4.5	-23.5	9.5	0.5	9.5	0.5	16.3	-5.3	-6.0
SmartFlex	38.1	-55.6	-24.8	73.0	2.9	4.9	21.2	-7.2	225.8	-21.9	13.6
OLED	6.8	7.1	42.9	4.9	-4.6	5.9	22.5	24.6	85.3	60.1	46.3
Operating profit	62.5	-51.5	83.8	6.5	-2.5	2.6	43.8	6.2	81.5	15.5	41.0
Pretax profit	85.1	-40.2	66.0	15.2	-6.5	2.4	41.0	5.9	흑전	59.2	43.0
Net profit	67.2	-34.9	57.8	-3.9	6.3	2.4	41.0	5.9	290.0	56.5	43.0

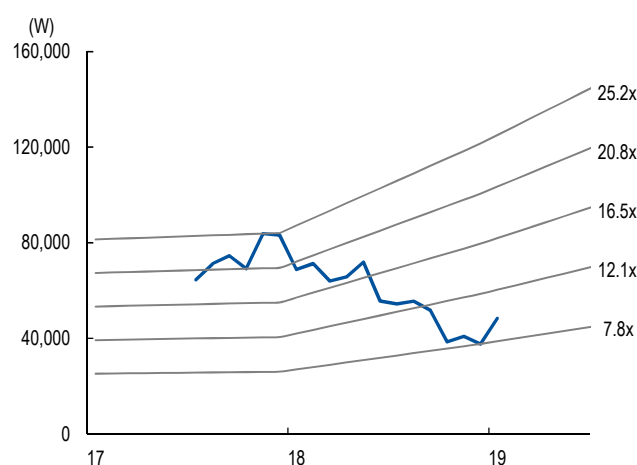
Source: Company data, Mirae Asset Daewoo Research estimates

Figure 1. Quarterly revenue/OP margin and forecasts



Source: Mirae Asset Daewoo Research

Figure 2. 12-month forward P/E band



Source: Mirae Asset Daewoo Research

Innox Advanced Materials (272290 KQ/Buy/TP: W72,500)

Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Revenue	193	292	352	453
Cost of Sales	140	219	256	333
Gross Profit	53	73	96	120
SG&A Expenses	31	35	43	48
Operating Profit (Adj)	22	37	53	72
Operating Profit	22	37	53	72
Non-Operating Profit	-1	1	3	3
Net Financial Income	-1	-1	-1	-1
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	21	38	56	75
Income Tax	4	8	11	15
Profit from Continuing Operations	17	31	45	60
Profit from Discontinued Operations	0	0	0	0
Net Profit	17	31	45	60
Controlling Interests	17	31	45	60
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	17	31	45	60
Controlling Interests	17	31	45	60
Non-Controlling Interests	0	0	0	0
EBITDA	28	48	65	83
FCF (Free Cash Flow)	11	-10	7	50
EBITDA Margin (%)	14.5	16.4	18.5	18.3
Operating Profit Margin (%)	11.4	12.7	15.1	15.9
Net Profit Margin (%)	8.8	10.6	12.8	13.2

Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Current Assets	117	184	225	311
Cash and Cash Equivalents	24	85	92	141
AR & Other Receivables	61	56	76	97
Inventories	28	36	49	62
Other Current Assets	4	7	8	11
Non-Current Assets	106	138	156	145
Investments in Associates	0	0	0	0
Property, Plant and Equipment	100	133	151	140
Intangible Assets	1	1	1	1
Total Assets	223	323	381	456
Current Liabilities	95	107	119	132
AP & Other Payables	20	25	33	42
Short-Term Financial Liabilities	53	71	71	71
Other Current Liabilities	22	11	15	19
Non-Current Liabilities	3	65	66	68
Long-Term Financial Liabilities	0	61	61	61
Other Non-Current Liabilities	3	4	5	7
Total Liabilities	98	171	185	200
Controlling Interests	125	151	196	256
Capital Stock	4	4	4	4
Capital Surplus	103	104	104	104
Retained Earnings	17	48	93	153
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	125	151	196	256

Cash Flows (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Cash Flows from Op Activities	22	32	37	50
Net Profit	17	31	45	60
Non-Cash Income and Expense	22	20	24	27
Depreciation	5	10	12	11
Amortization	0	0	0	0
Others	17	10	12	16
Chg in Working Capital	-16	-7	-20	-22
Chg in AR & Other Receivables	-7	1	-19	-21
Chg in Inventories	0	-8	-12	-13
Chg in AP & Other Payables	-4	-2	4	5
Income Tax Paid	0	-11	-11	-15
Cash Flows from Inv Activities	-12	-43	-30	0
Chg in PP&E	-11	-42	-30	0
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	0	-1	0	0
Others	-1	0	0	0
Cash Flows from Fin Activities	-18	73	0	0
Chg in Financial Liabilities	53	79	0	0
Chg in Equity	108	1	0	0
Dividends Paid	0	0	0	0
Others	-179	-7	0	0
Increase (Decrease) in Cash	-8	62	6	49
Beginning Balance	31	24	85	92
Ending Balance	24	85	92	141

Source: Company data, Mirae Asset Daewoo Research estimates

Forecasts/Valuations (Summarized)

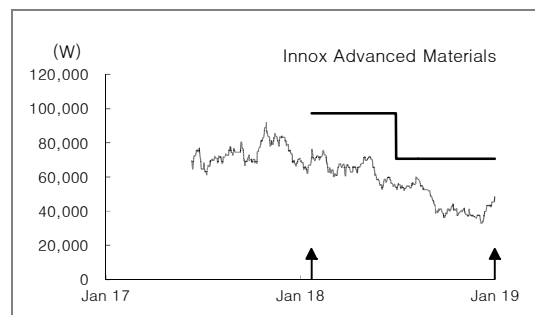
	12/17	12/18F	12/19F	12/20F
P/E (x)	25.8	11.3	10.0	7.4
P/CF (x)	11.3	6.8	6.5	5.1
P/B (x)	6.1	2.2	2.2	1.7
EV/EBITDA (x)	27.9	8.0	7.3	5.1
EPS (W)	3,226	3,340	4,830	6,502
CFPS (W)	7,389	5,538	7,459	9,407
BPS (W)	13,679	17,016	21,845	28,348
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	-	51.3	20.5	28.7
EBITDA Growth (%)	-	71.4	35.4	27.7
Operating Profit Growth (%)	-	68.2	43.2	35.8
EPS Growth (%)	-	3.5	44.6	34.6
Accounts Receivable Turnover (x)	3.4	5.2	5.4	5.3
Inventory Turnover (x)	6.9	9.1	8.3	8.2
Accounts Payable Turnover (x)	9.5	15.8	16.8	16.7
ROA (%)	7.8	11.3	12.7	14.3
ROE (%)	13.8	22.3	25.7	26.6
ROIC (%)	11.2	17.2	19.3	23.5
Liability to Equity Ratio (%)	77.9	113.1	94.3	78.0
Current Ratio (%)	122.6	172.9	188.9	234.9
Net Debt to Equity Ratio (%)	23.6	29.8	19.7	-4.2
Interest Coverage Ratio (x)	25.7	20.3	22.9	31.3

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Innox Advanced Materials (272290)	07/29/2018	Buy	70,525
	02/20/2018	Buy	97,275



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	81.28%	9.63%	9.09%	0.00%
Investment Banking Services	84.61%	3.85%	11.54%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2018)

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