

## Display



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Rating	<b>BUY (M)</b>
Target price	<b>W58,000 (U)</b>
Current price (Feb 11)	<b>W44,150</b>
Upside potential	<b>31%</b>

Market cap (Wbn)	1,585
Shares outstanding	35,908,760
Avg daily T/O (2M, Wbn)	6
Avg daily volume (2M, shrs)	147,405
52-week high (won)	44,200
52-week low (won)	32,050
Foreign ownership (%)	27.0
Major shareholders (%)	
DY Holdings & others	36.2

## Stock performance

(%)	1M	3M	12M
Absolute	29.5	9.8	19.2
Relative	21.2	2.9	36.9
Abs (US\$)	28.5	10.2	15.7

## Most reasonable equipment play

### Earnings surprise at critical point

- SFA Engineering reported consolidated 4Q18 sales of W390.7bn (-8.2% YoY) and OP of W67bn (+31% YoY), soundly beating consensus. We attribute the earnings surprise to: 1) high non-consolidated operating margin of 21%; and 2) subsidiary SFA Semiconductor's earnings surprise. SFA Semiconductor's 4Q18 sales came to W139.3bn and OP W16.3bn (OPM 11.7%), triple its usual quarterly OP (W5bn~6bn). The subsidiary made the biggest contribution to SFA Engineering's earnings surprise. The earlier-than-expected operation of plant #2 in the Philippines and a higher sales portion of high-margin products (bumping) boosted profitability.
- Non-consolidated operating margin was high, as the cost of the Samsung Display (SDC) A3 and A4 fab renovation project has continued to be lower than estimates. The line is being renovated to change some processes at SDC's main POLED lines. The new processes should include Y-OCTA and other new processes, and thus, there will likely be demand for additional line renovations. In addition, logistics sales of W56bn beat our estimate, as Samsung SDI and SK Innovation adopted SFA Engineering's clean logistics for their overseas battery plant expansions. Sales from logistics for rechargeable batteries likely came to about W60bn in 2018 and should continue rising to more than W70bn in 2019.

### Revise up target price despite concerns over rapid share increase

- Shares of SFA Engineering, our 2019 top pick for the OLED equipment sector, have surged 30% YTD. Our previous target price of W56,000 was already the highest in the sector, but we further revise up our target price to W58,000, applying 2015~2017 12-month-forward average P/E of 11.2x to 2019E EPS. The company's 12-month-forward P/E now comes to 9x based on consensus. However, its 2019 forward P/E will likely fall to 8x, as earnings estimates will likely be revised up, given expectations of new orders climbing 64% YoY to W1.2tn and strong earnings at SFA Semiconductor.
- As we have continuously mentioned, investors should consider overweighting the equipment sector now, as the P/E is at 7~9x and the industry is in an upcycle. Since 2010, the company's lowest 12-month-forward P/E was in the 7~8x range, when clients had almost zero new orders. Shares may go through a short-term correction after the recent sharp increase, but it is unlikely to fall to the bottom end of the boxed-range. We recommend investors to buy shares during a pullback, since shares will likely trend up with the upper and bottom ends of its trading range rising.

## Quarterly earnings

(Wbn)	4Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	391	-8.2	-0.4	384	1.9
OP	67	31.5	17.7	49	35.6
Pre-tax net profit	51	-22.4	-7.6	50	2.5
Net profit, CI	35	-22.4	-9.0	36	-3.8
OPM (%)	17.1	+5.1 %pt	+2.6 %pt	12.9	+4.2 %pt
NPM (%)	8.9	-1.6 %pt	-0.8 %pt	9.4	-0.5 %pt

Source: Yuanta Securities

## Forecasts and valuations (K-IFRS, consolidated)

	2016A	2017A	2018E	2019E
FY ends Dec				
Sales	1,320	1,920	1,561	1,688
OP	121	236	236	245
Net profit, CI	78	197	157	186
P/E (x)	13.0	7.1	9.2	7.8
P/B (x)	1.7	1.8	1.6	1.4
EV/EBITDA	6.3	3.7	5.4	4.4
ROE (%)	14.7	29.3	19.7	20.8

Source: Yuanta Securities

## SFA Engineering (056190 KS) pro forma financial statements (K-IFRS, consolidated)

## Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Sales</b>	<b>1,320</b>	<b>1,920</b>	<b>1,561</b>	<b>1,688</b>	<b>1,897</b>
Cost of sales	1,126	1,595	1,232	1,344	1,511
Gross profit	194	325	329	343	386
SG&A	73	89	93	98	110
<b>Operating profit</b>	<b>121</b>	<b>236</b>	<b>236</b>	<b>245</b>	<b>275</b>
EBITDA	194	310	236	245	275
Non-op profit/loss	-16	29	-12	12	16
Forex gain/loss	1	-15	6	5	5
Net interest income	-6	-5	1	7	11
Equity-meth gain/loss	0	0	0	0	0
Other	-11	49	-19	0	0
Net profit before income tax	105	265	224	257	291
Income tax	26	62	54	57	64
Net profit from continuing ops	80	203	170	201	227
Net profit from discontinued ops	0	0	0	0	0
Net profit	80	203	170	201	227
<b>NP for controlling interest</b>	<b>78</b>	<b>197</b>	<b>157</b>	<b>186</b>	<b>211</b>
Total comprehensive income	81	187	188	224	250
Total comprehensive income, CI	78	190	172	207	232

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

## Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Current assets</b>	<b>824</b>	<b>1,133</b>	<b>1,211</b>	<b>1,435</b>	<b>1,620</b>
Cash & cash equivalents	276	586	667	855	1,011
Accts rec & other	439	407	160	185	207
Inventory	40	29	41	52	59
Non-current assets	682	678	759	769	775
Tangible assets	498	504	506	517	523
Investment in affiliates	0	0	0	0	0
Other non-current	9	11	101	101	101
<b>Total assets</b>	<b>1,505</b>	<b>1,811</b>	<b>1,969</b>	<b>2,204</b>	<b>2,395</b>
Current liabilities	457	541	682	791	834
Accts payable & other	348	444	405	516	562
ST financial liabilities	0	0	30	27	25
Liquid LT liabilities	77	37	0	0	0
Non-current liabilities	272	285	251	233	211
LT financial liabilities	186	192	182	164	142
Debentures	21	20	20	20	20
<b>Total liabilities</b>	<b>730</b>	<b>826</b>	<b>933</b>	<b>1,024</b>	<b>1,045</b>
Equity, controlling interest	569	777	822	966	1,135
Paid-in capital	9	18	18	18	18
Capital surplus	28	35	35	35	35
Retained earnings	553	730	823	968	1,137
Equity, non-controlling interest	207	208	214	214	214
<b>Total equity</b>	<b>776</b>	<b>985</b>	<b>1,036</b>	<b>1,180</b>	<b>1,349</b>
<b>Net debt</b>	<b>1</b>	<b>-388</b>	<b>-521</b>	<b>-730</b>	<b>-909</b>
Total debt	322	285	269	248	225

## Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Operating cash flow</b>	<b>164</b>	<b>377</b>	<b>373</b>	<b>277</b>	<b>246</b>
Net profit	80	203	170	201	227
Depreciation & amortization	74	74	0	0	0
Forex gain/loss	0	10	-2	-5	-5
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-35	85	289	110	53
Other	46	5	-84	-29	-30
<b>Investing cash flow</b>	<b>-77</b>	<b>-53</b>	<b>-131</b>	<b>42</b>	<b>49</b>
Investment	6	-41	-255	0	0
Inc in tangible assets	-29	-82	-26	-11	-6
Dec in tangible assets	3	4	0	0	0
Other	-57	66	150	52	55
<b>Financing cash flow</b>	<b>-58</b>	<b>-6</b>	<b>-112</b>	<b>-63</b>	<b>-66</b>
Inc (dec) in ST fin liab	0	0	-3	-3	-2
Inc (dec) in LT fin liab	-49	-29	-16	-18	-22
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-7	-20	-45	-42	-42
Other	-2	43	-48	0	0
Other cash flow	0	-8	-49	-68	-73
<b>Inc (dec) in cash &amp; equivalents</b>	<b>29</b>	<b>309</b>	<b>82</b>	<b>188</b>	<b>155</b>
Beginning cash & equivalents	247	276	586	667	855
Ending cash & equivalents	276	586	667	855	1,011
<b>NOPLAT</b>	<b>121</b>	<b>236</b>	<b>236</b>	<b>245</b>	<b>275</b>
<b>FCF</b>	<b>101</b>	<b>257</b>	<b>442</b>	<b>290</b>	<b>262</b>

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuanta Securities

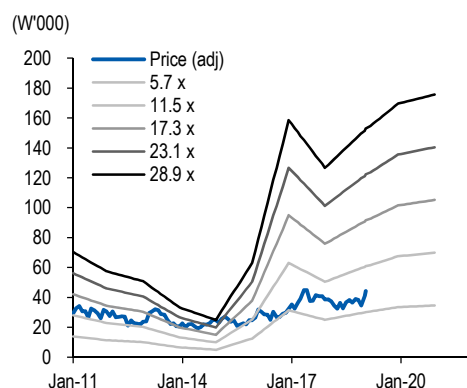
## Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	2,179	5,484	4,382	5,181	5,865
BPS (won)	16,296	21,646	24,545	28,854	33,896
EBITDA/shr (won)	10,828	8,629	6,571	6,823	7,669
SPS (won)	36,753	53,480	43,462	46,999	52,827
DPS (won)	560	1,245	1,245	1,245	1,245
<b>P/E (x)</b>	<b>13.0</b>	<b>7.1</b>	<b>9.2</b>	<b>7.8</b>	<b>6.9</b>
<b>P/B (x)</b>	<b>1.7</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>1.2</b>
<b>EV/EBITDA (x)</b>	<b>6.3</b>	<b>3.7</b>	<b>5.4</b>	<b>4.4</b>	<b>3.2</b>
<b>P/S (x)</b>	<b>0.8</b>	<b>0.7</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>

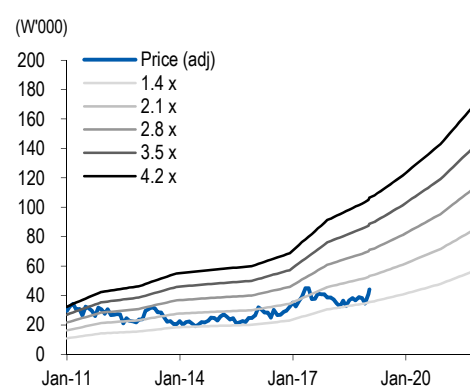
## Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
<b>Sales (% YoY)</b>	<b>150.9</b>	<b>45.5</b>	<b>-18.7</b>	<b>8.1</b>	<b>12.4</b>
<b>Operating profit (%YoY)</b>	<b>108.3</b>	<b>95.4</b>	<b>-0.1</b>	<b>3.8</b>	<b>12.4</b>
<b>Net profit, CI (%YoY)</b>	<b>153.7</b>	<b>151.7</b>	<b>-20.1</b>	<b>18.2</b>	<b>13.2</b>
Gross margin (%)	14.7	16.9	21.1	20.3	20.3
<b>Operating margin (%)</b>	<b>9.2</b>	<b>12.3</b>	<b>15.1</b>	<b>14.5</b>	<b>14.5</b>
Net margin, CI (%)	5.9	10.3	10.1	11.0	11.1
EBITDA margin (%)	14.7	16.1	15.1	14.5	14.5
ROIC (%)	12.8	27.5	37.8	55.4	69.9
ROA (%)	5.8	11.9	8.3	8.9	9.2
<b>ROE (%)</b>	<b>14.7</b>	<b>29.3</b>	<b>19.7</b>	<b>20.8</b>	<b>20.0</b>
Debt-to-equity (%)	94.1	83.9	90.1	86.7	77.5
Net debt-to-equity (%)	0.1	-50.0	-63.4	-75.5	-80.1
OP/financing cost (x)	11.0	21.3	23.2	26.1	32.7

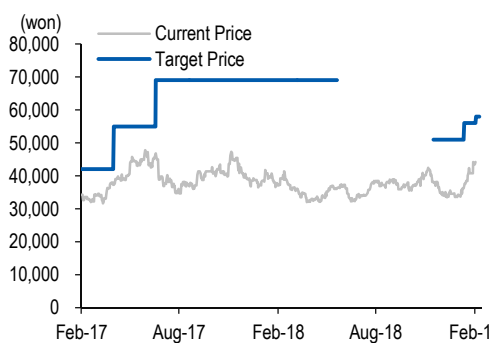
P/E band chart



P/B band chart



SFA Engineering (056190 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2019/02/12	BUY	58,000	1 yr		
2019/01/21	BUY	56,000	1 yr	-27.27	-21.07
2018/11/25	BUY	51,000	1 yr	-31.12	-25.10
2018/06/28	Analyst changed		1 yr	-46.08	-38.55
			1 yr	-45.35	-31.45
2017/06/28	BUY	69,000	1 yr		
2017/06/14	Bonus offering	55,000		-	-
2017/04/11	BUY	55,000	1 yr	-23.06	-13.18
2017/02/19	After 1yr		1 yr	-18.47	-9.64
2016/02/19	BUY	42,000	1 yr	-28.66	-9.64

Note: Difference = (actual price\* - target price) / target price x 100

\* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	0.5
BUY	84.9
HOLD	14.6
SELL	0.0
Total	100.0

Note: As of Feb 9

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- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
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- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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