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Company Update



JungHoon Chang
Analyst
jhooni.chang@samsung.com
822 2020 7752

AT A GLANCE

SELL HOLD **BUY**

Target price KRW51,000 (15.5%)

Current price	KRW44,150
Market cap	KRW1.6t/USD1.4b
Shares (float)	35,908,760 (46.9%)
52-week high/low	KRW44,200/KRW32,050
Avg daily trading value (60-day)	KRW5.6b/ USD5.0m

ONE-YEAR PERFORMANCE

	1M	6M	12M
SFA Engineering (%)	29.5	14.8	19.2
Vs Kosdaq (%pts)	21.2	22.9	36.9

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	51,000	46,000	10.9%
2018E EPS	4,582	3,916	17.0%
2019E EPS	4,491	4,501	-0.2%

SAMSUNG vs THE STREET

No of estimates	12
Target price	51,000
Recommendation	4.0

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

SFA Engineering (056190)

Bright order outlook lifts shares

WHAT'S THE STORY?

4Q18 review: SFA Engineering reported consolidated 4Q sales of KRW391b and operating profit of KRW 67.1b, the latter easily beating consensus thanks to profitability improvement at consolidated subsidiary SFA Semicon (which no longer incurred depreciation costs in relation to its first fab in the Philippines). On a parent basis, sales fell q-q as new orders proved somewhat lethargic, but its operating margin hit a record 4Q high of 21.5% on the recognition of sales on high-margin orders.

2019 outlook: Looking ahead to 2019, we keep our previous earnings forecasts largely unchanged but now expect stronger earnings polarization over the course of the year, which will likely be characterized by weakness in 1H and strength in 2H. Parent-based new orders should start to increase gradually from 2Q (after weakening in 1Q) thanks to orders relating to one of its customer's QD-OLED line conversion and a Chinese panel maker's 6G investments. Meanwhile, SFA Semicon should wrap up its investments in the second fab in the Philippines and enjoy sales growth as it adds new customers.

Raising target price to KRW51,000 and maintaining BUY: We keep the stock at BUY but raise our target price by 10% to KRW51,000, applying a 15% premium to the industry's 2019 average EV/EBITDA multiple to reflect a better order outlook for 2H. The shares have gained 27% ytd, closing in on our previous target price. Moreover, anticipation of an earnings improvement should expand further in 2H. The recent rally—on rapidly increasing expectations of new orders relating to the A5 expansion—has lifted the shares near their previous high, which was hit in 2017, a year when the firm saw new orders of KRW1.3t-1.4t (driven by A3-related orders from a customer) versus a 2019 new order forecast of KRW1t. All in all, we recommend adopting a trading buy strategy for a while given the somewhat demanding share price.

SUMMARY OF 4Q RESULTS

(KRWb)	4Q18	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	391.0	(8.2)	(0.4)	(5.7)	1.9
Operating profit	67.1	31.6	17.9	45.9	35.7
Pre-tax profit	51.0	(22.3)	(7.6)	151.3	2.6
Net profit	37.6	(22.8)	(8.2)	191.4	(4.7)
Margins (%)					
Operating profit	17.2				
Pre-tax profit	13.0				
Net profit	9.6				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2017	2018E	2019E
Multiples (x)			
P/E	8.1	9.6	9.8
P/B	2.0	1.9	1.5
EV/EBITDA	4.5	4.6	4.0
Div yield (%)	2.8	2.9	2.9
EPS growth (% y-y)	151.7	(16.4)	(2.0)
ROE (%)	29.3	21.2	18.0
Per-share data (KRW)			
EPS	5,484	4,582	4,491
BVPS	21,646	23,214	30,352
DPS	1,245	1,278	1,278

4Q review

(KRWb)	4Q18P	4Q17	3Q18	Chg	
				(% y-y)	(% q-q)
Sales	391.0	425.9	392.7	(8.2)	(0.4)
Operating profit	67.1	51.0	56.9	31.5	17.8
Pre-tax profit	51.0	65.7	55.2	(22.4)	(7.6)
Net profit	37.6	48.7	40.9	(22.8)	(8.2)
Margins (%)					
Operating profit	17.2	12.0	14.5		
Pre-tax profit	13.0	15.4	14.1		
Net profit	9.6	11.4	10.4		

Source: Company data

Full-year forecast revisions

(KRWb)	2018E			2019E		
	Old	New	Diff (%)	Old	New	Diff (%)
Sales	1,584.4	1,560.7	(1.5)	1,647.1	1,626.1	(1.3)
Operating profit	214.9	236.0	9.8	220.5	219.7	(0.4)
Pre-tax profit	193.6	224.3	15.8	222.5	222.0	(0.2)
Net profit	145.2	169.9	17.0	166.9	166.5	(0.2)

Source: Samsung Securities estimates

Target price calculation

(KRWb)		Note
EBITDA	285.0	2019E
EV/EBITDA multiple	4.5	Average of domestic OLED equipment makers
Premium (%)	15	Order outlook Premium
Operating value (A)	1,460.1	
Non-operating value (B)	382.8	
Net cash	382.8	
Total value to shareholders (A+B)	1,842.9	
Fair value per share (KRW)	51,322	
Target price (KRW)	51,000	
Current price (KRW)	44,150	As of Feb 11 close
Upside (%)	15.5	

Source: Samsung Securities estimates

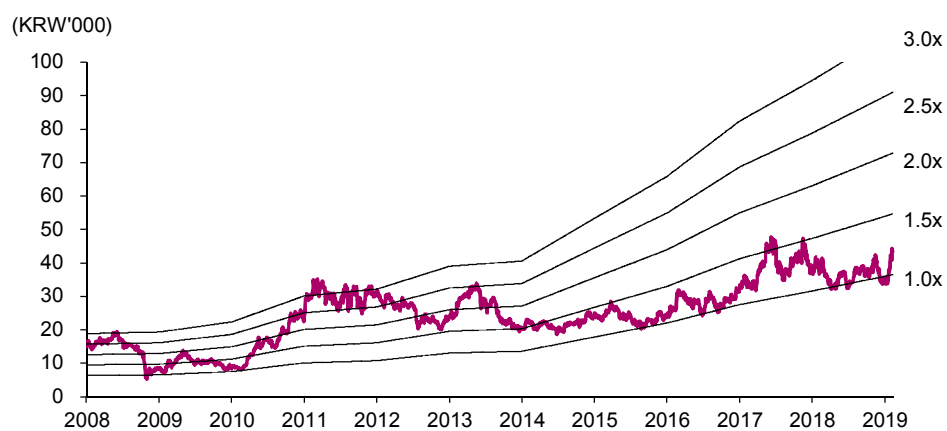
Results and forecasts

(KRWb)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18P	1Q19E	2Q19E	3Q19E	4Q19E	2017	2018E	2019E
New orders	651.5	207.2	291.5	142.1	346.1	111.6	151.3	129.2	100.0	250.0	300.0	350.0	1,292.2	738.2	1,000.0
Parent-based sales	308.1	431.5	316.8	257.4	259.5	235.5	231.7	217.7	201.0	252.3	293.7	280.0	1,313.9	944.3	1,027.1
Consolidated sales	461.5	574.8	458.2	425.9	404.3	372.8	392.7	391.0	337.2	383.4	451.6	453.9	1,920.4	1,560.7	1,626.1
Operating profit	44.4	78.1	62.6	51.0	51.4	60.6	56.9	67.1	37.0	55.9	67.1	59.8	236.1	236.0	219.7
Operating margin (%)	9.6	13.6	13.7	12.0	12.7	16.3	14.5	17.2	11.0	14.6	14.9	13.2	12.3	15.1	13.5

Note: SFA Semiconductor included in consolidated results from 1Q16; SNU Precision included in consolidated results from 1Q17

Source: Company data, Samsung Securities estimates

Forward P/B band



Source: Company data, Samsung Securities

Income statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Sales	1,320	1,920	1,561	1,626	1,762
Cost of goods sold	1,126	1,595	1,257	1,335	1,455
Gross profit	194	325	304	291	307
Gross margin (%)	14.7	16.9	19.5	17.9	17.4
SG&A expenses	73	89	68	71	77
Operating profit	121	236	236	220	230
Operating margin (%)	9.2	12.3	15.1	13.5	13.1
Non-operating gains (losses)	(16)	29	(12)	2	6
Financial profit	16	7	9	10	12
Financial costs	12	15	10	8	7
Equity-method gains (losses)	0	0	2	1	1
Other	(20)	37	(13)	(0)	(0)
Pre-tax profit	105	265	224	222	236
Taxes	26	62	54	56	57
Effective tax rate (%)	24.4	23.3	24.3	25.0	24.2
Profit from continuing operations	80	203	170	167	179
Profit from discontinued operations	0	0	0	0	0
Net profit	80	203	170	167	179
Net margin (%)	6.0	10.6	10.9	10.2	10.2
Net profit (controlling interests)	78	197	165	161	173
Net profit (non-controlling interests)	1	6	5	5	6
EBITDA	194	310	306	286	294
EBITDA margin (%)	14.7	16.1	19.6	17.6	16.7
EPS (parent-based) (KRW)	2,179	5,484	4,582	4,491	4,826
EPS (consolidated) (KRW)	2,216	5,663	4,731	4,637	4,983
Adjusted EPS (KRW)*	2,179	5,484	4,582	4,491	4,826

Cash flow statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	164	377	207	235	247
Net profit	80	203	170	167	179
Non-cash profit and expenses	143	127	125	121	116
Depreciation	74	74	70	67	64
Amortization	0	0	0	0	0
Other	70	53	56	54	52
Changes in A/L from operating activities	(35)	85	(33)	2	4
Cash flow from investments	(77)	(53)	(57)	(60)	(61)
Change in tangible assets	(26)	(78)	(50)	(50)	(50)
Change in financial assets	1	(44)	(7)	(10)	(11)
Other	(51)	69	0	(0)	(0)
Cash flow from financing	(58)	(6)	(202)	47	(93)
Change in debt	(63)	(38)	(37)	(30)	(50)
Change in equity	1	16	0	0	0
Dividends	(7)	(20)	(45)	(43)	(43)
Other	10	35	(120)	120	0
Change in cash	29	309	(51)	222	93
Cash at beginning of year	247	276	586	535	757
Cash at end of year	276	586	535	757	850
Gross cash flow	223	330	295	287	295
Free cash flow	136	294	157	185	197

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	824	1,133	1,041	1,290	1,429
Cash & equivalents	276	586	535	757	850
Accounts receivable	149	165	142	148	160
Inventories	40	29	52	54	59
Other current assets	358	354	312	331	360
Fixed assets	682	678	656	640	627
Investment assets	9	11	9	9	10
Tangible assets	498	504	484	467	454
Intangible assets	124	108	108	108	108
Other long-term assets	51	55	55	55	55
Total assets	1,505	1,811	1,697	1,930	2,056
Current liabilities	457	541	459	497	534
Accounts payable	165	114	111	116	126
Short-term debt	0	0	0	0	0
Other current liabilities	292	427	347	381	408
Long-term liabilities	272	285	248	199	152
Bonds & long-term debt	207	212	182	132	82
Other long-term liabilities	65	73	66	67	70
Total liabilities	730	826	707	696	686
Owners of parent equity	569	777	777	1,016	1,146
Capital stock	9	18	18	18	18
Capital surplus	28	35	35	35	35
Retained earnings	553	730	850	968	1,099
Other	(21)	(6)	(126)	(6)	(6)
Non-controlling interests' equity	207	208	213	218	224
Total equity	776	985	990	1,234	1,370
Net debt	1	(388)	(383)	(645)	(798)

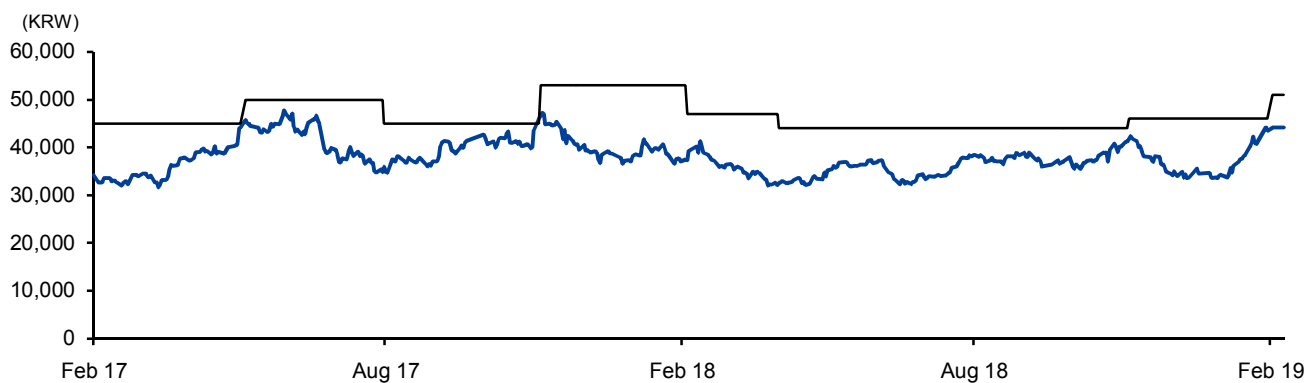
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	150.9	45.5	(18.7)	4.2	8.4
Operating profit	108.3	95.4	(0.0)	(6.9)	4.7
Net profit	158.0	155.6	(16.4)	(2.0)	7.5
Adjusted EPS**	153.7	151.7	(16.4)	(2.0)	7.5
Per-share data (KRW)					
EPS (parent-based)	2,179	5,484	4,582	4,491	4,826
EPS (consolidated)	2,216	5,663	4,731	4,637	4,983
Adjusted EPS**	2,179	5,484	4,582	4,491	4,826
BVPS	16,296	21,646	23,214	30,352	34,252
DPS (common)	560	1,245	1,278	1,278	1,278
Valuations (x)					
P/E***	20.3	8.1	9.6	9.8	9.1
P/B***	2.7	2.0	1.9	1.5	1.3
EV/EBITDA	9.2	4.5	4.6	4.0	3.4
Ratios (%)					
ROE	14.7	29.3	21.2	18.0	16.0
ROA	5.9	12.3	9.7	9.2	9.0
ROIC	12.5	27.0	30.8	28.7	31.3
Payout ratio	25.0	22.7	26.0	26.5	24.7
Dividend yield (common)	1.3	2.8	2.9	2.9	2.9
Net debt to equity	0.1	(39.4)	(38.7)	(52.3)	(58.3)
Interest coverage (x)	11.0	21.3	24.3	25.9	32.8

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2017/1/16	5/15	6/13	6/26	8/9	11/14	2018/2/13	4/11	11/14	2019/2/11
Recommendation	BUY	BUY	HOLD	HOLD	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	45,000	50,000	50,000	50,000	45,000	53,000	47,000	44,000	46,000	51,000
Gap* (average)	(20.72)	(10.49)	(10.94)	(16.75)	(12.14)	(24.45)	(23.82)	(17.92)	(19.84)	
(max or min)**	(1.67)	(4.50)	(4.50)	(4.50)	2.44	(10.75)	(12.02)	(6.25)	(3.91)	

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

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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%)

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