

BH Flex (090460.KQ)

Boasts valuation merit and foldable smartphone momentum

Company Comment | Feb 12, 2019

Despite its recent share price rally, BH Flex's valuations remain low due to the excessive share price decline the company experienced on concerns over sluggish smartphone sales at a major client. We believe that the firm boasts valuation merit thanks to rising expectations for foldable smartphones and a likely earnings recovery.

Concerns already reflected; foldable smartphone momentum rising

We believe that concerns over sluggish smartphone sales at a major US client have already been reflected in BH Flex's share price, and that the firm's shares are undervalued in light of rising foldable smartphone momentum.

The company's shares are currently trading at the bottom of its P/E band due to concerns over slowing smartphone demand at the major US client. However, we anticipate that BH Flex's valuations will recover, with its quarterly earnings expected to rise through end-2019, after bottoming in 1Q19.

The focus on foldable smartphones should continue to build as global smartphone makers start to ramp up their product releases from end-February (spurred by the Galaxy S10 unpacking event on Feb 20) and ship in earnest from 2H19. If consumer sentiment exceeds expectations, we predict that BH Flex's valuations will recover.

For reference, the ASP for BH Flex's flagship product, flexible printed circuit board (FPCB), is expected to rise due to foldable smartphones' larger display sizes.

Earnings to recover in 2H19, after bottoming out in 1Q19

Weighed upon by slowing smartphone demand at its major US client, BH Flex announced 4Q18 OP of only W33.1bn (-17.9% y-y, -18.4% q-q; OPM of 14.7%), missing our estimates and consensus. However, it is positive that the company posted a solid OPM despite top-line decline. Pre-tax profit and NP largely exceeded our estimates thanks to higher forex-related gains and lower interest expenses (following loans repayments).

Profitability should continue to fall q-q in 1Q19, owing to low seasonality for the US client's smartphones. However, we believe that BH Flex's shares are attractively valued, noting that: 1) its earnings should recover in 2H19, after bottoming out in 1Q19; and 2) the firm boasts strong mid/long-term growth potential thanks to the increasing penetration of OLED displays and rising foldable smartphone momentum.

4Q18 review

(Unit: Wbn, %)

	4Q17	1Q18	2Q18	3Q18	4Q18P					1Q19E
					Actual	y-y	q-q	Estimate	Consen	
Sales	280.2	134.0	135.7	272.6	225.6	-19.5	-17.2	257.0	241.0	136.7
OP	40.3	9.3	9.5	40.5	33.1	-17.9	-18.4	37.6	33.7	9.8
OPM	14.4	6.9	7.0	14.9	14.7			12.2	14.0	7.1
Pre-tax profit	22.7	10.4	18.2	38.6	48.7	114.7	26.1	35.2	20.0	11.6
NP (excl minority interests)	13.7	8.5	15.9	21.8	46.3	238.1	112.1	26.1	25.6	9.2

Note: IFRS consolidated; Source: WISEfn, NH I&S Research Center estimates

Buy (maintain)

TP **W26,000 (maintain)**
CP ('19/2/11) **W19,600**

Sector	IT parts
Kospi/Kosdaq	2,180.73 / 733.47
Market cap (common)	US\$545.79mn
Outstanding shares (common)	31.4mn
52W high ('18/06/12)	29,250W
low ('18/11/22)	14,350W
Average trading value (60D)	US\$9.52mn
Dividend yield (2018E)	0.00%
Foreign ownership	16.5%

Major shareholders
GH Lee and 2 others 23.5

Share perf	3M	6M	12M
Absolute (%)	10.4	-22.7	0.0
Relative (%)	3.5	-17.3	14.9

	2017	2018P	2019E	2020F
Sales	691	768	807	924
Chg	85.9	11.1	5.1	14.5
OP	76	92	99	122
OPM	11.0	12.0	12.3	13.2
NP	46	92	94	106
EPS	1,483	2,955	2,987	3,376
Chg	TTP	99.2	1.1	13.0
P/E	18.4	5.7	6.6	5.8
P/B	5.6	2.1	1.8	1.4
EV/EBITDA	9.6	4.6	4.2	2.8
ROE	35.8	46.5	32.1	27.0
Debt/equity	240.3	145.3	127.8	130.7
Net debt	84	16	-76	-185

Unit: 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



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Earnings forecasts (IFRS consolidated)

(Unit: Wbn, %)

		2017	2018P	2019E	2020F
Sales	- Revised	691.3	767.9	807.0	923.7
	- Previous	-	808.7	924.0	1,026.3
	- Change	-	-5.0	-12.7	-10.0
OP	- Revised	75.7	92.4	99.4	121.5
	- Previous	-	98.4	119.0	138.0
	- Change	-	-6.1	-16.4	-11.9
OPM	- Revised	11.0	12.0	12.3	13.2
EBITDA		98.0	119.0	128.3	153.3
NP (excl minority interests)		46.4	92.5	93.7	105.9
EPS	- Revised	1,483	2,955	2,987	3,376
	- Previous	-	2,667	3,085	3,599
	- Change	-	10.8	-3.2	-6.2
P/E		18.4	5.7	6.6	5.8
P/B		5.6	2.1	1.8	1.4
EV/EBITDA		9.6	4.6	4.2	2.8
ROE		35.8	46.5	32.1	27.0

Note: EPS, P/E, P/B, and ROE based on NP (excluding minority interests)

Source: NH I&S Research Center estimates

Annual earnings forecasts, by product

(Unit: Wbn, %)

	2017	2018P	2019E	2020F	2021F
Sales	691.3	767.9	807.0	923.7	998.5
Display FPCB (Non N.A. Customer)	192.2	171.4	174.4	183.1	225.8
Display FPCB (N.A. Customer)	362.0	482.0	515.7	618.9	649.8
Display FPCB (China Panel Makers)	36.9	23.9	23.0	23.4	23.9
Key PBA FPCB	30.9	9.3	8.8	8.5	8.3
Battery FPCB	30.8	50.3	55.1	59.7	60.6
Others	38.5	31.0	30.1	30.1	30.1
OP	75.7	92.4	99.4	121.5	138.4
OPM	11.0	12.0	12.3	13.2	13.9
Pre-tax profit	58.7	115.8	118.6	134.1	149.2
NP (excl minority interests)	46.4	92.5	93.7	105.9	117.9

Source: BH Flex, NH I&S Research Center estimates

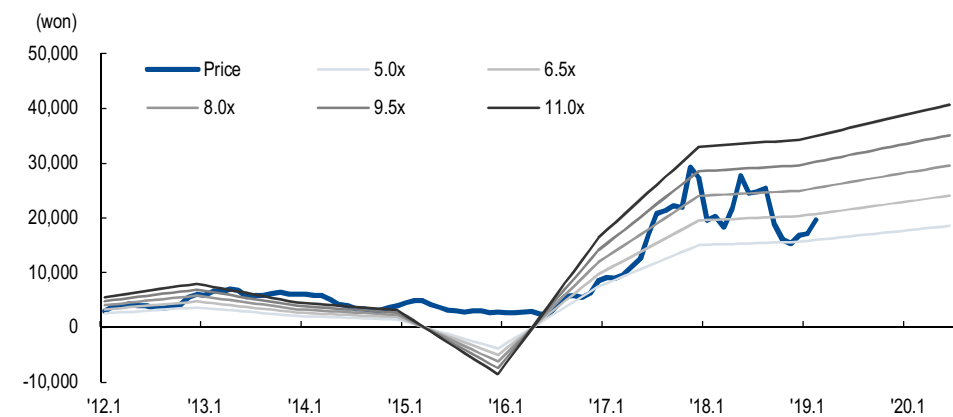
Quarterly earnings forecasts, by product

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18P	1Q19E	2Q19F	3Q19F	4Q19F
Sales	134.0	135.7	272.6	225.6	136.7	137.3	304.5	228.5
Display FPCB (Non N.A. Customer)	51.9	44.7	40.2	34.6	51.7	47.6	41.9	33.2
Display FPCB (N.A. Customer)	50.0	62.0	205.0	165.0	52.9	59.5	233.9	169.4
Display FPCB (China Panel Makers)	6.7	6.5	5.5	5.2	6.4	6.2	5.2	5.2
Key PBA FPCB	3.5	3.3	1.8	0.7	3.0	3.3	1.8	0.7
Battery FPCB	13.7	11.1	12.2	13.3	14.8	13.0	13.9	13.4
Others	8.2	8.1	7.9	6.8	7.9	7.9	7.7	6.6
OP	9.3	9.5	40.5	33.1	9.8	9.8	46.0	33.9
OPM	6.9	7.0	14.9	14.7	7.1	7.1	15.1	14.8
Pre-tax profit	10.4	18.2	38.6	48.7	11.6	10.7	43.9	52.5
NP (excl minority interests)	8.5	15.9	21.8	46.3	9.2	8.4	34.7	41.4

Source: BH Flex, NH I&S Research Center estimates

Forward P/E band



Source: DataGuide, NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Sales	691	768	807	924
Growth (%)	85.9	11.1	5.1	14.5
COGS	581	636	666	756
Gross Profit	110	132	141	168
Gross margin (%)	16.0	17.1	17.5	18.2
SG&A	35	39	42	47
Operating Income	76	92	99	122
Growth (%)	TTP	22.0	7.7	22.2
Operating margin (%)	11.0	12.0	12.3	13.2
EBITDA	98	119	128	153
Non-Operating Profits	-17	23	19	13
Financial Income(Costs)	-14	-6	-6	-6
Other Non-Operating Profits	-10	24	20	12
Gains(Losses) in Associates, Subsidiaries and JVs	7	5	5	6
Pre-tax Profit from Cont. Op.	59	116	119	134
Income Taxes	12	23	25	28
Profit from Continuing Op.	46	92	94	106
Net Profit	46	92	94	106
Growth (%)	TTP	99.3	1.4	13.0
Net margin (%)	6.7	12.0	11.6	11.5
Net Profit of Parent	46	92	94	106
Net Profit to Non-Controlling	0	0	0	0
Other Comprehensive Income	-4	0	0	0
Total Comprehensive Income	43	92	94	106

Valuation / Profitability / Stability				
	2017/12A	2018/12P	2019/12E	2020/12F
Price/ Earning (X)	18.4	5.7	6.6	5.8
Price/ Book Value (X)	5.6	2.1	1.8	1.4
Price/ Gross Cash Flow (X)	7.6	3.7	4.2	3.7
Price/ Sales (X)	1.2	0.7	0.8	0.7
EV/ EBITDA (X)	9.6	4.6	4.2	2.8
EV/ EBIT (X)	12.4	5.9	5.4	3.5
Fully diluted EPS (W)	1,483	2,955	2,987	3,376
BVPS (W)	4,885	7,814	10,801	14,177
Sales PS (W)	22,109	24,543	25,718	29,437
ROE (%)	35.8	46.5	32.1	27.0
ROA (%)	11.2	16.5	13.6	11.8
ROIC (%)	23.2	26.2	25.8	30.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Total Cash Dividend (Wbn)	0	0	0	0
Cash DPS (W)	0	0	0	0
Net debt(cash)/ equity (%)	55.2	6.5	-22.5	-41.6
Debt/ equity (%)	240.3	145.3	127.8	130.7
Interest-Bearing Debts (Wbn)	203	182	179	168
Current Ratio (%)	131.3	161.6	180.3	184.5
Total shares (mn)	31	31	31	31
Par value (W)	500	500	500	500
Share price (W)	27,300	16,800	19,600	19,600
Market Cap (Wbn)	854	527	615	615

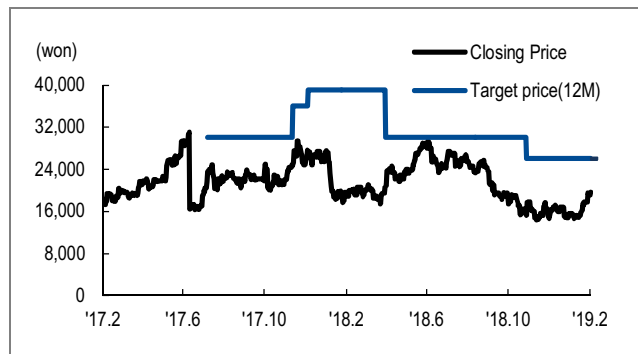
STATEMENT OF FINANCIAL POSITION				
(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Cash and Cash Equivalents	83	132	217	310
Accounts Receivables	157	128	124	132
Total Current Assets	336	383	527	746
Tangible Assets	164	190	202	210
Investment Assets	8	16	29	54
Non-Current Assets	184	219	245	281
Assets	520	602	772	1,027
Short-Term Debt	106	88	84	77
Account Payables	111	77	73	77
Current Liabilities	256	237	292	404
Long-Term Debt	98	95	95	91
Long-Term Allowance	13	25	46	86
Non-Current Liabilities	111	119	141	178
Liabilities	367	356	433	582
Capital Stock	16	16	16	16
Capital Surplus	28	28	28	28
Retained Earnings	105	197	291	397
Non-Controlling Interests Equity	0	0	0	0
Shareholders' Equity	153	245	339	445

CASH FLOW STATEMENT				
(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Operating Cash Flow	59	128	142	170
Net Profit	46	92	94	106
Depreciation&Amortization	22	27	29	32
+ Loss(Gains) from Subs	-7	-5	-5	-6
+ FC translation loss(profit)	7	0	0	0
Gross Cash Flow	113	143	147	164
- Incr. (Decr.) in WC	-45	14	25	38
Investing Cash Flow	-38	-58	-53	-67
+ Decr. In Tangible Assets	29	0	0	0
- Incr. In Tangible Assets(CAPEX)	-69	-53	-40	-40
+ Disp.(Acq.) of Inv. Assets	-7	-2	-8	-19
Free Cash Flow	-9	75	102	130
Net Cash Flow	21	70	89	103
Financing Cash Flow	53	-21	-4	-11
Equity Financing	2	0	0	0
Debt Financing	51	-21	-4	-11
Incr.(Decr.) in Cash	73	49	85	92
Ending Cash and Cash Equivalents	83	132	217	310
Net Debt (Cash)	84	16	-76	-185

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2018.11.08	Buy	W26,000(12M)	-	-
2018.04.10	Buy	W30,000(12M)	-22.1%	-2.5%
2017.12.15	Buy	W39,000(12M)	-45.8%	-29.5%
2017.11.22	Buy	W36,000(12M)	-25.7%	-18.3%
2017.07.18	Buy	W30,000(12M)	-25.7%	-16.8%

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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 Feb 8, 2019).

- NH I&S' stock rating distribution

Buy	Hold	Sell
78.3%	21.7%	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 BH Flex as of the preparation date.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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