

# HyLok Korea (013030 KQ)

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Rating **MARKETPERFORM**  
maintain

6M TP (W) **20,000**  
maintain

CP (W)  
(19.02.11) **18,350**

Machinery

## Recovery slow to gain traction

### MARKETPERFORM and 6M TP of W20,000 maintained

- The target price of W20,000 is derived by applying a target P/B of 0.8x to the 2019E BPS of W25,240 (slightly revised down from the previous forecast of W25,472). Our lower target multiple (a 20% discount to the two-year historical P/B of 1.0x) reflects the company's weaker order book and intense market competition.

### 4Q18 results indicate spring still not in sight

- For 4Q18, HyLok Korea reported a consolidated OP of W1.0bn (down 84.0% yoy) on revenue of W30.1bn (down 17.9% yoy), with an OP margin of 3.3% (down 13.6%p yoy). Revenue missed our estimate (W34.2bn) and the market consensus (W32.8bn), respectively, by 12.0% and 8.2%. OP also fell below our estimate (W4.4bn) and the consensus (W3.2bn), respectively, by 77.2% and 68.8%.

- The revenue drop is attributable to the softer order intake. While new orders decreased by an estimated 1.9% yoy to W132.0bn for the whole of 2018, the company saw the numbers rise 11.9% yoy to W32.0bn in 3Q18 and 16.2% yoy to W34.1bn in 4Q18, which will be booked as revenue in three to six months' time.

- 4Q18 OP came in surprisingly low, impacted by higher cost of goods sold to revenue ratio (up 12.2%p yoy to 80.9%). Revenue expanded qoq, but OP margin plunged due to a drop in the revenue share of high-margin products and an increase in outsourcing costs.

### Earnings now out of the trough, but recovering slowly

- Earnings are likely to further decrease in 1Q19, despite the recent growth in order receipts, led by the high comparison base. In light of this, we revise down our forecast for 2019 consolidated NP by 17.1%.

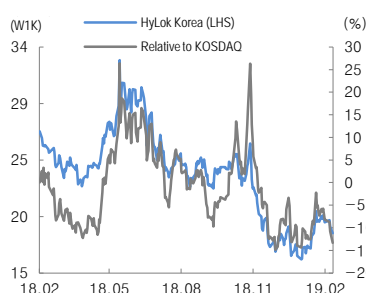
- WTI crude prices have climbed 24.2% to \$52.7/bbl., up from the December 24 low of \$42.5b/bbl., but they are still too low to guarantee a stable stream of plant orders for HyLok Korea. New orders are forecast to increase 11.5% yoy to W147.2bn in 2019, showing a slow recovery.

- However, HyLok Korea has W130bn in net cash and continues to generate profits even when faced with lowest order intake ever. It also has raised dividends per share to W500 (equivalent to a dividend yield of 2.7%; up from W400 in 2017). A long-term approach to the stock is still recommended.

Industry 4.0 ■ Neutral Green

KOSDAQ	733.47
Market cap (Wbn)	250
Market cap portion (%)	0.10
Paid-in capital (common; Wbn)	7
52w high/low (W)	32,900 / 16,150
120d avg. trading volume (Wbn)	0.6
Foreign ownership (%)	47.71
Major shareholders	Moon Hyoo-geon+6: 39.54% Invesco Canada Ltd.+4: 17.86%

(%)	1M	3M	6M	12M
Abs. return	7.0	-8.0	-20.7	-28.7
Rel. return	0.1	-13.8	-15.2	-18.1



(Wbn, %)									
	4Q17	3Q18	Previous estimate	4Q18			1Q19		
				Result	YoY	QoQ Consensus	Daishin estimate	YoY	QoQ
Revenue	37	29	34	30	-17.9	4.0 33	33	-6.2	7.9
OP	6	3	4	1	-84.0	-61.3 3	3	-41.4	213.8
NP	0	2	2	1	567.9	-29.0 1	6	22.8	282.9

	2016	2017	Previous estimate	2018(F)			Growth	
				Daishin estimate	Chg	Consensus	2017	2018(F)
Revenue	177	183	128	124	-3.2	127	3.2	-32.0
OP	37	36	14	11	-24.2	13	-4.7	-69.5
NP	30	24	12	12	-1.2	12	-22.2	-48.0

Source: HyLok Korea, FnGuide, Daishin Securities Research Center

Operating results and major financial data (Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	177	183	124	131	147
OP	37	36	11	14	21
Pretax profit	40	31	16	19	25
NP	30	24	12	15	19
NP (controlling int.)	30	24	12	15	19
EPS	2,219	1,728	899	1,070	1,418
PER	9.5	13.0	20.4	17.1	12.9
BPS	22,443	24,092	24,582	25,240	26,244
PBR	0.9	0.9	0.7	0.7	0.7
ROE	10.3	7.4	3.7	4.3	5.5

Note: EPS, BPS, and ROE are based only on the controlling interest.  
Source: HyLok Korea, Daishin Securities Research Center

Yearly earnings forecast revision (Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	128	146	124	131	-3.2	-10.2
SG&A expense	23	23	22	23	-3.2	0.0
OP	14	21	11	14	-24.2	-34.4
OP margin	11.1	14.6	8.7	10.7	-2.4	-3.9
Non-operating profit	3	3	5	5	81.8	78.0
Pretax profit	17	24	16	19	-6.3	-20.8
NP (controlling int.)	12	18	12	15	-1.2	-17.1
NP margin	10.2	12.6	9.8	11.1	-0.4	-1.5
EPS (controlling int.)	910	1,291	899	1,070	-1.2	-17.1

Source: HyLok Korea, Daishin Securities Research Center

## HyLok Korea quarterly / yearly earnings forecasts (revised)

(Wbn)

	2017	2018P	2019E	2020E	1Q18	2Q18	3Q18	4Q18P	1Q19E	2Q19E	3Q19E	4Q19E
Order receipts	134.5	132.0	147.2	171.5	32.3	33.6	32.0	34.1	36.0	35.9	35.7	39.6
yoy(%)	(18.5)	(1.9)	11.5	16.5	(19.7)	(7.5)	11.9	16.2	11.5	11.5	11.5	11.5
as % of revenue	75.5	111.8	117.4	121.7	102.2	111.3	115.7	119.3	117.8	114.4	115.7	121.6
Revenue	182.7	124.3	131.1	147.5	34.6	30.5	29.0	30.1	32.5	32.4	32.3	33.9
yoy(%)	3.2	(32.0)	5.5	12.5	(26.3)	(36.7)	(42.9)	(17.9)	(6.2)	6.2	11.5	12.5
HQ	178.1	1,180	125.3	140.9	31.6	30.2	27.7					
Subsidiaries	4.6	62	5.8	6.6	3.0	0.4	1.3					
HQ share (%)	97.5	95.0	95.6	95.5	91.2	98.8	95.5					
Subsidiaries share (%)	2.5	5.0	4.4	4.5	8.8	1.2	4.5					
Domestic sales (HQ)	96.2	62.4	66.9	78.4	16.2	15.2	15.3		16.2	17.6	16.3	16.8
Exports (HQ)	82.0	55.6	58.5	69.1	15.4	15.0	12.4		14.4	13.8	14.5	15.8
Domestic sales (%)	54.0	52.9	53.3	53.1	51.3	50.4	55.2		52.9	56.0	53.0	51.6
Exports (%)	46.0	47.1	46.7	46.9	48.7	49.6	44.8		47.1	44.0	47.0	48.4
COGS	125.0	91.0	94.1	102.1	23.8	21.7	21.2	24.4	23.8	23.5	23.0	23.7
COGS ratio (%)	68.4	73.2	71.8	69.2	68.7	71.0	73.1	80.9	73.3	72.5	71.4	70.1
GP	57.7	33.3	37.0	45.4	10.9	8.9	7.8	5.8	8.7	8.9	9.2	10.1
yoy(%)	3.8	(42.4)	11.1	22.9	(28.4)	(42.9)	(49.9)	(50.0)	(20.2)	0.8	18.5	76.0
GP margin (%)	31.6	26.8	28.2	30.8	31.3	29.0	26.9	19.1	26.7	27.5	28.6	29.9
SG&A expense	22.2	22.4	23.0	24.5	5.5	6.9	5.2	4.8	5.6	6.0	5.5	6.1
SG&A expense ratio (%)	12.2	18.0	17.5	16.6	16.0	22.6	18.1	15.8	17.1	18.3	16.9	17.9
OP	35.5	10.8	14.0	20.9	5.3	2.0	2.6	1.0	3.1	3.0	3.8	4.1
yoy(%)	(4.7)	(69.5)	28.8	49.8	(46.3)	(79.2)	(74.2)	(84.0)	(41.4)	51.3	47.7	311.1
OP margin (%)	19.4	8.7	10.7	14.2	15.4	6.4	8.9	3.3	9.6	9.2	11.7	12.2

Source: HyLok Korea, Daishin Securities Research Center

## HyLok Korea quarterly / yearly earnings forecasts (previous)

(Wbn)

	2017	2018E	2019E	2020E	1Q18	2Q18	3Q18	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Order receipts	134.5	129.9	155.5	181.2	32.3	33.6	32.0	32.1	38.7	40.2	38.3	38.4
yoy(%)	(18.5)	(3.4)	19.7	16.5	(19.7)	(7.5)	11.9	9.2	19.7	19.7	19.7	19.7
as % of revenue	75.5	106.4	111.3	115.5	102.2	111.3	115.7	98.1	115.5	113.2	109.1	107.6
Revenue	182.7	128.3	146.1	164.3	34.6	30.5	29.0	34.2	35.6	36.7	36.8	37.1
yoy(%)	3.2	(29.8)	13.8	12.5	(26.3)	(36.7)	(42.9)	(6.8)	2.7	20.1	26.9	8.3
HQ	178.1	122.1	139.8	156.9	31.6	30.2	27.7	32.7	33.5	35.5	35.1	35.7
Subsidiaries	4.6	6.2	6.3	7.4	3.0	0.4	1.3	1.5	2.1	1.2	1.6	1.4
HQ share (%)	97.5	95.1	95.7	95.5	91.2	98.8	95.5	95.6	94.1	96.8	95.5	96.3
Subsidiaries share (%)	2.5	4.9	4.3	4.5	8.8	1.2	4.5	4.4	5.9	3.2	4.5	3.7
Domestic sales (HQ)	96.2	64.7	74.6	87.4	16.2	15.2	15.3	18.0	17.7	19.9	18.6	18.4
Exports (HQ)	82.0	57.4	65.2	76.9	15.4	15.0	12.4	14.7	15.7	15.6	16.5	17.3
Domestic sales (%)	54.0	53.0	53.4	53.2	51.3	50.4	55.2	55.2	52.9	56.0	53.0	51.6
Exports (%)	46.0	47.0	46.6	46.8	48.7	49.6	44.8	44.8	47.1	44.0	47.0	48.4
COGS	125.0	90.9	101.9	113.7	23.8	21.7	21.2	24.3	24.7	25.5	25.9	25.7
COGS ratio (%)	68.4	70.8	69.8	69.2	68.7	71.0	73.1	70.9	69.5	69.5	70.3	69.3
GP	57.7	37.5	44.3	50.6	10.9	8.9	7.8	9.9	10.8	11.2	10.9	11.4
yoy(%)	3.8	(35.1)	18.3	14.2	(28.4)	(42.9)	(49.9)	(13.5)	(0.1)	26.2	39.8	14.5
GP margin (%)	31.6	29.2	30.3	30.8	31.3	29.0	26.9	29.1	30.5	30.5	29.7	30.7
SG&A expense	22.2	23.2	23.0	24.5	5.5	6.9	5.2	5.5	5.6	6.0	5.5	6.1
SG&A expense ratio (%)	12.2	18.0	15.7	14.9	16.0	22.6	18.1	16.1	15.6	16.2	14.8	16.3
OP	35.5	14.3	21.3	26.1	5.3	2.0	2.6	4.4	5.3	5.2	5.5	5.3
yoy(%)	(4.7)	(59.7)	49.0	22.5	(46.3)	(79.2)	(74.2)	(28.3)	(0.5)	165.6	112.4	20.1
OP margin (%)	19.4	11.1	14.6	15.9	15.4	6.4	8.9	13.0	14.9	14.2	14.8	14.4

Source: HyLok Korea, Daishin Securities Research Center

1. Company profile

Overview

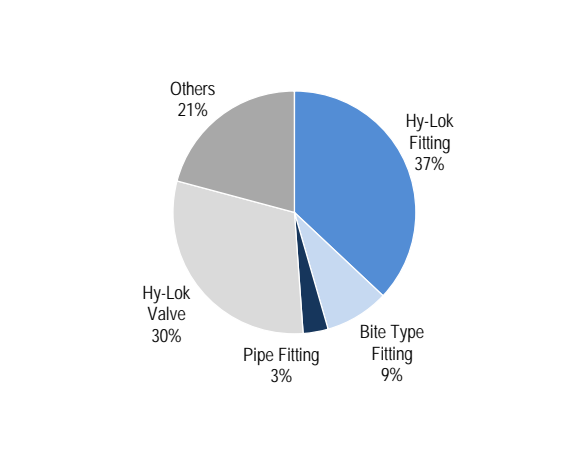
- A manufacturer of instrumentation fittings & valves
- Supplies hydraulic valves, high-precision fittings, modules, etc. to various industries such as plants, shipbuilding, and petrochemicals.
- Assets W383.6bn, liabilities W42.4bn, and equities W341.2bn
- # of outstanding shares: 13,613,232 / no treasury shares
- Payout ratio (2017): 23.2%

Share price catalysts

- Change in order receipts
- Resumption of plants orders from the Middle East
- Domestic petrochemical companies' capex investments

Note: The stock count is based on both common and preferred shares (Jun 2018)  
Source: HyLok Korea, Daishin Securities Research Center

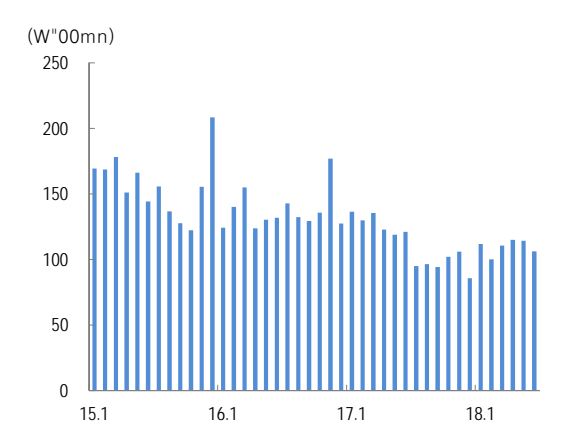
Revenue breakdown



Source: HyLok Korea, Daishin Securities Research Center

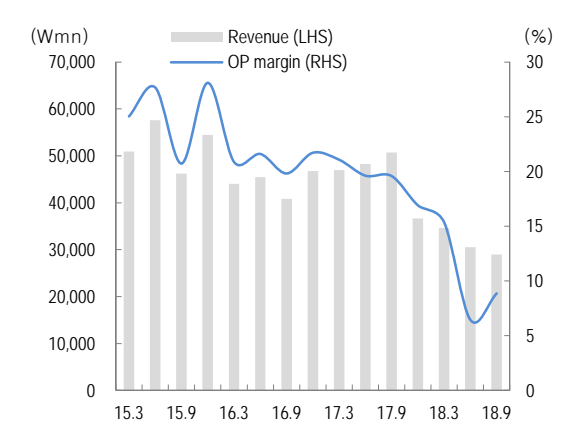
2. Earnings drivers

Quarterly order receipts



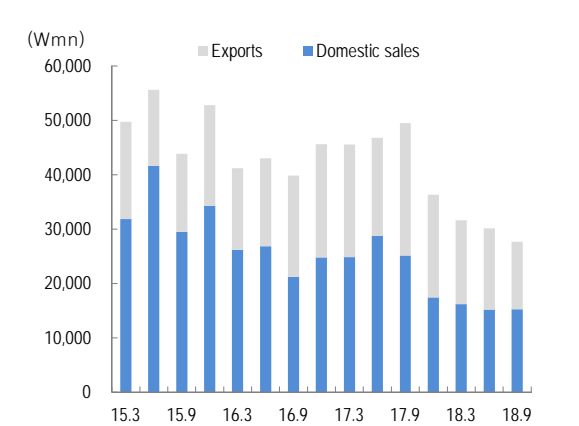
Source: HyLok Korea, Daishin Securities Research Center

Quarterly revenue and OP margin



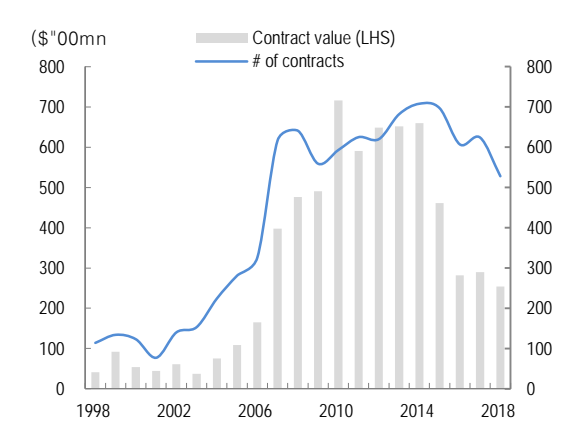
Source: HyLok Korea, Daishin Securities Research Center

Quarterly domestic sales vs. exports



Source: HyLok Korea, Daishin Securities Research Center

Korean construction companies' overseas projects



Source: HyLok Korea, Daishin Securities Research Center

## Financial statements

Income statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Revenue	177	183	124	131	147
Cost of goods sold	121	125	91	94	102
Gross profit	56	58	33	37	45
SG&A expenses	18	22	22	23	25
OP	37	36	11	14	21
OP margin	21.0	19.4	8.7	10.7	14.2
EBITDA	42	40	16	19	25
Non-OP	3	-4	5	5	5
Income from affiliates	0	0	0	0	0
Financial revenue	2	2	3	2	2
FX related gains	3	1	2	2	2
Financial expense	0	-2	-1	0	0
FX related losses	0	2	1	0	0
Others	1	-4	4	3	3
Income before taxes	40	31	16	19	25
Income tax expense	-10	-8	-4	-5	-6
Income from cont. op.	30	24	12	15	19
Income from discount. op.	0	0	0	0	0
NP	30	24	12	15	19
NP margin	17.1	12.9	9.8	11.1	13.1
NP for non-cont. interest	0	0	0	0	0
NP for contr. interest	30	24	12	15	19
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-1	0	0	0	0
Comprehensive income	29	24	12	15	19
Comp. income for non-cont. int.	0	0	0	0	0
Comp. income for contr. int.	29	24	12	15	19

Valuation metrics (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
EPS	2,219	1,728	899	1,070	1,418
PER	9.5	13.0	20.4	17.1	12.9
BPS	22,443	24,092	24,582	25,240	26,244
PBR	0.9	0.9	0.7	0.7	0.7
EBITDAPS	3,053	2,974	1,144	1,364	1,867
EV/EBITDA	4.4	4.4	5.2	4.0	2.7
SPS	13,011	13,421	9,128	9,630	10,834
PSR	1.6	1.7	1.8	1.9	1.7
CFPS	3,300	3,126	1,713	1,890	2,342
DPS	400	400	400	400	400

Financial ratios (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
<b>Growth potential</b>					
Revenue growth	-15.4	3.2	-32.0	5.5	12.5
OP growth	-30.5	-4.7	-69.5	28.8	49.8
NP growth	-30.1	-21.8	-48.2	19.0	32.5
<b>Profitability</b>					
ROIC	14.8	13.8	4.6	6.4	9.2
ROA	10.8	9.7	2.8	3.6	5.2
ROE	10.3	7.4	3.7	4.3	5.5
<b>Stability</b>					
Debt ratio	14.4	13.3	12.3	12.7	13.2
Net borrowings ratio	-35.3	-40.8	-51.5	-52.0	-51.8
Interest coverage ratio	111.4	69.6	0.0	0.0	0.0

Source: HyLok Korea, Daishin Securities Research Center

Balance sheet (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Current assets	249	262	266	278	295
Cash & cash equiv.	17	54	98	111	124
Trade & other receive.	55	55	38	41	48
Inventories	67	51	35	37	41
Other current assets	109	102	95	89	83
Long-term assets	105	118	117	118	118
Tangible assets	78	85	85	85	85
Investments in affiliates	0	0	0	0	-1
Other long-term assets	27	33	33	33	33
Total assets	353	379	384	395	413
Current liabilities	36	34	29	29	29
Payables & other liab.	16	13	11	11	12
Borrowings	15	15	15	15	15
Current portion of LT debts	0	2	0	0	0
Other current liabilities	6	4	3	2	2
Long-term liabilities	8	10	13	16	19
Borrowings	0	0	0	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	8	10	13	16	19
Total liabilities	44	44	42	44	48
Controlling interest	306	328	335	344	357
Capital stock	7	7	7	7	7
Capital surplus	24	24	24	24	24
Retained earnings	275	298	305	314	328
Other capital changes	0	-1	-1	-1	-1
Non-controlling interest	3	7	7	7	8
Total shareholder's equity	309	335	342	351	365
Net borrowings	-109	-137	-176	-182	-189

Cash flow statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	23	42	50	17	16
NP	30	24	12	15	19
Non-cash items	15	19	11	11	13
Depreciation	4	5	5	5	4
FX gains	-2	4	1	0	0
Equity method gain	0	0	0	0	0
Others	12	10	5	6	8
Chg in assets & liab.	-9	8	29	-6	-11
Other cash flows	-13	-9	-2	-3	-4
Investing cash flow	-29	3	7	6	6
Investment assets	-19	8	1	0	0
Tangible assets	-6	-5	-5	-5	-5
Others	-4	0	11	11	10
Financing cash flows	-6	-6	-7	-5	-5
Short-term borrowings	0	0	0	0	0
Bonds payable	0	0	0	0	0
Long-term borrowings	0	0	0	0	0
Rights offering	0	0	0	0	0
Cash dividends	-6	-6	-5	-5	-5
Others	0	0	-2	0	0
Net chg in cash	-11	37	44	13	13
Beginning cash balance	29	17	54	98	111
Ending cash balance	17	54	98	111	124
NOPLAT	28	27	8	11	16
FCF	25	26	7	9	14

[Daishin House View: Industry 4.0 safety rating]

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- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)	Neutral Green (neutral)	Sky Blue (positive)
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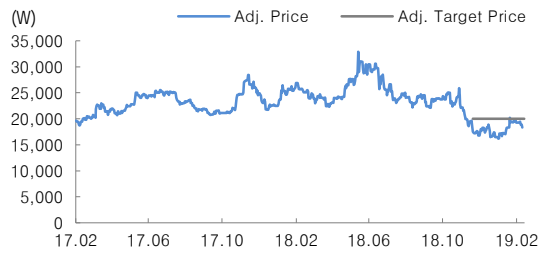
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[Investment rating & Target price history]

HyLok Korea (013030 KQ)



Date	19.02.12	18.11.21
Rating	MKTPERF.	MKTPERF.
Target price	20,000	20,000
Diff. (avr. %)		(10.27)
Diff. (max/min., %)		1.00
Date		
Rating		
Target price		
Diff. (avr. %)		
Diff. (max/min., %)		
Date		
Rating		
Target price		
Diff. (avr. %)		
Diff. (max/min., %)		
Date		
Rating		
Target price		
Diff. (avr. %)		
Diff. (max/min., %)		

Investment rating breakdown and framework (Feb 9, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	85.6%	13.2%	1.1%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.