

# Interojo (119610 KQ)

Lee Min-young

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Rating

**BUY**  
maintain

6M TP (W)

**30,000**  
maintain
CP (W)  
(19.02.15)
**23,950**

Small caps

## Domestic ops in recovery mode

### BUY and 6M TP of W30,000 maintained

- The target price of W30,000 is derived by applying a target P/E of 17.8x (2019E global peer average) to the 2019E EPS.
- Full-year OP fell, hurt by the sluggish domestic operations during the first three quarters. But we remain positive on the company in view of domestic sales that began to turn around in the last quarter.

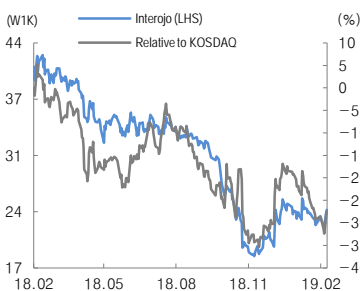
### 4Q18 revenue holds up well, while OP falters

- For 4Q18, Interojo reported OP of W3.0bn (down 40% yoy; 15% qoq) on revenue of W22.2bn (up 5% yoy; 20% qoq). Revenue matched our estimate, but OP missed our estimate by 44%.
- Revenue breakdown by product: One Day Clear W2.1bn (down 5% yoy), One Day Beauty W11.9bn (up 10% yoy), FRP W7.5bn (down 1% yoy), and conventional and other products W0.8bn (up 25% yoy).
- One Day Beauty, which accounts for 54% of total revenue, drove the company's top-line growth. The two new products, which were rolled out in October, sold well and the unit started shipping ODM orders to private brand companies in that quarter.
- Overseas sales expanded 7% yoy and 0.1% qoq to W12.6bn, exhibiting stable growth thanks to China's Single's Day (in November) and increased orders from HOYA (major Japanese customer).
- The plunge in OP owes to the surge in the COGS to sales ratio (48% in 4Q17 → 46% in 3Q18 → 55% in 4Q18) stemming from its aggressive marketing push in the domestic market, losses from inventory obsolescence, and delayed revenue recognition attributable to the political unrest in the Middle East.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	738.66
Market cap (Wbn)	264
Market cap portion (%)	0.10
Paid-in capital (common; Wbn)	6
52w high/low (W)	42,554 / 18,411
120d avg. trading volume (Wbn)	1.5
Foreign ownership (%)	11.52
Major shareholders	No Shi-cheo+4: 34.90%

(%)	1M	3M	6M	12M
Abs. return	-5.5	30.1	-27.1	-42.6
Rel. return	-11.7	20.0	-24.8	-34.1



	4Q17	3Q18	Previous estimate	Result	4Q18P			1Q19(F)		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	21	19	22	22	4.9	19.5	22	22	25.4	-2.0
OP	5	4	5	3	-39.6	-15.2	5	6	28.8	84.9
NP	4	3	4	2	-38.6	-17.8	4	5	23.1	89.0

	2016	2017	Previous estimate	Daishin estimate	Chg	Consensus	Growth	
							2017	2018(P)
Revenue	74	81	80	79	-0.1	80	9.4	-1.5
OP	23	24	19	17	-12.1	19	4.0	-29.3
NP	19	19	16	15	-11.4	16	-0.4	-24.3

Source: Interojo, FnGuide, Daishin Securities Research Center

### Operating results and major financial data

(Wbn, W, x, %)

	2016A	2017A	2018P	2019F	2020F
Revenue	74	81	79	92	109
OP	23	24	17	23	29
Pretax profit	24	24	18	23	30
NP	19	19	15	19	24
NP (controlling int.)	19	19	15	19	24
EPS	1,807	1,829	1,339	1,686	2,124
PER	21.0	21.2	17.9	14.2	11.3
BPS	8,412	9,500	10,330	11,417	13,210
PBR	4.5	4.1	2.3	2.1	1.8
ROE	23.5	20.0	13.5	15.6	17.1

Note: EPS, BPS, and ROE are based only on the controlling interest.

Source: Interojo, Daishin Securities Research Center

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

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	80	92	79	92	-0.1	0.1
SG&A expense	24	27	25	27	0.8	0.7
OP	19	24	17	23	-12.1	-5.9
OP margin	24.5	26.2	21.6	24.6	-2.9	-1.6
Non-operating profit	1	0	1	0	7.5	10.4
Pretax profit	20	24	18	23	-11.3	-5.7
NP (controlling int.)	16	20	15	19	-11.4	-5.6
NP margin	20.7	21.8	18.4	20.6	-2.3	-1.3
EPS (controlling int.)	1,512	1,841	1,339	1,686	-11.4	-8.4

Source: Interojo, Daishin Securities Research Center

Tab 1. Earnings forecast (revised)

(Wbn, %)

	2017				2018				2016	2017	2018P	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QP				
Revenue	17.6	19.3	22.6	21.1	17.3	21.4	18.5	22.2	73.7	80.6	79.4	92.3
Disposable contact lenses	10.1	10.0	12.1	13.0	9.1	11.6	10.7	13.9	41.4	45.2	45.3	60.7
One Day Clear	2.1	3.4	3.4	2.2	1.6	1.6	1.9	2.1	11.0	11.0	7.2	6.7
One Day Beauty	8.0	6.7	8.6	10.8	7.5	10.0	8.8	11.9	30.5	34.1	38.1	53.9
FRP	6.6	8.6	9.5	7.5	7.3	9.2	7.2	7.5	28.6	32.4	31.2	28.9
Conventional	0.9	0.6	0.9	0.6	1.0	0.6	0.6	0.7	3.5	3.0	2.8	2.6
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.1	0.2
Growth (%YoY)												
Revenue	11.0	9.2	18.1	0.3	-1.6	10.9	-17.9	4.9	23.8	9.4	-1.5	16.2
Disposable contact lenses	10.2	-2.7	19.6	9.1	-10.1	15.9	-11.3	7.2	31.4	9.0	0.3	33.9
One Day Clear	-27.6	38.7	26.0	-26.6	-22.2	-51.7	-44.0	-5.1	15.6	0.7	-34.6	-6.5
One Day Beauty	27.2	-15.4	17.2	21.0	-7.0	50.0	1.8	9.7	38.1	12.0	11.6	41.6
FRP	11.9	33.3	18.3	-7.2	9.7	6.8	-24.3	-0.6	22.0	13.2	-3.5	-7.3
Conventional	15.3	-27.5	9.1	-41.2	11.6	-12.7	-39.6	19.0	-22.7	-12.8	-8.1	-7.3
Others	-13.7	-16.6	-83.6	-60.2	-22.9	6.7	74.0	130.3	98.8	-58.5	45.9	14.4
OP	5.8	6.0	7.3	5.0	4.4	6.1	3.6	3.0	23.3	24.2	17.1	22.7
OP margin (%)	33.0	31.3	32.5	23.9	25.3	28.5	19.4	13.8	31.6	30.1	21.6	24.6
OP growth (%YoY)	8.7	11.8	14.2	-17.7	-24.6	1.0	-51.0	-39.6	43.1	4.0	-29.3	32.7
NP (contr. int.)	4.6	5.0	5.6	4.1	3.8	5.3	3.0	2.5	19.3	19.3	14.6	19.0
NP margin (contr. int.; %)	26.3	26.0	24.7	19.2	22.1	24.6	16.3	11.2	26.2	23.9	18.4	20.6
NP growth (%YoY)	6.2	11.8	-3.5	-14.1	-17.6	4.8	-45.6	-38.6	53.6	-0.4	-24.3	30.0

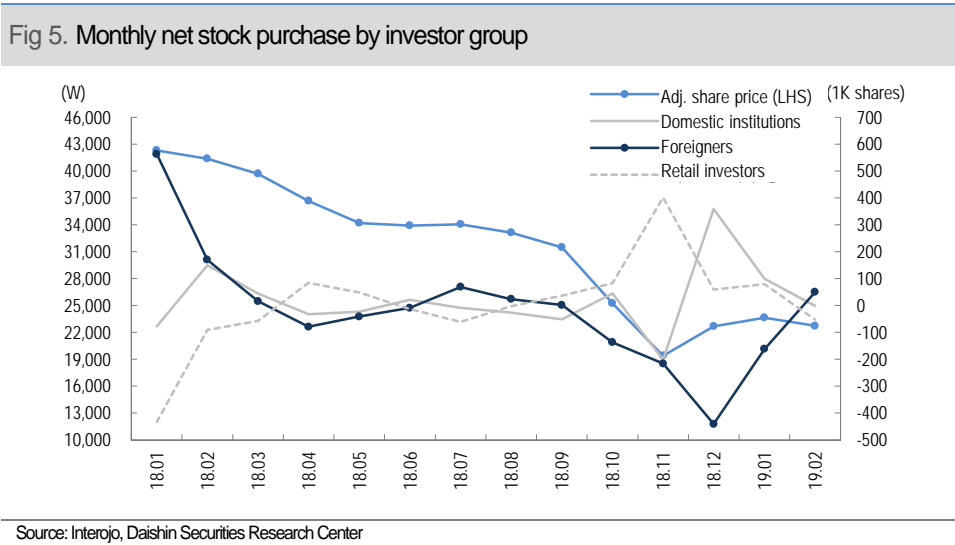
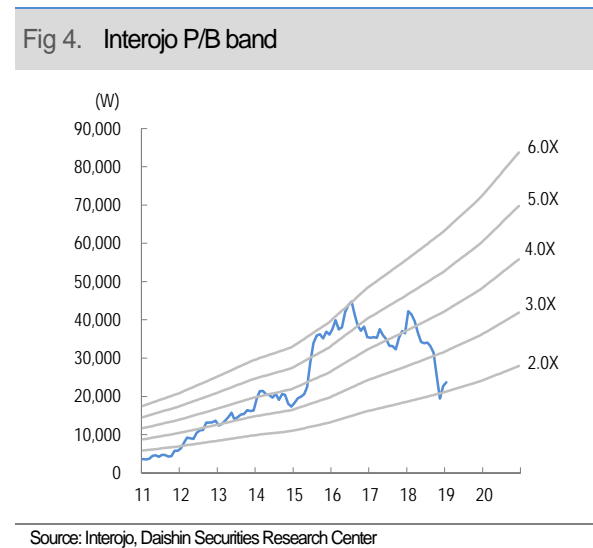
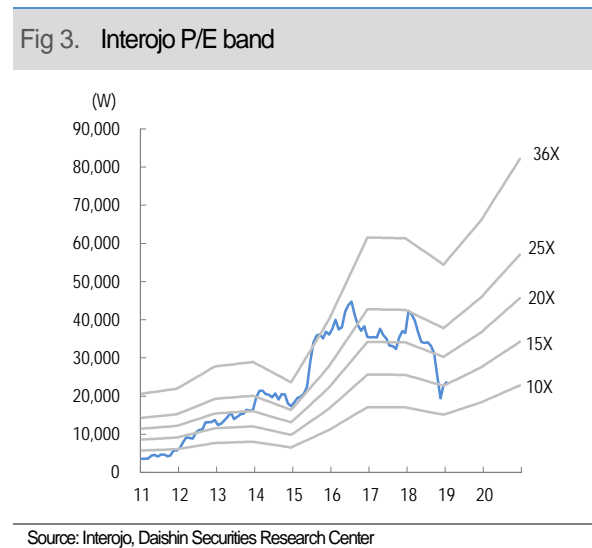
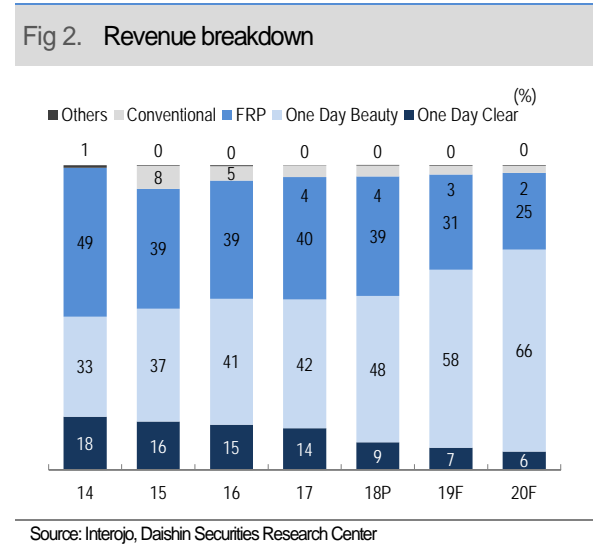
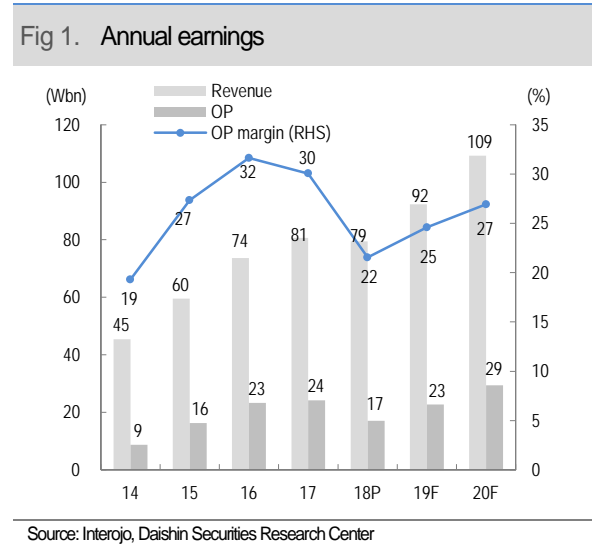
Source: Interjo, Daishin Securities Research Center

Tab 2. Earnings forecast (previous)

(Wbn, %)

	2017				2018				2016	2017	2018F	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF				
Revenue	17.6	19.3	22.6	21.1	17.3	21.4	18.5	22.2	73.7	80.6	79.5	92.2
Disposable contact lenses	10.1	10.0	12.1	13.0	9.1	11.6	10.7	14.1	41.4	45.2	45.5	60.2
One Day Clear	2.1	3.4	3.4	2.2	1.6	1.6	1.9	2.3	11.0	11.0	7.4	8.1
One Day Beauty	8.0	6.7	8.6	10.8	7.5	10.0	8.8	11.8	30.5	34.1	38.0	52.1
FRP	6.6	8.6	9.5	7.5	7.3	9.2	7.2	7.6	28.6	32.4	31.3	29.7
Conventional	0.9	0.6	0.9	0.6	1.0	0.6	0.6	0.6	3.5	3.0	2.7	2.2
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1
Growth (%YoY)												
Revenue	11.0	9.2	18.1	0.3	-1.6	10.9	-17.9	5.2	23.8	9.4	-1.4	16.0
Disposable contact lenses	10.2	-2.7	19.6	9.1	-10.1	15.9	-11.3	8.4	31.4	9.0	0.7	32.4
One Day Clear	-27.6	38.7	26.0	-26.6	-22.2	-51.7	-44.0	3.9	15.6	0.7	-32.8	8.9
One Day Beauty	27.2	-15.4	17.2	21.0	-7.0	50.0	1.8	9.2	38.1	12.0	11.5	37.0
FRP	11.9	33.3	18.3	-7.2	9.7	6.8	-24.3	0.2	22.0	13.2	-3.3	-5.0
Conventional	15.3	-27.5	9.1	-41.2	11.6	-12.7	-39.6	2.5	-22.7	-12.8	-11.1	-17.8
Others	-13.7	-16.6	-83.6	-60.2	-22.9	6.7	74.0	-15.9	98.8	-58.5	0.2	0.9
OP	5.8	6.0	7.3	5.0	4.4	6.1	3.6	5.4	23.3	24.2	19.5	24.2
OP margin (%)	33.0	31.3	32.5	23.9	25.3	28.5	19.4	24.3	31.6	30.1	24.5	26.2
OP growth (%YoY)	8.7	11.8	14.2	-17.7	-24.6	1.0	-51.0	6.8	43.1	4.0	-19.6	24.1
NP (contr. int.)	4.6	5.0	5.6	4.1	3.8	5.3	3.0	4.4	19.3	19.3	16.5	20.1
NP margin (contr. int.; %)	26.3	26.0	24.7	19.2	22.1	24.6	16.3	19.7	26.2	23.9	20.7	21.8
NP growth (%YoY)	6.2	11.8	-3.5	-14.1	-17.6	4.8	-45.6	7.7	53.6	-0.4	-14.5	22.0

Source: Interjo, Daishin Securities Research Center



Tab 3. Interojo's global peers

Company		St. Shine Optical	Ginko International	Johnson&Johnson	The Cooper Companies
Country		Taiwan	Taiwan	US	US
Share price (Feb 15)	(\$)	19	8	134	276
Market cap	(\$mn)	954	726	360,216	13,618
Revenue (\$mn)	2017A	211	196	76,450	2,139
	2018A	216	237	81,581	2,646
	2019F	231	262	81,262	2,821
OP (\$mn)	2017A	68	38	18,714	429
	2018A	65	46	20,049	744
	2019F	69	54	26,001	822
OP margin (%)	2017A	32.3	19.2	24.5	20.1
	2018A	29.9	19.5	24.6	28.1
	2019F	30.0	20.8	32.0	29.1
NP (\$mn)	2017A	52	32	1,300	373
	2018A	54	30	15,297	578
	2019F	56	41	23,225	657
NP margin (%)	2017A	24.8	16.3	1.7	17.4
	2018A	25.0	12.8	18.8	21.8
	2019F	24.4	15.5	28.6	23.3
PER (x)	2017A	30.9	20.7	21.9	29.1
	2018A	17.7	24.3	19.1	23.8
	2019F	16.9	17.9	15.6	21.1
PBR (x)	2017A	9.1	2.0	6.2	3.7
	2018A	5.1	2.1	5.4	NA
	2019F	4.7	2.0	4.9	NA
EV/EBITDA (x)	2017A	20.7	13.9	14.4	16.3
	2018A	12.6	15.0	14.4	16.7
	2019F	11.8	13.1	12.5	15.6
ROE (%)	2017A	30.1	9.5	2.0	12.7
	2018A	29.6	8.9	NA	13.9
	2019F	28.8	11.4	31.7	13.0
EPS (\$)	2017A	1.0	0.4	6.4	8.2
	2018A	1.2	1.2	6.8	11.6
	2019F	1.1	0.4	8.6	13.1
FY.M		12	12	12	10

Source: Bloomberg, Daishin Securities Research Center

Company profile

Overview

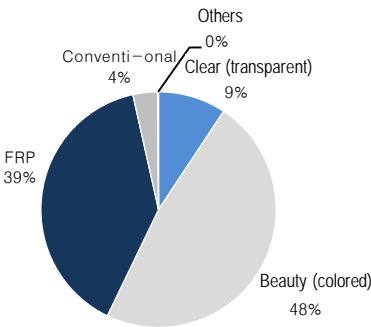
- Established in 2000; Listed on the KOSDAQ in 2010
- No. 2 contact lens provider (a 14% market share) in the W250bn domestic market, following Johnson & Johnson (50%)
- Assets W145.9bn, liabilities W25.3bn, equities W120.6bn (3Q18)
- # of outstanding shares: 10,986,749 / # of treasury shares: 1,659 (3Q18)

Share price catalysts

- Recovery in the domestic business
- New ODM business
- Growing sales from the Chinese and Japanese markets
- Won-dollar exchange rates

Source: Interjojo, Daishin Securities Research Center

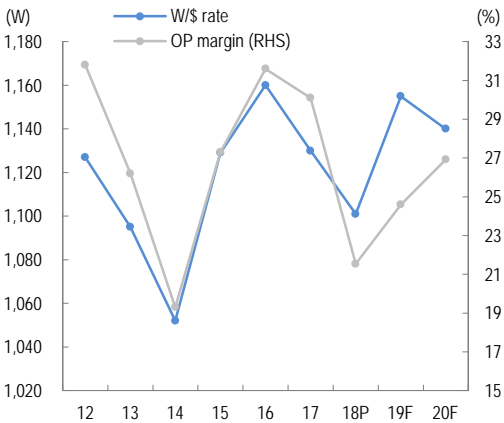
Revenue breakdown by business



Note: Based on 2018 revenue  
Source: Interjojo, Daishin Securities Research Center

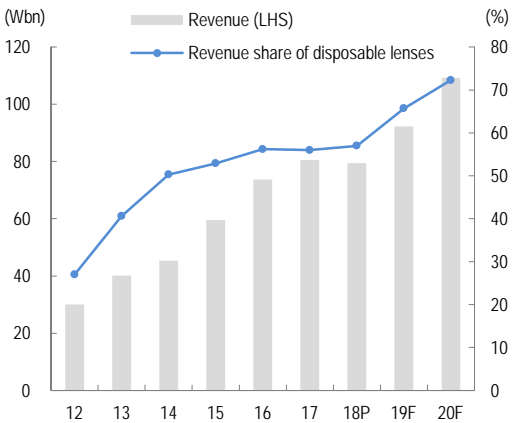
Earnings drivers

Fig 6. W/\$ vs. OP margin



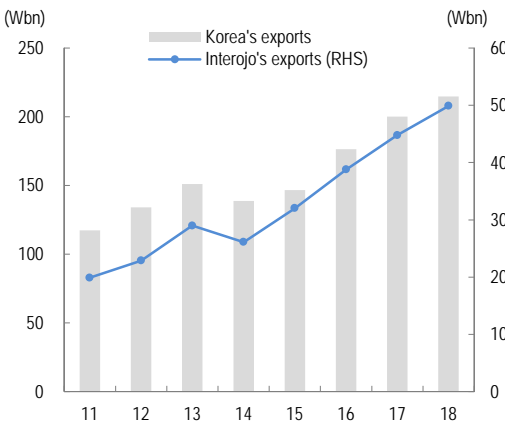
Source: Interjojo, Daishin Securities Research Center

Fig 7. Disposable one-day lenses drive revenue growth



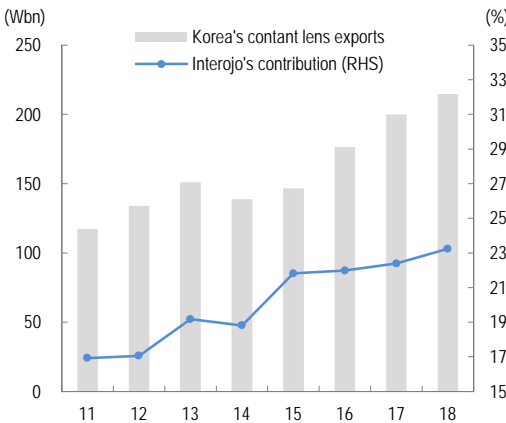
Source: Interjojo, Daishin Securities Research Center

Fig 8. Exports drive top-line growth



Source: Interjojo, KITA, Daishin Securities Research Center

Fig 9. Interjojo's contribution to Korea's contact lens exports



Source: Interjojo, KITA, Daishin Securities Research Center

## Financial statements

Income statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Revenue	74	81	79	92	109
Cost of goods sold	31	34	38	42	48
Gross profit	43	46	42	50	61
SG&A expenses	20	22	25	27	31
OP	23	24	17	23	29
OP margin	31.6	30.1	21.6	24.6	27.0
EBITDA	28	29	23	29	36
Non-OP	1	0	1	0	0
Income from affiliates	0	0	0	0	0
Financial revenue	1	2	1	1	1
FX related gains	1	0	0	0	0
Financial expense	-1	0	0	0	0
FX related losses	0	0	0	0	0
Others	1	-2	1	0	0
Income before taxes	24	24	18	23	30
Income tax expense	-5	-5	-3	-4	-6
Income from cont. op.	19	19	15	19	24
Income from discount op.	0	0	0	0	0
NP	19	19	15	19	24
NP margin	26.2	23.9	18.4	20.6	21.9
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	19	19	15	19	24
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	19	19	15	19	24
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	19	19	15	19	24

Valuation metrics (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
EPS	1,807	1,829	1,339	1,686	2,124
PER	21.0	21.2	17.9	14.2	11.3
BPS	8,412	9,500	10,330	11,417	13,210
PBR	4.5	4.1	2.3	2.1	1.8
EBITDAPS	2,553	2,666	2,083	2,544	3,164
EV/EBITDA	14.4	14.1	11.3	8.6	6.6
SPS	6,841	7,481	7,227	8,139	9,627
PSR	5.6	5.2	3.4	2.9	2.5
CFPS	2,622	2,808	2,287	2,668	3,299
DPS	180	300	300	300	300

Financial ratios (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
<b>Growth potential</b>					
Sales growth	23.8	9.4	-1.5	16.2	18.3
OP growth	43.1	4.0	-29.3	32.7	29.6
NP growth	53.6	-0.4	-24.3	30.0	26.0
<b>Profitability</b>					
ROIC	26.0	23.1	14.0	16.8	19.8
ROA	23.3	21.5	13.3	15.5	17.8
ROE	23.5	20.0	13.5	15.6	17.1
<b>Stability</b>					
Debt ratio	18.0	15.6	22.2	19.7	17.0
Net borrowings ratio	-15.6	-12.2	-4.9	-13.1	-17.8
Interest coverage ratio	154.2	340.3	69.9	126.5	103.9

Source: Interjo, Daishin Securities Research Center

Balance sheet (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Current assets	62	72	82	96	115
Cash & cash equiv.	6	5	1	12	22
Trade & other receive.	31	41	49	54	59
Inventories	14	17	22	19	23
Other current assets	12	10	11	11	11
Long-term assets	45	46	57	59	61
Tangible assets	40	41	49	51	53
Investments in affiliates	0	0	0	0	0
Other long-term assets	5	6	8	8	8
Total assets	107	118	139	155	175
Current liabilities	16	16	21	21	21
Payables & other liab.	5	7	10	10	10
Borrowings	0	0	1	1	1
Current portion of LT debts	4	2	1	1	1
Other current liabilities	7	7	9	9	9
Long-term liabilities	0	0	4	4	4
Borrowings	0	0	4	4	4
Convertible securities	0	0	0	0	0
Other long-term liab.	0	0	0	0	0
Total liabilities	16	16	25	25	25
Controlling interest	91	102	114	130	150
Capital stock	5	5	6	6	6
Capital surplus	12	12	12	12	12
Retained earnings	76	93	104	120	140
Other capital changes	-2	-8	-8	-8	-8
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	91	102	114	130	150
Net borrowings	-14	-12	-6	-17	-27

Cash flow statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	15	11	12	26	25
NP	19	19	15	19	24
Non-cash items	9	11	11	11	14
Depreciation	4	4	6	6	6
FX gains	-1	1	1	1	1
Equity method gain	0	0	0	0	0
Others	5	6	4	4	6
Chg in assets & liab.	-9	-14	-10	-1	-7
Other cash flows	-4	-5	-3	-3	-5
Investing cash flow	-11	-3	-16	-8	-8
Investment assets	-2	-2	-2	0	0
Tangible assets	-5	-5	-14	-8	-8
Others	-5	4	-1	0	0
Financing cash flows	-6	-10	1	-3	-3
Short-term borrowings	-1	0	1	0	0
Bonds payable	0	0	0	0	0
Long-term borrowings	0	0	4	0	0
Rights offering	0	0	0	0	0
Cash dividends	-1	-2	-3	-3	-3
Others	-4	-8	-1	0	0
Net chg in cash	-2	-1	-4	11	10
Beginning cash balance	8	6	5	1	12
Ending cash balance	6	5	1	12	22
NOPLAT	19	19	14	19	24
FCF	17	18	6	16	22

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- 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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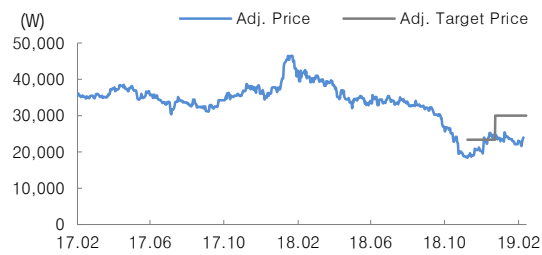
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[Investment rating & Target price history]

Interjo (119610 KQ)



Date	19.02.18	18.12.31	18.11.15	18.10.10	18.04.10	17.11.12
Rating	BUY	BUY	BUY			
Target price	30,000	30,000	23,300			
Diff. (avr. %)		(21.99)	(7.45)			
Diff. (max/min., %)		(15.50)	8.13			
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 15, 2018)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	85.5%	13.4%	1.2%

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.