

Huvitz

(065510 KQ)

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Rating **BUY**
maintain

6M TP (W) **10,300**
maintain

CP (W)
(19.02.21) **8,930**

Small caps

Results Comment

4Q18 earnings lag estimates

BUY and 6M TP of W10,300 maintained

- The target price of W10,300 is derived by applying a target P/E of 15.5x (30% off of the domestic medical equipment sector's 2019E average P/E) to the 2019E EPS.
- Huvitz deserves such a discount in that its NP growth is projected to fall short of the market's expectations for the broad medical equipment sector by more than 30% this year.
- Sales of machines supplied to optical stores slowed in 2018, driven by low-price Japanese rivals. But we reiterate BUY on Huvitz in view of the growth potential of the company's newly released optical coherence tomography (OCT) products supplied to eye clinics, providing a nice revenue boost for the company this year.

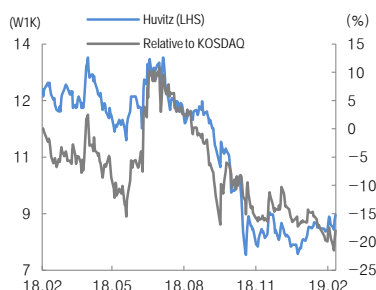
4Q18 revenue strong, but OP weak

- For 4Q18, Huvitz reported OP of W1.6bn (down 24% yoy; down 35% qoq) on revenue of W22.2bn (up 21% yoy; up 14% qoq). Revenue beat our estimate by 8%, while OP fell short by 33%.
- Revenue breakdown: equipment for optical stores W15.1bn (up 19% yoy), equipment for eye clinics W4.0bn (up 44% yoy), others W0.3bn (up 37% yoy), and consolidated subsidiaries W2.8bn (up 6% yoy).
- The company reported its best-ever quarterly revenue in 4Q18, with double-digit yoy growth in revenue from sales of all types of machines supplied to opticians (except for diagnostics), which account for 68% of companywide revenue in that quarter.
- Revenue from sales of equipment supplied to eye clinics, which make up 18% of companywide revenue, jumped from W2.5bn in 1Q18 to W4.0bn in 4Q18, propelled by OCT sales.
- The OP drop is attributable to higher COGS-to-revenue ratio (which climbed from 59% in 3Q18 to 64% in 4Q18 due to higher transportation costs), increased SG&A expenses owing to bonus payments, and operating losses at consolidated subsidiaries.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	747.33
Market cap (Wbn)	106
Market cap portion (%)	0.04
Paid-in capital (common; Wbn)	6
52w high/low (W)	13,600 / 7,750
120d avg. trading volume (Wbn)	0.5
Foreign ownership (%)	7.44
Major shareholders	Kim Hyeon-su+3: 26.51%

(%)	1M	3M	6M	12M
Abs. return	4.3	5.8	-25.3	-30.5
Rel. return	-2.9	-1.5	-21.3	-18.6



	4Q17	3Q18	Previous estimate	Result	4Q18P			1Q19(F)		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	18	19	20	22	21.1	13.8	21	21	25.4	-6.8
OP	2	3	2	2	-24.3	-35.3	2	2	94.0	47.6
NP	-3	1	1	1	TTB	-29.9	1	2	43.8	90.6

	2016	2017	Previous estimate	Daishin estimate	2018P		Growth	
					Change	Consensus	2017	2018P
Revenue	67	70	77	79	2.6	79	5.2	12.0
OP	12	9	9	8	-11.1	10	-26.7	-8.6
NP	11	3	7	7	0.0	9	-71.9	128.0

Source: Huvitz, FnGuide, Daishin Securities Research Center

Operating results and major financial data

	2016A	2017A	2018P	2019F	2020F
Revenue	67	70	79	86	92
OP	12	9	8	10	12
Pretax profit	13	4	8	9	12
NP	11	3	8	8	11
NP (contr. int.)	11	3	7	8	10
EPS	956	268	611	662	856
PER	14.3	49.8	14.6	13.5	10.4
BPS	6,502	6,622	7,130	7,629	8,318
PBR	2.1	2.0	1.3	1.2	1.1
ROE	15.1	4.0	8.7	8.8	10.5

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

Source: Huvitz, Daishin Securities Research Center

Yearly earnings forecast revision					(Wbn, W, %, %p)	
	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	77	85	79	86	2.6	1.2
SG&A expenses	22	24	22	24	0.0	0.0
OP	9	10	8	10	-11.1	0.0
OP margin	11.7	12.1	10.6	11.4	-1.1	-0.7
Non-operating profit	-2	-1	-1	-1	CL	CL
Pretax profit	7	9	8	9	14.3	0.0
NP (controlling int.)	7	8	7	8	0.0	0.0
NP margin	9.5	9.9	9.6	9.8	0.1	-0.1
EPS (controlling int.)	607	682	611	662	0.6	-2.9
Source: Huvitz, Daishin Securities Research Center						

Tab 1. Huvitz earnings forecasts (revised)

(Wbn, %)

	2017				2018				2016	2017	2018P	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QP				
Revenue	15.5	18.4	18.1	18.3	16.5	20.8	19.5	22.2	66.9	70.4	78.9	86.3
Equipment for opticians	12.9	14.4	13.9	12.7	12.3	14.1	12.4	15.1	53.2	53.8	53.9	53.9
Equipment for eye clinics	1.3	2.3	1.9	2.8	2.5	3.2	3.4	4.0	7.0	8.3	13.1	17.1
Microscope	0.2	0.1	0.0	0.0	0.5	0.3	0.0	0.0	1.1	0.2	0.8	0.0
Others	0.0	0.1	0.4	0.2	0.2	0.3	0.2	0.3	0.5	0.7	1.0	1.0
Shanghai Huvitz/HS Partners	1.1	1.7	1.9	2.6	0.9	2.8	3.5	2.8	5.0	7.2	10.0	14.4
Growth (%YoY)												
Revenue	-9.5	3.1	14.8	13.6	6.0	12.7	7.4	21.1	-8.0	5.2	12.0	9.5
Equipment for opticians	-6.9	4.7	10.0	-2.3	-4.4	-1.7	-10.6	18.8	3.8	1.2	0.2	-0.1
Equipment for eye clinics	-13.8	-2.5	26.8	69.9	86.6	42.7	74.5	44.3	-1.9	18.3	57.7	30.4
Microscope	-47.7	-75.5	-99.6	-99.7	218.0	403.3	0.0	800.0	-63.0	-79.8	268.7	-100.0
Others	8.3	127.8	101.9	-7.6	441.0	275.6	-60.0	36.9	0.4	48.4	29.9	1.2
Shanghai Huvitz/HS Partners	-21.9	7.4	59.3	183.9	-18.0	69.6	86.4	5.8	-52.9	43.4	37.6	44.0
OP	1.7	3.2	2.1	2.2	1.2	2.9	2.5	1.6	12.4	9.1	8.3	9.8
OP margin (%)	10.9	17.1	11.6	11.8	7.5	14.1	13.0	7.4	18.6	12.9	10.6	11.4
Growth (YoY)	-47.0	-14.1	-2.3	-36.6	-26.9	-7.1	20.3	-24.3	18.2	-26.7	-8.6	18.1
NP (contr. int.)	0.6	3.3	1.7	-2.5	1.2	3.6	1.3	0.9	11.1	3.1	7.1	7.7
Margin (%)	3.8	18.1	9.5	-13.9	7.5	17.3	6.8	4.2	16.5	4.4	9.0	8.9
Growth (YoY)	-74.2	-5.2	1.0	TTR	109.6	7.7	-23.2	TTB	69.4	-71.9	128.0	8.3

Source: Huvitz, Daishin Securities Research Center

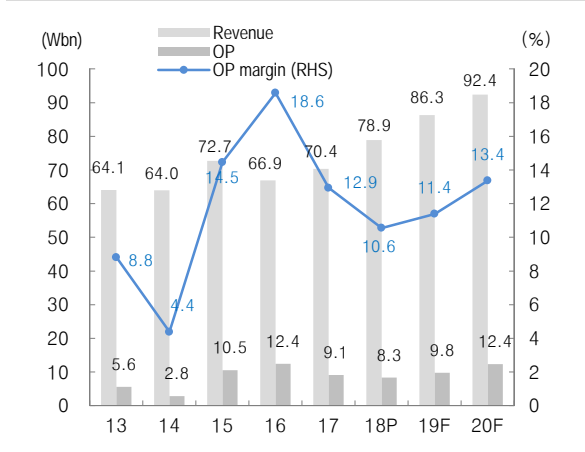
Tab 2. Huvitz earnings forecasts (previous)

(Wbn, %)

	2017				2018				2016	2017	2018F	2019F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF				
Revenue	15.5	18.4	18.1	18.3	16.5	20.8	19.5	20.5	66.9	70.4	77.2	84.8
Equipment for opticians	12.9	14.4	13.9	12.7	12.3	14.1	12.4	12.9	53.2	53.8	51.8	52.4
Equipment for eye clinics	1.3	2.3	1.9	2.8	2.5	3.2	3.4	4.0	7.0	8.3	13.1	17.1
Microscope	0.2	0.1	0.0	0.0	0.5	0.3	0.0	0.0	1.1	0.2	0.8	0.0
Others	0.0	0.1	0.4	0.2	0.2	0.3	0.2	0.2	0.5	0.7	0.9	0.9
Shanghai Huvitz/HS Partners	1.1	1.7	1.9	2.6	0.9	2.8	3.5	3.4	5.0	7.2	10.6	14.4
Growth (%YoY)												
Revenue	-9.5	3.1	14.8	13.6	6.0	12.7	7.4	12.0	-8.0	5.2	9.7	9.8
Equipment for opticians	-6.9	4.7	10.0	-2.3	-4.4	-1.7	-10.6	1.9	3.8	1.2	-3.8	1.1
Equipment for eye clinics	-13.8	-2.5	26.8	69.9	86.6	42.7	74.5	42.1	-1.9	18.3	57.0	31.1
Microscope	-47.7	-75.5	-99.6	-99.7	218.0	403.3	0.0	0.0	-63.0	-79.8	265.2	-100.0
Others	8.3	127.8	101.9	-7.6	441.0	275.6	-60.0	8.3	0.4	48.4	22.0	-1.6
Shanghai Huvitz/HS Partners	-21.9	7.4	59.3	183.9	-18.0	69.6	86.4	29.2	-52.9	43.4	46.1	35.7
OP	1.7	3.2	2.1	2.2	1.2	2.9	2.5	2.4	12.4	9.1	9.1	10.2
OP margin (%)	10.9	17.1	11.6	11.8	7.5	14.1	13.0	11.6	18.6	12.9	11.7	12.1
Growth (YoY)	-47.0	-14.1	-2.3	-36.6	-26.9	-7.1	20.3	10.1	18.2	-26.7	-0.4	12.7
NP (contr. int.)	0.6	3.3	1.7	-2.5	1.2	3.6	1.3	0.9	11.1	3.1	7.0	7.9
Margin (%)	3.8	18.1	9.5	-13.9	7.5	17.3	6.8	4.3	16.5	4.4	9.1	9.3
Growth (YoY)	-74.2	-5.2	1.0	TTR	109.6	7.7	-23.2	TTB	69.4	-71.9	126.5	12.0

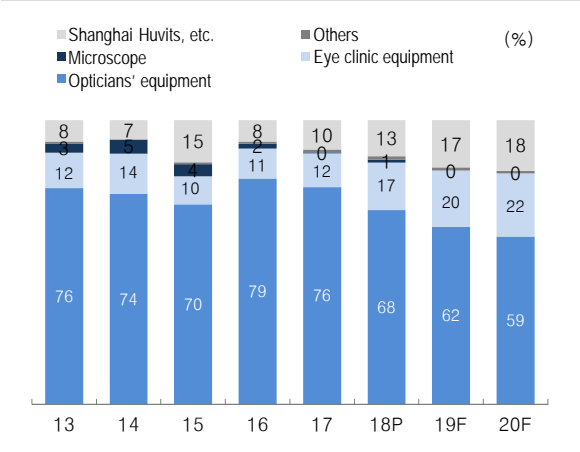
Source: Huvitz, Daishin Securities Research Center

Fig 1. Annual earnings



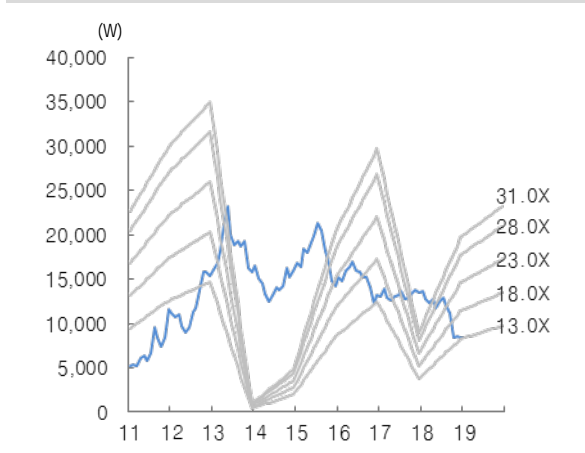
Source: Huvitz, Daishin Securities Research Center

Fig 2. Revenue breakdown



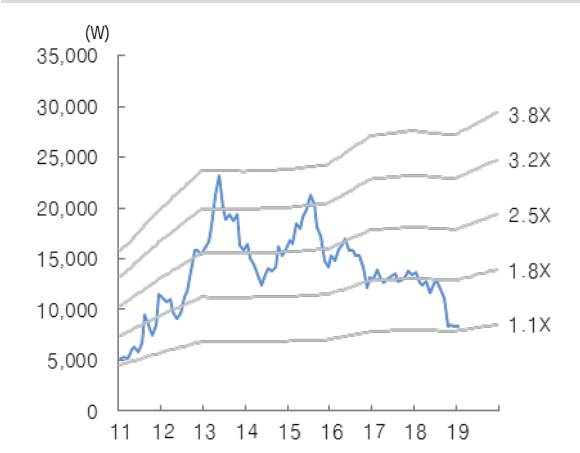
Source: Huvitz, Daishin Securities Research Center

Fig 3. P/E band



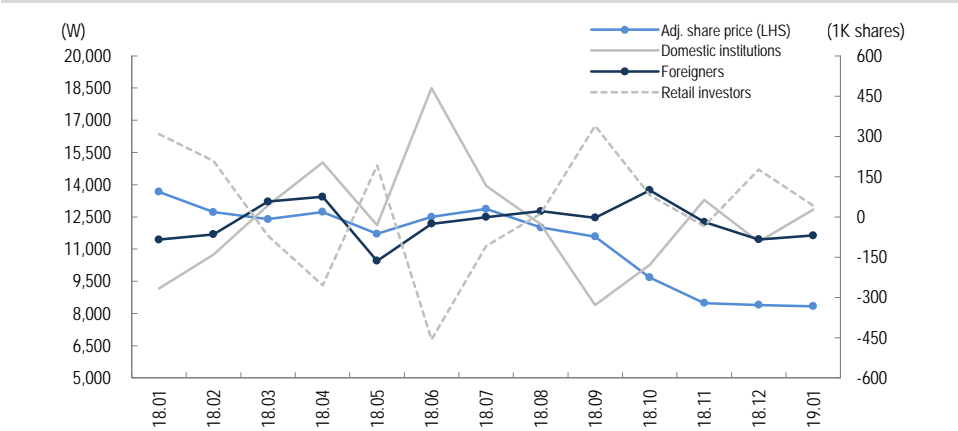
Source: Huvitz, Daishin Securities Research Center

Fig 4. P/B band



Source: Huvitz, Daishin Securities Research Center

Fig 5. Monthly stock net purchases by investor group



Source: Huvitz, Daishin Securities Research Center

Tab 3. Global peers

Company		Topcon	Nidec	Carl Zeiss Meditec
Country		Japan	Japan	Germany
Share price (Feb 21)	(\$)	14	122	88
Market cap	(\$mn)	1,483	36,285	7,857
Revenue (\$mn)	2017A	1,314	13,431	1,315
	2018A	1,376	13,828	1,525
	2019F	1,476	14,914	1,609
OP (\$mn)	2017A	109	1,513	200
	2018A	135	1,503	235
	2019F	157	1,849	258
OP margin (%)	2017A	8.3	11.3	15.2
	2018A	9.8	10.9	15.4
	2019F	10.7	12.4	16.0
NP (\$mn)	2017A	54	1,186	149
	2018A	64	1,179	151
	2019F	79	1,459	177
NP margin (%)	2017A	4.1	8.8	11.3
	2018A	4.6	8.5	9.9
	2019F	5.4	9.8	11.0
PER (x)	2017A	36.5	36.9	28.1
	2018A	22.4	30.1	51.2
	2019F	17.9	24.3	44.0
PBR (x)	2017A	3.4	5.2	3.3
	2018A	2.3	3.8	5.0
	2019F	2.2	3.4	5.0
EV/EBITDA (x)	2017A	13.0	21.9	27.6
	2018A	8.4	16.9	27.6
	2019F	7.5	13.8	26.9
ROE (%)	2017A	9.7	14.8	13.4
	2018A	10.1	13.3	10.1
	2019F	12.0	14.6	12.0
EPS (\$)	2017A	0.6	4.0	1.7
	2018A	0.6	4.0	1.7
	2019F	0.7	4.9	2.0
FY.M		March	March	September

Source: Bloomberg, Daishin Securities Research Center

Company profile

Overview

- Established in 1999 and listed on the KOSDAQ in 2003
- Leads the optician equipment market with a 50% share
- Seeks future growth via new products for eye clinics
- Regional revenue breakdown: Korea 16%, Europe/CIS 44%, South America 8%, Asia 8%, China 9%, North America 7%, Others 7%
- Assets W150.7bn, liabilities W62.5bn, equities W88.2bn (as of 3Q18)
- # of outstanding shares: 11,882,871 / # of treasury shares: 289,170

Share price catalysts

- Won-dollar rates
- Won-euro rates
- Export growth
- New products
- Number of patients with ophthalmic diseases

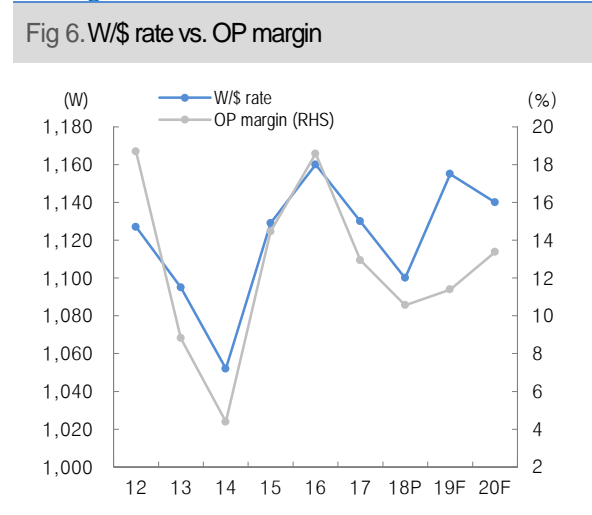
Source: Huvitz, Daishin Securities Research Center

Revenue breakdown

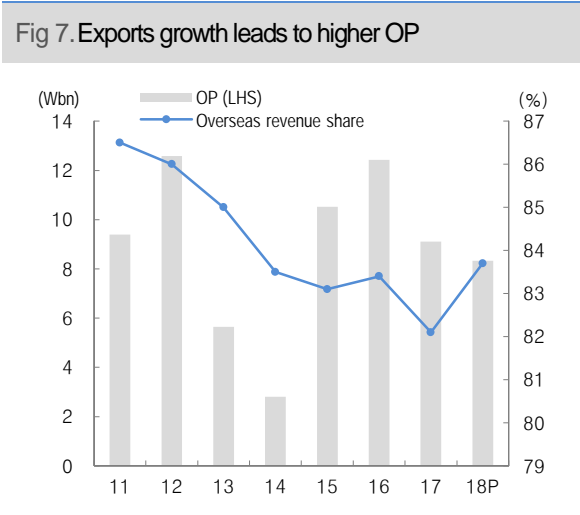
Category	Percentage
Eye clinic equipment	68%
Opticians' equipment	17%
Consolidated subs	13%
Others	1%
Microscope	1%

Note: Based on 2018 results.
Source: Huvitz, Daishin Securities Research Center

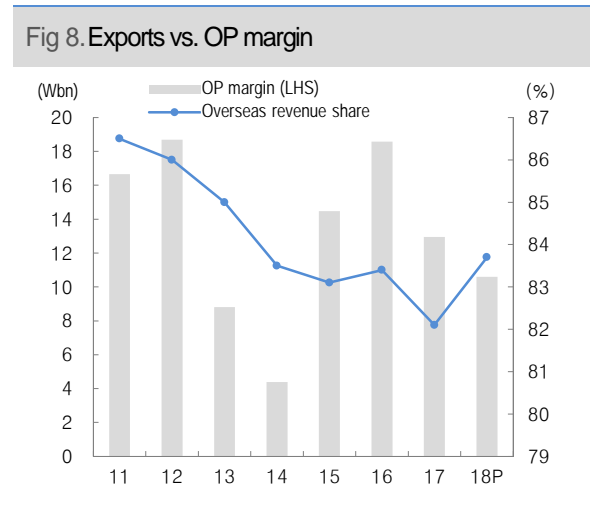
Earnings drivers



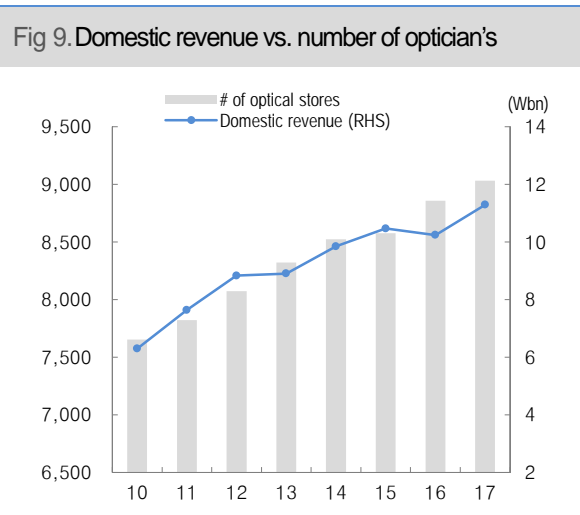
Source: Huvitz, Daishin Securities Research Center



Source: Huvitz, Daishin Securities Research Center



Source: Huvitz, Daishin Securities Research Center



Source: Huvitz, Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Revenue	67	70	79	86	92
Cost of goods sold	38	42	48	52	55
Gross profit	29	28	31	34	38
S&A expenses	17	19	22	24	25
OP	12	9	8	10	12
OP margin	18.6	12.9	10.6	11.4	13.4
EBITDA	17	14	13	15	17
Non-OP	1	-6	-1	-1	0
Income from affiliates	0	0	0	0	0
Financial revenue	1	0	0	0	0
FX related gains	2	1	1	1	1
Financial expense	0	-1	-1	-1	-1
FX related losses	0	0	0	0	0
Others	0	-5	0	0	0
Income before taxes	13	4	8	9	12
Income tax expense	-1	1	0	0	-1
Income from contr. op.	12	5	8	8	11
Income from discount op.	-1	-1	0	0	0
NP	11	3	8	8	11
NP margin	17.0	4.9	9.6	9.8	11.6
NP for non-contr. interest	0	0	0	1	1
NP for contr. interest	11	3	7	8	10
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	10	3	8	8	11
Comp. income for non-contr. int.	0	0	0	1	1
Comp. income for contr. int.	10	2	7	8	10

Valuation metrics	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
EPS	956	268	611	662	856
PER	14.3	49.8	14.6	13.5	10.4
BPS	6,502	6,622	7,130	7,629	8,318
PBR	2.1	2.0	1.3	1.2	1.1
EBITDAPS	1,414	1,178	1,094	1,221	1,431
EV/EBITDA	12.1	14.3	10.7	9.3	7.5
SPS	5,638	5,925	6,637	7,266	7,776
PSR	2.4	2.3	1.2	1.2	1.1
CFPS	1,549	1,086	1,534	1,648	1,859
DPS	100	150	150	150	150

Financial ratios	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Revenue growth	-3.9	5.2	12.0	9.5	7.0
OP growth	10.4	-26.7	-8.6	18.1	25.6
NP growth	53.2	-69.6	118.1	12.5	25.8
Profitability					
ROIC	10.7	9.9	7.5	8.4	9.8
ROA	9.8	6.5	5.7	6.3	7.5
ROE	15.1	4.0	8.7	8.8	10.5
Stability					
Debt ratio	68.7	67.4	69.3	65.2	60.1
Net borrowings ratio	42.6	43.4	29.5	22.8	13.7
Interest coverage ratio	235.7	11.7	7.7	9.3	15.6

Source: Huviz, Daishin Securities Research Center

Balance sheet					(Wbn)
	2016A	2017A	2018F	2019F	2020F
Current assets	47	42	59	68	78
Cash & cash equiv.	8	4	19	24	32
Trade & other receive.	16	18	19	21	22
Inventories	16	17	21	23	24
Other current assets	7	3	0	0	0
Long-term assets	93	99	94	92	90
Tangible assets	77	70	64	61	59
Investments in affiliates	0	0	0	0	0
Other long-term assets	16	28	30	31	32
Total assets	140	141	153	160	169
Current liabilities	27	26	35	35	36
Payables & other liab.	4	7	6	7	7
Borrowings	12	15	22	22	22
Current portion of LT debts	9	3	5	5	5
Other current liabilities	3	1	1	1	1
Long-term liabilities	30	30	28	28	28
Borrowings	23	23	19	19	19
Convertible securities	0	0	0	0	0
Other long-term liab.	7	7	9	9	9
Total liabilities	57	57	63	63	64
Controlling interest	77	79	85	91	99
Capital stock	6	6	6	6	6
Capital surplus	13	13	13	13	13
Retained earnings	62	64	69	75	83
Other capital changes	-3	-4	-3	-3	-3
Non-controlling interest	5	5	6	6	7
Total shareholder's equity	83	84	91	97	106
Net borrowings	35	37	27	22	14

Cash flow statement	(W/bn)				
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	12	10	9	13	16
NP	11	3	8	8	11
Non-cash items	7	9	11	11	11
Depreciation	4	5	5	5	5
FX gains	-1	1	1	1	1
Equity method gain	0	0	0	0	0
Others	3	4	5	5	6
Chg in assets & liab.	-6	-2	-8	-5	-4
Other cash flows	0	-1	-1	-1	-2
Investing cash flow	-34	-10	4	0	0
Investment assets	0	0	0	0	0
Tangible assets	-31	-10	4	0	0
Others	-3	0	0	0	0
Financing cash flows	14	-3	4	-1	-1
Short-term borrowings	6	-2	8	0	0
Bonds payable	0	0	0	0	0
Long-term borrowings	15	3	-4	0	0
Rights offering	0	0	0	0	0
Cash dividends	-1	-1	-2	-2	-2
Others	-6	-3	2	0	0
Net chg in cash	-8	-4	15	5	8
Beginning cash balance	15	8	4	19	24
Ending cash balance	8	4	19	24	32
NOPLAT	11	12	8	9	11
FCF	-20	-3	10	11	13

[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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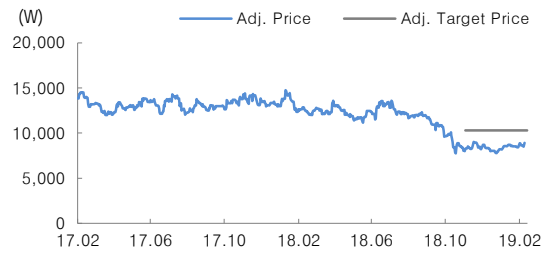
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[Investment rating & Target price history]

Huvitz (065510 KQ)



Date	19.02.22	19.02.07	18.11.15
Rating	BUY	BUY	BUY
Target price	10,300	10,300	10,300
Diff. (avr. %)		(17.96)	(18.36)
Diff. (max/min., %)		(12.52)	(12.52)
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 19, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	86.0%	12.8%	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.