

YG-1 (019210 KQ)

Lee Dong-heon

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Rating **BUY**
maintain

6M TP (W) **13,000**
maintain

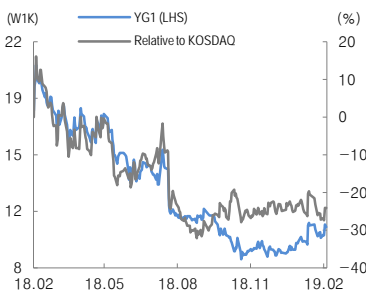
CP (W)
(19.02.22) **10,850**

Machinery

Industry 4.0 safety rating ■ Neutral Green

KOSDAQ	743.38
Market cap (Wbn)	331
Market cap portion (%)	0.13
Paid-in capital (common; Wbn)	15
52w high/low (W)	20,600 / 8,920
120d avg. trading volume (Wbn)	1.7
Foreign ownership (%)	12.91
Major shareholders	Song Ho-geun+10: 37.23% KB Asset Mgmt.: 14.02%

(%)	1M	3M	6M	12M
Abs. return	6.9	14.3	-5.7	-47.3
Rel. return	-0.1	6.5	-0.2	-38.3



Earnings to hit bottom in 1Q19

BUY and 6M TP of W13,000 maintained

- Our W13,000 target price for YG-1 is based on the 2019E EPS of W970 and a target P/E of 13.4x, the average 2019E P/E of three global cutting tools makers Sandvik, Kennametal, and OSG. This equals our previous target price calculated by applying 11.5x (a 10% discount to the average 2019E P/E of three global companies Sandvik, OSG, and DISCO) to the 12MF EPS of W1,040. We have reduced the discount in view of the stock's potential turnaround despite increased cost burden.

Depressing 4Q18 results

- On February 12, YG-1 reported 4Q18 OP of W9.9bn (down 42.2% yoy) on revenue of W96.7bn (down 8.4% yoy). Its OP margin came in at 10.3% (down 6.0%p yoy).
- Revenue missed our estimate (W105.2bn) by 8.1% due to slowed domestic sales and a temporary inventory adjustment resulting from business transfers. OP also fell below our estimate (W12.7bn) by 22.1% affected by higher minimum wages, the new 52-hour work week system, and factory relocation-related costs.
- The results may seem disappointing, but considering the inventory adjustments at the US subsidiary, the company delivered a rather decent performance in that quarter, maintaining double-digit growth in revenue and OP margin. Earnings will likely decrease through 1Q19 due to a high comparison base (the 52-hour work week was introduced in 2Q18).

YG-1 issues 2019 OP guidance of W54.0bn (up 18.2% yoy)

- For 2019, the company guided revenue of W430.0bn (up 10.0% yoy) and OP of W54.0bn (up 18.2% yoy). SAB Tool Supply, which was acquired late last year by YG-1 America, will help boost the company's top line and strengthen its market dominance. Insert sales are forecast to expand to W25.0bn in 2019 from W14.0bn in 2018.
- YG-1, which derives about 70% of revenue from export sales, is likely to see its revenue rise resulting from consistent market share growth regardless of market conditions. Payroll costs will keep growing this year, but the negative impact of the 52-hour work week will gradually fade as new employees become more skilled and productive over time. Earnings will recover gradually starting in 2Q19.

	4Q17	3Q18	Previous estimate	Result	4Q18P			1Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	106	105	106	97	-8.4	-8.1	106	92	2.3	-4.7
OP	17	12	13	10	-42.2	-14.7	13	10	-23.3	-2.7
NP	7	5	8	6	-24.6	8.8	0	4	-45.6	-21.6

	2016	2017	Previous estimate	Daishin estimate	Chg	Consensus	Growth	
							2017	2018(F)
Revenue	335	387	400	391	-2.2	400	15.5	1.1
OP	42	59	49	46	-5.9	49	42.1	-23.0
NP	18	35	23	22	-6.1	23	92.4	-38.4

Source: YG-1, FnGuide, Daishin Securities Research Center

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

	2016A	2017A	2018P	2019F	2020F
Revenue	335	387	391	420	460
OP	42	59	46	54	71
Pretax profit	28	47	30	39	57
NP	18	36	22	30	43
NP (controlling int.)	18	35	22	30	43
EPS	738	1,378	715	970	1,417
PER	12.3	11.0	15.2	11.2	7.7
BPS	9,184	10,074	10,319	10,676	11,254
PBR	1.0	1.5	1.1	1.0	1.0
ROE	7.0	12.0	6.8	9.0	12.5

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: YG-1, Daishin Securities Research Center

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

	Previous		Revised		Chg	
	2018F	2019F	2018P	2019F	2018F	2019F
Revenue	400	423	391	420	-2.2	-0.7
SG&A expense	85	87	85	87	0.0	0.0
OP	49	56	46	54	-5.9	-2.4
OP margin	12.1	13.2	11.7	12.9	-0.5	-0.2
Non-operating profit	-18	-13	-16	-15	CL	CL
Pretax profit	31	43	30	39	-3.2	-8.5
NP (controlling int.)	23	32	22	30	-6.1	-8.9
NP margin	5.8	7.7	5.6	7.1	-0.2	-0.6
EPS (controlling int.)	762	1,065	715	970	-6.1	-8.9

Source: YG-1, Daishin Securities Research Center

Tab 1. YG-1 quarterly and yearly earnings forecast (revised)

(Wbn)

	2017	2018P	2019E	2020E	1Q18	2Q18	3Q18	4Q18P	1Q19E	2Q19E	3Q19E	4Q19E
Revenue	386.6	390.9	420.2	460.1	90.1	98.9	105.2	96.7	92.1	103.6	115.1	109.3
Domestic sales	88.8	89.7	91.1	95.2	17.9	20.8	29.4	20.9	17.7	21.3	29.4	22.7
Exports	297.8	310.0	329.1	365.0	72.2	78.1	75.8	75.8	74.4	82.3	85.7	86.7
Growth (% yoy)	15.5	1.1	7.5	9.5	12.0	6.5	(2.4)	(8.4)	2.3	4.8	9.4	13.1
Domestic sales	9.7	1.0	1.5	4.5	5.3	(0.2)	4.4	(5.2)	(0.6)	2.1	(0.1)	4.8
Exports	17.4	4.1	6.2	10.9	13.8	8.5	(4.8)	1.5	2.3	4.8	12.5	8.3
Domestic sales share (%)	23.0	23.0	21.7	20.7	19.8	21.1	28.0	21.6	19.4	20.6	25.6	20.0
Exports share (%)	77.0	79.3	78.3	79.3	80.2	78.9	72.0	84.0	80.6	79.4	74.4	80.0
COGS	251.0	260.1	279.0	300.0	56.9	65.5	72.1	65.7	61.8	67.8	75.8	73.8
COGS/revenue (%)	64.9	66.5	66.4	65.2	63.2	66.2	68.5	67.9	67.0	65.4	65.8	67.5
GP	135.6	130.8	141.2	160.1	33.2	33.4	33.1	31.0	30.4	35.8	39.4	35.6
Growth (% yoy)	27.7	(3.5)	5.8	9.5	30.8	(2.3)	(12.3)	(18.8)	(8.4)	7.3	18.8	14.6
GP margin (%)	35.1	33.5	33.6	34.8	36.8	33.8	31.5	32.1	33.0	34.6	34.2	32.5
Selling expenses	38.4	43.4	44.5	45.5	10.6	10.8	11.2	10.8	10.3	11.9	11.7	10.5
Administrative expenses	37.8	41.3	42.4	43.5	9.8	10.9	10.3	10.3	10.4	10.8	10.5	10.7
SG&A expense ratio (%)	19.7	21.7	20.7	19.3	22.7	21.9	20.4	21.8	22.5	21.9	19.3	19.4
OP	59.3	45.7	54.3	71.1	12.6	11.5	11.6	9.9	9.7	13.1	17.2	14.4
Growth (% yoy)	42.1	(23.0)	18.8	31.0	44.4	(24.8)	(35.6)	(42.2)	(23.3)	13.8	47.4	44.6
OP margin (%)	15.3	11.7	12.9	15.5	14.0	11.7	11.1	10.3	10.5	12.7	14.9	13.1

Source: YG-1, Daishin Securities Research Center

Tab 2. YG-1 quarterly and yearly earnings forecast (previous, November 21, 2018)

(Wbn)

	2017	2018E	2019E	2020E	1Q18	2Q18	3Q18P	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Revenue	386.6	399.8	423.0	463.1	90.1	98.9	105.2	105.6	91.7	103.1	114.6	113.6
Domestic sales	88.8	89.7	91.1	95.2	17.9	20.8	29.4	21.6	17.7	21.3	29.4	22.7
Exports	297.8	310.0	331.9	368.0	72.2	78.1	75.8	84.0	73.9	81.8	85.2	90.9
Growth (% yoy)	15.5	3.4	5.8	9.5	12.0	6.5	(2.4)	0.1	1.7	4.3	8.9	7.6
Domestic sales	9.7	1.0	1.5	4.5	5.3	(0.2)	4.4	(5.2)	(0.6)	2.1	(0.1)	4.8
Exports	17.4	4.1	7.0	10.9	13.8	8.5	(4.8)	1.5	2.3	4.8	12.5	8.3
Domestic sales share (%)	23.0	22.4	21.5	20.6	19.8	21.1	28.0	20.5	19.4	20.6	25.6	20.0
Exports share (%)	77.0	77.6	78.5	79.4	80.2	78.9	72.0	79.5	80.6	79.4	74.4	80.0
COGS	251.0	266.2	280.4	302.0	56.9	65.5	72.1	71.7	62.1	68.1	76.1	74.1
COGS/revenue (%)	64.9	66.6	66.3	65.2	63.2	66.2	68.5	67.9	67.8	66.1	66.4	65.2
GP	135.6	133.6	142.5	161.2	33.2	33.4	33.1	33.9	29.6	35.0	38.5	39.5
Growth (% yoy)	27.7	(1.4)	5.8	9.5	30.8	(2.3)	(12.3)	(11.4)	(10.9)	4.7	16.2	16.5
GP margin (%)	35.1	33.4	33.7	34.8	36.8	33.8	31.5	32.1	32.2	33.9	33.6	34.8
Selling expenses	38.4	43.4	44.5	45.5	10.6	10.8	11.2	10.9	10.3	11.9	11.7	10.5
Administrative expenses	37.8	41.3	42.4	43.5	9.8	10.9	10.3	10.3	10.4	10.8	10.5	10.7
SG&A expense ratio (%)	19.7	21.2	20.5	19.2	22.7	21.9	20.4	20.1	22.6	22.0	19.4	18.7
OP	59.3	48.5	55.6	72.2	12.6	11.5	11.6	12.7	8.8	12.3	16.3	18.3
Growth (% yoy)	42.1	(18.3)	14.7	29.7	44.4	(24.8)	(35.6)	(26.0)	(29.9)	6.3	40.0	43.6
OP margin (%)	15.3	12.1	13.2	15.6	14.0	11.7	11.1	12.0	9.6	11.9	14.2	16.1

Source: YG-1, Daishin Securities Research Center

Global peers

Company		Y G-1 CO LTD	SANDVIK AB	KENNAMETAL INC	KYOCERA CORP	OSG CORP
Stock code		019210 KS	SAND SS	KMT US	6971 JP	6136 JP
CP (\$)		9.7	16.3	37.5	55.6	19.9
Market cap (Wbn, \$mn)		295	20,415	3,085	20,971	1,950
Revenue (Wbn, \$mn)	2018A	355	11,533	n/a	n/a	1,189
	2019C	417	11,013	2,469	14,793	1,241
	2020C	465	11,312	2,556	15,035	1,307
Revenue growth (% yoy)	2018A	4.0	8.3	n/a	n/a	11.2
	2019C	17.4	-4.5	n/a	n/a	4.3
	2020C	11.4	2.7	3.5	1.6	5.3
OP (Wbn, \$mn)	2018A	42	2,154	n/a	n/a	204
	2019C	60	2,017	372	953	225
	2020C	70	2,101	414	1,520	240
OP growth (% yoy)	2018A	-20.8	1.9	n/a	n/a	19.7
	2019C	44.5	-6.3	n/a	n/a	10.2
	2020C	16.8	4.2	11.4	59.5	7.0
OP margin (%)	2018A	11.7	18.7	n/a	n/a	17.1
	2019C	14.4	18.3	15.1	6.4	18.1
	2020C	15.1	18.6	16.2	10.1	18.4
PER (x)	2018A	7.9	12.0	12.5	24.8	14.2
	2019C	8.7	14.2	11.9	21.5	13.3
	2020C	6.7	13.4	10.8	15.3	12.5
PBR (x)	2018A	0.9	2.7	2.3	0.9	1.7
	2019C	0.9	2.9	2.2	0.9	1.6
	2020C	0.8	2.6	1.9	0.9	1.4
EV/EBITDA (x)	2018A	n/a	7.4	n/a	n/a	7.1
	2019C	7.4	8.6	7.4	10.3	6.3
	2020C	6.5	8.5	6.8	7.4	5.8
ROE (%)	2018A	n/a	23.7	n/a	n/a	12.2
	2019C	10.4	21.7	20.0	4.3	12.3
	2020C	12.6	20.3	19.1	6.0	12.4
EPS (W, \$)	2018A	n/a	1	n/a	n/a	1
	2019C	1	1	3	3	1
	2020C	1	1	3	4	2
BPS (W, \$)	2018A	n/a	5	n/a	n/a	11
	2019C	10	6	17	59	13
	2020C	11	6	19	62	14

Financial statements

Income statement	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Revenue	335	387	391	420	460
Cost of goods sold	229	251	260	279	300
Gross profit	106	136	131	141	160
SG&A expenses	64	76	85	87	89
OP	42	59	46	54	71
OP margin	12.5	15.3	11.7	12.9	15.5
EBITDA	71	92	75	84	100
Non-OP	-14	-13	-16	-15	-14
Income from affiliates	0	0	0	0	0
Financial revenue	4	12	4	8	6
FX related gains	11	10	7	7	7
Financial expense	-21	-16	-22	-21	-19
FX related losses	9	3	6	6	5
Others	3	-9	1	-2	-2
Income before taxes	28	47	30	39	57
Income tax expense	-9	-11	-8	-9	-14
Income from contr. op.	18	36	22	30	43
Income from discount. op.	0	0	0	0	0
NP	18	36	22	30	43
NP margin	5.5	9.2	5.6	7.1	9.4
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	18	35	22	30	43
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-2	-8	-8	-9	-9
Comprehensive income	16	28	14	21	34
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	16	28	14	21	34

Valuation metrics	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
EPS	738	1,378	715	970	1,417
PER	12.3	11.0	15.2	11.2	7.7
BPS	9,184	10,074	10,319	10,676	11,254
PBR	1.0	1.5	1.1	1.0	1.0
EBITDAPS	2,940	3,584	2,469	2,739	3,287
EV/EBITDA	7.4	8.2	8.2	7.5	6.3
SPS	11,634	12,983	12,430	13,362	14,631
PSR	0.8	1.2	0.7	0.8	0.7
CFPS	2,549	3,168	2,744	2,895	3,449
DPS	170	200	200	200	200

Financial ratios	(W, x %)				
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Revenue growth	4.0	15.5	1.1	7.5	9.5
OP growth	6.0	42.1	-23.0	18.8	31.0
NP growth	30.0	93.6	-38.5	36.0	46.1
Profitability					
ROIC	4.9	7.2	5.2	6.3	8.0
ROA	6.5	8.4	6.1	7.1	9.0
ROE	7.0	12.0	6.8	9.0	12.5
Stability					
Debt ratio	146.1	131.1	128.9	128.8	124.9
Net borrowings ratio	112.7	96.9	86.0	84.9	82.1
Interest coverage ratio	3.6	4.7	2.9	3.6	5.1

Source: YG-1, Daishin Securities Research Center

Balance sheet					(Wbn)
	2016A	2017A	2018F	2019F	2020F
Current assets	285	333	343	367	394
Cash & cash equiv.	14	20	48	51	48
Trade & other receive.	103	116	101	108	118
Inventories	162	190	186	200	219
Other current assets	6	8	8	8	8
Long-term assets	381	408	409	411	413
Tangible assets	357	393	395	397	400
Investments in affiliates	4	1	0	-1	-2
Other long-term assets	20	15	14	14	15
Total assets	666	741	752	778	806
Current liabilities	257	278	243	219	189
Payables & other liab.	56	67	67	69	73
Borrowings	165	155	138	115	92
Current portion of LT debts	30	51	32	28	18
Other current liabilities	6	6	6	7	7
Long-term liabilities	139	142	180	219	258
Borrowings	124	126	162	198	234
Convertible securities	0	0	0	0	0
Other long-term liab.	14	16	19	21	24
Total liabilities	395	421	424	438	448
Controlling interest	271	317	325	336	354
Capital stock	15	16	16	16	16
Capital surplus	65	85	85	85	85
Retained earnings	202	230	246	270	307
Other capital changes	-12	-14	-22	-35	-54
Non-controlling interest	0	4	4	4	5
Total shareholder's equity	271	321	329	340	359
Net borrowings	305	311	283	289	294

Cash flow statement	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	58	51	81	47	54
NP	18	36	22	30	43
Non-cash items	55	59	64	61	65
Depreciation	29	32	29	29	29
FX gains	3	-3	6	2	2
Equity method gain	0	0	0	0	0
Others	23	30	29	30	34
Chg in assets & liab.	-7	-34	17	-21	-27
Other cash flows	-8	-10	-23	-23	-27
Investing cash flow	-69	-72	-30	-30	-30
Investment assets	-1	1	1	1	1
Tangible assets	-67	-72	-31	-31	-31
Others	-1	-1	1	1	1
Financing cash flows	1	28	-18	-10	-16
Short-term borrowings	-31	-16	-17	-23	-23
Bonds payable	6	0	0	0	0
Long-term borrowings	37	36	36	36	36
Rights offering	12	21	0	0	0
Cash dividends	-4	-5	-6	-6	-6
Others	-19	-8	-31	-16	-22
Net chg in cash	-10	6	28	3	-3
Beginning cash balance	24	14	20	48	51
Ending cash balance	14	20	48	51	48
NOPLAT	28	45	34	41	54
FCF	-16	1	31	38	51

[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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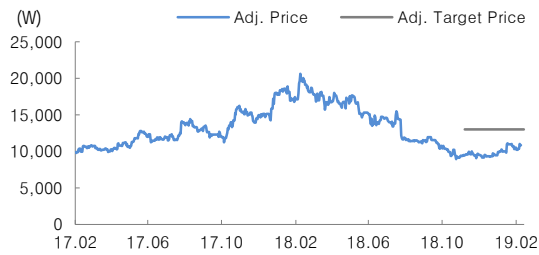
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[Investment rating & Target price history]

YG-1 (019210 KQ)



Date	19.02.25	18.11.21
Rating	BUY	BUY
Target price	13,000	13,000
Diff. (avr. %)		(24.02)
Diff. (max/min, %)		(14.62)
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 22, 2018)

	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.