

Koh Young_(098460.KQ)

Impact of sluggish smartphone demand

Company Comment | Feb 26, 2019

Expecting Koh Young to post sluggish 1Q19 results due to both weak seasonality in the IT industry and the impact of US-China trade disputes, we downgrade our rating and lower our TP. That said, from a long-term perspective, the growth outlook for the firm's 3D AOI and MOI equipment offerings remains positive.

Lower TP from W130,000 to W100,000

We expect Koh Young to book 1Q19 sales of W52.4bn (-13% q-q) and OP of W9.1bn (-9% q-q). The likely q-q earnings drop is attributed to sluggish smartphone demand in China and weak seasonality in the IT industry.

Reflecting downward revisions to our earnings estimates, we downgrade our rating from Buy to Hold and lower our TP from W130,000 to W100,000. Our TP is derived by applying a 10% discount to the global peer average P/E of 37x. Currently, the company's shares are trading at a 2019E P/E of 29x.

Due to US-China trade disputes, consumer demand in China has been slowing. Also, smartphone sales have been sluggish owing to stalled feature upgrades—China's smartphone sales fell 12% y-y to 103mn units in 4Q18. We note that Koh Young's main clients for 3D solder paste inspection (SPI) equipment are Chinese smartphone makers seeking to introduce smart factories; however, the focus on smart factories has stagnated of late due to the economic slowdown. If the US-China trade disputes ease, and demand for a new genre of smartphones (such as foldable smartphones) grows, Koh Young's earnings growth potential would likely increase.

Long-term growth outlook still positive

The long-term growth outlook remains positive for Koh Young's main products—ie, 3D automated optical inspection (AOI) and machining optical inspection (MOI) equipment. In the case of 3D AOI equipment, the firm posted solid 4Q18 sales of W31.9bn (+14% q-q) thanks to its technological edge over rivals, stemming from its development of 3D inspection technology. The growth of the 3D AOI business should continue on the expansion of smart factories and the securing of market share from 2D inspection equipment makers.

Meanwhile, demand for MOI equipment is set to take off in earnest over the near term. In addition, the medical equipment business, a likely future growth driver, should begin making earnings contributions from 2019.

Hold (downgrade)

TP W100,000 (lower)
CP ('19/02/25) W92,600

Sector	Semiconductor
Kospi/Kosdaq	2232.56 / 750.4
Market cap (common)	US\$1,133.21mn
Outstanding shares (common)	13.7mn
52W high ('18/09/21)	W115,000
low ('19/01/18)	W74,100
Average trading value (60D)	US\$4.80mn
Dividend yield (2019E)	0.70%
Foreign ownership	54.9%

Major shareholders	
Koh Young Holdings and 11 others	21.0%

Share perf	3M	6M	12M
Absolute (%)	13.2	-12.1	0.1
Relative (%)p	3.0	-6.5	16.7

	2017	2018P	2019E	2020F
Sales	203.4	238.3	251.7	296.1
Chg	18.4	17.2	5.6	17.6
OP	43.7	46.0	51.6	63.7
OPM	21.5	19.3	20.5	21.5
NP	26.7	39.6	43.1	55.5
EPS	1,950	2,895	3,147	4,057
Chg	-10.3	48.5	8.7	28.9
P/E	42.3	28.5	29.4	22.8
P/B	7.0	5.9	5.6	4.6
EV/EBITDA	22.3	20.9	20.8	16.6
ROE	16.8	22.5	20.7	22.4
Debt/equity	27.2	25.6	23.1	22.6
Net debt	-67.3	-97.2	-131.1	-169.1

Unit: Wbn, %, won, x

Note 1. NP excludes minority interests

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, won, x, %)

		2017	2018P	2019E	2020F
Sales	- Revised	203.4	238.3	251.7	296.1
	- Previous	-	250.6	315.9	342.3
	- Change	-	-4.9	-20.3	-13.5
OP	- Revised	43.7	46.0	51.6	63.7
	- Previous	-	59.4	76.9	87.1
	- Change	-	-22.6	-32.8	-26.8
OPM (revised)		21.5	19.3	20.5	21.5
EBITDA		47.6	49.4	54.5	66.1
NP (excl minority interests)		26.7	39.6	43.1	55.5
EPS	- Revised	1,950	2,895	3,147	4,057
	- Previous	-	3,296	4,221	4,991
	- Change	-	-12.2	-25.4	-18.7
P/E		42.3	28.5	29.4	22.8
P/B		7.0	5.9	5.6	4.6
EV/EBITDA		22.3	20.9	20.8	16.6
ROE		16.8	22.5	20.7	22.4

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

Source: NH I&S Research Center estimates

P/E valuation

(Unit: Wbn, x, won, shares)

	Remarks	
Estimated NP in 2019 excluding minority interests (Wbn)		43.1
Number of stocks (shares)		13,687,951
Estimated EPS in 2019 (won)		3,148
Target P/E (x)	2019E 10% discount to global peer (OMRON, Fanuc, Nvidia, Intuitive Surgical, Keyence) average P/E of 37x	33
E/V (Wbn)		1,435
Fair value per share	Target P/E * EPS	100,000

Source: NH I&S Research Center estimates

Earnings forecasts (IFRS consolidated)

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18P	1Q19E	2Q19F	3Q19F	4Q19F
Sales	489	654	641	599	524	626	656	712
Chg (q-q, %)	34%	-2%	-7%	-13%	19%	5%	9%	-4%
Chg (y-y, %)	13%	22%	26%	8%	7%	-4%	2%	19%
SPI	231	313	327	252	239	285	299	329
AOI	208	324	288	319	252	305	320	346
Other	50	17	26	28	32	36	36	37
OP	93	127	139	100	91	131	138	157
Chg (q-q, %)	-21%	37%	9%	-28%	-9%	45%	5%	14%
Chg (y-y, %)	16%	7%	16%	-15%	-3%	3%	-1%	57%
OPM	19%	19%	22%	17%	17%	21%	21%	22%

Source: Koh Young, NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME				
(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Sales	203.4	238.3	251.7	296.1
Growth (%)	18.4	17.2	5.6	17.6
COGS	71.9	89.6	93.3	109.1
Gross Profit	131.5	148.7	158.4	187.0
Gross margin (%)	64.6	62.4	62.9	63.2
SG&A	87.7	102.8	106.7	123.2
Operating Income	43.7	46.0	51.6	63.7
Growth (%)	31.8	5.1	12.3	23.5
Operating margin (%)	21.5	19.3	20.5	21.5
EBITDA	47.6	49.4	54.5	66.1
Non-Operating Profits	-10.9	2.5	1.1	4.2
Financial Income(Costs)	-1.2	-1.6	-0.4	-0.3
Other Non-Operating Profits	-9.7	4.1	1.5	4.4
Gains(Losses) in Associates, Subsidiaries and JVs	0.0	0.0	0.0	0.0
Pre-tax Profit from Cont. Op.	32.8	48.5	52.7	67.9
Income Taxes	6.1	8.8	9.5	12.2
Profit from Continuing Op.	26.7	39.7	43.2	55.7
Net Profit	26.7	39.7	43.2	55.7
Growth (%)	-10.1	48.7	8.7	28.9
Net margin (%)	13.1	16.7	17.2	18.8
Net Profit of Parent	26.7	39.6	43.1	55.5
Net Profit to Non-Controlling	0.1	0.1	0.1	0.2
Other Comprehensive Income	-0.2	0.0	0.0	0.0
Total Comprehensive Income	26.6	39.7	43.2	55.7

Valuation / Profitability / Stability				
	2017/12A	2018/12P	2019/12E	2020/12F
Price/ Earning (X)	42.3	28.5	29.4	22.8
Price/ Book Value (X)	7.0	5.9	5.6	4.6
Price/ Gross Cash Flow (X)	23.7	21.0	21.9	17.3
Price/ Sales (X)	5.5	4.7	5.0	4.3
EV/ EBITDA (X)	22.3	20.9	20.8	16.6
EV/ EBIT (X)	24.3	22.4	22.0	17.2
Fully diluted EPS (W)	1,950	2,895	3,148	4,058
BVPS (W)	11,787	14,039	16,546	19,964
Sales PS (W)	14,873	17,410	18,388	21,630
ROE (%)	16.8	22.4	20.6	22.2
ROA (%)	13.4	17.8	16.6	18.1
ROIC (%)	38.9	38.7	45.2	52.9
Dividend Yield (%)	0.8	0.8	0.7	0.7
Payout Ratio (%)	34.4	22.2	20.3	15.8
Total Cash Dividend (Wbn)	9	9	9	9
Cash DPS (W)	700	650	650	650
Net debt(cash)/ equity (%)	-41.7	-50.9	-58.4	-62.5
Debt/ equity (%)	27.2	25.5	23.0	22.5
Interest-Bearing Debts (Wbn)	0	0	0	0
Current Ratio (%)	499.8	561.3	631.5	664.8
Total shares (mn)	14	14	14	14
Par value (W)	500	500	500	500
Share price (W)	82,500	82,500	92,600	92,600
Market Cap (Wbn)	1,129	1,129	1,268	1,268

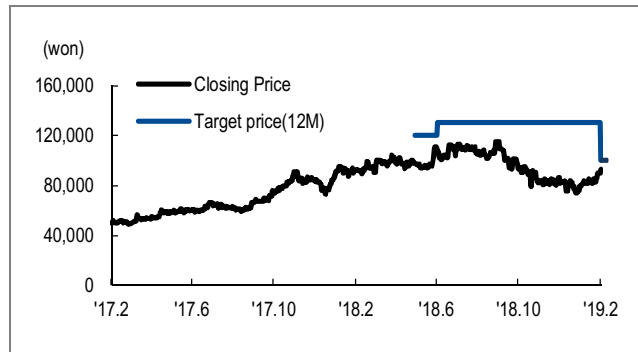
STATEMENT OF FINANCIAL POSITION				
(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Cash and Cash Equivalents	46.0	73.0	106.1	140.1
Accounts Receivables	67.9	68.4	73.3	86.7
Total Current Assets	161.4	198.5	238.6	296.1
Tangible Assets	25.3	23.2	21.4	19.7
Investment Assets	4.9	5.8	6.1	7.2
Non-Current Assets	43.9	42.8	40.3	39.0
Assets	205.2	241.3	278.9	335.1
Short-Term Debt	0.0	0.0	0.0	0.0
Account Payables	16.2	16.6	17.9	21.2
Current Liabilities	32.3	35.4	37.8	44.5
Long-Term Debt	0.0	0.0	0.0	0.0
Long-Term Allowance	11.6	13.6	14.3	16.9
Non-Current Liabilities	11.6	13.6	14.4	16.9
Liabilities	43.9	49.0	52.1	61.4
Capital Stock	6.8	6.8	6.8	6.8
Capital Surplus	26.2	26.2	26.2	26.2
Retained Earnings	156.7	187.5	221.9	268.6
Non-Controlling Interests Equity	0.0	0.1	0.2	0.4
Shareholders' Equity	161.3	192.3	226.7	273.7

CASH FLOW STATEMENT				
(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Operating Cash Flow	19.9	44.3	46.4	52.1
Net Profit	26.7	39.7	43.2	55.7
Depreciation&Amortization	3.8	3.4	2.9	2.4
+ Loss(Gains) from Subs	0.0	0.0	0.0	0.0
+ FC translation loss(profit)	5.6	2.2	2.8	3.6
Gross Cash Flow	47.6	53.7	57.8	73.1
- Incr. (Decr.) in WC	-19.3	-1.0	-2.4	-9.6
Investing Cash Flow	5.2	-8.2	-4.5	-9.3
+ Decr. In Tangible Assets	0.0	0.0	0.0	0.0
- Incr. In Tangible Assets(CAPEX)	-2.0	0.0	0.0	0.0
+ Disp.(Acq.) of Inv. Assets	-1.7	-0.8	-0.3	-1.1
Free Cash Flow	17.9	44.3	46.4	52.1
Net Cash Flow	25.1	36.1	41.9	42.8
Financing Cash Flow	-22.6	-9.2	-8.8	-8.8
Equity Financing	0.6	0.0	0.0	0.0
Debt Financing	-23.2	-9.2	-8.8	-8.8
Incr.(Decr.) in Cash	-0.3	26.9	33.1	34.0
Ending Cash and Cash Equivalents	46.0	73.0	106.1	140.1
Net Debt (Cash)	-67.3	-97.9	-132.4	-171.1

Rating and TP update

Date	Rating	TP	Disparity ratio (%)	
			Avg	Max/Min
2019.02.26	Hold	W100,000(12M)	-	-
2018.06.26	Buy	W130,000(12M)	-27.1%	-11.5%
2018.05.23	Buy	W120,000(12M)	-18.3%	-7.7%

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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 22, 2019).

● NH I&S' stock rating distribution

Buy	Hold	Sell
77.3%	22.7%	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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- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

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