

# Taekwang (023160 KQ)

Lee Dong-heon

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Rating **MARKETPERFORM**  
maintain

6M TP (₩) **11,000**  
reduce

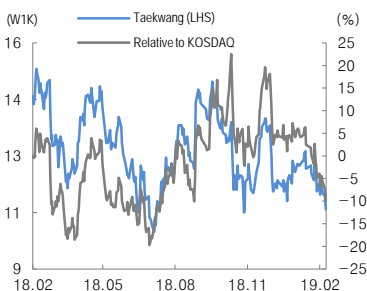
CP (₩)  
(19.02.26) **10,850**

Machinery

Industry 4.0 safety rating ■ Neutral Green

KOSDAQ	747.09
Market cap (₩bn)	288
Market cap portion (%)	0.11
Paid-in capital (common; ₩bn)	13
52w high/low (₩)	14,850 / 10,150
120d avg. trading volume (₩bn)	1.6
Foreign ownership (%)	11.66
Major shareholders	Daishin International+10: 44.64% Shinyoung Asset Mgmt.+1: 9.51%

(%)	1M	3M	6M	12M
Abs. return	-11.4	-4.4	-19.3	-26.9
Rel. return	-15.7	-11.0	-13.8	-14.5



## Long-term perspective recommended

### MARKETPERFORM maintained; 6M TP cut to W11,000

- We have arrived at a new target price of W11,000 (down 8.3% from W12,000) based on the 2019E BPS of W16,599 and a target P/B of 0.7x (the company's five-year average multiple). The company's slow order intake and earnings improvements were taken into consideration.
- Previously, we derived the target price according to our residual income model assuming a risk-free rate of 2.1%, a risk premium of 5.0%, and a 52-week beta of 0.54.

### 4Q18 earnings miss on increased costs

- On February 22, Taekwang reported 4Q18 revenue of W42.5bn (down 6.7% yoy), missing our estimate (W46.5bn) and the market consensus (W46.7bn), respectively, by 8.6% and 9.1%. That quarter, the company swung to an operating loss of W2.3bn from a profit a year earlier, falling far below our estimate (W2.8bn) and the market consensus (W2.1bn).
- The revenue underperformance owes to a temporary reduction in order intakes in 3Q18 (down 12.7% yoy to W41.7bn) and a change in the recognition timing of some revenue. New orders increased 14.7% yoy to W50.5bn in 4Q18, which will be reflected in the company's results in due time.
- Losses from operations are attributable to W1.1bn-worth bonuses paid to employees, W0.6bn in mold-related capex investments, and W0.4bn in bad debt allowances. Furthermore, higher steel plate prices added to the material cost.
- The company's slide into the red was somewhat unexpected, given that it had not posted an operating loss since 4Q16 and its margins are better than those of rivals.
- It is forecast to book W183.5bn (up 5.8% yoy)-worth new orders in 2018 and W211.0bn (up 15.0% yoy; revised up from W219.2bn) in 2019.

### Longer-term perspective required

- We are lowering 2019E revenue and OP, respectively, by 9.6% and 28.6% in view of new order forecasts.
- Global plant projects are expected to increase amid recovering oil prices albeit at a slow pace. Domestic petrochemical companies are ready to head into the next capex cycle. Despite these positive developments, Taekwang's earnings will recover slowly as the company is located at the end of the value chain, warranting a longer time horizon.
- On a positive note, the company has a healthy financial position (zero debt and a net cash of over W70bn) and remains committed to the welding fittings market as one of the global top two players. Its current P/B of 0.7-0.8x is near the bottom.

(Wbn, %)

	4Q17	3Q18	Previous estimate	Result	4Q18P			1Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	46	38	47	42	-6.7	12.5	47	44	15.6	3.2
OP	2	1	3	-2	TTR	TTR	2	3	119.1	TTB
NP	-3	1	3	1	TTB	-20.2	2	3	12.2	393.1

	2016	2017	Previous estimate	Daishin estimate	2018P		Growth	
					Chg	Consensus	2017	2018(F)
Revenue	245	184	163	159	-2.5	163	-24.8	-13.8
OP	4	4	9	4	-55.6	8	22.7	-10.4
NP	8	-16	12	10	-16.7	11	TTR	TTB

Source: Taekwang, FnGuide, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	245	184	159	179	205
OP	4	4	4	10	15
Pretax profit	10	-22	13	17	23
NP	8	-16	10	13	18
NP (controlling int.)	8	-16	10	13	18
EPS	299	-612	376	503	669
PER	27.7	NA	28.9	21.6	16.2
BPS	16,426	15,818	16,145	16,599	17,219
PBR	0.5	0.8	0.7	0.7	0.6
ROE	1.8	-3.8	2.4	3.1	4.0

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

Source: Taekwang, Daishin Securities Research Center

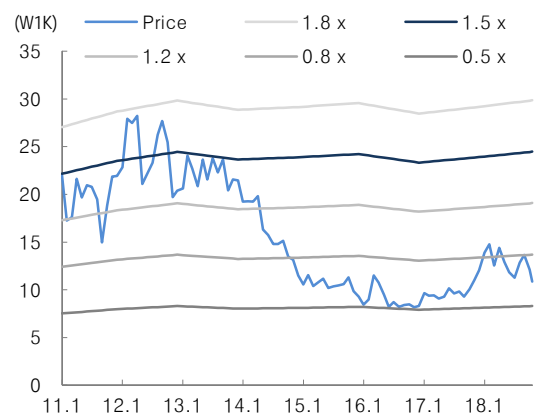
Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	163	198	159	179	-2.5	-9.6
SG&Aexpense	18	19	19	20	5.6	5.3
OP	9	14	4	10	-55.6	-28.6
OP margin	5.6	7.1	2.5	5.5	-3.1	-1.6
Non-operating profit	9	8	9	8	0.0	0.0
Pretax profit	16	18	13	17	-18.8	-5.6
NP (controlling int.)	12	14	10	13	-16.7	-7.2
NP margin	7.4	7.1	6.3	7.4	-1.1	0.3
EPS (controlling int.)	442	515	376	503	-14.9	-2.3

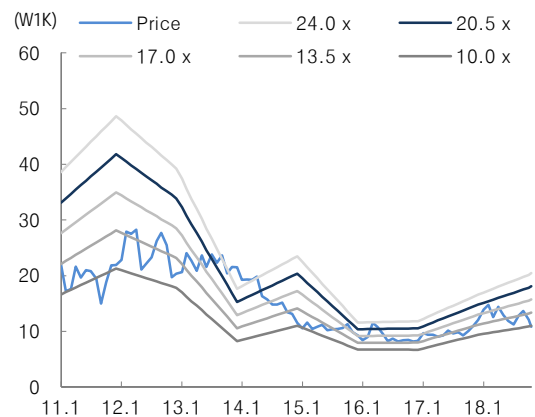
Source: Taekwang, Daishin Securities Research Center

Fig 1. Taekwang P/B band



Source: Wisefn, Daishin Securities Research Center

Fig 2. Taekwang EV/EBITDA band



Source: Wisefn, Daishin Securities Research Center

Tab 1. Taekwang quarterly and yearly earnings forecasts (revised)

(Wbn)

	2017	2018P	2019E	2020E	1Q18	2Q18	3Q18	4Q18P	1Q19E	2Q19E	3Q19E	4Q19E
Order receipts	173.3	183.5	211.0	246.9	44.5	46.7	41.7	50.5	51.2	53.7	48.0	58.1
yoy(%)	(19.2)	5.8	15.0	17.0	9.6	14.3	(12.7)	14.7	15.0	15.0	15.0	15.0
Order backlogs	59.2	84.0	116.0	157.9	65.7	72.0	76.0	84.0	91.3	97.8	105.4	116.0
yoy(%)	(15.4)	41.9	38.1	36.1	6.6	38.0	25.2	41.9	38.9	35.8	38.6	38.1
Receipts/ revenue (%)	94.1	115.6	117.9	120.4	117.3	115.5	110.6	118.9	116.7	113.6	118.8	122.4
Backlogs/ revenue (%)	32.1	53.0	64.8	77.0	173.2	177.9	201.3	197.7	208.2	206.6	260.8	244.5
Revenue	184.2	158.6	179.0	205.0	37.9	40.5	37.8	42.5	43.9	47.3	40.4	47.4
yoy(%)	(24.8)	(13.8)	12.8	14.5	(22.5)	(19.7)	(4.0)	(6.7)	15.6	16.9	7.0	11.7
Exports	123.8	119.7	127.4	141.5	27.0	31.6	29.1	32.0	31.8	34.7	28.6	32.4
Domestic	60.3	39.0	51.6	52.2	11.0	8.9	8.7	10.5	12.1	12.7	11.8	15.0
Export share (%)	67.2	75.4	71.2	67.4	71.1	78.1	77.0	75.4	72.5	73.3	70.7	68.3
Domestic share (%)	32.8	24.6	28.8	24.8	28.9	21.9	23.0	24.6	27.5	26.7	29.3	31.7
COGS	159.6	135.7	149.4	169.5	32.2	32.1	32.2	39.2	36.4	38.8	33.5	40.7
Rel. to revenue (%)	86.7	85.6	83.5	82.7	84.9	79.3	85.4	92.3	83.0	82.0	83.0	85.8
GP	24.5	22.9	29.6	35.5	5.7	8.4	5.5	3.3	7.4	8.5	6.9	6.7
yoy(%)	(1.3)	(6.6)	29.0	14.5	(5.5)	30.1	9.0	(52.8)	29.8	1.5	24.6	104.9
GP margin (%)	13.3	14.4	16.5	17.3	15.1	20.7	14.6	7.7	17.0	18.0	17.0	14.2
SG&A expense	20.0	18.9	19.7	20.5	4.5	4.4	4.5	5.5	4.7	4.6	4.7	5.7
Rel. to revenue (%)	10.9	11.9	11.0	10.0	11.8	10.9	11.8	13.0	10.7	9.8	11.5	12.1
OP	4.5	4.0	9.9	15.0	1.3	4.0	1.1	(2.3)	2.8	3.9	2.2	1.0
yoy(%)	22.7	-10.4	144.8	51.6	6.9	419.7	107.1	(210.4)	119.1	(2.0)	109.4	(144.2)
OP margin (%)	2.4	2.5	5.5	7.3	3.3	9.8	2.8	(5.3)	6.3	8.2	5.5	2.1

Source: Taekwang, Daishin Securities Research Center

Tab 2. Taekwang quarterly and yearly earnings forecasts (previous, as of November 21)

(Wbn)

	2017	2018E	2019E	2020E	1Q18	2Q18	3Q18P	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
Order receipts	173.3	185.0	219.2	256.5	44.5	46.7	41.7	52.0	52.7	55.4	49.5	61.6
yoy(%)	(19.2)	6.7	18.5	17.0	9.6	14.3	(12.7)	18.2	18.5	18.5	18.5	18.5
Order backlogs	59.2	81.5	102.7	132.4	65.7	72.0	76.0	81.5	84.8	88.5	93.8	102.7
yoy(%)	(15.4)	37.7	26.0	29.0	6.6	38.0	25.2	37.7	29.0	22.9	23.5	26.0
Receipts/ revenue (%)	94.1	113.7	110.7	113.1	117.3	115.5	110.6	111.8	106.7	107.1	112.2	116.7
Backlogs/ revenue (%)	32.1	50.1	51.9	58.4	173.2	177.9	201.3	175.3	171.7	171.1	212.8	194.6
Revenue	184.2	162.7	198.0	226.7	37.9	40.5	37.8	46.5	49.4	51.7	44.1	52.8
yoy(%)	(24.8)	(11.7)	21.7	14.5	(22.5)	(19.7)	(4.0)	2.1	30.2	27.8	16.8	13.5
Exports	123.8	122.7	140.9	152.9	27.0	31.6	29.1	35.1	35.8	37.9	31.2	36.1
Domestic	60.3	40.0	57.1	56.3	11.0	8.9	8.7	11.4	13.6	13.8	12.9	16.7
Export share (%)	67.2	75.4	71.2	67.4	71.1	78.1	77.0	75.4	72.5	73.3	70.7	68.3
Domestic share (%)	32.8	24.6	28.8	24.8	28.9	21.9	23.0	24.6	27.5	26.7	29.3	31.7
COGS	159.6	135.3	164.9	187.5	32.2	32.1	32.2	38.8	41.2	42.9	36.7	44.1
Rel. to revenue (%)	86.7	83.2	83.3	82.7	84.9	79.3	85.4	83.4	83.4	83.0	83.3	83.6
GP	24.5	27.4	33.1	39.2	5.7	8.4	5.5	7.7	8.2	8.8	7.4	8.7
yoy(%)	(1.3)	11.5	20.9	14.5	(5.5)	30.1	9.0	10.9	42.9	5.0	33.8	12.4
GP margin (%)	13.3	16.8	16.7	17.3	15.1	20.7	14.6	16.6	16.6	17.0	16.7	16.4
SG&A expense	20.0	18.3	19.1	20.5	4.5	4.4	4.5	4.9	4.7	4.6	4.7	5.1
Rel. to revenue (%)	10.9	11.2	9.6	9.0	11.8	10.9	11.8	10.6	9.5	8.9	10.6	9.7
OP	4.5	9.1	14.0	18.7	1.3	4.0	1.1	2.8	3.5	4.2	2.7	3.6
yoy(%)	22.7	101.9	54.0	33.9	6.9	419.7	107.1	37.2	178.3	5.6	157.4	27.1
OP margin (%)	2.4	5.6	7.1	8.3	3.3	9.8	2.8	6.0	7.1	8.1	6.2	6.7

Source: Taekwang, Daishin Securities Research Center

1. Company profile

Overview

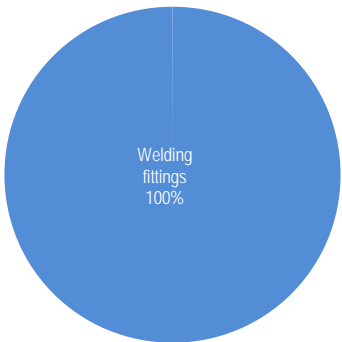
- Taekwang manufactures welding fittings that are used in various areas such as petrochemical plants, offshore plants, and power plants.
- Assets W459.3bn, liabilities W28.4bn, equities W430.9bn
- # of outstanding shares: 26,500,000 / # of treasury shares: 632,758
- Payout ratio: 16.3% in 2015-2016, 7.9% in 2017

Share price catalysts

- Oil price movements, which affect order intakes
- Plant orders from the Middle East
- Domestic petrochemicals companies' capex investments

Note: The stock count is based on both common and preferred shares (Sep 2018).  
Source: Taekwang, Daishin Securities Research Center

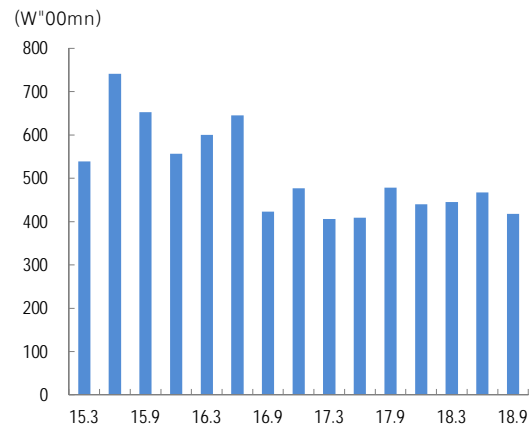
Revenue breakdown



Source: Taekwang, Daishin Securities Research Center

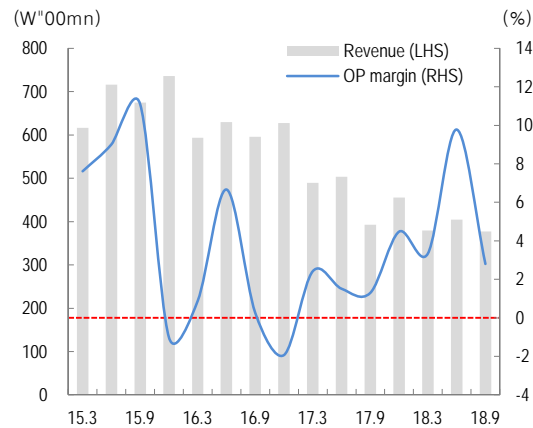
1. Earnings drivers

Quarterly order receipts



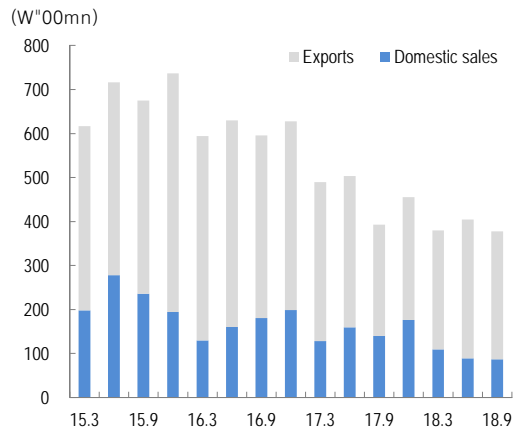
Source: Taekwang, Daishin Securities Research Center

Quarterly revenue and OP margin



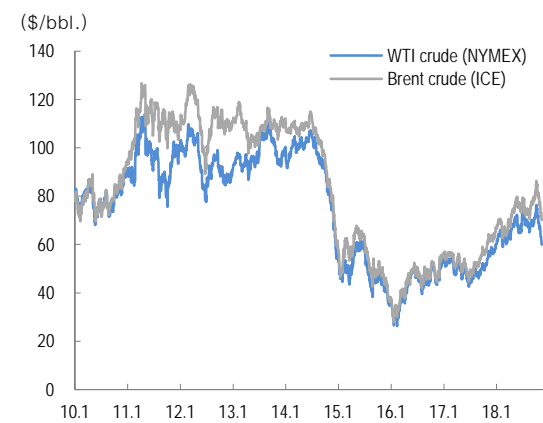
Source: Taekwang, Daishin Securities Research Center

Quarterly domestic sales and exports share



Source: Taekwang, Daishin Securities Research Center

Oil prices



Source: Quantiwise, Daishin Securities Research Center

## Financial statements

Income statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Revenue	245	184	159	179	205
Cost of goods sold	220	160	136	149	169
Gross profit	25	25	23	30	35
SG&A expenses	21	20	19	20	21
OP	4	4	4	10	15
OP margin	1.5	2.4	2.5	5.5	7.3
EBITDA	9	10	9	14	19
Non-OP	7	-26	9	8	8
Income from affiliates	0	0	0	0	0
Financial revenue	11	4	10	8	11
FX related gains	0	0	0	0	0
Financial expense	-4	-13	-2	-3	-3
FX related losses	4	12	2	3	3
Others	0	-18	1	2	1
Income before taxes	10	-22	13	17	23
Income tax expense	-2	5	-3	-4	-6
Income from cont. op.	8	-16	10	13	18
Income from discount. op.	0	0	0	0	0
NP	8	-16	10	13	18
NP margin	3.2	-8.8	6.3	7.4	8.7
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	8	-16	10	13	18
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	1	1	2	4	8
Comprehensive income	9	-15	12	18	26
Comp. income for non-contr. int.	0	0	0	0	0
Comp. income for contr. int.	9	-15	12	18	26

Valuation metrics (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
EPS	299	-612	376	503	669
PER	27.7	NA	28.9	21.6	16.2
BPS	16,426	15,818	16,145	16,599	17,219
PBR	0.5	0.8	0.7	0.7	0.6
EBITDAPS	347	366	324	536	721
EV/EBITDA	14.5	24.6	20.1	11.2	7.8
SPS	9,237	6,949	5,987	6,755	7,734
PSR	0.9	1.7	2.0	1.6	1.4
CFPS	477	-417	715	867	1,089
DPS	50	50	50	50	50

Financial ratios (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
<b>Growth potential</b>					
Revenue growth	-10.8	-24.8	-13.8	12.8	14.5
OP growth	-79.5	22.7	-10.4	144.8	51.6
NP growth	-50.1	TTR	TTB	33.9	33.0
<b>Profitability</b>					
ROIC	0.8	1.0	1.0	2.6	3.9
ROA	0.8	1.0	0.9	2.1	3.1
ROE	1.8	-3.8	2.4	3.1	4.0
<b>Stability</b>					
Debt ratio	9.1	8.3	7.9	8.0	8.1
Net borrowings ratio	-19.8	-19.2	-26.9	-29.1	-30.2
Interest coverage ratio	69.0	80.3	0.0	0.0	0.0

Source: Taekwang, Daishin Securities Research Center

Balance sheet (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Current assets	310	275	283	296	314
Cash & cash equiv.	63	49	81	93	101
Trade & other receive.	98	77	66	68	73
Inventories	125	118	101	99	102
Other current assets	24	32	34	36	37
Long-term assets	165	179	179	179	180
Tangible assets	139	138	136	134	132
Investments in affiliates	0	0	0	0	0
Other long-term assets	25	41	43	45	47
Total assets	475	454	462	475	493
Current liabilities	28	29	27	29	30
Payables & other liab.	26	28	27	28	29
Borrowings	0	0	0	0	0
Current portion of LT debts	0	0	0	0	0
Other current liabilities	2	1	1	1	1
Long-term liabilities	12	6	6	7	7
Borrowings	0	0	0	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	12	6	6	7	7
Total liabilities	39	35	34	35	37
Controlling interest	435	419	428	440	456
Capital stock	13	13	13	13	13
Capital surplus	34	34	34	34	34
Retained earnings	401	385	393	405	422
Other capital changes	-13	-13	-13	-13	-13
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	435	419	428	440	456
Net borrowings	-86	-81	-115	-128	-138

Cash flow statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	42	17	40	19	17
NP	8	-16	10	13	18
Non-cash items	5	5	9	10	11
Depreciation	6	5	5	4	4
FX gains	-3	5	0	1	1
Equity method gain	0	0	0	0	0
Others	2	-5	4	5	6
Chg in assets & liab.	35	27	24	-1	-8
Other cash flows	-5	1	-2	-3	-4
Investing cash flow	-14	-29	-5	-5	-5
Investment assets	-6	-18	-2	-2	-2
Tangible assets	-2	-4	-3	-3	-3
Others	-6	-7	0	0	0
Financing cash flows	-3	-1	-1	-1	-1
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	-3	-1	-1	-1	-1
Others	0	1	1	1	1
Net chg in cash	27	-14	33	11	8
Beginning cash balance	36	63	49	81	93
Ending cash balance	63	49	81	93	101
NOPLAT	3	3	3	8	11
FCF	7	4	5	9	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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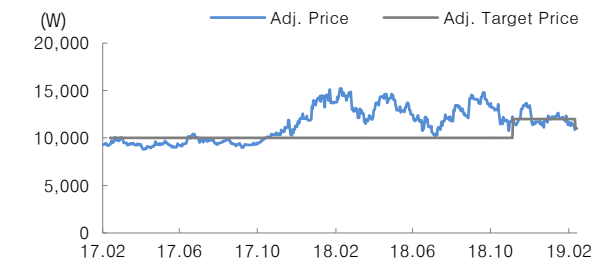
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[Investment rating & Target price history]

Taekwang (023160 KQ)



Date	19.02.27	18.11.21		18.08.31	18.02.28	17.08.31
Rating	MKTPERF.	MKTPERF.	Analyst changed	6M passed	6M passed	6M passed
Target price	11,000	12,000		10,000	10,000	10,000
Diff. (avr. %)		0.78		29.14	26.27	14.38
Diff. (max/min, %)		(9.58)		7.50	1.50	52.00

Date	17.02.28	
Rating	MKTPERF.	
Target price	10,000	
Diff. (avr. %)	(4.78)	
Diff. (max/min, %)	4.00	

Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min, %)	

Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min, %)	

Investment rating breakdown and framework (Feb 24, 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.