

Innometry (302430 KS)

Mid-small cap

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Rating **Not Rated**Current price (Mar 4) **₩25,650**

| | |
|-----------------------------|-----------|
| Market cap (Wbn) | 124 |
| Shares outstanding | 4,825,108 |
| Avg daily T/O (2M, Wbn) | 10 |
| Avg daily volume (2M, shrs) | 372,854 |
| 52-week high (won) | 30,750 |
| 52-week low (won) | 22,200 |
| Foreign ownership (%) | 0.5 |
| Major shareholders (%) | |
| Nexteye & others | 61.9 |

Stock performance

| (%) | 1M | 3M | 12M |
|------------|--------|-----|-----|
| Absolute | (16.6) | 0.0 | 0.0 |
| Relative | (20.1) | 0.0 | 0.0 |
| Abs (US\$) | (17.3) | 0.0 | 0.0 |

Competitive X-ray inspection machine manufacturer with growth potential

X-ray inspection machine manufacturer with strong market power

- Innometry was established in 2008 and listed on the KOSDAQ in Dec 2018. The company manufactures X-ray battery auto inspection equipment for rechargeable batteries used in automobiles and smartphones. Identifying tiny defects speedily requires strong software algorithm development and analysis capabilities. These abilities are not only a competitive advantage for Innometry, but also act as an entry barrier for other firms.
- After smartphone battery explosions in 2016, battery inspections became stricter. As such, the company was able to supply in-line inspection devices exclusively to most of its clients, enjoying stellar growth. Moreover, from 1H18, sales to BYD of China started to increase, boosting Chinese sales that had stagnated after the THAAD issue. Innometry's major clients include Samsung SDI, LG Chem, SK Innovation, and BYD. Its client base is set to expand, as makers of electric vehicles (EV), energy storage systems (ESS), and smartphones are requesting more stringent battery inspections. Moreover, X-ray tubes, a component of the firm's equipment, need to be replaced every two to three years, and play the role of cash cow for the company.

High growth to continue on business expansion

- Innometry is expanding into manufacturing rechargeable battery stacking devices and x-ray machines for weld inspection. X-ray testing of welds looks for defects and porosity caused by dust and temperature gaps during the welding process. If welding is defective, electrolytes can leak, which then means the whole battery pack needs to be replaced. The company's X-ray equipment not only scans the thickness of welds but also porosities inside them, making it more competitive than existing vision inspection systems. Moreover, Innometry is participating in overseas bids for rechargeable battery stacking equipment based on its high processing speed and price competitiveness. Based on its overseas track record, we believe the company will be able to win orders from domestic clients in the near future. Once the firm receives more orders, the stacking equipment business will make a big contribution to overall sales given its relatively high price.

Premium based on downstream expansion, market position, biz expansion

- Innometry shares are trading at a 2019E P/E of 14x. Downstream expansion will lead to increased adoption of its devices, enabling it to maintain a high operating margin thanks to its strong market position. We believe it deserves an additional valuation premium given its high operating margin and strong business expansion momentum from new orders.

Forecasts and valuations (K-IFRS, consolidated)

| | (Wbn) | | | |
|------------------|-------|-------|-------|-------|
| FY ends Dec | 2016A | 2017A | 2018P | 2019E |
| Sales | 16 | 14 | 31 | 41 |
| Operating profit | 4 | 2 | 7 | 10 |
| Net profit, CI | 3 | 1 | 5 | 9 |
| P/E (x) | N/A | N/A | 23.8 | 13.8 |
| P/B (x) | N/A | N/A | 2.6 | 2.3 |
| EV/EBITDA (x) | N/A | N/A | 18.5 | 12.4 |
| ROE (%) | 62.3 | 20.1 | 10.8 | 16.4 |

Note: CI = controlling interest, Source: Yuanta securities

Innometry (302430 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

| FY ends Dec (Wbn) | 2013A | 2014A | 2015A | 2016A | 2017A |
|------------------------------------|-------|-------|-------|-------------|-------------|
| Sales | | | | 16.2 | 14.1 |
| Cost of sales | | | | 11.1 | 10.3 |
| Gross profit | | | | 5 | 3.8 |
| SG&A | | | | 1.3 | 1.8 |
| Operating profit | | | | 3.7 | 2 |
| EBITDA | | | | 3.8 | 2 |
| Non-op profit/loss | | | | 0.2 | -0.5 |
| Forex gain/loss | | | | 0.2 | -0.5 |
| Net interest income | | | | 0 | 0 |
| Equity-meth gain/loss | | | | 0 | 0 |
| Other | | | | 0 | 0 |
| Net prof before income tax | | | | 3.9 | 1.4 |
| Income tax | | | | 0.8 | 0.3 |
| Net profit from continuing ops | | | | 3.2 | 1.2 |
| Net profit from discontinued ops | | | | 0 | 0 |
| Net profit | | | | 3.2 | 1.2 |
| NP for controlling interest | | | | 3.2 | 1.2 |
| Total comprehensive income | | | | 3.2 | 1.2 |
| Total comprehensive income, CI | | | | 3.2 | 1.2 |

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position

| FY ends Dec (Wbn) | 2013A | 2014A | 2015A | 2016A | 2017A |
|----------------------------------|-------|-------|-------|-------------|-------------|
| Current assets | | | | 11.6 | 10 |
| Cash & cash equivalents | | | | 2.1 | 6 |
| Accts rec & other | | | | 8.5 | 3.5 |
| Inventory | | | | 0 | 0.2 |
| Non-current assets | | | | 0.3 | 1.4 |
| Tangible assets | | | | 0.1 | 0.1 |
| Investment in affiliates | | | | 0 | 0 |
| Other non-current | | | | 0 | 1 |
| Total assets | | | | 11.9 | 11.4 |
| Current liabilities | | | | 6.8 | 5.1 |
| Accts payable & other | | | | 3.9 | 2.2 |
| ST financial liabilities | | | | 0 | 1.9 |
| Liquid LT liabilities | | | | 0 | 0 |
| Non-current liabilities | | | | 0 | 0 |
| LT financial liabilities | | | | 0 | 0 |
| Total liabilities | | | | 6.8 | 5.1 |
| Equity, controlling interest | | | | 5.1 | 6.3 |
| Paid-in capital | | | | 0.2 | 0.2 |
| Capital surplus | | | | 1.5 | 1.5 |
| Retained earnings | | | | 3.4 | 4.6 |
| Equity, non-controlling interest | | | | 0 | 0 |
| Total equity | | | | 5.1 | 6.3 |

Cash flow statement

| FY ends Dec (Wbn) | 2013A | 2014A | 2015A | 2016A | 2017A |
|--|-------|-------|-------|-------------|-------------|
| Operating cash flow | | | | 1.3 | 3.1 |
| Net profit | | | | 0.3 | 0.1 |
| Depreciation & amortization | | | | - | - |
| Forex gain/loss | | | | -0.0 | 0.0 |
| Affiliate invest gain/loss | | | | - | - |
| Inc (dec) in net working cap | | | | -0.3 | 0.2 |
| Other | | | | 0.1 | -0.1 |
| Investing cash flow | | | | -0.0 | -0.1 |
| Investment | | | | - | -0.1 |
| Inc in tangible assets | | | | -0.0 | - |
| Dec in tangible assets | | | | - | - |
| Other | | | | - | -0.0 |
| Financing cash flow | | | | - | 0.2 |
| Inc (dec) in ST fin liab | | | | - | 0.2 |
| Inc (dec) in LT fin liab | | | | - | - |
| Inc (dec) in equity | | | | - | - |
| Cash dividend | | | | - | - |
| Other | | | | - | - |
| Other cash flow | | | | - | - |
| Inc (dec) in cash & equivalents | | | | 0.1 | 0.4 |
| Beginning cash & equivalents | | | | 0.1 | 0.2 |
| Ending cash & equivalents | | | | 0.2 | 0.6 |
| NOPLAT | | | | 0.3 | 0.2 |
| FCF | | | | 0.0 | 0.4 |

Valuation

| FY ends Dec | 2013A | 2014A | 2015A | 2016A | 2017A |
|----------------------|-------|-------|-------|-------|-------------|
| EPS (won) | | | | 970 | 360 |
| BPS (won) | | | | 1,567 | 1,923 |
| DPS (won) | | | | 0 | 0 |
| P/E (x) | | | | | 18.1 |
| P/B (x) | | | | | 3.1 |
| EV/EBITDA (x) | | | | | 11.6 |
| P/S (x) | | | | | 1.2 |

Key financial data

| FY ends Dec | 2013A | 2014A | 2015A | 2016A | 2017A |
|--------------------------------|-------|-------|-------|--------------|--------------|
| Sales (% YoY) | | | | | -13.0 |
| Operating profit (%YoY) | | | | | -47.0 |
| Net profit, CI (%YoY) | | | | | -62.9 |
| Gross margin (%) | | | | 31.2 | 27.1 |
| Operating margin (%) | | | | 23.1 | 14.1 |
| Net margin, CI (%) | | | | 19.6 | 8.4 |
| ROIC (%) | | | | 210.9 | 86.7 |
| ROA (%) | | | | 53.2 | 10.1 |
| ROE (%) | | | | 123.7 | 20.6 |
| Debt-to-equity (%) | | | | 132.7 | 81.0 |
| OP/financing cost (x) | | | | 4899.7 | 38.0 |

Note: CI = controlling interest

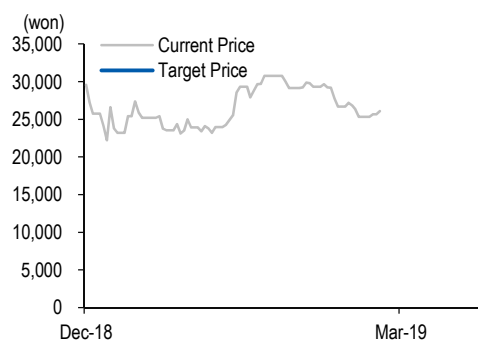
EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuantia Securities

Innometry (302430 KS) ratings and target price history



| Date | Rating | TP (won) | TP time frame | Difference (%) | |
|------------|-----------|----------|---------------|----------------|---------------|
| | | | | vs avg price | vs high (low) |
| 2019/03/07 | Not Rated | - | 1 yr | | |
| 2018/11/30 | Not Rated | - | 1 yr | | |

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

| Rating | Share (%) |
|------------|-----------|
| STRONG BUY | 1.0 |
| BUY | 83.9 |
| HOLD | 15.1 |
| SELL | 0.0 |
| Total | 100.0 |

Note: As of Mar 2

Excluding reports written or published by overseas affiliates

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I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

Stock and sector ratings

- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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