

Partron (091700 KS)

Leading IT parts maker to deliver earnings surprise

BUY (Maintain)

CP (Mar. 4) KRW10,250
TP (6 months) KRW13,000
Upside 26.8%

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- ◆ 1Q19 earnings results to exceed market expectations
- ◆ Three growth drivers to boost earnings in 2019
- ◆ Retain BUY and raise target price by 13% to KRW13,000

1Q19 earnings results to exceed market expectations

We now expect Partron to deliver another earnings surprise with stronger-than-projected earnings continuing from 4Q18 into 1Q19. Operating profit should exceed market consensus of KRW15.4bn at KRW19.8bn (+108% YoY) on sales of KRW270.7bn (+18% YoY). Growth was likely driven by the release of new flagship smartphones by the company's major client. The upgrade of front-facing cameras on the flagship models from the single-lens modules of 2018 to dual-lens modules in 2019 is expected to lead to a 30% increase in ASP for Partron. Strong earnings should continue from 1Q19 into 2Q19 and 3Q19 as a result.

Three growth drivers to boost earnings in 2019

For full-year 2019, sales are forecast at KRW1.1tr (+34% YoY) and operating profit at KRW78.5bn (+157% YoY). Following the release of new flagship models, the major client is expected to adopt dual-, triple-, and quadruple-lens cameras on several A and M series smartphones. All in all, we expect the client's total camera module demand in single-lens terms to rise by 50% YoY in 2019.

In addition, Partron stands to benefit from the adoption of 3D camera modules on smartphones. New flagship models revealed by the major client in February included a 5G version featuring time-of-flight (ToF) 3D cameras. With the client pushing for ToF adoption ahead of Apple, the advent of a market for the new technology is expected in 2019. Meanwhile, an increasing number of smartphones are adopting in-display fingerprint sensors. Partron, as a main vendor in the major client's supply chain alongside Chinese parts suppliers, is expected to start shipments of in-display fingerprint sensors within 1H19.

Retain BUY and raise target price by 13% to KRW13,000

We raise our target price for Partron to KRW13,000, based on 2019F EPS and the past four-year (2012-2015) PER average of 11.1x. Investment points are: 1) forecasts for the company's first significant top-line growth in six years to KRW1.1tr (+34% YoY) in 2019; 2) main vendor status expected in the newly opening market for ToF 3D camera modules; and 3) expectations for in-display fingerprint sensor module sales of KRW80.3bn in 2019. In all, we expect Partron to stand out among peers on upbeat forecasts for earnings and further growth.

KOSPI	2,190.66p
KOSDAQ	748.07p
Market cap	KRW555.1bn/USD486.9mn
Par value	KRW500
Outstanding shares	54.2mn
Free float	37.4mn(69.1%)
52-week high/low	KRW10,250/KRW7,000
60-day avg. trading volume	295,356shrs
60-day avg. turnover	KRW2,735mn
Foreign ownership	27.95%
Major shareholders	
Jong-gu Kim and 10 others	25.81%
Lazard Asset Mgmt. and 11 others	7.15%
Absolute performance	3M 21.0%
	6M 28.1%
	12M 10.0%
Relative performance	3M 14.6%
to KOSDAQ	6M 41.7%
	12M 26.5%

Year to December	Sales (bn KRW)	OP (bn KRW)	Pre-tax (bn KRW)	NP (bn KRW)	EPS (KRW)	Growth (%)	BPS (KRW)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net debt ratio (%)
2016	791.4	38.2	37.6	21.8	402	(45.3)	6,250	25.7	6.7	1.7	6.6	0.3
2017	791.3	11.0	8.9	1.2	23	(94.3)	5,707	413.9	9.7	1.7	0.4	12.3
2018F	799.0	30.5	37.6	23.8	439	1,825.8	5,737	18.6	7.6	1.4	7.7	5.5
2019F	1,074.3	78.5	82.3	63.1	1,165	165.1	6,736	8.5	4.9	1.5	18.7	(5.6)
2020F	1,145.9	82.7	86.7	66.4	1,226	5.3	7,796	8.1	2.3	1.3	16.9	(29.1)

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

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1Q19 forecast

(bn KRW)	1Q19F	4Q18	QoQ (%)	1Q18	YoY (%)	Previous	Consensus
Sales	270.7	214.1	26.5	229.8	17.8	218.2	242.0
OP	19.8	15.1	31.3	9.5	108.2	12.2	15.4
NP	15.2	15.1	0.3	6.5	134.5	9.3	10.9
OPM (%)	7.3	7.1	-	4.1	-	5.6	6.3
NPM (%)	5.6	7.1	-	2.8	-	4.3	4.5

Source: Company data, QuantiWise, Shinhan Investment Corp.

Earnings forecast revision

(bn KRW)	Previous		Revised		Change	
	2019F	2020F	2019F	2020F	2019F	2020F
Sales	1033.1	1145.7	1074.3	1145.9	4.0	0.0
OP	63.2	74.5	78.5	82.7	24.2	10.9
NP	51.4	60.2	63.1	66.4	22.8	10.4
OPM (%)	6.1	6.5	7.3	7.2	-	-
NPM (%)	5.0	5.3	5.9	5.8	-	-

Source: QuantiWise, Shinhan Investment Corp.

Target price calculation

(KRW, x)	2019F	Remarks
Target price	13,000	
EPS	1,165	
Target PER	11.1	Based on 2012-2015 average PER (historical PER in the 10-20x range)
Value per share	12,932	

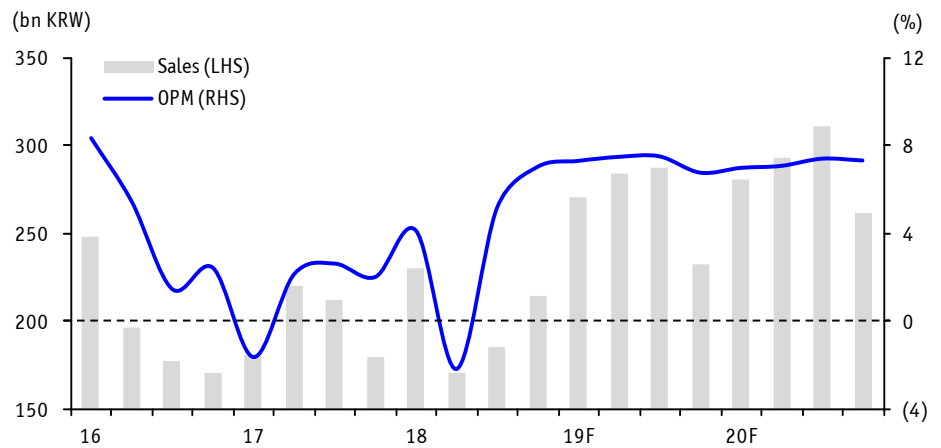
Source: Shinhan Investment Corp.

Earnings trend and outlook

(bn KRW, %)		1Q18	2Q18	3Q18	4Q18	1Q19F	2Q19F	3Q19F	4Q19F	2018	2019F	2020F
Sales		229.8	170.1	185.1	214.1	270.7	283.6	288.0	232.1	799.0	1,074.3	1,145.9
	QoQ	28.1	(26.0)	8.8	15.6	26.5	4.8	1.6	(19.4)	-	-	-
	YoY	27.5	(22.6)	(12.7)	19.3	17.8	66.8	55.6	8.4	1.0	34.5	6.7
Sales by product	Antenna	18.4	11.9	12.7	9.0	16.6	10.7	11.5	8.1	52.0	46.8	42.1
	Dielectric filter	2.9	3.6	3.4	4.0	3.8	3.8	3.8	3.9	13.8	15.3	15.8
	Isolator	5.1	5.7	6.5	6.5	6.1	6.3	6.5	6.5	23.8	25.3	26.3
	Crystal oscillator	3.3	2.2	2.0	1.4	3.4	2.3	2.0	1.4	8.9	9.1	9.4
	Camera module	163.6	113.1	120.6	147.8	181.2	195.0	188.2	144.1	545.1	708.6	709.7
	Sensor	18.5	20.2	26.0	27.6	41.1	46.8	53.8	45.6	92.3	187.2	227.1
	Accessories	2.3	2.5	3.2	3.3	3.5	3.7	4.7	5.0	11.3	17.0	25.4
	Others	15.6	10.9	10.8	14.5	15.0	15.0	17.5	17.5	51.8	65.0	90.0
OP		9.5	(3.7)	9.6	15.1	19.8	21.3	21.7	15.7	30.5	78.5	82.7
	OPM	4.1	(2.2)	5.2	7.1	7.3	7.5	7.5	6.8	3.8	7.3	7.2
	QoQ	161.5	TR	TB	57.1	31.3	7.4	1.9	(27.4)	-	-	-
	YoY	TB	TR	71.9	314.8	108.2	TP	125.6	4.3	176.6	157.1	5.3

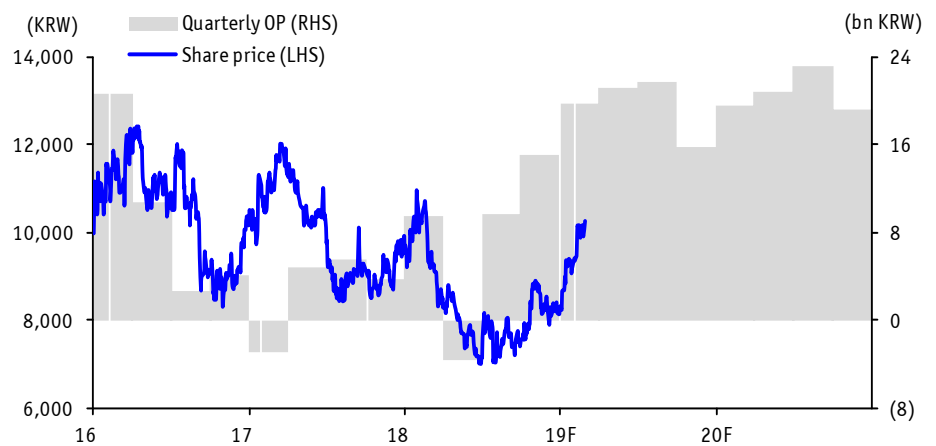
Source: DART, Shinhan Investment Corp.

Sales and operating profit margin



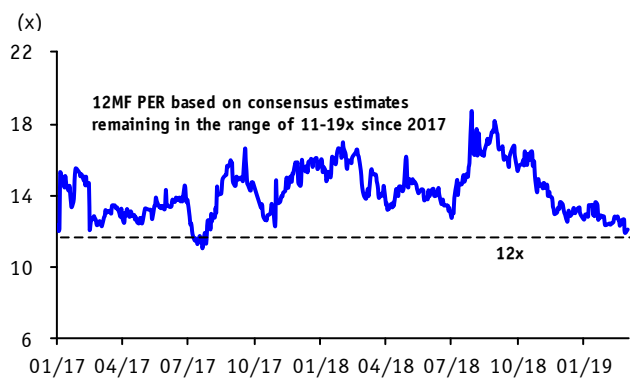
Source: DART, Shinhan Investment Corp.

Share price and operating profit



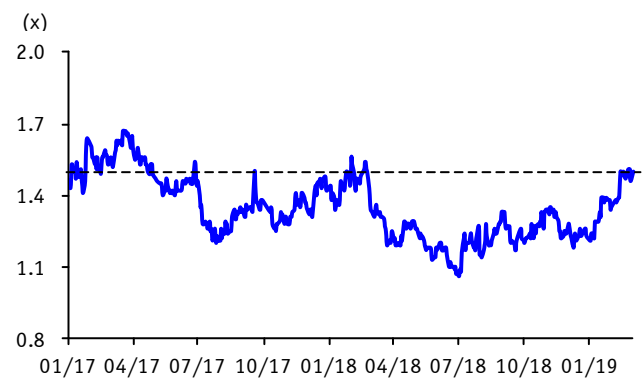
Source: QuantiWise, Shinhan Investment Corp.

12-month forward PER based on consensus estimates



Source: QuantiWise, Shinhan Investment Corp.

12-month forward PBR based on consensus estimates



Source: QuantiWise, Shinhan Investment Corp.

PBR and ROE trend

(KRW, x)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019F	2020F
BPS	1,279	1,666	2,143	2,568	3,593	5,261	5,724	6,017	6,250	5,707	5,737	6,736	7,796
PBR (term-end)	1.1	3.0	3.8	3.1	3.9	2.7	2.1	1.6	1.7	1.7	1.4	1.5	1.3
PBR (high)	1.8	3.3	3.9	3.6	4.1	4.9	2.8	2.6	2.0	2.2	1.9	1.5	1.3
PBR (low)	0.8	0.9	2.2	1.8	1.8	2.5	1.3	1.1	1.3	1.5	1.2	1.2	1.0
PBR (average)	1.3	2.3	3.0	2.8	2.5	3.4	2.0	1.8	1.7	1.7	1.5	1.4	1.2
ROE (%)	27.6	30.2	22.9	20.6	43.3	44.2	16.3	12.5	6.6	0.4	7.7	18.7	16.9

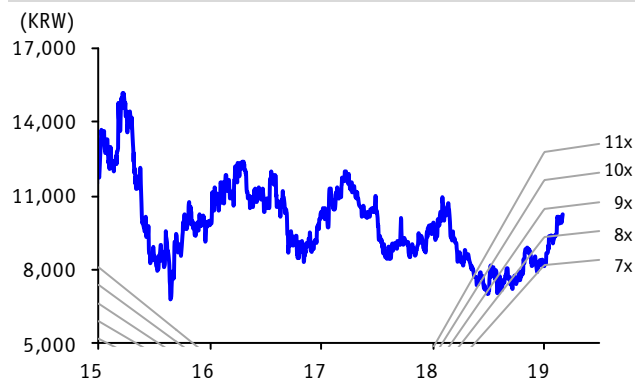
Source: Shinhan Investment Corp.

PER trend

(KRW, x)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019F	2020F
EPS	306	445	437	484	1,333	1,956	894	735	402	23	439	1,165	1,226
PER (term-end)	4.7	11.3	18.6	16.5	10.5	7.3	13.1	13.4	25.7	413.9	18.6	8.5	8.1
PER (high)	7.5	12.2	18.9	18.8	10.9	13.3	17.7	21.2	31.3	541.4	25.0	8.9	8.4
PER (low)	3.5	3.2	10.7	9.6	4.7	6.8	8.5	9.1	20.4	366.9	15.8	6.9	6.5
PER (average)	5.3	8.5	14.9	14.7	6.7	9.1	13.0	14.5	26.2	435.6	19.0	8.0	7.6

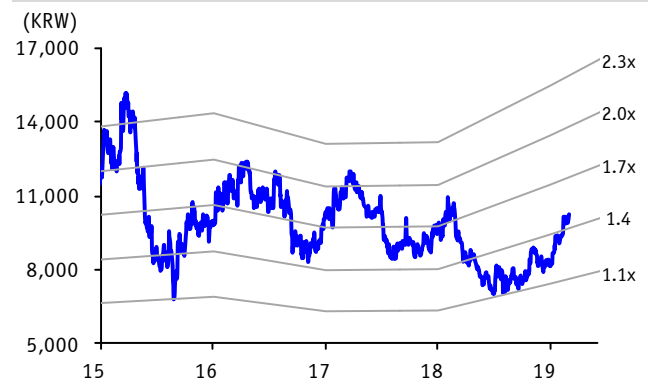
Source: Shinhan Investment Corp.

PER band



Source: QuantiWise, Shinhan Investment Corp.

PBR band



Source: QuantiWise, Shinhan Investment Corp.

Peer group valuation

(bn USD, x, %)		2019F						2020F					
Company	Market cap.	PER	PBR	EV/EBITDA	ROE	OPM	NPM	PER	PBR	EV/EBITDA	ROE	OPM	NPM
Partron	493	8.5	1.5	4.9	18.7	7.3	63.1	5.9	8.1	1.3	2.3	16.9	7.2
Murata Manufacturing	36,877	18.8	2.4	10.1	13.7	17.2	13.2	15.6	2.2	8.6	14.6	19.1	14.5
Nidec	36,868	32.6	4.0	17.9	13.0	10.6	8.3	25.9	3.5	14.5	14.6	12.3	9.7
Panasonic	22,397	9.6	1.3	4.3	13.8	4.9	3.0	9.9	1.2	4.4	11.7	4.6	2.8
Kyocera	21,436	22.5	1.0	10.6	4.3	6.1	6.3	16.0	0.9	7.9	6.0	10.0	8.7
TDK	10,911	15.3	1.3	6.5	9.1	8.0	5.7	13.4	1.3	5.7	9.8	8.7	6.3
Samsung Electro-Mechanics	7,093	10.1	1.5	4.6	15.6	13.6	9.0	8.5	1.3	4.1	15.9	14.2	9.6
LG Innotek	2,289	15.2	1.1	5.0	7.7	3.3	1.9	10.7	1.0	4.5	10.0	3.9	2.5

Source: Bloomberg, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2016	2017	2018F	2019F	2020F
Total assets	506.2	511.1	502.8	538.2	572.5
Current assets	192.1	202.0	235.4	266.4	371.3
Cash and equivalents	30.2	20.0	18.3	30.9	106.3
Accounts receivable	74.6	85.1	101.5	110.0	123.9
Inventories	63.9	79.7	95.1	103.1	116.1
Non-current assets	314.1	309.1	267.3	271.8	201.2
Tangible assets	277.9	257.0	206.5	209.5	136.4
Intangible assets	22.1	23.7	25.1	25.1	25.1
Investment assets	5.9	14.8	17.6	19.1	21.5
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	121.1	152.3	143.1	121.7	95.6
Current liabilities	116.3	144.8	139.6	118.0	91.5
Short-term borrowings	38.0	61.7	40.4	10.4	(29.6)
Accounts payable	54.4	55.8	66.6	72.2	81.2
Current portion of long-term debt	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	4.8	7.5	3.5	3.7	4.1
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	1.2	5.1	0.7	0.7	0.7
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	385.1	358.8	359.6	416.5	476.8
Capital stock	27.1	27.1	27.1	27.1	27.1
Capital surplus	3.0	3.4	3.4	3.4	3.4
Other capital	(14.7)	(15.1)	(18.4)	(18.4)	(18.4)
Accumulated other comprehensive income	(3.7)	(23.9)	(27.0)	(27.0)	(27.0)
Retained earnings	326.8	317.6	325.6	379.6	437.1
Controlling interest equity	338.4	309.1	310.7	364.8	422.2
Non-controlling interest equity	46.7	49.7	48.9	51.7	54.6
*Total debt	39.5	68.1	42.6	12.8	(27.0)
*Net debt (cash)	1.1	44.2	19.7	(23.2)	(139.0)

Statement of cash flow

Year to December (bn KRW)	2016	2017	2018F	2019F	2020F
Cash flow from operations	77.6	23.0	73.1	57.6	131.3
Net profit	28.3	4.5	26.2	65.9	69.4
Depreciation expense	51.4	50.1	36.4	37.0	113.0
Amortization expense	1.2	1.0	0.0	0.0	0.0
FX translation loss (gain)	(1.6)	0.4	0.0	0.0	0.0
Asset disposal loss (gain)	1.8	1.5	0.0	0.0	0.0
Equity method loss (gain)	0.1	(0.0)	0.0	0.0	0.0
Change in working capital	1.9	(32.6)	(28.9)	(45.2)	(51.1)
(Payment of income tax)	(17.7)	(10.8)	(10.8)	(16.5)	(17.3)
Others	12.2	8.9	50.2	16.4	17.3
Cash flow from investments	(47.2)	(51.2)	(27.2)	(41.9)	(43.0)
Increase in tangible assets	(44.2)	(53.0)	(33.0)	(40.0)	(40.0)
Decrease in tangible assets	1.1	2.6	6.1	0.0	0.0
Change in intangible assets	(4.2)	(1.6)	(2.1)	0.0	0.0
Change in investment assets	6.4	6.7	3.0	(1.5)	(2.4)
Others	(6.3)	(5.9)	(1.2)	(0.4)	(0.6)
Free cash flow	36.9	(16.9)	6.1	50.1	123.5
Cash flow from financing	(21.5)	19.7	(57.2)	(38.9)	(48.8)
Change in borrowings	(19.2)	29.4	(41.4)	(29.9)	(39.8)
Change in treasury stock	1.6	0.4	(5.7)	0.0	0.0
Dividends	(13.7)	(12.9)	(9.4)	(9.0)	(9.0)
Others	9.8	2.8	(0.7)	0.0	0.0
Other cash flow	0.0	0.0	8.8	35.8	35.8
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	0.0	(1.8)	0.7	0.0	0.0
Change in total cash	9.0	(10.2)	(1.7)	12.7	75.3
Beginning cash	21.2	30.2	20.0	18.3	30.9
Ending cash	30.2	20.0	18.3	30.9	106.3

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2016	2017	2018F	2019F	2020F
Sales	791.4	791.3	799.0	1,074.3	1,145.9
Growth (%)	(1.8)	(0.0)	1.0	34.5	6.7
COGS	685.2	711.9	700.8	929.8	994.3
Gross profit	106.2	79.4	98.2	144.6	151.6
GPM (%)	13.4	10.0	12.3	13.5	13.2
SG&A	68.0	68.3	67.6	66.0	68.9
Operating profit	38.2	11.0	30.5	78.5	82.7
Growth (%)	(35.0)	(71.1)	176.4	157.2	5.3
OPM (%)	4.8	1.4	3.8	7.3	7.2
Non-operating profit	(0.6)	(2.1)	7.0	3.8	4.0
Financial profit	(0.4)	(0.8)	(0.6)	0.0	0.0
Other non-operating profit	(0.1)	(1.3)	7.6	3.8	4.0
Equity method gain (loss)	(0.0)	0.0	(0.1)	0.0	0.0
Pre-tax profit	37.6	8.9	37.6	82.3	86.7
Income tax	9.4	4.5	11.4	16.5	17.3
Continuing operations	28.3	4.5	26.2	65.9	69.4
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	28.3	4.5	26.2	65.9	69.4
Growth (%)	(38.1)	(84.2)	486.9	151.3	5.3
NPM (%)	3.6	0.6	3.3	6.1	6.1
Controlling interest	21.8	1.2	23.8	63.1	66.4
Non-controlling interest	6.5	3.2	2.4	2.8	2.9
Comprehensive income	24.9	(16.6)	26.8	65.9	69.4
Controlling interest	19.0	(19.0)	23.8	61.1	64.3
Non-controlling interest	5.9	2.3	3.0	4.8	5.1
EBITDA	90.7	62.2	67.0	115.5	195.7
Growth (%)	(13.8)	(31.5)	7.7	72.5	69.5
EBITDA margin (%)	11.5	7.9	8.4	10.8	17.1

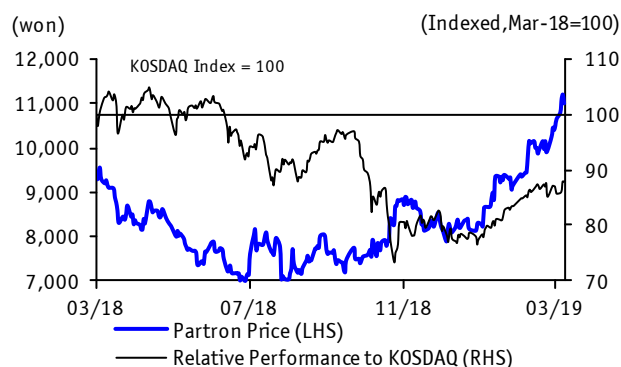
Key ratios

Year to December	2016	2017	2018F	2019F	2020F
EPS (KRW)	522	82	484	1,216	1,281
EPS of controlling interest (KRW)	402	23	439	1,165	1,226
BPS (KRW)	7,111	6,625	6,640	7,690	8,805
BPS of controlling interest (KRW)	6,250	5,707	5,737	6,736	7,796
DPS (KRW)	200	175	175	175	175
PER (x)	19.8	114.5	16.9	8.1	7.7
PER of controlling interest (x)	25.7	413.9	18.6	8.5	8.1
PBR (x)	1.5	1.4	1.2	1.3	1.1
PBR of controlling interest (x)	1.7	1.7	1.4	1.5	1.3
EV/EBITDA (x)	6.7	9.7	7.6	4.9	2.3
Dividend payout ratio (%)	48.1	742.4	37.8	14.3	13.5
Dividend yield (%)	1.9	1.9	2.1	1.8	1.8
Profitability					
EBITDA margin (%)	11.5	7.9	8.4	10.8	17.1
OPM (%)	4.8	1.4	3.8	7.3	7.2
NPM (%)	3.6	0.6	3.3	6.1	6.1
ROA (%)	5.6	0.9	5.2	12.7	12.5
ROE (%)	6.6	0.4	7.7	18.7	16.9
ROIC (%)	6.6	0.0	7.0	17.8	20.0
Stability					
Debt to equity ratio (%)	31.4	42.4	39.8	29.2	20.1
Net debt ratio (%)	0.3	12.3	5.5	(5.6)	(29.1)
Cash ratio (%)	26.0	13.8	13.1	26.2	116.1
Interest coverage ratio (x)	32.7	8.9	N/A	N/A	N/A
Activity (%)					
Working capital turnover (times)	10.5	9.2	7.6	9.0	8.7
Inventory turnover (days)	29.2	33.1	39.9	33.7	34.9
Receivable turnover (days)	34.9	36.8	42.6	35.9	37.3

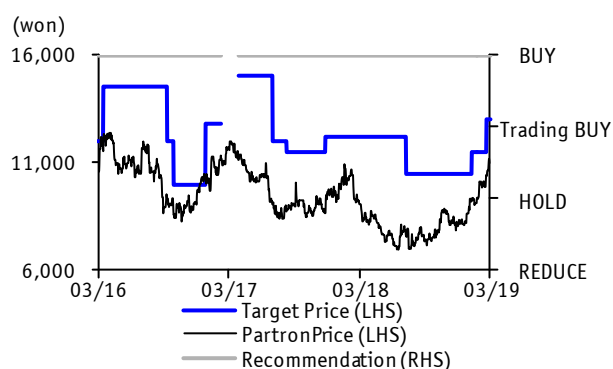
Source: Company data, Shinhan Investment Corp.

Partron (091700 KS)

Share performance



Target price



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2015.11.11	BUY	12,000	(10.8)	2.9
2016.03.31	BUY	14,500	(24.1)	(14.5)
2016.09.25	BUY	12,000	(24.8)	(21.9)
2016.10.13	BUY	10,000	(7.5)	5.0
2017.01.10	BUY	12,800	(16.7)	(11.3)
2017.02.23	No Coverage	-	-	-
2017.04.12	BUY	15,000	(30.8)	(24.0)
2017.07.16	BUY	12,000	(27.3)	(23.4)
2017.08.24	BUY	11,500	(21.8)	(12.2)
2017.12.10	BUY	12,200	(25.7)	(10.2)
2018.06.11		6M later	(38.5)	(33.1)
2018.07.23	BUY	10,500	(23.7)	(11.0)
2019.01.22	BUY	11,500	(15.9)	(11.7)
2019.03.04	BUY	13,000	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - SHIC Universe (as of 1 March 2019)

BUY (BUY)	94.91%	Trading BUY (HOLD)	2.31%	HOLD (HOLD)	2.78%	SELL (SELL)	0%
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SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> ◆ BUY: Expected 6-month gain of 10% or more ◆ Trading BUY: Expected 6-month gain of 10% to loss of 10% ◆ HOLD: Expected 6-month loss of 10% to 20% ◆ SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> ◆ OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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