

Earnings cycle to escape from past volatility

Noting sound smartphone sales at Innox AMC's major client, we expect smartphone market conditions to remain favorable. Solid earnings growth at the OLED division is to sustain on both an expanding supply portion at the firm's major client and customer diversification. Helped by a higher sales portion for OLED materials, the firm's earnings cycle is to escape from the volatility seen in the past.

Earnings to climb on favorable front-end industry conditions and greater share of global OLED materials market

We boost our 2019 OP forecast for Innox AMC by 10.5% to W49.6bn (+32.7% y-y; OPM of 14.2%), reflecting: 1) rising smartphone sales at its major client; 2) an expanding supply portion at its display maker customers; and 3) higher margins thanks to an improved product mix. Reflecting upward revisions to our earnings forecasts, we raise our TP from 68,000 to 75,000 (2019E P/E of 17.6x).

Innox AMC's earnings are primed to rise sharply from 3Q19 on likely: 1) continued robust smartphone sales at its major domestic client; and 2) further widenings in the company's supply portions at its display maker customers.

With mass production underway from this year, the firm's new Vietnam plant is on track to produce FPCB materials and heat dissipation films (Smartflex) from 2020. We expect the new facility to spur Innox AMC's mid/long-term earnings, believing that both cost savings (including trimmed down labor expenses) and greater accessibility to FPCB players in Vietnam will translate into a stronger share of the global OLED materials market.

Earnings cycle to escape from past volatility

Innox AMC's quarterly earnings volatility has been high in the past as smartphone makers have accounted for the lion's share of its sales—the firm's earnings have tended to move in synch with demand changes stemming from smartphone industry cycles. But, this earnings volatility has lessened as of late thanks to a higher sales portion (now approximately 40%) for OLED materials. Coupled with a recent rise in demand for its main client's smartphones, Innox AMC is to see overall margins improvement.

Particularly warranting attention, the company's 2Q19 OP is projected to jump 75.5% y-y to W9.7bn. We anticipate further healthy OP growth in both 3Q19 and 2H19, backed by both Innox AMC's expanding share of the global OLED materials market and its customer diversification efforts. In light of the likely less volatile earnings cycle than in the past, we view the company's shares as still being attractively priced.

1Q19 preview

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19E					2Q19F
					Estimate	y-y	q-q	Previous	Consen	
Sales	80.9	62.3	73.3	75.2	83.5	3.3	11.1	81.5	80.7	80.8
OP	11.3	5.5	10.0	10.6	12.0	6.5	14.0	11.7	11.5	9.7
OPM	14.0	8.8	13.6	14.0	14.4			14.3	14.3	12.0
Pre-tax profit	10.4	6.2	10.4	11.9	12.3	17.7	3.0	11.4	11.4	9.9
NP (excl minority interests)	8.5	5.5	8.7	8.4	10.0	17.7	19.1	9.3	8.8	8.8

Note: IFRS-consolidated basis, Source: WISEfn, NH I&S Research Center estimates, Innox AMC

Company Comment | Apr 15, 2019

Buy (maintain)

TP	W75,000 (raise)		
CP (19/04/12)	W57,700		
Sector	IT components		
Kospi/Kosdaq	2233.45 / 767.85		
Market cap (common)	US\$455.15mn		
Outstanding shares (common)	9.2mn		
52W high ('18/06/08)	W71,984		
low ('19/01/04)	W33,000		
Average trading value (60D)	US\$4.64mn		
Dividend yield (2019E)	0.00%		
Foreign ownership	10.9%		
Major shareholders			
Innox and 5 others	33.7%		
Share perf	3M	6M	12M
Absolute (%)	44.8	44.0	-13.4
Relative (%)	29.4	37.2	-0.6
	2018P	2019E	2020F
Sales	292	349	408
Chg	51.0	19.8	16.8
OP	37	50	55
Chg	68.7	32.7	9.9
OPM	12.8	14.2	13.4
NP	31	39	43
EPS	3,372	4,250	4,550
Chg	4.5	26.0	7.1
P/E	11.2	13.6	12.7
P/B	2.3	2.8	2.4
EV/EBITDA	6.9	7.2	6.3
ROE	22.1	22.3	19.9
Debt/equity	65.7	54.4	46.1
Net debt	-8	-22	-47

Unit: Wbn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, and ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates



Kyuha Lee, Analyst

822)768-7248, kyuha.lee@nhqv.com

Earnings forecasts

(Unit: Wbn, won, x, %)

		2017	2018	2019E	2020F
Sales	- Revised	193.1	291.7	349.4	408.2
	- Previous	-	-	327.0	385.7
	- Change	-	-	6.8	5.8
OP	- Revised	22.2	37.4	49.6	54.6
	- Previous	-	-	44.9	50.8
	- Change	-	-	10.5	7.4
OPM	- Revised	11.5	12.8	14.2	13.4
EBITDA		27.6	47.7	59.4	63.9
NP (excl minority interests)		17.3	31.1	39.2	43.3
EPS	- Revised	3,226	3,372	4,250	4,550
	- Previous	-	-	3,798	4,199
	- Change	-	-	11.9	8.3
P/E		25.8	11.2	13.6	12.7
P/B		6.1	2.3	2.8	2.4
EV/EBITDA		27.9	6.9	7.2	6.3
ROE		13.8	22.1	22.3	19.9

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

Source: NH I&S Research Center estimates

Annual earnings forecasts

(Unit: Wbn, %)

	2017	2018	2019E	2020F	2021F
Sales	306.3	291.7	349.4	408.2	458.8
INNOFLEX	106.3	81.0	86.4	88.2	89.9
SMARTFLEX	96.6	75.4	73.5	81.2	80.4
INNOSEM	42.5	38.2	30.9	31.9	32.8
INNOLED	60.9	97.1	158.5	206.9	255.7
OP	33.0	37.4	49.6	54.6	61.1
OPM	10.8	12.8	14.2	13.4	13.3
Pre-tax profit	30.3	39.0	49.0	54.1	61.7
NP (excl minority interests)	23.8	31.2	39.2	43.3	49.4

Source: Innox AMC, NH I&S Research Center estimates

Quarterly earnings forecasts

(Unit: Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19E	2Q19F	3Q19F	4Q19F
Sales	80.9	62.3	73.3	75.2	83.5	80.8	90.3	94.7
INNOFLEX	19.2	18.0	25.0	18.8	21.0	20.2	24.5	20.7
SMARTFLEX	32.0	15.0	10.0	18.4	26.5	17.3	14.8	14.9
INNOSEM	10.6	9.3	10.3	8.0	7.6	7.4	7.8	8.1
INNOLED	19.1	20.0	28.0	30.0	28.4	35.9	43.2	51.0
OP	11.3	5.5	10.0	10.6	12.0	9.7	13.4	14.5
OPM	14.0	8.8	13.6	14.0	14.4	12.0	14.9	15.3
Pre-tax profit	10.4	6.2	10.4	11.9	12.3	9.9	12.1	14.7
NP (excl minority interests)	8.5	5.5	8.7	8.4	10.0	8.8	10.2	10.4

Source: Innox AMC, NH I&S Research Center estimates

STATEMENT OF COMPREHENSIVE INCOME

(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Sales	193	292	349	408
Growth (%)	N/A	51.0	19.8	16.8
COGS	140	219	258	302
Gross Profit	53	73	91	106
Gross margin (%)	27.5	25.0	26.1	26.0
SG&A	31	35	42	52
Operating Income	22	37	50	55
Growth (%)	N/A	68.7	32.7	9.9
Operating margin (%)	11.5	12.8	14.2	13.4
EBITDA	28	48	59	64
Non-Operating Profit	-1	1	-1	0
Financial Income(Costs)	0	-1	0	0
Other Non-Operating Profit	-1	3	0	0
Gains(Losses) in Associates, Subsidiaries and JVs	0	0	0	0
Pre-tax Profit from Cont. Op.	21	39	49	54
Income Taxes	4	8	10	11
Profit from Continuing Op.	17	31	39	43
Net Profit	17	31	39	43
Growth (%)	N/A	79.9	26.1	10.3
Net margin (%)	9.0	10.7	11.2	10.6
Net Profit of Parent	17	31	39.2	43
Net Profit to Non-Controlling	0	0	0	0
Other Comprehensive Income	0	0	0	0
Total Comprehensive Income	17	31	39	43

Valuation / Profitability / Stability

	2017/12A	2018/12P	2019/12E	2020/12F
Price/Earnings (x)	25.8	11.2	13.6	12.7
Price/Book Value (x)	6.1	2.3	2.8	2.4
Price/Gross Cash Flow (x)	11.3	6.9	8.8	8.5
Price/Sales (x)	2.3	1.2	1.5	1.3
EV/EBITDA (x)	27.9	6.9	7.2	6.3
EV/EBIT (x)	34.7	8.8	8.7	7.4
Fully diluted EPS (won)	3,226	3,372	4,250	4,550
BVPS (won)	13,651	16,451	20,577	24,394
Sales PS (won)	36,010	31,609	37,844	42,924
ROE (%)	13.8	22.1	22.3	19.9
ROA (%)	7.8	12.8	13.5	12.4
ROIC (%)	N/A	20.6	23.4	21.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Total Cash Dividend (Wbn)	0	0	0	0
Cash DPS (won)	0	0	0	0
Net debt(cash)/ equity (%)	23.5	-5.0	-11.0	-19.8
Debt/ equity (%)	77.9	65.7	54.4	46.1
Interest-Bearing Debts (Wbn)	53	55	55	55
Current Ratio (%)	122.6	147.0	169.5	202.3
Total shares (mn)	9	10	10	10
Par value (won)	500	500	500	500
Share price (won)	83,170	37,700	57,700	57,700
Market Cap (Wbn)	741	338	451	451

STATEMENT OF FINANCIAL POSITION

(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Cash and Cash Equivalents	24	61	75	100
Accounts Receivables	57	49	58	68
Total Current Assets	117	145	173	214
Tangible Assets	100	113	141	161
Investment Assets	0	0	0	0
Non-Current Assets	106	118	146	167
Assets	223	263	320	381
Short-Term Debt	53	53	53	53
Account Payables	15	18	22	26
Current Liabilities	95	99	102	106
Long-Term Debt	0	2	2	2
Long-Term Allowance	2	2	2	2
Non-Current Liabilities	3	4	4	4
Liabilities	98	103	106	110
Capital Stock	4	4	5	5
Capital Surplus	103	103	103	103
Retained Earnings	17	48	87	131
Non-Controlling Interests Equity	0	0	0	0
Shareholders' Equity	125	156	196	239

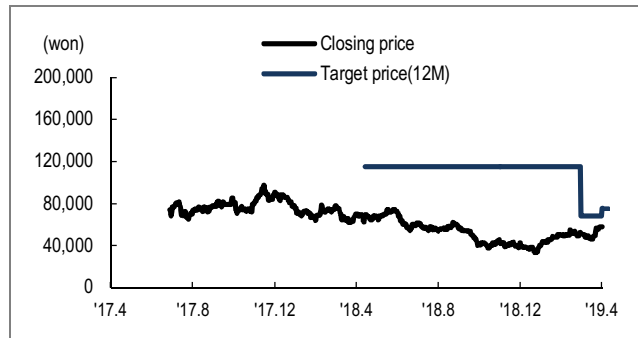
CASH FLOW STATEMENT

(Wbn)	2017/12A	2018/12P	2019/12E	2020/12F
Operating Cash Flow	22	54	38	41
Net Profit	17	31	39	43
Depreciation & Amortization	5	10	10	9
+ Loss(Gains) from Subs	0	0	0	0
+ FC translation loss(profit)	0	0	0	0
Gross Cash Flow	40	51	60	65
- Incr. (Decr.) in WC	-16	13	-11	-12
Investing Cash Flow	-12	-38	-30	-30
+ Decr. In Tangible Assets	0	0	0	0
- Incr. In Tangible Assets (capex)	-11	-38	-30	-30
+ Disp.(Acq.) of Inv. Assets	0	0	0	0
Free Cash Flow	11	16	8	11
Net Cash Flow	11	16	8	11
Financing Cash Flow	-18	2	0	0
Equity Financing	108	0	0	0
Debt Financing	-126	2	0	0
Incr.(Decr.) in Cash	-8	23	9	12
Ending Cash and Cash Equivalents	24	47	56	67
Net Debt (Cash)	29	-8	-22	-47

Rating and target price update

Code	Date	Rating	Target price
272290.KQ	2019.04.15	Buy	W75,000(12M)
272290.KQ	2019.03.14	Buy	W68,000(12M)
272290.KQ	2018.04.27	Buy	W115,000(12M)

Innox AMC (272290.KQ)



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 Apr 12, 2019).

● NH I&S' stock rating distribution

Buy	Hold	Sell
77.9%	22.1%	0.0%

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

Compliance Notice

- NH I&S does not have a stake greater than or equal to 1% in Innox AMC as of the preparation date.
- NH I&S has not provided this material to any institutional investor or other third party in advance.
- The analyst and his/her spouse do not own any securities of Innox AMC as of the preparation date.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.
- The analyst attended Innox AMC's IR meeting at the company's expense with regard to this material.

Disclosures

The research is based on current public information that NH I&S considers reliable, but NH I&S does not represent it as accurate or complete and it should not be relied on as such. Furthermore, the research does not take into account particular investment objectives, financial situations or individual client needs, and NH I&S is in no way legally responsible for future returns or loss of original capital. All materials in this report are the intellectual property of NH I&S. Copying, distributing, transmitting, transforming or lending of this material without NH I&S' consent is prohibited.