

Vatech

(043150 KQ)

Lee Min-young
minyong.lee01@daishin.com

Rating **BUY**
initiate

6M TP (W) **40,000**
initiate

CP (W) **25,650**
(19.04.18)

Small caps

Initiation

Stable earnings and compelling valuations

BUY and 6M TP of W40,000

- The target price of W40,000 is derived by applying the 2019E EPS to the target P/E of 20x (domestic medical device sector's 2019E average P/E).
- Vatech manufactures not dental implants, but 2D and 3D x-ray imaging systems used in dental clinics, which explains why we are comparing it to domestic medical device makers.

China biz to offset slowed growth in North America

- Revenue from North America jumped year after year between 2013 and 2016, which in turn have continued to push up the share price. But revenue growth reversed to a decline in 2017, pulling down the stock significantly.
- In 2019, stable revenue growth in the US market and fast top-line expansion in China are expected to drive up the share price. Revenue from North America is forecast to increase 10% yoy due to a weaker won, while that from China is forecast to jump 28% yoy as a result of aggressive marketing.

On track to post favorable 1Q19 earnings

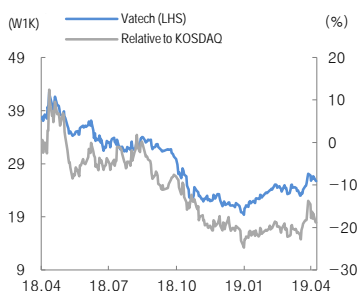
- 1Q19 revenue is forecast to expand 12% yoy, but contract 24% qoq to W54.4bn. OP is forecast to climb 14% yoy and 1% qoq to W10.0bn in the quarter. The stock is currently undervalued at a 2019E P/E of 13x.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	753.52
Market cap (Wbn)	381
Market cap portion (%)	0.15
Paid-in capital (common; Wbn)	7
52w high/low (W)	42,500 / 19,400
120d avg. trading volume (Wbn)	1.6
Foreign ownership (%)	18.66

Major shareholders Vatech Ewoo Holdings+4: 53.65%

(%)	1M	3M	6M	12M
Abs. return	4.3	18.5	-7.2	-34.8
Rel. return	4.2	9.5	-10.0	-22.7



	1Q18	4Q18	Previous estimate	Result	1Q19(F)			2Q19(F)		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	49	72	-	54	12.1	-23.9	53	68	14.0	24.5
OP	9	10	-	10	14.4	1.4	10	14	15.3	43.8
NP	10	4	-	6	-42.8	54.6	8	8	-12.2	46.0

	2017	2018	Previous estimate	Daishin estimate	2019(F)			Growth	
					Chg	Consensus		2018	2019(F)
Revenue	219	234	-	262	-	253		7.1	11.6
OP	39	39	-	45	-	45		0.7	15.5
NP	79	27	-	30	-	38		-65.5	11.3

Source: Vatech, FnGuide, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, x, %)

	2017A	2018A	2019F	2020F	2021F
Revenue	219	234	262	299	346
OP	39	39	45	51	60
Pretax profit	34	41	43	51	58
NP	84	29	35	41	47
NP (controlling int.)	79	27	30	35	41
EPS	5,324	1,835	2,042	2,356	2,733
PER	6.4	11.8	12.6	10.9	9.4
BPS	13,196	14,752	16,719	19,020	21,731
PBR	2.6	1.5	1.5	1.4	1.2
ROE	46.1	13.1	13.0	13.2	13.4

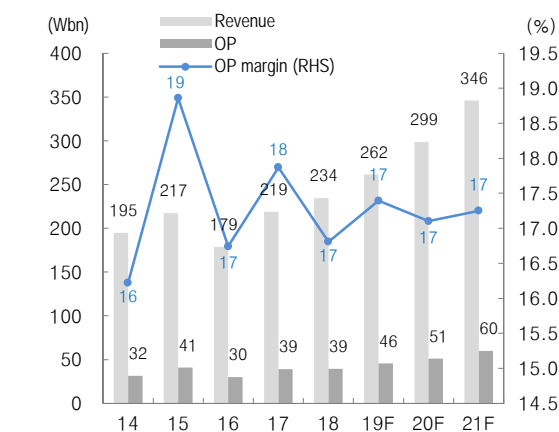
Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Vatech, Daishin Securities Research Center

Tab 1. Vatech earnings forecast (Wbn, %)

	2018				2019				2017	2018	2019F	2020F
	1Q	2Q	3Q	4Q	1QF	2QF	3QF	4QF				
Revenue	48.6	59.4	54.8	71.5	54.4	67.8	60.8	78.6	218.8	234.4	261.6	298.8
Korea	8.7	9.2	9.3	9.9	10.0	10.1	9.3	11.0	40.6	37.1	40.5	45.0
Asia	10.4	13.5	17.5	18.5	14.2	18.4	17.7	20.3	47.8	59.9	70.7	92.1
N. America	11.8	12.2	12.7	23.0	12.9	15.8	14.9	22.0	59.2	59.7	65.6	69.1
Europe	11.8	16.6	9.4	15.3	11.7	16.6	12.0	17.5	48.6	53.2	57.8	63.0
S. America	3.0	4.0	2.7	3.5	2.8	3.5	3.6	4.4	11.9	13.2	14.4	15.8
The Middle East	2.4	3.0	1.7	0.7	1.8	2.4	1.7	2.4	6.8	7.8	8.3	9.2
Oceania	0.4	0.6	0.5	0.4	0.5	0.8	0.9	0.5	2.5	1.9	2.6	2.7
Africa	0.0	0.2	1.0	0.3	0.4	0.3	0.6	0.4	1.5	1.5	1.7	1.9
Growth (%YoY)												
Revenue	9.8	4.5	(1.3)	15.2	12.1	14.0	10.8	9.9	22.5	7.1	11.6	14.2
Korea	(15.2)	(9.4)	(11.0)	2.4	15.7	9.5	0.0	11.0	(25.2)	(8.5)	9.0	11.2
Asia	(5.9)	11.2	35.3	58.9	36.7	36.5	1.0	9.8	(10.8)	25.4	17.9	30.4
N. America	13.4	(16.0)	(14.3)	18.5	9.3	28.9	17.9	(4.3)	(6.7)	0.9	9.9	5.3
Europe	39.6	9.7	(13.7)	8.7	(1.5)	(0.1)	27.4	14.4	(4.9)	9.4	8.6	9.0
S. America	27.8	100.9	(25.2)	(11.7)	(4.0)	(14.2)	34.8	26.1	60.4	11.0	8.8	9.9
The Middle East	97.7	43.3	29.8	(69.4)	(25.6)	(21.6)	1.7	271.4	3.7	14.7	7.0	10.8
Oceania	5.7	2.5	(50.0)	(18.8)	21.9	33.8	67.1	23.3	61.2	(23.3)	38.4	1.7
Africa	(64.8)	13.9	104.4	(60.4)	1,163.6	27.9	(39.9)	44.0	(102.5)	2.1	13.5	7.6
OP	8.8	12.5	8.1	9.9	10.0	14.4	8.8	12.2	39.1	39.4	45.5	51.1
OP margin (%)	18.1	21.1	14.8	13.9	18.5	21.3	14.5	15.5	17.9	16.8	17.4	17.1
OP growth (%YoY)	5.5	2.3	3.1	(6.6)	14.4	15.3	8.5	22.7	30.9	0.7	15.5	12.4
NP (contr. int.)	9.6	9.2	4.9	3.6	6.7	11.7	6.4	5.5	79.1	27.3	30.3	35.0
NP margin (contr. int., %)	19.8	15.4	8.9	5.0	12.3	17.3	10.5	7.0	36.1	11.6	11.6	11.7
NP growth (%YoY)	(83.8)	(14.6)	(43.0)	808.3	(30.2)	27.7	30.3	55.0	219.3	(65.5)	11.3	15.4

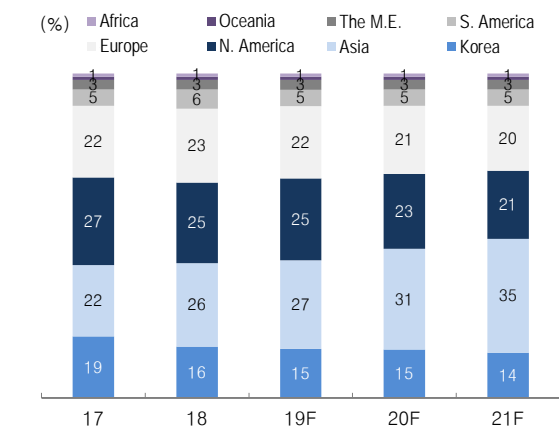
Source: Vatech, Daishin Securities Research Center

Fig 1. Yearly earnings



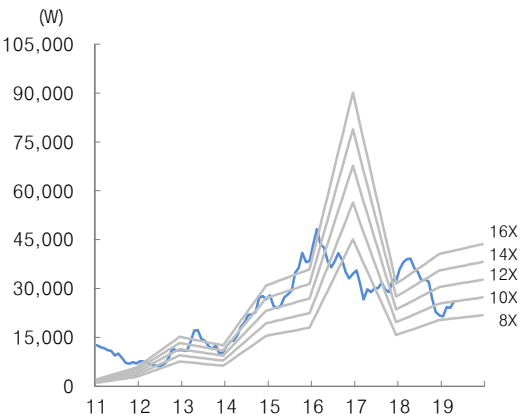
Source: Vatech, Daishin Securities Research Center

Fig 2. Revenue breakdown by business



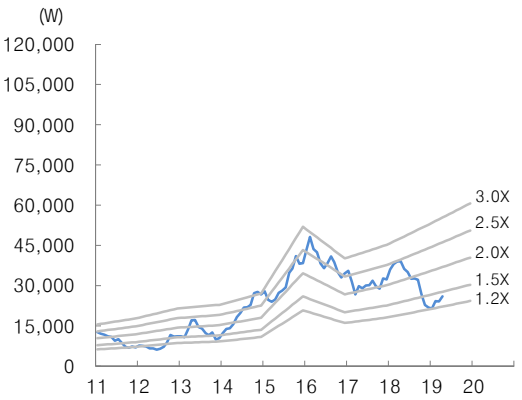
Source: Vatech, Daishin Securities Research Center

Fig 3. Vatech P/E band



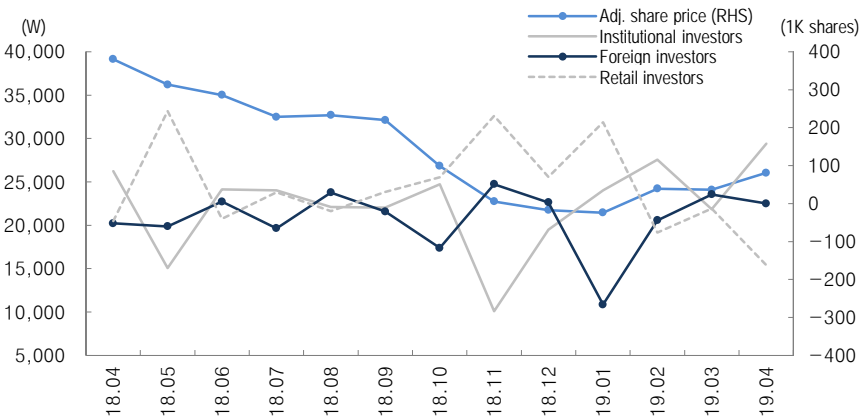
Source: Vatech, Daishin Securities Research Center

Fig 4. Vatech P/B band



Source: Vatech, Daishin Securities Research Center

Fig 5. Monthly net purchases by investor group



Source: Vatech, Daishin Securities Research Center

Tab 2. Vatech global peers

Company		Straumann Holding	Zimmer Biomet	Dentsply Sirona	Danaher	HEFEI MEIYA OPTOELECTRONIC	Genoray
Country		Switzerland	The US	The US	The US	China	Korea
CP (W, Apr 18)	(\$)	832	120	49	125	4	21
Market cap	(\$mn)	13,216	24,486	10,910	89,376	2,610	92
Revenue (\$mn)	2017A	1,130	7,803	3,993	18,330	160	39
	2018A	1,394	7,933	3,986	19,893	186	51
	2019F	1,578	7,946	4,023	20,474	234	60
OP (\$mn)	2017A	288	799	-1,562	2,990	56	5
	2018A	350	34	-958	3,404	68	10
	2019F	412	2,189	696	4,374	94	12
OP margin (%)	2017A	25.5	10.2	-39.1	16.3	35.1	13.9
	2018A	25.1	0.4	-24.0	17.1	36.5	19.5
	2019F	26.1	27.5	17.3	21.4	40.1	19.8
NP (\$mn)	2017A	284	1,814	-1,550	2,490	54	5
	2018A	279	-379	-1,011	2,649	68	9
	2019F	346	1,608	470	3,335	80	10
NP margin (%)	2017A	25.1	23.2	-38.8	13.6	33.7	11.6
	2018A	20.0	-4.8	-25.4	13.3	36.5	16.8
	2019F	21.9	20.2	11.7	16.3	34.1	17.1
P/E (x)	2017A	38.2	20.2	NA	28.2	35.7	NA
	2018A	35.8	NA	NA	27.6	32.1	8.1
	2019F	38.1	15.3	21.1	26.1	32.7	9.7
P/B (x)	2017A	10.1	2.1	2.3	2.5	5.9	NA
	2018A	8.1	1.9	1.6	2.6	6.2	1.8
	2019F	9.3	1.8	1.9	2.7	6.8	2.6
EV/EBITDA (x)	2017A	24.1	11.1	12.9	17.2	27.1	NA
	2018A	27.8	12.2	14.4	19.6	25.7	5.8
	2019F	23.9	11.3	13.2	16.5	21.0	5.9
ROE (%)	2017A	32.7	16.9	-21.0	10.1	17.2	26.4
	2018A	23.9	-3.3	-17.2	9.7	19.9	27.3
	2019F	26.2	13.7	8.6	11.5	21.7	26.2
EPS (\$)	2017A	18.3	9.0	-6.8	3.6	0.1	1.4
	2018A	17.6	-1.9	-4.5	3.8	0.1	2.2
	2019F	22.1	7.8	2.3	4.8	0.1	2.3
FY ends in		December	December	December	December	December	December

Source: Bloomberg, Daishin Securities Research Center

Company profile

Overview

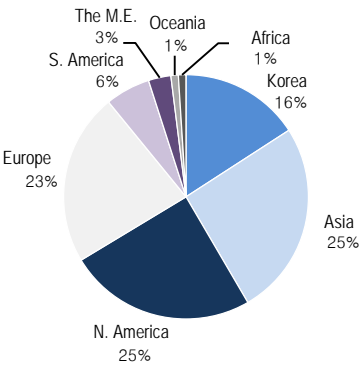
- A dental implant manufacturer established in 2000 and listed in 2017
- Revenue breakdown (as of 2018): dental implants 89%, digital dentistry 4%, merchandise 6%, others 1%
- 19 overseas sales arms, three manufacturing subsidiaries, and two dental labs
- Third largest market share in China and the second largest market share in Korea
- Assets ₩436.8bn, liabilities ₩242.1bn, equities ₩194.7bn (2018)
- # of outstanding shares: 11,068,830 / # of treasury shares: 2,444,939

Share price catalysts

- Healthcare insurance coverage of dental implants
- Earnings from Chinese and US markets
- Won-dollar exchange rate
- Won-yuan exchange rate

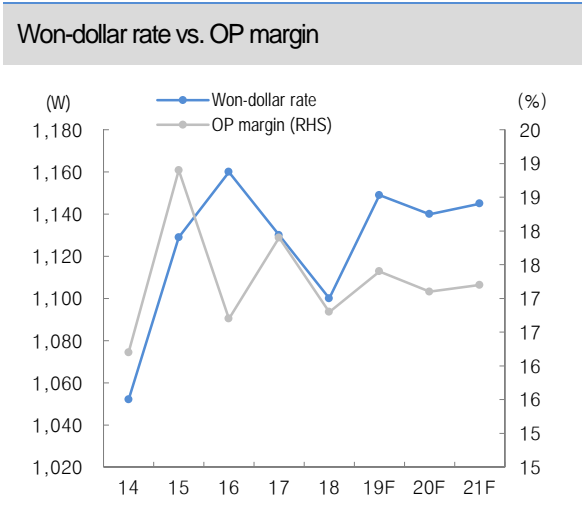
Source: Vatech, Daishin Securities Research Center

Revenue by business



Note: As of 2018
Source: Vatech, Daishin Securities Research Center

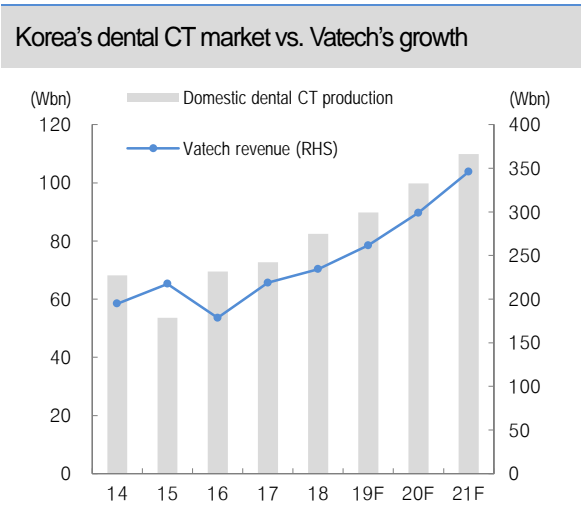
Earnings drivers



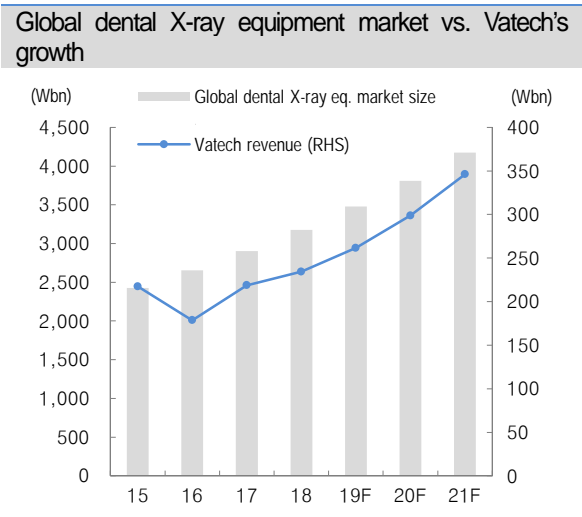
Source: Vatech, Daishin Securities Research Center



Source: Vatech, Daishin Securities Research Center



Source: Vatech, Daishin Securities Research Center



Source: Vatech, Daishin Securities Research Center

Financial statements

Income statement (Wbn)					
	2017A	2018A	2019F	2020F	2021F
Revenue	219	234	262	299	346
Cost of goods sold	114	123	136	156	181
Gross profit	105	112	125	143	166
SG&A expenses	66	72	80	92	106
OP	39	39	45	51	60
OP margin	17.9	16.8	17.4	17.1	17.2
EBITDA	46	47	53	58	67
Non-OP	-5	1	-2	0	-1
Income from affiliates	1	3	0	0	0
Financial revenue	1	1	1	1	1
FX related gains	3	8	3	3	3
Financial expense	-3	-2	-3	-2	-2
FX related losses	1	1	0	0	0
Others	-4	-1	0	1	0
Income before taxes	34	41	43	51	58
Income tax expense	9	11	9	10	12
Income from cont. op.	25	29	35	41	47
Income from discount op.	59	0	0	0	0
NP	84	29	35	41	47
NP margin	38.2	12.4	13.3	13.6	13.5
NP for non-contr. interest	5	2	4	6	6
NP for contr. interest	79	27	30	35	41
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	83	30	35	41	47
Comp. income for non-contr. int.	4	2	4	6	6
Comp. income for contr. int.	79	28	30	35	41

Valuation metrics (W, x, %)					
	2017A	2018A	2019F	2020F	2021F
EPS	5,324	1,835	2,042	2,356	2,733
PER	6.4	11.8	12.6	10.9	9.4
BPS	13,196	14,752	16,719	19,020	21,731
PBR	2.6	1.5	1.5	1.4	1.2
EBITDAPS	3,123	3,159	3,562	3,934	4,504
EV/EBITDA	11.4	6.9	6.9	5.8	4.7
SPS	14,730	15,780	17,611	20,114	23,297
PSR	2.3	1.4	1.5	1.3	1.1
CFPS	1,388	3,568	3,779	4,247	4,769
DPS	100	100	100	100	100

Financial ratios (W, x, %)					
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Revenue growth	22.5	7.1	11.6	14.2	15.8
OP growth	30.9	0.7	15.5	12.4	16.8
NP growth	151.1	-65.2	19.0	16.8	15.3
Profitability					
ROIC	15.8	19.5	24.3	25.6	27.5
ROA	11.0	11.7	12.4	12.7	13.4
ROE	46.1	13.1	13.0	13.2	13.4
Stability					
Debt ratio	61.9	56.3	51.1	46.7	42.8
Net borrowings ratio	11.4	-0.5	-9.5	-16.3	-22.2
Interest coverage ratio	22.7	23.8	17.7	21.4	24.1

Source: Vatech, Daishin Securities Research Center

Balance sheet (Wbn)					
	2017A	2018A	2019F	2020F	2021F
Current assets	138	163	199	239	287
Cash & cash equiv.	20	37	59	83	108
Trade & other receive.	53	52	58	66	77
Inventories	51	59	66	75	87
Other current assets	13	15	15	15	15
Long-term assets	183	187	185	184	183
Tangible assets	69	67	67	66	66
Investments in affiliates	92	94	94	94	94
Other long-term assets	22	25	24	23	23
Total assets	321	350	383	423	471
Current liabilities	78	79	83	88	94
Payables & other liab.	41	44	47	52	59
Borrowings	25	20	20	20	20
Current portion of LT debts	0	0	0	0	0
Other current liabilities	12	15	15	15	15
Long-term liabilities	44	47	47	47	47
Borrowings	29	27	27	27	27
Convertible securities	0	0	0	0	0
Other long-term liab.	16	20	20	20	20
Total liabilities	123	126	130	135	141
Controlling interest	196	219	248	283	323
Capital stock	7	7	7	7	7
Capital surplus	8	8	8	8	8
Retained earnings	180	203	232	266	305
Other capital changes	0	0	1	2	3
Non-controlling interest	3	5	5	6	7
Total shareholder's equity	199	224	254	288	330
Net borrowings	23	-1	-24	-47	-73

Cash flow statement (Wbn)					
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	51	33	36	38	41
NP	84	29	35	41	47
Non-cash items	-63	24	21	23	24
Depreciation	7	8	7	7	7
FX gains	3	1	-2	-2	-2
Equity method gain	-1	-3	0	0	0
Others	-72	19	16	18	19
Chg in assets & liab.	26	-8	-10	-13	-17
Other cash flows	5	-12	-10	-12	-13
Investing cash flow	-37	-9	-6	-6	-6
Investment assets	0	0	0	0	0
Tangible assets	-13	-5	-5	-5	-5
Others	-23	-5	-1	-1	-1
Financing cash flows	-19	-8	-1	-1	-1
Short-term borrowings	0	0	0	0	0
Bonds payable	0	0	0	0	0
Long-term borrowings	-18	-7	0	0	0
Rights offering	0	0	0	0	0
Cash dividends	-1	-1	-1	-1	-1
Others	0	0	0	0	0
Net chg in cash	-5	16	23	23	26
Beginning cash balance	26	20	37	59	83
Ending cash balance	20	37	59	83	108
NOPLAT	29	28	36	41	48
FCF	18	27	37	41	48

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- 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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[Investment rating & Target price history]



Investment rating breakdown and framework (Apr 14, 2019)			
	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	90.4%	9.0%	0.0%

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.