

Ace Technologies (088800 KQ)

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Rating N/R

6M TP (₩) N/R

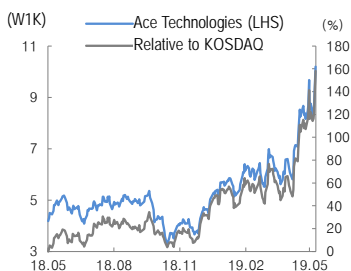
CP (₩)
(19.05.24) 10,200

Telecom equipment

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	690.03
Market cap (₩bn)	385
Market cap portion (%)	0.16
Paid-in capital (common; ₩bn)	17
52w high/low (₩)	10,200 / 3,315
120d avg. trading volume (₩bn)	10.8
Foreign ownership (%)	1.70%
Major shareholders	Ku Kwan-young+7: 24.20% Taurus+3: 6.15%

(%)	1M	3M	6M	12M
Abs. return	46.3	70.6	144.6	108.8
Rel. return	60.7	83.8	142.1	164.3



A rising star in 5G era

Korea's No.1 cell tower antenna maker

- Ace Technologies manufactures telecom equipment components, such as radio frequency parts and antennas for mobile devices and base stations.
- Leveraging its competitive technologies, the company is expanding its customer base in Asia (India, Vietnam, Thailand and Indonesia).
- It will likely enjoy steady demand from Southeast Asia as the region's 4G market starts to blossom. Sales will also receive a bump as the next-gen 5G network starts rolling out in Korea, Japan and the US.

5G-related sales to start flowing in this year

- Local telecom equipment makers are boosting investment in 5G cell towers, which started in 2H18. Samsung Electronics, one of Ace's major customers, are set to start supplying cell tower equipment to the US in 2H19.
- Tailwinds will also come from Japan, as the country speeds up the launch of its planned 5G network rollout (to 2H19) ahead of the Tokyo 2020 Olympics.
- 5G-related sales are forecast to reach ₩95.1bn in 2019.

Key customers to gain as Chinese rivals falter amid US-China trade spat

- Building on its dominant position in the domestic 5G market (50% market share), Samsung Electronics will likely keep expanding its share overseas.
- Samsung and Ericsson, two major buyers of Ace's antennas are set to command a combined 50% share in the global 5G market. The two giants currently make up 32% of the global telecom equipment market.

2019 OP to jump 202% yoy to ₩39.8bn

- This year, the company is expected to report a 30% yoy increase in revenue (to ₩489.5bn) and a 202% yoy jump in OP (to ₩39.8bn). Antenna sales are expected to grow 75% yoy to ₩270.7bn amid increasing 5G investment.

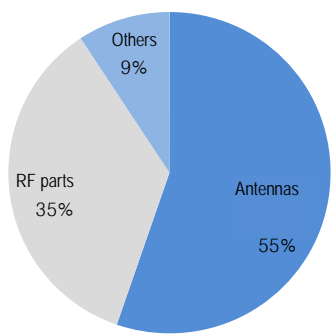
Operating results and major financial data

(₩bn, ₩, x, %)

	2017A	2018A	2019F	2020F	2021F
Revenue	352	377	490	560	610
OP	-14	13	40	48	54
Pretax profit	-55	2	26	44	50
NP	-56	1	25	40	45
NP (controlling int.)	-55	3	24	39	44
EPS	-1,926	96	701	1,127	1,282
PER	NA	53.3	14.6	9.1	8.0
BPS	2,194	2,422	2,973	4,102	5,386
PBR	2.3	2.1	3.3	2.4	1.8
ROE	-61.2	4.4	26.8	31.9	27.0

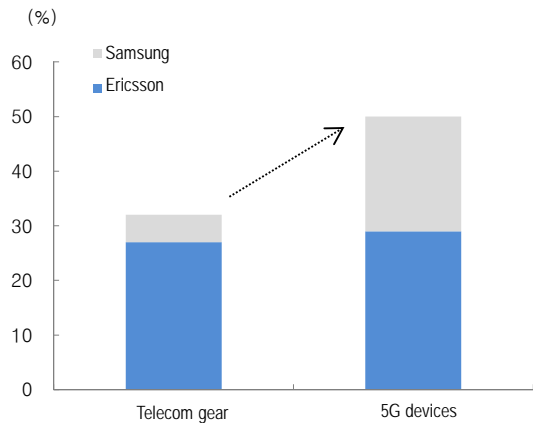
Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Ace Technologies, Daishin Securities Research Center

Fig 1. 2019E sales mix



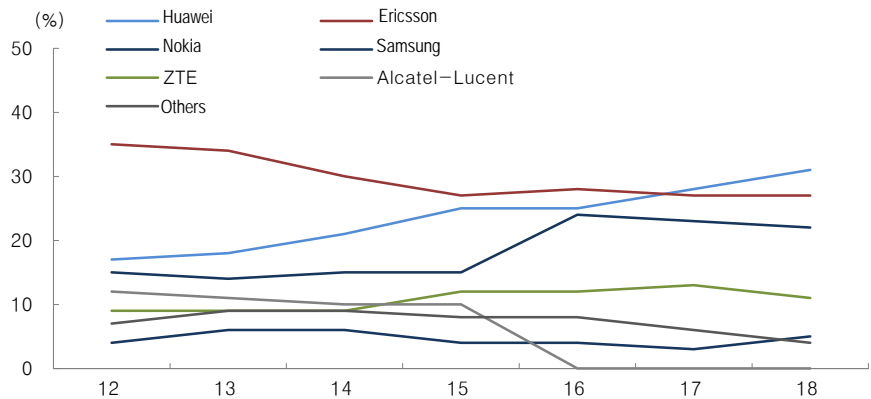
Source: Ace Technologies, Daishin Securities Research Center

Fig 2. 2018 market share



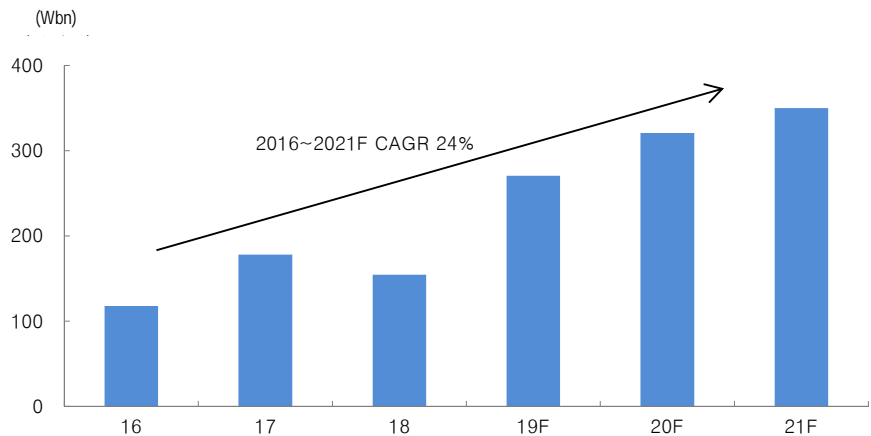
Source: ETRI, IHS, Daishin Securities Research Center

Fig 3. Global telecom gear market share



Source: ETRI, IHS, Daishin Securities Research Center

Fig 4. Ace Technologies' antenna sales



Source: Ace Technologies, Daishin Securities Research Center

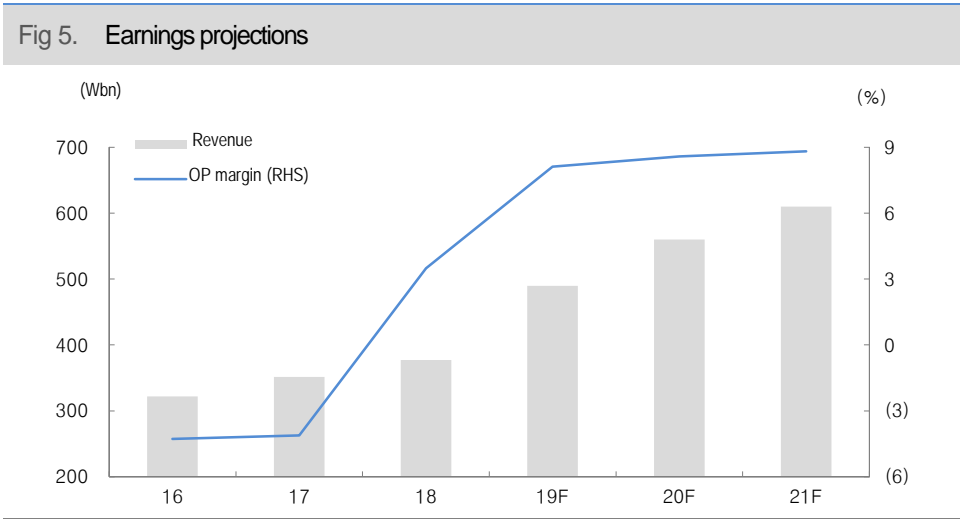
Tab 1. Earnings projections

(Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19F	3Q19F	4Q19F	2018	2019F	2020F
Sales	83.9	109.2	87.7	96.4	107.7	115.9	128.2	137.8	377.3	489.5	559.9
Antenna	41.2	30.6	37.9	44.7	50.0	57.4	75.7	87.7	154.4	270.7	320.8
RF parts	31.7	66.3	37.5	43.1	46.2	46.9	39.9	40.4	178.6	173.4	189.9
Others	11.0	12.3	12.3	8.7	11.5	11.6	12.7	9.7	44.4	45.5	49.2
Growth YoY											
Sales	-23.6	1.8	3.9	92.9	28.3	6.1	46.2	42.8	7.3	29.7	14.4
Antenna	-25.7	-48.9	-15.9	150.6	21.2	87.4	99.7	96.2	-13.4	75.3	18.5
RF parts	-24.0	71.7	50.1	114.0	45.8	-29.2	6.4	-6.2	42.4	-2.9	9.5
Others	-13.3	40.1	-14.4	-27.9	4.4	-6.1	2.8	11.9	-7.5	2.5	8.2
OP	2.1	2.8	4.4	3.8	8.4	9.8	10.8	10.8	13.2	39.8	48.1
NP	0.5	3.2	0.7	-1.2	1.8	5.5	7.9	9.0	3.1	24.2	38.9
OP margin	2.6	2.6	5.0	4.0	7.8	8.4	8.4	7.9	3.5	8.1	8.6
NP margin	0.6	2.9	0.8	-1.3	1.7	4.8	6.2	6.5	0.8	4.9	7.0

Source: Ace Technologies, Daishin Securities Research Center

Fig 5. Earnings projections



Source: Ace Technologies, Daishin Securities Research Center

Company profile

Overview

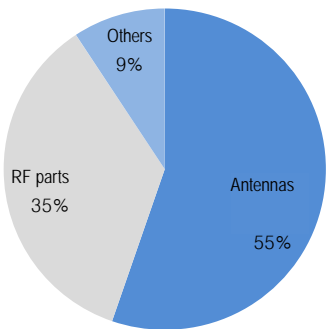
- Established in 1980, listed on KOSDAQ on Mar. 2006
- Assets ₩452.5bn, liabilities ₩367bn, equity capital ₩85.4bn(as of 1Q19)
- Outstanding shares: 34,556,954 (treasury shares): 325,239 (as of 1Q19)

Share price catalysts

- 5G investment in North America in 2H19
- Customers' market share expansion
- Improvement in production effectiveness and profitability

Source: Ace Technologies, Daishin Securities Research Center

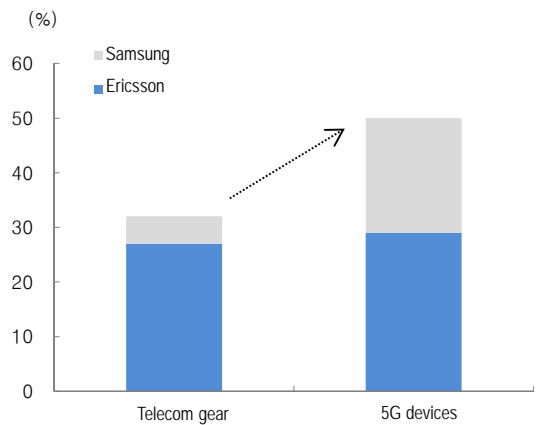
2019E revenue mix



Source: Ace Technologies, Daishin Securities Research Center

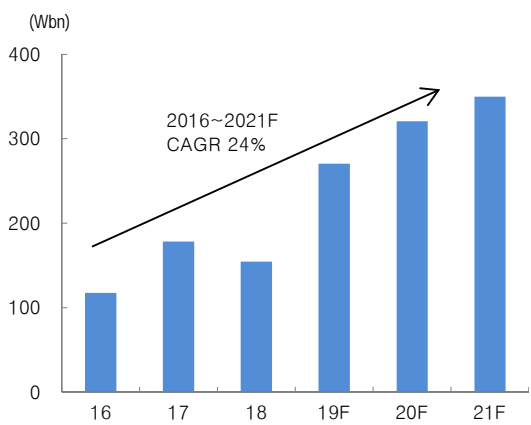
Earnings drivers

Market share: Samsung and Ericsson



Source: ETRI, IHS, Daishin Securities Research Center

Antenna sales



Source: Ace Technologies, Daishin Securities Research Center

Financial statements

Income statement					(Wbn)
	2017A	2018A	2019F	2020F	2021F
Revenue	352	377	490	560	610
Cost of goods sold	290	289	359	410	446
Gross profit	62	88	131	150	164
S&A expenses	77	75	91	102	110
OP	-14	13	40	48	54
OP margin	-4.1	3.5	8.1	8.6	8.8
EBITDA	8	31	56	64	69
Non-OP	-41	-11	-14	-4	-4
Income from affiliates	-1	-1	0	0	0
Financial revenue	6	5	6	7	7
FX related gains	3	8	4	5	5
Financial expense	-12	-14	-11	-11	-10
FX related losses	2	3	3	3	3
Others	-34	-1	-9	0	0
Income before taxes	-55	2	26	44	50
Income tax expense	0	-1	-1	-4	-5
Income from cont. op.	-56	1	25	40	45
Income from discount. op.	0	0	0	0	0
NP	-56	1	25	40	45
NP margin	-15.8	0.3	5.0	7.1	7.4
NP for non-cont. interest	-1	-2	0	1	1
NP for contr. interest	-55	3	24	39	44
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	-58	1	25	40	45
Comp. income for non-cont. int.	-1	-2	0	1	1
Comp. income for contr. int.	-58	3	24	39	44

Valuation metrics					(W, x, %)
	2017A	2018A	2019F	2020F	2021F
EPS	-1,926	96	701	1,127	1,282
PER	NA	53.3	14.6	9.1	8.0
BPS	2,194	2,422	2,973	4,102	5,386
PBR	2.3	2.1	3.3	2.4	1.8
EBITDAPS	289	975	1,617	1,841	1,997
EV/EBITDA	41.8	11.1	9.6	8.8	8.8
SPS	12,383	11,690	14,166	16,203	17,658
PSR	0.4	0.4	0.6	0.5	0.5
CFPS	420	1,246	1,758	2,238	2,446
DPS	0	0	0	0	0

Financial ratios					(W, x, %)
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Sales growth	9.2	7.3	29.7	14.4	9.0
OP growth	CL	TTB	201.6	20.9	12.0
NP growth	CL	TTB	1,894.9	61.3	13.8
Profitability					
ROIC	-5.8	3.8	15.4	15.4	13.6
ROA	-3.6	3.3	8.7	9.0	8.7
ROE	-61.2	4.4	26.8	31.9	27.0
Stability					
Debt ratio	456.9	433.9	354.0	301.3	235.1
Net borrowings ratio	289.6	214.9	138.3	117.6	111.1
Interest coverage ratio	-1.4	1.2	5.5	5.3	5.1

Source: Ace Technologies, Daishin Securities Research Center

Balance sheet					(Wbn)
	2017A	2018A	2019F	2020F	2021F
Current assets	204	259	293	359	388
Cash & cash equiv.	16	11	24	39	27
Trade & other receive.	104	144	162	197	222
Inventories	65	84	88	105	120
Other current assets	20	21	19	19	19
Long-term assets	169	173	190	230	258
Tangible assets	112	121	144	186	216
Investments in affiliates	6	5	5	5	5
Other long-term assets	51	46	41	39	37
Total assets	373	432	483	589	646
Current liabilities	276	293	315	361	362
Payables & other liab.	77	143	178	200	178
Borrowings	103	103	88	108	128
Current portion of LT debts	51	37	35	35	35
Other current liabilities	44	10	14	18	20
Long-term liabilities	30	58	61	81	91
Borrowings	26	52	55	75	85
Convertible securities	0	0	0	0	0
Other long-term liab.	5	7	7	7	7
Total liabilities	306	351	377	442	453
Controlling interest	62	78	103	142	186
Capital stock	15	17	17	17	17
Capital surplus	101	114	114	114	114
Retained earnings	-51	-51	-27	12	56
Other capital changes	-2	-2	-2	-2	-1
Non-controlling interest	5	3	4	5	7
Total shareholder's equity	67	81	106	147	193
Net borrowings	194	174	147	173	214

Cash flow statement					(Wbn)
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	-32	22	10	-21	-47
NP	0	0	25	40	45
Non-cash items	68	39	36	38	39
Depreciation	23	18	16	16	15
FX gains	3	-1	1	-2	-2
Equity method gain	1	1	0	0	0
Others	41	21	19	24	26
Chg in assets & liab.	-36	-9	-43	-85	-117
Other cash flows	-64	-9	-8	-13	-15
Investing cash flow	-19	-11	-13	-15	-15
Investment assets	-3	7	2	0	0
Tangible assets	-13	-15	-15	-15	-15
Others	-3	-3	0	0	0
Financing cash flows	31	-14	-13	40	30
Short-term borrowings	0	0	-15	20	20
Bonds payable	17	16	5	20	10
Long-term borrowings	15	-30	-2	0	0
Rights offering	0	0	0	0	0
Cash dividends	-1	0	0	0	0
Others	0	0	-2	0	0
Net chg in cash	-20	-5	13	15	-11
Beginning cash balance	36	16	11	24	39
Ending cash balance	16	11	24	39	27
NOPLAT	-14	9	38	43	48
FCF	-10	6	36	40	45

[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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