

Wonik IPS (240810 KQ)

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Rating **BUY**
initiate

6M TP (₩) **28,000**
initiate

CP (₩)
(19.06.03) **22,900**

Display

Waiting out for the next investment cycle

Coverage initiated with BUY and TP of ₩28,000

- Our ₩28,000 target price for Wonik IPS is based on a 2019E BPS and a target P/B ratio of 3.2. The target multiple represents a 20% discount to the average P/B ratio of 4, assigned to global semiconductor and display equipment makers.
- We will reduce the discount rate gradually as we get more clarity on how much the company's customers in the downstream sector are willing to invest in 2020.

2019 preview: revenue up 16%; OP down 18%

- This year, the equipment supplier is forecast to report revenue of ₩751.8bn (up 16% yoy) and OP of ₩87.1bn (down 18% yoy). Those figures represent an 11% decline and a 37% fall from last year's pre-merger numbers (revenue of ₩845bn and OP of ₩138bn, respectively) before adjusting for intercompany sales between Wonik IPS and Wonik Terasemicon.
- The tepid earnings outlook is attributable to costs related to business integration, R&D staff additions, and capacity ramp-ups. Sluggish investments at customer companies will also be a contributing factor.

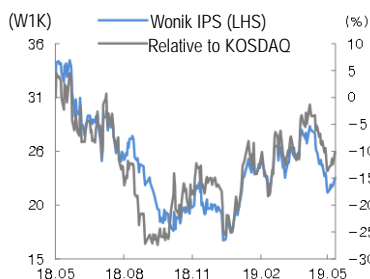
Gearing up to ride the 2020 capex cycle

- Having a well-diversified product portfolio, Wonik IPS is poised to cash in on the increasing capital investments in both semiconductor (for smaller DRAM chips, 5th gen 3-D NAND chips, etc.) and display (for OLED panels) sectors. Profitability will improve as the company diversifies its customer base.
- The leading supplier will also gain as Korea's chip makers boost investment in foundries over the long term and increasingly seek to source devices for non-memory chips locally, as they did with memory chips. Non-memory chips require more steps in the manufacturing process than memory chips, meaning a need for more devices.
- The company will feel the benefit of its tie-up with display maker Terasemicon starting from 2020. Terasemicon is set to get more than 40% of its sales in China this year, up from last year's 20%, as the country's panel makers resume investment in large LED and OLED panels.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	697.50
Market cap (₩bn)	1,124
Market cap portion (%)	0.47
Paid-in capital (common; ₩bn)	25
52w high/low (₩)	34,400 / 16,800
120d avg. trading volume (₩bn)	10
Foreign ownership (%)	22.28
Major shareholders	Wonik Holdings+2: 32.99% Samsung Electronics+1: 7.54%

(%)	1M	3M	6M	12M
Abs. return	-16.7	-0.7	2.0	-31.0
Rel. return	-9.0	4.2	3.8	-12.7



Operating results and major financial data

	2017A	2018A	2019F	2020F	2021F
Revenue	631	649	752	865	995
OP	122	106	87	123	141
Pretax profit	124	110	88	124	143
NP	95	87	70	98	113
NP (controlling int.)	95	87	70	98	113
EPS	2,311	2,105	1,445	2,001	2,299
PER	14.5	9.6	15.8	11.4	10.0
BPS	7,595	8,946	8,963	10,624	12,703
PBR	4.4	2.2	2.6	2.2	1.8
ROE	35.8	25.4	17.4	20.6	19.7

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

Tab 1. Earnings trend and forecast

(Wbn)

	1Q18	2Q18	3Q18	4Q18	1Q19E	2Q19F	3Q19F	4Q19F	2018	2019F	2020F
Revenue	138	211	196	105	131	181	195	244	649	752	865
YoY%	0%	3%	-1%	17%	-5%	-14%	-1%	133%	3%	16%	15%
OP	22	46	46	-9	6	39	41	1	106	87	123
QoQ%	72%	109%	1%	TTR	TTB	510%	5%	-98%	-13%	-18%	41%
OPM%	16%	22%	24%	-8%	5%	22%	21%	0%	16%	12%	14%
Sales											
Semiconductor	109	182	169	68	68	81	140	130	527	420	685
Display	29	29	27	37	61	100	55	114	122	330	180
Total	138	210	196	105	129	181	195	244	649	750	865
QoQ											
Semiconductor	34%	67%	-7%	-60%	1%	19%	73%	-7%	0%	-20%	63%
Display	223%	-1%	-5%	37%	65%	64%	-45%	107%	17%	171%	-45%
Total	53%	53%	-7%	-47%	23%	40%	8%	25%	3%	16%	15%
Sales share											
Semiconductor	79%	86%	86%	65%	53%	45%	72%	53%	81%	56%	79%
Display	21%	14%	14%	35%	47%	55%	28%	47%	19%	44%	21%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Wonik IPS, Daishin Securities Research Center

Tab 2. Valuation table

(Wbn, 1K shares, W, x, %)

	2019F	12-month forward.
NP (controlling interest)	434	521
Floating shares (March 2019)	49,084	
BPS	8,842	10,624
Target P/B	3.2	
Target price	28,000	
Fair P/B	3.2	
Fair price	28,083	
ROE	17.4	
COE	6.5	
Rf	1.8	
Equity Risk Premium	4.7	
Market Risk Premium	4.0	
Beta (104 weekly)	1.2	
Terminal growth(g)	2.0	
CP	22,900	
P/B	2.5	
Upside Potential	22%	

Note: As of June 3, 2019

Source: Wonik IPS, Daishin Securities Research Center

Tab 3. Historical valuation

(W, x)

	2016	2017	2018	2019F	2020F
EPS (includes treasury shares)	552	2,311	2,105	1,445	2,001
PER (End)	47	14	10	15	11
PER (High)	48	17	18	20	14
PER (Low)	29	10	8	11	8
PER (Avg)	42	13	13	16	12
BPS	5,304	7,595	8,946	8,842	10,624
PBR (End)	4.9	4.4	2.2	2.5	2.0
PBR (High)	5.0	5.3	4.2	3.2	2.7
PBR (Low)	3.0	2.9	2.0	1.8	1.5
PBR (Avg)	4.4	3.9	3.2	2.7	2.2
EV/EBITDA (End)	26.4	9.2	6.0	8.5	5.9
EV/EBITDA (High)	26.4	11.2	11.7	11.3	8.0
EV/EBITDA (Low)	16.5	5.8	5.2	5.0	3.4
EV/EBITDA (Avg)	23.2	8.1	8.7	8.8	6.2

Source: Wonik IPS, Daishin Securities Research Center

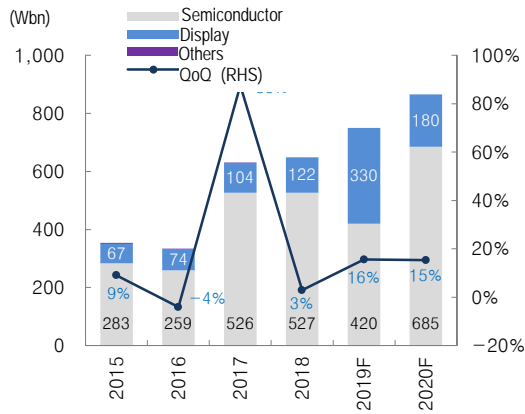
Tab 4. Peer comparison

	Year	Wonik IPS	TES	Jusung Engineering	AMAT	Tokyo Electron	Lam Research	KLA-Tencor
Settlement month		12	12	12	10	03	06	06
Currency		KRW	KRW	KRW	USD	JPY	USD	USD
Share price (local currency)		22,900	16,100	6,190	39	14,790	175	103
Market cap (local currency)		1,124	318	299	36,218	2,443	26,179	16,658
Market cap (USD mn)		944	267	251	36,218	22,516	26,179	16,658
Stock Exchange		KOSDAQ	KOSDAQ	KOSDAQ	SDAQ GS	Tokyo	SDAQ GS	SDAQ GS
Revenue	2018	649	287	264	17,253	113,073	11,077	4,037
(Wbn, \$mn, ¥'00mn)	2019F	752	242	257	14,517	106,462	9,663	4,568
	2020F	865	337	297	15,844	117,031	9,714	5,408
OP	2018	106	58	41	4,796	28,117	3,213	1,537
(Wbn, \$mn, ¥'00mn)	2019F	87	44	39	3,367	21,418	2,575	1,586
	2020F	123	69	48	3,935	26,445	2,575	1,796
OPM	2018	16.3	20.1	15.7	27.8	24.9	29.0	38.1
(%)	2019F	11.6	18.0	15.1	23.2	20.1	26.7	34.7
	2020F	14.2	20.4	16.2	24.8	22.6	26.5	33.2
NP	2018	87	42	44	3,313	204,371	2,381	802
(Wbn, \$mn, ¥'00mn)	2019F	70	34	36	2,862	161,690	2,305	1,307
	2020F	98	56	44	3,420	199,294	2,286	1,410
PER	2018	9.6	11.5	10.4	7.3	16.1	10.6	12.8
(x)	2019F	15.1	9.0	8.3	12.9	14.8	12.2	12.3
	2020F	10.9	5.7	6.8	10.3	11.9	11.8	11.4
PBR	2018	2.2	2.2	2.2	4.6	4.3	4.2	9.9
(x)	2019F	2.5	1.3	1.2	4.4	2.6	5.1	6.2
	2020F	2.0	1.1	1.1	4.1	2.3	4.5	5.8
ROE	2018	25.4	21.1	22.0	40.9	28.8	35.7	54.4
(%)	2019F	17.4	14.8	15.9	36.7	18.3	39.1	61.9
	2020F	20.6	21.1	16.4	38.0	19.9	42.0	57.6
EV/EBITDA	2018	6.0	2.8	6.5	6.0	9.7	7.0	9.5
(x)	2019F	8.5	4.4	6.8	10.1	8.5	8.7	10.7
	2020F	5.9	2.6	5.3	8.8	7.1	8.7	9.9
Dividend payout	2018	10.5	18.1	11.0	21.4	50.1	17.3	49.3
(%)	2019F	15.4	23.6	13.3	21.4	50.1	17.3	49.3
	2020F	11.0	15.4	10.9	21.4	50.1	17.3	49.3
EPS	2018	2,105	2,147	907	3	1,245	15	5
(local currency)	2019F	1,445	1,696	752	3	1,002	14	8
	2020F	2,001	2,824	913	4	1,242	15	9
BPS	2018	8,946	11,073	4,338	7	4,701	41	10
(local currency)	2019F	8,963	12,561	5,109	9	5,762	34	17
	2020F	10,624	15,029	6,031	10	6,358	39	18
DPS	2018	220	400	100	0.7	624	3	3
(local currency)	2019F	220	400	100	0.7	758	3	3
	2020F	220	433	100				

Note: As of June 3 for domestic companies/ As of May 31 for foreign companies

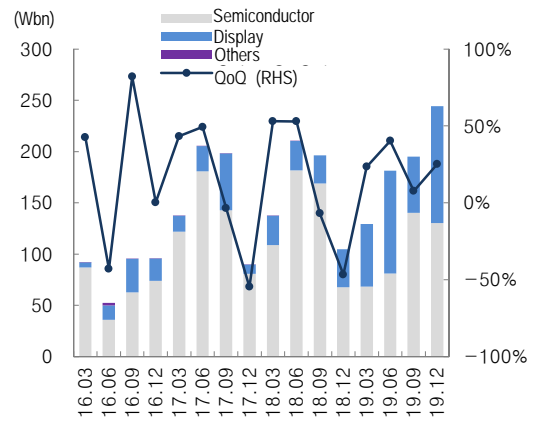
Source: Bloomberg, Quantivise, Daishin Securities Research Center

Fig 1. Annual sales



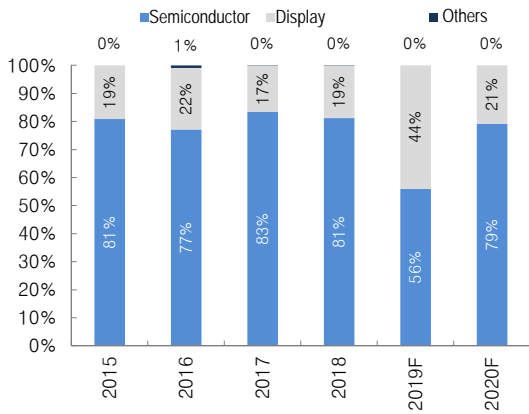
Source: Wonik IPS, Daishin Securities Research Center

Fig 2. Quarterly sales



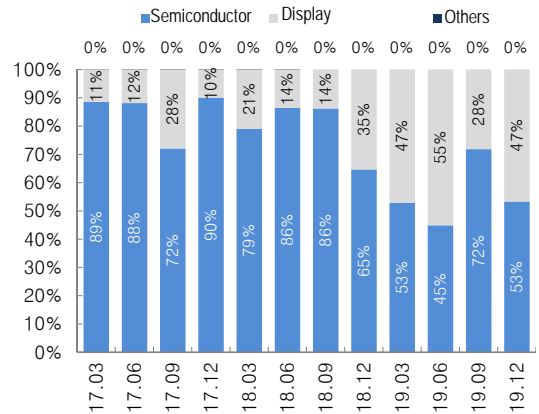
Source: Wonik IPS, Daishin Securities Research Center

Fig 3. Revenue mix (1)



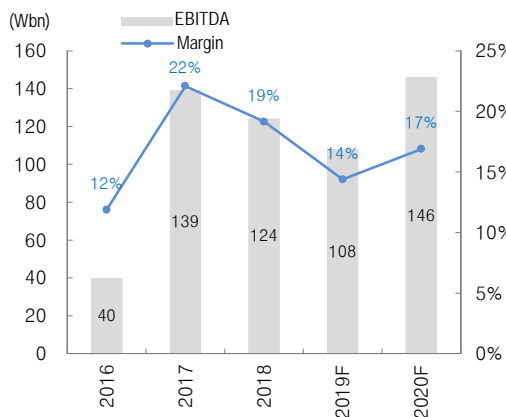
Source: Wonik IPS, Daishin Securities Research Center

Fig 4. Revenue mix (2)



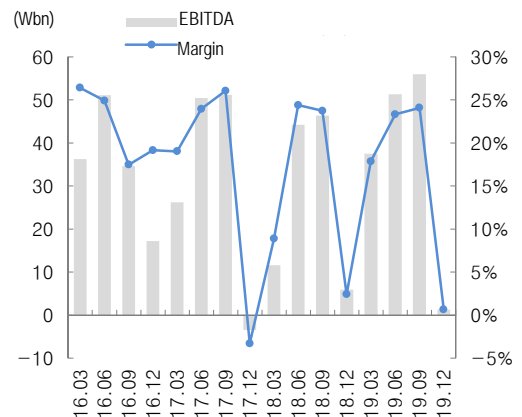
Source: Wonik IPS, Daishin Securities Research Center

Fig 5. Annual EBITDA



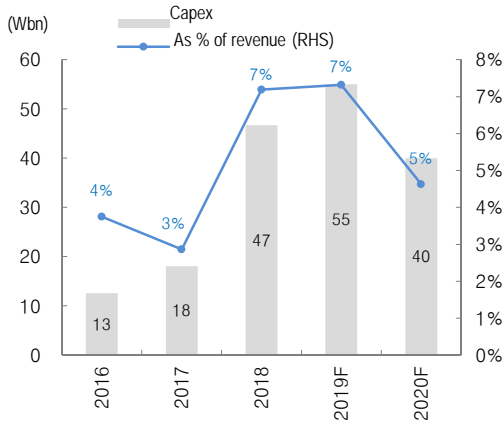
Source: Wonik IPS, Daishin Securities Research Center

Fig 6. Quarterly EBITDA



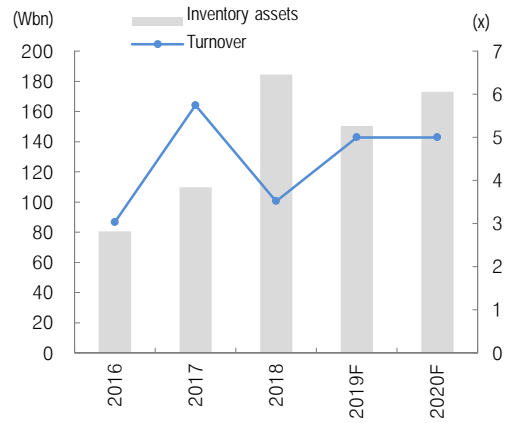
Source: Wonik IPS, Daishin Securities Research Center

Fig 7. Capex



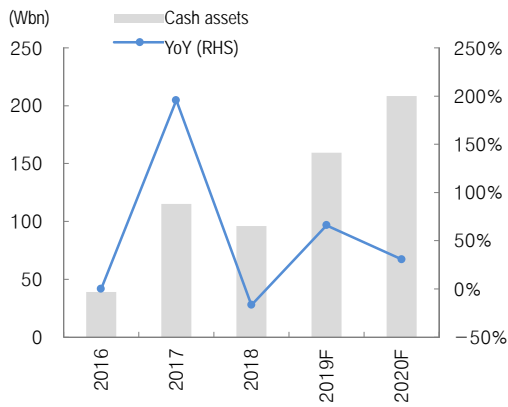
Source: Wonik IPS, Daishin Securities Research Center

Fig 8. Inventory assets



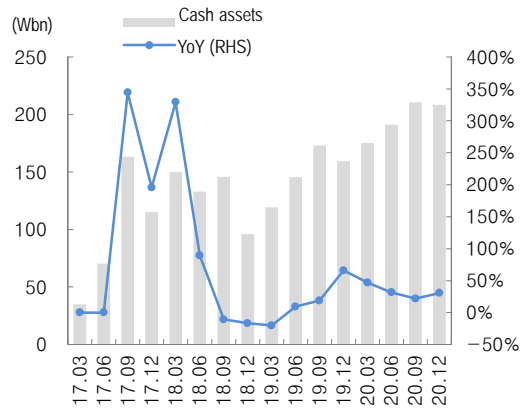
Source: Wonik IPS, Daishin Securities Research Center

Fig 9. Cash & cash equivalents (1)



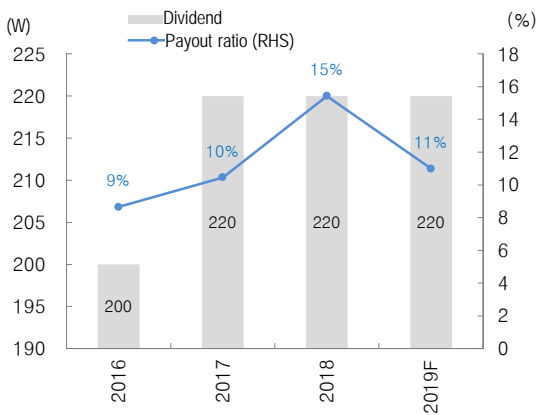
Source: Wonik IPS, Daishin Securities Research Center

Fig 10. Cash and cash equivalents (2)



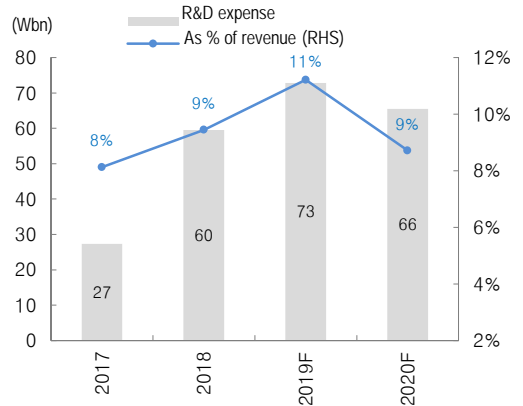
Source: Wonik IPS, Daishin Securities Research Center

Fig 11. Dividends



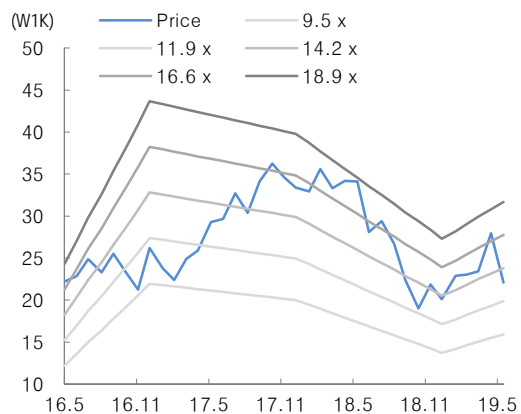
Source: Wonik IPS, Daishin Securities Research Center

Fig 12. R&D expense



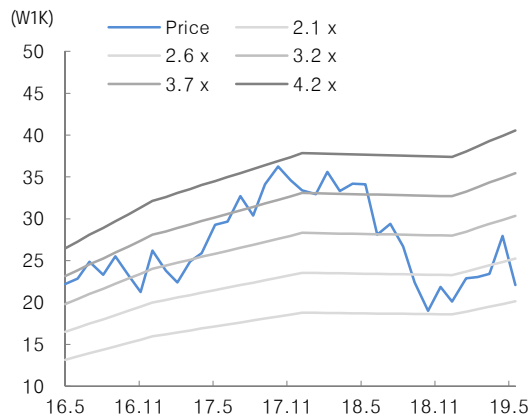
Source: Wonik IPS, Daishin Securities Research Center

Fig 13. P/E band



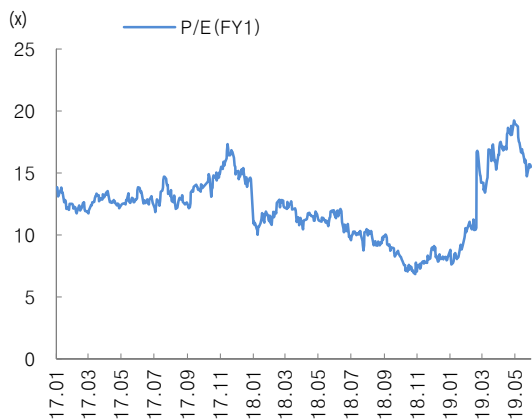
Source: Wonik IPS, Daishin Securities Research Center

Fig 14. P/B band



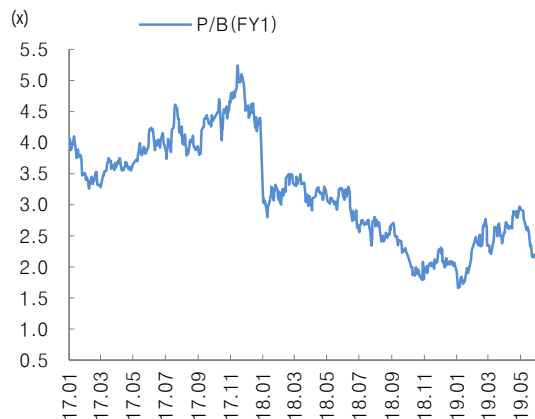
Source: Wonik IPS, Daishin Securities Research Center

Fig 15. P/E



Source: Wonik IPS, Daishin Securities Research Center

Fig 16. P/B



Source: Wonik IPS, Daishin Securities Research Center

Company profile

Overview

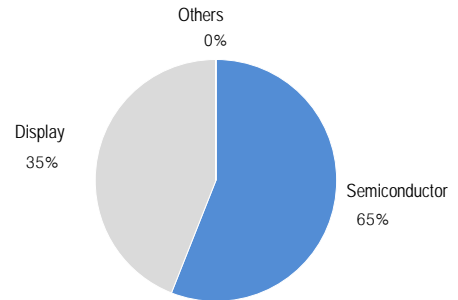
- Divided into Wonik Holdings and Wonik IPS in Apr. 2016. Listed in the KOSDAQ in May 2016
- Acquired Wonik Terasemicon in Feb. 2019
- Major shareholder: Wonik Holdings 32.90%
- Outstanding shares: 49,083,901 (treasury shares 819,702)
- Dividend payout ratio: 10.5% (2018)

Share price catalysts

- Semiconductor and display capex at Samsung and globally

Source: Wonik IPS, Daishin Securities Research Center

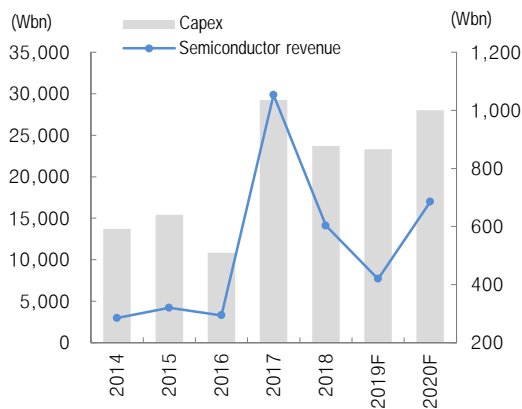
2019E revenue mix



Source: Wonik IPS, Daishin Securities Research Center

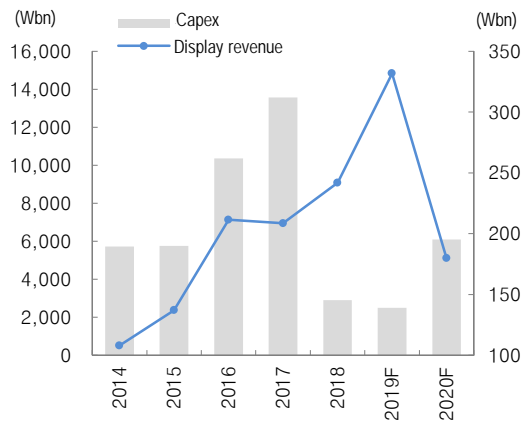
Earnings drivers

Fig 17. Samsung's semiconductor capex



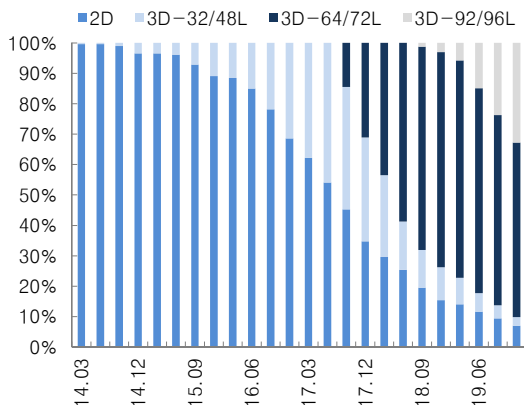
Source: Wonik IPS, Daishin Securities Research Center

Fig 18. Samsung Display's capex



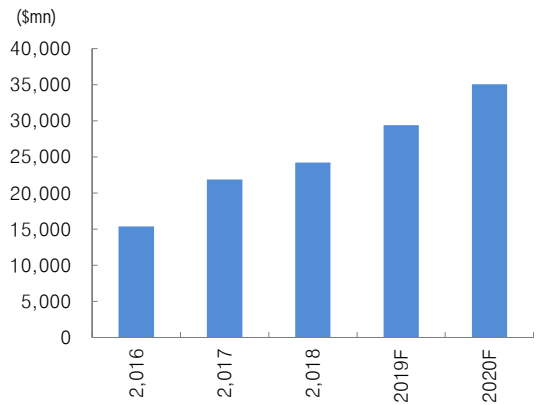
Source: Wonik IPS, Daishin Securities Research Center

Fig 19. 3D NAND vs. 2D NAND



Source: DRAMeXchange, Daishin Securities Research Center

Fig 20. Global OLED market



Source: Wonik IPS, Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Revenue	631	649	752	865	995
Cost of goods sold	380	391	459	492	567
Gross profit	251	258	293	373	429
SG&A expenses	129	152	206	250	287
OP	122	106	87	123	141
OP margin	19.4	16.3	11.6	14.2	14.2
EBITDA	139	124	108	146	164
Non-OP	2	4	1	1	1
Income from affiliates	0	0	0	0	0
Financial revenue	2	4	1	1	1
FX related gains	1	2	2	2	2
Financial expense	0	-1	-1	-1	-1
FX related losses	0	0	0	0	0
Others	1	1	1	1	1
Income before taxes	124	110	88	124	143
Income tax expense	29	23	18	26	30
Income from cont. op.	95	87	70	98	113
Income from discount. op.	0	0	0	0	0
NP	95	87	70	98	113
NP margin	15.1	13.4	9.3	11.4	11.3
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	95	87	70	98	113
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	95	86	69	97	112
Comp. income for non-contr. Int.	0	0	0	0	0
Comp. income for contr. int.	95	86	69	97	112

Valuation metrics	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
EPS	2,311	2,105	1,445	2,001	2,299
PER	14.5	9.6	15.8	11.4	10.0
BPS	7,595	8,946	8,963	10,624	12,703
PBR	4.4	2.2	2.6	2.2	1.8
EBITDAPS	3,375	3,013	2,232	2,977	3,344
EV/EBITDA	9.2	6.0	9.0	6.3	5.1
SPS	15,285	15,732	15,527	17,623	20,276
PSR	2.2	1.3	1.4	1.2	1.1
CFPS	4,060	3,582	2,703	3,441	3,808
DPS	200	220	220	220	220

Financial ratios	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Sales growth	158.5	2.9	15.8	15.1	15.1
OP growth	325.7	-13.4	-17.7	41.0	15.1
NP growth	323.5	-8.9	-19.5	40.4	14.9
Profitability					
ROIC	46.0	36.4	26.9	34.3	35.6
ROA	35.4	23.0	16.0	19.6	19.4
ROE	35.8	25.4	17.4	20.6	19.7
Stability					
Debt ratio	30.7	38.8	33.4	29.0	25.4
Net borrowings ratio	-32.9	-23.6	-34.6	-38.2	-44.7
Interest coverage ratio	682.6	613.4	484.1	682.6	785.3

Source: Wonik IPS, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Current assets	280	332	373	450	562
Cash & cash equiv.	112	91	154	203	283
Trade & other receive.	51	36	58	64	70
Inventories	110	184	150	173	199
Other current assets	7	20	10	10	10
Long-term assets	130	181	206	223	220
Tangible assets	108	138	174	192	190
Investments in affiliates	0	0	0	0	0
Other long-term assets	21	43	33	31	30
Total assets	410	512	579	673	782
Current liabilities	82	124	130	136	144
Payables & other liab.	50	47	53	59	67
Borrowings	12	9	9	9	9
Current portion of LT debts	0	0	0	0	0
Other current liabilities	20	68	68	68	68
Long-term liabilities	15	19	15	15	15
Borrowings	0	0	0	0	0
Convertible securities	0	0	0	0	0
Other long-term liab.	15	19	15	15	15
Total liabilities	96	143	145	151	159
Controlling interest	313	369	434	521	624
Capital stock	21	21	25	25	25
Capital surplus	175	175	175	175	175
Retained earnings	118	174	235	322	424
Other capital changes	0	0	0	0	0
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	313	369	434	521	624
Net borrowings	-72,965	-64,428	-97,470	-128,222	

Cash flow statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	96	47	60	51	62
NP	95	87	70	98	113
Non-cash items	72	61	61	71	74
Depreciation	17	18	21	23	23
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	55	43	40	48	52
Chg in assets & liab.	-57	-69	-52	-92	-95
Other cash flows	-14	-32	-19	-26	-30
Investing cash flow	-22	-57	-50	-43	-23
Investment assets	-2	-5	8	0	0
Tangible assets					
Others	-3	-5	-3	-3	-3
Financing cash flows	0	-11	-5	-11	-11
Short-term borrowings	0	-3	0	0	0
Bonds payable	0	0	0	0	0
Long-term borrowings	0	0	0	0	0
Rights offering	0	0	4	0	0
Cash dividends	0	-8	-9	-11	-11
Others	0	0	0	0	0
Net chg in cash	74	-22	63	49	80
Beginning cash balance	39	112	91	154	203
Ending cash balance	112	91	154	203	283
NOPLAT	94	84	69	97	112
FCF	91	53	35	80	115

[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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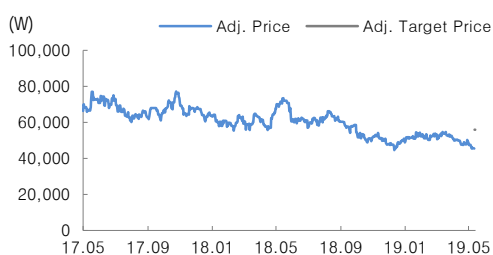
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[Investment rating & Target price history]

Wonik IPS (240810 KQ)



Date	19.06.04		19.05.04	18.11.04	18.08.09	18.05.04
Rating	Buy		6M passed	6M passed	Buy	Buy
Target price	28,000	Analyst changed	40,000	40,000	40,000	40,000
Diff. (avr. %)			(41.03)	(44.16)	(33.21)	(24.48)
Diff. (max/min, %)			(31.88)	(30.13)	(14.00)	(14.00)
Date	18.03.26	18.03.12	18.03.04	18.02.25	18.02.19	18.02.09
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	44,000	44,000	44,000	44,000	44,000	44,000
Diff. (avr. %)	(20.94)	(20.36)	(20.43)	(20.55)	(20.69)	(20.98)
Diff. (max/min, %)	(8.75)	(8.75)	(8.75)	(8.75)	(8.75)	(8.75)
Date	18.02.06	18.01.31	18.01.21	18.01.08	17.11.20	17.11.06
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	44,000	44,000	44,000	44,000	44,000	44,000
Diff. (avr. %)	(20.99)	(20.91)	(20.63)	(20.49)	(19.26)	(13.98)
Diff. (max/min, %)	(8.75)	(8.75)	(8.75)	(8.75)	(8.75)	(8.75)
Date	17.10.12	17.08.29	17.08.16	17.08.05	17.07.24	17.06.05
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	40,000	40,000	40,000	40,000	40,000	34,500
Diff. (avr. %)	(17.56)	(19.20)	(21.06)	(20.17)	(18.01)	(11.01)
Diff. (max/min, %)	(6.88)	(7.75)	(13.50)	(13.50)	(13.50)	3.33

Investment rating breakdown and framework (Jun 1, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	88.4%	11.1%	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.