

Innox Adv. Materials

(272290 KQ)

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Rating N/R

6M TP (₩) N/R

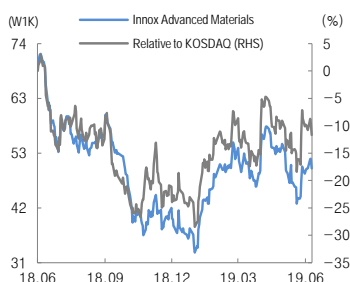
CP (₩)
(19.06.12) 49,500

Display

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	724.32
Market cap (Wbn)	457
Market cap portion (%)	0.19
Paid-in capital (common; Wbn)	5
52w high/low (₩)	70,427 / 33,000
120d avg. trading volume (Wbn)	4.6
Foreign ownership (%)	9.57
Major shareholders	Innox Corp.+5: 33.73%

(%)	1M	3M	6M	12M
Abs. return	1.9	-5.5	28.8	-29.7
Rel. return	1.6	-1.6	20.3	-15.1



Diversification push continues to drive growth

A solid materials stock

- Established in 2001, Innox Corporation spun off its materials business and listed it on the KOSDAQ in 2017 under a new name Innox Advanced Materials (Innox AM).
- Innox AM's key customers include LG Display and Korea's largest smartphone manufacturer's display unit.
- It has four business units: 1) **Innoflex** produces FPCB materials and generates 28% of total revenue (₩83.4bn in 2018); 2) **Smartflex** manufactures advanced new materials such as digitizers and EMI shield films, making up 24% of the company's business (₩71.8bn); 3) **Innosem** manufactures semiconductor packaging materials and accounts for 14% of all revenues booked (₩40.8bn); and 4) **Innoled** manufactures OLED encapsulation films, generating 33% of total revenue (₩97.1bn).

Diversification efforts keep growth going

- While the revenue share of Innoflex declined from about 50% in 2016 to 23% in 1Q19, that of Innoled climbed from 18% to 37%, a result of Innox AM's efforts to expand beyond the less profitable PFCB materials business and move into the bigger and more lucrative OLED materials market.
- Innox AM has the nation's largest smartphone maker as a major customer, and thus stands to benefit from the rise of foldable phones, which would create demand for related materials.
- Innoled's encapsulation films, used in the back of OLED TVs, are exhibiting steady sales growth. The unit looks poised to see a 30% yoy increase in revenue in 2019 should it start supplying products to the Guangzhou-based factory of the nation's largest smartphone maker in 2H19.

Stable earnings improvements expected in 2019

- For 2019, Innox AM is forecast to report OP of ₩44.8bn (up 17% yoy) on revenue of ₩327.1bn (up 12% yoy). By business, Innoflex is expected to generate ₩83.8bn (up 1% yoy), Smartflex ₩77.1bn (up 7% yoy), Innosem ₩39.5bn (down 3% yoy), and Innoled ₩126.6bn (up 30% yoy).
- Earnings are projected to grow led by Smartflex and Innoled. Smartflex's EMI shield film sales are likely to expand as more and more premium smartphones hit the market. Innoled, which manufactures OLED encapsulation films, will also see sales grow this year.
- 2019 revenue is forecast to expand 13% yoy, with OP climbing 14% yoy.

Operating results and major financial data

(Wbn, W, x, %)

	2017A	2018A	2019F	2020F	2021F
Revenue	193	293	327	371	427
OP	22	38	45	50	58
Pretax profit	21	38	45	49	58
NP	17	30	36	39	46
NP (controlling int.)	17	30	36	39	46
EPS	3,226	3,302	3,939	4,276	5,016
PER	25.8	11.4	12.6	11.6	9.9
BPS	23,371	15,898	19,834	24,104	29,114
PBR	3.6	2.4	2.5	2.1	1.7
ROE	27.6	22.4	22.1	19.5	18.9

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

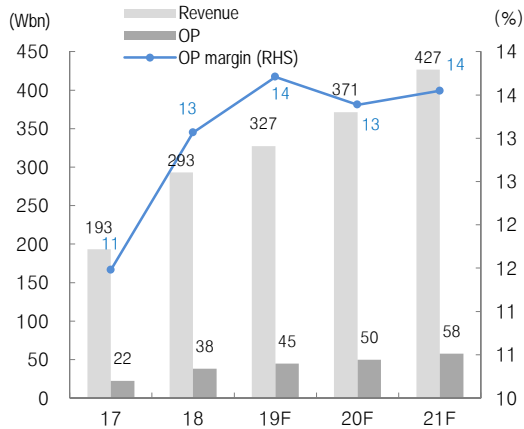
Tab 1. Innox AM's earnings forecasts

(Wbn,%)

	2018				2019				2017	2018	2019F	2020F
	1Q	2Q	3Q	4Q	1Q	2QF	3QF	4QF				
Revenue	80.9	62.3	73.3	76.7	85.7	71.9	81.9	87.6	307.5	293.1	327.1	371.2
Innoflex	19.4	17.5	24.5	22.0	19.5	17.6	24.6	22.1	107.0	83.4	83.8	84.3
Smartflex	32.0	14.8	10.0	15.0	27.0	18.5	13.1	18.5	97.0	71.8	77.1	81.0
Innosem	10.5	10.0	10.3	10.0	7.5	9.7	10.0	12.3	42.5	40.8	39.5	40.9
Innoled	19.0	20.0	28.5	29.7	31.7	26.1	34.2	34.7	61.0	97.1	126.6	165.0
Revenue growth (% yoy)					5.9	15.3	11.8	14.3	71.6	-4.7	11.6	13.5
Innoflex					0.5	0.5	0.5	0.5	33.4	-22.1	0.5	0.5
Smartflex					-15.6	25.1	31.1	23.4	223.3	-26.0	7.4	5.0
Innosem					-28.6	-3.3	-3.3	23.3	18.1	-4.0	-3.3	3.6
Innoled					66.8	30.4	20.1	16.9	84.8	59.2	30.4	30.4
OP	11.3	5.5	10.0	11.5	12.0	9.3	11.4	12.2	136.6	38.3	44.8	49.7
OP margin (%)	14.0	8.8	13.6	15.0	14.0	12.9	13.9	13.9	44.4	13.1	13.7	13.4
OP growth (%YoY)					6.2	67.9	13.7	6.4		-72.0	17.1	10.8
NP (contr. int.)	8.5	5.5	8.7	7.7	10.3	7.6	9.2	9.9	17.3	30.5	36.9	40.1
NP margin (%)	10.5	8.9	11.9	10.0	12.0	10.6	11.3	11.2	5.6	10.4	11.3	10.8
NP growth (%YoY)					20.6	37.6	5.5	28.2		76.1	21.3	8.4

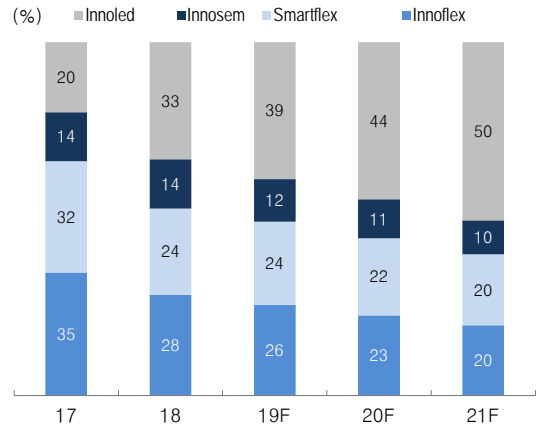
Source: Innox Advanced Materials, Daishin Securities Research Center

Fig 1. Yearly earnings trend



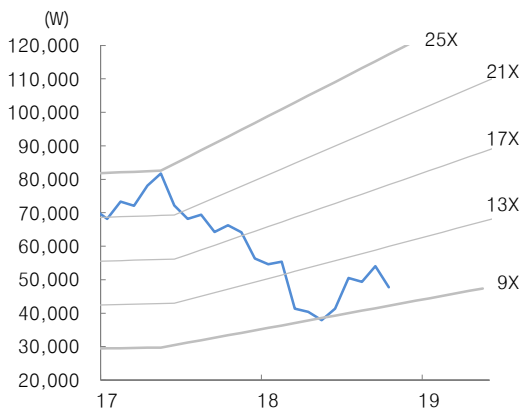
Source: Innox Advanced Materials, Daishin Securities Research Center

Fig 2. Revenue breakdown by business



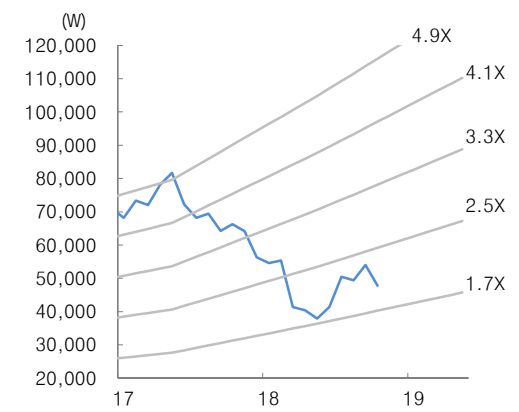
Source: Innox Advanced Materials, Daishin Securities Research Center

Fig 3. P/E band



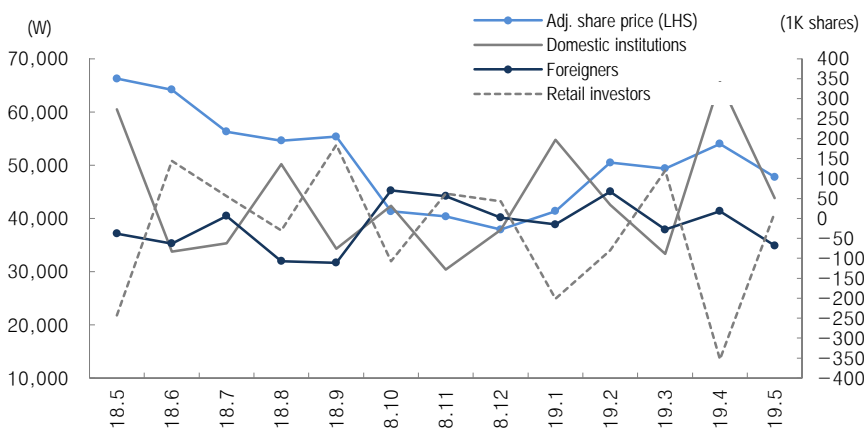
Source: Innox Advanced Materials, Daishin Securities Research Center

Fig 4. P/B band



Source: Innox Advanced Materials, Daishin Securities Research Center

Fig 5. Monthly net stock purchases by investor group



Source: Innex Advanced Materials, Daishin Securities Research Center

Company profile

Overview

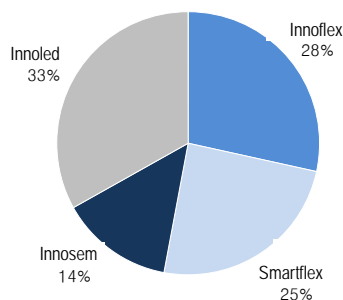
- Spun off from Innex Corp and listed on the KOSDAQ in 2017
- A developer and producer of those materials used in various downstream industries such as semiconductor, FPCB, and displays.
- Revenue breakdown by business: Innoflex 28%, Smartflex 24%, Innosem 14%, Innoled 33% (as of 2018)
- Assets W328.2bn, liabilities W171.5bn, equities W156.7bn (1Q19)
- # of outstanding shares: 9,232,420 / # of treasury shares: 229,980

Share price catalysts

- Rollouts of new smartphone models and shipment volume of smartphones
- Shipment volume of OLED TVs
- Acquisition of overseas customers
- Localization of Japanese products that are controlling the global market.

Source: Innex Advanced Materials, Daishin Securities Research Center

Revenue breakdown by business

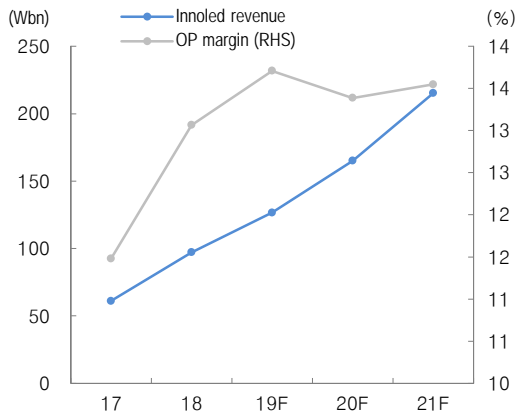


Note: As of 2018

Source: Innex Advanced Materials, Daishin Securities Research Center

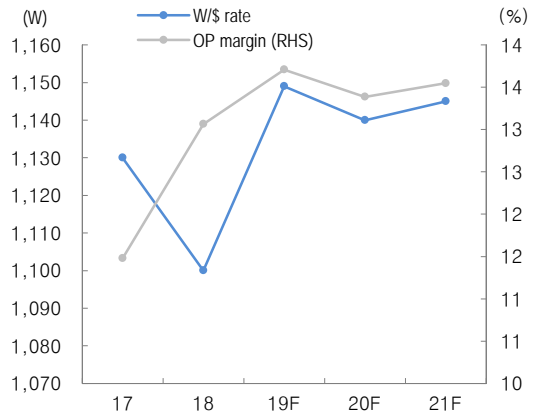
Earnings drivers

Revenue and OP margin



Source: Innox Advanced Materials, Daishin Securities Research Center

W/\$ rate vs. OP margin



Source: Innox Advanced Materials, Daishin Securities Research Center

Financial statements

Income statement					(Wbn)
	2017A	2018A	2019F	2020F	2021F
Revenue	193	293	327	371	427
Cost of goods sold	140	219	240	275	315
Gross profit	53	74	87	96	112
SG&A expenses	31	36	42	47	54
OP	22	38	45	50	58
OP margin	11.5	13.1	13.7	13.4	13.5
EBITDA	28	49	55	60	68
Non-OP	-1	0	0	0	0
Income from affiliates	0	0	0	0	0
Financial revenue	1	2	3	2	3
FX related gains	0	1	1	1	1
Financial expense	-2	-3	-3	-3	-3
FX related losses	1	1	1	1	1
Others	-1	0	1	1	1
Income before taxes	21	38	45	49	58
Income tax expense	-4	-7	-9	-10	-12
Income from cont. op.	17	30	36	39	46
Income from discount op.	0	0	0	0	0
NP	17	30	36	39	46
NP margin	9.0	10.4	11.1	10.6	10.8
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	17	30	36	39	46
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	17	30	36	39	46
Comp. income for non-contr. Int.	0	0	0	0	0
Comp. income for contr. int.	17	30	36	39	46

Valuation metrics					(W, x, %)
	2017A	2018A	2019F	2020F	2021F
EPS	3,226	3,302	3,939	4,276	5,016
PER	25.8	11.4	12.6	11.6	9.9
BPS	23,371	15,898	19,834	24,104	29,114
PBR	3.6	2.4	2.5	2.1	1.7
EBITDAPS	5,146	5,274	5,978	6,503	7,383
EV/EBITDA	27.9	7.6	8.2	7.0	5.7
SPS	36,010	31,766	35,424	40,207	46,236
PSR	2.3	1.2	1.4	1.2	1.1
CFPS	7,389	5,710	6,268	6,749	7,651
DPS	0	0	0	0	0

Financial ratios					(W, x, %)
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Revenue growth	na	51.8	11.6	13.5	15.0
OP growth	na	72.8	17.1	10.8	16.4
NP growth	na	76.1	19.4	8.6	17.3
Profitability					
ROIC	22.8	17.5	18.5	19.7	21.9
ROA	19.9	14.6	13.7	13.2	13.7
ROE	27.6	22.4	22.1	19.5	18.9
Stability					
Debt ratio	77.9	105.3	94.1	78.4	66.0
Net borrowings ratio	23.5	20.9	-2.3	-15.7	-26.1
Interest coverage ratio	25.7	21.6	17.4	18.9	22.2

Source: Innox Advanced Materials, Daishin Securities Research Center

Balance sheet					(Wbn)
	2017A	2018A	2019F	2020F	2021F
Current assets	117	161	216	258	307
Cash & cash equiv.	24	76	123	154	189
Trade & other receive.	61	43	49	56	64
Inventories	28	35	33	37	43
Other current assets	4	7	11	11	11
Long-term assets	106	140	140	140	139
Tangible assets	100	133	133	133	133
Investments in affiliates	0	0	0	0	0
Other long-term assets	6	7	7	7	7
Total assets	223	301	355	397	446
Current liabilities	95	79	94	96	99
Payables & other liab.	26	32	32	34	37
Borrowings	53	39	54	54	54
Current portion of LT debts	0	0	0	0	0
Other current liabilities	16	9	9	9	9
Long-term liabilities	3	75	78	78	78
Borrowings	0	68	70	70	70
Convertible securities	0	0	0	0	0
Other long-term liab.	3	7	8	8	8
Total liabilities	98	155	172	175	177
Controlling interest	125	147	183	223	269
Capital stock	4	4	5	5	5
Capital surplus	103	104	104	104	104
Retained earnings	17	48	84	123	169
Other capital changes	0	-9	-9	-9	-9
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	125	147	183	223	269
Net borrowings	29	31	-4	-35	-70

Cash flow statement					(Wbn)
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	22	51	47	45	50
NP	17	30	36	39	46
Non-cash items	22	22	22	23	24
Depreciation	5	10	10	10	10
FX gains	0	0	-1	-1	-1
Equity method gain	0	0	0	0	0
Others	17	12	12	13	15
Chg in assets & liab.	-16	7	-2	-7	-9
Other cash flows	-1	-9	-9	-10	-12
Investing cash flow	-12	-44	-15	-10	-10
Investment assets	0	-2	0	0	0
Tangible assets	-11	-42	-10	-10	-10
Others	0	0	-6	-1	-1
Financing cash flows	-18	45	18	1	1
Short-term borrowings	-19	-14	15	0	0
Bonds payable	0	50	0	0	0
Long-term borrowings	0	18	2	0	0
Rights offering	0	0	0	0	0
Cash dividends	0	0	0	0	0
Others	1	-9	1	1	1
Net chg in cash	-8	53	47	31	35
Beginning cash balance	31	24	76	123	154
Ending cash balance	24	76	123	154	189
NOPLAT	18	31	36	40	46
FCF	12	0	36	40	46

[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:

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Neutral Green (neutral)

Sky Blue (positive)

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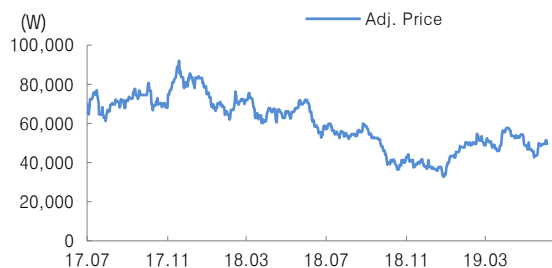
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[Investment rating & Target price history]

Innox Advanced Materials (272290 KQ)



Date	19.06.14
Rating	NA
Target price	NA
Diff. (avr. %)	
Diff. (max./min. %)	

Investment rating breakdown and framework (Jun 11, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	86.2%	12.7%	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.