

Seoul Semiconductor (046890 KS)

Strong sales of 75-inch or larger LED TVs to add a boost

BUY (Maintain)

CP (Jun. 20) KRW19,800
 TP (6 months) KRW28,000
 Upside 41.4%

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KOSPI	2,131.29p
KOSDAQ	727.32p
Market cap	KRW1,154.4bn/USD1,012.7mn
Par value	KRW500
Outstanding shares	58.3mn
Free float	39.3mn (67.4%)
52-week high/low	KRW25,050/KRW15,700
60-day avg. trading volume	529,093shrs
60-day avg. turnover	KRW10,185mn
Foreign ownership	12.18%
Major shareholders	
Chung-hoon Lee and 2 others	31.00%
NPS	8.12%
Absolute performance	
3M	-7.9%
6M	4.2%
12M	9.7%
Relative performance	
to KOSDAQ	
3M	-5.1%
6M	-4.3%
12M	26.7%

- ◆ Beneficiary of growth in sales of 75-inch or larger LED TVs
- ◆ 3Q19 OP forecast at KRW35.9bn (+83% QoQ)
- ◆ Retain BUY for a target price of KRW28,000

Beneficiary of growth in sales of 75-inch or larger LED TVs

Best Buy's US stores are now offering 75-inch 4K LED TVs at USD1,299, which is even cheaper than the USD1,499 price tag of 55-inch OLED TVs. With 75-inch 4K LED TVs expected to become mainstream in the North American TV market by the year's end, we expect demand for 75-inch or larger LED TVs to jump 58.2% YoY to 3.5mn units in 2019 vs. 2.21mn in 2018.

Seoul Semiconductor should see TV-use LED sales rise 29% YoY to KRW323.9bn for full-year 2019. The company's competitive edge in LED for 75-inch or larger 8K TVs should add a boost to earnings growth in 2H19.

3Q19 OP forecast at KRW35.9bn (+83% QoQ)

We expect Seoul Semiconductor to post operating profit of KRW19.6bn (+14.9% QoQ, +11.4% YoY) on sales of KRW293bn (+3.9% QoQ, +0.9% YoY) for 2Q19, beating the consensus estimate of KRW18.7bn by a slight margin. For 3Q19, sales are forecast at KRW339bn (+15.7% QoQ, +5.8% YoY) and operating profit at KRW35.9bn (+83% QoQ, +27.8% YoY). Operating profit should exceed market expectations of KRW33.2bn on: 1) KRW7bn or steeper QoQ decline in costs related to the partial relocation of production to Vietnam; and 2) 25% QoQ growth in TV-use LED sales to KRW90bn.

Retain BUY for a target price of KRW28,000

We retain our BUY rating on Seoul Semiconductor for a target price of KRW28,000, reflecting 2019 forecasts for: 1) operating profit of KRW110.6bn (+11.3% YoY); and 2) TV-use LED sales of KRW323.9bn (+29% YoY). Weighed down by concerns over the costs of partially relocating production to Vietnam, Seoul Semiconductor shares corrected by 30.7% from the previous peak of KRW25,050 reached at the start of the year to KRW17,350 on May 27.

Shares are now back on a recovery track, driven by upbeat expectations for growth in demand for 75-inch or larger LED TVs. With the increase in orders for automobile headlight-use LED expected to add a further boost to growth, we recommend actively accumulating shares on forecasts for 2H earnings momentum.

Year to December	Sales (bn KRW)	OP (bn KRW)	Pre-tax (bn KRW)	NP (bn KRW)	EPS (KRW)	Growth (%)	BPS (KRW)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net debt ratio (%)
2017	1,110.4	98.3	70.5	40.3	692	11.4	10,196	40.3	8.7	2.7	6.7	23.0
2018	1,194.2	94.9	78.4	62.8	1,077	55.7	11,122	18.0	7.2	1.7	10.1	33.6
2019F	1,243.9	110.6	100.0	77.2	1,325	23.0	12,151	14.7	6.2	1.6	11.4	22.7
2020F	1,330.0	121.9	112.2	84.4	1,448	9.3	13,304	13.4	5.7	1.5	11.4	18.3
2021F	1,416.0	131.6	122.5	92.2	1,581	9.2	14,589	12.3	5.3	1.3	11.3	14.3

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

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Target price calculation

	Value	Remarks
2019F ROE (%)	11.4	
2019F EPS (KRW)	1,325	
Target PER (x)	21.0	10% premium to 2018 PER average of 19.1x
Target price	27,825	

Source: Shinhan Investment Corp.

Note: 10% premium applied to 2018 PER average of 19.1% in view of forecasts for 11.3% YoY operating profit growth in 2019

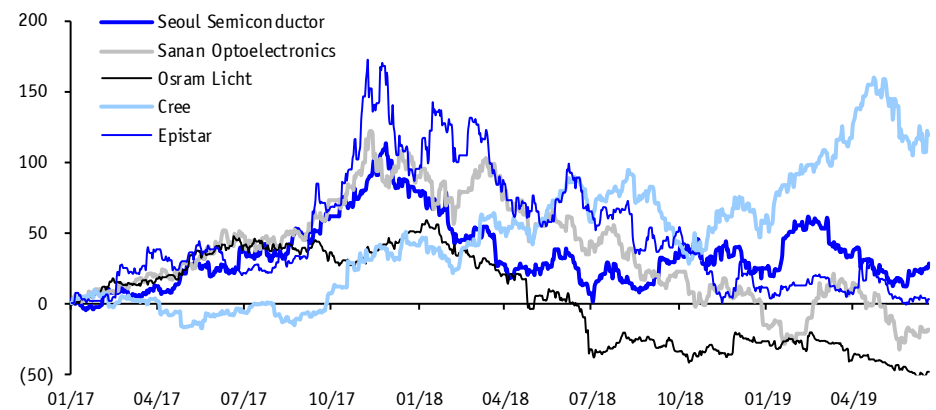
Valuation of LED companies based on consensus estimates

(bn USD, x, %)	Market cap	2019F				2020F			
		PER	PBR	EV/EBITDA	ROE	PER	PBR	EV/EBITDA	ROE
Sanan Optoelectronics	6.4	13.3	1.8	10.1	11.9	12.2	1.6	8.6	12.7
Cree	6.1	81.3	2.9	24.3	(2.2)	63.3	2.8	21.4	3.2
OSRAM Licht	2.9	-	1.1	9.4	(1.4)	22.3	1.1	6.8	4.6
Toyota Gosei	2.5	11.5	0.8	4.4	6.8	9.5	0.7	3.9	7.6
LG Innotek	2.1	16.3	1.1	4.6	6.9	11.4	1.0	4.1	9.2
Seoul Semiconductor	1.0	16.5	1.6	7.0	10.2	15.7	1.5	6.6	10.4
Epistar	0.8	-	0.5	7.7	(3.1)	-	0.6	5.6	(0.2)
Lextar Electronics	0.2	168.4	0.7	5.4	(0.1)	38.6	-	4.5	1.7

Source: Bloomberg, Shinhan Investment Corp.

Relative share performance vs. major LED peers

(01/01/17=0)



Source: Bloomberg, Shinhan Investment Corp.

PER and ROE trend

(x, %)	2010	2011	2012	2013	2014	2015	2016	2017	2018	Average
PER (high)	31.5	155.9	307.2	73.1	-429.4	78.3	29.0	48.5	26.2	35.6
PER (low)	21.5	64.0	210.6	38.5	-125.6	43.0	20.6	21.1	14.6	34.3
PER (average)	26.1	106.0	241.4	55.9	-292.5	60.1	23.9	31.0	19.1	30.1
ROE	18.3	2.9	0.9	6.3	(1.2)	3.0	6.1	6.7	8.4	5.7

Source: FnGuide, Shinhan Investment Corp.

12-month forward PBR band



Source: QuantilWise, Shinhan Investment Corp.

Earnings forecast revision

(bn KRW)	2019F			2020F		
	Previous	Revised	Change (%)	Previous	Revised	Change (%)
Sales	1,231.9	1,243.9	1.0	1,306.0	1,330.0	1.8
OP	112.5	110.6	(1.7)	126.4	121.9	(3.6)
NP	76.4	77.0	0.7	85.3	84.2	(1.4)
OPM (%)	9.1	8.9		9.7	9.2	
NPM (%)	6.2	6.2		6.5	6.3	

Source: Shinhan Investment Corp.

2Q19 forecast

(bn KRW)	2Q19F	1Q19	QoQ (%)	2Q19	YoY (%)	Consensus	Gap (%)	Previous	Gap (%)
Sales	293.0	281.9	3.9	290.3	0.9	291.5	0.5	294.0	(0.3)
OP	19.6	17.1	14.9	17.6	11.4	18.7	5.0	19.7	(0.4)
NP	14.8	13.6	8.4	13.5	9.6	14.6	1.1	12.2	21.0
OPM (%)	6.7	6.1		6.1		6.4		6.7	
NPM (%)	5.0	4.8		4.6		5.0		4.1	

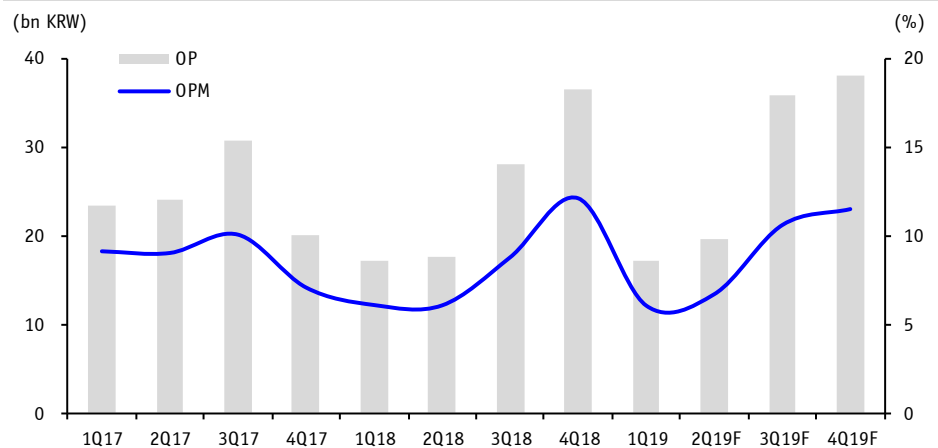
Source: Shinhan Investment Corp.

Earnings trend and outlook

(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19F	3Q19F	4Q19F	2017	2018	2019F	2020F	2021F	1Q18
Sales	283.0	290.3	320.3	300.6	281.9	293.0	339.0	330.0	1,110.4	1,194.2	1,243.9	1,330.0	1,416.0	283.0
Lighting/automotive	157.0	163.0	159.0	155.0	142.0	153.0	171.0	167.0	564.3	634.0	633.0	691.0	760.0	157.0
TV	45.0	58.0	73.0	75.0	70.9	72.0	90.0	91.0	199.0	251.0	323.9	362.0	373.0	45.0
NBPC/MNT	35.0	37.0	45.0	39.0	39.0	39.0	45.0	41.0	138.0	156.0	164.0	162.0	174.0	35.0
Mobile/tablet	46.0	32.3	43.3	31.6	30.0	29.0	33.0	31.0	209.1	153.2	123.0	115.0	109.0	46.0
Gross profit	70.0	75.8	89.7	87.8	64.2	71.8	94.9	95.7	284.4	323.4	326.6	359.2	379.4	70.0
SG&A	52.8	58.2	61.6	51.4	47.1	52.2	59.0	57.8	186.3	224.0	216.0	237.3	247.8	52.8
OP	17.2	17.6	28.1	36.4	17.1	19.6	35.9	38.0	98.1	99.4	110.6	121.9	131.6	17.2
Pre-tax profit	15.1	20.7	21.1	21.4	18.9	18.8	28.1	34.3	70.5	78.4	100.0	112.2	122.5	15.1
NP	11.3	13.5	13.7	24.2	11.8	14.8	23.1	27.4	46.4	62.6	77.0	84.2	91.9	11.3
EBITDA	46.1	45.0	55.5	63.4	45.1	47.6	63.9	66.0	211.3	210.0	222.6	237.9	251.6	46.1
Sales share (%)														
Lighting/automotive	55.5	56.1	49.6	51.6	50.4	52.2	50.4	50.6	50.8	53.1	50.9	52.0	53.7	55.5
TV	15.9	20.0	22.8	25.0	25.2	24.6	26.5	27.6	17.9	21.0	26.0	27.2	26.3	15.9
NBPC/MNT	12.4	12.7	14.0	13.0	13.8	13.3	13.3	12.4	12.4	13.1	13.2	12.2	12.3	12.4
Mobile/tablet	16.3	11.1	13.5	10.5	10.6	9.9	9.7	9.4	18.8	12.8	9.9	8.6	7.7	16.3
Gross margin (%)	24.7	26.1	28.0	29.2	22.8	24.5	28.0	29.0	25.6	27.1	26.3	27.0	26.8	24.7
SG&A ratio (%)	18.7	20.1	19.2	17.1	16.7	17.8	17.4	17.5	16.8	18.8	17.4	17.8	17.5	18.7
OPM (%)	6.1	6.1	8.8	12.1	6.1	6.7	10.6	11.5	8.8	8.3	8.9	9.2	9.3	6.1
Pre-tax margin (%)	5.3	7.1	6.6	7.1	6.7	6.4	8.3	10.4	6.3	6.6	8.0	8.4	8.7	5.3
NPM (%)	4.0	4.6	4.3	8.1	4.2	5.0	6.8	8.3	4.2	5.2	6.2	6.3	6.5	4.0
EBITDA margin (%)	16.3	15.5	17.3	21.1	16.0	16.3	18.9	20.0	19.0	17.6	17.9	17.9	17.8	16.3

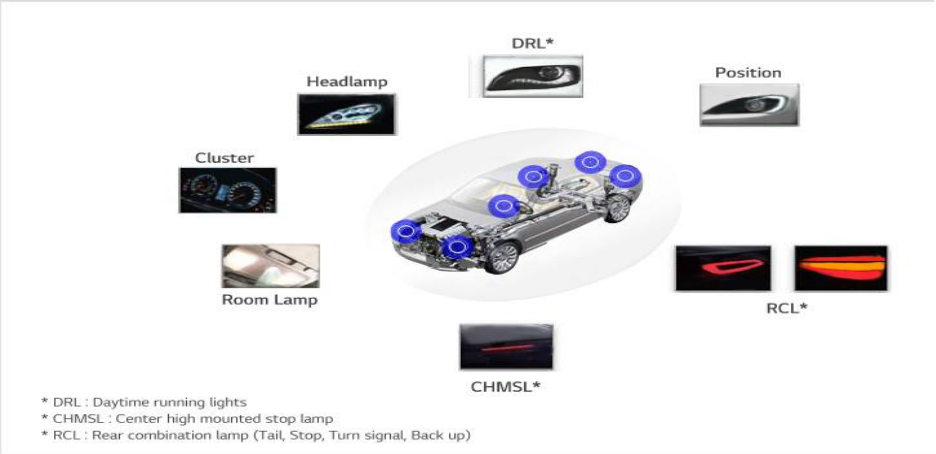
Source: Company data, Shinhan Investment Corp.

Operating profit and operating profit margin



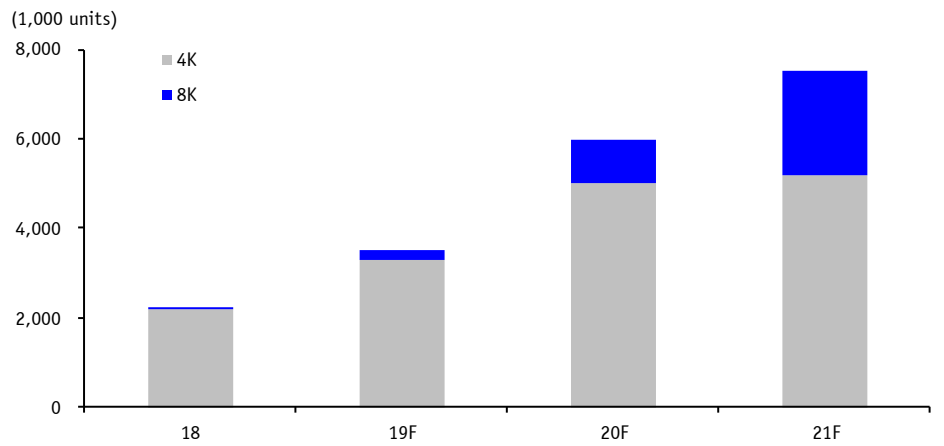
Source: Company data, Shinhan Investment Corp.

Application of automotive LED lights



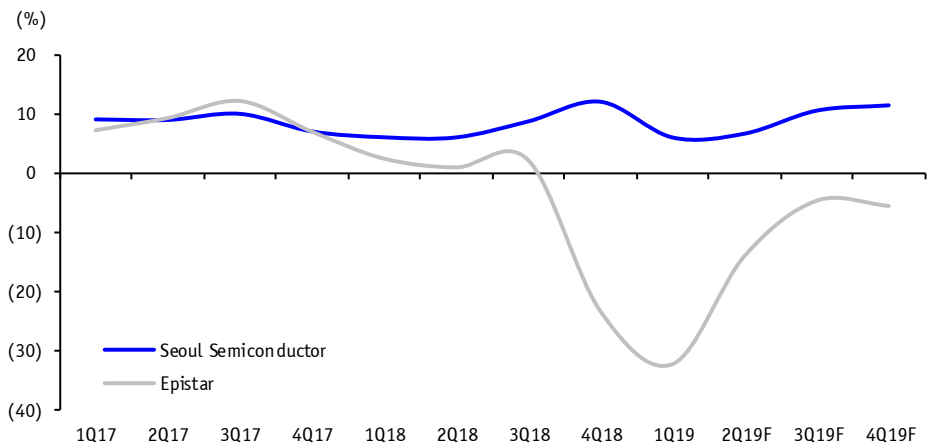
Source: LG Innotek, Shinhan Investment Corp.

Demand for 75-inch or larger LED TVs



Source: IHS, Shinhan Investment Corp.

Operating profit margin trend: Seoul Semiconductor vs. Epistar



Source: Bloomberg, company data, Shinhan Investment Corp.

Statement of financial position

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Total assets	1,227.3	1,293.8	1,343.7	1,379.1	1,446.3
Current assets	575.5	601.6	615.6	606.1	623.3
Cash and equivalents	47.2	21.7	59.5	44.0	49.2
Accounts receivable	303.4	339.6	342.0	345.0	350.0
Inventories	137.5	155.2	159.0	162.0	169.0
Non-current assets	651.9	692.2	728.1	773.1	823.1
Tangible assets	540.6	576.8	631.5	692.2	758.8
Intangible assets	61.5	56.3	39.6	22.9	6.2
Investment assets	9.6	8.7	13.1	14.1	14.1
Other financial assets	0.0	0.0	0.0	0.0	0.0
Total liabilities	551.4	568.5	558.7	527.2	519.7
Current liabilities	435.5	412.7	397.8	386.2	388.6
Short-term borrowings	32.4	41.0	36.0	26.0	16.0
Accounts payable	203.0	183.0	202.0	205.0	211.0
Current portion of long-term debt	27.5	39.3	10.0	0.0	0.0
Non-current liabilities	116.0	155.8	160.9	141.0	131.1
Bonds	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	114.7	154.2	159.2	139.2	129.2
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	675.9	725.3	785.0	852.0	926.6
Capital stock	29.2	29.2	29.2	29.2	29.2
Capital surplus	347.6	330.5	330.5	330.5	330.5
Other capital	(73.4)	(53.8)	(53.8)	(53.8)	(53.8)
Accumulated other comprehensive income	(7.5)	(6.9)	(6.9)	(6.9)	(6.9)
Retained earnings	298.6	349.6	409.6	476.8	551.8
Controlling interest equity	594.5	648.5	708.5	775.7	850.6
Non-controlling interest equity	81.4	76.8	76.5	76.3	76.0
*Total debt	232.9	265.6	237.6	199.8	182.1
*Net debt (cash)	155.3	243.8	177.9	155.7	132.8

Statement of cash flow

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Cash flow from operations	167.3	103.6	231.6	202.0	211.7
Net profit	46.4	62.6	77.0	84.2	91.9
Depreciation expense	96.8	90.4	95.3	99.3	103.3
Amortization expense	17.7	16.7	16.7	16.7	16.7
FX translation loss (gain)	9.5	(0.9)	0.0	0.0	0.0
Asset disposal loss (gain)	(4.0)	0.1	0.1	0.1	0.1
Equity method loss (gain)	0.1	0.2	0.2	0.2	0.2
Change in working capital	(7.5)	(75.7)	41.1	0.3	(1.7)
(Payment of income tax)	(18.0)	(24.3)	(23.0)	(28.1)	(30.6)
Others	26.3	34.5	24.2	29.3	31.8
Cash flow from investments	(168.2)	(146.4)	(149.1)	(162.2)	(171.2)
Increase in tangible assets	(158.8)	(144.9)	(150.0)	(160.0)	(170.0)
Decrease in tangible assets	10.8	3.0	0.0	0.0	0.0
Change in intangible assets	(27.2)	(18.4)	0.0	0.0	0.0
Change in investment assets	0.4	15.1	(5.8)	(2.4)	(1.4)
Others	6.6	(1.2)	6.7	0.2	0.2
Free cash flow	46.9	(44.8)	89.0	47.4	46.7
Cash flow from financing	17.5	17.1	(44.3)	(55.0)	(35.0)
Change in borrowings	1.8	58.1	(28.0)	(37.8)	(17.8)
Change in treasury stock	8.0	0.1	0.0	0.0	0.0
Dividends	(4.7)	(13.0)	(16.3)	(17.2)	(17.2)
Others	12.4	(28.1)	0.0	(0.0)	0.0
Other cash flow	0.0	0.0	(0.3)	(0.4)	(0.4)
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(1.8)	0.3	0.0	0.0	0.0
Change in total cash	14.7	(25.5)	37.9	(15.6)	5.2
Beginning cash	32.4	47.2	21.7	59.6	44.0
Ending cash	47.2	21.7	59.6	44.0	49.2

Source: Company data, Shinhan Investment Corp.

Statement of comprehensive income

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
Sales	1,110.4	1,194.2	1,243.9	1,330.0	1,416.0
Growth (%)	16.4	7.5	4.2	6.9	6.5
COGS	826.1	871.0	917.3	970.8	1,036.6
Gross profit	284.3	323.2	326.6	359.2	379.4
GPM (%)	25.6	27.1	26.3	27.0	26.8
SG&A	186.1	228.3	216.0	237.3	247.8
Operating profit	98.3	94.9	110.6	121.9	131.6
Growth (%)	70.8	(3.4)	16.6	10.2	7.9
OPM (%)	8.8	7.9	8.9	9.2	9.3
Non-operating profit	(27.8)	(16.5)	(10.6)	(9.7)	(9.1)
Financial profit	(28.0)	(3.8)	(3.8)	(2.9)	(2.2)
Other non-operating profit	0.4	(12.7)	(6.8)	(6.8)	(6.8)
Equity method gain (loss)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Pre-tax profit	70.5	78.4	100.0	112.2	122.5
Income tax	24.1	15.8	23.0	28.1	30.6
Continuing operations	46.4	62.6	77.0	84.2	91.9
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	46.4	62.6	77.0	84.2	91.9
Growth (%)	23.5	35.0	23.0	9.3	9.2
NPM (%)	4.2	5.2	6.2	6.3	6.5
Controlling interest	40.3	62.8	77.2	84.4	92.2
Non-controlling interest	6.1	(0.2)	(0.2)	(0.3)	(0.3)
Comprehensive income	38.6	62.8	77.0	84.2	91.9
Controlling interest	32.9	62.8	77.1	84.2	92.0
Non-controlling interest	5.7	(0.1)	(0.1)	(0.1)	(0.1)
EBITDA	212.8	201.9	222.6	237.9	251.6
Growth (%)	24.7	(5.1)	10.2	6.9	5.8
EBITDA margin (%)	19.2	16.9	17.9	17.9	17.8

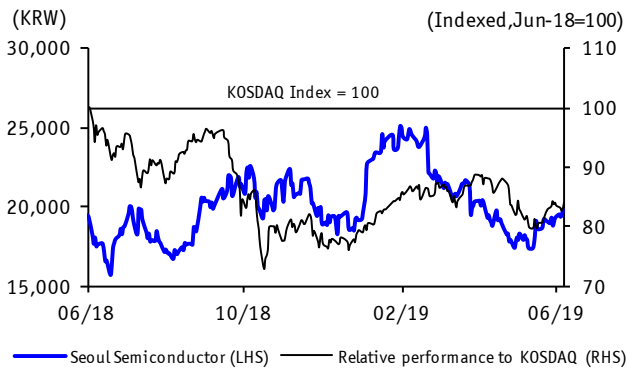
Key ratios

Year to December	2017	2018	2019F	2020F	2021F
EPS (KRW)	795	1,074	1,321	1,443	1,576
EPS of controlling interest (KRW)	692	1,077	1,325	1,448	1,581
BPS (KRW)	11,593	12,439	13,464	14,612	15,893
BPS of controlling interest (KRW)	10,196	11,122	12,151	13,304	14,589
DPS (KRW)	183	284	300	300	300
PER (x)	35.0	18.0	14.7	13.5	12.3
PER of controlling interest (x)	40.3	18.0	14.7	13.4	12.3
PBR (x)	2.4	1.6	1.4	1.3	1.2
PBR of controlling interest (x)	2.7	1.7	1.6	1.5	1.3
EV/EBITDA (x)	8.7	7.2	6.2	5.7	5.3
Dividend payout ratio (%)	26.0	26.0	22.3	20.4	18.7
Dividend yield (%)	0.7	1.5	1.5	1.5	1.5
Profitability					
EBITDA margin (%)	19.2	16.9	17.9	17.9	17.8
OPM (%)	8.8	7.9	8.9	9.2	9.3
NPM (%)	4.2	5.2	6.2	6.3	6.5
ROA (%)	4.0	5.0	5.8	6.2	6.5
ROE (%)	6.7	10.1	11.4	11.4	11.3
ROIC (%)	8.5	7.8	10.2	10.0	10.2
Stability					
Debt to equity ratio (%)	81.6	78.4	71.2	61.9	56.1
Net debt ratio (%)	23.0	33.6	22.7	18.3	14.3
Cash ratio (%)	10.8	5.3	15.0	11.4	12.7
Interest coverage ratio (x)	22.6	15.6	18.0	22.9	28.3
Activity (%)					
Working capital turnover (times)	5.7	5.3	5.1	5.9	6.3
Inventory turnover (days)	40.4	44.7	46.1	44.0	42.7
Receivable turnover (days)	93.6	98.3	100.0	94.3	89.6

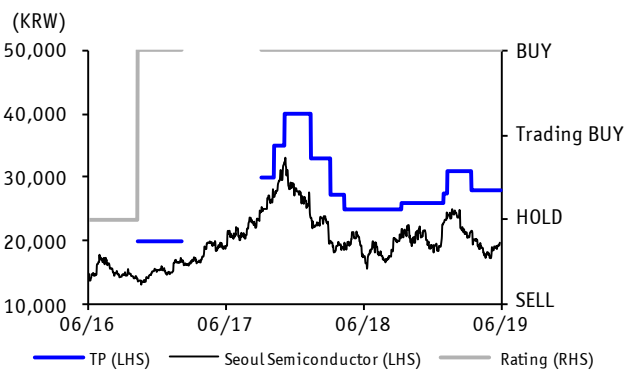
Source: Company data, Shinhan Investment Corp.

Seoul Semiconductor (046890 KS)

Share performance



Target price



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2016.04.25	HOLD	-	-	-
2016.10.26		6M later	-	-
2016.10.28	BUY	20,000	(24.2)	(13.0)
2017.02.23		No Coverage	-	-
2017.09.22	BUY	30,000	(12.6)	(6.0)
2017.10.26	BUY	35,000	(16.1)	(8.6)
2017.11.23	BUY	40,000	(30.1)	(17.1)
2018.02.01	BUY	33,000	(30.6)	(27.4)
2018.03.25	BUY	27,300	(29.5)	(26.4)
2018.05.01	BUY	25,000	(24.5)	(13.8)
2018.09.30	BUY	26,000	(21.2)	(12.9)
2019.01.20	BUY	27,500	(15.7)	(14.7)
2019.01.30	BUY	31,000	(26.2)	(19.2)
2019.04.04	BUY	28,000	-	-

Note: Calculation of target price gap based on past 6 months

Rating Distribution - SHIC Universe (as of 19 June 2019)

BUY (BUY)	96.70%	Trading BUY (HOLD)	0.94%	HOLD (HOLD)	2.36%	SELL (SELL)	0%
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Rating Distribution - SHIC Investment Banking Clients (as of 19 June 2019)

BUY (BUY)	94.74%	Trading BUY (HOLD)	0%	HOLD (HOLD)	5.26%	SELL (SELL)	0%
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SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> ◆ BUY: Expected 6-month gain of 10% or more ◆ Trading BUY: Expected 6-month gain of 10% to loss of 10% ◆ HOLD: Expected 6-month loss of 10% to 20% ◆ SELL: Expected 6-month loss of 20% or more 	<ul style="list-style-type: none"> ◆ OVERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ NEUTRAL: Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD ◆ UNDERWEIGHT: Based on market cap, largest share of sector stocks under coverage is rated SELL

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