

Seojin System (178320 KQ)

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Rating **BUY**
maintain

6M TP (W) **41,000**
maintain

CP (W)
(19.06.27) **25,450**

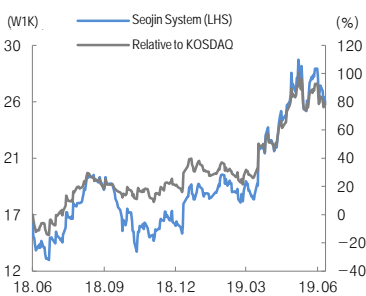
Telecom equipment

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	698.21
Market cap (Wbn)	461
Market cap portion (%)	0.19
Paid-in capital (common; Wbn)	9
52w high/low (W)	28,850 / 12,875
120d avg. trading volume (Wbn)	14.4
Foreign ownership (%)	5.95

Major shareholders Jeon Dong-gyu+18: 33.49%

(%)	1M	3M	6M	12M
Abs. return	-5.6	43.4	64.2	79.9
Rel. return	-6.7	49.6	57.1	113.0



There's still more to come

BUY and 6M TP of W41,000 maintained

- The target price is based on the 2019E EPS of W3,749 and a target P/E of 11x (a 20% discount to domestic 5G telecom equipment makers' 2019E average multiple of 14x). The discount is justified given Seojin System's diverse range of businesses other than telecom equipment, including semiconductor and mobile.

2Q19 OP forecast at W17.0bn (up 59% yoy)

- 2Q19 revenue and OP are forecast at W112.1bn (up 28% yoy) and W17.0bn (up 59% yoy), respectively.
- **Telecom equipment:** Revenue is predicted to grow 15% qoq to W73.0bn, driven by the sales momentum of 5G telecom equipment that the company maintained qoq and full-quarter contribution of shipments to Reliance Industries of India that began this February.
- **Energy storage systems (ESS) and others:** Revenue for ESS and other operations are projected to grow 14% qoq to W4.9bn and 8% qoq to W16.6bn, respectively, as the company supplies an increased number of items to Vale of France and starts to ship battery cases to Harley-Davidson.

Growth to extend into the second half of the year

- 2019 revenue and OP are likely to soar 48% yoy to W479.6bn and 91% yoy to W70.4bn, respectively, as all business units perform better in 2H19 than in 1H19.
- **Telecom equipment:** The unit is expected to feel the benefit of domestic mobile carriers' continued investments in 5G and generate fresh revenue from Japan and the US in 2H19.
- **ESS:** Sales, which slumped in 1H19, will improve significantly in 3Q19 and onward (W4.9bn in 2Q19, W11.7bn in 3Q19, and W13.9bn in 4Q19).
- **Others:** 2H19 sales are forecast to expand 60% hoh to W51.1bn led by an increased number of products supplied to automobile companies and new customers.

	2Q18	1Q19	Previous estimate	Daishin estimate	2Q19(F)			3Q19(F)		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	88	110	101	112	27.7	2.2	107	126	70.1	12.8
OP	11	16	16	17	59.4	9.7	15	19	183.1	8.8
NP	15	16	16	17	19.0	6.1	15	17	1,324.2	-1.2

	2017	2018	Previous estimate	Daishin estimate	Chg	Consensus	Growth	
							2018	2019(F)
Revenue	238	325	477	480	0.4	451	36.4	47.7
OP	18	37	68	70	3.6	61	106.6	90.9
NP	5	30	68	70	3.3	54	458.8	132.7

Source: Seojin System, FnGuide, Daishin Securities Research Center

Operating results and major financial data

	2017A	2018A	2019F	2020F	2021F
Revenue	238	325	480	626	775
OP	18	37	70	94	120
Pretax profit	7	37	72	91	119
NP	6	32	68	84	109
NP (controlling int.)	5	30	68	83	109
EPS	422	1,941	3,749	4,608	6,005
PER	37.9	8.9	6.8	5.5	4.2
BPS	9,292	13,979	15,512	19,922	25,727
PBR	1.7	1.2	1.6	1.2	1.0
ROE	5.6	17.9	27.3	26.0	26.3

Note: EPS, BPS, and ROE are based only on the controlling interest.

Source: Seojin System, Daishin Securities Research Center

Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2019F	2020F	2019F	2020F	2019F	2020F
Revenue	477	622	480	626	0.4	0.6
SG&A expense	38	49	38	49	0.1	0.0
OP	68	90	70	94	3.6	3.8
OP margin	14.2	14.5	14.7	15.0	0.4	0.5
Non-operating profit	4	0	2	-3	0.0	CL
Pretax profit	72	90	72	91	0.1	1.1
NP (controlling int.)	68	82	68	83	0.1	1.1
NP margin	14.2	13.3	14.2	13.3	-0.4	0.5
EPS (controlling int.)	3,747	4,556	3,749	4,608	0.1	1.1

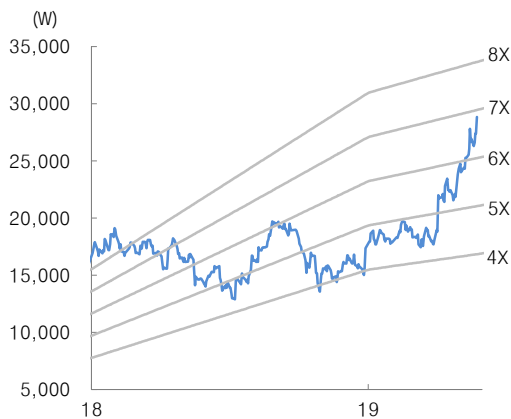
Source: Seojin System, Daishin Securities Research Center

Tab 1. Seojin System valuation

Remarks	
EPS (W)	3,749 2019E EPS
Target P/E (x)	11 a 20% discount to domestic 5G telecom equipment makers' average 2019E P/E
Target price (W)	41,000
Current price (W)	25,450
Upside potential (%)	61.1

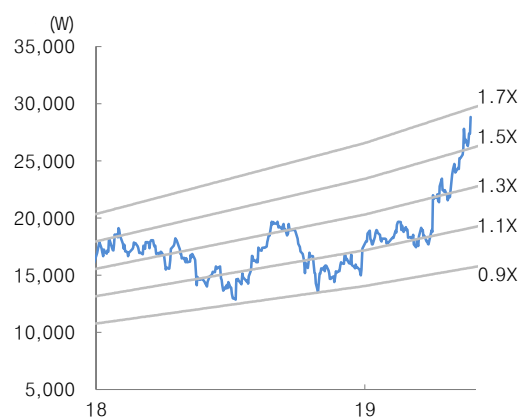
Source: Seojin System, Daishin Securities Research Center

Fig 1. 12MF P/E band



Source: Seojin System, Daishin Securities Research Center

Fig 2. 12MF P/B band



Source: Seojin System, Daishin Securities Research Center

Tab 2. Earnings trend and forecasts

(Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19F	3Q19F	4Q19F	2018	2019F	2020F
Revenue	83.3	87.8	74.3	79.2	101.3	112.1	126.4	139.7	324.6	479.6	625.5
Telecom equipment	52.0	42.1	40.9	26.1	63.4	73.0	74.4	75.9	161.1	286.7	396.3
Smartphones	10.7	17.4	12.9	15.0	14.6	13.9	14.6	14.4	56.0	57.5	58.8
Semiconductor mfg. equipment	12.3	9.1	3.6	4.6	3.6	3.7	4.2	6.0	29.6	17.5	23.6
ESS	5.8	8.6	6.8	11.3	4.3	4.9	11.7	13.9	32.6	34.8	42.7
Others	2.6	10.6	10.0	22.1	15.3	16.6	21.5	29.6	45.3	83.0	104.2
Growth (yoy)											
Revenue	31.8	37.6	46.1	31.9	21.6	27.7	70.1	76.5	36.4	47.7	30.4
Telecom equipment	51.5	32.1	191.0	40.2	21.9	73.4	81.8	191.1	63.0	78.0	38.2
Smartphones	-7.9	59.2	-17.5	-1.8	36.5	-20.2	13.1	-3.7	4.8	2.7	2.2
Semiconductor mfg. equipment	13.8	-21.9	-67.3	-56.5	-70.3	-59.5	17.4	28.5	-32.9	-40.9	34.5
ESS	254.5	154.6	34.0	806.6	-25.4	-42.5	71.2	22.2	186.7	7.0	22.5
Others	-46.7	77.8	98.1	55.0	490.3	56.3	114.9	33.6	50.3	83.0	25.6
OP	9.6	10.7	6.5	10.1	15.5	17.0	18.5	19.4	36.9	70.4	93.7
NP	7.7	14.5	1.2	6.6	16.3	17.3	17.1	17.2	30.1	67.9	83.4
OP margin	11.5	12.1	8.8	12.7	15.3	15.2	14.7	13.9	11.4	14.7	15.0
NP margin	9.3	16.6	1.6	8.4	16.1	15.4	13.5	12.3	9.3	14.2	13.3

Source: Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Revenue	238	325	480	626	775
Cost of goods sold	194	261	371	483	597
Gross profit	44	63	109	143	178
SG&A expenses	26	26	38	49	58
OP	18	37	70	94	120
OP margin	7.5	11.4	14.7	15.0	15.5
EBITDA	32	54	82	106	133
Non-OP	-10	0	2	-3	-2
Income from affiliates	0	0	0	0	0
Financial revenue	3	8	10	6	6
FX related gains	0	0	0	0	0
Financial expense	-13	-10	-10	-10	-8
FX related losses	9	6	7	8	6
Others	0	2	2	1	1
Income before taxes	7	37	72	91	119
Income tax expense	-1	-4	-4	-7	-9
Income from cont. op.	6	32	68	84	109
Income from discount. op.	0	0	0	0	0
NP	6	32	68	84	109
NP margin	2.7	10.0	14.2	13.4	14.1
NP for non-contr. interest	1	2	0	0	0
NP for contr. interest	5	30	68	83	109
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-1	0	0	0	0
Comprehensive income	1	36	66	85	108
Comp. income for non-contr. Int.	0	4	0	0	0
Comp. income for contr. int.	1	31	66	85	108

Valuation metrics	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
EPS	422	1,941	3,749	4,608	6,005
PER	37.9	8.9	6.8	5.5	4.2
BPS	9,292	13,979	15,512	19,922	25,727
PBR	1.7	1.2	1.6	1.2	1.0
EBITDAPS	2,469	3,454	4,519	5,850	7,366
EVEBITDA	9.3	4.5	6.3	4.4	3.1
SPS	18,624	20,920	26,494	34,558	42,820
PSR	0.9	0.8	1.0	0.7	0.6
CFPS	2,627	3,812	4,768	6,056	7,547
DPS	46	200	200	200	200

Financial ratios	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Revenue growth	43.5	36.4	47.7	30.4	23.9
OP growth	-26.8	106.6	90.9	33.1	28.5
NP growth	-67.8	412.5	110.4	22.9	30.3
Profitability					
ROIC	8.7	13.0	20.6	24.4	28.3
ROA	7.4	10.6	14.7	16.5	18.1
ROE	5.6	17.9	27.3	26.0	26.3
Stability					
Debt ratio	113.7	97.5	81.7	66.3	51.4
Net borrowings ratio	59.2	36.1	16.8	-1.0	-13.3
Interest coverage ratio	4.7	9.7	29.4	39.1	50.3

Source: Seojin System, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Current assets	110	154	223	294	383
Cash & cash equiv.	20	25	47	97	156
Trade & other receive.	28	41	79	82	99
Inventories	53	71	80	88	95
Other current assets	10	17	17	28	33
Long-term assets	149	283	299	319	338
Tangible assets	129	260	276	296	316
Investments in affiliates	0	0	0	0	0
Other long-term assets	20	24	23	23	22
Total assets	259	438	521	613	720
Current liabilities	125	190	208	218	218
Payables & other liab.	43	101	129	139	139
Borrowings	69	74	74	74	74
Current portion of LT debts	12	11	1	1	1
Other current liabilities	1	4	4	4	4
Long-term liabilities	13	26	26	26	26
Borrowings	11	21	21	21	21
Convertible securities	0	0	0	0	0
Other long-term liab.	2	5	5	5	5
Total liabilities	138	216	234	244	244
Controlling interest	119	217	281	361	466
Capital stock	3	9	9	9	9
Capital surplus	66	128	128	128	128
Retained earnings	44	73	137	217	322
Other capital changes	6	7	6	7	7
Non-controlling interest	3	5	6	8	10
Total shareholder's equity	121	222	287	369	476
Net borrowings	72	80	48	-4	-63

Cash flow statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	-8	71	53	92	94
NP	6	32	68	84	109
Non-cash items	27	27	18	26	28
Depreciation	14	17	11	12	13
FX gains	4	0	-3	1	0
Equity method gain	0	0	0	0	0
Others	9	10	9	12	15
Chg in assets & liab.	-34	14	-27	-8	-31
Other cash flows	-8	-2	-7	-10	-12
Investing cash flow	-36	-144	-27	-34	-32
Investment assets	0	-1	0	0	0
Tangible assets	-31	-144	-27	-32	-32
Others	-4	0	0	-2	0
Financing cash flows	50	79	-14	-4	-4
Short-term borrowings	11	6	0	0	0
Bonds payable	0	0	0	0	0
Long-term borrowings	7	22	0	0	0
Rights offering	41	65	0	0	0
Cash dividends	-2	-1	-4	-4	-4
Others	-8	-13	-10	0	0
Net chg in cash	6	5	22	50	59
Beginning cash balance	13	20	25	47	97
Ending cash balance	20	25	47	97	156
NOPLAT	15	33	66	86	111
FCF	-11	-98	48	63	89

Company profile

Overview

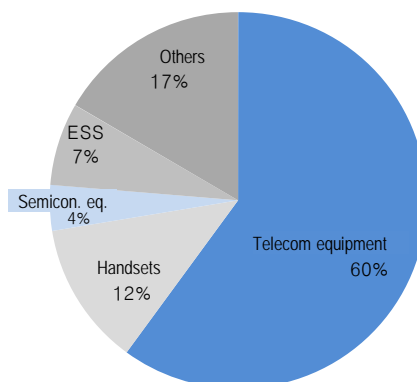
- Established in 1996; Listed on the KOSDAQ in Mar 2017
- Mainstay products: telecom equipment, handsets, semiconductor manufacturing equipment. Telecom equipment accounts for 60% of total revenue as of 1Q19.
- Major customers: Samsung Electronics, Samsung SDI, KMW, and global semiconductor equipment makers
- Assets ₩487.7bn, liabilities ₩250.2bn, equities ₩237.5bn (1Q19)
- # of outstanding shares: 18,100,666; # of treasury shares: zero

Share price catalysts

- Growth in sales of telecom equipment and components driven by 5G investment cycle
- India and Vietnam's continued investments in 4G networks
- Revenue contribution of car components

Source: Seojin System, Daishin Securities Research Center

Revenue by business

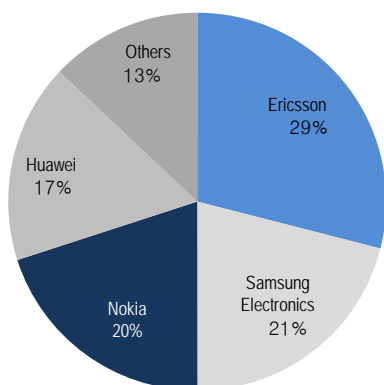


Note: Based on 2019E revenue

Source: Seojin System, Daishin Securities Research Center

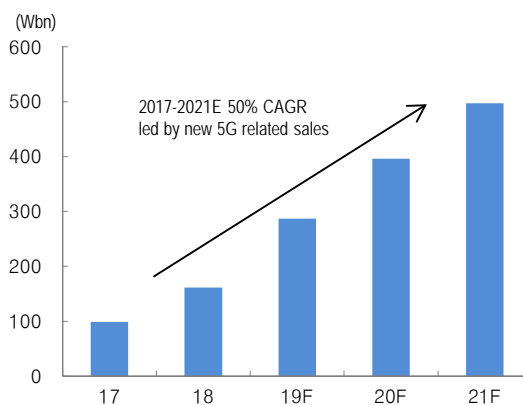
Earnings drivers

5G telecom equipment market share breakdown



Source: Seojin System, Daishin Securities Research Center

Telecom equipment sales on the rise led by 5G



Source: Seojin System, Daishin Securities Research Center

[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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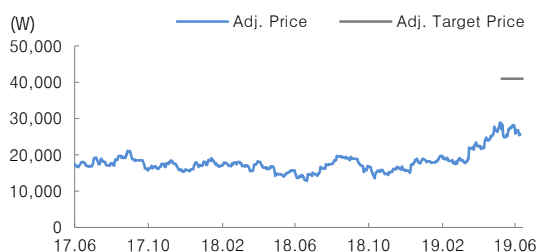
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[Investment rating & Target price history]

Seojin System (178320 KQ)



Date	19.06.28	19.05.27
Rating	BUY	BUY
Target price	41,000	41,000
Diff. (avr. %)		(35.18)
Diff. (max/min., %)		(30.85)
Date		
Rating		
Target price		
Diff. (avr. %)		
Diff. (max/min., %)		
Date		
Rating		
Target price		
Diff. (avr. %)		
Diff. (max/min., %)		
Date		
Rating		
Target price		
Diff. (avr. %)		
Diff. (max/min., %)		

Investment rating breakdown and framework (Jun 25, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	87.2%	11.8%	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.