

Regional Company Focus

Soulbrain

Bloomberg: 036830 KS, Reuters: 036830.KS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2018

BUY, KRW60,400 KOSDAQ: 810.2

(Closing price as of 28/6/18)

Price Target 12-mth: KRW80,000 (prev. KRW77,000)

Reason for Report: 2Q18 earnings preview

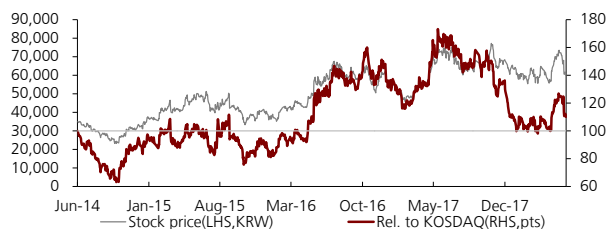
Potential catalyst: Boom in the semiconductor industry

Where we differ: We are more optimistic than the market on the earnings momentum for the semiconductor materials business

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (KRW bn)	2017A	2018F	2019F	2020F
Revenue	775.6	921.7	1,055.2	1,160.7
EBITDA	156.6	191.6	202.7	220.3
Operating profit	105.7	143.7	153.0	167.6
Pre-tax Profit	66.8	146.8	158.8	173.9
Net Profit	43.1	115.3	120.7	132.2
Net Pft (Pre Ex.)	43.1	115.3	120.7	132.2
Net Pft Attributable to Controlling Interest	41.2	114.3	120.7	132.2
EPS (KRW)	2,471	6,572	6,937	7,596
EPS Pre Ex. (KRW)	2,585	6,627	6,937	7,596
EPS Gth (%)	-45.2	165.9	5.5	9.5
EPS Gth Pre Ex (%)	-42.6	156.4	4.7	9.5
Diluted EPS (KRW)	2,471	6,572	6,937	7,596
Net DPS (KRW)	700	850	1,000	1,000
BV Per Share (KRW)	36,537	42,528	48,624	55,229
PE (X)	27.3	9.2	8.7	8.0
PE Pre Ex. (X)	26.1	9.1	8.7	8.0
P/Cash Flow (X)	7.6	6.3	6.4	5.9
EV/EBITDA (X)	6.9	4.7	4.0	3.3
Net Div Yield (%)	1.0	1.4	1.7	1.7
P/Book Value (X)	1.8	1.4	1.2	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROE (%)	7.2	16.5	15.1	14.5
Earnings Rev (%)		(4.0)	(9.8)	(9.8)
Consensus EPS (KRW):		6,355	6,632	7,132
Other Broker Recs:		B : 10	S : 0	H : 1

ICB Industry: Chemicals

ICB Sector: Materials

Principal Business: Soulbrain Co., Ltd. manufactures, sells, and trades semiconductor related chemicals. The company's products include tetraethyl ortho-silicate, etchants and chemicals used in LCD and fibre optics processing.

Source of all data on this page: Bloomberg Finance L.P., Company, DBS Bank

Parent earnings to reach an all-time high

- Earnings growth on the back of strong mainstay semiconductor materials business
- M&A-driven top-line expansion likely
- Retain BUY, TP raised to KRW80,000

Record 2Q18 earnings likely on a standalone basis. Soulbrain should post the highest-ever earnings on a parent basis in 2Q18. However, consolidated earnings are likely to decrease slightly q-o-q, owing to the absence of one-off profit from consolidated subsidiaries. For 2Q18, we estimate revenue of KRW225.6bn (+3.6% q-o-q, +22.4% y-o-y) and OP of KRW35.6bn (-6% q-o-q, +44.6% y-o-y) for the company on a consolidated basis.

Despite weak display market conditions, solid semiconductor materials sales to boost overall earnings. Semiconductor materials represent 63% of total sales, followed by display materials (29%) and others (8%). **Semiconductor materials:** We expect etchant/precursor earnings to improve over the mid to long term, on the back of solid demand for 3D NANDs and product diversification, respectively. Revenue growth should slow slightly in 2Q-3Q18 when capacity expansion and tech migration by customers are expected. However, it should start to accelerate again in 4Q18. **Display materials:** Despite the recovery of rigid OLED sales, top-line growth should be limited for its thin glass business. Chemical sales are likely to decrease y-o-y, owing to the lack of capacity expansion by downstream customers and market deterioration.

Sound financial structure supported by robust earnings. Soulbrain has improved its financial position supported by solid earnings growth, shifting from a net debt position (c.KRW170bn) in 2011 to a net cash position in 2017. Expectations for top-line expansion through M&A activities remain intact, considering its abundant cash flow. While we lower our FY18/19F OP by 5.8%/10.1%, we raise our TP to KRW80,000 (based on a target 12-month forward PE of 13x) to reflect the upward earnings revision from our earlier industry report published on 5 Jun (FY18/19F OP up 24%/25% with no TP change made). For 2018, we expect revenue of KRW921.7bn (+18.8% y-o-y) and OP of KRW143.7bn (+35.9% y-o-y).

At A Glance

Issued Capital (m shrs)	17.40
Mkt. Cap (KRWbn/US\$m)	1,051/935
Major Shareholders	
Chung Ji-wan and 2 others (%)	41.4
Free Float (%)	54.7
Avg. Daily Vol. ('000)	71

Company Focus

Soulbrain

Earnings preview

Our estimates	Unit: KRW bn, %									
	Vs. our previous estimates			y-o-y		q-o-q		Vs. consensus estimates		
	'18.06F	'18.06F	Diff. (%)	'17.06A	Diff. (%)	'18.03A	Diff. (%)	'18.06F	Diff. (%)	
Revenue	225.6	232.8	(3.1)	184.4	22.4	217.7	3.6	221.2	2.0	
OP	35.6	40.4	(11.7)	24.6	44.6	37.9	(6.0)	37.3	(4.5)	
NP	29.3	32.2	(8.9)	14.5	102.1	37.7	(22.3)	26.7	9.7	
Margin (%)										
OP margin	15.8	17.3		13.4		17.4		16.9		
Net margin	13.0	13.8		7.9		17.3		12.1		
Difference (ppts)										
OP margin		(1.5)		2.4		(1.6)		(1.1)		
Net margin		(0.8)		5.1		(4.3)		0.9		

Note: Based on consolidated K-IFRS

Source: Soulbrain, DBS Bank

Revision to quarterly earnings forecasts

	(KRW bn)											
	Previous				Revised				Diff. (% , ppts)			
	2018.06	2018.09	2018.12	2019.03	2018.06	2018.09	2018.12	2019.03	2018.06	2018.09	2018.12	2019.03
Revenue	232.8	244.9	248.9	246.9	225.6	233.5	244.8	246.1	(3.1)	(4.7)	(1.7)	(0.3)
Operating profit	40.4	40.5	33.7	39.8	35.6	36.2	33.9	36.9	(11.7)	(10.5)	0.5	(7.3)
OP margin (%)	17.3	16.5	13.6	16.1	15.8	15.5	13.9	15.0	(1.5)	(1.0)	0.3	(1.1)
EBITDA	52.3	52.5	45.9	52.2	47.5	48.2	46.1	49.3	(9.1)	(8.1)	0.4	(5.6)
EBITDA margin (%)	22.4	21.4	18.5	21.2	21.1	20.6	18.8	20.0	(1.4)	(0.8)	0.4	(1.1)
Net profit	32.2	29.3	20.9	32.2	29.3	26.7	21.5	30.0	(8.9)	(8.8)	3.1	(6.9)

Note: Based on consolidated K-IFRS

Source: Soulbrain, DBS Bank

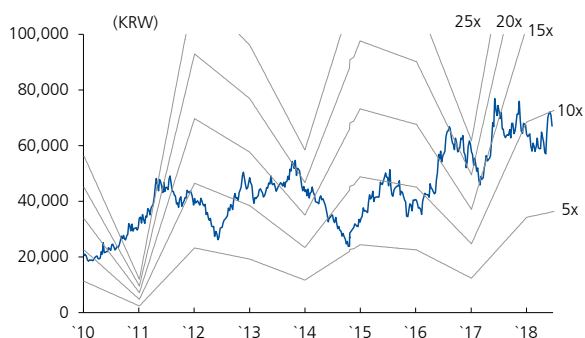
Revision to annual earnings forecasts

	(KRW bn)								
	Previous			Revised			Diff. (% , ppts)		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Revenue	944.4	1,054.8	1,160.3	921.7	1,055.2	1,160.7	(2.4)	0.0	0.0
Operating profit	152.5	170.2	186.5	143.7	153.0	167.6	(5.8)	(10.1)	(10.1)
OP margin (%)	16.1	16.1	16.1	15.6	14.5	14.4	(0.6)	(1.6)	(1.6)
EBITDA	200.4	219.8	239.2	191.6	202.7	220.3	(4.4)	(7.8)	(7.9)
EBITDA margin (%)	21.2	20.8	20.6	20.8	19.2	19.0	(0.4)	(1.6)	(1.6)
Net profit	120.1	133.7	146.5	115.3	120.7	132.2	(4.0)	(9.8)	(9.8)

Note: Based on consolidated K-IFRS

Source: Soulbrain, DBS Bank

Soulbrain: 12-month forward PE band



Source: Soulbrain, DBS Bank

Soulbrain: 12-month forward P/BV band



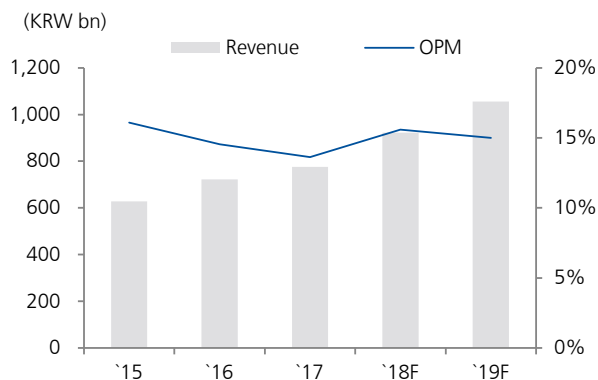
Source: Soulbrain, DBS Bank

Soulbrain: Quarterly earnings estimates

(KRW bn)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18F	3Q18F	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F	2016A	2017A	2018F	2019F
Revenue																
Total	183.7	184.4	202.3	205.2	217.7	225.6	233.5	244.8	246.1	260.5	273.7	275.0	722.5	775.6	921.7	1,055.2
Semiconductor	95.7	101.4	118.9	122.1	131.4	136.7	144.4	158.5	162.4	174.6	186.0	190.9	357.9	438.1	571.0	713.9
Etchant	80.0	84.9	101.1	104.3	112.9	117.8	124.9	137.5	141.2	150.9	160.2	164.0	292.3	370.3	493.2	616.1
Precursor	6.7	7.0	8.4	7.9	7.9	8.1	8.3	9.7	10.0	11.7	13.0	14.0	27.9	30.0	34.0	48.8
CMP Slurry	9.1	9.5	9.4	9.8	10.6	10.7	11.2	11.2	11.3	12.0	12.7	13.0	37.7	37.8	43.8	48.9
Display	74.4	67.7	64.7	64.5	67.3	68.5	67.3	66.1	63.2	63.9	64.3	62.3	299.3	271.2	269.2	253.6
Etchant	12.3	12.7	13.3	13.0	12.2	12.1	12.1	12.1	11.3	11.2	11.2	11.2	47.9	51.3	48.6	44.9
Organic Materials	19.7	19.4	19.8	18.7	17.9	17.8	17.7	17.6	16.9	17.4	17.4	16.9	78.1	77.7	70.8	68.6
Thin glass & Others	42.3	35.7	31.5	32.8	37.2	38.7	37.5	36.4	34.9	35.3	35.6	34.2	173.3	142.3	149.8	140.1
Secondary battery	12.2	14.0	15.1	13.8	13.6	15.0	16.3	14.9	14.7	16.2	17.6	16.1	38.8	55.1	59.8	64.6
Others	1.4	1.2	3.7	4.8	5.4	5.4	5.5	5.3	5.8	5.8	5.9	5.7	26.4	11.1	21.6	23.2
OP																
Total	26.3	24.6	29.6	25.2	37.9	35.7	36.3	34.0	37.0	38.4	40.0	37.8	105.0	105.6	143.8	153.2
OPM	14.3%	13.3%	14.6%	12.3%	17.4%	15.8%	15.5%	13.9%	15.0%	14.8%	14.6%	13.7%	14.5%	13.6%	15.6%	14.5%

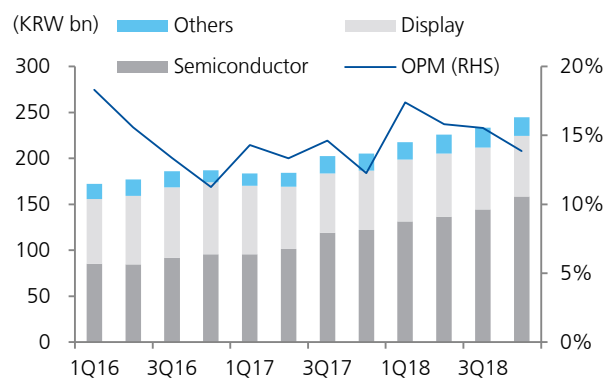
Source: Soulbrain, DBS Bank

Soulbrain: Earnings outlook



Source: Soulbrain, DBS Bank

Soulbrain: Revenue by division and company-wide OPM



Source: Soulbrain, DBS Bank

Company Focus

Soulbrain

Soulbrain: List of subsidiaries

Subsidiary	Optos	LTK	MI	SLD	Xian	Chongqing	RASA	Memsys	Biznetworks
Main business	Optical film	Lead tab	Electrolyte	OLED glass scribing	Semiconductor materials	Display materials	Phosphoric acid	Semiconductor or tester	E-commerce
Notes	Acquired in '16	Merged Optos in '17					Established in '16	Acquired in '16	Acquired in '17
Revenue (KRW bn)									
'15	11.8	5.9	16.2	69.7	60.5	0.0			
'16	16.2	5.0	15.7	92.6	84.6	0.1	2.4	3.0	
'17	15.7		10.0	80.7	69.6	2.6	23.6	18.3	18.3
NP (KRW bn)									
'15	-0.5	0.6	-0.4	3.6	2.2	-2.1			
'16	2.0	-0.2	-2.6	6.7	2.2	-7.1	-0.5	-2.3	
'17	2.5		(2.9)	2.8	3.2	(8.6)	4.3	(4.7)	(0.1)

Source: Soulbrain, DBS Bank

Soulbrain: List of key affiliates

	Core business	Stake	Net asset value (KRW bn)		Revenue (KRW bn)		NP (KRE bn)	
			'16	'17	'16	'17	'16	'17
Affiliate								
Soulbrain Savings Bank	Savings bank	48%	11.1	14.1	11.6	13.6	2.3	6.3
NAU IB Capital	Capital	42%	19.5	21.0	8.5	13.8	2.1	5.5
Prowell	Semiconductor parts	30%	-0.1	-0.9	4.8	4.8	-0.3	-2.8
Sunrise Materials	Semiconductor/LED materials		0.2				-0.1	-0.1
Genic	Cosmetics	25%	34.1	31.4	89.7	64.7	1.6	-10.3
Unimus Holdings	SPC (UBCare)	30%	14.0	14.7	-1.6	3.1	-2.3	2.4
Life Semantics	Medical platform	24%	0.6	0.1	0.8	2.8	-1.9	-3.3
Total			79.4	80.4	113.9	102.8	1.5	-2.4
Joint venture								
Fect	Chemicals	49%	9.0	8.3	130.7	138.4	-0.2	-1.5
MC Solution	Chemicals	50%	16.1	17.2	73.3	77.6	8.4	9.1
Dongguan EM		51%	1.2	1.0			-0.3	-0.4
Total			26.3	26.5	204.0	216.0	7.9	7.2

Source: Soulbrain, DBS Bank

BALANCE SHEET

(Unit:KRWbn)	2016	2017	2018F	2019F	2020F
Current Assets	292.2	377.5	435.5	516.4	602.1
Cash & Short-term investment	159.3	232.9	262.3	324.2	392.5
Accounts Receivable	75.2	77.2	92.8	104.2	114.6
Inventories	42.4	47.7	57.5	64.5	71.0
Fixed assets	537.2	518.5	553.7	570.1	589.8
Investment Assets	196.2	200.0	237.3	246.9	257.0
Tangible Assets	327.8	309.2	307.5	314.5	324.3
Intangible Assets	13.3	9.3	8.9	8.7	8.6
Total Assets	829.4	895.9	989.2	1,086.6	1,191.9
Current Liabilities	242.6	232.8	221.2	212.4	202.6
Accounts Payable	59.1	65.4	88.8	99.7	109.7
Short-term Debts	151.2	129.3	104.4	84.4	64.4
Non-current Liabilities	25.9	13.3	13.4	13.7	14.0
Long-term Debts	17.5	6.2	5.8	5.8	5.8
Total Liabilities	268.4	246.1	234.6	226.1	216.6
Capital Stock	8.3	8.7	8.7	8.7	8.7
Capital Surplus	76.9	132.1	132.1	132.1	132.1
Earned Surplus	482.6	514.0	617.1	723.0	837.8
Capital Adjustment	(9.5)	(9.8)	(9.1)	(9.1)	(9.1)
Treasury Stock	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)
Total Equity	561.0	649.9	754.6	860.5	975.3
Invested capital	432.7	411.1	448.9	466.6	486.5
Net debt / (cash)	9.3	(97.4)	(152.1)	(234.0)	(322.3)
ROA	9.5	5.0	12.2	11.6	11.6
ROE	14.2	7.2	16.5	15.1	14.5
ROIC	19.1	16.2	26.2	25.4	26.7

CASH FLOW

(Unit:KRWbn)	2016	2017	2018F	2019F	2020F
Operating cash flow	141.9	112.7	137.5	156.8	172.1
Net Profit	99.8	66.8	124.9	120.7	132.2
Depr. & Amort.	49.1	50.9	47.9	49.6	52.7
Chg in Working Capital	18.6	(12.6)	(28.3)	(7.7)	(7.1)
Chg in Accounts Receivable	(5.6)	1.2	(14.9)	(11.4)	(10.4)
Chg in inventories	(10.3)	(6.2)	(9.8)	(7.1)	(6.5)
Chg in Accounts Payable	14.4	(0.8)	3.1	10.9	10.0
Investing cash flow	(76.9)	(47.5)	(120.9)	(62.5)	(76.1)
Chg in Short-term Investments	0.0	0.0	(23.3)	(2.4)	(9.7)
Chg in Long-term Investment Securities	0.0	0.0	(6.5)	(0.2)	(0.5)
Capex	(53.9)	(33.7)	(43.4)	(55.0)	(60.8)
Disposal of Tangible & Intangible Assets	0.8	(0.3)	(0.8)	(1.5)	(1.5)
Financing cash flow	(15.4)	17.7	(24.7)	(34.8)	(37.4)
Chg in debt	(7.4)	(28.1)	(24.7)	(20.0)	(20.0)
Chg in Equity	(8.1)	45.8	(11.9)	(14.8)	(17.4)
Dividend Payout	8.1	9.8	11.9	14.8	17.4
Chg in Cash	51.9	72.3	(8.0)	59.5	58.6
Gross cash flow	156.3	148.6	166.8	164.6	179.2
(-) Chg in WC	1.8	(0.4)	15.4	7.7	7.1
(-) Capex	53.9	33.7	43.4	55.0	60.8
(+) Disposal of Assets	0.8	(0.3)	(0.8)	(1.5)	(1.5)
Free Cash Flow	101.4	115.0	107.2	100.4	109.7
(-) Other Investments	0.0	0.0	6.5	0.2	0.5
Free Cash	101.4	115.0	100.7	100.1	109.2

Source: DBS Bank

Note: Results are consolidated

*Asset = Equity + Debt, P/E is derived by using diluted EPS.

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INCOME STATEMENT

(Unit:KRWbn)	2016	2017	2018F	2019F	2020F
Revenue	722.5	775.6	921.7	1,055.2	1,160.7
Growth (%)	15.1	7.3	18.8	14.5	10.0
Operating Profit	105.1	105.7	143.7	153.0	167.6
Growth (%)	4.0	0.5	35.9	6.5	9.5
EBITDA	154.3	156.6	191.6	202.7	220.3
Non-operating Gains/Losses	(5.3)	(38.9)	3.1	5.8	6.3
Net Interest Income	(1.2)	(1.2)	(0.3)	1.8	2.8
Foreign Currency Gains	1.7	(20.5)	0.0	0.0	0.0
Equity Method Gains	(3.7)	(6.7)	5.5	6.0	6.0
Pre-tax Profit	99.8	66.8	146.8	158.8	173.9
Net Profit	74.5	43.1	115.3	120.7	132.2
Net profit attributable to controlling interest	74.8	41.2	114.3	120.7	132.2
Growth (%)	(7.5)	(42.2)	167.6	4.7	9.5
NOPLAT	78.5	68.2	112.9	116.3	127.4
(+) Dep	49.1	50.9	47.9	49.6	52.7
(-) Wc	1.8	(0.4)	15.4	7.7	7.1
(-) Capex	53.9	33.7	43.4	55.0	60.8
OpFCF	71.9	85.8	102.1	103.2	112.2
3 Yr CAGR & Margins					
Revenue growth(3Yr)	4.4	12.9	13.6	13.5	14.4
OP growth(3Yr)	5.9	30.1	12.4	13.3	16.6
EBITDA growth(3Yr)	8.1	21.5	10.1	9.5	12.1
NP growth(3Yr)	6.3	5.8	12.7	17.4	45.3
OP margin (%)	14.6	13.6	15.6	14.5	14.4
EBITDA margin (%)	21.4	20.2	20.8	19.2	19.0
NP margin (%)	10.3	5.6	12.5	11.4	11.4

KEY INDICATOR

(Unit:KRW,x,%)	2016	2017	2018F	2019F	2020F
Per share Data (w)					
EPS	4,514	2,471	6,572	6,937	7,596
BPS	32,909	36,537	42,528	48,624	55,229
DPS	610	700	850	1,000	1,000
Valuation (x,%)					
PER	13.4	27.3	9.2	8.7	8.0
PBR	1.8	1.8	1.4	1.2	1.1
EV/EBITDA	6.5	6.9	4.7	4.0	3.3
Dividend yield	1.0	1.0	1.4	1.7	1.7
PCR	6.4	7.6	6.3	6.4	5.9
PSR	1.4	1.5	1.1	1.0	0.9
Stabilities (%)					
Liabilities Ratio	47.8	37.9	31.1	26.3	22.2
Net debt/Equity	1.7	CASH	CASH	CASH	CASH
Net debt/EBITDA	6.0	CASH	CASH	CASH	CASH
Current ratio	120.4	162.1	196.9	243.2	297.1
Interest coverage ratio	87.7	88.9	430.2	n/a	n/a
Interest/revenue	0.5	0.5	0.4	0.3	0.2
Asset Structure					
IC	54.9	48.7	47.3	45.0	42.8
Cash + IC(%)	45.1	51.3	52.7	55.0	57.2
Capital Structure					
Debt/Asset	23.1	17.2	12.7	9.5	6.7
Equity/Asset	76.9	82.8	87.3	90.5	93.3

Stock Ratings

The stock investment opinion below is based on the expected return of the recommended stock over the next 12 months relative to the closing price of the day it is recommended.

STRONG BUY: Expected to produce a return of at least 50% from the closing price of the day the stock is recommended

BUY: Expected to produce a return between 15% and 50% from the closing price of the day the stock is recommended

HOLD: Expected to produce a return between -5% and 15% from the closing price of the day the stock is recommended

REDUCE: Expected to produce a return of less than -5% from the closing price of the day the stock is recommended

RATING UNDER REVIEW: Temporary suspension of recommendation when there is material uncertainty in corporate value. TP is not provided.

The investment opinion presented in this report is based on the industry's outperformance relative to the market, and may differ from that of an individual stock.

Overweight: The industry's return is expected to outperform the average total return of the KOSPI over the next 12 months.

Neutral: The industry's return is expected to be in line with the average total return of KOSPI, over the next 12 months.

Underweight: The industry's return is expected to underperform the average total return of KOSPI, over the next 12 months.

Notes) The industry's return is on a risk-adjusted basis

Recent 2yr. Rating and TP Change

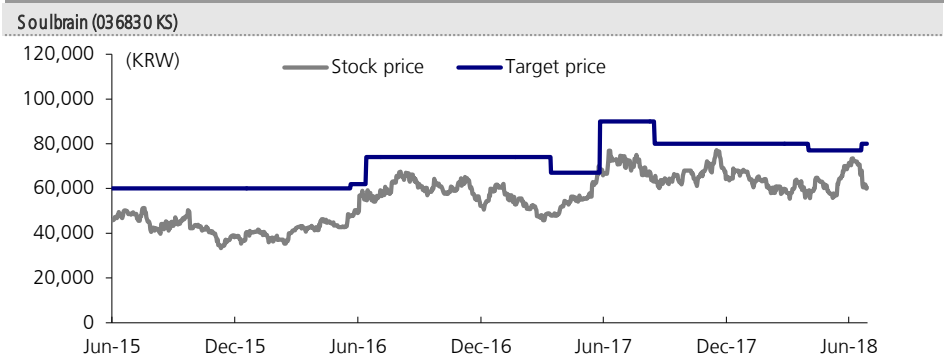
Soulbrain (036830 KS)						
Date	2015.05.18	2016.05.30	2016.06.20	2017.03.20	2017.05.31	2017.08.16
Rating	BUY	BUY	BUY	BUY	BUY	BUY
TP	60,000	62,000	74,000	67,000	90,000	80,000

Date	2018.4.2	2018.6.25				
Rating	BUY	BUY				
TP	77,000	80,000				

Source: DBS Bank

Analyst Name: Regional Research Team

Recent 2yr. TP Change



Source: DBS Bank

Analyst Name: Regional Research Team

Completed Date: 4 Jul 2018 11:42:30 (HKT)

Dissemination Date: 4 Jul 2018 14:51:13 (HKT)

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Company Focus

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