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Mid-Cap Update (2012.08.13)

2012 2Q Earnings Review

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2. Nexen Tire(002350 KS)
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EMLSI (080220 KQ) – 2Q12 Earnings Review

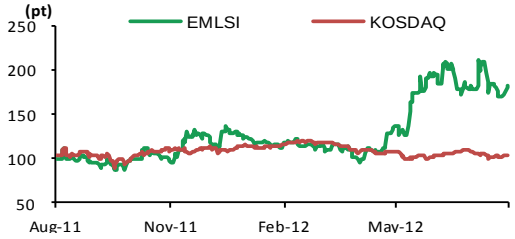
BUY(Maintain)

Target Price	**W7,000**
Current Price	**W5,500**
Upside Potential (%)	**27.3%**

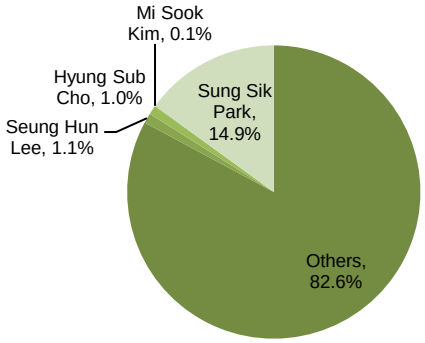
Key Data	**August 10th 2012**
Market Cap. (Wbn)	123.7
Shares Outstanding (m)	22.5
Foreign Ownership (%)	5.3
52 Week High (KRW)	6,370
Low (KRW)	2,620
60-d avg. turnover (Wbn)	2.1
Major Shareholders	**(%)**
Sung Sik Park	14.9
Sueng Hun Lee	1.1
KOSDAQ	475.52

Performance (%)	**1M**	**6M**	**12M**
Absolute	(0.4)	62.0	81.5
Relative	3.0	72.1	80.2

Relative Performance



Shareholders



Key issues…

- ✓ **Secured design technologies in non-memory as the company became the 2nd largest shareholder of SETI, a company specializing in non-memory design for smartphone cameras**
- ✓ **Recorded W7.3bn in revenue and W200m in operating loss, which is in line with expectation**
- ✓ **Well on its way to launch new products such as LPDRAM, MCP, and NOR in 2H**
- ✓ **Expected to improve profitability by switching to more efficient foundry in 2H12**

In 2Q12, W7.3bn in revenue (-67.8% yoy), -W200m in OP (TR)

- EMLSI recorded revenue of W7.3bn (-67.8%, yoy) and W200m in operating loss (TR), in line with expectation
- Revenue and profitability of CRAM, the main product of the company, decreased as expected, and we believe that this negative impact already has been reflected in the stock price
- EMLSI is expected to turnaround in 2H with revenue increase led by new products such as LPDRAM and NOR flash, which were to diversify products

The 2nd largest shareholder of SETI... Maximizing the synergy between memory and non-memory

- EMLSI, a memory design company, became the 2nd largest shareholder of SETI
- SETI is a non-memory design company possessing high technologies to design CMOS Image Sensor for smartphone cameras
- As the 2nd largest shareholder of SETI, the synergy effect is expected between EMLSI's sales power and memory design technology and SETI's non-memory design technology

Gradual revenue increase and profitability improvement from 2H

- Since May, EMLSI has switched the foundry from Winbond to Powerchip which offers higher productivity efficiency, and is expected to improve profitability beginning 2H
- EMLSI is expected to improve its revenue in 2H thanks to new product launches
- While, the unit price of CRAM has decreased due to intense competition, EMLSI's revenue is expected to gradually increase in 3Q12 with launching new products such as NOR

Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	10.2	(60.3)	(5.0)	(48.8)	(13.3)	(1,182)	N/A	N/A	-31.8	-41.5	2.4
2010	54.2	430.0	15.9	29.3	8.5	621	N/A	8.9	4.7	26.2	2.4
2011	82.2	51.6	15.6	19.0	13.1	760	22.4	7.2	4.8	27.9	1.9
2012E	52.8	(35.7)	5.3	10.1	6.9	294	(61.3)	18.7	11.9	11.6	1.9
2013F	126.9	140.1	24.2	19.1	26.1	1,114	278.8	4.9	3.2	34.4	1.4
2014F	203.0	59.9	38.6	19.0	35.3	1,508	35.4	3.6	1.6	33.1	1.0

2Q Earnings and Issues

Sluggish revenue of W7.3bn in 2Q. However, the positive part of the company is the new product line in 2H.

EMLSI recorded only W7.3bn in 2Q12 due to intense competition and sluggish market condition of CRAM which is EMLSI's single product. Since the company was already expected that there was a limit of revenue with the single product, we believe that there is no impact to mid-long term growth.

Successful progressing new products developing

In order to overcome decrease revenue from CRAM which is the single product, EMLSI has prepared and developed new products such as NOR flash, LPDRAM, and MCP. Most of products will be launched in 2H, and actual earnings will be generated from 2013. In 2013, EMLSI is expected to record W126.9bn which is twice larger than sales projection of W52.8bn in 2012.

Expected profitability improvement in 2H: Winbond → Powerchip

EMLSI began to switch the foundry from Winbond to Powerchip since May and increase the yield rate at Powerchip. The company is expected to improve profitability and increase revenue from 3Q when Powerchip's yield rate improvement drives into high gear thanks to recovery in CRAM market, a switch of main products from 32Mb to 64Mb, and the foundry change.

The 2nd largest shareholder of SETI which is a smartphone camera semi. design company

On August 9, EMLSI announced that the company became the 2nd largest shareholder of SETI. Therefore, EMLSI enables to secure non-memory design skills as well as technologies and know-how in mobile memory.

Expected to maximize the synergy between memory and non-memory in 2013

EMLSI is expected to progress a technology cooperation and development with SETI's engineers. The trend in mobile semiconductors is moving toward the one chip type which includes memory and non-memory together. As EMLSI secures non-memory technologies, the company is expected to have positive effects in the long term growth and maximize the synergy from 2013.

Exhibit 4. 2Q12 Earnings Preview

(Wbn,%)	2Q11	3Q11	1Q12	2Q12P	3Q12E	4Q12E	2Q12P QoQ(%)	2Q12 YoY(%)
Revenue	23.7	21.1	8.3	7.6	11.5	25.4	(8.2)	(67.8)
Adjusted OP	3.3	3.5	0.1	(0.2)	1.4	4.1	TR	TR
Reported OP	2.8	4.7	(0.006)	(0.198)	1.4	4.2	RR	TR
Income before tax	3.1	4.8	0.4	0.4	2.1	5.0	(3.5)	(86.5)
Net profit	2.8	4.3	0.3	0.4	2.0	4.7	39.8	(86.0)
OPM(%)	11.9	22.2	(0.1)	(2.6)	12.6	16.5	N/A	N/A
NPM(%)	11.9	20.2	3.4	5.2	16.9	18.6	N/A	N/A

Source: Leading research, IFRS Consolidated

Exhibit 5. Annual Earnings Forecast

(Wbn,%)	2010	2011	2012F	2013F	2014F	2011 YoY(%)	2012F YoY(%)	2013F YoY(%)	2014F YoY(%)
Revenue	54.2	82.2	52.8	126.9	203.0	51.6	(35.7)	140.1	59.9
Adjusted OP	15.9	15.6	5.3	24.2	38.6	(1.3)	(66.0)	355.4	59.1
Reported OP	15.9	14.1	5.4	24.8	39.2	(11.0)	(61.9)	361.3	58.0
Income before tax	9.1	15.4	7.4	27.5	42.7	68.5	(51.9)	270.8	55.5
Net profit	8.5	13.1	6.9	26.1	35.3	53.7	(47.3)	278.8	35.4
OPM(%)	29.3	17.2	10.2	19.5	19.3	-	-	-	-
NPM(%)	15.7	15.9	13.0	20.6	17.4	-	-	-	-

Source: Leading research, IFRS Consolidated

Financial Statement

Income Statement

(Wbn)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Revenue	**14.9**	**69.6**	**81.1**	**81.2**	**62.7**	**15.1**	**25.7**	**10.2**	**54.2**	**82.2**	**52.8**	**126.9**	**203.0**
% chg yoy	383.2	368.2	16.7	0.1	(22.8)	(75.9)	70.6	(60.3)	430.0	51.6	(35.7)	140.1	59.9
COGS	12.3	48.8	59.7	65.5	56.9	13.6	23.9	6.5	27.7	55.0	37.9	84.9	136.2
Gross profit	**2.6**	**20.7**	**21.5**	**15.7**	**5.8**	**1.5**	**1.8**	**3.8**	**26.5**	**27.1**	**14.9**	**42.0**	**66.8**
GP margin (%)	17.4	29.8	26.4	19.4	9.2	9.9	7.0	36.8	48.9	33.0	28.3	33.1	32.9
SG&A	**2.4**	**7.8**	**6.0**	**8.9**	**10.2**	**24.6**	**21.4**	**8.7**	**10.7**	**11.5**	**9.6**	**17.8**	**28.2**
Operating income	**0.2**	**12.9**	**15.5**	**6.8**	**(4.4)**	**(23.2)**	**(19.6)**	**(5.0)**	**15.9**	**15.6**	**5.3**	**24.2**	**38.6**
Adj. OP margin (%)	**1.1**	**18.6**	**19.1**	**8.4**	**(7.0)**	**(153.5)**	**(76.1)**	**(48.8)**	**29.3**	**19.0**	**10.1**	**19.1**	**19.0**
Net other income	(0.1)	0.5	(1.1)	(0.4)	(3.3)	0.1	0.8	1.6	0.3	(1.7)	0.1	0.5	0.6
Reported OP	**0.2**	**12.9**	**15.5**	**6.8**	**(4.4)**	**(23.2)**	**(19.6)**	**(5.0)**	**15.9**	**14.1**	**5.4**	**24.8**	**39.2**
Net equity method gains	(0.1)	(0.1)	0.0	0.0	(0.1)	(0.2)	(4.2)	(4.1)	(3.5)	0.0	0.0	0.0	0.0
Financial income	0.0	0.0	0.2	4.5	1.7	2.4	1.2	0.2	0.6	1.5	2.0	2.7	3.5
Financial expenses	0.1	0.4	0.1	0.0	0.1	0.6	3.1	2.1	4.1	0.0	0.0	0.0	0.0
Income before tax	(0.0)	13.0	14.5	10.8	(6.3)	(21.5)	(24.7)	(9.3)	9.1	15.4	7.4	27.5	42.7
Income tax	(0.5)	2.2	1.4	0.2	0.0	0.3	0.0	4.0	0.6	2.3	0.5	1.4	7.4
Tax rate (%)	13.0	0.2	0.1	0.0	0.0	(0.0)	0.0	(0.4)	0.1	0.2	0.1	0.1	0.2
Net profit	**0.5**	**10.8**	**13.0**	**10.7**	**(6.3)**	**(15.9)**	**(24.7)**	**(13.3)**	**8.5**	**13.1**	**6.9**	**26.1**	**35.3**
Controlling interest	0.0	0.0	0.0	0.0	0.0	(15.9)	0.0	0.0	0.0	13.2	6.9	26.1	35.3
Non-controlling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0
Other comprehensive inc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total comprehensive inc	0.5	10.8	13.0	10.7	(6.3)	(15.9)	(24.7)	(13.3)	8.5	13.1	6.9	26.1	35.3

Balance sheet

(Wbn)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Current assets	**6.0**	**23.0**	**32.2**	**62.6**	**45.1**	**25.2**	**12.8**	**11.0**	**28.5**	**43.5**	**48.3**	**75.3**	**109.7**
Cash & equivalents	0.9	4.9	4.9	1.6	6.0	5.3	3.7	4.5	6.9	8.0	9.8	13.2	25.0
ST financial assets	0.1	0.1	9.9	29.1	19.9	8.2	0.6	0.7	0.6	16.9	25.8	33.0	39.2
Accounts receivables	2.7	11.3	8.5	19.4	9.8	5.0	2.6	1.6	13.9	9.1	5.9	14.2	22.5
Inventory	2.1	5.5	8.1	11.6	8.1	5.5	5.6	4.1	6.6	9.1	6.3	14.3	22.6
Others	0.2	1.3	0.8	0.9	1.3	1.2	0.2	0.1	0.4	0.4	0.4	0.5	0.4
Non-current assets	**1.4**	**1.9**	**5.5**	**18.2**	**29.2**	**51.9**	**38.6**	**28.8**	**18.2**	**18.1**	**18.3**	20.1	23.0
Tangible Assets	0.1	0.3	2.5	7.6	3.1	4.1	8.7	6.6	4.6	2.0	2.5	3.8	5.3
LT financial assets	0.0	0.0	0.0	3.4	12.2	22.3	8.1	6.3	2.9	4.5	5.4	6.9	7.0
Inv in related co's	0.1	0.0	0.0	1.8	1.3	0.5	15.1	10.9	7.4	0.0	0.0	0.0	0.0
Inv in joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.1	1.6	2.9	5.4	12.6	24.9	6.7	5.0	3.4	11.6	10.4	9.4	10.7
Total assets	**7.4**	**25.0**	**37.7**	**80.8**	**74.2**	**77.0**	**51.4**	**39.8**	**46.7**	**61.6**	**66.5**	**95.3**	**132.7**
Current liabilities	**2.7**	**8.9**	**9.0**	**11.4**	**3.2**	**2.5**	**4.2**	**5.5**	**7.6**	**4.8**	**2.9**	**5.7**	**7.8**
Accounts payables	1.8	2.1	7.1	5.3	0.7	0.0	2.2	0.5	4.7	2.6	1.9	5.2	6.8
ST financial liabilities	0.6	0.0	0.0	0.0	0.6	0.9	0.4	4.4	0.0	0.0	0.0	0.0	0.0
Others	0.3	6.8	2.0	6.2	1.8	1.5	1.6	0.6	2.9	2.2	1.0	0.5	1.0
Non-current liabilities	**0.4**	**0.7**	**0.8**	**0.4**	**1.0**	**11.7**	**10.6**	**6.9**	**1.5**	**0.8**	**0.8**	**0.8**	**0.7**
LT payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT financial liabilities	0.2	0.5	0.5	0.0	0.4	10.9	10.1	6.5	1.0	0.0	0.0	0.0	0.0
Others	0.1	0.2	0.3	0.4	0.6	0.9	0.5	0.4	0.5	0.8	0.8	0.8	0.7
Total liabilities	**3.1**	**9.6**	**9.9**	**11.8**	**4.2**	**14.2**	**14.8**	**12.4**	**9.1**	**5.6**	**3.7**	**6.5**	**8.5**
Paid-in capital	2.6	2.9	2.9	4.1	4.8	5.0	5.0	8.1	8.9	10.7	10.7	10.7	10.7
Capital surplus	2.0	2.0	2.0	38.4	51.8	57.1	56.6	57.7	59.5	62.5	62.5	62.5	62.5
Others	(0.0)	0.0	0.0	(5.2)	(5.3)	(2.8)	(3.2)	(3.2)	(4.3)	(6.1)	(6.1)	(6.1)	(6.1)
Retained earnings	(0.3)	10.4	22.9	31.8	18.7	2.8	(21.8)	(35.1)	(26.6)	(11.2)	(4.3)	21.8	57.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Total shareholder equity	**4.2**	**15.4**	**27.8**	**69.0**	**70.0**	**62.8**	**36.6**	**27.5**	**37.5**	**56.0**	**62.8**	**88.9**	**124.2**

Free cashflow analysis

(Wbn)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Net profit	**0.5**	**10.8**	**13.0**	**10.7**	**(6.3)**	**(15.9)**	**(24.7)**	**(13.3)**	**8.5**	**13.1**	**6.9**	**26.1**	**35.3**
Adj. for non-cash exp.	**0.4**	**3.4**	**0.1**	**(1.5)**	**5.7**	**7.6**	**9.4**	**10.0**	**11.4**	**6.5**	**0.4**	**(0.4)**	**(0.1)**
Depreciation	0.1	0.1	0.2	0.7	0.9	1.0	1.0	1.4	2.7	3.3	1.5	1.0	1.0
Provision for reserves	0.1	0.1	0.2	0.2	0.3	0.4	0.3	0.0	0.2	0.3	0.3	0.3	0.3
Net FX gains	0.0	0.0	0.0	0.0	0.0	(0.0)	0.7	(0.2)	(0.1)	(0.1)	(0.1)	0.2	0.1
Net eq method gains	(0.1)	(0.1)	0.0	0.0	(0.1)	(0.2)	(4.2)	(4.1)	(3.5)	0.0	0.0	0.0	0.0
Others	0.2	3.1	(0.4)	(2.8)	3.4	2.4	3.5	3.3	4.2	2.7	2.5	2.5	2.3
Chg in op assets & liab	**(1.3)**	**(8.8)**	**1.5**	**(12.5)**	**2.5**	**5.8**	**3.9**	**(1.7)**	**(9.4)**	**0.1**	**5.5**	**(12.8)**	**(14.7)**
Incr in WC (decr)	1.2	11.7	(5.1)	16.2	(8.5)	(6.7)	(4.4)	(0.8)	10.7	(0.3)	(5.3)	13.0	14.9
Others	0.1	(2.9)	3.6	(3.7)	6.1	0.9	0.5	2.5	(1.3)	0.2	0.2	0.2	0.2
Cash from operations	**(0.4)**	**5.4**	**14.7**	**(3.3)**	**1.9**	**(2.4)**	**(11.4)**	**(5.0)**	**10.6**	**19.7**	**12.7**	**12.9**	**20.5**
Capital expenditures	0.0	0.2	2.5	5.8	1.5	1.3	6.3	0.1	0.6	1.5	2.0	2.3	2.5
Free cash flow	**(0.4)**	**5.2**	**12.2**	**(9.1)**	**0.3**	**(3.7)**	**(17.7)**	**(5.1)**	**9.9**	**18.2**	**10.7**	**10.6**	**18.0**
Dividend	0.0	0.0	0.6	1.8	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incr in investment assets	0.0	0.0	0.0	0.0	0.0	(3.5)	(0.3)	(0.1)	0.0	0.0	0.0	0.0	0.0
Share issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in debt	0.1	(0.4)	0.0	(0.5)	1.0	10.8	(1.3)	0.4	(9.9)	(1.0)	0.0	0.0	0.0
Others	0.2	0.8	2.0	(14.6)	(8.3)	24.6	(11.5)	(5.1)	(2.2)	0.4	0.0	0.0	0.0
Net cash flow	**(0.6)**	**4.0**	**(0.1)**	**(3.3)**	**4.4**	**(0.7)**	**(1.6)**	**0.8**	**2.5**	**1.0**	**1.9**	**3.4**	**11.8**
Beginning cash	1.4	0.9	4.9	4.9	1.6	6.0	5.3	3.7	4.5	6.9	8.0	9.8	13.2
Ending cash	0.9	4.9	4.9	1.6	6.0	5.3	3.7	4.5	6.9	8.0	9.8	13.2	25.0

Stability ratios

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Current ratio	218.0	258.9	356.0	546.8	1,422.9	1,018.2	307.0	200.5	374.4	909.4	1,666.2	1,325.3	1,405.2
Quick ratio	15.4	21.3	15.1	2.6	13.3	20.9	29.2	40.9	24.3	18.3	20.3	17.5	22.8
Inv. holding period (d)	112.0	50.7	60.1	54.7	43.6	150.1	74.1	301.6	103.8	51.3	99.5	30.8	30.3
A/R collection period (d)	171.8	51.8	62.8	65.8	43.1	91.3	29.7	277.5	77.6	33.4	69.5	20.4	20.3
A/P period (days)	43.6	13.5	26.8	32.6	20.4	12.1	16.4	97.4	30.8	23.1	23.5	13.9	15.1
Interest bear debt (Wbn)	0.9	0.5	0.5	0.0	1.0	11.8	10.5	10.9	1.0	0.0	0.0	0.0	0.0
Cash & equivalents (Wbn)	1.0	5.0	14.8	30.7	25.8	13.5	4.3	5.2	7.5	24.9	35.6	46.2	64.2
Net int. bear debt (Wbn)	(0.2)	(4.5)	(14.3)	(30.7)	(24.8)	(1.7)	6.2	5.7	(6.5)	(24.9)	(35.6)	(46.2)	(64.2)
Net debt/equity (%)	(4.2)	(29.5)	(51.2)	(44.5)	(35.5)	(2.7)	16.8	20.7	(17.3)	(44.5)	(56.7)	(52.0)	(51.7)
Liability/equity (%)	73.3	62.6	35.5	17.1	6.0	22.6	40.4	45.0	24.4	10.0	5.9	7.3	6.9
Interest coverage (X)	2.0	160.1	442.2	569.0	(553.1)	(58.1)	(20.9)	(5.1)	14.6	480.5	N/A	N/A	N/A

Valuations and margins

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
EV/EBITDA (X)	0.0	0.0	0.0	1.4	(8.9)	(2.6)	(3.2)	(31.8)	4.3	4.3	10.7	2.8	1.4
EPS (W)	N/A	1,833	2,219	1,313	(990)	(2,982)	(4,787)	(1,182)	621	760	294	1,114	1,508
EPS yoy chg (%)	N/A	N/A	21.1%	-40.8%	N/A	N/A	N/A	N/A	N/A	22.4%	-61.3%	278.8%	35.4%
PER (X)	0.0	0.0	0.0	3.9	N/A	N/A	N/A	N/A	8.2	6.7	17.3	4.6	3.4
BVPS (W)	N/A	5,224	4,731	9,866	8,039	6,580	3,741	2,140	2,246	2,905	2,826	3,794	5,301
P/BVPS (X)	N/A	1.0	1.1	0.5	0.6	0.8	1.4	2.4	2.3	1.8	1.8	1.3	1.0
Dividend/sh (W)	0	0	300	300	0	0	0	0	0	0	0	0	0
Dividend yield (%)	0.0	0.0	5.9	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	11.8	110.0	60.4	22.0	(9.0)	(23.9)	(49.6)	(41.5)	26.2	27.9	11.6	34.4	33.1
ROA (%)	6.9	66.7	41.6	18.0	(8.1)	(21.0)	(38.4)	(29.2)	19.7	24.1	10.8	32.2	31.0
GP margin (%)	17.4	29.8	26.4	19.4	9.2	9.9	7.0	36.8	48.9	33.0	28.3	33.1	32.9
OP margin (%)	1.1	18.6	19.1	8.4	(7.0)	(153.5)	(76.1)	(48.8)	29.3	19.0	10.1	19.1	19.0
NP margin (%)	3.2	15.5	16.1	13.1	(10.0)	(105.2)	(95.9)	(130.1)	15.7	15.9	13.0	20.6	17.4
EBITDA margin (%)	1.8	18.7	19.5	9.7	(4.0)	(122.6)	(68.1)	(26.6)	35.6	23.2	14.8	20.7	20.0
ROIC (%)	(56.3)	143.5	114.4	25.8	(10.6)	(44.2)	(37.7)	(18.8)	46.0	42.8	17.0	65.9	62.1
WACC (%)	(7.0)	4.8	10.0	7.6	6.1	4.4	3.3	5.8	5.2	12.2	N/A	12.7	14.0
ROIC less WACC (%)	(49.3)	138.7	104.5	18.2	(16.7)	(48.6)	(41.0)	(24.6)	40.9	30.6	N/A	53.2	48.1

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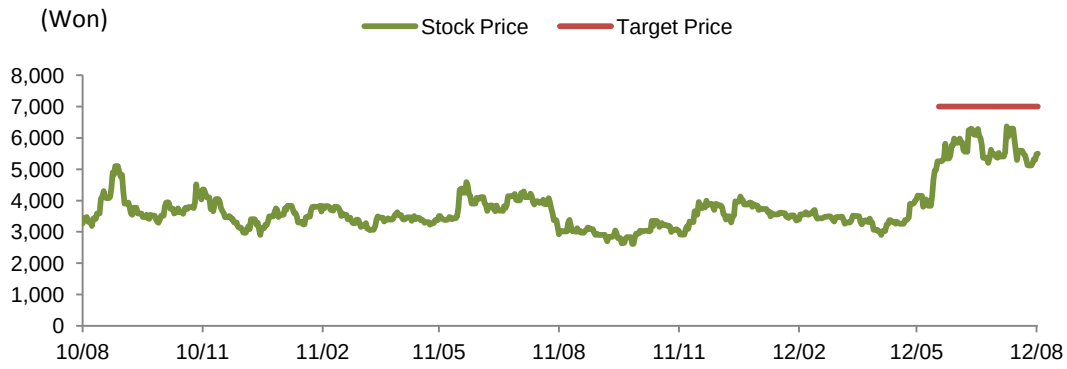
▶ Ratings and target price history in past two years

EMLSI (080220 KQ)		
Date	2012-5-21	2012-08-13
Rating	BUY	BUY (Maintain, Change of analyst)
Target Price	7,000	7,000

▶ Target price changes in past two years



▶ Investment period and ratings

Company	
BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

Industry	
OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months

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Nexen Tire (002350 KS) – 2Q Earnings Over Estimates

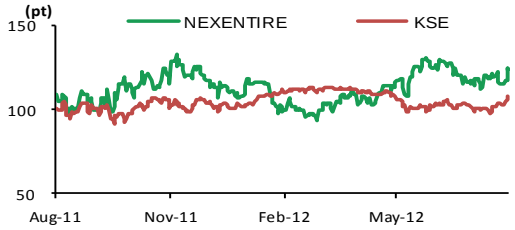
HOLD(TP Raise)

Target Price	**W21,500**
Current Price	**W20,850**
Upside Potential (%)	**3.1%**

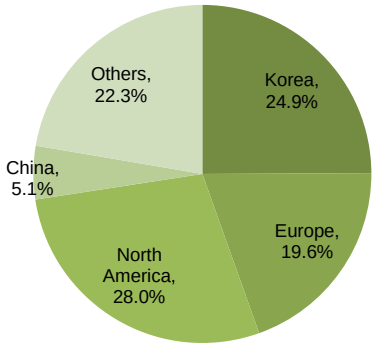
Key Data	**August 10th 2012**
KOSPI	1,946.40
Market Cap. (Wbn)	1,979.1
Shares Outstanding (m)	94.9
Foreign Ownership (%)	7.5
52 Week High (KRW)	22,200
Low (KRW)	15,600
60-d avg. turnover (Wbn)	10.7
Major Shareholders	**(%)**
Nexen & 3 others	64.7
NPS	8.1

Performance (%)	**1M**	**6M**	**12M**
Absolute	6.9	27.1	14.9
Relative	0.4	29.5	7.8

Relative Performance



Revenue breakdown by region (2011)



In 2Q12, OP exceeded estimates

- In 2Q, Nexen Tire recorded W433.3bn in revenue (29.8% yoy), which was in line with expectations.
- The company recorded OP of W51.8bn (90.1% yoy) with an operating margin of 12.0%, exceeding the consensus (W47.1bn)
- Losses at the new Changyoung plant were less than expected thanks to faster than expected increase in operating rate
- With declining commodity prices such as natural rubber and butadiene, raw material costs decreased 1% qoq in 2Q

Expected to improve OPM to around 13% in 3Q

- Nexen Tire is expected to maintain revenue growth in 3Q and 4Q regardless of seasonal effects and supply and demand for global tires thanks to expanding capacity
- Raw material costs are expected to decrease 3% in 3Q, and OPM will be improved to around 13%.
- The company estimates that Changnyeong factory will reach a break-even point in 3Q.

Raising the target price but maintaining HOLD rating

- We raise 2012~2014E EPS by 7~9% to take into account the lower than expected raw material price and increasing operating rate of Changyeong factory.
- We raise the target price to W21,500 from the previous W19,700 reflecting earrings upward revisions
- However, we maintain our Hold rating because expected earnings improvement has been reflected in the current share price and is trading at a valuation premium over the market

Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	1,009.9	28.8	165.1	16.4	113.3	1,194	N/A	17.5	8.3	34.3	5.2
2010	1,148.6	13.7	132.9	11.6	107.2	1,129	(5.4)	18.5	11.0	24.7	4.1
2011	1,430.0	24.5	114.3	8.0	87.8	925	(18.1)	22.5	12.1	16.7	3.5
2012E	1,784.7	24.8	215.9	12.1	158.6	1,670	80.7	12.5	6.9	24.7	2.8
2013F	2,121.3	18.9	259.9	12.2	193.7	2,041	22.2	10.2	5.9	23.9	2.2
2014F	2,275.5	7.3	281.3	12.4	213.6	2,250	10.3	9.3	5.4	21.2	1.8

In 2Q, OP exceeded expectations

Nexen Tire recorded W433.3bn in revenue (29.8% yoy) and W51.8bn in OP (90.1% yoy). While revenue met expectations (consensus of W426.8bn, our estimation of W437.4bn), OP exceeded consensus (W47.1bn) by almost 10%. OPM decreased to 12.0% from 12.6% in 1Q as expected due mainly to the additional fixed costs and maintenance costs at Changnyeong factory. Changnyeong factory began operattion in March and posted around W9.bn losses in 2Q. However, losses were smaller than initial expectations of W12~13bn thanks to faster than expected improvement of the operating rate (around 50% in 2Q)

Exhibit 1. Quarterly Earnings

(Wbn)	2Q11	1Q12	2Q12E	YoY (%)	QoQ (%)	3Q12E	4Q12E
Revenue	333.8	406.3	433.3	*29.8*	*6.7*	456.2	488.9
OP	27.2	51.0	51.8	*90.1*	*1.5*	58.9	54.2
Income before tax	28.1	49.8	42.7	*51.8*	*(14.3)*	56.2	54.5
NP	15.4	41.4	29.1	*88.4*	*(29.7)*	44.5	43.6
Margin (%)							
OP	8.2	12.6	12.0			12.9	11.1
Income before tax	8.4	12.3	9.8			12.3	11.2
NP	4.6	10.2	6.7			9.8	8.9

Source: company data, Leading Research

Sharp decrease in raw material price

We expected OP of W43.5bn in 2Q which is lower than market consensus, assuming short term rebound in raw material prices and increasing fixed costs at Changnyeong factory. However, in 2Q, the price of butadiene plunged and raw material costs declined 1% qoq.

OPM is expected to be 13% in 3Q with external growth

Despite of sluggish demand for autos in the global market except the U.S, Nexen Tire is expected to maintain stable revenue growth. The growth is irrelevant to seasonal effects and demand for global tires thanks to OE tire sales increase and market share expansion with capacity increase. The company's revenue is expected to grow 6~7% qoq in 3Q and 4Q. OPM is expected to be 13% in 3Q thanks to continuous raw material costs decrease but to decline in 4Q due to year end cost adjustment.

In 2013, revenue growth of 20%

In 2014, down to 7%

Nexen Tire plans to increase capacity by 5.3m units in 2013 which is exceeding 5.1m units in 2012. With continual facilities scale increase, capacity growth rate will be slowed down from 2012, but the company still will be able to record revenue growth of around 20%. In 2014, we assumed sluggish revenue growth of 7% due to no plan to increase overseas capacity.

Raising TP but maintaining Hold rating

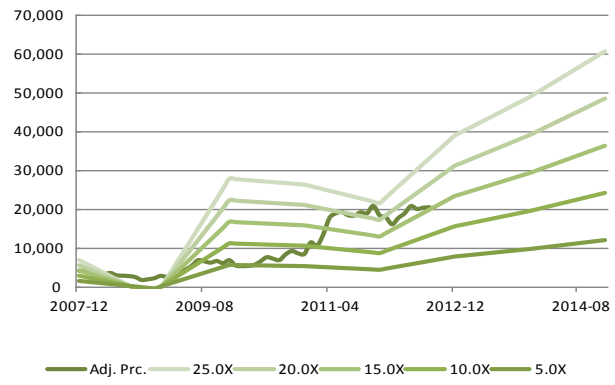
We raised our earnings forecast considering lower than expected raw material prices and increase operating rate of Changnyeong factory. Reflecting the earnings forecast revisions, we raised our target price to W12,500 from W19,700. Nexen Tire's target price of W21,500 is derived from applying the target PER of 12.9x to 2012E EPS of W1,670. Nexen Tire's stock price recorded the highest returns in the sector with continuous revenue growth and expectations on earnings improvement. However, we maintain our Hold rating because the stock is trading at a premium of 26% over the market, and we believe expectation on earnings improvement is already reflected in the current price.

Exhibit 3. Earnings Forecast Change

	Before			After			Change(%)		
(Wbn)	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Revenue	1,801.6	2,133.3	2,287.5	1,784.7	2,121.3	2,275.5	(0.9)	(0.6)	(0.5)
OP	197.2	247.0	269.3	215.9	259.9	281.3	9.5	5.2	4.5
Income before tax	177.9	223.2	243.1	203.2	248.3	273.8	14.2	11.3	12.6
NP	145.0	181.9	198.1	158.6	193.7	213.6	9.3	6.5	7.8
Margin (%)									
OP	10.9	11.6	11.8	12.1	12.2	12.4			
Income before tax	9.9	10.5	10.6	11.4	11.7	12.0			
NP	8.0	8.5	8.7	8.9	9.1	9.4			

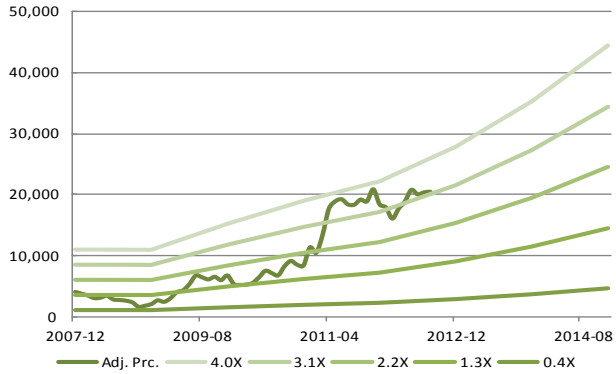
Source: Leading Research

Exhibit 4. PER BAND



Source: Fnguide, Leading Research

Exhibit 5. PBR BAND



Source: Fnguide, Leading Research

Financial Statement

Income Statement

(Wbn)	03	04	05	06	07	08	09	10	11	12F	13F	14F
Revenue	**287.6**	**304.9**	**400.6**	**472.1**	**565.7**	**784.1**	**1,009.9**	**1,148.6**	**1,430.0**	**1,784.7**	**2,121.3**	**2,275.5**
% chg yoy	5.7	6.0	31.4	17.8	19.8	38.6	28.8	13.7	24.5	24.8	18.9	7.3
COGS	207.1	220.0	290.9	358.5	397.9	590.8	669.0	801.2	1,085.7	1,295.9	1,553.5	1,661.0
Gross profit	**80.5**	**84.9**	**109.7**	**113.6**	**167.8**	**193.4**	**340.9**	**347.4**	**344.3**	**488.9**	**567.8**	**614.5**
GP margin (%)	28.0	27.8	27.4	24.1	29.7	24.7	33.8	30.2	24.1	27.4	26.8	27.0
SG&A	48.5	60.2	80.0	93.9	116.5	153.9	175.8	210.8	232.3	274.9	310.0	334.9
Operating income	**32.0**	**24.6**	**29.7**	**19.7**	**51.3**	**39.5**	**165.1**	**136.6**	**112.0**	**214.0**	**257.9**	**279.6**
Adj. OP margin (%)	11.1	8.1	7.4	4.2	9.1	5.0	16.4	11.9	7.8	12.0	12.2	12.3
Net other income	0.8	4.1	5.2	5.2	2.9	(55.5)	(1.6)	(3.7)	2.3	1.9	2.0	1.7
Reported OP	**32.0**	**24.6**	**29.7**	**19.7**	**51.3**	**39.5**	**165.1**	**132.9**	**114.3**	**215.9**	**259.9**	**281.3**
Reported OP margin (%)	11.1	8.1	7.4	4.2	9.1	5.0	16.4	11.6	8.0	12.1	12.2	12.4
Net non-OP and loss	(2.9)	0.0	(1.5)	(5.6)	(11.1)	(48.6)	(24.8)	(2.0)	(1.2)	(12.7)	(11.5)	(7.5)
Income before tax	**29.1**	**24.7**	**28.2**	**14.1**	**40.3**	**(9.1)**	**140.3**	**130.9**	**113.1**	**203.2**	**248.3**	**273.8**
Income tax	8.0	(7.0)	6.3	3.9	12.0	3.0	26.9	23.7	25.4	44.6	54.6	60.2
Tax rate (%)	27.4	(28.4)	22.4	27.7	29.9	(33.5)	19.2	18.1	22.4	22.0	22.0	22.0
Net profit	**21.1**	**31.7**	**21.9**	**10.2**	**28.2**	**(12.1)**	**113.3**	**107.2**	**87.8**	**158.6**	**193.7**	**213.6**
Controlling interest	21.1	31.7	21.9	10.2	28.2	(12.1)	113.3	107.2	87.8	158.6	193.7	213.6
Non-controlling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other comprehensive inc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.8)	(1.5)	2.0	5.0	8.0
Total comprehensive inc	21.1	31.7	21.9	10.2	28.2	(12.1)	113.3	106.4	86.2	160.6	198.7	221.6

Balance sheet

(Wbn)	03	04	05	06	07	08	09	10	11	12F	13F	14F
Current assets	**80.8**	**77.6**	**95.5**	**131.2**	**179.0**	**337.7**	**398.2**	**491.3**	**731.4**	**818.9**	**893.1**	**951.9**
Cash & equivalents	13.5	10.7	11.0	16.0	26.8	46.4	66.8	77.6	92.6	107.9	86.8	103.7
ST financial assets	1.1	4.1	4.6	5.1	6.8	57.3	67.7	36.3	42.6	40.0	35.0	35.0
Accounts receivables	29.6	18.5	32.4	45.9	65.4	91.7	96.7	151.4	271.1	303.4	360.6	386.8
Inventory	31.3	39.4	43.6	60.6	73.5	126.5	135.2	184.8	276.0	324.0	365.1	382.0
Others	5.3	4.9	3.9	3.6	6.4	15.8	31.8	41.1	49.1	43.6	45.6	44.3
Non-current assets	**255.9**	**356.4**	**409.9**	**431.9**	**533.5**	**661.0**	**638.2**	**767.6**	**1,170.8**	**1,305.4**	**1,427.1**	**1,541.8**
Tangible Assets	206.7	296.9	351.2	361.8	476.9	600.6	573.0	678.8	1,083.7	1,212.4	1,332.1	1,446.9
LT financial assets	1.2	2.2	3.2	15.2	2.8	1.5	15.9	43.1	41.0	46.0	47.0	45.0
Inv in related co's	32.0	30.4	31.1	29.7	28.0	28.2	0.0	1.4	1.7	1.8	2.0	2.0
Inv in joint ventures	16.0	27.0	24.4	25.1	25.8	30.8	49.3	44.3	44.5	45.2	46.0	47.9
Others	**336.7**	**434.0**	**505.4**	**563.0**	**712.5**	**998.7**	**1,036.4**	**1,258.9**	**1,902.2**	**2,124.3**	**2,320.2**	**2,493.7**
Current liabilities	**76.9**	**143.6**	**113.8**	**130.5**	**276.8**	**369.2**	**347.3**	**472.8**	**754.3**	**699.9**	**643.1**	**648.4**
Accounts payables	17.7	25.4	25.7	28.0	32.4	126.6	47.2	56.8	70.3	90.7	108.7	116.3
ST financial liabilities	37.0	63.7	41.3	58.7	174.9	186.2	241.4	310.0	437.2	387.6	299.2	290.3
Others	22.2	54.5	46.9	43.8	69.5	56.5	58.7	106.1	246.8	221.6	235.2	241.8
Non-current liabilities	**53.2**	**56.8**	**140.6**	**175.9**	**156.9**	**351.4**	**306.1**	**302.7**	**582.9**	**706.8**	**771.8**	**732.6**
LT payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT financial liabilities	37.8	37.7	116.6	145.2	117.4	302.8	254.6	237.7	496.4	615.5	676.7	633.7
Others	15.4	19.0	24.0	30.7	39.5	48.7	51.6	65.0	86.5	91.3	95.1	98.9
Total liabilities	**130.1**	**200.3**	**254.4**	**306.4**	**433.8**	**720.7**	**653.4**	**775.5**	**1,337.2**	**1,406.7**	**1,414.9**	**1,380.9**
Paid-in capital	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7	52.7
Capital surplus	30.8	30.8	30.8	30.8	30.8	30.8	5.5	5.5	5.5	5.5	5.5	5.5
Others	(0.0)	(0.1)	(0.0)	0.0	(1.7)	15.0	36.4	40.3	49.2	49.2	49.2	49.2
Retained earnings	123.1	150.2	167.5	173.1	196.8	179.5	288.2	384.8	457.6	610.1	797.8	1,005.3
Non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**206.6**	**233.7**	**251.0**	**256.6**	**278.7**	**278.0**	**382.9**	**483.3**	**565.0**	**717.6**	**905.2**	**1,112.8**

Free cashflow analysis

(Wbn)	03	04	05	06	07	08	09	10	11	12F	13F	14F
Net profit	**21.1**	**31.7**	**21.9**	**10.2**	**28.2**	**(12.1)**	**113.3**	**107.2**	**87.8**	**158.6**	**193.7**	**213.6**
Adj. for non-cash exp.	**22.8**	**26.1**	**39.9**	**0.0**	**59.2**	**92.1**	**101.6**	**94.1**	**103.7**	**56.5**	**61.5**	**64.6**
Tangible/intangible assets	15.9	19.6	31.8	0.0	42.8	61.1	73.7	43.1	52.2	71.3	80.3	85.2
Provision for reserves	5.6	6.8	8.4	0.0	11.3	12.0	12.2	12.1	13.4	14.0	14.8	15.0
Net FX gains	(0.2)	(0.1)	(0.0)	0.0	(0.9)	(42.3)	(1.8)	(0.9)	0.8	(10.8)	(7.6)	(7.3)
Net eq method gains	0.1	(0.7)	(0.5)	0.0	(1.1)	(1.6)	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.0	(1.4)	(1.1)	0.0	2.8	(26.2)	13.4	37.6	38.7	39.8	41.2	43.0
Chg in op assets & liab	**(24.6)**	**2.7**	**(18.3)**	**0.0**	**(19.3)**	**(22.1)**	**(1.4)**	**(91.0)**	**(205.7)**	**(74.8)**	**(76.8)**	**(45.7)**
Incr in WC (decr)	12.4	(10.7)	17.7	28.3	28.0	(14.9)	93.1	94.7	197.4	59.8	80.3	35.7
Others	12.2	8.0	0.6	(28.3)	(8.7)	37.0	(91.7)	(185.7)	(403.1)	(15.0)	3.5	(10.0)
Cash from operations	**19.3**	**60.4**	**43.5**	**10.2**	**68.1**	**57.8**	**213.5**	**110.3**	**(14.2)**	**140.2**	**178.4**	**232.5**
Capital expenditures	40.6	110.2	87.6	0.0	155.2	274.5	125.4	150.4	350.8	200.0	200.0	200.0
Free cash flow	**(21.3)**	**(49.7)**	**(44.1)**	**10.2**	**(87.1)**	**(216.7)**	**88.1**	**(40.2)**	**(365.0)**	**(59.8)**	**(21.6)**	**32.5**
Dividend	4.6	4.6	4.6	4.6	4.6	4.5	0.6	6.0	4.5	6.0	6.0	6.0
Incr in investment assets	0.0	0.0	0.0	0.0	20.5	2.7	(24.5)	(21.1)	1.9	5.2	1.2	(2.0)
Share issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in debt	22.6	26.6	56.4	46.0	88.4	196.7	7.0	51.4	373.7	69.5	(27.2)	(51.9)
Others	(2.8)	(27.7)	8.9	46.6	(30.0)	(59.5)	44.1	0.5	(4.5)	(20.1)	(38.7)	(45.1)
Net cash flow	**2.9**	**(2.8)**	**0.3**	**5.0**	**10.9**	**19.6**	**20.3**	**10.9**	**15.0**	**15.3**	**(21.1)**	**17.0**
Beginning cash	10.7	13.5	10.7	11.0	16.0	26.8	46.4	66.8	77.6	92.6	107.9	86.8
Ending cash	13.5	10.7	11.0	16.0	26.8	46.4	66.8	77.6	92.6	107.9	86.8	103.7

Stability ratios

	03	04	05	06	07	08	09	10	11	12F	13F	14F
Current ratio	105.1	54.0	83.9	100.5	64.7	91.5	114.7	103.9	97.0	117.0	138.9	146.8
Quick ratio	16.7	13.7	11.5	12.2	15.0	13.8	16.8	15.8	12.7	13.2	9.7	10.9
Inv. holding period (d)	54.3	58.6	52.0	53.0	61.5	61.8	71.4	72.9	77.4	84.5	80.9	82.1
A/R collection period (d)	35.8	28.8	23.2	30.3	35.9	36.6	34.0	39.4	53.9	58.8	57.1	59.9
A/P period (days)	38.6	34.4	31.6	26.1	26.8	45.1	46.8	22.3	19.7	21.9	22.8	24.5
Interest bear debt (Wbn)	74.8	101.4	157.9	203.9	292.3	489.0	496.0	547.6	933.6	1,003.	975.9	924.0
Cash & equivalents (Wbn)	14.7	14.8	15.6	21.1	33.7	103.7	134.4	113.9	135.2	147.9	121.8	138.7
Net int. bear debt (Wbn)	60.2	86.7	142.3	182.8	258.6	385.3	361.6	433.7	798.4	855.2	854.1	785.3
Net debt/equity (%)	29.1	37.1	56.7	71.2	92.8	138.6	94.4	89.7	141.3	119.2	94.4	70.6
Liability/equity (%)	63.0	85.7	101.4	119.4	155.6	259.2	170.6	160.5	236.7	196.0	156.3	124.1
Interest coverage (X)	9.3	6.2	5.0	2.3	5.5	2.2	9.9	7.7	7.3	10.1	10.2	9.7

Valuations and margins

	03	04	05	06	07	08	09	10	11	12F	13F	14F
EV/EBITDA (X)	42.4	46.4	34.4	100.5	21.0	19.5	8.3	11.0	12.1	6.9	5.9	5.4
EPS (W)	223	334	230	107	297	(128)	1,194	1,129	925	1,670	2,041	2,250
EPS yoy chg (%)	(19.9)	50.1	(31.0)	(53.4)	176.9	N/A	N/A	(5.4)	(18.1)	80.7	22.2	10.3
PER (X)	93.7	62.4	90.5	194.1	70.1	N/A	17.5	18.5	22.5	12.5	10.2	9.3
BVPS (W)	2,177	2,462	2,644	2,704	2,936	2,929	4,034	5,092	5,953	7,560	9,537	11,723
P/BVPS (X)	9.6	8.5	7.9	7.7	7.1	7.1	5.2	4.1	3.5	2.8	2.2	1.8
Dividend/sh (W)	45	45	45	45	45	15	60	45	60	60	60	60
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2	0.1	0.3	0.2	0.3	0.3	0.3	0.3
ROE (%)	10.6	14.4	9.0	4.0	10.5	(4.3)	34.3	24.7	16.7	24.7	23.9	21.2
ROA (%)	6.5	8.2	4.7	1.9	4.4	(1.4)	11.1	9.3	5.6	7.9	8.7	8.9
GP margin (%)	28.0	27.8	27.4	24.1	29.7	24.7	33.8	30.2	24.1	27.4	26.8	27.0
OP margin (%)	11.1	8.1	7.4	4.2	9.1	5.0	16.4	11.9	7.8	12.0	12.2	12.3
NP margin (%)	7.3	10.4	5.5	2.2	5.0	(1.5)	11.2	9.3	6.1	8.9	9.1	9.4
EBITDA margin (%)	16.7	14.6	15.4	4.2	16.7	13.0	23.7	15.7	11.5	16.0	15.9	16.0
ROIC (%)	9.3	10.8	6.5	3.4	7.4	8.8	19.0	13.5	7.6	11.4	12.1	11.9
WACC (%)	7.6	9.9	7.5	7.6	5.8	10.0	6.8	7.4	6.1	6.3	7.5	9.1
ROIC less WACC (%)	1.7	0.9	(1.0)	(4.1)	1.5	(1.2)	12.2	6.1	1.5	5.1	4.6	2.8

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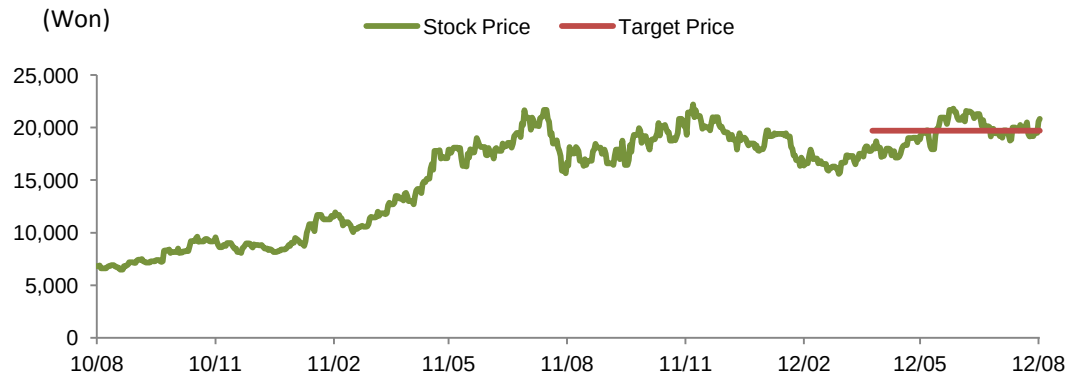
▶ Ratings and target price history in past two years

Nexen Tire (02350 KS)		
Date	2012-04-02	2012-08-13
Rating	HOLD (New)	HOLD
Target Price	19,700	21,500

▶ Target price changes in past two years



▶ Investment period and ratings

Company	
BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

Industry	
OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months

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Green Cross (006280 KS) – 2Q12 Provisional Earnings

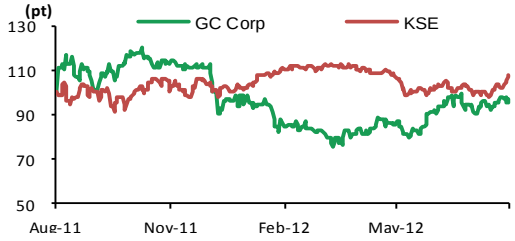
BUY (Maintain)

Target Price	**W225,000**
Current Price	**W145,500**
Upside Potential (%)	**54.6%**

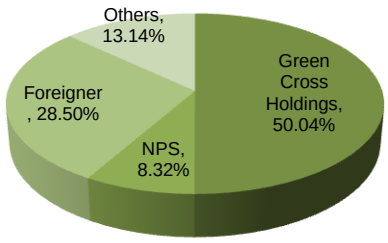
Key Data	**August 10th 2012**
Sector	Pharma & Bio
KOSPI	1,946.40
Market Cap. (Wbn)	1,474.1
Shares Outstanding (m)	10.1
Foreign Ownership (%)	26.7
52 Week High (KRW)	182,500
Low (KRW)	115,000
60-d avg. turnover (Wbn)	4.1
Major Shareholders	**(%)**
Green Cross Holdings	50.04
NPS	8.32

Performance (%)	**1M**	**6M**	**12M**
Absolute	1.4	10.6	(4.9)
Relative	(5.2)	13.0	(12.0)

Relative Performance



Shareholders



Key issues…

- ✓ **In 2Q, recorded +9.6% YoY in revenue, +16.6% YoY in adjusted OP**
- ✓ **3Q is traditionally influenza vaccine season and sales increases abnormally higher than other quarters**
- ✓ **Expected revenue increase in domestic & overseas markets through launching new products such as rare disease medicines and AI vaccines**
- ✓ **Maintaining the target price of W225,000**

In 2Q12, +9.6% yoy in revenue, +16.6% yoy in OP

- Green Cross recorded W203.3bn in revenue (9.6% yoy) and W16.2bn in OP (16.6% yoy) in 2Q12
- While revenue increased 17.2% from 1Q12, OP decreased 21.3% as W20bn in R&D costs of 1Q was recognized in 2Q

2Q earnings review – no impact from the drug price cut, Top Pick among high ranked domestic drug manufacturers

- Revenue increased thanks to demands of influenza vaccines in North America markets and increased export of influenza and chicken pox vaccines in South America markets
- Albumin, a blood product, has begun export to China (US$10m in 2012) in 2Q and led the company's revenue increase
- In 2012, prescription drugs revenue is expected to decline W30bn due to the government-led drug price cut, but it is offset by revenue increase in introduced products (Atacand, Novalac), health food products, and revenue increase from subsidiaries (Green Cross MS, Labcell)
- The COGS rate of blood products decreased to 58% from 60% thanks to increase plasma introduction from own blood-gathering centers in North America

2H12 forecast – expected seasonal effects on influenza and new products launch

- In 3Q12, the company is expected to record W243.2bn (+4.0% yoy) in revenue and W47.6bn (+2.4% yoy) in adjusted OP
- Demand for seasonal influenza vaccines from the government is expected to increase to W55bn. (W45bn in 2011)
- Hunterrase, a rare disease medicine, launched in the domestic market is expected to generate additional revenue of W5bn (annual domestic market size is W20bn)
- Other new products to be launched, such as AI vaccine, BCG, and leukopenia medicine (GC PGC) are expected to enhance revenue growth

Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	643.2	24.6	119.4	18.6	80.5	8,936	64.8	16.3	10.0	25.7	3.7
2010	791.0	23.0	145.6	18.4	104.7	10,683	19.6	13.6	8.2	23.2	2.5
2011	767.9	(2.9)	85.4	11.1	57.6	5,686	(46.8)	25.6	14.5	9.8	2.3
2012E	854.2	11.2	93.6	11.0	72.9	7,194	26.5	20.2	12.6	11.3	2.2
2013F	976.5	14.3	124.0	12.7	96.5	9,528	32.4	15.3	9.3	13.7	2.0
2014F	1,185.9	21.4	175.5	14.8	136.7	13,494	41.6	10.8	6.5	17.0	1.7

Exhibit 1. 2Q12 Provisional Earnings Review

(Wbn,%)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12E	3Q12F	4Q12F	2Q12E QoQ(%)	2Q12E YoY(%)
Revenue	156.2	185.4	233.9	192.4	173.4	**203.3**	243.2	234.3	17.2	9.6
Adjusted OP	16.1	13.9	46.5	9.0	20.5	**16.2**	47.6	9.3	(21.3)	16.6
Income before tax	17.0	14.3	46.1	8.6	21.8	**16.2**	47.7	9.7	(25.8)	12.8
Net profit	13.6	11.0	33.8	(0.7)	16.4	**12.5**	36.7	7.4	(24.1)	13.5
OPM(%)	10.3	7.5	19.9	4.7	11.8	**7.9**	19.6	4.0		
NPM(%)	8.7	5.9	14.4	(0.4)	9.5	**6.1**	15.1	3.2		

Source: Leading research, IFRS Consolidated

Exhibit 2. Annual Earnings

(Wbn,%)	2011	2012E	2013F	2014F	YoY (%) 2012E	2013F	2014F
Revenue	767.9	854.2	976.5	1,185.9	11.2	14.3	21.4
Adjusted OP	85.4	93.6	124.0	175.5	9.6	32.5	41.5
Income before tax	86.1	95.1	126.0	178.5	10.5	32.5	41.8
Net profit	57.6	72.9	96.9	137.3	26.6	32.8	41.8
EPS	5,686	7,200	9,562	13,553	26.6	32.8	41.8
OPM(%)	11.1	11.0	12.7	14.8			
NPM(%)	7.3	8.7	10.0	11.7			

Source: Leading research, IFRS Conolidated

Exhibit 3. Sales by product

(Wbn)	11		12E		13F		14F	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%
Total revenue	767.9	100.0	854.2	100.0	976.5	100.0	1185.9	100.0
Blood products	297.2	38.7	314.8	36.9	346.5	35.5	447.2	37.7
Vaccines	114.4	14.9	154.1	18.0	200.4	20.5	260.5	22.0
Prescription drugs (Antibody/protein)	107.4	14.0	117.1	13.7	133.2	13.6	158.8	13.4
Non- prescription drugs /Well-being	64.5	8.4	74.0	8.7	85.2	8.7	91.3	7.7
Others	98.5	12.8	104.0	12.2	107.2	11.0	118.4	10.0
Subsidiary revenue	85.8	11.2	90.2	10.6	104.1	10.7	109.7	9.3

Source: Company data, Leading Research Center, IFRS Consolidated

Exhibit 4. Earnings Forecast Change

(Wbn,%)	Before				After				Change (%)		
	1Q12	2Q12P	3Q12E	4Q12E	1Q12	2Q12P	3Q12E	4Q12E	2Q12P	3Q12E	4Q12E
Revenue	173.4	207.5	241.2	232.1	173.4	203.3	243.2	234.3	(2.0)	0.8	0.9
Adjusted OP	20.5	17.5	46.6	9.0	20.5	16.2	47.6	9.3	(7.7)	2.1	3.3
Income before tax	21.8	17.7	46.6	9.2	21.8	16.2	47.7	9.7	(8.7)	2.3	4.9
Net profit	16.4	13.6	35.8	7.2	16.4	12.5	36.7	7.4	(8.4)	2.6	3.3

Source: Leading research, IFRS Consolidated

Financial Statement

Income Statement

(Wbn)	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
Revenue	**46.3**	**104.4**	**142.0**	**372.4**	**405.1**	**442.3**	**516.1**	**643.2**	**791.0**	**767.9**	**854.2**	**976.5**	**1,185.9**
% chg yoy	(17.5)	125.5	36.0	162.3	8.8	9.2	16.7	24.6	23.0	(2.9)	11.2	14.3	21.4
COGS	30.7	69.9	94.8	238.0	240.5	261.9	311.9	373.5	476.3	509.1	562.9	629.9	748.3
Gross profit	**15.6**	**34.5**	**47.1**	**134.4**	**164.7**	**180.4**	**204.2**	**269.7**	**314.7**	**258.9**	**291.3**	**346.7**	**437.6**
GP margin (%)	33.6	33.0	33.2	36.1	40.6	40.8	39.6	41.9	39.8	33.7	34.1	35.5	36.9
SG&A	**15.7**	**27.1**	**42.1**	**100.4**	**109.8**	**122.0**	**136.3**	**150.4**	**169.1**	**173.5**	**197.7**	**222.7**	**262.1**
Operating income	**(0.1)**	**7.3**	**5.0**	**34.0**	**54.9**	**58.4**	**67.9**	**119.4**	**145.6**	**85.4**	**93.6**	**124.0**	**175.5**
Adj. OP margin (%)	**(0.3)**	**7.0**	**3.5**	**9.1**	**13.5**	**13.2**	**13.2**	**18.6**	**18.4**	**11.1**	**11.0**	**12.7**	**14.8**
Net other income	8.3	0.3	0.7	13.6	0.1	4.2	(19.9)	1.2	(2.6)	3.1	2.1	2.8	3.0
Reported OP	**(0.1)**	**7.3**	**5.0**	**34.0**	**54.9**	**58.4**	**67.9**	**119.4**	**145.6**	**88.3**	**95.7**	**126.8**	**178.5**
Net equity method gains	0.0	(1.9)	(1.2)	(1.3)	(0.0)	1.2	0.5	(1.2)	(4.4)	(0.8)	0.3	0.3	0.3
Financial income	1.3	0.9	1.2	0.7	1.0	1.0	18.0	1.3	2.5	3.3	2.7	2.7	3.6
Financial expenses	4.6	1.0	2.4	3.8	7.2	4.7	7.3	16.0	6.5	5.0	3.6	4.3	4.6
Income before tax	4.8	5.6	3.3	43.2	48.8	60.1	59.2	104.7	134.7	86.1	95.0	125.5	177.8
Income tax	0.0	(1.6)	(3.8)	13.6	14.0	15.8	10.3	24.1	30.0	28.5	22.1	29.0	41.1
Tax rate (%)	0.0	(0.3)	(1.2)	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2
Net profit	**4.8**	**7.2**	**7.0**	**29.6**	**34.8**	**44.4**	**48.9**	**80.5**	**104.7**	**57.6**	**72.9**	**96.5**	**136.7**
Controlling interest	0.0	7.2	6.8	29.1	34.8	0.0	0.0	0.0	104.7	55.4	70.6	93.6	132.6
Non-controlling	0.0	0.0	0.3	0.5	(0.0)	0.0	0.0	0.0	0.0	2.2	2.2	2.9	4.1
Other comprehensive inc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.4)	1.8	1.0	1.0
Total comprehensive inc	4.8	7.2	7.0	29.6	34.8	44.4	48.9	80.5	104.7	56.2	74.7	97.5	137.7

Balance sheet

(Wbn)	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
Current assets	**44.0**	**47.0**	**158.0**	**182.3**	**214.3**	**220.7**	**302.9**	**459.1**	**475.8**	**508.3**	**538.7**	**620.0**	**763.8**
Cash & equivalents	3.1	2.8	16.7	14.5	14.9	5.8	11.6	22.2	30.9	32.3	30.4	37.2	64.1
ST financial assets	27.4	2.8	2.0	1.5	0.1	6.7	14.4	53.8	105.4	53.9	54.2	75.5	98.4
Accounts receivables	7.3	25.7	63.3	88.0	109.5	125.2	164.1	171.3	148.9	219.9	233.2	262.7	317.8
Inventory	6.9	14.9	72.7	78.2	86.8	82.4	112.5	211.7	189.9	198.1	220.7	244.4	282.9
Others	(0.6)	0.8	3.3	0.1	3.0	0.5	0.4	0.1	0.7	4.1	0.2	0.2	0.6
Non-current assets	**30.4**	**41.1**	**92.8**	**114.4**	**148.4**	**204.9**	**246.5**	**253.9**	**265.5**	**352.1**	**381.3**	388.2	378.3
Tangible Assets	24.5	31.3	60.1	71.1	98.6	148.3	195.8	196.1	215.8	251.6	304.9	330.2	339.2
LT financial assets	1.2	0.8	14.7	29.1	33.2	38.0	19.9	12.4	12.4	55.8	55.1	34.2	16.2
Inv in related co's	4.2	2.5	0.6	0.6	0.6	0.9	7.7	21.8	18.8	1.1	1.5	1.8	2.5
Inv in joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.6	6.5	17.4	13.6	15.9	17.7	23.2	23.6	18.6	43.6	19.8	22.0	20.4
Total assets	**74.5**	**88.1**	**250.8**	**296.7**	**362.7**	**425.6**	**549.4**	**713.0**	**741.3**	**860.4**	**920.0**	**1,008.2**	**1,142.1**
Current liabilities	**14.1**	**45.9**	**136.1**	**129.7**	**139.9**	**129.7**	**194.9**	**269.2**	**146.6**	**190.9**	**218.3**	**227.3**	**239.1**
Accounts payables	5.1	8.3	27.8	43.2	36.8	38.5	48.5	101.1	54.9	89.5	99.6	114.6	138.4
ST financial liabilities	2.1	30.9	87.8	65.2	62.0	29.4	99.0	51.2	24.0	28.5	33.5	23.5	12.5
Others	6.9	6.8	20.6	21.4	41.1	61.8	47.3	116.8	67.7	72.9	85.2	89.2	88.2
Non-current liabilities	**26.5**	**6.6**	**5.7**	**21.3**	**36.8**	**59.9**	**87.3**	**85.0**	**52.4**	**39.2**	**36.5**	**36.8**	**37.3**
LT payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.7	0.0	1.5
LT financial liabilities	25.3	4.5	0.5	14.0	25.0	45.0	76.8	74.0	42.0	9.3	9.3	9.3	9.3
Others	1.2	2.1	5.2	7.3	11.8	14.9	10.5	11.0	10.4	29.5	26.5	27.5	26.5
Total liabilities	**40.6**	**52.6**	**141.8**	**151.0**	**176.7**	**189.6**	**282.2**	**354.2**	**199.1**	**230.1**	**254.8**	**264.1**	**276.4**
Paid-in capital	24.1	24.1	45.1	45.1	45.1	45.1	45.1	45.1	49.0	50.7	50.7	50.7	50.7
Capital surplus	31.6	24.3	84.3	78.8	78.8	84.0	85.5	102.7	177.6	215.0	215.0	215.0	215.0
Others	0.5	0.1	2.8	5.3	9.6	14.2	3.8	2.5	10.6	4.9	0.0	0.0	0.0
Retained earnings	(0.0)	(0.0)	(17.5)	(13.4)	(7.9)	(4.7)	(4.6)	(0.6)	(0.6)	(0.6)	(0.5)	(0.6)	1.0
Non-controlling interest	(22.3)	(14.3)	(8.3)	26.7	57.1	97.4	137.4	209.1	301.9	348.2	388.1	466.9	585.9
Total shareholder equity	0.0	1.3	2.6	3.3	3.3	0.0	0.0	0.0	3.7	12.1	12.0	12.2	13.2
Balance sheet	**33.9**	**35.5**	**108.9**	**145.7**	**186.0**	**236.0**	**267.2**	**358.8**	**542.2**	**630.3**	**665.2**	**744.1**	**865.7**

Free cashflow analysis

(Wbn)	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
Net profit	**4.8**	**7.2**	**7.0**	**29.6**	**34.8**	**44.4**	**48.9**	**80.5**	**104.7**	**57.6**	**72.9**	**96.5**	**136.7**
Adj. for non-cash exp.	**(4.9)**	**0.0**	**9.0**	**5.6**	**22.0**	**8.7**	**11.3**	**25.2**	**36.5**	**52.3**	**26.3**	**31.9**	**35.1**
Depreciation	1.5	0.0	3.3	7.2	7.7	9.5	9.2	14.5	15.9	11.2	16.2	19.0	21.0
Provision for reserves	1.0	0.0	2.4	5.4	5.6	7.2	6.9	5.3	8.6	7.9	9.7	10.2	10.2
Net FX gains	0.1	0.0	0.8	(0.0)	(0.0)	(0.2)	(17.1)	(0.1)	0.1	(0.4)	0.5	0.2	0.3
Net eq method gains	0.0	0.0	(1.2)	(1.3)	(0.1)	1.2	0.5	(1.2)	(2.6)	(0.8)	0.3	0.3	0.3
Others	(7.4)	0.0	2.1	(8.9)	7.9	(7.9)	(22.7)	1.9	6.3	30.1	3.0	3.0	3.0
Chg in op assets & liab	**(30.3)**	**0.0**	**0.5**	**(11.4)**	**(29.4)**	**(17.8)**	**(80.9)**	**6.3**	**(57.0)**	**(24.8)**	**(15.7)**	**(28.2)**	**(59.8)**
Incr in WC (decr)	(18.7)	23.2	75.9	14.8	36.6	9.6	58.9	53.8	2.0	44.6	25.7	38.2	69.8
Others	49.0	(23.2)	(76.4)	(3.4)	(7.1)	8.3	22.0	(60.2)	55.0	(19.8)	10.0	10.0	10.0
Cash from operations	**(30.4)**	**7.2**	**16.6**	**23.7**	**27.3**	**35.2**	**(20.7)**	**112.1**	**84.2**	**85.1**	**83.5**	**100.2**	**112.0**
Capital expenditures	1.5	0.0	5.7	19.5	36.7	70.9	57.2	15.1	27.2	43.5	69.5	44.3	30.0
Free cash flow	**(31.9)**	**7.2**	**10.9**	**4.2**	**(9.4)**	**(35.7)**	**(77.9)**	**97.0**	**57.0**	**41.6**	**14.0**	**55.9**	**82.0**
Dividend	0.0	0.0	0.0	0.0	4.3	6.6	8.8	8.8	11.2	17.4	17.7	17.7	17.7
Incr in investment assets	0.0	0.0	0.0	0.0	0.0	(21.8)	6.3	12.6	7.0	1.4	1.2	1.3	1.4
Share issues	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	63.1	30.5	0.0	0.0	0.0
Increase in debt	(4.4)	7.9	52.9	(9.1)	7.9	(12.6)	101.4	(50.6)	(59.2)	(28.3)	5.0	(10.0)	(11.0)
Others	(9.3)	15.4	63.1	0.8	(3.6)	(30.6)	10.7	(28.8)	(21.2)	77.2	1.6	(1.2)	2.1
Net cash flow	**(46.8)**	**(0.2)**	**13.9**	**(2.3)**	**0.4**	**(9.0)**	**5.7**	**10.6**	**8.6**	**1.5**	**(1.9)**	**6.8**	**26.9**
Beginning cash	50.0	3.1	2.8	16.7	14.5	14.9	5.8	11.6	22.2	30.9	32.3	30.4	37.2
Ending cash	3.1	2.8	16.7	14.5	14.9	5.8	11.6	22.2	30.9	32.3	30.4	37.2	64.1

Stability ratios

	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
Current ratio	312.9	102.3	116.1	140.6	153.1	170.2	155.5	170.5	324.4	266.3	246.8	272.8	319.4
Quick ratio	7.0	6.0	10.6	7.9	6.9	2.7	3.8	4.8	6.5	6.4	5.6	6.0	8.4
Inv. holding period (d)	129.2	228.7	290.4	126.6	128.5	135.8	189.7	196.3	148.7	150.1	150.8	70.8	69.0
A/R collection period (d)	129.7	57.7	114.4	74.1	89.0	96.9	102.3	95.2	73.9	87.6	96.8	92.7	89.3
A/P period (days)	55.1	31.2	43.1	53.2	58.6	53.3	46.4	57.8	62.6	50.9	59.0	59.8	58.7
Interest bear debt (Wbn)	27.4	35.4	88.3	79.2	87.0	74.4	175.8	125.2	66.0	37.7	42.7	32.7	21.7
Cash & equivalents (Wbn)	30.5	5.6	18.7	16.0	14.9	12.6	26.0	76.0	136.3	86.2	84.6	112.7	162.5
Net int. bear debt (Wbn)	(3.1)	29.7	69.5	63.2	72.1	61.9	149.8	49.2	(70.2)	(48.4)	(41.9)	(80.0)	(140.8)
Net debt/equity (%)	(9.0)	83.8	63.8	43.4	38.7	26.2	56.1	13.7	(13.0)	(7.7)	(6.3)	(10.7)	(16.3)
Liability/equity (%)	119.7	148.0	130.2	103.7	95.0	80.4	105.6	98.7	36.7	36.5	38.3	35.5	31.9
Interest coverage (X)	(0.1)	10.8	2.2	9.5	10.9	16.3	10.0	12.5	27.1	25.1	40.1	54.8	107.4

Valuations and margins

	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
EV/EBITDA (X)	483.3	99.5	151.9	32.9	21.9	19.9	18.6	10.0	8.2	14.5	12.6	9.3	6.5
EPS (W)	1,004	1,495	782	3,284	3,858	4,922	5,423	8,936	10,683	5,686	7,194	9,528	13,494
EPS yoy chg (%)	(82.0)	48.9	(47.7)	320.2	17.5	27.6	10.2	64.8	19.6	(46.8)	26.5	32.4	41.6
PER (X)	144.9	97.3	186.2	44.3	37.7	29.6	26.8	16.3	13.6	25.6	20.2	15.3	10.8
BVPS (W)	6,598	7,367	15,755	16,168	20,638	26,189	29,649	39,818	57,651	63,248	65,665	73,453	85,453
P/BVPS (X)	22.1	19.7	9.2	9.0	7.1	5.6	4.9	3.7	2.5	2.3	2.2	2.0	1.7
Dividend/sh (W)	1,000	1,000	1,000	1,000	2,000	2,000	1,000	1,250	1,750	1,751	1,750	1,750	0
Dividend yield (%)	0.7	0.7	0.7	0.7	1.4	1.4	0.7	0.9	1.2	1.2	1.2	1.2	0.0
ROE (%)	12.4	20.8	9.8	23.2	21.0	21.0	19.4	25.7	23.2	9.8	11.3	13.7	17.0
ROA (%)	4.7	8.9	4.2	10.8	10.5	11.3	10.0	12.8	14.4	7.2	8.2	10.0	12.7
GP margin (%)	33.6	33.0	33.2	36.1	40.6	40.8	39.6	41.9	39.8	33.7	34.1	35.5	36.9
OP margin (%)	(0.3)	7.0	3.5	9.1	13.5	13.2	13.2	18.6	18.4	11.1	11.0	12.7	14.8
NP margin (%)	10.5	6.9	5.0	7.9	8.6	10.0	9.5	12.5	13.2	7.5	8.5	9.9	11.5
EBITDA margin (%)	3.1	7.0	6.4	11.2	15.6	15.6	15.2	21.2	20.8	12.8	13.3	15.3	17.2
ROIC (%)	(0.4)	19.8	8.9	12.0	16.7	15.5	15.7	22.3	25.7	10.8	11.9	14.8	19.4
WACC (%)	7.4	6.2	11.2	9.9	10.3	9.2	8.3	6.5	10.4	17.3	8.3	9.7	9.8
ROIC less WACC (%)	(7.9)	13.6	(2.3)	2.1	6.4	6.3	7.4	15.8	15.3	(6.5)	3.6	5.2	9.7

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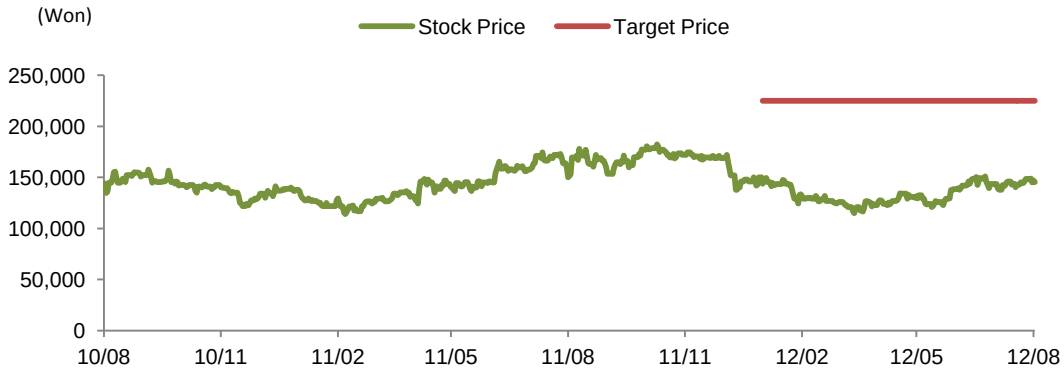
▶ Ratings and target price history in past two years

Green Cross (006280 KS)		
Date	2012-01-09	2012-08-13
Rating	BUY	BUY(Maintain, Change of analyst)
Target Price	225,000	225,000

▶ Target price changes in past two years



▶ Investment period and ratings

Company	
BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

Industry	
OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months

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CTCBIO (060590 KQ) – 2Q12 Provisional Earnings

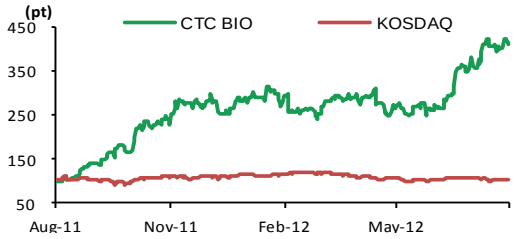
BUY (Maintain)

Target Price	**W21,800**
Current Price	**W16,900**
Upside Potential (%)	**29.0%**

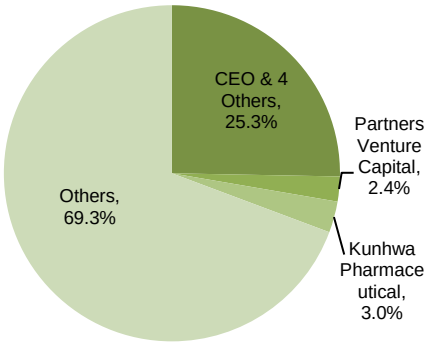
Key Data	**August 10th 2012**
Sector	Pharma & Bio
KOSDAQ	475.51
Market Cap. (Wbn)	239.2
Shares Outstanding (m)	14.2
Foreign Ownership (%)	0.3
52 Week High (KRW)	17,500
Low (KRW)	5,760
60-d avg. turnover (Wbn)	7.2
Major Shareholders	**(%)**
Sung Lin Kim, Ho Youn Jo & 2 Others	29.1
Kunhwa Pharmaceutical	3.0

Performance (%)	**1M**	**6M**	**12M**
Absolute	7.0	48.2	309.0
Relative	10.3	58.3	307.7

Relative Performance



Shareholders



Key issues…

- ✓ **In 2Q, revenue increased 50.5% YoY and OP turned to black YoY**
- ✓ **3Q growth to be strong as technology transfer fee previously scheduled to be received in 2Q has been moved to 3Q**
- ✓ **Maintaining the target price of W21,800**

In 2Q12, +50.5% yoy in revenue, turned to black yoy in OP

- In 2Q, CTCBIO recorded W24.2bn (50.5% yoy) in revenue and W2bn in OP (turned to black yoy)
- Revenue and OP decreased 6.7% and 58.1% respectively form 1Q12 due to technology transfer fees is delayed to 3Q
- As such, CTCBIO is expected to generate the largest quarterly revenue of W28.2bn and OP of W5bn in 3Q12

Pharmaceutical division – a new growth engine

- CTCBIO launched a film type erectile dysfunction drugs in the domestic market in June
- Besides initial orders of 2.25m units, the company received additional orders of 4m units, which will be supplied in 3Q
- CTCBIO signed export contracts with 44 countries which amounts to US$10m (expected minimum in 5 years) and will export Validation batch to India and Indonesia in 2H12The company is expected to launch premature ejaculation inhibitor as soon as it receives approval from the KFDA
- A clinical trial for a drug that combines erectile dysfunction and premature ejaculation, which was planned to take place in Australia, has been postponed to November to insure conformity with the U.S FDA and Europe EMA
- CTCBIO is expected to generate consistent revenue from human drugs with OPM of around 20%, which is expected to lead the company's total margin

Animal drugs – expected to record stable revenue and expand new products export

- In 2Q, CTCBIO recorded stable revenue of W22bn and expects to expand export of CTCZYME which is an enzyme additive

Solved an overhang issue

- BW of W5bn, which was held by the management, was transferred to Kunhwa Pharmaceutical and an anonymous company (W2.5bn each)
- BW of8938,155 shares, 5.9% of the outstanding shares, was exercised and listed in the market, and the total outstanding shares not stand at 14,153,766 shares

Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	81.6	26.6	3.9	4.7	2.6	308	N/A	54.9	28.8	7.2	3.5
2010	88.0	7.8	4.0	4.5	0.8	98	(68.0)	171.7	28.2	2.1	3.6
2011	94.0	6.8	0.8	0.8	(0.9)	(69)	N/A	N/A	77.7	-2.0	3.9
2012E	132.3	40.8	14.8	11.2	10.6	748	N/A	22.6	15.4	21.1	4.0
2013F	152.7	15.4	18.2	11.9	13.7	968	29.5	17.5	12.4	22.0	3.5
2014F	203.5	33.3	33.6	16.5	1.0	1,924	98.7	8.8	6.8	32.9	2.5

Exhibit 1. 2Q12 Provisional Earnings Review

(Wbn,%)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12E	3Q12F	4Q12F	2Q12E QoQ(%)	2Q12E YoY(%)
Revenue	17.9	16.1	18.6	19.8	26.0	**24.3**	28.2	31.3	(6.7)	50.5
Adjusted OP	(0.1)	(0.4)	0.7	0.6	4.7	**2.0**	5.0	3.9	(58.1)	TB
Income before tax	(0.6)	0.0	0.1	(0.2)	4.2	**1.6**	4.3	3.2	(61.5)	6,691.2
Net profit	(0.5)	0.1	0.1	(0.3)	3.3	**1.3**	3.4	2.5	(61.1)	1,757.7
OPM(%)	(0.6)	(2.6)	3.5	2.9	18.0	**8.1**	17.7	12.5		
NPM(%)	(2.7)	0.4	0.5	(1.4)	12.6	**5.2**	11.9	8.0		

Source: Leading research, IFRS Non-consolidated

Exhibit 2. Annual Earnings

(Wbn,%)	2011	2012E	2013F	2014F	YoY (%) 2012E	2013F	2014F
Revenue	94.0	132.2	152.7	203.5	40.7	15.5	33.3
Adjusted OP	0.8	14.8	18.2	33.6	1,809.2	22.7	84.8
Income before tax	(1.0)	12.4	16.1	32.0	TB	29.6	98.7
Net profit	(0.9)	10.6	13.7	27.2	TB	29.6	98.7
EPS	TR	859	1,113	2,212	TB	29.6	98.7
OPM(%)	0.8	11.2	11.9	16.5			
NPM(%)	(0.9)	8.0	9.0	13.4			

Source: Leading research, IFRS Consolidated, Including revenue of CTC Green

Exhibit 3. Sales by product

Product		1Q12	2Q12E	3Q12E	4Q12E	1Q13F	2Q13F	3Q12F	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F
Animal		18.4	22.0	22.1	20.0	21.9	24.9	23.9	22.9	25.4	29.4	28.4	26.4
Human	Drug	4.9	4.2	4.1	4.8	5.8	5.6	5.9	6.5	10.5	12.5	13.5	12.5
	Tech.	2.2	0.9	1.7	1.3	2.5	1.5	2.5	1.5	3.1	2.5	3.0	2.5
	Others	0.5	1.0	1.1	1.0	1.4	1.4	1.4	1.4	3.0	3.0	3.0	3.0
Total		26.0	28.1	29.0	27.1	31.6	33.4	33.7	32.3	42.0	47.4	47.9	44.4

Source: Leading research, IFRS Non-consolidated

Exhibit 4. Quarterly Earnings Change

(Wbn,%)	Before				After				Change (%)		
	1Q12	2Q12P	3Q12E	4Q12E	1Q12	2Q12P	3Q12E	4Q12E	2Q12P	3Q12E	4Q12E
Revenue	26.0	25.7	27.7	30.8	26.0	24.3	28.2	31.3	(5.4)	1.8	1.6
Adjusted OP	4.7	3.0	3.7	3.5	4.7	2.0	5.0	3.9	(33.3)	35.1	11.4
Income before tax	4.1	2.3	3.0	3.0	4.2	1.6	4.3	3.2	(30.4)	43.3	6.7
Net profit	3.5	2.0	2.6	2.6	3.3	1.3	3.4	2.5	(35.0)	30.8	(3.8)

Source: Leading research, IFRS Non-consolidated

Financial Statement

Income Statement

(Wbn)	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
Revenue	**23.2**	**25.3**	**31.5**	**40.8**	**44.5**	**56.6**	**64.5**	**81.6**	**88.0**	**94.0**	**132.3**	**152.7**	**203.5**
% chg yoy	5.0	9.2	24.6	29.5	9.0	27.3	13.8	26.6	7.8	6.8	40.8	15.4	33.3
COGS	16.1	17.2	21.7	27.5	30.2	36.8	43.2	57.3	61.0	67.8	80.2	94.8	118.0
Gross profit	**7.1**	**8.1**	**9.8**	**13.3**	**14.3**	**19.9**	**21.3**	**24.3**	**27.0**	**26.2**	**52.1**	**57.9**	**85.5**
GP margin (%)	30.5	32.2	31.0	32.6	32.1	35.1	33.0	29.8	30.6	27.9	39.4	37.9	42.0
SG&A	**5.5**	**7.4**	**8.5**	**11.3**	**13.1**	**17.9**	**18.2**	**20.5**	**23.0**	**25.4**	**37.3**	**39.7**	**51.9**
Operating income	**1.6**	**0.7**	**1.3**	**2.0**	**1.2**	**1.9**	**3.1**	**3.9**	**4.0**	**0.8**	**14.8**	**18.2**	**33.6**
Adj. OP margin (%)	**6.7**	**2.8**	**4.1**	**4.9**	**2.7**	**3.4**	**4.8**	**4.7**	**4.5**	**0.8**	**11.2**	**11.9**	**16.5**
Net other income	(0.0)	(0.5)	0.6	0.2	0.3	(0.2)	(2.8)	0.5	(1.6)	(0.2)	(0.1)	(0.1)	(0.1)
Reported OP	**1.6**	**0.7**	**1.3**	**2.0**	**1.2**	**1.9**	**3.1**	**3.9**	**2.4**	**0.6**	**14.7**	**18.1**	**33.5**
Net equity method gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	0.4	(0.4)	(0.1)	0.1	0.2
Financial income	0.1	0.2	0.1	0.1	0.3	0.2	0.2	0.2	0.5	1.0	0.2	0.4	0.6
Financial expenses	0.0	0.4	0.6	0.5	0.3	0.5	0.8	1.4	2.5	2.2	2.4	2.4	2.2
Income before tax	1.6	0.1	1.4	1.8	1.5	1.4	(0.3)	3.1	0.7	(1.0)	12.5	16.1	32.0
Income tax	0.3	(0.5)	0.2	0.3	0.3	0.2	(0.1)	0.5	(0.1)	(0.1)	1.9	2.4	4.8
Tax rate (%)	0.2	(8.2)	0.2	0.1	0.2	0.1	0.3	0.2	(0.1)	0.1	0.2	0.2	0.2
Net profit	**1.3**	**0.5**	**1.2**	**1.5**	**1.2**	**1.2**	**(0.3)**	**2.6**	**0.8**	**(0.9)**	**10.6**	**13.7**	**27.2**
Controlling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	(0.8)	10.6	13.7	27.2
Non-controlling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	0.0	0.0	0.0
Other comprehensive inc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	1.3	0.0	0.0	1.0
Total comprehensive inc	1.3	0.5	1.2	1.5	1.2	1.2	(0.3)	2.6	0.7	0.5	10.6	13.7	28.2

Balance sheet

(Wbn)	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
Current assets	**9.8**	**14.1**	**14.3**	**26.4**	**22.6**	**24.1**	**30.8**	**55.3**	**46.0**	**53.1**	**59.0**	**69.7**	**88.9**
Cash & equivalents	0.8	0.2	0.3	1.7	3.1	0.6	0.3	9.9	2.9	4.3	4.5	6.9	9.9
ST financial assets	0.8	1.4	0.7	7.6	3.1	2.7	1.1	8.6	3.0	0.8	1.1	3.6	4.8
Accounts receivables	4.2	4.5	7.6	10.3	10.4	13.6	18.1	20.8	20.4	24.8	31.9	34.7	45.4
Inventory	2.2	3.2	3.8	5.5	4.9	7.3	11.1	14.9	16.0	21.3	20.4	23.3	27.7
Others	1.7	4.8	2.0	1.2	1.0	(0.0)	0.1	1.3	3.6	1.9	1.2	1.2	1.1
Non-current assets	**6.8**	**14.2**	**16.1**	**16.0**	**18.2**	**19.3**	**21.1**	**26.8**	**32.3**	**40.2**	**46.6**	50.4	51.4
Tangible Assets	3.5	9.8	10.8	10.0	12.4	14.0	14.1	17.8	19.7	25.5	30.2	34.3	36.0
LT financial assets	1.3	1.3	1.8	2.9	2.2	0.8	2.0	4.2	4.8	8.1	8.3	8.2	8.2
Inv in related co's	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.7	1.1	1.1	1.1	1.1
Inv in joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	2.0	3.1	3.5	3.1	3.6	4.5	5.0	4.0	6.1	5.5	7.0	6.8	6.1
Total assets	**16.6**	**28.3**	**30.4**	**42.4**	**40.7**	**43.4**	**51.9**	**82.1**	**78.2**	**93.3**	**105.6**	**120.1**	**140.3**
Current liabilities	**2.5**	**8.0**	**5.6**	**8.6**	**5.2**	**9.5**	**16.6**	**38.9**	**37.6**	**39.3**	**40.3**	**40.6**	**34.2**
Accounts payables	0.5	0.7	0.6	0.8	0.7	1.0	0.9	4.1	3.7	4.6	5.1	5.9	7.3
ST financial liabilities	0.9	6.0	4.1	6.9	2.5	7.2	14.5	32.5	31.6	31.8	31.8	31.8	23.8
Others	1.2	1.3	0.9	0.9	2.0	1.4	1.3	2.3	2.4	2.9	3.3	2.9	3.0
Non-current liabilities	**0.5**	**5.4**	**6.8**	**3.2**	**4.9**	**2.3**	**3.7**	**3.5**	**1.8**	**9.2**	**10.0**	**10.3**	**9.8**
LT payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT financial liabilities	0.0	4.8	6.1	2.7	4.1	1.3	2.5	2.0	0.0	7.1	7.1	7.1	7.1
Others	0.5	0.6	0.7	0.5	0.7	1.0	1.1	1.5	1.8	2.1	2.9	3.2	2.7
Total liabilities	**3.0**	**13.4**	**12.3**	**11.7**	**10.1**	**11.8**	**20.3**	**42.3**	**39.4**	**48.5**	**50.2**	**50.9**	**43.9**
Paid-in capital	2.0	2.0	2.6	4.1	4.1	4.1	4.1	4.2	4.2	6.2	6.2	6.2	6.2
Capital surplus	5.0	5.8	7.2	16.8	16.8	16.8	16.9	19.9	19.9	21.6	21.6	21.6	21.6
Others	0.0	(0.0)	(0.0)	0.0	0.0	0.0	(0.2)	2.9	0.6	2.1	2.1	2.1	2.1
Retained earnings	(0.0)	(0.0)	(0.0)	0.2	(0.5)	(0.4)	0.2	(0.0)	(1.9)	(0.0)	0.0	0.0	0.0
Non-controlling interest	6.6	7.1	8.3	9.6	10.3	11.2	10.6	12.8	16.0	15.0	25.6	39.3	66.5
Total shareholder equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance sheet	**13.6**	**14.9**	**18.0**	**30.6**	**30.7**	**31.6**	**31.5**	**39.8**	**38.8**	**44.8**	**55.4**	**69.1**	**96.4**

Free cashflow analysis

(Wbn)	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
Net profit	**1.3**	**0.5**	**1.2**	**1.5**	**1.2**	**1.2**	**(0.3)**	**2.6**	**0.8**	**(0.9)**	**10.6**	**13.7**	**27.2**
Adj. for non-cash exp.	**0.4**	**1.1**	**0.8**	**1.6**	**2.0**	**2.7**	**2.9**	**2.7**	**5.5**	**4.5**	**2.0**	**2.6**	**3.2**
Depreciation	0.3	0.4	0.9	1.0	1.0	1.0	1.3	1.3	1.4	1.6	2.3	2.9	3.3
Provision for reserves	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7
Net FX gains	0.0	(0.3)	(0.0)	0.0	(0.0)	(0.3)	(1.0)	(0.0)	(0.0)	0.2	0.0	0.0	0.0
Net eq method gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	0.4	(0.4)	0.0	0.0	0.0
Others	(0.1)	0.2	(0.5)	0.2	0.5	0.9	0.0	0.6	3.5	1.5	1.4	1.4	1.3
Chg in op assets & liab	**(1.2)**	**(4.6)**	**(2.2)**	**(3.8)**	**1.0**	**(5.6)**	**(8.8)**	**(4.3)**	**(3.9)**	**(7.2)**	**(5.1)**	**(4.5)**	**(13.2)**
Incr in WC (decr)	1.4	1.0	3.9	4.2	(0.3)	5.2	8.4	3.3	1.2	8.8	5.6	5.0	13.7
Others	(0.3)	3.5	(1.7)	(0.4)	(0.6)	0.5	0.5	1.1	2.7	(1.6)	0.5	0.5	0.5
Cash from operations	**0.5**	**(2.9)**	**(0.2)**	**(0.7)**	**4.1**	**(1.7)**	**(6.2)**	**0.9**	**2.4**	**(3.6)**	**7.5**	**11.8**	**17.2**
Capital expenditures	2.0	6.7	2.0	0.3	3.4	2.6	1.4	1.4	4.0	8.1	7.0	7.0	5.0
Free cash flow	**(1.4)**	**(9.7)**	**(2.2)**	**(1.0)**	**0.8**	**(4.4)**	**(7.5)**	**(0.5)**	**(1.5)**	**(11.6)**	**0.5**	**4.8**	**12.2**
Dividend	0.0	0.0	0.0	0.3	0.4	0.4	0.3	0.3	0.8	0.0	0.0	0.0	0.0
Incr in investment assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	(0.1)	0.0	0.0	0.0
Share issues	4.6	0.0	2.1	9.5	0.0	0.0	0.0	0.0	0.0	3.7	0.0	0.0	0.0
Increase in debt	(0.4)	9.9	(0.6)	(0.6)	(3.0)	1.9	8.5	17.5	(2.9)	7.3	0.0	0.0	(8.0)
Others	1.4	0.0	(0.6)	(2.3)	1.1	1.4	1.2	(3.1)	5.6	(0.3)	0.0	0.0	0.0
Net cash flow	**0.1**	**(0.5)**	**0.0**	**1.5**	**1.3**	**(2.4)**	**(0.2)**	**9.5**	**(6.9)**	**1.5**	**0.2**	**2.3**	**3.0**
Beginning cash	0.7	0.8	0.2	0.3	1.7	3.1	0.6	0.3	9.9	2.9	4.3	4.5	6.9
Ending cash	0.8	0.2	0.3	1.7	3.1	0.6	0.3	9.9	2.9	4.3	4.5	6.9	9.9

Stability ratios

	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
Current ratio	384.8	176.9	256.6	307.5	435.2	253.9	184.7	142.3	122.2	135.0	146.7	171.6	260.4
Quick ratio	8.6	1.8	1.8	6.6	13.6	2.5	1.1	17.8	6.3	8.2	7.6	9.9	11.1
Inv. holding period (d)	60.4	74.4	78.6	69.5	73.9	91.2	109.7	98.2	111.4	112.1	99.4	44.9	42.9
A/R collection period (d)	62.4	62.4	69.8	80.0	85.1	77.5	89.7	86.9	85.5	87.9	78.3	79.5	71.8
A/P period (days)	15.6	11.8	10.7	8.5	8.8	7.7	7.3	14.9	22.9	20.7	22.4	20.6	19.7
Interest bear debt (Wbn)	0.9	10.8	10.2	9.6	6.6	8.5	17.0	34.5	31.6	38.9	38.9	38.9	30.9
Cash & equivalents (Wbn)	1.7	1.7	0.9	9.3	6.2	3.3	1.5	18.4	5.9	5.1	5.6	10.5	14.7
Net int. bear debt (Wbn)	(0.8)	9.1	9.3	0.3	0.4	5.2	15.6	16.1	25.6	33.8	33.3	28.4	16.2
Net debt/equity (%)	(5.6)	60.8	51.5	0.9	1.4	16.6	49.3	40.4	66.1	75.3	60.0	41.1	16.8
Liability/equity (%)	22.1	89.7	68.5	38.3	32.7	37.5	64.5	106.4	101.6	108.2	90.6	73.6	45.6
Interest coverage (X)	53.6	2.1	2.3	4.0	3.6	4.6	3.7	2.8	1.7	0.4	6.1	7.5	15.5

Valuations and margins

	02	03	04	05	06	07	08	09	10	11	12E	13F	14F
EV/EBITDA (X)	34.8	65.3	43.0	44.5	58.6	45.3	33.0	28.8	28.2	77.7	15.4	12.4	6.8
EPS (W)	339	134	227	188	145	150	(31)	308	98	(69)	748	968	1,924
EPS yoy chg (%)	(56.9)	(60.5)	69.3	(17.1)	(23.1)	3.4	N/A	N/A	(68.0)	N/A	N/A	29.5	98.7
PER (X)	49.8	126.1	74.4	89.8	116.8	113.0	N/A	54.9	171.7	N/A	22.6	17.5	8.8
BVPS (W)	4,578	3,820	4,003	4,623	3,766	3,874	3,869	4,823	4,646	4,338	4,189	4,885	6,810
P/BVPS (X)	3.7	4.4	4.2	3.7	4.5	4.4	4.4	3.5	3.6	3.9	4.0	3.5	2.5
Dividend/sh (W)	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	12.5	3.7	7.0	6.3	3.8	3.9	(0.8)	7.2	2.1	(2.0)	21.1	22.0	32.9
ROA (%)	9.7	2.3	4.0	4.2	2.8	2.9	(0.5)	3.8	1.0	(1.0)	10.6	12.1	20.9
GP margin (%)	30.5	32.2	31.0	32.6	32.1	35.1	33.0	29.8	30.6	27.9	39.4	37.9	42.0
OP margin (%)	6.7	2.8	4.1	4.9	2.7	3.4	4.8	4.7	4.5	0.8	11.2	11.9	16.5
NP margin (%)	5.7	2.1	3.7	3.8	2.7	2.2	(0.4)	3.1	0.9	(0.9)	8.0	9.0	13.4
EBITDA margin (%)	8.1	4.5	7.0	7.6	5.3	5.6	7.2	6.7	6.7	3.3	13.4	14.1	18.4
ROIC (%)	12.6	35.5	4.2	5.8	3.1	5.0	5.3	6.2	7.4	1.0	15.1	16.6	27.2
WACC (%)	10.4	29.8	8.4	14.7	12.2	7.1	8.8	6.0	7.1	8.5	8.0	9.7	11.9
ROIC less WACC (%)	2.2	5.6	(4.2)	(8.9)	(9.0)	(2.2)	(3.5)	0.2	0.3	(7.5)	7.0	6.9	15.3

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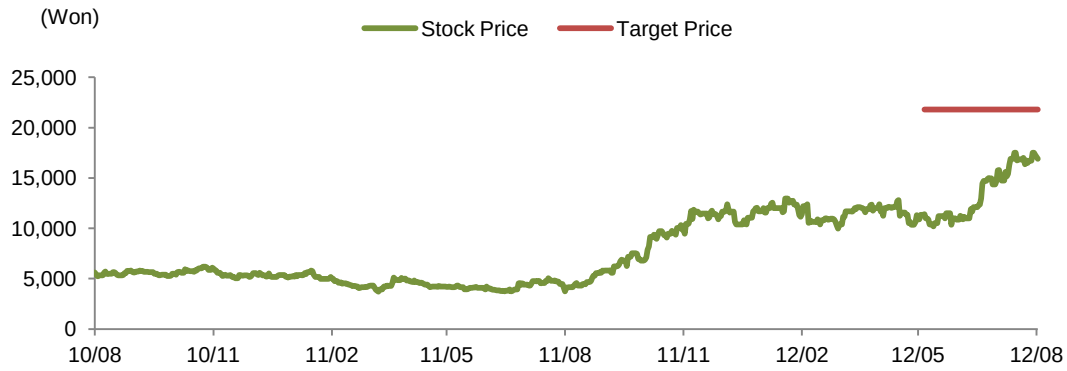
▶ Ratings and target price history in past two years

CTCBIO (060590 KQ)		
Date	2012-05-14	2012-08-13
Rating	BUY	BUY(Maintain, Change of analyst)
Target Price	21,800	21,800

▶ Target price changes in past two years



▶ Investment period and ratings

Company	
BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

Industry	
OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months

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Signetics (033170 KQ) – 2Q12 Earnings Preview

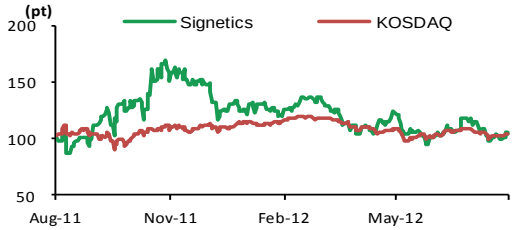
BUY(Maintain)

Target Price	**W6,000**
Current Price	**W3,175**
Upside Potential (%)	**88.9%**

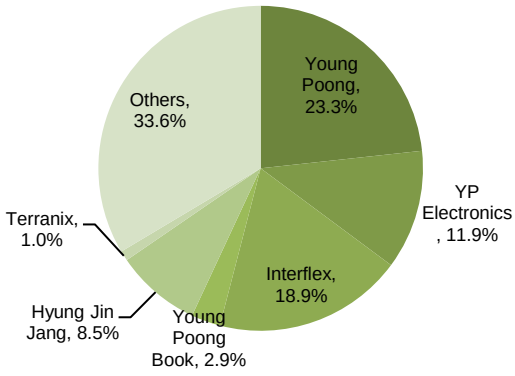
Key Data	**August 10th 2012**
Market Cap. (Wbn)	272.2
Shares Outstanding (m)	85.7
Foreign Ownership (%)	0.4
52 Week High (KRW)	5,220
Low (KRW)	2,660
60-d avg. turnover (Wbn)	2.1
Major Shareholders	**(%)**
Young Poong & 5 Others	66.4
Others	33.6
KOSDAQ	469.61

Performance (%)	**1M**	**6M**	**12M**
Absolute	(12.9)	(13.7)	2.8
Relative	(9.6)	(3.7)	1.4

Relative Performance



Shareholders



Key issues…

- ✓ **In 2Q, W83bn (12.9% yoy) in revenue, W6.5bn (-22.9% yoy) in OP is expected**
- ✓ **Stable revenue growth by diversifying clients base and product portfolios**
- ✓ **Benefited from increased demand for mobile (eMMC)**
- ✓ **Expected to increase revenue in packaging by launching eMCP of SK Hynix**

In 2Q, W83bn (12.9% yoy) in revenue, W6.5bn (-22.9% yoy) in OP

- In 2Q, Signetics recovered from 1Q with W83bn (33.2% qoq) in revenue and W6.5bn (202.2%) in OP.
- eMMC (embedded Multi Media Card) for mobile led revenue increase, and demand for eMMC is expected to increase in 2H.
- In 2Q, operating rate was around 85% which rebounded at normal level.
- Sales proportion of eMMC, a new product, is 14% in 2Q and led profitability increase.

In 2H, expectations on a mobile product, eMCP

- Signetics completed development of packaging for eMCP (Embedded Multi Chip Package) with SK Hynix and is expected to generate revenue beginning 3Q.
- Demand for eMCP, a new product for smartphones, is currently low but there is high possibility to it to be selected as the standard for smartphones.
- Since profitability of eMCP package is higher than general MCP, it is expected to increase company's profitability in 2H.

Diverse portfolios and client diversification which are company's strengths

- As memory and non-memory account for 44% and 56%, respectively, of total revenue in 2Q, Signetics is expected to grow stably with diverse clients.
- Signetics recorded OPM of 7.8% in 2Q through securing diverse clients and unbiased revenue under sluggish semiconductor market condition.
- In 2H, Signetics is expected to generate stable revenue thanks to increase of demand for non-memory, eMMC for mobile, and eMCP.

Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	199.6	5.6	16.5	8.3	11.3	172	N/A	18.5	7.62	17.0	2.3
2010	238.7	19.6	23.9	10.0	19.6	229	33.4	13.9	6.61	17.2	1.7
2011	276.8	16.0	20.4	7.4	15.2	178	(22.3)	17.9	6.31	10.4	1.8
2012E	326.3	17.9	27.6	8.5	23.0	268	50.7	11.9	5.5	14.3	1.6
2013F	424.4	30.1	47.3	11.2	41.6	485	81.1	6.5	3.5	21.6	1.3
2014F	511.2	20.5	58.8	11.5	50.2	586	20.9	5.4	3.9	21.0	1.0

2Q Earnings Review and 2H Forecast

In 2Q, W83bn (12.9% yoy) in revenue, W6.5bn (-22.9% yoy) in OP

In 2Q, Signetics recovered from 1Q by recoding W83bn (33.2%, qoq) in revenue and W6.5bn (202.2%, qoq) in OP. In spite of sluggish semiconductor market condition, diverse portfolios, which are the strength of Signetics, led the company's revenue and OP.

Beginning to generate revenue in eMMC from 2Q12

Since April, Signetics begun to generate revenue in eMMC which grows along with demand for mobile and is expected to record the largest revenue in 3Q. Demand for eMMC, which is NAND flash mainly used in Tablet PC, increases along with Tablet PC's growth. Therefore, eMMC is expected to lead the company's growth.

Benefited from increased demand for eMMC

Mobile memory, eMCP which is similar to eMMC, is a multi chip which put controller chip, mobile DRAM, and NAND flash together. As smartphones become thin, necessity for technologies to minimize package size has increased. eMCP is expected to substitute for existing MCP in many smartphones as a standard product.

Possibility of beginning to generate revenue in eMCP in 3Q

Signetics secures layering technologies for chip package and has an ability to produce eMCP. Signetics may package SK Hynix's eMCP in 3Q12, and it is expected to improve Signetics' revenue in 2H.

Exhibit 4. 2Q12 Earnings Preview

(Wbn,%)	2Q11	3Q11	1Q12	2Q12P	3Q12E	4Q12E	2Q12P QoQ(%)	2Q12 YoY(%)
Revenue	73.5	77.5	62.3	83.0	91.0	90.0	33.2	12.9
Adjusted OP	8.4	6.8	2.2	6.5	9.5	9.5	202.2	(22.9)
Reported OP	9.4	4.8	2.2	6.5	9.5	9.5	202.2	(30.7)
Income before tax	8.6	4.3	3.1	5.3	8.6	8.8	70.6	(38.2)
Net profit	7.6	3.2	2.4	4.7	8.0	7.9	94.8	(38.2)
OPM(%)	12.8	6.2	3.5	7.8	10.4	10.6	N/A	N/A
NPM(%)	10.3	4.1	3.9	5.7	8.8	8.8	N/A	N/A

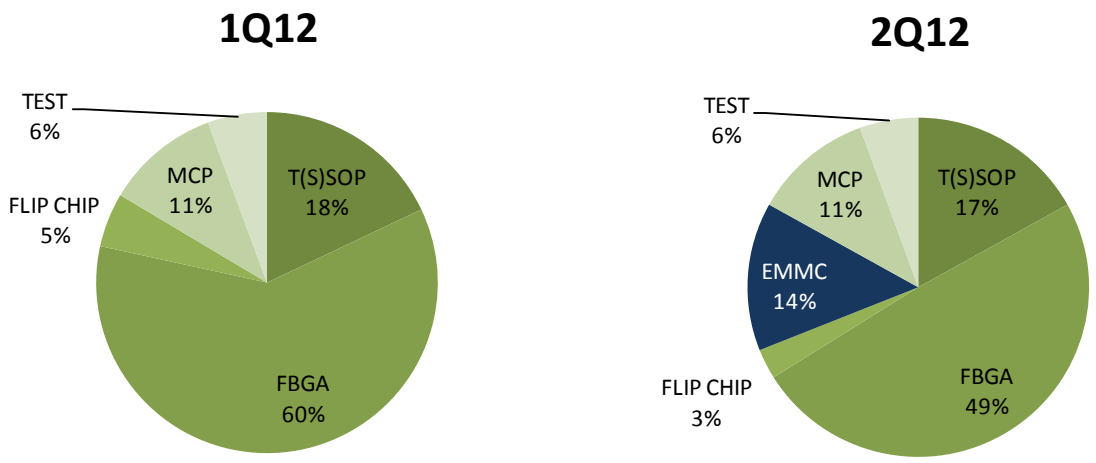
Source: Leading research, IFRS Consolidated

Exhibit 5. Annual Earnings Forecast

(Wbn,%)	2010	2011	2012F	2013F	2014F	2011 YoY(%)	2012F YoY(%)	2013F YoY(%)	2014F YoY(%)
Revenue	238.7	276.8	326.3	424.4	511.2	16.0	17.9	30.1	20.5
Adjusted OP	23.9	20.4	27.6	47.3	58.8	(14.7)	35.2	71.6	24.2
Reported OP	23.9	20.4	27.6	47.3	58.8	(14.7)	35.2	71.6	24.2
Income before tax	20.5	18.6	25.8	46.7	59.1	(9.4)	38.6	81.1	26.6
Net profit	19.6	15.2	23.0	41.6	50.2	(22.3)	50.7	81.1	20.9
OPM(%)	10.0	7.4	8.5	11.2	11.5	-	-	-	-
NPM(%)	8.2	5.5	7.0	9.8	9.8	-	-	-	-

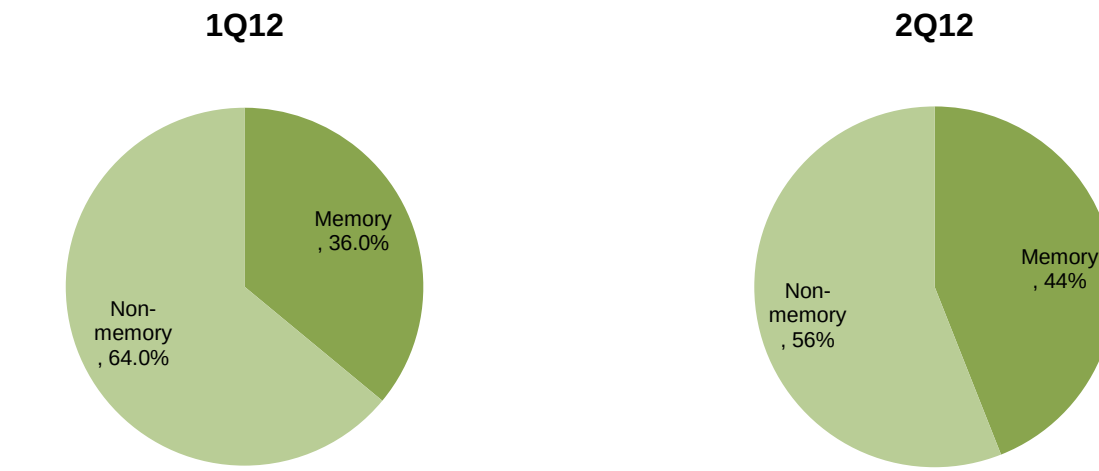
Source: Leading research, IFRS Consolidated

Exhibit 6. 2Q12 product portfolio trend



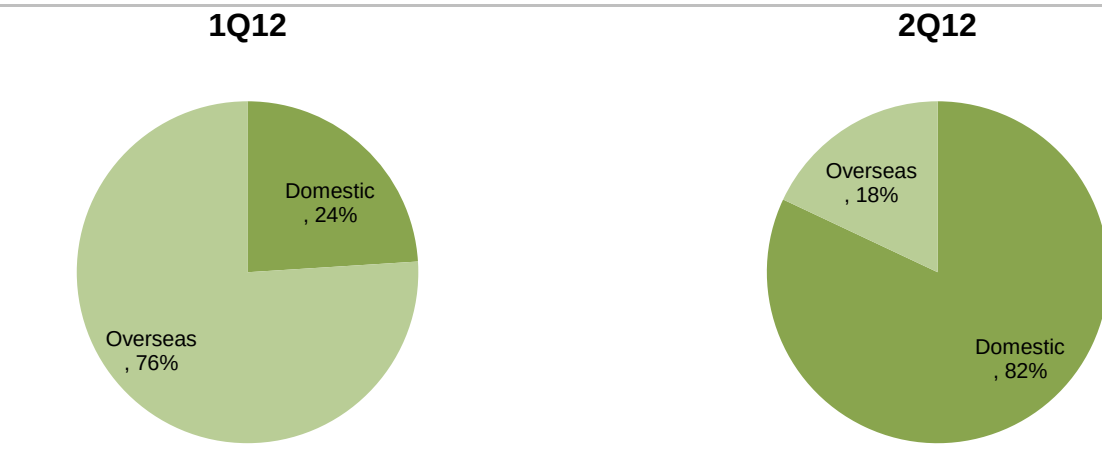
Source: Leading Research Center, Company data

Exhibit 7. 2Q12 proportion on memory trend



Source: Leading Research Center, Company data

Exhibit 8. 2Q12 proportion of domestic/overseas markets trend



Source: Leading Research Center, Company data

Financial Statement

Income Statement

(Wbn)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Revenue	**71.7**	**87.7**	**133.2**	**142.6**	**153.7**	**167.9**	**189.0**	**199.6**	**238.7**	**276.8**	**326.3**	**424.4**	**511.2**
% chg yoy	12.5	22.4	51.9	7.1	7.8	9.3	12.5	5.6	19.6	16.0	17.9	30.1	20.5
COGS	93.6	95.2	121.1	129.3	138.6	149.0	167.2	177.8	208.5	249.3	290.4	366.3	440.1
Gross profit	**(21.9)**	**(7.5)**	**12.1**	**13.4**	**15.1**	**19.0**	**21.7**	**21.8**	**30.2**	**27.5**	**35.9**	**58.1**	**71.1**
GP margin (%)	(30.6)	(8.5)	9.1	9.4	9.8	11.3	11.5	10.9	12.6	9.9	11.0	13.7	13.9
SG&A	**6.3**	**4.6**	**4.9**	**4.9**	**4.1**	**5.0**	**5.5**	**5.2**	**6.2**	**7.0**	**8.3**	**10.8**	**12.3**
Operating income	**(28.2)**	**(12.1)**	**7.2**	**8.5**	**11.0**	**13.9**	**16.2**	**16.5**	**23.9**	**20.4**	**27.6**	**47.3**	**58.8**
Adj. OP margin (%)	(39.4)	(13.8)	5.4	6.0	7.2	8.3	8.6	8.3	10.0	7.4	8.5	11.2	11.5
Non-operating income	7.6	1.0	9.5	4.7	7.4	2.2	5.6	4.5	4.3	4.4	4.3	4.3	4.4
Interest income	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.2	0.2	0.2	0.2
FX related gains	6.9	0.7	8.5	3.5	5.4	0.7	4.0	4.0	3.7	3.1	3.0	3.0	3.1
Equity method gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-operating expenses	24.5	9.1	7.9	7.3	10.3	12.2	21.7	8.5	7.7	6.2	6.1	4.9	4.0
Interest expenses	11.5	6.4	5.9	6.4	7.0	7.5	6.8	5.0	3.2	2.6	2.4	1.6	1.0
FX related losses	0.8	1.8	1.3	0.6	1.2	1.5	13.8	1.8	3.6	3.4	3.4	3.1	2.9
Equity method losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	**(43.8)**	**23.1**	**8.8**	**5.9**	**8.1**	**3.9**	**0.1**	**12.5**	**20.5**	**18.6**	**25.8**	**46.7**	**59.1**
Tax	0.0	0.0	0.0	0.0	(2.3)	(1.6)	(1.3)	1.3	0.9	3.4	2.8	5.1	8.9
Tax rate (%)	0.0	0.0	0.0	0.0	(28.0)	(42.5)	(1,467.1)	10.1	4.5	18.1	11.0	11.0	15.0
Net income	**(43.8)**	**23.1**	**8.8**	**5.9**	**10.4**	**5.5**	**1.4**	**11.3**	**19.6**	**15.2**	**23.0**	**41.6**	**50.2**

Balance sheet

(Wbn)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Cash & equivalents	0.4	0.3	0.4	0.0	4.7	1.5	1.9	4.3	20.3	5.0	4.2	26.6	58.4
Marketable securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivables	10.1	13.4	13.1	17.1	16.4	19.8	10.1	20.7	14.9	18.3	19.6	24.6	29.6
Other quick assets	2.5	3.7	3.8	4.4	3.4	5.4	4.8	4.9	4.8	2.2	4.0	3.9	4.9
Total quick assets	13.3	17.4	17.3	21.5	24.5	26.7	16.8	29.9	40.1	25.6	27.7	55.2	93.0
Inventory	5.9	5.7	8.5	10.5	7.6	10.0	12.9	9.6	14.2	13.7	18.9	21.2	25.5
Total current assets	**19.2**	**23.1**	**25.8**	**32.0**	**32.2**	**36.6**	**29.7**	**39.5**	**54.3**	**39.3**	**46.6**	**76.4**	**118.5**
Investment assets	0.1	0.1	0.1	0.1	0.1	0.3	0.0	0.3	0.3	33.2	33.2	33.2	33.2
Fixed assets	122.8	106.2	108.2	113.0	117.5	134.1	132.6	135.0	193.9	175.4	185.0	193.7	202.4
Others	2.6	2.5	1.8	0.8	2.3	3.1	6.5	5.0	0.4	2.8	2.8	2.8	2.8
Non-current assets	**125.4**	**108.8**	**110.1**	**113.9**	**119.8**	**137.5**	**139.2**	**140.3**	**194.5**	**211.5**	**221.1**	**229.8**	**238.5**
Total assets	**144.6**	**131.9**	**135.9**	**145.9**	**152.0**	**174.1**	**168.9**	**179.8**	**248.8**	**250.7**	**267.7**	**306.2**	**357.0**
Trade Payables	8.7	8.7	7.3	12.5	10.8	13.9	10.9	16.7	18.7	24.4	27.0	34.4	39.6
Short-term borrowings	12.3	0.0	0.0	0.2	0.0	7.6	0.0	0.0	0.0	32.1	27.1	22.1	17.1
Current portion of LT debt	26.5	0.1	0.5	4.4	1.6	6.0	7.8	7.4	22.3	0.0	0.0	0.0	0.0
Others	7.5	6.8	9.9	10.4	11.5	14.8	8.9	12.9	24.8	17.1	19.6	22.8	27.3
Total **current** liabilities	**54.9**	**15.7**	**17.7**	**27.4**	**23.9**	**42.4**	**27.7**	**36.9**	**65.8**	**73.7**	**73.8**	**79.4**	**84.1**
Bonds	10.5	1.7	1.8	1.9	0.0	17.8	19.4	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt	82.5	95.1	87.9	82.0	79.6	56.2	67.7	56.3	34.4	25.2	15.2	5.2	0.0
Allowance for retirement	2.1	2.3	2.5	2.5	2.9	3.4	4.2	3.8	2.8	2.6	4.3	4.9	4.9
Others	11.8	1.3	1.4	1.5	1.8	0.0	0.0	(0.0)	1.0	0.0	2.8	3.5	3.5
Total LT liabilities	**106.9**	**100.4**	**93.6**	**88.0**	**84.2**	**77.3**	**91.3**	**60.1**	**38.2**	**27.8**	**22.3**	**13.6**	**8.4**
Total liabilities	**161.8**	**116.0**	**111.3**	**115.4**	**108.1**	**119.7**	**119.0**	**97.0**	**104.0**	**101.5**	**96.0**	**92.9**	**92.5**
Paid-in capital	43.0	53.0	53.0	53.0	55.9	30.4	30.4	39.0	42.9	42.9	42.9	42.9	42.9
Capital surplus	47.8	47.8	47.8	47.8	47.8	78.2	24.1	34.2	49.8	52.2	52.2	52.2	52.2
Retained earnings	(107.8)	(84.7)	(75.9)	(70.0)	(59.6)	(54.1)	1.4	12.4	32.0	53.7	76.6	118.2	168.4
Capital adjustments	(0.2)	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)	(6.0)	(2.9)	20.2	0.5	0.0	0.0	1.0
Total shareholder's equity	**(17.3)**	**15.8**	**24.6**	**30.5**	**43.9**	**54.4**	**50.0**	**82.7**	**144.8**	**149.2**	**171.7**	**213.3**	**264.5**

Free cashflow analysis

(Wbn)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Net profit	**(43.8)**	**23.1**	**8.8**	**5.9**	**10.4**	**5.5**	**1.4**	**11.3**	**19.6**	**15.2**	**23.0**	**41.6**	**50.2**
add non-cash expenses	**49.4**	**24.2**	**15.5**	**15.5**	**16.4**	**20.4**	**29.5**	**21.1**	**26.5**	**39.2**	**36.8**	**38.5**	**38.5**
Depreciation	33.1	20.3	12.6	12.8	11.5	12.7	16.0	18.6	22.8	31.0	28.6	30.3	30.3
Eq method loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	15.1	3.9	2.8	2.7	4.8	7.7	13.5	2.5	3.7	8.2	8.2	8.2	8.2
Subtract non-cash income	**5.0**	**42.2**	**8.7**	**3.6**	**5.9**	**0.8**	**1.1**	**1.7**	**0.6**	**1.1**	**3.6**	**3.6**	**3.7**
Eq method gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash income	5.0	42.2	8.7	3.6	5.9	0.8	1.1	1.7	0.6	1.1	3.6	3.6	3.7
Add chgs in op asst & liab	2.4	(5.8)	(1.5)	(1.3)	(0.0)	(8.7)	(5.9)	2.7	12.7	(4.4)	(3.8)	0.0	(4.1)
Incr in WC (decr)	(3.0)	3.0	3.9	0.8	(1.8)	2.5	(3.7)	1.6	(3.2)	(2.8)	3.8	(0.0)	4.1
Others	0.6	2.8	2.4	0.5	1.9	6.2	9.6	(4.3)	(9.5)	7.3	0.0	0.0	0.0
Cash from operations	**3.0**	**(0.8)**	**14.0**	**16.5**	**20.8**	**16.5**	**24.0**	**33.4**	**58.3**	**48.9**	**52.3**	**76.5**	**80.9**
Capital expenditures	6.2	3.7	15.2	17.7	16.1	25.4	13.1	21.0	54.3	42.3	38.2	39.0	39.0
Free cash flow	**(3.2)**	**(4.5)**	**(1.2)**	**(1.1)**	**4.7**	**(8.9)**	**10.9**	**12.4**	**4.0**	**6.6**	**14.1**	**37.5**	**41.9**
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incr in investment assets	(0.0)	(0.0)	0.0	0.0	(0.0)	0.0	(0.0)	0.0	(0.1)	16.2	0.0	0.0	0.0
Share issues	4.0	10.0	0.0	0.0	3.0	5.0	0.0	18.7	19.4	0.0	0.0	0.0	0.0
Increase in debt	(21.1)	(34.8)	(6.7)	(1.7)	(7.3)	6.4	7.3	(31.2)	(7.0)	0.6	(15.0)	(15.0)	(10.2)
Others	(13.0)	(29.2)	(8.0)	(2.5)	(4.2)	5.7	17.7	(2.5)	0.4	6.3	0.0	0.0	0.0
Net cash flow	**(7.3)**	**(0.1)**	**0.1**	**(0.4)**	**4.6**	**(3.2)**	**0.5**	**2.4**	**16.1**	**(15.3)**	**(0.9)**	**22.5**	**31.8**
Beginning cash	7.7	0.4	0.3	0.4	0.0	4.7	1.5	1.9	4.3	20.3	5.0	4.2	26.6
Ending cash	0.4	0.3	0.4	0.0	4.7	1.5	1.9	4.3	20.3	5.0	4.2	26.6	58.4

Stability ratios

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Current ratio	34.9	147.1	145.3	116.7	134.6	86.4	107.3	106.8	82.5	53.3	63.2	96.3	141.0
Quick ratio	19.2	87.4	76.0	62.5	88.3	50.1	43.3	67.6	53.5	31.7	32.2	64.6	104.8
Inv. holding period (d)	27.0	22.3	21.4	26.7	23.8	21.5	25.0	23.1	20.8	20.4	20.5	20.0	19.4
A/R collection period (d)	47.9	48.8	36.2	38.5	39.7	39.3	28.8	28.2	27.2	21.9	21.2	19.0	19.4
A/P period (days)	29.8	33.5	23.6	27.5	31.2	29.8	26.7	28.9	30.3	31.6	31.8	30.4	30.4
Interest bear debt (Wbn)	131.7	96.9	90.2	88.5	81.2	87.6	94.9	63.7	56.7	57.3	42.3	27.3	17.2
Cash & equivalents (Wbn)	0.7	0.4	0.4	0.1	4.7	1.5	1.9	4.3	20.3	5.0	4.2	26.6	58.4
Net int. bear debt (Wbn)	131.0	96.6	89.8	88.4	76.5	86.1	93.0	59.4	36.4	52.3	38.2	0.7	(41.2)
Net debt/equity (%)	N/A	610.8	364.9	289.9	174.4	158.4	186.1	71.8	25.1	35.0	22.2	0.3	(15.6)
Liability/equity (%)	N/A	734.0	452.4	378.4	246.4	220.2	238.2	117.3	71.8	68.0	55.9	43.6	35.0
Interest coverage (X)	-2.5	-1.9	1.2	1.3	1.6	1.9	2.4	3.3	7.5	7.9	11.4	30.3	59.9

Valuations and margins

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
EV/EBITDA (X)	26.1	15.8	6.2	5.7	4.9	3.9	8.3	7.5	6.5	6.2	5.4	3.4	3.8
EPS (W)	(5,090)	2,181	830	556	929	989	25	172	229	178	268	485	586
EPS yoy chg (%)	N/A	N/A	(62.0)	(33.0)	67.1	6.4	(97.5)	N/A	33.4	(22.3)	50.7	81.1	20.9
PER (X)	N/A	1.4	3.7	5.6	3.3	3.1	125.5	18.1	13.5	17.4	11.6	6.4	5.3
BVPS (W)	(2,104)	1,647	2,321	2,877	4,028	6,485	1,625	1,362	1,914	1,741	2,003	2,488	3,085
P/BVPS (X)	N/A	1.9	1.3	1.1	0.8	0.5	1.9	2.3	1.6	1.8	1.5	1.2	1.0
Dividend/sh (W)	0	0	0	0	0	0	0	0	0	1	0	0	0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	N/A	N/A	43.5	21.4	27.9	11.3	2.6	17.0	17.2	10.4	14.3	21.6	21.0
ROA (%)	(23.8)	16.7	6.6	4.2	7.0	3.4	0.8	6.5	9.2	6.1	8.9	14.5	15.2
GP margin (%)	(30.6)	(8.5)	9.1	9.4	9.8	11.3	11.5	10.9	12.6	9.9	11.0	13.7	13.9
OP margin (%)	(39.4)	(13.8)	5.4	6.0	7.2	8.3	8.6	8.3	10.0	7.4	8.5	11.2	11.5
NP margin (%)	(61.1)	26.4	6.6	4.1	6.8	3.3	0.7	5.6	8.2	5.5	7.0	9.8	9.8
EBITDA margin (%)	8.4	9.4	14.9	14.9	14.6	15.9	17.0	17.6	19.6	18.6	17.2	18.3	11.5
ROIC (%)	(20.1)	(10.7)	6.4	7.3	11.8	15.2	179.1	10.4	14.1	8.7	11.9	19.9	22.9
WACC (%)	7.2	7.5	7.6	7.7	9.2	9.6	78.1	7.4	12.4	12.2	8.3	11.3	13.2
ROIC less WACC (%)	(27.3)	(18.2)	(1.3)	(0.4)	2.6	5.6	N/A	3.1	1.8	(3.5)	3.6	8.6	9.6

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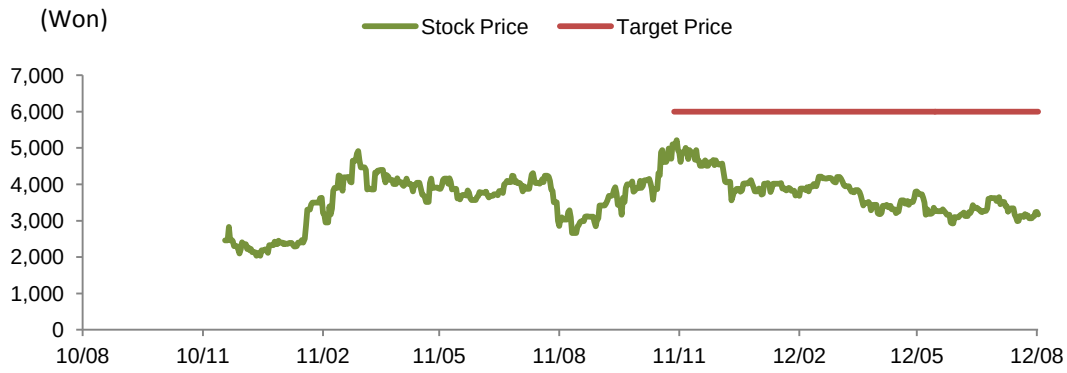
▶ Ratings and target price history in past two years

Signetics (033170 KQ)		
Date	2011-10-31	2012-08-13
Rating	BUY	BUY (Maintain, Change of analyst)
Target Price	6,000	6,000

▶ Target price changes in past two years



▶ Investment period and ratings

Company	
BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

Industry	
OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months

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Osstem Implant (048260 KQ) – 2Q Earnings Preview

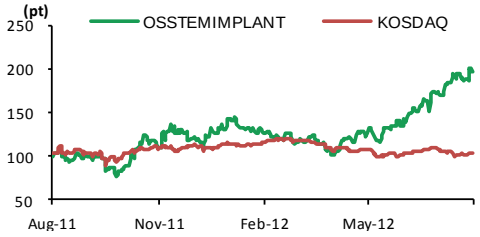
BUY (TP Raise)

Target Price	**W23,500**
Current Price	**W19,300**
Upside Potential (%)	**21.8%**

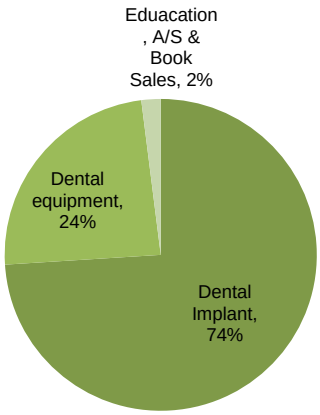
Key Data	**August 10th 2012**
Market Cap. (Wbn)	274.1
Shares Outstanding (m)	14.2
Foreign Ownership (%)	11.6
52 Week High (KRW)	19,600
Low (KRW)	7,590
60-d avg. turnover (Wbn)	6.4
Major Shareholders	**(%)**
Gyu Ok Choi & 7 Others	25.2

KOSDAQ			475.52
Performance (%)	**1M**	**6M**	**12M**
Absolute	13.9	53.2	97.5
Relative	17.2	63.2	96.2

Relative Performance



Revenue breakdown by product (2012E)



Key issues…

- ✓ **In 2Q +18% YoY in revenue, +56% YoY in OP**
- ✓ **Solid growth of over 70% in China and N. America markets**
- ✓ **Growth of 40% yoy in revenue of overseas affiliated companies**
- ✓ **Expected to turn to black from overseas affiliated companies in 2H12**

In 2Q, expected W38bn in revenue, W7.1bn in OP

- In 2Q, Osstem Implant is expected to record non-consolidated revenue of W38bn (+18% yoy), OP of W7.1bn (+56% yoy), and NP of W6bn (+178% yoy)
- Increased export to North America and China (+70% yoy) led the earnings improvement despite flat growth in the domestic market
- OPM and NPM have improved thanks to cost reduction such as SG&A while revenue increased

Improved profitability with external growth

- The company is expected to grow externally thanks to low cost export expansion such as promotions and to improve profitability due to fixed costs reduction affected by the economy of scale

Steady growth of overseas affiliated companies leads total revenue!

- In 2Q, revenue in overseas affiliated companies such as China and the U.S grew 40% yoy.
- Losses are steadily decreasing and the company is expected to turn to black in 2H.
- The company is expected to generate increased revenue in 2013.

In 2012, expected high NP growth

- The company is expected to record 15% growth in consolidated revenue in 2012.
- In 2012, the company is expected to record +300% growth yoy in NP thanks to the corporate income tax rate decreases and one-time charge of 2011 is now over
- Also, COGS is on a decreasing trend

Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	133.2	(12.3)	12.3	9.2	1.8	126	(80.6)	153.6	15.7	1.9	3.0
2010	131.4	(1.3)	10.7	8.2	1.7	120	(4.3)	160.6	18.2	1.9	3.0
2011	170.4	29.7	16.4	9.6	4.2	310	158.0	62.2	13.0	5.4	4.2
2012E	196.0	15.1	31.8	16.2	20.7	1,457	369.8	13.2	7.7	27.0	3.1
2013F	225.5	15.0	35.6	15.8	25.0	1,764	21.0	10.9	6.9	25.0	2.4
2014F	258.4	14.6	40.3	15.6	29.9	2,106	19.4	9.2	6.1	23.3	1.9

2Q12 Earnings Trend (Non-consolidated)

In 2Q, W38bn in revenue, W7.1bn in OP

In 2Q, Osstem Implant is expected to record W38bn (+18.2% yoy) in non-consolidated revenue, W7.1bn (+56.4% yoy) in OP, and W6bn (+177.5% yoy) in NP.

Growth factors: overseas subsidiaries growth and costs reduction

Main factors of earnings growth are ① export increase in the headquater led by overseas affiliated companies ② slight profitability improvement due to decreased proportion of costs per sales.

The company recorded flat revenue in the domestic market from last year due to sluggish global economy. However, revenue in overseas markets led total revenue by increasing 70% in China and the U.S markets respectively.

2012 Earnings Forecast

In 2012E, expected W196bn in revenue, W30.2bn in OP, and W20.7bn in NP

In 2012, Osstem Implant is expected to generate consolidated revenue of W196bn (+15.1% yoy), reported OP of W30.2bn (+84.1% yoy), and NP of W20.7bn (+387.5% yoy).

The company's mid-long term growth factors are solid because of overseas subsidiaries growth which turned in black, overseas revenue increase from the headquarter, and recovery of M/S in the domestic market.

Besides costs reduction due to external growth, profitability will be improved because huge investment is completed. In 2012, EPS and NP are expected to increase by over +300% respectively.

We maintain our buy rating with the raised target price of W23,500.

Exhibit 1. Annual & Quarterly Earnings

	IFRS non-consolidated								IFRS consolidated			
(Wbn, %)	3Q11	4Q11	2011	1Q12	2Q12	3Q12 E	4Q12 E	2012E	2011	2012F	2013F	2014F
Revenue	32.4	34.2	131.8	34.8	38.0	38.5	38.4	149.7	170.4	196.0	225.5	258.4
Adjusted Op	6.2	5.1	21.1	6.6	7.1	7.1	6.9	27.5	16.4	31.8	35.6	40.3
Income before tax	9.8	3.0	18.0	6.5	6.9	7.0	6.7	27.1	11.4	27.6	33.3	39.7
Net profit	7.9	(1.7)	10.2	5.3	6.0	6.1	5.8	23.1	4.2	20.7	25.0	29.8
Margin (%)												
OPM	17.8%	12.8%	16.0%	13.8%	18.6%	18.3%	17.8%	18.4%	20.1%	16.2%	15.8%	15.6%
NPM	3.0%	14.5%	7.7%	16.2%	15.8%	15.7%	15.1%	15.4%	16.6%	10.5%	11.1%	11.5%
Growth (%, YoY)												
Revenue	N/A	N/A	9.3%	16.7%	18.2%	18.8%	12.3%	13.6%	24.5%	15.1%	15.0%	14.6%
OP	N/A	N/A	3.6%	-8.6%	56.4%	14.5%	34.7%	30.5%	18.0%	93.2%	12.2%	13.1%
NP	N/A	N/A	25.2%	17.2%	177.5%	-23.8%	흑전	127.7%	26.7%	387.5%	20.9%	19.3%

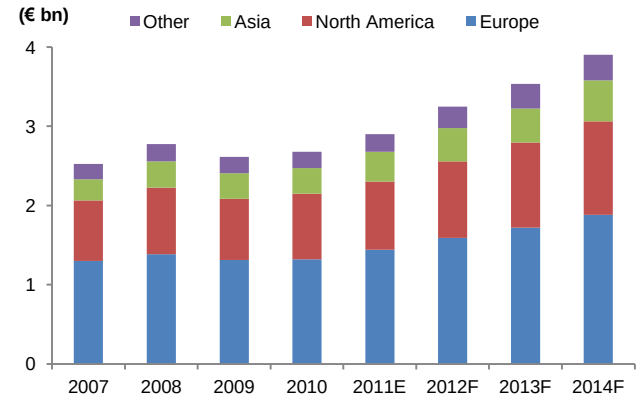
Source: Company data, Leading Research Center

Exhibit 2. Product (2011)

Business	OPM	Product	Revenue Target	Proportion
Implant	75%	Dental implant & equipment	Dental clinic	72.6%
Dental equipment	20%	Dental chair & equipment		25.2%
Service (Education /AS) & others	N/A	Implant procedure education program	Dentist	2.2%

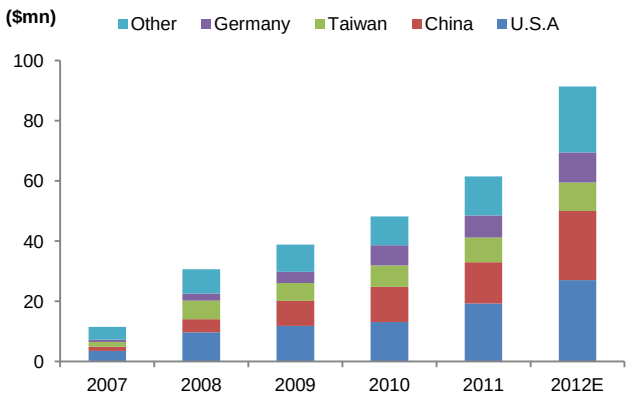
Source: Company data, Leading Research Center

Exhibit 34. Global implant market size trend



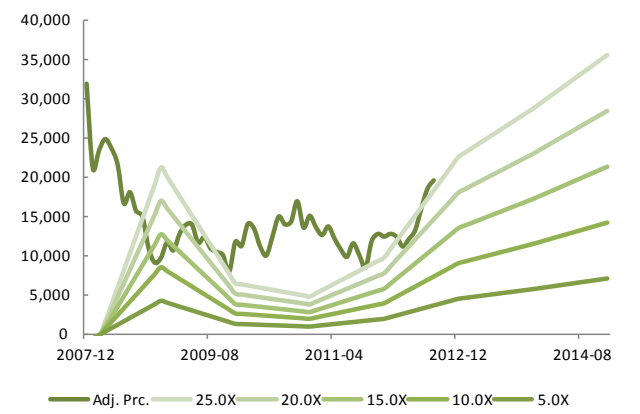
Source: Thomson, Leading Research Center

Exhibit 35. overseas subsidiaries revenue growth trend



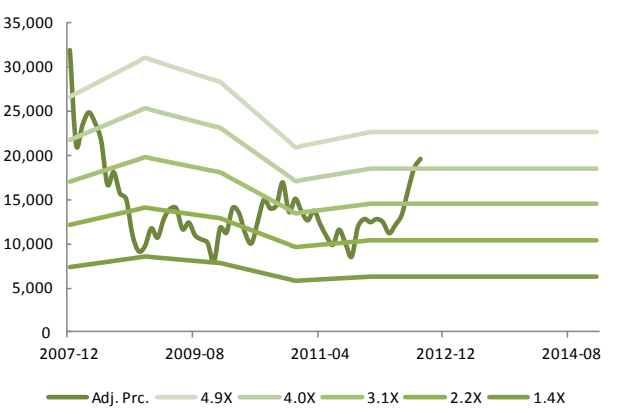
Source: Company data, Leading Research Center

Exhibit 5. PER BAND



Source: Fnguide, Leading Research Center

Exhibit 6. PBR BAND



Source: Fnguide, Leading Research Center

Financial Statement

Income Statement

(Wbn)	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Revenue	**109.7**	**132.6**	**151.9**	**133.2**	**131.4**	**170.4**	**196.0**	**225.5**	**258.4**
% chg yoy	52.1	20.9	14.5	(12.3)	(1.3)	29.7	15.1	15.0	14.6
COGS	46.7	60.4	70.8	65.8	64.5	69.9	80.0	92.4	106.2
Gross profit	**63.0**	**72.3**	**81.1**	**67.4**	**66.9**	**100.5**	**116.1**	**133.0**	**152.2**
GP margin (%)	57.4	54.5	53.4	50.6	50.9	59.0	59.2	59.0	58.9
SG&A	**43.2**	**50.4**	**62.9**	**55.1**	**56.1**	**84.0**	**84.3**	**97.4**	**111.9**
Operating income	**19.8**	**21.9**	**18.3**	**12.3**	**10.7**	**16.4**	**31.8**	**35.6**	**40.3**
Adj. OP margin (%)	18.0	16.5	12.0	9.2	8.2	9.6	16.2	15.8	15.6
Net other income	0.4	(1.1)	10.9	0.9	0.4	(1.5)	(1.6)	(1.4)	(1.3)
Reported OP	**19.8**	**21.9**	**18.3**	**12.3**	**10.7**	**16.4**	**30.2**	**34.2**	**39.0**
Net equity method gains	(1.5)	(6.7)	(1.6)	(3.4)	(0.8)	0.0	0.0	0.0	0.0
Financial income	0.7	0.7	0.7	0.6	1.0	4.4	4.8	5.5	6.2
Financial expenses	9.5	10.3	15.0	13.1	11.6	7.9	7.4	6.3	5.3
Income before tax	10.0	4.6	13.2	(2.7)	(0.3)	11.4	27.6	33.4	39.9
Income tax	1.9	7.4	4.0	(4.5)	(2.0)	7.2	6.9	8.3	10.0
Tax rate (%)	0.2	1.6	0.3	0.0	0.0	0.6	0.3	0.3	0.3
Net profit	**8.1**	**(2.9)**	**9.2**	**1.8**	**1.7**	**4.2**	**20.7**	**25.0**	**29.9**
Controlling interest	0.0	0.0	12.0	3.6	3.2	5.5	22.2	26.5	31.4
Non-controlling	0.0	0.0	(2.9)	(1.8)	(1.5)	(1.2)	(1.5)	(1.5)	(1.5)
Other comprehensive inc	0.0	0.0	0.0	0.0	0.0	(0.5)	0.0	0.0	0.0
Total comprehensive inc	8.1	(2.9)	9.2	1.8	1.7	3.7	20.7	25.0	29.9

Balance sheet

(Wbn)	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Current assets	**79.8**	**126.7**	**160.4**	**157.2**	**164.4**	**161.2**	**197.5**	**238.6**	**285.8**
Cash & equivalents	4.9	4.4	9.5	10.4	12.1	17.7	34.3	52.1	75.0
ST financial assets	7.0	8.2	5.5	10.1	17.7	14.8	18.0	21.5	24.5
Accounts receivables	27.6	54.8	77.5	79.1	84.3	70.2	80.4	91.8	103.6
Inventory	40.2	59.5	68.8	57.7	49.3	56.0	62.0	70.3	79.6
Others	0.2	(0.2)	(0.8)	(0.2)	0.9	2.7	2.8	3.0	3.1
Non-current assets	**32.8**	**49.3**	**76.4**	**73.6**	**55.7**	**73.4**	**71.6**	**71.1**	70.2
Tangible Assets	26.4	43.1	55.9	52.5	33.5	37.4	36.4	35.4	34.3
LT financial assets	0.6	0.2	5.5	1.8	0.7	0.6	0.5	0.5	0.4
Inv in related co's	3.2	0.6	0.0	2.8	2.4	2.2	2.0	2.0	2.0
Inv in joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	2.7	5.3	15.0	16.4	19.0	33.3	32.7	33.2	33.5
Total assets	**112.7**	**175.9**	**236.9**	**230.7**	**220.0**	**234.7**	**269.1**	**309.7**	**356.0**
Current liabilities	**63.8**	**85.9**	**123.8**	**132.9**	**124.1**	**161.9**	**175.4**	**191.0**	**206.6**
Accounts payables	10.0	11.4	13.8	5.0	3.8	4.5	5.6	6.7	8.0
ST financial liabilities	21.2	29.0	65.7	84.0	69.2	66.7	51.7	36.7	21.7
Others	32.6	45.5	44.3	43.8	51.2	90.8	118.1	147.6	176.9
Non-current liabilities	**6.3**	**12.5**	**12.8**	**6.7**	**3.9**	**6.9**	**6.5**	**5.8**	**5.6**
LT payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT financial liabilities	4.4	10.7	10.0	5.4	1.6	3.5	2.5	1.5	1.0
Others	1.9	1.8	2.8	1.3	2.3	3.4	4.0	4.3	4.6
Total liabilities	**70.1**	**98.4**	**136.5**	**139.6**	**128.0**	**168.8**	**181.9**	**196.7**	**212.2**
Paid-in capital	5.7	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Capital surplus	15.8	52.3	52.3	52.3	52.3	52.3	52.3	52.3	52.3
Others	(0.1)	(0.1)	1.9	(9.7)	(9.6)	(17.1)	(17.1)	(17.1)	(17.1)
Retained earnings	21.1	18.2	28.8	32.6	34.8	16.9	37.6	62.6	92.5
Non-controlling interest	0.0	0.0	10.2	8.9	7.4	6.6	7.3	8.0	9.0
Total shareholder equity	**42.5**	**77.5**	**100.3**	**91.2**	**92.0**	**65.8**	**87.2**	**112.9**	**143.9**

Free cashflow analysis

(Wbn)	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Net profit	**8.1**	**(2.9)**	**9.2**	**1.8**	**1.7**	**4.2**	**20.7**	**25.0**	**29.9**
Adj. for non-cash exp.	**15.9**	**25.4**	**16.8**	**18.3**	**16.5**	**14.8**	**13.7**	**13.3**	**12.9**
Depreciation	3.6	4.0	4.8	4.4	3.6	4.1	3.5	3.5	3.6
Provision for reserves	1.5	2.3	3.1	2.6	2.8	2.9	2.8	2.8	2.9
Net FX gains	0.2	(0.2)	(0.0)	(0.3)	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)
Net eq method gains	(1.5)	(6.7)	(1.6)	(3.4)	(0.8)	0.0	(1.0)	(1.1)	(1.0)
Others	9.3	11.9	6.7	6.8	8.5	6.9	7.3	7.3	7.4
Chg in op assets & liab	**(22.1)**	**(46.2)**	**(41.8)**	**(20.7)**	**(5.7)**	**(10.6)**	**4.9**	**2.4**	**2.1**
Incr in WC (decr)	26.5	45.0	29.7	(0.6)	(2.0)	(8.2)	15.1	18.6	19.9
Others	(4.4)	1.2	12.1	21.4	7.7	18.8	20.0	21.0	22.0
Cash from operations	**1.9**	**(23.7)**	**(15.8)**	**(0.6)**	**12.5**	**8.5**	**39.3**	**40.8**	**44.9**
Capital expenditures	7.3	20.7	12.2	2.0	1.1	4.0	2.5	2.5	2.5
Free cash flow	**(5.4)**	**(44.4)**	**(28.0)**	**(2.6)**	**11.4**	**4.5**	**36.8**	**38.3**	**42.4**
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incr in investment assets	4.4	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share issues	1.8	37.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in debt	10.4	14.0	36.0	13.8	(18.7)	(0.6)	(16.0)	(16.0)	(15.5)
Others	0.2	3.2	(4.5)	10.3	5.2	1.2	1.0	1.0	1.0
Net cash flow	**(1.9)**	**(0.5)**	**5.2**	**0.9**	**1.7**	**5.5**	**16.7**	**17.8**	**22.9**
Beginning cash	6.7	4.9	4.4	9.5	10.4	12.1	17.7	34.3	52.1
Ending cash	4.9	4.4	9.5	10.4	12.1	17.7	34.3	52.1	75.0

Stability ratios

	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Current ratio	125.1	147.4	129.6	118.3	132.4	99.6	112.6	125.0	138.4
Quick ratio	6.1	3.4	5.9	6.6	7.4	10.9	17.4	21.8	26.2
Inv. holding period (d)	389.3	387.8	326.2	297.2	297.7	307.9	301.7	295.9	136.9
A/R collection period (d)	73.8	113.3	158.9	214.6	226.9	165.4	140.1	139.3	138.0
A/P period (days)	40.8	49.1	57.5	62.7	28.5	19.6	21.4	22.2	23.1
Interest bear debt (Wbn)	25.6	39.7	75.6	89.5	70.8	70.2	54.2	38.2	22.7
Cash & equivalents (Wbn)	11.9	12.5	15.0	20.5	29.9	32.5	52.3	73.6	99.5
Net int. bear debt (Wbn)	13.7	27.1	60.7	69.0	40.9	37.7	1.9	(35.4)	(76.8)
Net debt/equity (%)	32.3	35.0	60.5	75.6	44.5	57.3	2.2	(31.3)	(53.4)
Liability/equity (%)	164.8	127.0	136.1	153.1	139.1	256.5	208.6	174.2	147.5
Interest coverage (X)	15.8	19.1	4.2	2.1	1.9	3.9	8.1	12.2	21.0

Valuations and margins

	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
EV/EBITDA (X)	9.1	10.5	11.6	15.7	18.2	13.0	7.7	6.9	6.1
EPS (W)	774	(203)	647	126	120	310	1,457	1,764	2,106
EPS yoy chg (%)	(18.6)	N/A	N/A	(80.6)	(4.3)	158.0	369.8	21.0	19.4
PER (X)	24.9	N/A	29.8	153.6	160.6	62.2	13.2	10.9	9.2
BVPS (W)	4,126	6,285	7,065	6,419	6,479	4,636	6,140	7,953	10,129
P/BVPS (X)	4.7	3.1	2.7	3.0	3.0	4.2	3.1	2.4	1.9
Dividend/sh (W)	0	0	0	0	0	0	0	0	0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	21.5	(4.8)	10.3	1.9	1.9	5.4	27.0	25.0	23.3
ROA (%)	8.7	(2.0)	4.4	0.8	0.8	1.9	8.2	8.7	9.0
GP margin (%)	57.4	54.5	53.4	50.6	50.9	59.0	59.2	59.0	58.9
OP margin (%)	18.0	16.5	12.0	9.2	8.2	9.6	16.2	15.8	15.6
NP margin (%)	7.4	(2.2)	6.0	1.3	1.3	2.5	10.6	11.1	11.6
EBITDA margin (%)	21.5	19.8	15.6	13.2	11.5	12.4	18.3	17.6	17.3
ROIC (%)	34.1	22.9	9.6	5.4	5.1	9.7	24.7	32.1	41.8
WACC (%)	4.6	1.7	8.1	9.0	8.3	6.7	8.2	8.9	11.4
ROIC less WACC (%)	29.6	21.1	1.5	(3.7)	(3.2)	3.1	16.6	23.2	30.4

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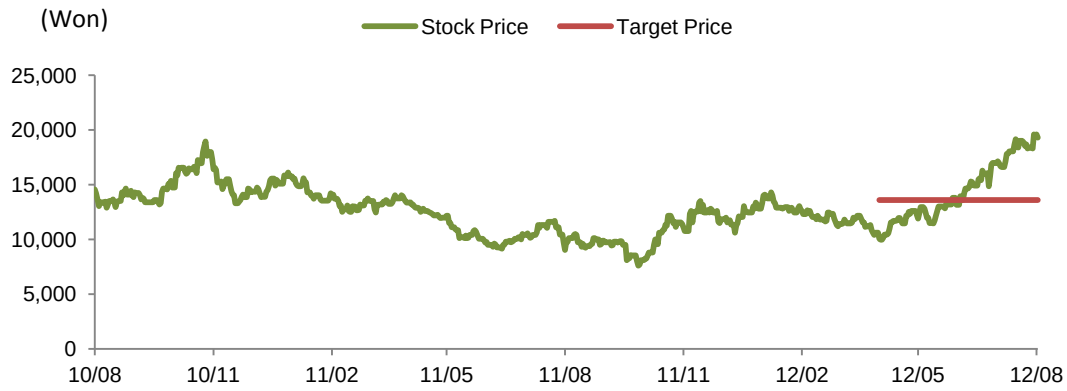
▶ Ratings and target price history in past two years

Osstem Implant (048260 KQ)		
Date	2012-04-09	2012-08-13
Rating	BUY	BUY(Raise)
Target Price	13,600	23,500

▶ Target price changes in past two years



▶ Investment period and ratings

Company	
BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

Industry	
OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months

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Pan Entertainment (068050 KQ) – 2Q12 Earnings Preview

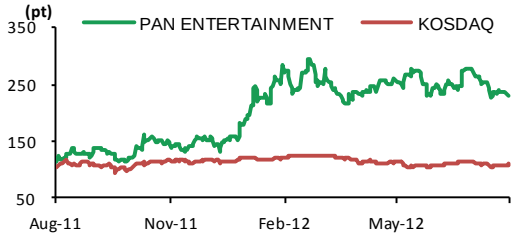
BUY (Maintain)

Target Price	**W10,000**
Current Price	**W5,440**
Upside Potential (%)	**83.8%**

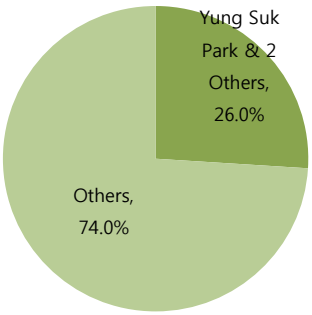
Key Data	**August 10th 2012**
KOSDAQ	475.51
Market Cap. (Wbn)	35.9
Shares Outstanding (m)	6.6
Foreign Ownership (%)	0.7
52 Week High (KRW)	7,000
Low (KRW)	2,700
60-d avg. turnover (Wbn)	1.3
Major Shareholders	**(%)**
Yung Suk Park & 2 Others	28.4
Others	71.6

Performance (%)	**1M**	**6M**	**12M**
Absolute	(15.1)	(15.7)	82.6
Relative	(11.8)	(5.6)	81.2

Relative Performance



Shareholders



Key issues…

- ✓ **In 2Q, -11.0% yoy drop in revenue and +494.8% yoy increase in adjusted OP is expected**
- ✓ **Delay of drama sales contracts due to strikes of TV stations delayed sales from additional publication right contracts**
- ✓ **Expected normal profit from 2013 by reducing other costs**

In 2Q12, -11.0% yoy in revenue, +494.8% yoy in adj. OP is expected

- In 2Q12, the company is expected to record W10.5bn (-11.0% yoy) in revenue and W700m (+494.8% yoy) in adjusted OP
- Reported OP is expected to slightly decrease to W490m (OPM 4.6%) from 1Q due to unexpected additional costs of W200m, but still likely to record a sharp rise from 2011
- Revenue and OP are expected to decrease from 1Q12
  - ✓ Only a part of revenue in additional publication right will be reflected due to delay of drama sales contracts caused by labor strikes at MBC and KBS
  - ✓ Losses of W600m is expected due to inventory losses in entertainment/cultural programs made several years ago

MBC and KBS strikes postponed drama contracts of 1H to 3Q

- On July 12th, the company announced publicly contracts on 'Man from the Equator' and 'Bridal Mask'. Although 'Man from the Equator' has already terminated broadcasting in May, the actual contract was delayed due to strikes at MBC and KBS, negatively affecting the company 2Q revenue
- Production revenue of two dramas is reflected in 2Q, but secondary revenues including overseas sales are not fully reflected. These secondary revenue from the dramas' publication rights will likely be reflected in 3Q

Expecting to be better in 2013..

- The company was not able to secure a slot for a mini-series drama in 2H. As a result, the company is unable to produce initially projected numbers of drama (8 dramas)
- While such risk is prevalent in the industry, Pan Entertainment is still the largest drama producer boasting over 5 dramas annually
- The company proved its production abilities not only by making the largest number of dramas, but also by recording consistently high viewer ratings: 'The Moon Embracing the Sun (over 40%)' and 'Bridal Mask' (19.3%)
- One daily miniseries and two weekend dramas are scheduled to air in 2013

Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	15.9	(12.4)	1.7	10.5	0.4	93	N/A	58.3	9.6	2.0	1.1
2010	18.0	13.6	0.3	1.7	0.1	16	(83.1)	344.2	41.8	0.3	0.8
2011	32.7	81.3	0.7	2.2	0.3	43	171.7	126.7	48.7	0.9	1.0
2012E	46.5	42.1	4.2	9.1	2.2	326	658.7	16.7	7.3	6.5	1.0
2013F	55.8	20.0	7.0	12.5	4.5	675	107.3	8.1	4.4	11.9	0.9
2014F	65.6	17.7	9.0	13.7	6.3	951	40.8	5.7	3.3	14.6	0.8

2Q Earnings Review & 2H Forecast

In 2Q, W10.5bn in revenue: -14.7% QoQ, -11.0% yoy

Revenue of Pan Entertainment is expected to slightly decrease in 2Q from 1Q due to delayed drama revenue recognition. OP is expected to maintain similar level to 1Q.

20% downward revision in revenue
- **delay in contracting with TV stations**
- **omission of one miniseries drama**

The contract of 'Man of Equator' was reflected in production revenue in July; however, only part of other additional publication right revenue was reflected. Additional publication right revenue of 'The Moon Embracing the Sun' also will be recognized in 3Q. Delay in revenue recognition and not receiving a program slot in 2H, we revised the initial earnings estimates downward.

Exhibit 1. Annual Earnings Change

(Wbn,%)	Before			After			Change (%)		
	2012E	2013F	2014F	2012E	2013F	2014F	2012E	2013F	2014F
Revenue	58.1	67.6	79.5	46.5	55.8	65.6	-20.1%	-17.5%	-17.5%
OP	6.4	8.7	10.9	4.2	7.1	9.0	-34.0%	-19.9%	-17.5%
Income before tax	6.1	6.1	11.1	2.8	5.9	8.1	-54.8%	-33.5%	-27.5%
NP	4.8	4.8	8.7	2.3	4.7	6.5	-55.2%	-33.4%	-27.8%

Source: Leading Research Center, IFRS Consolidated

A miniseries is canceled to be on air but 'Bridal Mask' is extended for another 4 episodes

Drama - A miniseries drama, which is expected to be broadcasted after the finish of 'Bridal Mask' in 3Q, is likely to be omitted. A weekend drama is scheduled to be aired before early October, shifting a few weeks ahead, and 'Bridal Mask' is extended for another 4 episodes. Those will reduce the impact on the company's revenue from an omitted drama.

Changed CEO of the entertainment division

Entertainment – The entertainment division is expected to be more sluggish than the initial business plan. The segment is in a transition period with the change of CEO. In Sup Yoon, the new divisional CEO, begun his career as an entertainment division PD in TBC and moved to KBS and MBC. He established a solid foothold in the market through producing diverse sitcoms such as 'Soonpoong Clinic' and 'Nobody can stop them'. Since a sitcom is a long term series unlike a miniseries, it enables to generate over W5bn in revenue. We conservatively estimate revenue of the entertainment division on the assumption that there is no noticeable entertainment program will be produced in 2012.

A lease contract was postponed but steady demand is still available

Office Lease – One of the LG subsidiaries was known to sign a lease contract, but Pan Entertainment refused the contract at the last moment. Currently, four floors are vacant, and we revised lease income to W700m from W1bn in 2012. Since, steady demands for lease have been continued, only Young Suk Park, the CEO's decision is left. Therefore, the risk of vacancy is not for much concern.

Revenue decreased due to unexpected costs – fund losses and inventory losses

Pan Entertainment is likely to record decreased OP and NP than the original estimation due to unexpected costs from other parts along with decreased revenue from initial expectation. The loss from mutual fund is around W300m which is the largest portion in other expenses. The company is expected to dispose inventories losses this year as it generates tangible profit.

Upswing in the music division – expected OPM of over 60% in 1H

Many unexpected parts affected the company's revenue so far, however, the music division started to show an upswing. Although overseas revenue in OST of 'The Moon Embracing the Sun' was not recognized yet, OPM of the music division is expected to reach 60% in 1H.

Exhibit 2. Quarterly/Divisional Earnings

Revenue (Wbn)	3Q11	4Q11	1Q12	2Q12E	3Q12E	4Q12E	1Q13F	2Q13F	3Q13F	4Q13F
Drama	6.8	3.6	10.7	9.4	8.6	11.1	11.5	10.1	10.5	12.6
Cultural/Entertainment	0.5	0.6	0.6	0.5	0.6	0.7	1.2	0.9	1.2	1.5
Music	0.1	0.1	0.9	0.6	0.3	0.3	0.6	0.6	0.6	0.6
Management	0.3	0.1	0.1	0.1	0.3	0.4	0.6	0.1	0.4	0.5
Lease Income	0.0	0.0	0.0	0.0	0.0	0.6	0.5	0.5	0.5	0.5
Total	7.7	4.4	12.3	10.5	9.9	13.2	14.4	12.2	13.1	15.6

Source: Company data, Leading Research Center, IFRS Non-consolidated

Exhibit 3. Annual/Divisional Earnings

Revenue (Wbn)	2010	2011	2012E	2013F	2014F	Growth	2011	2012E	2013F	2014F
Drama	14.5	28.5	39.8	44.7	50.0		96.3%	40.0%	12.3%	11.8%
Cultural/Entertainment	0.9	1.8	2.4	4.8	6.4		101.8%	33.5%	100.0%	34.7%
Music	0.8	0.5	2.2	2.3	3.0		-33.0%	319.7%	7.2%	29.5%
Management	1.9	0.9	1.0	1.5	2.1		-50.4%	2.0%	56.6%	40.8%
Lease Income	0.0	0.0	0.6	2.0	3.6		N/A	N/A	221.9%	80.0%
Total	18.0	31.7	46.0	55.3	65.1		75.8%	45.1%	20.2%	17.7%

Source: Company data, Leading Research Center, IFRS Non-consolidated

Exhibit 4. Annual Earnings

(Wbn)	2010	2011	2012E	2013F	2014F	Growth	2011	2012E	2013F	2014F
Revenue	18.0	32.7	46.5	55.8	65.6		81.3%	42.1%	20.0%	17.7%
Adjusted OP	0.3	0.7	4.2	7.0	9.0		132.4%	494.8%	64.9%	29.0%
Income before tax	0.2	0.3	2.8	5.7	8.1		25.7%	898.6%	107.3%	40.8%
NP	0.1	0.3	2.2	4.5	6.3		290.3%	658.7%	107.3%	40.8%
OPM (%)	1.7	2.2	9.1	12.5	13.7					
NPM (%)	0.4	0.9	4.6	8.0	9.6					

Source: Leading Research Center, IFRS Non-consolidated

In 2012, Pan Entertainment is expected to record growth of 42.1% yoy despite sluggish earnings compared to the early year projection. From 2013, the company is expected to be back on right track as the other expenses removed. We maintain our target price of W10,000.

Financial Statement

Income Statement

(Wbn)	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013F	2014F
Revenue	**16.5**	**15.2**	**16.2**	**9.6**	**18.1**	**15.9**	**18.0**	**32.7**	**46.5**	**55.8**	**65.6**
% chg yoy	N/A	(7.8)	6.5	(40.6)	88.1	(12.4)	13.6	81.3	42.1	20.0	17.7
COGS	10.9	9.7	9.5	8.5	16.4	12.4	15.5	29.8	39.8	46.2	53.9
Gross profit	5.6	5.5	6.8	1.2	1.7	3.5	2.5	2.9	**6.6**	**9.5**	**11.7**
GP margin (%)	34.1	36.3	41.6	12.1	9.3	22.1	13.9	8.9	14.3	17.1	17.9
SG&A	1.8	1.5	1.9	2.2	2.3	1.8	2.2	2.2	2.4	2.6	2.8
Operating income	**3.9**	**4.0**	**4.8**	**(1.0)**	**(0.7)**	**1.7**	**0.3**	**0.7**	4.2	7.0	9.0
Adj. OP margin (%)	23.5	26.2	29.8	(10.7)	(3.6)	10.5	1.7	2.2	9.1	12.5	13.7
Net other income	(0.3)	(0.4)	(0.2)	1.1	0.0	0.0	0.1	(0.3)	(0.5)	0.0	0.1
Reported OP	**3.9**	**4.0**	**4.8**	**(1.0)**	**(0.7)**	**1.7**	**0.3**	**0.4**	**3.7**	**7.0**	**9.1**
Net equity method gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial income	0.1	0.5	0.6	0.6	0.7	0.1	0.2	0.1	0.1	0.1	0.2
Financial expenses	0.3	0.4	0.3	0.0	0.1	0.0	0.2	0.2	1.0	1.3	1.2
Income before tax	3.3	3.6	4.9	0.6	0.0	1.7	0.2	0.3	2.8	5.7	8.1
Income tax	0.9	1.0	1.4	0.2	0.1	1.3	0.1	(0.0)	0.6	1.3	1.8
Tax rate (%)	0.3	0.3	0.3	0.4	4.7	0.8	0.7	(0.0)	0.2	0.2	0.2
Net profit	**2.4**	**2.6**	**3.6**	**0.4**	**(0.1)**	**0.4**	**0.1**	**0.3**	**2.2**	**4.5**	**6.3**
Controlling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	2.2	4.5	6.3
Non-controlling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0
Other comprehensive inc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.2)	0.3	0.0	0.0
Total comprehensive inc	2.4	2.6	3.6	0.4	(0.1)	0.4	0.1	0.1	2.4	4.5	6.3

Balance sheet

(Wbn)	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013F	2014F
Current assets	**13.4**	**15.5**	**23.3**	**15.5**	**14.0**	**12.8**	**11.1**	**11.0**	**20.6**	**22.6**	**26.1**
Cash & equivalents	6.5	7.6	14.1	7.4	1.4	4.0	0.9	1.4	1.6	1.7	3.3
ST financial assets	0.9	3.6	4.2	0.1	3.2	1.3	2.7	0.0	0.0	0.0	0.0
Accounts receivables	2.6	0.8	2.4	1.6	3.7	2.7	2.6	2.2	6.5	7.9	9.3
Inventory	0.5	0.5	0.1	0.4	0.7	0.8	1.1	2.0	5.6	6.4	7.3
Others	2.9	3.0	2.5	6.1	5.1	4.0	3.9	5.4	6.9	6.7	6.3
Non-current assets	**2.0**	**1.8**	**3.8**	**8.9**	**9.7**	**13.0**	**29.1**	**37.0**	**44.2**	**43.8**	**43.7**
Tangible Assets	0.7	0.1	0.3	0.9	2.9	6.1	22.9	31.3	38.8	38.8	39.3
LT financial assets	0.0	0.0	0.7	3.1	1.9	2.0	2.7	2.2	1.4	1.0	1.2
Inv in related co's	0.0	0.0	0.0	0.0	0.0	0.2	0.4	0.0	0.0	0.0	0.0
Inv in joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.3	1.7	2.8	4.9	4.9	4.7	3.1	3.5	4.0	4.0	3.2
Total assets	**15.4**	**17.3**	**27.1**	**24.4**	**23.7**	**25.8**	**40.2**	**48.0**	**64.8**	**66.4**	**69.8**
Current liabilities	**5.4**	**6.0**	**2.6**	**1.5**	**2.3**	**1.6**	**8.7**	**7.6**	**16.6**	**13.6**	**12.0**
Accounts payables	3.5	0.6	0.2	0.2	0.9	0.0	0.4	1.4	0.7	1.0	1.3
ST financial liabilities	0.0	3.7	0.5	0.4	0.1	0.0	7.2	5.4	15.4	11.9	9.5
Others	1.9	1.6	1.9	0.9	1.3	1.6	1.1	0.8	0.5	0.7	1.1
Non-current liabilities	**3.5**	**0.8**	**0.5**	**0.1**	**0.1**	**1.5**	**1.9**	**9.7**	**12.8**	**13.0**	**11.8**
LT payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT financial liabilities	3.5	0.8	0.4	0.1	0.0	1.5	0.1	8.0	11.0	11.0	9.0
Others	0.0	0.0	0.0	0.1	0.1	0.0	1.9	1.7	1.8	2.0	2.8
Total liabilities	**8.9**	**6.8**	**3.1**	**1.7**	**2.3**	**3.1**	**10.6**	**17.3**	**29.4**	**26.6**	**23.8**
Paid-in capital	1.0	1.5	2.2	2.2	2.2	2.3	2.3	3.3	3.3	3.3	3.3
Capital surplus	0.0	1.0	10.2	10.2	10.2	11.1	11.2	11.2	11.2	11.2	11.2
Others	0.0	0.0	0.0	(1.6)	(2.4)	(2.5)	(2.5)	(2.5)	0.0	0.0	0.0
Retained earnings	5.5	8.1	11.6	12.0	11.6	12.0	12.0	12.2	14.3	18.8	25.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total shareholder equity	**6.5**	**10.6**	**24.0**	**22.7**	**21.3**	**22.6**	**29.6**	**30.7**	**35.3**	**39.8**	**46.0**

Free cashflow analysis

(Wbn)	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013F	2014F
Net profit	**2.4**	**2.6**	**3.6**	**0.4**	**(0.1)**	**0.4**	**0.1**	**0.3**	**2.2**	**4.5**	**6.3**
Adj. for non-cash exp.	**1.1**	**1.0**	**0.3**	**(0.1)**	**0.8**	**0.8**	**0.9**	**0.8**	**1.6**	**2.0**	**2.6**
Tangible/intangible	0.5	0.3	0.2	0.5	0.7	0.5	0.4	0.3	0.8	1.4	2.0
Provision for reserves	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Net FX gains	(0.0)	(0.0)	(0.0)	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0
Net eq method gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.5	0.7	0.1	(0.7)	0.1	0.2	0.4	0.5	0.6	0.5	0.5
Chg in op assets & liab	**2.8**	**(1.7)**	**(1.7)**	**(4.1)**	**(0.2)**	**0.9**	**0.4**	**(1.3)**	**(8.6)**	**(1.9)**	**(2.0)**
Incr in WC (decr)	N/A	1.0	1.7	(0.6)	1.7	0.0	(0.2)	(0.4)	8.6	1.9	2.0
Others	N/A	0.7	(0.1)	4.7	(1.5)	(0.9)	(0.2)	1.8	0.0	0.0	0.0
Cash from operations	**6.3**	**1.9**	**2.3**	**(3.8)**	**0.6**	**2.0**	**1.3**	**(0.2)**	**(4.8)**	**4.6**	**6.9**
Capital expenditures	0.8	0.0	0.3	0.8	2.5	3.5	8.3	8.5	8.0	1.0	1.0
Free cash flow	**5.5**	**1.8**	**2.0**	**(4.7)**	**(1.9)**	**(1.4)**	**(7.0)**	**(8.7)**	**(12.8)**	**3.6**	**5.9**
Dividend	0.0	0.0	0.0	0.0	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Incr in investment assets	0.0	0.0	0.0	0.0	0.0	0.2	0.4	0.0	0.0	0.0	0.0
Share issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	1.7	(8.1)	1.6	3.3	(3.0)	1.5	(3.1)	0.0	0.0	0.0
Net cash flow	**8.9**	**1.1**	**6.5**	**(6.8)**	**(6.0)**	**2.7**	**(3.2)**	**0.6**	**0.2**	**0.1**	**1.5**
Beginning cash	N/A	6.5	7.6	14.1	7.4	1.4	4.0	0.9	1.4	1.6	1.7
Ending cash	6.5	7.6	14.1	7.4	1.4	4.0	0.9	1.4	1.6	1.7	3.3

Stability ratios

	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013F	2014F
Current ratio	248.1	259.0	886.8	1,009.0	612.2	807.3	128.0	144.7	123.8	166.2	218.6
Quick ratio	48.5	49.1	60.5	47.5	9.7	31.4	7.8	13.1	7.8	7.5	12.6
Inv. holding period (d)	15.8	10.1	9.0	23.0	16.3	27.7	36.4	46.2	54.8	53.9	24.6
A/R collection period (d)	N/A	40.6	36.0	75.7	52.9	73.3	53.3	26.6	34.1	47.0	47.6
A/P period (days)	N/A	78.1	15.8	8.1	12.4	13.4	4.9	10.7	8.9	6.7	7.9
Interest bear debt (Wbn)	3.5	4.5	1.0	0.5	0.1	1.5	7.2	13.4	26.4	22.9	18.5
Cash & equivalents (Wbn)	7.3	11.2	18.3	7.4	4.6	5.3	3.6	1.4	1.6	1.7	3.3
Net int. bear debt (Wbn)	(3.8)	(6.7)	(17.3)	(7.0)	(4.5)	(3.8)	3.6	12.0	24.8	21.2	15.2
Net debt/equity (%)	(59.4)	(63.9)	(72.2)	(30.6)	(21.0)	(16.8)	12.2	39.1	70.3	53.4	33.1
Liability/equity (%)	137.6	64.2	12.9	7.3	11.0	13.8	35.8	56.5	83.4	67.0	51.6
Interest coverage (X)	13.8	14.0	21.9	(34.2)	(85.9)	220.2	2.0	3.2	4.2	5.3	7.9

Valuations and margins

	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
EV/EBITDA (X)	5.3	2.2	1.3	(30.4)	318.4	9.6	41.8	48.7	7.3	4.4	3.3
EPS (W)	479	863	820	89	(18)	93	16	43	326	675	951
EPS yoy chg (%)	N/A	0.8	(0.0)	(0.9)	N/A	N/A	(83.1)	171.7	658.7	107.3	40.8
PER (X)	11.4	6.3	6.6	60.8	N/A	58.3	344.2	126.7	16.7	8.1	5.7
BVPS (W)	N/A	2,639	6,523	5,204	4,886	5,053	6,440	5,473	5,344	6,019	6,970
P/BVPS (X)	N/A	2.1	0.8	1.0	1.1	1.1	0.8	1.0	1.0	0.9	0.8
Dividend/sh (W)	0	0	0	100	30	0	0	0	0	0	0
Dividend yield (%)	0.0	0.0	0.0	1.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	N/A	30.4	20.7	1.7	(0.3)	2.0	0.3	0.9	6.5	11.9	14.6
ROA (%)	N/A	15.8	16.1	1.5	(0.3)	1.7	0.2	0.6	3.8	6.8	9.2
GP margin (%)	34.1	36.3	41.6	12.1	9.3	22.1	13.9	8.9	14.3	17.1	17.9
OP margin (%)	23.5	26.2	29.8	(10.7)	(3.6)	10.5	1.7	2.2	9.1	12.5	13.7
NP margin (%)	14.5	17.0	22.1	4.1	(0.4)	2.7	0.4	0.9	4.6	8.0	9.6
EBITDA margin (%)	26.5	28.1	31.3	(5.7)	0.3	13.9	3.8	3.0	10.8	15.0	16.7
ROIC (%)	N/A	89.7	66.9	(5.9)	15.0	2.3	0.4	1.9	6.4	9.0	11.5
WACC (%)	4.2	12.1	9.2	5.6	5.1	4.9	8.6	8.4	7.2	8.5	10.2
ROIC less WACC (%)	N/A	77.6	57.7	(11.5)	9.9	(2.6)	(8.2)	(6.5)	(0.8)	0.4	1.3

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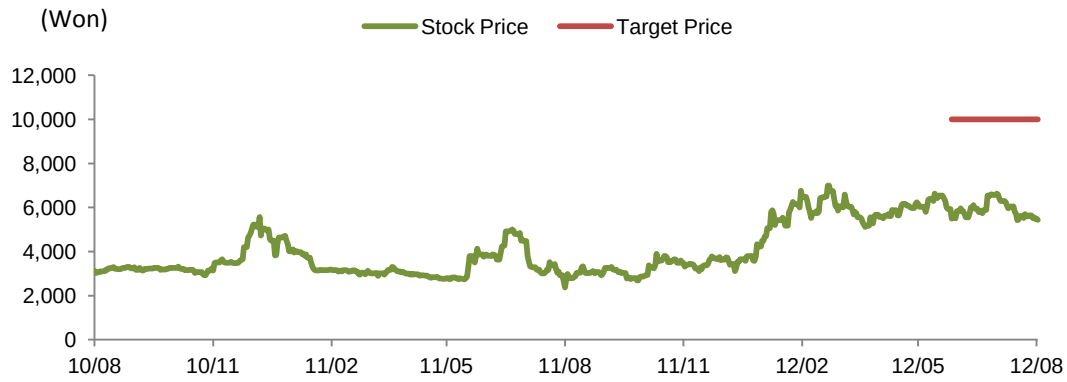
▶ Ratings and target price history in past two years

Pan Entertainment (068050 KQ)		
Date	2012-06-04	2012-08-13
Rating	BUY	BUY(Maintain)
Target Price	10,000	10,000

▶ Target price changes in past two years



▶ Investment period and ratings

Company

BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

Industry

OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months

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New Recommended Company

Code	Company	Target Price (Won)	Upside Potential (%)	Reasons for recommendation

Excluded Company

Date	Code	Company	Reasons for exclusion
2011-08-01	A115310	Infovine	Change of analyst sector
2011-11-21	A005070	Cosmo AM&T	Vacancy of analyst
2011-12-05	A093370	Foosung	Vacancy of analyst
2012-03-05	A038990	Nexcon Tech	Vacancy of analyst
2012-05-07	A080530	KODI-S	Vacancy of analyst
2012-06-11	A131390	PNE Solution	Vacancy of analyst
2011-08-22	A100120	Vieworks	Change of analyst sector
2011-11-07	A019210	YG-1	Change of analyst sector
2011-07-25	A017960	Hankuk Carbon	Change of analyst sector
2011-09-19	A005420	Cosmo Chemical	Change of analyst sector
2011-12-08	A138490	Kolon Plastics	Change of analyst sector
2011-08-16	A080420	Innochips	Growth slowdown
2012-01-16	A056190	SFA	Change of analyst sector
2011-08-29	A101170	Woorim Gear	Change of analyst sector
2011-11-30	A131180	Dilli	Change of analyst sector
2011-10-04	A053690	Hanmi Global	Change of analyst sector
2012-05-29	A060592	JNK Heater	Change of analyst sector
2012-07-30	A105840	Woojin	Change of analyst sector