COMPANY ANALYSIS

[Korea] Metals/Defense

March 18, 2022

Poongsan

(103140 KS)

Buy
(Maintain)

TP: W50,000
Upside: 56.5%

Bullish outlook for both fabricated copper and defense

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2022 outlook

Revenue to hit record high again in 2022 on continued strength in copper prices

- For 2021, Poongsan delivered record-high earnings, with revenue of W3.5tr (+35.3%) and operating profit of W314.1bn (+159.2%).
- We attribute the strong performance to: 1) growth in fabricated copper sales volume fueled by the global growth recovery; and 2) gains in fabricated copper ASP due to higher copper prices.
- We expect revenue to hit a record high again in 2022 on the back of continued strength in copper prices. That said, we expect operating profit to contract due to the high base effect stemming from the dramatic rise in copper prices last year.

Fabricated copper business outlook

Copper prices to remain strong on favorable supply/demand conditions

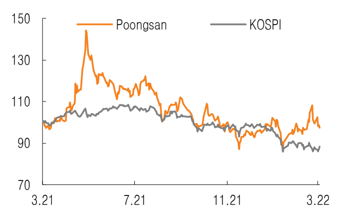
- Despite uncertainties related to monetary tightening and the Russia-Ukraine war, copper prices are up roughly 5% YTD.
- From a medium/long-term perspective, the continued transition to clean energy and electrification to meet carbon neutrality goals should drive robust demand growth. China's increasing policy stimulus is also supportive to prices.
- Meanwhile, supply growth should be limited, with constrained spending leading to lower copper grades at existing mines and a lack of new projects.

Defense business outlook

Heightened geopolitical risks to boost ammunition exports

- For the defense business, management has guided 2022 revenue of W800bn (+8% YoY).
- Given heightened geopolitical risks due to Russia's invasion of Ukraine, we expect global demand for ammunition to increase. As such, we see a high chance of revenue surpassing guidance.

Key data



Current price (3/17/22, W)	31,950	Market cap (Wbn)	895
OP (22F, Wbn)	238	Shares outstanding (mn)	28
Consensus OP (21F, Wbn)	-	Free float (%)	59.5
EPS growth (22F, %)	-28.2	Foreign ownership (%)	11.6
P/E (22F, x)	5.4	Beta (12M)	1.39
Market P/E (21F, x)	10.3	52-week low (W)	28,600
KOSPI	2,694.51	52-week high (W)	47,300

Share performance

(%)	1M	6M	12M
Absolute	0.3	-10.5	-0.9
Relative	2.2	4.3	12.0

Earnings and valuation metrics

(Dec.)	2018	2019	2020	2021	2022F	2023F
Revenue (Wbn)	2,774	2,451	2,594	3,509	3,965	4,064
OP (Wbn)	108	41	121	314	238	244
OP margin (%)	3.9	1.7	4.7	8.9	6.0	6.0
NP (Wbn)	62	18	72	232	167	172
EPS (W)	2,212	629	2,565	8,289	5,950	6,123
ROE (%)	4.6	1.3	5.1	14.9	9.6	9.1
P/E (x)	12.4	37.9	10.9	3.8	5.4	5.2
P/B (x)	0.6	0.5	0.5	0.5	0.5	0.5
Div. yield (%)	2.2	1.7	2.1	3.2	3.1	3.1

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research estimates

MIRAE ASSET
Securities

Table 1. Quarterly/annual earnings and forecasts (Wbn, %)

	1Q21	2Q21	3Q21	4Q21	1Q22F	2Q22F	3Q22F	4Q22F	2020	2021	2022F
Revenue	725	923	885	976	865	1,014	994	1,094	2,594	3,509	3,965
Poongsan	474	670	637	775	615	764	744	844	1,944	2,556	2,953
Subsidiaries	252	253	247	201	250	250	250	250	649	953	1,000
Operating profit	62	106	81	64	47	62	60	70	121	314	238
Poongsan	34	81	66	54	35	49	47	57	96	234	188
Subsidiaries	29	26	15	11	13	13	13	13	25	80	50
OP margin	8.6	11.5	9.1	6.6	5.4	6.1	6.0	6.4	4.7	9.0	6.0
Poongsan	7.1	12.0	10.3	6.9	5.6	6.4	6.3	6.8	4.9	9.1	6.4
Subsidiaries	11.4	10.2	6.1	5.3	5.0	5.0	5.0	5.0	3.9	8.4	5.0

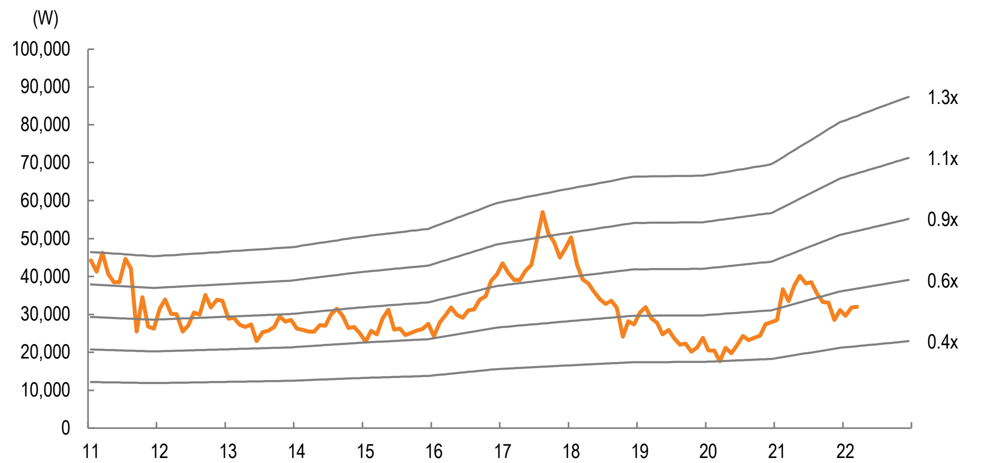
Source: Company data, Mirae Asset Securities Research

Table 2. Key business indicators (Wbn)

	2015	2016	2017	2018	2019	2020	2021	2022F
Fabricated copper								
Sales volume ('000 tonnes)	186	196	198	197	179	176	190	200
ASP (W'000/tonne)	6,777	6,045	7,016	7,448	7,089	6,972	9,483	10,765
Defense revenue	751	811	837	700	605	707	740	800
Domestic	527	518	517	519	470	468	370	380
Overseas	224	293	319	182	135	240	369	420

Source: Company data, Mirae Asset Securities Research

Figure 1. P/B band chart



Source: WISEfn, Mirae Asset Securities Research

Poongsan (103140 KS)

Income statement (summarized)

(Wbn)	2020	2021	2022F	2023F
Revenue	**2,594**	**3,509**	**3,965**	**4,064**
Cost of revenue	**2,323**	**3,025**	**3,529**	**3,597**
GP	**271**	**484**	**436**	**467**
SG&A expenses	**150**	**171**	**198**	**224**
OP (adj.)	**121**	**314**	**238**	**244**
OP	**121**	**314**	**238**	**244**
Non-operating profit	**-22**	**-7**	**-19**	**-18**
Net financial income	-20	-18	-18	-18
Net income from associates	0	-1	0	0
Pretax profit	99	307	219	226
Income tax	27	74	53	54
Profit from continuing operations	72	232	167	172
Profit from discontinued operations	0	0	0	0
NP	**72**	**232**	**167**	**172**
Attributable to owners	72	232	167	172
Attributable to minority interests	0	0	0	0
Total comprehensive income	**72**	**248**	**167**	**172**
Attributable to owners	72	248	167	172
Attributable to minority interests	0	0	0	0
EBITDA	222	412	330	332
FCF	64	-81	233	136
EBITDA margin (%)	8.6	11.7	8.3	8.2
OP margin (%)	4.7	8.9	6.0	6.0
Net margin (%)	2.8	6.6	4.2	4.2

Balance sheet (summarized)

(Wbn)	2020	2021	2022F	2023F
Current assets	**1,302**	**1,875**	**2,045**	**2,222**
Cash & equivalents	79	154	387	523
AR & other receivables	403	508	515	528
Inventory	790	1,186	1,117	1,144
Other current assets	30	27	26	27
Non-current assets	**1,250**	**1,231**	**1,198**	**1,170**
Investments in associates	0	0	0	0
PP&E	1,075	1,058	1,028	1,001
Intangible assets	17	15	12	11
Total assets	**2,552**	**3,106**	**3,244**	**3,392**
Current liabilities	**747**	**1,028**	**1,026**	**1,031**
AP & other payables	150	197	196	201
Short-term financial liabilities	487	641	641	641
Other current liabilities	110	190	189	189
Non-current liabilities	**358**	**401**	**401**	**401**
Long-term financial liabilities	274	302	302	302
Other non-current liabilities	84	99	99	99
Total liabilities	**1,106**	**1,429**	**1,428**	**1,432**
Equity attributable to owners	**1,444**	**1,675**	**1,814**	**1,958**
Capital stock	140	140	140	140
Capital surplus	495	495	495	495
Retained earnings	810	1,027	1,166	1,309
Minority interests	**2**	**2**	**2**	**2**
Shareholders' equity	**1,446**	**1,677**	**1,816**	**1,960**

Cash flow statement (summarized)

(Wbn)	2020	2021	2022F	2023F
Operating cash flow	**115**	**-4**	**293**	**196**
NP	72	232	167	172
Non-cash income/expenses	153	163	163	160
Depreciation	98	95	90	86
Amortization	3	3	2	2
Other	52	65	71	72
Chg. in working capital	-103	-383	62	-36
Chg. in AR & other receivables	-45	-85	-7	-12
Chg. in inventory	-20	-387	70	-28
Chg. in AP & other payables	40	16	-3	3
Income tax	-4	-43	-53	-54
Cash flow from investing activities	**-54**	**-97**	**-60**	**-60**
Chg. in PP&E	-50	-77	-60	-60
Chg. in intangible assets	-1	0	0	0
Chg. in financial assets	-7	-1	0	0
Other	4	-19	0	0
Cash flow from financing activities	**-46**	**167**	**0**	**0**
Chg. in financial liabilities	-62	183	0	0
Chg. in equity	0	0	0	0
Dividends	0	0	0	0
Other	16	-16	0	0
Chg. in cash	**9**	**75**	**233**	**136**
Beginning balance	70	79	154	387
Ending balance	79	154	387	523

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

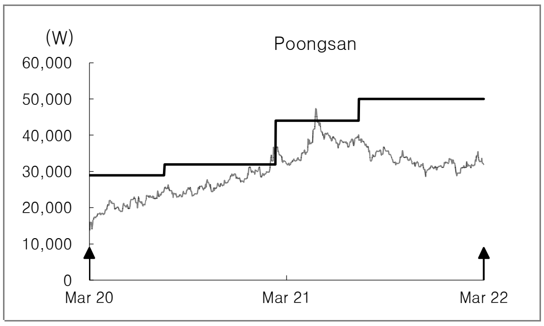
	2020	2021	2022F	2023F
P/E (x)	10.9	3.8	5.4	5.2
P/CF (x)	3.5	2.2	2.7	2.7
P/B (x)	0.5	0.5	0.5	0.5
EV/EBITDA (x)	6.6	4.0	4.4	3.9
EPS (W)	2,565	8,289	5,950	6,123
CFPS (W)	8,035	14,122	11,780	11,849
BPS (W)	51,545	59,780	64,731	69,854
DPS (W)	600	1,000	1,000	1,000
Dividend payout ratio (%)	23.4	12.1	16.8	16.3
Dividend yield (%)	2.1	3.2	3.1	3.1
Revenue growth (%)	5.8	35.3	13.0	2.5
EBITDA growth (%)	57.4	85.6	-19.9	0.6
OP growth (%)	195.1	159.5	-24.2	2.5
EPS growth (%)	307.8	223.2	-28.2	2.9
AR turnover (x)	7.2	8.0	8.1	8.1
Inventory turnover (x)	3.3	3.6	3.4	3.6
AP turnover (x)	27.7	27.0	27.5	28.0
ROA (%)	2.8	8.2	5.3	5.2
ROE (%)	5.1	14.9	9.6	9.1
ROIC (%)	4.2	10.9	7.6	8.0
Debt-to-equity ratio (%)	76.4	85.2	78.6	73.1
Current ratio (%)	174.2	182.5	199.3	215.5
Net debt-to-equity ratio (%)	46.3	46.3	30.0	20.9
Interest coverage ratio (x)	5.8	17.0	12.9	13.2

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Poongsan (103140)	07/30/21	Buy	50,000
	02/26/21	Buy	44,000
	08/04/20	Buy	32,000
	10/30/19	Buy	29,000



Stock ratings	
Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings	
Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (─), TP (▬), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)
* Our investment rating is a guide to the expected return of the stock over the next 12 months.
* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.
* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.
* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	82.48%	10.22%	6.57%	0.73%
Investment banking services	66.66%	16.67%	16.67%	0%

* Based on recommendations in the last 12-months (as of December 31, 2021)

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