

# Duksan Neolux

(213420 KQ)

## Earnings and momentum are improving

Buy

(Maintain)

TP: W59,000 ▲

Upside: 27.4%

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### Raise TP to W59,000

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- We derived our target price on Duksan Neolux by applying a P/E of 30x (unchanged) to our 12-month forward EPS.
- While end-market demand bears close watching, we believe oversupply in the display industry (including OLED) is gradually easing, driven by aggressive production cuts.
- Historically, OLED up-cycles began with improvements in LCD supply/demand conditions, which led to higher LCD panel prices and thus increased adoption of OLED (an alternative to LCD). And improvements in OLED demand have typically prompted end-market customers to execute new capex.
- Currently, the industry rebound is being driven by extreme supply cuts (shutdowns and utilization adjustments) rather than any meaningful pickup in demand. As such, we believe it will take some time before we see a significant capex cycle.
- That said, Samsung Display's recent decision to invest in 8.6G OLED (IT-use from 2024) has brightened the medium/long-term demand outlook. We believe Duksan Neolux—which was proactive in developing new products during the industry down-cycle—will enter a period of full-fledged earnings growth in 2024.

### 1H23 marked a low point for earnings; significant improvement likely in 2H23

### Worst is already over

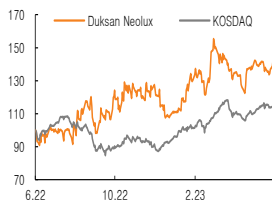
- For 2023, we forecast revenue of W171.8bn (-3% YoY) and operating profit of W31.3bn (-30% YoY). We expect earnings to improve materially in 2H23 on the back of peak-season effects.
- For 2H23, we expect revenue of W103.7bn (+52% HoH) and operating profit of W24.1bn (+236% HoH).

### Momentum is growing; maintain as our top pick

### Catalysts: IT-use OLED, wider application of black PDL, China material set, and QD

- The IT-use OLED market should see meaningful growth, with increases in area and thickness (tandem structure) supporting volume expansion. We expect Duksan Neolux to benefit from the market share gains of major customers.
- We see a number of additional growth catalysts in the medium and long term, including the potential expansion of black PDL applications later this year and a Chinese customer's selection of a new material set. We maintain the stock as our top pick in display.

### Key data



Current price (6/29/23, W)	46,300	Market cap (Wbn)	1,150
OP (23F, Wbn)	31	Shares outstanding (mn)	25
Consensus OP (23F, Wbn)	32	Free float (%)	44.0
EPS growth (23F, %)	0.7	Foreign ownership (%)	7.4
P/E (23F, x)	29.3	Beta (12M)	0.99
Market P/E (23F, x)	15.1	52-week low (W)	29,300
KOSDAQ	861.79	52-week high (W)	50,100

### Share performance

(%)	1M	6M	12M
Absolute	4.6	18.4	45.8
Relative	2.4	-6.7	29.0

### Earnings and valuation metrics

(Dec.)	2019	2020	2021	2022	2023F	2024F
Revenue (Wbn)	-	144	191	177	172	217
OP (Wbn)	-	40	51	45	31	50
OP margin (%)	-	27.8	26.7	25.4	18.0	23.0
NP (Wbn)	-	33	47	39	39	55
EPS (W)	-	1,389	1,945	1,567	1,578	2,226
ROE (%)	-	17.3	19.5	12.8	11.5	14.3
P/E (x)	-	25.1	28.9	24.9	29.3	20.8
P/B (x)	-	4.3	4.9	3.0	3.1	2.7
Div. yield (%)	-	0.0	0.0	0.0	0.0	0.0

Notes: Under non-consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Securities Research estimates

**Table 1. Valuation table**

		Notes
EPS (W)	1,967	Changed valuation base from 2023F EPS to 12MF EPS
Target P/E (x)	30	Unchanged
Target price (W)	59,000	
Current price (W)	46,300	
Upside (%)	27.4	

Source: Mirae Asset Securities Research estimates

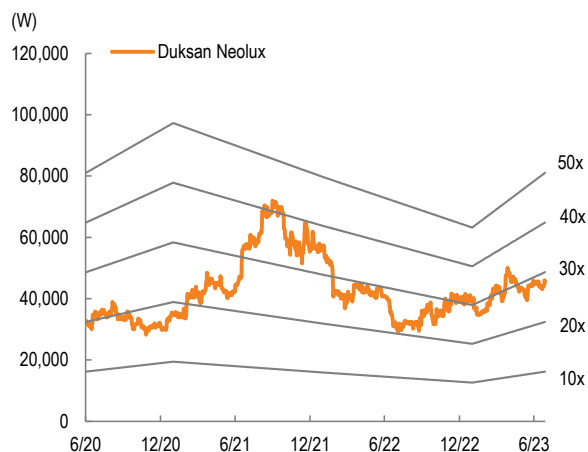
**Table 2. Quarterly and annual earnings**

(Wmn, %)

	1Q23	2Q23F	3Q23F	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2022	2023F	2024F
Revenue	28,454	39,710	50,190	53,466	45,768	46,396	57,228	67,521	176,677	171,819	216,914
OP	86	7,092	11,716	12,429	9,440	9,528	13,381	17,210	44,866	31,323	49,560
Pretax profit	4,464	10,326	15,035	15,246	12,794	13,118	17,167	20,475	44,787	45,070	63,554
NP	3,881	8,979	13,073	13,257	11,125	11,406	14,928	17,804	38,920	39,190	55,262
OP margin	0.3	17.9	23.3	23.2	20.6	20.5	23.4	25.5	25.4	18.2	22.8
Pretax margin	15.7	26.0	30.0	28.5	28.0	28.3	30.0	30.3	25.3	26.2	29.3
Net margin	13.6	22.6	26.0	24.8	24.3	24.6	26.1	26.4	22.0	22.8	25.5
<b>Growth (QoQ/YoY)</b>											
Revenue	-41.5	39.6	26.4	6.5	-14.4	1.4	23.3	18.0	-7.7	-2.7	26.2
OP	-99.1	8,146.0	65.2	6.1	-24.0	0.9	40.4	28.6	-12.0	-30.2	58.2
Pretax profit	40.4	131.3	45.6	1.4	-16.1	2.5	30.9	19.3	-23.9	0.6	41.0
NP	-33.6	131.3	45.6	1.4	-16.1	2.5	30.9	19.3	-22.4	0.7	41.0

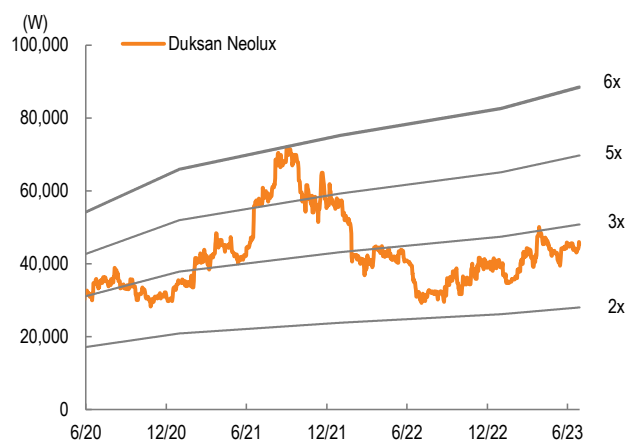
Source: Company data, Mirae Asset Securities Research

**Figure 1. 12-month forward P/E band chart**



Source: QuantiWise, Mirae Asset Securities Research

**Figure 2. 12-month forward P/B band chart**



Source: QuantiWise, Mirae Asset Securities Research

## Duksan Neolux (213420 KQ)

## Income statement (summarized)

(Wbn)	2021	2022	2023F	2024F
<b>Revenue</b>	<b>191</b>	<b>177</b>	<b>172</b>	<b>217</b>
<b>Cost of revenue</b>	<b>124</b>	<b>117</b>	<b>122</b>	<b>150</b>
<b>GP</b>	<b>67</b>	<b>60</b>	<b>50</b>	<b>67</b>
<b>SG&amp;A expenses</b>	<b>17</b>	<b>15</b>	<b>18</b>	<b>18</b>
<b>OP (adj.)</b>	<b>51</b>	<b>45</b>	<b>31</b>	<b>50</b>
<b>OP</b>	<b>51</b>	<b>45</b>	<b>31</b>	<b>50</b>
<b>Non-operating profit</b>	<b>5</b>	<b>0</b>	<b>14</b>	<b>14</b>
Net financial income	1	3	5	6
Net income from associates	0	0	0	0
Pretax profit	56	45	45	64
Income tax	10	6	6	8
Profit from continuing operations	47	39	39	55
Profit from discontinued operations	0	0	0	0
<b>NP</b>	<b>47</b>	<b>39</b>	<b>39</b>	<b>55</b>
Attributable to owners	47	39	39	55
Attributable to minority interests	0	0	0	0
<b>Total comprehensive income</b>	<b>47</b>	<b>40</b>	<b>39</b>	<b>55</b>
Attributable to owners	47	40	39	55
Attributable to minority interests	0	0	0	0
EBITDA	57	53	39	57
FCF	33	34	41	52
EBITDA margin (%)	29.8	29.9	22.7	26.3
OP margin (%)	26.7	25.4	18.0	23.0
Net margin (%)	24.6	22.0	22.7	25.3

## Balance sheet (summarized)

(Wbn)	2021	2022	2023F	2024F
<b>Current assets</b>	<b>188</b>	<b>189</b>	<b>232</b>	<b>296</b>
Cash & equivalents	134	133	152	195
AR & other receivables	13	13	14	18
Inventory	39	29	49	62
Other current assets	2	14	17	21
<b>Non-current assets</b>	<b>149</b>	<b>172</b>	<b>173</b>	<b>171</b>
Investments in associates	2	13	15	18
PP&E	76	92	88	81
Intangible assets	36	38	37	36
<b>Total assets</b>	<b>337</b>	<b>362</b>	<b>405</b>	<b>466</b>
<b>Current liabilities</b>	<b>23</b>	<b>16</b>	<b>20</b>	<b>24</b>
AP & other payables	10	9	10	13
Short-term financial liabilities	1	1	3	3
Other current liabilities	12	6	7	8
<b>Non-current liabilities</b>	<b>27</b>	<b>25</b>	<b>26</b>	<b>28</b>
Long-term financial liabilities	17	18	19	19
Other non-current liabilities	10	7	7	9
<b>Total liabilities</b>	<b>50</b>	<b>41</b>	<b>46</b>	<b>52</b>
<b>Equity attributable to owners</b>	<b>287</b>	<b>320</b>	<b>359</b>	<b>414</b>
Capital stock	5	5	5	5
Capital surplus	141	141	141	141
Retained earnings	141	181	220	275
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>287</b>	<b>320</b>	<b>359</b>	<b>414</b>

## Cash flow statement (summarized)

(Wbn)	2021	2022	2023F	2024F
<b>Operating cash flow</b>	<b>44</b>	<b>49</b>	<b>43</b>	<b>52</b>
NP	47	39	39	55
Non-cash income/expenses	18	17	8	9
Depreciation	6	7	7	7
Amortization	1	1	1	1
Other	11	9	0	1
Chg. in working capital	-16	2	-3	-11
Chg. in AR & other receivables	-1	-1	-1	-4
Chg. in inventory	-12	10	-20	-13
Chg. in AP & other payables	-2	0	0	1
Income tax	-5	-11	-7	-8
<b>Cash flow from investing activities</b>	<b>-26</b>	<b>-38</b>	<b>-20</b>	<b>-5</b>
Chg. in PP&E	-11	-14	-2	0
Chg. in intangible assets	0	-1	0	0
Chg. in financial assets	-7	4	-2	-5
Other	-8	-27	-16	0
<b>Cash flow from financing activities</b>	<b>65</b>	<b>-8</b>	<b>-4</b>	<b>0</b>
Chg. in financial liabilities	17	1	3	0
Chg. in equity	47	0	0	0
Dividends	0	0	0	0
Other	1	-9	-7	0
<b>Chg. in cash</b>	<b>83</b>	<b>-1</b>	<b>19</b>	<b>43</b>
Beginning balance	51	134	133	152
Ending balance	134	133	152	195

Source: Company data, Mirae Asset Securities Research estimates

## Key valuation metrics/ratios

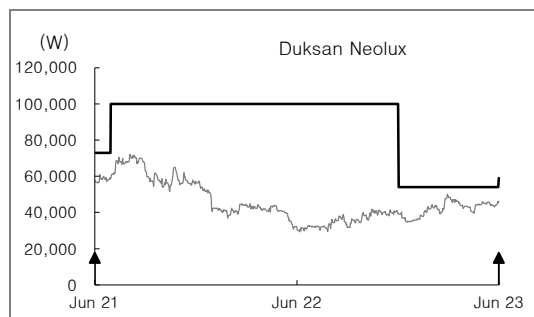
	2021	2022	2023F	2024F
P/E (x)	28.9	24.9	29.3	20.8
P/CF (x)	21.0	17.5	24.5	17.8
P/B (x)	4.9	3.0	3.1	2.7
EV/EBITDA (x)	22.3	16.0	25.9	16.8
EPS (W)	1,945	1,567	1,578	2,226
CFPS (W)	2,686	2,240	1,891	2,606
BPS (W)	11,564	13,166	14,755	16,981
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	32.7	-7.7	-2.7	26.2
EBITDA growth (%)	27.2	-7.9	-26.4	46.9
OP growth (%)	27.1	-12.0	-30.2	58.2
EPS growth (%)	40.1	-19.4	0.7	41.0
AR turnover (x)	15.7	13.7	12.6	13.4
Inventory turnover (x)	5.9	5.2	4.4	3.9
AP turnover (x)	18.8	22.6	23.7	24.4
ROA (%)	16.8	11.1	10.2	12.7
ROE (%)	19.5	12.8	11.5	14.3
ROIC (%)	30.1	24.8	15.8	23.7
Debt-to-equity ratio (%)	17.3	12.9	12.8	12.6
Current ratio (%)	830.1	1,171.1	1,177.4	1,229.5
Net debt-to-equity ratio (%)	-40.5	-39.0	-39.8	-45.7
Interest coverage ratio (x)	669.7	57.8	31.1	46.0

# Appendix 1

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### Two-year rating and TP history

Company	Date	Rating	TP (W)
Duksan Neolux (213420)	06/30/23	Buy	59,000
	12/30/22	Buy	54,000
	07/28/22	One year	100,000
	07/28/21	Buy	100,000
	06/17/21	Buy	73,000



### 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.

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\* 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.

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	Buy	Trading Buy	Hold	Sell
Ratings distribution	85.7%	10.7%	2.9%	0.7%
Investment banking services	87.5%	12.5%	0%	0%

\* Based on recommendations in the last 12-months (as of March 31, 2023)

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