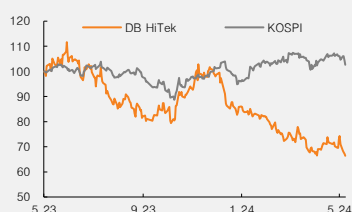


(Maintain)	Buy
Target price	▼ W57,000
Current price (5/30/24)	W39,950
Upside	42.7%

OP (24F, Wbn)	172
Consensus OP (24F, Wbn)	149
EPS growth (24F, %)	-37.0
Market EPS growth (24F, %)	76.2
P/E (24F, x)	10.7
Market P/E (24F, x)	10.7
KOSPI	2,635.44

Market cap (Wbn)	1,774
Shares (mn)	44
Free float (%)	69.8
Foreign ownership (%)	22.6
Beta (12M)	1.06
52-week low (W)	39,950
52-week high (W)	67,200

(%)	1M	6M	12M
Absolute	-3.5	-35.5	-35.6
Relative	-1.4	-37.9	-36.8



Mirae Asset Securities Co., Ltd.

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000990 KS · Semiconductors

DB HiTek

Negatives already priced in

Recommendation and valuation

We maintain our Buy rating on DB HiTek but lower our target price to W57,000 (from W76,600), applying a P/E of 10.2x to our 2024F EPS of W4,893. Our target multiple represents a 30% discount to the consensus 2024F P/E of United Microelectronics Corp. (UMC), which is trading at the lowest valuation among global peers.

Market conditions and investment points

While demand for IT and AI chips has been improving markedly, we have yet to see a significant demand recovery for chips used in consumer electronics and industrial equipment (DB HiTek's main products). Nevertheless, a number of players in the global semiconductor value chain note that inventory destocking at customers is in the final stage. Even if a full recovery in end-market demand is delayed, we could see a pickup in inventory stocking demand if inventories remain at healthy levels. Notably, the firm holds primary vendor status for over 80% of its customers, and we think it is positioned to see the fastest recovery in orders (vs. peers) once demand picks up.

In addition, according to a market research firm, Taiwanese foundries' utilization rates have rebounded since the US government increased tariffs on Chinese semiconductors (25% to 50%). Utilization rates are expected to rise to 75% for Vanguard, 85-90% for PSMC, and 70-75% for UMC. We believe rising utilization rates could benefit DB HiTek over the medium to long term.

Earnings outlook

For 1Q24, DB HiTek reported revenue of W261.5bn (-12.3% YoY, -6.4% QoQ) and operating profit of W41bn (-50.5% YoY, -2.8% QoQ). Wafer shipments were healthy at 332,000 (-1.1% QoQ) thanks to unexpected orders from a domestic customer. That said, ASP continued to decline (-6.1% QoQ). In 2Q24, we expect utilization to recover slightly and look for revenue of W264bn (+1.1% QoQ) and operating profit of W32bn (-21.7% QoQ). The stock has fallen to a 12-month forward P/B of 0.8x. However, ROE, which is hovering near historical lows, will likely pick up modestly in 2025. As the current valuation seems to already price in the worst-case scenario, we maintain our Buy rating.

(Dec.)	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	1,669	1,154	1,115	1,298	1,499
OP (Wbn)	762	265	172	262	363
OP margin (%)	45.7	23.0	15.4	20.2	24.2
NP (Wbn)	556	264	166	239	332
EPS (W)	12,496	5,934	3,738	5,369	7,461
ROE (%)	40.6	15.7	9.2	12.1	14.8
P/E (x)	3.0	9.9	10.7	7.4	5.4
P/B (x)	1.0	1.4	0.9	0.8	0.7
Dividend yield (%)	3.5	1.0	1.5	1.5	1.5

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

Source: Company data, Mirae Asset Securities Research estimates

Table 1. Quarterly and annual earnings

(Wbn, %)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24F	3Q24F	4Q24F	2022	2023	2024F	2025F
FX (USD/KRW)	1,275	1,315	1,311	1,322	1,329	1,345	1,333	1,333	1,291	1,306	1,335	1,330
Revenue	298	309	268	279	261	264	277	312	1,669	1,154	1,115	1,298
YoY	-24.5	-29.1	-40.1	-28.6	-12.3	-14.4	3.5	11.6	37.4	-30.9	-3.4	16.4
QoQ	-23.8	3.6	-13.3	4.3	-6.4	1.1	4.8	12.5	-	-	-	-
Semiconductors	283	291	252	261	244	247	260	294	1,625	1,087	1,044	1,227
Shipments ('000)	306	310	286	335	332	338	345	372	1,515	1,237	1,387	1,538
QoQ/YoY	-7.6	1.4	-7.7	17.1	-1.1	2.0	2.0	8.0	-1.4	-18.4	12.1	10.9
ASP (US\$)	728	714	671	590	554	543	564	593	830	673	564	600
QoQ/YoY	-14.0	-1.9	-5.9	-12.2	-6.1	-2.0	4.0	5.0	23.6	-18.9	-16.2	6.4
Other	15	18	16	18	18	18	18	18	45	67	71	71
COGS	174	178	175	185	176	186	192	203	742	712	757	839
GP	124	131	93	94	85	78	86	109	928	442	358	458
Gross margin	41.6	42.5	34.7	33.6	32.7	29.7	30.9	34.8	55.6	38.3	32.1	35.3
SG&A	41	41	43	52	44	46	47	49	166	177	186	197
OP	83	90	50	42	41	32	39	60	762	265	172	262
YoY	-54.3	-57.8	-77.2	-71.2	-50.5	-64.2	-23.4	42.3	90.9	-65.2	-35.3	52.3
QoQ	-43.5	8.4	-44.1	-16.0	-2.8	-21.7	19.9	55.9	-	-	-	-
OP margin	27.8	29.1	18.8	15.1	15.7	12.2	13.9	19.3	45.6	23.0	15.4	20.2
EBITDA	112	121	83	78	77	73	80	103	873	394	333	440
YoY	-46.9	-49.6	-66.5	-55.4	-31.1	-39.8	-3.7	32.7	62.6	-54.9	-15.4	32.1
QoQ	-35.7	8.4	-31.5	-6.5	-0.6	-5.3	9.5	28.8	-	-	-	-
EBITDA margin	37.5	39.2	31.0	27.8	29.5	27.6	28.8	33.0	52.3	34.1	29.9	33.9
Wafer capacity ('000)	420	420	453	453	453	453	453	453	1,662	1,746	1,812	1,812
QoQ/YoY	0.0	0.0	7.9	0.0	0.0	0.0	0.0	0.0	3.2	5.1	3.8	0.0
Utilization rate	72.8	73.8	63.2	74.0	73.2	74.6	76.1	82.2	91.2	70.8	76.5	84.9
QoQ/YoY	-6.0	1.0	-10.6	10.8	-0.8	2.0	2.0	8.0	-4.2	-20.3	5.7	8.4

Source: LSEG, Mirae Asset Securities Research

DB HiTek (000990 KS)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	1,154	1,115	1,298	1,499
Cost of revenue	712	757	839	929
GP	442	358	459	570
SG&A expenses	177	186	197	208
OP (adj.)	265	172	262	363
OP	265	172	262	363
Non-operating profit	41	19	0	0
Net financial income	26	0	0	0
Net income from associates	-6	0	0	0
Pretax profit	306	191	262	363
Income tax	42	25	23	31
Profit from continuing operations	264	166	239	332
Profit from discontinued operations	0	0	0	0
NP	264	166	239	332
Attributable to owners	264	166	239	332
Attributable to minority interests	0	0	0	0
Total comprehensive income	262	167	239	332
Attributable to owners	262	167	239	332
Attributable to minority interests	0	0	0	0
EBITDA	399	337	443	559
FCF	-105	193	196	263
EBITDA margin (%)	34.6	30.2	34.1	37.3
OP margin (%)	23.0	15.4	20.2	24.2
Net margin (%)	22.9	14.9	18.4	22.1

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	1,028	1,268	1,491	1,796
Cash & equivalents	253	372	551	798
AR & other receivables	111	127	144	166
Inventory	82	94	107	123
Other current assets	582	675	689	709
Non-current assets	1,015	1,029	1,066	1,127
Investments in associates	4	4	5	6
PP&E	951	964	1,003	1,066
Intangible assets	22	19	15	13
Total assets	2,043	2,298	2,557	2,923
Current liabilities	220	351	394	449
AP & other payables	113	95	108	124
Short-term financial liabilities	41	86	93	102
Other current liabilities	66	170	193	223
Non-current liabilities	83	77	79	81
Long-term financial liabilities	74	62	62	62
Other non-current liabilities	9	15	17	19
Total liabilities	303	428	472	530
Equity attributable to owners	1,740	1,870	2,085	2,393
Capital stock	223	223	223	223
Capital surplus	128	128	128	128
Retained earnings	1,563	1,706	1,921	2,229
Minority interests	0	0	0	0
Shareholders' equity	1,740	1,870	2,085	2,393

Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Operating cash flow	224	373	413	520
NP	264	166	239	332
Non-cash income/expenses	169	178	203	226
Depreciation	128	161	178	194
Amortization	5	4	3	3
Other	36	13	22	29
Chg. in working capital	2	25	-7	-9
Chg. in AR & other receivables	11	-16	-17	-22
Chg. in inventory	4	-13	-13	-16
Chg. in AP & other payables	6	5	8	10
Income tax	-179	-8	-23	-31
Cash flow from investing activities	27	-277	-217	-257
Chg. in PP&E	-319	-174	-217	-257
Chg. in intangible assets	-6	-1	0	0
Chg. in financial assets	-1	1	0	0
Other	353	-103	0	0
Cash flow from financing activities	-147	36	-17	-15
Chg. in financial liabilities	-26	33	7	9
Chg. in equity	0	0	0	0
Dividends	0	0	-24	-24
Other	-121	3	0	0
Chg. in cash	100	119	178	247
Beginning balance	154	253	372	551
Ending balance	253	372	551	798

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

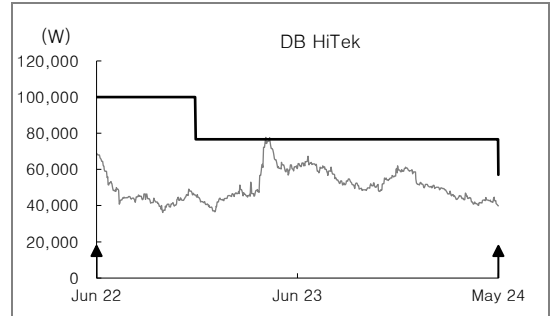
	2023	2024F	2025F	2026F
P/E (x)	9.9	10.7	7.4	5.4
P/CF (x)	6.0	5.2	4.0	3.2
P/B (x)	1.4	0.9	0.8	0.7
EV/EBITDA (x)	6.2	2.9	1.8	1.0
EPS (W)	5,934	3,738	5,369	7,461
CFPS (W)	9,728	7,746	9,933	12,548
BPS (W)	41,802	44,721	49,546	56,464
DPS (W)	580	580	580	580
Dividend payout ratio (%)	9.2	14.5	10.1	7.3
Dividend yield (%)	1.0	1.5	1.5	1.5
Revenue growth (%)	-30.9	-3.4	16.4	15.5
EBITDA growth (%)	-54.8	-15.6	31.5	26.3
OP growth (%)	-65.2	-35.3	52.3	38.5
EPS growth (%)	-52.5	-37.0	43.6	39.0
AR turnover (x)	10.0	9.4	9.6	9.7
Inventory turnover (x)	14.4	12.7	12.9	13.0
AP turnover (x)	14.4	14.1	13.7	13.2
ROA (%)	12.6	7.7	9.8	12.1
ROE (%)	15.7	9.2	12.1	14.8
ROIC (%)	23.9	13.5	21.9	28.9
Debt-to-equity ratio (%)	17.4	22.9	22.7	22.2
Current ratio (%)	466.9	361.0	378.7	399.9
Net debt-to-equity ratio (%)	-8.0	-42.2	-46.1	-50.1
Interest coverage ratio (x)	244.9	0.0	0.0	0.0

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (₩)
DB HiTek (000990)	05/31/24	Buy	57,000
	11/28/23	One year	76,600
	11/28/22	Buy	76,600
	05/31/22	Buy	100,000



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	85.36%	9.15%	5.49%	0%
Investment banking services	80.96%	9.52%	9.52%	0%

* Based on recommendations in the last 12-months (as of March 31, 2024)

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