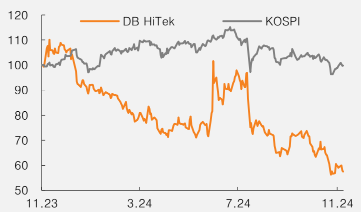
MIRAE ASSET Securities

Equity Research
November 29, 2024

(Maintain)	Buy
Target price	▼ W39,200
Current price (11/28/24)	W32,300
Upside	21.4%

OP (24F, Wbn)	194
Consensus OP (24F, Wbn)	200
EPS growth (24F, %)	-29.7
Market EPS growth (24F, %)	74.4
P/E (24F, x)	7.7
Market P/E (24F, x)	10.2
KOSPI	2,504.67
Market cap (Wbn)	1,434
Shares (mn)	44
Free float (%)	68.9
Foreign ownership (%)	24.4
Beta (12M)	1.40
52-week low (W)	31,600
52-week high (W)	61,900

(%)	1M	6M	12M
Absolute	-12.8	-20.9	-46.6
Relative	-9.1	-14.0	-46.2



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000990 KS · Semiconductors

DB HiTek

Recovery to take some time

Recommendation and valuation

We maintain our Buy rating on DB HiTek but cut our target price to W39,200 (from W57,000), applying a P/E of 8.7x to our 2025F EPS of W4,510. Our target multiple represents a 20% discount to the consensus 2025F P/E of United Microelectronics Corp. (UMC), which is trading at the lowest valuation among global peers. While DB HiTek's stock has fallen to a 12-month forward P/B of 0.5x, we expect ROE (which is also at a historical low) to improve gradually from 2025. As concerns over weak market conditions appear to be fully priced in, we recommend accumulating shares from a medium- to long-term perspective.

Market conditions and investment points

While demand for AI chips is solid, 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 levels are improving, and there is a broad consensus that the industry is likely to enjoy solid growth over the medium/long term. As DB HiTek holds primary vendor status for over 80% of its customers, we think it is positioned to see the fastest recovery in orders (vs. peers) once demand picks up.

For 3Q24, the company posted revenue of W287.8bn (+7.5% YoY, -3.6% QoQ) and operating profit of W47bn (-6.4% YoY, -30% QoQ). Expectations for a market recovery had increased following solid results in 2Q24 (when revenue picked up 14% QoQ), but the improvement proved to be short-lived. In 3Q24, shipments stalled at 339,000 units (-0.2% QoQ), while ASP slid 2.3% QoQ. In 4Q24, we forecast revenue to decline 4.2% QoQ to W275.7bn and operating profit to fall 18% QoQ to W39bn amid a further fall in utilization.

On Oct. 11, the company announced plans to invest W250bn in facilities (e.g., clean rooms and utilities infrastructure) through Oct. 2027 in anticipation of potential capacity shortages. We believe this expansion will translate to additional wafer capacity of 30,000 units. As such, revenue could grow visibly once the new facilities are fully operational. While new businesses such as Si capacitors and GaN have experienced slight delays recently, the company is continuing R&D efforts to secure new growth drivers.

(Dec.)	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	1,669	1,154	1,123	1,214	1,389
OP (Wbn)	762	265	194	220	306
OP margin (%)	45.7	23.0	17.3	18.1	22.0
NP (Wbn)	556	264	186	201	280
EPS (W)	12,496	5,934	4,173	4,510	6,286
ROE (%)	40.6	15.7	10.2	10.2	12.8
P/E (x)	3.0	9.9	7.7	7.2	5.1
P/B (x)	1.0	1.4	0.7	0.7	0.6
Dividend yield (%)	3.5	1.0	1.8	1.8	1.8

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, %)

	1Q24	2Q24	3Q24	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	2022	2023	2024F	2025F
FX (USD/KRW)	1,329	1,371	1,357	1,378	1,375	1,375	1,375	1,375	1,291	1,306	1,359	1,375
Revenue	261	298	288	276	280	293	313	328	1,669	1,154	1,123	1,214
YoY	-12.3	-3.4	7.5	-1.3	7.1	-1.7	8.7	18.9	37.4	-30.9	-2.7	8.0
QoQ	-6.4	14.1	-3.6	-4.2	1.6	4.7	6.7	4.8	-	-	-	-
Semiconductors	244	277	267	258	262	275	295	310	1,625	1,087	1,045	1,142
Shipments ('000)	332	340	339	329	338	355	373	381	1,515	1,237	1,339	1,448
QoQ/YoY	-1.1	2.4	-0.2	-3.0	3.0	5.0	5.0	2.0	-1.4	-18.4	8.2	8.2
ASP (US$)	554	594	580	569	563	563	574	592	830	673	575	574
QoQ/YoY	-6.1	7.3	-2.3	-2.0	-1.0	0.0	2.0	3.0	23.6	-18.9	-14.7	-0.2
Other	18	22	21	18	18	18	18	18	45	67	78	72
COGS	176	183	189	187	187	194	201	208	742	712	735	790
GP	85	115	99	89	93	100	112	120	928	442	388	424
Gross margin	32.7	38.5	34.4	32.1	33.2	34.0	35.7	36.6	55.6	38.3	34.5	34.9
SG&A	44	48	52	50	49	50	52	53	166	177	194	204
OP	41	67	47	39	44	49	60	67	762	265	194	220
YoY	-50.5	-25.0	-6.4	-8.3	6.6	-27.2	27.4	73.6	90.9	-65.2	-26.8	13.3
QoQ	-2.8	64.3	-30.2	-17.7	13.0	12.3	22.0	12.2	-	-	-	-
OP margin	15.7	22.6	16.3	14.1	15.6	16.8	19.2	20.5	45.6	23.0	17.3	18.1
EBITDA	78	105	87	77	83	88	100	108	881	399	347	379
YoY	-31.3	-14.0	3.2	-2.0	5.7	-16.0	15.2	40.3	62.1	-54.8	-12.9	9.2
QoQ	-0.6	35.0	-17.7	-11.2	7.1	7.2	13.0	8.1	-	-	-	-
EBITDA margin	29.9	35.3	30.2	27.9	29.5	30.2	32.0	33.0	52.8	34.6	30.9	31.2
Wafer capacity ('000)	453	462	462	462	462	462	462	462	1,662	1,746	1,839	1,848
QoQ/YoY	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	3.2	5.1	5.3	0.5
Utilization rate	73.2	73.5	73.3	71.1	73.3	76.9	80.8	82.4	91.2	70.8	72.8	78.3
QoQ/YoY	-0.8	0.3	-0.2	-3.0	3.0	5.0	5.0	2.0	-4.2	-20.3	1.9	5.6

Source: LSEG, Mirae Asset Securities Research

Table 2. TP calculation

	Value	Notes
2025F EPS	4,510	
Target P/E	8.7	30% discount to consensus 2025F P/E for UMC (discount applied due to DB HiTek's focus on 8-inch products vs. 12-inch products for UMC)
Fair value	39,222	
Current price	32,300	
Upside	21.4	

Source: Mirae Asset Securities Research

DB HiTek (000990 KS)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	**1,154**	**1,123**	**1,214**	**1,389**
Cost of revenue	**712**	**735**	**790**	**870**
GP	**442**	**388**	**424**	**519**
SG&A expenses	**177**	**194**	**204**	**214**
OP (adj.)	**265**	**194**	**220**	**306**
OP	**265**	**194**	**220**	**306**
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	213	220	306
Income tax	42	28	19	26
Profit from continuing operations	264	186	201	280
Profit from discontinued operations	0	0	0	0
NP	**264**	**186**	**201**	**280**
Attributable to owners	264	186	201	280
Attributable to minority interests	0	0	0	0
Total comprehensive income	**262**	**186**	**201**	**280**
Attributable to owners	262	186	201	280
Attributable to minority interests	0	0	0	0
EBITDA	399	343	378	476
FCF	-105	224	156	221
EBITDA margin (%)	34.6	30.5	31.1	34.3
OP margin (%)	23.0	17.3	18.1	22.0
Net margin (%)	22.9	16.6	16.6	20.2

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	**1,028**	**1,255**	**1,451**	**1,704**
Cash & equivalents	253	397	538	741
AR & other receivables	111	113	134	153
Inventory	82	83	99	113
Other current assets	582	662	680	697
Non-current assets	**1,015**	**1,023**	**1,060**	**1,112**
Investments in associates	4	4	5	5
PP&E	951	958	997	1,051
Intangible assets	22	19	15	13
Total assets	**2,043**	**2,279**	**2,511**	**2,816**
Current liabilities	**220**	**314**	**367**	**415**
AP & other payables	113	84	100	114
Short-term financial liabilities	41	80	89	96
Other current liabilities	66	150	178	205
Non-current liabilities	**83**	**75**	**77**	**80**
Long-term financial liabilities	74	62	62	62
Other non-current liabilities	9	13	15	18
Total liabilities	**303**	**389**	**445**	**495**
Equity attributable to owners	**1,740**	**1,889**	**2,066**	**2,322**
Capital stock	223	223	223	223
Capital surplus	128	128	128	128
Retained earnings	1,563	1,725	1,902	2,158
Minority interests	**0**	**0**	**0**	**0**
Shareholders' equity	**1,740**	**1,889**	**2,066**	**2,322**

Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Operating cash flow	**224**	**382**	**350**	**442**
NP	264	186	201	280
Non-cash income/expenses	169	166	177	196
Depreciation	128	145	155	168
Amortization	5	4	3	3
Other	36	17	19	25
Chg. in working capital	2	31	-9	-8
Chg. in AR & other receivables	11	-1	-21	-19
Chg. in inventory	4	-2	-16	-14
Chg. in AP & other payables	6	-2	10	9
Income tax	-179	-11	-19	-26
Cash flow from investing activities	**27**	**-256**	**-194**	**-222**
Chg. in PP&E	-319	-153	-194	-222
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**	**30**	**-15**	**-16**
Chg. in financial liabilities	-26	27	9	8
Chg. in equity	0	0	0	0
Dividends	0	0	-24	-24
Other	-121	3	0	0
Chg. in cash	**100**	**144**	**140**	**204**
Beginning balance	154	253	397	538
Ending balance	253	397	538	741

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

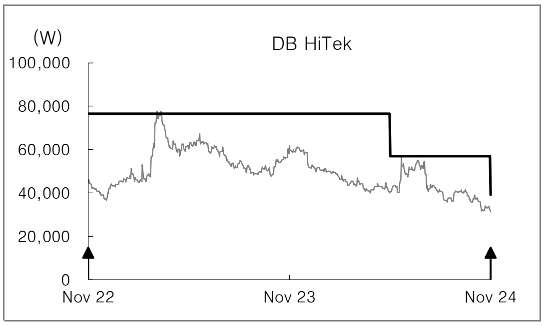
	2023	2024F	2025F	2026F
P/E (x)	9.9	7.7	7.2	5.1
P/CF (x)	6.0	4.1	3.8	3.0
P/B (x)	1.4	0.7	0.7	0.6
EV/EBITDA (x)	6.2	1.8	1.3	0.6
EPS (W)	5,934	4,173	4,510	6,286
CFPS (W)	9,728	7,899	8,485	10,681
BPS (W)	41,802	45,155	49,124	54,869
DPS (W)	580	580	580	580
Dividend payout ratio (%)	9.2	12.9	12.0	8.6
Dividend yield (%)	1.0	1.8	1.8	1.8
Revenue growth (%)	-30.9	-2.7	8.0	14.5
EBITDA growth (%)	-54.8	-13.9	10.1	25.8
OP growth (%)	-65.2	-26.8	13.3	38.8
EPS growth (%)	-52.5	-29.7	8.1	39.4
AR turnover (x)	10.0	10.1	9.9	9.8
Inventory turnover (x)	14.4	13.6	13.3	13.1
AP turnover (x)	14.4	14.6	14.2	13.4
ROA (%)	12.6	8.6	8.4	10.5
ROE (%)	15.7	10.2	10.2	12.8
ROIC (%)	23.9	15.4	18.7	24.7
Debt-to-equity ratio (%)	17.4	20.6	21.5	21.3
Current ratio (%)	466.9	399.3	394.8	410.5
Net debt-to-equity ratio (%)	-8.0	-43.4	-46.1	-49.4
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 (W)
DB HiTek (000990)	11/29/24	Buy	39,200
	05/31/24	Buy	57,000
	11/28/23	One year	76,600
	11/28/22	Buy	76,600



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	82.38%	10.23%	7.39%	0%
Investment banking services	84.21%	5.26%	10.53%	0%

* Based on recommendations in the last 12-months (as of September 30, 2024)

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