

Youngone Corporation (111770 KS)

Apparel

KDB Daewoo Securities appreciates your support in the Institutional Investor 2013 All-Asia Research Survey

Short-term corrections expected, but sound fundamentals

Rights offering aimed at boosting growth and profitability

Youngone Corporation announced a proposed rights offering after market close on January 16th. The company plans to issue 3.5mn new shares (8.5% of issued shares) in order to issue global depository receipts (GDR), which will be listed on the Singapore Exchange. Youngone expects to raise W100bn via this offering (depending on demand). The company plans to use these proceeds to ramp up capacity and build new factories. We believe this capacity expansion will enable the company to maintain strong growth and profitability.

1) Growth potential: We expect Youngone to increase its production capacity by investing in automated systems for existing clothing factories in Bangladesh. And we also expect the company to diversify its product portfolio by establishing shoe and bag factories in Bangladesh (inside the Korean Export Processing Zone).

2) Profitability: We anticipate Youngone to reinforce vertical integration through investments in a textile factory in Vietnam. We expect the resulting increase in in-house raw material production will enable the company to reduce costs. In addition, we expect Youngone will establish a working textile research institute in the Dalseong, Daegu industrial complex to produce high-end textiles, and save costs.

4Q12 preview: Sluggish earnings due to high base effect

We project Youngone Corporation's 4Q12 earnings to fall shy of the market consensus. We forecast 4Q revenues and operating profit to decrease 16.2% YoY and 24.4% YoY, respectively, due to a high base of comparison. Youngone saw orders soar in 2011, caused by massive restructuring in the Chinese OEM industry due to a surge in labor costs. As a result, the company's 4Q11 revenues surged 23.6% YoY despite seasonal weakness.

Meanwhile, we estimate Youngone's 4Q12 pretax profit to have contracted 40.5% YoY due to F/X-related losses of W5bn (caused by sharp won appreciation at quarter-end). However, we forecast net profit to grow 10.2% YoY thanks to a YoY decline in the corporate tax rate.

Lower TP to W40,000; Maintain Buy call

We lower our target price to W40,000 (from W44,000) to reflect the expected share dilution from the rights offering, as well as our downward revision to 2013 earnings forecasts (due to won appreciation).

► Earnings & Valuation Metrics

FY	Revenues (Wbn)	OP (Wbn)	OP Margin (%)	NP (Wbn)	EPS (Won)	EBITDA (Wbn)	FCF (Wbn)	ROE (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
12/10	807	106	13.2	73	1,782	130	-73	16.9	5.9	0.9	2.9
12/11	990	185	18.7	117	2,869	209	49	23.2	9.7	2.1	5.0
12/12F	1,061	199	18.7	131	3,201	228	51	21.5	10.3	2.0	5.5
12/13F	1,118	202	18.1	137	3,365	240	79	18.8	10.7	1.9	5.4
12/14F	1,272	234	18.4	168	4,112	276	99	19.4	8.8	1.6	4.4

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, KDB Daewoo Securities Research estimates

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Buy (Maintain)

Target Price (12M, W)	40,000
Share Price (01/16/13, W)	36,050
Expected Return (%)	11.0
EPS Growth (13F, %)	5.1
Market EPS Growth (13F, %)	19.1
P/E (13F, x)	10.7
Market P/E (13F, x)	9.0
KOSPI	1,977.45
Market Cap (Wbn)	1,471
Shares Outstanding (mn)	41
Avg Trading Volume (60D, '000)	118
Avg Trading Value (60D, Wbn)	4
Dividend Yield (13F, %)	0.7
Free Float (%)	44.7
52-Week Low (W)	20,850
52-Week High (W)	38,100
Beta (12M, Daily Rate of Return)	0.03
Price Return Volatility (12M Daily, %, SD)	2.6
Foreign Ownership (%)	29.8

Major Shareholder(s)

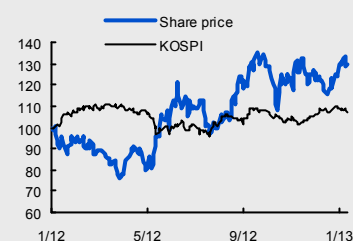
Youngone Holdings et al. (55.29%)

Templeton Asset Management Ltd. et al. (11.54%)

Templeton Investment Counsel, LLC et al. (6.84%)

Price Performance

(%)	1M	6M	12M
Absolute	6.0	15.0	44.2
Relative	6.9	6.2	37.8



However, we maintain our Buy rating to reflect the company's sound fundamentals. We believe Youngone will grow alongside other international labels (it is the largest international outdoor-apparel OEM). We forecast Youngone's US\$-denominated revenues to show a CAGR of 14.4% until end-2015, aided by strong competitiveness (e.g., its ability to meet massive orders, its track record in quality and delivery, its sound financials), as well as the contraction of the Chinese OEM industry.

Q&A (rights offering)

Q. Why did Youngone decide to make a rights offering when it already has W180bn in cash as of end-2012 (W140bn in net cash)?

A. Youngone's net cash position tends to fluctuate significantly QoQ. In 2Q-3Q, the high-demand season for outdoor wear, outdoor OEMs see rises in inventories and trade payables, decreases in cash, and increases in short-term borrowings. Meanwhile, in 2H, cash expands and short-term borrowings decline as OEMs collect receivables. Indeed, Youngone's net borrowings reached W130bn in 2Q12. Thus, capex worth W100bn in 2013 may undermine the company's 2Q financial soundness without a rights offering.

In addition, it should be noted that Youngone's competitiveness comes mainly from its financial soundness. The company's products tend to be around 30% more expensive than those of its peers, but customers are willing to pay more for stable supply, as OEMs have high bankruptcy rates due to their fluctuating quarterly cash positions.

Q. What is the rationale for issuing GDRs to be listed on Singapore Exchange?

A. By listing GDRs on the Singapore Exchange, stocks can be free from overhang issues that tend to arise after a rights offering. In addition, the listing process is simpler and cheaper in Singapore.

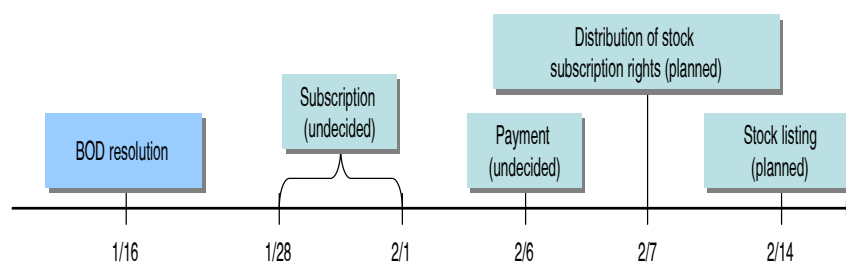
Table 1. Allocation of newly raised capital

(Wmn, %)

Region	Purpose	Amount	%
Bangladesh	Ramp up production capacity of clothing factories	24,604	19.7
	Invest in shoe and bag factories	28,426	22.8
Vietnam	Expand textile mill and make new investments	28,426	22.8
Korea	Invest in textile R&D center and production facilities in Daegu	38,456	30.8
	Invest in logistics center in Icheon, Gyeonggi-do	5,038	4.0
Total		124,950	100.0

Source: Company data, KDB Daewoo Securities Research

Figure 1. Rights offering schedule



Source: Company data, KDB Daewoo Securities Research

Table 2. 4Q12 earnings preview

(Wbn, %, %p)

	4Q11	3Q12	4Q12F		% growth	
			KDB Daewoo	Consensus	YoY	QoQ
Revenues	266.2	374.2	223.1	267.3	-16.2	-40.4
Operating profit	35.6	80.8	26.9	28.4	-24.4	-66.6
OP margin	13.4	21.6	12.1	10.6	-1.3	-9.5
Pretax profit	36.6	79.4	21.7	28.8	-40.5	-72.6
Net profit	13.9	54.3	15.3	22.1	10.2	-71.8

Notes: Based on consolidated K-IFRS; Operating profit = gross profit – SG&A expenses

Source: Company data, FnGuide, KDB Daewoo Securities Research estimates

Table 3. Quarterly and annual earnings

(Wbn, %)

	2012					2013F				
	1Q	2Q	3Q	4QF	Annual	1QF	2QF	3QF	4QF	Annual
Revenues	152.3	311.4	374.2	223.1	1,060.9	159.2	327.4	391.2	240.6	1,118.4
Operating profit	22.4	65.6	80.8	26.9	195.7	17.9	69.7	88.7	26.0	202.3
Pretax profit	23.7	66.8	79.4	21.7	191.7	16.3	68.5	88.5	27.1	200.4
Net profit	14.8	46.2	54.3	15.3	130.6	9.2	46.8	62.1	19.2	137.3
Revenues growth	8.9	16.7	17.9	-16.2	7.1	4.6	5.2	4.5	7.8	5.4
Operating profit growth	29.4	8.9	16.8	-24.4	7.4	-20.0	6.3	9.8	-3.5	3.4
Pretax profit growth	38.5	17.9	6.6	-40.5	3.7	-31.1	2.6	11.4	24.6	4.6
Net profit growth	38.6	16.3	2.9	10.2	11.6	-37.9	1.3	14.3	25.6	5.1
OP margin	14.7	21.1	21.6	12.1	18.4	11.3	21.3	22.7	10.8	18.1
Net margin	9.7	14.8	14.5	6.9	12.3	5.8	14.3	15.9	8.0	12.3
W/US\$ (average)	1,132	1,152	1,133	1,096	1,099	1,060	1,043	1,033	1,033	1,042
W/US\$ (end)	1,138	1,154	1,119	1,071	1,071	1,050	1,035	1,030	1,035	1,035

Notes: Based on consolidated K-IFRS; Operating profit = gross profit – SG&A expenses;

NP refers to net profit attributable to controlling interests

Source: Company data, KDB Daewoo Securities Research estimates

Table 4. Revisions to 2012-2014F earnings forecasts

(Wbn, %)

	Previous			Revised			% Change		
	12F	13F	14F	12F	13F	14F	12F	13F	14F
Revenues	1,109	1,181	1,328	1,061	1,118	1,271	-4.3	-5.3	-4.3
Operating profit	197	208	238	199	202	234	0.9	-2.7	-1.8
Pretax profit	193	205	243	192	200	241	-0.8	-2.2	-0.8
Net profit	135	143	169	131	137	168	-3.1	-4.0	-0.7
OP margin	17.8	17.6	17.9	18.7	18.1	18.4	-	-	-
Net margin	12.2	12.1	12.7	12.3	12.3	13.2	-	-	-

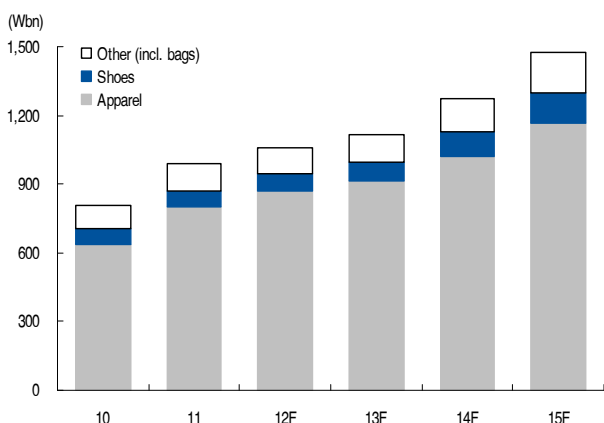
Source: KDB Daewoo Securities Research estimates

Table 5. F/X sensitivity analysis (2013F)

	W/US\$		Revenues		Operating profit		Pretax profit	Net profit	
	Average	End	Wbn	% Chg.	Wbn	% Chg.	Wbn	Wbn	% Chg.
Up W50	1,092	1,085	1,169.4	4.6	214.9	6.2	217.9	149.3	8.7
Up W10	1,052	1,045	1,128.6	0.9	204.8	1.2	203.9	139.7	1.7
Base assumption	1,042	1,035	1,118.4	0.0	202.3	0.0	200.4	137.3	0.0
Down W10	1,032	1,025	1,108.2	-0.9	199.8	-1.2	196.9	134.9	-1.7
Down W50	992	985	1,067.5	-4.6	189.7	-6.2	182.9	125.3	-8.7

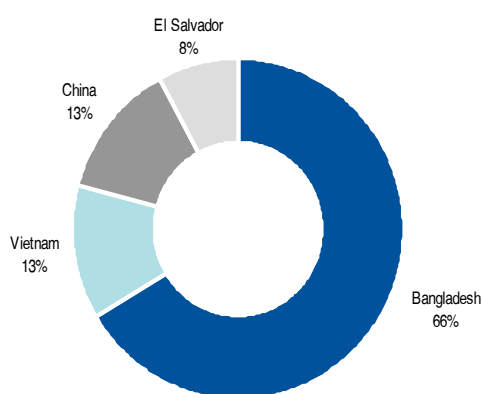
Source: KDB Daewoo Securities Research estimates

Figure 1. Revenue forecasts by division



Source: Company data, KDB Daewoo Securities Research

Figure 2. Factories by region



Source: Company data, KDB Daewoo Securities Research

Youngone Corporation (111770 KS/Buy/TP: W40,000)

Comprehensive Income Statement (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Revenues	990	1,061	1,118	1,272
Cost of Sales	707	759	800	910
Gross Profit	284	302	318	362
SG&A Expenses	101	106	116	128
Operating Profit (Adj)	182	196	202	234
Operating Profit	185	199	202	234
Non-Operating Profit	-1	-7	-2	7
Net Financial Income	-2	0	-3	-5
Net Gain from Inv in Associates	0	0	0	2
Pretax Profit	185	192	200	241
Income Tax	56	49	50	60
Profit from Continuing Operations	129	143	150	181
Profit from Discontinued Operations	0	0	0	0
Net Profit	129	143	150	181
Controlling Interests	117	131	137	168
Non-Controlling Interests	11	12	13	13
Total Comprehensive Profit	105	135	143	166
Controlling Interests	96	127	134	157
Non-Controlling Interests	9	8	9	9
EBITDA	209	228	240	276
FCF (Free Cash Flow)	49	51	79	99
EBITDA Margin (%)	21.1	21.5	21.5	21.7
Operating Profit Margin (%)	18.7	18.7	18.1	18.4
Net Profit Margin (%)	11.8	12.3	12.3	13.2

Cash Flows (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Cash Flows from Op Activities	142	216	181	188
Net Profit	129	143	150	181
Non-Cash Income and Expense	85	88	90	95
Depreciation	27	32	37	41
Amortization	0	1	1	1
Others	-3	0	-1	-1
Chg in Working Capital	-50	14	-9	-27
Chg in AR & Other Receivables	-14	5	-6	-16
Chg in Inventories	-43	12	-8	-21
Chg in AP & Other Payables	5	-6	3	8
Income Tax Paid	-22	-29	-50	-60
Cash Flows from Inv Activities	-55	-202	-96	-84
Chg in PP&E	-72	-145	-100	-90
Chg in Intangible Assets	-1	-1	-1	-1
Chg in Financial Assets	29	-59	0	0
Others	-11	3	6	7
Cash Flows from Fin Activities	-1	-9	-23	-12
Chg in Financial Liabilities	10	3	-10	0
Chg in Equity	0	0	0	0
Dividends Paid	-8	-8	-10	-10
Others	-3	-4	-3	-2
Increase (Decrease) in Cash	85	4	63	92
Beginning Balance	90	175	179	241
Ending Balance	175	179	241	333

Statement of Financial Condition (Summarized)				
(Wbn)	12/11	12/12F	12/13F	12/14F
Current Assets	511	503	581	713
Cash and Cash Equivalents	175	179	241	333
AR & Other Receivables	122	112	118	134
Inventories	158	143	151	171
Other Current Assets	29	23	25	28
Non-Current Assets	333	491	553	605
Investments in Associates	10	12	12	14
Property, Plant and Equipment	262	370	432	481
Intangible Assets	2	3	3	4
Total Assets	845	994	1,134	1,318
Current Liabilities	187	117	112	126
AP & Other Payables	57	52	55	62
Short-Term Financial Liabilities	81	21	11	11
Other Current Liabilities	49	44	46	53
Non-Current Liabilities	81	173	185	200
Long-Term Financial Liabilities	0	63	63	63
Other Non-Current Liabilities	77	106	118	132
Total Liabilities	268	290	297	326
Controlling Interests	549	668	792	938
Capital Stock	20	20	20	20
Capital Surplus	334	335	335	335
Retained Earnings	225	348	475	632
Non-Controlling Interests	28	36	45	54
Stockholders' Equity	577	704	837	992

Forecasts/Valuations (Summarized)				
	12/11	12/12F	12/13F	12/14F
P/E (x)	9.7	10.3	10.7	8.8
P/CF (x)	7.9	8.3	8.4	7.0
P/B (x)	2.1	2.0	1.9	1.6
EV/EBITDA (x)	5.0	5.5	5.4	4.4
EPS (W)	2,869	3,201	3,365	4,112
CFPS (W)	3,533	3,991	4,293	5,146
BPS (W)	13,401	16,298	19,313	22,889
DPS (W)	200	250	250	300
Payout ratio (%)	7.0	7.8	7.4	7.3
Dividend Yield (%)	2.7	0.8	0.7	0.8
Revenue Growth (%)	22.8	7.1	5.4	13.7
EBITDA Growth (%)	61.4	8.9	5.4	14.9
Operating Profit Growth (%)	74.7	7.3	1.7	15.5
EPS Growth (%)	61.0	11.6	5.1	22.2
Accounts Receivable Turnover (x)	8.9	9.5	10.2	10.5
Inventory Turnover (x)	7.0	7.1	7.6	7.9
Accounts Payable Turnover (x)	18.1	20.8	22.2	23.0
ROA (%)	16.6	15.5	14.1	14.8
ROE (%)	23.2	21.5	18.8	19.4
ROIC (%)	28.8	28.1	25.3	26.0
Liability to Equity Ratio (%)	46.4	41.2	35.5	32.8
Current Ratio (%)	273.8	429.0	516.5	564.3
Net Debt to Equity Ratio (%)	-21.2	-20.0	-25.5	-30.8
Interest Coverage Ratio (x)	228.1	76.0	80.3	105.3

Source: Company data, KDB Daewoo Securities Research estimates

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	Trading Buy	Relative performance of 10% or greater, but with volatility	
	Hold	Relative performance of -10% and 10%	
	Sell	Relative performance of -10%	
Industry Ratings	Overweight	Fundamentals are favorable or improving	
	Neutral	Fundamentals are steady without any material changes	
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