

Dongsung Finetec

(033500 KQ)

Solid earnings in 2Q; Order momentum to build in 2H

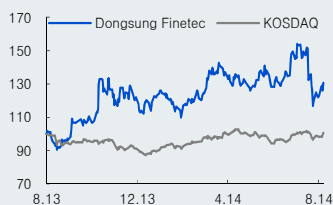
Machinery

Results Comment
August 18, 2014

(Maintain)	Buy
Target Price (12M, W)	16,500
Share Price (08/14/14, W)	11,400
Expected Return	45%

OP (14F, Wbn)	29
Consensus OP (14F, Wbn)	29
EPS Growth (14F, %)	151.0
Market EPS Growth (14F, %)	13.8
P/E (14F, x)	12.5
Market P/E (14F, x)	12.4
KOSDAQ	558.18
Market Cap (Wbn)	308
Shares Outstanding (mn)	27
Free Float (%)	59.4
Foreign Ownership (%)	11.6
Beta (12M)	0.97
52-Week Low	7,900
52-Week High	13,450

(%)	1M	6M	12M
Absolute	-14.9	8.1	33.0
Relative	-14.4	1.2	31.3



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Snapshot: A global leader in the LNG insulation panel market

Established in 1985, Dongsung Finetec is the world's largest maker of LNG cryogenic insulations. LNG insulation panels are designed to cool natural gas to -163 degrees Celsius to facilitate the storage and transport of LNG. These panels are mainly installed in LNG carriers, but are increasingly being used in FLNG facilities (LNG FPSO/FSRU), fixed offshore platforms, and offshore storage facilities. Dongsung Finetec and Hankuk Carbon together account for more than 90% of the LNG carrier-use insulation market. In 2013, the company generated 72% of its revenue from LNG cryogenic insulations, 12% from sandwich panels, 8% from PU systems, 4% from high-pressure gas cylinders, and 4% from refrigerants/other sources.

2Q review: Revenue and OP meet expectations; Net profit exceeds estimates

In 2Q, Dongsung Finetec reported revenue of W101.8bn (+8% YoY), operating profit of W6.5bn (+83% YoY), and net profit of W7.4bn (+552% YoY). Revenue and operating profit met our estimates, and net profit exceeded our expectations thanks to tax rebates and derivatives investment gains (F/X hedge). Despite the won's appreciation, OP margin stayed flat QoQ at 6.3%, possibly due to the disposal of the loss-generating high-pressure storage business. Profits are likely to improve further in 3Q, as some of the LNG cryogenic insulation revenue was not recognized in 2Q. The company's reliance on LNG cryogenic insulations has grown since it shut down its high-pressure storage business, which generated revenue of W15.2bn in 2013.

The company's financial health is improving on the back of ample operating cash flow. In 2Q, the firm's debt-to-equity ratio fell YoY to 200% (from 313% in 2Q13), and quarterly interest expenses decreased YoY to W1.2bn (from W2bn). Considering the strong financial positions of other Dongsung Group affiliates, we think the company will make steady efforts to improve its financials, as well.

We estimate the company's YTD new orders at W130bn. Orders for insulation panels for use in LNG carriers, FLNG units, and LPG carriers are projected to pick up in 2H. In addition, the company is likely to take FLNG-use insulation panel orders from Daewoo Shipbuilding & Marine Engineering (DSME) sometime soon. With order momentum likely to recover in 2H, the company's 2014 order target of W400bn seems achievable. As of end-2Q, the company's order backlog stood at W400bn, a workload for 1.3 years. Insulation panel capacity ramp-ups were completed in 1H, and are anticipated to begin operations early next year.

Maintain Buy with TP of W16,500

We maintain our Buy call on Dongsung Finetec with a target price of W16,500. As the LNG market takes off, the company is likely to see an increase in orders over the medium to long term from LNG carriers, FLNG facilities, onshore facilities, and merchant ships (fuel tanks). We believe the company has strong business scalability (thanks to its turnkey solutions, which include the construction of membranes and on/offshore pipelines as well as insulation panels for LNG carriers).

FY (Dec.)	12/11	12/12	12/13	12/14F	12/15F	12/16F
Revenue (Wbn)	178	239	409	437	484	536
OP (Wbn)	-2	16	21	29	38	46
OP margin (%)	-1.1	6.7	5.1	6.6	7.9	8.6
NP (Wbn)	-9	10	10	25	30	36
EPS (W)	-345	376	363	911	1,119	1,349
ROE (%)	-13.3	14.6	12.4	25.7	24.9	23.8
P/E (x)	-	20.0	29.5	12.5	10.2	8.5
P/B (x)	1.5	2.7	3.4	2.9	2.3	1.8

Note: 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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Table 1. 2Q14 earnings review

(Wbn, %)

	2Q13	1Q14	2Q14			Growth	
			Actual	KDB Daewoo	Consensus	YoY	QoQ
Revenue	94.7	116.6	101.8	103.4	105.8	7.5	-12.7
LNG division	64.3	88.7	77.2	75.8	-	20.1	-13.0
Non-LNG division	30.4	27.9	24.6	27.5	-	-19.1	-11.8
Operating profit	3.5	7.4	6.5	6.7	6.5	82.9	-12.5
Pretax profit	1.3	5.6	4.6	5.2	5.4	264.7	-17.4
Net profit	1.1	5.7	7.4	4.7	5.5	552.2	29.1
OP margin	3.7	6.3	6.3	6.5	6.1	2.6%p	0.0%p
Net margin	1.2	4.9	7.2	4.5	5.2	6.0%p	2.3%p

Source: Company data, KDB Daewoo Securities Research

Table 2. Quarterly and annual earnings

(Wbn, %)

	2013				2014F				2013	2014F	2015F
	1Q	2Q	3Q	4Q	1Q	2Q	3QF	4QF			
Revenue	90.8	94.7	112.4	111.6	116.6	101.8	106.2	112.6	409.5	437.2	478.6
QoQ	18	4	19	-1	4	-13	4	6	-	-	-
YoY	138	89	51	45	28	8	-6	1	71	7	9
LNG division	67.0	64.3	83.3	80.6	88.7	77.2	80.8	85.4	295.2	332.1	375.3
Non-LNG division	23.8	30.4	29.1	31.0	27.9	24.6	25.4	27.2	114.3	105.1	103.3
Operating profit	3.2	3.5	8.7	5.1	7.4	6.5	8.3	7.3	20.5	29.4	37.3
QoQ	494	10	146	-41	44	-13	28	-12	-	-	-
YoY	80	-1	-10	846	130	83	-4	43	32	43	27
Pretax profit	0.8	1.3	7.7	0.4	5.6	4.6	6.9	5.9	10.1	23.0	33.1
Net profit	0.5	1.1	7.7	0.5	5.7	7.4	6.2	5.3	9.8	24.6	29.8
QoQ	-69	122	578	-94	1,065	29	-16	-14	-	-	-
YoY	-	-29	-4	-70	1,020	552	-19	987	-3	151	21
OP margin	3.5	3.7	7.7	4.6	6.3	6.3	7.8	6.5	5.0	6.7	7.8
Net margin	0.6	1.2	6.8	0.4	4.9	7.2	5.8	4.7	2.4	5.6	6.2

Source: Company data, KDB Daewoo Securities Research

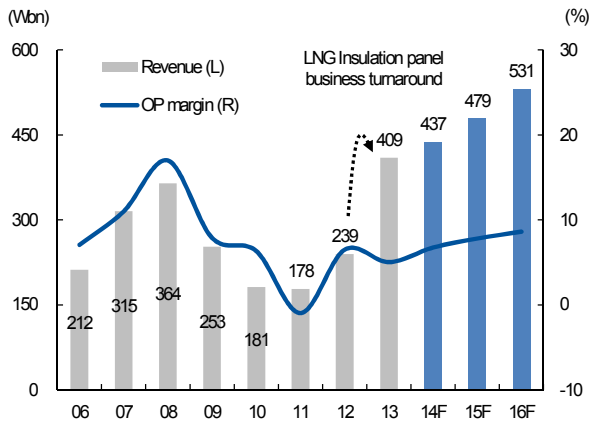
Table 3. Earnings forecast revisions

(Wbn, %)

	2013	Previous		Revised		% chg.		Notes
		2014F	2015F	2014F	2015F	2014F	2015F	
Revenue	409.5	446.6	482.4	437.2	478.6	-2.1	-0.8	Revised up estimates due to improved earnings, which have been boosted by strong LNG unit, business restructuring, and a decline in interest expenses
LNG division	295.2	332.3	372.2	332.1	375.3	-0.1	0.8	
Non-LNG division	114.3	114.2	110.3	105.1	103.3	-8.0	-6.3	
Operating profit	20.5	29.7	36.2	29.4	37.3	-0.9	3.2	
Pretax profit	10.1	23.8	32.0	23.0	33.1	-3.0	3.6	
Net profit	9.8	22.0	27.2	24.6	29.8	11.6	9.7	
OP margin	5.0	6.7	7.5	6.7	7.8	0.0%p	0.3%p	
Net margin	2.4	4.9	5.6	5.6	6.2	0.7%p	0.6%p	

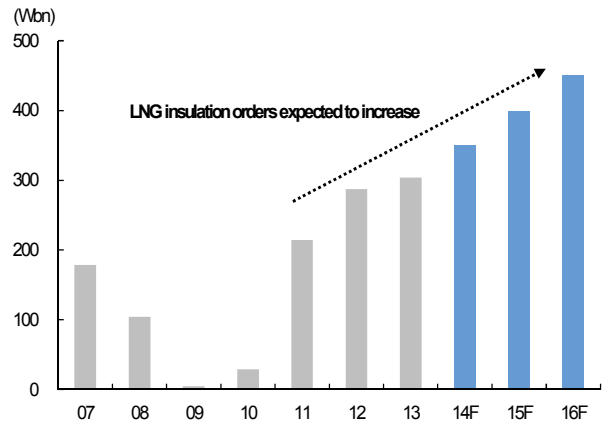
Source: Company data, KDB Daewoo Securities Research

Figure 1. Annual earnings and forecasts



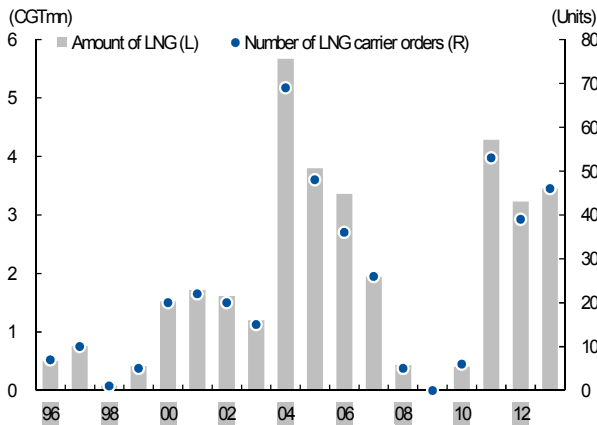
Source: Company data, KDB Daewoo Securities Research

Figure 2. Annual new orders and forecasts



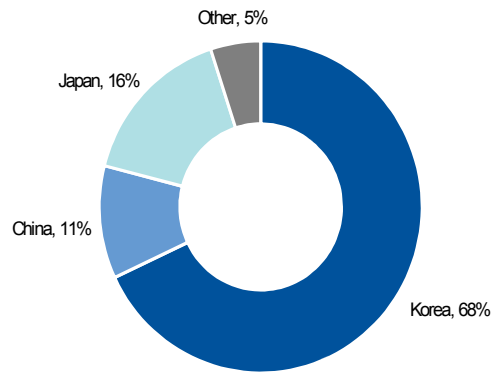
Source: Company data, KDB Daewoo Securities Research

Figure 3. Global trend in LNG carrier orders



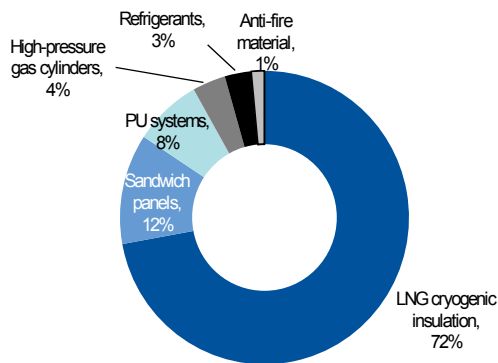
Source: Clarkson, KDB Daewoo Securities Research

Figure 4. Global LNG carrier market share



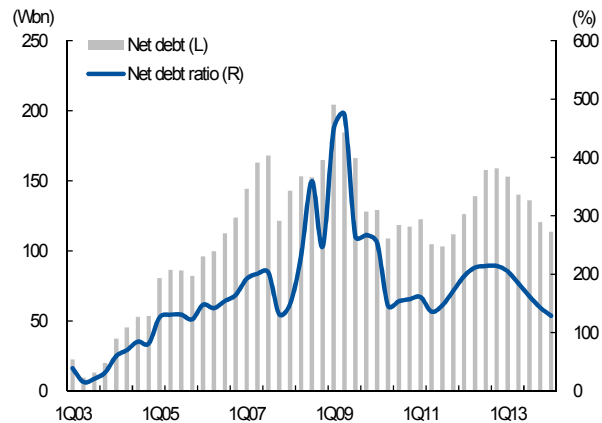
Source: Clarkson, KDB Daewoo Securities Research

Figure 5. Revenue breakdown: LNG contributed 72% in 2013



Source: Company data, KDB Daewoo Securities Research

Figure 6. Dongsung Finetec's net debt trend: Financial structure has improved



Source: Company data, KDB Daewoo Securities Research

Dongsung Finetec (033500 KQ/Buy/TP: W16,500)

Comprehensive Income Statement (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Revenue	409	437	484	536
Cost of Sales	362	383	420	462
Gross Profit	47	54	64	74
SG&A Expenses	27	24	26	28
Operating Profit (Adj)	21	29	38	46
Operating Profit	21	29	38	46
Non-Operating Profit	-11	-6	-4	-3
Net Financial Income	-7	-5	-4	-3
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	10	23	34	43
Income Tax	0	-2	3	6
Profit from Continuing Operations	10	25	30	36
Profit from Discontinued Operations	0	0	0	0
Net Profit	10	25	30	36
Controlling Interests	10	25	30	36
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	10	25	30	36
Controlling Interests	10	25	30	36
Non-Controlling Interests	0	0	0	0
EBITDA	28	37	45	53
FCF (Free Cash Flow)	38	1	0	0
EBITDA Margin (%)	6.8	8.5	9.3	9.9
Operating Profit Margin (%)	5.1	6.6	7.9	8.6
Net Profit Margin (%)	2.4	5.7	6.2	6.7

Cash Flows (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Cash Flows from Op Activities	48	9	7	5
Net Profit	10	25	30	36
Non-Cash Income and Expense	18	11	15	17
Depreciation	8	7	7	7
Amortization	0	0	0	0
Others	10	4	8	10
Chg in Working Capital	27	-23	-30	-38
Chg in AR & Other Receivables	-20	-5	-8	-9
Chg in Inventories	18	-5	-8	-9
Chg in AP & Other Payables	7	2	4	4
Income Tax Paid	0	2	-3	-6
Cash Flows from Inv Activities	-11	-8	-8	-6
Chg in PP&E	-10	-8	-7	-5
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	0	0	-1	-1
Others	-1	0	0	0
Cash Flows from Fin Activities	-37	-19	-22	-29
Chg in Financial Liabilities	-	-	-	-
Chg in Equity	0	0	0	0
Dividends Paid	0	-2	-2	-2
Others	-	-	-	-
Increase (Decrease) in Cash	1	0	0	0
Beginning Balance	4	4	4	4
Ending Balance	4	4	4	5

Source: Company data, KDB Daewoo Securities Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/13	12/14F	12/15F	12/16F
Current Assets	161	171	190	210
Cash and Cash Equivalents	4	4	4	5
AR & Other Receivables	78	83	92	102
Inventories	74	79	87	96
Other Current Assets	5	5	7	7
Non-Current Assets	138	138	138	137
Investments in Associates	0	0	0	0
Property, Plant and Equipment	128	129	128	126
Intangible Assets	2	2	2	2
Total Assets	298	310	328	347
Current Liabilities	204	192	181	164
AP & Other Payables	52	55	61	68
Short-Term Financial Liabilities	128	110	90	64
Other Current Liabilities	24	27	30	32
Non-Current Liabilities	10	10	11	12
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	10	10	11	12
Total Liabilities	214	203	192	177
Controlling Interests	84	107	135	170
Capital Stock	14	14	14	14
Capital Surplus	43	43	43	43
Retained Earnings	28	50	79	113
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	84	107	135	170

Forecasts/Valuations (Summarized)

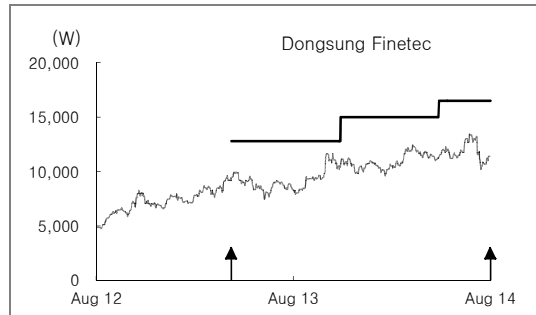
	12/13	12/14F	12/15F	12/16F
P/E (x)	29.5	12.5	10.2	8.5
P/CF (x)	10.3	8.7	6.8	5.8
P/B (x)	3.4	2.9	2.3	1.8
EV/EBITDA (x)	14.5	11.1	8.7	6.8
EPS (W)	363	911	1,119	1,349
CFPS (W)	1,040	1,312	1,667	1,968
BPS (W)	3,130	3,971	5,020	6,299
DPS (W)	70	70	70	70
Payout ratio (%)	19.3	7.7	6.3	5.2
Dividend Yield (%)	0.7	0.6	0.6	0.6
Revenue Growth (%)	71.1	6.8	10.8	10.7
EBITDA Growth (%)	21.7	32.1	21.6	17.8
Operating Profit Growth (%)	31.3	38.1	31.0	21.1
EPS Growth (%)	-3.5	151.0	22.8	20.6
Accounts Receivable Turnover (x)	6.4	5.8	5.9	5.9
Inventory Turnover (x)	5.0	5.7	5.8	5.9
Accounts Payable Turnover (x)	13.2	12.1	12.1	12.1
ROA (%)	3.3	8.1	9.5	10.8
ROE (%)	12.4	25.7	24.9	23.8
ROIC (%)	8.9	14.7	15.3	17.1
Liability to Equity Ratio (%)	253.3	189.1	142.1	103.9
Current Ratio (%)	78.7	89.1	104.6	127.8
Net Debt to Equity Ratio (%)	142.7	96.2	61.0	32.4
Interest Coverage Ratio (x)	2.9	6.0	9.0	14.0

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Dongsung Finetec(033500)	05/15/2014	Buy	16,500
	11/14/2013	Buy	15,000
	04/25/2013	Buy	12,800



Stock Ratings

Buy : Relative performance of 20% or greater
 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
 Underweight : Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

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