

TOVIS

(051360 KQ)

G2E award proves technological strength

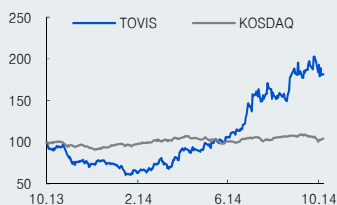
Earnings Preview
October 21, 2014

Not Rated

Target Price (12M, W)	-
Share Price (10/20/14, W)	16,150
Expected Return	-

OP (14F, Wbn)	39
Consensus OP (14F, Wbn)	38
EPS Growth (14F, %)	214.1
Market EPS Growth (14F, %)	6.0
P/E (14F, x)	8.8
Market P/E (14F, x)	11.9
KOSDAQ	556.01
Market Cap (Wbn)	270
Shares Outstanding (mn)	17
Free Float (%)	79.6
Foreign Ownership (%)	15.9
Beta (12M)	1.21
52-Week Low	5,410
52-Week High	18,050

(%)	1M	6M	12M
Absolute	-1.8	95.5	96.0
Relative	2.7	100.9	85.3



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3Q preview: Record-breaking earnings

We expect TOVIS to deliver record earnings in 3Q, with revenue of W152.1bn (+6% YoY, +5% QoQ) and operating profit of W11.8bn (+68% YoY, +12% QoQ). We anticipate solid performances across all businesses, with casino monitors driving overall margin gains.

Casino monitors: We believe TOVIS began supplying its latest 40-inch curved monitors in 3Q to a new customer, WMS Industries. Shipments to TOVIS's existing customer, Bally Technologies, also likely grew in the quarter. The increased mix of the highly lucrative curved monitors was likely the largest contributor to margin gains.

LCD modules: We expect steady sales of LCD modules (which are mostly supplied to major domestic smartphone makers) in 3Q, supported by 1) robust shipments of lower-end smartphones by one of TOVIS's main customers, and 2) a simultaneous increase in price and volume resulting from the larger size of TOVIS's flagship product.

Catalyst: "Best Slot Product" at G2E for second straight year

Recently, Bally Technologies' slot machine featuring TOVIS's 40-inch curved monitors won "Best Slot Product" at the 2014 Global Gaming Expo (G2E) held in Las Vegas this September. G2E is the industry's largest trade show in which TOVIS is a regular participant. This marked the second straight annual win for TOVIS, confirming once again the technological strength of its specialty monitors.

Last year, TOVIS attracted attention when it released the industry's first 40 inch concave monitors with touch panels. This year, the company again impressed the crowd by debuting a 360-degree monitor consisting of five convex displays placed on top of a concave main monitor.

Just as orders for curved monitors jumped in 2014 following last year's G2E event, we expect orders for the new convex monitors to sharply increase in 2015. The new slot machine that won this year's award requires 10 curved displays per machine, suggesting that the sales mix and profit contribution of casino monitors will continue to rise in 2015.

Valuation: Still more upside potential

TOVIS's stock is currently trading at a 2015F P/E of 7.4x, lower than the average multiple (11-12x) of previous industry leader Kortek during its growth period. This, together with the strong potential for earnings growth from increasing orders for curved monitors, leads us to believe there is still more upside potential to the stock even after its recent appreciation.

FY (12)	12/10	12/11	12/12	12/13	12/14F	12/15F
Revenue (Wbn)	200	316	353	473	524	585
OP (Wbn)	4	18	9	17	39	45
OP Margin (%)	2.0	5.7	2.5	3.6	7.4	7.7
NP (Wbn)	4	12	8	10	31	37
EPS (W)	339	934	629	583	1,832	2,194
ROE (%)	11.0	25.9	14.7	13.5	31.1	28.1
P/E (x)	10.1	5.4	8.1	11.9	8.8	7.4
P/B (x)	0.9	1.1	1.0	1.3	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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Earnings trends and forecasts

Table 1. Quarterly and annual earnings trends

(Wbn, %)

	2013				2014				2012	2013	2014F	2015F
	1Q	2Q	3Q	4Q	1Q	2Q	3QF	4QF				
Revenue	96.0	120.0	143.3	113.5	103.0	145.3	152.1	123.6	353.1	472.8	524.0	585.0
LCD modules	66.8	79.3	74.6	52.4	51.2	96.2	97.8	70.0	222.5	273.2	315.2	332.3
TSPs	13.8	23.0	52.6	47.0	31.8	28.1	28.4	26.0	59.1	136.5	114.2	132.6
Industrial monitors	15.3	17.8	16.0	14.0	20.0	21.0	25.9	27.6	71.5	63.1	94.6	120.1
Operating profit	5.3	8.0	7.0	-3.1	7.7	10.6	11.8	8.6	9.5	17.2	38.7	45.2
OP margin	5.5	6.7	4.9	-2.8	7.5	7.3	7.7	6.9	2.7	3.6	7.4	7.7
Net income	4.2	4.1	6.4	-4.9	6.1	7.6	9.2	7.8	8.4	9.8	30.7	36.7
NI margin	4.4	3.4	4.5	-4.3	5.9	5.2	6.1	6.3	2.4	2.1	5.9	6.3
Revenue	51.5	32.2	46.8	12.0	7.3	21.1	6.1	8.9	11.7	33.9	10.8	11.7
LCD modules	94.4	51.5	20.0	-28.7	-23.4	21.3	31.0	33.5	4.7	22.8	15.4	5.4
TSPs	38.2	17.2	204.7	285.3	129.6	22.2	-46.1	-44.8	50.1	130.9	-16.3	16.1
Industrial monitors	-19.3	-5.9	-11.6	-9.7	30.8	18.3	61.8	97.0	11.2	-11.7	49.9	27.0
Operating profit	266.2	213.3	126.5	TTR	45.0	32.0	67.8	TTB	-46.7	81.8	125.1	17.0
Net income	298.1	113.5	100.9	TTR	45.2	84.6	44.2	TTB	-31.9	16.1	214.8	19.5
LCD modules	69.6	66.1	52.1	46.2	49.7	66.2	64.3	56.7	63.0	57.8	60.2	56.8
TSPs	14.4	19.2	36.7	41.4	30.9	19.3	18.7	21.0	16.7	28.9	21.8	22.7
Industrial monitors	15.9	14.8	11.2	12.4	19.4	14.5	17.1	22.3	20.2	13.3	18.0	20.5

Notes: TSPs refer to "touchscreen panels," and TTB and TTR refer to "Turn To Black" and "Turn To Red," respectively

Source: Company data, KDB Daewoo Securities Research

Fig 1. Pro Wave 360 slot machine using TOVIS's displays wins 1st place for "Best Slot Product" at G2E 2014



Source: BusinessWire, KDB Daewoo Securities Research

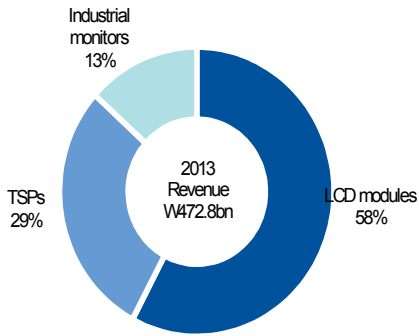
Fig 2. Pro Series Wave slot machine using TOVIS's displays won 1st place for "Best Slot Product" at G2E 2013



Source: BusinessWire, KDB Daewoo Securities Research

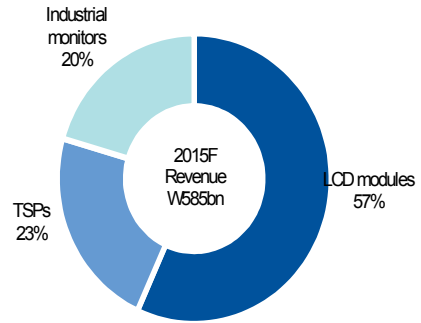
Revenue breakdown and profit contributions

Figure 3. Revenue breakdown by business segment (2013)



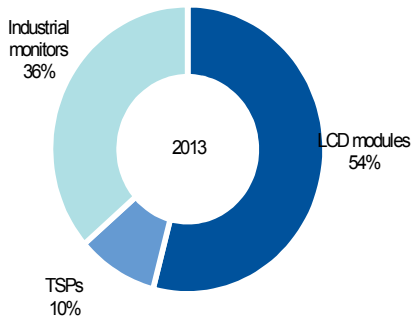
Source: Company data, KDB Daewoo Securities Research

Figure 4. Revenue breakdown by business segment (2015F)



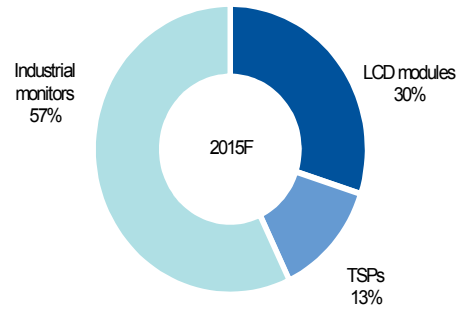
Source: Company data, KDB Daewoo Securities Research

Figure 5. Profit contribution by business segment (2013)



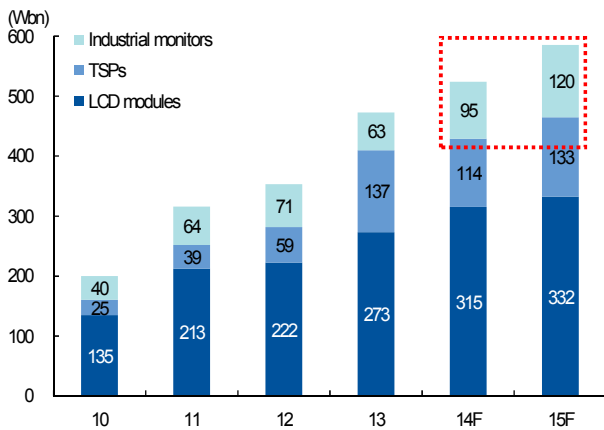
Source: Company data, KDB Daewoo Securities Research

Figure 6. Profit contribution by business segment (2015F)



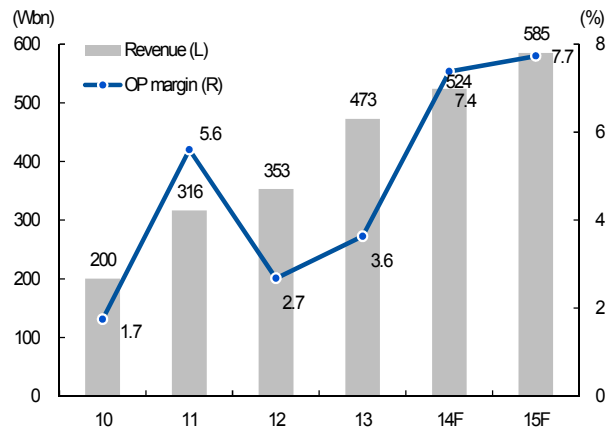
Source: Company data, KDB Daewoo Securities Research

Figure 7. Annual revenue by business segment



Source: Company data, KDB Daewoo Securities Research

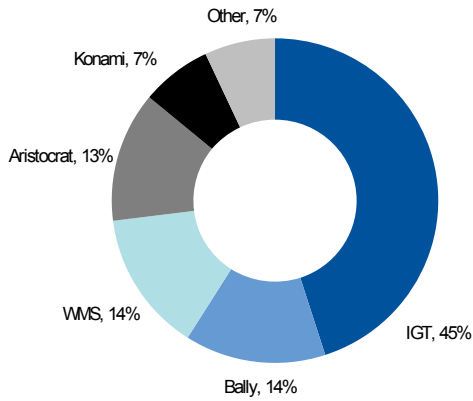
Figure 8. Annual revenue and OP margin



Source: Company data, KDB Daewoo Securities Research

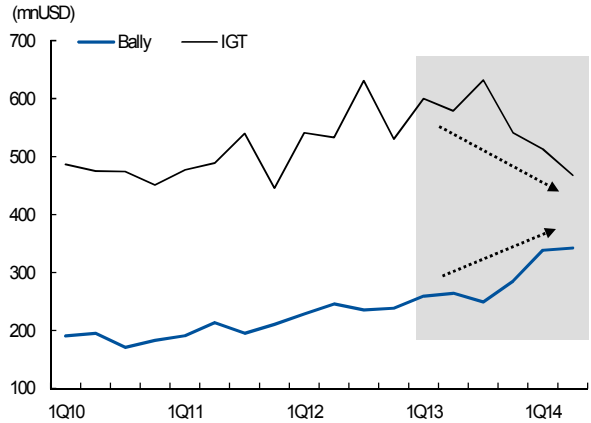
Current status of downstream industries

Figure 9. Bally Technologies' (TOVIS's main customer) 2013 market sharer: 14% → expected to increase in 2014



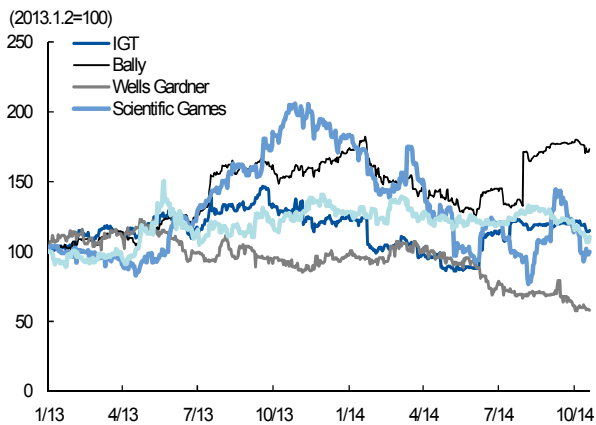
Source: Gamblingdata.com, KDB Daewoo Securities Research

Figure 10. Bally Technologies' revenue has been rising recently, while IGT's has been falling



Source: Bloomberg, KDB Daewoo Securities Research

Figure 11. Relative stock price of slot machine companies



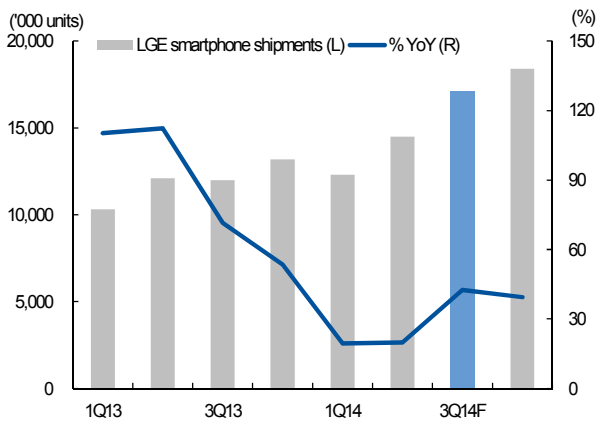
Source: Bloomberg, KDB Daewoo Securities Research

Figure 12. Bally Technologies' slot machine line-up



Source: Bally, KDB Daewoo Securities Research

Figure 13. LGE's smartphone shipment forecasts



Source: LGE, KDB Daewoo Securities Research

Figure 14. Tovis's booth in G2E



Source: Media report, KDB Daewoo Securities Research

TOVIS (051360 KQ/Not Rated)

Comprehensive Income Statement (Summarized)

(Wbn)	12/12	12/13	12/14F	12/15F
Revenue	353	473	524	585
Cost of Sales	320	424	451	502
Gross Profit	33	49	73	83
SG&A Expenses	24	32	35	38
Operating Profit (Adj)	9	17	39	45
Operating Profit	9	17	39	45
Non-Operating Profit	1	-3	-2	0
Net Financial Income	-1	-1	-1	-1
Net Gain from Inv in Associates	0	-2	0	0
Pretax Profit	10	14	37	45
Income Tax	1	4	7	8
Profit from Continuing Operations	8	10	31	37
Profit from Discontinued Operations	0	0	0	0
Net Profit	8	10	31	37
Controlling Interests	8	10	31	37
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	8	9	31	37
Controlling Interests	8	9	31	37
Non-Controlling Interests	0	0	0	0
EBITDA	13	24	46	53
FCF (Free Cash Flow)	11	-3	7	12
EBITDA Margin (%)	3.7	5.1	8.8	9.1
Operating Profit Margin (%)	2.5	3.6	7.4	7.7
Net Profit Margin (%)	2.3	2.1	5.9	6.3

Statement of Financial Condition (Summarized)

(Wbn)	12/12	12/13	12/14F	12/15F
Current Assets	94	108	131	156
Cash and Cash Equivalents	7	9	11	19
AR & Other Receivables	37	38	42	48
Inventories	36	44	59	66
Other Current Assets	14	17	19	23
Non-Current Assets	40	53	58	66
Investments in Associates	7	7	8	8
Property, Plant and Equipment	24	36	40	48
Intangible Assets	3	6	6	6
Total Assets	134	161	189	222
Current Liabilities	72	75	74	73
AP & Other Payables	38	41	43	45
Short-Term Financial Liabilities	32	31	28	24
Other Current Liabilities	2	3	3	4
Non-Current Liabilities	1	1	1	1
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	1	1	1	1
Total Liabilities	73	77	76	74
Controlling Interests	61	84	113	148
Capital Stock	7	8	8	8
Capital Surplus	26	38	38	38
Retained Earnings	34	43	72	107
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	61	84	113	148

Cash Flows (Summarized)

(Wbn)	12/12	12/13	12/14F	12/15F
Cash Flows from Op Activities	15	6	18	27
Net Profit	8	10	31	37
Non-Cash Income and Expense	6	14	16	16
Depreciation	4	6	7	7
Amortization	0	0	0	0
Others	2	8	9	9
Chg in Working Capital	3	-14	-21	-17
Chg in AR & Other Receivables	-2	-2	-3	-6
Chg in Inventories	0	-9	-15	-8
Chg in AP & Other Payables	10	-3	3	2
Income Tax Paid	-1	-2	-7	-8
Cash Flows from Inv Activities	-6	-10	-12	-17
Chg in PP&E	-5	-9	-11	-15
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	-2	1	-1	-2
Others	1	-2	0	0
Cash Flows from Fin Activities	-5	6	-5	-6
Chg in Financial Liabilities	-	-	-	-
Chg in Equity	1	13	0	0
Dividends Paid	-1	-1	-2	-2
Others	-	-	-	-
Increase (Decrease) in Cash	4	2	2	8
Beginning Balance	3	7	9	11
Ending Balance	7	9	11	19

Source: Company data, KDB Daewoo Securities Research estimates

Forecasts/Valuations (Summarized)

	12/12	12/13	12/14F	12/15F
P/E (x)	8.1	11.9	8.8	7.4
P/CF (x)	4.7	5.0	5.8	5.1
P/B (x)	1.0	1.3	2.3	1.8
EV/EBITDA (x)	6.5	5.5	6.1	5.0
EPS (W)	629	583	1,832	2,194
CFPS (W)	1,079	1,402	2,789	3,158
BPS (W)	5,035	5,335	7,075	9,166
DPS (W)	50	100	110	130
Payout ratio (%)	7.0	15.9	5.6	5.5
Dividend Yield (%)	1.0	1.4	0.7	0.8
Revenue Growth (%)	11.7	34.0	10.8	11.6
EBITDA Growth (%)	-35.0	84.6	91.7	15.2
Operating Profit Growth (%)	-50.0	88.9	129.4	15.4
EPS Growth (%)	-32.7	-7.3	214.2	19.8
Accounts Receivable Turnover (x)	9.8	12.8	13.4	13.3
Inventory Turnover (x)	9.8	11.8	10.2	9.3
Accounts Payable Turnover (x)	10.7	11.6	11.7	12.2
ROA (%)	6.5	6.6	17.5	17.9
ROE (%)	14.7	13.5	31.1	28.1
ROIC (%)	11.6	15.3	31.8	30.7
Liability to Equity Ratio (%)	120.3	91.2	66.7	49.9
Current Ratio (%)	130.0	143.7	176.2	215.1
Net Debt to Equity Ratio (%)	27.5	15.3	6.3	-4.8
Interest Coverage Ratio (x)	7.4	14.6	32.2	37.7

APPENDIX 1

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