MIRAE ASSET
Building on principles

Initiation Report
April 7, 2017

(Initiate)	**Buy**
Target Price (12M, W)	**59,000**
Share Price (04/07/17, W)	16,050
Expected Return	267.6%

OP (17F, Wbn)	89.4
Consensus OP (17F, Wbn)	-
EPS Growth (17F, %)	163.0
Market EPS Growth (17F, %)	30.4
P/E (17F, x)	3.0
Market P/E (17F, x)	9.6
KOSPI	2152.75
Market Cap (Wbn)	219.5
Shares Outstanding (mn)	13.7
Free Float (%)	100
Foreign Ownership (%)	-
Beta (12M)	-
52-Week Low	-
52-Week High	-

(%)	1M	6M	12M
Absolute	-	-	-
Relative	-	-	-

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[Display]

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Advanced Process Systems
(265520 KQ)

268% share upside

AP Systems splits into AP Systems (new) and APS Holdings (surviving)

Advanced Process Systems (AP Systems) has split into AP Systems (265520 KQ; newly established) and APS Holdings (054620 KQ; surviving). The spin-off was announced in October 2016 and took place on March 1st, 2017, with trading set to resume on April 7th, after relisting. The new entity will focus on the display and semiconductor equipment business, while APS Holdings will take over investment holdings. The reason for the spin-off was to achieve a holding company structure, and it will likely allow the largest shareholder to strengthen control over the company through a tender offer and investment in kind.

In past cases where spin-offs were done to transition into a holding company structure, we note that the combined market cap of the spun-off entity and the surviving company tended to exceed the pre-spin-off market cap. Such increases in market cap likely reflect optimism that holding company conversions can: 1) improve firms' allocation of investment resources to business divisions; 2) enhance management accountability and autonomy; and 3) ensure swift decision-making and management efficiency. Notably, going forward, AP Systems will be able to focus solely on its mainstay equipment business.

Panel makers at home and abroad are increasing investments in OLED

For 2017, we expect AP Systems to post revenue of W919.1bn (+79.5% YoY) and operating profit of W89.4bn (+195.8% YoY). Earnings should reach record highs, with panel makers at home and abroad increasing their investments in small/mid-sized OLED panel production lines.

A major domestic customer is now investing in its A4 (former L7-1) line, and AP Systems may see further earnings momentum if the customer moves ahead on investments in its A5 line in 2H. Meanwhile, Chinese panel makers are starting to increase investments in production lines for small/mid-sized OLED panels. With limited competition in the excimer laser annealing (ELA) and laser lift-off (LLO) equipment markets, AP Systems is unlikely to face much difficulty in securing orders from China, especially given that Chinese panel makers are finding it hard to establish OLED lines with locally produced equipment.

Initiate coverage with Buy and TP of W59,000

Following the spin-off, shareholders will receive 0.5341294 shares of the newly established AP Systems for each existing share they own (AP Systems: 13.68mn shares; APS Holdings: 11.93mn shares). Base prices were set at W16,050/share for AP Systems (market cap of W219.5bn) and W41,450/share for APS Holdings (market cap of W494.5bn). We estimate the fair value of AP Systems at W59,000/share (market cap of W808.2bn).

We applied a target P/E of 11.0x to our 2017 EPS estimate of W5,371 to arrive at the fair value estimate. AP Systems' fair value suggests 267.6% upside from current share price levels. Such significant upside stems from the fact that the significant earnings growth anticipated for 2017 was not reflected in AP Systems' price.

Valuation table (post-spin-off)

Company	Price (W)	Shares outstanding ('000)	Market cap (Wbn)	Fair value (Wbn)	Upside	Notes
AP Systems (pre-spin-off)	27,850	25,610	713	826	15.9%	Feb. 23 closing price
APS Holdings (surviving entity)	41,450	11,931	495	179	-63.7%	Opening price: -50%-200%
AP Systems (new entity)	16,050	13,679	220	808	**267.6%**	Opening price: -50%-200%

Source: Mirae Asset Daewoo Research

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AP Systems (new entity) and APS Holdings (surviving entity) to be listed

In October 2016, AP Systems announced that it would split into two separate companies: AP Systems (new entity), to focus on the semiconductor and display equipment businesses, and APS Holdings (surviving entity), to take over investment holdings. The spin-off took place on of March 1st, at a ratio of 0.5341294 (AP Systems):0.4658706 (APS Holdings). Trading was suspended on February 24th and will resume on April 7th, after relisting.

The reason for the spin-off was to achieve a holding company structure, and it should allow the largest shareholder to strengthen control over the company through a tender offer and investment in kind. We believe the holding company conversion will allow AP Systems to: 1) better allocate investment resources to each business division; 2) enhance management accountability and autonomy; and 3) ensure swift decision-making and management efficiency. Going forward, the company will be able to focus solely on its mainstay equipment business.

For 2017, we expect AP Systems to post revenue of W919.1bn (+79.5% YoY) and operating profit of W89.4bn (+195.8% YoY). Earnings should reach record highs, with panel makers at home and abroad increasing their investments in small/mid-sized OLED panel production lines.

A major domestic customer is now investing in its A4 (former L7-1) line, and AP Systems may see further earnings momentum if the customer moves ahead on investments in its A5 line in 2H. Meanwhile, Chinese panel makers are starting to increase investments in production lines for small/mid-sized OLED panels. With limited competition in the excimer laser annealing (ELA) and laser lift-off (LLO) equipment markets, AP Systems is unlikely to face much difficulty in securing orders from China, especially given that Chinese panel makers are finding it hard to establish OLED lines with locally produced equipment.

Table 1. Earnings forecast (Wbn, %)

	1Q16	2Q16	3Q16	4Q16	1Q17F	2Q17F	3Q17F	4Q17F	15	16	17F
Revenue	35.4	94.2	119.6	262.9	240.1	248.2	235.0	195.8	276.7	512.0	919.1
LCD equipment	0.5	0.0	0.2	2.7	0.5	0.4	0.3	0.3	2.7	3.5	1.6
OLED equipment	29.1	87.5	110.4	252.0	232.0	240.0	227.2	189.3	253.0	478.9	888.5
Others	5.8	6.7	7.9	8.2	7.6	7.8	7.4	6.2	21.1	28.6	29.0
Revenue proportion	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*
LCD equipment	*1*	*0*	*0*	*1*	*0*	*0*	*0*	*0*	*1*	*1*	*0*
OLED equipment	*82*	*93*	*92*	*96*	*97*	*97*	*97*	*97*	*91*	*94*	*97*
Others	*16*	*7*	*7*	*3*	*3*	*3*	*3*	*3*	*8*	*6*	*3*
Operating profit	-5.6	1.0	11.8	23.1	25.8	23.7	23.4	16.5	13.4	30.2	89.4
Net income	-2.1	-0.1	4.0	25.2	20.9	18.7	18.9	14.6	8.6	27.0	73.0
OP margin	-15.9	1.0	9.9	8.8	10.8	9.5	9.9	8.4	4.8	5.9	9.7
Net margin	-5.9	-0.1	3.3	9.6	8.7	7.5	8.0	7.4	3.1	5.3	7.9
Growth (QoQ/YoY, %)											
Revenue	-27.9	166.5	26.9	119.9	-8.7	3.4	-5.3	-16.7	57.8	85.1	79.5
LCD equipment	-	-92.4	475.0	1073.9	-80.0	-30.0	-10.0	-10.0	-68.1	31.9	-55.3
OLED equipment	-40.6	200.9	26.2	128.3	-7.9	3.4	-5.3	-16.7	-	89.3	85.5
Others	3824.9	16.5	18.2	3.7	-7.9	3.4	-5.3	-16.7	-86.5	35.9	1.3
Operating profit	-1623.4	-116.9	1141.8	95.5	11.9	-8.4	-1.3	-29.2	264.6	125.8	195.8
Net income	-262.9	-94.3	-3442.3	538.0	-17.2	-10.4	0.8	-22.8	570.8	213.2	170.5

Source: Mirae Asset Daewoo Research Estimate

We estimate AP Systems' fair value at W808.2bn, implying 268% upside

Following the spin-off, shareholders will receive 0.5341294 shares of the newly established AP Systems for each existing share they own (AP Systems: 13.68mn shares; APS Holdings: 11.93mn shares). Base prices were set at W16,050/share for AP Systems (market cap of W219.5bn) and W41,450/share for APS Holdings (market cap of W494.5bn).

We estimate AP Systems' fair value at W59,000/share (market cap of W808.2bn) and APS Holdings' at W15,000 (market cap of W179.3bn). We applied a target P/E of 11.0x (global peer average) to our 2017 EPS estimate of W5,280 to arrive at the fair value estimate. APS Holdings' fair value is based on a sum-of-the-parts valuation, combining the value of investment assets (listed companies: W71bn, unlisted companies: W24bn) and net cash holdings.

Our fair values imply 268% upside for AP Systems, but 64% downside for APS Holdings. The significant difference stems from the fact that AP Systems' strong earnings growth potential was not reflected in the company's price.

Table 2. Valuation table (post-spin-off) (Wbn)

Company	Price (W)	Shares outstanding ('000)	Market cap (Wbn)	Fair value (Wbn)	Upside	Notes
AP Systems (pre-spin-off)	27,850	25,610	713	826	15.9%	Feb. 23 closing price
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AP Systems (pre-spin-off)	27,850	25,610	713	826	15.9%	Feb. 23 closing price

Source: Mirae Asset Daewoo Research

Table 3. APS Holdings valuation (sum-of-the-parts) (Wbn)

	Value	Note
1. Operating	-	-
2. Invested capital	94	
Listed	71	Market value (30% discount)
Unlisted	24	Book value (30% discount)
3. Net value (1+2)	94	
4. Net cash	85	
NAV (3+4)	179	
Shares outstanding ('000)	11,931	
	15,029	

Source: Mirae Asset Daewoo Research

Table 4. APS Holdings invested capital value (Wbn)

	Share ratio	Book value	Market cap.	Market value	Note
Listed				**100.9**	
DE&TCo	27.7%		77.5	21.5	Closing price (4/6)
AP Systems	9.8%		808.2	79.5	Common stock
Unlisted		**33.8**			
KORNIC AUTOMATION	60.0%	3.5			
APEI	19.0%	0.0			
Zenith World	45.7%	4.3			
ASTEL	19.7%	0.6			
APS China	100.0%	1.1			
SOLARLUCE	3.9%	1.5			
NEXTIN	58.6%	2.2			
APS AMD	100.0%	20.0			
AP Systems Vietnam	100.0%	0.6			

Source: Mirae Asset Daewoo Research

Table 5. Financial statement (before/after split) (Wbn)

Account	Before	After	
		APS HOLDINGS	AP SYSTEM
Assets			
Current	349	95	254
Cash & equivalent	81	71	10
Due from Financial Institution	15	14	1
Accounts receivable	188	-	188
Loans receivable	10	9	1
Others	20	1	19
Derivatives	0	0	-
Inventory	35	-	35
Non-current	197	69	140
Due from Financial Institution	0	0	-
Available-for-sale financial assets	5	17	-
Other receivables	5	-	5
Others	0	-	0
Property and equipment	111	2	109
Intangible assets	21	0	21
Investments in subsidiaries	50	50	-
Deferred income tax assets	6	1	5
Asset total	545	164	393
Liability			
Current	298	12	286
Account payable	135	-	135
Other payable	7	2	5
Borrowings	81	-	81
Current tax liabilities	10	10	-
Provisions	3	-	3
Others	62	0	62
Non-current	41	4	38
Borrowings	28	-	28
Other payable	8	3	4
Net defined benefit liabilities	3	0	3
Provisions	3	-	3
Total	339	16	324
Equity			
Paid-in capital	149	69	70
Common stock	13	6	7
Paid-in capital in excess of par value	84	39	35
Preferred stock	2	1	1
Paid-in capital in excess of par value (Preferred)	51	24	27
Capital surplus	79	79	-
Other equites	-22	0	-
Equity total	206	148	70
Liability and equity total	545	164	393

Source: Dart, Mirae Asset Daewoo Research

Company spin-offs tend to lead to rise in market cap

In past cases where spin-offs were done to transition into a holding company structure, we note that the combined market cap of the spun-off entity and the surviving company tended to exceed the pre-spin-off market cap, despite the uncertainties associated with trading suspensions.

Below, we outline some reasons that spin-offs are positive for shares:

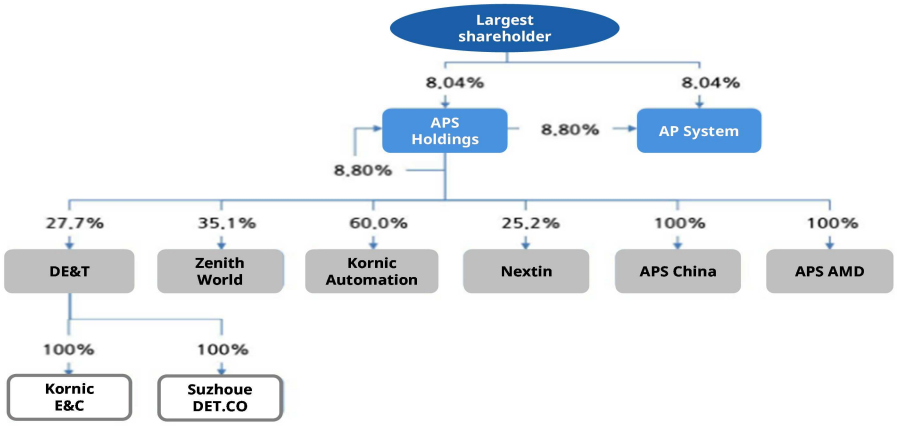
1) Demand from shareholders and potential investors: Investors prefer companies with specialized business models to those with extended portfolios, as the former make it easier to assess the success potential of individual businesses.

2) Fair valuation of individual business units: The valuations of companies engaging in various business areas may not fully reflect the value of each area. A spin-off allows for fair valuation of individual business units.

3) Selective focus: Selective investments focusing on core businesses enable companies to sharpen their competitive edge and deliver stronger performances over the long term. After a spin-off, businesses are better positioned to optimize their operations and management.

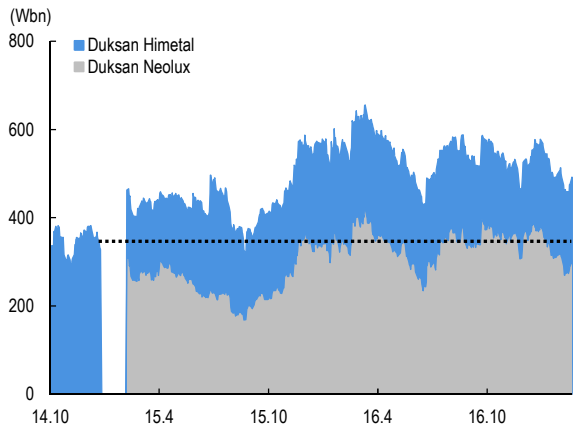
Conversion into a holding company structure allows firms to better allocate resources by separating business operations from investment assets. It also helps strengthen corporate governance, improve transparency in management, and impose stronger accountability. Optimism about the resulting improvement in management efficiency, in addition to the streamlined focus on mainstay businesses, likely explains the premiums that are often seen in post-spin-off share valuations.

Figure 1. Corporate governance (after spin-off)



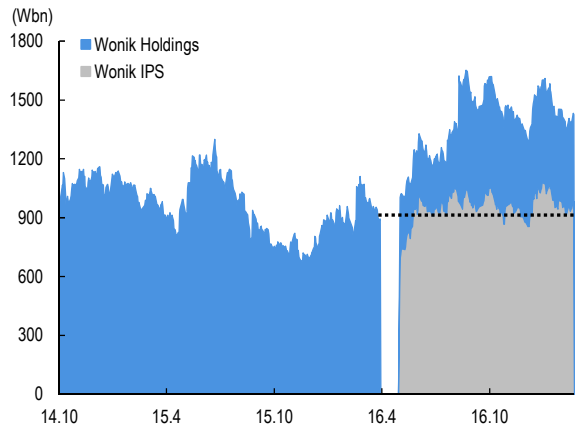
Source: Dart, Mirae Asset Daewoo Research

Figure 2. Duksan Neolux market cap. trend (before/after spin-off)



Source: Mirae Asset Daewoo Research

Figure 3. Wonik IPS market cap. trend (before/after spin-off)



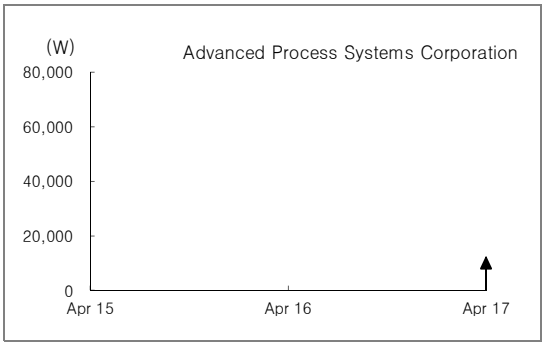
Source: Mirae Asset Daewoo Research

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Advanced Process Systems Corporation(265520)	04/07/2017	Buy	59,000



Stock Ratings		Industry Ratings	
Buy	: Relative performance of 20% or greater	Overweight	: Fundamentals are favorable or improving
Trading Buy	: Relative performance of 10% or greater, but with volatility	Neutral	: Fundamentals are steady without any material changes
Hold	: Relative performance of -10% and 10%	Underweight	: Fundamentals are unfavorable or worsening
Sell	: Relative performance of -10%		

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

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.
* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.
* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.
* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution

Buy	Trading Buy	Hold	Sell
75.13%	13.99%	10.88%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2016)

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