

**First Read**

# Viatron Technologies Inc

## Offering an attractive buying opportunity

**Stock has underperformed YTD driven by Tera getting an order in China**

The stock price came down by 24% YTD and we think the pullback has been accelerated after major competitor Tera Semicon (123100.KQ) announced yesterday that it got orders from Tianma for Gen 6 equipment. We believe that the order is for polyimide curing machine which is essential equipment to manufacture flexible displays. Most investors had assumed that Tera would have some restrictions to sell Gen 6 capacity to non-Samsung customers due to exclusivity with Samsung. But we have disagreed – we assumed that Tera Semicon would likely get orders from Visionox, Tianma and EverDisplay among Chinese panel makers. Our price target of W28,500 assumes Viatron has 50-60% of the market share in the China market and hence we don't change our positive view. We affirm our Buy rating and view recent weakness as an attractive buying opportunity.

**We maintain our positive outlook for 2017**

We think new orders for Viatron will increase c60% YoY in 2017. The new orders would come from more broadened list of customers than before. In Korea, we expect orders from Samsung's L7-1 OLED transfer investment, and LGD's E6 fab. In China we expect Viatron to receive orders from BOE, CSOT, Truly and Royole. We also expect Sharp in Japan will start investment into OLED this year wherein we expect that Viatron would get orders. However we flag out that there is still a risk for consensus to come down further; we think the consensus forecast for operating margin is still too high. We assume that the competition vs Tera Semicon could offset operational leverages from the revenue increase.

**4Q16 preview: Slight increase QoQ in both revenues and operating margin**

We don't expect any significant changes from our current forecasts for 4Q16 results. We expect the revenues to increase QoQ based on orders with a slight improvement of the operating margin to 20%. Our OP forecast is below the consensus due to operating margin. We expect Viatron to report 4Q16 earnings by next week.

**Valuation: W28,500 – Buy rating**

We value the stock at 13x our 2018 earnings estimate.

**Equities**

 Korea  
 Electric Components & Equipment

**12-month rating** **Buy**
**12m price target** **Won28,500**
**Price** **Won20,400**
**RIC:** 141000.KQ **BBG:** 141000 KS

**Trading data and key metrics**
**52-wk range** Won30,450-18,550

**Market cap.** Won246bn/US\$0.22bn

**Shares o/s** 12.1m (ORD)

**Free float** 80%

**Avg. daily volume ('000)** 208

**Avg. daily value (m)** Won4,763.8

**Common s/h equity (12/16E)** Won99.6bn

**P/BV (12/16E)** 2.5x

**Net debt / EBITDA (12/16E)** NM

**EPS (UBS, diluted) (Won)**

	UBS	Cons.
<b>12/16E</b>	1,043	984
<b>12/17E</b>	1,894	2,298
<b>12/18E</b>	2,213	2,820

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Highlights (Wonbn)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	33	33	45	75	134	158	161	121
EBIT (UBS)	4	1	8	14	27	32	31	23
Net earnings (UBS)	4	2	7	13	23	27	26	20
EPS (UBS, diluted) (Won)	375	190	640	1,043	1,894	2,213	2,145	1,611
DPS (Won)	0	0	100	100	150	150	200	200
Net (debt) / cash	(13)	6	24	34	53	78	103	121
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	12.2	2.5	18.5	19.3	20.0	20.0	19.1	18.7
ROIC (EBIT) %	-	1.7	17.9	27.4	42.2	49.1	47.9	35.5
EV/EBITDA (core) x	-	76.1	14.0	14.3	7.3	5.5	4.9	5.7
P/E (UBS, diluted) x	41.1	56.4	21.0	19.5	10.8	9.2	9.5	12.7
Equity FCF (UBS) yield %	9.4	8.1	2.0	(3.1)	8.4	11.1	10.7	8.1
Net dividend yield %	0.0	0.0	0.7	0.5	0.7	0.7	1.0	1.0

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of Won20,400 on 06 Feb 2017 22:38 HKT

**Figure 1: Viatron – UBSe vs consensus**

(Won bn)	4Q16E			1Q17E			2017E			2018E		
	UBSe	Cons	% diff	UBSe	Cons	% diff	UBSe	Cons	% diff	UBSe	Cons	% diff
Revenue	24.00	25.83	(7.1%)	28.00	26.63	5.2%	134.00	136.45	(1.8%)	158.00	161.48	(2.2%)
<b>Operating profit</b>	<b>4.80</b>	<b>5.73</b>	<b>(16.2%)</b>	<b>5.08</b>	<b>6.58</b>	<b>(22.7%)</b>	<b>26.84</b>	<b>34.87</b>	<b>(23.0%)</b>	<b>31.67</b>	<b>42.28</b>	<b>(25.1%)</b>
<i>% OP margin</i>	<i>20.0%</i>	<i>22.2%</i>		<i>18.1%</i>	<i>24.7%</i>		<i>20.0%</i>	<i>25.6%</i>		<i>20.0%</i>	<i>26.2%</i>	
<b>EPS</b>	<b>482</b>	<b>482</b>	<b>(0.0%)</b>	<b>366</b>	<b>455</b>	<b>(19.7%)</b>	<b>1,894</b>	<b>2,224</b>	<b>(14.8%)</b>	<b>2,213</b>	<b>2,720</b>	<b>(18.6%)</b>

Source: Bloomberg consensus, UBS estimates

### Forecast returns

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Forecast price appreciation	+39.7%
Forecast dividend yield	0.5%
Forecast stock return	+40.2%
Market return assumption	7.1%
Forecast excess return	+33.1%

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### Valuation Method and Risk Statement

We value the Korea display equipment makers on a PE basis. Risks include: 1) weak end demand (mobile applications or TVs); 2) delays to investment projects of key customers; and 3) competition with peer equipment makers.

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<b>Buy</b>	FSR is > 6% above the MRA.	45%	29%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	39%	27%
<b>Sell</b>	FSR is > 6% below the MRA.	15%	16%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2016.

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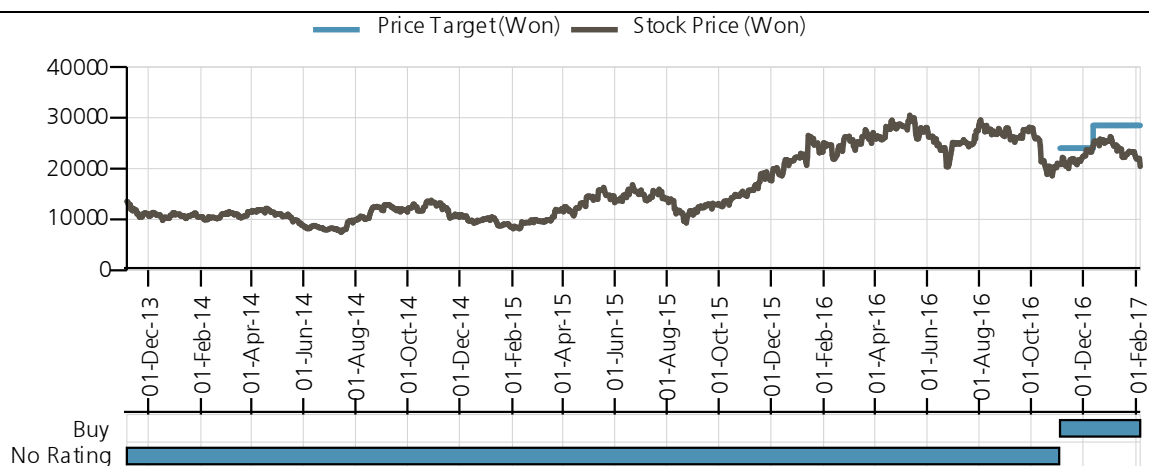
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>Viatron Technologies Inc</b>	141000.KQ	Buy	N/A	Won20,400	06 Feb 2017

Source: UBS. All prices as of local market close.

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### Viatron Technologies Inc (Won)



Date	Stock Price (Won)	Price Target (Won)	Rating
2013-11-06	13550.0	-	No Rating
2016-11-04	20800.0	24000.0	Buy
2016-12-13	24450.0	28500.0	Buy

Source: UBS; as of 06 Feb 2017

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