

Shinsung E&G (011930 KS)

Tangled threads begin to unravel

Commencement of delayed new orders

Sales recognition from domestic clients, which was expected for 2023, is now underway from 2024. Notable examples are Samsung Electronics' Pyeongtaek Plant 4 and its plant in Taylor, Texas. With memory semiconductor market conditions improving and prices rebounding at the same time, we expect memory chip makers' capex to continue and increase in 2025. When SK Hynix's investments in the Yongin Semiconductor Cluster become visible, Shinsung E&G's growth is likely to accelerate. Sales related to rechargeable battery/copper foil fab dry rooms are also likely to grow steadily. Rechargeable battery fabs, typically joint ventures, are likely to proceed as scheduled. The scale of fabs is expanding, which is favorable for the company, as the company is able to build and maintain dry rooms. If the rechargeable battery industry recovers from 2H24, further growth is likely.

Overseas penetration to boost growth

Clients for clean rooms are expanding from domestic to overseas companies. Overseas expansion should lead to higher sales and better profitability. The company won orders for clean room equipment for Texas Instrument's (TI) Malaysia plant last year. Although Shinsung E&G had supplied equipment including fan filter units (FFU) before, it is the firm's first time to establish a clean room for an overseas company's plant. The company is expected to penetrate into Micron going forward. It has already completed vendor registration, and is now discussing products and specifications.

Initiate coverage at BUY and target price of W2,600

We derived our target price of W2,600 by applying a P/E of 11.9x (the firm's 2022 P/E) to 2025E EPS of W223. We expect major projects currently in progress to continue into next year, with growth from winning overseas clients also continuing in 2025. Given expectations for the expansion of sales sources and products, sales growth thanks to new overseas clients, and improved profitability in 2025 compared to 2022, the company's valuation may surpass the 2022 level.

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BUY (I)

Target price **W2,600 (I)**
Current price (Jun 20) **W2,060**
Upside potential **26%**

Market cap (Wbn)	424
Shares outstanding	205,848,151
Avg daily T/O (2M, Wbn)	11
Avg daily volume (2M, shrs)	4,718,200
52-week high/low (won)	2,955 / 1,830
Foreign ownership (%)	4.38%
Dividend yield (%)	0.00%
Major shareholders	Ji-seon Lee & others

Stock performance			
(%)	1M	3M	12M
Absolute	(7.2)	(14.0)	(4.2)
Relative	(9.4)	(17.6)	(11.1)
Abs (US\$)	(9.1)	(16.8)	(11.4)

Forecasts and valuations (K-IFRS, consolidated)				(Wbn)
FY ends Dec	2022A	2023A	2024F	2025F
Sales	664	577	651	730
OP	21	7	31	46
Net profit, CI	34	16	33	46
P/E (x)	11.9	26.8	12.8	9.2
P/B (x)	1.9	1.8	1.4	1.2
EV/EBITDA (x)	20.5	32.0	12.9	8.5
ROE (%)	16.3	7.1	12.4	14.2

Note: CI = controlling interest; Source: Yuanta Securities

Shinsung E&G (011930 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income					
FY ends Dec (Wbn)	2021A	2022A	2023A	2024F	2025F
Sales	455	664	577	651	730
Cost of sales	403	588	510	544	598
Gross profit	52	76	66	107	131
SG&A	50	55	59	76	85
Operating profit	2	21	7	31	46
EBITDA	11	28	18	41	55
Non-operating profit	-20	26	7	8	9
Forex gains	-2	-2	1	0	0
Net interest income	-4	-4	-10	-9	-8
Equity-method gains	0	28	10	10	10
Other	-15	5	7	7	7
Net prof before income tax	-18	47	14	39	55
Income tax	-2	11	-1	8	12
Net profit from continuing ops	-16	37	15	31	43
Net profit from discontinued ops	0	-3	0	0	0
Net profit	-16	34	15	31	43
NP for controlling interest	-16	34	16	33	46
Total comprehensive income	14	1	31	47	59
Total comprehensive income, CI	14	1	32	49	61

Statement of financial position					
FY ends Dec (Wbn)	2021A	2022A	2023A	2024F	2025F
Current assets	251	251	258	334	421
Cash & cash equivalents	19	27	32	74	129
Accounts receivables & other	95	114	103	120	135
Inventory	36	28	30	34	38
Non-current assets	225	327	329	321	313
Tangible assets	116	221	144	136	128
Investment in affiliates	7	36	4	5	5
Other investment assets	77	41	64	65	66
Total assets	477	578	588	655	734
Current liabilities	225	257	249	268	287
Accounts payable & other	88	86	93	105	117
ST financial liabilities	73	95	96	96	96
Liquid LT liabilities	6	13	9	9	9
Non-current liabilities	44	109	96	97	97
LT financial liabilities	22	91	81	81	81
Debentures	15	5	7	7	7
Total liabilities	269	366	345	364	385
Equity, controlling interest	208	211	243	293	355
Paid-in capital	102	103	103	103	103
Capital surplus	185	186	75	75	75
Retained earnings	-93	-59	69	102	148
Equity, non-controlling interest	0	0	-1	-3	-5
Total equity	208	211	243	290	349
Net debt	65	176	155	112	55
Total debt	118	207	198	198	198

Cash flow statement					
FY ends Dec (Wbn)	2021A	2022A	2023A	2024F	2025F
Operating cash flow	-21	-24	47	43	54
Net profit	-16	34	15	31	43
Depreciation & amortization	7	6	9	8	8
Forex gains	0	-2	0	0	0
Affiliate investment gains	0	-28	-10	-10	-10
Increase in net working cap	-32	-53	-7	-29	-29
Other	19	18	39	42	41
Investing cash flow	-7	30	-32	-8	-9
Investment	0	26	4	-2	-2
Increase in tangible assets	-20	-14	-22	0	0
Decrease in tangible assets	0	0	1	0	0
Other	13	18	-15	-7	-7
Financing cash flow	12	5	-206	-86	-86
ST financial liabilities	-5	22	1	0	0
Debenture/LT financial liabilities	16	67	-10	0	0
Equity	3	2	-111	0	0
Cash dividend	0	0	0	0	0
Other cash flow	-1	-86	-86	-86	-86
Consolidation adj and other	2	-2	0	289	97
Increase in cash & equivalents	-14	8	-191	238	56
Beginning cash & equivalents	33	19	27	-164	74
Ending cash & equivalents	19	27	-164	74	129
NOPLAT	2	21	8	31	46
FCF	-41	-38	25	43	54

Valuation					
FY ends Dec	2021A	2022A	2023A	2024F	2025F
EPS (won)	-78	166	79	161	223
BPS (won)	1,029	1,036	1,195	1,438	1,743
EBITDA/shr (won)	54	138	90	201	269
SPS (won)	2,237	3,228	2,801	3,165	3,545
DPS (won)	0	0	0	0	0
P/E (x)	-35.2	11.9	26.8	12.8	9.2
P/B (x)	2.7	1.9	1.8	1.4	1.2
EV/EBITDA (x)	57.1	20.5	32.0	12.9	8.6
P/S (x)	1.2	0.6	0.8	0.7	0.6

Key financial data					
FY ends Dec	2021	2022	2023	2024E	2025E
Sales (% YoY)	-5.8	46.1	-13.2	13.0	12.0
Operating profit (%YoY)	-87.1	780.8	-65.0	328.0	47.1
Net profit, CI (%YoY)	RR	TTB	-52.4	104.9	38.1
Gross margin (%)	11.4	11.5	11.5	16.5	18.0
Operating margin (%)	0.5	3.2	1.3	4.8	6.4
Net margin, CI (%)	-3.5	5.1	2.8	5.1	6.3
EBITDA margin (%)	2.4	4.3	3.2	6.4	7.6
ROIC (%)	1.5	6.8	2.9	11.0	15.6
ROA (%)	-3.5	6.5	2.8	5.4	6.6
ROE (%)	-8.0	16.3	7.1	12.4	14.2
Debt-to-equity (%)	129.1	173.5	142.3	125.7	110.1
Net debt-to-equity (%)	31.1	83.4	63.8	38.2	15.5
OP/financing cost (x)	0.6	4.3	0.7	2.9	4.2

Note: CI = controlling interest

Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

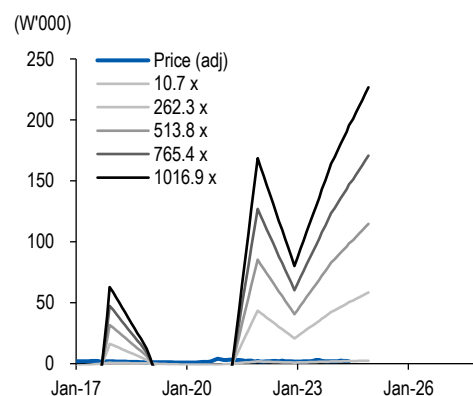
EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

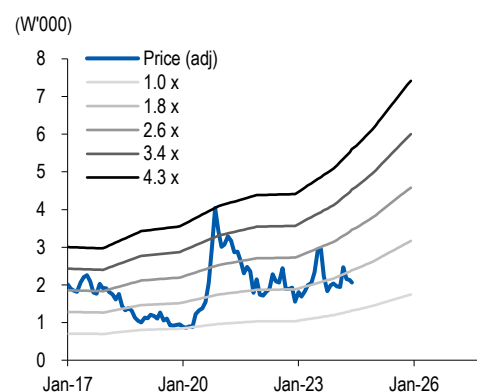
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

P/E band chart



P/B band chart



Shinsung E&G (011930 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2024/06/21	BUY	2,600	1 yr		
2023/08/04	After 1yr		1 yr		
2022/08/04	Not Rated	-	1 yr		

Note: Difference = (actual price* - target price) / target price x 100

* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Rating	Share (%)
STRONG BUY	0
BUY	84.5
HOLD	15.5
SELL	0
Total	100.0

Note: As of Jun 21, 2024

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- **Stock ratings** include an Investment Rating (STRONG BUY, BUY, HOLD, SELL) based on the expected absolute return of a stock over the next 6 -12 months.
 - STRONG BUY: Expected to return 30% or more
 - BUY: Expected to return between 10% and 30%
 - HOLD: Expected to return between -10 and +10%
 - SELL: Expected to return -10% or less
- **Sector ratings** suggest 6- to 12-month forward investment weighting of a given sector compared to its market capitalization weighting.
 - OVERWEIGHT: Investment weighting is higher than the market capitalization weighting
 - NEUTRAL: Investment weighting is equal to the market capitalization weighting
 - UNDERWEIGHT: Investment weighting is lower than the market capitalization weighting

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