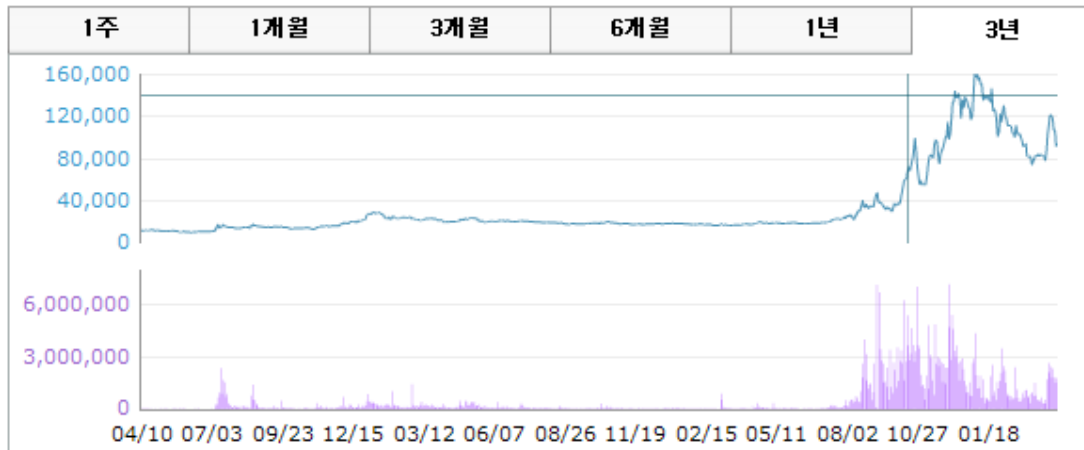


Presidential Bid and Stock Run Up

Ahn Chul Soo, the founder of the Korean computer virus protection software developer, AhnLab, came to the forefront of the country's news in early September 2011 as a potential contender for the 2012 Presidential campaign. The spike in the stock price coincides with the presidential bid rumors that surfaced in September 2011.

We will examine whether an underlying business change helped propel the stock to reach a 400% return in the past 8 months, or if the noise surrounding Ahn's potential presidency bid is drawing speculators to the stock. We believe the unjustified stock price will head for a free fall, after tapping unseen highs when he officially announces his candidacy in the very near future. The plummet will start in the following scenarios if 1) Mr. Ahn chooses to opt out of the 2012 election; 2) he fails to win the presidency. In the event Mr. Ahn is elected president, we will analyze what benefits will come to the company.



조회기간 : 2012년 03월 10일 ~ 2012년 04월 10일

Background

AhnLab, Inc, was founded in 1995. AhnLabs develops and markets their antivirus software flagship program, V3, and enjoys a 60% domestic market share in the antivirus space. The founder, Ahn Chul Soo, is a reknown college professor, medical doctor, and leading visionary of the firm. He is the iconic figurehead of the firm, much similar to what Steve Jobs was to Apple.

Among the 20-40s age group, Ahn is looked upon as a candidate who would bring desired change to the society. They are frustrated with the lack of job security, and current administration's corruption, which was unearthed by the popular podcaster, "나꼼수". "나꼼수" are strong advocates of Ahn, which is drawing much attention to Ahn from the media, and consequently to AhnLabs.

Financials

Gross margin, 10-15% Operating Income. In cash flow, 20MM in operating cash flow, Balance sheet Equity at \$134 MM, \$65MM in cash/short term investments, barely any debt. On the conservative side, we would value the firm somewhere along \$250 to \$300 MM (\$135 book value + 5 years of free cashflow).

Revenues rose 40% YoY in 2011 to \$98.8 MM, from \$69.8MM. Impressive growth, but enough to warrant the colossal stock price gain to 4th largest market cap in Kosdaq, the Korean stock exchange geared toward tech stocks, or a NASDAQ counterpart?

With 10MM shares outstanding, the stock averaged about \$30 for from 2008 to mid-2011, prior to the jump in September 2011, which valued the equity at \$300MM, or a respectable P/E of roughly 20x.

However, reported 2011 net income barely budged at \$12MM, yet the market cap for the equity jumped 400% to \$1BB, or 83 P/E, and 6x P/B. Even an analyst who covers AhnLab attributed the rise to the rumors.

In the U.S., Norton Antivirus, a product of Symantec, is a commonly used product. 17.7 P/E, \$13.4 BB market cap, with revenues at \$6 BB, or 0.5 P/S. Even a leading, global antivirus developer can't justify a 90 P/E.

Not only in the U.S. Korean tech companies P/E average 15-20.

Even assuming a 40% growth rate, a 25 P/E will be justified when revenues break the \$350 MM revenue mark, or growing another 250% of their business. In 2012, they are anticipating a 28% revenue growth and 110% increase in their operating income. The 1 year forward P/E is still a high 56. A local securities firm, Daeshin Securities, announced they will not provide price forecasts as the current trading exceeds levels explainable by business fundamentals.

Therefore, we see a short opportunity in the summer 2012, after Mr. Ahn formally announces his ticket for the presidency. Even if Mr. Ahn is voted president, the direct benefits needed to justify a 1 year fwd P/E of 25 is a \$40 MM P/E, or roughly \$400 MM - \$800 MM in sales, assuming a 10%-20% net margin.

	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	69.8	98.8	138.3	193.6	271.1	379.6	531.4	743.9
COGS	14.2	29.5	35.0	45.0	60.0	80.0	110.0	150.0
Gross Margin	55.6	69.3	103.3	148.6	211.1	299.6	421.4	593.9
OpEx	47.1	59.1	85.0	125.0	175.0	250.0	350.0	500.0
Operating Income	8.5	10.2	18.3	23.6	36.1	49.6	71.4	93.9
Net Income	14.5	11.9	20.0	25.0	30.0	40.0	55.0	75.0
Growth		41.5%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
	2010	2011	2012	2013	2014	2015	2016	2017
Gross Margin	79.7%	70.1%	74.7%	76.8%	77.9%	78.9%	79.3%	79.8%
Operating Income	12.2%	10.3%	13.2%	12.2%	13.3%	13.1%	13.4%	12.6%
Net Income	20.8%	12.0%	14.5%	12.9%	11.1%	10.5%	10.4%	10.1%
Price (in MM USD)	1,112							
P/E	76.69	93.45	55.60	44.48	37.07	27.80	20.22	14.83