SN VALUATION
SN CAPITAL SN CONSULTING SN ENGLISH

Sung Nam
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루멘스 (Lumens Co.) – 038060

Courtesy: Hyundai Securities

Current market cap at 277B KRW at 6,850 KRW/share. Target price market cap at 380B KRW at 9,400 KRW target price, or a 37% appreciation. Revenue of 113B KRW and EBIT of 11B KRW for the quarter, with a run rate revenue of 439B and 500B KRW expected for 2012/2013. ROE and ROIC are above 20%. Low PBR at 1.8 and PER of 10.9. Current EV/FCF is 14x and (EV- net tangible asset)/FCF is 6x. 40B KRW in cash flow and 20B in cap ex, so roughly 20B KRW in FCF. The co. is borrowing 30B KRW and it is a good decision with the lower rates, which will be useful as they grow their solid business. Debt to equity is 40% so it is not excessively leveraged.

The stalwart cornerstone is the tv module LED sales, mainly to Samsung Electronics, a 73% contributor. LCD tv sales in the global market is forecasted for continual growth, so revenue will not shrink. Captive customers, Samsung Electronics, LED tv module sales and LED lighting, misc. sales propped revenues above analyst forecasts. LED lighting has been a minor contributor to the baseline revenue, but the analyst is forecasting a significant runup in 2013, doubling from 35B to 70B KRW, with the majority of the growth attributed to this growing product. In the comps table, the company's growth, low valuation and high return on equity and invested capital stands out.

The analyst believes the co. can transform from a segmented parts manufacturing business to a comprehensive LED parts supplier. With the export of LED lighting products to Japan and strengthening ties with SK Group, the company has more value to contribute.

We feel the business is volatile with respect to the high proportion of sales resting with 1 major customer. Although the margin may be respectable at the current state, it seems as if the products can be easily commoditized by competitors. They are growing revenues by diversifying product sales gearing toward LED lights, but we are not sure where the market whether this co. will be able to grow for the next 10+ years. We think this co. is a likely candidate for a takeover by a larger competitor, or even a larger corporation in the supply chain due to the healthy balance sheet and specialty niche.

On a valuation basis, we feel this company is fairly priced, a bit on the cheaper end, with full potential to reach the target price. This stock won't do too much harm on the downside due to the healthy balance sheet and growth prospects providing price support, but may pop should revenue/earnings continue to beat analyst estimates.