Sung Nam
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피제이전자 (PJ Electronics) – 006140

Courtesy: SK Securities

Ultrasound electronics manufacturer with a market cap at 52B KRW (5,250 KRW x 10MM shares). From 2008-2011, revenues have grown from 64B KRW to 102B KRW and EBIT has grown from 4B KRW to 10 KRW. Their main customers are GE and 지멘스 (65% of total sales, or +95% of ultrasound equipment sales). Obstetricians use the co's products and the analyst anticipates GE to continue to purchase the older and newest model. The color image ultrasound equipment product line and other high technology products will support the revenue growth.

10% EBIT margin sustained for the past couple years. The company used 15B KRW in cash to purchase real estate and the co. required debt for cash flow earlier this year, but the co.'s organically created cash flow will supplant the debt, and the co. has been paying down the debt balance in 2011 and 2012.

For an unidentifiable reason, the stock is selling at 5.0 P/E, when the medical equipment universe average P/E is 35. Also, EV/EBITDA is 3,4, P/B is 0.7, leverage is only 35% and ROE is 13.2%. Dividend yield is 2.8%, or paying out 150 KRW/share, which is a total dividend payout of 1.5B KRW.

Our opinion: We were surprised at the low gross margin of 10%, considering the co. generates medical equipment, which we assumed had higher margins. We believe the co. may be a value trap, or due to the size of the market cap, the co. may have minimal coverage by analysts. Reminds us of a RIMAGE type of co. where there isn't too much upside, with anticipated growth at 6%. Also, the consistent cash flow and 2.5% dividend yield makes it a safe bet. Yet, this stock price might drag or pop one day, but stabilize back toward the historical average. We will stay away from this co., especially when considering the 1 major customer element in this mix. However, we do love the extremely cheap valuation with EBITDA and FCF repaying the EV amount in only 3-4 years. Great valuation, but not our cup of tea.