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MCNEX (097520)

Performance is growing with Quantum Jumping and preparation for the era of self-driving technology is well established

◎ Annual revenue forecast of 1.34 trillion won (+92 percent YoY) and operating profit of 110.5 billion won (+169 percent YoY) in 2019.

>> MCNEX posted 623.2 billion won in sales(+96% YoY) and 50.1 billion won in operating profit (+169% YoY) thanks to a sharp increase in the hiring rate of its main customers' multi-camera modules and brisk sales of low-end smartphones centered on the A-series.

This is 89% of its annual revenue in 2018 and half-year operating profit is significantly above the annual record of last year.

>> In 2H, sales of low-end smartphones remained solid and increased supply of actuators / modules for premium smartphones and foldable phones; mass production of OIS camera modules optimized for video shooting; increased sales of optical fingerprint recognition modules; As such, the company is anticipated to post better earnings than 1H, with sales of W744.4bn (+ 89% YoY) and W60.6bn (+124% YoY).

>> In particular, in the first half of next year, the premium phone is expected to be equipped with a quadruple camera module that includes an ultra-pixel module of more than 100 million pixels (front dual). As such, we expect a sharp rise in ASP from 4Q.

>> In addition, the completion of the fourth plant in Vietnam is expected to provide additional growth engines as the company expands its production capacity of high-pixel multi-camera modules / OIS actuators / optical fingerprint recognition modules.

© Contrary to concerns about the handset component industry, the company is improving its status and evolving business portfolio

>> Despite the continued positive performance of MCNEX, the main reason why the current stock price has fallen -35% compared to the first half's high point are 1) Major customers' moves to expand production of ODM in China, 2) Concerns over camera module makers' 2Q earnings peak out, 3) Concerns that a pressure for drop in sales prices will increase due to a decline in profitability of major customer, etc.

>> However, 1) China ODM is likely to be centered around low-cost entry models, and assuming that it is expanding to the top-level top model, considering the burden on quality issues, it is highly likely that a supply chain will be formed using JDM (combined development and production) method. If the company successfully enters the JDM supply chain, it can be an opportunity to secure stable customers and gain a foothold in targeting Chinese set companies.

>> 2) Sales of camera modules and actuators for high-end models and premium smartphones are growing rapidly. Considering the steep increase in premium Smartphone camera module specifications and increased market share in the first half of next year, as product mix improves and performance can continue steadily, the company is free from controversy over peak of performance and concerns over worsening profitability.

© Despite the growth of automotive camera modules and secure of autonomous driving solutions, the 2019F EPS is only 4.0X

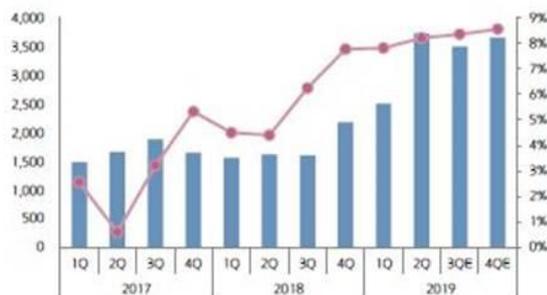
>> The most notable change in 2020 is 1) The automotive camera module division, which recorded a massive deficit until 2018, is expected to see sales growth and a turnaround due to stabilization of Vietnam's production system and a rise in market share and ASP in major vehicle models.

>> 2) With the increase in sales of black boxes and AVM (Arround View Monitoring System) and the start of mass production of key ADAS solutions related to autonomous driving, the proportion of automotive camera module is expected to increase to 15% of total sales.

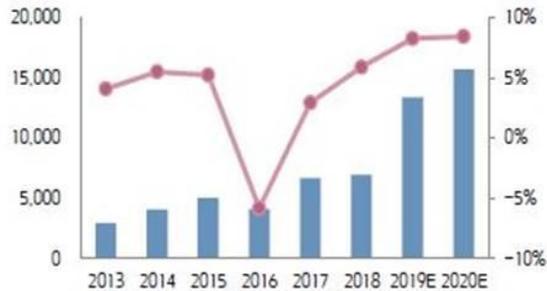
>> The radar / rider / sensing camera market, a key solution for autonomous driving, is expected to expand in 2020. As the company is strengthening its partnership with leading companies in

each field, it is considered to be the most profitable company in the development and growth of the autonomous driving supply chain in Korea. Given that its position as a leader in mobile camera module/driving technology is being strengthened, it is necessary to re-evaluate its position considering that it is well prepared for the era of self-driving technology.

Quarterly Sales and Operating Margin Trends (Consolidated)
(100 million won)



Annual Sales and OPM Trend and Forecast (Consolidated)
(100 million won)



Quarterly and Annual Performance Trends and Forecast (Consolidated)

[100million won]

index	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19E	4Q19E	2016	2017	2018	2019E	2020E
Sales	1,560	1,624	1,606	2,179	2,508	3,724	3,494	3,650	4,125	6,685	6,970	13,376	15,717
Rate (% YoY)	5%	-2%	-15%	32%	61%	129%	118%	68%	-18%	62%	4%	92%	18%
Rate (% QoQ)	-5%	4%	-1%	36%	15%	49%	-6%	4%					
Mobile	1,290	1,340	1,345	1,881	1,867	1,903	1,759	1,802	2,926	5,505	5,885	12,183	13,420
%	83%	83%	84%	87%	86%	86%	86%	86%	71%	82%	84%	91%	85%
Automotive/System	270	283	261	271	294	312	290	298	1,199	1,179	1,085	1,193	2,297
%	17%	17%	16%	13%	14%	14%	14%	14%	29%	18%	16%	9%	15%
OPM	70	71	100	169	196	305	292	312	-239	197	411	1,105	1,325
Rate(%YoY)	85%	607%	65%	93%	179%	328%	191%	84%	deficit conversion	Surplus conversion	109%	169%	20%
Rate(%QoQ)	-20%	2%	40%	69%	16%	56%	-4%	7%					
NPM	56	145	12	85	142	212	225	241	-247	-9	298	820	1,033
OP ratio(%)	4.5%	4.4%	6.2%	7.8%	7.8%	8.2%	8.3%	8.5%	-5.8%	2.9%	5.9%	8.3%	8.4%
NP ratio(%)	3.6%	8.9%	0.8%	3.9%	5.7%	5.7%	6.4%	6.6%	-6.0%	-0.1%	4.3%	6.1%	6.6%

MCNEX, Kiwoom Securities Estimation