

## Youngone Corp. (111770)

BUY (Maintain), TP ₩70,000 (Up)

|                                 |               |       |        |        |        |       |        |        |      |           |     |      |     |
|---------------------------------|---------------|-------|--------|--------|--------|-------|--------|--------|------|-----------|-----|------|-----|
| Stock price (Aug 28, KRW)       | 54,000        | Yr to | Sales  | OP     | NP     | EPS   | % chg  | EBITDA | PE   | EV/EBITDA | PB  | ROE  | DY  |
| Market cap (USD mn)             | 2,380         | Dec   | (₩ bn) | (₩ bn) | (₩ bn) | (KRW) | (YoY)  | (₩ bn) | (x)  | (x)       | (x) | (%)  | (%) |
| Shares outstanding (mn)         | 44            | 2012A | 1,059  | 186    | 119    | 2,909 | 1.4    | 217    | 11.3 | 5.9       | 2.1 | 20.0 | 0.6 |
| 52W High/Low (KRW)              | 56,000/30,500 | 2013A | 1,108  | 161    | 111    | 2,513 | (13.6) | 190    | 16.9 | 9.4       | 2.2 | 14.8 | 0.5 |
| 6M avg. daily turnover (USD mn) | 3.9           | 2014F | 1,248  | 194    | 135    | 3,043 | 21.1   | 232    | 17.9 | 10.0      | 2.5 | 14.7 | 0.4 |
| Free float (%)                  | 49.1          | 2015F | 1,437  | 247    | 178    | 4,023 | 32.2   | 293    | 13.5 | 7.9       | 2.1 | 16.8 | 0.4 |
| Foreign ownership (%)           | 27.5          | 2016F | 1,637  | 297    | 214    | 4,836 | 20.2   | 351    | 11.3 | 6.4       | 1.8 | 17.1 | 0.4 |

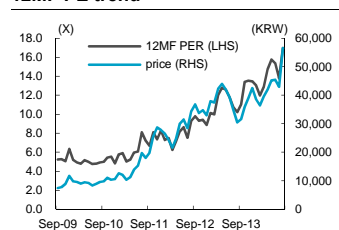
Note: NP and EPS attributed to controlling interest

## What scale capacity expansion?

## Performance

|                    | 1M   | 6M   | 12M  |
|--------------------|------|------|------|
| Absolute (%)       | 25.3 | 49.5 | 73.8 |
| Rel. to Kospi (%p) | 24.0 | 44.7 | 63.7 |

## 12MF PE trend



**Built up competitiveness to translate into growth:** Excluding the apparel agency Li&Fung, Youngone Corp. ranks 3<sup>rd</sup> or 4<sup>th</sup> among global apparel OEMs and has the largest capacity in sportswear. It has a deep customer pool of 35-40 companies. While the top five brands such as The North Face, Land's End, Patagonia, Ralph Lauren and Engelbert Strauss account for 40% of its total sales, there is little reliance on a single label due to the prominent lineup including Lululemon, Adidas and Nike. Youngone Corp. has a long track record in heavy outdoor wear, functional wear and shoes where the entry barrier has remained high. It also has good ability to pass higher costs on to product prices as their buyers are high-end customers focusing on quality rather than prices. Its supply share at clients is seemingly high as well. Thanks to solid partnerships with core customers, it is enjoying a new inflow of clients as the sportswear market grows.

**Claiming 1% of global sportswear market; At the start line to grow:** Youngone Corp. is expected to run 1,500 lines with 100,000 employees as of 2017. Compared to early 2013, there would be ~67% work force increase and ~70% capacity expansion in terms of lines. In 2018, it should be able to generate double the 2013 sales. Growth potential looks ample as it currently has a mere 1% share in the global sportswear OEM and accounts for only 0.2% of global apparel exports. With rising demand for OEM apparel from Southeast Asia, Youngone Corp.'s full-fledged capacity expansion must be highlighted. As expansion that started in 2012-2013 has wound down, the company is entering the recoup period. While the past expansion was at factories in Bangladesh (Chittagong, Dhaka), from 2014, capacity should be added in full swing at the Korea Export Processing Zone (KEPZ) owned by Youngone Holdings. In a massive hiring spree in 2013, 69,000 were added to the payroll. Given its plan to secure more than 30,000 employees over three to five years in the KEPZ alone, our assumption for capacity expansion seems sufficiently achievable. The company is also striving to secure enough capacity in Bac Giang, Hung Yen and Da Nang (Vietnam) in hopes for the conclusion of the Trans-Pacific Partnership (TPP), a free-trade deal whose goal is to eliminate tariffs and integrate economies around the Pacific Rim.

**Our apparel top pick entering a re-rating phase:** We lift our TP for Youngone Corp. from ₩62,000 to ₩70,000. We change the valuation base to 2015 and apply a target 17x PE. The company has obvious growth potential through 2017. Sales and OP should achieve respective three-year forward CAGR of 15% and 20% starting from 2014. Of note, sales growth in 2014 would be the steepest among Asian apparel OEMs and will put the company back in focus. Eclat Textile recorded unrivaled growth in 2013 and its 12MF PE rose to 35x. With the global sportswear market's growth, demand would also rise for sportswear OEMs with sizable sales and competitive operations. Youngone Corp. can gain attention with its large-scale

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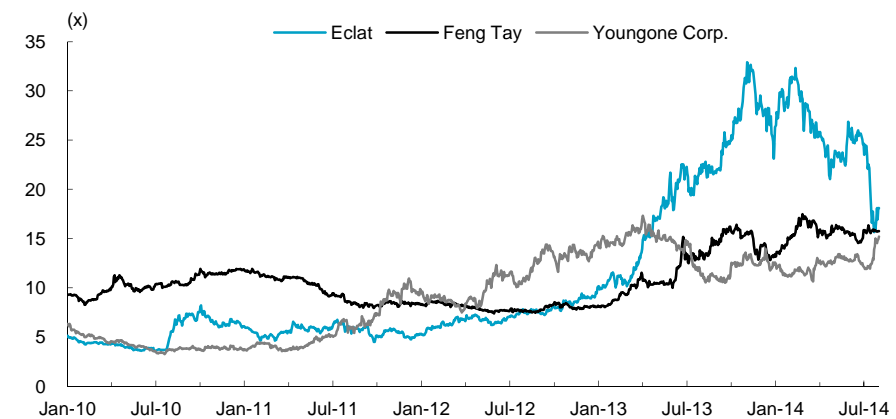
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production facilities, a competitive edge as a high value-added OEM and efforts to widen the product range and invest in the footwear business. Benefits should continue as Chinese OEMs lose competitiveness due to rising wages. Operations in Bangladesh are growing fast backed by zero-tariff exports to the EU. If the TPP is signed in 2015, Youngone Corp.'s products manufactured at Vietnam factories would enjoy no-tariff access to the American markets from 2016.

Figure 44. Youngone Corp., Eclat, Feng Tay 12MF PE



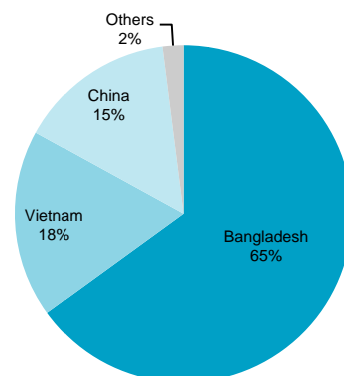
Source: Bloomberg, Korea Investment &amp; Securities

Figure 45. Youngone Corp. wide-ranging customers total ~40



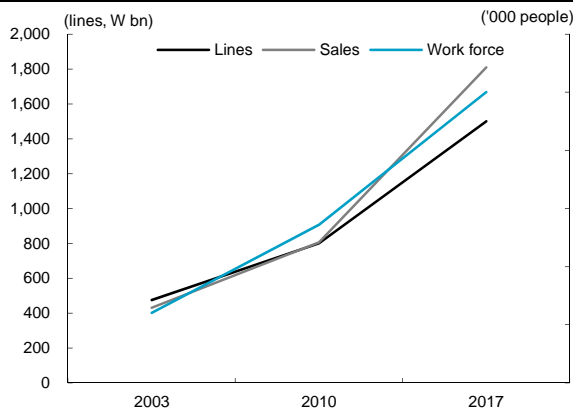
Source: Company data, Korea Investment &amp; Securities

Figure 46. Youngone Corp. production weighting by region



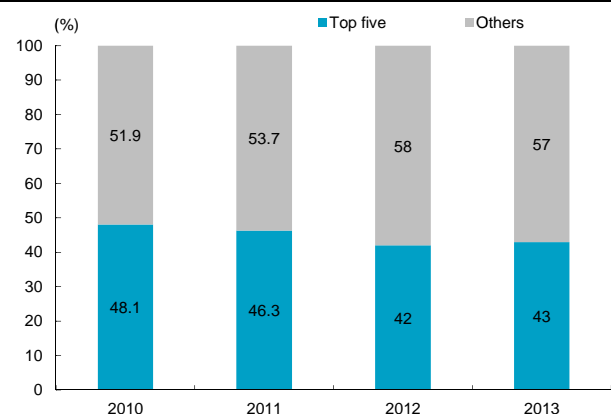
Source: Company data, Korea Investment &amp; Securities

Figure 47. Work force/capacity growth at Youngone Corp.



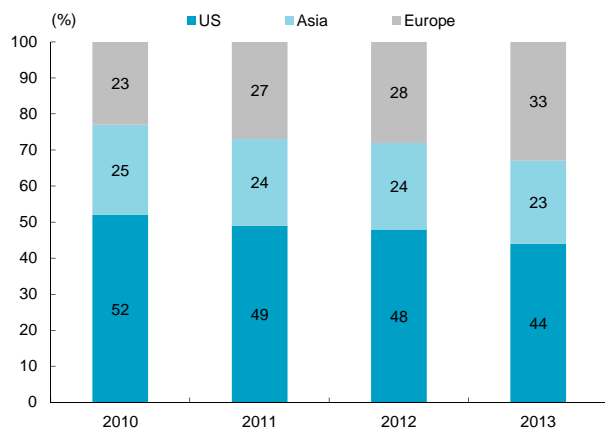
Source: Company data, Korea Investment &amp; Securities

Figure 48. Top five customer weighting



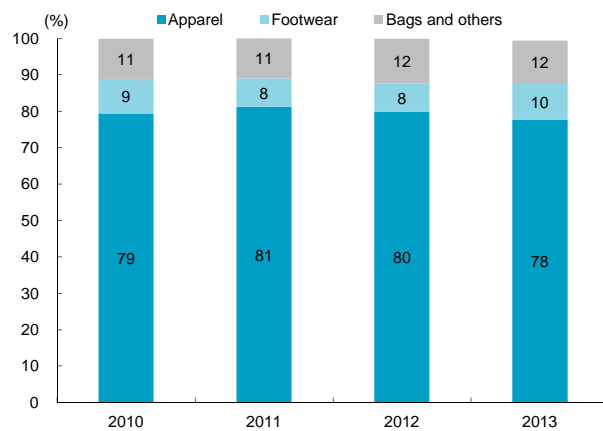
Source: Company data, Korea Investment &amp; Securities

Figure 49. Exports by destination



Source: Company data, Korea Investment &amp; Securities

Figure 50. Exports by item



Source: Company data, Korea Investment &amp; Securities

## Balance sheet

| FY-ending Dec. (W bn)           | 2012A | 2013A | 2014F | 2015F | 2016F |
|---------------------------------|-------|-------|-------|-------|-------|
| Current assets                  | 509   | 609   | 637   | 726   | 868   |
| Cash & cash equivalents         | 145   | 165   | 137   | 151   | 213   |
| Accounts & other receivables    | 114   | 159   | 179   | 205   | 234   |
| Inventory                       | 159   | 172   | 194   | 223   | 254   |
| Non-current assets              | 490   | 603   | 723   | 839   | 958   |
| Investment assets               | 69    | 101   | 108   | 117   | 129   |
| Tangible assets                 | 352   | 407   | 508   | 598   | 689   |
| Intangible assets               | 4     | 3     | 4     | 4     | 5     |
| Total assets                    | 999   | 1,212 | 1,360 | 1,565 | 1,826 |
| Current liabilities             | 155   | 143   | 138   | 137   | 151   |
| Accounts & other payables       | 85    | 95    | 105   | 115   | 131   |
| ST debt & bonds                 | 53    | 33    | 13    | 0     | 0     |
| Current portion of LT debt      | 0     | 0     | 0     | 0     | 0     |
| Non-current liabilities         | 163   | 167   | 181   | 199   | 217   |
| Debentures                      | 50    | 50    | 50    | 50    | 50    |
| LT debt & financial liabilities | 13    | 13    | 13    | 13    | 13    |
| Total liabilities               | 318   | 310   | 318   | 335   | 369   |
| Controlling interest            | 642   | 851   | 977   | 1,147 | 1,352 |
| Capital stock                   | 20    | 22    | 22    | 22    | 22    |
| Capital surplus                 | 334   | 452   | 452   | 452   | 452   |
| Other reserves                  | (0)   | (0)   | (0)   | (0)   | (0)   |
| Retained earnings               | 338   | 440   | 566   | 736   | 941   |
| Minority interest               | 39    | 51    | 64    | 83    | 105   |
| Shareholders' equity            | 681   | 902   | 1,042 | 1,230 | 1,457 |

## Cash flow

| FY-ending Dec. (W bn)          | 2012A | 2013A | 2014F | 2015F | 2016F |
|--------------------------------|-------|-------|-------|-------|-------|
| C/F from operations            | 179   | 102   | 175   | 220   | 270   |
| Net profit                     | 132   | 122   | 149   | 197   | 236   |
| Depreciation                   | 30    | 29    | 37    | 45    | 54    |
| Amortization                   | 1     | 1     | 1     | 1     | 1     |
| Net incr. in W/C               | (3)   | (59)  | (19)  | (33)  | (34)  |
| Others                         | 19    | 9     | 7     | 10    | 13    |
| C/F from investing             | (234) | (172) | (161) | (166) | (177) |
| Capex                          | (161) | (109) | (138) | (136) | (144) |
| Decr. in fixed assets          | 9     | 3     | 0     | 0     | 0     |
| Incr. in investment            | (81)  | (62)  | (1)   | (1)   | (2)   |
| Net incr. in intangible assets | (2)   | (0)   | (1)   | (2)   | (2)   |
| Others                         | 1     | (4)   | (21)  | (27)  | (29)  |
| C/F from financing             | 27    | 92    | (43)  | (40)  | (31)  |
| Incr. in equity                | 0     | 120   | 0     | 0     | 0     |
| Incr. in debt                  | 35    | (20)  | (20)  | (13)  | 0     |
| Dividends                      | (8)   | (8)   | (9)   | (9)   | (9)   |
| Others                         | 0     | 0     | (14)  | (18)  | (22)  |
| C/F from others                | (1)   | (1)   | 0     | 0     | 0     |
| Increase in cash               | (30)  | 20    | (28)  | 14    | 62    |

Note: K-IFRS (consolidated)

## Income statement

| FY-ending Dec. (W bn)                              | 2012A | 2013A | 2014F | 2015F | 2016F |
|--|-------|-------|-------|-------|-------|
| Sales  | 1,059 | 1,108 | 1,248 | 1,437 | 1,637 |
| COGS   | 765   | 826   | 915   | 1,034 | 1,165 |
| Gross profit                                       | 295   | 283   | 333   | 403   | 471   |
| SG&A expenses                                      | 108   | 122   | 140   | 156   | 175   |
| Operating profit                                   | 186   | 161   | 194   | 247   | 297   |
| Financial income                                   | 3     | 4     | 6     | 6     | 7     |
| Interest income                                    | 2     | 4     | 6     | 6     | 7     |
| Financial expenses                                 | 4     | 3     | 5     | 2     | 2     |
| Interest expenses                                  | 4     | 3     | 2     | 2     | 2     |
| Other non-operating profit                         | (6)   | (1)   | (5)   | 1     | 0     |
| Gains (Losses) in associates, subsidiaries and JV  | (0)   | 2     | 6     | 8     | 10    |
| Earnings before tax                                | 179   | 163   | 196   | 259   | 312   |
| Income taxes                                       | 47    | 41    | 48    | 63    | 75    |
| Net profit   | 132   | 122   | 149   | 197   | 236   |
| Net profit of controlling interest                 | 119   | 111   | 135   | 178   | 214   |
| Other comprehensive profit                         | (20)  | (13)  | 0     | 0     | 0     |
| Total comprehensive profit                         | 112   | 109   | 149   | 197   | 236   |
| Total comprehensive profit of controlling interest | 101   | 98    | 135   | 178   | 214   |
| EBITDA   | 217   | 190   | 232   | 293   | 351   |

## Key financial data

| FY-ending Dec.        | 2012A  | 2013A  | 2014F  | 2015F  | 2016F  |
|-----------------------|--------|--------|--------|--------|--------|
| Per-share data (KRW)  |        |        |        |        |        |
| EPS                   | 2,909  | 2,513  | 3,043  | 4,023  | 4,836  |
| BPS                   | 15,724 | 19,215 | 22,058 | 25,881 | 30,516 |
| DPS                   | 200    | 200    | 200    | 200    | 200    |
| Growth (%)            |        |        |        |        |        |
| Sales growth          | 7.0    | 4.6    | 12.7   | 15.1   | 13.9   |
| OP growth             | 2.2    | (13.7) | 20.5   | 27.4   | 20.2   |
| NP growth             | 1.7    | (7.2)  | 22.0   | 32.2   | 20.2   |
| EPS growth            | 1.4    | (13.6) | 21.1   | 32.2   | 20.2   |
| EBITDA growth         | 3.7    | (12.3) | 21.7   | 26.5   | 19.9   |
| Profitability (%)     |        |        |        |        |        |
| OP margin             | 17.6   | 14.5   | 15.5   | 17.2   | 18.1   |
| NP margin             | 11.2   | 10.0   | 10.8   | 12.4   | 13.1   |
| EBITDA margin         | 20.5   | 17.2   | 18.6   | 20.4   | 21.5   |
| ROA                   | 14.3   | 11.0   | 11.6   | 13.4   | 13.9   |
| ROE                   | 20.0   | 14.8   | 14.7   | 16.8   | 17.1   |
| Dividend yield        | 0.6    | 0.5    | 0.4    | 0.4    | 0.4    |
| Dividend payout ratio | 6.7    | 8.1    | 6.7    | 5.1    | 4.2    |
| Stability             |        |        |        |        |        |
| Net debt (W bn)       | (95)   | (151)  | (154)  | (194)  | (271)  |
| Debt/equity ratio (%) | 17.0   | 10.6   | 7.3    | 5.1    | 4.3    |
| Valuation (x)         |        |        |        |        |        |
| PE                    | 11.3   | 16.9   | 17.9   | 13.5   | 11.3   |
| PB                    | 2.1    | 2.2    | 2.5    | 2.1    | 1.8    |
| EV/EBITDA             | 5.9    | 9.4    | 10.0   | 7.9    | 6.4    |

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