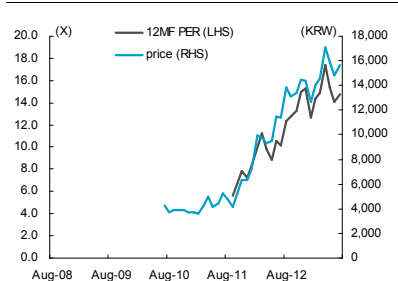


Not rated**Stock Data**

KOSPI (Jul 23, pt)	1,904
Stock price (Jul 23, KRW)	15,650
Market cap (USD mn)	150
Shares outstanding (mn)	11
52-Week high/low (KRW)	18,000/10,900
6M avg. daily turnover (USD mn)	0.7
Free float / Foreign ownership (%)	60.3/2.9
Major shareholders (%)	
Si-Cheol Noh and 6 others	39.7
Seung Wook Kim	5.5

Performance

	1M	6M	12M
Absolute (%)	9.8	26.7	31.5
Relative to KOSPI (%p)	5.4	30.6	25.1

12MF PER Trend

Source: WISEfn consensus

Interojo (119610)

Narrowing gap with competitors, emerging as optimal ODM player

Visit purpose and conclusion: Confirmed environment of global operations and growth of one-day lens sales

- One-day lenses have emerged as the flagship product, while margins are low, Interojo can ship massive volume to secure growth momentum, and management plans to increase profit on an absolute basis.
- Margins should erode, but recovery next year as unit production costs decline.
- Distribution strategies differ by country, we recommend focusing on potential of new markets, such as Central and South America, in addition to Korea, China and Japan.

Investment point

1. One-day lens to account for over 40% of sales

- One-day lenses are rapidly replacing other types of lenses in global markets (estimated 17% of lens wearers use one-day lenses, which comprise 50% of total lens sales).
- While margins on one-day lenses are 5-10%p lower than longer-use lenses, volume per wearer is more than 30x greater, and sales are 2-3x larger.
- Interojo opened a second factory that mostly produces one-day lenses in March 2012, and expanded the workforce by 25% this year. While this will erode margins over the near term, the fixed cost burden should ease as sales grow.

2. Growing into optimal ODM player in supply-side driven market

- Technological capacity to produce diverse lenses, including one-day, circle and cosmetic. Growing into an optimal ODM player, which is necessary to become a small quantity batch production company.
- Internally developed new materials (Ultra-Su) to limit dryness and improve stability, key factors for lenses.
- Technological competitiveness to limit dry eye problems by 80-90%.

3. Growth momentum from global markets

- Sales stable on diversified regional markets: 27% Europe, 24% Korea, 16% Japan and China and 15% North America (2012 basis)
- Formed strategic partnerships with medical companies and distributors to expand network in Japan, which focuses on short-term lenses, and began supplying color lenses to Horien to bolster its China position.
- Plans to enter Central and South America, including Mexico (secured certification) and Brazil (certification process underway).

Yr to Dec	Sales (W bn)	OP (W bn)	EBT (W bn)	NP (W bn)	EPS (won)	% chg (YoY)	EBITDA (W bn)	P/E (x)	EV/EBITDA (x)	P/B (x)	ROE (%)
2011A	24.5	8.5	8.4	6.8	648	(43.9)	10	9.8	6.1	0.9	19.3
2012A	30.1	9.6	10.1	8.7	809	24.8	12	17.8	13.2	3.3	20.3
2013F	40.0	11.0	11.0	9.5	890	10.0	14	17.7	11.7	3.0	18.7
2014F	52.5	15.0	15.0	13.0	1,215	36.6	19	13.0	8.7	2.5	21.2
2015F	65.0	20.0	20.5	18.0	1,680	38.3	24	9.4	6.6	2.0	23.8

Earnings forecast and valuation

- Shares trade at 17.7x 2013 PE, a 38% discount to competitor St Shine (28.4x).

By replacing all major products with one-day lenses, the gap with St. Shine should narrow.

1. Overview of recent performance

Sales growth continues, margins to recover gradually from 2Q13

Sales increased 7% QoQ (W8.2bn) in 1Q13, but OPM eroded 7% QoQ. Top-line growth was fueled by one-day lenses (W3.3bn, +91% YoY), while OPM deteriorated on workforce expansion (higher fixed costs) necessary for the conversion to one-day lenses. 2H13 OPM should recover to 27-28% as sales of one-day lenses grow. 2Q13 sales estimated at W9.8bn (+27% YoY) and OP W2.5bn (-7% YoY).

	2Q13F	Growth rate (%)		1Q12	4Q12	1Q13
		QoQ	YoY			
Sales (W bn)	9.8	19.5	27.3	7.7	7.7	8.2
OP (W bn)	2.5	13.6	(7.4)	2.7	2.3	2.2
OP margin (%)	25.5	-	-	35.3	29.9	26.2
Net profit (W bn)	1.7	15.0	(31.0)	2.5	2.1	1.5

2. Key variable analysis

Higher sales of one-day lenses; growth in core markets development of emerging markets

We recommend closely monitoring the benefits that Interojo, a small-cap company, can secure from the growing global use of one-day lenses. In fact, one-day lens sales should shape Interojo's outlook as management plans to raise the sales weighting of one-day lenses to 40% by end-2013 and 50% by end-2015, from 27% in 2012. To do so, the company will have to grow market share in countries posting rapid adoption of one-day lenses, such as Korea and Japan, and also develop emerging markets.

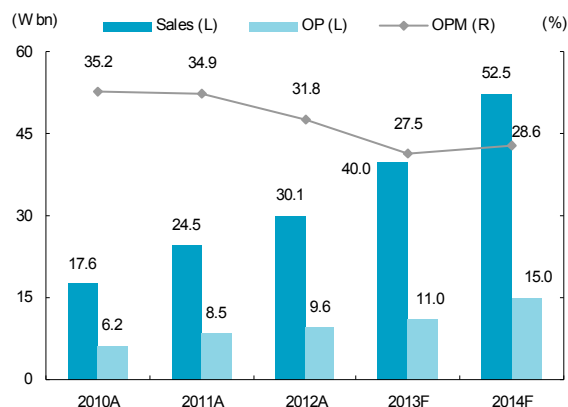
3. Risk factors

Low market share and characteristics of contact lens market

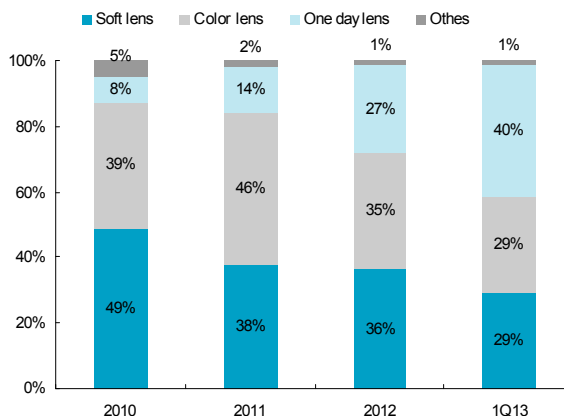
Interojo has a global market share of only 0.3% of the W8tn total lens market, and 3% of the W1.1tn ODM market. Entry barriers are considerably high as lens makers usually leave products unchanged due to strong customer loyalty. As such, the company's sales upside may be limited due to the low market share. As such, it will be very important for the company to advance rapidly into the one-day lens market.

<Appendix> - Company description

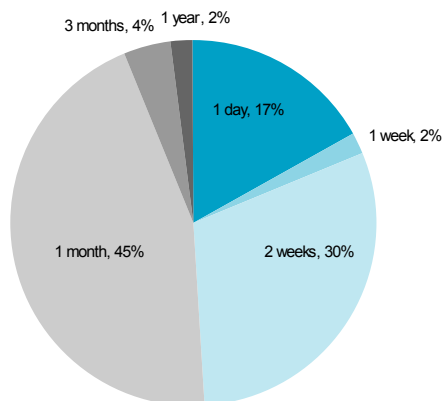
Interojo manufactures and markets contact lenses. The global contact lens market is growing steadily at 5-7% p.a. due to increased lens usage, and an oligopoly has formed under Johnson & Johnson, Cibavision, Coopervision and Bauschome. Interojo produces diverse products, including one-day lenses, beauty lenses and lenses for astigmatism patients, to export to global markets through ODM supplies, and also sell domestically under the Clalen brand. Exports are currently to 50 countries, and account for 75% of total sales. Interojo is targeting growth in Korea and Japan after completing a second factory earmarked primarily for one-day lenses. In addition, the company is currently working to secure licenses in key South American markets. Major competitors are St. Shine in Taiwan and Bescon in Korea.

Figure 1. Earnings indicators


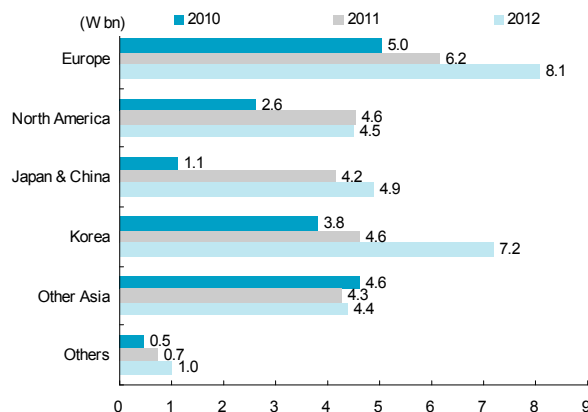
Source: Korea Investment & Securities

Figure 2. Sales breakdown


Source: Interjo, Korea Investment & Securities

Figure 3. Average term of lens use


Source: Contact Lens Spectrum 'Contact Lenses 2012', Korea Investment & Securities

Figure 4. Sales by country


Source: Interjo, Korea Investment & Securities

Table 1. Earnings at Taiwanese lens companies

(W bn)

Saint Shine OEM/ODM company, focusing on short-term lenses, like one-day lenses				
	2009A	2010A	2011A	2012A
Sales	90.0	111.6	128.0	156.3
Chg. (YoY)	22.8%	24.0%	14.7%	22.1%
OP	32.5	42.9	44.8	53.3
OP margin	36.1%	38.4%	35.0%	34.1%

Ginko Retail 37%, wholesale 62%; focus on Chinese domestic sales. Lens brands: Horien and Hydron.				
	2009A	2010A	2011A	2012A
Sales	80.8	89.5	122.0	145.0
Chg. (YoY)	NM	10.8%	36.3%	18.9%
OP	22.5	26.8	37.7	47.5
OP margin	27.8%	30.0%	30.9%	32.7%

Source: Bloomberg, Korea Investment & Securities

<Small-cap School Way>

(1) Description and EQ index

Description	EQ Index
<p>□ Description: The company manufactures and markets contact lens.</p> <p>□ Shareholder breakdown: 39.65% (6 people including Si-Cheol No)</p>	<ul style="list-style-type: none"> • Growth: ★★★★★ • Sustainability of profit: ★★★★☆ • Reliability of enterprise: ★★★★★

Growth, Profitability Matrix by Business Parts	Key variables for value of the company and share
	<ul style="list-style-type: none"> • Increasing share in Korean and Japanese market where one-day lens use is growing rapidly • Development of emerging markets in Central/South America (license approved in Mexico, and Brazil underway) • Sustained increase of lens use rate
	Risk factors
	<ul style="list-style-type: none"> • Possibility of M/S expansion in one-day market with high loyalty • Increase in fixed cost due to additional workers and capacity expansion • High exposure to exchange rate (export weight: 75%)

Product	Sales (Weight)	OP margin	3C			Notes
			Company	Customer	Competitor	
Soft lens	W10.9bn (36%)	30~35%	<ul style="list-style-type: none"> • Replace after using 6 months to 1 year • Possible to supply customized products (for patients with both farsightedness and astigmatism) 	<ul style="list-style-type: none"> • European market mainly 	<ul style="list-style-type: none"> • Ginko (Taiwan) • Saint Shine (Taiwan) • Bescon (Korea) 	<ul style="list-style-type: none"> • Constructed small quantity batch production system with high value-added products
Color lens	W10.6bn (35%)	30~35%	<ul style="list-style-type: none"> • Added color and design to general lens • Products for vision correction and cosmetics 	<ul style="list-style-type: none"> • Chinese, North American market mainly • Horien (Chinese company, ODM supply) 	<ul style="list-style-type: none"> • Ginko (Taiwan) • Saint Shine (Taiwan) • Bescon (Korea) 	<ul style="list-style-type: none"> • Manufacturing Soft lens and Color lens mainly through 7 lines at first factory
One-day lens	W8.1bn (27%)	25~30%	<ul style="list-style-type: none"> • Despite low ASP, sales volume is 30-180x more than general lenses due to frequent replacement • Prevents drying by using ultra – water technology 	<ul style="list-style-type: none"> • Korean and Japanese markets, which are boasting rapid one-day lens use 	<ul style="list-style-type: none"> • Ginko (Taiwan) • Saint Shine (Taiwan) • Bescon (Korea) 	<ul style="list-style-type: none"> • Second factory producing one-day lens constructed in Mar 2012, 8 lines are operating (one-day 2 lines, one-day circle 6 lines) • Improved production yield via automation

Balance sheet

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Current assets	24.0	25.8	31.6	39.9	52.0
Cash & cash equivalent	7.2	2.1	2.8	4.2	5.9
Accounts & other receivables	7.6	10.2	12.4	15.2	18.2
Inventory	5.9	7.7	9.6	12.1	16.3
Non-current assets	22.8	33.8	37.9	39.7	43.0
Investment assets	0.4	0.3	0.4	0.5	0.6
Tangible assets	21.4	31.9	35.4	36.4	38.4
Intangible assets	0.1	0.3	0.4	0.5	0.6
Total assets	46.7	59.6	69.5	79.6	95.0
Current liabilities	5.7	8.6	9.8	8.6	7.7
Accounts & other payables	2.1	2.2	2.9	3.8	4.7
ST debt & bond	0.0	3.0	3.0	2.0	1.0
Current portion of LT debt	0.8	1.7	1.7	1.7	1.7
Non-current liabilities	2.3	4.2	4.2	3.3	2.3
Debentures	0.0	0.0	0.0	0.0	0.0
LT debt & financial liabilities	2.3	4.1	4.1	3.1	2.1
Total liabilities	8.0	12.8	14.0	11.8	10.0
Paid-in capital	2.7	5.4	5.4	5.4	5.4
Capital surplus	13.2	10.6	10.6	10.6	10.6
Capital adjustments	0.0	0.0	0.0	0.0	0.0
Retained earnings	22.8	30.8	39.5	51.8	69.0
Shareholders' equity	38.7	46.7	55.5	67.7	85.0
Adj. shareholders' equity	38.7	46.7	55.3	67.1	83.8

Cash flow

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
C/F from operating	7.0	4.8	9.5	10.6	13.5
Net profit	6.8	8.7	9.5	13.0	18.0
Depreciation	1.5	2.2	3.3	3.6	3.7
Amortization	0.0	0.0	0.1	0.1	0.2
Net incr. in W/C	(3.0)	(5.0)	(3.4)	(6.1)	(8.4)
Others	1.7	(1.1)	0.0	(0.0)	(0.0)
C/F from investing	(2.3)	(14.9)	(8.0)	(6.5)	(9.1)
CAPEX	(11.5)	(12.8)	(6.9)	(4.7)	(5.9)
Decr. in fixed assets	0.0	0.1	0.1	0.1	0.1
Incr. in investment	9.2	(1.3)	(0.1)	(0.1)	(0.1)
Net incr. in intangible assets	0.0	(0.1)	(0.2)	(0.3)	(0.3)
Others	0.1	(0.8)	(0.9)	(1.5)	(2.9)
C/F from financing	0.7	5.0	(0.7)	(2.7)	(2.7)
Incr. in equity	1.1	0.0	0.0	0.0	0.0
Incr. in debts	1.1	5.7	0.0	(2.0)	(2.0)
Dividends	(0.5)	(0.7)	(0.7)	(0.7)	(0.7)
Others	(1.0)	0.0	0.0	(0.0)	(0.0)
C/F from others	0.0	(0.0)	0.0	0.0	0.0
Increase in cash	5.4	(5.1)	0.7	1.3	1.7

Note: 1. Based on K-IFRS (non-consolidated)
2. EPS and BPS are calculated using adjusted net profit and shareholders' equity that includes equity-method gains/losses

Income statement

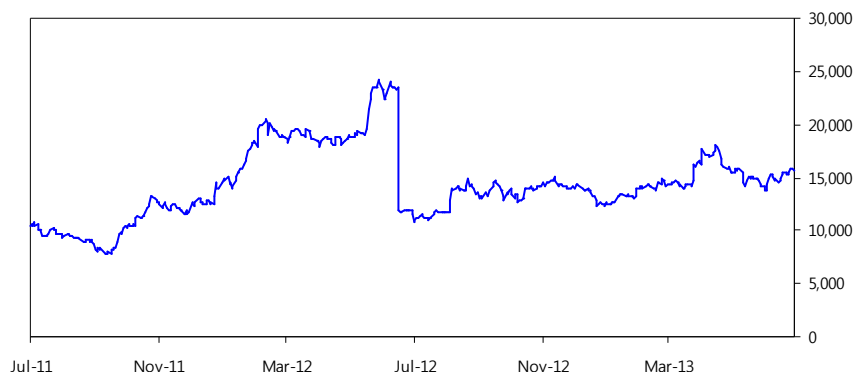
FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Sales	24.5	30.1	40.0	52.5	65.0
COGS	8.1	10.7	16.5	21.6	25.7
Gross profit	16.4	19.4	23.5	30.9	39.3
SG&A expense	7.9	9.8	12.5	15.9	19.3
Operating profit	8.5	9.6	11.0	15.0	20.0
Financial income	0.5	1.6	1.5	1.6	1.7
Interest income	0.3	0.3	0.3	0.3	0.4
Financial expense	0.5	0.2	0.3	0.3	0.2
Interest expense	0.0	0.2	0.3	0.3	0.2
Other non-operating profit	(0.2)	(0.8)	(1.2)	(1.4)	(1.0)
Gains (Losses) in associates, subsidiaries and JV	0.0	0.0	0.0	0.0	0.0
Earnings before tax	8.4	10.1	11.0	15.0	20.5
Income taxes	1.6	1.4	1.5	2.0	2.6
Net profit	6.8	8.7	9.5	13.0	18.0
Other comprehensive profit	0.0	0.0	0.0	0.0	0.0
Total comprehensive profit	6.8	8.7	9.5	13.0	18.0
EBITDA	10.0	11.8	14.4	18.7	23.9
Adj. net profit	6.8	8.7	9.5	13.0	18.0

Key financial data

FY-ending Dec.	2011A	2012A	2013F	2014F	2015F
per share data (KRW)					
EPS	648	809	890	1,215	1,680
BPS	7,239	4,366	5,168	6,275	7,831
DPS	130	70	70	70	70
Growth (%)					
Sales growth	39.0	22.8	33.0	31.3	23.8
OP growth	37.7	11.9	14.7	37.2	32.8
NP growth	23.7	26.6	9.9	36.6	38.3
EPS growth	(43.9)	24.8	10.0	36.6	38.3
EBITDA growth	35.9	17.5	21.9	30.5	27.4
Profitability (%)					
OP margin	34.9	31.8	27.4	28.7	30.7
NP margin	27.9	28.8	23.8	24.8	27.7
EBITDA margin	40.9	39.2	35.9	35.7	36.8
ROA	16.5	16.3	14.8	17.4	20.6
ROE	19.3	20.3	18.7	21.2	23.8
Dividend yield	2.1	0.5	0.4	0.4	0.4
Stability					
Net debt (W bn)	(7)	1	(0)	(5)	(12)
Debt/equity ratio (%)	9.3	18.9	16.0	10.1	5.7
Valuation (X)					
PER	9.8	17.8	17.7	13.0	9.4
PBR	0.9	3.3	3.0	2.5	2.0
PSR	1.4	5.1	4.2	3.2	2.6
EV/EBITDA	6.1	13.2	11.7	8.7	6.6

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Interjo (119610)	03-27-12	NA	-



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