

Korea Touch Screen Sector

■ **Positive** (unchanged)

■ **Neutral**

■ **Negative**

We foresee robust growth in addressable market

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- Touch-screen market should continue to boom, in line with strong smartphone shipments
- We see more opportunities from emerging new touch-screen technologies
- We reaffirm our Buy ratings on Iljin Display and Melfas

■ What's new

We see bright prospects for the touch-screen market for 2012, with robust smartphone and tablet PC shipments by Samsung Electronics (SEC) (005930 KS, W1,172,000, Outperform [2]) and LG Electronics (LGE) (Not rated). Please see our report, [Display Technology MadeEasy](#), published on 8 March 2012.

■ What's the impact

Although only a few of the touch-screen companies in Korea recorded robust revenue growth for 2011, we see more opportunities opening up for the domestic touch-screen module (TSM) companies in 2012 due to favourable developments in touch-screen technologies, such as one-glass solution (OGS) and flexible displays.

We forecast combined mobile-handset shipments for SEC and LGE

to increase by 10.7% YoY to 465m units for 2012. However, we project the two companies' combined shipments of touch screens in mobile handsets to expand by 37.8% YoY to 268m units this year. We expect the main drivers to be: 1) the increased proportion of smartphone shipments, 2) a higher proportion of touch screens being used in feature phones, and 3) new touch-screen opportunities from the shift to flexible displays.

As a substantial proportion of SEC's smartphone TSMs have been produced in-house (as on-cell technology is adopted for active-matrix organic light-emitting diode [AMOLED] touch screens) until now, domestic TSM companies were not able to benefit substantially from the rapid market-share gains by SEC.

However, as SEC expands its smartphones into the low-end to mid-range segments, and as LGE gradually gains traction in the global smartphone market, we believe there will be greater opportunities for the Korea TSM companies in the future. In addition, as SEC plans to launch smartphones, with flexible displays in 2012, we think it is highly likely that touch screens will be outsourced to domestic TSM makers, as on-cell technology will only be used for AMOLED displays with glass substrates.

While there are many different types of touch screens available, in order to reduce production costs further, we expect OGS to be used more widely by TSM makers in 2012. By removing all the films in a touch screen, the production cost of OGS is more than 20% below that of the glass-to-glass type. The OGS is also lighter and has a better optical quality than the glass-to-film-film solution.

We believe both Iljin Display (020760 KS, W13,450, Buy [1]) and Melfas (096640 KS, W24,500, Buy [1]) are well-positioned in the growing touch-screen market. Iljin Display is the most profitable company among the domestic TSM makers (seven listed companies) and is continuing to expand its market share through production efficiencies and cost competitiveness. Melfas is likely to benefit from the technology shift to OGS, and its touch-sensor chip revenue is likely to increase strongly from the proliferation of low-end smartphones in China.

■ What we recommend

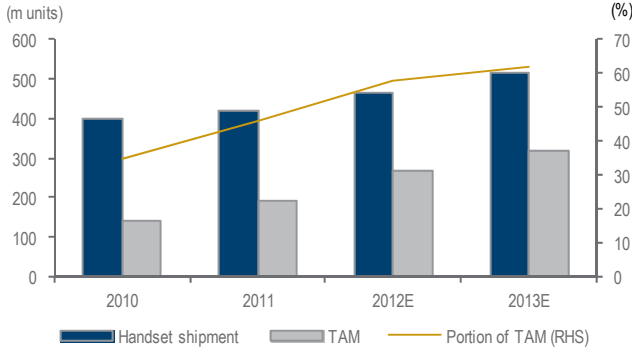
Our top pick in the Korea Touch Screen Sector is Iljin Display. At our recent visit, we observed the construction of the new production facility, which augurs well for an increasing order trend. We have a six-month target price of W18,000, based on a mid-cycle PBR of 3.3x applied to our 2012 BVPS forecast. The key risk to our call would be a slowdown in touch-screen orders from the company's main customer.

We also reaffirm our Buy (1) rating on Melfas, as the company is regaining share within SEC. We have a six-month target price of W32,000, based on a target PBR of 3.2x (assuming a long-term ROE of 25%) on our 2012 BVPS forecast. The main risk to our call would be a slowdown in touch-screen and touch-sensor chip orders from the company's key customers.

■ How we differ

Our 2012 EPS forecasts for Iljin Display and Melfas are 6% and 9%, respectively, higher than the FnGuide consensus forecasts. We believe there is upside to the consensus forecasts in the event of stronger sales growth of the touch-screen market.

■ TAM analysis for mobile-handset touch screens in Korea



Source: Companies, Daiwa forecasts
Note: total addressable market (TAM)

■ Korea Touch Screen Sector: PBR trend



Source: Companies, FnData, Bloomberg, Daiwa forecasts

■ Korea touch-screen companies: valuation comparison

	Bloomberg code	Rating	Share price (local curr.)	PER (x)		ROE (%)		PBR (x)		3-yr PBR range (x)		
				2012E	2013E	2012E	2013E	2012E	2013E	Low	Avg.	High
Melfas	096640 KS	Buy	24,500	11.2	9.1	23.9	24.0	2.4	2.0	0.9	2.9	6.1
Ijin Display	020760 KS	Buy	13,450	7.2	6.6	49.5	36.5	2.5	1.8	0.5	3.4	6.8
ELK	094190 KS	Not rated	15,000	5.8	3.8	26.3	28.9	1.4	1.0	0.9	4.0	10.0
S-mac	097780 KS	Not rated	13,950	9.6	9.4	35.9	29.6	2.9	2.4	0.8	2.0	3.8
Digitech Systems	091690 KS	Not rated	10,650	5.2	3.8	22.1	24.1	1.1	0.8	1.0	3.2	6.5

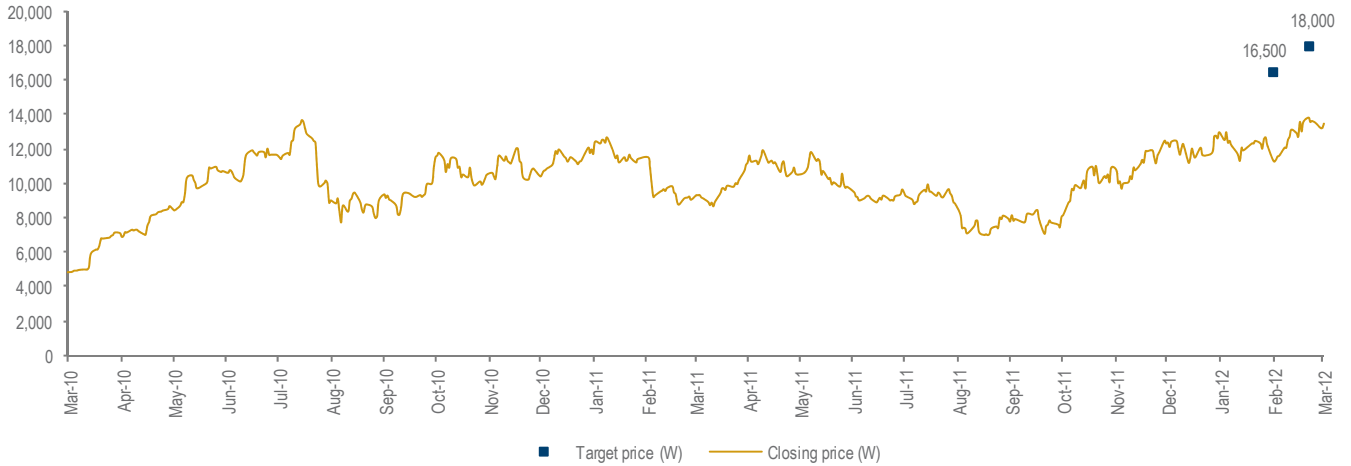
Source: FnData, Bloomberg, Daiwa forecasts
Note: base on closing share prices as at 7 March 2012

Please also see:

<p align="center">Display Technology MadeEasy: Through the looking glass</p> <p align="center">8 March 2012</p> <p align="center">Jae H. Lee (82) 2 787 9173 (jhlee@kr.daiwacm.com) Chris Lin (886) 2 8758 6251 (chris.lin@daiwacm-cathay.com.tw)</p>	<p align="center">Taiwan Touch Panel Sector: Cook's speech triggers more demand for touch panels</p> <p align="center">8 March 2012</p> <p align="center">Chris Lin (886) 2 8758 6251 (chris.lin@daiwacm-cathay.com.tw)</p>

■ **Ijjin: share price and Daiwa recommendation trend**

Date	27/02/2012	06/02/2012
Target price	18,000	16,500
Rating	1	1



Source: Daiwa

■ **Melfas: share price and Daiwa recommendation trend**

Date	28/02/2012	06/02/2012
Target price	32,000	30,000
Rating	1	1

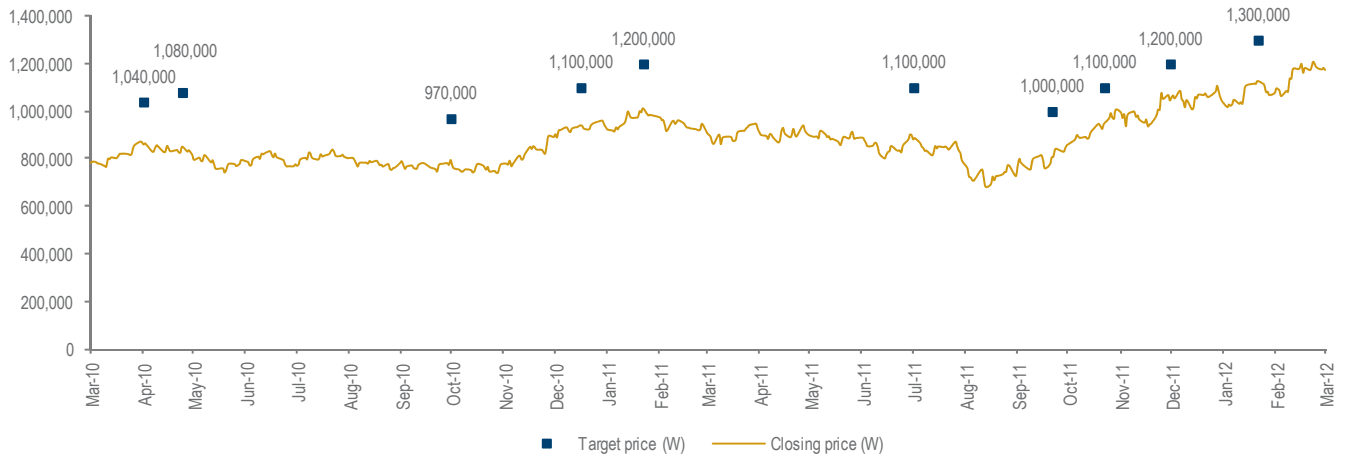


Source: Daiwa

■ **Samsung Electronics: share price and Daiwa recommendation trend**

Date	27/01/2012	06/12/2011	28/10/2011	27/09/2011	07/07/2011	28/01/2011	22/12/2010
Target price	1,300,000	1,200,000	1,100,000	1,000,000	1,100,000	1,200,000	1,100,000
Rating	2	2	2	2	2	2	2

Date	06/10/2010	30/04/2010	07/04/2010
Target price	970,000	1,080,000	1,040,000
Rating	2	2	2



Source: Daiwa

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