COMPANY UPDATE

2025. 10. 31

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LG Innotek (011070)

Time to turn around

- All negatives surrounding LG Innotek's business environment have been all priced in. The firm has focused on cost efficiency and seen margin improvement. Its key client should introduce new form factors from 2026, and came module ASPs should increase.
- We raise our 2026 operating profit forecast to KRW770b, and lift our target price to KRW290,000. We upgrade the stock to BUY.

▶ AT A GLANCE

BUY

Target price	KRW290,000	26.9%
Current price	**KRW228,500**	
Market cap	KRW5.4t/USD3.8b	
Shares (float)	23,667,107 (59.2%)	
52-week high/low	KRW231,000/KRW122,000	
Avg daily trading value (60-day)	KRW40.8b/ USD28.6m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
LG Innotek (%)	21.7	63.7	29.8
Vs Kospi (%pts)	2.0	2.4	-17.6

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	HOLD	
Target price	290,000	175,000	65.7%
2024E EPS	18,983	18,983	0.0%
2025E EPS	18,271	18,271	0.0%

▶ SAMSUNG vs THE STREET

No of estimates	15
Target price	235,600
Recommendation	4.0

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

WHAT'S THE STORY?

Raising 2026 earnings estimate—share prices still cheap: We raise our 2026 sales and operating profit forecasts for LG Innotek by 11% and 17%, respectively, to KRW22.1t and KRW770b, assuming that the firm's substrate business will grow and that its camera module business will see profitability improvement. We expect the firm to turn to y-y positive growth from 3Q26 (peak season). Meanwhile, we now apply a 15% discount to the stock's historical valuation (vs previously a 30% discount). Our discount reflects the smartphone industry growth has been stalling since 2019. Meanwhile, with the Kospi staging a strong rally, it would become riskier if we stick to our HOLD rating on cheap stocks. Although the firm's growth has slowed, we now find the stock attractive in risk-return terms, since the stock is trading below 1x P/B (vs a 2026 ROE estimate of 9.2%). Reflecting our upward ROE estimate revision, we raise our target price to KRW290,000 based on 1.1x 2026 P/B. We upgrade the stock to BUY.

(Continued on the next page)

SUMMARY FINANCIAL DATA

(KRWb)	2023	2024	2025E	2026E
Revenue	20,605	21,201	21,432	22,150
Operating profit	831	706	658	770
Net profit (adj)	565	449	432	552
EPS (adj) (KRW)	23,881	18,983	18,271	23,324
EPS (adj) growth (% y-y)	-42.3	-20.5	-3.8	27.7
EBITDA margin (%)	9.1	9.4	8.3	8.3
ROE (%)	12.6	8.9	7.8	9.2
P/E (adj) (x)	10.0	8.5	12.5	9.8
P/B (x)	1.2	0.7	0.9	0.9
EV/EBITDA (x)	3.8	2.6	3.3	2.9
Dividend yield (%)	1.1	1.3	1.0	1.0

Source: Company data, Samsung Securities estimates

3Q review: LG Innotek reported 3Q25 sales of KRW52.4t (up 37% q-q but down 6% y-y) and an operating profit of KRW203.7b (for a margin of 3.8%), slightly beating consensus. We attribute the beat to new model releases by its client, the firm's cost efficiency, and won depreciation against the US dollar. In particular, we find it positive that the optical solution business saw improving margin despite falling camera module ASPs and that the firm's share in the RFSIP market increased.

Negatives all priced in: The business environment surrounding LG Innotek has so far been very negative—ie, stalling shipments at its client, the firm's market share decline, rising capex, falling ASPs, a shutdown of the actuator business, and FC-BGA oversupply. In the stock market, share prices have started to sharply diverge between legacy and AI businesses. In other words, the stock market has been discounting the value of legacy businesses. We have long maintained our HOLD rating on the stock, not upbeat about its share performance. However, all negatives have now been exposed and reflected in the firm's margin and earnings estimates—in short, all being priced in. We see no more factors to cause earnings cuts. Even if there are any lingering negatives for its earnings, we do not believe they will affect the firm's share prices significantly.

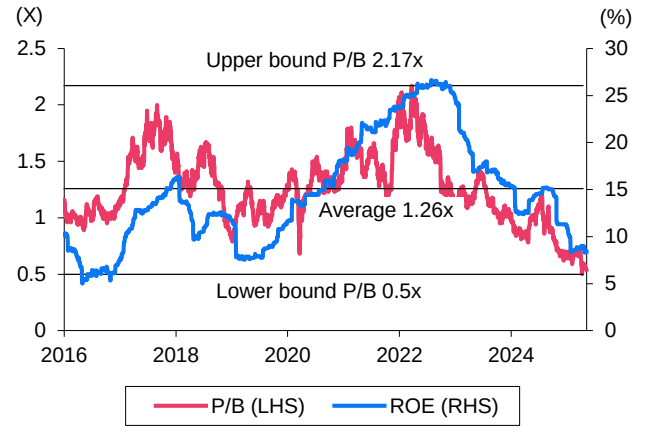
More growth opportunities: Major OEM companies are considering employing variable aperture cameras. We thus expect camera module ASPs to rise in 2026. Sales in the substrate business (ie, RFSIP and FC-BGA) should continue to grow through 2026. In addition, the firm's key client is expected to introduce new form factors—foldable smartphones at end-2026 and a new model for its 20th anniversary and smart glasses in 2027—which could serve as new growth drivers for the firm. The firm's market share has stopped declining, reaching a new balance point. Most of all, we find it positive that the firm stopped aggressive investment in 2024 and has since focused on cost efficiency. Falling fixed costs and ASP cuts should combine to boost its 2026 earnings.

LG Innotek: Target-price calculation

		Notes
BVPS (KRW)	263,450	2026E
Target P/B (x)	1.1	15% discount to average P/B based on 9.2% ROE
Fair price	289,795	
Target price	**290,000**	
Current price	228,500	
Upside potential (%)	26.9	

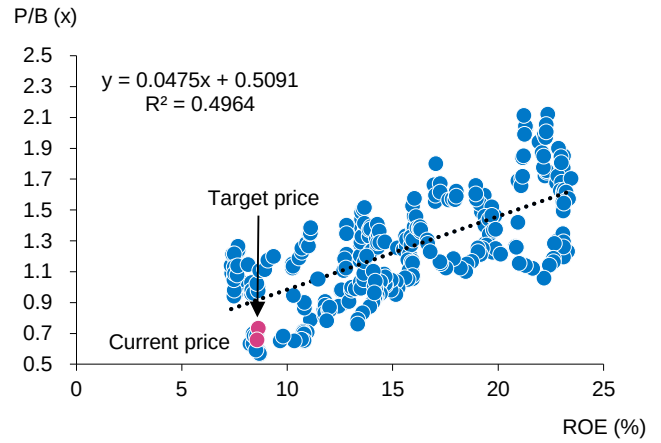
Source: Samsung Securities estimates

LG Innotek: Forward P/B vs ROE



Source: QuantiWise, Samsung Securities

LG Innotek: Correlation between P/B and ROE



Source: QuantiWise, Samsung Securities

3Q results

(KRWb)	3Q25	2Q25	3Q24	Diff (% q-q)	Diff (% y-y)
Sales	**5,369.4**	3,934.6	5,685.1	36.5	-5.6
Operating profit	**203.7**	11.4	130.4	1,688.8	56.2
Pre-tax profit	**156.9**	-7.7	124.5	Turn black	26.1
Net profit	**128.4**	-8.7	105.0	Turn black	22.3
Margins (%)					
Operating margin	**3.8**	0.3	2.3		
Pre-tax margin	**2.9**	-0.2	2.2		
Net margin	**2.4**	-0.2	1.8		

Source: Company data, Samsung Securities

Revisions to full-year forecasts

(KRWb)	Old		New		Diff (%)	
	2025E	2026E	2025E	2026E	2025E	2026E
Sales	20,503	19,999	21,432	22,150	4.5	10.8
Operating profit	582	657	658	770	13.1	17.3
Pre-tax profit	483	601	562	717	16.2	19.3
Net profit	372	463	432	552	16.2	19.3

Source: Samsung Securities estimates

LG Innotek: Results and forecasts

(KRWb)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	2024	2025E	2026E
Sales	**4,334**	**4,555**	**5,685**	**6,627**	**4,983**	**3,935**	**5,369**	**7,145**	**4,766**	**3,775**	**5,997**	**7,612**	**21,201**	**21,432**	**22,150**
Module	3,514	3,680	4,837	5,769	4,138	3,053	4,481	6,201	3,824	2,813	5,035	6,667	17,800	17,873	18,339
Substrate	328	378	370	383	377	416	438	497	501	511	505	498	1,460	1,727	2,015
Component	491	497	478	475	467	466	451	448	441	452	457	447	1,941	1,831	1,797
Operating profit	**176**	**152**	**130**	**244**	**125**	**11**	**204**	**318**	**132**	**60**	**229**	**350**	**702**	**658**	**770**
Operating margin (%)	143	89	109	230	73	-33	155	249	74	9	174	286	572	444	542

Note: Company sales are the value of eliminating internal sales after adding up the sales of each business
Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2022	2023	2024	2025E	2026E
Sales	**19,589**	**20,605**	**21,201**	**21,432**	**22,150**
Cost of goods sold	17,215	18,742	19,457	19,725	20,296
Gross profit	**2,374**	**1,863**	**1,744**	**1,707**	**1,855**
Gross margin (%)	12.1	9.0	8.2	8.0	8.4
SG&A expenses	1,103	1,032	1,038	1,049	1,084
Operating profit	**1,272**	**831**	**706**	**658**	**770**
Operating margin (%)	6.5	4.0	3.3	3.1	3.5
Non-operating gains (losses)	**-1,272**	**-831**	**-706**	**-97**	**-54**
Financial profit	128	113	122	141	146
Financial costs	251	219	213	245	215
Equity-method gains (losses)	0	0	0	0	0
Other	-1,149	-725	-616	8	15
Pre-tax profit	**0**	**0**	**0**	**562**	**717**
Taxes	158	74	140	129	165
Effective tax rate (%)	n/a	n/a	n/a	23.0	23.0
Profit from continuing operations	977	565	449	432	552
Profit from discontinued operations	3	0	0	0	0
Net profit	**980**	**565**	**449**	**432**	**552**
Net margin (%)	5.0	2.7	2.1	2.0	2.5
Net profit (controlling interests)	980	565	449	432	552
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	2,157	1,877	1,986	1,776	1,832
EBITDA margin (%)	11.0	9.1	9.4	8.3	8.3
EPS (parent-based) (KRW)	41,401	23,881	18,983	18,271	23,324
EPS (consolidated) (KRW)	41,401	23,881	18,983	18,271	23,324
Adjusted EPS (KRW)*	41,401	23,881	18,983	18,271	23,324

Balance sheet

Year-end Dec 31 (KRWb)	2022	2023	2024	2025E	2026E
Current assets	**4,714**	**5,349**	**5,853**	**6,630**	**7,059**
Cash & equivalents	578	1,390	1,329	2,061	2,218
Accounts receivable	1,793	2,251	2,784	2,812	3,025
Inventories	1,979	1,572	1,575	1,591	1,644
Other current assets	364	136	165	166	172
Fixed assets	**5,080**	**5,855**	**5,525**	**5,029**	**4,862**
Investment assets	119	145	182	184	188
Tangible assets	4,131	4,856	4,480	4,007	3,840
Intangible assets	204	222	219	194	190
Other long-term assets	626	633	644	644	644
Total assets	**9,794**	**11,204**	**11,378**	**11,659**	**11,922**
Current liabilities	**4,270**	**4,219**	**3,955**	**3,852**	**3,815**
Accounts payable	1,992	2,494	2,241	2,393	2,473
Short-term debt	208	39	73	73	73
Other current liabilities	2,070	1,687	1,640	1,386	1,268
Long-term liabilities	**1,257**	**2,271**	**2,069**	**2,070**	**1,872**
Bonds & long-term debt	1,214	2,189	1,968	1,968	1,768
Other long-term liabilities	43	82	102	103	105
Total liabilities	**5,528**	**6,490**	**6,024**	**5,922**	**5,687**
Owners of parent equity	**4,266**	**4,715**	**5,354**	**5,737**	**6,234**
Capital stock	118	118	118	118	118
Capital surplus	1,134	1,134	1,134	1,134	1,134
Retained earnings	2,969	3,414	3,868	4,251	4,749
Other	45	49	234	234	234
Non-controlling interests' equity	**0**	**0**	**0**	**0**	**0**
Total equity	**4,266**	**4,715**	**5,354**	**5,737**	**6,234**
Net debt	1,445	1,371	1,360	417	-40

Cash flow statement

Year-end Dec 31 (KRWb)	2022	2023	2024	2025E	2026E
Cash flow from operations	**1,515**	**2,104**	**1,110**	**1,599**	**1,401**
Net profit	980	565	449	432	552
Non-cash profit and expenses	1,163	1,343	1,547	1,290	1,257
Depreciation	841	1,000	1,229	1,072	1,017
Amortization	45	46	51	45	44
Other	278	297	267	173	195
Changes in A/L from operating activities	-403	341	-816	64	-207
Cash flow from investments	**-1,997**	**-1,904**	**-969**	**-605**	**-887**
Change in tangible assets	-1,706	-1,789	-872	-600	-850
Change in financial assets	-53	-21	-18	-2	-5
Other	-237	-95	-80	-3	-32
Cash flow from financing	**441**	**608**	**-220**	**-260**	**-354**
Change in debt	524	740	-69	-211	-300
Change in equity	0	0	0	0	0
Dividends	-71	-98	-62	-49	-54
Other	-12	-34	-89	0	0
Change in cash	12	812	-60	732	157
Cash at beginning of year	566	578	1,390	1,329	2,061
Cash at end of year	578	1,390	1,329	2,061	2,218
Gross cash flow	**2,143**	**1,909**	**1,996**	**1,723**	**1,809**
Free cash flow	**-202**	**305**	**231**	**999**	**551**

Financial ratios

Year-end Dec 31	2022	2023	2024	2025E	2026E
Growth (%)					
Sales	31.1	5.2	2.9	1.1	3.4
Operating profit	0.6	-34.7	-15.0	-6.8	17.1
Net profit	10.3	-42.3	-20.5	-3.8	27.7
Adjusted EPS**	10.3	-42.3	-20.5	-3.8	27.7
Per-share data (KRW)					
EPS (parent-based)	41,401	23,881	18,983	18,271	23,324
EPS (consolidated)	41,401	23,881	18,983	18,271	23,324
Adjusted EPS**	41,401	23,881	18,983	18,271	23,324
BVPS	180,261	199,226	226,240	242,423	263,450
DPS (common)	4,150	2,610	2,090	2,299	2,299
Valuations (x)					
P/E***	6.1	10.0	8.5	12.5	9.8
P/B***	1.4	1.2	0.7	0.9	0.9
EV/EBITDA	3.4	3.8	2.6	3.3	2.9
Ratios (%)					
ROE	25.9	12.6	8.9	7.8	9.2
ROA	11.2	5.4	4.0	3.8	4.7
ROIC	22.8	13.1	8.9	8.3	10.2
Payout ratio	10.0	10.9	11.0	12.6	9.9
Dividend yield (common)	1.6	1.1	1.3	1.0	1.0
Net debt to equity	33.9	29.1	25.4	7.3	-0.6
Interest coverage (x)	23.6	8.2	6.2	6.1	8.0

Note: *Excluding one-off items;
**Fully diluted, excluding one-off items;
***From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

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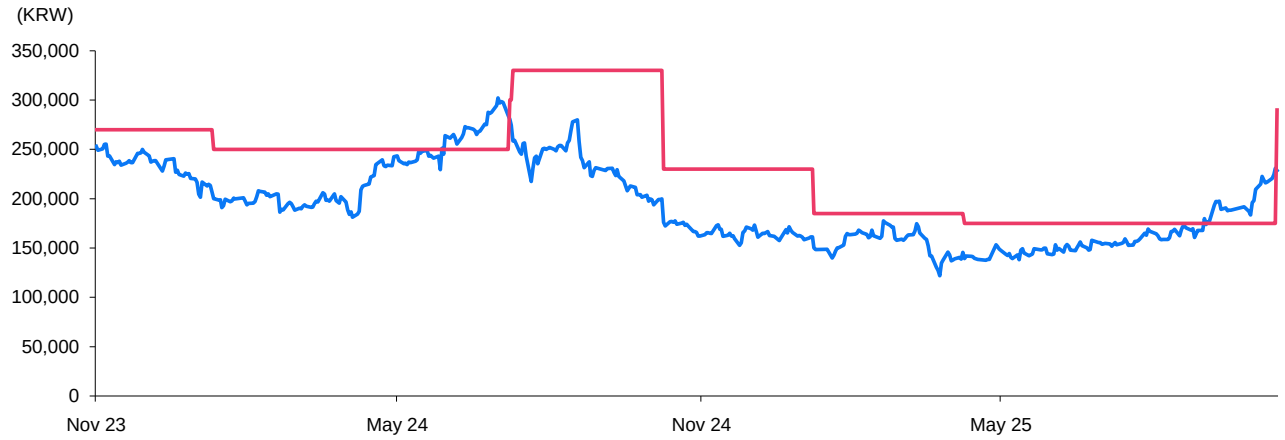
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2023/10/26	2024/1/26	7/23	7/25	10/24	2025/1/23	4/24	10/31
Recommendation	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	BUY
Target price (KRW)	270000	250000	300000	330000	230000	185000	175000	290000
Gap* (average)	-13.60	-9.86	-8.50	-29.37	-27.66	-16.00	-6.34	
(max or min)**	-5.37	20.80	-8.50	-15.15	-22.78	-4.05	32.00	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Industry

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UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

Percentage of ratings in 12 months prior to 2025.09.30

BUY(83.5%)·HOLD(16.5%)·SELL(0%)

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