

NICE I&T

Cruising

◆ Profits more than doubled in 1Q06

Though sales increased just 13.3% yoy in 1Q06, operating income grew 109% and net income expanded 119%. After splitting fees with its sales network, incremental revenues drop down to the bottom line as the operating infrastructure is relatively fixed. The industry also started paring back on ad spending following an approximate 10% reduction in fees from the credit card issuers in March 2005.

◆ Marketing efforts are producing results.

Management's indicated that its institutional marketing team is making inroads with large merchants and the momentum is expected to continue for the balance of this year.

◆ Results ahead of expectations; estimates revised upward.

The company booked an operating margin of 14.3% compared to last year's 9.7% and my prior estimate of 12.5%. As a result, I've bumped up the operating margin estimate to 13% for this year and next, lifting operating profit estimates 4-4.5%.

◆ Remains a good value.

NICE I&T shares trade at an ev/ebitda of 2.6x current year estimates and have an estimated dividend yield of 5.6%. After stripping cash, long-term investments and interest income out of the equation, the stock trades at a p/e of just 4.9x. BUY

Year end Dec 31	2004	2005	2006E	2007E	2008E
Sales (Won b)	37.1	44.3	49.9	56.1	50.5
Op profit (Won b)	2.3	4.3	6.5	7.3	6.3
Net profit (Won b)	1.8	3.7	5.1	5.8	5.3
EPS (won)	190	388	533	606	548
EPS growth (%)	(15.7)	103.5	37.4	13.8	(9.6)
PER (x)	19.3	9.5	6.9	6.1	6.7
EV/EBITDA (x)	6.4	4.1	2.6	1.9	2.5
Yield (%)	2.7	4.1	5.6	6.4	5.8

Korea
Identification systems
28 April 2006

BUY

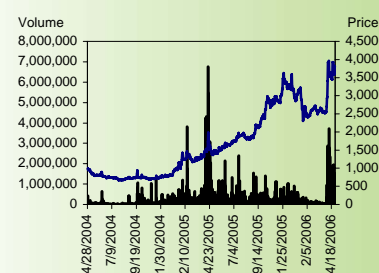
Result note

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Price	W3,680
Target	W4,500
KOSPI	1452.53

Historical Chart



Performance	1m	3m	6m
Absolute (%)	51.8	41.7	38.1
Relative (%)	42.3	38.2	11.0

Stock Information

Stock code	036800 KS
Market Cap. (US\$m)	38.9
52-week high (won)	3,960
52-week low (won)	1,365
Shares issued (m)	9.6
6M avg daily vol (US\$m)	1.4
Free float (%)	52.0
Major Shareholders (%)	
	NICE (42.7)
	Samsung Inv Trust Mgt (5.3)

Key Indicators

ROE (%)	22.4
Net gearing (%)	nil
BVPS (2005, won)	1,877
Interest cover (x)	nmf

Figure 1: Quarterly Results

(Wbn)	1Q05	4Q05	1Q06	YoY % Change
Net Sales	10.6	11.0	12.0	13.3
Operating Profit	0.8	0.6	1.7	109.3
Non-op Income	0.1	0.5	0.3	165.1
Pre-tax Profit	0.9	1.0	2.0	116.5
Tax	0.3	0.1	0.6	110.3
Net Profit	0.7	0.9	1.5	119.0
Op margin (%)	7.7	5.9	14.3	
Net margin (%)	6.3	8.1	12.2	

Source:

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Profit and loss

YE Dec (Wbn)	2004	2005	2006E	2007E	2008E
Sales	37.1	44.3	49.9	56.1	50.5
Cost of goods sold	19.0	30.2	33.1	38.0	32.9
Gross Profit	18.2	14.1	16.8	18.1	17.6
Operating expenses	15.9	9.8	10.3	10.8	11.3
Operating Profit	2.3	4.3	6.5	7.3	6.3
Net interest	0.2	0.3	0.4	0.5	0.7
Interest income	0.2	0.3	0.4	0.5	0.7
Interest expense	0.0	0.0	0.0	0.0	0.0
Net investment income/(loss)	0.0	0.4	0.2	0.2	0.3
Net other non-op. JV+Assoc.	0.0	0.0	0.0	0.0	0.0
Net extraordinary	0.0	0.0	0.0	0.0	0.0
Pretax income	2.6	5.0	7.1	8.0	7.2
Income taxes	0.7	1.3	1.9	2.2	2.0
Minority Interest	0.0	0.0	0.0	0.0	1.0
Net profit	1.8	3.7	5.1	5.8	6.3
EBITDA	4.3	6.2	8.8	9.9	11.9
EPS(Won)	190	388	533	606	546

Source: Company data, Kim Eng forecasts

Balance sheet

YE Dec (Wbn)	2004	2005	2006E	2007E	2008E
Total assets	22.1	27.6	32.0	36.1	38.9
Current assets	14.5	19.5	23.9	28.6	16.9
Cash & ST investment	7.9	9.7	12.4	16.0	5.4
Inventories	0.7	2.2	2.4	2.7	2.5
Accounts receivable	5.0	6.0	7.0	7.9	7.1
Others	1.0	1.6	2.0	2.0	2.0
Other assets	7.7	8.2	8.1	7.5	21.9
Net fixed assets	6.0	6.3	6.0	5.4	19.8
LT investments	0.1	0.1	0.1	0.1	0.1
Others	1.5	1.7	2.0	2.0	2.0
Total liabilities	6.8	9.6	10.8	11.4	10.9
Current liabilities	6.2	8.7	9.4	10.0	9.5
Payables	3.0	3.9	4.4	5.0	4.5
ST borrowings	0.0	0.0	0.0	0.0	0.0
Others	3.2	4.8	5.0	5.0	5.0
Long-term liabilities	0.6	0.9	1.4	1.4	1.4
Long-term debt	0.0	0.0	0.0	0.0	0.0
Others	0.6	0.9	1.4	1.4	1.4
Shareholders' equity	15.3	18.1	21.2	24.8	28.0
Paid-in capital	5.0	5.0	5.0	5.0	5.0
Reserve	10.6	13.3	16.5	20.1	23.3
Adjustment	-0.3	-0.3	-0.3	-0.3	-0.3

Source: Company data, Kim Eng forecasts

Cash flow

YE Dec (Wbn)	2004	2005	2006E	2007E	2008E
Operating cash flow	3.2	3.6	6.6	7.5	11.7
Net profit	1.8	3.7	5.1	5.8	6.3
Depreciation & amortisation	2.0	1.9	2.3	2.6	5.6
Change in working capital	-0.6	-2.0	-0.8	-0.9	0.8
Others	0.0	0.0	0.0	0.0	-1.0
Investment cash flow	-3.7	-1.5	-2.0	-2.0	-20.0
Net capex	-2.5	-1.4	-2.0	-2.0	-20.0
Change in LT investment	0.0	0.0	0.0	0.0	0.0
Change in other assets	-1.2	-0.2	0.0	0.0	0.0
Cash flow after invt.	-0.5	2.1	4.6	5.5	-8.3
Financing cash flow	-0.8	-1.0	-2.0	-2.3	-2.0
Change in share capital	-0.5	-1.0	-2.0	-2.3	-2.0
Net change in debt	0.0	0.0	0.0	0.0	0.0
Change in other LT liab.	-0.3	0.0	0.0	0.0	0.0
Net cash flow	-1.3	1.1	2.6	3.3	-10.4

Source: Company data, Kim Eng forecasts

Key ratios

YE Dec	2004	2005	2006E	2007E	2008E
Growth (% YoY)					
Sales	-12.4%	19.4%	12.5%	12.5%	-10.0%
OP	-12.0%	87.6%	50.0%	12.5%	-13.5%
EBITDA	10.0%	46.1%	40.9%	12.6%	20.4%
NP	-15.7%	103.5%	37.4%	13.7%	7.4%
EPS	-15.7%	103.5%	37.4%	13.7%	-9.8%
Profitability (%)					
Gross margin	48.9%	31.8%	33.6%	32.2%	34.9%
Operating margin	6.2%	9.7%	13.0%	13.0%	12.5%
EBITDA margin	11.5%	14.1%	17.6%	17.6%	23.6%
Net Profit margin	4.9%	8.4%	10.3%	10.4%	12.4%
ROA	8.4%	15.0%	15.9%	14.8%	14.4%
ROE	12.4%	22.4%	26.1%	25.4%	19.9%
Stability					
Gross debt/equity (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt/equity (%)	-51.4%	-53.7%	-58.3%	-63.1%	-18.8%
Int. coverage (X)	nmf	nmf	nmf	nmf	nmf
Ebitda coverage (X)	nmf	nmf	nmf	nmf	nmf
Current ratio (X)	2.3	2.2	2.1	2.5	1.7
Quick ratio (X)	2.2	1.9	1.9	2.2	1.4
Net debt (B won)	-7.9	-9.7	-12.3	-15.6	-5.3
Per share data (Won)					
EPS	190	388	533	606	546
CFPS	331	377	689	782	1,214
BVPS	1,589	1,876	2,203	2,574	2,909
SPS	3,860	4,609	5,185	5,833	5,250
EBITDA/share	444	648	914	1,029	1,239
DPS	100	150	206	234	211

Source: Company data, Kim Eng forecasts

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