

Genians (263860.KQ)

Business environment turning increasingly favorable

Based on its dominant public sector market share, Genians plans to expand its business into the private sector and strengthen its presence in global markets. We forecast high growth potential for the company's next-generation security solution Genian ZTNA. The firm also stands to benefit from government policy expansion.

WS Shim, Analyst
822)2229-6036, esshim@nhqv.com

JH Whang, Jr. Analyst
822)768-7774, jh.whang@nhqv.com

Survived 2023; business environment to turn favorable in 2024

Following a breach that was detected in Genians' NAC product in June last year, no damage has been reported for the company or its clients, and the financial implications have been minimal, other than repair service costs. Despite some delays, adoption of the NAC solution soon resumed. In line, we believe that the company enjoyed peak earnings in 4Q23.

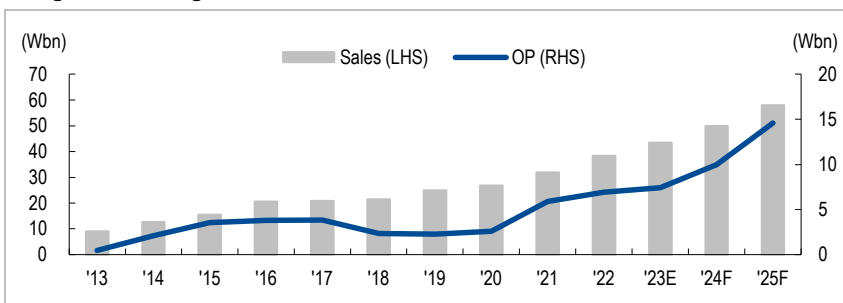
In 2024, building on its dominant market presence in the public sector, Genians is to expand its scope of coverage in the private sector, and also strengthen its presence in global markets such as the Middle East, Southeast Asia, and the US. Adding to the steady sales growth for its NAC product, Genians' EDR (a next generation terminal security solution) should also be more widely adopted in the financial and private business sectors. We also view the firm's next-generation security solution Genian ZTNA (zero trust network access; includes NAC) as holding strong growth potential.

Genians stands to benefit from government policies. The Ministry of Science and ICT is striving to sharpen the competitive edge of the information protection industry by adding a cybersecurity fund project to its 2024 budget list, and it has created and expanded budgets for zero trust security demonstrations and integrated cybersecurity platforms. Recent calls for network segmentation system improvement also present opportunities for the Genian ZTNA and EDR businesses.

Operating leverage effects to begin in earnest

Genians is forecast to report 2023 sales of W43.5bn (+13.2% y-y) and OP of W7.4bn (+7.4% y-y; OPM of 17.1%), setting new records. OPM likely came in weak y-y in 2023 due to: 1) new recruitment for business expansion; and 2) costs related to the security breach incident. However, margins should rebound y-y in 2024 thanks to the arrival of an investment recoupment cycle.

Long-term earnings forecast



Source: Genians, NH I&S Research Center estimates

※ Refer to page 3 for ESG indices/events

Not Rated

CP (24/01/18) W13,010

Sector	Software
Kospi/Kosdaq	2440.04 / 840.33
Market cap (common)	US\$91.7mn
Outstanding shares (common)	9.4mn
52W high ('23/06/09)	W17,490
low ('23/01/18)	W9,250
Average trading value (60D)	US\$0.5mn
Dividend yield (2023E)	1.19%
Foreign ownership	21.2%

Major shareholders

Lee DB and 2 others	37.7%
Miri Capital Management LLC	12.63%

Share perf	3M	6M	12M
Absolute (%)	9.9	-9.5	40.6
Relative (%)	5.8	-1.5	19.1

	2022	2023E	2024F	2025F
Sales	38.5	43.5	50.0	58.0
Chg	20.5	13.2	14.9	16.0
OP	6.9	7.4	10.0	14.6
Chg	17.2	7.4	33.9	46.2
OPM	18.0	17.1	19.9	25.1
NP	7.1	8.0	9.6	14.3
EPS	757	849	1,014	1,509
Chg	15.8	12.2	19.5	48.8
P/E	10.9	14.9	12.6	8.5
P/B	1.6	2.2	1.9	1.6
EV/EBITDA	5.7	10.2	7.4	4.5
ROE	16.1	15.6	16.3	20.5
Debt/equity	24.6	22.7	20.6	18.0
Net debt	-34.4	-38.5	-44.5	-53.6

Unit: Wbn, %, won, x

Note 1: NP excludes minority interest

Note 2: EPS, P/E, P/B, ROE based on NP (excl minority interest)

Source: NH I&S Research Center estimates

Summary

Founded in Jan 2005 and listed on the Kosdaq in 2017, Genians is a data security software company, offering data security packages and MRO services to clients. The firm's main solutions include network access control (NAC), endpoint detection and response (EDR), and Genian policy inspector (GPI) solutions, all of which help ensure the security of networks and devices. CEO Lee Dong-bum is the largest shareholder with a 30.32% stake.

Share price drivers/earnings momentum

- Expanding data security market
- Government's digital transition promotion policy

Downside risks

- Slowdown in data security market growth
- Delayed implementation of digital transition policy

Cross valuations

(Unit: x, %)

Company	P/E		P/B		ROE	
	2023E	2024F	2023E	2024F	2023E	2024F
Ahnlab	22.9	19.6	2.3	2.2	11.4	12.3
Fasoo	20.8	13.0	2.8	2.3	14.7	20.3
Wins	10.0	8.5	1.3	1.2	14.9	15.7
Igloo	4.9	4.0	N/A	N/A	22.4	N/A
EstSoft	10.3	7.5	N/A	N/A	N/A	N/A

Source: FnGuide, NH I&S Research Center

Historical valuations

(Unit: x, %)

Valuations	2021	2022	2023E	2024F	2025F
P/E	19.4	10.9	14.9	12.6	8.5
P/B	2.9	1.6	2.2	1.9	1.6
P/S	3.8	2.0	2.7	2.4	2.1
ROE	16.2	16.1	15.6	16.3	20.5
ROIC	43.9	60.5	52.2	57.0	72.9

Source: NH I&S Research Center

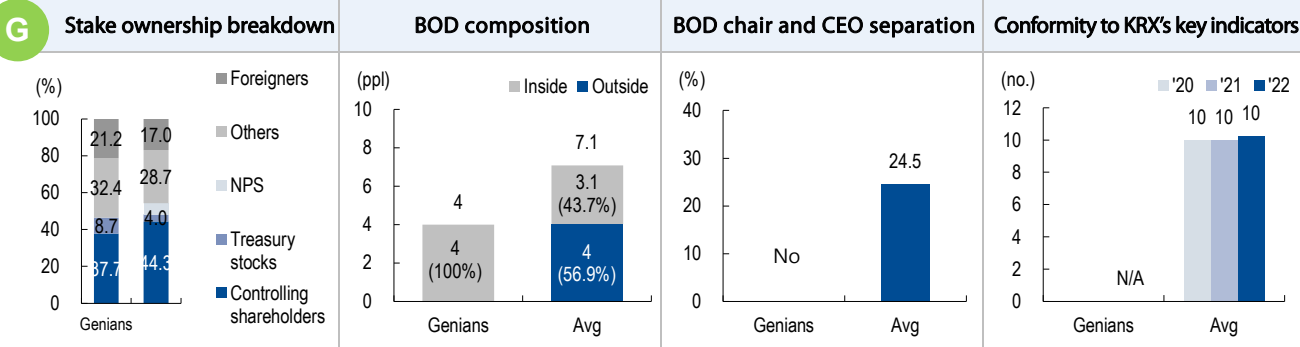
Historical key financials

(Unit: Wbn, won, %)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sales	N/A	15.5	20.6	20.8	21.4	24.9	26.8	31.9	38.5
OP	N/A	3.6	3.8	3.9	2.4	2.3	2.6	5.9	6.9
OPM (%)	N/A	23.0	18.5	18.5	11.0	9.2	9.7	18.5	18.0
Pre-tax profit	N/A	3.3	3.8	4.2	2.7	2.6	2.8	7.2	7.8
NP	N/A	3.0	3.3	3.5	2.6	3.1	3.4	6.2	7.1
NP (excl minority interest)	N/A	3.0	3.3	3.5	2.6	3.1	3.4	6.2	7.1
EBITDA	N/A	3.8	4.0	4.2	2.8	3.0	3.5	6.7	7.5
Capex	N/A	0.1	0.6	1.6	3.2	0.4	0.1	0.2	0.2
Free cash flow	N/A	2.6	4.5	0.7	-0.1	1.4	3.8	5.5	9.2
EPS (won)	N/A	477	520	414	280	329	363	654	757
BPS (won)	N/A	1,531	2,536	3,380	3,390	3,585	3,698	4,354	5,072
DPS (won)	N/A	0	0	51	0	0	0	120	150
Net debt	N/A	-10.4	-15.0	-19.0	-19.1	-15.2	-20.6	-20.1	-34.4
ROE (%)	N/A	30.0	22.0	13.6	8.3	9.4	10.0	16.2	16.1
ROIC (%)	N/A	N/A	50.6	49.5	21.3	13.9	14.9	43.9	60.5
DPR (%)	N/A	0.0	0.0	13.2	0.0	0.0	0.0	17.2	18.5
DY (%)	N/A	N/A	N/A	0.8	0.0	0.0	0.0	0.9	1.8
Net debt ratio (%)	N/A	-104.4	-75.9	-59.7	-59.8	-44.8	-58.9	-48.9	-71.7

Source: Genians, NH I&S Research Center

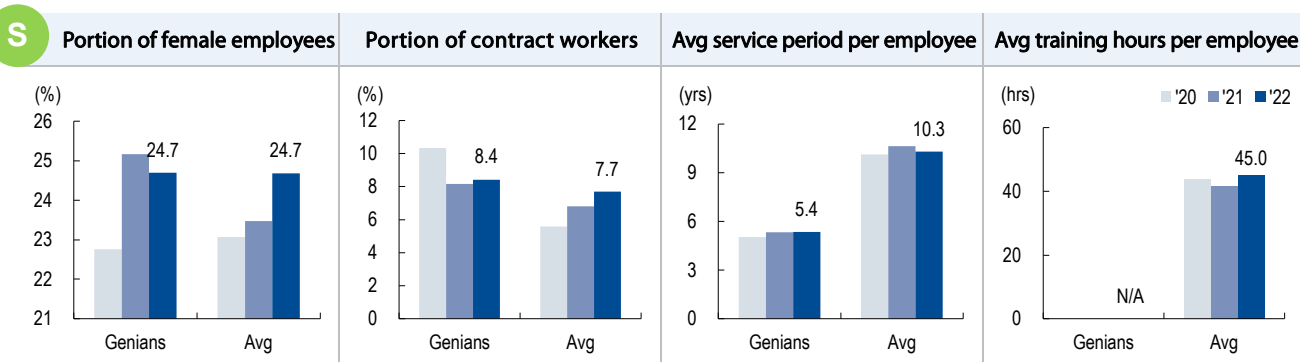
ESG indices & events



Note 1: Average breakdown based on 208 non-financial companies with assets of W2tn or more subject to 2023 mandatory disclosure of corporate governance reports

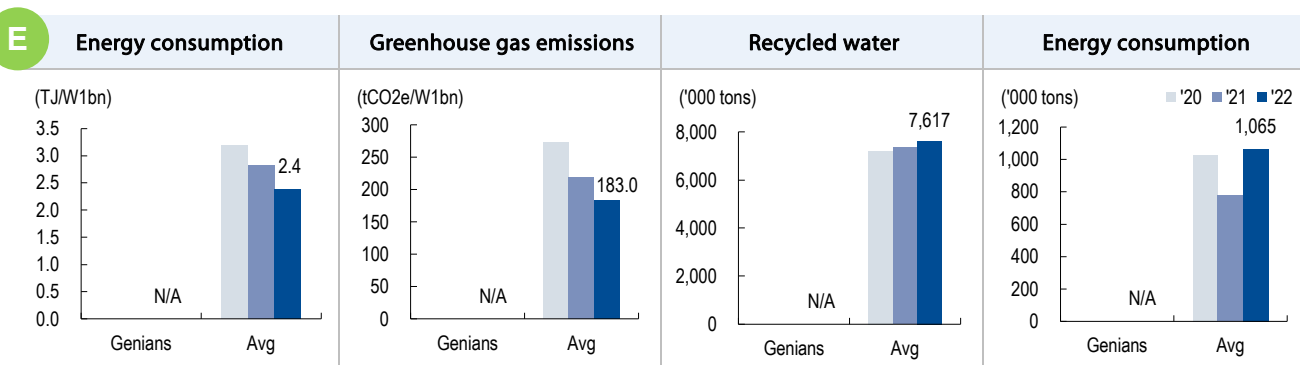
Note 2: Conformity rate based on respective company's conformity to the KRX's 15 core indicators (included in the governance report)

Source: Genians, DART, NH I&S Research Center



Note: Average breakdown based on 124 firms disclosing ESG data amongst 208 non-financial companies with assets of W2tn or more subject to 2023 mandatory disclosure of corporate governance reports

Source: Genians, NH I&S Research Center



Note: Average breakdown based on 124 firms disclosing ESG data amongst 208 non-financial companies with assets of W2tn or more subject to 2023 mandatory disclosure of corporate governance reports

Source: Genians, NH I&S Research Center

ESG events

E	N/A	- N/A
S	N/A	- N/A
G	2017.08	- Listed on Kosdaq

Source: Genians, NH I&S Research Center

NH Investment & Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S coverage, our stock ratings break down as follows (as of Dec 31, 2023).

- NH I&S stock rating distribution

Buy	Hold	Sell
80.8%	19.2%	0.0%

- Our stock rating distribution on individual companies is calculated on an end-of-quarter basis.

Compliance notice

- NH I&S does not have a stake greater than or equal to 1% in Genians as of the preparation date.
- NH I&S has not provided this material to any institutional investor or other third party in advance
- The analyst and his/her spouse do not own any securities of Genians as of the preparation date.
- Genians is not under coverage at NH I&S. Thus, NH I&S does not present a rating or target price on the counter. This material is for reference purposes only.
- This report correctly reflects the analyst's opinion and was written without any external influence or intervention.

Analyst certification

The research analyst for this report is registered with the Korea Financial Investment Association (KOFIA), and is thus governed by Korean laws and regulations. The analyst is not subject to laws or regulations in countries other than Korea.

Disclosures

- The research is based on current public information that NH I&S considers reliable, but NH I&S does not represent it as accurate or complete and it should not be relied on as such. Furthermore, the research does not consider particular investment objectives, financial situations or individual client needs, and NH I&S is in no way legally responsible for future returns or loss of original capital. All materials in this report are the intellectual property of NH I&S. Copying, distributing, transmitting, transforming, or lending of this material without NH I&S's consent is prohibited.
- This report is produced by NH I&S and not the US broker-dealer (NH Investment & Securities America, Inc).
- The research analyst for this report is not registered/qualified as a research analyst with FINRA.
- The research analyst for this report is not an associated person of the US broker-dealer (NH Investment & Securities America, Inc), and as such, is not subject to Rule 2241 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.