

Genians (263860.KQ)

As awareness increases, business opportunities to rise

Following the global IT network paralysis and service failure that occurred on Jul 19, Genians' business opportunities are expected to be highlighted and its corporate value reexamined on increased awareness of cyber security and strengthened policies.

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

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

Cyber security risks rising in interconnected society

On Jul 19, Microsoft Azure's crashed following an update to global cyber security firm CrowdStrike's Falcon Sensor software, which resulted in massive disruptions to global IT networks and services.

Around 8.5mn devices in a host of sectors, including finance, air transportation, administration, and media, are estimated to have been affected by the crash. In Korea, some airlines and game companies suffered disruptions (eg, ticket system paralysis). But, public and financial firms that do not use cloud-based EDR solutions remained safe.

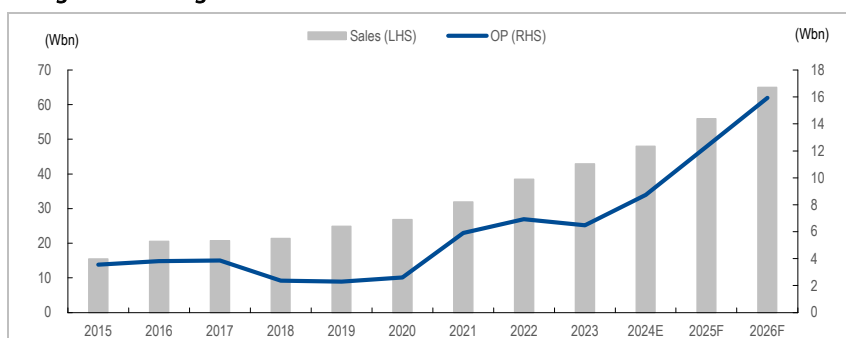
Business opportunities and EV being reexamined

Genians's EDR solutions boast a dominant market presence (78%), as they operate on an on-premise basis, which is relatively safer compared to cloud-based operations. The firm's business opportunities should be highlighted on strengthened policies by governments around the globe.

Backed by its sustained global business expansion efforts, the company is expected to reap solid results in a range of domains, including not only NAC but also EDR and ZTNA solutions. Moreover, the domestic business is projected to enjoy growth expansion, thanks to government policy support and increasing adoption by private players.

Despite steady annual sales growth, Genians's share price has declined by more than 30% since the start of the year due to low seasonality and reduced market attention. We view the shares as being undervalued at their current trading level (2024E P/E of 8.3x and 2025F P/E of 6.6x).

Long-term earnings forecasts



Source: Genians, NH I&S Research Center estimates

※ Refer to page 3 for ESG indices/events

Not Rated

| CP ('24/07/19) | W8,530 | | | |
|-----------------------------|------------------|--------------|--------------|--------------|
| Sector | Software | | | |
| Kospi/Kosdaq | 2795.46 / 828.72 | | | |
| Market cap (common) | US\$58.1mn | | | |
| Outstanding shares (common) | 9.4mn | | | |
| 52W high ('24/01/24) | W15,550 | | | |
| low ('24/07/18) | W8,520 | | | |
| Average trading value (60D) | US\$0.2mn | | | |
| Dividend yield (2024E) | 2.34% | | | |
| Foreign ownership | 19.9% | | | |
| Major shareholders | | | | |
| Lee DB and 2 others | 37.7% | | | |
| Miri Capital Management LLC | 12.6% | | | |
| Share perf | 3M | 6M | 12M | |
| Absolute (%) | -25.4 | -39.7 | -44.0 | |
| Relative (%p) | -24.2 | -38.7 | -37.6 | |
| | 2023 | 2024E | 2025F | 2026F |
| Sales | 42.9 | 48.0 | 56.0 | 65.0 |
| Chg | 11.5 | 11.9 | 16.7 | 16.1 |
| OP | 6.5 | 8.7 | 12.3 | 16.0 |
| Chg | -6.5 | 35.1 | 41.1 | 29.4 |
| OPM | 15.1 | 18.2 | 22.0 | 24.5 |
| NP | 6.2 | 9.7 | 12.2 | 16.4 |
| EPS | 661 | 1,030 | 1,291 | 1,735 |
| Chg | -12.6 | 55.7 | 25.4 | 34.4 |
| P/E | 19.1 | 8.3 | 6.6 | 4.9 |
| P/B | 2.4 | 1.4 | 1.2 | 1.0 |
| EV/EBITDA | 12.3 | 4.6 | 2.7 | 1.4 |
| ROE | 12.7 | 17.8 | 19.1 | 21.5 |
| Debt/equity | 26.0 | 23.3 | 20.4 | 17.5 |
| Net debt | -31.4 | -37.5 | -46.0 | -58.3 |

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

- Increasing cyber threats
- 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 | |
|---------|-------|-------|-------|-------|-------|-------|
| | 2024E | 2025F | 2024E | 2025F | 2024E | 2025F |
| Ahnlab | 19.6 | 17.6 | 2.2 | 2.0 | 12.3 | 12.6 |
| Fasoo | 9.5 | N/A | 1.7 | N/A | 20.7 | N/A |
| Wins | 8.5 | N/A | 1.2 | N/A | 15.7 | N/A |
| Igloo | 4.0 | N/A | N/A | N/A | 22.4 | N/A |
| EstSoft | 7.5 | N/A | N/A | N/A | N/A | N/A |

Source: FnGuide, NH I&S Research Center

Historical valuations

(Unit: x, %)

| Valuations | 2022 | 2023 | 2024E | 2025F | 2026F |
|------------|------|------|-------|-------|-------|
| P/E | 10.9 | 19.1 | 8.3 | 6.6 | 4.9 |
| P/B | 1.6 | 2.4 | 1.4 | 1.2 | 1.0 |
| P/S | 2.0 | 2.8 | 1.7 | 1.4 | 1.2 |
| ROE | 16.1 | 12.7 | 17.8 | 19.1 | 21.5 |
| ROIC | 60.5 | 52.4 | 60.0 | 77.4 | 96.2 |

Source: NH I&S Research Center

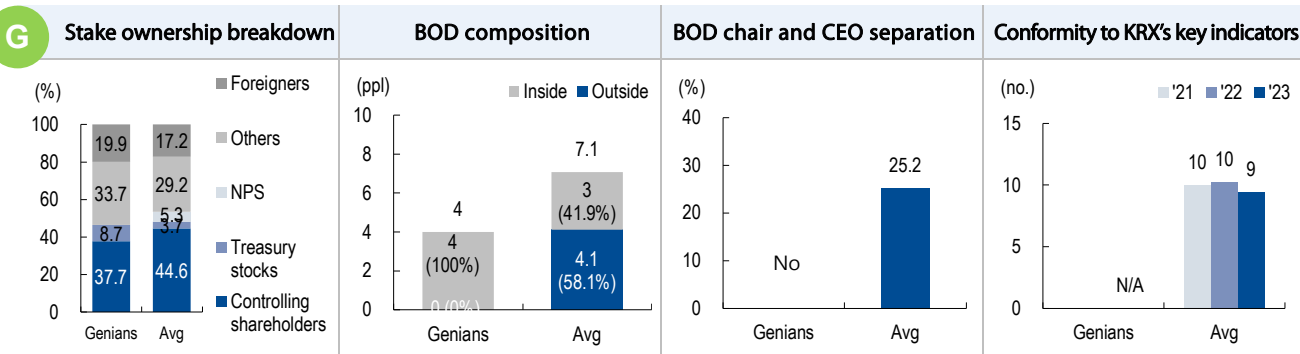
Historical key financials

(Unit: Wbn, won, %)

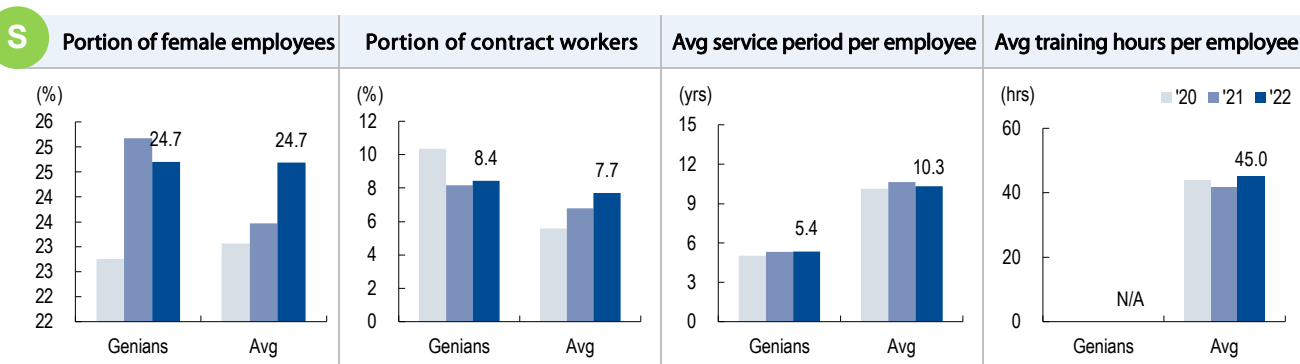
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales | 15.5 | 20.6 | 20.8 | 21.4 | 24.9 | 26.8 | 31.9 | 38.5 | 42.9 |
| OP | 3.6 | 3.8 | 3.9 | 2.4 | 2.3 | 2.6 | 5.9 | 6.9 | 6.5 |
| OPM (%) | 23.0 | 18.5 | 18.5 | 11.0 | 9.2 | 9.7 | 18.5 | 18.0 | 15.1 |
| Pre-tax profit | 3.3 | 3.8 | 4.2 | 2.7 | 2.6 | 2.8 | 7.2 | 7.8 | 6.5 |
| NP | 3.0 | 3.3 | 3.5 | 2.6 | 3.1 | 3.4 | 6.2 | 7.1 | 6.2 |
| NP (excl minority interest) | 3.0 | 3.3 | 3.5 | 2.6 | 3.1 | 3.4 | 6.2 | 7.1 | 6.2 |
| EBITDA | 3.8 | 4.0 | 4.2 | 2.8 | 3.0 | 3.5 | 6.7 | 7.5 | 7.1 |
| Capex | 0.1 | 0.6 | 1.6 | 3.2 | 0.4 | 0.1 | 0.2 | 0.2 | 0.2 |
| Free cash flow | 2.6 | 4.5 | 0.7 | -0.1 | 1.4 | 3.8 | 5.5 | 9.2 | 6.5 |
| EPS (won) | 477 | 520 | 414 | 280 | 329 | 363 | 654 | 757 | 661 |
| BPS (won) | 1,531 | 2,536 | 3,380 | 3,390 | 3,585 | 3,698 | 4,354 | 5,072 | 5,348 |
| DPS (won) | 0 | 0 | 51 | 0 | 0 | 0 | 120 | 150 | 200 |
| Net debt | -10.4 | -15.0 | -19.0 | -19.1 | -15.2 | -20.6 | -20.1 | -34.4 | -31.4 |
| ROE (%) | 60.0 | 22.0 | 13.6 | 8.3 | 9.4 | 10.0 | 16.2 | 16.1 | 12.7 |
| ROIC (%) | 75.8 | 50.6 | 49.5 | 21.3 | 13.9 | 14.9 | 43.9 | 60.5 | 52.4 |
| DPR (%) | 0.0 | 0.0 | 13.2 | 0.0 | 0.0 | 0.0 | 17.2 | 18.5 | 27.6 |
| DY (%) | N/A | N/A | 0.8 | 0.0 | 0.0 | 0.0 | 0.9 | 1.8 | 1.6 |
| Net debt ratio (%) | -104.4 | -75.9 | -59.7 | -59.8 | -44.8 | -58.9 | -48.9 | -71.7 | -62.2 |

Source: Genians, NH I&S Research Center

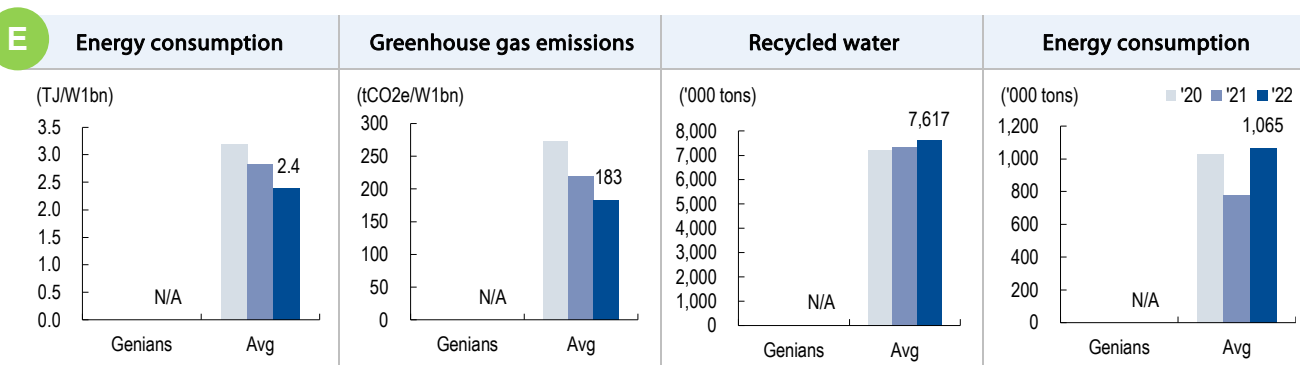
ESG indices & events



Note 1: Average breakdown based on 214 non-financial companies with assets of W2tn or more subject to 2024 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

| Event | Date | Description |
|-------|---------|--------------------|
| 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 Jun 30, 2024).

- NH I&S stock rating distribution

| Buy | Hold | | Sell |
|-------|--------|--|------|
| 85.9% | 14.1 % | | 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.
- Genians is not under coverage at NH I&S. Thus, NH I&S does not present a rating and target price on the counter. This material is for reference purpose only.
- The analyst and his/her spouse do not own any securities of Genians as of the preparation date.
- 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.