COMPANY UPDATE

2026. 4. 28

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LG Innotek (011070)

Cameras drive earnings, substrates drive growth

- LG Innotek reported a stronger-than-expected 1Q26 operating profit of KRW295.3b, driven by stronger shipment volumes at key customers and an improved product mix in packaging solutions.
- Strength in the substrate business, alongside growth in optical solutions, provides additional upside. We maintain our BUY rating and target price.

WHAT'S THE STORY?

Investment strategy – Dual drivers: camera modules and substrates: Even amid a steep stock price rally, a buy-side perspective remains valid. First of all, strong shipment volumes from key mobile customers are likely to persist until memory supply constraints ease. While competitors adjust production conservatively amid memory shortages and rising component prices, key mobile customers' shipment volumes and market dominance are expected to remain relatively resilient. Also, substrate valuation re-rating is gaining momentum. On top of the RF-SiP business, which enjoys strong sales growth, the FC-BGA business is poised for accelerated expansion supported by rising AI-related demand. The market should begin to compare LG Innotek's multiple with pure-play substrate peers. We maintain BUY for the stock with a target price of KRW650,000.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW650,000	21.3%
Current price	**KRW536,000**	
Market cap	KRW12.7t/USD8.6b	
Shares (float)	23,667,107 (59.2%)	
52-week high/low	KRW542,000/KRW137,600	
Avg daily trading value (60-day)	KRW92.1b/ USD62.6m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
LG Innotek (%)	67.2	143.1	277.7
Vs Kospi (%pts)	37.5	48.6	45.4

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	650,000	650,000	0.0%
2026E EPS	32,408	28,827	12.4%
2027E EPS	36,400	32,778	11.1%

SAMSUNG vs THE STREET

No of estimates	22
Target price	432,636
Recommendation	4.0

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

SUMMARY FINANCIAL DATA

	2024	2025	2026E	2027E
Revenue (KRWb)	21,201	21,897	25,577	26,428
Operating profit (KRWb)	706	665	1,098	1,168
Net profit (adj) (KRWb)	449	341	767	861
EPS (adj) (KRW)	18,983	14,419	32,408	36,400
EPS (adj) growth (% y-y)	-20.5	-24.0	124.8	12.3
EBITDA margin (%)	9.4	8.3	8.5	7.5
ROE (%)	8.9	6.1	12.4	12.3
P/E (adj) (x)	8.5	18.8	16.5	14.7
P/B (x)	0.7	1.1	1.9	1.7
EV/EBITDA (x)	2.6	4.0	5.9	5.7
Dividend yield (%)	1.3	0.7	0.4	0.4

Source: Company data, Samsung Securities estimates

1Q26 earnings surprise: LG Innotek reported 1Q earnings surprise showing sales of KRW5.5t (the highest ever for 1Q), an operating profit of KRW295.3b (beating our forecast by 20%), and an operating margin of 5.3% (vs 2.5% in 1Q25). The primary driver was stronger-than-expected shipment volumes from key customers. Within camera modules, improved product mix contributed meaningfully to profitability. In packaging solutions, higher sales of RF-SiP and a shift toward premium substrates drove a 16% y-y sales increase.

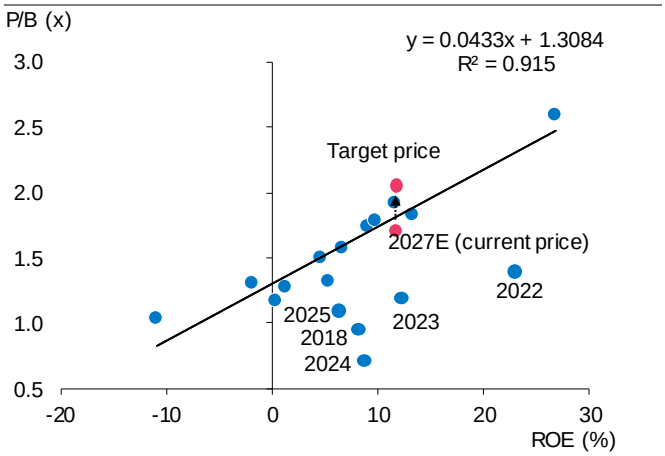
Operating profit to return to the KRW1t annual level by 2026: We raise our 2026 operating profit forecast by 11% to KRW1.098t—marking a return to the KRW1t level for the first time since 2022. While we raise our operating leverage assumptions for camera modules, the most significant beta driver remains substrate growth. The tighter supply-demand environment should enhance LG Innotek's (a later entrant) earnings elasticity, amplifying upside potential.

LG Innotek: 1Q results

(KRWb)	1Q26	4Q25	1Q25	Diff	
				(% q-q)	(% y-y)
Sales	**5,534.8**	4,982.8	7,609.8	11.1	-27.3
Operating profit	**295.3**	125.1	324.8	136.0	-9.1
Pre-tax profit	**282.8**	103.8	155.7	172.5	81.7
Net profit	**229.1**	85.6	135.9	167.6	68.5
Margins (%)					
Operating profit	**5.3**	2.5	4.3		
Pre-tax profit	**5.1**	2.1	2.0		
Net profit	**4.1**	1.7	1.8		

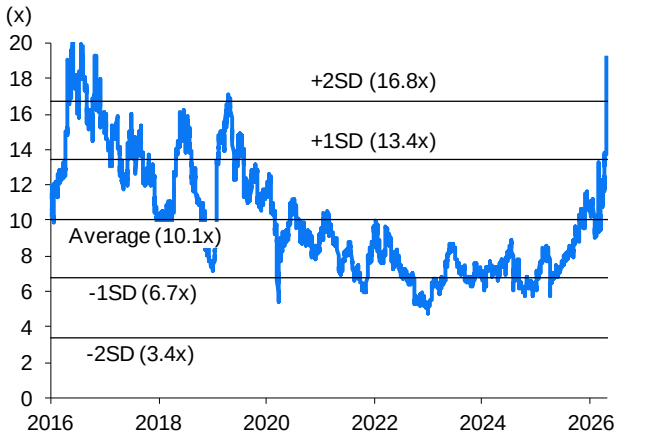
Source: Company data, Samsung Securities

LG Innotek: Correlation between P/B and ROE



Source: QuantiWise, Samsung Securities

LG Innotek: 12m fwd P/E



Source: QuantiWise, Samsung Securities

Revisions to full-year forecasts

(KRWb)	Old		New		Diff (%)	
	2026E	2027E	2026E	2027E	2026E	2027E
Sales	25,325	26,899	25,577	26,428	1.0	-1.8
Operating profit	989	1,061	1,098	1,168	11.0	10.1
Pre-tax profit	886	1,007	996	1,119	12.4	11.1
Net profit	682	776	767	861	12.5	11.0

Source: Samsung Securities estimates

LG Innotek: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25	4Q25	1Q26E	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E
Sales	**4,983**	**3,935**	**5,369**	**7,610**	**5,535**	**4,926**	**6,336**	**8,781**	**6,712**	**4,436**	**6,601**	**8,679**	**21,897**	**25,577**	**26,428**
Module	4,138	3,053	4,481	6,646	4,611	3,941	5,330	7,776	5,711	3,398	5,516	7,548	18,319	21,657	22,172
Substrate	377	416	438	489	437	484	498	509	512	538	579	636	1,720	1,927	2,265
Component	467	466	451	474	487	501	508	496	488	501	507	495	1,858	1,992	1,991
Operating profit	**125**	**11**	**204**	**325**	**296**	**150**	**264**	**389**	**357**	**139**	**284**	**389**	**665**	**1,098**	**1,168**
Operating margin (%)	2.5	0.3	3.8	4.3	5.3	3.0	4.2	4.4	5.3	3.1	4.3	4.5	3.0	4.3	4.4

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)	2023	2024	2025	2026E	2027E
Sales	**20,605**	**21,201**	**21,897**	**25,577**	**26,428**
Cost of goods sold	18,742	19,457	20,147	23,212	23,950
Gross profit	**1,863**	**1,744**	**1,750**	**2,365**	**2,477**
Gross margin (%)	9.0	8.2	8.0	9.2	9.4
SG&A expenses	1,032	1,038	1,085	1,267	1,309
Operating profit	**831**	**706**	**665**	**1,098**	**1,168**
Operating margin (%)	4.0	3.3	3.0	4.3	4.4
Non-operating gains (losses)	**-831**	**-706**	**-665**	**-102**	**-50**
Financial profit	113	122	109	123	145
Financial costs	219	213	189	179	162
Equity-method gains (losses)	0	0	0	0	0
Other	-725	-616	-585	-46	-33
Pre-tax profit	**0**	**0**	**0**	**996**	**1,119**
Taxes	74	140	67	229	257
Effective tax rate (%)	n/a	n/a	n/a	23.0	23.0
Profit from continuing operations	565	449	341	767	861
Profit from discontinued operations	0	0	0	0	0
Net profit	**565**	**449**	**341**	**767**	**861**
Net margin (%)	2.7	2.1	1.6	3.0	3.3
Net profit (controlling interests)	565	449	341	767	861
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	1,877	1,986	1,815	2,184	1,985
EBITDA margin (%)	9.1	9.4	8.3	8.5	7.5
EPS (parent-based) (KRW)	23,881	18,983	14,419	32,408	36,400
EPS (consolidated) (KRW)	23,881	18,983	14,419	32,408	36,400
Adjusted EPS (KRW)*	23,881	18,983	14,419	32,408	36,400

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025	2026E	2027E
Current assets	**5,349**	**5,853**	**6,778**	**7,612**	**9,080**
Cash & equivalents	1,390	1,329	1,406	1,661	2,931
Accounts receivable	2,251	2,784	3,398	3,770	3,896
Inventories	1,572	1,575	1,789	1,965	2,030
Other current assets	136	165	185	216	223
Fixed assets	**5,855**	**5,525**	**5,153**	**4,978**	**4,166**
Investment assets	145	182	376	397	401
Tangible assets	4,856	4,480	3,724	3,537	2,761
Intangible assets	222	219	296	288	247
Other long-term assets	633	644	756	756	756
Total assets	**11,204**	**11,378**	**11,931**	**12,589**	**13,245**
Current liabilities	**4,219**	**3,955**	**4,507**	**4,526**	**4,361**
Accounts payable	2,494	2,241	2,642	2,852	2,947
Short-term debt	39	73	155	155	155
Other current liabilities	1,687	1,640	1,710	1,518	1,259
Long-term liabilities	**2,271**	**2,069**	**1,661**	**1,474**	**1,477**
Bonds & long-term debt	2,189	1,968	1,540	1,340	1,340
Other long-term liabilities	82	102	120	134	137
Total liabilities	**6,490**	**6,024**	**6,168**	**6,000**	**5,838**
Owners of parent equity	**4,715**	**5,354**	**5,763**	**6,590**	**7,407**
Capital stock	118	118	118	118	118
Capital surplus	1,134	1,134	1,134	1,134	1,134
Retained earnings	3,414	3,868	4,191	4,914	5,731
Other	49	234	320	424	424
Non-controlling interests' equity	**0**	**0**	**0**	**0**	**0**
Total equity	**4,715**	**5,354**	**5,763**	**6,590**	**7,407**
Net debt	1,371	1,360	882	158	-1,412

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025	2026E	2027E
Cash flow from operations	**2,104**	**1,110**	**1,331**	**1,580**	**1,612**
Net profit	565	449	341	767	861
Non-cash profit and expenses	1,343	1,686	1,563	1,346	1,057
Depreciation	1,000	1,229	1,101	1,037	776
Amortization	46	51	50	48	41
Other	297	406	412	261	240
Changes in A/L from operating activities	341	-816	-410	-278	-59
Cash flow from investments	**-1,904**	**-969**	**-796**	**-917**	**4**
Change in tangible assets	-1,789	-872	-610	-850	0
Change in financial assets	-21	-18	-4	-25	-6
Other	-95	-80	-183	-42	10
Cash flow from financing	**608**	**-220**	**-453**	**-510**	**-344**
Change in debt	740	-69	-387	-465	-300
Change in equity	0	0	0	0	0
Dividends	-98	-62	-49	-44	-44
Other	-34	-89	-17	0	0
Change in cash	812	-60	77	254	1,270
Cash at beginning of year	578	1,390	1,329	1,406	1,661
Cash at end of year	1,390	1,329	1,406	1,661	2,931
Gross cash flow	**1,909**	**2,136**	**1,904**	**2,113**	**1,918**
Free cash flow	**305**	**231**	**720**	**730**	**1,612**

Financial ratios

Year-end Dec 31	2023	2024	2025	2026E	2027E
Growth (%)					
Sales	5.2	2.9	3.3	16.8	3.3
Operating profit	-34.7	-15.0	-5.8	65.1	6.4
Net profit	-42.3	-20.5	-24.0	124.8	12.3
Adjusted EPS**	-42.3	-20.5	-24.0	124.8	12.3
Per-share data (KRW)					
EPS (parent-based)	23,881	18,983	14,419	32,408	36,400
EPS (consolidated)	23,881	18,983	14,419	32,408	36,400
Adjusted EPS**	23,881	18,983	14,419	32,408	36,400
BVPS	199,226	226,240	243,532	278,462	312,987
DPS (common)	2,610	2,090	1,880	1,880	1,880
Valuations (x)					
P/E***	10.0	8.5	18.8	16.5	14.7
P/B***	1.2	0.7	1.1	1.9	1.7
EV/EBITDA	3.8	2.6	4.0	5.9	5.7
Ratios (%)					
ROE	12.6	8.9	6.1	12.4	12.3
ROA	5.4	4.0	2.9	6.3	6.7
ROIC	13.1	8.9	9.0	14.0	15.7
Payout ratio	10.9	11.0	13.0	5.8	5.2
Dividend yield (common)	1.1	1.3	0.7	0.4	0.4
Net debt to equity	29.1	25.4	15.3	2.4	-19.1
Interest coverage (x)	8.2	6.2	7.6	15.1	19.6

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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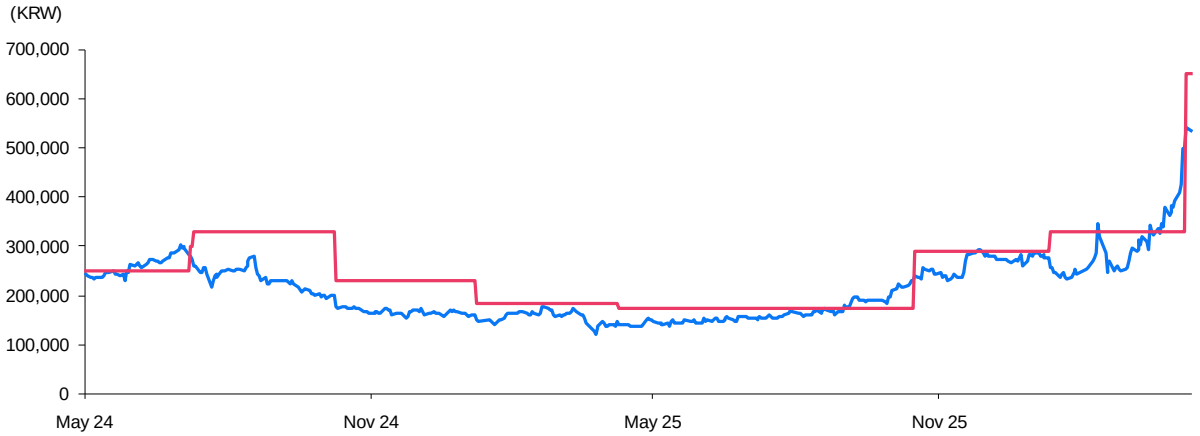

Rating changes over past two years (adjusted share prices)

Date	2024/1/26	7/23	7/25	10/24	2025/1/23	4/24	10/31	2026/1/27	4/24
Recommendation	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	BUY	BUY	BUY
Target price (KRW)	250000	300000	330000	230000	185000	175000	290000	330000	650000
Gap* (average)	-9.86	-8.50	-29.37	-27.66	-16.00	-6.34	-8.55	-8.83	
(max or min)**	20.80	-8.50	-15.15	-22.78	-4.05	32.00	1.55	51.52	

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 2026.03.31

BUY(85.2%)·HOLD(14.8%)·SELL(0%)

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