

W-SCOPE (6619 TSE Mothers)

Issue: June 15, 2012
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 Research Method: Company Visit

Develops and manufactures separators for lithium-ion secondary cell batteries. Expects the expansion of the battery market for EV.

> Summary

Manufactures separators for lithium-ion secondary cell battery

- The company manufactures and sells separators which are the major component of lithium-ion secondary cell batteries. Demand is expanding on its application for portable electric equipment. It locates its production foothold in Korea and focuses on capacity reinforcement enjoying the preferential treatment for foreign investment by the Korean Government.
- Although a late-starting venture company, it entered the market taking advantage of the high productivity equal with its predecessors. It acquired the emerging battery makers in China and the US as customers and aims at a certain share in the Japanese market in the future.

Expects demand for secondary cell batteries for smartphones and Electric Vehicles

- Demand for lithium-ion secondary cell batteries is slowing for notebook PCs, but will continue to expand for smartphones and tablet PCs. Penetration of EV is expected to take more time but the prospects for the future are high.
- The company will increase its production capacity by 50% with the operation of the third line planned to start in June 2012. It will start construction of the fourth and fifth lines subsequently with expected completion in April 2013. The plan is to expand the capacity further by 70%. It intends to gain enough capacity by aggressive capital investment and to accelerate customer development.
- It moved its plant site using a rent reduction offered by Korea Industrial Complex Corporation, where up to the 15th lines can be built assuming the same facilities as currently being used. In the future, it plans to advance development of products for various markets, including reverse osmosis membrane for seawater desalination plant development, ultrafiltration membrane for medical use such as an artificial internal organ, etc.

Industry: Electric Appliances

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【Major Data】

| | 2012/6/8 |
|---------------------------------|------------|
| Stock Price (JPY) | 1,012 |
| Shares outstanding | 14,171,600 |
| Market capitalization (JPY mil) | 14,342 |
| Listed date | 2011/12/16 |
| Performance since listed | -82.0 |

| | Dec-11 | Dec-12 E |
|--------------------|----------|----------|
| PER (X) | 10.7 | 9.0 |
| PBR (X) | 2.0 | 1.6 |
| Dividend yield (%) | 0.0 | 0.0 |
| | σ | β |
| Risk Indicators | — | — |

【Major KPI】

N.A.

【Performance】

| | 1M | 3M | 12M |
|-----------------------|-------|-------|-----|
| Return (%) | -27.9 | -34.1 | — |
| Relative to TOPIX (%) | -19.4 | -23.4 | — |

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> Investment Judgment

Major focus shifting from PC to smartphones in the mid/long term. Drastic growth expected on the application to EV

- For the December 2012 term, we estimate sales at Y5bil, up 48% yoy (the company's projection at Y5.617bil), operating profit at Y1.7bil, up 30% (Y2.079bil), and net income at Y1.6bil, up 33% (Y2.003bil). Given the start-up and depreciation costs and considering the lead time of half a year before the start of full-scale operation, we underestimate the contribution of the third line for the term as stated above.
- In the December 2013 term, customer development is expected to advance, reflecting the securing of additional production capacity by further investment and the success of a sample valuation currently underway. This is in addition to the high cost competitiveness. We expect sales at Y6.5bil, up 30% yoy, operating income at Y2.3bil, up 35%, and net income at Y2.2bil, up 38%, with no tax payment.

Stock price undervalued. Correction likely after the market confirms performance growth.

- The stock price plummeted after the announcement of the 1Q results in May, seeing sales sliding 44% yoy to Y494mil and operating profit 69% to Y125mil. The company explained that the result was within expectations due to seasonal factors as major customers took holidays during the Chinese New Year.
- If the results recover as expected after the 2Q and the new facilities raises the operating rate steadily, we believe the level of the stock price will recover toward the yearend. We estimate the fair stock price at Y 1,800-2,200

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> Earnings model

| Fiscal Year (millions of yen) | Dec-2010 | Dec-11 | Dec-12 CE | Dec-12 E | Dec-13 E | Dec-14 E | Dec-15 E |
|----------------------------------|----------|------------|------------|------------|------------|------------|------------|
| Net sales | 1,686 | 3,382 | 5,617 | 5,000 | 6,500 | 8,000 | 10,000 |
| (YoY change) | +35.5% | +100.6% | +66.0% | +47.8% | +30.0% | +23.1% | +25.0% |
| Operating income | 209 | 1,309 | 2,079 | 1,700 | 2,300 | 3,100 | 3,800 |
| (YoY change) | +173.9% | +526.3% | +58.8% | +29.9% | +35.3% | +34.8% | +22.6% |
| Ordinary income | 124 | 1,232 | 2,058 | 1,650 | 2,250 | 3,050 | 3,750 |
| (YoY change) | +104.0% | +886.8% | +67.0% | +33.9% | +36.4% | +35.6% | +23.0% |
| Net income | 255 | 1,205 | 2,003 | 1,600 | 2,200 | 2,700 | 3,300 |
| (YoY change) | +7137.9% | +372.5% | +66.2% | +32.8% | +37.5% | +22.7% | +22.2% |
| Total shareholder's equity | 2,987 | 7,649 | N.A. | 9,249 | 10,939 | 13,356 | 16,372 |
| Number of shares issued (shares) | 25,337 | 14,171,600 | 14,171,600 | 14,171,600 | 14,171,600 | 14,171,600 | 14,171,600 |
| Earnings per Share (EPS;yen) | 21.1 | 94.6 | 141.3 | 112.9 | 155.2 | 190.5 | 232.9 |
| Dividend per Share (yen) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 20.00 | 20.00 |
| Book Value per Share (BPS;yen) | 212.3 | 503.8 | - | 616.7 | 771.9 | 942.4 | 1,155.3 |
| Return on Equity (ROE) | 13.3% | 24.5% | - | 20.2% | 22.4% | 22.2% | 22.2% |
| Stock Price (yen) | — | 1,791 | 1,012 | 1,012 | | | |
| PER (times) | — | 18.9 | 7.2 | 9.0 | 6.5 | 5.3 | 4.3 |
| Dividend yield | — | 0.0% | 0.0% | 0.0% | 0.0% | 2.0% | 2.0% |
| PBR (times) | — | 3.6 | — | 1.6 | 1.3 | 1.1 | 0.9 |

(Notes)

1. CE: Company's estimates, E: our estimates.
2. Indicators such as PER, Dividend yield and PBR on 2011 are calculated by the stock price on Dec 30.
3. Forecasts such as PER, Dividend yield and PBR are calculated by the recent stock price (on June 8).
4. A 500 for 1 Stock split went into effect on August 31, 2011, and per share data are adjusted retroactively.

> Stock Performance

