

Universal Display (OLED)

\$119.31 (As of 03/16/20)

Price Target (6-12 Months): **\$99.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/24/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: B

Summary

Universal Display is expected to be hurt by the coronavirus (COVID 19) outbreak in China and accelerated cases in South Korea. The company generates the majority of its revenues from these two countries. Management estimates the epidemic to negatively impact 2020 revenues by \$40-\$50 million. Moreover, top-line growth is likely to be dented by a sluggish OLED adoption, which is still in early stages. Additionally, intensifying competition and long lead times are major headwinds. Further, significant customer concentration from a few customers like Samsung and LG is an overhang. Although Universal Display is benefiting from robust material plus green emitter sales, the aforesaid factors might remain a drag. Notably, the stock has underperformed the industry in the past six-month period.

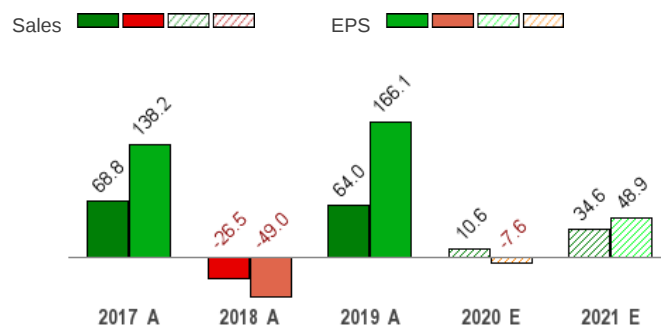
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$230.32 - \$114.80
20 Day Average Volume (sh)	997,417
Market Cap	\$5.6 B
YTD Price Change	-42.1%
Beta	1.64
Dividend / Div Yld	\$0.60 / 0.5%
Industry	Electronics - Miscellaneous Components
Zacks Industry Rank	Bottom 38% (157 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.6%
Last Sales Surprise	4.5%
EPS F1 Est- 4 week change	-24.0%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	39.3
P/E F1	39.1
PEG F1	1.3
P/S TTM	13.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	116 E	134 E	172 E	181 E	603 E
2020	94 E	89 E	127 E	138 E	448 E
2019	88 A	118 A	98 A	102 A	405 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.76 E	\$0.98 E	\$1.47 E	\$1.58 E	\$4.54 E
2020	\$0.60 E	\$0.47 E	\$0.97 E	\$1.07 E	\$3.05 E
2019	\$0.66 A	\$0.92 A	\$0.78 A	\$0.68 A	\$3.30 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/16/2020. The reports text is as of 03/17/2020.

Overview

Ewing, NJ-based Universal Display Corporation is a leading developer of technology and intellectual property (IP) for the Organic Light Emitting Diodes (OLED) market.

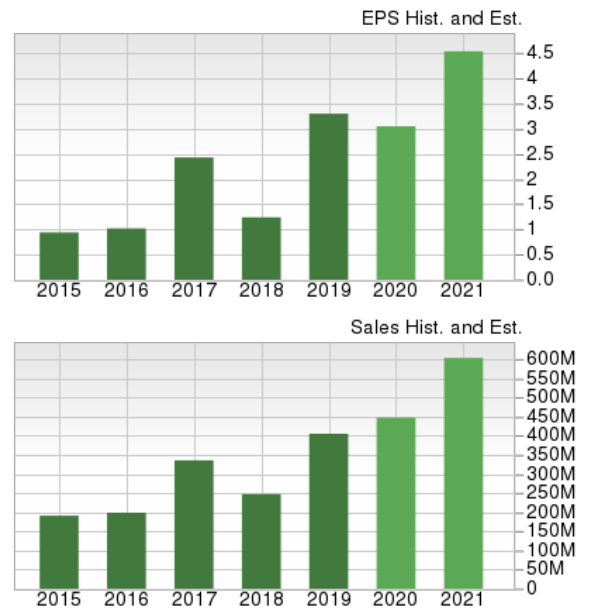
OLEDs are thin, lightweight and power-efficient solid-state devices that emit light. This can be manufactured on both flexible and rigid substrates, making them highly suitable for use in full-color displays and also as lighting products.

Universal Display reported revenues of \$405.2 million in 2019. The company reports operations under three heads, namely Material sales (60.1% of 2019 revenues), Royalty and license fees (37% of revenues) and Contract research services (2.9% of revenues).

Material sales include revenues from both phosphorescent emitter and host materials. Royalty and license fees include fee payments under patent license agreement with SDC, and licensed sales and royalties from customers.

Contract research services include revenues earned by Adesis, which performs organic and organometallic synthetics research, development and commercialization on a contractual basis for the company's customers. It also includes technology development and support revenues along with government contracts.

Notably, 97.1% revenues were generated from non-U.S. locations in 2019. Country wise, South Korea accounted for 61.8% of revenues followed by China contributing 33.4%.



Reasons To Sell:

- ▼ The coronavirus (COVID 19) outbreak in China and its rising incidence in South Korea are major concerns for Universal Display. Notably, South Korea took drastic measures to contain the spread of the virus. For instance, the country ordered the entire 2.5 million residents of the city of Daegu to remain indoors. Notably, South Korea accounted for 61.8% of revenues followed by China contributing to 33.4% in 2019. Management estimates the coronavirus to affect 2020 revenues by \$40-\$50 million.
- ▼ OLED adoption is still in very early stages and is expected to take some time to gain significant traction. Additionally, long lead times for incremental capacity addition are a headwind. Moreover, change in accounting rules increase volatility in licensing revenues. These factors don't bode well for investors at least in the near term.
- ▼ Moreover, sluggishness in premium smartphone market doesn't bode well for the company. Further, Universal Display faces significant competition not only from other OLED makers but also from other emerging technologies like quantum dots or thermally activated delayed fluorescence (TADF). Also, LCD continues to dominate the display market. Increasing competition can hurt the company's market share as well as pricing power that will negatively impact profitability in the near term.
- ▼ The company has substantial operations outside the United States. Notably, 97% of revenues in 2019 were derived from sales to customers outside the United States. Hence, volatility in foreign exchange is a significant concern.
- ▼ Further, Universal Display faces significant customer concentration, as a huge chunk of revenues come from few customers like Samsung and LG.
- ▼ Moreover, the company is trading at premium in terms of Price/Book (P/B). Universal Display currently has a trailing 12-month P/B ratio of 6.93. This level compares unfavorably with what the industry witnessed in the last year. Consequently, the valuation looks slightly stretched from P/B perspective.

Long lead times, intensifying competition, significant customer concentration, stretched valuation and volatility in foreign exchange are key headwinds.

Risks

- Universal Display is a dominant provider of OLED technology. The technology is expected to eventually replace LED and liquid crystal displays (LCD) technologies due to energy efficiency, higher contrast ratio, better viewing angle, lower video response time and smaller form factor. These superior properties of OLED provide ample room for growth that brightens up Universal Display's prospects.
 - We believe strong end-market demand presents significant growth opportunity for Universal Display over the long term. OLED is suitable for commercial usage in a number of industries, including smartphones, television, virtual reality devices and automotive markets. The increasing proliferation of smartphones, wearables and tablets are driving adoption of small-area OLEDs. Large-area OLED displays are increasingly used in televisions. Further, unlike LEDs, OLEDs can be viewed directly and doesn't need diffusers. It is also expected to be cost-effective when manufactured in high volumes, which makes it suitable for commercial application in the solid-state lighting market. Universal Display expects the installed base of OLED square meter capacity to increase by approximately 50% over the next two years, which will improve revenue opportunities for the company.
 - Universal Display's dominance in OLED technology is primarily driven by its strong portfolio of 5,000 patents issued and pending worldwide. Notably, the company's UniversalPHOLED phosphorescent OLED technology produces OLEDs that are four times more efficient than fluorescent OLEDs and significantly more efficient than current LCDs. This provides Universal Display with a competitive advantage over other OLED makers. Additionally, collaborations with the likes of Princeton University, the University of Southern California, the University of Michigan and PPG Industries will continue to strengthen its patent portfolio in the long haul.
 - The strong patent portfolio also helps Universal Display earn significant licensing revenues. Samsung, LG Display, BOE Technology, Visionox and Tianma are notable users of the company's licenses. Universal Display also has license agreements with Konica Minolta, Sumitomo, Lumitec, Pioneer, Kaneka and OLEDWorks to manufacture OLED lighting products.
 - Universal Display's solid balance sheet and liquidity position is noteworthy. As on Dec 31, 2019, the company had cash and cash equivalents (including short-term investments) of \$646 million compared with \$597.1 million as of Sep 30. The strong cash balance helps it to pursue strategic acquisitions. The company also approved a quarterly cash dividend payment of 15 cents per share, up from previous quarters 10 cents per share. The company has paid out quarterly dividends worth \$18.9 million in 2019.
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Last Earnings Report

Universal Display Q4 Earnings Rise on Higher Revenues

Universal Display reported fourth-quarter 2019 adjusted earnings of 56 cents per share (per ASC Topic 606 basis), which improved 40% year over year.

The Zacks Consensus Estimate was pegged at 72 cents per share.

Revenues surged 45% to \$101.7 million and also outpaced the Zacks Consensus Estimate by 4.5%.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	4.49%
EPS Surprise	-5.56%
Quarterly EPS	0.68
Annual EPS (TTM)	3.04

Segment Details

Material sales (59.7% of total revenues) soared 52.3% from the year-ago quarter to \$60.8 million. Green emitters sales (including yellow-green emitters) were \$40.2 million, up 70% year over year. Red emitter sales were \$13 million, up 10% year over year.

Royalty and license fees (37.2% of total revenues) increased 46% year over year to \$37.8 million.

Contract research services revenues came in at \$3.2 million, representing the remaining 3.1% of total revenues. The figure declined 27.4% year over year.

Operating Details

Gross margin in the quarter under review came in at 82.1%, expanding 820 basis points (bps) from the year-ago quarter. Material gross margin expanded from the year-ago figure of 63% to 73.2%.

Operating expenses of \$49 million were up 34.2% year over year. As a percentage of revenues, operating expenses declined 390 bps on a year-over-year basis to 48.2%.

Consequently, operating margin expanded to 33.9% from the year-ago figure of 21.8%.

Balance Sheet

As of Dec 31, 2019, Universal Display had cash and cash equivalents (including short-term investments) of \$646 million compared with \$597.1 million as of Sep 30, 2019.

The company recently approved a quarterly cash dividend payment of 15 cents per share, to be paid out on Mar 31, 2020 to its shareholders of record on March 17.

Guidance

For 2020, Universal Display expects revenues between \$430 million and \$470 million. Management estimates Coronavirus to negatively impact revenues between \$40 million and \$50 million.

Moreover, the company expects overall 2020 material gross margins to be in the 70-75% range, consistent with the past few years.

Operating expenses are expected to increase in the range of 10-15% on a year-over-year basis.

Universal Display expects the installed base of OLED square meter capacity to increase by approximately 50% over the next two years, which will improve revenue opportunities for the company.

Recent News

On Feb 20, 2020, Universal Display approved a quarterly cash dividend payment of 15 cents per share, up from the previous quarter's dividend of 10 cents. The increased dividend will be paid out on Mar 31 to its shareholders of record as of Mar 17.

On Dec 12, 2019, Universal Display announced the appointment of Celia M. Joseph and Cynthia J. Comparin as independent members to its board of directors, effective Jan 1, 2020.

Valuation

Universal Display shares are down 33% in the past six-month period and 23.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 26.8% and 15.1% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are down 24.8% and 11.2%, respectively.

The S&P 500 index is down 19.6% in the past six-month period and 14.8% in the past year.

The stock is currently trading at 35.51X forward 12-month earnings compared with 13.8X for the Zacks sub-industry, 16.14X for the Zacks sector and 13.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 80.8X and as low as 21.26X, with a 5-year median of 47.2X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$99 price target reflects 29.47X forward 12-month earnings.

The table below shows summary valuation data for OLED

Valuation Multiples - OLED					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	35.51	13.80	16.14	13.88
	5-Year High	80.8	20.33	22.01	19.34
	5-Year Low	21.26	13.67	16.14	13.88
	5-Year Median	47.2	16.49	19.30	17.42
P/S F12M	Current	11.29	1.27	2.68	2.55
	5-Year High	26.69	1.85	3.58	3.43
	5-Year Low	6.92	0.92	2.3	2.54
	5-Year Median	13.91	1.4	3.02	3
EV/Sales TTM	Current	12.28	1.52	3.18	2.39
	5-Year High	29.27	2.24	4.45	3.46
	5-Year Low	6.34	1.07	2.54	2.14
	5-Year Median	15.42	1.75	3.53	2.82

As of 03/16/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (157 out of 253)



Top Peers

CalAmp Corp. (CAMP)	Neutral
Fabrinet (FN)	Neutral
Corning Incorporated (GLW)	Neutral
IntriCon Corporation (IIN)	Neutral
SMTC Corporation (SMTX)	Neutral
TE Connectivity Ltd. (TEL)	Neutral
Vicor Corporation (VICR)	Neutral
Vishay Precision Group, Inc. (VPG)	Underperform

Industry Comparison Industry: Electronics - Miscellaneous Components				Industry Peers		
	OLED Underperform	X Industry	S&P 500	GLW Neutral	SMTX Neutral	VICR Neutral
VGM Score	D	-	-	C	A	D
Market Cap	5.63 B	103.83 M	16.36 B	14.55 B	64.00 M	1.37 B
# of Analysts	4	2	13	6	1	1
Dividend Yield	0.50%	0.00%	2.63%	4.62%	0.00%	0.00%
Value Score	F	-	-	B	B	F
Cash/Price	0.09	0.17	0.06	0.14	0.01	0.05
EV/EBITDA	79.98	7.11	10.54	7.53	12.70	51.01
PEG Ratio	1.31	1.36	1.46	1.57	NA	NA
Price/Book (P/B)	6.93	1.44	2.26	1.37	1.60	6.65
Price/Cash Flow (P/CF)	115.73	8.87	8.80	4.76	8.38	56.01
P/E (F1)	39.44	13.87	13.18	11.86	10.32	50.40
Price/Sales (P/S)	13.90	0.84	1.78	1.27	0.17	5.21
Earnings Yield	2.56%	6.95%	7.56%	8.45%	9.69%	1.98%
Debt/Equity	0.00	0.17	0.70	0.72	1.09	0.00
Cash Flow (\$/share)	1.03	0.73	7.01	4.01	0.27	0.60
Growth Score	B	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	30.08%	13.86%	10.85%	5.91%	NA	NA
Proj. EPS Growth (F1/F0)	-7.58%	9.35%	5.72%	-8.71%	-18.52%	97.06%
Curr. Cash Flow Growth	237.80%	-5.92%	6.15%	3.88%	-275.22%	-40.38%
Hist. Cash Flow Growth (3-5 yrs)	-0.62%	10.29%	8.55%	-1.86%	24.65%	102.02%
Current Ratio	4.91	2.39	1.24	2.12	1.18	5.98
Debt/Capital	0.00%	16.22%	42.57%	37.29%	52.04%	0.00%
Net Margin	34.13%	5.07%	11.64%	8.35%	-1.61%	5.36%
Return on Equity	18.78%	10.57%	16.74%	14.29%	11.26%	7.11%
Sales/Assets	0.39	0.90	0.54	0.41	1.73	1.13
Proj. Sales Growth (F1/F0)	16.26%	0.00%	3.50%	-0.22%	5.77%	15.98%
Momentum Score	B	-	-	C	C	C
Daily Price Chg	-18.01%	-6.90%	-12.67%	-16.40%	-6.58%	-13.08%
1 Week Price Chg	-6.63%	-12.23%	-11.01%	-8.36%	-15.33%	-10.87%
4 Week Price Chg	-32.86%	-28.94%	-32.63%	-33.33%	-34.58%	-40.37%
12 Week Price Chg	-41.15%	-27.28%	-30.17%	-34.55%	-30.37%	-26.60%
52 Week Price Chg	-24.30%	-24.16%	-23.26%	-44.51%	-48.53%	5.56%
20 Day Average Volume	997,417	29,670	3,457,426	9,007,488	52,391	341,475
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-23.98%	-4.24%	-0.48%	0.00%	0.00%	-39.09%
(F1) EPS Est 12 week change	-23.98%	-4.53%	-0.93%	-13.08%	0.00%	-39.09%
(Q1) EPS Est Mthly Chg	-20.44%	-0.30%	-0.60%	0.00%	0.00%	-78.95%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	B
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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