

Universal Display (OLED)

\$164.46 (As of 07/28/20)

Price Target (6-12 Months): **\$145.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 07/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **3-Hold**

Zacks Style Scores: VGM:D

Value: F | Growth: D | Momentum: A

Summary

Universal Display is bearing the brunt of sluggish demand in the premium smartphone market. Moreover, significant customer concentration is an overhang. The company has withdrawn its guidance for 2020 due to coronavirus-related uncertainties prevailing in the market. Further, the company's substantial international presence makes it susceptible to exchange rate volatility, which is a headwind. Notably, shares have underperformed the industry on a year-to-date basis. However, the company's top line is expected to benefit from surge in red and green emitter sales. Increasing demand from panel makers bodes well for the company's growth in the near term. However, broader macroeconomic weakness and sluggishness across automotive end-market is likely to dampen demand for OLED panels, which remains an overhang on top-line growth.

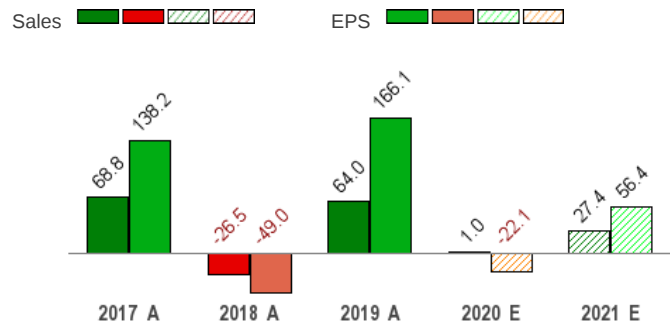
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$230.32 - \$105.11
20 Day Average Volume (sh)	395,291
Market Cap	\$8.0 B
YTD Price Change	-17.3%
Beta	1.55
Dividend / Div Yld	\$0.60 / 0.4%
Industry	Electronics - Miscellaneous Components
Zacks Industry Rank	Bottom 26% (188 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.7%
Last Sales Surprise	9.0%
EPS F1 Est- 4 week change	-2.1%
Expected Report Date	08/06/2020
Earnings ESP	-50.0%
P/E TTM	53.6
P/E F1	64.0
PEG F1	2.1
P/S TTM	18.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	97 E	116 E	84 E	156 E	521 E
2020	112 A	79 E	100 E	118 E	409 E
2019	88 A	118 A	98 A	102 A	405 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.56 E	\$0.79 E	\$1.15 E	\$1.29 E	\$4.02 E
2020	\$0.80 A	\$0.32 E	\$0.68 E	\$0.81 E	\$2.57 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 07/28/2020. The reports text is as of 07/29/2020.

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.

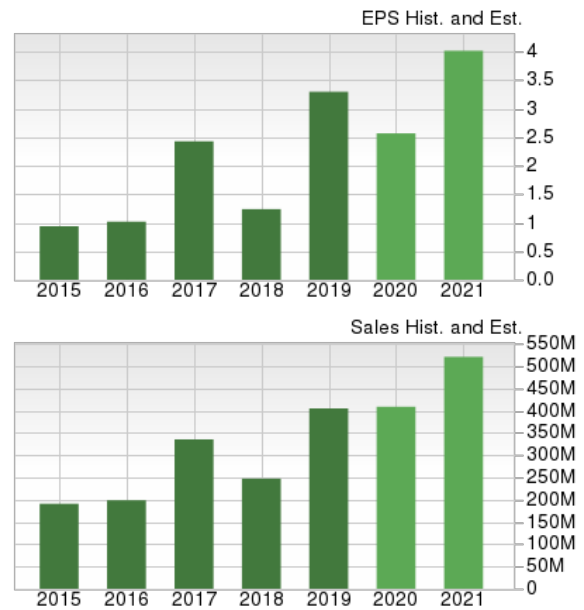
Universal Display reported revenues of \$405.2 million in 2019. The company reports operations under three heads, namely Material sales (60.1% of 2019 revenues), Royalty and license fees (37% of revenues) and Contract research services (2.9% of revenues).

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%.

Universal Display's primary competitors are Cambridge Display Technology, Novaled AG, iFire Technology, Luxell Technologies, Ostendo Technologies, eMagin Corporation, Seoul Semiconductor, and Illumitex Inc.



Reasons To Sell:

- ▼ The coronavirus outbreak in China and South Korea is expected to hurt Universal Display's top-line growth. Notably, South Korea accounted for 61.8% of revenues followed by China contributing to 33.4% in 2019. Management estimates the coronavirus outbreak 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 Display, BOE Technology and LG, each contributing more than 10% to revenues in 2019.

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 over 5,000 patents issued and pending worldwide, per the latest update provided on Feb 17, 2020. 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, Lumiotec, Pioneer, Kaneka and OLEDWorks to manufacture OLED lighting products.
 - Universal Display's solid debt-free balance sheet and liquidity position is noteworthy. As of Mar 31, 2020, the company had cash and cash equivalents (including short-term investments) of \$639.8 million. The strong cash balance helps it pursue strategic acquisitions. Moreover, cash flow from operations during the quarter was \$5.7 million. The cash flows help the company to continue shareholder-friendly initiatives like dividend payments. Notably, the company paid out quarterly dividends worth \$18.9 million in 2019 and \$7.1 million in first-quarter 2020. Moreover, the company approved a quarterly cash dividend of 15 cents per share in the second quarter. The company's ability to generate solid free cash flow is expected to help it sustain current dividend payout (0.19) level, at least in the near term.
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Last Earnings Report

Universal Display Q1 Earnings Surpass Estimates, Up Y/Y

Universal Display Corporation reported first-quarter 2020 adjusted earnings of 80 cents per share (per ASC Topic 606 basis), which improved 40% year over year and beat the Zacks Consensus Estimate by 17.7%.

Revenues surged 27.9% year over year to \$112.3 million. Revenues include full recognition of safety stock worth \$24 million purchased in the fourth quarter by a China-based customer due to trade-related concerns as well as some estimated advanced customer material purchases due to COVID-19 related uncertainties.

Segment Details

Material sales (59.3% of total revenues) rallied 22.2% from the year-ago quarter's figure to \$66.6 million. Green emitters sales (including yellow-green emitters) were \$52.6 million, up 26.4% year over year. Red emitter sales were \$13.9 million, up 8.6% year over year.

Royalty and license fees (38.4% of total revenues) increased 42.2% year over year to \$43.1 million. Adesis revenues came in at \$2.6 million during the reported quarter compared with \$3 million reported in the year-ago quarter.

Contract research services revenues (2.3% of total revenues) came in at \$2.6 million, down 12.5% year over year.

Operating Details

Gross margin in the quarter under review came in at 80%, which contracted 200 basis points (bps) from the year-ago quarter's figure. Material gross margin contracted 600 bps year over year to 70%.

Operating expenses of \$45.3 million were up 20.5% year over year. As a percentage of revenues, operating expenses contracted 240 bps on a year-over-year basis to 40.4%.

Consequently, operating margin expanded 400 bps year over year to 39.6%.

Balance Sheet

As of Mar 31, 2020, Universal Display had cash and cash equivalents (including short-term investments) of \$639.8 million compared with of \$646 million as of Dec 31, 2019.

Cash flow from operating activities was \$5.7 million compared with \$193.9 million in the prior quarter.

The company recently approved a quarterly cash dividend of 15 cents per share, to be paid out on Jun 30, to its shareholders of record on June 15.

Guidance

The company has withdrawn its guidance for 2020 due to COVID-19 related uncertainties prevailing in the market.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	9.03%
EPS Surprise	17.65%
Quarterly EPS	0.80
Annual EPS (TTM)	3.18

Recent News

On Jul 14, Universal Display announced the establishment of its wholly-owned subsidiary, OVJP Corporation, with Jeff Hawthorne being appointed as the CEO. This subsidiary will support the commercialization of Universal Display's novel OLED TV Manufacturing Technology.

On May 7, Universal Display approved a quarterly cash dividend of 15 cents per share, to be paid out on Jun 30, to its shareholders of record on Jun 15.

On the same day, Universal Display announced the signing of a new agreement with Wuhan China Star Optoelectronics to supply phosphorescent OLED materials to the latter through its wholly-owned subsidiary UDC Ireland Limited.

Valuation

Universal Display's shares have declined 17.3% in the year-to-date period and 20.5% in the trailing 12-month period. Stocks in the Zacks sub-industry fell 8.2%, while the same in the Zacks Computer & Technology sector rose 13.4% in the year-to-date period. In the past year, the Zacks sub-industry dropped 4.5% while the sector is up 21.6%.

The S&P 500 index is up 0.1% in the year-to-date period and 6.9% in the past year.

The stock is currently trading at 49.77X forward 12-month earnings compared with 21.11X for the Zacks sub-industry, 25.4X for the Zacks sector and 22.49X for the S&P 500 index.

In the past five years, the stock has traded as high as 80.8X and as low as 21.26X, with a five-year median of 47.19X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$145 price target reflects 42.39X 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	49.77	21.11	25.4	22.49
	5-Year High	80.8	21.33	25.57	22.49
	5-Year Low	21.26	13.9	16.72	15.25
	5-Year Median	47.19	17.08	19.32	17.52
P/S F12M	Current	16.97	1.68	3.88	3.55
	5-Year High	26.69	1.87	3.88	3.55
	5-Year Low	6.92	0.94	2.32	2.53
	5-Year Median	14.47	1.45	3.14	3.02
EV/Sales TTM	Current	17.19	2.06	4.51	3.15
	5-Year High	29.27	2.26	4.51	3.45
	5-Year Low	6.34	1.1	2.59	2.14
	5-Year Median	15.63	1.82	3.65	2.84

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
CalAmp Corp. (CAMP)	Neutral	4
Fabrinet (FN)	Neutral	3
Corning Incorporated (GLW)	Neutral	3
IntriCon Corporation (IIN)	Neutral	3
SMTC Corporation (SMTX)	Neutral	3
TE Connectivity Ltd. (TEL)	Neutral	3
Vicor Corporation (VICR)	Neutral	2
Vishay Precision Group, Inc. (VPG)	Neutral	3

Industry Comparison Industry: Electronics - Miscellaneous Components				Industry Peers		
	OLED	X Industry	S&P 500	GLW	SMTX	VICR
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	D	-	-	D	A	D
Market Cap	8.03 B	104.06 M	22.74 B	23.31 B	87.18 M	3.34 B
# of Analysts	4	2	14	5	1	2
Dividend Yield	0.35%	0.00%	1.8%	2.87%	0.00%	0.00%
Value Score	F	-	-	D	A	F
Cash/Price	0.09	0.14	0.07	0.09	0.02	0.06
EV/EBITDA	118.56	7.66	13.03	10.68	6.03	124.68
PEG Ratio	2.13	2.92	3.03	15.57	NA	NA
Price/Book (P/B)	9.49	1.83	3.17	2.34	2.07	10.23
Price/Cash Flow (P/CF)	165.29	12.29	12.05	7.65	3.91	129.75
P/E (F1)	63.99	30.15	21.90	28.95	20.60	332.85
Price/Sales (P/S)	18.68	1.17	2.38	2.10	0.24	12.46
Earnings Yield	1.51%	2.60%	4.30%	3.46%	4.85%	0.29%
Debt/Equity	0.00	0.17	0.76	0.78	0.92	0.00
Cash Flow (\$/share)	1.03	0.72	7.01	4.01	0.79	0.60
Growth Score	D	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	31.56%	12.30%	10.85%	5.35%	NA	49.67%
Proj. EPS Growth (F1/F0)	-22.12%	-27.11%	-7.56%	-39.89%	-44.44%	-30.88%
Curr. Cash Flow Growth	237.80%	-15.46%	5.47%	3.88%	253.76%	-40.38%
Hist. Cash Flow Growth (3-5 yrs)	-0.62%	8.80%	8.55%	-1.86%	102.64%	102.02%
Current Ratio	5.95	2.30	1.31	2.18	1.23	7.36
Debt/Capital	0.00%	15.44%	44.41%	38.88%	48.01%	0.00%
Net Margin	33.74%	3.83%	10.45%	3.29%	-1.76%	3.05%
Return on Equity	18.85%	7.97%	15.13%	13.01%	17.18%	3.47%
Sales/Assets	0.40	0.81	0.54	0.40	1.72	0.98
Proj. Sales Growth (F1/F0)	0.93%	0.00%	-2.00%	-10.72%	7.15%	6.85%
Momentum Score	A	-	-	B	C	A
Daily Price Chg	8.76%	0.72%	0.48%	4.57%	2.32%	1.61%
1 Week Price Chg	1.17%	0.00%	0.37%	0.86%	0.67%	1.33%
4 Week Price Chg	16.02%	2.86%	5.61%	19.28%	2.66%	9.02%
12 Week Price Chg	15.74%	16.43%	13.36%	50.22%	0.65%	50.45%
52 Week Price Chg	-20.50%	-4.77%	-3.30%	-10.18%	-17.16%	158.32%
20 Day Average Volume	395,291	27,424	1,917,592	4,963,340	24,792	234,747
(F1) EPS Est 1 week change	-2.10%	0.00%	0.00%	2.72%	0.00%	42.42%
(F1) EPS Est 4 week change	-2.10%	0.00%	0.21%	2.72%	0.00%	42.42%
(F1) EPS Est 12 week change	-19.18%	-14.05%	-2.00%	-2.94%	-34.78%	23.68%
(Q1) EPS Est Mthly Chg	4.10%	0.00%	0.00%	-0.87%	0.00%	13.33%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Momentum Score	A
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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