



## Universal Display Research

Description: Engages in the research, development, and commercialization of organic light emitting diode (OLED) technologies and materials for use in flat panel displays and solid-state lighting applications

Ticker: OLED

Price: \$87.79

Market Cap: \$4.1B

Performance: -50% YTD and down 57% from highs made on Jan 18th, 2018. Shares are still up around 80% over the last 3 years

### Fundamentals:

P/E: 57.1x

F P/E: 42.6x

P/B: 6.1x

P/S: 13.9x

F P/S: 12.7x

PEG: 1.4x

Analysis: We are honestly mixed on OLED but side more towards holding off on the investment. The market itself is one that we see a lot of growth in. In fact, analysts expect the OLED display market to grow from \$22.4B last year to \$40.1B by 2022. While this market is growing it has shown to be fairly cyclical as smartphone shipments were weaker than expected this year and is much of the reason OLED stock has been getting crushed.

On November 1st, OLED reported their Q3 numbers that disappointed the Street and for the first 9 months of the year total revenue decreased 19% to \$177.3 million, compared with \$219.8 million in the first nine months of 2017 and net income decreased by \$31.5 million to \$39.6 million or \$0.83 per diluted share in the first nine months of 2018, compared with \$71.1 million or \$1.49 per diluted share in the first nine months of 2017.

OLED is also guiding for the remainder of the year to finish revs within a range of \$240 million to \$250 million (implying a \$70-80M quarter which we would be down from last year's Q4 rev of \$116M). This guidance was also cut twice this year as in the beginning of the year the range for revenue was \$350-380M back in Q4 2017 when they were projecting 2018's revenue. Also, this original guidance was already off the bat lower than the consensus for roughly \$400M. Looking at it now the company is only going to do \$240-250M and that's if they don't miss again.

We like the future of the OLED market itself. There are so many uses for it because not only does it provide better quality its also lighter and flexible and will be used in many areas including VR headsets, automobiles, smart watches, and so on and so forth. The problem here is that OLED, even after falling 50%, is still trading at such a steep valuation of 42x forward earnings and about 13x forward sales that it's getting a "no go" in our eyes. A company with this kind of valuation with decreasing revs and decreasing net income only calls for more downside in our opinion – especially when you look at the competitors in the space in Samsung, LG, etc.

On the charts side, it's only signaling more downside and you have to imagine this could be dead money for a while. Even when the company reports their next quarter's numbers it's going to be about how rev and net income was lower than last year's and then they're going to give a guidance for 2019 but how much are people going to believe that number considering they missed and dropped guidance twice this year.



The positives are that the company's capital structure is nice with zero debt and around \$500M in cash and cash equivalents and they own over 4,800 patents and patent applications. Keep an eye on this stock, its in a nice industry, but be don't be too quick to jump into it in our opinion. There are a lot of headwinds right now as they need to gain the trust of investors. Even if revs jump 40% in 2019, it will only be equivalent to 2017's revs.