Lotte Hi-mart (071840)

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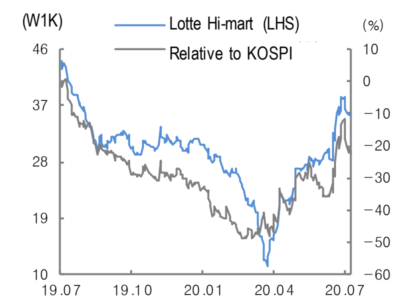
Rating	BUY maintain
6M TP (W)	44,000 maintain
CP (W) (20.07.09)	35,050
	Retail

Industry 4.0 safety rating	■ Neutral Green

KOSPI	2167.9
Market cap (Wbn)	827
Market cap portion (%)	0.06
Paid-in capital (common; Wbn)	118
52w high/low (W)	41,350/ 11,250
120d avg. trading volume (Wbn)	3.9
Foreign ownership (%)	10.51%
Major shareholders	Lotte Shopping+5: 61.15% National Pension Service: 8.10%

(%)	1M	3M	6M	12M
Abs. return	17.8	51.4	22.1	-15.2
Rel. return	19.0	28.2	23.2	-19.8



Early heat wave and revenge spending offer boost

BUY; 6M TP maintained at W44,000

- We maintain BUY on the electronics retailer and keep our target price unchanged at W44,000.
- Shares in Lotte Hi-mart have been performing well recently as unusually high temperatures and pent-up demand pushed up sales of consumer electronics. Despite the recent gain (to 12-month forward P/E ratio of 7.5), the stock still looks attractive considering the pace at which consumers are returning.

2Q20 OP likely up on robust sales of core products

- For 2Q20, Lotte Hi-mart is forecast to report revenue and OP of W1.09tn (up 2% yoy) and W47bn (up 3% yoy), respectively.
- Sales of premium TVs soared 20% yoy as the coronavirus forced people to spend more time at home.
- Air conditioner sales rose sharply amid the early heat wave in June, partly offsetting the weakness in appliance sales in the first two months of the quarter.
- Stronger sales, coupled with lower costs (promotions, etc.), likely propelled yoy growth in OP for the first time in eight quarters.

Earning to show meaningful improvement thanks in part to revenge spending

- Faced with virus-triggered travel restrictions, consumers are splurging on luxury items, especially electronics like large-screen TVs, as a way to vent frustration.
- This so-called revenge spending spree and the company's efforts to optimize its store fleet (i.e. shut down low-profit locations, which should help cut rent and payroll costs) might drive operating leverage in 2H20.
- We see the company's earnings climbing though next year as the country's GDP (estimated to drop this year due to the coronavirus) is expected to grow 3% or higher in 2021. The improving macro picture is a boon for pure domestic consumer plays like Lotte Hi-mart.

(Wbn, %)

	2Q19	1Q20	2Q20(F)					3Q20		
			Previous estimate	Daishin estimate	YoY	QoQ	Consensus	Daishin est.	YoY	QoQ
Revenue	1,071	925	1,089	1,089	1.7	17.7	1,077	1,076	9.4	-1.2
OP	46	20	47	47	2.5	140.7	47	51	52.7	8.6
NP	32	11	32	32	-0.2	182.3	33	35	62.9	9.2

Source: Lotte Hi-mart, FnGuide, Daishin Securities Research Center

	2018A	2019A	2020F	2021F	2022F
Revenue	4,113	4,026	4,095	4,246	4,381
OP	186	110	143	165	166
Pretax profit	127	-84	129	151	153
NP	85	-100	94	110	112
NP (controlling int.)	85	-100	94	110	112
EPS	3,620	-4,232	3,997	4,667	4,733
PER	12.9	NA	8.8	7.5	7.4
BPS	87,338	81,410	84,407	87,574	90,807
PBR	0.5	0.4	0.4	0.4	0.4
ROE	4.2	-5.0	4.8	5.4	5.3

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Lotte Hi-mart, Daishin Securities Research Center

Yearly earnings forecast revision (Wbn, W, %, %p)

	Previous		Revised		Chg	
	2020F	2021F	2020F	2021F	2020F	2021F
Revenue	4,095	4,246	4,095	4,246	0.0	0.0
OP	143	165	143	165	0.0	0.0
NP (contr. int.)	94	110	94	110	0.0	0.0
OP margin	3.5	3.9	3.5	3.9		
NP margin	2.3	2.6	2.3	2.6		

Source: Lotte Hi-mart, Daishin Securities Research Center

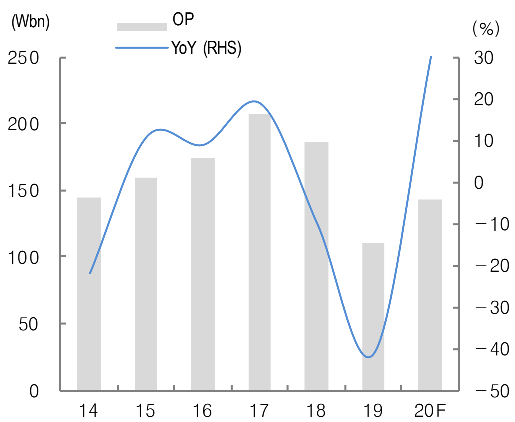
Tab 1. Earnings trend and forecast

(Wbn, %)

	2019				2020F				2019	2020F	2021F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Revenue	1,037	1,071	984	935	925	1,089	1,076	1,005	4,026	4,095	4,246
OP	24	46	33	6	20	47	51	26	110	143	165
OP margin	2.3	4.3	3.4	0.7	2.1	4.3	4.7	2.6	2.7	3.5	4.0
YoY (%)											
Revenue	8.9	-1.5	-11.6	-2.6	-10.8	1.7	9.4	7.5	-2.1	1.7	1.2
OP	-41.3	-31.5	-48.4	-52.9	-19.6	2.5	52.7	306.1	-41.1	30.4	14.9

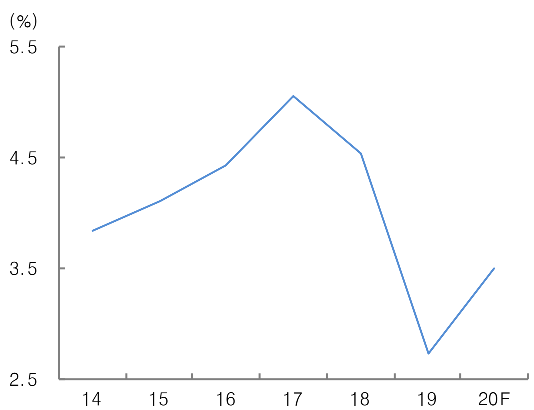
Note: K-IFRS (consolidated)
Source: Lotte Hi-mart, Daishin Securities Research Center

Fig 1. OP



Source: Lotte Hi-mart, Daishin Securities Research Center

Fig 2. OP margin



Source: Lotte Hi-mart, Daishin Securities Research Center

Financial statements

Income statement (Wbn)

	2018A	2019A	2020F	2021F	2022F
Net revenue	4,113	4,026	4,095	4,246	4,381
Cost of goods sold	3,040	3,026	3,085	3,198	3,324
Gross profit	1,073	1,001	1,010	1,048	1,057
SG&A expenses	886	891	867	884	891
OP	186	110	143	165	166
OP margin	4.5	2.7	3.5	3.9	3.8
EBITDA	234	245	200	223	226
Non-OP	-60	-194	-14	-14	-13
Income from affiliates	0	0	0	0	0
Financial revenue	9	7	8	8	8
FX related gains	0	0	0	0	0
Financial expense	-17	-21	-18	-18	-17
FX related losses	0	0	0	0	0
Others	-52	-180	-4	-4	-4
Income before taxes	127	-84	129	151	153
Income tax expense	-41	-16	-35	-41	-41
Income from cont. op.	85	-100	94	110	112
Income from discont. op.	0	0	0	0	0
NP	85	-100	94	110	112
NP margin	2.1	-2.5	2.3	2.6	2.6
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	85	-100	94	110	112
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-1	0	0	0	0
Comprehensive income	80	-100	95	110	112
Comp. income for non-contr. Int.	0	0	0	0	0
Comp. income for contr. int.	80	-100	0	0	0

Balance sheet (Wbn)

	2018A	2019A	2020F	2021F	2022F
Current assets	915	716	745	784	814
Cash & cash equiv.	300	50	68	87	96
Trade & other receive.	93	97	98	99	102
Inventories	499	532	541	561	579
Other current assets	23	37	37	37	37
Long-term assets	2,202	2,392	2,406	2,419	2,430
Tangible assets	413	437	451	463	473
Investments in affiliates	0	0	0	0	0
Other long-term assets	1,789	1,955	1,955	1,956	1,957
Total assets	3,117	3,108	3,151	3,203	3,244
Current liabilities	538	590	586	569	554
Payables & other liab.	316	298	302	309	316
Borrowings	0	0	0	0	0
Current portion of LT debts	130	130	136	123	111
Other current liabilities	93	161	148	137	128
Long-term liabilities	517	596	572	567	546
Borrowings	499	370	370	370	370
Convertible securities	0	0	0	0	0
Other long-term liab.	18	226	203	197	176
Total liabilities	1,055	1,186	1,159	1,136	1,100
Controlling interest	2,062	1,922	1,993	2,067	2,144
Capital stock	118	118	118	118	118
Capital surplus	1,056	1,056	1,056	1,056	1,056
Retained earnings	888	748	819	894	970
Other capital changes	0	0	0	0	0
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	2,062	1,922	1,993	2,067	2,144
Net borrowings	309	712	678	642	602

Valuation metrics (W, x, %)

	2018A	2019A	2020F	2021F	2022F
EPS	3,620	-4,232	3,997	4,667	4,733
PER	12.9	NA	8.8	7.5	7.4
BPS	87,338	81,410	84,407	87,574	90,807
PBR	0.5	0.4	0.4	0.4	0.4
EBITDAPS	9,925	10,396	8,474	9,448	9,586
EV/EBITDA	6.0	5.9	7.5	6.6	6.3
SPS	174,209	170,557	173,466	179,874	185,569
PSR	0.3	0.2	0.2	0.2	0.2
CFPS	10,699	11,104	16,613	17,588	17,725
DPS	1,700	1,000	1,500	1,500	1,500

Financial ratios (W, x, %)

	2018A	2019A	2020F	2021F	2022F
Growth potential					
Revenue growth	0.3	-2.1	1.7	3.7	3.2
OP growth	-10.1	-41.1	30.4	14.9	1.1
NP growth	-42.4	TTR	TTB	16.7	1.4
Profitability					
ROIC	5.4	5.6	4.6	5.2	5.1
ROA	5.9	3.5	4.6	5.2	5.2
ROE	4.2	-5.0	4.8	5.4	5.3
Stability					
Debt ratio	51.2	61.7	58.1	54.9	51.3
Net borrowings ratio	15.0	37.0	34.0	31.0	28.1
Interest coverage ratio	11.1	5.3	8.0	9.3	9.6

Source: Lotte Hi-mart, Daishin Securities Research Center

Cash flow statement (Wbn)

	2018A	2019A	2020F	2021F	2022F
Operating cash flows	72	130	296	308	310
NP	85	-100	94	110	112
Non-cash items	167	362	298	305	307
Depreciation	48	136	57	58	60
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	119	227	241	247	247
Chg in assets & liab.	-126	-100	-51	-57	-58
Other cash flows	-56	-32	-45	-50	-51
Investing cash flow	-21	-106	-86	-86	-87
Investment assets	45	-3	-1	-1	-1
Tangible assets	-49	-66	-66	-66	-66
Others	-17	-36	-19	-19	-19
Financing cash flows	-80	-275	-122	-154	-152
Short-term borrowings	0	0	0	0	0
Bonds payable	180	0	0	0	0
Long-term borrowings	130	0	0	0	0
Rights offering	0	0	0	0	0
Cash dividends	-44	-40	-24	-35	-35
Others	-346	-235	-98	-118	-117
Net chg in cash	-30	-250	19	19	9
Beginning cash balance	329	300	50	68	87
Ending cash balance	300	50	68	87	96
NOPLAT	126	131	105	120	121
FCF	116	196	95	112	115

[Daishin House View: Industry 4.0 safety rating]

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- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)	Neutral Green (neutral)	Sky Blue (positive)

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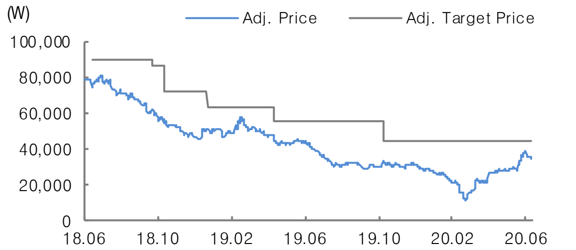
[Investment rating & Target price history]

Lotte Hi-mart (071840 KS)



Date	20.07.13	20.05.07	19.11.07	19.05.09	19.01.19	18.11.09
Rating	Buy	6M passed	Buy	Buy	Buy	Buy
Target price	44,000	44,000	44,000	56,000	63,000	72,000
Diff. (avr. %)		(29.23)	(42.48)	(34.76)	(19.39)	(30.49)
Diff. (max/min., %)		(12.50)	(26.48)	(18.39)	(8.57)	(22.78)
Date	18.10.20	18.07.12				
Rating	Buy	Buy				
Target price	86,000	90,000				
Diff. (avr. %)	(32.75)	(20.57)				
Diff. (max/min., %)	(28.49)	(10.33)				
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min., %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						

Investment rating breakdown and framework (Jul 8, 2020)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	86.8%	12.7%	0.5%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.