COMPANY ANALYSIS

[Korea] Retail August 7, 2020

Lotte Himart

(071840 KS)

Earnings surprise driven by robust home appliance demand

Trading Buy
(Maintain)

TP: W35,000
Upside: 19.9%

Mirae Asset Daewoo Co., Ltd.
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2Q20 review

Earnings surprise on strong home appliance demand and SG&A expense savings

- For 2Q20, Lotte Himart reported revenue of W1.1tr (+4.2% YoY) and operating profit of W69.3bn (+51.1% YoY).
- Despite weak sales of air conditioners, operating profit surged YoY, supported by: 1) strong demand for large home appliances; and 2) SG&A expense reductions.
- With the exception of air conditioners and mobile phones, revenue grew across the board.
- Given that sales of refrigerators showed solid growth in both 1Q20 and 2Q20, we believe the replacement cycle has arrived.

Apartment move-ins to increase in 2H20

Favorable conditions in 2H20

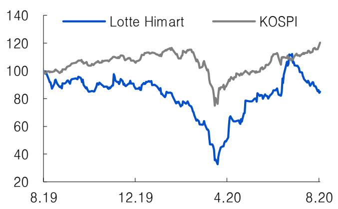
- We expect the number of move-in-ready apartments—which has declined for five consecutive quarters—to increase 13.3% YoY in 2H20 (vs. -29.9% YoY in 1H20)
- It is also encouraging that online penetration in the home appliance market (which posed a competitive threat in 2019) has been stabilizing.
- After peaking at 55.9% in March, online penetration declined to 49.9% in June. This is favorable to Lotte Himart, given its high revenue mix of offline channels.
- Low base effects should also support improvement in 2H20.

Valuation and recommendation

Maintain Trading Buy and TP of W35,000

- Currently trading at a 2020F P/E of 6.8x and 2021F P/E of 6.1x, we view the stock as undervalued, given that: 1) some appliance categories are seeing replacement demand; and 2) the increase in apartment move-ins in 2H20 should fuel appliance demand.
- The government's 10% subsidy for the purchase of energy-efficient appliances should remain in effect through 3Q20.
- We expect Lotte Himart's stock to continue to hold up well going forward.

Key data



Current price (8/6/20, W)	29,200	Market cap (Wbn)	689
OP (20F, Wbn)	153	Shares outstanding (mn)	24
Consensus OP (20F, Wbn)	128	Free float (%)	38.5
EPS growth (20F, %)	-	Foreign ownership (%)	11.1
P/E (20F, x)	6.8	Beta (12M)	1.76
Market P/E (20F, x)	16.3	52-week low (W)	11,250
KOSPI	2,342.61	52-week high (W)	38,500

Share performance

(%)	1M	6M	12M
Absolute	-18.0	9.0	-14.5
Relative	-23.4	3.6	-30.0

Earnings and valuation metrics

(Dec.)	2016	2017	2018	2019	2020F	2021F
Revenue (Wbn)	3,939	4,099	4,113	4,026	3,988	4,019
OP (Wbn)	175	207	186	110	153	152
OP margin (%)	4.4	5.1	4.5	2.7	3.8	3.8
NP (Wbn)	121	148	85	-100	101	113
EPS (W)	5,144	6,288	3,620	-4,232	4,284	4,797
ROE (%)	6.6	7.6	4.2	-5.0	5.2	5.5
P/E (x)	8.2	11.0	12.9	-	6.8	6.1
P/B (x)	0.5	0.8	0.5	0.4	0.3	0.3
Dividend yield (%)	1.2	2.7	3.6	3.2	3.4	3.4

Notes: Under non-consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Daewoo Research estimates

Table 1. 2Q20 review (Wbn, %, %p)

	2Q19	1Q20	2Q20			Growth	
			Actual	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	1,071	925	1,116	1,089	1,083	4.2	20.6
OP	**46**	**20**	**69**	**49**	**48**	**51.2**	**254.9**
OP margin (%)	4.3	2.1	6.2	4.5	4.4	1.9	4.1
NP	32	11	43	35	44	34.9	279.8

Notes: Under non-consolidated K-IFRS, NP is attributable to owners of the parent
Source: DataGuide, company data, Mirae Asset Daewoo Research estimates

Table 2. Earnings forecast revisions (Wbn, %, %p)

	Previous		Revised		% chg.		Notes
	2020F	2021F	2020F	2021F	2020F	2021F	
Revenue	4,086	3,995	3,988	4,019	-2.4	0.6	
OP	**131**	**133**	**153**	**152**	**16.9**	**14.3**	Reflected SG&A reductions in 1H20
OP margin (%)	3.2	3.2	3.8	3.8	0.6	0.6	
NP	91	98	101	114	11.1	16.3	

Notes: Under non-consolidated K-IFRS, NP is attributable to owners of the parent
Source: DataGuide, company data, Mirae Asset Daewoo Research

Table 3. Quarterly and annual earnings (Wbn, %)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20F	4Q20F	2018	2019	2020F	2021F
Revenue	**952**	**1,087**	**1,113**	**960**	**1,037**	**1,071**	**1,143**	**935**	**925**	**1,116**	**1003**	**944**	**4,113**	**4,026**	**3,988**	**4,019**
Gross profit	241	297	302	232	239	285	305	223	223	292	260	225	1,073	1,001	1,000	1,007
SG&A	200	231	238	219	214	239	243	217	204	222	219	202	886	891	847	855
OP	**41**	**67**	**65**	**13**	**24**	**46**	**62**	**6**	**20**	**69.3**	**41**	**23**	**186**	**110**	**153**	**152**
Pretax profit	39	65	63	-41	20	42	57	-174	15	57	39	22	127	-84	132	149
NP	30	50	48	-46	15	31	44	-169	11	43	30	16	85	-100	101	114
(YoY)																
Revenue	6.2	2.2	-5.8	-0.2	8.9	-1.5	2.7	-3	-11	4.2	2.0	1.0	0.3	-2.1	-0.9	0.8
OP	13.7	9.3	-20.0	-53.7	-41.3	-31.6	-4.0	-53	-20	51.2	22.7	269.7	-10.1	-41.1	39.5	-0.6
NP	17.0	9.5	-20.0	TTR	-48.4	-37.2	-9.7	RR	-26	34.9	38.3	TTB	-42.4	TTR	TTB	12.6

Notes: Under non-consolidated K-IFRS, NP is attributable to owners of the parent
Source: Company data, Mirae Asset Daewoo Research

Lotte Himart (071840 KS)

Income statement (summarized)

(Wbn)	2018	2019	2020F	2021F
Revenue	**4,113**	**4,026**	**3,988**	**4,019**
Cost of revenue	**3,040**	**3,026**	**2,989**	**3,012**
Gross profit	**1,073**	**1,000**	**999**	**1,007**
SG&A expenses	**886**	**891**	**847**	**855**
OP (adj.)	**186**	**110**	**153**	**152**
OP	**186**	**110**	**153**	**152**
Non-operating profit	**-59**	**-194**	**-20**	**-3**
Net financial income	-8	-14	-11	-4
Net income from associates	0	0	0	0
Pretax profit	127	-84	133	149
Income tax	41	16	32	36
Profit from continuing operations	85	-100	101	113
Profit from discontinued operations	0	0	0	0
NP	**85**	**-100**	**101**	**113**
Attributable to owners	85	-100	101	113
Attributable to minority interests	0	0	0	0
Total comprehensive income	**80**	**-100**	**99**	**113**
Attributable to owners	80	-100	99	113
Attributable to minority interests	0	0	0	0
EBITDA	234	245	266	215
FCF	22	64	189	179
EBITDA margin (%)	5.7	6.1	6.7	5.3
OP margin (%)	4.5	2.7	3.8	3.8
Net margin (%)	2.1	-2.5	2.5	2.8

Balance sheet (summarized)

(Wbn)	2018	2019	2020F	2021F
Current assets	**915**	**716**	**774**	**927**
Cash & equivalents	300	50	102	254
AR & other receivables	93	97	98	98
Inventory	499	532	537	538
Other current assets	23	37	37	37
Non-current assets	**2,202**	**2,392**	**2,312**	**2,249**
Investments in associates	0	0	0	0
PP&E	413	437	371	312
Intangible assets	1,653	1,496	1,489	1,485
Total assets	**3,117**	**3,108**	**3,086**	**3,176**
Current liabilities	**538**	**590**	**744**	**745**
AP & other payables	303	287	289	290
Short-term financial liabilities	130	215	366	366
Other current liabilities	105	88	89	89
Non-current liabilities	**517**	**596**	**345**	**345**
Long-term financial liabilities	499	582	330	330
Other non-current liabilities	18	14	15	15
Total liabilities	**1,055**	**1,186**	**1,089**	**1,089**
Equity attributable to owners	**2,062**	**1,922**	**1,997**	**2,087**
Capital stock	118	118	118	118
Capital surplus	1,056	1,056	1,056	1,056
Retained earnings	888	748	824	914
Minority interests	**0**	**0**	**0**	**0**
Shareholders' equity	**2,062**	**1,922**	**1,997**	**2,087**

Cash flow statement (summarized)

(Wbn)	2018	2019	2020F	2021F
Operating cash flow	**72**	**130**	**205**	**179**
NP	85	-100	101	113
Non-cash income/expenses	167	362	159	102
Depreciation	40	128	107	58
Amortization	7	7	7	4
Other	120	227	45	40
Chg. in working capital	-126	-100	-26	0
Chg. in AR & other receivables	1	-4	-3	0
Chg. in inventory	-21	-33	-5	-1
Chg. in AP & other payables	-93	-19	-21	0
Income tax	-56	-32	-29	-36
Cash flow from investing activities	**-21**	**-106**	**-14**	**12**
Chg. in PP&E	-49	-66	-17	0
Chg. in intangible assets	-8	-4	-2	0
Chg. in financial assets	49	-31	-1	0
Other	-13	-5	6	12
Cash flow from financing activities	**-80**	**-275**	**-139**	**-39**
Chg. in financial liabilities	-20	167	-101	0
Chg. in equity	0	0	0	0
Dividends	-44	-40	0	-24
Other	-16	-402	-38	-15
Chg. in cash	**-30**	**-250**	**52**	**152**
Beginning balance	329	300	50	102
Ending balance	300	50	102	254

Key valuation metrics/ratios

	2018	2019	2020F	2021F
P/E (x)	12.9	-	6.8	6.1
P/CF (x)	4.4	2.8	2.6	3.2
P/B (x)	0.5	0.4	0.3	0.3
EV/EBITDA (x)	6.0	6.0	4.7	5.1
EPS (W)	3,620	-4,232	4,284	4,797
CFPS (W)	10,699	11,104	11,027	9,113
BPS (W)	87,338	81,410	84,603	88,400
DPS (W)	1,700	1,000	1,000	1,000
Dividend payout ratio (%)	47.0	-23.6	23.3	20.8
Dividend yield (%)	3.6	3.2	3.4	3.4
Revenue growth (%)	0.3	-2.1	-0.9	0.8
EBITDA growth (%)	-8.9	4.7	8.6	-19.2
OP growth (%)	-10.1	-40.9	39.1	-0.7
EPS growth (%)	-42.4	-	-	12.0
AR turnover (x)	45.5	44.0	42.9	43.0
Inventory turnover (x)	8.4	7.8	7.5	7.5
AP turnover (x)	12.4	14.9	14.9	14.9
ROA (%)	2.7	-3.2	3.3	3.6
ROE (%)	4.2	-5.0	5.2	5.5
ROIC (%)	5.6	5.5	4.8	4.9
Debt-to-equity ratio (%)	51.2	61.7	54.5	52.2
Current ratio (%)	170.1	121.4	104.0	124.5
Net debt-to-equity ratio (%)	15.0	38.3	28.0	19.5
Interest coverage ratio (x)	11.1	5.3	8.8	9.8

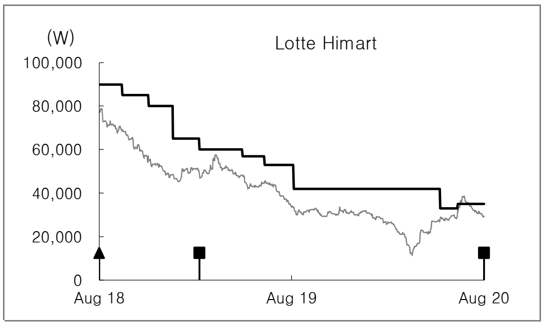
Source: Company data, Mirae Asset Daewoo Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Lotte Himart (071840)	06/17/20	Trading Buy	35,000
	05/15/20	Trading Buy	33,000
	08/11/19	Trading Buy	42,000
	06/17/19	Trading Buy	53,000
	05/06/19	Trading Buy	57,000
	02/13/19	Trading Buy	60,000
	12/25/18	Buy	65,000
	11/09/18	Buy	80,000
	09/20/18	Buy	85,000
	01/16/18	Buy	90,000



Stock ratings	
Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings	
Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (─), TP (▬), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)
* Our investment rating is a guide to the expected return of the stock over the next 12 months.
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* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.
* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	76.22%	11.59%	11.59%	0.60%
Investment banking services	75.00%	10.00%	15.00%	0%

* Based on recommendations in the last 12 months (as of June 30, 2020)

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