COMPANY ANALYSIS

[Korea] Retail

October 16, 2020

Lotte Himart

(071840 KS)

3Q20 preview: Solid demand for home appliances

Buy
(Upgrade)

TP: W40,000 ▲
Upside: 24.6%

Mirae Asset Daewoo Co., Ltd.
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3Q20 preview

Operating profit of W50.1bn (+50% YoY)

- For 3Q20, we expect Lotte Himart to deliver solid revenue and operating profit, backed by: 1) decent top-line growth (large home appliances); and 2) efficient cost management.
- On a negative note, we believe that air conditioner sales remained weak, as relatively cool weather conditions continued.
- However, excluding air conditioners, home appliance sales likely grew across the board, supported by: 1) a meaningful increase in apartment move-ins (+14% YoY in 2H20); and 2) increased time spent at home amid the COVID-19 pandemic.
- We expect demand for home appliances to remain robust through 4Q20.

Stay-at-home trend

Favorable conditions for home appliances

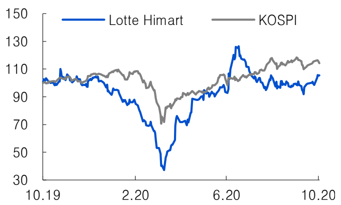
- The stay-at-home trend is likely to remain entrenched even after the pandemic ends, as a growing number of people are working and enjoying leisure activities from home.
- We believe that the stay-at-home trend is becoming a major driver of home appliance sales (in addition to new apartment move-ins).
- The number of move-in-ready apartments is set to decrease in 2021, but stay-at-home demand should help prop up home appliance sales to some extent.

Valuation and recommendation

Upgrade to Buy and raise TP

- We raise our target price from W35,000 to W40,000, as we revised up our 2020 and 2021 EPS estimates by 2.2% and 4.2%, respectively, to reflect: 1) home appliance demand stemming from the stay-at-home trend; and 2) stable costs.
- The stock's valuation looks undemanding at a 2021F P/E of 6.6x.
- We upgrade our rating from Trading Buy to Buy.

Key data



Current price (10/15/20, W)	32,100	Market cap (Wbn)	758
OP (20F, Wbn)	160	Shares outstanding (mn)	24
Consensus OP (20F, Wbn)	154	Free float (%)	38.6
EPS growth (20F, %)	-	Foreign ownership (%)	12.2
P/E (20F, x)	7.3	Beta (12M)	1.63
Market P/E (20F, x)	16.2	52-week low (W)	11,250
KOSPI	2,361.21	52-week high (W)	38,500

Share performance

(%)	1M	6M	12M
Absolute	6.8	46.9	2.6
Relative	10.5	15.5	-10.2

Earnings and valuation metrics

(Dec.)	2016	2017	2018	2019	2020F	2021F
Revenue (Wbn)	3,939	4,099	4,113	4,026	4,075	4,162
OP (Wbn)	175	207	186	110	160	163
OP margin (%)	4.4	5.1	4.5	2.7	3.9	3.9
NP (Wbn)	121	148	85	-100	103	115
EPS (W)	5,144	6,288	3,620	-4,232	4,374	4,856
ROE (%)	6.6	7.6	4.2	-5.0	5.3	5.6
P/E (x)	8.2	11.0	12.9	-	7.3	6.6
P/B (x)	0.5	0.8	0.5	0.4	0.4	0.4
Dividend yield (%)	1.2	2.7	3.6	3.2	3.1	3.1

Notes: Under non-consolidated K-IFRS
Source: Company data, Mirae Asset Daewoo Research estimates

MIRAE ASSET
Building on principles

Table 1. TP calculation (Wbn, x, '000 shares, W)

2021F NP	115	
P/E multiple	8.2	2016 P/E (no. of move-in-ready apartments in 2021 to be similar to 2016 level)
Fair market cap	940	
Shares outstanding	23,608	
Target price	**40,000**	
Current price	32,100	
Upside (%)	25	

Source: Company data, Mirae Asset Daewoo Research

Table 2. 3Q20 preview (Wbn, %, %p)

	3Q19	2Q20	3Q20F		Growth	
			Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	984	1,116	1,055	1,012	7.3	-5.4
OP	**33**	**69**	**50**	**45**	**49.9**	**-27.7**
OP margin (%)	3.4	6.2	4.7	4.4	1.3	-1.5
NP	21	43	35	32	64.3	-18.4

Note: Under non-consolidated K-IFRS
Source: DataGuide, company data, Mirae Asset Daewoo Research estimates

Table 3. Earnings forecast revisions (Wbn, %, %p)

	Previous		Revised		% chg.		Notes
	2020F	2021F	2020F	2021F	2020F	2021F	
Revenue	3,988	4,019	4,075	4,162	2.2	3.6	
OP	**153**	**152**	**160**	**163**	**4.6**	**7.0**	
OP margin (%)	3.8	3.8	3.9	3.9	0.1	0.1	
NP	101	110	103	115	2.2	4.2	

Note: Under non-consolidated K-IFRS
Source: DataGuide, company data, Mirae Asset Daewoo Research

Table 4. 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	984	935	925	1,116	1,055	979	4,113	4,026	4,075	4,162
Gross profit	241	297	302	232	239	285	254	223	223	292	268	229	1,073	1,001	1,013	1,035
SG&A	200	231	238	219	214	239	221	217	204	222	218	208	886	891	853	872
OP	**41**	**67**	**65**	**13**	**24**	**46**	**33**	**6**	**20**	**69**	**50**	**21**	**186**	**110**	**160**	**163**
Pretax profit	39	65	63	-41	20	42	28	-174	15	57	46	18	127	-84	136	151
NP	30	50	48	-46	15	31	21	-169	11	43	35	13	85	-100	103	115
YoY																
Revenue	6.2	2.2	-5.8	-0.2	8.9	-1.5	-11.6	-3	-11	4.2	7.3	5	0.3	-2.1	1.2	2.1
OP	13.7	9.3	-20.0	-53.7	-41.3	-31.6	-48.4	-53	-20	51.1	49.9	234	-10.1	-41.1	45.6	1.7
NP	17.0	9.5	-20.0	TTR	-48.4	-37.2	-55.4	RR	-26	34.8	64.3	TTB	-42.4	TTR	TTB	11.0

Notes: Under non-consolidated K-IFRS
Source: Company data, Mirae Asset Daewoo Research

Lotte Himart (071840 KS)

Income statement (summarized)

(Wbn)	2018	2019	2020F	2021F
Revenue	**4,113**	**4,026**	**4,075**	**4,162**
Cost of revenue	**3,040**	**3,026**	**3,062**	**3,128**
Gross profit	**1,073**	**1,000**	**1,013**	**1,034**
SG&A expenses	**886**	**891**	**853**	**872**
OP (adj.)	**186**	**110**	**160**	**163**
OP	**186**	**110**	**160**	**163**
Non-operating profit	**-59**	**-194**	**-24**	**-12**
Net financial income	-8	-14	-15	-12
Net income from associates	0	0	0	0
Pretax profit	127	-84	136	151
Income tax	41	16	33	36
Profit from continuing operations	85	-100	103	115
Profit from discontinued operations	0	0	0	0
NP	**85**	**-100**	**103**	**115**
Attributable to owners	85	-100	103	115
Attributable to minority interests	0	0	0	0
Total comprehensive income	**80**	**-100**	**102**	**115**
Attributable to owners	80	-100	102	115
Attributable to minority interests	0	0	0	0
EBITDA	234	245	286	237
FCF	22	64	217	198
EBITDA margin (%)	5.7	6.1	7.0	5.7
OP margin (%)	4.5	2.7	3.9	3.9
Net margin (%)	2.1	-2.5	2.5	2.8

Balance sheet (summarized)

(Wbn)	2018	2019	2020F	2021F
Current assets	**915**	**716**	**1,024**	**1,193**
Cash & equivalents	300	50	328	490
AR & other receivables	93	97	101	102
Inventory	499	532	557	563
Other current assets	23	37	38	38
Non-current assets	**2,202**	**2,392**	**2,323**	**2,250**
Investments in associates	0	0	0	0
PP&E	413	437	395	326
Intangible assets	1,653	1,496	1,491	1,486
Total assets	**3,117**	**3,108**	**3,347**	**3,443**
Current liabilities	**538**	**590**	**761**	**766**
AP & other payables	303	287	300	303
Short-term financial liabilities	130	215	369	370
Other current liabilities	105	88	92	93
Non-current liabilities	**517**	**596**	**585**	**585**
Long-term financial liabilities	499	582	570	570
Other non-current liabilities	18	14	15	15
Total liabilities	**1,055**	**1,186**	**1,346**	**1,352**
Equity attributable to owners	**2,062**	**1,922**	**2,000**	**2,091**
Capital stock	118	118	118	118
Capital surplus	1,056	1,056	1,056	1,056
Retained earnings	888	748	827	918
Minority interests	**0**	**0**	**0**	**0**
Shareholders' equity	**2,062**	**1,922**	**2,000**	**2,091**

Cash flow statement (summarized)

(Wbn)	2018	2019	2020F	2021F
Operating cash flow	**72**	**130**	**252**	**198**
NP	85	-100	103	115
Non-cash income/expenses	167	362	189	122
Depreciation	40	128	119	69
Amortization	7	7	7	5
Other	120	227	63	48
Chg. in working capital	-126	-100	-22	-3
Chg. in AR & other receivables	1	-4	-2	-1
Chg. in inventory	-21	-33	-25	-6
Chg. in AP & other payables	-93	-19	5	2
Income tax	-56	-32	-19	-36
Cash flow from investing activities	**-21**	**-106**	**-40**	**8**
Chg. in PP&E	-49	-66	-35	0
Chg. in intangible assets	-8	-4	-3	0
Chg. in financial assets	49	-31	-7	-2
Other	-13	-5	5	10
Cash flow from financing activities	**-80**	**-275**	**67**	**-45**
Chg. in financial liabilities	-20	167	142	1
Chg. in equity	0	0	0	0
Dividends	-44	-40	-24	-24
Other	-16	-402	-51	-22
Chg. in cash	**-30**	**-250**	**278**	**162**
Beginning balance	329	300	50	328
Ending balance	300	50	328	490

Key valuation metrics/ratios

	2018	2019	2020F	2021F
P/E (x)	12.9	-	7.3	6.6
P/CF (x)	4.4	2.8	2.6	3.2
P/B (x)	0.5	0.4	0.4	0.4
EV/EBITDA (x)	6.0	6.0	4.7	5.0
EPS (W)	3,620	-4,232	4,374	4,856
CFPS (W)	10,699	11,104	12,388	10,030
BPS (W)	87,338	81,410	84,733	88,590
DPS (W)	1,700	1,000	1,000	1,000
Dividend payout ratio (%)	47.0	-23.6	22.9	20.6
Dividend yield (%)	3.6	3.2	3.1	3.1
Revenue growth (%)	0.3	-2.1	1.2	2.1
EBITDA growth (%)	-8.9	4.7	16.7	-17.1
OP growth (%)	-10.1	-40.9	45.5	1.9
EPS growth (%)	-42.4	-	-	11.0
AR turnover (x)	45.5	44.0	43.1	42.8
Inventory turnover (x)	8.4	7.8	7.5	7.4
AP turnover (x)	12.4	14.9	14.9	14.8
ROA (%)	2.7	-3.2	3.2	3.4
ROE (%)	4.2	-5.0	5.3	5.6
ROIC (%)	5.6	5.5	4.9	5.2
Debt-to-equity ratio (%)	51.2	61.7	67.3	64.6
Current ratio (%)	170.1	121.4	134.5	155.7
Net debt-to-equity ratio (%)	15.0	38.3	28.8	19.8
Interest coverage ratio (x)	11.1	5.3	7.4	7.4

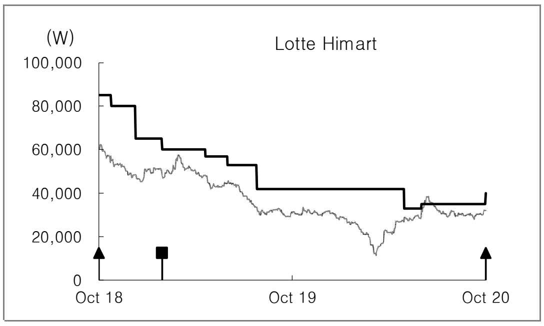
Source: Company data, Mirae Asset Daewoo Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Lotte Himart (071840)	10/16/20	Buy	40,000
	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



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	73.62%	14.11%	11.04%	1.23%
Investment banking services	72.22%	11.11%	16.67%	0.00%

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

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