Lotte Hi-Mart (071840 KS)

2Q21 review: focus on 3Q21

Retail

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Rating	BUY (M)
Target price	W46,000 (M)
Current price (Aug 5)	W35,400
Upside potential	30%

Market cap (Wbn)	836
Shares outstanding	23,607,712
Avg daily T/O (2M, Wbn)	3
Avg daily volume (2M, shrs)	88,916
52-week high (won)	43,400
52-week low (won)	27,950
Foreign ownership (%)	9.0
Major shareholders (%)	Lotte Shopping & others 65.4

Stock performance

(%)	1M	3M	12M
Absolute	(0.4)	(9.0)	22.5
Relative	0.1	(12.6)	(13.6)
Abs (US$)	(1.5)	(10.7)	27.3

2Q21 review: earnings shock on weak sales and increased promotions

Lotte Hi-Mart reported 2Q21 sales of W988.1bn (-11.4% YoY) and OP of W33.1bn (-52.3% YoY). OP fell far short of consensus (W67.6bn) and our estimate (W57.3bn). It was an earnings shock. The decline in sales was worse than expected and gross margin fell 1.1%p YoY due to increased promotional activities.

The 10% rebate for energy-efficient home appliances and COVID-19 relief subsidies in 2020 led to high base effect for all categories except air conditioners, weighing on sales growth in 2Q21. Sales of air conditioners, which were expected to rebound, fell 30% YoY in 2Q21 on unfavorable weather conditions.

As mentioned above, gross margin fell 1.1%p YoY, as the company increased promotional activities compared to 2Q20, when it did not need to thanks to the 10% government rebate.

E-commerce sales rose 26% YoY, with its sales portion reaching 20%. In 2Q21, the company closed eight branches.

Revise up 3Q21 earnings estimate on late heatwave

We estimate 3Q21 sales at W1,197.3bn (+14.3% YoY) and OP at W75.3bn (+34.8% YoY). Current consensus on 3Q21 OP is W58.6bn. The heatwave that began in July is leading to a sharp rise in sales of cooling appliances including air conditioners. Media reports say that the company's air conditioner sales in July rose 300% YoY and 75% compared to Jul 2019. Demand is very strong, and it will likely remain so in August. The share for air conditioners in 3Q21 sales currently stands at 15~20%. Moreover, sales of product categories other than air conditioners were likely decent in July.

Pressure from promotion activities, which emerged in 2Q21, will likely continue into 3Q21. However, since air conditioners have a high GPM, pressure may be offset by better product mix. Moreover, pressure from the government's refund program on energy-saving appliances will likely ease from September. We advise looking forward and focusing on 3Q21 earnings. We maintain BUY and our target price of W46,000.

Quarterly earnings

(Wbn)	2Q21P	% YoY	% QoQ	Consens	vs consens (%)
Sales	988	-11.4	3.4	1,123	-12.0
OP	33	-52.2	28.6	68	-51.0
EBT, continuing ops	32	-43.7	55.4	65	-51.0
Net profit, CI	25	-42.8	55.6	48	-48.5
OPM (%)	3.3	-2.9 %pt	+0.6 %pt	6.0	-2.7 %pt
NPM (%)	2.5	-1.4 %pt	+0.8 %pt	4.3	-1.8 %pt

Note: CI = controlling interest

Forecasts and valuations (K-IFRS, individual) (Wbn)

FY ends Dec	2019A	2020A	2021F	2022F
Sales	4,026	4,052	4,120	4,188
OP	110	161	161	172
Net profit, CI	-100	29	111	117
P/E (x)	-9.6	23.2	7.5	7.1
P/B (x)	0.5	0.3	0.4	0.4
EV/EBITDA	6.5	3.7	4.6	4.2
ROE (%)	-5.0	1.5	5.8	5.9

Source: Yuanta Securities

Lotte Hi-Mart (071840 KS) pro forma financial statements (K-IFRS, individual)

Statement of comprehensive income

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Sales	**4,026**	**4,052**	**4,120**	**4,188**	**4,280**
Cost of sales	3,026	3,045	3,111	3,160	3,225
Gross profit	1,001	1,006	1,008	1,028	1,055
SG&A	891	845	847	856	875
Operating profit	**110**	**161**	**161**	**172**	**180**
EBITDA	245	305	304	317	327
Non-op profit/loss	-194	-96	-16	-18	-17
Forex gain/loss	0	0	0	0	0
Net interest inc	-14	-17	-15	-15	-13
Equity-meth gain/loss	0	0	0	0	0
Other	-180	-79	0	-3	-3
Net prof before income tax	-84	65	145	154	163
Income tax	16	36	34	37	39
Net profit from cont op	-100	29	111	117	124
Net profit from discont op	0	0	0	0	0
Net profit	-100	29	111	117	124
NP for controlling int	**-100**	**29**	**111**	**117**	**124**
Total comprehensive inc	-100	28	115	121	127
TCI for controlling int	-100	28	115	121	127

Statement of financial position

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Current assets	**716**	**989**	**862**	**894**	**930**
Cash & cash equiv	50	236	128	142	162
Accts rec & other	97	77	110	113	116
Inventory	532	494	575	591	604
Non-current assets	2,392	2,360	2,359	2,365	2,370
Tangible assets	437	458	466	471	474
Investment in affiliate	0	0	0	0	0
Other non-current	146	146	149	149	149
Total assets	**3,108**	**3,349**	**3,221**	**3,260**	**3,300**
Current liabilities	590	846	720	726	730
Accts payable & other	298	308	307	313	317
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	130	330	180	180	180
Non-current liabilities	596	577	567	517	467
LT financial liabilities	100	97	97	97	97
Debentures	270	239	240	190	140
Total liabilities	**1,186**	**1,423**	**1,287**	**1,242**	**1,197**
Equity, controlling int	1,922	1,926	1,934	2,017	2,103
Paid-in capital	118	118	118	118	118
Capital surplus	1,056	1,056	1,056	1,056	1,056
Retained earnings	748	752	758	838	920
Equity, non-control int	0	0	0	0	0
Total equity	**1,922**	**1,926**	**1,934**	**2,017**	**2,103**
Net debt	**627**	**474**	**566**	**503**	**433**
Total debt	711	891	730	680	630

Cash flow statement

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Operating cash flow	**130**	**370**	**221**	**356**	**369**
Net profit	-100	29	111	117	124
Depreciation & amort	128	137	137	139	141
Forex gain/loss	0	0	0	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc(dec) net working cap	-100	69	-118	-7	-5
Other	202	135	90	106	109
Investing cash flow	**-106**	**-206**	**69**	**-72**	**-72**
Investment	-3	-1	-2	0	0
Inc in tangible assets	-67	-61	-67	-64	-64
Dec in tangible assets	0	0	0	0	0
Other	-36	-144	137	-8	-8
Financing cash flow	**-275**	**23**	**-281**	**-185**	**-190**
Inc(dec) in ST fin liab	0	0	0	0	0
Inc(dec) in LT fin liab	-130	165	-150	-50	-50
Inc(dec) in equity	0	0	0	0	0
Cash dividend	-40	-24	-28	-37	-42
Other	-105	-119	-103	-98	-98
Other cash flow	0	0	-117	-85	-87
Inc (dec) in cash & eq	**-250**	**187**	**-108**	**13**	**20**
Beginning cash & equiv	300	50	236	128	142
Ending cash & equiv	50	236	128	142	162
NOPLAT	131	161	**161**	**172**	**180**
FCF	**64**	**309**	**154**	**292**	**305**

Valuation

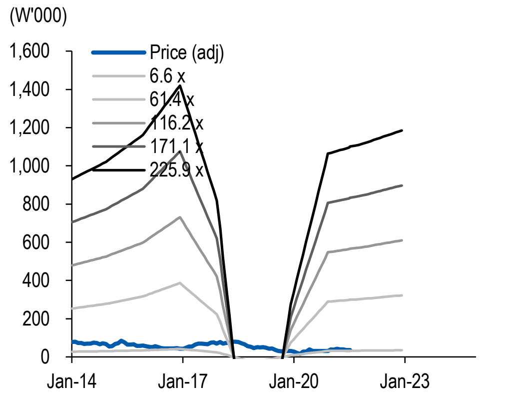
FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
EPS (won)	-4,232	1,217	4,708	4,956	5,246
BPS (won)	81,410	81,582	83,549	87,155	90,857
EBITDA/shr (won)	10,396	12,914	12,860	13,436	13,867
SPS (won)	170,557	171,627	174,502	177,396	181,296
DPS (won)	1,000	1,200	1,600	1,800	1,900
P/E (x)	**-9.6**	**23.2**	**7.5**	**7.1**	**6.7**
P/B (x)	**0.5**	**0.3**	**0.4**	**0.4**	**0.4**
EV/EBITDA (x)	**6.5**	**3.7**	**4.6**	**4.2**	**3.9**
PSR (x)	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**

Key financial data

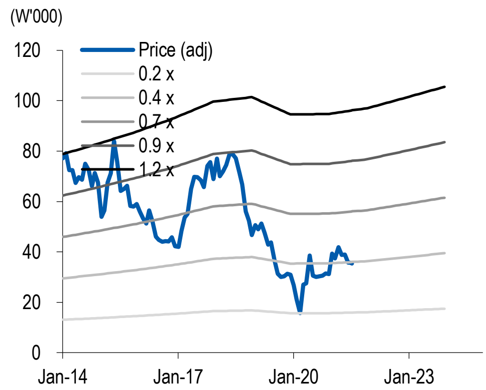
FY ends Dec (Wbn)	2019	2020	2021E	2022E	2023E
Sales (% y-y)	**-2.1**	**0.6**	**1.7**	**1.7**	**2.2**
Operating profit (% y-y)	**-41.1**	**46.6**	**0.1**	**6.7**	**4.4**
NP, CI (% y-y)	**TTR**	**TTB**	**287.0**	**5.3**	**5.8**
Gross margin (%)	24.9	24.8	24.5	24.5	24.6
Operating margin (%)	**2.7**	**4.0**	**3.9**	**4.1**	**4.2**
NP, CI margin (%)	-2.5	0.7	2.7	2.8	2.9
EBITDA margin (%)	6.1	7.5	7.4	7.6	7.6
ROIC (%)	5.9	3.4	5.9	6.1	6.3
ROA (%)	-3.2	0.9	3.4	3.6	3.8
ROE (%)	**-5.0**	**1.5**	**5.8**	**5.9**	**6.0**
Debt-to-equity (%)	61.7	73.9	66.5	61.6	56.9
Net debt-to-equity (%)	32.6	24.6	29.3	24.9	20.6
OP/financing cost (x)	5.3	7.0	8.7	10.0	11.2

Note: CI = controlling interest
Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)
EPS, BPS, P/E and P/B are based on controlling interest
For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

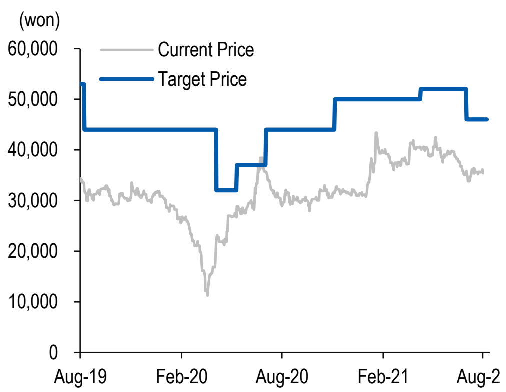
P/E band chart



P/B band chart



Lotte Hi-Mart (071840 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%) vs avg price	Difference (%) vs high (low)
2021/08/06	BUY	46,000	1 yr		
2021/07/06	BUY	46,000	1 yr		
2021/04/14	BUY	52,000	1 yr	-24.96	-18.27
2020/11/09	BUY	50,000	1 yr	-28.07	-13.20
2020/07/07	BUY	44,000	1 yr	-29.79	-19.55
2020/05/15	BUY	37,000	1 yr	-15.16	4.05
2020/04/08	BUY	32,000	1 yr	-24.21	-13.91
2019/08/12	BUY	44,000	1 yr	-37.25	-23.75
2019/05/10	BUY	53,000	1 yr	-21.97	-13.77

Note: Difference = (actual price* - target price) / target price x 100
* 1) The average price until the day target price was suggested
2) The highest (lowest) price until the day target price was suggested
Source: Yuanta Securities

Rating	Share (%)
STRONG BUY	0.0
BUY	94.2
HOLD	5.8
SELL	0.0
Total	100.0

Note: As of Aug 04, 2021 Excluding reports written or published by overseas affiliates

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  - Underweight: Investment weighting is lower than the market capitalization weighting

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