Lotte Hi-Mart (071840 KS)

Retail

Jin-hyeob Lee
+822 3770 5659
jinhyeob.lee@yuantakorea.com

Rating	BUY (M)
Target price	W34,000 (D)
Current price (Feb 7)	W22,800
Upside potential	49%

Market cap (Wbn)	538
Shares outstanding	23,607,712
Avg daily T/O (2M, Wbn)	1
Avg daily volume (2M, shrs)	57,524
52-week high (won)	42,500
52-week low (won)	20,500
Foreign ownership (%)	7.7
Major shareholders (%)	Lotte Shopping & others 65.4

Stock performance

(%)	1M	3M	12M
Absolute	(9.9)	(16.0)	(42.2)
Relative	(3.0)	(9.2)	(34.3)
Abs (US$)	(9.8)	(17.1)	(45.9)

4Q21 review: impact of sluggish home appliance market continues

4Q21 review: sluggish on weaker home appliance demand

Lotte Hi-Mart reported 4Q21 sales of W893.1bn (-7.3% YoY) and OP of W3.7bn (-77.5% YoY). OP fell far below consensus (W10.7bn), as demand for home appliances, particularly large high-margin appliances was weaker than in 4Q20.

In 4Q21, sales likely declined in the low- to mid-single digits, as sales of washing machines and clothes dryers fell nearly 20% YoY, and sales of Kimchi refrigerators, which typically account for a large portion of 4Q sales, also declined by a high-single-digit figure. Sales of high-margin large appliances were weak, while sales of low-margin IT devices increased in the high-single digits, worsening product margin mix, and thus, driving down gross margin by 50bp YoY.

Despite overall weak earnings, e-commerce sales grew 23% YoY, continuing more than 20% growth. The e-commerce sales portion climbed to 21%.

Amid continuous store restructuring, the number of stores fell to 427 and is likely to decline by 18 in net terms in 2022.

Restructuring alone not enough; growth driver needed

The company has maintained its "scrap-and-build" strategy of restructuring inefficient stores and opening mega stores. Regarding renovated mega stores, more than double-digit sales growth shows that restructuring is bearing fruit. Improving store efficiency will likely continue in 2022 and the number of mega stores should expand from 15 in 4Q21 to 25. However, although this strategy is helpful for bottom-line, it is unlikely to make a difference to its declining home appliance market share. The company needs a growth driver. We believe it is time for the firm to enter the apartment renovation market in cooperation with Hanssem, in which it made an equity investment together with parent company Lotte Shopping, and explore new sales routes such as expanding B2B distribution.

Although it is clear that the company is in a difficult situation, shares are unlikely to correct further given the mid-4% dividend yield and 2022E P/E of just 6x. Thus, we maintain BUY but revise down our target price slightly to W34,000 to reflect lower earnings estimates.

Quarterly earnings

(Wbn)	4Q21E	% YoY	% QoQ	Consens	vs consens (%)
Sales	893	-7.3	-14.2	927	-3.6
OP	4	-77.4	-92.7	11	-65.4
EBT, continuing ops	-127	RR	TTR	-14	-799.1
Net profit, CI	-129	RR	TTR	-10	-1,257.9
OPM (%)	0.4	-1.3 %pt	-4.5 %pt	1.2	-0.8 %pt
NPM (%)	-14.4	RR	TTR	-1.0	-13.4 %pt

Note: CI = controlling interest

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

FY ends Dec	2019A	2020A	2021F	2022F
Sales	4,026	4,052	3,877	4,073
OP	110	161	113	135
Net profit, CI	-100	29	-52	89
P/E (x)	-9.6	23.2	-11.3	6.0
P/B (x)	0.5	0.3	0.3	0.3
EV/EBITDA	6.5	3.7	3.9	3.2
ROE (%)	-5.0	1.5	-2.8	4.8

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**	**3,877**	**4,073**	**4,162**
Cost of sales	3,026	3,045	2,938	3,082	3,145
Gross profit	1,001	1,006	939	991	1,017
SG&A	891	845	826	857	874
Operating profit	**110**	**161**	**113**	**135**	**143**
EBITDA	245	305	259	278	290
Non-op profit/loss	-194	-96	-140	-17	-16
Forex gain/loss	0	0	0	0	0
Net interest inc	-14	-17	-14	-12	-10
Equity-meth gain/loss	0	0	0	0	0
Other	-180	-79	-126	-5	-5
Net prof before income tax	-84	65	-27	117	127
Income tax	16	36	26	28	31
Net profit from cont op	-100	29	-52	89	97
Net profit from discont op	0	0	0	0	0
Net profit	-100	29	-52	89	97
NP for controlling int	**-100**	**29**	**-52**	**89**	**97**
Total comprehensive inc	-100	28	-49	93	101
TCI for controlling int	-100	28	-49	93	101

Statement of financial position

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Current assets	**716**	**989**	**752**	**773**	**825**
Cash & cash equiv	50	236	96	96	135
Accts rec & other	97	77	63	65	66
Inventory	532	494	525	545	557
Non-current assets	2,392	2,360	2,210	2,218	2,223
Tangible assets	437	458	479	486	490
Investment in affiliate	0	0	0	0	0
Other non-current	146	146	147	147	147
Total assets	**3,108**	**3,349**	**2,961**	**2,991**	**3,048**
Current liabilities	590	846	639	649	680
Accts payable & other	298	308	350	360	391
ST financial liabilities	0	0	0	0	0
Liquid LT liabilities	130	330	98	98	98
Non-current liabilities	596	577	492	442	392
LT financial liabilities	100	97	0	0	0
Debentures	270	239	289	239	189
Total liabilities	**1,186**	**1,423**	**1,132**	**1,092**	**1,073**
Equity, controlling int	1,922	1,926	1,830	1,900	1,975
Paid-in capital	118	118	118	118	118
Capital surplus	1,056	1,056	1,056	1,056	1,056
Retained earnings	748	752	674	740	811
Equity, non-control int	0	0	0	0	0
Total equity	**1,922**	**1,926**	**1,830**	**1,900**	**1,975**
Net debt	**627**	**474**	**412**	**363**	**274**
Total debt	711	891	574	524	474

Cash flow statement

FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
Operating cash flow	**130**	**370**	**147**	**237**	**278**
Net profit	-100	29	-52	89	97
Depreciation & amort	128	137	140	137	140
Forex gain/loss	0	0	0	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc(dec) net working cap	-100	69	20	-37	-9
Other	202	135	40	47	49
Investing cash flow	**-106**	**-206**	**161**	**-68**	**-68**
Investment	-3	-1	-2	0	0
Inc in tangible assets	-67	-61	-77	-64	-64
Dec in tangible assets	0	0	0	0	0
Other	-36	-144	239	-4	-4
Financing cash flow	**-275**	**23**	**-435**	**-167**	**-169**
Inc(dec) in ST fin liab	0	0	0	0	0
Inc(dec) in LT fin liab	-130	165	-280	-50	-50
Inc(dec) in equity	0	0	0	0	0
Cash dividend	-40	-24	-28	-23	-25
Other	-105	-119	-127	-94	-94
Other cash flow	0	0	-13	-2	-2
Inc (dec) in cash & eq	**-250**	**187**	**-140**	**0**	**38**
Beginning cash & equiv	300	50	236	96	96
Ending cash & equiv	50	236	96	96	135
NOPLAT	**131**	**161**	**221**	**135**	**143**
FCF	**64**	**309**	**70**	**173**	**214**

Valuation

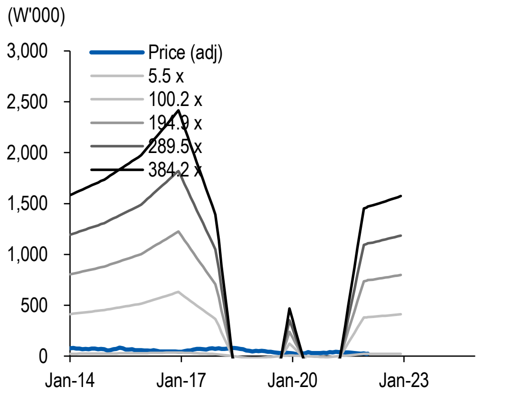
FY ends Dec (Wbn)	2019A	2020A	2021F	2022F	2023F
EPS (won)	-4,232	1,217	-2,222	3,777	4,094
BPS (won)	81,410	81,582	79,078	82,109	85,364
EBITDA/shr (won)	10,396	12,914	10,964	11,787	12,285
SPS (won)	170,557	171,627	164,241	172,548	176,281
DPS (won)	1,000	1,200	1,000	1,100	1,200
P/E (x)	**-9.6**	**23.2**	**-11.3**	**6.0**	**5.6**
P/B (x)	**0.5**	**0.3**	**0.3**	**0.3**	**0.3**
EV/EBITDA (x)	**6.5**	**3.7**	**3.9**	**3.2**	**2.8**
PSR (x)	**0.2**	**0.2**	**0.2**	**0.1**	**0.1**

Key financial data

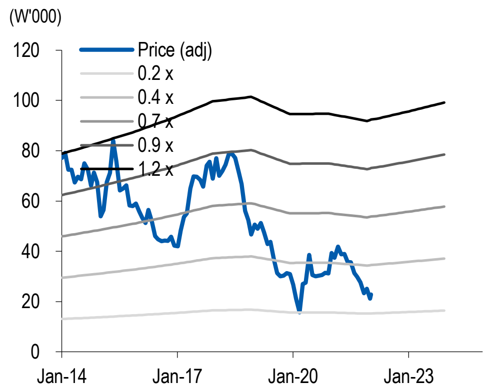
FY ends Dec (Wbn)	2019	2020	2021E	2022E	2023E
Sales (% y-y)	**-2.1**	**0.6**	**-4.3**	**5.1**	**2.2**
Operating profit (% y-y)	**-41.1**	**46.6**	**-29.6**	**18.8**	**6.3**
NP, CI (% y-y)	**TTR**	**TTB**	**TTR**	**TTB**	**8.4**
Gross margin (%)	24.9	24.8	24.2	24.3	24.4
Operating margin (%)	**2.7**	**4.0**	**2.9**	**3.3**	**3.4**
NP, CI margin (%)	-2.5	0.7	-1.4	2.2	2.3
EBITDA margin (%)	6.1	7.5	6.7	6.8	7.0
ROIC (%)	5.9	3.4	11.2	5.3	5.7
ROA (%)	-3.2	0.9	-1.7	3.0	3.2
ROE (%)	**-5.0**	**1.5**	**-2.8**	**4.8**	**5.0**
Debt-to-equity (%)	61.7	73.9	61.8	57.5	54.3
Net debt-to-equity (%)	32.6	24.6	22.5	19.1	13.9
OP/financing cost (x)	5.3	7.0	6.3	10.0	11.7

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

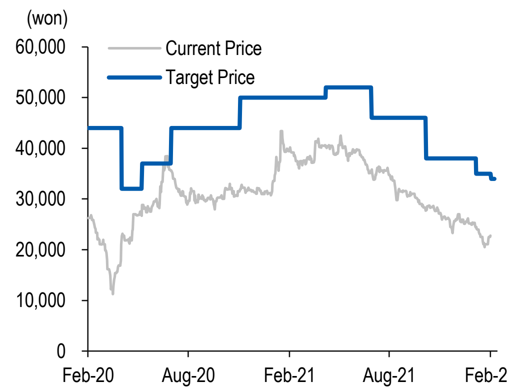
P/E band chart



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	vs high (low)
2022/02/08	BUY	34,000	1 yr		
2022/01/12	BUY	35,000	1 yr	-36.01	-31.14
2021/10/13	BUY	38,000	1 yr	-30.75	-24.47
2021/07/06	BUY	46,000	1 yr	-29.16	-20.87
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

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	92.0
HOLD	8.0
SELL	0.0
Total	100.0

Note: As of Feb 06, 2022 Excluding reports written or published by overseas affiliates

Disclosures & disclaimers

This research report has been prepared for informational purposes only; it does not constitute an offer or a solicitation of an offer to buy or sell any securities or other financial instruments. The information and data contained in this report have been obtained from sources we consider reliable; however, we make no representation that the information provided in this report is accurate or complete, and it should not be relied on as such. The recipient of this report should use his/her independent judgment regarding the sale or purchase of any securities or financial instruments mentioned herein. We disclaim any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for our clients only. It is copyrighted material and may not be reproduced, transmitted, quoted, or distributed in any manner without the prior written consent of Yuanta Securities Korea Co., Ltd.

As of the date of publication of this report, Yuanta Securities Korea Co., Ltd. does not own 1% or more of the subject company's shares outstanding. As of the date of publication of this report, Yuanta Securities Korea Co., Ltd. does not have any special interests in the subject company.

The material contained herein was not disclosed by Yuanta Securities Korea Co., Ltd. to any institutional investors or third parties prior to its publication. The analyst (s) of this report or the analyst (s)' spouse does not have any financial interest in the securities of the subject company (ies) mentioned herein, nor financial interest of any nature related to the subject company (ies) (including without limitation, whether it consists of any option, right, warrant, future, long or short position), as of the publication date of this report.

Analyst certification

I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

Stock and sector ratings

- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
  - Buy: Expected to return between 10% and 30%
  - Hold: Expected to return between -10 and +10%
  - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
  - Overweight: Investment weighting is higher than the market capitalization weighting
  - Neutral: Investment weighting is equal to the market capitalization weighting
  - Underweight: Investment weighting is lower than the market capitalization weighting

Yuanta Securities (Korea) International Network

Seoul

Head Office
Yuanta Securities Korea Bldg.
76 Uljiro, Jung-gu, Seoul (Euljiro 2)
Tel: +822 3770 2000

Research Center
Yuanta Securities Korea Bldg.
76 Uljiro, Jung-gu, Seoul (Euljiro 2)
Tel: +822 3770 2000

Hong Kong

Yuanta Financial (Hong Kong) Limited
Suite 22D, 24/F Block D, Mai Luen Industrial Bldg,
23-31 Kung Yip Street, Kwai Chung, N.T. Hong Kong
Tel: +852 6388 1870

Cambodia

Yuanta Securities (Cambodia) Plc.
#138, 2nd Floor, Paragon Bldg, Norodom Blvd,
Phnom Penh, Cambodia
Tel: +855 23 860 800

Yuanta Securities (Korea)