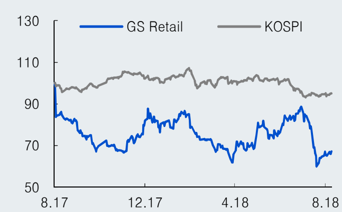
Retail

Results Comment
August 10, 2018

(Maintain)	Trading Buy
Target Price (12M, W)	▼ 42,000
Share Price (08/09/18, W)	33,350
Expected Return	26%

OP (18F, Wbn)	192
Consensus OP (18F, Wbn)	176
EPS Growth (18F, %)	30.4
Market EPS Growth (18F, %)	10.1
P/E (18F, x)	16.7
Market P/E (18F, x)	9.0
KOSPI	2,303.71
Market Cap (Wbn)	2,568
Shares Outstanding (mn)	77
Free Float (%)	34.1
Foreign Ownership (%)	19.5
Beta (12M)	0.11
52-Week Low	29,750
52-Week High	43,950

(%)	1M	6M	12M
Absolute	-17.9	-9.3	-21.3
Relative	-18.5	-6.9	-19.1



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[Retail]

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GS Retail

(007070 KS)

2Q18 review: Solid convenience store earnings

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For 2Q18, GS Retail reported consolidated revenue of W2.2tr (+5.3% YoY) and operating profit of W55.7bn (+4.9% YoY), in line with our estimates. The convenience store business performed better than expected, thanks to: 1) a recovery in same-store sales (SSS) growth (1.0% in April, 0.5% in May, and 2.5% in June) due to the World Cup and the heat wave; and 2) SG&A expense savings (W12bn).

Convenience stores: Operating profit was better than expected, rising 1.7% YoY to W65.3bn on SG&A expense cuts. Recently, SSS growth (general products) has remained healthy at 2% in July and over 2% in August, helped by: 1) record-breaking temperatures; and 2) the development of new products to drive daily revenue. We expect the convenience store business to continue solid earnings in 3Q18.

Supermarkets: SSS grew 5-6%, leading to operating profit of W1.1bn (turning to profit YoY). We believe both traffic and ticket remained healthy, driven by the ongoing expansion of strategic categories since 2H17.

Lalavla: Negative SSS growth worsened to -5-6% (vs. -3-4% in 1Q18), resulting in an operating loss of W7bn. Due to the ongoing weakness of existing stores, the company plans to modify its strategy and halt new store rollouts.

Parnas: Operating profit was W10.9bn (turning to profit YoY). Parnas Tower's vacancy rate was around 2%, and the hotel's occupancy rate improved to the low-80% level (vs. low-70% level in 1Q18), supporting another solid performance.

Worries over slowdown in 2019

We expect convenience store revenue growth to slow in 2019, as minimum wage hikes are likely to raise worries about higher costs for franchisees and margin deterioration, resulting in a decline in net store additions (from 1,701 in 2017 to 559 in 2018 and 497 in 2019). As net store additions decelerate, the market should become more balanced, and SSS growth should improve as a result, potentially triggering a rebound in share prices. However, we do not expect any meaningful recovery, given the expected slowdown in growth. Looking ahead, we believe 1) a recovery in SSS growth driven by a turnaround in traffic and 2) continued improvements in gross margins will be critical for GS Retail's stock to overcome worries over a slowdown in growth.

Maintain Trading Buy and lower TP

Despite our expectation of solid convenience store earnings in 3Q18, we lower our target price on GS Retail by 11% to W42,000 (from W47,000) and keep our Trading Buy rating, given the risk of growth slowing as a result of minimum wage increases in 2019. Reflecting the potential slowdown, we used the stock's 2014 multiple (number of store closures in 2018-19 is expected to be similar to that in 2014) and applied a 20% premium, in light of the sharp increase in Parnas's operating profit contribution (12% in 2014 vs. 28% in 2018F). In our view, any meaningful recovery in share prices will require; 1) a visible turnaround in convenience store traffic; and 2) continued improvements in gross margins.

FY (Dec.)	12/14	12/15	12/16	12/17	12/18F	12/19F
Revenue (Wbn)	4,962	6,273	7,402	8,267	8,844	9,328
OP (Wbn)	143	226	218	166	192	201
OP margin (%)	2.9	3.6	2.9	2.0	2.2	2.2
NP (Wbn)	111	164	274	118	154	163
EPS (W)	1,445	2,133	3,562	1,535	2,002	2,123
ROE (%)	6.8	9.5	14.5	5.9	7.5	7.6
P/E (x)	17.7	25.2	13.4	26.3	16.7	15.7
P/B (x)	1.2	2.3	1.8	1.5	1.2	1.2
Dividend yield (%)	2.3	1.6	2.3	1.5	1.8	1.8

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

Table 1. 2Q18 review

(Wbn, %)

	2Q17	4118	2Q18			Growth	
			Actual	Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	2,088	1,995	**2,199**	2,262	2,246	5.3	10.2
Operating profit	53	22	**56**	56	54	4.9	157.9
OP margin (%)	2.5	1.1	**2.5**	2.5	2.4	0.0	1.5
Net profit	42.0	16	**44**	46	43	5.3	175.5

Note: Net profit is attributable to controlling interests.
Source: Company data, Dataguide, Mirae Asset Daewoo Research

Table 2. Annual earnings forecast revisions

(Wbn, %)

	Previous		Revised		% chg.		Notes
	2018F	2019F	2018F	2019F	2018F	2019F	
Revenue	8,882	9,312	8,844	9,328	-0.4	0.2	- Reflected 2Q results
Operating profit	175	203	194	201	10.8	-1.0	- Solid convenience store earnings expected for 3Q
OP margin (%)	2.0	2.2	2.2	2.2	0.2	0.0	
Net profit	145	169	154	162	6.3	-4.2	

Note: Net profit is attributable to controlling interests.
Source: Mirae Asset Daewoo Research

Table 3. Earnings and forecasts

(Wbn, %, x))

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18F	4Q18F	2016	2017	2018F	2019F
Revenue	**1,640**	**1,851**	**1,987**	**1,924**	**1,846**	**2,088**	**2,259**	**2,073**	**1,995**	**2,199**	**2,473**	**2,178**	**7,402**	**8,267**	**8,844**	**9,328**
Convenience store	1,203	1,401	1,519	1,479	1,382	1,601	1,729	1,565	1,479	1,670	1,886	1,643	5,603	6,278	6,677	7,034
Supermarket	354	358	378	335	355	366	395	344	365	373	441	370	1,424	1,460	1,549	1,690
Parnas	42	55	47	66	53	57	61	75	67	73	63	78	209	245	280	296
Other	41	37	43	44	56	65	74	88	84	83	83	87	166	283	337	307
Gross profit	299	350	377	361	339	392	430	398	413	437	478	417	1,387	1,559	1,746	1,829
Operating profit	**26**	**68**	**85**	**38**	**26**	**53**	**56**	**31**	**22**	**56**	**85**	**32**	**218**	**166**	**194**	**201**
Pretax profit	25	66	85	189	30	53	59	47	26	63	92	40	365	189	221	228
Net profit	19	49	64	142	23	42	38	15	16	44	65	29	274	118	154	162
YoY growth (%)																
Revenue	23.8	18.0	15.3	16.1	12.5	12.8	13.7	7.8	8.1	5.3	9.5	5.0	18.0	11.7	7.0	5.5
Operating profit	-33.4	-2.5	9.8	-1.0	-1.5	-21.7	-34.9	-19.4	-17.2	4.9	52.7	3.1	-3.4	-24.0	17.1	3.7
Net profit	-38.0	-6.4	9.8	540.2	19.0	-14.6	-40.5	-89.4	-29.9	5.3	70.9	89.8	67.0	-56.9	30.4	5.0

Notes: Net profit is attributable to controlling interests; pre-1Q18 earnings are not based on new revenue accounting standards.
Source: Company data, Mirae Asset Daewoo Research

Table 4. Target price calculation

(Wbn, x, %)

2018F net profit	154	
P/E multiple	21.3	20% premium to 2014 P/E of 18x
Fair market cap	3,283	
Issued shares ('000)	77,000	
Target price	**42,000**	
Current price	33,350	Closing price on August 9th, 2018
Upside (%)	26	

Note: Reflecting an expected slowdown in growth in 2018-19 due to increasing store closures, we applied a 2014 P/E (GS Retail shuttered 458 stores in 2014, similar to our estimates of 541 store closures in 2018F and 403 in 2019F); in light of the anticipated rise in Parnas's contribution to overall operating profit from 12% in 2014 to 28% in 2018, we applied a 20% premium.
Source: Mirae Asset Daewoo Research

GS Retail (007070 KS/Trading Buy/TP: W42,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Revenue	**8,267**	**8,844**	**9,328**	**9,117**
Cost of Sales	**6,707**	**7,099**	**7,499**	**0**
Gross Profit	**1,560**	**1,745**	**1,829**	**9,117**
SG&A Expenses	**1,394**	**1,553**	**1,628**	**0**
Operating Profit (Adj)	**166**	**192**	**201**	**9,117**
Operating Profit	**166**	**192**	**201**	**9,117**
Non-Operating Profit	**23**	**29**	**29**	**491**
Net Financial Income	-2	-1	0	488
Net Gain from Inv in Associates	1	0	0	0
Pretax Profit	189	221	230	9,608
Income Tax	74	58	61	2,537
Profit from Continuing Operations	115	162	169	7,070
Profit from Discontinued Operations	0	0	0	0
Net Profit	115	162	169	7,070
Controlling Interests	118	154	163	6,823
Non-Controlling Interests	-3	8	6	247
Total Comprehensive Profit	**122**	**161**	**169**	**7,070**
Controlling Interests	126	134	141	5,887
Non-Controlling Interests	-4	27	28	1,183
EBITDA	437	469	456	9,361
FCF (Free Cash Flow)	61	423	161	7,312
EBITDA Margin (%)	5.3	5.3	4.9	102.7
Operating Profit Margin (%)	2.0	2.2	2.2	100.0
Net Profit Margin (%)	1.4	1.7	1.7	74.8

Statement of Financial Condition (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Current Assets	**743**	**1,165**	**1,184**	**8,452**
Cash and Cash Equivalents	91	479	467	7,735
AR & Other Receivables	291	306	320	320
Inventories	231	242	254	254
Other Current Assets	130	138	143	143
Non-Current Assets	**4,349**	**4,150**	**4,217**	**3,973**
Investments in Associates	14	15	16	16
Property, Plant and Equipment	2,393	2,197	2,291	2,072
Intangible Assets	171	135	102	77
Total Assets	**5,092**	**5,314**	**5,401**	**12,425**
Current Liabilities	**1,796**	**1,899**	**1,942**	**1,942**
AP & Other Payables	743	780	817	817
Short-Term Financial Liabilities	722	772	762	762
Other Current Liabilities	331	347	363	363
Non-Current Liabilities	**903**	**950**	**871**	**871**
Long-Term Financial Liabilities	265	279	169	169
Other Non-Current Liabilities	638	671	702	702
Total Liabilities	**2,699**	**2,849**	**2,813**	**2,813**
Controlling Interests	**2,030**	**2,095**	**2,213**	**8,990**
Capital Stock	77	77	77	77
Capital Surplus	156	156	156	156
Retained Earnings	1,802	1,868	1,985	8,762
Non-Controlling Interests	**363**	**370**	**376**	**623**
Stockholders' Equity	**2,393**	**2,465**	**2,589**	**9,613**

Cash Flows (Summarized)

(Wbn)	12/17	12/18F	12/19F	12/20F
Cash Flows from Op Activities	442	497	478	7,312
Net Profit	115	162	169	7,070
Non-Cash Income and Expense	401	320	268	2,291
Depreciation	225	232	222	219
Amortization	46	45	33	25
Others	130	43	13	2,047
Chg in Working Capital	59	53	56	0
Chg in AR & Other Receivables	-37	0	-9	0
Chg in Inventories	-54	-11	-11	0
Chg in AP & Other Payables	98	19	24	0
Income Tax Paid	**-120**	**-61**	**-61**	**-2,537**
Cash Flows from Inv Activities	-423	-86	-324	2
Chg in PP&E	-369	-69	-316	0
Chg in Intangible Assets	-40	-8	0	0
Chg in Financial Assets	106	-10	-10	0
Others	**-120**	**1**	**2**	**2**
Cash Flows from Fin Activities	28	-21	-166	-46
Chg in Financial Liabilities	168	63	-120	0
Chg in Equity	0	0	0	0
Dividends Paid	-85	-85	-46	-46
Others	**-55**	**1**	**0**	**0**
Increase (Decrease) in Cash	47	389	-13	7,268
Beginning Balance	44	91	479	467
Ending Balance	**91**	**479**	**467**	**7,735**

Forecasts/Valuations (Summarized)

	12/17	12/18F	12/19F	12/20F
P/E (x)	26.3	16.7	15.7	0.4
P/CF (x)	6.0	5.3	5.9	0.3
P/B (x)	1.5	1.2	1.2	0.3
EV/EBITDA (x)	9.8	7.3	7.3	-
EPS (W)	1,535	2,002	2,123	88,614
CFPS (W)	6,708	6,259	5,678	121,571
BPS (W)	26,369	27,218	28,741	116,755
DPS (W)	600	600	600	600
Payout ratio (%)	40.1	28.5	27.3	0.7
Dividend Yield (%)	1.5	1.8	1.8	1.8
Revenue Growth (%)	11.7	7.0	5.5	-2.3
EBITDA Growth (%)	-3.3	7.3	-2.8	1,952.9
Operating Profit Growth (%)	-23.9	15.7	4.7	4,435.8
EPS Growth (%)	-56.9	30.4	6.0	4,074.0
Accounts Receivable Turnover (x)	48.5	46.1	46.4	44.3
Inventory Turnover (x)	42.9	37.4	37.6	36.0
Accounts Payable Turnover (x)	15.7	14.4	14.5	0.0
ROA (%)	2.3	3.1	3.2	79.3
ROE (%)	5.9	7.5	7.6	121.8
ROIC (%)	3.4	5.3	5.8	244.8
Liability to Equity Ratio (%)	112.8	115.5	108.6	29.3
Current Ratio (%)	41.4	61.3	61.0	435.3
Net Debt to Equity Ratio (%)	34.1	19.8	14.5	-71.7
Interest Coverage Ratio (x)	5.9	6.7	7.1	348.1

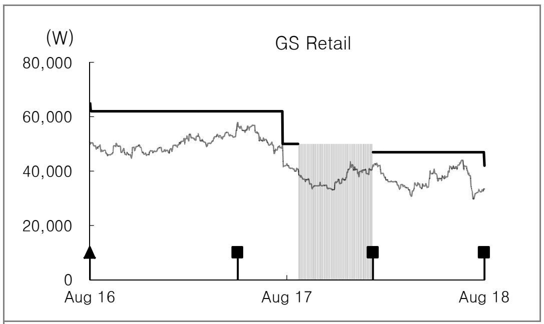
Source: Company data, Mirae Asset Daewoo Research estimates

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
GS Retail (007070)	08/10/2018	Trading Buy	42,000
	01/16/2018	Trading Buy	47,000
	08/31/2017	No Coverage	
	08/02/2017	Trading Buy	50,000
	05/11/2017	Trading Buy	62,000
	08/12/2016	Buy	62,000
	05/26/2016	Buy	64,800



Stock Ratings	
Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings	
Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (─), Target price (▬), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.
* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.
* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst’s estimate of future earnings.
* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	73.40%	14.78%	11.82%	0.00%
Investment Banking Services	77.42%	9.68%	12.90%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2018)

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