

January 23, 2019

Korea

Morning Focus

Company News & Analysis

KT (030200/Buy/TP: W38,000)

Minus one-off expenses, solid earnings expected

SK Telecom (017670/Buy/TP: W335,000)

Focus on medium/long-term vision rather than earnings

Samsung Card (029780/Hold)

Wait until impact of fee cuts is confirmed

Industrial Bank of Korea (024110KS/Buy/TP: W19,500) Lower TP

Steady earnings and dividend growth

Major Indices			
	Close	Chg	Chg (%)
KOSPI	2,117.77	-6.84	-0.32
KOSPI 200	272.71	-1.29	-0.47
KOSDAQ	694.55	-1.07	-0.15

Turnover ('000 shares, Wbn)	
	Value
KOSPI	414,469
KOSPI 200	68,235
KOSDAQ	777,798

Market Cap (Wbn)	
	Value
KOSPI	1,397,318
KOSDAQ	234,384

KOSPI Turnover (Wbn)			
	Buy	Sell	Net
Foreign	1,371	1,245	126
Institutional	1,035	1,150	-116
Retail	2,415	2,434	-18

KOSDAQ Turnover (Wbn)			
	Buy	Sell	Net
Foreign	254	278	-24
Institutional	124	198	-74
Retail	3,479	3,369	110

Program Buy / Sell (Wbn)			
	Buy	Sell	Net
KOSPI	1,216	1,078	138
KOSDAQ	221	246	-26

Advances & Declines			
	Advances	Declines	Unchanged
KOSPI	360	452	84
KOSDAQ	490	694	102

KOSPI Top 5 Most Active Stocks by Value (Wbn)			
	Price (W)	Chg (W)	Value
Samsung Electronics	42,150	-600	418
Hynix	66,600	-400	266
KODEX LEVERAGE	12,380	-135	148
Iljin Diamond	38,900	-1,200	120
Celltrion	200,000	2,000	115

KOSDAQ Top 5 Most Active Stocks by Value (Wbn)			
	Price (W)	Chg (W)	Value
Lightron Fiber-Optic Devices	10,800	-500	133
ABL Bio	17,800	1,850	123
Emerson Pacific	28,250	0	101
Komico	7,590	110	88
Sillajen	70,100	300	73

Note: As of January 22, 2019

Mirae Asset Daewoo Research

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Telecom Service

Earnings Preview
January 23, 2019

(Maintain)	Buy
Target Price (12M, W)	38,000
Share Price (01/21/19, W)	29,000
Expected Return	31%

OP (18F, Wbn)	1,351
Consensus OP (18F, Wbn)	1,344
EPS Growth (18F, %)	199.5
Market EPS Growth (18F, %)	5.7
P/E (18F, x)	5.4
Market P/E (18F, x)	8.8
KOSPI	2,124.61

Market Cap (Wbn)	7,572
Shares Outstanding (mn)	261
Free Float (%)	81.2
Foreign Ownership (%)	49.0
Beta (12M)	0.28
52-Week Low	26,700
52-Week High	31,150

(%)	1M	6M	12M
Absolute	-5.2	5.5	-3.8
Relative	-8.0	13.6	14.1



Mirae Asset Daewoo Co., Ltd.

[Telecom Services/Robotics]

Hakmoo Lee
+822-3774-1785
hmlee@miraeasset.com

KT

(030200 KS)

Minus one-off expenses, solid earnings expected

4Q18 preview: OP of W185.4bn

For 4Q18, we forecast KT's revenue and operating profit to come in at W5.94tr and W185.4bn, respectively. We believe operating profit declined materially QoQ, weighed by: 1) compensation costs for the network outage caused by the Ahyeon building fire; 2) sunk costs related to the end of WiBro services; and 3) seasonal expenses and higher amortization expenses due to the start of 5G services.

We estimate KT spent around W40bn to compensate for the network outage sparked by the Ahyeon fire, and paid another W10bn (non-operating expense) to small business owners. We estimate the discontinuation of WiBro services cost around W20bn due to network removal and the free distribution of LTE eggs to the roughly 30,000 remaining subscribers of the service. We expect such one-off and seasonal expenses to dissipate in 1Q19, leading to a sharp recovery in operating profit.

Enhanced capital efficiency could drive enterprise value

While the real estate market is entering a downturn, we expect KT's real estate business to continue stable growth, as the company has a well-diversified portfolio across 1) rental housing, where market demand is high, 2) commercial real estate, which consists of KT branches, and 3) hotels, which have recently been gaining steam. Backed by such key properties, we expect real estate revenue to grow to the W700bn level by 2020. Furthermore, the company could develop new sites by securitizing some of its assets through publicly traded REITs. We believe this could drive scale and asset efficiency, potentially leading to a sharp rise in enterprise value.

We also expect the media business (which is gaining attention as KT's next growth driver) to strengthen its market position by building scale through the acquisition of cable networks and generating group synergies through content production across internet service, IPTV, satellite TV, and skyTV.

Maintain Buy and TP of W38,000

We believe KT is well-positioned to lead the 5G market by building upon its experience in operating 5G services during the PyeongChang Winter Olympics. We think fixed-line networks will become an important source of competitiveness in the 5G era, when data volume is expected to increase significantly. While efforts are underway to allow operators to share essential equipment in exchange for a usage charge, we still think the direct ownership of related equipment and technologies gives KT a competitive edge. The usage charges can also serve as a source of additional revenue growth.

We maintain our Buy call and target price of W38,000 on KT, given its strong potential to lead the 5G era and enhance capital efficiency through its real estate and media businesses.

FY (Dec.)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	22,281	22,744	23,387	23,405	23,842	24,192
OP (Wbn)	1,293	1,440	1,375	1,351	1,388	1,465
OP margin (%)	5.8	6.3	5.9	5.8	5.8	6.1
NP (Wbn)	553	711	477	714	899	970
EPS (W)	2,118	2,723	1,826	5,469	0	0
ROE (%)	5.2	6.4	4.1	5.8	6.6	6.7
P/E (x)	13.3	10.8	16.6	5.4	-	-
P/B (x)	0.6	0.6	0.6	-	-	-
Dividend yield (%)	1.8	2.7	3.3	3.4	3.4	3.4

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

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Earnings and forecasts

Table 1. 4Q18 preview

(Wbn, %, %p)

	4Q17	3Q18	4Q18F		Growth	
			Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	6,107	5,948	5,940	5,994	-2.7	-0.1
Operating profit	134	369	185	184	38.1	-49.9
OP margin (%)	2.2	6.2	3.1	3.1	0.9	-3.1
Pretax profit	-114	334	65	92	TTB	-80.5
Net profit	-122	239	47	71	TTB	-80.3

Notes: All figures are based on consolidated K-IFRS; net profit is attributable to controlling interests

Source: Company data, WISEfn, Mirae Asset Daewoo Research estimates

Table 2. Quarterly earnings and forecasts

(Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F
Operating revenue	5,612	5,842	5,827	6,107	5,710	5,807	5,948	5,940	5,803	5,929	6,010	6,100
Wireless	1,794	1,781	1,816	1,813	1,741	1,764	1,760	1,733	1,778	1,778	1,792	1,789
Fixed-line	1,254	1,226	1,218	1,203	1,199	1,181	1,186	1,179	1,180	1,175	1,185	1,181
Media/content	520	561	573	585	554	595	616	632	644	654	663	673
Finance	847	915	874	893	833	867	882	911	841	875	891	920
Other	534	586	567	565	537	597	652	570	542	602	659	576
Merchandise sales	663	773	779	1,048	847	803	852	914	819	845	821	960
Operating expenses	5,195	5,395	5,449	5,972	5,313	5,408	5,579	5,754	5,406	5,585	5,589	5,873
* Marketing expenses	640	627	678	703	616	552	674	669	589	608	592	622
Operating profit	417	447	377	134	397	399	369	185	397	344	421	227
OP margin	7.4	7.7	6.5	2.2	7.0	6.9	6.2	3.1	6.8	5.8	7.0	3.7
Net profit	224	258	203	-122	224	195	239	47	258	245	282	92
Net margin	4.0	4.4	3.5	-2.0	3.9	3.4	4.0	0.8	4.4	4.1	4.7	1.5
YoY												
Operating revenue	1.8	2.9	5.4	1.4	1.8	-0.6	2.1	-2.7	1.6	2.1	1.0	2.7
Wireless	-3.1	-5.3	-3.6	0.6	-2.9	-1.0	-3.1	-4.4	2.1	0.8	1.8	3.2
Fixed-line	-1.9	-4.7	-3.0	-3.4	-4.4	-3.6	-2.6	-2.0	-1.6	-0.5	-0.1	0.2
Media/content	17.5	19.2	15.8	13.8	6.6	6.0	7.5	8.0	16.3	9.9	7.6	6.5
Finance	3.0	6.7	0.9	1.3	-1.7	-5.3	0.9	2.0	1.0	1.0	1.0	1.0
Other	5.8	7.2	5.0	-3.2	0.6	1.9	15.0	0.9	1.0	0.9	1.0	1.0
Merchandise sales	7.7	21.5	59.1	5.4	27.7	3.9	9.3	-12.8	-3.3	5.3	-3.6	5.0
Operating expenses	1.5	2.8	6.3	3.1	2.3	0.2	2.4	-3.6	1.8	3.3	0.2	2.1
* Marketing expenses	2.4	-15.0	-1.3	0.2	-3.7	-12.0	-0.7	-4.8	-4.3	10.1	-12.1	-7.1
Operating profit	5.4	4.8	-6.0	-40.7	-4.8	-10.8	-2.0	38.1	0.0	-13.9	14.0	22.2
Net profit	3.6	1.8	-10.8	-41.5	-6.4	-10.2	18.0	TTB	15.0	25.6	17.6	97.0

Notes: All figures are based on consolidated K-IFRS; net profit is attributable to controlling and non-controlling interests

Source: Company data, Mirae Asset Daewoo Research estimates

Table 3. Earnings forecast revisions

(Wbn, W, %, %p)

	Previous		Revised		Change		Notes
	2018F	2019F	2018F	2019F	2018F	2019F	
Revenue	23,378	23,668	23,405	23,842	0.3	0.7	
Operating profit	1,399	1,424	1,351	1,388	-3.4	-2.5	
Pretax profit	1,197	1,222	1,144	1,201	-4.4	-1.7	
Net profit	744	774	791	877	6.3	13.3	
EPS (W)	2,847	2,965	5,469		92.1		
OP margin (%)	6.0	6.0	5.8	5.8	-0.2	-0.2	
Net margin (%)	3.2	3.3	3.1	3.8	-0.1	0.5	

Notes: All figures are based on consolidated K-IFRS; net profit is attributable to controlling interests

Source: Mirae Asset Daewoo Research estimates

Telecom Service

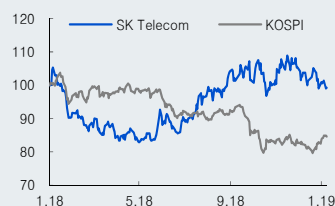
Earnings Preview
January 23, 2019

(Maintain)	Buy
Target Price (12M, W)	335,000
Share Price (01/22/19, W)	264,000
Expected Return	27%

OP (18F, Wbn)	1,236
Consensus OP (18F, Wbn)	1,290
EPS Growth (18F, %)	31.6
Market EPS Growth (18F, %)	5.7
P/E (18F, x)	6.4
Market P/E (18F, x)	8.8
KOSPI	2,117.77

Market Cap (Wbn)	21,317
Shares Outstanding (mn)	81
Free Float (%)	62.2
Foreign Ownership (%)	41.6
Beta (12M)	0.45
52-Week Low	220,500
52-Week High	289,500

(%)	1M	6M	12M
Absolute	-4.3	10.2	-3.6
Relative	-6.9	19.2	13.8



Mirae Asset Daewoo Co., Ltd.

[Telecom Services/Robotics]

Hakmoo Lee
+822-3774-1785
hmlee@miraeasset.com

SK Telecom

(017670 KS)

Focus on medium/long-term vision rather than earnings

4Q18 preview: OP of W259.5bn

For 4Q18, we forecast SK Telecom (SKT) to post revenue of W4.44tr and operating profit of W259.5bn. We expect operating profit to be weaker than our previous projection, affected by 1) larger-than-anticipated marketing spending due to sluggish iPhone sales and the resulting higher mix of mid/low-end handsets, and 2) ADT Caps' muted impact on operating profit growth, caused by the purchase price allocation (PPA) arising from the difference between the company's purchase price and book price.

The ADT Caps PPA expenses are likely to remain at around W10bn per quarter, but the security firm should contribute to margin expansion in 2019 on the back of synergies with NSOK and SK Group. We also expect the Galaxy S10, due out in March, to do better than the iPhone, easing marketing expenses. As such, we see operating profit recovering to over W300bn in 1Q19.

Bet on long-term vision rather than near-term earnings

SKT's telecom margins came under pressure in 2018, but this was mainly due to spending on enhancing customer services (such as membership benefits, a roaming overhaul, and the Guam/Saipan "pass" service). In the medium term, we believe such initiatives will help improve customer loyalty, enhancing the stability of the telecom business.

We are also optimistic on the company's market expansion strategies for media and commerce. In particular, we expect the recently announced OTT partnership with Pooq to generate strong synergies. The combination of SKT's capital, subscriber base, and infrastructure and Pooq's content competitiveness should help the homegrown OTT expand its domestic market presence and make inroads overseas. We continue to believe investors should focus on SKT's potential for enterprise value creation as it launches new ventures in media, secures new growth from the successful acquisition of ADT Caps, and expands further into commerce with 11th Street.

Reiterate Buy and TP of W335,000

SKT has the biggest shortfall in LTE network capacity and therefore faces a greater need for additional capacity. As such, we believe SKT's 5G investments will be the most cost-effective in the industry. We also expect the company's expansion into non-telecom segments and business overhaul to drive its enterprise value higher. We reiterate our Buy rating and target price of W335,000.

FY (Dec.)	12/15	12/16	12/17	12/18F	12/19F	12/20F
Revenue (Wbn)	17,137	17,092	17,520	16,965	17,813	18,147
OP (Wbn)	1,708	1,536	1,537	1,236	1,437	1,494
OP margin (%)	10.0	9.0	8.8	7.3	8.1	8.2
NP (Wbn)	1,519	1,676	2,600	3,420	3,050	3,029
EPS (W)	18,807	20,756	32,198	42,360	37,779	37,515
ROE (%)	10.2	10.7	15.4	16.9	12.8	11.6
P/E (x)	11.5	10.8	8.3	6.4	7.0	7.0
P/B (x)	1.0	1.0	1.1	0.9	0.8	0.7
Dividend yield (%)	4.6	4.5	3.7	3.7	3.8	3.8

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

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Earnings and forecasts

Table 1. 4Q18 preview

(Wbn, %, %p)

	4Q17	3Q18	4Q18F		Growth	
			Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	4,497	4,186	4,442	4,346	-1.2	6.1
Operating profit	310	304	260	299	-16.1	-14.5
OP margin (%)	6.9	7.3	5.8	6.9	-1.1	-1.5
Pretax profit	927	1,302	1,015	1,084	9.5	-22.0
Net profit	661	1,050	791	852	19.7	-24.7

Notes: All figures are based on consolidated K-IFRS; net profit is attributable to controlling interests

Source: Company data, WISEfn, Mirae Asset Daewoo Research estimates

Table 2. Quarterly earnings and forecasts

(Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F
Revenue	4,234	4,346	4,443	4,497	4,182	4,154	4,186	4,442	4,306	4,366	4,434	4,707
Mobile service	2,686	2,721	2,741	2,717	2,569	2,498	2,485	2,491	2,507	2,523	2,540	2,557
Interconnection	173	145	150	157	151	156	156	156	157	159	158	159
Other	229	244	265	241	269	288	285	259	282	302	299	272
Subsidiaries	1,147	1,236	1,286	1,383	1,193	1,212	1,261	1,536	1,360	1,382	1,437	1,720
Operating expenses	3,829	3,922	4,050	4,187	3,856	3,807	3,882	4,183	3,957	3,970	4,082	4,367
Commissions paid	1,368	1,367	1,373	1,383	1,262	1,217	1,266	1,267	1,239	1,256	1,276	1,294
Depreciation	793	806	817	832	824	807	807	805	829	817	865	854
Marketing expenses	760	768	798	794	754	706	989	998	1,007	1,016	1,026	1,035
Wages	463	465	510	529	550	536	538	552	568	553	556	570
Other	446	516	554	649	466	542	898	1,116	951	959	990	1,178
Operating profit	405	423	392	310	326	347	304	260	349	396	352	340
OP margin	9.6	9.7	8.8	6.9	7.8	8.4	7.3	5.8	8.1	9.1	7.9	7.2
Net profit	579	620	793	661	693	914	1,050	791	736	760	803	806
Net margin	13.7	14.3	17.8	14.7	16.6	22.0	25.08	17.81	17.09	17.41	18.10	17.13
YoY												
Revenue	0.1	1.8	4.7	3.3	-1.2	-4.4	-5.8	-1.2	3.0	5.1	5.9	6.0
Mobile service	-0.7	0.7	1.7	0.3	-4.3	-8.2	-9.4	-8.3	-2.4	1.0	2.2	2.6
Interconnection	-9.1	-20.5	-17.0	51.5	-12.6	7.9	3.9	-0.4	3.9	1.7	1.4	1.4
Other	12.9	17.1	17.7	-2.6	17.2	18.2	7.6	7.4	4.9	5.0	5.0	5.0
Subsidiaries	1.5	5.1	12.7	7.0	4.0	-1.9	-2.0	11.0	14.0	14.0	14.0	12.0
Operating expenses	0.1	1.6	6.0	3.4	0.7	-2.9	-4.1	-0.1	2.6	4.3	5.1	4.4
Marketing expenses	5.9	6.5	10.7	-0.2	-0.7	-8.0	23.9	25.7	33.6	44.0	3.7	3.7
Operating profit	0.8	3.9	-7.5	2.8	-19.7	-18.0	-22.4	-16.1	7.1	14.1	15.8	30.9
Net profit	1.2	113.2	146.2	39.2	19.7	47.4	32.4	19.7	6.2	-16.8	-23.5	1.9

Notes: All figures are based on consolidated K-IFRS; net profit is attributable to controlling and non-controlling interests

Source: Company data, Mirae Asset Daewoo Research estimates

Table 3. Earnings forecast revisions

(Wbn, W, %, %p)

	Previous		Revised		% chg.		Notes
	18F	19F	18F	19F	18F	19F	
Revenue	17,057	17,907	16,965	17,813	-0.5	-0.5	
Operating profit	1,329	1,577	1,236	1,437	-7.0	-8.9	
Pretax profit	4,406	4,752	4,387	4,033	-0.4	-15.1	
Net profit	3,368	3,669	3,420	3,050	1.5	-16.9	
EPS (W)	41,708	45,433	42,360	37,779	1.6	-16.8	
OP margin	7.8	8.8	7.3	8.1	-0.5	-0.7	
Net margin	19.7	20.5	20.2	17.1	0.5	-3.4	

Notes: All figures are based on consolidated K-IFRS; net profit and EPS are attributable to controlling interests

Source: Mirae Asset Daewoo Research estimates

Credit Card

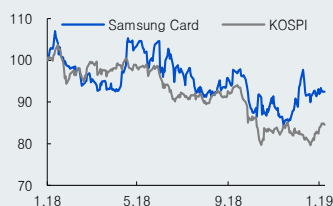
Earnings Preview
January 23, 2019

(Maintain)	Hold
Target Price (12M, W)	-
Share Price (01/22/19, W)	34,900
Expected Return	-

NP (18F, Wbn)	349
Consensus NP (18F, Wbn)	354
EPS Growth (18F, %)	-9.8
Market EPS Growth (18F, %)	5.7
P/E (18F, x)	11.6
Market P/E (18F, x)	8.8
KOSPI	2,117.77

Market Cap (Wbn)	4,043
Shares Outstanding (mn)	116
Free Float (%)	20.2
Foreign Ownership (%)	11.5
Beta (12M)	0.26
52-Week Low	31,750
52-Week High	40,400

(%)	1M	6M	12M
Absolute	-3.1	-4.3	-10.1
Relative	-5.6	3.5	6.3



Mirae Asset Daewoo Co., Ltd.

[Banks/Credit Cards]

Heather Kang
+822-3774-1903
heather.kang@miraeasset.com

Samsung Card

(029780 KS)

Wait until impact of fee cuts is confirmed

4Q18 preview: Net profit of W73.9bn

For 4Q18, we forecast Samsung Card to post net profit of W73.9bn (-9.1% YoY, -8.4% QoQ), below the market consensus (W81bn based on FnGuide and W76.1bn based on Bloomberg). We believe the company saw one-off losses of W5bn on the non-operating side, along with higher credit costs after reflecting a slower growth outlook in its expected loss ratio.

Profits to contract in 2019

The credit card processing fee overhaul plan announced by the Financial Services Commission (FSC) and Financial Supervisory Service (FSS) on November 26th, 2018 will go into effect at the end of January. As such, a decline in merchant fee income looks inevitable.

Whenever regulators reduced credit card processing fees and broadened the scope of merchants eligible for lower fees in the past, Samsung Card offset some of the impact on its income partly by reducing SG&A expenses (e.g., marketing and labor), but more importantly by growing its credit card transaction volume on the back of payment coverage expansion, increasing online purchases (due to the proliferation of simplified payments), and market share gains. We believe transaction volume growth will partially offset the impact on income this time, too. But this year, the company is likely to focus on efficiency more than aggressive volume growth. As the company tempers the growth of auto financing (which involves higher costs, partly due to cashbacks), we expect its market share in the personal credit market to either remain flat or slightly fall.

On November 29th, regulators said they were working on plans to improve industry marketing practices. This will include reducing inefficient services stemming from excessive competition, such as non-essential, one-time promotions that are costly but have limited consumer benefits. On top of Samsung Card's own cost-saving efforts, we expect the new guidelines, once established, to contribute to a decline in one-off marketing expenses across the industry.

For 2019, we forecast Samsung Card's net profit at W308.3bn and its ROE at 4.4% (-11.6% and -0.7%p vs. our 2018 estimates, respectively).

Maintain Hold

We expect 2018-19 DPS of W1,600 (vs. W1,500 in 2015-17), which implies an attractive dividend yield of 4.6% based on current share prices. However, valuation does not look inexpensive, with the stock currently trading at a 2019F P/B of 0.57x (2019F ROE of 4.4%) and P/E of 13.1x (2019F EPS growth of -11.6% YoY). We believe investors should wait until the impact of fee cuts and the effects of cost savings are confirmed in 1Q19-2Q19 earnings.

Fiscal year-end	12/15	12/16	12/17	12/18F	12/19F	12/20F
Net interest inc. (Wbn)	3,302	3,470	3,900	3,957	3,834	3,931
PPOP (Wbn)	657	712	786	845	814	871
Operating profit (Wbn)	384	431	506	478	425	458
Net profit (Wbn)	334	349	387	349	308	332
EPS (W)	2,880	3,016	3,338	3,012	2,661	2,866
EPS growth (%)	-49.1	4.7	10.7	-9.8	-11.6	7.7
P/E (x)	10.7	13.2	11.9	11.6	13.1	12.2
P/PPPOP (x)	6.2	5.7	5.1	4.8	5.0	4.6
P/B (x)	0.53	0.70	0.66	0.59	0.57	0.54
ROE (%)	5.1	5.3	5.7	5.1	4.4	4.5
Dividend yield (%)	4.3	4.3	4.3	4.6	4.6	4.9

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

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Banks

Company Report
January 22, 2019

(Maintain) **Buy**

Target Price (12M, W) ▼ **19,500**

Share Price (01/21/19, W) **13,700**

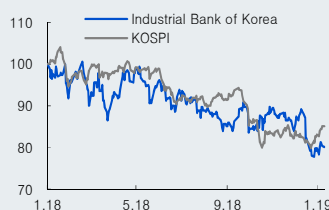
Expected Return **42%**

NP (18F, Wbn) 1,765
Consensus NP (18F, Wbn) 1,744

EPS Growth (18F, %) 17.5
Market EPS Growth (18F, %) 5.7
P/E (18F, x) 5.1
Market P/E (18F, x) 8.8
KOSPI 2,124.61

Market Cap (Wbn) 7,672
Shares Outstanding (mn) 658
Free Float (%) 44.6
Foreign Ownership (%) 23.5
Beta (12M) 0.42
52-Week Low 13,300
52-Week High 17,200

(%)	1M	6M	12M
Absolute	-10.2	-12.2	-18.0
Relative	-12.8	-5.4	-2.7



Mirae Asset Daewoo Co., Ltd.

[Banks/Credit Cards]

Heather Kang
+822-3774-1903
heather.kang@miraeasset.com

Industrial Bank of Korea

(024110 KS)

Steady earnings and dividend growth

4Q18 preview: Above-consensus net profit of W312.4bn

For 4Q18, we forecast Industrial Bank of Korea (IBK) to deliver consolidated net profit attributable to controlling interests of W312.4bn (+22.1% YoY, -40% QoQ), exceeding the Bloomberg consensus (W285.9bn) and FnGuide consensus (W298.3bn), which have recently been revised downward, by 9.3% and 4.7%, respectively. We believe there were no major one-off items in the quarter and think core income continued solid growth.

Compelling dividend play

More importantly, we believe that IBK offers very compelling dividends, with a higher dividend payout ratio than peers (based on consolidated net profit attributable to controlling interests). We expect dividend payout ratio to be 28% in 2018 and 28.8% in 2019, slightly higher than in previous years (27.3% in 2014, 25.8% in 2015, 27.3% in 2016, and 27% in 2017). We forecast IBK's dividend per share at W750 in 2018 and W800 in 2019, which translate into dividend yields of 5.5% and 5.8%, respectively, based on current share prices.

Lower TP to W19,500; maintain Buy

Of note, IBK's ultra-low interest rate self-employed business loan program (W1.8tr; to be released in 1Q19) and credit-card-revenue-linked loans to self-employed businesses (W200bn; to be released in 1Q19), which are part of the government's self-employed business support and management plan announced on December 26th, 2018, would not involve significant credit risk, as they will be offered under credit guarantee. However, these new loan programs will likely dent margins.

As we forecast 2019 NIM at 1.94%, down 1bp from our 2018 estimate of 1.95%, we are revising our 2018, 2019, and 2020 net profit forecasts downward by 2.1%, 6.5%, and 7%, respectively. We lower our target price by 4.9% to W19,500 (target P/B of 0.57x) from W20,500 (0.59x).

We maintain our Buy rating on IBK, in light of the bank's steady profit and dividend growth. Aided by solid SME loan growth, well-contained SG&A expenses and stabilizing new NPL formation, we estimate that IBK's consolidated net profit attributable to controlling interests expanded 17.5% YoY to W1.76tr in 2018, posting a fifth consecutive year of positive growth. We forecast a 3.7% YoY increase in the figure (to W1.83tr) for 2019.

Fiscal year Ending	12/15	12/16	12/17	12/18F	12/19F	12/20F
Net interest inc. (Wbn)	4,631	4,876	5,260	5,628	5,941	6,229
Net non-interest inc. (Wbn)	129	64	340	618	583	572
Operating profit (Wbn)	1,500	1,533	2,028	2,439	2,545	2,622
Net profit (Wbn)	1,143	1,158	1,501	1,765	1,830	1,892
EPS (W)	1,750	1,763	2,282	2,682	2,781	2,875
EPS growth (%)	11.0	0.7	29.4	17.5	3.7	3.4
P/E (x)	7.8	7.8	6.0	5.1	4.9	4.8
P/POP (x)	2.9	2.8	2.2	1.9	1.8	1.7
P/B (x)	0.52	0.50	0.46	0.43	0.40	0.38
ROE (%)	7.0	6.6	8.0	8.7	8.4	8.2
Dividend yield (%)	3.3	3.5	4.5	5.5	5.8	6.2

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

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Solid 4Q18 earnings expected

In 4Q18, we estimate total loans grew 0.5% QoQ (or +6% from end-2017) with NIM staying flat QoQ at 1.95%. Consolidated net interest income and net commission income are projected at W1.44tr (+6% YoY, +1.1% QoQ) and W94.7bn (+22.7% YoY, -1.5% QoQ), respectively. We estimate SG&A expenses were well-contained at W595.8bn (+5% YoY, +12.5% QoQ), leading to a solid cost-to-income ratio of 39.2% (-2.5%p YoY, +5.9% QoQ). Despite asset portfolio improvements and stabilizing new NPL formation, we believe credit costs increased in 4Q18, due to accounting changes following the introduction of IFRS9, which classifies reversals in provisions from NPL sales as loan disposal gains (non-interest income). We expect that 4Q18 consolidated credit costs rose to W476.9bn (+16.9% YoY, +31.9% QoQ), or 67bps (annualized; +7bps YoY, +16bps QoQ) of total assets and 93bps (annualized; +9bps YoY, +22bps QoQ) of total bank credit.

Table 1. IBK: 4Q18 preview

(Wbn)	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18F	YoY chg. (%, %p)	QoQ chg. (%, %p)
Net interest income	1,290.8	1,352.7	1,363.0	1,353.0	1,401.3	1,429.3	1,444.8	6.0	1.1
Net fee & commission income	128.1	109.7	77.2	109.2	128.0	96.2	94.7	22.7	-1.5
Net other income	-91.0	-8.4	-77.7	103.6	36.4	67.8	-18.0	RR	TRR
Total net operating income	1,327.9	1,454.0	1,362.5	1,565.9	1,565.7	1,593.4	1,521.5	11.7	-4.5
SG&A expenses	589.5	527.4	567.4	540.4	623.6	529.7	595.8	5.0	12.5
PPOP	738.4	926.5	795.1	1,025.5	942.1	1,063.6	925.7	16.4	-13.0
Provisions	263.3	338.5	408.0	327.8	351.9	361.7	476.9	16.9	31.9
Operating profit	475.1	588.0	387.1	697.7	590.2	701.9	448.8	15.9	-36.1
Non-operating income	-5.0	-2.4	-61.5	0.6	-2.7	-1.3	-15.0	RR	RR
Pretax profit	470.1	585.7	325.6	698.3	587.5	700.7	433.8	33.2	-38.1
Net profit	357.6	449.7	255.8	510.2	421.6	520.3	312.4	22.1	-40.0
Total assets	266,890	273,338	274,070	276,247	282,923	285,667	286,364	4.5	0.2
Total loans & receivables	199,140	204,932	202,916	204,235	211,318	212,660	213,460	5.2	0.4
Won-denominated loans (bank)	178,159	181,324	182,094	185,286	188,701	192,097	193,057	6.0	0.5
Total credit	191,408	194,861	194,705	197,498	201,859	204,765	205,789	5.7	0.5
Total deposits	106,979	109,577	112,591	109,608	110,275	106,135	106,453	-5.5	0.3
Total shareholders' equity	18,941	19,592	19,802	19,900	20,370	20,836	21,150	6.8	1.5
(%)									
NIM (bank)	1.94	1.96	1.93	1.94	1.96	1.95	1.95	0.02	0.00
Cost-to-income ratio	44.4	36.3	41.6	34.5	39.8	33.2	39.2	-2.5	5.9
NPL (substandard & below) ratio	1.26	1.41	1.36	1.42	1.36	1.34	1.32	-0.03	-0.01
NPL coverage ratio	172.6	168.0	164.4	162.3	166.3	170.2	173.4	9.0	3.2
RoAE	0.14	0.17	0.09	0.19	0.15	0.18	0.11	0.02	-0.07
RoAA	1.93	2.35	1.31	2.58	2.10	2.54	1.50	0.19	-1.04
Credit costs (consolidated; % of total assets)	0.10	0.12	0.15	0.12	0.12	0.13	0.17	0.02	0.04
Total CAR	14.05	14.27	14.20	14.14	14.23	14.58	14.56	0.36	-0.02
Tier-1 ratio	11.46	11.70	11.63	11.82	11.95	11.97	11.99	0.36	0.02

Note: ROA, ROE, and credit cost data are non-annualized

Source: Company data, Mirae Asset Daewoo Research

※All data as of close January 21, 2019, unless otherwise noted.

Ticker	Company	Mkt Cap (Wbn)	Price (W)	18F Div Yield (%)	Earnings growth				P/E (x)		P/B (x)		ROE (%)	
					OP		EPS							
					18F	19F	18F	19F	18F	19F	18F	19F	18F	19F
005930	Samsung Electronics	251,626	42,150	3.4	15.2	-19.6	16.9	0.4	6.7	6.6	1.1	1.0	20.5	16.6
000660	SK Hynix	48,485	66,600	1.5	57.8	-31.7	50.5	-32.2	3.0	4.5	1.0	0.8	39.5	20.7
051910	LG Chem	25,837	366,000	1.6	-22.5	-4.0	-19.4	-2.3	18.3	18.7	1.6	1.5	9.4	8.6
068270	Celltrion	25,091	200,000		-	-	-	-					0.0	0.0
005490	POSCO	23,279	267,000	3.4	19.9	-18.3	19.8	-17.4	7.0	8.4	0.5	0.5	7.5	6.0
028260	Samsung C&T	22,099	116,500	1.7	26.8	7.7	96.0	2.2	17.8	17.4	0.9	0.8	5.4	5.2
035420	NAVER	21,426	130,000	0.2	-19.1	-3.1	-14.6	-7.3	32.5	35.0	3.3	3.0	13.0	10.8
017670	SK Telecom	21,317	264,000	3.8	-19.6	16.3	31.6	-10.8	6.2	7.0	0.9	0.8	16.9	12.8
015760	KEPCO	20,960	32,650		-	-	-	-	-	21.1	0.3	0.3	-	1.4
055550	Shinhan Financial Group	19,253	40,600		15.7	4.4	10.3	4.1	6.0	5.7	0.5	0.5	9.4	9.1
105560	KB Financial Group	19,129	45,750		5.3	17.6	-7.0	15.9	6.1	5.3	0.5	0.5	9.0	9.8
034730	SK Holdings	18,399	261,500	1.7	3.9	6.3	28.9	-9.9	8.6	9.5	1.1	1.0	14.5	11.4
032830	Samsung Life	17,700	88,500		-	-	-	-					0.0	0.0
096770	SK Innovation	16,782	181,500	4.4	-30.7	-0.1	-39.8	24.1	13.4	10.8	0.9	0.9	7.1	8.7
018260	Samsung SDS	16,714	216,000	1.2	18.9	13.5	23.1	12.6	25.6	22.7	2.8	2.5	11.2	11.6
006400	Samsung SDI	15,747	229,000	0.4	515.7	48.4	7.4	59.3	22.8	14.3	1.3	1.2	6.1	9.0
033780	KT&G	13,935	101,500	3.9	-15.3	17.9	-16.6	11.2	14.4	12.9	1.7	1.6	12.5	13.5
003550	LG Corp.	12,925	74,900	1.7	0.5	8.3	-23.0	10.4	7.1	6.5	0.7	0.7	10.9	10.8
000810	Samsung F&M	12,744	269,000		-	-	-	-					0.0	0.0
086790	Hana Financial Group	11,304	37,650		17.1	11.1	9.7	12.1	5.0	4.4	0.4	0.4	9.0	9.3
010950	S-Oil	11,258	100,000	2.6	-40.6	102.2	-62.7	166.6	25.1	9.4	1.7	1.5	6.9	17.3
036570	NCsoft	10,882	496,000	1.5	8.2	39.6	3.1	40.6	23.9	17.0	3.4	3.0	15.8	19.6
066570	LG Electronics	10,555	64,500	1.1	18.9	3.6	-11.8	11.5	7.7	6.9	0.8	0.7	10.9	11.0
011170	Lotte Chemical	9,957	290,500	3.6	-31.4	-11.1	-24.6	-3.4	5.9	6.1	0.8	0.7	13.9	12.1
091990	Celltrion Healthcare	9,233	65,700		-14.3	87.4	-8.7	33.6	57.3	42.9	4.9	4.6	9.0	11.1
251270	Netmarble	9,038	106,000	0.3	-44.5	36.2	-31.6	29.9	39.7	30.6	2.0	1.9	5.1	6.3
035720	Kakao	8,506	102,000	0.1	-38.4	40.3	-48.8	126.5	124.4	54.9	2.1	2.0	1.6	3.7
010130	Korea Zinc	8,095	429,000	2.3	-11.3	6.8	-7.6	15.4	13.9	12.1	1.3	1.2	9.5	10.2
024110	Industrial Bank of Korea	7,616	13,600		20.2	4.3	17.5	3.7	5.1	4.9	0.4	0.4	8.7	8.4
030200	KT	7,598	29,100	3.4	-1.8	2.8	199.5	-	5.3				5.8	6.6
032640	LG Uplus	7,313	16,750	3.3	-3.3	5.6	-8.4	5.4	14.6	13.8	1.1	1.0	8.3	7.5
009150	Samsung Electro-Mechanics	7,111	95,200	0.8	255.5	28.0	311.1	26.4	11.1	8.8	1.5	1.3	14.6	16.0
034220	LG Display	7,067	19,750	2.5	-	-	-	-	-	-	0.5	0.5	-	-
004020	Hyundai Steel	6,832	51,200	1.5	-17.3	17.9	-26.1	45.4	12.9	8.9	0.4	0.4	3.1	4.4
000720	Hyundai E&C	6,670	59,900	0.8	-8.3	20.7	115.8	24.0	15.3	12.4	1.0	1.0	6.7	8.1
023530	Lotte Shopping	5,488	194,000	2.7	30.3	26.6	-	657.1	70.9	9.4	0.4	0.4	0.6	4.6
139480	Emart	5,338	191,500	0.9	-5.8	6.8	-18.6	-7.5	10.6	11.5	0.6	0.6	6.0	5.4
086280	Hyundai Glovis	5,288	141,000	2.1	-5.2	6.0	-37.1	31.6	12.4	9.4	1.3	1.1	10.5	12.8
097950	CJ CheilJedang	5,118	340,000	0.9	7.6	9.9	136.6	-65.7	5.6	16.4	1.1	1.0	23.3	6.6
128940	Hanmi Pharmaceutical	5,095	447,500	0.1	3.0	97.1	-7.8	114.0	91.5	42.7	6.6	5.7	7.6	14.6
036460	KOGAS	4,948	53,600	2.8	27.9	1.9	-	-3.2	7.8	8.0	0.6	0.5	7.8	7.1
005830	DB Insurance	4,793	67,700		-	-	-	-					0.0	0.0
271560	Orion	4,665	118,000	0.5	168.8	9.2	39.5	23.5	25.9	21.0	3.2	2.8	13.1	14.4
029780	Samsung Card	4,043	34,900		-35.4	-12.6	-9.8	-11.6	11.6	13.1	0.6	0.6	1.5	1.3
012750	S1	4,009	105,500	2.6	2.4	5.3	5.2	5.2	26.6	25.3	3.1	3.0	12.1	12.0
000120	CJ Logistics	3,855	169,000		-1.9	31.7	118.8	89.5	56.0	29.5	1.3	1.2	2.8	5.0
005940	NH Investment & Securities	3,813	13,550		-	-	-	-					0.0	0.0
088350	Hanwha Life	3,739	4,305		-	-	-	-					0.0	0.0
006360	GS E&C	3,515	44,250	0.7	238.5	-13.3	-	6.6	5.6	5.2	1.0	0.8	17.8	17.3
071050	Korea Investment Holdings	3,477	62,400		-	-	-	-					0.0	0.0

Source: Mirae Asset Daewoo Research

※All data as of close January 22, 2019, unless otherwise noted.

Other Major Indices					Economic Indicators				
	Close	Net Chg	1D (%)	YTD (%)		Close	1D ago	1M ago	1Y ago
MSCI Korea*	445.56	-1.83	-0.41	3.88	USD/KRW	1,126.50	1,121.30	1,128.90	1,067.30
KOSPI	2,117.77	-6.84	-0.32	5.36	JPY100/KRW	1,027.36	1,021.87	1,015.02	964.62
KOSDAQ	694.55	-1.07	-0.15	3.76	EUR/KRW	1,280.72	1,274.53	1,293.10	1,308.14
Dow Jones*	24,706.35			5.91	3Y Treasury	1.80	1.82	1.84	2.20
S&P 500(Jan. 18)	2,670.71	34.75	1.32	6.40	3Y Corporate	2.26	2.27	2.31	2.73
NASDAQ(Jan. 18)	7,157.23	72.77	1.03	7.37	DDR2 1Gb*	1.14	1.14	1.20	1.33
Philadelphia Semicon(Jan. 18)	1,228.33	27.57	2.30	5.41	NAND 16Gb*	2.67	2.70	2.81	2.86
FTSE 100*	6,970.59	2.26	0.03	3.51	Oil (Dubai)*	61.88	61.12	53.51	65.95
Nikkei 225	20,622.91	-96.42	-0.47	5.42	Gold(Jan. 18)	1,282.60	1,292.30	1,249.20	1,327.20
Hang Seng*	27,196.54	105.73	0.39	8.22	Customer deposits (Wbn)*	25,713	25,871	23,119	28,703
Taiwan (Weighted)	9,894.66	5.26	0.05	3.56	Equity type BC (Wbn)(Jan. 18)	87,112	86,835	83,142	79,697

Note: * as of January 21, 2019 Source: KSDA, Wisefn, DRAmExchange, MSCI

KOSPI Top 10 Foreign Net Buy / Net Sell (Wbn)				KOSPI Top 10 Institutional Net Buy / Net Sell (Wbn)			
Net Buy		Net Sell		Net Buy		Net Sell	
Hynix	76.09	LG Electronics	13.32	Hotel Shilla	14.11	Hynix	57.48
Samsung Electronics (P)	29.60	SEMCO	13.18	SAMSUNG C&T	13.48	Samsung Electronics (P)	27.36
KODEX 200	24.71	SAMSUNG C&T	10.11	Samsung Life Insurance	12.09	KODEX 200	24.29
Samsung Electronics	15.42	SAMSUNG BIOLOGICS	9.37	POSCO	9.70	Samsung SDI	21.59
LG Chem	11.17	KB Financial Group	7.35	Celltrion	7.49	KODEX 200 Futures Inverse 2X	17.11
TIGER200	10.72	Hyundai Motor	6.42	KODEX LEVERAGE	7.47	LG Chem	13.05
Samsung Life Insurance	9.82	SK C&C	6.07	Daum Communications	7.13	TIGER200	11.46
Hyundai Heavy Industries	6.36	Samsung F&M Insurance	5.51	S-Oil	5.43	SEMCO	7.18
LG Innotek	5.72	Shinhan Financial Group	5.33	SAMSUNG BIOLOGICS	5.13	Netmarble	6.31
Hyundai Eng. & Cosnt.	5.48	Hyundai Elevator	4.10	Shinhan Financial Group	4.32	GMB Korea	5.91

Source: KSDA, Wisefn

KOSDAQ Top 10 Foreign Net Buy / Net Sell (Wbn)				KOSDAQ Top 10 Institutional Net Buy / Net Sell (Wbn)			
Net Buy		Net Sell		Net Buy		Net Sell	
Cafe24 Corp.	3.93	Posco Chemtech	5.74	PearlAbyss	2.09	Lightron Fiber-Optic Devices	10.58
HLB	3.45	Lightron Fiber-Optic Devices	3.79	Sillajen	1.79	Paradise	8.28
ViroMed	2.63	Ace Technology	2.38	WONIK IPS	1.40	Medy-tox	6.59
Hugel	2.38	Medy-tox	2.20	Elentec	1.23	Posco Chemtech	4.58
Seoul Semiconductor	2.35	SKPI	1.78	Ace Technology	1.07	ECOPRO	3.84
YG Entertainment	1.86	Jtuen Entertainment	1.67	Kolon TissueGene	0.98	Emerson Pacific	3.81
SM	1.75	W.I.C	1.64	OE Solutions	0.95	Studio Dragon	3.68
Komico	1.72	WONIK IPS	1.51	PharmAbcine	0.94	Jtuen Entertainment	2.98
CJ O Shopping	1.48	ACTCOS	1.42	Eutilex	0.93	Celltrion Healthcare	2.88
CUBEENT	1.46	UNISEM	1.25	MCNEX	0.77	CJ O Shopping	2.43

Source: KSDA, Wisefn

KOSPI Top 10 by Market Cap (Wbn)				KOSDAQ Top 10 by Market Cap (Wbn)			
	Close (W)	Chg (W)	Mkt Cap		Close (W)	Chg (W)	Mkt Cap
Samsung Electronics	42,150	-600	251,626	Celltrion Healthcare	65,700	500	9,233
Hynix	66,600	-400	48,485	Sillajen	70,100	300	4,894
Samsung Electronics (P)	35,300	-350	29,048	CJ O Shopping	206,000	400	4,517
Hyundai Motor	127,500	500	27,243	ViroMed	257,100	100	4,102
SAMSUNG BIOLOGICS	404,000	7,000	26,731	Posco Chemtech	55,800	100	3,296
LG Chem	366,000	-4,000	25,837	Medy-tox	548,300	-10,800	3,101
Celltrion	200,000	2,000	25,091	HLB	72,400	2,700	2,836
POSCO	267,000	-1,000	23,279	Studio Dragon	88,000	200	2,469
SAMSUNG C&T	116,500	1,500	22,099	PearlAbyss	188,600	2,800	2,441
NHN	130,000	-1,000	21,426	Kolon TissueGene	38,550	350	2,352

Source: Korea Exchange