

Mirae Asset Securities Co., Ltd.

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001120 KS · Energy

LX International

Market weakness takes its toll

(Downgrade)
Trading Buy

Target price
₩43,000

Upside
14.4%

Current price (7/28/23)
₩37,600

KOSPI	2,608.32	Market cap (Wbn)	1,457	Shares outstanding (mn)	39	Foreign ownership (%)	22.5
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Report summary

2Q23 review: Market weakness takes its toll

For 2Q23, LX International reported revenue of ₩3.44tr (-31.5% YoY). Logistics revenue contracted 40.8% YoY on a weak import/export market, and the trading and resource divisions were hit by a depressed coal market. Operating profit came in at ₩129.2bn (-55.4% YoY), slightly below the consensus (₩148.3bn). Logistics operating profit contracted 61.3% YoY, while trading and resource operating profits declined 45.3% and 56.1% YoY, respectively.

Downgrade to Trading Buy but maintain TP of ₩43,000; watch for near-term volatility

In 2H23, we expect profits to stabilize at lower levels. While coal prices remain sluggish, we expect logistics market conditions to turn around. Despite a recent rebound, shares of LX International still look attractively valued, trading at a P/E of 4.5x. That said, we believe investors should brace for near-term volatility, given the stock's recent strong gains and increasing susceptibility to the share price movements of peers.

Key data

Price performance



(%)	1M	6M	12M
Absolute	9.0	7.0	18.6
Relative	7.1	1.9	10.7

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	16,687	18,760	14,549	14,635	15,065
OP (Wbn)	656	966	557	490	502
OP margin (%)	3.9	5.1	3.8	3.3	3.3
NP (Wbn)	350	515	325	266	244
EPS (W)	9,032	13,293	8,384	6,850	6,288
ROE (%)	22.5	25.5	13.5	10.0	8.6
P/E (x)	2.9	2.6	4.5	5.5	6.0
P/B (x)	0.6	0.6	0.6	0.5	0.5
Dividend yield (%)	8.7	8.8	5.3	4.8	4.8

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Company data, Mirae Asset Securities Research estimates

2Q23 review: Market weakness takes its toll

For 2Q23, LX International reported revenue of W3.44tr (-31.5%). Revenue declined mainly due to the logistics division, which saw revenue contract 40.8% YoY on a weak import/export market. The trading and resource divisions were also weak, with revenue falling 18.9% and 19% YoY, respectively, partly due to lower coal prices.

Operating profit came in at W129.2bn (-55.4% YoY), slightly below the consensus (W148.3bn). Logistics operating profit slumped 61.3% YoY to W38.9bn. Trading and resource operating profits declined 45.3% and 56.1% YoY to W36.9bn and W53.4bn, respectively. Poseung Green Power remained in the red. On a QoQ basis, resource operating profit grew 15.1% thanks to increased output from the Indonesia GAM mine and cost-saving effects.

In 2H23, we expect profits to stabilize at lower levels. We forecast logistics operating profit to pick up slightly to W42.9bn in 3Q23, aided by a seasonal rebound and additional orders. That said, with coal prices showing no signs of recovering, we expect profits to modestly decline for both trading and resources. We revise down our 2023 and 2024 operating profit forecasts by 12% and 11%, respectively. Going forward, earnings will likely hinge on whether coal prices rebound on the back of China's policy stimulus and demand for heating.

Table 1. 2Q23 review

(Wbn, %, %p)

	2Q22	1Q23	2Q23P			Growth	
			Preliminary	Mirae Asset	Consensus	YoY	QoQ
Revenue	5,020	3,700	3,440	3,796	3,750	-31.5	-7.0
OP	289	162	129	152	148	-55.4	-20.1
OP margin (%)	5.8	4.4	3.8	4.0	4.0	-2.0	-0.6
Pretax profit	332	212	111	130	154	-66.5	-47.7
NP	157	125	41	76	94	-73.9	-67.3

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

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

Table 2. Earnings forecast revisions

(Wbn)

	Previous		Revised		% chg.		Notes
	23F	24F	23F	24F	23F	24F	
Revenue	15,677	15,864	14,549	14,635	-7.2	-7.7	Revised down trading and logistics revenue Reflected lower coal prices
OP	633	553	557	490	-11.9	-11.4	
Pretax profit	628	492	597	467	-5.0	-5.1	
NP	367	286	325	266	-11.4	-7.3	
EPS (W)	9,462	7,391	8,384	6,850	-11.4	-7.3	

Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent

Source: Mirae Asset Securities Research estimates

Table 3. Quarterly and annual earnings

(Wbn)

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23P	3Q23F	4Q23F	2022	2023F	2024F
Revenue	4,918	5,020	4,709	4,112	3,700	3,440	3,724	3,685	18,760	14,549	14,635
Trading/future biz	1,810	1,789	1,779	1,632	1,702	1,451	1,565	1,550	7,010	6,269	6,486
Resources	264	357	349	326	286	289	391	346	1,295	1,312	971
Logistics	2,844	2,875	2,582	2,155	1,712	1,700	1,768	1,788	10,455	6,969	7,178
OP	246	289	273	158	162	129	127	139	966	557	490
Trading/future biz	47	67	83	52	66	37	33	36	249	171	175
Resources	75	122	99	49	46	53	51	42	346	193	116
Logistics	124	101	92	56	50	39	43	62	373	193	199
Pretax profit	302	332	267	233	212	111	125	149	1,133	597	467
NP	154	157	188	15	125	41	72	86	515	325	266
OP margin (%)	5.0	5.8	5.8	3.8	4.4	3.8	3.4	3.8	5.1	3.8	3.3
Pretax margin (%)	6.1	6.6	5.7	5.7	5.7	3.2	3.3	4.0	6.0	4.1	3.2
Net margin (%)	4.5	4.6	5.3	1.9	4.2	2.1	2.4	2.9	2.7	2.2	1.8

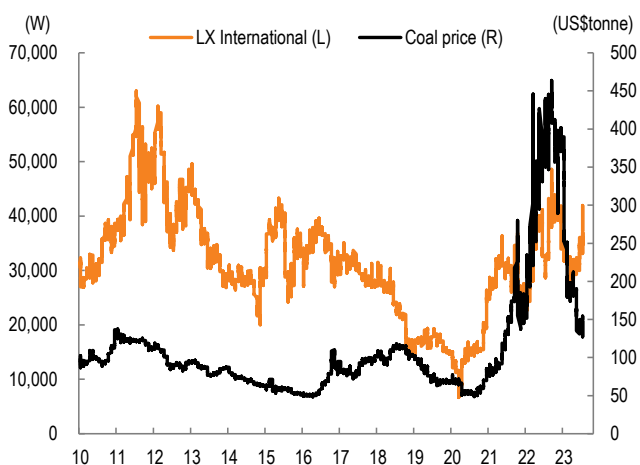
Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
 Source: Company data, Mirae Asset Securities Research estimates

Downgrade to Trading Buy but maintain TP of W43,000; watch for near-term volatility

We downgrade our rating on LX International to Trading Buy. Despite a recent rebound, shares of LX International still look attractively valued, trading at a P/E of 4.5x. That said, we believe investors should brace for near-term volatility, given the stock’s recent strong gains and increasing susceptibility to the share price movements of peers.

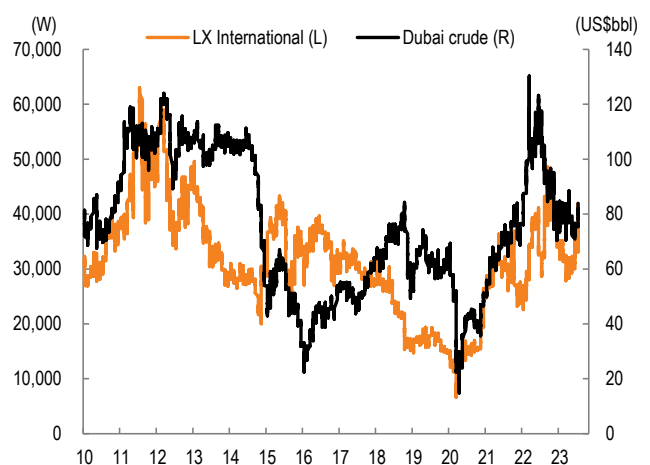
In terms of earnings, we believe a bottom is approaching despite weaker-than-expected results in recent quarters. We also see the potential for a pickup in logistics earnings on a turnaround in market conditions.

Figure 1. Share price and Newcastle coal price trends



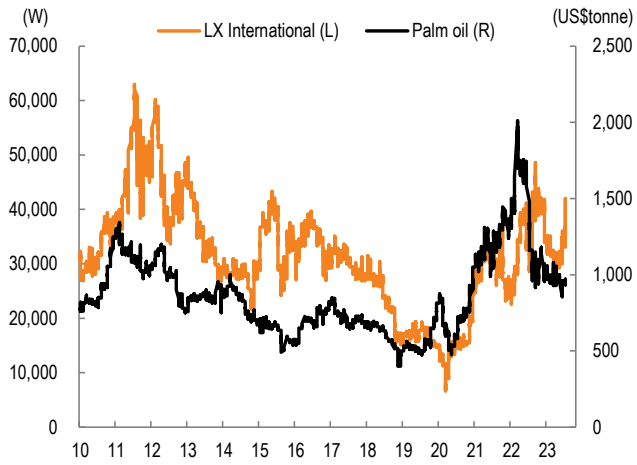
Source: Bloomberg, Mirae Asset Securities Research

Figure 2. Share price and oil price trends



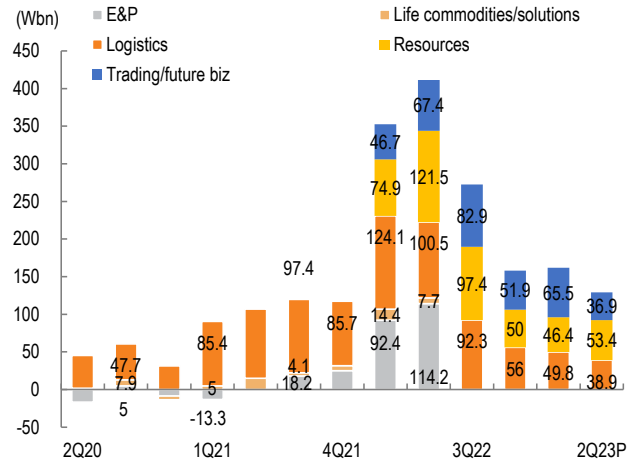
Source: Bloomberg, Mirae Asset Securities Research

Figure 3. Share price and palm oil price trends



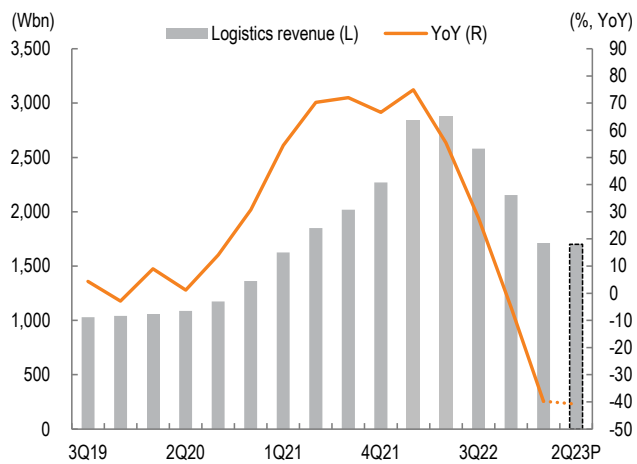
Source: Bloomberg, Mirae Asset Securities Research

Figure 4. OP by business



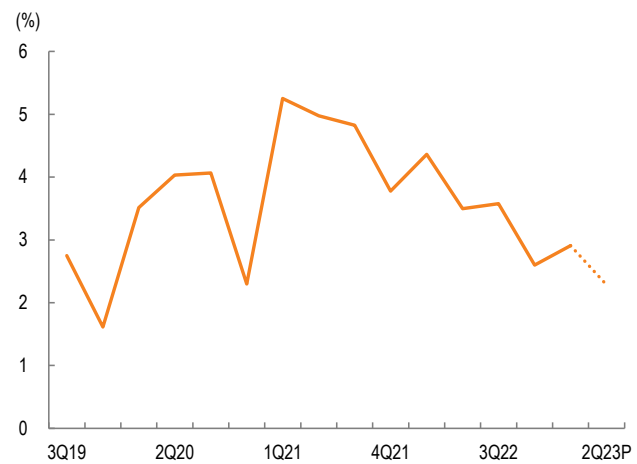
Source: Company data, Mirae Asset Securities Research

Figure 5. Logistics revenue and growth



Source: Company data, Mirae Asset Securities Research

Figure 6. Logistics OP margin trend



Source: Company data, Mirae Asset Securities Research

LX International (001120 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	18,760	14,549	14,635	15,065
Cost of revenue	16,924	12,976	13,238	13,551
GP	1,836	1,573	1,397	1,514
SG&A expenses	870	1,016	907	1,012
OP (adj.)	966	557	490	502
OP	966	557	490	502
Non-operating profit	167	40	-23	-74
Net financial income	-36	-95	-101	-106
Net income from associates	97	111	46	0
Pretax profit	1,133	597	467	428
Income tax	354	170	135	124
Profit from continuing operations	779	427	332	305
Profit from discontinued operations	0	0	0	0
NP	779	427	332	305
Attributable to owners	515	325	266	244
Attributable to minority interests	264	102	66	61
Total comprehensive income	822	517	332	305
Attributable to owners	569	397	255	234
Attributable to minority interests	254	120	77	71
EBITDA	1,198	874	902	965
FCF	1,090	83	28	262
EBITDA margin (%)	6.4	6.0	6.2	6.4
OP margin (%)	5.1	3.8	3.3	3.3
Net margin (%)	2.7	2.2	1.8	1.6

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	4,482	3,549	3,680	3,818
Cash & equivalents	1,551	922	1,056	1,122
AR & other receivables	1,583	1,419	1,417	1,456
Inventory	698	626	625	642
Other current assets	650	582	582	598
Non-current assets	3,237	4,458	4,776	4,828
Investments in associates	392	490	529	544
PP&E	1,163	1,889	2,205	2,297
Intangible assets	1,070	1,434	1,396	1,341
Total assets	7,719	8,007	8,456	8,645
Current liabilities	2,935	2,567	2,756	2,700
AP & other payables	1,508	1,528	1,526	1,568
Short-term financial liabilities	690	411	603	487
Other current liabilities	737	628	627	645
Non-current liabilities	1,748	2,050	2,050	2,056
Long-term financial liabilities	1,507	1,834	1,834	1,834
Other non-current liabilities	241	216	216	222
Total liabilities	4,683	4,617	4,806	4,755
Equity attributable to owners	2,261	2,556	2,750	2,929
Capital stock	194	194	194	194
Capital surplus	101	101	101	101
Retained earnings	1,966	2,183	2,377	2,556
Minority interests	775	834	900	961
Shareholders' equity	3,036	3,390	3,650	3,890

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	1,223	756	698	762
NP	779	427	332	305
Non-cash income/expenses	498	427	528	618
Depreciation	196	258	353	408
Amortization	37	59	59	55
Other	265	110	116	155
Chg. in working capital	156	118	0	-6
Chg. in AR & other receivables	269	190	1	-34
Chg. in inventory	385	166	1	-17
Chg. in AP & other payables	-503	2	-1	33
Income tax	-269	-194	-135	-124
Cash flow from investing activities	-522	-1,288	-690	-502
Chg. in PP&E	-127	-670	-670	-500
Chg. in intangible assets	-73	-96	-20	0
Chg. in financial assets	-11	7	0	-2
Other	-311	-529	0	0
Cash flow from financing activities	20	-137	119	-180
Chg. in financial liabilities	627	49	191	-115
Chg. in equity	0	0	0	0
Dividends	-172	-27	-72	-65
Other	-435	-159	0	0
Chg. in cash	709	-629	134	66
Beginning balance	842	1,551	922	1,056
Ending balance	1,551	922	1,056	1,122

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

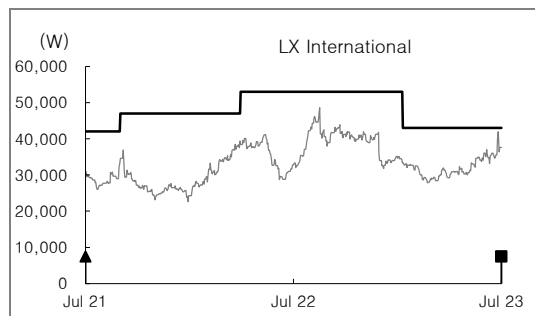
	2022	2023F	2024F	2025F
P/E (x)	2.6	4.5	5.5	6.0
P/CF (x)	1.0	1.7	1.7	1.6
P/B (x)	0.6	0.6	0.5	0.5
EV/EBITDA (x)	2.2	4.1	4.1	3.7
EPS (W)	13,293	8,384	6,850	6,288
CFPS (W)	32,963	22,026	22,191	23,812
BPS (W)	59,388	67,006	72,001	76,618
DPS (W)	3,000	2,000	1,800	1,800
Dividend payout ratio (%)	13.8	16.8	19.5	21.3
Dividend yield (%)	8.8	5.3	4.8	4.8
Revenue growth (%)	12.4	-22.4	0.6	2.9
EBITDA growth (%)	42.0	-27.0	3.1	7.0
OP growth (%)	47.1	-42.3	-12.0	2.4
EPS growth (%)	47.2	-36.9	-18.3	-8.2
AR turnover (x)	12.4	11.2	11.9	12.1
Inventory turnover (x)	21.8	22.0	23.4	23.8
AP turnover (x)	12.2	11.0	11.0	11.1
ROA (%)	10.8	5.4	4.0	3.6
ROE (%)	25.5	13.5	10.0	8.6
ROIC (%)	22.8	10.5	8.4	8.3
Debt-to-equity ratio (%)	154.2	136.2	131.7	122.3
Current ratio (%)	152.7	138.2	133.5	141.4
Net debt-to-equity ratio (%)	19.6	37.7	36.6	29.6
Interest coverage ratio (x)	16.3	4.2	3.8	3.7

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
LX International (001120)	07/31/23	Trading Buy	43,000
	02/08/23	Buy	43,000
	04/29/22	Buy	53,000
	09/30/21	Buy	47,000
	06/30/21	Buy	42,000



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.

* Outside of the official ratings of Mirae Asset Securities Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* 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	89.09%	7.88%	2.42%	0.61%
Investment banking services	100%	0%	0%	0%

* Based on recommendations in the last 12-months (as of June 30, 2023)

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