

Mirae Asset Securities Co., Ltd.

Jay JH Ryu jay.ryu@miraeasset.com

Chang-min Lee changmin.lee@miraeasset.com



047050 KS · Energy

POSCO International

Valuation gap to narrow

(Maintain)

Buy

Target price

W65,000 ▲

Upside

20.6%

Current price (10/30/23)

W53,900

KOSPI	2,310.55	Market cap (Wbn)	9,482	Shares outstanding (mn)	176	Foreign ownership (%)	6.8
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Report summary

Maintain Buy and raise TP to W65,000

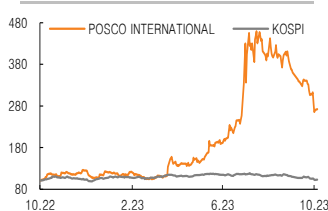
We maintain our Buy rating on POSCO International and raise our target price to W65,000. Our target price is based on a sum-of-the-parts valuation (combining the values of the global and energy businesses) and implies an EV/EBITDA of 10x. We believe the company's valuation gap with Japanese trading companies will narrow thanks to: 1) structural margin improvements at the trading division; and 2) the expansion of eco-friendly businesses.

3Q23 review

For 3Q23, the company reported revenue of W8.05tr (-11% YoY) and operating profit of W311.7bn (OP margin of 3.9%). Operating profit missed the consensus, but the trading division maintained higher profitability than historical levels, with an OP margin of 1.7%. In our view, the trading division's structural margin improvement justifies a valuation re-rating. We revised up our operating profit forecasts for 2023 and 2024 by 14% and 24%, respectively.

Key data

Price performance



(%)	1M	6M	12M
Absolute	-24.5	101.1	165.5
Relative	-19.5	117.7	160.7

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	33,949	37,990	33,153	34,612	33,537
OP (Wbn)	585	903	1,247	1,305	1,065
OP margin (%)	1.7	2.4	3.8	3.8	3.2
NP (Wbn)	361	590	823	939	744
EPS (W)	2,924	4,780	4,684	5,339	4,231
ROE (%)	10.9	15.8	15.9	13.9	10.0
P/E (x)	7.7	4.7	11.5	10.1	12.7
P/B (x)	0.8	0.7	1.5	1.3	1.2
Dividend yield (%)	3.6	4.4	1.9	1.9	1.9

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

Source: Company data, Mirae Asset Securities Research estimates

Valuation gap with Japanese trading companies to narrow

Raise TP to W65,000; valuation gap with Japanese peers to narrow

We maintain our Buy rating on POSCO International and raise our target price from W35,000 to W65,000. For our target price, we combined the values of the global business (steel, food, etc.) and the energy business (LNG/power generation and gas fields). For the global business, we applied a 12-month forward EV/EBITDA of 10x, which represents a 20% discount to the average multiple of Japanese trading companies.

Over the past five years, POSCO International has traded at a discount of around 40% to Japanese peers. However, we expect the valuation gap to narrow, given: 1) the trading division's margin improvements; and 2) portfolio diversification into rechargeable batteries, eco-friendly power generation, and hydrogen. (Both POSCO International and its Japanese trading company peers are diversifying into eco-friendly businesses.)

Except for electric vehicle (EV) motor cores and several power generation projects, most of POSCO International's eco-friendly businesses (EV-related, batteries, eco-friendly power generation and hydrogen) are still in the nascent stages. However, we expect these businesses to drive a valuation re-rating once meaningful monetization begins.

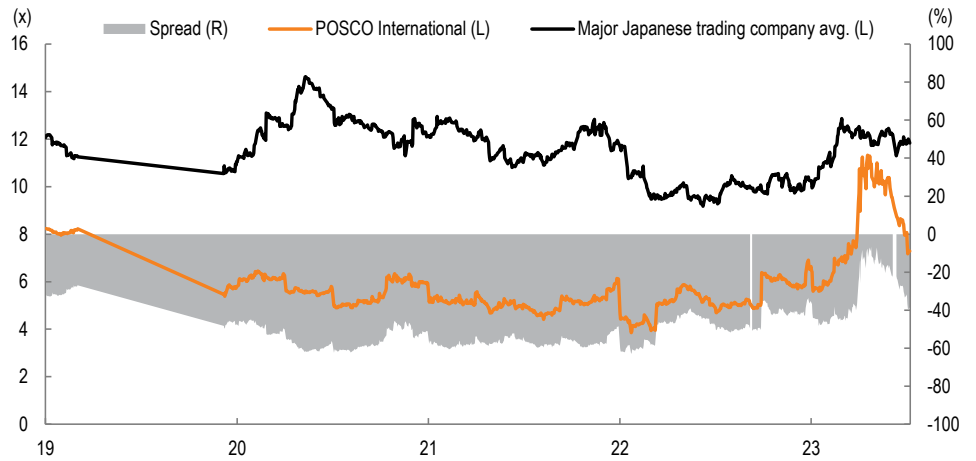
Table 1. Valuation

		12MF	Notes
Operating value	Global		
	EBITDA (Wbn)	736	
	Net debt (Wbn)	3,780	
	Target EV/EBITDA(x)	10.0	20% discount to avg. multiple of Japanese trading companies
	Energy		
	E&P value (Wbn)	6,536	
	Myanmar and Senex	2,985	Myanmar, Australia, and Indonesia blocks
LNG, etc.	3,551	Industry avg. EV/EBITDA of 9x	
	Operating value (Wbn)	10,115	
Asset Value	Other investment assets		
	Equity-method gains, etc. (US\$mn)	123.0	
	Target P/E (x)	12.0	Avg. of trading and E&P units
	USD/WKRW	1,250	
	Value (Wbn)	1,384	
No. of shares (mn)		176	
Total (Wbn)		11,499	
TP		65,000	
Current price		53,900	
Upside (%)		20.6	

Source: Mirae Asset Securities Research

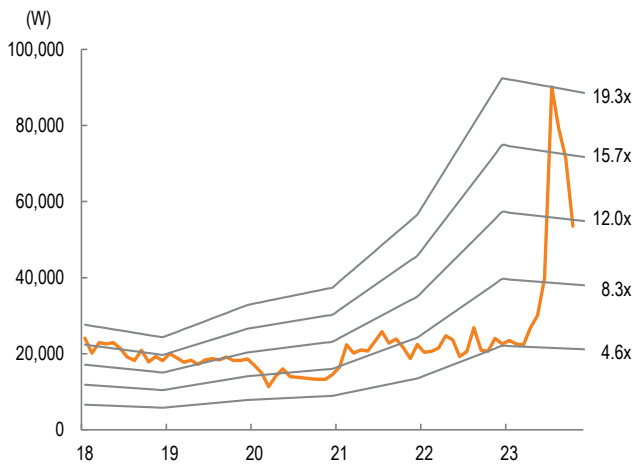
POSCO International shares used to move in line with traditional commodity prices, but we have seen a divergence from this pattern recently. The stock has pulled back from its peak due to the slowdown of the EV battery market, but we believe re-rating expectations are still valid, as the company is transforming its fundamentals via diversification into eco-friendly businesses. With this in mind, we expect POSCO International's valuation gap with Japanese peers to narrow going forward.

Figure 1. POSCO International vs. major Japanese trading companies: EV/EBITDA trends



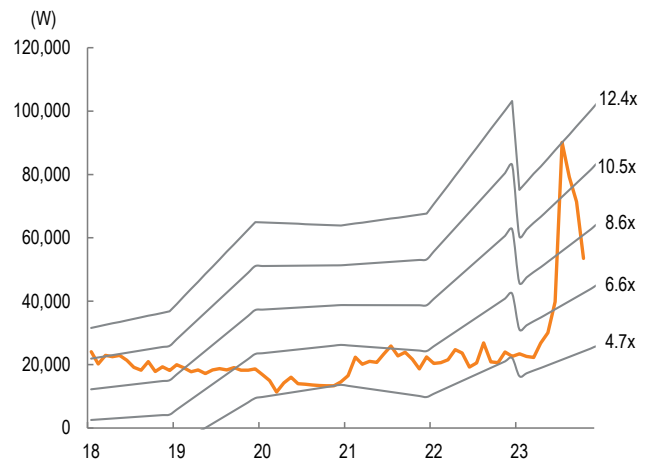
Source: Bloomberg, Mirae Asset Securities Research

Figure 2. P/E band chart



Source: QuantiWise, Mirae Asset Securities Research

Figure 3. EV/EBITDA band chart



Source: QuantiWise, Mirae Asset Securities Research

3Q23 review: Sluggish steel sector conditions

POSCO International's 3Q23 revenue fell 11% YoY to W8.05tr. Revenue continued to decline across steel (-15% YoY), food (-27% YoY), and trading (global). In the energy division, power generation and the Myanmar gas field project saw revenue fall 40% YoY.

Operating profit came in at W311.7bn (+58% YoY; OP margin of 4.0%), falling short of the consensus (W340.4bn). Despite growing sharply YoY on the effects of the POSCO Energy merger, operating profit fell 13% on a QoQ basis. Steel profit contracted 27% QoQ due to weaker sales and ASP declines. However, the trading business posed an OP margin of 1.7%, higher than its historical average. Operating profits from the Myanmar gas field project and power generation slightly improved QoQ, increasing W2.5bn and W6.5bn to W112.5bn and W52bn, respectively.

Despite the sluggish 3Q23 results, we revise up our operating profit forecasts for 2023 and 2024 by 14% and 24%, respectively, in light of strong 2Q23 earnings. Earnings will likely remain weak in 4Q23, but full-year operating profit is likely to hit a record W1.25tr, backed by higher steel margins and a rebound in power generation profit.

Table 2. 3Q23 review

(Wbn, %, %p)

	3Q22	2Q23	3Q23P			Growth	
			Preliminary	Mirae Asset	Consensus	YoY	QoQ
Revenue	9,041	8,871	8,046	8,585	9,067	-11.0	-9.3
OP	197	357	312	295	340	58.3	-12.6
OP margin (%)	2.2	4.0	3.9	3.4	3.8	1.7	-0.1
Pretax profit	149	313	261	278	299	74.7	-16.6
NP	109	224	201	197	213	83.9	-10.2

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

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

Table 3. Earnings forecast revisions

(Wbn, %)

	Previous		Revised		% chg.		Notes
	23F	24F	23F	24F	23F	24F	
Revenue	37,538	39,660	33,153	34,612	-11.7	-12.7	Revised trading revenue est. Reflected 3Q23 results and steel margin improvements
OP	1,095	1,052	1,247	1,305	13.8	24.1	
Pretax profit	978	883	1,092	1,223	11.8	38.5	
NP	733	656	823	939	12.4	43.2	
EPS (W)	4,168	3,728	4,684	5,339	12.4	43.2	

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

Source: Mirae Asset Securities Research estimates

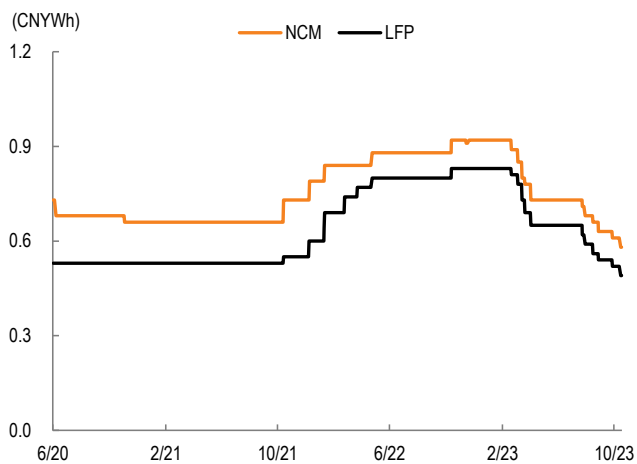
Table 4. Quarterly and annual earnings

(Wbn, %)

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23P	4Q23F	2022	2023F	2024F
Revenue	9,912	11,070	9,041	7,966	8,307	8,871	8,046	7,929	37,990	33,153	34,612
Energy	356	394	433	430	1,287	981	892	902	1,613	4,061	5,319
E&P	115	238	254	222	206	243	192	191	829	832	332
Trading	9,556	10,676	8,608	7,536	7,020	7,884	7,154	7,028	36,376	29,086	29,293
Steel	6,910	8,027	6,088	5,317	4,549	5,909	5,183	4,728	26,343	20,369	19,994
OP	216	321	197	169	280	357	312	298	903	1,247	1,305
Energy	46	119	111	90	143	208	187	164	366	701	754.5
E&P	49	118	116	85	71	115	118	100	368	404	344.3
Trading	170	202	86	79	137	149	125	135	537	545	550.8
Steel	79	85	50	76	86	119	86	85	289	376	330.6
Pretax profit	222	321	149	50	235	313	261	283	742	1,092	1,223
NP	161	229	109	91	187	224	201	218	590	823	939
OP margin (%)	2.2	2.9	2.2	2.1	3.4	4.0	3.9	3.8	2.4	3.8	3.2
Pretax margin (%)	2.2	2.9	1.7	0.6	2.8	3.5	3.2	3.6	2.0	3.5	2.9
Steel sales volume ('000 tonnes)	3,510	3,550	3,350	3,070	3,040	3,520	3,190	2,980	13,480	12,730	12,810
Motor core sales volume ('000 units)	310	380	370	420	440	470	460	521	1,480	1,891	2,347
Power generation sales volume (GWh)	2,388	2,624	2,886	3,052	3,141	2,456	2,725	2,930	10,951	11,253	11,325
Myanmar gas sales volume (Bcf)	42	46	50	52	48	39	47	51	189	185	187

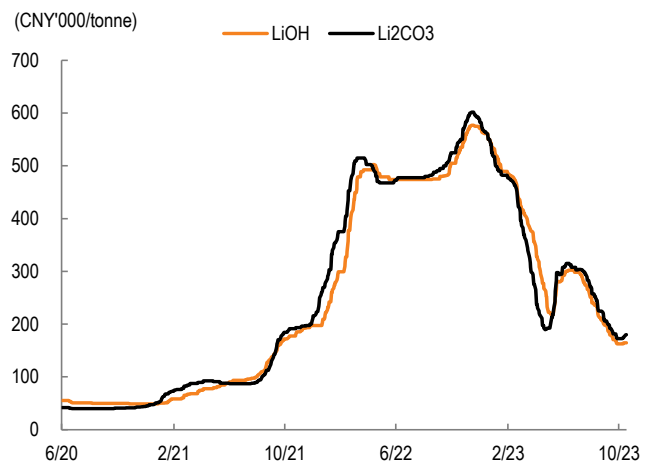
Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
 Source: Company data, Mirae Asset Securities Research estimates

Figure 4. Prismatic battery price trends



Source: ICC, Mirae Asset Securities Research

Figure 5. Lithium price trends



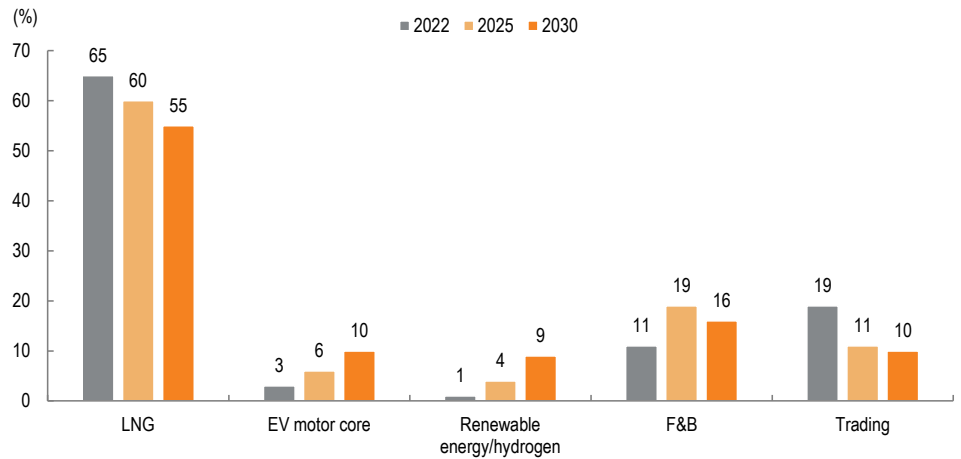
Source: ICC, Mirae Asset Securities Research

Changes in existing businesses and pursuit of new businesses

POSCO International’s strategic direction calls for: 1) the reorientation of existing businesses toward eco-friendly and high-value-added segments/channels; and 2) the pursuit of new green businesses. In the long run, the company is aiming to completely break away from its traditional trading business model. Specifically, the company plans to increase its share of operating profit from motor cores and renewable energy/hydrogen (currently 3%) to nearly 20% by 2030. Meanwhile, the company plans to reduce trading/LNG-related operating profit from 85% to 65%.

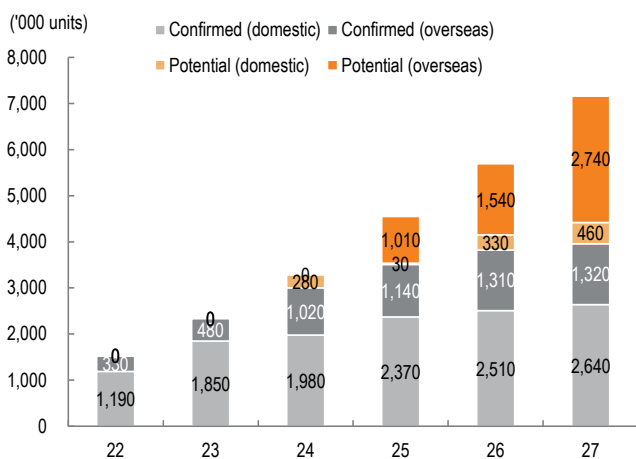
POSCO International is aiming to increase motor core orders from 1.5 mn units in 2022 to 8mn units in 2027. For the existing steel business, the company is looking to improve margins by nearly quadrupling eco-friendly/online platform sales volume by 2030.

Figure 6. Growth road map: Switching to eco-friendly businesses



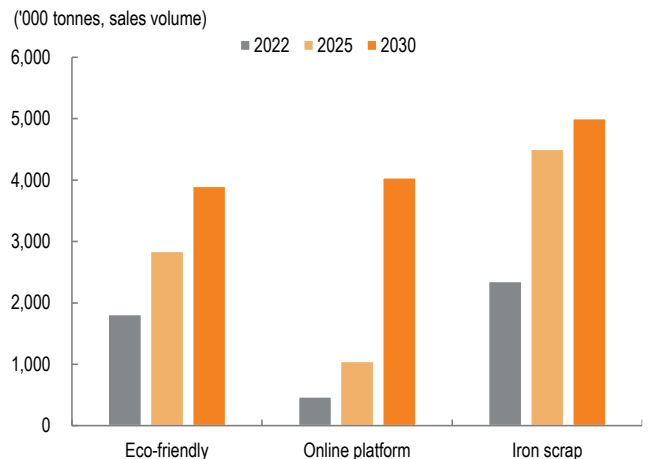
Source: Company data, Mirae Asset Securities Research

Figure 7. Motor core order outlook



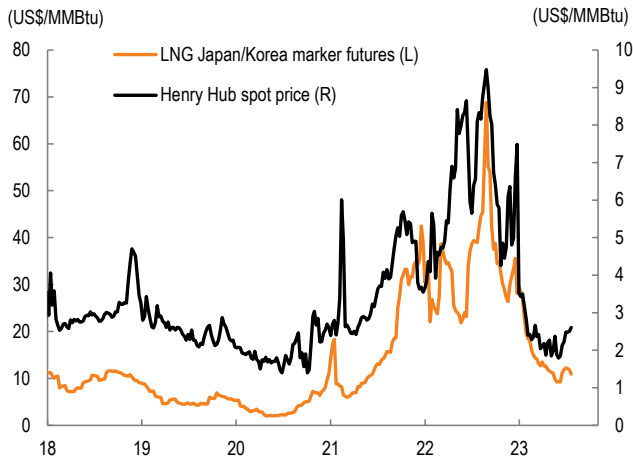
Source: Company data, Mirae Asset Securities Research

Figure 8. Steel business strategic targets



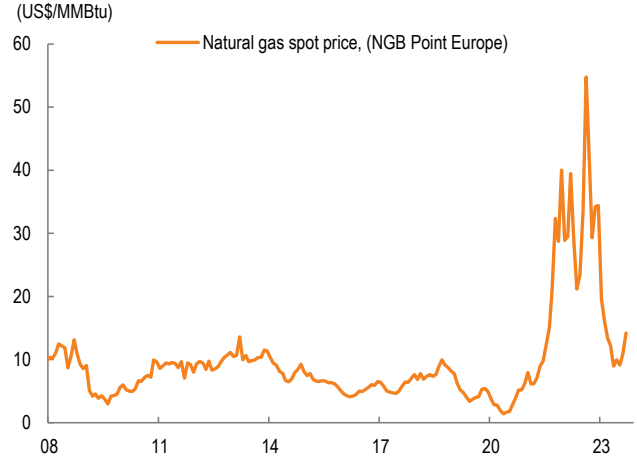
Source: Company data, Mirae Asset Securities Research

Figure 9. Henry Hub vs. Asia LNG prices



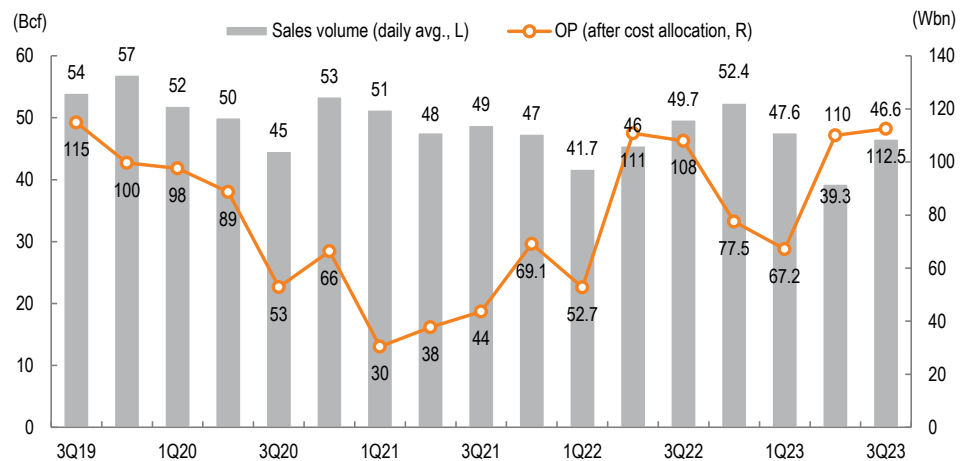
Source: Bloomberg, Mirae Asset Securities Research

Figure 10. Natural gas spot prices in Europe



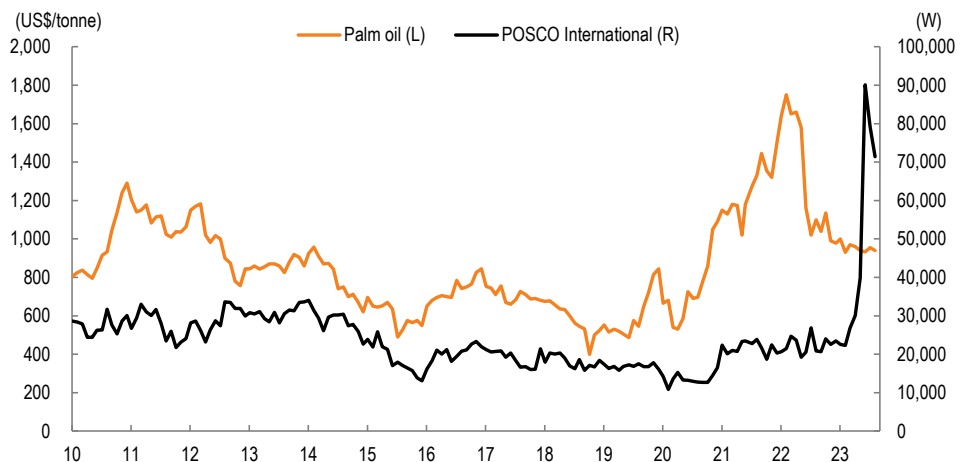
Note: Monthly data through Sep. 2023
Source: Clarksons, Mirae Asset Securities Research

Figure 11. Myanmar gas field earnings trends



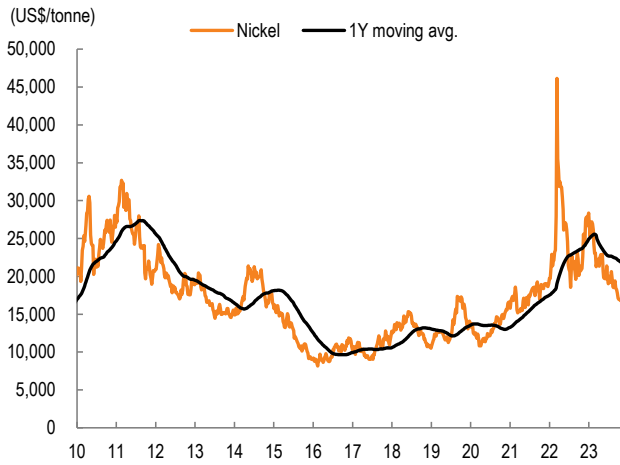
Source: Company data, Mirae Asset Securities Research

Figure 12. Palm oil prices



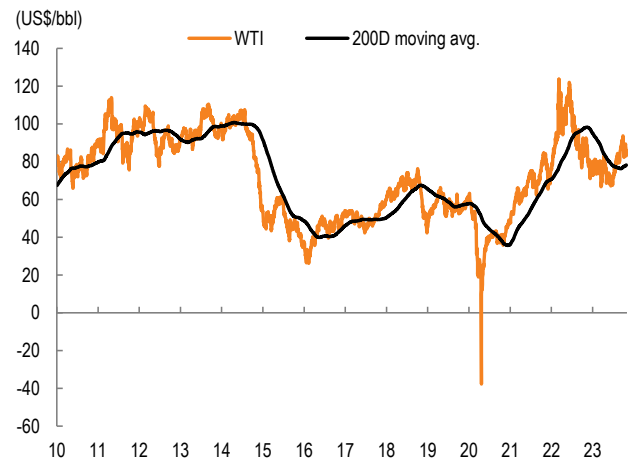
Source: Bloomberg, Mirae Asset Securities Research

Figure 13. Nickel price vs. one-year moving avg.



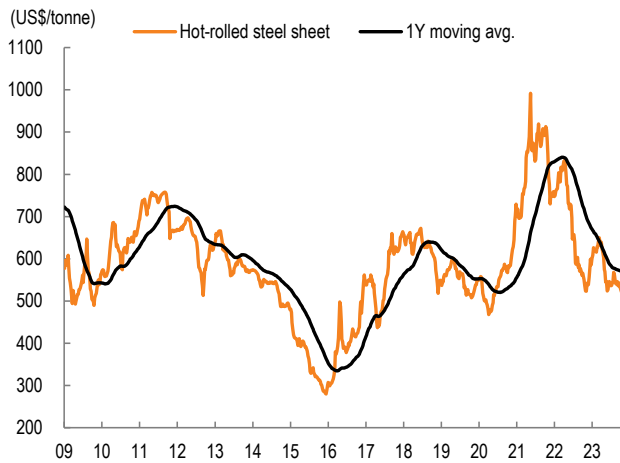
Source: Bloomberg, Mirae Asset Securities Research

Figure 14. WTI price vs. one-year moving avg.



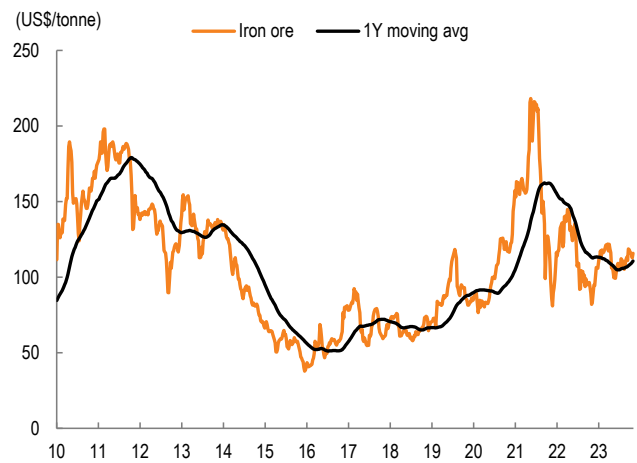
Source: Bloomberg, Mirae Asset Securities Research

Figure 15. Hot-rolled steel price vs. one-year moving avg.



Source: Bloomberg, Mirae Asset Securities Research

Figure 16. Iron ore price vs. one-year moving avg.



Source: Bloomberg, Mirae Asset Securities Research

POSCO International (047050 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	37,990	33,153	34,612	33,537
Cost of revenue	36,422	31,321	32,753	31,935
GP	1,568	1,832	1,859	1,602
SG&A expenses	665	585	554	537
OP (adj.)	903	1,247	1,305	1,065
OP	903	1,247	1,305	1,065
Non-operating profit	-161	-155	-82	-95
Net financial income	-111	-210	-197	-183
Net income from associates	75	122	95	67
Pretax profit	742	1,092	1,223	970
Income tax	137	273	310	246
Profit from continuing operations	605	819	913	724
Profit from discontinued operations	0	0	0	0
NP	605	819	913	724
Attributable to owners	590	823	939	744
Attributable to minority interests	15	-4	-26	-21
Total comprehensive income	598	883	913	724
Attributable to owners	612	886	947	750
Attributable to minority interests	-14	-4	-34	-27
EBITDA	1,303	1,761	1,842	1,637
FCF	971	1,094	524	706
EBITDA margin (%)	3.4	5.3	5.3	4.9
OP margin (%)	2.4	3.8	3.8	3.2
Net margin (%)	1.6	2.5	2.7	2.2

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	1,233	1,508	1,124	1,456
NP	605	819	913	724
Non-cash income/expenses	681	941	894	851
Depreciation	149	268	292	324
Amortization	251	246	244	247
Other	281	427	358	280
Chg. in working capital	266	111	-326	160
Chg. in AR & other receivables	470	466	-455	223
Chg. in inventory	174	312	-230	113
Chg. in AP & other payables	-445	-389	271	-133
Income tax	-228	-281	-310	-246
Cash flow from investing activities	-1,466	273	-926	-987
Chg. in PP&E	-253	-412	-600	-750
Chg. in intangible assets	-368	-210	-300	-250
Chg. in financial assets	60	1	-26	13
Other	-905	894	0	0
Cash flow from financing activities	979	-2,148	-23	-528
Chg. in financial liabilities	967	100	147	-358
Chg. in equity	-18	1,532	0	0
Dividends	-102	-141	-170	-170
Other	132	-3,639	0	0
Chg. in cash	777	-199	72	-9
Beginning balance	521	1,298	1,098	1,170
Ending balance	1,298	1,098	1,170	1,161

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	7,319	6,958	7,800	7,413
Cash & equivalents	1,298	1,098	1,170	1,161
AR & other receivables	3,715	3,697	4,183	3,945
Inventory	1,758	1,750	1,980	1,867
Other current assets	548	413	467	440
Non-current assets	5,197	8,145	8,611	8,989
Investments in associates	434	782	884	834
PP&E	1,561	3,654	3,962	4,387
Intangible assets	2,236	2,318	2,373	2,376
Total assets	12,516	15,103	16,411	16,402
Current liabilities	5,487	4,136	4,370	4,122
AP & other payables	2,512	2,500	2,828	2,667
Short-term financial liabilities	2,522	1,184	1,031	973
Other current liabilities	453	452	511	482
Non-current liabilities	2,631	4,068	4,398	4,083
Long-term financial liabilities	2,400	3,838	4,138	3,838
Other non-current liabilities	231	230	260	245
Total liabilities	8,118	8,204	8,768	8,206
Equity attributable to owners	3,983	6,356	7,125	7,700
Capital stock	617	880	880	880
Capital surplus	541	1,810	1,810	1,810
Retained earnings	2,808	3,502	4,272	4,846
Minority interests	415	543	517	496
Shareholders' equity	4,398	6,899	7,642	8,196

Key valuation metrics/ratios

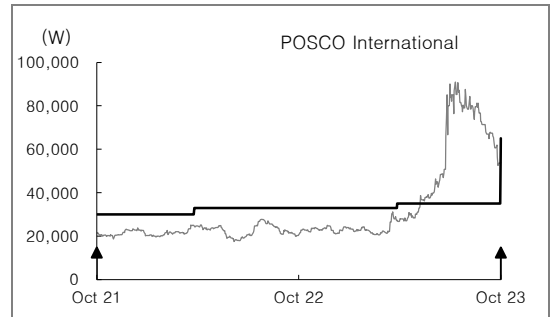
	2022	2023F	2024F	2025F
P/E (x)	4.7	11.5	10.1	12.7
P/CF (x)	2.2	5.4	5.2	6.0
P/B (x)	0.7	1.5	1.3	1.2
EV/EBITDA (x)	5.1	7.8	7.5	8.2
EPS (W)	4,780	4,684	5,339	4,231
CFPS (W)	10,420	10,012	10,275	8,952
BPS (W)	32,286	36,298	40,670	43,934
DPS (W)	1,000	1,000	1,000	1,000
Dividend payout ratio (%)	20.4	20.8	18.6	23.5
Dividend yield (%)	4.4	1.9	1.9	1.9
Revenue growth (%)	11.9	-12.7	4.4	-3.1
EBITDA growth (%)	40.2	35.1	4.6	-11.1
OP growth (%)	54.2	38.1	4.7	-18.4
EPS growth (%)	63.5	-2.0	14.0	-20.8
AR turnover (x)	10.1	9.5	9.4	8.8
Inventory turnover (x)	20.7	18.9	18.6	17.4
AP turnover (x)	15.9	15.2	14.9	14.1
ROA (%)	5.2	5.9	5.8	4.4
ROE (%)	15.8	15.9	13.9	10.0
ROIC (%)	11.3	10.3	9.9	7.7
Debt-to-equity ratio (%)	184.6	118.9	114.7	100.1
Current ratio (%)	133.4	168.2	178.5	179.8
Net debt-to-equity ratio (%)	78.0	54.1	49.5	42.0
Interest coverage ratio (x)	6.2	4.8	5.4	4.7

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
POSCO International (047050)	10/31/23	Buy	65,000
	04/27/23	Buy	35,000
	04/25/23	One year	33,000
	04/25/22	Buy	33,000
	07/01/21	Buy	30,000



Stock ratings		Sector ratings	
Buy	Expected 12-month performance: +20% or greater	Overweight	Expected to outperform the market over 12 months
Trading Buy	Expected 12-month performance: +10% to +20%	Neutral	Expected to perform in line with the market over 12 months
Hold	Expected 12-month performance: -10% to +10%	Underweight	Expected to underperform the market over 12 months
Sell	Expected 12-month performance: -10% or worse		

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	88.81%	7.24%	3.29%	0.66%
Investment banking services	95.65%	4.35%	0%	0%

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

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Mirae Asset Securities International Network

Mirae Asset Securities Co., Ltd. (Seoul)

One-Asia Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (HK) Ltd.

Units 8501, 8507-8508, 85/F
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong
Tel: 852-2845-6332

Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building
Vila Olimpia
Sao Paulo - SP
04551-060
Brazil
Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)

Mirae Asset Capital Markets (India) Pvt Ltd

1st Floor, Tower 4, Equinox Business Park,
LBS Marg, Off BKC, Kurla (West), Mumbai - 400 070
India

Tel: 91-22-62661300 / 48821300

Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

PT. Mirae Asset Sekuritas Indonesia

District 8, Treasury Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-54
Jakarta Selatan 12190
Indonesia
Tel: 62-21-5088-7000

Mirae Asset Securities Mongolia UTsk LLC

#406, Blue Sky Tower, Peace Avenue 17
1 Khoroov, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area
Shanghai 200120
China

Tel: 86-21-5013-6392
