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Cosmetics/Apparel/Retail (Overweight/Maintain)

2024 outlook: Affordability takes center stage



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2024 consumer market outlook

Korea's consumer market faces heightened volatility. Sentiment and household spending power have weakened amid a slowing economy and a contraction in household wealth, leading to sluggish retail sales growth in 2023. With these conditions likely to persist in 2024, we expect consumers to redirect their spending toward more affordable goods.

Indeed, this shift has already begun to play out, with the most pronounced changes being seen in the cosmetics industry (which is especially sensitive to consumer trends). Of note, given that low-end cosmetics brands generally have short life cycles, it is usually wise to take a bottom-up investment approach by focusing on a few especially popular brands. This year, however, almost all small/mid-sized cosmetics brands in Korea have experienced remarkable growth. Lower-end brands are also making up an increasing proportion of Korean cosmetics exports, once mainly composed of luxury brands. Against this backdrop, luxury brands' market presence has somewhat weakened. In our view, this points to a sustained shift in overall spending patterns to the low-end space.

We see the same trend playing out in the apparel market. While demand for luxury goods is slowing, indie young fashion and fast fashion brands are enjoying strong demand thanks to their attractive prices. Reasonably priced basic items are also selling well.

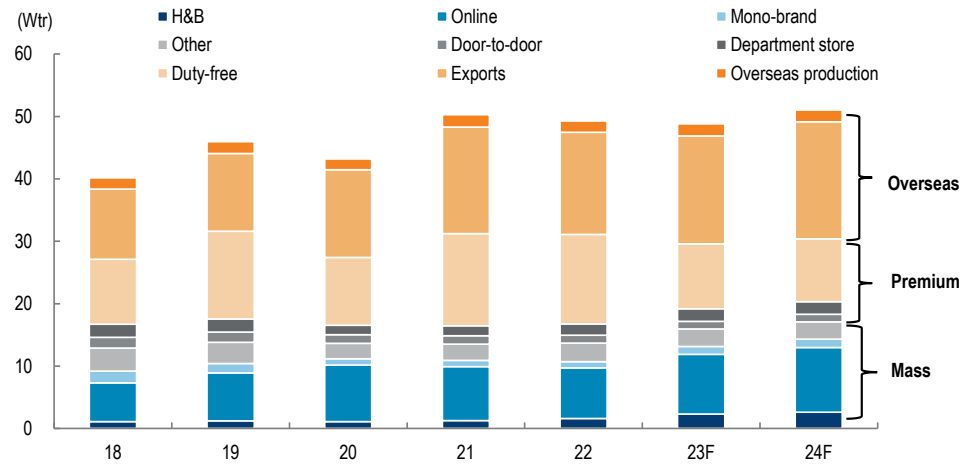
In the retail industry, we expect channels focusing on consumer staples—supermarkets, hypermarkets, and convenience stores—to outperform the broader market.

Among cosmetics names, we recommend Cosmax and Amorepacific. Cosmax should structurally benefit from the growth of the indie cosmetics market, and Amorepacific is set to consolidate COSRX, a low-end skin care brand that has grown strongly in recent years. We are also positive on smaller brands and ODMs, which have likely entered a structural growth phase.

Among apparel companies, we are positive on OEMs such as Hansae, which enjoys high order visibility thanks to its customer portfolio centered on low/mid-end brands. Shinsegae International also deserves attention, as it is shifting its merchandising strategy to focus more on young fashion and overseas brands.

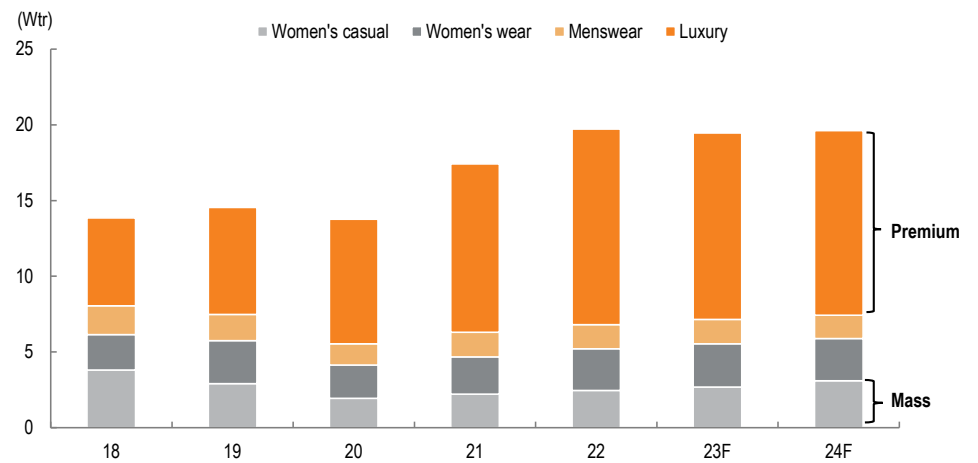
Among retail names, we recommend GS Retail given its focus on supermarkets and convenience stores. The firm's withdrawal from the unprofitable online grocery business (GS Fresh Mall) should help boost consolidated earnings and highlight its core business strength. BGF Retail also deserves attention, as we think the pullback in its shares looks excessive in light of its attractiveness as a pure convenience store play.

Figure 1. Cosmetics sales trends and forecasts by channel



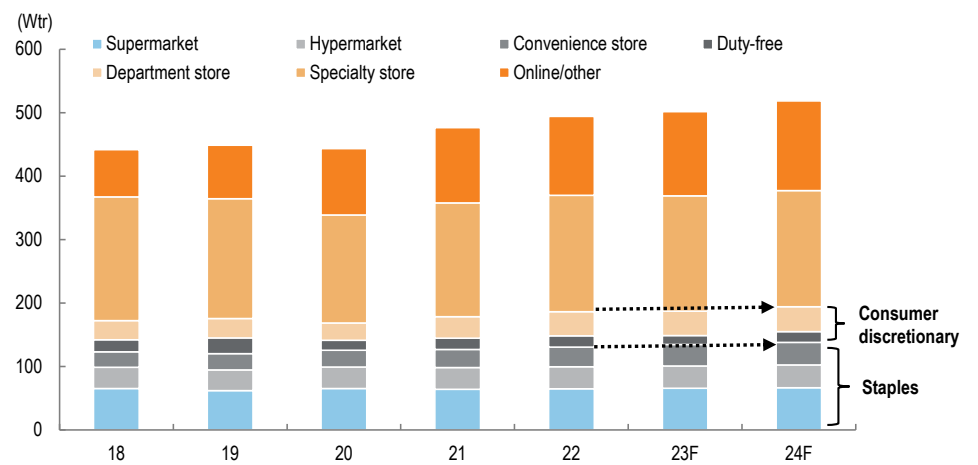
Source: Statistics Korea, Korea Customs Service, company data, Mirae Asset Securities Research

Figure 2. Department store apparel sales by category



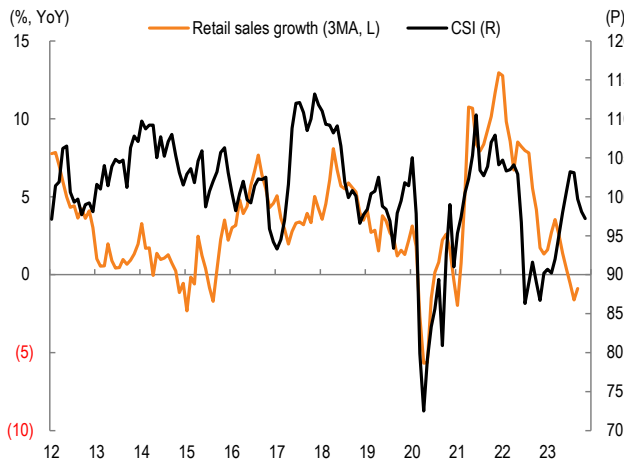
Source: MOTIE, Mirae Asset Securities Research

Figure 3. Retail sales trends and forecasts by channel



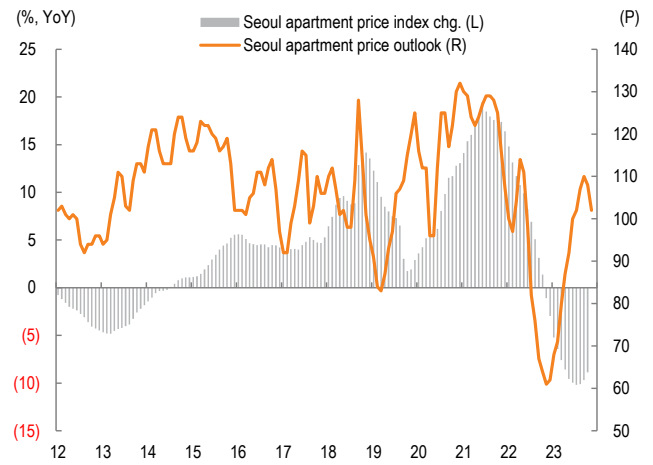
Source: Statistics Korea, MOTIE, Mirae Asset Securities Research

Figure 4. Consumer sentiment and retail sales growth



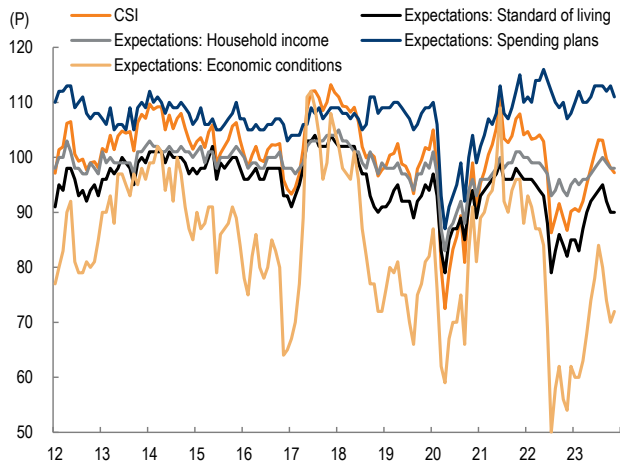
Source: Bank of Korea, Statistics Korea, Mirae Asset Securities Research

Figure 5. Seoul apartment price trends



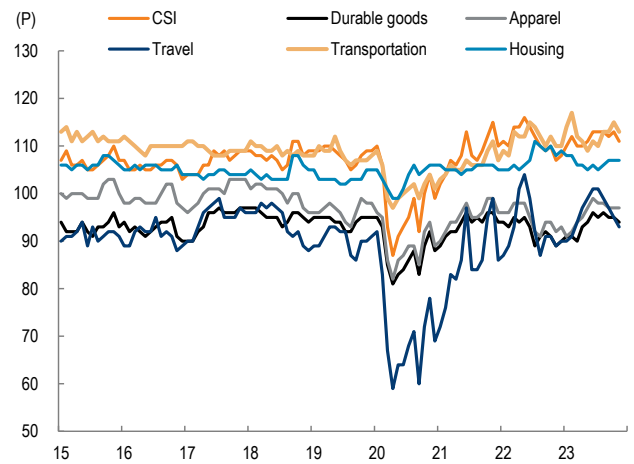
Source: KB Bank, Mirae Asset Securities Research

Figure 6. Key components of CSI



Source: Bank of Korea, Mirae Asset Securities Research

Figure 7. Consumer spending by category



Source: BOK, Mirae Asset Securities Research

Cosmetics: Affordable indie brands to continue structural growth

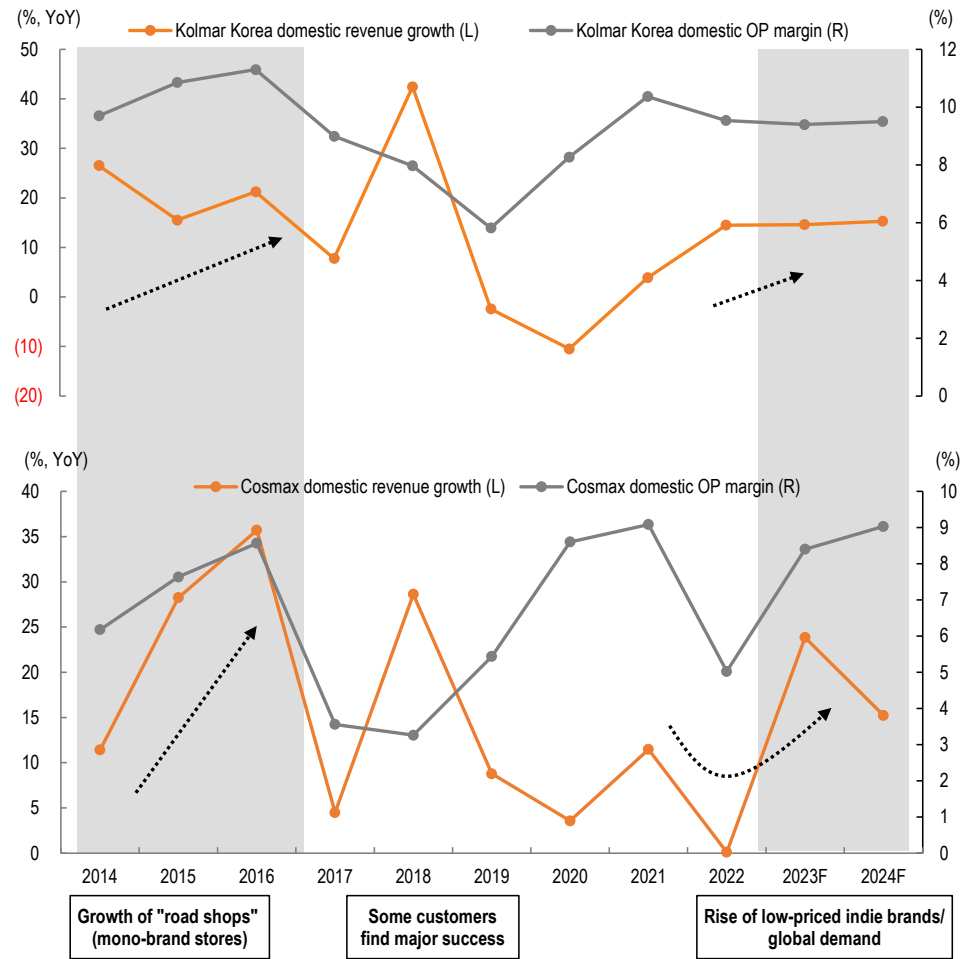
ODMs stand to benefit the most

The cosmetics market has relatively low barriers to entry for indie brands and is also highly sensitive to consumer trends. As a result, the shift toward affordable indie brands is more pronounced in cosmetics than in any other consumer category, structurally benefiting cosmetics ODMs. For 2023, we forecast revenue to expand 13% YoY at Cosmax, 19% at Kolmar Korea (ODM division only), and 20% YoY at Cosmecca Korea. And despite a high base, all of these companies are guiding double-digit growth in 2024.

We find it particularly positive that ODMs are broadening their customer base. When a customer launches a hit product, ODMs may see sharp growth in the short term, but earnings continuity tends to be limited due to the short life cycles of low/mid-end and small-sized brands. Thus, ODMs with large exposure to particular brands often experience wild swings in earnings. The current situation is different, as ODMs are seeing strong order trends across all customers rather than relying on particular brands. While certain customers may stand out from quarter to quarter, the overall order trend looks consistent. We believe ODMs' customer portfolios are now diversified enough to reflect overall consumption trends in the cosmetics market.

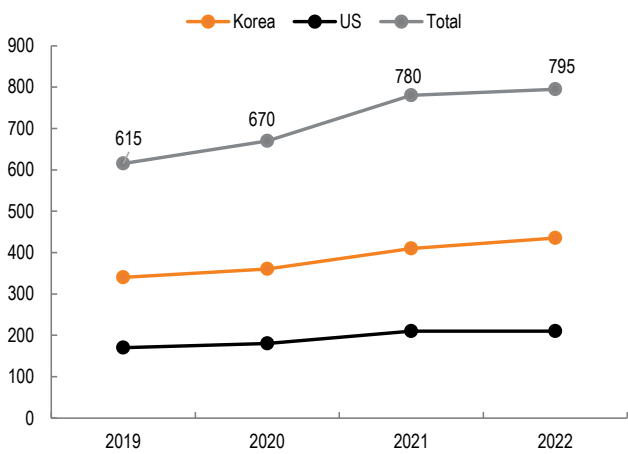
This year, the rise of affordable indie brands has mainly benefited the domestic business. Starting in 2024, we expect the trend to spill over to other regions, including the US. Like Korea, the US is home to many fast-growing indie brands, making it a particularly promising market for Korean ODMs. And indeed, Korean firms are actively seeking to absorb demand from US-based indie brands on the back of their advanced manufacturing technology and price competitiveness. With ODMs still in the early stages of customer base diversification, we see plenty of room for additional growth.

Figure 8. Cosmetics ODMs' domestic revenue growth and OP margin trends and forecasts



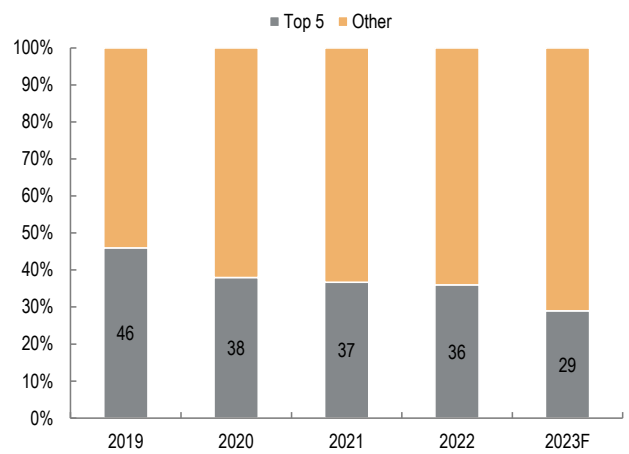
Source: Kolmar Korea, Cosmax, Mirae Asset Securities Research

Figure 9. Cosmecca Korea: No. of customers



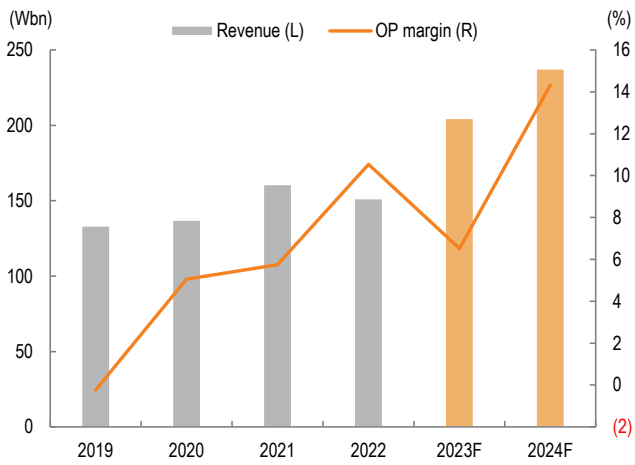
Source: Cosmecca Korea, Mirae Asset Securities Research

Figure 10. Cosmecca Korea: Domestic customer base breakdown



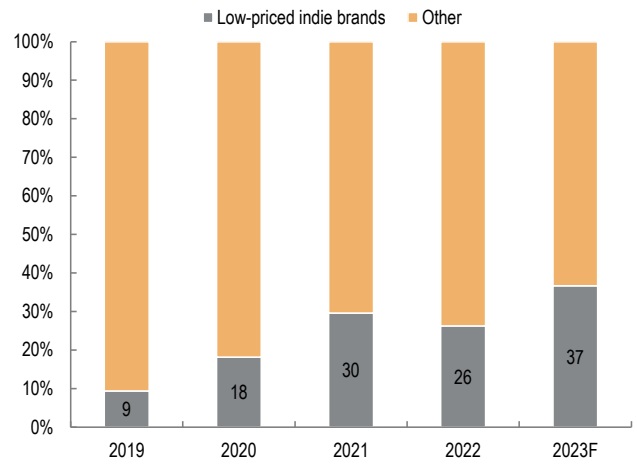
Source: Cosmecca Korea, Mirae Asset Securities Research

Figure 11. Englewood Lab: Earnings trend and forecasts



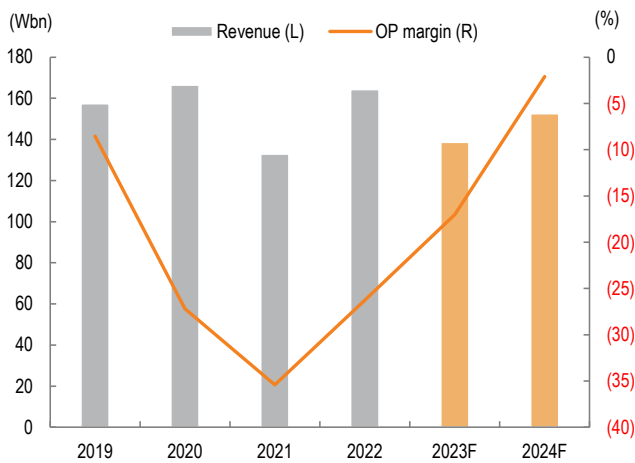
Source: Englewood Lab, Mirae Asset Securities Research

Figure 12. Englewood Lab: Customer mix



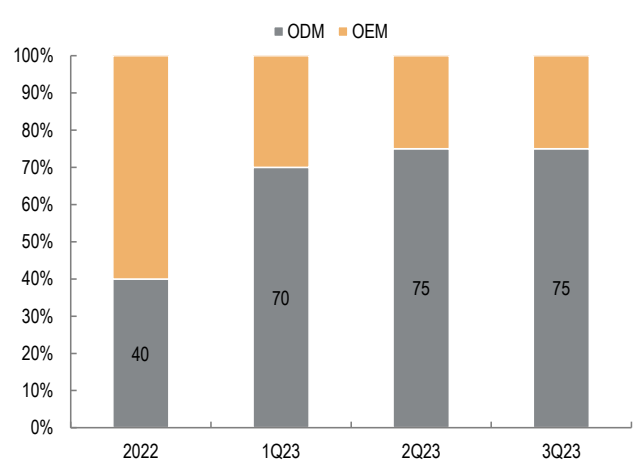
Source: Englewood Lab, Mirae Asset Securities Research

Figure 13. Cosmax West: Earnings trend and forecasts



Source: Cosmax, Mirae Asset Securities Research

Figure 14. Cosmax West: Customer mix



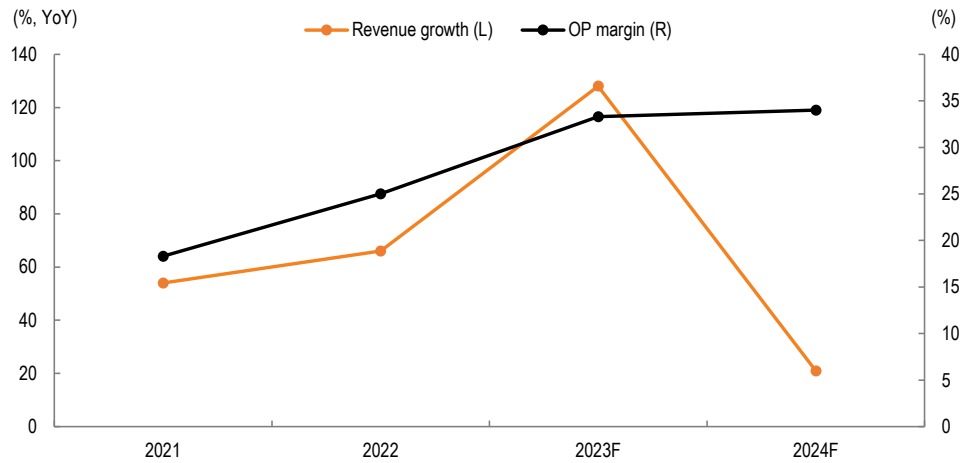
Source: Cosmax, Mirae Asset Securities Research

Brands: Operating leverage effects in full swing

Small/mid-sized cosmetics brands with affordable prices have been delivering strong earnings growth both at home and abroad. As affordable brands are well-aligned with the recent cost-effective consumption trend, we expect them to continue growing for the foreseeable future. And growth should be stronger in 2024 thanks to operating leverage effects. Of note, revenue growth generates strong operating leverage for brands due to their low costs (relative to manufacturers). For instance, COSRX (set to be consolidated into Amorepacific) has widened its OP margin to over 30% on the back of strong sales growth (60% CAGR over the past three years).

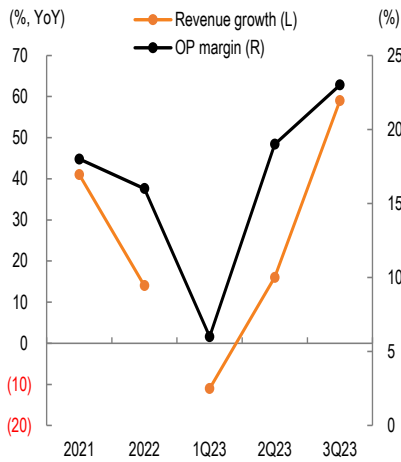
In 3Q23, low-end, small/mid-sized brands began to see significant improvements in profitability, with VT Cosmetics and iFamilySC posting OP margins of around 20% and Clio Cosmetics reporting its first double-digit OP margin since 2017. All in all, we believe operating leverage effects have just begun and expect growth to gain steam in 1H24 (aided by a favorable base).

Figure 15. COSRX: Revenue growth and OP margin trends and forecasts



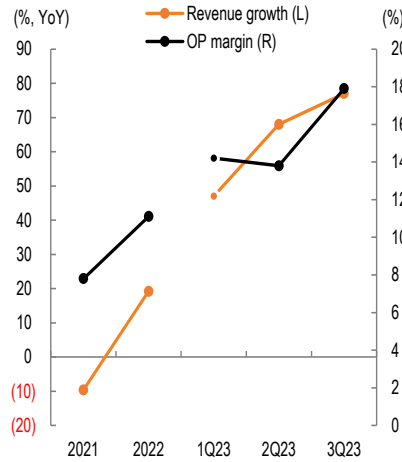
Source: Amorepacific, Mirae Asset Securities Research

Figure 16. VT Cosmetics: Operating leverage



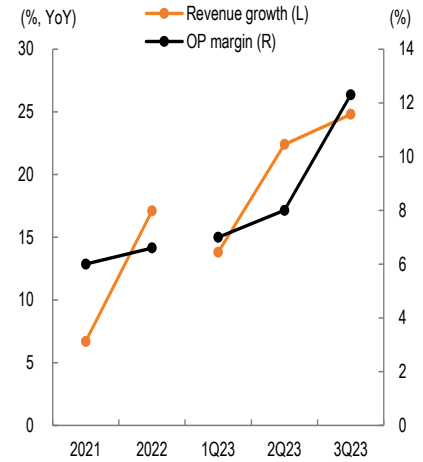
Note: Based on cosmetics business
Source: VT Cosmetics, Mirae Asset Securities Research

Figure 17. Rom&nd: Operating leverage



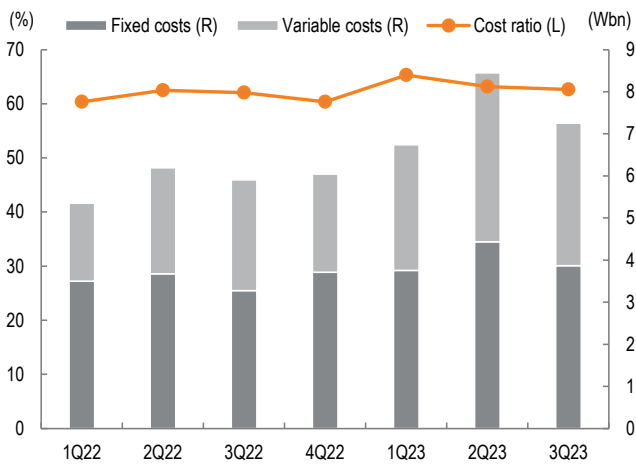
Source: iFamilySC, Mirae Asset Securities Research

Figure 18. Clio Cosmetics: Operating leverage



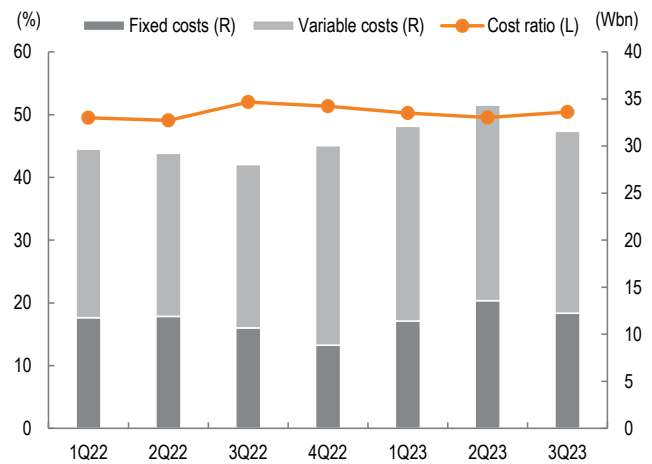
Source: Clio Cosmetics, Mirae Asset Securities Research

Figure 19. Rom&nd: Cost structure



Source: iFamilySC, Mirae Asset Securities Research

Figure 20. Clio Cosmetics: Cost structure



Source: Clio Cosmetics, Mirae Asset Securities Research

Apparel: Affordable indie brands in vogue

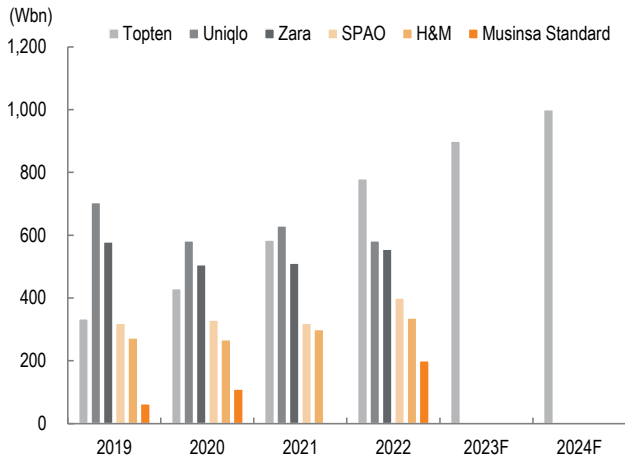
Same phenomenon playing out in the apparel market

Just as in the cosmetics market, affordable indie brands are gaining more prominence in the apparel market. Fast fashion has stood out in 2023, with major SPA brands seeing YTD sales growth of around 20%. For comparison, Korea's overall apparel spending has grown 7% YTD, with growth decelerating in 2H23. Jaju has achieved quarterly sales growth of over 10% after changing its merchandising focus from lifestyle goods to low-end clothing. With its emphasis on basic designs and affordable prices, Jaju's new strategy appears well-aligned with current consumer trends. Notably, while winter fashion is typically expensive, most padded winter coats sold by SPA brands are priced at less than W100,000.

We are also expecting to see differentiated growth in the young fashion category, backed by retailers' nimble merchandising (with a focus on up-and-coming indie brands). Young fashion brands, which offer trendy designs at affordable prices, are outperforming the overall apparel market based on department store sales trends (1H23: +13% YoY for young fashion vs. +7% YoY for overall apparel). Recently, many newer young fashion brands have been expanding into offline channels, including department stores and flagship stores. And the entry of these newer brands appears to be significantly lowering the price range of the young fashion category at department stores.

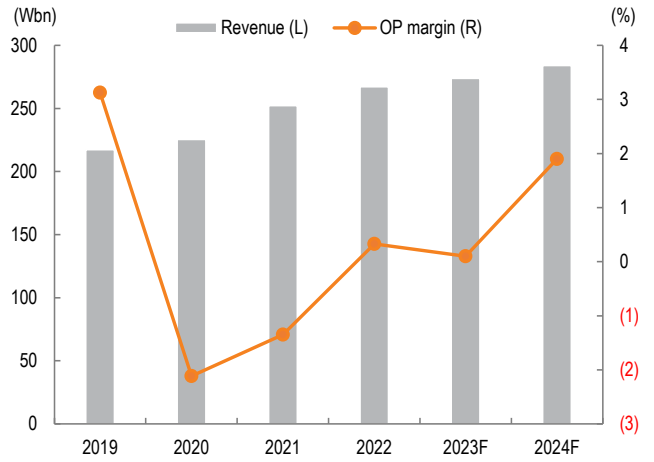
Compared to the cosmetics market, the apparel market has smaller export demand and fewer listed indie brands, which means the shift in spending patterns to the low-end space may attract less notice. However, with the cost-effective consumption trend permeating every category of the consumer goods market, investors should be alert to opportunities wherever they may occur.

Figure 21. Korea's fast fashion brands: Revenue trend



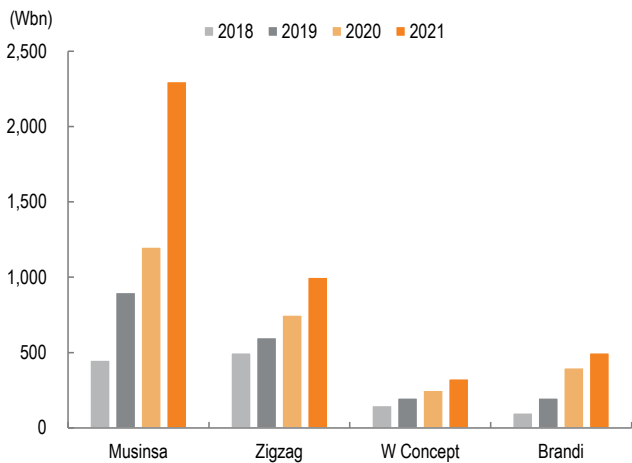
Source: Company data, media reports, Mirae Asset Securities Research

Figure 22. Jaju: Earnings trend and forecasts



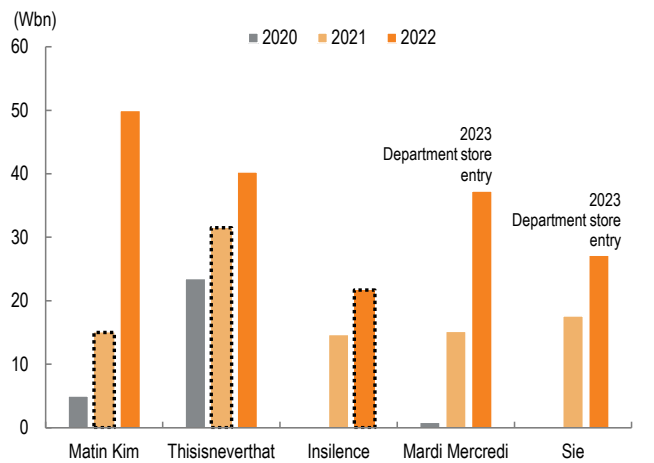
Source: Shinsegae International, Mirae Asset Securities Research

Figure 23. Young fashion: Transactions by online platform



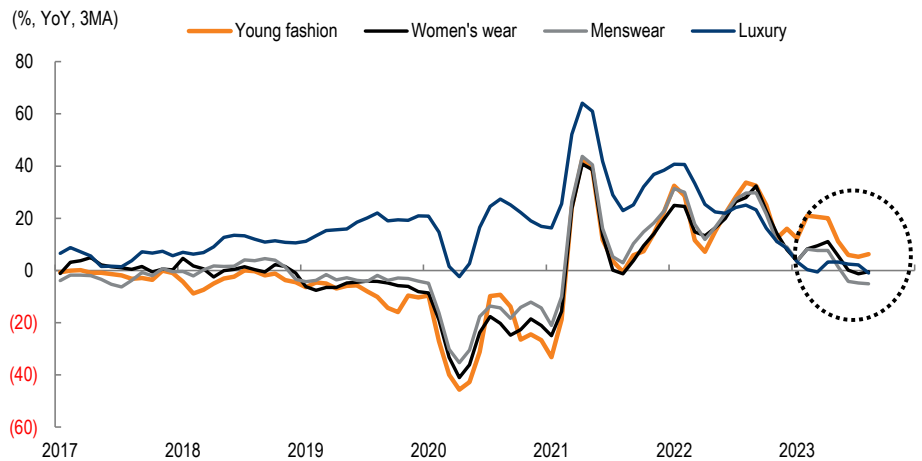
Source: Company data, media reports, Mirae Asset Securities Research

Figure 24. Young fashion: Revenue by brand



Note: Dotted outline indicates the year of entry into the department store channel.
Source: Company data, media reports, Mirae Asset Securities Research

Figure 25. Sales growth at department stores by apparel category



Source: MOTIE, Mirae Asset Securities Research

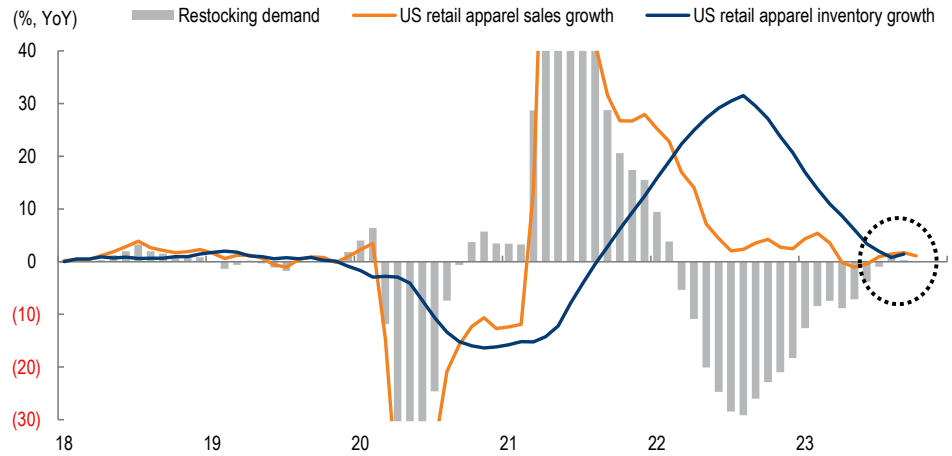
OEMs: Orders from low-end SPA brands likely to recover

The apparel OEM market appears to have hit a bottom, with buyers shifting to modest restocking in 3Q23. That said, inventory levels remain high in absolute terms, and destocking could occur again in the near term (as buyers are making inventory management a top priority ahead of the year-end shopping season).

Looking to 2024, it is difficult to predict how strong the recovery in overall apparel OEM orders will be, given the uncertain apparel sales outlook. However, we expect to see a solid recovery in orders from SPA brands, which have been outperforming the overall apparel market due to their defensive business nature and price competitiveness. Indeed, SPA brands have seen their inventories shrink relatively rapidly this year (cumulative inventory growth through 3Q23: +5% for overall consumer market vs. -26% for Gap, -16% for Target, and -6% for H&M). Due to restocking demand, we believe OEMs will see double-digit growth in low-end SPA orders in 2024.

Of note, orders for low-priced basic items, such as non-leather bags and basic shoes, remain resilient. Such items are relatively simple to manufacture and distributed in discount channels (including outlets). We believe that solid demand for basic items is positive for OEMs in terms of enhancing production efficiency.

Figure 26. US retail apparel inventory and sales growth: Buyers have shifted to modest restocking



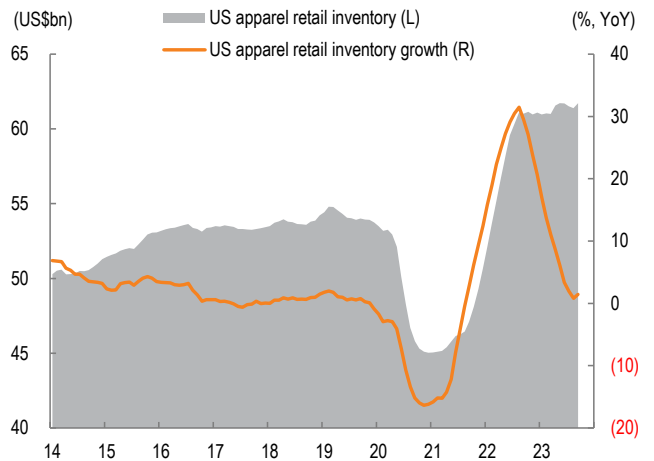
Source: US Census Bureau, Mirae Asset Securities Research

Figure 27. US retail apparel inventory turnover



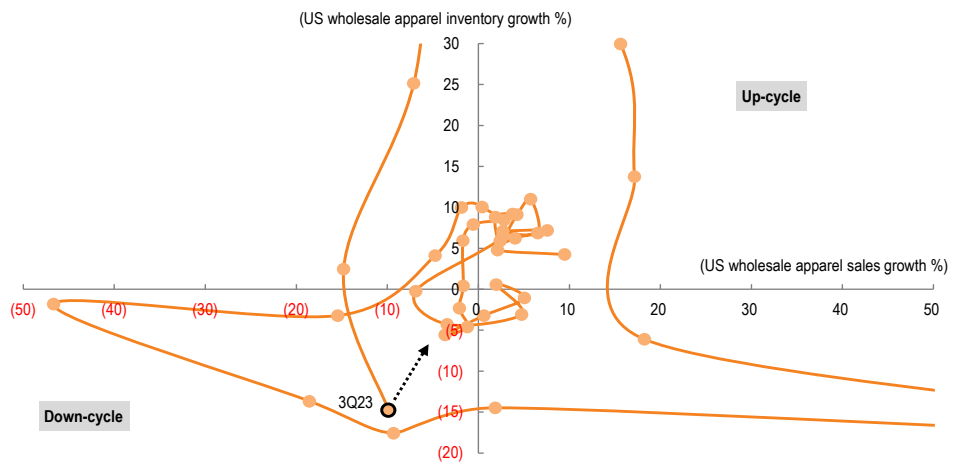
Source: US Census Bureau, Mirae Asset Securities Research

Figure 28. US retail apparel inventory trend



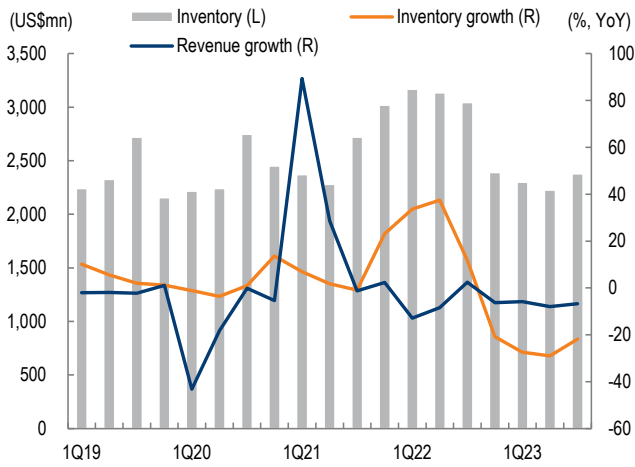
Source: US Census Bureau, Mirae Asset Securities Research

Figure 29. OEM market cycle



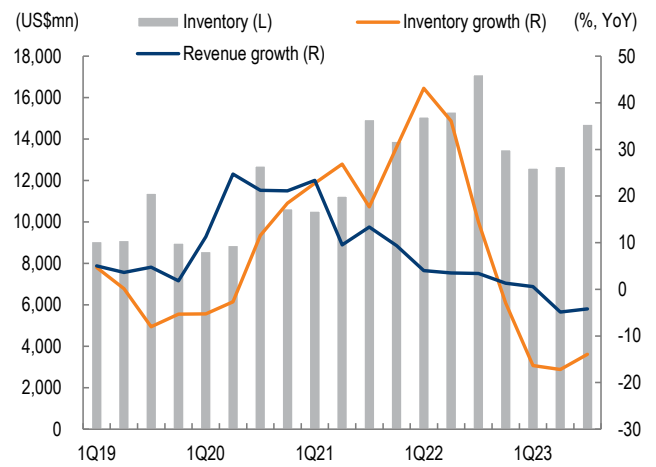
Source: US Census Bureau, Mirae Asset Securities Research

Figure 30. Gap: Revenue and inventory growth



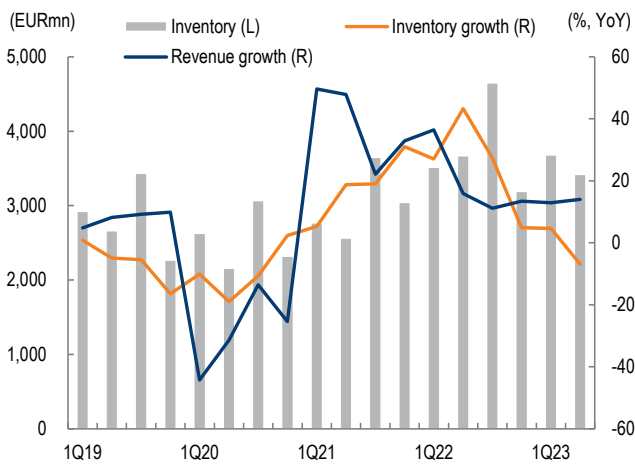
Source: Gap, Mirae Asset Securities Research

Figure 31. Target: Revenue and inventory growth



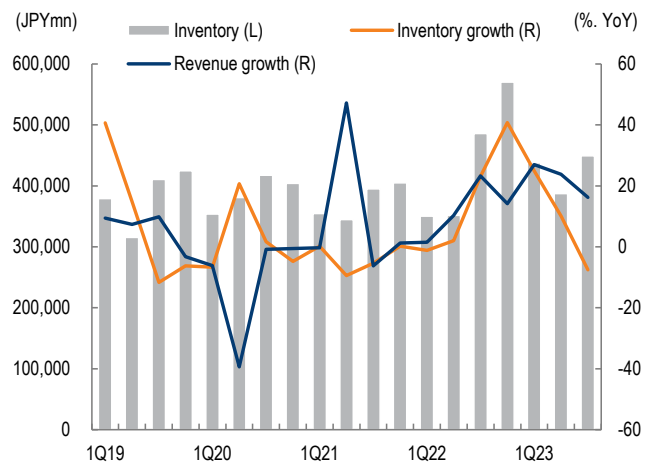
Source: Target, Mirae Asset Securities Research

Figure 32. Zara: Revenue and inventory growth



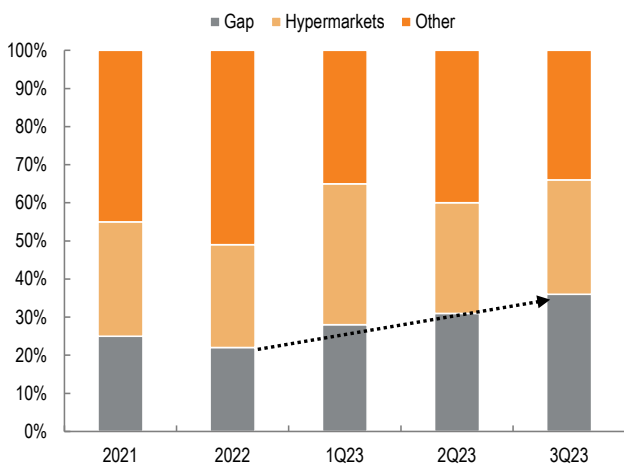
Source: Inditex, Mirae Asset Securities Research

Figure 33. Uniqlo: Revenue and inventory growth



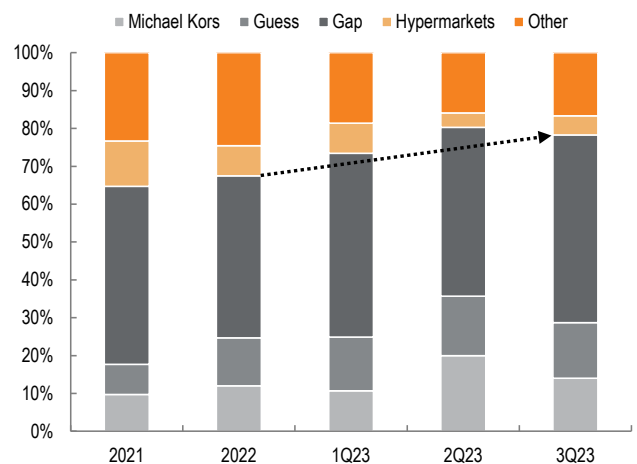
Source: Fast Retailing, Mirae Asset Securities Research

Figure 34. Hansae: Customer mix



Source: Hansae, Mirae Asset Securities Research

Figure 35. JS Corporation: Customer mix



Source: JS Corporation, Mirae Asset Securities Research

We believe the outlook for apparel OEM margins is generally positive. Three key variables that affect OEM profitability are productivity, unit prices, and FX rates.

First, OEMs are striving to improve productivity via labor cost savings and higher production efficiency. As apparel manufacturing is a labor-intensive business, OEMs have always tried to establish production bases in regions with cheap labor. Vietnam has historically been the most important production base, but the country has become less attractive due to stability concerns and rising labor costs since the pandemic. Against this backdrop, many OEMs are diversifying into regions where labor and other operating costs can be reduced, as well as introducing more efficient facilities.

Second, unit prices remain solid, as passing on increased raw material costs to unit prices has become easier amid stabilizing raw cotton prices (which had plunged following a spike in 2022). In addition, buyers are increasingly requesting short delivery times due to their focus on inventory control. Shorter lead times naturally shift price negotiating power to OEMs.

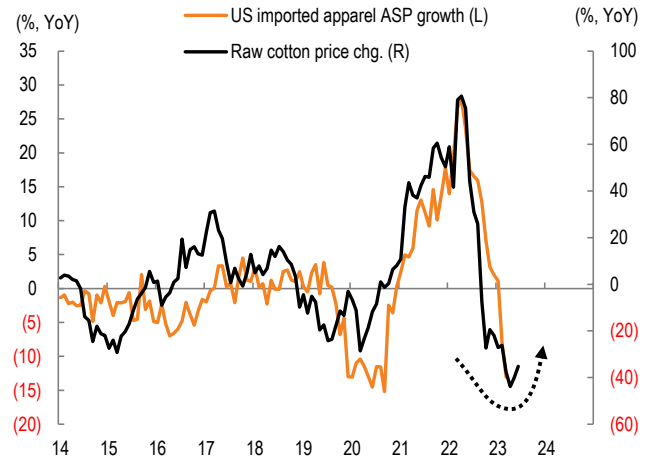
Meanwhile, a potential decline in FX rates could increase uncertainty over margins. We forecast the average USD/KRW rate in 2024 at 1,290 (-1.5% YoY).

Figure 36. Raw cotton price trend



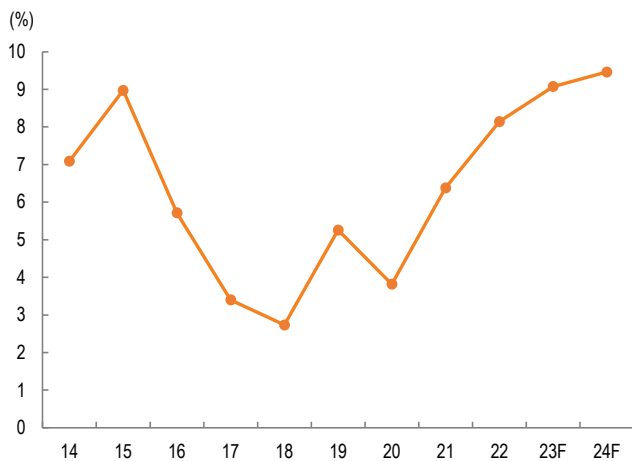
Source: Bloomberg, Mirae Asset Securities Research

Figure 37. Raw cotton price growth and US apparel import ASP growth



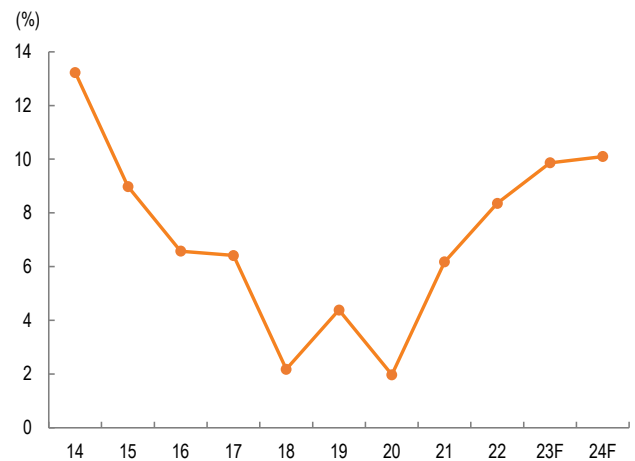
Note: Raw cotton price data leads by six months
Source: OTEXA, Bloomberg, Mirae Asset Securities Research

Figure 38. Hansae: OP margin trend



Source: Hansae, Mirae Asset Securities Research

Figure 39. JS Corporation: OP margin trend



Source: JS Corporation, Mirae Asset Securities Research

Table 1. Mirae Asset Securities: USD/KRW rate outlook

	1Q23	2Q23	3Q23	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
Avg. USD/KRW	1,276	1,315	1,312	1,340	1,300	1,300	1,285	1,270	1,310	1,290	1,240
% YoY	5.8	4.3	(2.2)	(1.3)	1.9	(1.1)	(2.1)	(5.2)	1.4	(1.5)	(3.9)
% QoQ	(6.1)	3.1	(0.2)	2.1	(3.0)	0.0	(1.2)	(1.2)			

Source: Mirae Asset Securities Research

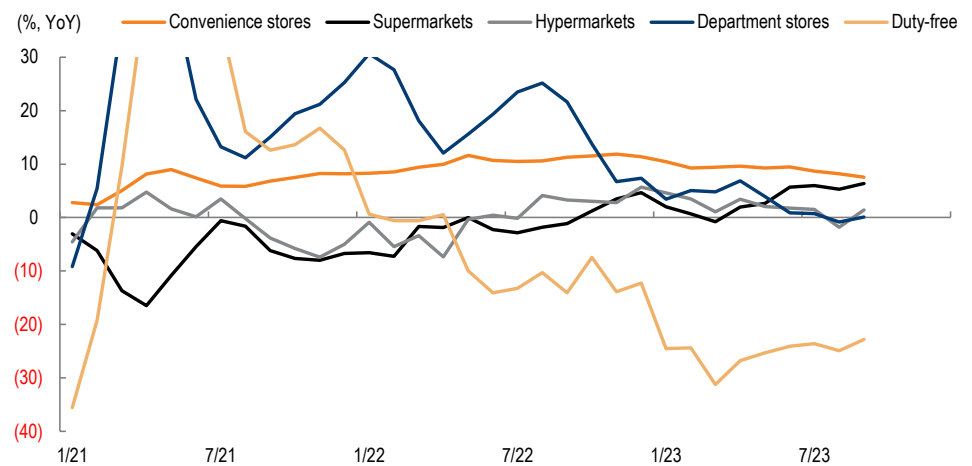
Retail: Consumer staples holding up well

Food holding up well, benefiting supermarkets, convenience stores, and hypermarkets

Amid sluggish overall consumption, spending on non-essential items has slowed. In contrast, spending on consumer staples has held up well. As a result, supermarkets, convenience stores, and hypermarkets have posted relatively resilient earnings. (Revenue exposure to food stands at around 90% for supermarkets and 50-60% for convenience stores and hypermarkets.) With sluggish consumer market conditions likely to persist in 2024, we expect consumer staples to continue to outperform other segments. Accordingly, we forecast revenue to continue growing at large supermarkets (+4.3%/+5.7%/+5.6% in 2022/2023F/2024F), convenience stores (+9.7%/+7.9%/+5.7% in 2022/2023F/2024F), and hypermarkets (+0.6%/+1.8%/+2.4% in 2022/2023F/2024F).

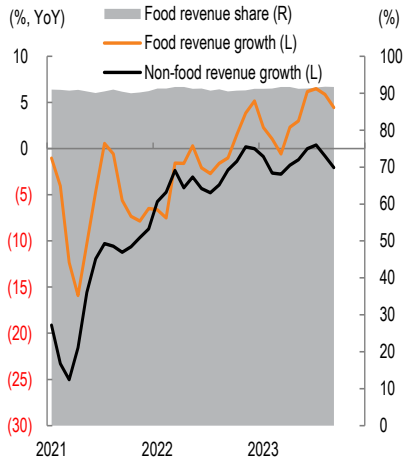
Supermarkets, in particular, should continue to stand out due to their high exposure to food. Notably, large (corporate) supermarkets have been gradually increasing their market penetration since the pandemic, taking share from small/independent supermarkets. We see ample room for further store openings by large supermarket operators, as the small/independent supermarket segment still has a dominant market share (85%; over W50tr). Convenience stores have also been expanding their presence, further eroding the share of the independent supermarket segment.

Figure 40. Growth trend by retail format



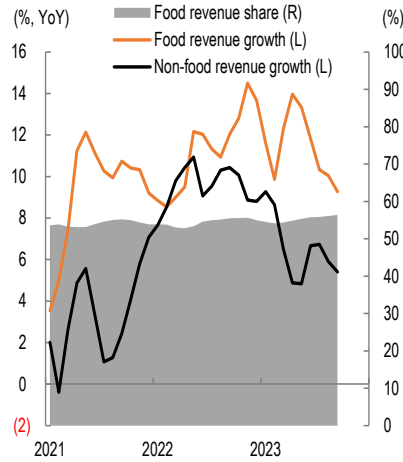
Source: Korea Duty Free Association, MOTIE, Mirae Asset Securities Research

Figure 41. Supermarkets: Revenue mix of food



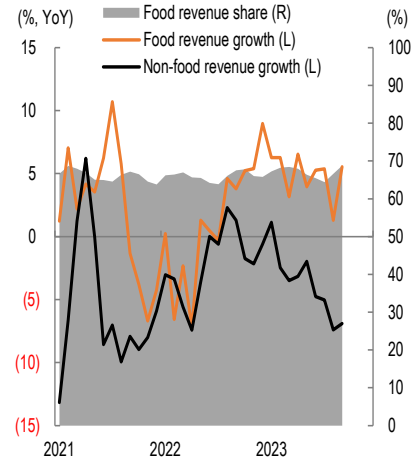
Source: MOTIE, Mirae Asset Securities Research

Figure 42. Convenience stores: Revenue mix of food



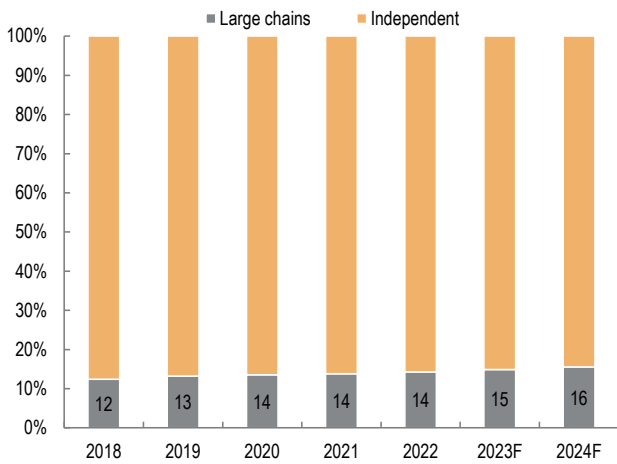
Source: MOTIE, Mirae Asset Securities Research

Figure 43. Hypermarkets: Revenue mix of food



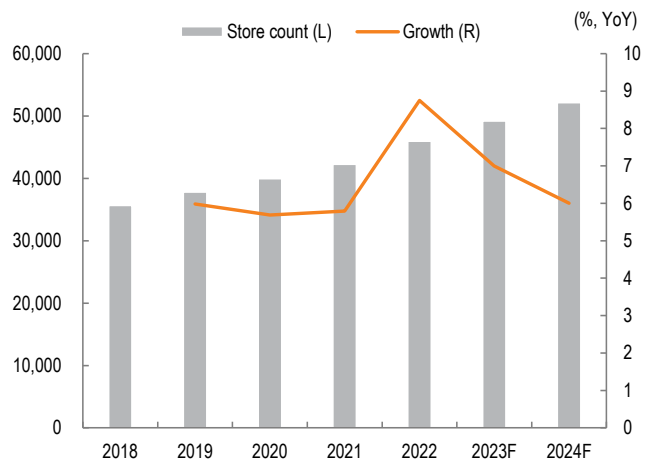
Source: MOTIE, Mirae Asset Securities Research

Figure 44. Supermarkets: Independent vs. large (corporate) chains



Source: Statistics Korea, Mirae Asset Securities Research

Figure 45. Convenience stores: Store count trend

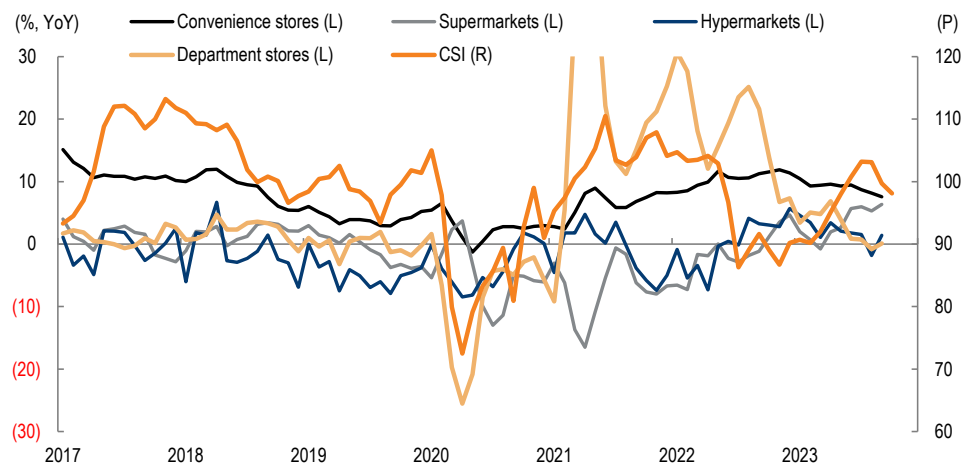


Source: MOTIE, Mirae Asset Securities Research

Department stores/duty-free stores: Waiting for concerns to ease

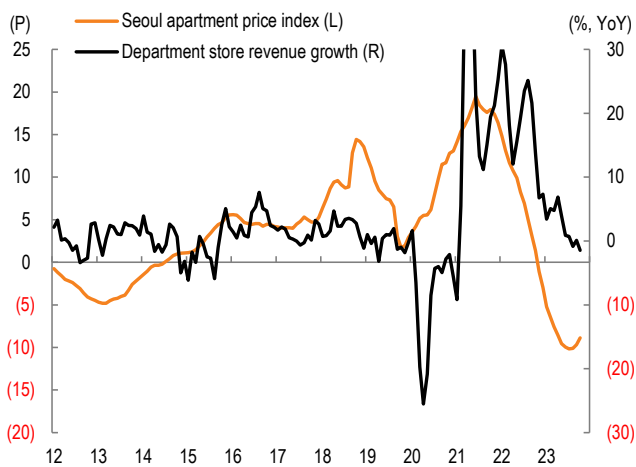
Meanwhile, the slowing economy and sluggish consumption have created a challenging environment for department stores and duty-free stores. Among retail channels, department stores show the highest correlation with consumer sentiment. Furthermore, given the sharp rise in the revenue contribution of luxury goods in recent years (due to reopening-fueled revenge spending), sales are bound to come under pressure as consumption slows and demand for luxury goods weakens. The key is whether the impact can be offset through new merchandising strategies (i.e., strengthening low-end product lineups) and increased revenue from foreign visitors.

Figure 46. Growth trends by retail format vs. consumer sentiment



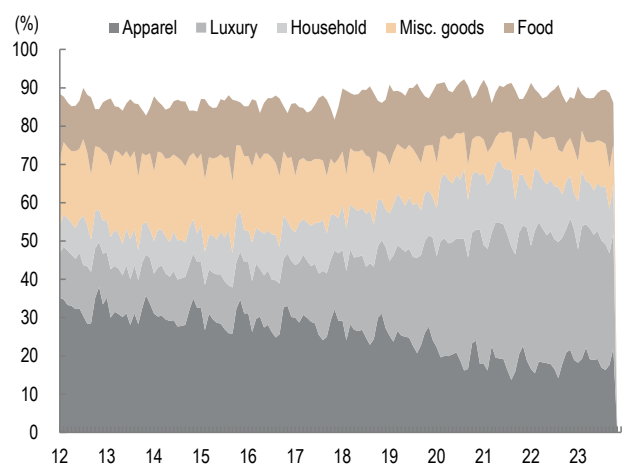
Source: BOK, MOTIE, Mirae Asset Securities Research

Figure 47. Department stores' top-line growth vs. apartment prices



Source: KB Kookmin Bank, MOTIE, Mirae Asset Securities Research

Figure 48. Department stores: Revenue mix by category

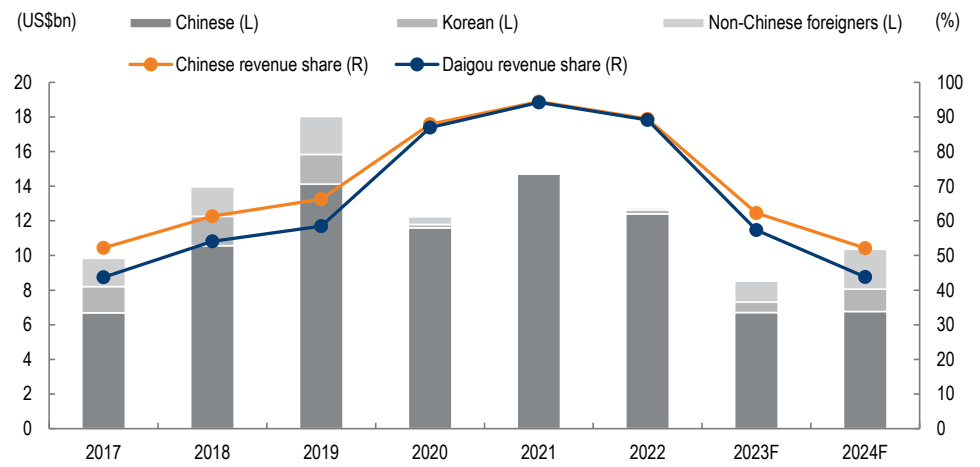


Source: MOTIE, Mirae Asset Securities Research

Meanwhile, duty-free stores are diversifying their customer mix amid: 1) a delayed pickup in Chinese inbound travelers; and 2) increases in non-Chinese inbound travelers and Korean outbound travelers. Nevertheless, the revenue share of Chinese customers is still over 50%. And given that most of these customers are *daigou*, duty-free store operators inevitably face regulatory risks as well as concerns over slowing consumption in China. On a positive note, non-Chinese inbound travelers and Korean outbound travelers have recovered to more than 70% of the pre-pandemic level in terms of traffic and more than 50% in terms of sales. We expect the duty-free market to normalize in 2024, with the key variable being the strength of the recovery in non-*daigou* Chinese travelers.

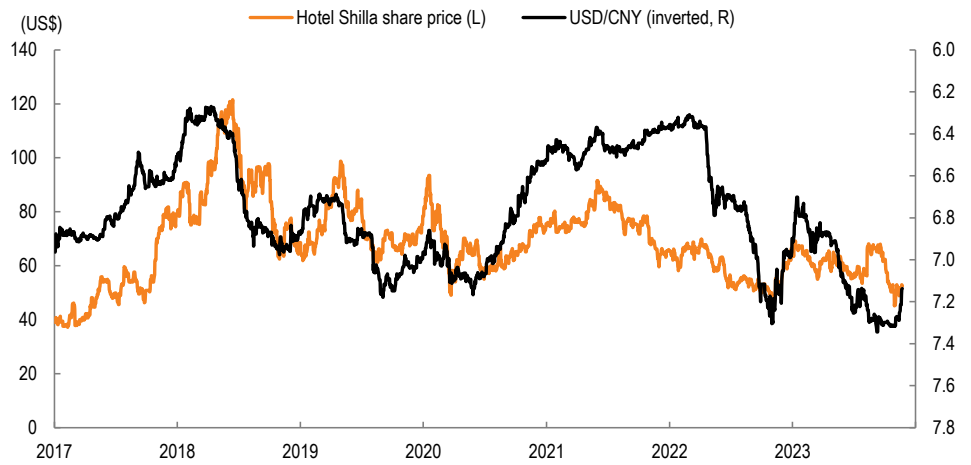
Chinese group tours to Korea started to pick up in earnest from November, and we forecast the number of Chinese group tourists visiting Korea to recover to 10% of the pre-THAAD level. Assuming *daigou* revenue declines and revenue from non-*daigou* Chinese tourists recovers to 50% of the pre-THAAD level, we forecast combined (*daigou* and non-*daigou*) Chinese sales to be flat YoY in 2024. Despite stagnant Chinese sales, we expect the domestic duty-free market to grow 20% YoY in 2024, backed by a normalization in non-Chinese inbound travelers and Korean outbound travelers. However, as additional market growth should depend on the pace and extent of a recovery in Chinese group tours, we recommend a wait-and-see approach.

Figure 49. Duty-free stores: Revenue breakdown by customer group



Source: Korea Duty Free Association, Mirae Asset Securities Research

Figure 50. Hotel Shilla's share performance vs. USD/CNY rate



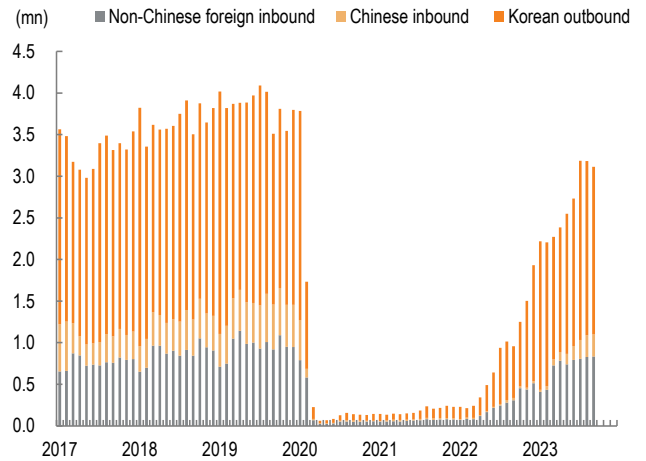
Source: Bloomberg, Mirae Asset Securities Research

Figure 51. Retail sales growth trend in China



Source: Bloomberg, Mirae Asset Securities Research

Figure 52. No. of foreign inbound tourists and Korean outbound tourists



Source: Korea Tourism Organization, Mirae Asset Securities Research

Company analysis

Mirae Asset Securities Co., Ltd.
Songyi Bae songyi.bae@miraeasset.com



192820 KS · Cosmetics

Cosmax

Structural growth

(Maintain)

Buy

Target price
₩170,000

Upside
50.0%

Current price (11/27/23)
₩113,300

KOSPI	2,495.66	Market cap (Wbn)	1,286	Shares outstanding (mn)	11	Foreign ownership (%)	28.5
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Report summary

Biggest beneficiary of indie brands' growth

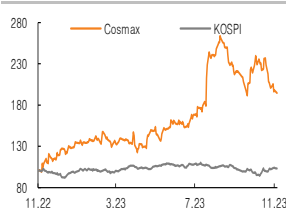
Due to the slowing economy, affordability is uppermost in the minds of consumers. The shift in spending patterns to the low-end space is especially evident in the cosmetics market (which has low barriers to entry for indie brands). As a result, affordable, small/mid-sized brands are delivering robust growth, structurally benefiting cosmetics ODMs as a whole. And Cosmax, Korea's leading cosmetics ODM player, is likely to become the biggest beneficiary. Given that robust demand for low-end products is a phenomenon that spans regions, we expect overseas businesses to contribute to earnings more meaningfully going forward.

Structural growth, potential upward earnings revisions, and valuation merits

For 2024, we forecast Cosmax to report revenue of ₩2.02tr (+12% YoY) and operating profit of ₩172.8bn (+38% YoY). We expect revenue to expand by more than 10% and margins to improve at both the domestic and US businesses. We also see China revenue growing solidly (+5% YoY). We may revise up our earnings forecasts, given: 1) US order mix improvements; and 2) a likely rebound in China earnings in 4Q23. The stock is currently trading at a 12-month forward P/E of 12x, which we believe is still undemanding. We recommend Cosmax as our top pick in the cosmetics sector.

Key data

Price performance



(%)	1M	6M	12M
Absolute	-15.0	34.9	93.0
Relative	-21.6	38.3	88.5

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	1,591	1,600	1,807	2,016	2,159
OP (Wbn)	123	53	125	173	194
OP margin (%)	7.7	3.3	6.9	8.6	9.0
NP (Wbn)	74	21	71	107	121
EPS (W)	6,880	1,837	6,284	9,437	10,661
ROE (%)	16.5	3.6	11.7	15.4	14.9
P/E (x)	12.7	40.3	18.0	12.0	10.6
P/B (x)	1.8	1.4	2.0	1.7	1.5
Dividend yield (%)	0.6	0.0	0.0	0.0	0.0

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

Investment points

We believe the growth in orders from indie cosmetics brands is structural in nature. Due to the slowing economy, affordability is uppermost in the minds of consumers. The shift in spending patterns to the low-end space is especially evident in the cosmetics market (which is highly sensitive to consumer trends and has low barriers to entry for indie brands). As a result, affordable, small/mid-sized brands are delivering robust growth, structurally benefiting cosmetics ODMs as a whole. And Cosmax, Korea's leading cosmetics ODM player, is likely to become the biggest beneficiary, with 2023F domestic revenue growth of 24% YoY (vs. +15% YoY for Kolmar Korea and +17% YoY for Cosmecca Korea).

Given that robust demand for low-end products is a phenomenon that spans regions, we expect to see geographical mix improvements as overseas businesses increase their contribution. In particular, the US business is seeing a rapid increase in the mix of orders from local indie brands. We expect the US business to break even on a quarterly basis by end-2024 after significantly narrowing losses this year. In Southeast Asia, customer diversification centered on local brands has been gaining pace, supporting revenue and profit growth. The China business is also likely to deliver above-market growth, as revenue is coming mainly from local small/mid-sized brands.

While the domestic business has grown strongly in 2023, we expect overseas operations to be the main growth driver in 2024. Indeed, the US business has begun to see the effects of revenue mix improvements, while the China business is poised to rebound after posting sluggish growth this year.

Earnings forecasts and valuation

For 2024, we expect Cosmax to report revenue of W2.02tr (+12% YoY) and operating profit of W172.8bn (+38% YoY). We believe that both the domestic and US businesses are on structural growth trajectories. For the domestic business, we expect revenue to grow 13% YoY and OP margin to improve to 9.2%. For the US business, we look for revenue growth of 16% YoY and a sharply lower operating loss (full-year basis).

Although the China market remains volatile, we believe China earnings will start to pick up in 4Q23. For 2024, we forecast China revenue to grow 5% YoY. We may revise up our China revenue growth estimate if the country's demand recovery gains traction.

The stock is currently trading at a 12-month forward P/E of 12x, which we believe is still undemanding. In addition, the risk of a potential Cosmax East listing appears to have dissipated, as Cosmax has acquired the stake in the subsidiary held by SV Investment via the issuance of redeemable convertible preferred stock. Given its structural growth, valuation merits, and potential for upward earnings revisions, we maintain our Buy rating on Cosmax and recommend it as our top pick in the cosmetics sector.

Table 2. Annual earnings and forecasts

(Wbn)

	2020	2021	2022	2023F	2024F	2025F
Revenue	1,383	1,591	1,600	1,807	2,016	2,159
Domestic	765	853	854	1,058	1,198	1,302
China	456	631	557	555	583	596
US	166	133	164	139	161	179
Southeast Asia	104	103	143	201	219	239
OP	67	123	53	125	173	194
Domestic	66	78	43	90	110	120
China	36	88	57	47	54	55
US	(45)	(47)	(43)	(29)	(3)	4
Southeast Asia	6	(1)	(0)	10	12	15
Pretax profit	0	78	6	95	139	160
NP	(29)	34	(16)	65	100	115
NP (owners of the parent)	21	74	21	71	107	121
OP margin (%)	4.8	7.7	3.3	6.9	8.6	9.0
Domestic	8.6	9.1	5.0	8.6	9.2	9.2
China	7.9	13.9	10.2	8.4	9.2	9.3
US	(27.2)	(35.4)	(26.3)	(21.0)	(2.1)	2.5
Southeast Asia	6.2	(0.6)	(0.2)	5.1	5.6	6.3
Revenue growth (% YoY)	3.9	15.1	0.5	12.9	11.6	7.1
Domestic	3.6	11.5	0.1	23.8	13.3	8.7
China	(3.2)	38.4	(11.8)	(0.2)	5.0	2.1
US	5.7	(20.1)	23.6	(15.6)	16.0	11.2
Southeast Asia	72.5	(0.9)	39.7	40.5	8.9	8.9
OP growth (% YoY)	23.4	84.0	(56.7)	136.2	37.8	12.4
Domestic	63.9	17.7	(44.6)	110.8	21.8	8.6
China	64.0	143.1	(35.0)	(18.4)	15.4	2.8
US	RR	RR	RR	RR	RR	TTB
Southeast Asia	(20.1)	TTR	RR	TTB	19.9	21.4
NP growth (% YoY)	TTR	TTB	TTR	TTB	54.4	15.1

Source: Company data, Mirae Asset Securities Research

Table 3. Quarterly earnings and forecasts

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Revenue	403	479	458	466	1,807	459	531	504	522	2,016
Domestic	243	278	288	248	1,058	285	324	317	272	1,198
China	122	154	124	156	555	131	160	132	161	583
US	27	38	37	37	139	34	39	42	46	161
Southeast Asia	40	43	46	72	201	43	46	49	81	219
OP	14	46	33	32	125	35	55	42	41	173
Domestic	13	30	26	21	90	23	35	29	23	110
China	9	18	8	12	47	11	19	11	13	54
US	(9)	(7)	(8)	(4)	(29)	(3)	(2)	0	2	(3)
Southeast Asia	4	3	2	2	10	5	3	2	3	12
Pretax profit	10	37	27	21	95	29	49	35	25	139
NP	1	27	20	17	65	21	35	25	18	100
NP (owners of the parent)	7	30	15	19	71	22	38	27	20	107
OP margin (%)	3.4	9.6	7.3	6.9	6.9	7.6	10.4	8.3	7.8	8.6
Domestic	5.3	10.9	9.0	8.6	8.6	8.0	10.9	9.0	8.6	9.2
China	7.0	11.7	6.6	7.6	8.4	8.5	12.0	8.3	7.8	9.2
US	(35.0)	(19.0)	(21.5)	(12.2)	(21.0)	(10.0)	(6.0)	1.0	4.2	(2.1)
Southeast Asia	9.2	6.3	3.8	2.9	5.1	10.6	6.7	4.0	3.3	5.6
Revenue growth (% YoY)	1.4	18.3	15.5	16.3	12.9	13.9	10.7	10.0	12.0	11.6
Domestic	18.6	23.4	39.3	14.5	23.8	17.0	16.6	10.0	9.7	13.3
China	(17.8)	12.0	(7.5)	13.7	(0.2)	7.1	3.7	6.9	3.3	5.0
US	(39.1)	(0.6)	(17.6)	(0.2)	(15.6)	25.0	2.0	15.0	24.9	16.0
Southeast Asia	82.3	57.6	76.2	166.0	96.3	6.9	6.9	7.2	12.3	8.9
OP growth (% YoY)	0.5	167.3	68.7	1248.4	136.2	154.1	19.9	26.0	25.9	37.8
Domestic	34.0	63.4	120.5	632.0	110.8	75.2	16.3	10.5	10.5	21.8
China	(49.3)	12.3	(38.3)	8.7	(18.4)	29.7	5.9	35.2	6.0	15.4
US	RR	RR	RR	RR	RR	RR	RR	TTB	TTB	RR
Southeast Asia	292.4	TTB	191.2	TTB	TTB	22.7	12.2	12.8	30.9	19.9
NP growth (% YoY)	(93.0)	414.4	198.2	TTB	TTB	2838.4	29.3	26.3	10.2	54.4

Source: Company data, Mirae Asset Securities Research

Table 4. Valuation table

(W)

		Notes
12MF EPS	9,437	
Target P/E (x)	18	Sector avg.
Fair price	169,858	
Target price	170,000	
Current price	113,330	
Upside (%)	50.0	

Source: Mirae Asset Securities Research

Cosmax (192820 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	1,600	1,807	2,016	2,159
Cost of revenue	1,395	1,535	1,698	1,816
GP	205	272	318	343
SG&A expenses	152	146	145	149
OP (adj.)	53	125	173	194
OP	53	125	173	194
Non-operating profit	-47	-30	-34	-34
Net financial income	-19	-28	-28	-27
Net income from associates	0	-1	1	0
Pretax profit	6	95	139	160
Income tax	23	31	39	45
Profit from continuing operations	-16	65	100	115
Profit from discontinued operations	0	0	0	0
NP	-16	65	100	115
Attributable to owners	21	71	107	121
Attributable to minority interests	-37	-6	-7	-6
Total comprehensive income	-15	65	100	115
Attributable to owners	32	63	97	111
Attributable to minority interests	-47	2	3	4
EBITDA	112	191	240	263
FCF	18	16	58	86
EBITDA margin (%)	7.0	10.6	11.9	12.2
OP margin (%)	3.3	6.9	8.6	9.0
Net margin (%)	1.3	3.9	5.3	5.6

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	737	821	945	1,006
Cash & equivalents	169	162	208	217
AR & other receivables	317	368	412	441
Inventory	202	235	263	282
Other current assets	49	56	62	66
Non-current assets	659	688	713	732
Investments in associates	38	44	50	53
PP&E	491	509	524	537
Intangible assets	50	46	44	41
Total assets	1,396	1,509	1,659	1,737
Current liabilities	812	862	905	864
AP & other payables	226	263	294	315
Short-term financial liabilities	517	519	521	452
Other current liabilities	69	80	90	97
Non-current liabilities	140	148	155	160
Long-term financial liabilities	91	91	91	91
Other non-current liabilities	49	57	64	69
Total liabilities	952	1,011	1,060	1,024
Equity attributable to owners	581	642	749	870
Capital stock	6	6	6	6
Capital surplus	287	287	287	287
Retained earnings	268	339	446	567
Minority interests	-137	-143	-150	-156
Shareholders' equity	444	499	599	714

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	103	96	138	166
NP	-16	65	100	115
Non-cash income/expenses	150	124	134	140
Depreciation	55	62	65	67
Amortization	4	3	3	2
Other	91	59	66	71
Chg. in working capital	28	-34	-29	-18
Chg. in AR & other receivables	40	-49	-42	-28
Chg. in inventory	23	-33	-28	-19
Chg. in AP & other payables	-11	29	24	16
Income tax	-45	-31	-39	-45
Cash flow from investing activities	-31	-89	-89	-84
Chg. in PP&E	-83	-80	-80	-80
Chg. in intangible assets	0	0	0	0
Chg. in financial assets	-6	-5	-4	-3
Other	58	-4	-5	-1
Cash flow from financing activities	3	2	2	-69
Chg. in financial liabilities	44	2	2	-69
Chg. in equity	-6	0	0	0
Dividends	-6	0	0	0
Other	-29	0	0	0
Chg. in cash	70	-8	46	9
Beginning balance	100	169	162	208
Ending balance	169	162	208	217

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	40.3	18.0	12.0	10.6
P/CF (x)	6.3	6.8	5.5	5.0
P/B (x)	1.4	2.0	1.7	1.5
EV/EBITDA (x)	10.1	8.2	6.3	5.5
EPS (W)	1,837	6,284	9,437	10,661
CFPS (W)	11,791	16,603	20,636	22,503
BPS (W)	51,229	56,601	66,019	76,680
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	0.5	12.9	11.6	7.1
EBITDA growth (%)	-35.8	70.5	25.8	9.6
OP growth (%)	-56.7	136.2	37.8	12.4
EPS growth (%)	-73.3	242.1	50.2	13.0
AR turnover (x)	4.9	5.5	5.4	5.3
Inventory turnover (x)	7.5	8.3	8.1	7.9
AP turnover (x)	7.7	8.1	7.8	7.7
ROA (%)	-1.2	4.5	6.3	6.8
ROE (%)	3.6	11.7	15.4	14.9
ROIC (%)	-17.7	9.9	13.7	15.0
Debt-to-equity ratio (%)	214.3	202.6	177.1	143.4
Current ratio (%)	90.8	95.3	104.5	116.4
Net debt-to-equity ratio (%)	96.6	86.3	64.3	42.9
Interest coverage ratio (x)	2.5	4.7	6.4	7.6

Mirae Asset Securities Co., Ltd.
Songyi Bae songyi.bae@miraeasset.com



090430 KS · Cosmetics

Amorepacific

Significant mix improvements likely

(Maintain)

Buy

Target price
₩180,000

Upside
33.9%

Current price (11/27/23)
₩134,400

KOSPI	2,495.66	Market cap (Wbn)	7,861	Shares outstanding (mn)	58	Foreign ownership (%)	27.1
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Report summary

Set to benefit from a higher mix of overseas revenue (40% → 47%) and low/mid-end products (60% → 65%)

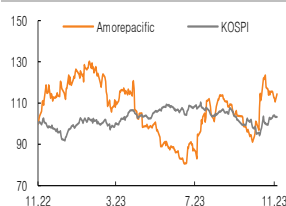
In 2024, we believe Amorepacific will see strong momentum from the consolidation of COSRX (slated for May). Operating profit should nearly triple thanks in large part to the recognition of COSRX earnings, as the skin care brand has grown strongly in recent years and generates profits on par with Amorepacific's. From a qualitative standpoint, we expect to see immediate mix improvements, as COSRX is a low-end brand distributed mainly through overseas online channels. With the consolidation of COSRX, the contribution of overseas revenue will likely rise to 47% (from 40%), and the mix of low/mid-end products should expand to 65% (from 60%). We expect these mix improvements to drive both earnings growth and a share price re-rating for Amorepacific.

Shares have ample upside

In 2024, we expect Amorepacific's revenue and operating profit to expand 20% and 197% YoY, respectively, with overseas revenue growing over 40% YoY. Shares are currently trading at a 12-month forward P/E of 26x. While valuation is not exactly cheap, we believe our target P/E of 35x—the average multiple in 2014-16, when the firm aggressively expanded into overseas markets—is reasonable. Indeed, we expect the pace of overseas revenue growth through 2025 to at least match that seen in 2014-16 (over 30% CAGR). We maintain our Buy recommendation.

Key data

Price performance



(%)	1M	6M	12M
Absolute	14.9	18.0	10.2
Relative	6.0	21.0	7.6

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	4,863	4,135	3,753	4,502	5,100
OP (Wbn)	343	214	127	376	492
OP margin (%)	7.1	5.2	3.4	8.4	9.6
NP (Wbn)	194	134	169	300	383
EPS (W)	3,312	2,299	2,889	5,135	6,551
ROE (%)	4.2	2.8	3.5	6.0	7.2
P/E (x)	50.4	59.8	46.5	26.2	20.5
P/B (x)	2.0	1.7	1.6	1.5	1.4
Dividend yield (%)	0.6	0.5	0.5	0.5	0.5

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

Investment points

We expect the consolidation of COSRX to drive both quantitative and qualitative improvements in Amorepacific's earnings. In quantitative terms, COSRX alone should roughly double operating profit, as it currently generates profits on par with Amorepacific's (2023F: W126.6bn for Amorepacific vs. W155bn for COSRX; 2024F: W248.5bn for Amorepacific vs. W192n for COSRX). From a qualitative standpoint, we expect to see immediate mix improvements, as COSRX is a low-end brand (flagship product Snail Essence priced at around W10,000) distributed mainly through overseas online channels (overseas revenue contribution of 90%). With the consolidation of COSRX, the contribution of overseas revenue will likely rise to 47% (from 40%), and the mix of low/mid-end products should expand to 65% (from 60%). As these mix changes are well-aligned with consumer trends, we expect Amorepacific to see both earnings growth and a share price re-rating.

The consolidation of COSRX should also help ease concerns over weak earnings at other businesses. In 2023, revenue and operating profit are likely to contract due to the sluggish duty-free and China businesses. But even here, we are seeing some encouraging signs; duty-free store revenue has been improving each quarter (W82.8bn in 1Q23, W111bn in 2Q23, and W125bn in 3Q23) amid a rise in demand from foreign independent travelers, while the China business has shifted to a profitability-oriented strategy (avoiding excessive marketing) since 2H23. We expect the China business to break even in 2024, following massive losses in 2022 (W40bn) and 2023F (W70bn).

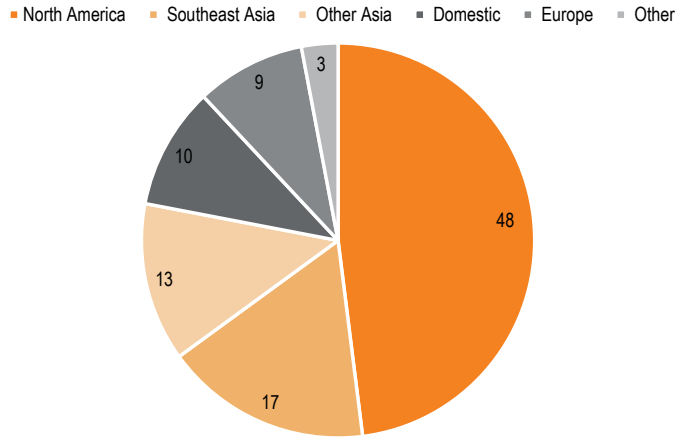
While it is still too early to predict structural earnings improvement, we believe it is reasonable to expect earnings to improve in light of: 1) the China business's likely turnaround; and 2) the modest recovery in duty-free store revenue.

Earnings forecasts and valuation

For 2024, we forecast Amorepacific to post consolidated revenue of W4.5tr (+20% YoY) and operating profit of W376.4bn (+197% YoY). COSRX (2024F revenue of W376.2bn and operating profit of W127.9bn) will be consolidated into earnings starting in May. We also expect margins for the existing overseas businesses to improve in 2024, as we see the China business at least breaking even and duty-free revenue growing 30% YoY.

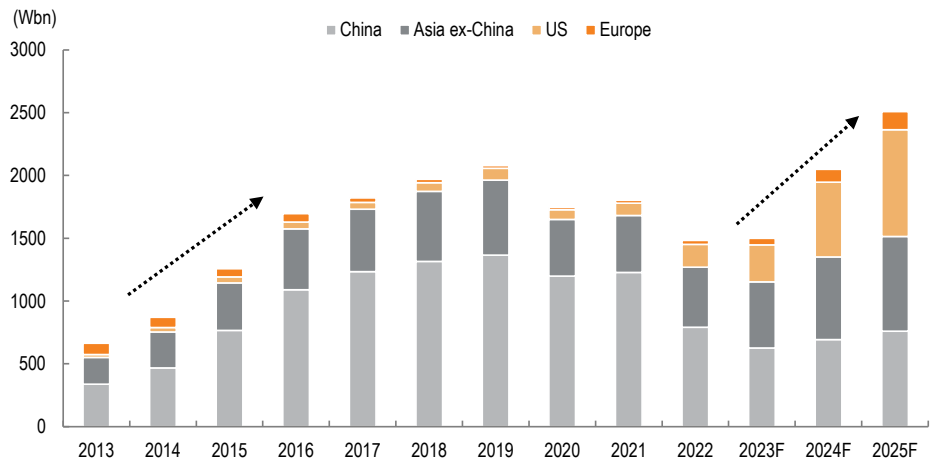
Amorepacific shares are currently trading at a 12-month forward P/E of 26x. While valuation is not exactly cheap, we believe our target P/E of 35x—the average multiple in 2014-16, when the firm aggressively expanded into overseas markets—is reasonable. Indeed, we expect the pace of overseas revenue growth through 2025 to at least match that seen in 2014-16 (over 30% CAGR). We think the stock deserves attention and maintain our Buy recommendation.

Figure 53. COSRX: Revenue breakdown by region (1H23)



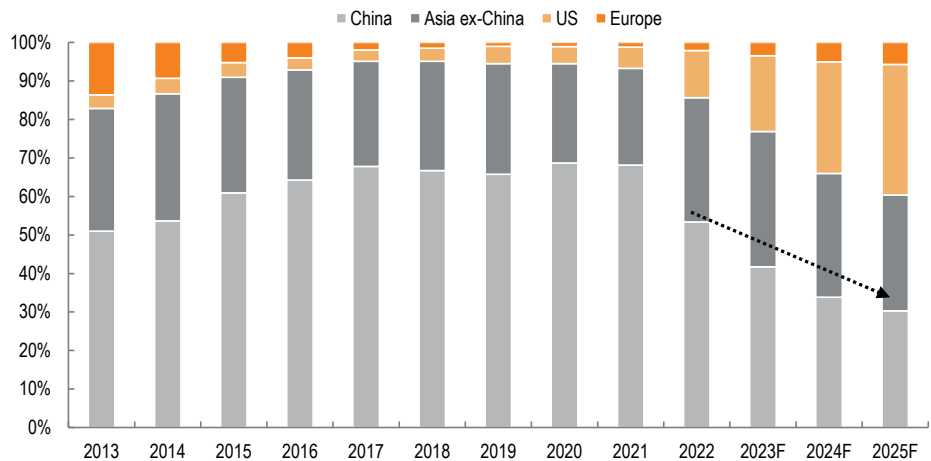
Source: Company data, Mirae Asset Securities Research

Figure 54. Amorepacific: Overseas revenue forecasts by region



Note: For COSRX, our revenue estimates are based on the current revenue breakdown by region.
Source: Company data, Mirae Asset Securities Research

Figure 55. Amorepacific: Overseas revenue breakdown by region



Note: For COSRX, our revenue estimates are based on the current revenue breakdown by region.
Source: Company data, Mirae Asset Securities Research

Table 5. Annual earnings and forecasts

(Wbn)

	2020	2021	2022	2023F	2024F	2025F
Revenue	4,432	4,863	4,135	3,753	4,502	5,100
Domestic	2,706	3,076	2,581	2,194	2,383	2,484
Cosmetics	2,210	2,593	2,156	1,799	1,989	2,087
Household goods	496	483	425	395	393	397
Overseas	1,745	1,802	1,483	1,499	2,098	2,590
OP	143	343	214	127	376	492
Domestic	117	300	218	141	176	186
Cosmetics	113	300	211	135	169	178
Household goods	5	0	7	7	7	8
Overseas	18	52	8	(14)	211	323
Pretax profit	25	298	224	191	411	503
NP	22	181	129	164	316	387
NP attributable to owners of the parent	35	194	134	169	300	383
OP margin (%)	3.2	7.1	5.2	3.4	8.4	9.7
Domestic	4.3	9.8	8.5	6.4	7.4	7.5
Cosmetics	4.2	9.7	8.2	6.1	7.1	7.2
Household goods	0.9	0.0	1.6	1.7	1.8	1.9
Overseas	1.0	2.9	0.6	(0.9)	10.1	12.5
Revenue growth (% YoY)	(20.6)	9.7	(15.0)	(9.2)	20.0	13.3
Domestic	(26.3)	17.3	(16.8)	(16.6)	10.6	4.9
Overseas	(16.0)	3.3	(17.7)	1.1	40.0	23.4
OP growth (% YoY)	(66.6)	140.1	(37.6)	(40.9)	197.4	30.8
Domestic	(63.3)	156.0	(27.3)	(35.2)	24.4	5.8
Overseas	(82.8)	189.4	(84.2)	TTR	TTB	52.8
NP growth (% YoY)	(85.3)	451.3	(30.6)	25.6	77.8	27.6

Note: COSRX is included in the overseas division.

Source: Company data, Mirae Asset Securities Research

Table 6. Quarterly earnings and forecasts

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Revenue	914	945	889	1,005	3,753	1,036	1,132	1,090	1,243	4,502
Domestic	552	555	543	544	2,194	620	605	585	572	2,383
Cosmetics	455	459	446	439	1,799	520	512	488	469	1,989
Household goods	97	96	98	105	395	100	93	97	104	393
Overseas	349	372	318	459	1,499	412	522	500	664	2,098
OP	64	6	17	39	127	93	73	80	129	376
Domestic	44	37	19	42	141	62	39	30	45	176
Cosmetics	40	31	22	42	135	59	35	30	45	169
Household goods	4	5	(3)	(0)	7	3	4	0	(0)	7
Overseas	27	(33)	(8)	0	(14)	34	36	53	89	211
Pretax profit	99	19	38	34	191	121	86	88	115	411
NP	90	19	27	28	164	93	67	68	88	316
NP attributable to owners of the parent	87	22	28	32	169	93	62	63	83	300
OP margin (%)	7.0	0.6	1.9	3.9	3.4	9.0	6.5	7.3	10.4	8.4
Domestic	8.0	6.6	3.5	7.7	6.4	9.9	6.5	5.1	7.9	7.4
Cosmetics	8.7	6.8	4.9	9.6	7.5	11.3	6.9	6.1	9.6	8.5
Household goods	4.5	5.6	(2.8)	(0.4)	1.7	3.0	4.3	0.1	(0.0)	1.8
Overseas	7.6	(8.8)	(2.6)	0.1	(0.9)	8.2	6.9	10.5	13.4	10.1
Pretax margin (%)	10.8	2.0	4.3	3.4	5.1	11.7	7.6	8.1	9.2	9.1
Net margin (%)	9.8	2.0	3.0	2.8	4.4	9.0	5.9	6.2	7.1	7.0
Revenue growth (% YoY)	(21.6)	(0.0)	(5.1)	(7.6)	(9.2)	13.4	19.8	22.6	23.8	20.0
Domestic	(24.6)	(11.6)	(7.5)	(14.2)	(15.0)	12.3	9.0	7.7	5.3	8.6
Overseas	(16.8)	27.5	(3.6)	4.0	1.1	17.8	40.2	57.3	44.7	40.0
OP growth (% YoY)	(59.3)	TTB	(8.0)	(31.5)	(40.9)	45.2	1,147.0	362.9	231.6	197.4
Domestic	(60.8)	0.3	(35.0)	3.7	(35.2)	40.2	6.7	57.2	8.3	24.4
Overseas	(36.8)	RR	RR	(98.4)	(272.2)	26.3	TTB	TTB	31,630.1	TTB
NP growth (% YoY)	(25.7)	(171.8)	15.7	33.6	25.6	6.1	179.9	125.2	162.4	77.8

Note: COSRX is included in the overseas division.

Source: Company data, Mirae Asset Securities Research

Table 7. Earnings and forecasts (detailed)

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
Revenue	914	945	889	1,005	1,036	1,132	1,090	1,243	3,753	4,502	5,100
Domestic	552	555	543	544	620	605	585	572	2,194	2,383	2,484
Specialty stores	18	18	17	13	16	16	15	12	66	59	55
Door-to-door	89	71	76	70	91	72	81	71	307	314	318
Department stores	51	52	46	41	52	52	46	41	189	190	191
Duty-free	83	111	125	137	137	150	152	153	456	592	628
Online	224	213	152	201	235	228	164	215	790	842	903
Overseas	349	372	318	459	412	522	500	664	1,499	2,098	2,590
Asia	275	285	235	357	305	304	250	380	1,152	1,239	1,326
China	151	157	117	200	173	166	123	212	626	674	728
Europe	11	13	12	15	15	18	16	20	52	69	87
US	63	74	71	87	91	109	95	118	295	414	549
COSRX						91	138	147		376	628
Growth (% YoY)	(21.6)	(0.0)	(5.1)	(7.6)	13.4	19.8	22.6	23.8	(9.2)	20.0	13.3
Domestic	(24.6)	(11.6)	(7.5)	(14.2)	12.3	9.0	7.7	5.3	(15.0)	8.6	4.2
Specialty stores	(22.0)	(15.0)	(12.0)	(7.7)	(10.5)	(10.5)	(10.5)	(10.5)	(15.0)	(10.5)	(7.4)
Door-to-door	(8.0)	(8.0)	(12.0)	(7.4)	2.0	1.0	6.0	0.8	(8.9)	2.5	1.3
Department stores	3.0	(2.0)	(3.3)	(1.9)	0.5	0.5	0.5	0.5	(1.0)	0.5	0.5
Duty-free	(52.9)	(19.6)	(14.9)	(28.0)	65.0	35.0	22.0	12.1	(30.0)	30.0	6.0
Online	(23.0)	(25.0)	(14.0)	(14.7)	5.0	7.0	8.0	6.9	(20.0)	6.6	7.3
Overseas	(16.8)	27.5	(3.6)	4.0	17.8	40.2	57.3	44.7	1.1	40.0	23.4
Asia	(27.4)	14.0	(12.5)	(4.2)	11.0	6.5	6.4	6.4	(9.3)	7.5	7.0
China	(48.3)	18.3	(17.9)	(10.5)	14.0	6.0	5.0	6.2	(21.0)	7.8	8.0
Europe	93.2	123.7	40.9	37.8	32.6	32.6	32.6	32.6	65.2	32.6	26.1
US	80.5	105.3	34.7	50.3	45.3	48.1	35.0	35.5	62.5	40.6	32.5
COSRX											67.0
OP	64	6	17	39	93	73	80	129	127	376	492
Domestic	44	37	19	42	62	39	30	45	141	176	186
Overseas	27	(33)	(8)	0	34	36	53	89	(14)	211	323
Asia	11	(38)	(20)	(5)	11	3	5	10	(51)	29	36
China	2	(39)	(23)	(12)	2	1	1	2	(72)	5	12
Europe	3	2	0	2	3	2	1	2	6	9	11
US	13	2	5	11	19	4	10	13	31	46	61
COSRX						31	47	50		128	214
OP margin (%)	7.0	0.6	1.9	3.9	9.0	6.5	7.3	10.4	3.4	8.4	9.7
Domestic	8.0	6.6	3.5	7.7	9.9	6.5	5.1	7.9	6.4	7.4	7.5
Overseas	7.6	(8.8)	(2.6)	0.1	8.2	6.9	10.5	13.4	(0.9)	10.1	12.5
Asia	4.0	(13.2)	(8.4)	(1.3)	3.6	0.9	2.0	2.7	(4.4)	2.3	2.8
China	1.5	(25.0)	(20.0)	(5.8)	1.1	0.5	0.5	1.0	(11.5)	0.8	1.6
Europe	22.0	12.0	2.0	12.0	22.0	12.6	4.0	11.8	11.8	12.4	12.5
US	21.0	2.1	6.7	13.1	21.0	4.0	10.0	10.6	10.5	11.0	11.1
COSRX						34.0	34.1	33.9		34.0	34.1

Note: COSRX is included in the overseas division.

Source: Company data, Mirae Asset Securities Research

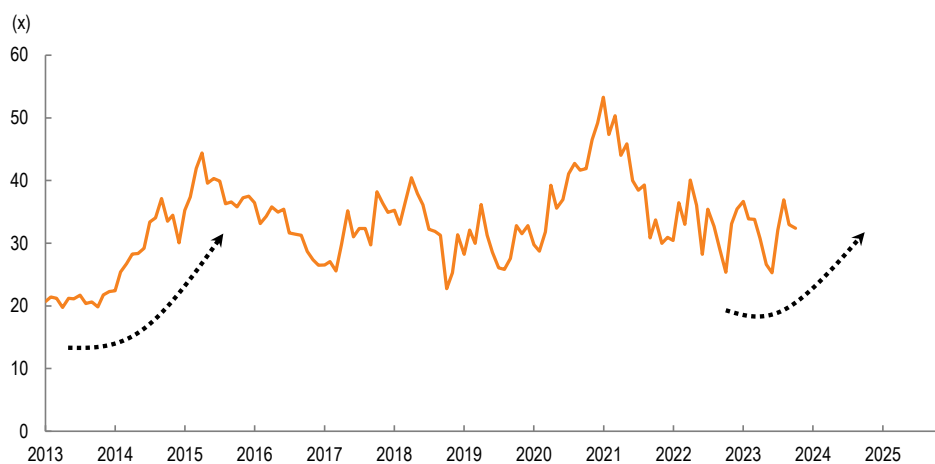
Table 8. Valuation table

(W)

		Notes
12MF EPS	5,138	
Target P/E (x)	35	Avg. P/E during period of aggressive overseas expansion
Fair price	182,341	
Target price	180,000	
Current price	134,400	
Upside (%)	33.9	

Source: Mirae Asset Securities Research

Figure 56. 12-month forward P/E trend



Source: QuantiWise, Mirae Asset Securities Research

Amorepacific (090430 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	4,135	3,753	4,502	5,100
Cost of revenue	1,338	1,176	1,256	1,397
GP	2,797	2,577	3,246	3,703
SG&A expenses	2,583	2,450	2,870	3,210
OP (adj.)	214	127	376	492
OP	214	127	376	492
Non-operating profit	10	64	35	11
Net financial income	-3	-8	-14	-19
Net income from associates	9	44	20	0
Pretax profit	224	191	411	503
Income tax	95	27	94	116
Profit from continuing operations	129	164	316	387
Profit from discontinued operations	0	0	0	0
NP	129	164	316	387
Attributable to owners	134	169	300	383
Attributable to minority interests	-5	-5	16	4
Total comprehensive income	102	164	316	387
Attributable to owners	109	187	361	442
Attributable to minority interests	-6	-23	-45	-55
EBITDA	503	394	621	722
FCF	52	336	374	427
EBITDA margin (%)	12.2	10.5	13.8	14.2
OP margin (%)	5.2	3.4	8.4	9.6
Net margin (%)	3.2	4.5	6.7	7.5

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	1,735	1,948	1,872	2,104
Cash & equivalents	450	743	440	512
AR & other receivables	306	278	357	411
Inventory	409	372	477	553
Other current assets	570	555	598	628
Non-current assets	4,067	3,918	4,415	4,634
Investments in associates	247	228	822	1,110
PP&E	2,475	2,328	2,204	2,124
Intangible assets	358	378	398	403
Total assets	5,802	5,866	6,288	6,738
Current liabilities	831	788	913	1,004
AP & other payables	81	78	87	98
Short-term financial liabilities	292	287	302	313
Other current liabilities	458	423	524	593
Non-current liabilities	191	182	210	229
Long-term financial liabilities	65	65	65	65
Other non-current liabilities	126	117	145	164
Total liabilities	1,023	970	1,122	1,233
Equity attributable to owners	4,798	4,920	5,173	5,510
Capital stock	35	35	35	35
Capital surplus	792	792	792	792
Retained earnings	4,010	4,132	4,385	4,722
Minority interests	-19	-24	-8	-5
Shareholders' equity	4,779	4,896	5,165	5,505

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	151	456	494	577
NP	129	164	316	387
Non-cash income/expenses	497	302	353	365
Depreciation	289	267	244	230
Amortization	0	0	0	0
Other	208	35	109	135
Chg. in working capital	-345	24	-66	-40
Chg. in AR & other receivables	2	26	-74	-53
Chg. in inventory	55	37	-106	-76
Chg. in AP & other payables	-53	-3	9	12
Income tax	-125	-27	-94	-116
Cash flow from investing activities	-69	-129	-780	-327
Chg. in PP&E	-95	-120	-120	-150
Chg. in intangible assets	-36	-20	-20	-5
Chg. in financial assets	23	11	-32	-25
Other	39	0	-608	-147
Cash flow from financing activities	-155	-52	-32	-37
Chg. in financial liabilities	-33	-5	15	10
Chg. in equity	-4	0	0	0
Dividends	-68	-47	-47	-47
Other	-50	0	0	0
Chg. in cash	-88	293	-303	72
Beginning balance	538	450	743	440
Ending balance	450	743	440	512

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	59.8	46.5	26.2	20.5
P/CF (x)	12.8	16.9	11.7	10.5
P/B (x)	1.7	1.6	1.5	1.4
EV/EBITDA (x)	16.6	18.6	12.3	10.5
EPS (W)	2,299	2,889	5,135	6,551
CFPS (W)	10,707	7,974	11,443	12,850
BPS (W)	82,185	84,268	88,599	94,347
DPS (W)	680	680	680	680
Dividend payout ratio (%)	30.7	24.2	12.6	10.3
Dividend yield (%)	0.5	0.5	0.5	0.5
Revenue growth (%)	-15.0	-9.2	20.0	13.3
EBITDA growth (%)	-28.7	-21.7	57.5	16.4
OP growth (%)	-37.6	-40.9	197.4	30.8
EPS growth (%)	-30.6	25.6	77.8	27.6
AR turnover (x)	14.2	13.8	15.2	14.2
Inventory turnover (x)	9.2	9.6	10.6	9.9
AP turnover (x)	13.1	14.9	15.3	15.1
ROA (%)	2.2	2.8	5.2	5.9
ROE (%)	2.8	3.5	6.0	7.2
ROIC (%)	3.8	3.0	9.4	12.0
Debt-to-equity ratio (%)	21.4	19.8	21.7	22.4
Current ratio (%)	208.8	247.3	205.1	209.5
Net debt-to-equity ratio (%)	-4.2	-18.0	-11.4	-12.1
Interest coverage ratio (x)	17.5	2.7	7.8	9.8

Mirae Asset Securities Co., Ltd.
Songyi Bae songyi.bae@miraeasset.com



002790 KS · Cosmetics

AmoreG

Earnings to grow sharply on robust growth of Amorepacific

(Maintain)

Buy

Target price
₩45,000

Upside
56.0%

Current price (11/27/23)
₩28,850

KOSPI	2,495.66	Market cap (Wbn)	2,379	Shares outstanding (mn)	82	Foreign ownership (%)	9.9
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Report summary

Earnings from Amorepacific (subsidiary) to improve

In 2024, we expect Amorepacific's revenue and operating profit to expand 20% and 197% YoY, respectively, driven by the consolidation of COSRX. Given that Amorepacific accounts for more than 70% of AmoreG's consolidated earnings, we forecast AmoreG's operating profit to surge 146% YoY in 2024. We also project parent-based profits to resume growth following the completion of Innisfree brand renewal campaigns (Innisfree operating profit: ₩7bn in 2020, - ₩1bn in 2021, ₩32.4bn in 2022, ₩15.1bn in 2023F, and ₩24.8bn in 2024F).

Shares and earnings to move in sync with Amorepacific's

With Amorepacific likely to enjoy strong growth in 2024, we expect its contribution to AmoreG's revenue and operating profit to climb to 93% and 85%, respectively. Accordingly, we believe AmoreG's share price will move in lockstep with Amorepacific's.

Key data

Price performance



(%)	1M	6M	12M
Absolute	7.1	-7.2	-6.3
Relative	-1.2	-4.9	-8.5

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	5,326	4,495	4,095	4,860	5,462
OP (Wbn)	356	272	180	443	562
OP margin (%)	6.7	6.1	4.4	9.1	10.3
NP (Wbn)	180	62	106	173	218
EPS (₩)	1,875	648	1,103	1,798	2,272
ROE (%)	5.5	1.9	3.1	4.9	5.8
P/E (x)	23.7	53.8	26.2	16.0	12.7
P/B (x)	1.2	0.9	0.8	0.7	0.7
Dividend yield (%)	1.0	0.6	0.7	0.7	0.7

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

Investment points

We forecast AmoreG's operating profit to surge 146% YoY in 2024, driven mainly by improving earnings from Amorepacific (which accounts for over 70% of the firm's consolidated earnings). In 2024, we expect Amorepacific's revenue and operating profit to expand 20% and 197% YoY, respectively, driven by the consolidation of COSRX.

We also forecast parent-based earnings to improve. Innisfree (a major revenue contributor) turned around in 2022, but its earnings have weakened this year due to brand renewal campaigns at home and abroad (Innisfree operating profit: W7bn in 2020, -W1bn in 2021, W32.4bn in 2022, and W15.1bn in 2023F). However, we expect Innisfree operating profit to resume growth in 2024 (reaching W24.8bn) on the completion of brand renewal campaigns. We also note that the brand's channel mix has improved through restructuring (offline contribution has fallen to 30-40%; addition of multi-brand shop channel).

Earnings forecasts and valuation

In 2024, we forecast AmoreG to deliver revenue of W4.86tr (+19% YoY) and operating profit of W443.1bn (+146% YoY). Growth should be driven by Amorepacific, which is likely to post consolidated revenue of W4.5tr (+20% YoY) and operating profit of W376.4bn (+197% YoY). Against this backdrop, AmoreG's share price and valuation will likely move in sync with Amorepacific's.

Table 9. Annual earnings and forecasts

(Wbn)

	2020	2021	2022	2023F	2024F	2025F
Revenue	4,930	5,326	4,495	4,095	4,860	5,462
Cosmetics affiliates	5,101	5,448	4,659	4,276	5,049	5,660
Amorepacific	4,432	4,863	4,135	3,753	4,502	5,100
Innisfree	349	307	300	280	286	288
Etude House	111	106	106	115	129	136
Espoir	43	47	52	55	57	60
Amos Professional	68	62	67	72	75	77
Other	(171)	(142)	(164)	(180)	(189)	(199)
OP	151	356	272	180	443	562
Cosmetics affiliates	145	350	267	176	439	557
Amorepacific	143	343	214	127	376	492
Innisfree	7	(1)	32	15	25	25
Etude House	(18)	(10)	5	17	20	21
Espoir	(2)	(1)	3	3	3	3
Amos Professional	14	11	13	14	15	15
Other	6	6	5	4	4	5
Pretax profit	31	430	288	241	468	580
NP	22	292	149	205	327	406
NP (owners of the parent)	10	180	62	106	173	218
OP margin (%)	3.1	6.7	6.0	4.4	9.1	10.3
Amorepacific	3.2	7.1	5.2	3.4	8.4	9.7
Innisfree	2.0	(0.3)	10.8	5.4	8.6	8.7
Etude House	(16.3)	(9.1)	4.7	15.0	15.2	15.4
Revenue growth (% YoY)	(21.5)	8.0	(15.6)	(8.9)	18.7	12.4
Amorepacific	(20.6)	9.7	(15.0)	(9.2)	20.0	13.3
Innisfree	(36.8)	(11.9)	(2.4)	(6.5)	2.2	0.6
Etude House	(38.1)	(5.1)	0.4	8.4	12.0	5.6
OP growth (% YoY)	(69.8)	136.4	(23.7)	(33.8)	146.3	26.8
NP growth (% YoY)	(92.2)	1,224.3	(48.9)	37.3	59.9	24.0
NP growth (owners of the parent, % YoY)	(92.2)	1,633.8	(65.4)	70.2	63.0	26.4

Source: Company data, Mirae Asset Securities Research

Table 10. Quarterly earnings and forecasts

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Revenue	1,009	1,031	963	1,092	4,095	1,136	1,220	1,169	1,335	4,860
Cosmetics affiliates	1,042	1,075	1,015	1,144	4,276	1,170	1,267	1,223	1,389	5,049
Amorepacific	1,042	1,075	1,015	1,144	4,276	1,170	1,267	1,223	1,389	5,049
Innisfree	914	945	889	1,005	3,753	1,036	1,132	1,090	1,243	4,502
Etude House	67	68	67	80	280	69	68	70	80	286
Espoir	28	29	27	30	115	31	33	30	35	129
Amos Professional	(33)	(44)	(51)	(52)	(180)	(35)	(46)	(54)	(54)	(189)
OP	82	12	29	58	180	110	83	98	153	443
Cosmetics affiliates	80	10	31	56	176	109	82	97	152	439
Amorepacific	80	10	31	56	176	109	82	97	152	439
Innisfree	64	6	17	39	127	93	73	80	129	376
Etude House	6	(1)	4	7	15	5	3	6	11	25
Espoir	5	2	5	5	17	6	2	5	6	20
Amos Professional	2	2	(2)	2	4	1	1	1	1	4
Pretax profit	131	32	55	23	241	145	111	121	90	468
NP	116	30	42	18	205	102	78	85	63	327
NP (owners of the parent)	53	23	25	5	106	54	41	45	33	173
OP margin (%)	8.1	1.1	3.0	5.3	4.4	9.7	6.8	8.4	11.5	9.1
Amorepacific	7.6	0.9	3.1	4.9	4.1	9.3	6.4	7.9	10.9	8.7
Innisfree	7.0	0.6	1.9	3.9	3.4	9.0	6.5	7.3	10.4	8.4
Etude House	8.5	(1.2)	5.6	8.2	5.4	7.0	4.0	8.9	13.8	8.6
Revenue growth (% YoY)	(20.1)	0.4	(5.7)	(7.8)	(8.9)	12.6	18.4	21.3	22.2	18.7
Amorepacific	(10.6)	13.7	8.3	5.2	3.4	12.3	17.8	20.5	21.4	18.1
Innisfree	1,172.6	1,213.1	1,088.2	1,139.0	1,152.2	13.4	19.8	22.6	23.8	20.0
Etude House	156.5	149.1	166.0	185.2	164.4	3.0	0.0	5.0	1.1	2.2
OP growth (% YoY)	(52.3)	TTB	(12.7)	(26.5)	(33.8)	34.3	603.8	240.4	164.7	146.3
NP growth (% YoY)	(12.6)	TTB	29.1	68.6	37.3	(11.9)	163.8	103.4	249.3	59.9
NP growth (owners of the parent, % YoY)	3.0	TTB	55.0	TTB	70.2	0.5	82.7	78.3	575.0	63.0

Source: Company data, Mirae Asset Securities Research

Table 11. Valuation table

(Wbn)

	Stake (%)		Notes
Amorepacific	38	Fair value	3,935
Amorepacific (preferred)	14	Equity stake value	55
Value of listed subsidiaries (A)			2,793
Etude	81	Fair value	180
		12MF adj. NP	15
		Target P/E (x)	15
Innisfree	82	Fair value	231
		12MF adj. NP	19
		Target P/E (x)	15
Value of unlisted subsidiaries (B)			411
Net cash (C)			349
NAV (A+B+C)			3,552
No. of shares ('000)			76,253
Fair price (W)			46,583
Target price (W)			45,000
Current price (W)			28,850
Upside (%)			56.0

Source: Mirae Asset Securities Research

AmoreG (002790 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	4,495	4,095	4,860	5,462
Cost of revenue	1,348	1,185	1,303	1,460
GP	3,147	2,910	3,557	4,002
SG&A expenses	2,875	2,730	3,114	3,440
OP (adj.)	272	180	443	562
OP	272	180	443	562
Non-operating profit	16	61	25	18
Net financial income	1	18	27	41
Net income from associates	12	41	25	25
Pretax profit	288	241	468	580
Income tax	139	36	140	174
Profit from continuing operations	149	205	327	406
Profit from discontinued operations	0	0	0	0
NP	149	205	327	406
Attributable to owners	62	106	173	218
Attributable to minority interests	87	99	155	188
Total comprehensive income	166	205	327	406
Attributable to owners	96	146	233	289
Attributable to minority interests	71	59	94	117
EBITDA	595	475	711	791
FCF	63	389	452	601
EBITDA margin (%)	13.2	11.6	14.6	14.5
OP margin (%)	6.1	4.4	9.1	10.3
Net margin (%)	1.4	2.6	3.6	4.0

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	2,566	2,903	3,423	4,081
Cash & equivalents	650	1,072	1,366	1,872
AR & other receivables	312	287	351	393
Inventory	460	424	518	583
Other current assets	1,144	1,120	1,188	1,233
Non-current assets	5,085	4,908	4,866	4,710
Investments in associates	330	304	372	418
PP&E	2,821	2,646	2,498	2,289
Intangible assets	856	884	912	913
Total assets	7,651	7,811	8,288	8,791
Current liabilities	852	804	930	1,015
AP & other payables	58	53	65	73
Short-term financial liabilities	312	306	321	330
Other current liabilities	482	445	544	612
Non-current liabilities	266	249	292	322
Long-term financial liabilities	56	56	56	56
Other non-current liabilities	210	193	236	266
Total liabilities	1,118	1,054	1,222	1,337
Equity attributable to owners	3,357	3,481	3,635	3,835
Capital stock	48	48	48	48
Capital surplus	691	691	691	691
Retained earnings	2,782	2,866	3,020	3,220
Minority interests	3,177	3,276	3,431	3,619
Shareholders' equity	6,534	6,757	7,066	7,454

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	183	509	572	621
NP	149	205	327	406
Non-cash income/expenses	574	313	381	362
Depreciation	323	295	267	229
Amortization	0	0	0	0
Other	251	18	114	133
Chg. in working capital	-386	9	-23	-15
Chg. in AR & other receivables	-4	23	-62	-42
Chg. in inventory	47	36	-94	-64
Chg. in AP & other payables	-47	-4	12	8
Income tax	-153	-36	-140	-174
Cash flow from investing activities	-130	-126	-814	-208
Chg. in PP&E	-116	-120	-120	-20
Chg. in intangible assets	-39	-28	-28	-1
Chg. in financial assets	108	22	-58	-39
Other	-83	0	-608	-148
Cash flow from financing activities	-257	-27	-4	-9
Chg. in financial liabilities	-112	-5	14	10
Chg. in equity	-4	0	0	0
Dividends	-105	-22	-18	-18
Other	-36	0	0	-1
Chg. in cash	-221	422	294	506
Beginning balance	871	650	1,072	1,366
Ending balance	650	1,072	1,366	1,872

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	53.8	26.2	16.0	12.7
P/CF (x)	4.6	5.3	3.9	3.6
P/B (x)	0.9	0.8	0.7	0.7
EV/EBITDA (x)	9.8	8.6	5.5	4.5
EPS (W)	648	1,103	1,798	2,272
CFPS (W)	7,534	5,399	7,378	8,007
BPS (W)	36,939	38,240	39,846	41,926
DPS (W)	205	205	205	205
Dividend payout ratio (%)	10.5	7.6	4.8	3.8
Dividend yield (%)	0.6	0.7	0.7	0.7
Revenue growth (%)	-15.6	-8.9	18.7	12.4
EBITDA growth (%)	-22.9	-20.1	49.6	11.4
OP growth (%)	-23.7	-33.8	146.3	26.8
EPS growth (%)	-65.4	70.2	63.0	26.4
AR turnover (x)	14.7	14.2	15.8	15.2
Inventory turnover (x)	9.0	9.3	10.3	9.9
AP turnover (x)	17.6	21.4	22.1	21.2
ROA (%)	1.9	2.6	4.1	4.8
ROE (%)	1.9	3.1	4.9	5.8
ROIC (%)	3.3	3.2	8.3	10.3
Debt-to-equity ratio (%)	17.1	15.6	17.3	17.9
Current ratio (%)	301.3	360.8	368.2	402.1
Net debt-to-equity ratio (%)	-8.0	-25.8	-29.3	-34.9
Interest coverage ratio (x)	18.6	3.4	8.2	10.1

Mirae Asset Securities Co., Ltd.
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105630 KS · Apparel

Hansae

Robust order momentum

(Initiate)

Buy

Target price
₩30,000

Upside
36.1%

Current price (11/27/23)
₩22,050

KOSPI	2,495.66	Market cap (Wbn)	882	Shares outstanding (mn)	40	Foreign ownership (%)	7.0
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Report summary

Amid demand uncertainties, low-end SPA brands to begin inventory restocking and expand short-lead-time orders

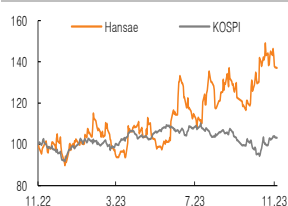
Amid an uncertain demand outlook, inventory control has become a top priority for apparel retailers. US apparel retailers have begun to shift their focus to inventory restocking (after a year and a half of destocking). And with retail channel inventories likely to decline sharply amid the year-end shopping season, we expect apparel OEM orders to bounce back in 2024. In particular, Hansae will likely see stronger order momentum than the industry average, as its major customers mostly consist of low-end SPA brands, which have seen their inventories shrink relatively rapidly this year thanks to their price competitiveness. Furthermore, SPA brands' strategic focus on inventory control has led to a pickup in short-delivery-time orders across the market. This is also favorable to Hansae, as shorter lead times tend to strengthen OEMs' pricing power.

Likely to meet 2024 order growth guidance (+15% YoY)

We forecast Hansae to meet its 2024 order growth guidance, given the expected rebound in OEM order placements by Gap (its largest customer). In 2024, we see earnings growing on the back of both margin improvement and increased order volume. We initiate our coverage on Hansae with a Buy rating and present it as our top pick in the apparel sector.

Key data

Price performance



(%)	1M	6M	12M
Absolute	5.8	38.8	40.4
Relative	-2.4	42.3	37.2

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	1,672	2,205	1,758	1,984	2,035
OP (Wbn)	107	180	160	188	190
OP margin (%)	6.4	8.2	9.1	9.5	9.3
NP (Wbn)	67	86	104	120	123
EPS (W)	1,684	2,141	2,603	3,003	3,069
ROE (%)	15.2	17.1	17.9	17.7	15.7
P/E (x)	13.0	7.2	8.5	7.3	7.2
P/B (x)	1.8	1.1	1.4	1.2	1.0
Dividend yield (%)	2.3	3.2	2.3	2.3	2.3

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

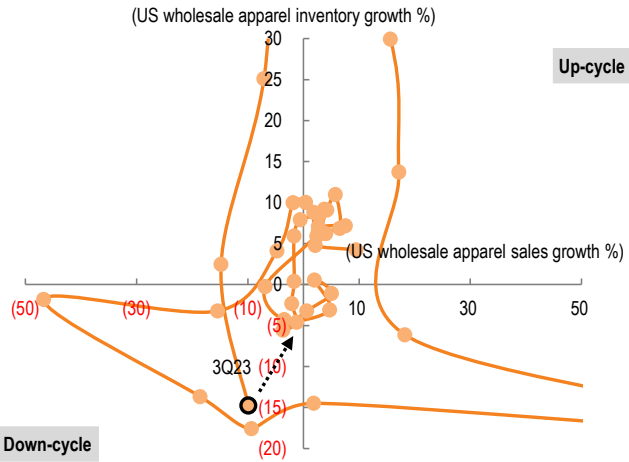
Investment points

With US apparel retailers shifting their focus to inventory restocking (after a year and a half of destocking), we expect overall apparel OEM orders to bounce back in 2024. While the industry as whole is likely to see a modest rebound (as apparel sales are unlikely to rise YoY in 2024), Hansae should see stronger order momentum given that its major customers are mostly low-end SPA brands (including Gap). Due to their price competitiveness, SPA brands have been outperforming the overall apparel market and have seen their inventories shrink relatively rapidly (with Gap's cumulative inventory through 3Q23 falling 26% YoY). As the no. 1 supplier for Gap, Hansae is poised to benefit the most once the retailer begins inventory restocking in earnest.

We also believe the outlook for apparel OEM margins is generally positive. As part of efforts to improve its productivity, Hansae has been introducing an in-house-developed smart factory system (HAMS) in phases since 2020. As a result, the firm's OP margin has been trending upward (3.8% in 2020, 6.4% in 2021, 8.1% in 2022, and 9.1% in 2023F). With the rollout of the system only 50% complete, we see further upside to margins.

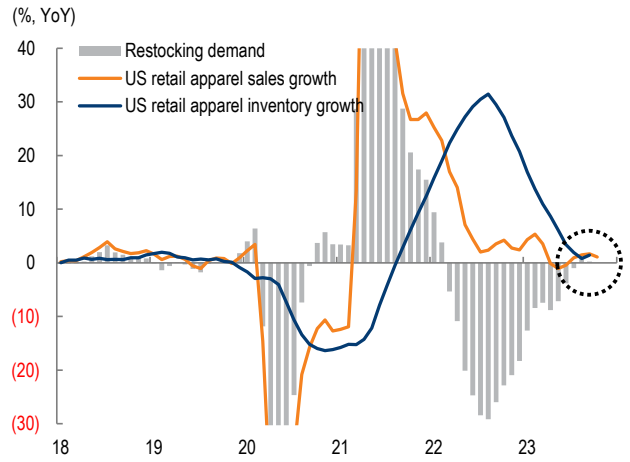
In addition, unit prices also remain solid, as passing on increased raw material costs to unit prices has become easier amid stabilizing raw cotton prices (which had plunged following a spike in 2022). In addition, buyers are increasingly requesting short delivery times due to their focus on inventory control. Shorter lead times naturally shift price negotiating power to OEMs. Meanwhile, a potential decline in FX rates could increase uncertainty over margins. We forecast the average USD/KRW rate in 2024 at 1,290 (-1.5% YoY).

Figure 57. OEM market cycle



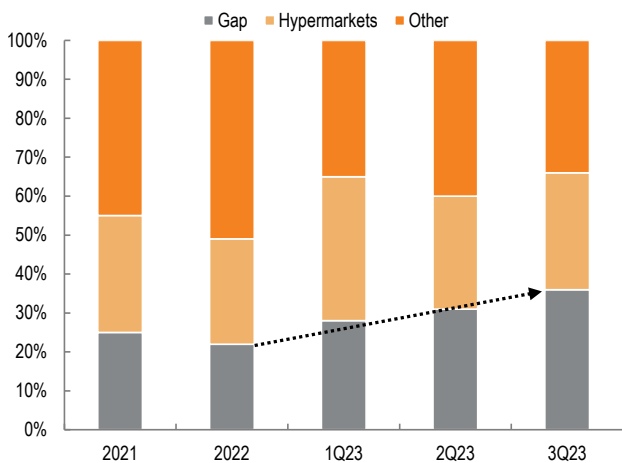
Source: US Census Bureau, Mirae Asset Securities Research

Figure 58. US retail apparel inventory and sales growth: Buyers have shifted to modest restocking



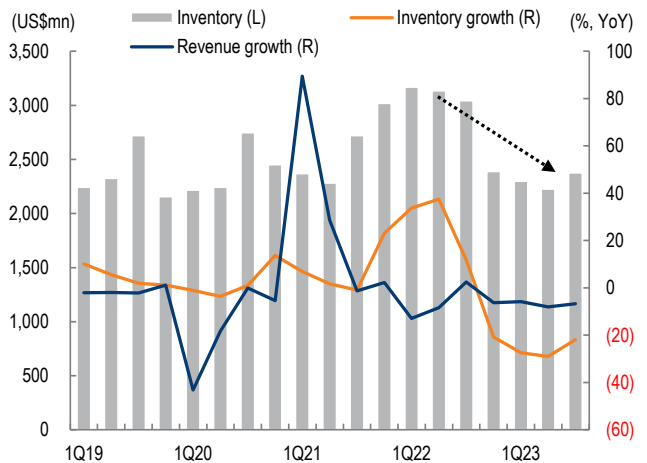
Source: US Census Bureau, Mirae Asset Securities Research

Figure 59. Hanae: Customer mix trend



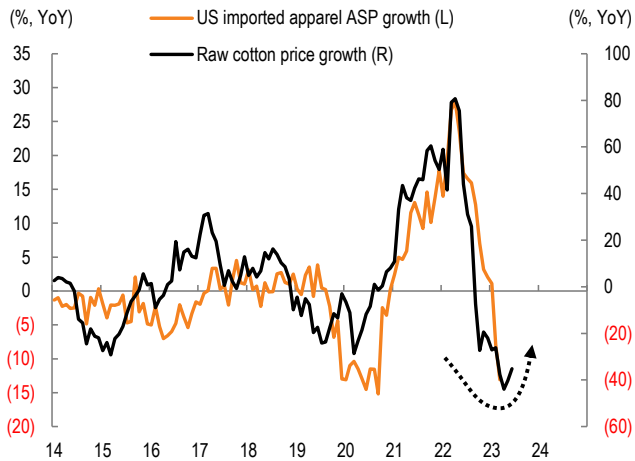
Source: Company data, Mirae Asset Securities Research

Figure 60. Gap: Revenue and inventory growth



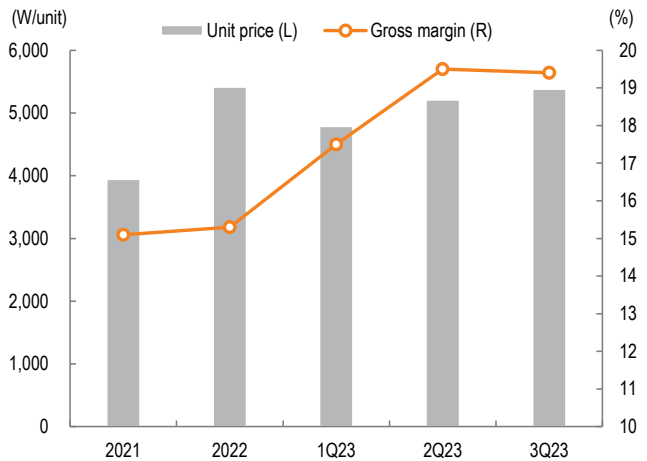
Source: GAP, Mirae Asset Securities Research

Figure 61. Raw cotton price increases and US imported apparel ASP growth



Note: US imported apparel ASP growth leads raw cotton price growth by six months.
Source: OTEXA, Bloomberg, Mirae Asset Securities Research

Figure 62. Hanae: Unit price and gross margin trends



Source: Company data, Mirae Asset Securities Research

Table 12. Annual earnings and forecasts

(Wbn)

	2020	2021	2022	2023F	2024F	2025F
Revenue	1,698	1,672	2,205	1,758	1,984	2,035
OP	65	107	180	160	188	190
Pretax profit	70	98	130	130	160	164
NP (owners of the parent)	45	67	86	105	120	123
OP margin (%)	3.8	6.4	8.1	9.1	9.5	9.3
Revenue growth (% YoY)	5.2	(1.5)	31.9	(20.3)	12.9	2.5
OP growth (% YoY)	(23.6)	64.5	68.3	(11.2)	17.7	1.0
NP growth (% YoY)	TTB	49.9	27.2	22.7	14.3	2.2

Source: Company data, Mirae Asset Securities Research

Table 13. Quarterly earnings and forecasts

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Revenue	411	430	512	405	1,758	430	465	560	529	1,984
OP	36	44	61	19	160	40	52	68	29	188
Pretax profit	28	36	50	15	130	33	45	61	22	160
NP (owners of the parent)	24	29	41	11	105	25	34	46	16	120
OP margin (%)	8.7	10.3	11.8	4.6	9.1	9.3	11.1	12.1	5.4	9.5
Revenue growth (% YoY)	(29.3)	(29.6)	(13.0)	(4.6)	(20.3)	4.7	8.2	9.3	30.8	12.9
OP growth (% YoY)	(26.7)	(20.2)	(7.5)	97.5	(11.2)	10.9	16.9	11.5	52.9	17.7
NP growth (% YoY)	(23.5)	19.4	39.6	2754.2	22.7	2.9	15.1	11.1	49.7	14.3

Source: Company data, Mirae Asset Securities Research

Table 14. Mirae Asset Securities: USD/KRW rate outlook

	1Q23	2Q23	3Q23	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
Avg. USD/KRW	1,276	1,315	1,312	1,340	1,300	1,300	1,285	1,270	1,310	1,290	1,240
%, YoY	5.8	4.3	(2.2)	(1.3)	1.9	(1.1)	(2.1)	(5.2)	1.4	(1.5)	(3.9)
%, QoQ	(6.1)	3.1	(0.2)	2.1	(3.0)	0.0	(1.2)	(1.2)			

Source: Mirae Asset Securities Research

Earnings forecasts and valuation

For 2024, we expect Hansae to report revenue of W1.98tr (+13% YoY) and operating profit of W187.8bn (+18% YoY). We expect US dollar-based order volume to grow 15% YoY, in line with the firm’s guidance. Notably, Hansae is the no. 1 supplier for Gap, which is highly likely to begin inventory restocking earlier than other brands. Hansae should be the biggest beneficiary of increased order placements by Gap.

We forecast 2024 OP margin to remain solid at 9.5%, given continuing productivity improvements and the potential for further price pass-through. In 3Q23, the firm posted an OP margin of 11.8% buoyed by seasonally strong demand and price increases.

Shares are currently trading at a 12-month forward P/E of only 7x. Even factoring in apparel OEM market conditions, we think the stock is undervalued in light of its average P/E during previous market downturns (10x). In 2024, we expect Hansae to deliver margin improvement and above-industry order volume growth. We initiate our coverage on Hansae with a Buy rating and present it as our top pick in the apparel sector.

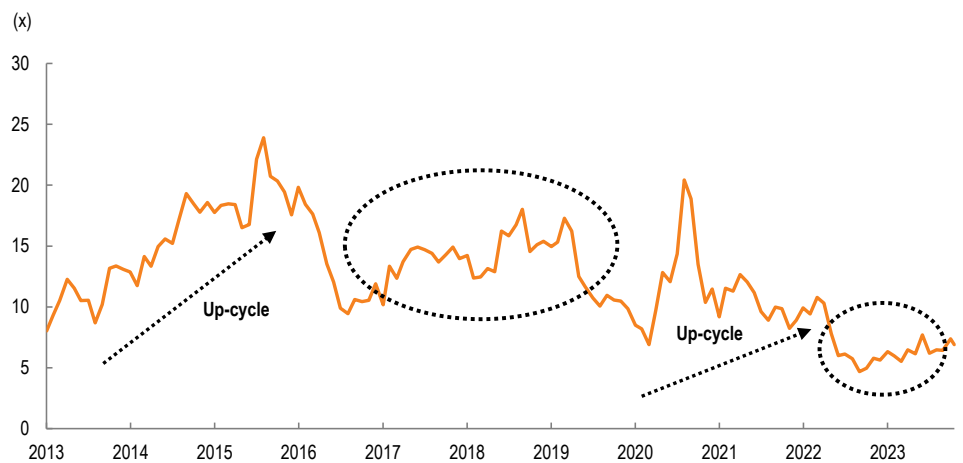
Table 15. Valuation table

(W)

		Notes
12MF EPS	3,003	
Target P/E (x)	10	Avg. multiple during previous market downturn
Fair price	30,029	
Target price	30,000	
Current price	22,050	
Upside (%)	36.1	

Source: Mirae Asset Securities Research

Figure 63. 12-month forward P/E trend



Source: QuantiWise, Mirae Asset Securities Research

Hansae (105630 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	2,205	1,758	1,984	2,035
Cost of revenue	1,868	1,445	1,631	1,673
GP	337	313	353	362
SG&A expenses	157	153	165	172
OP (adj.)	180	160	188	190
OP	180	160	188	190
Non-operating profit	-50	-30	-28	-26
Net financial income	-9	-4	-16	-11
Net income from associates	-1	-1	-1	-1
Pretax profit	130	130	160	164
Income tax	45	26	40	41
Profit from continuing operations	86	104	120	123
Profit from discontinued operations	0	0	0	0
NP	86	104	120	123
Attributable to owners	86	104	120	123
Attributable to minority interests	0	0	0	0
Total comprehensive income	92	111	120	123
Attributable to owners	92	111	120	123
Attributable to minority interests	0	0	0	0
EBITDA	212	191	212	217
FCF	169	60	74	70
EBITDA margin (%)	9.6	10.9	10.7	10.7
OP margin (%)	8.2	9.1	9.5	9.3
Net margin (%)	3.9	5.9	6.0	6.0

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	772	855	990	1,066
Cash & equivalents	173	152	192	232
AR & other receivables	178	164	215	229
Inventory	309	247	272	291
Other current assets	112	292	311	314
Non-current assets	467	464	476	500
Investments in associates	16	15	20	20
PP&E	177	156	163	186
Intangible assets	6	7	6	6
Total assets	1,239	1,319	1,466	1,566
Current liabilities	621	604	643	639
AP & other payables	55	53	69	71
Short-term financial liabilities	496	485	487	479
Other current liabilities	70	66	87	89
Non-current liabilities	82	86	94	95
Long-term financial liabilities	54	59	59	59
Other non-current liabilities	28	27	35	36
Total liabilities	702	690	737	733
Equity attributable to owners	537	629	730	833
Capital stock	20	20	20	20
Capital surplus	59	59	59	59
Retained earnings	488	572	673	776
Minority interests	0	0	0	0
Shareholders' equity	537	629	730	833

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	197	110	104	120
NP	86	104	120	123
Non-cash income/expenses	47	74	80	79
Depreciation	32	31	23	27
Amortization	0	0	0	0
Other	15	43	57	52
Chg. in working capital	48	-37	-40	-30
Chg. in AR & other receivables	58	-186	-50	-15
Chg. in inventory	83	55	-25	-19
Chg. in AP & other payables	-15	41	13	1
Income tax	-26	-37	-40	-41
Cash flow from investing activities	-36	-81	-42	-51
Chg. in PP&E	-26	-8	-30	-50
Chg. in intangible assets	0	-1	0	0
Chg. in financial assets	-13	2	-12	-1
Other	3	-74	0	0
Cash flow from financing activities	-11	-55	-18	-28
Chg. in financial liabilities	-36	-5	2	-8
Chg. in equity	0	0	0	0
Dividends	-20	-20	-20	-20
Other	45	-30	0	0
Chg. in cash	152	-21	40	41
Beginning balance	21	173	152	192
Ending balance	173	152	192	232

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	7.2	8.5	7.3	7.2
P/CF (x)	4.6	5.0	4.4	4.4
P/B (x)	1.1	1.4	1.2	1.0
EV/EBITDA (x)	4.5	5.3	4.6	4.2
EPS (W)	2,141	2,603	3,003	3,069
CFPS (W)	3,328	4,450	5,006	5,048
BPS (W)	13,868	16,089	18,600	21,177
DPS (W)	500	500	500	500
Dividend payout ratio (%)	22.9	18.9	16.4	16.0
Dividend yield (%)	3.2	2.3	2.3	2.3
Revenue growth (%)	31.9	-20.3	12.9	2.5
EBITDA growth (%)	55.8	-10.2	10.8	2.5
OP growth (%)	68.3	-11.2	17.7	1.0
EPS growth (%)	27.2	21.6	15.3	2.2
AR turnover (x)	10.0	10.4	10.6	9.3
Inventory turnover (x)	6.3	6.3	7.6	7.2
AP turnover (x)	34.9	33.3	33.4	29.8
ROA (%)	7.0	8.1	8.6	8.1
ROE (%)	17.1	17.9	17.7	15.7
ROIC (%)	16.7	20.6	23.6	21.8
Debt-to-equity ratio (%)	130.7	109.6	101.0	88.1
Current ratio (x)	124.4	141.4	154.0	166.9
Net debt-to-equity ratio (%)	63.1	20.9	11.4	4.0
Interest coverage ratio (x)	11.3	11.5	3.0	3.1

Mirae Asset Securities Co., Ltd.
Songyi Bae songyi.bae@miraeasset.com



031430 KS · Apparel

Shinsegae International

Encouraging signs of change

(Maintain)
Trading Buy

Target price
₩19,000

Upside
12.5%

Current price (11/27/23)
₩16,890

KOSPI	2,495.66	Market cap (Wbn)	603	Shares outstanding (mn)	36	Foreign ownership (%)	3.1
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Report summary

Shift in merchandising strategy (luxury goods → young fashion/mass-market brands)

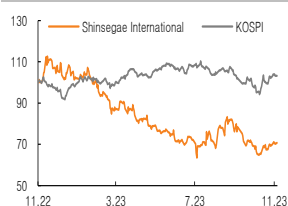
In recent years, Shinsegae International has strengthened its merchandising competitiveness in the luxury goods segment. However, with consumption now shifting from luxury to mass-market and indie brands, the firm has begun to change its merchandising strategy. We expect the most pronounced changes to be in the fashion business, as the firm is taking steps to expand its brand portfolio with a focus on low/mid-priced young fashion brands. For the high-end imported fashion business, the company plans to push into the export and brand licensing businesses to mitigate the impact of slowing economic growth.

Valuation

Given that the firm's strategic shift is currently underway, we may revisit our forecasts to reflect new brand investments and growing overseas momentum as they materialize. Based on our current assumptions, the stock is trading at a 12-month forward P/E of 9x. However, we could revise our earnings estimates and valuation depending on the results of the new merchandising strategy.

Key data

Price performance



(%)	1M	6M	12M
Absolute	8.1	-7.5	-29.3
Relative	-0.3	-5.2	-31.0

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	1,451	1,554	1,358	1,398	1,461
OP (Wbn)	92	115	55	71	79
OP margin (%)	6.3	7.4	4.1	5.1	5.4
NP (Wbn)	82	118	53	65	71
EPS (W)	2,300	3,313	1,494	1,815	1,989
ROE (%)	12.1	15.3	6.3	7.3	7.6
P/E (x)	12.7	7.5	11.3	9.3	8.5
P/B (x)	1.4	1.1	0.7	0.7	0.6
Dividend yield (%)	1.0	2.0	3.0	3.0	3.0

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

Investment points

In merchandising, the ability to nimbly respond to changes in consumption trends is a key competitive advantage. Shinsegae International boasts a diverse brand portfolio ranging from high-end luxury to mass-market brands.

In recent years, the company has focused its merchandising investments on the luxury goods segment. However, with consumption now shifting from luxury to mass-market and indie brands, the firm has begun to shift its merchandising focus to the fashion business (which is mostly comprised of low/mid-priced young fashion brands). In September, the company transferred Vov and Jigott to subsidiary Shinsegae Tomboy, which will handle all domestic fashion-related operations going forward, from new brand investments to retailing. We expect the business to gain momentum from 2024.

Meanwhile, the imported fashion business could come under pressure, as its brand lineup mostly consists of high-priced brands. To mitigate the impact of slowing economic growth, the firm plans to steadily expand its brand portfolio and push into the export and brand licensing businesses.

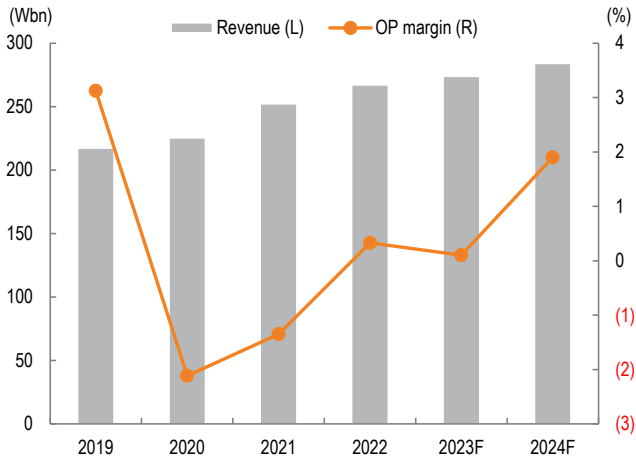
The shift to mass-market consumption has benefited the company's lifestyle brand Jaju (YoY revenue growth: -0.4% in 1Q23, +3.1% in 2Q23, and +3.7% in 3Q23). Notably, Jaju has seen its revenue grow since changing its merchandising focus from lifestyle goods to low-end clothing; in 3Q23, fashion revenue expanded 12% YoY, with its revenue share climbing to 50%. As the category has just started to contribute to earnings, it could have a visible effect depending on the pace of earnings growth (Jaju operating profit: -W3.4bn in 2021, W900mn in 2022, W300mn in 2023F, and W5.4bn in 2024F).

Earnings forecasts and valuation

For 2024, we forecast Shinsegae International to post revenue of W1.4tr (+3% YoY) and operating profit of W70.7bn (+28% YoY). The negative impact of the Celine contract expiration on revenue and profits should come to an end. Given the uncertain consumption outlook, we assume relatively modest revenue growth and profitability improvements, led by the low-end lifestyle segment.

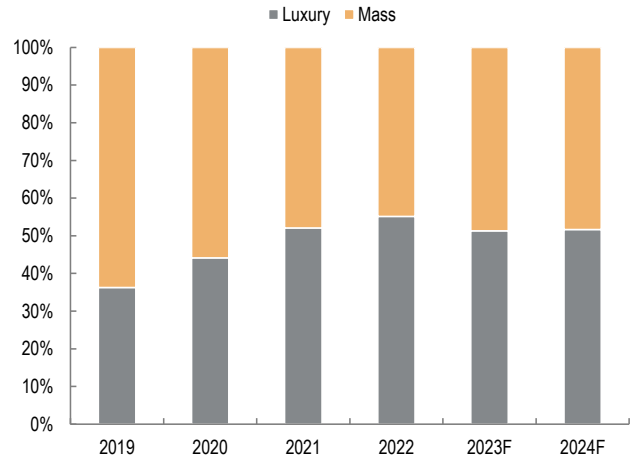
Given that the firm's strategic shift is currently underway, we may revisit our forecasts to reflect new brand investments and growing overseas momentum as they materialize. Based on our current assumptions, the stock is trading at a 12-month forward P/E of 9x. However, we could revise our earnings estimates and valuation depending on the results of the new merchandising strategy.

Figure 64. Lifestyle (Jaju): Earnings trend and forecasts



Source: Company data, Mirae Asset Securities Research

Figure 65. Shinsegae International: Mass-market vs. luxury



Note: Luxury segment includes imported fashion and cosmetics; mass-market segment includes domestic fashion, cosmetics, and lifestyle products.
Source: Company data, Mirae Asset Securities Research

Table 16. Annual earnings and forecasts

	2020	2021	2022	2023F	2024F	2025F
Revenue	1,325	1,451	1,554	1,358	1,398	1,461
Fashion	773	845	925	694	700	728
Imported	394	494	578	390	394	409
Domestic	379	351	347	304	306	319
Cosmetics	333	360	361	383	403	425
Lifestyle	225	252	267	274	284	294
OP	34	92	115	55	71	79
Fashion	12	72	100	32	37	41
Imported	26	66	77	22	23	26
Domestic	(14)	6	25	10	14	15
Cosmetics	33	35	16	23	27	31
Lifestyle	(5)	(3)	1	0	5	6
Pretax profit	53	105	137	72	88	96
NP	51	83	119	54	65	71
Revenue growth (% YoY)	(7.0)	9.5	7.1	(12.6)	3.0	4.5
Fashion	(7.8)	9.3	9.5	(25.0)	0.8	4.0
Imported	3.6	25.4	16.9	(32.5)	1.0	3.7
Domestic	(17.3)	(7.4)	(1.1)	(12.4)	0.5	4.4
Cosmetics	(9.5)	7.9	0.5	6.1	5.0	5.6
Lifestyle	3.7	11.7	6.2	2.5	3.7	3.7
OP growth (% YoY)	(60.0)	172.4	25.3	(52.0)	27.7	12.4
NP growth (% YoY)	(31.1)	62.2	43.8	(54.9)	21.5	9.6
OP (%)	2.5	6.3	7.4	4.1	5.1	5.4
Fashion	1.6	8.6	10.8	4.7	5.3	5.6
Imported	6.6	13.4	13.3	5.7	5.8	6.4
Domestic	(3.7)	1.7	7.1	3.3	4.6	4.6
Cosmetics	10.0	9.8	4.4	5.9	6.8	7.3
Lifestyle	(2.1)	(1.4)	0.3	0.1	1.9	1.9

Source: Company data, Mirae Asset Securities Research

Table 17. Quarterly earnings and forecasts

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Revenue	312	334	316	396	1,358	319	344	331	404	1,398
Fashion	163	165	149	217	694	161	166	151	222	700
Imported	85	95	93	116	390	84	96	94	119	394
Domestic	78	70	56	100	304	77	69	57	103	306
Cosmetics	92	97	95	100	383	96	100	103	105	403
Lifestyle	57	72	72	73	274	60	75	74	75	284
OP	10	18	6	21	55	17	19	11	25	71
Fashion	8	9	3	12	33	9	9	4	15	37
Imported	5	6	5	6	22	5	6	6	7	23
Domestic	3	3	(2)	6	10	4	3	(2)	8	14
Cosmetics	5	7	5	7	23	7	9	6	8	30
Lifestyle	(3)	3	(2)	3	0	1	1	1	1	5
Pretax profit	11	24	10	27	72	21	23	15	29	88
NP	9	19	3	23	54	16	17	11	21	65
Revenue growth (% YoY)	(11.4)	(13.1)	(18.5)	(8.0)	(12.6)	2.1	3.1	4.8	2.1	3.0
Fashion	(24.5)	(24.7)	(32.0)	(19.8)	(25.0)	(1.4)	0.3	1.4	2.4	0.8
Imported	(32.6)	(33.4)	(34.4)	(30.0)	(32.5)	(1.0)	1.0	1.0	2.5	1.0
Domestic	(13.0)	(8.3)	(27.7)	(3.4)	(12.4)	(1.8)	(0.6)	2.0	2.2	0.5
Cosmetics	16.8	2.0	(4.0)	12.2	6.1	4.4	3.0	8.6	4.3	5.0
Lifestyle	(0.4)	3.1	3.7	2.9	2.5	5.0	4.0	2.5	3.6	3.7
OP growth (% YoY)	(69.0)	(52.5)	(75.2)	7.2	(52.0)	62.1	1.1	80.6	19.0	27.7
Net profit (% YoY)	(66.7)	(41.7)	(84.1)	(46.6)	(54.9)	73.7	(12.6)	332.9	(5.5)	21.5
OP margin (%)	3.3	5.5	1.9	5.2	4.1	5.2	5.4	3.3	6.1	5.1
Fashion	4.9	5.5	2.3	5.6	4.7	5.6	5.5	2.5	6.8	5.3
Imported	5.9	5.9	5.8	5.4	5.7	5.9	5.9	5.8	5.6	5.8
Domestic	3.7	4.9	(3.6)	5.9	3.3	5.3	5.0	(3.1)	8.1	4.6
Cosmetics	5.9	7.0	4.8	6.6	6.1	7.3	8.9	6.2	7.5	7.5
Lifestyle	(5.4)	3.6	(2.6)	3.7	0.1	1.9	1.9	1.9	1.9	1.9

Source: Company data, Mirae Asset Securities Research

Table 18. Valuation table

(Wbn, x)

	Value	Notes
Operating value (A)		
Cosmetics	21	Cosmetics sector avg.
NOPLAT	18	
Target P/E	380	
Imported fashion	17	Apparel sector avg.
Domestic fashion	11	
Lifestyle	4	
NOPLAT	6	
Target P/E	209	
Fair value		
Total operating value	589	
Equity holdings (B)		
Shinsegae Simon	65	Based on 2022
NP	25	Retail sector avg.
Stake (%)	9	
Fair P/E	154	
Fair value		
Net debt (C)	52	Non-consolidated
Enterprise value (A+B-C)	691	
No. of shares ('000)	35,700	
Fair price (W)	19,365	
Target price (W)	19,000	
Current price (W)	16,890	
Upside (%)	12.5	

Source: Mirae Asset Securities Research

Shinsegae International (031430 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	1,554	1,358	1,398	1,461
Cost of revenue	608	531	544	566
GP	946	827	854	895
SG&A expenses	831	771	783	816
OP (adj.)	115	55	71	79
OP	115	55	71	79
Non-operating profit	22	17	17	17
Net financial income	-3	0	2	5
Net income from associates	16	17	18	19
Pretax profit	137	72	88	96
Income tax	18	19	23	25
Profit from continuing operations	119	54	65	71
Profit from discontinued operations	0	0	0	0
NP	119	54	65	71
Attributable to owners	118	53	65	71
Attributable to minority interests	1	0	0	0
Total comprehensive income	125	54	65	71
Attributable to owners	125	53	65	71
Attributable to minority interests	1	0	0	0
EBITDA	173	109	118	122
FCF	73	26	85	67
EBITDA margin (%)	11.1	8.0	8.4	8.4
OP margin (%)	7.4	4.1	5.1	5.4
Net margin (%)	7.6	3.9	4.6	4.9

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	547	609	684	754
Cash & equivalents	49	61	124	160
AR & other receivables	148	152	155	165
Inventory	289	336	343	366
Other current assets	61	60	62	63
Non-current assets	732	691	667	658
Investments in associates	137	126	129	135
PP&E	281	258	239	225
Intangible assets	70	68	59	56
Total assets	1,279	1,300	1,351	1,412
Current liabilities	282	269	272	279
AP & other payables	84	78	79	83
Short-term financial liabilities	133	131	131	132
Other current liabilities	65	60	62	64
Non-current liabilities	163	162	162	163
Long-term financial liabilities	152	152	152	152
Other non-current liabilities	11	10	10	11
Total liabilities	445	430	434	442
Equity attributable to owners	831	866	913	966
Capital stock	36	36	36	36
Capital surplus	120	120	120	120
Retained earnings	674	709	756	809
Minority interests	3	3	4	4
Shareholders' equity	834	869	917	970

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	110	46	105	87
NP	119	54	65	71
Non-cash income/expenses	67	50	46	40
Depreciation	47	44	38	34
Amortization	10	10	9	8
Other	10	-4	-1	-2
Chg. in working capital	-59	-62	-7	-27
Chg. in AR & other receivables	-7	-6	-3	-9
Chg. in inventory	-39	-46	-7	-23
Chg. in AP & other payables	6	-3	1	1
Income tax	-27	-19	-23	-25
Cash flow from investing activities	-96	-25	-22	-29
Chg. in PP&E	-34	-20	-20	-20
Chg. in intangible assets	-9	-8	0	-5
Chg. in financial assets	-24	3	-2	-4
Other	-29	0	0	0
Cash flow from financing activities	-14	-20	-17	-17
Chg. in financial liabilities	2	-2	0	1
Chg. in equity	0	0	0	0
Dividends	-11	-18	-18	-18
Other	-5	0	1	0
Chg. in cash	1	12	63	36
Beginning balance	48	49	61	124
Ending balance	49	61	124	160

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	7.5	11.3	9.3	8.5
P/CF (x)	4.8	5.8	5.4	5.4
P/B (x)	1.1	0.7	0.7	0.6
EV/EBITDA (x)	6.3	7.1	6.1	5.6
EPS (W)	3,313	1,494	1,815	1,989
CFPS (W)	5,210	2,910	3,105	3,129
BPS (W)	23,264	24,258	25,573	27,061
DPS (W)	500	500	500	500
Dividend payout ratio (%)	15.0	33.3	27.4	25.0
Dividend yield (%)	2.0	3.0	3.0	3.0
Revenue growth (%)	7.1	-12.6	3.0	4.5
EBITDA growth (%)	11.4	-36.7	7.9	3.5
OP growth (%)	25.3	-52.0	27.7	12.4
EPS growth (%)	44.1	-54.9	21.4	9.6
AR turnover (x)	13.4	11.2	11.1	11.1
Inventory turnover (x)	5.8	4.3	4.1	4.1
AP turnover (x)	17.6	16.8	17.8	17.9
ROA (%)	9.7	4.2	4.9	5.2
ROE (%)	15.3	6.3	7.3	7.6
ROIC (%)	13.5	5.3	6.7	7.6
Debt-to-equity ratio (%)	53.4	49.5	47.3	45.5
Current ratio (x)	193.8	226.9	251.4	270.2
Net debt-to-equity ratio (%)	24.2	19.6	11.7	7.3
Interest coverage ratio (x)	20.5	9.1	11.6	13.1

Mirae Asset Securities Co., Ltd.
Songyi Bae songyi.bae@miraeasset.com



111770 KS · Apparel

Youngone Corp.

Customers' inventory clearing deserves attention

(Initiate)

Buy

Target price
₩65,000

Upside
44.9%

Current price (11/27/23)
₩44,850

KOSPI	2,495.66	Market cap (Wbn)	1,987	Shares outstanding (mn)	44	Foreign ownership (%)	28.8
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Report summary

Competitive portfolio and earnings resilience

Youngone Corp. (Youngone) has a strong customer base that includes top-tier fashion brands like Lululemon, The North Face, and Patagonia. In 2022, despite a downturn in the overall apparel OEM market, the company saw relatively resilient orders thanks to solid end-market demand. Of note, the firm reports higher margins and profits than knitwear-focused OEMs (2023F dollar-denominated order growth: -7% YoY for Youngone vs. -22% for Hansae; 2023F OEM OP margin: 27% for Youngone vs. 9% for Hansae).

Buyers' year-end inventory clearing is the key point to watch

Youngone's order intake is heavily influenced by buyers' inventory levels. Given ongoing inventory clearing in the US apparel market, we expect Youngone's order intake to rebound in 2024. That said, we note that inventory levels at high-end buyers remain higher than those at lower-end buyers. Order visibility for 2024 should depend on the level of year-end inventory reductions at buyers

Key data

Price performance



(%)	1M	6M	12M
Absolute	-12.1	-1.0	-5.4
Relative	-18.9	1.5	-7.6

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	2,793	3,911	3,752	3,717	3,824
OP (Wbn)	443	823	693	671	690
OP margin (%)	15.9	21.0	18.5	18.1	18.0
NP (Wbn)	298	675	545	500	513
EPS (W)	6,727	15,222	12,292	11,286	11,585
ROE (%)	14.7	26.8	16.7	12.8	11.8
P/E (x)	6.5	3.1	3.6	4.0	3.9
P/B (x)	0.9	0.7	0.5	0.5	0.4
Dividend yield (%)	2.3	3.3	3.4	3.4	3.4

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

Investment points

Youngone has a strong customer base that includes top-tier fashion brands like Lululemon, The North Face, and Patagonia as well as many other outerwear brands. The firm focuses on the production of high-priced (high-margin) woven-fabric clothes.

Thanks to its competitive business portfolio, the firm enjoys high profitability, with an OEM OP margin of 27%. For comparison, knitwear-focused producers like Hansae and Makalot report OEM OP margins of around 10%.

Earnings forecasts and valuation

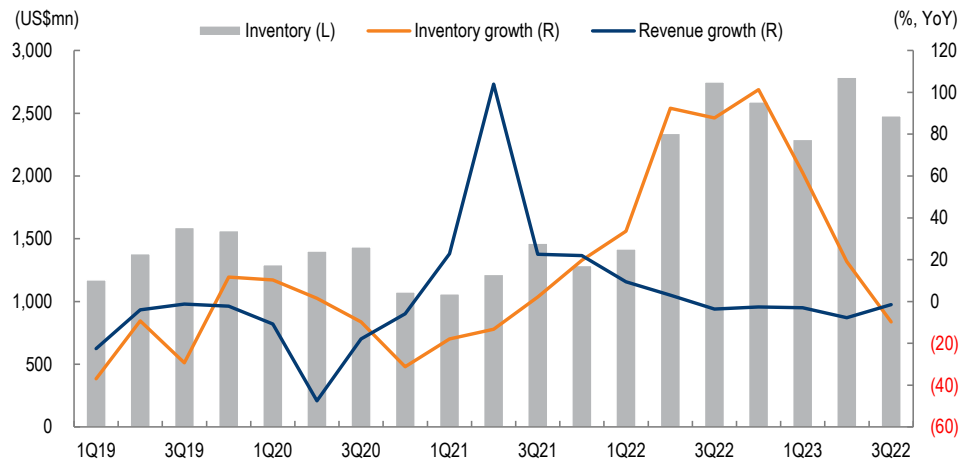
For 2024, we expect Youngone to post revenue of W3.72tr (-1% YoY) and operating profit of W671.3bn (-3% YoY).

For our earnings forecasts, we assumed Youngone's 2024 dollar-denominated order growth at 2% YoY—lower than our assumption for Hansae, as Youngone's buyers have higher inventory levels. That said, most buyers are planning aggressive inventory reductions amid the year-end shopping season, and we may revisit our earnings assumptions and valuation depending on the results.

Of note, Scott Sports (subsidiary) has conservatively guided 2024 revenue growth of -5% YoY and OP margin of 5%. While the firm's earnings had improved sharply on a pandemic-fueled surge in high-end bicycle demand, both revenue and profitability have declined since 2Q23 due to a tough comparison and softening consumption in Europe.

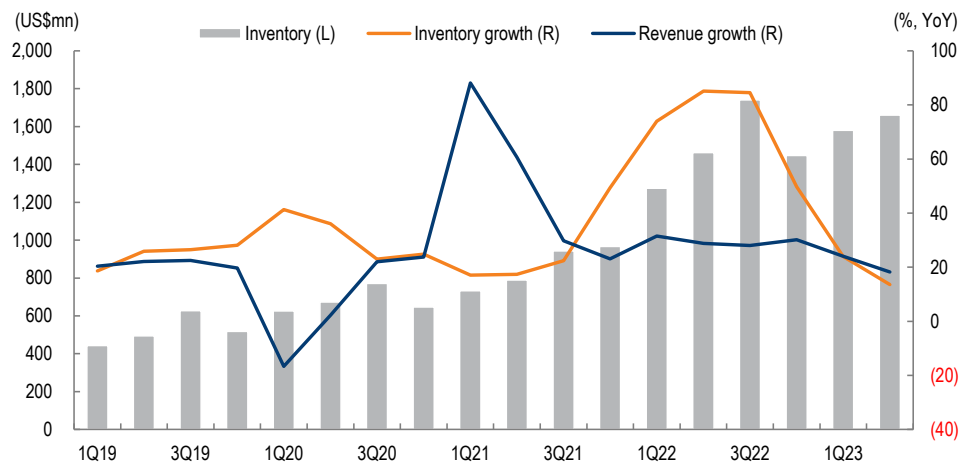
Trading at a 12-month forward P/E of 4x, the stock looks undervalued in light of its robust earnings resilience. We think any pickup in order visibility for 2024 will offer a good entry point.

Figure 66. VF Corporation: Inventory and revenue growth trends



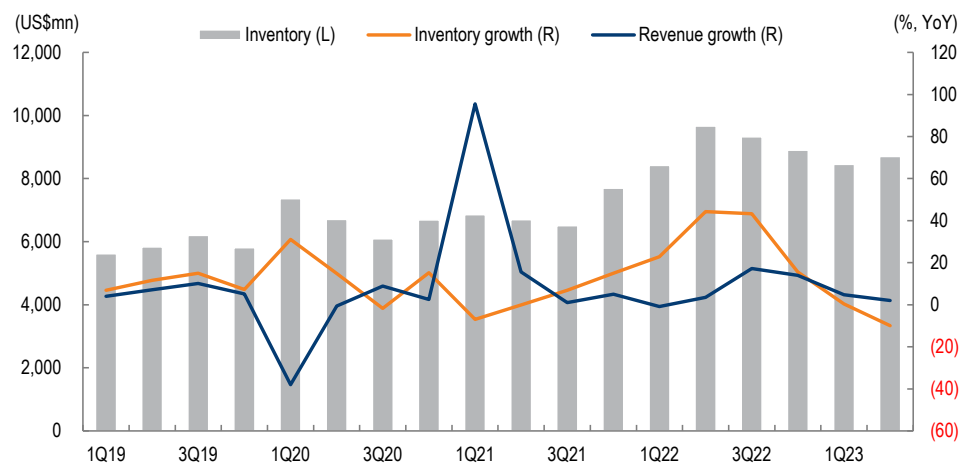
Source: Company data, Mirae Asset Securities Research

Figure 67. Lululemon: Inventory and revenue growth trends



Source: Company data Company data, Mirae Asset Securities Research

Figure 68. Nike: Inventory and revenue growth trends



Source: Company data, Mirae Asset Securities Research

Table 19. Annual earnings and forecasts

(Wbn)

	2020	2021	2022	2023F	2024F	2025F
Revenue	2,466	2,793	3,911	3,752	3,717	3,824
OEM	1,269	1,584	2,346	2,211	2,221	2,263
Brands/distribution	1,197	1,208	1,564	1,541	1,496	1,561
OP	260	443	823	693	671	690
OEM	168	337	637	605	594	609
Brands/distribution	92	105	186	88	77	81
Pretax profit	249	451	882	762	702	720
NP (owners of the parent)	148	298	675	543	500	513
OP margin (%)	10.5	15.8	21.0	18.5	18.1	18.0
OEM	13.2	21.3	27.2	27.4	26.8	26.9
Brands/distribution	7.7	8.7	11.9	5.7	5.1	5.2
Revenue growth (% YoY)	3.3	13.2	40.1	(4.1)	(0.9)	2.9
OEM	(11.6)	24.8	48.1	(5.8)	0.4	1.9
Brands/distribution	25.7	0.9	29.5	(1.5)	(2.9)	4.4
OP growth (% YoY)	9.3	70.4	86.0	(15.8)	(3.1)	2.8
OEM	(12.9)	100.8	89.0	(5.0)	(1.8)	2.5
Brands/distribution	105.3	14.9	76.3	(52.7)	(12.6)	5.4
NP growth (% YoY)	(11.2)	101.9	126.3	(19.5)	(7.9)	2.7

Source: Company data, Mirae Asset Securities Research

Table 20. Quarterly earnings and forecasts

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Revenue	841	1,008	999	905	3,752	799	978	1,009	932	3,717
OEM	493	639	597	483	2,211	472	624	619	506	2,221
Brands/distribution	348	369	401	422	1,541	326	354	390	426	1,496
OP	167	211	180	135	693	145	195	192	140	671
OEM	137	193	161	113	604	127	182	172	121	601
Brands/distribution	30	17	19	21	88	20	16	19	22	77
Pretax profit	184	228	211	139	762	153	202	199	147	702
NP (owners of the parent)	135	156	158	95	543	109	144	142	105	500
OP margin (%)	19.9	20.9	18.0	15.0	18.5	18.2	19.9	19.0	15.0	18.1
OEM	27.8	30.3	26.9	23.4	27.3	26.8	29.2	27.7	23.9	27.1
Brands/distribution	8.7	4.6	4.8	5.1	5.7	6.1	4.6	4.8	5.1	5.1
Revenue growth (% YoY)	9.7	6.6	(14.1)	(12.7)	(4.1)	(5.0)	(3.0)	1.0	3.0	(0.9)
OEM	13.6	12.0	(19.8)	(19.3)	(5.8)	(4.2)	(2.3)	3.6	5.0	0.4
Brands/distribution	4.5	(1.7)	(3.9)	(3.7)	(1.5)	(6.1)	(4.1)	(2.8)	0.8	(2.9)
OP growth (% YoY)	14.6	1.2	(34.8)	(29.9)	(15.8)	(13.1)	(7.6)	6.5	3.3	(3.1)
OEM	33.0	20.2	(27.7)	(25.3)	(5.2)	(7.6)	(5.9)	6.8	7.2	(0.5)
Brands/distribution	(29.7)	(63.8)	(64.1)	(49.2)	(52.7)	(34.3)	(4.1)	(2.8)	2.2	(12.6)
NP growth (% YoY)	36.3	(9.0)	(30.3)	(46.9)	(19.5)	(19.1)	(7.5)	(10.1)	11.1	(7.9)

Source: Company data, Mirae Asset Securities Research

Table 21. Valuation table

(Wbn, x)

	2023F	2024F	Notes
(A) OEM	2,973	2,757	
Revenue	2,211	2,221	
OP	605	594	
Pretax profit	674	625	
NP	472	438	
Fair P/E (x)	6	6	Avg. multiple during previous industry downturn
(B) Scott Sports	127	115	
Revenue	1,342	1,280	
OP	80	73	
NP	28	26	50.01% stake
Fair P/E (x)	5	5	
Enterprise value (A+B)	3,100	2,872	
No. of shares ('000)	44,311	44,311	
Fair price (W)	69,951	64,804	
Fair price (12MF, W)	64,804		
Target price (W)	65,000		
Current price (W)	44,850		
Upside (%)	44.9		

Source: Mirae Asset Securities Research

Youngone Corp. (111770 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	3,911	3,752	3,717	3,824
Cost of revenue	2,594	2,539	2,518	2,585
GP	1,317	1,213	1,199	1,239
SG&A expenses	494	520	528	549
OP (adj.)	823	693	671	690
OP	823	693	671	690
Non-operating profit	59	69	31	30
Net financial income	-11	9	26	37
Net income from associates	1	2	1	1
Pretax profit	882	762	702	720
Income tax	139	190	175	180
Profit from continuing operations	743	571	526	540
Profit from discontinued operations	0	0	0	0
NP	743	571	526	540
Attributable to owners	675	545	500	513
Attributable to minority interests	69	27	26	27
Total comprehensive income	724	676	526	540
Attributable to owners	639	629	483	496
Attributable to minority interests	85	47	43	44
EBITDA	916	792	774	793
FCF	313	49	419	503
EBITDA margin (%)	23.4	21.1	20.8	20.7
OP margin (%)	21.0	18.5	18.1	18.0
Net margin (%)	17.3	14.5	13.5	13.4

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	459	181	519	603
NP	743	571	526	540
Non-cash income/expenses	263	269	237	230
Depreciation	86	93	96	97
Amortization	7	7	7	6
Other	170	169	134	127
Chg. in working capital	-419	-518	-110	-40
Chg. in AR & other receivables	-120	43	-15	-14
Chg. in inventory	-360	-406	-114	-44
Chg. in AP & other payables	94	-61	9	9
Income tax	-122	-162	-175	-180
Cash flow from investing activities	-390	-269	-296	-227
Chg. in PP&E	-111	-130	-100	-100
Chg. in intangible assets	-8	-5	0	-5
Chg. in financial assets	-188	52	-11	-11
Other	-83	-186	-185	-111
Cash flow from financing activities	91	-232	-67	-97
Chg. in financial liabilities	154	-118	0	-30
Chg. in equity	0	0	0	0
Dividends	-44	-67	-67	-67
Other	-19	-47	0	0
Chg. in cash	94	120	340	388
Beginning balance	642	736	855	1,196
Ending balance	736	855	1,196	1,584

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	2,821	3,283	3,767	4,230
Cash & equivalents	736	855	1,196	1,584
AR & other receivables	523	496	510	525
Inventory	984	1,427	1,541	1,585
Other current assets	578	505	520	536
Non-current assets	1,692	1,929	1,928	1,931
Investments in associates	47	41	42	43
PP&E	713	771	775	779
Intangible assets	179	188	181	180
Total assets	4,514	5,212	5,695	6,161
Current liabilities	823	611	626	610
AP & other payables	360	314	324	333
Short-term financial liabilities	280	138	138	108
Other current liabilities	183	159	164	169
Non-current liabilities	577	557	566	575
Long-term financial liabilities	233	258	258	258
Other non-current liabilities	344	299	308	317
Total liabilities	1,399	1,169	1,192	1,185
Equity attributable to owners	2,814	3,704	4,137	4,583
Capital stock	22	22	22	22
Capital surplus	410	410	410	410
Retained earnings	2,264	2,741	3,174	3,620
Minority interests	300	340	366	393
Shareholders' equity	3,114	4,044	4,503	4,976

Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	3.1	3.6	4.0	3.9
P/CF (x)	2.1	2.4	2.6	2.6
P/B (x)	0.7	0.5	0.5	0.4
EV/EBITDA (x)	1.9	1.9	1.5	1.0
EPS (W)	15,222	12,292	11,286	11,585
CFPS (W)	22,713	18,970	17,231	17,396
BPS (W)	63,876	83,949	93,721	103,791
DPS (W)	1,530	1,530	1,530	1,530
Dividend payout ratio (%)	9.0	11.7	12.7	12.4
Dividend yield (%)	3.3	3.4	3.4	3.4
Revenue growth (%)	40.1	-4.1	-0.9	2.9
EBITDA growth (%)	73.1	-13.5	-2.3	2.5
OP growth (%)	86.0	-15.8	-3.1	2.8
EPS growth (%)	126.3	-19.2	-8.2	2.7
AR turnover (x)	8.7	7.5	7.6	7.6
Inventory turnover (x)	4.8	3.1	2.5	2.4
AP turnover (x)	8.9	8.0	8.4	8.3
ROA (%)	18.4	11.8	9.7	9.1
ROE (%)	26.8	16.7	12.8	11.8
ROIC (%)	35.3	19.7	18.5	18.5
Debt-to-equity ratio (%)	44.9	28.9	26.5	23.8
Current ratio (%)	343.0	536.9	601.8	693.7
Net debt-to-equity ratio (%)	-20.3	-20.2	-25.9	-32.1
Interest coverage ratio (x)	40.8	34.5	45.4	48.5

Mirae Asset Securities Co., Ltd.
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007070 KS · Retail

GS Retail

Core business strength to come into focus

(Initiate) Buy		Target price ₩33,000	Upside 31.2%	Current price (11/27/23) ₩25,150			
KOSPI	2,495.66	Market cap (Wbn)	2,634	Shares outstanding (mn)	105	Foreign ownership (%)	7.5

Report summary

Strong performance of core businesses and withdrawal from unprofitable online grocery business

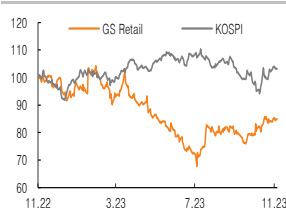
GS Retail's core businesses—convenience stores, supermarkets, and hotels—continue to perform strongly. As convenience stores and supermarkets mostly sell consumer staples, these channels tend to be resilient to economic downturns. Hotel earnings are also holding up well, as the release of pent-up travel demand and a newly opened hotel are providing fresh growth momentum. Despite its core business strength, GS Retail's consolidated earnings have been weighed down in recent years by unprofitable new businesses. As such, we believe the firm's withdrawal from the online grocery business (GS Fresh Mall), which has posted significant losses, will help boost consolidated earnings and highlight its core business strength.

Valuation still undemanding

The stock is trading at a 12-month forward P/E of 11x, a slight premium to the retail sector average (9x). Given their strong growth potential, convenience store plays typically trade at a premium of 20% or higher over the retail sector. We believe valuation is undemanding and see further upside to shares given the firm's strong earnings visibility and growth momentum. We initiate our coverage on GS Retail with a Buy rating and present it as our top pick in retail.

Key data

Price performance



(%)	1M	6M	12M
Absolute	4.4	-0.6	-15.3
Relative	-3.7	1.9	-17.3

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	9,691	11,226	11,722	12,216	12,740
OP (Wbn)	220	245	366	424	464
OP margin (%)	2.3	2.2	3.1	3.5	3.6
NP (Wbn)	815	40	156	235	277
EPS (W)	8,961	386	1,485	2,248	2,645
ROE (%)	25.6	1.0	3.8	5.5	6.1
P/E (x)	3.4	72.9	16.9	11.2	9.5
P/B (x)	0.8	0.7	0.6	0.6	0.6
Dividend yield (%)	3.9	1.5	1.7	1.7	1.7

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

Investment points

We expect GS Retail's core businesses—convenience stores, supermarkets, and hotels—to continue to deliver earnings growth.

Convenience stores have maintained mid/high-single-digit same-store sales (SSS) growth. New store openings will likely remain on track, and SSS growth should remain positive, backed by solid demand for food. While margins are unlikely to improve meaningfully given increased fixed costs, revenue growth should help shore up bottom line.

Notably, supermarket earnings are improving after years of stagnant revenue and margin deterioration. Revenue turned around in 2022, and profits have picked up in 2023, bolstered by increased franchise store openings and rising food consumption. Revenue exposure to food stands at around 90% for supermarkets (vs. 50-60% for convenience stores and hypermarkets). Accordingly, supermarket earnings tend to be resilient to economic downturns.

Hotel earnings, which have grown considerably since the pandemic, have further room for growth thanks to the opening of Parnas Hotel Jeju in 3Q22. Of note, the occupancy rate of Parnas Hotel Jeju has climbed throughout 2023 (53% in 1Q23, 80% in 2Q23, and 84% in 3Q23).

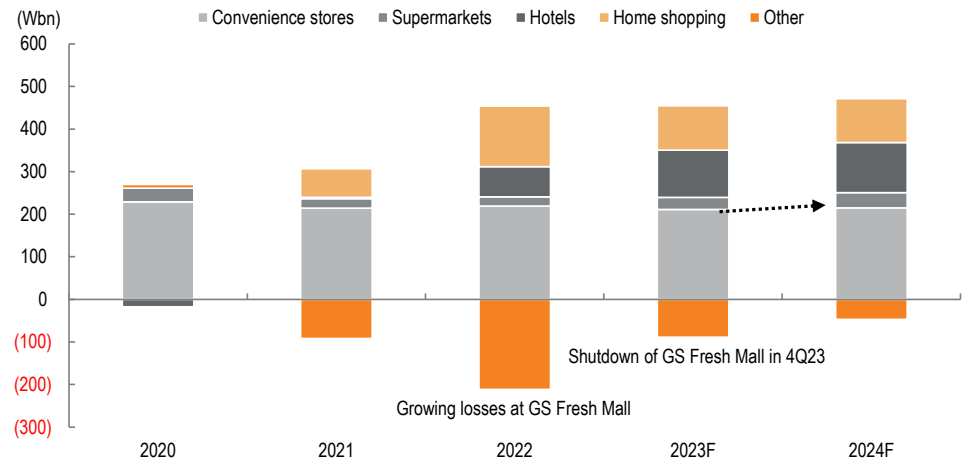
Despite the strong fundamentals of its core businesses, GS Retail's consolidated earnings have shown disappointing growth due to massive losses from new businesses launched in 2021. In 2022, consolidated operating profit rose only W27.5bn YoY due to W211.3bn in losses from "other" businesses. In 2023, we forecast losses from new businesses to narrow by W122.6bn YoY, as GS Retail has been making efforts to reduce losses and plans to withdraw from the e-commerce platform GS Fresh Mall—the most unprofitable business—in 4Q23. We believe the firm's withdrawal from the online grocery business will help bolster consolidated earnings and highlight its core business strength. For 2023, we expect consolidated operating profit to rise by W58.3bn YoY and forecast losses from "other" businesses at only W47bn.

Earnings forecasts and valuation

For 2024, we expect GS Retail to report revenue of W12.22tr (+4% YoY) and operating profit of W424.1bn (+16% YoY). Core businesses—convenience stores, supermarkets, and hotels—should continue growing, while the discontinuation of GS Fresh Mall should further support earnings.

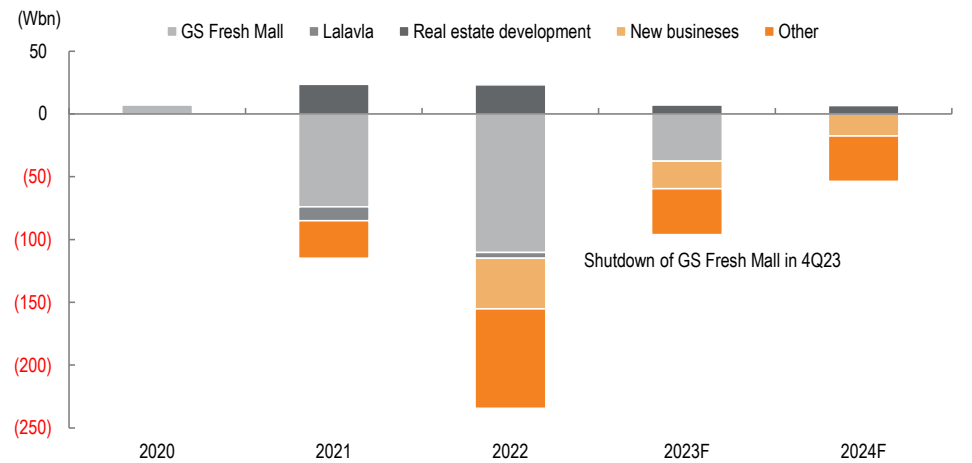
The stock is trading at a 12-month forward P/E of 11x, a slight premium to the retail sector average (9x). Given their strong growth potential, convenience store plays typically trade at a premium of 20% or higher over the retail sector. We believe valuation is undemanding and see further upside to shares given the firm's strong earnings visibility and growth momentum. We initiate our coverage on GS Retail with a Buy rating and present it as our top pick in retail.

Figure 69. OP trend and forecasts



Source: Company data, Mirae Asset Securities Research

Figure 70. "Other" businesses: OP trend and forecasts



Source: Company data, Mirae Asset Securities Research

Table 22. Annual earnings and forecasts

(Wbn)

	2020	2021	2022	2023F	2024F	2025F
Revenue	8,862	9,723	11,235	11,722	12,216	12,740
Convenience stores	6,972	7,211	7,780	8,296	8,724	9,176
Supermarkets	1,274	1,215	1,322	1,439	1,545	1,593
Hotels	166	216	369	485	528	576
Home shopping		620	1,239	1,134	1,116	1,102
Other	451	462	524	368	303	292
OP	253	215	243	366	424	464
Convenience stores	229	214	219	211	215	235
Supermarkets	32	22	22	29	35	37
Hotels	-17	3	71	111	118	129
Home shopping		67	143	104	103	102
Other	9	-92	-211	-89	-47	-39
Pretax profit	201	910	77	242	323	381
NP	155	803	49	161	239	282
NP (owners of the parent)	168	815	40	156	235	277
OP margin (%)	2.8	2.2	2.2	3.1	3.5	3.6
Convenience stores	3.3	3.0	2.8	2.5	2.5	2.6
Supermarkets	2.5	1.8	1.6	2.0	2.3	2.3
Hotels	-10.5	1.6	19.1	22.8	22.3	22.3
Home shopping		10.8	11.5	9.2	9.2	9.3
Revenue growth (% YoY)	-1.6	9.7	15.5	4.3	4.2	4.3
Convenience stores	1.7	3.4	7.9	6.6	5.2	5.2
Supermarkets	-13.7	-4.7	8.9	8.8	7.3	3.1
Hotels	-45.7	30.2	70.9	31.3	9.0	9.1
Home shopping			100.0	-8.5	-1.6	-1.2
OP growth (% YoY)	5.7	-14.9	12.8	50.8	15.9	9.5
NP growth (% YoY)	26.5	384.0	-95.0	285.0	51.4	17.7

Source: Company data, Mirae Asset Securities Research

Table 23. Quarterly earnings and forecasts

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Revenue	2,700	2,958	3,090	2,974	11,722	2,832	3,084	3,239	3,061	12,216
Convenience stores	1,867	2,092	2,221	2,116	8,296	1,969	2,196	2,339	2,219	8,724
Supermarkets	341	357	390	350	1,439	375	379	414	377	1,545
Hotels	97	124	126	138	485	117	136	132	144	528
Home shopping	290	286	260	298	1,134	294	297	277	247	1,116
Other	105	99	93	71	368	77	76	77	73	303
OP	47	97	127	95	366	70	110	142	103	424
Convenience stores	23	65	78	45	211	23	66	80	46	215
Supermarkets	4	4	13	7	29	7	5	15	8	35
Hotels	21	22	33	35	111	25	24	34	35	118
Home shopping	32	27	21	24	104	27	26	24	25	103
Other	-33	-22	-19	-15	-89	-13	-12	-11	-11	-47
Pretax profit	29	67	100	46	242	46	77	114	86	323
NP	18	54	72	18	161	34	57	85	64	239
NP (owners of the parent)	17	52	68	18	156	33	56	83	62	235
OP margin (%)	1.7	3.3	4.1	3.2	3.1	2.5	3.6	4.4	3.4	3.5
Convenience stores	1.2	3.1	3.5	2.1	2.5	1.2	3.0	3.4	2.1	2.5
Supermarkets	1.3	1.2	3.4	1.9	2.0	2.0	1.3	3.6	2.1	2.3
Hotels	22.0	17.7	26.1	25.0	22.8	21.6	17.4	25.6	24.6	22.3
Home shopping	10.9	9.5	8.2	8.0	9.2	9.3	8.9	8.6	10.1	9.2
Revenue growth (% YoY)	4.9	5.0	4.5	3.0	4.3	4.9	4.3	4.8	2.9	4.2
Convenience stores	6.3	7.1	6.6	6.5	6.6	5.5	5.0	5.3	4.9	5.2
Supermarkets	7.7	14.1	10.6	3.2	8.8	9.8	6.0	6.0	7.7	7.3
Hotels	58.5	51.1	20.6	13.4	31.3	20.0	10.0	5.0	3.9	9.0
Home shopping	-4.0	-12.5	-10.2	-7.0	-8.5	1.4	3.7	6.8	-17.0	-1.6
OP growth (% YoY)	109.7	105.0	44.7	11.6	50.8	50.2	12.7	11.6	8.2	15.9
NP growth (% YoY)	76.3	4.8	67.8	TTB	285.0	101.3	7.8	21.7	240.4	51.4

Source: Company data, Mirae Asset Securities Research

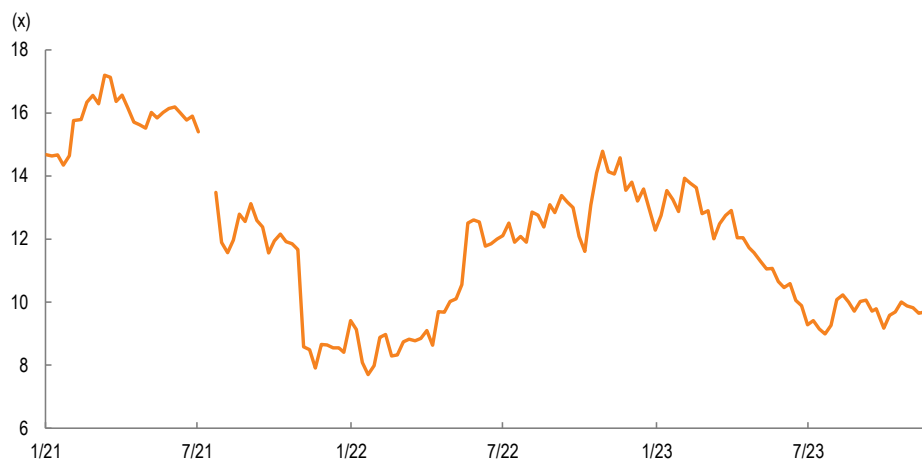
Table 24. Valuation table

(W)

		Notes
12MF EPS	2,248	
Target P/E (x)	14	Avg. P/E during earnings growth phase
Fair price	32,573	
Target price	33,000	
Current price	25,150	
Upside (%)	31.2	

Source: Mirae Asset Securities Research

Figure 71. 12-month forward P/E trend



Source: QuantiWise, Mirae Asset Securities Research

GS Retail (007070 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	11,226	11,722	12,216	12,740
Cost of revenue	8,357	8,707	9,074	9,463
GP	2,869	3,015	3,142	3,277
SG&A expenses	2,624	2,649	2,718	2,812
OP (adj.)	245	366	424	464
OP	245	366	424	464
Non-operating profit	-170	-124	-101	-83
Net financial income	-41	-48	-25	-6
Net income from associates	-15	-30	-22	-14
Pretax profit	75	242	323	381
Income tax	31	63	84	99
Profit from continuing operations	44	179	239	282
Profit from discontinued operations	4	-18	0	0
NP	48	161	239	282
Attributable to owners	40	156	235	277
Attributable to minority interests	7	6	4	5
Total comprehensive income	123	162	239	282
Attributable to owners	113	158	234	275
Attributable to minority interests	9	4	5	6
EBITDA	941	1,053	1,021	1,044
FCF	352	505	359	404
EBITDA margin (%)	8.4	9.0	8.4	8.2
OP margin (%)	2.2	3.1	3.5	3.6
Net margin (%)	0.4	1.3	1.9	2.2

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	713	766	859	904
NP	48	161	239	282
Non-cash income/expenses	924	829	696	676
Depreciation	646	645	561	550
Amortization	50	42	36	30
Other	228	142	99	96
Chg. in working capital	-139	-114	33	52
Chg. in AR & other receivables	-122	-157	-15	-22
Chg. in inventory	-34	-8	-7	-10
Chg. in AP & other payables	30	14	14	21
Income tax	-70	-62	-84	-99
Cash flow from investing activities	20	-402	-496	-504
Chg. in PP&E	-349	-260	-500	-500
Chg. in intangible assets	-5	-5	0	-5
Chg. in financial assets	194	-5	-6	-8
Other	180	-132	10	9
Cash flow from financing activities	-433	-514	-527	-883
Chg. in financial liabilities	352	34	14	-256
Chg. in equity	4	0	0	0
Dividends	-123	-49	-44	-44
Other	-666	-499	-497	-583
Chg. in cash	299	95	313	71
Beginning balance	91	390	486	799
Ending balance	390	486	799	870

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	1,366	1,826	2,171	2,287
Cash & equivalents	390	486	799	870
AR & other receivables	471	641	660	686
Inventory	227	234	240	251
Other current assets	278	465	472	480
Non-current assets	8,466	8,258	8,183	8,141
Investments in associates	630	649	668	697
PP&E	2,767	2,562	2,501	2,452
Intangible assets	255	230	194	169
Total assets	9,832	10,084	10,354	10,428
Current liabilities	2,174	2,321	2,374	2,180
AP & other payables	816	841	865	902
Short-term financial liabilities	830	937	951	695
Other current liabilities	528	543	558	583
Non-current liabilities	3,239	3,186	3,208	3,240
Long-term financial liabilities	2,528	2,455	2,455	2,455
Other non-current liabilities	711	731	753	785
Total liabilities	5,412	5,507	5,582	5,420
Equity attributable to owners	4,049	4,205	4,396	4,628
Capital stock	105	105	105	105
Capital surplus	1,209	1,209	1,209	1,209
Retained earnings	2,809	2,920	3,110	3,343
Minority interests	371	372	376	381
Shareholders' equity	4,420	4,577	4,772	5,009

Key valuation metrics/ratios

	2022	2023F	2024F	2025F
P/E (x)	72.9	16.9	11.2	9.5
P/CF (x)	3.0	2.7	2.8	2.8
P/B (x)	0.7	0.6	0.6	0.6
EV/EBITDA (x)	6.6	5.3	5.2	4.7
EPS (W)	386	1,485	2,248	2,645
CFPS (W)	9,275	9,452	8,935	9,143
BPS (W)	39,604	41,088	42,911	45,131
DPS (W)	430	430	430	430
Dividend payout ratio (%)	92.3	27.6	18.6	15.8
Dividend yield (%)	1.5	1.7	1.7	1.7
Revenue growth (%)	15.8	4.4	4.2	4.3
EBITDA growth (%)	4.4	11.9	-3.1	2.3
OP growth (%)	11.7	49.2	15.9	9.5
EPS growth (%)	-95.7	284.6	51.4	17.7
AR turnover (x)	40.9	28.3	24.2	24.4
Inventory turnover (x)	53.5	50.9	51.5	51.9
AP turnover (x)	18.8	18.6	18.9	19.0
ROA (%)	0.5	1.6	2.3	2.7
ROE (%)	1.0	3.8	5.5	6.1
ROIC (%)	2.8	5.3	6.3	7.1
Debt-to-equity ratio (%)	122.5	120.3	117.0	108.2
Current ratio (%)	62.8	78.7	91.4	104.9
Net debt-to-equity ratio (%)	65.1	55.7	47.1	38.3
Interest coverage ratio (x)	2.9	3.2	4.2	4.7

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282330 KS · Retail

BGF Retail

Poised to resume growth

(Initiate)

Buy

Target price
₩170,000

Upside
31.9%

Current price (11/27/23)
₩128,900

KOSPI	2,495.66	Market cap (Wbn)	2,228	Shares outstanding (mn)	17	Foreign ownership (%)	33.4
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Report summary

New store openings to increase, and existing stores' sales growth unlikely to worsen further

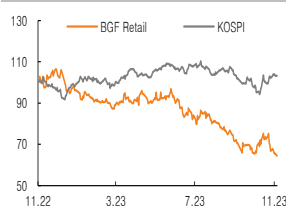
As SSS growth at existing stores slows, newly opened stores are making an increasing contribution to the overall growth of the convenience store segment. Convenience store names have lifted their store count targets recently, with BGF Retail announcing it is targeting an annual net increase of 900 stores (vs. 800 previously). Growth will likely be driven by new store openings for the time being, and we do not see SSS growth deteriorating further, as the factors that have weighed on earnings should dissipate.

Pullback looks excessive; valuation is attractive

As a pure convenience store play with strong defensive appeal, BGF Retail has fared better than other retail companies thanks to its impressive array of food items and affordably priced daily necessities. At a 12-month forward P/E of 10x, the stock is trading at a historically low valuation amid concerns over earnings deterioration. However, we expect earnings to turn around from 4Q23, easing concerns. We initiate our coverage on BGF Retail with a Buy rating and present it as our second-most preferred pick in retail.

Key data

Price performance



(%)	1M	6M	12M
Absolute	-7.0	-29.5	-37.3
Relative	-14.2	-27.7	-38.7

Earnings and valuation metrics

(Dec.)	2021	2022	2023F	2024F	2025F
Revenue (Wbn)	6,781	7,616	8,260	8,788	9,330
OP (Wbn)	199	252	260	277	296
OP margin (%)	2.9	3.3	3.1	3.2	3.2
NP (Wbn)	148	194	203	214	230
EPS (W)	8,542	11,198	11,737	12,386	13,313
ROE (%)	19.6	21.8	19.7	18.3	17.5
P/E (x)	17.0	18.8	11.0	10.4	9.7
P/B (x)	3.1	3.8	2.0	1.8	1.6
Dividend yield (%)	2.1	1.9	3.2	3.2	3.2

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

Investment points

As a pure convenience store play, BGF Retail has delivered relatively steady earnings growth. That said, operating profit contracted YoY in 1Q23 and 3Q23 due to a tough comparison (stemming from COVID test kit sales last year) and slower SSS growth. We expect earnings to regain momentum, as the factors that have weighed on earnings should gradually dissipate.

Despite weak SSS growth, new store openings have grown at a moderate (mid-single-digit) rate, contributing to overall convenience store growth (mid/high-single digits). Convenience store names have lifted their store count targets recently, with BGF Retail announcing it is targeting an annual net increase of 900 stores (vs. 800 previously).

We do not see SSS growth deteriorating further from the current level. Cumulative SSS growth in the convenience store sector cooled to around 1% in 3Q23 due to temporary headwinds, including a tough comparison (stemming from COVID-19 test kit sales last year) and hot weather. Nevertheless, as a pure convenience store play with strong defensive appeal, BGF Retail has fared better than other retail companies thanks to its impressive array of food items and affordably priced daily necessities.

Earnings forecasts and valuation

For 2024, we expect BGF Retail to report revenue of W8.79tr (+6% YoY) and operating profit of W276.6bn (+7% YoY). The number of stores will likely increase 5% YoY, fueling earnings growth. While margins are unlikely to improve meaningfully given increased fixed costs, revenue growth should help shore up bottom line.

At a 12-month forward P/E of 10x, the stock is trading at a historically low valuation amid concerns over earnings deterioration. However, given BGF Retail's defensive business nature, we believe the stock is oversold and expect earnings to turn around from 4Q23, easing concerns. We initiate our coverage on BGF Retail with a Buy rating and present it as our second-most preferred pick in retail.

Table 25. Annual earnings and forecasts

(Wbn)

	2020	2021	2022	2023F	2024F	2025F
Revenue	6,181	6,781	7,616	8,260	8,788	9,330
Convenience stores	6,168	6,762	7,578	8,200	8,709	9,235
Other	13	19	38	61	79	96
OP	162	199	252	260	277	296
Pretax profit	163	193	254	263	282	303
NP	123	148	194	203	214	230
OP margin (%)	2.6	2.9	3.3	3.1	3.1	3.2
Revenue growth (% YoY)	4.0	9.7	12.3	8.5	6.4	6.2
OP growth (% YoY)	-17.5	23.0	26.6	2.8	6.6	7.2
NP growth (% YoY)	-18.9	20.3	31.1	4.8	5.6	7.5

Source: Company data, Mirae Asset Securities Research

Table 26. Quarterly earnings and forecasts

(Wbn)

	1Q23	2Q23	3Q23	4Q23F	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Revenue	1,850	2,098	2,207	2,106	8,260	1,970	2,224	2,352	2,241	8,788
Convenience stores	1,838	2,082	2,187	2,092	8,200	1,956	2,203	2,327	2,223	8,709
Other	11	16	19	14	61	15	21	25	18	79
OP	37	78	87	57	260	39	81	95	61	277
Pretax profit	36	75	89	63	263	40	83	97	62	282
NP	28	60	70	46	203	31	63	73	47	214
OP margin (%)	2.0	3.7	3.9	2.7	3.1	2.0	3.7	4.0	2.7	3.1
Revenue growth (% YoY)	9.3	9.4	7.4	8.0	8.5	6.5	6.0	6.6	6.4	6.4
OP growth (% YoY)	-2.0	10.3	-5.0	9.9	2.8	5.2	4.2	9.5	6.1	6.6
NP growth (% YoY)	6.6	3.7	1.0	11.6	4.8	10.3	5.6	4.8	3.7	5.6

Source: Company data, Mirae Asset Securities Research

Table 27. Valuation table

(W)

		Notes
12MF EPS	12,387	
Target P/E (x)	14	Based on GS Retail's target P/E
Fair price	173,415	
Target price	170,000	
Current price	128,900	
Upside (%)	31.9	

Source: Mirae Asset Securities Research

Figure 72. 12-month forward P/E trend



Source: QuantiWise, Mirae Asset Securities Research

BGF Retail (282330 KS)

Income statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Revenue	7,616	8,260	8,788	9,330
Cost of revenue	6,230	6,742	7,173	7,613
GP	1,386	1,518	1,615	1,717
SG&A expenses	1,134	1,259	1,339	1,421
OP (adj.)	252	260	277	296
OP	252	260	277	296
Non-operating profit	2	3	5	7
Net financial income	-14	28	40	49
Net income from associates	-1	0	0	0
Pretax profit	254	263	282	303
Income tax	61	61	68	73
Profit from continuing operations	194	203	214	230
Profit from discontinued operations	0	0	0	0
NP	194	203	214	230
Attributable to owners	194	203	214	230
Attributable to minority interests	0	0	0	0
Total comprehensive income	205	203	214	230
Attributable to owners	205	203	214	230
Attributable to minority interests	0	0	0	0
EBITDA	673	711	724	709
FCF	408	465	270	327
EBITDA margin (%)	8.8	8.6	8.2	7.6
OP margin (%)	3.3	3.1	3.2	3.2
Net margin (%)	2.5	2.5	2.4	2.5

Balance sheet (summarized)

(Wbn)	2022	2023F	2024F	2025F
Current assets	890	1,203	1,445	1,719
Cash & equivalents	269	241	414	642
AR & other receivables	179	193	206	217
Inventory	125	175	210	223
Other current assets	317	594	615	637
Non-current assets	2,056	2,502	2,481	2,445
Investments in associates	7	8	8	9
PP&E	690	749	710	655
Intangible assets	38	32	29	27
Total assets	2,946	3,704	3,926	4,164
Current liabilities	1,102	1,654	1,730	1,806
AP & other payables	661	714	760	807
Short-term financial liabilities	306	795	815	835
Other current liabilities	135	145	155	164
Non-current liabilities	881	955	957	959
Long-term financial liabilities	847	918	918	918
Other non-current liabilities	34	37	39	41
Total liabilities	1,984	2,609	2,687	2,766
Equity attributable to owners	963	1,096	1,239	1,398
Capital stock	17	17	17	17
Capital surplus	322	322	322	322
Retained earnings	600	732	875	1,034
Minority interests	0	0	0	0
Shareholders' equity	963	1,096	1,239	1,398

Cash flow statement (summarized)

(Wbn)	2022	2023F	2024F	2025F
Operating cash flow	630	758	670	677
NP	194	203	214	230
Non-cash income/expenses	498	508	476	436
Depreciation	411	441	439	405
Amortization	10	10	9	8
Other	77	57	28	23
Chg. in working capital	-9	102	9	34
Chg. in AR & other receivables	-52	-139	-9	-9
Chg. in inventory	-16	-50	-35	-13
Chg. in AP & other payables	16	657	36	37
Income tax	-53	-73	-68	-73
Cash flow from investing activities	-98	-888	-710	-555
Chg. in PP&E	-222	-293	-400	-350
Chg. in intangible assets	-9	-3	-6	-6
Chg. in financial assets	195	-47	-41	-41
Other	-62	-545	-263	-158
Cash flow from financing activities	-318	101	-50	-51
Chg. in financial liabilities	119	-824	20	20
Chg. in equity	0	0	0	0
Dividends	-52	-71	-71	-71
Other	-385	996	1	0
Chg. in cash	214	-27	173	228
Beginning balance	54	269	241	414
Ending balance	269	241	414	642

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

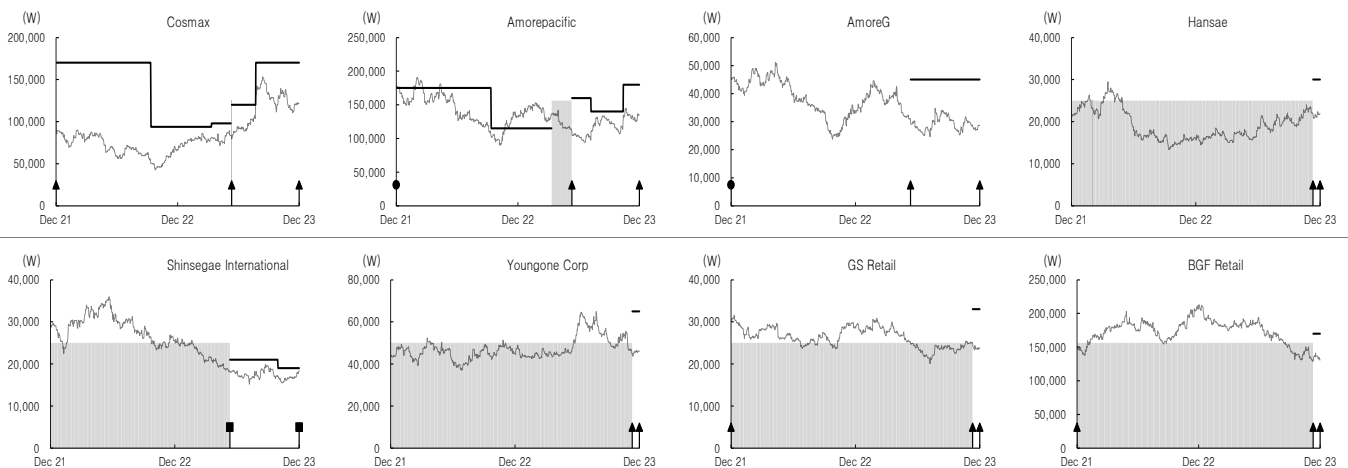
	2022	2023F	2024F	2025F
P/E (x)	18.8	11.0	10.4	9.7
P/CF (x)	5.3	3.1	3.2	3.3
P/B (x)	3.8	2.0	1.8	1.6
EV/EBITDA (x)	6.3	4.4	4.1	3.8
EPS (W)	11,198	11,737	12,386	13,313
CFPS (W)	40,012	41,150	39,899	38,563
BPS (W)	55,795	63,488	71,776	80,992
DPS (W)	4,100	4,100	4,100	4,100
Dividend payout ratio (%)	36.6	34.9	33.1	30.8
Dividend yield (%)	1.9	3.2	3.2	3.2
Revenue growth (%)	12.3	8.5	6.4	6.2
EBITDA growth (%)	15.7	5.6	1.8	-2.0
OP growth (%)	26.6	2.8	6.6	7.2
EPS growth (%)	31.1	4.8	5.5	7.5
AR turnover (x)	75.8	62.2	61.7	61.7
Inventory turnover (x)	65.3	55.1	45.7	43.2
AP turnover (x)	12.1	12.4	12.3	12.3
ROA (%)	7.0	6.1	5.6	5.7
ROE (%)	21.8	19.7	18.3	17.5
ROIC (%)	17.2	15.0	15.6	17.6
Debt-to-equity ratio (%)	206.1	238.1	216.9	197.8
Current ratio (%)	80.7	72.7	83.5	95.2
Net debt-to-equity ratio (%)	61.2	82.3	58.8	35.7
Interest coverage ratio (x)	8.9	0.0	0.0	0.0

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)	Company	Date	Rating	TP (W)
Cosmax (192820)	08/11/23	Buy	170,000	Hansae (105630)	05/15/20	One year	
	05/30/23	Buy	120,000		11/28/23	Buy	30,000
	05/29/23	No Coverage		Shinsegae International (031430)	10/18/23	Trading Buy	19,000
	03/31/23	Buy	98,000		05/30/23	Trading Buy	21,000
	09/30/22	Buy	94,000	Youngone Corp (111770)	11/28/23	Buy	65,000
	11/29/21	Buy	170,000		GS Retail (007070)	11/28/23	Buy
Amorepacific (090430)	11/01/23	Buy	180,000	06/03/21	No Coverage		
	07/27/23	Buy	140,000	BGF Retail (282330)	11/28/23	Buy	170,000
	05/30/23	Buy	160,000		06/03/21	No Coverage	
	03/31/23	No Coverage					
	09/30/22	Hold	115,000				
11/29/21	Hold	175,000					
AmoreG (002790)	05/30/23	Buy	45,000				



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	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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