

Mirae Asset Securities Co., Ltd.
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003490 KS · Airlines

Korean Air

Renewed focus on attractive valuation

(Maintain)

Buy

Target price
W30,000 ▼

Upside
33.6%

Current price (1/30/24)
W22,450

KOSPI	2,498.81	Market cap (Wbn)	8,267	Shares outstanding (mn)	368	Foreign ownership (%)	16.6
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Report summary

4Q23 review: Earnings miss consensus on bonus payments, despite strong passenger business

For 4Q23, Korean Air reported non-consolidated revenue of W3.98tr (+10% YoY), with strong passenger revenue (W2.46tr; +48% YoY) helping to offset weak cargo revenue (W1.1tr; -29% YoY). Meanwhile, non-consolidated operating profit was sluggish, at W183.6bn. Based on the non-consolidated figures, we estimate consolidated operating profit at W223.6bn, sharply missing the consensus (W411.4bn). Earnings were weighed down by higher-than-expected labor expenses.

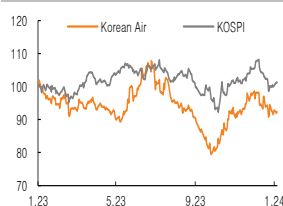
Lower TP to W30,000, but maintain Buy; passenger yield to remain strong and cargo yield to rebound

We lower our target price on Korean Air from W32,000 to W30,000 (P/B of 1.0x), as we revised down our earnings forecasts. However, we maintain our Buy rating. International passenger yield has remained strong at the start of 2024, and cargo yield is showing signs of a rebound. Looking ahead, e-commerce-driven growth in cargo volume and tighter supply amid delays in aircraft deliveries should be positive for the stock.

Recently, low-P/B stocks have attracted renewed attention. Given Korean Air's strong cash flow and solid ROE, we believe sentiment on the stock will improve going forward.

Key data

Price performance



(%)	1M	6M	12M
Absolute	-6.1	-8.6	-7.6
Relative	-0.2	-4.5	-9.4

Earnings and valuation metrics

(Dec.)	2021	2022	2023P	2024F	2025F
Revenue (Wbn)	9,017	14,096	16,088	18,162	19,004
OP (Wbn)	1,418	2,831	1,729	1,535	1,676
OP margin (%)	15.7	20.1	10.7	8.5	8.8
NP (Wbn)	578	1,728	975	843	1,035
EPS (W)	1,905	4,798	2,639	2,283	2,802
ROE (%)	11.6	22.0	10.4	8.2	9.1
P/E (x)	15.4	4.8	9.1	9.8	8.0
P/B (x)	1.5	0.9	0.9	0.8	0.7
Dividend yield (%)	0.0	3.3	3.1	3.3	3.3

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

4Q23 review: Earnings miss on weak cargo and higher labor expenses

For 4Q23, Korean Air reported non-consolidated revenue of W3.98tr (+10% YoY), with strong passenger revenue (W2.46tr; +48% YoY) helping to offset weak cargo revenue (W1.1tr; -29% YoY). Meanwhile, non-consolidated operating profit was sluggish, at W183.6bn. Based on the non-consolidated figures, we estimate consolidated operating profit at W223.6bn, sharply missing the consensus (W411.4bn).

Domestic passenger revenue slid 4.1% YoY due to limited capacity, but international passenger revenue jumped 52% YoY. Load factor improved to 84.9%, as passenger growth (+56% YoY) outpaced capacity growth (+47% YoY). Despite increased capacity, the fall in passenger yield was limited to 3% YoY. Meanwhile, cargo revenue slightly missed our estimate, as increased capacity (+4.6% YoY) led to steeper-than-expected declines in load factor (72.5%; -3.1%p YoY) and cargo yield (-29.1% YoY).

Operating profit declined due to a significant increase in costs. Fuel costs rose 12% YoY to W1.3tr, and labor expenses increased more than 20% YoY to W710bn on the recognition of incentives, wage hikes, and safety encouragement bonuses. If the increase in labor costs had been distributed evenly across all four quarters of 2023, we estimate operating profit would have come to W370bn (W410bn on a consolidated basis).

On the non-operating side, the company suffered losses of W494.9bn. FX translation gains decreased sharply (-W324.4bn), and interest expenses continued to grow. As a result, the company swung to a net loss (non-consolidated) of W234.6bn. On a consolidated basis, losses were likely smaller (losses from a US subsidiary excluded).

Table 1. Korean Air: 4Q23 review

(Wbn, %, %p)

	4Q22	3Q23	4Q23P			Growth	
			Preliminary	Mirae Asset Securities	Consensus	YoY	QoQ
Revenue	3,880	4,249	4,370	4,325	4,302	12.6	2.8
OP	516	543	224	460	411	-56.7	-58.8
OP margin (%)	13.3	12.8	5.1	10.6	9.6	-8.2	-7.7
Pretax profit	646	577	-29	549	380	TTR	TTR
NP	354	407	-20	386	289	TTR	TTR

Notes: Under consolidated K-IFRS; preliminary figures are our estimates based on non-consolidated results; NP is attributable to owners of the parent

Source: WISEfn, company data, Mirae Asset Securities Research

Table 2. Korean Air: Earnings forecast revisions

(Wbn, %)

	Previous		Revised		% chg.		Notes
	23F	24F	23F	24F	23F	24F	
Revenue	16,044	17,775	16,088	18,162	0.3	2.2	Reflected Jin Air earnings and weaker cargo L/F
OP	1,966	1,622	1,729	1,535	-12.0	-5.4	Reflected 4Q23 results and fuel cost hikes
Pretax profit	1,980	1,401	1,401	1,202	-29.2	-14.2	Reflected OP decline and financial losses
NP	1,381	982	975	843	-29.4	-14.2	
EPS (W)	3,739	2,660	2,639	2,283	-29.4	-14.2	

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

Source: Mirae Asset Securities Research estimates

Passenger yield to remain strong and cargo yield to rebound

While 4Q23 operating profit missed the consensus by a wide margin, we find it positive that strong international passenger demand limited the decline in yield. We expect earnings to regain momentum going forward, aided by a continued demand recovery for non-China routes and the ongoing strength of long-haul (especially trans-Pacific) routes. We also expect demand to remain strong on Southeast Asia and Japan routes.

To respond to soaring demand, Korean Air plans to introduce 16-17 aircraft (four to five mid-sized planes and 12-13 small planes). However, amid continued delays in Boeing's deliveries, capacity will likely grow at a slower pace than was initially expected. This should help slow the pace of profit declines in the cargo unit.

We also expect cargo yield to rebound. Although cargo yield has declined since the start of the year, we expect supply to tighten again as the global shipping crisis intensifies. Indeed, freight rates have rebounded in the last week of January. We are also encouraged by a notable increase in e-commerce volume; the contribution of e-commerce volume to cargo profits climbed from 4% 2019 to 13% in 2023 (through November). In our view, the rapidly growing e-commerce market should help ease seasonal fluctuations in the cargo business.

Table 3. Korean Air: Quarterly and annual earnings

(Wbn, %)

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23P	2022	2023P	2024F
Revenue	2,884	3,421	3,911	3,880	3,592	3,877	4,249	4,370	14,096	16,088	18,162
OP	773	740	801	516	486	477	543	223.6	2,831	1,729	1,535
Pretax profit	735	622	559	646	365	489	577	-29	2,562	1,401	1,202
NP	533	448	394	354	234	354	407	-20	1,728	975	843
OP margin (%)	26.8	21.6	20.5	13.3	13.5	12.3	12.8	5.1	20.1	10.7	8.5
Pretax margin (%)	25.5	18.2	14.3	16.7	10.2	12.6	13.6	-0.7	18.2	8.7	6.6
Net margin (%)	18.4	13.1	9.6	9.7	7.0	9.3	9.9	-0.5	12.3	6.1	4.6
Int'l passenger RPK growth (% YoY)	114.7	321.2	364.5	409.6	485.2	195.4	85.6	56.3	332.6	125.4	13.9
Int'l passenger L/F (%)	39.8	79.1	79.8	79.7	82.3	83.8	85.2	84.9	73.9	84.2	79.1
Int'l cargo RFTK growth (% YoY)	5.2	-6.0	-16.0	-21.1	-21.6	-18.7	-7.0	0.3	-10.0	-12.3	4.3
Int'l cargo L/F (%)	83.0	82.7	78.8	75.6	73.5	70.2	70.8	72.5	80.1	71.7	72.8

Notes: Under consolidated K-IFRS; preliminary 4Q23 figures are our estimates based on non-consolidated results; NP is attributable to owners of the parent

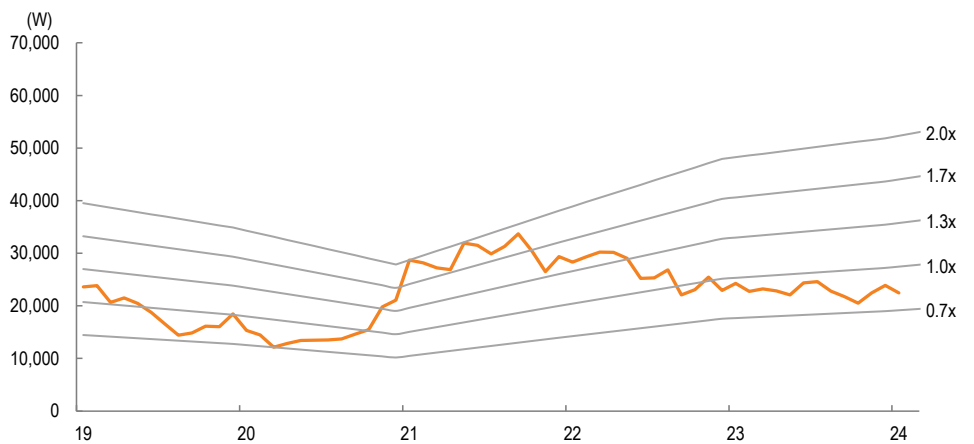
Source: Company data, Mirae Asset Securities Research

Lower TP to W30,000, but reiterate Buy

We lower our target price on Korean Air from W32,000 to W30,000, as we revised down our 2024 net profit forecast by 14%. Our target price translates to a 2024F P/B of 1.0x. We maintain our Buy rating, as our target price implies 34% upside potential. Shares have pulled back due to the decline in cargo yield at the start of the year. However, we expect the cargo business to rebound after January as shipping disruptions intensify.

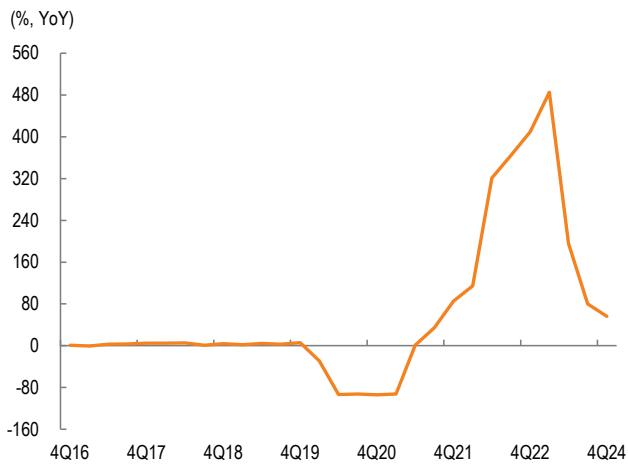
The stock is currently trading at a 2024F P/B of 0.75x. Despite deteriorating cargo market conditions, Korean Air is managing to maintain healthy cash flow generation, and its ROE is expected to remain close to 10%. With interest in low-P/B stocks growing, we believe sentiment on the stock will improve going forward.

Figure 1. Korean Air: P/B band chart



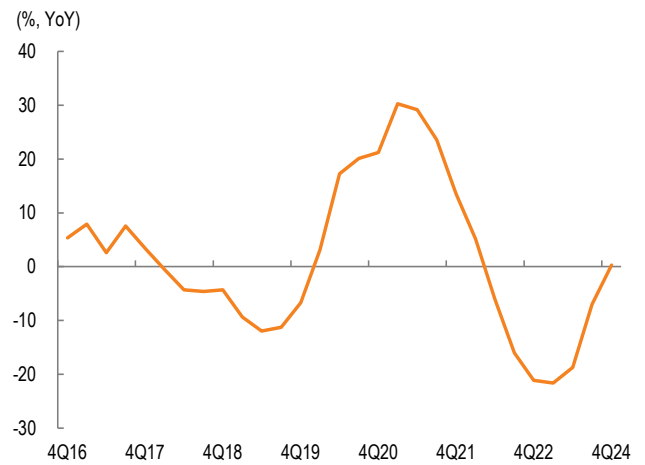
Source: QuantiWise, Mirae Asset Securities Research

Figure 2. Korean Air: International passenger traffic growth



Source: Company data, Mirae Asset Securities Research

Figure 3. Korean Air: Cargo traffic growth



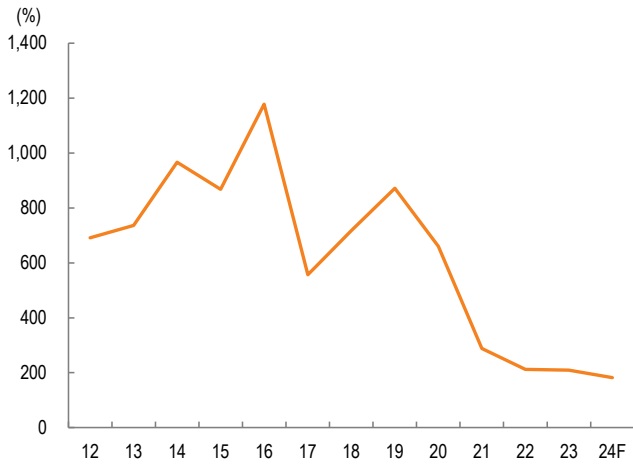
Source: Company data, Mirae Asset Securities Research

Table 4. Fleet overview

				(Units)
	Model	Korean Air	Asiana Airlines	Total
Medium/large aircraft	A380	10	6	16
	A330	27	15	42
	B7470400	-	-	-
	B747-8I	9	-	9
	B747	-	1	1
	B767	-	1	1
	A350	-	15	15
	B777	37	9	46
	B787-9	12	-	12
Small aircraft	A320/321	-	15	15
	A321neo	9	7	16
	B737-800/900	17	-	17
	A220 (CS300)	10	-	10
	B737-8	5	-	5
Passenger aircraft (total)		136	69	205
Cargo aircraft	B747F	4	10	14
	B767F	-	1	1
	A350F	-	-	-
	B747-8F	7	-	7
	B777F	12	-	12
	A330F	-	-	-
Cargo aircraft (total)		23	11	34
Total		159	80	239

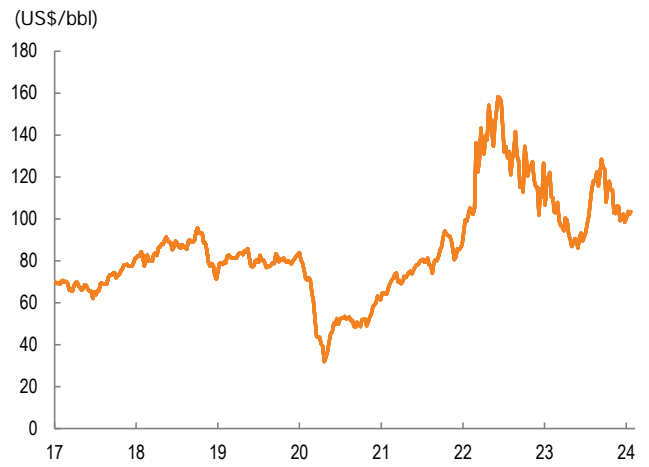
Note: Based on 4Q23 for Korean Air and 3Q23 for Asiana Airlines
 Source: Company data, Mirae Asset Securities Research

Figure 4. Korean Air: Debt ratio trend



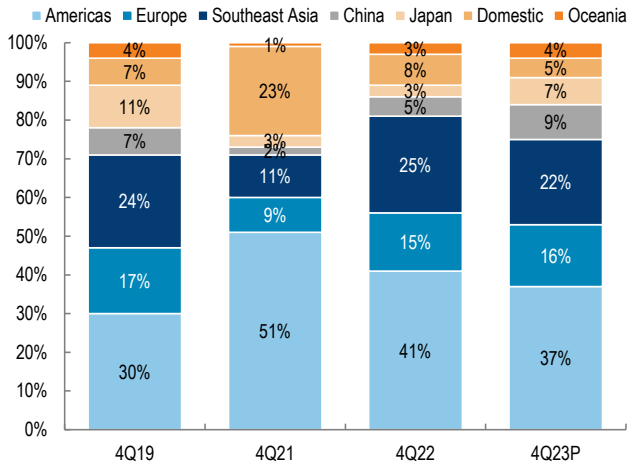
Source: Company data, Mirae Asset Securities Research

Figure 5. Jet fuel price trend



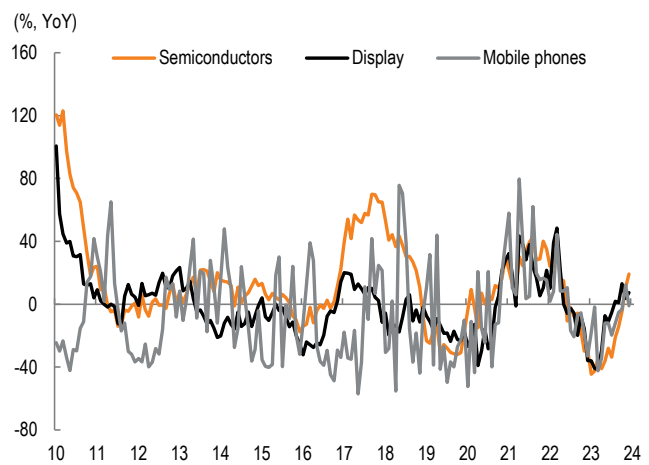
Source: Bloomberg, Mirae Asset Securities Research

Figure 6. Korean Air: Passenger revenue mix by route



Source: Company data, Mirae Asset Securities Research

Figure 7. IT product export growth



Source: MOTIE, Mirae Asset Securities Research

Korean Air (003490 KS)

Income statement (summarized)

(Wbn)	2022	2023	2024F	2025F
Revenue	14,096	16,088	18,162	19,004
Cost of revenue	10,245	12,982	15,290	15,914
GP	3,851	3,106	2,872	3,090
SG&A expenses	1,020	1,378	1,336	1,414
OP (adj.)	2,831	1,729	1,535	1,676
OP	2,831	1,729	1,535	1,676
Non-operating profit	-269	-328	-333	-201
Net financial income	-245	-229	-168	-86
Net income from associates	0	0	0	0
Pretax profit	2,562	1,401	1,202	1,475
Income tax	833	392	332	407
Profit from continuing operations	1,730	1,010	870	1,068
Profit from discontinued operations	0	0	0	0
NP	1,730	1,010	870	1,068
Attributable to owners	1,728	975	843	1,035
Attributable to minority interests	1	35	27	33
Total comprehensive income	2,286	999	870	1,068
Attributable to owners	2,269	966	844	1,036
Attributable to minority interests	17	33	26	32
EBITDA	4,480	3,430	3,227	3,525
FCF	4,811	1,511	2,473	2,174
EBITDA margin (%)	31.8	21.3	17.8	18.5
OP margin (%)	20.1	10.7	8.5	8.8
Net margin (%)	12.3	6.1	4.6	5.4

Cash flow statement (summarized)

(Wbn)	2022	2023	2024F	2025F
Operating cash flow	5,572	3,157	3,693	3,774
NP	1,730	1,010	870	1,068
Non-cash income/expenses	3,074	2,404	2,281	2,342
Depreciation	1,606	1,644	1,641	1,806
Amortization	44	56	50	43
Other	1,424	704	590	493
Chg. in working capital	1,019	384	549	378
Chg. in AR & other receivables	28	-33	-94	-64
Chg. in inventory	-124	-64	-71	-49
Chg. in AP & other payables	194	106	25	17
Income tax	-381	-929	-332	-407
Cash flow from investing activities	-2,976	-1,186	-1,819	-1,910
Chg. in PP&E	-725	-1,643	-1,220	-1,600
Chg. in intangible assets	-2	-8	0	0
Chg. in financial assets	-1,980	117	-509	-310
Other	-269	348	-90	0
Cash flow from financing activities	-2,698	-2,176	-596	-583
Chg. in financial liabilities	-1,371	-590	-284	-285
Chg. in equity	299	0	458	458
Dividends	-5	-281	-277	-277
Other	-1,621	-1,305	-493	-479
Chg. in cash	-128	-173	1,278	1,281
Beginning balance	1,185	1,057	884	2,162
Ending balance	1,057	884	2,162	3,444

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

(Wbn)	2022	2023	2024F	2025F
Current assets	8,091	8,028	9,990	11,701
Cash & equivalents	1,057	884	2,162	3,444
AR & other receivables	1,024	1,154	1,254	1,323
Inventory	730	822	894	943
Other current assets	5,280	5,168	5,680	5,991
Non-current assets	20,907	21,220	20,773	20,542
Investments in associates	0	0	0	0
PP&E	17,079	17,552	17,130	16,925
Intangible assets	874	826	776	733
Total assets	28,998	29,247	30,763	32,243
Current liabilities	8,475	8,854	9,298	9,603
AP & other payables	343	387	420	443
Short-term financial liabilities	3,662	3,753	3,753	3,753
Other current liabilities	4,470	4,714	5,125	5,407
Non-current liabilities	11,230	10,332	10,354	10,279
Long-term financial liabilities	7,483	6,803	6,518	6,233
Other non-current liabilities	3,747	3,529	3,836	4,046
Total liabilities	19,705	19,187	19,651	19,882
Equity attributable to owners	8,994	9,732	10,756	11,971
Capital stock	1,847	1,847	1,957	2,067
Capital surplus	4,146	4,146	4,493	4,841
Retained earnings	2,054	2,744	3,310	4,068
Minority interests	298	329	356	390
Shareholders' equity	9,292	10,061	11,112	12,361

Key valuation metrics/ratios

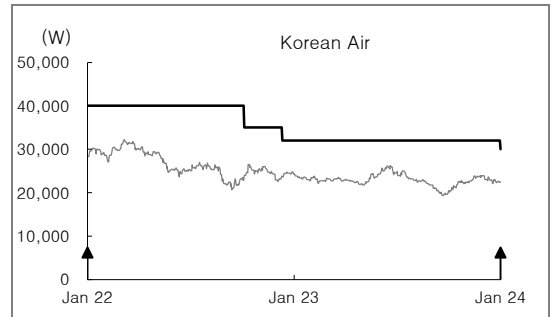
	2022	2023	2024F	2025F
P/E (x)	4.8	9.1	9.8	8.0
P/CF (x)	1.7	2.6	2.6	2.4
P/B (x)	0.9	0.9	0.8	0.7
EV/EBITDA (x)	3.1	4.1	3.5	2.7
EPS (W)	4,798	2,639	2,283	2,802
CFPS (W)	13,336	9,243	8,534	9,234
BPS (W)	24,353	26,349	29,121	32,413
DPS (W)	750	750	750	750
Dividend payout ratio (%)	16.0	27.3	31.7	25.8
Dividend yield (%)	3.3	3.1	3.3	3.3
Revenue growth (%)	56.3	14.1	12.9	4.6
EBITDA growth (%)	43.9	-23.4	-5.9	9.3
OP growth (%)	99.6	-38.9	-11.2	9.2
EPS growth (%)	151.9	-45.0	-13.5	22.8
AR turnover (x)	14.7	15.8	16.1	15.8
Inventory turnover (x)	21.2	20.7	21.2	20.7
AP turnover (x)	51.9	47.8	51.0	49.6
ROA (%)	6.2	3.5	2.9	3.4
ROE (%)	22.0	10.4	8.2	9.1
ROIC (%)	11.2	7.8	6.8	7.6
Debt-to-equity ratio (%)	212.1	190.7	176.9	160.8
Current ratio (%)	95.5	90.7	107.4	121.9
Net debt-to-equity ratio (%)	54.9	48.1	25.1	7.5
Interest coverage ratio (x)	7.1	3.3	3.1	3.5

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Korean Air (003490)	01/31/24	Buy	30,000
	01/10/24	One year	32,000
	01/10/23	Buy	32,000
	11/04/22	Buy	35,000
	06/24/22	One year	40,000
	06/24/21	Buy	40,000



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	88.55%	6.63%	4.22%	0.6%
Investment banking services	84.62%	15.38%	0%	0%

* Based on recommendations in the last 12-months (as of December 31, 2023)

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