

Mirae Asset Securities Co., Ltd.
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036460 KS · Utilities

KOGAS

Lingering uncertainty over receivables and dividends

(Downgrade)

Hold

Target price

W27,000

Downside

-8.9%

Current price (2/27/24)

W29,650

| | | | | | | | |
|-------|----------|------------------|-------|-------------------------|----|-----------------------|-----|
| KOSPI | 2,625.05 | Market cap (Wbn) | 2,737 | Shares outstanding (mn) | 92 | Foreign ownership (%) | 6.1 |
|-------|----------|------------------|-------|-------------------------|----|-----------------------|-----|

Report summary

4Q23 review: Massive impairment losses result in net loss

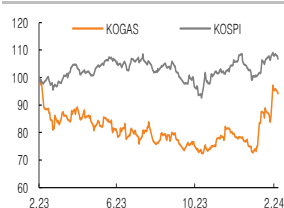
For 4Q23, KOGAS posted revenue of W10.61tr (-41.6% YoY). Sales volume decreased amid an economic slowdown and sluggishness in LNG-powered electricity generation. Meanwhile, operating profit fell 52.6% YoY to W529.7bn, affected by a tough comparison (resulting from working capital adjustments in 4Q22; roughly W400bn) and wholesale cost settlement (W62bn). At the net level, the company recognized impairment losses of W827.1bn (W434.4bn overseas and W392.7bn domestically), leading to a net loss of W660bn.

Maintain TP of W27,000, but downgrade to Hold

We maintain our target price of W27,000 on KOGAS but downgrade our rating to Hold (from Trading Buy). Our target price corresponds to a 2024F P/B of 0.23x. The stock is currently trading at a P/B of 0.2x, close to its historical low. However, due to excessive borrowing, its EV/EBITDA is higher than the global peer average (9x). Before taking a buy-on-weakness approach, we advise waiting until the company improves its financial structure, thus easing uncertainty over the resumption of dividends.

Key data

Price performance



| (%) | 1M | 6M | 12M |
|----------|------|------|------|
| Absolute | 25.6 | 23.3 | 3.3 |
| Relative | 18.6 | 18.3 | -5.4 |

Earnings and valuation metrics

| (Dec.) | 2021 | 2022 | 2023P | 2024F | 2025F |
|--------------------|--------|--------|--------|--------|--------|
| Revenue (Wbn) | 27,521 | 51,724 | 44,556 | 38,197 | 36,558 |
| OP (Wbn) | 1,240 | 2,463 | 1,553 | 2,313 | 2,383 |
| OP margin (%) | 4.5 | 4.8 | 3.5 | 6.1 | 6.5 |
| NP (Wbn) | 951 | 1,493 | -750 | 796 | 864 |
| EPS (W) | 10,299 | 16,174 | -8,121 | 8,625 | 9,359 |
| ROE (%) | 11.6 | 15.7 | -7.5 | 7.9 | 8.0 |
| P/E (x) | 3.8 | 2.2 | - | 3.4 | 3.2 |
| P/B (x) | 0.4 | 0.3 | 0.2 | 0.3 | 0.2 |
| Dividend yield (%) | 7.0 | 0.0 | 0.0 | 8.4 | 8.4 |

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

4Q23 review: Increasing receivables lead to massive impairment losses

For 4Q23, KOGAS posted revenue of W10.61tr (-41.6% YoY). Due to decreased fuel costs, we estimate selling prices dropped over 20% YoY for city gas and nearly 40% YoY for power generation.

Sales volume also decreased (-2.4% YoY for city gas and -24.6% YoY for power generation) amid an economic slowdown and sluggishness in LNG-powered electricity generation. In particular, sales volume for power generation (-38% YoY for KEPCO and -16% YoY for independent generators) contracted at a much faster pace than in 3Q23, likely due to increased nuclear power plant utilization and overall weakness in power demand.

Meanwhile, operating profit came in at W529.7bn, above the consensus (W387.3bn) but down 52.6% YoY. We attribute the significant YoY decline to a tough comparison (resulting from working capital adjustments in 4Q22; roughly W400bn) and wholesale cost settlement (W62bn).

At the net level, the firm reported a loss of W660bn due to continued interest expense pressures and impairment losses totaling W827.1bn (W434.4bn overseas and W392.7bn domestically). Overseas, impairment losses amounted to W199.4bn for the Jubail project (reduction in reserve estimate), W163.6bn for the Mozambique Area 4 project (force majeure), and W69.6bn for the Prelude project (falling oil prices). Domestically, the firm recognized impairment losses of W324.6bn for the KC-1 project and W68bn for hydrogen projects.

Table 1. Earnings forecast revisions

(Wbn, %)

| | Previous | | Revised | | % chg. | | Notes |
|---------------|----------|--------|---------|--------|--------|-------|--|
| | 23F | 24F | 23P | 24F | 23P | 24F | |
| Revenue | 53,934 | 48,768 | 44,556 | 38,197 | -17.4 | -21.7 | Reflected sales volume and prices |
| OP | 1,750 | 2,155 | 1,553 | 2,313 | -11.2 | 7.3 | One-off losses, rate of return, and receivables interest |
| Pretax profit | 375 | 1,054 | -848 | 1,081 | TTR | 2.5 | Equity-method gains/losses and other profit/loss |
| NP | 261 | 729 | -750 | 796 | TTR | 9.2 | |
| EPS (W) | 2,831 | 7,895 | -8,121 | 8,625 | TTR | 9.2 | |

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

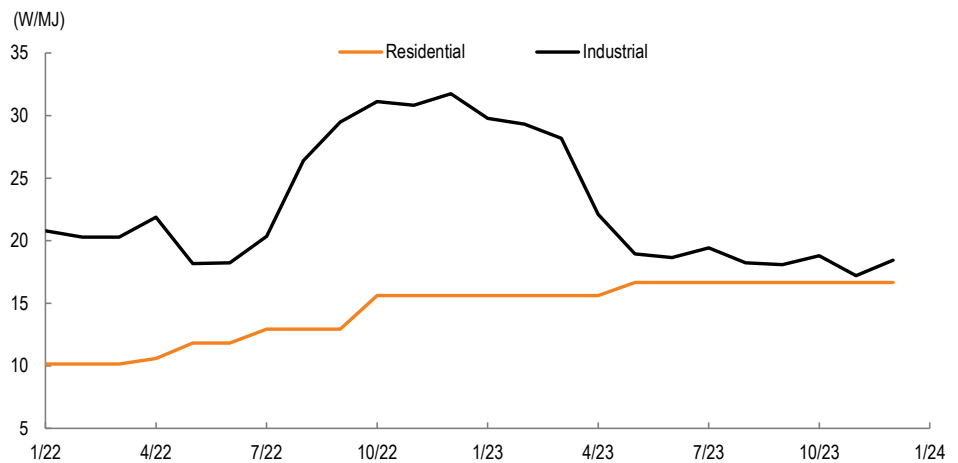
Source: Mirae Asset Securities Research estimates

Profit growth in 2024 to hinge on collection of receivables

Overall receivables continued to rise in 4Q23. Receivables amounted to W13tr for residential gas (+W490.8bn QoQ) and W2tr for power generation (-W341.8bn QoQ). With the firm reflecting financial losses of W1.6tr as well as supply costs and wholesale cost settlement, cumulative net loss (parent) widened QoQ to W881.2bn (from -374.2bn in 3Q23). As a result, KOGAS decided against paying a year-end dividend.

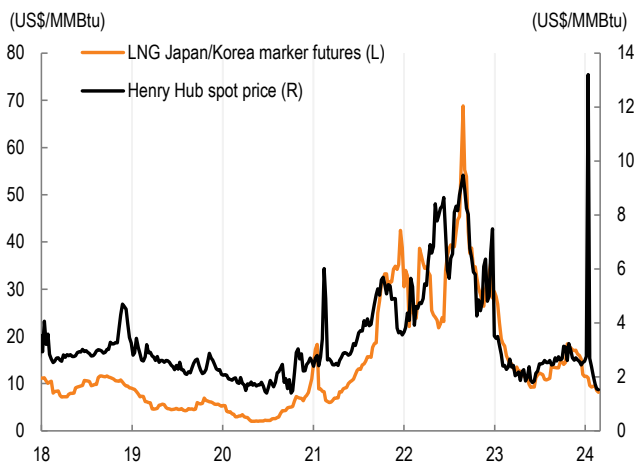
For 2024, we see the potential for expansion in guaranteed returns amid a rising guaranteed return rate. We expect 2024 operating profit to be in the mid-W2tr range, reflecting a likely increase in interest expenses arising from receivables growth. On a parent basis, we expect the firm to post net profit of roughly W600-700bn and pay an annual dividend per share of nearly W2,500. That said, if the receivables collection process does not go as planned, a continued deterioration in financials could hamper dividend payout.

Figure 1. City gas raw material cost trends



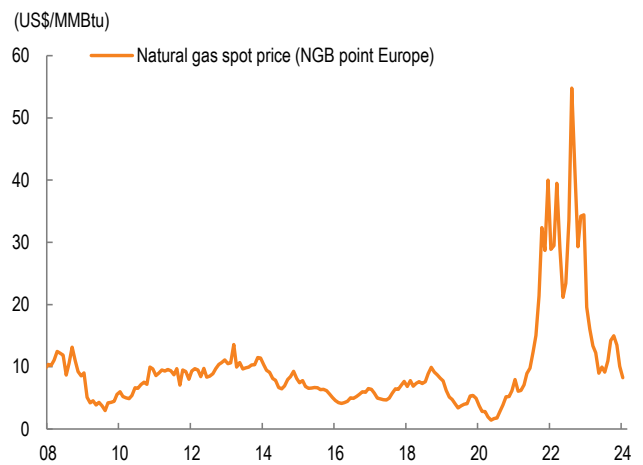
Source: Company data, Mirae Asset Securities Research

Figure 2. Henry Hub vs. Asia LNG prices



Source: Bloomberg, Mirae Asset Securities Research

Figure 3. Natural gas spot price in Europe



Note: Based on monthly data

Source: Clarksons, Mirae Asset Securities Research

Maintain TP of W27,000, but downgrade to Hold

We maintain our target price of W27,000 (-8.9% vs. Feb. 27 closing price of W29,650) on KOGAS but downgrade our rating to Hold (from Trading Buy). Our target price corresponds to a 2024F P/B of 0.23x and P/E of 3x.

The stock is currently trading at a P/B of 0.2x, close to its historical low. However, due to excessive borrowing, its EV/EBITDA is higher than the global peer average (9x). As such, before taking an aggressive buy-on-weakness approach, we recommend waiting until the company improves its financial structure by reducing its receivables (via a receivables settlement price hike in 2H24). Only then will the company be in a position to enhance shareholder value by resuming dividends.

Table 2. Quarterly and annual earnings

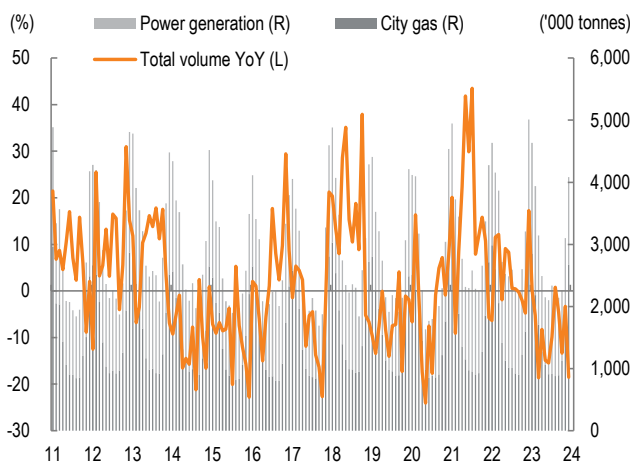
(Wbn, %)

| | 1Q23 | 2Q23 | 3Q23 | 4Q23P | 1Q24F | 2Q24F | 3Q24F | 4Q24F | 2023P | 2024F | 2025F |
|-----------------------------|--------|-------|-------|--------|--------|-------|-------|--------|--------|--------|--------|
| Revenue | 17,930 | 8,128 | 7,889 | 10,609 | 12,370 | 7,546 | 7,832 | 10,449 | 44,556 | 38,197 | 36,558 |
| OP | 588 | 205 | 230 | 530 | 782 | 351 | 427 | 753 | 1,553 | 2,313 | 2,383 |
| Gas sales | 391 | 91 | 213 | 432 | 690 | 258 | 337 | 656 | 1,126 | 1,941 | 2,013 |
| E&P | 198 | 115 | 18 | 98 | 92 | 92 | 90 | 97 | 427 | 372 | 370 |
| Pretax profit | 237 | -117 | -207 | -761 | 447 | 44 | 125 | 465 | -848 | 1,081 | 1,156 |
| NP | 133 | -68 | -167 | -648 | 313 | 32 | 96 | 355 | -750 | 796 | 864 |
| OP margin (%) | 3.3 | 2.5 | 2.9 | 5.0 | 6.3 | 4.6 | 5.5 | 7.2 | 3.5 | 6.1 | 6.5 |
| Pretax margin (%) | 1.3 | -1.4 | -2.6 | -7.2 | 3.6 | 0.6 | 1.6 | 4.5 | -1.9 | 2.8 | 3.2 |
| Net margin (%) | 0.8 | -0.8 | -2.1 | -6.1 | 2.5 | 0.4 | 1.2 | 3.4 | -1.7 | 2.1 | 2.4 |
| Gas volume growth (%) | -7.9 | -12.7 | -5.6 | -12.7 | -7.5 | -4.8 | -1.5 | -2.1 | -9.8 | -4.4 | -4.6 |
| USD/KRW | 1,275 | 1,314 | 1,315 | 1,319 | 1,320 | 1,320 | 1,320 | 1,320 | 1,306 | 1,320 | 1,320 |
| Selling price (W'000/tonne) | 1,492 | 1,105 | 1,083 | 1,056 | 1,059 | 991 | 993 | 1,010 | 1,218 | 1,019 | 1,014 |

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

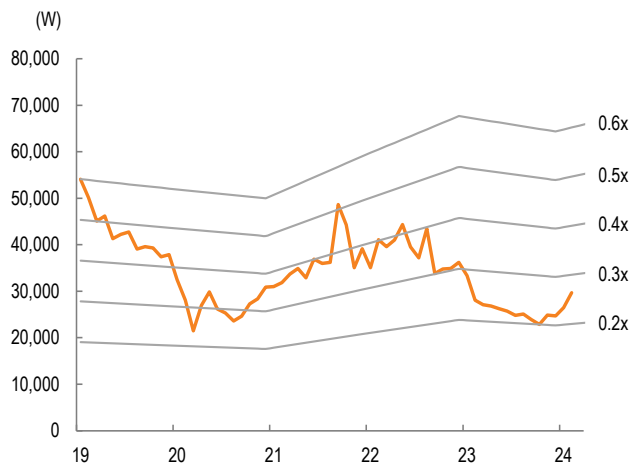
Source: Company data, Mirae Asset Securities Research estimates

Figure 4. Gas sales trends



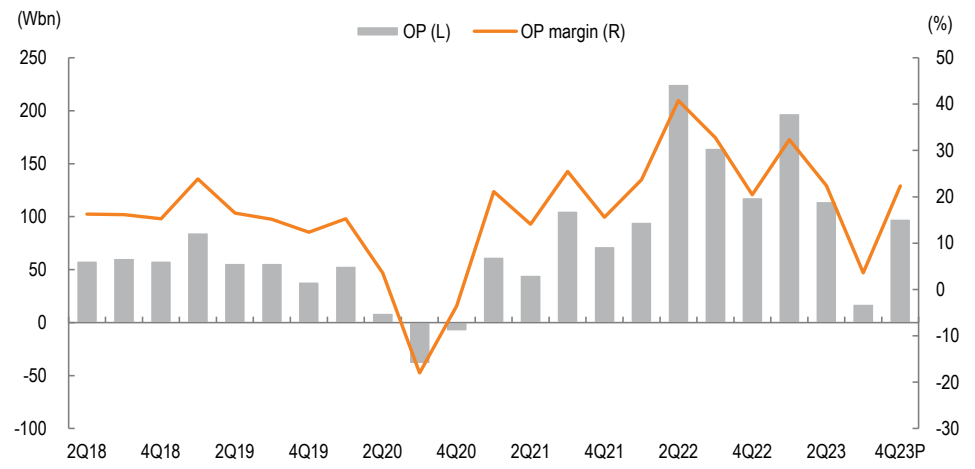
Source: Company data, Mirae Asset Securities Research

Figure 5. P/B band chart



Source: QuantiWise, Mirae Asset Securities Research

Figure 6. Five major overseas E&P projects: OP and OP margin



Source: Company data, Mirae Asset Securities Research

KOGAS (036460 KS)

Income statement (summarized)

| (Wbn) | 2022 | 2023P | 2024F | 2025F |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Revenue | 51,724 | 44,556 | 38,197 | 36,558 |
| Cost of revenue | 48,828 | 42,599 | 35,382 | 33,691 |
| GP | 2,896 | 1,957 | 2,815 | 2,867 |
| SG&A expenses | 433 | 404 | 503 | 484 |
| OP (adj.) | 2,463 | 1,553 | 2,313 | 2,383 |
| OP | 2,463 | 1,553 | 2,313 | 2,383 |
| Non-operating profit | -518 | -2,401 | -1,232 | -1,227 |
| Net financial income | -894 | -1,505 | -1,315 | -1,267 |
| Net income from associates | 354 | 95 | 120 | 120 |
| Pretax profit | 1,945 | -848 | 1,081 | 1,156 |
| Income tax | 448 | -112 | 288 | 296 |
| Profit from continuing operations | 1,497 | -736 | 793 | 860 |
| Profit from discontinued operations | 0 | 0 | 0 | 0 |
| NP | 1,497 | -736 | 793 | 860 |
| Attributable to owners | 1,493 | -750 | 796 | 864 |
| Attributable to minority interests | 4 | 14 | -3 | -4 |
| Total comprehensive income | 1,572 | -560 | 793 | 860 |
| Attributable to owners | 1,559 | -619 | 841 | 913 |
| Attributable to minority interests | 13 | 59 | -48 | -52 |
| EBITDA | 4,215 | 3,433 | 4,177 | 4,221 |
| FCF | -15,759 | 5,134 | 1,124 | 1,338 |
| EBITDA margin (%) | 8.1 | 7.7 | 10.9 | 11.5 |
| OP margin (%) | 4.8 | 3.5 | 6.1 | 6.5 |
| Net margin (%) | 2.9 | -1.7 | 2.1 | 2.4 |

Cash flow statement (summarized)

| (Wbn) | 2022 | 2023P | 2024F | 2025F |
|--|----------------|---------------|---------------|---------------|
| Operating cash flow | -14,581 | 6,492 | 2,724 | 2,938 |
| NP | 1,497 | -736 | 793 | 860 |
| Non-cash income/expenses | 3,369 | 4,243 | 3,338 | 3,234 |
| Depreciation | 1,751 | 1,880 | 1,864 | 1,838 |
| Amortization | 0 | 0 | 0 | 0 |
| Other | 1,618 | 2,363 | 1,474 | 1,396 |
| Chg. in working capital | -18,687 | 4,385 | 145 | 354 |
| Chg. in AR & other receivables | -4,608 | 4,712 | 100 | 244 |
| Chg. in inventory | -4,060 | 3,224 | 67 | 164 |
| Chg. in AP & other payables | -136 | -789 | -28 | -70 |
| Income tax | 0 | 73 | -288 | -296 |
| Cash flow from investing activities | -974 | -842 | -2,029 | -1,981 |
| Chg. in PP&E | -1,177 | -1,357 | -1,600 | -1,600 |
| Chg. in intangible assets | -23 | -133 | -400 | -400 |
| Chg. in financial assets | -76 | 362 | 8 | 19 |
| Other | 302 | 286 | -37 | 0 |
| Cash flow from financing activities | 15,802 | -4,664 | -615 | -1,244 |
| Chg. in financial liabilities | 17,323 | -4,328 | -610 | -1,024 |
| Chg. in equity | 0 | 0 | 0 | 0 |
| Dividends | -240 | -8 | 0 | -215 |
| Other | -1,281 | -328 | -5 | -5 |
| Chg. in cash | 249 | 531 | 394 | 4 |
| Beginning balance | 565 | 813 | 1,344 | 1,739 |
| Ending balance | 813 | 1,344 | 1,739 | 1,743 |

Source: Company data, Mirae Asset Securities Research estimates

Balance sheet (summarized)

| (Wbn) | 2022 | 2023P | 2024F | 2025F |
|--------------------------------------|---------------|---------------|---------------|---------------|
| Current assets | 25,092 | 15,531 | 15,711 | 15,192 |
| Cash & equivalents | 813 | 1,344 | 1,739 | 1,743 |
| AR & other receivables | 12,116 | 7,079 | 6,973 | 6,712 |
| Inventory | 7,623 | 4,454 | 4,387 | 4,222 |
| Other current assets | 4,540 | 2,654 | 2,612 | 2,515 |
| Non-current assets | 37,333 | 40,185 | 40,120 | 40,094 |
| Investments in associates | 1,904 | 1,685 | 1,490 | 1,318 |
| PP&E | 23,294 | 23,273 | 23,009 | 22,771 |
| Intangible assets | 1,706 | 1,847 | 2,247 | 2,647 |
| Total assets | 62,425 | 55,715 | 55,830 | 55,286 |
| Current liabilities | 30,635 | 22,334 | 21,677 | 20,539 |
| AP & other payables | 3,005 | 2,536 | 2,498 | 2,405 |
| Short-term financial liabilities | 26,692 | 19,250 | 18,640 | 17,615 |
| Other current liabilities | 938 | 548 | 539 | 519 |
| Non-current liabilities | 21,380 | 23,492 | 23,471 | 23,419 |
| Long-term financial liabilities | 18,971 | 22,084 | 22,084 | 22,084 |
| Other non-current liabilities | 2,409 | 1,408 | 1,387 | 1,335 |
| Total liabilities | 52,014 | 45,826 | 45,148 | 43,958 |
| Equity attributable to owners | 10,187 | 9,680 | 10,476 | 11,125 |
| Capital stock | 462 | 462 | 462 | 462 |
| Capital surplus | 2,018 | 2,018 | 2,018 | 2,018 |
| Retained earnings | 7,476 | 6,723 | 7,519 | 8,168 |
| Minority interests | 224 | 209 | 206 | 203 |
| Shareholders' equity | 10,411 | 9,889 | 10,682 | 11,328 |

Key valuation metrics/ratios

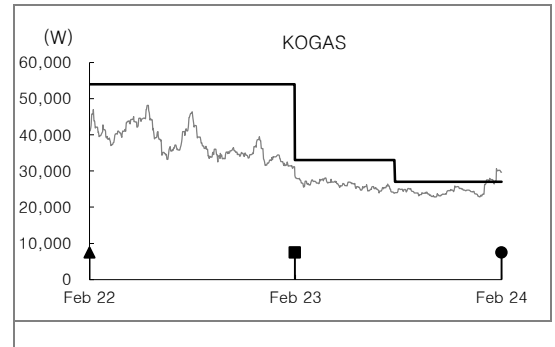
| | 2022 | 2023P | 2024F | 2025F |
|------------------------------|---------|---------|---------|---------|
| P/E (x) | 2.2 | - | 3.4 | 3.2 |
| P/CF (x) | 0.7 | 0.7 | 0.7 | 0.7 |
| P/B (x) | 0.3 | 0.2 | 0.3 | 0.2 |
| EV/EBITDA (x) | 11.5 | 12.3 | 10.0 | 9.7 |
| EPS (W) | 16,174 | -8,121 | 8,625 | 9,359 |
| CFPS (W) | 52,709 | 37,989 | 44,750 | 44,358 |
| BPS (W) | 112,005 | 106,513 | 115,137 | 122,172 |
| DPS (W) | 0 | 0 | 2,500 | 2,500 |
| Dividend payout ratio (%) | 0.0 | 0.0 | 27.1 | 24.9 |
| Dividend yield (%) | 0.0 | 0.0 | 8.4 | 8.4 |
| Revenue growth (%) | 87.9 | -13.9 | -14.3 | -4.3 |
| EBITDA growth (%) | 42.3 | -18.5 | 21.7 | 1.0 |
| OP growth (%) | 98.7 | -36.9 | 48.9 | 3.0 |
| EPS growth (%) | 57.0 | - | - | 8.5 |
| AR turnover (x) | 5.8 | 5.0 | 5.8 | 5.7 |
| Inventory turnover (x) | 9.2 | 7.4 | 8.6 | 8.5 |
| AP turnover (x) | 17.8 | 18.6 | 18.9 | 18.5 |
| ROA (%) | 2.8 | -1.2 | 1.4 | 1.5 |
| ROE (%) | 15.7 | -7.5 | 7.9 | 8.0 |
| ROIC (%) | 4.2 | 0.8 | 3.5 | 3.6 |
| Debt-to-equity ratio (%) | 499.6 | 463.4 | 422.6 | 388.0 |
| Current ratio (%) | 81.9 | 69.5 | 72.5 | 74.0 |
| Net debt-to-equity ratio (%) | 429.4 | 403.5 | 364.1 | 334.3 |
| Interest coverage ratio (x) | 2.6 | 1.0 | 1.7 | 1.8 |

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

| Company | Date | Rating | TP (₩) |
|----------------|----------|-------------|--------|
| KOGAS (036460) | 02/28/24 | Hold | 27,000 |
| | 08/23/23 | Trading Buy | 27,000 |
| | 02/27/23 | Trading Buy | 33,000 |
| | 11/09/22 | One year | 54,000 |
| | 11/09/21 | Buy | 54,000 |



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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