

Mirae Asset Securities Co., Ltd.

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108670 KS · Building Materials

LX Hausys

Profits and dividends to stay elevated

(Maintain)

Buy

Target price

W56,000

Upside

36.1%

Current price (2/28/24)

W41,150

KOSPI	2,652.29	Market cap (Wbn)	369	Shares outstanding (mn)	9	Foreign ownership (%)	16.4
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Report summary

2023 review: Operating profit grows sharply

In 2023, LX Hausys saw a 635% YoY surge in operating profit, driven by: 1) cost structure/efficiency improvements in auto films; 2) lower raw material (e.g., PVC) prices and mix improvements in building materials; and 3) reduced logistics costs.

2024 outlook: Rise in building material exports and stronger B2C marketing initiatives

In 2024, we forecast operating profit to remain elevated at above W100bn. In terms of business strategy, we believe the company will focus on: 1) expanding exports of building materials (e.g., flooring materials); and 2) strengthening B2C marketing initiatives.

Maintain Buy and TP of W56,000

We expect profits and dividends to stay elevated in 2024. We maintain our Buy rating, as the stock looks undervalued. Clearer signs of a market recovery should emerge in 2H24 (interest rate cuts, positive apartment presales/transaction data, etc.).

Key data

Price performance



(%)	1M	6M	12M
Absolute	7.6	-19.0	15.1
Relative	0.5	-22.3	4.7

Earnings and valuation metrics

(Dec.)	2021	2022	2023	2024F	2025F
Revenue (Wbn)	3,460	3,611	3,526	3,478	3,501
OP (Wbn)	70	15	110	110	114
OP margin (%)	2.0	0.4	3.1	3.2	3.3
NP (Wbn)	13	-117	62	57	63
EPS (W)	1,309	-11,710	6,179	5,738	6,285
ROE (%)	1.5	-14.2	7.7	6.6	6.6
P/E (x)	47.0	-	7.1	7.2	6.5
P/B (x)	0.7	0.4	0.5	0.5	0.4
Dividend yield (%)	0.5	0.6	3.9	4.1	4.1

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

2023 review: Operating profit grows sharply

For 2023, LX Hausys reported consolidated revenue of W3.53tr (-2.4% YoY) and operating profit of W109.8bn (+635% YoY). We believe the surge in operating profit was mainly driven by a turnaround in the auto films segment resulting from cost structure/efficiency improvements (labor, production, etc.). Last year, the auto/industrial films division achieved its first operating profit since 2017. While the division had previously focused on lightweight automotive parts, cost pressures eased significantly following the sale of the c2i stake in 2022. Additionally, the company saw a significant YoY improvement in building materials operating profit, aided by lower logistics and raw material (e.g., PVC) costs and an improved product mix.

Look for rise in building material exports and stronger B2C marketing

We expect LX Hausys to maintain elevated earnings in 2024, with revenue of W3.48tr (-1.4% YoY) and operating profit of W109.7bn (-0.1% YoY). While B2B sales of building materials (e.g., windows and doors) should slow, given the sharp contraction in housing presales in 2023, the impact should be mitigated by a higher earnings contribution from premium products such as PF insulation materials and engineered stone (US). The auto/industrial films division will likely remain profitable, supported by improved cost efficiency and a recovery in home appliance films.

In terms of business strategy, we believe the company will focus on: 1) diversifying overseas sales channels and expanding exports of building materials (e.g., flooring materials); and 2) strengthening B2C marketing initiatives.

Maintain Buy and TP of W56,000

We maintain our Buy rating and target price of W56,000 on LX Hausys (target P/B of 0.6x). Clearer signs of a market recovery should emerge in 2H24 (interest rate cuts, positive apartment presales/transaction data, etc.). We expect profits to remain elevated in 2024 following the sharp improvement seen last year. We retain our Buy rating, as the stock looks undervalued (P/B of 0.49x; 12-month forward P/E of 7.2x).

During its Jan. 31 earnings call, the company announced a dividend per share of W1,700 (common shares; dividend yield of 4.1% based on the Feb. 28 closing price). Notably, the firm, which became a part of LX Group in 2021, saw its 2023 dividend payout reach the average level in 2012-17 (24.6%), when it was under the LG Group umbrella. We expect the firm's profits and dividends to remain at elevated levels going forward.

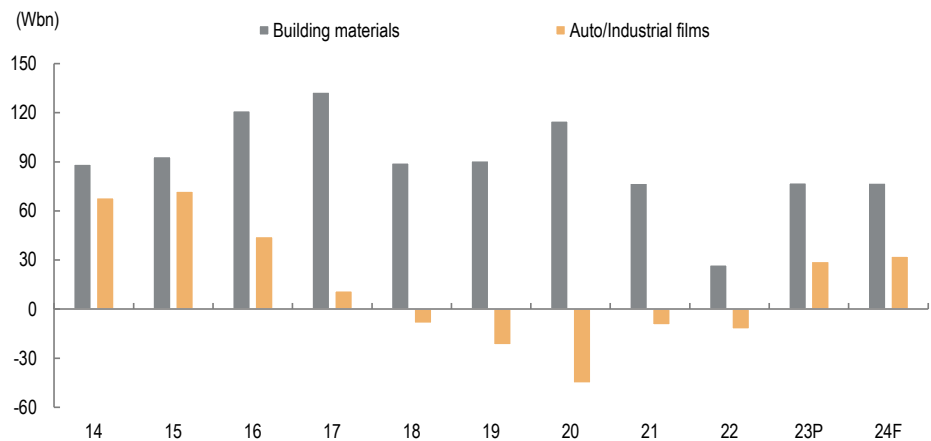
Table 1. LX Hausys: Quarterly and annual earnings

(Wbn)

	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F
Revenue	3,611	840	938	864	883	3,526	845	938	852	842	3,478
- Building materials	2,647	621	684	636	627	2,568	616	676	613	624	2,529
- Auto/industrial films	964	219	255	228	255	958	229	262	239	218	948
- Other	0	0	0	0	0	0	0	0	0	0	0
COGS	2,851	647	702	644	697	2,690	639	699	624	680	2,642
COGS ratio	79.0%	77.0%	74.7%	74.5%	79.0%	76.3%	75.6%	74.5%	73.2%	80.8%	76.0%
GP	760	194	237	220	185	836	206	240	229	161	835
SG&A	745	178	188	185	177	726	186	197	193	150	726
SG&A ratio	20.6%	21.1%	20.0%	21.4%	20.0%	20.6%	22.0%	21.0%	22.6%	17.8%	20.9%
OP	15	16	49	35	9	110	20	43	36	11	110
- Building materials	27	11	37	28	2	77	14	31	28	5	77
- Auto/industrial films	-12	5	13	8	7	33	6	12	9	6	33
- Other	0	0	0	-1	0	-1	0	0	-1	0	-1
OP margin	0.4%	1.9%	5.3%	4.1%	1.0%	3.1%	2.3%	4.5%	4.2%	1.4%	3.2%
- Building materials	1.0%	1.8%	5.4%	4.4%	0.3%	3.0%	2.3%	4.6%	4.5%	0.8%	3.1%
- Auto/industrial films	-1.3%	2.4%	5.1%	3.5%	2.8%	3.5%	2.6%	4.6%	3.7%	3.0%	3.5%
Pretax profit	-106	6	36	31	-3	71	13	32	34	-3	75
Pretax margin	-2.9%	0.8%	3.9%	3.6%	-0.3%	2.0%	1.6%	3.4%	3.9%	-0.4%	2.2%
NP (owners of the parent)	-117	5	34	28	-4	62	10	24	25	-2	57
Net margin	-3.2%	0.6%	3.6%	3.2%	-0.5%	1.8%	1.2%	2.6%	3.0%	-0.3%	1.7%

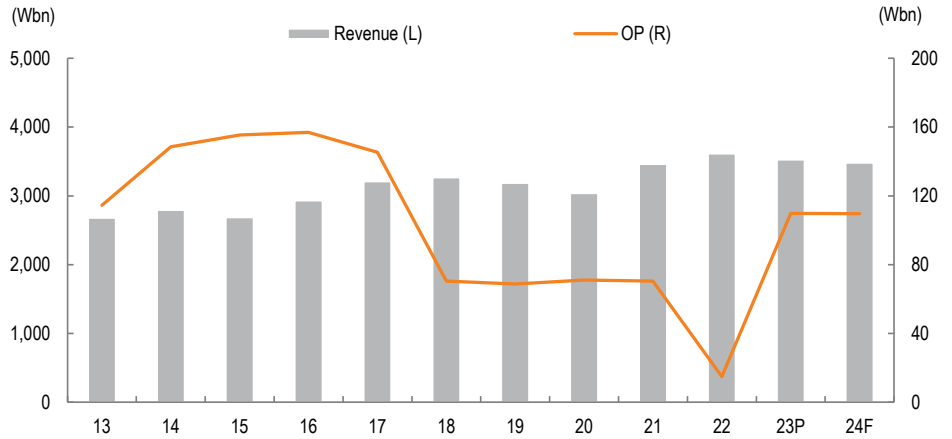
Source: Company data, Mirae Asset Securities Research

Figure 1. LX Hausys: OP by business



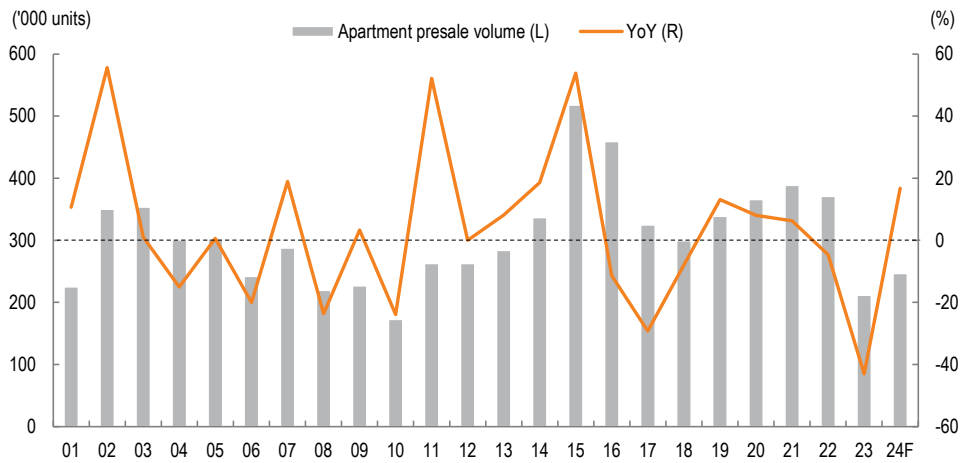
Source: Company data, Mirae Asset Securities Research

Figure 2. LX Hausys: Annual revenue and OP trend and outlook



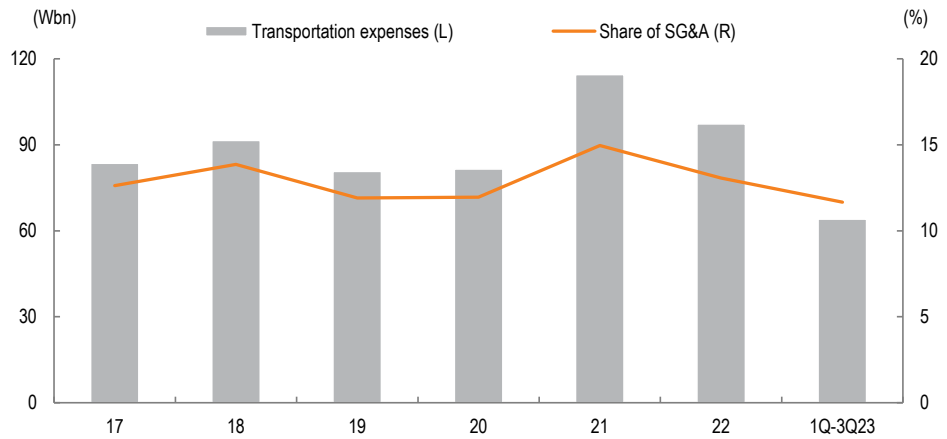
Source: Mirae Asset Securities Research

Figure 3. Apartment presale volume trends (nationwide)



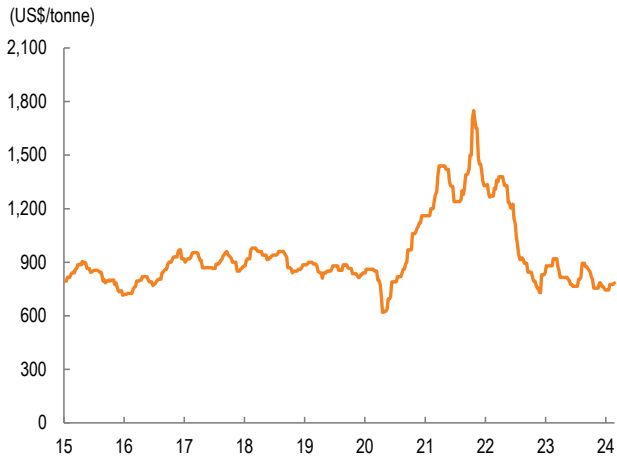
Source: REPS, Mirae Asset Securities Research

Figure 4. Transportation expenses as % of SG&A



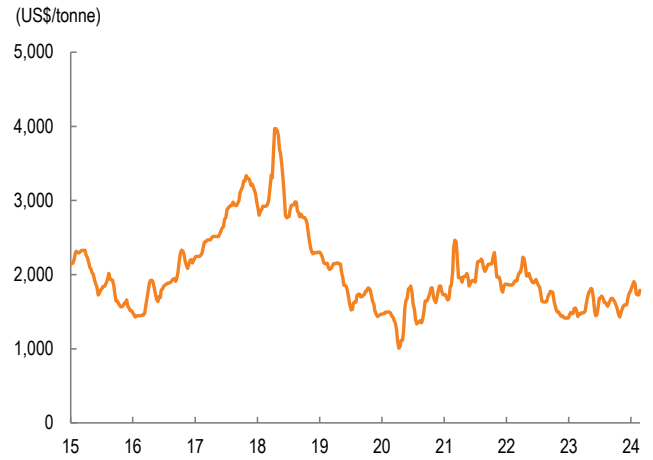
Source: DART, Mirae Asset Securities Research

Figure 5. PVC (raw material) price trend



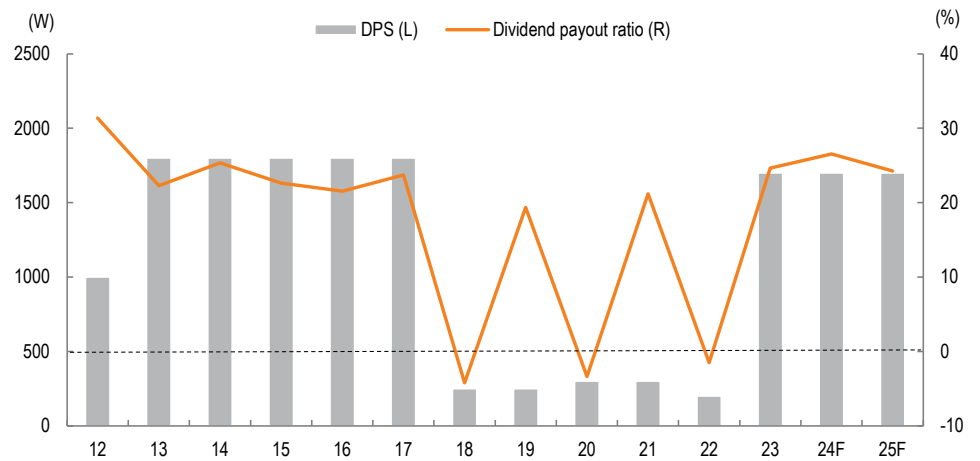
Source: Ciscem, Mirae Asset Securities Research

Figure 6. MMA (raw material) price trend (Huadong)



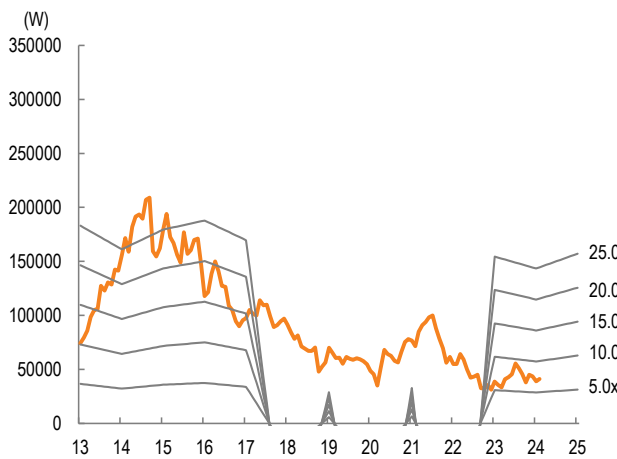
Source: Ciscem Mirae Asset Securities Research

Figure 7. LX Hausys: Annual DPS and dividend payout ratio trends



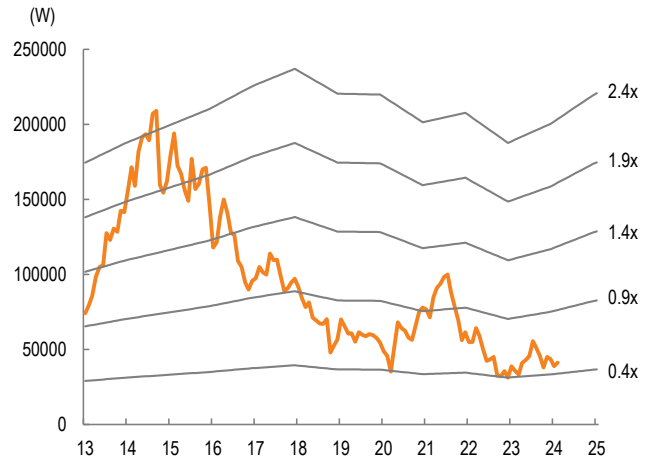
Source: Mirae Asset Securities Research

Figure 8. LX Hausys: P/E band chart



Source: DataGuide, Mirae Asset Securities Research

Figure 9. LX Hausys: P/B band chart



Source: DataGuide, Mirae Asset Securities Research

LX HAUSYS (108670 KS)

Income statement (summarized)

(Wbn)	2022	2023P	2024F	2025F
Revenue	3,611	3,526	3,478	3,501
Cost of revenue	2,851	2,690	2,642	2,653
GP	760	836	836	848
SG&A expenses	745	726	726	733
OP (adj.)	15	110	110	114
OP	15	110	110	114
Non-operating profit	-121	-39	-35	-30
Net financial income	-28	-37	-23	-17
Net income from associates	0	0	0	0
Pretax profit	-106	71	75	84
Income tax	5	9	18	21
Profit from continuing operations	-111	62	57	63
Profit from discontinued operations	-6	0	0	0
NP	-118	62	57	63
Attributable to owners	-117	62	57	63
Attributable to minority interests	-1	0	0	0
Total comprehensive income	-81	54	96	83
Attributable to owners	-80	54	96	83
Attributable to minority interests	-1	0	0	0
EBITDA	193	288	286	292
FCF	-143	218	72	56
EBITDA margin (%)	5.3	8.2	8.2	8.3
OP margin (%)	0.4	3.1	3.2	3.3
Net margin (%)	-3.2	1.8	1.6	1.8

Balance sheet (summarized)

(Wbn)	2022	2023P	2024F	2025F
Current assets	1,079	1,063	1,076	1,096
Cash & equivalents	181	223	226	233
AR & other receivables	490	454	461	469
Inventory	375	355	357	361
Other current assets	33	31	32	33
Non-current assets	1,405	1,323	1,324	1,332
Investments in associates	0	0	0	0
PP&E	1,097	1,034	1,031	1,047
Intangible assets	53	56	59	61
Total assets	2,484	2,385	2,399	2,428
Current liabilities	1,061	1,034	1,055	1,042
AP & other payables	452	470	476	483
Short-term financial liabilities	519	470	480	457
Other current liabilities	90	94	99	102
Non-current liabilities	643	518	432	408
Long-term financial liabilities	597	475	389	364
Other non-current liabilities	46	43	43	44
Total liabilities	1,704	1,552	1,487	1,450
Equity attributable to owners	780	833	912	978
Capital stock	50	50	50	50
Capital surplus	616	616	616	616
Retained earnings	126	186	226	272
Minority interests	0	0	0	0
Shareholders' equity	780	833	912	978

Cash flow statement (summarized)

(Wbn)	2022	2023P	2024F	2025F
Operating cash flow	72	344	234	238
NP	-118	62	57	63
Non-cash income/expenses	327	232	218	216
Depreciation	168	166	165	166
Amortization	10	11	11	12
Other	149	55	42	38
Chg. in working capital	-121	84	1	-3
Chg. in AR & other receivables	36	45	-6	-8
Chg. in inventory	-9	19	-2	-4
Chg. in AP & other payables	-105	68	5	4
Income tax	0	-6	-18	-21
Cash flow from investing activities	-181	-94	-138	-166
Chg. in PP&E	-214	-122	-162	-182
Chg. in intangible assets	1	-4	-14	-14
Chg. in financial assets	6	4	0	0
Other	26	28	38	30
Cash flow from financing activities	68	-208	-93	-65
Chg. in financial liabilities	138	-171	-76	-48
Chg. in equity	0	0	0	0
Dividends	-3	-2	-17	-17
Other	-67	-35	0	0
Chg. in cash	-41	42	3	7
Beginning balance	222	181	223	226
Ending balance	181	223	226	233

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

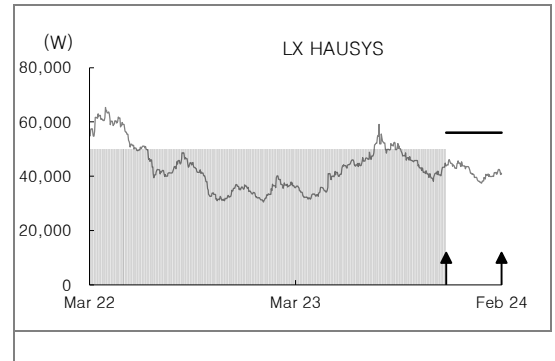
	2022	2023P	2024F	2025F
P/E (x)	-	7.1	7.2	6.5
P/CF (x)	1.5	1.5	1.5	1.5
P/B (x)	0.4	0.5	0.5	0.4
EV/EBITDA (x)	6.3	3.9	3.6	3.3
EPS (W)	-11,710	6,179	5,738	6,285
CFPS (W)	20,956	29,372	27,507	27,906
BPS (W)	78,194	83,488	91,424	98,008
DPS (W)	200	1,700	1,700	1,700
Dividend payout ratio (%)	-1.5	24.6	26.5	24.3
Dividend yield (%)	0.6	3.9	4.1	4.1
Revenue growth (%)	4.4	-2.4	-1.4	0.7
EBITDA growth (%)	-18.7	48.7	-0.6	2.1
OP growth (%)	-78.8	635.1	-0.1	3.8
EPS growth (%)	-	-	-7.1	9.5
AR turnover (x)	7.7	7.9	8.0	7.9
Inventory turnover (x)	9.9	9.7	9.8	9.8
AP turnover (x)	11.3	11.4	10.6	10.5
ROA (%)	-4.7	2.5	2.4	2.6
ROE (%)	-14.2	7.7	6.6	6.6
ROIC (%)	1.0	6.0	5.5	5.8
Debt-to-equity ratio (%)	218.5	186.4	163.0	148.3
Current ratio (%)	101.7	102.7	101.9	105.2
Net debt-to-equity ratio (%)	119.3	86.6	70.4	60.0
Interest coverage ratio (x)	0.4	2.4	3.2	3.7

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
LX HAUSYS (108670)	11/23/23	Buy	56,000



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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