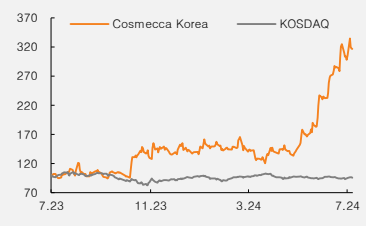


(Initiate)	<b>Buy</b>
Target price	<b>W100,000</b>
Current price (7/11/24)	W82,300
Upside	21.5%

OP (24F, Wbn)	66
Consensus OP (24F, Wbn)	65
EPS growth (24F, %)	76.3
Market EPS growth (24F, %)	83.8
P/E (24F, x)	22.3
Market P/E (24F, x)	11.3
KOSDAQ	852.42

Market cap (Wbn)	879
Shares (mn)	11
Free float (%)	60.0
Foreign ownership (%)	6.1
Beta (12M)	0.08
52-week low (W)	24,500
52-week high (W)	87,000

(%)	1M	6M	12M
Absolute	31.5	105.2	221.5
Relative	33.9	112.5	231.4



Mirae Asset Securities Co., Ltd.

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# Cosmecca Korea

## Ample capacity provides a competitive edge

### Sizable capacity and plenty of room for margin improvement

Cosmecca Korea has annual domestic production capacity of 450mn units, putting it on par with key competitors (i.e., large ODMs). We think the firm's ample capacity represents a key competitive advantage, especially with export momentum growing across the sector.

Competing ODMs are running at close to full capacity (utilization exceeding 80%) and are expected to expand capacity further through aggressive capex. On the other hand, Cosmecca Korea's domestic utilization is still below 50%, giving it plenty of room to increase production without investing in further expansions. Notably, the company is achieving faster margin improvements than rivals by increasing utilization, while also enhancing efficiency by taking large-scale orders from prominent brands. We believe further increases in utilization could also boost top-line growth going forward.

### Outstanding performance in the US

We are encouraged by the strong performance of Englewood Lab (Cosmecca Korea's US subsidiary). While the US subsidiaries of many competing ODMs are generating less than W100bn in revenue and operating at a loss, Englewood Lab is poised to achieve revenue of W248.3bn (+20% YoY) and operating profit of W35.6bn (OP margin of 14%) for 2024. Notably, Englewood Lab splits manufacturing between plants in Korea (focusing on cost-effective production for US indie brands) and the US (focusing on premium products). The Korean plant allows the subsidiary to respond more flexibly to the needs of low-cost indie brands than US-based manufacturers, while the US plant is benefiting from the accumulation of cosmeceutical (OTC) orders. Leveraging the unique strengths of each plant, Englewood Lab is able to offer a comprehensive portfolio spanning low-cost to premium products.

### Initiate at Buy with a TP of W100,000

We initiate our coverage on Cosmecca Korea with a Buy rating and target price of W100,000. In deriving our target price, we applied a P/E of 24x to our 12-month forward EPS estimate. Our target multiple represents a 20% premium to our target multiple (20x) for peer ODMs.

For 2Q24, we expect the firm to report slightly above-consensus results, with revenue of W131.5bn (+14% YoY) and operating profit of W16.1bn (+44% YoY). While the strong performance was likely driven mainly by the domestic business, we expect the US subsidiary to make a growing contribution to consolidated earnings growth in 2H24.

(Dec.)	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	399	471	553	630	714
OP (Wbn)	10	49	66	79	91
OP margin (%)	2.5	10.4	11.9	12.5	12.7
NP (Wbn)	3	22	39	52	60
EPS (W)	249	2,090	3,685	4,863	5,605
ROE (%)	1.8	14.1	20.8	22.1	20.6
P/E (x)	41.2	17.4	22.3	16.9	14.7
P/B (x)	0.7	2.3	4.2	3.4	2.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

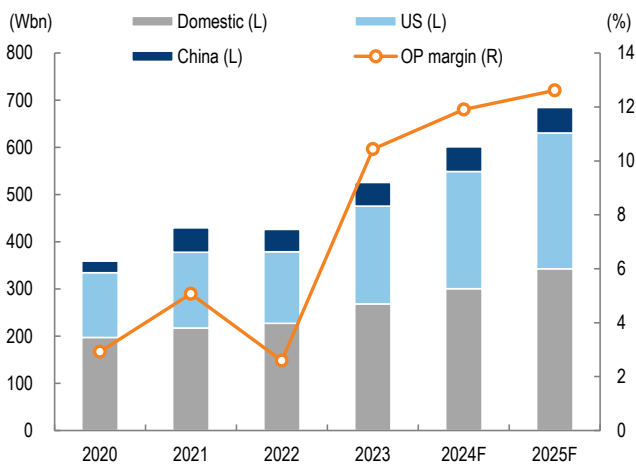
Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent  
Source: Company data, Mirae Asset Securities Research estimates

### Company overview

With more than 800 customers, Cosmecca Korea is the third-largest cosmetics ODM in Korea after Cosmax and Kolmar Korea. The company, which has production bases in Korea, the US, and China, makes products ranging from skin care and makeup to sun care and cosmeceuticals. Its R&D spending as a percentage of revenue stands at 4%.

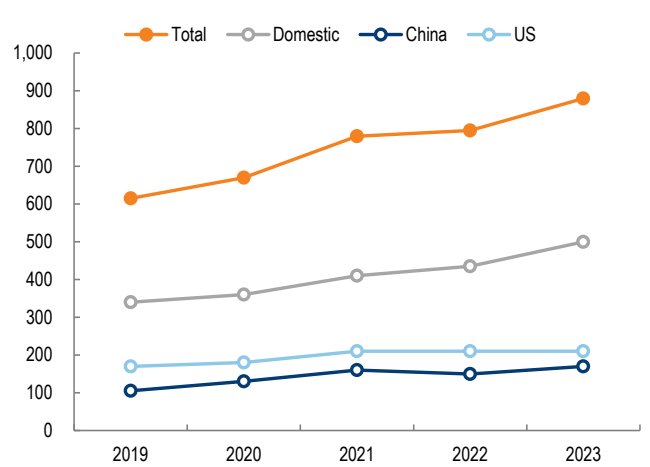
Notably, among domestic ODMs, Cosmecca Korea has seen the most dramatic customer mix changes amid the recent increase in non-China export momentum. The domestic business previously had high exposure to low-end products (China exports, facial masks, etc.), but since last year its focus has shifted to direct exports and various non-China-oriented export brands. As for US operations, the revenue share low/mid-end indie-brands has increased markedly in line with these brands' rapid growth.

Figure 1. Revenue and OP margin



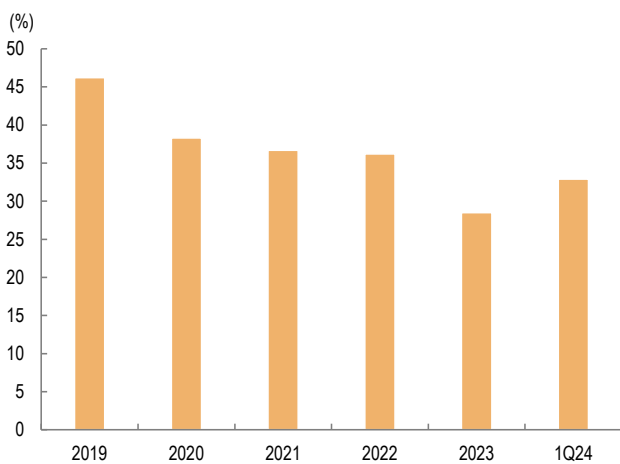
Source: Company data, Mirae Asset Securities Research

Figure 2. No. of customers



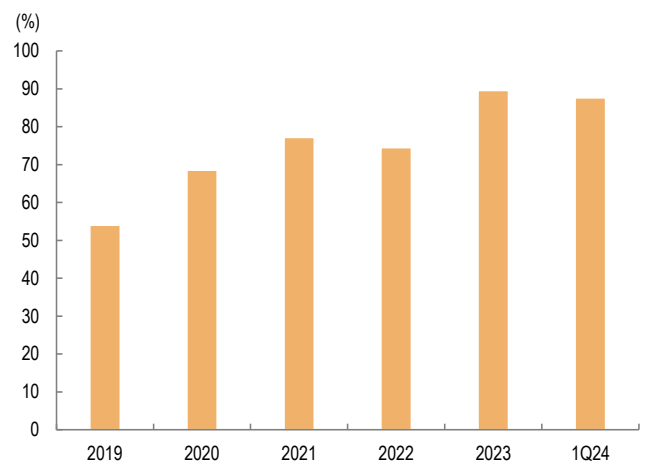
Source: Company data, Mirae Asset Securities Research

Figure 3. Revenue contribution of top five customers



Source: Company data, Mirae Asset Securities Research

Figure 4. Share of US customers (Englewood Lab)



Source: Company data, Mirae Asset Securities Research

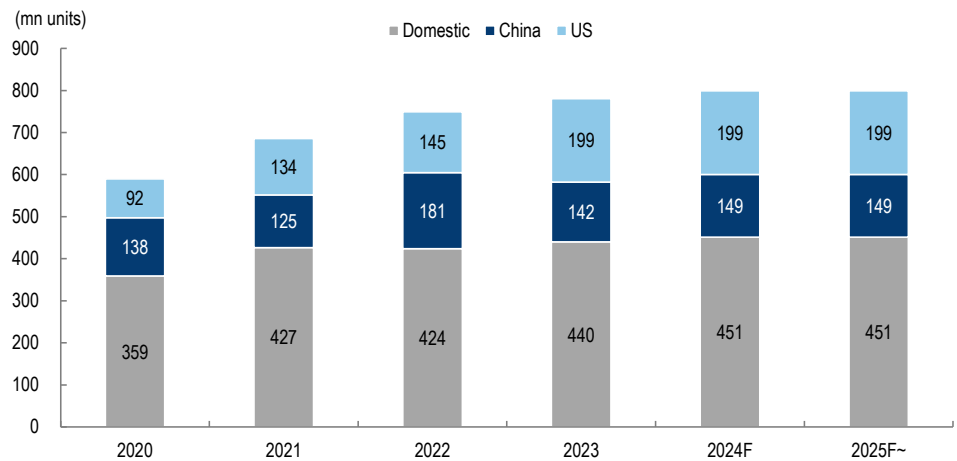
### Investment points

#### Abundant capacity and ample room for margin improvement

Cosmecca Korea has annual domestic production capacity of 450mn units, comparable to that of Kolmar Korea. After its IPO, the company invested a significant portion of the proceeds in aggressive capacity ramp-ups. This decision led to earnings weakness in recent years as market conditions turned unfavorable.

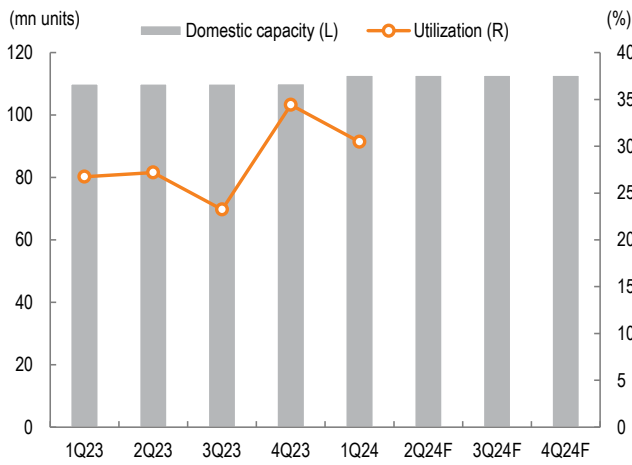
However, with Korean cosmetics seeing renewed export momentum, we believe Cosmecca Korea’s abundant capacity is becoming a key competitive advantage. Rival ODMs are running at close to full capacity (utilization exceeding 80%) and are expected to expand capacity further through aggressive capex. Indeed, Kolmar Korea and Cosmax each plan to spend over W50bn in capex in 2024 (standalone basis). On the other hand, Cosmecca Korea’s domestic utilization rate is still below 50%, giving it plenty of room to increase production without investing in further capacity additions (2024 capex estimated at only W2bn on a standalone basis). Notably, the company is achieving faster margin improvements than rivals by increasing utilization (domestic OP margin: 10.4% for 2024F vs. 3.4% in 2022 and 8.5% in 2023), while also enhancing production efficiency by taking large-scale orders from prominent brands. We believe further increases in utilization could also provide a boost to top-line growth going forward.

**Figure 5. Production capacity by region**



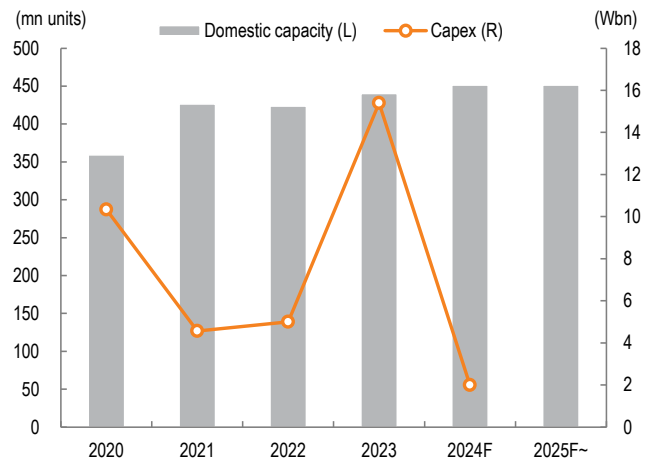
Source: Company data, Mirae Asset Securities Research

**Figure 6. Domestic production capacity and utilization**



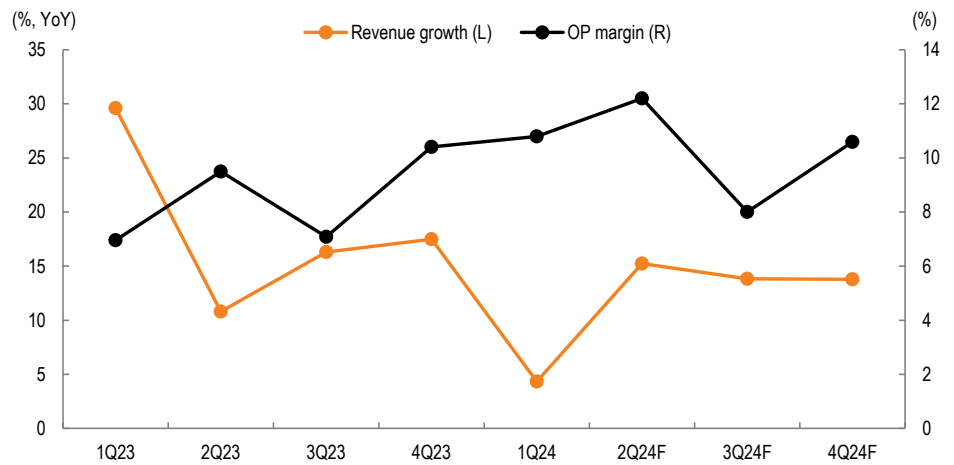
Source: Company data, Mirae Asset Securities Research

**Figure 7. Domestic capacity and capex**



Source: Company data, Mirae Asset Securities Research

**Figure 8. Domestic revenue growth and OP margin**



Source: Mirae Asset Securities Research

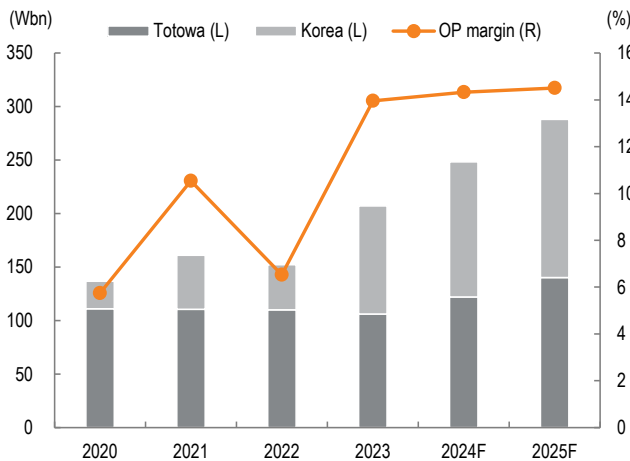
### Best-performing Korean ODM in the US

We are encouraged by the strong performance of US subsidiary Englewood Lab. While the US subsidiaries of many competing ODMs are generating less than W100bn in revenue and operating at a loss, Englewood Lab is poised to achieve revenue of W248.3bn (+20% YoY) and operating profit of W35.6bn (OP margin of 14%) for 2024.

Englewood Lab splits manufacturing between plants in Korea (focusing on cost-effective production for US indie brands) and the US (focusing on premium products). The Korean plant is seeing notable growth (with 2024 revenue likely to expand 25% YoY) driven by US consumers' growing preference for low-cost cosmetics. Production in Korea provides a strong cost advantage, allowing the Korean plant to respond more flexibly to the needs of low-cost indie brands than US-based manufacturers. And given that sales and customer interactions are handled locally (by US-based employees), the Korean plant is well-positioned to meet the needs of customers in the US market.

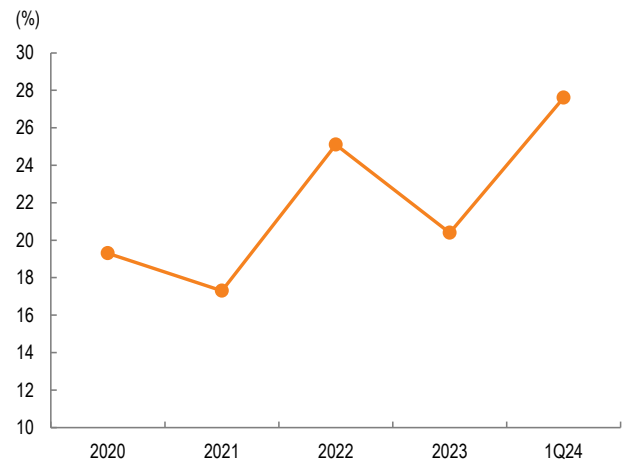
The performance of the US plant (located in Totowa, New Jersey) has lagged behind that of the Korean plant. However, revenue growth in 1Q24 turned positive for the first time in four quarters. We look for continued improvements (2024 revenue likely to expand 15% YoY) on customer inventory restocking and the accumulation of cosmeceutical (OTC) orders

Figure 9. Englewood Lab: Revenue and OP margin



Source: Company data, Mirae Asset Securities Research

Figure 10. Englewood Lab: Revenue mix of cosmeceutical (OTC) products



Source: Company data, Mirae Asset Securities Research

## Earnings forecasts and valuation

We initiate our coverage on Cosmecca Korea with a Buy rating and target price of W100,000. In deriving our target price, we applied a P/E of 24x to our 12-month forward EPS estimate. Our target multiple represents a 20% premium to our target multiple (20x) for peer ODMs. We think the premium is justified in light of the firm's ample capacity (vs. peers) and the differentiated competitiveness of its US operations.

Earnings momentum is also encouraging. For 2Q24, we expect the firm to report slightly above-consensus results (driven mainly by the domestic business), with revenue of W131.5bn (+14% YoY) and operating profit of W16.1bn (+44% YoY). Despite an unfavorable comparison stemming from large-scale face mask orders last year, we estimate domestic revenue jumped 15% YoY, with OP margin expanding 3%p to 12%.

In 2H24, we expect Englewood Lab to contribute to consolidated earnings growth, given strong seasonality in the second half of the year and customers' order placement schedules. Of note, compared to Korean brands, US brands tend to place larger orders with longer lead times (around six months). Englewood Lab performed well in 2H23 but saw growth slow in 1H24, as inventory drawdowns at customers likely continued to a certain extent. We expect to see renewed restocking demand from 2H24.

**Table 1. Annual earnings and forecasts**

(Wbn)

	2021	2022	2023	2024F	2025F	2026F
Revenue	396	399	471	553	630	714
Domestic	217	227	269	300	343	391
US	161	152	207	248	288	330
China	51	47	50	53	54	55
OP	20	10	49	66	79	91
Domestic	8	8	23	31	38	44
US	17	10	29	36	42	48
China	-3	-5	0	1	1	1
Pretax profit	18	6	46	66	79	91
NP	17	6	34	50	61	70
NP (owners of the parent)	9	3	22	39	52	60
Revenue growth (% YoY)	16.9	0.7	17.9	17.4	14.0	13.5
Domestic	10.2	4.6	18.1	11.8	14.1	14.1
US	17.2	(5.8)	36.5	20.1	16.0	14.4
China	107.3	(7.8)	6.5	4.3	2.0	3.3
OP growth (% YoY)	103.0	(48.4)	374.1	33.9	20.7	15.0
NP growth (% YoY)	396.6	(64.6)	464.5	48.9	21.1	15.3
OP margin (%)	5.1	2.6	10.4	11.9	12.6	12.8
Domestic	3.8	3.4	8.5	10.4	11.2	11.3
US	10.5	6.5	14.0	14.3	14.5	14.6
China	-5.1	-9.7	0.2	1.7	2.5	2.5
Pretax margin(%)	4.4	1.6	9.8	11.9	12.6	12.8
Net margin (%)	4.3	1.5	7.2	9.1	9.7	9.9

Source: Company data, Mirae Asset Securities Research

Table 2. Quarterly earnings and forecasts

(Wbn)

	1Q23	2Q23	3Q23	4Q23	2023	1Q24	2Q24F	3Q24F	4Q24F	2024F
Revenue	116	116	116	123	471	126	132	141	155	553
Domestic	66	67	66	70	269	69	77	76	79	300
US	46	49	54	57	207	53	53	67	76	248
China	13	11	13	14	50	12	12	13	15	53
OP	9	11	14	15	49	14	16	17	19	66
Domestic	5	6	5	7	23	7	9	6	8	31
US	6	6	9	8	29	7	7	12	11	36
China	-0	-1	1	1	0	-	0	0	0	1
Pretax profit	10	11	15	11	46	16	16	17	16	66
NP	7	9	12	6	34	13	12	13	12	51
NP (owners of the parent)	5	6	7	5	22	9	10	11	10	39
Revenue growth (% YoY)	30.3	15.2	12.4	15.3	17.9	8.3	13.7	20.9	26.1	17.4
Domestic	29.6	10.8	16.3	17.5	18.1	4.3	15.2	13.8	13.8	11.8
US	46.7	36.3	27.3	38.4	36.5	14.2	7.9	23.4	32.2	20.1
China	19.1	1.4	13.4	(4.0)	6.5	(5.1)	7.3	6.0	9.0	4.3
OP growth (% YoY)	1,410.9	264.7	366.7	300.1	374.1	48.4	44.1	27.3	23.3	33.9
NP growth (% YoY)	6,251.7	209.2	251.9	TTB	464.5	70.6	43.1	13.7	98.5	48.9
OP margin (%)	8.0	9.7	11.8	12.2	10.4	10.9	12.2	12.4	12.0	11.9
Domestic	7.0	9.5	7.1	10.4	8.5	10.8	12.2	8.0	10.6	10.4
US	12.1	12.6	16.8	13.9	14.0	12.6	12.9	17.1	14.1	14.3
China	(2.6)	(5.0)	3.8	3.8	0.2	0.1	2.0	2.5	2.0	1.7
Pretax margin(%)	8.2	9.7	12.6	8.7	9.8	13.0	12.2	12.3	10.2	11.9
Net margin (%)	6.3	7.5	10.1	5.0	7.2	10.0	9.4	9.5	7.9	9.1

Source: Company data, Mirae Asset Securities Research

Table 3. Valuation table

(W)

		Notes
12MF EPS	4,274	
Target P/E (x)	24	20% premium to target multiple for peer ODMs
Fair price	102,572	
Target price	100,000	
Current price	82,300	
Upside (%)	21.5	

Source: Mirae Asset Securities Research

## Cosmecca Korea (241710 KQ)

## Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
<b>Revenue</b>	<b>471</b>	<b>553</b>	<b>630</b>	<b>714</b>
<b>Cost of revenue</b>	<b>364</b>	<b>418</b>	<b>472</b>	<b>530</b>
<b>GP</b>	<b>107</b>	<b>135</b>	<b>158</b>	<b>184</b>
<b>SG&amp;A expenses</b>	<b>58</b>	<b>68</b>	<b>78</b>	<b>93</b>
<b>OP (adj.)</b>	<b>49</b>	<b>66</b>	<b>79</b>	<b>91</b>
<b>OP</b>	<b>49</b>	<b>66</b>	<b>79</b>	<b>91</b>
<b>Non-operating profit</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net financial income	-4	-3	-2	-2
Net income from associates	0	0	0	0
Pretax profit	46	66	79	91
Income tax	12	15	18	21
Profit from continuing operations	34	50	61	70
Profit from discontinued operations	0	0	0	0
<b>NP</b>	<b>34</b>	<b>50</b>	<b>61</b>	<b>70</b>
Attributable to owners	22	39	52	60
Attributable to minority interests	12	11	9	11
<b>Total comprehensive income</b>	<b>35</b>	<b>50</b>	<b>61</b>	<b>70</b>
Attributable to owners	23	67	81	93
Attributable to minority interests	12	-16	-19	-22
EBITDA	66	81	92	103
FCF	23	34	52	58
EBITDA margin (%)	14.0	14.6	14.6	14.4
OP margin (%)	10.4	11.9	12.5	12.7
Net margin (%)	4.7	7.1	8.3	8.4

## Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
<b>Current assets</b>	<b>221</b>	<b>303</b>	<b>366</b>	<b>459</b>
Cash & equivalents	33	66	96	152
AR & other receivables	113	142	161	183
Inventory	66	83	94	107
Other current assets	9	12	15	17
<b>Non-current assets</b>	<b>211</b>	<b>202</b>	<b>194</b>	<b>188</b>
Investments in associates	1	1	2	2
PP&E	153	146	139	133
Intangible assets	38	36	34	34
<b>Total assets</b>	<b>433</b>	<b>505</b>	<b>560</b>	<b>646</b>
<b>Current liabilities</b>	<b>155</b>	<b>175</b>	<b>167</b>	<b>182</b>
AP & other payables	56	71	80	91
Short-term financial liabilities	80	80	60	60
Other current liabilities	19	24	27	31
<b>Non-current liabilities</b>	<b>36</b>	<b>38</b>	<b>39</b>	<b>40</b>
Long-term financial liabilities	29	29	29	29
Other non-current liabilities	7	9	10	11
<b>Total liabilities</b>	<b>190</b>	<b>212</b>	<b>206</b>	<b>222</b>
<b>Equity attributable to owners</b>	<b>169</b>	<b>209</b>	<b>261</b>	<b>321</b>
Capital stock	5	5	5	5
Capital surplus	58	58	58	58
Retained earnings	100	140	192	251
<b>Minority interests</b>	<b>73</b>	<b>84</b>	<b>93</b>	<b>103</b>
<b>Shareholders' equity</b>	<b>242</b>	<b>293</b>	<b>354</b>	<b>424</b>

## Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
<b>Operating cash flow</b>	<b>42</b>	<b>39</b>	<b>57</b>	<b>63</b>
NP	34	50	61	70
Non-cash income/expenses	38	33	34	34
Depreciation	14	13	12	11
Amortization	3	2	1	1
Other	21	18	21	22
Chg. in working capital	-22	-26	-17	-19
Chg. in AR & other receivables	-32	-28	-19	-21
Chg. in inventory	3	-17	-12	-13
Chg. in AP & other payables	6	12	8	9
Income tax	-4	-15	-18	-21
<b>Cash flow from investing activities</b>	<b>-22</b>	<b>-7</b>	<b>-6</b>	<b>-6</b>
Chg. in PP&E	-17	-5	-5	-5
Chg. in intangible assets	0	0	0	0
Chg. in financial assets	-6	-2	-1	-1
Other	1	0	0	0
<b>Cash flow from financing activities</b>	<b>-13</b>	<b>1</b>	<b>-21</b>	<b>0</b>
Chg. in financial liabilities	-12	1	-21	0
Chg. in equity	0	0	0	0
Dividends	0	0	0	0
Other	-1	0	0	0
<b>Chg. in cash</b>	<b>7</b>	<b>33</b>	<b>30</b>	<b>57</b>
Beginning balance	26	33	66	96
Ending balance	33	66	96	152

Source: Company data, Mirae Asset Securities Research estimates

## Key valuation metrics/ratios

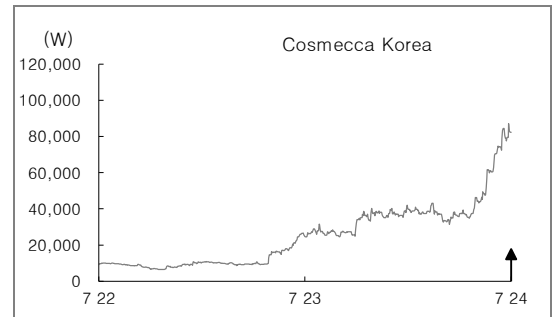
	2023	2024F	2025F	2026F
P/E (x)	17.4	22.3	16.9	14.7
P/CF (x)	5.4	10.5	9.3	8.4
P/B (x)	2.3	4.2	3.4	2.7
EV/EBITDA (x)	8.0	12.3	10.3	8.8
EPS (W)	2,090	3,685	4,863	5,605
CFPS (W)	6,724	7,843	8,875	9,791
BPS (W)	15,874	19,559	24,422	30,026
DPS (W)	0	0	0	0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Revenue growth (%)	17.9	17.4	14.0	13.5
EBITDA growth (%)	143.3	22.6	14.3	11.3
OP growth (%)	374.1	33.9	20.7	15.0
EPS growth (%)	740.3	76.3	32.0	15.3
AR turnover (x)	5.0	4.5	4.3	4.3
Inventory turnover (x)	6.9	7.4	7.1	7.1
AP turnover (x)	9.3	8.4	7.9	7.8
ROA (%)	8.2	10.8	11.5	11.7
ROE (%)	14.1	20.8	22.1	20.6
ROIC (%)	12.0	16.5	18.8	20.9
Debt-to-equity ratio (%)	78.6	72.6	58.3	52.4
Current ratio (%)	143.1	173.7	218.9	252.0
Net debt-to-equity ratio (%)	28.5	11.9	-4.8	-17.5
Interest coverage ratio (x)	12.2	17.2	22.8	29.3

# Appendix 1

## Important disclosures and disclaimers

### Two-year rating and TP history

Company	Date	Rating	TP (W)
Cosmecca Korea (241710)	07/12/24	Buy	100,000



### 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	79.52%	12.05%	8.43%	0%
Investment banking services	85%	5%	10%	0%

\* Based on recommendations in the last 12-months (as of June 30, 2024)

### Disclosures

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