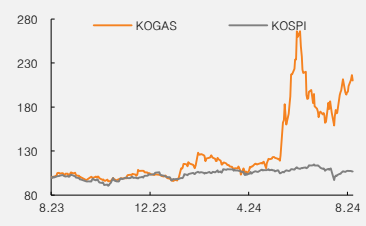


(Maintain)	<b>Hold</b>
Target price	<b>▲ W48,000</b>
Current price (8/28/24)	W50,100
Downside	-4.2%

OP (24F, Wbn)	2,383
Consensus OP (24F, Wbn)	2,285
EPS growth (24F, %)	-
Market EPS growth (24F, %)	87.4
P/E (24F, x)	4.7
Market P/E (24F, x)	10.3
KOSPI	2,689.83

Market cap (Wbn)	4,625
Shares (mn)	92
Free float (%)	44.0
Foreign ownership (%)	7.1
Beta (12M)	1.73
52-week low (W)	22,800
52-week high (W)	63,500

(%)	1M	6M	12M
Absolute	28.6	77.3	105.3
Relative	30.6	74.9	94.2



Mirae Asset Securities Co., Ltd.

Jay JH Ryu  
jay.ryu@miraeeasset.com

# KOGAS

## Focus shifting from E&P momentum to receivables

### 2Q24 review and 2H24 outlook

For 2Q24, KOGAS reported operating profit of W465.7bn, beating the consensus (W256.3bn). E&P operating profit fell 42% YoY to W64.9bn. We expect cash flow to gradually stabilize from 3Q24, as KOGAS announced it would increase residential/general service gas rates by 6.8% from August. However, it remains to be seen whether this will lead to a meaningful reduction in outstanding receivables. Meanwhile, visibility on a potential resumption of dividend payouts should increase if cash flow does not deteriorate further, especially given the government's drive to enhance shareholder value.

### Focus shifts from East Sea gas field development to receivables reduction

This year, KOGAS's stock briefly broke above W60,000 (hitting a post-2018 high) on E&P momentum related to potential gas field development in the East Sea. However, a wide range of conditions must be met before the company can fully benefit from such a project; not only is further exploration required to assess the project's feasibility, but the company also needs to develop a road map to ensure profitability (e.g., an export strategy).

More importantly, to participate in such a large-scale E&P project, the company must have sufficient investment capacity backed by healthy financials. In this sense, a key priority is the recovery of overdue receivables, which currently stand at W15.4tr. The company's debt-to equity ratio also remains high, at 423%.

### Raise TP to W48,000, but maintain Hold

We maintain our Hold rating on KOGAS but lift our target price to W48,000 (from W27,000). Our target price is based on the average EV/EBITDA multiple of global gas utility peers (9x) and the value of the Mozambique gas field. We raised our target price due to upward revisions to our EBITDA estimates (reflecting gas tariff hikes) and a change in our valuation base (from 2024 to 12-month forward earnings). For 2024, we forecast DPS at W2,500, which translates to a dividend yield of 5%.

The stock is trading at a P/B of 0.4x, its highest level in three years. Shares have priced in most of the anticipated E&P momentum, despite the high level of receivables and associated financial burden. We think the current valuation may not be sustainable unless cash flow tangibly improves through the collection of receivables. Meanwhile, the sustainability of East Sea E&P momentum should hinge on the outcome of exploratory drilling and the project's business structure.

(Dec.)	2022	2023	2024F	2025F	2026F
Revenue (Wbn)	51,724	44,556	39,405	39,889	40,414
OP (Wbn)	2,463	1,553	2,383	2,592	2,566
OP margin (%)	4.8	3.5	6.0	6.5	6.3
NP (Wbn)	1,493	-761	987	1,039	1,408
EPS (W)	16,174	-8,246	10,693	11,259	15,253
ROE (%)	15.7	-7.7	9.6	9.2	11.5
P/E (x)	2.2	-	4.7	4.4	3.3
P/B (x)	0.3	0.2	0.4	0.4	0.4
Dividend yield (%)	0.0	0.0	5.0	5.0	5.0

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

**Table 1. 2Q24 review**

(Wbn, %, %p)

	2Q23	1Q24	2Q24			Growth	
			Actual	Mirae Asset	Consensus	YoY	QoQ
Revenue	8,128	12,811	7,490	8,128	7,629	-7.8	-41.5
OP	205	922	466	205	256	127.1	-49.5
OP margin (%)	2.5	7.2	6.2	2.5	3.4	3.7	-1.0
Pretax profit	-117	632	196	-117	-68	TTB	-68.9
NP	-68	406	253	-68	-33	TTB	-37.8

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

Source: Company data, WISEfn, Mirae Asset Securities Research estimates

**Table 2. Earnings forecast revisions**

(Wbn, %)

	Previous		Revised		% chg.		Notes
	24F	25F	24F	25F	24F	25F	
Revenue	38,197	36,558	39,405	39,889	3.2	9.1	Reflected sales volume and prices
OP	2,313	2,383	2,383	2,592	3.1	8.8	Lifted ASP outlook
Pretax profit	1,081	1,156	1,194	1,284	10.5	11.1	Revised equity-method gains/losses and other profits/losses
NP	796	864	987	1,039	24.0	20.3	Adjusted tax rate assumption
EPS (W)	8,625	9,359	10,693	11,259	24.0	20.3	

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

Source: Mirae Asset Securities Research estimates

**Table 3. Quarterly and annual earnings**

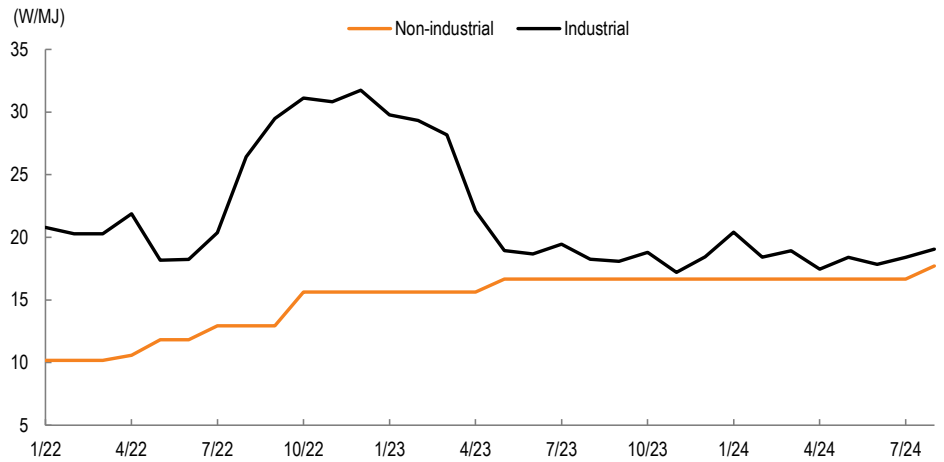
(Wbn, %)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24F	4Q24F	2023	2024F	2025F
Revenue	17,930	8,128	7,889	10,609	12,811	7,490	8,151	10,954	44,556	39,405	39,889
OP	588	205	230	530	922	466	410	586	1,553	2,383	2,592
Gas sales	391	91	213	432	789	401	320	490	1,126	2,013	2,220
E&P	198	115	18	98	133	65	89	97	427	370	372
Pretax profit	237	-117	-207	-761	632	196	149	217	-862	1,194	1,284
NP	133	-68	-167	-648	406	253	133	195	-761	987	1,039
OP margin (%)	3.3	2.5	2.9	5.0	7.2	6.2	5.0	5.4	3.5	6.0	6.5
Pretax margin (%)	1.3	-1.4	-2.6	-7.2	4.9	2.6	1.8	2.0	-1.9	3.0	3.2
Net margin (%)	0.8	-0.8	-2.1	-6.1	3.2	3.4	1.6	1.8	-1.7	2.5	2.6
Gas volume growth (%)	-7.9	-12.7	-5.6	-12.7	-2.6	1.9	1.1	-0.9	-9.8	-0.6	-1.4
USD/KRW	1,275	1,314	1,315	1,319	1,330	1,370	1,320	1,320	1,306	1,335	1,320
Selling price (W000/tonne)	1,492	1,105	1,083	1,056	1,071	1,012	1,017	1,053	1,218	1,044	1,043

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

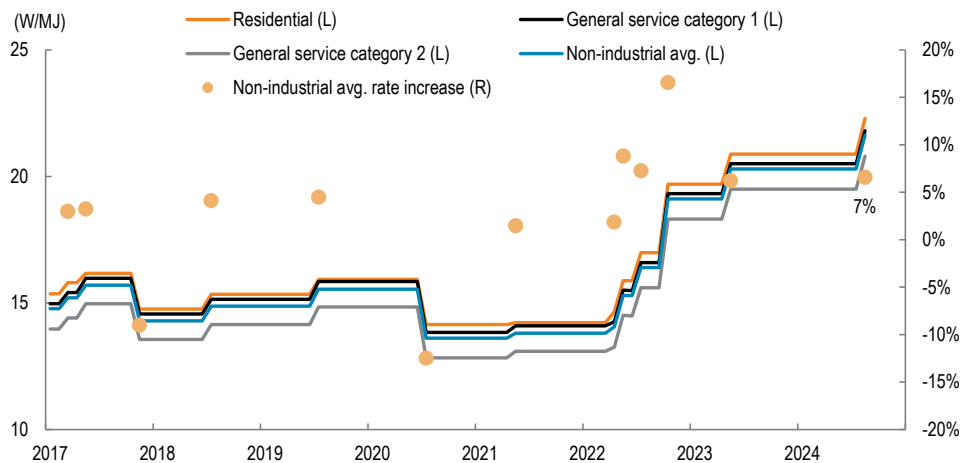
Source: Company data, Mirae Asset Securities Research estimates

**Figure 1. City gas raw material cost trends**



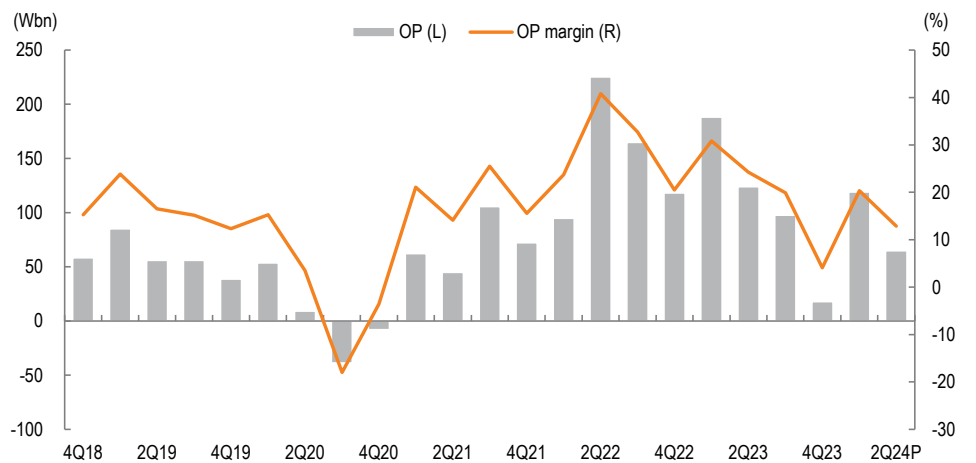
Source: Company data, Mirae Asset Securities Research

**Figure 2. Wholesale price trends for non-industrial (residential/general service) gas**



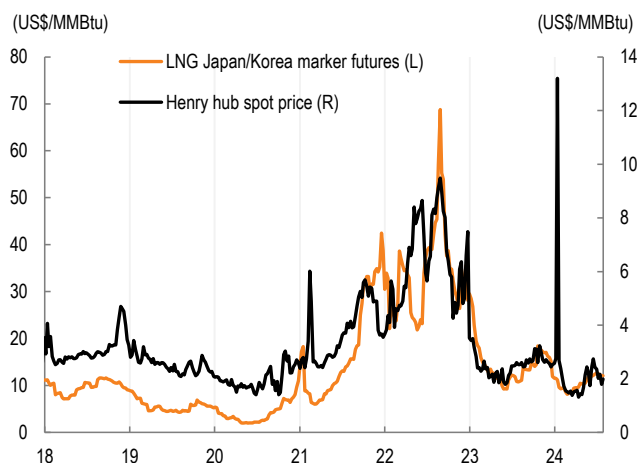
Source: Company data, Mirae Asset Securities Research

**Figure 3. Five major overseas E&P projects: OP and OP margin**



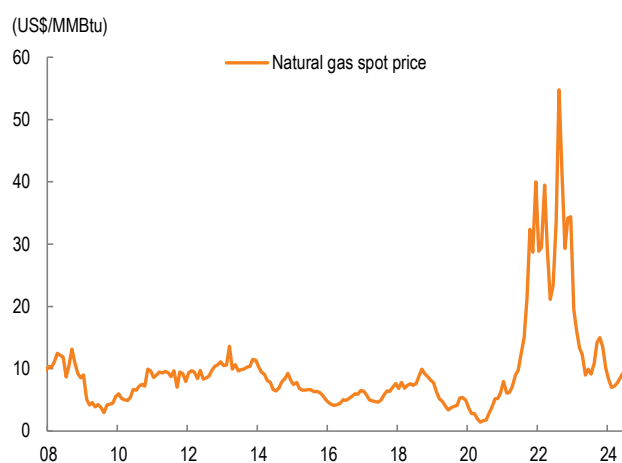
Source: Company data, Mirae Asset Securities Research

Figure 4. Henry Hub vs. Asia LNG prices



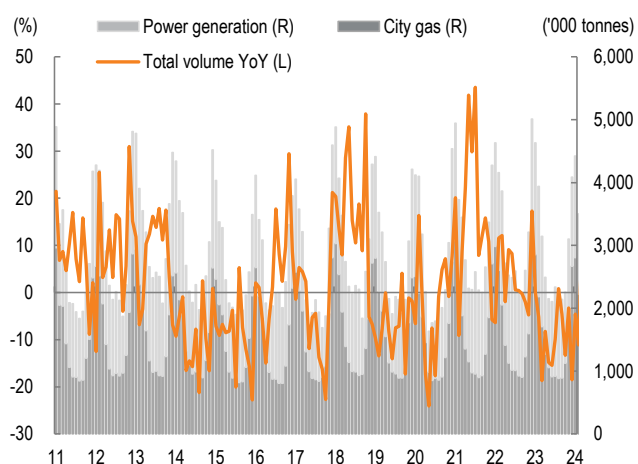
Source: Bloomberg, Mirae Asset Securities Research

Figure 5. Natural gas spot price in Europe



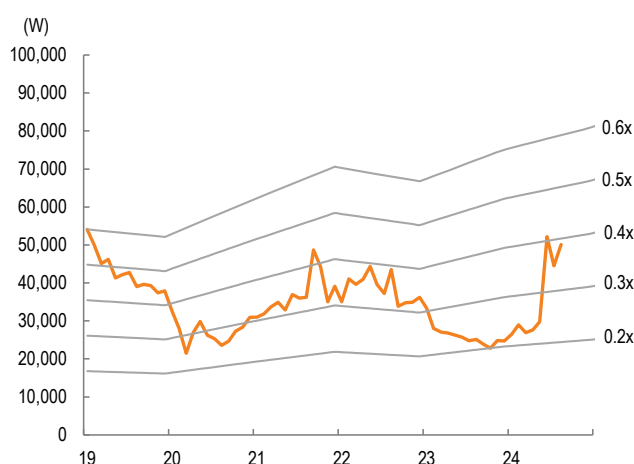
Note: Based on monthly data  
Source: Clarksons, Mirae Asset Securities Research

Figure 6. Gas sales trends



Source: Company data, Mirae Asset Securities Research

Figure 7. P/B band chart



Source: QuantiWise, Mirae Asset Securities Research

Table 4. SOTP valuation

(Wbn, x)

	12MF	Notes
EBITDA	4,581	
EV/EBITDA	9	Peer avg.
Operating value	41,456	
Mozambique gas field	447	10% stake
Net debt	37,504	
Fair value	4,399	
No. of shares ('000)	92,313	
Target price (W)	48,000	Rounded up from W47,650
Current price (W)	50.100	
Downside (%)	-4.19	
Implied P/B (x)	0.4	
Implied P/E (x)	4.0	

Source: Mirae Asset Securities Research

Table 5. Global gas utility players: Peer valuation table

(Wbn, %, x)

Company	Market cap	Revenue		OP		NP		ROE		P/E		P/B		EV/EBITDA	
		24F	25F	24F	25F	24F	25F	24F	25F	24F	25F	24F	25F	24F	25F
KOGAS	4,625	38,985	38,578	2,278	2,279	746	748	8.0	7.3	6.2	6.3	0.4	0.4	10.1	10.1
Tokyo Gas	13,262	25,194	25,440	1,263	1,291	901	905	5.6	5.5	14.0	13.9	0.8	0.8	6.3	6.3
Osaka Gas	13,322	18,819	18,874	1,171	1,175	1,045	1,040	7.1	6.9	12.4	12.1	0.9	0.8	8.2	8.1
Toho Gas	4,227	5,795	5,826	212	212	205	197	4.8	4.1	19.8	19.5	0.9	0.9	9.2	9.3
ENN Energy	9,926	21,812	23,075	1,904	2,068	1,282	1,394	15.0	15.2	7.7	7.1	1.1	1.0	5.6	5.1
Shenzhen Gas	3,557	6,376	7,092	428	521	330	391	10.8	11.9	10.9	9.3	1.2	1.1	6.0	5.3
HK and China Gas	20,383	10,091	10,524	1,558	1,631	1,084	1,146	10.4	11.2	18.9	17.9	2.0	2.0	14.7	13.8
China Gas	6,077	14,870	15,700	1,293	1,403	766	854	7.8	8.2	8.0	7.2	0.6	0.6	9.1	8.4
China Resources	10,242	18,118	19,331	1,695	1,860	948	1,039	12.5	12.9	10.7	9.7	1.3	1.3	7.0	6.4
GAIL	24,721	21,659	22,896	2,036	2,248	1,794	1,952	15.2	15.1	13.4	12.3	1.8	1.7	11.0	10.3
Petronas Gas	11,131	1,932	1,958	730	746	583	599	13.8	13.8	19.0	18.5	2.6	2.5	10.1	10.0
<b>Asia avg.</b>	<b>11,043</b>	<b>16,695</b>	<b>17,209</b>	<b>1,324</b>	<b>1,403</b>	<b>880</b>	<b>933</b>	<b>10.1</b>	<b>10.2</b>	<b>12.8</b>	<b>12.2</b>	<b>1.3</b>	<b>1.2</b>	<b>8.8</b>	<b>8.5</b>
APA	9,104	2,947	3,084	962	1,065	234	293	10.2	15.3	39.1	30.9	3.9	4.5	10.9	10.3
UGI	7,018	12,271	12,448	1,531	1,655	869	868	13.5	12.3	8.3	8.2	-	-	7.2	6.7
National Fuel	7,181	3,114	3,653	877	1,209	628	769	15.7	17.6	11.5	9.3	1.7	1.6	6.6	5.8
Atmos Energy	26,805	6,082	6,483	1,809	2,009	1,384	1,514	9.0	8.6	19.1	18.2	1.6	1.5	13.2	12.0
Dominion	62,770	20,391	21,380	6,086	6,864	3,131	3,885	8.7	10.2	20.2	16.5	1.7	1.7	12.6	11.4
Rubis	4,501	10,223	10,578	825	855	532	559	12.9	12.9	8.3	7.9	1.1	1.0	6.3	6.0
Enagas	5,364	1,354	1,291	625	560	392	374	3.5	9.7	13.7	14.4	1.3	1.4	10.0	10.8
Snam	22,265	6,237	6,548	2,566	2,670	1,846	1,873	15.7	15.5	12.2	11.9	1.9	1.8	11.4	10.9
<b>Global avg.</b>	<b>14,489</b>	<b>10,586</b>	<b>11,122</b>	<b>1,557</b>	<b>1,705</b>	<b>993</b>	<b>1,097</b>	<b>11.2</b>	<b>12.0</b>	<b>14.9</b>	<b>13.6</b>	<b>1.6</b>	<b>1.6</b>	<b>9.4</b>	<b>8.9</b>

Source: Bloomberg, Mirae Asset Securities Research

## KOGAS (036460 KS)

## Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
<b>Revenue</b>	<b>44,556</b>	<b>39,405</b>	<b>39,889</b>	<b>40,414</b>
<b>Cost of revenue</b>	<b>42,599</b>	<b>36,545</b>	<b>36,776</b>	<b>37,323</b>
<b>GP</b>	<b>1,957</b>	<b>2,860</b>	<b>3,113</b>	<b>3,091</b>
<b>SG&amp;A expenses</b>	<b>404</b>	<b>477</b>	<b>521</b>	<b>526</b>
<b>OP (adj.)</b>	<b>1,553</b>	<b>2,383</b>	<b>2,592</b>	<b>2,566</b>
<b>OP</b>	<b>1,553</b>	<b>2,383</b>	<b>2,592</b>	<b>2,566</b>
<b>Non-operating profit</b>	<b>-2,415</b>	<b>-1,189</b>	<b>-1,308</b>	<b>-875</b>
Net financial income	-1,561	-1,356	-1,228	-875
Net income from associates	105	136	0	0
Pretax profit	-862	1,194	1,284	1,691
Income tax	-114	206	243	281
Profit from continuing operations	-747	989	1,041	1,410
Profit from discontinued operations	0	0	0	0
<b>NP</b>	<b>-747</b>	<b>989</b>	<b>1,041</b>	<b>1,410</b>
Attributable to owners	-761	987	1,039	1,408
Attributable to minority interests	14	2	2	2
<b>Total comprehensive income</b>	<b>-537</b>	<b>1,102</b>	<b>1,041</b>	<b>1,410</b>
Attributable to owners	-553	1,114	1,040	1,408
Attributable to minority interests	16	-13	2	2
EBITDA	3,441	4,360	4,549	4,483
FCF	4,554	287	2,372	1,763
EBITDA margin (%)	7.7	11.1	11.4	11.1
OP margin (%)	3.5	6.0	6.5	6.3
Net margin (%)	-1.7	2.5	2.6	3.5

## Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
<b>Operating cash flow</b>	<b>5,886</b>	<b>1,873</b>	<b>3,972</b>	<b>3,363</b>
NP	-747	989	1,041	1,410
Non-cash income/expenses	4,519	3,317	3,006	2,650
Depreciation	1,887	1,977	1,957	1,917
Amortization	0	0	0	0
Other	2,632	1,340	1,049	733
Chg. in working capital	3,581	-1,309	967	31
Chg. in AR & other receivables	4,756	-74	85	21
Chg. in inventory	2,633	-151	66	16
Chg. in AP & other payables	453	-796	798	-10
Income tax	-81	-78	-243	-281
<b>Cash flow from investing activities</b>	<b>-1,334</b>	<b>-1,577</b>	<b>-1,990</b>	<b>-1,998</b>
Chg. in PP&E	-1,329	-1,584	-1,600	-1,600
Chg. in intangible assets	-34	-252	-400	-400
Chg. in financial assets	75	-26	10	2
Other	-46	285	0	0
<b>Cash flow from financing activities</b>	<b>-4,587</b>	<b>-414</b>	<b>-2,001</b>	<b>-1,374</b>
Chg. in financial liabilities	-4,799	211	-1,780	-1,155
Chg. in equity	0	0	0	0
Dividends	-8	-15	-215	-215
Other	220	-610	-6	-4
<b>Chg. in cash</b>	<b>-33</b>	<b>145</b>	<b>-2</b>	<b>9</b>
Beginning balance	813	781	925	924
Ending balance	781	925	924	932

Source: Company data, Mirae Asset Securities Research estimates

## Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
<b>Current assets</b>	<b>17,430</b>	<b>18,116</b>	<b>17,898</b>	<b>17,854</b>
Cash & equivalents	781	925	924	932
AR & other receivables	7,032	7,260	7,168	7,146
Inventory	5,043	5,207	5,141	5,125
Other current assets	4,574	4,724	4,665	4,651
<b>Non-current assets</b>	<b>39,824</b>	<b>40,091</b>	<b>40,106</b>	<b>40,169</b>
Investments in associates	1,840	1,822	1,805	1,787
PP&E	22,352	22,506	22,148	21,831
Intangible assets	1,553	1,829	2,229	2,629
<b>Total assets</b>	<b>57,255</b>	<b>58,207</b>	<b>58,004</b>	<b>58,024</b>
<b>Current liabilities</b>	<b>22,566</b>	<b>22,143</b>	<b>21,143</b>	<b>19,973</b>
AP & other payables	3,497	3,029	3,820	3,808
Short-term financial liabilities	18,264	18,283	16,502	15,347
Other current liabilities	805	831	821	818
<b>Non-current liabilities</b>	<b>24,862</b>	<b>25,128</b>	<b>25,098</b>	<b>25,091</b>
Long-term financial liabilities	22,599	22,791	22,791	22,791
Other non-current liabilities	2,263	2,337	2,307	2,300
<b>Total liabilities</b>	<b>47,429</b>	<b>47,271</b>	<b>46,241</b>	<b>45,065</b>
<b>Equity attributable to owners</b>	<b>9,627</b>	<b>10,858</b>	<b>11,682</b>	<b>12,876</b>
Capital stock	462	462	462	462
Capital surplus	2,018	2,018	2,018	2,018
Retained earnings	6,679	7,662	8,487	9,680
<b>Minority interests</b>	<b>199</b>	<b>79</b>	<b>81</b>	<b>83</b>
<b>Shareholders' equity</b>	<b>9,826</b>	<b>10,937</b>	<b>11,763</b>	<b>12,959</b>

## Key valuation metrics/ratios

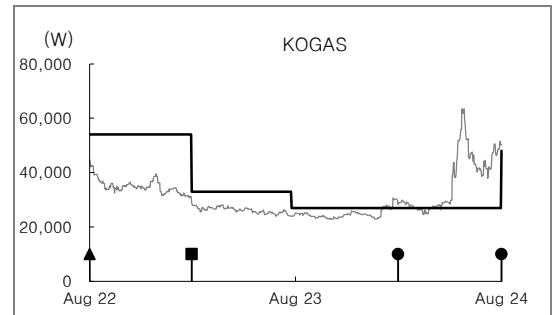
	2023	2024F	2025F	2026F
P/E (x)	-	4.7	4.4	3.3
P/CF (x)	0.6	1.1	1.1	1.1
P/B (x)	0.2	0.4	0.4	0.4
EV/EBITDA (x)	12.4	10.3	9.5	9.3
EPS (W)	-8,246	10,693	11,259	15,253
CFPS (W)	40,855	46,645	43,839	43,986
BPS (W)	105,937	119,269	128,203	141,132
DPS (W)	0	2,500	2,500	2,500
Dividend payout ratio (%)	0.0	21.7	20.6	15.2
Dividend yield (%)	0.0	5.0	5.0	5.0
Revenue growth (%)	-13.9	-11.6	1.2	1.3
EBITDA growth (%)	-18.4	26.7	4.3	-1.5
OP growth (%)	-36.9	53.4	8.8	-1.0
EPS growth (%)	-	-	5.3	35.5
AR turnover (x)	5.0	5.9	5.9	6.0
Inventory turnover (x)	7.0	7.7	7.7	7.9
AP turnover (x)	14.7	13.2	13.0	11.5
ROA (%)	-1.2	1.7	1.8	2.4
ROE (%)	-7.7	9.6	9.2	11.5
ROIC (%)	2.6	4.0	4.2	4.4
Debt-to-equity ratio (%)	482.7	432.2	393.1	347.8
Current ratio (%)	77.2	81.8	84.7	89.4
Net debt-to-equity ratio (%)	407.4	366.6	325.7	286.7
Interest coverage ratio (x)	0.9	1.6	1.9	2.6

# Appendix 1

## Important disclosures and disclaimers

### Two-year rating and TP history

Company	Date	Rating	TP (₩)
KOGAS (036460)	08/29/24	Hold	48,000
	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.

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	Buy	Trading Buy	Hold	Sell
Ratings distribution	79.52%	12.05%	8.43%	0%
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## Mirae Asset Securities International Network

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### Mirae Asset Securities Co., Ltd. (Seoul)

One-Asia Equity Sales Team  
Mirae Asset Center 1 Building  
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539  
Korea

Tel: 82-2-3774-2124

---

### Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor  
New York, NY 10019  
USA

Tel: 1-212-407-1000

---

### Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01  
Singapore 049909  
Republic of Singapore

Tel: 65-6671-9845

---

### Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers  
B12 Jianguomenwai Avenue, Chaoyang District  
Beijing 100022  
China

Tel: 86-10-6567-9699

---

### Ho Chi Minh Representative Office

7F, Saigon Royal Building  
91 Pasteur St.  
District 1, Ben Nghe Ward, Ho Chi Minh City  
Vietnam

Tel: 84-8-3910-7715

---

### Mirae Asset Securities (HK) Ltd.

Units 8501, 8507-8508, 85/F  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong  
Tel: 852-2845-6332

---

### Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building  
Vila Olimpia  
Sao Paulo - SP  
04551-060  
Brazil  
Tel: 55-11-2789-2100

---

### Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building  
91 Pasteur St.  
District 1, Ben Nghe Ward, Ho Chi Minh City  
Vietnam

Tel: 84-8-3911-0633 (ext.110)

---

### Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers  
B12 Jianguomenwai Avenue, Chaoyang District  
Beijing 100022  
China

Tel: 86-10-6567-9699 (ext. 3300)

---

### Mirae Asset Capital Markets (India) Pvt Ltd

1st Floor, Tower 4, Equinox Business Park,  
LBS Marg, Off BKC, Kurla (West), Mumbai - 400 070  
India

Tel: 91-22-62661300 / 48821300

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### Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42  
25 Old Broad Street,  
London EC2N 1HQ  
United Kingdom

Tel: 44-20-7982-8000

---

### PT. Mirae Asset Sekuritas Indonesia

District 8, Treasury Tower Building Lt. 50  
Sudirman Central Business District  
Jl. Jend. Sudirman, Kav. 52-54  
Jakarta Selatan 12190  
Indonesia  
Tel: 62-21-5088-7000

---

### Mirae Asset Securities Mongolia UTsK LLC

#406, Blue Sky Tower, Peace Avenue 17  
1 Khoroo, Sukhbaatar District  
Ulaanbaatar 14240  
Mongolia

Tel: 976-7011-0806

---

### Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center  
100 Century Avenue, Pudong New Area  
Shanghai 200120  
China

Tel: 86-21-5013-6392

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