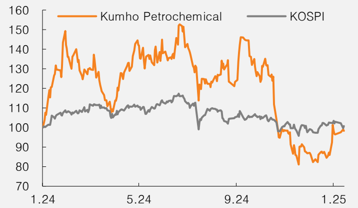
MIRAE ASSET Securities

Equity Research
February 4, 2025

(Maintain)	Trading Buy
Target price	▼ W120,000
Current price (2/4/25)	W106,400
Upside	12.8%

OP (24P, Wbn)	273
Consensus OP (24F, Wbn)	313
EPS growth (24P, %)	-18.7
Market EPS growth (24F, %)	68.6
P/E (24P, x)	8.0
Market P/E (24F, x)	10.6
KOSPI	2,481.69
Market cap (Wbn)	2,908
Shares (mn)	27
Free float (%)	56.1
Foreign ownership (%)	19.9
Beta (12M)	1.16
52-week low (W)	87,800
52-week high (W)	165,200

(%)	1M	6M	12M
Absolute	14.3	-24.8	-18.5
Relative	12.5	-18.9	-14.1



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011780 KS · Oil Refining

Kumho Petrochemical

OP misses due to maintenance and margin decline

Lower TP to W120,000; maintain Trading Buy

We maintain our Trading Buy rating on Kumho Petrochemical but lower our target price to W120,000 (from W140,000). Our downward revision reflects: 1) narrower spreads for phenol products; 2) a decline in the system marginal price (SMP); and 3) downward pressure on NBL and SBR spreads (leading us to revise down our earnings estimates). On a positive note, the firm stands to benefit from China's economic stimulus and maintains a relatively solid financial position, which may allow for M&As or stake acquisitions in 2025. We also believe the company will soon announce an updated shareholder return policy (as the previous three-year policy ended at end-2024).

4Q24 review: OP misses due to regular maintenance and margin deterioration

For 4Q24, Kumho Petrochemical reported in-line revenue of W1.8tr and operating profit of W10bn, with the latter figure missing the consensus (W49.4bn) by 80%. The consensus miss was caused by the combined impact of regular maintenance and margin deterioration. The phenol derivatives unit swung to an operating loss of W22.2bn (vs. operating profit of W1.1bn in 3Q24), hurt by: 1) reduced sales volume due to maintenance; and 2) narrowing product spreads. The fine chemicals/energy/other unit posted operating profit of W12.8bn, with OP margin falling sharply YoY to 7.1% (vs. 20% in 4Q23) due to regular maintenance and a lower SMP.

1Q25 preview: Earnings to pick up on a low base

For 1Q25, we expect operating profit to jump 495% QoQ to W59.5bn thanks to a low base arising from large-scale maintenance in 4Q24.

That said, margin improvement in 2025 is likely to be limited. For 2025, we forecast OP margin for energy and other businesses to decline due to narrower spreads for subsidiary Kumho P&B Chemicals' phenol products and the SMP decline (from W130-140 to W120). Additionally, the firm could struggle to pass on the recent increase in BD costs to NBL and SBR product prices.

(Dec.)	2022	2023	2024P	2025F	2026F
Revenue (Wbn)	7,976	6,323	7,155	7,594	7,457
OP (Wbn)	1,147	359	273	302	412
OP margin (%)	14.4	5.7	3.8	4.0	5.5
NP (Wbn)	1,020	447	348	300	391
EPS (W)	30,848	13,880	11,288	9,868	12,890
ROE (%)	19.0	7.8	5.9	4.9	6.2
P/E (x)	4.1	9.6	8.0	10.8	8.3
P/B (x)	0.7	0.7	0.5	0.5	0.5
Dividend yield (%)	4.3	2.2	1.8	2.3	2.3

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

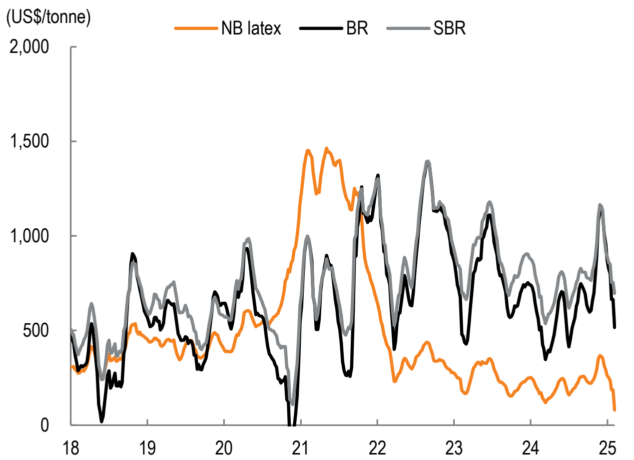
Table 1. Quarterly and annual earnings

(Wbn)

		1Q24	2Q24	3Q24	4Q24P	1Q25F	2Q25F	3Q25F	4Q25F	2023	2024P	2025F
Revenue	**Total**	**1,667.5**	**1,852.5**	**1,827.9**	**1,807.1**	**2,003.0**	**1,827.1**	**1,938.2**	**1,825.6**	**6,322.3**	**7,155.0**	**7,593.9**
	Synthetic rubber	595.5	707.7	733.5	758.5	759.9	738.7	739.5	740.0	2,162.1	2,795.2	2,978.1
	Synthetic resins	322.2	332.0	312.9	315.8	399.8	394.2	388.6	383.0	1,250.1	1,282.9	1,565.7
	Phenol derivatives	398.8	444.4	406.5	385.5	497.2	367.0	465.1	356.6	1,484.4	1,635.2	1,685.9
	EPDM/TPV	168.5	172.9	160.2	166.3	168.5	172.9	160.2	166.3	645.3	667.9	667.9
	Other	182.5	195.5	214.8	181.0	177.6	154.3	184.7	179.7	780.4	773.8	696.4
OP	**Total**	**78.6**	**119.2**	**65.0**	**10.0**	**59.5**	**70.6**	**92.3**	**79.5**	**358.9**	**272.8**	**301.9**
	Synthetic rubber	25.1	46.6	10.7	18.4	22.8	22.2	29.6	37.0	96.8	100.8	111.5
	Synthetic resins	-1.4	1.2	-8.7	-9.5	-2.0	3.9	11.7	7.7	-6.0	-18.4	21.3
	Phenol derivatives	-2.5	5.7	1.1	-22.2	-13.5	-4.0	-5.1	-13.9	2.8	-17.9	-36.5
	EPDM/TPV	23.2	22.4	14.0	10.5	20.2	20.7	19.2	20.0	86.4	70.1	80.1
	Other	34.2	43.3	47.9	12.8	32.0	27.8	36.9	28.7	178.9	138.2	125.4
Pretax profit		120.3	155.8	61.6	69.0	77.9	90.0	110.2	96.5	490.3	406.7	374.5
NP		102.5	131.5	53.1	60.4	62.3	72.0	88.1	77.2	448.8	347.6	299.6

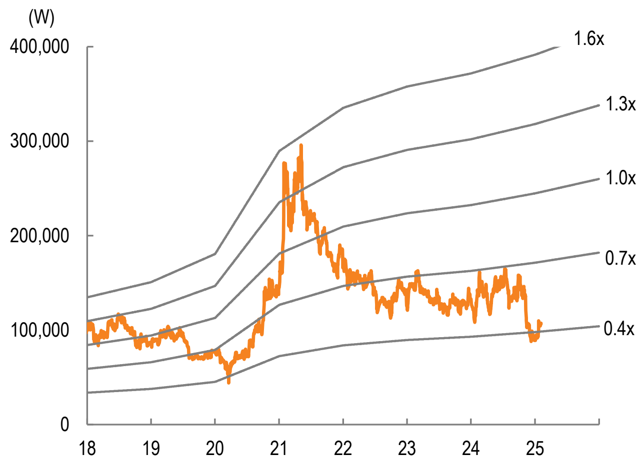
Source: Company data, Mirae Asset Securities Research

Figure 1. Synthetic rubber spreads



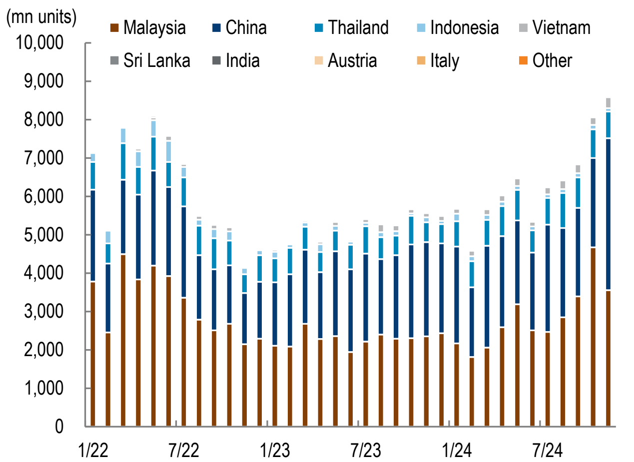
Source: Cischem, KITA, Mirae Asset Securities Research

Figure 2. 12-month forward P/B band chart



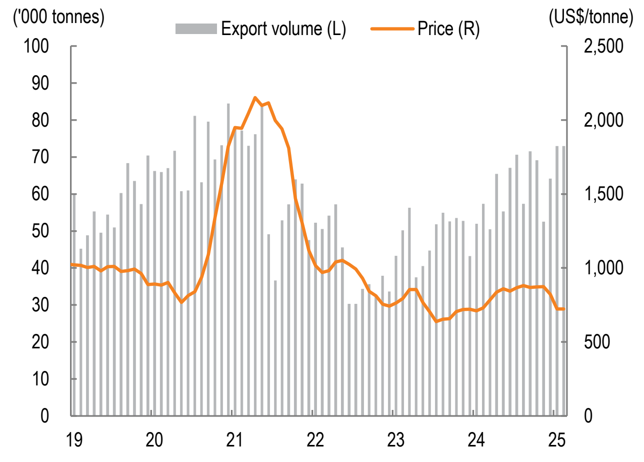
Source: Cischem, KITA, Mirae Asset Securities Research

Figure 3. US surgical glove import trends



Source: USITC, Mirae Asset Securities Research

Figure 4. Korea NB latex export trends



Source: KITA, Mirae Asset Securities Research

Kumho Petrochemical (011780 KS)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	**6,323**	**7,155**	**7,594**	**7,457**
Cost of revenue	**5,677**	**6,581**	**6,991**	**6,744**
GP	**646**	**574**	**603**	**713**
SG&A expenses	**287**	**301**	**301**	**301**
OP (adj.)	**359**	**273**	**302**	**412**
OP	**359**	**273**	**302**	**412**
Non-operating profit	**126**	**134**	**73**	**77**
Net financial income	12	1	-7	-3
Net income from associates	111	94	80	80
Pretax profit	485	407	375	489
Income tax	38	59	75	98
Profit from continuing operations	447	348	300	391
Profit from discontinued operations	0	0	0	0
NP	**447**	**348**	**300**	**391**
Attributable to owners	447	348	300	391
Attributable to minority interests	0	0	0	0
Total comprehensive income	**398**	**327**	**300**	**391**
Attributable to owners	398	327	300	391
Attributable to minority interests	0	0	0	0
EBITDA	610	545	599	729
FCF	41	29	13	130
EBITDA margin (%)	9.6	7.6	7.9	9.8
OP margin (%)	5.7	3.8	4.0	5.5
Net margin (%)	7.1	4.9	4.0	5.2

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	**2,571**	**2,669**	**2,729**	**2,871**
Cash & equivalents	452	116	150	301
AR & other receivables	770	899	908	905
Inventory	746	935	945	941
Other current assets	603	719	726	724
Non-current assets	**5,408**	**5,722**	**5,936**	**6,115**
Investments in associates	888	1,058	1,069	1,065
PP&E	3,965	4,172	4,382	4,571
Intangible assets	37	38	30	25
Total assets	**7,980**	**8,392**	**8,665**	**8,986**
Current liabilities	**1,530**	**1,675**	**1,688**	**1,683**
AP & other payables	723	862	871	868
Short-term financial liabilities	540	495	495	495
Other current liabilities	267	318	322	320
Non-current liabilities	**616**	**785**	**788**	**787**
Long-term financial liabilities	346	464	464	464
Other non-current liabilities	270	321	324	323
Total liabilities	**2,146**	**2,460**	**2,476**	**2,470**
Equity attributable to owners	**5,829**	**5,926**	**6,184**	**6,511**
Capital stock	167	167	167	167
Capital surplus	404	404	404	404
Retained earnings	5,392	5,572	5,701	5,898
Minority interests	**5**	**5**	**5**	**5**
Shareholders' equity	**5,834**	**5,931**	**6,189**	**6,516**

Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Operating cash flow	**631**	**526**	**513**	**630**
NP	447	348	300	391
Non-cash income/expenses	195	248	280	318
Depreciation	244	264	290	311
Amortization	8	9	8	6
Other	-57	-25	-18	1
Chg. in working capital	101	-96	-4	2
Chg. in AR & other receivables	-65	-130	-9	3
Chg. in inventory	78	-190	-10	3
Chg. in AP & other payables	151	86	6	-2
Income tax	-161	-19	-75	-98
Cash flow from investing activities	**-592**	**-615**	**-507**	**-498**
Chg. in PP&E	-588	-496	-500	-500
Chg. in intangible assets	0	0	0	0
Chg. in financial assets	53	-107	-7	2
Other	-57	-12	0	0
Cash flow from financing activities	**-153**	**-64**	**-42**	**-65**
Chg. in financial liabilities	86	73	0	0
Chg. in equity	0	0	0	0
Dividends	-147	-77	-42	-65
Other	-92	-60	0	0
Chg. in cash	**-115**	**-336**	**34**	**151**
Beginning balance	567	452	116	150
Ending balance	452	116	150	301

Source: Company data, Mirae Asset Securities Research estimates

Key valuation metrics/ratios

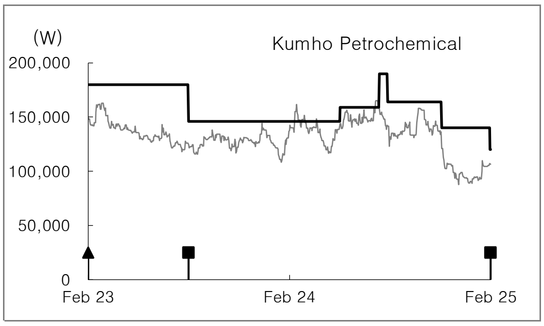
	2023	2024F	2025F	2026F
P/E (x)	9.6	8.0	10.8	8.3
P/CF (x)	6.7	4.7	5.6	4.6
P/B (x)	0.7	0.5	0.5	0.5
EV/EBITDA (x)	6.4	5.2	5.4	4.2
EPS (W)	13,880	11,288	9,868	12,890
CFPS (W)	19,948	19,357	19,107	23,379
BPS (W)	185,837	196,263	200,505	207,000
DPS (W)	2,900	1,600	2,500	2,500
Dividend payout ratio (%)	15.1	10.6	19.2	14.7
Dividend yield (%)	2.2	1.8	2.7	2.7
Revenue growth (%)	-20.7	13.2	6.1	-1.8
EBITDA growth (%)	-56.1	-10.7	9.9	21.6
OP growth (%)	-68.7	-24.0	10.6	36.4
EPS growth (%)	-55.0	-18.7	-12.6	30.6
AR turnover (x)	8.9	8.9	8.7	8.5
Inventory turnover (x)	8.1	8.5	8.1	7.9
AP turnover (x)	13.5	12.2	11.8	11.4
ROA (%)	5.7	4.2	3.5	4.4
ROE (%)	7.8	5.9	4.9	6.2
ROIC (%)	7.2	5.2	4.7	6.2
Debt-to-equity ratio (%)	36.8	41.5	40.0	37.9
Current ratio (%)	168.1	159.3	161.7	170.6
Net debt-to-equity ratio (%)	-1.8	3.4	2.6	0.2
Interest coverage ratio (x)	11.8	8.4	8.1	11.0

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
Kumho Petrochemical (011780)	02/04/25	Trading Buy	120,000
	11/08/24	Trading Buy	140,000
	08/02/24	Trading Buy	164,000
	07/18/24	Trading Buy	190,000
	05/08/24	Trading Buy	159,000
	08/07/23	Trading Buy	146,000
	11/04/22	Buy	180,000



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	84.62%	7.14%	8.24%	0%
Investment banking services	85.71%	0%	14.29%	0%

* Based on recommendations in the last 12-months (as of December 31, 2024)

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