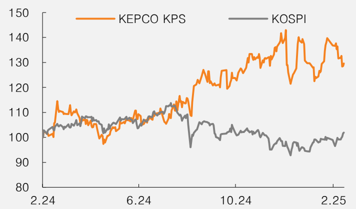
MIRAE ASSET Securities

Equity Research
February 14, 2025

(Maintain)	Buy
Target price	W55,000
Current price (2/14/25)	W44,050
Upside	24.9%

OP (24P, Wbn)	210
Consensus OP (24F, Wbn)	225
EPS growth (24P, %)	6.0
Market EPS growth (24F, %)	67.9
P/E (24P, x)	11.5
Market P/E (24F, x)	11.1
KOSPI	2,591.05
Market cap (Wbn)	1,982
Shares (mn)	45
Free float (%)	48.0
Foreign ownership (%)	17.1
Beta (12M)	-0.13
52-week low (W)	33,100
52-week high (W)	48,600

(%)	1M	6M	12M
Absolute	2.3	5.3	29.4
Relative	-1.4	7.4	30.8



Mirae Asset Securities Co., Ltd.

Jay JH Ryu
jay.ryu@miraeasset.com

051600 KS · Utilities

KEPCO KPS

Growing nuclear power momentum

4Q24 review: Robust growth in nuclear business vs. temporary rise in labor costs

For 4Q24, KEPCO KPS posted revenue of W431.2bn (-2.1% YoY). Revenue from the thermal (-11% YoY), overseas (-20.3% YoY), and domestic IPP (-35.5% YoY) segments declined due to the completion of performance improvement projects for POSCO as well as low-margin projects in India. However, nuclear revenue jumped 23.2% YoY, driven by routine/planned maintenance projects. The transmission/transformation (T/T) unit also reported double-digit growth (+14.6% YoY), driven by refurbishment and repair projects.

Operating profit slumped 30.9% YoY to W40.9bn, missing the consensus (W56.8bn) due to: 1) the contraction in thermal-related revenue (-W18.8bn YoY) and a rise in retirement benefit expenses; and 2) a 16.1% YoY increase in labor expenses due to one-time recognition of wage hikes and higher bonus payments. Excluding these temporary factors, operating profit would have been W50-55bn.

Nuclear momentum to grow (Romania, Czech Republic, etc.)

Currently, the growth of KEPCO KPS's nuclear business is being driven by domestic projects (including the Shin-Hanul 2 reactor in 2024 and the Saeul 3 and 4 reactors in 2025). However, overseas momentum is likely to pick up as well. The firm recently secured a contract for the Cernavoda nuclear power plant project in Romania (total project value: W2.8tr), which is likely to generate annual revenue of W50-100bn over its duration (five to six years); revenue recognition could begin as early as 2025.

We also expect KEPCO KPS to secure additional overseas orders this year, including the Dukovany nuclear power plant project in the Czech Republic (contract likely to be signed in 1H25). The company is also seeking to secure orders in the UAE (units 5 and 6 of the Barakah power plant). All in all, we see overseas order momentum continuing to grow for some time.

Maintain Buy and TP of W55,000

We maintain our Buy rating on KEPCO KPS with a target price of W55,000. Currently trading at a 2025F P/E of 10.6x, the stock looks undervalued in light of its stable growth and high dividend yield. We believe long-term growth will be supported by not only nuclear momentum but also green transition projects and T/T market growth. Reflecting 4Q24 results, we lowered our 2024 DPS forecast to W2,250 (from W2,400). However, the stock should maintain an attractive dividend yield of around 5%, providing downside support. The company is set to announce its 2024 dividend payout at its upcoming shareholders' meeting in March.

(Dec.)	2022	2023	2024P	2025F	2026F
Revenue (Wbn)	1,429	1,534	1,557	1,641	1,790
OP (Wbn)	131	199	210	228	241
OP margin (%)	9.2	13.0	13.5	13.9	13.5
NP (Wbn)	100	163	172	187	199
EPS (W)	2,226	3,615	3,831	4,161	4,416
ROE (%)	8.6	13.1	13.2	13.6	13.6
P/E (x)	14.9	9.4	11.5	10.6	10.0
P/B (x)	1.2	1.2	1.5	1.4	1.3
Dividend yield (%)	3.9	6.3	5.1	5.3	5.7

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

Table 1. 4Q24 review (Wbn, %, %p)

	4Q23	3Q23	4Q24P			Growth	
			Preliminary	Mirae Asset Securities	Consensus	YoY	QoQ
Revenue	440	354	431	457	453	-2.1	21.7
OP	59	42	41	58	57	-30.9	-2.6
OP margin (%)	13.4	11.8	9.5	12.7	12.5	-4.0	-2.4
Pretax profit	59	44	47	59	54	-20.4	6.8
NP	46	34	35	46	43	-23.2	4.5

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

Table 2. Earnings forecast revisions (Wbn, %)

	Previous		Revised		% chg.		Notes
	24F	25F	24P	25F	24P	25F	
Revenue	1,583	1,753	1,557	1,641	-1.6	-6.4	Reflected 4Q24 results
OP	226.7	247.4	209.5	228.1	-7.6	-7.8	
Pretax profit	238	256	225	245	-5.4	-4.1	
NP	183	197	172	187	-5.9	-4.9	
EPS (W)	4,072	4,377	3,831	4,161	-5.9	-4.9	

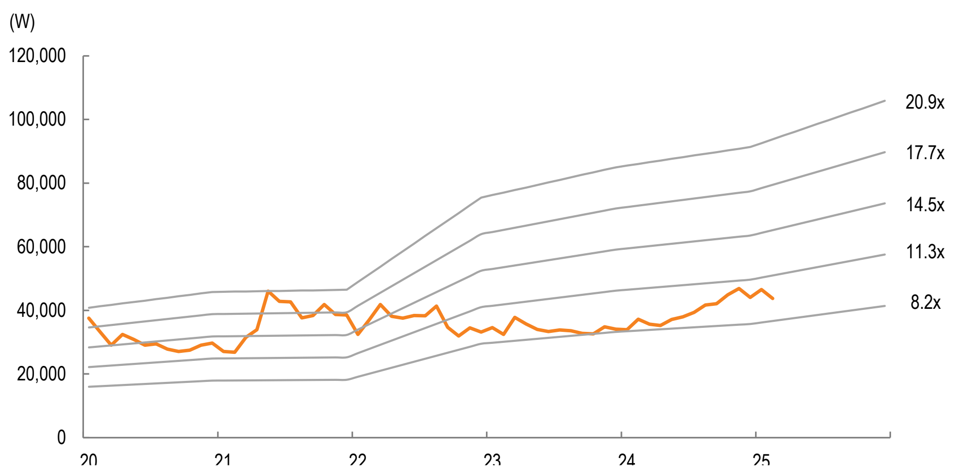
Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, Mirae Asset Securities Research

Table 3. Quarterly and annual earnings (Wbn, %)

	1Q24	2Q24	3Q24	4Q24P	1Q25F	2Q25F	3Q25F	4Q25F	2024P	2025F	2026F
Revenue	343	429	354	431	371	425	386.0	459	1,557	1,641	1,790
Thermal	104	152	101	152	115	161	115	160	509	551	572
Nuclear/hydro	147	169	158	176	152	161	170	174	650	658	688
T/T	24	29	28	31	34	30	43	60	112	167	119
Domestic IPP	18	29	35	47	18	29	32	30	108	85	143
Overseas	50	50	32	27	53	44	26	34	178	180	269
OP	52	74	42	41	58	70	48	52	210	228	241
Pretax profit	56	78	44	47	60	74	54	57	225	245	261
NP	44	60	34	35	46	56	41	44	172	187	199
OP margin (%)	15.2	17.4	11.8	9.5	15.5	16.5	12.5	11.4	13.5	13.9	13.4
Pretax margin (%)	16.4	18.2	12.4	10.9	16.2	17.4	14.0	12.5	14.5	15.0	14.6
Net margin (%)	12.7	13.9	9.6	8.2	12.4	13.3	10.6	9.5	11.1	11.4	11.1

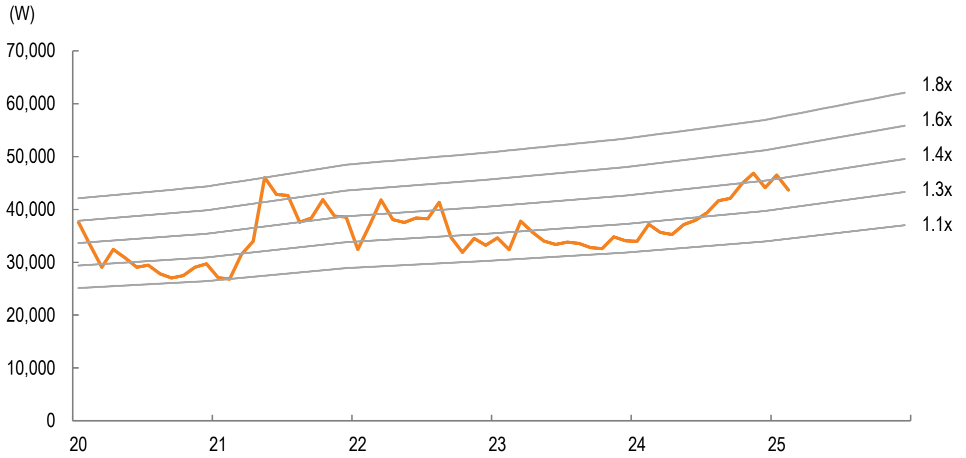
Notes: Under consolidated K-IFRS; NP is attributable to owners of the parent
Source: Company data, WISEfn, Mirae Asset Securities Research estimates

Figure 1. 12-month forward P/E band chart



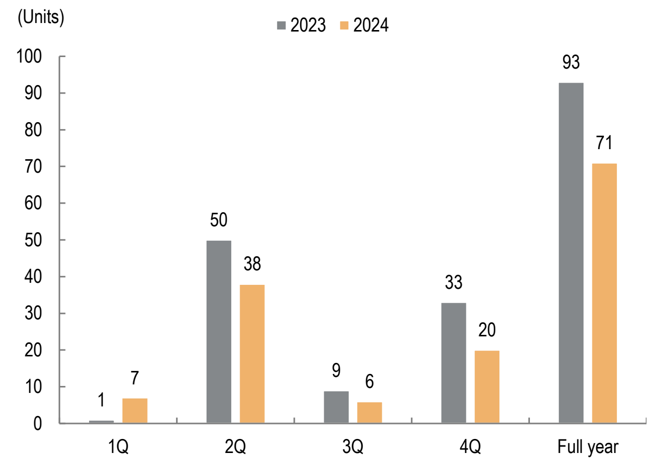
Source: QuantiWise, Mirae Asset Securities Research

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



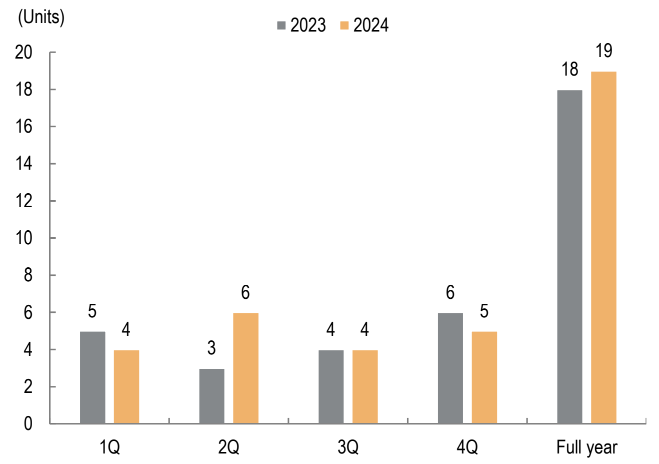
Source: QuantiWise, Mirae Asset Securities Research

Figure 3. Thermal: 2023-24 maintenance



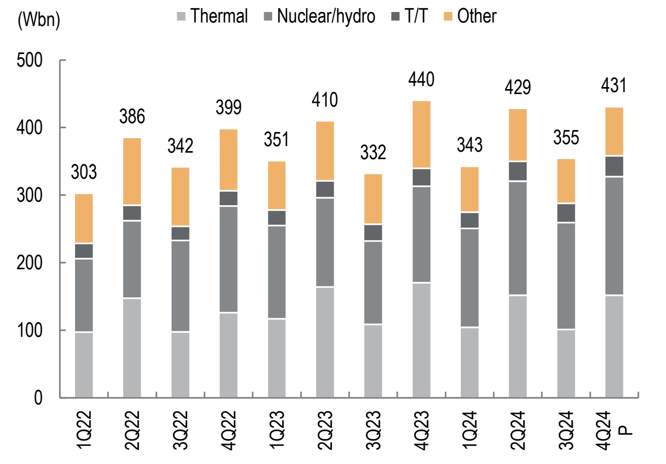
Source: Company data, Mirae Asset Securities Research

Figure 4. Nuclear: 2023-24 maintenance



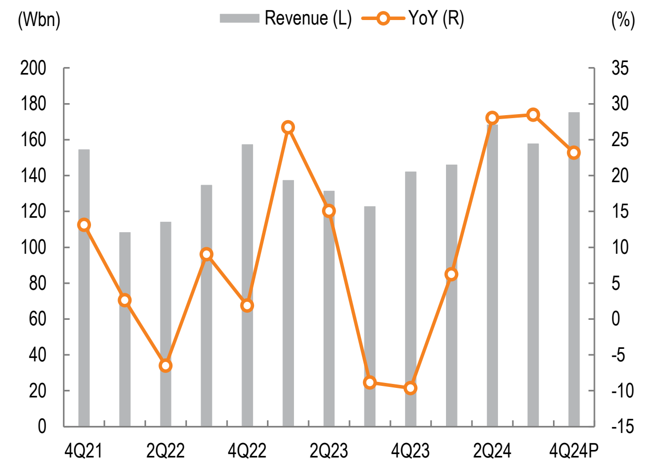
Source: Company data, Mirae Asset Securities Research

Figure 5. Quarterly revenue breakdown by division



Source: Company data, Mirae Asset Securities Research

Figure 6. Quarterly nuclear revenue trends



Source: Company data, Mirae Asset Securities Research

KEPCO KPS (051600 KS)

Income statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Revenue	**1,534**	**1,557**	**1,641**	**1,790**
Cost of revenue	**1,251**	**1,262**	**1,323**	**1,452**
GP	**283**	**295**	**318**	**338**
SG&A expenses	**84**	**86**	**90**	**97**
OP (adj.)	**199**	**210**	**228**	**241**
OP	**199**	**210**	**228**	**241**
Non-operating profit	**12**	**15**	**17**	**20**
Net financial income	10	13	17	20
Net income from associates	0	3	0	0
Pretax profit	211	225	245	261
Income tax	48	53	58	62
Profit from continuing operations	163	172	187	199
Profit from discontinued operations	0	0	0	0
NP	**163**	**172**	**187**	**199**
Attributable to owners	163	172	187	199
Attributable to minority interests	0	0	0	0
Total comprehensive income	**116**	**155**	**187**	**199**
Attributable to owners	116	155	187	199
Attributable to minority interests	0	0	0	0
EBITDA	251	274	293	308
FCF	-79	222	209	161
EBITDA margin (%)	16.4	17.6	17.9	17.2
OP margin (%)	13.0	13.5	13.9	13.5
Net margin (%)	10.6	11.0	11.4	11.1

Balance sheet (summarized)

(Wbn)	2023	2024F	2025F	2026F
Current assets	**968**	**1,056**	**1,155**	**1,251**
Cash & equivalents	49	146	249	301
AR & other receivables	216	212	225	237
Inventory	25	25	26	28
Other current assets	678	673	655	685
Non-current assets	**629**	**638**	**648**	**664**
Investments in associates	0	0	0	0
PP&E	449	454	461	475
Intangible assets	9	8	6	4
Total assets	**1,597**	**1,694**	**1,803**	**1,915**
Current liabilities	**319**	**359**	**382**	**400**
AP & other payables	23	22	24	25
Short-term financial liabilities	5	5	5	6
Other current liabilities	291	332	353	369
Non-current liabilities	**6**	**5**	**5**	**5**
Long-term financial liabilities	3	2	2	2
Other non-current liabilities	3	3	3	3
Total liabilities	**325**	**364**	**387**	**406**
Equity attributable to owners	**1,273**	**1,330**	**1,416**	**1,509**
Capital stock	9	9	9	9
Capital surplus	0	0	0	0
Retained earnings	1,264	1,321	1,407	1,500
Minority interests	**0**	**0**	**0**	**0**
Shareholders' equity	**1,273**	**1,330**	**1,416**	**1,509**

Cash flow statement (summarized)

(Wbn)	2023	2024F	2025F	2026F
Operating cash flow	**-38**	**268**	**280**	**241**
NP	163	172	187	199
Non-cash income/expenses	219	211	106	109
Depreciation	50	62	63	66
Amortization	2	2	2	1
Other	167	147	41	42
Chg. in working capital	-363	-60	27	-25
Chg. in AR & other receivables	-243	99	-13	-11
Chg. in inventory	3	1	-2	-1
Chg. in AP & other payables	0	10	1	1
Income tax	-63	-62	-58	-62
Cash flow from investing activities	**30**	**-56**	**-75**	**-84**
Chg. in PP&E	-38	-45	-71	-80
Chg. in intangible assets	-3	-1	0	0
Chg. in financial assets	34	1	-4	-4
Other	37	-11	0	0
Cash flow from financing activities	**-65**	**-115**	**-101**	**-105**
Chg. in financial liabilities	-1	-1	0	0
Chg. in equity	0	0	0	0
Dividends	-59	-97	-101	-106
Other	-5	-17	0	1
Chg. in cash	**-73**	**97**	**104**	**52**
Beginning balance	123	49	146	249
Ending balance	49	146	249	301

Key valuation metrics/ratios

	2023	2024F	2025F	2026F
P/E (x)	9.4	11.5	10.6	10.0
P/CF (x)	4.0	5.2	6.8	6.4
P/B (x)	1.2	1.5	1.4	1.3
EV/EBITDA (x)	5.9	6.7	5.9	5.4
EPS (W)	3,615	3,831	4,161	4,416
CFPS (W)	8,487	8,527	6,519	6,843
BPS (W)	28,280	29,556	31,467	33,533
DPS (W)	2,158	2,250	2,350	2,500
Dividend payout ratio (%)	59.7	58.7	56.5	56.6
Dividend yield (%)	6.3	5.1	5.4	5.7
Revenue growth (%)	7.3	1.5	5.4	9.1
EBITDA growth (%)	41.0	8.9	7.2	5.0
OP growth (%)	52.7	5.1	8.9	5.5
EPS growth (%)	62.4	6.0	8.6	6.1
AR turnover (x)	9.5	7.4	7.6	7.9
Inventory turnover (x)	56.8	62.3	64.3	66.4
AP turnover (x)	109.3	93.7	96.3	100.0
ROA (%)	10.3	10.5	10.7	10.7
ROE (%)	13.1	13.2	13.6	13.6
ROIC (%)	14.4	14.3	16.0	16.7
Debt-to-equity ratio (%)	25.5	27.3	27.3	26.9
Current ratio (%)	303.7	294.5	302.8	312.5
Net debt-to-equity ratio (%)	-3.7	-11.6	-18.2	-20.5
Interest coverage ratio (x)	244.0	297.1	389.8	378.3

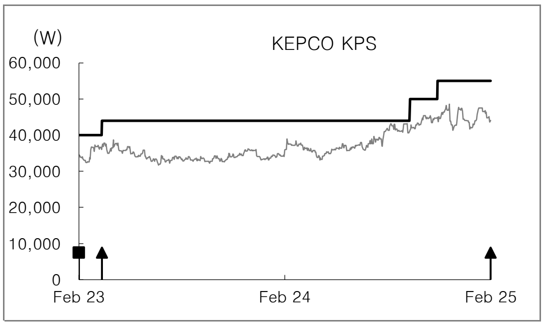
Source: Company data, Mirae Asset Securities Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
KEPCO KPS (051600)	11/12/24	Buy	55,000
	09/24/24	Buy	50,000
	03/28/24	One year	44,000
	03/28/23	Buy	44,000
	09/29/22	Trading Buy	40,000



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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Mirae Asset Securities (USA) Inc. 810 Seventh Avenue, 37th Floor New York, NY 10019 USA Tel: 1-212-407-1000	**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	**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 (Singapore) Pte. Ltd. 6 Battery Road, #11-01 Singapore 049909 Republic of Singapore Tel: 65-6671-9845	**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)	**Mirae Asset Securities Mongolia UTsK LLC** #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0806
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	**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)	**Shanghai Representative Office** 38T31, 38F, Shanghai World Financial Center 100 Century Avenue, Pudong New Area Shanghai 200120 China Tel: 86-21-5013-6392
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 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	