064400 KS · IT Services

LG CNS

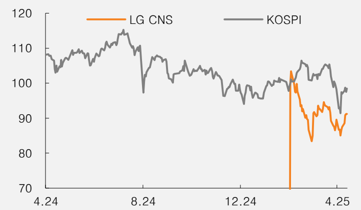
A market leader with strengths in cloud services and AI

Equity Research
April 18, 2025

(Initiate)	**Buy**
Target price	**W68,000**
Current price (4/17/25)	W50,900
Upside	33.6%

OP (25F, Wbn)	565
Consensus OP (25F, Wbn)	563
EPS growth (25F, %)	0.2
Market EPS growth (25F, %)	24.8
P/E (25F, x)	12.2
Market P/E (25F, x)	8.9
KOSPI	2,470.41
Market cap (Wbn)	4,931
Shares (mn)	97
Free float (%)	28.2
Foreign ownership (%)	0.5
Beta (12M)	0.51
52-week low (W)	46,550
52-week high (W)	57,700

(%)	1M	6M	12M
Absolute	-0.6	0.0	0.0
Relative	5.1	0.0	0.0



Mirae Asset Securities Co., Ltd.

Soojin Kim
soojin.kim@miraeasset.com

Initiate at Buy with a TP of W68,000

We initiate our coverage on LG CNS with a Buy rating and target price of W68,000 and present the stock as our top IT services pick for the 1Q25 earnings season. We derived our target price by applying a P/E of 14.7x—the median 12-month forward multiple of domestic peers (Samsung SDS, Hyundai AutoEver, and Lotte Innovate) from 2024 onward—to our 12-month forward EPS estimate. The stock is trading at a P/E of 12.1x, below its IPO level. We see significant upside potential, given likely solid 1Q25 results.

Investment points: Revenue growth, AI momentum, and margin improvement

LG CNS is a leading system integration (SI) company under LG Group. The firm stands out for its best-in-class technology and proven track record, which have helped it achieve the highest share of non-captive revenue (37%) among peers. Its broadening non-affiliate customer base (particularly in the financial and public sectors) should lead to rapid growth in the cloud/AI segment as the AI era takes hold. LG CNS was listed on the KOSPI on Feb. 5 (IPO price: W61,900). As of 2024, its major shareholders are LG Corp. (49.95%) and Crystal Korea (35%).

Key investment points include top-line growth, AI momentum, and margin improvement. Revenue growth is supported by the firm's well-diversified customer base, especially in the financial and public sectors, which are quickly adopting AI and cloud technologies; thanks to its strong track record, LG CNS is well-positioned to win more non-captive orders. On the AI front, the firm is leveraging LG's proprietary LLM Exaone to roll out various AI services, which should soon produce tangible results. We also see potential for a global rollout of proprietary solutions such as Optapex. Lastly, margins are likely to improve on enhanced cost efficiency from AI and cost savings stemming from the global development center (GDC) in Vietnam.

1Q25 preview: Solid revenue and OP likely despite a challenging environment

For 1Q25, we estimate revenue at W1.16tr (+8.7% YoY) and operating profit at W70.5bn (+118% YoY; OP margin of 6.1%). Although 1Q typically has the weakest seasonality, we look for strong YoY profit growth due to: 1) a favorable base (arising from one-off costs related to a leadership change in 1Q24); and 2) cost-cutting efforts.

We estimate revenue from the cloud/AI business expanded 15.8% YoY to W638.6bn, driving overall top-line growth. The division continued to demonstrate strong competitiveness by securing major contracts, including a next-generation AI system project for Mirae Asset Life Insurance and an AI platform project for NH Bank. For the digital business services (SI) division, we estimate revenue was solid at W313.2bn (+5.6% YoY) despite a challenging macro backdrop.

(Dec.)	2022	2023	2024	2025F	2026F
Revenue (Wbn)	4,970	5,605	5,983	6,472	7,022
OP (Wbn)	385	464	513	565	638
OP margin (%)	7.7	8.3	8.6	8.7	9.1
NP (Wbn)	265	332	365	403	442
EPS (W)	3,043	3,811	4,180	4,188	4,559
ROE (%)	17.2	19.0	18.3	18.0	17.6
P/E (x)	-	-	-	12.2	11.2
P/B (x)	-	-	-	2.1	1.9
Dividend yield (%)	-	-	-	3.3	3.3

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

1Q25 preview

For 1Q25, we estimate revenue at W1.16tr (+8.7% YoY) and operating profit at W70.5bn (+118% YoY; OP margin of 6.1%). We estimate cloud/AI revenue expanded 15.8% YoY to W638.6bn, driving overall top-line growth. The division continued to demonstrate strong competitiveness by securing major contracts, including a next-generation AI system project for Mirae Asset Life Insurance and an AI platform project for NH Bank. Based on its strong track record, we believe the company is well-positioned to win additional AI system contracts in the financial sector.

For the digital business services (SI) division, we estimate revenue at W313.2bn (+5.6% YoY). Despite a challenging macro backdrop, the division likely continued solid growth, reflecting a structural shift in IT spending behavior. While economic downturns have historically led companies to cut back on IT spending, digital transformation is now seen as essential to long-term competitiveness, keeping IT investments a key priority. With AI adoption accelerating, we expect this trend to continue this year.

Meanwhile, we estimate smart engineering revenue at W212.3bn (-4.7% YoY). As the division has relatively high reliance on affiliate volume, it was likely affected by sluggish downstream demand at key affiliates, including LG Electronics (LGE) and LG Chem. However, we expect the division's earnings to pick up as end-market conditions improve.

Table 1. Quarterly earnings and forecasts (Wbn)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F
Revenue	**1,049.0**	**1,372.6**	**1,277.3**	**1,906.4**	**1,070.4**	**1,449.6**	**1,438.4**	**2,024.2**	**1,164.0**	**1,534.4**	**1,516.7**	**2,257.4**
YoY growth	*18.5%*	*19.4%*	*9.4%*	*7.9%*	*2.0%*	*5.6%*	*12.6%*	*6.2%*	*8.7%*	*5.8%*	*5.4%*	*11.5%*
Digital business services	349.3	398.1	363.7	406.8	296.5	344.9	366.5	386.0	313.2	368.2	352.6	403.2
YoY growth	*14.7%*	*6.5%*	*7.9%*	*-5.1%*	*-15.1%*	*-13.4%*	*0.8%*	*-5.1%*	*5.6%*	*6.8%*	*-3.8%*	*4.5%*
Cloud/AI	477.6	674.6	650.6	1,091.4	551.3	806.0	795.0	1,199.6	638.6	871.5	901.7	1,431.8
YoY growth	*17.0%*	*29.5%*	*6.9%*	*13.3%*	*15.4%*	*19.5%*	*22.2%*	*9.9%*	*15.8%*	*8.1%*	*13.4%*	*19.4%*
Smart engineering	222.1	299.9	263.0	408.3	222.7	298.8	276.9	438.6	212.3	294.6	262.4	422.3
YoY growth	*28.7%*	*17.6%*	*18.5%*	*8.7%*	*0.3%*	*-0.4%*	*5.3%*	*7.4%*	*-4.7%*	*-1.4%*	*-5.2%*	*-3.7%*
OP	**63.2**	**113.8**	**89.2**	**197.8**	**32.3**	**137.7**	**142.8**	**200.1**	**70.5**	**139.6**	**134.3**	**220.7**
YoY growth	*-2.7%*	*30.3%*	*-6.4%*	*43.6%*	*-48.9%*	*21.0%*	*60.1%*	*1.1%*	*118.3%*	*1.4%*	*-5.9%*	*10.3%*
OP margin	*6.0%*	*8.3%*	*7.0%*	*10.4%*	*3.0%*	*9.5%*	*9.9%*	*9.9%*	*6.1%*	*9.1%*	*8.9%*	*9.8%*
NP attr. to owners of the parent	**42.5**	**75.5**	**63.4**	**151.0**	**12.3**	**102.5**	**117.9**	**131.8**	**41.7**	**102.2**	**98.0**	**161.6**
YoY growth	*7.0%*	*17.1%*	*-9.6%*	*65.8%*	*-71.1%*	*35.8%*	*86.0%*	*-12.7%*	*239.5%*	*-0.3%*	*-16.8%*	*22.6%*

Source: Company data, Mirae Asset Securities Research

2025 outlook

In 2025, we expect revenue to expand 8.2% YoY to W6.47tr, marking a faster pace of growth (vs. 2024). By business, we forecast revenue at W1.44tr (+3.1% YoY) for digital business services, W3.84tr (+14.7% YoY) for cloud/AI, and W1.19tr (-3.7% YoY) for smart engineering.

In arriving at our forecasts, we anchored our analysis on the growth outlook for the domestic IT services and cloud industries. Globally, the IT services market is projected to reach US$1.73tr in 2025 and grow at a CAGR of 9.2% through 2028. In Korea (as of 2024), the IT services and packaged software markets stand at roughly W10.4tr and W10.3tr, respectively, and both markets are expected to grow at 4-5% annually going forward.

For the smart engineering business, our forecast is based primarily on anticipated capex by four major group affiliates: LGE, LG Chem, LG Energy Solution (LGES), and LG Uplus. In 2025, their combined capex is expected to decline to W25.9tr (vs. W28.6tr in 2023 and W27.6tr in 2024), which should lead to a YoY contraction in smart engineering revenue for LG CNS. That said, we expect the division's revenue to rebound over the medium to long term as end-market conditions improve.

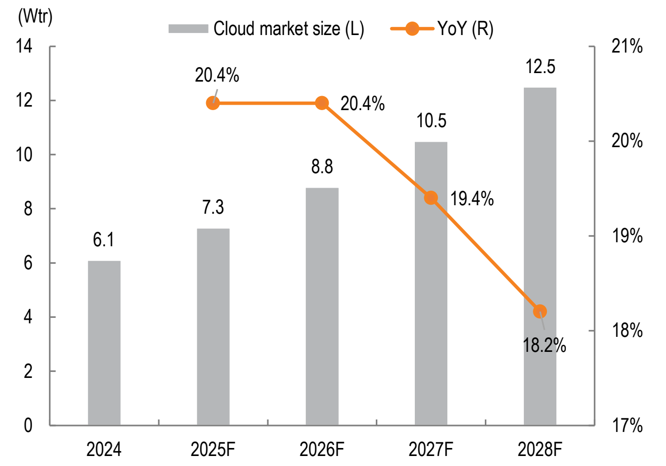
Meanwhile, we forecast operating profit to grow 10.2% YoY to W565bn (OP margin of 8.7%), supported by: 1) improved cost efficiency due to AI adoption; and 2) cost savings stemming from the Vietnam GDC.

Table 2. Annual earnings and forecasts (Wbn)

	2022	2023	2024	2025F	2026F
Revenue	**4,969.7**	**5,605.3**	**5,982.6**	**6,472.5**	**7,021.7**
YoY growth	-	*12.8%*	*6.7%*	*8.2%*	*8.5%*
Digital business services	1,443.6	1,517.8	1,393.8	1,437.2	1,516.4
YoY growth	-	*5.1%*	*-8.2%*	*3.1%*	*5.5%*
Cloud/AI	2,500.9	2,894.2	3,351.8	3,843.6	4,341.0
YoY growth	-	*15.7%*	*15.8%*	*14.7%*	*12.9%*
Smart engineering	1,025.1	1,193.3	1,237.0	1,191.7	1,281.1
YoY growth	-	*16.4%*	*3.7%*	*-3.7%*	*7.5%*
OP	**385.4**	**464.0**	**512.9**	**565.1**	**637.9**
YoY growth	-	*20.4%*	*10.5%*	*10.2%*	*12.9%*
OP margin	*7.8%*	*8.3%*	*8.6%*	*8.7%*	*9.1%*
NP attr. to owners of the parent	**265.4**	**332.3**	**364.5**	**403.6**	**443.0**
YoY growth	-	*25.2%*	*9.7%*	*10.7%*	*9.8%*

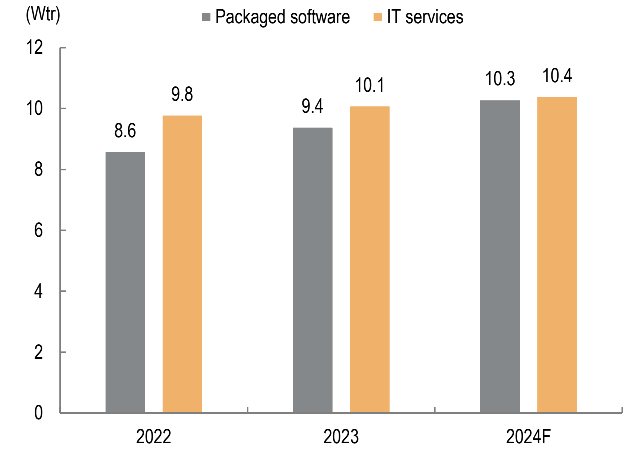
Source: Company data, Mirae Asset Securities Research

Figure 1. Domestic cloud market outlook



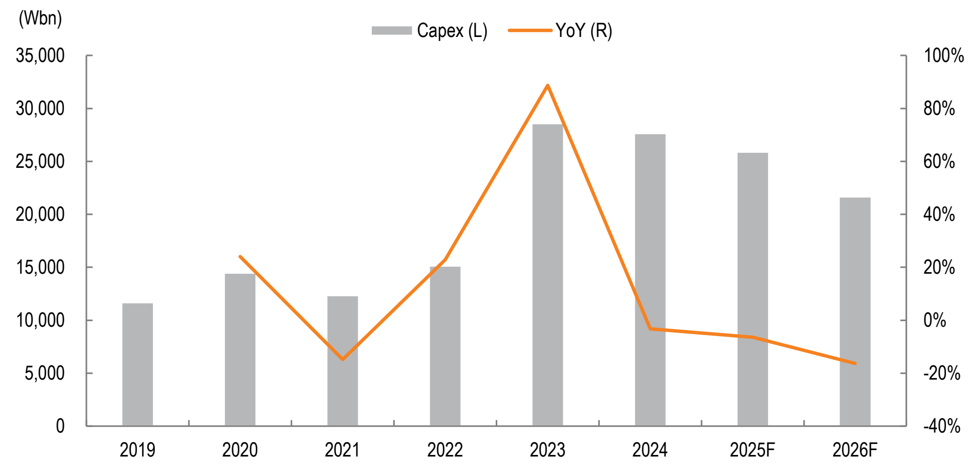
Source: IDC, Mirae Asset Securities Research

Figure 2. Domestic IT services/packaged software market outlook



Source: IDC, Mirae Asset Securities Research

Figure 3. Capex outlook for three major LG Group affiliates (LGE, LG Chem, and LG Uplus)



Source: QuantiWise, Mirae Asset Securities Research

Table 3. Valuation table (W)

	Value	Notes
12MF EPS	4,628	
Target P/E (x)	14.7	Median 12MF P/E of domestic peers (Samsung SDS, Hyundai AutoEver, Lotte Innovate) from 2024 onward
Target price	68,000	
Current price	50,900	Apr. 17 closing price
Upside	33.6%	

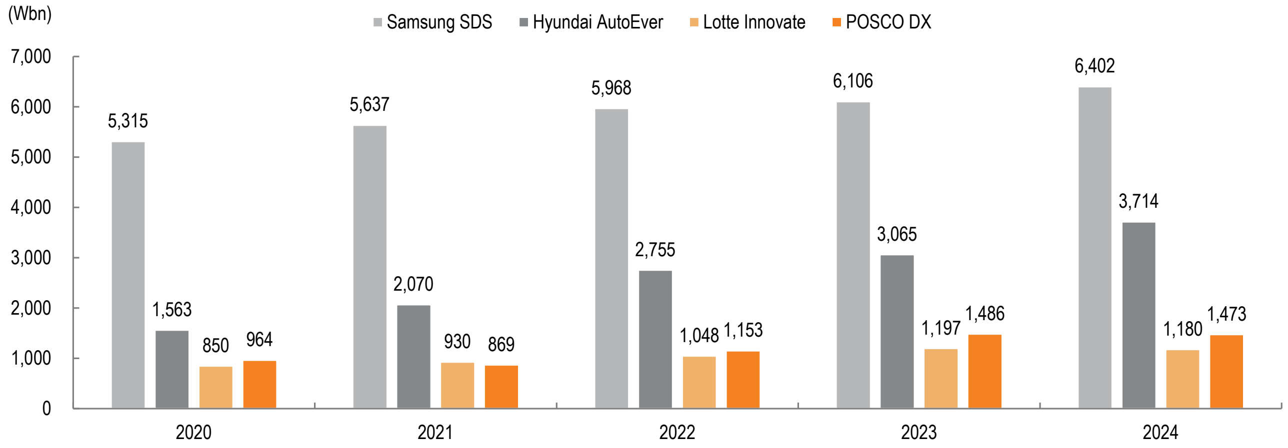
Source: Mirae Asset Securities Research

Table 4. Peer valuations (W, US$, Wbn, US$bn, x)

	Company name	Ticker	Share price	Market cap.	Return				P/E	P/B	P/S
					YTD	1M	6M	1Y	FY1	FY1	FY1
Domestic	Samsung SDS	018260 KS	115,900	8,968,087	-9.6	-3.9	-22.7	-21.6	11.1	0.9	0.6
	LG CNS	064400 KS	51,400	4,979,938	-	-0.6	-	-	12.2	1.8	0.8
	POSCO DX	022100 KS	24,300	3,690,643	27.1	-12.1	-14.5	-39.7	50.7	6.4	3.1
	Hyundai AutoEver	307950 KS	119,900	3,288,135	-4.9	-12.3	-18.0	-15.6	17.0	1.8	0.8
	Lotte Innovate	286940 KS	17,480	264,461	-9.8	-10.5	-25.9	-47.7	8.9	0.6	0.2
	Shinsegae I&C	035510 KS	12,050	183,986	-16.6	-3.0	24.8	12.8	-	-	-
Global	Microsoft	MSFT US	386	2,867,510	-8.5	-0.7	-7.3	-7.0	29.3	8.5	10.4
	Oracle	ORCL US	134	375,599	-19.6	-10.3	-23.4	11.0	22.4	19.4	6.6
	SAP	SAP SE	262	321,819	6.4	-0.7	14.2	45.1	35.7	5.5	7.4
	Salesforce	CRM US	255	244,988	-23.7	-8.8	-12.4	-8.1	22.9	3.7	6.0
	Palantir	PLTR US	98	230,783	30.1	14.1	134.7	349.7	179.9	35.4	61.4
	ServiceNow	NOW US	817	169,017	-23.0	-3.3	-11.1	9.6	50.0	13.2	13.0
	Intuit	INTU US	594	166,082	-5.5	-0.8	-2.5	-2.8	30.7	8.3	9.0
	Workday	WDAY US	233	62,063	-9.6	-4.4	-2.9	-9.5	27.4	5.7	6.5
	Snowflake	SNOW US	147	48,959	-5.1	-6.1	23.2	-2.5	126.3	16.1	10.9
	Datadog	DDOG US	93	31,920	-35.2	-9.1	-26.5	-27.1	53.1	9.5	10.0

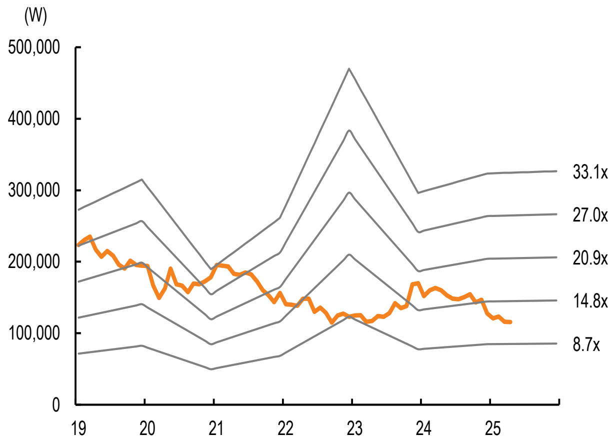
Note: Based on Apr. 15 closing prices
Source: Bloomberg, Mirae Asset Securities Research

Figure 4. Revenue comparison of four major domestic IT services companies



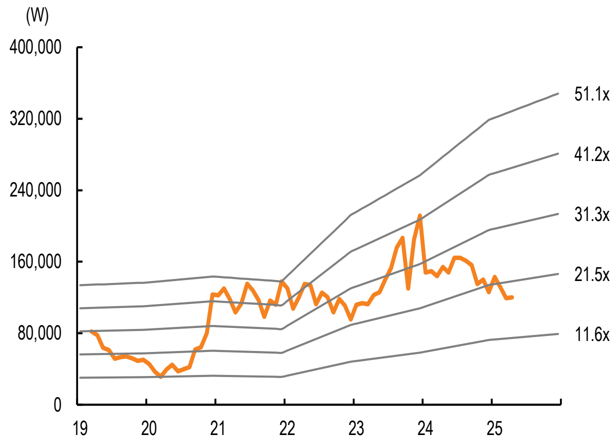
Note: Samsung SDS figures include only IT services revenue
Source: Company data, Mirae Asset Securities Research

Figure 5. Samsung SDS: P/E band chart



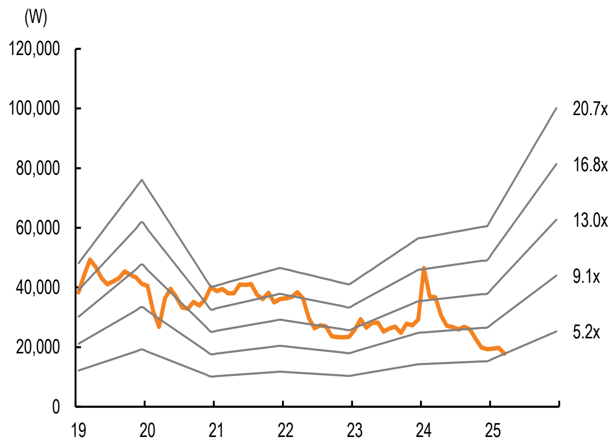
Source: QuantiWise, Mirae Asset Securities Research

Figure 6. Hyundai AutoEver: P/E band chart



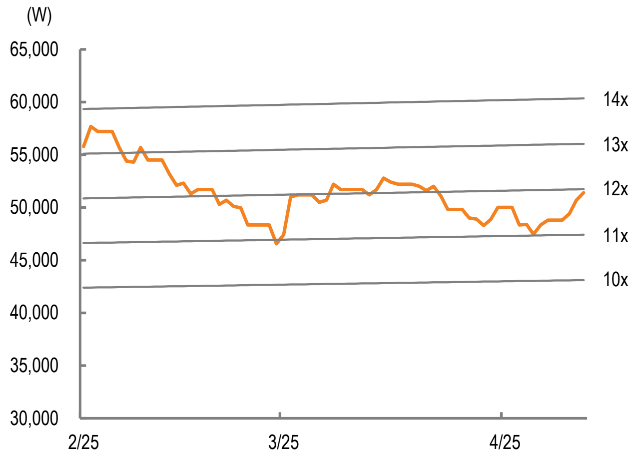
Source: QuantiWise, Mirae Asset Securities Research

Figure 7. Lotte Innovate: P/E band chart



Source: QuantiWise, Mirae Asset Securities Research

Figure 8. LG CNS: P/E band chart



Source: Bloomberg, Mirae Asset Securities Research

LG CNS (064400 KS)

Income statement (summarized)

(Wbn)	2023	2024	2025F	2026F
Revenue	**5,605**	**5,983**	**6,472**	**7,022**
Cost of revenue	**4,770**	**5,051**	**5,460**	**5,923**
GP	**835**	**932**	**1,012**	**1,099**
SG&A expenses	**371**	**418**	**448**	**461**
OP (adj.)	**464**	**513**	**565**	**638**
OP	**464**	**513**	**565**	**638**
Non-operating profit	**-21**	**-28**	**-20**	**-41**
Net financial income	-4	5	10	19
Net income from associates	15	5	20	20
Pretax profit	443	485	545	597
Income tax	110	121	141	154
Profit from continuing operations	332	365	404	443
Profit from discontinued operations	0	0	0	0
NP	**332**	**365**	**404**	**443**
Attributable to owners	332	365	403	442
Attributable to minority interests	0	0	1	1
Total comprehensive income	**341**	**385**	**404**	**443**
Attributable to owners	341	384	404	442
Attributable to minority interests	0	0	1	1
EBITDA	561	617	667	731
FCF	100	685	382	434
EBITDA margin (%)	10.0	10.3	10.3	10.4
OP margin (%)	8.3	8.6	8.7	9.1
Net margin (%)	5.9	6.1	6.2	6.3

Balance sheet (summarized)

(Wbn)	2023	2024	2025F	2026F
Current assets	**3,037**	**3,435**	**3,801**	**4,029**
Cash & equivalents	505	1,077	1,170	1,119
AR & other receivables	1,532	1,662	1,853	2,050
Inventory	66	46	51	57
Other current assets	934	650	727	803
Non-current assets	**1,003**	**1,069**	**1,038**	**1,011**
Investments in associates	102	124	139	153
PP&E	549	545	511	461
Intangible assets	88	64	50	57
Total assets	**4,041**	**4,505**	**4,839**	**5,040**
Current liabilities	**1,543**	**1,852**	**2,022**	**2,137**
AP & other payables	768	794	886	980
Short-term financial liabilities	22	232	214	137
Other current liabilities	753	826	922	1,020
Non-current liabilities	**629**	**529**	**434**	**239**
Long-term financial liabilities	591	486	386	186
Other non-current liabilities	38	43	48	53
Total liabilities	**2,172**	**2,382**	**2,456**	**2,376**
Equity attributable to owners	**1,863**	**2,115**	**2,373**	**2,653**
Capital stock	47	47	47	47
Capital surplus	35	35	35	35
Retained earnings	1,772	2,003	2,261	2,540
Minority interests	**5**	**8**	**9**	**10**
Shareholders' equity	**1,868**	**2,123**	**2,382**	**2,663**

Cash flow statement (summarized)

(Wbn)	2023	2024	2025F	2026F
Operating cash flow	**144**	**715**	**437**	**464**
NP	332	365	404	443
Non-cash income/expenses	285	353	233	228
Depreciation	76	86	89	80
Amortization	22	18	13	13
Other	187	249	131	135
Chg. in working capital	-338	121	-70	-72
Chg. in AR & other receivables	-133	-83	-191	-197
Chg. in inventory	-11	21	-5	-5
Chg. in AP & other payables	23	-14	91	94
Income tax	-133	-130	-141	-154
Cash flow from investing activities	**-114**	**-13**	**-67**	**-62**
Chg. in PP&E	-39	-30	-55	-30
Chg. in intangible assets	-11	-6	0	-20
Chg. in financial assets	-44	78	-12	-12
Other	-20	-55	0	0
Cash flow from financing activities	**-255**	**-141**	**-263**	**-439**
Chg. in financial liabilities	-136	105	-117	-277
Chg. in equity	0	0	0	0
Dividends	-104	-133	-146	-162
Other	-15	-113	0	0
Chg. in cash	**-224**	**572**	**94**	**-52**
Beginning balance	728	505	1,077	1,170
Ending balance	505	1,077	1,170	1,119

Key valuation metrics/ratios

	2023	2024	2025F	2026F
P/E (x)	-	-	12.2	11.2
P/CF (x)	-	-	7.7	7.3
P/B (x)	-	-	2.1	1.9
EV/EBITDA (x)	-	-	6.4	5.5
EPS (W)	3,811	4,180	4,188	4,559
CFPS (W)	7,080	8,238	6,620	6,927
BPS (W)	21,369	24,257	24,500	27,386
DPS (W)	1,520	1,672	1,672	1,672
Dividend payout ratio (%)	39.9	40.0	40.1	36.6
Dividend yield (%)	0.0	0.0	3.4	3.4
Revenue growth (%)	12.8	6.7	8.2	8.5
EBITDA growth (%)	18.4	9.9	8.2	9.6
OP growth (%)	20.4	10.5	10.2	12.9
EPS growth (%)	25.2	9.7	0.2	8.8
AR turnover (x)	3.8	3.7	3.7	3.6
Inventory turnover (x)	92.0	106.4	133.3	130.2
AP turnover (x)	6.3	6.5	6.5	6.4
ROA (%)	8.4	8.5	8.7	9.0
ROE (%)	19.0	18.3	18.0	17.6
ROIC (%)	23.5	25.1	28.5	31.3
Debt-to-equity ratio (%)	116.3	112.2	103.1	89.2
Current ratio (%)	196.8	185.5	188.0	188.5
Net debt-to-equity ratio (%)	-3.1	-21.1	-28.1	-34.0
Interest coverage ratio (x)	12.6	19.2	21.0	33.8

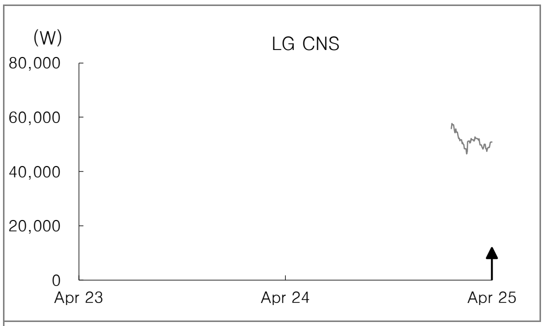
Source: Company data, Mirae Asset Securities Research estimates

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (W)
LG CNS (064400)	04/18/25	Buy	68,000



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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Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution	83.98%	6.63%	8.84%	0.55%
Investment banking services	88.24%	0%	11.76%	0%

* Based on recommendations in the last 12-months (as of March 31, 2025)

Disclosures

We managed the IPO of LG CNS within the past one year. |

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Mirae Asset Securities International Network

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 (HK) Ltd. Units 8501, 8507-8508, 85/F International Commerce Centre 1 Austin Road West Kowloon Hong Kong Tel: 852-2845-6332	Mirae Asset Securities (UK) Ltd. 41st Floor, Tower 42 25 Old Broad Street, London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000
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	