

Emart (139480 KS)

Retail

October review: Same-store sales growth turned negative

Maintain Hold rating

We maintain our Hold rating on Emart. Considering that the discount-store industry is likely to stagnate for the time being, we expect Emart's revenue growth to remain tepid. Although most Emart discount stores resumed normal operations in September on weekends and public holidays, regulatory risks are likely to reemerge. Additionally, the resumption of normal operations is expected to provide only a limited boost to sales growth because of the economic downturn. As such, we do not expect any significant upside to Emart shares.

October review: Same-store sales growth turned negative

In October, Emart posted gross merchandise sales (GMS) of W991bn (down 0.5% YoY), net sales of W841.9bn (down 1.2% YoY), and an operating profit of W54.6bn (down 16% YoY). Emart's October same-store sales turned negative again after posting a short recovery of +0.1% YoY improvement in September. Emart's same-store sales had posted five months of negative growth from April. In October, Emart Mall (online) posted GMS of W38.1bn (up 54.3% YoY), but incurred an operating loss of W3.1bn (compared to -W1.4bn in October 2011) because of increases in promotions. Emart Traders (a warehouse-style store) recorded GMS of W47.4bn (up 49.1% YoY), and an operating loss of W1.1bn (compared to +W0.3bn in October 2011). Emart's overall gross profit margin improved 0.3%p YoY to 25% but OP margin came in at 5.5%, down 1%p YoY due to higher promotional costs.

New businesses still too small to turn the whole company around

We believe sales at Emart's warehouse-style stores, as well as its online shopping unit, will continue to outgrow sales at its discount stores. Significant discounts at warehouse-style stores will likely attract consumers during an economic recession, in our opinion. Emart is currently operating seven Emart Traders, and plans to transform loss-making discount stores into Emart Traders in the future. As for online shopping, industrial products account for a major portion of overall sales at the present time. But with consumers' increasing faith in the company's fresh-food delivery services, online fresh-food sales are growing. Nevertheless, we believe the new businesses are still too small (8.6% of total revenue in October) to turn the whole company around. We also think the online business and warehouse-style stores yield lower margins than conventional discount stores, therefore, the increasing growth of these formats is expected to dilute profit margins.

► Earnings & Valuation Metrics

| FY | Revenues (Wbn) | OP (Wbn) | OP Margin (%) | NP (Wbn) | EPS (Won) | EBITDA (Wbn) | FCF (Wbn) | ROE (%) | P/E (x) | P/B (x) | EV/EBITDA (x) |
|--------|-------------------|-------------|------------------|-------------|--------------|-----------------|--------------|------------|------------|------------|------------------|
| 12/11 | 7,974 | 491 | 6.2 | 306 | 10,972 | 750 | 642 | 5.6 | 25.4 | 1.5 | 14.4 |
| 12/12F | 11,938 | 763 | 6.4 | 524 | 18,808 | 1,120 | 1,421 | 9.1 | 12.4 | 1.1 | 5.9 |
| 12/13F | 12,313 | 813 | 6.6 | 555 | 19,897 | 1,161 | 1,378 | 8.9 | 11.8 | 1.0 | 5.6 |
| 12/14F | 12,727 | 854 | 6.7 | 580 | 20,789 | 1,208 | 1,513 | 8.5 | 11.3 | 0.9 | 5.3 |

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests

Source: Company data, KDB Daewoo Securities Research estimates

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Hold (Maintain)

| | |
|--|----------|
| Target Price (12M, W) | - |
| Share Price (11/14/12, W) | 234,000 |
| Expected Return (%) | - |
| EPS Growth (12F, %) | 71.4 |
| Market EPS Growth (12F, %) | 8.9 |
| P/E (12F, x) | 12.4 |
| Market P/E (12F, x) | 10.2 |
| KOSPI | 1,894.04 |
| Market Cap (Wbn) | 6,523 |
| Shares Outstanding (mn) | 28 |
| Avg Trading Volume (60D, '000) | 25 |
| Avg Trading Value (60D, Wbn) | 6 |
| Dividend Yield (12F, %) | 0.3 |
| Free Float (%) | 72.9 |
| 52-Week Low (W) | 212,500 |
| 52-Week High (W) | 307,000 |
| Beta (12M, Daily Rate of Return) | 0.59 |
| Price Return Volatility (12M Daily, %, SD) | 2.0 |
| Foreign Ownership (%) | 63.9 |

Major Shareholder(s)

M.H. Lee et al. (27.14%)

Aberdeen Asset Mgt Asia et al. (11.26%)

First State Investment Mgt (UK) et al. (9.51%)

Price Performance

| (%) | 1M | 6M | 12M |
|----------|-----|-------|-------|
| Absolute | 0.4 | -13.0 | -21.5 |
| Relative | 2.5 | -12.0 | -21.0 |

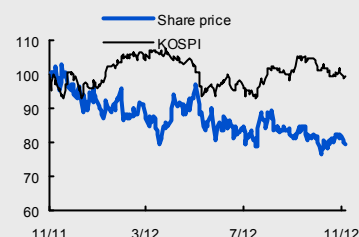


Table 1. October results

(Wbn)

| | Monthly | | | Growth rate (%) | |
|------------------|---------|---------|---------|-----------------|--------|
| | 10/2012 | 9/2012 | 10/2011 | MoM | YoY |
| Gross sales | 991.0 | 1,206.8 | 996.4 | -17.9 | -0.5 |
| Emart | 885.9 | 1,083.7 | 903.5 | -18.3 | -1.9 |
| New businesses | 105.0 | 123.1 | 92.9 | -14.7 | 13.0 |
| Net sales | 841.9 | 1,059.7 | 852.1 | -20.6 | -1.2 |
| Gross profit | 248.3 | 294.7 | 246.6 | -15.7 | 0.7 |
| Operating profit | 54.6 | 77.9 | 65.0 | -29.8 | -16.0 |
| Emart | 58.5 | 79.3 | 65.9 | -26.2 | -11.2 |
| New businesses | -3.9 | -1.4 | -0.9 | RR | RR |
| GP margin (%) | 25.0 | 24.4 | 24.7 | 0.6%p | 0.3%p |
| OP margin (%) | 5.5 | 6.5 | 6.5 | -0.9%p | -1.0%p |
| Emart | 6.6 | 7.3 | 7.3 | -0.7%p | -0.7%p |
| New businesses | -3.7 | -1.1 | -1.0 | -2.6%p | -2.7%p |

Notes: 1) RR refers to "Remain in Red;" 2) Monthly figures based on non-consolidated K-IFRS

Sources: Company data, KDB Daewoo Securities Research

Table 2. Earnings forecast revisions

(Wbn)

| | Before | | | After | | | Diff. (%) | | | Comments |
|-------------------|----------|----------|----------|----------|----------|----------|-----------|-----|-----|----------|
| | 12F | 13F | 14F | 12F | 13F | 14F | 12F | 13F | 14F | |
| GMS | 12,472.0 | 12,818.6 | 13,199.7 | 12,472.0 | 12,818.6 | 13,199.7 | 0.0 | 0.0 | 0.0 | |
| Net revenues | 11,937.6 | 12,313.4 | 12,726.5 | 11,937.6 | 12,313.4 | 12,726.5 | 0.0 | 0.0 | 0.0 | |
| Operating profit | 763.4 | 812.7 | 853.5 | 763.4 | 812.7 | 853.5 | 0.0 | 0.0 | 0.0 | |
| Pretax profit | 720.1 | 761.8 | 796.0 | 720.1 | 761.8 | 796.0 | 0.0 | 0.0 | 0.0 | |
| Net profit | 524.3 | 554.6 | 579.5 | 524.3 | 554.6 | 579.5 | 0.0 | 0.0 | 0.0 | |
| OP margin (%) | 6.1 | 6.3 | 6.5 | 6.1 | 6.3 | 6.5 | | | | |
| Pretax margin (%) | 5.8 | 5.9 | 6.0 | 5.8 | 5.9 | 6.0 | | | | |
| Net margin (%) | 4.2 | 4.3 | 4.4 | 4.2 | 4.3 | 4.4 | | | | |

Note: 1) Margins are based on GMS; 2) Based on consolidated K-IFRS

Source: KDB Daewoo Securities Research estimates

Table 3. Quarterly earnings forecasts

(Wbn)

| | 2011 | | | 2012F | | | | 3Q12F Growth (%) | | 2011 | 2012F | 2013F |
|-------------------|---------|---------|---------|---------|---------|---------|---------|------------------|-------|---------|----------|----------|
| | 2Q | 3Q | 4Q | 1Q | 2Q | 3QF | 4QF | QoQ | YoY | | | |
| Gross sales | 2,014.6 | 3,306.1 | 3,032.6 | 2,993.3 | 3,118.0 | 3,180.4 | 3,180.4 | 2.0 | -3.8 | 8,353.3 | 12,472.0 | 12,818.6 |
| Net sales | 1,922.9 | 3,182.1 | 2,869.4 | 3,233.6 | 2,959.5 | 3,044.1 | 2,700.3 | 2.9 | -4.3 | 7,974.4 | 11,937.6 | 12,313.4 |
| Operating profit | 142.8 | 201.4 | 146.3 | 189.5 | 190.7 | 228.1 | 155.1 | 19.6 | 13.2 | 490.5 | 763.4 | 812.7 |
| Pretax profit | 153.4 | 176.0 | 121.4 | 167.6 | 195.2 | 218.1 | 139.2 | 11.8 | 23.9 | 450.8 | 720.1 | 761.8 |
| Net profit | 112.4 | 118.2 | 75.2 | 118.2 | 142.7 | 176.7 | 86.6 | 23.9 | 49.5 | 305.8 | 524.3 | 554.6 |
| OP margin (%) | 7.1 | 6.1 | 4.8 | 6.3 | 6.1 | 7.2 | 4.9 | 1.1%p | 1.1%p | 5.9 | 6.1 | 6.3 |
| Pretax margin (%) | 7.6 | 5.3 | 4.0 | 5.6 | 6.3 | 6.9 | 4.4 | 0.6%p | 1.5%p | 5.4 | 5.8 | 5.9 |
| Net margin (%) | 5.6 | 3.6 | 2.5 | 3.9 | 4.6 | 5.6 | 2.7 | 1.0%p | 2.0%p | 3.7 | 4.2 | 4.3 |

Notes: 1) Margins are based on GMS; 2) Based on consolidated K-IFRS; 3) Emart split from Shinsegae in May 2011

Source: Company data, KDB Daewoo Securities Research estimates

Table 4. Same-store sales growth

(%)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|------|-------|-------|-----|------|------|------|------|------|------|------|------|-----|
| 2010 | -11.0 | 30.7 | 3.1 | 2.7 | 2.1 | 5.4 | 8.8 | 2.7 | 19.5 | 1.0 | 2.4 | 4.4 |
| 2011 | 22.0 | -10.0 | 1.9 | 5.6 | 3.9 | 3.0 | 5.0 | 2.8 | -1.9 | 5.3 | -0.6 | 4.7 |
| 2012 | 1.0 | -4.0 | 1.4 | -3.0 | -6.8 | -7.6 | -8.3 | -4.5 | 0.1 | -5.8 | | |

Sources: Company data, KDB Daewoo Securities Research

Emart (139480 KS/Hold)

| Comprehensive Income Statement (Summarized) | | | | |
|---|--------------|---------------|---------------|---------------|
| (Wbn) | 12/11 | 12/12F | 12/13F | 12/14F |
| Revenues | 7,974 | 11,938 | 12,313 | 12,727 |
| Cost of Sales | 5,788 | 8,933 | 9,214 | 9,523 |
| Gross Profit | 2,186 | 3,005 | 3,100 | 3,204 |
| SG&A Expenses | 1,652 | 2,206 | 2,250 | 2,313 |
| Operating Profit (Adj) | 534 | 800 | 849 | 891 |
| Operating Profit | 491 | 763 | 813 | 854 |
| Non-Operating Profit | -40 | -50 | -58 | -64 |
| Net Financial Income | 77 | 84 | 94 | 104 |
| Net Gain from Inv in Associates | 10 | 23 | 21 | 24 |
| Pretax Profit | 451 | 720 | 762 | 796 |
| Income Tax | 136 | 180 | 191 | 199 |
| Profit from Continuing Operations | 315 | 540 | 571 | 597 |
| Profit from Discontinued Operations | 0 | 0 | 0 | 0 |
| Net Profit | 315 | 540 | 571 | 597 |
| Controlling Interests | 306 | 524 | 555 | 580 |
| Non-Controlling Interests | 9 | 16 | 17 | 18 |
| Total Comprehensive Profit | 95 | 683 | 571 | 597 |
| Controlling Interests | 86 | 667 | 555 | 580 |
| Non-Controlling Interests | 9 | 16 | 17 | 18 |
| EBITDA | 750 | 1,120 | 1,161 | 1,208 |
| FCF (Free Cash Flow) | 642 | 1,421 | 1,378 | 1,513 |
| EBITDA Margin (%) | 9.4 | 9.4 | 9.4 | 9.5 |
| Operating Profit Margin (%) | 6.2 | 6.4 | 6.6 | 6.7 |
| Net Profit Margin (%) | 3.8 | 4.4 | 4.5 | 4.6 |

| Cash Flows (Summarized) | | | | |
|---------------------------------------|-------------|---------------|---------------|---------------|
| (Wbn) | 12/11 | 12/12F | 12/13F | 12/14F |
| Cash Flows from Op Activities | 681 | 1,207 | 877 | 1,003 |
| Net Profit | 451 | 636 | 571 | 597 |
| Non-Cash Income and Expense | 370 | 311 | 276 | 279 |
| Depreciation | 211 | 298 | 304 | 310 |
| Amortization | 6 | 8 | 8 | 8 |
| Others | -19 | -56 | 0 | 0 |
| Chg in Working Capital | -131 | 368 | 29 | 127 |
| Chg in AR & Other Receivables | -38 | -2 | -9 | -10 |
| Chg in Inventories | -48 | 7 | -1 | -1 |
| Chg in AP & Other Payables | 37 | -24 | -19 | -21 |
| Income Tax Paid | -9 | -108 | 0 | 0 |
| Cash Flows from Inv Activities | -677 | -1,602 | -1,201 | -1,204 |
| Chg in PP&E | -381 | -800 | -400 | -400 |
| Chg in Intangible Assets | -5 | 0 | 0 | 0 |
| Chg in Financial Assets | -104 | -58 | -2 | -2 |
| Others | -188 | -745 | -799 | -802 |
| Cash Flows from Fin Activities | 2 | 420 | 379 | 279 |
| Chg in Financial Liabilities | 43 | 499 | 400 | 300 |
| Chg in Equity | -3 | 0 | 0 | 0 |
| Dividends Paid | 0 | -21 | -21 | -21 |
| Others | -38 | -58 | 0 | 0 |
| Increase (Decrease) in Cash | 8 | 8 | 56 | 78 |
| Beginning Balance | 44 | 52 | 59 | 115 |
| Ending Balance | 52 | 59 | 115 | 193 |

Source: Company data, KDB Daewoo Securities Research estimates

| Statement of Financial Condition (Summarized) | | | | |
|---|---------------|---------------|---------------|---------------|
| (Wbn) | 12/11 | 12/12F | 12/13F | 12/14F |
| Current Assets | 1,059 | 1,068 | 1,154 | 1,265 |
| Cash and Cash Equivalents | 52 | 59 | 115 | 193 |
| AR & Other Receivables | 273 | 275 | 283 | 293 |
| Inventories | 606 | 609 | 628 | 649 |
| Other Current Assets | 65 | 65 | 66 | 67 |
| Non-Current Assets | 10,051 | 11,364 | 12,277 | 13,190 |
| Investments in Associates | 116 | 116 | 116 | 116 |
| Property, Plant and Equipment | 7,634 | 8,934 | 9,834 | 10,734 |
| Intangible Assets | 217 | 209 | 201 | 193 |
| Total Assets | 11,110 | 12,432 | 13,431 | 14,455 |
| Current Liabilities | 3,040 | 3,351 | 3,409 | 3,567 |
| AP & Other Payables | 1,062 | 1,697 | 1,751 | 1,905 |
| Short-Term Financial Liabilities | 1,221 | 368 | 368 | 368 |
| Other Current Liabilities | 758 | 1,285 | 1,290 | 1,294 |
| Non-Current Liabilities | 2,495 | 3,002 | 3,409 | 3,717 |
| Long-Term Financial Liabilities | 1,775 | 843 | 843 | 843 |
| Other Non-Current Liabilities | 635 | 2,159 | 2,567 | 2,874 |
| Total Liabilities | 5,535 | 6,353 | 6,818 | 7,284 |
| Controlling Interests | 5,486 | 5,990 | 6,523 | 7,082 |
| Capital Stock | 139 | 139 | 139 | 139 |
| Capital Surplus | 4,237 | 4,237 | 4,237 | 4,237 |
| Retained Earnings | 211 | 715 | 1,248 | 1,807 |
| Non-Controlling Interests | 89 | 89 | 89 | 89 |
| Stockholders' Equity | 5,575 | 6,079 | 6,613 | 7,171 |

| Forecasts/Valuations (Summarized) | | | | |
|-----------------------------------|---------|---------|---------|---------|
| | 12/11 | 12/12F | 12/13F | 12/14F |
| P/E (x) | 25.4 | 12.4 | 11.8 | 11.3 |
| P/CF (x) | 14.9 | 7.7 | 7.5 | 7.3 |
| P/B (x) | 1.5 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA (x) | 14.4 | 5.9 | 5.6 | 5.3 |
| EPS (W) | 10,972 | 18,808 | 19,897 | 20,789 |
| CFPS (W) | 18,730 | 30,316 | 31,088 | 32,191 |
| BPS (W) | 189,142 | 212,614 | 232,796 | 253,879 |
| DPS (W) | 750 | 750 | 750 | 750 |
| Payout ratio (%) | 6.8 | 4.0 | 3.8 | 3.6 |
| Dividend Yield (%) | 0.3 | 0.3 | 0.3 | 0.3 |
| Revenue Growth (%) | | 49.7 | 3.2 | 3.4 |
| EBITDA Growth (%) | | 49.3 | 3.7 | 4.1 |
| Operating Profit Growth (%) | | 55.6 | 6.5 | 5.0 |
| EPS Growth (%) | | 71.4 | 5.8 | 4.5 |
| Accounts Receivable Turnover (x) | 35.4 | 47.8 | 44.2 | 44.2 |
| Inventory Turnover (x) | 13.2 | 19.7 | 19.9 | 19.9 |
| Accounts Payable Turnover (x) | 9.5 | 9.4 | 7.1 | 7.0 |
| ROA (%) | 2.8 | 4.6 | 4.4 | 4.3 |
| ROE (%) | 5.6 | 9.1 | 8.9 | 8.5 |
| ROIC (%) | 10.1 | 8.1 | 8.9 | 9.7 |
| Liability to Equity Ratio (%) | 99.3 | 104.5 | 103.1 | 101.6 |
| Current Ratio (%) | 34.9 | 31.9 | 33.8 | 35.5 |
| Net Debt to Equity Ratio (%) | 51.7 | 18.0 | 15.7 | 13.3 |
| Interest Coverage Ratio (x) | 5.7 | 8.1 | 7.6 | 7.3 |

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| | | | |
|------------------|-------------|---|--|
| Stock Ratings | Buy | Relative performance of 20% or greater | |
| | Trading Buy | Relative performance of 10% or greater, but with volatility | |
| | Hold | Relative performance of -10% and 10% | |
| | Sell | Relative performance of -10% | |
| Industry Ratings | Overweight | Fundamentals are favorable or improving | |
| | Neutral | Fundamentals are steady without any material changes | |
| | Underweight | Fundamentals are unfavorable or worsening | |

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