

Crown Confectionery

(005740 KS)

Honey Butter Chip frenzy continues

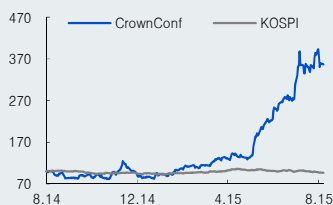
Results Comment
August 18, 2015

Not Rated

Target Price (12M, W)	-
Share Price (08/17/15, W)	808,000
Expected Return	-

OP (15F, Wbn)	103
Consensus OP (15F, Wbn)	93
EPS Growth (15F, %)	108.1
Market EPS Growth (15F, %)	28.2
P/E (15F, x)	26.2
Market P/E (15F, x)	11.0
KOSPI	1,968.52
Market Cap (Wbn)	1,191
Shares Outstanding (mn)	2
Free Float (%)	46.4
Foreign Ownership (%)	6.9
Beta (12M)	0.92
52-Week Low	185,000
52-Week High	890,000

(%)	1M	6M	12M
Absolute	0.2	220.6	255.9
Relative	5.8	219.5	273.1



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2Q15 review: Positive earnings surprise due to Honey Butter craze

For 2Q, Crown Confectionery reported consolidated revenue of W315.6bn (+18.2% YoY), operating profit of W31.4bn (+62.7% YoY), pretax profit of W26.9bn (+140.0% YoY) and net profit attributable to controlling interests of W10.5bn (+31.2% YoY). Net profit growth lagged behind pretax profit growth because of a temporary increase in taxes (W10bn) at Haitai Confectionery.

At the parent level, revenue, operating profit, and net profit grew 4.7%, 21.8%, and 31.4% YoY, respectively. Earnings were supported by increased sales of core products and stable raw material prices.

At the company's consolidated subsidiary Haitai Confectionery (85.2% stake), revenue and operating profit jumped 25.1% and 91.4% YoY, respectively, but net profit grew a more modest 17.8% YoY due to higher taxes. We believe the biggest driver behind Haitai's 2Q performance was the popular Honey series (Honey Butter Chip, Honey Tong Tong, and Honey Jagabee), which we estimate generated revenue of W20bn in 2Q.

Given Crown's hefty consolidated debt, it is also worth noting that interest expenses declined to W4.8bn in 2Q (vs. W6.8bn in 2Q14) as a result of debt reduction and lower interest rates.

Honey series driving overall snack market

We believe the Honey series will become a blockbuster brand, with annual revenue exceeding W100bn in 2015. The lucrative brand has considerable value, given that revenue from Crown Confectionery's steady sellers Mychew, Heim, and Homerun Ball combined stands at W50-60bn annually. Since Haitai's release of Honey Butter Chip, a number of rivals have launched their own versions of the honey butter snack. As a result, we estimate the overall snack market grew 3-5% in 1H15. The honey flavor is now being extended to food and beverages, raising the brand value of Haitai's Honey series.

Honey Butter Chip is manufactured by Haitai-Calbee (50:50 joint venture) and then purchased and sold by Haitai. Given capacity limitations, we estimate revenue will be capped at W5-6bn per month through 1Q16. A W36bn capacity ramp-up is currently underway, which will increase monthly output to W10-12bn.

Until the Honey Butter Chip expansion is completed, we believe its sibling Honey Tong Tong will be the main driver of revenue growth. Haitai recently released a fruit-flavored version of Honey Tong Tong, which should sell well as part of the Honey Butter Chip craze.

Earnings momentum to continue through 1Q16

We expect earnings momentum to continue through 1Q16, driven by the growth of core products, the popularity of the Honey series, a pickup in ice cream sales, stable raw material prices, and reduced interest expenses. That said, we note that recent share gains have made valuation more expensive, with the stock now trading at 2015F-16F P/E's of 26.2x and 20.7x, respectively.

FY (Dec.)	12/12	12/13	12/14	12/15F	12/16F	12/17F
Revenue (Wbn)	1,134	1,118	1,084	1,225	1,290	1,346
OP (Wbn)	76	70	63	103	115	121
OP margin (%)	6.7	6.3	5.8	8.4	8.9	9.0
NP (Wbn)	34	18	23	48	61	69
EPS (W)	21,435	11,585	14,797	30,798	39,039	44,243
ROE (%)	18.8	9.4	11.0	19.1	19.6	18.4
P/E (x)	9.4	23.7	12.8	26.2	20.7	18.3
P/B (x)	1.7	2.1	1.3	4.4	3.7	3.1

Notes: 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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Table 1. 2Q15P review

(Wbn, %)

	2Q14	1Q15	2Q15P	Growth	
				YoY	QoQ
Revenue	267.1	287.6	315.6	18.2	9.7
Operating profit	19.3	20.1	31.4	62.7	56.2
Pretax profit	11.2	14.8	26.9	140.0	81.7
Net profit	8.0	11.0	10.5	31.2	-4.9
OP margin	7.2	7.0	10.0	-	-
Net margin	3.0	3.8	3.3	-	-

Source: Company data, KDB Daewoo Securities Research estimates

Table 2. Quarterly and annual earnings

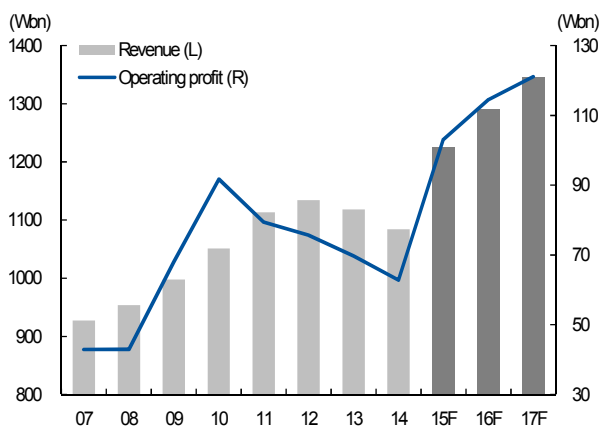
(Wbn, %)

	2014				2015				2014	2015F	2016F
	1Q	2Q	3Q	4Q	1Q	2QP	3QF	4QF	Annual	Annual	Annual
Revenue	257	267	281	279	288	316	316	305	1,084	1,225	1,290
Operating profit	11	19	19	14	20	31	30	21	63	103	115
Pretax profit	5	11	11	7	15	27	24	15	35	81	92
Net profit	2	8	8	5	11	10	16	10	23	48	61
OP margin	4.2	7.2	6.7	5.0	7.0	10.0	9.6	6.9	5.8	8.4	8.9
Net margin	0.8	3.0	2.8	1.9	3.8	3.3	5.2	3.4	2.1	3.9	4.7
Revenue growth	-4.0	-6.8	-3.0	1.7	11.8	18.2	12.5	9.5	-3.1	13.0	5.4
OP growth	-26.0	-23.8	-7.6	47.4	86.3	62.7	61.4	53.1	-9.9	64.3	11.1
Pretax growth	-22.8	-39.2	0.1	TTB	180.0	140.0	123.8	108.1	-1.8	134.2	12.5
Net profit growth	-63.2	-37.8	8.8	TTB	458.5	31.2	110.3	90.7	27.7	108.1	26.8

Notes: TTB refers to "turning to black."

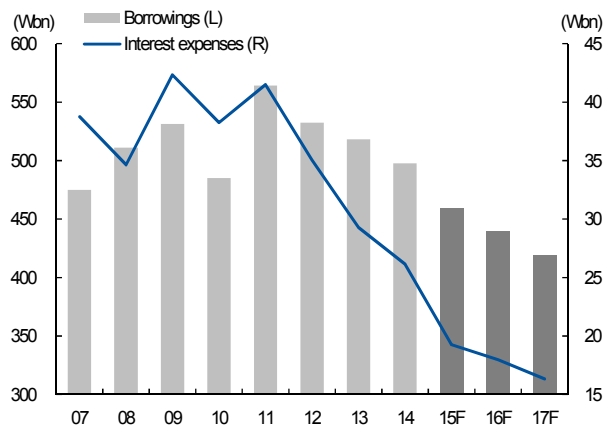
Source: Company data, KDB Daewoo Securities Research estimates

Figure 1. Consolidated revenue and operating profit



Source: Company data, KDB Daewoo Securities Research

Figure 2. Consolidated borrowings and interest expenses



Source: Company data, KDB Daewoo Securities Research

Crown Confectionery (005740 KS/Not Rated)

Comprehensive Income Statement (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Revenue	1,084	1,225	1,290	1,346
Cost of Sales	653	726	761	790
Gross Profit	431	499	529	556
SG&A Expenses	369	396	415	435
Operating Profit (Adj)	63	103	115	121
Operating Profit	63	103	115	121
Non-Operating Profit	-28	-22	-23	-20
Net Financial Income	-25	-18	-16	-14
Net Gain from Inv in Associates	0	0	0	-1
Pretax Profit	35	81	92	101
Income Tax	11	30	27	27
Profit from Continuing Operations	24	51	65	74
Profit from Discontinued Operations	0	0	0	0
Net Profit	24	51	65	74
Controlling Interests	23	48	61	69
Non-Controlling Interests	1	3	4	5
Total Comprehensive Profit	25	51	65	74
Controlling Interests	25	49	63	72
Non-Controlling Interests	0	1	2	2
EBITDA	95	136	147	153
FCF (Free Cash Flow)	51	76	93	87
EBITDA Margin (%)	8.8	11.1	11.4	11.4
Operating Profit Margin (%)	5.8	8.4	8.9	9.0
Net Profit Margin (%)	2.1	3.9	4.7	5.1

Statement of Financial Condition (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Current Assets	284	343	408	470
Cash and Cash Equivalents	28	82	135	185
AR & Other Receivables	173	177	185	193
Inventories	71	73	76	79
Other Current Assets	12	11	12	13
Non-Current Assets	806	807	801	808
Investments in Associates	22	23	24	25
Property, Plant and Equipment	552	553	547	553
Intangible Assets	198	197	196	195
Total Assets	1,090	1,150	1,210	1,278
Current Liabilities	434	385	386	387
AP & Other Payables	169	177	185	193
Short-Term Financial Liabilities	206	148	138	128
Other Current Liabilities	59	60	63	66
Non-Current Liabilities	391	412	407	402
Long-Term Financial Liabilities	292	311	301	291
Other Non-Current Liabilities	99	101	106	111
Total Liabilities	825	798	794	789
Controlling Interests	222	283	342	410
Capital Stock	8	8	8	8
Capital Surplus	19	19	19	19
Retained Earnings	284	329	389	457
Non-Controlling Interests	43	70	74	79
Stockholders' Equity	265	353	416	489

Cash Flows (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Cash Flows from Op Activities	88	111	118	124
Net Profit	24	51	65	74
Non-Cash Income and Expense	87	86	75	73
Depreciation	31	32	31	31
Amortization	2	1	1	1
Others	54	53	43	41
Chg in Working Capital	-6	3	4	4
Chg in AR & Other Receivables	6	-5	-8	-8
Chg in Inventories	4	-1	-3	-3
Chg in AP & Other Payables	-1	4	6	6
Income Tax Paid	-17	-30	-27	-27
Cash Flows from Inv Activities	-33	-35	-24	-35
Chg in PP&E	-24	-34	-25	-37
Chg in Intangible Assets	-2	-1	0	0
Chg in Financial Assets	3	-1	-1	-1
Others	-10	1	2	3
Cash Flows from Fin Activities	-48	-22	-39	-38
Chg in Financial Liabilities	-20	-38	-20	-20
Chg in Equity	0	0	0	0
Dividends Paid	-2	-2	-2	-2
Others	-26	18	-17	-16
Increase (Decrease) in Cash	8	54	53	50
Beginning Balance	20	28	82	135
Ending Balance	28	82	135	185

Source: Company data, KDB Daewoo Securities Research estimates

Forecasts/Valuations (Summarized)

	12/14	12/15F	12/16F	12/17F
P/E (x)	12.8	26.2	20.7	18.3
P/CF (x)	2.7	9.2	9.0	8.6
P/B (x)	1.3	4.4	3.7	3.1
EV/EBITDA (x)	8.4	12.2	10.9	10.0
EPS (W)	14,797	30,798	39,039	44,243
CFPS (W)	71,036	87,667	89,690	94,174
BPS (W)	144,013	182,536	220,604	263,876
DPS (W)	1,000	1,000	1,000	1,000
Payout ratio (%)	6.0	2.8	2.2	1.9
Dividend Yield (%)	0.5	0.1	0.1	0.1
Revenue Growth (%)	-3.0	13.0	5.3	4.3
EBITDA Growth (%)	-5.0	43.2	8.1	4.1
Operating Profit Growth (%)	-10.0	63.5	11.7	5.2
EPS Growth (%)	27.7	108.1	26.8	13.3
Accounts Receivable Turnover (x)	6.1	7.1	7.2	7.2
Inventory Turnover (x)	14.9	17.0	17.3	17.3
Accounts Payable Turnover (x)	5.0	5.5	5.6	5.5
ROA (%)	2.2	4.6	5.5	6.0
ROE (%)	11.0	19.1	19.6	18.4
ROIC (%)	5.3	8.0	10.1	11.0
Liability to Equity Ratio (%)	311.7	226.1	190.7	161.3
Current Ratio (%)	65.4	89.1	105.7	121.4
Net Debt to Equity Ratio (%)	176.5	106.3	72.5	47.4
Interest Coverage Ratio (x)	2.4	5.4	6.4	7.4

APPENDIX 1

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* Based on recommendations in the last 12-months (as of June 30, 2015)

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