KDB Daewoo Securities

Asiana Airlines
(020560 KS)

More patience is needed

Airlines

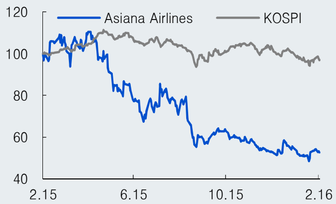
Results Comment

February 4, 2016

(Maintain)	**Hold**
Target Price (12M, W)	-
Share Price (2/3/16, W)	4,435
Expected Return	-

OP (15P, Wbn)	95
Consensus OP (15F, Wbn)	124
EPS Growth (15P, %)	-
Market EPS Growth (15F, %)	20.0
P/E (15P, x)	-
Market P/E (15F, x)	11.2
KOSPI	1,890.67
Market Cap (Wbn)	865
Shares Outstanding (mn)	195
Free Float (%)	63.7
Foreign Ownership (%)	5.2
Beta (12M)	0.98
52-Week Low	4,080
52-Week High	9,290

(%)	1M	6M	12M
Absolute	-4.2	-25.7	-45.5
Relative	-0.6	-21.1	-43.7



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4Q15 review: Disappointing results

Asiana Airlines reported 4Q15 revenue of W1.51tr (+1.5% YoY). Despite weakness in cargo, we believe overall revenue held up thanks to increased passenger revenue resulting from stronger traffic. However, COGS and SG&A expenses rose 0.9% and 28.4% YoY, respectively, dragging down operating profit to W10.1bn (-67.9% YoY), well below our estimate (W38.2bn) and the consensus (W39.7bn).

On the non-operating side, equity-method profits increased, but a decline in other income (-80.3% YoY) and higher net interest expenses (+30.1% YoY) pushed net profit down to W9.2bn (-94.1% YoY), which was also far below our forecast (W30.1bn) and the consensus (W36.1bn). Reflecting the 2015 results, we are lowering our 2016F operating profit by 9%.

A mixed picture

1) Air Seoul: While there are still expectations on the upcoming launch of Air Seoul, it looks unlikely operations will begin within 1H16 as we had originally expected, due to recent safety issues regarding low-cost carriers (LCC). If flights fail to take off before the peak season, this would remove expectations for seasonal effects.

2) Passenger capacity expansion: In 2016, Asiana's fleet is likely to decrease on a parent basis, but overall available seat kilometers (ASK) should still expand due to Air Seoul's launch and the introduction of the A380. While some external variables (such as the impact of the Zika virus outbreak) remain, we still think the capacity increase could be positive to earnings given recent passenger demand trends.

Maintain Hold

We remain Hold on Asiana Airlines. The stock has declined 10.7% during the past three months, weighed down by 1) the depressed cargo sector, 2) risks of earnings deterioration, and 3) a weaker won. The stock has also failed to gain from the oil price tailwind. With won weakness persisting, we do not see much momentum ahead, aside from the potential of additional oil price declines in 1H16. While the stock's current valuation (P/B of 0.9x) looks attractive from a long-term perspective, we think investors should wait on the sidelines for a better entry point.

FY (Dec.)	12/12	12/13	12/14	12/15P	12/16F	12/17F
Revenue (Wbn)	5,888	5,724	5,836	5,789	5,844	6,152
OP (Wbn)	179	-11	98	95	164	5
OP margin (%)	3.0	-0.2	1.7	1.6	2.8	0.1
NP (Wbn)	61	-116	62	-81	30	-219
EPS (W)	317	-593	319	-413	154	-1,125
ROE (%)	6.6	-12.2	6.5	-8.3	3.2	-25.5
P/E (x)	19.5	-	22.4	-	28.7	-
P/B (x)	1.2	1.1	1.4	1.0	0.9	1.2

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

Table 1. 4Q15 review (Wbn, %, %p)

	4Q14	3Q15	4Q15P			Growth	
			Preliminary	KDB Daewoo	Consensus	YoY	QoQ
Revenue	1,487	1,539	1,509	1,451	1,428	1.5	-1.9
Operating profit	31	69	10	38	40	-67.9	-85.4
OP margin	2.1	4.5	0.7	2.6	2.8	-1.4	-3.8
Pretax profit	106	-68	6	40	35	-94.1	TTB
Net profit	108	-63	9	30	36	-91.4	TTB

Notes: Based on consolidated K-IFRS; net profit attributable to controlling interests
Source: Company data, KDB Daewoo Securities Research estimates

Table 2. Earnings forecast revisions (Wbn, W, %)

	Previous		Revised		% chg.		Notes
	2015F	2016F	2015P	2016F	2015P	2016F	
Revenue	5,731	5,861	5,789	5,844	1.0	-0.3	
Operating profit	123	180	95.1	164.2	-22.8	-9.0	- Reflected 4Q15 performance
Pretax profit	-49	34	-83	22	68.7	-35.6	
Net profit	-60	28	-81	30	35.0	9.5	- Revised down effective tax rate
EPS	-306	141	-413	154	35.0	9.5	

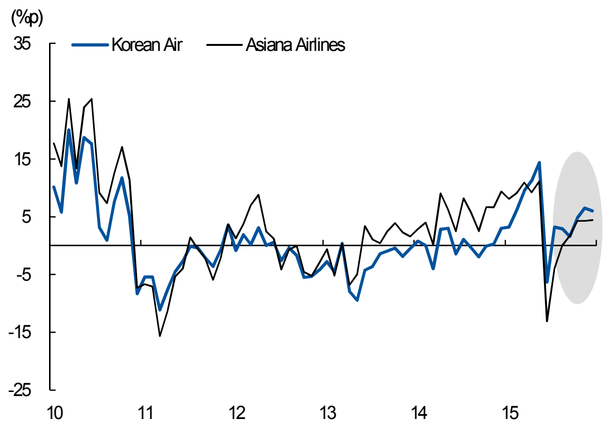
Notes: Based on consolidated K-IFRS; net profit attributable to controlling interests
Source: KDB Daewoo Securities Research estimates

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

	1Q15	2Q15	3Q15	4Q15P	1Q16F	2Q16F	3Q16F	4Q16F	2015P	2016F	2017F
Revenue	1,408	1,334	1,539	1,509	1,369	1,383	1,553	1,540	5,789	5,844	6,152
Operating profit	77	-61	69	10	66	-17	87	28	95	164	5
Pretax profit	80	-101	-68	6	2	-52	70	1	-83	22	-166
Net profit	60	-87	-63	9	2	-68	94	1.4	-81	30	-219
OP margin	5.5	-4.6	4.5	0.7	4.8	-1.2	5.6	1.8	1.6	2.8	0.1
Pretax margin	5.7	-7.6	-4.4	0.4	0.1	-3.7	4.5	0.1	-1.4	0.4	-2.7
Net margin	4.2	-6.4	-4.0	0.4	0.1	-3.4	4.2	0.1	-1.4	0.5	-3.6
Passenger RPK	10.4	7.2	3.5	8.4	-0.9	2.5	2.2	0.4	7.3	1.1	3.1
Passenger L/F	81.9	78.4	80.4	80.4	79.6	78.0	80.6	79.1	80.2	79.3	79.8
Jet fuel price	68	76	62	60	50	52	60	66	67	57	68
US$/W rate	1,100	1,097	1,170	1,157	1,185	1,230	1,245	1,255	1,131	1,229	1,270

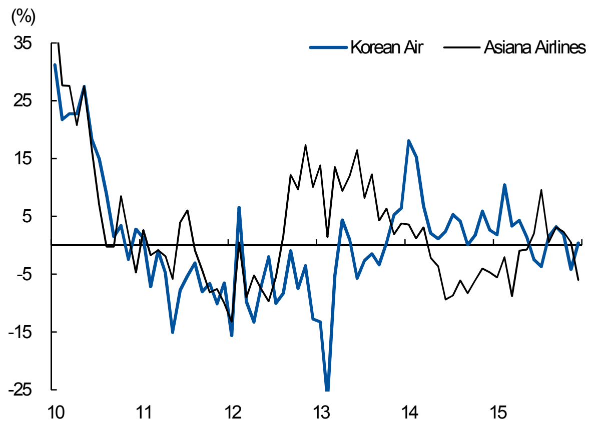
Notes: Based on consolidated K-IFRS; net profit attributable to controlling interests
Source: Company data, KDB Daewoo Securities Research estimates

Figure 1. International cargo L/F indicator: Korean Air vs. Asiana Airlines



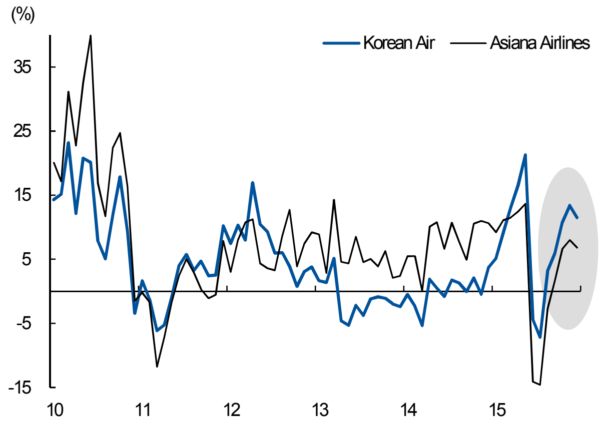
Source: IIA, KDB Daewoo Securities Research

Figure 2. International cargo traffic growth: Korean Air vs. Asiana Airlines



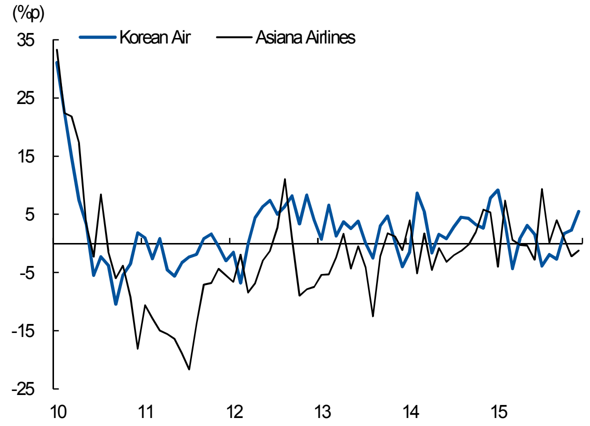
Source: IIA, KDB Daewoo Securities Research

Figure 3. International passenger traffic growth: Korean Air vs. Asiana Airlines



Source: IIA, KDB Daewoo Securities Research

Figure 4. Passenger L/F indicator: Korean Air vs. Asiana Airlines

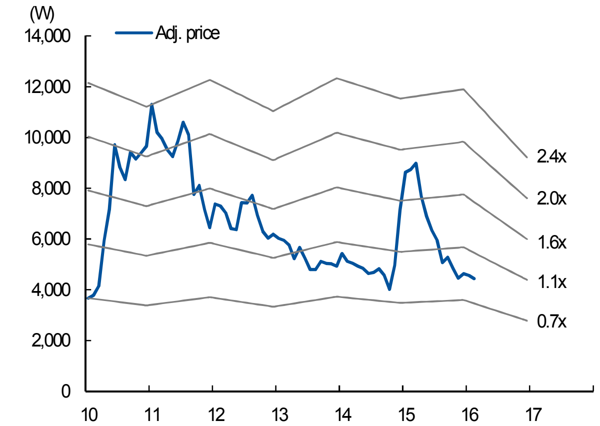


Source: IIA, KDB Daewoo Securities Research

Figure 5. ISM index vs. IIA cargo traffic growth

Source: IIA, Bloomberg, KDB Daewoo Securities Research

Figure 6. P/B band



Source: KDB Daewoo Securities Research

Asiana Airlines (020560 KS/Hold)

Comprehensive Income Statement (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Revenue	**5,836**	**5,789**	**5,844**	**6,152**
Cost of Sales	**5,187**	**5,118**	**5,109**	**5,548**
Gross Profit	**649**	**671**	**735**	**604**
SG&A Expenses	**551**	**577**	**571**	**599**
Operating Profit (Adj)	**98**	**95**	**164**	**5**
Operating Profit	**98**	**95**	**164**	**5**
Non-Operating Profit	**-57**	**-178**	**-142**	**-171**
Net Financial Income	-135	-155	-156	-173
Net Gain from Inv in Associates	26	87	20	12
Pretax Profit	41	-83	22	-166
Income Tax	-22	-1	1	-14
Profit from Continuing Operations	63	-82	21	-152
Profit from Discontinued Operations	0	0	0	0
Net Profit	63	-82	21	-152
Controlling Interests	62	-81	30	-219
Non-Controlling Interests	1	-1	-9	68
Total Comprehensive Profit	**107**	**-67**	**21**	**-152**
Controlling Interests	106	-68	21	-153
Non-Controlling Interests	1	1	0	1
EBITDA	458	512	582	399
FCF (Free Cash Flow)	41	-97	150	19
EBITDA Margin (%)	7.8	8.8	10.0	6.5
Operating Profit Margin (%)	1.7	1.6	2.8	0.1
Net Profit Margin (%)	1.1	-1.4	0.5	-3.6

Statement of Financial Condition (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Current Assets	**1,328**	**1,255**	**1,283**	**1,318**
Cash and Cash Equivalents	263	448	460	449
AR & Other Receivables	418	382	389	411
Inventories	183	186	189	200
Other Current Assets	464	239	245	258
Non-Current Assets	**6,883**	**8,135**	**8,095**	**8,110**
Investments in Associates	383	536	547	577
Property, Plant and Equipment	5,062	5,628	5,571	5,537
Intangible Assets	209	705	705	705
Total Assets	**8,212**	**9,389**	**9,378**	**9,428**
Current Liabilities	**2,366**	**3,221**	**3,152**	**3,251**
AP & Other Payables	518	526	536	566
Short-Term Financial Liabilities	1,252	2,090	1,998	2,033
Other Current Liabilities	596	605	618	652
Non-Current Liabilities	**4,726**	**5,206**	**5,243**	**5,346**
Long-Term Financial Liabilities	2,938	3,391	3,391	3,391
Other Non-Current Liabilities	1,788	1,815	1,852	1,955
Total Liabilities	**7,092**	**8,427**	**8,395**	**8,596**
Controlling Interests	**1,006**	**940**	**970**	**751**
Capital Stock	976	976	976	976
Capital Surplus	1	1	1	1
Retained Earnings	-19	-101	-71	-290
Non-Controlling Interests	**113**	**22**	**13**	**81**
Stockholders' Equity	**1,119**	**962**	**983**	**832**

Cash Flows (Summarized)

(Wbn)	12/14	12/15F	12/16F	12/17F
Cash Flows from Op Activities	373	279	510	379
Net Profit	63	-82	21	-152
Non-Cash Income and Expense	403	613	601	562
Depreciation	360	417	417	394
Amortization	0	0	0	0
Others	43	196	184	168
Chg in Working Capital	22	-97	45	127
Chg in AR & Other Receivables	5	32	-7	-20
Chg in Inventories	-2	0	-4	-11
Chg in AP & Other Payables	5	-55	3	9
Income Tax Paid	**-9**	**-19**	**-1**	**14**
Cash Flows from Inv Activities	-390	-505	-415	-394
Chg in PP&E	-245	-370	-360	-360
Chg in Intangible Assets	-4	-7	0	0
Chg in Financial Assets	-142	223	-9	-24
Others	**1**	**-351**	**-46**	**-10**
Cash Flows from Fin Activities	-218	402	-92	34
Chg in Financial Liabilities	413	1,291	-92	34
Chg in Equity	0	0	0	0
Dividends Paid	0	0	0	0
Others	**-631**	**-889**	**0**	**0**
Increase (Decrease) in Cash	-236	185	12	-11
Beginning Balance	499	263	448	460
Ending Balance	**263**	**448**	**460**	**449**

Forecasts/Valuations (Summarized)

	12/14	12/15F	12/16F	12/17F
P/E (x)	22.4	-	28.7	-
P/CF (x)	3.0	1.7	1.4	2.1
P/B (x)	1.4	1.0	0.9	1.2
EV/EBITDA (x)	11.1	11.4	9.8	14.6
EPS (W)	319	-413	154	-1,125
CFPS (W)	2,392	2,725	3,186	2,105
BPS (W)	5,156	4,819	4,974	3,849
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	2.0	-0.8	1.0	5.3
EBITDA Growth (%)	60.1	11.8	13.7	-31.4
Operating Profit Growth (%)	-	-3.1	72.6	-97.0
EPS Growth (%)	-	-	-	-
Accounts Receivable Turnover (x)	15.1	15.6	16.4	16.7
Inventory Turnover (x)	32.3	31.4	31.2	31.6
Accounts Payable Turnover (x)	32.1	32.5	31.9	33.3
ROA (%)	0.8	-0.9	0.2	-1.6
ROE (%)	6.5	-8.3	3.2	-25.5
ROIC (%)	3.1	1.6	2.5	0.1
Liability to Equity Ratio (%)	633.8	875.5	853.7	1,033.8
Current Ratio (%)	56.1	39.0	40.7	40.5
Net Debt to Equity Ratio (%)	321.9	512.8	491.1	585.6
Interest Coverage Ratio (x)	0.6	0.6	0.9	0.0

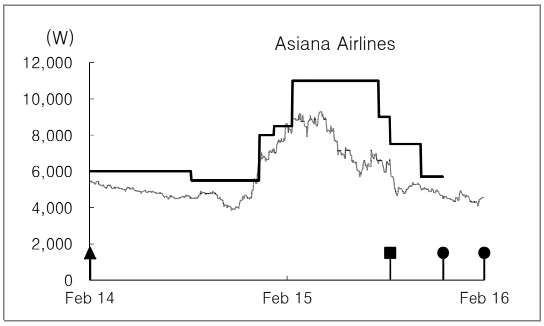
Source: Company data, KDB Daewoo Securities Research estimates

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Asiana Airlines (020560)	11/17/2015	Hold	-
	10/07/2015	Trading Buy	5,700
	08/11/2015	Trading Buy	7,500
	07/21/2015	Buy	9,000
	02/11/2015	Buy	11,000
	01/08/2015	Buy	8,500
	12/12/2014	Buy	8,000
	08/08/2014	Buy	5,500
	01/20/2014	Buy	6,000



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

Ratings and Target Price History (Share price (—), Target price (▬), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))
* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.
* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.
* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.
* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution

Buy	Trading Buy	Hold	Sell
71.08%	11.76%	17.16%	0.00%

* Based on recommendations in the last 12-months (as of December 31, 2015)

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