

# CJ CheilJedang

(097950 KS)

## Primed for a re-rating

### Food & Beverage

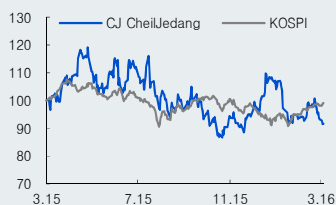
#### Company Report

March 31, 2016

(Maintain)	<b>Buy</b>
Target Price (12M, W)	<b>500,000</b>
Share Price (3/30/16, W)	<b>353,000</b>
Expected Return	<b>42%</b>

OP (16F, Wbn)	806
Consensus OP (16F, Wbn)	887
EPS Growth (16F, %)	26.7
Market EPS Growth (16F, %)	-0.3
P/E (16F, x)	21.3
Market P/E (16F, x)	11.4
KOSPI	2,002.14
Market Cap (Wbn)	4,639
Shares Outstanding (mn)	14
Free Float (%)	59.1
Foreign Ownership (%)	20.7
Beta (12M)	0.75
52-Week Low	334,000
52-Week High	458,500

(%)	1M	6M	12M
Absolute	-2.5	-7.2	-8.7
Relative	-6.6	-9.0	-7.4



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### Primed for a re-rating

CJ CheilJedang (CJCJ) is one of Korea's leading processed food companies. However, the stock has traded at a discount to its peers (e.g., Ottogi, Dongwon F&B, Pulmuone and Nongshim), mainly because of its biotech earnings, which suffer from low visibility due to their high sensitivity to lysine prices, which are extremely volatile.

However, we believe the company is due for a re-rating for the following reasons:

1. Biotech earnings should stabilize on the back of reduced exposure to lysine.

In 2013-14, the biotech unit's operating profit fell sharply due to the price decline of lysine, which accounts for a large percentage of biotech sales. In 2015, however, profits improved materially, as the company began selling methionine, and the sales mix of lysine declined. Such sharp fluctuations in biotech profits have limited the company's earnings visibility, serving as a discount factor.

For 2016-17, we forecast the biotech unit's OP margin to be 7.5-8.0% and operating profit share to be around 23%, largely unchanged from 2015 levels. Lysine prices should by and large remain stable, allowing the lysine business to roughly break even. Steady profits from methionine should also contribute to stable biotech earnings.

2. The profit mix of processed food should increase, enhancing overall earnings stability.

We see processed food revenue expanding 8.8% YoY in 2016 and 8.7% YoY in 2017, backed by growing sales of products launched in 2014-15 and the continued release of new products that appeal to changing consumer tastes. The company should also roll out more home meal replacement (HMR) products, further supporting revenue growth.

We forecast processed food OP margin at 10.2% in 2016 and 10.3% in 2017, roughly in line with the 2014-15 levels (10% average). The company's processed food margins are higher than those of other processed food companies (e.g., Ottogi, Dongwon F&B, Pulmuone, and Nongshim). As a percentage of total operating profit, processed food should increase to 42.5% in 2016 and 43.4% in 2017, significantly enhancing overall earnings stability.

### Reaffirm Buy and TP of W500,000

We believe lysine will have less of an impact on CJCJ shares in 2016-17 than in 2013-15, as prices should remain steady and sales mix should decrease. And with processed food likely to make a larger contribution to operating profit, we think the argument that CJCJ warrants a discount to its peers lacks merit, and hence see potential for a re-rating.

That said, a key variable to watch in 1H16 is the company's potential acquisition of Meihua Holdings Group (Meihua)—especially the purchase price—which could have a considerable impact on shares.

FY (Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	10,848	11,702	12,925	13,953	14,915	15,780
OP (Wbn)	346	580	751	806	864	923
OP margin (%)	3.2	5.0	5.8	5.8	5.8	5.8
NP (Wbn)	117	92	189	240	289	316
EPS (W)	8,089	6,369	13,073	16,563	19,964	21,797
ROE (%)	4.0	3.1	6.2	7.4	8.3	8.4
P/E (x)	34.2	48.1	28.9	21.3	17.7	16.2
P/B (x)	1.3	1.4	1.7	1.5	1.4	1.3

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. Key determinants

Importance	Variable	1H15	2H15	1H16	2H16
1	Processed food profit	↗	↗	↗	↗
	Stock price impact	+	+	+	+
2	Lysine	↘	↘	↗	→
	Stock price impact	-	-	Δ	Δ
3	Methionine	→	↘	↘	→
	Stock price impact	Δ	+	+	+
4	Exchange rate	→	↗	↗	→
	Stock price impact	+	-	-	+
5	Raw materials	↘	↘	↘	↗
	Stock price impact	+	+	Δ	-
6	Market competition	↘	↘	→	→
	Stock price impact	+	+	Δ	Δ
	<b>Overall</b>	+	Δ	Δ	Δ→+

Notes: "+" means positive impact, "Δ" means neutral impact, and "-" means negative impact

Source: KDB Daewoo Securities Research

### 1Q16 earnings preview

For 1Q16, we forecast CJCJ to post a 9.1% YoY increase in revenue and an 8.7% YoY decline in operating profit (consolidated). For the company's mainstay businesses (excluding CJ Korea Express), we estimate revenue grew 9.2% YoY and operating profit fell 13.5% YoY.

Top-line growth was likely driven by processed food (strong sales of gift sets and new products) and methionine (volume growth). But operating profit likely contracted mainly due to weaker biotech earnings. Despite an increase in methionine profits, biotech earnings were likely dragged down by 1) lysine losses as a result of a YoY fall in prices and 2) profit declines or losses from tryptophan and threonine, also due to lower prices.

Table 2. 1Q16 preview

(Wbn, %)

	1Q15	4Q15	1Q16F		Growth	
			KDB Daewoo	Consensus	YoY	QoQ
Revenue	3,120	3,273	3,404	3414	9.1	4.0
Operating profit	225	112	206	219	-8.7	84.1
Pretax profit	138	51	113	131	-18.5	121.7
Net profit	92	14	76	71	-17.9	427.4
OP margin	7.2	3.4	6.0	6.3	-	-
Net margin	3.0	0.4	2.2	2.1	-	-

Source: Company data, KDB Daewoo Securities Research

Table 3. Quarterly and annual earnings

(Wbn, %)

	2015				2016F				2014	2015	2016F
	1Q	2Q	3Q	4Q	1QF	2QF	3QF	4QF	Annual	Annual	Annual
Revenue	3,120	3,165	3,366	3,273	3,404	3,421	3,609	3,519	11,702	12,924	13,953
Operating profit	225	192	222	112	206	201	245	154	580	751	806
Pretax profit	138	88	87	51	113	91	115	86	243	365	405
Net profit	92	52	31	14	76	58	66	41	92	189	240
OP margin	7.2	6.1	6.6	3.4	6.0	5.9	6.8	4.4	5.0	5.8	5.8
Net margin	3.0	1.6	0.9	0.4	2.2	1.7	1.8	1.2	0.8	1.5	1.7
Revenue growth	10.6	11.9	13.2	6.3	9.1	8.1	7.2	7.5	7.9	10.4	8.0
OP growth	92.0	55.4	33.0	-35.0	-8.7	4.8	10.2	37.8	67.9	29.6	7.3
Pretax profit growth	67.5	33.8	71.4	17.1	-18.5	3.0	32.3	68.7	91.8	50.1	11.0
Net profit growth	83.5	93.2	248.1	138.8	-17.9	11.5	113.1	183.5	-21.2	105.8	26.8

Source: Company data, KDB Daewoo Securities Research

### Potential impact of Meihua deal

In January, CJ CJ announced that it had signed an MOU to acquire China-based Meihua. It appears that the first step of the M&A will be Meihua's acquisition of, and integration with, CJ CJ's Chinese biotech factory. Then, CJ CJ plans to take control of the integrated entity.

However, further details have yet to come to light. As the deal may hand CJ CJ a monopoly in China, the approval process could take some time. In addition, it is also possible that the deal could fall through; indeed, it should be noted that Meihua's attempt to acquire Eppen was met with failure.

Meihua generates annual revenue of approximately W2tr. The company is the world's largest producer of threonine (amino acid used in pig feed; annual production of 150,000 tonnes), and China's second-largest manufacturer of MSG (annual production of 700,000 tonnes). Furthermore, the company produces 230,000 tonnes of lysine (third place in China), 12,000 tonnes of tryptophan, and 10,000 tonnes of nucleic acid each year.

CJ CJ's capacity for threonine, MSG, lysine, tryptophan, and nucleic acid stands at 50,000 tonnes, 70,000 tonnes (Indonesia), 570,000 tonnes (Chinese production of 200,000 tonnes), 11,000 tonnes, and 26,000 tonnes, respectively.

We expect to see synergies in the lysine, threonine, MSG, and tryptophan businesses. Currently, CJ CJ enjoys edges in lysine and tryptophan, and Meihua boasts strength in threonine and MSG.

Synergy effects will likely include stronger pricing power, better productivity resulting from higher yields, and enhanced cost competitiveness driven by smooth raw material supply.

The marriage should enable CJ CJ to become the world's top player in all of the business segments in which synergies are expected.

CJ CJ's market share in lysine is expected to rise to 35% following the deal, driving up its pricing power, which is currently relatively weak. And, for the already-strong threonine, MSG, and tryptophan businesses, pricing power should be further enhanced.

Furthermore, given CJ CJ's strong amino acid technology, the yield of Meihua's amino acid factory could be boosted. And, with Meihua's relatively strong raw material sourcing (owing to its superior location for coal and corn procurement), CJ CJ will likely see a drop in costs.

### Deal financing

Meihua's annual revenue is only around W2tr, but its market cap stands at roughly W5tr. Trading of the stock was suspended on December 16, 2015 ahead of the potential deal with CJ CJ.

The success of the tie-up will hinge on acquisition price and financing. Currently, visibility on the former is low. Meanwhile, we believe that both internal and external financing will be available. However, given that CJ CJ's consolidated debt and net debt stand at W5.7tr and W5tr, respectively, external financing does not appear especially desirable.

CJ CJ has issued bonds worth W500bn (W200bn of which was used for debt repayment), and has secured W120bn by selling the CJ E&M building. We believe the company could further finance the deal via gains on the IPO of CJ HealthCare (with a secondary offering being possible), the sale of Samsung Life shares (approximately 3mn shares; market value of W340bn), and the sale of treasury shares (2.72% stake; market value of W130bn).

### Will lysine prices rebound?

In 2016, we expect CJCJ’s biotech unit to post revenue of W1.95tr—40% from lysine, 25% from methionine, 15% from nucleic acid, 6% from threonine, 8% from tryptophan, and 6% from MSG.

Lysine supply and demand were in balance until 2012. When the market is in equilibrium, major determinants of lysine prices include Chinese pork prices, Chinese hog inventory, and international prices of soybean meal and corn (raw materials).

In 2012-13, however, lysine supply and demand were disrupted by capacity ramps-up by Chinese makers and CJCJ. As such, lysine prices did not hinge on the aforementioned determinants.

As of 2015, global lysine capacity and consumption were estimated at 2.5mn tonnes (1.8mn tonnes for China) and 1.5mn tonnes (0.9mn tonnes for China), respectively. The lysine market remains in oversupply, although consumption has increased and capacity has contracted over the past two years. Currently, the only price determinant is production volume.

In China, lysine spot prices have risen by around 10% to RMB8.5-8.8/kg after declining to RMB7.8-8.0/kg due to oversupply at end-2015. In addition, global sales prices picked up modestly in 1Q after bottoming at US\$1,215/tonne in 4Q15.

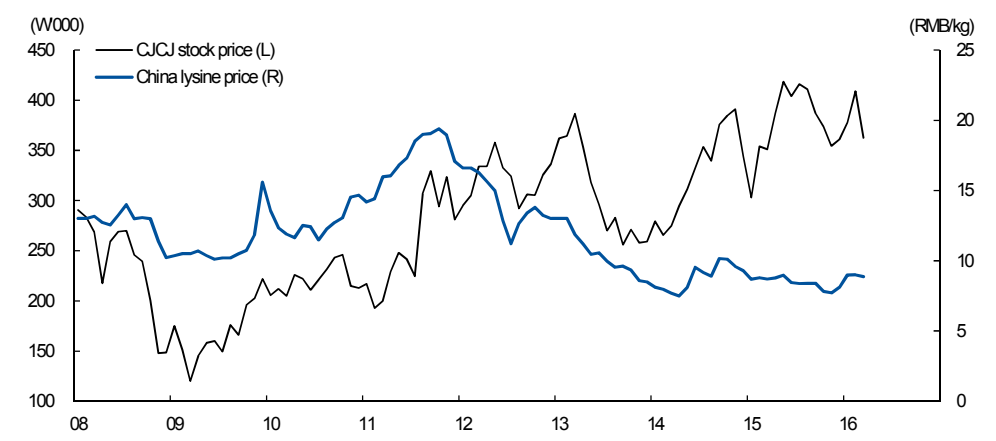
We expect CJCJ’s annual average global lysine sales price to climb from US\$1,290/tonne in 2015 to US\$1,355/tonne (+5% YoY) in 2016 and US\$1,400/tonne (+3.3% YoY) in 2017, assuming that the imbalance in supply and demand remains intact and small-scale production cuts/M&As occur. The company’s lysine sales prices could rise further if 1) CJCJ acquires Meihua, or 2) Eppen, against which CJCJ has filed a patent infringement suit, experiences production disruptions.

We expect CJCJ’s lysine operating loss to shrink from W50bn in 2015 to around W10bn in 2016. Furthermore, the lysine business will likely swing to a modest operating profit in 2017, aided by higher sales prices (US\$1,400/tonne) and production yields.

At the biotech unit, the sales mix of lysine will likely decline from 50% in 2015 to 40% in 2016. As such, biotech’s reliance on lysine will likely decrease sharply, with the sensitivity of overall earnings to lysine prices falling.

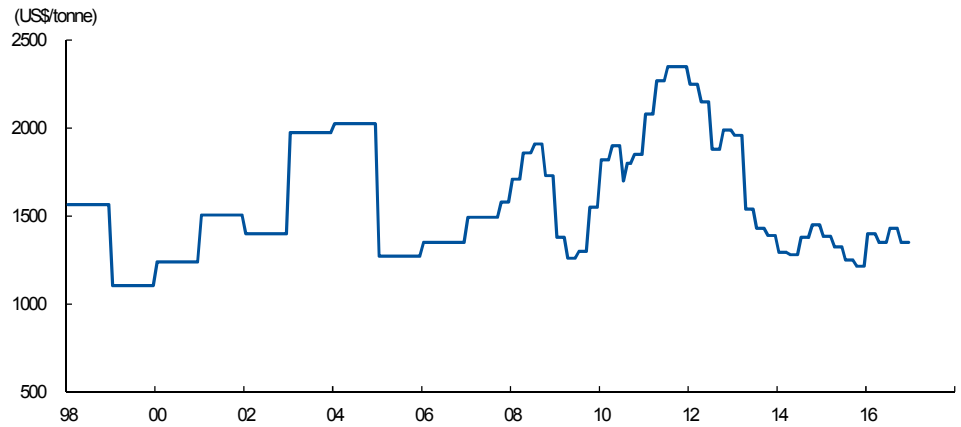
Shares of CJCJ moved in line with lysine prices in 2013-14. Since 2015, however, lysine prices have not had any significant impact on the stock, as: 1) the sales mix of lysine has fallen; and 2) the processed food unit’s impact on the stock has increased due to its rapid earnings growth. We think this trend will persist in 2016-17.

**Figure 1. Share performance and lysine price**



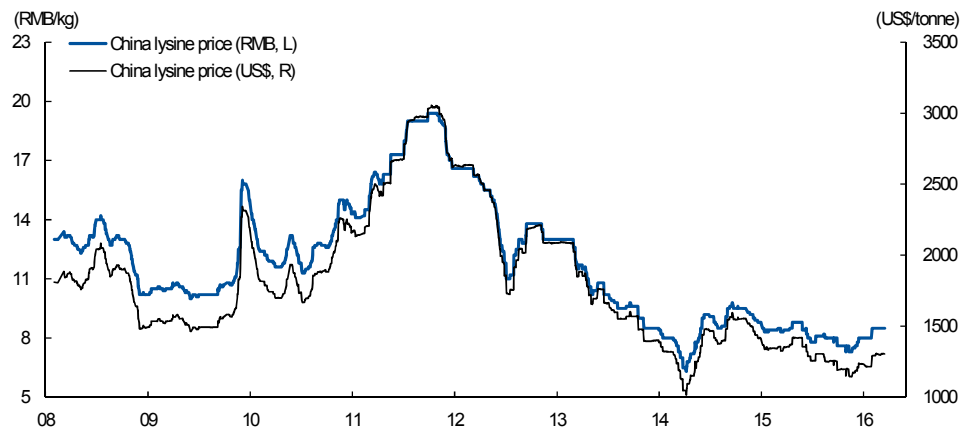
Source: Company data, CFIA, KDB Daewoo Securities Research

Figure 2. Global average lysine price



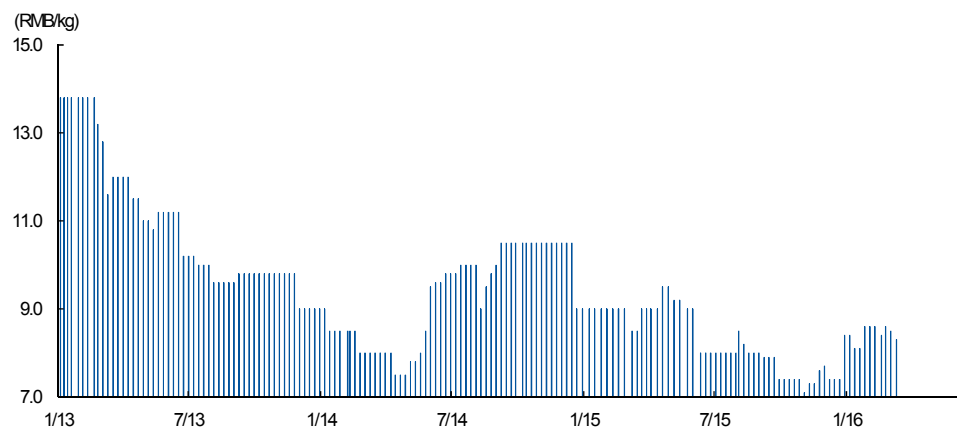
Source: Company data, KDB Daewoo Securities Research

Figure 3. China lysine spot price



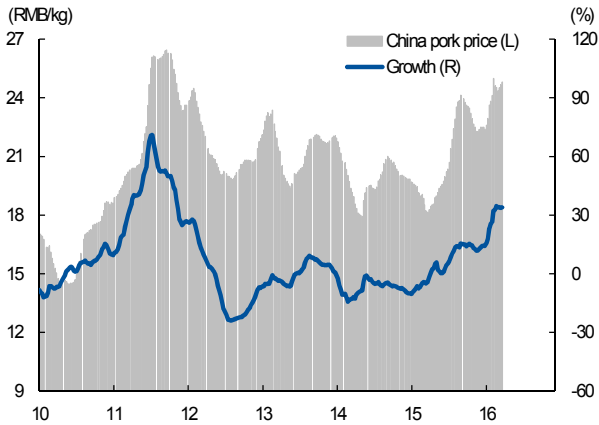
Source: CFIA, KDB Daewoo Securities Research

Figure 4. CJJ's lysine sales price in China



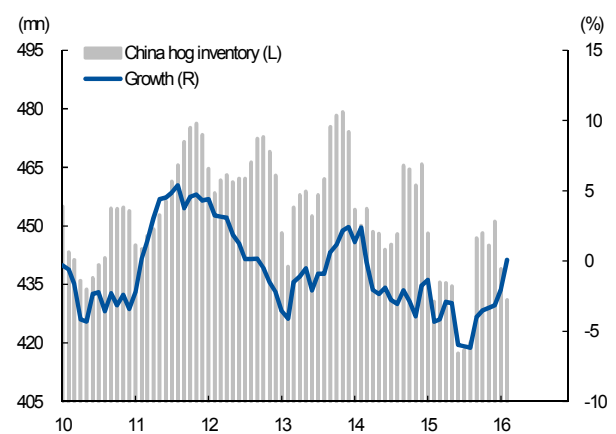
Source: CFIA, KDB Daewoo Securities Research

**Figure 5. China pork price**



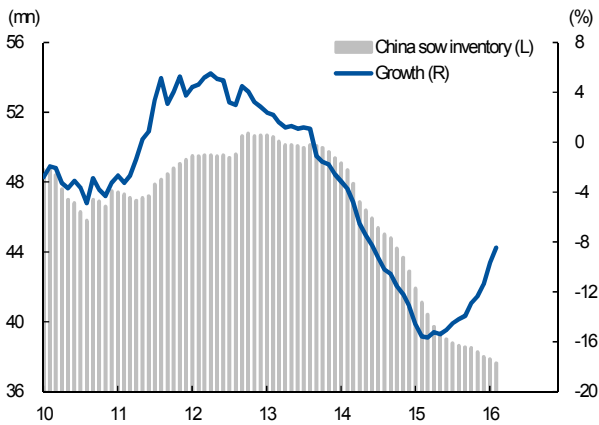
Source: CEIC, KDB Daewoo Securities Research

**Figure 6. China hog inventory**



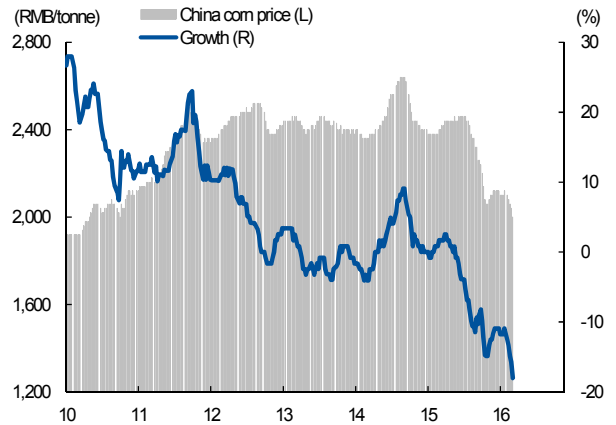
Source: CEIC, KDB Daewoo Securities Research

**Figure 7. China sow inventory**



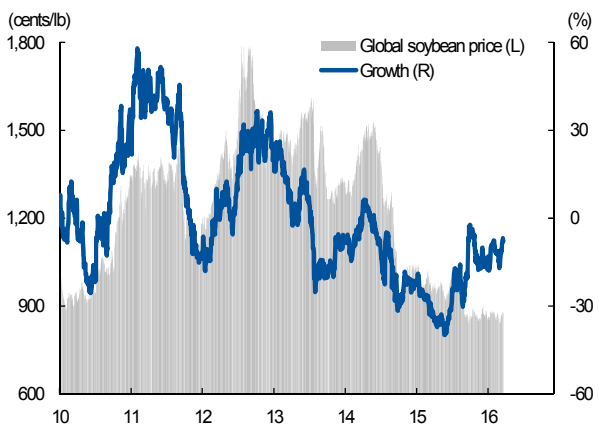
Source: CEIC, KDB Daewoo Securities Research

**Figure 8. China corn price**



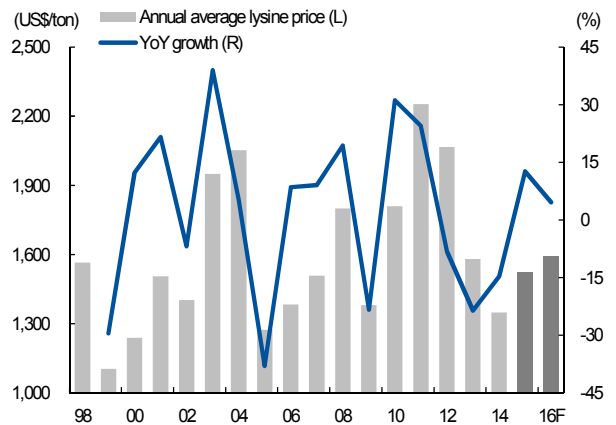
Source: CEIC, KDB Daewoo Securities Research

**Figure 9. Global soybean price trend**



Source: Thomson Reuters, KDB Daewoo Securities Research

**Figure 10. Lysine price trend**



Source: Company data, KDB Daewoo Securities Research

### Methionine price outlook

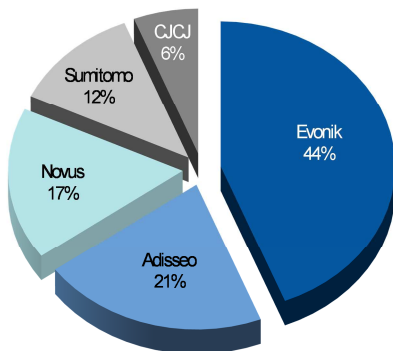
CJ CJ commenced full-scale operation of its methionine plant in Malaysia (annual capacity of 80,000 tonnes) in early 2015. Methionine is one of the essential amino acids used in poultry feed. The global methionine market is estimated at US\$5bn, similar to the size of the lysine market. Germany-based Evonik is the market leader with a share of 44% and annual production volume of 565,000 tonnes, followed by China-based Adisseo (21%; 270,000 tonnes), US-based Novus (17%; 220,000 tonnes), Japan-based Sumitomo (12%, 150,000 tonnes), and CJ CJ (6%; 80,000 tonnes).

While the oligopoly in the lysine market has weakened since 2012 with the entries of Chinese players, the methionine market is still dominated by a small number of players.

As is the case in the lysine business, prices have the greatest impact on CJ CJ's methionine earnings. China's methionine spot prices slid from RMB33.5-35.5/kg at end-2015 to RMB29.5-31.5/kg in March 2016. CJ CJ's actual sales prices in the global market (including China) are estimated to have declined to around US\$4/kg in March 2016 from US\$5/kg at end-2015. In 2016-17, the company's sales prices are projected at the low US\$4/kg levels.

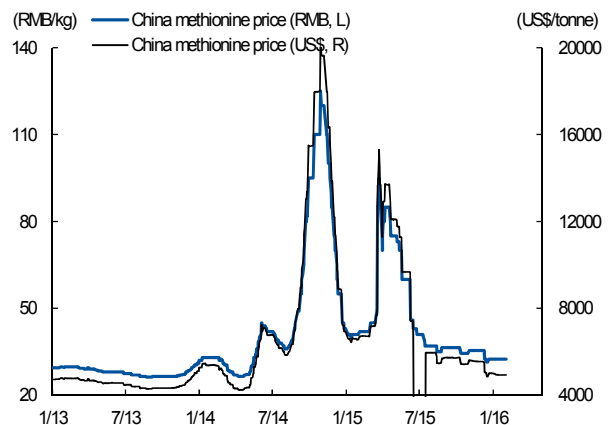
We estimate CJ CJ's 2015 methionine revenue at W250bn (sales volume of 50,000 tonnes; US\$5/kg) and operating profit at W60bn, with an OP margin of 25%. For 2016, methionine revenue is projected to rise to W400bn (sales volume of 80,000 tonnes; US\$4.2/kg). Even after accounting for a decline in prices, we see methionine operating profit expanding to W100-110bn (OP margin of 25%) in 2016.

Figure 11. Global methionine market share breakdown



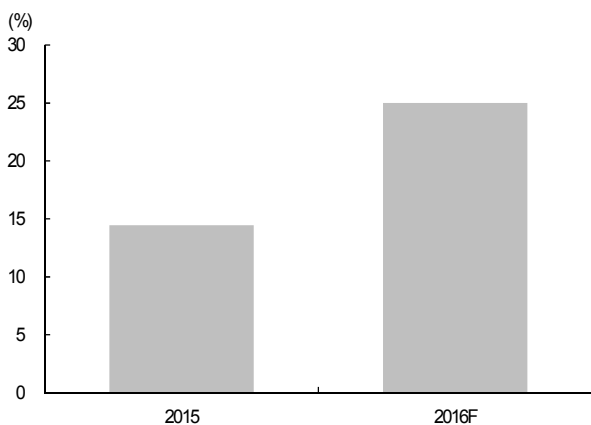
Source: Company data, KDB Daewoo Securities Research

Figure 12. China methionine spot price



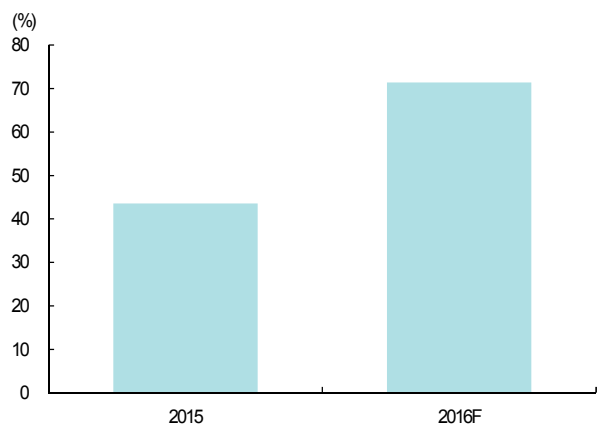
Source: China Feed, KDB Daewoo Securities Research

Figure 13. Methionine's contribution to biotech revenue



Source: Company data, KDB Daewoo Securities Research

Figure 14. Methionine's contribution to biotech OP



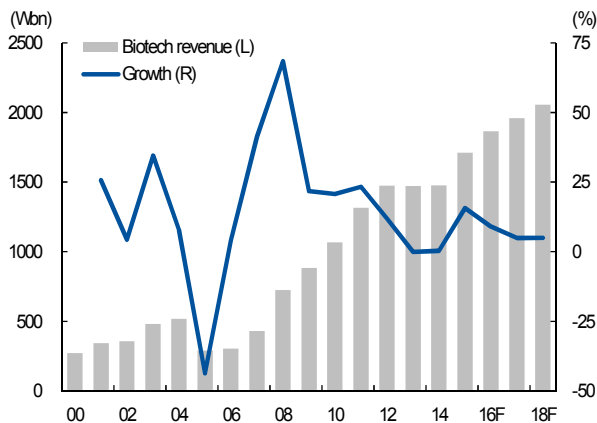
Source: Company data, KDB Daewoo Securities Research

### Will biotech earnings stabilize?

In 2013-14, the biotech unit's operating profit fell sharply due to the price decline of lysine, which accounts for a large percentage of biotech sales. In 2015, however, profits improved materially, as the company began selling methionine, and the sales mix of lysine declined. Such sharp fluctuations in biotech profits have limited the company's earnings visibility, serving as a discount factor.

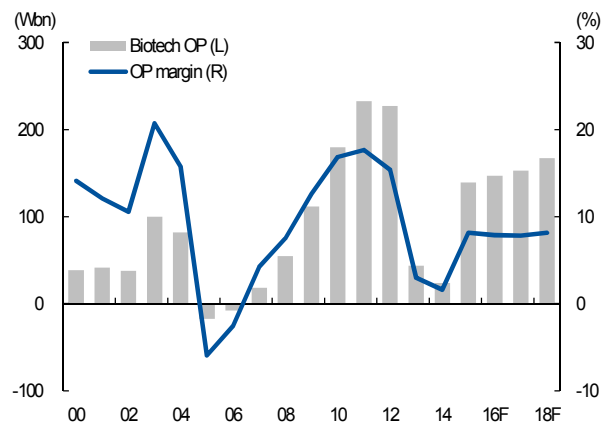
For 2016-17, we forecast the biotech unit's OP margin at 7.5-8.0% and operating profit share at around 23%, largely unchanged from 2015 levels. Lysine prices should by and large remain stable, allowing the lysine business to roughly break even. Steady profits from methionine should also contribute to stable biotech earnings.

Figure 15. Biotech revenue and growth



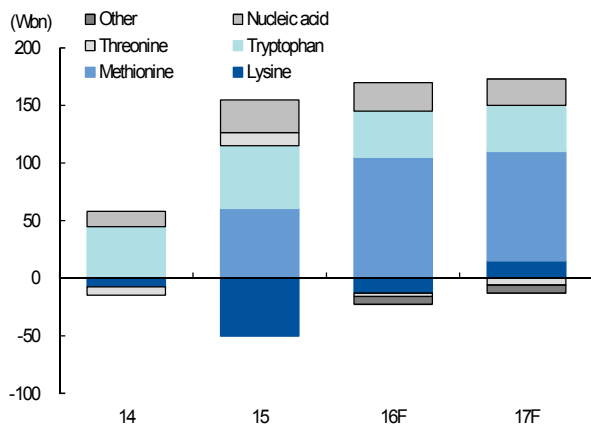
Source: Company data, KDB Daewoo Securities Research

Figure 16. Biotech OP and OP margin



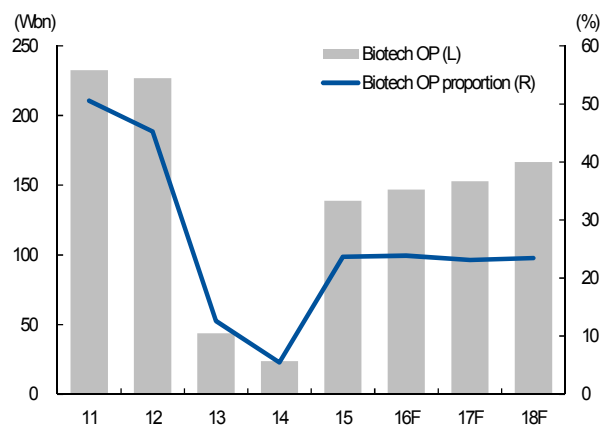
Source: Company data, KDB Daewoo Securities Research

Figure 17. Biotech OP breakdown



Source: Company data, KDB Daewoo Securities Research

Figure 18. Biotech unit's contribution to OP



Source: Company data, KDB Daewoo Securities Research

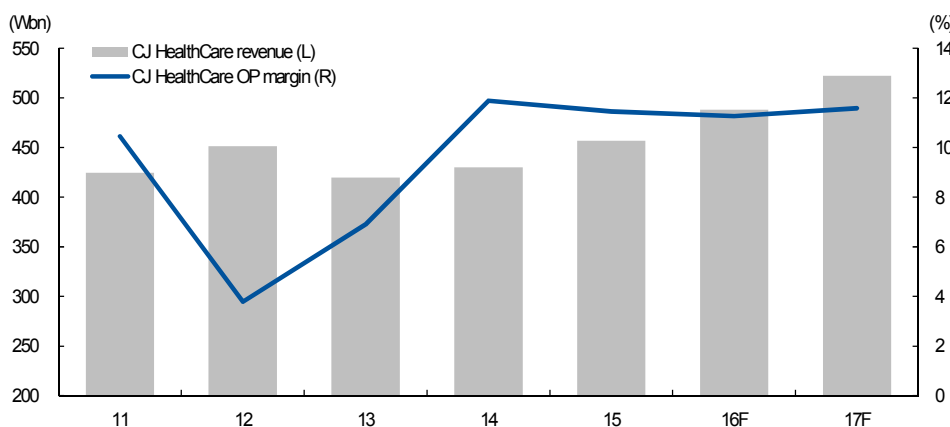
### Benefits from the IPO of CJ HealthCare

CJ HealthCare is a wholly-owned subsidiary of CJ CJ, established via the spin-off of CJ CJ's pharmaceutical business in 2014. CJ HealthCare recorded revenue of W456.7bn and an operating profit of W52.3bn in 2015. The company's revenue is roughly broken down into prescription drugs (domestic generic drugs; 82%) and beverages (Condition, Hutgaesoo, etc.). In light of CJ HealthCare's well-established sales network and customer base, CJ CJ expects the company to maintain revenue growth of 6-8% and an OP margin of at least 10% going forward.

CJ HealthCare is expected to go public in 2H16. As CJ CJ holds a 100% stake in CJ HealthCare, the IPO could be carried out via new share issues and/or the sale of existing shares. The market expects the company's market cap to exceed W1tr after the IPO.

As of end-2015, CJ CJ's consolidated and non-consolidated net debt stood at W5tr and W3.7tr, respectively. Even considering the company's status as one of the largest players in the F&B industry, its debt burden looks relatively heavy. Accordingly, an inflow of cash from the IPO should significantly relieve CJ CJ's debt burden. In addition, a potential revaluation of CJ HealthCare could also boost the value of CJ CJ.

**Figure 19. CJ HealthCare's revenue and OP margin**



Source: Company data, KDB Daewoo Securities Research

### Processed food margins

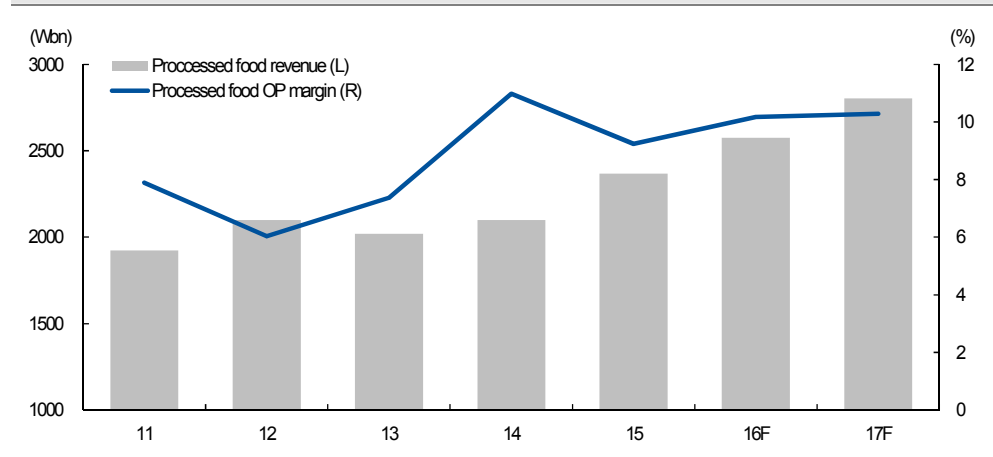
For CJJ, maintaining a high level of profitability in processed foods is very important. In 4Q15, processed food OP margin plunged to 3.2%, due to weak ham/sausage sales, increased promotions for new products, incentive payments, and returns of Chuseok holiday gifts. On a full-year basis, however, revenue jumped 12.9% YoY, and OP margin reached 9.2%, the highest level among domestic processed food companies.

For 2016, we expect CJJ's processed food revenue to expand 8.8% YoY, one of the strongest growth rates in the company's domestic peer group. Operating profit is forecast to expand faster, at 19.7% YoY, as last year's promotions start to bear fruit and new products gain ground among consumers. In 2016, ad/promotion expenses as a percentage of revenue are unlikely to climb sharply.

New product launches and HMR are anticipated to propel CJJ's revenue growth this year. New products raked in roughly W80bn in revenue last year, and more products are scheduled to hit the shelves this year. The company is also likely to roll out more HMR products, including CJ Cup Ban, frozen rice, and frozen snacks, which could boost the firm's HMR revenue from W30bn in 2015 to as high as W100bn in 2016.

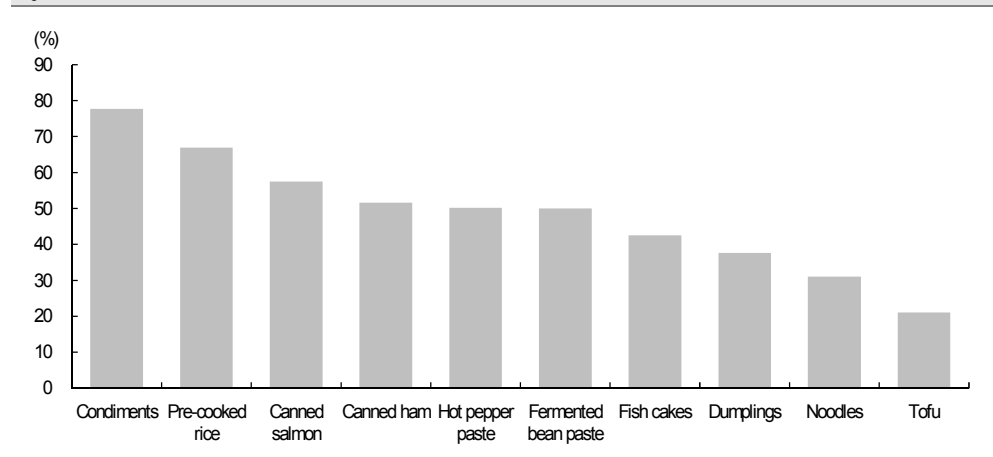
CJJ has started to build a production line dedicated to HMR items in Jincheon, Chungbuk.

**Figure 20. Processed food revenue and OP margin**



Source: Company data, KDB Daewoo Securities Research

**Figure 21. Key processed food item market share**



Source: Company data, KDB Daewoo Securities Research

**F/X rates and grain prices**

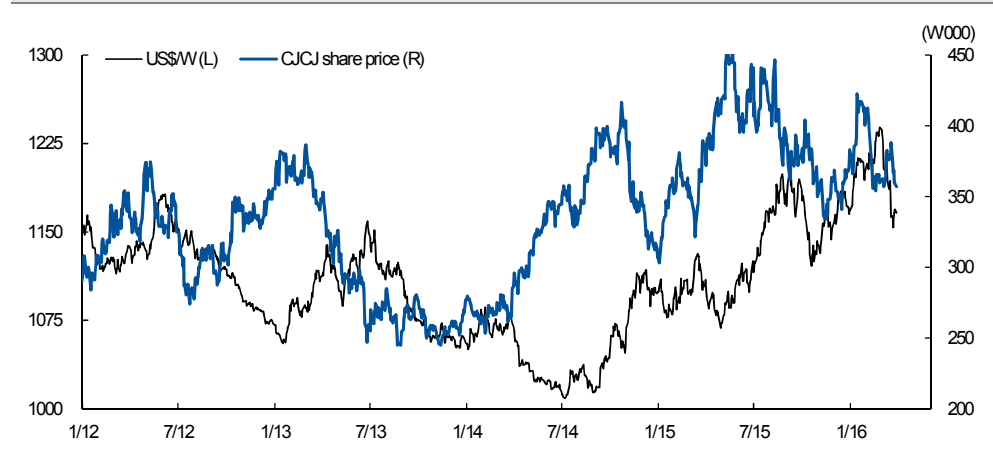
The won’s depreciation against the US dollar early this year weighed on CJCJ shares. With concerns over US interest rate normalization weakening recently, however, the US\$/W rate has turned downward. For CJCJ, F/X rates are one of the biggest sources of uncertainty.

A rise in the US\$/W rate is positive for the firm’s biotech and animal feed businesses, but negative for domestic-oriented businesses such as foodstuff (sugar, flour, oil, and starch sugar) and processed food.

Due to dollar-denominated debts held by both domestic and overseas subsidiaries (China and Indonesia), the weakness of the won (or local currencies) against the dollar leads to F/X losses. A rise of 10 in the US\$/W rate is estimated to translate into a W3bn reduction in pretax profit.

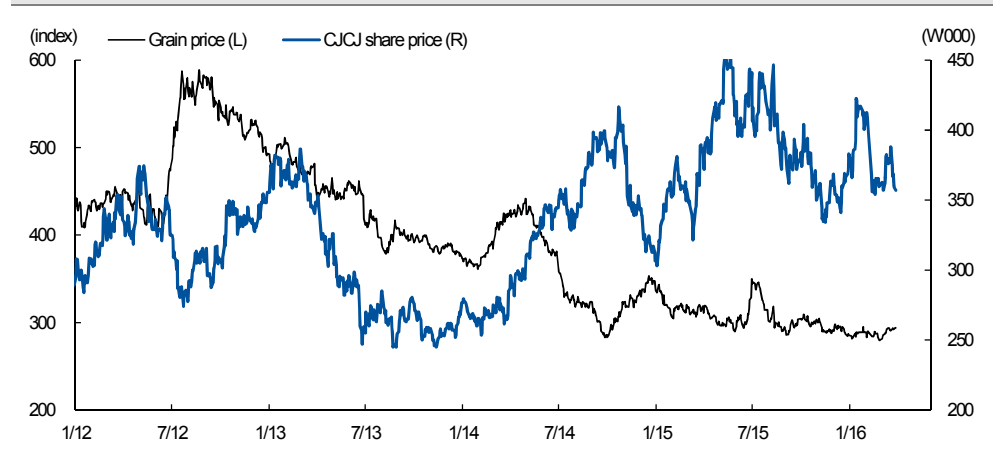
The downtrend in grain prices in 2013-15 contributed to growth in foodstuff and processed food profits. Grain prices have rebounded slightly since February of this year (raw sugar prices soared more than 30% in just one month), but input costs will likely remain stable until August-September, as grain prices had previously trended down for a sustained period of time. Starting in 4Q, however, higher grain prices may be reflected in input costs.

**Figure 22. Share performance vs. US\$/W**



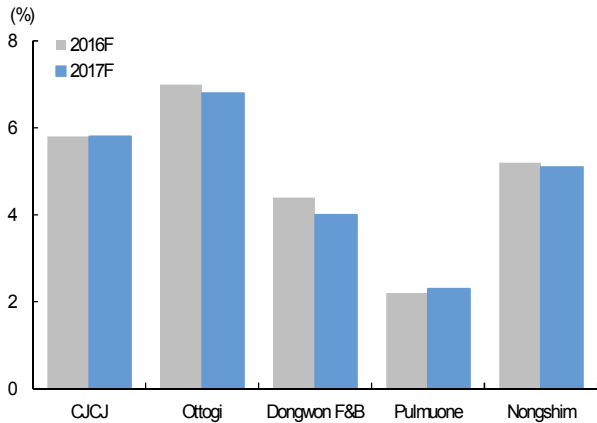
Source: KDB Daewoo Securities Research

**Figure 23. Share performance vs. grain price**



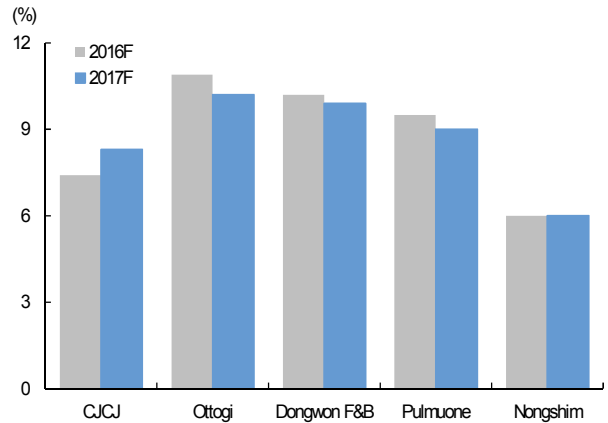
Source: KDB Daewoo Securities Research

Figure 24. OP margin comparison



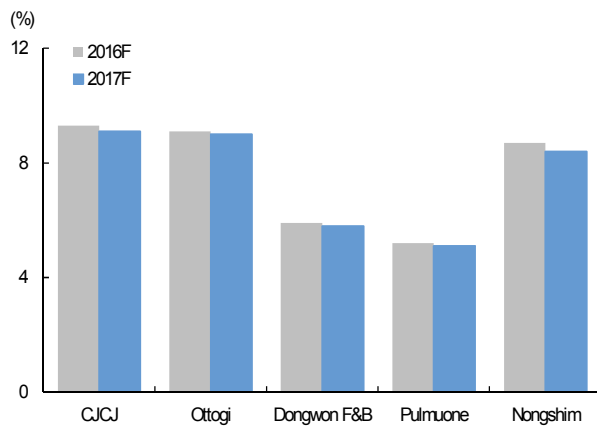
Source: KDB Daewoo Securities Research

Figure 25. ROE comparison



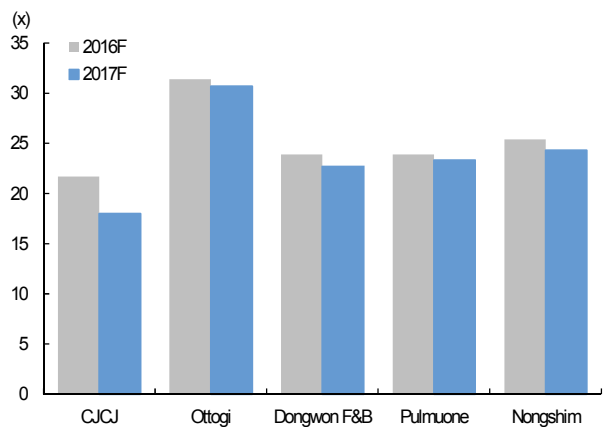
Source: KDB Daewoo Securities Research

Figure 26. EBITDA margin comparison



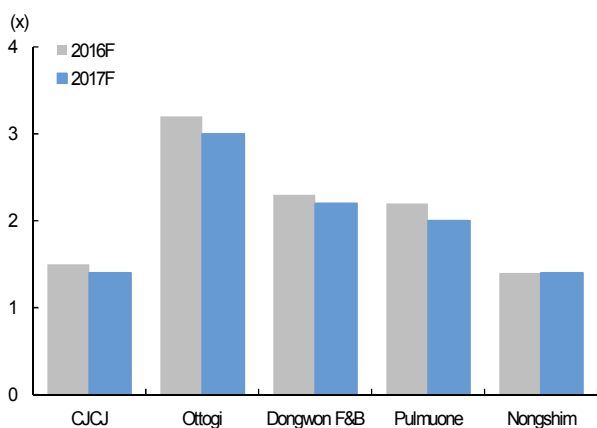
Source: KDB Daewoo Securities Research

Figure 27. P/E comparison



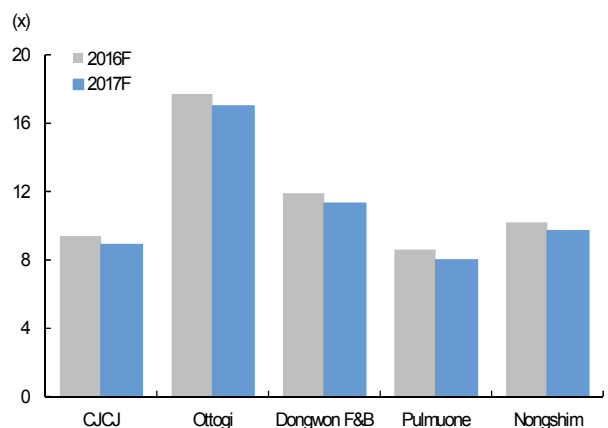
Source: WISEfn, KDB Daewoo Securities Research

Figure 28. P/B comparison



Source: WISEfn, KDB Daewoo Securities Research

Figure 29. EV/EBITDA comparison



Source: WISEfn, KDB Daewoo Securities Research

## CJ CheilJedang (097950 KS/Buy/TP: W500,000)

## Comprehensive Income Statement (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
<b>Revenue</b>	<b>12,924</b>	<b>13,953</b>	<b>14,914</b>	<b>15,780</b>
<b>Cost of Sales</b>	<b>10,038</b>	<b>10,860</b>	<b>11,641</b>	<b>12,293</b>
<b>Gross Profit</b>	<b>2,886</b>	<b>3,093</b>	<b>3,273</b>	<b>3,487</b>
<b>SG&amp;A Expenses</b>	<b>2,135</b>	<b>2,287</b>	<b>2,410</b>	<b>2,563</b>
<b>Operating Profit (Adj)</b>	<b>751</b>	<b>806</b>	<b>864</b>	<b>923</b>
<b>Operating Profit</b>	<b>751</b>	<b>806</b>	<b>864</b>	<b>923</b>
<b>Non-Operating Profit</b>	<b>-387</b>	<b>-401</b>	<b>-378</b>	<b>-393</b>
Net Financial Income	-166	-175	-178	-173
Net Gain from Inv in Associates	21	7	10	10
Pretax Profit	365	405	486	531
Income Tax	111	109	131	143
Profit from Continuing Operations	254	296	355	388
Profit from Discontinued Operations	0	0	0	0
<b>Net Profit</b>	<b>254</b>	<b>296</b>	<b>355</b>	<b>388</b>
Controlling Interests	189	240	289	316
Non-Controlling Interests	64	56	66	72
<b>Total Comprehensive Profit</b>	<b>242</b>	<b>296</b>	<b>355</b>	<b>388</b>
Controlling Interests	174	13	16	17
Non-Controlling Interests	68	283	339	371
EBITDA	1,235	1,301	1,353	1,420
FCF (Free Cash Flow)	481	440	516	486
EBITDA Margin (%)	9.6	9.3	9.1	9.0
Operating Profit Margin (%)	5.8	5.8	5.8	5.9
Net Profit Margin (%)	1.5	1.7	1.9	2.0

## Cash Flows (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Cash Flows from Op Activities	1,155	930	986	1,036
Net Profit	254	296	355	388
Non-Cash Income and Expense	918	792	806	830
Depreciation	394	415	413	426
Amortization	89	80	76	71
Others	434	297	317	334
Chg in Working Capital	82	-49	-43	-38
Chg in AR & Other Receivables	175	-122	-106	-107
Chg in Inventories	-27	-82	-72	-73
Chg in AP & Other Payables	-61	64	56	56
<b>Income Tax Paid</b>	<b>-99</b>	<b>-109</b>	<b>-131</b>	<b>-143</b>
Cash Flows from Inv Activities	-693	-609	-556	-586
Chg in PP&E	-644	-490	-470	-550
Chg in Intangible Assets	-64	-60	-40	0
Chg in Financial Assets	25	-67	-67	-53
<b>Others</b>	<b>-9</b>	<b>8</b>	<b>21</b>	<b>16</b>
Cash Flows from Fin Activities	-364	448	58	-296
Chg in Financial Liabilities	-204	682	302	-48
Chg in Equity	9	0	0	0
Dividends Paid	-42	-35	-35	-38
<b>Others</b>	<b>-127</b>	<b>-199</b>	<b>-208</b>	<b>-209</b>
Increase (Decrease) in Cash	94	755	476	143
Beginning Balance	436	530	1,285	1,761
<b>Ending Balance</b>	<b>530</b>	<b>1,285</b>	<b>1,761</b>	<b>1,903</b>

Source: Company data, KDB Daewoo Securities Research estimates

## Statement of Financial Condition (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
<b>Current Assets</b>	<b>4,019</b>	<b>5,035</b>	<b>5,740</b>	<b>6,108</b>
Cash and Cash Equivalents	530	1,285	1,761	1,903
AR & Other Receivables	1,769	1,901	2,017	2,129
Inventories	1,098	1,180	1,252	1,324
Other Current Assets	622	669	710	751
<b>Non-Current Assets</b>	<b>9,733</b>	<b>9,852</b>	<b>9,938</b>	<b>10,042</b>
Investments in Associates	212	228	242	256
Property, Plant and Equipment	6,690	6,766	6,822	6,947
Intangible Assets	1,737	1,717	1,682	1,611
<b>Total Assets</b>	<b>13,751</b>	<b>14,887</b>	<b>15,678</b>	<b>16,150</b>
<b>Current Liabilities</b>	<b>4,336</b>	<b>4,767</b>	<b>5,031</b>	<b>5,147</b>
AP & Other Payables	1,294	1,391	1,476	1,562
Short-Term Financial Liabilities	2,613	2,915	3,066	0
Other Current Liabilities	429	461	489	3,585
<b>Non-Current Liabilities</b>	<b>4,030</b>	<b>4,475</b>	<b>4,682</b>	<b>4,689</b>
Long-Term Financial Liabilities	3,166	3,546	3,696	0
Other Non-Current Liabilities	864	929	986	4,689
<b>Total Liabilities</b>	<b>8,366</b>	<b>9,242</b>	<b>9,713</b>	<b>9,836</b>
<b>Controlling Interests</b>	<b>3,143</b>	<b>3,348</b>	<b>3,602</b>	<b>3,879</b>
Capital Stock	72	72	72	72
Capital Surplus	923	923	923	923
Retained Earnings	2,334	2,539	2,793	3,070
<b>Non-Controlling Interests</b>	<b>2,242</b>	<b>2,298</b>	<b>2,364</b>	<b>2,435</b>
<b>Stockholders' Equity</b>	<b>5,385</b>	<b>5,645</b>	<b>5,965</b>	<b>6,314</b>

## Forecasts/Valuations (Summarized)

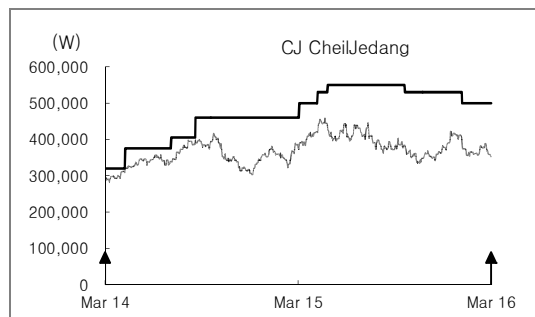
	12/15	12/16F	12/17F	12/18F
P/E (x)	28.9	21.3	17.7	16.2
P/CF (x)	4.7	4.7	4.4	4.2
P/B (x)	1.7	1.5	1.4	1.3
EV/EBITDA (x)	10.1	9.3	8.9	8.4
EPS (W)	13,073	16,563	19,964	21,797
CFPS (W)	80,925	75,101	80,109	84,073
BPS (W)	223,904	237,994	255,516	274,675
DPS (W)	2,500	2,500	2,700	2,700
Payout ratio (%)	12.6	10.8	9.7	8.9
Dividend Yield (%)	0.7	0.7	0.8	0.8
Revenue Growth (%)	10.4	8.0	6.9	5.8
EBITDA Growth (%)	20.2	5.3	4.0	5.0
Operating Profit Growth (%)	29.6	7.3	7.2	6.9
EPS Growth (%)	105.3	26.7	20.5	9.2
Accounts Receivable Turnover (x)	8.1	8.3	8.3	8.3
Inventory Turnover (x)	11.9	12.3	12.3	12.2
Accounts Payable Turnover (x)	12.0	12.3	12.4	12.3
ROA (%)	1.9	2.1	2.3	2.4
ROE (%)	6.2	7.4	8.3	8.4
ROIC (%)	5.2	5.7	6.0	6.8
Liability to Equity Ratio (%)	155.4	163.7	162.8	155.8
Current Ratio (%)	92.7	105.6	114.1	118.7
Net Debt to Equity Ratio (%)	92.9	87.0	79.1	71.5
Interest Coverage Ratio (x)	4.2	4.1	4.1	4.4

# APPENDIX 1

## Important Disclosures & Disclaimers

### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
CJ CheilJedang (097950)	02/04/2016	Buy	500,000
	10/19/2015	Buy	530,000
	05/26/2015	Buy	550,000
	05/07/2015	Buy	530,000
	04/02/2015	Buy	500,000
	09/18/2014	Buy	460,000
	08/03/2014	Buy	405,000
	05/08/2014	Buy	375,000
	02/07/2014	Buy	320,000



### 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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