

Cosmetics

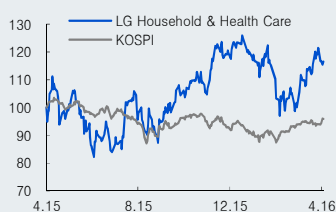
Earnings Preview

April 18, 2016

(Maintain)	Buy
Target Price (12M, W)	1,250,000
Share Price (4/15/16, W)	978,000
Expected Return	28%

OP (16F, Wbn)	838
Consensus OP (16F, Wbn)	802
EPS Growth (16F, %)	21.6
Market EPS Growth (16F, %)	12.2
P/E (16F, x)	31.0
Market P/E (16F, x)	11.4
KOSPI	2,014.71
Market Cap (Wbn)	15,275
Shares Outstanding (mn)	18
Free Float (%)	59.8
Foreign Ownership (%)	42.3
Beta (12M)	1.28
52-Week Low	690,000
52-Week High	1,057,000

(%)	1M	6M	12M
Absolute	7.4	11.1	19.0
Relative	5.0	12.2	25.2



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[Cosmetics, Hotel/Leisure, Fashion]

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LG Household & Health Care

(051900 KS)

Structural changes beginning to take shape

1Q16 preview: Consolidated OP of W216.3bn (+21% YoY)

For 1Q16, we expect LG Household & Health Care (LG H&H) to deliver consolidated revenue of W1.49tr (+14.5% YoY), operating profit of W216.3bn (+21.2% YoY), and OP margin of 14.5%. We believe strong earnings growth continued for the sixth consecutive quarter, driven by the structural growth of the cosmetics business, with operating profit likely hitting a new quarterly record.

For cosmetics, which is solidifying its position as LG H&H's core business, we estimate revenue climbed 22.5% YoY to W747.5bn. Revenue from the duty-free channel likely expanded to W233.7bn (+55.0% YoY, +12.2% QoQ), reflecting the rapidly growing popularity of domestic premium brands among Chinese inbound tourists.

One of the top 20 makeup companies in China

LG H&H made it into the top 20 makeup companies in China for the first time in 2015 (15th place with a market share of 1.1%). We think this shows that the company's expansion into China is just starting to take off. (Its market share had been insignificant prior to 2015.) We also believe the only LG H&H brand with a meaningful market share in China thus far is The Face Shop. Aside from Whoo and The Face Shop, most of the company's brands do not yet have a presence in China's offline channels, and Whoo's lineup mostly consists of high-end skin care products.

Overall, we believe LG H&H's growth in the makeup space is being driven by structural changes for The Face Shop brand, such as improving store efficiency and an enhanced product lineup. And given the imminent launch of newer brands, we remain bullish on the prospects of the company's market share gains in China.

Increasing expectations on core brand diversification

We believe the main driver of growth in cosmetics will extend beyond Whoo into newer brands. In 2015, Whoo was the only mega brand in the company's portfolio generating annual sales of more than W400bn (AmorePacific has four mega brands), accounting for 39% of cosmetics revenue (vs. 28% for AmorePacific's Sulwhasoo), excluding brand shop sales. The disproportionate exposure to a single brand means there is ample room for diversification in the long term. While LG H&H's brands have lagged behind its rivals' in terms of growth due to differences in strategies and the timing of their launches, we believe the company ultimately has a strong high-end brand portfolio.

We remain confident in LG H&H's re-rating story, given the company's full-fledged expansion into China and growth diversification within the brand portfolio. We reaffirm our Buy call and target price of W1,250,000 and continue to recommend the stock as one of our top picks in cosmetics (along with AmorePacific).

FY (Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	4,326	4,677	5,328	6,171	6,979	7,755
OP (Wbn)	496	511	684	838	978	1,110
OP margin (%)	11.5	10.9	12.8	13.6	14.0	14.3
NP (Wbn)	357	349	460	560	662	763
EPS (W)	20,166	19,722	25,982	31,593	37,374	43,037
ROE (%)	27.4	22.9	25.1	24.6	23.7	22.4
P/E (x)	27.2	31.6	40.4	31.0	26.2	22.7
P/B (x)	6.6	6.5	8.8	6.7	5.5	4.6

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

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1Q16 preview

Table 1. 1Q16 preview

(Wbn, %)

	1Q15	4Q15	1Q16F		Growth	
			Mirae Asset Daewoo	Consensus	YoY	QoQ
Revenue	1,302	1,329	1,491	1,456	14.5	12.2
Operating profit	178	147	216	208	21.2	46.7
OP margin (%)	13.7	11.1	14.5	14.3		
Pretax profit	169	137	208	202	23.3	51.2
Net profit	123	92	149	148	21.0	62.3

Source: Company data, Mirae Asset Daewoo Research

Table 2. Earnings forecast revisions

(Wbn, %)

	Previous		Revised		% chg.		Notes
	2016F	2017F	2016F	2017F	2016F	2017F	
Revenue	6,170	6,977	6,171	6,979	0.0	0.0	
Operating profit	829	970	838	978	1.0	0.8	- Reflects lower cosmetics COGS ratio
Pretax profit	782	930	790	937	1.1	0.8	
Net profit	554	657	560	662	1.1	0.8	

Source: Company data, Mirae Asset Daewoo Research

Table 3. Quarterly and annual earnings

(Wbn, %)

	1Q15	2Q15	3Q15	4Q15	1Q16F	2Q16F	3Q16F	4Q16F
Revenue	1,302	1,311	1,387	1,329	1,491	1,511	1,627	1,543
Healthy	416	368	454	360	443	395	486	387
Beautiful	610	596	565	678	748	754	758	853
Refreshing	276	347	368	291	300	362	384	303
YoY								
Total	15.4	14.8	12.7	13.0	14.5	15.2	17.3	16.1
Healthy	3.5	8.2	11.0	2.4	6.6	7.3	7.0	7.6
Beautiful	34.5	28.3	17.7	21.5	22.5	26.6	34.1	25.8
Refreshing	1.1	2.8	7.8	9.1	8.8	4.2	4.2	4.2
Contribution								
Healthy	31.9	28.1	32.7	27.1	29.7	26.1	29.8	25.1
Beautiful	46.9	45.4	40.7	51.0	50.1	49.9	46.6	55.3
Refreshing	21.2	26.5	26.6	21.9	20.1	23.9	23.6	19.7
Operating profit	179	168	190	148	216	207	232	182
Healthy	52	39	68	27	58	43	75	31
Beautiful	109	95	78	108	138	126	111	138
Refreshing	17	34	44	13	20	38	46	13
OP margin	13.7	12.8	13.7	11.1	14.5	13.7	14.3	11.8
Healthy	12.5	10.5	15.0	7.5	13.0	11.0	15.5	8.0
Beautiful	17.9	16.0	13.8	15.9	18.5	16.7	14.6	16.2
Refreshing	6.3	9.9	12.0	4.4	6.8	10.4	12.0	4.4
YoY								
Total	39.2	38.5	26.6	32.4	21.1	23.0	21.9	23.6
Healthy	15.8	27.6	17.3	1.0	10.8	12.4	10.6	14.8
Beautiful	64.3	51.0	22.1	36.1	26.6	32.2	41.9	28.2
Refreshing	2.8	22.6	55.9	128.7	17.4	9.4	4.2	4.2
Contribution								
Healthy	29.1	23.0	35.8	18.3	26.6	21.0	32.5	17.0
Beautiful	61.2	56.6	41.0	73.1	63.9	60.9	47.7	75.7
Refreshing	9.7	20.4	23.2	8.7	9.4	18.2	19.8	7.3

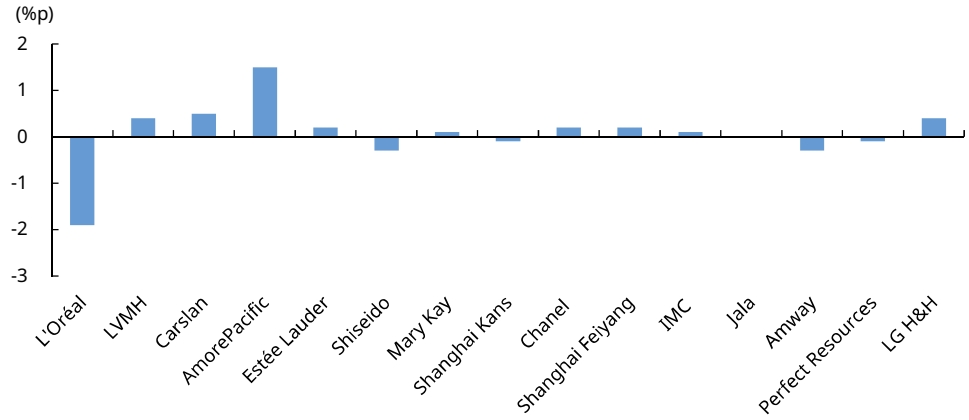
Source: Company data, Mirae Asset Daewoo Research

Table 4. Top-selling brands at Korean duty-free shops

Rank	2010	2011	2012	2013	2014	2015
1	Louis Vuitton	Louis Vuitton	Louis Vuitton	Louis Vuitton	Louis Vuitton	Whoo
2	Chanel	Chanel	Chanel	Cartier	Sulwhasoo	Sulwhasoo
3	Gucci	Cartier	Cartier	Chanel	Cartier	Louis Vuitton
4	Cartier	SK-II	SK-II	Rolex	Chanel	Hera
5	Estee Lauder	Estee Lauder	Rolex	Prada	Whoo	Rolex

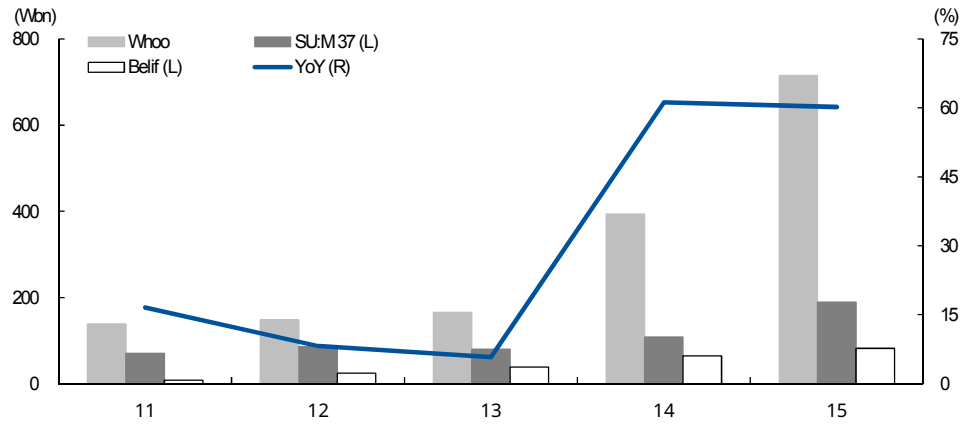
Source: Korea Customs Service, Mirae Asset Daewoo Research

Figure 1. 2015 market share changes among the top 15 makeup companies in China



Source: Company data, Mirae Asset Daewoo Research

Figure 2. Revenue growth of LG H&H's prestige brands



Source: Company data, Mirae Asset Daewoo Research

LG Household & Health Care (051900 KS/Buy/TP: W1,250,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Revenue	5,328	6,171	6,979	7,755
Cost of Sales	2,226	2,454	2,677	2,908
Gross Profit	3,102	3,717	4,302	4,847
SG&A Expenses	2,418	2,880	3,323	3,737
Operating Profit (Adj)	684	838	978	1,110
Operating Profit	684	838	978	1,110
Non-Operating Profit	-39	-48	-40	-30
Net Financial Income	-25	-16	-7	1
Net Gain from Inv in Associates	6	0	0	0
Pretax Profit	645	790	938	1,080
Income Tax	174	221	264	305
Profit from Continuing Operations	470	569	673	776
Profit from Discontinued Operations	0	0	0	0
Net Profit	470	569	673	776
Controlling Interests	460	560	662	763
Non-Controlling Interests	10	10	11	13
Total Comprehensive Profit	494	569	673	776
Controlling Interests	485	563	666	767
Non-Controlling Interests	10	6	7	8
EBITDA	811	976	1,128	1,278
FCF (Free Cash Flow)	336	289	447	482
EBITDA Margin (%)	15.2	15.8	16.2	16.5
Operating Profit Margin (%)	12.8	13.6	14.0	14.3
Net Profit Margin (%)	8.6	9.1	9.5	9.8

Statement of Financial Condition (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Current Assets	1,331	1,728	2,158	2,558
Cash and Cash Equivalents	397	488	752	991
AR & Other Receivables	432	633	704	785
Inventories	441	537	624	696
Other Current Assets	61	70	78	86
Non-Current Assets	2,884	3,026	3,233	3,524
Investments in Associates	48	58	69	83
Property, Plant and Equipment	1,290	1,408	1,580	1,843
Intangible Assets	1,380	1,394	1,417	1,430
Total Assets	4,215	4,754	5,391	6,083
Current Liabilities	1,159	1,252	1,309	1,381
AP & Other Payables	420	488	543	606
Short-Term Financial Liabilities	373	338	293	0
Other Current Liabilities	366	426	473	775
Non-Current Liabilities	940	910	908	862
Long-Term Financial Liabilities	688	653	648	0
Other Non-Current Liabilities	252	257	260	862
Total Liabilities	2,099	2,162	2,217	2,243
Controlling Interests	2,037	2,504	3,075	3,728
Capital Stock	89	89	89	89
Capital Surplus	97	97	97	97
Retained Earnings	2,066	2,534	3,104	3,757
Non-Controlling Interests	78	88	99	112
Stockholders' Equity	2,115	2,592	3,174	3,840

Cash Flows (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Cash Flows from Op Activities	638	539	767	912
Net Profit	470	569	673	776
Non-Cash Income and Expense	367	375	421	471
Depreciation	111	122	134	151
Amortization	16	17	17	17
Others	240	236	270	303
Chg in Working Capital	-16	-169	-56	-32
Chg in AR & Other Receivables	-2	-198	-69	-79
Chg in Inventories	-21	-95	-87	-72
Chg in AP & Other Payables	1	14	26	30
Income Tax Paid	-161	-221	-264	-305
Cash Flows from Inv Activities	-347	-276	-350	-450
Chg in PP&E	-285	-240	-305	-415
Chg in Intangible Assets	-6	-30	-40	-30
Chg in Financial Assets	-16	-6	-5	-5
Others	-40	0	0	0
Cash Flows from Fin Activities	-232	-162	-142	-209
Chg in Financial Liabilities	-147	-70	-50	-100
Chg in Equity	0	0	0	0
Dividends Paid	-68	-92	-92	-109
Others	-17	0	0	0
Increase (Decrease) in Cash	59	91	264	239
Beginning Balance	338	397	488	752
Ending Balance	397	488	752	991

Source: Company data, Mirae Asset Daewoo Research estimates

Forecasts/Valuations (Summarized)

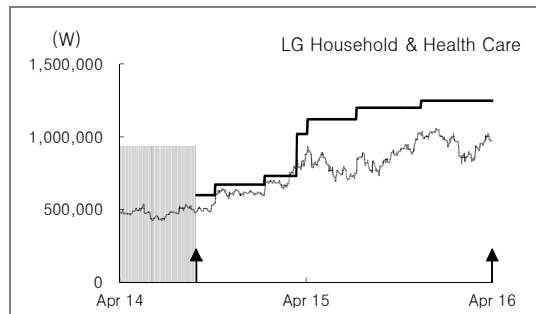
	12/15	12/16F	12/17F	12/18F
P/E (x)	40.4	31.0	26.2	22.7
P/CF (x)	22.2	18.3	15.8	13.9
P/B (x)	8.8	6.7	5.5	4.6
EV/EBITDA (x)	22.5	17.4	14.7	12.8
EPS (W)	25,982	31,593	37,374	43,037
CFPS (W)	47,277	53,316	61,797	70,383
BPS (W)	118,986	145,372	177,538	214,423
DPS (W)	5,500	6,500	7,500	9,000
Payout ratio (%)	17.1	16.7	16.3	17.0
Dividend Yield (%)	0.5	0.7	0.8	0.9
Revenue Growth (%)	13.9	15.8	13.1	11.1
EBITDA Growth (%)	28.3	20.3	15.6	13.3
Operating Profit Growth (%)	33.9	22.5	16.7	13.5
EPS Growth (%)	31.7	21.6	18.3	15.2
Accounts Receivable Turnover (x)	12.9	11.9	10.7	10.7
Inventory Turnover (x)	12.5	12.6	12.0	11.8
Accounts Payable Turnover (x)	10.5	10.9	11.0	10.7
ROA (%)	11.7	12.7	13.3	13.5
ROE (%)	25.1	24.6	23.7	22.4
ROIC (%)	17.7	19.8	21.1	22.1
Liability to Equity Ratio (%)	99.2	83.4	69.9	58.4
Current Ratio (%)	114.8	138.1	164.9	185.3
Net Debt to Equity Ratio (%)	29.9	18.0	4.7	-5.0
Interest Coverage Ratio (x)	20.8	28.7	36.2	44.2

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
LG Household & Health Care (051900)	11/30/2015	Buy	1,250,000
	07/26/2015	Buy	1,200,000
	04/21/2015	Buy	1,120,000
	03/31/2015	Buy	1,020,000
	01/27/2015	Buy	730,000
	10/22/2014	Buy	670,000
	09/15/2014	Buy	600,000
			No Coverage



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 (◆))

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- * 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
68.29%	17.56%	14.15%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2016)

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