

Emart

(139480 KS/Buy)

Opening of flagship No Brand stores

- The first No Brand store has opened in Yongin (converted from an existing Emart Everyday store)
- The store's concept is similar to that of Germany's Aldi, one of the world's largest hard-discount brands
- Immediate impact likely to be limited, but watch for emergence of new type of retailer

Emart's first-ever hard discount store

Emart has opened its first store dedicated exclusively to its "No Brand" line of products, converted from an Emart Everyday in Yongin (Bora-dong). A second location will open in September in the eastern outskirts of Seoul, at a new shopping complex called Starfield Hanam. In all, six No Brand stores are scheduled to open this year. In our report "Price War" released on May 26th, we analyzed the factors behind the success of private label (PL) discount store chain Aldi, and predicted that Emart would open a Korean version of the hard discount store model. Past attempts to launch hard discount chains in Korea were unsuccessful, as they failed to meet customers' expectations for either the quality and variety of PL products or the store environment (with barebones interiors and services). Emart's dedicated No Brand store, however, is providing a satisfactory shopping experience to customers while maintaining the core competitiveness of the hard discount store model.

Hard discount chains like Aldi are characterized by 1) solid margins boosted by a higher product mix of PL brands, 2) improved focus and efficiency through lower stock keeping units (SKU), and 3) eliminating inessential cost factors. Emart's No Brand store is following this blueprint.

No Brand product SKUs have risen to around 700-800. The Yongin branch carries a total of 1,200 products—800 No Brand items and 400 name-brand alternatives. This is a stark contrast to conventional large discount stores, which have more than 60,000 SKUs. Emart's No Brand store is the first to have a product mix comprising mostly PL products; the company plans to expand No Brand SKUs to 3,000 over the long term.

Margins of No Brand products are similar to those of brand names. PL margins are typically 6-7%p higher than brand-name margins, while No Brand products are almost 70% cheaper than name-brand alternatives. No Brand's strategy is to return price benefits to customers through cost-minimizing, margin-maximizing PL products. This is the basic and core competitiveness of the hard discount store model.

FY (Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	13,035	13,154	13,640	14,491	15,113	15,678
OP (Wbn)	735	583	504	507	542	588
OP margin (%)	5.6	4.4	3.7	3.5	3.6	3.8
NP (Wbn)	467	290	455	360	405	404
EPS (W)	16,762	10,404	16,312	12,926	14,525	14,496
ROE (%)	7.4	4.3	6.5	5.0	5.4	5.1
P/E (x)	15.9	19.5	11.6	12.2	10.9	10.9
P/B (x)	1.1	0.8	0.8	0.6	0.6	0.5

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

Watch for the evolution of a new type of retailer, rather than any immediate effects

Emart's No Brand product line is not yet powerful enough to have the type of influence in the global market that Aldi enjoys. With annual revenue of only W100bn, No Brand's contribution is still limited. Although No Brand stores may not have an immediate impact, they are still notable for creating a new type of consumption channel for customers in Korea and for furthering the development of PL products. We expect Emart to see the following impacts:

1) The biggest impact will be a traffic increase in Emart's distribution channels. No Brand stores should increase customers' exposure to No Brand products, thereby securing customer loyalty. We believe Emart can easily increase traffic for its distribution channels (Emart, Traders, Emart Mall, Everyday, etc.) relative to peers through differentiation, a strong advantage of PL products.

2) We expect Emart Everyday's performance to improve. Among the six No Brand stores scheduled to open this year, three will be converted from loss-making Everyday stores. We believe Emart will continue to open No Brand stores through its Everyday network. We expect that Everyday, which has already been reducing losses through cost reductions, will further improve performance by converting loss-making Everyday stores to No Brand.

Figure 1. Exterior of No Brand store in Yongin (converted from Everyday)



Source: Mirae Asset Daewoo Research

Figure 2. Exterior with visible inventory shelving



Source: Mirae Asset Daewoo Research

Figure 3. Exterior of Aldi in Inglewood, California



Source: Mirae Asset Daewoo Research

Figure 4. Simple exterior



Source: Mirae Asset Daewoo Research

As with other hard discount stores like Aldi, No Brand stores have a simple exterior design and display products in boxes, eliminating inessential cost factors.

Figure 5. No Brand store: Products displayed in boxes



Source: Mirae Asset Daewoo Research

Figure 6. No Brand store: Products displayed in boxes



Source: Mirae Asset Daewoo Research

Figure 7. Aldi in Inglewood, California



Source: Mirae Asset Daewoo Research

Figure 8. Aldi in Inglewood, California



Source: Mirae Asset Daewoo Research

Figure 9. No Brand store: No finishing materials on ceiling



Source: Mirae Asset Daewoo Research

Figure 10. No Brand fresh food category



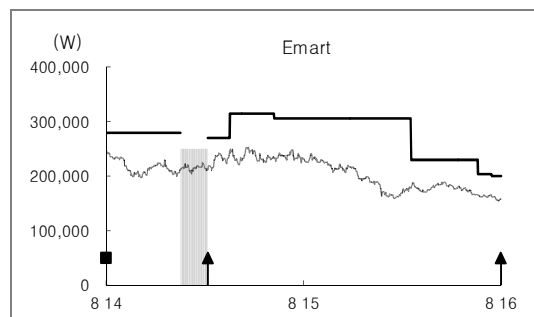
Source: Mirae Asset Daewoo Research

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Emart(139480)	08/11/2016	Buy	200,000
	07/17/2016	Buy	204,000
	03/15/2016	Buy	230,000
	07/06/2015	Buy	306,000
	04/15/2015	Buy	315,000
	03/05/2015	Buy	270,000
		No Coverage	
	07/24/2014	Trading Buy	280,000



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 Mirae Asset Daewoo Co., Ltd., 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
70.73%	17.56%	11.71%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2016)

Disclosures

As of the publication date, Mirae Asset Daewoo Co., Ltd. and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.

Analyst Certification

The research analysts who prepared this report (the "Analysts") are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws and regulations thereof. Opinions expressed in this publication about the subject securities and companies accurately reflect the personal views of the Analysts primarily responsible for this report. Mirae Asset Daewoo Co., Ltd. ("Mirae Asset Daewoo") policy prohibits its Analysts and members of their households from owning securities of any company in the Analyst's area of coverage, and the Analysts do not serve as an officer, director or advisory board member of the subject companies. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report. No part of the compensation of the Analysts was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report but, like all employees of Mirae Asset Daewoo, the Analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading and private client division. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or Mirae Asset Daewoo except as otherwise stated herein.

Disclaimers

This report is published by Mirae Asset Daewoo, a broker-dealer registered in the Republic of Korea and a member of the Korea Exchange. Information and opinions contained herein have been compiled from sources believed to be reliable and in good faith, but such information has not been independently verified and Mirae Asset Daewoo makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained herein or of any translation into English from the Korean language. If this report is an English translation of a report prepared in the Korean language, the original Korean language report may have been made available to investors in advance of this report. Mirae Asset Daewoo, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising from the use hereof. This report is for general information purposes only and it is not and should not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws and accounting principles and no person whose receipt or use of this report would violate any laws and regulations or subject Mirae Asset Daewoo and its affiliates to registration or licensing requirements in any jurisdiction should receive or make any use hereof. Information and opinions contained herein are subject to change without notice and no part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Mirae Asset Daewoo. Mirae Asset Daewoo, its affiliates and their directors, officers, employees and agents may have long or short positions in any of the subject securities at any time and may make a

purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents. Mirae Asset Daewoo and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making or other financial services as are permitted under applicable laws and regulations. The price and value of the investments referred to in this report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur.

Distribution

United Kingdom: This report is being distributed by Daewoo Securities (Europe) Ltd. in the United Kingdom only to (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as "Relevant Persons"). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents.

United States: This report is distributed in the U.S. by Daewoo Securities (America) Inc., a member of FINRA/SIPC, and is only intended for major institutional investors as defined in Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Mirae Asset Daewoo or its affiliates. Any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Daewoo Securities (America) Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

Hong Kong: This document has been approved for distribution in Hong Kong by Daewoo Securities (Hong Kong) Ltd., which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Mirae Asset Daewoo or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Mirae Asset Daewoo and its affiliates to any registration or licensing requirement within such jurisdiction.

Mirae Asset Daewoo International Network

Mirae Asset Daewoo Co., Ltd. (Seoul) Head Office 34-3 Yeouido-dong, Yeongdeungpo-gu Seoul 150-716 Korea Tel: 82-2-768-3026	Daewoo Securities (Hong Kong) Ltd. Two International Finance Centre Suites 2005-2012 8 Finance Street, Central Hong Kong, China Tel: 85-2-2845-6332	Daewoo Securities (America) Inc. 320 Park Avenue 31st Floor New York, NY 10022 United States Tel: 1-212-407-1000
Daewoo Securities (Europe) Ltd. 41st Floor, Tower 42 25 Old Broad St. London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000	Daewoo Securities (Singapore) Pte., Ltd. Six Battery Road #11-01 Singapore, 049909 Tel: 65-6671-9845	Tokyo Representative Office 7th Floor, Yusen Building 2-3-2 Marunouchi, Chiyoda-ku Tokyo 100-0005 Japan Tel: 81-3-3211-5511
Beijing Representative Office 2401A, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9299	Shanghai Representative Office Room 38T31, 38F SWFC 100 Century Avenue Pudong New Area, Shanghai 200120 China Tel: 86-21-5013-6392	Ho Chi Minh Representative Office Suite 2103, Saigon Trade Center 37 Ton Duc Thang St, Dist. 1, Ho Chi Minh City, Vietnam Tel: 84-8-3910-6000
Daewoo Investment Advisory (Beijing) Co., Ltd. 2401B, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue, Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699	Daewoo Securities (Mongolia) LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0807	PT. Daewoo Securities Indonesia Equity Tower Building Lt.50 Sudirman Central Business District Jl. Jendral Sudirman Kav. 52-53, Jakarta Selatan Indonesia 12190 Tel: 62-21-515-1140