

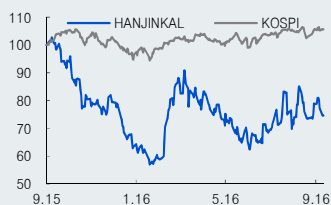
Airlines

Initiation Report
October 6, 2016

(Initiate)	Buy
Target Price (12M, W)	25,000
Share Price (10/5/16, W)	18,050
Expected Return	39%

OP (16F, Wbn)	100
Consensus OP (16F, Wbn)	101
EPS Growth (16F, %)	-
Market EPS Growth (16F, %)	20.2
P/E (16F, x)	-
Market P/E (16F, x)	10.7
KOSPI	2,053.00
Market Cap (Wbn)	1,068
Shares Outstanding (mn)	60
Free Float (%)	70.5
Foreign Ownership (%)	2.6
Beta (12M)	2.06
52-Week Low	13,792
52-Week High	24,356

(%)	1M	6M	12M
Absolute	-10.0	-4.1	-25.9
Relative	-9.7	-8.4	-28.6



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Hanjin KAL

(180640 KS)

Finding the fundamental value

Hanjin Group's holding company focusing on airlines

Hanjin KAL, the holding company of Hanjin Group, was spun off from Korean Air in August 2013, and now has six subsidiaries and two associate companies under its umbrella. Its major subsidiaries include 1) Jin Air (a low-cost carrier) and KAL Hotel Network (a hotel operator), which have high growth potential, and 2) cash cow businesses Topas (online reservation services), and Jungseok (non-residential property lessor). The two associate companies are recognized under the equity method, but have a substantial impact on net profit given that their businesses are larger than those of subsidiaries <Table 3>.

Fundamentals are highlighted given resolution of discount factors

1) Earnings improvement based on air passenger service: With demand robust amid a favorable macro environment, airlines are in a position to improve both their top and bottom lines. As Hanjin KAL manages a full-service carrier as well as a budget carrier, we expect the company's earnings improvement to outpace that of peers. Notably, following the firm's entry into the budget business, the cannibalization effect has been outweighed by the benefits of market expansion. Furthermore, the air cargo unit will enjoy momentum driven by smartphone exports in 2H.

2) Expanding long-haul routes with leverage effect: We believe the strategy of Jin Air, a major subsidiary of Hanjin KAL, is to aggressively expand long-haul services. To that end, the firm plans to operate seasonal flights between Incheon and Cairns, Australia over a two-month period starting at the end of this year. This could become a permanent service depending on its performance. Permanent service to Cairns would enable Jin Air to enjoy peak-season effects, as the airline did with its Incheon-Honolulu service.

3) Valuation more attractive following dissipation of group-related risk: Hanjin Shipping entered into court receivership on September 1st, easing group-related risks, which had been a discount factor. Although short-term losses seem inevitable due to impairment losses related to exposure to Hanjin Shipping, Hanjin KAL is in a condition to better focus on its own fundamentals. Given this, we believe the company, currently trading at a P/B of 0.9x, is undervalued compared to peers.

Recommend Buy with TP of W25,000

We initiate coverage on Hanjin KAL with a Buy rating and target price of W25,000, calculated using sum-of-the-parts methodology. The company's target price has shown a sharp variance due to uncertainties related to Hanjin Shipping. With Hanjin Shipping's court receivership begun, related uncertainties have eased significantly.

In our view, the company is in a better position to focus on its own fundamentals, as group-related risks have eased, subsidiary earnings are anticipated to pick up, and the market cap, at W1.068tr, remains below its operating value and subsidiary value (excluding associate companies) combined (W1.31tr). The target price is based on a P/B of 1.3x, which we believe is well within reach given ROE of 17%.

FY (Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	241	625	722	1,017	1,156	1,320
OP (Wbn)	29	76	74	100	109	124
OP margin (%)	12.0	12.2	10.2	9.8	9.4	9.4
NP (Wbn)	13	217	-216	-253	211	252
EPS (W)	617	6,505	-3,935	-4,388	3,539	4,215
ROE (%)	2.2	21.9	-15.9	-20.5	17.1	17.3
P/E (x)	26.0	4.6	-	-	5.1	4.3
P/B (x)	0.8	1.2	0.8	0.9	0.8	0.7

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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I. Investment points

1. Air passenger traffic to accelerate earnings expansion

Korea's air passenger traffic is growing sharply, even after accounting for the low base effect arising from last year's MERS outbreak. Indeed, outbound traffic hit a record high in January, and airlines are once again likely to report solid earnings for 3Q, a peak season for the airline industry.

Hanjin KAL operates both a full-service carrier (FSC) and a low-cost carrier (LCC), and thus earnings will likely pick up faster than peers. Notably, following the firm's entry into the budget business, the benefit of market expansion has outweighed the cannibalization effect. (We think air traffic growth will continue to be driven by short-haul routes, which should benefit LCCs.) The firm's air cargo performance is anticipated to be boosted by an improving macro environment and smartphone exports in 2H.

Low oil prices and a strong won are also creating a favorable environment for airlines. In 3Q, oil prices and the US\$/W averaged US\$43/bbl and 1,120, respectively, down 13.6% YoY and 4.2% YoY, respectively. Although oil prices are climbing following the OPEC's decision to cut production, oil's rise will likely be modest. As such, airlines' bottom-line expansion should continue.

2. Jin Air's long-haul route operations to create leverage effects

Jin Air is anticipated to continue the strategic expansion of its long-haul route operations. This strategy will allow the budget carrier to avoid direct competition with LCC peers, and may ensure higher profits than codeshare operations (airline alliances). In 1Q16, the strategy helped the airline to report record earnings, but in the following quarter the firm reported losses.

The expansion of long-haul routes is still in the initial stage, and we think the firm is learning by trial and error. As part of the trial, the airline plans to operate seasonal flights between Incheon and Cairns, Australia, over a two-month period beginning at the end of this year, which could become a permanent service depending on its performance. Currently, no airline is operating a direct flight on this route, and other LCCs that have only small-sized aircraft will be unable to enter this route because of the flight time of more than eight hours.

Permanent service to Cairns would enable Jin Air to enjoy peak-season effects, as it did with the Incheon-Honolulu service. The carrier's performance will diverge sharply from its LCC peers once it successfully adds two to three more long-haul routes.

3. Valuation more attractive following dissipation of subsidiary risk

Hanjin Shipping was placed under court receivership on September 1st, significantly easing group-related risks for Hanjin KAL.

Although short-term losses seem inevitable due to impairment losses related to exposure to Hanjin Shipping, Hanjin KAL is now in a condition to better focus on its own fundamental businesses. The court receivership will cause a fall in stevedoring volume for Hanjin KAL, but the overall impact on the firm's core business will be negligible. Given that its major subsidiaries are seeing improvements in their business environment, we believe the company, currently trading at a P/B of 0.9x, is undervalued compared to peers.

II. Valuation

Initiate coverage with Buy and TP of W25,000

We initiate coverage on Hanjin KAL with a Buy rating and target price of W25,000. Calculated using sum-of-the-parts methodology, our target price corresponds to a 12-month forward P/B of 1.3x. Key growth drivers are Jin Air and the hotel business. (The hotel business reported sluggish earnings recently, but is believed to have robust growth potential over the long term.) Topas (online reservation services) and Jungseok (property lessor) are also generating strong cash flows. We think the target price is well within reach given the company's ROE of 17%.

Hanjin KAL's stock price has been range-bound recently, after first plummeting 32.9% from the start-of-year level due to the Hanjin Shipping risks, and then soaring 33.4% as Hanjin Shipping went into court receivership and expectations of airline market conditions improved. In our view, the company is in a better position to focus on its own fundamentals, as subsidiary earnings are anticipated to pick up and the market cap, at W1.068tr, remains below its operating value and subsidiary value (excluding associate companies) combined (W1.31tr). We believe the company (currently trading at a P/B of 0.9x) is undervalued compared to its peers.

Table 1. Sum-of-the parts valuation (Wbn)

	Value	
Operating value (1)	332	
Brand	213	COE=13.6%; g=0%
Dividends	65	COE=13.6%; g=0%
Leasing	53	COE=13.6%; g=0%
Non-operating value (2)	1,647	
Jin Air	538	14.5x P/E
KAL Hotel Network	286	2Q16 book value
Jungseok Enterprise	99	2Q16 book value
Jedong Leisure	27	2Q16 book value
Topas	15	2Q16 book value
Hanjin Tour	15	2Q16 book value
Korean Air	608	20% discount to one-month avg. market cap
Hanjin Transportation	58	20% discount to one-month avg. market cap
Preferred stock market value (3)	6	
Net debt (4)	498	
Enterprise value (1+2-3-4)	1,475	
TP (W)	25,000	

Source: Mirae Asset Daewoo Research

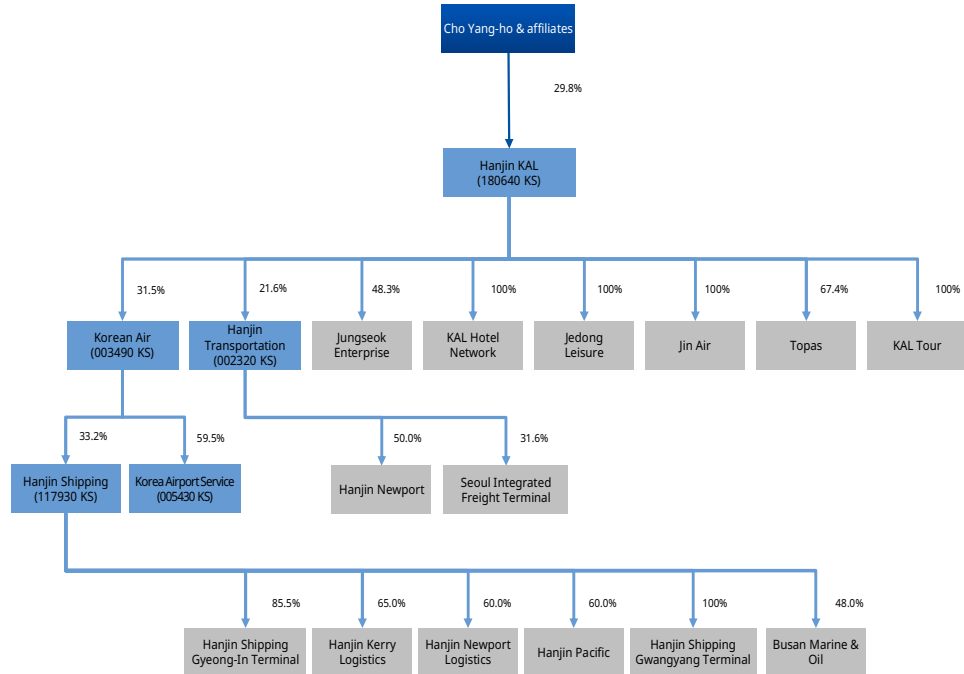
III. Company overview

1. Corporate governance

Hanjin KAL, the holding company of Hanjin Group, was spun off from Korean Air in August 2013. The largest shareholders (Hanjin Group-related parties) own 29.5% of total shares (President Yang-ho Jo owns 17.8%). The company has six subsidiaries and two associate companies under its umbrella.

Major subsidiaries include 1) Jin Air (LCC) and KAL Hotel Network, which have robust growth potential, and 2) cash cow businesses Topas (online reservation services) and Jungseok (property lessor). Hanjin KAL recognizes the net profit of the two associate companies under the equity method, but these companies have a more substantial impact on net profit than the six subsidiaries due to the relatively large scale of business.

Figure 1. Corporate governance overview



Source: Mirae Asset Daewoo Research

2. Major subsidiaries

Hanjin KAL consolidates the earnings of subsidiaries in airlines, hotels, information services, travel, and real estate leasing. Among these subsidiaries, airline operations made the biggest revenue contribution in 2015, at 64%. Airlines' operating profit contribution last year jumped to 36% (from 20%) after the number of aircraft in operation increased to 19 (22 in 2016). As Jin Air started to fly long-haul routes in December last year, the airline business is projected to lead Hanjin KAL's overall earnings improvement.

Information services and real estate leasing together contribute 15% of revenue, but these businesses account for 66% of operating profit. Due to the steady profit-generating nature of the businesses, they serve as Hanjin KAL's cash cows and reduce earnings volatility.

(1) Airline: Jin Air

Since its incorporation in 2008, Jin Air has posted steady top-line growth. In 2015, the budget carrier contributed 64% of Hanjin KAL's revenue. OP margin is also climbing steadily. As of July 2016, Jin Air held a market share of 12% in domestic flights and 6.5% in short-haul international flights. Currently, Jin Air is the only budget carrier operating long-haul routes, and this expansion strategy has allowed the airline to increase its passenger traffic.

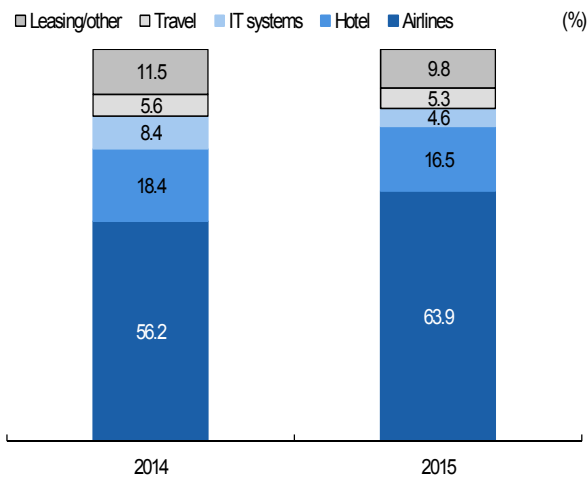
(2) Hotel: KAL Hotel Network

KAL Hotel Network operates three hotels, including one near Incheon International Airport (Grand Hyatt Incheon) and two in Jeju Island (Seogwipo KAL Hotel and Jeju KAL Hotel). The hotel operations account for 16% of revenue, but have reported losses as fixed costs increased since the 2H14 expansion of the west tower of Grand Hyatt Incheon. Before the expansion, the business had steadily posted an OP margin of 10-16%. However, once the no. 2 passenger terminal of Incheon International Airport is completed, the hotel's room occupancy rate is projected to increase, leading to a turnaround in profits.

(3) Real estate leasing: Jungseok

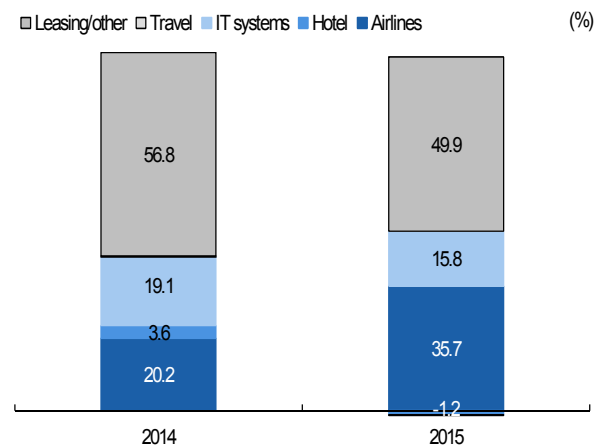
Jungseok engages in office space leasing and building/parking space management. Its main source of revenue is monthly rent paid under yearly lease agreements. The main place of business is the Hanjin Building head office (and a new wing) located in Sogong-dong, Jung-gu, Seoul, and two Jungseok buildings in Incheon and Busan, respectively. Hanjin Group's related parties own a 52% stake in this lease business, which generates stable cash flow.

Figure 2. Revenue breakdown



Source: Company data, Mirae Asset Daewoo Research

Figure 3. Operating profit breakdown



Source: Company data, Mirae Asset Daewoo Research

3. Financial position

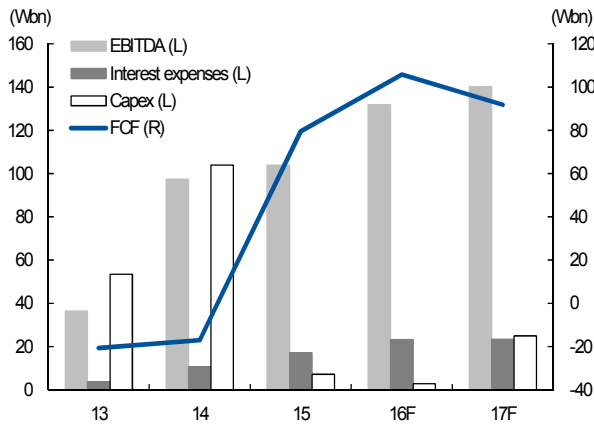
Hanjin KAL has a stable financial position. Looking ahead, we expect over W70bn to be generated in surplus cash each year, as EBITDA has exceeded W130bn. Real estate leasing and information services continue to generate stable cash flow, and airline earnings are picking up following the expansion into long-haul flights. As subsidiary/associate company earnings are also growing, the firm's ROE is forecast to rise to 17%.

Capex has risen sharply since the hotel expansion in 2014, but is projected to remain flat going forward. Although new aircraft may be added to the fleet, financial burden is not likely to increase as aircraft will be leased (rather than purchased).

Borrowings also remain stable. The firm is generating surplus cash, and held W250bn in cash and cash equivalents as of 2Q16. Its interest-bearing debts of W638bn (and net interest expenses of W23.3bn per year) are manageable.

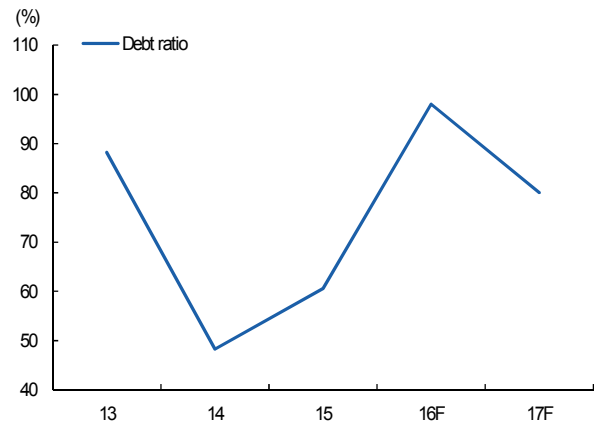
Hanjin KAL's debt-to-equity ratio, at 80-90%, is much lower than Korean Air's 907% and Asiana Airline's 667%. Hanjin KAL's businesses, other than airline, do not involve a high level of debt, and aircraft leasing helps reduce its financial burden.

Figure 4. Free cash flow trend



Source: Company data, Mirae Asset Daewoo Research

Figure 5. Debt ratio trend



Source: Company data, Mirae Asset Daewoo Research

IV. Industry analysis

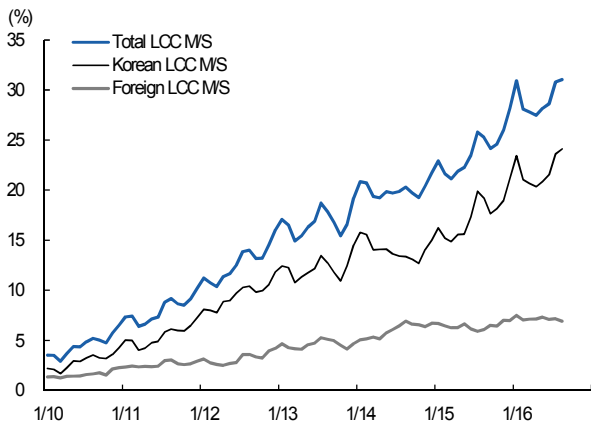
1. Precondition for LCC growth

Growth in short-haul flight demand is a key precondition for LCC market growth. Budget carriers have to offer competitive prices through cost cuts and generate profits by increasing the load factor and aircraft utilization rate. Indeed, the robust growth of Southwest Airlines (US) and Air Asia (Malaysia) was driven by abundant demand for US domestic routes and within the ASEAN market, respectively.

In Korea, since the opening of the LCC market in 2005, LCCs have grown to gain a 57.4% market share in domestic flights, and 24.1% in international flights as of August 2016. OP margin remains at a decent level, at 6.7% (vs. 5.7% for FSCs). Asiana Airlines recently launched a new LCC brand (in addition to Air Busan), Air Seoul, to improve profitability.

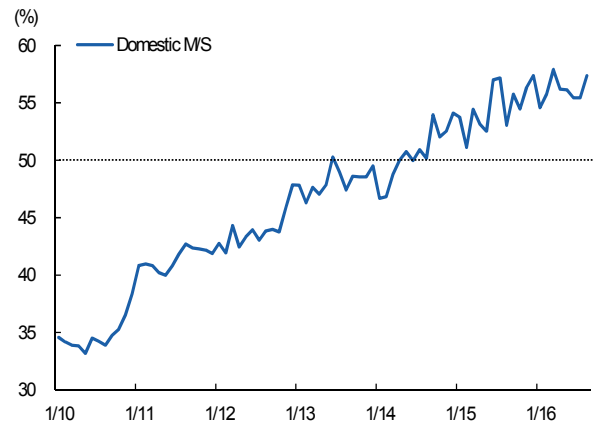
It remains to be seen whether such strong market expansion is sustainable. Already, Korea's LCC market share is higher than the global average. On short-haul routes, we expect LCCs' market share gains to continue, aided by solid growth in outbound and inbound (from China) travelers.

Figure 6. LCC M/S on short-haul routes



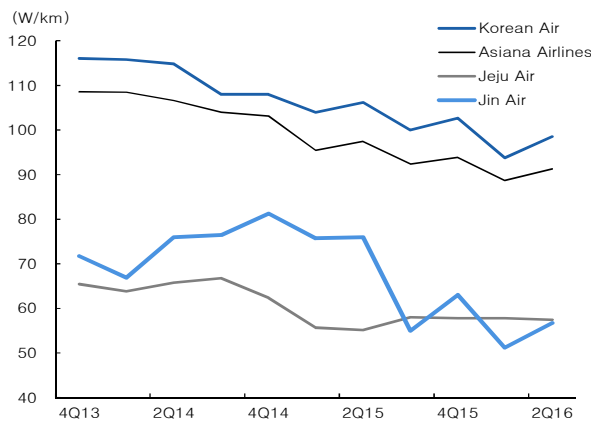
Source: IIA, KAC, Mirae Asset Daewoo Research

Figure 7. LCC M/S on domestic routes



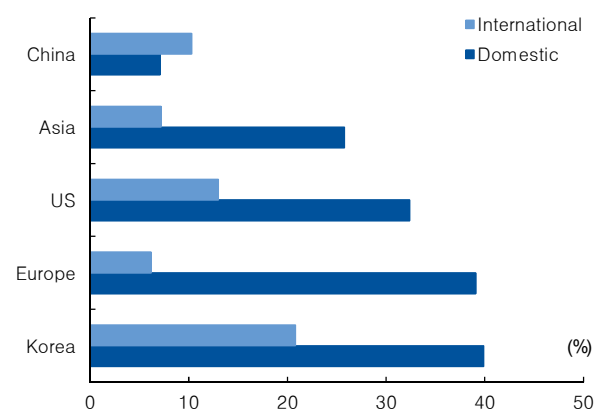
Source: IIA, KAC, Mirae Asset Daewoo Research

Figure 8. Cost per available seat kilometers by airline



Source: Company data, Mirae Asset Daewoo Research

Figure 9. LCC M/S based on capacity (available seats)



Source: CAPA, Mirae Asset Daewoo Research

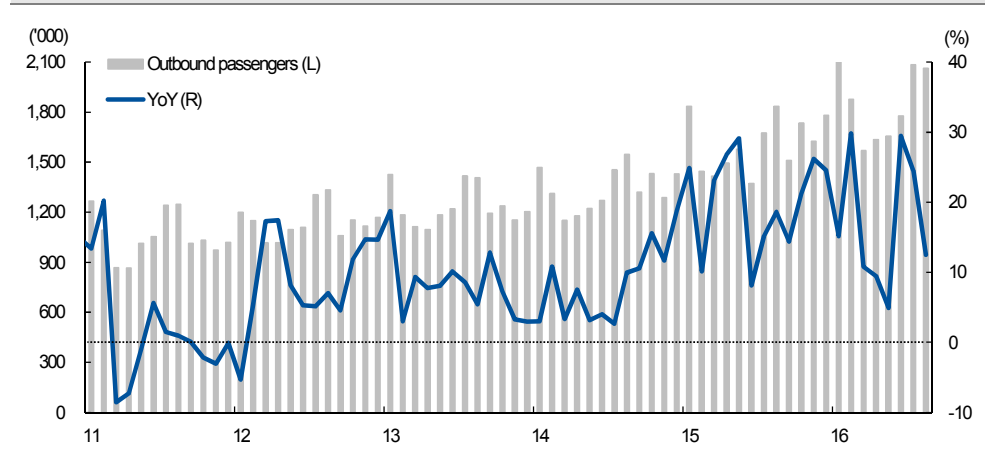
2. Outbound market: Outbound travelers to reach 50% of population

Overseas travel has become a mainstream trend. The percentage of outbound travelers has continued to increase, even as real income has declined. Outbound traffic has jumped more than 14% for seven consecutive quarters and hit a record high in January 2016. Such rapid growth has been driven by a number of factors, such as 1) cheaper airfares led by LCCs, 2) changes in consumer behavior due to low growth, 3) lack of compelling domestic travel attractions compared to neighboring countries, and 4) the increase in single- or two-person households.

Korea is essentially an island separated by water because of its geopolitical position. As a result, more than 90% of Koreans travel overseas by plane. This explains why cheaper fares have been the biggest driver behind demand for overseas travel.

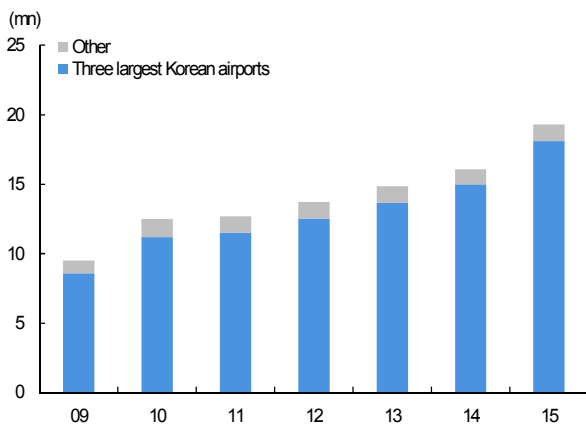
Lower airfares have been mainly brought on by LCCs, which have grown to account for more than 30% of international passenger traffic. Backed by the rise of LLCs, international passenger yield (a measure of average airfare calculated by dividing revenue by revenue passenger kilometers) has fallen over the years from W112/km in 3Q12 to W79/km in 2Q16. Lower oil prices have eliminated fuel surcharges altogether since September 2015, further reducing the actual cost borne by consumers. Simply put, falling international passenger yield has lowered the physical and psychological barriers to air travel.

Figure 10. Outbound passenger trend



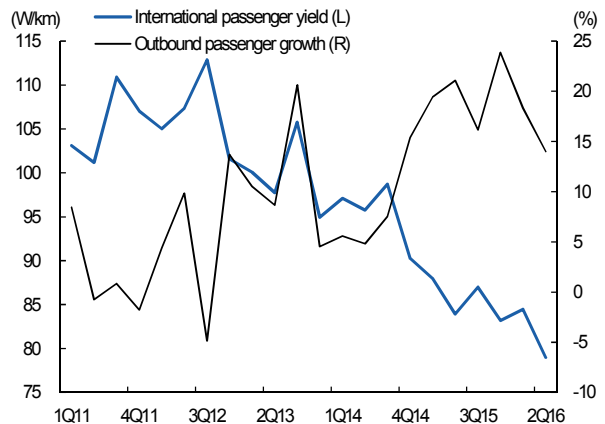
Source: KTO, Mirae Asset Daewoo Research

Figure 11. Outbound passengers' ports of exit



Note: The three largest Korean airports are IIA, Gimpo, and Gimhae
Source: Mirae Asset Daewoo Research

Figure 12. Passenger yield on international routes vs. outbound passenger growth



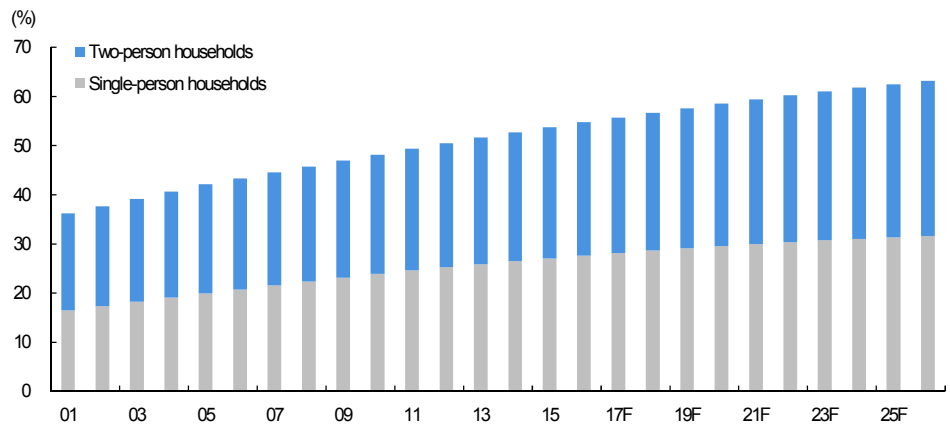
Note: Data are based on average yield of Korean Air, Asiana Airlines, Jin Air, and Jeju Air
Source: Mirae Asset Daewoo Research

Due to the very nature of the transportation industry, it is difficult for carriers to raise ASP over an extended period. Thus, most carriers focus on creating operating leverage by increasing volume. As markets mature, it may be possible to boost selling prices through customer segmentation, but ASP ultimately trends downwards. Looking forward, competition in international routes is likely to intensify due to the growth of LCCs, keeping airfares low over the long term.

In a low growth world, consumers are likely to become much more prudent with their spending and strive to make the most out of every purchase. In other words, marginal utility, rather than personal possession, is likely to be a greater priority in making purchasing decisions. Traveling generally opens doors to new experiences. But as Korea has fewer domestic travel attractions and content compared to nearby countries like China and Japan, many Koreans are turning their sights on overseas travel. Indeed, the growth of overseas travel has been on the rise, while that of domestic travel has been in decline.

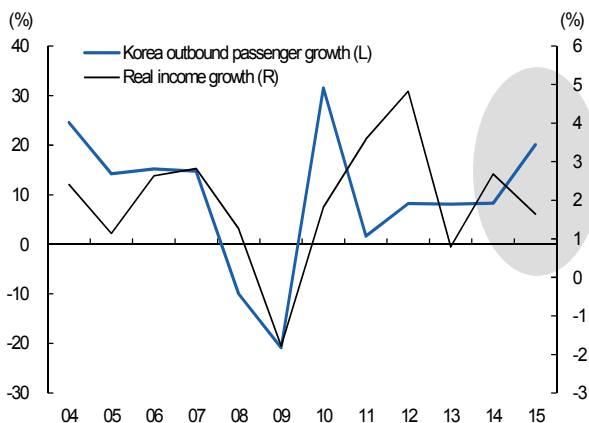
Another important driver has been the rising number of households composed of one or two persons, which now make up 55% of overall households. Smaller households have more freedom to travel overseas, as they are less constrained by family obligations (such as raising a child or taking care of parents) and bear lower costs.

Figure 13. Proportions of single- and two-person households



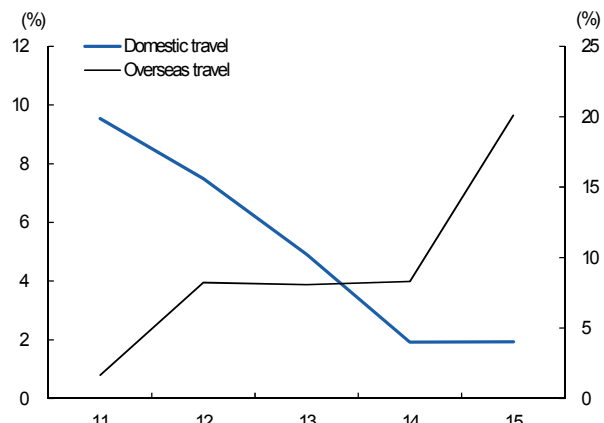
Source: Statistics Korea, Mirae Asset Daewoo Research

Figure 14. Outbound passenger growth vs. real income growth



Source: Statistics Korea, KTO, Mirae Asset Daewoo Research

Figure 15. Domestic travel growth vs. overseas travel growth



Source: Statistics Korea, KTO, Mirae Asset Daewoo Research

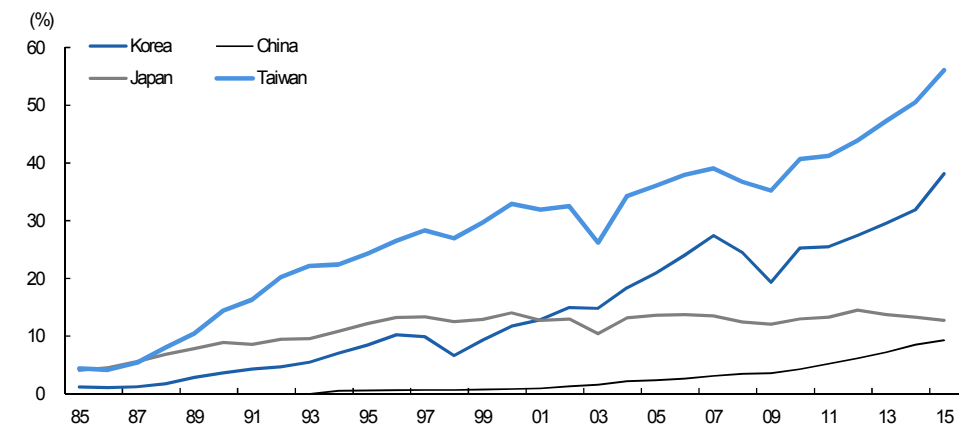
The key question is whether this rapid growth is sustainable. Judging by Taiwan's case, we believe Korea's outbound travel participation ratio (outbound travelers as a proportion of total population) will increase to 50% over the long term.

Most overseas travel takes place regionally. Demand for long-haul travel is slower to develop due to distance, time, and cost constraints. The majority of outbound travel in Asia occurs intra-regionally, and 90% of Koreans traveling abroad visit countries within the region. Based on income level, one of the most important variables of overseas travel, we think the only Asian countries comparable to Korea are Taiwan and Japan.

That said, considering its high GDP, Japan's outbound travel participation ratio is extremely low, due to 1) the country's rapid population aging and 2) abundant domestic attractions. Therefore, we think Taiwan offers a better comparison, especially as the country's travel patterns share strong similarities to Korea's. For both countries, Japan and China are the two most popular tourist destinations, while Thailand, Vietnam, and Hong Kong are among the next most visited destinations. Another parallel is that Korea accounts for a small portion of Taiwan's overseas travel, and vice versa.

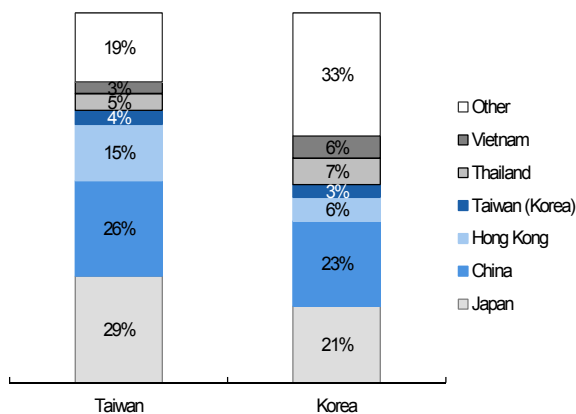
Up until the 1990s, Taiwan's GDP was 1.3-1.5 times larger than Korea's. Taiwan, also an island country, similarly lacked domestic travel enticements and thus saw its overseas travel develop early on. Indeed, Taiwan's overseas travel is six years ahead of Korea. Given Korea's outbound traveler growth trend, which closely mirrors that of Taiwan, we expect the outbound travel participation ratio to exceed 50% by 2019 (vs. 38.2% in 2015).

Figure 16. Outbound travel relative to population size



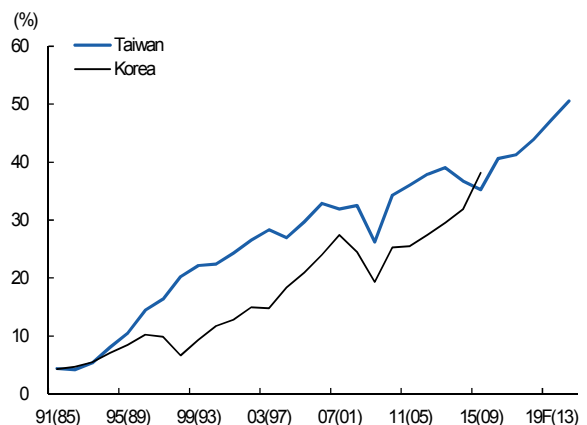
Source: CEIC, Mirae Asset Daewoo Research

Figure 17. 2015 outbound travel by country: Korea vs. Taiwan



Source: KTO, CEIC, Mirae Asset Daewoo Research

Figure 18. Outbound travel relative to population size: Korea vs. Taiwan



Source: CEIC, Mirae Asset Daewoo Research

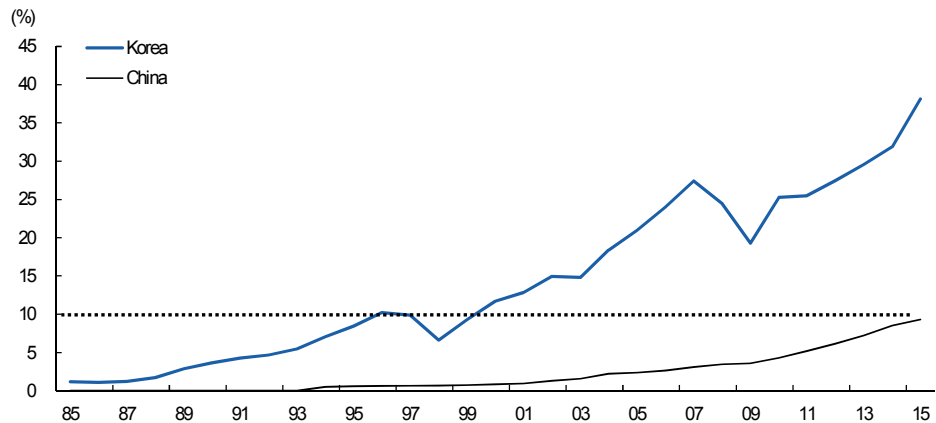
3. Inbound market: Chinese demand has strong room for growth

In addition to outbound travelers, the number of foreigners visiting Korea has also been on a steady rise. Korea is fast emerging as a major travel destination in Asia thanks to the popularity of Korean pop culture and Korean-made cosmetics, which has helped turn the country into a shopping mecca. In our view, Korea's inbound travel market has strong potential to grow, led by demand from Chinese tourists.

China and Japan are the two biggest driving forces behind Korea's inbound travel market, collectively accounting for 60% of total inbound traffic. But China is the single most important driver, as 45% of all inbound traffic comes from the country. Traditionally, the inbound travel market was mainly driven by Japanese tourists. However, the number of Chinese tourists visiting Korea has grown considerably since China's liberalization of overseas travel in 2008, and China outpaced Japan in 2010 as the largest source of inbound travel demand.

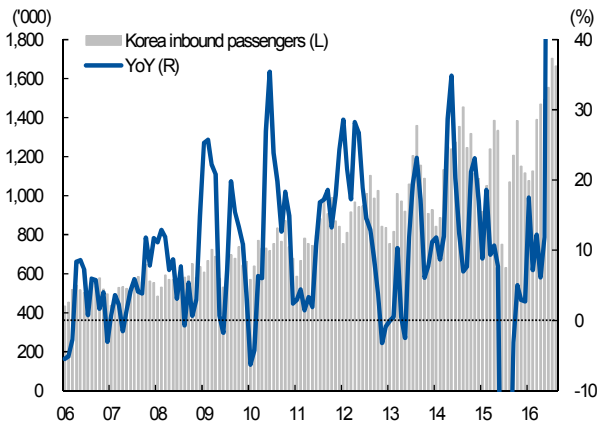
It was around 2013 that China started to become a significant force in the global travel market. Prior to 2013, international travel was widely viewed by Chinese people as a luxury. But by late 2012, as the country transitioned into a consumption-driven economy and the middle class came to the fore, overseas travel started to grow exponentially, leading to a sharp rise in the percentage of Chinese tourists in neighboring countries and major tourist destinations.

Figure 19. Outbound travel relative to population size: Korea vs. China



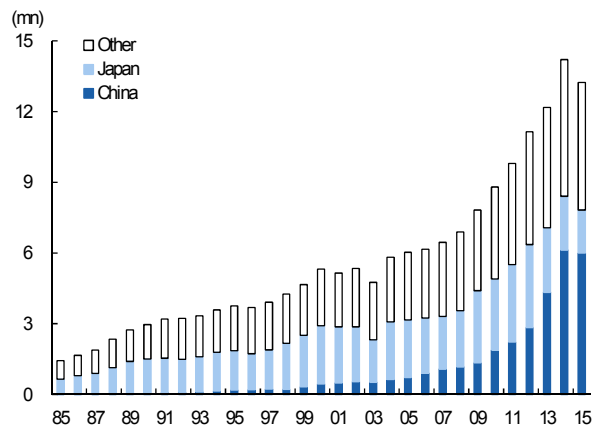
Source: KTO, UNWTO, Mirae Asset Daewoo Research

Figure 20. Korean inbound passenger growth



Source: KTO, Mirae Asset Daewoo Research

Figure 21. Korea inbound passengers by country



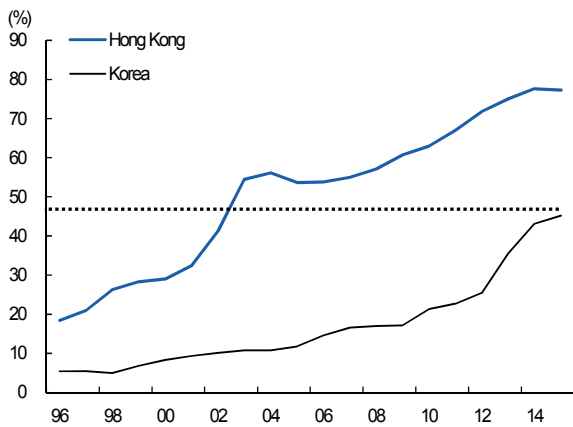
Source: KTO, Mirae Asset Daewoo Research

Korea experienced a similar pattern, whereby overseas travel spending increased dramatically during its consumer-driven growth phase. Spending on overseas travel started to take off in 1998 and grew exponentially from 2000 to 2007. The outbound travel participation ratio was only 9.3% in 1999, but nearly tripled to 27.4% by 2007.

China’s outbound travel market is where Korea was in the late 1990s. In 2015, Chinese outbound travelers represented only 9.4% of the country’s population. Given the sheer size of China’s population, we believe the outbound travel participation ratio could easily reach 20% over the long term.

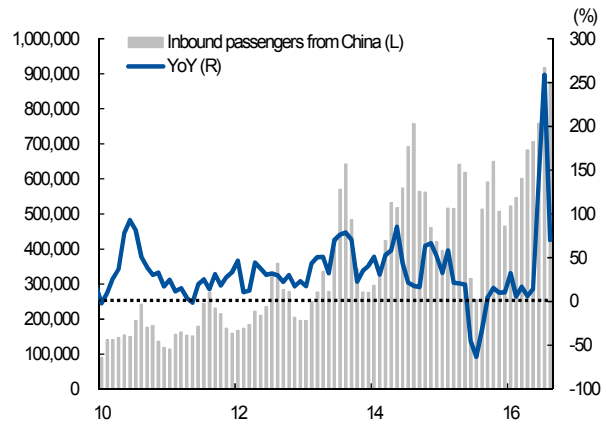
If open sky agreements expand full-swing, the Korean market is best positioned to replace Hong Kong and Macao (which account for 70% of the Chinese outbound travel market) given its geographical proximity and attractive shopping environment. Direct comparison with Japan, which has invested in cultural content and tourism infrastructure for decades, is difficult. However, we believe the Korean market is very attractive to Chinese tourists for whom shopping is the main purpose of travel, as it boasts superior duty-free shops and, in particular, high-quality products of major cosmetics makers.

Figure 22. Growth of Chinese inbound passengers: Korea vs. Hong Kong



Source: CEIC, KTO, Mirae Asset Daewoo Research

Figure 23. Growth of Chinese inbound passengers to Korea



Source: KTO, Mirae Asset Daewoo Research

Notably, concerns have mounted since July that the deployment of the THAAD missile defense system might lead to a sharp decline in Chinese inbound travelers. So far, there has been no sign of a substantial decline. Although Chinese inbound travel could decrease temporarily, we do not believe these concerns will materialize in the long term.

The proportion of the Chinese population with outbound travel experience stands at just 9%, and should rise steadily alongside income growth and overseas travel liberalization. In addition, most overseas travel demand is intra-regional, and Korea's tourism market is differentiated by the "Korean Wave" and superior cosmetics brands. As such, the Korean market is an attractive tourist destination for Chinese travelers. Moreover, given that half of Korea-China routes are operated by Chinese airlines, the Chinese government would take a cautious approach toward restricting Korea-bound tourists.

Table 2. Capacity on Korea-China routes (seats)

Airlines	Sep. 2015	Sep. 2016
Asiana Airlines	55,749	54,776
Korean Air	53,823	53,150
China Eastern Airlines	32,045	34,350
China Southern Airlines	29,557	27,894
Air China	21,560	22,048
Shandong Airlines	8,085	9,020
Spring Airlines	6,480	7,964
Jeju Air	4,464	6,545
Shanghai Airlines	4,708	4,719
Eastar Jet	3,348	3,873
Okay Airways	1,800	3,600
Shenzhen Airlines	2,794	3,426
T'way	2,646	3,402
Jin Air	3,591	3,312
Air Busan	3,828	3,206
Other	10,054	8,960
Total	244,532	250,245
Korea	127,449	128,264
China	117,083	121,981
Korea	52%	51%
China	48%	49%

Source: CAPA, Mirae Asset Daewoo Research

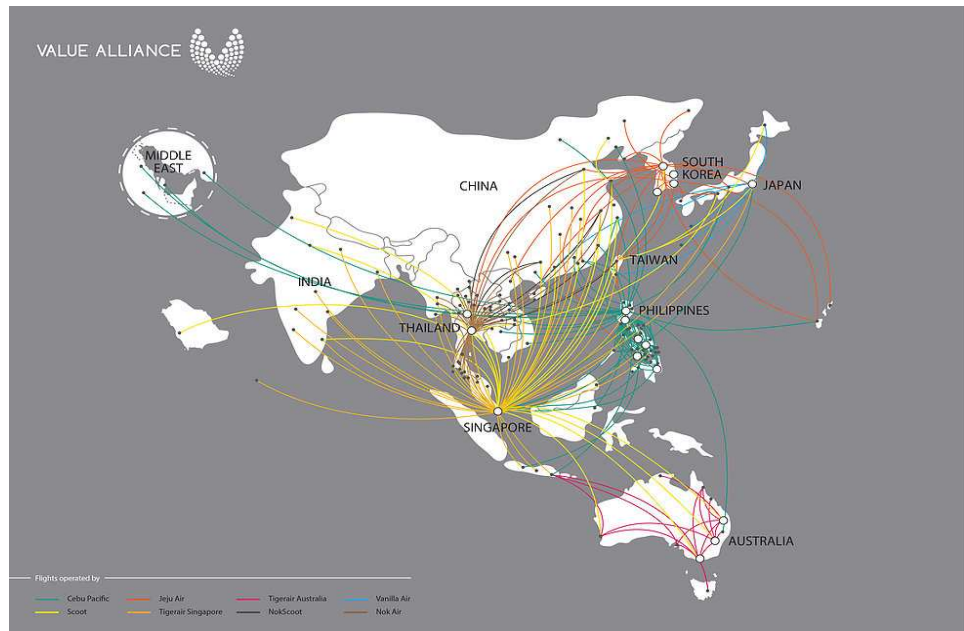
4. Growth strategy of LCCs

LCCs began operating in Korea in 2005, and as of August 2016 they controlled 57.4% of domestic routes and 24.1% of international routes. Currently, LCCs operate on most short-haul routes. In addition, Korean LCCs have been seeking to expand routes by forging alliances with LCCs in other countries.

In May, Jeju Air formed an alliance (Value Alliance) with seven other LCCs in the Asia-Pacific region—Cebu Pacific, Tigerair Australia, Tigerair Singapore, Vanilla Air, Scoot, NokScoot, and Nok Air. The alliance allows Jeju Air to operate on routes to 160 cities (17 hub airports) spanning the Middle East, Asia-Pacific, and Australia.

Meanwhile, Eastar Jet has joined the U-FLY Alliance, which was established in January by Hong Kong Express, Lucky Air, Urumqi Air, and China West Air with a focus on Hong Kong and mainland China. Backed by the alliance, Eastar Jet has strengthened its China and Hong Kong routes by sharing the alliance's 95 aircraft and 170 routes.

Figure 24. Jeju Air is a Value Alliance member



Source: Mirae Asset Daewoo Research

Figure 25. Eastar Jet is a U-Fly Alliance member



Source: Mirae Asset Daewoo Research

Jin Air has been pursuing a differentiated growth strategy. Rather than joining an airline alliance, the company is expanding routes by launching its own mid- and long-haul routes and clinching interline deals (which are codeshare agreements between two carriers to offer combined route bookings across both carriers' networks). Late last year, Jin Air became the first Korean LCC to open a long-haul route between Incheon and Honolulu. In addition, the company has signed an interline agreement with Honolulu-based Island Air to bolster routes in the Hawaiian region. Furthermore, the company has also made interline agreements with Jetstar Group, Cambodia Angkor Air, and Lao Airlines, expanding Southeast Asia, Australia, and Japan routes. At the end of the year, the company will launch its second long-haul route with direct flight service to Cairns, Australia. If this strategy works out well, the company will likely be able to boost profitability while avoiding direct competition with other domestic LCCs.

Air Seoul, Asiana Airlines' second LCC, will likely focus on stabilizing its business, given that it started operations by taking over Asiana Airlines' loss-making routes in July.

Figure 26. Newly launched LCC: Air Seoul



Source: Mirae Asset Daewoo Research

5. Macroeconomic environment

In the airline industry, the US\$/W rate and oil prices are the most important macroeconomic variables. Airlines hold massive US\$-denominated debt, as they make payments mostly in the US dollar, particularly for aircraft purchases. Fuel costs account for 30-40% of operating expenses. As such, declines in both the US\$/W rate and oil prices are favorable for airlines.

The US\$/W rate fell steadily after recording 1,193 on June 1st, reaching an annual low of 1,090 on September 7th. Since then, the US\$/W rate has been moving sideways due to a combination of US rate hike expectations (boosting the US dollar) and the US presidential election (weakening the US dollar). We expect the US\$/W rate to remain flat or rise only modestly, rather than climb sharply. Of note, the monthly average US\$/W rate has fallen by more than 5% YoY since July, positively affecting airlines.

Dubai crude, which weakened in June, hit the lowest level in four months in early August, (less than US\$40/bbl). However, Dubai crude has recently rebounded to the high-US\$40 level thanks to the announcement of a production cut by OPEC. We believe the production cut will merely provide downside support to prices rather than drive up prices markedly. In the short term, we expect Dubai crude to rise slightly and remain at around US\$50/bbl. If oil prices climb to the extent we expect, the oil price burden will likely be modest compared to the past.

Table 3. Oil price sensitivity analysis

Change	-15%	-10%	-5%	0%	5%	10%	15%
Oil price (US\$/bbl)	43	45	48	50	53	55	58
OP impact (Jin Air)	29.4	19.6	9.8	0.0	-3.9	-7.8	-11.7
NP impact (Korean Air)	27.4	18.2	9.1	0.0	-3.6	-7.3	-10.9

Note: Assuming fuel surcharge covers 60% of operating losses

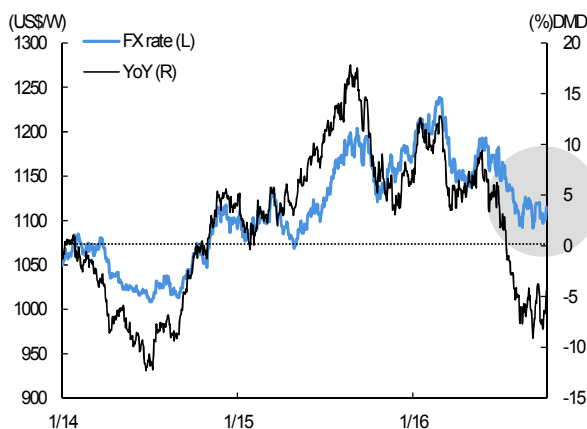
Source: Mirae Asset Daewoo Research

Table 4. F/X sensitivity analysis

Change	-15%	-10%	-5%	0%	5%	10%	15%
US\$/W	995	1,053	1,112	1,170	1,229	1,287	1,346
OP impact (Jin Air)	-2.9	-1.9	-1.0	0.0	1.0	1.9	2.9
NP impact (Korean Air)	1.3	0.9	0.4	0.0	-0.4	-0.9	-1.3

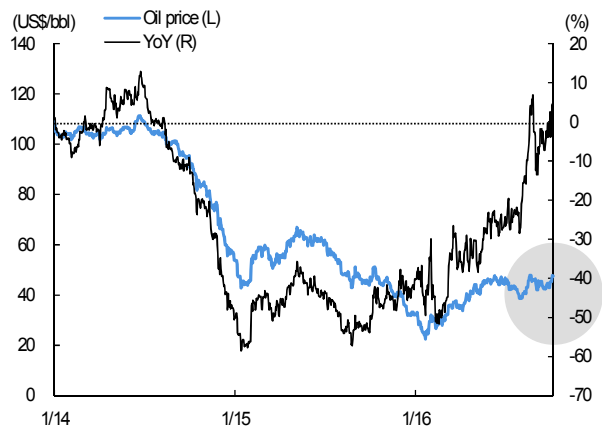
Source: Mirae Asset Daewoo Research

Figure 27. F/X rate trend



Source: Mirae Asset Daewoo Research

Figure 28. Oil price trend



Source: Mirae Asset Daewoo Research

V. Corporate analysis

1. Jin Air's expansion into long-haul routes: Engaging in trial and error

LCCs typically generate profits by raising load factor and aircraft utilization rates based on superior price competitiveness stemming from cost reductions. Therefore, LCCs use a single aircraft model to 1) cut lease and maintenance costs and 2) drive up aircraft utilization, with faster turnaround times between operations.

However, at the end of 2014, Jin Air introduced a Boeing 777 aircraft with more than twice the number of seats as the type of small aircraft typically used by LCCs. The company has since increased the number of Boeing 777 aircraft to four and launched the Hawaii route, emerging as Korea's largest LLC in terms of flight seats.

Market watchers have raised concerns over the introduction of mid-sized aircraft and long-haul routes, as 1) changes in the cost structure could lead to lower cost reductions; 2) if load factor falls, massive losses would be incurred due to high fixed costs; and 3) if ticket prices are hiked due to the cost burden, price competitiveness would be dampened, leading to lower market share. As such, most LCCs offer long-haul routes via airline alliances or subsidiaries rather than operating them on their own.

Table 5. Overview of Korean LCC fleets

Airlines	Fleet	No.	Seats	Avg. seats/aircraft
Jin Air	B737-800	18	3,312	184
	B777-200	4	1,572	393
	Total	22	4,884	222
Jeju Air	B737-800	24	4,524	189
	B737-800 (ETOPS)	1	145	145
	Total	25	4,669	187
Air Busan	A-320-200	6	972	162
	A-321-200	10	1,942	194
	Total	16	2,914	182
Eastar Jet	B737-700	14	2,623	187
	B737-800	3	447	149
	Total	17	3,070	181
T'way	B-737-800	14	2,646	189
Air Seoul	A-321-200	1	200	200

Source: CAPA, Mirae Asset Daewoo Research

However, Jin Air is seeking growth by expanding long-haul services based on price competitiveness. This strategy should enable the airline to avoid direct competition with domestic LCCs and yield stronger profits than alliance operations. The airline turned in a merely decent performance in 1H, posting record-high earnings in 1Q but turning to red in 2Q. This mixed performance reflects both the risks and rewards of long-haul services.

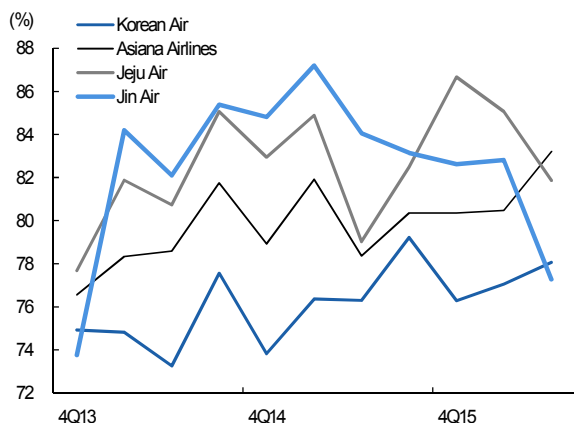
Given sufficient demand, increased use of regional aircraft for long-haul routes should lead to an increase in load factor, boosting earnings. In 1Q, Jin Air generated historic-high earnings with revenue of W180bn (68.3% YoY) and an operating profit of W27.2bn (113.5% YoY; OP margin of 15.1%), backed by: 1) improved efficiency following addition of four regional aircraft, and 2) an impressive 63% load factor on the new Hawaii route.

Table 6. L/F on Jin Air's Hawaii routes (%)

Month	Frequency	Passengers	Avg. passengers/flight	L/F	Max. capacity
Jan.	44	13,529	307	78.2	393
Feb.	42	11,265	268	68.2	393
Mar.	42	6,860	163	41.6	393
Apr.	42	7,128	170	43.2	393
May	45	7,730	172	43.7	393
Jun.	43	10,249	238	60.6	393
Jul.	44	14,482	329	83.7	393
Aug.	44	14,696	334	85.0	393
Sep.	41	11,866	289	73.6	393

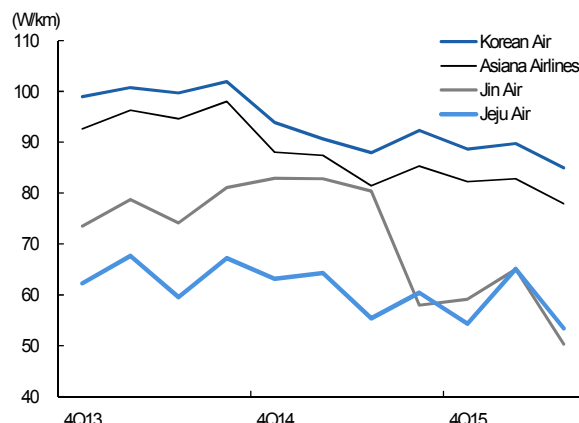
Source: AirPortal, Mirae Asset Daewoo Research

Figure 29. International passenger L/F trends



Source: Company data, Mirae Asset Daewoo Research

Figure 30. International passenger yield trends



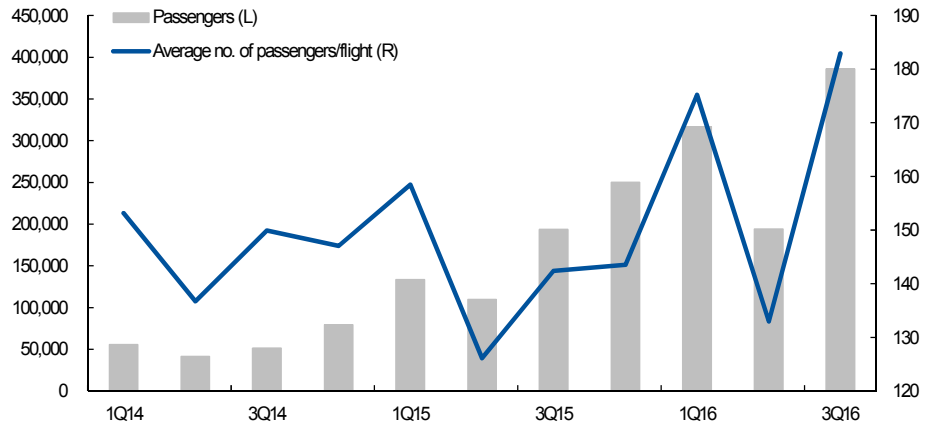
Source: Company data, Mirae Asset Daewoo Research

When demand is not sufficient, however, supply growth leads to cost burden. In 2Q, Jin Air posted an operating loss of W7.2bn despite revenue jumping 55.4% YoY to W145.4bn.

The weakness of 2Q was partly due to the May earthquake in Kyushu, Japan. In 2Q, the average number of passengers on Japanese routes fell to 133 per flight, similar to the level in 2Q15 (126 per flight), when the MERS-CoV outbreak occurred. However, considering that Jin Air suffered greater losses than competitor Jeju Air, we have to conclude that long-haul service expansion also had a negative impact. We estimate that 2Q load factor on the Hawaii route dropped 14%p QoQ to 49%.

However, expectations are running high for 3Q results, given that load factor on the Hawaii route reached 81.0% in 3Q on the back of strong seasonal demand. Japanese routes have picked up, with the average number of passengers per flight growing to 183. We believe the airline will need to efficiently manage costs during the slow season. Over the long term, Jin Air will likely need to make flexible flight schedules to improve load factor.

Figure 31. Jin Air's Japan route passenger trends

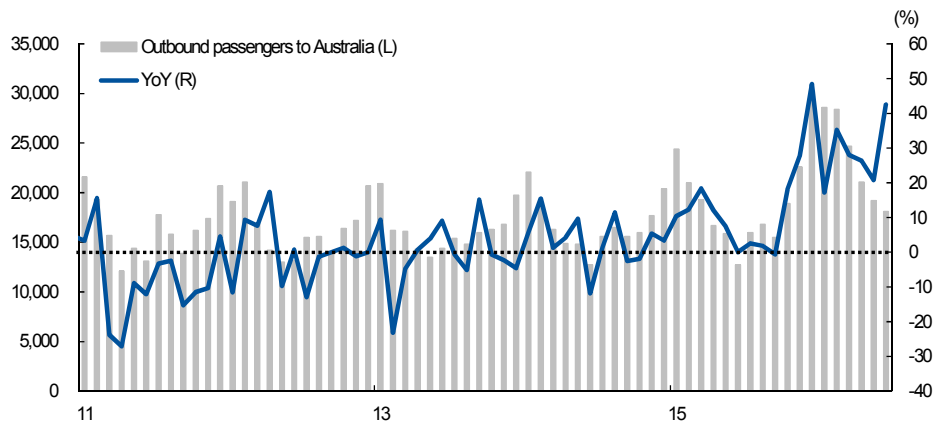


Source: AirPortal, Mirae Asset Daewoo Research

Jin Air's expansion of mid- and long-haul routes is only in the initial stage, and we think the firm is learning by trial and error. As part of the trial, the airliner plans to operate seasonal flights between Incheon and Cairns, Australia, over a two-month period beginning at the end of this year. This could become a permanent service depending on its performance. Only four cities in Australia (Sydney, Melbourne, Brisbane, and Perth) require traffic rights, while Cairns follows an open sky policy.

Currently, no airline is operating a direct flight from Incheon to Cairns, and other LCCs that have only small-sized aircraft will be unable to enter this route because of the flight duration of more than eight hours. Permanent service to Cairns would enable Jin Air to enjoy peak-season effects, as it did with the Incheon-Honolulu service. The carrier's performance will diverge sharply from its LCC peers once it successfully adds two to three more long-haul routes.

Figure 32. Korean outbound passengers to Australia



Source: KTO, Mirae Asset Daewoo Research

2. Coexistence of Korean Air and Jin Air

As a holding company, Hanjin KAL has both an FSC and an LCC under its umbrella. As such, each airline needs to pursue a market segmentation strategy while avoiding cannibalization.

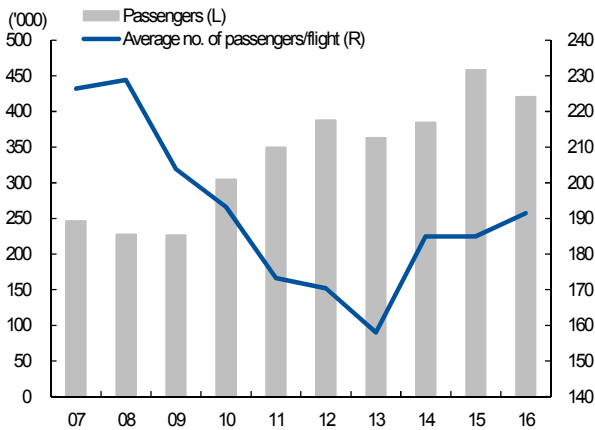
The two airlines tend to target different international passenger segments, with Korean Air focused on premium demand (business visitors) and Jin Air focused on lower-income travelers. Recently, however, they have been operating flights at different times or operating codeshare flights. As a result, overall market share is growing for Hanjin KAL.

A codeshare agreement is an aviation business arrangement where airlines share the same flight to expand operations. Customers who book and purchase air tickets issued by Korean Air could take an aircraft operated by Jin Air. While Korean Air can expand operations and enter new markets, Jin Air can expand sales channels.

In March 2015, Korean Air and Jin Air introduced codeshare operations to six Japan and Southeast Asia routes (Incheon-Nagasaki, Incheon-Okinawa, Incheon-Macao, Incheon-Kota Kinabalu, Incheon-Vientiane, and Incheon-Guam). Since then, they have steadily expanded the codeshare business. The addition of Busan-Guam and Incheon-Saipan routes in June 2016 brought the number of codeshare agreements to 15.

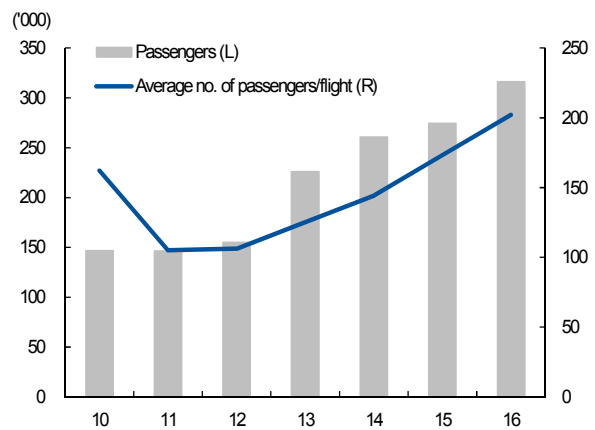
Indeed, both airlines are enjoying new demand from existing routes. According to AirPortal data, the number of visitors to Guam using Korean Air and Jin Air flights was 480,000 in 2015, more than double Korean Air's performance in 2009 (220,000). As for the Hawaii route, the combined number of visitors using Korean Air and Jin Air increased 64.7% YoY to 320,000 YTD as of September 2016.

Figure 33. Passenger growth on IIA-Guam routes



Source: AirPortal, Mirae Asset Daewoo Research

Figure 34. Passenger growth on IIA-Hawaii routes



Source: AirPortal, Mirae Asset Daewoo Research

VI. Earnings outlook

1. 3Q16 preview: Operating profit of W36.9bn (+67.9% YoY)

For 3Q, we estimate that Hanjin KAL generated revenue of W267.5bn (41.8% YoY) and an operating profit of W36.9bn (67.9% YoY; OP margin of 13.8%). On the non-operating side, reflecting potential impairment losses related to the court receivership of Hanjin Shipping, we forecast Hanjin KAL suffered a net loss of W165.3bn.

1) Airline business: International passenger load factor is estimated to have reached 84.3% in light of strong seasonality. We forecast the airline segment to post revenue of W197.6bn (+60.6% YoY) and operating profit of W24.7bn.

2) Hotel business: Revenue is forecast at W33.7bn (+5.0% YoY). As room occupancy rose 5%p QoQ to 69.8%, we estimate that the hotel unit swung to black QoQ, posting an operating profit of W1bn.

2. 2016F OP of W99.8bn (+34.3% YoY) and OP margin of 9.8%

For 2016, we project Hanjin KAL's revenue at W1.02tr (+40.8% YoY) and operating profit at W99.8bn (+34.3% YoY) with an OP margin of 9.8%.

In 2H, the airline business is anticipated to generate W50.9bn in operating profit (+71.5% YoY) on the back of strong seasonality and the recent surge in overseas travel demand. Of note, Jin Air is scheduled to launch its second long-haul route from Incheon to Cairns at the end of this year. For now, the company plans to operate the route for only a two-month period. However, it could become a regular route depending on its performance. If so, this would sharply boost the LCC's earnings going forward.

The hotel business is expected to see its operating profit swing to positive territory in 2H in light of the steady uptrend in earnings. Stripping away Waikiki Resort Hotel in Hawaii, however, the actual earnings turnaround at KAL Hotel Network is expected to happen after the completion of the second terminal at Incheon International Airport. On the non-operating side, Hanjin KAL is anticipated to report a net loss of W252.5bn this year due to impairment losses resulting from Hanjin Shipping's court receivership.

Table 7. Quarterly earnings

(Wbn, %)

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16F	4Q16F	2015	2016F	2017F
Revenue	176	156	189	202	245	213	268	291	722	1,017	1,156
Airlines	107	94	123	138	180	145	198	219	461	742	858
Hotel	27	28	32	31	29	31	34	35	119	128	140
Other	42	34	33	33	36	37	36	38	142	147	158
Operating profit	30	10	22	13	40	5	37	18	74	100	109
Airlines	13	1	14	2	27	-7	25	6	30	51	58
Hotel	-2	-1	1	2	-1	-0	1	1	-1	1	2
Other	19	10	8	9	14	12	11	11	46	48	49
Equity method	-59	-59	-140	15	-65	-67	-44	22	-243	-154	168
Pretax profit	-37	-52	-123	20	-32	-59	-199	33	-191	-255	254
Net profit	-37	-66	-135	22	-45	-70	-165	28	-216	-253	211
OP margin (%)	16.9	6.3	11.6	6.4	16.3	2.2	13.8	6.3	10.3	9.8	9.4
Pretax margin (%)	-21.2	-33.0	-65.0	10.0	-12.9	-27.5	-74.3	11.5	-26.5	-25.1	22.0
Net margin (%)	-18.3	-39.9	-70.8	11.3	-17.5	-30.4	-66.8	10.3	-30.0	-24.8	18.3
International RPK growth (%)	-0.3	24.3	85.7	110.1	146.9	139.7	122.9	102.6	51.9	123.9	15.9
Hotel occupancy rate (%)	62.3	59.0	66.3	61.5	56.0	59.9	63.2	62.4	61.5	62.4	67.0

Source: Mirae Asset Daewoo Research

VII. Risks

Hanjin Shipping's court receivership to sharply reduce risks

Hanjin Group had supported Hanjin Shipping in both direct and indirect ways, which had served as discount factors for overall group stocks. However, creditors' decision to end financial support to the container shipping firm, placing the company under court receivership on September 1st, should sharply reduce group-related risks.

Hanjin KAL should see earnings deterioration in the short term as the financial support that had been provided to its shipping affiliate should be booked as impairment losses. Indeed, the company is projected to record a net loss for the second consecutive quarter in 3Q16. The company's direct exposure to Hanjin Shipping is estimated at W185bn, while affiliates' net losses are projected at W450bn. That said, the companies that are more exposed to Hanjin Shipping-related losses are Hanjin KAL's equity-method affiliates, and so the impact will likely be limited.

Over the long term, the company should be able to focus on its fundamental businesses. The company would face great difficulties if it were to attempt to provide financial support to a second-tier subsidiary under court receivership. As for Korean Air, Hanjin Shipping's parent firm, the company's board of directors had met as many as five times before it decided to provide a W60bn loan to the ailing subsidiary on concerns over potential malpractice claims by investors. Accordingly, the airline company is unlikely to offer additional support to the troubled shipper.

In addition, Hanjin KAL and Korean Air are not closely intertwined with Hanjin Shipping in terms of businesses. While Hanjin Transportation is relatively dependent on Hanjin Shipping for its stevedoring business, the transportation firm is Hanjin KAL's equity-method affiliate (a stake of 21.6%). Accordingly, potential earnings deterioration at Hanjin Transportation should have only a limited impact on Hanjin KAL.

(1) Hanjin KAL

Hanjin KAL had provided liquidity to Hanjin Shipping by acquiring trademark rights. The company bought Hanjin Shipping's trademark rights for the US and EU for W111.3bn in February, and rights for non-US and EU markets for W74.2bn in June of this year. Accordingly, the company could incur impairment losses of up to W185bn. On a positive note, however, the company's operating capabilities remain intact due to the weak business relationship with the shipping firm.

(2) Korean Air

As a parent firm, Korean Air had been the most active in supporting Hanjin Shipping. As of end-2Q16, Korean Air's exposure to Hanjin Shipping stood at W376.1bn, and we believe loans (W110bn) and shares (W163.4bn) will be written down via a debt-to-equity swap and capital reduction. In addition, the company's obliged payments of W102.7bn under the total return swap agreement related to exchangeable bonds could increase to W109.9bn as the agreement is now eligible for early termination. The company has already decided to inject W60bn to the troubled shipper on September 23rd.

Korean Air stands to record the largest losses related to Hanjin Shipping among the Hanjin Group firms. However, the additional financial support of W60bn should be secured by the collateral. And the company will likely be spared from providing further financial support.

Going forward, Korean Air's share price and earnings will likely move in line with more fundamental factors, like market conditions. Although there are rumors that the company may issue rights to improve financial conditions, they are unlikely to materialize in light of the recovery of the airline industry and favorable F/X rates. The fact that the company is not closely related to Hanjin Shipping in terms of their businesses should also help it to recover from losses related to the shipping subsidiary.

(3) Hanjin Transportation

Hanjin Transportation has supported Hanjin Shipping by purchasing assets. Hanjin Transportation's exposure to the shipping subsidiary stands at ₩80bn—including bonds (about ₩50bn) and prepayments (₩30bn)—which is lower than other affiliates. However, the Hanjin Shipping crisis could deal a heavy blow to the company's businesses. The company acquired Hanjin Newport (container terminal located in Busan) from Hanjin Shipping in November 2015 and the port itself made a solid revenue contribution, accounting for 82% of Hanjin Transportation's operating profit in 1H16.

The concern is that 50-60% of Hanjin Newport's revenue is directly related to Hanjin Shipping. As the shipper enters court receivership, Hanjin Transportation would see a decrease in volume. We would not expect Hanjin Shipping-related volume to decrease all at once, but in the worst-case scenario, Hanjin Transportation could face a 50% decrease in its operating profit. With a contraction of volume seeming inevitable, the company's future earnings should depend on how well it can minimize losses.

Hanjin KAL (180640 KS/Buy/TP: W25,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Revenue	722	1,017	1,156	1,320
Cost of Sales	563	815	926	1,060
Gross Profit	159	202	230	260
SG&A Expenses	85	103	120	137
Operating Profit (Adj)	74	100	109	124
Operating Profit	74	100	109	124
Non-Operating Profit	-265	-355	145	179
Net Financial Income	-17	-23	-23	-22
Net Gain from Inv in Associates	-243	-154	168	201
Pretax Profit	-191	-255	254	303
Income Tax	14	1	25	30
Profit from Continuing Operations	-205	-256	229	272
Profit from Discontinued Operations	0	0	0	0
Net Profit	-205	-256	229	272
Controlling Interests	-216	-253	211	252
Non-Controlling Interests	11	-4	17	21
Total Comprehensive Profit	-184	-265	229	272
Controlling Interests	-192	-282	243	290
Non-Controlling Interests	8	17	-15	-18
EBITDA	104	132	140	160
FCF (Free Cash Flow)	112	146	119	32
EBITDA Margin (%)	14.4	13.0	12.1	12.1
Operating Profit Margin (%)	10.2	9.8	9.4	9.4
Net Profit Margin (%)	-29.9	-24.9	18.3	19.1

Cash Flows (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Cash Flows from Op Activities	119	149	144	174
Net Profit	-205	-256	229	272
Non-Cash Income and Expense	313	391	-88	-112
Depreciation	27	31	31	37
Amortization	2	1	0	0
Others	284	359	-119	-149
Chg in Working Capital	21	2	24	38
Chg in AR & Other Receivables	-14	-23	-8	-15
Chg in Inventories	0	-1	0	-1
Chg in AP & Other Payables	4	1	1	2
Income Tax Paid	-16	7	-25	-30
Cash Flows from Inv Activities	-93	-57	-50	-187
Chg in PP&E	-7	-3	-25	-142
Chg in Intangible Assets	-1	0	0	0
Chg in Financial Assets	36	-63	-25	-45
Others	-121	9	0	0
Cash Flows from Fin Activities	-4	283	-138	35
Chg in Financial Liabilities	23	288	-91	67
Chg in Equity	3	90	-16	0
Dividends Paid	-9	-10	-4	-4
Others	-21	-85	-27	-28
Increase (Decrease) in Cash	23	-5	9	19
Beginning Balance	98	121	116	125
Ending Balance	121	116	125	144

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Current Assets	331	419	461	539
Cash and Cash Equivalents	121	116	125	144
AR & Other Receivables	53	77	85	101
Inventories	2	3	3	4
Other Current Assets	155	223	248	290
Non-Current Assets	1,984	2,016	2,127	2,444
Investments in Associates	1,011	1,043	1,156	1,360
Property, Plant and Equipment	581	586	580	686
Intangible Assets	9	8	8	8
Total Assets	2,315	2,435	2,588	2,983
Current Liabilities	366	826	762	876
AP & Other Payables	21	30	33	39
Short-Term Financial Liabilities	155	588	497	0
Other Current Liabilities	190	208	232	837
Non-Current Liabilities	507	379	389	401
Long-Term Financial Liabilities	365	221	221	0
Other Non-Current Liabilities	142	158	168	401
Total Liabilities	873	1,205	1,150	1,277
Controlling Interests	1,322	1,142	1,334	1,581
Capital Stock	133	149	133	133
Capital Surplus	1,067	1,141	1,141	1,141
Retained Earnings	21	-242	-35	212
Non-Controlling Interests	120	87	104	125
Stockholders' Equity	1,442	1,229	1,438	1,706

Forecasts/Valuations (Summarized)

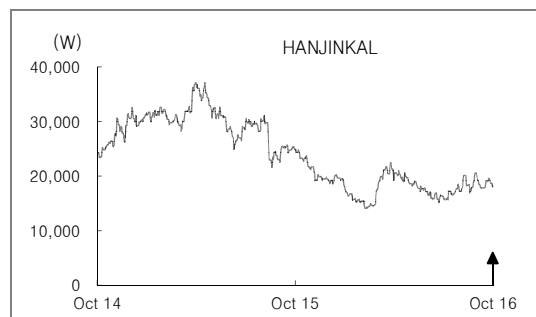
	12/15	12/16F	12/17F	12/18F
P/E (x)	-	-	5.1	4.3
P/CF (x)	9.8	7.7	7.7	6.7
P/B (x)	0.8	0.9	0.8	0.7
EV/EBITDA (x)	13.7	12.6	11.1	9.9
EPS (W)	-3,935	-4,388	3,539	4,215
CFPS (W)	1,952	2,339	2,347	2,686
BPS (W)	23,979	19,136	22,340	26,481
DPS (W)	75	75	75	75
Payout ratio (%)	-1.9	-1.7	1.9	1.6
Dividend Yield (%)	0.4	0.4	0.4	0.4
Revenue Growth (%)	15.5	40.9	13.7	14.2
EBITDA Growth (%)	6.1	26.9	6.1	14.3
Operating Profit Growth (%)	-2.6	35.1	9.0	13.8
EPS Growth (%)	-	-	-	19.1
Accounts Receivable Turnover (x)	16.1	16.0	14.6	14.5
Inventory Turnover (x)	345.5	406.3	370.5	369.9
Accounts Payable Turnover (x)	121.1	117.8	107.4	107.4
ROA (%)	-8.7	-10.8	9.1	9.8
ROE (%)	-15.9	-20.5	17.1	17.3
ROIC (%)	15.8	21.6	21.4	24.1
Liability to Equity Ratio (%)	60.6	98.0	80.0	74.9
Current Ratio (%)	90.3	50.7	60.5	61.6
Net Debt to Equity Ratio (%)	18.4	40.5	26.2	22.7
Interest Coverage Ratio (x)	3.4	3.6	3.9	4.5

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Hanjin KAL (180640)	10/05/2016	Buy	25,000



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)

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