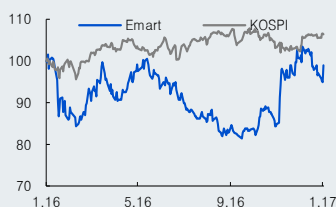


Retail

Earnings Preview
January 6, 2017

(Maintain)	Buy
Target Price (12M, W)	240,000
Share Price (01/05/17, W)	186,500
Expected Return	29%

OP (16F, Wbn)	523
Consensus OP (16F, Wbn)	520
EPS Growth (16F, %)	-23.9
Market EPS Growth (16F, %)	14.8
P/E (16F, x)	14.7
Market P/E (16F, x)	11.2
KOSPI	2,041.95
Market Cap (Wbn)	5,199
Shares Outstanding (mn)	28
Free Float (%)	71.9
Foreign Ownership (%)	48.4
Beta (12M)	0.51
52-Week Low	153,500
52-Week High	195,000
(%)	1M 6M 12M
Absolute	-1.6 10.0 -0.8
Relative	-5.4 7.2 -6.2



Mirae Asset Daewoo Co., Ltd.

[Retail]

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Emart

(139480 KS)

SOTP valuation justifiable

Stock faring well despite lackluster hypermarket earnings

We changed our valuation methodology for Emart from P/E to sum-of-the-parts to better reflect the distinctive values of the respective business units.

We attribute Emart's recent strong share performance, and subsequent slight declines, to revenue trends at the hypermarket business. However, we do not think it is desirable to bank on the hypermarket business on expectations for a revenue recovery. To assess Emart's overall earnings growth potential, we recommend adopting a conservative view of the hypermarket business and focusing instead on potential improvement in fundamentals, as Emart seeks growth beyond the hypermarket business through channel diversification. We think that Emart's solid share performance, despite weaker-than-expected hypermarket earnings, confirms our view.

4Q preview: Hypermarket decent; non-hypermarket divisions to stand out

For 4Q16, we estimate Emart's revenue at W3.6tr (+8.4% YoY) and operating profit at W105.7bn (+26.2% YoY). On a non-consolidated basis, we expect operating profit growth of 11.1% YoY. Same-store sales (SSS) at the hypermarket business should pick up by 0.9% in 4Q16. Although we adjusted our SSS growth estimate downwards, we expect hypermarket operating profit to increase by 4.4%, thanks to an increase in gross margin. We find the rise in gross margin encouraging, as the hypermarket business would be able to deliver operating profit growth even with a slight slowdown in SSS growth (for reference, BEP stands at 1.5%). We expect gross margin at the hypermarket business to increase by 30-40bps in 2017.

We expect Emart Mall and Emart Traders to deliver revenue growth of 32% and 36%, respectively. Emart Mall should see OP margin improvement in 4Q with higher utilization of its Gimpo Logistics Center, while Emart Traders is delivering rapid improvement in profitability, with SSS growth nearing 20%.

Meanwhile, we expect consolidated subsidiaries' operating losses to shrink by W7bn YoY. Losses at consolidated subsidiaries occur mostly in the early phase of subsidiaries' operations, or when closing or converting stores. As such, we anticipate that operating losses will continue to decrease going forward.

Maintain Buy and TP of W240,000

Our target price represents the sum of operating value less net liabilities. We derived operating value by applying a P/E of 10x to the hypermarket division's net operating profit after tax (NOPAT), a P/E of 20x to Emart Traders' NOPAT, a P/S of 1.3x to Emart Mall's revenue, and a 20% discount to the book values of consolidated subsidiaries.

FY(Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	13,035	13,154	13,640	14,720	15,773	16,819
OP (Wbn)	735	583	504	523	595	686
OP margin (%)	5.6	4.4	3.7	3.6	3.8	4.1
NP (Wbn)	467	290	455	346	416	501
EPS (W)	16,762	10,404	16,312	12,420	14,930	17,957
ROE (%)	7.4	4.3	6.5	4.7	5.3	6.1
P/E (x)	15.9	19.5	11.6	14.7	12.5	10.4
P/B (x)	1.1	0.8	0.8	0.7	0.7	0.6
Dividend Yield (%)	0.6	0.7	0.8	0.8	0.8	0.8

Note: 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

Analysts who prepared this report are registered as research analysts in Korea but not in any other jurisdiction, including the U.S.
PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES & DISCLAIMERS IN APPENDIX 1 AT THE END OF REPORT.

Given that the US warehouse discount store Costco Wholesale is trading at a P/E of 25-30x, we applied a lower P/E of 20x to Emart Traders, reflecting the absence of membership fee revenue.

We applied a P/S ratio of 1.3x to Emart Mall's revenue. Globally, online retailers struggle to generate stable profits without open market platforms. Considering that most online retailers are trading at a P/S of 2-3x, we believe the valuation of Emart Mall may be adjusted upward going forward.

Although consolidated subsidiaries remain in the red, we think it is reasonable to reflect their value, given their potential for earnings turnarounds. Indeed, consolidated subsidiaries have been reducing losses, contributing to earnings momentum.

Table 1. SOTP valuation

(Wbn, x, '000 shares, W)

Division	Category	Value
Hypermarket	NOPAT	481
	P/E	10
	Operating value	4,808
Traders	NOPAT	41
	P/E	20
	Operating value	827
Emart Mall	Revenue	1,047
	P/S	1.3
	Fair value	1,362
Sum of operating value		6,997
Net liabilities		1,586
Subsidiary/affiliated companies		1,265
Fair market value		6,676
Number of shares		27,876
Fair share price		239,500

Source: Mirae Asset Daewoo Research

Key points to watch for 2017

For 2017, Emart has set a slightly lower SSS growth target compared with early 2016, at around 1%. Rather than indicating a bleaker market outlook, we believe the lower target signals a shift in focus by the hypermarket operator toward earnings improvement over top-line growth from 2017. Key goals set by the company for 2017 include closing down loss-making stores and reducing losses in general.

For Emart Mall, we expect the company to remain focused on top-line growth over earnings improvement in the near term. As such, the online mall may take longer to generate net profit, but should be able to expand its footing in the online grocery market. We expect Emart Mall's market share in online grocery sales, having dipped from 8.3% in 2012 to 7.4% in 2015, to rise to 7.8% in 2017. Instead of aiming to generate immediate profits, Emart Mall will likely focus on driving top-line growth and checking the efficiency of its cost structure (including distribution costs). In the long-run, such efforts should allow Emart Mall to achieve market hegemony over online grocery services.

Emart Traders, meanwhile, will target aggressive expansion from 2017, adding three new stores in 2H and an additional three in 2018. With similar levels of investment to those of Emart's hypermarkets, Emart Traders stores tend to generate roughly 50% more revenue. As such, focusing on the expansion of Emart Traders over hypermarkets should yield higher investment efficiency. Meanwhile, the contract terms for three Costco stores are set to end in 2018, which bodes well for Emart Traders. All in all, Emart Traders should continue to display strong growth in the near term.

Among consolidated subsidiaries, Emart Everyday is reporting visible earnings improvement, while losses in China are declining from the closure of additional stores. Meanwhile, the expansion of Starfield is raising concerns over Shinsegae Property's earnings, but we believe the subsidiary is unlikely to have a visible impact on Emart's overall earnings.

Table 2. 4Q16 preview

(Wbn)

	4Q15	3Q16	4Q16F		Growth (%)	
			Mirae Asset Daewoo (A)	Consensus (B)	YoY	QoQ
Revenue (Wbn)	3,325	4,034	3,603	3,657	8.4	-10.7
Operating profit (Wbn)	84	215	106	104	26.2	-50.7
OP margin (%)	2.5	5.3	2.9	2.8	0.4	-2.4
Pretax profit	6	199	89	80	1,490.6	-55.5
Net profit	-45	148	67	62	TTB	-54.5

Source: Company data, Bloomberg, Mirae Asset Daewoo Research

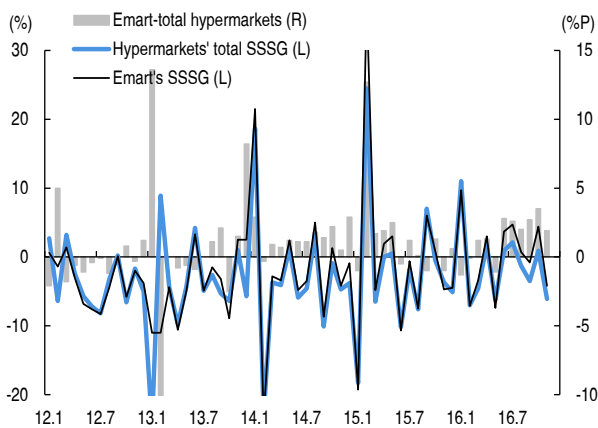
Table 3. Non-consolidated quarterly and annual earnings

(Wbn)

	2016F				2017F				2015	2016F	2017F	YoY (%)		
	1Q16	2Q16	3Q16	4Q16F	1Q17F	2Q17F	3Q17F	4Q17F				4Q16F	2016F	2017F
No. of stores	156	157	158	158	158	158	158	159	156	158	159			
Hypermarkets	146	147	147	147	147	147	146	145	146	147	145			
Emart Traders	10	10	11	11	11	11	12	14	10	11	14			
GMS	3,361	3,140	3,699	3,353	3,554	3,340	3,906	3,612	12,832	13,552	14,414	7.8	5.6	6.4
Hypermarkets	2,852	2,627	3,107	2,740	2,934	2,715	3,190	2,848	11,019	11,326	11,687	3.6	2.8	3.2
Emart Mall	195	200	212	231	244	250	265	289	663	838	1,047	32.0	26.5	25.0
Emart Traders	270	268	327	329	326	324	391	416	960	1,194	1,457	36.0	24.4	22.0
Net revenue	2,914	2,666	3,181	2,842	3,082	2,836	3,360	3,063	11,149	11,604	12,341	6.8	4.1	6.3
Gross profit	862	816	958	860	913	868	1,013	920	3,317	3,495	3,714	7.6	5.4	6.2
Hypermarkets	768	728	853	752	804	760	885	786	2,999	3,101	3,252	4.9	3.4	4.9
Emart Mall	41	41	46	50	50	51	56	59	145	177	215	26.7	22.0	21.4
Emart Traders	46	45	57	56	56	55	68	71	164	203	215	36.8	24.1	5.8
Operating profit	189	66	228	139	196	77	245	154	629	622	672	11.1	-1.2	8.0
Hypermarkets	193	68	224	134	194	72	234	141	632	618	641	4.4	-2.2	3.7
Emart Mall	-13	-9.4	-9	-7	-10	-8	-7	-4	-23	-38	-29	RR	RR	RR
Emart Traders	7	7	12	12	11	11	16	17	19	38	55	256.3	102.2	43.6

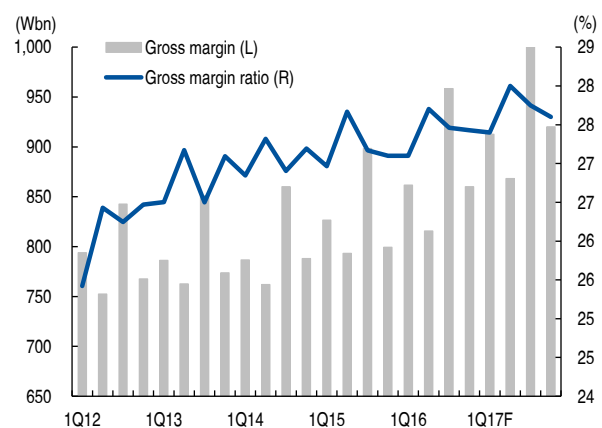
Note: All figures are based on non-consolidated K-IFRS
Source: Company data, Mirae Asset Daewoo Research

Figure 1. Emart's market share expanding in low growth hypermarkets



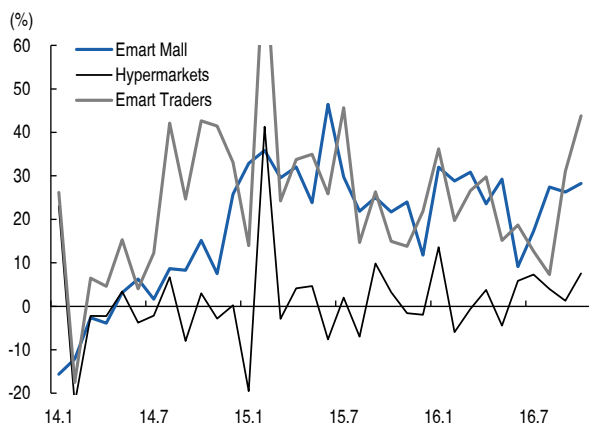
Source: MOTIE, company data, Mirae Asset Daewoo Research

Figure 2. GP margin maintaining improvement trend



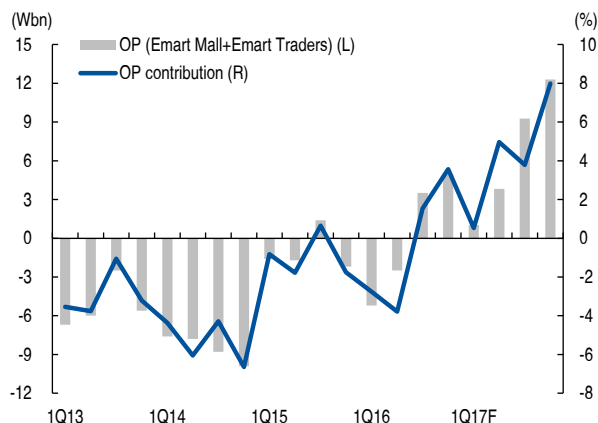
Source: company data, Mirae Asset Daewoo Research

Figure 3. Emart revenue growth by non-consolidated division



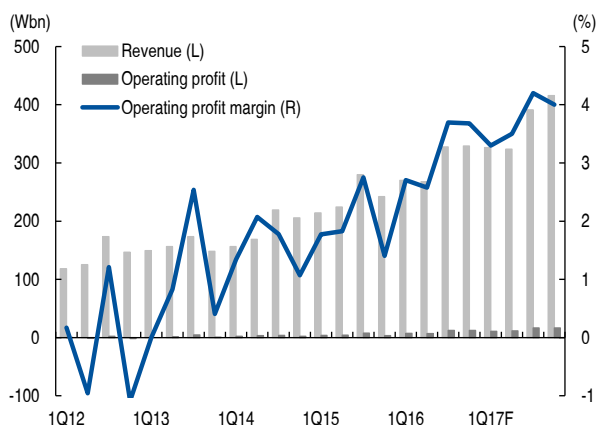
Source: company data, Mirae Asset Daewoo Research

Figure 4. Emart new business (Emart Mall, Traders) OP



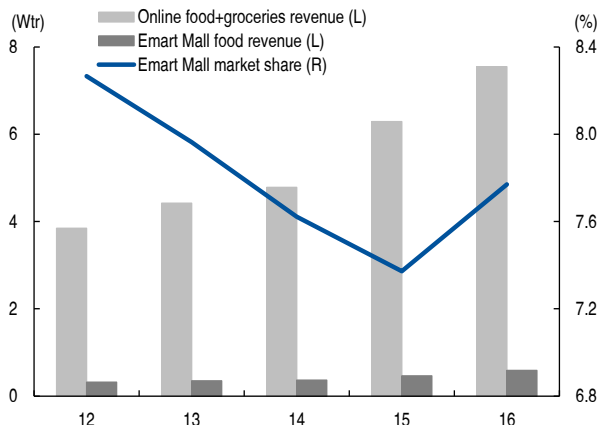
Source: company data, Mirae Asset Daewoo Research

Figure 5. Emart Traders revenue and operating profit



Source: company data, Mirae Asset Daewoo Research

Figure 6. Emart Mall's online food market share estimates



Source: MOTIE, company data, Mirae Asset Daewoo Research
 Note: 70% of Emart Mall's revenue is consisted as Food revenue

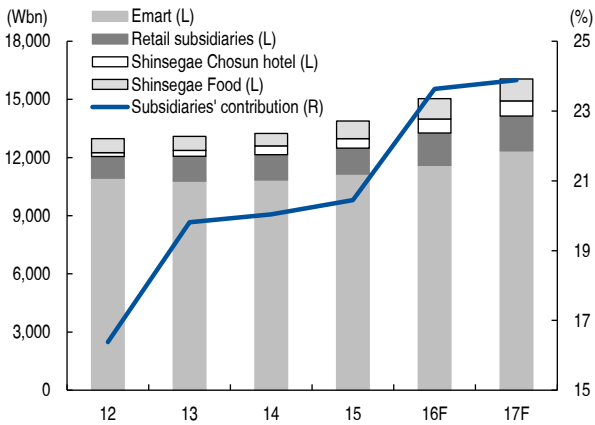
Table 3. Consolidated quarterly and annual earnings

(Wbn)

	2016F				2017F				2015	2016F	2017F	YoY (%)		
	1Q16	2Q16	3Q16	4Q16F	1Q17F	2Q17F	3Q17F	4Q17F				4Q16F	2016F	2017F
Revenue	3,630	3,453	4,034	3,603	3,849	3,720	4,312	3,893	13,640	14,720	15,773	8.4	7.9	7.2
Retail	3,293	3,072	3,621	3,232	3,485	3,300	3,867	3,492	12,486	13,218	14,144	8.4	5.9	7.0
Emart	2,914	2,666	3,181	2,842	3,082	2,836	3,360	3,063	11,149	11,604	12,341	6.8	4.1	6.3
Everyday, SM	257	262	270	248	264	269	277	255	990	1,038	1,064	3.0	4.8	2.5
With Me	54	89	113	98	96	147	180	139	135	355	562	103.3	162.4	58.4
Foreign hypermarket	68	55	56	43	43	48	50	36	212	222	177	38.7	4.4	-20.1
Shinsegae Chosun Hotel	159	188	204	176	166	203	218	191	492	727	778	8.6	47.9	7.0
Shinsegae Food	246	261	282	258	265	282	305	278	907	1,047	1,130	8.0	15.4	8.0
Gross profit	1,002	980	1,129	1,017	1,063	1,053	1,206	1,093	3,796	4,128	4,414	8.9	8.7	6.9
Emart	862	816	958	860	913	868	1,013	920	3,317	3,495	3,714	7.6	5.4	6.2
Consolidated subsidiaries	140	164	171	157	150	185	193	173	479	632	701	16.4	32.1	10.8
Operating profit	156	47	215	106	168	63	233	131	504	523	595	26.2	3.9	13.7
Emart	189	66	228	139	196	77	245	154	629	622	672	11.1	-1.2	8.0
Consolidated subsidiaries	-33	-19	-13	-33	-28	-14	-11	-23	-126	-99	-76	RR	RR	RR

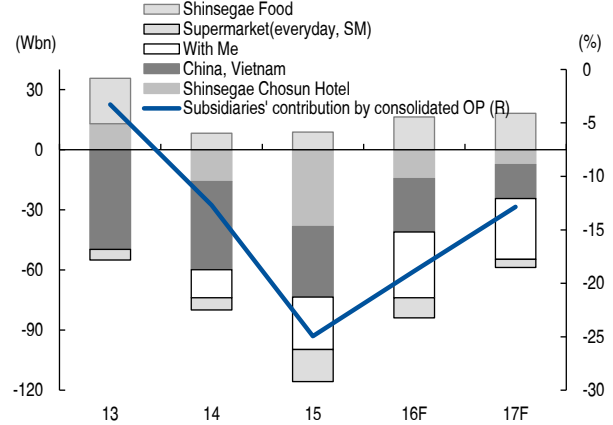
Note: All figures are based on consolidated K-IFRS
 Source: Company data, Mirae Asset Daewoo Research

Figure 7. Consolidated revenue breakdown



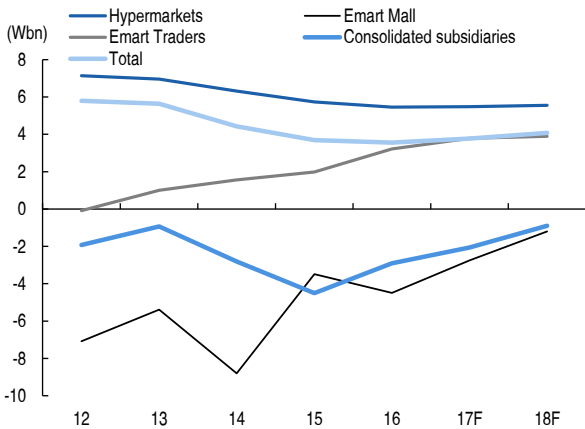
Source: company data, Mirae Asset Daewoo Research

Figure 8. Consolidated subsidiaries operating loss



Source: company data, Mirae Asset Daewoo Research

Figure 9. OP margin by consolidated division



Source: company data, Mirae Asset Daewoo Research

Figure 10. SWOT analysis



Source: Mirae Asset Daewoo Research

Emart (139480 KS/Buy/TP: W240,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Revenue	13,640	14,720	15,773	16,819
Cost of Sales	9,844	10,593	11,358	12,113
Gross Profit	3,796	4,127	4,415	4,706
SG&A Expenses	3,292	3,604	3,819	4,020
Operating Profit (Adj)	504	523	595	686
Operating Profit	504	523	595	686
Non-Operating Profit	190	-42	-34	-12
Net Financial Income	-97	-86	-87	-84
Net Gain from Inv in Associates	7	11	15	17
Pretax Profit	694	481	561	674
Income Tax	238	129	140	169
Profit from Continuing Operations	456	351	420	506
Profit from Discontinued Operations	0	0	0	0
Net Profit	456	351	420	506
Controlling Interests	455	346	416	501
Non-Controlling Interests	1	5	4	5
Total Comprehensive Profit	124	301	420	532
Controlling Interests	124	296	416	526
Non-Controlling Interests	0	5	4	5
EBITDA	938	980	1,066	1,154
FCF (Free Cash Flow)	-272	429	317	124
EBITDA Margin (%)	6.9	6.7	6.8	6.9
Operating Profit Margin (%)	3.7	3.6	3.8	4.1
Net Profit Margin (%)	3.3	2.4	2.6	3.0

Cash Flows (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Cash Flows from Op Activities	734	1,262	1,117	1,024
Net Profit	456	351	420	506
Non-Cash Income and Expense	368	667	683	703
Depreciation	409	432	448	444
Amortization	25	25	24	24
Others	-66	210	211	235
Chg in Working Capital	-129	398	241	68
Chg in AR & Other Receivables	-23	-268	1	-8
Chg in Inventories	-114	-45	-72	-16
Chg in AP & Other Payables	42	1,024	190	33
Income Tax Paid	-125	-189	-140	-169
Cash Flows from Inv Activities	-1,004	-875	-805	-1,054
Chg in PP&E	-984	-826	-800	-900
Chg in Intangible Assets	-12	0	0	-25
Chg in Financial Assets	356	90	-5	1
Others	-364	-139	0	-130
Cash Flows from Fin Activities	279	-44	-37	-32
Chg in Financial Liabilities	245	58	5	10
Chg in Equity	0	0	0	0
Dividends Paid	-44	-48	-42	-42
Others	78	-54	0	0
Increase (Decrease) in Cash	3	54	-24	94
Beginning Balance	60	63	118	94
Ending Balance	63	118	94	187

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Current Assets	1,464	1,581	1,634	1,741
Cash and Cash Equivalents	63	118	94	187
AR & Other Receivables	292	312	317	327
Inventories	886	901	973	989
Other Current Assets	223	250	250	238
Non-Current Assets	13,029	13,652	14,295	14,784
Investments in Associates	454	760	1,074	1,392
Property, Plant and Equipment	9,805	10,251	10,603	10,759
Intangible Assets	383	372	349	350
Total Assets	14,494	15,232	15,929	16,525
Current Liabilities	3,935	4,142	4,452	4,545
AP & Other Payables	1,237	1,284	1,525	1,566
Short-Term Financial Liabilities	1,469	1,572	1,577	0
Other Current Liabilities	1,229	1,286	1,350	2,979
Non-Current Liabilities	3,320	3,210	3,218	3,231
Long-Term Financial Liabilities	2,645	2,601	2,601	0
Other Non-Current Liabilities	675	609	617	3,231
Total Liabilities	7,254	7,351	7,669	7,776
Controlling Interests	6,986	7,613	7,988	8,472
Capital Stock	139	139	139	139
Capital Surplus	4,237	4,237	4,237	4,237
Retained Earnings	1,653	1,949	2,324	2,782
Non-Controlling Interests	253	268	272	277
Stockholders' Equity	7,239	7,881	8,260	8,749

Forecasts/Valuations (Summarized)

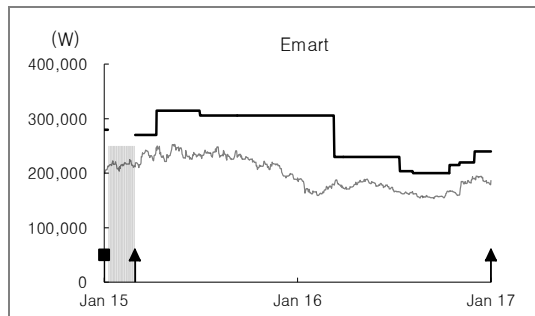
	12/15	12/16F	12/17F	12/18F
P/E (x)	11.6	14.7	12.5	10.4
P/CF (x)	6.4	5.0	4.7	4.3
P/B (x)	0.8	0.7	0.7	0.6
EV/EBITDA (x)	10.1	9.5	8.8	8.1
EPS (W)	16,312	12,420	14,930	17,957
CFPS (W)	29,557	36,529	39,584	43,361
BPS (W)	250,707	273,205	286,636	304,026
DPS (W)	1,500	1,500	1,500	1,500
Payout ratio (%)	9.2	11.9	9.9	8.3
Dividend Yield (%)	0.8	0.8	0.8	0.8
Revenue Growth (%)	3.7	7.9	7.2	6.6
EBITDA Growth (%)	-5.9	4.5	8.8	8.3
Operating Profit Growth (%)	-13.6	3.8	13.8	15.3
EPS Growth (%)	56.8	-23.9	20.2	20.3
Accounts Receivable Turnover (x)	66.8	64.5	65.8	69.1
Inventory Turnover (x)	16.1	16.5	16.8	17.1
Accounts Payable Turnover (x)	12.3	12.7	12.0	11.5
ROA (%)	3.2	2.4	2.7	3.1
ROE (%)	6.5	4.7	5.3	6.1
ROIC (%)	3.6	4.1	4.6	5.4
Liability to Equity Ratio (%)	100.2	93.3	92.9	88.9
Current Ratio (%)	37.2	38.2	36.7	38.3
Net Debt to Equity Ratio (%)	54.0	49.5	47.5	44.1
Interest Coverage Ratio (x)	4.0	4.6	5.4	6.2

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price	
Emart(139480)	12/05/2016	Buy	240,000	
	11/07/2016	Buy	220,000	
	10/19/2016	Buy	215,000	
	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		
	09/18/2014	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
69.27%	17.07%	13.66%	0.00%

* Based on recommendations in the last 12-months (as of September 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.

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